

Czech Republic

# Annual Progress Report (2026)

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

**Annual Progress Report (2026)**  
**Fiscal-Structural Plan of the Czech Republic for 2025–2028 period**

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# **Annual Progress Report**

**(2026)**

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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 Annual Progress Report of the Fiscal-Structural Plan of the Czech Republic for the period 2025–2028 is presented.

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## List of Abbreviations

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

## Symbols Used in Tables

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

## Cut-off Date for Data Sources

Macroeconomic data used pertain to the 1 April 2026 release and fiscal data and policies to the 8 April 2026.

## Note

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



# Introduction and Summary

The Annual Progress Report is drawn up following the amendment to the Stability and Growth Pact. Its content is broadly governed by Regulation (EU) No. 2024/1263 of the European Parliament and of the Council on effective coordination of economic policies and multilateral fiscal surveillance. Its aim is to assess the implementation of the Fiscal-Structural Plan on an annual basis. The plan currently under review was prepared for the period 2025 to 2028; the Government approved it on 16 October 2024, and the Council of the EU adopted a recommendation on it on 21 January 2025. On the basis of the Fiscal-Structural Plan and the European Commission's recommendation, the Council of the EU set a net expenditure path for the Czech Republic. This refers to the growth in total public expenditure net of interest expenditure, expenditure on European Union projects, national funding for projects co-financed by the European Union, discretionary measures on the revenue side and one-offs. The Fiscal Structural Plan was prepared in such a way as to be fully consistent with national legislation in the form of the Fiscal Responsibility Rules Act.

In the Fiscal Structural Plan, the general government deficit for 2025 was set at 2.5% of GDP, and at 2.3% of GDP after adjusting for the effects of the economic cycle and one-off measures. According to data from the Czech Statistical Office, the deficit reached 2.1% of GDP, or 2.2% of GDP in structural terms. We estimate the growth in net expenditure for 2025 at 4.8%.

This report summarises the current measures and planned activities of the Czech Republic in the areas defined by the Fiscal-Structural Plan in response to specific recommendations from the Council of the EU. In 2025, the energy sector transformation in the Czech Republic continued, focusing on strengthening energy security, modernising infrastructure and meeting climate targets, particularly through the development of low-emission sources, system flexibility and reducing dependence on fossil fuels. Achieving energy independence from Russia in the areas of oil and gas through the diversification of supplies and the development of infrastructure was crucial. In the regulatory sphere, instruments for decentralised and digital energy were introduced (the RES III Act, the Electricity Data Centre, rates adjustments) and legislative changes were adopted to accelerate the development of renewable energy sources and energy infrastructure (the RES III Act, the Gas Act). Decarbonisation was supported by significant financial resources from European and national funds, including investments in clean mobility, battery projects and strategic industrial sectors. At the same time, research, innovation and consultancy services in the energy sector were being developed.

In the area of social systems, no further changes were made to the pension system in 2025 and an evaluation of previously adopted reforms is underway, whilst significant adjustments were made to social benefits to support labour market participation and the reconciliation of family and working life, in particular an increase and adjustment of the parental allowance alongside changes to the conditions for childcare. A key step was the reform of social benefits, which merged the four existing benefits into a single comprehensive benefit comprising four components (living costs, housing, child bonus and work bonus), simplified the system, removed

motivational barriers and strengthened the link between support and work participation and childcare.

In the healthcare sector, efficiency continued to be improved through the implementation of the CZ-DRG system and the restructuring of inpatient care towards follow-up and long-term care, supported by the introduction of social-health inpatient care and services linking the health and social sectors. At the same time, the resilience and quality of the system were strengthened through digitalisation and new tools, including cancer screening systems, training for healthcare professionals and the development of simulation centres, which contributes to improving staff expertise as well as the availability and quality of care.

In the areas of education, the labour market and housing, the implementation of measures aimed at improving the quality and accessibility of education, equal opportunities and better prospects on the labour market continued in 2025, including the strengthening of pre-school education and the systematic monitoring of its quality. A key step was the implementation of the Czech Republic's Education Policy Strategy 2030+, in particular the revision of framework educational programmes and the adoption of a new curriculum for pre-school and primary education. In higher education, there was an increase in funding and targeted support for regions and shortage occupations, whilst in regional education the modernisation of secondary education continued, along with the strengthening of cooperation with employers and the development of elements of the dual system.

In the labour market, measures focused on supporting parents, particularly through the development of pre-school children's groups, including the introduction of neighbourhood groups and the promotion of work-life balance, as well as on the development of lifelong learning, retraining and digital skills. At the same time, new active labour market policy tools were introduced, along with support for social entrepreneurship and measures to increase labour market flexibility and unemployment benefits. In the housing sector, the Housing Support Act was adopted, introducing housing contact points, and support for affordable and social housing was strengthened through both national and European funding.

In the area of modern public administration and digitalisation, measures were prepared to increase efficiency, transparency and a client-focused approach, including the introduction of a Unified Data Collection Information System and the development of cooperation between local governments through municipal associations. The transparency of decision-making processes was also

strengthened through the introduction of lobbying regulations and a register of lobbyists. In the area of digitalisation, the expansion of high-speed networks and 5G infrastructure continued. In research and innovation, a new law was adopted which, from 2027, will enhance the flexibility of support and knowledge transfer.

# 1 Main Fiscal Indicators

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

The Fiscal-Structural Plan (hereinafter FSP) used a net expenditure path based on the forecast at the time for nominal potential output growth and the fiscal effort specified in Act No. 23/2017 Coll., on the rules of fiscal responsibility, as amended. For 2024, the August 2024 forecast projected a structural deficit of 2.1% of GDP; for 2025, a structural deficit of 2.3% of GDP was implied. In last year's Annual Progress Report (MF, 2025), the growth in net expenditure derived from CZSO data for 2024 was 2.8%.

In accordance with national legislation, the trajectory of net expenditure was thus intended to ensure the achievement of a structural deficit of no more than 1% of GDP in 2028, or a primary (i.e. excluding debt service costs) structural surplus of 0.4% of GDP.

**The notified data for the general government deficit and debt for 2025** indicate an actual deficit of 2.1% of GDP (2.2% of GDP in structural terms) and a debt-to-GDP ratio of 44.3%. Compared with the figures in the FSP, these are better results across all indicators, with the overall deficit 0.4 pp lower, the structural deficit 0.1 pp lower and the debt ratio 0.8 pp lower.

**In assessing the trajectory of net expenditure**, our doubts persist regarding the accurate capture of certain problematic issues mentioned in the previous Annual Progress Report (MF, 2025). In particular, it is necessary to highlight methodological discrepancies: firstly, net expenditure may in fact deviate from the plan due to differing macroeconomic developments; the second

reason is conceptual adjustments in the system of national accounts, which affect both revenue and expenditure equally and thus do not affect the balance. These adjustments are quite significant, and it is methodologically correct to adjust total expenditure for these items. Equally debatable are the differing budgetary rules for certain items. An example is other revenue, where expenditure is tied to its actual amount. We anticipate that there will be a technical debate at EU level on the consideration of these factors, particularly in response to the upcoming assessment of the implementation of fiscal-structural plans.

