Ministry of Finance
of the Czech Republic

Fiscal Outlook
of the Czech Republic

November 2024

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Ministry of Finance of the Czech Republic
Economic Policy Department
Letenská 15, 118 10 Prague 1

Tel.: 257 041 111
Fiscal.Outlook@mfcr.cz

ISSN 2570-5695 (on-line)

Issued annually, free distribution

Electronic archive:
http://www.mfcr.cz/FiscalOutlook

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The Fiscal Outlook of the Czech Republic is published by the Economic Policy Department of the MF CR, since 2016 annually, usually in November. It contains forecast of the current and next year (i.e. up to 2025) and also the outlook of some economic indicators to the following 2 years (i.e. up to 2027). The Outlook is available on internet pages of MF CR at:

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List of Abbreviations

c. p. .... current prices
CZK .... Czech koruna currency code
EC .... European Commission
ECB .... European Central Bank
ESA 2010 .... European System of National and Regional Accounts from year 2010
EU, EU27 .... European Union (EU27 coverage)
EUR .... euro currency code
GDP .... gross domestic product
IMF .... International Monetary Fund
MF CR .... Ministry of Finance of the Czech Republic
p. a. .... *per annum* (per year)
pp .... percentage point
s. p. .... constant prices (volumes)

Country codes

AT – Austria, BE – Belgium, BG – Bulgaria, CY – Cyprus, CZ – Czech Republic, DE – Germany, DK – Denmark, EE – Estonia, ES – Spain, FI – Finland, FR – France, GR – Greece, HR – Croatia, HU – Hungary, IE – Ireland, IT – Italy, LT – Lithuania, LU – Luxembourg, LV – Latvia, MT – Malta, NL – Netherlands, PL – Poland, PT – Portugal, RO – Romania, SE – Sweden, SI – Slovenia, SK – Slovakia

Symbols Used in Tables

A dash (–) in place of number indicates that the phenomenon did not occur or is not possible for logical reasons.

Cut-off Date for Data Sources

Macroeconomic data used pertain to the 31 October 2024 release, fiscal data to the 1 November 2024 release, international comparison to the 22 October 2024 release and government bond yields to the 11 October 2024 release, respectively.

Note

In some cases, published aggregates do not match the sum of individual items to the last decimal point due to rounding. “Billion” means a thousand million.

Introduction and Summary

The last few years have brought several difficult challenges for the Czech national economy and public finances. First, the global pandemic, which necessitated a number of restrictive measures and contributed to the economic downturn. Then, at the beginning of 2022, the military conflict in Ukraine broke out in full force, the consequences of which hit the European economy in particular, including the Czech economy. Increased market volatility and significantly higher energy prices halted the economic recovery and led to a stagnation of the Czech economy in 2023. Economic growth is already resuming in 2024. The economy could grow by 1.1% this year, accelerate to 2.5% in 2025 and virtually keep this momentum in the outlook years.

The weaker economic performance, high inflation and the Government's proactive measures have had an impact on public finances. Measures of a temporary nature total almost CZK 350 billion. However, on top of this, there were permanent changes that have led to a deterioration in the structural balance. Among the most significant were adjustments in the area of the personal income tax and the significant increase in pension benefits due, among other reasons, to high inflation. In response to the permanent deterioration of the public finances, the Government came up with a set of more than 60 measures in the form of a consolidation package. This had the ambition to reduce the structural deficit by more than 1 percentage point. The structural deficit should fall below 2% of GDP in 2026, in line with the Fiscal Responsibility Rules Act, and then be further reduced to 1% of GDP in 2028.

Public finances in the Czech Republic are strongly influenced by the results of the state budget. It reflects the vast majority of the fiscal impact of past crises, including compensation and assistance to other parts of the public budgets. For this year, however, we expect the general government balance to meet the Stability and Growth Pact benchmark for the first time since 2019, falling below the 3% of GDP deficit to 2.8% of GDP. The deficit is then expected to narrow further to 2.3% of GDP in 2025. The expected outcomes in both years take into account, among other things, growth in defence spending in line with the statutory requirement of at least 2% of GDP, an increase in investment in transport infrastructure, as well as the cost of repairing the damage caused by the floods in September this year.

The expenditure framework for 2025 originally allowed the Government to draft the state budget and state funds with a deficit of CZK 231 billion. This space was fully used for the state budget deficit, which was then increased by an additional CZK 10 billion in September under the provisions of the Budgetary Rules Act due to a natural disaster. The final state budget deficit for next year is therefore CZK 241 billion.

Government deficits will be mirrored in the level of debt, which could rise by more than 2 percentage points during 2024 and 2025. However, by the end of 2026, the debt ratio is expected to peak at around 45% of GDP.

In terms of its setting, fiscal policy should be restrictive in the coming years. The structural deficit of 2.1% of GDP for this year is in line with the fiscal rule set by the Fiscal Responsibility Rules Act, which prescribes a structural deficit of no more than 2.75% of GDP. Over the next years, the Act imposes a gradual reduction of this ceiling, with a structural deficit of no more than 1.25% of GDP in 2027.

In terms of the medium- and long-term development of finances, the Government has prepared several important measures in the area of pensions which were submitted to the Parliament of the Czech Republic in two waves. The first part included changes mainly in early pension scheme and the indexation system. The second part, currently under discussion in the Chamber of Deputies, focuses, among other things, on adjustments to the statutory retirement age and the setting of the calculation of newly granted pensions.

The completion of the process of economic governance reform in the European Union, with implications for national legislation, is also linked to the longer horizon and the sustainability of public finances. Therefore, the Fiscal Outlook focuses in a thematic chapter on the most significant changes, which undoubtedly include coordination, adjustment of fiscal surveillance and enforcement of fiscal rules. The setting of budgetary and fiscal policy in the countries of the European Union is now determined by the analysis of medium-term debt sustainability. Only one operational indicator – the dynamics of adjusted public expenditure – is used to achieve fiscal goals. The indicator is defined as total public expenditure that is adjusted for debt service expenditure, projects co-financed by the European Union, the effects of the business cycle on unemployment benefits, but also net of discretionary or one-off revenue measures. The "net expenditure path", as the regulation calls the series with the percentage year-on-year change in adjusted expenditure, is approved by the Council of the European Union for each country in the framework of the so-called national medium-term fiscal and structural plans. These plans replace convergence or stability programmes as well as national reform programmes. They describe measures to respond to recommendations on possible macroeconomic imbalances and indicate what reforms and investments the country will make to address its own structural problems along with the common priorities of the European Union.

1 Macroeconomic Framework of the Fiscal Forecast

The macroeconomic framework of the fiscal forecast is based on a scenario in which neither the ongoing war in Ukraine nor the tensions in the Middle East lead to sustained increases in world commodity price. Furthermore, it assumes that the significant reduction of natural gas and oil imports from Russia to the EU remains replaced by a combination of increased supplies from other countries (including liquefied natural gas), energy savings and the use of alternative technologies. Supply chains should already be functioning without major problems over the forecast horizon, and no significant tariff increases beyond those already announced are foreseen in EU-China trade.

According to the preliminary estimate of the Czech Statistical Office, **real gross domestic product** of the Czech Republic, adjusted for seasonal and calendar effects, increased by 0.3% quarter-on-quarter and by 1.3% year-on-year in Q3 2024. In Q2 2024, for which detailed data on the structure of growth are available, GDP grew by 0.9% year-on-year (unadjusted).

GDP could increase by 1.1% in 2024, mainly on the back of renewed growth in household consumption. The external trade balance is also expected to provide a significant boost to the economy, mainly due to weaker dynamics of import-intensive investment demand and expected inventory developments. In 2025, the Czech economy could grow by 2.5% thanks to stronger consumption and investment and more favourable economic developments abroad, but a more robust recovery in domestic demand will also support imports. The economy could grow at a similar pace in the following years, driven by domestic demand.

Real **household consumption** could increase by 1.9% this year and by 3.7% in 2025. Real household incomes should rise given the decline in inflation and persistent labour market tightness, but private consumption may be slightly dampened by the consolidation package. Households' willingness to spend should also gradually increase – the savings rate could start to decline this year, but the decrease will initially be held back by lower-income households' efforts to rebuild their financial buffers. The decline in the savings rate should stimulate household consumption more significantly only in 2025, but the savings rate should remain well above the long-term pre-pandemic average. Interest rate cuts should also contribute to the fall in the savings rate this year and next, although the incentive to save will still be relatively strong at the beginning of the forecast horizon given the level of interest rates. In subsequent years, household consumption growth could slow slightly to 3.1% in 2026 and 2.5% in 2027.

Gross fixed capital formation is expected to grow by 0.9% in 2024. Private investment is supported by monetary easing, while persistent problems in euro area countries are dampening it. At the same time, the transition to the new financial perspective of EU funds is having an impact, primarily on general government investment. For next year, thanks to the economic recovery in the euro area and the growth in government spending supported by EU funding from the Recovery and Resilience Facility, we expect gross fixed capital formation to increase by 3.6%. The macroeconomic framework also foresees relatively strong growth rates of around 3.5% for 2026 and 2027. From 2025 onwards, investment activity will be positively influenced by onsemi's planned investment in chip production and, from 2026 onwards, it should also be supported more significantly by expenditure related to the construction of new nuclear power plant units.

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

After three years, annual **inflation** has reached the Czech National Bank's 2% inflation target at the beginning of this year and should remain close to it throughout the forecast horizon except for the very end of this year. Inflationary external supply factors have weakened considerably and domestic demand pressures are further dampened by higher monetary policy rates, with the restrictive effects of the fiscal consolidation package also contributing this year. The average inflation rate could thus fall to 2.4% this year and further to 2.3% in 2025. Over the outlook horizon, annual inflation should remain close to 2%.

Labour market imbalances related to labour shortages continue to manifest themselves. Despite the weak economic dynamics, the unemployment rate could remain at 2.6% in 2024, before declining slightly in the following years due to economic growth. Employment (national accounts) is expected to increase moderately year-on-year until 2026, given the continued strong demand for labour. However, it could decline in 2027 due to unfavourable demographic developments, while the labour market effects of the decline in the working-age population will be cushioned by a continued increase in the participation rate. Persistent labour market imbalances will not allow a significant slowdown in nominal wage growth. Earnings will also rise in real terms after two years of decline. Wages and salaries could increase by 6.2% this year and 6.3% in 2025, with growth slowing to around 5% in the following years.

The negative output gap, which has been around 2% below **potential output** in recent quarters, should

gradually close as the economy recovers. From 2026, the output gap could return to positive territory and widen gradually. Potential growth could be close to 1.5% over the full horizon of the Fiscal Outlook. Its dynamics should be driven by investment activity and an increase in the trend component of total factor productivity, with the production factor of labour having virtually neutral contribution.

The macroeconomic framework of the fiscal forecast is subject to a number of **risks** that, taken together, we consider to be **skewed to the downside**. Economic activity in some sectors of the economy may be dampened by renewed problems in supply chains, e.g. in the context of the situation in the Middle East. In addition to the negative impact on economic output, renewed supply-side problems would create additional inflationary pressures. These could also be triggered by an increase in energy commodity prices in the event of an escalation of geopolitical tensions, or by the introduction or increase in tariffs or other barriers to foreign trade. Given the strong trade links between the Czech and German economies, we also consider structural problems and weak economic growth in Germany to be a downside risk to the forecast. The persistence of high price growth in services and the level of inflation expectations are also risks for the Czech economy. Economic growth is supported by the participation of refugees from Ukraine in the labour market, and the full use of their human capital could boost labour productivity.

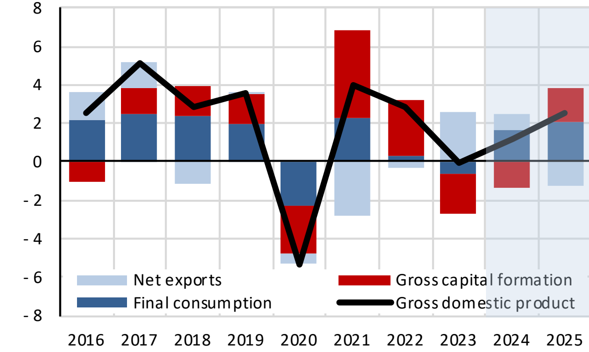
Table 1.1: Comparison of Fiscal Outlook and Convergence Programme Scenarios

			Fiscal Outlook (November 2024)				Convergence Programme (April 2024)				
		2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
External Assumptions											
Real GDP in EU	*change in %*	**0.5**	**0.9**	**1.4**	**1.6**	**1.5**	**0.5**	**0.7**	**1.6**	**1.6**	**1.5**
Prices of oil (Brent)	*USD/barrel*	**82.4**	**80.5**	**72.3**	**71.2**	**70.8**	82.4	83.8	78.4	74.7	72.2
Exchange rate USD/EUR	*USD/EUR*	**1.08**	**1.09**	**1.09**	**1.11**	**1.13**	1.08	1.09	1.11	1.13	1.14
Exchange rate CZK/EUR	*CZK/EUR*	**24.0**	**25.1**	**24.9**	**24.5**	**24.0**	24.0	25.1	24.7	24.3	23.9
Real Values											
GDP	*change in %*	**-0.1**	**1.1**	**2.5**	**2.6**	**2.6**	**-0.3**	**1.4**	**2.6**	**2.4**	**2.5**
Households consumption	*change in %*	-2.8	1.9	3.7	3.1	2.5	-3.1	2.7	3.5	2.9	2.5
Government consumption	*change in %*	3.5	3.7	1.8	1.2	1.8	3.5	1.6	2.2	2.0	1.6
Gross fixed capital formation	*change in %*	2.5	0.9	3.6	3.5	3.3	4.0	2.2	2.4	2.6	2.2
Contribution of final domestic demand	*p.p.*	0.0	1.9	3.1	2.6	2.4	0.3	2.1	2.7	2.4	2.1
Contribution of foreign trade	*p.p.*	2.6	0.9	-1.3	-0.6	-0.3	2.6	0.2	0.4	0.2	0.3
Output gap	*%*	**-1.0**	**-2.1**	**-0.9**	**0.3**	**1.1**	**-1.3**	**-1.6**	**-0.4**	**0.5**	**1.1**
Others											
Nominal GDP	*CZK bn*	**7619**	**7988**	**8410**	**8830**	**9256**	**7344**	**7657**	**8032**	**8391**	**8765**
Harmonised index of consumer prices	*change in %*	**12.0**	**2.7**	**2.3**	**2.1**	**2.0**	12.0	2.7	2.4	2.0	2.0
Employment	*change in %*	**1.0**	**0.3**	**0.2**	**0.1**	**-0.2**	0.8	0.4	0.2	0.1	-0.2
Unemployment rate	*%*	**2.6**	**2.6**	**2.5**	**2.4**	**2.4**	2.6	2.8	2.7	2.6	2.6
Wages and salaries	*change in %*	**7.7**	**6.2**	**6.3**	**5.2**	**4.7**	7.9	6.8	5.5	4.7	4.6
General Government											
Revenue	*% of GDP*	**40.1**	**40.6**	**40.5**	**39.9**	**39.0**	**41.7**	**42.0**	**41.8**	**41.6**	**40.9**
Value-added tax	*change in %*	6.7	2.8	6.1	4.3	3.3	6.7	4.2	5.8	4.4	3.4
Excise taxes	*change in %*	-0.3	6.3	1.7	1.3	1.7	-0.3	6.4	1.9	1.3	1.3
Personal income tax	*change in %*	14.3	11.2	4.8	4.2	4.4	14.9	7.1	4.1	4.9	4.9
Corporate income tax	*change in %*	12.7	6.7	4.2	-4.4	7.4	19.1	-1.1	-0.2	0.1	7.3
Social security contributions	*change in %*	7.8	8.8	6.1	5.2	4.4	7.8	8.9	5.3	4.7	4.3
Expenditure	*% of GDP*	**43.9**	**43.4**	**42.8**	**41.5**	**40.4**	**45.4**	**44.3**	**43.9**	**43.2**	**42.1**
Compensation of employees	*change in %*	6.9	4.3	6.0	4.9	4.5	7.0	3.5	4.5	4.0	4.5
Intermediate consumption	*change in %*	9.8	9.0	3.6	0.7	3.4	10.0	4.8	5.0	3.5	3.5
Social transfers in kind	*change in %*	14.2	12.1	5.2	3.8	4.0	12.1	6.5	4.0	3.8	4.0
Social benefits other than in kind	*change in %*	10.5	5.5	2.2	2.1	2.3	10.5	5.1	2.4	2.7	2.0
Gross fixed capital formation	*change in %*	15.7	1.8	9.5	0.0	-8.5	16.9	1.8	8.2	1.2	-8.5
Balance	*% of GDP*	**-3.8**	**-2.8**	**-2.3**	**-1.7**	**-1.4**	**-3.7**	**-2.3**	**-2.1**	**-1.6**	**-1.2**
Structural balance	*% of GDP*	**-2.6**	**-2.1**	**-2.0**	**-1.7**	**-1.7**	**-2.4**	**-2.0**	**-2.0**	**-1.7**	**-1.6**
Debt	*% of GDP*	**42.4**	**43.9**	**44.8**	**45.3**	**45.1**	**44.0**	**45.5**	**46.4**	**47.1**	**47.0**

Source: MF CR (2024a, 2024b).

Graph 1.1: Real GDP

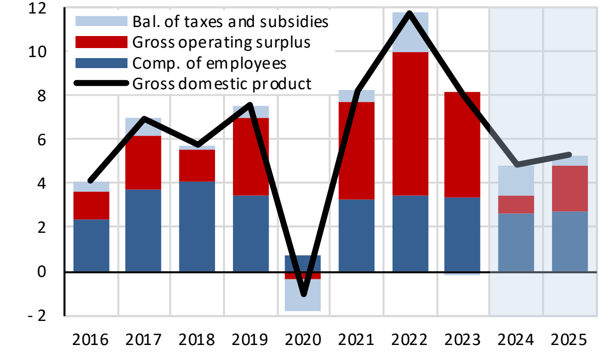
real GDP change in %, contributions in pp



Source: MF CR (2024b).

Graph 1.2: Nominal GDP – Income Approach

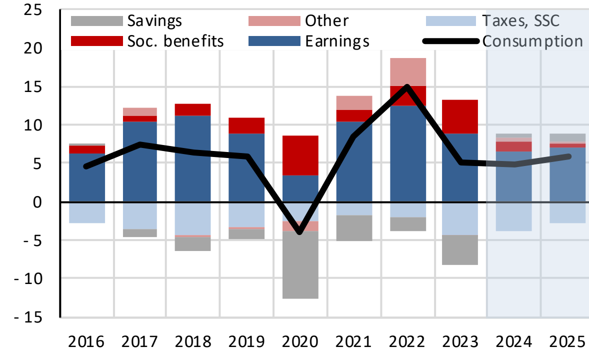
nominal GDP change in %, contributions in pp



Source: MF CR (2024b).

Graph 1.3: Nominal Households Consumption

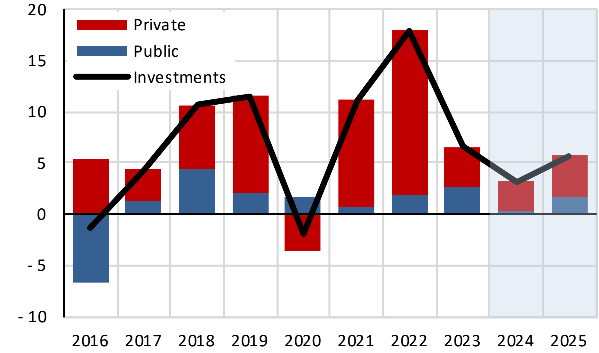
change of nominal households consumption in %, contributions in pp



Source: MF CR (2024b).

Graph 1.4: Nominal Investments

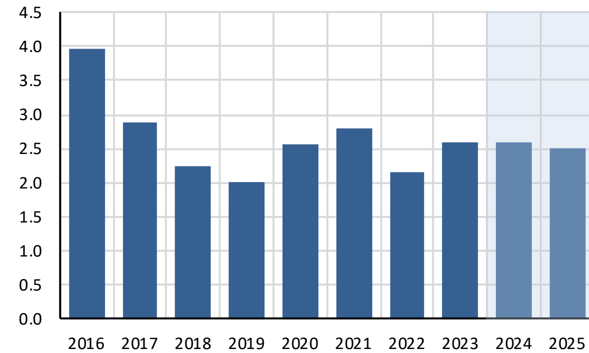
change of nominal investments in %, contributions in pp



Source: MF CR (2024b).

Graph 1.5: Unemployment Rate

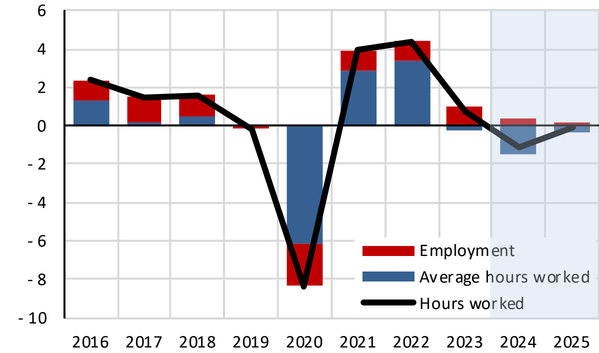
% of labour force, Labour Force Survey methodology



Source: MF CR (2024b).

Graph 1.6: Hours Worked

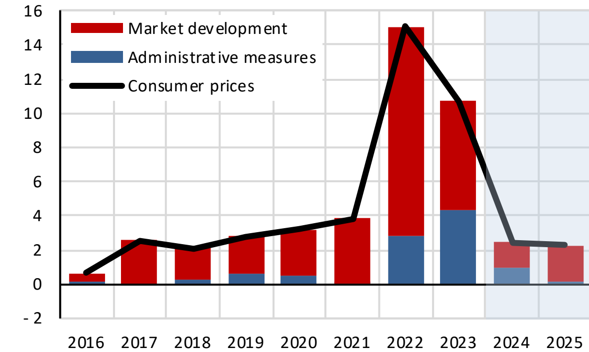
change in %, contributions in pp, National Accounts methodology



Source: MF CR (2024b).

Graph 1.7: Consumer Prices

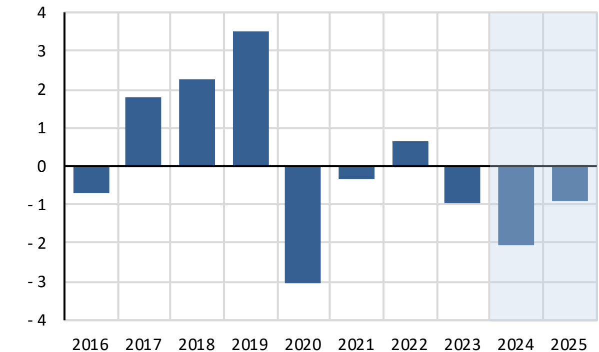
average rate of consumer price inflation in %, contributions in pp



Source: MF CR (2024b).

Graph 1.8: Output Gap

% of potential product



Source: MF CR (2024b).

2 General Government Development

The general government sector has been running deficits in excess of the Treaty on the Functioning of the European Union reference value of 3% of GDP since 2020, as a result of measures taken on both the revenue and expenditure side during the covid-19 pandemic, followed by policies in response to the war in Ukraine, primarily related to energy prices and high inflation. The adoption of the consolidation package is expected to bring the deficit below 3% of GDP in 2024. However, the end of one-off measures that negatively affected last year's outturn also plays a role in the development of the general government balance.

Further reduction of public deficits is required not only by the Fiscal Responsibility Rules Act but also by the rules of the reformed Stability and Growth Pact. Both requirements are consistent with each other and a structural deficit of no more than 1% of GDP or a primary structural surplus of 0.4% of GDP should be achieved by 2028. However, a set of further consolidation measures will be needed to achieve them, at the latest for the 2027 budget.

The Fiscal Outlook forecast envisages a gradual reduction of the general government deficit to 1.4% of GDP in 2027. The balance should fall below the **Maastricht criterion** and the **Stability and Growth Pact** reference value for excessive deficit in 2024. The September 2024 floods, which necessitated an amendment to the 2024 state budget law increasing the deficit by CZK 30 billion and an extraordinary increase in the 2025 expenditure framework by CZK 10 billion, will affect the deficits in this year and next. However, according to the national methodology, measures related to the recovery from major natural disasters should be classified as one-off.

It is the state budget that carries the burden of the deficit management of public finances, and it is by far the most affected by the stabilisation function of economic policy and fiscal expansions in times of economic downturns and crises. Consolidation of public finances therefore focuses primarily on its revenue and expenditure. Other entities within the central government generally operate in balance or with slight surpluses. Deficit of central government institutions with a dominant share of the state budget should be cushioned by surplus balances of local governments. While health insurance companies have mostly been running deficits in recent years (since 2020, slight surplus recorded only in 2022), we expect expenditure dynamics to slow down relative to forecasted revenues in the period ahead and ensure the medium-term sustainability of the health sector. Both components of public finances have received significant compensations over the past years at the expense of the state budget to mitigate the negative impact of the recession and support measures on their performance. For local governments, the surplus rose to almost 1% of GDP in 2021, where it remained in subsequent years. In relative terms, we expect a slight reduction in positive balances for the period ahead, driven by deferred spending in times of high inflation, the transition to the new financial perspective for EU co-financed projects, as well as spending related to flood damage repair. However, these surpluses are still significant and comparable to the "pre-pandemic" period.

The Government has also prepared a set of measures that, while not having a large direct impact on the economy in the medium term, significantly improve the long-term sustainability of public finances. These include first and foremost the pension reform (see Chapter 4), which should significantly reduce future deficits in the pension system and hence in public finances as a whole.

