

## CZECH REPUBLIC

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: CZECH KORUNA (CZK)

## POPULATION AND GEOGRAPHY

**Area:** 77 219 km<sup>2</sup>**Population:** 10.590 million inhabitants (2017), an increase of 0.1% per year (2010-2015)**Density:** 137 inhabitants / km<sup>2</sup>**Urban population:** 73.0% of national population**Urban population growth:** 0.4% (2017 vs 2016)**Capital city:** Prague (12.2% of national population)

## ECONOMIC DATA

**GDP:** 384.8 billion (current PPP international dollars), i.e. 36 333 dollars per inhabitant (2017)**Real GDP growth:** 4.3% (2017 vs 2016)**Unemployment rate:** 2.9% (2017)**Foreign direct investment, net inflows (FDI):** 9 210 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 25.2% of GDP (2017)**HDI:** 0.888 (very high), rank 27

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the 1993 Constitution, the Czech Republic is a parliamentary republic. The Parliament is bicameral and comprises an upper house, the Senate, and a lower house, the Chamber of Deputies. Deputies are elected every four years by direct universal suffrage. Senators are also elected by direct universal suffrage but for a mandate of six years and one-third of senators are renewed every two years. The Head of State is the President of the Republic, elected by direct universal suffrage for a five-year mandate, and the Government is led by the Prime Minister, nominated by the President.

The country is a unitary state, with a two-tier system of subnational government. The 1993 Constitution recognised local self-government in Chapter Seven (articles 99-105) dedicated to "Territorial Self-Government". Article 99 states that the Czech Republic is subdivided into municipalities, which are the basic territorial self-governing units, and into regions at upper level. According to article 100 and 101, territorial self-governing units are territorial communities of citizens with the right to self-government and they shall be independently administered by their representative body.

Municipalities are governed by local councils, whose members elect the municipal committee, which is the executive body of the municipality, for a four-year term and the mayor at its head (*starosta*) in smaller municipalities, and *primátor* in larger cities. Each region has a regional assembly with members elected by direct universal suffrage for a four-year term. The regional committee is the executive body and is composed of the president (*hejtman*), vice-presidents and other members elected by and from within the regional assembly for four years. It is assisted by a regional authority, which is headed by a director.

Since 1989, several acts have been adopted to regulate the SNG system such as the Municipal Act No. 367/1990 conferring legal status to municipalities, re-establishing local autonomy, defining municipal responsibilities, assets and funding. In 1997, the 14 self-governing regions were established through Act 347/1997, but they were recognised as autonomous entities only in 2000 with the Regional Act No. 129/2000, which transferred a series of responsibilities to the new entities. In parallel, a new Municipal Act was revised and adopted in 2000 (Act No. 128/2000) to define the legal framework, organisation and responsibilities of municipalities and the Local Finance Act 243/2000, which defined the regional and municipal financing system based on tax sharing.

Decentralisation reforms continued over the following years, in particular in 2005 and 2013 (Fiscal reform increasing of municipal tax revenues). In 2015, a process of recentralisation took place. Some municipal responsibilities were transferred from small municipalities to larger municipalities (to overcome municipal fragmentation) as well as to the central government in the framework of the social reform.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	6 258 municipalities ( <i>obce</i> )		14 regions ( <i>krai</i> )	
	Average municipal size: 1 692 inhabitants			
	<b>6 258</b>		<b>14</b>	<b>6 272</b>

**OVERALL DESCRIPTION.** The Czech Republic has a two-tier SNG system, made of 14 regions (13 regions and the city of Prague) and 6 258 municipalities, with no hierarchical link between them. Prague, the capital city, has a dual status as both a region and a municipality and have only one assembly and one board.

**MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION.** The municipal level (*obce*) includes several categories: municipalities, 604 cities (*město*), 26 statutory cities (*statutární město*) and 223 market towns (*městys*). The status of town is given to municipalities with greater than 3 000 inhabitants. Statutory cities have a special status granted by an Act of Parliament. It is for larger cities allowing them to define their own charter and internal organisation. In particular, they are free to establish districts at the sub-municipal level with their own mayor, council and assembly.

