



CONFEDERATION OF INDUSTRY  
OF THE CZECH REPUBLIC

# **RECOMMENDATIONS FOR A RESTART AND THE LONG - TERM RENEWAL OF GROWTH OF THE CZECH ECONOMY**

July 2020

## Summary

1. **The weakened economy needs to resume its growth.** Without solving the accumulated problems, the domestic economy cannot be built on sound foundations. The crisis can thus also become an opportunity for the government to improve our situation in the long run. In the short term, assistance needs to be targeted at the most affected sectors.
2. **Investment is crucial in the long run and as a way out of the crisis.** The government should therefore expand public investment, especially in the area of digitization and infrastructure development. The government should ensure the rapid and effective use of European funds, including the EU Recovery Plan. A better investment environment, such as a more favorable form of incentives, is also beneficial for economic growth and recovery.
3. **Economic growth and sustainability must go hand in hand.** Economic growth and innovation will create the best conditions for ensuring the sustainability of the whole economy. We must therefore support the achievement of both goals at the same time.
4. **Research and development must be a government priority.** It is necessary to stimulate research and development in the public and private sectors, both by changing conditions and by direct financial instruments. Government support for research in the private sector combines the public interest with economic efficiency.
5. **It is necessary to accelerate the digital transformation of companies; the state administration must not lag behind.** In terms of digitization, Czech companies outperform not only most competitors in EU countries, but also the USA (according to a survey by the European Investment Bank). The state administration must be able to keep pace with the industry in digitization. It is the level of state administration and its services that is what pulls us down in the digitization rankings. It cannot do without strategic investments in digital infrastructure of public, private and in industrial areas.
6. **The development of the economy requires educated and qualified employees.** The government should focus on the development and reform of education. This is necessary not only for higher qualification of employees, but above all for ensuring the competitiveness of the Czech Republic in the future.
7. **The labor market must be flexible.** Due to the unfavorable demography, there is a need to facilitate the employment of foreign workers, to give more support to shorter working hours' arrangements and new ways of organizing work (e.g. remote working), and to reduce termination costs.
8. **Regulation must be smart.** Future regulatory measures only make sense if they are based on facts and do not stifle economic growth. Regulation can create economic opportunities if it is in the long run predictable, well thought-out and justified.
9. **The prosperity of the Czech economy is based on its openness.** A key factor in the success of the Czech economy is the ability to produce products that are competitive on the international market. Involvement in the world economy needs to be further strengthened. The government should support the restart and improvement of the functioning of the EU single market, prevent its fragmentation and support an open EU trade policy enabling the diversification of value chains and the free movement of not only goods and services but also data.
10. **Adopt the euro.** This will help not only the Czech economy, but also the Czech Republic's negotiating position in the EU. Make the most of the opportunity that the Czech Presidency of the EU will bring in the second half of 2022.

# Content

1. Introduction .....	3
1.1 The crisis has already hit the economy at the time of slowdown .....	3
1.2 The crisis can also be a good opportunity.....	5
2. Stimulation measures .....	6
2.1 Business R&D must be a government priority .....	7
2.2 Promoting investment and demand is essential .....	7
2.3 Let's fully use the European structural and investment funds.....	8
3. Structural reforms.....	9
3.1 Economic growth and sustainability must go hand in hand.....	9
3.1.1 Climate protection, energy .....	10
3.1.2 Water management.....	11
3.1.3 Circular economy .....	11
3.2 We must succeed globally: the conditions for research, development and innovation need to be improved.....	11
3.3 Economic development requires educated and qualified employees and a flexible labor market.....	12
3.4 The future lies in the digital transformation .....	14
3.5 The public sector must provide modern services and digitize itself .....	15
3.6 The prosperity of the Czech economy is based on its openness.....	15
3.7 Regulation must be fact-based and not stifle economic growth .....	17
4. Conclusion.....	18

## 1. Introduction

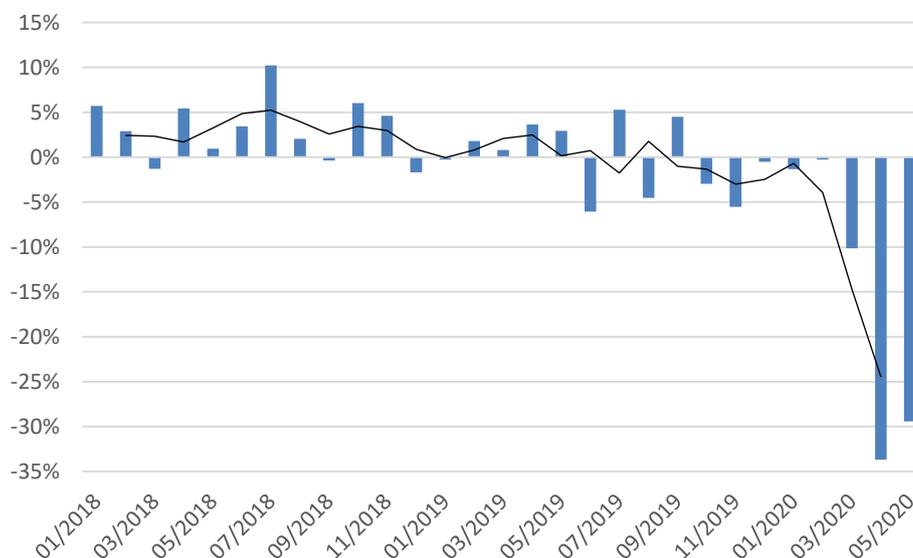
In this document, we present to the government a series of recommendations to support economic growth in the post-crisis period, which the Confederation perceives as a priority. Industry plays a key role in the Czech economy and the Confederation, as its representative, is an important partner for the government in shaping the state's economic policy. We therefore believe that the government will take these recommendations seriously and take them into account in its actions. Restoring economic growth is in the common interest of companies, citizens and government. The document has no ambition to replace the comprehensive vision of the state's economic policy or the Confederation's program statement, on which it is based.

