Czech Republic

Fiscal-Structural Plan

for 2025–2028 period

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

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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 Fiscal and Structural Plan of the Czech Republic for the period 2025 až 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
GDP .... gross domestic product
MF CR .... Ministry of Finance of the Czech Republic
OP .... Operational Programme
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 22 August 2024 release and fiscal data and policies to the 7 October 2024.

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 Czech Republic submits its first medium-term Fiscal-structural plan, replacing the existing Convergence Programme and National Reform Programme. The plan is guided by Regulation (EU) 2024/1263 of the European Parliament and of the Council on effective economic policy coordination and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It thus takes over the role of coordinating Member States' economic policies within the European Union and contributes to multilateral surveillance under the Treaty on the Functioning of the European Union.

The Fiscal-structural plan of the Czech Republic is prepared for the period 2025–2028. It combines fiscal policy with structural reforms and investment. The consistency of the two reinforces confidence in sustainable public finances based not only on financial indicators but also on sustainable and inclusive economic growth. The original fiscal rules of the European Union, enshrined in the Maastricht Treaty in 1992 and later defined by the Stability and Growth Pact, have been repeatedly tested by various crises and have faced problems related to their practical enforceability. Over time, the design of the rules became so complex that it no longer provided transparent guidance on fiscal responsibility and correction. The new regulation on the preventive arm puts the sustainability of public debt over the medium term at the forefront. The means to achieve the sustainability are public expenditures that are largely under the direct control of the public administration while allowing for countercyclical macroeconomic stabilisation.

Although the Czech Republic's public debt has increased significantly since 2019, it is still below 60% of GDP. On the other hand, the public deficit has always been above 3% of GDP since the same year. However, thanks to the consolidation that has begun, we expect the deficit to fall to 2.8% of GDP in 2024, including expenditure related to the recovery from the September floods. This has led the European Commission not to open an excessive deficit procedure against the Czech Republic, which also moderates the requirements for the Fiscal-structural plan, consolidation and reforms. However, in addition to the persistence of a deficit of over 2% of GDP, especially taking into account the business cycle and one-off measures, the Czech Republic will face other challenges in the medium and long term. These include the transition to a climate-neutral and digital economy, ensuring energy security, promoting open strategic autonomy, addressing demographic change, strengthening economic and social resilience and convergence.

To still meet the Treaty on the Functioning of the European Union criteria over the next 14 years, the new European fiscal rules require a general government surplus of at least 0.4% of GDP in 2028, taking into account the impact of the economic cycle, one-off or transitional measures and excluding interest expenditure.

The Czech Republic's Fiscal-structural plan is based on the Ministry of Finance's August 2024 macroeconomic forecast, which was unanimously assessed as realistic by the Committee on Budgetary Forecasts on 29 August 2024. The fiscal basis for the plan is the current version of the Fiscal Responsibility Rules Act. By respecting the maximum deficits specified in the Fiscal Responsibility Rules Act, we estimate that, given the economic developments, the balance at the end of the plan horizon will be exactly as required by the European Commission.

In its structural part, the plan responds to the recommendations issued by the Council of the European Union on economic, budgetary, employment and structural policies under Articles 121 and 148 of the Treaty on the Functioning of the European Union – in particular, to those where the Czech Republic has not made sufficient progress. At the same time, the roadmap addresses the priorities, common policies and objectives of the European Union. It is therefore divided into areas dedicated to decarbonisation, social systems, education, the labour market and housing support, and last but not least, modern public administration and digitalisation. Individual measures, reforms and investments also provide information on compliance with the commitments contained in the National Recovery and Resilience Plan and the concluded Partnership Agreement under the Multiannual Financial Framework.

As part of the preparation, the plan was consulted with non-governmental actors, and the form of participation was similar to the previous National Reform Programmes and Convergence Programmes. A proper interministerial comment procedure involving the economic and social partners took place. On 17 September 2024, a roundtable discussion on the draft plan was held, to which representatives of economic and social partners, the non-profit sector, representatives of regions, as well as both chambers of the Parliament and other relevant institutions, including the Czech Fiscal Council, were invited. A working version of the plan was also provided to the government advisory bodies representing, inter alia, non-governmental actors: the Government Council for Sustainable Development and the European Union Committee of the Government Council for Non-Governmental Organisations. The plan was also discussed on 8 October 2024 at the Committee on Economy, Agriculture and Transport and on the same day at the Committee on European Union Affairs of the Senate of the Parliament of the Czech Republic. In addition to the roundtable, representatives of the economic and social partners were able to present their views at the Working Party of the Economic and Social Agreement Council for the European Union on 10 October 2024.

1 Fiscal Commitment and Main Indicators

The reform of the fiscal framework in the EU has brought about a number of important changes in the assessment of budgetary policies in Member States. Among the most important is undoubtedly the adjustment of fiscal rules. The main indicator monitored for the purpose of sustainable public debt ratios is the so-called net expenditure. This is public expenditure financed from national sources, which excludes, in addition to expenditure on EU programmes including national shares of financing, cyclical fluctuations in unemployment benefits, discretionary revenue measures and interest expenditure. In addition, one-off measures are taken into account.

The expenditure trajectory thus set becomes binding for countries that exceed the 3% of GDP threshold for the general government deficit and/or 60% of GDP for general government debt. The reference trajectory should ensure that public debt is on a credible downward path or remains at a prudent level until the end of the adjustment period, even in adverse scenarios. It should also ensure that the general government deficit is brought below and remains below the 3% of GDP reference value, taking into account the fact that Member States may face additional costs, such as those associated with demographic ageing.

For countries that meet both debt and deficit indicators, the EC will issue a "technical information note" upon request from a Member State. This contains the value of the primary structural balance that the Member State is required to have at the end of the medium-term fiscal-structural plan horizon (in the current case, 2028) and that is sufficient, taking into account the costs of population ageing, to keep the deficit below 3% of GDP and/or the debt below 60% of GDP over the next 14 years (i.e. in this plan until 2038). The specific expenditure trajectory is then to some extent chosen by the countries themselves on the basis of the necessary fiscal effort, potential output growth and the GDP deflator.

The Czech Republic has received a requirement in the technical information to achieve a primary structural surplus of 0.4% of GDP. The setting of national legislation is in line with this requirement. The Fiscal Responsibility Rules Act explicitly sets maximum structural deficits, i.e. including interest expenditure, for the years 2024 to 2027. In 2028, according to the law, a structural deficit of no more than 1% of GDP should be used to set expenditure frameworks. The initial data and assumptions are then based on the August 2024 macroeconomic forecast of the MF CR and the notified data sent to Eurostat at the end of September 2024. These data show that if the structural deficit for 2028 were set at 1% of GDP, the primary structural balance would be 0.4% of GDP.

The current forecast of the MF CR assumes that sufficient discretionary measures have been adopted for the period of 2024 to 2026 to reduce structural deficits below the limit set by the legislation (and thus also by the plan). The adoption of Act No. 349/2023 Coll. amending certain acts in connection with the consolidation of public budgets has contributed significantly to this. The general government deficit is expected to fall below the 3% of GDP threshold already in 2024 and to continue declining thereafter, in line with the recommendation of the EU Council issued this year. Nevertheless, for the years 2027 to 2028, further measures will be needed to reduce deficits below 1.25% and 1% of GDP in structural terms. However, the adoption of the appropriate measures should not take place until the next parliamentary term.

Table 1.1: Fiscal Commitment
change in %

		2024	2025	2026	2027	2028
Net expenditure	*growth rate*	**5.3**	**4.5**	**2.5**	**2.6**	**2.9**
	cumulative growth rate	5.3	10.1	12.9	15.8	19.2

Source: CZSO (2024b). MF CR calculations and forecast.

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

		2023	2024	2025	2026	2027	2028
		actual	*forecast*	*plan*			
Potential GDP	*growth rate*	1.7	2.0	1.4	1.5	1.8	1.5
GDP deflator	*growth rate*	8.2	3.4	2.7	2.2	2.1	2.0
General government balance	*% of GDP*	-3.8	-2.8	-2.5	-1.7	-0.9	-0.5
Structural balance	*% of GDP*	-2.5	-2.1	-2.3	-1.8	-1.3	-1.0
Structural primary balance	*% of GDP*	-1.3	-0.7	-0.9	-0.4	0.1	0.4
Gross debt	*% of GDP*	42.4	44.1	45.1	45.3	44.7	44.2
Change in gross debt	*pp of GDP*	-0.1	1.6	1.0	0.2	-0.6	-0.5

Source: CZSO (2024a, 2024b), MF CR (2024a). MF CR calculations and forecast.

2 Macroeconomic Assumptions

The macroeconomic forecast of the MF CR, which constitutes the underlying framework for the Fiscal-Structural Plan, was assessed by the independent Committee on Budgetary Forecasts on 29 August 2024. The Committee unanimously found the forecast to be realistic in its assessment (CBF, 2024). It found a high degree of consistency with the MF CR's forecast for overall GDP and other real variables in 2025. Some Committee members had a divergent view on the structure of growth. In their view, growth in private consumption and fixed capital formation may be lower, which should be offset by net exports.

2.1 Global Economy and Technical Assumptions

Global economic growth was still limited in the first half of 2024 by restrictive monetary policy in a number of countries and heightened geopolitical instability. International trade was hampered by logistical problems caused by ongoing armed conflicts. The disinflation process will continue to have a positive effect, which, however, will fade as economies approach their inflation targets. Consumption and private investment will be supported by the expected interest rate cuts by the Federal Reserve and the European Central Bank. In view of these factors and the remaining risks, global economic growth is likely to slow to below 3% in 2024, but could accelerate in 2025 on the back of an expected improvement in international trade.

The **US** economy continues to grow, with GDP increasing by 3.0% year-on-year in the first half of this year. However, the unemployment rate has been rising slowly this year. It reached 4.3% in July, the highest in almost three years. Nevertheless, the labour market remains relatively tight, which, together with falling inflation, is supporting real wage growth.

We expect the US economy to grow by 2.6% in 2024, with economic activity expected to be driven by household spending on consumption supported by real wage growth. GDP growth could slow to 2.0% in 2025 due to a lower carry-over effect (the statistical contribution of the previous year's growth profile to full-year growth). Investment activity should have a positive impact on growth dynamics due to the expected easing of monetary policy.

The modest economic recovery in the **euro area** in the first half of 2024 was mainly driven by a decline in inflation, a strong labour market and the unwinding of supply chain problems. Annual inflation rose slightly to 2.6% in July, but has remained close to 2.5% for the past six months. The decline in core inflation (i.e. the rate of inflation excluding food, alcohol, tobacco and energy prices), which stood at 2.9% for the third month, also stopped. The unemployment rate has more or less stagnated at around 6.5% and remains at an all-time low.

In terms of the stimulus to the economy, fiscal policy should, on balance, start to be relatively restrictive this year, following the expiry of the general escape clause contained in the Stability and Growth Pact and the phasing out of energy support measures.

As part of a review of the implementation of monetary policy, the European Central Bank is strengthening the role of the deposit rate among the main monetary policy rates. In June, it lowered the deposit rate to 3.75% and we expect further cutting its key interest rate. The European Central Bank has also confirmed that it will reduce the size of the portfolio purchased under the pandemic emergency purchase programme in the second half of the year and will end reinvestments under this programme by the end of this year. It also continues to gradually reduce the volume of securities purchased under the asset purchase programme.

Overall, we expect euro area GDP to grow by 0.8% in 2024, supported by household consumption, which should be boosted by falling inflation, a tight labour market and rising real wages. By contrast, foreign trade could dampen growth momentum in the face of unfavourable developments in export-oriented industry. A continued recovery in household consumption and investment activity, supported by falling interest rates, should bring growth to 1.3% next year. In 2026 and 2027, the performance of the economy should be supported by external and domestic demand. However, the stimulative effect of lower interest rates may be offset by consolidation efforts in some countries.

The price of a barrel of Brent crude oil increased by 5.4% year-on-year in the first half of 2024. In the coming quarters, only a very gradual increase in oil demand can be expected in the context of persisting problems of the world economy. The Organisation of the Petroleum Exporting Countries and other coordinating countries (OPEC+) are limiting oil exports to ensure that oil prices stabilise. Consequently, they have again extended their targeted production cuts until the end of next year. In parallel, eight OPEC+ countries are voluntarily reducing production beyond this commitment. Conversely, many non-OPEC+ countries are likely to increase their production further, notably the United States. Developments in the Middle East and uncertainty about China's economic health pose particular risks to the future price of oil.

For the full year 2024, the average price of a barrel of Brent crude oil could fall by 0.7% year-on-year to

USD 82. In line with the downward trajectory of futures prices, we expect a gradual decline to USD 71 per barrel in 2027.

The Czech National Bank began a cycle of monetary policy rate cuts in December 2023, since when it has gradually reduced the **two-week repo rate** by 250 basis points in total from 7.00% to 4.50%. During this period, the inflation rate has moved back into the tolerance band around the 2% target, where it is forecast to remain at the monetary policy horizon. We therefore expect the Czech National Bank to gradually lower the two-week repo rate in the remainder of 2024 and subsequently in 2025.

The **exchange rate** of the koruna against the euro averaged CZK 25.1/EUR in the first seven months of 2024, a depreciation of 5.3% compared with the same period of the previous year. This was mainly due to the narrowing positive interest rate differential, or its expected further decrease. On the contrary, the surplus in foreign trade had a favourable effect on the koruna.

We expect the koruna to appreciate slightly against the euro from the second half of this year onwards. A slowdown in the pace of koruna interest rate cuts against the backdrop of an expected decline in interest rates abroad could have a positive effect. In the longer term, appreciation pressures should be generated in particular by the resumption of the process of economic convergence. Thus, for the whole of 2024, the exchange rate could reach CZK 25.1/EUR on average, and in 2027 the koruna could trade at CZK 24.0/EUR on average.

2.2 Economic Development of the Czech Republic

2.2.1 Economic Growth and the Demand Side

While the Czech economy grew only very slowly in the first half of this year, the recovery should be stronger in the second half of the year – given the expected growth in consumption and investment. GDP could thus grow by 1.1% for the whole of 2024. In 2025, economic output should increase by 2.7% and economic activity could grow at a similar pace in the following years.

Household consumption could increase by 2.1% this year and by 3.9% in 2025. Real household incomes should rise given the decline in inflation and persistent labour market tightness, but private consumption may be slightly dampened by the consolidation package. Households' willingness to spend should also gradually increase – the savings rate could start to decline this year, but its decline will initially be dampened by lower-income households' efforts to rebuild their financial buffers. The decline in the savings rate should stimulate household consumption more significantly only in 2025, but the savings rate should remain well above the pre-pandemic long-term average. The decline in the savings rate should also be supported by falling interest rates this year and next, although at the beginning of the forecast horizon the incentive to save will still be relatively strong given the level of interest rates. In subsequent years, household consumption growth could slow slightly to 3.1% in 2026 and 2.5% in 2027.

Government consumption growth could slow to 2.3% this year. In addition to fiscal consolidation, the transition to the new 2021–2027 Financial Perspective will also have an impact, but this will be somewhat offset by a pick-up in current spending from other EU instruments, notably the Recovery and Resilience Facility. In 2025, government consumption should reflect continued consolidation and a decline in the state budget deficit, with growth estimated at 2.2%. In the following period, momentum should gradually weaken. Government consumption expenditure could grow by 2.0% in 2026 and 1.8% in 2027.

Gross fixed capital formation is expected to fall by 0.5% in 2024 due to economic problems in euro area countries, persistent negative sentiment and lower capacity utilisation in industry. It will also be dampened by restrictive monetary policy stance. At the same time, the transition to the new financial perspective of the EU structural and investment funds is taking effect, primarily in the case of investment by the general government sector. For next year, we expect investment activity to increase by 3.6%, thanks to the economic recovery in the euro area and the growth in government spending supported by EU funding from the Recovery and Resilience Facility. The macroeconomic framework also foresees relatively strong growth rates of around 3.5% for 2026 and 2027. From 2025, investment activity will be positively influenced by onsemi's planned investment in chip production and, in addition, from 2026, it will be supported more significantly by spending related to the construction of new nuclear power plant units.

We anticipate a reduction in inventories and completion of work in progress during the course of this year. **Inventory** normalisation should continue next year, and in 2026 and 2027 inventory accumulation should be in line with the normal trend for that phase of the business cycle. The change in inventories should therefore have a negative impact on GDP growth in 2024, but a positive, albeit gradually declining, contribution is expected for the following years.

We expect **exports of goods and services** to grow by 2.7% this year. Growth dynamics will be limited by weak export markets, while export performance, which should benefit from strong motor vehicle production in the first half of this year, will be positive. In the following years, exports could grow by more than 3% per year due to the recovery of the main export markets.

The dynamism of exports and domestic demand, especially import-intensive investment, is then reflected in the pace of imports of goods and services. They could increase by 1.4% in 2024, but from 2025 onwards, import growth should pick up significantly and outpace the growth of exports. The external trade balance should therefore have a negative impact on GDP growth from next year onwards.

Nominal GDP growth is determined by developments in real economic output and the price component of GDP. This year, **GDP deflator** growth could slow to 3.4% (from 8.2% last year) given lower price dynamics across all components of domestic demand and only a slight improvement in the terms of trade, and could fall further to 2.7% in 2025, mainly due to the virtual stagnation of the terms of trade and slower growth in the household consumption deflator. In the following period, GDP deflator growth could be just above 2%, with almost unchanged foreign trade prices. This year, the terms of trade should be positively affected mainly by the year-on-year decline in mineral fuel prices, while in 2025 prices in foreign trade should more or less stabilise. As a result, the terms of trade could improve by 0.5% in 2024 and 0.1% in 2025.

2.2.2 Potential Output and Business Cycle

The Czech economy has been hovering around 2% below potential output in recent quarters, but the negative **output gap** should gradually close as a result of the economic recovery. From 2026, the economy could operate in a positive and widening output gap.

