

**Office of the Czech Fiscal Council**  
**CZECH FISCAL COUNCIL**

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**OPINION**

**of the Czech Fiscal Council**

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**on the development of general government finances and fiscal and budgetary policy**

Pursuant to Section 21(2)(c) of Act No. 23/2017 Coll. on the Rules of Budgetary Responsibility (hereinafter “Act”), the Czech Fiscal Council (CFC) monitors general government finances. As part of this activity, it also seeks to identify risks that may negatively affect the stability of public finances in the short, medium and long term. Since September 2018, the CFC has been informing the public about its conclusions on a quarterly basis.

**Initial economic situation**

The Czech economy continues to enjoy solid economic growth. Gross domestic product (GDP) rose by 2.6% year-on-year (y-o-y) in the fourth quarter of 2025. The drivers of growth were strong dynamics in household consumption (3.2%) and investment (5.3%). GDP rose by 0.6% quarter-on-quarter (q-o-q), again supported by household consumption and investment, with the manufacturing sector performing particularly well (2.2%). **The strong growth at the end of the last quarter implies a significant carryover effect<sup>1</sup> for 2026, meaning that even if the Czech economy were to stagnate in 2026, it would still achieve growth of 1.0%.**

In 2025, GDP grew by 2.6% and gross value added by 2.8%. Although foreign trade had a negative impact on GDP (-0.4 pp), household consumption (+1.4 pp) had a significantly positive effect, as did inventory build-up (+0.6 pp), investment (+0.5 pp) and government consumption (+0.4 pp). **By the end of 2025, the Czech economy was 6.2% above its pre-COVID level, whilst neighbouring Germany was only 0.4% above and Austria 3.1% above their pre-COVID level.** These two countries also recorded the slowest cumulative growth for the years 2024 and 2025 of all EU countries.

**Strong growth of wages and salaries continued, reaching 8.8% y-o-y in the fourth quarter in nominal terms (by 7.9% for the whole of 2025).** The median wage rose by 6.4% in real terms in the fourth quarter (by 4.3% for the whole of 2025). However, the general unemployment rate rose by 0.5 pp y-o-y in January to 3.3%. The Czech Statistical Office’s January data thus confirm the gradual rise in unemployment indicated by labour office figures, where the registered unemployment rate reached 5.1% in January. Inflation rate was moderate at the start of this year. In February, y-o-y inflation stood at 1.4%. The main contributors to this low level were the fall in electricity and gas prices and food price development; conversely, rises in rent and imputed rent pushed inflation up.

**The outbreak and possible subsequent escalation of a regional conflict in the Middle East represent a significant new source of macroeconomic uncertainty.** This conflict is already having global repercussions, for example in the form of higher energy commodity prices, and if it were to drag on for an undesirable length of time, it could also have a negative impact on the Czech Republic’s economic and, by extension, fiscal outlook.

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<sup>1</sup> The carryover effect is a statistical phenomenon that illustrates the impact of economic developments in the previous year (or quarter) on the overall growth rate in the following year.

## General government finances and fiscal policy settings for the coming years

The setup of Czech public finances in the first quarter of 2026 is influenced by the provisional budget and the process of approving the state budget for 2026. The general government sector's imbalance is predominantly caused by the state budget, which at the end of February recorded a **cash deficit of CZK 16.9 billion, whilst the deficit adjusted for revenue and expenditure related to EU projects was deeper, reaching CZK 34.7 billion.**

**The revenue side of the state budget** reflects the robust growth of the Czech economy. Tax revenues at the national level showed a solid y-o-y increase of 6.4% in February 2026, with personal income tax paid by taxpayers rising by 11.4%. Value added tax revenue also showed brisk growth (6.0% y-o-y)<sup>2</sup>, reflecting rising consumer demand. The increased growth in nominal wages is also reflected in the y-o-y growth in social security contributions, which stands at 6.0%.

The expenditure side of the state budget is significantly affected by the provisional budget, which means that monthly expenditure may not exceed one-twelfth of the approved expenditure for 2025. During this period, new, i.e. unplanned, investment expenditure cannot be covered either. **Expenditure is thus postponed to subsequent months, and the provisional budget should be viewed more as a shift of certain expenditure from the first quarter to the rest of the year.** State budget expenditure (excluding expenditure related to EU projects) was CZK 31.0 billion lower y-o-y at the end of February, which is a consequence of the low advance transfers to universities (CZK -12.0 billion), the low contribution (particularly to regions) for the financing of social services (CZK -10.6 billion) and lower subsidies for regional education (CZK -5.2 billion), where, unlike last year, expenditure on the salaries of non-teaching staff is no longer included. These costs have been transferred to municipalities and regions, with a corresponding increase in their share of budgetary allocation of taxes.

In contrast to the state budget deficit, **the balance of local government sector in 2025 showed a surplus of CZK 13.2 billion in cash terms, which is significantly less than in previous years (in 2024 the surplus was CZK 51 billion, and in 2023 as much as CZK 71.7 billion).** This overall surplus last year was, as usual, influenced by the surplus recorded by the City of Prague (CZK 24.2 billion). If we exclude Prague, other municipalities surprisingly ended the year with a deficit of CZK 9.3 billion, whilst regions recorded a deficit of CZK 1.6 billion. In the case of public health insurance companies, the deficit stood at CZK 4.7 billion in cash terms at the end of 2025. If the final assessment (accrual) of the balance of municipalities and regions<sup>3</sup> confirm that there was an increase in their investment activity in 2025, this will also affect the final general government sector deficit as a whole for the past year.