### 1.1 The crisis has already hit the economy at the time of slowdown

The Covid-19 pandemic and its consequences have hit the economy in a state of growth. As early as 2019, however, signs of a slowdown began to appear. The year 2019 brought a number of uncertainties, which further contributed to this slowdown. In particular, uncertainty about future relations between the European Union and the United Kingdom and growing economic protectionism, including trade disputes between the United States and China, can be mentioned.

In 2020, the world was hit by the Covid-19 pandemic, which required major safeguards that further exacerbated negative economic developments. It is obvious that the world economy is facing a significant economic crisis this year, which will not be avoided even by the Czech Republic. Domestic industrial production fell by 34% in April compared to April 2019, and fell by 29% in May. In a June survey by the Confederation of Industry, about 52% of companies reported an expected drop in orders of more than 20% for the summer months.

Graph 1: Industrial production index (in % of previous year)



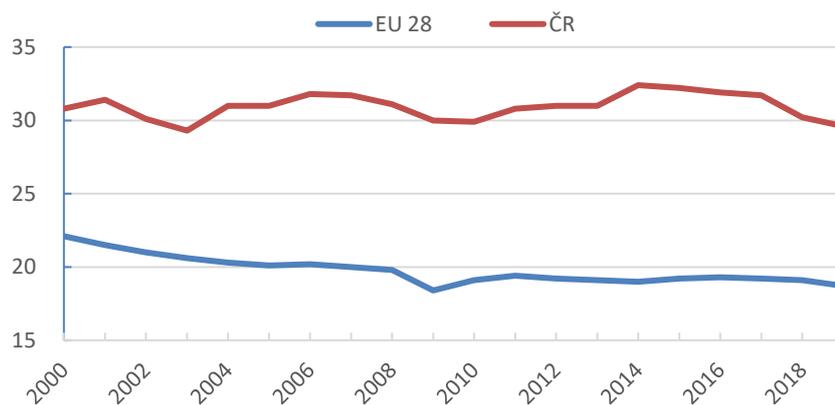
Source: CZSO

It is already possible to say that the economic crisis of 2020 will probably be the greatest in scope since the establishment of the independent Czech Republic. The Czech economy will face problems that we have not encountered so far and whose solution requires the will to take bold steps.

In the first half of the year, attention was focused mainly on current events and rapid stabilization measures. However, work also needs to start on how best to help restore economic growth. The need to rebuild the damaged economy is also an opportunity to make the right systemic changes that have long been marginalized or neglected.

At the same time, industry has an irreplaceable position in the Czech Republic. Its share in gross value added is basically the highest of the EU countries and is also stable, it has not fallen as much in the last two decades as in other EU countries. Industrial enterprises employ almost 1/3 of the economically active population. Good industrial condition is therefore key to our economy.

Graph 2: Share of industry in gross value added (in %)



Source: Eurostat

At the same time, the current crisis has not affected all industries in the same way, although the vast majority of industries have seen a decline. Among the hardest hit were, in addition to the services sector and restaurants due to closed establishments, leather and automotive industries with the April decline of more than 50%, and in the case of the automotive sector even more than 80%.

Table 1: Development of Czech industry in April and May 2020

Industrial sector	Year-on-year change in production (in %)	
	April	May
Paper production	4,9	-7,4
Food industry	-11,0	-8,7
Manufacture of beverages	-26,7	-10,6
Manufacture of pharmaceuticals	-1,1	-10,6
Manufacture of computer, electronic and optical products	-0,1	-11,2
Manufacture of wearing apparel	-23,1	-14,7
Wood processing	-2,8	-16,8
Production and distribution of electricity, gas and heat	-19,2	-17,2
Mining and quarrying	-21,9	-20,4
Manufacture of textiles	-20,1	-20,7
Chemical industry	-15,9	-23,7
Manufacture of electrical equipment	-29,6	-23,9
Furniture production	-36,5	-26,6
Manufacture of machinery	-29,5	-27,1
Leather industry	-52,6	-29,1
Metallurgy and foundry	-20,0	-30,6
Rubber and plastics industry	-48,0	-38,6
Manufacture of motor vehicles	-80,1	-45,2

