National Recovery and Resilience Plan:
Czechia
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National Recovery and Resilience Plan: Czechia

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Abstract

The Czech position vis-à-vis the NGEU plan prioritised the maximisation of grants for domestic investments while ensuring autonomy in their targeting. The National Resilience and Recovery Plan prioritises the investment side at the expense of structural reforms. The direction of investments resembles the priorities pursued in the context of cohesion policy, while meeting climate and digital targets. Most of the investments are in infrastructure projects. The biggest shortcoming of the Czech plan is the absence of a vision of how to take advantage of the economic potential of the green transition and digitalization.

Keywords: NGEU, Czechia, Resilience and Recovery Plan, Labour policy, Social policy

1. Czechia and NGEU: Pragmatism in the Shadow of Conflict of Interest.

During the first year of the Covid-19 crisis, Czechia was in rather favourable situation. Subsequently, the negotiations on the NextGenerationEU recovery plan (NGEU) began in the context of a stable macroeconomic situation at the peak of the economic cycle, with a consistently low unemployment rate and one of the lowest debt levels in the European Union. Initial financial constraints did not seem to threaten economic development, especially in 2020, when the pandemic did not spread with the same intensity in Czechia as in other countries.

Therefore, the Czech government's position vis-à-vis EU action was reticent from the beginning, as it was not seeking external assistance. On the other hand, Czechia was not in categorical opposition to joint European action. Former prime minister Andrej Babiš summarised the Czech position overall in three sentences on his Twitter account: "*I definitely do not want to obstruct the agreement. I just want to win the maximum for the Czech Republic. We need*

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that money to invest".[1] Instead of a principled position for or against a major step in European integration, the Czech government focused on negotiating the most benefits from the new facility. The two negotiating priorities concerned the mechanism for allocating funds between the Member States and the thematic conditions. In other words, the Czech negotiators focused on maximising the contributions from the new facility and minimising the influence of European institutions over their use.

The effort to maximise possible financial contributions was aimed at increasing the share of grants in the distribution of NGEU grants and loans. As the European Member State with the lowest unemployment rate, Czechia also criticised the methodology for calculating the allocation of grants, opposing the inclusion of the unemployment rate in the calculation key. The criticism was based on the fact that the reference period 2015–2019 of course came before the Covid-19 crisis and therefore it should not be used in relation to framing NGEU as a post-pandemic recovery tool. Czechia also opposed using GDP as an indicator of a country's economic level. A significant part of GDP (6 per cent in 2019 and 4.3 per cent in the Covid-hit 2020) is the income of foreign owners, which flows out of the economy, not contributing to the disposable income of the Czech population. Czechia logically prefers gross national income (GNI) as an indicator, adjusted for the balance of foreign income.[2] The Czech position towards subsidy drawdowns favoured flexibility for Member States as regards channelling funds and decision-making freedom. This priority was enforced only in relation to the European Structural and Investment Funds (ESIF) in the multiannual financial framework from 2021 to 2027, negotiated in parallel with NGEU. Given the uncertainty of economic developments in the following seven years, the flexibility of transferring contributions between the individual Structural Funds within the ESIF increased by a quarter.

The NGEU negotiations and the subsequent elaboration of a national recovery and resilience plan were also overshadowed by the Czech Prime Minister's conflict of interests. He owns the agrochemical and mass media conglomerate holding Agrofert via a trust fund. It is a major recipient of European agricultural subsidies and controls a large, influential media house. As a result of the Czech Republic's protracted dispute with the European Commission and its April 2021 audit results, which confirmed violations of EU conflict of interest law, the plan eventually had to include provisions on the control and possible correction of national rules for determining the real owners of companies in accordance with European standards. This has thus been introduced as a condition for drawing money from the European Union's Recovery and Resilience Instrument. This is one reason why the new government has already submitted a draft amendment to the Act on the Registration of Beneficial Owners, approval of which could enable access to funds.

[1] Babiš A., *Já rozhodně nechci bránit dohodě*, Twitter, 2020: https://twitter.com/AndrejBabis/status/1281550014276304896

[2] GDP measures total production within national borders, while GNI measures what is produced by nationals. The difference between GDP and GNI thus includes net foreign income (compensation of employees, property income or taxes less subsidies on production).

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2. The Recovery and Resilience Plan Overview.