After taking into account adjustments to the methodology of the European System of National and Regional Accounts and all prescribed adjustments in the calculation of net expenditure, we record a rate of 4.8%, which is 0.3 pp higher than the assumption in the FSP. However, the cumulative rate of 7.7% remains well below the prescribed value of 10.1%.

**The forecast for 2026** is subject to a number of risks. It remains an expectation of future developments from which no definitive conclusions can be drawn. Significant changes cannot be ruled out in either the aggregate results (balance, debt) or the structure (amount of discretionary measures, national financing of EU co-financed projects). Based on the current forecast, we expect net expenditure to grow faster and to be slightly above the cumulative figure for 2026 set by the FSP.

**Table 1.1: Fiscal Commitment**

change in %

		2024	2025	2026	2024	2025	2026
		outturn	outturn	forecast	Council recomm.		
<b>Net expenditure</b>	growth rate	2.8	4.8	5.5	5.3	4.5	2.5
	cumulative growth rate	2.8	7.7	13.7	5.3	10.1	12.9

Note: Data for calculating net expenditure growth for 2024 are taken from the Annual Progress Report (2025).

Source: CZSO (2026b), MF CR calculations and forecast.

**Table 1.2: Main Variables**

% of GDP, pp of GDP

		2023	2024	2025	2026	2024	2025	2026
		outturn			forecast	FSP		
<b>General government balance</b>	% of GDP	-3.8	-2.2	-2.1	-2.6	-2.8	-2.5	-1.7
Structural balance	% of GDP	-2.7	-1.9	-2.2	-2.4	-2.1	-2.3	-1.8
Primary structural balance	% of GDP	-1.4	-0.6	-0.9	-1.0	-0.7	-0.9	-0.4
<b>Gross debt</b>	% of GDP	42.5	43.6	44.3	45.6	44.1	45.1	45.3
Change in gross debt	pp of GDP	-0.1	1.1	1.0	1.4	1.6	1.0	0.2

Note: Data for calculating net expenditure growth for 2024 are taken from the Annual Progress Report (2025).

Source: CZSO (2026a, 2026b), MF CR (2026), MF CR calculations and forecast.

## 2 Macroeconomic Developments and Outlook

Thanks to domestic demand, the Czech economy continued to recover last year. Growth in household consumption was also supported by a revival in investment activity, driven mainly by public investment. The performance of the domestic economy was constrained by uncertainties surrounding the US administration's economic and foreign policies, as well as by the low volume of industrial orders from abroad. This year, the economy is expected to slow to 2%. Growth will continue to be driven exclusively by domestic demand, which will, however, be held back by increased uncertainty and rising energy prices due to the conflict in the Middle East. The macroeconomic forecast in the baseline scenario assumes an early de-escalation. The observed significant rise in commodity prices should therefore be temporary and without significant macroeconomic impacts.

### 2.1 Economic Development in 2025

**The Czech economy** grew by 2.6% over the whole of 2025. This growth was driven exclusively by domestic demand.

**Household final consumption expenditure** rose by 3.0%. This growth was supported mainly by a year-on-year decline in the savings rate, reflecting improved consumer confidence. A slight rise in the unemployment rate had the opposite effect, apparently dampening the growth of consumer spending, particularly among low-income households.

Expenditure on the aftermath of the September 2024 floods and expenditure on the maintenance and repair of transport infrastructure contributed to the 2.1% growth in **final consumption expenditure by the general government sector**. In addition to ongoing fiscal consolidation, growth momentum was dampened by slower growth in current expenditure of public health insurance funds.

**Gross fixed capital formation** rose by 2.4%. Corporate investment activity was constrained by persistent negative sentiment among firms linked to uncertainties in the economic and foreign policy of the US administration. Firms also grappled with the delayed effects of earlier restrictive monetary conditions. Conversely, growth in government investment expenditure, supported by EU funds from the Recovery and Resilience Facility and regular EU cohesion funds, had a positive effect last year. Increased economic activity and rising global risks were behind **the renewed accumulation of inventories**.

**Exports of goods and services** were supported by growth in motor vehicle production. Conversely, lower volumes of industrial orders from abroad in other industrial sectors, together with the US administration's tariff measures, dampened export momentum. The build-up of inventories and rising domestic demand led to significant year-on-year growth in **imports of goods and services**. As a result, net exports of goods and services made a negative contribution to GDP growth.

In **the labour market**, despite partial imbalances linked to labour shortages, **the unemployment rate** rose slightly to 2.8%. It thus remained among the lowest in the EU. Labour shortages in many sectors and occupations contributed to **growth in nominal earnings**. Real earnings rose for the second year running.

The average **inflation rate** for the whole of 2025 **stood at 2.5%**. Significantly higher price growth persisted for services, whereas price growth for goods was moderate, largely due to falling energy prices. The high growth in service prices was driven in particular by rising household demand, increasing wage costs and rapidly rising property prices. Goods prices were influenced primarily by falling consumer energy prices. This reflected the decline in the dollar price of oil and in wholesale electricity and gas prices. Price pressures were also tempered by lower global food commodity prices, whilst the significant strengthening of the koruna contributed to a fall in import prices in general. Monetary policy continued to temper inflationary pressures through its lagged effects.

### 2.2 Economic Outlook in 2026

**Real GDP** could rise by 2.1% this year. Growth will continue to be driven **exclusively by domestic demand**, which will, however, **be held back by increased uncertainty due to the conflict in the Middle East and a rapid rise in prices**. In addition to continued growth in household consumption, there will also be a revival in corporate investment activity, although this will simultaneously increase the volume of imports. The

export side will be constrained by heightened trade barriers and the continued low volume of export orders. The contribution of foreign trade to GDP growth is therefore expected to remain negative.

Strong wage and salary growth should have a positive impact on real disposable income this year. However, increased volatility in energy commodity prices may lead to greater caution and the postponement of some ex-

penditure. The savings rate is expected to fall only gradually. **Real household consumption** could thus rise by 3.0% this year.

**Consumption in the general government sector** is expected to reflect the changed structure of the expenditure side of the state budget and a slowdown in employment growth in the general government sector; real consumption expenditure by general government could rise by 1.7%.

Economic growth in the eurozone and deferred investment from the period of high interest rates are expected to drive **a resurgence in private investment**. Conversely, growth momentum will be held back by increased uncertainty surrounding the conflict in the Middle East. Gross fixed capital formation is therefore expected to rise by 3.6% in 2026.

Given the ongoing conflict in the Middle East, it is expected that firms will accumulate inventories on a larger scale for precautionary reasons – with the aim of mitigating the risks of disruptions in the supply of components. **Changes in inventory levels** should have a positive impact on GDP growth.

**The balance of trade** will make a **negative** contribution to GDP growth this year. **Exports** could rise by 3.0%, though they will be indirectly constrained by the US administration's tariff measures and the persistently lower volume of export orders. The expected growth in exports and domestic demand, particularly for import-intensive investment, should then, together with higher inventory accumulation, be reflected in the pace of **imports**, which could rise by 4.5% this year.

