

Czech Republic

Fiscal-Structural Plan

for 2027–2030 period

**Fiscal-Structural Plan of the Czech Republic
for 2027–2030 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 2027 až 2030 is presented.

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List of Abbreviations

CZK	Czech koruna currency code
CZSO	Czech Statistical Office
EC	European Commission
ECB.....	European Central Bank
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.	<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 4 May 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 Czech Republic is submitting a revision of its medium-term Fiscal-Structural Plan in accordance with Article 15 of Regulation (EU) 2024/1263 of the European Parliament and of the Council, which reflects the formation of a new government and its updated economic and fiscal priorities. The review builds on the existing Fiscal-Structural Plan and updates the medium-term fiscal strategy, the macroeconomic scenario and the set of reforms and investments, with the aim of taking into account the government's new policy priorities whilst maintaining compliance with the European Union's fiscal framework.

The submitted plan reaffirms the Czech Republic's commitment to the responsible management of public finances, maintaining the credibility of fiscal policy and ensuring the long-term sustainability of public debt. At the same time, it creates a framework for the implementation of the government's economic strategy aimed at supporting economic growth, strengthening competitiveness, increasing the resilience of the economy and modernising the public sector. Fiscal policy will thus seek the balance between ensuring the stability of public finances and supporting investment and reforms with long-term benefits for the country's economic and social development.

The macroeconomic scenario assumes continued economic growth driven primarily by domestic demand. The Czech economy is expected to grow at a rate of around 2 to 2.5% per year over the plan period, with inflation expected to remain close to the Czech National Bank's inflation target. The labour market will remain relatively strong, but demographic changes will gradually come to the fore, leading to a slowdown in employment growth and an increase in the importance of labour productivity as the main source of economic growth. A key assumption of the scenario is also the gradual stabilisation of the external environment and the easing of some of the geopolitical and energy risks that have affected the European economy in recent years.

The government's fiscal strategy is based on keeping the general government deficit below the 3% of GDP reference value and on gradually improving the structural position of public finances. The fiscal framework envisages a continuation of consolidation efforts whilst maintaining scope for investment supporting the country's long-term economic growth, security and resilience. A key part of the strategy comprises measures aimed at increasing the efficiency of public spending, digitising public administration, curbing the informal economy and improving tax collection. As a result of these steps, public finances are expected to improve gradually over the plan period, and the public debt-to-GDP ratio should remain at a safe and sustainable level.

The plan includes a set of structural reforms and investments designed to support the long-term growth potential of the Czech economy and its ability to respond to technological, demographic and geopolitical changes. The government's priority is to strengthen energy security and accelerate the modernisation of energy infrastructure, support the construction of affordable housing, develop transport and digital infrastructure,

and create conditions for higher private investment. An important part of the reform agenda is also improving the quality of education, supporting science, research and innovation, modernising the labour market and increasing its flexibility. At the same time, reforms aimed at the digitalisation of public administration, the simplification of administrative processes and the more efficient functioning of the state will continue.

Ongoing demographic changes and the associated demands on public finances also present a significant challenge. The government therefore intends to continue with measures supporting the accessibility of healthcare and the efficient functioning of public services. The aim is to ensure that economic growth and the modernisation of the economy are accompanied by adequate social cohesion and the resilience of public institutions.

The revision of the plan was prepared in cooperation with the relevant ministries and other public administration bodies. In accordance with Article 11 of Regulation (EU) 2024/1263, relevant stakeholders, including the social partners, were also involved in the preparation process. A roundtable on reform and investment priorities was held on 6 May 2026, attended by representatives of employers, trade unions, experts and other stakeholders. The results of this consultation contributed to the final form of the submitted revision of the plan.

The proposed revision of the Fiscal-Structural Plan creates a framework for the stable development of public finances in the coming years and, at the same time, enables the implementation of the government's priorities whilst respecting European fiscal rules, strengthening the competitiveness of the Czech economy and maintaining the medium-term sustainability of public finances.

1 Fiscal Commitment and Main Indicators

The main indicator currently monitored at EU level for the purpose of maintaining a sustainable level of public debt is “net expenditure”. This refers to public expenditure financed from national sources, which excludes, in addition to expenditure on EU programmes, national co-financing shares, cyclical fluctuations in unemployment benefits, discretionary revenue measures and interest expenditure. Furthermore, one-off or other temporary measures are also taken into account.

The net expenditure (reference) trajectory thus established becomes binding for countries that exceed the thresholds of 3% of GDP 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 by the end of the correction period or remains at a prudent level, even under adverse scenarios. It should also ensure that the general government deficit is reduced below the 3% of GDP reference value and remains below this reference value, whilst taking into account the fact that Member States may face additional costs, such as those associated with demographic ageing.

For countries that meet both indicators, the EC issues so-called technical information at the request of the Member State. This contains the value of the primary structural balance required of the Member State at the end of the medium-term Fiscal-Structural Plan horizon (in the current case, the year 2030) and which is sufficient, taking into account the costs of population ageing, to keep the deficit below 3% of GDP and/or debt below 60% of GDP over the next 14 years (i.e. in this plan, until 2040). These countries then choose the specific expenditure trajectory to a certain extent themselves, based on the necessary fiscal effort, potential output growth and the GDP deflator. Deviations from the value specified in the technical information are possible, but must be duly justified by the Member State. As part of the technical information, the Czech Republic has been required to achieve a primary structural surplus of 0.5% of GDP.

A legislative process is currently underway in the Czech Republic to amend Act No 23/2017 Coll., on the Fiscal

Responsibility Rules, as amended. It proposes several fundamental changes to the fiscal rule. The first change is that the Act will explicitly refer to the values approved by the Council of the EU on the basis of the EC’s recommendation on the Fiscal-Structural Plan. For the sake of greater clarity and established procedures, the Czech Republic will not base its calculations on year-on-year growth rates of net expenditure, but on the value of the primary structural balance – i.e. the same type of balance used in the EC’s technical information.

The specific path of the primary structural balances (and the path of net expenditure) is then based on the Czech Government’s plans to support investment activity, strengthen digitalisation and combat the shadow economy. Despite higher initial deficits, this should gradually lead to an improvement in the management of public finances. At the same time, however, the fiscal framework respects the government’s objective of not exceeding the general government deficit limit of 3% of GDP. Should such an overshoot nevertheless occur, it should correspond quantitatively to the increase in defence expenditure in terms of the defence escape clause under Regulation (EU) 2024/1263 of the European Parliament and of the Council.

In section 3.2, the Czech Republic argues for a change in the value of the primary structural balance by 0.2 pp, i.e. a primary structural surplus of 0.3% of GDP instead of 0.5% of GDP. According to the chosen assumptions, such a figure would satisfy the criterion that the deficit of 3% of GDP will not be exceeded in any year up to 2040.

Table 1.1: Fiscal Commitment*change in %*

		2026	2027	2028	2029	2030
Net expenditure	<i>growth rate</i>	6.4	5.4	2.7	2.4	2.2
	<i>cumulative growth rate</i>	6.4	12.1	15.2	17.9	20.5

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

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

		2025	2026	2027	2028	2029	2030
		<i>actual</i>	<i>forecast</i>	<i>plan</i>			
Potential GDP	<i>growth rate</i>	1.6	1.6	1.5	1.5	1.2	1.2
GDP deflator	<i>growth rate</i>	3.5	2.9	3.3	2.8	2.6	2.4
General government balance	<i>% of GDP</i>	-2.1	-2.6	-2.8	-2.0	-1.6	-1.2
Structural balance	<i>% of GDP</i>	-2.2	-2.4	-2.9	-2.5	-1.9	-1.4
Structural primary balance	<i>% of GDP</i>	-0.9	-1.0	-1.6	-1.0	-0.4	0.3
Gross debt	<i>% of GDP</i>	44.3	45.6	46.9	46.6	46.8	46.6
Change in gross debt	<i>pp of GDP</i>	1.0	1.4	1.1	-0.3	0.2	-0.2

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

2 Macroeconomic Assumptions

The MFCR's macroeconomic forecast, which serves as the baseline for the Fiscal-Structural Plan, was assessed on 16 April 2026 by the independent institution The Committee on Budgetary Forecasts. In its assessment (CFB, 2026), the Committee found the forecast to be realistic. It noted a high degree of agreement with the MFCR's forecast regarding overall GDP growth and other real variables in 2026. Some members of the Committee held a different view on the structure of growth. In their view, growth in fixed capital formation may be lower, whilst they expect a better performance in the balance of trade. For 2027, some members anticipate a stronger delayed impact of high oil prices on the economy.

2.1 Global Economy and Technical Assumptions

At the start of the year, **the global economy** was in an environment of stable inflation, which continued to support growth in real incomes and household consumption. The earlier monetary easing contributed to a gradual recovery in investment activity. However, global economic activity is currently threatened by higher prices for energy commodities and other raw materials following the escalation of the conflict in the Middle East in March. This is also undermining consumer and business confidence. Should the fighting intensify further, supply chains could be disrupted once again. Tensions in international trade remain high as a result of measures taken by the current US administration.

The US economy grew by 2.7% year-on-year in the first quarter of 2026, whilst economic activity increased by 0.5% compared with the previous quarter. Year-on-year growth was driven exclusively by domestic demand, with investment in IT and research and development contributing the most. Foreign trade, by contrast, dampened growth momentum. Investment activity is expected to continue to play a key role, driven by the technology sector. For this year, we expect GDP to grow by 2.1%. The base effect of limited federal funding from the previous year should also have a positive impact. Economic growth, however, is likely to be dampened by negative developments in the labour market and rising commodity prices due to higher import tariffs. In 2027, the growth rate is expected to remain at 2.1%. Economic activity should continue to be supported by investment activity due to lower interest rates.

Growth in **the eurozone** slowed slightly in the first quarter of 2026, with the economy growing by 0.8% year-on-year and increasing marginally by 0.1% quarter-on-quarter. Year-on-year growth was driven exclusively by domestic demand. The negative contribution of net exports to GDP reflected increased tariff barriers imposed by the United States and the armed conflict in the Middle East, which caused a sharp rise in the prices of imported energy commodities and other production inputs.

Economic activity in the coming months is likely to be dampened by the conflict in the Middle East, which is already feeding into deteriorating consumer and business sentiment. We estimate that eurozone GDP will grow by 1.0% in 2026. Growth should be supported by a

resilient labour market, specifically by rising real wages, which will benefit household consumption in particular. Investment and government spending will also contribute to growth. Net exports will be dampened by US tariffs. In 2027, economic growth is expected to accelerate to 1.5% thanks to a recovery in foreign trade. Over the forecast period, economic performance should be supported by domestic demand, whilst foreign trade is also expected to contribute to growth thanks to an improvement in the global economy. However, growth could be dampened by consolidation efforts in some countries. Economic activity is expected to gradually accelerate to 1.7% in 2028 and further to 1.9% in 2029.

The military conflict in the Middle East in March and the partial blockade of the Strait of Hormuz caused a sharp rise in **oil prices**. The duration of this war is the key variable for future developments. The price of oil thus remains subject to a high degree of uncertainty, but in the coming quarters it could begin to fall following the expected de-escalation of the conflict. Even in the longer term, however, the price is expected to remain higher compared to pre-conflict levels due to persistent logistical constraints and disrupted production infrastructure. For 2026 as a whole, the average price of a barrel of Brent crude could rise by 31.3% year-on-year to USD 91. In 2027, it could fall by 13.0% to USD 79 and is expected to continue to decline slightly, reaching an average price of USD 74 in 2029.

The Czech National Bank (CNB) last cut **the two-week repo rate** in May 2025 to 3.5% and subsequently left it unchanged. Given the inflation outlook, overall economic developments, the CNB's communication to date, and the assumed level of the equilibrium interest rate, we expect the monetary policy rate to remain at 3.5% this year and next. However, the likelihood of a re-tightening of monetary conditions has increased in view of the ongoing conflict in the Middle East and its expected impact on consumer prices in the Czech Republic.

The exchange rate of the koruna against the euro averaged 24.3 CZK/EUR during the first four months of 2026, representing a 3.0% appreciation compared with the same period of the previous year. This was driven primarily by the resilience of the Czech economy, despite negative external shocks, the global weakening of the

U.S. dollar and the CNB's prolonged restrictive monetary policy.

We expect that the anticipated de-escalation of the Middle East conflict later this year will slightly strengthen the koruna against the euro. The Czech currency will be supported in particular by the associated improved outlook for the energy and other commodity mar-

kets, more favourable investor sentiment and the weakening of the U.S. dollar. In the longer term, economic convergence with eurozone countries should generate gradual appreciation pressure on the koruna. For 2026 as a whole, the exchange rate could thus average 24.3 CZK/EUR, and in 2029 the koruna could trade at an average of 23.5 CZK/EUR.

2.2 Economic Development of the Czech Republic

2.2.1 Economic Growth and the Demand Side

The Czech economy grew by 2.1% year-on-year in the first quarter of 2026, driven entirely by domestic demand. Compared with the previous quarter, seasonally adjusted GDP rose by 0.2%. Domestic demand is expected to continue to support economic activity. For 2026 as a whole, gross domestic product could thus rise by 2.1%. In 2027, economic output is expected to increase by 2.4%. The economy could grow at a similar pace in subsequent years.

Household consumption could rise by 3.0% this year and by 2.6% in 2027. Its growth will be supported by strong growth in real earnings and the still high level of accumulated savings from previous years. However, increased volatility in energy commodity prices may lead to greater caution and the postponement of certain expenditure. The savings rate is expected to decline slightly over the forecast horizon, yet is likely to remain well above its long-term average. In the coming years, growth in household consumption could slow slightly to 2.4% in 2028 and 2.2% in 2029.

Growth in **government sector consumption** could slow to 1.7% this year. In addition to the altered structure of the expenditure side of the state budget, a slowdown in employment growth in the government sector will also have an impact. In 2027, stronger growth in expenditure on the maintenance and repair of transport infrastructure is expected to take effect, with real government consumption expenditure potentially rising by 2.3%. In the subsequent period, growth is expected to stabilise at around 2%.

Gross fixed capital formation could rise by 3.6% in 2026, thanks to economic growth in the euro area and deferred investments from the period of high interest rates. Conversely, growth momentum will be held back by increased uncertainty surrounding the conflict in the Middle East. For 2027, we expect growth to slow to 2.5% as funding from the Recovery and Resilience Facility comes to an end and other EU revenues decline. The macroeconomic framework also anticipates relatively strong growth rates in 2028 and 2029. From this year onwards, investment activity will also be positively influenced by expenditure related to the construction of new nuclear power plant units, whilst in 2029, government investment will begin to reflect purchases of military equipment.

We expect that, given the ongoing conflict in the Middle East, companies will accumulate inventories on a larger scale for precautionary reasons – with the aim of mitigating the risks of component supply disruptions. Changes in **inventory** levels should have a positive impact on GDP growth. For the coming years, we expect inventory accumulation to stabilise at levels typical for this phase of the economic cycle; the contribution to GDP growth should therefore be neutral.

The trade balance is expected to make a negative contribution to GDP growth this year. Exports 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, translate into stronger import growth. In the coming years, the contribution of net exports should be roughly neutral, reflecting the continued growth of domestic and foreign demand.

Nominal GDP growth is determined by developments in real economic output and the price component of GDP. This year, due to a deterioration in terms of trade (reflecting prices in foreign trade), GDP deflator growth could slow to 2.9% (from 3.5% in 2025). In 2027, by contrast, its growth rate could rise to 3.7%, mainly due to an improvement in terms of trade linked to a fall in oil and natural gas prices. Stronger growth in household and government consumption should also contribute to this higher growth. In the subsequent period, with foreign trade prices remaining virtually unchanged, GDP deflator growth could hover around 2.5%.

2.2.2 Consumer Prices

In 2026, in addition to the transfer of funding for the fee for supported energy sources (POZE), a stronger koruna and last year's fall in global agricultural commodity prices should contribute to lower inflation. The earlier monetary policy stance should also continue to have a restrictive effect. Conversely, the expected inflationary factors include, in particular, higher oil, gas and electricity prices as a result of the conflict in the Middle East, continued strong price growth in the residential property market, strong wage and salary growth, and increases in excise duties on tobacco and alcohol. Expected tax changes include increases in excise duties on alcohol

and tobacco products. Developments in regulated prices will be relatively mixed. Prices of the commodity components of electricity and gas are expected to rise year-on-year due to higher prices on wholesale markets in response to the war in the Middle East. However, the total price of electricity is expected to fall year-on-year due to a reduction in the regulated component following the aforementioned transfer of POZE funding entirely to the state. Growth in other regulated prices will be higher due to continued strong price dynamics in services, as well as higher fuel costs in public transport.

