

Introduction	7
1. Macroeconomic performance and stability	7
2. Institutional quality	7
3. Innovation performance	8
4. Quality of human resources	8
Macroeconomic performance and stability	11
1. Growth and convergence	11
1.1 Economic performance	11
1.2 Impact of foreign direct investment	12
Structure of FDI	13
Influence of companies with participation of foreign capital	13
1.3 Alternative methods for measuring growth performance	14
1.4 Convergence of the Czech economy towards the EU level	14
Development of the CR economic position in the EU-8	15
Linkages between real and nominal convergence	16
Convergence of the price level and appreciation of the exchange rate	17
Labour productivity and unit labour costs	18
Prospect of convergence and economic growth strategy	18
2. Structural changes	19
2.1 Development of industry structure	19
Macroeconomic view: development of basic sectors	19
2.2 Qualitative aspects of structural changes	21
Development of activities according to their technological intensity	23
2.3 Input-output approach to structural analysis	24
Analysis of output multipliers in the CR and their comparison with the selected countries	25
Identification of industrial complexes	26
Annex	28
3. Supply, demand and stability	31
3.1 Sources of economic growth	31
Sources of economic growth in the Czech economy during 1996-2004	32
Development of the labour factor	32
Development of the capital factor	33
Aggregate productivity of factors and qualitative factors	34
Sources of growth in basic industries	35
Economic growth and aggregate productivity of factors in the CR and the EU-15	35
Relative level of the aggregate productivity of factors in the CR compared to EU-15	35
3.2 Demand side of the economy	36
Impact of demand on growth of gross domestic product	36
3.3 Macroeconomic stability	37
Relationship between savings and investment	37
3.4 External economic balance	39
4. Conclusion	40
References	43

Institutional quality	49
1. Quality of governance	49
1.1 Assessing quality of governance	49
Aggregate indicators	49
Voice and accountability	51
Political instability and violence	52
Government effectiveness	53
Regulatory quality	54
Rule of law	55
Control of corruption	56
1.2 Dynamics of institutional changes	57
Analysis of the dynamics of institutional changes	58
Dynamics of changes and competitiveness	60
2. Doing business	61
2.1 Theoretical and methodological basis for assessing regulatory quality	61
2.2 Factors and significance of regulatory quality	62
2.3 Conditions for doing business in the Czech Republic	65
2.4 Comparison of the EU-8 and EU-14 countries	69
Annex	70
3. Conclusion	71
References	72
Innovation performance	77
1. Competitive advantage	77
1.1 Theoretical and methodological starting points	77
Competitive advantage matrix	78
Competitive advantage diamond	80
1.2 Production technology	81
Production technology component in competitive advantage diamond	81
Quality of production technology and industry structure	82
1.3 Value chain	83
Value chain component in competitive advantage diamond	83
Quality of value chain and importance of foreign investment	84
1.4 Environment (demand and policy)	84
Environment component in competitive advantage diamond	84
Quality of environment and role of corporate research	84
1.5 Linkages and interactions	85
Linkages and interactions component in diamond competitive advantage	85
Quality of linkages and interactions and network readiness	86
1.6 The Czech Republic and EU-13 competitive advantage within the EU-25	86
2. Inputs and outputs of innovation performance	89
2.1 National innovation system concept and opportunities for its use in the situation of the CR	89

2.2 Inputs of research activities	90
Extent of financial and human resources in research and development	90
Structure of research and development resources	91
Industrial structure of research and development	93
Other structural aspects of research and development.....	94
2.3 Specific conditions for innovation performance.....	96
Qualification for research and development.....	96
Companies and academic science	96
Government support for research and development.....	97
Venture capital.....	98
Specific and technical publications, patent statistics.....	98
2.4 Innovation performance of companies and quality of environment.....	99
Innovating companies and innovation in the CR.....	100
Business environment of innovating companies	100
3. Information society and ICT	102
3.1 Information society.....	102
Information society and development in ICT utilisation	102
Information society development in international comparison.....	102
Expenditure on ICT and communications development.....	102
Internet infrastructure and use	104
Networked readiness	106
3.2 Demand for ICT	107
General status of demand for ICT.....	107
Demand for applications and application software.....	107
Demand for services	107
Expected development in demand for ICT up to 2009	107
3.3 Supply on the ICT market.....	107
Supply of ICT services	108
Supply of ICT applications, software	108
3.4 ICT at the corporate level	108
Problems in development and use of ICT at the corporate level.....	108
ICT in small and medium size enterprises	108
4. Conclusion.....	109
References.....	112
Quality of human resources	117
1. Knowledge and flexibility of population.....	117
1.1 Education structure and education mobility	117
Educational mobility	118
1.2 Knowledge and skills of population.....	119
Knowledge and skills of young population	119
Knowledge and skills of adult population	120
1.3 Computer literacy of population	121

1.4 Flexibility of population	122
Geographical and occupational mobility.....	123
Annex	125
2. Lifelong learning	126
2.1 The initial education of young people	126
Participation in secondary education	126
Participation in tertiary education	126
2.2 The participation of the adult population in continuing education.....	127
Participation of adults in formal education.....	128
Participation in non-formal education.....	129
Participation in informal education	131
2.3 Expenditure on education	131
Expenditure on initial education	131
The effectiveness of expenditure on education.....	132
Corporate expenditure on the training on employees	132
Annex	134
3. Human resources for a knowledge-based economy.....	136
3.1 Employment structure.....	136
Employment in technology-intensive manufacturing industries.....	136
Employment in knowledge-intensive services.....	137
Scientists and technicians in the economy.....	138
ICT professions in the economy.....	139
3.2 Preparation of human resources at tertiary level	140
Graduates of doctoral study programmes.....	141
Graduates of science and technology.....	141
Quality of tertiary education	142
Annex	143
4. Conclusion.....	144
References.....	146
 Challenges for the Czech Republic.....	 151