Czech Republic

Annual Progress Report (2025)

Fiscal-Structural Plan of the CR for 2025–2028 period

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Fiscal-Structural Plan of the Czech Republic for 2025–2028 period

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Contents

In accordance with Article 121 of the Treaty on the Functioning of the European Union and on the basis of Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, the Annual Progress Report of the Fiscal and Structural Plan of the Czech Republic for the period 2025–2028 is presented.

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List of Abbreviations

CZK .... Czech koruna currency code
CZSO .... Czech Statistical Office
EC .... European Commission
EU .... European Union containing 27 countries
EUR .... euro currency code
FSP .... Fiscal-Structural Plan
GDP .... gross domestic product
MF CR .... Ministry of Finance of the Czech Republic
p. a. .... *per annum*
p. m. .... *pro memoria*
pp .... percentage point
USD .... US Dollar currency code

Symbols Used in Tables

A dash (–) in place of a number indicates that the phenomenon did not occur or is not possible for logical reasons.
“Billion” means a thousand million.

Cut-off Date for Data Sources

Macroeconomic data used pertain to the 1 April 2025 release and fiscal data and policies to the 8 April 2025.

Note

In some cases, published aggregate data do not match the sums of individual items to the last decimal place due to rounding.

Introduction and Summary

The Annual Progress Report follows the amendment of the Stability and Growth Pact. Its content is framed by Regulation (EU) No 2024/1263 of the European Parliament and of the Council on effective coordination of economic policies and on multilateral budgetary surveillance. It aims at an annual assessment of the implementation of the Fiscal-Structural Plan. The currently assessed plan was prepared by the Czech Republic for the period 2025 to 2028, approved by the Czech Government on 16 October 2024; the EU Council issued a recommendation on 21 January 2025. On the basis of the Fiscal-Structural Plan and the recommendations of the European Commission, the Council of the European Union set a net expenditure path for the Czech Republic. This is defined as the growth of total public expenditure net of interest expenditure items, expenditure on European Union projects, national financing of projects co-financed by the European Union, discretionary revenue measures and one-off measures. The Fiscal-Structural Plan has been prepared in such a way that it is also fully consistent with national legislation in the form of the Act on the Fiscal Responsibility Rules.

When the Fiscal-Structural Plan was drawn up, the 2024 general government deficit was forecast at 2.8% of GDP, and 2.1% of GDP after adjusting for the effects of the business cycle and one-off measures. According to data from the Czech Statistical Office, the deficit was 2.2% of GDP, and 1.9% of GDP in structural terms. We estimate net expenditure growth for 2024 at 2.8%.

This report summarises the current steps and planned activities of the Czech Republic in the areas defined by the Fiscal-Structural Plan in response to specific recommendations of the Council of the European Union. As part of the energy sector measures, the Government approved an update of the National Energy and Climate Plan in December 2024. In January 2025, the National Action Plan for Smart Grids was approved to support the integration of new technologies in the energy sector. Progress continues on ending energy dependence on Russia. In addition, reforms in the field of energy regulation are under preparation. In the area of decarbonisation financing, investment in strategic technologies continues to be promoted. The science and research sector is focusing on innovation in the energy sector through programmes such as THÉTA 2 and Environment for Life 2. The transformation of the Energy Consultation and Information Centres into Points of Single Contact for energy saving advice is also underway.

In the area of social systems, the final part of the pension reform was approved and implemented, bringing, among other things, a further increase in the retirement age to 67 and a gradual decrease in replacement rate on newly granted pension benefits. Its overall positive impact on public finances is estimated at 1.5% of GDP. As regards social benefits, a reform of the system is being discussed by Parliament, which merges the current four benefits into one, changes the way eligibility for benefits is assessed and reduces the administrative burden of providing benefits by applying digitalisation tools.

The efficiency of healthcare in the Czech Republic is strengthened by the CZ-DRG system for categorising hospital admissions, which covers more than half of acute care. In addition, there is a transformation of the inpatient pool for follow-up and long-term care. At the same time, the Government approved the Act on the Social-Health Inpatient Care, which allows for coordinated care for people requiring both services. The reforms also address the digitalisation of the healthcare system. The amendment to the Act on the Electronization of Healthcare extends the electronic health record or introduces a shared health record, which improves coordination between healthcare providers. In the area of prevention and quality assurance of care, a project to improve cancer screening programmes and the construction of specialised oncology and cardiovascular centres is ongoing. In 2025, a system to optimize the training of healthcare professionals and the construction of a simulation centre for intensive care medicine will be completed.

The Czech labour market has been tight for a long time. At the same time, however, it is subject to change, which is why programmes aimed at retraining workers as a result of decarbonisation and economic transformation are being implemented. Support is given to people with accumulated social problems and to the employment of people with specific needs. Amendments to employment laws and a new Act on Social Entrepreneurship aim to increase flexibility in the labour market and promote the employment of disadvantaged groups. In the context of preparing for future careers, modernisation of school curricula and increased funding for higher education is continuing, and teacher professional development and lifelong learning, including digital skills, are being promoted. Furthermore, changes are planned to support affordable and social housing, including cost-effective housing modernization programmes for those on lower incomes.

In the area of public administration modernisation, the Czech Republic is in the process of reforming the judiciary, including an amendment to the Act on Procedure in Matters of Judges, which increases transparency in the judiciary, and the launch of the justice portal simplifies citizens' access to legal services. In the area of eGovernment, new digital services have been introduced with the aim of simplifying citizens' communication with the public administration. In research and innovation, a new research law has been prepared to strengthen the innovation environment and the science-business interface. Investment in high-speed networks and 5G coverage is ongoing.

1 Main Fiscal Indicators

With the reform of the Stability and Growth Pact, the emphasis shifted to a **fiscal rule represented by the net expenditure growth (path)**, i.e. expenditure net of interest, funds related to EU projects including national financing, discretionary revenue measures and one-off measures on both the revenue and expenditure side.

The Fiscal-Structural Plan (hereinafter FSP) worked with a net expenditure path based on the then forecast of nominal potential output growth and fiscal effort given by Act No. 23/2017 Coll., on Fiscal Responsibility Rules, as amended. For 2024, the August 2024 forecast was then used, which assumed a structural deficit of 2.1% of GDP. The net expenditure path was thus designed to ensure, in line with national legislation, a structural deficit of no more than 1% of GDP in 2028, or a primary (i.e. excluding debt service costs) structural surplus of 0.4% of GDP.

The notified data for the general government **deficit and debt for 2024** shows an achieved deficit of 2.2% of GDP (and 1.9% of GDP in structural terms) and a debt ratio of 43.6% of GDP. Compared to the FSP figures, this is an improvement on all variables, with the balance 0.6 pp better, the structural balance 0.2 pp better and the debt ratio 0.5 pp better.

For the evaluation of the net expenditure path, we identify several problematic points. The first is the difference in the predicted and reported value of national funding. The difference is CZK 2.5 billion, with the predicted value being higher than the reported value in the Czech Statistical Office data. The second factor is possible changes in the quantification of discretionary measures. There have already been adjustments in the quantification and timing of some excise duties between the preparation of the FSP and the Annual Progress Report. It is very likely that changes will also impact income taxes based on tax returns later this year. The third factor is methodological discrepancies, whereby, firstly, net expenditure may actually deviate from the plan due to different macroeconomic developments; secondly, conceptual adjustments in the system of national accounts, which affect revenue and expenditure equally, i.e. do not affect the balance. These adjustments are quite substantial and it is methodologically correct to net total expenditure against these items. Similarly, the different budgetary rules for some items are questionable. An example is state budget other revenue (except emission allowances), where expenditure is bound according to its actual amount. We anticipate that there will be an expert debate at EU level on taking these factors into account.

After taking into account adjustments in the European System of National and Regional Accounts methodology and all prescribed adjustments in the calculation of net expenditure, we record a pace of 2.8%, which is about 2.5 pps lower than the FSP assumption for 2024.

