# Statement of the Czech Fiscal Council on the Final Draft State Budget for 2027

On 21 September 2026, the government approved the draft State Budget Act for 2027, which envisages for a deficit of CZK 386 billion[1] , and submitted it to the Chamber of Deputies of the Parliament of the Czech Republic on 30 September as Chamber of Deputies Print No. 324 [available only in Czech]. In its regular quarterly opinion (CFC Opinion No. 5/2026), the Czech Fiscal Council (CFC) commented on the draft state budget submitted by the Ministry of Finance (MF CR) to the government and pointed out that the final amounts for certain items had not yet been finalised and would only be known once the draft had been submitted to the Chamber of Deputies of the Parliament of the Czech Republic. The CFC now states that the picture of general government finances does not change significantly with the revised and government-approved draft, and the MF CR continues to forecast both overall and structural deficit for the general government sector of 3.5% of GDP.

## 1) Adjustment to the budget deficit

Compared with the August draft state budget (a deficit of CZK 389 billion), the deficit was reduced by CZK 3 billion. On the revenue side, the budget included revenue from the sale of emission allowances (CZK 7.8 billion[2]), against which related expenditure (CZK 6.4 billion) was also recorded on the expenditure side. Furthermore, additional revenue totalling CZK 1.6 billion was included in the budget, comprising in particular revenue from the sale of immovable property under the MF CR (CZK 0.7 billion), revenue from contributions by insurance companies arising from the operation of statutory employers' liability insurance for damage resulting from accidents at work or occupational diseases (CZK 0.3 billion), and an increase in the transfer of funds held in special accounts of the MF CR (CZK 0.5 billion). In total, therefore, the balance falls by CZK 3 billion, whilst both total revenue[3] and expenditure of the state budget have increased.

## 2) Adjustments to key expenditure items in the state budget

Unlike the August proposal, payments for state-insured persons (to healthcare system) have been reduced by CZK 1.5 billion, and the budget for 2027 is therefore set at CZK 174.2 billion. **Compared with the approved figure for 2026, this represents an increase of CZK 16.5 billion, which the government is implementing via an amendment proposed by a Member of Parliament to the amendment to the Act on Public Health Insurance Contributions** (Chamber of Deputies Print No. 235 [available only in Czech]) **and which entails additional fiscal costs of CZK 13.5 billion.** The remaining approximately CZK 3 billion is due to an increase in the number of state-insured persons as early as 2026[4] , which is also reflected in payments for state-insured persons in 2027. **With this extraordinary indexation, the government is deviating from the indexation formula effective from 2024, whilst the statutory indexation alone for 2027 would entail an additional fiscal cost of only around CZK 2.4 billion. At the same time, the government is also deviating from its original intention to increase this payment by CZK 21 billion, as decided earlier this year.** The CFC points out that the aforementioned increase in payments for state-insured persons, which goes well beyond the statutory indexation formula, is not intended as a one-off measure to stabilise the system, but as a permanent increase in this expenditure, which will thus permanently increase the volume of mandatory expenditure in the entire state budget. For this reason, the CFC anticipates that this measure will be the subject of further expert and political debate.

[1] The state budget deficit, if it included the repayable financial assistance (in the amount approved by the government in April) to Elektrárna Dukovany II, would amount to CZK 416 billion. Following a change in the fiscal rules, this is paid from an extra-budgetary account.
[2] Of this amount, CZK 2.6 billion is transferred to the state budget from the State Environmental Fund of the Czech Republic.
[3] Revenue in the final draft state budget is increased by approximately CZK 12 billion compared with the revenue assessed by the Committee on Budgetary Forecast on 27 August. In its opinion [available only in Czech], the Committee subsequently assessed the revenue forecast as realistic.
[4] The MF CR expects payments for state-insured persons in 2026 to amount to CZK 160.7 billion instead of the budgeted CZK 157.6 billion.

Compared with the original proposal, expenditure on pensions has increased by CZK 4.0 billion. The draft budget for 2027 anticipates a year-on-year increase in pensions of CZK 23.2 billion. However, according to the CFC's calculations, expenditure on pensions should increase by CZK 17.8 billion in line with the government's approved plans. Standard pension indexation from January 2027 should, according to a government regulation, result in an increase in pension expenditure of CZK 10.4 billion, the extension of so-called age-based indexation is expected to result in additional expenditure of CZK 2.6 billion, and the one-off payment of CZK 2,000 for each pensioner announced by the government is then expected to cost approximately CZK 4.8 billion. **Overall, according to the CFC's calculations, pensions would thus increase by CZK 5.4 billion less than the budgeted increase.** The CFC regards this amount as an implicit budgetary reserve within the Ministry of Labour and Social Affairs' budget.

