STATE BUDGET 2026 IN BRIEF

MINISTRY OF FINANCE OF THE CZECH REPUBLIC

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MINISTRY OF FINANCE OF THE CZECH REPUBLIC

OPENING REMARKS

Dear fellow citizens,

you are receiving this informational brochure, The State Budget in Brief, which summarizes the parameters of the state's financial management for 2026. Its preparation was non-standard due to the parliamentary elections in October 2025. The budget proposed by the outgoing Fiala government was incomplete, with a fictitious deficit of CZK 286 billion. Its real deficit would unfortunately have been significantly higher, reaching at least CZK 350 billion. The original proposal lacked at least CZK 37 billion for necessary investments in transport infrastructure, CZK 17 billion for social benefits, and other smaller items. The Czech Republic therefore began 2026 under a provisional budget, during which our government, in office since December 15, 2025, operated in crisis management mode to correct the worst errors in Stanjura's budget. The provisional period ended in the second half of March when the State Budget Act for 2026 was signed into law by President Petr Pavel.

After four years of non-transparent budgetary tricks, **the budget is once again complete, truthful, and realistic**. It does not conceal the true state of public finances nor pretend a lower deficit by simply omitting certain unavoidable expenditures. **Total state budget revenues are set at CZK 2,117.8 billion and total expenditures at CZK 2,427.8 billion. The deficit amounts to CZK 310 billion**. Its level is still largely the result of the policies and management of the Fiala government. Within a short period of a few weeks, our government could only correct the most serious mistakes and distortions while incorporating those of our priorities that were feasible without major legislative changes. These include increasing investments to a record level, raising public sector wages, and waiving fees for renewable energy sources. This measure, incidentally, is already bearing fruit and helping to maintain low inflation, as electricity prices have a crucial impact on business costs, the country's attractiveness for foreign investors, and aggregate demand. The largest share of expenditures is traditionally allocated to mandatory and quasi-mandatory expenditures, amounting to CZK 1,911.6 billion (an year-on-year increase of CZK 65.3 billion compared to actual 2025 figures). Of this, social transfers account for CZK 973 billion, or 66.4% of mandatory expenditure (a year-on-year increase of CZK 30 billion), while pensions alone amount to CZK 739.6 billion, or 30.5% of total state budget expenditure. Despite the strained situation, we managed to achieve **savings of CZK 11 billion in operational and other expenditures** without jeopardizing the state's core functions.

Debt servicing expenditures will reach CZK 110 billion (a year-on-year increase of CZK 11.8 billion), representing more than one-third of the approved deficit or over 1.2% of GDP. Capital expenditures will reach a record CZK 263.2 billion, or 10.8% of total budget expenditures, with a record amount coming from national resources at CZK 178.2 billion, representing an increase of CZK 18 billion year-on-year. Legally mandated defence expenditures are approved at 2.06% of GDP according to the April 2026 macroeconomic forecast (amounting to CZK 184.7 billion). These are distributed across multiple budget chapters—not only the Ministry of Defence but also, for example, the State Material Reserves Administration, the National Cyber and Information Security Agency, the National Security Authority, the Ministry of the Interior, the Ministry of Transport, the Ministry of Foreign Affairs, and the General Treasury Administration.
Effective April 1, 2026, salary tariffs were increased by 9% for employees under the Civil Service Act and the Labour Code, by 5% for healthcare and social service workers, and by 2% for doctors and dentists. Overall, the wage bill increased by 10% from April. Salary tariffs for professional soldiers were also adjusted, with the state increasing funding for wages by CZK 2.3 billion and raising both the stabilization allowance and housing allowance. Funding for teachers' salaries increased by CZK 6.7 billion year-on-year. There has also been an increase in the number of other educational staff (teaching assistants for first-grade pupils, school psychologists, and special educators) by 3,315 positions year-on-year, with an additional CZK 1.9 billion allocated to their salaries. For these staff members, salaries increased on average by CZK 2,200 per month. According to the long-term plan, as of January 1, 2026,

the financing of non-teaching staff has been transferred from the central government to school founders, typically municipalities and regions. This transfer affects 58,830 positions and a wage volume of CZK 19.2 billion, which the state compensated through adjustments in tax revenue sharing in favor of local governments. The automatic indexation mechanism adjusting payments for so-called state-insured persons (children, students, pensioners, etc.) based on inflation increased budget expenditures by CZK 3.1 billion year-on-year to CZK 157.7 billion.

In 2025, the Czech Republic recorded one of the highest state budget deficits in its history, yet it still ranks among the least indebted countries in Europe. The total nominal value of state debt reached CZK 3,678 billion at the end of 2025, equivalent to 43.0% of GDP. For 2026, the nominal value of state debt is expected to rise to CZK 3,991 billion, or 44.4% of GDP. Most major international rating agencies maintained the Czech Republic's stable overall rating in 2025, which remains the highest among all countries in Central and Eastern Europe. It has also been above the average rating of eurozone member states for several years. According to the latest Eurostat data, the Czech Republic's public finances were the eighth least indebted in the European Union last year. The general government sector debt increased by 1 percentage point year-on-year in 2025 to 44.3% of GDP. For 2026, the general government sector balance is expected at -2.6% of GDP, a deterioration of 0.5 percentage points year-on-year, with debt reaching 45.6% of GDP.At the beginning of June, when this text was written, **preparation of the 2027 state budget** is already in full swing. This will be the first budget prepared entirely from start to finish by our government, which will also bear full responsibility for it. Its preparation will not take place quietly behind closed doors. I will transparently inform the public about negotiations with other ministers, as has long been regarded as a good practice. Transparency in public finances has also been enhanced by the May expansion of the MONITOR application, which now includes an overview of all subsidies, grants, donations, compensations, and loans provided from the budgets of the state, municipalities, and regions to all recipients, including non-governmental non-profit organizations. These data will be updated monthly.

Alena Schillerová
Minister of Finance of the Czech Republic

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I. THE STATE BUDGET IN PRACTICE

The state budget is a plan for the financial management of the state for a given fiscal year, ensuring the fulfilment of the state's economic, social, and political functions.

Through the state budget, the government implements its economic policy and carries out its program priorities.

The state budget is a centralized monetary fund and represents a balance of the state's revenues and expenditures for a given fiscal year. The fiscal year coincides with the calendar year.

The revenue side of the budget contains information on the sources from which the government plans to finance the state's activities, such as taxes, fees, and other revenues.

The expenditure side of the budget provides information on how much the state spends on financing various activities, such as education, healthcare, pensions, defence, and others. Individual revenues and expenditures of the state budget are further divided into chapters representing the scope of authority and responsibility of individual central government bodies (for example, ministries).

The state budget takes the form of an act of law (for example, Act No. 38/2026 Coll., on the State Budget of the Czech Republic for 2026). The State Budget Act is proposed by the government and approved by the Chamber of Deputies of the Parliament of the Czech Republic. The method of financing the chapters of the state budget is defined by Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules), as amended.

The state budget may be prepared in three variants: balanced, surplus, or deficit. These variants reflect the state's fiscal policy, which responds to the current economic situation and the expected development of the economy. The state budget performs several functions: allocative, redistributive, and stabilization.

THE 2026 STATE BUDGET IN FIGURES

KEY INDICATORS – AGGREGATE BALANCE OF REVENUE AND EXPENDITURE OF THE 2026 STATE BUDGET

INDICATOR	IN CZK
Total state budget **revenue**	2,117,837,146,587
Total state budget **expenditure**	2,427,837,146,587
of which financial relations with the budgets of: : — regions	2,226,050,900
— municipalities, in total by individual regions	10,206,356,400
—financial relationship with the budget of the City of Prague	1,298,393,800
Balance	-310,000,000,000
— Change in the national debt	313,601,560,842
— Change in the balance of government financial assets	-3,601,560,842

Note on the tables and graphs in this publication: the designation ‘SR’ for a given year denotes the approved budget for that year = plan (e.g.: 2026 SR), a year marked as “MTV” or “MTV SK” denotes the expected actual figure for that year (e.g.: 2025 MTV / MTV SK), a year marked as “Act” denotes the actual figures for individual years (e.g.: 2022 Act). All data was updated as of 5 May 2026.

COMPARISON OF TOTAL REVENUE, EXPENDITURE AND THE BALANCE OF THE APPROVED BUDGET FOR 2026 WITH THE APPROVED BUDGET FOR 2025

State budget **revenue** for 2026 is planned at CZK 2,117.8 billion, which is CZK 31.8 billion more than the approved budget for 2025. Compared to the actual figures for 2025, this represents an increase of CZK 36.7 billion.

State budget **expenditure** for 2026 is planned at CZK 2,427.8 billion, which is CZK 100.8 billion more than the approved budget for 2025. Compared with the actual figures for 2025, this represents an increase of CZK 56.0 billion.

The state budget **balance** for 2026 is budgeted as a deficit of CZK 310.0 billion, which represents a deterioration of CZK 69.0 billion compared to the approved budget for 2025. Compared with the actual figures for 2025, this represents a deterioration in the balance of CZK 19.3 billion.

COMPARISON OF KEY NATIONAL BUDGET INDICATORS FOR 2015–2026 (IN BILLIONS OF CZK)

INDICATOR	2020 APP	2021 APP	2022 APP	2023 APP	2024 APP	2025 APP	2026 SB	2026 SB-2025 APP
State budget revenues	1475.5	1487.2	1624.4	1914.1	1965.4	2081.1	2117.8	36.7
State budget expenditures	1842.9	1906.9	1984.8	2202.6	2236.8	2371.8	2427.8	56.0
State budget balanc	-367.4	-419.7	-360.4	-288.5	-271.4	-290.7	-310.0	-19.3

If government revenues are insufficient to cover expenditure, a government deficit is created, and debt instruments are most often used to cover it. According to the Budget Rules Act, the State debt is made up of selected State financial liabilities (Article 36 of Act No 218/2000 Coll.), in particular issued State bonds and State borrowings and loans.

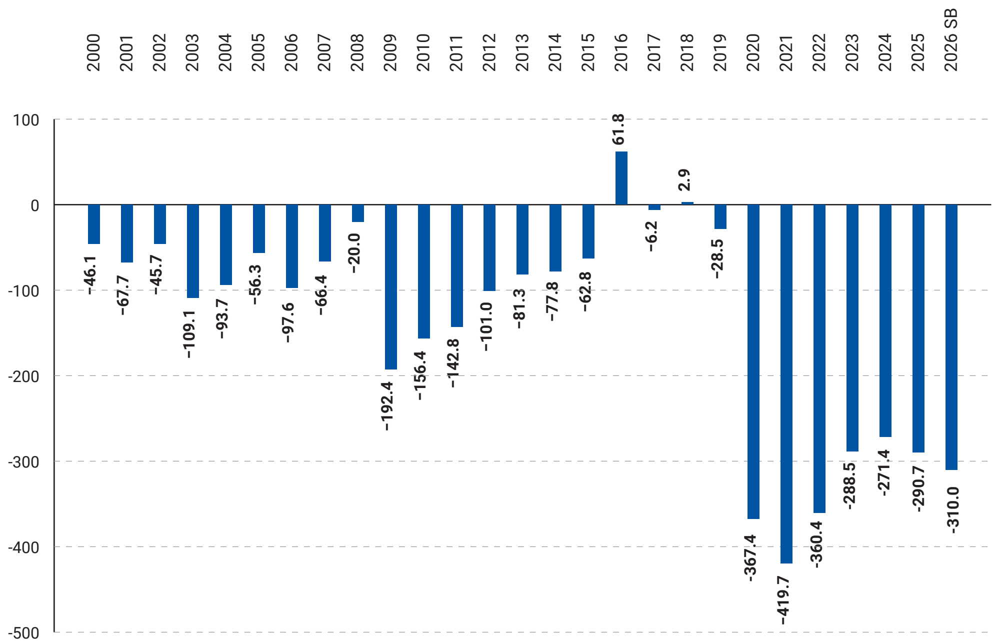
The increase in the koruna value of the Czech Republic's national debt, which has been occurring since 2019, stems primarily from the state's increased issuance activity on the bond markets to finance the state budget deficit. In 2025, the state budget deficit reached CZK 290.7 billion and the koruna value of the state debt reached CZK 3,677.6 billion, i.e. 43.0 % of GDP.

For 2026, an **increase in the national debt of CZK 313.6 billion** is budgeted, which will finance the budgeted state budget deficit of CZK 310.0 billion and an increase in the balance of state financial assets of CZK 3.6 billion. The national debt is expected to amount to 44.4% of GDP in 2026.

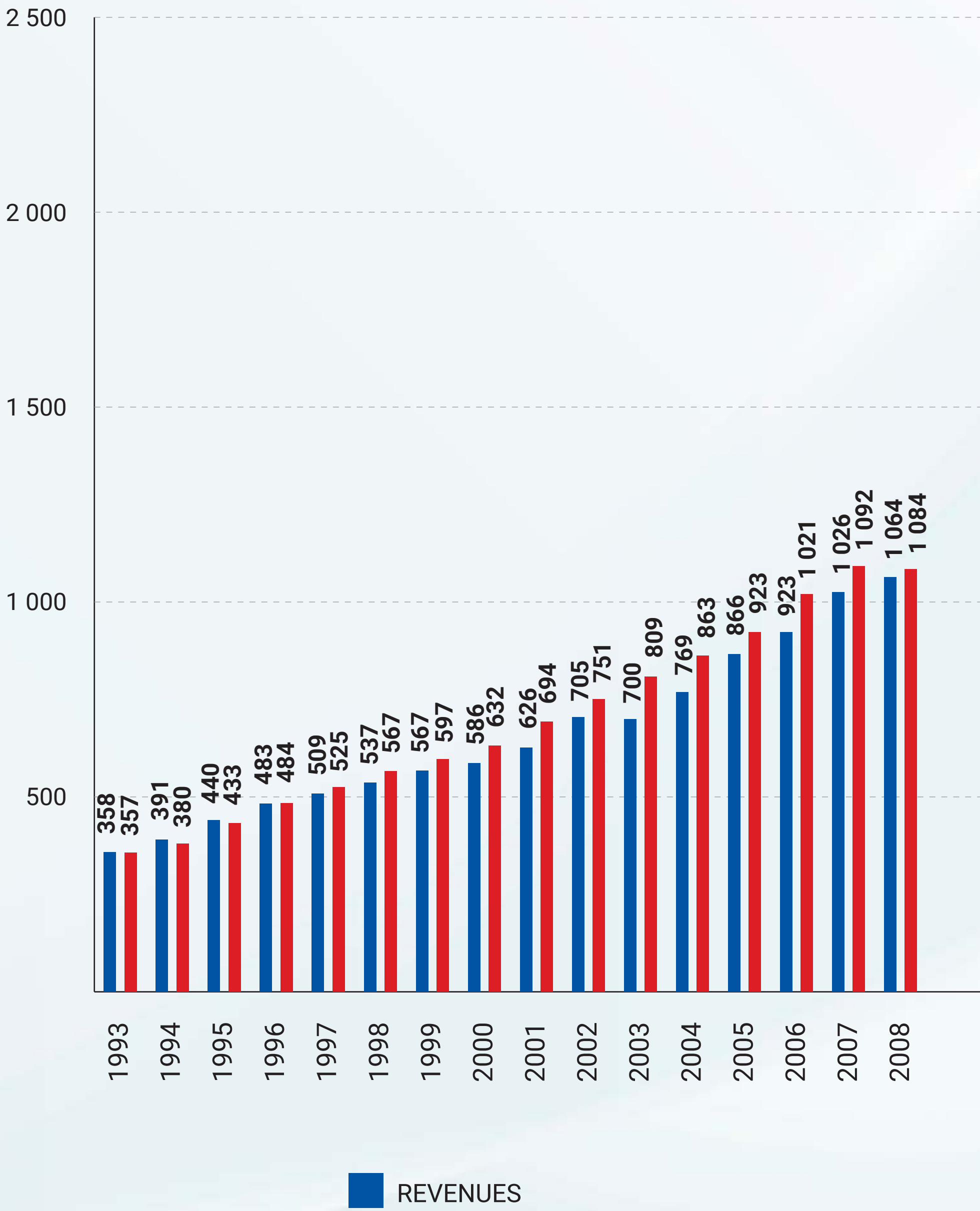
Expenditure on servicing the national debt under budget chapter 396 – National Debt is approved at CZK 110.0 billion for 2026. For 2026, the planned total government financing requirement amounts to CZK 737.8 billion, i.e. approximately 8.2% of GDP. The realised level of financing requirements will then depend primarily on the actual performance of the state budget, as well as on any swap operations and repurchases of government bonds carried out during the year, particularly for the purpose of managing refinancing risk.

