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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Czechia for 2027-2030 and clarifying flexibility allowed under the national escape clause in 2027 and 2028

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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 Articles 17 and 26 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) The EU's economic governance framework[1] 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 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 Union. To that end, each plan is to present a medium-term commitment to maximum growth rates of net expenditure[2], 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

[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 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj), together with Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 209, 2.8.1997, ELI: http://data.europa.eu/eli/reg/1997/1467/2024-04-30), and Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L, 306, 23.11.2011, ELI: http://data.europa.eu/eli/dir/2011/85/2024-04-30).

[2] 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.

European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP)), and how the Member State intends addressing the common priorities of the Union. The period for fiscal adjustment covers 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.

(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 maximum growth rates of net expenditure over the medium term of the Member State concerned and, where applicable, to endorse the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

RELATED PROCESSES, INCLUDING THE PREVIOUSLY RECOMMENDED NET EXPENDITURE PATH

(5) On 21 January 2025 the Council adopted a recommendation endorsing the medium-term fiscal-structural plan of Czechia[3]. On 8 July 2025, upon Czechia's request to activate the national escape clause to accommodate higher defence spending, the Council adopted a recommendation[4] allowing Czechia to deviate from the maximum growth rates of net expenditure recommended by the Council Recommendation C/2025/666, for the period 2025-2028.

(6) On 3 June 2026, as part of the European Semester Spring 2026 package, the Commission assessed Czechia's compliance with the maximum growth rates of net expenditure.[5] Based on the Commission's calculations, the cumulative growth rate of net expenditure in 2025, *i.e.* considering 2024 and 2025 together, was below the maximum net expenditure growth recommended by the Council on 21 January 2025. In 2026, the projected net expenditure growth in cumulative terms over 2024, 2025 and 2026 exceeded by 0.1% of GDP the recommended maximum. However, the projected deviation is within the flexibility provided for by the national escape clause based on current projections for defence spending (see also Table 3). Accordingly, Czechia was assessed to be compliant with the recommended maximum growth rate of net expenditure in 2025 and projected to be compliant in 2026[6].

(7) On 8 July 2025, the Council addressed to Czechia a series of country-specific recommendations (CSRs) in the context of the European Semester[7]. After the

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[3] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Czechia, OJ C, C/2025/666, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/666/oj.

[4] Council Recommendation of 8 July 2025 allowing Czechia to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3962, 20.8.2025, ELI: http://data.europa.eu/eli/C/2025/3962/oj).

[5] As Czechia benefits from flexibility under the national escape clause, the assessment of compliance focussed on the comparison of net expenditure growth with the maximum growth rates of net expenditure as recommended by the Council in cumulative terms.

[6] COM(2026) 200 final and Commission Staff Working Document SWD(2026)200, 'Fiscal statistical tables providing background data relevant for the assessment of the budgetary policies of the Member States', 3.6.2026.

[7] Council Recommendation on the economic, social, employment, structural and budgetary policies of Czechia, OJ C, C/2025/3977, 20.8.2025, ELI: http://data.europa.eu/eli/C/2025/3977/oj.

submission of the revised national medium-term fiscal structural plan assessed in this Recommendation, on 10 July 2026, the Council addressed to Czechia a new set of CSRs[8].

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

(8) According to Article 15(2) of Regulation 2024/1263, in the case of a newly appointed government, a Member State may submit a revised medium-term fiscal-structural plan. Following general elections in Czechia on 3 and 4 October 2025, a new government was established on 15 December 2025. On 22 June 2026, Czechia submitted a revised national medium-term fiscal-structural plan (henceforth 'the plan') to the Council and to the Commission. The plan covers the period from 2027 until 2030.

Process prior to the submission of the plan of June 2026

(9) Prior to the submission of its plan, Czechia requested technical information[9], which the Commission provided, according to Article 15(4) of Regulation (EU) 2024/1263, on 28 May 2026 and published on 22 June 2026[10]. The technical information indicates the structural primary balance in 2030 that is projected to be 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[11], in line with Article 9(3) of Regulation (EU) 2024/1263, and a scenario without this safeguard.

