EUROPEAN
COMMISSION

Brussels, 19.6.2024
COM(2024) 603 final

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Czechia

{SWD(2024) 600 final} - {SWD(2024) 603 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Czechia

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy

[1] OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17), ELI: http://data.europa.eu/eli/reg/2021/241/oj

[3] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1), ELI: http://data.europa.eu/eli/reg/2023/435/oj

security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Czechia added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it did not identify Czechia as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment

4 COM(2023) 168 final.

5 COM(2024) 77 final.

6 COM(2023) 901 final.

7 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[8] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) No 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) No 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) No 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 1 June 2021, Czechia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 8 September 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Czechia[9], which was amended on 16 October 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the

---

[8] Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

[9] Council Implementing Decision of 8 September 2021 on the approval of the assessment of the recovery and resilience plan for Czechia (11047/2021).

REPowerEU chapter[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Czechia has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) On 24 April 2024, Czechia submitted its 2024 National Reform Programme and, on 30 April 2024, its 2024 Convergence Programme, in line with Article 8(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Czechia's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for Czechia[11] on 19 June 2024. It assessed Czechia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Czechia's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Czechia's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(10) Based on data validated by Eurostat[12], Czechia's general government deficit increased from 3.2% of GDP in 2022 to 3.7% in 2023, while the general government debt fell from 44.2% of GDP at the end of 2022 to 44.0% at the end of 2023. As announced in the fiscal policy guidance for 2024[13], the Commission is taking the first step for the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission adopted a report under Article 126(3) of the TFEU[14]. That report assessed the budgetary situation of Czechia, as its general government deficit in 2023 exceeded the reference value of 3% of GDP. The report concluded that in the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission will not propose in July to open an excessive deficit procedure for Czechia.

(11) On 12 July 2022, the Council recommended[15] that Czechia take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[16], taking into account continued temporary and

---

10 Council Implementing Decision of 16 October 2023 amending the Implementing Decision of 8 September 2021 on the approval of the assessment of the recovery and resilience plan for Czechia (13383/2023).

11 SWD(2024) 603 final.

12 Eurostat-Euro Indicators, 22.4.2024.

13 COM(2023) 141 final.

14 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024)598 final.

15 Council Recommendation of 12 July 2022 on the National Reform Programme of Czechia and delivering a Council opinion on the 2022 Convergence Programme of Czechia OJ C 334, 1.9.2022, p. 19.

16 Based on the Commission spring 2024 forecast, the medium-term potential output growth of Czechia in 2023, which is used to measure the fiscal stance, is estimated at 10.5% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Czechia was recommended to stand ready to adjust current spending to the evolving situation. Czechia was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[17] was contractionary, by 0.9% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.7% of GDP. This includes the reduced cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). In sum, the projected growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.1% of GDP in 2023. Nationally financed investment amounted to 4.4% of GDP in 2023, representing an increase of 0.5 percentage points as compared to 2022. Czechia financed additional investment through the Recovery and Resilience Facility and other EU funds. Czechia financed public investment for the green and digital transitions, and for energy security, such as energy efficiency renovations and installation of renewables, modernisation and increased safety of railways and project preparation for electrification, flood protection and water retention of lands and municipalities, projects of Czech companies aiming at reducing water consumption and applying circular solutions for businesses, public-private partnerships in research and innovation, or provision of digital devices for schools, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(12) The key projections in the 2024 Convergence Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP growth at 1.4% in 2024 and 2.6% in 2025, while it projects HICP inflation at 2.7% in 2024 and 2.4% in 2025. The general government deficit is expected to decrease to 2.3% of GDP in 2024 and stand at 2.1% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 45.5% by the end of 2024 and 46.4% by the end of 2025. After 2025, the general government deficit is projected to decrease gradually to 1.6% of GDP in 2026 and 1.2% in 2027. Therefore, the general government balance is planned to remain below the 3% of GDP deficit reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to increase to 47.1% in 2026 and stabilise in 2027.

(13) The Commission Spring 2024 Forecast projects real GDP to grow by 1.2% in 2024 and 2.8% in 2025, and HICP inflation to stand at 2.5% in 2024 and 2.2% in 2025.

