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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Czechia and delivering a Council opinion on the 2023 Convergence Programme of Czechia

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2023) 603 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Czechia and delivering a Council opinion on the 2023 Convergence Programme of Czechia

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) 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 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified Czechia as one of the Member States that may be affected or may be at risk of being affected by imbalances, and 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, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

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3 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).

4 COM(2022) 780 final.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

(4) On 1 February 2023, the Commission issued the Communication on *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

5 COM(2023) 62 final.
6 COM(2023) 168 final.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

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[7] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated. Moroever, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investments and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

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[8] COM(2023) 141 final.
[9] COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investment. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(9) On 1 June 2021, Czechia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 8 September 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Czechia[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Czechia has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

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[10] Council Implementing Decision of 8 September 2021 on the approval of the assessment of the recovery and resilience plan for Czechia (ST 11047/21; ST 11047/21 ADD 1; ST 11047/21 COR 1).

(10) On 13 April 2023, Czechia submitted its 2023 National Reform Programme and, on 28 April 2023, its 2023 Convergence Programme, in line with Article 8(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Czechia's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for Czechia[11] on 24 May 2023. It assessed Czechia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022, and took stock of Czechia's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Czechia's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

[11] SWD(2023) 603 final.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Czechia and published its results on 24 May 2023[12]. It concluded that Czechia is not experiencing macroeconomic imbalances. In particular, vulnerabilities relate to price competitiveness and house prices, but seem limited going forward as household debt is contained and inflation is expected to decelerate significantly faster than the EU average. The economy was strongly affected by the energy price shock with inflation rising fast. A loose fiscal stance since the pandemic has also contributed to the acceleration of inflation. While overall price pressures remain elevated, cost competitiveness is projected to partially recover going forward amid falling energy prices, without there being any immediate external sustainability challenges. Inflation is expected to decelerate significantly faster than the EU average. However, if inflation persist, that could pose some risks for Czechia's competitiveness. The recent deterioration of the current account warrants close monitoring going forward. In recent years, demand for housing increased strongly, spurred by low interest rates, high income growth and loosened macroprudential measures, and supply of housing did not keep up. House prices grew more strongly during the pandemic but started to moderate in mid-2022 amid higher interest rates and stricter lending conditions. However, risks of a significant house price correction appear to be low, household debt is contained, and the banking sector is sound; a continued limited supply response over the medium-term would nonetheless continue to drive prices up. Continued efforts are needed to rein in inflation. Bringing inflation down quickly requires a strong deceleration in demand growth, which in turn can be achieved by sufficiently tight monetary and fiscal policy.

[12] SWD(2023) 628 final.

(13) Based on data validated by Eurostat,[13] Czechia's general government deficit decreased from 5.1% of GDP in 2021 to 3.6% in 2022, while general government debt rose from 42.0% of GDP at the end of 2021 to 44.1% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;[14] the report discussed the budgetary situation of Czechia, as its general government deficit in 2022 exceeded the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 8 March 2023,[15] the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Czechia should take account of this in the execution of its 2023 budget and in preparing its budget for 2024.

(14) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included a reduction in the excises for petrol and diesel, the cancelation of the road tax for businesses and a reduction in the renewables surcharge paid by end-users; while such expenditure-increasing measures included a lump-sum contribution to the energy bills (the so called "savings tariff"), the support for industry affected by high energy prices and a one-time allowance for children. The Commission estimates the net budgetary cost of these measures at 0.7% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.3% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.1% of GDP in 2022, from 2.0% in 2021.

[13] Eurostat-Euro Indicators, 47/2023, 21.4.2023.
[14] COM(2023) 631 final, 24.5.2023.
[15] COM(2023) 141 final, 8.3.2023.

(15) On 18 June 2021, the Council recommended that in 2022 Czechia[16] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

(16) According to the Commission estimates, the fiscal stance[17] in 2022 was broadly neutral, at -0.1% of GDP, as recommended by the Council. As recommended by the Council, Czechia continued to support the recovery including with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.1% of GDP in 2022 (1.1% of GDP in 2021). Nationally financed investment provided a neutral contribution to the fiscal stance.[18] At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0.3 percentage points to the fiscal stance. Czechia therefore sufficiently kept under control the growth in nationally financed current expenditure. Czechia therefore preserved nationally financed investment, as recommended by the Council.

