C/2025/666

10.2.2025

# COUNCIL RECOMMENDATION

## of 21 January 2025

## endorsing the national medium-term fiscal-structural plan of Czechia

(C/2025/666)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

### GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance ([1]), together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure ([2]), and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States ([3]) are the core elements of the reformed EU economic governance framework. The framework aims at promoting sound and sustainable public finances, and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. It also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, inter alia by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3 % of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to a net expenditure ([4]) path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

([1]) Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

([2]) Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

([3]) Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

([4]) Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

**CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF CZECHIA**

(5) On 16 October 2024, Czechia submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission on 24 September in view of the reasons provided by Czechia.

**Process prior to the submission of the plan**

(6) Prior to the submission of its plan, Czechia requested technical information ([5]), which the Commission provided on 21 June 2024 and published on 16 October 2024 ([6]). In line with Articles 9(1), point (c), and 9(2) and 16(2) of Regulation (EU) 2024/1263, the technical information indicates the level of the structural primary balance in 2028 that is necessary to ensure that the general government deficit is maintained below 3 % of GDP over the medium term and that the general government debt remains below 60 % of GDP over the medium term, in the absence of further budgetary measures beyond the 4-year adjustment period. The medium term is defined as the ten-year period after the end of the adjustment period.

The technical information was prepared and transmitted to the Member State under two scenarios: a scenario including consistency with the deficit resilience safeguard ([7]), in line with Article 9(3) of Regulation (EU) 2024/1263, and a scenario without this safeguard. The technical information for Czechia sets out that, in order to comply with the applicable fiscal rules over an adjustment period of 4 years, and based on the Commission's assumptions underpinning the prior guidance transmitted in June 2024, the structural primary balance should amount to at least 0,4 % of GDP at the end of the adjustment period (2028; scenario without the deficit resilience safeguard), as per the following table. For information, considering also the deficit resilience safeguard, the structural primary balance should amount to at least 0,4 % of GDP at the end of the adjustment period (2028). However, the deficit resilience safeguard is not a requirement for Czechia, which is eligible for technical information.

**Table 1: Technical information provided by the Commission to Czechia**

| Final year of the adjustment period | 2028 |
|---|---|
| Minimum value of the structural primary balance (% of GDP), scenario without the deficit resilience safeguard | 0,4 |
| *For information only:* Minimum value of the structural primary balance (% of GDP), scenario with the deficit resilience safeguard | 0,4 |

Source: Commission's calculations.

([5]) Prior guidance transmitted to the Member States and Economic and Financial Committee includes technical information i) without and with an extension of the adjustment period (covering 4 and 7 years, respectively), and ii) with and without the deficit resilience safeguard. It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

([6]) https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#czechia.

([7]) The deficit resilience safeguard established in Article 8 of Regulation (EU) 2024/1263 establishes that the annual improvement in the structural primary balance is of 0,4 percentage points of GDP (or 0,25 percentage points of GDP in case of an extension of the adjustment period) until the structural deficit is lower than 1,5 % of GDP.

(7) In line with Article 12 of Regulation (EU) 2024/1263, Czechia and the Commission engaged in a technical dialogue from June to September 2024. The dialogue centred on the net expenditure path envisaged by Czechia and its underlying assumptions (in particular potential GDP growth projections), as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) In September and October 2024, in line with Article 11(3) and 36(1), point (c) of Regulation (EU) 2024/1263, according to the information provided by Czechia in its plan, Czechia engaged in a consultation process with civil society, social partners, regional authorities and other relevant stakeholders. According to the information provided by Czechia in its plan, the process included a proper inter-ministerial consultation involving the economic and social partners. In addition, a roundtable discussion on the draft plan was held with representatives of economic and social partners, non-profit sector, regions, both chambers of the Parliament and other relevant institutions, including the Czech Fiscal Council. Moreover, draft plan was provided to the Government Council for Sustainable Development and the Government Council for Non-Governmental Organisations. The plan was also discussed in two parliamentary committees. Finally, representatives of the economic and social partners were able to present their views at the Working Party of the Economic and Social Agreement Council.

(9) (9) The Committee on Budgetary Forecasts, tasked with assessing the macroeconomic and budgetary forecasts, delivered an opinion on the macroeconomic forecast underpinning the multi-annual net expenditure path. The Committee assessed the macroeconomic forecast as realistic.