2.2.3 Prices

Annual **consumer price inflation** was below the upper boundary of the tolerance band around the Czech National Bank's inflation target in the first half of 2024. The housing sector in particular contributed to inflation, mainly due to increases in electricity prices and rents. The restaurants and hotels and alcoholic beverages, tobacco sections also contributed significantly. Conversely, food and non-alcoholic beverages reduced annual inflation, and it was mainly due to this that prices of goods as a whole rose only slightly. However, significantly elevated price dynamics were sustained in services, with the exception of imputed rent. While the non-regulated part of both electricity and gas is getting cheaper, the very strong increase in the regulated component of total electricity and gas prices at the beginning of the year is offsetting this.. The restrictive effect of monetary policy is amplified by the income effect of the fiscal consolidation package, and together they significantly moderate domestic demand inflation pressures. A slight decline in the dollar price of oil could also act in the direction of lower inflation. On the other hand, not only nominal wage growth but also the strong depreciation of the koruna against the euro and the dollar is an inflationary factor. The persistently strong growth in services prices still poses some upside risk to inflation.

In 2025, inflationary pressures will be shaped almost exclusively by market factors. The base effect of this year's cheaper commodity components of electricity and gas should counteract the expected moderate growth in prices of regulated energy components and the increase in television and radio licence fees. Increases in excise duties on alcohol and tobacco products should account for the slightly positive contribution of indirect taxes. The fall in oil prices and the renewed appreciation of the koruna against the euro and the US dollar should be anti-inflationary next year. Monetary policy will continue to moderate inflationary pressures through interest rates due to the length of transmission. Sustained higher wage growth should be an inflationary factor. Price dynamics in services could remain elevated next year, and the market component of inflation should thus rise slightly after the current anti-inflationary effect of the decline in prices of many production inputs has partially dissipated.

We expect the average inflation rate to fall significantly to 2.4% in 2024 and further to 2.3% in 2025. In 2026 and 2027, it should remain close to the Czech National Bank's 2% inflation target.

2.2.4 Labour Market

In the labour market, the lagged effects of the weak economic activity of the previous year were evident in the first half of 2024, which slightly eased the labour market tightness. War refugees from Ukraine, who have no significant problems finding employment in the Czech labour market, are contributing to a certain reduction in the imbalance between demand and supply. Nevertheless, the situation varies considerably from region to region.

Demand for labour remains strong, as evidenced by the year-on-year increase in **employment** and the high and increasing number of employed foreigners. Labour supply should be supported by an increase in the statutory retirement age, while the demographic effect of a declining share of age groups with a naturally high participation rate will have a negative effect. Employment is expected to increase by 0.3% this year and could grow moderately until 2026 thanks to the expected economic recovery. However, it could decline slightly in 2027 due to unfavourable demographic developments, but the effect of the decline in the working-age population on the labour market will be cushioned by a continued increase in the participation rate.

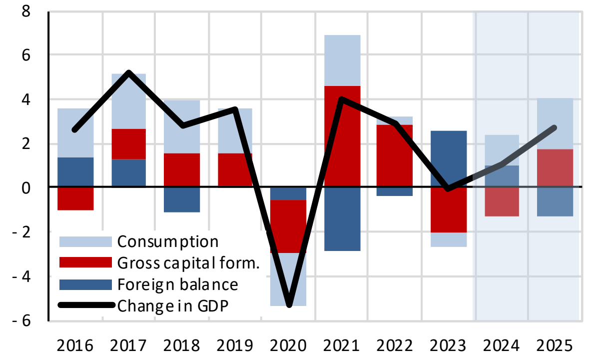
The unemployment rate (LFS methodology) remains low despite a slight year-on-year increase. On average for this year as a whole, it should rise to 2.8%, and we forecast a fall to 2.7% for 2025. In the following years, the very gradual decline in the unemployment rate should continue.

This year, the growth in nominal **wages and salaries** is positively affected by rising labour demand and limited supply. Moreover, wage demands of employees are supported by high consumer price growth and strong profitability of firms in recent years. The main driver of earnings growth in the non-market sector over the forecast horizon should be the automatic indexation of teachers' salaries, but market sectors will be the dominant contributors to the overall dynamics. Continued strong labour demand and an expected 10% increase in the minimum wage should support earnings next year. However, the end of the guaranteed wage in the private sector will weaken the impact on other wages. Some easing of labour market tightness, the forecast stagnation in profits and a significant decline in inflation this year will contribute to the slowdown in earnings growth. Wages and salaries could thus rise by 7.1% this year and 6.4% in 2025, with growth slowing to around 5% in the following years.

Nominal **wage and salary** growth this year was positively affected by growth in labour demand and limited supply. Moreover, wage demands of employees are supported by high consumer price growth and strong profitability of firms in recent years. The main driver of earnings growth in the non-market sector over the forecast horizon should be the automatic indexation of teachers' salaries, but market sectors will be the dominant contributors to the overall dynamics. Continued strong labour demand and an expected 10% increase in the minimum wage should support earnings next year. However, the end of the guaranteed wage in the private sector will weaken the impact on other wages. Some easing of labour market tightness, the forecast stagnation in profits and a significant decline in inflation this year will contribute to the slowdown in earnings growth. Wages and salaries could thus rise by 7.1% this year and 6.4% in 2025, with growth slowing to around 5% in the following years.

Graph 2.1: GDP Development

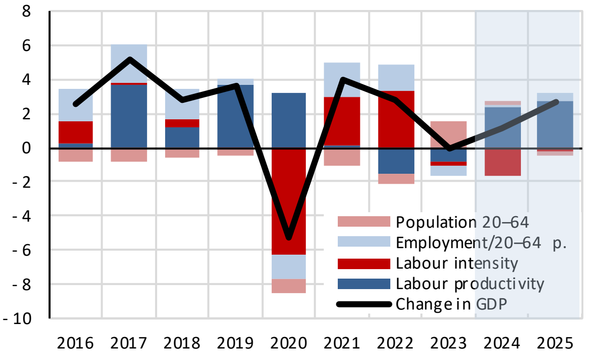
change in %, contributions in pp



Source: CZSO (2024a), MF CR (2024a). MF CR calculations and forecast.

Graph 2.2: GDP, Productivity and Labour Intensity

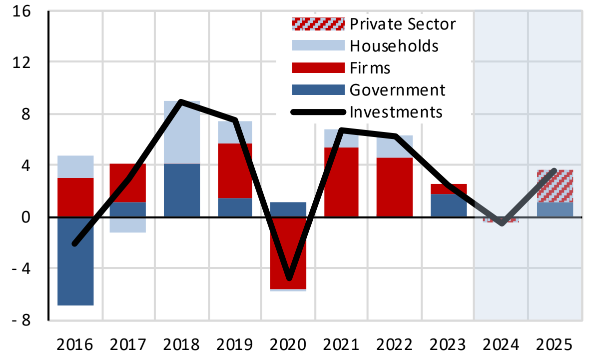
change in %, contributions in pp



Source: CZSO (2024a), MF CR (2024a). MF CR calculations and forecast.

Graph 2.3: Investment by Sector

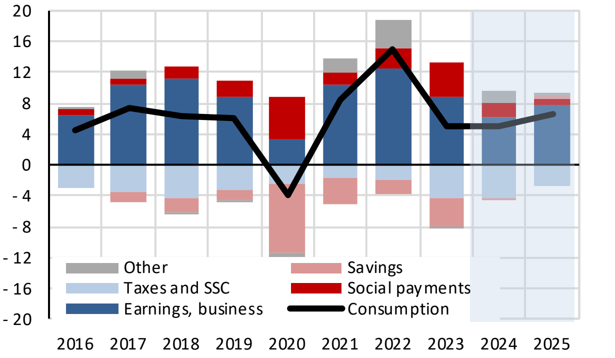
change of real gross fixed capital formation in %, contributions in pp



Source: CZSO (2024a), MF CR (2024a). MF CR calculations and forecast.

Graph 2.4: Nominal Consumption of Households

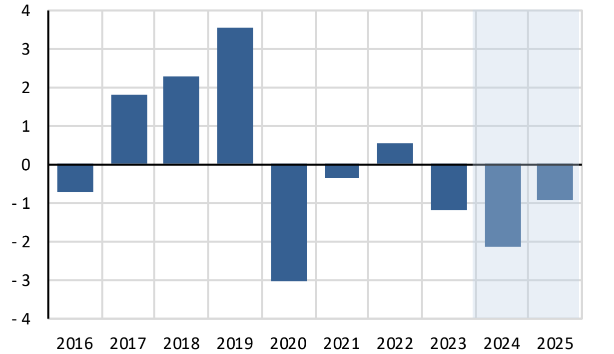
national concept, change in %, contributions in pp



Source: CZSO (2024a), MF CR (2024a). MF CR calculations and forecast.

Graph 2.5: Output Gap

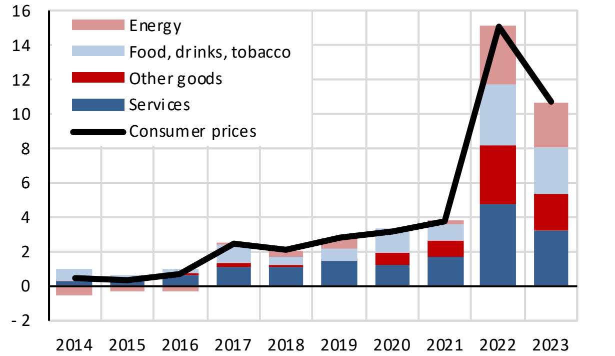
in % of potential product



Source: MF CR (2024a).

Graph 2.6: Consumer Prices in Main Divisions

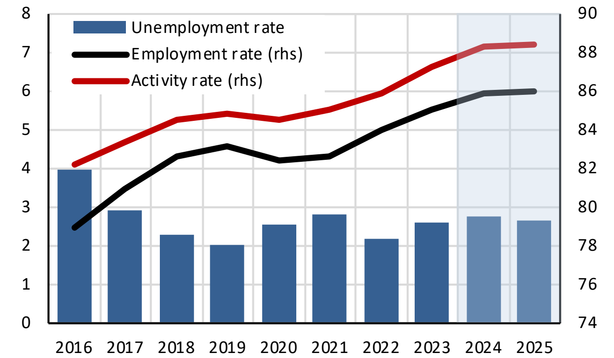
national concept, YoY change in %, contributions in pp



Source: MF CR (2024a). MF CR calculations.

Graph 2.7: Unemployment, Employment, Activity Rates

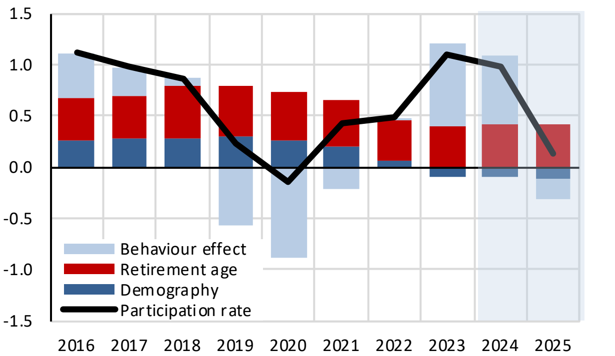
in %



Source: CZSO (2024c), MF CR (2024a). MF CR calculations and forecast.

Graph 2.8: Changes in Participation Rate

change and contributions in pp



Source: CZSO (2024c), MF CR (2024a). MF CR calculations and forecast.

Table 2.1: Macroeconomic Scenario

levels in CZK billions, change in %, contributions in pp

		2023	2023	2024	2025	2026	2027	2028
		actual	*actual*	*forecast*		*outlook*		*proj.*
		CZK bn.	*growth rate*					
GDP								
Real GDP			-0.1	1.1	2.7	2.6	2.6	2.0
GDP deflator			8.2	3.4	2.7	2.2	2.1	2.0
Nominal GDP		7 619	8.1	4.5	5.4	4.9	4.7	4.0
Components of real GDP								
Private consumption expenditure			-2.8	2.1	3.9	3.1	2.5	
Government consumption expenditure			3.5	2.3	2.2	2.0	1.8	
Gross fixed capital formation			2.5	-0.5	3.6	3.6	3.3	
Changes in inventories and net acquis. of valuables	*% of GDP*		0.7	-0.4	0.4	0.8	1.1	
Exports of goods and services			2.7	2.7	3.4	3.5	3.1	
Imports of goods and services			-0.9	1.4	5.8	4.6	3.6	
Contributions to real GDP growth								
Final domestic demand			0.0	1.3	3.3	2.8	2.4	
Changes in inventories and net acquis. of valuables			-2.7	-1.2	0.8	0.4	0.3	
External balance of goods and services			2.6	1.0	-1.3	-0.5	-0.2	
Deflators and HICP								
Private consumption deflator			8.2	3.2	2.6	2.2	2.1	
p.m. Harmonised index of consumer prices			12.0	2.6	2.3	2.1	2.0	
Government consumption deflator			5.3	3.3	3.5	2.6	2.7	
Investment deflator			3.9	2.3	2.0	1.7	1.6	
Export price deflator (goods and services)			0.2	2.2	1.2	0.5	0.3	
Import price deflator (goods and services)			-2.6	1.7	1.1	0.3	0.2	
Labour market		*level*						
Employment (thous. of persons)		5 388	1.0	0.3	0.2	0.1	-0.2	
Average annual hours worked per person employed		1 774	-0.3	-1.6	-0.2	-0.2	-0.2	
Real GDP per person employed			-1.1	0.8	2.5	2.6	2.7	
Real GDP per hour worked			-0.8	2.4	2.7	2.8	2.9	
Compensation of employees (bn. CZK)		3 265	7.7	7.1	6.4	5.2	4.7	
Compensation per employee (thous. CZK/person)		707	6.7	6.8	6.2	5.1	4.9	
Unemployment rate	*%*		2.6	2.8	2.7	2.6	2.5	
Potential GDP and contributions to potential growth								
Potential GDP			1.7	2.0	1.4	1.5	1.8	1.5
Contribution of labour			0.6	0.3	0.0	-0.1	-0.2	
Contribution of capital			1.0	1.2	0.5	0.4	0.5	
Total factor productivity			0.1	0.6	0.9	1.2	1.5	
Output gap	*% of potential*		-1.2	-2.1	-0.9	0.2	0.9	

Note: Changes in inventories and net acquisition of valuables on the sevent row express change in inventories as a per cent of GDP in current prices. Contribution of the change in inventories and net acquisition is calculated from real values. Employment and Compensations are in National Account methodology.
Source: CZSO (2024a, 2024c), Eurostat (2024), MF CR (2024a). MF CR calculations and forecast.

Table 2.2: External Assumptions

interest rate and change in %

		2023	2024	2025	2026	2027	2028
		actual	*forecast*		*outlook*		*proj.*
Short-term interest rate	*% p.a.*	7.1	5.0	3.6	3.4	3.4	3.4
Long-term interest rate	*% p.a.*	4.4	3.9	3.6	3.5	3.5	3.5
USD/EUR exchange rate	*USD/EUR*	1.1	1.1	1.1	1.1	1.1	
CZK/EUR exchange rate	*CZK/EUR*	24.0	25.1	24.9	24.4	24.0	
World real GDP (excluding EU)	*change in %*	3.5	3.1	3.8	3.6	3.4	
EU real GDP	*change in %*	0.5	0.9	1.5	1.6	1.5	
World import volumes, excluding EU	*change in %*	0.9	3.3	3.5	3.4	3.2	
Oil prices (Brent)	*USD/barrel*	82.4	81.8	75.4	72.7	70.9	

Source: CNB (2024), EIA (2024), Eurostat (2024). MF CR calculations and forecast.

3 Fiscal Outlook and Projection

The developments of recent years have been greatly affected by external shocks, including the pandemic in 2020 and 2021, as well as the war in Ukraine and the energy crisis, which are still more or less reflected in the management of public finances today. The economic and societal impacts have reached such an extent that they have required a proactive fiscal policy approach. Consequently, one-off, but also permanent expenditure measures, which have not been offset by higher revenues or lower expenditure, along with cyclical effects, have substantially increased public debt. As these crises have been overcome, the issue of the medium- and long-term sustainability of public finances is once again coming to the fore.

3.1 Current Developments and Outlook of the General Government Sector

The approach to **setting fiscal policy** is generally defined by Act No. 23/2017 Coll., onFiscal Responsibility Rules, as amended. This law, as a result of two amendments in 2020, allowed for a much larger fiscal expansion than would otherwise have been possible. For the first time ever, a **general escape clause from the Stability and Growth Pact rules** was activated for 2020 across the EU. Due to persistent strong downward risks and uncertainties, the EC subsequently extended this clause for 2021–2023.

The public finances in 2023 were affected by developments in the energy market, high inflation, and the introduction of several measures, mostly of a temporary nature, which had an overall negative effect on the general government balance. The general government balance reached −3.8% of GDP. For the next period, the government coalition prepared a set of measures under Act No. 349/2023 Coll., amending Certain Acts in Connection with the Consolidation of Public Budgets. These measures aim to ensure a tangible improvement in public finances. The deficit in 2024 is expected to reach 2.8% of GDP. The government's consolidation package adjusts both the revenue and expenditure sides, but avoids the most damaging measure by consensus during consolidations, which is cuts in investment. While the biggest impact of the package is in this year, some measures are gradual and will affect the economy in 2025 and in the outlook years.

In addition to the consolidation measures themselves, the package also includes an amendment to the Act on Fiscal Responsibility Rules. The prescribed structural deficit used to derive the expenditure frameworks for 2024 has been reduced by 1.45 percentage points to −2.75% of GDP. The deficit for these purposes will then be reduced by 0.5 percentage points per year between 2025 and 2028 until the maximum value of 1% of GDP is reached in 2028. This trajectory should be fully sufficient to achieve the targets under the reformed EU fiscal framework. The fiscal policy stance will thus be restrictive.

We estimate the structural deficit to be 2.1% of GDP in 2024, falling slightly to 2.0% of GDP in 2025. The structural balance is compatible with the derived national expenditure frameworks.

3.1.1 Expected Performance in 2024

The consolidation package prepared by the government affects the performance of public finances **in 2024**, which at the same time bears the costs of previous strong pension indexations, as well as the fulfilment of the commitment to NATO in defence spending, among other factors. This year, we expect the deficit to decline by 1.0 pp year-on-year to 2.8% of GDP, while in structural terms, the deficit is expected to decrease by 0.4 percentage point to 2.1% of GDP. The negative balance will mainly be attributable to the state budget, with health insurance companies also likely to run a slight deficit. In contrast, local governments are expected to show a positive balance again.

