

Statement of the Czech Fiscal Council on the current and expected work on the state budget for 2026, the process of its preparation and the outlook for public finances in the coming years

The Czech Republic is currently in an unusual budgetary situation, in which the government submitted a draft state budget for 2026 to the Chamber of Deputies of the Parliament of the Czech Republic at the end of September, but this has lost its relevance following the dissolution of the Chamber in connection with the elections.¹ Nevertheless, the Czech Fiscal Council (CFC) has decided to comment on the identified problematic areas of the submitted draft, which are not in line with the legislation and logic of the Czech Republic's budgetary process, and to explain how these areas should be addressed in the future in order to respect best budgetary practice and how those areas should be addressed in the preparation of any further draft state budget for the following fiscal year. At the same time, the CFC comments on the problems that will undoubtedly await public finances in the coming years if no further changes are made.

a) Defence expenditure

The first problematic point in the draft state budget for 2026 is the method of applying the exemption for defence expenditure. The current version of the Budgetary Rules Act allows state budget expenditure to exceed the expenditure framework by an amount equal to defence expenditure exceeding 2% of GDP.² In the draft state budget for 2026, defence spending is planned at CZK 206.5 billion, **which corresponds to 2.35% of GDP and allows the expenditure to be increased above the approved expenditure framework by an amount corresponding to 0.35% of GDP (CZK 30.7 billion).** However, CZK 20.1 billion (0.23% of GDP) of this amount is allocated to the Ministry of Transport, while the 2025 budget only identifies CZK 136 million as defence spending in the same chapter. This represents an extreme year-on-year increase, as pointed out by the CFC in its September opinion.³ Information presented in open sources shows that several new transport infrastructure projects have been included in the list of military expenditure. However, it should be noted that **the current NATO methodological approach allows only expenditure on projects whose primary purpose is military to be included in military expenditure.** Alternatively, military expenditure may include construction projects whose price has increased because of modifications to technical parameters required for military purposes (e.g. increasing the load-bearing capacity of bridges). In such cases, however, **only the amount by which the price has increased may be included in military expenditure.**⁴ Based on the available data, the above-mentioned massive year-on-year increase in defence expenditure in the Ministry of Transport's budget cannot be considered credible from the perspective of NATO's current methodological approach and appears rather to be an unjustified increase in state budget expenditure above the value set by the expenditure framework.

Last year, the CFC acknowledged the existence of a temporary, substantively and quantitatively limited exemption from the Czech Republic's fiscal rules, **provided that this exemption is used exclusively for defence purposes. Under no circumstances, however, should it be used or even abused to nominally allocate expenditure unrelated to defence to the country's defence expenditure.** This would render the exemption meaningless, as it would open the door to unlimited increases in a wide range of expenditures without the legal spending cap applying to them. And it would most likely not mean compliance with the legal limits set by Czech law and obligations towards allies.

As the Czech Republic is only learning to live with this exception in its first year, it is good to nip some unhealthy trends in the bud. The CFC therefore recommends that **only projects that have been duly**

¹ According to recent statements by government officials, the current government does not intend to submit the same proposal to the newly formed Chamber of Deputies of the Parliament of the Czech Republic, which will create a situation that has no comparable precedent.

² This exemption is limited to the years 2026-2033. See Section 8(3) of Act No. 218/2000 Coll. on budgetary rules.

³ [CFC Opinion No. 5/2025: Opinion of the CFC No. 5/2025 on general government finances and fiscal and budgetary policy.](#)

⁴ In this context, it should also be noted that in the past, the Czech Republic did not report significantly different figures for military infrastructure expenditure according to NATO methodology than other countries. For example, in 2024, it was 0.15% of GDP, while the NATO average was 0.1% of GDP.

discussed and approved by the Defence Planning Committee as an advisory committee of the State Security Council be included in the exception.

b) Budget of the State Transport Infrastructure Fund

The second problematic area of the proposed state budget for 2026 is the draft budget of the State Transport Infrastructure Fund. Firstly, it was not submitted to the Chamber of Deputies of the Parliament of the Czech Republic at the same time as the draft state budget, as required by the current wording of the Act on the State Transport Infrastructure Fund⁵, and secondly, it is proposed in an amount that exceeds the expenditure framework of the state budget and state funds. Among other things, this is reflected in the fact that the two documents are not consistent, as the revenue side of the State Transport Infrastructure Fund's budget anticipates higher revenue (by CZK 37.2 billion) from subsidies from the state budget than the amount used in the draft state budget on the expenditure side. The draft budget of the State Transport Infrastructure Fund is therefore unacceptable in its current form.