The Czech territory is highly fragmented, due to a law passed in the early 1990s that enabled municipalities to split. In 2016-2017, the average municipal size was the smallest among OECD countries, as well as well below the OECD average (9 700 inhabitants) and EU28 average (5 900 inhabitants). While the median size is around 420 inhabitants, 96% of municipalities have fewer than 5 000 inhabitants and 89% of municipalities fewer than 2 000 inhabitants. The 2000 Act on Municipalities includes an option for voluntary municipal mergers; however, little impetus for such a process exists. Many municipalities remain resistant to mergers. To minimise the effects of municipal fragmentation, the 2000 Act on Municipalities also promotes inter-municipal cooperation in the form of contracts for performing certain functions, voluntary municipal association and the creation of "mutual-interest associations of legal persons".

There were around 790 inter-municipal cooperation structures active in the field of education, social care, health, culture, environment, tourism in 2016. 90% of municipalities participate in some form of co-operation. To further promote cooperation, shared service centres are currently being developed by the Ministry of Interior and the Union of Towns and Municipalities, with the objective to ensure more efficient delivery of public services. The City of Prague has a special status defined by Act No. 131/2000 on the City of Prague, as amended. In addition to city-wide directly elected representatives following the system of regions, the city is divided into 22 districts and 57 self-governing boroughs (some of which are also districts), each composed of its own elected local council. Council members then elect the mayor and the municipal committee.

**REGIONAL LEVEL.** The 14 regions are quite diverse in terms of area, demography and socio-economic development. The area of every region was created based on the geographical analysis with respect to the special interactions between the core and the periphery. The demographic size ranges from 296 000 inhabitants in Karlovy Vary region to 1.346 million in Central Bohemia. The regional GDP per capita in the region of Prague is three times higher than in Karlovy Vary region, which has the smallest. Prague Metropolitan Area, surrounded by the region of Central Bohemia, the largest functional urban area of the country, encompasses 435 municipalities. Together, they gather almost 25% of the national population and 36% of the national GDP. Before the decentralisation reform in 2000–2002, there was a state territorial administration made up of districts (*okres*). A reform, effective since January 2003, replaced district offices by municipalities with extended competence (see below) which took over most of their functions. However, the old districts still exist as territorial units and remain as seats of some of the offices, especially courts, police and archives. An Act on Territorial Division of the State was submitted to the Government at the end of 2018, with the aim to simplify the system of state territorial administration, by completing the transition from the system of districts to the delegation of functions at the municipal level.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Municipal and Region Acts, both amended in 2002, make a distinction between autonomous and delegated responsibilities.

While municipalities have equal status, delegated competences are not the same for all municipalities. The government established an asymmetric and complex system of delegation according to the size and capacity of municipalities. There are three categories: at the upper level, there is a network of 205 municipalities with “extended powers” (ORP) that fulfil several administrative functions delegated by the central government on behalf of smaller surrounding municipalities (e.g. civil registers, building authority). At intermediate level, there are 183 municipalities with an “authorised municipal authority” that perform delegated functions but on a smaller scale. At the lower level, municipalities have basic delegated powers. Smaller municipalities can also delegate additional functions to the ORP if they do not want to provide, or cannot provide because of their lack of capacity specific services. 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.

Municipalities have many competences and encompass almost all areas of activity: economic affairs and transport, environment protection, education, social welfare, urban development, utilities, etc. Regional responsibilities include upper secondary education, regional roads and public transport, economic development and planning and health.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
<b>1. General public services</b>	Regional administration	Municipal administration; Administrative delegated tasks (civil register)
<b>2. Public order and safety</b>	Fire safety; Prevention of criminality	Fire-fighting and prevention; Municipal police
<b>3. Economic affairs /transports</b>	Road network; Regional public transport; Tourism; Regional economic development; Cohesion (regional boards on cohesion)	Public transport; Local roads; Local economic development
<b>4. Environmental protection</b>	Protection of fauna and flora	Water management and treatment (ORP only); Urban heating; Waste management (ORP only); Environmental protection
<b>5. Housing and community amenities</b>	Planning (approval of planning and zoning documents at the regional level)	Local development and planning; Cemeteries; Public areas; Housing
<b>6. Health</b>	Establishment and management of regional hospitals; Nursing homes; Monitoring the quality of care of private health care providers; Emergency services; Long-term care institutions; Facilities for disabled adults and children	Provision of primary healthcare services (medical centres and doctors)
<b>7. Recreation, culture &amp; religion</b>	Sport (funding)	Culture; Sport
<b>8. Education</b>	Upper secondary education	Pre-elementary, primary and lower secondary education (excluding teachers' salaries)
<b>9. Social protection</b>	Youth (funding); Social services	Administration of social benefits on behalf of central government; Social assistance; Youth policy; Retirement homes; Homes for the disabled

## SUBNATIONAL GOVERNMENT FINANCE

**Scope of fiscal data:** regional offices, municipalities and town councils, associations of municipalities, regional councils of cohesion Regions, local semi-budgetary organisations, non-profit institutions, public non-financial and financial corporations.