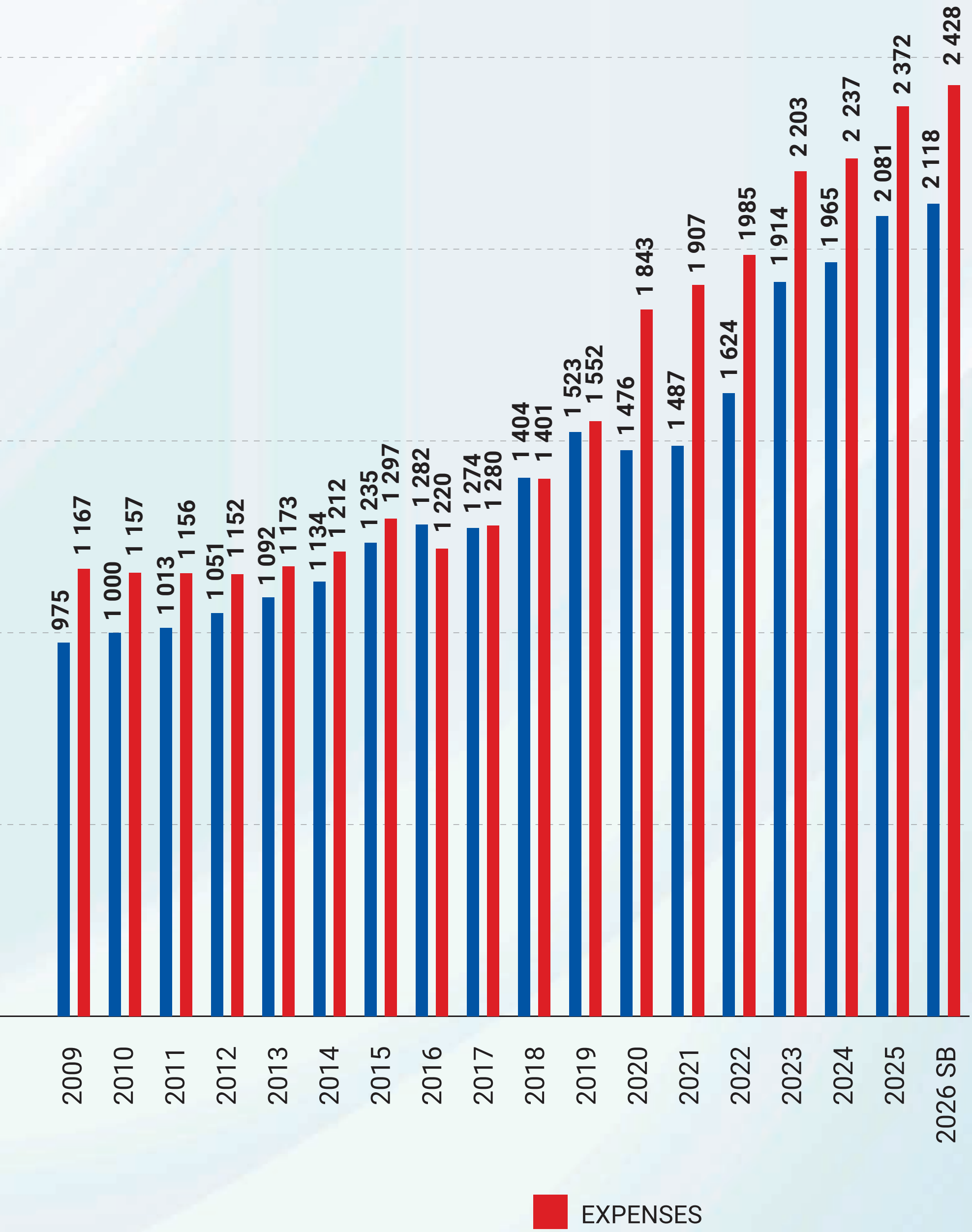
The state budget for 2025 ended with a deficit of CZK -290.7 billion compared to the planned deficit of CZK -241.0 billion; adjusted for revenue and expenditure on projects from the European Union and financial mechanisms, the total deficit for 2025 amounted to CZK -252.7 billion.

DEVELOPMENT OF THE STATE BUDGET BALANCE IN 1993–2026 IN CZK BILLION



DEVELOPMENT OF GOVERNMENT REVENUE AND EXPENDITURE IN CZK BILLION

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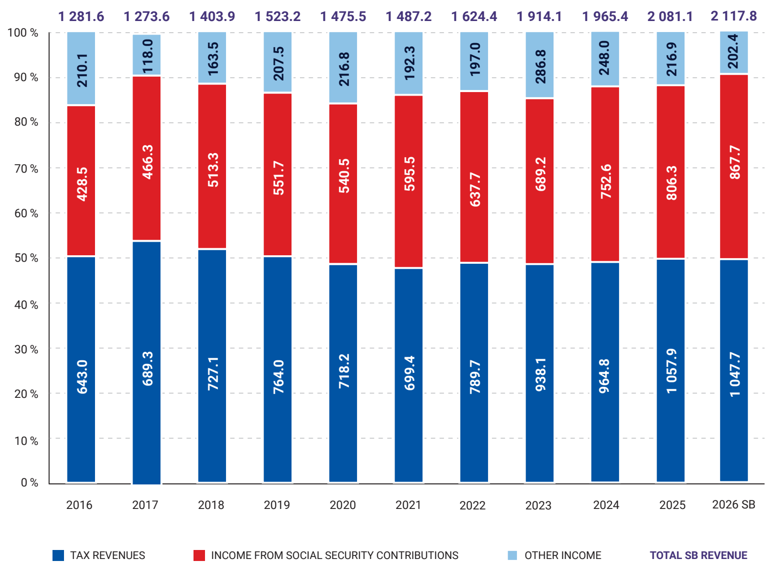
REVENUE SIDE OF THE STATE BUDGET

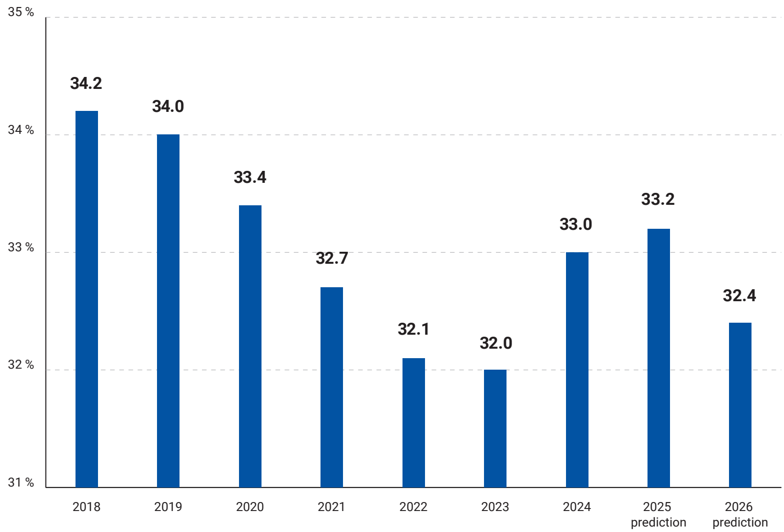
The structure of state budget revenues shows that over the years 2013–2026, total state budget revenues are increasing—especially tax revenues and revenues from social security contributions. The years 2020 and 2021 saw a decline in total state budget revenue due to the economy being hit by the Covid-19 pandemic. The sharp increase in total revenue between 2022 and 2023 was mainly due to higher inflation. The year 2024 saw real economic growth of around 1.1% of GDP and inflation at 2.4%, i.e. within the Czech National Bank's tolerance band and approaching its 2% inflation target. The year 2025 saw a year-on-year increase in both tax revenue and social security contribution revenue. Tax revenues for 2026 and social security contributions are projected to increase by CZK 51.2 billion compared to the actual figures for 2025, whilst other state budget revenues for 2026 are projected to be CZK 14.5 billion lower than the actual figures for 2025. In general, total state budget revenue accounts for approximately 24% of the Czech Republic's GDP.

STRUCTURE OF STATE BUDGET REVENUE IN CZK BILLION



The tax ratio is used to compare the tax burden on citizens of a given country.

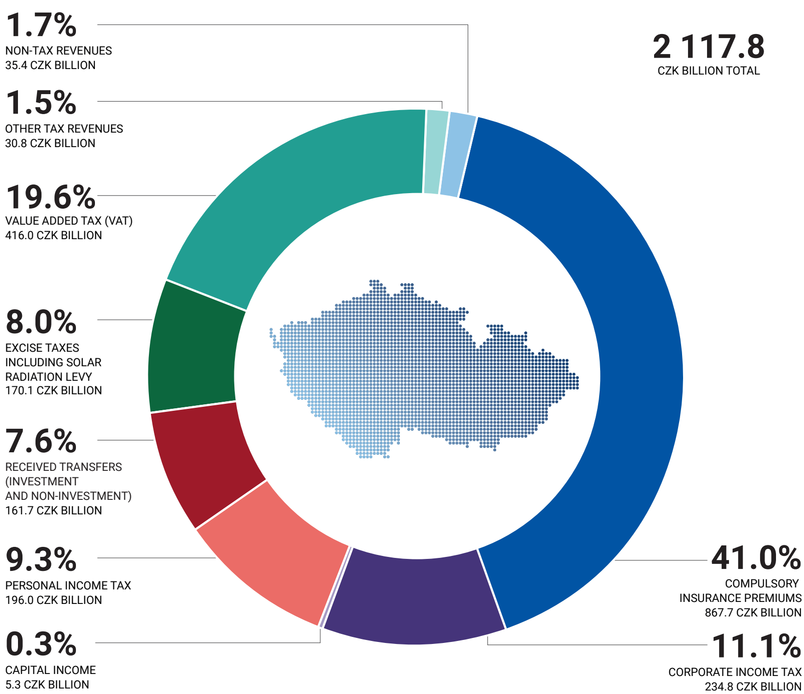
DEVELOPMENT OF THE CZECH REPUBLIC'S TAX RATIO (AS A % OF GDP)



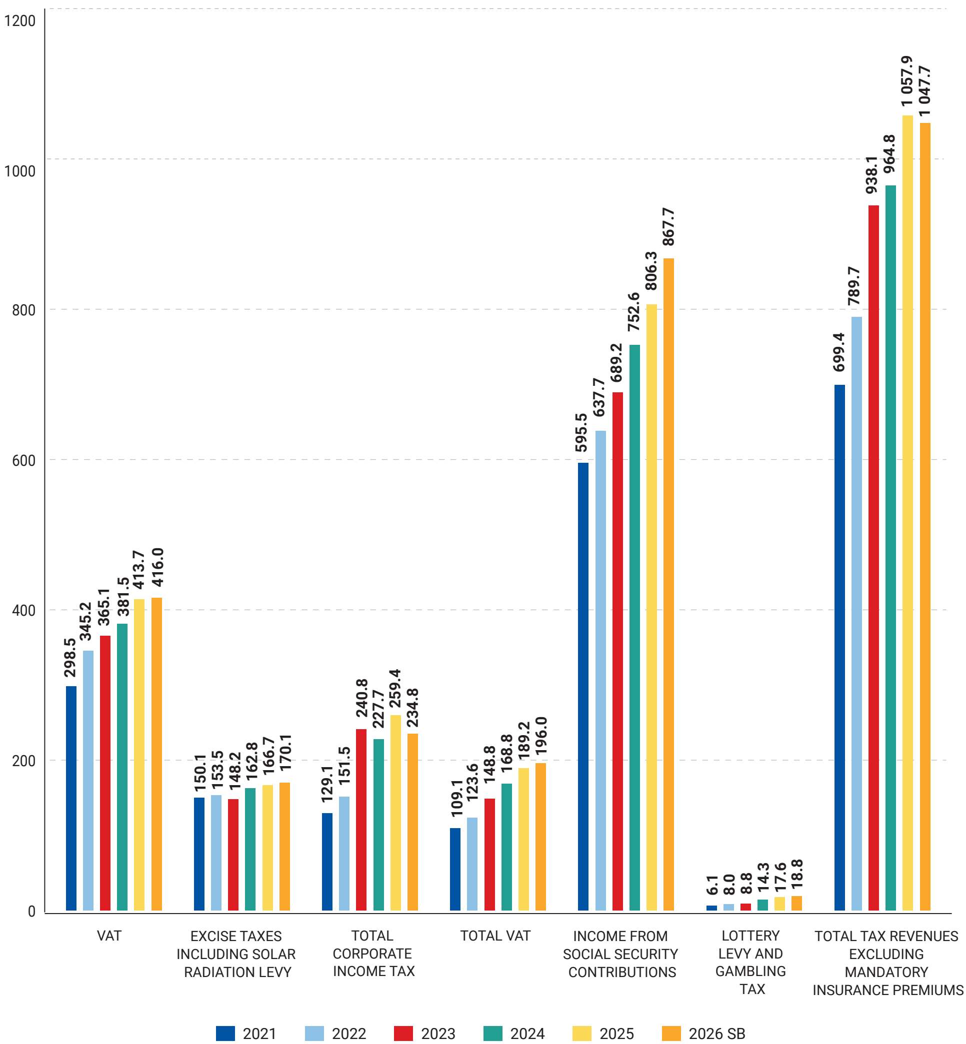
The tax ratio is expressed as the ratio of revenue from taxes and public insurance schemes to nominal GDP. The definitions of tax revenue and GDP are based on the accrual methodology of the European System of National and Regional Accounts from 2010. In the past, a methodology based on the budget composition, which was founded on a cash-based approach, was used.