(17) The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is in line with the Commission 2023 Spring Forecast. The government projects real GDP to grow by 0.1% in 2023 and 3.0% in 2024. By comparison, the Commission 2023 spring forecast projects a similar real GDP growth of 0.2% in 2023 and 2.6% in 2024.

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16 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Czechia, OJ C 304/10, 29.7.2021, p. 10.

17 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

18 Other nationally financed capital expenditure provided an expansionary contribution of 0.4 percentage points of GDP, driven among others by payments to the Czech Post for the provision of universal postal services for the period 2018–2022.

(18) In its 2023 Convergence Programme, the government expects that the general government deficit ratio will decrease to 3.5% of GDP in 2023. The marginal decrease in 2023 mainly reflects higher expenditures such as subsidies related to the energy support measures, or higher gross fixed capital formation, which are offset by lower growth in other expenditure items and higher EU funds revenues. According to the Programme, the general government debt-to-GDP ratio is expected to decrease from 44.1% at the end of 2022 to 43.5% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 3.6% of GDP for 2023. This is in line with the deficit projected in the Convergence Programme. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 42.9% at the end of 2023. The difference is due to a projected higher nominal GDP growth.

(19) The government balance in 2023 is expected to continue to be impacted by the measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular: reduction in the renewables surcharge paid by end-users and the cut in diesel excises) and new measures such as a cap on electricity and gas prices and support in the heating sector. The cost of these measures is partly offset by taxes on windfall profits of energy suppliers, namely a levy that electricity producers pay on revenues above a certain price level and a windfall profit tax for companies active in production and trade of electricity and gas, fossil mining, fuels, petrochemicals. Taking these revenues into account, the net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 1.3% of GDP in 2023[19]. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.1% of GDP in 2023 (compared to 0.2% of GDP in 2022). The budgetary cost of temporary protection to displaced persons from Ukraine is projected to decrease by 0.1 percentage point of GDP compared to 2022.

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[19] The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

(20) On 12 July 2022, the Council recommended[20] that Czechia take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[21], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Czechia should stand ready to adjust current spending to the evolving situation. Czechia was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

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[20] Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Czechia and delivering a Council opinion on the 2022 Convergence Programme of Czechia, OJ C 334, 1.9.2022, p. 19.

[21] Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Czechia, which is used to measure the fiscal stance, is estimated at 13.3% in nominal terms.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+1.4% of GDP), in a context of high inflation. This follows a broadly neutral fiscal stance in 2022 (-0.1 % of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 1.2% of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.6% of GDP in 2023, while nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.5 percentage points[22]. Therefore, Czechia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is not projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security such as energy efficiency improvements in public buildings or investments in railways or digital services which are partly funded by the Recovery and Resilience Facility and other EU funds.

[22] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.1 percentage points of GDP.

(22) According to the Convergence Programme the general government deficit is expected to decline to 2.9% of GDP in 2024. The decrease in 2024 mainly reflects the phase-out of energy support measures resulting in lower subsidies, and a lower growth in social payments compared to the growth in nominal GDP. The programme expects the general government debt-to-GDP ratio to increase to 44.0% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 3.0% of GDP in 2024. This is broadly in line with the deficit projected in the programme. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 43.1% at the end of 2024.

(23) The Convergence Programme envisages the phasing out of most of the energy support measures in 2024. The Commission currently assumes net cost of energy support measures of 0.0% of GDP in 2024, compared to 1.3% of GDP in 2023. These estimates hinge upon the assumption of no renewed energy price increases.

(24) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.[23] Taking into account fiscal sustainability considerations, and the need to reduce the deficit to below the 3% of GDP reference value, an improvement in the structural balance of at least 0.5% of GDP would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[24] in 2024 should not exceed 6.0%, as reflected in this recommendation. This will also contribute to reducing core inflation, which is well above the EU average, and which could lead to competitiveness losses if persistent.

At the same time, the remaining energy support measures (currently estimated by the Commission at 1.3% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024.

(25) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 3.0% in 2024, which is below the recommended growth rate.

