
Impact of Economic Crisis on Municipal Budgets in the Czech Republic

David Špaček¹, Petra Dvořáková²

Abstract:

The aim of the paper is to outline an impact of the economic crisis on municipal budgets in the Czech Republic and to evaluate how selected municipalities with different level of delegated state administration dealt with the economic slump from the financial perspective. The results of our research so far suggest that Czech municipal budgets have been affected by the economic crisis more than regional budgets, but less than the central budget. The reason is that the budgets contain different proportion of cyclically sensitive items. This conclusion applies mainly to the financial situation of municipalities in 2009, when municipalities were able to draw on financial reserves they accumulated in the past few years. Due to these reasons, among other things, the crisis has affected the municipal budgets not so seriously; the municipalities in general did not have much trouble coping with the situation. The relatively good constitution of the municipal budgets is also evident in three examples of municipalities the South Moravian Region that are described and briefly compared in the final part of the paper.

Key Words: Territorial Public Administration Reform, Municipal Budget, Economic Crisis

JEL Classification: E61, E62

¹ Assistant Professor, Faculty of Economics and Administration, Department of Public Economics, Masaryk University, Brno, Czech Republic, Lipová 41a, 602 00 Brno, tel: 420 549 49 7963, email: David.Spacek@econ.muni.cz

² Senior Lecturer, Faculty of Economics and Administration, Department of Public Economics, Masaryk University, Brno, Czech Republic, Lipová 41a, 602 00 Brno, tel: 420 549 49 4075, email: Petra.Dvorakova@econ.muni.cz

1. Introduction

Public budgets have gone through many changes since the fall of the communist regime and establishment of the Czech Republic. One of the most remarkable was the territorial public administration reform implemented since 1990. During the reform three basic types of municipalities were created each of which is distinguished by an extent of state administration (i.e. powers delegated from the central state administration into “delegated powers” responsibilities of municipalities by legislation) among others. Municipalities have performed in a relatively stable economic environment since the reform and have not face a significant economic decline yet. The situation has changed in 2008 or rather 2009, when the Czech Republic was affected by the economic slump. Its impact on individual levels of public budgets has been different. While the central government experienced a huge accumulation of the state deficit and consequently of the state debt, lower levels of government (regional and municipal) did not have so serious problems with their budgets based on their economic results from 2009 (Thalassinos et al 2010).

The aim of the paper is to monitor impact of the economic crisis on the Czech municipal budgets in more depth detail and to evaluate how selected municipalities with different level of delegated state power dealt with economic slump from the financial perspective.

The paper has a descriptive and an analytical part. First part of the paper summarizes the reform of municipal administration in the Czech Republic and introduces Czech municipal budgets with specification of their activities and finance. Then the overall impact of the economic crisis on the Czech municipal budgets is outlined. The last part is dedicated to an analysis of budgetary aspects of selected municipalities with different level of delegated state administration in connection with the economic slump. Discussion of outcomes and recommendations are stated in the conclusion of the paper.

2. Territorial Public Administration Reform and the System of Fiscal Federalism in the Czech Republic

Czech public administration reform started after the fall of the communist regime in November 1989. The phases of reform influenced the implemented set of instruments which were supposed to increase the efficiency of public administration. Initially, the main aim of the reform was the renaissance of democracy and democratic values in the legislation and, particularly, in the psychology and life of the society. This democratization of the legal and policy-making rhetoric went hand in hand with (re)development, empowerment and stabilization of the institutional system of territorial self-government accompanied by the search for the adequate form of fiscal federalism. The decade after the change of regime, which was not the one-off, but continual process, brought the establishment and relatively high

(particularly political and institutional) stability of **municipal public administration** and its system.

