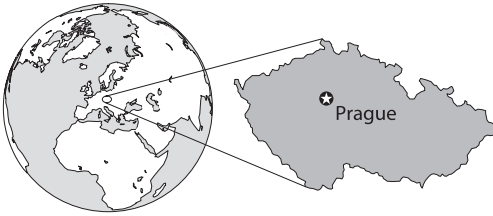


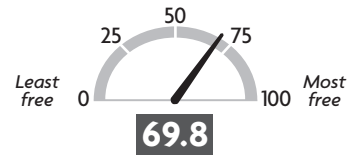
# CZECH REPUBLIC



World Rank: **34**

Regional Rank: **17**

## Economic Freedom Score



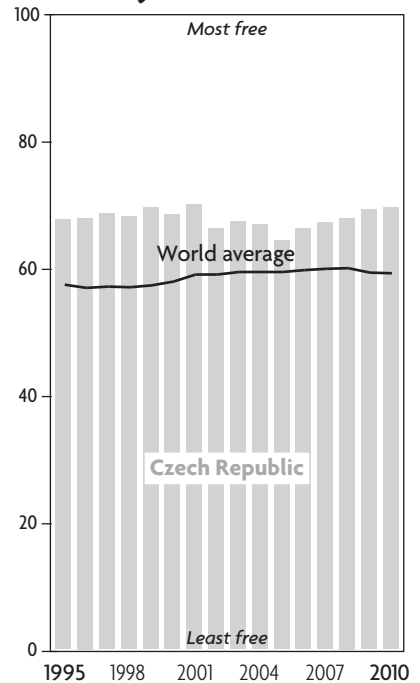
The Czech Republic's economic freedom score is 69.8, making its economy the 34th freest in the 2010 *Index*. Its overall score is 0.4 point higher than last year, primarily reflecting improved labor freedom. The Czech Republic is ranked 17th out of 43 countries in the Europe region, and its overall score is higher than the regional and global averages.

The Czech Republic's transition to greater economic freedom has been facilitated by structural reforms and an increasingly vibrant private sector that accounts for more than 80 percent of GDP. As reflected in relatively high scores for fiscal and investment freedom, competitive taxation and openness to foreign direct investment have contributed to a strong economy. An extensive banking sector includes significant foreign ownership and a well-established supervisory framework. The government has pursued reform measures to curb relatively high levels of government spending.

Although the regulatory environment is generally consistent with a market economy, bureaucracy and red tape slow entrepreneurial dynamism. Corruption is still perceived as significant, as evidenced by the slow pace of legislative and judicial reform. Structural reforms in the labor market are also needed.

**BACKGROUND:** The Velvet Revolution of 1989 peacefully overthrew a Communist dictatorship and led to the election of dissident playwright Vaclav Havel as president of a democratic Czechoslovakia. The Czech Republic separated from Slovakia, became an independent nation in 1993, and joined the European Union in 2004. In March 2009, Prime Minister Mirek Topolanek's center-right coalition cabinet left office after a parliamentary vote of no confidence; in April, Jan Fischer, nonpartisan head of the Czech Statistical Office, became interim prime minister. Elections scheduled for October were halted by the Constitutional Court. Historically, Czech lands have been among the world's most industrialized, but industrial production and exports to the EU declined in 2009, and GDP was projected to contract sharply.

## Country's Score Over Time



## Quick Facts

**Population:** 10.4 million

**GDP (PPP):** \$257.7 billion

3.2% growth in 2008

5.6% 5-year compound annual growth

\$24,712 per capita

**Unemployment:** 4.4%

**Inflation (CPI):** 6.3%

**FDI Inflow:** \$10.7 billion

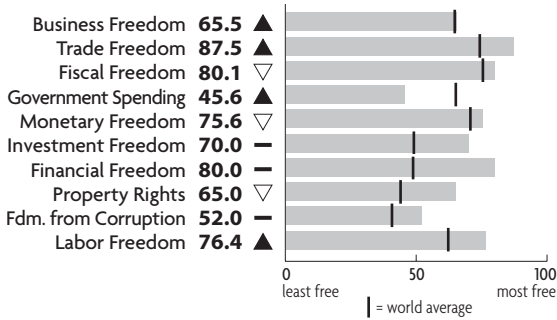
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## CZECH REPUBLIC'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 65.5

The Czech Republic's overall regulatory environment remains somewhat inefficient. Starting a business takes an average of 15 days, compared to the world average of 35 days. Obtaining a business license requires twice the world average of 18 procedures. Closing a business is burdensome.

### TRADE FREEDOM — 87.5

The Czech Republic's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Czech policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Services market restrictions exceed EU policy, and non-transparent government procurement and the enforcement of intellectual property rights remain problematic. Ten points were deducted from the Czech Republic's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 80.1

The Czech Republic has relatively low tax rates. The flat income tax rate is 15 percent, and the top corporate tax rate has been reduced to 20 percent. Other taxes include a value-added tax (VAT), a real estate transfer tax, and an inheritance tax on non-family recipients. In the most recent year, overall tax revenue as a percentage of GDP was 36.9 percent.

### GOVERNMENT SPENDING — 45.6

Total government expenditures, including consumption and transfer payments, are high. In the most recent year, government spending equaled 42.6 percent of GDP. The government has sold its remaining stakes in a telecommunications company and a petrochemicals refiner.

### MONETARY FREEDOM — 75.6

Inflation has been moderate, averaging 5.1 percent between 2006 and 2008. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural

production, distorting the prices of agricultural products. The Ministry of Finance can fix prices, set minimum or maximum commercial transaction prices, and establish periods when prices may not change. Energy, some raw materials, domestic rents, and rail and bus transport are subject to controls. Maximum prices apply to mail and telecommunications tariffs. Ten points were deducted from the Czech Republic's monetary freedom score to account for these policies.

### INVESTMENT FREEDOM — 70

Legally, foreign and domestic investors are treated identically. The government screens foreign investment projects in banking, insurance, and defense, where the state is a partner. Slow legislative and judicial reform, uneven contract enforcement, bureaucracy, and corruption are continuing obstacles. Most major state-owned companies have been privatized with foreign participation. There are no restrictions on payments or current transfers, and residents and non-residents may hold foreign exchange accounts. Branches or offices of foreign companies may buy local real estate, except for farmland or woodland.

### FINANCIAL FREEDOM — 80

The Czech Republic's financial sector is one of Central and Eastern Europe's most advanced. The state is controlling shareholder in two banks. Foreign-controlled banks account for over 80 percent of assets. Insurance companies and pension funds include significant foreign participation. The supervisory framework is well established. Capital markets are small and lack transparency, but regulatory bodies have been merged to streamline oversight. The impact of the global financial turmoil on the banking sector has been relatively modest.

### PROPERTY RIGHTS — 65

Property rights are protected by law, and contracts are generally secure. The judiciary is independent, but decisions vary from court to court. Commercial disputes can take years to resolve. Company registration is controlled by the courts and can be slow and complicated. Enforcing judgments and foreclosing security interests in land and personal property can still be difficult.

### FREEDOM FROM CORRUPTION — 52

Corruption is perceived as significant. The Czech Republic ranks 45th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Convictions for bribery result in long prison terms, but prosecution of high-level corruption is infrequent. Allegations of corruption most often involve the court-controlled company registration system and the police. The Czech Republic has ratified the OECD's anti-bribery convention and has signed but not ratified the U.N. Convention Against Corruption.

### LABOR FREEDOM — 76.4

Labor regulations are relatively flexible. The non-salary cost of employing a worker can be high, but dismissing an employee is relatively easy and inexpensive.