(10) The technical information for Czechia sets out that, in order to comply with the applicable fiscal rules over an adjustment period of four years, and based on the Commission's assumptions, the structural primary balance should amount to at least 0.5% of GDP at the end of the adjustment period (2030; scenario without the deficit

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8 Council Recommendation on the economic, social, employment, structural and budgetary policies of Czechia, OJ C, C/2026/XXXX, XX.X.2026, ELI: http://data.europa.eu/eli/C/20XX/XXXX/oj.

9 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 technical information 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) and its subsequent refinements agreed at the DSA Working Group. It is based on the European Commission Spring 2026 Forecast and its medium-term extension up to 2035, 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).

10 https://economy-finance.ec.europa.eu/economic-surveillance-eu-member-states/country-pages-including-country-reports/czechia/fiscal-surveillance-czechia_en

11 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 in case of an extension of the adjustment period) until the structural deficit is lower than 1.5% of GDP.

resilience safeguard), as per Table 1. For information, considering also the deficit resilience safeguard, the structural primary balance should amount to at least 0.5% of GDP at the end of the adjustment period (2030). 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	2030
Minimum value of the structural primary balance (% of GDP), scenario without the deficit resilience safeguard	0.5
For information only: Minimum value of the structural primary balance (% of GDP), scenario with the deficit resilience safeguard	0.5

Source: Commission's calculations.

(11) In line with Article 12 of Regulation (EU) 2024/1263, Czechia and the Commission engaged in a technical dialogue in the course of May and June 2026. The technical dialogue centred on the maximum growth rates of net expenditure envisaged by Czechia and their underlying assumptions (in particular potential GDP growth projections, real GDP growth and nominal (implicit) interest rate), as well as on 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 of a fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(12) According to the information provided by Czechia in its plan, on 6 May 2026, in line with Article 11(3) of Regulation (EU) 2024/1263, 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 revision of the plan was prepared in cooperation with the relevant ministries and other public administration bodies, including the Czech Fiscal Council. In addition, on 6 May 2026, a roundtable discussion on the draft plan was held with representatives of employers, trade unions, experts and other stakeholders.

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

(13) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan of June 2026 as follows:

Context: macroeconomic and fiscal situation and outlook

(14) Real GDP in Czechia grew by 2.6% in 2025, driven by both domestic and external demand. According to the European Commission Spring 2026 Forecast, the economy is expected to grow by 1.8% in 2026, reflecting the impact of the energy price shock and a negative contribution from net exports. In 2027, real GDP is projected to increase by 2.4%, supported by solid household and government consumption,

investment, and a higher contribution from net exports. Over the forecast horizon (i.e., 2026-2027), potential GDP growth in Czechia is expected to decrease slightly, from 1.6% in 2025 to 1.5% in 2027, driven by a slowdown in the growth rate of the working population. The unemployment rate stood at 2.8% in 2025 and is projected by the Commission to rise to 3.1% in 2026 and 3.2% in 2027. Inflation (GDP deflator) is projected to decrease from 3.5% in 2025 to 2.7% in 2026, and to reach 3.1% in 2027.

(15) Regarding fiscal developments, Czechia's general government deficit amounted to 2.1% of GDP in 2025. According to the European Commission Spring 2026 Forecast, the deficit is set to reach 2.8% of GDP in 2026 and, assuming unchanged policies, to increase further to 2.9% of GDP in 2027. The cut-off date of the Commission 2026 Spring Forecast was 4 May 2026[, i.e., before the draft budget for 2027 was presented to the national parliament in September 2026: *this text in square brackets needs to be confirmed or adjusted in September at the time of the discussion in the committees and further handling by the Council secretariat*]. The general government debt was 44.3% of GDP at end-2025. According to the European Commission Spring 2026 Forecast, the debt ratio is expected to increase to 45.8% of GDP at end-2026 and is projected to increase further to 47.2% of GDP at end-2027. According to established practice, the fiscal forecast by the Commission does not consider the policy commitments in the medium-term fiscal-structural plans as such, unless and until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

Maximum growth rates of net expenditure and main macroeconomic assumptions in the plan of June 2026

(16) The plan covers the period 2027-2030 and presents a fiscal adjustment over four years.