(10) The plan was discussed in the national parliament on 8 October 2024. It was consequently adopted by the government on 16 October 2024.

**Other related processes**

(11) On 21 October 2024, the Council addressed to Czechia a series of country-specific recommendations (CSRs) in the context of the European Semester ([8]).

**SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF**

(12) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

**Context: macroeconomic and fiscal situation and outlook**

(13) Economic activity in Czechia declined by 0,1 % in 2023, as high inflation eroded purchasing power and led to declining household consumption. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 1,0 % in 2024, on the back of a gradual recovery in domestic demand driven by real wage growth and declining inflation. In 2025, real GDP is set to increase by 2,4 % as household consumption and investment growth accelerates, while net exports contribute negatively. In 2026, real GDP is expected to increase by 2,7 %, driven by growth in household consumption and gross fixed capital formation as well as a recovery in exports. Over the forecast horizon (i.e., 2024–2026), potential GDP growth in Czechia is expected to increase slightly, from 1,6 % in 2024 to 1,8 % in 2026, driven by increasing productivity and higher capital investments, while the labour contribution is declining. The unemployment rate stood at 2,6 % in 2023 and is projected by the Commission to amount to 2,6 % in 2024, 2,7 % in 2025 and 2,7 % in 2026. Inflation (GDP deflator) is projected to decrease from 8,2 % in 2023 to 4,0 % in 2024, and to reach 2,4 % in 2025 and 2,4 % in 2026.

(14) Regarding fiscal developments, in 2023 Czechia's general government deficit amounted to 3,8 % of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 2,5 % of GDP in 2024 and to decline further to 2,3 % of GDP in 2025 and, on a no-policy change basis, to 1,9 % in 2026. The European Commission Autumn 2024 Forecast includes Czechia's draft budget for 2025 that the government proposed to the national parliament in September. General government debt was 42,4 % of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to increase to 43,4 % of GDP at end-2024. It is projected to increase further to 44,4 % of GDP at end-2025 and 44,8 % at end-2026. The fiscal forecast by the Commission does

([8]) Council Recommendation of 21 October 2024 on economic, budgetary, employment and structural policies of Czechia. (OJ C, C/2024/6810, 29.11.2024, ELI: http://data.europa.eu/eli/C/2024/6810/oj).

not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

**Net expenditure path and main macroeconomic assumptions in the plan**

(15) Czechia's national medium-term fiscal-structural plan covers the period 2025–2028 and presents a fiscal adjustment over four years.

(16) The plan contains the information required by Article 13 of Regulation (EU) 2024/1263, with the exception of the planned fiscal-structural measures in the outer years of the plan.

(17) The plan commits to the net expenditure path indicated in Table 2, corresponding to average net expenditure growth of 3,1 % over the years 2025–2028. The technical information (assuming a linear adjustment path) is consistent with an average net expenditure growth of 3,5 % over the adjustment period (2025-2028). The net expenditure path committed to in the plan is reported to lead to a structural primary balance of 0,4 % of GDP at the end of the adjustment period (2028). This is equal to the minimum level of the structural primary balance of 0,4 % of GDP in 2028 provided by the Commission in the technical information on 21 June 2024 ([9]). The plan assumes potential GDP growth to decrease from 2,0 % in 2024 to 1,4 % in 2025 before increasing slightly to reach 1,6 % on average over the adjustment period (2025–2028). In addition, the plan expects the growth rate of the GDP deflator to decrease from 3,4 % in 2024 to 2,7 % in 2025, and to decrease gradually further to 2,0 % by 2028.

**Table 2: Net expenditure path and main assumptions in Czechia's plan**

| | 2024 | 2025 | 2026 | 2027 | 2028 | Average over the period of validity of the plan 2025–2028 |
|---|---|---|---|---|---|---|
| Net expenditure growth (annual, %) | 5,3 | 4,5 | 2,5 | 2,6 | 2,9 | 3,1 |
| Net expenditure growth (cumulative, from base year 2023, %) | 5,3 | 10,1 | 12,9 | 15,8 | 19,2 | n.a. |
| Potential GDP growth (%) | 2,0 | 1,4 | 1,5 | 1,8 | 1,5 | 1,6 |
| Inflation (GDP deflator growth) (%) | 3,4 | 2,7 | 2,2 | 2,1 | 2,0 | 2,2 |

Source: Medium-term fiscal-structural plan of Czechia and Commission calculations.

