



“Czechia: Country for the Future 2.0” – The Economy Under the Third Babiš Government

Łukasz Ogrodnik

In the economic strategy presented this February, Andrej Babiš's government identified deindustrialisation and high energy prices as the main threats to the country's development. In response, Czechia, among other things, strengthened its economic ties with Germany and took action in coordination with other EU members. The public spending cuts announced in the document affected defence, potentially limiting Czechia's cooperation with partners in the field of security.

The current—favourable—economic situation in Czechia is reflected in the macroeconomic indicators. GDP grew by 2.6% in 2025 (compared to 1.5% across the EU). Czechia has the lowest unemployment rate in the EU (3.2% in February of this year), alongside Poland and Bulgaria, and also relatively low public debt (approx. 44% of GDP). Despite the economy's traditional export orientation, the trade surplus is shrinking (last year it stood at 8.77 billion euros, about 2% less than in 2024).

The Government's Assessment of Development Challenges.

Contrary to macroeconomic indicators, the government's strategy “Czechia: Country for the Future 2.0” takes a critical view of the country's economic condition. It points to limitations such as Czechia's negligible share of global GDP (0.3%) and of the global capital market (0.05%). Furthermore, it characterises the EU as an organisation losing both its share of global GDP (compared to the US and China) and its attractiveness as an investment hub for large corporations.

The Czech government sees energy prices as the main barrier to competitiveness. Reducing these costs was one of Babiš's key campaign promises ahead of the parliamentary elections, which led to his party, [ANO, forming a coalition government last December](#). The Czech authorities attribute the high prices to the EU Emissions Trading System (ETS), arguing that the scheme is speculative, dysfunctional, and costly for Czechia, and therefore in need of thorough reform. To this end, the Czech government wants to review ETS1 within the EU regarding industry, as well as to block, or at least delay, the

entry into force of ETS2, which covers households and transportation.

The Babiš government recognises the need to accept economic migrants despite anti-migration rhetoric and announcements of a restrictive policy in this area at the EU level. Due to labour shortages in certain sectors (including IT, construction, and logistics), the strategy emphasises the need to increase the number of highly skilled workers. To attract them, the government plans to reduce the processing time for residence permit applications from 60 to 30 days (and for medium and low-skilled workers, from 90 to 60 days).

Strategy Objectives and Goals. The long-term goal of the strategy is to position Czechia among the top 10 EU countries by GDP per capita (last year, it ranked 14th, achieving 92% of the EU average). The Babiš government aims to boost the nation's competitiveness through measures such as modernising energy infrastructure, investing in AI, and making the labour market more flexible. At the same time, it does not plan to join the eurozone, and the strategy describes maintaining the Koruna as the “key to economic sovereignty.”

Implementing the strategy involves relaxing fiscal discipline. As recently as last year, Czechia was among the EU countries with the lowest public spending relative to GDP (43.2%). The long-term goals of the Babiš government include, among other things, increasing spending on education to 6% of GDP by 2030, and boosting investment in science, research, and innovation from just under 2% to 2.7% of GDP by 2035. This shift in approach was reflected in an increase in the budget

deficit this year to approximately 3.5% of GDP (up from about 2% last year). This figure exceeds the 3% limit recommended by the government's own strategy, among other guidelines.

The Czech budget deficit has risen despite savings in defence spending, which accounts for approximately 1.7% of GDP in this year's budget. Babiš argues for a broad interpretation of defence spending, suggesting that it should include areas like transportation infrastructure. This approach aligns with a strategy that largely overlooks defence as a distinct economic sector, reflecting his broader scepticism towards increased EU spending on both defence and the green transition.

A key pillar of the strategy is infrastructure development. It includes, among other things, the modernisation of road connections with neighbouring countries, including completing the D11 highway to the Polish border by 2030 (which will connect Prague to the Polish coast via an expressway). It also calls for the expansion of gas connections. However, this will omit the planned second interconnector with Poland, focusing instead on connections with Germany. The development of regional connections through the Three Seas Initiative is not accounted for by the plan.

