

# Prague

## Czech Republic

For the past 10 years work has been underway in Prague on a new subway line and new sections of both ring roads

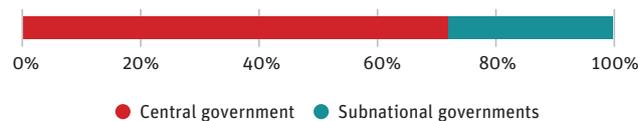
● **CITY:**  
1.3 mil. inhabitants

● **METROPOLITAN AREA**  
2.2 mil. inhabitants  
(+3.2% pop. change/5 years)

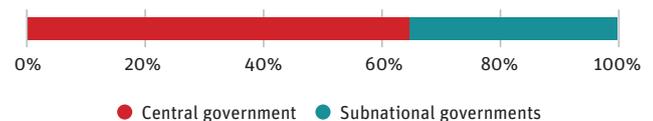
GDP: 138% of the average EU28 GDP  
(+1.0% average annual change in GDP/5 years)

## How local public finance systems work in the Czech Republic

**PUBLIC REVENUES**



**CAPITAL EXPENDITURE**



The Czech Republic has a two-tier **system of subnational governments** (SNG), consisting of 14 regions (13 regions and the City of Prague) and 6,258 municipalities (without any hierarchy). The Capital City of Prague has dual status as both a region and a municipality, but has only one government and one City Council.

While during recent years fiscal autonomy has increased with ongoing political decentralization, funding from the central government is often allocated in ways that limit independence and the creation of local government policies. **SNGs have little tax and expenditure autonomy.** The fragmentation of municipalities also limits their expenditure capacity (CR has the smallest average municipal size of all OECD countries).

SNG investment in 2016 amounted to 1.3% of the GDP and 40% of total public investment (OECD 1.7% of GDP and 57%). Most investment went towards the economy, transportation, environmental protection and education. The Czech Building law of 2012 made it possible for municipalities to conclude planning agreements and contracts with developers to co-finance the transportation and technical infrastructure. However, this has not yet become common practice. In 2016, the regions carried out 41% of SNG investment, which represents 0.5% of the GDP and 16% of the total public investment. **Municipalities are the primary investor (59% of SNG investment i.e. 0.8% of the GDP and 24% of the public investment).**

According to the Local Finance Act of 2000, SNGs are financed through a combination of taxes and transfers from the central government. **Although tax revenues represent a major source of revenue, especially**

**for municipalities (around 60% of their revenue), municipalities have little tax autonomy, since most taxes are shared and redistributed centrally.** Taxes represented a major portion of the revenue, higher on average than in the OECD (45%) and EU28 (41%). **In contrast, over 60% of the revenue in regions comes from transfers, which leads to a greater dependence on funding from the central government.**

**SNGs are financed through a combination of shared taxes,** including personal income tax, corporate income tax, self-employment tax and VAT. Tax revenue is allocated as a percentage from the revenue collected, and then redistributed within the SNGs according to a complicated formula. The share of each region is determined legislatively. The calculation for municipalities is more complicated, with the main criteria being population size. Circa 42% of total SNG tax revenue in 2016 came from VAT, 26% came from personal income tax and 24% from corporate income tax, which accounted for 20%, 12% and 11% of their total revenue, respectively.

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, unlike regions, collect their own taxes. The main component is the tax on land and real estate, even though it remains a less significant tax in terms of revenue** – it represents 4% of the municipal tax revenue, 2% of all revenue and 0.2% of the GDP, which is significantly below the OECD average (1.1% of GDP).

In an effort to provide municipalities certain autonomy, the **possibility of increasing property by up to five times the minimal rate was introduced** in 2009. The majority of municipalities, however, retained the centrally-determined lowest local tax rate on property and **only 8% of the municipalities took advantage of the ability to increase the tax rate.**

The main general grant for municipalities and regions is the contribution for performance of state administration. Transfers from the central government are an important source of funding, especially for regions. Municipalities can also request grants from regions. The Czech Republic does not have any equalization grants on a regional or municipal level. **There is a complex system of funding SNGs from the central government; this includes hundreds of subsidy schemes.** Certain transfers are fixed and relatively stable, especially transfers aimed at funding delegated expenditures, for example transfers to cover the funding of health care. Other transfers for capital expenditures (approximately 8% of total transfers) are commonly provided on a case by case basis.