The first post-communist decade established features of municipal administration which are still valid. The first post-revolution act on municipalities from 1990 brought a fundamental change in territorial public administration according to Czech administrative historians (e.g. Čechák, 2004). It followed the modern principles established already in the second half of the 19th century in the legislation of Habsburg monarchy and distinguished state administration (i.e. deconcentrated central administration responsibilities) and self-government and replaced the centralized hierarchical system of “unitary state powers” as exercised by national committees during the communist period (1948 – 1989). Municipalities were supposed to take on the most of responsibilities (as well as liabilities) of former local or municipal national committees. The act established a system of **one-tier territorial self-government** (municipal councils became the basic and the only one level of territorial self-government) and also established what is called as **joined model of territorial public administration** in the Czech administrative literature (the same body of a municipality may exercise not only self-governmental tasks, but also state administration if authorised by law). The act on municipalities from 1990 also established a specific category of more than 380 municipalities that have been exercising state administration responsibilities for citizens of more (smaller) municipalities – the called **municipalities with authorised municipal office** (sometimes called as “type II municipalities”). This brought first (and still raised) questions about

- optimal funding of state administration exercised by bodies of municipal self-governments;
- political accountability of municipal councils of municipalities with authorised municipal office for activities principally related to the State (that pledged to guarantee only the “contribution” towards the expenses of state administration exercised by municipalities);
- capacities of civil servants of these municipalities to provide state administration services in the uniform and professional level across the state territory.

The first act on municipalities also enabled municipalities to merge with others and to split up. With regard to the split of a municipality the legislator did not stipulate any criteria of the minimum size of a new municipality established by the split-up (which must follow the results of local referendum). The act only assumed that the Ministry of Interior would decide on a proposal initiated by a municipality which intended to split. The ministry could reject the proposal if the newly established municipality could not fulfil its tasks according to the opinion of the ministry. The act brought large **disintegration of municipalities**, which were motivated also by administrative fusions that were realized during the last two decades of the communism. In 1989 there were 4 120 registered municipalities in the Czech Republic, during the year 1990 1 684 municipalities became independent,

during the period of 1990 – 2000 almost 2 200 municipalities became independent altogether, 35.6 % of which belonged to the category of municipalities with 200 – 499 inhabitants, 32.5 % to the category of municipalities with 100 – 199 inhabitants and 16.8 % to the category of 50 – 99 inhabitants (Vajdová, 2006). The disintegration has brought the current state of more than 6 200 municipalities, of which almost 60 % have less than 500 inhabitants. This trend was decelerated by act on municipalities from 2000, which stipulated the minimum of 1 000 inhabitants for newly established municipalities.

The first post-communist legislation from 1990 also established **district offices** – institutions which exercised state administration responsibilities, many of which were taken from the abolished district national committees. Their territories came out from the administrative division of the state from 1960, which remained unchanged that time and defined 76 districts as territorial units. In the case of Plzen, Brno and Ostrava – the largest Czech cities – responsibilities of district offices were exercised by their city offices. In the capital city of Prague responsibilities of district offices were exercised by its city office and also by offices of its town districts. Till the end of 1990s district offices had stabilized and served as important intermediaries between the state and municipalities (responsible also for allocation of grants, control of municipal budgets results, methodical help for municipalities etc.) and also as front line (i.e. first-instance) of state administration institutions in some areas (e.g. it was the case of driving licenses, personal IDs, establishing of hospitals, environmental protection etc.).

The abolishment of the system of national committees in 1990 also touched the **regional level** of public administration. It abolished the regional level of general public administration – regional national committees, which were not replaced by general regional administration similarly to municipal or district level for many years. Responsibilities of abolished regional national committees were transferred mostly to district offices or to central level which started to create its **specialized “deconcentrates” and detached territorial workplaces** (e.g. financial authorities as specialized state administration authorities created within the hierarchy supervised by the Ministry of Finance, offices of labour as deconcentrates of the Ministry of Labour, but also deconcentrates of other than ministerial institutions – e.g. territorial cadastral offices) in territories, which not always followed the administrative division of the state from 1960 (the mentioned districts as well as territories of regions created as administrative territories of 8 regional national committees). This brought the existence of more than 700 specialized state administration deconcentrates, which were difficult to coordinate even within individual hierarchies of central institutions in which they were established.

For several years after the change of regime, the establishment of general regional level of public administration was only a matter of academic and political rhetoric. The most important political decision came in 1997, when **constitutional act on regions** was approved. It was supposed to come into force in the beginning of 2000. This act created 14 regions as regional self-governmental units (including the capital of Prague) and their territories. Since the act did not specify functions of the

regions (it only generally spoke about their right to self-government and about a regional council as the main self-governmental body of a region), the main task of the following period was to reach a consensus about organization of regional public administration. The main question was whether to organize it similarly to municipalities (i.e. in the form of joined model established in 1990) or whether to separate regional self-government and state administration in the different set of organizationally separated institutions as it was the case of Slovakian reform of regional level.