**Implications of the plan's net expenditure commitments for general government debt**

(18) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, increase from 44,1 % in 2024 to 45,3 % of GDP in 2026, and decrease thereafter to 44,2 % of GDP at the end of the adjustment period (2028), as per the following table. Over the medium term, i.e. until 2038, the debt ratio is expected to broadly stabilise until 2033 according to the plan and increase thereafter to 47,5 % of GDP in 2038.

**Table 3: General government debt and balance developments in Czechia's plan**

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2038 |
|---|---|---|---|---|---|---|---|
| Government debt (% of GDP) | 42,4 | 44,1 | 45,1 | 45,3 | 44,7 | 44,2 | 47,5 |

([9]) In the scenario without the deficit resilience safeguard.

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2038 |
|---|---|---|---|---|---|---|---|
| Government balance (% of GDP) | - 3,8 | - 2,8 | - 2,5 | - 1,7 | - 0,9 | - 0,5 | - 2,6 |

Source: Medium-term fiscal-structural plan of Czechia

Thus, according to the plan, general government debt would stay below the Treaty reference value of 60 % of GDP over the medium term. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Article 16(2) of Regulation (EU) 2024/1263.

**Implications of the plan's net expenditure commitments for the general government balance**

(19) Based on the plan's net expenditure path and assumptions, the general government deficit would gradually improve from 2,8 % of GDP in 2024 to 0,5 % of GDP at the end of the adjustment period (2028). Thus, according to the plan, the general government deficit would not exceed the 3 % of GDP reference value at the end of the adjustment period (2028). In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3 % of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Article16 (2) of Regulation (EU) 2024/1263.

**Macroeconomic assumptions of the plan**

(20) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Czechia on 21 June 2024. In particular, the plan uses different assumptions for eight variables, namely the starting point (structural primary balance in 2024), potential GDP growth, real GDP growth, GDP deflator growth, nominal (implicit) interest rate, fiscal multiplier, stock-flow adjustments, and revenue assumptions (i.e. assumed elasticities). An assessment of these different assumptions is provided below.

(21) The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

— The plan assumes the starting point (structural primary balance in 2024) at - 0,7 % of GDP, which is lower than the Commission assumption of - 0,1 % of GDP. This contributes to lower average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. This is explained by more recent information compared with the Commission's assumptions, including a lower estimate for the general government balance in 2024 (- 2,8 % of GDP in the plan compared to - 2,4 % of GDP according to the European Commission's assumptions). This is broadly in line with the Commission 2024 Autumn forecast. Consequently, this assumption is deemed to be duly justified.

— The plan assumes potential GDP growth at 1,6 % on average over the adjustment period (2025–2028). This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. After the end of the adjustment period (2029-2038), the potential growth series converges towards the Commission's assumptions, resulting in a higher average potential growth for the plan than the Commission assumptions (1,4 % compared to 1,3 %). The deviation until 2028 is explained by Czechia's more favourable short-term macroeconomic projections in the plan, and a slight upward GDP growth revision for 2023. Furthermore, the plan indicates that potential growth estimates include as input the plan's macroeconomic forecast of August 2024 for the horizon up to 2028. In addition, the cumulated growth over the projection horizon remains broadly in line with the results of the commonly agreed methodology. Consequently, this assumption is deemed to be duly justified.

— The plan assumes GDP deflator growth to be lower by 0,5 pp on average over the projection horizon than the Commission's assumption. This contributes to lower average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. This more cautious assumption than in the Commission's prior guidance is explained in the plan by the incorporation of more recent data, by assuming the 2 % inflation target (CPI growth) to be reached by mid-2026, and by assuming the GDP deflator to converge to

this value in 2028 and remaining stable at 2028 values over the remaining projection horizon. This assumption is deemed to be duly justified.

— The plan assumes the nominal (implicit) interest rate to be lower by 0,6 pp on average over the projection horizon than the Commission's assumption. This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. The deviation follows from the assumption of lower market interest rates for the short term and long term by about 1 pp, which represents a more optimistic assumption compared to the Commission's. This is explained by the incorporation of more recent data, and by a different method, which is based on an expectation of a decline in market interest rates in line with the path of the central bank's base rate. The deviation follows also from slightly more favourable assumption of real GDP growth in the plan (denominator effect). Consequently, this assumption is deemed to be duly justified.