Revenue therefore includes accrual-based tax revenues, including compulsory social and health insurance contributions and other payments, such as fees for renewable energy sources, emission allowances, or television and radio broadcasting fees. **The accrual principle** means that revenue is recorded at the time when the relevant economic event giving rise to the tax liability occurred, rather than at the moment when the funds are received into the account. This tax ratio principle is the most comprehensive indicator of the tax burden, but is also internationally comparable. In the Czech Republic, the development of the tax burden has been relatively stable, with a long-term average of 32.8% of GDP. The tax ratio in 2023 was influenced by higher inflation, as well as extraordinary revenue and a tax on windfall profits and a levy on excess turnover amounting to 0.7% of GDP. **Excluding the impact of these extraordinary revenues, there was a further decline in the tax burden**. Their impact decreased in 2024 and 2025, when they stood at 0.5% of GDP. From 2024, the tax ratio is further influenced by legislative changes associated with Act No. 349/2023 Coll., amending certain acts in connection with the consolidation of public budgets, affecting both tax revenues and social security contributions. For this reason , a year-on-year increase in the tax ratio of approximately 1 percentage point is evident in 2024. The tax ratio is expected to remain at around 33% of GDP in 2025 as well. A slight decline to 32.4% of GDP is then expected in 2026.

STRUCTURE OF STATE BUDGET REVENUE FOR 2026 IN BILLIONS OF CZK AND AS A PERCENTAGE OF TOTAL STATE BUDGET REVENUE



DEVELOPMENT OF TOTAL AND SELECTED TAX REVENUE IN 2021–2026 IN BILLIONS OF CZK



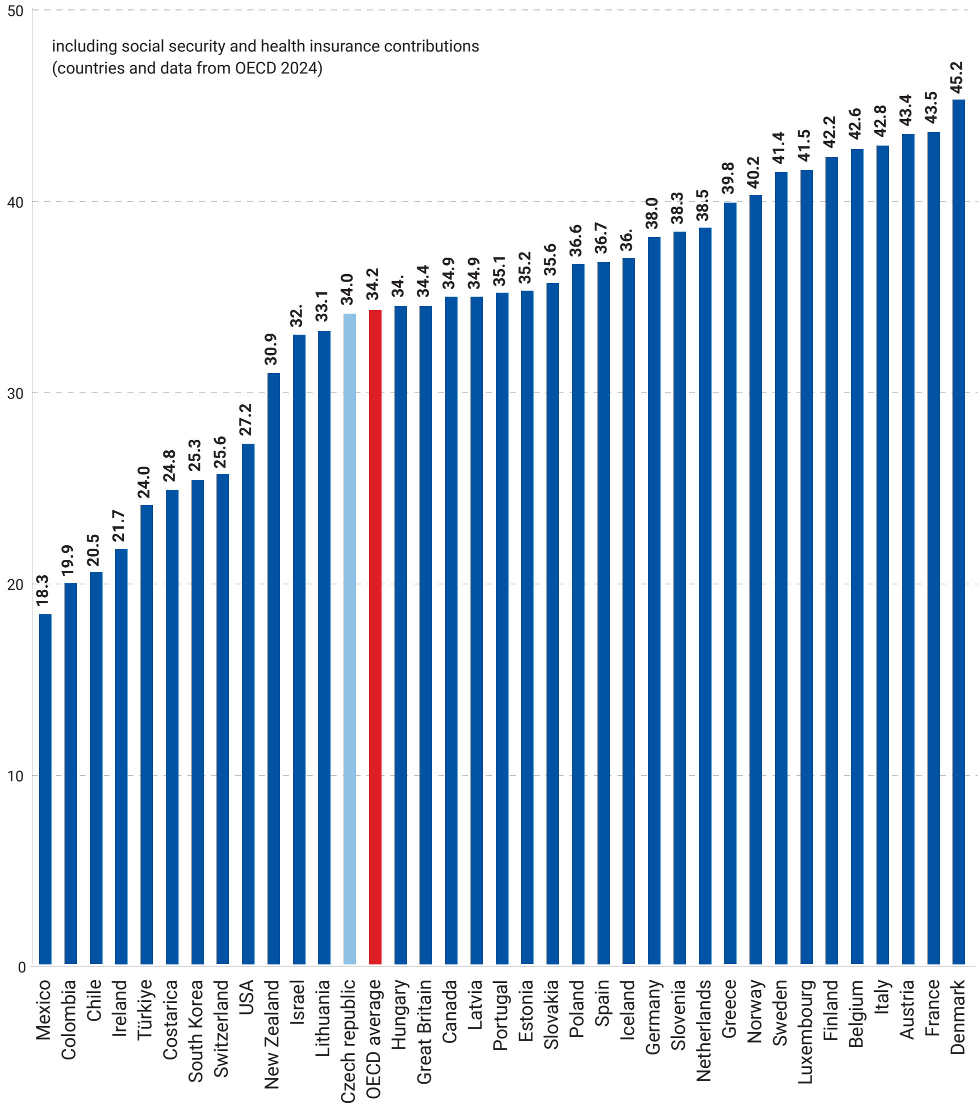
INTERNATIONAL COMPARISON OF THE CZECH REPUBLIC'S REVENUE SECTOR WITH OECD AND EU COUNTRIES

In the current comparison of OECD countries (data for 2024), the Czech Republic has **the second-highest social security and health insurance contributions at 15.7% of GDP**; Slovenia has the highest at 16.9%, followed by Slovakia and Austria at 15.6% of GDP, then Germany at 14.9% of GDP (contributions paid by employers for employees, by employees for themselves, and contributions paid by the self-employed). In the Czech Republic, there was a year-on-year increase of 0.6 percentage points compared with 2023.

When comparing **effective rates** (i.e. tax rates reduced by all possible tax credits and allowances permitted by the state) **for personal income tax** (for a childless worker earning an average wage, including contributions paid by both the employee and the employer), the Czech Republic **is above the OECD average in 2024 at 40.9%** (a year-on-year increase of 0.7 percentage points). The OECD average for 2024 is 34.9%, with Belgium having the highest tax rate at 52.6%, followed by Germany (47.9%) and France (47.2%). With regards to the tax burden on a single earner receiving an average wage in a family with two children, the Czech Republic (around 31.1%) is also above the OECD average (25.7%) in 2024.

When comparing the percentage of a country's GDP represented by total tax revenue for 2024 (including social security and health insurance contributions), the Czech Republic is almost at the OECD average, at 34.0% of GDP.

TOTAL TAX REVENUE COLLECTED BY OECD COUNTRIES, AS A PERCENTAGE OF GDP



THE EXPENDITURE SIDE OF THE STATE BUDGET

In terms of the state's obligation to cover expenditure, a distinction is made between **so-called mandatory expenditures and**, in contrast, so-called **non-mandatory expenditures, i.e. other expenditures.** Mandatory expenditure accounts for the largest share of total government expenditure, i.e. expenditure that the state is legally obliged to pay, representing 60–70% of total state budget expenditure.

MANDATORY EXPENDITURE ARISING FROM THE LAW

The Ministry of Finance has long monitored selected items of government expenditure which the state is required by law to provide (e.g. pension insurance benefits, sickness insurance benefits, social benefits, state contributions to health insurance, unemployment benefits, debt service expenditure), or which are stipulated by other legal provisions or contractual obligations (subsidies for renewable energy sources etc.). These expenditures, Adjusted for European funds, amount to approximately CZK 1,466.4 billion for 2026, i.e. 64% of total budget expenditure (a year-on-year increase of CZK 98.4 billion compared to the 2025 budget, and an increase of CZK 66.3 billion compared to the actual figures for 2025). From 2024 onwards, expenditure on national defence excluding social benefits is reported here, amounting to CZK 175.1 billion for 2026 (an increase of CZK 24 billion compared to the 2025 budget, and CZK 13.2 billion compared to the 2025 actual figures). Year-on-year, compared to the 2025 budget, pension expenditure has increased by CZK 22.4 billion; unemployment benefits have also increased year-on-year by CZK 8.6 billion; a new social benefit for state social assistance is budgeted for 2026 at CZK 19.4 billion; furthermore, the state's contribution to the public health insurance system is increased by CZK 3.1 billion, and debt service expenditure is increased by CZK 10.0 billion..

OTHER MANDATORY AND QUASI-MANDATORY EXPENDITURE

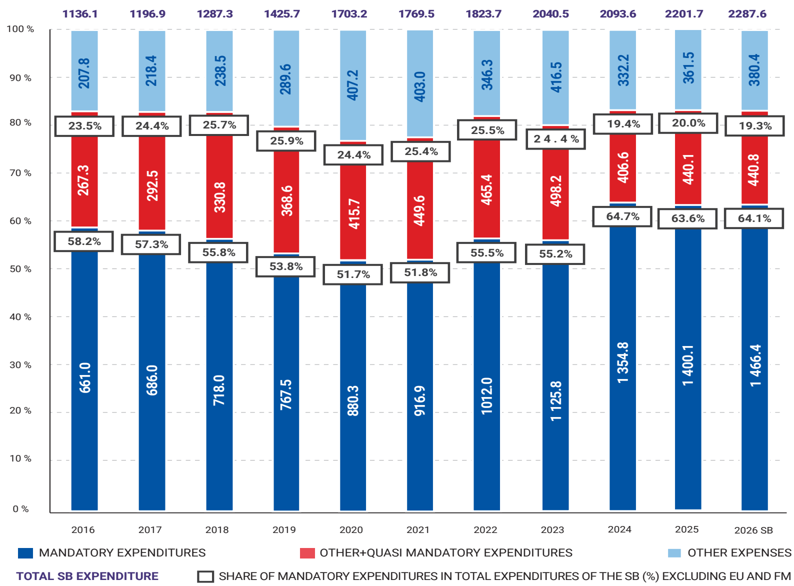
The Ministry of Finance also monitors, on a long-term basis, expenditure that is not directly stipulated by law but is nevertheless considered essential, as its purpose is to ensure the functioning of the state. **This includes the wages of public sector employees, employees of state organizational units, and contributory organizations,**

adjusted for EU funds, amounting to CZK 349.8 billion, further adjusted by excluding wages in defence expenditures as well as levies and contributions to the EU budget amounting to CZK 71.0 billion. In total, these expenditures amount to CZK 440.8 billion within the 2026 state budget, i.e. 19.3% of total 2026 state budget expenditure, representing a year-on-year increase of CZK 11.9 billion (compared to the actual figures for 2025, this represents an increase of CZK 0.7 billion).

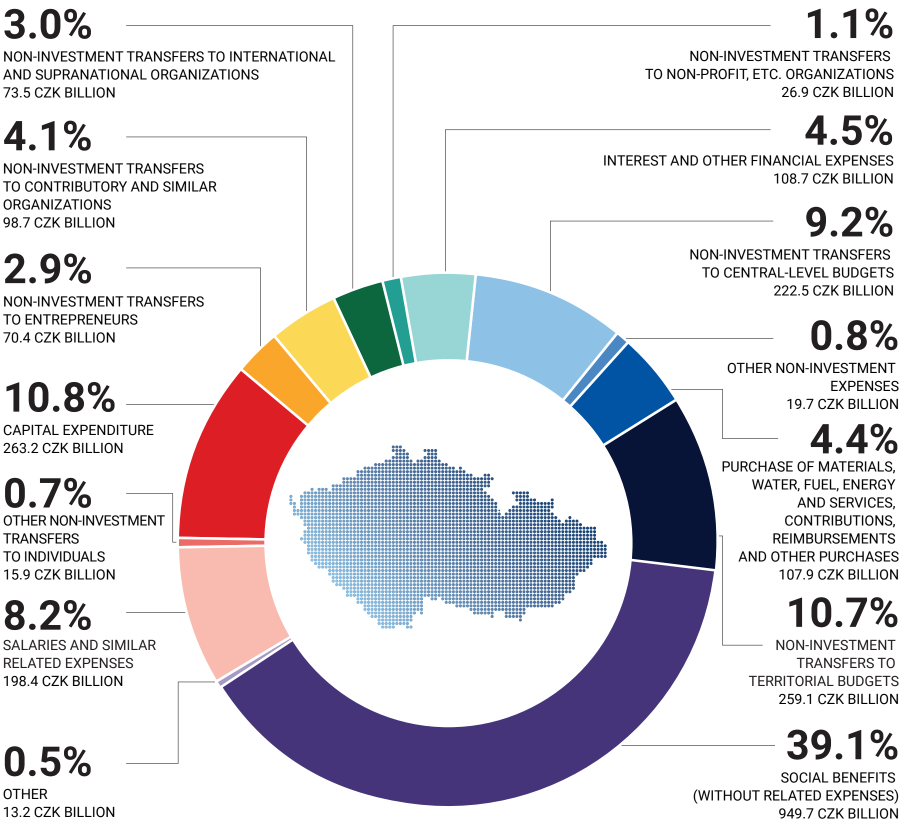
NON-MANDATORY EXPENDITURE

Other expenditure not classified as mandatory expenditure under the law or other legislation, thereby enabling the government to respond to economic developments and use such expenditure to steer the development of society and the economy (investment expenditure, transport infrastructure, education, sport, etc.) These expenditures, Adjusted for European funds within the 2026 budget, amount to CZK 380.4 billion, which represents 16.6% of total state budget expenditure. Mandatory and quasi-mandatory expenditure accounts for 96.4% of total state budget revenue in 2026. The state must therefore borrow to cover the remaining expenditure.

TOTAL, MANDATORY AND OTHER SB EXPENDITURE IN CZK BILLION



STRUCTURE OF 2026 STATE BUDGET EXPENDITURE BY TYPE (SUB-GROUP OF ITEMS) IN CZK BILLION AND AS A PERCENTAGE OF TOTAL STATE BUDGET EXPENDITURE



TOTAL: 2 427.8 CZK BILLION

By type, the largest expenditure item in the 2026 state budget is social benefits, accounting for 39.1% of total state budget expenditure, with a total volume of CZK 949.7 billion, i.e. a year-on-year increase of CZK 34.0 billion compared to the 2025 budget.

