The Czech Fiscal Council

Statement
Prague, 6 February 2026

Statement of the Czech Fiscal Council on the draft state budget for 2026

On 26 January 2026, the government approved the draft state budget for 2026, which anticipates a deficit of CZK 310 billion. In accordance with Section 21 of Act No. 23/2017 Coll., on the Rules of Budgetary Responsibility, as amended, (hereinafter referred to as the "Act"), the Czech Fiscal Council ("CFC") states that **this draft is in direct conflict with its current wording**. The Act and the applicable methodology for its interpretation define the binding expenditure framework of the state budget and state funds for 2026 based on the so-called structural deficit of the general government sector amounting to 1.75% of GDP. **This corresponds to a cash deficit of the state budget amounting to CZK 237 billion**. In accordance with the Act and Budgetary Rules[1], this amount may be increased by so-called repayable financial assistance for the construction of the Dukovany nuclear power plant (EDU II) and by defence expenditure exceeding 2% of GDP (CZK 175.7 billion)[2]. The original draft budget for 2026, approved by the previous government on 30 September 2025, envisaged defence expenditure of CZK 206.5 billion (2.35% of GDP), thus allowing budget expenditure to be increased by CZK 31 billion (0.35% of GDP) above the approved expenditure framework. The previous draft state budget also included an amount for repayable financial assistance, including related operations with EDU II, of CZK 18 billion**, thus allowing for a resulting cash deficit CZK 286 billion**.[3]

However, **this limit is not relevant for comparison with the new government's proposal of 26 January 2026**, as it no longer includes the aforementioned expenditure on repayable financial assistance, including related operations with EDU II, and the government has reduced defence expenditure in such a way that the maximum permissible deficit of CZK 237 billion can be increased by CZK 9 billion, as defence expenditure is budgeted at CZK 184.7 billion (2.10% of GDP) across all chapters.

The binding limit of the deficit under the Act is therefore CZK 246 billion, and the draft state budget exceeds this statutory ceiling by CZK 64 billion.[4] **This sum represents the volume of expenditure for which the government has neither revenue nor a deficit permitted by the Act.** At the same time, the proposed deficit implies a structural deficit of the general government sector of 2.2% of GDP according to the estimate of the Ministry of Finance of the Czech Republic ("MF CR") and up to 2.5% of GDP according to the estimate of the CFC, which in any case exceeds the structural deficit limit permitted by the Act for 2026. This is the first case since the Act came into force where the government's own draft state budget is already ex-ante in explicit breach of the maximum legal limits in these key parameters.

1. *Non-standard situation, interpretation and application of rules*

The CFC is aware that the draft state budget for 2026 is being drawn up in an unprecedented situation. For the first time in the history of the independent Czech Republic, the Chamber of Deputies of the Parliament of the Czech Republic ("Chamber") decided to return the original draft state budget for revision at a time when elections to the Chamber had changed its composition. The incoming new government majority thus returned the budget for revision to the government that had lost its majority. At the same time, there was a political and interpretative debate as to whether the outgoing government should resubmit the original draft state budget to the Chamber after the elections or not.

However, according to the CFC, none of these circumstances change the fact that **the preparation of the draft state budget must be carried out in accordance with the applicable Act and that the government is bound by the Act to submit a draft state budget at any time within its limits and constraints**. The current version of the Act, including the ceilings for the maximum permissible structural deficits of general government sector, was approved in 2023 and there was no alternative proposal, amendment or discussion in the Chamber. The CFC therefore took it for granted that the entire political scene would want to comply with the Act, regardless of who was in power at the time.