Largely reflecting ANO's election platform, the strategy is intended to bolster Babiš's party's image—including in the eyes of its coalition partners—and portray it as focused on the well-being of Czechs. During his previous government, a similar function was served by a non-binding list of projects, [the national investment plan for 2020–2050](#). By placing his closest associates in key roles—appointing Alena Schillerová as finance minister and Karel Havlíček, who developed the current strategy, as minister of industry and trade—Babiš has subordinated the coalition government's economic policy to his party.

International Activities. Babiš is trying to influence the debate on the EU's economic future, even though his strategy downplays the EU's role in shaping Czechia's economic development. This position is evidenced, among other things, by his letter from late January of this year, addressed to the President of the European Commission, the President of the European Council, and its members, regarding competitiveness. In the letter, Babiš was critical of the complicated regulatory environment and the rapid pace of the climate transition, considering both to be harmful to competitiveness.

Babiš intends to build an effective coalition of EU countries to influence the revision of the ETS. The Czech government is pushing, among other things, for energy-intensive industries to be exempted from the obligation to purchase emission allowances until 2034. To revise the ETS, Czechia is attempting to form a group of "Friends of Competitiveness," which would be based on its regional partners from the Visegrad Group and the Slavkov Triangle. In a letter to the European Commission and the President of the European Council in March of this year, the "Friends of Competitiveness" and some southern EU countries, including Italy (a total of 10 countries), deemed it

necessary, among other things, to extend the free EU allowances under ETS1 beyond 2034.

Despite his efforts, Babiš failed to persuade Germany, Czechia's largest economic partner, to criticise the ETS. However, as discussed during Babiš's visits to Berlin and Munich this year, Czechia still intends to intensify cooperation with Germany—particularly Bavaria—on areas such as AI and the development of small modular reactors.

The strategy excludes any mention of Russia's war with Ukraine (except for its impact on energy prices) and the prospects for economic cooperation with these countries. The Babiš government's break from support for Ukraine was confirmed, among other things, by the reduction of humanitarian and development aid directed to the country in this year's budget. Alongside Hungary and Slovakia, Czechia did not join the EU's €90 billion loan guarantee for Ukraine. At the same time, the Ministry of Industry and Trade continues to promote companies that could participate in Ukraine's reconstruction, and Babiš has announced his participation in a conference planned for this purpose, which will take place this June in Gdańsk.

Conclusions and Outlook. The Czech strategy is an attempt to outline an economic development plan that, in particular, would be increasingly knowledge-based. This transformation is to be achieved by increasing investment in AI and education while maintaining a strong industrial base and export sector. At the same time, the strategy addresses cooperation with foreign partners only selectively and briefly, although the first four months of Babiš's cabinet have shown a strong focus of its international activities on economic issues.

The Czech authorities would welcome the restoration of Visegrad cooperation, seeing it, among other things, as a vehicle to challenge the ETS system. However, reforming the ETS will require a broader coalition of EU member states. Therefore, the "Friends of Competitiveness" group is ultimately intended to extend beyond regional boundaries and include the signatories of the letter from March of this year. To achieve the strategy's costly goals, including infrastructure development, Czechia will need to retain EU funds. Therefore, through its membership of the "Friends of Cohesion" group, the country has announced efforts to secure the most favourable Multiannual Financial Framework (MFF) for 2028–2034, while continuing to avoid net contributor status.

From Poland's perspective, as a country which shares with Czechia, among other things, a similar approach to the MFF, the completion of infrastructure connections with its Czech neighbours and the revitalisation of trade with regional partners, as announced in the strategy, will be beneficial. However, the marginalisation of defence issues in the long-term economic plan sends a negative political signal within NATO, as it will limit Czechia's prospects for security cooperation. Clarifying defence issues will become the responsibility of the Czech Ministry of Defence when it unveils this year's armed forces development strategy.