8. State Budget

The deficit of the SB slightly deepened last year and exceeded the amount of the approved budget after a long time. However, the deficit continued to decline after adjusting for revenues and expenditure on EU projects.

The state budget (SB)[1] ended in 2025 with a deficit of 290.7 bn CZK, deeper by almost 20 bn CZK, year-on-year, and simultaneously the most significant in the last three years. For the first time since 2011, the currently attained deficit was worse than budget expectations[2]. The balance of the SB adjusted for funds from the EU budget[3] reached 249.9 bn CZK last year, and although it did not meet the above expectations either, it indicated a trend of a slight decrease of the budget deficit expressed in this way. This is connected to a slight strengthening of the growth of the Czech economy and the economies of some important trading partners as well. In addition, both the revenue and expenditure sides of the budget were gradually increasingly affected by the effects of "the consolidation recovery package" (approved in 2023). The change of the budgetary allocation of taxes (BAT), which has again increased the share of the revenue of some weight-important taxes in favour of the SB (at the expense of local and regional budgets) since January 2025, also has a clear impact here[4].

The growth of total revenues was driven mainly by rapidly strengthening tax collections and the collection of social security contributions. Mainly the lower revenues from the EU budget had the opposite effect.

Total revenues of the SB increased by 5.9%, year-on-year (+116 bn CZK) last year. Almost all key revenue items (except revenue from the EU budget) expanded. Last year's growth was still driven by rapidly growing tax revenues (+9.5%, +92 bn CZK), mainly affected by higher VAT collection and corporate taxes. The steadily increasing collection of social security contributions (+7.1%, +54 bn CZK), including active employment policy, stemming from favourable conditions of the labour market (e.g. higher employment accompanied by strengthening average earnings in the corporate sector), also had a significant impact. Legislative adjustments in connection with the SB consolidation[5] also contributed to a lesser extent to the growth of this collection, which was, however, slightly below budget expectations. On the contrary, the growth of the SB total revenues was dampened mainly by lower revenues from the EU budget and financial mechanisms (−29.5 bn CZK) and also by a weaker transfer of revenues from companies under the state ownership (−12.5 bn).

The growth of nationwide tax collection was supported mainly by higher VAT and corporate tax collection.

Nationwide tax collection excluding insurance premiums (taking into account revenues at the level of all public budgets) increased by 8.1% last year (its growth accelerated significantly compared to 2024). VAT as well as the regular corporate tax, whose role has strengthened compared to the previous year, contributed (each of them) to the growth of collections by a full third. On the contrary, the impact of excise duty, income tax of natural persons and real estate tax was weakening (its collection increased sharply the year before last due to the legal regulation).

The growth of VAT collections accelerated thanks to strengthening consumption by households and general government.

Last year, 8.4% more (+32.1 bn CZK) flowed to SB from the weight-dominant tax – VAT. Although its growth strengthened slightly during the year, full-year collection remained slightly below budget expectations (a similar phenomenon occurred to a more significant extent also in the previous two years). Its collection continued to be favourably influenced by rising household incomes (mainly due to brisk wage dynamics), which

[1] Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance (MF) of the CR regarding the treasury fulfilment.
[2] Act On the state budget for year 2025 (based on the MF macroeconomic prediction from August 2024 and approved at the end of December 2024) anticipates annual deficit of 241 bn CZK this year, which is by 30 bn lower than the deficit achieved in year 2024.
[3] These are funds for programmes from the EU and Financial Mechanisms (FM) budgets pre-financed by the SB and subsequently reimbursed from the EU and the FM budgets. Without these funds (included in the approved SB with a neutral impact), last year's deficit was the lowest after 2019 and at the same time it decreased, year-on-year, for the fourth time in a row (in that 38.9 bn CZK last year).
[4] As of January 2025, the BAT has been changed as part of the consolidation package so that the collection from the increased shared tax rates is the income of the state budget only (reduction of the share of municipalities to 24.16% and regions to 9.45%). According to the Ministry of Finance's estimates, the positive impact (on SB) of this legislative change amounted to 13.3 bn CZK for the whole last year.
[5] The gradual raising of the minimum assessment base for the self-employed (from 30% to 35% of the average wage from January 2025) as well as the increase of the premium rate for selected groups (e.g. employers of firefighters or paramedics and workers in high-risk employment) had a positive effect. On the contrary, the application of discounts on insurance premiums had a negative effect (from January 2025, a discount of 6.5% of the assessment base for working pensioners was introduced).

Nevertheless, last year it fell slightly short of budget expectations.

gradually led to a better consumer confidence in economy. Higher consumption of the general government sector also had a positive effect. The SB also benefited from the change of the BAT, which, according to the estimates of the Ministry of Finance, brought the SB an additional amount of about 6 bn CZK from this tax. Current legislative changes (mainly the abolition of the exemption in the area of financial services) also had a partial impact, and the year-on-year comparison was still marginally affected by the impact of tax rate adjustments[6] introduced as part of the so-called consolidation package[7].

Excise duty collection increased for all key items and at the same time exceeded budget expectations. The effects of tax rate hikes and the acceleration of economic growth were felt.

From excise taxes (including energy taxes), SB gained 2.4% more, year-on-year (+ 3.9 bn CZK) in 2025. The growth occurred in all key tax items and at the same time exceeded budget expectations (it has been rather the opposite in recent years). More than half of the higher collection was due to taxes on tobacco and related products, whose collection increased by 4%. The impact of the increase in the tax rate[8] was clearly evident here, while the growth of collections slowed down during last year (as the effect of frontloading products with a lower tax rate fades). The collection of the traditionally most important excise duty in terms of weight – on mineral oils – grew moderately last year (+1.5%). The improved performance of the economy stimulated demand for road freight transport, and the very favourable development of retail fuel prices[9] also played a role. Of the other excise taxes that are significantly lower in weight, only levies on the performance of solar power plants (+0.4 bn CZK) had a more significant impact on the development of total collections, mainly due to the expansion of their network[10].