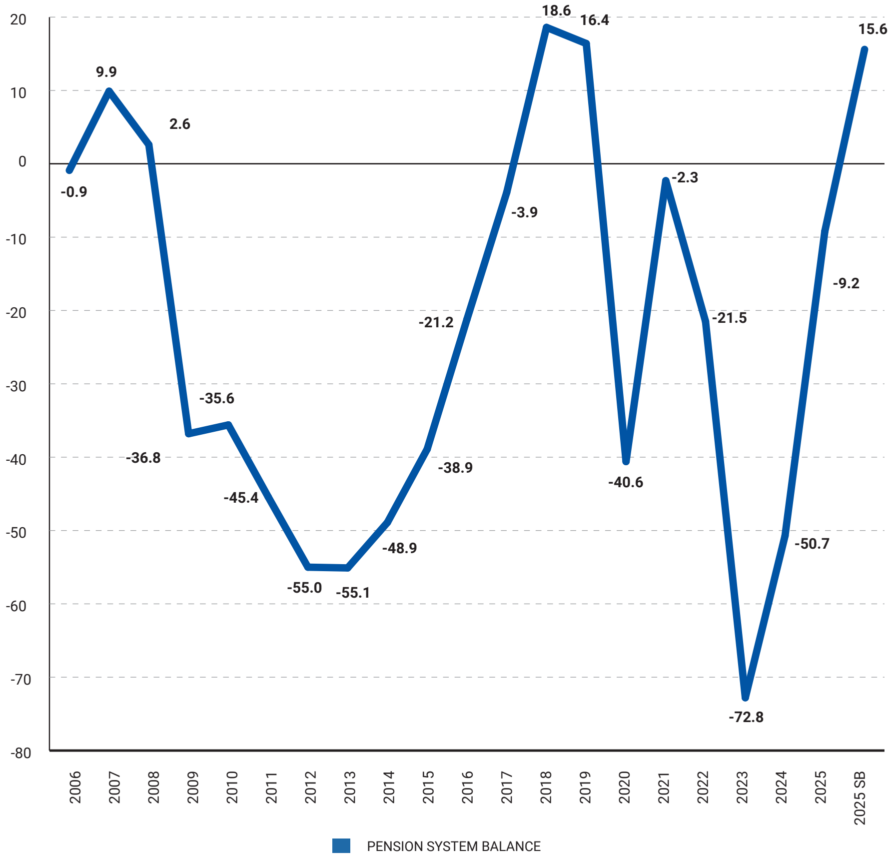
The largest expenditure item in 2026, as in every year, is pension expenditure amounting to CZK 739.6 billion CZK excluding related administrative costs, which is an increase of 23.3 billion CZK compared to the actual figure for 2025 and as much as 151.1 billion CZK more than the actual figure for 2022 (these are paid by the Ministry of Labour and Social Affairs, the Ministry of the Interior and the Ministry of Defence).

In the long term, pension expenditure generally needs to be partially covered by sources other than pension insurance revenue alone, as the revenue generated is insufficient to cover both pension payments and the administrative costs of the pension service. In 2025, the difference between pension insurance premium revenue (including voluntary insurance) and expenditure on pension benefits, including administrative costs, turned negative, amounting to CZK -9.2 billion. For 2026, a surplus is projected for the first time since 2019, amounting to CZK 15.6 billion.

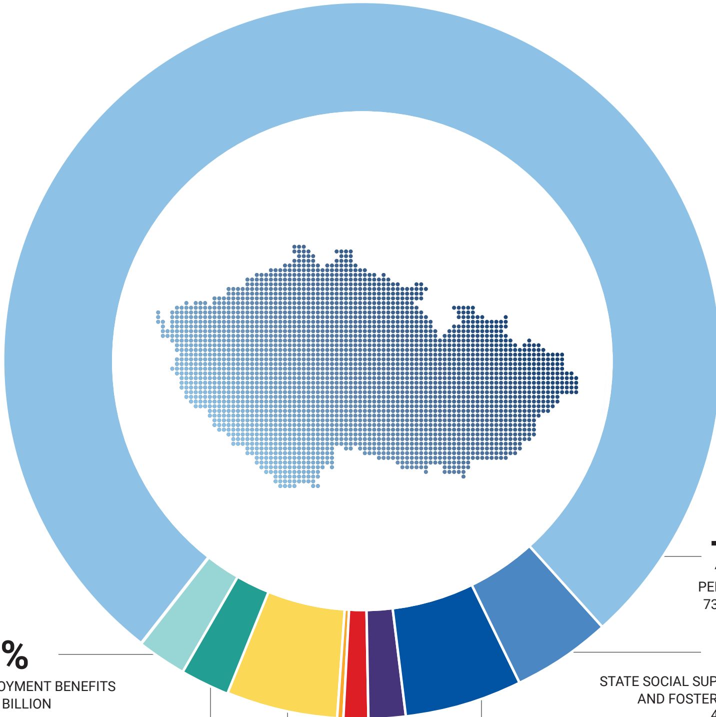
In 2022 and 2023, there were exceptional pension valorisation due to the statutory indexation scheme linked to inflation. In 2022, there were three pension indexations, and in 2023 there were a further two, with the average pension increasing by approximately CZK 5,692 per month from the end of 2021. In 2024 and 2025, there was one annual pension valorisation. From 1 January 2026, the statutory pension indexation for the average pension is CZK 668, leading to a 3.1% increase in the average old-age pension. The average old-age pension stood at approximately CZK 21,793 at the end of March 2026, which is 41.7% of the average gross wage in the economy (the average wage in the economy for the fourth quarter of 2025 is CZK 52,283).

Expenditure on pension valorisation as at 1 January 2026 amounts to CZK 23.7 billion. The rate of growth of pension expenditure is influenced by the growth of the income on which pensions are assessed, the changing intergenerational structure of pensioners and the projected increase in the number of pensioners, and the expected change in the cost-of-living indices (COLAs) of pensioner households. A revised indexation scheme is used, using only the increase in the pensioners' cost-of-living index (COLA) and also an amount equivalent to one-third of the increase in real wages.

DEVELOPMENT OF THE PENSION SYSTEM BALANCE IN 2006–2026 IN CZK BILLION

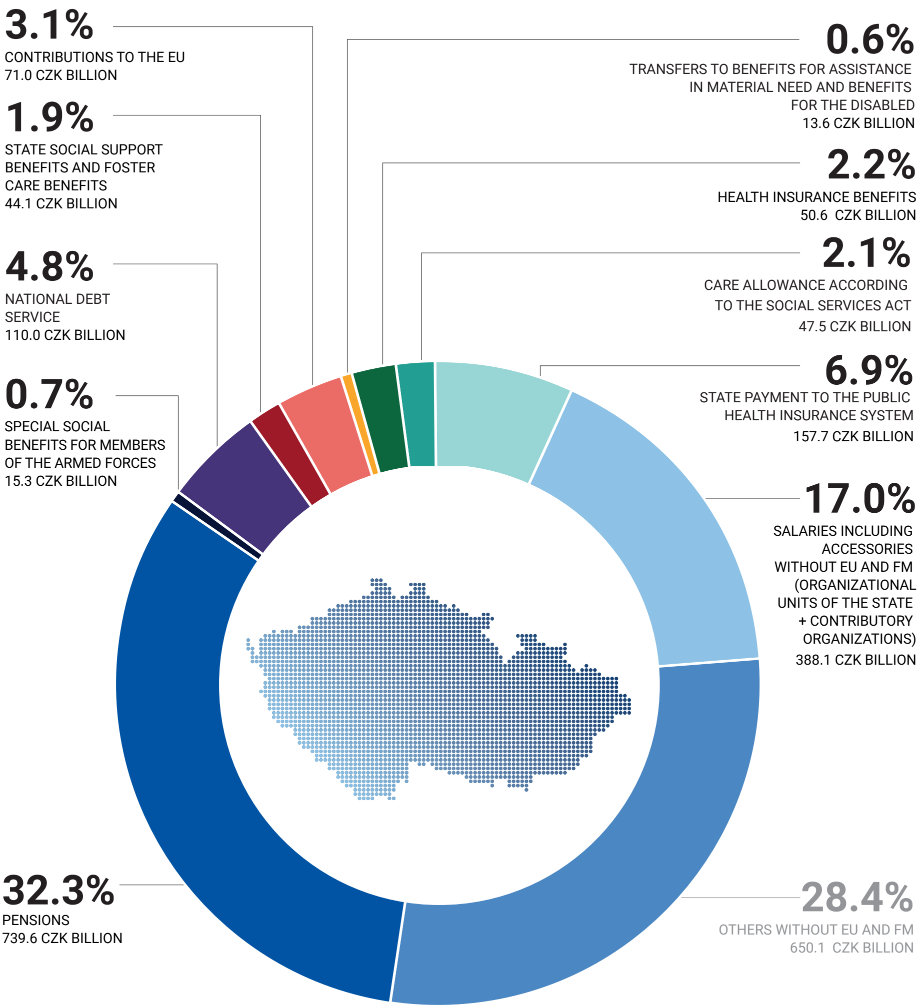


STATE EXPENDITURE ON SOCIAL BENEFITS



TOTAL EXPENDITURE ON THE ABOVE-MENTIONED SOCIAL BENEFITS: 950.7 CZK BILLION

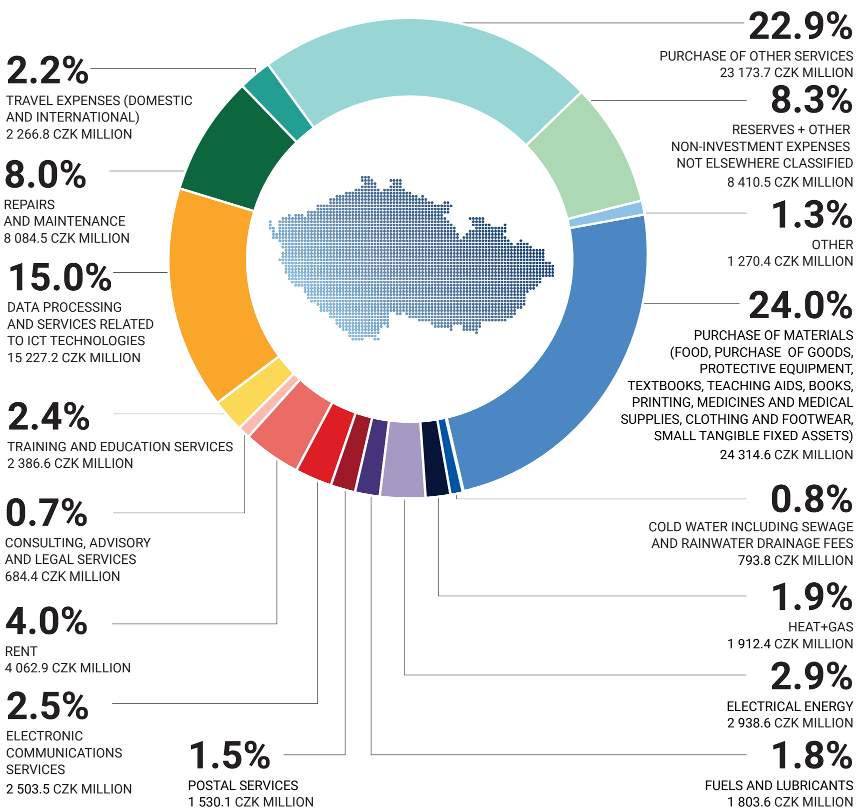
TOP 10 STATE BUDGET EXPENDITURES FOR 2026 EXCLUDING EU AND FM FUNDS, IN CZK BILLION AND AS A PERCENTAGE OF TOTAL STATE BUDGET EXPENDITURE



TOTAL EXPENDITURE INCL. EU AND FM: 2 427.8 CZK BILLION
TOTAL EXPENDITURE EXCLUDING EU AND FM AND EXCLUDING SZIF: 2 287.6 CZK BILLION
TOP 10: 71.6 % (% OF TOTAL EXPENDITURES EXCLUDING EU AND FM AND EXCLUDING SZIF)

The Ministry of Finance monitors the so-called narrower current expenditure of individual state organisational units (excluding the General Treasury Administration, State Financial Assets Operations and State Debt chapters). Narrower current expenditure consists of necessary operating expenditure – for example, purchases of materials, fuel, energy, drinking water, services, ICT services, rent, travel expenses and other current expenditure. Year-on-year, this monitored expenditure increased by CZK 2.5 billion.

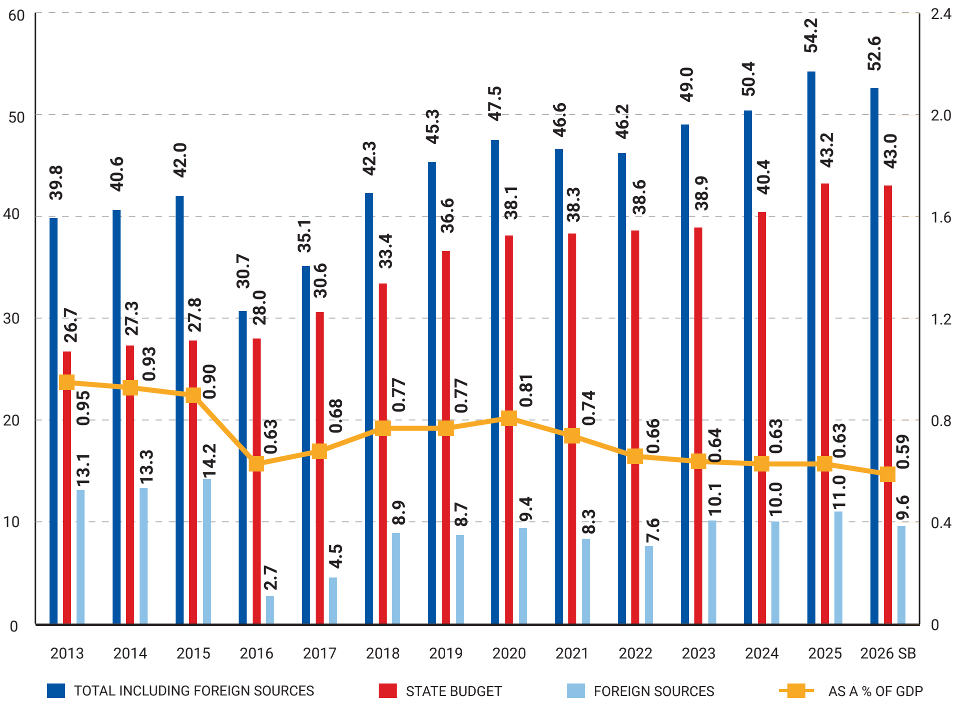
CURRENT EXPENDITURE ON THE OPERATION OF STATE ADMINISTRATIVE UNITS IN CZK MILLION (NARROWER CURRENT EXPENDITURE)



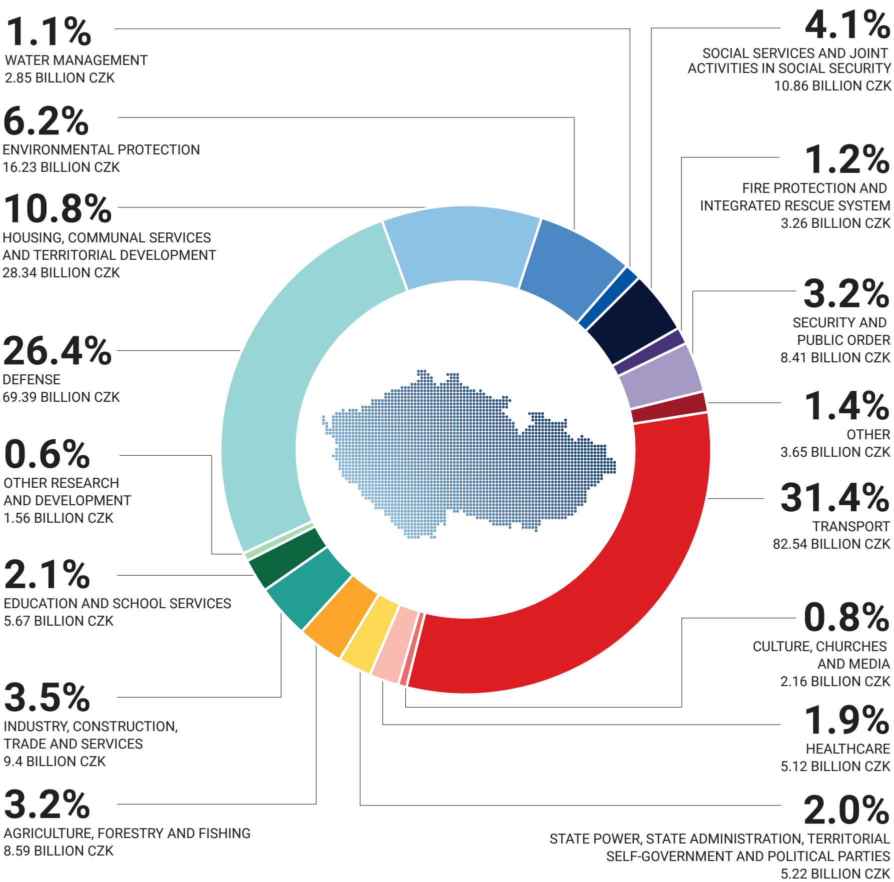
TOTAL NARROWER/OPERATING CURRENT EXPENDITURE OF STATE ORGANISATIONAL UNITS: **CZK 101.4 BILLION (4.2% OF TOTAL STATE BUDGET EXPENDITURE)**

In 2026, expenditure on research, development and innovation is budgeted at CZK 52.6 billion (spanning a total of 16 budget chapters), representing a total of 0.59% of GDP at current prices, of which national resources are budgeted at CZK 43.0 billion. Total expenditure on research amounts to 0.48% of GDP. A total of CZK 25.3 billion is allocated for institutional support, and CZK 17.6 billion of national resources is allocated for targeted support.