In 2027, the continuing anti-inflationary effect of the strengthening koruna should be joined by the expected decline in oil and gas prices on global markets, following the anticipated stabilisation of the situation in the Middle East during the preceding year; though the previous rise in these prices will continue to be reflected in consumer prices due to the base effect. Rapid growth in nominal earnings, the continuing rise in property prices and a further increase in excise duty on tobacco products will continue to push inflation higher. The combined impact of tax changes and growth in regulated prices is expected to increase. Whilst a further increase in excise duty on tobacco products will have a modest effect within the context of tax changes, electricity and gas prices are expected to rise significantly on average for the year as a whole due to their anticipated growth in the second half of the previous year.

We therefore expect the average inflation rate to remain at 2.5% in 2026 and rise to 2.8% in 2027. In 2028 and 2029, it should remain within the tolerance band around the CNB's 2% inflation target.

2.2.3 Labour Market

Imbalances linked to labour shortages continue to be evident in the labour market, contributing to strong demand for foreign workers, whose numbers have been rising for some time. The downturn in industry continues, though its effects are partly offset by high demand for labour in services and construction.

Employment continued to grow year-on-year, driven by the private and public services sectors and construction. The negative contribution from the manufacturing

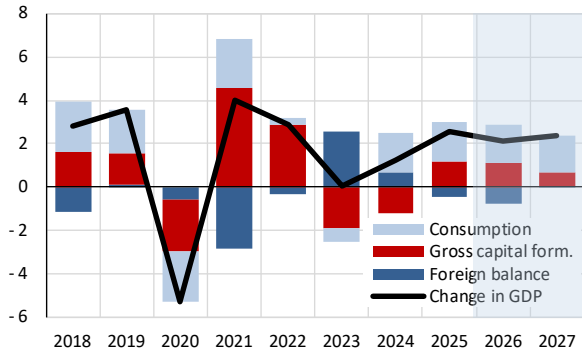
sector gradually eased over the course of last year. Strong labour demand in some sectors is expected to persist this year. The labour supply will be positively affected by the increase in the statutory retirement age and the demographic effect of a growing share of age groups with a naturally high participation rate. However, employment growth this year will be limited by developments in the working-age population, and employment could therefore rise by an average of 0.2%. Next year, the decline in the working-age population will have a more pronounced effect, so we expect a year-on-year decline in employment of 0.2%. Over the forecast period, employment is expected to remain virtually stagnant.

The unemployment rate rose slightly last year by 0.2 pp to 2.8% but remained the lowest in the EU. The downturn in industry is expected to persist, so the unemployment rate is expected to rise slightly this year to an average of 2.9%. In the coming years, we expect it to fall slightly as a result of the improving overall economic situation.

The growth in nominal **wages and salaries** this year continues to be positively influenced by the persistent labour shortage in a number of sectors and professions. The lingering effects of the significant growth in consumer prices and corporate profitability in previous years are acting in the same direction, translating into higher wage demands. The slight rise in the unemployment rate is having the opposite effect. Wage growth is supported by rising public sector salaries and an increase in the minimum wage, which was raised by 7.7% to CZK 22,400 as of 1 January 2026. Over the forecast horizon, some slowing of wage growth in the private sector can be expected following a slight easing of labour market tightness. Conversely, wages in public sector are expected to grow faster, given that they have lagged behind wage growth in previous years. The gradual increase in the ratio of the minimum wage to the average wage, up to 47% in 2029, will continue to contribute positively to overall wage growth. The wage bill could thus increase by 6.8% this year and by 6.0% in 2027; in subsequent years, growth could slow to around 5%.

Graph 2.1: GDP Development

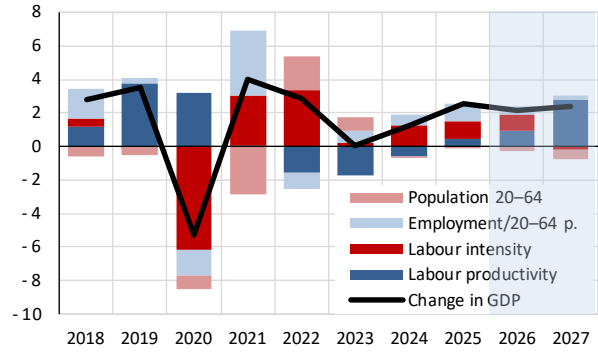
change in %, contributions in pp



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

Graph 2.2: GDP, Productivity and Labour Intensity

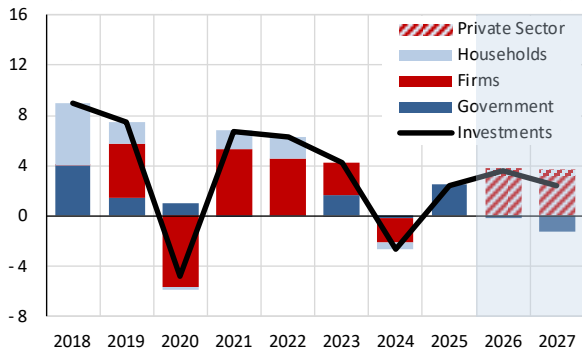
change in %, contributions in pp



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

Graph 2.3: Investment by Sector

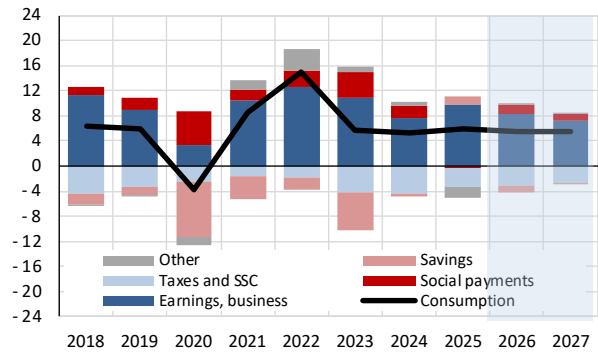
change of real gross fixed capital formation in %, contributions in pp



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

Graph 2.4: Nominal Consumption of Households

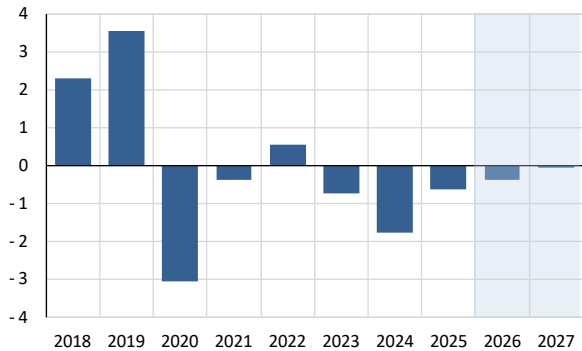
national concept, change in %, contributions in pp



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

Graph 2.5: Output Gap

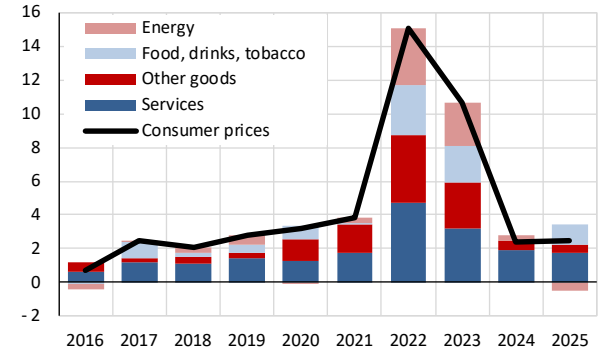
in % of potential product



Source: MF CR (2026a).

Graph 2.6: Consumer Prices in Main Divisions

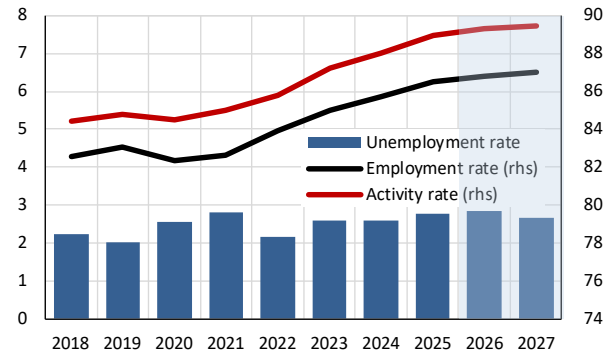
national concept, YoY change in %, contributions in pp



Source: MF CR (2026a). MF CR calculations.

Graph 2.7: Unemployment, Employment, Activity Rates

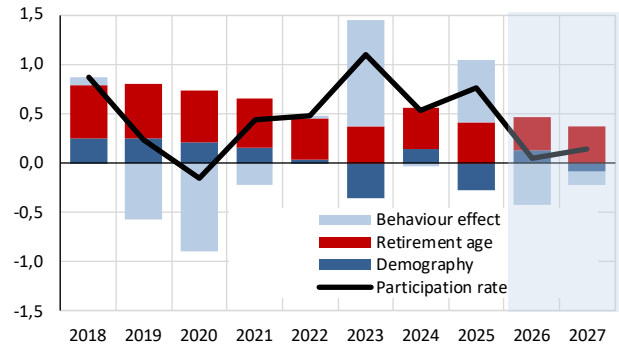
rate in %



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

Graph 2.8: Changes in Participation Rate

change and contributions in pp



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

Table 2.1: Macroeconomic Scenario

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

	2025	2025	2026	2027	2028	2029	2030
	actual	actual	forecast		outlook		proj.
	CZK bn.	growth rate					
GDP							
Real GDP		2.6	2.1	2.4	2.5	2.4	0.7
GDP deflator		3.5	2.9	3.7	2.7	2.5	2.4
Nominal GDP	8 556	6.2	5.0	6.1	5.3	5.0	3.1
Components of real GDP							
Private consumption expenditure		3.0	3.0	2.6	2.4	2.2	
Government consumption expenditure		2.1	1.7	2.3	2.1	2.0	
Gross fixed capital formation		2.4	3.6	2.5	3.2	3.7	
Changes in inventories and net acquis. of valuables	% of GDP	0.3	0.8	0.8	0.7	0.7	
Exports of goods and services		3.9	3.0	4.7	3.4	3.4	
Imports of goods and services		5.0	4.5	5.0	3.4	3.8	
Contributions to real GDP growth							
Final domestic demand		2.5	2.7	2.3	2.4	2.5	
Changes in inventories and net acquis. of valuables		0.6	0.2	0.0	0.0	0.0	
External balance of goods and services		-0.4	-0.7	0.1	0.2	-0.1	
Deflators and HICP							
Private consumption deflator		3.0	2.8	2.9	2.3	2.4	
p.m. Harmonised index of consumer prices		2.3	2.2	2.7	2.3	2.4	
Government consumption deflator		4.2	3.7	4.3	3.4	3.1	
Investment deflator		3.3	3.4	3.4	2.6	2.2	
Export price deflator (goods and services)		-0.6	1.7	1.4	1.4	1.3	
Import price deflator (goods and services)		-1.3	2.5	0.9	1.2	1.2	
Labour market							
Employment (thous. of persons)	level	5 509	1.1	0.2	-0.2	-0.1	0.1
Average annual hours worked per person employed		1 824	1.0	1.0	-0.2	-0.2	0.0
Real GDP per person employed			1.5	1.9	2.5	2.7	2.3
Real GDP per hour worked			0.5	0.9	2.8	2.9	2.4
Compensation of employees (bn. CZK)		3 775	7.5	7.1	6.0	5.2	4.7
Compensation per employee (thous. CZK/person)		801	6.5	6.9	6.1	5.3	4.6
Unemployment rate	%		2.8	2.9	2.7	2.5	2.5
Potential GDP and contributions to potential growth							
Potential GDP			1.6	1.6	1.5	1.5	1.2
Contribution of labour			0.9	0.6	0.1	0.1	-0.2
Contribution of capital			0.6	0.6	0.7	0.6	0.5
Total factor productivity			0.0	0.4	0.7	0.8	0.9
Output gap	% of potential		-0.5	-0.1	0.8	1.9	3.0

Note: Changes in inventories and net acquisition of valuables on the seventh 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 (2026a, 2026c), Eurostat (2026), MF CR (2026a), EC (2026b). MF CR calculations and forecast.

Table 2.2: External Assumptions

interest rate and change in %

		2025	2026	2027	2028	2029	2030
		actual	forecast		outlook		proj.
Short-term interest rate	% p.a.	3.6	3.6	3.7	3.7	3.7	3.7
Long-term interest rate	% p.a.	4.3	4.6	4.7	4.8	4.8	4.8
USD/EUR exchange rate	USD/EUR	1.1	1.2	1.2	1.2	1.2	
CZK/EUR exchange rate	CZK/EUR	24.7	24.3	24.1	23.8	23.5	
World real GDP (excluding EU)	change in %	3.4	3.0	3.3	3.5	3.6	
EU real GDP	change in %	1.6	1.1	1.6	1.9	2.0	
World import volumes, excluding EU	change in %	3.0	2.0	3.0	3.1	3.2	
Oil prices (Brent)	USD/barrel	69.2	90.8	79.0	75.5	73.7	

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

3 Fiscal Outlook and Projection

The current fiscal outlook is very similar from the perspective of the MF CR and the EC. Both institutions forecast a year-on-year deterioration in the public finance deficit to 2.6% of GDP and 2.8% of GDP respectively in 2026. For the following year (i.e. the first year of the Fiscal-Structural Plan), the differences are negligible. The first part of this chapter describes the MF CR's view in terms of individual transactions; however, for the purposes of the fiscal scenario for the Fiscal-Structural Plan period and the calculation of the net expenditure path, we are basing our projections for 2026 on the EC's forecast data. According to the latest data, the MF CR is likely to adjust its fiscal forecast towards that of the EC due to higher investment in the first quarter of 2026. This in itself does not have a major impact on the overall (cumulative) trajectory of net expenditure, but it does create minor differences in the annual figures.

3.1 Current Developments and Outlook of the General Government Sector

3.1.1 Expected Performance in 2026

For 2026, we expect the **general government deficit** to rise to 2.6% of GDP, and to 2.4% of GDP in structural terms. **Total general government revenue** is forecast to grow by 3%, of which tax revenue, including social security contributions, rising by 2.8%.

Rising real earnings should continue to boost household consumption and also have a positive impact on **value-added tax** revenue. Conversely, growth will be dampened by an adjustment in the area of bad debts. The resulting increase in 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 a reduction in excise duty on diesel as a current government measure to mitigate the rise in fuel prices, with an impact of just under CZK 2 billion. The waiver of the fee for supported energy sources for households and businesses will be associated with a year-on-year shortfall in accrual revenue of around CZK 17 billion.

Growth in the volume of wages and salaries determines **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 will be further dampened by the year-on-year development in capital gains tax. Both revenue items are expected to be supported by the introduction of a Unified Monthly Employer's Report, which, together with the amendment to the Employment Act introducing the concept of undeclared work, will enable more effective monitoring and collection of taxes (CZK 1 billion) and social security contributions (CZK 2.9 billion).

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. On the one hand, this year's tax revenue will be reduced by a further CZK 1.2 billion due to the continued exemption of income from government bonds. In addition, the

increase in the deduction for research and development expenditure and the raising of the threshold for the one-off write-offs of bad receivables should result in a revenue shortfall of around CZK 1 billion. On the other hand, the top-up tax, ensuring a minimum level of taxation for large multinational and domestic groups, is estimated to increase tax revenue by CZK 1 billion.

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

The growth rate of **total general government expenditure** should 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 (growth of 8.2%). 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. The dynamics will also be intensified by the additional effect of increased soldiers' pay from July 2025.

Social transfers in kind are expected to show growth of only 2%. The year-on-year slowdown is due to a methodological change, whereby existing housing-related social benefits (social transfers in kind) have been reclassified as state social assistance benefit (cash social benefits). However, health insurance companies' expenditure will rise due to higher contributions 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 the high base of comparison and to planned savings in the operating costs of public institutions, as well as the provisional budget at the start of this year.

Regarding **cash social benefits**, we anticipate an increase in expenditure on pension benefits based on the statutory indexation formula from January. Expenditure will also be higher as a result of adjustments in unemployment benefits and retraining support (approx. CZK 3 billion), as well as due to an increase in the care allowances (CZK 1.4 billion). Furthermore, we assume that

the humanitarian allowance paid to persons under temporary protection will be maintained at a similar level to 2025. Last but not least, the methodological change described above, linked to the transition to the state social assistance benefit, is reflected here. The growth in total cash social benefits, including payments for state-insured persons, is expected to reach 5.1%.