Total **general government revenue** is forecast to rise by 6.1%, while tax revenue, including social security contributions, should increase by 7.7%. **Value-added tax** revenue, with an estimated 2.8% growth rate, will be negatively affected by the unification of reduced tax rates to 12% and the concurrent shifting of some goods and services between rates. On the other hand, the additional revenue from the increase in **excise duties** will mitigate those changes. The annual dynamics of excise duties will be positively influenced by the base effect related to the reduced tax rate on diesel fuel until the end of July 2023 (CZK 5.6 billion) and the increase in tax rates on tobacco products and alcohol (CZK 4 billion). Tax revenues are cushioned by the reduction in the effectiveness of an ending one-off measure implemented during the energy crisis in the form of a levy on excess revenues of electricity producers. However, this effect is offset by the end of the across-the-board waiver of the renewable energy levy on households and firms at the end of 2023, with the exception of energy-intensive businesses, for which the government has allocated CZK 3.5 billion. The increase in **property tax is** expected to contribute an estimated CZK 10 billion to public budgets.

The expected growth in the volume of wages and salaries in the economy determines both the **personal income tax** (11.9%) and **social security contributions** (8.9%), which also reflect an increase in payment for state-insured persons. Both revenue items will also be positively affected by the discretionary measures in the consolidation package. In the case of **corporate income**

tax, there are mainly two conflicting factors. On the one hand, we expect a year-on-year reduction in tax revenue from windfall profits, while on the other hand, a 2-pp increase in the tax rate will have an estimated impact of around CZK 21 billion.

Among other revenues, we expect significantly lower **dividend income** from state-owned companies, as well as interest on loans granted under the Treasury liquidity management.

General government expenditure is constrained by the adopted consolidation package. We estimate that the pace of **final consumption expenditure** will slow to 7% year-on-year. Despite savings of 5% in each department's operating expenditure, **intermediate consumption** should maintain a significant growth rate driven, among other things, by spending on repairing flood-damaged assets. We also expect a slowdown in the **compensation of** government **employees**, with dynamics likely to be significantly lower than last year, especially in view of the measures approved in the consolidation package. The health and education sectors are driving the growth in the volume of salaries. **Social transfers in kind** are likely to maintain their high pace, with an estimated annual growth rate of around 12%. This is underpinned by a persistently higher level of housing benefits, but the increase should be driven mainly by health insurance spending, made possible by increases in social security contributions, payment for state-insured persons and an expected slight widening of the social security funds' deficit.

In the area of **cash social benefits**, we anticipate an increase in expenditure on pension benefits. In addition to the effects of pension indexation, humanitarian benefits paid to refugees from Ukraine, unemployment benefits, sickness insurance benefits and the increase in payments for state-insured persons will also affect the dynamics. All of this should result in a 5.5% increase in cash social benefits.

Investment in fixed assets will be influenced by increased spending in transport infrastructure and defence, where the 2% of GDP threshold should be reached already this year. In the case of EU co-financed spending, the gradual ramp-up of funds under the Next Generation EU instrument or the unfolding 2021–2027 financial perspective will play a role.

The measures of the consolidation package, together with the end of one-offs approved in response to the energy crisis, will represent annual savings in **subsidies** and partly **current transfers** amounting to tens of billions of CZK.

General government debt is expected to rise to 44.1% of GDP in relative terms in 2024. This is likely to lead to a further increase in **interest expenditure** to 1.4% of GDP.

3.1.2 Forecast for 2025

In 2025, we expect the public finance balance to reach −2.3% of GDP (the plan foresees a maximum deficit of −2.5% of GDP). Total general government revenue is forecast to grow by 5.1%, with tax revenue, including social security contributions, projected to grow by 5.3%.

Rising real earnings should boost household consumption and positively impact **value added tax** revenue. Conversely, the growth will be hampered by the change in the definition of debtor for tax base adjustments in the case of uncollectible debts. Higher taxes on tobacco products should translate positively into higher value added tax revenue (CZK 0.7 billion). The resulting increase in tax revenue should nevertheless amount to 6.3%.

For **excise duties**, annual revenues will be boosted by adjustments to the tobacco tax rate as part of the adjustment package (impact of CZK 2.3 billion). In addition, the increase in excise tax rates on alcohol will bring in an additional CZK 0.5 billion.

The more than 6% growth in the volume of wages and salaries determines **personal income tax** (5.1%) and **social security contributions** (6.2%), which also reflect an increase in payment for state-insured individuals. However, the dynamics of personal income tax is hampered by the year-on-year changes of capital income tax and higher tax benefits related to long-term investment product. In the area of social security contributions, the consolidation package reintroduced the sickness insurance rate for employees and higher compulsory contributions for self-employed workers or workers under performance agreements, where the effective date was eventually postponed to 2025. The total impact of the measures on social security contributions amounts to more than CZK 5 billion. In contrast, the support for part-time work and deductions related to long-term investment product weaken the revenue by less than CZK 1 billion.

The corporate income tax revenue is expected to show a slight year-on-year increase, primarily affected by lower yield from the windfall tax. Revenue growth is also reduced by the exemption from taxation of government bond yields (CZK 1.3 billion). Conversely, the tax rate increase of 2 pp, effective from 2024, will still have a positive effect, with an additional impact of less than CZK 1 billion next year.

Among other revenues that will have a significant impact on overall revenue growth, **investment transfers** mainly reflecting the launch of projects co-financed by the EU budget from the 2021–2027 programming period should be noted. However, funds from the Next Generation EU instrument, which are expected to peak in 2025, will also play a significant role.

Total spending could grow at a rate of less than 4%. **Compensation of employees** in the general government sector should show higher growth than this year, especially taking into account the share of employees with salaries adjusted in line with average wage development. In addition, we also anticipate salary increases in other parts of the general government sector, albeit at a lower rate than in the automatically indexed parts.

Social benefits in kind are expected to slow down in 2025, due to the high base in 2024. For housing benefits, we expect to maintain a relatively higher level, although spending may slightly decline as real earnings rise. However, the increase should then be driven mainly by health insurance companies' spending, made possible by increases in social security contributions and payment for state-insured persons. Growth in **intermediate consumption** of 3.6% is expected to be lower compared to 2024, due to both relatively lower flood-related spending and continued consolidation efforts in operating expenditures.

In the area of **cash social benefits**, we expect an increase in expenditure on pension benefits in 2025. These should be influenced by standard indexation from January 2025 in line with the 1.7% increase in the cost of living index for pensioners. In addition to pensions, we envisage maintaining the humanitarian benefit paid to persons with temporary protection. Growth in total cash social benefits is expected to reach 2.5%. The evolution of cash social benefits according to the national accounts methodology also reflects an increase in the payment for state-insured persons of around CZK 2.5 billion.

Expenditure on **investment in fixed assets** will be affected by increased spending in defence, where we anticipate a level of 2% of GDP as defined by the relevant law. Investment will also be boosted by the ramp-up of funding under the National Recovery Plan. The unfolding financial perspective 2021–2027 will also have an impact, in line with the current phase of the Cohesion spending cycle. The dynamics of total investment may exceed 9% in 2025, with contributions from both national and EU co-financed projects.

The measures of the adjustment package include savings in **subsidies and current transfers**, which should have an additional impact of around CZK 10 billion in 2025. Both items together are expected to remain essentially unchanged.

Interest expenditure should increase only slightly due to the improving general government balance and falling interest rates. In relative terms, this figure should be around 1.3% of GDP.

General government debt is projected to increase slightly by 0.7 pp in 2025, reaching 44.8% of GDP.

3.1.3 Planned Developments for 2026–2028

For the outlook period, we forecast ongoing public finance deficits, which will be primarily determined by the state budget. The state budget will need to meet the requirement for further reductions in public deficits in line with the legislative fiscal policy settings. **The minimum fiscal effort** is outlined in Act No. 23/2017 Coll., on Fiscal Responsibility Rules, as amended. Specifically, Article 10a sets structural deficits at 2.75% of GDP for 2024, 2.25% of GDP for 2025, 1.75% of GDP for 2026 and 1.25% of GDP for 2027. According to a general provision, the structural balance has to meet a minimum of -1% of GDP from 2028. Prior to the repeal of Council regulation (EC) No. 1466/97 on the Strengthening of the Surveillance of Budgetary Positions and the Surveillance and Coordination of Economic Policies, as amended, the level of the medium-term budgetary objective for the Czech Republic, set at -0.75% of GDP, was also considered.

In 2028, the EC's requirement for **the primary structural balance** (the balance adjusted for the effects of the economic cycle, one-off or other temporary measures and interest expenditure) is at least 0.4% of GDP. This target aligns broadly with the trajectory of structural deficit reduction set by the Act on Fiscal Responsibility Rules. The current structural deficit target of 1% of GDP implies a primary structural balance of 0.4% of GDP.

The current outlook projects that the planned structural deficit will be met in 2025 and 2026. For 2027 and 2028, additional revenue or expenditure measures amounting to 0.5% to 1% of GDP will be required. The set of potential measures has not yet been discussed by the government and is expected to be prepared at the beginning of the next legislative term. The public finance deficit should reach a maximum of 0.5% of GDP in 2028, which would imply a decline in debt from a peak of around 45% of GDP in 2026 to around 44% of GDP at the end of the horizon of the fiscal-structural plan.

3.2 Discretionary Revenue Measures

In recent years, **discretionary revenue measures** have been adopted mainly as a result of the energy crisis or Act No 349/2023 Coll. amending certain acts in connection with the consolidation of public budgets. The most significant in terms of financial impact are the introduction of a windfall profits tax, an increase in the corporate income tax rate, a waiver of the renewable energy levy for households and firms, a levy on excess income, the reintroduction of sickness insurance for employees (and an increase for the self-employed) and an increase in property tax.

The windfall profits tax is a temporary extraordinary tax effective from 1 January 2023 for a period of 3 years. The tax applies to unusually profitable companies in the energy production and trading, banking, petroleum, and fossil fuel extraction and processing sectors. It operates as a 60% tax surcharge applied to the "excess profits" of these companies, determined as the difference between the 2023–2025 tax base and the average of the last 4 years' tax bases (i.e. 2018–2021) plus 20%.

For **corporate income tax**, the statutory rate is increased from 19% to 21% with effect from 1 January 2024.

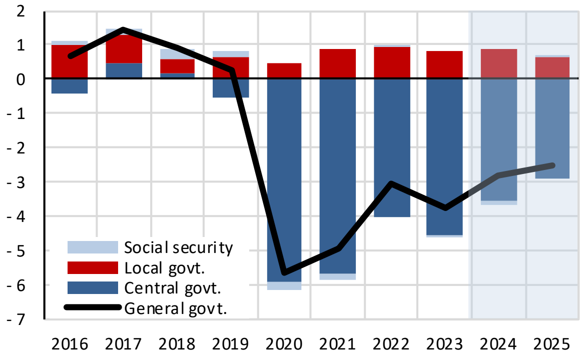
The waiver of the **renewable energy charge** for households and businesses meant a reduction in the regulated component of the electricity price for the period from 1 October 2022 to 31 December 2023. The amount of the charge depends on the main circuit breaker and is legally capped at a maximum of CZK 599 including VAT per megawatt hour consumed. The state budget took over the payment instead of households and companies.

The excess revenue levy was another one-off tax on extraordinary income. The subject was market income from the sale of electricity in the period 1 December 2022 to 31 December 2023 above the legislative cap applicable to each type of electricity production. Exempted from the levy were producers operating facilities with an installed capacity of up to and including 1 megawatt, pumped storage hydroelectric plants and biomethane plants. The levy was 90% of the excess revenue.

The reintroduction of the **sickness insurance contribution for employees** responded to the "structural" mismatch between sickness insurance revenue and expenditure. On the one hand, the overall rate of sickness insurance was reduced in the past, while on the other hand, new benefits have been gradually added (paternity allowance, long-term care allowance). Thus, from 1 January 2024, the rate of 0.6% of the assessment base will apply to employees, while for the self-employed the increase is 0.6 pp.

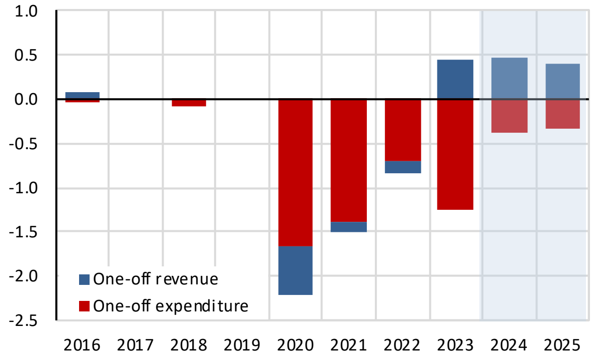
Increase in the **property tax** rate: due to the abolition of the property acquisition tax, the real estate tax segment is burdened only marginally, both in relative terms (0.2% of GDP) and in comparison with other countries (the Czech Republic ranks 36th out of 38 OECD countries). It is also the Council's recommendation to the Czech Republic for 2024 and 2025: "Take steps to increase revenues from recurrent property taxes." Property tax has doubled in terms of rates from 1 January 2024 and an indexation mechanism has been introduced to adjust the tax in subsequent years in line with price increases.

Graph 3.1: Government Balance by Sub-sectors
in % of GDP



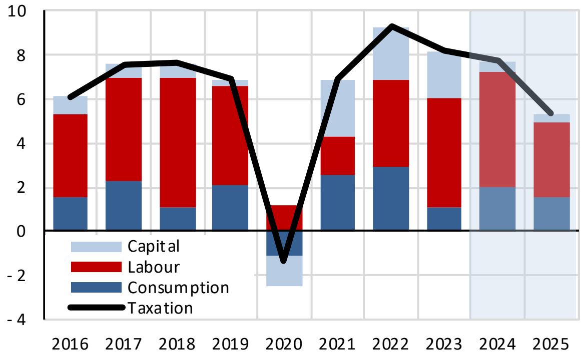
Source: CZSO (2024b). MF CR calculations and forecast.

Graph 3.2: One-off Measures
in % of GDP



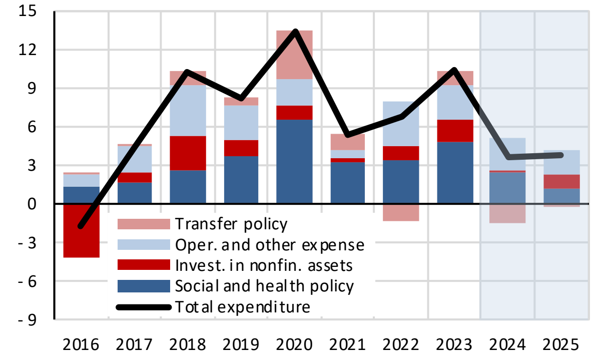
Source: CZSO (2024a), MF ČR (2024a). MF CR calculations and forecast.

Graph 3.3: General Government Tax Revenue
change in %, contributions in pp



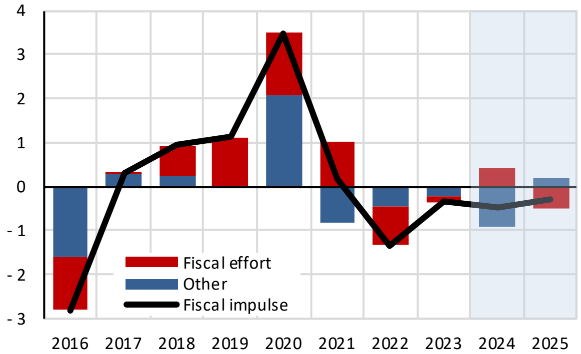
Source: CZSO (2024a, 2024b). MF CR calculations and forecast.

Graph 3.4: General Government Expenditure
change in %, contributions in pp



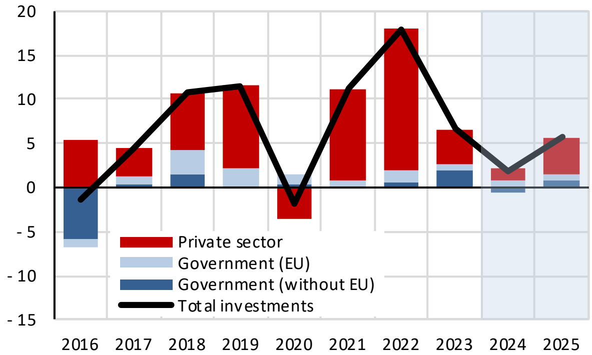
Source: CZSO (2024a, 2024b) MF CR calculations and forecast.

Graph 3.5: Fiscal Effort and Fiscal Impulse
in pp, primary fiscal effort with opposite sign



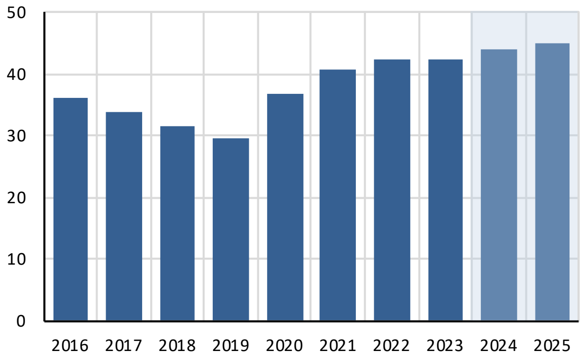
Source: CZSO (2024a, 2024b). MF CR calculations and forecast.

Graph 3.6: Investment Co-financing from EU Funds
nominal gross fixed capital formation change in %, contributions in pp



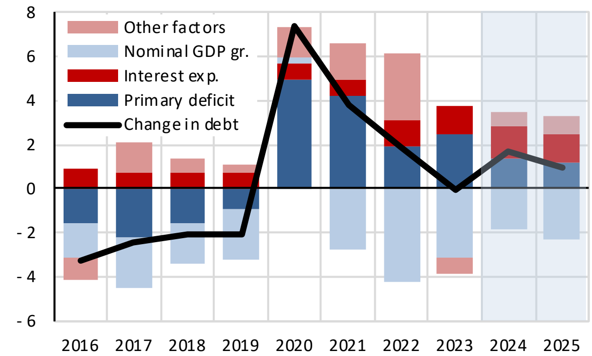
Source: CZSO (2024a, 2024b). MF CR calculations and forecast.

Graph 3.7: General Government Debt
in % of GDP



Source: CZSO (2024a, 2024b). MF CR calculations and forecast.

Graph 3.8: Changes in Debt-to-GDP Ratio
in pp



Source: CZSO (2024a, 2024b). MF CR calculations and forecast.

