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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Czechia

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by relevant Council committees, based on the Commission Proposal COM(2026) 203 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Czechia

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 148(4) thereof,

Having regard to 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[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

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[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).

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 16 July 2025, the Commission adopted its proposal for a regulation establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509[2]. The proposal aims to increase the effectiveness of Union funding by reducing the fragmentation of the financial architecture and to support Member States in the coordination of their economic policy in line with Article 175 TFEU.

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[2] Proposal for a Regulation of the European Parliament and of the Council establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509 - COM(2025) 565 final. The proposed Regulation is currently the subject of negotiations with the co-legislators.

(3) On 25 November 2025, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it did not identify Czechia as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[3] on 21 April 2026, and the Joint Employment Report and the Recommendation on human capital on 9 March 2026.

(4) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. The European Semester is aligned with the Competitiveness Compass, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

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[3] OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

(5) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of the Recovery and Resilience Facility (RRF) implementation[4]. Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(6) On 3 June 2026, the Commission published the 2026 country report for Czechia. It assessed Czechia's progress in addressing the relevant country-specific recommendations and took stock of Czechia's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Czechia is facing. It also assessed Czechia's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

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[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

(7) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Czechia[5]. The plan covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years. The Council recommended the following maximum growth rates of net expenditure: 4.5% in 2025, 2.5% in 2026, 2.6% in 2027 and 2.9% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 10.1% in 2025, 12.9% in 2026, 15.8% in 2027 and 19.2% in 2028.

(8) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending[6] and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Czechia, on 8 July 2025 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Czechia to deviate from the recommended maximum growth rates of net expenditure[7]. The period when the national escape clause is activated (2025-2028) allows Czechia to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

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5 Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Czechia, (OJ C, C/2025/666, 10.2.2025, ELI: https://eur-lex.europa.eu/eli/C/2025/666/oj).

6 Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19.3.2025, C(2025) 2000 final.

7 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).

(9) On 30 April 2026, Czechia submitted its 2026 Annual Progress Report[8] on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Czechia's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(10) Real GDP growth in 2025 was 2.6% and HICP inflation stood at 2.3%. The Commission Spring 2026 Forecast projects real GDP to grow by 1.8% in 2026 and 2.4% in 2027, and HICP inflation to stand at 2.7% in 2026 and 2.8% in 2027.

(11) Based on data provided by Eurostat[9], Czechia's general government deficit increased from 2.0% of GDP in 2024 to 2.1% of GDP in 2025. The increase in the deficit in 2025 mainly reflects higher public investment and increased government subsidies to renewable energy sources. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 2.8% of GDP in 2026 and 2.9% of GDP in 2027. The increase in 2026 mainly reflects the full phase-out of the tax on energy companies' windfall profits and the government taking over the payment of the renewable energy levy from electricity consumers. The increase of the deficit in 2027 mainly reflects decreasing capital transfers from the EU, broadly offset by a decline in spending on social benefits and public investment.

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8 The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

9 Eurostat-Euro Indicators, 22.4.2026.

(12) Based on the Commission's estimates, the fiscal stance[10], which includes both nationally and EU financed expenditure, was broadly neutral in 2025. It is projected to be expansionary, by 0.7% of GDP, in 2026, and contractionary, by 0.6% of GDP in 2027.

(13) Based on data provided by Eurostat[11], Czechia's general government debt increased from 43.3% of GDP at the end of 2024 to 44.3% of GDP at the end of 2025. The increase in the debt ratio in 2025 mainly reflects the debt-increasing stock-flow adjustment and, to a lesser extent, the negative primary balance, partly offset by nominal GDP growth. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 45.8% by the end of 2026 and to further increase to 47.2% by the end of 2027. The increase in 2026 and 2027 mainly reflects the negative primary balance and, to a lesser extent, the debt-increasing stock-flow adjustment, partly offset by nominal GDP growth.

(14) Based on Eurostat data[12], total general government defence expenditure in Czechia amounted to 1.2% of GDP in 2025. According to the Commission Spring 2026 Forecast, it is projected at the same level in 2026. This corresponds to an increase of 0.3 percentage points of GDP compared to the reference year 2021.

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[10] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

[11] Eurostat-Euro Indicators, 22.4.2026.

[12] Eurostat, government expenditure by classification of functions of government (COFOG).

(15) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Czechia has adopted fiscal policy measures to mitigate the impact of high energy prices on households and firms[13], namely an untargeted reduction in excises on diesel with an expiry date on 31 May 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of this measure is projected to amount to less than 0.1% of GDP in 2026. According to Commission estimates, if this measure were to remain in force until end-2026, its fiscal cost would amount to 0.1% of GDP in 2026.