After the parliamentary elections in October 2021, the government also changed, and the Czech Republic entered 2022 with a provisional budget, during which the MF CR also drew up the state budget for the then current calendar year. In its Report on the Draft State Budget Act [parliamentary file No 144/0, February 2022 (available in Czech

[1] Act No. 218/2000 Coll., on Budgetary Rules and of Amendment of Certain Related Acts (Budgetary Rules), as amended.
[2] This is permitted under Section 8(3) of the Budgetary Rules. Pursuant to Section 1(2) of Act No. 177/2023 Coll., on the Financing of the Defence of the Czech Republic and on amending Act No. 218/200 Coll., on Budgetary Rules and of Amendment of Certain Related Acts (Budgetary Rules), as amended, (Act on Financing of Defence), the nominal GDP forecast set out in the General Government Budgetary Strategy of the Czech Republic shall be used to determine this amount.
[3] All of the CFC's reservations about this proposal by the former government were transparently published in a statement in October 2025.
[4] The final budget for the Ministry of Defence of the Czech Republic in the proposal submitted to the Chamber of Deputies of the Parliament of the Czech Republic is CZK 1 billion lower than the expenditure approved by the government on 26 January 2026. This amount further reduced the maximum permissible state budget deficit.

language only)], the MF CR stated that the state budget was in accordance with national legislation, including the expenditure framework set out in the Act.[5]

The CFC therefore considers the argument presented by the MF CR that the limits imposed by the Act do not apply to the preparation of the budget after its return by the Chamber to be untenable.[6] At the same time, the CFC points out that it is the CFC that is the body authorised under Section 21 of the Act to assess whether and how fiscal rules are complied with and how they should be applied. The MF CR and, by extension, the government are, on the contrary, obliged entities that must act in accordance with the Act (for the arguments of the MF CR, see the appendix). In this context, the CFC therefore considers significant that the Explanatory Memorandum [parliamentary file 94/0, February 2026 (available in Czech language only)] on the draft state budget for 2026 states that the draft is in line with European Union law, but not with the national fiscal rules set out in the Act.

2. *Further findings*

The CFC welcomes the fact that the draft **state budget for 2026 does not suffer from some of the shortcomings that affected state budget in previous years**. For example, the estimate of revenue from emission allowances is more realistic, the overall state budget revenues have been properly assessed by the Committee on Budgetary Forecasts, they show no signs of any deliberate distortion, and there are no plans for off-budget coverage of certain expenditures in the State Fund for Transport Infrastructure. **However, from the CFC's point of view, it would be unacceptable to eliminate these shortcomings at the cost of failing to comply with the basic principles of the rules of budgetary responsibility.**

In this draft, the government has retained expenditure of CZK 19.6 billion (e.g. completion of the D11 highway) in the Ministry of Transport of the Czech Republic chapter, designated as defence expenditure, which the CFC already questioned in the draft state budget submitted by the previous government. The CFC has very serious doubts that this expenditure could be recognised as defence expenditure based on the current NATO methodology.[7]

Furthermore, the CFC states that it considers the way the expenditure of the so-called parliamentary chapters (e.g. the Constitutional Court) **was adjusted to be non-standard**, i.e. institutions whose budget, according to Section 8 of the Budgetary Rules, should be approved by the Committee on the Budget of the Chamber, not by the government. This mechanism is a long-established way of protecting institutions that are independent of the government, and it is a relevant and established part **of the separation of powers between the executive and the legislature.** However, the MF CR states that even this part of the Budgetary Rules does not apply in the case of the submission of the state budget after its previous return by the Chamber, and that the protection of the so-called parliamentary chapters does not need to be respected. This issue is not significant in terms of the government's proposed total state budget expenditure, as the chapters in question have themselves accepted the expenditure adjustments. However, the CFC has strong doubts about this interpretation and recommends that the expenditure adjustments for these chapters be subsequently remedied by resolutions of the Committee on the Budget of the Chamber.

3. *Outlook for 2027 and adjustment of fiscal rules*

The CFC notes that its expectations are being fulfilled over time, namely that the effects of consolidation in previous years are gradually being exhausted and that budgeting is, due to **the increase in the volume of automatically indexed expenditures, new costly expenditure priorities and unwillingness to adequately adjust general government revenues to the pace of expenditure growth, becoming more complicated and demanding from year to year**, even though the Czech economy is in a growth phase of the economic cycle. As the CFC has already reported[8], compiling the budget for 2027 may prove even more complicated than 2026 budget. In this context, the CFC is paying and will continue to pay close attention to the proposed key amendment to the fiscal rules, which has been submitted to the Chamber for discussion [parliamentary file 90/0, January 2026 (available in Czech language only)]. **Their configuration – whether in the form of harmonisation with new fiscal rules within the EU framework or adjustments at the national level – will determine the trajectory of public finances and their sustainability for many years to come**.