[17] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

(14) The Commission Spring 2024 Forecast projects a government deficit of 2.4% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 45.2% by the end of 2024. The decrease of the deficit in 2024 mainly reflects the withdrawal of measures to mitigate the impact of high energy prices, and the implementation of a consolidation package. Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 2.3% of GDP in 2024.

(15) Expenditure amounting to 0.5% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.4% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Czechia. Expenditure amounting to 0.1% of GDP is expected to be backed by loans from the Recovery and Resilience Facility, in 2024, compared with 0% of GDP in 2023, according to the Commission Spring 2024 Forecast.

(16) On 14 July 2023, the Council recommended[18] that Czechia ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[19] in 2024 to not more than 6.0%. When executing their 2023 budgets and preparing their budgets for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023._According to the Commission Spring 2024 Forecast, Czechia's net nationally financed primary expenditure is projected to decrease by 1.1% in 2024, which is below the recommended maximum growth rate. This is in line with what was recommended by the Council.

(17) Moreover, the Council recommended that Czechia take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Czechia should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[20] of energy support measures is estimated at 1.2% of GDP in 2023 and projected at -0.2% in 2024, and 0.0% in 2025. In particular, the windfall profits tax is assumed to remain in force in 2024 and 2025[21]. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.4% of GDP in 2024, whereas net nationally financed primary

[18] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Czechia and delivering a Council opinion on the 2023 Convergence Programme of Czechia, OJ C 312, 1.9.2023, p. 22.

[19] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

[20] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[21] Measures that, according to Czechia, remain in place until the end of 2024 are, in principle, assumed in the Commission Spring 2024 Forecast as having a budgetary impact also in 2025.

expenditure[22] provides a contractionary contribution to the fiscal stance of 2.2% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. Moreover, the related savings are projected to be fully used to reduce the government deficit. This is also in line with the Council recommendation.

(18) In addition, the Council also recommended that Czechia preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to decrease to 4.2% of GDP in 2024 from 4.4% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023. Taking into account this additional factor, public investment in 2024 is assessed as respecting the Council recommendation. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to decrease to 1.0% of GDP in 2024 from 1.1% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023.

(19) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 1.9% of GDP in 2025. The general government debt-to-GDP ratio is set to increase to 45.5% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects the negative headline balance, being partly offset by nominal GDP growth.

(20) Czechia's structural budget balance has decreased from close to balance on average over 2014-2019, to -2.9% in 2023. This was due to permanent measures, such as the personal income tax cut, and the increase in social security benefits, including the automatic indexation of pensions to inflation, which were not financed by corresponding revenue growth. There is additional pressure on fiscal sustainability in the medium to long term, due to the increase in the cost of ageing. In 2023, Czechia amended the first pillar of the pension system, including reduced indexation of pensions and stricter early retirement. Still, without additional changes, an increase in pension expenditure of around 3 percentage points by 2060 is expected due the projected doubling of the old-age dependency ratio[23], the capping of the retirement age, as well as a still high number of people taking early retirement. Unless financed by a corresponding growth in revenues, the projected rise in age-related spending could increase the fiscal sustainability risks in the medium and long term. The government proposes to link the statutory retirement age with life expectancy, and to slow down the growth of newly granted pensions. If implemented, these changes would improve the fiscal sustainability of the pension system. Other possible measures

---

[22] This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

[23] According to the 2024 Ageing Report issued by the Commission in April 2024.

to address fiscal sustainability in the long term include increasing the labour supply by providing incentives to raise the participation rates of people beyond the pension age.

(21) Competitiveness and productivity are held back by shortages of workers. Employment of mothers could be increased, as can be seen from the low female employment for several years after childbirth. In addition to the lack of available childcare, the tax and benefit system dissuades the lower-earning parent, in particular mothers from returning to work. Three-year periods of parental leave, high tax deductibles for non-working spouses and family benefits incentivising the lower-earning parent to take long periods of leave discourage parents, in particular mothers from working or looking for a job. The taxation of earnings from labour for second earners was above the EU average in 2022, and above the tax wedge for single people at the same wage level. Encouraging the lower-earning parent to work or look for a job would also support higher revenues for the pension system.

