

CZECH REPUBLIC

UNITARY COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Czech Koruna (CZK)

POPULATION AND GEOGRAPHY

AREA: **77 227** km²

POPULATION: **10.525** million inhabitants (2014),
an increase of 0.02% per year (2010-14)

DENSITY: **136** inhabitants/km²

URBAN POPULATION: **73%** of national population

CAPITAL CITY: **Prague** (12.1% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **328.2** billion (current PPP international dollars)
i.e. 31 187 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **4 871** (BoP, current
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.870** (very high), **rank 28**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
6 258	-	14	6 272
MUNICIPALITIES (OBCE) AVERAGE MUNICIPAL SIZE: 1 640 INHABITANTS		REGIONS (KRAJ) INCLUDING THE CAPITAL CITY OF PRAGUE	

MAIN FEATURES OF TERRITORIAL ORGANISATION. The Czech Republic has a two-tier subnational government system, with no hierarchical link. Regions were established in 2000 (Regions Act 129/2000). Municipalities are regulated through the Municipal Act 128/2000. The municipal level includes municipalities, towns (*mesto*) and 25 statutory cities (*statutární mesto*). The latter have a special status granted by an Act of Parliament and can establish districts at the sub-municipal level with their own mayor, council and assembly - but only eight cities have chosen this option.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The Municipal and Region acts, both amended in 2002, make a distinction between autonomous and delegated responsibilities, i.e. exercised on behalf of the central government. While municipalities have equal status, they are divided into three categories according to the scope of their delegated responsibilities: 205 municipalities with "extended powers" (ORP), 1 036 municipalities with some delegated powers (e.g. registry office, building authority) including 183 municipalities with an authorised municipal authority and the remaining which are "basic" municipalities. Municipal competences include education (pre-elementary, primary, and lower secondary education), agriculture, housing, primary health care, social care services, local roads and public transport, water and waste management (ORP only). Some municipal competences are currently being re-allocated from small municipalities to larger ones and to the central government within the framework of the Social Reform. Regional responsibilities include upper secondary education, regional roads, public transport, health care/general hospitals, economic development and planning, social assistance for disadvantaged groups.

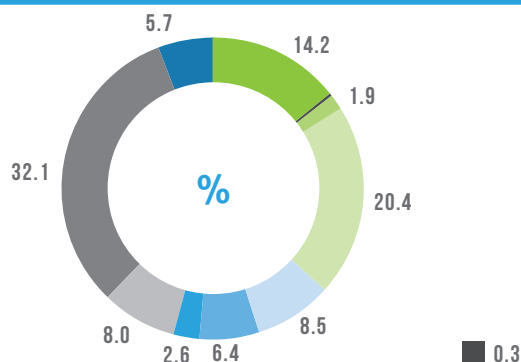
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	9.9%	23.6%	100%
CURRENT EXPENDITURE	7.9%	-	79.4%
STAFF EXPENDITURE	3.5%	48.2%	35.0%
INVESTMENT	1.8%	52.0%	17.8%

SNG spending is sizeable in key policy areas, being slightly below the OECD average for unitary countries (13% of GDP and 29% of public spending in 2013). The share of SNGs in public staff expenditure is significant. SNGs have a key role in public investment, however on average marginally lower than in unitary countries of the OECD (56% of public investment and 15% of SNG budget). Discretionary powers of SNGs are limited as much spending is made on behalf of the central government. Overall, municipalities have greater spending responsibilities than regions.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



The largest category of spending by far is education, SNGs being responsible both for current and capital expenditure in this sector up to lower secondary school. The second most important area of spending is economic affairs, particularly transport. It is followed by general public services and environment, in particular, waste and waste water treatment. The share of social protection expenditure in SNG expenditure has decreased over recent years, since the recentralisation of some competences in this area (12% in 2010).

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	10.2%	25.2%	100%
TAX REVENUE	5.0%	25.0%	48.5%
GRANTS AND SUBSIDIES	3.6%	-	35.0%
OTHER REVENUES	1.7%	-	16.5%

Although tax revenue represents a significant source of SNG revenue, SNGs have little autonomy on their revenue as most taxes are shared. Overall, SNGs are reliant on central government funding (shared taxation and grants), especially the regions.

TAX REVENUE. Subnational governments are financed through a mix of shared taxes, including PIT, CIT, VAT and income tax on the self-employed, distributed according to the Local Finance Act 243/2000. Tax revenues are allocated as a percentage of revenue raised and then redistributed within SNGs according to a complex formula. The regional share is set in the legislation. That of municipalities is calculated according to different criteria, demography being the most important one. Recent amendments to the Finance Act increased the share of SNGs on several taxes. Tax revenues are higher for municipalities than for regions, as municipalities can collect their own taxes. Municipal tax includes an income tax from local companies and property tax on land and buildings (5% of local tax revenue i.e. 0.2% of GDP in 2013). In 2009, a marginal rate was introduced in order to give municipalities some autonomy over tax rates.

GRANTS AND SUBSIDIES. In contrast to municipalities, regions rely mostly on transfers from the central government. The central government funding structure is highly complex. Transfers include hundreds of subsidy schemes, which are mostly earmarked. Grants typically come from either the national budget, or the budget of several state funds. Some transfers are fixed and relatively stable over time, in particular those aimed at funding delegated expenditure. Grants for current expenditure are formula-based and typically earmarked, in particular to fund delegated responsibilities (education, health, etc.). Other transfers for capital expenditure (around 20% of total transfers) are typically granted on a case-by-case basis. Municipalities can also apply for subsidies from the regions.

OTHER REVENUES. Other revenues include user tariffs and fees from municipal services in particular water and sewerage charges, municipal waste collection fee or library fees (15% of SNG revenues). Property income includes rents, interest income and sales of property charges, parking charges, planning application fees, etc. (24% of local revenue).

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	4.3%	7.4%

SNGs are subject to a balanced budget rule. Moreover, following the new Constitutional Act approved in October 2012, a new fiscal framework is under preparation regulating local government indebtedness. It requires that the level of SNG gross debt remains below 60% of a four year average of revenues. SNG debt is lower than the level of debt of other OECD unitary countries which amounted to an average of 15% of GDP and 12.0% of general government debt in 2013. Municipal debt is concentrated in the four largest cities (50% of municipal debt in 2013). Loans represented 56% of outstanding debt in 2013, bonds around 9% (bond issuance must be approved by the Ministry of Finance) and other accounts payable 35%.

A joint- study of:



Sources: OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2016) OECD Economic Surveys: Czech Republic 2016 • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Linhartová V., Němeček L. (2016) An analysis of municipal indebtedness, University of Pardubice • Hladík J, Kopecký V. (2013) Public administration reform in the Czech Republic Association for International Affairs Working Paper • OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • European Committee of the Regions (2014) Division of Powers Between the European Union, Member States • Candidate and some Potential Candidate Countries and Local and Regional Authorities: Fiscal Decentralisation or Federalism".