DEVELOPMENT OF EXPENDITURE ON RESEARCH, DEVELOPMENT AND INNOVATION IN CZK BILLION



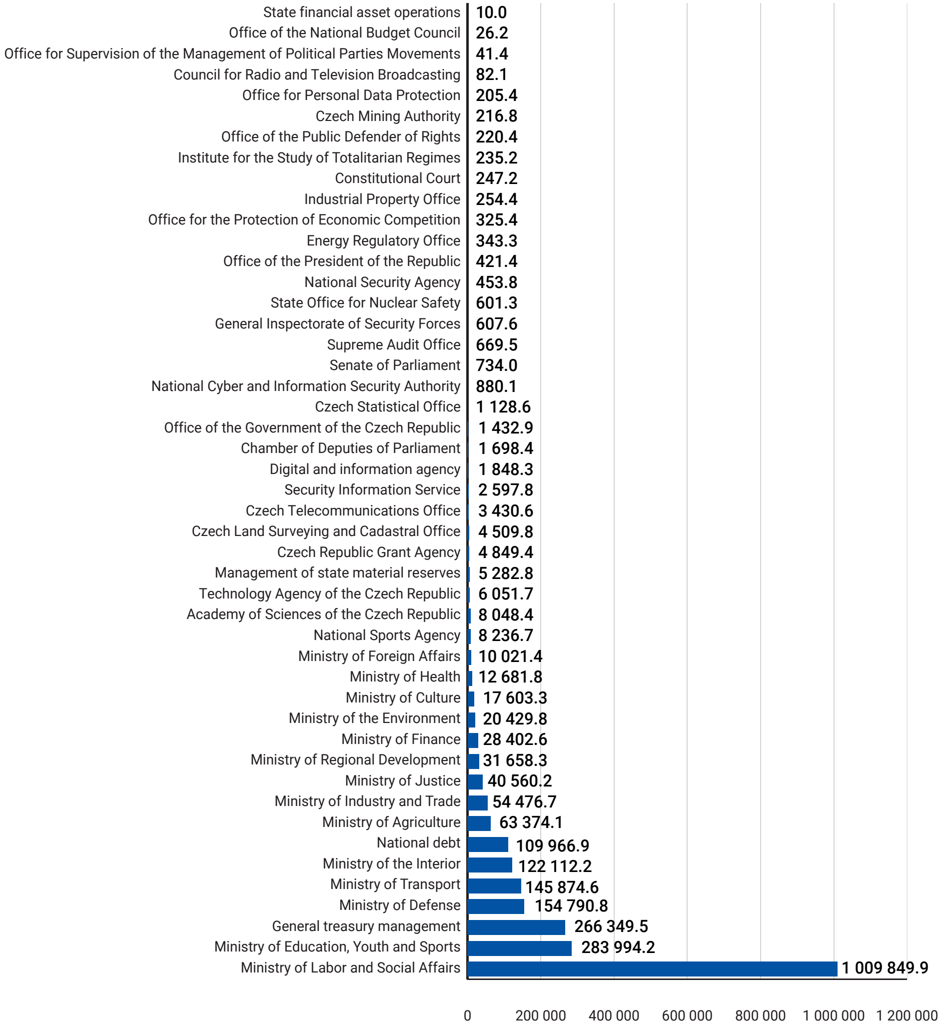
CAPITAL EXPENDITURE OF THE 2026 STATE BUDGET, INCLUDING EU AND FM FUNDS



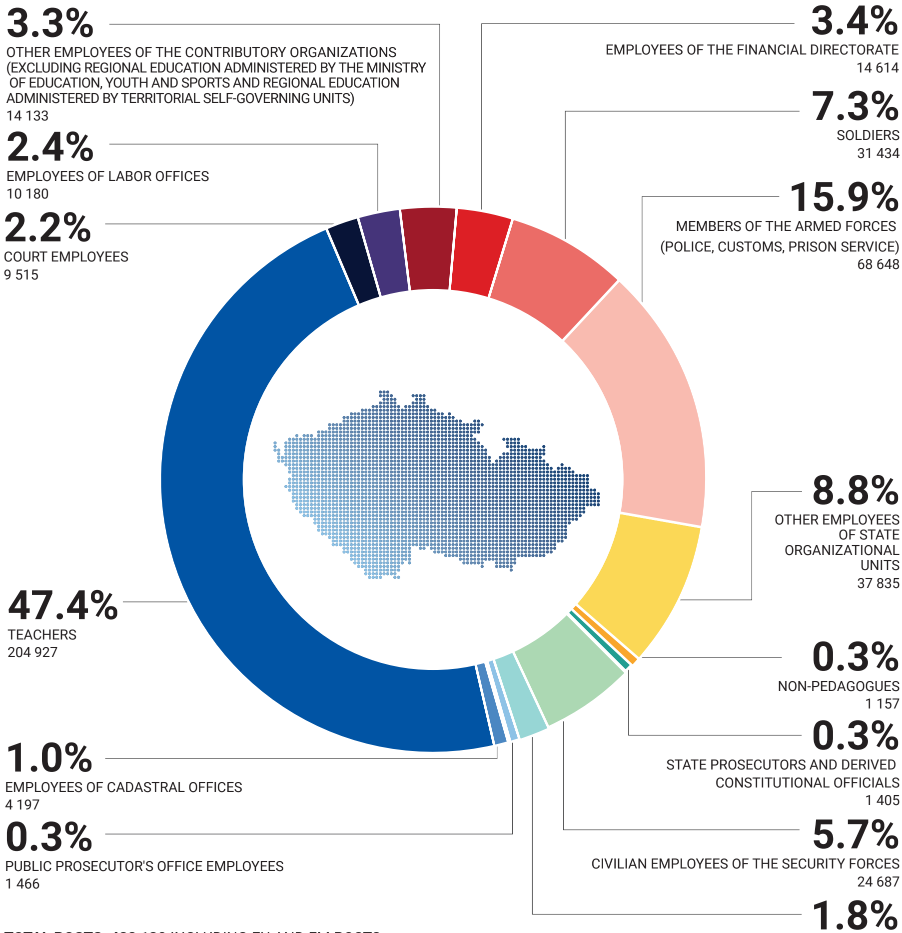
TOTAL CAPITAL EXPENDITURE: CZK 263.2 BILLION

(OF WHICH CZK 85.2 BILLION IS COVERED BY REVENUE FROM THE EU AND THE FM AND ACCOUNTING OPERATIONS UNDER THE RURAL DEVELOPMENT PROGRAMME, AND CZK 178.2 BILLION IS COVERED BY CZECH FUNDS)

TOTAL EXPENDITURE (I.E. CURRENT + CAPITAL) OF ALL CHAPTERS FOR 2026 IN CZK MILLION



STAFF STRUCTURE IN 2026, INCLUDING EU AND FM



TOTAL POSTS: 432 130 INCLUDING EU AND FM POSTS
(A DECREASE OF 56,831 POSTS COMPARED TO THE 2025 BUDGET, MAINLY DUE TO THE TRANSFER OF FUNDING FOR NON-TEACHING STAFF TO LOCAL AUTHORITIES)

TOTAL FUNDS FOR SALARIES AND OTHER PAYMENTS FOR WORK PERFORMED. INCLUDING EU AND FM FUNDS (EXCLUDING ANCILLARY PAYMENTS)**: CZK 291.0 BILLION** (A YEAR-ON-YEAR INCREASE OF CZK 4.2 BILLION)

TOTAL FUNDS FOR SALARIES + OTHER PAYMENTS FOR WORK PERFORMED, INCLUDING EU AND FM FUNDS, INCLUDING ANCILLARY PAYMENTS: CZK 392.4 BILLION (YEAR-ON-YEAR INCREASE OF CZK 5.6 BILLION)

THE TOTAL AVERAGE SALARY IN STATE BODIES AND STATE-FUNDED ORGANISATIONS IN 2026 IS: CZK 54,421
(AN AVERAGE YEAR-ON-YEAR INCREASE OF CZK 7,550)

WHAT CAN BE PURCHASED FOR CZK 1 BILLION:

CZK 353.4 PER YEAR

INCREASE IN THE AVERAGE OLD-AGE PENSION BY CZK 29.4 PER MONTH (I.E. BY CZK 353.4 PER YEAR). WITH THE NUMBER OF OLD-AGE PENSIONERS 2,829,884 AS OF DECEMBER 31, 2025 (THE AVERAGE AMOUNT OF OLD-AGE PENSION AS OF JANUARY 1, 2026 IS CZK 21,844)

CZK 4,879.8 PER YEAR

INCREASE IN THE SALARIES OF TEACHERS IN REGIONAL EDUCATION ESTABLISHED BY THE MINISTRY OF EDUCATION, YOUTH AND SPORTS AND THE CENTRAL OFFICE OF EDUCATION BY CZK 406.6 PER MONTH (I.E. BY CZK 4,879.8 PER YEAR) (STATUS IN 2026: A TOTAL OF 204,927 TEACHERS IN REGIONAL EDUCATION WITH AN AVERAGE SALARY OF CZK 55,125, I.E. AN INCREASE COMPARED TO 2025 OF AN AVERAGE OF CZK 3,185, NOTE: THERE WAS A YEAR-ON-YEAR INCREASE IN THE NUMBER OF TEACHERS BY 3,315 POSITIONS)

3.3 KM OF HIGHWAY

3.3 KM OF HIGHWAY (WITH 1 KM OF HIGHWAY ON UNDEMANDING TERRAIN FOR APPROX. 300 MILLION CZK)

2 000 CARS

STANDARD PASSENGER CAR WORTH 500,000 CZK

214.9 DAYS

214.9 DAYS OF OPERATION OF THE CHAMBER OF DEPUTIES OF THE PARLIAMENT OF THE CZECH REPUBLIC. TOTAL ANNUAL EXPENDITURE OF THE PSP CR FOR 2026 IS CZK 1.7 BILLION

2.1 AIRBUS HELICOPTERS H145M HELICOPTERS AT AN AVERAGE PRICE OF 480 MILLION CZK

2.1
HELICOPTERS

30,441 YEARS OF DAILY CONSUMPTION OF 1 CAPPUCCINO IN A CAFE AT AN AVERAGE PRICE OF 90 CZK

30,441
YEARS

20,000 FAMILY HOLIDAYS AT AN AVERAGE PRICE OF CZK 50,000

20,000
HOLIDAYS

33,333 PIECES OF TV OR LAPTOPS AT AN AVERAGE PRICE OF CZK 30,000

33,333
TVS

INCREASE IN SALARIES IN STATE ORGANIZATIONAL UNITS AND CONTRIBUTORY ORGANIZATIONS BY AN AVERAGE OF CZK 192.8 PER MONTH PER POSITION (I.E. AN AVERAGE OF CZK 2,314.1 PER YEAR PER POSITION), WITH THE NUMBER OF POSITIONS CALCULATED FOR 2026 AT 432,130.

CZK 2,314.1
PER YEAR

PUBLIC FINANCE DEBT VS. NATIONAL DEBT

The financial performance of the general government sector in 2025 continued to be influenced by developments in the security and geopolitical situation in Europe. Whilst the ongoing economic recovery and the adopted austerity measures had a positive impact on the general government sector's finances, its performance was also affected by a significant acceleration in investment and rising mandatory expenditure in the social sector. Overall, the balance thus stood at -2.1% of GDP, i.e. almost the same as in 2024 (-2.0% of GDP). Health insurance funds recorded a slight deficit (-0.2% of GDP), whilst local government institutions again reported a surplus (0.3% of GDP), which, however, particularly due to high investment activity, was significantly lower than in previous years.

The deficit in the general government sector was reflected in the level of debt, which rose in 2025 by 1.0 percentage point year-on-year in relative terms to 44.3% of GDP.

