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Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Czechia and delivering a Council opinion on the 2022 Convergence Programme of Czechia

{SWD(2022) 605 final} - {SWD(2022) 640 final}

Recommendation for a

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on the 2022 National Reform Programme of Czechia and delivering a Council opinion on the 2022 Convergence Programme 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 Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) 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 for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual

1 OJ L 209, 2.8.1997, p. 1.

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).

Sustainable Growth Survey on 25 March 2022. On 24 November 2021, the Commission adopted the Alert Mechanism Report, in which it did not identify Czechia as one of the Member States for which an in-depth review[3] would be needed. On the same date, the Commission also adopted the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered[4] for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare. Exceptional support is made available to Czechia under the Cohesion's Action for Refugees in Europe (CARE) initiative and through additional pre-financing under the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) programme to urgently address reception and integration needs for those fleeing Ukraine.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 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, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[5]. In its Communication of 3 March 2021[6], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued

[3] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011, p. 25.

[4] Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1.

[5] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[6] Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Convergence Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth[7]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally-financed[8] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[9]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) 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

[7] The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

[8] Not financed by grants from the Recovery and Resilience Facility and other EU funds.

[9] Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

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[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.

(10) On 28 April 2022, Czechia submitted its 2022 National Reform Programme and, on 11 May 2022, its 2022 Convergence Programme, beyond the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Czechia's bi-annual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2022 country report for Czechia[11] on 23 May 2022. It assessed Czechia's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Czechia's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. 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, including those emerging from Russia's invasion of Ukraine. 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.

(12) On 23 May 2022, the Commission issued a report under Article 126(3) TFEU. This report discussed the budgetary situation of Czechia, as its general government deficit in 2021 exceeded the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 2 March 2022, the Commission did not propose to open new excessive deficit procedures in spring 2022 and it will reassess the relevance of proposing to open excessive deficit procedures in autumn 2022.

(13) On 20 July 2020, the Council recommended Czechia to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Czechia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Czechia's general government deficit increased from 5.8% of GDP in 2020 to 5.9% in 2021. The fiscal policy response by Czechia supported the economic recovery in 2021, while temporary emergency support measures declined from 3.1% of GDP in 2020 to 2.3% in 2021. The measures taken by Czechia in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary

[10] Council Implementing Decision of 8 September 2021 on the approval of the assessment of the recovery and resilience plan for Czechia (ST 11047/21; ST 11047/21 ADD 1; ST 11047/21 COR 1)

[11] SWD(2022)605

measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of reductions of the Personal Income Tax with an impact of about 1.9% of GDP. Based on data validated by Eurostat, general government debt stood at 41.9% of GDP in 2021.

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Convergence Programme is cautious in 2022 and favourable in 2023. The government projects real GDP to grow by 1.2% in 2022 and 3.6% in 2023. By comparison, the Commission's 2022 spring forecast projects a higher real GDP growth of 1.9% in 2022 and lower GDP growth of 2.7% in 2023, mainly due to a different outlook for private consumption resulting from different assumptions regarding the use of savings and indexation of salaries. In its 2022 Convergence Programme, the government expects that the headline deficit will decrease to 4.5% of GDP in 2022 and to 3.2% in 2023. The decrease mainly reflects the unwinding of most emergency measures and a high nominal GDP growth. According to the Programme, the general government debt-to-GDP ratio is expected to increase to 42.7% in 2022, and to rise to 43.4% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 4.3% of GDP and 3.9% respectively. This is in line for 2022 and higher than the 2023 deficit projected in the 2022 Convergence Programme, mainly due to a slightly less optimistic macroeconomic scenario of the Commission 2022 spring forecast and due to different assumptions regarding the rate of inflation and its pass-through onto government expenses. The Commission 2022 spring forecast projects a similar general government debt-to-GDP ratio, of 42.8% in 2022 and 44.0% in 2023.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 2.0 %. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Czechia's potential growth.

(15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 2.3% of GDP in 2021 to 0.1% in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 0.1% of GDP in 2022 and are expected to be phased out in 2023.[12] These measures mainly consist of cuts to indirect taxes on energy consumption. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures could be continued. Some of these measures are not targeted, notably the across the board cuts in excise duties. The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.4% of GDP in 2022 and 0.6 in 2023.[13]

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12 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

13 The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are

(16) On 18 June 2021, the Council recommended that in 2022 Czechia[14] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally-financed investment. It also recommended Czechia to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

(17) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Czechia's 2022 Convergence Programme, the fiscal stance is projected to be broadly neutral at +0.1% of GDP, while Council recommended a supportive stance.[15] Czechia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 1.0 percentage point of GDP compared to 2021. Nationally-financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.6 percentage points in 2022.[16] Therefore, Czechia does not plan to preserve nationally financed investment. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a contractionary contribution of 0.7 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.03% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.4 % of GDP).

