



POVERTY WATCH 2023 – CZECHIA

EAPN CZ

The European Network against Poverty and Social Exclusion is an independent network of organisations and groups involved in the fight against poverty and social exclusion in Europe. In the Czech Republic, the national network EAPN ČR, z. s. - a member of the European Anti-Poverty and Social Exclusion Network (EAPN EU) - advocates for the rights of people dependent on social services. The aim of the organisations associated in the EAPN CR is to achieve acceptance of the issue of social exclusion by society and public administration in the Czech Republic and to remove social and political barriers to people at risk of social exclusion.

The tasks of the EAPN CR include:

- Make social inclusion and the fight against poverty a priority for public administration at all levels
- Promote, develop and implement activities aimed at social inclusion
- Facilitate access to information technology and education for people at risk of social exclusion
- Promote the development of quality in social services for people at risk of social exclusion as a basis for respecting their human rights
- To bring together individuals and organisations working to combat poverty and social exclusion
- To transfer good working methods and approaches within the European Union countries, to benefit from the experience of other countries and to participate in the development of national policies on social inclusion
- Promote the involvement of social inclusion organisations and their clients in the processes and policies that affect their lives.

POVERTY WATCH

The Czech version of the Poverty Watch report is a **compilation of data from relevant sources collected over the past period since the last report** (autumn 2022), which can be used to capture the evolution of poverty in the country. Poverty Watch does not aspire to be an academic study on poverty, but **it does show important trends and phenomena that are closely linked to poverty**; in addition, it seeks to shed light on the situation of People Experiencing Poverty (PEP) and also to bring the perspective of NGOs working with these people. The main objectives of Poverty Watch include:

- monitor key trends and policies on poverty and social exclusion in Europe
- raise awareness of priority issues and impacts/realities for people experiencing poverty
- propose concrete recommendations supported by examples and evidence

POVERTY – WHAT IS MEANT BY THAT?

According to Eurostat, **poverty is defined as living on less than 60% of the median household income**. This indicator also includes the ownership of material goods (e.g. a TV set, dishwasher or car) or whether a person can afford to pay a one-off expense of CZK 10 000 per year or more. Other factors include age, gender, household type and employment status, which together provide a more detailed view of those most at risk of poverty.

The problem with Eurostat's definition of poverty is that median income in the Czech Republic is generally low and, to make it more relevant, it would be necessary to calculate the figure from the median European income converted to purchasing power parity. Another problematic factor is that people living in shelters, hostels and excluded localities are not included. It also does not include people in insolvency, or foreigners. The figure of 11.8% for 2022 cannot therefore be seen as telling¹.

WHAT MOST OFTEN LEADS TO POVERTY?

- **long-term unemployment**
- **low-paid and unskilled work** that is not satisfying and insufficient to build up reserves
- **low levels of education and work experience** which limit the ability to get a good job and salary, hinder intellectual growth and participation in society, lack of re-skilling/up-skilling system
- **high debt/over-indebtedness** - living in a debt trap for long periods of time, with no chance of debt relief and other serious socio-economic consequences
- **loss of housing or inadequate housing** - a major problem in the Czech Republic concerning the lack of social and affordable housing, still missing legislation, resistance of some municipalities to the establishment of social housing
- **family size and type**, where the main risk factors are the large number of children and the status of the single parent, lack of social and cultural capital and intergenerational reproduction of poverty

¹ https://ec.europa.eu/eurostat/databrowser/view/sdg_01_10/default/table?lang=en



- **gender** - women suffer from poverty significantly more than men, whether they are single and living on a salary below that of men in the same position, or are raising children alone, or have suffered a loss of material goods, prestige and social status as a result of marriage breakdown
- **large-scale health problems or long-term illness** limiting access to well-paid employment and increasing the cost of living
- **living in an excluded area** - with reduced access to public services such as transport, schools, offices, and sources of entertainment such as culture and sport
- **belonging to a minority** - which in the Czech Republic includes mainly Roma people and undocumented migrants, experiencing discrimination and racism, accompanied by limited opportunities for quality employment, poorer housing conditions and reduced access to basic services

VULNERABLE GROUPS – MAIN CHALLENGES

- **Individuals and families with low incomes** - on the poverty line in the long term.
- **Indebted individuals and families** - increased likelihood of defaulting on debts or being at risk of bankruptcy.
- **Women** - generally significant impact of the pandemic in terms of increased risk of conflict and threat of domestic violence (inability to 'escape' from an abusive partner in quarantine), also more likely to bear the costs of caring and nurturing a family due to school and nursery closures
- **Single parents** - often substituted for the role of teacher/caregiver in the last year, possible increased household costs; children did not have subsidised lunches at school, difficult access to basic needs, especially for growing children (shoes, clothes)
- **Children from socially excluded localities** - problem of access to online education, especially for poor and socially excluded groups, lack of access to low threshold centres for young people
- **Foreigners** - lack of information in uncertain times (lack of language skills, limited services, loss of employment and accommodation)
- **Homeless people** - deterioration of their health, lack of access to necessary care
- **Elderly and chronically ill people** - generally a high-risk group, also at risk of infection due to lack of protective equipment in social services; also great isolation and loss of contact with loved ones (impact on mental health)