**The development of public finances in the coming period** will be significantly influenced by the shape of the 2026 state budget, which has been drawn up with a deficit of CZK 310 billion. The CFC has already stated in its Statement<sup>4</sup> on the 2026 budget that this proposal breaches the current wording of the Act.

In connection with 2026 budget and the preparatory work on the 2027 budget, the CFC has identified several problematic areas, in particular:

- a) **Energy-related expenditure:** From 1 January 2026, the levy on renewable energy sources (RES) was abolished in end-user bills and is now to be fully covered by the state budget, which places a new expenditure burden on the government that takes on a quasi-mandatory form. According to the Energy Regulatory Office, the amount of the subsidy for renewable energy sources (following the transfer of the entire subsidy to the state budget) is quantified at CZK 41.7 billion for 2026<sup>5</sup>, with CZK 31.9 billion budgeted under the Ministry of Industry and Trade (MIT). It should be noted that, given the form of subsidy payments at quarterly intervals, the cash

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<sup>2</sup> Year-on-year increases in personal income tax and value added tax revenue are lower at the level of the state budget, which is a consequence of a change in the budgetary allocation of taxes related to the transfer of funding for non-teaching staff and part of non-investment expenditure to local government sector.

<sup>3</sup> On 1 April 2026, these figures will be published (with the general government deficit) as part of the reporting to Eurostat.

<sup>4</sup> See [the CFC's Statement on the draft state budget for 2026](#).

<sup>5</sup> Resolution of the Government of the Czech Republic No. 1022 of 16 December 2025 amending Government Resolution No. 710 of 24 September 2025 on the allocation of state budget funds for 2026 pursuant to Section 28(3) of the Act 165/2012 Coll., on Supported Energy Sources.

amount of the subsidy in 2026 should not, according to the CFC, exceed CZK 37.4 billion. However, if the remaining approximately CZK 5 billion were to be covered in the form of claims arising from unconsumed expenditure, the deficit would be increased by this amount. The second area to which the CFC will continue to pay close attention is the so-called compensation for indirect costs associated with payments for emission allowances.<sup>6</sup> These are budgeted at CZK 1.4 billion in the MIT for this year, whilst compensations already exceeded CZK 2.2 billion in 2025. The government has indicated that it intends to increase these expenditures further. In both 2023 and 2024, funds from the budget reserve were used for these payments. In 2025, for the first time, this compensation was not paid solely by the MIT, but predominantly by the State Environmental Fund (SEF). In December 2025, the Ministry of the Environment (ME) transferred an amount (CZK 2.06 billion) to the SEF for the payment of these compensations, which had originally been budgeted in the ME chapter in accordance with Government Resolution<sup>7</sup> to secure funding for water management infrastructure projects. It is therefore unclear from which sources these particular projects are to be funded.

- b) **Defence spending:** The CFC points out that the draft state budget for 2026 allocates CZK 154.8 billion (1.73% of GDP) to the Ministry of Defence. This would not only fall short of the commitments arising from the Czech Republic's NATO membership but would also potentially contravene Act No. 177/2023 Coll., on the Financing of the Defence of the Czech Republic. This Act No. 177/2023 Coll. stipulates that defence expenditure must be budgeted at a minimum of 2% of GDP.<sup>8</sup> The draft state budget assumes that, in order to reach the statutory 2% threshold, expenditure from other chapters (in particular the Ministry of Transport amounting to CZK 19.6 billion) will also be included in defence expenditure. Whilst this is possible under the wording of the Act on the Financing of the Defence of the Czech Republic, it is only permissible if these expenditures comply with the definition of defence expenditure according to current NATO methodology. However, the CFC has previously expressed strong doubts that this is the case. Since the publication of these doubts, none of the relevant authorities has yet dispelled them.
- c) **Discrepancies between the Ministry of Finance's forecasts and the estimates of financial institutions** and other analytical bodies – whether domestic or foreign – regarding the expected general government deficit for 2026: According to **the Report on the Draft state budget of the Czech Republic for 2026, the general government deficit is expected to reach 2.2% of GDP; however, the broader market consensus, in line with the CFC's estimate and the central bank's current forecast, anticipates a deeper deficit (2.6% of GDP)**. Analysts at a number of domestic and foreign financial institutions are even more sceptical in this regard. Should these discrepancies persist or even widen, this would indicate an undesirable mismatch between an external, impartial assessment of fiscal policy and the Ministry of Finance's own self-assessment.
- d) **Feasibility of the 2027 state budget:** Under current and still-applicable legislation, the Act sets out a binding expenditure framework for the state budget and state funds for 2027 based on a structural deficit of the general government sector amounting to 1.25% of GDP (0.5 pp lower than for 2026). It is not yet clear when and in what final form the proposed amendment to the Act will be approved. However, if the further measures announced by the government on both the revenue and expenditure sides of the budget are implemented (even if only partially), the state budget deficit will significantly exceed the limit set by the Act and will not follow. Drawing up the budget for 2027 will be exceptionally difficult even without these measures given the growing volume and number of mandatory expenditures, with which the growth in public budget revenues is failing to keep pace. This is the case even assuming that the Act is amended as intended by the government.

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<sup>6</sup> This constitutes notified (declared) state aid. The beneficiaries are operators of industrial enterprises in specific sectors.

<sup>7</sup> Resolution of the Government of the Czech Republic No. 156 of 4 March 2024.

<sup>8</sup> The statutory level of defence expenditure is calculated according to the April macroeconomic forecast, which precedes the forecast used to draw up the state budget itself.