(17) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263.

(18) The plan commits to the maximum growth rates of net expenditure indicated in Table 2 below, corresponding to average annual net expenditure growth of 3.2% over the years 2027-2030. The technical information (assuming a linear adjustment path) is consistent with an average net expenditure growth of 3.2% over the adjustment period (2027-2030). The net expenditure path committed to in the plan is expected to lead to a structural primary balance of 0.3% of GDP at the end of the adjustment period (2030). This is lower than the minimum level of the structural primary balance of 0.5% of GDP in 2030 provided by the Commission in the technical information. The plan assumes that potential GDP growth decreases to 1.2% in 2030 (from 1.6% in 2025). In addition, the plan expects the growth rate of the GDP deflator to decrease to 3.3% in 2027 (from 3.5% in 2025), before decreasing to 2.4% in 2030.

Table 2: Maximum net expenditure growth and main assumptions in Czechia's plan(*)

	2026	2027	2028	2029	2030	Average over the period of validity of the plan 2027-2030
Net expenditure growth (annual, %)	6.4	5.4	2.7	2.4	2.2	3.2

Net expenditure growth (cumulative, from base year 2025(**), %)	6.4	12.1	15.2	17.9	20.5	n.a.
Potential GDP growth (%)	1.6	1.5	1.5	1.2	1.2	1.3
Inflation (GDP deflator growth) (%)	2.9	3.3	2.8	2.6	2.4	2.8

Source: Medium-term fiscal-structural plan of Czechia (June 2026) and Commission calculations.

(*) In the plan, two sets of macroeconomic assumptions are presented, based on the Macroeconomic Forecast of the Czech Republic (April 2026) and based on the Commission Spring 2026 Forecast (May 2026). Tables 3.4 and 3.5 in the plan are used for the assessment. (**) The cumulative growth rates are calculated by reference to the base year of 2025, the latest year for which outturn fiscal data have been published by the national statistical institute and Eurostat.

(19) The plan estimates the net expenditure growth rate in 2026 at 6.4%. This growth rate is relevant for defining the cumulative growth rates for 2027-2030 shown in Table 2, as the base year is 2025, the last year for which outturn data have been published by the national statistical institute and Eurostat. Compared to the Council Recommendation of 21 January 2025, the net expenditure growth for 2026 projected in the plan would, based on Commission calculations, imply a cumulative deviation of 0.1% of GDP by end 2026, before considering the flexibility provided for by the national escape clause (see Table 3). After considering the flexibility from the national escape clause, the projected cumulated deviation would be -0.2% of GDP (i.e., therefore below the recommended expenditure path in 2026 after taking into account the flexibility). This is the same as in the Commission assessment in the spring 2026 European semester package (See recital 6).

Table 3: Net expenditure growth, annual and cumulated deviations in 2025 and 2026 (projected) compared to the Council Recommendation of 21 January 2025

		2025	2026	
Recommended maximum net expenditure, annual *Council recommendation of 21 January*	% change	**4.5**	**2.5**	
			COM	**MTP**
Net expenditure, annual	% change	**4.9**	**6.4**	**6.4**
Annual deviation*	% GDP	0.2	1.5	1.5
Cumulated deviation*	% GDP	-1.4	0.1	0.1
Cumulated deviation* after NEC flexibility	% GDP	-1.7	-0.2	-0.2

*Deviations for 2026 are calculated by Commission services, assuming net expenditure growth as projected in the Commission Spring 2026 Forecast (COM) and in the Medium Term Fiscal Structural Plan of Czechia (June 2026) (MTP). * A positive (negative) value indicates that net expenditure is above (below) the recommended maximum growth rate.*

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

(20) Based on the plan's maximum growth rates of net expenditure and assumptions, the general government deficit would gradually improve from 2.8% of GDP in 2026 to 1.2% of GDP at the end of the adjustment period (2030), as per Table 4. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2030). In addition, in the ten years following the adjustment period (i.e. until 2040), 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 Article 16(2) of Regulation (EU) 2024/1263.

