

## 8. State Budget

The SB deficit decreased slightly last year compared to 2023. Nonetheless, significant deficits weighed on the budget for the fifth year in a row.

The state budget (SB)<sup>1</sup> ended with a deficit of 271.4 bn CZK in 2024. The deep deficit has weighed on state finances for the fifth year in a row, nevertheless the last year's result was relatively the most favourable in this context, as it decreased by 17.1 bn CZK<sup>2</sup> compared to 2023, primarily due to a noticeable moderation of expenditure growth. Compared to the originally approved SB<sup>3</sup>, last year's deficit is slightly higher (+19.4 bn CZK), but in relation to the amended SB<sup>4</sup>, which responded to the need to increase extraordinary expenditure to deal with the consequences of the September floods, it is the opposite (−10.6 bn). In addition to the above, the key factors affecting last year's SB balance consist of the gradual subsiding of the need for extraordinary expenditure for both households and companies hit by the effects of high inflation, persisting very weak economic growth and further various legislative changes (the impacts of the consolidation recovery package approved two years ago, including the change in the budgetary allocation of taxes (BAT), which increases the share of the revenue of some weight-important taxes in favour of the SB from January 2024<sup>5</sup>).

The growth of revenues was supported mainly by higher collection of social security premiums and strengthened tax collection. Lower dividends as well as revenues flowing from the EU budget had the opposite effect.

The total SB revenues increased slightly in line with budget anticipations for the whole last year (+2.7% or 51 bn CZK). This was mainly the result of steadily increasing collection of social security premiums, including active employment policy (+63 bn CZK, +9.2%), which reflects not only the current recovery on the labour market due to slightly enhanced economic performance, but also the impacts of legislative changes<sup>6</sup>. Tax revenues also had a positive effect (+26 bn CZK). The expected year-on-year decrease of non-tax and capital income transfers had the opposite influence (−38 bn CZK), it was primarily associated with lower transfers of dividend yields and other state equity holdings (−27 bn CZK or 50%, resp.). A decrease of revenues from the EU budget (including financial mechanisms) by 8.2% (−14 bn CZK) also had a significant impact here, which can be explained by the high basis of 2023, which reflected the final payments at the end of the phasing out 2014-2020 programming period.

The year-on-year growth of statewide tax collection was moderate and weakened during the year. The effect of last year's higher basis was evident in both current and extraordinary corporate taxes.

The statewide tax collection excluding insurance premiums (taking into account revenues at the level of all public budgets) increased by only 2.5%, year-on-year, last year, after a double-digit increase in the previous two years. While the growth of this collection through revived household consumption was driven mainly by VAT in 2022 and then mainly by the high collection of corporate tax together with extraordinary corporate taxes the following year, no income item dominated last year (personal income tax of natural persons from dependent activities was the most pronounced – contribution +1.8 p.p.). On the contrary, the collection of corporate tax, including extraordinary temporarily introduced taxes (−3.0 p.p.), had a negative impact. The statewide tax collection (excluding extraordinary taxes)

<sup>1</sup> 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.

<sup>2</sup> This budget deficit trend is also evident after its adjusting for funds from the EU budget, including financial mechanisms (FM). These are funds for programmes from the EU and FM budgets, which were pre-financed from the SB and subsequently paid from the EU and FM budget. Excluding these funds, which are contained in the approved SB with a neutral impact, the deficit amounted to 287.4 bn CZK for the whole of last year and it was by 13.2 bn CZK lower, year-on-year.

<sup>3</sup> It concerns Act No. 433/2023 Coll., on the state budget for year 2024 (approved at the end of November 2023).

<sup>4</sup> It concerns Act No. 294/2024 Coll., approved at the beginning of October 2024, which amends the above stated Act on the SB (No. 433/2023 Coll.).

<sup>5</sup> Thanks to this adjustment, the collection of the SB was expected to increase by 5.6 bn CZK for VAT, by 2.3 bn CZK for personal income tax, and by 2.9 bn CZK for corporate tax in 2024 according to the Ministry of Finance's estimate. The actual growth of all revenues of the SB was 10.7 bn CZK in 2024 due to the change in the BAT.

<sup>6</sup> This includes in particular the reintroduction of the payment of sickness insurance premiums paid by employees (0.6% of the assessment base, this rate was 1.1% until 2008). Less important from the budgetary point of view is the increase of the assessment base for the self-employed persons and the setting of limits for insurance participation of employees working on the basis of an agreement to complete a job. According to the Ministry of Finance's estimate, a full-year increase of the SB collections by 18 bn CZK was expected in 2024 due to these adjustments. Despite this adjustment, the total collection of social security premiums remained slightly below the budget anticipations last year (−0.5%).



increased by 4.2%, year-on-year, last year (by 12.2% the year before), its growth slowed down during the year and amounted to 1.6% in the second half of the year.

The recovering household consumption supported the dynamics of VAT collection, while the newly introduced extensive changes and shifts in tax rates had the opposite effect.