Table 2.1: Fiscal Policy Stance

in % of GDP, fiscal effort in pp

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
							Forecast	*Forecast*	*Outlook*	*Outlook*
General government balance	**0.9**	**0.3**	**-5.6**	**-5.0**	**-3.1**	**-3.8**	**-2.8**	**-2.3**	**-1.7**	**-1.4**
Cyclical component according to OECD method	0.8	1.2	-1.1	-0.1	0.2	-0.3	-0.7	-0.3	0.1	0.4
One-off and other temporary measures	-0.1	0.0	-2.2	-1.5	-0.8	-0.8	0.1	0.1	0.0	0.0
Structural balance according to OECD method	0.2	-0.9	-2.3	-3.3	-2.4	-2.6	-2.1	-2.0	-1.7	-1.7
Fiscal effort according to OECD method	**-0.7**	**-1.1**	**-1.4**	**-1.0**	**0.9**	**-0.2**	**0.5**	**0.1**	**0.3**	**0.0**
Cyclical component according to ECB method	1.2	1.9	-0.5	0.1	-0.4	-0.7	-0.5	0.0	0.4	0.7
Structural balance according to ECB method	-0.3	-1.6	-3.0	-3.6	-1.8	-2.3	-2.3	-2.3	-2.0	-2.1
Fiscal effort according to ECB method	**-1.1**	**-1.3**	**-1.4**	**-0.6**	**1.8**	**-0.5**	**0.0**	**0.0**	**0.3**	**-0.1**

Note: The method of Organisation of Economic Co-operation and Development calculates the cyclical component directly from output gap, whereas the European Central Bank models the cyclical development of specific macroeconomic bases (compensation of employees in the private sector, wages in the private sector, net operating surplus, consumption of households and unemployment). These bases have different cyclical behaviour than the GDP.

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

2.1 Balance, Structural Balance and Expenditure Frameworks

The general government sector is expected to end 2024 with a deficit of 2.8% of GDP. The approval of a set of measures as part of the **consolidation package** has contributed to a significant improvement in the budget performance compared to 2023. Adjusted for the impact of the business cycle and one-offs, mainly reflecting the 2024 flood relief, humanitarian aid to Ukrainian refugees and relief to firms due to high energy prices, we estimate a structural deficit of 2.1% of GDP.

The originally planned **state budget** deficit of CZK 252 billion includes the cost of previous strong pension indexations and the increase in defence spending to fulfil the NATO commitment. As a result of dealing with the September floods, the state budget deficit was increased by CZK 30 billion to CZK 282 billion. Health insurance companies are also likely to report a slight deficit this year. On the other hand, local governments will again show a positive balance.

In addition to the quarterly national accounts data for first half of the year, the estimate of the accrual results this year is also based on the cash performance of key parts of the public budgets to date. The cash balance of the state budget for the first 10 months of the year ended with a deficit of CZK 200.7 billion (MF CR, 2024c). Adjusted for EU funds and financial mechanisms, the deficit was CZK 199.7 billion. The surplus of local governments at the end of September reached CZK 78.6 billion, CZK 1.3 billion more than last year. Health insurance companies ended the same period with a deficit of CZK 5.3 billion, a year-on-year deterioration of almost CZK 1.5 billion (MF CR, 2024d).

State budget deficit should be key to the overall public finance balance in the years ahead. For 2025, the Chamber of Deputies approved the state budget deficit of CZK 241 billion at the first reading (Chamber of Deputies Print No. 805). The Government's priorities in terms of supporting investment in transport infrastructure, increased funding for education, science and defence, including covering the consequences of the September floods, were taken into account when drawing up the state budget. The medium-term budgetary outlook foresees a CZK 225 billion deficit in the state budget in 2026 and a CZK 180 billion deficit in 2027 (Chamber of Deputies Print No. 806). By contrast, local governments should have positive balances of around 0.7% of GDP over the entire outlook horizon, with slight surpluses also supposed for social security funds. The general government deficit should thus fall to 2.3% of GDP in 2025, gradually improving to 1.4% of GDP in 2027.

The setting of the state budget and the budgets of state funds is based on Fiscal Responsibility Rules Act. It prescribes a maximum level of structural deficits for the purposes of the **expenditure frameworks** of the state budget and state funds with respect to the performance of other public entities. In order to gradually return from the loosened rules during the pandemic to structural deficits limited to 1% of GDP, specific values of structural deficits were confirmed by the Act No. 349/2023 Coll. for the years 2024 to 2027. Thus, the expenditure framework for 2024 is based on a structural deficit of 2.75% of GDP and thereafter the structural deficit is reduced by 0.5 pp each year until it reaches 1% of GDP, i.e. in 2028 at the latest.

We estimate that the **structural deficit** will reach 2.0% of GDP in 2025, before decreasing to 1.7% of GDP in 2026 and 2027. The year-on-year improvement in 2025 is primarily due to the consolidation package, and we expect continued consolidation in 2026. However, further consolidation beyond the current outlook of around 0.5 percentage points in 2027 will be needed to comply with the limits set by law.

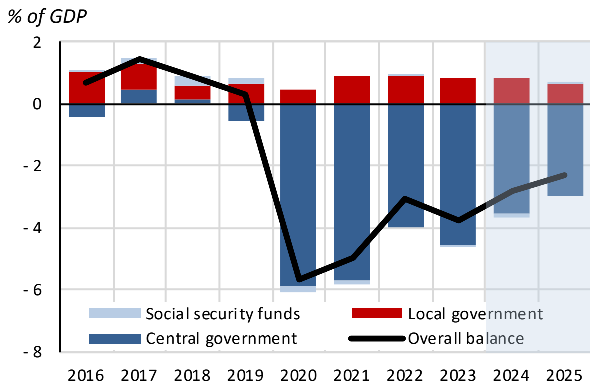
We expect the **fiscal impulse**, which quantifies the impact of fiscal policy on the economy, to be negative this year and exceeding the level of fiscal effort. The reason is mainly the winding down of one-off expenditures affecting the fiscal impulse, i.e. not the structural balances, or their year-on-year difference referred to as fiscal effort. This was mainly in support of households and businesses affected by energy price hike. In 2025, we forecast a very slightly positive fiscal impulse, despite the consolidation effort, as we expect mainly an increase in EU co-financed investment (its revenue counterpart does not affect the impulse). In 2026, we forecast a neutral impulse.

Table 2.1.1: General Government Development

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Total revenue	*% of GDP*	**41.0**	**40.7**	**40.6**	**40.1**	**39.9**	**40.1**	**40.6**	**40.5**	**39.9**	**39.0**
	change in %	8.6	6.6	-1.2	6.8	11.3	8.6	6.1	5.0	3.4	2.7
Total expenditure	*% of GDP*	**40.1**	**40.4**	**46.3**	**45.0**	**43.0**	**43.9**	**43.4**	**42.8**	**41.5**	**40.4**
	change in %	10.3	8.2	13.4	5.4	6.7	10.3	3.6	3.8	2.0	2.1
General government balance	*% of GDP*	**0.9**	**0.3**	**-5.6**	**-5.0**	**-3.1**	**-3.8**	**-2.8**	**-2.3**	**-1.7**	**-1.4**
Central government	*% of GDP*	0.1	-0.5	-5.9	-5.7	-4.0	-4.6	-3.5	-2.9	-2.3	-2.1
Local governments	*% of GDP*	0.4	0.6	0.5	0.9	0.9	0.8	0.9	0.7	0.7	0.7
Social security funds	*% of GDP*	0.3	0.2	-0.2	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0

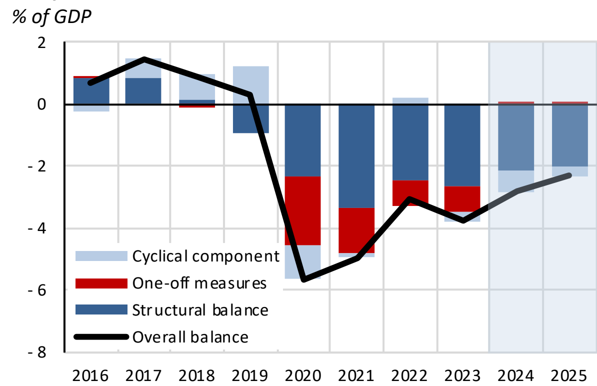
Source: CZSO (2024a, 2024b). Forecast and calculations by MF CR.

Graph 2.1.1: General Government Balance
% of GDP



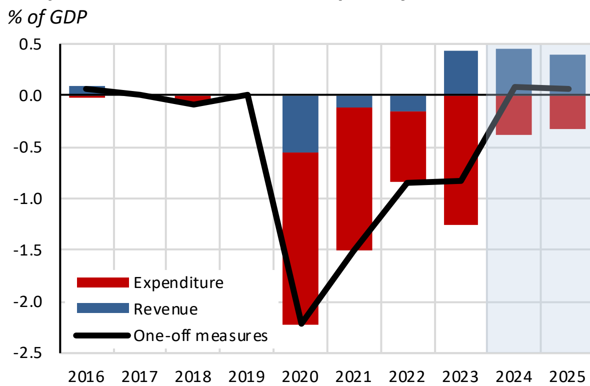
Source: CZSO (2024a, 2024b). MF CR forecast.

Graph 2.1.2: Overall and Structural Balance
% of GDP



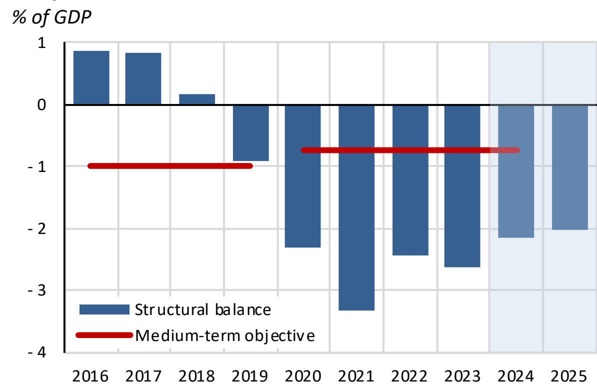
Source: CZSO (2024a, 2024b). MF CR calculations and forecast.

Graph 2.1.3: One-off and Temporary Measures
% of GDP



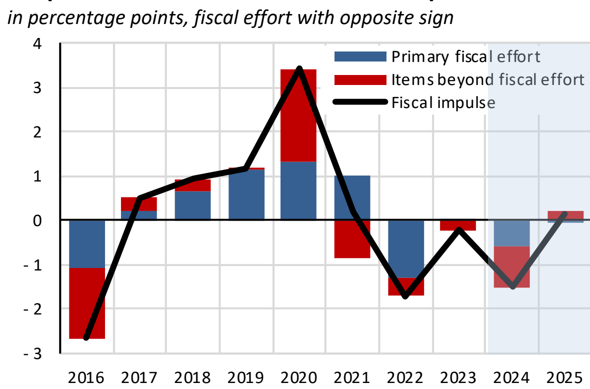
Source: MF CR.

Graph 2.1.4: Structural Balance and MTO
% of GDP



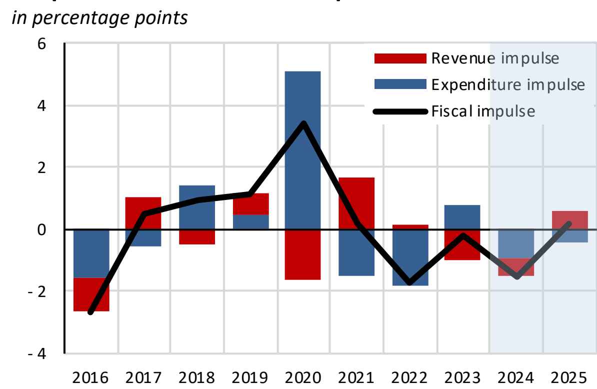
Source: MF CR.

Graph 2.1.5: Fiscal Effort and Fiscal Impulse
in percentage points, fiscal effort with opposite sign



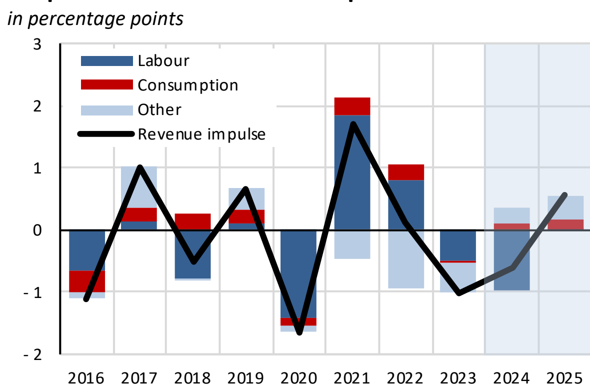
Source: MF CR.

Graph 2.1.6: Overall Fiscal Impulse
in percentage points



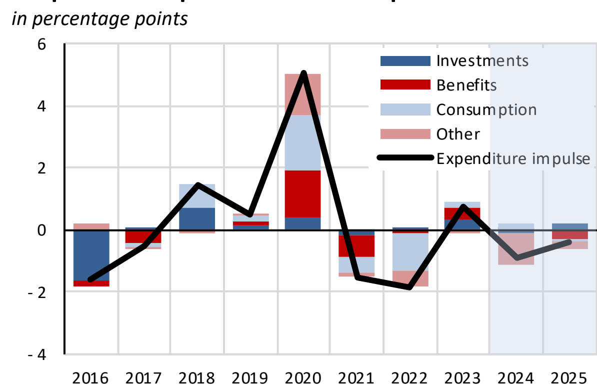
Source: MF CR.

Graph 2.1.7: Revenue Fiscal Impulse
in percentage points



Source: MF CR.

Graph 2.1.8: Expenditure Fiscal Impulse
in percentage points



Source: MF CR.

2.2 General Government Revenue

Total **general government revenue** is projected to grow by more than 6% to reach 40.6% of GDP in 2024. The projected 7.8% growth in tax and social security contributions (Graph 2.2.2), combined with the expected rate of nominal GDP, will lead to an increase in the tax quota by almost 1 pp to 34.9% of GDP (Graph 2.2.1). In the following years, we foresee a gradual slowdown in the dynamics of total revenue, which in relative terms should even fall to around 39% of GDP in 2027.

The expected growth in the wage bill in the economy determines the **personal income tax** revenue, which is positively affected this year by the consolidation package (Act No. 349/2023 Coll.). Its estimated contribution of more than CZK 8 billion to tax revenue stems mainly from the shift of the threshold for applying the 23% tax rate to 36 times the average wage (48 times until 2024), the limitation of the tax credit only for a spouse caring for a child under 3 years of age and, last but not least, the abolition of the tax credit for placing a child in a pre-school institution. By contrast, Act No. 462/2023 Coll. provides tax-favourable conditions for retirement savings products, with an impact of approximately CZK 1.7 billion spread over this year and next. The tax dynamics will be hampered by the capital gains tax due to declining interest rates. The result is a slowdown in the growth of the tax yield from over 11% this year to almost 5% in 2025 and further to around 4% in 2026–2027.

Social security contributions are also based on earnings. We estimate growth of 8.8% for 2024, which should gradually slow down to 4–5% in 2027. In connection with the automatic indexation of the payment for the state-insured persons, which reflects the growth of consumer prices and real wages (Act No. 260/2022 Coll.), we presume the revenues of health insurance companies to rise by more than CZK 13 billion this year. In the outlook years, the increase will not be so significant. The measures of the consolidation package are expected to bring in over CZK 17 billion this year, of which the largest fiscal impact is related to the reintroduction of the 0.6% sickness insurance for employees (CZK 12.3 billion) and the increase in levies on the self-employed (CZK 4.5 billion). The additional benefit of the package is expected to continue in 2025 and 2026, especially in view of the gradual increase levies for the self-employed, amounting to CZK 3–4 billion each time. On the other hand, the introduction of the so-called long-term investment product and its tax advantage as an incentive to save for retirement should be associated with a negative impact of CZK 0.6 billion in 2025 (Act No. 462/2023 Coll.).

In the case of **corporate income tax**, we expect revenue growth of 6.7% this year and more than 4% next year. The slowing dynamics is due to the declining windfall profits tax revenue, which will be fully reflected in the year-on-year decline in corporate tax in 2026 (Act No. 366/2022 Coll.) as this extraordinary taxation comes to an end. Conversely, a 2pp increase in the tax rate is expected to raise over CZK 21 billion in 2024 (Act No. 349/2023). The **top-up tax** ensuring a minimum level of taxation for large multinational and domestic groups, is forecast to increase year-on-year tax revenue by an estimated CZK 1 billion each in 2024 and 2025 (Act No. 416/2023 Coll.). A deepening negative effect shows the exemption of income from government bonds, which will reduce this year's tax revenue by almost CZK 3 billion year-on-year and by a further CZK 1.3 billion each year in the following two years.

Value-added tax revenue could increase by 2.8% this year. Its dynamics will be negatively affected by the measures of the consolidation package, which unified the reduced tax rates 10% and 15% to 12% and, at the same time, shifted some goods and services between rates (impact of CZK −3.7 billion). On the other hand, value-added tax revenue is expected to increase due to the increase in excise duties (CZK 1 billion in 2024 and another CZK 0.7 billion in 2025). The draft of amendment of the Value-Added Tax Act (Chamber of Deputies Print No. 726) addresses, among other things, adjustments in the area of bad debts or financial services, with a resulting expected negative impact of up to CZK 2 billion in 2025, which is likely to deepen further by up to CZK 1 billion in both 2026 and 2027. The rate of growth of the tax shall reach 6.1% in the next year and gradually slow down in the following years.

The dynamics of **excise duties** as defined by the national legislation should exceed 6% this year, and slow down to an average of 1.6% per year thereafter. This year's development is due to the low base for mineral oil tax, where the tax rate on diesel was temporarily reduced until July 2023 (CZK 5.6 billion). In addition, the consolidation package increased tax rates on tobacco products (CZK 3 billion) and on alcohol (CZK 1 billion) from this year. The gradual adjustment of tobacco taxation is expected to increase annual revenue by about CZK 2.3 billion in 2025–2027, and in the case of alcohol by an additional CZK 0.5 billion in 2025.

Tax revenue, on the other hand, is dampened by the end of the validity of the **levy on excess revenues** of electricity producers. However, this effect is offset by the end of the across-the-board waiver of **the renewable energy levy** for households and companies, as the aid now applies only to energy-intensive businesses, for which the Government has allocated CZK 3.5 billion.

The introduction of the Excluded Persons Register is expected to have a negative impact on **gambling tax** revenue this year by an additional CZK 0.6 billion and CZK 0.3 billion next year (Act No. 186/2016 Coll.). Among other things, the amendment to the Gambling Act (Act No. 349/2023 Coll.) extended the range of persons subject to enforcement proceedings (revenue shortfall of

approximately CZK 3 billion from 2027). However, as part of the consolidation measures, an increase in the second gambling tax rate from 23% to 30% was approved at the same time, with an expected impact in 2024 (CZK 1.2 billion) and 2025 (another CZK 2.2 billion). The **property tax** also increases revenue from this year onwards (CZK 10 billion), which will be indexed by inflation from 2025. The planned increase in **TV and radio fees** and the extension of the range of payers should bring CZK 1.2 billion to public budgets (Chamber of Deputies Print No. 738). By contrast, the proposed **road tax** adjustment will lead to a reduction in revenue of around CZK 0.4 billion from 2025 (Chamber of Deputies Print No. 784).

Other revenues that will significantly affect the overall growth of the revenue side are mainly **capital transfers** reflecting the start-up of projects co-financed by the EU budget from the 2021–2027 programming period. The EU Next Generation Instrument will also play a substantial role. Its funds drawdown should culminate in 2025. **Dividend** receipts, as well as **interest** on loans granted under the Treasury's liquidity management, are expected to decline significantly this year given the above-average level of 2023, and we assume a declining trajectory for interest until the end of the forecast horizon. The introduction of the fourth component of the toll and the increase in its rates, as well as the increase in the motorway fee and its periodic indexation for inflation, will bring an estimated CZK 2 billion to public budgets in 2024, more than CZK 2 billion in 2025 and additional hundreds of millions in 2026–2027 (Act No. 349/2023 Coll., Government Regulation No. 40/2024 and No. 299/2024 Coll.).

Table 2.2.1: General Government Revenue Outlook

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Total revenue	*CZK bn*	**2245**	**2394**	**2366**	**2528**	**2814**	**3056**	**3243**	**3404**	**3520**	**3614**
	change in %	8.6	6.6	-1.2	6.8	11.3	8.6	6.1	5.0	3.4	2.7
Tax revenue	*CZK bn*	**1106**	**1179**	**1137**	**1174**	**1305**	**1415**	**1513**	**1583**	**1615**	**1681**
	change in %	6.1	6.6	-3.5	3.2	11.2	8.4	6.9	4.6	2.0	4.1
Taxes on production and imports	*CZK bn*	647	688	651	705	767	806	850	890	923	949
	change in %	3.4	6.3	-5.3	8.2	8.8	5.0	5.5	4.7	3.7	2.8
Value added tax	*CZK bn*	409	435	422	464	537	573	589	624	651	673
	change in %	5.4	6.6	-3.0	9.7	15.8	6.7	2.8	6.1	4.3	3.3
Excise taxes	*CZK bn*	165	168	157	162	159	158	168	171	173	176
	change in %	0.8	1.7	-6.4	2.6	-1.8	-0.3	6.3	1.7	1.3	1.7
Current taxes	*CZK bn*	458	491	485	469	538	609	663	694	692	732
	change in %	10.1	7.0	-1.0	-3.5	14.9	13.2	8.9	4.6	-0.3	5.8
Personal income tax	*CZK bn*	261	287	298	228	243	278	309	324	338	352
	change in %	13.8	10.2	3.6	-23.4	6.7	14.3	11.2	4.8	4.2	4.4
Corporate income tax	*CZK bn*	187	192	177	229	284	320	341	356	340	365
	change in %	6.3	2.9	-8.1	29.7	23.8	12.7	6.7	4.2	-4.4	7.4
Social contributions	*CZK bn*	**834**	**895**	**909**	**1 013**	**1 084**	**1 169**	**1 272**	**1 349**	**1 419**	**1 482**
	change in %	9.8	7.3	1.6	11.4	7.0	7.8	8.8	6.1	5.2	4.4
Property income	*CZK bn*	**35**	**32**	**34**	**36**	**76**	**96**	**71**	**61**	**66**	**66**
	change in %	14.3	-7.5	5.6	5.0	112.8	26.0	-26.3	-13.8	7.7	0.6
Other	*CZK bn*	**270**	**288**	**286**	**305**	**349**	**376**	**387**	**411**	**421**	**385**
	change in %	14.9	6.6	-0.7	6.6	14.3	7.8	2.9	6.2	2.5	-8.6
Revenues from the EU	*CZK bn*	60	64	65	67	78	85	85	103	105	60
	change in %	57.5	6.8	2.2	3.2	16.2	9.3	-0.4	21.5	1.2	-42.6
Tax burden	*% of GDP*	**35.4**	**35.2**	**35.1**	**34.7**	**33.9**	**33.9**	**34.9**	**34.9**	**34.4**	**34.2**

Note: Excise taxes are adjusted for subsidies on renewable energy resources.
Source: CZSO (2024b). Forecast and calculations by MF CR.

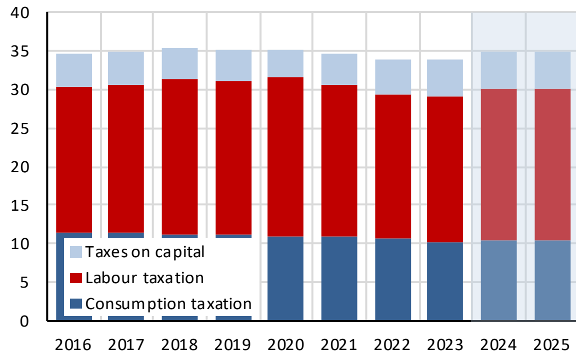
Table 2.2.2: Discretionary Revenue Measures

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Total revenue measures	*CZK bn*	**16.5**	**13.3**	**-30.5**	**-75.3**	**-20.7**	**43.6**	**59.6**	**9.8**	**-27.0**	**-0.3**
Labour taxation	*CZK bn*	13.5	13.6	-21.4	-63.3	-9.4	1.2	24.8	3.1	4.4	-
Taxes on capital	*CZK bn*	0.3	-	-13.7	-2.3	-9.7	53.6	10.1	-3.7	-33.8	1.5
Consumption taxation	*CZK bn*	2.6	-0.3	6.8	-12.0	-1.4	-11.1	22.1	8.4	2.0	-2.1
Other revenue	*CZK bn*	0.1	-	-2.3	2.3	-0.1	-0.2	2.7	1.9	0.4	0.3

Note: Figures represent YoY discretional changes that are stemming from all envisaged and approved measures on revenue side. Positive values mean YoY improvement of a balance.
Source: MF CR.

Graph 2.2.1: Tax Revenue Structure

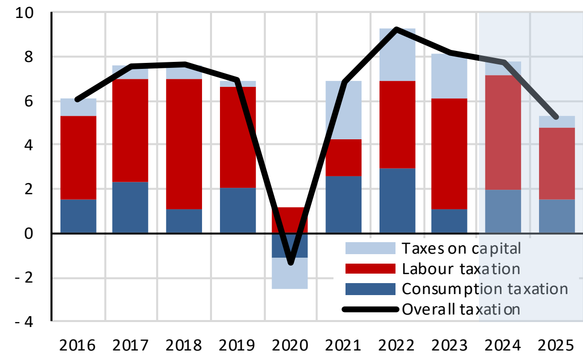
% of GDP



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

Graph 2.2.2: Tax Revenue Development

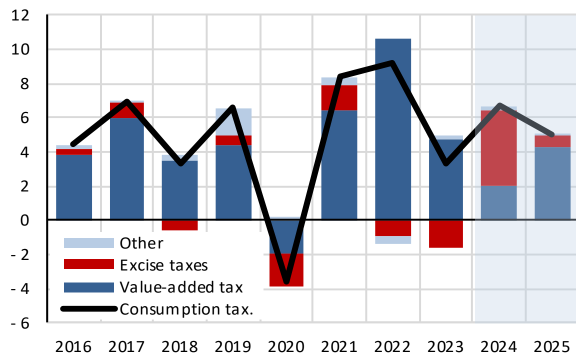
change in %, contributions in percentage points



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

Graph 2.2.3: Taxation of Consumption

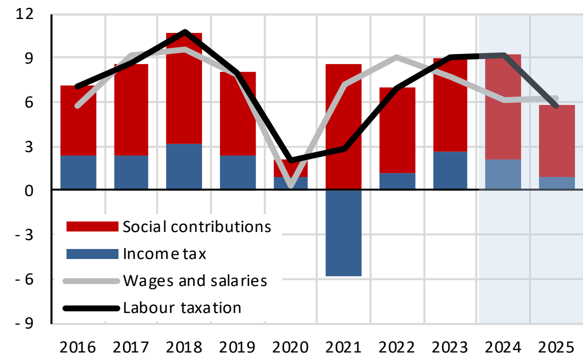
change in %, contributions in percentage points



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

Graph 2.2.4: Taxation of Labour

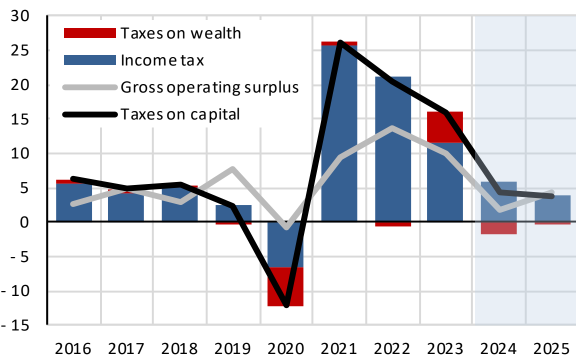
change in %, contributions in percentage points



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

Graph 2.2.5: Taxation of Capital

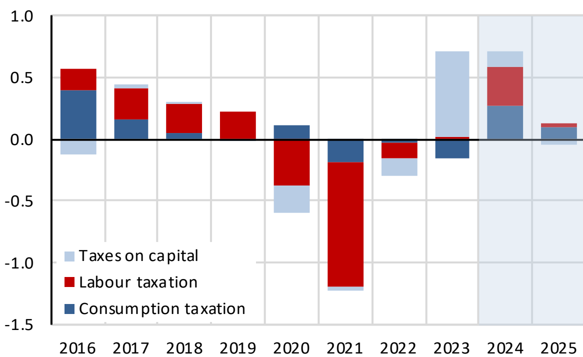
change in %, contributions in percentage points



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

Graph 2.2.6: Discretionary Tax Measures

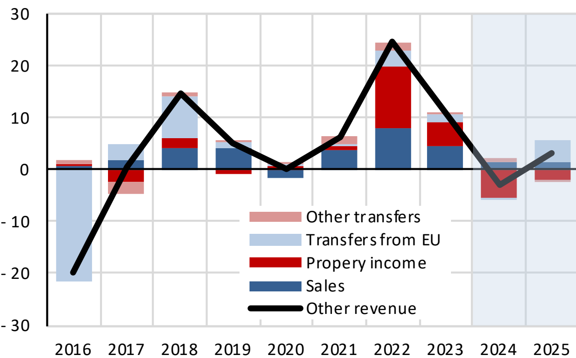
% of GDP



Source: MF CR.