At the start of this year, year-on-year price growth reached its lowest levels in almost a decade. Price growth for services remained elevated, primarily due to the costs of owner-occupied housing and rent. By contrast, price developments for goods were dampened by lower energy prices, exacerbated by the transfer of funding for fees for supporting renewable energy sources to the state budget. **The military escalation in the Middle East in March and the blockade of the Strait of Hormuz caused a sharp rise in energy prices. The expected rise in the dollar price of oil and higher energy prices will have a significant pro-inflationary effect** this year. Assuming timely stabilisation in commodity markets and the absence of long-term constraints on oil and natural gas production capacity, **the average inflation rate could remain at 2.5%** this year.

**Imbalances linked to labour shortages** continue to be evident in **the labour market**. Although the downturn in industry will continue, it will be partly offset by strong **demand for labour in services and construction. The unemployment rate** is therefore expected to rise slightly to 2.9% this year. The persistent mismatch between supply and demand in the labour market **will prevent any significant slowdown in wage growth**. Real earnings are expected to rise again this year.

However, economic performance this year faces a significant number of risks. The main uncertainties include the conflict in the Middle East and the associated disruption to energy markets and supply chains, as well as US trade policy.

**Table 2.1: Macroeconomic Scenario**

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

	2023	2023	2024	2025	2026
	actual	actual		forecast	
	CZK bn.	growth rate			
<b>GDP</b>					
Real GDP		-0.1	1.1	2.6	2.1
GDP deflator		8.1	4.0	3.5	2.9
Nominal GDP	7 619	8.1	5.1	6.2	5.0
<b>Components of real GDP</b>					
Private consumption expenditure		-2.8	2.2	3.0	3.0
Government consumption expenditure		3.4	3.3	2.1	1.7
Gross fixed capital formation		2.5	-1.2	2.4	3.6
Changes in inventories and net acquis. of valuables	% of GDP	0.7	-0.1	0.3	0.8
Exports of goods and services		2.7	1.8	3.9	3.0
Imports of goods and services		-0.9	0.9	5.0	4.5
<b>Contributions to real GDP growth</b>					
Final domestic demand		0.0	1.3	2.5	2.7
Changes in inventories and net acquis. of valuables		-2.7	-0.9	0.6	0.2
External balance of goods and services		2.6	0.7	-0.4	-0.7
<b>Deflators and HICP</b>					
Private consumption deflator		8.1	3.0	3.0	2.8
p.m. Harmonised index of consumer prices		12.0	2.7	2.3	2.2
Government consumption deflator		5.3	3.7	4.2	3.7
Investment deflator		3.9	2.0	3.3	3.4
Export price deflator (goods and services)		0.2	3.7	-0.6	1.7
Import price deflator (goods and services)		-2.6	2.1	-1.3	2.5
<b>Labour market</b>	level				
Employment (thous. of persons)	5 388	1.0	0.3	1.1	0.2
Average annual hours worked per person employed	1 774	-0.3	-0.2	1.0	1.0
Real GDP per person employed		-1.1	0.8	1.5	1.9
Real GDP per hour worked		-0.8	1.0	0.5	0.9
Compensation of employees (bn. CZK)	3 266	7.7	6.1	7.5	7.1
Compensation per employee (thous. CZK/person)	707	6.7	5.9	6.5	6.9
Unemployment rate	%	2.6	2.6	2.8	2.9
<b>Potential GDP and contributions to potential growth</b>					
Potential GDP		1.5	2.1	1.5	2.5
Contribution of labour		0.7	0.5	0.2	1.2
Contribution of capital		1.0	1.5	0.6	1.6
Total factor productivity		-0.2	0.1	0.7	1.7
Output gap	% of potential	-0.8	-1.8	-0.6	-0.4

Note: Changes in inventories and net acquisition on the 7th row represent the change in inventories as a percentage of GDP at current prices. The contribution of changes in inventories and net acquisition is calculated using real values. Employment and compensation figures follow the national accounts methodology. Data for calculating net expenditure growth for 2024 are taken from the Annual Progress Report (2025).

Source: CZSO (2026a, 2026c), Eurostat (2026), MF CR (2026). MF CR calculations and forecast.

**Table 2.2: External Assumptions**

interest rate and change in %

		2023	2024	2025	2026
		actual		forecast	
Short-term interest rate	% p.a.	7.1	5.0	3.6	3.6
Long-term interest rate	% p.a.	4.4	4.0	4.3	4.6
USD/EUR exchange rate	USD/EUR	1.1	1.1	1.1	1.2
CZK/EUR exchange rate	CZK/EUR	24.0	25.1	24.7	24.3
World real GDP (excluding EU)	change in %	3.8	3.6	3.4	3.0
EU real GDP	change in %	0.6	1.0	1.6	1.1
World import volumes, excluding EU	change in %	1.3	3.1	3.0	2.0
Oil prices (Brent)	USD/barrel	82.4	80.6	69.2	90.8

Note: Data for calculating net expenditure growth for 2024 are taken from the Annual Progress Report (2025).

Source: CNB (2026), EIA (2026), Eurostat (2026). MF CR calculations and forecast.

## 3 Fiscal Developments

The general government sector ended with a deficit of 2.1% of GDP in 2025. Despite the ongoing economic recovery, the general government balance deteriorated slightly by 0.1 pp year-on-year due to a significant acceleration in investment, rising employee compensation, social benefits and subsidies. The general government debt-to-GDP ratio reached 44.3%. This year, we expect the general government deficit to stand at 2.6% of GDP and the debt-to-GDP ratio to rise further to 45.6%.

### 3.1 General Government Outcome in 2025

According to data from the Czech Statistical Office, **the general government sector** ended with a deficit of 2.1% of GDP in 2025. The balance, adjusted for the impact of the economic cycle and one-off measures, deteriorated to -2.2% of GDP. The deficit was primarily attributable to the state budget, whilst health insurance companies also recorded a slight deficit. By contrast, local governments again reported a surplus, albeit significantly lower than in previous years.

**Total revenue of the general government sector** rose by 5.9%, of which tax revenue, including social security contributions, increased by 6%. Growth in household consumption, supported by higher earnings, largely determined **value-added tax** revenue. This increased by 7.1%, reflecting an increase in public investment, the abolition of exemptions in the financial services sector, and the additional effect of higher excise duty rates on tobacco and related products and alcohol. However, this was offset by lower consumption of traditional tobacco products and the continuing trend towards less heavily taxed alternatives, as well as declining alcohol consumption. This resulted in a decline in accrual excise duty revenue from tobacco and related products and alcohol, which was offset by higher revenue from the taxation of mineral oils. **Excise duties** thus remained essentially unchanged year-on-year.

The 7.5% growth in **personal income tax** and the 6.3% growth in **social security contributions** were primarily driven by an increase in the volume of wages and salaries in the economy. However, the growth in personal income tax was held back by the capital gains tax due to lower interest rates on deposit accounts. In the area of social security contributions, increased contributions from the self-employed were offset by the introduction of a social security contributions discount for working pensioners.

**Corporate income tax** revenue rose by 6.7% thanks to higher corporate taxable profits. The overall impact of discretionary measures on tax growth was slightly negative, as the deepening negative effect of the tax exemption on government bond yields outweighed the year-on-year slight increase in accrued tax revenue from windfall profits.