Subsidies are expected to grow by 3.6% and remain at 2% of GDP in relative terms. **Current transfers** are also forecast to show a similar level relative to GDP. Their growth should be determined by contributions to the EU budget.

Investment in fixed assets will grow only slightly (by 2.2%) due to the high comparative base of 2025. Another factor contributing to weaker 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.

General government debt is projected to rise by 1.4 pp in 2026 to 45.6% of GDP. In this regard, **interest expenditure** is estimated to increase by almost 13% and reach 1.4% of GDP.

3.1.2 Forecast for 2027

In 2027, we expect the overall deficit as well as structural deficit of general government to rise to 2.8% of GDP. **General government revenue** is expected to grow by 3.2%, whilst their share of GDP will show a slight downward trend. A key factor will be the development of tax revenue, including social security contributions, with expected growth exceeding 5%.

The predicted 5.4% growth in **personal income tax** will depend primarily on the volume of wages and salaries in the economy. The introduction of electronic registration of sales is expected to bring an estimated CZK 2.5 billion in personal income tax revenue into public budgets. This impact is offset by accompanying tax relief measures (e.g. the reinstatement of the student tax credit and the tax credit for placing a child in a pre-school institution, adjustments to employee benefits, or a one-off tax relief in connection with the re-introduction of electronic registration of sales) with a total negative impact of CZK 4.2 billion.

Earnings trend in the economy will also be reflected in **social security contributions**, their growth is expected to slow to 5.7%. As with personal income tax, we anticipate a positive impact from electronic registration of sales of over CZK 2 billion, which will, however, be partially offset by changes in employee benefits. The growth rate of health insurance contributions is further determined by the payment for state-insured persons, the indexation of which, under current legislation, is expected to be around CZK 3 billion.

For **corporate income tax**, following a decline in 2026 due to the expiry of the windfall tax, we expect revenue

to increase by 8.5%. Growth will be supported by the additional effect of the top-up tax amounting to CZK 1 billion, as well as the introduction of electronic registration of sales, with an estimated impact of CZK 2 billion.

Value added tax growth is expected to accelerate to 5.6% due to continued growth in nominal household consumption and a significant positive contribution from the introduction of electronic registration of sales (approximately CZK 6.5 billion). This effect will be partially offset by the proposed reduction in the tax rate on non-alcoholic beverages within catering services to 12% and, at the same time, the abolition of the restriction on input tax deduction for selected passenger cars, with a total negative impact exceeding CZK 1 billion.

In the case of **excise duties** as defined by national legislation, a slight acceleration in growth to approximately 2.5% is expected, mainly due to the effects of the four-year plan to increase rates on tobacco and related products. By contrast, ongoing structural changes in consumption (a shift towards less taxed alternatives) will dampen growth. A negative trend will be evident in **gambling tax**, where the expansion of the range of persons excluded from gambling will lead to a revenue shortfall of approximately CZK 3 billion.

As regards other revenue, we expect a decline in **transfers** in 2027, reflecting the end of the Recovery and Resilience Facility.

General government expenditure is expected to grow by almost 4%, but as a proportion of GDP it is likely to fall further to around 42% of GDP.

Final consumption expenditure is forecast to grow by 6.7%, mainly due to an increase in **compensation of employees** in the general government sector. Its growth rate will remain relatively high, with a significant impact from automatically adjusted salaries and the additional effect of previous increase in public sector wages in 2026. Purchases of goods and services deferred to 2027 in connection with the provisional budget at the start of this year, together with the expected increase in current expenditure on transport infrastructure and healthcare, determine the stronger 6% growth rate in **intermediate consumption**. **Social transfers in kind** are expected to grow by 4.3% in line with the development in healthcare expenditure. Conversely, growth will be dampened by the additional effect of the gradual transition to the state social assistance benefit, classified as a cash social benefit.

This adjustment to the social support system and the associated methodological change will, however, contribute to stronger growth of **cash social benefits**, as was the case in 2026. In terms of their composition, however, pension benefits and their indexation are dominant; the latter will be determined by the growth of the cost-of-living index for pensioners, whilst real wage growth is not yet expected to play a role in that year. As part of

pro-family policy, we anticipate a deepening negative impact from the increase in the parental allowance from 2024. Furthermore, the forecast assumes the continued payment of humanitarian allowance to persons under temporary protection. The result of all these factors is an expected growth in cash social benefits of 3.2%.

We estimate that the dynamics of **subsidies** will stabilise at 2% and their share of GDP will even decline slightly. Similarly, the relative importance of **transfers** should gradually decrease.

The expected sharp decline in investment financed from European sources following the conclusion of the National Recovery Plan should be partially offset by domestic investment. Nevertheless, the total volume of **investment in fixed assets** is estimated to fall by 3.4%.

The planned deficit of government institutions will be reflected in the level of **debt**, which is expected to rise to around 47% of GDP. This will be accompanied by rising **interest expenditure**, whose share of GDP is likely to increase further to 1.5% of GDP.

3.1.3 Comparison of the EC and MF CR Fiscal Forecasts for 2026–2027

Both forecasts are very similar in their overall tone. Both the EC and the MF CR expect a year-on-year deterioration in the general government fiscal position in 2026, to –2.8% of GDP and –2.6% of GDP respectively. For 2027, both institutions anticipate a further widening of the deficit, with the difference between their estimates narrowing further to 0.1 pp. These minor differences, as well as slight deviations in the estimates of the impact of one-off measures and the cyclical component, are also reflected in the expected level of the structural balance. The EC anticipates a slightly positive cyclical component in 2027 in line with the expected development of the output gap, whilst the MF CR assumes it will be approximately neutral. The differences in the quantification of one-offs are insignificant. The forecasts also agree on the expectation of a gradual increase in general government debt, which is projected to reach approximately 47% of GDP by the end of 2027. The EC's estimate is only slightly higher (by 0.2 pp and 0.1 pp respectively), which corresponds to its slightly higher projected deficits.

3.1.4 The Government's Plans within the Period of the Fiscal-Structural Plan

In its Policy Statement and Economic Strategy “Czech Republic: A Country for the Future 2.0”, the government has committed to sound public finances as the foundation of a strong, stable and sovereign state. The government intends to keep public finances safely below the 3% deficit threshold set by the Stability and Growth

Pact. Due to massive investment in long-term economic growth, the consistent implementation of the economic strategy and savings in operating expenditure of the state, the plan is to achieve a gradual reduction in the general government deficit.

Both documents contain several measures that should have a positive impact on public finances. The main objective of these steps is to increase the efficiency of tax collection, curb the shadow economy, digitise and streamline public administration.

One of the most significant measures is the forthcoming **EET 2.0** system, i.e. the modernised electronic registration of sales. The new system is intended to be simpler for businesses, more digitised and focused on more effective control of tax evasion. The system will now cover not only cash payments but also card payments and QR payments. Due to improved data analysis, the state should be able to detect suspicious transactions more accurately and reduce tax evasion in the areas of value added tax and income tax. A levelling of the playing field for businesses is also expected, as honest entrepreneurs will no longer be at a disadvantage compared to those who conceal part of their turnover.

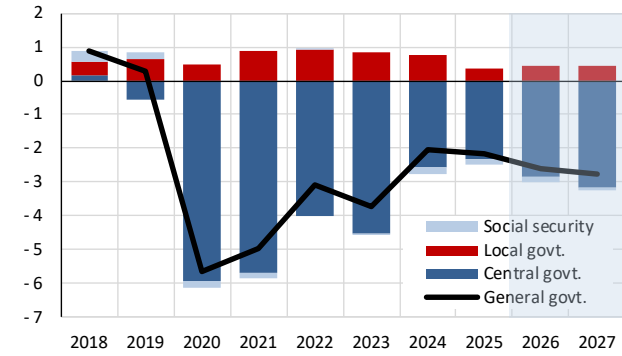
Another key priority is **combating the shadow economy** through the digitalisation of tax administration. The strategy includes, for example, the “Digital Tax Cobra” project, an analytical system capable of automatically analysing data from control statements and other databases. This system is designed to enable the faster detection of fraud, carousel schemes and illegal tax optimisation. More efficient tax collection could increase general government revenue without the need to raise tax rates.

Wider **digitalisation of public administration** could also have a positive impact on public finances. The government plans to develop an online tax office and pre-filled tax returns. This would reduce the administrative burden on both citizens and the state, whilst also minimising errors in tax returns. Furthermore, digitalisation may lead to a reduction in the operating costs of public administration and, over time, to labour cost savings in the administrative sector.

Economic Strategy 2.0 further emphasises **support for investment, innovation and infrastructure modernisation**. In the long term, these measures should increase the competitiveness of the Czech economy and support economic growth. Higher economic performance subsequently leads to higher tax revenues for the state and more stable public finances. The strategy also emphasises the more efficient functioning of the state and public institutions, which can help reduce unnecessary expenditure.

Graph 3.1: Government Balance by Sub-sectors

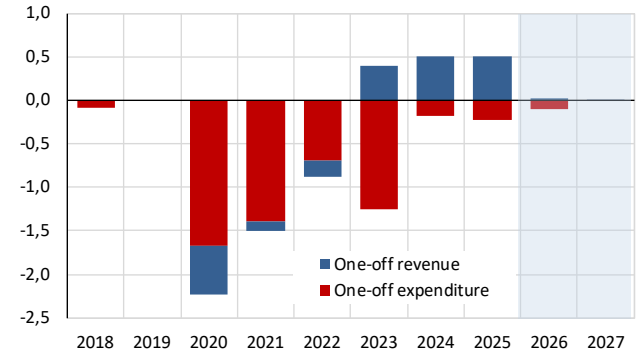
in % of GDP



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

Graph 3.2: One-off Measures

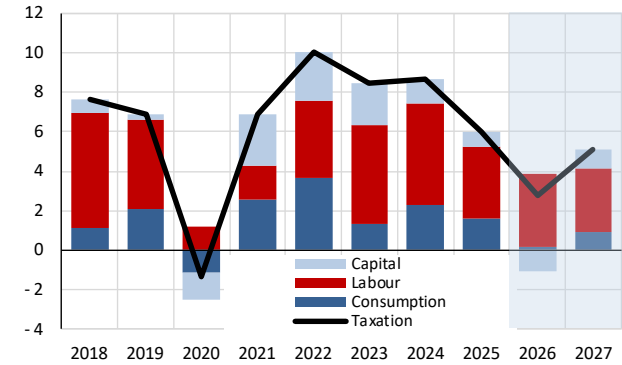
in % of GDP



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

Graph 3.3: General Government Tax Revenue

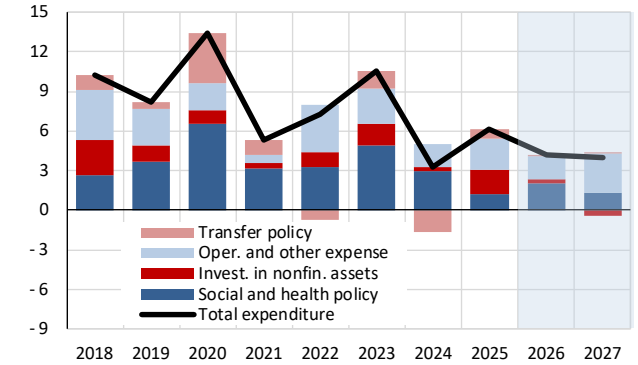
change in %, contributions in pp



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

Graph 3.4: General Government Expenditure

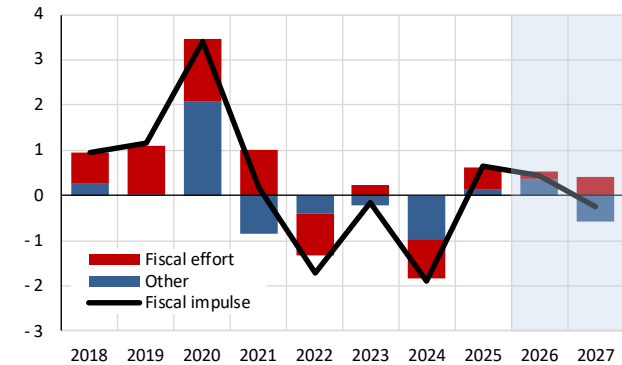
change in %, contributions in pp



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

Graph 3.5: Fiscal Effort and Fiscal Impulse

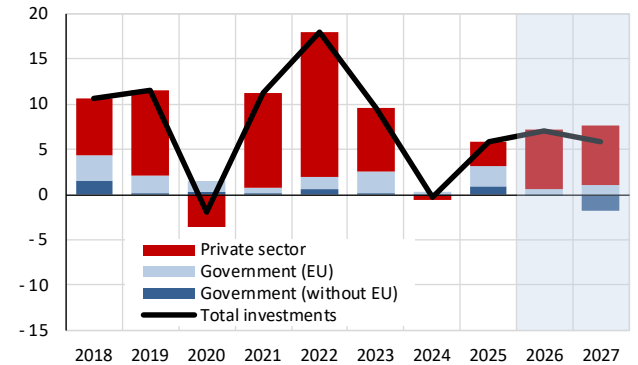
in pp, primary fiscal effort with opposite sign



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

Graph 3.6: Investment Co-financing from EU Funds

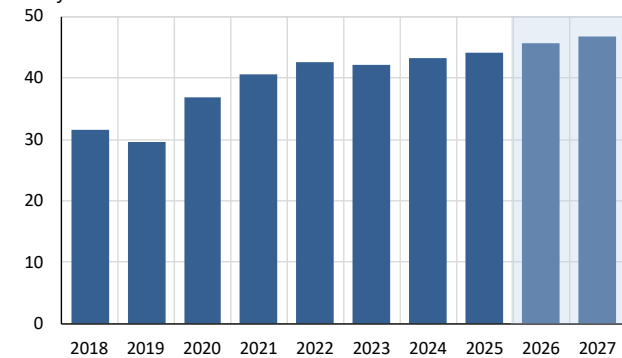
nominal gross fixed capital formation change in %, contributions in pp



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

Graph 3.7: General Government Debt

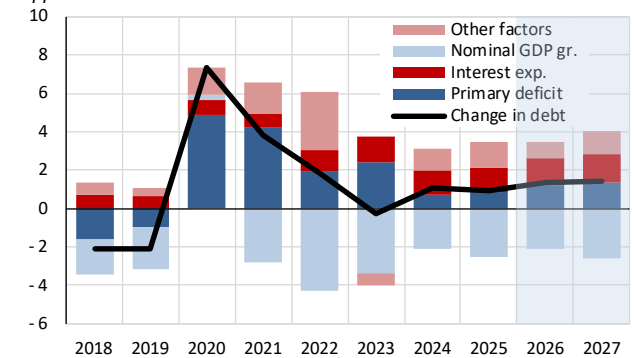
in % of GDP



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

Graph 3.8: Changes in Debt-to-GDP Ratio

in pp



Source: CZSO (2026a, 2026b). 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*

	2025	2025	2026
	CZK bn.	% of GDP	
Revenue			
Taxes on production and imports	924	10.8	10.3
Current taxes on income, wealth etc.	733	8.6	8.0
Social security contributions	1 349	15.8	16.0
Other current revenue	425	5.0	5.0
Capital taxes	0	0.0	0.0
Other capital revenue	81	1.0	0.9
Total revenue	3 512	41.0	40.3
of which: Transfers from the EU	106	1.2	1.2
Total revenue other than transfers from the EU	3 406	39.8	39.0
p.m. Revenue measures (increments, excluding EU funded measures)	37	0.4	-0.5
p.m. One-off revenue (levels, excluding EU funded measures)	44	0.5	0.0
Expenditure			
Compensation of employees	832	9.7	10.0
Intermediate consumption	493	5.8	5.6
Interest expenditure	112	1.3	1.4
Social benefits other than transfers in kind	1 102	12.9	12.9
Social transfers in kind	298	3.5	3.4
Subsidies	172	2.0	2.0
Other current expenditure	195	2.3	2.2
Gross fixed capital formation	443	5.2	5.0
Capital transfers	35	0.4	0.4
Other capital expenditure	12	0.1	0.0
Total expenditure	3 696	43.2	42.9
of which: Expenditure funded by transfers from the EU	106	1.2	1.2
Nationally financed expenditure	3 590	42.0	41.6
p.m. National co-financing of programmes funded by the EU	35	0.4	0.4
p.m. Cyclical component of unemployment benefits	0	0.0	0.0
p.m. One-off expenditure (levels, excluding EU funded measures)	19	0.2	0.1
Net expenditure (before revenue measures)	3 424	40.0	39.8

Source: CZSO (2026b). 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 %

	2025	2025	2026	2027	2028	2029	2030
	CZK bn. actual	actual	forecast	% of GDP plan			
Expenditure							
Interest expenditure	112	1.3	1.4	1.4	1.5	1.6	1.6
Nationally financed public investment	351	4.1	4.0	4.1	4.1	4.0	4.0
Net expenditure <i>change in %</i>	3 073		6.4	5.4	2.7	2.4	2.2
Balances							
Net lending/borrowing	-184	-2.1	-2.6	-2.8	-2.0	-1.6	-1.2
Primary balance	-72	-0.8	-1.2	-1.4	-0.5	0.0	0.4
Cyclical adjustment							
Structural balance		-2.2	-2.4	-2.9	-2.5	-1.9	-1.4
Primary structural balance		-0.9	-1.0	-1.6	-1.0	-0.4	0.3
Debt							
General government gross debt (consolidated)	3 786	44.3	45.6	46.9	46.6	46.8	46.6
Change in gross debt	298	1.0	1.4	1.1	-0.3	0.2	-0.2
Contributions to changes in gross debt							
Primary deficit		0.8	1.2	1.4	0.5	0.0	-0.4
Snowball effect		-1.2	-0.7	-1.2	-0.8	0.2	0.2
Interest		1.3	1.4	1.4	1.5	1.6	1.6
Growth		-1.1	-0.9	-1.1	-1.0	-0.2	-0.3
Inflation		-1.5	-1.2	-1.5	-1.3	-1.2	-1.1
Stock-flow adjustment		1.3	0.9	0.8	0.0	0.0	0.0
p. m. Implicit interest rate on debt	%	3.2	3.3	3.1	3.4	3.5	3.6

Note: The table refers to the description of the results for 2025 and the forecast of the MFCR in this chapter. It is therefore different for 2026 from the table in Chapter 3.2, which takes the European Commission's fiscal forecast as the starting point for calculating the net expenditure path.