The CFC takes it for granted that **proper budgetary practice should at least comply with existing and valid laws**. The CFC therefore considers it unacceptable that the budget of the State Transport Infrastructure Fund was not approved by the government and submitted to the Chamber of Deputies of the Parliament within the deadline set by law and, moreover, has not been approved even now. Given that the preparation of the 2026 budget has been interrupted by the elections to the Chamber of Deputies of the Parliament, the approved draft budget of the State Transport Infrastructure Fund should at least be an integral part of the supporting documents that deputies will receive with the budget documentation when the state budget begins to be debated by the Chamber of Deputies of the Parliament (see below). **Compliance with the expenditure framework and consistency of all submitted budget documents should then be a matter of course.**

c) Increasing the estimate of government revenues

Finally, the third controversial area that needs to be highlighted in connection with the process of drafting the state budget for 2026 is the increase in the estimate of government revenues during September. The basic steps for determining the expenditure framework of the state budget and state funds take place in two-time milestones. In April, based on macroeconomic forecasts, the Ministry of Finance of the Czech Republic (MF CR) will prepare a forecast of public revenues, the amount of which will be assessed by the Committee on Budgetary Forecast (the Committee). Subsequently, in the document *General Government Budgetary Strategy*, the MF CR will derive the value of the expenditure framework for the state budget and state funds.⁶ The CFC will assess the correctness of this procedure. Subsequently, in August, based on a new macroeconomic forecast, this expenditure framework will be updated, whereby it may only be increased if the new macroeconomic forecast indicates higher expected government revenues. The new estimate of government revenues is then again assessed by the Committee.

Although the above steps were duly taken in 2025, in September the MF CR increased the estimated general government revenues by additional revenues from social security contributions (CZK 12.4 billion in retirement and sickness contributions and CZK 5.2 billion in health insurance contributions) and personal income tax (CZK 2.3 billion), which is to be generated by reducing the shadow economy on the basis of instruments introduced in the Act on the Unified Employer Monthly Report.⁷⁸ Thus, without any improvement in the expected macroeconomic development and without this additional revenue being assessed by the exclusively competent Committee, the expenditure framework of the state budget and state funds for 2026 was increased by CZK 14 billion.

As in the past, the CFC notes that, in accordance with established best practice and the logic of Act No. 23/2017 Coll. on the Rules of Budgetary Responsibility (the Act), if the Chamber of Deputies of the

⁵ See Section 5(1) of Act No. 104/2000 Coll., on the State Transport Infrastructure Fund.

⁶ In simple terms, the process of deriving the expenditure framework for the state budget and state funds can be imagined as adding the maximum deficit value according to Act No. 23/2017 Coll. on the Rules of Budgetary Responsibility to the estimated government revenues, adjusted for the expected deficits of all other units of the general government sector.

⁷ Act No. 323/2025 Coll., on the Unified Employer Monthly Report.

⁸ For the sake of completeness, it should be noted that the increase in revenue was sent to the Committee for ex-post comment.

Parliament receives a draft budget with revenues that have been verified by an independent Committee, not ex-post, but ex-ante, i.e. before the draft is sent to the Chamber of Deputies of the Parliament.