The result of political decision-making from 2000 (in the form of new act on regions as well as acts on municipalities, which are still in force in the slightly modified form) established the joined system of regional public administration similarly to the model of municipal administration created in 1990. Regions as self-governmental units exercising also state administrations existed simultaneously with district offices from November 2000, when the first post-communist elections to regional councils took place, till the end of 2002. District offices were abolished by the end of 2002 and their responsibilities (as well as the majority of their employees³, software licences etc.) were transferred to bodies of regional self-government (into their self-governmental or state administration responsibilities) and to state administration responsibilities of new categories of 205 municipalities – the so-called **municipalities with extended responsibilities** (sometimes called as „municipalities of the III type“) (see also Špaček and Neshybová, 2010).

Territorial public administration reform brought also changes in the system of the Czech public finance. The so-called combined **model of fiscal federalism** has been implemented during the reform (Peková, 2008). The Constitution specifies three vertical levels of government in the Czech Republic each of which has its own budgets. The top level is represented by the central government; the fourteen higher self-government units create regional government, and the lowest level is represented by approximately 6 200 municipal governments. The share of individual levels of the Czech public finance is shown in the following Table 1 below.

³ More than 19 000 employees worked at district offices. Their allocation to municipal and regional offices is briefly described in reports on public administration progress of the Ministry of Interior (which are available here -<http://aplikace.mvcr.cz/archiv2008/sprava/vlzpravy/index.html> – but only in Czech).

Table 1. Distribution of Expenditures Between the Levels of Government (1999 – 2010)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
As a percentage of GDP												
Public Sector	38.3	39.6	40.7	42.8	43.1	41.1	42.2	42.3	39.7	40.2	44.1	43.5
State Budget	27.9	28.6	28.3	28.4	30.6	29.0	29.0	30.8	28.6	29.0	32.0	32.7
District offices	1.0	0.9										
Regional offices			0.6	1.5	3.7	3.5	3.8	3.9	3.5	3.6	3.9	3.6
Municipalities	7.1	7.5	8.3	8.7	9.6	9.2	7.4	7.7	6.9	7.0	7.3	7.2
As a percentage of total public sector expenditure												
Public Sector	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State Budget	72.9	72.2	69.5	66.3	71.1	70.4	68.6	72.9	72.1	72.0	72.5	75.2
District Offices	2.5	2.3										
Regional offices			1.5	3.4	8.5	8.6	8.9	9.1	8.9	9.0	8.9	8.2
Municipalities	18.5	18.9	20.4	20.3	22.4	22.3	17.6	18.2	17.5	17.3	16.6	16.6

Note: *2010 – approved budget

Source: DVOŘÁKOVÁ, P.; JAHODA, R. (2010).

It is apparent that the state budget is the most important one with the share of 32 % GDP or over 70 % of total public expenditures respectively. The share of local governments' expenses in GDP has recently stabilized around 12 %. The comparability of statistical data on local finance is partly biased by the fact that the (former) district office budgets were interpreted as a part of the state line of public administration of the Czech Republic. Before 2000 these budgets were not part of the state budget and were included in local finance alongside municipal budgets. Their budgets were part of the state budget until the closure of the district offices in 2002. Focusing on municipalities only, their share in GDP is around 7 % and accordingly 17 % of total public expenditures.

3. Economic Performance of Czech Municipalities

Economic environment significantly changed in the year 2008, respectively in 2009. General information about the Czech Republic from the macroeconomic point of view is illustrated by the Table 2 below. In 2009 municipalities were exposed to an economic slump for the first time since the reform in 2000. The economic boost accompanied by a decrease in unemployment peaked in 2006 and 2007. The economic cooling occurred no sooner than in 2008, with certain delay in the Czech Republic in comparison to other countries. Economic recession hit the Czech economy at the turn of 2008 and 2009. It resulted in an emergence of so-called negative output gap, which peaked between -5 % and -4 % over the entire last year. It may be considered as the lowest utilization of economic potential in the post-transformation period (MoF, 2010a).