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

Table 3.3: Discretionary Revenue Measures

year-on-year change, in % of GDP

	Rev/Exp	ESA	One-off	2025	2026
Adjustments to excise duties on energy	revenue	D.214A		0.0	-0.2
Increase in property tax	revenue	D.29A		0.0	0.0
Levy on excess revenue from electricity sales (December 2022 to December 2023)	revenue	D.29H	Yes	0.0	0.0
Increase in the corporate income tax rate and introduction of a global minimum tax	revenue	D.51B		-	0.0
Introduction of sickness insurance for employees	revenue	D.61		-	0.0
Other discretionary revenue measures	revenue			0.4	-0.3
Total				0.4	-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: MF CR calculations, forecast.

3.2 Balance and Debt Projection and its Assumptions

The assumptions of macroeconomic developments up to 2029 are based on the Macroeconomic Forecast of the MF CR published on 9 April 2026. Its parameters are explained in detail in Chapter 2. The subsequent **long-term projection up to 2040** is based on the European Commission's modelling approach and its assumptions. However, certain national assumptions regarding the development of input variables are incorporated here, primarily to ensure a smooth transition from the Forecast up to 2029.

3.2.1 Real GDP

Differences are reflected in the level of real output, whose forecast up to 2029 is based on current data and takes into account the measures set out in this plan.

Compared to the MF CR, the EC's forecast for this year anticipates a more pronounced slowdown in the growth of the Czech economy (1.8% vs. 2.1%) due to the conflict in the Middle East. Despite weaker growth in the first quarter of 2026 compared to the MF CR estimate (0.2% vs. 0.5% quarter-on-quarter), we still believe that the growth of the Czech economy according to the MF CR's scenario is relevant and achievable.

Our forecast does not differ from the actual data in the main components of GDP. The components of domestic demand (household consumption, government consumption and investment) turned out in line with the MF CR forecast or even slightly exceeded it. Similarly, the negative contribution of foreign trade to GDP did not differ significantly from the estimate (the actual outcome was 0.1 pp worse than expected).

Contrary to expectations, there was a significant decline in inventories. While the MF CR had expected them to accumulate (due to concerns about shortages and companies' efforts to build up stocks), inventories were ultimately drawn down (companies thus made greater use of existing inventories, presumably due to shortages of certain production inputs). However, the inventory item is highly volatile. In our view, this is rather a short-term fluctuation in response to the current military escalation in the Middle East. Should the MF CR baseline forecast scenario materialise (de-escalation during the second quarter of 2026, which is also assumed by forecasts of other domestic and foreign institutions, including the EC), we can expect inventories to be replenished, leading to a positive contribution from inventories to GDP in the second half of 2026, and thus to faster economic growth.

Labour market indicators also showed better figures in the first quarter of 2026 than the forecast had anticipated. Growth in the volume of wages and salaries exceeded the MF CR estimates by 1.3 pp, thus indicating stronger future growth in household consumption. Revision of data by the Czech Statistical Office also played a

role in the figures for wages and salaries. Employment growth and the change in the participation rate were almost three times higher than predicted. We also see a more positive trend in the number of hours worked.

Another factor that should support a higher pace of economic growth for the remainder of the year is the fading impact of the provisional budget, which at the beginning of the year limited the investment activity of the government sector. At the cut-off date of the MF CR forecast, preliminary estimates of government investment for the first quarter of 2026 were not available. However, the latest data from the Czech Statistical Office for this period indicate year-on-year growth in government investment of just under 14%.

In its forecast, the MF CR assumed that the provisional budget would lead to a more significant slowdown in public sector investment activity at the beginning of the year, and therefore expected a lower level of government investment in the first quarter of 2026, followed by an acceleration in its dynamics after the provisional budget period ended. According to currently available data, the first of these assumptions did not materialise. The actual development of government sector investment activity was more favourable than originally anticipated, which will imply an upward revision of the expected growth in government investment. The current forecast by the MF CR assumes nominal growth in government investment of 2.2%, while the EC's forecast works with an even lower assumption for the growth of public investment.

The second assumption—namely an acceleration in investment activity following the end of the provisional budget—is, on the contrary, confirmed by the latest cash budget performance data. The recovery in public sector investment activity is indicated in particular by the development of capital transfers from the state budget. While in the first two months of 2026 they increased year-on-year by 2.5%, for the period from January to May they already recorded a year-on-year increase of almost 25%. The data available so far thus signal a gradual strengthening of investment activity financed from the state budget following the end of the provisional budget period.

Macroeconomic forecasts from other reputable institutions, which were published in the following weeks and are therefore more relevant in terms of data timeliness as they incorporate more recent observations and available data, even project stronger growth than the MF CR. A significant role is played by higher estimates of public investment growth compared to the MF CR (as well as the EC) forecasts. The CNB (forecast published on 7 May 2026; based on data available as of 24 April 2026) expects stronger investment growth, which, alongside to

private investment, also reflects investment by the general government sector.

The Confederation of Industry of the Czech Republic (forecast published on 27 April 2026) expects growth of 2.6% for this year, emphasising, alongside household consumption, government plans to support growth of public investment.

Furthermore, business confidence in April and May, according to the economic indicators published by the Czech Statistical Office, has not declined and remains at the levels of the first quarter of 2026.

The MF CR forecast therefore does not overestimate growth in the Czech Republic, as also confirmed by the Committee for Budgetary Forecasts, which assessed it as realistic on 16 April 2026.

3.2.2 GDP Deflator and Inflation

The difference between the forecasts of the MF CR and the EC regarding the GDP deflator is primarily due to a different view on price developments in the domestic economy. The main source of this difference is the higher assumed growth of the domestic demand deflator in the MF CR forecast.

The divergence in the forecasts is not caused by a different outlooks for consumer inflation as measured by the Harmonised Index of Consumer Prices (HICP), where the estimates of both institutions are virtually identical. Instead, the difference is mainly concentrated in national accounts items not captured by the HICP.

In the case of household consumption, it can be assumed that the MF CR places greater emphasis on faster growth in imputed rents. This item carries significant weight in the household consumption deflator, while it is not included in the construction of the HICP, and may therefore contribute to a higher estimate of price growth within the national accounts.

A more pronounced difference is also evident in government consumption. This discrepancy relates to differences regarding wage growth in the public sector, which constitutes the dominant cost component of government consumption. Preliminary data for the first quarter of 2026 support the MF CR forecast and will also have an impact on 2027, given the increase in wages for a number of groups of public-sector employees from April 2026.

Different assumptions are also reflected in gross fixed capital formation. The higher estimate of the MF CR may reflect stronger cost pressures in construction and investment goods, as well as possibly higher assumptions regarding developments in residential property prices and imputed rents.

Part of the difference in the GDP deflator estimate is, however, offset by differing expected developments in foreign trade prices. The EC anticipates a more favour-

able development in terms of trade than the MF CR, which acts in the direction of lower overall growth of the GDP deflator.

The slightly higher GDP deflator in 2027 is then offset by developments in subsequent years. The average for the projection period is, however, fully consistent with the assumptions of the debt stochastic analysis.

An internally consistent macroeconomic forecast for inflation generally takes into account all foreseeable inflationary and deflationary factors, including the expected impacts of policy changes.

Current figures show that inflation is slightly below 3%. In the view of the current geopolitical situation, we expect, similarly to the EC, a slight increase in price level growth in 2027. Thereafter, inflation should gradually decline, with the consumer price index reaching 2.4% by 2029. Given the expected developments over the coming period, we do not see grounds for the emergence of inflationary pressures that could push inflation upwards. In line with the need to ensure a consistent macroeconomic scenario, we expect inflation to subsequently converge towards the central bank's target as the output gap closes, i.e. by 2032. In the subsequent period, we do not anticipate any deviations from the monetary policy target, and inflation should remain stable.

Compared with the EC's calculations, which rely on current market expectations, inflation values over the projection horizon are 0.3 pp lower. Moreover, the EC does not expect the inflation target to be met until 30 years from now.

We consider this approach – implying a very long-term deviation of price developments from the monetary policy inflation target – to be problematic for budgetary projections. It creates an inconsistency in the macroeconomic framework, where inflationary pressures are expected at a time of a closed output gap, i.e. when the economy is operating at its potential level. Furthermore, this implies a completely ineffective monetary policy.

This view has also been reflected in expert discussions, particularly within the EFC-A DSA working group, where the majority of Member States supported aligning the development of the inflation gap relative to central banks' targets with the development of the output gap. This approach is strongly supported in particular by the ECB, and a proposal for the convergence of the inflation rate towards the inflation target over a T+5 horizon was also presented by the EC at the group's last meeting.

3.2.3 Interest Rates

The forecast of short-term and long-term interest rates also differs; we expect these to remain stable over the forecast horizon, with short-term rates reaching 3.7% and long-term rates 4.8% by 2029. We assume that both rates will follow the development of the central bank's

base policy rate. As for the further outlook, we do not expect any adjustment of the policy rate during this year or next year, and even less so in the longer term. The two-week repo rate will therefore remain stable at 3.50%, which is a level consistent with the CNB's outlook. Similarly to inflation, we do not see economic grounds in the long term for a reversal in interest rate trends when the output gap remains closed.

In contrast, in the EC's calculations based on market expectations, rates around 2026 are approximately 0.5–0.6 pp higher, with a gradual increase until 2035 to 4.4% for short-term rates and 5.9% for long-term rates. This development is followed by a gradual convergence towards target levels of 2.0% and 4.0% respectively, only in 2055. The EC therefore currently forecasts that the short-term rate will rise significantly in 2026 and 2027 and then gradually climb to 4.4% over the next ten years. From our perspective, this is a highly unlikely scenario. Essentially, it suggests that the CNB's monetary policy tightening cycle – which is currently neutral/slightly restrictive – would last for ten years. This appears improbable, as it would imply either an insufficient or ineffective monetary policy response to inflationary pressures, or that monetary policy transmission will take longer than the expected 12 to 18 months.

The MF CR approach is more appropriate, as it is consistent with the forecasted economic and monetary developments. By contrast, the purely market-based outlook is, relative to the forecast, largely exogenous. Market outlooks are also relatively more volatile. The MF CR approach does not automatically adopt the view implied by market indicators, but allows for the weighing the importance of individual factors.

From the perspective of the MF CR, a forecasting approach based on market indicators, such as forward rates, has significant disadvantages compared to the structural decomposition method, as it:

- provides only a point forecast and does not explain the significance and impact of the relevant factors;
- is based on the market's economic and monetary outlook, which may generally differ from the macroeconomic forecast scenario. Without additional adjustments to the purely market-based forecast, the interest rate forecast would therefore be inconsistent with the forecast;
- relies on current market expectations, which by their nature frequently change and may be highly volatile in periods of uncertainty;
- does not capture potentially relevant factors that, in our view, may not be sufficiently or fully priced in by the market (e.g. the impacts of population ageing, risks to the long-term sustainability of public finances);

- may not necessarily represent the best estimate of future rates. This is particularly the case for longer maturities (above 10 years), where market turnover (liquidity) may be significantly low, or even zero. In such cases, forward rates are derived implicitly, for example from the spot yield curve. This means that rates for longer maturities may not necessarily reflect actual market expectations of future rates, but rather the implicit current market price of future rates. For horizons longer than 10 years, market expectations in the Czech Republic encounter the problem of a virtually non-existing benchmark. This is evident in the financial market, which does not provide banks with hedging options beyond this horizon. At least in the Czech Republic, this aspect represents a manifestation of market failure.

The structural method for forecasting interest rates allows for the monitoring and analysis of supply and demand factors and their response to developments in yields, both in the domestic economy and abroad, as well as to risk perception, alternative investment options, and other relevant factors. All these factors can also be assessed through decomposition into a risk-neutral path of rates, a risk premium, a term premium, and specific supply and instrument-specific supply and demand factors.

The short-term interest rate (3M PRIBOR) shows a strong long-term positive correlation with the CNB's main monetary policy rate and a low spread relative to this rate. The forecast of the short-term interest rate is therefore primarily based on our prediction of the future trajectory of the monetary policy rate over a horizon of three months or more, to which we subsequently add an expert-adjusted historical spread. In the long term, the assumption of a stable short-term rate is underpinned by an economy operating at its potential. The key argument for forecasting interest rates in both the short and long term is thus consistency. Interest rates are an important price throughout the entire macroeconomic system of a market economy, and their development must correspond to macroeconomic developments. If the economy is to grow at its potential over the longer term and the inflation rate is to correspond to the inflation target, interest rates must also correspond to some stable equilibrium level. In other words, such an economy does not generate inflationary pressures above the 2% target and leaves the main monetary policy rate unchanged at its neutral level.

The forecast for **the long-term interest rate** (the yield on a 10-year government bonds) is based on the forecasted development of the short-term interest rate, primarily the two-week repo rate, and on the likely development of structural components, i.e. supply and demand factors assessed through the detailed components mentioned above.

Why are interest rates in the MF CR forecast lower than current market expectations

The current level of both short-term and long-term market interest rates is significantly influenced by heightened geopolitical uncertainty linked to the conflict in the Middle East. Market rates currently reflect not only the expected development of monetary policy and macroeconomic fundamentals, but also an additional risk premium linked to uncertainty regarding future developments in energy prices, inflation and economic growth.

Empirical literature confirms that geopolitical shocks tend to increase government bond yields beyond the level explained by standard economic fundamentals. For example, Papavassiliou (2025) shows that geopolitical risks in the euro area are statistically significantly associated with rising government bond yields, with investors demanding an additional risk premium as compensation for increased uncertainty.

Similarly, Zenagui (2026), using a sample of both advanced and emerging economies, illustrates that geopolitical shocks lead to higher government bond yields via the financial and energy channels and through market expectations.

Financial markets typically react to new information quickly and often more strongly than would correspond to its long-term economic significance. This is particularly true in periods of heightened uncertainty, when sharp shifts in sentiment, risks revaluation and excessive volatility in financial markets occur.

Empirical studies show that during periods of significant political or geopolitical events, financial markets may temporarily overestimate risks and substantially revise their expectations regarding future inflation and monetary policy. For example, Auray et al. (2026) document that during episodes associated with announcements of new tariff measures in the US, there were significant changes in market inflation expectations and the valuation of financial assets, with these movements being closely linked to the flow of new information on trade policy. The study shows that a significant portion of the repricing took place immediately after the release of new information and primarily reflected a change in investors' perception of future risks.