[5] Part 1.5.1 of the Report on the Draft State Budget Act for 2022: "*The draft revenues and expenditures of the state budget and state funds for 2022 are in accordance with the consolidated medium-term expenditure framework under the Act on the Rules of Budgetary Responsibility and the Act on Budgetary Rules.*"

[6] MF CR (2026): https://mf.gov.cz/cs/ministerstvo/media/v-mediich/2026/mf-k-nepresnym-tvrzenim-nrr-na-siti-x-62715 (available in Czech language only).

[7] The CFC adds that without designating these expenditures as defence expenditures, the current government would not comply with the wording of the Act No. 177/2023 Coll. (the Defence Financing Act), which requires defence expenditures to be maintained at a level of at least 2% of GDP.

[8] CFC (2025): Report on the Long-Term Sustainability of Public Finances.

Appendix

In its statement on the draft state budget, the MF CR presents three theses:

(1) *The expenditure frameworks set out by the Act apply to the preparation of the draft state budget within the regular time limit, not to its amendments or modifications.*

The CFC rejects the idea that the Act and the Budgetary Rules would not apply to the preparation of the budget after the initial draft has been returned by the Chamber, as this would make it extremely easy for any government to circumvent the statutory expenditure limits and the permitted deficit by "returning" the draft itself through a majority decision in the Chamber. Moreover, in the aforementioned draft amendment to the fiscal rules [parliamentary file 90/0, January 2026 (available in Czech language only)], the MF CR itself makes it clear in an additional text that any government proposal must respect the Act, in other words, it agrees with the logic of the CFC´s interpretation of the rules.

(2) *The situation in which the draft state budget for 2026 was not approved in the first reading and was returned to the government for revision is not subject to the expenditure frameworks, and at this stage it is necessary to follow the recommendations of the Chamber set out in its 46th resolution from its 3rd meeting on 26 November 2025.*

The CFC notes that the Chamber's resolution has less legal force than the applicable law.

(3) *The CFC's calculation completely ignores the fact that directly applicable European Regulation No. 2024/1263 and the resulting national escape clause for defence expenditure is part of the Czech legal system. The current draft state budget already considers the escape clause approved by the Council of the EU on 30 June 2025, in the total amount of CZK 55 billion. After its inclusion, the limit is CZK 292 billion and the alleged excess is CZK 18 billion.*

The aforementioned escape clause concerning defence expenditure has no impact on the Czech budgetary process. It is *a recommendation of the Council of the EU of 8 July 2025, which allows the Czech Republic to deviate from the maximum rates of net expenditure growth set by the Council of the EU under Regulation 2024/1263*. In other words, it is a possible breach of the EU fiscal framework, for which the Czech Republic would not be sanctioned by the European Commission when assessing its compliance. If the MF CR's interpretation is correct, then the CFC finds it strange that the previous government did not make use of this escape clause, given that the state budget was not approved until after June 2025 and, moreover, in a situation where defence spending was set to increase year-on-year. The CFC insists that national legislation must be followed when compiling the state budget. Otherwise, the debt brake limit set by the Act at 55% of GDP, which is stricter than primary EU law, would not be valid either.

Furthermore, the CFC states that the MF CR's argument on this point is completely inconsistent. It is not possible to claim that the same draft state budget is in accordance with the Act, because the Act does not apply to the budget at all, and then to state that it is not in accordance, but only by a lower amount than calculated by the CFC. The expenditure frameworks have been exceeded, and although the CFC insists that this is by a full CZK 64 billion, even a lower excess would still be an excess and therefore an act outside the scope of the Act.

About the Czech Fiscal Council

The Czech Fiscal Council (CFC) 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 laid down in Act No. 23/2017 Coll. on the Rules of Budgetary Responsibility. The activities of the CFC also contribute to the sustainability of the Czech Republic's public finances and reduce the risk of excessive general government debt. The members of the CFC are Mojmír Hampl (chairman), Petr Musil and Luboš Komárek. For more information, visit www.rozpoctovarada.cz.

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