**Ministry of Finance**
of the Czech Republic

# Fiscal Forecast
## of the Czech Republic

**May 2025**

**Fiscal Forecast of the Czech Republic**
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The Fiscal Forecast of the Czech Republic is published by the Economic Policy Department of the MF CR, annually, in May. It contains forecast of the current and next year (i.e. up to 2026) and also the outlook of some economic indicators to the following 2 years (i.e. up to 2028). The Forecast is available on internet pages of MF CR at:

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| | |
|---|---|
| c. p. | current prices |
| CZK | Czech koruna currency code |
| EC | European Commission |
| 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 |
| MF CR | Ministry of Finance of the Czech Republic |
| p. a. | *per annum* (per year) |
| pp | percentage point |
| s. p. | constant prices (volumes) |

## 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 1 April 2025 release, fiscal data to the 8 April 2025 release.

## 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 Ministry of Finance's Fiscal Forecast is a new document responding to changes in the European Semester and in the governance of economic affairs in the European Union. From April 2024, the new regulation of European fiscal rules came into force, in particular 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. This legislation abolished the convergence and stability programmes, which contained a fiscal forecast and described the government's economic policy intentions. The convergence and stability programmes were replaced by medium-term fiscal-structural plans. However, the plans do not contain a fiscal forecast and neither do the annual progress reports that assess the fiscal-structural plans. Thus, fiscal forecasts would only be produced in August for the preparation of the State budget for the coming year and in November in the Fiscal Outlook. The separate May forecast thus reverts to the practice followed until 2015 in issuing fiscal forecasts.

The fiscal forecast is based on the Ministry of Finance's macroeconomic forecast issued in April 2025. The forecast anticipates that economic activity could increase by 2.0% this year, mainly thanks to an acceleration in household consumption and, to a lesser extent, gross capital formation and government consumption expenditure. In 2026, the economy could grow by 2.4%, thanks to stronger investment momentum and accelerating economic growth in major trading partner countries. The average inflation rate could reach 2.4% this year and fall slightly to 2.3% in 2026. Inflationary pressures will continue to be dampened this year by restrictive monetary policy through interest rates, a slight appreciation of the koruna and lower energy prices. On the other hand, inflationary factors include continued higher wage growth or increased price dynamics in services. Labour market imbalances related to labour shortages continue to manifest themselves, with the unemployment rate likely to remain at 2.6% on average this year. It could fall slightly to 2.5% next year as the economic recovery continues.

The general government balance ended with a deficit of 2.2% of GDP in 2024. The deficit decreased by 1.5 percentage points as a result of the consolidation package, the end of measures related to the energy crisis and the partial economic recovery. The structural balance improved by 0.7 percentage point to −1.9% of GDP. The Czech Republic thus meets the Stability and Growth Pact's benchmark of a general government deficit of 3% of GDP. At the same time, the national fiscal rule allowing a structural deficit of no more than 2.75% of GDP was also met last year. For this year, we expect the general government deficit to be similar to that in 2024, i.e. around 2.2% of GDP, corresponding to 1.9% of GDP after taking into account the effects of the business cycle and one-off or other temporary measures. For 2026, the government's Budgetary Strategy of the Public Sector for 2026–2028, in line with the Act on Fiscal Responsibility Rules, foresees a structural deficit of no more than 1.75% of GDP. Beyond this deficit, it is foreseen that defence spending can be increased in cash terms above 2% of GDP, so far for 2026 by an amount equivalent to 0.2% of GDP. The defence expenditure should have an exception even within European rules in the form of an escape clause.

General government debt increased to 43.6% of GDP in 2024, and we expect it to rise slightly in the following years, peaking at around 45.5% of GDP. In addition to the forecasted public deficit, the debt level will be affected by the loan provided by the state in connection with the construction of the new nuclear power plants at Dukovany.

The approved pension reform has significantly improved the expected balances of the pay-as-you-go pension system in the Czech Republic. In the longer term, when the approved measures take full effect, deficits should thus fall by around 1.5 percentage points of GDP. The most significant measures with a positive impact on public finances are the further increase of the retirement age to 67 and the reduction in the increase in newly assessed pensions. The impacts of the adopted reform were presented in the Working Group on Ageing Populations and Sustainability of the EU Economic Policy Committee on 24 March 2025 and subsequently endorsed by the Economic Policy Committee at the EU level.

# 1 Macroeconomic Framework of the Fiscal Forecast

The macroeconomic framework is based on the April Macroeconomic Forecast of the Ministry of Finance of the Czech Republic (2025a). It is based on the assumption that the US will impose tariffs on cars and their components, steel and aluminum, including reciprocal measures. Universal tariffs on all imports of goods are not taken into account, but we are working with them in our scenarios.[1] On the one hand, the form and scope of custom duties are constantly evolving and vary considerably, and on the other hand, the level and structure of retaliatory measures by other countries, as well as the subsequent dynamic effects, are open to question. The macroeconomic forecast also does not include the side effects of the stimulus package in Germany or the effects of higher defence spending in other EU countries.

The **real gross domestic product** of the Czech Republic grew by 1.1% in 2024. Household consumption was supported by an increase in real disposable income, but the restrictive monetary policy stance and, to some extent, the consolidation package worked in the opposite direction. Investment activity declined owing to persistent problems in the euro area countries, a fall in housing construction and low capacity utilisation in industry. At the same time, the transition to the new financial perspective was reflected, especially in general government investment. The economy was noticeably slowed by the year-on-year decline in inventories. Export growth was held back by weaker external demand demand, while export performance was positive. Weak domestic demand dynamics, especially for import-intensive investment, dampened import growth. The contribution of foreign trade thus remained positive last year.

Economic activity could increase by 2.0% this year, mainly thanks to an acceleration in household consumption, which will be stimulated by growth in real earnings. To a lesser extent, gross capital formation and government consumption expenditure will also support economic growth. In 2026, GDP could grow by 2.4%, thanks to stronger investment momentum and accelerating economic growth in major trading partner countries. The economy could grow at a similar pace in the following years, driven by domestic demand.

Real **household consumption** could increase by 3.6% this year and by 3.2% in 2026. Dynamic wage and salary growth and low inflation will be positively reflected in an increase in real disposable income. In addition to a slight decline in interest rates, we expect a gradual increase in households' willingness to spend, but the savings rate should fall more noticeably rather next year but still remain at historically high levels throughout the forecast horizon. In subsequent years, household consumption growth could slow to 2.5% in 2027 and 2.3% in 2028.

**Gross fixed capital formation** could grow by 0.7% in 2025. The persistent problems in the euro area countries and the decline in industrial production capacity, compounded by the uncertainties in the economic and foreign policy of the new US administration, are having a negative impact on the dynamics of private investment. On the other hand, growth in general government investment this year, supported by EU funding from the Recovery and Resilience Facility or EU Structural and Investment Funds, should have a positive impact. Onsemi's planned multi-year investment in chip manufacturing will also have a positive impact. For the next year, we expect gross fixed capital formation to increase by 3.1%, mainly due to the economic recovery in the euro area. The macroeconomic framework also foresees relatively strong growth rates in 2027 (2.5%) and 2028 (3.6%).

Over the forecast horizon, we assume that the extent of stock accumulation will be at the values usual for that phase of the economic cycle. The change in **inventories** should thus support economic growth in 2025. A slightly positive contribution is expected for the following years, while in 2027 and 2028 the change in inventories should be virtually neutral.

Annual **inflation** was slightly below 3% at the start of this year. Restrictive monetary policy will continue to ease inflationary pressures through interest rates this year. The expected fall in the dollar price of oil, a slight appreciation of the koruna and lower energy prices will also have a disinflationary effect. On the other hand, continued strong wage growth, increases in excise duties on tobacco products and on alcohol, increased price dynamics in services, including renewed growth in imputed rentals, will act as inflationary factors. The average inflation rate could reach 2.4% this year and fall slightly to 2.3% in 2026. Over the outlook horizon, annual inflation should be slightly above 2%.

**Labour market** imbalances related to labour shortages continue to manifest themselves. Thus, despite the problems in the main industrial activities, the unemployment rate could remain at 2.6% on average this year. It could fall slightly to 2.4% in the coming years, thanks to the continued economic recovery. Employment (in national accounts methodology) 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

[1] The Macroeconomic Forecast baseline scenario includes only 25% US tariffs on autos, components, steel and aluminium. Later announced tariffs of 10% on other goods and reciprocal tariffs from the EU would reduce Czech GDP growth by an additional 0.1 pp in 2025 and 0.3 pp in 2026, according to our calculations.

participation rate. The persistent labour market frictions will not allow a significant slowdown in wage and salary growth. Real earnings are expected to increase noticeably this year and next. Wages and salaries could rise by 6.6% this year and 5.6% in 2026, with growth slowing to around 4.5% in the following years.

The output gap has been deep in negative territory over the past year. It should gradually close thanks to the economic recovery, but the economy is likely to remain below its **potential level** until the end of next year. From 2027 onwards, the output gap could return to positive territory and widen gradually. Potential growth could accelerate to close to 2% over the framework horizon. Its dynamics should be driven by an increase in the trend component of total productivity and, to a lesser extent, investment activity, with a virtually neutral contribution of the labour factor.

The macroeconomic framework of the fiscal forecast is burdened by a number of **risks** that, taken together, we consider to be **skewed to the downside**. A possible rise of supply chain problems could dampen economic activity in some sectors of the economy and increase inflationary pressures. Similar effects could have the introduction or increase of tariffs or other barriers to foreign trade. Given the significant trade linkages between the Czech and German economies, structural problems and weak economic growth in Germany are also risks to the forecast - but ongoing changes in German budgetary policy, which will allow for increased investment in defence and infrastructure, could have a positive effect.