The remaining differences in assumptions do not have a significant impact on average net expenditure growth compared to the European Commission's assumptions. Overall, all the differences taken together lead to an average net expenditure growth that is lower in the plan than the average net expenditure growth implied by the technical information. Moreover, in its plan, Czechia commits to a net expenditure path that is even lower than this ceiling. The European Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with this recommendation.

**Fiscal strategy of the plan**

(22) The plan does not include an indicative fiscal strategy to implement the net expenditure path of the plan, as that path is only set as a technical ceiling that Czechia commits not to exceed. The precise specification of the relevant policy measures is to be confirmed or adjusted and quantified in the annual budgets.

**Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union**

(23) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs addressed to Czechia, and to address the common priorities of the EU. The plan includes 128 reforms and investments, of which 78 are financially supported by the Recovery and Resilience Facility, and 85 by the cohesion policy funds.

(24) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes 63 measures, of which 52 are supported by the RRF. The measures to address challenges of the green transition are included in the National Energy and Climate Plan of the Czech Republic. The most important measures include the reforms LEX RES I and II, which streamline permitting and construction of renewable energy sources, introduce energy communities, and launch the Energy Data Centre. Soon, the LEX RES III will provide for a more flexible electricity system. Regarding energy efficiency, the New Green Savings and the New Green Savings Light programmes support in-depth renovation of buildings. Other relevant measures include electrification of train tracks and replacement of vehicles with more emission-efficient ones. These measures intend to address CSRs in the policy area of renewable energy, energy infrastructure and networks, and energy efficiency (addressed to Czechia in 2019, 2020, 2022 and 2023), and sustainable transport (addressed to Czechia in 2019, 2020 and 2023). Concerning challenges of digital transition, the most important measures include reforms and investments to develop 5G infrastructure in rural and high-need areas, to expand 5G signal coverage, including on transport corridors and trains, and to support industrial R&D projects using 5G. These measures relate to (2019 and 2020) CSRs in the policy area of digital connectivity and infrastructure.

(25) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes 48 measures, of which 23 are supported by the RRF. Concerning challenges to smart, sustainable and inclusive growth, the most important measures include draft law on research, development, innovation and knowledge transfer, investments in digitalization of enterprises, and the National Public Procurement Strategy. These measures intend to address (2019, 2020 and 2024) CSRs in the policy area of business environment including SME policies, and research & innovation, and the 2019 CSR on quality-based competition in public procurement. Concerning challenges to social and territorial cohesion, the most important measures include the amendment of the first pillar of the pension system, a pilot testing of a new tool 'the integration workplace', the increase in the

capacity of pre-school childcare services, retraining in digital skills, and the development of digital education. Other relevant measures include the amended Construction Act, and draft Act on Housing Support. These measures concern (2019, 2022, 2023 and 2024) CSRs to ensure the long-term fiscal sustainability of the pension system, 2020 CSRs in the areas of active labour market policies and social inclusion, the 2019 CSR to improve access to affordable childcare, 2019 and 2020 CSRs to foster digital skills and access to digital learning, 2022 and 2023 CSRs on the provision of social and affordable housing and 2024 CSR on promoting higher female labour market participation by lowering tax and benefit disincentives for parents to return to work. Concerning challenges to health, and economic, social and institutional resilience, the most important measures include the Whistleblower Protection Act, and the draft Act on Lobbying Regulation, a human resources action plan for central government authorities, and the increase and indexation of recurrent taxes on immovable property. These measures tackle the 2019 CSR to adopt pending anti-corruption measures, the 2024 CSR to strengthen the capacity of Czechia's public administration to attract, retain and develop talent, and 2024 CSR to increase revenue from recurrent property taxes. Concerning policies for the next generation, the most important measures include the increase of the quality and accessibility of pre-school education, the support of integration of children of third country nationals, the ongoing reform of teacher training, and the strengthening of inclusion in education. These measures tackle the 2019 CSR to increase the quality and inclusiveness of the education.