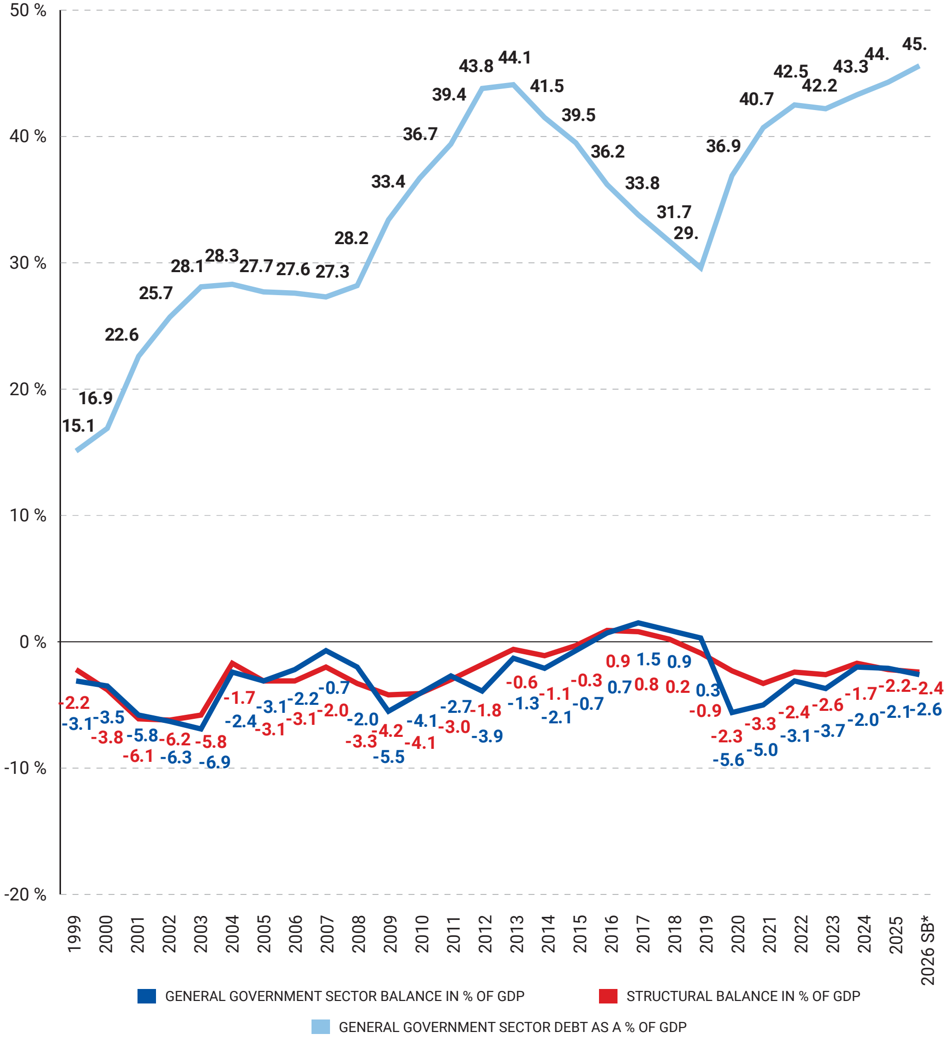
The expected balance of the general government sector for 2026 is -2.6% of GDP. General government debt is estimated at 45.6% of GDP.

We expect the structural balance – i.e. the balance adjusted for the effects of the economic cycle and one-off or temporary measures, which reflects the structural stance of fiscal policy – to be -2.4% of GDP in 2026.

According to the latest Eurostat data, the Czech Republic's public finances were the 8th least indebted in the European Union last year.

The growth in the CZK value of the Czech Republic's public debt, which has been occurring since 2019, stems primarily from increased government borrowing on the bond markets to finance the state budget deficit. In 2025, the state budget deficit reached CZK 290.7 billion and the value of the national debt in Czech koruna

DEVELOPMENT OF GENERAL GOVERNMENT DEBT, GENERAL GOVERNMENT BALANCE AND STRUCTURAL BALANCE AS A PERCENTAGE OF GDP



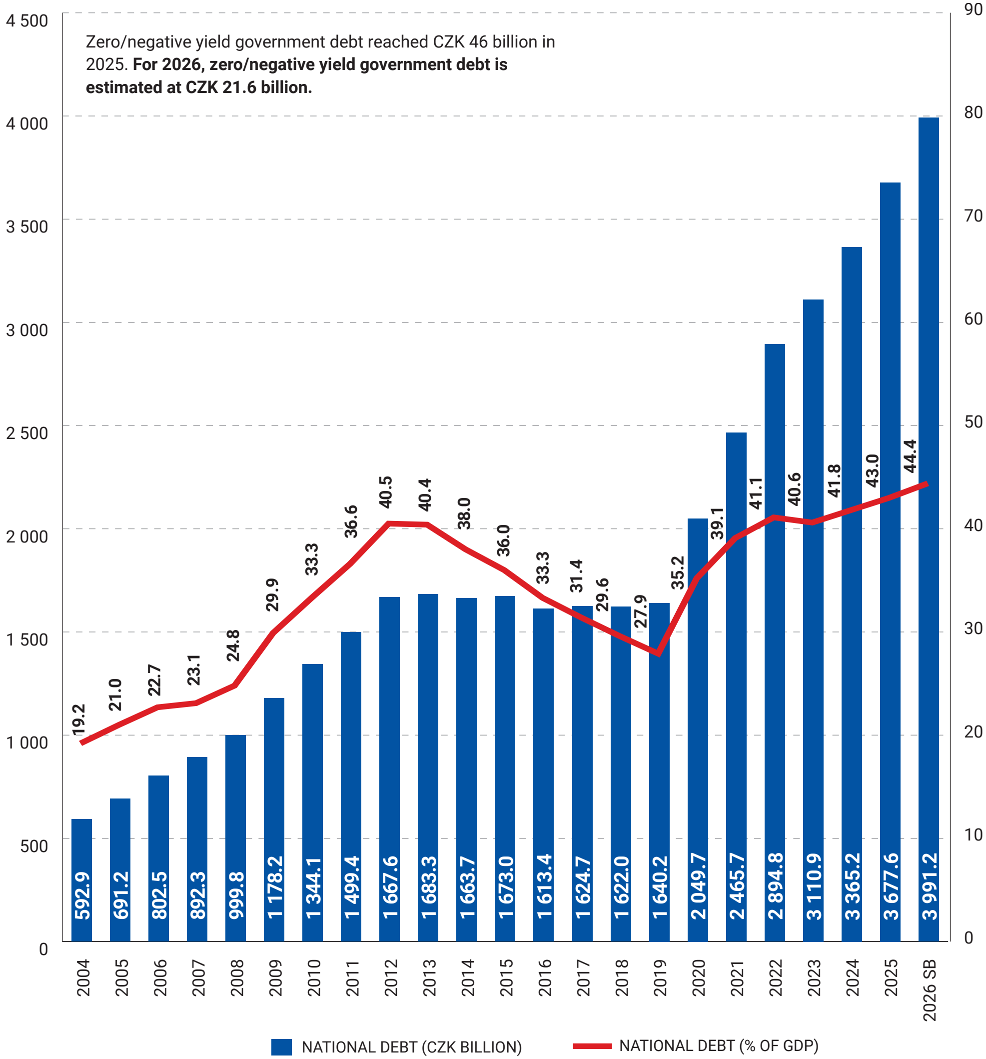
Note: *) Updated estimate based on the Ministry of Finance's Macroeconomic Forecast, April 2026.

reached CZK 3,677.6 billion, i.e. 43.0% of GDP. For 2026, an increase in the national debt of CZK 313.6 billion is budgeted, which will finance the budgeted state budget deficit of CZK 310.0 billion and an increase in the balance of state financial assets accounts of CZK 3.6 billion.

The difference between gross expenditure on servicing the national debt and revenue constitutes **net expenditure on servicing the national debt**, which amounted to CZK 98.1 billion in 2025 (corresponding to a year-on-year increase of CZK 9.7 billion). The higher net expenditure on servicing the government debt reflects the value of the government debt, which has risen significantly in recent years due to the COVID-19 pandemic, the energy crisis and developments in Ukraine, as well as higher interest rates and government bond yields on domestic and foreign markets. For 2026, net expenditure on public debt servicing has been approved at CZK 110.0 bn, i.e. 1.2% of GDP. Total budgeted expenditure on servicing the national debt in 2026 consists almost exclusively of interest expenditure (99%), with the remainder comprising fees amounting to CZK 1.0 billion.

Despite the economic, health and energy crises and the associated increase in the total koruna value of the national debt in recent years, most major international rating agencies have confirmed the Czech Republic's credit ratings throughout 2025; these remain the highest among all Central and Eastern European countries and have also been above the average rating of eurozone member states for several years. Currently, all major global rating agencies have assigned a stable outlook to the Czech Republic's credit rating.

DEVELOPMENT OF PUBLIC DEBT *



Note: *) Estimate and forecast based on the Macroeconomic Forecast of the Ministry of Finance of the Czech Republic (April 2026).

Approximately 95% of public debt at the end of 2025 consisted of domestic debt, represented mainly by medium- and long-term government bonds issued under Czech law and sold on the domestic bond market. External debt accounts for approximately 5% of public debt.

The cost of the total public debt (i.e. the ratio of net expenditure to average public debt) stood at 2.8% in 2025. The average maturity of the national debt reached 6.1 years at the end of 2025, thus moving towards the set medium-term target for this parameter of national debt refinancing risk, for which the target value of 6.5 years remains in force in the medium term, even in 2026.

THE CZECH REPUBLIC'S FINANCIAL RELATIONS WITH THE EU BUDGET AND THE FM

FROM ITS ACCESSION TO THE EU UNTIL 31 DECEMBER 2025, THE CZECH REPUBLIC CONTRIBUTED **CZK 1 TRILLION** TO THE EU BUDGET. SINCE JOINING THE EU, THE CZECH REPUBLIC HAS RECEIVED **CZK 2.3 TRILLION**, INCLUDING THE NGEU INSTRUMENT, UP TO 31 DECEMBER 2025.THE CZECH REPUBLIC'S POSITIVE BALANCE WITH THE EU BUDGET SINCE JOINING THE EU THUS STANDS AT **CZK 1.3 TRILLION** AS AT 31 DECEMBER 2025, **I**NCLUDING THE NGEU INSTRUMENT.

Since its accession to the European Union (1 May 2004), the Czech Republic, as an EU member state, has contributed to the financing of the EU budget through contributions and is also a recipient of redistributed funds from the EU budget. In particular, revenue from cohesion policy funds, the common agricultural policy, EU programmes or the Asylum and Migration Policy Funds enable the Czech Republic to finance projects in the areas of infrastructure development, environmental protection, research, education, employment and other current social topics which, due to limited national public resources, could not otherwise be implemented or would be on a smaller scale.

The EU budget is financed by so-called **own resources**, which consist of traditional own resources (customs duties levied on imports into the EU from third countries), a resource based on value added tax (VAT), a resource based on the quantity of non-recycled plastic packaging waste, and a resource based on gross national income (GNI), which constitutes the largest revenue item, covering approximately 65–75% of revenue . The state budget for 2026 allocates CZK 70.7 billion for own resources contributions and CZK 0.3 billion for macro-financial assistance to Ukraine. Since 2021, the EU budget has been supplemented by **the temporary EU instrument to support recovery (Next Generation EU – NGEU),** financed by borrowing on the financial markets, which provides funding primarily for the National Recovery Plans of individual Member States; from this, the Czech Republic received **CZK 23.7 billion in 2021, in 2022 it received CZK 10.6 billion from this instrument,**

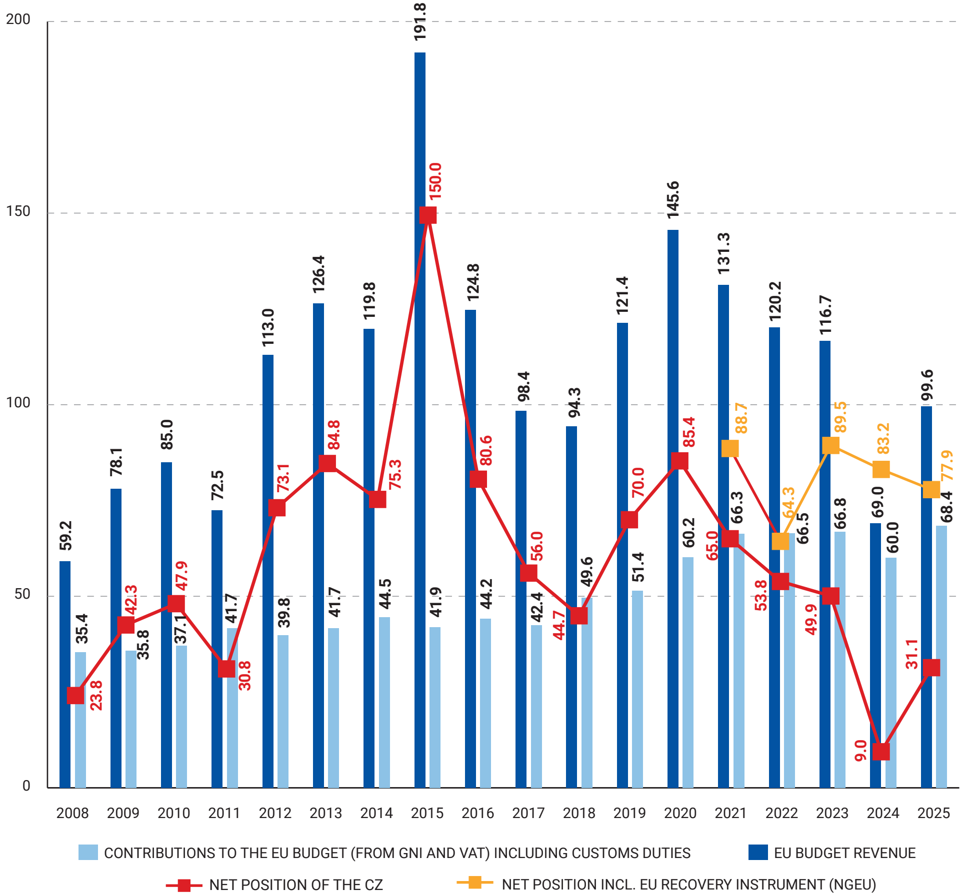
in 2023 CZK 39.5 billion, in 2024 CZK 74.2 billion, and last year CZK 46.8 billion. The Czech Republic uses the funds under the National Recovery Plan primarily for modernisation and digitalisation.

Since joining the EU, the Czech Republic has consistently been a **so-called net beneficiary**, meaning that it receives more funds from the EU's overall budget than it contributes to it. The Czech Republic's net position in relation to the EU budget is therefore **positive**. During 2025, the Czech Republic received a total of CZK 99.6 billion from the EU budget and, after including the NGEU instrument, as much as CZK 146.3 billion, whilst contributing a total of CZK 68.4 billion to the budget. It follows that for the whole of 2025, the Czech Republic received almost **CZK 31.1 billion more** (i.e. net position) than it paid into the EU budget; **when the NGEU instrument is also taken into account**, the Czech Republic's total net position in 2025 is **CZK 77.9 billion**.

The Czech Republic's positive net position in the EU budget has long been driven by revenues from the Structural Funds and the Cohesion Fund, as well as by revenues from the EU's Common Agricultural Policy. The gradual long-term increase in the Czech Republic's contributions reflects both the growing size of the EU budget and the country's steadily strengthening economic development within the EU.