(26) According to the programme, government investment is expected to decrease from 4.9% of GDP in 2023 to 4.4% of GDP in 2024. The lower investment reflects lower nationally financed investment and investment financed by the EU, others than the Recovery and Resilience Facility.

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[23] Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

[24] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

(27) The Convergence Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to gradually decline to 2.4% of GDP in 2025 and to 2.2% by 2026. The general government deficit is therefore planned to decrease below 3% of GDP in 2024. According to the programme, the general government debt-to-GDP ratio is expected to increase from 44.0% at the end of 2024 to 45.0% by the end of 2026.

(28) Czechia faces fiscal sustainability risks in the medium and long term. A series of fiscal measures with permanent impact taken in the last 3 years, among which a reduction in the personal income tax base and several indexations of social security expenditure above the statutory minimum, have led to a deterioration in the structural balance. There is additional pressure on fiscal sustainability in the medium to long term due to increases in the cost of ageing. A projected doubling of the old-age dependency ratio[25] and capping of the retirement age after 2030 are expected to lead to an increase in pension expenditure from 8.8% of GDP in 2030 to 11.4% by 2050. In addition, public spending on healthcare and long-term care is projected to increase by 0.9 percentage points and 1.7 percentage points of GDP respectively by 2070 due to the ageing population. Possible measures to address fiscal sustainability in the long term include adjusting the retirement age in line with the increase in life expectancy, incentivising the increase in participation rates of older people and limiting early retirements, adjusting pension indexation rates or taking measures to increase the labour supply and thus ensuring higher revenues for the pension system.

[25] According to the 2021 Ageing Report issued by the Commission.

(29) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Czechia's recovery and resilience plan is underway, however with risks of some delays. Czechia submitted 1 payment request, corresponding to 37 milestones and targets in the plan and resulting in an overall disbursement of around EUR 928 million. Further improvements to administrative capacity and prioritisation of the key reforms and investments are needed to ensure a timely implementation of the plan. The plan is expected to be revised in 2023 with addenda to cover the REPowerEU chapter and to accommodate the increase of non-repayable support. In accordance with Article 14(6) of Regulation (EU) 2021/241, on 30 March 2023, Czechia expressed its intention to request up to EUR 11 billion of additional loan support under the Recovery and Resilience Facility. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Czechia's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(30) The Commission approved all of Czechia's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Czechia.

(31) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Czechia faces a number of additional challenges related to housing, energy policy and the green transition.

(32) Housing affordability in Czechia has been among the lowest in the EU in the past 5 years with large differences between regions. High house price growth has made it difficult for middle-income groups to buy property. This has fed the demand for rental property, which in turn has made it less affordable. Moreover, the low social housing stock cannot meet the demand of all low-income and vulnerable households (it accounted for 0.4% of total housing stock in 2020 versus 7-8% on average in the EU[26]), and existing housing allowances are underutilised, partly due to administrative burden, stigma, and a lack of awareness. As a result, the number of families in housing need has been growing in recent years, which entails increasing costs for the public budget and healthcare system. The COVID-19 pandemic and influx of people fleeing the war in Ukraine have further exacerbated these pre-existing challenges. Cohesion policy funding remains an important source of piloting and funding investments in social housing, thus contributing to social protection and inclusion. However, other funding sources are necessary to significantly improve the situation. Czechia lacks legislation and a comprehensive framework on social housing, which makes it difficult to coordinate the fragmented housing policies and define responsibilities among national and regional bodies. Stable and sustainable financing from national sources, together with the adoption of incentives for rental or cooperative housing, would help to increase the supply of affordable housing and ensure continuity and scale-up to such efforts. Effective coordination would be crucial for increasing the housing supply, the reconstruction and refurbishment of existing housing units and utilisation of vacant dwellings.

[26] OECD Affordable Housing Database 2020, OECD, Paris.

(33) Since the start of the Russian invasion of Ukraine, Czechia has responded to its major reliance on fossil fuel imports from Russia by diversifying its supplies of gas. For example, Czechia has moved from being wholly dependent on Russian gas supplies to mainly switching to diversified gas supplies from Norway and liquefied natural gas (LNG) imports. However, the country has not seen a reduction in the consumption of fossil fuels, leaving it exposed to a high risk of supply disruption and price spikes, with major negative effects for households and industry. Czechia's consumption of natural gas has dropped by 17% in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target. Czechia could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024[27].