Among other revenues, **current** and **capital transfers** showed significant growth. These reflected the progress

of projects co-financed from the EU budget under the 2021–2027 programming period. Funds from the Recovery and Resilience Facility also played a significant role.

**Total expenditure in the general government sector** grew faster than revenue. The year-on-year growth rate of final consumption expenditure slowed to 6.6% due to intermediate consumption and social transfers in kind. By contrast, **compensation of employees** in the general government sector grew by 7.3%, a higher rate than in 2024.

The growth rate of **social transfers in kind** slowed to 5.1%, primarily due to the high base in 2024. This increase was driven partly by higher healthcare expenditure by health insurance companies and partly by a further increase in the volume of funds disbursed for social housing benefits. Current expenditure on transport infrastructure contributed significantly to the 4.8% year-on-year growth in **intermediate consumption**. As for exceptional factors, ongoing repairs to property damaged by the floods in September 2024 were carried out.

Pension benefits, increased from January 2025 in accordance with the statutory indexation formula, accounted for the major share of **cash social benefits**. In terms of growth, however, it was primarily unemployment benefits, foster care allowances and care allowances that increased. The payment of humanitarian benefits to persons under temporary protection also required an almost 10% increase in funding. The development of cash social benefits in the national accounts methodology also reflects the growth in payments for state-insured persons. Taken together, this led to a 1.7% increase in cash social benefits.

The 16.9% growth in **investment in fixed assets** was driven mainly by investment activity of local governments, although investment by central government institutions also grew at a double-digit rate. In terms of financing, there was significant use of funds from the Recovery and Resilience Facility; the increase in the volume of funds under the 2021–2027 financial perspective also had an impact, in line with the current phase of the cycle for cohesion funds. Investment from national sources then recorded 15.4% growth.

The 10.5% year-on-year growth in **subsidies** was driven by significantly higher support for renewable energy sources, expenditure on transport services, and an increase in the maximum contribution amount for supporting the employment of people with disabilities in the sheltered labour market. This was offset by a year-on-year decline in payments for the accommodation of Ukrainian refugees.

The 4.9% increase in **current** and **capital transfers** was driven by higher contributions to the EU budget, with payments to the Czech Post for the provision of the

universal postal service and programmes relating to the 2024 floods also playing a part. Conversely, the burden on the state budget fell due to a reduction in the maximum contribution to building society savings schemes.

The government institutions' deficit was reflected in the level of **debt**, which rose by 1 pp in 2025 to 44.3% of GDP. Last year's 8.5% increase in the absolute level of debt led to a further rise in **interest expenditure** of 3.9%, although in relative terms it remained at 1.3% of GDP.

## 3.2 General Government Outcome in 2026

In 2026, we expect the **general government deficit** to rise to 2.6% of GDP, and to 2.4% of GDP in structural terms. According to the forecast, **total general government revenue** is expected to grow by 3.1%, with tax revenue, including social security contributions, rising by 2.8%.

Rising real earnings should continue to boost household consumption and have a positive impact on **value-added tax** revenue. Conversely, growth will be held back by changes relating to bad debts. The resulting increase in value-added tax revenue is expected to be 4.8%. **Excise duty** revenue will be positively affected by previously introduced measures under the consolidation package, with an additional estimated impact of between CZK 3–4 billion. This is offset by the reduction in excise duty on diesel as a current government measure to mitigate the rise in fuel prices. The waiver of the renewable energy surcharge for households and businesses will result in a year-on-year shortfall in accrual revenue of around CZK 17 billion.

The growth in the total wage bill is driven by **personal income tax** (up by 6.1%) and **social security contributions** (up by 6.6%), which also reflect the expected increase in payments for state-insured persons of approximately CZK 4.5 billion. In the case of personal income tax, however, growth is expected to be further dampened by year-on-year developments in capital gains tax. On the other hand, both revenue items are expected to be boosted by the introduction of a single monthly employer report, which, together with the amendment to the Employment Act introducing the concept of undeclared work, will enable more effective monitoring and enforcement of tax obligations.

**Corporate income tax** revenue is expected to show a decline of 8.4%, primarily due to the expiry of the windfall tax. Other discretionary measures are also expected to have a slightly negative impact overall.

The trend in revenue **transfers** largely reflects the progress of projects co-financed from the EU budget under the 2021–2027 programming period. The drawdown of funds from the Recovery and Resilience Facility will end this year.

The growth rate of **total general government expenditure** is expected to slow to 4.2% year-on-year. We also expect a continued slowdown in final consumption expenditure, which will be driven by **compensation of employees** in the general government sector (an 8.2% increase). In addition to the increase in teachers' salaries

from January 2026, salary scales in other segments of the public sector have been raised since April this year. This trend will be further reinforced by the additional effect of increased salaries for military personnel from July 2025.

**Social transfers in kind** are expected to show growth of just 2%. This year-on-year slowdown is due to a methodological change whereby existing social housing benefits (social transfers in kind) are now included in state social assistance benefits (part of cash social benefits). However, health insurance companies' expenditure will rise due to higher insurance premiums and state payments for state-insured persons. The predicted growth in **intermediate consumption** of 2.3% is significantly lower than in 2025, due both to a high base of comparison, supported by expenditure on post-flood reconstruction following the floods of September 2024, and to savings in the operating costs of public institutions.

In the area of **cash social benefits**, we anticipate an increase in expenditure on pension benefits based on the standard January indexation. Expenditure will also rise due to adjustments to unemployment and retraining benefits (approximately CZK 3 billion), as well as an increase in the care allowance (CZK 1.4 billion). Furthermore, we anticipate that the humanitarian allowance paid to persons under temporary protection will be maintained at a similar level to that in 2025. Last but not least, the methodological change described above, linked to the transition to the state social assistance allowance, is reflected here. The growth in total cash social benefits, including payments for state-insured persons, is expected to reach 5.1%.

Expenditure on **investment in fixed assets** will grow only slightly (by 2.2%) due to the high base effect from 2025 and subdued investment activity in the first few months of this year as a result of the provisional budget. Another factor contributing to the weak growth will be the expected year-on-year decline in investments co-financed from EU funds, including the impact of the expiring National Recovery Plan.

**Subsidies** are expected to grow by 3.6%, thus remaining at 2% of GDP. **Current transfers** are also forecast to show a similar level relative to GDP, with their growth boosted by contributions to the EU budget.

General government **debt** is expected to rise by 1.4 pp in 2026 to 45.6% of GDP. Along with rising debt, **interest expenditure** is estimated to grow by 12.9% and reach 1.4% of GDP.