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

(21) If the maximum growth rates of net expenditure committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, increase from 45.8% in 2026 to 46.6% of GDP at the end of the adjustment period (2030), as per Table 4. Over the medium term, i.e. until 2040, the debt ratio is expected to broadly stabilise until 2032 according to the plan and increase thereafter to 52.9% of GDP in 2040. 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 maximum growth rates of net expenditure put forward in the plan are consistent with the requirement for debt as set out in Article 16(2) of Regulation (EU) 2024/1263.

Table 4: General government debt and balance developments in Czechia's plan

	2025	2026	2027	2028	2029	2030	2040
Government debt (% of GDP)	44.3	45.8	46.9	46.6	46.8	46.6	52.9
Government balance (% of GDP)	-2.1	-2.8	-2.8	-2.0	-1.6	-1.2	-3.0

Source: Medium-term fiscal-structural plan of Czechia (June 2026)

Macroeconomic assumptions of the plan

(22) The plan is based on a set of assumptions that differs from the Commission's assumptions, which were transmitted to Czechia on 28 May 2026. In particular, the plan uses different assumptions for six variables, namely GDP deflator growth, real GDP growth, the nominal (implicit) interest rate, the fiscal multiplier, the stock-flow adjustment, and one-offs. The differences in assumptions with the most significant impact on average maximum net expenditure growth are listed and assessed below.

- The plan differs from the Commission's prior guidance in two respects concerning the GDP deflator growth. First, based on a higher assumed growth of the domestic demand deflator, the plan includes a GDP deflator growth for 2027 that is higher by 0.2 percentage point than in the technical information provided by the Commission and based on the 2026 Spring Forecast. This assumption is deemed not to be duly justified; the Commission is not aware of data releases or updates which would justify a sizeable upward revision in the GDP deflator estimate for 2027, compared to the one in the technical information. Furthermore, the most recent macroeconomic developments (i.e., faster-than-expected decline of energy commodity prices in 2026) point to a less marked decline in import prices of goods in 2027, which would lower the GDP deflator estimates for 2027. Second, as from 2028, the GDP deflator growth converges faster and to a lower level (2.0%) than what is assumed under the common DSA framework (2.3%). This more cautious assumption than in the technical information is explained in the plan by assuming a gradual convergence of consumer price inflation to the Czech central bank's 2% target by 2032, and by also assuming the convergence of GDP deflator growth to this value in 2032 and then remaining stable at the 2032 values over the rest of the projection horizon. Overall, average GDP deflator growth over the entire projection period (2027-2040) is lower in the plan than according to the Commission's assumptions, at 2.2% compared to 2.6% respectively. For the purpose of preparing the medium-term plan, the assumption for the average GDP deflator growth over the entire projection period (2027-2040) is therefore deemed prudent and duly justified.
- The plan assumes the nominal (implicit) interest rate to be lower by 0.2 percentage point on average over the projection horizon than the Commission's assumption. In the context of the medium-term plan, lower interest allows higher average net primary expenditure growth over the adjustment period. This deviation in the nominal (implicit) interest rate results from lower market interest rates assumptions over the adjustment period for the short term and long term by 0.6 and 0.8 percentage point respectively, which represents more benign assumptions compared to the Commission's. This is explained by the incorporation of more granular data as well as the use of a different forecast method, which is based on an expectation of a stabilisation of the interest rates in line with the path of the central bank's base policy rate. This approach is not in line with the common DSA framework.

Remaining differences in assumptions do not have a significant impact on average net expenditure growth compared to the European Commission's assumptions. On balance, the impact of more cautious assumptions broadly cancels out the impact of the differences in assumptions that are not in line with the DSA framework. Overall, all the differences in assumptions taken together are consistent with an average maximum net expenditure growth that is equal to the average maximum net expenditure growth implied by the technical information. The European Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the maximum growth rates of net expenditure.