Other income includes fees for municipal services (especially water, sewage, waste collection, libraries) that are regulated by the central government. **Revenue from fees relatively corresponds to the OECD average (14% vs. OECD 15%).** Other income includes rent, interest yield and sales of assets (1.3% of the revenue).

*Source: <http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>*

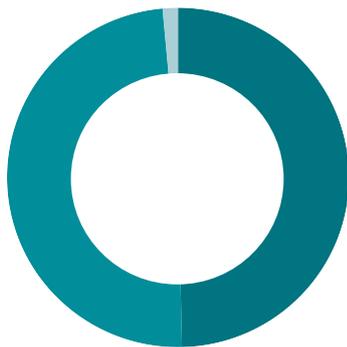
# Finances of the City of Prague

## REVENUE SOURCES

### Economic classification of revenue

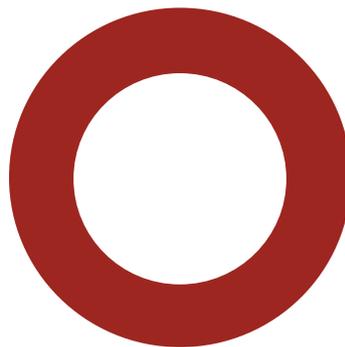


### Tax base



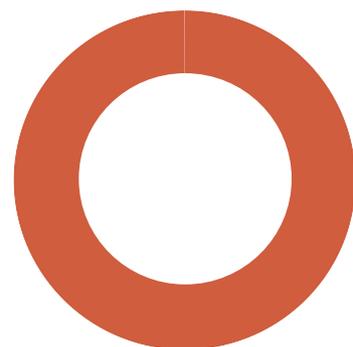
● Production ● Income and wealth ● Assets

### Transfers conditionality



● Earmarked

### Transfers origin



● Other SNGs ● Central ● International

### Balance sheet and debt

+11%

BUDGET BALANCE

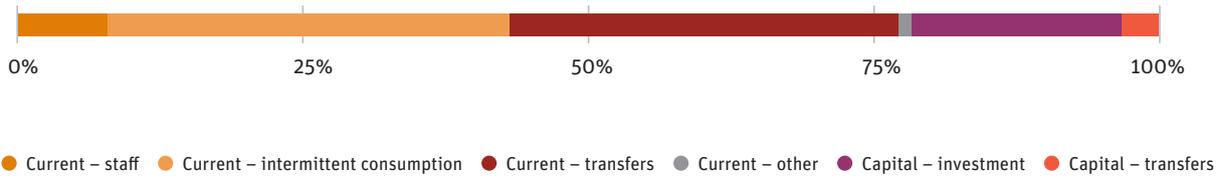
23%

DEBT AS A PERCENTAGE  
ANNUAL REVENUES

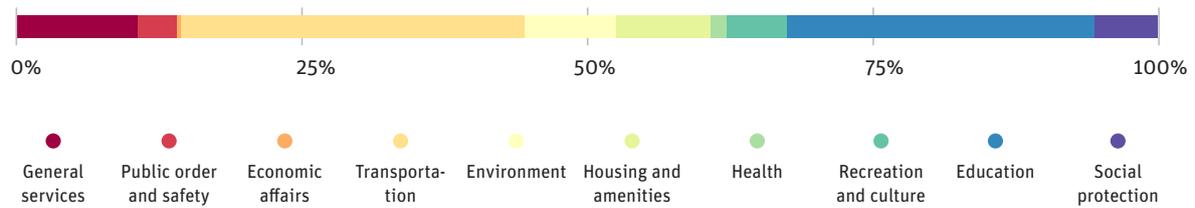
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## EXPENDITURE COMPOSITION