(16) Based on the Commission's calculations, net expenditure in Czechia grew by 4.9% in 2025 and 6.0% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate, corresponding to a deviation of 0.2% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is below the recommended maximum growth rate[14].

(17) Based on the Commission's calculations, net expenditure in Czechia is projected to grow by 6.4% in 2026, and 12.7% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 1.5% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is below the recommended maximum growth rate, with a deviation of 0.1% of GDP in cumulative terms. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

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[13] This reflects the situation at of the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

[14] As Czechia benefits from flexibility under the national escape clause, the assessment of compliance focusses on the latter comparison.

(18) In 2024, Czechia adopted legislative reforms addressing the long-standing country-specific recommendation on pensions. However, risks to fiscal sustainability remain. Czechia's old-age dependency ratio (the proportion of older people to working-age people) is projected to increase rapidly after 2030. The government recently proposed to increase pension indexation to half of the growth in real wages (instead of currently one third of the growth in real wages) and, in addition, to increase pension indexation for older retirees. As of 2025, working pensioners are entitled to a discount on social insurance, and the government recently proposed to increase their earnings-related pension component. Further encouraging older workers to stay in employment would help decrease risks to fiscal sustainability.

(19) Persistent structural deficits and spending pressures underscore the need for better-quality public finances. Czechia faces low-to-medium risks associated with fiscal sustainability. However, given medium- to long-term spending pressures, such as those coming from the ageing population, climate change and the challenges to the economic growth model, further reforms are needed to boost competitiveness, productivity and sustainability. The government faces challenges in prioritising public finances and putting expenditure to its most productive use, making the tax and benefit systems more efficient, especially in the labour market and social security, and improving the quality of services, including in education and healthcare. On the expenditure side, Czechia is one of the few Member States with no established practice of performance-based budgeting or spending reviews. The government has committed to prioritise efficient and transparent use of public funds, aligned with the state budget and strategic investments. Nevertheless, there is no intention yet to continue with the recently piloted performance-based budgeting and spending reviews. Czechia would benefit from moving away from the traditional input-based budget structure to a performance-oriented system that integrates performance information into budgetary decision-making, including through the systematic use of spending reviews and outcome-based indicators. This would also require a robust institutional and legislative framework ensuring that the findings of spending reviews and performance information are systematically reflected in budgetary decision-making, expenditure prioritisation and the design of public policies.

(20) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(21) The implementation of cohesion policy programmes, which encompasses support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF) in Czechia, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep current momentum, while maximising the impact of investments on the ground. Czechia is already taking action under its cohesion policy programmes to boost competitiveness and growth. It is essential to ensure that the new investments identified by Czechia in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation[15], are deployed rapidly and effectively.

(22) Czechia faces several challenges related to public administration, decarbonisation, labour market, education, capital markets, innovation and business environment.

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[15] Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(23) Czechia’s business environment is hindered by the public administration’s low capacity. In particular, the public administration struggles to attract, retain and develop talent. For example, salaries in the public administration have been declining both in real terms and compared to the private sector for almost a decade. For managerial, IT and expert positions in Prague, the difference with the private sector is around 46%. The stability of managerial roles in the central administration is also very low, with over 40% of the nominally non-political top-level management replaced after each change of government. Often, dismissals are classified as reorganisation, which limits legal protections. A legislative proposal to reform the civil services has been tabled in Parliament. As no impact assessment is available, its effects are difficult to assess at this stage. Limited administrative capacity also persists in disadvantaged regions (Karlovarský, Ústecký and Moravskoslezský) which face structural challenges related to economic development and human capital, hindering regional competitiveness and growth. The capacity of public administration could be increased, for example, through better communication of work opportunities, better selection and development of managers, more flexible as well as higher salaries, especially for managerial and expert roles, increased legal protection for senior civil servants at the central administration and reduced administrative burden.

(24) Czechia’s fragmented municipal governance and outdated municipal tax assignment rules fail to incentivise economic development, do not accurately reflect the cost of services provided by municipalities of different sizes, hamper territorial cohesion, and generate large, uninvested savings. Czechia has the smallest municipalities amongst OECD countries. This also includes Prague, the capital city, which is responsible for more than 25% of the national GDP and splintered into 57 municipalities. Additionally, the legal framework for inter-municipal cooperation is underdeveloped, blocking municipalities from delegating their responsibilities in areas such as spatial planning and transport to municipal associations. Czechia's municipalities also have the highest savings relative to GDP in the EU. Besides fragmentation, these high savings are the result of the tax assignment rules (*rozpočtové určení daní*). These rules allocate the large majority of revenue by the number of permanent residents. However, they insufficiently incentivise economic development (especially construction) and inaccurately reflect the real cost of the services provided by regional centres.