The SB gained 4.5% more (+16 bn CZK) on the weight-dominant tax – VAT – last year. The pace lagged slightly behind the budget plan, even though less notably compared to the previous two years. The collection growth reached 3% at the level of all public budgets and thus increased at half the rate of 2023. This slowdown reflects the stabilisation of the price level in the economy. On the contrary, the slowly recovering household consumption<sup>7</sup> is positively reflected. In addition, the impacts of the tax rate adjustment<sup>8</sup> in connection with the effectiveness of the consolidation package are starting to manifest at the beginning of the year.

The rapid growth of consumption tax collection was primarily related to an increase of the rate on key products – mineral oils and tobacco products. The collection did not fully meet budget anticipations, similarly to the previous years.

Although the consumption tax collection (including energy tax) increased by almost a tenth, year-on-year, last year (+15 bn CZK), it did not fully meet budget anticipations (–0.5%). The actual collection thus lagged behind the expected amount according to the approved budget already for the fourth year in a row. There was a year-on-year increase of collections for all key tax items last year, which is mainly related to legislative changes. The key tax on mineral oils, the collection of which grew rapidly (+13.3%), primarily due to the return of the diesel tax rate to the level before the energy crisis<sup>9</sup> broke out, influenced the most the development of total collection. However, higher demand for these products also had an impact due to the development of freight transportation and the favourable development of retail fuel prices<sup>10</sup>. The SB received 7.1% more from the collection of tax on tobacco products, and although the pace of collection increased slightly during the last year, it remained overall below the budget expectations (unlike the tax on mineral oils). Collections reflected a further increase of the rate as well as an expansion of the range of taxed products (newly e-cigarette refills, nicotine pouches). The collection of taxes on alcohol, beer and sparkling wine stagnated, year-on-year. On the contrary, the collection of energy taxes grew (mainly due to the abolition of some tax exemptions, e.g. in metallurgy), nevertheless at a slower pace than budget anticipations (due to continuing savings by both businesses and households in the area of consumption and the switch to more environmentally friendly types of fuels).

Last year's decline of corporate tax collection reflects the effect of stagnation of economic performance in 2023. A partial calming on the energy market led to a decline of the collection of extraordinary sectoral taxes.

After double-digit growth in the previous three years, the SB acquired on the corporate tax (excluding extraordinary taxes) 11 bn CZK or 5.3% less last year (collection fell by as much as 6.7% at the level of all public budgets). Tax collection also lagged significantly behind budget anticipations (–3.6%). The impact of the halt of economic growth in 2023, which was reflected in the annual settlement of corporate tax liability last year, was evident here in retrospect. Tax collection was also adversely affected by legislative influences (exemption of government bond yields or extension of the effectiveness of extraordinary depreciation)<sup>11</sup>. In addition to ordinary corporate tax, the SB income from extraordinary taxes also fell last year. Although the SB received 36.7 bn CZK in windfall tax<sup>12</sup> (6% less, year-on-year, but at

<sup>7</sup> Adjusted real final consumption expenditure of households in Czechia increased by 1.5%, year-on-year, in Q1 to Q3 2024 (increased for the first time since mid-2022). Government consumption expenditure strengthened even more rapidly (+3.7%). According to the first GDP estimate, household consumption continued to grow also in Q4 2024.

<sup>8</sup> It concerns the unification of two reduced rates (10% and 15%) into one of 12% (except for books, which are now completely exempt from VAT). A number of goods and services are now subject to lower taxation (e.g. basic foodstuffs, medicines, medical products, construction work). At the same time, the negative budgetary impact is subdued mainly by the transfer of some items of no 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).

<sup>9</sup> This increase occurred from August last year (by 1.5 CZK per litre). Consumption tax rate on diesel fuel thus returned to the original size (9.95 CZK/l) valid until May 2022.

<sup>10</sup> According to the CZSO data, the consumption of the most important item in terms of weight – diesel fuel – increased by 3.6%, year-on-year, petrol by 6.1% and jet kerosene by more than 30% from January to November 2024. The average consumer price of Natural 95 petrol was 35.83 CZK per litre last September, which was the lowest value since October 2021. The average price of diesel fuel was 34.22 CZK per litre, the lowest since July 2023. Cross-border purchases or stronger transit traffic thus could have also contributed to higher domestic consumption.

<sup>11</sup> According to the MF's estimates, these measures should reduce last year's corporate tax income to the SB by 6.2 bn CZK.

