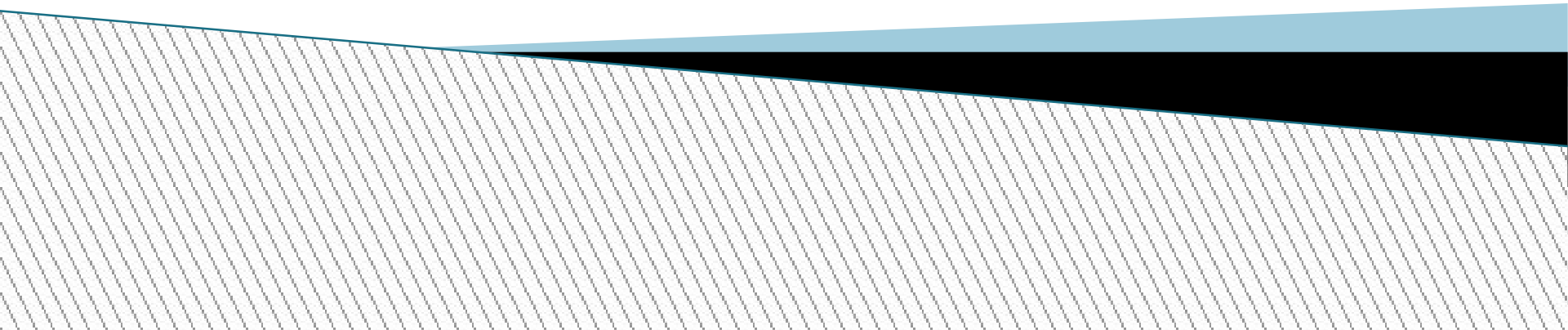


Fiscal Decentralization in Czech Republic

Transformation in the Public Sector



Decentralization

The process of redistributing functions or powers from center to localities in term of hierarchy.

Dentralization concept is widely used in public administration, economics, law, but also in private sector.

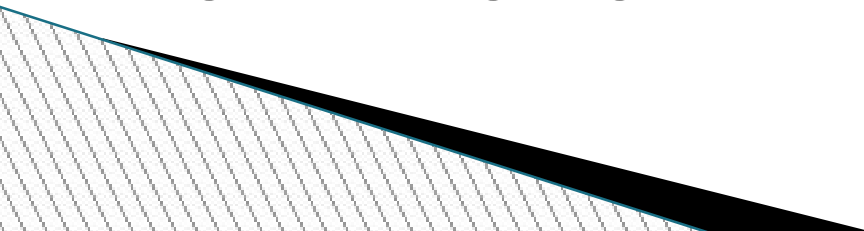
Decentralization of state power (public administration):

- ▶ Central government
 - ▶ Regional government
 - ▶ Local government
- 

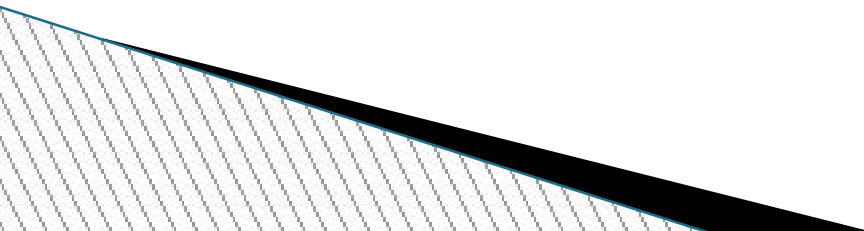
Regions in CR



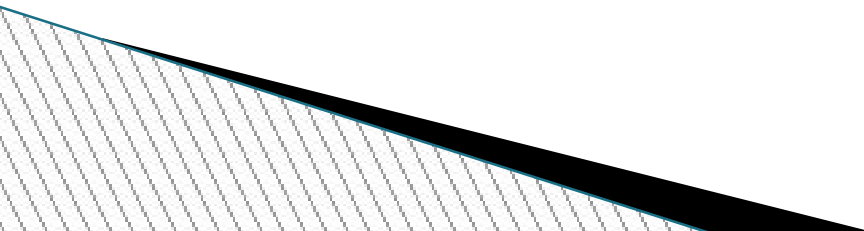
Introduction

- ▶ 1993 – Czechoslovakia was split to 2 independent states
 - ▶ Administrative structure of the new state of unitarian nature was specified in the Constitution of the Czech Republic (3 levels of government of the Czech Republic with separate budgets – CG / RG / LG)
 - ▶ Problems with regional levels in term of administration (RG – districts with the absence of self-government features)
 - ▶ 2000 – districts were replaced by 14 self-governing regions by 2001
- 