2.1. We don't need no loans.

The former government, composed of two parties – ANO (part of the Renew Europe group in the European Parliament) and ČSSD (part of the S&D group in the European Parliament) – agreed on the national recovery and resilience plan (RRP) on 17 May 2021 and submitted it to the European Commission on 1 June 2021. After the Commission's approval on 19 July 2021, the Council adopted the final plan on 8 September 2021. The total requested amount of EUR 7.036 billion corresponded to almost the maximum financial contribution (EUR 7.07 billion). It was clear from the beginning that Czechia would not use any loans. The reason was its good starting fiscal position, with low indebtedness and cheap lending in financial markets.

The situation in 2022 has changed markedly. In October 2021, the parliamentary election sent ANO into opposition and ČSSD even outside the Chamber of Deputies altogether. The new government now has to cope with Russia's invasion of Ukraine, with its associated defence spending, Ukrainian refugee inflows and the social impact of high inflation. The budgetary situation has also deteriorated due to the unprecedented tax cuts at the end of 2020 passed by ANO and former opposition but currently the main government party ODS (part of the European Conservatives and Reformists group in the European Parliament). Worsening debt has even led to the risk of a downgrade in Fitch Ratings,[3] which would have repercussions for the cost of borrowing in the financial markets. Combined with interest rates rises by the Czech National Bank, the ten-year government bond yield tripled in a single year. Therefore, the new ODS-led government is considering changing the original position and, in addition to revising some components of the RRP, is also considering reassessing the loan component of NGEU.[4] The Czech government also faces the problem of additional budgetary demands related to the reforms and investments indicated in the RRP, which the inherited plan did not provide for. It suffices to note that higher expenditure on the reimbursement of VAT and subsidies in the construction sector were estimated by the Ministry of Industry and Trade as likely to lead to EUR 1.2 billion in additional costs.[5]

2.2. Direction of reforms and investments.

Recovery after the Covid crisis was intended to be pursued in a '*build back better*' spirit, combining the solution to Czech social problems and abandoning the dysfunctional growth

[3] ČTK, *Česku hrozí zhoršení ratingu, agentura Fitch mu zhoršila výhled hodnocení*, 2022, https://www.ceskenoviny.cz/zpravy/cesku-hrozi-zhorseni-ratingu-agentura-fitch-mu-zhorsila-vyhled-hodnoceni/2202824.

[4] iRozhlas, *Česko dostane dalších zhruba 14 miliard korun skrze Národní plán obnovy, oznámil ministr Bek*, 2022, https://www.irozhlas.cz/ekonomika/narodni-plan-obnovy-penize-cesko-eu-mikulas-bek_2205131000_ako.

[5] E15.cz., *Vláda se pře o financování Národního plánu obnovy*, 2022, https://www.e15.cz/domaci/vlada-se-pre-o-financovani-narodniho-planu-obnovy-stanjura-vyckava-na-aktualizaci-z-bruselu-1389030.

model of the Czech economy based on foreign investment and cheap domestic labour. The RRP could have been an opportunity for Czechia to nudge towards disruptive change to free itself from this middle-income trap. However, the government officials missed the boat because of their reluctance to take advantage of the current massive structural changes – digitalisation and green transition – and fundamentally change the functioning of the Czech economy. In addition, Czechia lacks an economic strategy that would guide development and serve as a compass for government reform and investment. The RRP is being implemented without this vision, covering many policy areas without a clear goal.[6]

Reforms and investments worth EUR 7 billion are divided into six pillars, listed below, and broken down into 26 separate components. The plan contains 122 measures divided between 85 investment plans and 37 reforms. The most significant part, 47 per cent of the total allocation, belongs to the pillar combining infrastructure construction and green transition. According to the European Commission's assessment, green transition alone accounts for 41.6 per cent of the Czech plan, covering energy efficiency in buildings, installing renewable energy sources or low-emission mobility. The Commission's guidelines on the drafting and submission of the RRP have also motivated the Member States to prioritise the digital transformation. The *Digital transformation* pillar represents 16 per cent, but digital projects are also present in other pillars, constituting 22.1 per cent of all funds. These are mainly investments in digital infrastructure, education and digitalisation of public administration.[7]

Table 1 Six pillars of the RRP (only those financed from the Recovery and Resilience Facility)

Pillars of components	Costs (million EUR)	Share in total
Digital transformation	1 093	16%
Physical infrastructure and green transition	3 285	47%
Education and labour market	1 594	23%
Institutions, regulation and business support	254	4%
Research, development and innovation	322	5%
Health and resilience of population	488	7%

Source: (European Commission, 2021).

