
When Contracts Can Be Modified: the Impact of More Flexible Rules on Public Procurement²

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Summary

- This study summarizes the results of an empirical analysis of the impact of easing the rules for public procurement contract modification on outcomes in the Czech Republic. We estimate how this affected the average tender winning price, the final prices of completed contracts, and the quality of the completed work.
- A significant portion of public spending in developed countries is carried out through public procurement. In recent years, the Czech Republic has spent more than CZK 1 trillion annually via public procurement. This represents 14% of GDP, nearly half of all state budget expenditures, and 30% of total public budget expenditures. Given the high volume of funds allocated through public procurement, even a small change in the rules and laws governing it can have billion-crown impacts on public budgets—either positive or negative.
- There is always a chance that an original contract will need to be modified during implementation, especially in the case of long-term and logistically demanding contracts, such as construction or IT projects. The way rules regulate the possibility to modify a contract (including increasing the final price) in such situations is a crucial aspect of public procurement regulations.

² This study summarizes the main findings and conclusions of the academic article “Easing Renegotiation Rules in Public Procurement: Evidence from a Policy Reform” (2025) by Kris De Jaegher, Michal Šoltés, and Vítězslav Titl. This study represents only the views of the authors and not the official position of the Economics Institute of the Czech Academy of Sciences, nor those of the Charles University Center for Economic Research and Graduate Education (CERGE). The authors would like to thank Daniel Münich for his valuable insights and advice. Any inaccuracies or errors are the responsibility of the authors. The study was created with the support of the Czech Academy of Sciences.

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- In 2016, the rules for public procurement contract modification were eased. After the reform, when it becomes necessary to modify a contract during its execution, the contracting authority and the contractor may do so, provided the overall nature of the contract is preserved and the financial limits set by law are observed.
- Following the easing of the rules, there was a significant increase in the number of public contracts in which the tendered price changed. This was particularly evident in the construction sector, where more than 40% of contracts tendered in the year following the reform saw a price modification.
- Despite the increase in the number of modified contracts (and increases of the originally tendered prices), the long-term average final price of contracts did not increase as a result of the reform. This was due to a decrease in the average tendered price. Competing contracting authorities began to expect that they themselves would not have to bear the entire cost of any unforeseen work, and began to offer lower prices.
- Despite having no impact on the average final prices of contracts, the overall costs to public budgets increased. This rise was caused by a small number of large projects in which the contracts were amended and the final price increased.
- After the reform, the option to modify an original contract also applied to most ongoing contracts awarded before the reform. In these cases, the average final price increased, because, as with projects awarded after the reform, contracts were modified more frequently and prices increased. At the same time, unlike projects tendered after the reform, no reduction in the tendered prices was possible, and indeed there were none.
- Changes to public procurement rules that may have significant impacts on public budgets should always be accompanied by thorough empirical evaluation. To enable this, it is essential to ensure the collection and accessibility of data in a form that allows for high-quality, credible impact analysis. Such analysis should be an integral part of any regulatory impact assessment.