Local Governments

- ▶ Municipalities are basic administrative units
 - ▶ Intergovernmental expenditure assignments are driven mostly by principle of subsidiarity
 - ▶ Municipalities are responsible within own and delegated responsibility (from higher levels):
 - **Own:** elementary schools, street lighting, site planning, water distribution...
 - **Delegated:** civil registry (birth, marriage, and death), building codes, regulation and enforcement of laws pertaining to the environment...
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- 

Regional Governments

- ▶ took over responsibilities from districts in 2001
- ▶ Responsibilities:
 - secondary school management
 - 2nd and 3rd class roads
 - Hospitals and social institutes Most of the
- ▶ Most of expenses are from delegated responsibility tasks
- ▶ RG are financed mostly by subsidies, the remaining is consisting of tax revenues and non-tax revenues (2 %)

Czech republic and fiscal federalism

- ▶ Inhabitants 10 532 770
- ▶ 14 regions (Prague–municipality and region)
- ▶ 6 249 municipalities
- ▶ Special case– NUTS II. (created for monitoring EU statistic)

- ▶ Fiscal decentralisation involves the transfer of taxing and spending powers to sub–national levels of government

Fiscal Federalism

- division of responsibilities: finance, tasks, policy (central government-localities)
- important questions:
 - Who makes the decisions about the programs?
 - Who pays for these programs?
- examples
 - Government rule – Localities administer
 - Government pays – Localities carry out

Czech republic and fiscal federalism

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- ▶ Special case– NUTS II.–were artificially created only for monitoring EU statistic
- ▶ Fiscal decentralisation involves the transfer of taxing and spending powers to sub–national levels of government

Czech Republic Case

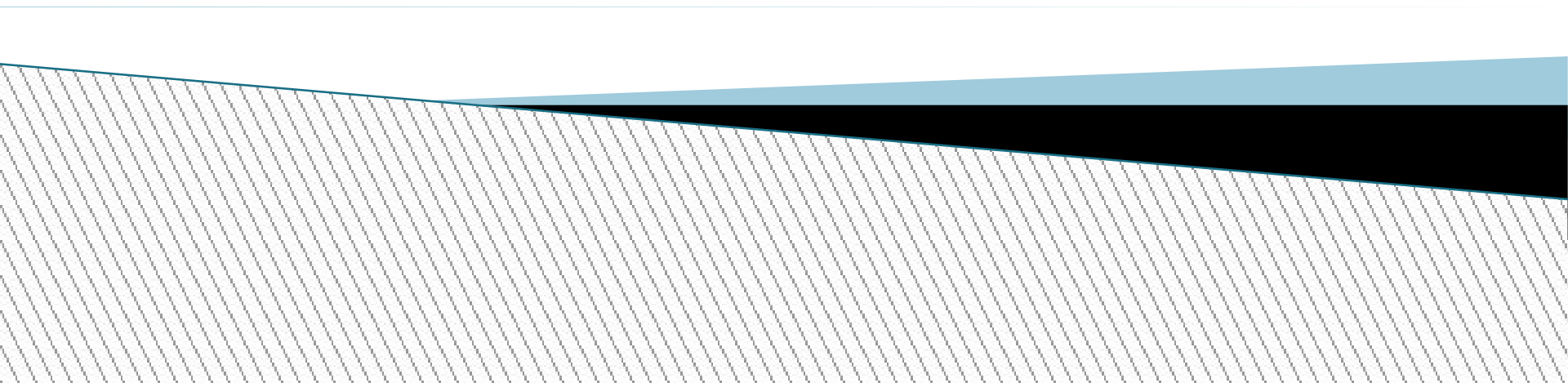
% GDP	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public budgets	43,9	43,0	42,2	38,7	37,7	38,3	39,6	40,7	42,8	43,1	41,1	42,2	42,3	39,7	40,2	45,0	42,2	41,7
State budget	31,6	31,3	29,8	27,8	27,4	27,9	28,6	28,3	28,4	30,6	29,0	29,0	30,8	28,6	29,0	32,0	30,4	30,1
Districts	1,6	1,5	1,4	1,2	1,0	1,0	0,9											
Regions								0,6	1,5	3,7	3,5	3,8	3,9	3,5	3,6	3,9	3,7	3,6
Municipal	7,8	8,0	7,8	7,1	6,8	7,1	7,5	8,3	8,7	9,6	9,2	7,4	7,7	6,9	7,0	7,3	7,7	7,2

Fiscal decentralisation

	Regions	Municipalities
Own resources	38%	70%
Subsidies	62%	30%

Finance in FF

- general revenue-sharing (in CR: budgetary determination of taxes)
- system of sharing income of taxes among central budget – regional budgets – municipal budgets



Taxes Income Sharing I (CR)

VAT

- central government budget – 71,31 %
- regional budgets – 7,86 %
- municipal budgets – 20,83 %