Table 3.1: Initial Setting of Revenue and Expenditure of the General Government Sector
level in CZK billion, others in % of GDP

	2023	2023	2024
	CZK bn.	*% of GDP*	
Revenue			
Taxes on production and imports	806	10.6	10.7
Current taxes on income, wealth etc.	609	8.0	8.3
Social security contributions	1 169	15.3	16.0
Other current revenue	401	5.3	4.9
Capital taxes	0	0.0	0.0
Oter capital revenue	70	0.9	0.9
Total revenue	3 056	40.1	40.7
of which: Transfers form the EU	85	1.1	1.1
Total revenue other than transfers from the EU	2 971	39.0	39.7
p.m. Revenue measures (increments, excluding EU funded measures)	44	0.6	0.7
p.m. One-off revenue (levels, excluding EU funded measures)	33	0.4	0.5
Expenditure			
Compensation of employees	738	9.7	9.6
Intermediate consumption	433	5.7	6.1
Interest expenditure	98	1.3	1.4
Social benefits other than transfers in kind	1 036	13.6	13.7
Social transfers in kind	258	3.4	3.5
Subsidies	208	2.7	2.0
Other current expenditure	162	2.1	2.0
Gross fixed capital formation	370	4.9	4.7
Capital transfers	37	0.5	0.5
Other capital expenditure	6	0.1	0.0
Total expenditure	3 344	43.9	43.5
of which: Expenditure funded by transfers form the EU	85	1.1	1.1
Nationally financed expenditure	3 259	42.8	42.4
p.m. National co-financing of programmes funded by the EU	41	0.5	0.5
p.m. Cyclical component of unemployment benefits	0	0.0	0.0
p.m. One-off expenditure (levels, excluding EU funded measures)	96	1.3	0.4
Net expenditure (before revenue measures)	3 024	39.7	40.2

Source: CZSO (2024b). MF CR calculations and forecast.

Table 3.2: Forecast and Plan of Maximum Values of Main Fiscal Indicators

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

		2023	2023	2024	2025	2026	2027	2028
		CZK bn.	*% of GDP*					
		actual	*actual*	*forecast*	*plan*			
Expenditure								
Interest expenditure		98	1.3	1.4	1.3	1.3	1.4	1.4
Nationally financed public investment		296	3.9	3.7	3.7	3.6	3.6	3.6
Net expenditure	*change in %*	**3 014**		**5.3**	**4.5**	**2.5**	**2.6**	**2.9**
Balances								
Net lending/borrowing		-288	-3.8	-2.8	-2.5	-1.7	-0.9	-0.5
Primary balance		-190	-2.5	-1.4	-1.2	-0.3	0.4	0.8
Cyclical adjustment								
Structural balance			-2.5	-2.1	-2.3	-1.8	-1.3	-1.0
Primary structural balance			-1.3	-0.7	-0.9	-0.4	0.1	0.4
Debt								
General government gross debt (consolidated)		3 234	42.4	44.1	45.1	45.3	44.7	44.2
Change in gross debt		236	-0.1	1.6	1.0	0.2	-0.6	-0.5
Contributions to changes in gross debt								
Primary deficit			2.5	1.4	1.2	0.3	-0.4	-0.8
Snowball effect			-1.9	-0.4	-0.9	-0.8	-0.6	-0.4
Interest			1.3	1.4	1.3	1.3	1.4	1.4
Growth			0.0	-0.4	-1.1	-1.1	-1.1	-0.9
Inflation			-3.2	-1.4	-1.1	-1.0	-0.9	-0.9
Stock-flow adjustment			-0.7	0.7	0.8	0.7	0.4	0.7
p. m. Implicit interest rate on debt	*%*		3.3	3.4	3.2	3.1	3.2	3.2

Source: CZSO (2024b). MF CR calculations, forecast and plan.

Table 3.3: Discretionary Revenue Measures

year-on-year change, in % of GDP

	Rev/Exp	ESA	One-off	2023	2024
Full payment of the fee for renewable energy sources from the state budget	revenue	D.214a	YES	-0.2	0.2
Windfall tax	revenue	D.51b	YES	0.5	-0.1
Levy on excess revenues	revenue	D.29h	YES	0.2	-0.2
Increase in corporate tax rate by 2 percentage points	revenue	D.51b		-	0.3
Reintroduction of sickness insurance for employees	revenue	D.61		-	0.2
Increase in real estate tax	revenue	D.29a, D.59a		-	0.1
Total				**0.5**	**0.5**

Note: Measures, with the exception of taxes on immovable property, whose budgetary allocation belongs to municipal budgets, are registered for central government institutions.

Source: Výpočty a predikce MF ČR.

3.3 Balance and Debt Projetion and its Assumptions

The forecast results for the period until 2028 are given by the above plan, which is in line with Czech legislation. The subsequent **long-term projection up to 2038** is based on the EC model approach and its assumptions. However, some national assumptions on the development of input variables are reflected, especially with a view to a smooth follow-up to 2028.

The differences are reflected in the level of real and potential output and their growth rates. The forecast for real GDP to 2028 is based on current data and takes into account the measures outlined in this Plan. We use a national methodology based on the (Cobb-Douglas) production function approach to estimate potential growth. This is a published methodology that is consulted and approved by the Czech Fiscal Council. For consistency in the calculation of the cyclical component and the derivation of the structural balance, we use the latest August 2024 macroeconomic forecast, including real GDP, for the horizon up to 2028. The resulting potential output does not necessarily imply a zero output gap, which seems adequate given the relatively short horizon. Potential output growth rates from the EC's long-term projections are used in the period beyond the national forecast. The projection of real GDP is calculated from the evolution of potential output and the output gap, which is estimated at 1.4% for 2028. Subsequently, a rule of linear closure of the output gap (similar to that applied by the EC) is applied, by one third each year. In the national projections, the output gap is projected on the basis of gross value added instead of real GDP. For the purposes of the GDP projections, we have therefore used the assumption that the percentage of the GDP output gap is identical to the projected output gap based on gross value added. Given a zero output gap from 2031 onwards, the dynamics of real GDP is identical to potential output. It is crucial to note that the national approach leads to a tighter general government balance than required by the EC.

An internally consistent macroeconomic forecast for inflation generally takes into account all foreseeable inflationary and deflationary factors, including the expected effects of policy changes. The latest figures show a relatively sharp decline in inflation (consumer prices rising by an average of 2.25% year-on-year over the eight months of this year). We expect the inflation target of 2% (CPI growth) to be reached by mid-2026 and the GDP deflator to converge to this value in 2028. Given the expected growth in the period ahead, we see no reason for inflationary pressures to emerge that could divert inflation upwards from the central bank's target. Therefore, we assume that inflation will remain stable at 2028 levels over the remaining projection horizon. Compared with the EC's calculations, which use current market expectations to determine them, inflation is 0.5 pp lower over the entire projection horizon. The EC expects the inflation target to be reached only within 30 years.

The forecast for the short-term and long-term interest rates used is also different. We estimate a gradual decline to a final 3.4% and 3.5% for short- and long-term rates, respectively, by 2026. We assume that both rates will follow the path of the central bank base rate, which is now on a downward trajectory. Looking ahead, we expect a further decline in the base rate over the course of this and next year, which would be reflected in further reductions in both short-term and long-term interest rates. In the long run, the 2-week repo rate will remain stable at 3.25%, a level consistent with the Czech National Bank's estimates. As in the case of inflation, we do not see economic reasons for a reversal in interest rates in the long term. By contrast, the EC calculations show rates moving roughly 1 pp higher around 2026, with a gradual convergence to 3.2% for short-term and 4.2% for long-term rates by 2038.

The last difference is the value of the estimated fiscal multiplier, which is set at 0.75 for all Member States, regardless of the type of measures, current expenditure or investment. This value is rather overestimated in the light of empirical studies on the Czech economy. For example, the OECD study (OECD, 2009) describes a negative relationship between economic openness and the size of the fiscal multiplier. The values of the multiplier for an open Czech economy were estimated to range from about 0.1 for taxes and 0.2–0.3 for government non-investment expenditure to 0.7 for investment in the first year of implementation. Studies by the Czech National Bank (CNB 2016 and CNB 2021) put fiscal multipliers for government investment in the range of 0.3 to 0.7, with multipliers between 0.3 and 0.5 for other spending, including government consumption. The tax multipliers range from 0.1 to 0.3. A study by the European Central Bank (ECB 2015), which compares multipliers across European countries, also mentions values of 0.2–0.5. For more information, see the publication Fiscal Outlook (MF CR, 2015). Given that we assume consolidation primarily in the area of non-investment expenditure and possibly on the revenue side, we apply more conservative estimates of a multiplier of 0.35.

Table 3.4: Balance and Debt Outlook in the Horizon of the Fiscal-Structural Plan
% of GDP, interest rate in %, change in %

		2023	2024	2025	2026	2027	2028
General government gross debt (consolidated)	*% of GDP*	42.4	44.1	45.1	45.3	44.7	44.2
General government balance	*% of GDP*	-3.8	-2.8	-2.5	-1.7	-0.9	-0.5
Structural primary balance (before ageing cost)	*% of GDP*	-1.3	-0.7	-0.9	-0.4	0.1	0.4
Cyclical component	*% of GDP*	0.4	0.8	0.3	-0.1	-0.3	-0.5
One-off measures	*% of GDP*	-0.8	0.1	0.1	0.0	0.0	0.0
Cost of ageing	*% of GDP*	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	*% of GDP*	1.3	1.4	1.3	1.3	1.4	1.4
Short-term interest rate	*%*	7.1	5.0	3.6	3.4	3.4	3.4
Long-term interest rate	*%*	4.4	3.9	3.6	3.5	3.5	3.5
Implicit average interest rate	*%*	3.3	3.4	3.2	3.1	3.2	3.2
Stock-flow adjustment	*% of GDP*	-0.7	0.7	0.8	0.7	0.4	0.7
Potential GDP	*change in %*	1.7	2.0	1.4	1.5	1.8	1.5
Real GDP	*change in %*	-0.1	1.1	2.7	2.6	2.6	2.0
GDP deflator	*change in %*	8.2	3.4	2.7	2.2	2.1	2.0
Nominal GDP	*change in %*	8.1	4.5	5.4	4.9	4.7	4.0

Note: The balance is based on the maximum permissible values according to the Fiscal Responsibility Rules Act, national methodology and forecasts.
Source: CZSO (2024a, 2024b). Calculations, forecast, outlook and projection of MF CR.

Table 3.5: Balance and Debt Model Projection up to 2038
% of GDP, interest rate in %, change in %

		2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
General government gross debt (cons.)	*% of GDP*	43.8	43.7	43.9	44.0	44.3	44.6	45.1	45.7	46.5	47.5
General government balance	*% of GDP*	-0.8	-1.1	-1.4	-1.5	-1.6	-1.8	-1.9	-2.1	-2.3	-2.6
Struct. primary balance (before ageing	*% of GDP*	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Cyclical component	*% of GDP*	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
One-off measures	*% of GDP*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cost of ageing	*% of GDP*	0.1	0.2	0.4	0.5	0.6	0.7	0.8	1.0	1.2	1.4
Interest expenditure	*% of GDP*	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5
Short-term interest rate	*%*	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Long-term interest rate	*%*	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Implicit average interest rate	*%*	3.3	3.3	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Stock-flow adjustment	*% of GDP*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Potential GDP	*change in %*	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.5	1.5
Real GDP	*change in %*	0.7	0.8	0.9	1.3	1.3	1.3	1.4	1.4	1.5	1.5
GDP deflator	*change in %*	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP	*change in %*	2.7	2.8	2.9	3.3	3.3	3.3	3.4	3.4	3.5	3.5

Note: The balance is based on the EC projection model and assumptions.
Source: CZSO (2024a, 2024b). EC projections. MF CR calculations.

4 Reforms and Investments

The country-specific recommendations by the Council of the EU are grouped into four thematic areas – decarbonisation; social systems; education, labour market and affordable housing; and finally modern public administration, digitisation. These are based on recommendations from 2019 to 2024, where the Czech Republic's response has not seen significant progress.

4.1 Decarbonisation

Despite the significant reduction of greenhouse gas emissions[1] and the decoupling of the trajectories of economic growth and final energy consumption over the past three decades, the Czech Republic remains one of the most energy- and emissions-intensive economies in the EU. The reasons for this are mainly the high share of industry in the economy (28% of gross value added) and the almost one-third share of coal in primary energy sources. Per capita greenhouse gas emissions in the Czech Republic are therefore among the highest in the EU.

The Czech Republic aims to reduce emissions in sectors outside the existing **EU Emissions Trading Scheme** (EU ETS) by 26% by 2030 compared to 2005, increase the share of renewable energy sources in gross final energy consumption to 30% and reduce final energy consumption by about 20% compared to 2021 (MIT, 2023). The EU ETS is the only form of carbon pricing in the Czech Republic, covering 52 % of the total greenhouse gases emissions of the country (OECD, 2022a). The EU-wide target is to reduce EU ETS emissions by 62% between 2005 and 2030. The reform of the EU ETS then extends the coverage, in the case of Czechia, to around two-thirds of emissions.

The Government aims to decarbonise the energy sector through a combination of **nuclear power** and **decentralised renewable energy sources**, with an emphasis on technological neutrality, energy efficiency and energy savings (Government of the Czech Republic, 2023). The share of nuclear energy in gross electricity generation is expected to increase from around 37% today to 50% in 2050. To this end, the Government is taking steps to at least replace the existing units of the Dukovany Nuclear Power Plant, which will reach the end of their lifetime in the second half of the 2040s. To that end, it has selected the supplier who will build the new nuclear power plants. On the other hand, the energy use of **coal**, which currently generates 43% of the country's electricity and a half of its heat, will be phased out by 2033 (Government of the Czech Republic, 2023).

The Czech Government is also committed to put a quick end to the energy **dependence on Russia.** In the case of natural gas, the Czech Republic can already do without Russian gas[2] capacity-wise, while in the case of oil, thanks to the ongoing capacity increase of the TAL pipeline (the TAL+ project), the Czech dependence on Russia should be significantly reduced by the end of 2024 and fully eliminated after the completion of TAL+ in the first half of 2025 (MIT, 2024a). Last but not least, dependence on Russian nuclear fuel should be ended soon as well.

The Czech Republic is a small, highly open economy, and as such is heavily dependent on foreign demand. Therefore, in order to maintain and strengthen the international competitiveness of the Czech Republic and thus safeguard future public revenues and macroeconomic and fiscal stability, it is necessary to reflect trends in the world economy. These undoubtedly include the ongoing significant reallocation of capital in the context of the global transition to a low-carbon economy (NERV, 2024). Current strategic steps will thus determine where individual countries will be in terms of value added and supply chains in 10 to 15 years' time.

Some sectors of the Czech economy will undergo a fundamental change, and the transition to a low-emission economy is likely to be costlier than for many other EU Member States due to the emission profile of the economy. However, a well-designed, cost-efficient, socially sustainable and equitable transition also represents a major opportunity for the Czech economy and will have long-term benefits in the form of, among others, economic modernisation, enhanced energy security, savings not only in energy costs, and improved quality of life (McKinsey, 2020; AoS, 2022; OECD, 2023a; IMF, 2024).

The objectives of the Czech Republic's climate transition are described in strategic documents – the State Energy Policy, the Czech Climate Protection Policy and the 2021 – 2030 National Energy and Climate Energy Plan of the Czech Republic, the updates of which have been submitted to the Government for discussion.

[1] According to the CHMI (2024), emissions fell by 37% by 2022 compared to 1990 if the land use, land use change and forestry sector is included, or by almost 42% without this sector.

[2] Due to the reduction in consumption, the lease of part of the capacity of the LNG terminal in Eemshaven, the Netherlands, from September 2022 and, in the future, part of the capacity at the German LNG terminal under construction in Stade (MIT, 2024b).

4.1.1 Energy Regulation Reforms

Act No. 19/2023 Coll., the so-called Lex renewable enery sources - RES I, effective from 24 January 2023, simplified the conditions for the **permitting and construction of renewable energy sources**, whether they are self-consumption power plants with a capacity of up to 50 kW or RES power plants with a total installed capacity of 1 MW or more.

Act No. 469/2023 Coll., the so-called Lex renewable energy sources – RES II, effective from 1 January 2024, introduced **energy communities and renewable energy communities** as new market participants and established rules for sharing electricity produced in these communities. **The Electricity Data Centre** was launched on 1 August 2024 to provide all the necessary data flows. Its full operation is expected in the second half of 2026. Lex RES II also introduces, among other things, the possibility of community electricity sharing across the entire electricity system of the country.

Currently, the legislative process is underway for another amendment to the energy legislation, in the form of the Chamber of Deputies' file no. 656 – the so-called Lex RES III, which focuses on (i) the legal rules for **storing electricity** (or energy) in the electricity system; (ii) a new type of trading based on bundling the supply and demand for electricity from multiple customers for the needs of the operation of the electricity network (**aggregation**); (iii) the authorization of smaller customers to participate in the provision of balancing services for the electricity system by bidding to supply or offtake electricity (**accumulation**). The foreseen date of effect is 1 January 2025 for most provisions of the draft act, whereas provisions reliant on the full-fledged operation of the Electricity Data Centre should come into effect on 1 July 2026. The described changes are milestones of the National Recovery Plan.

A draft act on accelerating the use of renewable energy sources and amending related acts to transpose the amended Directive (EU) 2023/2413 is in the early stages of the legislative process (MIT, 2024c). The law will accelerate the use of renewable energy sources by defining areas – **acceleration zones** - in which projects for the use of energy from renewable energy sources and the construction of related infrastructure will be permitted under a simplified regime. Prospectively, the introduction of special standalone zones for energy storage and for grid infrastructure is also being weighed in order to increase the connectivity of other renewable energy sources outside the acceleration zones.

4.1.2 Financing the Decarbonisation and Transition

The development of renewable enery sources in the Czech Republic is financially supported, inter alia, through **operational support** – green bonuses, including auction bonuses. The development of renewable enery sources, energy savings and energy efficiency, modernisation of energy infrastructure and/or emission reductions in the transport and other sectors are also supported through **investment support** in sizeable support programmes, which are mainly financed from the proceeds of emission allowances, the Modernisation Fund, EU cohesion policy instruments and National Recovery Plan.

In the National Recovery Plan, under the component 7.1 Infrastructure for renewable enery sources and the electricity grid, for example, a call for regional **distribution system** operators with an allocation of CZK 6.6 billion was opened[3], the aim of which is to increase the capacity for renewable enery sources connection.