Graph 2.2.7: Other Revenue

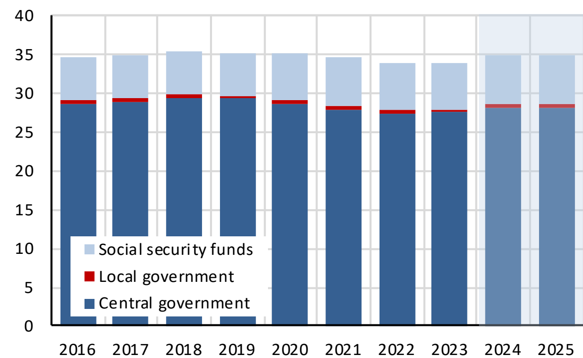
change in %, contributions in percentage points



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

Graph 2.2.8: Tax and Social Revenue by Subsectors

% of GDP



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

2.3 General Government Expenditure

General government expenditure is being held back by the consolidation package this year. Despite growth of 3.6% (Graph 2.3.2), it is expected to fall to 43.4% of GDP in relative terms. We estimate that it will continue on its downward trajectory until the end of the forecast horizon, when it should reach pre-2020 levels (Graph 2.3.1).

The pace of **final consumption expenditure** is expected to slow to 7% this year and to grow by an average of 4.6% in the following years. Despite the 5% savings in each department's operating expenditure this year, **intermediate consumption** should maintain its strong growth due, among other things, to spending on repairing flood-damaged assets. These will boost spending on purchases of goods and services, as well as investment, next year, but given the high base level of 2024, intermediate consumption should show only 3.6% growth (Graph 2.3.8).

We expect a slowdown in **compensation of employees**, which will be significantly lower than in 2023 (see Graph 2.3.3). Consolidation brings savings in the salaries in the estimated amount of CZK 9.4 billion for 2024, of which CZK 4.1 billion is attributable to a 2% reduction in the volume of salaries in the public administration. On the contrary, the growth is pushed up by salaries in the health sector and in education, where an amendment to the Education Act (Act No. 183/2023 Coll.) guarantees that the average teacher's salary will be at least 130% of the average gross wage in the economy. In other areas of the government sector, we consider a lower dynamic. The Government proposes to increase the salaries of constitutional officials, judges and public prosecutors by 6.95% from January 2025 (Chamber of Deputies Print No. 825). As a result, compensation of employees is expected to rise by 6% in 2025. In the outlook years, the rate should remain below 5%, with a substantial impact of salaries linked to the average wage.

Social transfers in kind are likely to maintain their high 12% pace even according to the national accounts data for the first half of this year. They are driven by health care spending, made possible not only by an increase in social security contributions, payments for state-insured persons, but also by the planned deficit of the public health system. In addition, the higher volume of housing benefits persists, but could weaken slightly in the coming years due to rising real earnings. As a result, the dynamics of social transfers in kind should also slow down. We expect them to grow by more than 5% in 2025, followed by a slowdown in the following years in line with expected revenues of health insurance companies and their once again balanced performance.

In recent years, the dynamics of **cash social benefits** (see Graph 2.3.4) has been determined mainly by expenditure on pension benefits, which slowed down by the adjustment of the parameters for the extraordinary indexation of pensions from June 2023 (Act No. 71/2023 Coll.). The standard indexation from January 2024 increased the average pension by CZK 360 per month (Government Regulations No. 286/2023 Coll. and No. 287/2023 Coll.). The measures approved by the amendment to the Pension Insurance Act (Act No. 270/2023 Coll.) should be associated with a positive year-on-year impact of around CZK 2 billion this year. A further CZK 1 billion will be generated by the change in the pension payment period from the so-called moving month to the calendar month and the related abolition of the one-off supplementary payment during the regular indexation in January (Act No. 321/2023 Coll.). As of January 2025, pensions should again be indexed on the basis of the statutory indexation formula, with an increase of CZK 260 in the flat rate component and 0.6% in the earnings-related one (Government Regulations No. 282/2024 and No. 283/2024 Coll.). The dynamics of pension benefits will be influenced in the coming years by the expected increase in the cost-of-living index for pensioners, while real wage growth should not play a role until the end of the outlook horizon. The negative impact associated with the introduction of the so-called childraising allowance should further increase by about CZK 0.5 billion each in the period 2024–2026 (Act No. 323/2021 Coll.).

As part of the pro-family policy, an increase in the parental allowance by CZK 50,000 (CZK 75,000 in the case of multiples) for children born from 1 January 2024 was approved, which will mean an expenditure of CZK 0.4 billion this year, increased by a further CZK 1.5 billion to just under CZK 2 billion in 2025–2027 (Act No. 407/2023 Coll.). The amendment to the Act on Social and Legal Protection of Children brings changes in the area of foster family care, with an impact of CZK 0.5 billion this year and a further CZK 0.5 billion in 2025 (Act No. 242/2024 Coll.).

The humanitarian allowance for Ukrainian refugees, including countable housing costs, will cost the state budget CZK 7.5 billion this year, i.e. CZK 0.5 billion more than in 2023. We presume it to be maintained at a similar level for 2025. Adjustments to the care allowance will require CZK 3.5 billion this year and another CZK 4.2 billion next year (Act No. 164/2024 Coll., Chamber of Deputies Print No. 704). Despite the tightening of the conditions for eligibility for unemployment benefits in the event of re-registration, which should lead to savings of CZK 0.8 billion this year (Act No. 349/2023 Coll.), we are expecting higher expenditure on unemployment benefits, as indicated by the performance of the state budget to date. This year, the funds paid out in connection with the floods will also be reflected in the social sector, specifically in the form of exceptional immediate assistance or exceptional nursing care. As a result of all the factors described above, growth in cash social benefits is expected to be

5.5% in 2024, slowing down to slightly above 2% in the years of the outlook.

Subsidies are expected to fall by almost 25% to 2% of GDP in 2024 due to stabilisation in energy markets and savings. In relative terms, they should continue to decrease further on. We foresee a decrease of CZK 5.4 billion for the accommodation of Ukrainian refugees, with around CZK 1.5 billion to be spent in 2025. The increase in the maximum amount of the allowance to support the employment of people with disabilities increases expenditure by an estimated CZK 1.1 billion from this year (Government Regulation No. 70/2024 Coll.).

The consolidation package should also bring savings in **transfers**, but this will be countered by difficult-to-quantify expenditure on programmes already approved or in the pipeline in connection with the September 2024 floods. The savings on the contribution to the solidarity household housing Ukrainian refugees should amount to CZK 1.2 billion this year. The take-up of the guarantees provided will require an estimated expenditure of CZK 3.4 billion this year. From 2025 onwards, the state budget should save CZK 2 billion as a result of a reduction in the maximum amount of the contribution to building savings (Act No. 349/2023 Coll.).

Investment in fixed assets will be affected by increased spending in transport infrastructure and defence. In the case of EU projects, the National Recovery Plan and the unfolding financial perspective 2021–2027 play a role. Investment is thus expected to increase by 1.8% in 2024 (Graph 2.3.6). Investment activity is mainly driven by central government investment, which grew by 9.4% year-on-year in the first half of 2024, while local government investment fell by 13.1% year-on-year over the same period. Investment in the last quarter of this year and especially in 2025 will be boosted by the recovery of assets following the floods. As a result, the pace of total investment could reach 9.5% next year, with both national and European projects contributing to the growth. A year-on-year stagnation in investment spending in 2026 should be followed by a decrease in 2027 due to the end of the National Recovery Plan. In addition, however, we expect positive growth in national investment over the entire outlook horizon.

Rising public debt and higher interest rates will lead to a further increase in **interest expenditure**, which is expected to reach 1.4% of GDP this year (see Graph 2.3.7). In relative terms, interest expenditure is expected to be in the range of 1.3%–1.4% of GDP until the end of the forecast horizon. This will result from the improving performance of the general government sector and slowing debt dynamics (see Section 2.4 below).

Table 2.3.1: General Government Expenditure

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Total expenditure	*CZK bn*	**2 197**	**2 377**	**2 696**	**2 840**	**3 031**	**3 344**	**3 465**	**3 596**	**3 667**	**3 742**
	change in %	10.3	8.2	13.4	5.4	6.7	10.3	3.6	3.8	2.0	2.1
Compensation of employees	*CZK bn*	521	576	633	676	690	738	770	816	856	894
	change in %	12.8	10.5	10.0	6.8	2.1	6.9	4.3	6.0	4.9	4.5
Intermediate consumption	*CZK bn*	324	339	346	354	394	433	472	489	492	509
	change in %	9.4	4.6	2.1	2.4	11.3	9.8	9.0	3.6	0.7	3.4
Social benefits other than in kind	*CZK bn*	658	709	821	859	937	1 036	1 092	1 117	1 141	1 166
	change in %	5.5	7.7	15.8	4.7	9.1	10.5	5.5	2.2	2.1	2.3
Social transfers in kind	*CZK bn*	160	177	205	219	226	258	289	304	316	328
	change in %	4.7	10.9	15.8	7.1	2.9	14.2	12.1	5.2	3.8	4.0
Property income	*CZK bn*	40	40	44	46	79	99	113	113	118	126
	change in %	6.4	1.2	7.9	4.8	72.4	25.0	14.6	0.1	4.6	6.7
Subsidies	*CZK bn*	119	128	173	200	151	208	157	159	156	157
	change in %	8.8	7.3	35.1	15.8	-24.7	37.8	-24.5	1.6	-2.3	0.7
Gross fixed capital formation	*CZK bn*	224	253	277	287	320	370	377	412	412	377
	change in %	31.3	12.6	9.6	3.8	11.2	15.7	1.8	9.5	0.0	-8.5
Capital transfers	*CZK bn*	37	37	68	56	51	37	42	32	28	29
	change in %	22.1	-2.4	84.9	-17.7	-7.5	-27.9	12.5	-23.8	-12.3	5.2
Other expenditure	*CZK bn*	113	119	130	142	183	167	155	154	149	155
	change in %	3.5	5.9	8.6	9.5	28.5	-8.8	-7.0	-0.4	-3.5	4.1

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

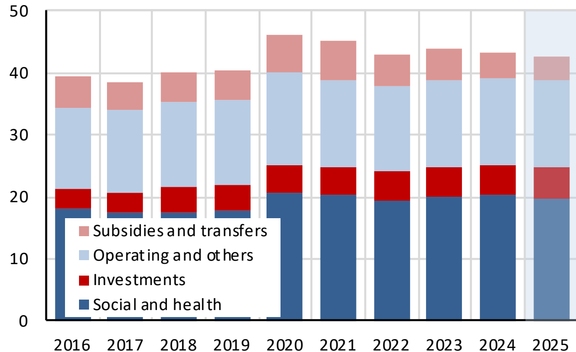
Table 2.3.2: Discretionary Expenditure Measures

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Total expenditure measures	*CZK bn*	**-61.6**	**-47.5**	**-181.2**	**5.9**	**17.0**	**-69.6**	**105.9**	**-13.8**	**27.1**	**-0.6**
Social benefits	*CZK bn*	-10.9	-17.3	-49.4	19.7	-31.0	7.7	11.6	-7.6	5.2	-1.4
Compensation of employees*	*CZK bn*	-32.2	-30.0	-34.3	-9.4	3.3	-25.7	-7.8	-19.8	1.8	0.3
Healthcare	*CZK bn*	-13.0	-	-24.7	5.9	12.5	-1.4	-3.3	-	-	-
Subsidies	*CZK bn*	0.5	-1.6	-44.9	-12.3	45.9	-76.9	117.7	8.1	1.5	0.0
Capital transfers	*CZK bn*	-6.1	5.6	-27.4	8.8	4.0	13.3	-2.0	2.4	0.5	-
Other expenditure	*CZK bn*	0.2	-4.3	-0.5	-6.7	-17.6	13.2	-10.3	3.1	18.2	0.5

Note: Figures represent YoY discretional changes of measures on expenditure side. Positive values mean improvement of balance.
**) Compensation of employees are updated not earlier than the final agreement on the state budget proposal.*
Source: MF CR.

Graph 2.3.1: Total Expenditure Structure

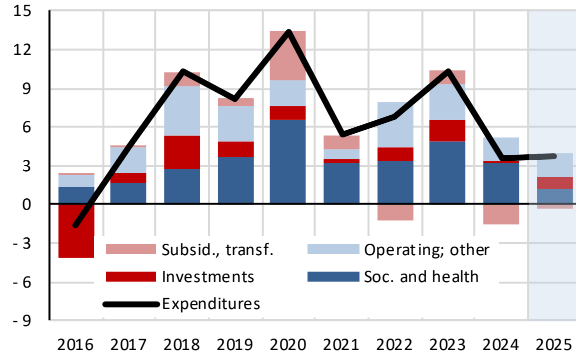
% of GDP



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

Graph 2.3.2: Total Expenditure Development

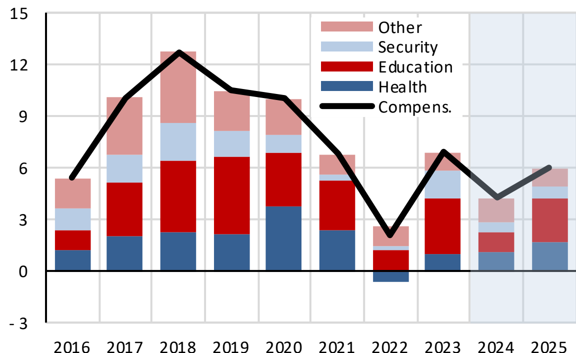
change in %, contributions in percentage points



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

Graph 2.3.3: Compensation of Employees

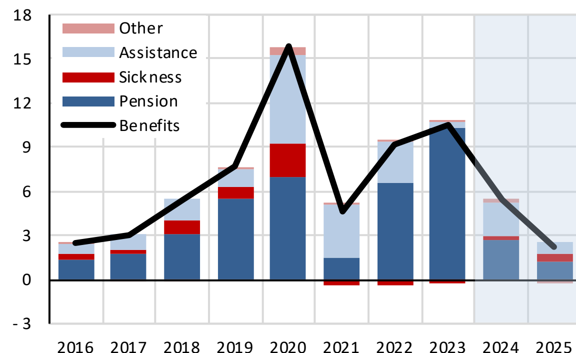
change in %, contributions in percentage points



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

Graph 2.3.4: Cash Social Benefits

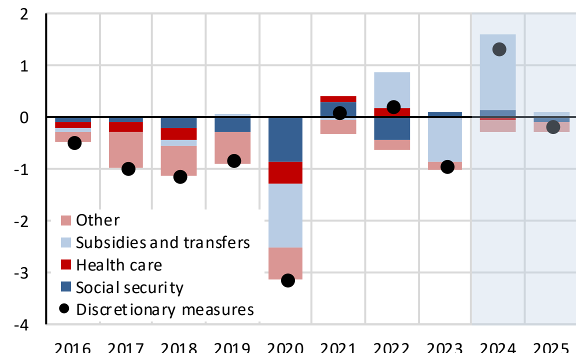
change in %, contributions in percentage points



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

Graph 2.3.5: Discretionary Expenditure Measures

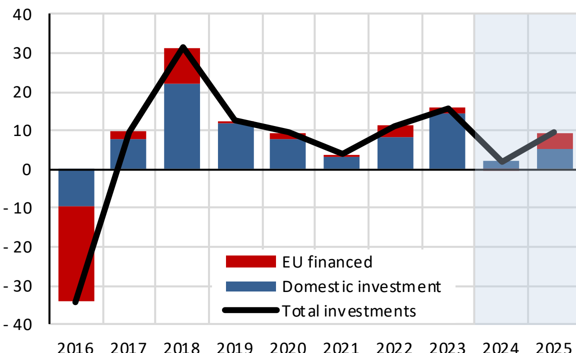
% of GDP



Source: MF CR.

Graph 2.3.6: General Government Investment

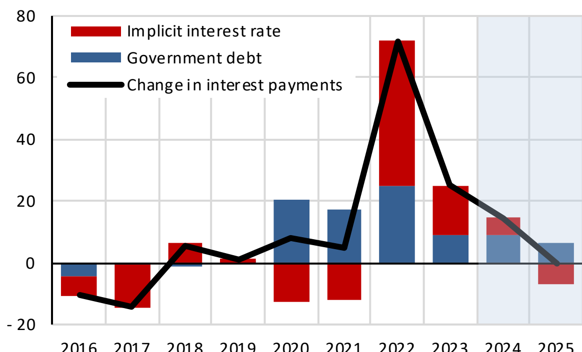
change in %, contributions in percentage points



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

Graph 2.3.7: Interest Expenditure

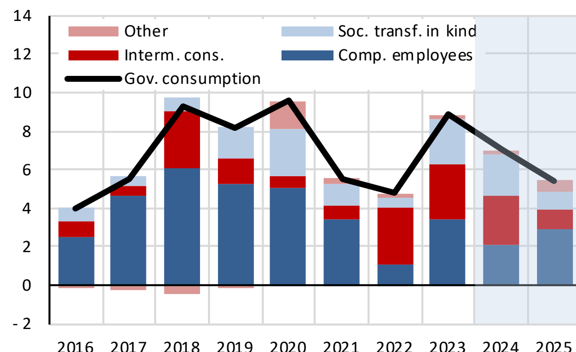
change in %, contributions in percentage points



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

Graph 2.3.8: Final Consumption Expenditure

change in %, contributions in percentage points



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

2.4 General Government Debt

The deficit performance of the general government sector is reflected in the **level of debt**, which is expected to amount to almost 44% of GDP at the end of 2024 (see Graph 2.4.1). Next year, debt is expected to increase by 0.9 percentage points to 44.8% of GDP. The growth of the debt quota should stop in 2026 and reach values around 45% of GDP at the end of the outlook horizon.

Thus, the Czech Republic should meet the Treaty on the Functioning of the EU benchmark for debt (the **Maastricht criterion** of 60% of GDP) throughout the whole outlook period. The level of the debt quota also meets the **national rule** set by the Fiscal Responsibility Rules Act, which assesses the level of general government debt net of the cash reserve created by the financing of government debt against the 55% of GDP ceiling (Table 2.4.1).

In terms of contributions to the change in debt, the dominant factors this year are the primary deficit and the development of interest expenditure. **Primary deficits** as a share of GDP should gradually decrease, either as a result of measures taken in the consolidation package or economic growth. At the end of the horizon, we forecast a balanced general government primary balance. However, the requirement to comply with the structural balances set by the Fiscal Responsibility Rules Act poses an upside risk to this forecast (MF CR, 2024e). **Interest expenditure** are projected to be between 1.3% and 1.4% of GDP in relative terms over the outlook years. The forecast assumes a gradual decline in government bond yields. The 10-year interest rate for convergence purposes should decrease from an expected average value of 3.9% p.a. in 2024 by 0.4 pp in the outlook years. The 5-year bond yields should follow a similar path, decreasing from the forecast value of 3.7% p.a. in 2024 to 3.5% p.a. in the outlook years. **Nominal GDP** growth should continue to hold back the increase in the debt quota, although its pace will slow down significantly compared to 2022 and 2023.

The current forecast does not foresee any significant privatisation revenues under Act No. 92/1991 Coll., on Conditions for the Transfer of State Property to Other Persons, as amended.

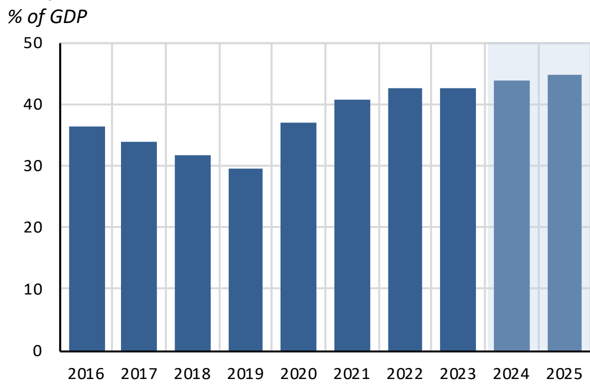
The largest share of general government debt is held by central government (Table 2.4.1), whose debt is expected to reach CZK 3,634 billion in 2024. It would thus account for about 98% of total (unconsolidated) general government debt. Local government debt accounts for the remaining roughly 2%. We estimate that it will reach CZK 80 billion in 2024 and oscillate around this value in the following years due to the forecasted surpluses. Social security funds have perennially a negligible debt ratio. In the case of health insurance companies, we assume a virtually balanced economy.

Table 2.4.1: Gross Consolidated Government Debt

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
General government	*CZK bn*	**1 735**	**1 740**	**2 150**	**2 567**	**2 998**	**3 234**	**3 510**	**3 765**	**3 997**	**4 173**
Central government	*CZK bn*	1 752	1 793	2 223	2 661	3 105	3 352	3 634	3 897	4 142	4 329
Local government	*CZK bn*	84	84	87	87	89	86	80	82	81	80
Social security funds	*CZK bn*	0	0	1	1	0	1	1	0	0	0
General government debt to GDP ratio	*% of GDP*	**31.7**	**29.6**	**36.9**	**40.7**	**42.5**	**42.4**	**43.9**	**44.8**	**45.3**	**45.1**
Contributions to change in debt-to-GDP ratio											
Change in debt	*p.p.*	-2.1	-2.1	7.3	3.8	1.8	-0.1	1.5	0.8	0.5	-0.2
Primary deficit	*p.p.*	**-1.6**	**-1.0**	**4.9**	**4.2**	**2.0**	**2.5**	**1.4**	**0.9**	**0.3**	**0.0**
Interest	*p.p.*	**0.7**	**0.7**	**0.7**	**0.7**	**1.1**	**1.3**	**1.4**	**1.3**	**1.3**	**1.4**
Nominal GDP growth	*p.p.*	**-1.8**	**-2.2**	**0.3**	**-2.8**	**-4.3**	**-3.2**	**-2.0**	**-2.2**	**-2.1**	**-2.1**
Stock-flow adjustment [1]	*p.p.*	**0.6**	**0.4**	**1.4**	**1.7**	**3.0**	**-0.7**	**0.7**	**0.8**	**1.0**	**0.5**
Debt for Act No. 23/2017 Coll. [2]	*% of GDP*	31.7	29.6	36.9	40.7	42.5	42.4	43.9	44.8	45.3	45.1
Liquid financial assets [3]	*% of GDP*	14.4	13.6	15.8	18.8	17.5	17.8	17.3	16.8	16.0	15.3
Net financial debt [4]	*% of GDP*	17.3	15.9	21.1	21.9	25.0	24.7	26.6	28.0	29.3	29.8

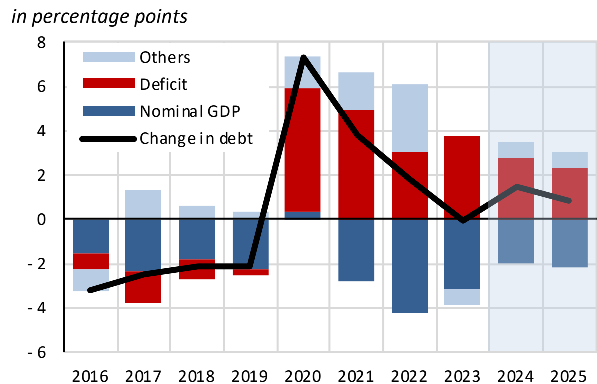
1) The stock-flow adjustment consists of differences between cash and accrual, net acquisition of financial assets and revaluation effects and other measures.
2) Public sector institutions debt according to Act No. 23/2017 Coll. is defined as the difference between the general government debt and disposable cash reserves created according to Act No. 218/2000 Coll.
3) Liquid financial assets are monetary gold, Special Drawing Rights, currency and deposits, market value of securities other than shares (in market value), shares and other equity quoted in stock exchange.
4) Net financial debt is the difference between the debt according to Act No. 23/2017 Coll. and liquid financial assets.
Source: CZSO (2024b). Forecast and calculations by MF CR.

Graph 2.4.1: General Government Debt
% of GDP



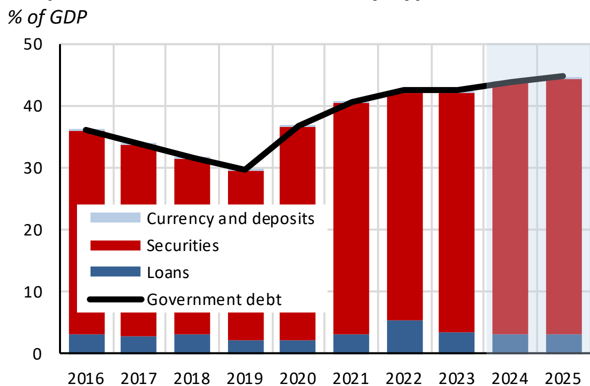
Source: CZSO (2024a, 2024b). MF CR forecast.