The 2025 forecast is burdened by a number of risks, including those described in the previous paragraph. It is still an expectation of future developments from which no definitive conclusions can be drawn. Significant changes cannot be ruled out in the aggregate outcomes (balance, debt) or in the structure (level of discretions, national financing). Purely from the perspective of the current forecast, we expect net expenditure, the balance, the structural balance and the debt ratio could turn out better than projected in the FSP.

Table 1.1: Fiscal Commitment
change in %

		2024	2025	2024	2025
		outturn	*forecast*	*Council recomm.*	
Net expenditure	*growth rate*	**2.8**	**3.3**	**5.3**	**4.5**
	cumulative growth rate	2.8	6.1	5.3	10.1

Source: CZSO (2025b). MF CR calculations and forecast.

Table 1.2: Main Variables
% of GDP, pp of GDP

		2023	2024	2025	2024	2025
		outturn		*forecast*	*FSP*	
General government balance	*% of GDP*	-3.8	-2.2	-2.2	-2.8	-2.5
Structural balance	*% of GDP*	-2.7	-1.9	-1.9	-2.1	-2.3
Structural primary balance	*% of GDP*	-1.4	-0.6	-0.5	-0.7	-0.9
Gross debt	*% of GDP*	42.5	43.6	44.5	44.1	45.1
Change in gross debt	*pp of GDP*	-0.1	1.1	1.0	1.6	1.0

Source: CZSO (2025a, 2025b), MF CR (2025). MF CR calculations and forecast.

2 Macroeconomic Developments

The Czech economy returned to growth last year, supported by a recovery in consumer demand. However, the performance of the domestic economy was constrained by ongoing challenges in the euro area countries and still restrictive monetary conditions. Export growth was dampened by a lack of orders across most manufacturing sectors. On the other hand, subdued domestic demand curbed import growth, resulting in a positive contribution from net exports over the year. This year, the economy is expected to accelerate towards 2%, driven by stronger domestic demand. The macroeconomic forecast in the baseline scenario incorporates tariffs on automobiles and their components, announced on 26 March 2025, as well as on steel and aluminium. The scenario does not include broad-based tariffs on all imported goods.

2.1 Economic Summary 2024

The **performance of the Czech economy** reached 1.1% for the full year 2024. Its dynamics were shaped by a number of contrasting factors.

Household final consumption expenditure rose by 2.2%. As inflation eased, private consumption was supported by renewed growth in real disposable income. Consumption was further boosted by a lower savings rate, reflecting improved sentiment, although a sharper decline in the savings rate was prevented by the continued restrictive stance of monetary policy. Household spending was also partly constrained by the fiscal consolidation package.

General government final consumption expenditure increased by 3.8%, driven by a surge in current spending funded by EU instruments, in particular the Recovery and Resilience Facility. However, this growth was tempered by fiscal consolidation.

Gross fixed capital formation declined by 1.2% primarily due to persistent challenges in euro area economies and a reduction in industrial production capacity. Investment activity was supported by increased spending on transport equipment, other buildings and structures, and intellectual property products. Conversely, investment in machinery, equipment, and dwellings decreased. From a sectoral perspective, investment activity declined across firms, households and government. Both private and public investment were further constrained by the transition to the new EU financial perspective. The completion of projects in progress and weaker demand for production inputs led to a year-on-year reduction in **inventory accumulation**.

Exports of goods and services were bolstered by the automotive industry. However, a reduced volume of industrial orders from abroad in other sectors weakened overall export performance. This, together with lower inventories and subdued investment activity, limited the growth of **imports of goods and services**. As a result, net exports contributed positively to GDP growth.

Labour market imbalances linked to ongoing labour shortages persisted. Consequently, despite subdued economic performance, the **unemployment rate** remained at 2.6%, the lowest in the EU. Labour shortages across a range of sectors and occupations contributed to **growth of nominal wages and salaries**, which outpaced inflation for the first time in two years.

Inflation averaged 2.4% over the course of 2024. Inflationary pressures were significantly lower than in the preceding two years, although service prices showed strong growth. Within administrative prices, energy remained the dominant factor due to a substantial price increase in regulated components. The slightly positive contribution from indirect taxes reflected increases in excise duties on alcohol and on tobacco, partially offset by changes in VAT rates. The **restrictive monetary policy stance** amplified the income effect of the fiscal consolidation package, together helping to moderate domestic demand-driven inflation. A slight decline in the dollar price of oil also contributed to lower inflation. In contrast, both nominal wage growth and the marked depreciation of the Czech koruna against the euro and the US dollar exerted upward pressure on prices.

2.2 Economic Development in 2025

The recovery in economic activity is expected to continue in 2025, driven primarily by **stronger growth in household consumption**. **Investment activity** should be led by **public investment**, with an acceleration in the utilisation of funds under the current financial perspective of the EU's European Structural and Investment Funds, in addition to continued support from the Recovery and Resilience Facility. In contrast, private investment activity is likely to remain subdued. **Renewed inventory accumulation** is also projected to contribute positively to economic growth. At the same time, stronger domestic demand is expected to drive an increase in imports, resulting in a negative contribution of net exports to economic growth. As a result, **real GDP is projected to increase by 2.0% in 2025.**

The dynamic growth in wages and salaries, combined with a low inflation environment, should support real disposable income this year. Alongside a slight decline in interest rates, households are expected to show a gradually increasing willingness to spend. Accordingly, **real household consumption** is projected to rise by 3.6% this year.

Government consumption is expected to reflect the ongoing consolidation of public finances, with real government consumption expenditure projected to grow by 1.8% in 2025.

Private investment this year is likely to be constrained by continued difficulties in the euro area economies, low industrial capacity utilisation, and uncertainties surrounding the trade and foreign policy direction of the new US administration, particularly concerning import tariffs. However, growth in **public investment**, supported by EU funds under both the Recovery and Resilience Facility and the traditional EU funding instruments, should provide a positive offset. Additionally, the planned multi-year investment by onsemi in chip production is expected to bolster investment activity. Overall, gross fixed capital formation is forecast to increase by 0.7% this year.

As the economic recovery progresses and the negative output gap narrows, **changes in inventories** are expected to make a positive contribution to GDP growth.

Export in 2025 will be dampened by weaker growth among key trading partners. The imposition of import tariffs on EU goods by the new US administration is expected to weigh on foreign demand, negatively affecting export dynamics. Exports of goods and services are forecast to grow by 1.6% this year. On the **import** side, gains are likely to be driven by renewed inventory accumulation and increased household consumption, while the dampening effect of subdued export dynamics and limited import-intensive investments will act in the opposite direction. Overall, imports of goods and services are expected to increase by 3.4% in 2025.

This year, inflationary pressures will primarily stem from market factors. The increase in regulated prices will mainly reflect higher regulated components of energy prices. In the opposite directions, commodity components of electricity and gas are expected to become cheaper. Increases in excise duties on alcohol and on tobacco products are projected to result in a positive contribution from indirect taxes. Meanwhile, the anticipated decline in the dollar price of oil and the modest appreciation of the Czech koruna are expected to exert downward pressure on prices. Earlier **monetary policy setting** should continue to have disinflationary effect due to its lagged impact. On the other hand, strong wage growth and still elevated service price inflation should present inflationary factors. Renewed demand for real estate may also contribute to upward price pressures. Overall, the average **inflation rate** is expected to reach **2.4%** in 2025.

In the short term, the **labour market** will likely be impacted by persistent difficulties in the industrial sectors. Nevertheless, labour shortages in the construction and service sectors are expected to prevent a significant rise in unemployment. Over the year as a whole, the **unemployment rate** is forecast to remain broadly stable at 2.6%. Continued labour market frictions are likely to sustain **wage and salary growth**, supporting a solid increase in real earnings.

The economic outlook for 2025 is subject to significant risks, the most notable of which is the potential introduction or escalation of import tariffs on EU goods by the new US administration.