(18) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at 0.1% of GDP on a no-policy change assumption.[17] Czechia is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.1 percentage point of GDP compared to 2022. Nationally-financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.2 percentage points in 2023.[18] At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 0.4 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.1% of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0.2% of GDP).

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based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

[14] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Czechia, OJ C 304, 29.7.2021, p. 10.

[15] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

[16] Other nationally-financed capital expenditure is projected to provide an expansionary contribution of 0.3 percentage points of GDP.

[17] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

[18] Other nationally-financed capital expenditure is projected to provide a neutral contribution.

(19) In the 2022 Convergence Programme, the government deficit is expected to gradually decline to 3.2% of GDP in 2023, 2.9% in 2024 and to 2.7% by 2025. Therefore, the general government deficit is planned to go below 3% of GDP by 2024. These projections assume limiting the growth of public expenditure – including compensation of employees, intermediate consumption and social transfers in kind – at a pace lower than that of revenue growth and lower than the nominal GDP growth. A decline in public investments as percentage of GDP is also envisaged after the peak in 2023. According to the Programme, the general government debt-to-GDP ratio is expected to increase by 2025, specifically with an increase to 44.4% in 2024, and a rise to 45.4% in 2025. Based on the Commission's analysis, debt sustainability risks appear medium over the medium term.

(20) Czechia faces fiscal sustainability risks in the medium and long term. This is the result of an unfavourable starting balance and the costs of ageing. The starting balance is negatively affected by the permanent tax reductions implemented in the past 2 years (the largest resulting from the reduction in the personal income tax base). These have not been offset by corresponding spending cuts and have led to an increase in the structural deficit. Over the medium to long term, additional pressures stem from ageing costs. A projected doubling of the old-age dependency ratio (according to the 2021 Ageing Report issued by the Commission) and the capping of the retirement age, underpin the expected increase in pension expenditure from 8.8% of GDP in 2030 to 11.4% by 2050. In addition, public spending on healthcare and long-term care is projected to increase by 0.9 percentage points and 1.7 percentage points of GDP respectively by 2070 due to the ageing population. While the fragmentation of long-term care governance and financing is already covered in the recovery resilience plan, further addressing ageing-related challenges will be essential to restore the long term sustainability of public finances. Policy options include raising the retirement age in line with the increase in life expectancy, adjusting the pension indexing rates to reflect the fiscal sustainability of the pension system, incentivising the increase in participation rates of people over 60, or taking other measures to strengthen the labour supply.

(21) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2, to 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 help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Czechia by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a plan. In particular, on energy, Czechia plans to use the Recovery and Resilience Facility to expand the use of renewable energy sources, in particular photovoltaics, improve energy efficiency in residential and public buildings and support the replacement of coal-fired boilers in households. Sustainable transport is promoted by investing in railway infrastructure, clean urban transport and by encouraging the use of low-emission vehicles. Recommendations in the area of R&D are addressed by investment geared at strengthening public-private cooperation as well as innovation framework support and financial/non-financial support to innovative firms. The business environment is being improved by several e-government measures, anti-corruption reforms and a comprehensive reform of the procedure for granting building permits, which currently represent major obstacles to investment in Czechia. Key measures to address the labour market recommendations include upskilling and reskilling programmes to prepare the labour force for the green and digital transition, and new childcare

facilities for children under 3 years to boost the number of women working or looking for a job. On education, the plan aims to boost the digital literacy of pupils and teachers, to provide schools with digital equipment, while ensuring inclusive education through support to disadvantaged schools and tutoring. Healthcare recommendations are addressed through increased cancer prevention and rehabilitation care, the development of an e-health portal to promote integrated care practices, and support to education in healthcare. Further complementary actions include measures to improve long-term care.

(22) The implementation of the recovery and resilience plan of Czechia is expected to contribute to making further progress on the green and digital transition. Measures supporting the climate objectives in Czechia account for 42% of the plan's total allocation, while measures supporting digital objectives account for 22% of the plan's total allocation. The fully-fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Czechia swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(23) Czechia submitted the Partnership Agreement on 16 December 2021, followed by seven programmes submitted in December 2021 and January 2022[19]. The Just Transition Programme was submitted on 16 March 2022. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Czechia shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investments to support the green and digital transition and balanced territorial development.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan, Czechia faces a number of additional challenges related to housing. Housing affordability in Czechia has been among the lowest in the EU in the past 5 years. Moreover, the low social housing stock cannot meet the demand of all low-income and vulnerable households (it accounted for 0.4% of total housing stock in 2019 versus 7-8% on average in the EU), and existing housing allowances are underutilised. In recent years, cohesion policy funding has supported investments in new social housing units, and the new programming period will continue to promote social inclusion, including via social housing. Czechia lacks legislation on social housing as well as a comprehensive framework. This hampers coordination of the fragmented housing

[19] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

policies, and a definition of responsibilities among national and regional bodies. The pandemic and influx of people fleeing Ukraine have further exacerbated these pre-existing challenges.