Table 2. Development of key macroeconomic indicators in the Czech Republic

	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP CZK bil, current p.)	2 352.2	2 464.4	2 577.1	2 814.8	2 983.9	3222.4	3 535.5	3 689.0	3 627.2
GDP (PPS/capita, current p.)	230 064	241 593	252 617	275 770	291 561	313 868	342 494	353 701	na
GDP (%, y/y, real terms)	2.5	1.9	3.6	4.5	6.3	6.8	6.1	2.5	-4.2
GDP Output gap (% to the potential output)	-0.1	-1.5	-1.6	-1.6	-0.6	1.3	3.7	2.5	-4.6
ILO general unemployment rate (% , avrg.)	8.1	7.3	7.8	8.3	7.9	7.1	5.3	4.4	6.7
CPI (% , y/y, avrg.)	4.7	1.8	0.1	2.8	1.9	2.5	2.8	6.3	1.0
CZK/EUR (avrg.)	34.083	30.812	31.844	31.904	29.784	28.343	27.762	24.942	26.445
CZK/USD (avrg.)	38.038	32.736	28.227	25.701	23.947	22.609	20.308	17.035	19.057
Trade balance (CZK bil.)	-117.4	-70.8	-69.8	-26.4	38.6	39.8	87.9	67.2	152.0

Source: Czech Statistical Office. Czech Republic: key macroeconomic indicators [online]. 2010.

Economic slump influenced economic performance of municipalities in 2009 but not as seriously as it was generally expected. Development of revenues and expenditures of municipalities in the last four years is shown in the Table 3, which also illustrates a structure of municipal budgets. The municipal budgets are funded mainly by their own revenues (70 % on average), which consist of tax revenues, non-tax revenues and capital revenues according to the Czech legislation. The most important ones are tax revenues set by the Act No. 243/2000 Coll. on Tax Revenue Assignment. The act specifies shared tax revenues ratio at the level of 21.4 % in favour of the municipalities from national gross revenue of personal income tax, corporate income tax and value added tax (PIT, CIT, VAT).⁴ Simultaneously it entitles municipalities to obtain all the yield of real-estate tax, which is collected in their cadastral area.⁵ The economic recession caused a slump in tax revenues of municipalities by 12 % in 2009. The most affected part of tax revenues was the corporate income tax revenue, which decreased by 26 % in comparison to the previous year. The change in non-tax and capital revenues is little evident because of their small relevance.

Municipal budgets are financed also by grants assigned from other budgetary levels (e.g. from the national budget, regional budgets and off-budget funds such as The State Fund for Transport Infrastructure or The State Fund for the Environment). These grants usually cover approximately 30 % of total revenues of

⁴ System of tax sharing is more complicated as there are included motivation items for municipalities within PIT to support business and employment in their districts – see § 4 of the Act No. 234/2000 Coll.

⁵ Municipalities can partially influence yield of real-estate tax by adjusting coefficient based on the size of the municipality as well as so-called “local” coefficient – for more information see § 6 article 4 and § 12 of the Act No. 338/1992 Coll. on Real-Estate Tax.

municipalities. There is a contribution to state administration included among grants, which is transferred to municipalities differentially according to the amount of state administration they are authorized to by legislation - e.g. municipalities of the III (see chapter 1 above) get the highest contribution because their range of state administration activities/expenditures is the widest within the group of municipalities that exercise delegated state administration alongside their self-governmental responsibilities. In 2009 municipalities obtained higher contribution by 250 million CZK in comparison with 2008 to solve asymmetry in coverage of state administration expenditures among individual types of municipalities (MoF, 2010b).

Grants often finance certain purposes (social benefits, elementary schools, investments etc.), which they can only be used for. Moreover some grants provided by the state budget chapters are not confirmed until the budget year begins. That is why they are not included in the approved budget of a municipality in order to follow principles of reality and accuracy of their accounting. Such grants are included in a budget of a municipality by budgetary amendments implemented later during the budgetary year. Because of this, municipality's approved budget may be smaller than the final one.