Table 2.1: Macroeconomic Scenario

levels in CZK billions, growth rate in %, contributions in pp

		2023	2023	2024	2025
		actual	*actual*		*forecast*
		CZK bn.	*growth rate*		
GDP					
Real GDP			-0.1	1.1	2.0
GDP deflator			8.1	4.0	2.7
Nominal GDP		7 619	8.1	5.1	4.7
Components of real GDP					
Private consumption expenditure			-2.8	2.2	3.6
Government consumption expenditure			3.4	3.3	2.0
Gross fixed capital formation			2.5	-1.2	0.7
Changes in inventories and net acquis. of valuables	*% of GDP*		0.7	-0.1	0.5
Exports of goods and services			2.7	1.8	1.6
Imports of goods and services			-0.9	0.9	3.4
Contributions to real GDP growth					
Final domestic demand			0.0	1.3	2.3
Changes in inventories and net acquis. of valuables			-2.7	-0.9	0.7
External balance of goods and services			2.6	0.7	-1.0
Deflators and HICP					
Private consumption deflator			8.1	3.0	2.3
p.m. Harmonised index of consumer prices			12.0	2.7	2.3
Government consumption deflator			5.3	3.7	3.6
Investment deflator			3.9	2.0	1.8
Export price deflator (goods and services)			0.2	3.7	1.8
Import price deflator (goods and services)			-2.6	2.1	1.3
Labour market		*level*			
Employment (thous. of persons)		5 388	1.0	0.3	0.2
Average annual hours worked per person employed		1 774	-0.3	-0.2	0.5
Real GDP per person employed			-1.1	0.8	1.8
Real GDP per hour worked			-0.8	1.0	1.3
Compensation of employees (bn. CZK)		3 266	7.7	6.1	6.7
Compensation per employee (thous. CZK/person)		707	6.7	5.9	6.6
Unemployment rate	*%*		2.6	2.6	2.6
Potential GDP and contributions to potential growth					
Potential GDP			1.5	2.1	1.5
Contribution of labour			0.7	0.5	0.2
Contribution of capital			1.0	1.5	0.6
Total factor productivity			-0.2	0.1	0.7
Output gap	*% of potential*		-0.8	-1.8	-1.2

Note: Changes in inventories and net acquisition on the 7th row represent the change in inventories as a percentage of GDP at current prices. The contribution of changes in inventories and net acquisition is calculated using real values. Employment and compensation figures follow the national accounts methodology.
Source: CZSO (2025a, 2025c), Eurostat (2025), MF CR (2025). MF CR calculations and forecast.

Table 2.2: External Assumptions

interest rate and change in %

		2023	2024	2025
		actual		*forecast*
Short-term interest rate	*% p.a.*	7.1	5.0	3.5
Long-term interest rate	*% p.a.*	4.4	4.0	4.1
USD/EUR exchange rate	*USD/EUR*	1.1	1.1	1.1
CZK/EUR exchange rate	*CZK/EUR*	24.0	25.1	24.9
World real GDP (excluding EU)	*change in %*	3.8	3.6	3.5
EU real GDP	*change in %*	0.6	1.0	0.9
World import volumes, excluding EU	*change in %*	1.3	3.1	3.3
Oil prices (Brent)	*USD/barrel*	82.4	80.6	71.8

Source: CNB (2025), EIA (2025), Eurostat (2025). MF CR calculations and forecast.

3 Fiscal Developments

The general government sector ended 2024 with a deficit of 2.2% of GDP. The deficit declined as a result of the consolidation package, the winding down of measures related to the energy crisis and a partial economic recovery. With a lower nominal GDP growth, general government debt reached 43.6% of GDP last year. This year we expect the same general government outcome, with debt expected to increase further to 44.5% of GDP.

3.1 General Government Outcome in 2024

According to Czech Statistical Office data, **the general government sector** ended 2024 with a deficit of 2.2% of GDP. The deficit was mainly attributable to the state budget, but health insurance companies also ran a deficit. In contrast, local governments retained a positive balance. The year-on-year improvement in the overall balance by 1.5 pp was driven by a 0.9 pp decrease in expenditure relative to GDP and a 0.6 pp increase in revenue. Adjusted for the impact of the business cycle and one-off measures, the general government deficit improved by 0.7 pp to 1.9% of GDP.

Total revenue grew by 6.8%, of which tax revenue including social security contributions increased by 7.9%. The growth in **value added tax** (2.5%) was moderated by the unification of reduced tax rates to 12% and the simultaneous shifting of some goods and services between rates. The additional value added tax revenue resulting from the increase in **excise duties** had the opposite effect. Their year-on-year evolution was positively affected by the base effect, with the reduced tax rate on diesel in force until the end of July 2023. In addition, the consolidation package increased taxation on existing tobacco products and introduced taxation on alternative tobacco products such as e-liquids. Tax revenues were dampened year-on-year by the end of the effectiveness of the extraordinary levies on excess revenues of electricity producers, which were introduced during the energy crisis. Their budgetary effect was offset by the end of the across-the-board waiver of the renewable energy levy for households and firms at the end of 2023. Last year, only energy-intensive businesses were subsidised. **The property tax** increase brought CZK 10 billion to public budgets.

Three groups of factors increased the taxation of labour earnings in the form of **personal income tax** (growth by 11.9%) and **social security contributions** (growth by 8.6%). In addition to the more than 6% growth in wages and salaries, the pace of health insurance contributions was accelerated by a CZK 12.7 billion (9.2%) increase in payments for the state insured persons. Last but not least, labour taxation revenues were affected by the measures of the consolidation package, such as the reduction of the threshold for the higher statutory personal income tax rate from 48 to 36 times the average wage, the limitation of the tax credit for a spouse caring for a child up to 3 years of age and the abolition of the tax credit for placing a child in a pre-school institution. The package then increased social security contributions by reintroducing sickness insurance for employees and increasing contributions for the self-employed. **Corporate income tax** revenue (6.1%) was boosted by a 2 pp increase in the tax rate with an estimated impact of around CZK 21 billion.

The year-on-year evolution of other revenue was mainly determined by significantly lower **dividend income** from state-owned companies, as well as lower interest on loans granted under the Treasury liquidity management.

Total expenditure has been held back by the consolidation package. Growth in **final consumption expenditure** slowed to 7.3% year-on-year. Intermediate consumption maintained a high rate of 8.7%, boosted by spending on repairs of property damaged by the September 2024 floods. In contrast, **compensation of employees** slowed down, reaching a much lower pace compared to 2023. The almost 12% pace of **social transfers in kind** was driven by rising health insurance spending, enabled not only by increases in contributions and payments for state insured persons, but also by the deficit of the public health insurance system. In addition, there was an increase in the already high level of housing benefit payments.

The composition of **cash social benefits** was dominated by pension benefits, whose indexation resulted in a 3.5% increase in pension expenditure. In terms of dynamics, however, unemployment benefits, sickness insurance benefits, care allowances and payments for the state insured persons grew in particular. Humanitarian benefits to refugees from Ukraine and emergency aid to citizens affected by the September floods also increased the volume of disbursements. All this led to an overall increase of 4.4% in cash social benefits.

The pace of **investment in fixed assets** slowed markedly year-on-year to 1.5%. The lower pace was driven by a 4% decline in spending by local governments. At the central level, investment growth was driven by spending on transport infrastructure and defence. In the case of EU co-financed expenditure, the implementation of the National Recovery Plan projects and the unfolding 2021–2027 financial perspective played a role.

The measures of the consolidation package, together with the end of temporary measures approved in response to the energy crisis, represented annual savings in **subsidies** in tens of billions of CZK. **Current** (lower contributions to the EU budget) and **capital transfers** also declined.

3.2 General Government Outcome in 2025

The government's consolidation efforts and the ongoing economic recovery should be reflected in the general government outturn in 2025, when we expect the deficit to remain at last year's 2.2% of GDP, despite higher spending on defence and September 2024 flood recovery. Similarly, the structural deficit is expected to remain at 1.9% of GDP. **Total revenue** should grow by 5%, at the same time tax revenues, including social security contributions, growing only slightly slower.