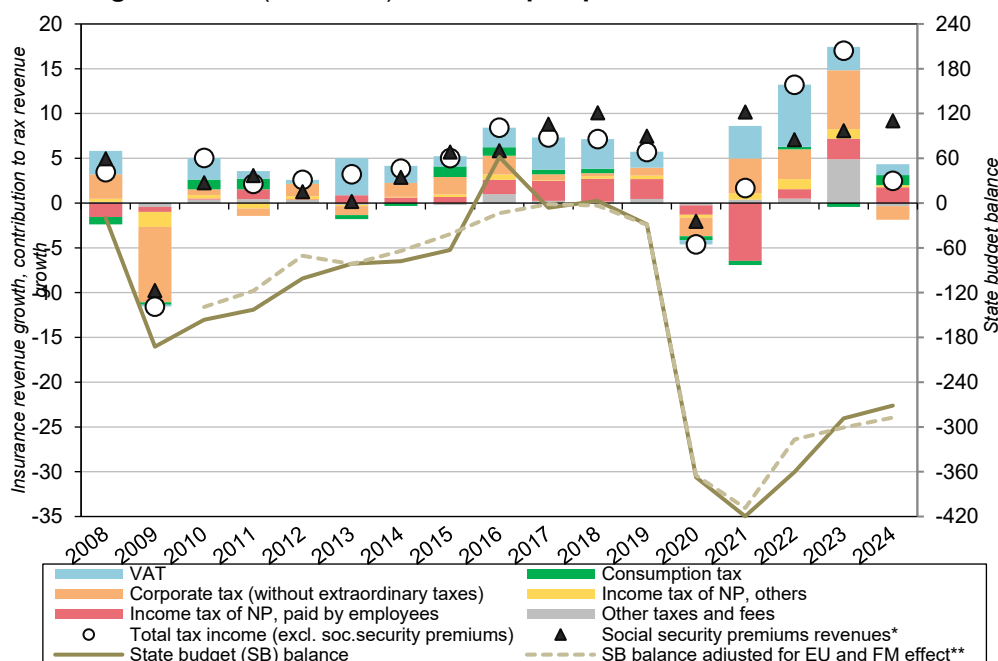
<sup>12</sup> This applies to energy, petrochemicals and mining companies (in the area of fossil fuels) and also includes large banks. It works as a 60% tax surcharge applied to the excess profit of these companies determined as the difference between the tax base in the years 2023 to 2025

the same time more than double the expected volume for the whole year<sup>13</sup>). In accordance with the approved SB, no income even came from levies on excess income<sup>14</sup> last year (however, it was 18.5 bn CZK in 2023).

Both employees and entrepreneurs contributed to the continuing rapid growth of the collection of income tax of natural persons last year. It was the result of higher employment as well as high nominal growth of the average wage in the business sphere.

The rapid growth of income tax of natural persons (ITNP) collection continued for the third year in a row last year. The SB thus received 13.4% more, year-on-year, and last year's collection at the same time significantly exceeded the budget anticipations (+8.6%), specifically for all sub-types of tax. The SB thus gained by 15.6% more on the ITNP paid by the payers (employers). It favourably reflected both the enduring good condition of the labour market (higher employment as well as rapid nominal growth of the average wage in the business sphere) and legislative changes (in particular a reduction of the band for the second increased rate of this tax, and to a lesser extent also an adjustment of the taxation of selected non-monetary benefits or the abolition of some tax reliefs, as well as a change of the BAT<sup>15</sup>). ITNP collected by deduction continued to grow dynamically (+8.4%), owing to higher interest rates on deposits as well as the persisting high household saving rate. The reduction of the limit for the exemption of income from raffles and gambling also had a positive effect. The collection of ITNP paid by taxpayers (mainly from self-employment) increased more moderately last year (+2.6%). The growth of the number of small entrepreneurs had a positive effect here, while the adjustment for the possibility of entering the flat-rate tax payment regime had a negative effect<sup>16</sup>.

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



\* 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 starting year 2010.

and the average tax base for the years 2018 to 2021 increased by 20 percent. However, the vast majority of the collection of this tax flowed to the SB from the energy sector.

<sup>13</sup> After the significant failure to meet the revenues of this tax in 2023 (plan: 85 bn CZK, reality: 39 bn), the budget estimate for last year was set at only 17 bn CZK.

<sup>14</sup> This levy (taxed at a 90% rate) represented the difference between the actual income and the cap on market income from the sale of electricity above the set limit (for the period from 1 December 2022 to the end of 2023).

<sup>15</sup> The collection of ITNP paid by payers increased (at the level of all public budgets) by 13.9% last year. Even so, it was still below the level of the record year 2019 (by 6%). The abolition of the so-called super-gross salary played a key role here. In contrast, the corporate tax collection (excluding extraordinary taxes) exceeded a similar level by 60%.

<sup>16</sup> The limit of maximum annual income for entering the flat-rate payment regime was increased from January 2023 (from 1 mil CZK to 2 mil CZK).

NP = natural persons. Other income taxes of NP consist of taxes paid by payers (mainly from small enterprises) and further taxes collected by deduction (e.g. bank deposits, work agreements).  
Other taxes and fees include especially state taxes and fees, in particular, real estate tax, gambling tax, motorway toll, tolls and, from 2023, also a levy on excess income and windfall profits.  
Source: MF CR

The total expenditure of the SB grew last year at the lowest rate in the last eight years. The gradual calming of prices in the economy has subdued the need for both the targeted subsidies and the indexation of social benefits.

The growth of total expenditure of the SB slowed to 1.6% last year (the lowest rate in the last eight years) and its volume (2,237 bn CZK) did not deviate significantly from the expected level stated in the amended SB. The growth of expenditure was only due to current expenditure, which increased by only 1.7% (+34.5 bn CZK) last year after double-digit growth in 2023. This sharp slowdown was mainly due to the expected year-on-year reduction of support in the energy sector (which actually reached 67 bn CZK) made possible by favourable energy prices on world markets. The calming of price growth in the economy was also reflected in lower pressure on the indexation of a wide range of social benefits. This has been further mitigated for pensions by legislative changes to the regular as well as extraordinary indexation or by tightening the conditions for granting early retirement.