(25) Spatial planning and permitting processes remain complex and slow, placing a major constraint on the business environment, competitiveness and raising costs of economic and commercial development. They also indirectly raise the costs of energy (due to the slower construction of energy infrastructure), make it harder for people to move closer to their work (due to less affordable housing) and hold back digital transition (due to slow roll-out of key digital infrastructure). For example, Czechia has one of the lowest coverages in the EU of very high-capacity networks and fibre to the premises. Spatial planning rules are particularly burdensome in large cities, where updating an urban plan can take over a decade. The situation could be improved by, for example, reallocating responsibilities for spatial planning between the state and municipalities and differentiating planning requirements for small and large settlements. On construction permitting, some progress has been made, particularly with the creation of the specialised authority for public infrastructure and on digitalisation. However, there is still little evidence of faster permitting approvals. Further improving digitalisation, including on interoperability, and the capacity and management of construction offices could accelerate the process.

(26) Housing affordability is low and declining. Over the last decade, Czechia's house price to income ratio has been growing at the third-highest pace in the EU. Affordability is particularly low in cities, where 11.2% of people pay more than 40% of their income on housing. For people earning less than 60% of the median income this rate is 43.4%. Social housing availability is one of the lowest in the EU, and over 160 000 people are affected by homelessness and housing exclusion. The current housing taxation framework does not provide the right incentives to address the situation. The revenue from recurrent property taxation is very low at 0.4% of GDP (EU: 1.8%), and short-term rentals are treated more favourably than long-term ones. Increasing the property taxes and linking them to market values, together with removing the favourable tax treatment of short-term rentals, would incentivise putting vacant and short-term rental housing on the long-term rental market and denser construction. Demand would also be reduced by lowering the personal income tax deductibility of mortgage interest payments. On the supply side – beyond better spatial planning, construction permitting and municipal incentives – the housing stock could also be increased by more investment into housing construction and renovation by the public and non-profit sectors.

(27) Czech households have a higher savings rate than the EU average, but a large share of their financial assets remains held in cash and deposits. At the same time, their direct investment in listed shares and bonds remains limited, as does investment channelled through insurance products and pension funds, substantially below the EU average and despite a higher share invested through investment funds compared to the past. Channelling private savings through the capital markets could unlock valuable additional financing to firms and increase the currently very low share of listed shares and bonds as a source of business funding.

(28) The recently introduced long-term investment product has had a positive take-up, but its design may need to be amended to ensure additionality vis-à-vis other long-term savings instruments, such as 3rd pillar pension funds. The participation rate in 3rd pillar pension funds should be supported, encouraging higher contributions particularly for younger and lower income employees. A larger allocation to equity investments by 3rd pillar pension funds would improve their modest return profile and their attractiveness. This could be promoted by creating conditions for more diversified long-term investment strategies, while reviewing regulatory features and default investment options that limit equity exposure, investment flexibility and suitable pay-out options, encouraging a strong annuity element. A public pension dashboard comparing fund returns and fees, alongside a pension tracking system showing accumulated public and private rights, would boost transparency, competition and awareness.

(29) Access to non-bank finance is limited for innovative businesses, as the Czech private equity and venture capital ecosystem is fragmented and underdeveloped, with a large part of funding to innovative firms relying on foreign investors. Encouraging greater participation by institutional and retail investors, in listed and unlisted equity, venture capital and private equity would help broaden the pool of long-term risk capital available to firms. In this context, further efforts to disincentivise early withdrawals from domestic institutional investors, such as insurers and pension funds, would improve their ability to invest more in asset classes with a longer investment horizon.

(30) Existing efforts to provide public support and crowd in institutional and retail investors into private equity and venture capital should be further expanded through greater use of financial instruments, including fund-of-funds structures and appropriate de-risking mechanisms. Such instruments can help mobilise private funding towards innovative and growth-oriented firms, thereby supporting competitiveness and the decarbonisation of the economy. This would require strengthening the relevant management capacity of the National Development Bank to design and deploy such instruments effectively.