Source: CZSO

## 1.2 The crisis can also be a good opportunity

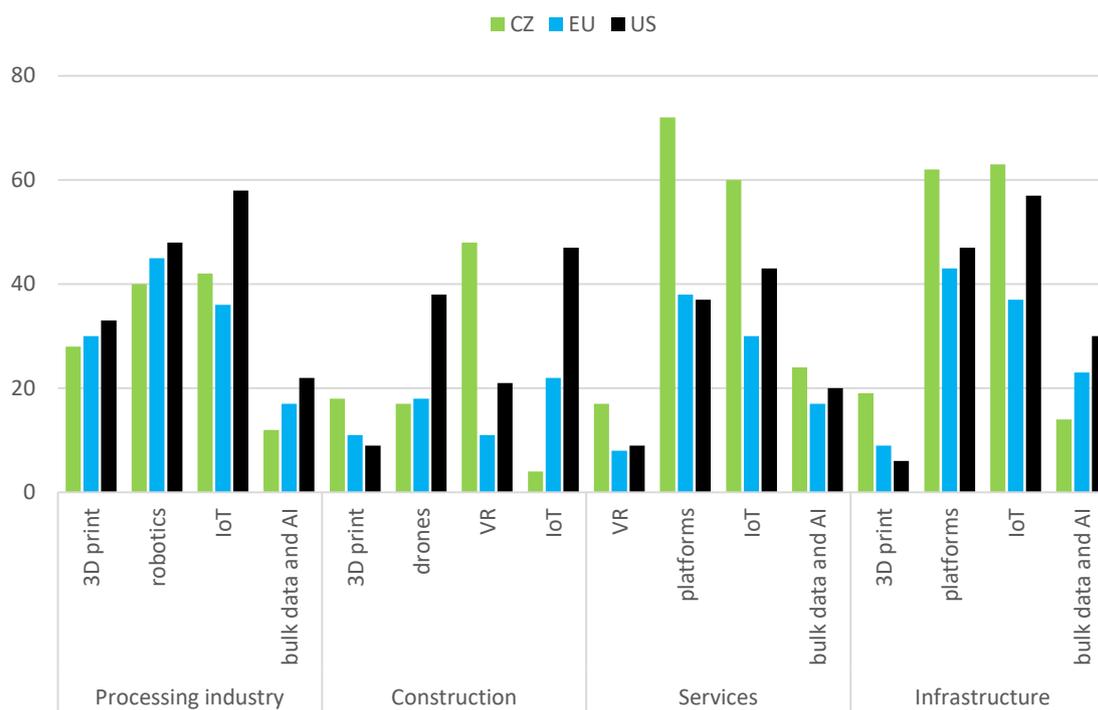
The Czech economy did not only suffer from problems caused by external factors. Even the domestic environment itself and unresolved problems for many years had an impact on the growth rate and its gradual decline. The European Commission and the Organization for Economic Co-operation and Development (OECD) have repeatedly pointed to major deficits in the domestic economy and business environment in their reports and opinions. Many of them also agree with the opinions of the Confederation, which we have been communicating to the government and political representation for a long time.

For example, the OECD recommendation in 2019 selects the mismatch between available and necessary staff qualifications, the need to offer preschool childcare, a lifelong learning system or cooperation between companies and research institutions. There are also problems with the administrative complexity and efficiency of public administration, where, for example, the Czech Republic ranked 156th in the permitting processes category in 2020 according to the World Bank's Doing Business report.

According to the EIB's Digitization Index, which focuses on the business sector, only four EU countries are ahead of digitization in the US, namely Denmark, the Netherlands, the Czech Republic and Finland. This unique competitive advantage must not only be maintained, but also fully utilized.<sup>1</sup>

<sup>1</sup> <https://www.eib.org/en/publications/who-is-prepared-for-the-new-digital-age>

Graph 3: Adoption of individual digital technologies (in % of all companies), by industry



Source: EIBIS wave 2019. Companies are weighted according to added value

These and many other issues need to be addressed. The crisis and the fight against it can thus become an opportunity to deal with the long-term postponement of a number of shortcomings affecting the Czech economy and business environment.

The Confederation of Industry is convinced that we will not overcome this crisis only with direct or indirect financial assistance from the state to citizens, entrepreneurs and companies, however necessary. The government has a chance to reconsider a number of previous problematic decisions, review less effective expenditures or, conversely, accelerate a number of already planned measures. Every new regulation needs to be assessed much more accurately from the point of view of its impact on the economy. Businesses must be given maximum flexibility and creativity so that they have the space to adapt to new and often unknown conditions that will arise in the coming years.

It is also necessary to realize that the key for the future prosperity of Czech industry and the Czech Republic as a whole, are open external markets and meeting the challenges posed by the need for digital transformation not only of industry but also other areas of life, especially public administration. The crisis has shown the need for faster digital transformation, including in the search for crisis solutions. Digital technologies have shown their potential, from production flexibility, through logistics and communication, to opportunities in education and healthcare.

## 2. Stimulation measures

The decline in industrial production, which occurred in March 2020, was caused by an external shock in the form of a state of emergency declared in order to cope with the Covid-19 pandemic. The slowdown in a number of economic activities and the decline in employment led to a decline in the volume of orders and demand for finished products, to which industrial enterprises responded by reducing production.

To best cope with this negative external shock, a positive external shock will help in the form of adopting temporary measures aimed both directly at the affected sectors, and at stimulating demand. However, due to the openness of the Czech economy, this is of limited importance, as many industrial companies are focused on exports and increasing the purchasing power of Czech households may not lead to an increase in demand for Czech industry's products, but to an increase in imports.

Stimulation measures should be differentiated according to how the various industries and individual businesses were affected by the current crisis. Stimulation measures should be limited in time, so they should work or start operating in 2020 and 2021.

This chapter provides an overview of stimulation measures whose implementation would help to quickly restore industrial growth. The effort, however, is not to have the government implement all of the following measures, but to have a list of measures that the enterprises themselves see as useful.

The introduction of these measures is justified by the exceptional nature of the current situation.

## 2.1 Business R&D must be a government priority

Research and development (R&D) ensures sustainable economic growth and thus brings positive economic externalities. The government recognizes that and grants for R&D carried out by private companies are part of the economic policy of most countries. According to the CZSO, approximately 60% of total R&D expenditures in the Czech Republic are expenditures made by private companies. Private R&D expenditure grew by more than 10% every year.