Rising real earnings should boost household consumption and positively affect **value added tax** revenue, with an estimated growth of 5.7%. It will also reflect higher **excise duties** on tobacco and alcohol as part of the consolidation package.

The forecast for **personal income tax** (4.5%) and **social security contributions** (6.0%) is based on expected wage and salary growth in the economy. However, for personal income tax, the dynamics is hampered by the year-on-year evolution of capital gains tax. In the area of social security contributions, the consolidation package further increases self-employment contributions with an additional impact in 2025. The automatically indexed payment for state insured persons will bring additional resources for health insurance companies.

The **corporate income tax** yield (3.6%) should be dampened by a slightly negative aggregate year-on-year impact of the recorded discretionary measures, as the declining windfall profit tax revenue and the deepening negative effect of the exemption on government bond yields will outweigh the additional positive effect of the 2 pp increase in the tax rate and the introduction of a top-up tax.

Among other revenues, **current** and **capital transfers** are forecast to grow significantly, reflecting the start-up of projects co-financed by the EU budget from the 2021–2027 programming period.

Total expenditure is expected to grow at a similar pace to revenue. We estimate that the pace of final consumption expenditure will slow to 5.7% year-on-year due to intermediate consumption and social transfers in kind. In contrast, **compensation of employees** in the general government sector should be higher (6.3%) than last year, mainly due to salaries indexed to average wage.

The pace of **social transfers in kind** should slow to 5.5%, due to the high base year of 2024. For housing benefits, we expect the relatively higher level to be maintained, although spending could weaken slightly due to rising real earnings. The increase should thus be driven by health insurance companies´ spending, made possible by increases in social security contributions and payments for state insured persons. The year-on-year 3.7% growth rate of **intermediate consumption** is based on the 2024 level, slightly increased by spending on repairs of property damaged by the September 2024 floods, as the repairs should carry on in 2025 as well. On the other hand, the Government's ongoing consolidation efforts in operating expenditure should be reflected positively.

In the case of **cash social benefits,** a higher amount of funds will be allocated to the payment of pension benefits, adjusted from January 2025 on the basis of the statutory indexation formula. In addition to pensions, we expect the humanitarian benefit for persons with temporary protection to be preserved, the continued payment will require a year-on-year increase of around CZK 1 billion. The additional expenditure in excess of CZK 5 billion is also linked to the adjustments to the care allowance or the increase in the parental allowance, which have been in force since last year. In the development of cash social benefits, the national accounts methodology also reflects the increase in the payment for the state insured persons. As a result, cash social benefits are forecast to grow by 2.7%.

In addition to defence spending, **investment in fixed assets** will also increase spending on the reconstruction of infrastructure and assets following the September 2024 floods. In terms of financing, we anticipate the involvement of resources from the National Recovery Plan, and the increase in the volume of funds under the 2021–2027 financial perspective will also have an impact in line with the current phase of the cycle for cohesion funds.

The year-on-year increase in **subsidies** due to support for renewable energy sources is likely to outweigh the effect of additional savings resulting from the consolidation package. The subsidies should increase by almost 15%.

The government deficit is reflected in the level of **debt**, which rose by more than 1 pp to 43.6% of GDP in 2024, and we expect it to rise further to 44.5% of GDP this year. This is likely to lead to a further increase in **interest expenditure** to 1.4% of GDP.

Table 3.1: Fiscal Forecast

level in CZK billion, others in % of GDP, net expenditure change and implicit interest rate in %

		2023	2023	2024	2025
		CZK bn.	*% of GDP*		
Revenue					
Taxes on production and imports		806	10.6	10.7	10.6
Current taxes on income, wealth etc.		612	8.0	8.3	8.3
Social security contributions		1 169	15.3	15.8	16.0
Other current revenue		403	5.3	5.1	5.0
Capital taxes		0	0.0	0.0	0.0
Oter capital revenue		70	0.9	0.9	1.0
Total revenue		3 060	40.2	40.8	40.9
of which: Transfers form the EU		85	1.1	1.0	1.2
Total revenue other than transfers from the EU		2 975	39.0	39.8	39.7
p.m. Revenue measures (increments, excluding EU funded measures)		53	0.7	0.9	0.3
p.m. One-off revenue (levels, excluding EU funded measures)		33	0.4	0.5	0.4
Expenditure					
Compensation of employees		739	9.7	9.7	9.8
Intermediate consumption		430	5.7	5.8	5.8
Interest expenditure		99	1.3	1.3	1.4
Social benefits other than transfers in kind		1 037	13.6	13.5	13.3
Social transfers in kind		258	3.4	3.6	3.6
Subsidies		207	2.7	1.9	2.1
Other current expenditure		162	2.1	2.0	1.9
Gross fixed capital formation		370	4.9	4.7	4.8
of which: Nationally financed public investment		296	3.9	3.8	3.7
Capital transfers		40	0.5	0.4	0.5
Other capital expenditure		6	0.1	0.0	0.0
Total expenditure		3 346	43.9	43.0	43.1
of which: Expenditure funded by transfers form the EU		85	1.1	1.0	1.2
Nationally financed expenditure		3 261	42.8	42.0	41.9
p.m. National co-financing of programmes funded by the EU		41	0.5	0.5	0.6
p.m. Cyclical component of unemployment benefits		0	0.0	0.0	0.0
p.m. One-off expenditure (levels, excluding EU funded measures)		96	1.3	0.2	0.4
Net expenditure (before revenue measures)		3 026	39.7	40.0	39.6
Net expenditure (before revenue measures, net of imputations)		2 783	36.5	36.4	36.3
Net expenditure	*change in %*			2.8	3.3
Balances					
Net lending/borrowing		-286	-3.8	-2.2	-2.2
Primary balance		-188	-2.5	-0.9	-0.9
Cyclical adjustment					
Structural balance			-2.7	-1.9	-1.9
Primary structural balance			-1.4	-0.6	-0.5
Debt					
General government gross debt (consolidated)		3 234	42.5	43.6	44.5
Change in gross debt		236	-0.1	1.1	1.0
Contributions to changes in gross debt					
Primary deficit			2.5	0.9	0.9
Snowball effect			-1.9	-0.7	-0.6
Interest			1.3	1.3	1.4
Growth			0.0	-0.5	-0.8
Inflation			-3.2	-1.6	-1.1
Stock-flow adjustment			-0.7	1.0	0.7
p. m. Implicit interest rate on debt	%		3.3	3.3	3.2

Source: CZSO (2025b). MF CR calculations and forecast.

Table 3.2: Net Expenditure Calculation

CZK bn., net expenditure change in %

		2023	2024	2025
Total expenditure	*(1)*	**3 346**	**3 444**	**3 618**
Revenue and expenditure imputations	*(2)*	243	281	280
Total expenditure net of imputations	*(3) = (1) - (2)*	**3 104**	**3 164**	**3 338**
Interest payments	*(4)*	99	108	113
Expenditure on EU programmes, including national funding	*(5)*	126	121	152
Cyclical component of expenditure	*(6)*	0.2	0.6	0.4
One-off and other temporary expenditure	*(7)*	96	15	30
Net expenditure before revenue measures	*(8) = (3) - (4) - (5) - (6) - (7)*	**2 783**	**2 919**	**3 043**
Discretionary revenue measures (year-on-year change)	*(9)*	53	69	23
One-off and other temporary revenue (year-on-year change)	*(10)*	44	9	-5
Net expenditure*	*(11) change in %*	-	**2.8**	**3.3**

Note: Revenue and Expenditure imputations are a part of discretionary measures in the FASTOP-DRM database.

** Net expenditure change at row (11) is calculated as a change of net expenditure of year t, adjusted for the impact of discretionary revenue measures (net of one-offs) in the same year, from net expenditure before revenue measures in year t−1, i.e. as follows: $(11)_t = [(8)_t - (9)_t + (10)_t - (8)_{t-1}] / (8)_{t-1}$*

Source: MF CR calculations and forecast.

Table 3.3: Discretionary Revenue Measures

year-on-year change, in % of GDP, total discretionary measures also in CZK bn.