(31) Czechia has adopted several measures to improve its innovation ecosystem, but further action is required to tap into its research and innovation potential. The 2025 reform of the employee stock option plan improves the attractiveness of the scheme for start-ups, and a new Start-up Act is under development, aiming to enhance the regulatory framework for innovative businesses. This is necessary as administrative barriers continue to weigh on Czech businesses, with 71% of them perceiving regulations as a barrier to investment, and as innovation performance stays below the EU average. Furthermore, Czech businesses lag behind the EU average in the adoption of advanced digital tools, and the digital intensity of businesses remains largely stagnant, often due to a shortage of digital skills and financial constraints. The new Research, Development and Innovation Act (in force from 2027) aims to promote knowledge transfer and allow flexible R&D funding, but the institutional incentives for commercialisation of research and the links between academia and business remain weak. The reform of R&D tax deductions aims to make the scheme more attractive, but further steps to improve the predictability in the implementation of the scheme would be beneficial as only 30% of businesses active in research take benefit of it. The research potential is further limited by decreasing R&D spending (at 1.8% of GDP in 2024) and its low efficiency, hampered by a high degree of research system fragmentation.

(32) Czechia’s persistent high dependency on imported fossil fuels leaves the economy vulnerable to price and supply shocks, posing risks to its economic security and long-term competitiveness. The transport sector accounts for the largest and growing share of final energy consumption, coming predominantly from fossil fuel combustion. The uptake of zero-emission vehicles is still considerably behind the EU average. The reforms adopted as part of REPowerEU should be complemented with further measures to boost zero-emission mobility. This could for example include maintaining exemption from highway vignette fees for zero-emission cars and vans and also setting out exemptions for zero-emission heavy-duty vehicles from tolling to help decarbonise the large Czech freight sector. Such decarbonisation efforts should also address the low availability of affordable and accessible zero-emission public transport options, which hinders mobility and access to essential services, in particular for low-income households, by improving regional connectivity, making services more affordable for vulnerable households, and supporting on-demand transport schemes, where appropriate. The industry’s energy consumption remains high, although declining in recent years, reflecting efficiency improvements and structural changes. To ensure a cost-effective path to decarbonisation and industrial competitiveness, further investment into energy efficiency and electrification is needed. The gradual shift of the Czech industry toward production of higher volume of green technologies is a positive development. Fossil fuels remain a predominant source of electricity generation, accounting for around 40% of total output in 2025. As district heating remains broadly fossil-fuelled, further efforts to decarbonise the sector and provide support to renewable heating and cooling are also needed. In addition, environmental taxation is underused in Czechia.

(33) Czechia’s share of renewables in the electricity mix stagnated at 16.6%, the second lowest share in the EU in 2025. Electricity prices remain largely set by expensive natural gas, which retains its predominant role as marginal price-setting technology. While reforms under the REPowerEU contributed to a streamlined permitting procedure, wind energy potential remains largely untapped. The designation of renewable acceleration areas, expected to take place by August 2026 as a part of the RRP, will enable faster development of large-scale renewable installations, contributing to more affordable energy prices and lower exposure to external risks. The absence of long-term certainty for investors into renewables continues to be an important structural barrier for their roll-out. Launching power auctions and developing long-term contracts at a larger scale would enable the growth of large-scale renewable energy projects beyond traditional support schemes and also create opportunities for energy-intensive industries to decarbonise.

(34) The limited capacity of Czechia's electricity grids and the need to upgrade the networks continue to hamper the swift deployment of renewable energy sources. Grid investment is also still below the level needed to accommodate the increased needs for electrification and sustainable mobility. The delays in roll-out of major grid infrastructure investments remain, in particular, due to the bottlenecks in spatial planning and administrative capacity. Moreover, challenges in the grid management persist, such as grid connection queues and unused capacity reservations, and slow rollout of smart meters. Czechia has taken important legislative steps to enable more of non-fossil flexibility, though further investments in this sector would bring more stability to the market. The Electricity Data Centre (EDC) already provides functionalities for energy sharing, but the final phases of the EDC to enable independent aggregation of technical and market flexibility still need to be implemented. These would enable the transition to a more flexible energy sector, including the development and integration of new technologies. The tariff reform, including the introduction of a dynamic tariff scheme, is also an important missing element to fully unlock benefits of domestic flexibility and to ensure an effective grid management.

(35) Czechia has made progress in improving the energy efficiency of the residential buildings stock. The renovation support programmes have delivered results, although the improvements have largely concentrated on family houses, while progress in the renovation of apartment buildings and low-income dwellings remain slow. The renovation of public buildings is a persistent challenge. In this underperforming sector, a roll-out of innovative financial instruments has potential to leverage private capital for energy savings investments.