However, in times of economic downturn, companies do not have the resources to carry out R&D projects to a greater extent, and it is therefore appropriate to support them more than is standard:

- increase in the volume of funds in programs to support RDI (e.g. TREND, CFF, NCK, DELTA, THÉTA) and infrastructure.

## 2.2 Promoting investment and demand is essential

The state budget must not limit expenditures on key, long-term pro-growth measures of an investment nature (transport, RDI, education, digitization). As for private investment, which must be the basis, it is a complex of factors, including the business environment and the degree of (un)certainty. Therefore, the private sector must not be further directly or indirectly taxed, on the contrary, it is necessary to look for tools to facilitate investment activity (permitting processes, administration, deduction options, labor force, etc.).

Specific measures to revive investment include:

- ensuring sufficient funds for the construction and renewal of transport and data infrastructure;
- availability of financial instruments such as guarantees, for example with the use of CMGDB or EGAP and European programs. The programs cannot be terminated after a few months in 2020, but some form of guarantee should continue to exist. Loans should be firstly transparent and stable, secondly they should be highly flexible and easy to administer;
- support for the renewal of the company's vehicle fleet by transferring passenger company cars to a faster depreciation group (from five to three years). This will motivate companies to renew their fleet;
- reduction of taxation of a company car used for private purposes from 1% to 0.5% in the case of a partially or fully electrified new car (PHEV, BEV, FCEV) with an emission limit of up to 50g CO<sub>2</sub>/km;

- contribution for clean mobility, i.e. for example contribution for the purchase of a new car (generally greater discounts on emission-free cars and renewal of the state's vehicle fleet). The temporary environmental/purchase bonus could be financed from the SEF and graduated according to EURO categories and applied to alternative fuel vehicles;
  - at the same time, the renewal of the vehicle fleet would be further helped if there was an increase in the emission fee for the registration of vehicles meeting EURO 0 to 2, or to introduce a fee for vehicles complying with EURO 3.
- in the system of investment incentives, the government must declare a change in its position and its willingness to approve investment incentives. At the same time the incentives support should enable integration of products and technologies of strategic importance for national security and defense or protecting life and health of citizens in emergency situations;
- acceleration of depreciation and increase of the depreciation limit;
- define security and strategic technologies and products and subsequently set up long-term support for research, development, investment, certification, production or purchase of strategic products and technologies.

### 2.3 Let's fully use the European structural and investment funds

Long-term growth can only be based on investments and the Czech Republic must use all resources as efficiently as possible.

In this respect it is necessary:

- agree with the European Commission to extend the deadlines for the current programming period by at least half a year;
- after the agreement of the Multiannual Financial Framework (MFF), determine the specific settings and conditions of drawing of individual programs and to start a new programming period as soon as possible, in order to avoid delays in drawing, or the decline in drawing on operational programs in the coming years;
- use more European funds to meet EU goals and to transform the economy, including the so-called Green Deal;
- launch the Recovery Fund (Coronavirus Rescue Fund) as soon as possible as part of the MFF while keeping in mind the following requirements:
  - prepare a national plan to support recovery and resilience and implement it through projects as soon as possible;
  - the plan must not be at the expense of investment in RDI, the fulfillment of EU objectives, especially in the field of sustainable development (unless they are postponed) and investment in key infrastructure;
  - an increase in the possible ceiling of national contributions to the MFF must be temporary and must not be increase via direct or indirect taxation of companies;
  - Member States' position should not be weakened by the introduction of problematic own resources (such as the EU ETS or further corporate taxation).
- promote at European level, e.g. for the use in ESIF, the increase of the de minimis aid limit from €200,000 to for example €500,000. De minimis programs, unlike the Temporary Framework programs, do not need to be notified, moreover, due to various COVID supports, companies have already exhausted these limits, so without increasing the limit applicants will not be able to use standard de minimis programs (e.g. training centers, innovation vouchers, etc.);

- increase the national co-financing of EU programs in the OP EIC program (or OP TAC) from the state budget.

### 3. Structural reforms

The long-term economic recovery plan should be based on several basic starting points, on which there must be consensus not only within industry but also at the level of the social partners represented in the tripartite. The starting points are based on the identified structural deficiencies that are an obstacle to future development.

These starting points include:

- The economy will not be saved by direct support in the form of subsidies, social programs and guarantees. The state must take a number of bold and decisive steps, which it has postponed for many years.
- Innovation will best ensure future prosperity and sustainable development. Priority must therefore be given to supporting research, development and innovation, together with investment in the necessary infrastructure.
- Industry will prosper if it has an available workforce with the appropriate education and skills. The state must therefore adapt the level of education to the current situation. At the same time, it is necessary to work on lifelong learning programs and remove barriers to participation in the labor market.
- Unnecessary and excessive regulation brings unnecessary costs on the part of companies and the state. For each regulation, it should be assessed whether the objectives cannot be achieved more efficiently and at lower costs.
- Industry will strengthen its competitiveness if it manages the digital transformation well. It is a challenge both for the entire Czech industrial environment and for individual companies. The results of our companies in international comparisons show that we have a unique opportunity to be at the forefront.
- Economic prosperity of the Czech Republic is best ensured by its integration into the world economy. Access to foreign markets is crucial, especially the EU's single market. The introduction of the euro would be a clear advantage for Czech industry.