The Czech RRP also reflected the government's reluctance to abide by EU climate policy. The interim versions discussed at the working level with the European Commission were

[6] Czech TV, *Plán obnovy lepí díry v rozpočtu, chybí mu strategie a cíle, míní ekonomka Švihlíková*, ČT24 - Česká televize, 2021: https://ct24.ceskatelevize.cz/ekonomika/3315503-plan-obnovy-lepi-diry-v-rozpoctu-chybi-mu-strategie-a-cile-mini-ekonomka.

[7] European Commission, *Laying the foundations for recovery: Czechia,* Publications Office, 2021 https://data.europa.eu/doi/10.2775/470117.

repeatedly returned for revision precisely because of the insufficient climate-related investments. For example, Czechia had to give up its ambition to finance roads and motorways. Environmental NGOs criticised even the final version of the plan. According to them, the approach to climate transition is still inadequate. For instance, the existing New Green Savings Programme (*Nová zelená úsporám*) is a successful subsidy scheme for the replacement of old boilers financed from revenues from emission allowances. The RRP represents merely a change in the source of finances, with funding now from NGEU grants as a climate-related policy, without bringing any added value (iRozhlas, 2021).[8] In general, the plan cannot meet the goal of initiating structural change towards a low-emission economy.

2.3 All quiet on the labour market front.

The labour and social dimension of the RRP is rather limited, inasmuch as it only addresses the following issues: employment services infrastructure, early childhood and social care facilities, employment conditions in the cultural sector or education in the digital age. The labour market is directly targeted by component *3.3 Modernisation of employment services and labour market development* with EUR 886 million within the *Education and labour market* pillar.

In consideration of the fact that Czechia has the lowest unemployment rate in the EU, unemployment is not perceived as an acute problem. It has not changed with the Covid crisis, during which the *kurzarbeit*-like[9] employment programme 'Antivirus' channelled more than EUR 2 billion in employment support to one-third of employees in the private sector.

Thanks to this programme, the unemployment rate in mid-2021 was still below 3 per cent.[10] This is probably one of the reasons why the overall RRP allocation for employment and labour market measures is relatively low.

Low unemployment in the long term inevitably results in a lack of government attention towards employment policies. Consequently, Czech active labour market policy expenditure is among the lowest in the EU. Total expenditure on employment policy (in the comparable year 2019) amounted to only 0.47 per cent of GDP. The only RRP component devoted to labour market policies is aimed at supporting lifelong learning by creating educational infrastructure, such as creating modern education and training centres, a database of training courses, including legislation aimed at improving the qualifications system.

The gender and employment gaps are substantially above the EU average and represent a long-standing problem of the Czech labour market. One of the reasons is the deplorable unavailability of early childhood care. In 2020, only 4.8 per cent of children under the age of

[8] iRozhlas. (2021). *Zelenější, ale pořád ne dost zelený. Unie může český plán obnovy znovu vrátit*, 2021 https://www.irozhlas.cz/zpravy-domov/narodni-plan-obnovy-klima_2106090600_jab.

[9] Originally a German short-time working scheme used during recessions, when the state compensates working hours reductions as a way of preventing unemployment.

[10] MoLSA CZ., *Analýza programu Antivirus: A, A+, B.,* MPSV ČR., 2021: https://www.mpsv.cz/documents/20142/2061970/Anal%C3%BDza+Antiviru.pdf/.

three attended formal childcare compared with the EU average of 32.3 per cent.[11] The RRP addresses this shortcoming by allocating investments to childcare facilities supporting mothers' return to the labour market. In pursuing this objective, the RRP outlines both reform and investments. The reform consists of financial stabilisation of childcare facilities for children under the age of three. The reconstruction of existing and the construction of new childcare facilities should increase their number by 40 per cent.

An important aspect in the social domain addressed by the RRP is the integration of health and social long-term care while ensuring a stable system of adequate financing for long-term services. Czechia, being one of the fastest ageing societies, needs to prepare its whole long-term care services ecosystem for demographic change. The RRP also addresses the permanent problem with the emergence of socially excluded localities (areas with high concentrations of poverty, material deprivation, reduced access to public services or job opportunities and so on) by allocating funds to social care prevention and consultancy.