It is possible to say that the bigger part of invariable grant funding the revenue side of the budget the lesser exposition to cyclical economic fluctuations. It is not surprising since transfers to local governments are among mandatory expenditures of the state budget while tax revenues are subject to cyclical economic development. Czech municipalities should have been in serious troubles in the year 2009 according to mentioned hypothesis because tax revenues represent roughly 55 % of their total revenues. In practice the transfers obtained by municipalities from the state budget were increased by 9.2 billion CZK and municipalities also made use of own reserves and expenditure cuts so the impact of the economic slump was in general not as extreme as was initially expected (MoF, 2010b). On the other hand, the municipalities' deficit was the highest in the last ten years.

Table 3. Revenue and Expenditure of Municipalities

	2007		2008		2009		2010*	
	bln. CZK	%	bln. CZK	%	bln. CZK	%	bln. CZK	%
I. Tax revenue	142.7	57.5	154.4	56.6	136.6	51.6	154.3	58.3
II. Non-tax revenue	23.0	9.3	26.3	9.6	27.2	10.3	28.3	10.7
III. Capital revenue	12.5	5.0	15.7	5.7	14.0	5.3	14.1	5.3
<i>Own revenue</i>	<i>178.2</i>	<i>71.8</i>	<i>196.4</i>	<i>72.0</i>	<i>177.8</i>	<i>67.1</i>	<i>196.7</i>	<i>74.3</i>
IV. Grants	70.0	28.2	76.5	28.0	87.1	32.9	68.1	25.7
Total revenue	248.2	100.0	272.9	100.0	264.9	100.0	264.8	100.0
VI. Current expenditure	171.2	68.3	180.4	70.2	189.8	67.0	189.4	70.7
VII. Capital expenditure	79.5	31.7	76.5	29.8	93.4	33.0	78.6	29.3
Total expenditure	250.7	100.0	256.9	100.0	283.2	100.0	268.0	100.0
B a l a n c e	-2.5	x	16.0	x	-18.4	x	-3.2	x

*2010 – approved budget

Source: Ministry of Finance. Draft of the State Budget 2010; State Financial Statements for 2007 – 2009.

Looking at the expenditures of municipalities in the Table 3, the dominance of current expenditures over capital expenditures is rather obvious. The largest portion of the current expenditures comprises funds the municipalities provide for their organizations within the scope of non-investment transfers. These organizations are mainly operating in education, social care, culture and health care sectors. Capital expenditures of the municipalities are mostly connected to investments – predominantly to projects co-funded from the EU funds in the recent years.

Financial situation of municipalities can be illustrated also by their indebtedness. Outstanding debt of municipalities has increased only by 0.5 billion CZK during 2009 and thus it remained on a lower level than in 2006 (as Table 4 shows). Despite substantial deficit of municipal budgets (18.4 billion CZK) it was enabled by utilization of municipal financial reserves. Table 4 demonstrates that municipalities and their organizations still have significant financial reserves, which except from year 2008 were always slightly lower than their indebtedness. Municipal indebtedness comprises 2.2 % of GDP and 6.3 % of government debt, which means it does not represent serious problem from the macroeconomic perspective so far.

Table 4. Financial Reserves and Indebtedness of Municipalities (and Their Organizations)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Financial reserves	37.3	39.8	47.1	52.2	61.8	65.6	72.6	87.6	69.6
Indebtedness	48.3	55.8	70.4	74.9	79.0	81.0	79.3	80.1	80.6
Difference	-11.0	-16.0	-23.3	-22.7	-17.2	-15.4	-6.7	7.5	-11.0

Source: Ministry of Finance. State Financial Statements for 2001 – 2009.

4. The Economic Slump and Municipal Budgets – The Case of Three Selected Municipalities in the South Moravia Region

Nowadays the following three types of municipalities exist according to the acquired state administration responsibilities in the Czech Republic:

- I. type – municipalities with the basic scope of state administration (6 249);
- II. type – municipalities with authorized municipal office (393);
- III. type – municipalities with extended responsibilities (205).⁶

All the municipalities yearly obtain a contribution for state administration they perform from the state budget. Analysis published by the research team from the Prague University of Economics last year showed that the contribution did not cover all the expenses connected to state administration exercised by municipalities. Moreover the less delegated power the smaller coverage (Prague University of Economics, 2009). Ministry of Finance reacted to the results of the research, which in fact it assigned. Overall amount of the contribution was increased by 2 billions CZK that should eliminate disproportions of system in 2010.⁷ Table 5 demonstrates results of the mentioned analysis as well as general division of municipal's activities according to their type.