The collection of corporate tax was influenced by the increase of its rate and the improved performance of the economy. Like the collection of extraordinary corporate taxes, it exceeded budget expectations.

Last year, SB collected 15.7% more on corporate tax (excluding extraordinary taxes), year-on-year (+30.1 bn CZK) and the growth rate of collection exceeded budget expectations by half. The growth of collections accelerated in H2 2025, as the impact of the across-the-board increase of the tax rate from 19% to 21% (especially through the annual tax settlement) was fully felt. At the same time, quarterly tax advances gradually reflected the impact of the recovery of the Czech economy. On the contrary, as in 2024, the exemption of yields on government bonds or the extension of the effectiveness of extraordinary depreciation had a negative (but only partial) effect on tax collection. In addition to the regular corporate tax, 38.4 bn CZK in windfall tax[11] has flowed into SB so far last year, up 4.6%, year-on-year.

Employees in particular continued to contribute to the ongoing rapid growth of ITNP

Income tax of natural persons (ITNP) grew at a double-digit rate last year for the fourth year in a row (+12.1%, +20.4 bn CZK). As with corporate tax, its revenue to the SB is increased by the BAT change[12]. The higher ITNP collection was mainly due to the tax

[6] This concerns the unification of two reduced rates (10% and 15%) into one of 12% (apart from books, which are now completely exempt from VAT). Several goods and services are now subject to lower taxation (e.g. basic foodstuffs, medicines, medical products, construction work). The negative budgetary impact is mainly mitigated by the transfer of some items without demonstrable social or health significance to the basic 21% tax rate (beer, non-alcoholic beverages, services of authors and artists, hairdressing services, firewood, municipal waste, cleaning work).

[7] This was first reflected in the cash fulfilment of the SB in February 2024 and thus still had partial impact on the year-on-year pace of the VAT collection amount.

[8] Last year, there was a further increase of the tax rate on classic tobacco products (by 5%, as part of the gradual raise during the 2024 – 2027 period) as well as an expansion of the range of taxed products: e-cigarette refills from 2024 (growth of rate by 15%) and nicotine pouches and other alternatives from 2025. At the same time, the consumption of alternative tobacco products is also growing thanks to higher social tolerance and still relatively lower level of taxation as well.

[9] According to CZSO data, from January to October 2025, the consumption of diesel increased by 1.9%, motor gasoline by 1.5% and aviation kerosene by 1.0%, year-on-year. The average consumer price of Natural 95 petrol in the Czech Republic was 33.9 CZK/l in May 2025 (the least since September 2021) and diesel 32.7 CZK/l (the least since June 2023). Cross-border purchases (or stronger transit traffic) also probably contributed to higher domestic consumption, as the price of these commodities was among the lowest in Central Europe.

[10] In addition, the collection of most energy taxes – mainly from natural gas and electricity – grew. In contrast, the collection of tax on alcohol decreased slightly last year after stagnating in 2024, as the effect of the continued increase of the tax rate was not enough to offset the falling consumption (or the shift of residents' preferences to spirits with a lower alcohol content). Changes in the lifestyle of the population were probably also reflected in the continuing slight reduction of tax collection on beer and sparkling wine.

[11] This applies to energy, petrochemical and mining companies (in the field of fossil fuels) and also includes large banks. This is a 60% tax surcharge applied to the excess profit of these companies, determined as the difference between the tax base in 2023 to 2025 and the average of the tax bases for 2018 to 2021 increased by 20%. The vast majority of the collection of this tax flowed to the SB from the energy sector.

[12] The collection of this tax at the level of all public budgets was 10.3% higher, year-on-year (+27 bn CZK) last year. Of these, the collection of the most important tax in terms of weight – ITNP from dependent activity – reached 223 bn CZK and exceeded the record level from 2019 for the first time (by 3.3%), when the super-gross wage regime (with higher total taxation) was still in force.

collections. The collection of tax from dependent activity fell slightly short of budget expectations.