The growth of the SB current expenditure continued to be driven mainly by social benefits. Pension expenditure increased last year at a relatively lowest rate in the last eight years.

Despite the above, social benefits contributed the most to last year's growth of current expenditure (+36.6 bn CZK), which, despite slowing down their year-on-year growth, already accounted for 40.5% of all SB expenditures – the most in the last seven years<sup>17</sup>. The growth of social benefits was traditionally linked to the pension expenditure, which increased by 3.6% last year after a record increase in 2023 (+16.5%). Due to the retreat of inflation and a change of the indexation mechanism<sup>18</sup>, this was the lowest rate after 2016. At the same time, however, the number of pension recipients (after a decline in the previous four years) started to increase very slightly again – by 0.1%, year-on-year, in December 2024 (by 0.3% for the whole year). Despite the slowdown in dynamics, the number of people interested in early pensions<sup>19</sup> continued to increase. The pension expenditure grew more slowly than pension insurance income for the first time in three years. The deficit of the pension insurance system<sup>20</sup> thus narrowed to 55 bn CZK last year (from a record 73 bn in 2023), yet it was the second highest in the modern history of the Czech Republic.

The pension account deficit fell by a quarter, year-on-year, last year.

Growth of expenditure on non-pension social benefits accelerated, mainly due to higher contributions to care, housing, unemployment benefits as well as material deprivation assistance benefits and sickness benefits.

The growth of expenditure on other (non-pension) social benefits accelerated last year and reached 6.5%, year-on-year (+11.9 bn CZK). Drawing increased for the vast majority of individual types of benefits, with contributions for care for the long-term ill, significant by volume, adding the most to the growth (+4.1 bn CZK, +11%)<sup>21</sup>. In terms of the number of recipients, the most important item – sickness insurance benefits – had a major impact, with their drawdown increasing for the first time in the last four years (+4.6%). Compared to 2023, more was paid out in sickness benefits (+ 2.4 bn CZK) and long-term care allowances here, while the volume of maternity benefits decreased, specifically due to the falling birth rate for the third year in a row. The SB paid more support to the unemployed for the second year in a row, it was almost a quarter more, year-on-year, last year (+2.4 bn CZK). Both an increase in the average monthly amount of support (it was 11.5 thousand CZK in December 2024) and a slight increase in the number of job applicants eligible for support manifested (93 thousand, 30% of all registered job applicants). After a one-year hiatus, material deprivation assistance benefits increased again last year (+13.5%), mainly due to higher payments of humanitarian

The persistent reduction in the drawing of

<sup>17</sup> In the long term view, however, last year's share of social benefits in all expenditures was rather average.

<sup>18</sup> The main thing is that when raising pensions, only one-third of the increase in real wages is now taken into account, not one half. From January 2024, only the basic assessed amount of all pensions was increased (by 360 CZK), the percentage assessment did not increase. The average monthly old-age pension (without concurrence with other pensions) was 2.1% higher, year-on-year, in December 2024, reaching 21.9 thousand CZK for males and 19.5 thousand CZK for females.

<sup>19</sup> The growth of the number of all recipients of permanently reduced old-age pensions (ROP) accelerated during 2023 and this development also continued at the beginning of 2024 (to 8.5%, year-on-year, in Q1, the highest since 2012). However, the pace subsequently slowed down, also due to the new legislative amendment approved in 2023 for the calculation of these pensions (to 4.1% in Q4 2024). The ROP number does not include persons who have applied for early retirement but have postponed the start of its payment.

<sup>20</sup> This expresses the difference between income from pension insurance premiums and expenditure on benefits from this insurance according to the preliminary balance sheet of the Ministry of Finance. The expenditure also includes funds for the administration of the benefit system (it was 7 bn CZK in 2023 and 2024).

<sup>21</sup> The statutory increase of amounts for people in the 2nd to 4th degree of dependence (from July 2024) played a key role here.



maternity benefits and parental allowance results from the declining birth rate in recent years.

benefits to Ukrainian refugees and now also the extraordinary assistance to citizens affected by the September floods. The growth of benefits of significant volume – state social support – slowed down last year (to 0.7%) amid a different development of partial benefits. 13.6% (+2.4 bn CZK) more was paid out on housing benefits<sup>22</sup>, expenditure grew for the third year in a row (from 6.6 bn CZK in 2021 to 20.3 bn CZK last year). The impact of increased energy prices, as well as the growing awareness of the possibility of drawing this assistance in the population and the simplification of the procedure for applying for benefits, continued to be felt here. On the contrary, the drawing of another income-tested benefit – child allowance – decreased (–2%). The volume of parental allowances decreased more (–6%), falling for the fourth year in a row (by 25% in total)<sup>23</sup>, mainly due to unfavourable demographic developments.

Higher subsidies to state funds also contributed significantly to the growth of current expenditure. Expenditure on servicing the state debt and other non-investment purchases were at record level.