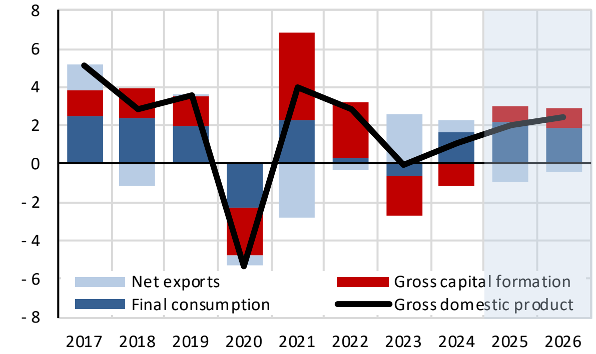
**Table 1.1: Comparison of the previous Fiscal Outlook and Fiscal Forecast Scenarios**

| | | Fiscal Forecast (May 2025) | | | | | Fiscal Outlook (November 2024) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2023 | 2024 | 2025 | 2026 | 2027 | 2023 | 2024 | 2025 | 2026 | 2027 |
| **External Assumptions** | | | | | | | | | | | |
| **Real GDP in EU** | *change in %* | **0.6** | **1.0** | **0.9** | **1.6** | **1.8** | **0.5** | **0.9** | **1.4** | **1.6** | **1.5** |
| **Prices of oil (Brent)** | *USD/barrel* | **82.4** | **80.6** | **71.8** | **68.0** | **67.1** | 82.4 | 80.5 | 72.3 | 71.2 | 70.8 |
| **Exchange rate USD/EUR** | *USD/EUR* | **1.08** | **1.08** | **1.08** | **1.11** | **1.13** | 1.08 | 1.09 | 1.09 | 1.11 | 1.13 |
| **Exchange rate CZK/EUR** | *CZK/EUR* | **24.0** | **25.1** | **24.9** | **24.5** | **24.2** | 24.0 | 25.1 | 24.9 | 24.5 | 24.0 |
| **Real Values** | | | | | | | | | | | |
| **GDP** | *change in %* | **-0.1** | **1.1** | **2.0** | **2.4** | **2.6** | **-0.1** | **1.1** | **2.5** | **2.6** | **2.6** |
| Households consumption | *change in %* | -2.8 | 2.2 | 3.6 | 3.2 | 2.5 | -2.8 | 1.9 | 3.7 | 3.1 | 2.5 |
| Government consumption | *change in %* | 3.4 | 3.3 | 2.0 | 1.4 | 2.0 | 3.5 | 3.7 | 1.8 | 1.2 | 1.8 |
| Gross fixed capital formation | *change in %* | 2.5 | -1.2 | 0.7 | 3.1 | 2.5 | 2.5 | 0.9 | 3.6 | 3.5 | 3.3 |
| Contribution of final domestic demand | *p.p.* | 0.0 | 1.3 | 2.3 | 2.6 | 2.2 | 0.0 | 1.9 | 3.1 | 2.6 | 2.4 |
| Contribution of foreign trade | *p.p.* | 2.6 | 0.7 | -1.0 | -0.5 | 0.2 | 2.6 | 0.9 | -1.3 | -0.6 | -0.3 |
| **Output gap** | *%* | **-0.8** | **-1.8** | **-1.2** | **-0.3** | **0.4** | **-1.0** | **-2.1** | **-0.9** | **0.3** | **1.1** |
| **Others** | | | | | | | | | | | |
| **Nominal GDP** | *CZK bn* | **7619** | **8011** | **8391** | **8787** | **9208** | **7619** | **7988** | **8410** | **8830** | **9256** |
| **Harmonised index of consumer prices** | *change in %* | **12.0** | **2.7** | **2.3** | **2.2** | **2.2** | 12.0 | 2.7 | 2.3 | 2.1 | 2.0 |
| **Employment** | *change in %* | **1.0** | **0.3** | **0.2** | **0.1** | **-0.2** | 1.0 | 0.3 | 0.2 | 0.1 | -0.2 |
| **Unemployment rate** | *%* | **2.6** | **2.6** | **2.6** | **2.5** | **2.4** | 2.6 | 2.6 | 2.5 | 2.4 | 2.4 |
| **Wages and salaries** | *change in %* | **7.7** | **6.3** | **6.6** | **5.6** | **4.9** | 7.7 | 6.2 | 6.3 | 5.2 | 4.7 |
| **General Government** | | | | | | | | | | | |
| **Revenue** | *% of GDP* | **40.2** | **40.8** | **40.9** | **40.2** | **39.3** | **40.1** | **40.6** | **40.5** | **39.9** | **39.0** |
| Value-added tax | *change in %* | 6.7 | 2.5 | 5.7 | 4.6 | 3.7 | 6.7 | 2.8 | 6.1 | 4.3 | 3.3 |
| Excise taxes | *change in %* | -0.3 | 10.3 | 1.1 | 2.1 | 2.0 | -0.3 | 6.3 | 1.7 | 1.3 | 1.7 |
| Personal income tax | *change in %* | 14.8 | 11.9 | 4.5 | 3.6 | 4.7 | 14.3 | 11.2 | 4.8 | 4.2 | 4.4 |
| Corporate income tax | *change in %* | 13.1 | 6.1 | 3.6 | -6.8 | 6.0 | 12.7 | 6.7 | 4.2 | -4.4 | 7.4 |
| Social security contributions | *change in %* | 7.8 | 8.6 | 6.0 | 5.5 | 4.6 | 7.8 | 8.8 | 6.1 | 5.2 | 4.4 |
| **Expenditure** | *% of GDP* | **43.9** | **43.0** | **43.1** | **42.2** | **41.2** | **43.9** | **43.4** | **42.8** | **41.5** | **40.4** |
| Compensation of employees | *change in %* | 7.0 | 4.9 | 6.3 | 5.0 | 4.5 | 6.9 | 4.3 | 6.0 | 4.9 | 4.5 |
| Intermediate consumption | *change in %* | 9.2 | 8.7 | 3.7 | 1.5 | 4.0 | 9.8 | 9.0 | 3.6 | 0.7 | 3.4 |
| Social transfers in kind | *change in %* | 14.2 | 11.9 | 5.5 | 3.8 | 4.0 | 14.2 | 12.1 | 5.2 | 3.8 | 4.0 |
| Social benefits other than in kind | *change in %* | 10.6 | 4.4 | 2.7 | 2.8 | 1.9 | 10.5 | 5.5 | 2.2 | 2.1 | 2.3 |
| Gross fixed capital formation | *change in %* | 15.9 | 1.5 | 7.7 | 1.2 | -5.7 | 15.7 | 1.8 | 9.5 | 0.0 | -8.5 |
| **Balance** | *% of GDP* | **-3.8** | **-2.2** | **-2.2** | **-2.0** | **-1.9** | **-3.8** | **-2.8** | **-2.3** | **-1.7** | **-1.4** |
| **Structural balance** | *% of GDP* | **-2.7** | **-1.9** | **-1.9** | **-1.8** | **-2.1** | **-2.6** | **-2.1** | **-2.0** | **-1.7** | **-1.7** |
| **Debt** | *% of GDP* | **42.5** | **43.6** | **44.5** | **45.5** | **45.2** | **42.4** | **43.9** | **44.8** | **45.3** | **45.1** |

*Source: MF CR (2024a, 2025a).*

**Graph 1.1: Real GDP**

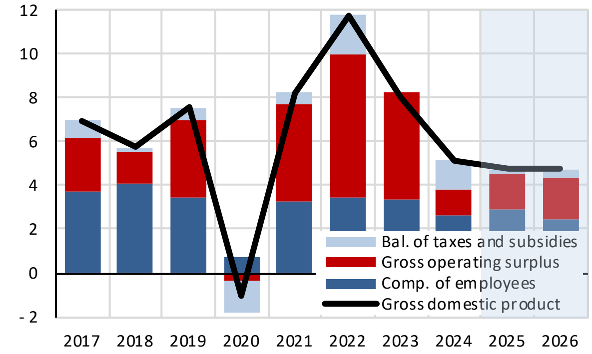
*real GDP change in %, contributions in pp*




*Source: MF CR (2025a).*

**Graph 1.2: Nominal GDP – Income Approach**

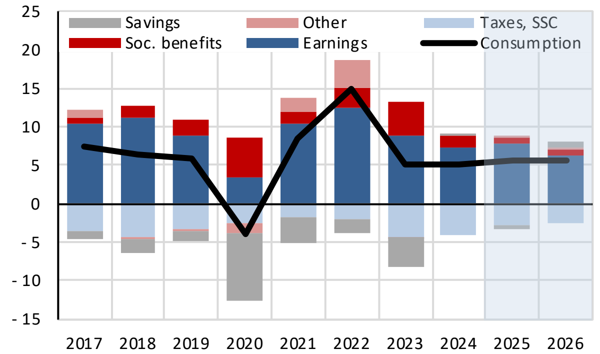
*nominal GDP change in %, contributions in pp*




*Source: MF CR (2025a).*

**Graph 1.3: Nominal Households Consumption**

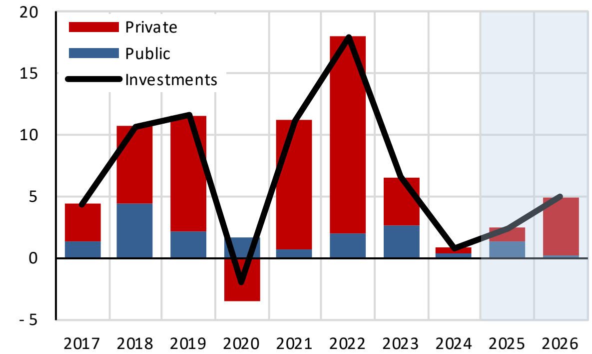
*change of nominal households consumption in %, contributions in pp*




*Source: MF CR (2025a).*

**Graph 1.4: Nominal Investments**

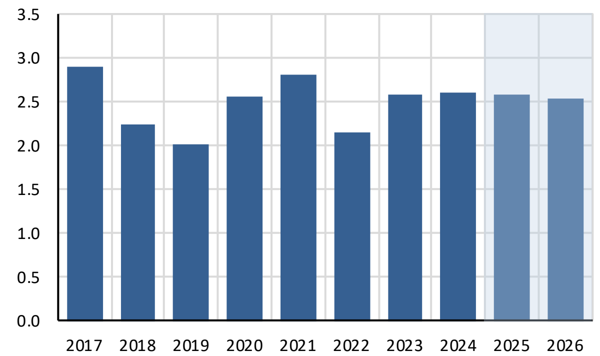
*change of nominal investments in %, contributions in pp*




*Source: MF CR (2025a).*

**Graph 1.5: Unemployment Rate**

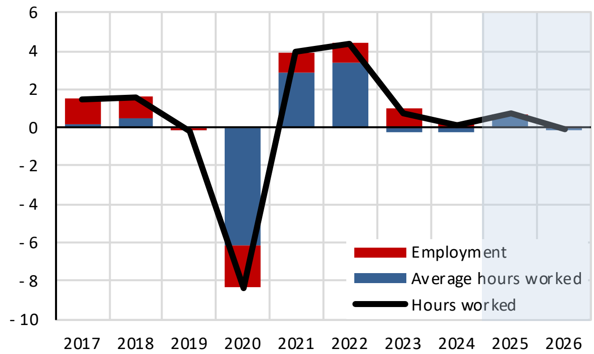
*% of labour force, Labour Force Survey methodology*




*Source: MF CR (2025a).*

**Graph 1.6: Hours Worked**

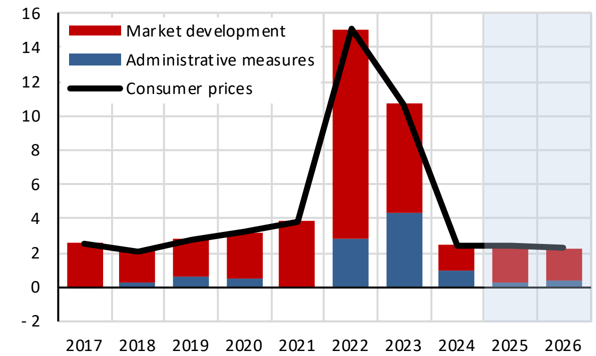
*change in %, contributions in pp, National Accounts methodology*