Fiscal strategy of the plan

(23) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered mainly through both expenditure restraint and discretionary revenue increases. According to the plan, the positive impact on public revenue should result from increasing the efficiency of tax collection and curbing the shadow economy. Digitising and streamlining public administration should decrease the growth of public expenditure. Finally, increasing economic growth through higher investment, innovation and infrastructure modernisation should support fiscal consolidation in nominal terms. One of the most significant measures expected is the forthcoming EET 2.0 system, i.e. the modernised electronic registration of sales, which is expected to reduce tax evasion.

(24) The specification of the policy measures to be adopted is to be confirmed or adjusted and quantified in the annual budgets. At the same time, there are risks to the implementation of the indicative fiscal strategy in the plan, which stem from the backloaded time profile of the adjustment, the electoral cycle, and the lack of information on the intended fiscal strategy in the outer years of the plan (as assessed above).

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

(25) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, as set out in particular in the 2025 country-specific recommendations, and in line with the priorities of the Communication “A Competitiveness Compass for the EU”[12]. The plan includes reforms and investments, most of which are financially supported either by the Recovery and Resilience Facility (RRF) or by the cohesion policy funds. The plan’s reforms and investments are based on an existing government strategy document (‘Economic Strategy “Czech Republic: A Country for the Future 2.0’). As indicated above, after the submission of the plan of June 2026, the Council has adopted the 2026 country-specific recommendations, [13] which therefore could not yet be reflected in the plan.

(26) 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 measures, some of which are supported by the RRF. The measures related to challenges of the green transition are included in the National Energy and Climate Plan of the Czech Republic. The most important measures include the modernisation of distribution networks focused on increasing capacity for connecting new sources and installing large-capacity batteries, rolling out of supporting infrastructure including the Energy Data Centre, introducing special zones for energy storage and for grid infrastructure, modernisation of industry and the heating sector through the “HEAT” programme, and creation of a comprehensive legal framework for the establishment and development of the hydrogen market and hydrogen infrastructure in Czechia (LEX HYDROGEN). In the area of building decarbonisation, a new energy standard for planned

[12] See Commission Communication “A Competitiveness Compass for the EU” of 29 January 2025, COM(2025)30 final.

[13] Council Recommendation on the economic, social, employment, structural and budgetary policies of Czechia, OJ C, C/2026/XXXX, XX.X.2026, ELI: http://data.europa.eu/eli/C/20XX/XXXX/oj.

construction and a new energy performance database with online viewing capabilities will be introduced. Regarding energy efficiency, the New Green Savings and the New Green Savings Light programme, which support in-depth renovation of buildings, are being amended to increase their financial sustainability and leverage and focus on low-income individuals. Other relevant measures include electrification of train tracks, replacement of vehicles with more emission-efficient ones and support of the acquisition and operation of zero-emission vehicles. These measures relate to the CSRs in the policy area of renewable energy, energy infrastructure and networks, energy efficiency, and sustainable transport. Concerning challenges of digital transition, the most important measures include development of high-capacity digital networks, continued roll-out of digital public services, and support of digitization of businesses. These measures relate to the 2025 CSRs in the policy area of public administration, access to finance and growth financing.

(27) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes measures, some of which are supported by the RRF and ESF+. Concerning challenges to smart, sustainable and inclusive growth, the most important measures include programmes supporting research, development and innovation in businesses, with a focus on critical and emerging strategic technologies, particularly AI, and introducing innovations into business practice in small and medium-sized enterprises. Other programmes aim at helping to develop the potential of existing start-ups with the aim of strengthening innovative cooperation between Czech start-ups and world-leading start-up ecosystems. The government also implements changes to the evaluation, and facilitates collaboration, of research organisations. These measures relate to the 2025 CSRs in the policy area of research and innovation.