(36) Weak climate and water resilience is an increasingly significant challenge for productivity of Czech industry, agriculture and energy sectors. Czechia suffers from a weak administrative governance and capacity for climate adaptation and water policies. Their implementation is hampered by the systemic lack of human resources across ministries and all governance levels, unclear division of responsibilities among them and lack of efficient coordination framework. Setting up a coordination system, defining responsibilities and strengthen the institutional capacity would ensure effective implementation of adaptation policies across sectors.

(37) Czechia's labour market boasts high employment levels, with the 2025 employment rate at 82.9% (EU: 76.1%) and the unemployment rate at 2.8% (EU: 6.0%), both among the best-performing in the EU. However, the job vacancy rate stands close to the EU average. Besides higher labour mobility, unfilled vacancies could be filled by increasing certain population groups' employment levels. These include parents of young children, Roma and persons with disabilities. Additionally, an estimated 66% of economically active Ukrainian refugees were employed in 2024; however, half of them reported working in roles that did not match their qualifications. This is linked, amongst others, to complicated recognition of foreign qualifications and a high number of regulated professions. The Roma employment rate was about 55% in 2024 (compared to 82.3% in the general population), and almost half of young Roma aged 16-29 are neither in employment nor education and training (against 8.6% nationally), undermining social inclusion.

(38) The tax and benefit system continues to dissuade parents, in particular young mothers, from going back to work. While the 2025 employment rate of women stood at 77.5% (EU: 71.3%), the gender employment gap for women aged 25 to 34 was 32.8 percentage points in 2025, one of the highest in the EU. The gender pay gap was 18.5% in 2024 (EU: 11.1%), driven by long parental leaves, among other issues. Taxation on earnings for second earners was slightly above the EU average in 2025, and remains equal to the tax wedge for single people at the same wage level. The tax credit for non-working spouses and design of family benefits insufficiently encourage parents, in particular mothers, from working. In terms of availability of childcare services, in 2025, only 7.9% of children under the age of three were in childcare, an improvement of 3.5 percentage points compared with 2023, but still far below the EU average of 40.5%. This has been driven both by fewer children and increased capacity, but more capacity is still needed in some regions (as well as better modelling of demand). The capacity of community- and home-based long-term care services also remains underdeveloped, reducing the employment amongst carers, typically women, while also leading to broader challenges in the organisation of care, including in healthcare. Public investment in residential care long-term care is 14% higher in Czechia compared to the EU while investments in home-based health and social care/home-based long-term care services are 20.5% lower than in the EU, underlining the need to find a more balanced public investment structure for long-term care in the context of a rapidly ageing population. The healthcare system remains overly reliant on hospital-based services, with high bed capacity, low occupancy rates and avoidable admissions, pointing to inefficiencies and insufficient coordination with primary and community care.

(39) The tax and benefit system continues to place a heavy burden on low-income earners, lowering financial incentives to work due to high non-deductible contributions and benefit reductions as earnings rise. Czechia has one of the highest labour tax wedges for single workers earning 50% of the average wage, discouraging formal employment and fuelling the grey economy and working poverty. Adjusting labour taxes could ease this burden, encouraging more people into standard employment. Additionally, Czechia has a high share of self-employed workers (13%, EU: 9%) who face far lower taxation than traditional employees. The current system allows self-employed individuals to deduct 40-80% of income as business expenses or, for those earning less than CZK 2 million annually, to opt for a lump sum tax. This tax is significantly lower than the tax a conventional employee earning a similar income would pay, and high-income self-employed workers pay only a quarter of the tax an equivalent employee would pay. A recent reform was reversed in March 2026, maintaining the minimum pension assessment base at 35% of the average wage. Removing exemptions for high-income earners could improve fairness and reduce labour market distortions.

(40) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the areas of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Czechia can contribute to the implementation of the Council Recommendation on human capital in the Union.

(41) Relatively low higher education participation and attainment exacerbate the shortage of skilled workers, especially in less developed regions. Tertiary educational attainment among 25-34-year-olds remains among the lowest in the EU (36%, EU: 45% in 2025), well below the EU target of 45%. Total enrolment in tertiary education remains low despite a slight increase between 2020 and 2023, and dropout rates remain persistently high, particularly in information and communications technology (ICT), agriculture and services. The lack of sufficient financial support and career guidance to students and mismatches between programme and student expectations are among the drivers of high dropout rates at Czech higher education institutions. Affordable housing also remains among key challenges. Insufficient support for students, including those with disabilities, limits their access, participation and successful completion of tertiary education.