*Source: MF CR (2025a).*

**Graph 1.7: Consumer Prices**

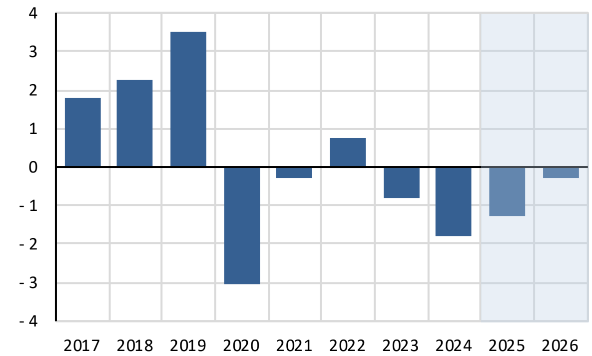
*average rate of consumer price inflation in %, contributions in pp*




*Source: MF CR (2025a).*

**Graph 1.8: Output Gap**

*% of potential product*




*Source: MF CR (2025a).*

# 2 General Government Development

The Czech public finances reached a deficit of 2.2% of GDP last year, which was significantly better than expected by most institutions, including the MF CR, which had forecast a deficit of 2.8% of GDP. The difference stemmed half from the revenue side and half from the expenditure side. In the case of revenue, in addition to higher tax revenues, it was property income, while in the case of expenditure it was lower transfers, cash social benefits or debt service. In terms of the breakdown by component, the worse-than-expected performance of local government budgets and health insurance companies was outweighed by the better performance of the central government.

## 2.1 General Government Balance and Debt

The general government sector ended 2024 with a **deficit** of 2.2% of GDP. The approval of a set of measures under the consolidation package and the end of measures related to the energy crisis contributed to a significant improvement of 1.5 pp compared to 2023. Adjusted for the impact of the business cycle and one-offs, notably the 2024 flood relief and humanitarian aid to Ukrainian refugees, the **structural deficit** reached 1.9% of GDP. It improved by 0.7 pp year-on-year.

The fiscal policy settings are based on the amendment to Act No. 23/2017 Coll., on Fiscal Responsibility Rules (Act No. 349/2023 Coll.), which codified the maximum values of structural deficits for the years 2024 to 2027. The expenditure framework for 2024 was based on a value of 2.75% of GDP, after which the structural deficit will be reduced by 0.5 pp each year until 1% of GDP is reached, i.e. in 2028 at the latest.

The central government's performance, dominated by the state budget, ended 2024 with a deficit of CZK 212.4 billion. On the expenditure side, the 2024 state budget was burdened by the costs of previous strong statutory pension indexation, expenses for damage repair after the September 2024 floods, increases in defence spending and teacher salary rises. On the revenue side, on the other hand, higher collections of social security contributions (including the impact of the reintroduction of sickness insurance for employees) and higher income tax collections (increase in the corporate income tax rate) contributed to the better-than-planned deficit. Compared to previous years, health insurance companies reported a significant deficit of CZK 20.1 billion. On the other hand, the budgets of local governments again showed a positive balance of CZK 55.3 billion.

We forecast that this year the general government balance will remain the same as last year in relative terms, i.e. −2.2% of GDP, and −1.9% of GDP in structural terms. Subsequently, the deficit is expected to gradually improve both due to consolidation, where we estimate a further reduction of the structural deficit in 2026, and the closing of the negative output gap with the recovering economy. However, further consolidation will be necessary in the outlook years to comply with the limits of the Fiscal Responsibility Rules Act.

We expect the state budget performance to remain crucial for the overall public finance balance in the years ahead. The state budget deficit in cash terms has been approved at CZK 241 billion for 2025 (Act No. 434/2024 Coll.). The government's priorities in terms of supporting investment in transport infrastructure, increased funding for education, science and defence, as well as coverage of the consequences of the September floods, were taken into account when drawing up the state budget.

The estimate of the accrual economy this year, in addition to Q1 quarterly national accounts data, also takes into account the current development of cash fulfillment of key parts of the public budgets. The cash balance of the state budget for the first four months of 2025 ended with a deficit of CZK 126.1 billion (MF CR, 2025b). Adjusted for revenues and expenditures on EU projects and financial mechanisms, the deficit was CZK 122 billion, an improvement of CZK 24.7 billion year-on-year. The surplus of local government budgets at the end of February reached CZK 20.2 billion, which is, however, CZK 6.3 billion lower compared to the same period last year. Health insurance companies ended the period until the end of March 2025 with a deficit of CZK 0.9 billion, an improvement of CZK 1.2 billion year-on-year (MF CR, 2025c).

For the next three years, the structural deficits of the state budget and state funds in the amount of CZK 204.4 billion in 2026, CZK 162.4 billion in 2027 and CZK 141.5 billion in 2028 were assumed when setting the expenditure frameworks of the state budget and state funds (MF CR, 2025d). In terms of the contribution of other subsectors to the forecasted general government balance, we calculate moderate deficits in the case of social security funds (health insurance companies). By contrast, local governments should again show positive balances of around 0.7% of GDP over the entire outlook horizon.

General government **debt** reached 43.6% of GDP at the end of 2024, up 1.1 pp year-on-year. However, the level of government debt remains below the 60% of GDP Treaty on the Functioning of the European Union reference value and the national rule value under the Fiscal Responsibility Rules Act. The national fiscal rule not only operates with a lower value (55% of GDP), but also assesses the level of general government debt net of the cash reserve created by the financing of the state debt (Table 2.1.2).

This year, we forecast public debt at 44.5% of GDP. We expect debt to peak at 45.5% of GDP in 2026, then decline slightly to approximately 45% of GDP in 2028.

In terms of the contribution to the change in debt, interest costs will be the dominant factor in 2025, which should remain at 1.4% of GDP in relative terms this year and in the outlook years. This is based on the structure of debt and its refinancing, as well as on the expected path of interest rates. The 10-year interest rate for convergence purposes is expected to decline by 0.5 pp in the outlook years from an expected average of 3.1% p. a. in 2025. The 5-year bond yields should follow a similar path, declining to 3.5% p. a. in the outlook years from a forecast 3.7% p. a. in 2025. Despite the stable contribution of nominal GDP growth, debt should decrease due to the shrinking primary deficit and the stock-flow adjustment.

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

The largest share of general government debt in 2024 was held by central government, whose debt reached CZK 3,508 billion. We assume that central government will account for approximately 98% of total (unconsolidated) general government debt also in 2025 (estimated at CZK 3,738 billion). Local government debt reached CZK 83 billion and accounted for the remaining roughly 2%. We estimate that it will oscillate around CZK 80 billion in following years due to the forecasted surpluses. The social security funds have a negligible long-term debt ratio and we do not expect a significant increase until the end of the outlook horizon.

**Table 2.1.1: General Government Development and Fiscal Policy Stance**

| | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *Forecast* | *Forecast* | *Outlook* | *Outlook* |
| **Total revenue** | *% of GDP* | **40.7** | **40.6** | **40.1** | **39.9** | **40.2** | **40.8** | **40.9** | **40.2** | **39.3** | **39.0** |
| | *change in %* | 6.6 | -1.2 | 6.8 | 11.3 | 8.7 | 6.8 | 5.0 | 3.0 | 2.3 | 3.8 |
| **Total expenditure** | *% of GDP* | **40.4** | **46.3** | **45.0** | **43.0** | **43.9** | **43.0** | **43.1** | **42.2** | **41.2** | **40.8** |
| | *change in %* | 8.2 | 13.4 | 5.4 | 6.7 | 10.4 | 2.9 | 5.0 | 2.5 | 2.3 | 3.5 |
| **General government balance** | *% of GDP* | **0.3** | **-5.6** | **-5.0** | **-3.1** | **-3.8** | **-2.2** | **-2.2** | **-2.0** | **-1.9** | **-1.8** |
| Central government | *% of GDP* | -0.5 | -5.9 | -5.7 | -4.0 | -4.5 | -2.7 | -2.8 | -2.6 | -2.5 | -2.4 |
| Local governments | *% of GDP* | 0.6 | 0.5 | 0.9 | 0.9 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Social security funds | *% of GDP* | 0.2 | -0.2 | -0.1 | 0.0 | -0.1 | -0.3 | -0.1 | -0.1 | -0.1 | -0.1 |
| **General government balance** | *% of GDP* | **0.3** | **-5.6** | **-5.0** | **-3.1** | **-3.8** | **-2.2** | **-2.2** | **-2.0** | **-1.9** | **-1.8** |
| Cyclical component | *% of GDP* | 1.2 | -1.1 | -0.1 | 0.3 | -0.3 | -0.6 | -0.4 | -0.1 | 0.1 | 0.3 |
| One-off and temporary measures | *% of GDP* | 0.0 | -2.2 | -1.5 | -0.8 | -0.8 | 0.3 | 0.1 | -0.1 | 0.0 | 0.0 |
| Structural balance | *% of GDP* | -0.9 | -2.3 | -3.3 | -2.5 | -2.7 | -1.9 | -1.9 | -1.8 | -2.1 | -2.1 |
| **Fiscal effort** | *pp of GDP* | **-1.1** | **-1.4** | **-1.0** | **0.9** | **-0.2** | **0.7** | **0.1** | **0.1** | **-0.3** | **-0.1** |

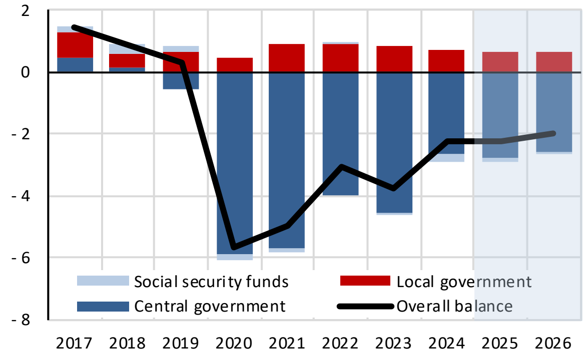
*Source: CZSO (2025a, 2025b). Forecast and calculations by MF CR.*