Graph 2.4.2: Change in the Debt Ratio
in percentage points



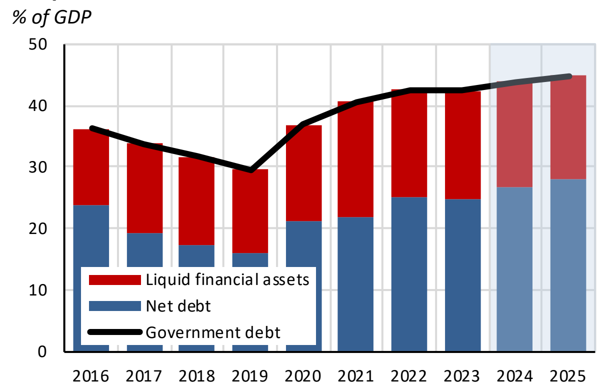
Source: CZSO (2024a, 2024b). MF CR forecast.

Graph 2.4.3: Government Debt by Type of Instrument
% of GDP



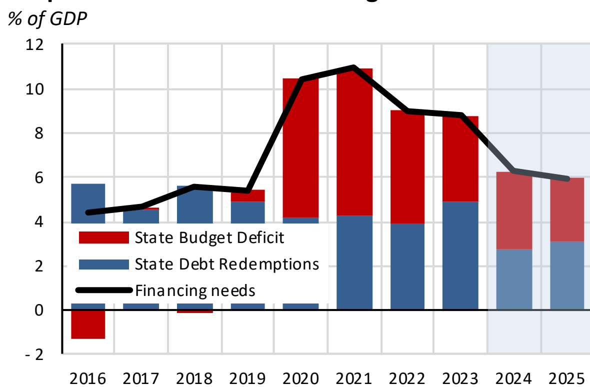
Source: CZSO (2024a, 2024b). MF CR forecast.

Graph 2.4.4: Net and Gross Government Debt
% of GDP



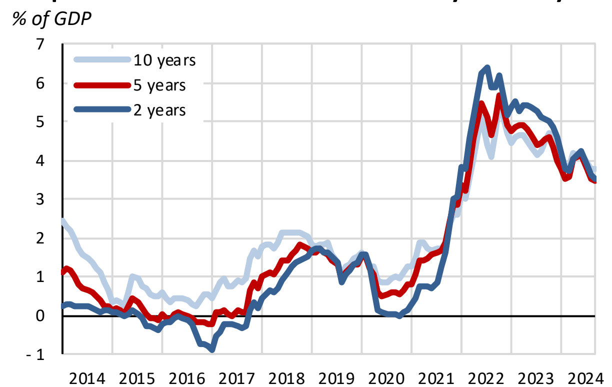
Source: CZSO (2024a, 2024b). MF CR forecast.

Graph 2.4.5: State Debt Financing Needs
% of GDP



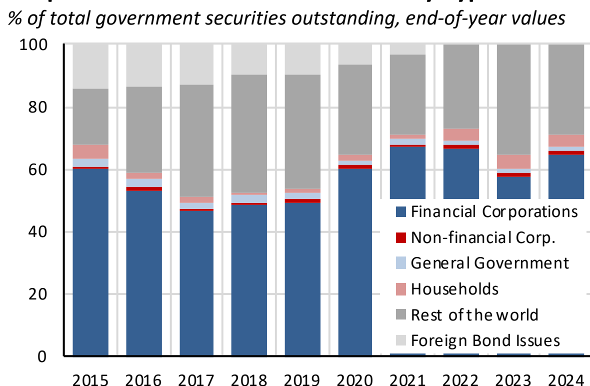
Source: CZSO (2024b). MF CR forecast.

Graph 2.4.6: Government Bond Yields by Maturity
% of GDP



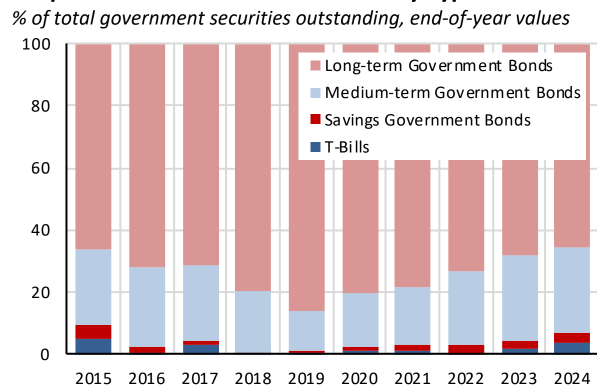
Source: CNB (2024).

Graph 2.4.7: Government Securities by Type of Holder
% of total government securities outstanding, end-of-year values



Note: The value for 2024 reflects the state at the end of September.
Source: MF CR.

Graph 2.4.8: Government Securities by Type of Instrument
% of total government securities outstanding, end-of-year values



Note: The value for 2024 reflects the state at the end of September.
Source: MF CR.

2.5 Sensitivity Analysis

The sensitivity analysis is calculated using a dynamic stochastic general equilibrium model developed by the MF CR. The alternative scenarios focus on some actual issues of possible future developments. The first scenario considers lower economic growth in the EU and its impact on the highly open Czech economy, which is dependent on the external environment. The second alternative scenario assesses a possible sudden increase in interest rates. Both alternative scenarios are derived from the baseline scenario of the Fiscal Outlook. In both cases, we assume a deviation from the baseline scenario in the first half of 2025.

Economic development in the EU trading partners is important for the economic growth of the small open economy of the Czech Republic. The first scenario assumes **slower GDP growth in the EU for 2025** by 2.6 pp, which corresponds to the standard deviation over the period 2002–2023.

A reduction in foreign demand for domestic products would be reflected in a decline in net exports in the first phase. However, the subsequent pressure on currency depreciation would dampen the negative effects on net exports through more expensive imports. A worse outcome for foreign trade would be reflected in lower GDP growth in the Czech Republic by 0.7 pp in 2025 relative to the baseline scenario. Lower growth in corporate profits due to weaker exports would hamper investment growth by 0.8 pp. Lower output of firms would also have a negative impact on labour demand and, consequently, a reduction in the growth rate of nominal wages. A negative income effect in the form of relatively lower wages and returns on capital would subtract 0.3 pp from household consumption growth.

The impact on the general government balance is negative by 0.3 pp in the first year of the outlook, with a maximum difference of 0.1 pp in the following years. Weaker economic performance has an impact on taxes and social security contributions on the revenue side, while on the expenditure side it leads mainly to an increase in spending on unemployment benefits. Lower inflation is reflected in the statutory indexation of pension benefits in the projection years. The debt ratio would then increase by 0.4 pp more than in the baseline scenario. In addition to higher deficits, the level of nominal GDP over the entire horizon would be lower.

The dynamic model in the second scenario simulates an additional **monetary policy tightening for 2025** of 1.1 pp above the baseline scenario. This value corresponds to the standard deviation of short-term interest rate between 2002 and 2023.

A more restrictive monetary policy would have a slightly negative effect on economic development. The pressure on the appreciation of the Czech currency would lead to more expensive exports, while imported goods would become relatively cheaper. A 0.3 pp slowdown in exports would put downward pressure on imports, given the high import intensity of exports. Similarly, lower sales and a fall in profits of economic entities would have a similar effect. The result would be a slight reduction in import growth compared to the baseline scenario.

Slower wage growth would have negative influence on consumption. Moreover, a higher interest rate would motivate households to save and thus postpone consumption to the future. As a result, restrictive monetary policy would reduce the growth rate of household consumption by 0.2 pp.

Firms' profitability would fall as a result of the decline in foreign and domestic demand. Firms would react to the fall in profits and the rise in the cost of borrowings by reducing investment growth by 0.2 pp. Furthermore, the deficient aggregate demand would lead to a 0.3 pp increase in the unemployment rate compared with the baseline scenario, which would be another factor for lower wage growth.

Given the negative impact of higher interest rates on investment, consumption and exports, the resulting impact on GDP growth would also be negative, to the extent of 0.2 pp. Higher interest rates and slower output growth would lead to a 0.3 pp reduction in the inflation rate

The impact on public finances is relatively smaller in this scenario than in the first one. The effects on revenue and expenditure almost offset each other, with the most important expenditure items, i.e. social expenditure, rising less due to lower inflation and real wage dynamics. As a result, the general government debt ratio at the end of the projection horizon differs from the baseline scenario by only 0.2 pp.

Table 2.5.1: Baseline and Model Scenarios of Macroeconomic Simulations

		2024	2025	2026	2027
		Forecast	*Forecast/ Simul.*	*Outlook/ Simul.*	*Outlook/ Simul.*
Gross domestic product (real)	*change in %*	**1.1**	**2.5**	**2.6**	**2.6**
Private consumption	*change in %*	1.9	3.7	3.1	2.5
Gross fixed capital formation	*change in %*	0.9	3.6	3.5	3.3
Exports	*change in %*	2.0	3.3	3.5	3.2
Imports	*change in %*	0.8	5.6	4.7	3.9
Consumer Price Inflation	*change in %*	**2.4**	**2.3**	**2.1**	**2.0**
Employment	*change in %*	**2.5**	**-0.1**	**0.1**	**-0.2**
Wage bill	*change in %*	**6.2**	**6.3**	**5.2**	**4.7**
Unemployment rate	*in %*	**2.6**	**2.5**	**2.4**	**2.4**
General government balance	*% of GDP*	**-2.8**	**-2.3**	**-1.7**	**-1.4**
Gross government debt	*% of GDP*	**43.9**	**44.8**	**45.3**	**45.1**
Alternative Scenario I - Lower GDP Growth in EU in 2025					
Gross domestic product (real)	*change in %*	**1.1**	**1.8**	**2.7**	**2.6**
Private consumption	*change in %*	1.9	3.4	2.9	2.5
Gross fixed capital formation	*change in %*	0.9	2.8	3.2	3.3
Exports	*change in %*	2.0	1.5	3.3	3.2
Imports	*change in %*	0.8	4.2	4.3	3.8
Consumer Price Inflation	*change in %*	**2.4**	**2.2**	**2.1**	**2.0**
Employment	*change in %*	**2.5**	**-0.4**	**0.2**	**-0.2**
Wage bill	*change in %*	**6.2**	**5.9**	**5.2**	**4.7**
Unemployment rate	*in %*	**2.6**	**2.7**	**2.4**	**2.4**
General government balance	*% of GDP*	**-2.8**	**-2.6**	**-1.8**	**-1.4**
Gross government debt	*% of GDP*	**43.9**	**45.1**	**45.6**	**45.5**
Alternative Scenario II - Increase in Domestic Interest Rate					
Gross domestic product (real)	*change in %*	**1.1**	**2.3**	**2.5**	**2.6**
Private consumption	*change in %*	1.9	3.5	3.0	2.5
Gross fixed capital formation	*change in %*	0.9	3.4	3.6	3.3
Exports	*change in %*	2.0	3.0	3.3	3.2
Imports	*change in %*	0.8	5.5	4.7	3.9
Consumer Price Inflation	*change in %*	**2.4**	**2.0**	**2.0**	**2.0**
Employment	*change in %*	**2.5**	**-0.2**	**0.1**	**-0.2**
Wage bill	*change in %*	**6.2**	**6.1**	**5.1**	**4.7**
Unemployment rate	*in %*	**2.6**	**2.8**	**2.4**	**2.4**
General government balance	*% of GDP*	**-2.8**	**-2.4**	**-1.7**	**-1.4**
Gross government debt	*% of GDP*	**43.9**	**44.9**	**45.4**	**45.3**

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

3 International Comparison

Increasing defence spending due to ongoing geopolitical tensions, increased public outlays as a result of high inflation, and finally the disposal of damage caused by natural disasters are putting pressure on public finances in a number of EU countries after the pandemic has subsided. Compared to 2019, no country will have a lower public debt in absolute terms at the end of 2024 according to the forecasts presented, nevertheless in relation to GDP, indebtedness should decrease in 8 of them.

Restrictive monetary policy by central banks in the EU has raised government bond yields, which, combined with the high supply of government bonds due to central government deficits, has resulted in rising interest expenditure. Last year was marked by a non-standard shape of yield curves, to which EU countries had to adapt their financing strategies. With monetary easing since the second half of this year, government bond yields are going down, with 10-year government bonds for convergence purposes in EU countries decreasing by 0.3 pp year-on-year on average.

3.1 Public Balance and Debt in EU Countries

In 2023, the balance in relation to GDP improved year-on-year in 9 EU countries (most notably in Latvia by 2.5 pp), while it deteriorated in 17 EU countries, including the Czech Republic (most notably in Slovakia by 3.5 pp), and remained at the same level in Lithuania. Denmark, Ireland and Cyprus continued to record surpluses, albeit lower year-on-year, while Portugal also recorded a surplus. By contrast, Italy posted the highest deficit at 7.2% of GDP, followed by Hungary and Romania above 6% of GDP and France, Poland and Slovakia above 5% of GDP, more or less the countries that were also running the highest deficits the year before.

For 2023, 10 countries, including the Czech Republic, are above the benchmark of the Treaty on the Functioning of the European Union (by 2 countries less than in 2022), and Finland reached the threshold. All of them except the Czech Republic and Spain are subject to the **excessive deficit procedure**.[1] **The general escape clause** of March 2020, under which member states could deviate from the budgetary requirements set by the European fiscal framework, was deactivated by the EC at the end of 2023. From then on, the standard rules of that procedure apply again, but from the end of April 2024 under the reformed EU fiscal framework.

For 2024, according to the autumn notification of the government deficit and debt[2], the highest deficit is expected in Romania (7.0% of GDP), with Poland and Slovakia still above 5% of GDP. Compared to the 2023 balances in relative terms, improvements are projected in 9 EU countries, including the Czech Republic, most notably in Italy (3.4 pp reduction in the deficit) and Ireland (3.0 pp increase in the surplus). In contrast, the most significant year-on-year deterioration in the balance in relative terms is expected in Lithuania and Croatia. Denmark, Ireland, Cyprus and Portugal are expected to remain in surplus in 2024. Moreover, in Denmark, in addition, all major subsectors of the general government sector maintain surpluses.

Fourteen countries, including the Czech Republic, should remain below the Stability and Growth Pact's reference value with the forecasted deficits for 2024. Bulgaria, Estonia and Spain are expected to achieve deficits just above the 3% of GDP threshold. In addition to Bulgaria and Estonia, Finland and Austria will join the countries that would not now fulfil the deficit criterion in 2024 compared to the previous year.

The reduction in the level of general government debt in relation to GDP before 2020 was severely disrupted by pandemic factors, including the subsequent economic downturn. Now, in most countries, after the peak of the debt quota in 2020 and 2021, the tide is turning and indebtedness is either starting to decline or at least slowing down. Some countries (Denmark, Ireland, Cyprus, Portugal and Sweden) have managed to reduce general government debt in absolute terms in recent years, but nowhere to pre-crisis 2019 levels. However, given the renewed economic recovery, this has happened in some cases for the debt ratio, despite significantly rising defence spending (outside the five countries mentioned, these are Croatia and Greece).

By 2023, 17 EU countries, including the Czech Republic, have managed to reduce their public indebtedness, with Portugal and Greece having the highest reduction (over 13 pp). By contrast, the situation was reversed in the least indebted countries, namely Estonia and Bulgaria. These countries even recorded some of the highest increases in general government debt in absolute terms (by 10.7% and 12.0% respectively). In this respect, Romania recorded the highest dynamics at 17.9% (in comparison, the Czech Republic's general government debt in absolute terms increased by 7.9%). As in the

[1] On 26 July 2024, the EU Council decides that excessive deficits exist in Belgium, France, Italy, Hungary, Poland, Malta and Slovakia. Recommendations to reduce their deficits will be addressed to them by the end of 2024, on the basis of new fiscal-structural plans. The procedure, lasting from 2020, is still pending with Romania due to projected deficits.

[2] France has not provided data for the general government balance and debt for 2024, even in the context of the autumn notification of the government deficit and debt. It is therefore not included in the EU Member State assessment for 2024.

previous year, 14 Member States, including the Czech Republic, have fulfilled the fiscal debt criterion of 60% of GDP in 2023. Public finances in Greece, Italy, France, Belgium and also Spain have consistently had higher general government debt than their annual GDP.

In 2024, relative indebtedness is expected to improve year-on-year in 10 EU countries, most notably in Greece and Cyprus, where, together with Ireland, the debt reduction in absolute terms is also forecasted year-on-year. In contrast the highest increase in the general government debt in relative terms is projected in Poland and Finland in 2024, the highest increase in the general government debt in absolute terms is projected in Estonia, the longest-standing least indebted country (by 18.8% to 23.3% of GDP). Similar developments are also expected in Bulgaria (16.2% increase in debt to 24.9% of GDP) and Luxembourg (11.3% increase in debt to 27.5% of GDP) as the next lowest debt-to-GDP countries in the EU. A total of 15 countries are expected to have their indebtedness below the reference value of 60% of GDP this year. In addition to the countries that were compliant with this criterion in 2023, Croatia will also fulfil the reference value (decreasing to 58.9% of GDP). Comparing the forecast end of 2024 with the pre-crisis year 2019, general government debt in relative terms will fall in 8 countries, most notably Cyprus, Greece (by around 27 pp) and Portugal (over 22 pp).

Note: During the assessment of the autumn national notification of the government deficit and debt, Eurostat issued a reservation under Article 15(1) of Council Regulation (EC) No 479/2009, as amended, to Estonia for poor quality data for 2023 in the form of incorrect time recording of defence spending of around 0.4% of GDP, which the statistical office wrongly redirected to subsequent years.

3.2 Public Debt Financing in EU Countries

The government's gross borrowing requirement represents the resources to cover the financing needs that the government secures through borrowing operations. In EU countries, this is primarily through the issuance and sale of government bonds. These are largely made up of medium- and long-term fixed-rate domestic government bonds, supplemented by short-term Treasury bill issues, inflation-linked bonds and, in recent years, green bond issues (notably Germany, France, Belgium and Hungary). In addition to debt instruments, governments receive loans and credits from international institutions. When composing the financing strategy, not only the financing cost but also the risk (refinancing, interest rate or currency) must be taken into account. As EU countries are exposed to unexpected crises with significant fiscal impacts from 2020 onwards, governments respond by updating their borrowing strategy also during the year, e.g. by changing the structure and volume of instruments in planned auctions, issuing new instruments or adjusting the number of auctions.

3.2.1 Bond Financing in Euro Area Countries

Central bank monetary policy has a significant impact on bond market developments in EU countries. In euro area countries, government bond yields are influenced by two channels of ECB monetary policy from 2022, and indirectly by the monetary policy of the Federal Reserve System. The first channel consists of a gradual increase in ECB interest rates between 2022 and 2024, peaking at 4.0% (deposit rate) in response to high inflation rates in euro area countries. The ECB kept interest rates at their historical high until June 2024, when it started to reduce them to the current 3.25%. The second channel was the ECB's reduction of its government bond purchase programmes. The Asset Purchase Programme (APP) also ended the reinvestment of government bonds from July 2023, gradually reducing the amount of government bonds outstanding. For the Pandemic Emergency Purchase Programme (PEPP), the ECB decided in December 2023 to continue reinvesting maturing government bonds in full amount for the first half of 2024. The portfolio is then reduced by EUR 7.5 billion per month from July 2024 onwards and the reinvestment of government bonds will be closed by the end of 2024. Thus, the yield curve of government bonds will undergo significant changes during 2023 as a result of the ECB's monetary policy. From April 2023, the yield curve started to take an inverted shape at its short end (up to about 3 years to maturity). This "inversion" in yields deepened over the past year in line with the parallel upward shift of the entire yield curve, which was reflected in higher government bond yields, especially at short time to maturity, where yields reached even higher levels than at very long time to maturity. From the 5-year maturity onwards, the yield curve had a standard concave shape. Yields on 10-year of the government bonds for convergence purposes (hereinafter "10-year government bonds") increased by 1.3 pp year-on-year on average last year, with the largest rise in yields in the Baltic States (e.g. 2.3 pp in Lithuania, 1.6 pp in Latvia and Estonia), mainly due to a higher risk premium caused by increased geopolitical risk. Thus, for example, in **Lithuania**, domestic government bond auctions were conducted in 2023 at more than double the yield to maturity (3.9% p.a. on average) compared to the previous year, but a significant part of the gross borrowing requirement (around 46%) is financed through government bond issues in foreign markets at lower yields to maturity, along the entire length of the yield curve. This allows keeping total interest expenditure at relatively low levels (0.6% of GDP in 2023). In **Estonia**, in addition to loans, government bond issues, either in the form of Treasury bills or Eurobonds,

have been significantly involved in financing the government's borrowing requirement since the pandemic. Debt instruments are further supplemented by the Stabilization Reserve Fund in the event of an economic crisis. Thus, last year the Estonian government financed its borrowing requirement through several Treasury bill issues at an average auction yield of 3.7% p.a. and one tap sale of a 9-year Eurobond (at yield of 3.6% p.a.).[3] Similar year-on-year yield growth as in the Baltic countries was also observed in Slovakia (by 1.6 pp), where the yields exceeded the rates in Spain or Portugal. Thus, **the Slovak** government financed more than half of its gross borrowing requirement last year through syndicated[4] bond sales with an average yield to maturity of 3.8% p.a., and auctioned government bonds with significantly lower time to maturity (year-on-year decrease by about 3.7 years) and at almost double the yield to maturity (3.7% p.a.) compared to 2022. The highest average yields on 10-year government bonds were achieved by Italy (4.3% p.a.) and Greece (4.0% p.a.) last year. The **Italian** government sold government bonds in auctions at an average yield to maturity of 3.8% p.a. (increasing by 2 pp year-on-year), which is the highest yield since 2008. Domestic bond auctions were complemented, among other things, by several green bond issues, with the largest ever volume of Italian green bonds issued through syndicated sales in 2023 (EUR 10 billion, with a bid-to-cover ratio of about 5). In **Greece** even occurred a 2.4 pp year-on-year increase in the average auction yield to maturity of government bonds to 3.7% p.a. Despite the high yield levels, the Greek government made a new issue of a 15-year bond with bid-to-cover ratio of about 4 at a yield to maturity of 4.5% p.a. and reopened a 20-year government bond at a yield to maturity of 3.9% p.a. The issuance of medium- and very long-term government bonds then allows the Greek government to maintain a long time to maturity of general government debt (about 19 years). By contrast, **Germany** also achieved the lowest average yields on 10-year government bonds last year (2.4% p.a.), but this is more than double the level in 2022. In recent years, the German government has made greater use of shorter-term debt instruments, including treasury bills, to finance its gross borrowing requirement, accounting for around 43% of the total volume of government bonds sold at auction in 2023. From 2020, the government also uses green bonds to finance "green" budget expenditure, with time to maturity ranging from 5 to 30 years.[5] The volume of these bonds sold last year covered about 3.5% of the German government's gross borrowing requirement.

The combination of inverted and standard yield curve shapes has persisted in euro area bond markets this year, with a parallel downward shift at the short end thanks to the start of interest rate decreasing. As a result, 10-year bond yields in euro area countries are currently at the same level as a government instrument with a residual time to maturity of around 1 year. 10-year government bond yields decreased by 0.3 pp year-on-year on average in all countries at the end of the third quarter of this year (yields stagnated on average in Lithuania). The largest declines in yields were in Cyprus by around 0.8 pp and Greece by 0.6 pp, while only marginal reductions were achieved in France, Ireland and Slovakia. Despite the decrease in 10-year government bond yields, the same average auction yield to maturity (3.7% p.a.) is being achieved in **Greece** this year as last year. However, there has been a significant increase in the average time to maturity of debt instruments issued by around 4 years to 16.8 years compared to last year. Although the majority (54%) of the gross borrowing requirement is financed by Treasury bill issues, the Greek government has made several issues of 10-year (at an average yield of 3.5% p.a.) and 15-year (at 3.9% p.a.) government bonds, and even issued a new issue of a 30-year bond after three years at a yield of 4.3% p.a. In **France,** given the shape of the yield curve, there has been less issuance of short-term government bonds to finance gross borrowing requirement this year, because the average auction yield of Treasury bills is even 0.9 pp higher than on medium- and long-term government bonds (2.7% p.a.). This puts state debt at the highest levels of average time to maturity (around 8.5 years) in the last 20 years, which significantly reduces refinancing risk and spreads the impact of interest rate increases on interest expenditure. **Slovakia** faces the highest 10-year government bond yields (3.5% p.a.) among euro area countries this year, after Italy (3.8% p.a. on average) and Estonia (3.6% p.a.). Treasury bills have not been involved in financing the gross borrowing requirement for the last three years and it is thus mainly covered by auctions of domestic medium- and long-term government bonds (at an average auction yield of 3.5% p.a. with time to maturity of 9.5 years). Domestic bond auctions are complemented by syndicated government bond sales, where this year the Slovak government sold[6] government bonds on the Swiss market for the first time in 11 years.

3.2.2 Bond Financing outside the Euro Area

In non-euro area countries, 10-year government bond yields have increased by 0.5 pp year-on-year on average in the past year from the very high levels reached in

[3] From 2024, Estonia can issue domestic government bonds, either for institutional investors or households. Thus, in September 2024, the Estonian government issued a 2-year bond under domestic law with a total volume of EUR 200 million and a yield to maturity of 3.3% p.a.

[4] Under syndicated sales, government bonds are sold directly to investors through a select group of banks. It is used for larger issuance volumes or when a new bond is issued.

[5] Yields to maturity on 5-year and 10-year green bonds were on average 0.1–0.2 pp lower compared to auction yields on conventional bonds, while the yield on 30-year green bonds was 0.3 pp higher.

[6] This is the sale of two sovereign bonds - a 4-year bond with a volume of CHF 325 million and a 10-year bond with a volume of CHF 310 million.

