The Czech Fiscal Council

REPORT ON COMPLIANCE WITH THE RULES OF BUDGETARY RESPONSIBILITY FOR 2024

September 2025
Czech Fiscal Council

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Introduction

Last year's development of Czech general government finances can be assessed positively. The indicator of their medium-term imbalance, i.e. the structural balance, improved by approximately 0.8 pp. There was also a significant reduction in the volume of one-off and temporary expenditure measures, which contributed to a reduction in the overall deficit from 3.7% of gross domestic product (“GDP”) in 2023 to 2.2% of GDP in 2024. The decline in the deficit below 3% of GDP also meant that the Maastricht fiscal criteria were met for the first time since 2019. National fiscal rules clearly played an important positive role in this process, with the amendment to Act No. 23/2017 Coll., on the Rules of Budgetary Responsibility, as amended, (the “Act”) of 2023 defines a clear trajectory for reducing the structural deficit by 0.5% of GDP annually until it reaches its original value of 1% of GDP, i.e., a value that does not jeopardize the medium-term sustainability of general government finances.

The existence of fiscal rules is particularly important given the strong tendency of politicians to run persistent deficits, which then undermines the medium-term and long-term sustainability of general government finances. One of the key conditions for their operation is transparency and stability, which, however, has not been respected in the Czech Republic in recent years. Two amendments to the Act in 2020 opened the door to a significant increase in the structural deficit. This subsequently led to an increase in debt burden, which rose by almost 14 pp between 2019 and 2024 to 43.3% of GDP in 2024. Fortunately, the last amendment to the Act in 2023 went in the opposite direction and tightened the structural deficit rule. It can thus be described as one of the key elements of the adopted consolidation package.

The proper functioning of fiscal rules also requires their regular evaluation based on relevant data. This is the content of this Report on Compliance with the Rules of Budgetary Responsibility (“the Report on Compliance with the Rules”), the preparation of which is one of the main tasks of the Czech Fiscal Council (the “CFC” or the “Council”) set out by the Act. Strict adherence to clearly defined and stable fiscal rules should significantly contribute to establishing the medium- and long-term sustainability of Czech general government finances.

In addition to assessing compliance with the three fiscal rules defined in the Act, the CFC decided to include other sub-topics (boxes) in the Report on Compliance with the Rules that focus on current issues and deserve attention. The first of these tracks changes in the general government debt in EU countries in the period 2020–2024 and analyses the factors behind the different developments in individual countries. We also focus on the impact of the deficit spending of the social security funds subsector (health insurance companies) on the cash balances in their accounts. We also devote considerable space to the new EU fiscal rule based on the net expenditure path – Box 3 deals in more detail with its construction and also with the impact of the application of the national escape clause on the position of individual EU Member States. In the case of local governments, we analyse in the fourth Box the development of the application of the so-called local real estate tax coefficient in municipalities and monitor how they use this space to increase (but also decrease) their own revenues.

The information presented in this Report on Compliance with the Rules confirms that the Czech Republic complied with both national and European fiscal rules in 2024. Nevertheless, Czech general government finances cannot be considered fully recovered yet. Despite the decline in the deficit, the debt ratio is rising (it is expected to increase from 43.3% of GDP to 44.2% of GDP in 2025) and the structural balance remains around 1 pp worse than the target value of −1% of GDP. Furthermore, forecasts show that continuing consolidation in line with the trajectory set out in the Act will require further adjustments to general government revenue and expenditure. In addition, the ratio of general government revenue to GDP has remained virtually unchanged compared to the year before the COVID-19 pandemic (40.7% of GDP in 2019 vs. 40.6% of GDP in 2024), while general government expenditure is roughly 2.4 pp higher (40.4% of GDP in 2019 vs. 42.8% of GDP in 2024). Also, further consolidation will be hampered by the need to allocate significant resources to increase defence capabilities, and the state's borrowing needs will be further increased by the need to draw on resources for the construction of additional units at the Dukovany nuclear power plant. All this will place considerable demands on Czech general government finances and will require prudent decision-making by political representatives when approving any new expenditure items or reducing the tax burden. It is worth bearing in mind that sound general government finances are one of the pillars of macroeconomic stability and create a suitable environment for economic growth. Stable and comprehensible fiscal rules are an appropriate and effective tool for maintaining fiscal discipline.

1 General government finances

In 2024, the Czech Republic was emerging from economic stagnation. Domestic demand was reviving, but Czech industry was constrained by weakening demand from abroad (especially Germany). Weaker investment activity also had a negative impact on the Czech economy.

The Czech Republic's real GDP grew by 1.2% year-on-year ("y-o-y") in 2024. Final consumption expenditure grew significantly, both in the general government sector (by 3.2% y-o-y) and in the household sector (by 2.4%). Net exports also recorded a y-o-y increase of 0.7%. On the other hand, gross capital formation declined (−4.4%). This decline was caused by both a slowdown in investment activity (i.e., gross fixed capital formation) and a reduction in inventories and valuables. The output gap remained negative in 2024 (1.8% below potential output). The general government balance recorded a deficit of 2.2% of GDP (CZK 177.2 billion), while the structural balance reached −1.9% of GDP.[1] The general government debt increased by CZK 257.8 billion y-o-y and stood at CZK 3,491.9 billion at the end of 2024. The debt-to-GDP ratio increased by 1.1 pp compared to 2023, reaching 43.3% of GDP.[2]

For 2025, the Ministry of Finance of the Czech Republic ("MF CR") expects, according to its summer macroeconomic forecast[3], y-o-y real GDP growth of 2.1% and an output gap of −0.8% of potential output. The general government balance is expected to reach −1.9% of GDP and the structural balance −1.7% of GDP. The general government debt ratio will rise to 44.2% of GDP.

2 The debt rule

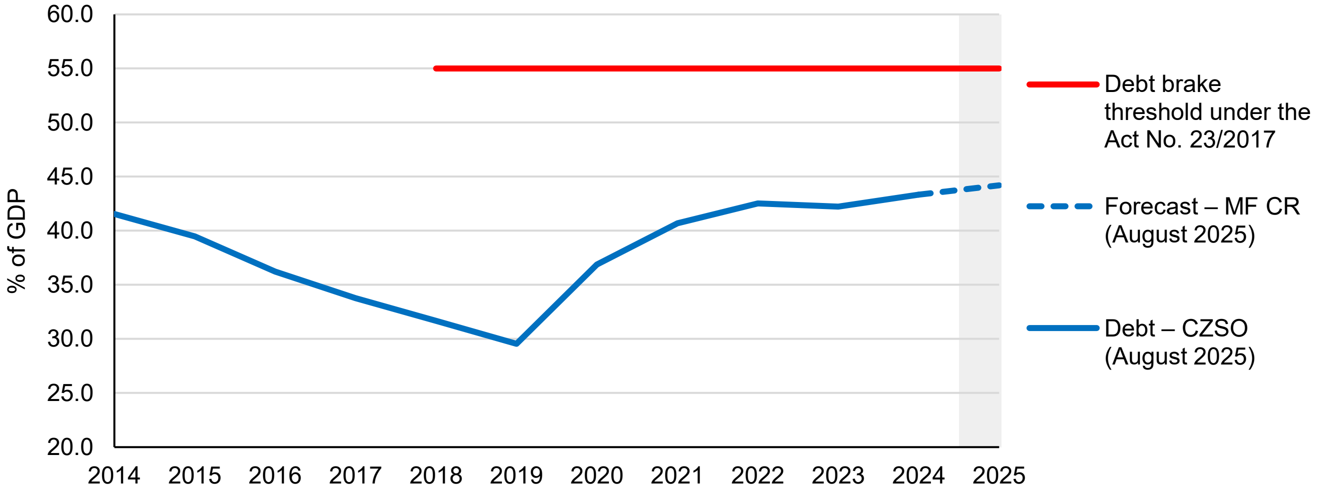
Sections 13 to 16 of the Act define the so-called debt rule.[4] According to Section 13 of the Act, the general government debt (minus the state debt financing reserve) is monitored as a percentage of GDP. If the ratio thus defined exceeds the 55% threshold (the so-called "debt brake threshold", see Chart 1), the measures specified in the Act are applied in accordance with Section 14. These measures would reduce the possibility of using fiscal policy to stabilize economic development over the economic cycle and restrict the activities of many general government organizations. In addition, an increase in the debt ratio above the threshold set by the Act could send a negative signal to financial markets about the deteriorating situation of general government finances, which could materialize in the form of an increased risk premium demanded by investors, which would – other things being equal – lead to a further increase in debt. Section 16 of the Act states that if the debt-to-GDP ratio exceeds 60%, the government will propose measures to reduce this level.[5]

In its communication of 25 April, 2025[6], based on the Czech Statistical Office ("CZSO") and MF CR data, the CFC announced the value of the debt rule indicator as of 31 December, 2024 at 43.59% of GDP. Based on the revision of the national accounts of 27 June, 2025, there was an increase in nominal GDP[7] for 2024, which caused a decrease in this indicator to 43.34% of GDP. Therefore, even the change in the ratio did not lead to the debt rule thresholds set by the Act being exceeded (see the paragraph above and Chart 1).

Conclusion: The CFC states that the threshold values of the general government debt indicator defined in Sections 14 and 16 of the Act were not exceeded in 2024.

[1] According to MF CR (August 2025): Macroeconomic Forecast of the Czech Republic the overall balance of the general government sector is CZK −161 billion (−2.0% of GDP) in 2024. However, these data have not yet been notified by Eurostat as part of the so-called second notifications, therefore, in the text we present the data confirmed by Eurostat as part of the so-called first notifications (see-https://csu.gov.cz/rychle-informace/notification-of-government-deficit-and-debt-2024-first-notification-data-notified-by-eurostat). The calculation of the structural balance for 2024 was based on the total general government balance according to CZSO (2025): Notification of government Deficit and Debt – 2024 (First notification, data notified by Eurostat) published on 22 April, 2025. The cyclical component of the balance and one-off and other temporary measures were taken from the MF CR (August 2025): Macroeconomic Forecast of the Czech Republic.
[2] MF CR (August 2025): Macroeconomic Forecast of the Czech Republic.
[3] MF CR (August 2025): Macroeconomic Forecast of the Czech Republic.
[4] The interpretation of the debt rule according to the Act by the CFC was presented in: CFC (2024): Výroční zpráva 2023 [Annual Report 2023, available in Czech Only], see subchapter 3.4. The issue of general government debt is addressed in the educational material CFC (2024): Průvodce světem veřejného dluhu [Guide to the World of General Government Debt, available in Czech only].
[5] The exact specifics of these measures are contained in Article 2(2) of Council Regulation (EC) No. 1467/1997. In particular, the measures define the minimum rate of decrease of the debt-to-GDP ratio to the reference value of 60% when the ratio exceeds the reference value.
[6] Sdělení Národní rozpočtové rady č. 124/2025 Sb., o výši dluhu sektoru veřejných institucí po odečtení rezervy peněžních prostředků při financování státního dluhu. [Czech Fiscal Council Communication No. 124/2024 Coll., on the Level of General Government Debt Minus the State Debt Financing Reserve, available in Czech only].
[7] Nominal GDP for 2024 increased from CZK 8,010.7 billion to CZK 8,057.0 billion. More at https://apl.czso.cz/nufile/gid25t1j9zthj-hsduzd4hhgf5d5gg/Komentar_27_06_2025.pdf (available in Czech only).

Chart 1 General government debt minus the state debt financing reserve



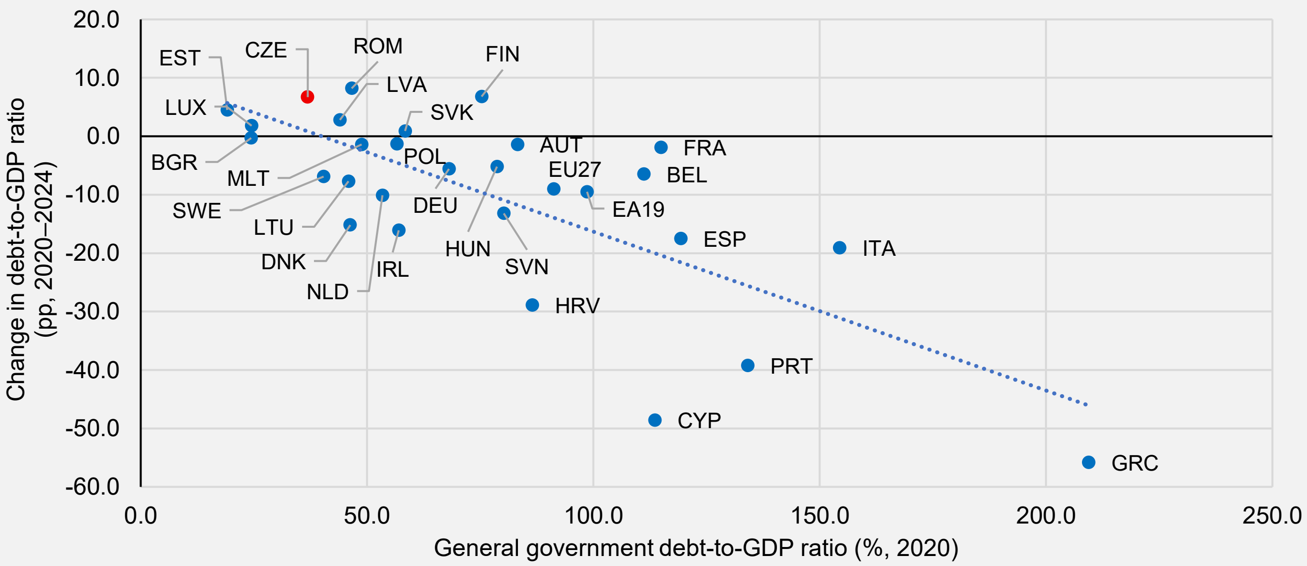
Source: CZSO (2025), MF CR (August 2025): Macroeconomic Forecast of the Czech Republic; CFC calculations.