Subsidies to state funds, which were higher by 21 bn CZK (+39%), year-on-year, also contributed significantly to the growth of the SB current expenditure last year. They reflected in particular a higher allocation to transport to cover the deficit of the State Fund for Transport Infrastructure (SFTI), and to a lesser extent also to agriculture, the environment or culture. Similarly, the growth was also due to more rapidly strengthening expenditure on state debt service, which grew for the fifth year in a row and climbed to 88.5 bn CZK last year (more than doubling in the last three years). Expenditure on other non-investment purchases and related expenditure was also record-breaking last year (94.7 bn CZK<sup>24</sup>), and their year-on-year growth (+13 bn CZK) was largely due to defence spending, and higher expenditure on energy purchases (electricity, gas) also played a marginal role. In line with the budget anticipations, expenditure on public health insurance payments for the so-called state insured person increased by almost a tenth (+13 bn CZK) due to automatic indexation<sup>25</sup>. Thanks to this strengthening, relatively the highest in the last three years, the total balance of sickness insurance<sup>26</sup> ended in surplus last year (+10 bn CZK) for the first time since 2018. Only a very slight increase of expenditure (up to 4%) occurred both in contributory organisations (especially public universities and research institutions) and in non-profit institutions (especially for sports, other leisure activities and social services). Expenditure on salaries in the organisational units of the state last year, as in 2021 and 2022, was de facto stagnating, year-on-year. Last year's expenditure reflected an across-the-board reduction of 2% related to the implementation of the consolidation package<sup>27</sup>.

Higher payments for state-insured persons significantly strengthened the revenue side of the sickness insurance system. It thus ended up in surplus for the first time in the last six years.

Subsidies to entrepreneurs fell by half, year-on-year, and their volume was at a five-year low.

The expenditure side of the SB was most affected by current transfers to businesses last year, which fell by 52% compared to the record level of 2023 (138 bn CZK). At the same time, their last year's volume slightly exceeded (+15%) the drawing from the pre-crisis years of 2018 and 2019. The sharp decrease of most energy subsidies largely stood behind the slump in year 2024. These, including support for renewable energy sources (RES), reached 27 bn CZK last year, compared to 94 bn CZK a year earlier. The largest year-on-year savings on the SB side were recorded in compensation for the supply of electricity and gas to customers and losses flowing from the ceiling on their prices (45 bn CZK), while expenditure on advance subsidies to support RES decreased by only 0.4 bn CZK (–2%). In addition, last year's decrease of subsidies to entrepreneurs is related to lower support for joint EU-Czech programmes (–4.4 bn CZK), solely due to the end of the previous EU programming period.

<sup>22</sup> In that, 286 thousand households drew this benefit in December alone last year, compared to 271 thousand a year earlier.

<sup>23</sup> Last year's decrease in drawing occurred even though the value of allowances for children born last year was raised. From January 2024, the basic contribution increased from 300 thousand to 350 thousand CZK. At the same time, the maximum period for receiving the allowance was reduced up to 3 years of child's age (from the previous 4 years).

<sup>24</sup> These thus slightly exceeded even the 2022 level influenced by increased state purchases in connection with the COVID-19 pandemic (vaccines, medical supplies) and the emerging energy crisis (refilling gas storage tanks).

<sup>25</sup> From January 2024, the monthly payment per person increased from 1,900 CZK to 2,085 CZK.

<sup>26</sup> This expresses the difference between revenues of sickness insurance premiums and expenditure on benefits from this insurance according to the CSSA balance sheet.

<sup>27</sup> Individual authorities were allowed to reduce the number of positions without the need for a further reduction in the related volume of funds intended for salaries.