2022. In particular, yields increased in the first quarter of 2023 (by 1.9 pp year-on-year) due to persistently restrictive monetary policy by central banks which kept base interest rates at high levels.[7] In the fourth quarter of 2023, a gradual easing of monetary policy began, which led to an average annual decline in 10-year government bond yields by 0.4 pp in this period (by 2.3 pp in Hungary and 1.7 pp in Poland, while an increase was recorded in Bulgaria (2.2 pp) and the Nordic countries). This year (with the exception of second quarter of 2024), there has been a further gradual decrease in 10-year government bond yields. As of the end of the third quarter of this year, government bond yields in all countries except Bulgaria have decreased by 0.4 pp year-on-year on average. Some of the highest government bond yields in recent years have been in Hungary and Romania. **The Hungarian** government adjusted its financing strategy of its gross borrowing requirement, reduced the volume of government bonds issued with time to maturity of more than 10 years, and by making greater use of treasury bills and bonds with shorter time to maturity. Thus, in Hungary, the volume of Treasury bills issued tripled last year compared to the original plan, at an average auction yield of 11.8% p.a., and this year their yield is 6.4% p.a. This has led to a more flexible adjustment to market demand, including an improvement in market liquidity. Yields to maturity are also decreasing for domestic medium- and long-term bonds, with the average auction yield lower by 1.7 pp year-on-year to 6.3% p.a. this year, with a corresponding increase in the time to maturity of new bonds issued to 6.8 years. In addition to auctions of domestic bonds, the Hungarian government is conducting a relatively large volume (around 25% of total gross bond issuance) of bond sales on foreign markets, including in the form of green bonds. Thus, so far this year, it has sold US dollar-denominated government bonds (USD 2.5 billion), euro-denominated green bonds (EUR 1.5 billion) and Japanese yen-denominated bonds (JPY 38.3 billion, supplemented by green bond sales of JPY 1.3 billion). Retail government bonds also account for a significant share of the gross borrowing requirement financing structure. **In Poland**, the financing of gross borrowing requirement is primarily driven by the issuance of domestic medium- and long-term government bonds, of which the average auction yield decreased by 0.5 pp year-on-year to 5.3% p.a. this year. In terms of the maturity structure, domestic government bonds with shorter time to maturity are currently preferred (the average time to maturity of new bonds issued decreased to 6.6 years year-on-year). Domestic bonds are complemented by sales of government bonds in foreign markets, with sales this year primarily of long-term euro-denominated government bonds (at an average yield of 3.7% p.a.) and US dollar-denominated bonds (at 5.3% p.a.). In contrast, Treasury bills have not been used to finance gross borrowing requirement in recent years. The change in the maturity structure of medium- and long-term government bonds sold is also evident **in the Czech Republic**, where last year there was a significant year-on-year shift in the volume of government bonds sold to the maturity segment range of 5 to 15-year (at the expense of bonds with maturities of up to 5 years), where more than 87% of the total volume of domestic government bonds was sold. The shape of the yield curve contributed to the issuance of government bonds with interest rate mainly at the middle and longer end of the yield curve, when government bonds with shorter time to maturity had a higher yield than government bonds with longer time to maturity for most of the year. Last year, the average auction yield on fixed-rate medium- and long-term government bonds fell by 0.1 pp year-on-year to 4.5% p.a. These auctions were complemented by issues of CZK-denominated Treasury bills at an average yield of 6.1% p.a. To cover the euro financing needs in the short term and to strengthen the available liquidity of the euro Treasury account, euro-denominated Treasury bill auctions were also conducted for the first time in 2023, with a total volume of EUR 4.5 billion at an average yield of 3.3% p.a. This year, the sale of government bonds with time to maturity of more than 5 years are again prioritised in auctions, which accounted for 96% of the total volume of government bonds sold at the end of September. The average auction yield for medium- and long-term fixed-rate bonds remained at 4.4% p.a., while the average auction yield for CZK-denominated Treasury bills declined to 4.4% p.a. Auctions of euro-denominated Treasury bills were also realised, with a total volume of EUR 3.4 billion and an average yield of 3.7% p.a. By contrast, central banks in Denmark and Sweden are pursuing less restrictive monetary policies**.** Their base interest rates have more or less followed the trajectory of the ECB's base rate over the last two years. As a result, these countries have long had the lowest government bond yields of the non-euro area countries. In **Denmark**, last year, there were auctions of government bonds in the 2- and 10-year maturity segments with an average yield below 3% p.a., complemented by two auctions of 30-year government bonds with an average yield of 2.6% p.a. This year, the average auction yield has decreased to 2.4% p.a., with bonds in the same maturity structure being sold. Treasury bills are also issued together with medium and long-term bonds. As of 2022, green bonds with time to maturity of 10 years also contribute to the financing of expenditures related to the promotion of renewable energy sources and green transition.[8] Domestic government bond auctions are complemented by syndicated sales of foreign currency (euro, US dollar) denominated government bonds, with a EUR 1 billion

[7] For example, the Polish central bank kept the base rate at 6.75%, the Hungarian central bank even at 13%.

[8] Following the German model, they are issued as twin bonds, i.e. they are issued with the same financial parameters (maturity, coupon, etc.) as the corresponding conventional government bond.

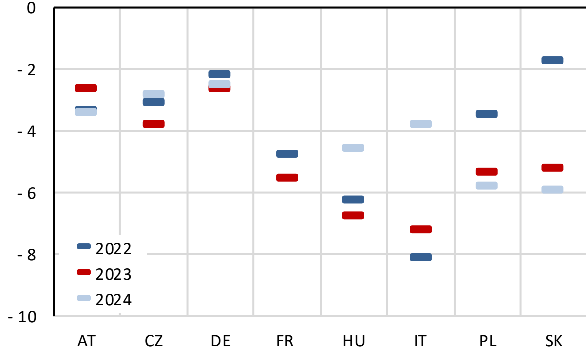
2-year government bond sold this year at 2.3% p.a. Slightly lower government bond auction yields than in Denmark are being achieved this year in **Sweden**, At an average of 2.2% p.a., the main share of financing the government's borrowing requirement is accounted for by fixed-rate domestic medium- and long-term bonds, where the share of government bonds sold in the 5–10 year maturity segment has doubled this year compared to 2023, at the expense of bonds with shorter time to maturity. However, there are still virtually no auctions of government bonds with time to maturity above 15 years. Inflation-linked bonds also account for a significant share of financing, but due to higher interest costs, the Swedish government decided in September this year to gradually reduce their volume. Domestic bonds are supplemented by sales of government bonds on foreign markets. In 2024, a government bond with a residual maturity of 1.3 years denominated in a foreign currency (USD 2 billion at a yield to maturity of 4.5% p.a.) was sold. Treasury bills are then issued to offset fluctuations in gross borrowing requirement, with Treasury bills sold this year at an average yield of 3.6% p.a.

3.2.3 Other Funding in EU Countries

However, government bond issues are not the only way to cover public debt. There are countries in the EU with a significant share of **loans**. National autumn notifications of general government deficit and debt show that loans accounted for a significant share of general government debt in Greece (72.2% of total debt), Estonia (49.9%) and Cyprus (39.2%) in 2023. In Greece, the share of loans (from the IMF and the EU stabilisation mechanisms) in debt financing has been declining in recent years due to the country's return to bond markets. Despite the relatively high level of loans in Estonia, it has fallen sharply since 2020 due to the more than doubling of government debt being covered by government bond issues. In recent years, Sweden has shown a steadily increasing share of loans in total debt (36.7%), while Portugal has a long-term stable share of around 25%. By contrast, the Czech Republic had the lowest share of loans in total debt in EU countries last year (7.9%).

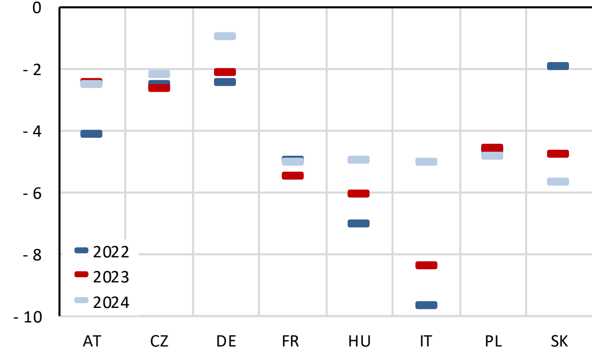
EU countries also have the possibility to finance specific investments and reforms through soft loans from several EU instruments. The most important is the **Recovery and Resilience Facility**, which has a total allocation of EUR 385.8 billion for loans to Member States, of which EUR 94.6 billion has been drawn so far. Of this amount, 31% finances reforms and investments aimed at achieving sustainable and inclusive growth, followed by investments in green transition (22% of the total loans disbursed). Italy intends to use the largest share of the total allocation, having drawn down EUR 68.8 billion of the EUR 122.6 billion approved. Spain (EUR 83.2 billion) and Poland (EUR 34.5 billion) also plan to use a larger amount of loans. Romania (EUR 3.6 billion of the EUR 14.9 billion allocation used), Greece (EUR 9.6 billion of the EUR 17.7 billion allocation) or Portugal (EUR 1.7 billion of the EUR5.9 billion allocation) plan to use less. Around EUR 1 billion will also be drawn by Lithuania (EUR 0.5 billion drawn) and Slovenia (EUR 0.3 billion). The Czech Republic indicated its intention to draw down a loan of EUR 0.8 billion (approx. CZK 19.4 billion) to finance investments in affordable housing, digitalisation or chip development. In Belgium (EUR 43 million drawn) and Cyprus (EUR 26 million) the planned volume of loans is up to EUR 0.3 billion.

Graph 3.1: Balance of Selected EU Countries
% of GDP



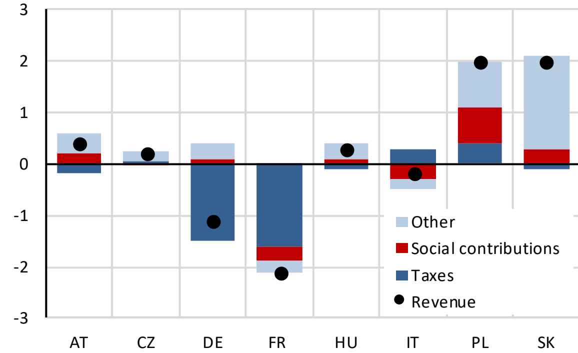
Source: Eurostat (2024b). CZ data: CZSO (2024a, 2024b) and MF CR.

Graph 3.2: Structural Balance of Selected EU Countries
% of GDP



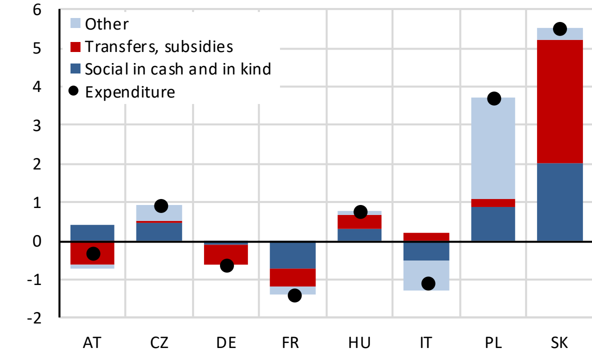
Source: EC (2024a). CZ data: CZSO (2024a, 2024b) and MF CR.

Graph 3.3: Change in Revenue in 2022–2023
in percentage points



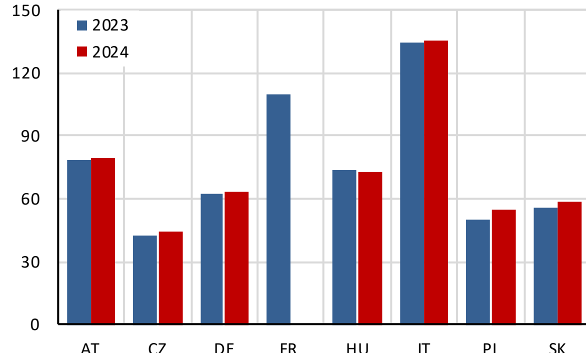
Source: Eurostat (2024a, 2024b). CZ data: CZSO (2024a, 2024b).

Graph 3.4: Change in Expenditure in 2022–2023
in percentage points



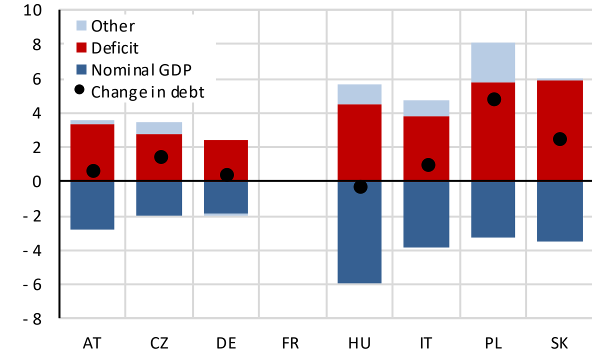
Source: Eurostat (2024a, 2024b). CZ data: CZSO (2024a, 2024b).

Graph 3.5: Debt of Selected EU Countries
% of GDP



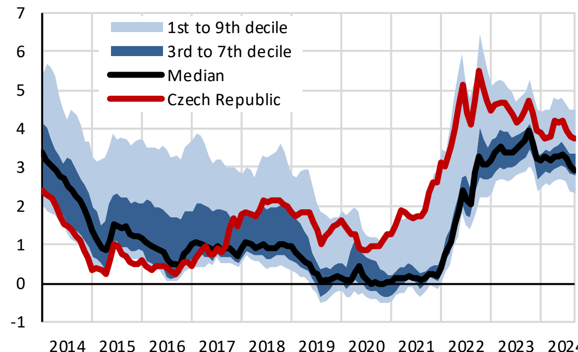
Source: Eurostat (2024b). CZ data: CZSO (2024a, 2024b). and MF CR.

Graph 3.6: Change in Debt-to GDP ratio in 2023–2024
in percentage points



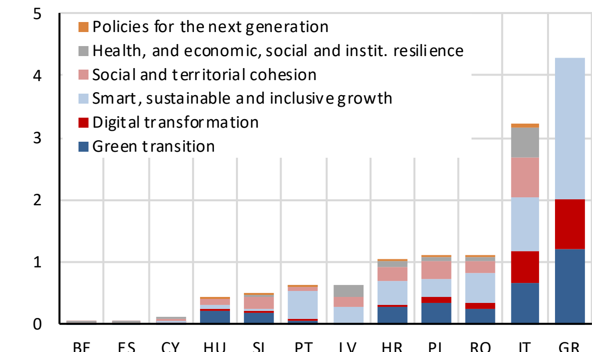
Source: Eurostat (2024b). CZ data: CZSO (2024a, 2024b). and MF CR.

Graph 3.7: Bond Yields in the CZ and EU Countries
% p. a., government bond yields for convergence purposes



Source: ECB (2024).

Graph 3.8: Loans from the Recovery and Resilience Facility
% of GDP (2022), loan drawing as of 17 October 2024



Source: EC (2023e). MF CR calculations.

4 Long-term Sustainability of the Pension System

Long-term sustainability is one of the consistently discussed issues of Czech public finances. Demographic developments pose the greatest risk. The process of population ageing is already taking place and will significantly increase the ratio of pensioners to the economically active population in the next few decades. The Government has prepared several adjustments to the pension system and the first part of the reform has already been implemented. The second part is currently being discussed in the Chamber of Deputies of the Parliament of the Czech Republic. However, the ageing of the population is not only affecting the pension system, but will also require major changes in the area of health care, long-term care and education.

4.1 Development of Parametric Changes in the Pension System

In addition to macroeconomic and demographic projections (Table 4.1), factors affecting long-term projections include pension provision settings.

Among the parameters of the pension system, the first thing to mention is **the statutory retirement age**. With effect from 1 January 2018 (Act No. 203/2017 Coll.), the latest change so far has been to increase the retirement age until it is brought to 65 during the next decade. The Ministry of Labour and Social Affairs is mandated by law to assess the retirement age at regular five-year intervals and, if necessary, propose adjustments to the retirement age so that insured persons spend on average a quarter of their lives in old-age pensions. Several options for further increases in the retirement age are being discussed as part of the pension reform. The original proposal to link full life expectancy to its most recent development is likely to be modified so that, once the age has been equalised at 65 years and 8 months for the year of birth 1973, the subsequent increase is 1 month for each subsequent generation until the retirement age of 67 is reached (Chamber of Deputies Print No. 696). The ceiling should be reached in 2056 for the year of birth 1989, by which time it should be decided whether or not further increases are necessary.

The development of the statutory retirement age also affects the conditions of permanent **widow's and widower's pensions**, where the age limit is linked to old-age pensions. For **early retirement pensions**, the limit has been reduced to three years before the statutory retirement age. At the same time, the penalty for early retirement in the first two years has been tightened (the penalty is increased to 1.5% of the calculation base for each quarter) and the insurance period required for pension entitlement has been extended to 40 years (Act No. 270/2023).

Pension indexation is determined by the sum of the increase in the cost-of-living index for pensioners and one-third of the increase in real wages (Act No. 270/2023 Coll.). It is carried out once a year on 1 January, except for the case the inflation reaches at least 5% since the end of the previous reference period for indexation. In such exceptional cases, the percentage increase in earnings-related part of the benefit and the introduction of a temporary uniform allowance, both corresponding to 30% of the price increase, are introduced. The remaining increase in line with inflation will then be implemented in January of the following year. There is discretionary pension indexation with effect from 2017 (Act No. 212/2016 Coll.). If the increase in the average pension under the statutory indexation does not reach 2.7%, the Government is authorised to adjust pensions up to this level by decree. In other cases, the statutory indexation formula is applied. A major change in pension indexation is the restriction on early pensions (Act No. 270/2023). These pensions are not indexed in their earnings-related part from the time of granting the early retirement pension until the statutory retirement age for full pension.

4.2 Pension Projections

Eurostat's current population projection (2023) predicts a 1.7% decline in the Czech population in the long term by 2070 compared to today. The dependency ratio, measured as the ratio of people over 65 to people of working age, is projected to reach approximately 47% by 2070. The development is not only a consequence of the decline in the number of people of working age, but also of the increase in life expectancy. The ratio of persons aged 85+ to persons aged 65+ is projected to more than double over the projection horizon (Graph 4.1).

The trend in long-term pension projections is primarily determined by demographic development and the statutory retirement age. This implies that pension expenditure is expected to grow more slowly relative to GDP until 2030. After 2030, the increase in the retirement age stops (under current legislation) and the larger cohorts born in the 1970s start to retire. This leads to a rather dramatic increase in spending to more than 11% of GDP just before 2060, with a subsequent decline to 10.4% of GDP at the end of the projection horizon in 2070 (Table 4.1, lower part). The decline in spending is driven by demographic factors, with less numerous cohorts born in the 1990s replace those born earlier during a demographic bulge.

The long-term projections of the MF CR work with constant **pension revenues** in line with a constant share of compensation of employees in GDP and a constant contribution rate. Given the projected expenditure path, we expect the balance to be negative over the entire projection horizon (Graph 4.2). Development in recent years has deepened the pension deficit. From a surplus of 0.3% of GDP in 2019, the system recorded a deficit of 0.7% of GDP in 2020. In contrast, in 2021 the system ended up nearly balanced, due to resumption of revenue growth and the pandemic strongly reflected on the expenditure side by a decline in the number of pension beneficiaries. As a result of declining real wages and lower social security contributions' dynamics on the one hand, and a significant increase in inflation leading to two extraordinary indexations in 2022, the balance of the pension system fell back into deficit of more than 0.3% of GDP. In 2023, the deficit widened to almost 1% of GDP, contributed to by the extraordinary indexation from June 2023. Around 2030, we project a deficit of 0.2–0.3% of GDP, after which the balance should deteriorate more sharply due to demographic development, widening the balance down to −3.4% of GDP around 2060. In the last decade of the projection (see above), the deficit should start to decline, falling by around 0.6 pp by the end of 2070.

Compared to previous EC projections (2021c), we currently expect a lower expenditure-to-GDP ratio (Graph 4.3), which should be around 0.8% of GDP lower at its peak. One of the reasons for this is more favourable demographic and macroeconomic assumptions which have a positive impact on the ratio, especially in the first two decades of the projections. Thereafter, the effect of the amendment to the Pension Insurance Act will start to become more pronounced. The impact of the change in pension indexation (depending on a lower adjustment for the real wage growth rate from one half to one third and on the exclusive use of the pensioners' cost-of-living index) amounts to around 0.4–0.5% of GDP, and the tightening of the conditions for early retirement pensions can be attributed to less than 0.1% of GDP. The original proposal for the second part of the pension reform envisaged a reduction in expenditure of 2.2% of GDP in the long run, which could be about 0.7 pp lower due to different adjustment of the retirement age.

The assumptions of the baseline scenario for such a long horizon are, of course, subject to considerable uncertainty. A change in assumptions can then be quite important for the sustainability assessment. For this reason, several alternative scenarios are calculated.

Investment that would increase the **growth rate of total factor productivity** by 0.2 pp would lead to a 0.2 pp decrease in the ratio of pension expenditure to GDP. A scenario of a drop in total factor productivity would have a negative impact on expenditures of a similar scale, pushing them up by 0.3 pp (Graph 4.4).

A two-year increase in **the life expectancy** would increase pension expenditure by 0.7 pp due to a longer average duration of old-age pensions (see Graph 4.5).

A 20% lower **fertility rate** would burden the pension account with 0.6 pp higher expenditure (Graph 4.6). However, the fertility rate already increased substantially several years ago and is likely to fall rather than rise in the coming years. At the same time, under the current setting of pension system parameters, spending over a given horizon declines relatively with higher fertility, but the pressure on the pension system will be all the greater beyond its end, i.e. after 2070.

The **retirement age** plays a significant role in the evolution of expenditure. Continuing to raise it above the current statutory ceiling of 65 years, in line with the evolution of life expectancy, would reduce expenditure pressures by up to 1.4% of GDP in the long run (Graph 4.7). Conversely, stopping further growth almost immediately and fixing the retirement age at 63 would bring additional spending pressures to deepen the system deficit by up to 1.2% of GDP in 2070.

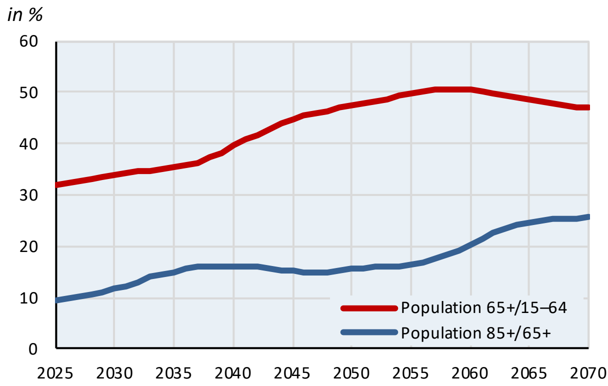
The last scenario works with a different assumption on the **migration balance**, which in the long run of the baseline scenario is on average around 25,000 people. It turns out that a one-third higher net annual inflow of people from abroad would reduce expenditure by 0.3% of GDP at the end of the projection horizon (Graph 4.8). Conversely, a one-third lower net migration balance would increase expenditure by 0.4% of GDP.

Table 4.1: Basic Demographic and Macroeconomic Assumptions and Pension Expenditure Projections

		2022	2030 *Projection*	2040 *Projection*	2050 *Projection*	2060 *Projection*	2070 *Projection*
Hourly labour productivity	*change in %*	0.5	1.6	2.3	2.0	1.6	1.2
Real GDP	*change in %*	2.5	1.3	1.6	1.6	1.6	1.2
Participation rate (aged 20–64)	*%*	83.1	81.9	81.0	81.4	82.1	81.5
Unemployment rate (aged 20–64)	*%*	2.2	2.6	2.7	2.7	2.6	2.6
Population aged 65+	*% of total population*	20.4	21.5	24.3	27.3	28.6	27.4
Total pensions	*% of GDP*	**8.7**	**8.0**	**9.2**	**10.6**	**11.0**	**10.4**
Old-age pensions	*% of GDP*	7.3	6.8	7.9	9.4	9.7	9.2
Disability pensions	*% of GDP*	0.9	0.7	0.7	0.6	0.6	0.6
Survivors' pensions	*% of GDP*	0.5	0.5	0.6	0.6	0.7	0.6

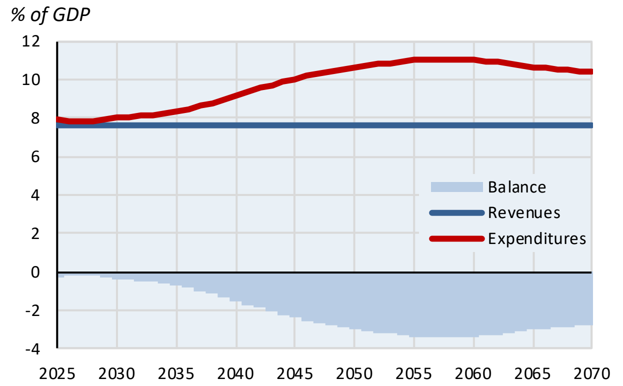
Note: The values in the table correspond to the assumptions of the long-term projections at the time they were made in the first half of 2023.
Source: EC (2023), Eurostat (2023), MF CR calculations.

Graph 4.1: Dependency Ratio and 85+/65+ Ratio
in %



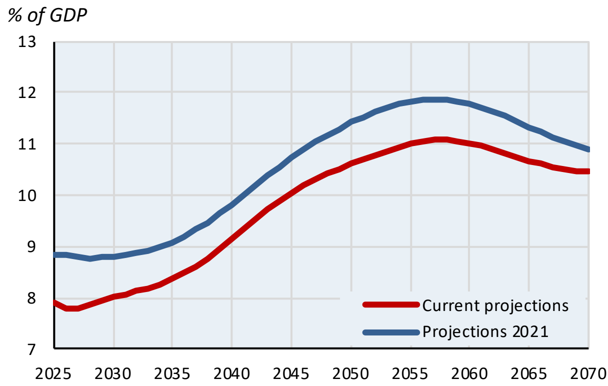
Source: Eurostat (2023). MF CR adjustment.

Graph 4.2: Pension Revenue, Expenditure and Balance
% of GDP



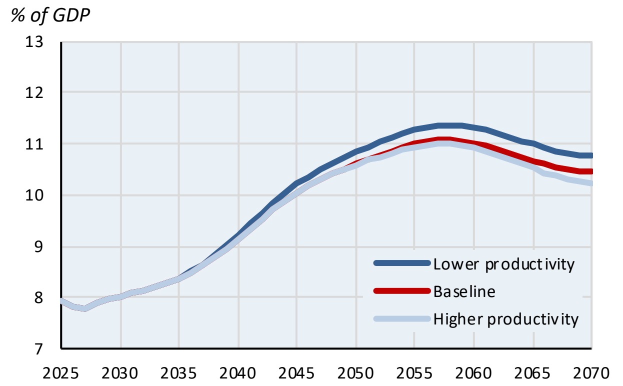
Source: MF CR calculations.