(25) In response to the mandate by the EU Heads of State or Government, set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union´s dependence on fossil fuel imports from Russia as soon as possible. For this purpose the most suitable projects, investments and reforms, at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.

(26) The scale and pace of Czechia's green energy transition is insufficient. To reduce dependence on fossil fuels, including natural gas, the acceleration of the roll-out of of renewables with a particular focus on solar, wind and heat pumps is crucial. Granting permits for new installations can be simpler and faster, and the accompanying regulatory framework can be improved. Czechia's energy intensity is double the EU average, which means it would also benefit from front-loading energy savings by targeting deep renovations. Accelerating investments in the decabornisation of the heating and industrial sectors is another key element. Further increase in ambition for reducing greenhouse gas emissions, and increasing renewables and energy efficiency targets will be needed for Czechia to be in line with the 'Fit for 55' objectives.

(27) According to 2020 data, all imported natural gas comes from Russia (100% compared to 44% for the EU average), and the dependency on Russia for crude oil (49% compared to 26%) and coal (70% compared to 54%) is also significantly above the EU average[20]. The shares of natural gas (17.7% compared to 24.4%) and oil (20.9% compared to 32.7%) in the energy mix are lower than the EU average, while the share of coal is higher (29.6% compared to 10.8%). Nuclear makes up 18.2% of the energy mix compared to 13.1% for the EU, and renewables and biofuels 13.4%. Czechia´s current 2030 goal for renewables is 22%, and while the recovery and resilience plan includes investments for the construction of at least 270 MW of photovoltaic power, this represents only a small fraction of the total installed renewables power capacity. Czechia will need to accelerate the rollout of renewables in particular by improving the regulatory and permit frameworks. Simplified authorisation procedures for renewables in a one-stop-shop, increased thresholds for exemptions to building permits and compulsory registration of renewable installation owners as entrepreneurs, and easier access to available grid capacity are examples of measures that would serve this objective. Further supporting measures could include a review of the energy and renewables laws, as well as of the corresponding support schemes (e.g. incentivising energy communities, tariff support for small-scale renewables; auctions for new installations; new support schemes for sectoral targets; renewables in heating and cooling; targeted support for heat-pumps, geothermal, renewable hydrogen and sustainable bio-methane). Czechia would also benefit from digitalising and modernising the electricity network in order to accommodate for an increased level of intermittent renewables in the grid, coupled with investments in energy storage

[20] Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Czechia, total imports include intra-EU trade. Crude oil does not include refined oil products. Czechia has an indirect dependency on Russian imports through intra-EU trade. Accounting for the secondary dependence on Russian coal through intra-EU imports would lead to the estimation that Czechia has a 70% Russian import dependency on hard coal.

facilities. Leveraging the existing interconnected gas network and available storage capacity is instrumental to shifting natural gas imports away from Russia. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability, through future repurposing for sustainable fuels.

(28) While the recovery and resilience plan and the 2021-2027 cohesion fund programmes contain significant building renovation investments, further efforts will be needed to address Czechia's above-average unitary heat consumption in the building sector. There is scope to accelerate and deepen the energy renovation of buildings, consistently apply the 'energy efficiency first principle', invest in renewable heat sources, prepare a national strategy for the decarbonisation of building stock heating, establish a sustainable energy agency at national level, and adopt an auction support scheme for energy efficiency measures in industry and small businesses. Buildings and heating networks connected to coal-based district heating need to be renovated to the highest energy efficiency standards as soon as possible to ensure a cost-effective coal phase-out.

(29) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Czechia can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition in the most affected regions. In addition, Czechia can make use of the European Social Fund Plus to improve employment opportunities and strenghten social cohesion.

(30) In the light of the Commission's assessment, the Council has examined the 2022 Convergence Programme and its opinion[21] is reflected in recommendation (1) below.

HEREBY RECOMMENDS that Czechia take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Take measures to ensure the long-term fiscal sustainability of public finances, including the sustainability of the pension system.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 8 September 2021. Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.

3. Strengthen the provision of social and affordable housing, including by adopting a specific legislative framework for social housing and improved coordination between different public bodies.

4. Reduce overall reliance on fossil fuels and diversify of fossil fuel imports. Accelerate the deployment of renewables, streamline permit procedures and make grid access

[21] Under Article 9(2) of Council Regulation (EC) No 1466/97.

easier. Increase the energy efficiency of district heating systems and of the building stock by incentivising deep renovations and renewable heat sources.

Done at Brussels,

For the Council
The President