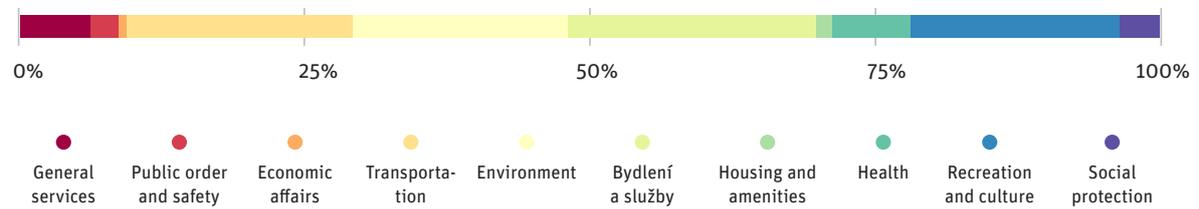
### Economic classification of expenditure



### Functional classification of expenditure



### Functional classification of capital expenditure



Source: Own questionnaire survey (2019)

## New section of line A

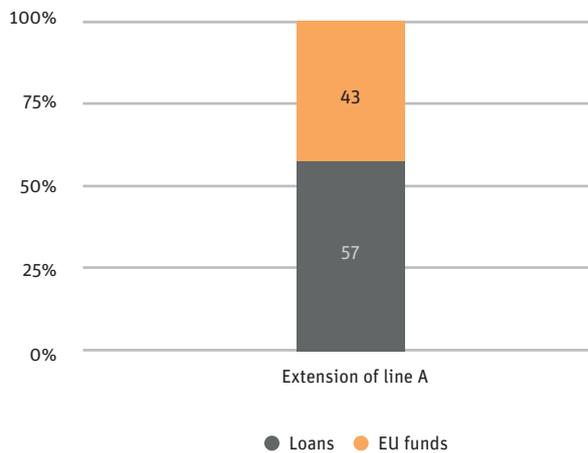
Line A was extended by 6.1 km and 4 new stations

The construction of the new section on line A took place from 2009–2014 and improved transport accessibility in the northwestern part of the city.

In total, the extension cost CZK 18.6 billion, 10.5 billion of which was funded by the City of Prague with a loan now being repaid to the European Investment Bank (EIB). The remaining 8.1 bil. CZK was funded by EU.



Extension of subway line A



Source: Own questionnaire survey, <http://www.praha.eu>  
<https://www.metrostav.cz>, Wikipedia

## Prague ring roads

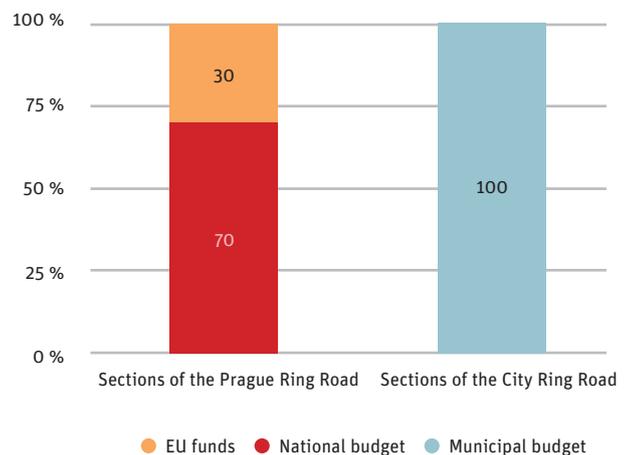
New sections of the City Ring Road and Prague Ring Road

The City (inner) Ring Road is designed to direct traffic away from the city center. All new sections of the city ring road were paid for by the City of Prague. The state (SFDI) helped finance the Vysočanská radiála – which is not part of the City Ring Road although it performs its function.

The Prague Ring Road is a highway bypass around Prague connected to a radial network of highways connecting Prague with the rest of the Republic. New sections of the Prague ring road are funded primarily by the state (SFDI), but a significant role (in total about 30% of funding) is also played by EU funds. The given ratio of funding is drawn from sections 512 (Jesenice – Vestec), 513 (Lahovice – Vestec) and 514 (Lahovice – Slivenec).



Prague inner and outer road rings



Source: Own questionnaire survey, <https://www.rsd.cz>,  
<http://www.praha.eu/>, Wikipedia