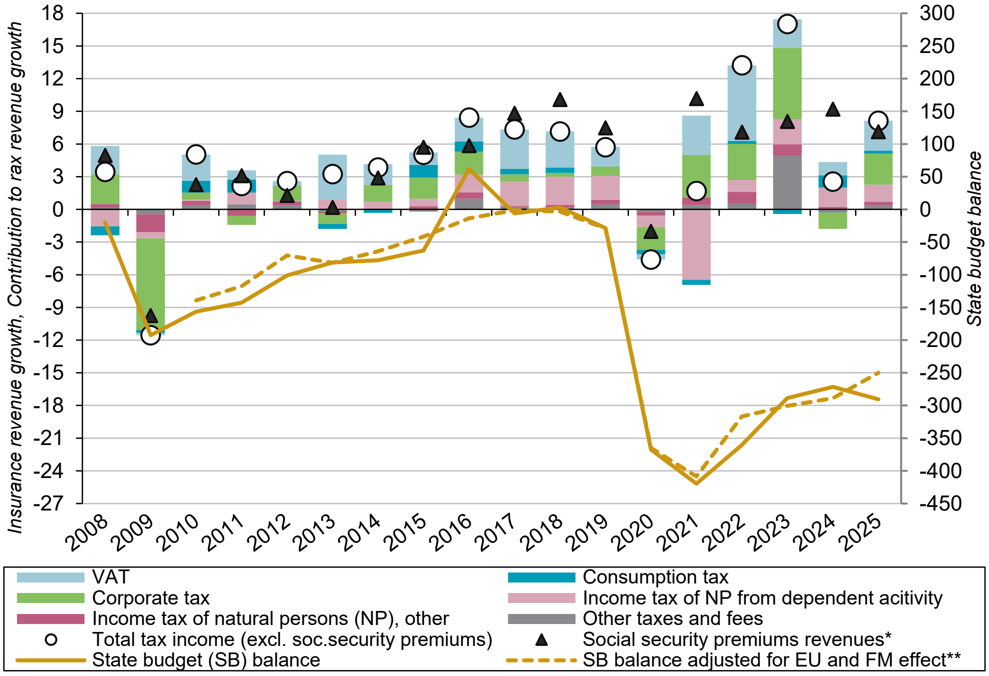
paid by taxpayers (i.e. from dependent activities), which increased by 12.8% (to 145.3 bn CZK). The continuing good condition of the labour market (higher employment and rapid nominal growth of the average wage in the business sphere) and partly the legislative changes from 2024 (mainly the reduction of the band for the second increased rate of this tax, the abolition or reduction of selected tax credits and, to a lesser extent, the adjustment of taxation of selected non-monetary benefits[13]) had a positive effect here. Despite the dynamic growth of the above-mentioned tax, its last year's collection did not exceed budget expectations (unlike all other types of direct taxes).

The growth of ITNP collection from self-employment activities has accelerated significantly, mainly due to legal adjustments.

The decline of interest rates on deposits contributed to lower collection of withholding tax.

Although the collection of ITNP paid from self-employment activities accelerated significantly last year and the amount of collection (14.5 bn CZK) was almost half higher, year-on-year, its contribution to the growth of total revenues of the SB resulting from ITNP continued to be rather marginal. The growth of the collection of this tax from taxpayers stemmed from a higher number of small entrepreneurs and the impacts of the consolidation package (reduction of the income threshold for the second, higher tax rate, cancellation or reduction of some tax reliefs). On the contrary, the collection of ITNP levied by deduction (i.e. withholding tax) decreased, year-on-year, last year (by 2.4%, to 29.7 bn CZK). With the expected reduction of interest rates on deposits, the previous four-year period of dynamic growth of income from this tax ended for SB. The effect of the decline of rates is partly dampened by the persistent, relatively high level of household savings. The current decrease of direct debits may also reflect a lower number of people working on agreements (outside the main employment contract).

Chart 18 Contributions of sub-incomes to year-on-year growth of total nationwide tax income collection (in p. p.), **year-on-year growth of social security revenues** (%) **and state budget balance** (in bn CZK)



* Also includes contributions to state employment policy.
**Balance adjusted for funds on programmes/projects from the EU and FM budgets, which were pre-financed from the SB and are subsequently paid for by the EU and FM budget. Annual figures are available from the year of 2010.
Other income taxes of NP (natural persons) consist of taxes paid mainly by self-employed workers and withholding tax (which applies, for example to bank deposits, work agreements).
Other taxes and fees include especially real estate tax, gambling tax, motorway toll, tolls and, from 2023, also a levy on excess income and windfall profits.
Source: MF CR

[13] Most of these changes began to affect the amount of tax collection for the first time in February 2024. The impact of the abolition or reduction of some tax discounts was first felt only during the annual tax settlement (in April 2025).

Non-tax and capital revenues and received transfers of the SB decreased, year-on-year, for the second year in a row last year. In 2025, lower revenues from the EU budget and FM contributed the most.

Non-tax and capital income and transfers received by SB decreased by 11.9% (-29.6 bn CZK), year-on-year, last year, falling at a similar pace for the second year in a row. In addition, their selection fell significantly short of budget expectations[14] in 2025. The low level of non-tax revenues fulfilment was mainly related to the year-on-year decrease of collections for the weight-dominant item – revenues from the EU budget (including financial mechanisms – FM) – by almost a fifth. The complete cessation of revenues to cover pre-financed expenditure from the older EU programming period (2014–2020) was not compensated by a strengthening of revenues from the current period 2021–2027 (+16.5 bn CZK, mainly in the area of transportation and the Integrated Operational Programme) and further funds from the National Recovery Plan. Another important factor of the revenue non-fulfilment was the continuing significant reduction of revenues from the sale of emission allowances (by 16.5%, by 26.3% in two last years, to 13.7 bn CZK last year[15]) and further lower revenues from state ownership participation (e.g. in the energy sector.

The year-on-year growth of total SB expenditure accelerated last year and at the same time exceeded budget expectations.

Total SB expenditure increased by 6.0%, year-on-year, in 2025, which represented a significant acceleration compared to the previous year's pace. This is mainly due to the fact that in 2024 the decline of support for households and companies affected by previously high energy prices was fully felt. Consumer price growth had also stabilised at that time, which was soon reflected in lower pressure on the adjustment of a wide range of social benefits. In contrast to the previous three years, last year's spending slightly exceeded budget expectations. Last year, both current expenditure (+85.1 bn CZK) and investments, the impact of which was unusually high (+49.9 bn CZK), contributed to the year-on-year growth of total SB expenditure. Within current expenditure, higher transfers to territorial budgets, which rose to 281 bn CZK and increased by 8.5%, year-on-year, had the most significant impact. The higher expenditure is mainly related to the strengthening of funds directed to regional education, primarily for salaries[16] (including supplementing the missing resources for the salaries of non-teaching staff), for the co-financing of non-research educational projects supported by the EU, and also for social services. On the contrary, fewer funds were directed to the area of integration of refugees from Ukraine (compensatory allowance for accommodation, Ukrainian teaching assistants).