The Czech Republic's positive balance with the EU budget in 2026 continued to be driven primarily by revenues from the Structural Funds and the Cohesion Fund amounting to nearly CZK 63.6 billion, and revenues from the Common Agricultural Policy amounting to CZK 26.4 billion, the key components of which are direct payments of CZK 20.2 billion and Rural Development Programme funds of CZK 5.2 billion. In addition to revenue from the EU budget, the Czech Republic also received additional cohesion funding in 2025 (Fund for just transition) and, under the National Recovery Plan, funding from the EU Recovery Facility (NGEU) amounting to CZK 46.8 billion. Furthermore, the state budget also utilises expenditure from the so-called **EEA and Norway Grants and the Swiss-Czech Cooperation Programme.** In total, CZK 850.4 million is budgeted for 2026. Of this, the state budget co-finances these activities to the tune of CZK 123.0 million, whilst the remaining CZK 727.4 million consists of expenditure covered in the budget by revenue from the financial mechanisms. Compared with 2025, total expenditure, including the state budget's share, is CZK 404.8 million higher. The reason for the increase in funding for 2026 is the full launch of the Swiss-Czech Cooperation Programme.

DEVELOPMENT OF REVENUE FROM THE EU BUDGET AND CONTRIBUTIONS TO THE EU BUDGET IN 2008–2025 IN CZK BILLION



FINANCIAL RELATIONS BETWEEN THE STATE BUDGET AND THE BUDGETS OF REGIONS AND MUNICIPALITIES IN 2026

The state provides municipalities and regions with a contribution for the exercise of state administration, i.e. for the exercise of delegated competences. This contribution is used to partially reimburse the performance of duties delegated to them by the State (e.g. issuing building permits, issuing ID cards, etc.).

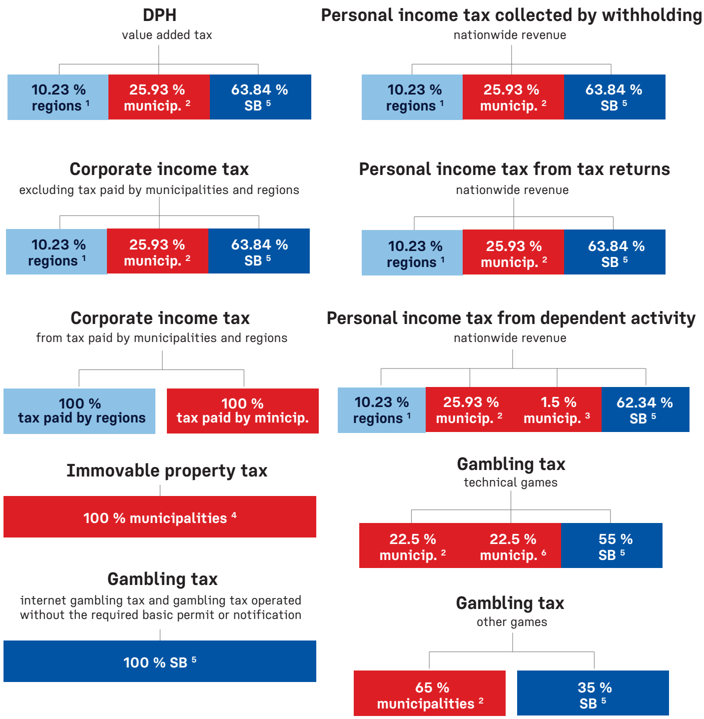
The contribution for the performance of state administration for municipalities (excluding the City of Prague) in 2026 amounts to CZK 10.2 billion. The contribution for the performance of state administration for the City of Prague in 2026 amounts to CZK 1.3 billion. The contribution for the performance of state administration for regions, excluding the City of Prague, in 2026 amounts to CZK 2.2 billion

The procedure for determining the amount of the contribution for the performance of state administration is set out in the Act on the State Budget of the Czech Republic for 2026, specifically for regions in Annex 5, for the City of Prague in Annex 7 and for individual municipalities in Annex 8. In 2026, there was a year-on-year reduction in the contribution to municipalities of 0.002% (from CZK 10.2065 billion to CZK 10.2064 billion), with this change resulting from zero year-on-year valorisation. The total amount of the contribution for the City of Prague, in its capacity as both a municipality and a region, is approximately the same as last year (it decreased from CZK 1.299 billion to CZK 1.298 billion). The total contribution to the regions for 2026 has been adjusted by approximately -0.408% (from CZK 2.235 billion to CZK 2.226 billion).

Tax revenues remain the main source of income for municipal authority budgets in 2026 as well. Their development has been positively affected by the latest amendment to Act No. 243/2000 Coll., on the allocation of tax revenues (Act No. 267/2025 Coll.), which responds to the change in the financing of non-education work and part of other non-investment expenditure (transfer of funding from the state to the founding bodies).

In connection with this change, the share of municipalities and regions in shared taxes has increased. In the allocation of tax revenues to municipalities, the weight of the existing criterion based on the number of children and pupils has been changed to 15.15% and, from 2026, it is formulated more broadly (it also includes children, pupils and students attending schools and educational establishments established by municipalities, not just children participating in pre-school education and pupils fulfilling compulsory schooling). Tax collection in 2026 will also be affected by the impact of the amending act in connection with the adoption of the Act on the Uniform Monthly Employer Report, changes adopted as part of the consolidation package, etc. The share of shared taxes for 2026 has changed compared to 2025: for municipalities from 24.16% to 25.93% and for regions from 9.45% to 10.23% (see diagram).

SCHEME OF TAX REVENUE SHARING (EXCLUDING SFDI, FEES AND FINES)



[1] The tax revenues of regions are distributed on the basis of:

- Annex No. 1 to the Act (92.22%)
- the number of children, pupils, students, etc. attending schools established by the region (7.78%)

[2] The tax revenues of municipalities are distributed on the basis of:

- the area of the municipality's cadastral territory (2.8 %)
- the number of children, pupils, students, etc. attending schools established by the municipality (15.15 %)
- the actual number of inhabitants in the municipality (9.32 %)
- the coefficients of progressive transitions (72.73 %)

[3] Tax revenues are distributed based on the number of employees whose place of work is in the given municipality.

[4] Revenue from the real estate tax; the recipient is the municipality in whose territory the property is located.

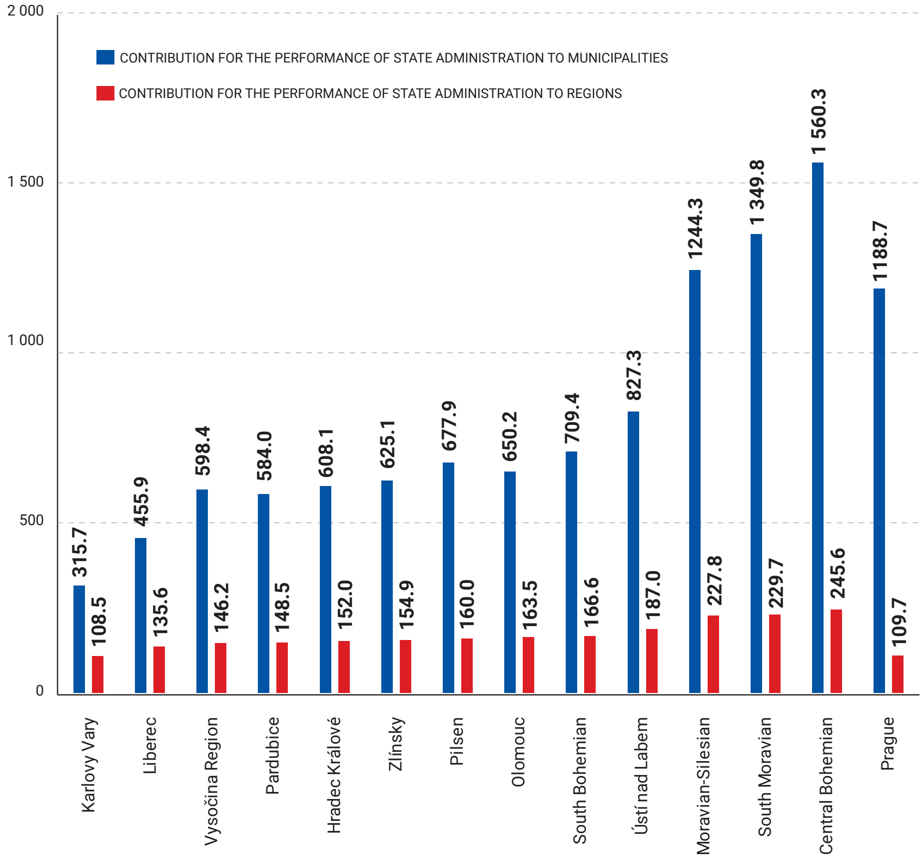
[5] State budget revenues.

[6] The percentage by which individual municipalities participate in the portion of the nationwide gross tax revenue under paragraph 1(b) accruing in the tax period is equal to the ratio of the total number of gaming positions of individual permitted terminal devices specified in the permit for the placement of a gaming area that are authorized within the territory of the municipality as of the first day immediately preceding the tax period, to the total number of gaming positions of all individual permitted terminal devices specified in permits for the placement of gaming areas that are authorized as of the first day immediately preceding the tax period.

BUDGETARY ALLOCATION OF TAXES (RUD)

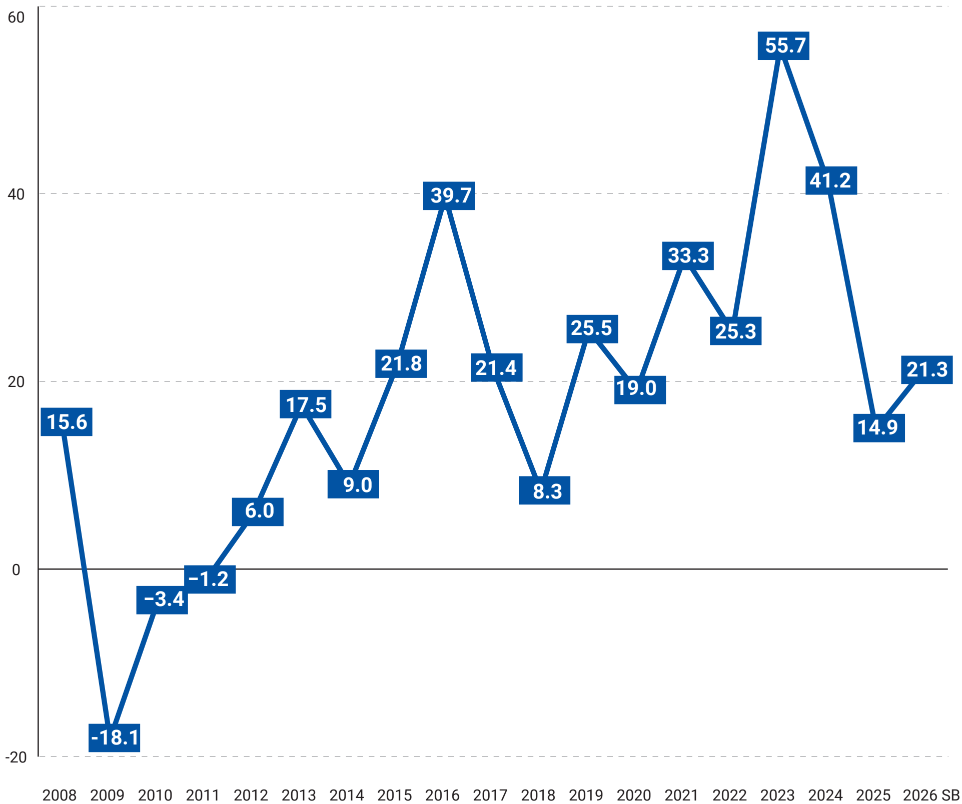
Budgetary determination of taxes is a set of rules established by law (Act No. 243/2000 Coll., on the budgetary determination of the proceeds of certain taxes for local self-government units and certain state funds, as amended), which define to whom the relevant tax collected or part thereof accrues. In other words, the budgetary determination of taxes is the key on the basis of which the revenue from the collected taxes is redistributed among the respective beneficiaries (municipalities, region, state). Depending on whether the collected tax or a share of it belongs only to one entity (e.g.: real estate tax belongs to the municipalities in which the real estate is located) or is shared proportionally by other entities (i.e. the State, regions, municipalities), a distinction is made between exclusive and shared taxes. In a broader sense, tax revenues can also include various types of fees (e.g., administrative and local fees, pollution charges). These can also be exclusive and shared.

CONTRIBUTION FOR THE PERFORMANCE OF STATE ADMINISTRATION TO MUNICIPALITIES AND REGIONS FOR 2026 IN CZK MILLION



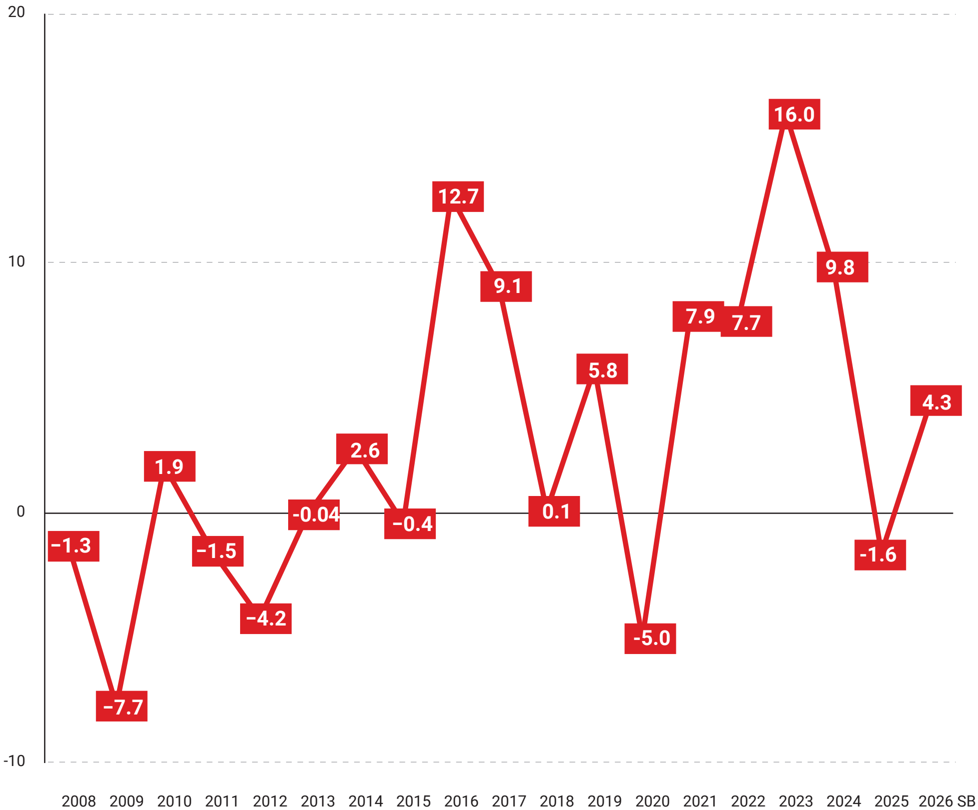
The structure of municipal revenue and expenditure is stable in the long term. In 2025, municipalities, including the City of Prague, ended the year with a surplus of CZK 14.9 billion. A surplus of CZK 21.3 billion is expected for 2026. Municipalities have been operating with a budget surplus since 2012.

BALANCE OF MUNICIPAL BUDGETS, INCLUDING THE CITY OF PRAGUE, FOR THE YEARS 2001–2026 IN BILLIONS OF CZK



The year 2025 ended with a budget deficit of CZK 1.6 billion. A surplus of CZK 4.3 billion is forecast for 2026.