	ESA	One-off	2024	2025
Adjustments to excise duties on energy	D.214A		0.3	0.0
Increase in property tax	D.29A		0.1	-
Levy on excess revenue from electricity sales (December 2022 to December 2023)	D.29H	yes	-0.2	-
Increase in the corporate income tax rate and introduction of a global minimum tax	D.51B		0.3	0.0
Introduction of sickness insurance for employees	D.61		0.2	-
Other discretionary revenue measures			0.3	0.2
Total			**0.9**	**0.3**
Total *(CZK bn.)*			**68.7**	**22.5**

Source: MF CR calculations and forecast.

Table 3.4: Recovery and Resilience Facility – Grants

in % of GDP

	ESA Code	2020	2021	2022	2023	2024	2025	2026
Revenue from Recovery and Resilience Facility grants								
RRF grants as included in the revenue projections		**-**	**-**	**-**	**0.6**	**0.6**	**0.4**	**0.5**
Cash disbursements of RRF grants from EU		**-**	**0.4**	**-**	**0.3**	**0.7**	**0.5**	**0.7**
Expenditure financed by Recovery and Resilience Facility grants								
Total current expenditure		**-**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**
Gross fixed capital formation	P.51g	0.1	0.1	0.1	0.1	0.2	0.4	0.4
Capital transfers	D.9	-	-	0.1	0.1	0.1	0.0	-
Total capital expenditure		**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.5**	**0.4**
Other costs financed by Recovery and Resilience Facility grants								
Reduction in tax revenue		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other costs with impact on revenue		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial transactions		**-**	**-**	**-**	**-**	**-**	**-**	**-**

Source: MF CR.

Table 3.5: Recovery and Resilience Facility – Loans

in % of GDP

	ESA Code	2020	2021	2022	2023	2024	2025	2026
Revenue from Recovery and Resilience Facility loans								
RRF loans as included in the revenue projections		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash disbursements of RRF loans from EU		**-**	**-**	**-**	**-**	**0.1**	**0.1**	**0.1**
Expenditure financed by Recovery and Resilience Facility loans								
Total current expenditure		**-**	**-**	**-**	**-**	**0.0**	**-**	**-**
Gross fixed capital formation	P.51g	-	-	-	-	0.0	0.0	0.0
Capital transfers	D.9	-	-	-	-	-	-	-
Total capital expenditure		**-**	**-**	**-**	**-**	**0.0**	**0.0**	**0.0**
Other costs financed by Recovery and Resilience Facility grants								
Reduction in tax revenue		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other costs with impact on revenue		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial transactions		**-**	**-**	**-**	**-**	**-**	**-**	**-**

Source: MF CR.

4 Reforms and Investment

The chapter refers to the overview of the planned or implemented measures in the FSP. It is therefore divided identically into a) decarbonisation of the Czech economy, b) social systems, c) education, labour market and housing support, and d) modern public administration and digitalisation. It is a list of measures that have been implemented or characterises the preparation or discussion phase.

4.1 Decarbonisation

Preparatory steps related to the construction of the new nuclear double block at Dukovany are continuing. In this context, a contract with the selected contractor is expected to be concluded in the second quarter of this year and the investor and financial model will be presented. Negotiations with the EC on the exemption from the general prohibition of public aid will follow.

In December 2024, the Government approved by Resolution No. 960 the update of the National Energy and Climate Plan of the Czech Republic, which confirms the main targets for 2030 mentioned in the FSP, such as the reduction of greenhouse gas emissions, the share of renewable energy sources in gross final energy consumption and energy efficiency. The update of the related concepts has been postponed until after the completion of the tender for the construction of new nuclear units and work on further development of renewable energy sources.

On 8 January 2025, the Government of the Czech Republic approved by Resolution No. 13 the National Action Plan for Smart Grids 2025–2030 (MIT, 2025), the main objective of which is to enable the large-scale integration of new technologies in energy production, transmission, distribution, storage and consumption through the appropriate development of network infrastructure.

4.1.1 Ending Energy Dependence on Russia

In January 2025, MERO completed a major part of the TAL+ project. The Czech Republic can now be fully supplied with oil via the TAL and IKL pipelines, i.e. independently of supplies from Russia. Similarly, for natural gas, the Czech Republic has become independent of imports from the Russian Federation. This has been facilitated by the end of Russian supplies to the EU via Ukraine as of 1 January 2025 and the abolition of the transit fee applied by Germany on the same date.

As far as Russian nuclear fuel is concerned, thanks to the contracts especially for the supply of uranium and its enrichment and for the supply of fuel assemblies from non-Russian suppliers, the Czech Republic (ČEZ company) has created preconditions for early independence from Russian suppliers. However, so far Russian fuel is used from stocks that can potentially cover two to three years of operation of nuclear power plants in the Czech Republic. The first delivery of nuclear fuel from the Swedish branch of Westinghouse corporation is due to arrive this year, and later the French Framatome will also supply fuel to Czech reactors.

4.1.2 Reforms to Energy Regulation

Lex RES III was approved and published in the Collection of Laws on 31 March 2025 as Act No. 87/2025 Coll. Most of the provisions enter into force on 1 August 2025.

The draft act on accelerating the use of renewable energy sources and amending related laws was approved by the Government of the Czech Republic on 12 March 2025 by Resolution No. 154. The Ministry of Industry and Trade is currently drafting the final version of the government's draft act.

4.1.3 Financing Decarbonisation and Transition

Measures supporting decarbonisation continue to be stimulated by EU Cohesion Policy funds (Operational programmes Technology and Applications for Competitiveness, Just Transformation, Transport, Environment, Integrated Regional Operational Programme), the National Recovery Plan and the Modernisation Fund. For 2025, there is also a new public subsidy programme to support investments in strategic sectors (Strategic Investments for a Climate Neutral Economy) such as batteries, solar panels, wind turbines, heat pumps or electrolysers, etc. The programme, which was approved by the Government in December 2024 and by the EC in March 2025, foresees public support of approximately CZK 24 billion. The programme is expected to be implemented by 2034. The programme is expected to mobilise total investments (in the form of public support and the beneficiaries' own resources) of CZK 100 billion in this timeframe.

4.1.4 Education, Science, Research and Development and Consultancy

Two public competitions were announced last year under the THÉTA 2 programme of the Technology Agency of the Czech Republic, which supports research and innovation in the energy sector. The first one supported more than 80 projects, while in the second the applications submitted are being evaluated. The second phase of the Environment for Life programme has been launched for 2024–2033. The programme aims to improve public administration in environmental protection, climate and sustainable development. Finally, for the international call EnerDigit Call 2023 (ERA-NET cofund), two projects dealing with a data exchange model for smart energy and the fusion of real-time information from data sources for energy management in emerging electricity networks were successful.

In November 2024, the Ministry of Industry and Trade carried out an assessment of the qualification, accreditation and certification schemes for energy efficiency professions in accordance with the requirements of the Energy Efficiency Directive. The assessment is primarily aimed at evaluating the existing schemes in terms of service levels and equal treatment of all persons in accordance with the principle of non-discrimination.

Energy advice and information centres should soon be transformed into points of single contact. In December 2024, the first of these, the so-called comprehensive EKIS, was established as part of the pilot project in Component 7.3 of the National Recovery Plan (MIT, 2024), and another one should be established in 2025. Their purpose is to provide comprehensive free expert and independent consulting and advisory services for households, businesses and public organisations, while guiding clients through the entire renovation process.

4.2 Social Systems

In the area of social systems, more than half of the measures set out in the FSP have already been completed. A delay has been recorded in only one case.

4.2.1 Pension System

Among the measures aimed at ensuring the long-term sustainability of the pension system, the limitation of extraordinary pension indexation (effective from June 2023), as well as the first phase of the pension reform – comprising adjustments to early retirement pensions and to the indexation formula with regard to the real wage growth component – had already been implemented at the time of the FSP's approval.