Although the general government debt in the Czech Republic has not exceeded the debt brake threshold, the increase in the debt ratio in recent years has been among the highest in the EU. Box 1 below focuses on the development of the debt-to-GDP ratio and the reasons for its changes from the perspective of the debt dynamics equation in EU countries.

Box 1 Breakdown of changes in the debt of the general government sector in EU countries between 2020 and 2024

The Czech Republic is one of seven EU countries[8] whose general government debt-to-GDP ratio (in %) increased between 2020 and 2024. Czechia recorded the third largest increase in this ratio (by +6.7 pp)[9] among EU countries. Only two countries (Finland by 6.8 pp and Romania by 8.2 pp) achieved a greater increase in the general government debt ratio. The other 20 EU members saw their debt-to-GDP ratio decline over the period under review. In general, it can be concluded that the higher the debt ratio in 2020, the stronger the decline in the country's debt ratio. The situation is illustrated in Chart B1.1.

Chart B1.1 General government debt-to-GDP ratio in 2020 and change in the ratio between 2020 and 2024 in EU countries

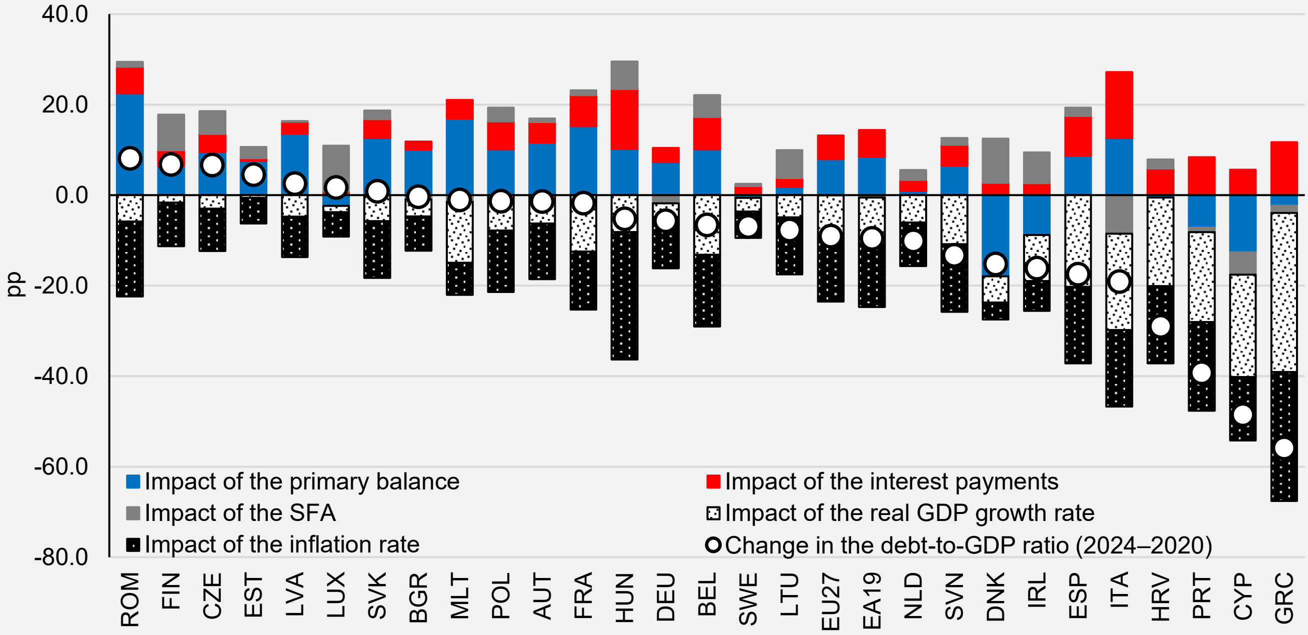


Source: Eurostat (early June 2025); CFC calculations.
Note: EA19 – euro area members except Croatia, EU27 – European Union members.

[8] These are Romania, Finland, Czechia, Estonia, Latvia, Luxembourg, and Slovakia.
[9] The data included in this box were obtained at the beginning of June 2025. They therefore do not include changes resulting from the revision of national accounts published in June 2025 and later.

The main factors affecting the change in this ratio are captured by the so-called debt dynamics equation. These factors include: *the primary balance, interest payments, real GDP growth, the inflation rate*, and *the "transition" between the balance and debt (*known as stock-flow adjustment, or SFA). The impact of these factors on the change in the debt ratio between 2020 and 2024 is shown in Chart B1.2.

Chart B1.2 Factors influencing the change in the debt-to-GDP ratio between 2020 and 2024



Source: AMECO (early June 2025); CFC calculations.
Note: Countries are ranked in descending order according to the change in the debt-to-GDP ratio between 2020 and 2024. A numerical increase in the change in the debt-to-GDP ratio means an increase in the debt ratio between 2020 and 2024.

The impact of the primary balance[10] to GDP ratio on the development of the debt-to-GDP ratio is relatively straightforward. All other things being equal, a surplus balance reduces debt, while a deficit balance increases it. The primary balance had a negative impact on the debt of most EU economies, with significant deficits increasing the sector's indebtedness (e.g., Romania, Malta, and France). In some economies, such as Denmark, Cyprus, and Ireland, the opposite phenomenon occurred during the period under review, with the primary balance contributing to a reduction in the debt-to-GDP ratio. In these economies, therefore, prudent fiscal policy had a positive impact on the level of debt-to-GDP ratio.

The impact of the interest payments is determined by the size of the current debt of the public sector and also by the interest rate (yield) demanded by investors who purchase securities issued by this sector. Under normal market conditions, interest costs tend to rise as debt increases. This is true, for example, for Greece, Italy, and France, which had the highest debt ratios in the EU in 2024, which was reflected in the significant impact of interest payments on the dynamics of the debt-to-GDP ratio. The least indebted EU economies in 2024 were Estonia, Bulgaria, and Luxembourg, where the impact of interest payments on the change in the debt ratio was low. The second factor determining the level of debt – the interest rate (yield) on securities – is set on the financial market through the interaction of supply and demand.[11] The required yield on securities reflects many factors, including the so-called risk premium[12] that investors demand for holding securities.[13] It may therefore happen that

[10] The primary balance is the difference between the general government balance and interest expenditure (i.e. debt service).
[11] Supply is represented by the issuance of securities by public institutions on the primary market (or possibly also by further trading in these securities on the secondary market). Demand is generated by entities purchasing these securities, i.e., commercial banks, other financial market institutions, or central banks as part of quantitative easing. The environment of low interest rates set by central banks during the COVID-19 pandemic and the quantitative easing applied by the European Central Bank in the euro area contributed to a lower contribution of interest payments to debt dynamics. After the fragile post-COVID economic recovery, the rise in monetary policy interest rates, on the contrary, contributed to a higher contribution of interest payments to debt dynamics.
[12] An increase in the risk premium is reflected in the required yield on securities relatively quickly. In contrast, an increase in the implicit interest rate (the implicit interest rate is the ratio between the funds spent on interest payments in year *t* and the debt of the public sector at the end of year *t*–1, expressed as a percentage) occurs with a delay, partly because it is influenced by previous securities issues for which investors did not previously demand an increased risk premium.
[13] More detailed information is provided in CFC publications, e.g. CFC (2024): Report on the Long-Term Sustainability of Public Finances; Morda (2022): Vývoj státního dluhu České republiky [Development of the Czech Republic's Government Debt; available in Czech only];

economies with approximately the same level of debt may have significantly different effects of interest payments. For example, advanced Finland recorded a slightly higher average debt level than developing Hungary over the period under review, but the impact of interest payments is higher in the case of Hungary.[14]

Nominal GDP growth can be "divided" into two parts: *real GDP growth* and *the inflation rate* (captured by the GDP deflator[15]). Real GDP growth helps to reduce the debt-to-GDP ratio, see, for example, the significant reduction in debt levels in Greece, Cyprus, and Italy. As can be seen from Chart B1.2, the inflation rate reduces the debt ratio (see, for example, Greece, Hungary, and Portugal). However, the impact of inflation on public finances may not be so straightforward and always positive. It depends, among other things, on the response of economic agents and the government, as there may be a decline in consumption due to a fall in real incomes, which in turn leads to lower consumption tax revenues. This ultimately leads to a deterioration in the primary balance and an increase in the debt ratio. Higher inflation may also put pressure on the introduction of indexation for selected items of public expenditure.[16] If, for example, there is an increase in the price level, then expenditure items linked to its development also increase according to a clearly defined indexation formula.

The impact of high inflation on the debt ratio of the public sector “through” higher nominal GDP growth and possible automatic indexation (whether applied or newly introduced) is relatively rapid. In the longer term, however, there may be pressure to increase the required yield on government bonds (whether due to restrictive monetary policy and/or an increase in the debt ratio), which in turn stimulates a gradual increase in the implicit interest rate[17].

The final factor influencing the change in the debt ratio is *the “transition” between the balance and debt,* known as *SFA* (see Chart B1.2). The direction and size of this contribution to the debt-to-GDP ratio are difficult to estimate clearly and in advance. SFA has three basic components: a) net acquisition of financial assets (usually the most significant part of SFA), b) methodological adjustments (e.g., differences caused by the accrual and cash basis accounting, revaluation due to exchange rate changes), c) statistical discrepancy. During the period under review, SFA contributed most to the increase in debt in Luxembourg, Denmark, and Finland. Conversely, in Italy, Cyprus, and Germany, SFA had a downward effect on the debt ratio.[18]

3 The rule for determining the total general government expenditure and deriving the state budget and state funds expenditure framework

The state budget for 2024 and the budgets of other relevant general government entities were prepared during 2023. In June 2023, the MF CR, as part of the General Government Budgetary Strategy of the Czech Republic for 2024 to 2026 (the “Strategy”), set the total general government expenditure at CZK 3,416 billion and the expenditure framework of the state budget and state funds (including the EU/FM) at CZK 2,222 billion (see Table 1, column 1).

The process for deriving the expenditure frameworks contained in the Strategy was in accordance with the approved methodology[19]. However, according to Section 9(3) of the Act, the Strategy should have been approved by the government by 30 April, 2023, but instead it was not approved until 14 June, 2023[20]. The Strategy was

Tománková (2020): Vliv zadlužení sektoru vládních institucí na výnosovou míru státních dluhopisů [The Impact of General Government Debt on Government Bond Yields; available in Czech only].

[14] In Hungary’s case, in addition to its lower level of economic development than Finland, the economic situation there also plays a role. Furthermore, interest payments are significantly influenced by the issuance of “anti-inflation” bonds intended for small investors, whose yield is linked to the development of the Hungarian inflation rate. For more details, see, for example, https://economy-finance.ec.europa.eu/document/download/efaf659e-7a26-4cbe-a427-dc82ea6b1a9d_en?filename=ip284_en.pdf.

[15] The GDP deflator captures all goods produced in a given economy over a certain period. It is calculated as the ratio of GDP at current prices to GDP at constant prices.

[16] Automatic indexation means that the public expenditure item subject to this indexation is linked to a selected economic indicator and is adjusted annually in line with its development (e.g., inflation rate or real wage growth rate, % of GDP, % of average wage, etc.). Automatic indexation of public revenues can also be considered.

[17] It should be noted that the implicit interest rate is the ratio between the funds spent on interest payments in year *t* and the debt of the public sector at the end of year *t*–1, expressed as a percentage.

[18] For EU countries, detailed and clear SFA statistics, including comments, are provided by Eurostat (2025): Stock-flow adjustment for the Member States, the euro area and the EU, for the period 2021–2024 (as reported in the April 2025 EDP notification).

[19] MF CR and CFC (2020): Metodika odvození výdajových rámců státního rozpočtu a státních fondů – 3. aktualizované vydání. [Methodology for Deriving Expenditure Frameworks for the State Budget and State Funds – 3rd Updated Edition., available in Czech only]. The preparation and publication of this methodology is based on the Act (Section 10(6) and Section 12(1))

[20] https://www.mfcr.cz/cs/rozpoctova-politika/statni-rozpocet/rozpoctova-strategie/2023/rozpoctova-strategie-sektoru-verejnych-i-51633 [available in Czech only].

also inconsistent with other publications by the MF CR. For example, the Convergence Programme[21] published in April 2023 projected a structural balance of −2.6% of GDP for 2024, while the Final Report on the Regulatory Impact Assessment of the Draft Act Amending Certain Acts in Connection with the Consolidation of Public Budgets,[22] published in May 2023, implied a structural balance of −1.5 to −1.4% of GDP for 2024.[23] The argument for the later publication of the Strategy was to include the impact of the planned consolidation package on general government finances.[24] The Strategy was based on the then still unapproved amendment to the Act when deriving structural balances.