Current developments in financial markets can be interpreted in a similar way. According to the IMF (2026), the escalation of the conflict in the Middle East has led to higher volatility in financial markets, increased government bond yields and a reassessment of inflation expectations. Thus, part of the current increase in market interest rates may reflect heightened geopolitical uncertainty and the associated risk premium, rather than solely a change in the long-term outlook for inflation and monetary policy. Assuming a gradual de-escalation of the conflict, this factor can be expected to fade over

time and market rates should move closer to levels consistent with underlying economic developments.

On 28 February 2026, the United States and Israel launched a joint attack on Iran. In response, markets began to fear a possible closure of the Strait of Hormuz – a key international trade route through which a substantial proportion of the world's oil and other important commodities, widely used in industry and agriculture, flows. As indicated by data on the number of ships passing through the Strait of Hormuz since the outbreak of the conflict indicate, these market concerns materialised. The risks associated with the external shock were priced in by the market through increases in both long-term and short-term interest rates. This increase was observed simultaneously across multiple countries.

In the wake of the attack on Iran, there was a sharp and sudden rise particularly in oil prices. A combination of market indicators of risk sentiment also shows that global risk aversion increased in parallel, accompanied by a worldwide decline in share prices, a rise in equity and bond volatility, widening spreads on high-yield corporate bonds, and a global strengthening of the US dollar as a safe-haven currency.

The increase in both short-term and long-term market interest rates was most likely triggered by an extraordinary geopolitical shock. This is evidenced by the widespread, sudden and sharp reaction in global markets that occurred immediately following the deterioration of the geopolitical situation in the Middle East, leading to an increase in the risk premium. Market rates therefore currently reflect not only the expected development of monetary policy and macroeconomic fundamentals, but also an additional risk premium associated with uncertainty regarding future developments in energy prices, inflation and economic growth.

The MF CR baseline scenario assumes the shock will be temporary.

A series of events in recent years (the COVID-19 pandemic, disruptions to global supply chains, the war in Ukraine, the energy crisis, US international and trade policy, and now the war in the Middle East) has likely shifted the market's pain threshold significantly higher, which would explain why there has not been a more persistent deterioration in risk sentiment. Market reactions to risk events have been sudden, sharp and generally short-lived, such as the reaction to the announcement of broad-based tariffs by the US administration in April 2025.

A similar situation arose in connection with the so-called 12-day war between Israel and Iran from 13 to 24 June 2025, which aimed to eliminate Iran's nuclear facilities and in which the United States subsequently became involved. Fearing retaliatory measures, including a blockade of the Strait of Hormuz, markets priced in expectations of interest rate hikes by the Fed, and oil prices also rose significantly. Here too, however, it was only a short-

term shock that faded relatively quickly after the end of the conflict.

A number of risk indicators suggest that financial markets were in a so-called “calm phase” prior to the February shock. Before the outbreak of the conflict, the ECB (2025) regularly highlighted this fact in its Financial Stability Review (November 2025). A look at recent risk indicators further shows that the reaction to the current Middle East conflict is already beginning to fade, which is in line with the temporary ceasefire that has been reached and the ongoing peace negotiations between the US and Iran.

A prolonged and widespread war in the Middle East would run counter to the interests of the US President and his administration. It is therefore reasonable to expect that the US administration will seek to resolve the Middle East conflict within a short timeframe; otherwise, it would likely face rising prices, which would most strongly affect Republican voters. This represents a significant risk of losing public support in the context of the upcoming autumn elections to the US Congress.

In the context of the situation in the Middle East, markets are currently rather optimistic. The de-escalation of the conflict and the return to negotiations are supporting this positive sentiment, although no significant progress has yet been achieved. This is likely one reason why current market interest rates are not rising further, though they remain at higher levels than before the conflict broke out. The prolonged duration of the conflict is not helping the situation either, as it increases the risk of material impacts on the economy and the corresponding monetary policy responses.

The assumption that the shock should be temporary is supported by the nature of the market’s reaction to risk events so far, the motivation of the US administration not to prolong the conflict, and the fact that leading domestic and foreign institutions, led by central banks, share the view that the shock is nonpersistent.

From the MF CR’s perspective, market rates represent a valuable source of information on current risk perceptions and investor expectations. However, in periods of extraordinary geopolitical events, they may contain a significant component of temporary risk premiums and sentiment-driven movements. For the purposes of the medium-term macroeconomic and fiscal forecast, it is therefore appropriate to assess market expectations in conjunction with the fundamental scenario for economic development. Mechanically adopting current market rates in a situation of exceptional volatility could lead to an overestimation of the government’s future interest costs and to a disruption of the internal consistency of the macroeconomic forecast.

3.2.4 Fiscal Multiplier

The final differing assumption is the value of the estimated fiscal multiplier, which the EC sets at 0.60 for all member states, regardless of the type of measure, current expenditure or investment. Given empirical studies on the Czech economy, this figure is rather overestimated. For example, the OECD, in its study (OECD, 2009), describes a negative relationship between economic openness and the size of the fiscal multiplier. Multiplier values for the open Czech economy were estimated in the first year of implementation to range from approximately 0.1 for taxes and 0.2–0.3 for government non-investment expenditure up to 0.7 for investment. Studies by the Czech central bank (CNB 2016 and CNB 2021) report fiscal multipliers for government investment ranging from 0.3 to 0.7; for other expenditure, including government consumption, the multipliers range between 0.3 and 0.5. Tax multipliers, meanwhile, range from 0.1 to 0.3. ECB (2015), which compares multipliers across European countries, also cites values between 0.2 and 0.5. Further details are provided in the Fiscal Outlook publication (MF CR, November 2015). Given that we anticipate consolidation primarily in non-investment expenditure and on the revenue side, we apply a more conservative multiplier estimate 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 %*

		2025	2026	2027	2028	2029	2030
General government gross debt (consolidated)	% of GDP	44.3	45.8	46.9	46.6	46.8	46.6
General government balance	% of GDP	-2.1	-2.8	-2.8	-2.0	-1.6	-1.2
Structural primary balance (before ageing cost)	% of GDP	-0.5	-1.3	-1.6	-1.0	-0.4	0.3
Cyclical component	% of GDP	-0.2	0.0	0.3	0.7	0.4	0.2
One-off measures	% of GDP	-0.1	-0.1	-0.1	-0.2	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	1.3	1.4	1.5	1.6	1.6
Short-term interest rate	%	3.6	3.6	3.7	3.7	3.7	3.7
Long-term interest rate	%	4.3	4.7	4.7	4.8	4.8	4.8
Implicit average interest rate	%	3.2	3.1	3.1	3.4	3.5	3.6
Stock-flow adjustment	% of GDP	1.3	0.9	0.8	0.0	0.0	0.0
Potential GDP	change in %	1.6	1.6	1.5	1.5	1.2	1.2
Real GDP	change in %	2.6	2.1	2.4	2.3	0.4	0.7
GDP deflator	change in %	3.5	2.9	3.3	2.8	2.6	2.4
Nominal GDP	change in %	6.2	5.0	5.8	5.1	3.1	3.1

*Source: CZSO (2026a, 2026b), EC (2026b). Calculations, forecast, outlook and projection of MF CR.***Table 3.5: Balance and Debt Model Projection up to 2040***% of GDP, interest rate in %, change in %*

		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
General government gross debt (cons.)	% of GDP	46.5	46.6	46.9	47.4	48.1	48.8	49.6	50.7	51.7	52.9
General government balance	% of GDP	-1.4	-1.5	-1.7	-2.0	-2.1	-2.3	-2.4	-2.7	-2.8	-3.0
Struct. primary balance (before ageing)	% of GDP	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Cyclical component	% of GDP	0.1	0.1	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	0.1	0.1	0.4	0.4	0.5	0.6	0.8	0.8	0.9
Interest expenditure	% of GDP	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.1	2.1	2.2
Short-term interest rate	%	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Long-term interest rate	%	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Implicit average interest rate	%	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.3	4.4	4.4
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	1.2	1.2	1.2	1.1	1.3	1.4	1.5	1.5	1.6
Real GDP	change in %	1.1	1.1	1.1	1.2	1.1	1.3	1.4	1.5	1.5	1.6
GDP deflator	change in %	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP	change in %	3.3	3.1	3.1	3.2	3.2	3.3	3.4	3.5	3.6	3.6

Source: CZSO (2026a, 2026b), EC (2026b). EC projections. MF CR calculations.

4 Reforms and Investments

The country-specific recommendations by the Council of the EU are divided into four thematic areas: decarbonisation; social systems; education, the labour market and affordable housing; and, finally, modern public administration and digitalisation. These are based on recommendations from 2019 to 2025, on which no significant progress has been noted in the Czech Republic's response.

4.1 Decarbonisation

Despite a significant reduction in greenhouse gas emissions and the decoupling of economic growth and final energy consumption over the past three decades, the Czech Republic remains one of the most energy- and emission-intensive economies in the EU. The main causes are the high share of industry in the economy and the fact that coal accounts for almost a third of primary energy sources. Per capita greenhouse gas emissions in the Czech Republic are thus among the highest in the EU.

The transformation of the Czech economy must be guided not only by the requirement to reduce greenhouse gas emissions, but also by the need to maintain industrial competitiveness, the social acceptability of the transformation, and energy security. From a climate protection perspective, it is therefore crucial that individual measures in the energy, industry, transport, buildings and other sectors are geared towards a structural reduction in the economy's carbon intensity.

The Czech Republic's target is to reduce emissions in sectors outside the current **EU Emissions Trading System** (EU ETS) by 26% compared to 2005 levels by 2030, to increase the share of renewable energy sources in gross final energy consumption to 30%, and to reduce final energy consumption by approximately 20% compared to 2021 (MIT, 2023). Greenhouse gas emissions in the Czech Republic are subject to charges only through the EU ETS. The aim of the EU ETS is to reduce greenhouse gas emissions covered by this system (just under 52% of emissions in the Czech Republic according to the OECD, 2022) at EU level by 62% between 2005 and 2030. In connection with the approved new EU climate target of a 90% reduction in emissions by 2040 (compared to 1990), the Czech Republic may use international carbon credits in sectors not regulated under the EU ETS to reduce emissions by up to 5 pp from 2036. The extension of emissions trading to buildings, road transport and other fuels (EU ETS 2) from 2028 would then mean that, in the case of the Czech Republic, charges would cover roughly two-thirds of emissions. However, the government has taken a negative stance on the implementation of the expanded EU ETS 2 emissions trading scheme into Czech law (Government Resolution No. 1018/2025).

The government is seeking to transform the energy sector through a **combination of nuclear energy, fle-**

xible sources and decentralised renewable sources (Government of the CR, 2026). The share of nuclear sources in gross electricity generation is expected to increase from the current level of around 37% to 50% by 2050. Following the conclusion of a contract to secure the construction of a new nuclear power plant at Dukovany, the investor model is being finalised and negotiations with the EC on public support are underway. The government is also continuing to prepare a project for the construction of two further units at the Temelín Nuclear Power Plant and plans to establish the conditions for the construction of the first small modular reactor (SMR) by the second half of the 2030s. In the case of coal-fired power plants, or solid fossil fuels, which currently (2024) generate 35.9% of electricity and 45% of gross heat production (i.e. heat sold) in the Czech Republic, the government will endeavour to prevent their uncoordinated phase-out and ensure adequate replacement. In this context, the government is seeking to introduce a so-called capacity mechanism system, which, in the form of state aid, will guarantee investors at least a partial return on their investments in the construction of new energy sources. In the coming years, these should operate for gas-fired sources as a replacement for coal-fired power plants and heating plants. Following the expected receipt of notification from the EC this year, construction of the first combined cycle power plants is planned to begin in 2028, with commissioning in 2031.

The Czech Republic is a small, highly open economy and, as such, is heavily dependent on foreign demand. To maintain and strengthen the Czech Republic's international competitiveness, and thereby secure future public revenues and macroeconomic and fiscal stability, it is therefore essential to reflect trends in the global economy.

Parts of the Czech economy will undergo fundamental change, and the transition to a low-carbon economy is likely to be more costly than for many other EU Member States, given the economy's emissions profile. Pressure from the EU ETS remains a key factor, particularly for the energy sector and industry. The price of allowances places a burden on coal and gas sources in the electricity and heating sectors. The government has therefore, from 2026, transferred the renewable energy source levy (POZE) from businesses and households to the state budget. The government is also seeking a revision of the

current EU ETS 1 system and the non-introduction or postponement of the EU ETS 2 system.

The regulatory framework in the energy sector has undergone significant changes in recent years with the aim of enabling faster development of renewable energy sources, strengthening grid flexibility and increasing consumer participation in the electricity market. A key element of this transformation was the implementation of legislation known as Lex OZE III (Act No. 87/2025 Coll.), which creates the legal framework for electricity sharing, flexibility aggregation and the wider integration of energy storage. These changes contribute to better integration of renewable sources into the energy system and to strengthening its stability and resilience during the ongoing decarbonisation process. At the same time, functional supporting infrastructure is being rolled out, including the Electroenergetic Data Centre's, which is intended to enable the effective functioning of new market mechanisms and the transparent evaluation of flexibility. The regulatory changes are designed to support technology-neutral solutions, the development of decentralised generation and an active role for consumers, without jeopardizing the security of energy supply. In a broader context, these reforms contribute to achieving the Czech Republic's climate targets whilst taking into account the competitiveness of the economy and the social acceptability of the energy transition.

In connection with the transposition of EU Directive No. 2023/2413, there are also plans to introduce special zones for energy storage and for grid infrastructure in the future, in order to increase the connectability of additional renewable energy sources even outside acceleration zones.

The modernisation of distribution networks, funded by the Modernisation Fund and the REPowerEU programme, focuses on increasing capacity for connecting new sources and installing large-capacity batteries. The modernisation of industry and the heating sector through the HEAT programme remains a key defence against the volatility of allowance prices, with the emphasis on ensuring that the green transition does not lead to deindustrialisation, but rather to strengthening the resilience of the Czech economy.

4.1.1 Energy Regulation Reforms

This year, the legislative process is underway for a further amendment to Act No. 458/2000 Coll. (the Energy Act), which responds to developments in European legislation in the field of the gas industry and decarbonised gases, with the aim of ensuring the implementation of Directive (EU) 2024/1788 of the European Parliament and of the Council (EU) 2024/1788 of 13 June 2024 and to create a comprehensive legal framework for the establishment and development of the hydrogen market and hydrogen infrastructure in the Czech Republic (the so-called LEX HYDROGEN).

A series of amendments to the Act on Measures for the Czech Republic's Transition to Low-Carbon Energy and the Act on Supported Energy Sources is also being prepared (amendment to Act No. 367/2021 Coll., on Measures for the Czech Republic's Transition to Low-Carbon Energy, and Act No. 165/2012 Coll., on Supported Energy Sources, as amended) with the aim of taking into account the results of the notification of state aid for investments in the energy sector and defining certain aspects of the aid provided more precisely, as well as expanding the powers of the Energy Regulatory Office and amending the rules for the publication of contracts related to the construction of new nuclear power plants.

In the area of building decarbonisation, an amendment to Act No. 406/2000 Coll., on Energy Management, as amended, is planned, the aim of which is to ensure the transposition of Directive (EU) 2024/1275 of the European Parliament and of the Council of 24 April 2024 on the energy performance of buildings. In connection with this transposition, a new energy standard for planned construction and a new energy performance database with online viewing capabilities will be introduced.

Preparations are also underway for the implementation of Regulation (EU) 2024/1252 of the European Parliament and of the Council of 11 April 2024 (the so-called Critical Raw Materials Act), the primary role of which is to ensure the EU's access to secure and sustainable supplies of critical raw materials used, among other things, for the production of energy from renewable sources. Furthermore, an amendment to Act No. 34/2021 Coll. (the Foreign Investment Screening Act) is planned, the aim of which will be to ensure compatibility with EU law in the area of critical infrastructure regulation and thus increase the effectiveness of the screening mechanism. Investments in the energy sector are among the key economic activities and are subject to critical infrastructure regulations; improving the efficiency of the screening mechanism will therefore directly affect the approval processes for foreign energy projects in the Czech Republic.