POVERTY AND ITS IMPACT

It is important to recognize that **poverty has a profound impact on the life of the individual and the community**. The social deprivation caused by living in poverty has an **impact on an individual's physical and mental health and on their wider life chances** - there is a clear link to reduced employment opportunities, access to healthcare and decent housing (there are approximately 154,000 people in housing need today, 40% of whom are children²). **Poverty is usually socially reproducible** and, as data convincingly show, **children** from families burdened by poverty, low social capital, foreclosures³ and generally living in substandard conditions (hostels, shelters) **have noticeably worse chances of getting a better education**⁴.

The enforcement burden - the debt trap

In the case of the Czech Republic, this burden is significant. Although the number of people in foreclosure is gradually declining (only a few years ago around one million people were in foreclosure), **approximately 660,000 thousand people remain affected by foreclosure**⁵, and in some **poorer regions, foreclosures reach up to 20 %**⁶. It should also be mentioned that **about 400,000 people are in intractable multiple foreclosures** (a consequence of previous poor regulation and system setup).

Poverty then has a **particularly strong impact on vulnerable groups such as the elderly, single parents and children from poor families**, but also migrants, people with various types of disabilities and the chronically ill. In addition to people in foreclosure, there is also **the phenomenon of the 'working poor'**, where people may have regular employment but their income - although formally above the official poverty line - does not allow them to save and the need for sudden expenses or the threat of longer-term illness is a significant stressor and a real problem for them (it is estimated that **around 20% of households cannot afford a sudden expense of around 10 000 CZK**⁷). Related to

² http://www.socialnibydleni.mpsv.cz/images/soubory/Souhrnn_zvren_zprva.pdf

³ We use the term *foreclosure* here in a broader sense – more precisely as a *writ of seizure and sale* (an order issued by the court that allows the petitioner [usually the lender] to take possession of the property from the debtor); Similarly, the term *bailiff* here refers to a privately employed person, since in the Czech system such persons are not court officials (state employed persons). We have chosen these terms as relatively close, although we are aware of the difficulty of translating them from Czech to English.

⁴ <https://www.pagresearch.cz/post/ne%C3%BAsp%C4%9B%C5%A1nost-ve-%C5%A1kole-souvis%C3%AD-i-s-exekucemi-nov%C3%A1-mapa-ukazuje-ker%C3%A9-obce-s-n%C3%AD-um%C3%AD-bojovat>

⁵ <https://www.ekcr.cz/1/aktuality-pro-media/3055-ek-cr-pocet-lidi-v-exekuci-se-v-prvnim-pololeti-2023-snazil?w=>

⁶ <https://zpravy.aktualne.cz/finance/grafika-mapa-exekuci-zadluzeni/r~f6169a1a109911e8b8310cc47ab5f122/>

⁷ Aprox. 420 EURO

this are the shortcomings of the benefit system (unaddressed, inflexible, delays in payment)⁸, which create a risk that people may lose their housing.

In 2022, 960,000 enforcement proceedings ended - the decline is due to a change in legislation that stopped the recovery of so-called "small-scale" enforcement (recovery of smaller amounts) from January 2022, also helped by the program Gracious Summer (ML I and II), which - after payment of the amount owed and the fee to the bailiff - allowed the forgiveness of very high interest. In total, **52 000 (ML I)** and **9000 (ML II)** foreclosures were stopped last year, which were linked to debt with public entities (municipality, region, state).

However, the number of **currently pending enforcement proceedings is still high, totalling 4,077,921⁹** (including multiple enforcement proceedings). After several years, the number of executions per natural person has decreased, with an average of 6.16 executions per debtor. The average Czech debtor has also "aged" slightly, being 46.4 years old in 2022.

The state is also missing out on up to 12 billion CZK in levies (people in foreclosures often end up in the grey economy), which is why - **in addition to reforming the foreclosure procedure itself**, where individual cases would be assigned regionally (territoriality) and one debtor would have one court-appointed bailiff¹⁰ at the same time - **it is necessary to move forward with the reform of debt settlement**. Currently, an **insolvency reform is being read**, which should implement the European Insolvency Directive (the insolvency process is now reduced from 5 years to 3 years).

In addition to the fact that by entering the grey economy, people also drop out of the pension insurance system (and thus face the real risk of falling into poverty at retirement age), there is also the economic aspect, where, according to estimates, the state loses up to around 12 billion annually¹¹. A large part of the over-indebted population is between the working age of 30 and 60, which has major implications for the economic situation and is closely linked to educational failures in the regions¹².