Table 1 Key indicators of the expenditure rule and actual figures recorded in 2024 (CZK billions unless stated otherwise)

	(1) Budgetary strategy (June 2023)	(2) Draft state budget (August 2023)	(3) Draft state budget (September 2023)	(4) Approved state budget (November 2023)	(5) Amendment to the state budget (October 2024)	(6) Actual figure (August 2025)
General government expenditure	3,416					3,444
SB and SFs expenditure framework, including the EU	2,222	2,263	2,285			
SB		2,173	2,192	2,192	2,222	2,237
SFs				243	243	238
Transfers from SB to SFs				128	128	142
SB and SFs, total				2,307	2,337	2,332
GDP at current prices	7,989	7,751	7,751	7,726		8,057
Structural balance (% of GDP)	–2.75	–2.1	–2.2	–2.0		–1.9
Output gap (% of potential output)	–1.2	–0.1	–0.1	–1.0		–1.8

Source: MF CR (2023): General Government Budgetary Strategy of the Czech Republic for 2024–2026, Act No. 23/2017 Coll., MF CR (April 2023): Macroeconomic Forecast of the Czech Republic, MF CR (2023): Draft Act on the State Budget of the Czech Republic for 2024, including budget documentation: D. Macroeconomic Framework, Fiscal Policy and Expenditure Framework for 2024, K. Draft Medium-Term Outlook for the State Budget for 2025 and 2026, MF CR (2023): Government Draft Act on the State Budget of the Czech Republic for 2024: A. Macroeconomic Framework, Fiscal Policy and Expenditure Framework for 2024, B. Report on the Draft Act on the State Budget of the Czech Republic for 2024, MF CR (August 2023): Macroeconomic Forecast of the Czech Republic, Act No. 433/2023 Coll., MF CR (November 2023): Macroeconomic Forecast of the Czech Republic, Chamber of Deputies Print 802 (amendment to the state budget for 2024), MF CR (2025): Draft State Closing Account of the Czech Republic for 2024, Workbook C – Report on the Results of the State Budget, MF CR (2025): State Treasury Monitor, MF CR (2025): Treasury Performance for January–December 2024, MF CR (August 2025): Macroeconomic Forecast of the Czech Republic, CZSO (2025): National Accounts Database; CFC calculations.
Note: SB = state budget, SFs = state funds. The totals in the table may be subject to inaccuracies due to rounding. *The calculation of the structural balance for 2024 was based on the total general government balance according to CZSO (2025): Notification of the General Government Deficit and Debt – 2024 (First notification, data notified by Eurostat) published on April 22, 2025. The cyclical component of the balance and one-off and other temporary measures were taken from MF CR (August 2025): Macroeconomic Forecast of the Czech Republic. Charts 2 and 3 (see below) show the value of the structural balance and other components of the overall balance for 2024 and 2025 according to the MF CR (August 2025).

Due to the delay in publishing the Strategy, inconsistencies with other materials from the MF CR, and the use of an as yet unapproved amendment to the Act, the Council issued a dissenting opinion on this document.[25] The MF CR responded to this opinion[26] in accordance with Section 5 of Article 12 of the Act. Subsequently, in August 2023, the CFC responded[27] to the opinion of the MF CR, in which the Council, among other things, explained in

[21] MF CR (2023): Convergence Programme of the Czech Republic (April 2023).
[22] Draft law amending certain laws in connection with the consolidation of public budgets (https://odok.gov.cz/portal/veklep/material/KORNCS3JLKC2/; available in Czech only).
[23] CFC (2023): Opinion of the CFC No. 3/2023 of 13 June, 2023, on the Determination of the Expenditure Frameworks of the State Budget and State Funds for the Years 2024 to 2026.
[24] The Strategy also included additional expenditure from a loan from the European Commission under the Recovery and Resilience Facility, which was being considered at the time.
[25] CFC (2023): Opinion of the CFC No. 3/2023 of 13 June, 2023, on the Determination of the Expenditure Frameworks of the State Budget and State Funds for the Years 2024 to 2026.
[26] MF CR (2023): Stanovisko Ministerstva financí České republiky ke stanovisku Národní rozpočtové rady č. 3/2023 ze dne 13. června 2023 ke stanovení výdajových rámců státního rozpočtu a státních fondů na léta 2024 až 2026 (č. j. MF-19782/2023/37-2 ze dne 19. června 2023) [Opinion of the Ministry of Finance of the Czech Republic on the Opinion of the Czech Fiscal Council No. 3/2023 of 13 June, 2023, on the Determination of Expenditure Frameworks for the State Budget and State Funds for the Years 2024 to 2026 (Ref. No. MF-19782/2023/37-2 dated 19 June, 2023), available in Czech only].
[27] Reakce Národní rozpočtové rady na Stanovisko Ministerstva financí ČR ze dne 19. 6. 2023 [Response of the Czech Fiscal Council to the Opinion of the Ministry of Finance of the Czech Republic dated June 19, 2023, available in Czech only]

detail the role of the budgetary strategy and pointed out its fundamental and leading position in the budget process.

In accordance with Section 8 of Act No. 218/2000 Coll., on Budgetary Rules, as amended, the expenditure framework of the state budget and state funds was adjusted in August 2023 to CZK 2,263 billion (column 2, Table 1).[28] The increase in the expenditure framework by approximately CZK 40 billion[29] was mainly due to additional tax revenues, social security contributions and also to an increase in non-tax revenues (e.g., higher revenues from emission allowances[30]). Subsequently, the Committee on Budgetary Forecasts (the “Committee”) issued a positive opinion on the increase in expenditure frameworks[31], noting that it only assesses tax revenues and that uncertainties remain due to the unfinished legislative process of the government’s austerity (consolidation) package.[32]

In September 2023, the expenditure framework of the state budget and state funds was increased again to CZK 2,285 billion (column 3, Table 1).[33] This non-standard step disrupted the proper budgetary process.[34,35] The increase was justified, among other things, by a further increase in tax revenues and social security contributions.[36] However, the September increase in the expenditure framework was not supported by a change in the expected macroeconomic development[37], nor did any new significant information on expected tax revenues and social security contributions for 2024 emerge during September. The Committee assessed the change in expected revenues on 9 October, 2024,[38] i.e. after the draft state budget had been approved.

In November 2023, the state budget was approved with expenditures of CZK 2,192 billion (column 4, Table 1).[39]

The amendment to the act on state budget[40] approved in early October 2024 was caused by floods in September. State budget expenditures increased to CZK 2,222 billion (column 5, Table 1). The increase in expenditure took place in the General Treasury Management chapter in the binding indicator Treasury Reserve and an increase in funding in the State Debt chapter by the same amount. Almost all of the funds were allocated to individual chapters by the end of 2024, but only CZK 15.6 billion was related to the removal of damage caused by the floods. The remaining approximately CZK 14.4 billion was used to fund chapters for reasons other than flood damage removal. However, the funds for flood damage removal from the increased treasury reserve were not paid out in full and therefore did not burden the state budget cash deficit to the full extent. According to data from the State Treasury for 2024, the amount of funds actually spent on flood-related issues was approximately CZK 4 billion.[41]

[28] MF CR (2023): Draft Act on the State Budget of the Czech Republic for 2024, including budget documentation: D. Macroeconomic Framework, Fiscal policy, and Expenditure Framework for 2024 (https://odok.gov.cz/portal/veklep/material/KORNCV8KBV8T/).
[29] MF CR (2023): Draft Act on the State Budget of the Czech Republic for 2024, including budget documentation: D. Macroeconomic Framework, Fiscal Policy and Expenditure framework for 2024 (https://odok.gov.cz/portal/veklep/material/KORNCV8KBV8T/) and Proceedings of the Committee of Budgetary Forecasts meeting on August 31, 2023 (https://www.mfcr.cz/cs/rozpoctova-politika/makroekonomika/vybor-pro-rozpoctove-prognozy/jednani-vyboru-pro-rozpoctove-prognozy/2023/jednani-vyboru-pro-rozpoctove-prognozy-dne-31-8-20-57649, available in Czech only).
[30] CFC (2025): Výroční zpráva za rok 2024 [Annual Report 2024, available in Czech only] (subchapter 3.6) points out significantly overestimated expected revenues compared to actual revenues from the auction of emission allowances in 2024.
[31] Meeting of the Committee for Budgetary Forecasts on 31 August, 2023 (https://www.mfcr.cz/cs/rozpoctova-politika/makroekonomika/vybor-pro-rozpoctove-prognozy/jednani-vyboru-pro-rozpoctove-prognozy/2023/jednani-vyboru-pro-rozpoctove-prognozy-dne-31-8-20-57649, in Czech only).
[32] The Committee's approval was therefore conditional on there being no significant changes to the tax items in the final legislative process compared to the version approved by the government.
[33] MF CR (2023): Government Draft Act on the State Budget of the Czech Republic for 2024: A. Macroeconomic Framework, Fiscal Policy, and Expenditure Framework for 2024 (https://www.psp.cz/sqw/text/orig2.sqw?idd=235995).
[34] See the Act and Act No. 218/2000 Coll., on Budgetary Rules and Amendments to Certain Related Acts (Budgetary Rules), as amended.
[35] CFC (2023): Statement of the CFC on the Draft State Budget for 2024.
[36] MF CR (2023): Government Draft Act on the State Budget of the Czech Republic for 2024: A. Macroeconomic Framework, Fiscal Policy and Expenditure Framework for 2024 (https://www.psp.cz/sqw/text/orig2.sqw?idd=235995) and Proceedings of the Committee of budgetary Forecast on 29 September, 2023 (per rollam) (https://www.mfcr.cz/cs/rozpoctova-politika/makroekonomika/vybor-pro-rozpoctove-prognozy/jednani-vyboru-pro-rozpoctove-prognozy/2023/jednani-vyboru-pro-rozpoctove-prognozy-dne-29-9-20-57648, available in Czech only).
[37] In August and September 2023, the Macroeconomic Forecast of the Czech Republic published by the MF CR in August 2023 was used.
[38] Meeting of the Committee on Budgetary Forecasts on 29 September, 2023 (per rollam) (https://www.mfcr.cz/cs/rozpoctova-politika/makroekonomika/vybor-pro-rozpoctove-prognozy/jednani-vyboru-pro-rozpoctove-prognozy/2023/jednani-vyboru-pro-rozpoctove-prognozy-dne-29-9-20-57648, available in Czech only). The Committee issued a favourable opinion on the increase in expenditure frameworks, again noting that the Committee's opinion only assesses tax revenues and that there are uncertainties due to the unfinished legislative process of the government's austerity package. The Committee's approval was therefore conditional on there being no significant changes to the tax items in the final version of the legislation compared to the version approved by the government.
[39] Act No. 433/2023 Coll., on the State Budget of the Czech Republic for 2024.
[40] Chamber of Deputies Print 802 – Amendment to the State Budget for 2024 (Government draft act amending Act No. 433/2023 Coll., on the State Budget of the Czech Republic for 2024).
[41] CFC (2025): Výroční zpráva za rok 2024 [Annual Report 2024, available in Czech only], subchapter 3.3.

At the beginning of 2024, claims arising from unconsumed expenditure amounted to CZK 212.0 billion. During the year, CZK 166.3 billion of claims arising from unconsumed expenditure was employed in the budget or terminated. CZK 114.0 billion was actually drawn down. As of January 1, 2025, claims arising from unconsumed expenditure reached CZK 201.7 billion.[42]

Actual state budget and state funds expenditures amounted to CZK 2,332 billion (column 6, Table 1). This is approximately CZK 25 billion more than the expenditures specified in the approved budget (CZK 2,307 billion, column 4, Table 1). The increase in expenditures was caused by the drawing down of claims arising from unconsumed expenditure and the expenditure of part of the funds obtained through the "flood amendment" to the state budget in October 2024.

Actual general government expenditure in 2024 reached CZK 3,444 billion, while actual expenditure from the state budget and state funds amounted to CZK 2,332 billion (column 6, Table 1). This is approximately CZK 47 billion more than the value of the framework updated in accordance with the provisions of Section 8 of Act No. 218/2000 Coll., on Budgetary Rules, as amended, based on the August macroeconomic forecast[43].

The calculation of the expenditure framework also includes the balances of other subsectors of general government, i.e., local government and social security funds. Local government (municipalities and regions) generate long-term surpluses, see Chapter 4. On the other hand, the social security funds subsector (health insurance companies) has fallen into deficit since 2020, with the exception of a small surplus in 2022. In 2024, the deficit slightly exceeded CZK 20 billion. The negative balance of this subsector appears to be unsustainable in the medium term, as discussed in Box 2.