Graph 4.3: Previous and Current Expenditure Projections
% of GDP



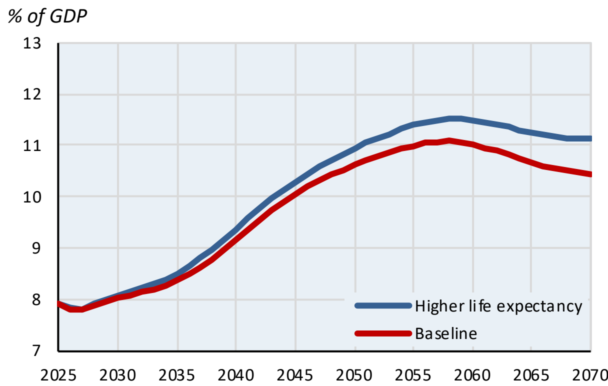
Source: MF CR calculations.

Graph 4.4: Alternative Productivity Scenarios
% of GDP



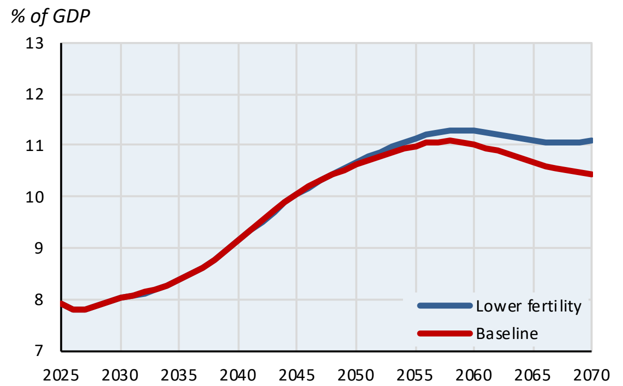
Source: MF CR calculations.

Graph 4.5: Alternative Life Expectancy Scenario
% of GDP



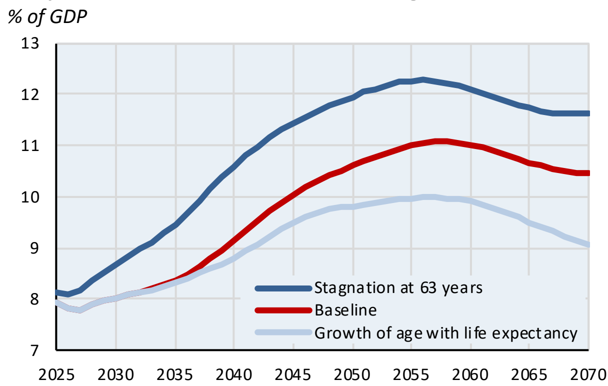
Source: MF CR calculations.

Graph 4.6: Alternative Fertility Rates Scenario
% of GDP



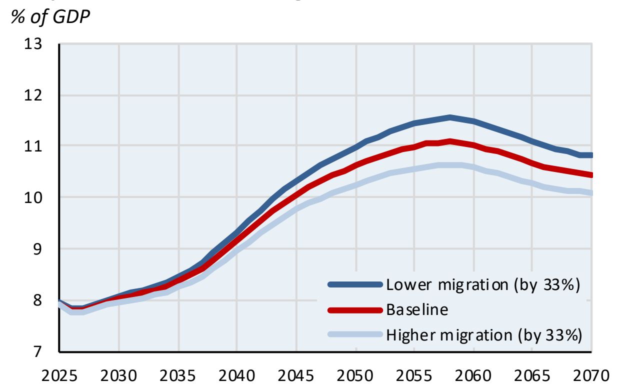
Source: MF CR calculations.

Graph 4.7: Alternative Retirement Age Scenarios
% of GDP



Source: MF CR calculations.

Graph 4.8: Alternative Migration Scenarios
% of GDP



Source: MF CR calculations.

5 New EU Fiscal Framework and its Domestic Implications

Even before the outbreak of the covid-19 pandemic, there was already debate in the EU about the need for a new fiscal framework that would ensure the stability of public finances without jeopardising the green and digital transformation. However, the predominantly supply-side crises at the beginning of this decade required significant public resources to cushion the socio-economic impact. There was a loosening of requirements for fiscal responsibility at EU and national level. Work on new rules for the EU's fiscal framework continued intermittently and resulted in the release of a package of three legislative acts at the end of April 2024. The chapter deals not only with the initial conditions of the reform and its content, but also with its impact on the Czech legal order. Finally, attention is paid to the Czech Fiscal-Structural Plan, the key document replacing the Convergence Programme and the National Reform Programme.

A new plan for a comprehensive review of fiscal rules based on the Stability and Growth Pact was launched in 2019. Among the major problems of the existing legislation was, among others, the weak enforceability of the rules (Dudáčková, 2020). In the period 2002–2019, fiscal rules were only 55% complied with (Morda, 2021). The new framework initially worked with the idea of simplification and setting more realistic debt reduction targets. The rules were not intended to exacerbate the difficulties for economies facing cyclical economic fluctuations (Dudáčková, 2020). The European Fiscal Council also argued in favour of a change along these lines, proposing *"a simple medium-term debt ceiling and one operational target, namely, a ceiling on the growth rate of primary expenditure net of discretionary revenue measures, and an escape clause triggered on the basis of independent economic judgement."* (EFB, 2019).

The urgency of reforming fiscal rules was underlined by the need to strengthen the role of fiscal policy. The latter was seen as crucial not only because of the limited monetary policy options at the time due to low or zero interest rates, but also because of the constraints of the ECB, which could not respond to divergent developments in individual Member States with a single monetary policy for the euro area. They therefore have to rely primarily on their own fiscal policy measures in addition to structural policies, e.g. in the labour market (MF CR and CNB, 2024). The crises at the beginning of this decade highlighted the importance of sufficient fiscal space and the effectiveness of fiscal policy in responding to substantial crises. In addition, authors such as Truger (2020) emphasize that allocating more space for investment in key areas such as infrastructure, education and research is essential to ensure long-term economic growth and stabilization.

In early February 2020, the EC (2020a) presented a report reviewing the implementation of the EU's fiscal rules to date. It concluded that the existing legal framework had not succeeded in reducing public debt sufficiently, especially in countries with high levels of debt. Moreover, the 3% deficit reference value was seen by many highly indebted countries as a target rather than a ceiling as originally intended. In contrast, the corrective arm of the Stability and Growth Pact proved to be a broadly effective instrument for reducing excessive deficits. This was particularly true for the first half of the 2010s, when the most substantial fiscal-structural changes actually took place, the rest of the decade was characterised by higher-than-expected economic growth, which reduced the relative level of deficits but did not address their causes. It should be noted, however, that 16 Member States reached, or were close to, their medium-term budgetary objectives (EC, 2020b). The procedure for drafting budgetary plans proved to be useful as it allows for early identification of fiscal risks and a degree of ex ante coordination. Strengthening national fiscal frameworks contributed to improved outcomes.

Conversely, as already mentioned, weaknesses included poor enforcement of fiscal efforts, especially in euro area countries. Moreover, the Council of the EU and the EC were reluctant to launch enforcement procedures against Member States and to impose financial sanctions. The described complexity of the fiscal framework was also related to the fact that it consisted of several rules, linked to different indicators assessing compliance with the rules, contained various clauses allowing deviations from the required pace of fiscal adjustment, with specific criteria for triggering each of them. The EC (2020a) hoped that the simplification of the fiscal framework would increase "national ownership" (in the sense of assuming the responsibility of individual states), improve mutual communication and reduce the political costs of enforcement and compliance.

From a different perspective, the lack of public investment, which countries cut back in the wake of the Great Recession, was problematic. However, this may have had a negative impact on potential growth in economic output and debt dynamics. Moreover, a combination of sufficiently high public and private investment has been one of the key success factors for the transition to a green economy, including the achievement of climate neutrality by 2050 as well as the targets stemming from the *Fit for 55* climate package (EC, 2020a; 2024d).

5.1 The Substance of the EU's New Fiscal Framework

5.1.1 The Road to New Fiscal Rules

The purpose of the economic governance review was to assess how effective the macroeconomic framework had been in ensuring economic growth and sustainable public finances, in preventing risks of macroeconomic imbalances, ensuring the coordination of economic policies and promoting convergence between Member States (EC, 2024d). However, by this time, the first of the obstacles complicating the implementation of the fiscal framework reform was already becoming apparent – the pandemic of covid-19. It was the outbreak of the pandemic in March 2020 that triggered the general escape clause, which provided Member States' budgets with the flexibility to cope with the health and economic consequences of the pandemic during the crisis. The clause was extended in May 2022 due to the impact of the Russian Federation's military aggression against Ukraine, and was finally deactivated at the end of 2023. These crises delayed work on the EU's fiscal framework review by almost two years (Papunen, 2024).

In September 2021, in her State of the Union Address, the EC President announced the resumption of discussions on the governance review, with the aim of reaching a consensus on the way forward in time for 2023 (EC, 2021a). However, the review of the economic governance framework, which was relaunched in October, already had to take into account the new challenges highlighted by the pandemic (EC, 2021b). It also included a survey among various stakeholders in EU Member States and beyond to stimulate debate on the review of the economic governance framework and to secure broad stakeholder consensus. Respondents to the survey expressed the view that EU economic governance should be more growth-friendly, mindful of social issues and support policy priorities for green and digital transformation (EC, 2024d).

The new framework was to integrate fiscal, reform and investment dimensions in order to address not only existing challenges but also those arising in the near future (EC, 2022).

At the end of April 2023, the EC issued legislative proposals to amend the current EU fiscal framework. After more than a year of negotiations and adjustments, the final versions of these documents were published in the Official Journal of the EU:

- Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97;
- Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure;
- Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

5.1.2 The New EU Fiscal Framework

Table 5.1 describes the substance of the key changes made to EU legislation. The major new feature of the preventive arm of the Stability and Growth Pact, as modified by the new **Regulation (EU) 2024/1263 of the European Parliament and of the Council**, is the need to prepare national medium-term fiscal-structural plans.[9] These plans include a binding multiannual net expenditure path and an explanation of how the Member State will implement investments and reforms responding to the main challenges identified in the European Semester, in particular in the country-specific recommendations, and how it will address selected common EU priorities. Net expenditure is then defined in the Regulation as general government expenditure net of interest expenditure, expenditure on EU programmes including national co-financing, discretionary revenue measures, one-off or other temporary measures and cyclical elements of unemployment benefit expenditure. The net expenditure path is then the multi-annual trajectory for net expenditure of a Member State. Table 5.2 specifies the procedure for its calculation from total nominal expenditure. In the plans, Member States commit to keeping net expenditure in nominal terms below a specified annual (and subsequently cumulative) growth rate that ensures compliance with the requirements for the sustainability of public finances, and to comply with debt and deficit safeguards. The net expenditure path is therefore the only operational indicator for assessing the implementation of the new fiscal framework and the triggering of enforcement procedures (see below).

The legislation maintains debt ceiling of 60% of GDP and deficit ceiling of 3% of GDP. If these reference values are exceeded, the EC provides the Member State concerned with a reference trajectory of net expenditure covering the four-year adjustment period and its possible extension before the preparation of the fiscal-structural plans. For a Member State's net expenditure path that is higher than the one set by the EC in the reference trajectory, the Member State is required to provide in its plan sound and data-driven economic arguments explaining the difference. Member States, whose public debt and deficit do not exceed the above-mentioned reference values, may request prior guidance from the EC in the form of so-called technical information before

[9] Fiscal-structural plans cover a period of four or five years, depending on the regular length of the legislative term in the Member State concerned, as required, inter alia, by Article 2(6) of the Regulation in question.

drawing up their national medium-term fiscal-structural plans. This concerns the primary structural balance that the country should achieve at the end of the medium-term fiscal-structural plan horizon, which is sufficient, taking into account the costs of ageing, to keep the deficit below 3% of GDP and to maintain the debt level below 60% of GDP over the next 14 years. The specific expenditure trajectory is then to some extent chosen by Member States themselves on the basis of the necessary fiscal effort, potential output growth and the GDP deflator (EC, 2024d). The technical information is thus somewhat reminiscent of the medium-term budgetary objective (MTO), the former main target indicator, in its character of the primary structural balance.[10]

As of spring 2024, the current EU fiscal framework relies primarily on the above-mentioned expenditure rule. However, since 2011, a similar solution could be found in the original rules – the expenditure benchmark. It provided for net expenditure growth that was directed towards the medium-term budgetary objective and subsequently helped to maintain it. The expenditure benchmark was intended to provide *"more operational guidance to Member States in the conduct of prudent fiscal policies by focusing surveillance on indicators directly under the control of the government"* (Marinheiro, 2020). In reality, however, it was criticized because it was not directly under the control of the government; it still relied, like the MTO, on unobservable variables (potential output growth, structural balance) and on data inputs that were not readily available; moreover, the EC had a lot of discretion in classifying discretionary revenue measures, etc. Therefore, it appeared unsuitable for real-time monitoring by national independent fiscal institutions (IFIs).

The period of fiscal adjustment contained in the fiscal-structural plan can be extended to up to seven years, subject to a commitment to a set of reforms and investments that increase the growth and resilience potential of the economy, improve the sustainability of public finances, respond to country-specific recommendations, ensure that nationally-financed public investment is sustained during the fiscal-structural plan and respond to common EU priorities.[11] These plans, including the net expenditure path, are approved by the Council of the EU (composed of the Economic and Financial Affairs Council – ECOFIN). Deviations from the country-specific net expenditure path are recorded in the control account.

The above reference trajectories are designed to take into account the specificities of Member States and indicate how to ensure that public debt changes plausibly downwards during the fiscal adjustment period and stays at a prudent level over the medium-term.[12] The reference trajectories also need to reflect the debt and deficit safeguards. For debt levels above 90% of GDP, the reference trajectory should ensure that the debt-to-GDP ratio is reduced by at least 1 pp per year on average. For debt levels between 60–90% of GDP, the reference trajectory should ensure that the debt-to-GDP ratio is reduced by at least 0.5 pp per year on average. The annual improvement in the primary structural balance to achieve the required resilience margin is 0.4 pp of GDP (0.25 pp of GDP in the case of an extension of the adjustment period). Due to the submission of national fiscal-structural plans, convergence or stability programmes and national reform programmes will no longer be prepared.[13]

The first national medium-term fiscal-structural plans, the content of which will be implemented from 2025 onwards, were prepared by Member States and should have been submitted by 20 September 2024, unless there was an agreement with the EC on a reasonable extension of the deadline. The EC starts assessing the plans as soon as they are submitted and should publish its assessment within six weeks of receipt. This deadline can be extended by a further two weeks if necessary (EC, 2024b).

The EC examines whether the Member State's net expenditure path is consistent with the requirements that public debt be put on or remain on a plausibly downward path by the end of the adjustment period, or remain at a prudent level below 60% of GDP, and that the general government deficit be brought below and remain below 3% of GDP over the medium-term. For countries with an issued reference trajectory, the EC concludes whether the requirements of the reference trajectory have been met, based on risk assessment and safeguards for debt sustainability and deficit resilience. It also verifies compliance with the requirements for the fiscal-structural plans themselves and the conditions for extending the fiscal adjustment period. With a recommendation, the EC then sends the plans to the Council of the EU for approval. The EC monitors the net expenditure path approved by the Council of the EU through the control account. The balance accumulated

[10] The medium-term budgetary objective (MTO) was expressed as the general government structural balance. It was designed to allow a Member State to build up a sufficient buffer against the −3% of GDP balance reference value during normal cyclical fluctuations, to take gradual steps towards the sustainability of its public finances and to allow room for any necessary budgetary operations.

[11] Common priorities under Article 13(c) of Regulation (EU) 2024/1263 include:

- a fair green and digital transformation, including climate objectives,
- social and economic resilience, including the European Pillar of Social Rights,
- energy security and
- build-up of defence capabilities if necessary.

[12] This implies that there is at least a 70% probability that the debt will decline, based on a stochastic debt sustainability analysis, and also that this can happen even under pre-defined adverse assumptions about interest rates, GDP and the primary structural balance (Darvas, Welslau, and Zettelmeyer, 2024).

[13] Non-euro area countries submitted convergence programmes, while euro area Member States prepared stability programmes.

in this account is the sum of the annual positive and negative deviations of actual net expenditure from the net expenditure path set by the Council of the EU. It is reported as a percentage of GDP.

During the adjustment period, Member States are required to produce and publish an annual progress report by 30 April each year. This includes an assessment on the implementation of the national medium-term fiscal-structural plan, including the net expenditure path set by the Council of the EU, and on reforms and investments. The EC assesses the report.

Council Regulation (EU) 2024/1264, amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, updates the excessive deficit procedure, primarily on the debt criterion. The process is adapted to the new fiscal framework, so the information in the control account is the basis. In order to trigger the Excessive Deficit Procedure, the EC is instructed to prepare a report on the fulfilment of the deficit and debt criteria if the debt-to-GDP ratio exceeds the reference value, if the budgetary position is not close to balance or in surplus and if the deviations recorded in the Member State's control account exceed the thresholds set at 0.3 pp of GDP per year and/or 0.6 pp of GDP cumulatively. The budgetary position shall be considered to be close to balance if the general government deficit does not exceed 0.5% of GDP.

In preparing the report, the EC must focus on the severity of the problems related to the level of public debt, its evolution, financing and related risk factors, including ageing liabilities. Furthermore, the report should reflect the evolution of the medium-term budgetary situation, in particular the extent of the actual deviation from the net expenditure path (as reported in the control account), the evolution of the medium-term economic situation (including potential output, inflation and cyclical developments compared to the assumptions used to construct the net expenditure path). Finally, the EC should focus its attention in the preparation of the report on the progress in the implementation of reforms and investment, as well as reflecting the increase in government investment in defence. When initiating the excessive deficit procedure under the deficit criterion, the corrective regulation operates with a minimum annual structural adjustment of at least 0.5% of GDP as the recommended value. In the case of debt criterion triggering, the corrective net expenditure path is expected to be at least as ambitious as the net expenditure path set by the Council of the EU. Cumulated deviations of the control account are to be corrected within the timeframe set by the Council of the EU. If euro area countries do not comply with the required one, they can be fined (up to 0.05% of the previous year's GDP) for every 6 months until the Council of the EU decides that the Member State has taken effective action.

According to **Council Directive (EU) 2024/1265** amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, there is an explicit obligation to establish at least one independent fiscal institution (IFI), which will be functionally autonomous from the budgetary authorities (EC, 2024b). This provision is one of the most significant changes containing minimum standards for independence, technical capacity and tasks for national IFIs.

The original text of the Directive also referred to IFIs, for example in Article 6(b): *"…country-specific numerical fiscal rules shall contain specifications as to the following elements: (…) effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States."* In the euro area, Article 5 of Regulation (EU) No 473/2013 has already established independent bodies monitoring compliance with fiscal rules. Article 2 therein clearly defines the qualitative requirements for "independent bodies" as well as for "independent macroeconomic forecasts".

The directive requires IFIs to produce, assess or endorse annual and multiannual macroeconomic forecasts, to monitor compliance with applicable country-specific numerical fiscal rules, and to undertake tasks arising from certain provisions of the preventive and corrective arm of the Stability and Growth Pact. In addition, IFIs are to assess the consistency, coherence and effectiveness of the national budgetary framework and their representatives should also attend regular hearings and debates in the national parliament by invitation. One of the objectives of strengthening the role of the IFIs is to generate a broader discussion on domestic fiscal policy, leading to a higher degree of national ownership. National budgetary authorities are to follow the "comply or explain" principle regarding the recommendations of these institutions (EC, 2024b). The amendments to the Directive also focus on increasing transparency of fiscal risks related to climate change. The Directive commits the EC to review its effectiveness by 31 December 2030 and every five years thereafter.

5.2 Implications for the Czech Legal Framework

The fiscal rules were anchored in the Czech legal system by transposing Directive 2011/85/EU and implementing the relevant regulations. In this context, Act No. 23/2017 Coll., on Fiscal Responsibility Rules, Amendment Act No. 24/2017 Coll. and Act No. 25/2017 Coll., which transposed the part of the Directive devoted to statistical data, play a dominant role. The new legislation in the form of Council Directive (EU) 2024/1265 will require changes to Czech legislation. Member States are obliged to transpose the Directive into their legal system by 31 December 2025.

5.2.1 Independent Fiscal Institutions

The Act on Fiscal Responsibility Rules establishes the Czech Fiscal Council (hereinafter "the Council") as "*an independent expert body operating in the field of fiscal and budgetary policy"* (Section 21(1)). A number of requirements for independent fiscal institutions arising from the provisions of Council Directive (EU) 2024/1265 are already fulfilled by the law (Table 5.3). These include in particular the requirements for independence or eligibility and the selection of its members. The Council in the Czech Republic consists of a chairman and two other members. The chairman is proposed by the Government, the other two members one each by the Senate and the Czech National Bank. They are then elected by the Chamber of Deputies on the basis of these proposals. The Chairman and the members of the Council have a six-year term of office, and their performance of their office is limited to two terms only. In order to avoid conflicts of interest of the Council's members, the law specifies exhaustively the functions with which their performance is incompatible. Financial independence is ensured by the fact that the expenditures for the activities of the Council and its office are covered by a separate chapter of the state budget; moreover, the Council submits the draft budget to the Budget Committee of the Chamber of Deputies, not to the MF CR. The activities of the Council from the accounting point of view are subject to the control of an auditor. However, in terms of its competences and activities, the law does not yet provide for regular external evaluation by independent evaluators as a new requirement of the Directive. As regards the relationship between the Council and the MF CR, the existing law has already introduced the "comply or explain" principle for some cases. In practice, this means that if the MF CR disagrees with the Council's position, it must explain its position publicly. This applies in particular to the procedure for deriving the expenditure framework of the state budget and state funds (Article 12 of the law) or for determining the total expenditure of the public sector (Article 10). On the other hand, e.g. when including unplanned expenditure arising from other external factors (Article 11(4)), the corrective component of the fiscal rule can only be adjusted with the consent of the Council. The Directive also newly mentions the need to make explanations available within two months from the issuance of the relevant opinion.

The main tasks of the Council defined by the law include assessing the implementation of numerical fiscal rules, which are mainly the debt limit rule, determining the total expenditure of the public sector, deriving the expenditure framework of the state budget and state funds, and the debt rule of local governments. The Council shall draw up and submit to the Chamber of Deputies a report on the fulfilment of these tasks. It also ascertains the level of general government debt and announces it in the Collection of Laws and International Treaties on the basis of data from the Czech Statistical Office and monitors the development of the general government sector's performance. As already mentioned, the Council draws up an opinion on the calculation of the value of the corrective component. Finally, it also prepares and submits to the Chamber of Deputies a report on the long-term sustainability of public finances, which includes an assessment of how the planned government policies are likely to affect the sustainability of public finances through their direct long-term effects.

5.2.2 Budgetary Forecasts

The Directive newly requires IFIs to produce, assess or endorse annual and multiannual macroeconomic forecasts. For these purposes, the Committee on Budgetary Forecasts was established by the Act on Fiscal Responsibility Rules. For the purpose of public budget planning, it independently, *"…regularly and comprehensively assesses in advance the macroeconomic and fiscal forecasts of the public sector prepared by the Ministry [of Finance], in particular in terms of the likelihood of their fulfilment"* (Article 19(2)). The Directive's requirement for the functional independence of entities assessing forecasts in relation to the fiscal authorities of the member states is fulfilled on several levels. First, although the members of the Committee are appointed by the government for a period of three years, they are proposed exclusively by the Council. Second, according to the Committee's statute, only a representative of a private or public institution independent of the government can be a member of the Committee (MF CR, 2018), where macroeconomic and/or fiscal forecasts are actively prepared on a regular basis. Third, the expenditures for the Committee's activities are covered by the MF CR from its budget. Fourth, the amendment of the Committee's statute and rules of procedure must come from a joint proposal of the MF CR and the Council. However, neither the Act nor the statute specifies the new directive's requirement for regular external evaluation of IFIs.

Council Directive (EU) 2024/1265 also refers to the activities of IFIs associated with Regulations 2024/1263

and 2024/1264. Based on their letter, a Member State may request the IFI to issue an opinion on the assumptions or forecast underlying the net expenditure path, as well as to assess the consistency of the actual fiscal outturn figures reported in the annual progress report with the net expenditure path set by the Council of the EU. A Member State which has been decided to be in excessive deficit and to which the Council of the EU has forwarded its recommendations for correction on this basis, to request the preparation of a non-binding separate report from the relevant IFI on the sufficiency of the measures taken and planned with respect to the consolidation targets.

5.2.3 National Medium-term Budgetary Frameworks

Some provisions of Regulation (EU) 2024/1263 of the European Parliament and of the Council will also apply to the above-mentioned Act. The law will have to adapt to the fact that the Convergence Programme, which served the role of economic policy coordination and was used for the surveillance of the Council of the EU under Article 121 Treaty on the Functioning of the European Union, will no longer be created. This role is now fulfilled by the National Fiscal-Structural Plan (Section 5.3). The Convergence Programme was part of the Budgetary Strategy of the Public Institutions Sector of the Czech Republic, which always started the budgetary process by re-drawing the expenditure ceilings for the state budget and state funds for the following three years.

The requirements for national medium-term budgetary frameworks are set out in the Directive on requirements for budgetary frameworks of the Member States. National medium-term budgetary frameworks are defined in the Directive as a specific set of national budgetary procedures that extend the time horizon for fiscal policy-making beyond annual budgetary planning, including the setting of policy priorities and national budgetary objectives over medium term. These targets should be consistent with all country-specific numerical fiscal rules as well as those based on EU legislation.

The major changes concern the description of planned medium-term policies, which must now also include reforms and investments with an impact on public finances and sustainable and inclusive growth. It should also include an assessment of how the planned policies are likely to affect both the medium- and long-term sustainability of public finances and sustainable and inclusive growth through their direct medium- and long-term impacts on public finances. This assessment should also now take into account the macroeconomic and fiscal risks associated with climate change and its environmental and distributional impacts.