<p>Total current subsidies to regional budgets decreased, despite a slight increase of expenditure on the salaries of workers in regional education.</p>	<p>Current transfers to regional budgets with a significant weight<sup>28</sup> also decreased last year (–2.4% and –6.3 bn CZK, respectively), which occurred for the first time in the last 12 years<sup>29</sup>. Last year's decrease was mainly caused by the lower expenditure on European projects, especially in the area of education (–8.4 bn CZK) and a decreasing contribution to the accommodation of persons under temporary protection (–5.1 bn). Expenditure on the co-financing of social services remained at the level of year 2023. On the contrary, the key item – subsidies for regional education – comprising mainly expenditure on the salaries of its employees, continued to grow (+3%, +6 bn CZK), which, however, was more moderate than in previous years.</p>
<p>The long-term growth of the Czech Republic's contributions to the EU budget stopped last year.</p>	<p>Contrary to budgetary anticipations, the Czech Republic's own resources contributions to the EU budget also fell, year-on-year, last year (–12%, –7 bn CZK). The SB "saved" an order of magnitude less on the support of building savings and contributions to supplementary pension insurance (expenditure on both of these instruments decreased for the second year in a row, while their decline deepened last year (to –9% and –10%, respectively). The total allocation to these instruments stagnated in the last decade (around 11 bn CZK per year). Other current expenditure, covering a diverse range of items, in contrast increased last year. The unplanned expenditure on dealing with the consequences of the September floods were the cause. The SB spent 15.4 bn CZK on these purposes by the end of last year (out of a total of 30 bn CZK, by which the total expenditure in the amended budget was increased), half was directed to the renewal of transport and technical infrastructure, the rest mainly to mitigate damage to other state property or targeted assistance to both households and businesses.</p>
<p>More than 15 bn CZK had been paid out as extraordinary expenditure on dealing with the consequences of the floods by the end of the year.</p>	
<p>Capital outlays fell only negligibly last year, thanks to intensive drawdown at the end of the year. Investment purchases increased dramatically, especially in the defence area. Subsidies to state funds, regional budgets as well as entrepreneurs decreased, mainly due to a slower launch of the drawing of European funds.</p>	<p>The SB's capital outlays decreased slightly last year after double-digit growth in 2023, falling, year-on-year, for the first time in seven years. Although last year's decline of investment was anticipated in the budget<sup>30</sup>, its actual depth was only 0.2% (–0.3 bn CZK). There was an unusually intensive drawdown at the very end of the year<sup>31</sup>. Given the transition to the new EU programming period, it is not surprising that the investments for which the Czech Republic is expected to be reimbursed by the EU in the future fell to 82 bn CZK (–17 bn) for the whole of last year. On the contrary, investments purely from national sources similarly strengthened (from 111 bn CZK to 128 bn CZK). The increase of the weight of national resources is closely related to the sharp increase in defence spending in order to meet the obligations arising from the Czech Republic's membership in NATO<sup>32</sup>. Investments in this area rose to 64 bn CZK (+37 bn, year-on-year), mainly comprising of military purchases. 57 bn CZK went to transportation, of which the decisive part was investment subsidies to the SFTI, the amount of which, however, decreased by 12%, year-on-year. In terms of type breakdown, the total investment of the SB directed to state funds (–16.7 bn CZK), regional budgets (–5.4 bn), entrepreneurs (–4.5 bn) as well as non-profit organizations decreased last year. The total investments of the SB formed 9.4% of all budget expenditures last year, i.e. comparably to the previous six years. This represents an average share in the long-term context (over the last two decades).</p>

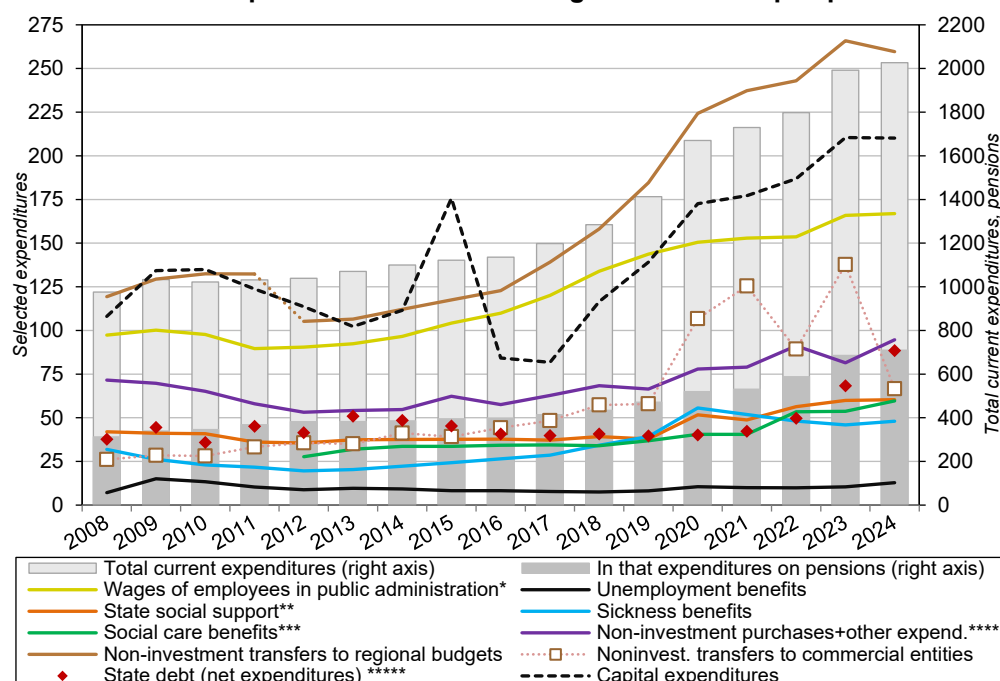
<sup>28</sup> This item has long accounted for more than a tenth of all current SB expenditures.

<sup>29</sup> The year-on-year decrease of expenditure of this item in 2012 was related to methodological influences or changes in the budgeting of social care benefits. From the perspective of the budget structure, these benefits, i.e. material deprivation assistance benefits, the disability benefits and care allowance, were no longer transfers to regional budgets starting in year 2012, but became social benefits paid out by the Labour Office.

<sup>30</sup> The originally approved SB expected a decline of investment –12.3% for last year compared to the actual drawing in 2023, subsequently the decline was corrected up to –3.4% during the year.

<sup>31</sup> Q4 accounted for 45% of full-year investment in 2024, of which 22% was in December alone. It was analogously 36% and 15% in 2023. The last time investments were drawn down more intensively in terms of Q4 and December was in 2015 and it was associated with the termination of the possibility of drawing European funds from the 2007 to 2013 programming period.