(22) Czechia’s overall tax revenue in relation to GDP is considerably below the EU average in 2022 (35.3% compared to 40.2% EU average). Broadening the tax base by expanding the share of taxes less detrimental to growth is an option to support economic growth and fiscal sustainability. Recurrent property taxes are among the taxes least detrimental to growth, but the revenue from recurrent property taxation is very low at 0.2% of GDP compared to 1.0% of GDP the EU average (as of 2022). Despite the increase in recurrent property taxes in 2024, the recurrent property taxation system of buildings and units is based on the area of the properties, which leads to unequal taxation of properties of the same value and does not react to changes in property values. Implementing a property valuation system which chooses the property values as the tax base, aligns property values to market values and allows for regular updates of property values, would increase the efficacy of the tax as a tool to mitigate the increases in property prices, and to put existing housing stock to its most productive use. In turn, this would raise housing affordability and people's ability to move around for work, supporting economic growth and increasing revenue from recurrent property taxes.

(23) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan including the REPowerEU chapter is essential to boost Czechia’s long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Czechia to continue the implementation of reforms and to accelerate investments by addressing emerging delays while strengthening absorption capacity. The absorption of recovery and resilience funds is particularly constrained by limitations of administrative capacity at some of the implementing bodies. This is particularly visible in areas that require more expertise, such as the digital and green transition. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(24) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Czechia is required to review each programme by March 2025, taking into account, among other things, the challenges

identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Czechia has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges and significant regional disparities remain. Severozápad and, to a lesser extent, Moravskoslezko are caught in a development trap. Accelerating the implementation of cohesion policy programmes coupled with strengthening administrative capacity, especially in these regions, is crucial. The priorities agreed in the programmes remain relevant. In particular, developing the administrative capacity of regions, improving partnership between them, and enhancing their ownership is needed to increase the absorption of EU funds by small municipalities, small to medium-sized enterprises (SMEs) and local non-governmental organisations. Investments supporting sustainable urban and regional transport and infrastructure for alternative fuels need to be implemented to accelerate the green transition, together with increased use of renewable energy sources, as well as investments into energy efficiency and the circular economy. It is important to complete the planned climate adaptation actions, focusing on natural water retention measures. It is also a priority to step up the integration of people displaced from Ukraine under temporary protection, including on the labour market in line with their skills. It continues to be relevant to focus on the impact of measures related to disadvantaged groups, such as the Roma.

(25) In the context of the mid-term review, the potential to mobilise more private sector resources, especially through a wider use of financial instruments combined with grants merits further attention. Such innovative instruments can make use of more private investment especially for energy efficiency, clean energy solutions and business development. The capacities of the National Development Bank should be used more effectively to implement financial instruments in cohesion policy programmes. Taking into account Czechia’s ambition to move up from the level of a moderate innovator, the country could also make use of the Strategic Technologies for Europe Platform initiative in the areas of digital technologies and deep tech innovation, clean and resource-efficient technologies, and biotechnologies and where relevant in line with the national smart specialisation strategy to support the transformation of industry.

(26) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Czechia faces several further challenges related to public administration and competitiveness.

(27) There is pressure being put on the attractiveness of Czechia’s public administration as an employer and on the abilities of the civil service to retain talent. This particularly holds true for expert, management and IT jobs. Amendments to the Civil Service Act entered into force in 2023, bringing in set terms of office for senior civil servants, faster recruitment processes and wider options to attract external applicants. However, the fragmentation of human resource management hinders a more systemic approach to talent management. The size of the Czech public administration is below the EU average in both expenditure and numbers employed. Still, wages are lower than in the private sector for comparable education levels and have declined in real terms by more than 10% compared to 2004, further reducing the civil service’s attractiveness. Strengthening the capacity of Czechia's public administration to attract, retain and develop talent is crucial for increasing improving its effectiveness and quality of services.