This activity is followed up by the Technologies and Applications for Competitiveness OP with its calls under the Energy Infrastructure activity (allocation of CZK 7.6 billion), which support the construction, reinforcement, reconstruction and modernisation of distribution systems and related infrastructure. The New Green Savings and the New Green Savings Light programmes, the Environment OP, the subsidy and the credit component of the Energy Savings activity of the Technologies and Applications for Competitiveness OP with an allocation of CZK 13 billion, the HEAT, ENERG, ENERGov and ENERG ETS programmes in the Modernisation Fund or the (national) Panel programme support, among others, the improvement of energy efficiency of **district heating systems** and/or in-depth **renovation of buildings**, **efficient energy management and renewable enery sources**.

The Technologies and Applications for Competitiveness OP activity called Renewable Energy Sources with an allocation of CZK 7.5 billion helps the Czech Republic to achieve its commitment in the field of renewable enery sources use by business entities. The intervention focuses on supporting the installation of solar thermal systems, photovoltaic power plants, small-scale hydroelectric power plants, wind power plants, heat pumps and also the efficient use of biomass in heat and electricity generation.

We are also working **with banks and building societies** to co-finance comprehensive insulation and other energy-saving measures through discounted loans.

The Just Transition OP finances individual measures aimed at re-skilling, active inclusion and assistance to jobseekers, support for sustainable local mobility or support for job creation in the renewable enery sources sector and related industries in the regions most affected by the climate transition of the economy (the regions of Karlovy Vary, Ústí nad Labem and the Moravian-Silesian region).

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[3] All allocations quoted reflect planned amounts (current at the time of the FSP), which may change.

4.1.3 Low-emmision Mobility

The reduction of emissions in the transport sector and the construction of related infrastructure are supported by the Transport OP, the Just Transition OP and the Integrated Regional OP, the National Recovery Plan and the Modernisation Fund (TRANSPORT programme). In the National Recovery Plan, the main relevant component is 2.4 Development of clean mobility with an allocation of CZK 4.9 billion from the National Recovery Plan itself and the total investment costs of around CZK 9.6 billion. The Just Transition OP is due to support, among others, the already launched strategic project Introduction of hydrogen mobility in Ústí nad Labem (CZK 1 billion), which is a pilot project for the use of hydrogen buses in urban public transport.

In **rail transport**, administrative simplification and acceleration of its electrification are among the Government's priorities (Government of the Czech Republic, 2023). Electrification of railways together with the replacement of rolling stock with more emission-efficient vehicles are - among other things - supported by the already mentioned TRANSPORT programme (SEF, 2023) or within the National Recovery Plan, inter alia, by the component 7.6 Electrification of rail transport.

In order to support the purchase of **zero-emission vehicles** (energy from electricity, hydrogen or otherwise without CO2 emissions), the applicability of extraordinary (accelerated) tax depreciation by natural and legal persons, originally introduced for vehicles acquired between 2020 and 2023, was extended through Act No. 349/2023 Coll. by additional five years, i.e. to vehicles acquired up to (and including) 2028. There is also a benefit in place concerning the provision of a (zero-emission) company car by an employer to an employee for personal purposes, whereby the percentage of the acquisition cost considered to be taxable income of the employee is not 1%, but only 0.25% as of 1 January 2024 (Act 349/2023 Coll.). An important part of the decarbonisation efforts in transport is also the promotion of **zero-emission public transport**, inter alia in relation to Act No. 360/2022 Coll., on the promotion of low-emission vehicles through public procurement and public passenger transport services.

In addition, Act 142/2022 Coll. reclassified **machinery or equipment used exclusively for recharging purely electric cars and hybrid cars** to a lower depreciation group, thereby reducing the minimum depreciation period for that machinery or equipment.

In August 2024, the Government approved the second update of the National Action Plan for Clean Mobility to support the development of electro-mobility and hydrogen mobility, thereby reducing emissions in transport through support for companies, public transport, vulnerable groups and the development of vehicle sharing services including e-carsharing (Government of the Czech Republic, 2024).

4.1.4 Education, Science, Research, Development and Consultancy Services

Through selected training programmes[4] and the methodology of the Ministry of Industry and Trade[5] , a system and rules for **the professional training of persons** in the areas of renewable enery sources installations and in the areas of energy audits, energy performance certificates for buildings and inspections of air conditioning equipment are established. Furthermore, the programmes cover vocational training and improvement of professional skills in the field of energy savings and their achievement.

The advancement of science, research and innovation in the Czech Republic in energy is supported, among others, by the Technologies and Applications for Competitiveness OP, which, through the specific objective 1.1, supports, inter alia - although it is not a condition -, research and development with a positive impact on decarbonisation, or by the THÉTA 2 programme of the Technology Agency of the Czech Republic, with the "Environment for Life 2" programme being an analogous programme for the environment. International calls are also opened by the Technology Agency, e.g. EnerDigit for the digitalisation of the energy sector.

The REPowerEU chapter in the National Recovery Plan also focuses on a comprehensive reform of renovation advice[6]. This includes investment in new energy consultancystructure and services to support at least 120,000 energy efficiency projects for households, businesses and the public sector. The investment from the National Recovery Plan[7] has also increased the number, and expanded the scope, of the network of **Energy Consultation and Information Centres**, which have been promoting education and awareness on energy saving and renewable enery sources use in the residential sector since 1990, and providing free assistance with subsidies, preparation of subsidy applications and other administrative tasks needed to obtain subsidies.

[4] E.g. programmes from the National Recovery Plan component 2.5.3 (https://www.mpo-efekt.cz/cz/dotacni-programy/130924), or the Efect III State Programme for the Promotion of Energy Savings (Axis 3: Education).

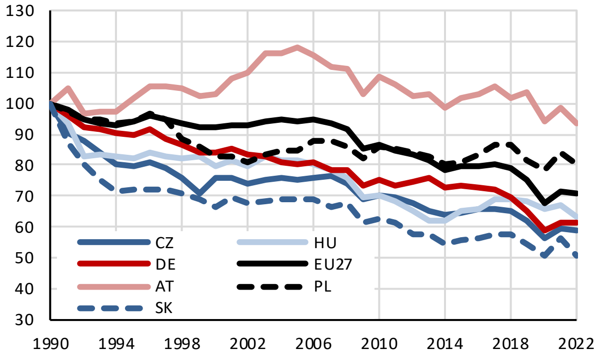
[5] Ministry of Industry and Trade Methodology for the performance of the activities of an energy specialist (January 2024). Methodological recommendations for the performance of certain duties of energy specialists under Act No. 406/2000 Coll., on energy management, as amended, and Decree No. 280/2023 Coll., on the conditions of performance of activities of energy specialists.

[6] The National Recovery Plan includes the component 7.3 Comprehensive reform of the consultancy for the renovation wave in the Czech Republic with an allocation of CZK 4 billion to be implemented in the period Q1 2023 to Q2 2026.

[7] Under the National Recovery Plan component 2.5.3 with an allocation of CZK 0.4 billion for the period 2022–2025.

Graph 4.1.1: Greenhouse Gases Emissions

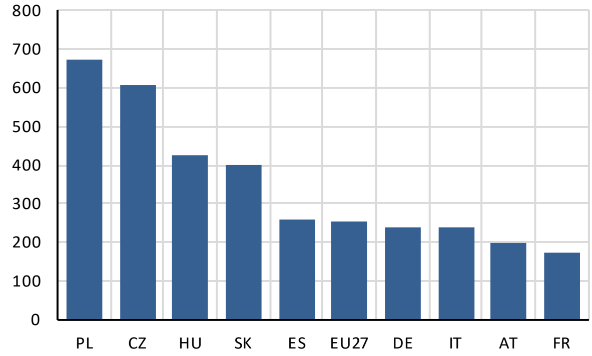
GHG emissions, index 1990=100



Source: Eurostat (2024). MF CR calculations.

Graph 4.1.2: Emission Intensity of GDP (2023)

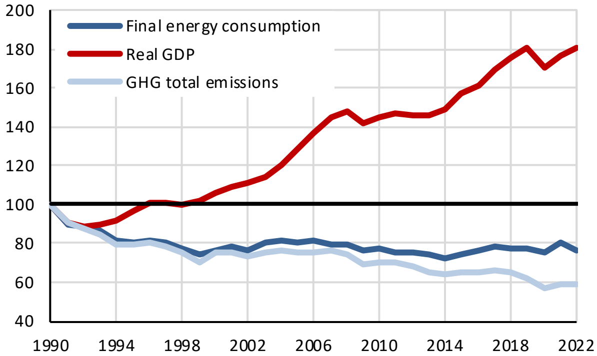
CO_2 equivalent ton per mil. of EUR



Source: EC. MF CR calculations.

Graph 4.1.3: Growth, Energy Consumption and Emissions

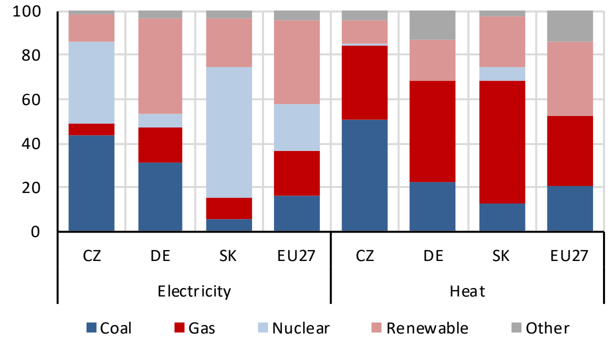
index 1990=100



Source: EC. MF CR calculations.

Graph 4.1.4: Electricity and Heat Production by Source

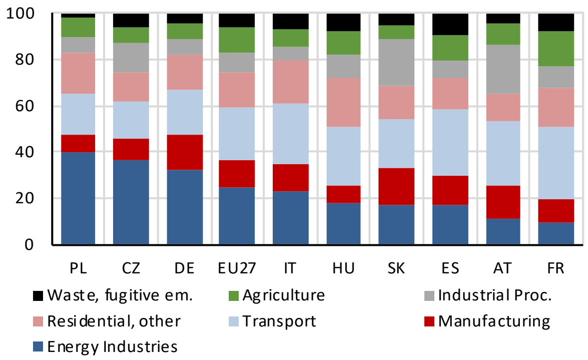
share of sources in electricity and heat production in %, 2022



Source: EC. MF CR calculations.

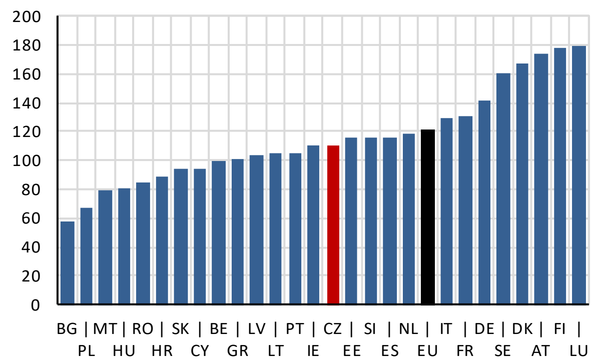
Graph 4.1.5: Emissions by Sector (2022)

share of sectors in total GHG emissions, %



Source: EC. MF CR calculations.

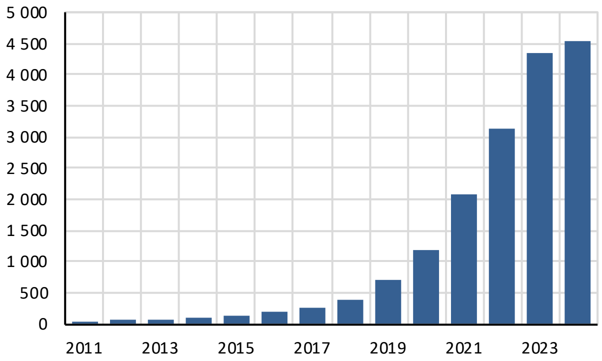
Graph 4.1.6: Ecological Innovation Index (2022)



Source: EC (2022a).

Graph 4.1.7: Charging Points in the Czech Republic

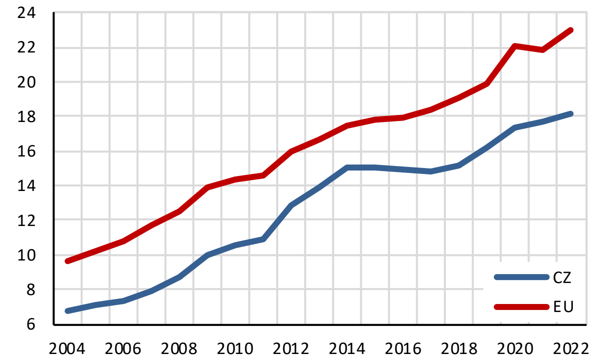
status at the end of the year, in 2024 at the end of June



Source: TRC (2024).

Graph 4.1.8: Share of Renewable Sources

share in the total energy production %



Source: Eurostat (2024).

4.2 Social Systems

The public finances of the Czech Republic are at medium risk in terms of long-term sustainability. The most important factor is the expected demographic developments, which are likely to significantly increase the ratio of pensioners to the economically active population over the next few decades. According to the EC (2024a), the public systems that will be most affected by demographic change are the pension, long-term care, healthcare and education systems.

4.2.1 Reform of the Pension System, of Other Social Benefits and Services

OECD (2020) characterises the Czech pension system as highly redistributive, at least within individual generations. The replacement rate is high for low-wage workers, while it provides relatively low returns to high-income insureds. From a funding perspective, an ageing population will lead to imbalances caused by higher spending on pension benefits. One of the main points of the recommendations on the pension system is to strengthen long-term financial sustainability: *"Maintain the current statutory increases in the retirement age for both men and women, including their unification, and link the retirement age to life expectancy. Also increase the retirement age for early retirement pensions, and further shift this age in line with life expectancy."*

The OECD then makes a range of secondary recommendations, including a change in pension indexation to a system based on price increases and, to some extent, a recommendation to increase the contributions of the self-employed to better match those of employees, to strengthen financial sustainability. The latter recommendation was addressed by Act No. 349/2023 Coll.

The reform of the pension system was prepared in two steps. The first part was implemented by Act No. 270/2023 Coll. and concerns mainly early retirement scheme and pension indexation. The second part is currently being discussed in Parliament (Chamber of Deputies Print No. 696), and its most important elements are the adjustment of the retirement age and a change in the calculation of newly granted pensions.

In the **early retirement scheme**, the conditions for granting them have been tightened and indexation has been adjusted. The changes were motivated by both the sustainability of the pension system and the social impact. Early retirement pension benefits are permanently reduced in the Czech Republic - the earlier the early retirement pension is drawn, the greater the reduction. Early retirement pension can therefore increase the likelihood of poverty and burden other components of the social system. With effect from 1 October 2023, early retirement pensions can only be claimed up to three years before reaching the statutory retirement age for a regular old-age pension and only if at least 40 years of insurance have been completed (including 'compensatory periods'). The pension reduction conditions are calculated at 1.5% of the calculation base for every 90 days. At the same time, early retirement pensions are not indexed in their earnings-related part until the statutory age for a regular old-age pension is reached.

Indexation of pension benefits was determined by the increase in the consumer price index or the increase in the pensioners' cost of living index (whichever was higher) and one-half of the increase in real wages. The law changed the indexation to the sum of the increase in the pensioners' cost of living index and one-third of the increase in real wages. For indexation in exceptional cases where the inflation rate exceeds 5%, the mechanism would now apply a combination of a partial percentage increase and a lump-sum contribution of an aggregate percentage equivalent to 60% of price increases. The impact of the changes in indexation is estimated at between 0.4 and 0.5% of GDP over the long term once fully phased in.

The proposal for the second part of the pension reform (Chamber of Deputies Print No. 696) includes a total of 12 measures:

1) further extending the **retirement** age **to 67: the** retirement age will be unified at 65 years and 8 months for the year of birth 1973 and then increased by 1 month for each year of birth until the age of 67,
2) lowering the retirement age for selected **strenuous professions**,
3) gradual parametric adjustments aimed at **slowing down the growth of newly granted pensions:** the slowdown in the growth rate of newly granted pensions will be implemented through a reduction in the inclusion of the qualifying income to the so-called first reduction threshold gradually from 100% to 90% from 2035,
4) **an increase in the minimumearnigs-related part** of the old-age pension and the invalidity pension of the third degree of disability to 10% of the average wage and a corresponding increase in the minimumearnigs-related part of the other types of pensions,
5) **abolition of the increase in the** old-age **pension** for gainful employment **concurrent** with its receipt in full and replacement of this benefit by **an abatement on** social security **contributions,**
6) **a more modest reduction** in early retirement pension when you have **45 years of insurance**,
7) evaluation of successfully completed **doctoral studies as a compensatory period of insurance**,
8) **lowering the age** for entitlement to **a deferred old-age pension**,
9) **extending the time limit** for renewing entitlement **to a widow's/widower's pension** from 2 years to 5 years,

10) **replacing** the pension **bonus for the** first and second **child** with a notional assessment base,
11) the introduction of **notional assessment bases as an award for caring for** a dependent person,
12) the introduction of a voluntary **shared assessment base for** spouses and partners under the relevant legislation.

The Government has approved (Chamber of Deputies Print No. 799) **a reform of the cash social benefits system** with the aim of simplifying the system, strengthening its targeting, increasing the incentive to take up work and aligning tax and benefit settings. It is planned to take effect in July 2025. Furthermore, as part of the implementation of the National Strategy for the Protection of Children's Rights 2021–2029, the Government intends to create a functional system by 2029 to ensure consistent protection of children's rights and meeting their needs. To this end, an **Act on Child Protection and Family Support** will be prepared containing new regulations on public protection of children and provision of services for children at risk.

4.2.2 Healthcare

As a result of unfavourable demographic development accompanied by an increase in the average life expectancy (according to Eurostat (2023) by almost 5 years compared to 2023 to 85 years in 2070), the healthcare system will face high demand for health care in the medium and long term. This will entail an increase in expenditure (by the end of 2050, according to the EC (2024a), there should be a 0.7 pp increase in public expenditure on health care compared to 2023). Population ageing will also have an impact on the revenue side in the form of a decline in public health insurance contributions collection due to a reduction in the number of people of working age. In order to ensure the fiscal sustainability of the healthcare system, it is important to ensure stability and predictability in its financing on the one hand, while on the other hand it is crucial to emphasise the efficiency of expenditure. Simply increasing expenditure does not lead to an increase in the quality and accessibility of health care. According to the MoH (2019), in order to achieve greater efficiency, it is particularly necessary to improve the organisation of health care, increase the resilience of the healthcare system, make changes in the negotiation procedure between health insurance companies and health care providers, and achieve a high level of digitisation of the healthcare system.