#### 3.1 Economic growth and sustainability must go hand in hand

Long-term prosperity cannot be achieved without the sustainability of future economic development. Both of these goals must go hand in hand and one must support the other.

One of the biggest challenges in the field of sustainability today is the reduction of CO<sub>2</sub> emissions, which will require changes, especially in the energy, energy-intensive (for example, metallurgical, chemical or paper industries) or in the automotive industry. At the same time, the automotive industry is one of the most affected in the current crisis caused by the Covid-19 pandemic. Drought and the reduction of water availability in the landscape also pose a number of challenges for industrial enterprises. And last but not least, changes are needed in waste management. The state must create the conditions for companies to meet these goals, and at the same time it must adequately support them in this effort through the following measures.

##### 3.1.1 Climate protection, energy

- promote realistic EU vehicle emission reduction targets in the context of the revision of the Regulation setting emission performance standards (CO<sub>2</sub>) for passenger cars, light commercial

- vehicles and lorries, and maintain tolerance for vehicle manufacturers to measure emissions from real traffic;
- support the development of alternative fuels and energy-efficient passenger (individual and public) and freight transport vehicles, for example through incentives for customers to purchase and operate emission-free and low-emission vehicles, support domestic charging and the construction of power, charging and filling infrastructure;
  - promote realistic EU targets for 2030 in the areas of greenhouse gas reduction, energy efficiency and renewable energy sources. In the event of an increase in targets, at the same time present protective and compensatory measures to prevent production (e.g. steel) from being pushed out of the EU, which would lead to higher unemployment and higher global emissions;
  - introduce compensation for the indirect costs of the EU ETS (already in preparation) for sectors with a significant risk of carbon leakage, such as metallurgy;
    - establishment and provision of compensation for indirect costs to vulnerable sectors already for 2020 should be ensured to the maximum entitled extent according to European rules, and should not be subject to any further requirements.
  - fulfill the current ambitious timetable for a new nuclear power source;
  - ensure conditions for the long-term operation of existing nuclear resources, consider using the French example;
  - support the financing of energy sector modernization;
    - development of the Czech energy sector is currently largely paralyzed, regardless of the impact of the epidemic - "classic" energy sources are essentially cut from access to operating finance due to the decisions of private bank owners and at the same time the state is very careful in supporting RES - both should be changed if we demand to modernize the energy sector to meet individual and national environmental goals.
  - use the potential of hydro power plants;
    - increase the capacity of hydro power plants, including pumped-storage plants, e.g. by extending the Vltava cascade or preparing Krušné mountains pumped-storage hydro power plants.
  - launch innovative pilot projects for hydrogen energy storage;
  - ensure that the Modernization Fund is set up, including the notification of public support to the European Commission, so that the funds are used optimally and as quickly as possible to finance projects to reduce greenhouse gas emissions, use renewable energy sources and increase energy efficiency;
  - update the State Energy Policy (SEP);
    - in 2020, negotiations should begin on updating the SEP, which should take place at five-year intervals - we believe that there are a number of European and national impulses to start this right now (Green Deal, amendment of the Act on the supported energy resources, the Coal commission, new nuclear resources planning).
  - set the long-term strategy of the Czech heating industry so as to enable a controlled transition of central heat supply systems to low-carbon energy;
  - determine the development priorities of the so-called coal regions;
    - the conclusions of the Coal Commission and the SEP should result in the state's priorities in the field of coal energy, which is still a pillar of electricity and heat production in the Czech

Republic, while it is evident that its horizon is final - large areas of Karlovy Vary and Ústí nad Labem, affected by mining, still lack a clear vision for further development.

### 3.1.2 Water management

- make a change in the system of financing water management and river basin management companies. Stabilize the price of water in the form of a fee for groundwater and surface water with regard to ensuring the protection of groundwater. To level the price of surface water and prevent its further disproportionate growth;
- avoid endangering the functioning of companies by further regulation of minimum residual flows;
- support projects for the construction and reconstruction of retention tanks for the collection of rainwater and related facilities. Further support projects that will reduce the need for surface water usage, such as the construction of circulating cooling systems and the modernization of existing cooling systems.

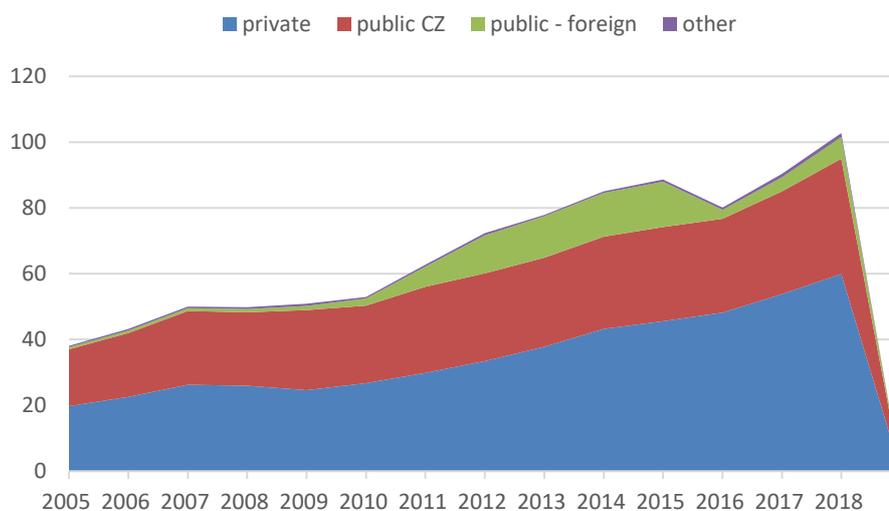
### 3.1.3 Circular economy

- take measures to promote the recycling business and the use of secondary raw materials, including positive economic instruments to promote recycling at all levels, such as tax incentives for recycled products and recyclables, green public procurement as an example of good practice or grant support in operational programs with the possibility of support also for large enterprises;
- to introduce systemic and direct financial support for the construction of technologies for the hygienic use of plastics, which, due to their nature and especially pollution and hazardous contamination, are absolutely not suitable for conventional material recycling. Also support chemical recycling.