The growth of current expenditure was mainly driven by current transfers to regional budgets, especially direct expenditure on education.

Pension spending has grown at least in the last 11 years. The impact of the mitigated adjustment and the tightening of the conditions for granting early retirement pensions became apparent.

Despite a more modest growth (+1.2%[17]), expenditure on social benefits (+17.7 bn CZK) also contributed significantly to the strengthening of total SB expenditure last year. Pension insurance benefits form slightly more than three quarters of total social benefits. Last year, SB spent 0.8% more on pensions, year-on-year, which represented the lowest growth in the last eleven years. The moderation of consumer prices was reflected in a relatively insignificant adjustment of pensions[18], and in addition the number of pension recipients decreased slightly (by 0.6%), which was related to the tightened rules for early retirement[19]. Although the year-on-year growth of pension premium collection

[14] Compared to the originally approved SB for 2025, last year's performance lagged behind by 11% and compared to the budget after the changes even by as much as 20%, or 53 bn CZK (the estimate for the category of non-tax and capital income and received transfers was enhanced during last year, which was mainly related to the faster continuous drawdown of investments from the SB, which were directed to the pre-financing of joint projects of the Czech Republic and the EU).

[15] At the same time, the approved SB expected revenues from the sale of allowances in the amount of 30 bn CZK in 2025. The failure to meet the expected return was affected by a more significant than expected effect of the market stability reserve mechanism. The relatively low price of allowances on the European market in both 2024 and 2025 was also related to the persistently high number of allowances in circulation due to the decline of the volume of emissions emitted and the overall cooling of the market.

[16] Expenditure on teachers' salaries increased by 7% from 1 January 2025 and increased by 5% for other teaching staff (tutors, teaching assistants) and non-teaching staff. The increase of salary tariffs by 1,400 CZK affected only non-teaching staff. The year-on-year growth of expenditure also considers the continuing growth of the number of pupils and students in regional education and the greater use of the division of hours to improve the quality of teaching.

[17] This estimate was slightly increased over the course of last year so that the expected expenditure on social benefits in 2025 should have exceeded their actual use in the previous year by 2%.

[18] The basic amount of the pension assessment has been increased to 4,660 CZK (+260 CZK); the percentage assessment increased by 0.6% and pensioners who reached the age of 85 in January 2025 had their percentage assessment increased by another 1,000 CZK. In December 2025, the average monthly old-age pension (excluding concurrence with other pensions) was 2% higher, year-on-year, reaching 22.3 thousand CZK for males and 19.9 thousand CZK for females.

[19] From October 2024, the required insurance period has increased from 35 to 40 years. Further tightening has already taken place: the maximum period of early retirement has been reduced from 5 years to 3 years, the indexation of the percentage assessment of early

slowed slightly for the second year in a row last year (to +6.4%), the deficit of the pension insurance system[20] fell significantly (to 9.2 bn CZK, from 50.7 bn CZK in 2024) and was the lowest in the last four years.

Growth of expenditure on non-pension social benefits accelerated mainly due to rapidly growing care contributions. The drawdown of the vast majority of other types of benefits increased.

Year-on-year growth of expenditure on other (non-pension) social benefits was slightly above 6% for the second year in a row last year (and, unlike in 2024, it was the decisive factor of the growth of total expenditure on social benefits - contribution of +11.8 bn CZK). Year-on-year expenditure growth that exceeded budget expectations was recorded for almost all important types of benefits. An increase of the long-term care allowances significant by volume (+5.2 bn CZK, +12.4%[21]) played a key role here. The drawdown of unemployment benefits increased for the third year in a row (by 2.0 bn CZK last year, +15.8%), both due to a slightly growing number of job applicants entitled to benefits, and mainly due to a higher average level of support (related to wage growth in the economy). At the same time, the growth of material deprivation assistance benefits continued (+0.5 bn CZK, +4.1%), mainly due to higher humanitarian benefits for Ukrainian refugees (+20.4%)[22]. Long-term growing benefits of state social support and foster care increased by 4.0% last year, mainly due to housing benefits (+3.2 bn CZK, +16%)[23]. The opposite effect was due to a decrease of parental and child allowances (by a total 1.7 bn CZK), which, however, present a longer-term phenomenon related to a decreasing birth rate. The use of sickness insurance benefits increased slightly for the second year in a row (by 1.4 bn CZK last year, +2.9%)[24]. The growth was mainly driven by sickness benefits[25], while the volume of maternity benefits fell for the fourth time in a row. Income from insurance premiums paid by employed persons increased by 8.2%, year-on-year, last year, partly still due to the legal regulation in relation to the consolidation package[26]. As a result, the balance of sickness insurance[27] achieved a slight surplus for the first time since 2018 the year before last, which further increased to 13.5 bn CZK in 2025 (the highest surplus since 2008).

In the smaller range of benefits, there was a longer-term decline of drawdown due to falling birth rates.

The health insurance balance ended in surplus for the second year in a row, the highest since 2008.

Non-investment purchases grew rapidly for the second year in a row, mainly due to defence and security spending.