Stability and transparency of funding

To strengthen the stability of the revenue part of the system, Act No. 260/2022 Coll. was approved, which **introduced an automatic indexation mechanism for the state insurance payments for the so-called state-insured persons** (more e.g. MF CR, 2023). Its adoption, however, strengthens the public component of healthcare expenditure, which in the Czech Republic reaches the highest level among EU countries (in 2021, the share of public expenditure was 86.4% of total healthcare expenditure).

Increasing the efficiency of the health sector

Health insurance companies will play a key role in the changes in the **organisation of healthcare**, but also the consistent implementation of clinically recommended procedures (piloted in 2018–2022) and the electronicisation of agendas tracking the trajectory of patients in the system will be important. Thus, in the medium term, a **restructuring of the hospital network** is planned (creation of a backbone network of hospitals with continuous operations in a wide range of specialties and with emergency admissions), but there would also be a gradual **transformation of the acute care inpatient bedsstock** (taking into account regional specificities) **into long-term and subsequent inpatient care beds**[8] (including palliative care). **Specific health care activities** will increasingly **be centralised** in a few centres (so-called "centres of concentration") where these activities are reimbursed at cost. In addition to the establishment of these centres, it is planned to introduce the institution of "centres of excellence" by the end of 2025, where selected centres are bonused for above-average results, adherence to recommended procedures and quality. With the planned entry into force in January 2025, a new comprehensive social-healthcare service, for example, will be created thanks to the adoption of the amendment **Act on the so-called health-social frontier** (Chamber of Deputies Print No. 704), which will be multi-source financed. It will also be possible to provide health care services in respite care facilities, especially for people with long-term chronic illnesses.

In reimbursement mechanisms, **more support** is planned for **the use of one-day care in a wide range of specialties**, including its inclusion in the CZ-DRG system. There is also a gradual reduction in reimbursement inequalities, both in acute inpatient care (by 2024, more than 18% of acute inpatient care will be covered by a single base rate) and in outpatient care. Over the next few years, the strategic objective is to get to at least 30% of care being reimbursed uniformly according to real costs. **Support for primary care** will also continue, with reimbursement support for group practices expected from 2025. A significant change will be the subsequent establishment of comprehensive primary care centres, which, in addition to the benefits of group practices, will have overlap with public health and community mental health and will provide integrated and comprehensive care for patients.

[8] The Ministry of Health of the Czech Republic (2024) states that by 2035, due to the ageing of the population, it will be necessary to increase the bed stock of long-term and subsequent care by approximately 4,700 beds.

In changes of the negotiation procedure, according to the MoH (2024), there should be more of the data and analytical base used for decision-making by individual participants. The role of health insurance companies towards health care providers should also be strengthened, especially in pricing and distribution of resources between different parts of the healthcare sector. The desired effect should then be that all segments of the healthcare system agree with the health insurance companies on the level of reimbursement through a negotiation procedure, with the resulting planned **aggregate reimbursement** for all segments **always aiming at least at a balanced performance of the public healthcare system** (Government Resolution No. 267/2024).

An important element of greater efficiency in healthcare is its high degree of digitisation. The key components defined in Act No. 325/2021 Coll., on the electronicisition of healthcare, include **core registers**, which have not yet been actually created and the obligation for health care providers to use them has thus been postponed until 2026. It will also be necessary to **connect health care providers and enable the exchange of electronic medical records**. In the planned amendment to Act No. 325/2021 Coll., it is envisaged to extend this service also to patients, social service providers and health insurance companies. It is also planned to **create an eHealth Portal** by the end of 2025, which will be a comprehensive single point of access for citizens and healthcare workers to electronic healthcare services through the Electronic Health Card. As of this year it functions as a vaccination card, and by the end of 2025 it is planned to extend its functions to include the possibility of extracting information from the central registers of the National Health Information System (e.g. on patient hospitalisations), online central ordering for screening examinations, electronic sending of applications and discharge reports, etc.

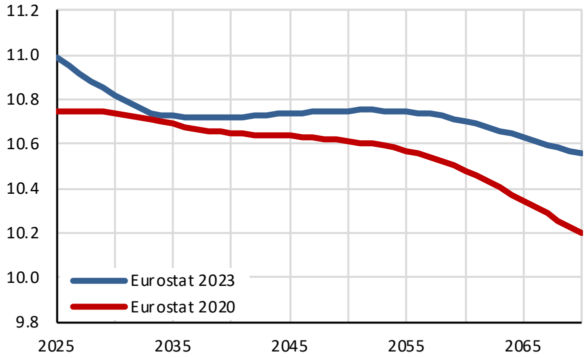
Strengthening resilience of the healthcare system

Strengthening the overall resilience of the healthcare system is also a priority for the Czech Republic. Within the framework of the National Recovery Plan's component 6.2 the National Plan for Strengthening Cancer Prevention and Care, a project of the Institute of Health Information and Statistics of the Czech Republic - National Screening Centre called Comprehensive Information Facility for Improving the Quality of Cancer Screening Programmes is being implemented. Its goal is to develop and implement comprehensive information systems at the National Screening Center that will serve to ensure the quality of provider population screening programs.

Ensuring staff capacity in the healthcare sector

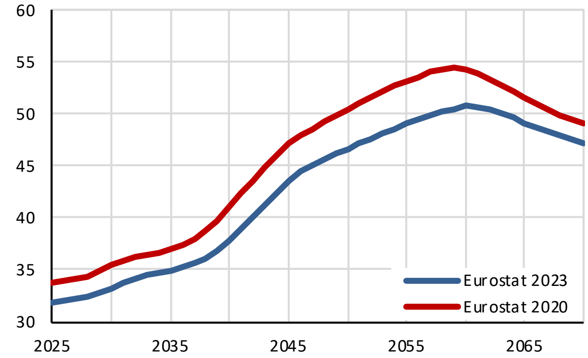
Individual segments of healthcare have long been struggling with insufficient staff capacity. Currently, the big problem is not the total number of doctors, but their uneven distribution between specialisations (long-term shortage of doctors in primary care) and regions. However, there are low numbers of non-medical staff, especially nurses and radiological assistants. The shortage of healthcare staff will be further exacerbated by demographic ageing and future increased demand for care (both health and long-term). In order to define the problems of staffing in the healthcare sector and to propose systemic solutions, a **Strategic Group for Staff Stabilisation of the Healthcare Sector was established** in 2023, in which all relevant institutions are represented (professional societies, the Ministry of Health, educational institutions, representatives of professional and trade union organisations, etc.) and which should prepare a long-term strategy for the stabilisation and development of staff resources in the healthcare sector until 2030. Last year, the National Recovery Plan **launched** the **"Administration of specialisation and extension training" programme**, which will link data on staff capacity into a new information system predicting needs in the segment. In addition, subsidies on **residency have been increased**, both for core tribes and for specialty training in primary care and child care, or **streamlined specialty training**. By the end of 2025, it is then planned to allow health insurance companies to have a greater share and responsibility for building a network of accessible primary care. Working groups should address the shortage of dental care and paediatric primary care, where **primary care team practices will be encouraged to** allow for reduced working hours while providing day-to-day health care. For non-medical health personnel, further expansion of competences is planned in the medium term, especially in primary care, or making the system of qualification training and subsequent professional training, including specialisation training, as unobstructed as possible.

Graph 4.2.1: Czech population Projections
millions of persons



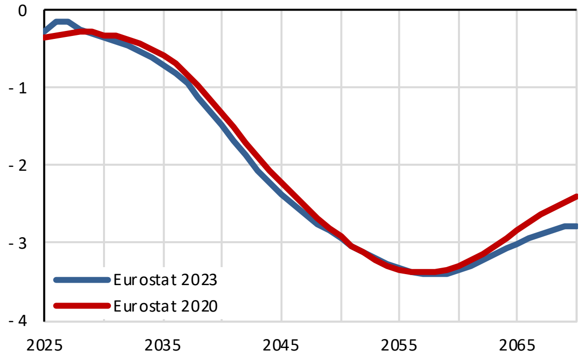
Source: Eurostat (2019), Eurostat (2023).

Graph 4.2.2: Old-age Dependency Ratio
in %, ratio of persons aged 65+ to persons aged 15–64 years



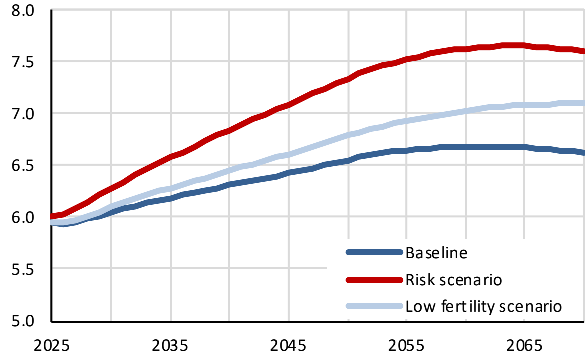
Source: Eurostat (2019), Eurostat (2023).

Graph 4.2.3: Pension Account Balance
in % of GDP



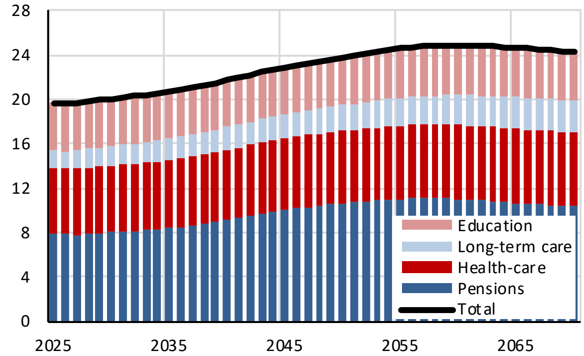
Source: MF CR calculations and forecast.

Graph 4.2.4: Health Care Scenarios
in % of GDP



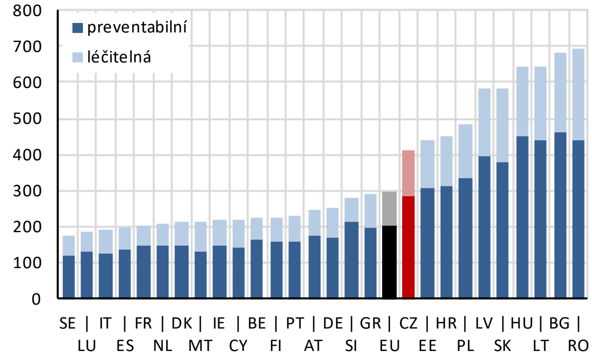
Source: EK (2024a). MF CR calculations.

Graph 4.2.5: Expenditure Projections
in % of GDP, age-related expenditure



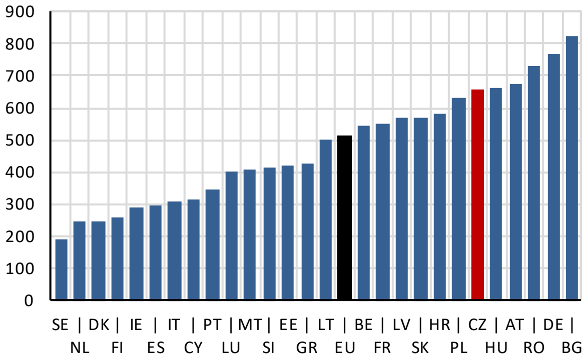
Source: EC (2024a).). MF CR calculations.

Graph 4.2.6: Preventable and Treatable Mortality (2021)
per 100,000 persons



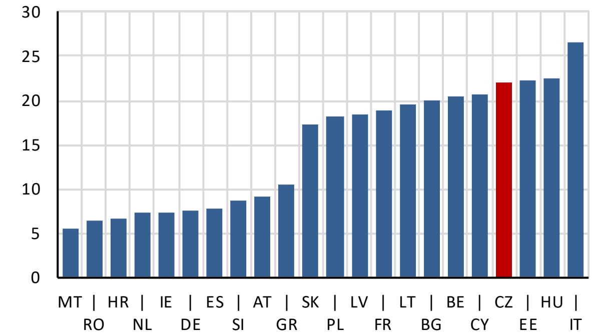
Source: Eurostat (2024).

Graph 4.2.7: Hospital Beds (2022)
number of hospital beds per 100,000 persons



Source: Eurostat (2024).

Graph 4.2.8: General Practicioners over 65 years in EU
in % of all general practicioners, data for 2022



Source: Eurostat (2024).

4.3 Education, Science and Research, Labour Market and Housing Support

4.3.1 Education, Science and Research

The future of a developed country is closely linked to the quality of education. The Czech Republic therefore seeks reforms and investments that will ensure an education system capable of preparing children and young citizens for the challenges of the 21st century. In this context, the overarching strategic document is the **Strategy for the Education Policy of the Czech Republic 2030+** (MoEYS, 2020), which was prepared in cooperation with experts and on the basis of consensus across the political spectrum. The current implementation document (MoEYS, 2023) sets out **three priorities for the period 2023–2027**:

1) **Children and young people: personal development and motivation for lifelong learning**, i.e. the provision of accessible competence-based general education supporting progressive vocational specialisation at different stages of life. The priority also includes the development of intrinsic motivation to learn, support for gifted children or the availability of counselling services for children;
2) **Schools and teachers: modern education and prepared teachers**, i.e. the introduction of the revised Framework of Educational Programmes in Czech schools, the transformation of the content and concept of the unified entrance examination, the introduction of a professional standard for teachers, and, for example, the reform of the preparation of school principals and support for their professional development;
3) **An efficient education system: a sustainable and effective system based on accountability for results**, i.e. sustainability and rationalisation of the school network, innovation of the subject system or readiness of primary school children for transition to secondary school and support for schools with an over-representation of pupils with social disadvantages.

The implementation document also includes **cross-cutting measures** that will be the focus of attention – education for sustainability, digital education and artificial intelligence in education, education for children and pupils with a lack of language-of-instruction skills, well-being, mental health, safe environments and the promotion of physical activity, equality of opportunity in education and ensuring that secondary schools have the necessary capacity and structure to meet expected life pathways.

The main objective in the field of pre-school education is to **increase the quality and accessibility of pre-school education** and to take in as many children as possible in the Czech Republic. At the same time, activities are implemented to **support the integration of children – foreigners** and to support teaching staff. Among others, several documents targeting teachers, directors of kindergartens have been produced and are available on the website **https://www.edu.cz/ukrajina/**. Targeted financial support aimed at Ukrainian refugees includes in particular support for the establishment of the position of Ukrainian teaching assistant in kindergartens, as well as in primary and secondary schools and conservatories of music. Similarly, attention is paid to the system of language support for foreigners in primary schools. At the same time, work is being completed on the **revision of the Framework Curriculum for Primary Education**. Following its completion, schools should be able to implement teaching according to it from 1 September 2027. As part of the reforms of regional education, the process of **innovating the subject system** for secondary vocational education is underway.

An important part of the modernisation of Czech education is the ongoing **reform of the preparation of future teachers**. *A Competency Framework for Graduate Teachers* has been developed and adopted, which represents a common national vision of the quality of graduate teacher training. The internationalisation of teacher training, the enhancement of the attractiveness of the teaching profession and the development of subject didactics as a key component of teacher training are also being strengthened, in particular through the *Teachers Matter* subsidy programme and the call for *Support for the Undergraduate Preparation of Future Teachers* under the Jan Amos Komenský OP. The reform of teaching practices and closer links between teacher training faculties and schools of regional education are also continuing. A pilot test of *the Support System for Accompanying Teachers* has been launched with the aim of improving the quality of teaching practice. From 1 January 2024, the so-called *Teacher Adaptation Period* has been also enshrined, which includes a period of 2 years from the start of the teacher's activity, and the position of the introducing teacher, who mainly methodically guides the beginning teacher during his/her adaptation period, continuously and regularly evaluates his/her work with him/her and familiarises him/her with the school's activity.

In relation to **increasing the inclusiveness of the education system**, the Ministry of Education, Youth and Sports plans to fund school psychologists and school special educators from the state budget starting in 2025 so that every regular primary school will be entitled to a certain amount of full-time teaching positions. It is envisaged that this system will also be provided in kindergartens and secondary schools. Websites for teachers and the general public promoting inclusive education https://zapojmevsechny.cz/ and providing methodological support to school counselling institutions and school counselling centres https://poradenstvi.npi.cz/ are continuously being developed. The Ministry of Education, Youth and Sports continues to implement a programme to support schools with an above-average representation of pupils with social disadvantages as part of the implementation of the National Recovery Plan component 3.2 **Adaptation of the capacity and focus of school programmes**, which runs until 31 August 2025. The target is to support 400 schools.

The Czech Republic is investing in the **development of digital education**, including through the National Recovery Plan and its component *3.1 Innovation in Education in the Context of Digitalisation*. Under the first intervention, the project continues to focus on the implementation of new Framework of Educational Programmes at school level, including training for teachers on how to develop students' computational thinking and digital competences. Under the second intervention, funding is provided to schools to purchase digital teaching aids in line with their curriculum to develop computational thinking and digital competences. The third intervention provides funding for schools to purchase digital devices to prevent the digital divide. The funds are distributed according to a coefficient that takes into account the socio-economic situation of each school.

The overarching document National Research, Development and Innovation Policy of the Czech Republic 2021+ (Government Office, 2020) was adopted for the area of **science and research**. It represents a strategic framework for the development of all components of R&D&I in the Czech Republic (basic research, oriented and applied research, experimental development and innovation) and uses their joint action to develop a knowledge-based society and support the economic, environmental, cultural and social development of the Czech Republic.

4.3.2 Labour Market

In the context of the digital transformation, the Czech labour market will continue to face challenges that require appropriate targeting of **active employment policies**[9]. In 2024, a pilot testing of a new tool, **the integration workplace**, is underway in response to long-standing criticism of the effectiveness of active employment policy instruments, in particular community service. Shortcomings lie in the low participation of disadvantaged people in the free labour market or in the lack of transfer to better quality employment or to permanent work and social integration. The integration workplace supports job creation by providing a wage subsidy to the employer. The employer is also obliged to release the supported employee for integration and training activities on a regular basis during the course of employment. An integration activity is basically any psychosocial support that responds to the specific needs of disadvantaged persons and that provides such persons with basic support in dealing with their adverse life situation. Following the pilot testing, an evaluation will take place in 2025.