A rise in foreclosures also leads to higher electoral gains for the far right and populists (rising unemployment has a similar effect, but with the opposite sign, on voting behaviour, as in this case it increases preferences for the far left and reduces the performance of the far right and populists).¹³

Benefit system

⁸ See Caritas Czech Republic's position paper on social benefits systems (only printed)

⁹ <https://www.ekcr.cz/1/aktuality-pro-media/3055-ek-cr-pocet-lidi-v-exekuci-se-v-prvnim-pololetu-2023-snizil?w=>

¹⁰

¹¹ <https://radiozurnal.rozhlas.cz/tri-a-vice-exekuci-ma-450-tisic-lidi-stat-ztraci-12-miliard-korun-na-9071774>

¹² <https://www.pagresearch.cz/post/ne%C3%BAsp%C4%9B%C5%A1nost-ve-%C5%A1kole-souvis%C3%AD-i-s-exekucemi-nov%C3%A1-mapa-ukazuje-kter%C3%A9-obce-s-n%C3%AD-um%C3%AD-bojovat>

¹³ https://idea.cerge-ei.cz/files/IDEA_Studie_11_2023_Exekuce_0728.pdf

The Czech Republic currently has a **very extensive and complex system of social benefits**, but many people find it **difficult to understand**. The system has long been **plagued by a number of problems**, the most obvious of which are **non-addressability, low flexibility, late payments, overloaded** and **low capacity** of labour offices, **non-take up of social benefits** despite eligibility and the **social stigma** attached to receiving benefits.

Non-addressability - certain social benefits are across the board, as seen for example in the case of child benefit, to which every second household is already entitled.

Non-take up (despite eligibility) - the number of households eligible to draw child benefit has risen as a result of the increase in the minimum subsistence level, and now accounts for up to half of all households. However, only a small proportion of them, only 13 %, are receiving the benefit. Similarly, take-up of another social benefit, housing benefit, is low; here only seven per cent of those eligible are receiving it (there is a difference in take-up rates between groups, with 10 % of elderly people receiving the benefit and only about four per cent of families with households).

Complexity of the application process - although the Ministry of Labour and Social Affairs has simplified the application process in some ways (esp. electronically), some people still find it difficult and complicated to navigate. A major reform of the benefit system is therefore currently under preparation, which should simplify both the submission and the assessment of applications.

Limits of the Housing Benefit Office - heavy overload of staff and a strict to formalistic approach; there are known cases where the office has refused to grant housing benefit for an unlicensed flat or has refused to remove an ex-partner from the pool of jointly assessed people; or an overly strict rule where after the first failure to attend an appointment a person can face a six-month sanction and a sanction of loss of income.

Late payments - these problems exacerbate the clients' plight and undermine confidence in the functionality of the whole system; if a benefit is paid retrospectively, future benefit payments (income levels) are affected.

Persistent stigma - in the Czech Republic, receiving benefits is still associated with something undignified, a feeling that one is a 'looser' and has hit rock bottom; this narrative has long been promoted by some politicians, for whom people on benefits were those who were lazy or unable to help themselves in their situation. There has been a gradual change in recent years, with a number of people claiming benefits for the first time, but it is fair to say that the stigma is still quite strong in society.

Housing

The Czech Republic still lacks a legislative anchor for affordable housing. This is particularly acute at present, when more and more groups of people - including a growing part of the middle class - feel the high cost and overall unaffordability of housing.

As a result, one in ten people in the Czech Republic is now experiencing housing problems. This is according to the *Report on Housing Exclusion*, published last year by the For Housing Initiative¹⁴.

The findings show, among other things, that among the most vulnerable groups of the population are seniors, who in recent years have increasingly found themselves in housing need.

In addition to homelessness, which is the most extreme manifestation of the housing crisis and affects at least 11 000 inhabitants of the country, other negative phenomena related to housing are on the rise in the Czech Republic. Between 36 000 and 61 000 households are in housing need and between 20 000 and 51 000 children under 18 are growing up in them. A further 130 to 190 000 households with approximately 80 to 120 000 children are at risk of losing their housing. A further 300 to 350 000 households, of which one third are elderly households, are burdened by excessive housing costs (i.e. spending more than 40% of their income on housing).

In total, approximately half a million Czech households, with just under a million people living in them, face one of the three housing problems mentioned above.