**Table 2.1.2: Gross Consolidated Government Debt**

| | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *Forecast* | *Forecast* | *Outlook* | *Outlook* |
| **General government** | *CZK bn* | **1 740** | **2 150** | **2 567** | **2 998** | **3 234** | **3 492** | **3 738** | **4 000** | **4 162** | **4 343** |
| Central government | *CZK bn* | 1 793 | 2 223 | 2 661 | 3 105 | 3 352 | 3 508 | 3 761 | 4 020 | 4 290 | 4 477 |
| Local government | *CZK bn* | 84 | 87 | 87 | 89 | 86 | 83 | 81 | 81 | 80 | 79 |
| Social security funds | *CZK bn* | 0 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 2 |
| **General government debt to GDP ratio** | *% of GDP* | **29.6** | **36.9** | **40.7** | **42.5** | **42.5** | **43.6** | **44.5** | **45.5** | **45.2** | **45.1** |
| **Contributions to change in debt-to-GDP ratio** | | | | | | | | | | | |
| Change in debt | *p.p.* | -2.1 | 7.3 | 3.8 | 1.8 | -0.1 | 1.1 | 1.0 | 1.0 | -0.3 | -0.1 |
| **Primary deficit** | *p.p.* | **-1.0** | **4.9** | **4.2** | **2.0** | **2.5** | **0.9** | **0.9** | **0.6** | **0.5** | **0.4** |
| **Interest** | *p.p.* | **0.7** | **0.7** | **0.7** | **1.1** | **1.3** | **1.3** | **1.4** | **1.4** | **1.4** | **1.4** |
| **Nominal GDP growth** | *p.p.* | **-2.2** | **0.3** | **-2.8** | **-4.3** | **-3.2** | **-2.1** | **-2.0** | **-2.0** | **-2.1** | **-2.0** |
| **Stock-flow adjustment** [1] | *p.p.* | **0.4** | **1.4** | **1.7** | **3.0** | **-0.7** | **1.0** | **0.7** | **1.0** | **-0.2** | **0.1** |
| Debt for Act No. 23/2017 Coll. [2] | *% of GDP* | 29.6 | 36.9 | 40.7 | 42.5 | 42.5 | 43.6 | 44.5 | 45.5 | 45.2 | 45.1 |
| Liquid financial assets [3] | *% of GDP* | 13.6 | 15.8 | 18.8 | 17.5 | 17.8 | 17.9 | 17.4 | 16.6 | 15.8 | 15.1 |
| Net financial debt [4] | *% of GDP* | 15.9 | 21.1 | 21.9 | 25.0 | 24.7 | 25.7 | 27.2 | 28.9 | 29.4 | 30.0 |

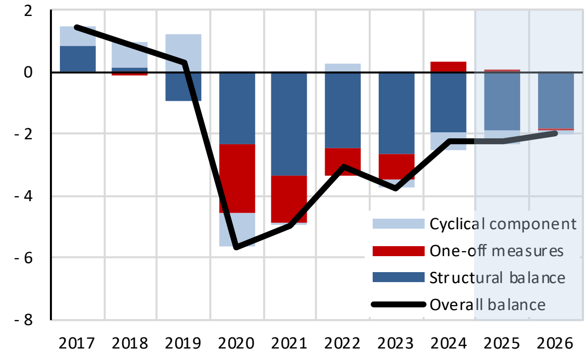
*1) The stock-flow adjustment consists of differences between cash and accrual, net acquisition of financial assets and revaluation effects and other measures.*
*2) Public sector institutions debt according to Act No. 23/2017 Coll. is defined as the difference between the general government debt and 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 (2025b). Forecast and calculations by MF CR.*

**Graph 2.1.1: General Government Balance**
*% of GDP*



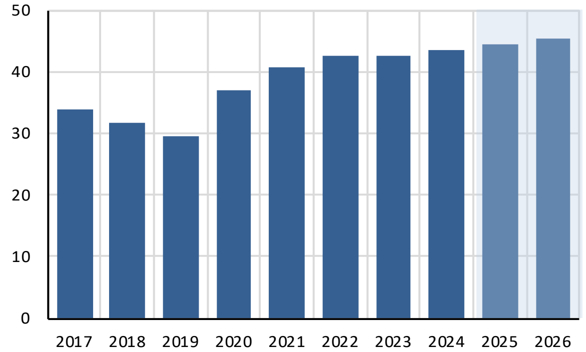

*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.1.2: Overall and Structural Balance**
*% of GDP*



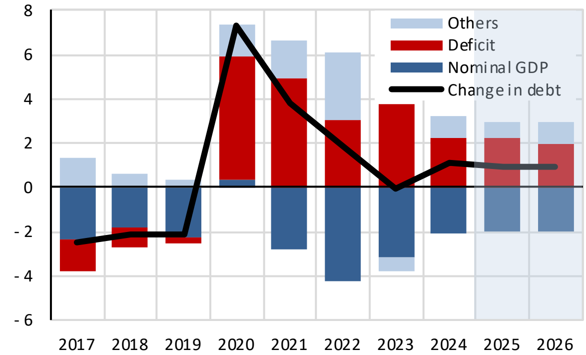

*Source: CZSO (2025a, 2025b). MF CR calculations and forecast.*

**Graph 2.1.3: General Government Debt**
*% of GDP*



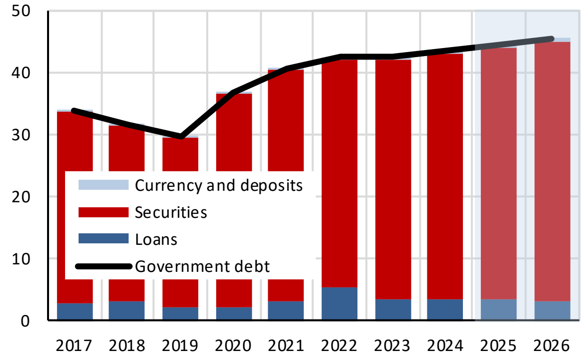

*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.1.4: Change in the Debt Ratio**
*in percentage points*



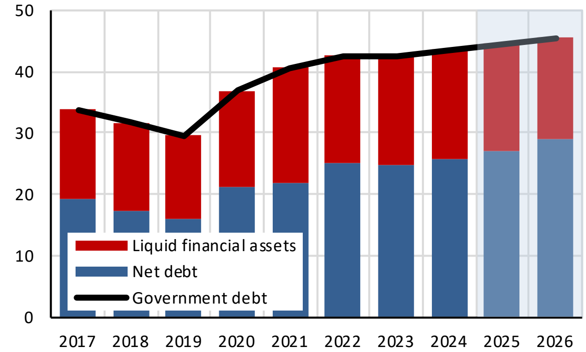

*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.1.5: Government Debt by Type of Instrument**
*% of GDP*



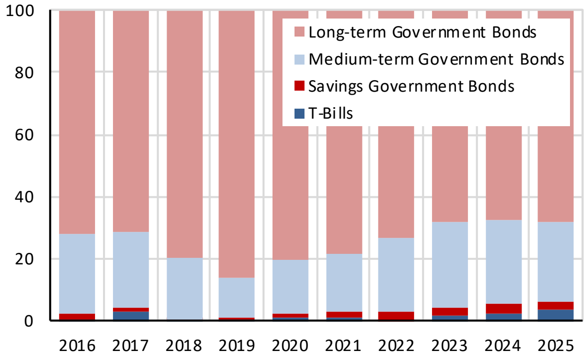

*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.1.6: Net and Gross Government Debt**
*% of GDP*



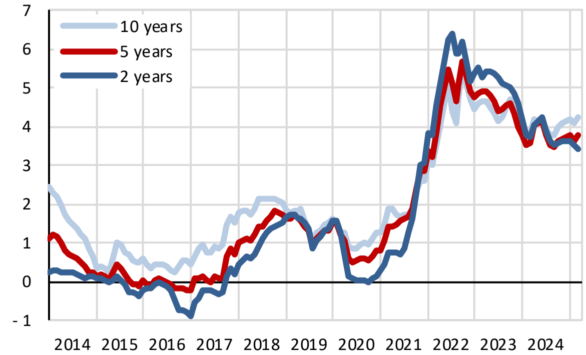

*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.1.7: Government Securities by Type of Instrument**
*% of total government securities outstanding, end-of-year values*




*Note: The value for 2025 reflects the state at the end of March.*
*Source: MF CR.*

**Graph 2.1.8: Government Bond Yields by Maturity**
*% of GDP*




*Source: CNB (2025).*

## 2.2 General Government Revenue

Total **general government revenue** grew by 6.8% in 2024 to reach 40.8% of GDP. We expect it to grow at a 5% rate this year; tax revenue, including social security contributions, should grow only slightly less (Graph 2.2.2). In the following years, we expect a gradual slowdown in the dynamics of total revenue, which should even decline in relative terms to around 39% of GDP in 2028. Along with this, the tax quota should also decline from almost 35% of GDP this year to 34.2% of GDP at the end of the projection horizon (Graph 2.2.1).

Last year, **personal income tax** revenue was increased by the consolidation package (Act No. 349/2023 Coll.). Its contribution of more than CZK 8 billion to tax revenue resulted mainly from the shift of the threshold for applying the 23% tax rate from 48 times to 36 times the average wage, 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. In contrast, Act No. 462/2023 Coll. introduced tax-favourable conditions for retirement savings products, with an impact of CZK −0.6 billion in 2024 and a further CZK −0.5 billion in 2025. The tax dynamics are hampered by the development of the capital gains tax. As a result, the growth in personal income tax revenue would slow from almost 12% last year down to 4.5% this year, which is the pace that is expected to continue to grow on average in 2026–2028.

**Social security contributions** are also based on earnings in the economy, which rose by 8.6% last year. In the current year, we estimate 6% growth, which should gradually slow down to 4.5% in the coming years. The dynamics of health insurance contributions was accelerated by a CZK 12.7 billion (9.2%) increase in the payment for the state insured persons in 2024. Due to the stabilizing inflation rate, we forecast a CZK 2.4 billion increase in this payment for 2025, and in the following years the annual increase should be between CZK 3–4 billion. The measures of the consolidation package brought in over CZK 18 billion last year, of which the largest fiscal impact in social security contributions was related to the reintroduction of sickness insurance for employees at a rate of 0.6% (CZK 13.4 billion) and the increase in contributions for the self-employed (CZK 4.5 billion). The additional benefit of the package is expected to continue in 2025 and 2026, mainly due to the gradual increase in the minimum assessment base for the self-employed, by CZK 3 to 4 billion per year. On the other hand, the introduction of a discount on pension insurance for working pensioners and the benefit of the long-term investment product should be associated with a budgetary impact of CZK −4.5 billion (Act No. 417/2024 Coll.) and CZK −0.6 billion (Act No. 462/2023 Coll.) in 2025, respectively.

**Corporate income tax** revenue grew by 6.1% last year and we expect it to increase by 3.6% this year. The slowing dynamics is due, among other things, to the declining windfall profits tax revenue, which will be fully reflected in the year-on-year decline in corporate income tax in 2026 (Act No. 366/2022 Coll.) as this extraordinary taxation comes to an end. On the other hand, a 2 pp increase in the corporate income tax rate brought in around CZK 21 billion in 2024, with additional revenue of up to CZK 2 billion in each year thereafter (Act No. 349/2023 Coll.). The **top-up tax**, which ensures a minimum level of taxation of large multinational and national groups, increased the accrual tax revenue by CZK 1 billion last year, and the forecast also calculates additional CZK 1 billion for this year (Act No. 416/2023 Coll.). A deepening negative effect has been caused by the exemption of the proceeds from government bonds, which reduced last year's revenue by almost CZK 3 billion year-on-year and is expected to reduce revenue by another CZK 1.3 billion per year in 2025–2026.