## 3.2 We must succeed globally: the conditions for research, development and innovation need to be improved

Research and development ensures sustainable economic growth and thus brings positive economic externalities. The government is aware of this and subsidies for R&D carried out by private companies are part of the economic policy of most countries.

Graph 4: Expenditures on research and development by sources of their financing



Source: CZSO

Public support for private R&D projects could be made more efficient and effective by implementing the following measures:

- support the development of conditions for testing (enabling legislation as well as the construction of a test polygon) and the real advent of autonomous driving and digitization of vehicles and transport systems → construction of a state test polygon for autonomous mobility (now postponed indefinitely);
- ensure financing of innovations and start-ups, either with the help of CMGDB or an innovation hub. Coordinate support for start-ups provided by state institutions, so that information can be reached by start-up entrepreneurs and existing programs can be used in practice and effectively;
- support the creative industry, design and innovation as a part of added value in the Czech Republic, especially in the production of final products and services. Strengthen the identity of the Czech Republic as a country of creativity and innovation;
- remove obstacles and increase the motivation of companies to cooperate with research organizations, e.g. by adjusting the implementation of the Methodology 2017+;
- create an interactive overview of support tools that can be used during the product and service innovation cycle, including their results;
- enable greater use of the tax deduction for R&D, in particular by improving the tax administration's approach;
- competitiveness in a European and global scale requires also a favorable environment and conditions for the development of technology start-ups.

### 3.3 Economic development requires educated and qualified employees and a flexible labor market

The lack of a suitably qualified workforce has been one of the limiting factors in the development of industry in previous years. In order for companies to survive the ongoing digital transformation, they need to change the way they operate, but they also need employees with a different qualification profile. The system of education must respond to these needs to be able to educate their pupils and students to become graduates who can succeed on the labor market even in international competition.

The limiting factor in the labor market is the lack of necessary labor force, whose deficit will increase due to unfavorable demographic developments. The paradox of the labor market in the coming decades will produce, on the one hand, the lack of thousands of workers, particularly in high-skilled and low-skilled jobs, and on the other hand, job cuts e.g. in the field of administration and assembly-line production, which can be automated easily and at low cost. In addition, it is necessary to take into account local deviations from the overall low unemployment, which will be caused mainly by the low willingness of Czech employees to migrate for work. These differing labor market needs that can be addressed by reskilling only to a certain extent, will create social tensions which can be moderated only with an open and constant explanation to the public. Political representation will play a crucial role in this process.

In this context, the stimulating factor of investment incentives cannot be forgotten, which should in principle respond to the demographic situation on the ground.

Furthermore, it is necessary to create conditions for increasing the attractiveness of the Czech Republic for highly qualified workers from abroad and to support the process of managed economic migration due to a real shortage in the labor market.

Especially in the context of digital transformation, further vocational training in companies should be more widely supported. Modern continuing education tools, such as digital learning platforms or dual practice, should be set up and expanded in order to create a usable offer of modern lifelong learning for employees.

Increasing the flexibility of the labor market also requires facilitating the change of employment, especially the termination of employment by the employer (note: long notice period and multiple severance pay). The costs associated with redundancies exacerbate economic problems in times of recession, and the alternative in the form of fixed-term employment, on the other hand, is an obstacle to the quality development of the knowledge and skills of employees themselves.

There is no systemic tool to support the retention of employees in companies during an economic crisis, both at the level of the economy as a whole and at the sectoral or company level. A tool that would work immediately and prevent the dismissal of trained employees and their difficult recruitment once the problems disappear.

A flexible labor market and education can be supported by the following measures:

- set legal long-term rules for the use of "kurzarbeit", which could be launched immediately if the conditions are met;
- facilitate the termination of employment and the possibility of internal upskilling and reskilling of employees;
- encourage greater use of flexible work organization models (home office, shared jobs, etc.);
- resume the process of managed economic migration and remove unnecessary barriers to the use of skilled foreign workers;
  - remove barriers to participation in the labor market; further increase the availability of preschool child care facilities so that mothers have the opportunity to return to work earlier from maternity leave if they wish so and make it their own decision and not a decision depending on the availability of places in kindergartens.
- distance education and digital transformation of education must be a key priority and a guaranteed service of the state;
- in teaching it is necessary to combine learning in the classroom with e-learning, at least from the level of higher primary schools. Appropriate digital learning platforms must be accessible, secure and scalable in terms of access. This requires a coordinated approach of the Ministry of Education, the Ministry of Industry and Trade, the Ministry of the Interior and school founders and a guaranteed Internet connection throughout the Czech Republic;
- ensure the preparation and implementation of high quality and up-to-date retraining programs (for reskilling and upskilling) in close connection with the needs of regional employers and with the use of modularization and practical training at real company workplaces.

The flexibility and attractiveness of the Czech Republic for qualified employees should also be part of our competitiveness on a regional scale. The Czech Republic should have the ambition to become a hub within the V4 countries for large international companies as well as for individual talents and smaller companies.