Housing as problem especially for elderly people

1. The number of seniors in housing need is growing. At least 5.5 thousand seniors aged 65 and over are already living in housing need, mostly in residential hotels. And senior households account for up to one-fifth of all households residing in long-term shelters.
2. A significant proportion of the elderly do not reach housing need until old age. In the case of shelters, this is true for a third of their clients over 60.
3. A further 110,000 to 150,000 senior households, three-quarters of which are single senior households, are burdened by excessive housing costs.
4. Only 20-25% of the approximately 220-260,000 senior households eligible for a housing allowance of more than CZK 1,000 per month receive a housing allowance that could help seniors with excessive housing costs.¹⁵

¹⁴ <http://socialnibydleni.mpsv.cz/images/soubory/Ostatni/Bydleni-jako-problem-2021.pdf>

¹⁵ Data taken from opening chapter of the Housing Exclusion Study

POVERTY IN THE CZECH REPUBLIC in data

This chapter uses data from PAQ Research, which has been systematically mapping the domestic development of poverty in its many dimensions on the website Život k nezapřacení (Priceless Life) since the covid pandemic.¹⁶ We also refer to selected studies by the think tank IDEA (CERGE-EI).

Příjmová chudoba:

According to PAQ Research, the number of households in income poverty has reached **13 % in September 2023, while the number of low-income households without much savings is at 17 %** (during 202, 9-10 % were in income poverty, and in March 2022, the whole 17 %). This is mainly due to the indexation of pensions, which even poorer pensioners often receive just above the poverty line. Among people with low education and households with children, around 20 % live in income poverty.

The most affected households are those with low education (19 % of the income-poor), those in the **Southeast region** (20 %), **single parents** (24 %) and **households with children** (20 %). In the previous year, pensioners and adults living alone were the most likely to fall into poverty. However, pension uprating has reversed the increasing trend of a high percentage of pensioners falling into income poverty, with a reduction of around 8 percentage points in the number of pensioners facing income poverty in July and a further 18 percentage points by the start of January 2023. **Around 8 % of independently living seniors are now in income poverty (up from around 27 % last November).**

Groups affected by price increases:

Between January 2020 and March 2023, prices in the Czech Republic have risen by an unprecedented 33 % cumulatively. Different groups of people are exposed to different price increases through the interaction of two phenomena: (i) different price increases for different expenditures: **the prices of some categories of goods and services have risen by more than 40 %** (food and accommodation, clothing and footwear, housing, water, energy, fuel), while others have risen almost not at all (post and telecommunications) or by only 12 % (education). (ii) **Differences in consumption patterns: lower income households** (40 % of the lowest income households) **spend a higher proportion of their expenditure on food and a lower proportion on housing or other goods and services.** Retired households spend a higher proportion of their expenditure on food, health or housing and energy and a lower proportion on clothing or food and accommodation.¹⁷

¹⁶ Common project of Czech Public Radio and PAQ Research: <https://data.irozhlas.cz/zivot/typologie/>

¹⁷ https://idea.cerge-ei.cz/files/IDEA_Studie_10_2023_Dopady_inflace/files/extfile/IDEA_Studie_10_2023_Dopady_inflace.pdf

Monthly household savings:

While in autumn 2021 the average household was able to save over CZK 8 000 per month, today it is CZK 2 700 less (CZK 5 300). The amount has remained relatively stable over the past year.

However, the situation of households in income poverty continues to worsen, which on average are even in the red and thus rely on their financial reserves.

The growth in the number of **households that are at or below zero after paying all monthly expenses has stopped. In the autumn of 2021 this was the case for 19% of households, in January this year it was already the case for 36%, and currently it is a third of the population.** One tenth of households have higher expenses than income. **Households with incomes below the poverty line have a particular problem.** After paying all their monthly expenses, they have nothing left or have to go into deficit in four out of five cases (80%), which is significantly higher than in November 2021 (59%). The share of households with more than CZK 3 000 left after paying all their expenses has also fallen by 13 percentage points. However, almost half of them (45%) are still there.

Expenditure on housing and food

The average household spends **about CZK 11,100 on housing in September 2023, which is CZK 3,600 per month more than in November 2021.** Food expenditures rose slightly in autumn (by CZK 150), but were probably lower over the summer due to self-production in gardens.

A more pronounced increase in housing expenditures is observed among households living in owner-occupied housing (the confluence of mortgage and utility expenditures, especially in single-family homes). Still, owners spend significantly less on housing overall than people in rented housing (by about CZK 3,000).

Housing expenditures have also risen significantly since autumn 2021 for households in very vulnerable income poverty (an increase of CZK 4,000) **and for families with children with incomes below the median** (an increase of CZK 3,500). For them, the increase in spending represents the biggest hit to the budget.