(26) Concerning the common priority of energy security, the plan includes measures that intend to address this common priority, none of which are supported by the RRF. The most important measures include the lease of capacities of the LNG terminals and the completion of TAL+ project in view of phasing away from Russian fossil fuels. These measures are expected to tackle the 2022 CSR to diversify imports of fossil fuel. In addition, the government takes steps to replace the existing units of the Dukovany Nuclear Power Plant.

(27) Concerning the common priority of defence capabilities, the plan includes increased defence spending to around 2 % of GDP in 2024, in alignment with NATO commitments.

(28) The plan provides information on the consistency and, where appropriate, complementarity, with the cohesion policy funds and Czechia's recovery and resilience plan (RRP). The dominant part of the measures included in the plan is financed by the RRF. The plan and annex to the plan comprehensively map the reforms and investments on the cohesion policy funds and the RRP.

(29) The plan provides an overview of the public investment needs of Czechia regarding the common priorities of the EU. Regarding the common priority of a fair green and digital transition, including consistency with the European Climate Law, investment needs include transformation of the energy sector, development of renewable energy sources, reducing energy consumption and emissions of buildings, developing 5G mobile network infrastructure, and simplifying access to digital public services. To ensure social and economic resilience, Czechia plans to invest in innovative start-ups and growing companies, facilitate retraining and further education, and increase capacity of childcare. To increase energy security, Czechia intends to support applied research in energy.

**Conclusion of the Commission's assessment**

(30) Overall, the Commission is of the view that Czechia's plan fulfils the requirements of Regulation (EU) 2024/1263.

**OVERALL CONCLUSION OF THE COUNCIL**

(31) The Council welcomes the medium-term fiscal-structural plan of Czechia and considers that its full implementation would be conducive to ensuring sound public finances and supporting public debt sustainability as well as sustainable and inclusive growth.

(32) The Council takes note the Commission's assessment of the plan. However, the Council invites the Commission to present its assessment of future plans in a separate document from the Commission recommendations for Council recommendations.

(33) The Council takes note of the Commission assessment of the net-expenditure path and the main macroeconomic assumptions in the plan, including in relation to the prior guidance by the Commission, as well as the implications of the plan's net expenditure path for government deficit and debt. The Council takes note of the Commission assessment that the macroeconomic and fiscal assumptions, while differing in some instances from the Commission's assumptions, including to cater for updated macroeconomic and fiscal data, are overall duly justified and underpinned by sound economic arguments. The Council takes note of the broad fiscal strategy of the plan and the risks to the outlook, which could affect the materialisation of the macroeconomic scenario and the underlying assumptions and the delivery of the plan's net expenditure path. In particular, the Council also welcomes that relevant stakeholders were engaged with at the national level prior to the submission of the plan. The Council also notes that geopolitical risks may put pressure on defence expenditures.

(34) The Council expects Czechia to stand ready to adjust its fiscal strategy as needed to ensure delivery of its net expenditure path. The Council resolves to monitor closely economic and fiscal developments, including those underlying the scenario of the plan.

(35) The Council considers that further discussions to find a common understanding on the annual surveillance implications of the cumulative net-expenditure growth rates is warranted in time for the next round of fiscal surveillance.

(36) The Council takes note of the Commission description of the reforms and investment needs and intentions responding to the main challenges identified in the context of the European Semester, and stresses the importance of ensuring the delivery of such reforms and investments. The Council will, on the basis of reports submitted by the Commission, assess such reforms and investments and monitor their implementation within the framework of the European Semester.

(37) The Council looks forward to the annual progress reports from Czechia that shall contain, in particular, information about the progress in the implementation of the net expenditure path as set by the Council, and the implementation of broader reforms and investments in the context of the European Semester.

(38) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Czechia.

HEREBY RECOMMENDS that Czechia:

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

Done at Brussels, 21 January 2025.

*For the Council*

*The President*

A. DOMAŃSKI

*ANNEX I*

**Maximum growth rates of net expenditure**
**(annual and cumulative growth rates, in nominal terms)**

**Czechia**

| Years | | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Growth rates (%) | Annual | 4,5 | 2,5 | 2,6 | 2,9 |
| | Cumulative (*) | 10,1 | 12,9 | 15,8 | 19,2 |

(*) The cumulative growth rates are calculated by reference to the base year of 2023. The cumulative growth rates are used in the annual monitoring of ex-post compliance in the control account.