Box 2 Health insurance companies' finances and problems with covering deficits

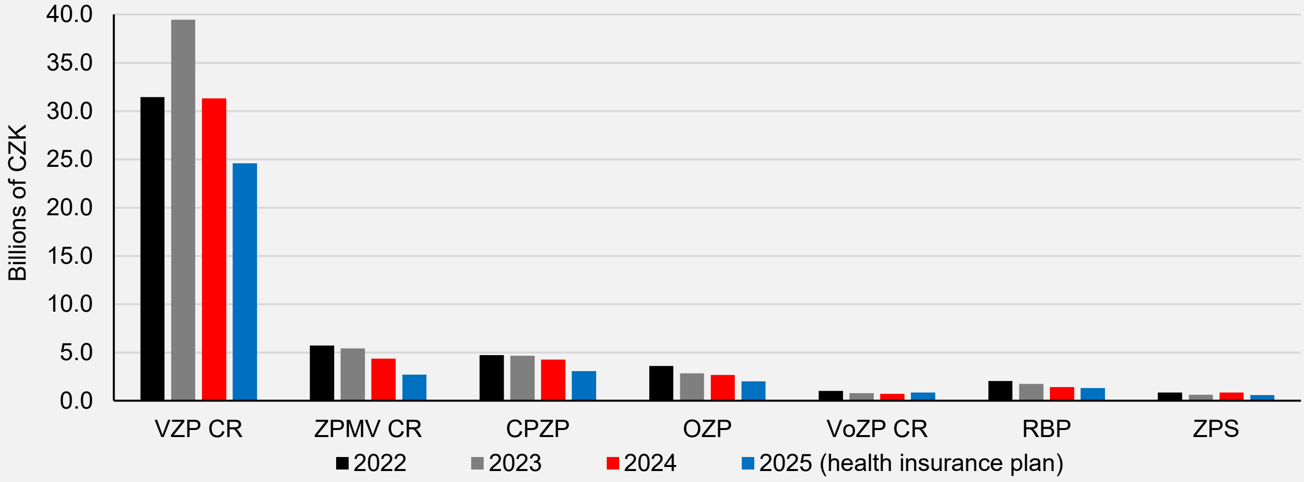
According to annual health insurance plans and our projections, health insurance companies will run deficits in 2025 and in the following years. The deficits have so far been covered by financial reserves from previous years, but these are gradually being depleted.

As part of their financial management, health insurance companies create funds into which they distribute their financial resources.[44] The balances of health insurance companies are then reflected in year-on-year changes in fund balances. Any surpluses remain available in specific health insurance company funds, which affects their ability to finance any future deficits. For this reason, it is essential for the functioning of health insurance companies that each individual insurance company has sufficient fund balances to cover its deficits. The total value of fund balances for all health insurance companies is therefore insufficient as an aggregate indicator of the ability to cover deficits, as these balances are not distributed evenly among health insurance companies.

Chart B.2.1 shows the development of balances in the bank accounts of individual health insurance companies between 2022 and 2025. It is clear that most of the funds belong to the General Health Insurance Company of the Czech Republic (VZP CR), with almost CZK 25 billion in 2025. In contrast, the Military Health Insurance Company of the Czech Republic (VoZP CR) and the Skoda Employee Health Insurance Company (ZPS) have only a fraction of the total balance (approximately CZK 0.9 billion and CZK 0.6 billion in 2025 respectively).

[42] MF CR (2025): Draft State Closing Account of the Czech Republic for 2024, Workbook C – Report on the Results of the State Budget.
[43] MF CR (August 2023): Macroeconomic Forecast of the Czech Republic.
[44] These are the basic fund, reserve fund, operating fund, social fund, asset fund, and asset reproduction fund. The reserve fund is used to cover deficits in the basic fund and to cover reimbursed services in the event of mass illness and natural disasters. It also covers reimbursed services in the event of a significant decline in insurance premium collection through no fault of the health insurance company. It must be maintained at a minimum of 1.5% of the average annual expenditure of the basic fund for the three immediately preceding calendar years. It is formed by transferring part of the balances of the basic and other funds.

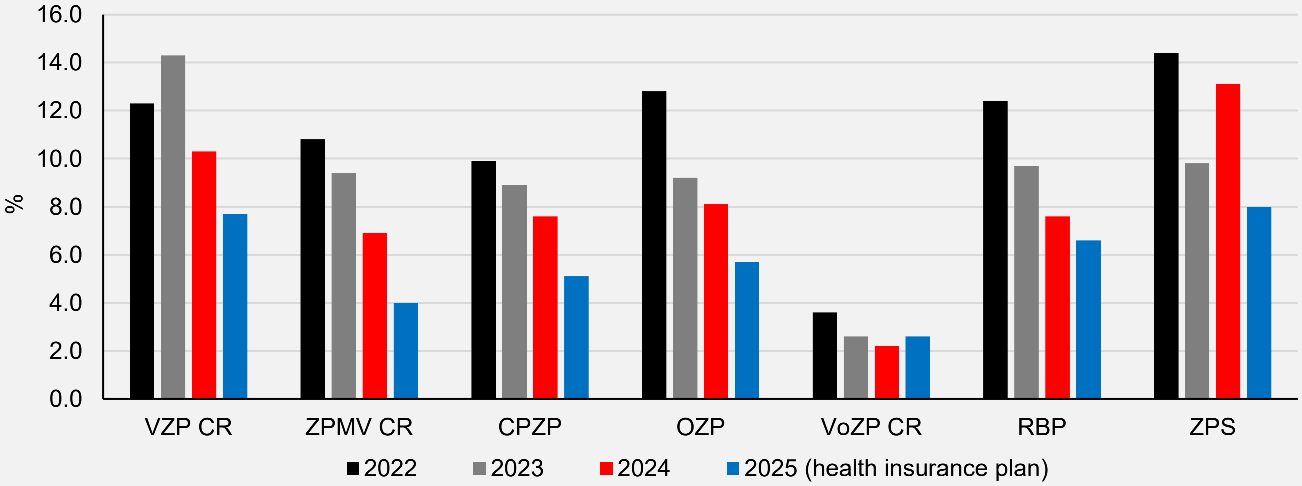
Chart B2.1 Development of balances in bank accounts (health insurance companies)



Source: Assessment of the Expected Development of the Public Health Insurance System Based on the Health Insurance Plans of Health Insurance Companies for 2022, 2023, 2024, and 2025.
Note: VZP CR = General Health Insurance Company of the Czech Republic, VoZP CR = Military Health Insurance Company of the Czech Republic, CPZP = Czech Industrial Health Insurance Company, OZP = Industry Health Insurance Company for Employees of Banks, Insurance Companies, and Construction, ZPS = Skoda Employee Health Insurance Company, ZPMV ČR = Health Insurance Company of the Ministry of the Interior of the Czech Republic, RBP =RBP – health insurance company. For 2022, 2023, and 2024, these are actual figures; for 2025, they are estimates based on health insurance plans. Health insurance companies are listed in descending order according to the number of insured persons for 2025.

Expressing balances in CZK may be misleading due to the different sizes (number of insured persons) of individual health insurance companies. In Chart B2.2, bank account balances are therefore expressed as a ratio of the total annual expenditures of individual insurance companies. This chart shows that, in terms of their expenditures, health insurance companies have more comparable balance values than in nominal terms. VoZP CR has the lowest reserves in relation to its expenditures, which may indicate a possible risk of needing to cover deficits in the future. Furthermore, it is clear that almost all health insurance companies are facing a downward trend in the development of bank account balances. The reason for this decline is the aforementioned need to cover deficits from recent years.

Chart B2.2 Development of the ratio of bank account balances to total annual expenditures (health insurance companies)



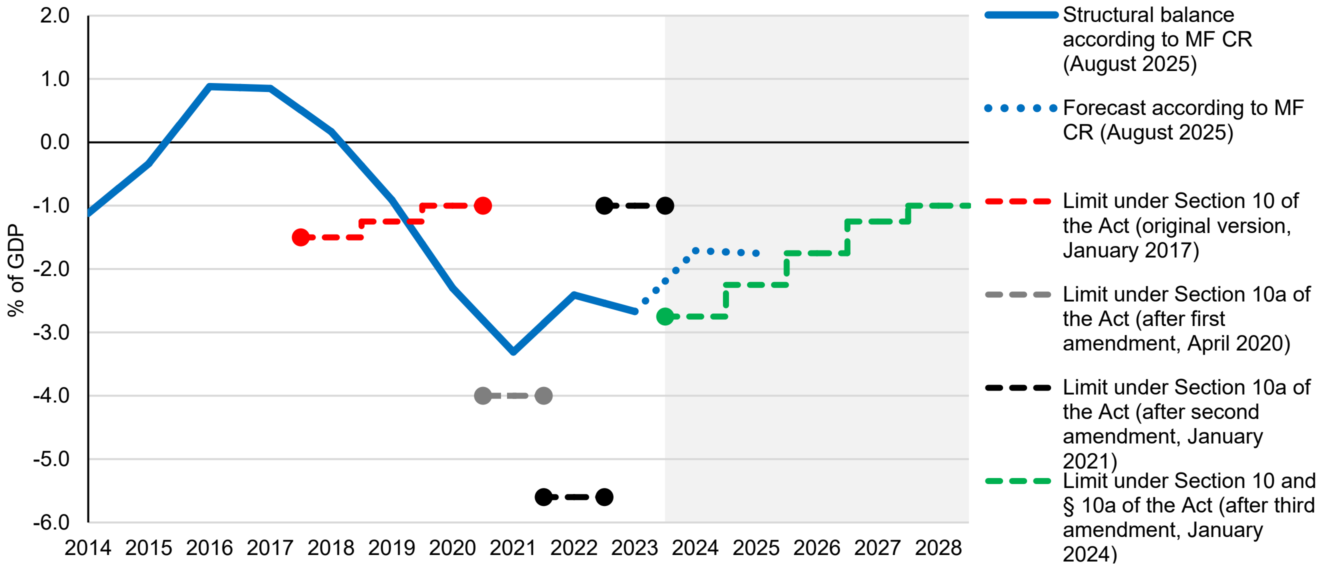
Source: Assessment of the Expected Development of the Public Health Insurance System Based on the Health Insurance Plans of Health Insurance Companies for 2022, 2023, 2024, and 2025; CFC calculations.
Note: For 2022, 2023, and 2024, these are actual figures; for 2025, they are estimates based on health insurance plans. Health insurance companies are listed in descending order according to the number of insured persons for 2025.

Based on these trends, it is clear that the continued deficit spending of health insurance companies is not sustainable in the long term and therefore not feasible. This also applies to the financial management of individual health insurance companies. The imbalance may manifest itself not only in a decline in bank account balances, but also in an increase in overdue liabilities[45]. Moreover, the deficit in the management of health insurance companies persists despite the fact that, even after the pandemic has subsided, one percentage point of GDP more is flowing into healthcare than in the period before the outbreak of the pandemic.[46] Therefore, this imbalance should be adequately addressed either by a more restrictive form of the reimbursement decree or by adjusting the source part of the public health insurance system.

The reason for setting the expenditure framework of the state budget and state funds in accordance with the Act is to prevent the defined structural deficit limit from being exceeded. Therefore, when assessing this rule, it is essential to monitor not only the process for deriving the expenditure framework but also the general government structural balance and whether the structural balance limit set by the Act has been exceeded. Section 10a of the Act set the structural balance limit for 2024 at −2.75% of GDP (Chart 2, green dashed line). In 2024, the structural balance reached −1.9% of GDP (Chart 2, blue solid line).[47]

However, compliance with the structural balance limit cannot be viewed solely in a positive light but should be placed in a broader context.[48] The original version of the Act set a stricter structural balance limit (Chart 2, red dashed line). The structural balance limit was relaxed due to two amendments to the Act during the COVID-19 pandemic (Chart 2, grey and black dashed lines). The third significant amendment to the Act, implemented as part of the 2023 consolidation package, set a trajectory for tightening the structural deficit limit in the period 2024–2027 (Section 10a of the Act) and its subsequent level in following years (paragraph 1 of Section 10, see green dashed line in Chart 2), when the structural deficit limit will again "return" to the 1% threshold applied in the original version of the Act before its amendments. From the perspective of the original version of the Act and the structural balance limit set therein, the structural deficit of 1.9% of GDP achieved in 2024 cannot be considered entirely satisfactory. Although the structural balance has improved compared to during the pandemic, the difficulty of rapidly reducing the structural deficit is becoming fully apparent.