SNA 2008

Availability of fiscal data:  
**High**

Quality/reliability of fiscal data :  
**High**

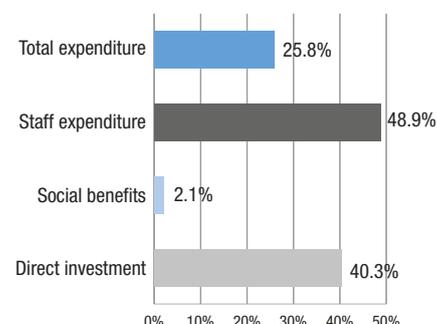
**GENERAL INTRODUCTION.** While fiscal autonomy has increased in recent decades to accompany political decentralisation, central government funds are often allocated in a way that constrains local independence and policy making. SNGs have low tax and spending autonomy. Municipal fragmentation also limits their spending capacity.

## CZECH REPUBLIC

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## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>3 536</b>	<b>10.2%</b>	<b>100%</b>	
<b>Incl. current expenditure</b>	<b>3 049</b>	<b>8.8%</b>	<b>86.2%</b>	
Staff expenditure	1 492	4.3%	42.2%	
Intermediate consumption	1 063	3.1%	30.1%	
Social expenditure	31	0.1%	0.9%	
Subsidies and current transfers	436	1.3%	12.3%	
Financial charges	8	0.0%	0.2%	
Others	18	0.1%	0.5%	
<b>Incl. capital expenditure</b>	<b>487</b>	<b>1.4%</b>	<b>13.8%</b>	
Capital transfers	35	0.1%	1.0%	
Direct investment (or GFCF)	452	1.3%	12.8%	



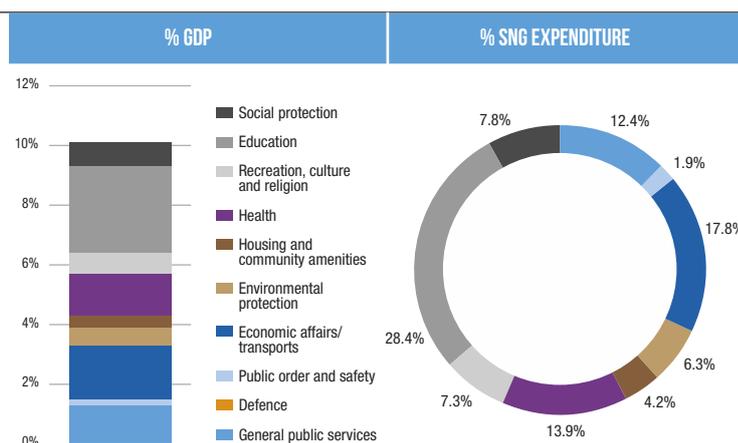
**EXPENDITURE.** Despite the decentralisation process, SNG spending in Czech republic is below the OECD average (16.2% of GDP and 40.4% of public spending in 2016) as well as below the EU28 average (15.5% of GDP and 33.4% of public expenditure). The share of staff expenditure in SNG expenditure is significant (42.2% vs. 36% in the OECD in 2016 and 32.9% in the EU) and SNG staff spending accounted for almost half of public staff spending, a level in line with the EU28 average (50.9%). Discretionary powers of SNGs are limited as an important share of spending is made on behalf of the central government, which determines local government employees' salaries. Regional expenditure has been growing continuously since the creation of regions, as they have been gaining more spending responsibilities and resources from the decentralisation process. In 2016, they accounted for 45% of SNG expenditure (12% of public expenditure, i.e. 4.6% of GDP) while municipalities accounted for the remaining 55% (14% of public expenditure and 5.6% of GDP).

