The Czech Republic’s economic freedom score is 73.8, making its economy the 27th freest in the 2021 Index. Its overall score has decreased by 1.0 point, primarily because of a decline in the investment freedom score. The Czech Republic is ranked 14th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Economic freedom suffered a slight setback in the Czech Republic in 2021, although the economy remains firmly ensconced in the mostly free category where it has been since 2013. The further expansion of economic freedom will require reductions in government spending and concentrated reforms to improve the complex and sometimes slow judicial system.

**IMPACT OF COVID-19:** As of December 1, 2020, 8,407 deaths had been attributed to the pandemic in the Czech Republic, and the economy was forecast to contract by 6.5 percent for the year.

**BACKGROUND:** The “Velvet Revolution” ended Czechoslovakia’s Communist dictatorship in 1989, and the Czech Republic became independent from Slovakia in 1993. President Miloš Zeman of the center-left Czech Social Democrat Party won a second term in 2018. Billionaire Prime Minister and former Finance Minister Andrej Babis of the populist ANO movement formed a fragile minority coalition government in 2018 with the Social Democrats but relies on the support of the Communist Party. Although Babis is the subject of ongoing conflict-of-interest and fraud investigations, and despite associated and frequent public protests, ANO remains popular. The automotive industry, accounting for a quarter of exports, has helped to power recent economic growth. Ties with China have cooled demonstrably after a series of disputes.
Property rights are relatively well protected, and contracts are generally secure. Almost all land in the Czech Republic has clear title. The judiciary’s independence is largely respected, although its complexity has led to slow delivery of judgments. Institutions have generally been responsive to corruption allegations and scandals. The EU is investigating allegations that the billionaire prime minister’s businesses benefit from EU funds.

The top individual income tax rate has been increased to 22 percent, and the standard corporate tax rate is 19 percent. The overall tax burden equals 35.3 percent of total domestic income. Government spending has amounted to 40.2 percent of total output (GDP) over the past three years, and budget surpluses have averaged 0.9 percent of GDP. Public debt is equivalent to 30.8 percent of GDP.

The processes involved in starting a business and paying taxes have become more complicated. During 2019, the unemployment rate dipped below 3 percent (the lowest rate in the EU) as the Czech Republic dealt with labor shortages, including shortages in the vital automotive sector. The government increased agricultural subsidies in 2020.

As a member of the EU, the Czech Republic has 45 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. The Czech Republic has an additional 116 country-specific nontariff barriers. The government has reduced bureaucratic barriers to investment. The financial sector remains resilient. Banks are well capitalized and stable.