Furthermore, the Czech Republic continues its activities aimed at the legislative anchoring and support of the social economy, specifically the approval of the **law on integrative social enterprise** and the overall development of the social entrepreneurship ecosystem. The law aims to better integrate socially and health disadvantaged people into the labour market. It redefines an integrative social enterprise, which must employ at least 30% of people with specific needs. The aim is to help these people obtain and maintain decent job. The enterprises will be motivated by financial support from the state, such as incentive grants and employment allowances.

A draft **revision of the protected labour market** is also under preparation. The subject of the amendment is to streamline the provision of the contribution to the employment of persons with disabilities on the sheltered labour market and to prevent the most serious excesses in the provision of this socially necessary support.

In addition to the continuation of the implementation of standard retraining or **retraining in digital skills** funded by the National Recovery Plan, the development of the Database of Retraining and Further Education Courses is continuing. The launch of the NPO-*Digi for Companies* project is crucial in supporting further training. This is a follow-up project to the series of Educate Yourself and then Supporting Vocational Employee Training projects aimed at supporting employee training through their employers.

A fundamental change is also the **streamlining of public employment services** in terms of making the services of the Labour Office more accessible and reducing the bureaucratic burden through digitisation.

An important priority in the labour market is to **facilitate the employment of women** and parents in general and to create conditions for effective reconciliation of family and working life and the elimination of gender stereotypes, as mandated by the Strategy for Gender Equality 2021–2030. Following the *Family Policy Strategy 2024–2030* (MoLSA, 2023), there is an **increase in the capacity of quality and accessible pre-school childcare services** (especially for children under 3 years old)[10] . The Children's Group Act sets the basic parameters for childcare services for children from six months (until the start of compulsory schooling) on a non-commercial basis. An amendment to the Children's Groups Act is currently in the process of being drafted to define a 'neighbourhood children's group'. Furthermore, the Ministry of Labour

[9] In the context of the impact of decarbonisation on the regions affected by it, the OP Just Transition is important, which focuses, among other things, on supporting active employment policy in structurally affected regions.

[10] It is specifically supported by OP Employment+.

and Social Affairs is continuously monitoring the quality and development of children's groups and has launched a project for this purpose, the aim of which is to set up a framework for systematic monitoring and evaluation and a targeted communication strategy towards municipalities as potential founders. The establishment of the children's groups is financed under the NPO from the investment Increasing the Capacity of Childcare Facilities.

In order to comprehensively support carers and reduce inequalities on the labour market between men and women, especially in relation to the issue of reconciling care and work, a three-year project *Support and Improvement of the Quality of Services in the Field of Care and Reconciliation of Work and Family life* is being implemented from 2023, which is funded by OP Employment+. The project focuses on the themes of promoting greater involvement of men in care, promoting caregiver awareness and increasing the availability and quality of childcare services. In addition, since February last year, employers have been granted a 5% discount on social security contributions for designated part-time groups, thereby increasing labour market flexibility.

With the aim of eliminating the persistently high difference in average earnings between women and men on the Czech labour market, the **Action Plan for Equal Remuneration of Women and Men** is being implemented, through which the principles of transparency of remuneration, the effective use of tools for measuring unjustified differences in remuneration and the elimination of vertical and horizontal segregation and stereotypes affecting women at work are being strengthened, and the EU Directive on Pay Transparency is currently being transposed. Comprehensive methodological and expert support and tool development is provided by the Ministry of Labour and Social Affairs' Equal Pay system project.

As of 2024, the total amount of the **parental allowance** has been increased from CZK 300 thousand to CZK 350 thousand for a child born after 1 January 2024 and at the same time the maximum period of receiving the allowance for parents of these children was reduced from 4 years to 3 years of the child's age.

In relation to the **labour migration system**, the Czech Republic is working on a set-up that will be more responsive to the needs of the labour market, with an emphasis on supporting the **arrival of people with higher qualifications**. A new system of economic labour migration has been prepared in an amendment to the Employment Act, which aims to adjust the conditions of employment of foreigners from third countries in terms of a more differentiated approach to labour migrants based on their human capital and expected contribution to the domestic economy. One of the major disadvantages of foreigners is their knowledge of the Czech language. Therefore, in order to support economic self-sufficiency and the application of the qualification potential of foreign workers, the Ministry of Labour and Social Affairs together with the Ministry of Education, Youth and Sports has prepared a facility for **language training in Czech for foreigners.**[11] In line with strengthening the employability of migrants on the Czech labour market, the Labour Offices provide retraining courses in the Czech language for foreigners.

The Ministry of the Interior has drafted a new law on the residence of foreigners, which creates a legal basis for the digitalisation of the administrative procedure for the residence permit of foreign nationals, including labour migrants, and introduces some other changes contributing to increased efficiency of the migration process. In the area of labour migration, the new law adopts and enshrines the current proven principles of regulating the volume and structure of migration flows through annual quotas and transparent preferential treatment for selected groups of foreign workers whose arrival is of increased interest to the state. It also responds to recent changes in EU law concerning the conditions of admission of workers from non-EU countries. The bill was approved by the Government on 28 August 2024.

4.3.3 Housing Support

Housing affordability in the Czech Republic is a persistent systemic problem. For low-income groups, the issue is even more pressing due to the lack of a legal framework for providing systemic support for social housing.

One of the instruments that should lead to improved housing affordability is the **reform of the Building Act**. This should speed up, digitise and streamline the construction procedure to reduce its overall duration. The overall objective is therefore to increase the number of housing starts and completions each year. The issue of digitaliisation of the construction procedure is described in more detail in Chapter 4.4.

Through a combination of the state budget and National Recovery Plan funds, the **construction of rental housing** will be **supported** in the form of grants and especially loans. The investment support instruments are applicable to both the public and private sectors. The compliance with the target group and the established method of calculating the rent at the cost level throughout the sustainability period (duration of the loan, sustainability in terms of the subsidy) is the condition for the use of the support. The target group comprises over 10% of the population of the Czech Republic.

The issue of **social and affordable housing** is systemically anchored in the draft law on housing support. It fo-

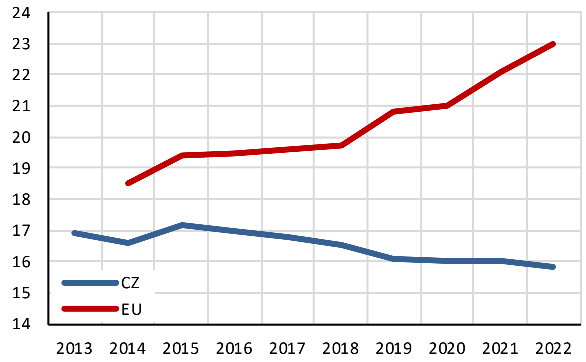
[11] i.e. granting accreditation by the Ministry of Education, Youth and Sports for language courses under Section 108 of the Employment Act and issuing recommended educational and methodological materials. In addition, two calls for Czech language teaching aimed specifically at foreigners coming from Ukraine were announced in 2022.

cuses on people who are most vulnerable on the housing market (people caring for a child on their own, victims of domestic violence or war veterans). The Act obliges 206 municipalities with extended powers to provide housing contact points and also sets out a system of guarantees and compensation for homeowners. This measure is intended to bring currently vacant apartments in particular to the market and to enable owners to accommodate low-income and other marginal groups without major risks. The Housing Support Act is expected to come into force in July 2025. In this context, it is worth mentioning the implementation of the project *Support for Social Housing and its Systemic Implementation in the Czech Republic*, which is focused on cooperation with municipalities. The main objective of the project is to disseminate the system-led approach among other implementers of calls for social housing, to pilot innovative elements (housing contact points, social real estate agencies, local and regional level) and to increase the number of people informed about social housing.

The ongoing **reform of tenancy relations**, which specifically aims to increase the stability of landlord-tenant relations, should also have an impact on the availability of housing, inter alia by limiting the chaining of short-term contracts and simplifying the eviction of non-paying tenants.

Graph 4.3.1: Graduates in Technical Disciplines

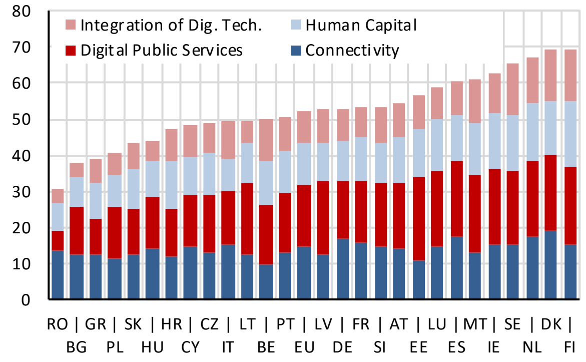
number of university graduates in the fields of mathematics, science, informatics, engineering, machine production, construction per 1,000 persons aged 20–29



Source: Eurostat (2024).

Graph 4.3.2: Digital Economy and Society Index

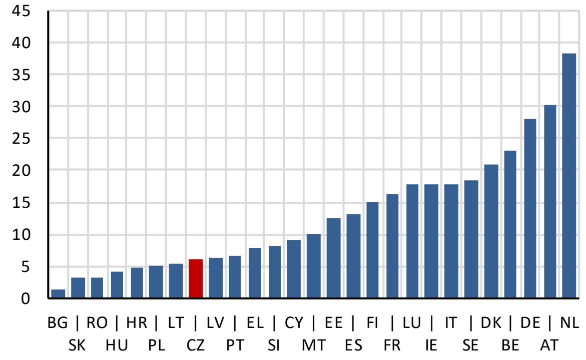
index with equal weights of items, data for 2022



Source: EC (2022b).

Graph 4.3.3: Part-time Workers Share in 2022

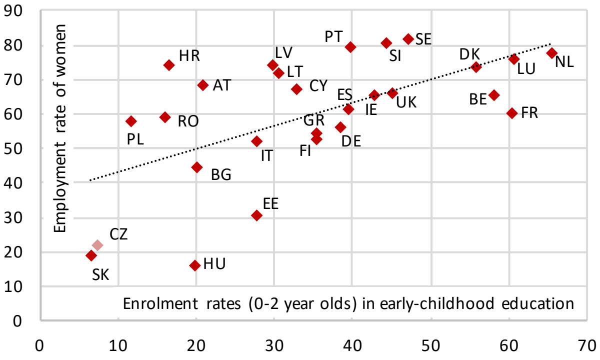
share of the total number of employees aged 20–64 in %



Source: Eurostat (2024).

Graph 4.3.4: Enrolment Rates in Early-childhood Education and Employment Rate of Women with Children

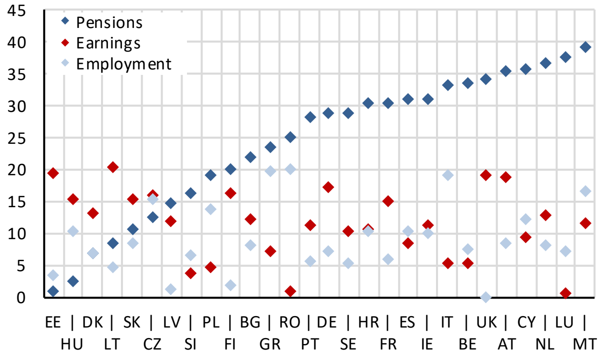
in %, employment rate of women aged 15–64 with 1 child under age of 3



Source: OECD (2022b). MF CR claculations.

Graph 4.3.5: Gender Gap

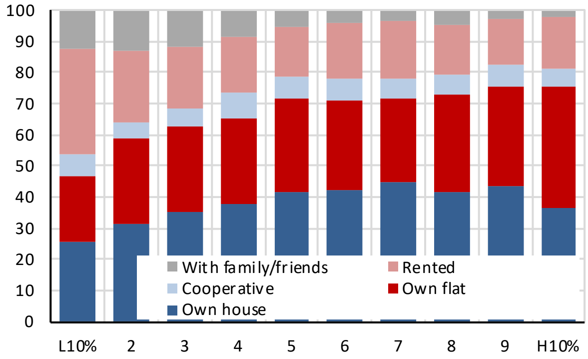
gap in employment, wages and pensions %



Note: Gender gap in employment for age cohorts 20–64 years.
Source: Eurostat (2024).

Graph 4.3.6: Type of Housing by Income

in % by deciles of income



Source: CZSO (2023). MF CR calculations.

4.4 Modern Public Administration, Digitisation

4.4.1 Measures countering Corruption

In order to strengthen the anti-corruption framework, the Czech Republic has identified four main reforms, two of which have already been implemented and two are under preparation. Firstly, **Act No. 171/2023 Coll.,** The Whistleblower Protection Act and related amendments (Act No. 172/2023 Coll.), effective from 1 August 2023. The Act provides protection to a wide range of persons working in the private and public sectors in the event that they report an illegal act that has occurred in the organisation where they work or with which they have contact in connection with their work. In particular, employees, business partners of employers, self-employed persons, interns, volunteers and persons who help the whistleblower to report or disclose the violation are protected from retaliation. In practice, the protection of whistleblowers will be strengthened in particular by the substantive prohibition on retaliation and the reversal of the burden of proof in retaliation disputes.

Another measure implemented is the **reform of the judiciary** aimed at strengthening the legislative framework and transparency in the area of courts, judges, prosecutors and bailiffs (amendment to the Act on Courts and Judges, Act No. 218/2021 Coll.). Thus, with effect from 2022, objective rules for the selection of judges and court officials have been introduced, the ancillary activities of judges have been regulated in more detail, and court proceedings involving lay judges have been streamlined.

The amendment to the Act on Courts and Judges is followed by a reform measure in the area of the judiciary – the amendment to **the Act on Proceedings in Matters of Judges, Public Prosecutors and Bailiffs** (Chamber of Deputies Print No. 634). It is intended to introduce an instance review of the decision of the disciplinary chamber on the basis of an appeal, and to introduce measures to increase the efficiency of proceedings in cases of judges, prosecutors and bailiffs, in particular as regards the composition of disciplinary chambers, the salaries of those convicted of disciplinary offences and the settlement of disciplinary cases by agreement. The reform should be implemented by the end of 2024.

Last but not least, the anti-corruption framework in the Czech Republic should be strengthened **by establishing rules for lobbying**. The Lobbying Regulation Bill and the related amending bill are to define lobbying, require the establishment of a register of lobbyists and lobbied persons, introduce the obligation to register lobbying and provide for sanctions for non-compliance (Chamber of Deputies Print Nos. 649 and 650, now in the second reading). This new legislation should be approved by 30 June 2025 at the latest.

4.4.2 Modern Public Administration

The overarching strategic document in the area of modernisation of public administration is the concept of **Client-oriented Public Administration 2030** (MI, 2020), including the implementing Action Plan for the years 2021–2023 (MI, 2021). Its vision is to achieve in 2030 a public administration that is as client-oriented as possible and creates conditions for further improvement of the quality of life of the population and growth of prosperity in the Czech Republic. The concept sets out five strategic objectives aimed at achieving a substantive shift in specific areas of public administration:

1) accessible and quality public services,
2) an efficient public administration system,
3) effective public administration institutions,
4) competent human resources,
5) informed and participating citizens.

The concept is implemented by action plans. The first Action Plan for the years 2021–2023 has already been fulfilled (MI, 2021). The new Action Plan for 2024–2026 (MI, 2024) was approved by the Government on 3 April 2024. The Action Plan for 2024–2026 includes, for example, measures to improve communication with business in public administration, to improve the environment for strategic management or to create an information system for election management.

Adequate administrative capacity and, in general, attracting and retaining talent in public administration is a prerequisite for an effective public administration capable of responding to current challenges. Activities in this area are, inter alia, implemented under National Recovery Plan Component 4.4 ***Improving the Efficiency of Public Administration***. In addition to **support for informed decision-making** in public administration and measures to increase the **pro-client orientation of public administration** (part of a broader area of measures to increase attractiveness and develop professional skills in the public service), measures to **improve policy coordination and strategic planning** are also included. Activities include, for example, the adoption of a comprehensive report on policy coherence for sustainable development, identifying the funding needs of strategies and existing funding sources, the adoption of a new version of the regulatory impact analysis methodology, the update of a model covering all climate and energy processes relevant to the Czech Republic, and the adoption of a human resources action plan for the civil service. This report must be approved by the Government by the end of 2025.

Furthermore, the project *Increasing Efficiency, Pro-client Orientation and Use of the Principles of "**evidence informed**"* in decision-making in public administration is being implemented. The aim of this project on promoting the use of informed decision-making principles remains the design of an electronic tool for data collection in public administration, the **so-called Unified Data Collection Information System**, which will focus on, for example, eliminating duplicate data reporting, unifying the formats sent, linking existing sources of information and, in general, making the use of data more efficient. Overall, the aim is to create a database of relevant data from selected information sources, open data and data collected through a newly developed electronic tool for collecting data on the activities of authorities. At the same time, the implementation of a **training programme for front-office officials in a pro-client approach**, which is an element of the next part of the reform and is aimed at increasing the pro-client orientation of the public administration, started in 2024. The training programme aims to increase professionalism in the areas of communication and the quality of administrative performance of front-office officials. The training programme is a follow-up to the pilot version that was implemented under the project Evaluation of Public Administration in the Czech Republic (OECD, 2023a). The aim of the training programme supported by the National Recovery Plan is to train 1,000 front-office officials of local governments in 2024–2025.

The **amendment to the Civil Service Act** was submitted to the Chamber of Deputies on 16 April 2024 (Chamber of Deputies Print No. 673). It aims at a flexible functioning of the civil service in compliance with its basic principles. The amendment is expected to come into force in January 2025. The modernisation of public procurement is also closely linked to the efficient performance of public administration. In this context, the **National Public Procurement Strategy** was adopted by the Government on 21 February 2024. Within the framework of this strategy, the following activities will be implemented from the National Recovery Plan funds in the period up to mid-2025: elaboration of a concept for the professionalisation of public procurers, including training programmes; elaboration of a Sustainable Purchasing Action Plan containing minimum sustainability standards for commodities/areas with key environmental impact, as well as support for better linking public procurement with the vision of the EU taxonomy; creation of a Competence (methodological and coordination) Centre focusing, inter alia, on the development of methodologies for successful realisation of public procurement within supported projects, of the relevant portal with models and examples from practice for contractors, inter alia, at the municipal level; support for the development of centralised procurement, especially in terms of support to regional centres and specific assistance to contracting authorities, especially at municipal level.