Concerning challenges to social and territorial cohesion, the most important measures include increasing pension adequacy, simplifying and changing the parameters of the social benefits system, and increasing the labour market participation of parents, especially women, and of disadvantaged groups through support for the social economy. Other relevant measures include the planned amendment of the Construction Act aimed at speeding up housing construction, reform of the rental market, and revival of social housing construction. These measures concern the 2025 CSRs in the policy areas of active labour market policies, incentives to work and labour market participation, non-discrimination and equal opportunities, and housing.

Concerning challenges to health, and economic, social and institutional resilience, the most important measures include plans to strengthen capacity and efficiency of public administration and improve quality of public service, increase resilience, efficiency, digitalisation and sufficient staffing of the healthcare sector, and further development of long-term care. The government also prioritises curbing illegal and undeclared work. These measures relate to the 2025 CSRs in the policy area of public administration, digitalisation of public administration and public services, and budgetary framework and fiscal governance.

Concerning policies for the next generation, the most important measures include the increase of the accessibility and quality of pre-school education, strengthening the quality of the teaching profession and management of schools, and increasing the relevance of secondary education to the needs of the labour market. In tertiary education, the most important measures include increasing student success rates, developing strategically important study programmes, and better linking universities with the research and innovation sectors. These measures concern the 2025 CSR in the policy areas of education, non-discrimination and equal opportunities.

(28) Concerning the common priority of energy security, the plan includes measures, some of which are supported by the RRF. The most important measures include amendment to the Energy Act aimed at accelerating the construction of replacement sources for coal-fired power plants that are being phased out. The grant programme "Strategic Investments for a Climate-Neutral Economy" will support *inter alia* two large-scale projects on battery production and on the extraction of raw materials critical for the decarbonization of the economy and strengthening the energy security. These measures concern the 2025 CSR in the policy area of renewable energy, energy infrastructure and networks. The government also continues with the planned expansion of the Dukovany Nuclear Power Plant.

(29) Concerning the common priority of defence capabilities, the plan includes the enacted Defence Funding Act and amended Act on Budgetary Rules, which require the government to allocate at least 2% of GDP to defence spending and allow the government to increase defence spending for the years 2026 through 2033 above 2% of GDP, even beyond the approved budgetary expenditure framework. Czechia also requested to activate the national escape clause, which allows for flexibility to increase defence spending by 1.5% of GDP in 2025–2028. These measures relate to the 2025 CSRs in the policy area of budgetary framework and fiscal governance.

(30) 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 cohesion policy funds. The plan (and the respective annex) also maps the reforms and investments on the cohesion policy funds and the RRP.

(31) The plan provides an overview of the public investment needs of Czechia related to the common priorities of the Union. 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, and developing 5G mobile network infrastructure. To ensure social and economic resilience, Czechia plans to broaden supply of digital public services, invest in innovative start-ups and growing companies, and increase efficiency of healthcare. To increase energy security, Czechia intends to invest in clean energy sources.

Conclusion of the Commission's assessment

(32) Overall, the Commission is of the view that Czechia's plan of June 2026 fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION ON THE REVISED PLAN OF CZECHIA AND ON THE FLEXIBILITY PROVIDED FOR BY THE NATIONAL ESCAPE CLAUSE

(33) This recommendation supersedes the Recommendation of 21 January 2025 with regard to the years 2027 and 2028. The maximum growth rates of net expenditure for 2026, in annual and cumulative terms, in Annex I of that Recommendation remain relevant to assess compliance until and including 2026. The Commission will assess

compliance for 2026 in the context of its autumn 2026 surveillance package and, based on outturn data, in spring 2027.

(34) In accordance with Article 17 of Regulation (EU) 2024/1263, the maximum growth rates of net expenditure committed to in the plan of June 2026 should be recommended by the Council to Czechia.

(35) With regard to the Council recommendation of 8 July 2025, the current recommendation clarifies the amount of flexibility allowed under the national escape clause for the increase in defence expenditure[14] that applies in 2027 and 2028. For that purpose, the overall maximum flexibility available in 2027 and 2028 should be limited to the flexibility that has not been used in respect of the superseded Recommendation of 21 January 2025.