4.1.2 Financing Decarbonisation and the Energy Transition

Financing decarbonisation and the energy transition in the Czech Republic is based on a multi-source model in which the **Modernisation Fund** plays a central role. Currently, support from this fund is being channelled through several grant programmes, primarily for energy savings in rail transport (total allocation of CZK 25.7 billion), the modernisation and development of the electricity grid (with an allocation of CZK 10 billion), zero-emission road freight transport (with an allocation of CZK 0.96 billion) and the development of energy communities (with an allocation of CZK 1 billion). In addition to the Modernisation Fund and revenues from EU ETS allowance auctions, EU cohesion policy instruments and the National Recovery Plan (NRP) also contri-

bute to investment support for these activities. This year, the NRP launched the Subordinated Loan scheme¹ with an allocation of CZK 142 million to support small and medium-sized enterprises and enable them to implement business projects that contribute to meeting climate targets and the green transition. The development of renewable energy sources in the Czech Republic is also supported through operational support – green bonuses, including auction bonuses – or calls for proposals under the Operational Programme Technologies and Applications for Competitiveness (OP TAC). This year, calls for proposals under the Renewable Energy Sources activity within OP TAC will be concluded, with a total allocation of CZK 2.2 billion to support the replacement of electricity generation from fossil fuels with wind and small hydroelectric power plants. In 2026, the Czech Republic received notification for a robust operational support scheme for biomethane production. The first auction was announced on 12 May 2026. The Czech Republic expects to have 500 million Nm³ of biomethane produced by the end of 2030. Under the Operational Programme Just Transition, sub-measures aimed at retraining, active inclusion and support for jobseekers, promoting sustainable local mobility, and supporting the creation of jobs in the renewable energy sector and other related industries are being funded in the regions most affected by the climate transition of the economy (Karlovy Vary, Ústí nad Labem and Moravia-Silesia). Support is also provided for reducing the energy intensity of public buildings and public infrastructure.

Cooperation is also underway **with commercial banks and building societies** to co-finance comprehensive thermal insulation and other energy-saving measures. As part of changes to the **New Green Savings programme**, it is planned that from September 2026 the implementation of these measures will be financed through interest-free bank loans with a repayment period of up to 25 years. By involving private sources and reducing the burden on public budgets, the financial stability and long-term sustainability of this programme will be ensured. Grants will be retained only for low-income individuals under the New Green Savings Light programme. **Cooperation** is also underway **with the National Development Bank** to finance business projects focused on energy savings through interest-free loans (the ENER and New ENER programmes).

4.1.3 Low-Emission Mobility

Emissions reductions in the transport sector and the construction of related infrastructure are supported by the Operational Programme Transport, the Operational Programme Just Transition, the Integrated Regional Operational Programme, and the Modernisation Fund

¹ The programme has been suspended as the entire allocation has been depleted.

(TRANSPORT programme). The Modernisation Fund plays a significant role in the transformation of mobility, with the TRANCom programme (a call for proposals with an allocation of CZK 960 million) supporting **road freight transport** operators in replacing diesel lorries with electric lorries. At the same time, they will also receive support for the installation of charging stations. The Modernisation Fund plays a key role in **rail transport**, where the TRANGov programme (with an allocation of CZK 15 billion) supports the acquisition of new rail vehicles for passenger transport. The same programme also supports the electrification of railway lines with a total allocation of CZK 7.2 billion. For rail freight transport, the TRANCom programme has allocated CZK 3.5 billion for the purchase of electric locomotives.

To support the acquisition of **zero-emission vehicles** (powered by electricity, hydrogen or other CO₂-free energy), Act No. 349/2023 Coll. extended the validity of extraordinary (accelerated) tax depreciation for both natural and legal persons in the Czech Republic, originally introduced for vehicles purchased between 2020 and 2023, by a further five years, i.e. for zero-emission vehicles acquired by the end of 2028. The benefit also applies to the provision of a company car by an employer to an employee for personal use, in which case 0.25% of the vehicle's price is considered the employee's taxable income. A significant part of the decarbonisation efforts in transport is also the promotion of **zero-emission public transport**, inter alia in connection with Act No. 360/2022 Coll., on the Promotion of Low-Emission Vehicles through Public Procurement and Public Passenger Transport Services.

In addition, Act No. 142/2022 Coll. reclassified **machinery or equipment used exclusively for charging purely electric vehicles and hybrid vehicles** into a lower depreciation group, thereby shortening the minimum depreciation period for such equipment.

In August 2024, the second update to the National Action Plan for Clean Mobility was approved, aimed at supporting the development of electric and hydrogen mobility and thereby reducing transport emissions through support for businesses, public transport, vulnerable population groups and the development of car-sharing services, including e-car-sharing (Government of the CR, 2024).

4.1.4 Education, Science, Research and Development, and Consultancy in the Energy Sector

Through selected training programmes² and the methodology of the Ministry of Industry and Trade³, a system

² E.g. programmes under component 2.5.3. of the NRP (<https://www.mpo-efekt.cz/dotacni-programy/130924>), or the State Programme for the Promotion of Energy Savings Efekt III (Axis 3: education).

has been established and rules set for the **professional training of personnel** in the fields of renewable energy sources installations, energy audits, energy performance certificates for buildings and inspections of air-conditioning systems. Furthermore, the programmes cover vocational training and the enhancement of professional competencies in the field of energy savings and their implementation.

The Development of Science, Research and Innovation in the Czech Republic in the fields of energy and the environment is supported, amongst other things, by programmes run by the Technology Agency of the Czech Republic (e.g. the THÉTA 2 programme; the equivalent for the environment is the Environment for Life 2 programme). International calls for proposals are also published through the Technology Agency of the Czech Republic, e.g. EnerDigit for the digitalisation of the energy sector. In the REPowerEU chapter, the NRP also focuses on a comprehensive reform of **advisory services** in the field of renovations⁴. This includes investment in a new structure and services for energy advisory services, with the aim of supporting at least 120,000 energy efficiency projects for households, businesses and the public sector. Thanks to investments from the NRP, the number and scope of the network of **Energy Consultation and Information Centres** have been expanded; these centres support education and awareness in the field of energy savings and the use of renewable energy sources in the residential sector, and provide free assistance with grants, the preparation of grant applications and other administrative tasks required to secure grants.

An amendment to Act No. 406/2000 Coll., on Energy Management, is currently being prepared, which will include the legislative establishment of the Energy Consultation and Information Centre (hereinafter referred to as “EKIS”). The establishment of EKIS will be conditional upon registration via the Energy Performance Database — 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. Through this step, the Ministry of Industry and Trade also guarantees the quali-

ty of services provided within the framework of EKIS. The conditions for the establishment of EKIS will also include a requirement that at least one of the designated persons holds the professional qualification “Energy Advisor” (code: 66-058-N) in accordance with the National Qualifications Framework. The Ministry of Industry and Trade is therefore working on a revision of this professional qualification, which forms the basis of a unified energy advisory system provided on a one-stop-shop basis.

In December 2024, a pilot one-stop-shop, known as the comprehensive EKIS (K-EKIS), was established under Component 7.3 of the NRP. 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.

³ Ministry of Industry and Trade methodology for the performance of energy specialist activities (November 2025). Methodological recommendations for the fulfilment of certain obligations of energy specialists pursuant to Act No. 406/2000 Coll., on Energy Management, as amended, and Decree No. 280/2023 Coll., on the Conditions for the Performance of Energy Specialist Activities.

⁴ The NRP includes component 7.3, Comprehensive reform of advisory services for the renovation wave in the Czech Republic, with an allocation of CZK 4 billion, to be implemented between Q1 2023 and Q2 2026. Currently, there are four open calls in this area with a total allocation of CZK 1.3 billion.

4.2 Social Systems

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

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

In line with the Policy statement of the Government, the government is preparing measures in **the pension system** aimed notably at improving the income situation of the most vulnerable groups of pensioners, namely those of very old age. These measures aim at increasing pensions in payment, particularly where the period since the pension was granted is longer; specifically, this involves an additional pension increase upon reaching a specific age, a general strengthening of pension indexation by taking into account a higher proportion of real wages, or an increase in the pension for those continuing in earning activity.

The social benefits reform, effective from October 2025 (with a transitional period of several months), has merged the four existing state social support benefits for those in material need into a single comprehensive state social assistance benefit. Entitlement to the benefit is conditional on employment and providing proper care for children, and it 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 property are taken into account, efforts to actively resolve their situation are recognised, and the incentive to take up work is strengthened.

4.2.2 Healthcare

To ensure the fiscal sustainability of the healthcare system, it is important to ensure stability and predictability in its funding on the one hand, whilst on the other hand it is crucial to emphasise the efficiency of expenditure. Simply increasing expenditure does not lead to improved quality and accessibility of health care. Emphasis will be placed on disease prevention, early diagnosis and the promotion of a healthy lifestyle. There are also plans to improve the organisation of healthcare services, increase the resilience of the healthcare system, implement changes in the negotiation process between health insurance companies and health care providers, achieve a high level of digitalisation in healthcare system, and ensure the effective use of modern technologies (artifi-

cial intelligence, virtual reality). The government will also focus on supporting mental health.

Stability and Transparency of Funding

To strengthen the stability of the revenue part of the system, Act No. 260/2022 Coll. was approved, introducing **an automatic indexation mechanism** for the state insurance payments for the so-called state-insured persons (for more details, see e.g. MF CR, 2023). The financial situation of majority of the health insurance companies is not currently fully stabilised and will continue to be subject to ongoing assessment. In connection with the imbalance between health insurance companies, a change in the system of redistribution of the insurance contributions among individual health insurance companies is planned (Government of the CR, 2026). The health insurance companies should also be granted longer contractual lease in relation to health care providers and subsequently differentiate payments according to the quality and effectiveness of the health care provided. A competitive environment should thus operate among health insurance companies, giving them greater scope for independent management and responsibility for the quality of services provided to insured persons.

Improving the Efficiency of the Healthcare System

As part of the changes to **the organisation of healthcare**, health insurance companies will play a key role, but the consistent implementation of clinically recommended procedures, the coordination of health care, and the digitisation of agendas tracking trajectory of the patients through the healthcare system will also be important. In the medium term, **a restructuring of the hospital network** is planned with the aim of creating a regional hospital network characterised by a higher degree of cooperation and division of labour. Correlatively, there are also plans for the gradual **transformation of the acute care inpatient bedstock** (taking regional specifics into account) **into long-term and subsequent inpatient care beds**⁵ (including palliative care) to meet patients' needs. Specialised health care services will be increasingly centralised within a network of highly specialised care centres. In 2026, support for the development of the long-term care system will continue, having been initiated by the entry into force of Amendment Act No. 38/2025 Coll., which introduced the concept of social-health care services, established a new form of care – social- health inpatient care, enabled the mutual sharing

⁵ The MoH (2024a) states that by 2035, due to the ageing population, it will be necessary to increase the bed capacity for long-term and subsequent care by approximately 4,700 beds.

of information necessary to ensure high-quality and safe care, and established rules for the mutual coordination of support within these services. Based on health and social data, the cost impacts will thus be monitored not only in the healthcare sector but also in the social sector. This will provide a more comprehensive overview of the population's needs and enable more efficient allocation of resources in both sectors.

Reimbursement mechanisms are set to provide greater support for the use of one-day care across a wide range of specialisms, including its integration into the CZ-DRG system. There is also a gradual reduction in reimbursement inequalities, both in acute inpatient care (by 2026, it is planned that approximately 30% of acute inpatient care will be reimbursed at a single basic rate; significant convergence of rates between health insurance companies), as well as in other types of care, where from 2026 new types of classification systems will be developed based on cost data from newly established reference networks (i.e. in the subsequent care, long-term care, one-day care and home care). Within the framework of healthcare reimbursement, models based on disease management, treatment outcomes and the quality of health care provided – rather than solely on the volume of services – will be introduced. Support for primary care will also continue, with reimbursement support for team practices commencing in 2025.

As part of **the adjustments to the negotiation process**, greater use should be made of data and analytical resources to inform the decision-making of individual participants. This will enable trends to be monitored several years in advance, rather than just within a single year, ensuring better prediction of healthcare needs, more efficient allocation of resources and more transparent decision-making that will meet both current and future patient needs. The role of health insurance companies should also be strengthened and the influence of the reimbursement decree limited. The desired outcome would then be for all healthcare segments to reach an agreement with health insurance companies on reimbursement amounts through a negotiation process, with the resulting planned aggregate reimbursement for all segments always aiming at least at a balanced performance for the public healthcare system (Senate Print No. 246).

A key factor in improving the efficiency of the healthcare system is its **digitalisation and the data analysis**. In 2025, there was a significant shift in the implementation of central e-health services, following legislative changes introduced by Act No. 236/2025 Coll., amending Act No. 325/2021 Coll., on the electronicisation of healthcare. These changes came into force on 1 January 2026. Implementation focused on completing the preparatory phase, standardisation, technical designs and securing the necessary documentation for the subsequent launch of services.

As part of the development of the central infrastructure, a comprehensive framework for the eHealth services catalogue was finalised in 2025, comprising in particular a catalogue of standards, a catalogue of digital services and proposals for the establishment of reference registers of patients, health care workers and health care providers. The preparation work included updating the data standards and interfaces necessary for the uniform operation of the central infrastructure.

At the same time, **identification and authentication services** for patients and health care workers were developed and technically prepared; these will form the basic access layer to all central eHealth services. The development of **information services for patients** was also underway, including the subsequent expansion of the functionalities of the Electronic Health Card application as a central “user gateway”.

In 2025, key preparatory work was also completed for the subsequent launch of new central functions, in particular **eReferrals, the Shared Health Record and the Authorisation Register**, which will be activated once the legislative changes come into force. These services were harmonised with other elements of the central eHealth architecture.

A significant part of the preparations also involved the technical and content-related completion of **the National Portal for Electronic Healthcare**, launched on 1 January 2026. The portal serves as a single point of access for patients to central eHealth services, including electronic requests, shared documents and notifications relating to health data.

As part of the finalisation of the new functionality, the infrastructure for providing **Electronic Medical Reports (EMRs)** was also put in place; these have been issued in electronic form since 1 January 2026. In 2025, technical requirements were drawn up, interfaces were tested and EMRs were integrated into central identification and document services so that reports could be securely issued and shared between providers and the relevant authorities.

It is planned to gradually publish data from health registers on the Healthcare Quality Indicators Portal of the Health Insurance Bureau, with the aim of using this data to assess the cost-effectiveness of healthcare technologies and care.

Disease Prevention and Healthy Lifestyles

The Government intends to focus on the systematic primary prevention of lifestyle-related diseases, which today represent one of the main threats to the health of the population and the economic stability of the healthcare and social system. In cooperation with health insurance companies, employers and schools, there are plans to create a unified framework of preventive measures, which will lead to a reduction in the incidence of obesity, diabetes, cardiovascular diseases and other

illnesses and addictions. Furthermore, incentives will be introduced for employers to invest in preventive programmes for their employees, and financial bonuses will be introduced by health insurance companies for insured persons who regularly attend preventive medical check-ups.

Strengthening the Resilience of the Healthcare System

Another priority for the Czech Republic is the overall strengthening of the resilience of the healthcare system. The Czech Republic's National Cancer Plan 2030 (MoH, 2022) and the Czech Republic's National Cardiovascular Plan for the period 2025–2035 (MoH, 2024b) will be implemented, focusing on the prevention and treatment of the two most common causes of death in the Czech Republic. A project of the Institute of Health Information and Statistics of the Czech Republic – the National Screening Centre called Comprehensive Information Facility for Improving the Quality of Cancer Screening Programmes is also being implemented. Its aim is to create and implement comprehensive information systems for the National Screening Centre, which will serve to ensure the quality of population-based screening programmes provided by health care providers. Investments in treatment research, new healthcare technologies and hospitals will also be supported. Emphasis will be placed not only on cooperation between research institutions, universities and the private sector, but also on the conduct of clinical essays in the Czech Republic.

Ensuring Staff Capacity in the Healthcare Sector

Individual segments of the 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 (a long-term shortage of doctors in primary care) and regions. However, there is a shortage of non-medical staff, particularly nurses and radiological assistants. The shortage of healthcare staff will continue to worsen as a result of their demographic ageing and future increased demand

for care (both health and long-term). The government therefore supports both funding to increase the capacity of medical faculties and education capacity for non-medical disciplines, as well as funding for residency places (for core specialisations, and for specialized education on specialisations in primary care and paediatric care), but also the simplification of specialist education. In this context, from 2026, health insurance companies will be required to allocate up to 0.5% of collected insurance contributions, after redistribution, to the fund for public benefit activities, which, among other things, supports the financing of specialist education for doctors and other healthcare workers in order to ensure the availability of publicly funded health care across all specialisations and throughout the Czech Republic. For non-medical healthcare staff, further expansion of competences is planned in the medium term, particularly in primary care, and efforts will be made to streamline the system of qualification education and continuing professional development as much as possible, including specialist education.