Personal income tax, Company tax

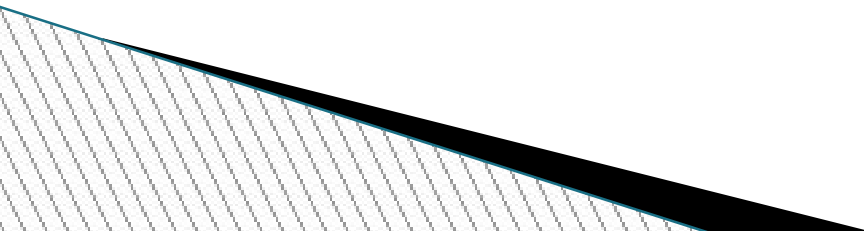
- central government budget – 67,50 %
- regional budgets – 8,92 %
- municipal budgets – 23,58 %

Real estate tax

- municipal budgets – 100 %
- 

Taxes Income Sharing II (CR)

Taxes income sharing criteria (Municipalities)

- catastral territory of a municipality (3%)
 - simple number of inhabitants in the municipality (10%)
 - multiples of gradual transitions (80%)
 - number of children and pupils attending a school run by a municipality (7%)
- 

Taxes Income Sharing III (CR)

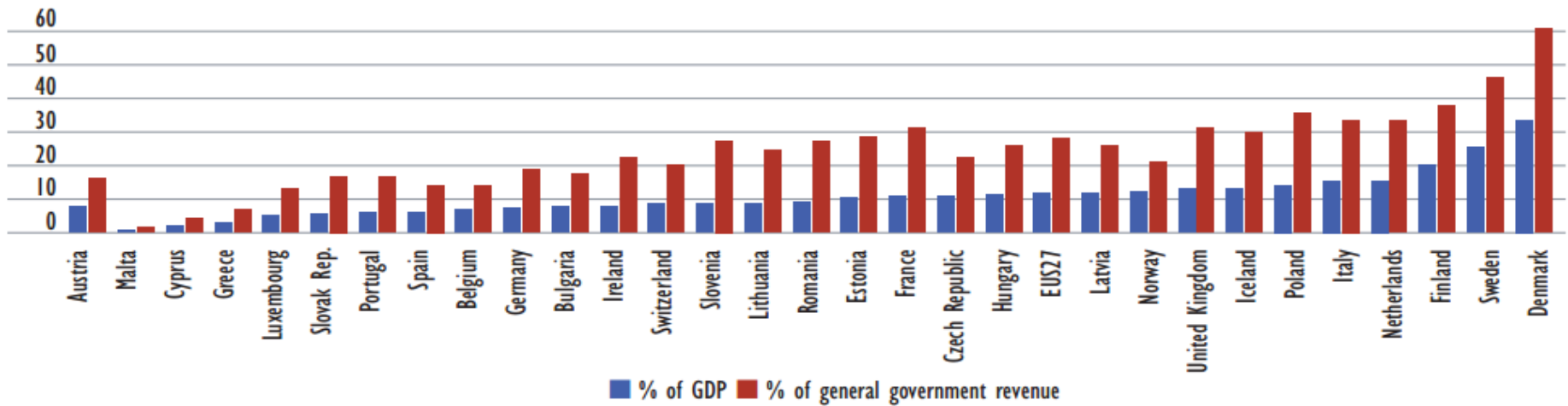
Taxes income sharing
division (Regions)

Total amount is
divided by the following
proportion (100%) .

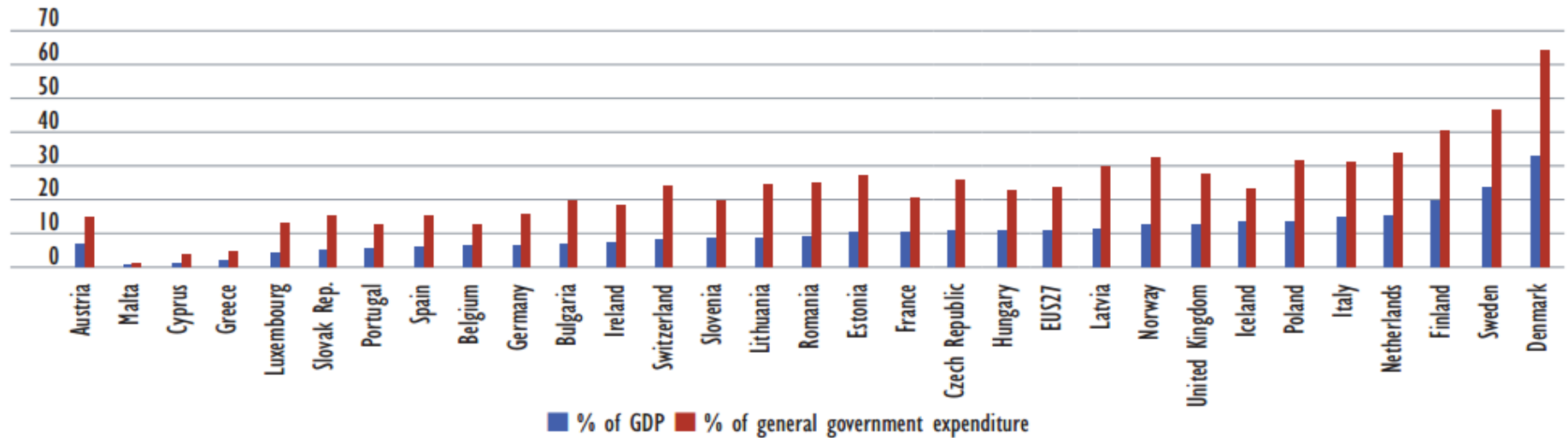
Percents defined by law.