Chart 2 The general government structural balance

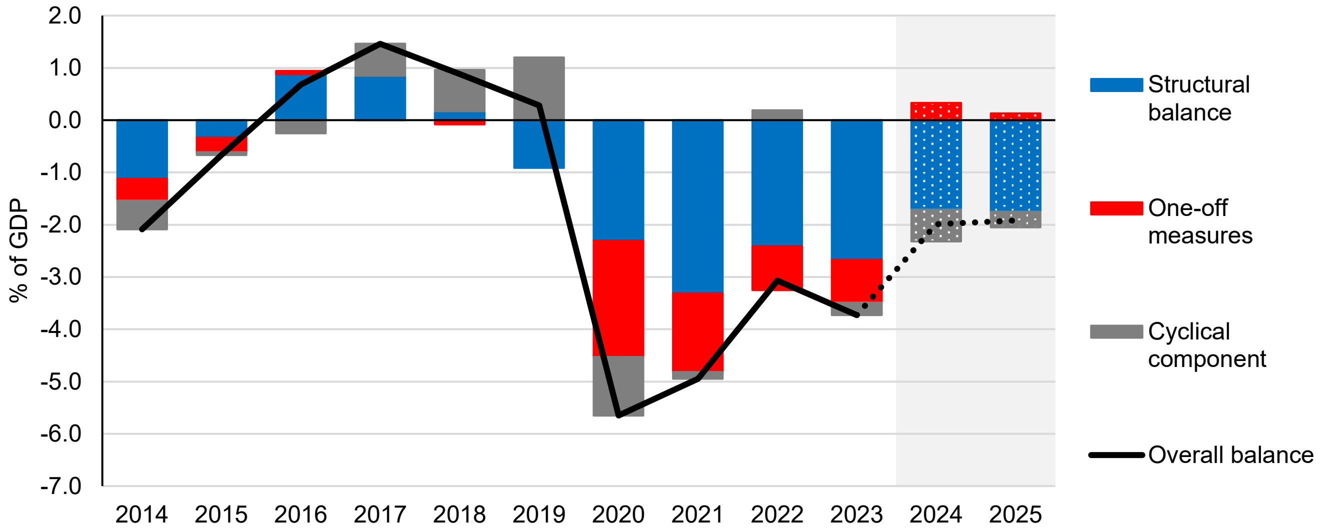


Source: MF CR (August 2024; August 2025): Macroeconomic Forecast of the Czech Republic; CFC calculations.
Note: The first amendment to the Act (implemented by Act No. 207/2020 Coll.) set the structural balance limit for 2021 at −4.0% of GDP (see grey dashed line), with subsequent annual improvement of at least 0.5% of GDP in 2022–2027 (the trajectory for this period is not shown in Chart 2 for reasons of clarity). The legend of the chart shows the month and year of effect of the Act or its amendment. The structural balance for 2024 is derived from the total general government balance of −2.0% of GDP according to the MF CR (August 2025). This updated balance value for 2024 has not yet been published by the CZSO as part of the so-called second notifications, nor has it been notified by Eurostat (October 2025). Therefore, we consider the structural balance for 2024 shown in Charts 2 and 3 to be a forecast and in the text of the Report on Compliance with the Rules we state the total general government balance for 2024 at −2.2% of GDP (according to the first notifications of April 2025), or the structural balance derived from it according to the adjustments presented in the note below Table 1.

[45] See Ministry of Health of the Czech Republic: Assessment of the Expected Development of the Public Health Insurance System Based on the Health Insurance Plans of Health Insurance Companies for 2025.
[46] See the information study of CFC (2025): Dopad pandemie COVID-19 na veřejné výdaje na zdraví [Impact of the COVID-19 Pandemic on Public Health Expenditure, available in Czech only].
[47] Footnote 1 in the first chapter describes the procedure for deriving the structural balance for 2024.
[48] For detailed information on the two amendments to the Act, see CFC (2022): Report on the Long-Term Sustainability of Public Finances (box 2.1).

The decomposition of the general government balance is shown in Chart 3. Since 2020, the structural deficit has had a dominant influence on persistently negative overall general government balance. This is confirmed by the MF CR August 2025 forecast[49] for the period 2024–2025. This fully reflects the difficulty of making flexible changes to the structure of general government expenditure and revenue. The inertia in the development of the structural balance contrasts with the relatively flexible and clearly time-limited use of one-off and temporary measures, whether during the COVID-19 pandemic (2020–2021) or during the energy crisis and geopolitical uncertainty (2022–2023).

Chart 3 Decomposition of the general government balance



Source: MF CR (August 2024; August 2025): Macroeconomic Forecast of the Czech Republic; CFC calculations.

Conclusion: The CFC states that *the technical procedure* for determining the total general government expenditure and deriving the state budget and state funds expenditure framework for 2024 was followed. However, the deadline set by the Act for the submission of the General Government Budgetary Strategy was not met, and its parameters were also inconsistent with other materials from the MF CR (the Convergence Programme of the Czech Republic published in April 2023 and the consolidation package presented in May 2023). The September update of the expenditure framework, which was not based on a new macroeconomic forecast, can be described as highly unusual. Actual expenditure of the state budget and state funds for 2024 exceeded the updated expenditure framework by approximately CZK 47 billion. However, the structural balance limit for 2024 was not exceeded.

Box 3 discusses the new EU fiscal rule based on the net expenditure path. The box also presents the structure of the rule and the impact of the application of the national escape clause on the position of individual EU Member States.

Box 3 The new EU fiscal framework and how it works in practice

At the end of April 2024, the new European Union fiscal framework[50] entered into force The reform of the fiscal framework considers the specific factors of individual Member States, i.e., different fiscal positions, levels of general government debt, and economic challenges. The reform aims to increase the responsibility of individual member states for fiscal and economic policy (to strengthen so-called national ownership). Greater emphasis is also placed on the medium and long-term horizons of fiscal, reform, and investment goals. However, the basic rules determining the reference value for debt (60% of GDP) and deficit (3% of GDP) in the general government sector

[49] MF CR (August 2025): Macroeconomic Forecast of the Czech Republic.
[50] These are three legislative documents: Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and 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 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.

remain unaffected by the reform. More detailed description of the new fiscal framework was already provided in previous publications[51].

The preventive arm of the rules has undergone significant changes. The central documents of the new framework are the national medium-term fiscal structural plans ("FSPs"), which individual Member States submit to the European Commission and the Council of the EU for approval for a period of four to five years, depending on the regular length of the legislative term of the country concerned. The FSPs contain information on fiscal policy settings, structural reforms, and investments that should ensure sustainable general government finances and sustainable and inclusive growth. They thus replace convergence (or stabilization) programmes and national reform programmes, but unlike these documents, they are not published annually. In the "interim period," annual progress reports are published, containing information on the implementation of the net expenditure path set by the Council of the EU, as well as on the implementation of reforms and investments.

The only operational indicator of the new EU fiscal surveillance is the aforementioned net expenditure, i.e. general government expenditure net of interest expenditure, expenditure on EU programmes (including national expenditure on co-financing EU programmes), the cyclical elements of unemployment benefit expenditure, one-off and temporary measures, and discretionary revenue measures. Net expenditure, or rather its path, covers a minimum period of four years (the so-called adjustment period), with the possibility of an extension of up to three years. This extension is possible if it is supported by a set of reforms and investments defined by the regulation[52].

All member states have already submitted their first FSPs. Most countries submitted their FSPs in the fall of 2024, with only five member states doing so during 2025[53] due to elections or the formation of new governments. Of the 26 member states whose FSPs have been assessed by the European Commission or already approved by the Council of the EU, seven countries have submitted an extended adjustment period from four to seven years, supported by a set of reforms and investments. These are Austria, Belgium, Finland, France, Italy, Romania, and Spain. The German FSP, which was submitted in July 2025 and contains fiscal commitments for the years 2025 to 2029, has not yet been assessed by the European Commission.[54]

The corrective arm of the fiscal rules has also undergone certain changes. The excessive deficit procedure ("EDP") due to non-compliance with the criterion of the ratio of the general government deficit to GDP (3%) remains unchanged. The conditions for opening an EDP due to non-compliance with the criterion of the ratio of general government debt to GDP (60%) have been adjusted to better reflect the FSP and the net expenditure path. It is now possible to open an EDP due to non-compliance with the debt criterion in cases where the general government debt exceeds 60% of GDP, the general government deficit is higher than 0.5% of GDP and the deviation from the net expenditure path set by the Council of the EU is higher than 0.3 pp of GDP annually or 0.6 pp of GDP cumulatively. However, other relevant factors (e.g., the degree of general government debt challenges or an increase of government investment in defence) are also taken into account when assessing whether to open an EDP.

Already in 2024, a new EDP was launched with seven member countries. Given that at the time of the European Commission's report[55], which assesses compliance with the deficit and debt criteria, the FSPs had not been submitted by the member states and therefore no binding net expenditure paths could be set by the Council of the EU, it was only possible to initiate the EDP due to non-compliance with the deficit criterion. Romania, which has been in the EDP since 2020, has been newly joined by Belgium, France, Italy, Hungary, Malta, Poland, and Slovakia.

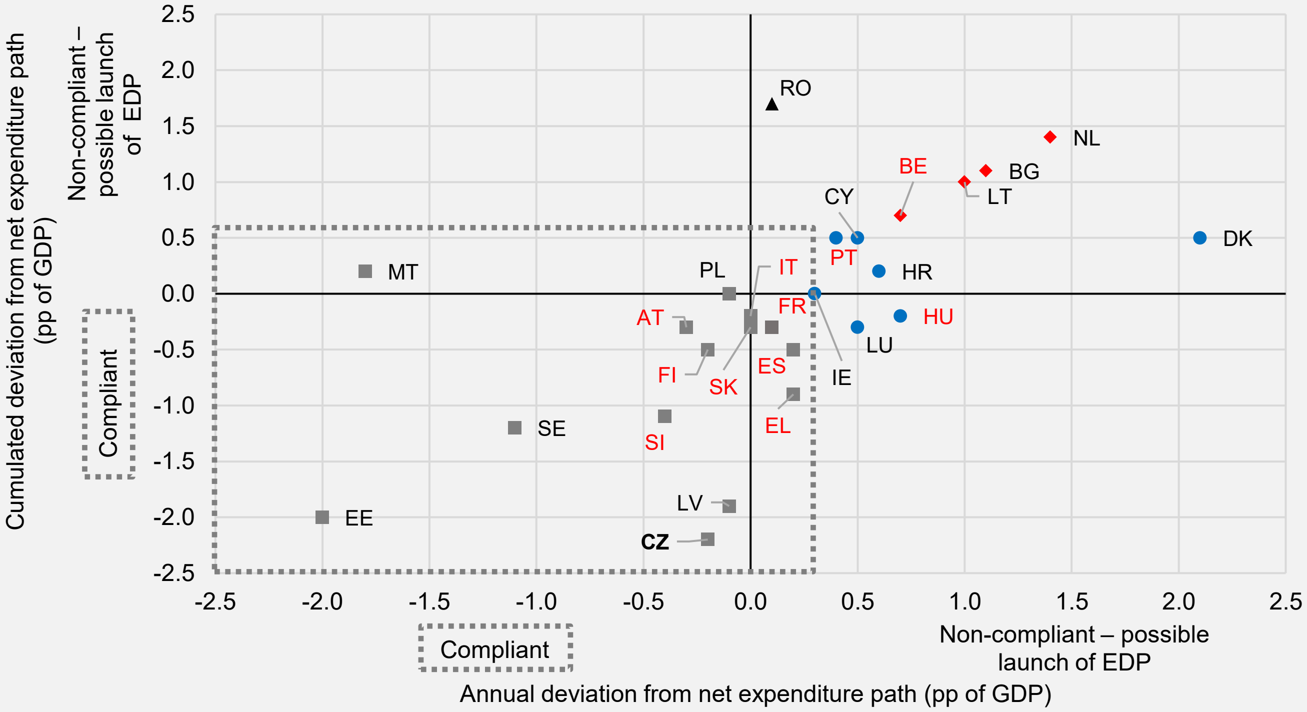
To take into account the need to increase defence spending, in March 2025 the European Commission invited Member States to submit requests to activate the national escape clause ("NEC")[56]. The NEC allows Member States to deviate from the approved net expenditure path in 2025–2028, up to a maximum of 1.5% of GDP. The request was submitted by 16 member states, including the Czech Republic. On July 8, the EU Council activated the NEC for 15 member states: Belgium, Bulgaria, Croatia, the Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia, and Slovenia. Germany's request for NEC activation can only be assessed after the submission of the FSP, which Germany published in the second half of July. The flexibility of 1.5% of GDP allowed by the NEC must be justified by an increase in defence spending

[51] See, for example, CFC (2025): Výroční zpráva za rok 2024, Chapter 4, [Annual Report 2024, available in Czech Only] or CFC (2024): Report on Compliance with the Rules of Budgetary Responsibility for 2023, Box 2.
[52] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral fiscal surveillance and repealing Council Regulation (EC) No 1466/97.
[53] These are Austria, Belgium, Bulgaria, Lithuania, and Germany.
[54] Status as of 26 August, 2025. For current information, see https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/national-medium-term-fiscal-structural-plans_en#germany.
[55] Report under Article 126(3) of the Treaty on compliance with the deficit and debt criteria of 19 June, 2024.
[56] Commission Communication on Accommodating increased defence expenditure within the Stability and Growth Pact, C(2025) 2000 final.

(according to the COFOG methodology) compared to the reference year, which for the Czech Republic is 2021. In practice, the European Commission and the Council of the EU may decide not to open a new EDP for the 15 Member States for which the NEC has been activated. This may occur even if these countries exceed the defined deviation from the approved net expenditure path, provided that this excess is due to increased defence spending.

In the spring of 2025, the first annual progress reports and the so-called European Semester Spring Package were published. In the Spring Package, the European Commission, among other things, preliminarily assessed the compliance of net expenditure growth with the net expenditure path set by the Council of the EU. Based on forecast by the European Commission, 12 member states should be compliant with their net expenditure in 2025[57]. However, to open the EDP due to non-compliance with the debt criterion, the deviation from the set net expenditure path must be greater than 0.3 pp of GDP annually or 0.6 pp of GDP cumulatively. Chart B.3.1 shows the annual and cumulated deviations from the approved net expenditure path according to the 2025 forecast by the European Commission.