### 3) Further findings concerning the proposed revenue and expenditure of the state budget and the rules for proper and complete budgeting

Budgeting on the basis of unapproved legislation and the budget of the State Environmental Fund

Under Act[5], half of the *revenue from the fee for the volume of groundwater abstracted* (approximately CZK 0.7 billion per year) goes to the State Environmental Fund, whilst the other half goes to the region in whose territory the groundwater is abstracted. The State Environmental Fund draft budget for 2027 allocates this revenue at CZK 0.34 billion. However, the same revenue also appears in the draft state budget for 2027, specifically under the Ministry of Agriculture, at CZK 2.0 billion. This would imply an increase and the transfer of part of the revenue from this charge to the Ministry of Agriculture. **At present, however, this constitutes state budget revenue of CZK 2.0 billion, which is not in accordance with existing or even proposed legislation and which increases the state budget's expenditure framework by this amount.**

**The CFC generally does not consider it as good practice to budget for certain items without approved legislation, or at least legislation that is already at an advanced stage of approval in the Chamber of Deputies of the Parliament of the Czech Republic**. In the past, this has occurred, for example, with the removal of payments for non-teaching staff from the state budget or with the reduction in subsidies for renewable energy sources, where the legislative amendments envisaged by the state budget did not ultimately take place in the year in question. In addition to the case mentioned above, the 2027 budget includes unemployment benefits, which are budgeted at CZK 2.4 billion lower year-on-year because, from January 2027, the benefits are to be reduced in the first two months from 80% to 65% of average net earnings. However, the amendment to Act[6] is only at the very beginning of the legislative process, and once again, the budget is being drawn up in contravention of current legislation.

At the same time, from the CFC's perspective, there is a recurring practice – which is unacceptable (and, at its core, contrary to the law) – of approving and submitting draft budgets for state funds to the Chamber of Deputies of the Parliament of the Czech Republic at a time other than that stipulated by the acts governing the relevant state funds[7], namely at the same time as the draft state budget. However, the State Environmental Fund budget proposal was included on the agenda for the government meeting on 5 October and, as of today, has not been submitted to the Chamber of Deputies of the Czech Republic. This is, in principle, a similar issue to that which arose last year with the budget of the State Transport Infrastructure Fund (see the CFC's Statement), whose budget was also not submitted to the Chamber of Deputies of the Parliament of the Czech Republic at the same time as the draft state budget, although in quantitative terms this year's problem is entirely incomparable to last year's.

**In this context, the CFC draws attention to the somewhat illogical wording in the acts of individual state funds, which obliges to submit the draft budgets of certain state funds to the Government by 30 September, whilst the Government must also submit the draft state budget to the Chamber of Deputies by 30 September and, by law, at the same time as the approved draft budgets of the state funds. Given the high degree of interconnection between the state funds and the state budget through mutual transfers, the CFC recommends amending the acts of individual state funds**

[5] Resolution under Section 88g of Act No. 254/2001 Coll., on Water and on Amendments to Certain Acts (the Water Act).
[6] Act No. 435/2004 Coll., on Employment.
[7] In this case, the resolution under Section 2a of Act No. 388/1991 Coll., on the State Environmental Fund of the Czech Republic.

**(regarding the deadline for submitting state fund budget proposals to the Government) so that the funds' budgets are always and exclusively submitted to the Chamber of Deputies of the Parliament of the Czech Republic after having been approved by the Government, and at the same time as the Government-approved draft state budget, in order to prevent any conflict between them.**

Compensation of indirect carbon costs in the Ministry of Economy's budget

Act No. 383/2012 Coll. explicitly stipulates that the maximum amount of compensation of so-called indirect carbon costs for energy-intensive industrial sectors may reach 25% of the revenues generated from the auctioning of emission allowances for the previous calendar year. The draft budget for 2027 provides for compensation of **CZK 3.4 billion, which is overestimated in view of current estimates of projected revenues generated from the auctioning of allowances for 2026. According to these estimates, compensation next year should not exceed CZK 2 billion.** Higher compensation would be contrary to the current wording of the Act. A stricter interpretation of the Czech Act, which includes only revenues from the auctioning of emission allowances (and not the Czech Republic's voluntary deduction to the Modernisation Fund) in the calculation of the maximum compensation amount, was confirmed by the government this summer when, in determining the maximum compensation amount for 2026, it reduced the originally proposed sum of CZK 3.8 billion to CZK 3.4 billion in accordance with the CFC's recommendation, precisely in order to comply with the aforementioned 25% limit. If this practice were to be changed, the legislation would first need to be amended.