**Table 3.1: Fiscal Forecast**

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

	2023	2023	2024	2025	2026
	CZK bn.	% of GDP			
<b>Revenue</b>					
Taxes on production and imports	806	10.6	10.7	10.8	10.4
Current taxes on income, wealth etc.	612	8.0	8.3	8.6	8.0
Social security contributions	1 169	15.3	15.8	15.8	16.0
Other current revenue	403	5.3	5.1	5.0	5.0
Capital taxes	0	0.0	0.0	0.0	0.0
Other capital revenue	70	0.9	0.9	1.0	0.9
Total revenue	3 060	40.2	40.8	41.0	40.3
of which: Transfers from the EU	85	1.1	1.0	1.2	1.2
Total revenue other than transfers from the EU	2 975	39.0	39.8	39.8	39.1
p.m. Revenue measures (increments, excluding EU funded measures)	53	0.7	0.9	0.4	-0.5
p.m. One-off revenue (levels, excluding EU funded measures)	33	0.4	0.5	0.5	0.0
<b>Expenditure</b>					
Compensation of employees	739	9.7	9.7	9.7	10.0
Intermediate consumption	430	5.7	5.8	5.8	5.6
Interest expenditure	99	1.3	1.3	1.3	1.4
Social benefits other than transfers in kind	1 037	13.6	13.5	12.9	12.9
Social transfers in kind	258	3.4	3.6	3.5	3.4
Subsidies	207	2.7	1.9	2.0	2.0
Other current expenditure	162	2.1	2.0	2.3	2.2
Gross fixed capital formation	370	4.9	4.7	5.2	5.0
of which: Nationally financed public investment	296	3.9	3.8	4.1	4.0
Capital transfers	40	0.5	0.4	0.4	0.4
Other capital expenditure	6	0.1	0.0	0.1	0.0
Total expenditure	3 346	43.9	43.0	43.2	42.9
of which: Expenditure funded by transfers from the EU	85	1.1	1.0	1.2	1.2
Nationally financed expenditure	3 261	42.8	42.0	42.0	41.6
p.m. National co-financing of programmes funded by the EU	41	0.5	0.5	0.4	0.4
p.m. Cyclical component of unemployment benefits	0	0.0	0.0	0.0	0.0
p.m. One-off expenditure (levels, excluding EU funded measures)	96	1.3	0.2	0.2	0.1
Net expenditure (before revenue measures)	3 026	39.7	40.0	40.0	39.8
Net expenditure (before revenue measures, net of imputations)	2 783	36.5	36.4	36.3	36.5
<b>Net expenditure</b>			change in %		
			2.8	4.8	5.5
<b>Balances</b>					
Net lending/borrowing	-286	-3.8	-2.2	-2.1	-2.6
Primary balance	-188	-2.5	-0.9	-0.8	-1.2
<b>Cyclical adjustment</b>					
Structural balance		-2.7	-1.9	-2.2	-2.4
Primary structural balance		-1.4	-0.6	-0.9	-1.0
<b>Debt</b>					
General government gross debt (consolidated)	3 234	42.5	43.6	44.3	45.6
Change in gross debt	236	-0.1	1.1	1.0	1.4
<b>Contributions to changes in gross debt</b>					
Primary deficit		2.5	0.9	0.8	1.2
Snowball effect		-1.9	-0.7	-1.2	-0.7
Interest		1.3	1.3	1.3	1.4
Growth		0.0	-0.5	-1.1	-0.9
Inflation		-3.2	-1.6	-1.5	-1.2
Stock-flow adjustment		-0.7	1.0	1.3	0.9
p. m. Implicit interest rate on debt	%	3.3	3.3	3.2	3.3

Note: Data for calculating net expenditure growth for 2024 are taken from the Annual Progress Report (2025).

Source: CZSO (2026b). MF CR calculations and forecast.

**Table 3.2: Net Expenditure Calculation**

CZK bn., net expenditure change in %

		2023	2024	2025	2026
<b>Total expenditure</b>	(1)	<b>3 346</b>	<b>3 444</b>	<b>3 696</b>	<b>3 852</b>
Revenue and expenditure imputations	(2)	243	281	317	295
<b>Total expenditure net of imputations</b>	(3) = (1) - (2)	<b>3 104</b>	<b>3 164</b>	<b>3 379</b>	<b>3 557</b>
Interest payments	(4)	99	108	112	126
Expenditure on EU programmes, including national funding	(5)	126	121	141	145
Cyclical component of expenditure	(6)	0.2	0.6	0.2	0.2
One-off and other temporary expenditure	(7)	96	15	19	9
<b>Net expenditure before revenue measures</b>	(8) = (3) - (4) - (5) - (6) - (7)	<b>2 783</b>	<b>2 919</b>	<b>3 107</b>	<b>3 277</b>
Discretionary revenue measures (year-on-year change)	(9)	53	69	37	-42
One-off and other temporary revenue (year-on-year change)	(10)	44	9	2	-42
<b>Net expenditure</b>	(11) change in %	-	<b>2.8</b>	<b>4.8</b>	<b>5.5</b>

Note: Revenue and Expenditure imputations are a part of discretionary measures in the FASTOP-DRM database. Data for calculating net expenditure growth for 2024 are taken from the Annual Progress Report (2025). The growth of net expenditures for 2025 cannot be calculated directly from the table, but must be based on updated data for 2024. We are making this adjustment in order to maintain the stability of the fiscal rule so that all previous years are not recalculated each year, which could affect the setting of fiscal policy as a result of simple revisions.

Source: MF CR calculations and forecast.

**Table 3.3: Discretionary Revenue Measures**

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

	ESA	One-off	2024	2025	2026
Adjustments to excise duties on energy	D.214A		0.2	0.0	-0.2
Increase in property tax	D.29A		0.1	-	-
Levy on excess revenue from electricity sales (December 2022 to December 2023)	D.29H	yes	-0.2	-	-
Increase in the corporate income tax rate and introduction of a global minimum tax	D.51B		0.3	-	0.0
Introduction of sickness insurance for employees	D.61		0.2	-	-
Other discretionary revenue measures			0.3	0.4	-0.3
<b>Total</b>			<b>0.9</b>	<b>0.4</b>	<b>-0.5</b>
<b>Total (CZK bn.)</b>			<b>68.7</b>	<b>36.6</b>	<b>-41.8</b>

Note: Data for calculating net expenditure growth for 2024 are taken from the Annual Progress Report (2025).

Source: MF CR calculations and forecast.

**Table 3.4: Recovery and Resilience Facility – Grants**

in % of GDP

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

Source: MF CR.

**Table 3.5: Recovery and Resilience Facility – Loans***in % of GDP*

	ESA Code	2020	2021	2022	2023	2024	2025	2026
<b>Revenue from Recovery and Resilience Facility loans</b>								
Disbursements of RRF loans from EU		-	-	-	-	0.1	0.0	0.0
Repayments of RRF loans to EU		-	-	-	-	-	-	-
<b>Expenditure financed by Recovery and Resilience Facility loans</b>								
<b>Total current expenditure</b>								
Gross fixed capital formation	P.51g	-	-	-	-	0.0	0.0	0.0
Capital transfers	D.9	-	-	-	-	-	-	-
<b>Total capital expenditure</b>								
<b>Other costs financed by Recovery and Resilience Facility grants</b>								
<b>Reduction in tax revenue</b>								
<b>Other costs with impact on revenue</b>								
<b>Financial transactions</b>								

*Source: MF CR.*

## 4 Reforms and Investment

This chapter refers to the categorization of planned or implemented measures in the areas of the FSP. It is therefore structured accordingly into sections devoted to a) the decarbonisation of the Czech economy, b) social systems, c) education, the labour market and housing support, and d) modern public administration and digitalisation. This is a summary of measures that have been implemented or are currently in the preparation or consultation phase.