Chart B3.1 Forecast of annual and cumulated deviations from the net expenditure path in 2025 before taking into account the NEC



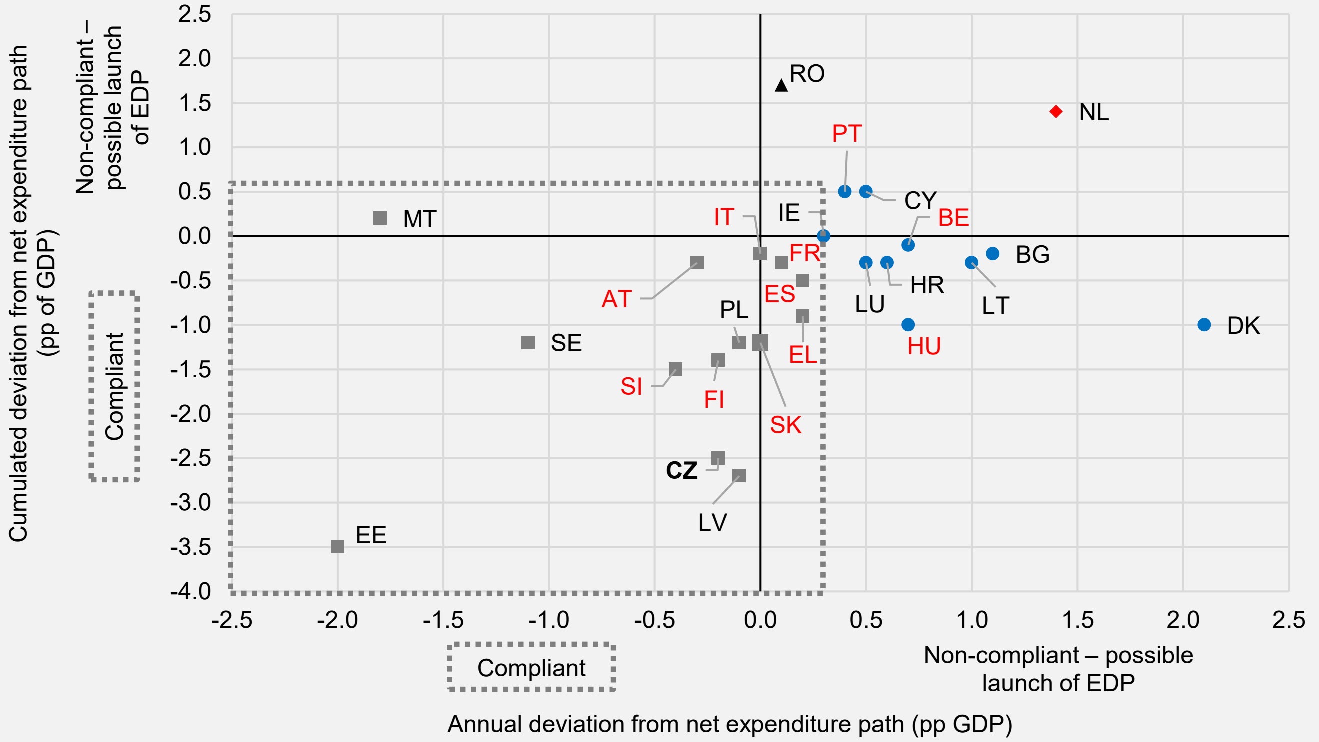
Source: European Commission (June 2025); CFC calculations.
Note: Due to the absence of Germany's FSP at the time of publication of the European Semester Spring Package, the deviation from Germany's net expenditure path is not included.

The highlighted area of the chart (dark grey dotted line) indicates the tolerated range of annual and cumulated deviations from the net expenditure path. The deviation from the approved net expenditure path in 2025 for countries in this area is therefore not high enough, according to the forecast, to trigger an EDP due to non-compliance with the debt criterion. Countries whose annual deviation in 2025 is forecasted to exceed the set limit of 0.3 pp of GDP are marked with blue dots. Countries whose cumulated deviation in 2025 is forecasted to exceed 0.6 pp of GDP are marked with black triangles. Red diamonds mark countries whose deviation from the approved net expenditure path is forecasted to exceed both the annual and cumulated values of the tolerated deviation for the opening of an EDP in 2025. In addition, the red labels indicate those countries whose general government debt is forecasted by the European Commission to exceed 60% of GDP in 2025. Due to non-compliance with the debt criterion, it would thus be possible, according to the forecast, to open an EDP in 2025 before taking into account relevant factors with Belgium, Hungary, and Portugal if their general government deficit is not in surplus or close to balance[58].

[57] Due to the absence of a German FSP and a net expenditure path approved by the EU Council at the time of publication of the spring package, it is not possible to assess the compliance of net expenditure growth for Germany.
[58] According to the European Commission's spring forecast, Portugal has a general government surplus in 2025. The EDP was opened with Hungary and Belgium in 2024 due to non-compliance with the deficit criterion, but the EDP is currently held in abeyance for Hungary.

However, taking into account the NEC, which increases the fiscal space for defence spending, it is possible to adjust the cumulated deviation by the flexibility provided by the activated NEC. Chart B3.2 shows the annual and cumulated deviation from the approved net expenditure path in 2025 according to the European Commission's forecast, after taking into account the flexibility provided by the NEC. The deviations of countries whose debt is predicted to exceed 60% of GDP are thus within the limits of the flexibility provided by the NEC in 2025, according to the forecast.

Chart B3.2 Forecast of annual and cumulated deviations from the net expenditure path in 2025 after taking into account the NEC



Source: European Commission (June 2025); CFC calculations.
Note: Due to the absence of the German FSP at the time of publication of the European Semester Spring Package, the deviation from Germany's net expenditure path is not included.

However, the final assessment of compliance with the net expenditure path should not take place until spring 2026, when the actual data on net expenditure growth in 2025 will be known.

The spring package also included an assessment of compliance with the deficit and debt criteria and a proposal to initiate the EDP. Given that the assessment of compliance with the debt criterion requires an assessment of compliance with the net expenditure path and the size of the deviation from it based on actual data from 2025, it is not currently possible to propose the initiation of an EDP due to non-compliance with the debt criterion. The EDP has therefore only been initiated with Austria due to non-compliance with the general government deficit criterion.

At the same time, the transposition of the amended European directive regulating the requirements for the budgetary frameworks of Member States[59] is underway. The amendments mainly concern emphasizing the medium-term focus of budgetary planning, strengthening the role of independent fiscal institutions, and the area of data (publication of quarterly data on general government debt and deficit in accordance with ESA 2010 methodology, or publication of data on contingent liabilities related to disasters and climate change and the associated fiscal costs). The transposition deadline for amending national fiscal rules is set for the end of 2025. In some cases, transposition is complicated by the need to amend constitutional law, as national fiscal rules may be enshrined directly in the constitution. However, this is not the case in the Czech Republic, as it mainly concerns an amendment to the "ordinary" Act No. 23/2017 Coll. on the Rules of Budgetary Responsibility, as amended, and amendments to other related acts.

[59] Amended Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

4 Local and regional government finances

According to the Constitution of the Czech Republic, local and regional authorities are municipalities and regions for whose finances the Act defines a special budgetary responsibility rule in Section 17. Within the framework of this rule, the criterion of the amount of debt is monitored and, in case of its exceeding, the rate of its reduction. Local and regional authorities also establish a large number of other organisations (mostly in the form of entities partially subsidised from public budgets), the finances of which affect the overall results of the general government sector. This chapter first presents the overall performance of the local government subsector and then evaluates the frequency and significance of violation of the fiscal rule.

4.1 Local government finances 2021–2024

The local government subsector[60] has reported budget surpluses the last four years. This has contributed to better financial results of the overall general government sector each year. In 2024, the total revenue of this subsector was CZK 1,021.4 billion, an increase of CZK 29.6 billion compared to the previous year. Local government revenue accounted for 31.3% of total general government revenue. Local government expenditures accounted for 28% of total general government expenditure. The surplus of the local government subsector decreased by CZK 9.1 billion year-on-year to CZK 55.3 billion in 2024, reaching 0.7% of GDP. The relevant data are presented in Table 2.

Table 2 Local government finances in the Czech Republic 2021–2024

	2021		2022		2023		2024	
	CZK bn	% of GDP	CZK bn	% of GDP	CZK bn	% of GDP	CZK bn	% of GDP
Revenue	818.7	13.0	906.3	12.9	991.8	12.9	1021.4	12.7
Expenditure	763.3	12.1	841.2	11.9	927.4	12.1	966.1	12.0
Balance	55.5	0.9	65.1	0.9	64.4	0.8	55.3	0.7

Source: CZSO (July 2025); CFC calculations.

The downward trend in the share of local government debt in total general government debt generally corresponds to the local government surpluses. In the last two years, the debt of local government subsector has decreased by a total of CZK 6.2 billion, as shown in Table 3. However, given the significant surpluses of the subsector in these two years, this is only a small reduction. In 2024, the debt of the local government subsector amounted to CZK 82.9 billion (approximately 1% of GDP), representing 2.4% of total general government debt.

Table 3 Local government debt in the Czech Republic 2021–2024

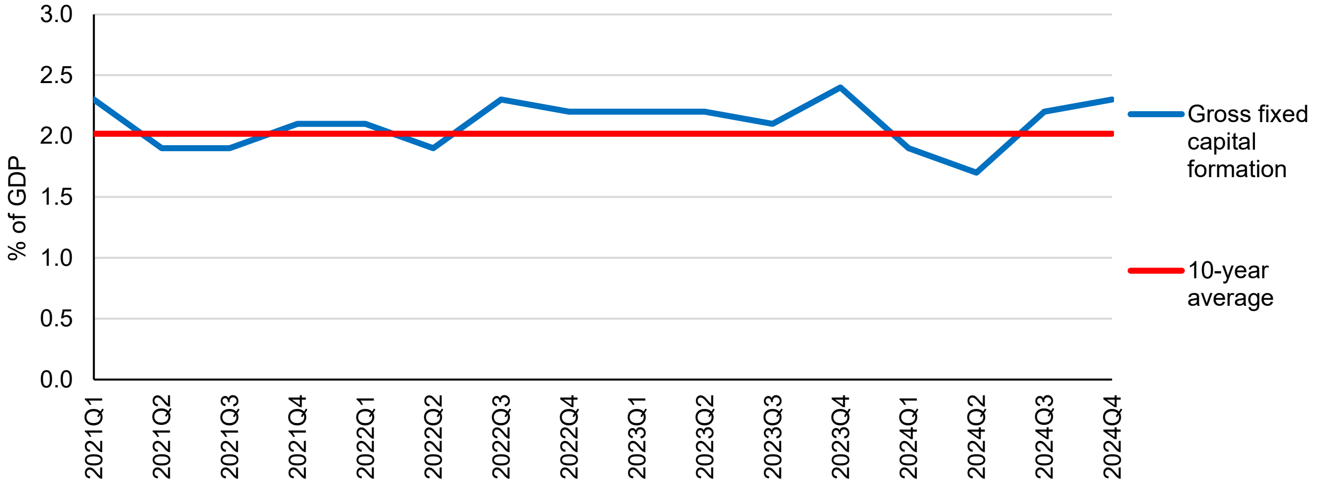
	2021	2022	2023	2024
Debt (CZK billion)	87.0	89.1	85.6	82.9
Ratio to GDP (%)	1.4	1.3	1.1	1.0
% of total general government debt	3.4	3.0	2.6	2.4

Source: CZSO (July 2025); Eurostat (July 2025); CFC calculations.

In 2024, the local government subsector recorded a slight year-on-year decline in investment activity, which amounted to approximately CZK 163.3 billion, which is CZK 6.7 billion lower than in the previous year and CZK 39.4 billion higher than the 10-year average for 2015–2024 (see Chart 4).[61]

[60] Under the ESA 2010 methodology, the local government subsector is a part of the general government sector. It consists of local government units and organisations directly accountable to them, i.e. all organisations having a local sphere of competence and financed out of local budgets.
[61] Gross fixed capital formation of the local government subsector gradually increased from 1.3% of GDP in 2016 to 2.0% of GDP in 2024.

Chart 4 Local government investment in the Czech Republic 2021–2024



Source: CZSO (July 2025); CFC calculations.

Conclusion: **The finances of local and regional authorities (and organisation accountable to them) do not pose significant risks to the overall financial results of the general government sector. On the contrary, they have been contributing to stabilise general government finances for quite some time. The debt of local and regional authorities is also very low and, as a whole, thus does not represent a significant risk factor in terms of the growth in general government debt. The investment activity of local and regional authorities stagnated in 2024 at a level corresponding to the 10-year average (2% of GDP).**

4.2 The budgetary responsibility rule for local and regional authorities and compliance therewith in 2024

The Act (Section 17) provides the following rule for local and regional authorities:

a) A local or regional authority shall manage its finances in the interest of maintaining sound and sustainable public finances such that its debt[62] at the balance-sheet date does not exceed 60% of its average annual revenues[63] over the last 4 budget years (the “debt criterion”).
b) Should the debt of a local or regional authority at the balance-sheet day exceed 60% of its average revenues over the last 4 budget years, the local or regional authority shall reduce it in the following calendar year by at least 5% of the difference between the amount of its debt and 60% of its average revenues over the last four budget years (the “debt reduction rule”).