### 3.4 The future lies in the digital transformation

In the current crisis, we have begun to realize how many activities we are able to manage very efficiently using remote access via current communication technologies. It is essential for Czech companies to continue to be able to operate in a mode where part of the processes can be controlled and managed by remote access.

However, greater digitization also brings new security risks that we need to face. Investing in cyber security has proved to be an absolute necessity. It is essential to focus on cyber attacks in the business environment by raising awareness of cyber security. There is also a need for the state to assist citizens in cyber hygiene and fake news dissemination.

Specific measures include:

- support for effective financing of infrastructure not only from the state budget or European funds, but also with the use of private resources (National Development Fund and more frequent use of PPP projects), such as increasing the speed of the Internet backbone network, building a 5G network;
- maintenance and development of reliably functioning systems, including communication networks:
  - investments in high-quality telecommunications infrastructure and next-generation broadband/5G wireless networks, including in rural areas;
  - supporting business investment in high-quality, sufficiently high-capacity and, in particular, secure digital infrastructure;
  - support for open standards and open source architectures in the development of 5G networks. This will lead to innovative and reliable software solutions, increased cyber security and a healthy competitive environment.
- support for the creation of electronic identity systems for blockchain and DTL and support for education and training for small and medium-sized enterprises in this field, with a view to streamlining and, in particular, ensuring greater transparency and security of supply chains;
- support cloud-computing services. Expanding the use of these tools and services will strengthen the resilience of businesses and the economy as a whole, organizational stability and cross-border operations;
- laying the foundations of a data-based economy (so-called algorithmic economy), in which there is an ecosystem of digital services around each product.

### 3.5 The public sector must provide modern services and digitize itself

Citizens and businesses rely on efficient public services. It has been shown how digital technologies can support the provision of services at a time when the physical provision of a service is not appropriate. The public sector must use these technologies and offer its services in digital and automated form.

In the field of public administration, the following measures need to be implemented:

- digitization of further branches of the public sector (state administration and local government, healthcare, transport, education) - the situation showed complete unpreparedness of the state for the digital age, inconsistency of procedures, etc.
- investment in the development of broadband, wireless networks and cloud-computing, accelerate their adoption and be a role model in their use. Further promote open architecture, as it leads to increased economic benefits and prevents vendor-lock in:
  - examine barriers to key sectors in the use of cloud technologies: prepare plans for the migration of multiple applications to the cloud, ensuring security, flexibility and unified access in these sectors;
  - use a "single view" that streamlines citizen/business interactions with government; strict application of the "data only once" principle;

- consistent introduction of "contactless" state administration - to eliminate personal visits to offices, sending letters and complex search for information and persons as much as possible. The solution is a client system with partial use of AI.

In the field of health care, it is necessary to develop and implement a comprehensive strategy for the use of AI. One of the decisive factors in this area is the improvement of the availability of data for research - on a voluntary and appeals basis and in cooperation with data protection authorities. The Confederation is ready to participate through its AI Platform.

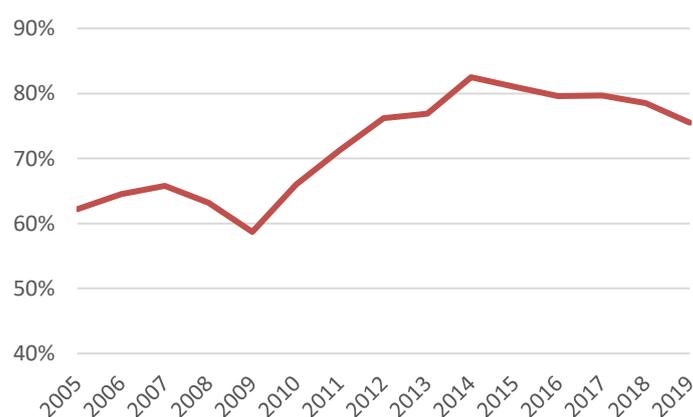
Equally important is the digitization of medical records, which is needed not only for sharing between care providers, but it is also the basis for content analysis, learning algorithms and for work with unstructured data on patients. The following measures are required for this:

- ensuring interoperability through standards. As for the software equipment for instruments, apparatus and associated equipment, a single supplier cannot be relied on. It is important that all the components used in providing care are able to communicate flawlessly;
- successful development of the IDRR (Departmental Information and Data Interface): IDRR represents the construction of basic information infrastructure of eHealth - departmental data interface for the communication of transaction information systems;
- developing a high quality cloud for e-health, which will host operational central applications, authoritative registries and central databases of patient clinical data.

### 3.6 The prosperity of the Czech economy is based on its openness

The Czech Republic is a small economy in international comparison and its domestic market is not sufficient to ensure growth and reach the level of the most developed EU and OECD countries. A key factor in the success of the Czech economy in recent decades has been the ability of industrial companies to produce products and goods that have been competitive on the international market. Maintaining and strengthening the openness of the global economy and especially the EU single market is essential to ensure the prosperity of the Czech Republic.

Graph 5: Share of exports of goods and services in GDP (in %)



Source: Eurostat

The adoption of the euro in the Czech Republic is the subject of unnecessarily heated political debates. At the same time, it is necessary to approach this issue objectively and compare the benefits and costs that the adoption of the euro would have for the Czech Republic.