(34) The deployment of renewables in Czechia has been mainly due to regulatory limitations, permitting procedures and constrained distribution grid capacity. Czechia has moved forward in addressing a number of regulatory challenges such as abolishing the need for a licence to generate electricity and a building permit for smaller photovoltaics (up to 50 kWp), and making regulatory changes to facilitate installation. However, further efforts are needed to empower energy communities and renewables self-consumers, introduce a one-stop shop for renewables, and introduce go-to areas to boost the deployment of renewables by encouraging grid expansion, flexibility of the power system (such as demand response or storage), the installation of small systems and smart metering will be key. The regulatory reforms in grids should be matched by investments in expanding grid capacity, incentivising flexibility and deploying renewables. and deploying renewables. Moreover, Czechia has a solid industrial potential for manufacturing of green technologies and it could speeed up investments in the development and scale up of climate-friendly and decarbonisation solutions in order to reach net-zero emissions by 2050.

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[27] Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706.

(35) The spike in energy prices resulting from the Russian war of aggression against Ukraine has highlighted the need to improve the energy efficiency of Czech building stock and tackle energy poverty. Czechia has responded by launching programmes for residential buildings and helping older people and low-income households. However, more efforts are needed to improve energy efficiency by making it more accessible. This is possible by easing administrative access to subsidies for both households and industry, including through building capacity and skills in public authorities. Information campaigns and country-wide dedicated advisory services are also required to ensure that the population is aware of the need and benefits associated with reducing energy consumption and help individuals and industry easily access subsidies. Moreover, Czechia has to accelerate the upskilling and reskilling of workers who currently lack the skills needed for building renovations.

(36) Reducing Czechia's exposure to fossil fuels can also be achieved by switching to zero-emission rail and other forms of zero-emission mobility. However, the deployment of zero-emission vehicles and forward-looking high-capacity charging and refuelling infrastructure has been lacklustre. On the regulatory side, the revision of the National Action Plan for Clean Mobility and associated regulatory changes should be a starting point to provide enabling conditions for and remove barriers to the transition to zero-emission mobility.

(37) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported in Czechia for seven occupations that require specific skills related to the green transition (e.g. plumbers, pipe-fitters, electricians and electrical mechanics)[28].

(38) In light of the Commission's assessment, the Council has examined the 2023 Convergence Programme and its opinion[29] is reflected in recommendation (1) below.

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28 Based on the European Labour Authority 2023 EURES Report on labour shortages and surpluses 2022, i.e. data submitted by the EURES National Coordination Offices. Skills and knowledge requirements are based on the European Skills Competences and Occupations (ESCO) taxonomy on skills for the green transition. Examples are analysed on the basis of the share of ESCO green skills in relevant sectors. Data is not comparable across countries and covers a wide variety of sectors.

29 Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Czechia take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 6.0%[30].

   Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions. For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

   Take measures to ensure the long-term fiscal sustainability of public finances, including the sustainability of the pension system.

2. Accelerate the implementation of its recovery and resilience plan, also by ensuring an adequate administrative capacity, and swiftly finalise the addendum, including the REPowerEU chapter, with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Strengthen the provision of social and affordable housing, including by adopting a specific legislative framework, improving coordination between different public bodies, and incentivising the construction of new housing units as well as the refurbishment of existing ones.

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[30] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,5% of GDP for 2024, as described in recital 24.

4. Reduce reliance on fossil fuels. Increase the deployment of renewables with additional investments in electricity grids and direct deployment of renewable capacity. Streamline permitting procedures for renewables and make the grid fit to accommodate access to renewables through additional reforms, removing restrictions for small-scale renewables and setting up a one-stop shop, boosting grid flexibility and creating conducive conditions for energy communities. Increase the energy efficiency of district heating systems and of the building stock by incentivising deep renovations and renewable heat sources, easing administrative access to subsidies for both households and industry, and capacity building and skills in public authorities. Promote the uptake of zero-emission vehicles and boost the availability of high-capacity charging and refuelling infrastructure through new reforms to create enabling conditions for and remove existing barriers to the deployment of vehicles and infrastructure. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President