5.2.4 Mandatory Disclosure of Information

Currently, the obligation to publish information is regulated by Articles 6 and 7 of Act No. 23/2017 Coll. The MF CR publishes a list of government institutions on the basis of information provided by the Czech Statistical Office. At least once a year, the MF CR publishes information on contingent liabilities and other potential performance obligations with an expected significant impact on public finances, broken down into guarantees, debts arising from the activities of public companies; as well as loans, credits and repayable financial assistance provided by public institutions whose principal or interest payments are 90 days or more past due, major holdings in business corporations and other holdings held by government institutions. Last but not least, the MF CR also calculates and publishes information on estimates of the impact of tax concessions that can be considered as expenditures made through the tax system. In addition, the MF CR publishes monthly or quarterly, depending on the type of government institution, at least total revenue, expenditure and balance.

Under the new requirements of the Directive, information on contingent liabilities related to disasters and climate change should still be added to a realistic extent. These requirements will be specified during the first quarter of 2025, when the EC will issue the methodology.

The changes also concern the frequency of publication of fiscal data and the nature of the data. It will no longer be necessary to compile and publish monthly or cash quarterly data on the performance of government institutions. Quarterly debt and deficit data for all general government institutions should now be published on an accrual basis.

5.2.5 Numerical Fiscal Rules

Act No. 23/2017 Coll. contains several numerical fiscal rules. This includes a debt ceiling for the entire general government sector of 55% of nominal GDP after deducting the cash reserve in financing the state debt. Furthermore, a minimum structural balance is set, which normally amounts to at least −1% of forecasted nominal GDP. However, in reality, the MTO (see Section 5.1.2), set at −0.75% of GDP, was applied in the design of expenditure ceilings (MF CR, 2024a).[14] The management of local governments is subject to a debt rule that ensures the solvency of the respective municipality, city or region. The debt should not exceed 60% of the average of the last 4 years' revenues of an individual local government. In case of an overrun, the Act sets the minimum repayment amount as 5% of the difference between the actual debt and the debt corresponding to 60% of the average revenue.

Council Directive (EU) 2024/1265 reflects national requirements for escape clauses in Member States'

[14] In response to the conditions of the recent crises, amendments to Act No. 23/2017 Coll. in the form of Acts No. 207/2020 Coll. and No. 609/2020 Coll. were adopted, which allowed for a lower minimum permitted structural balance. Most recently, the Act was amended by a consolidation package, Act 349/2023, which specified a gradual, steady annual reduction of the maximum allowed structural deficit back to a maximum of 1% of GDP in 2028.

fiscal rules. In addition to the general escape clause, Regulation (EU) 2024/1263 allows in Article 26 for a deviation from the net expenditure path set by the Council of the EU in certain exceptional circumstances outside the control of the Government. A deviation from the rule can be granted by the Council of the EU to a Member State on the basis of its request and an analysis by the EC. Nevertheless, the escape clause from the rule must not lead to a risk to the sustainability of public finances in the medium term and is limited in time. At the same time, the exception can be extended several times, but always for a maximum of one year.

In the Czech Republic, escape clauses are specified by the Act on Fiscal Responsibility Rules and, to some extent, by the Act on Budgetary Rules. They apply mainly to cases related to a state of emergency, state of national threat or war and deterioration of the security situation or natural disasters, as well as to cases of economic difficulties for a certain period of time and of a certain extent. Escape clauses can be applied both in the case of the debt rule and in the case of deriving the expenditure ceilings of the state budget and state funds, but also in limited cases when drafting the state budget bill for the following year.

5.2.6 Robustness of Current Czech Fiscal Rules and International Comparison

In terms of EU comparisons, domestic national rules are already relatively well set in a number of areas, while in other areas they are slightly losing ground. The EC (2024c) prepares a survey and a systematic, quantitative assessment of fiscal rules within the EU. The most recent data are available on fiscal rules for 2022. In any case, when interpreting the results of the survey and assessment, it is important to remember that *"there is no one-size-fits-all rule for every country"* (OECD, 2013). According to the EC (2024c), the strengths of the Czech rules include that the Government cannot arbitrarily change or temporarily suspend the objectives of the rules, except in well-defined situations. The nature of the body responsible for monitoring compliance with the rules and the corrective mechanisms is also commended. However, this only applies to the rules affecting the whole general government sector monitored by the Council; the debt rule applied to local governments is primarily supervised by the MF CR, although the Council submits a report to the Chamber of Deputies in which it also deals with the performance of local governments. The method of correction mechanisms in case of deviations from all three rules is also positively assessed, as the correction mechanism is triggered automatically and there are predefined rules defining the nature, size or timeline of the correction.

According to the EC methodology (2024c), the Czech fiscal rules are sub-optimal in terms of resilience to shocks or events outside the Government's control. However, the structural balance rule is an exception in this respect. The EC (2024c) further notes that the escape clauses of the domestic rules are not fully consistent with the Stability and Growth Pact. At this point, it is important to note not only the absence of some specific situations[15] in the Stability and Growth Pact, but also the way compliance is assessed. Its assessment is only binary, i.e. a positive assessment can only be obtained in the case of full compliance. The Czech fiscal rules also received a lower rating because there is no regular real-time monitoring (i.e. at least quarterly). However, this is rather a literal interpretation of the law, because in reality, according to its provisions in Article 21(2)(c), the Council issues quarterly opinions "on the development of the performance of the public sector and on the setting of fiscal and budgetary policy". At the same time, monthly information is available on the cash performance of the state budget, the budgets of state funds, local government budgets and the performance of the public health system or other entities. The legislative anchoring of fiscal rules is also a specific case. The Czech Republic is one of the few EU countries that does not have a single fiscal rule anchored at the level of a constitutional or at least "organic law".[16]

Table 5.4 shows a comparison of the Czech fiscal rules and their "strength" with neighbouring countries as measured by the EC. The Czech fiscal rule on the (structural) balance of the whole general government sector reaches a similar index level as the rules in neighbouring countries. For the debt rule for the whole general government sector, the difference is already more significant. Poland has the strongest fiscal rule in this respect. The weakest Czech fiscal rule is then the debt rule for local governments, although local governments have consistently posted non-negligible surpluses (Graph 5.7) and reduced their overall debt.

However, the strength of fiscal rules does not necessarily determine the success of individual countries in meeting the fiscal criteria over time. The relationship between the strength of the fiscal rules and relative debt is shown in Graph 5.3, and with respect to the deficit in Graph 5.4. In addition to the current observation, both charts also compare data for 2019, when external circumstances did not provide incentives to activate escape clauses from the rules. The data show that the correlation between the strength of the fiscal rules and the debt quota was weak. However, a stronger fiscal rules index tends to be associated with lower debt

[15] Section 10(4) of the Act on Fiscal Responsibility Rules explicitly refers, for example, to expenditures incurred "*…as a result of a deterioration of the security situation of the state associated with emergency measures declared by the government to increase its defence capacity, as a result of a state of emergency, state of national threat or state of war*", or large-scale expenditures associated with the elimination of the consequences of natural disasters, etc.

[16] Organic laws are those that require a more rigorous procedure than standard level laws but do not reach the level of constitutional law (Kysela, 2019). In the conditions of the Czech Republic, these are, for example, the acts listed in Article 40 of the Constitution of the Czech Republic.

levels. In the case of deficits, countries with a higher strength of the fiscal index have worse balances. This is due to the fact that countries such as Italy, France, Romania or Spain have relatively stronger fiscal rules, but at the same time (also due to escape clauses) have also achieved above-average deficits.

The EC (2024c) also surveys the so-called scope index of fiscal institutions. The calculation of the index is based on an analysis of six separate task groups:

- monitoring of compliance with fiscal rules,
- macroeconomic forecasting,
- budgetary forecasting and policy costing,
- sustainability assessment,
- promotion of fiscal transparency,
- normative recommendations on fiscal policy.

The relationship between this index and the level of indebtedness (Graph 5.5) appears to be positive, i.e. a higher scale index is also associated with higher indebtedness. For 2022, the relationship appears similar for the deficit (Graph 5.6). It is true that the larger scope index of fiscal institutions, the worse the balance (measured relative to GDP). However, the data for 2019 rather suggest no relationship.

In a more general, long-term perspective, the role of fiscal rules and independent fiscal councils is of course important. Aaskoven and Wiese (2018) come up with the finding that supranational rules in particular can lead to sustained debt reduction. On the other hand, it is less certain whether the mere existence of national fiscal rules can have an impact. However, both national and supranational fiscal rules have a greater impact on sustained debt reduction if they are embedded in a stronger national institutional framework. A more recent IMF study on the topic (Davoodi et al., 2022) concluded that frequent changes and increasing complexity of rules can undermine the transparency and credibility of the framework. The authors argue that independent fiscal institutions played an important role during the pandemic by analysing the impact of the pandemic, monitoring the use of escape clauses and costing of fiscal measures, and addressing the transparency of public policies. On the other hand, the authors of the study acknowledge that fiscal rules did not prevent a large and sustained increase in debt over time, although the rules proved flexible despite concerns. However, they point out that deviations from the deficit and debt rules were common in many of the countries studied, but reached new, unprecedented levels with the pandemic. From a deficit and debt perspective, a return to normal is not a short-term issue, especially for debt. This was seen after the Great Recession, when, although advanced economies slowly returned to pre-crisis deficit levels, their debt remained substantially elevated.

5.3 Fiscal-Structural Plan of the Czech Republic

National medium-term fiscal-structural plans are a completely new document for EU Member States in the area of the development and sustainability of public finances, replacing convergence/stability programmes and national reform programmes. In contrast to these previously annual documents, they are to be issued every four years, with the years falling within the four-year interval reserved for the annual assessment of the implementation of the plans. The main fiscal criterion is now the growth of net expenditure (see above). The emphasis is on the medium-term sustainability of general government debt and on investment. This subchapter offers an overview of the contents of the first Fiscal-Structural Plan of the Czech Republic (MF CR, 2024e).

5.3.1 Fiscal Criterion

The main criterion to be monitored is the net expenditure path, i.e. the year-on-year change in net nationally financed primary general government expenditure, which should not exceed the annual (and cumulative) growth rate set by the Council of the EU, ensuring compliance with the requirements of sustainability of public finances. In the current plan, the evolution of net nationally financed primary expenditure is affected until 2028.

As already mentioned, for countries that meet both the debt and the deficit criteria, the EC can issue a “technical information” at the request of a Member State. The Czech Republic has received a technical information from the EC to achieve a primary structural surplus of 0.4% of GDP by 2028. The setting of national legislation is in line with this requirement. Act No. 23/2017 Coll. cited above, on Fiscal Responsibility Rules, explicitly sets maximum structural deficits, i.e. including interest expenditure, for the years 2024 to 2027. In 2028, according to the law, a structural deficit of no more than 1% of GDP should be used to set expenditure ceilings. The initial data and assumptions are based on the August 2024 macroeconomic forecast of the MF CR and the notified data sent to Eurostat at the end of September 2024. These data show that if the structural deficit for 2028 were set at 1% of GDP, the primary structural balance would be 0.4% of GDP.

5.3.2 Macroeconomic and Fiscal Outlook/Projections

In terms of structure, the Fiscal-Structural Plan is somewhat similar to the Convergence Programme. However, it does not aim to discuss the short term, but rather the medium and longer term.

The section on macroeconomic development looks at GDP including its components, price development, the labour market, potential output and the economy’s

position in the cycle, and also focuses on assumptions about the world economy (e.g. exchange rates, oil prices, real GDP development in the EU, short- and long-term interest rates, etc.). The baseline macroeconomic forecast for the Czech Republic's Fiscal-Structural Plan was found to be realistic by the Committee on Budgetary Forecasts (CBF, 2024).

The section on fiscal developments monitors the main revenue and expenditure items and their development factors, the balance (including cyclical or structural adjustment), debt and discretionary measures of the general government sector. The current plan is therefore constructed for the period up to 2028, but the new emphasis is also on long-term projections of debt and related variables, which are to go up to 10 years beyond the horizon of the outlook (i.e. after the end of the 4-year adjustment period), i.e. for the period of 14 years following the year when the projection is calculated (i.e. now up to 2038). For countries for which reference trajectories have been issued, the projections should also include sensitivity scenarios; for countries with technical information, which is the case for the Czech Republic, sensitivity scenarios are usually not required.

Other variables for which the long-term projection to 2038 is prepared include not only the balance including the cyclical component, one-offs or the costs of population ageing, but also assumptions including potential output, real and nominal GDP and the GDP deflator or interest expenditure.

At the end of the adjustment period (i.e. by 2028), a primary structural balance of 0.4% of GDP should be achieved, which is implied, inter alia, by the structural deficit requirement of 1% of GDP imposed by Act No. 23/2017 Coll. However, the plan emphasises that additional revenue or expenditure measures with an impact of between half and one per cent of GDP will be needed to meet the legal requirements (for 2027 and 2028). Graph 5.8 shows the forecast and the plan of the maximum values of the primary structural balance, structural balance and debt in the Fiscal-Structural Plan of the Czech Republic.

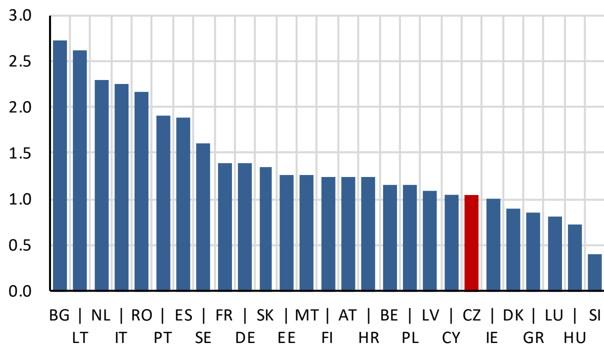
5.3.3 Reforms, Investment, Sustainable Development

An essential part of the Fiscal-Structural Plan of the Czech Republic is also a description of how the country will ensure the implementation of reforms and investments in relation to the country-specific recommendations of the Council of the EU (i.e. for the Czech Republic), how it will address reforms and investments addressing common EU priorities or how the country has responded to the recommendations under the Macroeconomic Imbalance Procedure.

The Fiscal-Structural Plan also contains a description of the contingent liabilities of the general government sector, similar to the Convergence Programme. Before the pandemic, the volume of guarantees provided in the Czech Republic was negligible. Currently, it is around 0.6% of GDP (MF CR, 2024e).

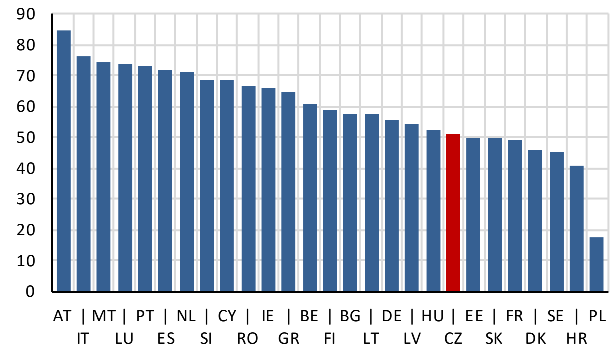
The chapter on reforms and investment is divided into four thematic areas, following the specific recommendations of the Council of the EU, namely decarbonisation, social systems, education, the labour market and affordable housing, and last but not least, modern public administration, including digitalisation. The emphasis in the text is on recommendations issued during the years 2019 to 2024, where no significant progress has been made in the Czech Republic's response.

Graph 5.1: Fiscal Rules Strength in the EU (2022)



Source: EC (2024c).

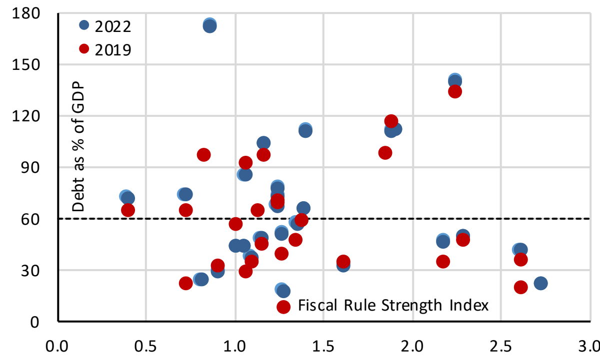
Graph 5.2: Scope Index of Fiscal Institutions in EU (2022)



Source: EC (2024c).

Graph 5.3: Debt and National Fiscal Rule Strength in EU

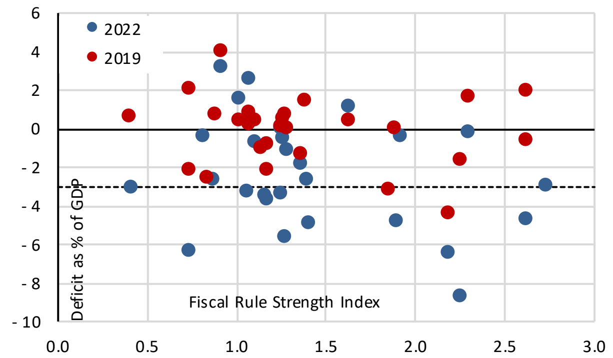
debt in % of GDP, fiscal rule strength index



Source: EC (2024c), Eurostat (2024a).

Graph 5.4: Deficit and National Fiscal Rule Strength in EU

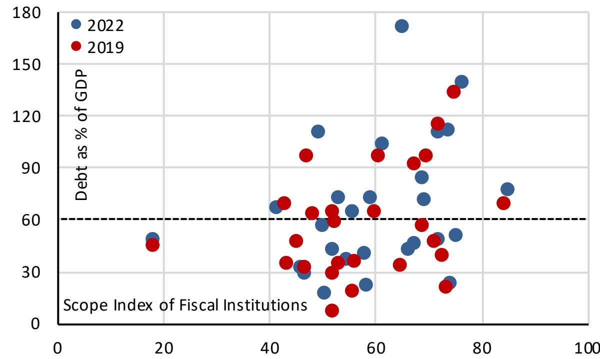
deficit in % of GDP, fiscal rule strength index



Source: EC (2024c), Eurostat (2024a).

Graph 5.5: Debt and SIFI in the EU

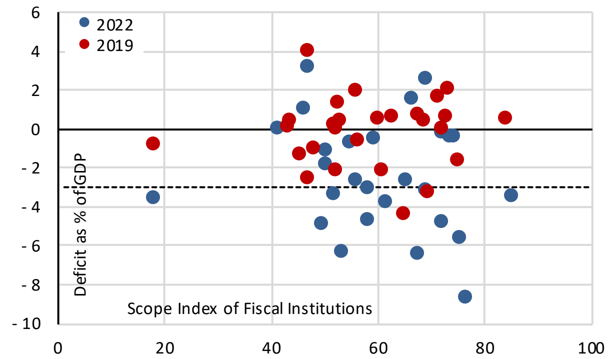
debt in % of GDP, scope index of fiscal institutions



Source: EC (2024c), Eurostat (2024a).

Graph 5.6: Deficit and SIFI in the EU

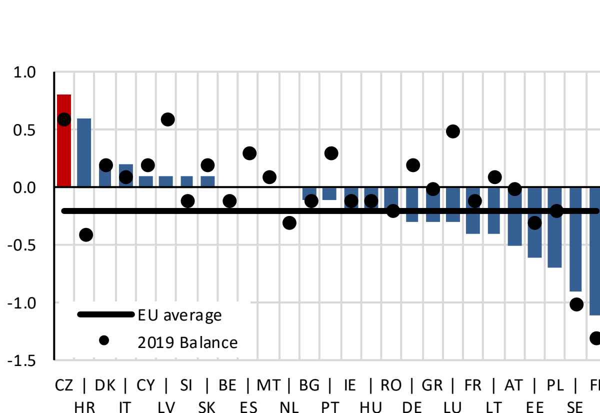
deficit in % of GDP, scope index of fiscal institutions



Source: EC (2024c), Eurostat (2024a).

Graph 5.7: Local Budget Balance in the EU (2019, 2023)

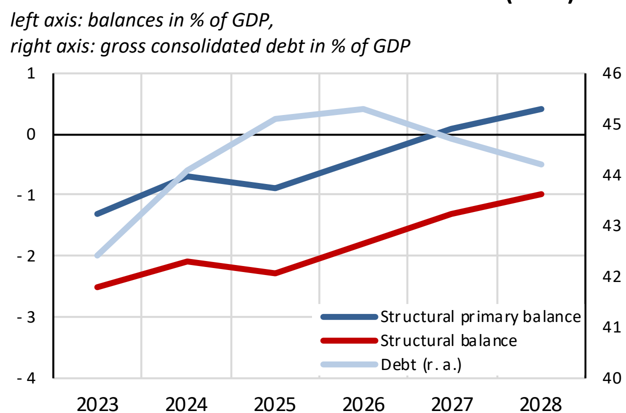
% of GDP



Source: Eurostat (2024a).

Graph 5.8: Prediction and Plan of Limit Values of Fiscal Indicators in the Czech Fiscal-Structural Plan (2024)

left axis: balances in % of GDP,
right axis: gross consolidated debt in % of GDP



Source: MF CR (2024e).

Table 5.1: Changes of the Legislative Framework in the EU in General Keypoints

Old legal framework	New legal framework
Weak enforceability (especially in highly indebted countries) and punishability	Improved enforceability, increased "ownership"
Strict and complex rules	Softer requirements for debt reduction (no longer 1/20, but debt convergence and maintaining it at a prudent level), "emphasis on a net expenditure path"
The corrective arm relatively effective in reducing the debt – but structural reforms were carried out rather only in the first half of the last decade	Reforms and investments as part of the fiscal-structural plan, including in common EU priorities; the selected set of reforms and investments is a necessary prerequisite for the possibility of extending the fiscal adjustment period to 7 years
The non-unified position of the member states on the optimal level of debt and deficit	Fiscal requirements for individual states taking into account the macro-fiscal situation, but based on a common framework of debt sustainability analysis (DSA); also common numerical safeguards to ensure a minimum annual reduction of debt and deficits
In a way, it caused insufficient public investment	It emphasizes the medium term and investments in common priorities

Source: EC (2024b, 2024d).

Table 5.2: Comparison of the Expenditure Benchmark (Old Framework) and Net Expenditure Path (New Framework)

Original fiscal framework	New fiscal framework
Adjusted Expenditure aggregate (AE_t) = General government expenditure (nominal) – interest expenditure – cyclical component of unemployment benefits – expenditure on EU programmes (just the EU-cofinanced part) – nationally financed investment in year t + average nationally financed investment [1]	**Adjusted Expenditure aggregate (AE_t) =** General government expenditure (nominal) – interest expenditure – cyclical component of unemployment benefits – expenditure on EU prog. (both EU-cofinanced and national) – one-off expenditure + one-off revenue
Growth of the Adjusted Expenditure aggregate (g_t) $g_t = (AE_t - \Delta DR_t - AE_{t-1})/AE_{t-1}$ where: AE_t Adjusted Expenditure in year t, AE_{t-1} Adjusted Expenditure in year t-1, ΔDR_t Discretionary Revenue Measures [2]	
Benchmark Reference Rate structural balance: a) at the MTO = average rate of potential b) not at the MTO = aver. rate of potential – convergence margin	**Benchmark Reference Rate** general government balance and debt: a) technical information: keeping deficit below 3 % HDP and debt below 60 % HDP, reaching target structural primary balance in t+4 b) reference trajectory: stochastical sensitivity analysis indicating decreasing public debt

Note: 1) Average investment expenditure in t−3 to t.
2) In the original framework including the automatic mandatory increase in revenue.
Average rate of potential – Once every 3 years, together with the MTO calculation, the ten-year average (t−5 to t+4) of potential product growth is updated (access via the production function method from the EC spring prediction). The convergence margin is expressed as the share of required tightening expressed in percentage points of GDP, and the P value comes from the same year of the Commission's forecast centred on the medium-term rate (ten-year average) of potential GDP growth.
Source: MF CR (2024a); Darvas, Welslau, Zettelmeyer (2024); NOTICE (C/2024/3975); EC (2019a, 2019b).

Table 5.3: Compliance of European and Czech Legislation on Independent Fiscal Institutions

Council Directive (EU) 2024/1265	Act No. 23/2017 Coll., on Fiscal Responsibility Rules, as amended	
	Czech Fiscal Council	Committee on Budgetary Forecasts
Establishment of independent fiscal institutions	Section 21	Section 19(1)
Professional competence of members and transparency	Section 26(1)	Section 20(4), Statute
Requirements for independence	Sections 21, 23 and 27	Sections 20(2) and 20(4) and Statute
The ability to communicate its assessments and opinions in a timely and public manner	Section 21(3)	Rules of Procedure
Sufficient and stable resources to perform its tasks effectively	Section 32(1) and Section 33(1–2)	Section 20(6) and Statute
Sufficient and timely access to information to perform its tasks	Section 22	Section 20(5), Statute and Rules of Procedure
Regular external evaluation of IFIs by independent evaluators	Audit of financial statements: Section 33(4) Evaluation of activities not regulated	Evaluation of activities not regulated
Producing, assessing or endorsing macroecon. forecasts	-	Assessment by the Committee
Monitoring compliance with numerical fiscal rules	Section 21(2)	-
Performance of tasks in acc. with the Stability and Growth Pact: – submission of national fiscal-structural plans, – opinion on the macroeconomic forecast or assumptions, – reporting on the adequacy of consolidation measures.	Yes	Opinion on the forecast
Assessing the consistency, coherence and effectiveness of the budgetary framework	Section 12	-
Participation in regular hearings and debates in Parliament	Section 24(4)	-
"Comply or explain" principle	Sections 10(5) and 12(5)	-
Public explanation made available within 2 months of the opinion	No deadline – without delay	-

Source: Act No. 23/2017 Coll., on Fiscal Responsibility Rules, as amended. Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

Table 5.4: Comparison of Strength of Czech and Neighbour Countries' Fiscal Rules in 2022 according to the EC

Country	Type of rule	General government sector	Fiscal rule strength index
Czech Republic	structural balance	whole	7.6
	debt	whole	6.5
	debt	local government	5.6
Austria	structural balance	whole	8.5
	expenditure	whole	7.3
	debt	whole	7.5
	balance	whole	6.8
Germany	structural balance	central government	8.6
	balance	local government	6.4
	structural balance	regional government	6.7
	balance	social security funds	4.1
	structural balance	whole	8.5
Poland	debt	whole	8.2
	balance	local government	8.2
	expenditure	whole	7.4
	debt	local government	6.9
Slovakia	debt	local government	5.9
	balance	local government	8.5
	debt	whole	6.5
	structural balance	whole	7.2

Note: Higher index value means higher strength of the fiscal rule.
Source: EC (2024c), MF CR adjustments.

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A Annex of Tables

The data on general government sector aggregates in ESA 2010 methodology are consolidated at the relevant levels.