### 4.1 Decarbonisation

In 2025, the transformation of the Czech Republic's energy sector continued, focusing on strengthening energy security, modernising infrastructure and meeting climate commitments. The adopted measures were aimed at development of low-emission energy sources, increasing the flexibility of the energy system, and reducing dependence on fossil fuels.

A significant step was **the approval of the National Action Plan for Smart Grids 2025–2030** (Ministry of Industry and Trade, 2025), which aims to create the conditions for the integration of new technologies in the areas of energy generation, transmission, distribution and consumption. At the same time, an **update to the Czech Republic's Climate Protection Policy for the period 2025–2050** was adopted, serving as an implementation framework for fulfilling the National Energy and Climate Plan.

Preparations for the development of nuclear energy also continued, including **the implementation of the project for new nuclear plants at the Dukovany site**. In July 2025, the contract for the supply of two units at the Dukovany nuclear power plant came into force, with Korean Hydro & Nuclear Power Co., Ltd. (KHNP) acting as the EPC contractor. In December 2025, the state aid notification process was initiated. Project documentation is currently being prepared, alongside preparations for the permitting processes and geological surveys.

#### 4.1.1 Ending Energy Dependence on Russia

In 2025, a fundamental shift occurred in the Czech Republic's energy security. **The completion of the TAL-PLUS project** enabled an increase in the capacity of the Transalpine Pipeline, leading to the cessation of Russian oil imports via the Druzhba pipeline and a full transition to suppliers from Azerbaijan, Kazakhstan and the USA. In the natural gas sector, independence from supplies from the Russian Federation was also achieved thanks to the cessation of Russian gas supplies via Ukraine to the EU from 1 January 2025 and the abolition of the transit fee imposed by Germany. Security of supply in the gas sector is now ensured through long-term capacity at LNG terminals in Germany and the Netherlands, combined with direct contracts for Norwegian pipeline gas.

#### 4.1.2 Reforms to Energy Regulation

In the area of regulation, modern tools necessary for the functioning of a decentralised and digital energy sector

have been implemented. **With the adoption of the amendment to the Energy Act No. 87/2025 Coll.** (the so-called lex OZE III), clear rules for energy storage and flexibility aggregation were introduced with effect from 1 August 2025, thereby enabling both industry and households to actively participate in grid balancing. Furthermore, the **Electricity Data Centre (EDC)** was **launched**, becoming a cornerstone for the efficient sharing of electricity within energy communities. The EDC will gradually expand its functionalities so that, after 2027, it will evaluate commercial flexibility in addition to storage and technical flexibility (1 August 2026).

An essential part of the reforms is also the ongoing revision of the tariff system, which better reflects the needs of the modernised grid and encourages consumers to use energy efficiently during periods of high renewable energy production.

**Progress in the energy transition is being achieved through the adoption of two laws.** The first is Act No. 249/2025 Coll., on accelerating the use of renewable energy sources, which has simplified permitting processes in line with the European RED III Directive. The designation of so-called acceleration zones for the development of renewable energy sources in 2025 has significantly shortened approval times for wind and solar farms, enabling the Czech Republic to meet its decarbonisation targets in line with the Fiscal-Structural Plan. The second is Act No. 223/2025 Coll. (the so-called Gas Act), which should lead to the acceleration of the construction of energy infrastructure necessary for the transition away from coal use and to the simplification and acceleration of the permitting process for gas-fired power plants with an installed capacity exceeding 100 MW. The Act removes administrative barriers and shortens the time required for project implementation. This is **a key step towards ensuring the Czech Republic's energy security as part of the gradual phase-out of coal-fired power sources.**

#### 4.1.3 Financing Decarbonisation and Transition

Measures supporting decarbonisation continue to be stimulated by funds from the EU Cohesion Policy (Operational Programmes: Technologies and Applications for Competitiveness, Just Transition, Transport, Environment, Integrated Regional Operational Programme), the National Recovery Plan and the Modernisation Fund. Among other things, through the TRANSGov Call

No. 1/2025 with an allocation of CZK 7.3 billion, it supported a massive modernisation of the public transport fleet. In parallel, support was launched for the purchase of zero-emission goods vehicles (categories N2 and N3) for the business sector, for which CZK 960 million was earmarked.

In 2025, the **“Strategic Investments for a Climate-Neutral Economy” grant programme** was also **announced**, under which support of almost CZK 10 billion was pledged for two large-scale projects for battery production and the extraction of raw materials critical for the decarbonisation of the economy. As part of investments totalling nearly CZK 42 billion, almost 900 new jobs are set to be created by 2032.

#### 4.1.4 Education, Science, Research and Development and Consultancy

As part of the THÉTA 2 programme of the Technology Agency of the Czech Republic, which supports research and innovation in the energy sector, two public calls for proposals were launched last year. In the first, more than 80 projects were supported; in the second, submitted applications are currently being evaluated. The second phase of the Environment for Life programme has been launched for the years 2024–2033. The aim of the programme is to improve public administration in the areas of environmental protection, climate action and sustainable development. Finally, in the international EnerDigit Call 2023 (ERA-NET cofund) call for proposals, two projects were successful, focusing on a data-exchange model for smart energy and on real-time

data-fusion from multiple data sources for energy management in emerging power grids.

The Ministry of Industry and Trade is currently preparing an amendment to Act No. 406/2000 Coll., on energy management, which will include the legislative establishment of the Energy Consultation and Information Centre (hereinafter “EKIS”). The establishment of EKIS will be conditional upon registration via the Energy Intensity Database (DEN) – a newly developed information system designed for both public administration and the general public, which will centralise information on the energy performance of buildings in one place. This step guarantees the quality of services provided within the EKIS. A revision of the relevant professional qualifications is also being prepared, which forms the basis of a unified energy advisory system provided on a one-stop-shop basis.

In December 2024, the first pilot one-stop-shop, known as the comprehensive EKIS (K-EKIS), was established under Component 7.3 of the National Recovery Plan. Its purpose is to provide comprehensive, free, expert and independent consultation and advisory services for households, businesses and public organisations, whilst guiding clients through the entire renovation process. In 2025, the Ministry of the Environment, in cooperation with the Ministry of Industry and Trade, began an evaluation of the functioning of the three one-stop-shops, including K-EKIS, which will help to establish the conditions for their continued operation.

## 4.2 Social Systems

### 4.2.1 Pension System

During 2023 and 2024, changes to the pension system indicated in the Fiscal-Structural Plan were approved. No further measures were adopted last year, and the changes implemented are currently being evaluated.

### 4.2.2 Other Social Benefit Schemes

Changes to the parental allowance have helped to **encourage parents’ participation in the labour market** through benefits. With the passing of Act No. 407/2023 the total amount of the parental allowance for children born on or after 1 January 2024 was increased from CZK 300,000 to CZK 350,000 (or CZK 525,000 in the case of multiple births), but at the same time the maximum period for which it can be claimed was reduced from 4 years to 3 years. For children born before 2024, the original scheme remains in place. With the passing of Act No. 290/2025, the parental allowance for multiple births from 1 January 2026 was increased to CZK 700,000. Furthermore, with the adoption of Act No. 84/2025, the number of hours a child under two years of age may attend a childcare facility was increased from

92 to 120 hours per month, effective from 1 May 2025. All restrictions on attendance at such facilities relating to children with disabilities or their parents were also abolished.

