

Fiscal decentralization in the Czech Republic

Robert Jahoda
Email: jahoda@econ.muni.cz

Framework

1. Public administration reform – David
2. Local Governments finances
 1. Regions
 2. Municipalities
 3. Building fiscal capacities - municipalities
 4. Problems

Comparison of LG's revenues in 2000 [in % of GDP]

	tax	nontax	grants	total
SK	1,4	0,8	0,5	2,7
CR	4,8	2,0	2,3	9,2
Fr	4,3	1,9	3,4	9,6
UK	1,5	1,6	7,3	10,4
CR 2005	6,7	1,3	3,1	11,2
Hu	2	2,7	6,4	11,2
NL	1,4	2,9	9,9	14,2
Po	5,8	3,3	6,1	15,2
Sw	15,2	1,2	3,9	20,4
DK	16,2	2,4	12	30,6
Ø OECD	5,1	2,1	4,7	12,2

Public sector expenditures (mld. Kč)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Public Sector Exp.	518,8	593,9	660,5	700,8	752,7	796,4	867,9	962,2	1060,2	1149
State Budget	374,3	431,8	466,8	503,5	546,8	580,6	626,9	669,5	705,2	801
District offices	19,5	20,8	21,6	20,9	19,4	19,8	20,3			
Regional offices								14,4	35,8	91,3
Municipalities	92,6	110,3	122,8	129,2	136,3	147,1	164	195,5	214,3	192,7

Regions

	R 2001	APP 2002	R 2002	APP 2003	R 2003	R 2004	APP1 2005	APP2 2006
I. Tax Revenues	1,8	10 700,0	10 169,0	11 800,0	11 395,0	12 700,0	14 500,0	70 700,0
II. Nontax Revenues	73,8	283,3	720,0	1 300,0	1 424,0	1 500,0	2 200,0	2 200,0
III. Capital revenues	7,9		38,0		237,0		300,0	300,0
Self revenues								
IV. Grants	14 437,7	55 708,8	26 700,0	77 626,0	82 761,0	79 398,0	64 300,0	48 700,0
MEYS	12 686,5		23 700,0	59 851,8		60 136,7		
MK	186,3			351,3				
MI	109,2			350,7				
MLSA	63,8			332,1				
state funds	197,1							
Revenues	14 617,3	66 691,9	37 627,0	90 726,0	95 818,0	93 598,0	81 300,0	121 900,0
V. Current expenditure	13 221,5	64 735,0	32 070,0	87 800,0	84 961,0			
VI. Capital expenditure	1 223,3	1 900,0	3 733,0	2 461,0	9 366,0			
Expenditure	14 444,8	66 635,0	35 803,0	91 261,0	94 327,0	91 708,0	79 500,0	120 100,0
Balance	72,5	66,9	1 824,0	-535,0	1 491,0	1 890,0	1 800,0	1 800,0

- 01-03: moving of competencies from central government to regions

Fiscal insufficiency of regions

	2004	2005	2006
I. Tax Revenues	12 580,0	14 500,0	70 700,0
II. Nontax Revenues	3 177,0	2 200,0	2 200,0
III. Capital revenues	341,0	300,0	300,0
Self revenues			
IV. Grants	84 614,0	64 300,0	48 700,0
MEYS	60 137		
MK			
MI			
MLSA			
state funds			
Revenues	100 713,0	81 300,0	121 900,0
V. Current expenditure	88 384,0		
VI. Capital expenditure	11 501,0		
Expenditure	99 886,0	79 500,0	120 100,0

- problem: own revenue insufficiency
- central government: social democrats
- regions: Civic dem. par.
- unwillingness to solve
- biggest part of revenues are grants (conditional) – financing of education, roads and „minimal public transport service“

Budgetary allocation of taxes (regions)

- main law affecting „own“ resources
- in the first version (from 2001): no tax revenues
- in the novel („temporary only for 2002“): small portion according to transferred competencies
- main task: cover up direct cost of primary and secondary education
- temporary novel remained in force until 2005
- novels: Pardubice region version, governmental (2003, 2004)