Non-investment purchases and related expenditures (excluding government debt service) increased, year-on-year, last year (+15.9%, +15.0 bn CZK). Last year's rapid growth, which occurred for the second year in a row, was mainly due to higher spending at the end of the year. The impact of savings for expenditure on the purchase of water, fuel, energy and maintenance was dampened by the strengthening of material purchases (especially for defence and security) and the compensation payment in the telecommunications sector. Net expenditure on servicing the state debt[28], which mainly includes interest, increased by 10.7%, year-on-year, last year and rose to a record 98.1 bn CZK and almost

retirement up to the retirement age has been abolished, and the reduction of the amount of pension for early retirement has increased significantly. The total number of persons with permanently reduced old-age pensions (due to prematurity) was only 0.4% higher, year-on-year, at the end of last year (the lowest increase in the current millennium). Even so, these people already accounted for almost one third of the total number of old-age pensioners.

[20] This expresses the difference between income from pension insurance premiums and expenditure on benefits from this insurance (incl. funds for the administration of the benefit system) according to the balance sheet of the Ministry of Finance.

[21] It was closely related to the statutory increase of amounts for people in the 2nd to 4th degree of dependence for both children and adults (from July 2024). Last December, 381 thousand people received these benefits, up 1.5%, year-on-year (however, 11.6% more than in 2015).

[22] The year-on-year development is influenced by an increase of the eligible costs of housing and accommodation for the purposes of determining entitlement to humanitarian benefits. In December 2025, 45 thousand benefits were paid out. A seventh less, year-on-year (and even half as much compared to December 2022).

[23] Due to the increase of the amounts of normative housing costs, the number of beneficiaries of this benefit continued to grow slightly (it amounted to 307 thousand in December last year, which was 7% higher, year-on-year, and the number of beneficiaries has doubled in the last four years).

[24] However, compared to the record drawdown in the “pandemic year” of 2020, the state spent 11% less on these benefits last year.

[25] The influence of higher illness was also evident here. According to data from the CSSA, the number of days off (associated with temporary incapacity for work) reached 76.3 million in 2025. Although it increased slightly, year-on-year (+0.4%), but it was the second lowest absolute number in the last six years.

[26] As of January 2024, health insurance paid directly by the employee was reintroduced, amounting to 0.6% of the assessment base (gross wage). At the same time the assessment base for the self-employed has been also increased. Later, the limits for participation in the insurance of an employee working on the basis of an agreement to perform work were set (from January 2025, this limit is CZK 11,500).

[27] This expresses the difference between revenues of sickness insurance premiums and expenditure on benefits from this insurance (according to the CSSA balance sheet).

[28] Net expenditures correspond to the balance of the budget chapter State debt (No. 396).

The amount of the state debt and interest expenditure on its servicing increased by a tenth.

twice the level of 2022. In addition to the growing volume of planned repayments, they were also influenced by the level of interest rates on domestic government bonds, which have risen in recent years and were above average in the EU last year. The amount of the Czech government's (state) debt reached 3,678 bn CZK at the end of December last year and increased by 9.3%, year-on-year (growth accelerated slightly for the second year). Last year's debt development is primarily related to an increase in the need for financing due to a higher volume of planned repayments of earlier bonds, borrowings and loans. The impact of the growing deficit of the SB in 2025 was also partly apparent. Traditionally, the issuance of *koruna* medium-term and long-term government bonds[29] was used to cover the financing needs, and short-term debt instruments were also used more than in 2023 and 2024. Last year's increase of total debt was driven mainly by internal debt (+297 bn CZK), but external debt (+16 bn), which grew for the second year in a row also had an impact. However, external debt accounted for only 5.4% of the current total debt.

The growth of expenditure on salaries in organizational units of the state as well as subsidies to semi-budgetary organizations accelerated.

After the stagnation in 2024, expenditure on salaries in organizational units of the state increased by 7.1% (+12.2 bn CZK) last year[30]. Last year, the growth of current subsidies to semi-budgetary organizations also accelerated significantly, with expenditure increasing by 10.2% (+9.2 bn CZK), both due to higher contributions to the day-to-day operation of universities and support for research, development and innovation in the higher education and government sectors. Spending on defence organisations also strengthened. Current transfers to non-profit organisations also increased rapidly, nevertheless in contrast to semi-budgetary organisations, in line with budget expectations (+12.4%, +3.0 bn CZK), mainly due to higher support for European projects in the field of employment, growing subsidies in the areas of sports, religious schools, foster care and social services.

The decline of subsidy support for entrepreneurs linked to high energy prices was offset by an increase of subsidies for RES. Total subsidies significantly exceeded budget expectations last year.

Current transfers to entrepreneurs (businesses) increased by 4.1%, year-on-year, last year, but their amount (69.3 bn CZK) was the second lowest in the last six years. The effect of the expected reduction of most subsidies in the energy sector was still visible[31]. However, this effect was offset by increasing subsidies for renewable energy sources (RES), which increased significantly, year-on-year (+44%, to 25.9 bn CZK). In addition, subsidies to companies for European projects (especially under the National Recovery Plan) and expenditure on active employment policy also increased, as well as a contribution to support the employment of people with disabilities. Total non-investment subsidies to entrepreneurs significantly exceeded budget expectations last year – by 22.1 bn CZK compared to the original plan (of which 17.4 bn CZK in the area of RES).

The growth of expenditure on public health insurance payments, which hold a significant weight, moderated notably.