**INVESTMENT.** SNGs have a key role in public investment. However, this role has decreased over the last few years. While SNG investment accounted for 1.8% of GDP and 52% of public investment, it represented 1.3% of GDP and 40.3% of public investment in 2016 vs 1.7% of GDP in the OECD and 56.9% of public investment. It accounted for almost 18% of SNG expenditure but 12.8% in 2016. In 2016, most SNG investments were dedicated to economic affairs and transports, environmental protection and education. The Czech building law has allowed, since 2012, municipalities to enter into development contracts with developers to co-finance transport and technical infrastructures; however, this is still not a common practice. Regions accounted for 41% of SNG investment in 2016, accounting for 0.5% of GDP and 16% of total public investment. Despite the increasing role of regions in investment, the municipal level remained the primary SNG investor, accounting for 59% of SNG investment (i.e. 0.8% of GDP and 24% of public investment).

## SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

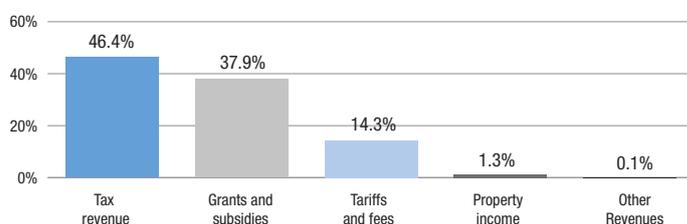
The largest category of SNG spending in 2016 is by far education, which accounted for 45% of total public spending in this sector. The second most important area of spending is economic affairs, particularly transport followed by health and general public services. This is well reflected in the case of the City of Prague, whose transport expenditure forms approximately 37% of municipal spending, and education expenditure 25% (in 2015). The share of health in SNG spending has increased significantly since 2013, as decentralisation of healthcare has been ramped up. In addition, health care expenditures increasing and are expected to increase further in the coming decade due to the ageing of the population.

SNGs are responsible for 82% of total public expenditure in environmental protection policies, as well as for 68% in the sector of housing and community amenities.



## SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>3 897</b>	<b>11.2%</b>	<b>27.9%</b>	
Tax revenue	1 809	5.2%	26.2%	46.4%
Grants and subsidies	1 477	4.3%		37.9%
Tariffs and fees	556	1.6%		14.3%
Property income	50	0.1%		1.3%
Other revenues	5	0.0%		0.1%



**OVERALL DESCRIPTION.** According to the Local Finance Act 243/2000, SNGs are financed through a mix of taxes and intergovernmental transfers from the central government. Although tax revenue represents a significant source of SNG revenue, and particularly municipal revenue (around 60%), they have little autonomy over their revenue as most taxes are shared. Overall, a little over 60% of municipalities' revenue is from taxes, while for regions over 60% of revenue is from grants and transfers, resulting in a higher dependence on central government funding.

**TAX REVENUE.** SNG tax revenues accounted for a significant share of SNG revenue, higher than in the OECD on average (44.6%) and in the EU28 (41.1%). As a share of GDP and public tax revenue, SNG tax revenues were however a bit lower than in the OECD (7.1% of GDP and 31.9% of public tax revenue). Regions accounted for 44% of SNG tax revenues, while municipalities accounted for the remaining 56%. Despite this relatively high level of tax, tax autonomy is limited as taxes are mostly shared.

SNGs are financed through a mix of shared taxes, including the personal income tax PIT, withholding PIT, the corporate income tax (CIT), the tax on self-employed income and the value-added tax VAT). Tax revenues are allocated as a percentage of revenue raised and then redistributed within SNGs according to a complex formula. The shares for regions and municipalities overall are set annually; for 2016, the shares are around one-tenth and one-fifth, respectively. Each individual region's share is set in the legislation. The calculation for municipalities is more complicated, the population size being the main criteria. Overall, revenue from the VAT, the PIT and the CIT represented respectively 42%, 26% and 24% of SNG tax revenue in 2016, and respectively 20%, 12% and 11% of SNG revenue. Recent amendments to the Finance Act increased the share of SNGs on several taxes. In 2018, the law on budgetary designation of taxes was changed, and the VAT share devolved to municipalities was increased.