<sup>32</sup> According to preliminary data, investment and non-investment defence spending reached 167 bn CZK last year (+61 bn, year-on-year), which corresponded to 2.1% of GDP. 95% of it was made up of expenditures of the Ministry of Defence of the CR.

**Chart 19 Selected expenditures of the state budget in the annual perspective**

\* Covers expenditures on salaries in central government institutions. Does 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

Despite the sharp decrease of revenues from the EU budget, the Czech Republic remains in the position of a net beneficiary in relation to the EU.

The funds received from the EU Recovery Instrument almost doubled last year.

The relative growth of the level of state debt accelerated last year for the first time in three years. Both internal and external debt increased, year-on-year.

Last year, as in all previous years of its membership, the Czech Republic remained a net beneficiary in relation to the EU budget (+9 bn CZK). This occurred despite the expected year-on-year drop of revenues (by 41% to 69 bn CZK), which was mainly due to the Structural Fund (−30 bn), the Cohesion Fund (−15 bn) and also the Rural Development Fund (−3.5 bn). The Czech Republic's total payments to the EU budget fell at the same time (−10%, to 60 bn CZK). In addition to revenues from the EU budget, the Czech Republic also received additional Cohesion Funds last year (React-EU and the Just Transition Fund), the National Recovery Plan and selected investment programmes from the EU Recovery Instrument (NGEU)<sup>33</sup> in the amount of 74.2 bn CZK (up 88%, year-on-year). The Czech Republic has been drawing these funds since 2021, with their inflow rising sharply in 2023 and 2024. Including the NGEU Funds, its net position towards the EU budget reached 83 bn CZK last year and was essentially comparable to years 2021 and 2023.

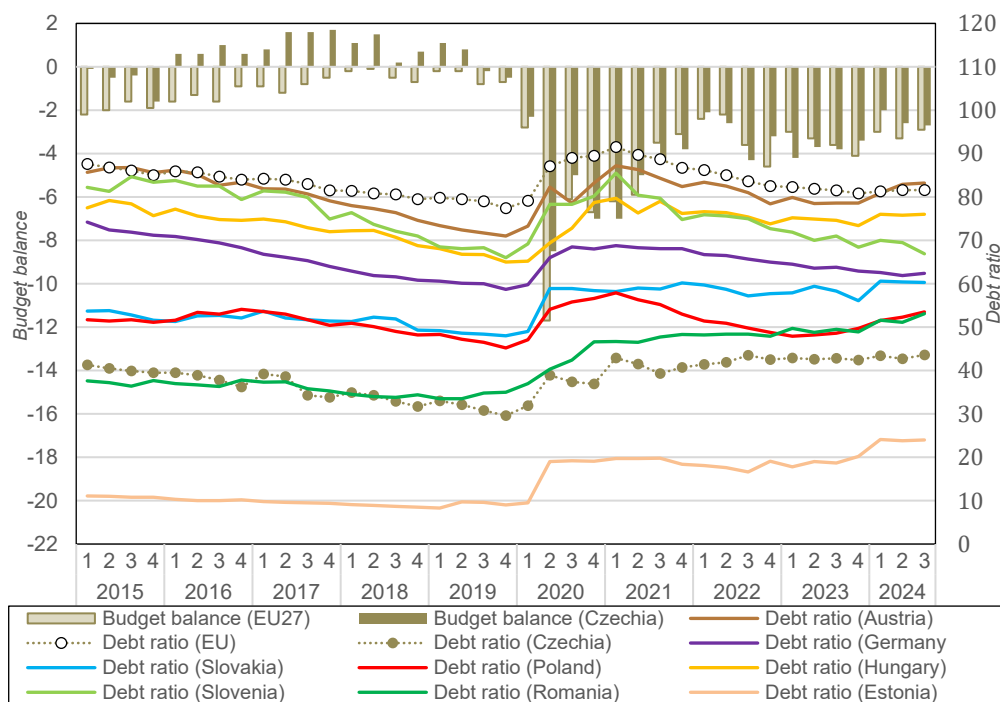
The ongoing deficit of the SB was reflected in the state debt. It rose to 3,365 bn CZK at the end of Q4 2024. It has increased, year-on-year, already for 22 quarters in a row. It increased by 8.2% for the whole last year, which was slightly more than in the previous year (+7.5%). The relative growth of debt thus accelerated for the first time in three years. The last year's debt growth was driven unlike in 2023 not only by internal indebtedness (+223 bn CZK), but also by external indebtedness (+31 bn CZK) due to a higher volume of loans received. The internal indebtedness traditionally increased mainly as a result of the issue of medium- and long-term government bonds (+191 bn CZK, to 3,017 bn CZK) and, to a lesser extent, the issue of treasury bills (+37 bn, to 82 bn CZK). The largest share of all medium- and long-term government bonds<sup>34</sup> in circulation had maturities of between 10 and 15 years at the end of

<sup>33</sup> This instrument was created to address the economic and social impact of the COVID-19 pandemic. In particular, it targets labour market recovery, social security and health care systems, reviving the potential for sustainable growth and employment, transformation to a green and digital economy, research and innovation, support for agriculture and rural development. The expenditure takes the form of grants and loans to Member States provided under the Recovery and Resilience Facility and six other EU spending programmes for the period 2021 to 2027.