The average household spends 31% of its income on housing in September 2023, up 8 percentage points from the fall of 2021. **Spending on housing and food has fallen to 48% of income,** the level last reported by households in January of this year. In the last year, the increase in mandatory spending has been more than offset by the growth in household incomes (notably pension indexation, across-the-board support and wage growth), with a milder winter and stagnation in food prices also having an impact. **Nevertheless, vulnerable households spend less than half of their income on housing, and even with food they reach 68% of their income.**

Rising social benefits:

Most benefits grew more slowly than average wages or average pensions, both of which saw real growth of around 20% between 2012 and 2023 (wages by 17.6 %; pensions by 23.8 %). For example, the real value of parental allowance in 2023 was significantly lower than in 2012, despite a one-off increase from CZK 220,000 to CZK 300,000 from 2020. The exceptions are foster care benefits, which doubled in real terms in the period under review, and mobility allowance, which increased by half in real terms, mainly due to the increase in 2022.

Entitlement to most benefits is based on the household and individual subsistence level. Despite repeated increases in the subsistence minimum in recent years, **their real values in 2023 are below their 2012 real levels**. There has thus been a reduction in eligibility for means-tested benefits.¹⁸

Only 25% of those eligible receive child benefit. Up to 80% of families are entitled to housing allowance. After paying for housing and food, they have CZK 100 per member per day, but only 20% of those eligible receive it.

POVERTY and its impact on mental health

Previous crises, in the form of the Covid pandemic, the war in Ukraine, skyrocketing inflation and energy and food prices, have clearly cut into the mental health of the population, including children.

This is what the latest data from the **Ipsos Institute shows, with 67 % of survey participants in the Czech Republic complaining about the impact of the recent crises**. According to the survey, 48 % of people in the Czech Republic have struggled with emotional or psychosocial problems over the past year. 54 % of these people have not received professional help.

Only about a third of respondents believe that the mentally ill receive as much care as people with physical problems. Nine out of ten respondents believe that mental and physical health are equally important and should be supported to the same extent.

55 % of respondents believe that living conditions are the most important factors in achieving good mental health, followed by financial security (53 %). At the same time, the majority believe that social media use can have a negative impact on young people's mental health.¹⁹

According to a survey by PAQ Research, which has been tracking the topic of mental health in the population since the covid-19 pandemic, **15 % of respondents currently (fall 2023) report moderate symptoms of depression and anxiety**. Compared to fall 2022 a year ago, this is a **gradual increase of 5 percentage points**.

Mental health problems have been rising especially among people who have been significantly affected by inflation. **Mental health problems are also much more likely to affect female households (19 % to 13 % of male households)**. During the lockdowns, the number of people with

¹⁸ https://idea.cerge-ei.cz/files/IDEA_Studie_05_2023_Valorizace_socialnich_davek/IDEA_Studie_05_2023_Valorizace_socialnich_davek_0413_abstract_CZ_EN.pdf

¹⁹ <https://europa.eu/eurobarometer/api/deliverable/download/file?deliverableId=88888>



depression and anxiety rose to 13-19%, but affected other groups (younger people, people with children in distance education)²⁰

In the long term, **the worst mental health status is reported by people living in households that are in a difficult economic situation.** It is among the affected groups that we have seen a deterioration in the last six months. Symptoms of depression and anxiety are high among people who are left with 100 CZK a day after paying basic expenses (from 15 % to 29 %) or are in income poverty (from 15 % to 24 %)

Anxiety and depression **are more common among young people aged 18 to 34 and stay-at-home mothers with children,** whose mental health problems have increased significantly during the epidemic closure. However, we are now seeing a marked increase in anxiety and depression symptoms among single pensioners affected by energy prices: from 5-10 % in the autumn to 13-18 %.

According to current research by the National Institute of Mental Health, released in October 2023, more than **50 % of ninth graders in the country show signs of impaired well-being.** This reflects the quality of life currently experienced by young people and helps them to cope with stressful situations. In addition, **a full 30 % of the respondents showed signs of moderate to severe anxiety.** According to the survey, almost one in three ninth-grade pupils (final year of primary school) would benefit from seeking professional help.

In addition, **4 out of 10 pupils surveyed report signs of moderate to severe depression.** In addition, there has long been a **major problem with the availability of specialist psychological, psychotherapeutic and psychiatric care in the Czech Republic** - in the case of children, this unavailability is even greater and waiting times are often many months.

EU VIEW

The socio-economic situation in each Member State is described annually in a working document called the Country Specific Report ²¹. The current report states that the Czech Republic should end energy support measures in the future period (2023-2024) and further states that the country should ensure prudent fiscal policy, in particular by limiting the nominal growth of net primary domestically financed expenditure to no more than 6.0% in 2024.

Furthermore, the state should maintain nationally financed public investment and ensure the effective use of grants from the Recovery and Resilience Facility (National Recovery Plan) and other EU funds, in particular to support green and digital transformation. For the period beyond 2024, pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investment and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.

²⁰ <https://data.irozhlas.cz/zivot/dusevni-zdravi/>

²¹ https://economy-finance.ec.europa.eu/system/files/2023-05/CZ_SWD_2023_603_en.pdf



The Council further recommends accelerating the implementation of the Recovery and Resilience Plan and ensuring adequate administrative capacity, continue the implementation of cohesion policy programmes and reduce dependence on fossil fuels. It also proposes to strengthen social and affordable housing, with explicit reference for the first time to the adoption of an appropriate legislative framework.