**Value added tax** increased by 2.5% last year. Its dynamics reflected the measures of the consolidation package, which unified the reduced tax rates to 12% while shifting some goods and services between rates (impact CZK −3.7 billion). In contrast, however, value added tax revenue increased due to the increase in excise duties (CZK 1 billion in 2024 and another CZK 0.7 billion expected in 2025). The amendment to the Value Added Tax Act (Act No. 461/2024 Coll.) addresses, among other things, an adjustment in the area of bad debts or an adjustment in financial services, with a resulting expected negative impact of up to CZK 2 billion in 2025, which is likely to further deepen by CZK 0.7 billion in both 2026 and 2027. The rate of growth of the tax shall reach 5.7% this year and gradually slow down in the following two years.

The growth rate of **excise duties** as defined by the national legislation was 10.3% last year, followed by an average annual increase of 1.7% in 2025-2027 and a slight decline at the end of the forecast horizon. Last year's positive development was driven by a low base for the mineral oil tax, when the tax rate on diesel was temporarily reduced until July 2023 (CZK 5.6 billion). In addition, from 2024 the consolidation package increased taxation on existing tobacco products and introduced taxation on alternative tobacco products such as e-liquids (CZK 4.2 billion). The gradual adjustment of the taxation of tobacco products is expected to increase the annual revenue by around CZK 3 billion also in 2025–2027. The consolidation package also increased the tax rates on alcohol that triggered a frontloading effect in 2023 and a related annual decrease in tax revenue in 2024. In contrast, in 2025–2026 this measure is expected to generate on average an additional yearly CZK 0.6 billion.

Tax revenues in 2024 were dampened by the end of the extraordinary measure during the energy crisis in the form of a **levy on excess revenues** of electricity producers. This effect was offset by the end of the across-the-board waiver of the **renewable energy levy** for households and companies. Last year, this aid was applied only to energy-intensive businesses.

The deepening negative impact of the introduction of the Excluded Persons Register on the **gambling tax** revenue is reflected in an additional CZK 0.6 billion in 2024 and an additional CZK 0.3 billion this year (Act No. 186/2016 Coll.).

The amendment to the Gambling Act (Act No. 349/2023 Coll.), among other things, extended the range of persons included this register to contain those who are subject of enforcement proceedings (projected revenue shortfall of approximately CZK 3.5 billion in 2027, exacerbated by a further CZK 2.5 billion from 2028). However, as part of the consolidation measures, an increase in the second gambling tax rate from 23% to 30% was also approved, with an impact of CZK 1.2 billion in 2024. Revenue has also been boosted since last year by the **real estate tax** (CZK 10 billion), which is automatically indexed by inflation coefficient from 2025. The increase in **TV and radio fees** effective from May 2025 and the extension of the range of taxpayers should bring CZK 0.8 billion to the public budgets this year and another CZK 0.4 billion next year (Act No. 119/2025 Coll.). By contrast, the proposed **road tax** adjustment will lead to a reduction in revenue of CZK 0.4 billion from 2025 (Chamber of Deputies Print No. 784).

**Investment transfers** largely reflect the implementation of projects co-financed by the EU budget from the 2021–2027 programming period. The EU Next Generation Instrument funds, whose disbursement is expected to peak in 2025, also play a significant role. **Dividend** income from state-owned companies, as well as **interest** on loans granted under the Treasury's liquidity management, declined significantly last year given the above-average base year of 2023, and we assume a declining trajectory for interest until the end of the outlook horizon. The introduction of the fourth component of the toll and the increase in its rates, as well as the increase in the motorway toll and the introduction of its periodic indexation for inflation, brought around CZK 2.5 billion to the public budgets in 2024; further on we expect more than CZK 2 billion in 2025 and additional hundreds of millions in 2026–2028 (Act No. 349/2023 Coll., Government Regulations No. 40/2024 Coll. and No. 299/2024 Coll.).

**Table 2.2.1: General Government Revenue Outlook**

| | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 *Forecast* | 2026 *Forecast* | 2027 *Outlook* | 2028 *Outlook* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total revenue** | *CZK bn* | **2394** | **2366** | **2528** | **2814** | **3060** | **3267** | **3431** | **3534** | **3617** | **3754** |
| | *change in %* | 6.6 | -1.2 | 6.8 | 11.3 | 8.7 | 6.8 | 5.0 | 3.0 | 2.3 | 3.8 |
| **Tax revenue** | *CZK bn* | **1179** | **1137** | **1174** | **1305** | **1418** | **1522** | **1583** | **1606** | **1667** | **1742** |
| | *change in %* | 6.6 | -3.5 | 3.2 | 11.2 | 8.6 | 7.4 | 4.0 | 1.5 | 3.8 | 4.5 |
| Taxes on production and imports | *CZK bn* | 688 | 651 | 705 | 767 | 806 | 856 | 889 | 924 | 950 | 982 |
| | *change in %* | 6.3 | -5.3 | 8.2 | 8.8 | 5.0 | 6.2 | 3.9 | 3.9 | 2.7 | 3.4 |
| Value added tax | *CZK bn* | 435 | 422 | 464 | 537 | 573 | 587 | 620 | 649 | 673 | 704 |
| | *change in %* | 6.6 | -3.0 | 9.7 | 15.8 | 6.7 | 2.5 | 5.7 | 4.6 | 3.7 | 4.5 |
| Excise taxes | *CZK bn* | 168 | 157 | 162 | 159 | 158 | 175 | 177 | 180 | 184 | 184 |
| | *change in %* | 1.7 | -6.4 | 2.6 | -1.8 | -0.3 | 10.3 | 1.1 | 2.1 | 2.0 | -0.2 |
| Current taxes | *CZK bn* | 491 | 485 | 469 | 538 | 612 | 666 | 693 | 682 | 717 | 760 |
| | *change in %* | 7.0 | -1.0 | -3.5 | 14.9 | 13.7 | 8.9 | 4.1 | -1.7 | 5.2 | 5.9 |
| Personal income tax | *CZK bn* | 287 | 298 | 228 | 243 | 279 | 313 | 327 | 339 | 354 | 373 |
| | *change in %* | 10.2 | 3.6 | -23.4 | 6.7 | 14.8 | 11.9 | 4.5 | 3.6 | 4.7 | 5.2 |
| Corporate income tax | *CZK bn* | 192 | 177 | 229 | 284 | 321 | 341 | 353 | 329 | 349 | 373 |
| | *change in %* | 2.9 | -8.1 | 29.7 | 23.8 | 13.1 | 6.1 | 3.6 | -6.8 | 6.0 | 6.8 |
| **Social contributions** | *CZK bn* | **895** | **909** | **1 013** | **1 084** | **1 169** | **1 270** | **1 346** | **1 420** | **1 486** | **1 551** |
| | *change in %* | 7.3 | 1.6 | 11.4 | 7.0 | 7.8 | 8.6 | 6.0 | 5.5 | 4.6 | 4.4 |
| **Property income** | *CZK bn* | **32** | **34** | **36** | **76** | **96** | **84** | **77** | **68** | **67** | **62** |
| | *change in %* | -7.5 | 5.6 | 5.0 | 112.8 | 26.1 | -12.2 | -8.4 | -11.7 | -1.9 | -8.0 |
| **Other** | *CZK bn* | **288** | **286** | **305** | **349** | **377** | **391** | **426** | **440** | **397** | **399** |
| | *change in %* | 6.6 | -0.7 | 6.6 | 14.3 | 8.2 | 3.7 | 8.8 | 3.2 | -9.7 | 0.5 |
| Revenues from the EU | *CZK bn* | 64 | 65 | 67 | 78 | 85 | 83 | 103 | 111 | 60 | 53 |
| | *change in %* | 6.8 | 2.2 | 3.2 | 16.2 | 9.3 | -3.0 | 24.7 | 7.5 | -45.9 | -12.5 |
| **Tax burden** | *% of GDP* | **35.2** | **35.1** | **34.7** | **33.9** | **34.0** | **34.8** | **34.9** | **34.4** | **34.2** | **34.2** |

*Note: Excise taxes are adjusted for subsidies on renewable energy resources.*
*Source: CZSO (2025b). Forecast and calculations by MF CR.*

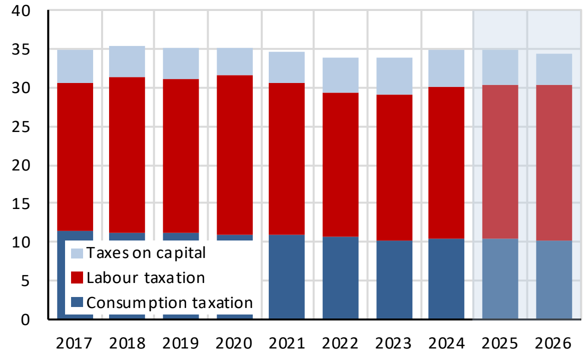
**Table 2.2.2: Discretionary Revenue Measures**

| | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 *Forecast* | 2026 *Forecast* | 2027 *Outlook* | 2028 *Outlook* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total revenue measures** | *CZK bn* | **0.0** | **-39.3** | **-81.0** | **-21.8** | **44.0** | **64.8** | **-0.1** | **-29.3** | **1.7** | **0.1** |
| Labour taxation | *CZK bn* | 0.3 | -30.2 | -69.1 | -10.6 | 0.7 | 25.6 | -2.3 | 3.9 | 0.4 | 0.1 |
| Taxes on capital | *CZK bn* | - | -13.7 | -2.3 | -9.7 | 53.6 | 15.1 | -6.0 | -37.1 | 2.0 | 1.8 |
| Consumption taxation | *CZK bn* | -0.3 | 6.8 | -12.0 | -1.4 | -10.2 | 21.1 | 6.4 | 3.4 | -1.0 | -2.1 |
| Other revenue | *CZK bn* | -0.0 | -2.3 | 2.3 | -0.1 | -0.2 | 3.1 | 1.8 | 0.5 | 0.4 | 0.3 |

*Note: Figures represent YoY discretional changes that are stemming from all envisaged and approved measures on revenue side.*
*Source: MF CR.*

**Graph 2.2.1: Tax Revenue Structure**

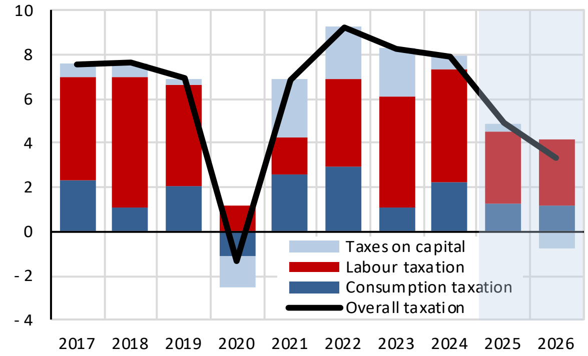
*% of GDP*




*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.2.2: Tax Revenue Development**