Specifically, the following measures need to be implemented:

- work to meet the conditions for adopting the euro. Their fulfillment will also benefit the Czech economy. Set a specific date for the adoption of the euro;
- on the international scene, the Czech Republic must support a liberal economic environment instead of trade protectionism, economic multilateralism instead of bilateral relations and advocate the greatest possible transparency in this area;
- cross-border data transmission is the backbone of the digital economy. In foreign trade, the Czech Republic should therefore advocate the harmonization of standards and conditions that will lead to the removal of barriers to digital trade, such as:
  - removal of restrictions on cross-border data transmission, in particular data location requirements;
  - compliance with recognized standards;
  - removing barriers to trade in digitally and remotely supplied services, digital products and services in the digital chapters of FTAs;
  - promoting the global concept of trusted data flows.
- the state should support the export activities of Czech companies, e.g. through the following tools:
  - search for stable areas for sales;
  - CEB - extension of drawing, loan restructuring, accelerated loans, free consultancy;
  - EGAP – relaxation of the provisions of insurance contracts (e.g. extension of deadlines by 1 month), extension of the period of drawing of loans, extension of repayment period;
  - ensure that EGAP and CEB are not managed only through the accounting lens of the Ministry of Finance, which is the owner. It is necessary to reinforce the impact of MIT on the management of these institutions, in an ideal case directly with the backing of the Law on insurance and financing of exports with state support;
  - to maintain the current increased insurance capacity of EGAP even after the end of the pandemic-related crisis, to maintain the minimum lower limit of insurance capacity and to fully maintain and support the functioning of CEB;
  - CzechTrade – counseling, assistance in finding new markets, identification of business contacts, territorial analysis, consulting in industrial protection, trade fairs etc.

### 3.7 Regulation must be fact-based and not stifle economic growth

Effective regulation, support for digitization, liberalization of international trade and the fight against protectionism are the best ways to restore growth after the current crisis. These topics should be part of the priorities of the Czech Presidency of the EU in 2022.

The basic principles of effective and smart regulation are the thorough evaluation in terms of impact. Many existing regulations have been enforced without taking real account of the needs of the economy. At a time of economic growth and a positive outlook for the future, entrepreneurs were able to accept or at least bear many barriers. Such practices are more dangerous to the economy in the coming period than ever before.

The expertise of the state administration in the preparation of legislative and conceptual documents is also essential. All government actions that affect the economy should be based on the principles of "*evidence based policy*". Scientific findings, professional studies, experiences and examples from abroad must serve as a basis for decision-making at the level of individual ministries and the government as a whole. This includes

consulting the sectors concerned in finding the most effective ways to a better functioning market. We know from previous practice that many decisions were made on the basis of partial, often inaccurate documents and information.

Smart regulation should create a favorable environment for the development of innovation, which motivates both new companies and start-ups, as well as producers in traditional industries, for whom the introduction of innovation is key for their further development. The development of start-ups is important not only for the development of the economy, but it is also a clear indicator of the quality of the business environment.

Specific examples of currently necessary changes in the field of regulation, in addition to the already mentioned digitization, are:

- greater flexibility of the building act;
  - within the framework of the recodification of public construction law, adopt a high-quality wording of the new building act, which will significantly simplify and speed up the permitting procedure, increase the Czech Republic's attractiveness for investors and ensure conditions for the implementation of key construction projects without undue delay;
  - ensure the maximum integration of all relevant state administration bodies into the system of building authorities. Restrict any exceptions to integration (e.g. water management) to the maximum extent, and continue to hold firm on targets in the original concept of the building act;
  - adhere to the principle of one office, one procedure and one decision (taking into account the specifics of construction projects);
  - speed up the permitting processes for charging stations and remove any obstacles.
- greater use of the tax system as a motivational tool for innovation, the development of electromobility and other alternative drives, the circular economy, or energy savings;
- change the approach of financial administration to be more pro-client, define and start applying in practice a model of financial administration based on quality work with available data and their wider use, which takes into account individual categories of access and errors of business entities in fulfilling tax obligations.

## 4. Conclusion

The crisis that has affected the Czech Republic, Europe and the whole world poses further difficult challenges for the government. The fall in revenues, extraordinary expenditures and the need to balance the fight against the pandemic with the immediate needs of the Czech economy are currently taking most of the government's attention.

It is equally important to start working now intensively on the Czech economy to be able to successfully restart and grow in the long run. This is the main message of the thematic challenges and recommendations that the Confederation of Industry of the Czech Republic submits to the government in this document.

Even before the crisis the domestic economy had suffered from long-term unresolved problems, though they were hidden under slowing growth, and it faced new challenges for the industry, for example, associated with the issues of digitization, the climate, circular economy or the drought. The only way for the Czech Republic to once again embark on a path of successful development is to address these challenges without further delay.

From the point of view of the Confederation of Industry, one of these key areas is to support the further development of digitization, not only in the state administration, which the coronavirus crisis has fully shown. The same emphasis needs to be paid to the systematic stimulation of research and development in both the public and private sectors, and to the long-delayed reforms in the field of education and training. Without them, the Czech Republic will find it very difficult to strengthen its competitiveness in the future.

The business environment itself, including complex regulations, must also change. The economy will only recover and gain speed again if external conditions are favorable. It is also about time for the government to publicly declare that for our medium-sized and open economy, which is so closely linked to the EU's internal market, the objective is to strengthen our position in the EU and create the conditions for adopting the euro.

Many of the issues discussed in this document already have solutions and proposals for concrete measures. The Confederation of Industry and its members have long pointed to the need to adopt measures and reform steps described in the document and are ready to be a partner for the government in their implementation.