(28) Czechia's public administration plays an essential role in maintaining the economy's competitiveness as it shapes the regulatory environment and public investment, especially in relation to the twin transitions. Czechia's public sector performance and government effectiveness remained stable and close to the EU average in 2022. However, challenges persist in strategic steering and evidence-informed policymaking. This calls for reducing departmentalism and strengthening strategic steering capacities, to improve consistency of strategies, and their implementation across policies. Czechia's fragmented local administrative capacity is a significant factor preventing, among other things, small beneficiaries from drawing on EU funds efficiently. The absorption by small municipalities, small and medium-sized enterprises and local non-governmental organisations, would improve from support being provided to applicants, for example, by appointing shared project managers and by providing comprehensive information on how they can apply for EU funding in one place. The priority in this regard is developing targeted support for boosting local administrative capacity in structurally affected regions such as Severozápad and Moravskoslezsko. The good example provided by the Just Transition Fund shows that the regions would be activated if they had a stronger role in determining their specific needs.

(29) Czechia's innovation performance continues to be held back by ineffective technology and knowledge transfer and by weak linkages between academia and the industrial sector. Public expenditure on R&D financed by businesses remains at around half of the EU average (0.023% of GDP, against 0.045%), and has been on a declining trend in recent years, demonstrating the low degree of (and incentives for) academia-business cooperation. This is weighing heavily on the transfer of research results into the economy and is limiting Czechia's innovation capacity, as shown, for example, by limited patent applications, which remain well below the EU average (0.83 percentage points per billion of GDP in 2020, compared to 3.4 percentage points). Measures to structurally improve and strengthen the transfer of technology in Czechia, and aimed specifically at strengthening the efficiency of technology transfer and facilitating the creation of spin-offs, could help tackle this challenge. A Horizon Policy Support Facility project starting on 9 June 2024 is expected to provide concrete support and policy recommendations to Czechia as regards increasing science-business linkages.

(30) Participation and attainment in higher education is decreasing, which aggravates the shortage of skilled workers. Tertiary educational attainment among 25–34-year-olds shows a downward trend since 2021 and is the fourth lowest in the EU (33.7% vs the EU average of 43.1%), far from the EU target of 45%. Between 2016 and 2021, the number of students enrolled decreased by 11.6% and the dropout rates are persistently high. Financial support for students is consistently low (2.5% of public expenditure vs the EU average of 18.8%), despite empirical evidence showing high productivity returns on investment in higher education.

(31) Shortages of workers and skills mismatches remain a pressing challenge, hindering the competitiveness of the Czech economy. These could be improved by measures such as reform of regulated professions and increased involvement of sectoral councils of experts in addressing a long-standing lack of skilled workers. In addition, Czechia has received the EU's highest inflow per capita of people displaced from Ukraine under temporary protection. However, more than 50% of them are in less qualified positions than was the case in Ukraine, with language being reported as a clear barrier. Furthermore, roughly 30% also claimed that qualification recognition as a barrier to getting a better job. Simplifying the recognition of foreign qualifications and increasing the labour market participation of underrepresented groups including people

displaced from Ukraine under temporary protection, could ease labour market tightness.

HEREBY RECOMMENDS that Czechia take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[24] in 2025 to a rate consistent with maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term. Take measures to ensure the long-term fiscal sustainability of the pension system. Lower tax and benefit disincentives for parents to return to work to promote higher female labour market participation. Improve incentives for people close to retirement to continue working. Take steps to increase revenue from recurrent property taxes.

2. Strengthen administrative capacity to manage the recovery and resilience plan, accelerate investments and maintain momentum in the implementation of reforms. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities, taking action to better mobilise private sector resources, including through the use of innovative financial instruments, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Strengthen the capacity of Czechia's public administration to attract, retain and develop talent, particularly those with analytical, managerial and IT skills. Reduce departmentalism and strengthen strategic steering capacities to improve consistency across policies. Support cooperation among municipal administrations, including by providing support for administrative capacity building targeted to structurally affected regions.

4. Boost innovation by improving technology transfer from academia to businesses, supporting the creation of spin-offs and start-ups, and increasing participation in tertiary education. Strengthen the competitiveness of the economy by addressing skills mismatches, simplifying the recognition of foreign qualifications, and by increasing the labour market participation of underrepresented groups.

Done at Brussels,

For the Council
The President

---

[24] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.