

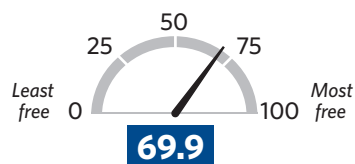
CZECH REPUBLIC



World Rank: **30**

Regional Rank: **15**

Economic Freedom Score



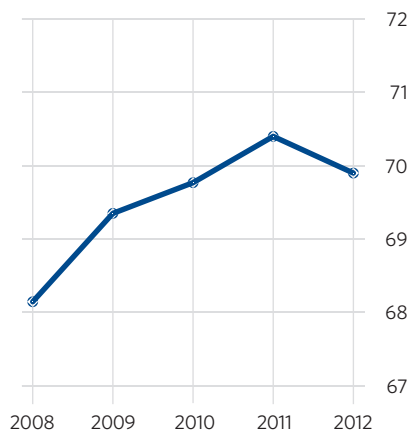
The Czech Republic's economic freedom score is 69.9, making its economy the 30th freest in the 2012 *Index*. Its overall score is 0.5 point worse than last year, reflecting deterioration in public finance management. The Czech Republic is ranked 15th out of 43 countries in the Europe region, and its overall score is higher than the regional and global averages.

A strong commitment to economic and structural reform has helped the Czech Republic develop a modern and flexible economy. In many of the four pillars of economic freedom, the country performs above world averages. Sustaining global trade and investment, open-market policies have enabled the economy to capitalize further on regulatory efficiencies gained through earlier reforms. The private sector accounts for about 80 percent of GDP. Although a period of stable and robust economic expansion came to a stop in 2009 as a result of the global financial and economic downturn, the Czech Republic has weathered the European sovereign debt turmoil relatively well.

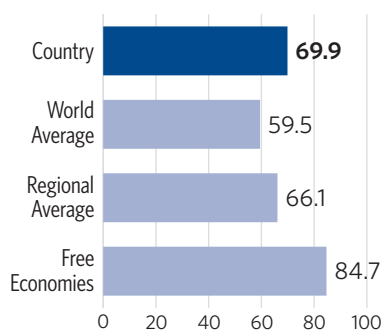
The foundations of the Czech Republic's economic freedom can be further strengthened through better protection of property rights and more effective elimination of corruption. In a move toward the principle of limited government, the country is placing a high priority on fiscal discipline and striving for budgetary balance after years of fiscal deficits.

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 in the "velvet divorce," becoming an independent nation in 1993 and joining the European Union in 2004. The leftist Czech Social Democratic Party was defeated in the May 2010 elections, and a center-right coalition now governs under Prime Minister Petr Necas. The Czech Republic has been among the world's most industrialized states. The auto industry remains the single largest industrial sector and produced over a million cars in 2010.

Freedom Trend



Country Comparisons



Quick Facts

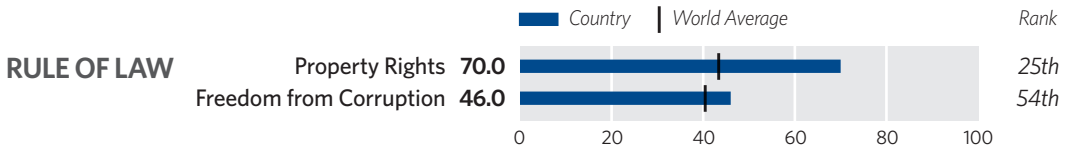
Population: 10.5 million
GDP (PPP): \$261.3 billion
 2.3% growth in 2010
 5-year compound annual growth 2.6%
 \$24,869 per capita
Unemployment: 7.3%
Inflation (CPI): 1.5%
FDI Inflow: \$6.7 billion
Public Debt: 38.5% of GDP

How Do We Measure Economic Freedom?

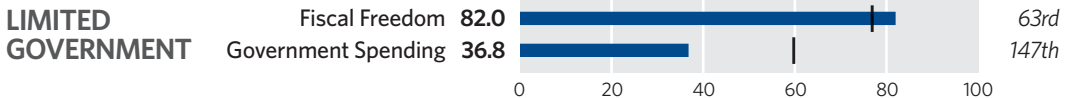
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

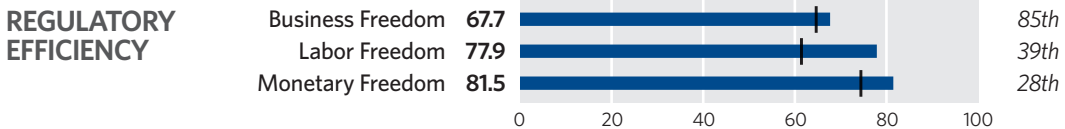
THE TEN ECONOMIC FREEDOMS



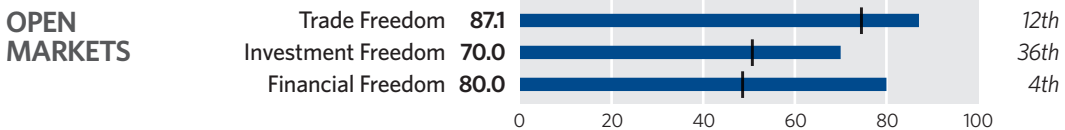
Property rights are relatively well protected by law, with an independent judicial system in place. Contracts are generally secure, but decisions vary from court to court. Commercial disputes can take years to resolve. Corruption remains a cause for concern as its pervasiveness continues to undermine the foundations of economic freedom and add to the cost of conducting business. Anti-corruption measures are not enforced effectively.



The income tax flat rate is 15 percent, and the standard corporate tax rate is 19 percent. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden equal to 34.8 percent of total domestic income. Government spending has increased to 45.9 percent of total domestic output. The government budget has been in deficit, driving public debt to over 38 percent of GDP.



The overall regulatory environment has become more efficient and more conducive to entrepreneurial activity. Simplifying the process has reduced the time needed to obtain licenses. Nonetheless, compared to other emerging economies, overall regulatory reform has lagged. The labor market is relatively flexible. Inflation has been under control, but a range of goods and services remain subject to government price controls.



The trade weighted tariff rate is low as in other members of the European Union, but layers of non-tariff barriers increase the cost of trade. The investment regime is relatively competitive. Most major state-owned companies have been privatized with foreign participation. No restrictions on currency transfers are imposed, and residents and non-residents may hold foreign exchange accounts. The financial sector is one of the region's more advanced.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	+5.0	Fiscal Freedom	+1.0	Business Freedom	-2.1	Trade Freedom	-0.5
Freedom from Corruption	-3.0	Government Spending	-8.0	Labor Freedom	+0.9	Investment Freedom	0
				Monetary Freedom	+1.5	Financial Freedom	0