In general, we agree with these proposals, and we see it as important to make full use of the possibilities of the National Recovery Plan in order to strengthen the resilience of society in several dimensions (social, economic, technological, health, political - quality of democracy).

We also perceive the problematic situation of the gradual indebtedness of the state, but we are **opposed to across-the-board cuts and the dismissal of a fixed percentage of employees** (the Council's proposal also operates with sufficient administrative security). We also see some parts of the **Czech government's fiscal package as rather unfortunate**, as it is too broad in certain areas (see next chapter).

We welcome the emphasis on maintaining cohesion policy programmes in the context of the transition to a green economy; in other words, the **transition process must not** - if only because of the need to secure wider social support for such a crucial step - **fall most heavily on the most vulnerable**.

I also agree with **the need to expand re-skilling/up-skilling** opportunities and to provide greater labour market flexibility for more people (greater use of part-time work, flexible working hours, greater investment in expanding the pre-school education network).

We see the **emphasis on promoting changes in the area of housing towards greater affordability as very important**, especially **with regard to the need for legislative anchoring**. We have long supported this, and we are convinced that the Council's emphasis has also had an influence on the fact that such a law is already being prepared in working groups and should soon go to the first reading in the Chamber of Deputies.

We see action on social standard-setting at EU level as crucial, as we consider many of the proposed standards (most recently, for example, the common minimum income framework) to be beneficial and much more difficult to enforce through grassroots efforts.

GOVERNMENT MEASURES - FISCAL AUSTERITY PACKAGE

In October 2023, the government approved an austerity package that is expected to bring savings of CZK 97 billion in 2024 and CZK 150 billion in 2025. **Roughly two-thirds of this is a reduction in spending** (subsidies and energy price support) **and one-third is an increase in revenue** (taxes). Although there may be concerns that the state's indebtedness is growing at too high a rate, it is the **flatness of the proposed measures that affects the most vulnerable and disadvantaged groups, excluded localities and structurally affected regions**.

This package already **builds on a previous series of tax measures** (abolition of the real estate transfer tax, income tax reduction, flat tax for high-income self-employed, registration shifts for

high-income entrepreneurs and self-employed) **worth 150 billion**, while **already burdened low-income groups are further burdened by further spending cuts.**

This is well illustrated, by the example of an employee paying a **tax of CZK 7,800** on a minimum wage of 16,200, while a self-employed person with an income of 120,000 CZK pays a flat **tax of CZK 6,200**. Another measure where the application of the flat-rate principle can be seen was **the introduction of an energy discount in 2022 for all income groups without distinction** and the subsequent introduction of a **single price ceiling**.

The Czech Republic is also **still facing a structural shortfall of around 90 billion**, with the **abolition of the super gross wage in 2020** and the consequent across-the-board reduction of income tax from 21 per cent to 15 per cent, which **was no longer compensated** for by, for example, greater progression in taxation (the abolition of the super gross wage left

The government's proposal to adjust the levies on self-employed persons will **mainly burden low-income tradesmen who have real high costs**. They will be most affected by the increase in minimum levies. **The proposal hardly addresses the advantages of high-income self-employed workers** with low cost. While a fifth of workers work in a main or secondary trade, their contributions total less than six per cent. The position in terms of pension and health scheme drawdown is similar for both groups. The state loses revenue due to the poor set-up of the system, and tradesmen face the risk of very low pensions and poverty, which will **increase the demands on the benefit system in the future²²**.

The increase in corporate income tax and property tax can now be seen as positive. In addition, the reduction of VAT on foodstuffs, whose price increases - together with rising energy prices and housing costs - have recently been a significant burden, especially for low- and middle-income groups. **However, this is an example of a blanket measure that does not differentiate between high and low income groups**, instead of systematically targeting the poorer ones in particular (consumption baskets do not differ to such an extent as regards basic foodstuffs).

Alternative forms of employment may also worsen the situation. Instead of promoting them, which could improve the situation, it puts more obstacles in their way. This will be felt by those who find it most difficult to find work. Single mothers, the elderly or people with disabilities often use contract work. However, the consolidation package proposes changes that may make it more difficult to employ people in this way (e.g. by introducing an earnings limit of 40 % of the average wage, above which employers must pay social security for workers). Part of the proposal improves the position of contingent workers, especially in terms of holiday, weekend and overtime allowances or holiday entitlement, but this is precisely why many companies have declared that they will transfer contingent work to the self-employment system. **As a result, this means strengthening the grey economic zone.**

Overview of the main changes:

²² <https://www.avcr.cz/cs/pro-media/tiskove-zpravy/Reforma-socialnich-odvodu-OSVC-studie-PAQ-research-a-IDEA-pri-CERGE-EI/>