The second phase of the **pension reform** was approved at the end of 2024 and promulgated on 18 December 2024 as Act No. 417/2024 Coll. The reform was adopted in the form presented in the FSP, with the addition that, based on a political agreement, the category of demanding occupations was specified as Risk Group 4 (approximately 13,000 workers).

The impacts of the adopted reform were presented to the Working Group on Population Ageing and Sustainability of the EU Economic Policy Committee on 24 March 2025. The projected impacts of the reform are summarised in Table 4.1.

Table 4.1: Long-term Impact of Reform Measures
% of GDP per year

	balance
Raising the retirement age	0.8
Changes to the pension benefit calculation	0.8
Abolition of late retirement bonuses and abolition of contribution payments	0.1
Reduction of penalisation of early retirement pensions if the insurance period is at least 45 years	-0.1
Increase in the minimum earnings-related component	-0.1
Replacement of the child care allowance by a notional assessment base	0.0
Introduction of the shared assessment base	0.0
Reducing the retirement age of people in demanding occupations	0.0
Total impact (+ increase in balance)	**1.5**

Source: MF CR calculations.

4.2.2 Other Social Benefit Schemes

Measures taken to **support the participation rate** include **reducing parental leave** to a maximum of three years (while increasing the total amount by CZK 50,000, or CZK 75,000 for multiple children, Act No. 407/2023 Coll.) and providing **discounts on social security contributions for selected groups of individuals** (Act No. 216/2022 Coll.). This includes, for example, individuals over 55 years of age, caregivers, etc., provided they have part-time employment contracts. An exception is made for individuals under 21 years of age, for whom the type of employment contract is not assessed. Both of these measures were already implemented at the time the FSP was approved.

The reform of social benefits (Senate Document No. 86) was approved at the third reading in the Chamber of Deputies on 26 March 2025. The new law is expected to come into force on 1 October 2025. The new system is better targeted to assist with living and housing costs, makes eligibility for the benefit conditional upon employment activity and proper childcare, and removes so-called "tipping points," where even a small increase in income could result in a loss of support. It is designed in line with progress in digitisation, which will enable the automation of benefit administration and the use of the state's data registry. The four existing state social assistance benefits (child benefit, housing benefit) and material hardship assistance (subsistence allowance and housing supplement) will be replaced by one unified state social assistance benefit. Instead of submitting four separate applications, a household will submit only one, which can also be processed online.

The system will take into account several factors, such as participation in the labour market (the so-called work bonus), a means test (an overview of assets currently owned), and a check on children's school attendance.

4.2.3 Healthcare and Social Health Services

Effective in 2024**, automatic indexation of state payments for persons insured by the state** was introduced, thereby increasing the predictability and transparency of this significant source of healthcare financing. Several important measures to improve efficiency in the healthcare sector have been completed. **The CZ-DRG system has been fully implemented**: currently, approximately 50% of acute inpatient care is financed primarily under this system, and over 18% of care is reimbursed using a fully converged central base rate. Support for informal carers is also a key priority, as already established by the amendment to the Social Services Act effective from 1 July 2024. Progress is also being made in restructuring the stock of acute inpatient beds, which is gradually being transformed into follow-up and long-term inpatient care. This process is supported by Act No. 38/2025 Coll., which, with effect from 1 March 2025, introduces so-called **social-health inpatient care**, where a higher degree of nursing care and the involvement of medical staff with various qualifications is expected. The Act also introduces so-called **social-health services**, which require the coordinated provision of social services and nursing care for persons who need both components of care. These services may be delivered either by a single provider or through contractual coordination. In addition to residential care homes, this coordination is now also possible in day service centres, day-care centres, weekly care centres, and mental health centres. This reform is expected to generate annual savings of CZK 0.2 billion in the healthcare system. Already at the time of the approval of the FSP, Decree No. 199/2024 Coll. had entered into force, **strengthening the role of primary care**. As of July 2024, general practitioners and paediatricians are authorised to prescribe medicines with a prescription limitation ("L"), which previously required written delegation from outpatient specialists. This improves access to healthcare services.

Progress is also being made in the **digitisation and computerisation of the healthcare system**, which contributes to greater efficiency. A draft amendment to the Act on the Digitisation of Healthcare (Parliamentary Document No. 833), which will enable the further development of the Electronic Health Card, is currently in its third reading in the Chamber of Deputies. Among other features, the amendment introduces a new service called eRequest – an online request from one healthcare provider to another for a specific procedure (e.g. laboratory test, X-ray, CT scan). It also introduces a shared health record, which is a limited set of information on the patient's health status (including critical health data and the results of preventive and screening examinations). This data will be accessible only to the patient and to healthcare providers and professionals delivering care to the patient.

Progress has also been made in strengthening the resilience of the healthcare system through digitalisation tools. With the adoption of Act No. 240/2024 Coll., effective from 1 October 2024, so-called **telemedicine healthcare services** and the basic framework for their use by healthcare providers have been defined. Subject to legal conditions, these services may also be delivered outside of healthcare facilities. As part of efforts to enhance healthcare system resilience, the project "Comprehensive Information Facility for **Improving the Quality of** Cancer **Screening Programmes**" is being implemented. By the end of June 2026, the project aims to maximise the efficiency of cancer screening programmes through the newly established PREV-IS information system. The system includes the National Registry of Screening and Preventive Examinations, the Shared Health Record, and the Central Booking System for Screening Examinations. The coordination and management of these programmes will fall under the responsibility of the National Screening Centre. Support for the development of highly specialised haemato-oncology and oncological care continues. The construction of the Cancer Prevention Centre and related infrastructure for innovative and supportive care at the Masaryk Cancer Institute is expected to be completed in early 2026, with total construction costs of approximately CZK 1 billion, CZK 0.8 billion of which is financed through the Recovery and Resilience Facility. The construction of the Motol Oncology Centre is also scheduled for completion in 2026, with planned investment expenditure of CZK 4.5 billion, CZK 3.7 billion of which is financed through the Recovery and Resilience Facility. In the same year, the highly specialised Centre for Cardiovascular and Transplantation Medicine is also expected to be completed, with total investment costs of CZK 2.4 billion.

In the area of **ensuring personnel capacity in the healthcare sector**, an electronic system for optimising the training of healthcare professionals is expected to be completed by the end of 2025. **The development of simulation centres** for healthcare staff is also underway, with the Intensive Care Simulation Centre at the Motol University Hospital scheduled for completion by the end of this year. This project is also financed by the Recovery and Resilience Facility, with a contribution of CZK 0.6 billion.

4.3 Education, Labour Market and Housing Support

Supporting parents of young children, especially mothers, **to enter the labour market** is one of the key areas of education and labour market measures. As part of the National Recovery Plan, nearly **400 children's groups with a capacity of over 7,000 new places** have been planned. An amendment to the Children's Groups Act (Act No. 84/2025 Coll.) was also approved, introducing the so-called **neighbourhood children's group**, which allows for the care of up to four children in a home environment. A large part of this amendment will come into force on 1 May 2025. At the same time, **the project on Supporting and improving the quality of** care **services** and reconciliation of work and family life and the **Equal pay project** are being implemented. These projects contribute to increasing the employment of women with children and reducing the pay inequality between men and women.

In the field of education, the implementation of recommendations continues in accordance with **the Strategy for Education Policy of the Czech Republic up to 2030+**. The modernisation of school education programmes to reflect technological progress and new labour market requirements has begun. As regards universities, institutional funding for teaching and education in universities increased by CZK 4 billion to reach CZK 34.9 billion in 2025. Universities in regions with a lower share of tertiary education received increased funding, and the Ministry of Education, Youth and Sports aims to increase the number of students at universities in these regions by 7%.

Programmes to support teachers' professional development are also being developed. The DigCompEdu project is underway to develop teachers' digital competences according to the European framework. This project includes free training courses for teachers and support in areas such as media education, financial literacy, cyber security and digital pedagogical leadership. This project will run until January 2026. The Teacher Graduate Competence Framework is evaluated annually, ensuring that it adequately prepares teachers for their teaching practice.