Due to the moderation of growth of the price level in the economy, SB's expenditure on public health insurance payments (for the so-called state insured persons) increased only slightly last year (+1.5%, +2.3 bn CZK)[32]. Of the other major current expenditures, only contributions to the EU budget increased significantly (+14.9%, +7.7 bn CZK). Among the more important items, the growth of total SB expenditure was dampened only by current transfers to state funds, which decreased by 6.3 bn CZK last year (−8.4%, the original budget plan had planned a twofold decrease). This was mainly the result of lower financing of the State Fund (SF) for Transport Infrastructure (to cover its deficit) and, to a lesser

Last year, lower subsidies to state funds

[29] Their total sales on the primary and secondary markets reached 486 bn CZK last year (376 bn CZK a year earlier). The average maturity of newly sold koruna bonds was 8.9 years and the average annual yield of newly sold fixed-interest bonds was 4.21%. While the maturity period decreased slightly, year-on-year (by 1.5 years), the average yield increased (by 0.26 p. p.), but its last year's level was still slightly lower than for newly issued government bonds in 2022 and 2023.

[30] This increase is reflected in an across-the-board increase of salary tariffs for members of the security forces and soldiers (by 1500 CZK) and most other civil servants (by 1400 CZK) from January 2025. From July 2025, expenditure on soldiers' salaries, (service tariffs and housing allowances) of police, firefighters and other members of the security forces (higher stabilisation allowances) has been further strengthened.

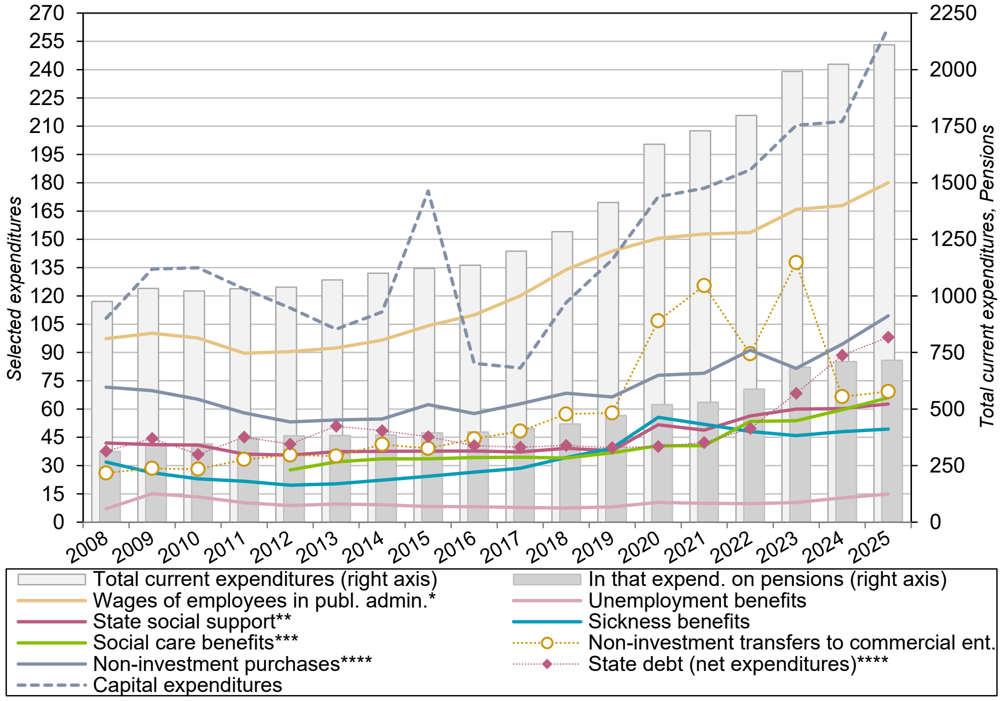
[31] These are compensations for the supply of electricity and gas to customers and for losses due to the capping of their prices (with a year-on-year decrease of 7.4 bn CZK) and subsidies to the transmission system operator (−1.3 bn CZK), which were still paid at the beginning of 2024.

[32] The impact of the newly introduced automatic indexation, which adjusts the assessment base of the payment by the sum of 100% of consumer price growth and 50% of real wage growth from January 2024, has become apparent. As a result, the monthly payment per person has increased from 2085 CZK to 2127 CZK since January 2025.

contributed to the decrease of total SB expenditure.

extent, a decrease of SF transfers to agriculture (for direct payments to farmers). On the contrary, expenditure on the environment (on European projects) has strengthened.

Chart 19 Selected expenditures of the state budget (in bn CZK)



*Expenditures on salaries in central government institutions. Do not include e.g. wage costs of regional education.
**Also includes the foster care benefits.
***Include Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits based on Act on State Social Support. Humanitarian aid provided for citizens of Ukraine is also included here.
****Contains mainly expenditures on purchase of services, materials, energies or other services (e.g. expenditures on repairs and maintenance).
*****Net expenditures correspond to the balance of the budget chapter State debt (no. 396).
Source: MF CR

Growth of capital expenditure accelerated significantly last year. The share of investments on total SB expenditure was the highest in the last decade.