Finally, employment and social protection are also addressed in different components across the RRP. Education and research on the socio-economic impact of digital transformation fall under the digitalisation tag. In response to the severe impact of restrictive Covid-related measures on the cultural and creative sectors, Czechia has committed to adopting an artists' statute, which should improve working conditions in this atypical profession and facilitate investment in skills development with direct support to 2000 people in the cultural and creative sector. Lastly, 7 per cent of the grants are supposed to be directed to the health system.

3. The Social and Labour Dimensions in the Recovery and Resilience Plans.

The Commission has provided a positive evaluation of the Czech RRP, with minor reservations. According to the Commission's report, the plan responds to the most significant challenges of the Czech economy and society, such as demographic ageing, climate change and digital transformation. The plan is deemed to focus on a broad spectrum of investments in transport, energy, construction, digitalisation, childcare and social infrastructure, and health care. These investments are noted as being complemented by reform efforts toward more efficient public administration, competitiveness and cohesion.

The Commission evaluated the plan as meeting the thematic criteria for the costs of the green transition and the digital transformation. The Commission had certain reservations on whether the government has provided for sufficient measures to prevent, detect and correct conflicts of interest. Czechia had to add a milestone on harmonising domestic and European standards in assessing the ownership of companies. Minor reservations concerned the technical evaluation of smaller investment projects as insufficient. A more important criticism concerns the lack of synergies between investment and structural reforms, which

[11] Eurostat, *Living conditions in Europe—Childcare arrangements*, 2022 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_childcare_arrangements.

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prevents the plan from reaching its maximum transformative potential. According to the report, the whole reform part of the RRP also lags behind the investments, supporting the argument that the plan is seen only as an additional source of funds.

According to the European Commission (n.d.) estimates, NGEU may bring up to 18,000 new jobs to the Czech Republic by 2026, directly increasing GDP by 0.8–1.2 per cent and another 0.3 per cent because of cross-border spillover effects. To sum up, Czechia wishes to use the Recovery and Resilience Facility (RRF) primarily to finance investments that largely resemble those that constitute the focus of cohesion funds. Because of the combination of time pressure to create the Recovery and Resilience Plan and realise the planned investments, together with the lack of economic strategy, the government has approached the NGEU plan only as a source of additional funds, considering the reform part, as well as the climate and digitalisation objectives as necessary evils. Nevertheless, the Commission assessed that the Czech Republic had succeeded in meeting both the thematic criteria and the link with reform efforts.

4. The European Pillar of Social Rights and the Social Scoreboard.

Assessed in relation to the Social Scoreboard Czechia is among the countries with a good balance on most indicators, including early leavers from education and training, share of NEETs, income inequality, employment rate, (long-term) unemployment rate, the cumulative increase in real gross disposable income, poverty and social inclusion indicators.

Nevertheless, there are areas in which Czechia has to catch up. In general, these concern equality between women and men and the issue of equality in opportunities and education.

The high gender employment gap (at 15.4 per cent versus the EU average of 10.8 per cent) and one of the highest gender pay gaps (at 16.4 per cent versus 13 per cent in the EU) point to high inequalities in the labour market, which are linked to the usual suspects, such as discrimination and prejudice, cultural customs in child care (carried out predominantly by women and unpaid household work), personal income taxes that are disadvantageous for second earners, and – most importantly in the context of investment opportunities – the terrible state of pre-school care. The RRP can partially improve incapacity shortages estimated at up to 36,700 places for very young children, reducing the disadvantages afflicting carers in the labour market. The strengthening of care services for the elderly and other disadvantaged people can have the same effect by relieving women in the so-called ‘sandwich generation’, squeezed in between caring for their children and parents.

In its assessment, the Commission discusses the risk of poverty and social exclusion, concentrated in specific groups of the population, such as Roma, single women or the elderly (especially women living alone). Investments in social infrastructure in this direction are planned. The problems of limited social mobility concern regional disparities in education, because the socio-economic background significantly impacts educational attainment.

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Educational failures are more substantial in regions affected by high levels of asset forfeitures and housing deprivation of families with children.[12] Moreover, this problem has probably been exacerbated by the extended lockdown in schools.[13]

Unfortunately, the RRP responds only marginally with investments in modernising education and reducing the digital divide.