Support for **lifelong learning** continues, which is strengthened through projects to develop a unified framework for issuing micro-certificates and the creation of a Database of Retraining and Further Education Courses. These projects primarily aim to increase the participation of people in further education. By early March 2025, over 101 thousand course applications had been submitted. Of this number, nearly 46 thousand persons have already successfully completed their training. Simultaneously with the launch of the Database, a pilot testing of a new active employment policy tool – the Allowance for the payment of a digital training course – has started. More than 71 thousand people have expressed interest in completing the digital training course, and more than 36 thousand people have already successfully completed the course. At the same time, a network of regional training centres is being established to promote participation in further education through the acquisition of technical competences and digital skills.

In the area of **the labour market**, the important aim is to reduce the socio-economic impact of decarbonisation of coal regions. Therefore, retraining programmes are implemented to reduce the number of long-term unemployed people affected by decarbonisation and economic transition.

Another new tool of active employment policy – the **integration workplace** – is also being pilot tested. Support under this instrument is aimed at the permanent integration of people with cumulative social disadvantages into the labour market. The planned number of supported persons for 2025 is 486, with a territorial extension of additional 21 locations. There has also been a **reform of public works**, targeting small municipalities with high rates of social exclusion. The aim is to increase the efficiency of public works and to promote the integration of disadvantaged people into the labour market.

The Act on Integrative Social Enterprise (Act No. 468/2024 Coll.) supporting the integration of persons with specific needs in the labour market has been approved and implemented. It is expected that in the period 2026–2030 up to 10 thousand persons with specific needs will be employed, which will bring potential savings of over CZK 1 billion to public budgets.

As of 1 January 2025, **an amendment to the Employment Act** (Act No. 470/2024 Coll.) in the area of support for the employment of persons with disabilities in the sheltered labour market is effective. Measures in this area include strengthening labour market flexibility through the modernisation of the Labour Code. A draft **amendment to the Labour Code** to increase the flexibility of labour relations is in the legislative process and should come into force on 1 June 2025 (except for amendments to the Employment Act, which will not come into force until 1 January 2026). The amendment, which has been approved by the Senate and delivered to the President of the Republic for signature, will bring an extended probationary period, the start of the notice period already from the date of submission (delivering) of the notice or a change in the support for the unemployed.

The Housing Support Draft Act will be considered by the Chamber of Deputies in its third reading in April 2025 (Chamber of Deputies Print No. 729 and further Chamber of Deputies Print No. 730). Affordable housing support was strengthened in 2024 mainly due to funding from the National Recovery Plan. In April 2025, the National Development Bank will launch a call for mezzanine loans for affordable rental housing with the allocation of CZK 2.5 billion. Changes to social housing supported by the Integrated Regional Operational Programme are also planned for 2025, which should make the use of support more attractive. There has also been an expansion of housing modernization options leading to increased efficiency for lower income earners through the New Green Savings Light programme.

4.4 Modern Public Administration and Digitalisation

Changes are being made to **modernise public administration to increase efficiency and transparency**.

The reform of the judiciary has been completed with the aim of increasing transparency in the area of courts and judges. The latest amendment to Act No. 7/2002 Coll., on Disciplinary Proceedings Concerning Judges, State Prosecutors and Certificated Bailiffs, is effective from January 1, 2025. The digitization of justice is also underway, increasing the resilience of the national justice system and modernising judicial processes. A Justice Portal has been launched to provide citizens with digital access to key legal services.

The approval of **the Act on the Regulation of Lobbying**, which establishes a register of lobbyists and sets out sanctions for non-compliance, is currently in the legislative process (Chamber of Deputies Print No. 649). A methodology for measuring corruption in the Czech Republic has also been developed and published. Its aim was to enable a repeatable and effective measurement of direct and indirect experience of corruption in the Czech Republic.

The promotion of **eGovernment** includes simplification of communication between citizens and the state administration through electronic services. In the area of digital services for end-users, a single digital gateway has been introduced and new information systems have been completed. In the context of building and developing public administration information systems, the Czech Point 2.0 system was established and the ePassport system was successfully modernised. By the end of 2025, other public administration systems are to be launched or upgraded, such as the Medical Assessment Service, the Judicial Anonymiser and the Decision Database, and the Centralisation of Self-Employed Persons, among others.

In the area of **increasing efficiency, pro-client orientation and the use of the principles of informed decision-making in public administration**, intensive work is being carried out on the development and implementation of the Electronic Tool for Data Collection in Public Administration, while front-office officials are gradually being trained in the principles of pro-client orientation. On 18 February 2025, **the Act on the National Development Bank** (Act No. 34/2025 Coll.) was published in the Collection of Laws. In 2025, the integration of the Czech Export Bank and the National Development Bank is expected to take place. From January 1, 2024, a new form of cooperation between municipalities within the framework of the **Community of Municipalities Institute** is possible. It brings an institutionalised form of cooperation between municipalities, greater efficiency and coordination of public services, allows for the establishment of a shared official function and has many other advantages.

Activities to strengthen the participatory aspects of governance continue in 2025. At the end of 2024, the Government Council for Non-Governmental Non-Profit Organizations approved the Methodology for Participation of Non-Governmental Non-Profit Organisations in Consultative and Working Bodies and in the Development of State Administration Documents, which had previously been successfully pilot tested in the environment of 6 ministries. Subsequently, in 2025, trainings courses will be prepared and implemented for central state administration bodies aimed at long-term support of the Methodology and further development of cooperation between public administration and other actors (especially civil society organisations). The principle of partnership in the implementation of EU funds in the Czech Republic is being developed and better methodologically anchored. Intensive cooperation with international organisations and EU Member States is underway to share experiences and build capacity in the field of participatory governance. Cooperation with the OECD in particular is significant.

In relation to reducing resortism and strengthening strategic management capacity, a limited number of strategies were analysed in terms of content coherence with other documents. **Discussions are currently underway to quantify the costs of these strategies and to formulate desired changes in strategic work, including ways to link them to budgeting**.

The development of **digitisation in healthcare sector** includes the introduction of new central eHealth services, such as **electronic requests**, **shared health records** and **tools for more efficient processing of medical data**. For more information on the digitisation of healthcare, see section 4.2.3.

The expansion of **high-speed networks and the promoting 5G** on major rail corridors are among the priority investments. There has been a slight delay in the implementation of projects to improve mobile signal coverage in investment-intensive rural areas. In general, however, the aim is to cover as many so-called white spots as possible with a signal. The Action Plan 3.0 for the implementation of certain measures to support the planning and construction of **electronic communications** networks is going through an inter-departmental comment procedure. The Digital Economy and Society Concept is regularly evaluated and updated. The latest version for 2024 is awaiting consideration by the Government. Similarly, the National Strategy for Artificial Intelligence 2030 approved last year is expected to be complemented, after its approval by the Government, by an Action Plan that will be updated annually to reflect the rapid development of this technology.

4.4.1 Research and Innovation

A **draft of a new Act on Research, Development, Innovation and Knowledge Transfer** has been prepared in this area, which brings fundamental changes to the research and innovation system in the Czech Republic. This law aims at strengthening the innovation environment and greater flexibility in the provision of targeted support. It also focuses on promoting knowledge transfer and introduces a systematic evaluation of targeted support programmes, including an assessment of their impact. The draft passed its first reading in the Chamber of Deputies on 30 January 2025 (Chamber of Deputies Document No. 885).

As part of **strengthening the competitiveness of small and medium-sized enterprises**, the Expansion Programme is expected to be launched during the spring, with the aim of facilitating access to soft loans for start-ups and developing enterprises in this category to finance their business projects for the start-up or further development of their business.

In the **KAPPA** programme for the support of **applied research**, all international cooperation projects with a total amount of CZK 830 million have been completed. The projects focused on a wide range of fields, including the introduction of more sustainable technologies, improving drinking water quality or innovative treatments. The programme contributed significantly to strengthening international cooperation and knowledge transfer between Czech and foreign research institutions.