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, comprising representatives from all relevant institutions (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.

Since 2026, an electronic system for optimising the education of healthcare workers – the Administration System – has been fully operational. It is a comprehensive digital solution for the management of specialist and postgraduate education for healthcare workers in the Czech Republic.

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

4.3.1 Education

The quality of the education system is a key factor in the future competitiveness, social cohesion and resilience of the Czech Republic. In the context of rapid technological, social and geopolitical changes, the priority is to develop an education system that enables every child and young person to develop their potential to the fullest, regardless of their family background.

The strategic framework for reform measures remains **The Czech Republic's Education Policy Strategy to 2030+** (MoEYS, 2020), whose main objectives are to develop the competences needed for an active civic, professional and personal life and to reduce inequalities in access to quality education. The reform of the education system therefore focuses in particular on streng-

thening literacy in reading, mathematics and science, the mental health and resilience of children and young people, supporting motivation to learn, and systematically reducing the influence of socio-economic background on educational outcomes.

The reform measures also include strengthening data-driven strategic management of education policy, evaluating the impacts of individual measures, and establishing long-term indicators of education quality. Emphasis will be placed on the effective use of data not only at central level, but also by schools and school governing bodies.

In the field of **pre-school education**, the priority is to increase accessibility and improve quality so that as many children as possible can be involved in pre-school

education from an early age. Particular emphasis is placed on supporting the inclusion of children from different linguistic or cultural backgrounds and on targeted support for teaching staff. Schools are provided with methodological stuff and recommendations, and support for specialists at schools concerning particularly teaching assistants, social pedagogues and school psychologists across nursery, primary and secondary schools and conservatoires, continues. Cooperation between schools and advisory services will also be strengthened.

A reform of teaching methods and curriculum content is underway in **nursery and primary schools**, with a focus on developing pupils' key competences, digital skills and critical thinking. In addition to supporting pupils' educational outcomes, efforts will also be made to strengthen mental health and ensure a safe school environment. Measures aimed at preventing mental health issues among children and young people, strengthening relationships within school, developing socio-emotional competences and creating conditions for a positive school climate and pupil motivation to learn will be supported.

In **secondary education**, the reform of the curriculum continues with the aim of increasing the relevance of education to the needs of the labour market. Emphasis is placed on permeability between fields of study, strengthening the general foundation, and improving the link between schools and the workplace. In 2025, a reform of the national curriculum for secondary schools was launched, and the link between education and the workplace was strengthened through the introduction of a dual education system and the implementation of the school-leaving examination in the form of a comprehensive final project. Preparations are continuing for the harmonisation of the micro-certificate system across the entire Czech education system (the OECD project is due to be completed by the end of 2026). Greater emphasis will be placed on preventing academic failure and supporting the successful completion of studies. Measures will focus in particular on the early identification of pupils at risk of academic failure, the development of career guidance, support for transitions between educational levels, and strengthening the relevance of educational fields to the needs of the labour market.

In 2025, the reform of teacher training is ongoing, aimed at strengthening the quality and relevance of the teaching profession. The competence framework for teacher training graduates sets out a unified national vision of the key competences of graduates from teacher training programmes. At the same time, **the internationalisation of training, the development of subject-specific didactics and the professional practice** of teaching staff are continuing. Part of the reform involves the introduction of a **support system for mentor teachers** and the implementation of an **induction period** through a mentor teacher who provides methodological guidance to

new teachers, assesses their work and supports their integration into the school environment.

At the same time, a support system for headteachers and wider school management will be developed with the aim of strengthening their role as educational leaders. The priority is the development of leadership, working with data, supporting the professional learning of teaching staff, and sharing examples of good practice between schools. A more effective system for the professional development of teaching staff and school management will be gradually established, which will better support the quality of teaching and the development of pupils' competences.

In the area of promoting inclusivity and equal access, measures aimed at reducing educational inequalities and supporting schools with a higher proportion of children from socially disadvantaged backgrounds will continue to be strengthened. The priority is to increase access to high-quality pre-school education, strengthen support staff in schools, improve the guidance system and provide more effective support for pupils at risk of failing at school. This will build on activities carried out under the National Recovery Plan, which aimed to strengthen the capacity of schools with a higher proportion of socially disadvantaged pupils. Based on the outcomes of this programme, new legislation has been adopted and an index-based funding system is being prepared, which will enable schools operating in socio-economically disadvantaged, structurally deprived and socially excluded areas, in particular, to plan and develop support for teachers and targeted measures for disadvantaged pupils on a stable basis. However, inclusive education will be revised by removing ineffective elements, so that the education of disadvantaged pupils is in the pupil's best interests and does not come at the expense of other pupils. In this context, the capacity of special schools and special classes will be increased. This will create the conditions for the development of gifted pupils and for improving the quality of reading, mathematical and technical literacy.

In the field of **tertiary education**, support will be provided for improving the quality and accessibility of higher education, strengthening the internationalisation of universities, developing strategically important study programmes, and increasing student success rates. Emphasis will also be placed on supporting talented students from socially disadvantaged backgrounds and on better linking universities with the research and innovation sectors.

One of the key challenges remains **digitalisation and the introduction of AI**. Thanks to financial support from **NRP 3.1 "Innovation in education in the context of digitalization"**, schools were equipped with digital teaching aids by the 2025/2026 academic year, teaching staff underwent training, and efforts to prevent the digital

gaps were strengthened. Support programmes for teaching staff are continuing.

4.3.2 Science and Research

Science, research, their successful commercialisation, as well as innovation, start-ups, spin-offs and their successful expansion should form the basis of the Czech Republic's prosperity. The government plans to build on the Innovation Strategy of the Czech Republic 2019–2030 and to link the academic, research and business sectors. The overarching document for the field of science and research is **the National Policy for Research, Development and Innovation of the Czech Republic 2021+** (Government office of the CR, 2020), which provides a strategic framework for the development of all components of R&D&I in the Czech Republic (basic research, targeted and applied research, experimental development and innovation) and utilises their combined impact to develop a knowledge-based society and support the economic, environmental, cultural and social development of the Czech Republic. A new version for the period 2028+ is to be submitted to the government by 31 December 2027, provided that an assessment of the need for its amendment in response to current circumstances so warrants. This assessment will form part of the forthcoming report evaluating the implementation of the NP VaVal 2021+ measures, which is to be submitted to the government by 30 June 2026. The evaluation report thus precedes the preparation of the new version of the National R&D&I Strategy 2021+, and its conclusions will be decisive for the decision to commence work on updating the document.

The future form of the document will build on the Economic Strategy “Czech Republic: A Country for the Future 2.0” and will focus in particular on the integration of related strategies, better links between priorities, measures and indicators, and the creation of a unified framework to serve as a strategic guide for further documents in the R&D&I sector.

One of the main long-term challenges for the development of the innovation ecosystem in the Czech Republic is **strengthening the transfer of knowledge and technology from the academic sphere to businesses** and the subsequent development of innovation. In addition to a series of legislative reforms, including the new Research Act and amendments to indirect support, as well as the development of technology transfer centres, changes to the evaluation of research organisations etc., programmes supporting research, development and innovation in businesses are also being implemented, with an emphasis on collaboration between the academic sector and businesses, the creation of applied results and their transfer into practice. One such programme is TWIST, running from 2025 to 2031, which focuses on supporting research and development in strategic technologies, particularly AI, and on introducing innovations into business practice. The programme's budget is CZK 5 billion; support is provided to small and medium-sized

enterprises (and, in the case of support for consortium research projects, also to large enterprises) and collaborating research organisations. This approach is also complemented by support under the Operational Programme “Technologies and Applications for Competitiveness”, implemented in line with the European STEP initiative, which focuses on the development and production of critical and emerging strategic technologies of European significance and on strengthening the EU's resilience, with a total allocation of CZK 4 billion and an expected implementation horizon until mid-2029.

Programmes such as CzechInvest's Technology Incubation and Start-up Internationalisation schemes, implemented with financial support from the state budget via the Ministry of Industry and Trade, contribute to the **establishment and, in particular, the development of start-ups and spin-offs**. The aim of the Technology Incubation programme is to support 250 innovative start-ups by 2027. To date, 252 projects have already been supported through the programme, with total funding exceeding CZK 647 million. Consequently, the programme was expanded at the end of the year to include a further 20 projects, with the allocation increased by CZK 100 million, and discussions are currently underway regarding the programme's continuation into future years. The Start-up Internalisation Programme, with a budget of CZK 75 million, specialises in accelerating start-ups, helping to develop the potential of existing Czech start-ups with the aim of strengthening innovative cooperation between Czech start-ups and world-leading start-up ecosystems. Here too, there are plans to extend the programme and double the target number from the original 90 supported start-ups.

4.3.3 Labour Market

The government continues to **support part-time and flexible working arrangements**. The aim is to reduce the administrative burden for part-time work and to support so-called job-sharing.

Furthermore, in March 2026, the government approved an Act on the Entry and Residence of Foreign Nationals (Chamber of Deputies Print No. 144) with planned effect from 1 January 2029, which creates the legal basis for the digitisation of administrative proceedings concerning residence permits for foreign nationals, including migrant workers, and introduces a number of other changes contributing to increased efficiency in the migration process. In the area of labour migration, the new Act 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 in whose arrival the state has a heightened interest. It also responds to current changes in EU legislation concerning the conditions for admitting workers from non-EU countries.

The government also has as one of its priorities **the curbing of illegal and undeclared work**. In this context, a memorandum of cooperation, KOBRA 26, was signed in March 2026 between the Ministry of Finance, the Ministry of Labour and Social Affairs, the Ministry of the Interior and other bodies, which includes the launch of coordinated inspection campaigns targeting illegal employment agencies and the misuse of work permits. Inspections will be carried out on the basis of analytical data or data sharing between the institutions involved.

To address skills mismatches in the labour market and improve workforce adaptability, support for **lifelong learning** activities was provided through the Retraining and Further Education Database; a new active employment policy tool – a subsidy for digital education courses – was piloted; and 76 regional training centres were established.

The Ministry of Labour and Social Affairs regards the successful trial of the subsidy for digital education courses – where, instead of the planned target of 40,000 people improving their digital skills, more than 111,000 people applied for this grant and more than 91,000 people successfully completed the course – is regarded by the Ministry of Labour and Social Affairs as the basis for possible future adjustments to the system of further education and retraining. The Ministry of Labour and Social Affairs plans to follow up on this pilot scheme with a further pilot scheme for a subsidy for individual career guidance and a subsidy for the cost of professional qualification examinations. These pilot schemes form the basis for forthcoming legislative amendments to active labour market policy instruments under Act No. 435/2004 Coll., the Employment Act, as amended, in the area of retraining and further education. The aim of these reforms is primarily to increase flexibility in the provision of support for reskilling and upskilling, which, in line with the common objective of all tripartite participants, will increase participation in lifelong learning and thereby strengthen economic growth and the competitiveness of the Czech Republic. In this context, the Ministry of Labour and Social Affairs plans to make use of close partnership with social partners, particularly in defining the areas and sectors in which education should be prioritised.

The participation of **disadvantaged groups** in the labour market is supported through integration jobs as a new active employment policy tool. With effect from 2025 (Act No. 468/2024 Coll., on Integrative Social Enterprise), the social economy has also been enshrined in law, which will contribute to increasing the employment of people with specific needs.

Particular attention is paid to **supporting the participation of parents with children**, especially women. In addition to changes to benefit systems and support for part-time work, financial support for the development of children's groups continues. An amendment to the

Act on Children's Groups (Act No. 84/2025 Coll.) has also been approved, introducing so-called neighbourhood children's groups and imposing an obligation on municipalities to ensure conditions for the care of children aged 3 and over in children's groups (unless they have been admitted to a nursery school). The Ministry of Labour and Social Affairs is also implementing a project to support the reconciliation of work and family life, which focuses on supporting childcare providers in connection with measures in the amendment to the Act on Children's Groups (cooperation in the regions – Regional Offices, Regional Public Health Authorities and fire services) and on surveys and proposals for recommendations in the area of carers.

4.3.4 Housing Support

A draft amendment to Act No. 283/2021 Coll., the Building Act (Chamber of Deputies Print No. 67), is currently being debated in the Chamber of Deputies of the Czech Republic; this amendment provides for the establishment of a unified system of building authorities as state bodies (the State Building Administration). The draft amendment envisages the establishment of a new body, namely the Office for Spatial Development of the Czech Republic (hereinafter the "Office"). The Office will be the central state administration body for spatial planning, building permits and expropriation. It is proposed to create a new system of state building administration led by the Office, with regional spatial development authorities and their local offices. A state building administration system with a single management structure will enable the sharing of resources and uniform methodological management. The proposed system of state building administration integrates the protection of the public interest. The amendment also introduces fundamental changes to the process of preparing spatial planning documentation, significantly speeding up the preparation of such documentation whilst ensuring the protection of the public interest. Under this amendment, **housing becomes a matter of public interest**, with housing projects exceeding 10,000 square metres to be approved under an accelerated procedure in accordance with the Act on Linear Structures. For smaller houses with up to two storeys and an attic, it will now suffice to simply notify the authorities; there will be no obligation to obtain design or construction documentation from a designer, no need to keep a construction log, and no requirement for final approval.

Support for housing will be provided partly through **the revival of social housing construction**, with plans to begin building 10,000 social housing units a year by 2030 for key workers, older people and young people. The construction of flats will also be supplemented by a PPP project, whereby the public sector will provide the infrastructure for construction, the banking sector will provide financing, and developers or construction companies will build affordable flats. Housing affordability

will also be influenced by a **reform of the rental market**, which aims to protect landlords through the introduction of standard contracts, the regulation of notice periods and restrictions on short-term rentals. Another measure to support housing will be amendments to the legislation on **cooperative and company housing**. There are plans to create attractive tax depreciation allowances for the construction and provision of staff accommodation, or to provide guarantees for the construction of cooperative and staff accommodation through the National Development Bank. Housing construction will also be supported through advisory services by developing centres of expertise to support both PPP projects and municipal/urban cooperative housing. Support will also be directed towards the preparatory phase, particularly of municipal projects with state co-financing, so as to maximise the multiplier effect of public funds spent.

To support affordable and sustainable rental housing in the Czech Republic, a new investment programme is being implemented, building on programmes from the National Recovery Plan (Component 2.10 Affordable Housing, Component 4.1 Systemic Support for Public Investment), the funding for which exceeded the allocation framework. Funding for this programme in 2026–2029 will be secured through reallocated Integrated Regional Operational Programme's (IROP) funds amounting to CZK 2.87 billion and the Operational Programme Just Transition's (OPJT) funds in coal-mining regions amounting to CZK 2.9 billion. The programme will be implemented in the form of a financial instrument combining long-term loans with a grant component. Under the new programme, regional focus will be strengthened and bank participation will be supported. The energy efficiency of construction projects will be ensured through the application of IROP and OPJT energy criteria and DNSH principles.

4.4 Modern Public Administration, Digitisation

4.4.1 Modern Public Administration

The overarching strategic document in the field of public administration modernisation is the “**Client-Oriented Public Administration 2030**” concept (MI CR, 2020), including the implementing Action Plan for 2024–2026 (MI CR, 2024). Its vision is to achieve, by 2030, a public administration that is as client-oriented as possible and creates the conditions for further improving the quality of life of the population and increasing the prosperity of the Czech Republic. The concept sets out five strategic objectives aimed at achieving tangible progress in specific areas of public administration:

- 1) accessible and high-quality public administration services,
- 2) an effectively functioning public administration system,
- 3) effective public administration institutions,
- 4) competent human resources,
- 5) informed and engaged citizens.

The concept is implemented through action plans. The first Action Plan for 2021–2023 has already been completed. The new Action Plan for 2024–2026 (MI CR, 2024) includes, for example, measures to improve communication with businesses in public administration, improve the environment for strategic management, and create an election management information system.