(42) Enrolment in STEM programmes remains slightly low compared to the EU average, pointing to persistent structural challenges. In 2023, only 11.8 women per 1 000 people aged 20-29 graduated in science, technology, engineering and mathematics (STEM) fields, below the EU average of 15. This trend contributes to skills shortages in high-demand sectors, risks constraining innovation and research capacity, and reflects broader challenges related to student participation and retention, including limited guidance to pursue STEM fields.

(43) Czechia faces constraints in secondary education, notably an insufficient capacity in general secondary schools and limited flexibility for students to move between general and specialised education, which restrict students’ opportunities to successfully progress to tertiary education. Despite growing interest for general education tracks, supply has not kept up with demand. While a significant share of vocational education and training (VET) students are eligible to apply to tertiary education, their success rates are below those of students in general tracks, which contributes to persistently low tertiary educational attainment. These challenges are compounded by shortages of qualified teachers, particularly in high-demand fields such as STEM and in certain regions, which risk affecting the quality of education.

(44) Educational performance in Czechia is strongly influenced by socio-economic background, with one of the largest gaps in performance between socio-economically advantaged and disadvantaged pupils in the EU. In mathematics, the gap was the fifth highest in the EU in PISA 2022. Early academic tracking, differences in school types and the segregation of Roma children contribute to these results, alongside persistent regional inequalities in access to education. While measures have been initiated to address these challenges, including a support programme for schools with a high share of disadvantaged pupils, further efforts are needed. Further improvements could include better support for teachers and school leaders to implement the revised curricula and to reduce administrative burden on smaller schools.

HEREBY RECOMMENDS that Czechia take action in 2026 and 2027 to:

1. Continue adhering to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the flexibility under the national escape clause for higher defence expenditure. Reinforce defence spending and readiness while ensuring spending efficiency and gradually adapting the budget to sustain structurally higher defence spending. Ensure that any measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings while ensuring that their fiscal cost is compatible with the commitments under the EU fiscal framework. Improve the incentives for older workers to continue working. Improve the efficiency of public spending especially through the systematic use of spending reviews and outcome-based indicators.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework.

3. Strengthen the capacity of the public administration, both in central government and disadvantaged regions, to attract and retain talent, and develop skills. Enhance public investment and administrative efficiency by simplifying and incentivising cooperation among municipal administrations, and reforming municipal tax assignment rules. Simplify spatial planning and improve the digitalisation, capacity and management of construction offices. Improve the supply of affordable and social housing by expanding the role of the public and non-profit sectors and encouraging more efficient use of existing housing.

4. Strengthen capital markets, business access to non-bank finance and the conditions for saving, investment and innovation by promoting household investments in capital markets, through improving the design of the long-term savings product and of the 3rd pillar pension funds. Encourage institutional investor participation in listed and unlisted shares, as well as venture capital and private equity. Increase the use of financial instruments, including by strengthening the capacity of the National Development Bank to mobilise private funding. Boost innovation and enhance the business environment by improving the regulatory framework for start-ups, reducing research system fragmentation and accelerating technology adoption, including through technology transfer from academia and effective use of R&D tax benefits.

5. Reduce reliance on fossil fuels, notably for road transport, industry, heating and power generation. Provide further incentives for the roll-out of large-scale renewable energy capacity, in particular wind. Modernise and expand electricity grids, enhance fossil-free flexibility, ensure the implementation of all functionalities of the Electricity Data Centre, and enable the electrification of transport and industrial processes. Enact measures to reduce the energy consumption and carbon intensity of the buildings sector, especially of the public buildings stock. Strengthen climate resilience governance and coordination across all levels of government.

6. Increase the labour market participation of underrepresented groups and simplify the recognition of foreign qualifications. Provide incentives for parents to return to work and improve the supply of childcare and long-term care services to encourage more women to enter the labour market. Reduce the tax burden on low-income workers and exemptions for high-income self-employed. Boost skills and educational outcomes by increasing participation, reducing dropout rates, and providing more student support for tertiary education, and providing more support for disadvantaged schools and pupils in primary and secondary education. Increase the number of students and graduates in STEM fields, especially women. Expand access to general secondary education, enable students to transition between general and vocational education, and address teacher shortages.

Done at Brussels,

For the Council
The president