4.1 Country-specific recommendations.

In the 2019 CSRs preceding the negotiations,[14] the Council recommended that Czechia focus on the long-term sustainability of pension and health care systems, namely public systems directly affected by demographic ageing. By 2070, the *ratio* of two seniors per person of working age will squeeze the pension system. In order to satisfy the higher demand, the health care system should increase its funding by 1.1 percentage points of GDP over the same time horizon. Despite the efforts of the Ministry of Labour and Social Affairs to fund the initial costs of a proposed thorough pension reform, it did not end up in the plan. In this area, only the reform of long-term-care legislation – part of the RRP – tackles the implications of demographic change. This reform integrates social and health care and ensures stable funding for services, including community and home care.

The second recommendation relates to the already discussed situation of women with children and other disadvantaged groups – people with low qualifications or disabilities – in the labour market. According to the Council recommendation, the main determinants of gender inequality in the labour market include the inadequate supply of affordable childcare, extended parental leave, low use of part-time contracts and the lack of long-term care facilities. The capacities of childcare and long-term care facilities are considered in the RRP, including the development of advisory services and investments in inventory. Long parental leave is a Czech specificity compensating for the lack of kindergarten places. The RRP, however, does not tackle the low availability of part-time jobs. The recommendation also includes the issue of inclusion in education, support for digital skills and for the teaching profession. The education segment is taken into account in the third pillar, which includes strengthening IT education and teachers' digital skills, investing in digital technologies at schools, supporting disadvantaged schools and tutoring pupils in response to the lengthy Covid lockdowns.

Finally, the Council recommends investing in sustainable transport, digital infrastructure and the transition to a low-carbon economy. As already mentioned, the RRP is very investment-based and takes these pillars into account, both through digitalisation and the

[12] PAQ Research, *Mapa vzdělávacího ne/úspěchu*, 2021, https://www.mapavzdelavani.cz/.
[13] PAQ Research, *Pandemie žákům výsledkově vzala v průměru 3 měsíce učení*, PAQ Research, 5th October 2021, https://www.paqresearch.cz/post/pandemie-dopad-zaci.
[14] European Commission, *Recommendation for a Councin Recommendation on the 2019 National Reform Programme of the Czech Republic and delivering a Council opinion on the 2019 Convergence Programme of the Czech Republic*, 2019 https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1560258059685&uri=CELEX%3A52019DC0503 .

development of railway infrastructure and electric vehicles, and through reforms and investments in connection with digitalisation and green transition. The recommendation also focuses on effective public administration and the development of digital state services. The RRP response can be found in the first pillar and its reforms of access to public data and e-health, investment in digital state services, development of open data, digital justice, cybersecurity and 5G networks, including the whole ecosystem of 5G networks from technical infrastructure to scientific research activities.

Some of the 2019 recommendations are repeated in the 2020 CSRs. Nonetheless, in 2020, the Council's recommendations were affected by the pandemic.[15] It resulted in a proposal to address the pandemic and the associated social, economic and fiscal problems.

Accompanying recommendations on ensuring the resilience of the health care system, strengthening health care staff, and access to primary care and electronic health care are partially taken into account in the RRP. The plan includes developing a health education system and the digitalisation of health care. Still, instead of the resilience of the health care system and its availability, the plan focuses on establishing specific specialised centres, such as oncology or cardiovascular and transplant medicine. Especially the National Oncology Institute, a flagship project of the former prime minister, has received a lot of criticism from the expert community. Even the Czech Oncology Society criticised the project of centralisation of oncology care, one of the effects of which is to drain the top oncologists from hospitals in the regions.[16] The 2020 CSRs also included recommendations on developing education, training and digital skills and a focus on investments in the digital and low-carbon economy. Given the exceptional European semester cycle without structural reforms recommendations in the 2021, the Commission assessment of the Czech RRP focused on fiscal sustainability while maintaining investments primarily in green transformation and digitalisation in line with the plan and the state's capacity to provide health and social care (European Commission, 2021).[17]

5. Lessons from the previous crisis.

Czechia has not been presented with macroeconomic recommendations within the framework of the in-depth reviews carried out by the Commission since the Covid-19 pandemic.

[15] European Commission, *Recommendation for a COUNCIL RECOMMENDATION on the 2020 National Reform Programme of Czechia and delivering a Council opinion on the 2020 Convergence Programme of Czechia*, 2020 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0503.

[16] Czech TV, *Stát chystá vznik národního onkologického institutu. Odborná veřejnost preferuje regionální centra*, ČT24 - Česká televise, 2021: https://ct24.ceskatelevize.cz/domaci/3342170-stat-chysta-vznik-narodniho-onkologickeho-institutu-odborna-verejnost-preferuje.