Year-on-year growth of capital expenditure accelerated significantly last year, reaching 23.5% (a five-year high). Mainly due to more intensive absorption in H2 of the year, last year's amount of investments amounted to 262.4 bn CZK[33], which represented 11.1% of all SB expenditure (the highest in the last ten years and the second highest share after 2011). Last year's growth was mainly supported by investments made exclusively from national sources (+CZK 29.2 billion). Unlike in 2024, expenditure on projects of joint EU-Czech programmes has already increased (+20.7 bn CZK) [34], mainly due to the higher use of funds from the National Recovery Plan. Pre-financing of expenditure on these joint projects accounted for almost 40% of all last year's investments from SB. Investments covered exclusively by national sources increased, year-on-year, last year, mainly due to a higher allocation to state funds – especially to transport infrastructure (+35.2 bn CZK, +60%), including repairs of state-owned roads after the floods (in autumn 2024). Expenditure on funds in the area of the environment and agriculture also strengthened more slightly. More investments were also directed to semi-budgetary and similar organizations (+9.5 bn CZK, +50%), equally to health care and education. On the contrary, investment subsidies to entrepreneurs fell for the second year in a row (by 4.1 bn CZK or 21.6% last year) due to a slower launch of drawdowns on European projects in the current EU programming period. After strong growth in both 2023 and 2024, capital purchases and related expenditures also decreased last year (-3.9 bn and -5.3%, respectively), mainly due to irregular financing of equipment for the Czech Army. Still, the amount of

Mainly investments covered by purely national resources increased – especially in the area of transport infrastructure.

Investment subsidies to entrepreneurs have fallen, as well as investment purchases, especially in defence.

[33] At the same time, last year's drawdown exceeded the original budget expectation (according to the approved SB), which amounted to 250 bn CZK. At the same time, this expectation was continuously adjusted during the year by budgetary measures (up to just under 270 bn CZK in Q3).
[34] This is related to the gradual launch of the use of these expenditures in the new (current) EU programming period.

these purchases accounted for more than a quarter of all capital expenditures of the SB and its drawdown exceeded budget expectations last year. From the perspective of budget expenditure by kind, most of total SB investments last year went to transportation (86 bn CZK), defence (60.6 bn CZK), housing, municipal services and territorial development (21.1 bn CZK), education and school services (15 bn CZK) and also to health care (10.9 bn CZK), where expenditure more than doubled, year-on-year (it also increased by half in the area of transportation and environmental protection).

The general government deficit did not change significantly, year-on-year, in the three quarters last year.

The growth of a number of weight-important revenues of GG sector moderated.

The growth of total expenditure in GG sector accelerated mainly due to subsidies and also investments, the year-on-year strengthening of which was mainly driven by expenditure of local GG sector.

The general government (GG) sector in the Czech Republic ran a deficit of 87.5 bn CZK[35] in Q1 to Q3 2025[36], slightly higher, year-on-year (+0.8%)[37]. Growth of SB *total revenues* slowed to 5.7% (the slowest pace in the same period of the last five years). This slowdown was due to weaker growth of revenues from current taxes (from incomes and wealth). The received social payments (from both employers and households) represented the largest contributor to the growth of total, despite the fact that their pace also weakened, year-on-year (to +6.3%, which represented the lowest growth after 2020). Revenues from the volume-significant item of taxes on production and imports, including primarily indirect taxes, increased by 4.2%, year-on-year (a slight slowdown was also evident here). This year, as in the previous year, revenue growth was dampened mainly by lower funds arising from ownership income (−4.6%), namely interest income[38]. *Total expenditure* was 5.5% higher, year-on-year, in the first three quarters last year (3.6% a year earlier). This acceleration was due to higher subsidies paid out, which increased by 14.2%. Even so, their previous level last year (136.7 bn CZK) clearly lagged behind for years 2021 and 2023, influenced by extraordinary events. Higher expenditure on fixed capital formation (+13.1%) also contributed to fiscal expansion last year, the growth of which was among the highest in the last seven years (and unlike in 2023 and 2024, regional and municipal investments contributed the most). Compensation to employees also grew relatively rapidly (+6.1%), both due to slightly growing employment in public services and adjustment of wage tariffs. The pace of intermediate consumption expenditure slowed to a four-year low (+4.8%), partly due to price developments of some energies. Price effects were also reflected in a sharp slowdown of interest payments growth (to 3.2%), mainly owing to lower payments to holders of government anti-inflation bonds (i.e. to households). Growth of expenditure on the most important expenditure item in terms of weight – social benefits – slowed down sharply for the second year in a row (to +2.4%). The moderation of consumer price dynamics and indexation adjustments for old-age pensions was apparent here, and a moderation of the pace of expenditure on social transfers in kind also played a partial role.

The deficit of general government sector in the EU fluctuated around 3% last year, and no significant easing of fiscal imbalances has been achieved at the level of the Member States over the past year. This resulted in an increase of the number of states facing pressure

The situation in the area of the GG sector in the EU Member States[39] has partially stabilised after the start of mild economic growth and the moderation of price developments the year before last. The deficit of general government sector in the EU fell below 3% of GDP in Q1 2025 for the first time in two and a half years. Subsequently, however, this favourable development stopped and in Q3, the deficit stood at 3.2% of GDP and was slightly higher in year-on-year terms (by 0.2 p. p.). In total, eleven EU Member States reported the deficit of more than 3% of GDP in Q1 to Q3 2025 (the same as a year earlier). The deepest deficits burdened Romania (8.1% of GDP), Poland (6.5%), France (5.4%) and Belgium (5.2%), as well as Italy among major economies. The Czech deficit