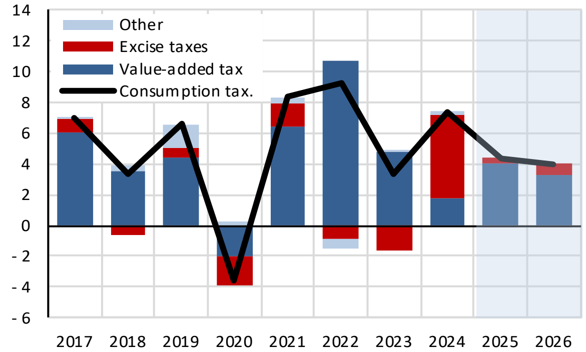
*change in %, contributions in percentage points*




*Source: CZSO (2025b). MF CR forecast.*

**Graph 2.2.3: Taxation of Consumption**

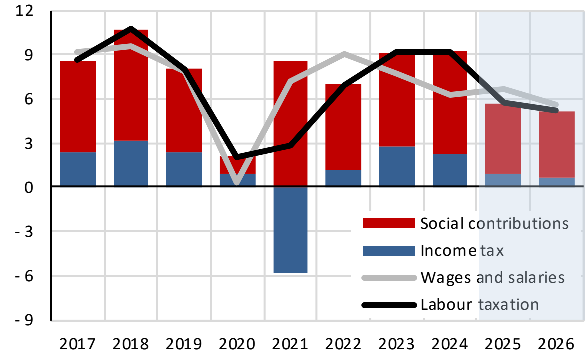
*change in %, contributions in percentage points*




*Source: CZSO (2025b). MF CR forecast.*

**Graph 2.2.4: Taxation of Labour**

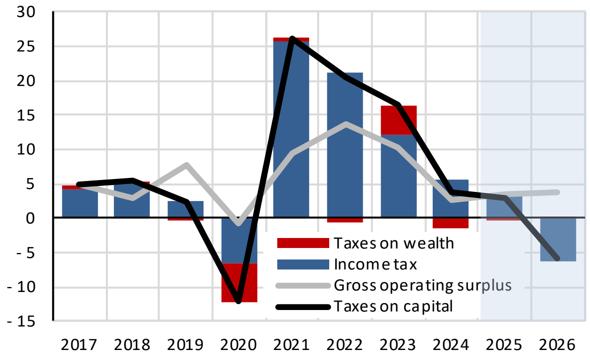
*change in %, contributions in percentage points*




*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.2.5: Taxation of Capital**

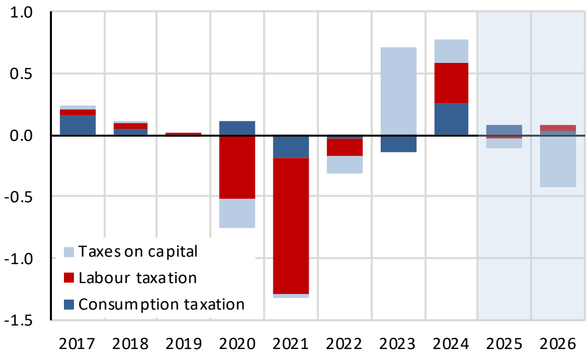
*change in %, contributions in percentage points*




*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.2.6: Discretionary Tax Measures**

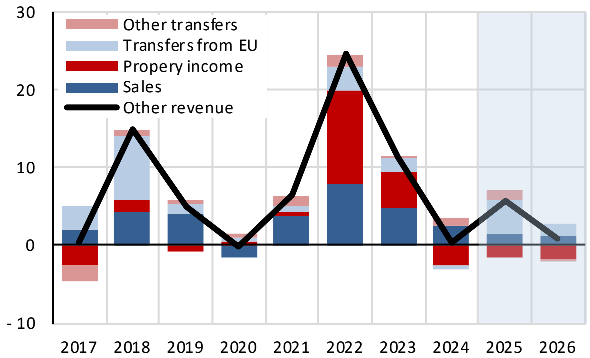
*% of GDP*




*Source: MF CR.*

**Graph 2.2.7: Other Revenue**

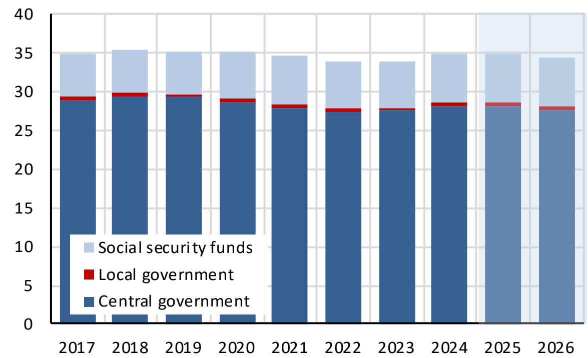
*change in %, contributions in percentage points*




*Source: CZSO (2025b). MF CR forecast.*

**Graph 2.2.8: Tax and Social Revenue by Subsectors**

*% of GDP*




*Source: CZSO (2025a, 2025b). MF CR forecast.*

## 2.3 General Government Expenditure

Total **general government expenditures** were held back by the consolidation package in 2024. Despite their almost 3% growth (Graph 2.3.6), they have fallen in relative terms to 43% of GDP. Their ratio to GDP is expected to remain around this level this year and then proceed along a downward trajectory until the end of the outlook horizon, below 41% of GDP in 2028, which corresponds to the pre-2020 level of spending (Graph 2.3.5).

The pace of **final consumption expenditure** slowed to 7.3% last year and we expect a further slowdown to 5.7% this year. We expect average growth of 4.5% in the following years. **Intermediate consumption** maintained its high rate of 8.7% in 2024, driven by spending by central and local budgetary organisations and their semi-budgetary organisations. Expenditure on repairs to flood-damaged assets also contributed slightly. These will continue to boost spending on purchases of goods and services this year, but given the high comparative base of 2024, intermediate consumption should show only 3.7% growth (Graph 2.3.8).

There was a slowdown in **compensation of employees**. The consolidation brought savings in the salaries of CZK 9.4 billion, of which CZK 4.1 billion was attributable to a 2% reduction in the volume of salaries in the public administration. The growth in compensation was, on the other hand, driven by salaries in the health sector and in education, where an amendment to the Education Act (Act No. 183/2023 Coll.) newly guaranteed that the average teacher's salary would be at least 130% of the average gross salary in the economy. This year's compensation dynamics will be driven by salaries indexed to the average wage. The salaries of constitutional officials, judges and public prosecutors were increased by 6.95% (Act No. 57/2025 Coll.). Teaching staff salaries were also increased by 7 % from January 2025, while other public service and administrative employees received an across-the-board increase of CZK 1 400 (Government Regulation No. 466/2024 Coll.). The compensation of employees will also be increased by the established coefficients for calculating the minimum wage in 2025 and 2026 and the minimum guaranteed salary levels linked to it (Government Regulation No. 285/2024 Coll.). As a result, compensation of employees is expected to increase by 6.3% in 2025 and 5% in 2026. In the following two years, the rate should remain between 4–5%, again with a significant impact of automatically indexed salaries.

**Social transfers in kind** maintained a high rate of almost 12% in 2024. These were driven by health care spending, made possible not only by an increase in social security contributions and payments for state insured persons, but also by a deficit of the public health system of 0.3% of GDP. In addition, there was an increase in the already high level of housing benefits, which could, however, weaken slightly in the coming years due to rising real disposable household incomes and lower energy prices. Moreover, in terms of the payment system, they will become part of a single state social assistance benefit with effect from October 2025 (Act No. 151/2025 Coll.). We expect a slowdown in the dynamics of social transfers in kind to 5.5% in 2025, followed by a further slowdown to an average of 4% in 2026–2028, in line with the revenues of health insurance companies and their slightly negative performance.

Pension benefits account for a decisive share in the composition of **cash social benefits** (Graph 2.3.9). Their indexation in 2024 meant a 3.5% increase in pension expenditure, as the standard indexation in January 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.) were associated with a positive annual impact of around CZK 2 billion last year. As of January 2025, pensions were again 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 Coll. 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 childraising allowance should further increase by about CZK 0.5 billion each year in the period 2024-2026 (Act No. 323/2021 Coll.). The effectiveness of the adjustment of the pension payment period from the so-called moving month to the calendar month, and the associated abolition of the one-off supplementary payment at the regular January indexation, should be postponed by 2 years and bring about CZK 1 billion at the end of the outlook horizon (Act No. 321/2023 Coll., Chamber of Deputies Print No. 906).

The increase in the parental allowance by CZK 50,000 (CZK 75,000 in the case of multiples) for children born from 1 January 2024 meant an expenditure of CZK 0.4 billion last year, despite the fact that the total amount of funds paid out for parental allowance fell by CZK 2 billion year-on-year. Nevertheless, further increase of between CZK 1.5 billion and less than CZK 2 billion is also expected in 2025–2027 (Act No. 407/2023 Coll.). The amendment to the Act on Social and Legal Protection of Children brought changes in the area of foster family care with an impact of CZK −0.5 billion in 2024 and another CZK −0.5 billion in 2025 (Act No. 242/2024 Coll.).

The humanitarian allowance for Ukrainian refugees, including countable housing costs, meant an expenditure from the state budget of CZK 8 billion last year, CZK 1 billion more than in 2023. A similar year-on-year increase is calculated for this year, and the forecast foresees an amount of around CZK 9 billion for 2026 as well. Adjustments to the care allowance required CZK 3.5 billion in 2024 and another CZK 4.2 billion this year (Act No. 164/2024 Coll. and No. 38/2025 Coll.). Despite the tightening of the conditions for eligibility for unemployment benefits in the event of re-registration (Act No. 349/2023 Coll.), labour market development in 2024 resulted in a year-on-year increase in unemployment benefit expenditure of CZK 2.4 billion. The funds paid out in connection with the floods last year were also reflected in the social area, specifically in the form of exceptional immediate assistance with the amount of CZK 0.6 billion. The development of cash social benefits in the national accounts methodology also reflects the increase in the payment for the state insured persons. As a result of all the social factors described above, cash social benefits grew by 4.4% in 2024. We expect a slowdown below 3% in 2025–2026 and around 2% in the following years of the outlook.

**Subsidies** have fallen by more than a quarter to 1.9% of GDP in 2024 due to stabilisation in energy markets and savings from the consolidation package. This reduction was also due to a CZK 5.2 billion year-on-year reduction in the amount spent on accommodation for Ukrainian refugees and around CZK 1.5 billion is expected to be paid this year. In contrast, the increase in the maximum amount of the allowance to support the employment of persons with disabilities increased expenditure by CZK 1.1 billion last year (Government Regulation No. 70/2024 Coll.). In relation to the introduction of the minimum wage indexation mechanism, we are calculating additional demands on the state budget of CZK 1.4 billion for this title this year (Government Regulation No. 471/2024 Coll.). In addition, the forecast also assumes a year-on-year increase in support for renewable energy sources. These effects will outweigh the effect of the additional savings resulting from the consolidation package, which should result in an increase in subsidies of almost 15% this year. In subsequent years, the subsidies should amount to around 2% of GDP.