Table A.1: General Government Revenue

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total revenue	*CZK bn*	**1 761**	**1 909**	**1 940**	**2 068**	**2 245**	**2 394**	**2 366**	**2 528**	**2 814**	**3 056**
	% growth	2.8	8.4	1.6	6.6	8.6	6.6	-1.2	6.8	11.3	8.6
Current taxes on inc., wealth, etc.	*CZK bn*	335	354	385	416	458	491	485	469	538	609
	% growth	7.1	5.6	8.8	8.0	10.1	7.0	-1.0	-3.5	14.9	13.2
Social contributions [1)]	*CZK bn*	629	663	703	760	834	895	909	1 013	1 084	1 169
	% growth	3.6	5.5	6.1	8.0	9.8	7.3	1.6	11.4	7.0	7.8
Taxes on production and imports [2)]	*CZK bn*	513	562	587	626	647	688	651	705	767	806
	% growth	-1.7	9.5	4.4	6.7	3.4	6.3	-5.3	8.2	8.8	5.0
Capital taxes [3)]	*CZK bn*	0	0	0	0	0	0	0	0	0	0
	% growth	-93.5	10.0	54.5	70.6	-24.1	-45.5	191.7	-40.0	19.0	-8.0
Property income	*CZK bn*	37	37	37	30	35	32	34	36	76	96
	% growth	-2.3	-0.4	0.8	-17.9	14.3	-7.5	5.6	5.0	112.8	26.0
Interest	*CZK bn*	8	7	6	5	8	11	10	8	42	57
	% growth	-13.5	-21.4	-7.9	-19.7	66.7	40.4	-16.5	-13.9	410.2	34.7
Other property income	*CZK bn*	29	30	31	26	27	21	24	28	34	39
	% growth	1.6	5.8	2.7	-17.6	4.3	-22.2	17.8	12.4	23.6	15.3
Sales [4)]	*CZK bn*	151	154	157	162	174	186	181	194	221	240
	% growth	1.9	2.2	1.9	3.4	7.1	7.1	-2.6	6.8	14.1	8.4
Other current transfers and subs.	*CZK bn*	42	49	40	40	51	53	51	56	62	66
	% growth	-4.5	15.1	-18.5	1.5	25.9	4.9	-3.6	8.6	11.1	6.1
Investment grants	*CZK bn*	49	81	23	26	42	44	49	50	60	63
	% growth	36.3	66.6	-72.1	15.4	60.4	5.2	10.4	3.8	18.0	6.4
Other capital transfers	*CZK bn*	5	9	8	6	4	5	5	5	6	7
	% growth	-10.6	92.3	-6.1	-21.3	-40.9	20.7	4.8	5.3	16.7	17.6

[1)] Compulsory and voluntary payments of employers (on behalf of employees), employees, self-employed and self-payers to social security institutions and health insurance enterprises.
[2)] Compulsory payments, which are levied by general government, in respect of the production or import and/or usage of production factors (for example VAT, excises etc.).
[3)] Irregular taxes to the government on the values of the property, assets or net worth owned by institutional.
[4)] Consists of market output, output produced for own final use and payments for other non-market output.
Source: CZSO (2024b).

Table A.2: General Government Tax Revenue and Social Contributions

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Taxes and social contributions	*CZK bn*	**1 477**	**1 579**	**1 675**	**1 802**	**1 940**	**2 074**	**2 046**	**2 187**	**2 390**	**2 584**
	% growth	2.5	6.9	6.1	7.6	7.6	6.9	-1.3	6.9	9.3	8.2
Current taxes on income, wealth, etc.	*CZK bn*	**335**	**354**	**385**	**416**	**458**	**491**	**485**	**469**	**538**	**609**
	% growth	7.1	5.6	8.8	8.0	10.1	7.0	-1.0	-3.5	14.9	13.2
Individuals or households	*CZK bn*	181	187	207	229	261	287	298	228	243	278
	% growth	6.5	3.0	10.9	10.5	13.8	10.2	3.6	-23.4	6.7	14.3
Corporations	*CZK bn*	144	157	167	176	187	192	177	229	284	320
	% growth	8.5	8.8	6.8	5.2	6.3	2.9	-8.1	29.7	23.8	12.7
Levy on lottery revenue	*CZK bn*	-	-	-	-	-	-	-	-	-	-
	% growth	-	-	-	-	-	-	-	-	-	-
Other current taxes	*CZK bn*	10	11	11	12	11	11	11	11	11	11
	% growth	0.0	5.4	2.2	4.4	-5.8	-0.6	-0.8	4.0	-2.8	3.8
Social security contributions	*CZK bn*	**629**	**663**	**703**	**760**	**834**	**895**	**909**	**1 013**	**1 084**	**1 169**
	% growth	3.6	5.5	6.1	8.0	9.8	7.3	1.6	11.4	7.0	7.8
Social insurance	*CZK bn*	385	406	431	470	516	555	543	598	642	694
	% growth	3.3	5.6	6.2	9.0	9.8	7.5	-2.2	10.2	7.4	8.0
Health insurance	*CZK bn*	237	249	264	281	308	329	354	402	427	461
	% growth	4	5	6	6	10	7	8	13	6	8
Payments for state-insured	*CZK bn*	59.9	60.9	62.3	65.3	68.4	71.9	97.3	126.3	129.4	138.7
	% growth	11.5	1.8	2.1	4.8	4.8	5.1	35.4	29.9	2.4	7.2
Injury insurance	*CZK bn*	6	7	7	8	8	9	9	10	10	11
	% growth	0.9	4.0	5.5	6.7	9.7	7.2	1.4	5.4	6.4	12.6
Imputed social contributions	*CZK bn*	1	1	1	1	1	2	3	4	5	4
	% growth	-21.5	40.1	-1.9	16.1	21.9	30.9	70.3	11.9	35.0	-24.5
Taxes on production and imports	*CZK bn*	**513**	**562**	**587**	**626**	**647**	**688**	**651**	**705**	**767**	**806**
	% growth	-1.7	9.5	4.4	6.7	3.4	6.3	-5.3	8.2	8.8	5.0
Taxes on products [1)]	*CZK bn*	489	538	562	601	619	650	611	661	729	753
	% growth	-2.3	10.0	4.4	6.9	3.1	4.9	-5.9	8.2	10.2	3.3
Value added tax	*CZK bn*	319	333	354	388	409	435	422	464	537	573
	% growth	5.2	4.3	6.2	9.5	5.4	6.6	-3.0	9.7	15.8	6.7
Excises	*CZK bn*	151	183	181	186	186	188	177	183	172	158
	% growth	-15.4	21.0	-0.8	2.3	0.0	1.3	-5.8	3.3	-6.1	-7.8
Other taxes on products [2)]	*CZK bn*	19	22	27	28	25	26	12	15	20	22
	% growth	0.0	17.5	20.4	3.9	-8.6	3.9	-55.9	28.9	34.1	9.5
Other taxes on production [3)]	*CZK bn*	24	24	25	25	28	38	40	44	38	53
	% growth	15.3	-0.3	5.3	2.4	9.9	37.2	4.9	8.7	-12.2	37.6
Capital taxes	*CZK bn*	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	% growth	-93.5	10.0	54.5	70.6	-24.1	-45.5	191.7	-40.0	19.0	-8.0

[1)] Taxes that are payable per unit of good or service produced or transacted.
[2)] This item contains, for example, customs duty, taxes from imported agricultural products, taxes from financial and capital transactions, payments from entertainment, lottery, game and betting taxes and other.
[3)] All taxes that enterprises incur as a result of engaging in production, independently of the quantity or value of the goods and services produced or sold (real estate tax, road tax, waste water toll etc.).
Source: CZSO (2024b).

Table A.3: General Government Expenditure

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total expenditure	*CZK bn*	**1 852**	**1 940**	**1 907**	**1 992**	**2 197**	**2 377**	**2 696**	**2 840**	**3 031**	**3 344**
	% growth	4.8	4.7	-1.7	4.5	10.3	8.2	13.4	5.4	6.7	10.3
Compensation of employees	*CZK bn*	380	398	419	462	521	576	633	676	690	738
	% growth	3.5	4.8	5.4	10.1	12.8	10.5	10.0	6.8	2.1	6.9
Intermediate consumption	*CZK bn*	274	284	291	296	324	339	346	354	394	433
	% growth	1.5	3.5	2.8	1.7	9.4	4.6	2.1	2.4	11.3	9.8
Social benefits other than in kind [1]	*CZK bn*	576	591	605	624	658	709	821	859	937	1 036
	% growth	2.0	2.6	2.5	3.1	5.5	7.7	15.8	4.7	9.1	10.5
Social transfers in kind	*CZK bn*	140	142	148	152	160	177	205	219	226	258
	% growth	4.8	1.4	4.3	3.1	4.7	10.9	15.8	7.1	2.9	14.2
Property income	*CZK bn*	57	49	44	38	40	40	44	46	79	99
	% growth	2.6	-13.0	-10.6	-14.8	6.4	1.2	7.9	4.8	72.4	25.0
Interest	*CZK bn*	56	49	44	38	40	40	43	46	78	98
	% growth	2.0	-12.7	-10.6	-14.3	5.6	1.2	8.0	5.1	72.0	25.2
Other property income	*CZK bn*	1	0	0	0	0	0	0	0	1	0
	% growth	119.1	-44.4	-1.8	-91.2	1042.9	6.3	-15.3	-31.9	165.8	-7.5
Subsidies	*CZK bn*	99	105	108	110	119	128	173	200	151	208
	% growth	3.8	5.6	2.6	1.7	8.8	7.3	35.1	15.8	-24.7	37.8
Gross fixed capital formation	*CZK bn*	179	236	156	171	224	253	277	287	320	370
	% growth	16.7	32.3	-34.1	9.8	31.3	12.6	9.6	3.8	11.2	15.7
Capital transfers [2]	*CZK bn*	60	41	35	31	37	37	68	56	51	37
	% growth	54.6	-31.4	-13.8	-13.1	22.1	-2.4	84.9	-17.7	-7.5	-27.9
Investment grants [3]	*CZK bn*	18	15	13	15	23	18	22	23	27	26
	% growth	-14.5	-19.1	-12.8	14.4	57.6	-20.3	18.1	7.7	15.4	-2.3
Other capital transfers	*CZK bn*	42	26	23	16	14	18	46	32	24	11
	% growth	139.4	-36.7	-14.4	-28.8	-10.4	26.3	152.7	-29.8	-24.2	-56.2
Other expenditure	*CZK bn*	89	95	100	109	113	119	130	142	183	167
	% growth	-1.2	6.6	5.6	9.0	3.5	5.9	8.6	9.5	28.5	-8.8
Final consumption expenditure	*CZK bn*	**846**	**880**	**915**	**965**	**1 054**	**1 141**	**1 250**	**1 319**	**1 381**	**1 504**
	% growth	2.8	4.1	4.0	5.5	9.2	8.2	9.5	5.5	4.8	8.9
Collective consumption [4]	*CZK bn*	386	407	425	446	486	516	543	547	581	633
	% growth	1.8	5.4	4.5	4.9	9.1	6.0	5.4	0.8	6.1	9.0
Individual consumption	*CZK bn*	459	473	490	519	568	625	706	771	800	871
	% growth	3.7	3.0	3.5	6.0	9.4	10.1	13.0	9.2	3.8	8.8

[1] Social benefits, which should serve households to relieve their costs or losses stemming from existence or development of some risks or needs. Mainly benefits paid in case of old age, disability, sickness, motherhood, unemployment, work injury, work sickness, current social need etc.
[2] Transactions of capital distribution, which have no influence either on beneficiary's ordinary income or these transaction's payer but on amount of their net property. Both in cash and in kind.
[3] Capital transfers in cash or in kind made by governments to other institutional units to finance all or part of the costs of their gross fixed capital formation.
[4] Value of all collective services provided to the whole society or to specific groups, i.e. expenditure for public services, defence, security, justice, health protection, environmental protection, research and development, infrastructure development and economy.
Source: CZSO (2024b), MF CR.

Table A.4: General Government Net Lending/Borrowing by Subsectors

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General government	*CZK bn*	**-92**	**-31**	**33**	**76**	**48**	**17**	**-329**	**-312**	**-216**	**-288**
Central government	*CZK bn*	-97	-59	-21	26	8	-32	-345	-359	-282	-347
Local governments	*CZK bn*	8	26	50	42	24	38	27	55	65	63
Social security funds	*CZK bn*	-2.7	1.9	4.9	8.2	16.6	11.4	-11.7	-9.3	0.4	-4.3

Source: CZSO (2024b).

Table A.5: General Government Debt by Instruments

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General government debt	*CZK bn*	**1 819**	**1 836**	**1 755**	**1 750**	**1 735**	**1 740**	**2 150**	**2 567**	**2 998**	**3 234**
	% growth	-1.2	0.9	-4.4	-0.3	-0.9	0.3	23.5	19.4	16.8	7.9
Currency and deposits	*CZK bn*	14	7	9	6	9	5	11	16	22	31
	% growth	56.2	-48.8	31.1	-35.6	47.0	-40.8	112.6	48.0	38.1	40.3
Securities other than shares	*CZK bn*	1 623	1 648	1 593	1 602	1 554	1 596	2 012	2 358	2 597	2 943
	% growth	-1.0	1.6	-3.4	0.6	-3.0	2.7	26.1	17.2	10.2	13.3
Loans	*CZK bn*	182	181	153	141	172	139	127	193	378	260
	% growth	-5.3	-0.9	-15.5	-7.4	21.8	-19.0	-8.9	51.8	96.1	-31.4

Note: Government debt consists of following financial instruments: currency and deposits, securities issued other than shares excluding financial derivatives and loans. It is expressed in the nominal value, which is considered equivalent to the face value. It is consolidated, i.e. the debt in holding of other subjects of the government sector is omitted.
Source: CZSO (2024b).

Table A.6: General Government Balance and Debt of EU Countries
in % of GDP

	Balance					Debt				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
EU27	-6.7	-4.6	-3.2	-3.5	.	89.5	86.7	82.5	80.8	.
EA20 [1)]	-7.0	-5.1	-3.5	-3.6	.	96.5	93.8	89.5	87.4	.
Austria	-8.2	-5.7	-3.3	-2.6	-3.3	83.2	82.4	78.4	78.6	79.3
Belgium	-9.0	-5.4	-3.6	-4.2	-4.5	111.2	108.4	102.6	103.1	103.4
Bulgaria	-3.8	-3.9	-2.9	-2.0	-3.0	24.4	23.8	22.5	22.9	24.9
Croatia	-7.2	-2.6	0.1	-0.9	-2.6	86.5	78.2	68.5	61.8	58.9
Cyprus	-5.6	-1.6	2.6	2.0	3.7	113.6	96.5	81.0	73.6	65.2
Czech Republic [2)]	-5.6	-5.0	-3.1	-3.8	-2.8	36.9	40.7	42.5	42.4	43.9
Denmark	0.4	4.1	3.4	3.3	1.9	46.3	40.5	34.1	33.6	32.8
Estonia	-5.4	-2.6	-1.1	-2.8	-3.0	19.1	18.4	19.1	20.2	23.3
Finland	-5.5	-2.7	-0.2	-3.0	-3.7	75.4	73.2	74.0	77.1	81.7
France	-8.9	-6.6	-4.7	-5.5	.	114.8	112.7	111.2	109.9	.
Germany	-4.4	-3.2	-2.1	-2.6	-2.4	68.0	68.1	65.0	62.9	63.4
Greece	-9.6	-6.9	-2.5	-1.3	-1.2	209.4	197.3	177.0	163.9	153.6
Hungary	-7.5	-7.1	-6.2	-6.7	-4.5	78.7	76.2	73.8	73.4	73.2
Ireland	-4.9	-1.4	1.7	1.5	4.5	57.0	52.6	43.1	43.3	41.4
Italy	-9.4	-8.9	-8.1	-7.2	-3.8	154.3	145.7	138.3	134.8	135.8
Latvia	-4.1	-7.2	-4.9	-2.4	-2.9	44.0	45.9	44.4	45.0	45.2
Lithuania	-6.3	-1.1	-0.7	-0.7	-2.9	45.9	43.3	38.1	37.3	39.4
Luxembourg	-3.1	1.0	0.2	-0.7	-1.2	24.5	24.4	24.6	25.5	27.5
Malta	-8.7	-7.0	-5.2	-4.5	-4.0	48.7	49.6	49.4	47.4	49.2
Netherlands	-3.6	-2.2	0.0	-0.4	-1.6	53.3	50.4	48.3	45.1	44.2
Poland	-6.9	-1.7	-3.4	-5.3	-5.7	56.6	53.0	48.8	49.7	54.6
Portugal	-5.8	-2.8	-0.3	1.2	0.3	134.1	123.9	111.2	97.9	94.5
Romania	-9.2	-7.1	-6.4	-6.5	-7.0	46.6	48.3	47.9	48.9	51.3
Slovakia	-5.3	-5.1	-1.7	-5.2	-5.9	58.4	60.2	57.7	56.1	58.6
Slovenia	-7.7	-4.6	-3.0	-2.6	-2.9	80.2	74.8	72.7	68.4	67.5
Spain	-9.9	-6.7	-4.6	-3.5	-3.0	119.3	115.7	109.5	105.1	102.3
Sweden	-3.2	-0.1	1.0	-0.6	-1.7	40.1	36.7	33.6	31.5	33.0

[1)] 20 current member states – Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
[2)] Data for 2024 are based on the current estimate of MF CR.
Source: Eurostat (2024b).

Table A.7: Transactions of General Government of EU Countries in 2023
in % of GDP

	Revenue	Expenditure	Compen. of employees	Cash social benefits	Collective consumption	Individual consumption	Investments[1]	Interest expenditure
European Union	45.5	49.0	10.0	16.0	8.1	13.1	3.5	1.7
Euro Area	45.9	49.5	9.8	16.5	8.0	13.2	3.3	1.7
Austria	50.1	52.7	10.7	18.5	7.4	13.4	3.7	1.2
Belgium	49.1	53.3	12.4	17.2	8.4	15.3	2.8	2.0
Bulgaria	36.8	38.8	10.5	12.4	8.8	9.6	3.8	0.5
Croatia	45.8	46.6	11.3	11.9	10.2	11.1	5.6	1.7
Cyprus	43.9	41.9	11.5	12.6	7.8	10.7	3.1	1.3
Czech Republic	40.1	43.9	9.7	13.6	8.3	11.4	4.9	1.3
Denmark	50.1	46.8	14.2	14.3	6.9	15.8	3.1	0.7
Estonia	40.4	43.3	11.7	12.5	8.8	11.7	6.6	0.4
Finland	52.8	55.7	13.1	18.2	8.3	17.5	4.0	1.2
France	51.6	57.0	12.3	18.8	8.5	15.5	4.3	1.9
Germany	45.8	48.4	8.1	15.7	8.4	13.3	2.8	0.9
Greece	48.2	49.5	10.4	17.2	9.7	9.6	3.9	3.4
Hungary	42.8	49.5	9.8	10.8	11.5	9.0	5.1	4.7
Ireland	24.2	22.7	6.2	5.8	4.0	8.4	2.3	0.7
Italy	46.6	53.8	8.8	19.9	7.4	10.6	3.2	3.7
Latvia	41.6	44.0	12.3	12.1	10.8	9.6	5.6	0.7
Lithuania	36.7	37.4	10.5	12.4	6.8	10.7	4.2	0.6
Luxembourg	47.2	47.9	11.1	16.6	7.7	11.4	4.7	0.3
Malta	31.8	36.3	9.4	7.0	6.9	9.7	3.5	1.0
Netherlands	42.8	43.2	8.3	10.3	8.0	16.8	3.1	0.7
Poland	41.8	47.0	10.3	15.7	8.4	10.6	5.1	2.1
Portugal	43.6	42.4	10.4	15.8	7.0	9.8	2.6	2.1
Romania	33.7	40.3	10.1	11.8	9.8	7.3	5.4	1.9
Slovakia	43.3	48.5	11.1	16.4	10.4	9.9	3.6	1.2
Slovenia	43.9	46.5	11.2	15.2	7.6	11.6	5.2	1.2
Spain	41.9	45.4	10.9	16.8	7.9	11.8	3.0	2.4
Sweden	48.8	49.5	12.3	11.5	7.1	19.0	5.2	0.7

[1] Gross fixed capital formation.
[2] 20 current member states – Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
Source: Eurostat (2024a).

B Glossary

Accrual methodology means that economic transactions are recorded at the time an economic value is created, transformed or cancelled or when amounts due or claims increase or decrease, regardless of when the transaction will be paid (unlike the cash principle employed in the budgeting process of the state budget).

Capital transfers include acquisition or loss of an asset without equivalent consideration. They may be made in cash or in kind.

Cash social benefits are social security benefits (e.g. pensions, social welfare benefits) paid out from the government to households.

Compensation of employees is composed of wages and salaries incl. accessories, i. e. contributions paid by employers (social security contributions or other contributions such as the Cultural and Social Needs Fund). This is a component of the final consumption of the general government.

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

Discretionary measures are direct interventions of the government in the structure of general government revenue and expenditure.

Government **final consumption expenditure** includes government payments which are subsequently used for consumption of individuals in the household sector (mainly reimbursement of healthcare by health insurance companies for services provided by medical facilities) or they are consumed by the entire society (such as expenditure on army, police, judiciary, state administration, etc.).

Fiscal effort is an annual change in the structural balance indicating expansive of restrictive fiscal policy in a given year.

Fiscal impulse is used to assess the impact of the government's fiscal policy on economic growth. It is usually expressed in annual terms, where a decrease in certain government revenues or an increase in certain government expenditures represents a positive impulse, and an increase in certain revenues or a decrease in certain expenditures represents a negative impulse. The basis for calculation of the fiscal impulse is the YoY change in the cyclically-adjusted balance with the opposite sign, adjusted for: interest payments, income from EU Funds, financial mechanisms and contributions to the EU budget and certain one-off and temporary measures. See also MF CR (2015).

The **general government sector** is defined by internationally harmonized rules at the EU level. In the CR, the general government sector includes, in the ESA 2010 methodology, three main subsectors: central government, local government and social security funds.

Government Deficit and Debt Notification is quantification of fiscal indicators submitted by each EU Member State twice a year to the European Commission, according to the Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, as amended. It is compiled for the general government sector using the accrual methodology. The Czech Statistical Office processes data for the past four years *t−4* to *t−1*; MF CR supplies prediction for the current year *t*. Notification includes a basic set of notification tables, which include mainly key indicators such as balance and debt, including explanations of the link to balance in the national methodology as well as a number of additional questionnaires such as a table of state guarantees, etc.

Gross fixed capital formation expresses net acquisition of fixed capital, i.e. its acquisitions less disposals, achieved by production activities of production and institutional units. It represents investment activities of units.

Intermediate Consumption is a component of the final consumption of the general government and contains the general government purchase of goods and services, which are consumed in the given time period.

Medium-Term Objective (MTO) is expressed in the structural balance and implies long-term sustainability of public finance of the country. For the CR it currently corresponds to the level of structural balance of −0.75% of GDP.

One-off and other temporary operations are measures on the expenditure or revenue side which only have a temporary impact on general government balance, and they often stem from events outside the direct control of the government (e.g. expenditures on removing the consequences of floods).

Output gap is the difference between real and potential product (often expressed as a ratio to potential product). It determines the position of the economy in the business cycle.

Social transfers in kind reflect the value of goods and services provided particularly in the form of health and social care, education, housing. They are mostly in-kind benefits related to the health insurance (amounts for medical devices, medical or dental treatment, surgery, etc.), funded by health insurance companies to those, who provide these goods and services. They are a component of the final consumption of the general government.

Subsidies are current non-repayable payments made by the government sector or European Union institutions to resident producers.

Structural balance is the difference between cyclically adjusted balance, and one-off and temporary operations (for both components see above).

General government **tax revenue** is divided into consumption, labour and capital taxation. Consumption taxation is mainly represented by value-added and excise taxes, as well as import duties, gambling taxes, certain other items of product taxes, pollution taxes and household licence payments. Labour taxation consists of personal income tax and social and health insurance contributions. Capital taxation includes, in addition to corporate income tax, taxes on financial transactions, certain items of taxes on production and current taxes on capital.

C Lists of Thematic Chapters and Boxes of Previous Fiscal Outlooks of the Czech Republic

List of Thematic Chapters of Previous Fiscal Outlooks of the Czech Republic

Published	Topic
November 2015	Fiscal Impulse Fiscal Framework Reform in the Czech Republic
November 2016	Long-term Projections of Public Expenditure on Health Care
November 2017	Fiscal Councils
November 2019	Proposal for the New EU Fiscal Rule
January 2021	Measures to support the Economy in Response to the COVID-19 Pandemic
November 2021	EU Funds and their Impact in the Czech Republic
November 2022	Participation Rates and Setting up of Social Systems
November 2023	Consolidation Package
November 2024	New EU Fiscal Framework and its Domestic Implications

List of Thematic Boxes of Previous Fiscal Outlooks of the Czech Republic

Published	Box Topic
May 2015	Box 1: Expansion of the General Government Sector
November 2015	Box 1: Expansion of the General Government Sector Box 2: Czech Economy Growth and the Tax Revenue Development in 2015 Box 3: Expenditure Rule Technique
November 2016	Box 1: Effect of Supply Factors on Health-Care Expenditure
November 2017	Box 1: Requirements of Directive 2011/85/EU and Regulation No. 473/2013 on establishment of national fiscal councils Box 2: Selected recommendations of the European Fiscal Board for the implementation of fiscal policy and public budgeting in the euro-area countries for 2018
November 2018	Box 1: Changes in the Methodical Classification of Certain Revenue and Expenditure of General Government Sector Box2: National Methodology for the Classification of One-off and Other Temporary Measures
November 2019	Box 1: Healthy Ageing Box 2: Pension Expenditure in the CR and EU Member States Box 3: Excluding Specific Items from Expenditure Rules
January 2021	Box 1: Reaction of the Euro area Yield Curve of the Government Bonds on the ECB’s measures Box 2 OECD Conclusions in the Review of the Pension System of the Czech Republic Box 3: Selected Studies to prevent the Spread of the Disease and mitigate the Economic Impact Box 4: Temporary Framework for State Aid Measures to support Economy Affected by COVID-19
November 2021	Box 1: Yield “Anomaly” on the Bond Market in EU Countries
November 2022	Box 1: Annual Update of Eurostat’s Demographic Projections Box 2: Analysis of Factors affecting the Labour Market Position of Women with Children

Ministry of Finance of the Czech Republic
Economic Policy Department
Letenská 15
118 10 Prague 1

http://www.mfcr.cz