- Introduction of one reduced 12 % tax (instead of two reduced rates of 10 and 15 per cent); gluten-free products, water and sewerage, heat, passenger transport, accommodation and catering services except draught beer, tickets for cultural and sporting events, magazines, medicines, building work for housing, foodstuffs, child car seats and funeral services will fall into the lower band.
- Moving selected items from the previous lower rate to the basic 21% rate (menstrual supplies, baby water and nappies will also be included in the higher rate)
- The corporate tax rate (companies and corporates) is increased by two percentage points from 19 to 21 %
- The tax credit for putting a child in daycare, the student discount or union dues are eliminated; the tax credit for a wife will only be available if she is caring for a child under the age of three.
- State support for building savings will be reduced from CZK 2,000 to CZK 1,000 per participant (this is, however, a de facto state subsidy for those who can afford to save; the money can be used for any purpose once withdrawn)
- Alcohol will be taxed faster. Excise duty on it will increase by 10 % next year, by a further 10 % in 2025 and by 5 % in 2026.
- The tax burden on the self-employed will increase from 25 percent to 40 percent of the average wage (about 4,700 CZK); the self-employed were to pay at least 55 percent instead of the current 50 % of the tax base.
- Property tax rate will increase to 1.8 times the current rate; 100 % tax revenue to municipalities
- In exchange for the increase in the real estate tax, there will be an adequate redistribution of revenue for shared taxes between the state budget and municipalities in favour of the state (CZK 10 billion)
- The price of the annual vignette will increase by CZK 800 from CZK 1,500 to CZK 2,300, and there will be regular indexation
- State subsidies will be abolished; the main item is subsidies in the energy sector, which the government intends to reduce by 51.5 billion CZK
- The package abolishes some 20 exemptions, such as school fees and the student discount; it also reduces tax credits for spouses
- Employees will now have to pay 0.6 % of their income for sickness insurance, regardless of their income
- Employee benefits will be exempt from income tax up to half of the average wage (employees will have tax-free benefits up to 21 983 CZK; when budgeted, they could thus have tax-free non-monetary bonuses worth a maximum of 1 832 CZK per month in addition to their salary or wages)
- People who have a monthly salary of more than three times the average wage will thus have a higher income tax rate of 23 % instead of 15 %.
- In the end, the package failed to push through higher taxation on still wine and sweetened beverages

Taken as a whole, it is clear that **the package is not very ambitious and does not substantially reduce inequality in the population**; it is much more the type of intervention that **only temporarily stabilises further debt**. A **small reduction in the progression** band from four times to three times will **have only a negligible benefit** (the Czech Republic has a long history of low income tax progression and a relatively high tax-tax burden on low-income workers).

In many cases, **the measures do not take into account the income side of the individual at all and thus affect the poor and the rich alike.** Conversely, they have a **relatively greater impact on the poorer half of households**, since, for example, the non-working spouse's allowance that has just been abolished is often taken up by people on average incomes and the partner is not working.

Thus, one can easily imagine the case of an employee who gets an increase in sick pay, loses the discount for a non-working spouse or nursery, and may also have significant consumption in some areas that are moved to the 12 % VAT rate from the 10 % rate, such as medicines. On the other hand, there is **still a cap on social security for the highest incomes**, so there are not high impacts there.

The Czech Republic has a **long-standing recommendation from the OECD that it has a very high tax and levy burden on labour**, especially on the lowest incomes. Thus, the state indirectly forces people on lower incomes to jump to other schemes it allows, such as performance contracts.

Although the **public deficit will be reduced from 3.6 to 2.2 % of GDP next year under the government's plan, the structural deficit will only be reduced from 2.3 to 2.2 % of GDP**, as the National Budget Council notes, so "a strong structural imbalance remains built into the public finance system, which will have to be addressed in the period after the full implementation of the current package, i.e. after 2025."²³

Thus, **one can foresee the necessity of finding another source of funding**, either in the form of spending cuts or levy increases, probably in some form of another austerity package consisting of another set of parametric changes.

A major reform would be the consolidation of an inefficiently huge number of municipalities into higher territorial units, significantly increased support for preventive health care, or a reduction in the number of prisoners. A major reform could concern the inefficient third pillar of the pension system, which taxpayers now support with 17 billion CZK a year. The biggest problem is that the government has come up with an austerity package worth 100 billion CZK, where the changes are mainly parametric; **it cannot be considered a comprehensive reform.**

DEMANDS AND RECOMMENDATIONS TO THE GOVERNMENT

- Funding for social services and the social sector as a whole needs to be strengthened (low-income groups will not pay for the crisis and social services will not be cut from their incomes and will return to pre-pandemic levels); the NGOs initially reflected a number of areas (especially the infrastructure mentioned above), but the social sector was given a disproportionately smaller share.