**The social benefits reform** was approved by Act No. 151/2025 Coll., with effect from October 2025 and a transitional period of several months (Act No. 35/2026 Coll.). The reform merged the four existing state social support benefits (child allowance, housing allowance) and benefits for those in material need (living allowance and housing supplement) **into a single comprehensive state social assistance benefit**, which has four components:

- living allowance
- housing
- child bonus
- work bonus

The new system helps cover the costs of living and housing; entitlement to the benefit is conditional on employment and proper care of children, including monitoring of school attendance, and removes the so-called breakpoints where even a minimal increase in

income could result in the loss of support. The method of assessing eligibility for assistance has changed; applicants' income and assets are taken into account, efforts to actively resolve their situation are recognised, and motivation to take up work is strengthened.

#### 4.2.3 Healthcare and Social Health Services

In the area of improving healthcare efficiency, **the CZ-DRG system has been fully implemented**; currently, the share of acute inpatient care funded through a fully converged central base rate stands at approximately 30%, whilst for the remainder of care, convergence is set within groups of similar providers.

Progress is also being made in **the restructuring of the acute inpatient care bed capacity**, which is being gradually transformed into follow-up and long-term care. This is further supported by the enactment of Act No. 38/2025, which, with effect from 1 March 2025, **introduced so-called social-health inpatient care**, which is expected to require a higher level of nursing care and healthcare staff with various qualifications (e.g. physiotherapist, nutrition therapists) compared to standard residential social services, and thus constitutes a combination of inpatient healthcare and residential social care. The Act further introduces so-called social and healthcare services, whereby these services are required to provide social services and healthcare in a coordinated manner to individuals who require both components of care.

As part of efforts to strengthen the resilience of the healthcare system, the project "Comprehensive Information Facility for **Improving the Quality of Cancer Screening Programmes**" has been implemented; by the

end of June 2026, through the PREV-IS system (which includes, in particular, the National Registry for Preventive and Screening Examinations, the Shared Health Record and the Central Booking System for Screening Examinations) ensure the maximum efficiency of cancer screening programmes. The National Screening Centre is responsible for the coordination and management of these programmes.

On 1 January 2026, **a new public administration information system, the "Administration System"**, was **launched**, representing a comprehensive digital solution for the management of specialist and postgraduate training for healthcare professionals. The system enables the tracking of completed courses, examinations and compliance with statutory requirements for professional competence. It also serves as a tool for planning further training according to the needs of healthcare facilities. It simplifies communication between training providers, healthcare professionals and employers. It helps ensure that healthcare professionals' qualifications are always up to date and in line with current legislation.

In March 2026, the Intensive Medicine Simulation Centre was opened at Motol and Homolka University Hospitals to provide systematic training for healthcare professionals in the field of intensive and emergency care and the management of any acute conditions. Further similar simulation centres are being completed in 2026 at medical faculties and will be available to participants in specialist and postgraduate training for doctors and dentists.

### 4.3 Education, Labour Market and Housing Support

Measures are being implemented to improve the quality and accessibility of education and to create conditions that promote equal opportunities in education and on the labour market. An important part of these steps is **the development of high-quality pre-school education and ensuring a smooth transition between the different levels of the education system**. In 2025, the system for monitoring the quality and accessibility of early years care and pre-school education services was also strengthened, with the aim of supporting the systematic evaluation of their accessibility and contributing to further improvements in educational conditions for the youngest children.

In the field of education, **the implementation of measures** continues in accordance with **the Strategy for Education Policy of the Czech Republic up to 2030+**. One of the key steps is a comprehensive review of the framework educational programmes, which is gradually modernising the content of education and strengthening the development of the competences needed for life in a rapidly changing society. In 2025, **a new national curriculum for pre-school and primary education was approved**. From the 2026/2027 school year, schools may gradually begin to introduce the revised curriculum documents and incorporate the changes into their school educational programmes. At the same time, an amendment to Act No. 561/2004 Coll., the Education Act, which introduces changes, for example, in the area of indexing school funding to take account of social and regional inequalities, the legislative establishment of the role of social educator in schools, and the gradual reduction of deferrals of compulsory school attendance with the aim of strengthening early support for children as early as in pre-primary education.

As regards tertiary education institutions, in 2025 institutional funding for teaching and education at universities increased by CZK 4 billion, reaching CZK 34.9 billion. Universities in regions with a lower proportion of tertiary education received additional funding with the aim of increasing student numbers at universities in these regions. Furthermore, the government approved programmes to support education in selected study programmes training students for socially essential professions, such as non-medical healthcare professions and the professions of teacher, assistant teacher for children with special needs and psychologist.

**The development of programmes focused on professional support for teachers and the strengthening of their competences is also continuing**. Support for the DigCompEdu project continues; in 2025, this provided teachers with training courses, methodological materials and support programmes focused, for example, on the use of digital technologies in teaching, media education, financial literacy and cyber security.

At the same time, steps are being taken to improve the training of future teachers. The Competence Framework for Teacher Graduates, which defines the expected professional competences of graduates of teacher training programmes and supports their better preparation for teaching practice, is regularly evaluated and further developed.

In 2025, **the reform of secondary education continued**, focusing on modernising its structure and strengthening its relevance for further study and the labour market. The number of schools involved in pilot testing in the general lyceum field of education increased, and steps were taken to improve permeability between different fields of education. Legislation also strengthened cooperation between schools and employers, including the development of elements of the dual education system. In vocational education, the implementation of school-leaving examinations or final projects in the form of a graduation project is also expanding, which allows for a better link between study and pupils' practical experience.

One of the key areas within measures focused on education and the labour market is **support for parents of young children, particularly mothers, in their participation in the labour market**. Financial support for the development of children's groups continued under the National Recovery Plan and the European Social Fund. An amendment to the Act on Children's Groups (Act No. 84/2025) was also approved, introducing, with effect from 1 May 2025, the so-called neighbourhood children's group, allowing for the care of up to four children in a home environment (or in another suitable environment). This amendment also introduced, with effect from 2026, an obligation on local authorities to ensure conditions for the upbringing and care of children in a children's group from the age of 3 until 1 September of the following year, provided the child has not been admitted to the local nursery school. At the same time, the 'Support and Improvement of the Quality of Services in the Area of Care and Work-Life Balance' project and the 'Equal Pay' project are being implemented, which contribute to increasing the employment of women with children and reducing pay inequalities between men and women.

**Support for lifelong learning** continues, with the primary aim of increasing participation in further education and supporting the workforce's adaptability to changing conditions. To this end, support continues not only for retraining but also for other further education courses through the Database of Retraining and Further Education Courses and through support for in-company training. By the end of 2025, 151,163 people had successfully completed digital education courses. Pilot testing of a new active labour market policy tool – the Digital Education Course Subsidy – has also begun. A

network of 76 regional training centres has been established, focused on supporting participation in further education through the acquisition of technical competencies and digital skills.