Municipalities also receive own taxes, in contrast with regions. The main component is the property tax on land and buildings, although it remains a minor tax, accounting for 4.3% of SNG tax revenue, 2.0% of SNG revenue and 0.2% of GDP, which is well below the OECD average (1.1% of GDP). In 2009, a marginal rate was introduced in order to give municipalities some autonomy over tax rates, so that they can increase the rate up to five times the minimum threshold amount. Yet, most municipalities tend to set their local property tax rate at the lower level set by the central government, and only 8% of municipalities have made use of the possibility to increase tax rates. Municipalities also receive an income tax from local companies (2% of municipal revenue in 2016).

**GRANTS AND SUBSIDIES.** The main general grant for municipalities and regions is the contribution for performance of state administration. It increased and has been reshaped in the last years. Transfers from the central government are an important source of SNG funding, in particular for the regions, although the same cannot be said for municipalities. Municipalities can also apply for subsidies from the regions. The Czech Republic has no equalisation grant at the regional or municipal level. Yet there is a complex system of funding from the central government to SNGs. 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. Grants for current expenditure are formula-based and typically earmarked, in particular to fund delegated responsibilities. Education grants, a major component of central government earmarked transfers, are allocated on a per student basis, which does not efficiently reflect the actual cost of the service. Some transfers are fixed and relatively stable over time, in particular those aimed at funding delegated expenditure, for instance, social transfers to regions to cover healthcare funding. Other transfers for capital expenditure (around 7.5% of total transfers) are typically granted on a case-by-case basis.

**OTHER REVENUES.** Other revenues include user tariffs and fees from municipal services, which are regulated from the top by the central government. Local fees include in particular water and sewerage charges, municipal waste collection fees or library fees. They accounted for a large share of revenues, in line with the OECD average. Property income includes rents, interest income and sales of property (1.3% of SNG revenues in 2016).

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>	<b>652</b>	<b>3.7%</b>	<b>7.8%</b>	<b>100%</b>
Financial debt*	331	1.9%	4.6%	50.7%

\* Currency and deposits, loans and bonds

**FISCAL RULES.** SNGs are subject to a balanced budget rule. The 2012 Constitutional Act on Fiscal Responsibility and the Act No. 23/2017 on Rules of Fiscal Responsibility entered into force in February 2017 and have strengthened the rules of budgetary responsibility and set up the Czech Fiscal Council. It started to perform its mandate in January 2018, as an independent supervisory body for the performance of public finances in the Czech Republic, including SNG finance.

**DEBT.** Act No. 23/2017 introduced a debt rule for regional and municipal governments. According to the rule, SNG gross debt must remain below 60% of a four-year average of revenues. If the debt target is not respected, central authorities may cut revenues to a municipality or region by 5% of the difference between its amount of debt and the 60% target. These suspended revenues can only be released to repay SNG debt obligations made before the year in which the suspension occurred. In 2016, approximately 500 municipalities (8% of the total number) had a debt higher than 60% of their revenues. So far, the regional governments' debts have not exceeded 60%. Municipalities can borrow from commercial banks, from the State Environment Fund, from the Ministry of Agriculture, and they can also issue bonds with the approval of the central government. Regions have also taken out loans from international donors such as the European Investment Bank.

In 2016, SNG debt is lower than the OECD average (24.5% of GDP and 20.7% of public debt). Financial debt accounts for 51% of SNG outstanding debt. The other half is composed of other accounts payable (commercial debt, arrears, etc.). Financial debt (1.9% of GDP and 4.6% of public debt) is primarily made up of loans (85% of debt in 2016). In 2015, 3 255 municipalities out of 6 258 were indebted. This included the four largest cities of the Czech Republic, which – taken together – totalled 50.4% of the total debt of municipalities.



Lead responsible: OECD  
Last update: 02/2019

[www.sng-wofi.org](http://www.sng-wofi.org)

**Socio-economic indicators:** OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Czech Statistical Office.

**Fiscal data:** OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Czech Statistical Office.

**Other sources of information:** OECD (2018) OECD Economic Surveys: Czech Republic 2018 // OECD (2017) The Governance of Land Use in the Czech Republic: The Case of Prague // European Committee of Regions (2016) Division of Powers // J. Baxa and M. Paulus (2016) New Fiscal Rules for the Czech Republic: Analysis of the Proposal // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // Standards and Poor's (2014) Ratings Direct, Supplementary Analysis: City of Prague // Pospisil R. (2013) Audit of municipalities and local government units – The case study of the Czech Republic, Challenge of the Knowledge Society.