It should also be noted that **estimates of the expected effects of measures against the shadow economy are, in principle, very rough, highly uncertain and essentially unverifiable, and therefore should not be included in the preparation of the budget and the derivation of expenditure frameworks**. There is a risk that in future the budgetary process will be discredited by arbitrary overestimation of government revenues on the grounds of reducing the shadow economy.

d) CFC statement

Considering the points mentioned above, the CFC is forced to state that, on the one hand, it acknowledges that, partly due to its repeated pressure, certain past flaws (e.g. insufficient budgeting of funds for renewable energy sources, overestimation of revenue from emission allowances) are not being repeated. On the other hand, however, it cannot be accepted that the reduction of problems in budgeting in one part of public finances is replaced by problems in other parts. The CFC is aware (after all, it has repeatedly stated this itself) that public finances are under pressure from a growing number of expensive budgetary priorities and a higher share of mandatory expenditure than in the past⁹, partly due to the growing volume of automatically indexed expenditure and rising debt servicing costs.

However, all these facts should not lead to the factually incorrect conclusion that public finances, and specifically the 2026 budget, are “short of resources”. From the point of view of fiscal rules, on the contrary, there is a “surplus of expenditure” that is not covered by either forecasted revenues or a deficit that is in line with the required legal limit. As the CFC has repeatedly stated (and also explained in this year's [Report on the Long-Term Sustainability of Public Finances](#), for time being available in Czech only), this problem is growing over time and will not be solvable without additional consolidation measures when preparing the 2027 budget, which will begin in a few months.

This situation – with the effects of the 2023 consolidation package exhausted – leads the CFC to an obvious conclusion. What is desirable is not **a relaxation of fiscal rules, a more lax interpretation of them or an increase in the number of cases of incorrect budgeting (see above), but rather more consistent compliance with existing rules and greater respect for them on the part of all stakeholders**. Only in this way can fiscal stability be maintained in the medium and long term and public budgets be brought back to a state of full recovery.

The CFC is aware that this is all the more true given that, as in the previous election period, **sooner or later everything essential concerning governance in the Czech Republic will be reflected in the state budget** in the coming period.

⁹ On average, between 2014 and 2019, mandatory and quasi-mandatory expenditure accounted for 83.9% of state budget revenues and 19.5% of GDP; between 2023 and 2026, on average they account for 94.8% of state budget revenues and 21.4% of GDP.

e) Budget outlook

It is therefore important to pay attention not only to 2026, but also to the medium-term outlook. In this context, the CFC points out that *the draft budget of the State Transport Infrastructure Fund for 2026 and the budget outlook for 2027 and 2028* show **that expenditure of the State Transport Infrastructure Fund is set to increase dramatically**. The submitted draft shows that while the fund's expenditure was approved at CZK 153.1 billion in 2025¹⁰, it should be CZK 178 billion in 2026 to CZK 243.4 billion, and in 2028 to as much as CZK 311.2 billion. In just three years, the fund's expenditure is expected to double in nominal terms and increase its share of GDP from 1.8% of GDP in 2025 to 3.2% of GDP in 2028. Such an increase is not feasible without a significant reduction in the growth of mandatory expenditure, an adequate increase in revenue or a fundamental violation of the Act. At the same time, it is unclear whether there has been mapping of the impact of such a massive increase on the prices of construction work and building materials, on the size of the state's share as a public contractor in the volume of construction work, and on the reduction of the multiplier effect, at least for part of the planned expenditure, which will be implemented only because it can be implemented, not because it must necessarily be implemented.

f) Technical notes

The CFC considers it almost certain that the Czech Republic will operate under a provisional budget for at least part of 2026 (as was the case most recently in 2022). The constitutional and statutory deadlines for forming the Chamber of Deputies after the elections and for discussing the draft state budget for 2026 practically rule out any other solution. The draft state budget, whatever it may be (original or revised), cannot, for example, be discussed in an abbreviated procedure; there are minimum deadlines for its discussion in committees, etc. The logic therefore applies that the starting point for the provisional budget is the approved budget for 2025, and only the relevant parts of it (a maximum of 1/12 each month) may be spent. **This framework will therefore determine the budgetary constraints of any newly established government for at least part of the year.** It will be up to the new government to decide whether to opt for a quick fix involving minor adjustments to the outgoing government's proposal with a shorter provisional period (and addressing the CFC's findings), or more thorough adjustments to the revenue and expenditure sides, which may, however, extend the provisional period. Even in that case, the CFC's findings will remain valid.

¹⁰ Without using claims arising from unconsumed expenditure from previous years in the amount of CZK 7.2 billion.