<sup>34</sup> It concerns bonds with maturity over 1 year.

last year (53%). In terms of ownership structure, domestic banks held the largest share of all government bonds (41.1%), followed by pension funds (12.0%), investment funds other than money market funds (6.2%), insurance corporations (5.4%) and households (3.8%). The share of non-residents was 27.9% and their weight among all bondholders gradually decreased last year (by 7.5 p. p. in total) to the benefit of domestic banks and investment funds.

**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 ratio expresses the status at the end of quarter.

The general government deficit reduced by almost a half, year-on-year. This was mainly due to a significant slowdown in the pace of expenditure.

The general government sector (VI) in Czechia ran a deficit of 95 bn CZK<sup>35</sup>, in Q1 to Q3 2024<sup>36</sup>, which fell by almost half, year-on-year (by 82 bn CZK) and also presented the lowest deficit in the last five years. The year-on-year reduction of the deficit was primarily due to a noticeable slowdown of the growth of total expenditure (to 3.2%, compared to 10.8% a year earlier), as the growth rate of revenues (7.1%) did not decrease significantly compared to the figure. The growth of revenues was driven mainly by net social contributions (also by the higher household payments on sickness insurance), strengthening collection of current taxes from income and wealth and, to a lesser extent, indirect taxes (especially taxes on products). On the contrary, mainly the property income had a negative effect, primarily due to a decrease of dividend income. The growth of total expenditure was traditionally driven mainly by social benefits (including social transfers in kind), despite the fact that their growth slowed down sharply (to 6.1%). The year-on-year growth of compensations paid to employees also decreased by about half (+4.5%). The most significant change was the expected deep decrease of subsidies paid out (-20%). Expenditure on fixed investment formation slowed sharply (+0.5%), its growth rate in Q1 through Q3 was the lowest in eight years.

The seasonally adjusted deficit of the general government sector

The seasonally adjusted general government deficit reached 2.7% of GDP in the Czech Republic in Q3 last year. Compared to the previous quarter, it was practically unchanged,

<sup>35</sup> Unless stated otherwise, data regarding the budget balance of sector VI in the CR are expressed without seasonal adjustment.

<sup>36</sup> Data regarding the budget of government institutions for Q4 2024 will be published by the CZSO on 2<sup>nd</sup> April 2025, Eurostat then on behalf of the Union member states on 22<sup>nd</sup> April. More detailed assessment of the domestic development for Q3 2024 is contained in the publication [Analýza sektorových účtů](#).



reached 2.4% of GDP in the Czech Republic for the first three quarters of last year. Together with Germany, it ranked among the average member states.

The debt ratio in the Czech Republic reached the ninth lowest value in the EU at the end of Q3. As in the EU, it increased very slightly, year-on-year.

nevertheless it decreased in the year-on-year perspective (by 1.1 p.p.). The deficit reached 2.9% of GDP in the EU as a whole, and decreased, year-on-year, in half of the countries (by 0.7 p. p. in total). Romania (−8.1% of GDP), France (−5.9%), Bulgaria (5.9%), Poland (−5.6%) and Hungary (−5.1%) had the largest deficits in total for Q1 to Q3 2024. A total of 10 countries had deficits deeper than 3%. It reached 2.4% of GDP in the Czech Republic and, as in Germany, was average among the member states. On the contrary, only six countries, all small or smaller economies, recorded a surplus: Ireland (+6.4% of GDP). Cyprus (+4.6%), Denmark (+3.9%), Portugal (+2.1%), Greece (+1.5%) and Luxembourg (+0.5%). The trend of a quarter-on-quarter decrease of the debt ratio of sector VI in the EU (and the euro area), lasting almost three years, halted at the beginning of 2024, and this turnaround was confirmed by both Q2 and Q3. The debt ratio was 81.6% of GDP (or 88.2%) at the end of Q3 2024 and was stagnating, quarter-on-quarter. The debt reached 43.6% of GDP in the Czech Republic (the ninth lowest level among the EU countries) and increased by 0.8 p. p., year-on-year. The indebtedness increased only negligibly (+0.1 p. p.) in the whole Union. It increased the most in Finland (+6.7 p. p.), Estonia (+5.3 p. p.), Poland (+4.9 p. p.) and Austria (+4.6 p. p.), and among the highly indebted countries then in France (+2.3 p. p., to 113.8% of GDP). In contrast, eleven countries managed to reduce their debt, mainly from the Southern wing of the euro area: Portugal (−8.8 p. p.), Cyprus (−5.4 p. p.), Slovenia (−4.1 p. p.) and especially Greece (−9.9 p. p.), which have long held the position of the most indebted EU country (158.2% of GDP). The debt ratio was currently kept below 60% of GDP by 14 countries (including 8 euro area members), it was analogously 15 countries at the end of 2019 (and 9 current euro area members).