**Transfers** recorded a 7.6% decline in 2024. This was due to a CZK 7 billion reduction in contributions to the EU budget and a CZK 1.2 billion saving in the contribution to the solidarity household housing Ukrainian refugees. This year, we expect current and capital transfers to increase by 7.7% to 2.2% of GDP, with contribution of a payment to the Czech Post estimated at CZK 3 billion or subsidy programmes related to last year's floods. On the other hand, state budget has already saved around CZK 2 billion by reducing the maximum amount of the contribution to building savings (Act No. 349/2023 Coll.). In following years, total transfers in relative terms should gradually fall below 2% of GDP.

The dynamics of **investment in fixed assets** slowed significantly to 1.5% in 2024 (Graph 2.3.11), driven by a 4% decline in local governments spending. At the central level, growth was driven by spending on transport infrastructure and defence. In the case of EU co-financed spending, the implementation of National Recovery Plan projects and the unfolding 2021–2027 financial perspective played a role. In addition to the continued growth in defence spending, this year investment is boosted by spending on infrastructure and asset reconstruction following the September 2024 floods. In terms of financing, we anticipate further involvement of resources from the National Recovery Plan, with an expected peak this year and next one. The European Structural and Investment Funds will also have an impact, in line with their phase of the cycle. As a result, total investment is projected to grow by 7.7% in 2025, slowing to 1.2% next year. The end of the National Recovery Plan is likely to be reflected in negative gross fixed capital formation in 2027. In addition, however, we anticipate an increase in national investment over the entire outlook horizon.

Rising general government debt and higher interest rates are leading to a further increase in **interest expenditure**, which amounted to 1.3% of GDP last year and is likely to reach 1.4% of GDP this year (see Graph 2.3.12). They are expected to remain at this level until the end of the forecast horizon. This will result, among other things, from the improving performance of general government and a slowdown in debt dynamics.

**Box 1: Fiscal Implications of Population Ageing – 2025 Projections**

The estimates of the fiscal impact of population ageing are based on long-term projections carried out in cooperation with the Working Group on Ageing Populations and Sustainability of the Economic Policy Committee, established by the EU Council. The analyses rely on assumptions regarding demographic developments and a methodologically consistent macroeconomic framework shared by the EU Member States and Norway (EC, 2023). These projections thus do not reflect the current forecast or the medium-term macroeconomic and fiscal outlook for the Czech Republic. The long-term projections were updated in spring 2025, outside the standard three-year cycle of the Ageing Report (EC, 2024), due to the adoption of the pension reform, which takes effect gradually from early 2025.

The current long-term projections, covering the period up to 2070, are based on Eurostat's population projection (2023). For comparison, the previous Eurostat projection (2019) can be used. Even a basic comparison of the two projections suggests that the population of the Czech Republic is expected to decline over the long term. The current Eurostat projection (2023) is more optimistic in this regard, primarily due to higher net migration (Graph 2.3.1).

However, for projections of social and healthcare expenditure, the population's age structure is of particular importance. The old-age dependency ratio, defined as the number of persons aged 65 and over relative to those of working age (15–64), evolves similarly in both projections. By 2060, it is projected to increase by more than half, reaching over 50% (Graph 2.3.2).

This is not only a result of the decline in the working-age population, but also of increasing life expectancy. The share of people aged 85 and over within the population aged 65 and over is projected to more than double over the projection horizon. In the later decades of the projection period, only a temporary decline in the old-age dependency ratio is expected. The sharp increase after 2035 and the peak in the 2060s are mainly driven by the large cohorts born in the 1970s. After 2060, their impact is expected to diminish.

For the purposes of the macroeconomic assumptions, the average age of exit from the labour market into retirement increases until the mid-2050s, in line with the gradual rise in the statutory retirement age. After 2056, it remains constant, reflecting the current institutional settings of the pension system. The projection therefore assumes a fixed retirement age ceiling of 67 from the mid-2050s onwards. Until then, the pace of retirement age increase reflects both observed and projected gains in life expectancy.

From the perspective of public finances, pension expenditure as a share of GDP developed more favourably than projected in the pre-crisis period, primarily due to favourable macroeconomic conditions. The baseline value in earlier projections was 9.0% of GDP in 2013, whereas in 2019, pension expenditure was 1.0 pp lower. In addition, stronger growth in wages and salaries, employment, and the participation rate contributed to dynamic growth on the revenue side of the system. This had a positive impact on the system’s balance, which stood at 0.3% of GDP in 2019 (MF CR, 2021a). The pandemic and the related revenue-side measures led to a deterioration in the pension account balance to −0.7% of GDP in 2020 (MF CR, 2021b). Although the pension account was broadly balanced in 2021, high inflation and the resulting two extraordinary indexations caused a deficit of 0.3% of GDP in 2022. The deficit deepened further to 1.0% of GDP in 2023 (MF CR, 2024b), followed by a moderation to 0.6% of GDP in 2024, reflecting lower indexations and solid growth in social security contributions.

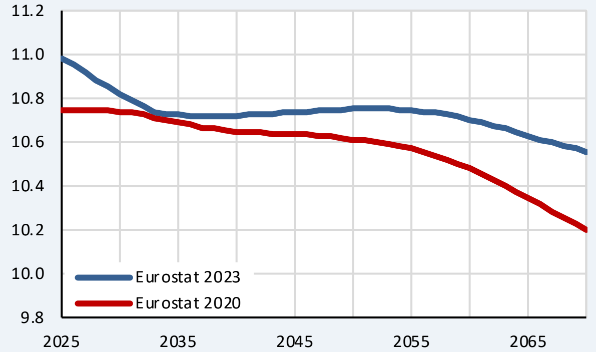
The trend in projected pension expenditure is primarily driven by demographic developments and the retirement age. Although **pension expenditure** is expected to gradually decline to around 8% of GDP in the coming years, it is projected to start rising again from the mid-2030s, reflecting the retirement of the large cohorts born in the 1970s. From the mid-2050s onwards, the halt in the increase of the statutory retirement age will further add to expenditure growth. Pension spending is expected to peak at 9.2% of GDP just before 2060. A slight decline to 8.7% of GDP is projected by the end of the projection horizon in 2070, again due to demographic factors, as the smaller cohorts born in the 1990s and early 2000s will start replacing the older and more numerous cohorts in retirement.

The projection assumes constant **pension system revenues** in relation to GDP over the entire projection horizon. This is based on the assumption that the aggregate volume of wages and salaries in the economy will grow in line with labour productivity in the long term. As a result, the share of labour compensation in GDP remains constant, and is subject to a fixed pension contribution rate of 28% of gross wages and salaries. Pension revenues are thus projected to remain at 8.0% of GDP throughout the period.

Given constant relative revenues, the resulting **pension system balance** follows the trajectory of pension expenditure (Graph 2.3.3). The balance is projected to remain broadly balanced until the mid-2030s, after which it will deteriorate to −1.2% of GDP just before 2060. In the final decade, the balance is expected to improve again, reaching −0.7% of GDP by 2070.

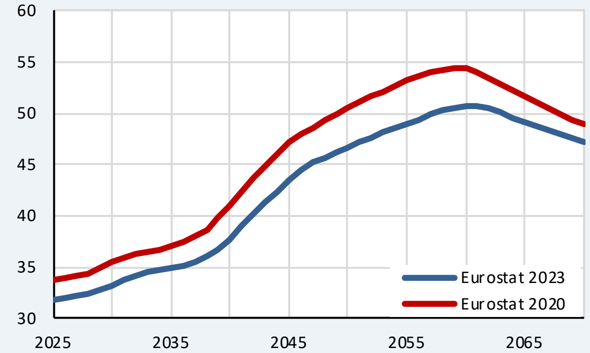
Overall, public expenditure is projected to increase by 2.2 pp between 2022 and 2070 (Graph 2.3.4). Health care, long-term care, and education together account for a 1.9 pp increase.

