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## Czech Republic: New Budget Amid Disputes over the Deficit and Defense Spending

On 11 March this year, the Parliament of the Czech Republic adopted the government's budget bill for 2026, bringing to an end a three-month period of provisional budgeting. Despite opposition resistance—effectively deprived of any real influence over the final shape of the budget—the law was passed and subsequently signed on 20 March by President Petr Pavel, who at the same time voiced reservations about the direction of fiscal policy and the level of defense spending. The budget, prepared by the coalition government of ANO, SPD, and Motorists under Prime Minister Andrej Babiš, assumes a clear increase in the deficit compared to the previous year, sparking controversy at the institutional level, including criticism from the National Fiscal Council.

**Budget vote.** On 11 March, the Chamber of Deputies adopted the 2026 Budget Law. On 20 March, President Petr Pavel signed the document, completing the legislative process and paving the way for its entry into force upon publication in the official gazette. The budget was approved by 103 votes from members of the governing coalition (ANO, Freedom and Direct Democracy – SPD, Motorists), with 88 opposition MPs voting against. During the legislative process, the opposition failed to push through amendments related to reallocating expenditures. The document provides for a deficit of CZK 310 billion, representing a significant increase compared to the previous year, when the initially planned deficit was CZK 241 billion and the final figure reached CZK 290.7 billion. The planned deficit was criticized by the National Fiscal Council (NRR), which noted that the statutory limit is CZK 246 billion—meaning it has been exceeded by CZK 64 billion. The adoption of the budget was preceded by a period of provisional financing, resulting from the failure to pass the law before the end of the previous year. The new budget is also the first prepared by the current governing coalition, following the rejection of the draft submitted by the previous coalition government led by Petr Fiala (ODS).

**Planned revenues and expenditures.** The budget draft forecasts an increase in revenues by CZK 31.7 billion year-on-year, reaching nearly CZK 2,118 billion, alongside a significant rise in expenditures—by CZK 100.7 billion—to almost CZK 2,428 billion. This dynamic reflects growing pressure on the spending side, which substantially shapes the final level of the deficit. During parliamentary deliberations, the Chamber of Deputies largely adopted amendments proposed by the governing coalition, in line with earlier announcements by Prime Minister Andrej Babiš. These included, among others, an increase of CZK 800 million for the National Sports Agency to support the development of sports infrastructure and the allocation of CZK 120 million to the MEDEVAC medical and humanitarian program. Additional funding of CZK 50 million was approved for organizations working with youth, CZK 100 million for anti-drug policy measures, and CZK 50 million for instruments supporting housing policy. At the same time, opposition proposals were rejected, including those calling for increased funding for the military, the cultural sector, and healthcare. This underscores the limited influence of opposition parties on the final shape of the adopted budget.

**Opposition criticism and the government's position.** The budget draft faced strong criticism from opposition parties (the Civic Democratic Party – ODS, TOP 09, KDU-ČSL, Mayors and Independents – STAN, and the Czech Pirate Party), which—referring, among other things, to the opinion of the National Fiscal Council—argued that the planned deficit, exceeding the statutory limit, is inconsistent with the Fiscal Responsibility Act. Opposition representatives also highlighted the broader implications of the adopted fiscal policy. ODS leader Martin Kupka accused the government of accelerating public debt and putting citizens' security at risk, while KDU-ČSL leader Marek Výborný pointed to the relatively low level of defense spending compared to allied countries.

The opposition also criticized the structure of expenditures, drawing attention to limited funding for defense, housing policy, and culture. Responding to these criticisms, Finance Minister Alena Schillerová (ANO) described the new budget as comprehensive, realistic, and based on actual data. She also noted that a significant share of fiscal burdens stems from decisions taken by the previous coalition government under Prime Minister Petr Fiala. At the same time, she acknowledged that the high level of the deficit is not satisfactory.

**The president's warning signal to the government.** Shortly after the budget law was adopted by parliament, President Petr Pavel announced that he would sign it, while clearly signaling that his stance could change in the future if subsequent drafts fail to meet the Czech Republic's commitments within NATO. Following a meeting with Prime Minister Andrej Babiš, the president recalled the country's commitment to gradually increase defense spending by 2035—to 3.5% of GDP for military purposes and an additional 1.5% of GDP for civilian infrastructure related to defense. In this way, the budget debate was explicitly framed not only in terms of fiscal policy but also within the broader context of international security and the country's credibility as an ally.

**Summary.** Despite the president's signature, the adoption of the budget does not resolve disputes over its key assumptions; rather, it highlights divergences between the government's fiscal policy and existing institutional frameworks and international commitments. The National Fiscal Council clearly indicated that the adopted deficit exceeds the statutory limit, which—although it does not entail any formal sanctions—generates reputational costs and undermines the country's credibility in the eyes of partners and financial markets. In this sense, the budget becomes not only an instrument of economic policy but also a test of adherence to fiscal rules. At the same time, the president has clearly given the budget debate a more strategic dimension, shifting it toward issues of security and international commitments. His position suggests that future assessments of the budget will increasingly depend on the state's ability to meet its allied obligations, particularly in the area of defense spending. The importance of this signal is reinforced by the fact that this year's defense budget remains subject to interpretative disputes. The approved defense budget provides for expenditures of CZK 154.8 billion, corresponding to 1.73% of GDP. However, the government plans to include in this category funds from other parts of the budget, including CZK 19.6 billion from the Ministry of Transport, which would raise total defense-related spending to approximately CZK 185 billion, or about 2.07% of GDP. This raises concerns, as it blurs the boundary between traditional military spending and broader investments related to state resilience. Thus, the issue concerns not only the level of spending but also how it is defined and politically framed. The president's signature should therefore be interpreted as formally closing the legislative process while simultaneously sending a clear warning signal—both with regard to fiscal discipline and the state's strategic priorities in the years ahead. The president had previously criticized the planned level of defense spending as too low in the current geopolitical context, and his position indicates that this issue may become one of the key criteria in future budget assessments by the head of state.