The MF CR monitors the finances of local and regional authorities on the basis of financial data and accounting records submitted by the municipalities. In 2024, 6,261 local and regional authorities of the Czech Republic were included in the monitoring, i.e., 6,248 municipalities[64] including the City of Prague and 13 regions.

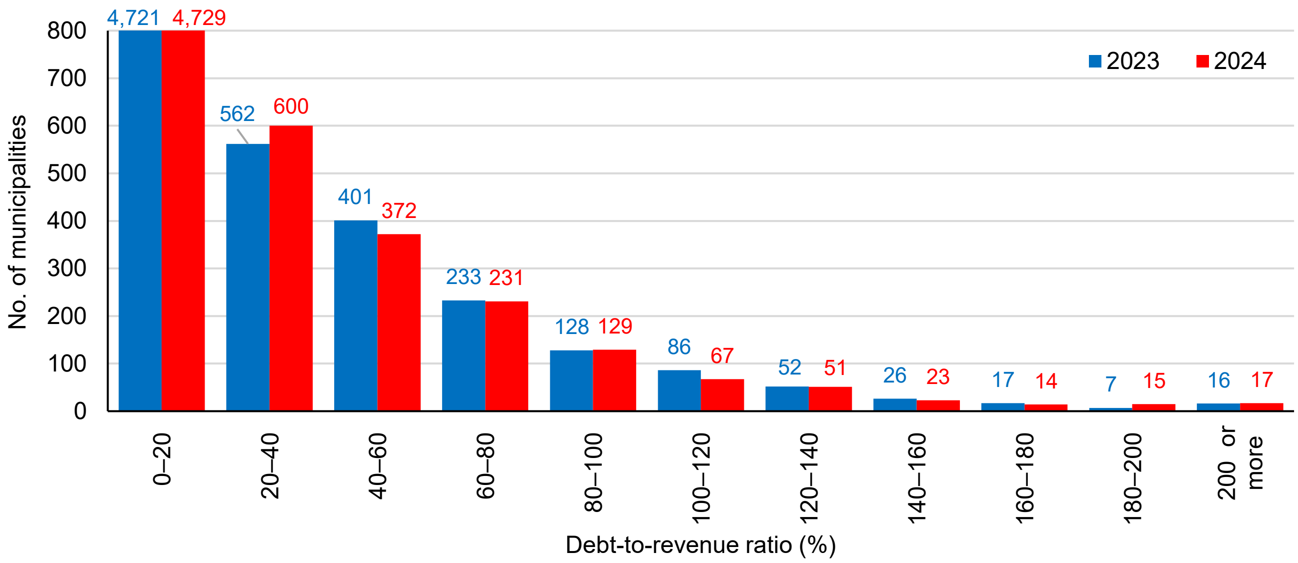
Of the 565 municipalities whose debt as of 31 December 2023 was higher than 60% of their average revenue over the previous four years, a total of 11 municipalities were not compliant with the debt reduction rule. Three municipalities made a one-time debt repayment in 2025 at the request of the MF CR, and two municipalities are repaying their debts to the MF CR according to a repayment schedule, with the specified repayments being lower than the legal minimum. Furthermore, six municipalities did not reduce their debt by the statutory minimum on the basis of deferral of repayments of loans or borrowings, which was set by the valid repayment schedule. In none of the cases did the MF CR decide to suspend the transfer of tax revenues to the respective municipalities.

[62] For the purposes of the Act, the debt of a local or regional authority means the value of outstanding liabilities arising from bonds issued, credit, loans and returnable financial assistance received, guarantees honoured and bills of exchange issued, and, from 2023, public and private legal relationships with a maturity of more than one year, except for liabilities arising from transfers and liabilities not intended to defer debt repayment (synthetic account 459). Thus, due to the change in the Act, the year-on-year comparison may be misleading.
[63] For the purposes of the Act, the revenues of a local and regional authority mean the sum of all monies received into its budget during the budget year, consolidated in accordance with another legal regulation.
[64] The towns of Touškov and Napajedla, the market town of Pozlovice, and the municipalities of Bohuslavice, Střížovice, and Hnačov are not included in the monitoring due to the failure to submit financial statements to the Central State Accounting Information System.

Indebtedness in relation to debt ratio

The budgetary responsibility rule indicator (i.e., the percentage ratio of debt to average revenue over the last four years) was above 60% as of 31 December 2024 for 547 municipalities out of 6,248 municipalities (i.e., 8.8% of all municipalities). This is a decrease of 18 municipalities compared to the previous year. These municipalities have 481,167 inhabitants, i.e. approximately 4.4% of the Czech population (in 2023, approximately 5% of the Czech population lived in municipalities exceeding the indicator).[65] The figures are also available in Chart 5.

Chart 5 Number of municipalities in ranges according to the percentage level of the budgetary responsibility rule indicator, 2023 versus 2024



Source: MF CR (2024): Information on the Monitoring of Local and Regional Authorities' Finances for 2023, MF CR (2025): Information on the Monitoring of Local and Regional Authorities' Finances for 2024; CFC calculations.

The total debt of municipalities in 2024 was CZK 62.9 billion, i.e. CZK 0.1 billion more than in 2023. The average debt of municipalities was 16.3% (16.5% in 2023). A total of 3,213 municipalities, i.e., 51.4% of all municipalities, were entirely free of debt, 45 more than in 2023. The number of municipalities whose fiscal budgetary responsibility rule indicator exceeded 200% increased from 16 to 17.[66]

Table 4 Number of municipalities exceeding 60% of the debt criterion of the budgetary responsibility rule

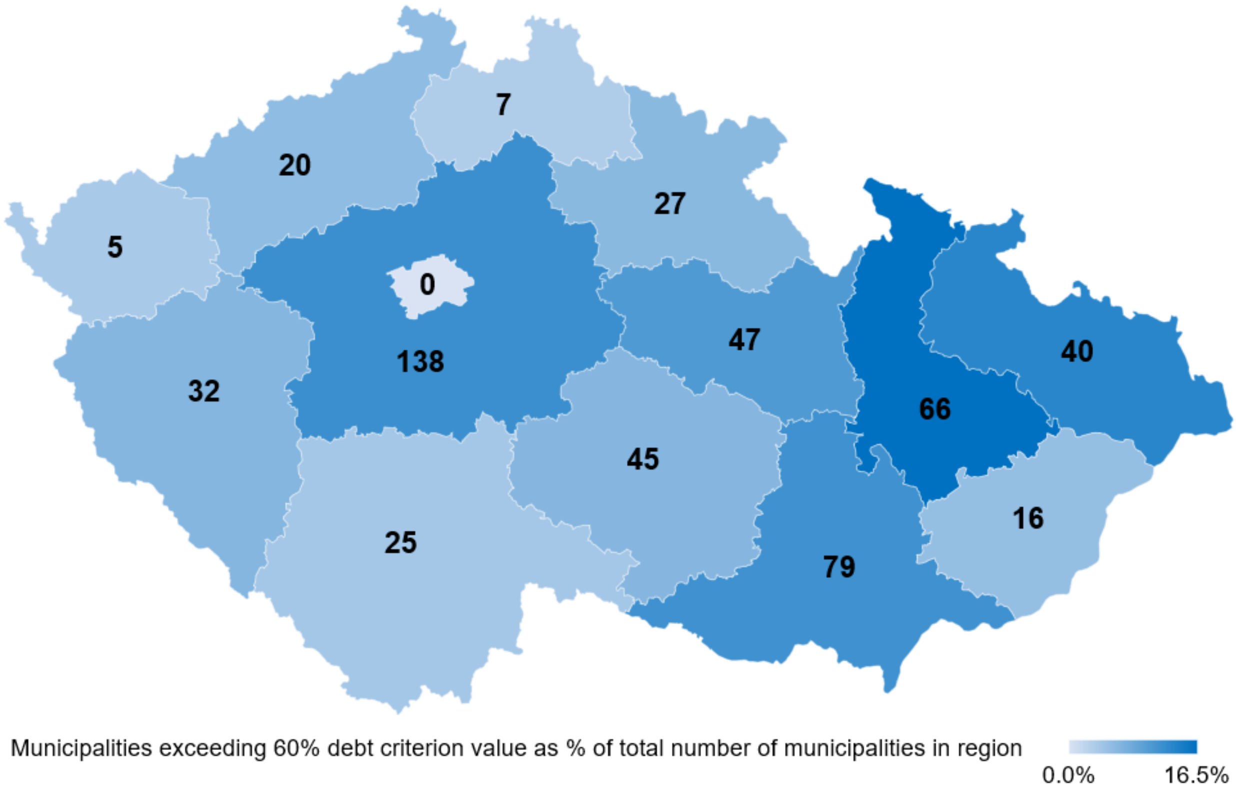
No. of inhabitants of municipality	No. of municipalities		No. of municipalities exceeding 60% debt criterion value		% of municipalities exceeding 60% debt criterion value	
	2023	2024	2023	2024	2023	2024
0 – 100	396	389	11	9	2.8	2.3
101 – 200	969	959	65	62	6.7	6.5
201 – 500	1,986	1,996	203	210	10.2	10.5
501 – 1 000	1,380	1,372	166	158	12.0	11.5
1 001 – 2 000	793	805	83	81	10.5	10.1
2 001 or more	725	727	37	27	5.1	3.7
Total	6,249	6,248	565	547	9.0	8.8

Source: MF CR (2024): Information on the Monitoring of Local and Regional Authorities' Finances for 2023, MF CR (2025): Information on the Monitoring of Local and Regional Authorities' Finances for 2024; CFC calculations.

[65] The total of 105,049 people live in municipalities where the budgetary responsibility rule indicator exceeds 100% (187 municipalities, i.e. 3% of the total). This represents approximately 0.96% of the Czech population (in 2023 the figure was 123,909 inhabitants, i.e. 1.14% of the Czech population).
[66] MF CR (2025): Information on the Monitoring of Local and Regional Authorities' Finances for 2024.

Table 4 shows that municipalities with 201 – 2,000 inhabitants were most likely to exceed the debt criterion of the budgetary responsibility rule in 2024. Compared to 2023, the share of municipalities with less than 200 inhabitants and municipalities with more than 2,000 inhabitants exceeding the debt criterion decreased. The largest municipality exceeding the debt criterion in 2024 was the statutory city of Kladno with 69,664 inhabitants. Its debt-to-revenue ratio decreased year-on-year from 63% in 2023 to 61% in 2024. Among regional capitals, Olomouc had the highest debt-to-revenue ratio in 2024 (52%). The best-performing regional capital in this regard was Prague, whose ratio of debt to average revenues was just 3.5% in 2024.

Chart 6 Number of municipalities exceeding the 60% debt criterion of the budgetary responsibility rule



Source: MF CR (2025): Information on the Monitoring of Local and Regional Authorities' Finances for 2024; CFC calculations.

Chart 6 shows that the largest number of municipalities in absolute terms exceeding the debt criterion of the budgetary responsibility rule lie in the Central Bohemian Region, which, however, also has the largest number of municipalities of all the regions. The largest percentage of municipalities exceeding the debt criterion of the budgetary responsibility rule is thus in the Olomouc Region (16.5% of municipalities). Furthermore, the Moravian-Silesian Region (13.3%), the Central Bohemian Region (12.1%), and the South Moravian Region (11.8%) recorded more than 10% of municipalities exceeding the debt criterion of the budgetary responsibility rule. The best performing municipalities in this respect are those in the Liberec Region (3.3%) and the Karlovy Vary Region (3.8%).

In addition to the rule of budgetary responsibility set out in the Act, the MF CR monitors two other indicators for municipalities, for which the MF CR sets its recommended level. These are the ratio of loans and advances to total assets and the total liquidity indicator. These indicators are considered important by the MF CR because, unlike the budget responsibility rule, they contain information about the assets and total liabilities of municipalities and regions. Despite the fact that these indicators are not directly related to the Act, the CFC has decided to take them into account as they provide the context of the finances of municipalities and regions.

According to the recommendation of the MF CR, the ratio of loans and advances to total assets, which expresses the proportion of assets covered by third-party finances, should not exceed 25% in the case of municipalities and regions. In 2024, a total of 257 local and regional authorities exceeded this threshold, including 255 municipalities (4.1% of all municipalities) and two regions (Olomouc Region and Karlovy Vary Region). This is a decrease of six local and regional authorities compared with the previous year. In all, 156 municipalities, i.e. 28.5% of municipalities exceeding the debt criterion of the budgetary responsibility, or 2.5% of all municipalities, are not compliant with the requirement of the ratio of loans and advances to total assets. Municipalities exceeding both criteria have 98,448 inhabitants (i.e., 0.9% of the total population of the Czech Republic). The highest values of the ratio of loans and advances to total assets are reported by the municipalities of Turovice (517.92%) and Prameny (270.09%). No other municipality exceeded the threshold of 100% of the ratio.[67]

The total liquidity indicator, which expresses the ratio of current assets to short-term liabilities, shows to what extent a municipality is able to meet its short-term obligations. The MF CR recommends that this ratio should be be higher than 1. A total of 80 (i.e., 1.3%) municipalities do not comply with this recommendation, an increase of 15 municipalities compared to the previous year.

In 2024, seven municipalities were included in the category of local and regional authorities that exceeded the limits of all three monitored indicators simultaneously and were therefore assessed by the MF CR as local and regional authorities with a high level of financial risk. This is a decrease of three municipalities compared to the previous year.