[17] European Commission, *Recommendation for a COUNCIL RECOMMENDATION on the 2021 National Reform Programme of Czechia and delivering a Council opinion on the 2020 Convergence Programme of Czechia*, 2021 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021SC0211&qid=1632757011940.

The 2022 Country-Specific Recommendations consider mainly fiscal sustainability and the new risks related to the geopolitical situation and high inflationary environment. After the period of rapid growth of the general government deficit caused by non-temporary and non-targeted measures – such as the massive personal tax cut in 2021, discussed below – the plan is to reverse the trend in an effort to bring the deficit back down below 3 per cent by 2024. One driver here is supposed to be economic growth and a much slower pace of government expenditure growth (for example, as regards employees' wages or social transfers). Given the already high structural deficit and long-term trends such as demographic ageing, however, the government budget faces sustainability risks in the medium and long terms. The fiscal position will inevitably be tight. The 2022 CSRs recommend focusing on public finance sustainability and supporting the most vulnerable households and firms facing the energy price hikes, as well as support for Ukrainian refugees. There is also the emerging topic of housing affordability, which is among the lowest in the EU. The CSRs state that housing policy in Czechia is non-existent and that social housing stock is meagre (0.4 per cent in contrast to a 7–8 per cent EU average). This housing crisis is exacerbated by the need for housing for Ukrainian refugees. The Council thus recommends strengthening the provision of social and affordable housing, while adopting legislation for social housing and housing policy coordination. The CSRs also mention the energy crisis and the need to reduce reliance on fossil fuels by investing in renewables and energy efficiency. All of those challenges require fiscal capacity. Otherwise, the likelihood is that austerity measures will be imposed or that the problems will not be tackled at all. In both cases there may be negative social and political consequences.

6. The Politics of the NGEU Plan.

The negotiations on and adoption of the NGEU plan have not attracted much attention among the general public, although it can be considered an important milestone in European integration. The pandemic and consequent government measures have completely dominated the public debate and stand at the heart of political disputation between government and opposition. Disputes over NGEU, or later the drafting of the RRP, caused friction within the coalition between the two government partners, the dominant ANO (Renew Europe group) and the minority ČSSD (S&D group). The Ministry of Industry and Trade, headed by an ANO minister, was responsible for the preparation (and also implementation) of the RRP, in cooperation with the Ministry of Finance and the Office of the Government, also under the leadership of ANO nominees. The main financial package was intended to be channelled towards the green transition, complemented by health investments. The relevant ministries were also led by the same party, including the Ministry of Regional Development, which manages the ESIF funds. Minor coalition partner the ČSSD was initially overlooked, and its priorities – especially in the area of employment, social affairs, culture and a greater emphasis on green transition – were only gradually added to the plan. Despite the omission of the ČSSD's request to finance pension reform and the cutting of some cultural projects, the government reached a consensus on 17 May 2021. The subsequent elections in October 2021, leading to a change of government, were little related to the RRP.

6.1 All quiet on the labour market front.

The involvement of the social partners and civic society in creating the RRP was limited; their role was not significant. The initial approach stemmed from the tight schedule; rapid elaboration of the Recovery and Resilience Plans, combined with the need to draw down investment contributions relatively quickly created a time pressure. The process followed a 'bottom-up' approach, with many projects across ministries. Only the projects with guaranteed implementation within five years were incorporated into the investment package, which was then grouped into individual pillars and components. The absence of a vision and internal logic for the RRP is already clear from this process outline. The social partners and civil society began to be involved only on the basis of a rough form of the plan. The RRP was discussed at the tripartite level several times, and round tables were held with NGOs and other partners in November and December 2021. However, those consultations continued to be characterised by non-transparency and confusion.[18] Interest groups regularly complained about poor communications with the ministry, and the current version of the RRP was not available at meetings and round tables. Instead of fundamental content changes, the social partners were eventually granted a position in the Committee of the RRP, which will be in charge of implementing the plan.