Present problems

- regions still play small role
- tax revenues X conditional grants
- central governments X regions
- absence of minimal standards of public services
- regional hospitals: commercial company X allowance non-profit organization
- „minimal public transport service“: unsigned agreements between regions and Czech railway company

Important documents

European Charter of Local Self-Government

- Czech Republic signed the ECHLS on 28 May 1998, and ratified it on 7 May 1999

and

European Charter of Regional Self-Government

- the final version of this charter has not been passed yet

Districts

- deconcentrated branches of government
- coordinated inter-municipal affairs
- the head was appointed by MI
- till 2000 districts were „independent“, 2001-02 were part of the state budget
- the biggest part of the revenue: grants
- important part: tax revenues

Municipalities

- ECHLS
- problems:
 - too many small municipalities
 - municipalities with different extend of delegated responsibilities
 - tax revenues
 - indebtedness

BAT – tax revenues

- small share of local taxes – LG cannot influence their revenue
- 1993-2000: revenue generated from the taxes paid in the (surrounding) area
- 2001: big change of BAT
- most of the tax revenues are from „shared“ taxes and have the shape of the unconditional grants

Purposes for BAT change

- small municipalities
- unjustifiable differences
- concentration of tax payer cash registers
- speculative moves of self employment
- different dynamics of tax revenues into state and municipal budget

Tax revenues of LGs

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
PIT	41,1	44	47,4	48,8	51,4	26,1	30	31,8	34,1	37,1
from wages	25,3	28,2	30,7	31,9	34,7	16,3	19,4	20,9	22,6	24,5
from self-emp	15,8	15,8	16,7	16,9	16,7	8,2	9,3	9,7	10	11
from other						1,6	1,3	1,2	1,5	1,6
CIT	14,1	13,3	16,2	18,8	23,5	23,5	26,7	28,4	28,9	29,6
non-municipality	11,8	10,3	11,9	13,6	12,9	17,3	20,5	22,6	22,8	23,8
municipality	2,3	3	4,3	5,2	10,6	6,2	6,2	5,8	6,1	5,8
Property	4	3,9	4,1	4,3	4,4	4,5	4,5	4,6	4,7	4,8
Administrative and local fees	3,3	3,4	3,6	3,2	3,6	3,8	3,7	3,7	4	5,1
VAT						31,3	30,8	33,5	37,8	45,1
Other	0,2	0,8	0,8	0,6	0,7	0,7	3,8	4,2	4,2	4,2
Total	62,8	65,4	72,1	75,7	83,6	89,9	99,5	106,2	113,7	125,9

Borrowing of LGs

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Consolidated General Government debt⁽¹⁾	80,7	117,8	149,0	178,2	332,4	488,8	448,8	553,0	659,3	743,4
gross debt (consolidated)	80,7	102,2	100,3	114,7	120,8	121,7	109,9	124,8	119,2	117,8
social security funds	104,7	106,6	112,4	117,1	126,7	119,1	114,7	124,4	120,2	116,4
extra-budgetary funds	112,8	104,6	78,8	65,3	61,9	64,8	79,2	78,6	72,4	69,3
net debt	104,7	106,6	112,4	117,1	126,7	119,1	114,7	124,4	120,2	116,4

source: Ministry of Finance of the CR: Macroeconomic Forecast

- macroeconomically it is not a problem – 2005: 2,8 % GDP
- problem from microeconomic point of view:
 - some municipalities have serious problem and are „forced“ to sell property
 - problem grows (reciprocal proportion) with the size of municipality

How to solve indebtedness?

- MF take steps in the end of 90-ties:
 - some grants are tied in with the debt
 - maximum debt service was set as % of revenue (unclear how to measure, valid only for 1 year)
 - these steps were not successful
- in 2004 new definition of the debt service
 - MF is in charge of controlling municipal debt