References

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Act No. 325/2021 Coll., on the Electronicisation of Health Care, as amended.

Act No. 216/2022 Coll., amending Act No. 589/1992 Coll., on Social Security Contributions and Contributions to State Employment Policy, as amended, and Other Related Acts.

Act No. 260/2022 Coll., amending Act No. 592/1992 Coll., on Public Health Insurance Premiums, as amended, and Other Related Acts.

Act No. 349/2023 Coll., amending Certain Acts in Connection with the Consolidation of Public Budgets.

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Act No. 240/2024 Coll., amending Act No. 372/2011 Coll., on Health Services and Conditions of Their Provision (Health Services Act), as amended, and Other Related Acts.

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Glossary

Accrual methodology means that economic transactions are recorded at the time an economic value is created, transformed or cancelled or when receivables and liabilities increase or decrease, regardless of when the transaction will be paid (unlike the cash

Capital transfers include acquisition or loss of an asset without equivalent consideration. They may be made in cash or in kind. **Capital transfer in cash** is defined as cash transfer without expected consideration from the unit which received the transfer. **Capital transfer in kind** is based on the transfer of ownership of an asset (other than inventory and cash) or decommitment by a creditor for which no consideration, assumption of debt, etc. was received.

Consumer price index is one of the indexes measuring the price level. It is constructed on the basis of regular monitoring of the prices of selected goods and services (so-called representatives) in the consumption basket of households. Each representative has a certain weight. The consumption basket is divided into 12 categories (e.g. food and non-alcoholic beverages; alcoholic beverages, tobacco; clothing and footwear; housing, water, electricity and fuel; etc.). **Harmonised index of consumer prices** is calculated in EU countries according to uniform and legally binding procedures, which (unlike national indexes) allows for comparability of this indicator among countries.

Correction period shall be the period during which the fiscal adjustment takes place in the Member State, basically a period of four years or, in the case of an extension, a period of four years plus an additional period of not more than three years.

Country-specific recommendations are guidelines issued annually by the Council of the EU to individual Member States on economic, budgetary, employment and structural policies in accordance with Articles 121 and 148 of the Treaty on the Functioning of the EU.

Cyclically adjusted balance of the general government sector is used to identify the fiscal policy stance because it does not include the impact of those parts of revenues and expenditures which are generated by the position of the economy in the business cycle.

Discretionary measures represent direct interventions of executive or legislative authorities in general government revenue and expenditure.

Effective guarantees represent the actual exposure of the general government sector to guarantees issued (relevant if the guarantee programme has an overall limit on the performance of individually guaranteed loans).

The **expenditure rule of the national fiscal framework** serves as the basis for the preparation of the draft of the state budget and the budgets of state funds. The rule derives the maximum amount of government sector expenditure from the structural part of the government sector revenue increased by 1% of GDP. This increase represents the established medium-term budgetary objective of the Czech Republic. The rule is supplemented by an automatic correction mechanism reflecting in retrospective the gap between the actual level of expenditure and the expenditure prescribed by the rule, and is accompanied by precisely defined escape clauses under Act No. 23/2017 Coll., on fiscal responsibility rules.

Fiscal effort is a year-on-year change in the structural balance indicating expansive of restrictive setting of the fiscal policy in a given year.

The **general government sector** is defined by internationally harmonised rules of the EU. In the Czech Republic, it includes, in the ESA 2010 methodology, three main subsectors: central government, local government and social security funds.

Government final consumption expenditure includes government payments which are subsequently used for consumption of individuals in the household sector (mainly reimbursement of health care by health insurance companies for services provided by medical facilities) or are consumed by the entire society (such as expenditure on army, police, judiciary, state administration, etc.). General government services, provided for consumption to the entire society, are usually valued at the level of own costs for a given service because they do not pass through a market which would value them. For the above reasons, consumption consists mainly of intermediate consumption (i.e. goods and services, excluding fixed assets consumed in the production of other goods or services), compensation to employees (wages and salaries including the part of social security contributions paid by employers), social transfers in kind to households (in particular payments by health facilities outside the general government sector) or consumption of the fixed capital. The value calculated is not the entire value of these transactions but only the value associated with the production valued at own costs. The costs associated with the production of activities which pass a market fully or partly and for which the general government sector receives payment are excluded from its consumption.

Gross domestic product (GDP) is the monetary expression of the total value of goods and services newly created in a given period in a given territory. **Real GDP** is the gross domestic product, expressed in the prices of the reference year. This transformation enables, in analysing GDP (or other variables), to eliminate the impact of price changes over time and to focus only on the changes in physical volume. **Gross value added** represents the difference between the value of production and intermediate consumption (production consumed in the production of other goods or services).

Gross fixed capital formation represents the investment activities of units. Fixed capital is represented just by assets used in production for more than one year. It also includes for example military equipment, expenditure on research and development, etc.

Inflation is a sustained growth in the general price level, i.e., internal currency depreciation. The price level is measured using price indices, such as the consumer price index or the harmonised index of consumer prices. The most commonly mentioned **year-on-year inflation rate** is the relative change in the consumer price index compared to the same month of the previous year. The **average inflation rate** is the relative change in the average of the consumer price index in the last 12 months compared to the average of the consumer price index in the previous 12 months. Inflation rates are expressed as a percentage. By **administrative measures on consumer prices** are meant state measures that directly affect the price level. They include the effect of changes in indirect taxes (value-added tax, excise and energy taxes) and regulated prices (e.g. electricity, gas, heat, water and sewerage, public urban transport).

Long-term interest rates are measured on the basis of yields of long-term government bonds or comparable securities until maturity in percent per year. Bonds with residual maturity ranging from 8 to 12 years (the use of these limits is fully based on the conditions of the Czech government bond market, which were set based on the periodicity of Czech government bond issues) are classified as representative. From this set, a combination of bonds whose average residual maturity is closest to the 10-year limit is then generated.

Net expenditure refers to public expenditure net of interest expenditure, discretionary revenue measures, expenditure on EU programmes that are fully offset by revenue from EU funds, but also by the national share of their financing, and excludes the cyclical component of expenditure on unemployment benefits and one-off and other temporary measures.

One-off and other temporary measures are revenue or expenditure measures that only have a temporary impact on the general government balance and often stem from events outside the direct control of executive or legislative authorities (e.g. flood relief expenditure).

Output gap is the difference between real and potential output measured in percent of potential output. It serves to identify the position of the economy in the cycle.

Potential output is the level of economic output in the "full" utilisation of available resources. Full utilisation of resources is meant here rather as optimal and balanced, which does not lead to pressures such as changes in the inflation dynamics, etc.

The **reference trajectory** of net expenditure provided by the EC to Member States that exceed the government deficit and/or government debt thresholds is intended to allow these countries to adjust their fiscal policy settings so that public debt is on a credible downward path by the end of the adjustment period or remains at a prudent level, even in adverse scenarios. Furthermore, it should ensure that the general government deficit is brought below and remains below the 3% of GDP reference value.

Short-term interest rate is in the Czech Republic represented by PRIBOR 3M, as the reference value for the interest rate indicating the average rate, for which banks can borrow on the market for interbank deposits with a maturity of three months.

Social benefits in cash are social benefits (e.g., pension insurance benefits, state social security benefits) paid to households from the general government sector.

Structural balance is the difference between cyclically adjusted balance, and one-off and temporary measures (for both components see above). **Primary structural balance** is further adjusted for interest payments.

The **technical information** provided by the EC upon request to a Member State complying with a general government deficit of no more than 3% of GDP and a general government debt of no more than 60% of GDP provides the value of the primary structural balance in the target year of the fiscal-structural plan recommended to keep the deficit and debt values within these limits over the plan horizon.

Unemployment (Labour Force Sample Survey) corresponds to the number of persons who simultaneously met three conditions in the reference period (reference week): they were not employed, actively sought work and were ready to take up work within 14 days at the latest. **Unemployment rate** expresses the ratio of the number of the unemployed and the labour force. A person unemployed for more than 12 months is considered **long-term unemployed**.

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