6.2 Time for austerity measures? Not yet.

Czechia has always been fiscally conservative, with low debt and an aversion to high deficits. The government dealt with the Great Recession (2008 financial crisis), for example, with a series of austerity measures. This caused a further recession and a slow economic recovery. The perception of tough austerity measures has changed, but the fiscal conservatism lasted until the Covid-19 crisis. Fiscal tightness changed during the pandemic with relatively generous compensation programmes. The long-term sustainability of public finances was distorted mainly because of tax reforms from the end of 2020. In an ad hoc coalition with the then opposition parties, ANO approved a tax reform that cut personal income tax by more than half and abolished the real estate acquisition tax. The subsequent reduction in tax revenues to the level of developing countries was not accompanied by a decrease in government spending. The general government debt in Czechia experienced the

[18] ČŽL, *Otevřený dopis: Neziskové organizace upozorňují na netransparentní přípravy Národního plánu obnovy,* Česká ženská lobby, 2021:
https://czlobby.cz/cs/zpravy/otevreny-dopisneziskove-organizace-upozornuji-na-netransparentni-pripravy-narodniho-planu.

fastest increase in the EU between 2020 and 2021,[19] and the structural deficit requires significant budgetary measures.

In the October election campaign, the consolidation of public finances was discussed, but none of the parties entering the Chamber of Deputies proposed addressing the situation by raising taxes. The new government's consolidation strategy was based on savings in the state administration, so its first steps were to freeze the already approved wage rises of civil servants and reduce the wage rises of teachers and health workers and reduce public health spending on public health system. The continuation of this austerity-like consolidation strategy, which would require more substantial cuts in the provision of public services to effectively cover the structural deficit, was interrupted by the Ukraine crisis and the need to address the social impact of high inflation.

7. Final considerations: the RRP and the new growth model.

The Czech approach to social and labour protection policies is generally lukewarm, and the RRP covers them only marginally. In addition, the abovementioned personal income tax reform, approved during the last phase of RRP drafting, favoured high-income employees (one-fifth of top-ranking employees received 36 per cent of total tax relief, while one-fifth of the poorest received only 4 per cent (Kalíšková & Šoltés, 2022))[20] while substantially reducing the state's capacity to solve current and future problems. Unfortunately, the RRP is not a magic wand that can correct the errors of the past. The total RRP allocation covers only two years of the permanent tax relief for high-income employees. The government's capacity to deal with current and future changes in the labour market, social protection needs or active industrial policy, thereby promoting the convergence of the Czech economy with its western neighbours, is poor.

The financial incentives to implement some reforms, such as the financing of long-term care or early childhood care, seem to be working. Still, social and labour legislation requires more profound changes and more intense involvement of the national budget, providing long-term financing. The risk is that the costs of the government's lack of interest in employment policies will reveal themselves only when it is too late. The reform priorities included in the RRP show that the Czech government is only skirting around the most pressing issues on the social and labour policy agenda.

The Czech RRP was also considered to be an opportunity to speed up wage convergence with the western European Member States and finally to break through the developmental ceiling of the middle-income-trap economy. The ideal opportunity provided by the emergence of new value chains in the green and digital economies could shift the position

[19] ÚNRR, *Vývoj státního dluhu České republiky*, 2022 https://unrr.cz/studie-vyvoj-statniho-dluhu-ceske-republiky.
[20] Kalíšková K., Šoltés M., *Dopady zrušení superhrubé mzdy*, 2022 https://idea.cerge-ei.cz/files/IDEA_Studie_4_2022_Dopady_zruseni_superhrube_mzdy/IDEA_Studie_4_2022_Dopady_zruseni_superhrube_mzdy.html#p=8.

of the Czech economy within established production chains. Although the EU's capital- and technology-abundant economic core has a better starting position because competitive advantage tends to go to countries with pre-existing competencies,[21] the RRP could enable Czechia at least to keep up with the climate and digital transformations.

Unfortunately, the country is using the recovery funds to fill existing holes in the budget rather than as incentives for qualitative change, thus losing valuable time and resources in the effort to cope with disruption in the global economy. The RRP can be a positive impulse to help Czechia invest in modernisation, implement structural reforms, start making transformative changes in the world of work and take the social implications of the climate crisis seriously. However, it has neither the imagination nor the ambition to instigate qualitative socio-economic change.

[21] Grieveson R., Bykova A., Hanzl-Weissová D., Hunya G., Korpar N., Podkaminer L., Stehrer R., Stöllinger R., *Nový růstový model pro země střední Evropy,* Friedrich-Ebert-Stiftung, 2021 http://library.fes.de/pdf-files/bueros/prag/18317-20211026.pdf.