The total number of people living in these municipalities is 4,040, which is less than 0.04% of the total population of the Czech Republic (3,964 inhabitants in 2023). The reason for exceeding the monitored indicators was mainly the deferral of loan repayment in accordance with the repayment schedules. The municipalities concerned often have only low immediately available financial reserves, and their finances may be exposed to following risks:

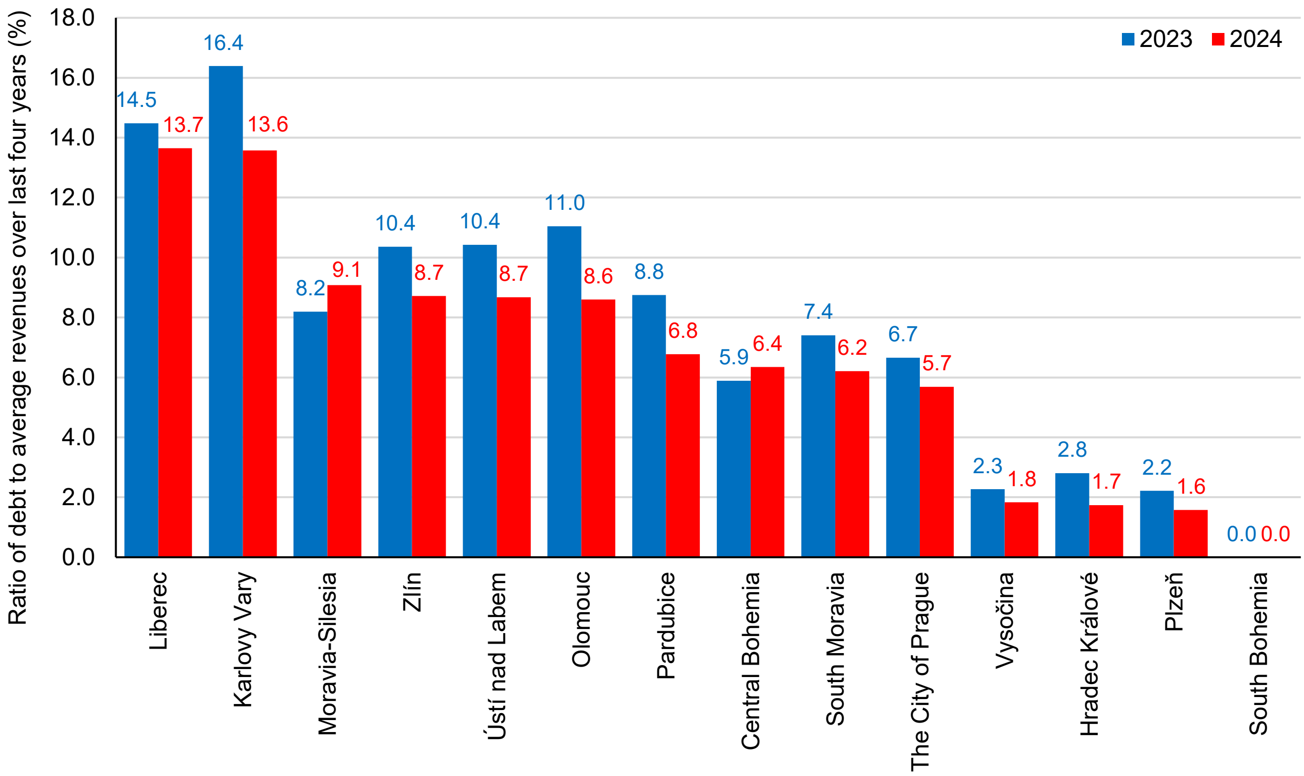
a) Liquidity risk – the municipality cannot meet its debts as they fall due or cannot finance its assets,
b) Legislative risk – failure to comply with the requirements under the specific conditions of the subsidy received, EU regulations, laws, regulations and standards of general validity, the fulfilment of which is required for the payment of the relevant subsidy amount by the municipality in accordance with the provisions of the legal act,
c) Credit risk – the risk of default or non-repayment of the loan taken by the municipality.

In addition to municipalities exceeding the limits of all three indicators mentioned above, the municipalities of Prameny and Turovice, which do not exceed the threshold values of all three monitored indicators at the same time, but they do report the highest ratios of loans and advances to total assets of all municipalities, are also facing serious economic problems. The main reason for their problematic financing is failed investment projects.

At the level of regions, the debt criterion of the budgetary responsibility rule is met with a margin. The Liberec Region (13.7%) has the highest ratio of debt to average revenue over the last four years, followed by the Karlovy Vary Region (13.6%) and the Moravian-Silesian Region (9.1%). By contrast, the South Bohemian Region was free of debt in 2024. Compared to 2023, 12 regions have seen their debt to average revenue ratios over the last four years fall. However, the largest increase was recorded by the Moravian-Silesian Region, which had a debt to revenue ratio of 9.1% in 2024. The total amount of regional debt in 2024 was CZK 21 billion, a decrease of CZK 0.9 billion compared to the previous year. The figures are shown in Chart 7.[68]

[67] If the ratio of loans and advances to total assets exceeds 100%, it means that the municipality has negative equity.
[68] The calculations in the chart may be subject to inaccuracies due to rounding.

Chart 7 Regions by debt-to-average revenues ratio over the last four years, 2023 versus 2024



Source: MF CR (2024): Information on the Monitoring of the Local and Regional Authorities' Finances for 2023, MF CR (2025): Information on the Monitoring of the Local and Regional Authorities' Finances for 2024; CFC calculations.
Note: The calculations in the chart may be subject to inaccuracies due to rounding.

Conclusion: As of 31 December 2024, a total of 547 municipalities and no regions exceeded the debt criterion defined in Section 17(1) of the Act. In 2024, a total of 11 municipalities were not compliant with their obligation to reduce their debt by the minimum level defined in the Act. The MF CR did not suspend the transfer of the share of tax revenues for any local or regional authority. The local and regional authorities' finances are stable.

The last box of this Report on Compliance with the Rules analyses the development of the application of the so-called local coefficient of the real estate tax in municipalities and also focuses on how they use it to increase (or decrease) their own revenues.

Box 4 Local real estate tax coefficients

In this box, we examine the use of the local real estate tax coefficient ("local coefficient") by Czech municipalities and its development since 2015. The local coefficient is a tool that municipalities can use to significantly influence the revenue of real estate tax in their cadastral area. Each municipality may set the local coefficient of between 0.5 and 5 for all immovable property, except for certain types of land, for which the local coefficient may be set between 0.5 and 1.5. In addition, the local coefficient may be set for the entire municipality, individual cadastral areas, city districts or specific areas, but also for individual groups of properties. To simplify, this box focuses on local coefficients applied to the entire cadastral area of a municipality.

For this year, a total of 1,029 municipalities and city districts set the local coefficient for the entire cadastral area. In all, a total of 744 municipalities also set the same local coefficient in 2024. Furthermore, 20 municipalities increased their local coefficient and 92 reduced it. Another 173 municipalities set their local coefficient anew in 2025, meaning they did not set it in the previous year. Since 2015, the number of municipalities and city districts applying the local coefficient has been growing steadily and has almost doubled since 2015. Table B4.1 shows the development of the number of municipalities applying the local coefficient in 2015–2025.

Table B4.1 Number of municipalities and city districts applying the local coefficient between 2015 and 2025

Year	Number of municipalities and city districts	Average value of the local coefficient
2015	533	2.23
2016	573	2.24
2017	599	2.25
2018	609	2.24
2019	610	2.24
2020	719	2.25
2021	772	2.27
2022	867	2.25
2023	908	2.24
2024	975	2.24
2025	1,029	2.05

Source: General Financial Directorate (2025); CFC calculations.
Note: The table only includes municipalities that apply the local coefficient in their entire territory.

While the number of municipalities applying the local coefficient is steadily increasing over time, its average value remains stable, with the exception of 2025, when the local coefficient declined from 2.24 in 2024 to 2.05 in 2025. If we consider the average local coefficient weighted by the number of inhabitants of the municipalities in a given year[69], this would be a decline from 2.10 in 2024 to 1.88 in 2025. If all districts of the City of Prague kept their local coefficient at the previous year's value of 2 in 2025, the weighted average of the local coefficient would be 2.04 in 2025. Detailed changes of the values of local coefficients are shown in Table B4.2.

Table B4.2 Number of municipalities and city districts by local coefficient value in 2015–2025

Year	No. of municipalities and city districts with a coefficient value in the range					
	(0;1)	[1;2)	[2;3)	[3;4)	[4;5)	[5]
2015	0	0	454	53	9	17
2016	0	0	482	63	11	17
2017	0	0	499	67	16	17
2018	0	0	508	70	14	17
2019	0	0	509	71	13	17
2020	0	0	591	93	16	19
2021	0	0	624	110	17	21
2022	0	27	673	130	18	19
2023	0	42	695	130	18	23
2024	0	68	721	142	21	23
2025	10	258	608	115	19	19

Source: General Financial Directorate (2025); CFC calculations.
Note: The table includes only municipalities that apply the local coefficient in their entire territory.

Table B4.3 presents a more detailed view of the year-on-year changes in local coefficients. In 2025, mainly larger municipalities and city districts reduced the local coefficient. There are 92 of such municipalities in total, with a population of 1,533,789, i.e. 14.1% of the Czech population. However, this also includes all 57 city districts of the City of Prague, which reduced the local coefficient from 2 to 1.5. If we exclude the Prague's city districts, there are only 35 remaining municipalities in the Czech Republic that reduced their local coefficients in 2025. The largest of these are cities of Havířov (reduction from 2 to 1.8) and Kutná Hora (reduction from 2 to 1). A total of 135,909 inhabitants (approximately 1.2% of the Czech population) live in these 35 municipalities, with an average of 3,883 inhabitants per municipality.

[69] For city districts, the population figures come from the 2021 Population and Housing Census (Census, 2021) were used due to limited data availability.

On the contrary, 20 municipalities increased their local coefficient. The largest one is the city of Opava with 55,109 inhabitants. A total of 83,862 people, i.e. 0.8% of the Czech population, live in all such municipalities, and on average, one such municipality has 4,193 inhabitants.

A total of 744 municipalities apply the same local coefficient in 2024 and 2025, with a combined population of 2,329,391, i.e. 21.4% of the Czech population. The average municipality applying the same coefficient in 2024 and 2025 has 3,131 inhabitants.

Table B4.3 Changes in local coefficients, 2024 versus 2025

Year-on-year changes	Number of municipalities and city districts	Total number of inhabitants	Average number of inhabitants
Municipalities and city districts that newly apply the local coefficient throughout the entire municipality in 2025	173	267,552	1,547
Municipalities and city districts that reduced their local coefficient year-on-year in 2025	92	1,533,789	16,672
Municipalities and city districts that apply the same local coefficient in 2024 and 2025	744	2,329,391	3,131
Municipalities and city districts that increased their local coefficient year-on-year in 2025	20	83,862	4,193

Source: General Financial Directorate (2025), State Treasury of the Ministry of Finance of the Czech Republic (2025), Census (2021), CFC calculations.
Note: The table only includes municipalities that apply the local coefficient in their entire territory.

In 2025, a total of 1,029 municipalities apply the local coefficient in their entire cadastral area in accordance with the provisions of Section 22 of Act No. 338/1992 Coll., on Real Estate Tax, as amended. This represents an increase of 54 municipalities compared to the previous year. However, there has been a significant decrease in the average value of the local coefficient of approximately 9%. A total of 92 municipalities and city districts, with a population of more than 1.5 million, have reduced their local coefficients. However, in terms of the size of these municipalities, it cannot be generally stated that larger municipalities reduced their local coefficient more than smaller municipalities, as these numbers are significantly influenced by the city districts of the City of Prague.

Summary

The Czech Fiscal Council states that in 2024:

a) The general government debt rule (Sections 14 and 16 of the Act) was complied with.

b) The *technical procedure* for determining total general government expenditure and deriving the expenditure framework of the state budget and state funds was followed when deriving the level of expenditure of the state budget and state funds. However, the General Government Budgetary Strategy of the Czech Republic for 2024 to 2026 was not approved by the government within the deadline set by the Act (paragraph 3 of Section 9 of the Act). It was also inconsistent with other materials of the MF CR (Convergence Programme of the Czech Republic, April 2023, consolidation package presented in May 2023) and at the same time used an amendment to the Act that had not yet been approved at that time.

c) The general government structural balance for 2024 did not exceed the value derived on the basis of the amended version of the Act (Section 10a of the Act).

d) A total of 547 municipalities and no regions exceeded the 60% debt limit of local or regional authorities (Section 17(a) of the Act).

e) In 2024, a total of 11 municipalities were non-compliant with the obligation to reduce their debt by the minimum level defined by the Act. The reason for non-compliance was mostly the deferral of loan repayment, as required by the repayment schedule.

f) The Ministry of Finance of the Czech Republic did not suspend the transfer of the share of tax revenue to any local or regional authority.

The CFC considers it crucial that the current form of the Act provides for a gradual reduction of the structural deficit to 1% of GDP, as stipulated in the original version of the Act, and that the limit was met for 2024. However, maintaining the trend of a declining structural deficit will require adjustments to tax and expenditure policies.