In **the labour market sector**, the aim is to mitigate the impacts of decarbonisation on coal-mining regions. Retraining programmes are therefore being implemented to reduce the number of long-term unemployed people affected by decarbonisation and economic transformation.

Pilot testing is also underway for a new active labour market policy tool – the integration workplace – with the aim of permanently integrating people facing cumulative social disadvantages into the labour market. A reform of public works has also been carried out, targeting small municipalities with high levels of social exclusion. The aim is to increase the efficiency of public works and support the integration of disadvantaged people into the labour market.

**The Act on Integrative Social Enterprises** (Act No. 468/2024) supporting the integration of people with specific needs into the labour market has been approved and implemented. It is estimated that up to 10,000 people with specific needs will be employed between 2026 and 2030, which will bring potential savings of over CZK 1 billion to public budgets.

Since 1 January 2025, **an amendment to the Employment Act** (Act No. 470/2024 Coll.) concerning support for the employment of people with disabilities in the sheltered labour market has been in force. Measures in this area also include strengthening labour market flexibility through the modernisation of the Labour Code. The amendment to the Labour Code (Act No. 120/2025 Coll.) aimed at increasing the flexibility of employment relationships came into force on 1 June 2025 (with the

exception of the amendments to the Employment Act, which did not come into force until 1 January 2026). The amendment introduced an extension of the maximum limit for the probationary period or the start of the notice period from the date of delivery of the notice. Changes to unemployment benefits provide higher benefits in the first few months regardless of the reason for leaving employment, a higher maximum unemployment benefit, an increase in the age limit for entitlement to extended benefits, and higher benefits for those without prior income. There has also been an increase in retraining support, and at the same time the range of retraining courses for which support is paid is being expanded.

**Act No. 175/2025, on Housing Support**, was passed in June 2025, and its first part, effective from 1 January 2026, established housing contact points. The Act mainly concerns the issue of so-called ‘settling in’.

Affordable housing support was strengthened in 2025 by funding from the National Recovery Plan. Applicants submitted proposals totalling over CZK 20 billion to the State Investment Support Fund’s rental housing investment programme, which had an allocation of CZK 7 billion (Financial Instrument 1). In April 2025, the National Development Bank launched a call for applications for mezzanine loans for affordable rental housing with a budget of CZK 2.5 billion (Financial Instrument 2). However, this programme has not yet been fully funded. At the end of 2025, the tender for the manager of a joint co-investment fund with commercial capital (Financial Instrument 3) was completed. The fund is currently being established, with the first investments expected during the summer of 2026. In 2025, the social housing programme supported by the Integrated Regional Operational Programme was also revised and simplified, which significantly boosted its drawing.

#### 4.4 Modern Public Administration and Digitalisation

In **the area of public administration modernisation**, changes are taking place aimed at increasing efficiency and transparency. **To enhance efficiency, client-centredness and the application of informed decision-making principles in public administration**, a Unified Data Collection Information System has been established, and plans for its further development are underway.

From 1 January 2024, a new form of cooperation between municipalities within **the framework of the Community of Municipalities Institute** has been in force. It introduces an institutionalised form of cooperation between municipalities, greater efficiency and coordination of public services, allows for the establishment of a shared official function and offers many other advantages. As of 1 February 2026, a total of 55 associations of municipalities had been established across the Czech

Republic. At least 15 further associations of municipalities are expected to be established by the end of 2026. An amendment to the Municipalities Act is being prepared, which should provide more detailed regulation of the internal structure of associations of municipalities, their involvement in the regional development planning system, and an expansion of the powers of associations of municipalities, for example, to include the possibility of establishing a joint municipal police force.

With the adoption of Act No. 168/2025 Coll., on the Regulation of Lobbying, **a register of lobbyists has been introduced** with effect as of 1 July 2025, and penalties for non-compliance have been established. The Lobbying Register has also been launched.

#### 4.4.1 Digitalisation

The expansion of high-speed networks and support for 5G in sparsely populated rural areas and along major rail corridors are among the priority investments. The general aim is to provide signal coverage to as many so-called 'white spots' as possible, with these areas being covered primarily on the basis of obligations imposed on operators as part of spectrum auctions (or, where applicable, as part of the extension of the allocation of the relevant frequencies), or through the use of grant programmes (National Recovery Plan or Operational Programme Technologies and Applications for Competitiveness). In 2025, the Czech Government approved Action Plan 3.0 to implement certain measures to support the planning and construction of electronic communications networks; its individual measures are being implemented on an ongoing basis.

The Digital Economy and Society Concept is regularly evaluated and updated. The last update took place in 2025, and the updated Digital Economy and Society Concept was approved by the Czech Government (Government Resolution No. 810/2025) as part of the Implementation Plan for the Digital Czech Republic programme for 2026. In 2024, the Czech Republic updated its National Artificial Intelligence Strategy (NAIS 2030) to reflect the technological and geopolitical changes of recent years. The implementation of the Czech Republic's National Artificial Intelligence Strategy 2030 is carried out through specific measures set out in the Action Plan, which forms part of the Implementation Plan for the Digital Czech Republic programme. These are reviewed and updated annually. Support for the digital transformation of businesses is also being provided, with six European Digital Innovation Hubs (EDIHs) currently operating in the Czech Republic.

#### 4.4.2 Research and Innovation

In this area, a new **Act No. 328/2025 Coll. on Research, Development, Innovation and Knowledge Transfer** has been **approved**, which, with effect from 1 January 2027, will bring about fundamental changes to the research and innovation system in the Czech Republic. The Act aims to strengthen the innovation environment and provide greater flexibility in the provision of targeted support. It also focuses on supporting knowledge transfer and introduces systematic evaluation of targeted support programmes, including an assessment of their impacts. In 2025, **the implementation of relevant parts of the Czech Republic's National Research, Development and Innovation Policy 2021+ continued** in accordance with the deadlines set for individual measures.

As part of **efforts to support the competitiveness of small and medium-sized enterprises**, a new guarantee instrument, the National Guarantee, was launched at the end of 2025 and implemented through the National Development Bank. This instrument significantly simplifies enterprises' access to commercial financing through state-backed guarantees.

Under the KAPPA programme to **support applied research**, all international cooperation projects were completed, with a total value of CZK 830 million. The projects focused on a wide range of fields, including the introduction of more sustainable technologies, improving drinking water quality or innovative treatment methods. The programme has made a significant contribution to strengthening international cooperation and knowledge transfer between Czech and foreign research institutions.

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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 decumulation 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 or restrictive setting of the fiscal policy in a given year.

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

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

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

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

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

**Long-term interest rates** are measured on the basis of yields of long-term government bonds or comparable securities until maturity in percent per year. Bonds with residual maturity ranging from 8 to 12 years (the use of these limits is fully based on the

conditions of the Czech government bond market, which were set based on the periodicity of Czech government bond issues) are classified as representative. From this set, a combination of bonds whose average residual maturity is closest to the 10-year limit is then generated.

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

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

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

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

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

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

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

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

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

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



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