BALANCE OF REGIONAL BUDGETS (EXCLUDING THE CITY OF PRAGUE) FOR THE YEARS 2001–2026 IN CZK BILLION

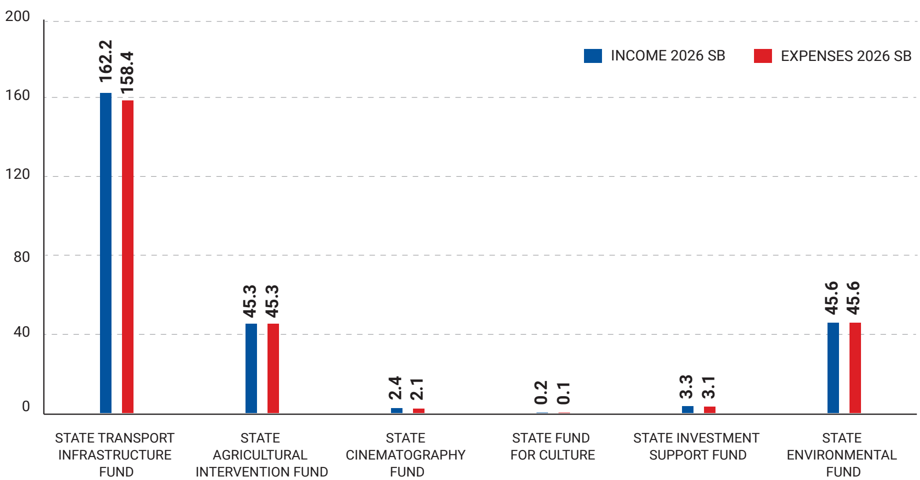


THE STATE BUDGET AND STATE FUNDS IN 2026

State funds are independent legal entities established under the relevant laws. The State Transport Infrastructure Fund (revenue from mineral oils excise tax, time fee for the use of motorways and roads, tolls, transfers received from the state budget and other sources) expects revenue of CZK 162.2 billion and expenditure of CZK 158.4 billion for 2026, with subsidies totalling CZK 125.6 billion dominating. Tax revenue is budgeted at CZK 36.6 billion, of which toll revenue is expected to amount to CZK 19.2 billion. In 2026 the main goal of the Fund is set to carry out the construction of new transport infrastructure, as well as the modernisation, repair and maintenance of roads, motorways, railways and waterways.

In 2026, 59.1 km of roads and motorways are expected to open (38.1 km of new motorways and 21 km of new Class I roads), and a further 177 km of roads and motorways are expected to be ready for construction to begin (101.6 km of new motorways and 75.4 km of new Class I roads). The remaining five funds are shown numerically in the chart below.

REVENUE AND EXPENDITURE OF STATE FUNDS IN 2026, IN BILLIONS OF CZK



THE STATE BUDGET AND THE PUBLIC HEALTH INSURANCE SYSTEM IN 2026

The public health insurance system in the Czech Republic is currently provided by 7 health insurance companies, covering a total of 10.82 million insured persons. The largest share is held by General Health Insurance Company of the Czech Republic (56.9% of all insured persons in 2025, with an estimate of approximately 57% for 2026), with an approximate number of 6.17 million insured persons in both years.

In 2025, the public health insurance system ended the year with a deficit of around CZK 4.6 billion.

The revenue of health insurance companies' budgets consists mainly of compulsory public health insurance contributions, from which healthcare services are funded.

Health insurance funds receive subsidies from the state budget **in the form of payments for so-called state-insured persons,** i.e. those for whom the state pays the insurance premiums (children, students, people on maternity or parental leave, jobseekers, pensioners, etc.). The year-on-year increase is due to the statutory automatic valorisation of the assessment base in line with consumer price inflation. The assessment base will increase from CZK 15,749 to CZK 16,206 per calendar month. This represents an increase in the monthly payment per insured person from CZK 2,127 to CZK 2,188. In total, the state's contribution to the public health insurance system for 2026 is budgeted at CZK 157.7 billion (i.e. an increase of CZK 85.9 billion compared to the pre-COVID level of 2019, and CZK 3.1 billion more year-on-year).

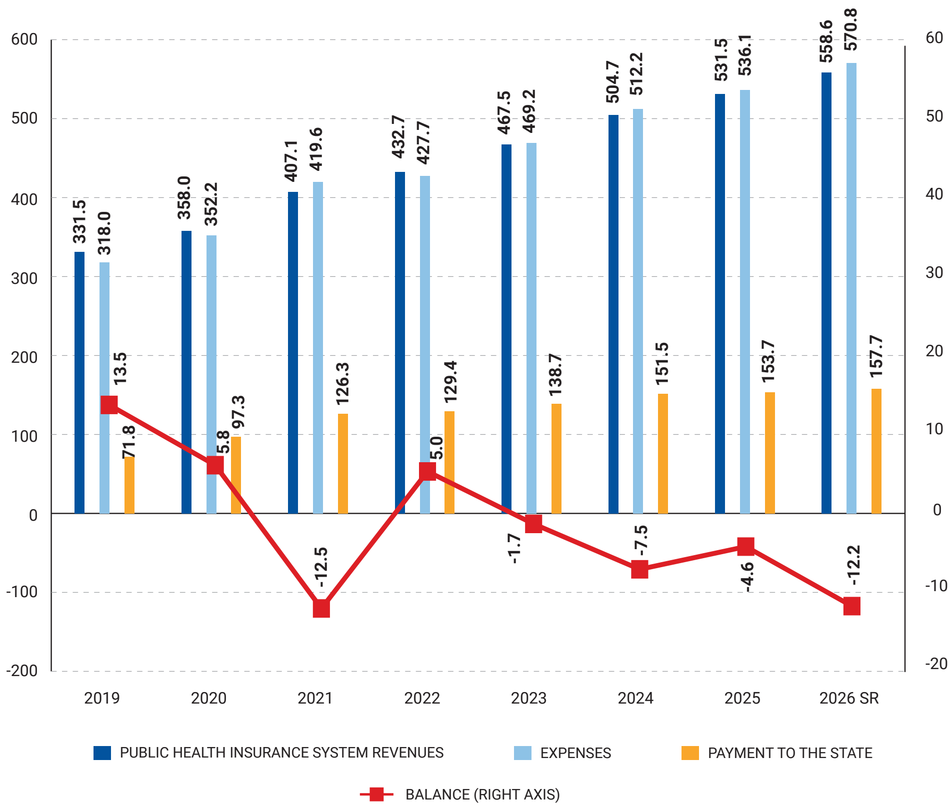
Total revenue for the public health insurance system in 2026 is estimated at CZK 558.6 billion (an increase of CZK 27.1 billion compared to the 2025 figure).

Total expenditure of the public health insurance system in 2026 is estimated at CZK 570.8 billion (an increase of CZK 34.6 billion compared to the 2025 figure).

Expenditure is primarily directed towards the reimbursement of healthcare; most of the year-on-year increase relates to the reimbursement of specialist medicines, outpatient and inpatient care, new therapies/technologies, ensuring local and timely availability, and improving the quality of healthcare services provided.

In 2026, a deficit of CZK 12.2 billion is expected across the entire public health insurance system.

REVENUE AND EXPENDITURE OF THE PUBLIC HEALTH INSURANCE SYSTEM IN CZK BILLION



BASIC ASSUMPTIONS FOR THE PREPARATION OF THE 2026 STATE BUDGET

The Ministry of Finance's January 2026 macroeconomic forecast provided the basis for preparing the 2026 budget.

MAIN MACROECONOMIC INDICATORS

		2020	2021	2022	2023	2024	2025 *prediction MF January 2026*	2025
Real gross domestic product	*growth in %, sc*	**-5.3**	**4.0**	**2.8**	**0.0**	**1.3**	**2.5**	**2.4**
Consumer price inflation rate	*average in %*	**3.2**	**3.8**	**15.1**	**10.7**	**2.4**	**2.5**	**2.1**
Employment (national accounts)	*growth in %*	**-2.3**	**1.0**	**1.0**	**1.6**	**0.6**	**1.0**	**0.1**
Unemployment rate (VŠPS)	*average in %*	**2.6**	**2.8**	**2.2**	**2.6**	**2.6**	**2.8**	**2.8**
Volume of wages and salaries (domestic concept)	*growth in %, current*	**0.4**	**7.2**	**9.1**	**8.8**	**6.8**	**7.3**	**6.3**
Eurozone GDP	*growth in %, sc*	**-6.2**	**6.4**	**3.7**	**0.6**	**0.8**	**1.5**	**1.5**

Source: Ministry of Finance forecast, January 2026, on the basis of which the 2026 State Budget was last updated before being submitted to the Chamber of Deputies of the Parliament of the Czech Republic

At the turn of the year, the global economy was driven upwards by household consumption expenditure, thanks to low inflation and growth in real wages. As monetary conditions become less restrictive, investment activity is gradually picking up, though this is being dampened by persistent geopolitical uncertainties. Although tensions in international trade have eased following the agreement between the United States and the European Union, uncertainties regarding additional tariff measures and export restrictions on strategic raw materials remain.

Fiscal policy is governed by constraints set primarily by the Act on Budgetary Responsibility. The expenditure framework for 2026 was set on the basis of a structural public finance deficit of 1.75% of GDP and also included the application of the national escape clause for defence. The national escape clause, which allows for flexibility within the fiscal rules regarding increased defence expenditure compared to the reference year 2021, was activated for the Czech Republic in 2025. During the first reading of the draft State Budget Act for 2026, the Chamber of Deputies did not approve its key figures and the draft was returned to the government for revision. In this situation, the draft budget followed the recommendations of the Chamber of Deputies.

The economic recovery continued last year; according to the January forecast, GDP rose by 2.5% for the whole of 2025. The main factor remained accelerating household consumption, which was supported not only by a decline in the savings rate but also by an increase in real earnings. The accumulation of inventories and government consumption also contributed to growth. Investment activity was driven by public investment, whilst private investment was subdued due to uncertainties and negative business sentiment – the contribution of total investment was thus only slightly positive. By contrast, the trade balance held back economic performance, primarily due to rising consumer demand and the build-up of inventories. For 2026, the January forecast projected a 2.4% increase in economic output, mainly driven by continued growth in household consumption and a revival in corporate investment activity.

In 2025, monetary policy continued to temper inflationary pressures due to its lagged effects; the average inflation rate for the whole of last year reached 2.5%. According to the January forecast, inflation was set to fall to 2.1% this year. Energy price trends were expected to have a disinflationary effect, which was to be significantly amplified by the transfer of the financing of the renewable energy levy entirely to the state budget. Monetary policy was expected to continue to temper inflationary pressures, as was the strengthening of the koruna. Conversely, pro-inflationary factors include the continuing dynamic growth in wages and the persistent rise in service prices, driven primarily by strong growth in property prices.

In the labour market, despite partial imbalances linked to labour shortages, there has been a slight rise in unemployment. Last year, the unemployment rate reached 2.8%. Demand for labour in services and construction remains strong and should continue to help mitigate the impact of problems in certain industrial sectors. The unemployment rate is therefore expected to remain at 2.8% this year. Wage and salary growth is expected to remain above average in the long term.

II. THE STATE BUDGET IN THEORY

The State Budget Act for the relevant year always consists of a paragraphed part, which sets out the total revenue, expenditure and balance of the state budget (see A. for details), as well as annexes to the Act (constituting the budget documentation), which explain the financial relationships for individual items in greater detail (see B. for details of the annexes).

A. THE STATE BUDGET ACT

- The content of the paragraph text is the determination of total revenue, expenditure and deficit (in case of inequality of revenues and expenditures) of the State Budget of the Czech Republic for the relevant year, including a list of financing items through which the State Budget deficit will be settled (e.g. by increasing the stock of government bonds or by changes in government financial asset accounts). Furthermore, the financial relations of the state budget to the EU budget, the budget of the capital city of Prague, the budget of the Czech Republic and the budget of the Czech Republic. Prague, municipalities and regions, the procedure for determining the amount of the contribution for the performance of state administration to municipalities and the capital city of Prague, the insurance capacity and the amount of the state budget subsidy for the replenishment of the insurance funds of the Export Guarantee and Insurance Corporation, a.s. (EGAP). It also lists the annexes (B) and authorises the Minister of Finance to carry out the specified financial operations during the financial year and sets out the effective date of the Act..

B. ANNEXES TO THE STATE BUDGET ACT

- Summary balance sheet of state budget revenue and expenditure (Annex No. 1)
- General overview of state budget revenue by chapter (Annex No. 2)
- General overview of state budget expenditure by chapter (Annex 3)
- State budget indicators for individual chapters (Annex 4)
- Financial relations between the state budget and the budgets of the regions, with the exception of the City of Prague, including the total amount of contributions (Annex 5)

— Financial relations between the state budget and municipal budgets, aggregated by region, excluding the City of Prague, including the total amount of the contribution for the performance of state administration (Annex 6)

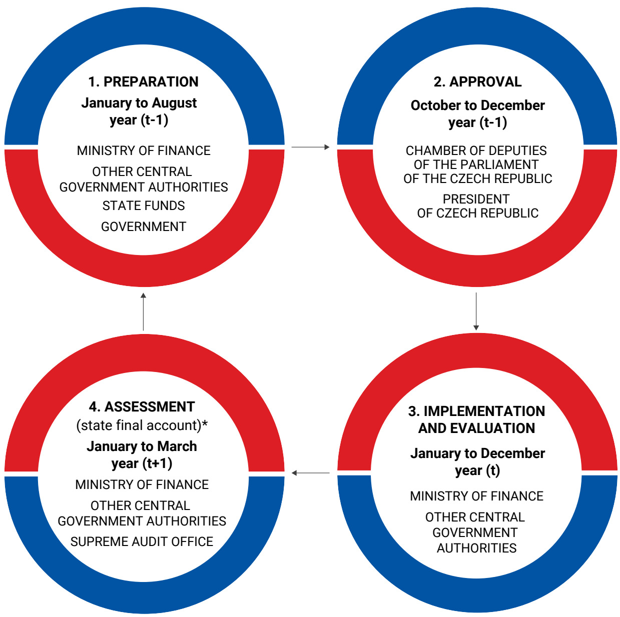
— Financial relationship between the state budget and the budget of the City of Prague, including the total amount of contributions (Annex 7)

— Procedure for determining the amount of the contribution for the performance of state administration to individual municipalities and the City of Prague (Annex No. 8)

THE BUDGET CYCLE AND ITS PHASES

The budget cycle covers the period from the start of the budget preparation to the final evaluation of the results of the financial year. Within the binding deadlines set for both the preparation and the evaluation of the economic results, this period is more than 2 years.

BUDGET CYCLE CAN BE DIVIDED INTO 4 PARTS:



* The definitive end and conclusion of the budget cycle is determined by the discussion of the State Final Account for the respective year in the Chamber of Deputies of the Parliament of the Czech Republic.

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