(36) In general, when a Member State has already made use of the flexibility provided by the national escape clause for defence expenditure, only the part of the increase in defence expenditure as percent of GDP since the reference year that is above the already used flexibility qualifies for flexibility in the remaining years covered by the national escape clause. Moreover, in such cases also the available maximum flexibility of 1.5% of GDP should be reduced by the amount of previously used flexibility. In the case of Czechia, the relevant year for measuring the used flexibility is 2026, *i.e*. the last year to which the Recommendation of 21 January 2025 applies. According to the Commission, before considering the flexibility provided by the national escape clause, in 2026 net expenditure deviated by 0.1% of GDP in cumulative terms from the maximum net expenditure path recommended by the Council on 21 January 2025 (see recital 6). According to the Commission Spring 2026 Forecast, nationally financed defence spending in Czechia is projected to increase by 0.3 percentage points of GDP between 2021 and 2026. Based on these projections, the projected deviation for 2026 is therefore expected to be within the flexibility of the national escape clause. This corresponds to a projected use of the flexibility of 0.1% of GDP in 2026. However, the actual used flexibility in 2026 relevant for this recommendation can only be determined when outturn data will be available, in spring 2027. The Commission will compute and communicate the available maximum flexibility based on outturn data in spring 2027.

HEREBY RECOMMENDS that:

(1) Czechia ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

(2) Until 2028, Czechia be allowed to exceed the maximum growth rates of net expenditure as set by point 1 of this Recommendation, to the extent that the net expenditure in excess of these maximum growth rates is not more than the minimum of:

(a) the difference between the increase in defence expenditure in percent of GDP since 2021 and the flexibility used until 2026 under the Recommendations of 21 January 2025 and 8 July 2025; and

[14] General government defence expenditure according to the International Classification of the Functions of Government (COFOG).

(b) the difference between 1.5% of GDP and the flexibility used until 2026 under the Recommendations of 21 January 2025 and 8 July 2025.

The flexibility used until 2026 is to be computed and communicated by the Commisison in spring 2027 based on outturn data for 2026.

(3) In the years after 2028, Czechia still be allowed to deviate from and exceed the maximum growth rates of net expenditure as set by a Council Recommendation in accordance with Articles 17, 19 or 20 of Regulation (EU) 2024/1263, to the extent that the net expenditure in excess of these maximum growth rates is related to deliveries of military equipment contracted before end-2028 and remains within the overall limit mentioned in point 2.

(4) In accordance with Article 22(7) of Regulation (EU) 2024/1263, the deviations from the maximum growth rates of net expenditure as set by the Council that are allowed by this Recommendation will not be recorded as debits in the control account of Czechia.

(5) In order to ensure a correct recording of the additional expenditure, Czechia include actual and planned data on total defence expenditure (COFOG division 02), including defence investment (COFOG division 02 P.51) and any expenditure to be financed by SAFE loans that are not covered in COFOG-02:

(a) for years T-4, T-3, T-2 and T-1 (with year T being the current year), in the reporting to the Commission (Eurostat) in accordance with Council Regulation (EC) No 479/2009 ([15]);

(b) for years 2021 through year T (current year), in national medium-term fiscal-structural plans and in annual progress reports in accordance with Article 11(1), Article 15 and Article 21(1) of Regulation (EU) 2024/1263.

This Recommendation is addressed to Czechia.

ANNEX I

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

Years		2027	2028	2029	2030
Growth rates (%)	Annual	5.4	2.7	2.4	2.2
	Cumulative (*)	12.1	15.2	17.9	20.5

(*) The cumulative growth rates are calculated by reference to the base year of 2025. The cumulative growth rates are used in the annual monitoring of ex-post compliance in the control account.
Note: For 2026, the maximum annual and cumulative net expenditure growth rates established by the Council Recommendation of 21 January 2025 remain relevant and will be subject to assessments of compliance by the Commission based on outturn data.

15 Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1-9, ELI: http://data.europa.eu/eli/reg/2009/479/2014-09-01).

Done at Brussels,

For the Council
The President