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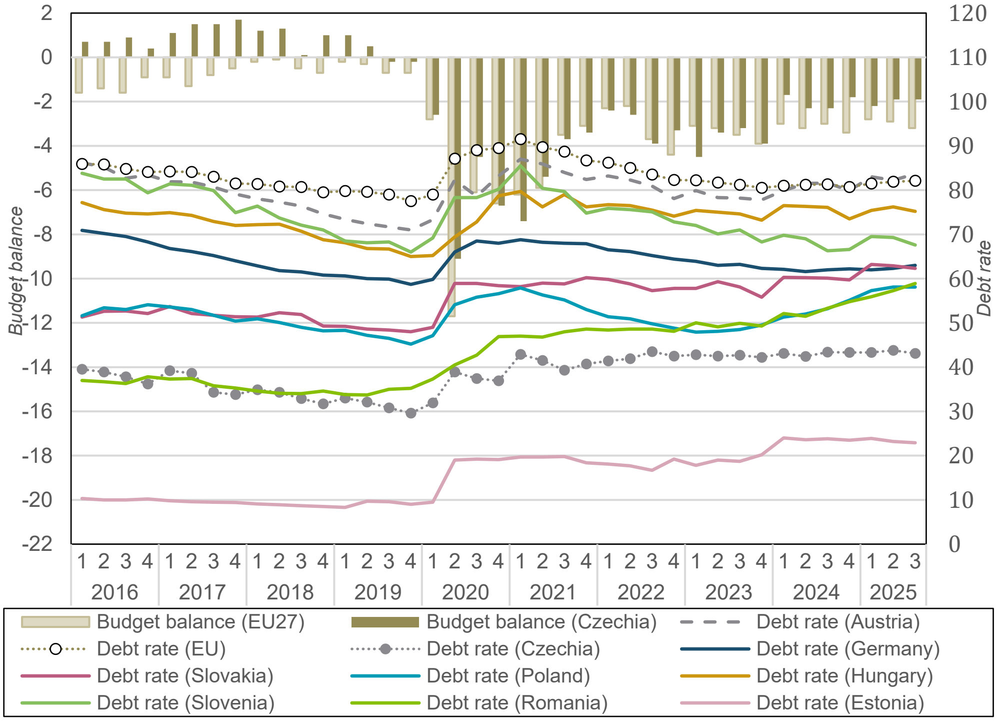
[35] Unless stated otherwise, data regarding the GG sector in Czechia are expressed in nominal terms and without seasonal adjustment.
[36] Data regarding the government sector for Q4 2025 will be published by the CZSO on 1st April, 2026, Eurostat subsequently on behalf of the Union Member States on 22nd April. More detailed assessment of the development in the Czechia for Q3 2025 is offered in the publication Analysis of the sector accounts: *Analýza sektorových účtů*
[37] This deterioration was due to local government institutions, whose surplus fell by 13.8% to 70.0 bn CZK (and was thus the lowest in the last four years in the same period). By contrast, the central government sector deficit, which has traditionally contributed dominantly to the deterioration of the budget balance of the whole GG sector in recent years, narrowed by 3.3%, year-on-year, to 155 bn CZK (the best result in the last six years). The deficit of health insurance companies was then reduced by about 5 bn CZK, year-on-year.
[38] On the contrary, dividend income, which was dominantly behind the decline of general government ownership income in 2024, increased, year-on-year, last year (and effectively returned to the level of Q1 to Q3 2023).
[39] All the data on the budget balance listed below are expressed after adjusting for seasonality and number of working days.

from the Union for consolidation efforts.

(2.0% of GDP) was slightly more favourable last year than in Germany and at the same time the lowest of all Central European countries. Only five countries achieved a surplus – in addition to traditionally fiscally responsible Denmark (+3.6% of GDP), also some currently or previously heavily indebted economies (Greece, Portugal, Cyprus, Ireland). Year-on-year, the balance deteriorated the most mainly in small or smaller countries (Luxembourg, Ireland, Denmark), and of the larger economies only in Poland (from -5.6% of GDP to -6.5% of GDP) and the Netherlands (from -0.5% to -1.5%). Improvements have been made mainly in countries facing pressure from the EU to consolidate public finances[40] – in Hungary (from -5.4% to -3.3% of GDP), and to a lesser extent in Finland, Slovakia and Romania. In Germany, the deficit fell (from 2.8% to 2.3% of GDP). In the Czech Republic, as in the EU and the euro area, the deficit stagnated. The surplus increased (to 2.9% of GDP) in Greece.

Chart 20 Budget balance and debt ratio of the general government institution sector in selected EU states (in % of GDP)



Note: Budget balance is seasonally adjusted. The debt rate expresses the balance at the end of quarter.
Source: Eurostat

The debt ratio decreased, year-on-year, in less than half of the EU countries in Q3. The position of the Czech Republic has not changed according to the level of debt.

The gross consolidated debt of the general government sector in the EU stood at 82.1% at the end of Q3 (88.5% of GDP in the euro area) and has been increasing, quarter-on-quarter, since the beginning of last year. Although the debt ratio was “only” 0.8 p. p. higher, year-on-year, it was the most significant strengthening in the last four years. Debt ratios fell, year-on-year, in 11 Member States – most notably in Greece (from 159% of GDP to 150% of GDP), Ireland (from 40% to 33%) and Cyprus (from 67% to 61%), and among major economies in Spain (from 104% to 103%). In the Czech Republic, debt amounted to 43.1% of GDP, remained almost unchanged, year-on-year (+0.3 p. p.) and remained the ninth lowest among the Member States. The debt ratio increased most significantly in countries with high budget deficits last year – Romania (from 53.3% of GDP to 58.9% of GDP) and Poland (from 53.2% to 58.1%). Almost half of the EU Member States and three-fifths of the euro area members reported debt in excess of 60% of GDP.

[40] This is the start of the so-called Excessive Deficit Procedure for breaches of budgetary rules. This standard procedure was resumed after a temporary interruption between 2020 and 2023 (due to the COVID-19 pandemic). In 2024, proceedings were opened with Belgium, France, Italy, Malta and some Central European members (Slovakia, Poland, Hungary), a year later with Austria and this year with Finland.