**Statement of the Czech Fiscal Council (CFC) on the Draft State Budget for 2025**

On the 25th of September 2024, the government adopted the draft state budget for 2025, which envisages a deficit of CZK 241 billion. The current proposal would imply a structural balance of around –2.1% of GDP if the current macroeconomic forecast and the approved revenue and expenditure ranges are met. Given that the structural deficit forecast for this year is also slightly above 2% of GDP, the proposal implies a roughly neutral fiscal policy and respects the consolidation path approved in the so-called "consolidation package". This path sets the worst-case structural balance for 2025 at –2.25% of GDP. The current macroeconomic forecast of the Ministry of Finance of the Czech Republic and the resulting revenue forecast have been assessed by the independent Committee on Budgetary Forecasts as realistic, while expressing uncertainty about non-tax revenues (see below). However, according to the CFC, the fulfilment of the macroeconomic forecast is threatened by the repeated deterioration of the economic condition of our main trading partner, Germany, as well as by geopolitical uncertainties. Thus, the existing risks to the government budget are accumulating on the downside.

Although the draft state budget is prepared as compliant with the Act No. 23/2017 Coll., on the Rules of Budgetary Responsibility, as amended (the Act) and the CFC appreciates that in 2025 there is no planned operation with off-budget coverage of certain expenditures in the State Fund for Transport Infrastructure (see last year's [statement](https://www.rozpoctovarada.cz/en/statement-of-the-cfc-the-draft-state-budget-for-2024-news/)), when analysing the approved draft state budget for 2025, the CFC has identified several items about whose realism it has partial or significant doubts:

1. The CFC considers problematic the **revenues from the sale of emission allowances (EU ETS)**, which are budgeted at CZK 30 billion. According to the CFC, this amount does not take into account the withdrawal of emission allowances to the market stability reserve (MSR), which was approved at the end of May 2024, and therefore reduces the number of emission allowances to be auctioned in 2025. To meet the revenues specified in the draft state budget for 2025, the average price of an emission allowance in 2025 would have to be approximately EUR 104, which is extremely unlikely or even unrealistic given the historical development and the current level of the price of an emission allowance. At the same time, there should be no further withdrawal of emission allowances to the MSR during the next year. Because of the above-mentioned information, the projected revenue can therefore be overestimated by about **CZK 10 billion**.[[1]](#footnote-2)
2. The draft state budget assumes a year-on-year increase of CZK 8 billion **in revenue from levies on organisations with a direct link to the state**. It seems unlikely that this year's profit of these organisations will reach the amount of the planned levies. If the value of the levies planned for 2025 exceeds the operating surplus of their current period, it would most likely be a so-called superdividend[[2]](#footnote-3). This value should not increase the overall expenditure framework of the state budget and state funds. On the basis of the data obtained so far, we quantify the risk that a part of this income will be in the form of a superdividend at **CZK 5 billion**, and therefore the expenditure of the state budget or state funds should be reduced by this amount if the Act is fully complied with. The CFC will continue to address this issue.
3. On the expenditure side, the CFC does not understand the inconsistency between the government approved draft state budget for 2025 and the not yet approved proposal of the Ministry of Industry and Trade to cover **subsidies for renewable energy sources (RES)**. From the materials submitted so far and public statements by government officials, it appears that reducing the requested amount to the budgeted CZK 8.5 billion will likely require a change in legislation. However, the CFC points out that the draft state budget should consider the legislation currently in force and budgeting should not be based on possible scenarios whose specific form is not known at the time of budgeting. Similarly, according to the CFC, the Ministry of Education, Youth and Sports does not have sufficient funds for the salaries of non-teaching staff. We understand that the expenditure on the salaries of such staff is now to be covered by the municipalities instead of the central government (and the budget allocation of taxes is to be adjusted for this purpose). However, as in the case of RES, this is not budgeting based on the legislation in force.
4. According to the CFC calculations, the amount budgeted **for pension benefits is not adequate**. The planned annual increase of CZK 11.2 billion is slightly lower than the amount of additional funds resulting from the statutory indexation published by the Ministry of Labour and Social Affairs (about CZK 12.2 billion). At the same time, however, the CFC’s current calculations show that the volume of funds paid out for pensions this year will be about CZK 5 billion higher than the budget assumes. The actual year-on-year increase and the budgeted amount for 2025 are therefore underestimated by **CZK 5–7 billion**.
5. The expenditure of the draft state budget was additionally increased by CZK 10 billion in connection with the September floods. **The CFC believes that this expenditure should already be earmarked in the draft state budget to ensure that it is used exclusively to deal with the consequences of natural disasters. This is a condition laid down in the Act, the fulfilment of which allows for an increase in expenditure beyond the approved expenditure framework of the state budget and state funds**. Failure to earmark risks the use of these funds to cover other (non-flood-related) expenditure and endangers the fulfilment of the structural balance limit.

Based on the above, the CFC notes that the draft budget does not respect the principles of realism and completeness in some items. This has a negative impact on the quality of the budgetary process, the transparency and clarity of public finances, and particularly the likelihood of compliance with the statutory limit of the structural balance, which is the main indicator of the health of public finances. Therefore, the CFC has discussed and will continue to discuss points 1–4 with the Ministry of Finance and other interested ministries.

The CFC adds that in terms of the cash balance, which is crucial for the State Budget Act itself, the only positive surprise may be the receipt of EU funds that could be used for flood relief, provided that these funds are released quickly and without specific conditions. It should be added, however, that even this revenue will not have any positive impact on the structural balance and the resulting deficit-to-GDP ratio in accrual terms.

**About the Czech Fiscal Council**

The Czech Fiscal Council is an independent expert body whose main task is to assess whether the state and other public institutions comply with the rules of budgetary responsibility set out in Act No 23/2017 Coll., on the Rules of Budgetary Responsibility. The activities of the Czech Fiscal Council also contribute to the sustainability of the public finances of the Czech Republic and reduce the risk of excessive public debt. The members of the Czech Fiscal Council are Mojmír Hampl (Chairman), Jan Pavel and Petr Musil. More information is available at <https://www.rozpoctovarada.cz/en/>.

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1. In addition to this issue, it should be noted that there has been a recurrent significant shortfall in budgeted revenues from the sale of emission allowances since 2022, and therefore special attention should be paid to forecasting this type of revenue. The Committee on Budgetary Forecasts made similar comments. [↑](#footnote-ref-2)
2. On the issue of the superdividend, see CFC (2024): Report on Compliance with the Rules of Budgetary Responsibility for 2023, Box 1. (For now only in Czech, soon also in English on the CFC website in autumn 2024). [↑](#footnote-ref-3)