- Related to this is the lack of awareness of the benefit system - for example, only 20 per cent of eligible families receive child benefit, and still few households also receive housing benefit (overall, 20 per cent of all households are eligible)

²³ <https://www.rozpovtovarada.cz/publikace/vyjadreni-nrr-k-navrhu-statniho-rozpoctu-na-rok-2024/>



- We support the proposal to waive nursery fees, nursery lunches and fees at the DDM for the poorest third of parents.
- A tax reform is needed to improve pension indexation for low-income pensioners (the current arrangement adds most to high-income pensioners).
- Legislative change in the law of execution should be completed - i.e. the introduction of the principle of territoriality and the system of 1 debtor-1 bailiff, local jurisdiction of bailiffs and random assignment of bailiffs by the court.
- Stopping long-term unenforceable executions (10 years or more).
- Adoption of an amendment on debt settlement (reduction of the debt settlement period from five to three years).
- It is essential that the government coalition passes the Social and Affordable Housing Bill, as affordable housing is in itself the basis for lifting people out of poverty
- There is also a need to increase support for innovative and proven housing support programmes (investment and otherwise) and to ensure higher take-up of housing benefit (destigmatise receipt of the benefit, raise awareness of the benefit and encourage take-up).
- Support the capacity of schools and school guidance centres.
- The government should take up the views of experts on ESF+ in the social field and reopen the issue of setting the conditions for the use of EU funds (the impact of inflation and the energy crisis on the social field needs to be addressed and people who have lost their trades, jobs or had to close their businesses need to be supported).
- As regards the minimum (benefit) income, the benefit system needs to be continuously revised to respond flexibly to people's unfavourable situation and at the same time to motivate their future participation in the labour market
- Clarify funding for psychiatric care reform, more systemic changes and an emphasis on making the field more attractive.
- Support greater tax progression and a reduction in the tax burden on poorer households.

RECOMMENDATIONS BASED ON THE PRACTICE AND PEP MEETING:

Housing:

Housing, work, and debt form a kind of nexus across the individual accounts of people at risk of poverty.



There is a need to focus on the availability of decent housing - so that not only the middle class (which is currently no longer able to afford mortgages and rents on its own, and makes up a substantial part of an individual's budget), but also people affected by or at risk of poverty (there are about a million people living on the poverty line in the Czech Republic, but a large number of people are also just above the poverty line).

Another aspect that was heard in relation to housing was the expression of the desire to 'own' in the sense of having one's own (greater) privacy.

There is a need to provide some form of decent housing for people who are currently unemployed or at immediate risk of losing their jobs - these people are often at risk of falling into poverty and subsequently homelessness.

The inadequacy of pensions and their ongoing increases must be taken into account.

The focus should be on the timely and adequate payment of social benefits; at the same time, the system of benefit payments should be simplified and an ethical and person-centred approach should be emphasised.

Borrowers need to be helped out of foreclosure and insolvency. This is significantly helped by (time-limited) events such as the Summer of Grace, aimed at forgiving interest on public debts such as tickets and waste fines. On the other hand, it also calls for further revision of the foreclosure system, where one of the key good practices is the introduction of a system of regional jurisdiction of bailiffs and random assignment of bailiffs by independent courts.

A legislative framework to promote affordable housing needs to be enforced.

Minimum income:

It would be of great benefit if statistics on people in foreclosure and insolvency (at national and European level) started to be systematically collected. This is important to map the situation and to be able to respond effectively.

It is important that the benefits system covers the current expenses of its recipients and enables them and their families to live in dignity. Benefits must be paid in a targeted manner and without delay.

We see the harmonisation of minimum wages across the EU as an appropriate solution (for example, by a properly set coefficient taking into account the ratio of the minimum wage to the average wage) - wages need to be not only decent but also motivating.

Social and health:



Introduce systemic measures to create an integrated system of comprehensive care, based on the principle of subsidiarity, including changes in the competences and roles of the actors involved (e.g. municipalities) and the creation of new positions (e.g. social health care coordinator).

Ensuring quality long-term care in the EU, accompanied by strengthening the prestige, qualifications and competences of staff and their adequate financial remuneration.

Ensuring the necessary capacity of community-based long-term care services. It is necessary to increase the capacity of community-oriented services, especially outreach services, which allow, to the greatest possible extent, to preserve the autonomy, independence and dignified life of a person in his or her own environment in a situation where he or she has reduced self-sufficiency due to age or health. These services must be locally, temporally and affordably accessible to all people in need of long-term care.

The availability of outpatient services as well as long-term inpatient care and residential care should also be promoted. Residential facilities must be transformed into community-based, family-type facilities to ensure quality care and a dignified life.

It is necessary to ensure good working conditions for long-term care workers and to guarantee the quality of such care.