Adequate administrative capacity and, more generally, the ability to attract and retain talent in public administration are fundamental prerequisites for an effective public administration capable of responding to current challenges. Activities in this area are, among other things, implemented under Component NRP 4.4: Increasing the efficiency of public administration. In addition to measures to **support informed decision-making** in public administration and measures to increase **the client-oriented approach of public administration**, the programme also includes measures to **improve human resources management in public administration and the automation of administrative procedures**. Activities include, for example, the adoption of a decision to change the organisational structure in the field of climate and energy modelling, the publication of a report on the review of selected existing strategic documents, the adoption of an IT system for monitoring indicators related to sustainable development goals, the publication of a new version of the methodology for regulatory impact analysis, and the adoption of an IT system/module/functionality for the automation of steps in administrative procedures. These activities will also include the issuance of a directive by the Chief Secretary of State for public service authorities (“civil service authorities”) in the field of human resources.

Further development is planned for the outputs of the project “Improving efficiency, client-centredness and the application of evidence-informed principles in public administration decision-making”, which aims, amongst other things, to create an electronic tool for data collection in public administration, known as the **Unified Data Collection Information System**. This focuses, for example, on eliminating duplicate data reporting, standardising submitted formats, linking existing information sources and, more generally, making data use more efficient. Overall, a data warehouse, or database of relevant data on public administration activities, has been created and will be further developed.

A step towards more efficient municipal functioning is the introduction of **the institution of the association of municipalities** as an institutionalised form of inter-municipal cooperation. In addition to the activities that may fall within the remit of an association of municipalities, the role of a community of municipalities is to ensure the coordination of public services within the territory of its member municipalities and the strategic development of that territory. Within this framework, there are plans to strengthen the powers of communities of municipalities, enabling them to draw up spatial plans or take responsibility for the provision of educational and social services.

4.4.2 Digitalisation

The government’s priority is to have, by 2030, both accessible and user-oriented online public services and high-speed internet coverage for 95% of households and businesses. Therefore, to coordinate the activities of central administrative authorities and other public bodies in the area of modernising public administration agendas through digitalisation, based on the Economic Strategy “Czech Republic: A Country for the Future 2.0” or the Information Concept of the Czech Republic, the government established the Government Plenipotentiary for Digitalisation and Strategic Security in January 2026.

The gradual implementation of Act No. 12/2020 Coll., on the Right to Digital Services, will thus continue, with 1,953 of a total of 5,755 digitisable state services already having been digitised. A further 1,378 digital services have a precise launch schedule, whilst the remaining 2,424 services will not be digitised for the time being, as they are, for example, used very rarely, and the costs of their digitisation would represent a disproportionate burden for the state. Furthermore, **the European Digital Identity Wallet** will be launched in the Czech Republic at the turn of 2026 and 2027.

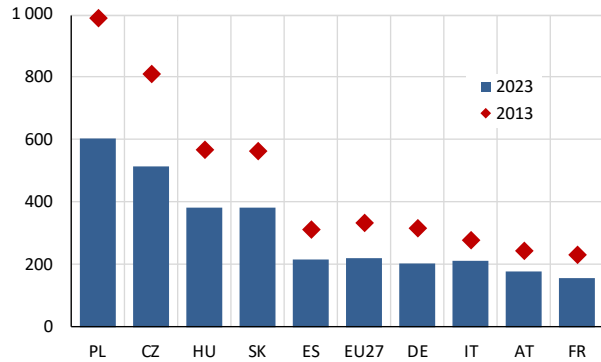
The development of **high-capacity digital networks** in the Czech Republic is proceeding in accordance with strategic documents – the National Plan for the Development of Very High-Capacity Networks (MIT, 2021) and the Implementation and Development of 5G Networks

in the Czech Republic – The Path to the Digital Economy (MIT, 2020). Furthermore, the government approved (Government Resolution No. 543/2025) Action Plan 3.0 to implement certain measures to support the planning and construction of electronic communications networks. Support for the development of these networks is primarily provided through measures adopted under the National Recovery Plan and the Cohesion Funds. The most important measures include the reforms and investments of the National Recovery Plan contained in Component 1.3 Digital High-Capacity Networks, which primarily involves the creation of digital technical maps, increasing the number of connections to very high-capacity networks, increasing 5G mobile signal coverage in areas requiring significant investment, including coverage of transport corridors, technical measures to ensure mobile signal coverage on trains, and support for industrial research and experimental development in projects utilising 5G networks.

This activity is followed by Priority 3 of the Operational Programme “Technologies and Applications for Competitiveness”, with a total allocation of CZK 4.7 billion, the aim of which is to increase the availability of high-capacity networks that will enable reliable access to electronic communications services for internet access by end-users (households, businesses, public administration and other socio-economic actors). Specifically, this involves support for the roll-out of optical access networks and very high-capacity access networks providing fixed-location 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 grant is directed). The aforementioned allocation from the Operational Programme “Technologies and Applications for Competitiveness” for high-speed internet appears to be insufficient, as the surplus of high-quality applications for support stands at 17%.

Graph 4.1: Emission intensity of GDP (2024)

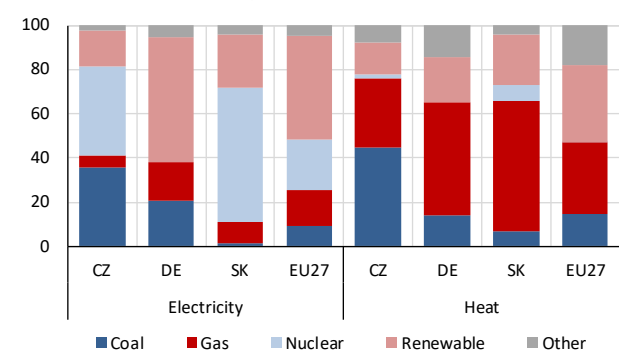
CO2 equivalent ton per mil. of EUR



Source: Eurostat (2026).

Graph 4.2: Electricity and Heat Production by Source

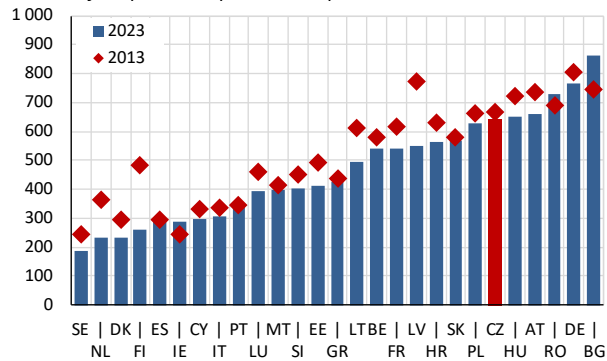
share of sources in electricity and heat production in %, 2024



Source: Source: EC. MF CR calculations.

Graph 4.3: Hospital Beds Development (2013 & 2023)

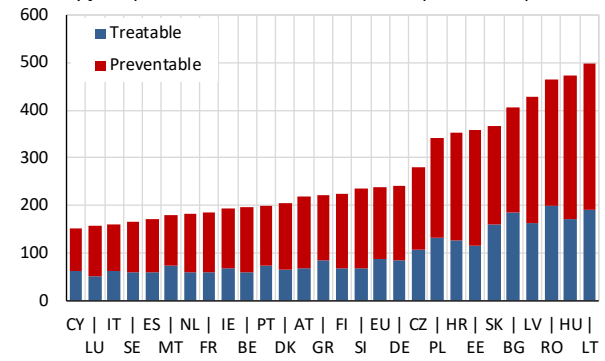
number of hospital beds per 100,000 persons



Source: Eurostat (2026).

Graph 4.4: Preventable and Treatable Mortality (2023)

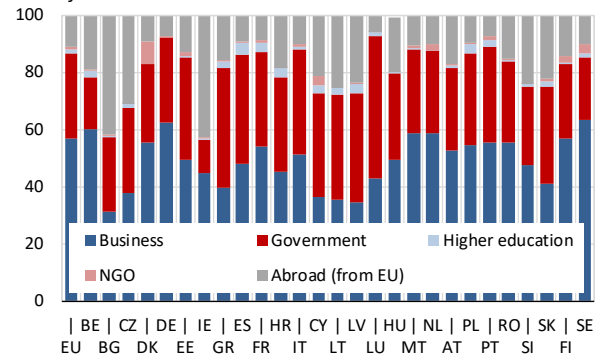
mortality from preventable and treatable diseases per 100,000 persons



Source: Eurostat (2026).

Graph 4.5: R&D funding by source (2024)

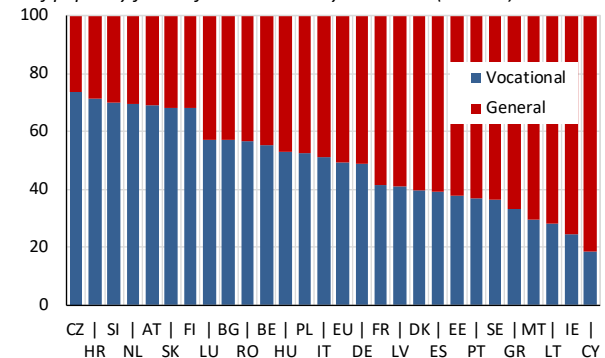
share of individual sources



Source: Eurostat (2026).

Graph 4.6: Pupils enrolled in secondary education (2024)

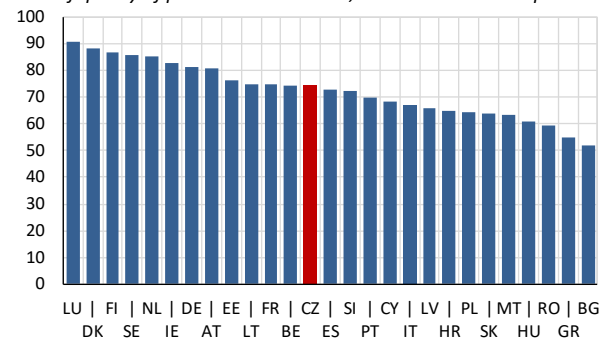
% of pupils by focus of their secondary education (ISCED 3)



Source: Eurostat (2026).

Graph 4.7: Government Efficiency (2024)

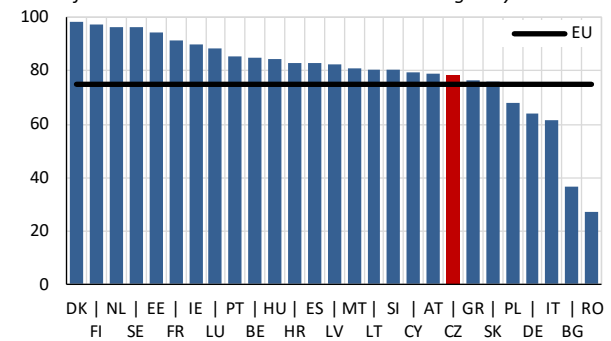
index of quality of public administration, authorities and independence



Source: WB (2025).

Graph 4.8: Users of e-Government (2025)

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



Source: EC (2026).

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 entirely negligible. By the end of 2025, the total volume of guarantees is expected to be around 0.3% of GDP.

From December 2025, the **National Guarantee Programme** will be relaunched with a total allocation of CZK 578 million, enabling traders and small and medium-sized enterprises to obtain, through the National Development Bank, a guarantee covering up to 70% of a loan (ranging from CZK 0.5 million to CZK 20 million) to cover both operating and investment costs. The duration of the guarantee is a maximum of 10 years. From December 2025, traders and small and medium-sized enterprises in the Karlovy Vary, Ústí and Moravian-Silesian regions also make use of the **Transformation Guarantee Programme**, with a total allocation of CZK 500 million, through which the National Development Bank provides a guarantee for a maximum of 7 years covering up to 80% of a loan (from CZK 0.5 million to CZK 40 million) to cover operating and investment costs. The **ELEKTRO-MOBILITA Guarantee Programme** was launched as early as 2024 with an allocation of CZK 2 billion. The aim of the programme was to stimulate demand for zero-emission vehicles in the business sector through financial support based on a guarantee mechanism, which facilitated access to financing for the purchase of battery electric and hydrogen vehicles and related charging infrastructure. The programme, implemented through the National Development Bank, was terminated in November 2024 and supported the acquisition of 6,325 zero-emission vehicles and the installation of 2,759 charging stations, thereby significantly exceeding the originally expected figures (4,055 vehicles and 1,500 charging stations). By the end of 2025, the effective guarantee amounted to CZK 0.4 billion. Entrepreneurs implementing projects in developing countries that focus on the sustainable management of natural resources, agriculture and rural development, economic transformation, growth and support for local employment, or the sustainable development of partner countries, can make use of the **International Development Cooperation Guarantee Programme** with a total allocation of CZK 262 million. Through this programme, the National Development Bank provides guarantees of up to 80% (maximum CZK 50 million) for a maximum of 8 years, primarily for investment loans. By the end of 2025, the effective guarantee amounted under this programme just to CZK 4 million.

There are plans to launch pilot **the Reconstruction of Ukraine Guarantee Programme**, which is being prepared under the EU Ukraine Investment Framework and aims to assist with the (post-)war reconstruction of

Ukraine. The programme should focus on supporting Czech-Ukrainian investments, particularly in the energy sector, and on projects implemented in the so-called frontline regions. Loans will be provided by Ukrainian commercial banks; the beneficiaries will be Ukrainian entities with no ownership restrictions (i.e. these may include Ukrainian branches of Czech companies, local companies (co-)owned by Czech owners, Czech-Ukrainian joint ventures, Czech-Ukrainian project SPVs, or Ukrainian companies with a Czech partner). The National Development Bank would provide a guarantee for these loans of 70–87.5% depending on the sector and location of implementation; the EU, under the Ukraine Investment Framework, will provide a counter-guarantee of 70–80% depending on the sector and location of implementation. Thanks to the leverage effect of both the national and European guarantees, approximately CZK 4.2 billion in loans will be available, enabling investments totalling around CZK 6 billion.

In connection with the floods in September 2024, the Flood Guarantee Programme was implemented with a total allocation of CZK 500 million, through which the National Development Bank provided guarantees of up to 70% on loans (up to CZK 40 million) to cover operating and investment expenditure. The duration of the guarantee was a maximum of 10 years. The effective guarantee amounted to CZK 31.1 million as of 31 December 2025.

On 3 November 2022, in response to the situation caused by Russia's aggression in Ukraine, Act No. 363/2022 Coll. was passed, enabling the Export Guarantee and Insurance Corporation (EGAP) to provide, through the EGAP Plus Programme until the end of 2023, guarantees for operating and investment loans to export-oriented manufacturing companies affected by high energy prices or, for example, sanctions against Russia. The effective guarantees amounted to CZK 4.8 billion as of 31 December 2025.

As part of the response to the crisis caused by the pandemic, several guarantee programmes were approved by the government in recent years, with their drawing having been gradually terminated. The total volume of outstanding guarantees under the COVID programmes amounted to CZK 1.4 billion at the end of 2025 (the COVID Sport Guarantee at CZK 0.3 billion and the COVID Plus programme at CZK 1.1 billion).

In recent years, the National Development Bank has implemented the Guarantee 2015–2023 programme, through which small and medium-sized enterprises could obtain a guarantee for investment or operating loans. The total value of the effective guarantee amounted to CZK 4.1 billion at the end of 2025. Other programmes under which the National Development Bank provided so-called M-guarantees included, for example,

the INOSTART programme, which enabled early-stage small and medium-sized innovative start-ups to obtain loans for the implementation of innovative projects (the exposure value at the end of 2025 was CZK 37.2 million). There was also the EXPANZE programme, which, through its guarantee component, supported larger projects outside Prague. The guarantee was provided for up to 80% of the principal of the guaranteed loan, which ranged from CZK 1 million to CZK 60 million, with a duration of the guarantee not exceeding 10 years. The effective guarantees under this programme stood at CZK 2.1 billion at the end of 2025. M-guarantees were also provided through the Operational Programme Enterprise and Innovation for Competitiveness; however, by the end of 2025, the effective guarantees amounted only to approximately CZK 2.1 million.

The effective guarantees for the preferential loan guarantees provided, where the level of guarantee for the lending bank is distributed into three performance bands and the transaction risk and the client's credibility are assessed, i.e. S-guarantees, amounted to CZK 24.6 million for guarantees under the Entrepreneurship and Innovation Operational Programme and at CZK 804.6 million for others by the end of 2025.

Guarantees provided by local governments also account for a share of the general government sector guarantees (excluding covid programmes). The most significant of these is a guarantee provided to the Prague City Transport Company for deferred payments for the purchase of trams, amounting to CZK 14.3 million. Others include guarantees provided by local governments for loans related to housing needs (CZK 0.1 billion).

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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 13 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 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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