**Graph 2.3.1: Projections of Czech population**
*millions of persons*



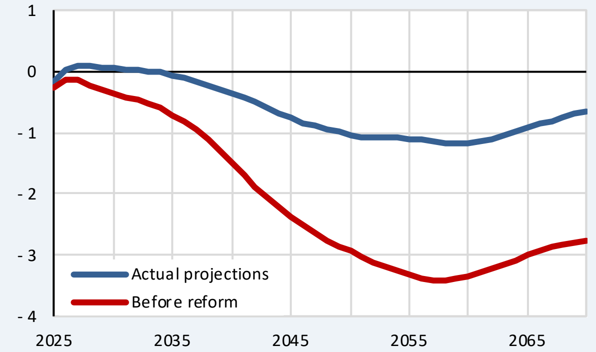

*Source: Eurostat (2019), Eurostat (2023).*

**Graph 2.3.2: Old-age Dependency Ratio**
*in %, ratio of persons aged 65+ to persons aged 15–64 years*



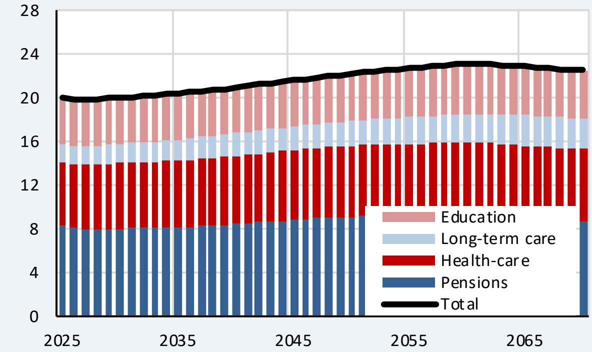

*Source: Eurostat (2019), Eurostat (2023).*

**Graph 2.3.3: Pension Account Balance**
*in % of GDP*




*Source: MF CR calculations and forecast.*

**Graph 2.3.4: Expenditure Projections**
*in % of GDP, age-related expenditure*




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

### Table 2.3.1: General Government Expenditure

| | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *Forecast* | *Forecast* | *Outlook* | *Outlook* |
| **Total expenditure** | *CZK bn* | **2 377** | **2 696** | **2 840** | **3 031** | **3 346** | **3 444** | **3 618** | **3 709** | **3 795** | **3 927** |
| | *change in %* | 8.2 | 13.4 | 5.4 | 6.7 | 10.4 | 2.9 | 5.0 | 2.5 | 2.3 | 3.5 |
| Compensation of employees | *CZK bn* | 576 | 633 | 676 | 690 | 739 | 774 | 823 | 864 | 903 | 941 |
| | *change in %* | 10.5 | 10.0 | 6.8 | 2.1 | 7.0 | 4.9 | 6.3 | 5.0 | 4.5 | 4.2 |
| Intermediate consumption | *CZK bn* | 339 | 346 | 354 | 394 | 430 | 468 | 485 | 492 | 512 | 535 |
| | *change in %* | 4.6 | 2.1 | 2.4 | 11.3 | 9.2 | 8.7 | 3.7 | 1.5 | 4.0 | 4.5 |
| Social benefits other than in kind | *CZK bn* | 709 | 821 | 859 | 937 | 1 037 | 1 083 | 1 112 | 1 143 | 1 165 | 1 191 |
| | *change in %* | 7.7 | 15.8 | 4.7 | 9.1 | 10.6 | 4.4 | 2.7 | 2.8 | 1.9 | 2.3 |
| Social transfers in kind | *CZK bn* | 177 | 205 | 219 | 226 | 258 | 288 | 304 | 316 | 329 | 343 |
| | *change in %* | 10.9 | 15.8 | 7.1 | 2.9 | 14.2 | 11.9 | 5.5 | 3.8 | 4.0 | 4.2 |
| Property income | *CZK bn* | 40 | 44 | 46 | 79 | 99 | 108 | 114 | 119 | 128 | 134 |
| | *change in %* | 1.2 | 7.9 | 4.8 | 72.4 | 25.5 | 9.5 | 4.9 | 4.7 | 7.9 | 4.7 |
| Subsidies | *CZK bn* | 128 | 173 | 200 | 151 | 207 | 155 | 177 | 180 | 180 | 183 |
| | *change in %* | 7.3 | 35.1 | 15.8 | -24.7 | 37.0 | -25.2 | 14.6 | 1.3 | 0.4 | 1.4 |
| Gross fixed capital formation | *CZK bn* | 253 | 277 | 287 | 320 | 370 | 376 | 405 | 409 | 386 | 407 |
| | *change in %* | 12.6 | 9.6 | 3.8 | 11.2 | 15.9 | 1.5 | 7.7 | 1.2 | -5.7 | 5.4 |
| Capital transfers | *CZK bn* | 37 | 68 | 56 | 51 | 40 | 31 | 43 | 35 | 35 | 34 |
| | *change in %* | -2.4 | 84.9 | -17.7 | -7.5 | -22.5 | -22.5 | 39.9 | -18.4 | -1.3 | -3.2 |
| Other expenditure | *CZK bn* | 119 | 130 | 142 | 183 | 167 | 161 | 155 | 150 | 156 | 159 |
| | *change in %* | 5.9 | 8.6 | 9.5 | 28.5 | -8.7 | -3.7 | -3.7 | -3.0 | 4.1 | 1.4 |

*Source: CZSO (2025b). Forecast and calculations by MF CR.*

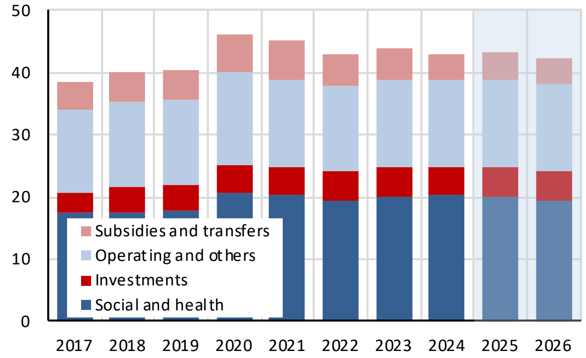
### Table 2.3.2: Discretionary Expenditure Measures

| | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *Forecast* | *Forecast* | *Outlook* | *Outlook* |
| **Total expenditure measures** | *CZK bn* | **-47.5** | **-181.2** | **5.9** | **17.0** | **-69.7** | **120.3** | **-62.6** | **22.5** | **8.1** | **1.1** |
| Social benefits | *CZK bn* | -17.3 | -49.4 | 19.7 | -31.0 | 7.7 | 11.0 | -8.2 | -2.3 | 7.6 | 1.1 |
| Compensation of employees* | *CZK bn* | -30.0 | -34.3 | -9.4 | 3.3 | -25.7 | -8.4 | -46.7 | - | - | - |
| Healthcare | *CZK bn* | - | -24.7 | 5.9 | 12.5 | -1.4 | -3.3 | - | - | - | - |
| Subsidies | *CZK bn* | -1.6 | -44.9 | -12.3 | 45.9 | -76.8 | 117.8 | 6.6 | 1.7 | 0.0 | - |
| Capital transfers | *CZK bn* | 5.6 | -27.4 | 8.8 | 4.0 | 13.3 | 0.3 | -2.4 | 3.0 | - | - |
| Other expenditure | *CZK bn* | -4.3 | -0.5 | -6.7 | -17.6 | 13.2 | 2.8 | -12.0 | 20.2 | 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 2.3.5: Total Expenditure Structure**

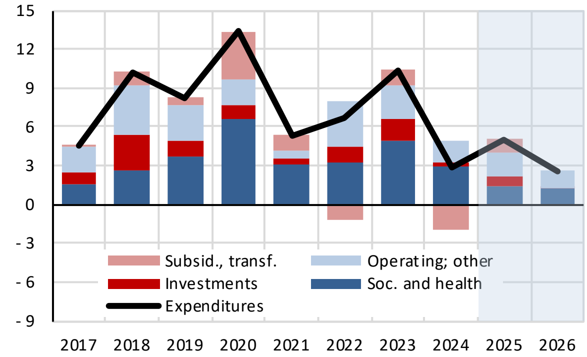
*% of GDP*




*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.3.6: Total Expenditure Development**

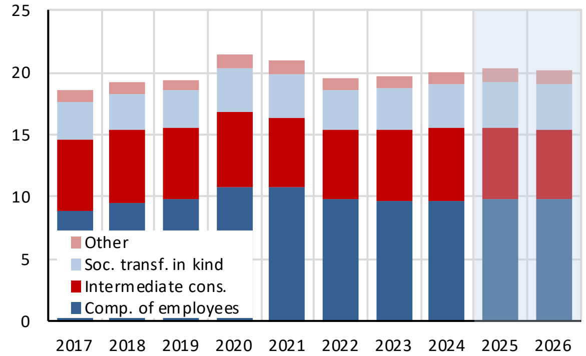
*change in %, contributions in percentage points*




*Source: CZSO (2025b). MF CR forecast.*

**Graph 2.3.7: Final Consumption Expenditure Structure**

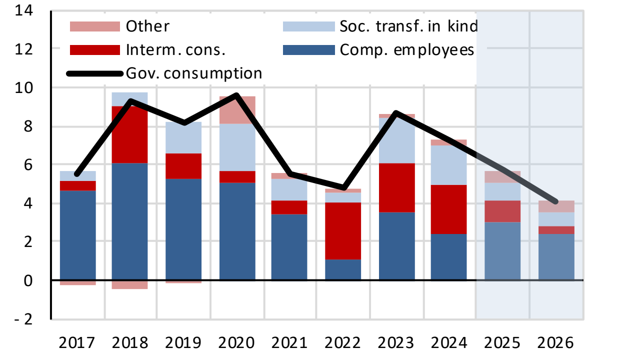
*% of GDP*




*Source: CZSO (2025b). MF CR forecast.*

**Graph 2.3.8: Final Consumption Expenditure Development**

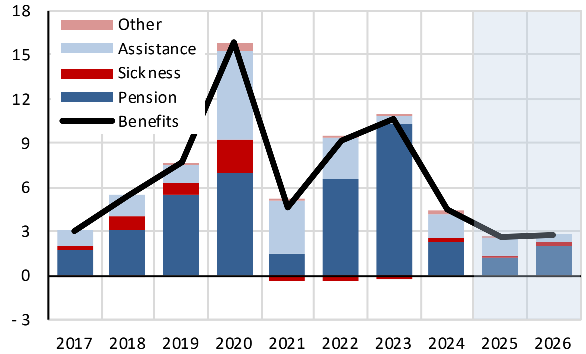
*change in %, contributions in percentage points*




*Source: CZSO (2025b). MF CR forecast.*

**Graph 2.3.9: Cash Social Benefits**

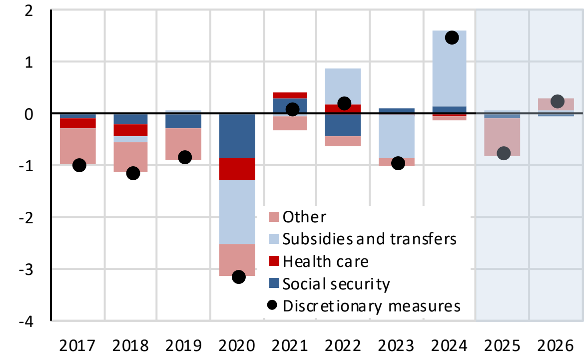
*change in %, contributions in percentage points*




*Source: CZSO (2025a, 2025b). MF CR forecast.*

**Graph 2.3.10: Discretionary Expenditure Measures**

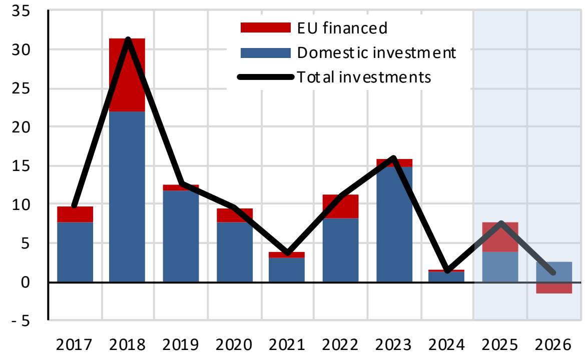
*% of GDP*




*Source: MF CR.*

**Graph 2.3.11: General Government Investment**

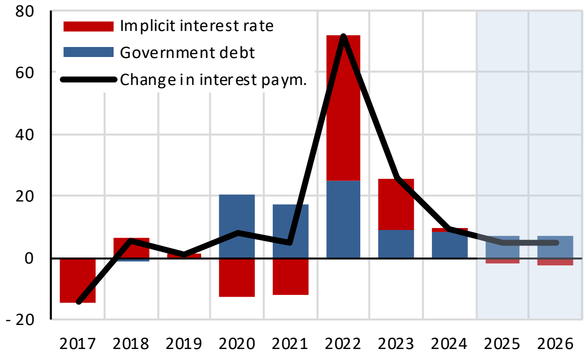
*change in %, contributions in percentage points*




*Source: CZSO (2025b). MF CR forecast.*

**Graph 2.3.12: Interest Expenditure**

*change in %, contributions in percentage points*




*Source: CZSO (2025b). MF CR forecast.*

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Regulation No. 471/2024 Coll., of the Government of the Czech Republic, on the Maximum Amount of the Contribution to Support the Employment of Persons with Disabilities in the Protected Labour Market.

# A 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.

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.

**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.

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

**One-off and other temporary 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.

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