A step towards more effective functioning of municipalities is the introduction of the **institution of the community of municipalities** as an institutionalised form of inter-municipal cooperation. In addition to the activities that can be the subject of the activities of a union of municipalities, the task of a community of municipalities is to ensure the coordination of public services in the territory of the member municipalities and the strategic development of this territory.

4.4.3 Digitalisation

The **digitalisation of public administration** is closely related to its modernisation and streamlining. In addition to the state budget and the European Structural and Investment Funds, the digitalisation of public administration is also significantly financed by the National Recovery Plan. Its components focused on the digitalisation of public administration are component *1.1 Digital Services to Citizens and Companies*, component *1.2 Digital Public Administration Systems* and, more recently, component *1.7 Digital Transformation of Public Administration*. The aim of component 1.1 is to simplify, optimise and digitise individual agendas performed by the state and public administration (including health care as a complex sector of the state economy, which is partially managed by the state and financed from public funds). The supported entities are central administrative bodies, state contributory organisations, state enterprises. Component 1.2 aims to create an effective environment for the digitisation of agendas performed by public administration and healthcare as a complex field of economy financed mainly from public resources. The supported entities are central administrative authorities, state contributory organisations and state enterprises.

Beyond the National Recovery Plan, a number of other projects in the field of digitalisation of public administration are being implemented. For example, the completion of the **e-Collection** and **e-Legislation** project, which aims to modernise the legislative process and increase the accessibility and clarity of the law. The e-Collection system serves as a database of information on legal acts and also publishes electronic versions of legal acts published in the Collection of Laws and International Treaties. The e-Legislation system is a tool for drafting and discussing legislation. In the area of legislation, the implementation of the e-legislation process into the Senate's rules of procedure remains to be addressed at this time. The remaining functionalities in the area of e-legislation are expected to be completed in 2024. In accordance with Act No. 222/2016 Coll., the e-Collection part of the system was put into operation on 1 January 2024. The launch of the e-Legislation system is planned to be phased in for each type of act promulgated in the e-Collection. On 1 July 2024, the section on international treaties was launched, on 15 January 2025 the e-Legislation system will be launched for implementing legislation, communications, resolutions and decisions and on 15 January 2026 the e-Legislation system will be launched in its entirety.

On 20 January 2024, the **eDocuments** project was launched, bringing the possibility of verifying physical identity or other facts through a mobile application containing a securely stored digital copy of a valid ID card. Throughout 2024, in accordance with the amendment to Act No. 12/2020 Coll., on The Right to Digital Services and on Amendment of Certain Acts, the gradual implementation of identity verification using the eDocuments application is being ensured with legal entities as verifiers. According to the timetable, eDocuments are accepted by all central administrative authorities from 1 January 2024, and from 1 July 2024 they are also newly accepted by regions and municipalities with extended powers and other state authorities such as the Police of the Czech Republic, the tax administration, labour offices, etc. As of 1 January 2025, eDocuments will be accepted by other public authorities such as election commissions, representative offices, schools or first- and second-tier municipalities, as well as by private and private-law entities, including, for example, banks, post offices or health insurance companies, which are required by law to verify someone's identity or other personal data.

The **digitalisation of building procedures** is one of the priorities in the field of housing, building law and spatial planning. The aim of the project is to simplify and streamline the process of issuing building permits. It is expected that speeding up the construction procedure will significantly improve the business and investment environment in the Czech Republic. Currently, work is underway on 2 main systems: an *Agenda Information System* for officials of building authorities and authorities concerned and a *Builder's Portal* for the general public, which serves to communicate with building authorities. Both of these systems should be interconnected, the records and support systems of the construction administration are linked to them. Everything is being developed with an emphasis on simplification and elimination of repetitive administrative tasks so that applicants and officials work with state-known guaranteed data (linked data pool).

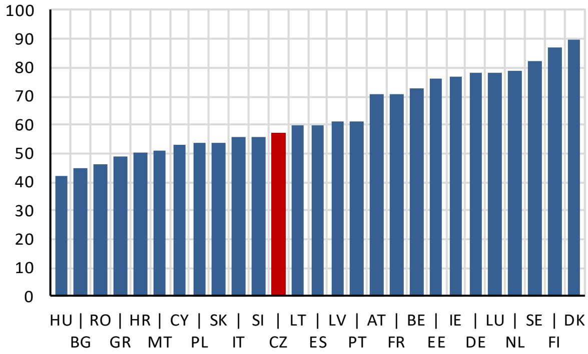
Digitalisation is key to increasing the competitiveness of Czech companies on the global market. In this respect, small and medium-sized enterprises in particular need to be motivated to use smart solutions that can make their work more efficient and increase productivity. The Czech Republic places great emphasis on supporting the **digitisation of enterprises** and reflects it also through the National Recovery Plan (component 1.5. Digital Transformation of Enterprises) and OP Technologies and Applications for Competitiveness. It is through the National Recovery Plan that a number of projects are supported to support the digital transformation of small and medium-sized enterprises in particular. For example, the National Recovery Plan has established the *Platform for the Digital Economy*, which aims to connect all actors in the national digital ecosystem. In the future, this platform will function as one of the working groups of the *Digital Transformation Committee*, which is expected to be established by 2025. In the OP Technologies and Applications for Competitiveness, digitisation of enterprises is addressed in specific target 1.2 (Digital Enterprise activity) with a total allocation of almost CZK 7 billion with the aim to support the introduction of digitisation in enterprises, including the necessary process analysis and follow-up investment support for the deployment of digital solutions (support for projects in areas related to artificial intelligence, process automation, robotics and cyber security of online and cyber-physical systems); development and acquisition of specialized software (e.g. for computer security, simulation, monitoring, computer vision, for working with big data – Big Data Analytics, for 3D printing, implementation of artificial intelligence, robotics, machine learning, augmented and virtual reality, business intelligence, etc.); and building and upgrading computing and data centres.

The development of **digital high-capacity networks** in the Czech Republic is being carried out in accordance with strategic documents approved by the Government. These include: *National Plan for the Development of Very High-Capacity Networks* (MIT, 2021), *Implementation and Development of 5G Networks in the Czech Republic – Towards the Digital Economy* (MIT, 2020), *Action Plan 2.0 to implement Non-subsidy Measures to support the Planning and Construction of Electronic Communications Networks* (MIT, 2019, Action Plan 3.0 is under preparation). Support for the development of these networks is mainly through the measures adopted in the National Recovery Plan and cohesion funds. Among the most important measures are the reforms and investments of the National Recovery Plan contained in component 1.3 *Digital High-capacity Networks*, containing in particular the creation of digital technical maps, increasing the number of connections to very high-capacity networks, increasing the level of 5G mobile signal coverage in investment-intensive locations, including coverage of transport corridors, technical means to ensure mobile signal coverage of trainsets, support for industrial research and experimental development for projects using 5G networks.

This activity is then followed by Priority 3 of OP Technologies and Applications for Competitiveness with a total allocation of CZK 4 billion, which aims to increase the availability of high-capacity networks enabling reliable access to electronic communications services for Internet access to end users (households, businesses, public administration and other socio-economic actors). Specifically, this involves support for the deployment of fibre access networks and very high-capacity access networks providing fixed site services with a target speed of at least 150 Mbps or at least 1 Gbps (depending on the category of the area to which the relevant subsidy is directed).

Graph 4.4.1: Corruption in Public Sector (2023)

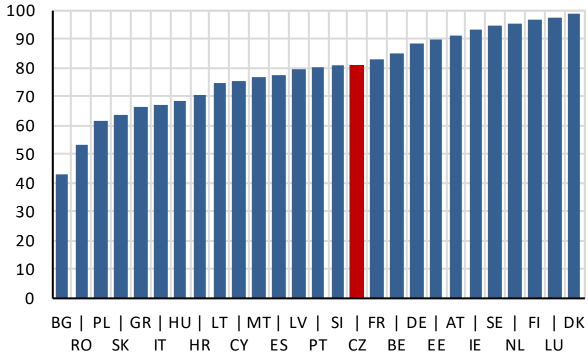
higher values mean less of subjectively perceived corruption



Source: TI (2023).

Graph 4.4.2: Public Administration Efficiency (2022)

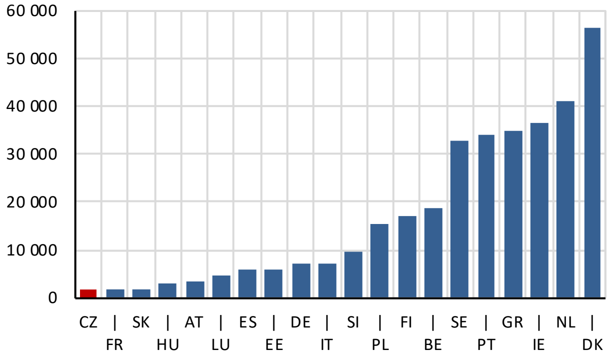
index of quality of public administration, authorities and independence



Source: WB (2023).

Graph 4.4.3: Average Municipality Size (2018)

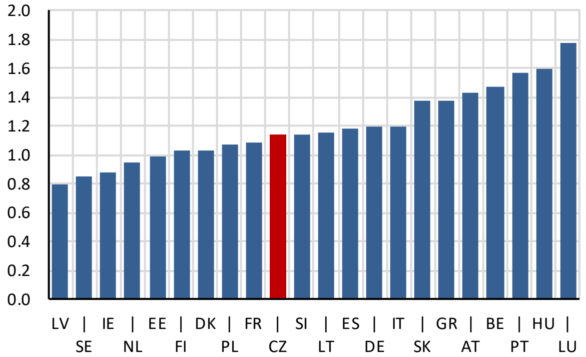
population per municipality



Source: Turley et al. (2018).

Graph 4.4.4: Product Market Regulation

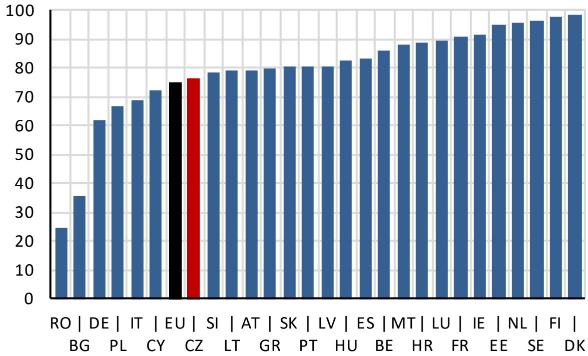
lower values mean fewer barriers to competition in the product market



Source: OECD (2023b).

Graph 4.4.5: Users of e-Government (2023)

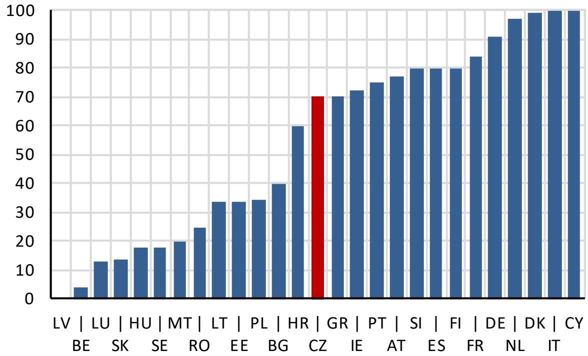
share of e-Government users in internet users during the year in %



Source: EC (2024b).

Graph 4.4.6: 5G Signal Coverage

in %



Source: 5G Observatory (2024).

5 Contingent Liabilities

Guarantees represent an increase in general government expenditure when the borrower is unable to repay the obligations for which the guarantee is provided. Before the pandemic, the volume of guarantees provided in the Czech Republic was quite negligible. **At present, the total volume of guarantees is around 0.6% of GDP.**

Currently, **the Guarantee Programme 2015–2023** (approved by Government Resolution No. 1053/2014), respectively its 4th call, is expiring, which allows small and medium-sized enterprises to obtain a guarantee for a bank loan of an investment or operational nature. The effective guarantee amounted to CZK 4.13 billion as of 31 December 2023. Other current programmes for which the National Development Bank provides so-called M-guarantees (a type of preferential loan guarantee provided in a simplified procedure, support under the *de minimis* rule) include, for example, **the INOSTART Programme**, which enables innovative small and medium-sized start-ups to obtain a loan for the implementation of innovative projects (the value of exposure at the end of 2023 was CZK 38.4 million).

In 2024, a new guarantee programme **ELEKTROMOBILITA** was launched with an expected allocation of CZK 2 billion. Under this programme, it will be possible to purchase new electric vehicles and their charging stations. The support will be provided in the form of a portfolio bank guarantee for a commercial loan from cooperating partners who will have an agreement with the National Development Bank on the terms and conditions for providing portfolio guarantees in the Electromobility Guarantee programme. It will also be possible to obtain a financial contribution (subsidy component). The guarantee can be granted up to 70% of the principal amount of the guaranteed loan and the duration of the guarantee cannot exceed 5 years.

Under the **EXPANZE Programme**, which is now closed for applications, the guarantee part supported larger projects outside Prague. The guarantee was provided up to 80% of the principal amount of the guaranteed loan, which ranged from CZK 1 to 60 million and the duration of the guarantee did not exceed 10 years. The effective guarantees of this programme as at 31 December 2023 were around CZK 3 billion, of which CZK 10.5 million related to the Energy Guarantee Programme. M-guarantees were also provided through the OP Enterprise and Innovation for Competitiveness, but by the end of 2023 the effective guarantees were only around CZK 11 million.

As part of the response to the crisis caused by the pandemic, the **COVID II Guarantee Programme** was approved by the Government in March 2020 (Government Resolution No. 260/2020) with indirect support for affected companies in the form of state guarantees with a guarantee capacity of CZK 20 billion. As of 31 December 2023, the limit for the fulfilment of the guarantee provided was CZK 186.3 million. On 20 April 2020, the **COVID PRAHA** programme was announced as a complement to the COVID II programme under similar conditions. The effective guarantees of this programme amounted to CZK 1.4 million at the end of 2023. Both programmes were exhausted relatively quickly and ended already during 2020.

The adoption of Act No. 228/2020 Coll. enabled the implementation of the **COVID III Guarantee Programme**. The provision of loans under this programme was terminated on 31 December 2021. The performance limit as at 31 December 2023 was CZK 11.9 billion.

In addition to these programmes, the National Development Bank provided guarantees under the **COVID Sport Guarantee** (Government Resolution No. 46/2021) and **COVID CK Guarantee** for small and medium-sized travel agencies (Government Resolution No. 51/2021). This was followed by the CK Guarantee scheme from January 2022 (Government Resolution No 982/2021). The effective guarantees at the end of 2023 were CZK 41.2 million for the COVID Sport Guarantee and CZK 14.3 million for the COVID CK Guarantee.

The effective guarantees for the provided concessional loan guarantees, where the amount of the guarantee for the lending bank is graded into 3 performance bands and the business risk and creditworthiness of the client are assessed, the so-called S-guarantee, at the end of 2023 amounted to approximately CZK 45 million for the guarantees of the OP Enterprise and Innovation and CZK 791.3 million for the others.

Act No. 214/2020 Coll. enabled the Export Guarantee and Insurance Corporation (EGAP) to expand its portfolio of activities to include the provision of guarantees under the **COVID Plus** programme. The programme was terminated at the end of 2021. The amount of effective guarantees of this programme was CZK 5.1 billion at the end of 2023.

On 3 November 2022, in response to the situation triggered by Russia's aggression in Ukraine, Act No. 363/2022 was approved, which allowed EGAP to provide guarantees to mitigate the economic and social consequences also under other emergency support measures. The new legislation has thus opened up space for supporting export production companies affected by high energy prices or, for example, sanctions against Russia. The guarantees for operating and investment loans were opened for enterprises whose share of exports in annual sales in the last accounting period was at least 25% and which had more than 100 employees in that period. The loan should have been to a maximum of 15% of total annual sales (averaged over the last three closed accounting periods) and range between

CZK 5 million and CZK 1.2 billion (in total per group). As with the COVID plus programme, the amount of the guarantee varied based on an assessment of the rating. In the case of a rating of ‘B or better’, it was 90% of the loan principal, while in the case of EGAP's internal rating of ‘B–’, it was 80%. The maximum duration of the guarantee was 6 years. For the **EGAP Plus programme,** CZK 500 million was allocated from the State budget for the initial deposit into the Fund to cover the liabilities from the guarantees provided. In 2023, an additional CZK 239 million was made available to increase EGAP’s share capital in order to extend export support (Government Resolution No 525/2023). The programme was set to expire on 31 December 2023. The effective guarantees amounted to CZK 6 billion as of 31 December 2023.

Guarantees provided by local governments also account for a share of general government sector guarantees (outside covid programmes). The most significant of these is to the Prague City Transport Company for deferred payments for the purchase of trams in the amount of CZK 0.8 billion. Others are guarantees provided by local governments for loans related to housing needs (CZK 0.1 billion).

In the wake of the September 2024 floods, two programs are in the pipeline to help businesses recover from the flood**.** Firstly, it is the **Interest Free Loan from the Financial Instrument Expansion – Loans (OP Technology and Applications for Competitiveness)** with a total allocation of CZK 1.5 billion. Under this facility, the National Development Bank will provide loans ranging from CZK 0.5 million to CZK 100 million for capital expenditure. The loan will be granted up to 90% of eligible project expenditure, with a repayment period of up to 15 years, and it will also be possible to defer repayments for up to 12 months from the completion of the project. In addition, it will be possible to obtain a financial contribution (subsidy component) of up to 25% of the loan principal in the form of forgiveness of repayments after completion of the project. The public aid scheme will be under *de minimis* rule and, where appropriate, will make use of Articles 14 and 22 of the General Block Exemption Regulation. Also, as part of the renewal of the **National Guarantee Programme**, the National Development Bank will offer entrepreneurs guarantees for loans from cooperating commercial banks for up to CZK 3.5 billion. Both programmes are scheduled to be launched on 1 November 2024.

In 2018, a **state guarantee** was provided to **secure the Czech National Bank**’**s loan to the International Monetary Fund** from its foreign exchange reserves (Act No. 179/2018 Coll.). The pledged credit framework is up to EUR 1.5 billion, but the reported amount of the guarantee is dependent on the status of the loan drawn down. The guaranteed loan has not yet been drawn down.

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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 nationally financed primary 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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