



EUROPEAN COMMISSION

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Dear Sir,

The Commission wishes to thank the Senát for its Opinion on the Commission's "Recommendation for a Council recommendation on the Czech Republic's 2013 national reform programme and delivering a Council opinion on the Czech Republic's convergence programme for 2012-2016" {COM(2013) 353 final}.

The Commission shares the Senát's assessment that the coordination of economic policies of Member States is a key task both for the Union's institutions and Member States due to the interconnections of individual economies. The Commission welcomes the Senát's endorsement of key recommendations to the Czech Republic – in particular those centred on prioritising growth enhancing expenditures, improving tax compliance and ensuring that EU funds are used properly.

The Commission agrees with the Senát that policies aimed to tackle the consequences of population ageing cannot rest solely on constant increases in the statutory retirement age. The sustainability of economic growth and thereby of public finances can indeed be strengthened by increasing labour-market participation of all age-groups and labour productivity, for example by investments in R&D and education. These elements are at the heart of the Europe 2020 Strategy. The Commission's analysis shows, however, that for some Member States, including the Czech Republic, current actions are insufficient to ensure long-term sustainability. Therefore more action is needed, including a faster increase in the statutory retirement age and further promoting employability of older workers. By adopting now strong policies addressing the major challenge of population aging, the citizens will be able to continue enjoying high standards of living in the future.

The Commission shares the concern of the Senát about the social dimension of tax policy and more generally, about the social impact of any reform. This is the reason why the Commission is putting forward coherent policy guidance to Member States, to ensure that the most vulnerable remain protected and that the burden of reforms is shared fairly. In addition, a Commission Communication on the social dimension of the EMU was presented on 2 October 2013, with a particular focus on the role of social dialogue.

The crisis has confirmed that the critical relationship between the development of wages and productivity needs to be monitored. The cost of labour is inter alia influenced by the burden of taxation. If too high, the price to pay may be higher unemployment. This is an issue in a

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majority of Member States. The Commission's recommendation is not to increase taxes, but to reduce public expenses, wherever possible. When taxes nonetheless need to be raised, notably to accompany a necessary decrease of the tax burden on labour, the Commission recommends broadening the tax base and raising those taxes less detrimental to growth, such as indirect taxation, environmental taxation and property taxation. In the case of the Czech Republic, the Commission considers that the level of taxation of labour is too high, especially on low-income earners, and has recommended reducing it, while compensating it by an increase in taxes on housing and vehicle circulation taxes. Room for manoeuvre was identified in these areas, also in comparison to other Member States. The Commission did not specifically recommend an increase in VAT in the Czech Republic. The Commission has been clear on the objectives that such tax reform should achieve. The responsibility of implementing the recommendations and finding the appropriate setting in order to meet these objectives remains, however, with the national authorities.

The Commission believes that it is crucial to stick to the strategy of economic reforms. A determined reform effort to respond to economic challenges at the national level continues to be essential, including a follow-up on the Country-Specific Recommendations adopted by the Council on 9 July 2013. The Annual Growth Survey (AGS) adopted on 13 November 2013 marks the start of the 2014 European Semester of economic policy co-ordination. The Commission underlines the importance of national Parliaments in this process and reiterates its commitment to explain and discuss, in those national Parliaments that would request it, the AGS as well as the Country-Specific Recommendation, once endorsed by the European Council.

The Commission hopes that these clarifications address the issues raised by the Senát and looks forward to continuing our political dialogue in the future.

Yours faithfully,

Maroš Šefčovič
Vice-President