Region	% of the state gross revenue of taxes
Hlavní město Praha	3,183684
Středočeský	13,774311
Jihočeský	8,607201
Plzeňský	7,248716
Karlovarský	3,772990
Ústecký	8,242502
Liberecký	4,681207
Královéhradecký	6,442233
Pardubický	5,555168
Vysočina	7,338590
Jihomoravský	9,526055
Olomoucký	6,751705
Zlínský	5,251503
Moravskoslezský	9,624135

Local government revenue

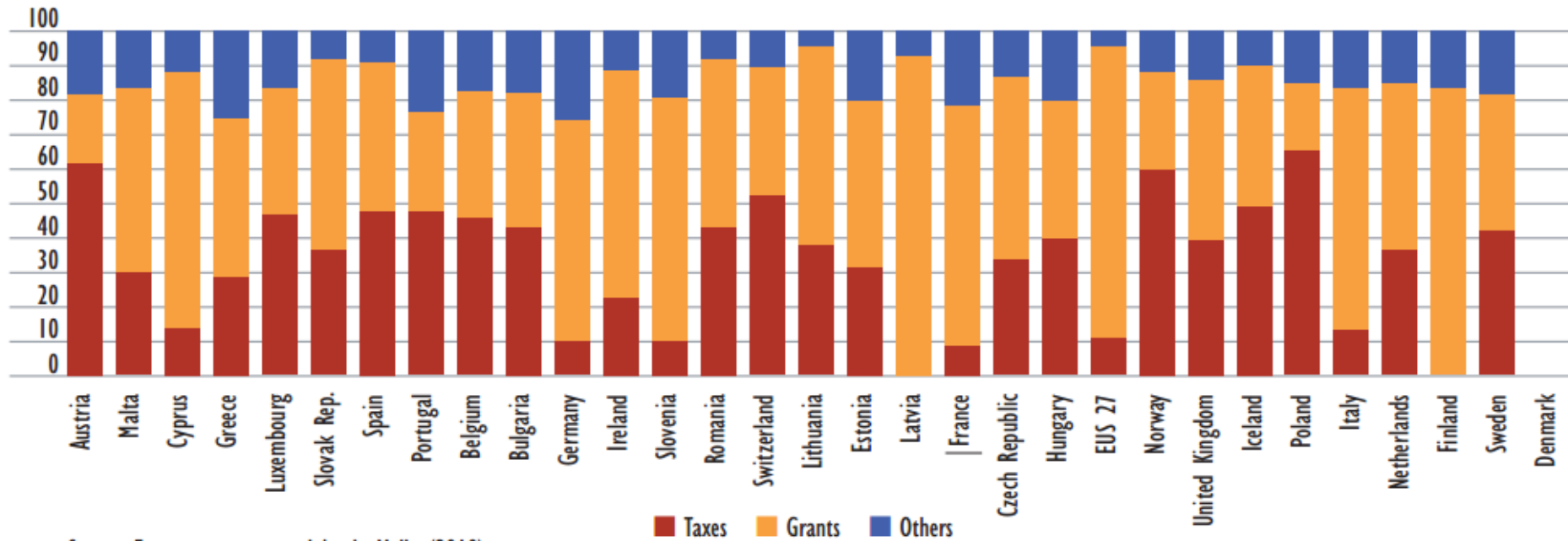


Local government expenditure



Source: http://www.ieb.ub.edu/phocadownload/informe-anual/en/InformeFF2010_i.pdf

Local government revenue



Source: Eurostat, as reported in de Mello (2010).

Thank you!

A decorative graphic element in the bottom-left corner of the slide, consisting of a series of parallel diagonal lines in a light gray color, forming a triangular shape that points towards the bottom-left corner.