Table 5. Delegated Power of Municipalities and Its Coverage (2007)

Municipality	Division of activities between delegated and independent responsibilities	Expenses coverage by contribution for state administration performance
I. type	1/3 and 2/3	21 %
II. type	1/2 and 1/2	68 %
III. type	2/3 and 1/3	105 %

Source: Prague University of Economics (2009), p. 22.

Three municipalities in South Moravia Region, from the Vyskov district were selected as examples of different types of municipalities which are categorized according to state administration they exercise. Municipalities with the basic scope of state administration are represented by the municipality Olsany, which is located in the administrative district of the municipality Rousinov. The municipality Rousinov belongs among municipalities with authorized municipal office and comes under administrative district of the municipality Vyskov. Municipality Vyskov is a municipality with extended responsibilities. The following part of the paper describes budgets of selected municipalities separately and then it compares them from economic crisis perspective.

⁶ List of municipalities of the II. and III. type is published in Appendix 1 and 2 of Act No. 314/2002. Coll. on Assignment of municipalities with authorized municipal office and municipalities with extended responsibilities.

⁷ Extraordinary increase of funds for public administration performance occurred also in 2008 and 2009. It has a form of extra purpose-subsidies in total amount of 301.5 million CZK.

4.1 Olsany (the case of municipality with the basic scope of state administration)

Municipality Olsany has only 510 inhabitants and its cadastral area is 1 871 hectares. Its activities are mostly connected with independent (i.e. self-governmental) responsibilities of this municipality. Olsany's budget is expressed in units of million of CZK. Table 6 shows that tax revenues are both stable and essential source reaching 90 % of total revenues contrary to grants, which were fluctuating during the monitored period. It is interesting that tax revenues increased in 2009 despite the economic slump. It could be caused partially by the fact, that Olsany is a fast developing municipality, where construction is still in progress. Consequently, number of new businesses (mainly self-employed persons) has increased recently. Development connected with investments is visible also in the structure of municipality's expenditures. Capital expenditures in certain years (2002, 2003, 2006, 2009) exceeded current expenditures, which is not usual.

Table 6. Budget Structure of Municipality Olsany

In million of CZK	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
I. Tax revenue	2,08	2,56	2,92	3,58	3,53	3,24	3,53	4,63	5,75	4,64
II. Non-tax revenue	0,49	0,36	0,09	0,19	0,07	0,08	0,10	0,21	0,15	0,09
III. Capital revenue	0,00	0,00	2,02	0,00	0,21	0,43	0,00	0,21	0,04	0,07
<i>Own revenue</i>	<i>2,57</i>	<i>2,92</i>	<i>5,03</i>	<i>3,77</i>	<i>3,81</i>	<i>3,74</i>	<i>3,63</i>	<i>5,06</i>	<i>5,94</i>	<i>4,80</i>
IV. Grants	0,15	4,16	4,48	2,88	2,74	2,88	1,06	0,39	1,36	0,31
Total revenue	2,72	7,08	9,52	6,65	6,55	6,62	4,69	5,45	7,30	5,12
V. Current expenditure	1,69	2,12	3,09	5,51	5,04	2,67	2,93	3,70	2,96	0,00
VI. Capital expenditure	1,32	4,80	3,87	1,68	1,33	3,93	1,72	1,46	3,21	0,00
Total expenditure	3,01	6,91	6,96	7,18	6,36	6,60	4,64	5,16	3,17	7,32
B a l a n c e	-0,29	0,17	2,56	-0,53	0,18	0,02	0,05	0,29	1,13	-2,20

Source: Ministry of Finance of the Czech Republic. ARIS web. "Prezentace údajů ÚSC" [online]. 2010.

We could sum up that economic crisis did not influence Olsany's budget negatively, it even resulted in surplus. More serious impact is presumed for 2010 according to the approved budget. But situation could be still changed by unexpected grants during budgetary year.

4.2 Rousinov (the case of municipality with authorized municipal office)

Municipality Rousinov has 5 208 inhabitants and cadastral area of 2 305 hectares. Approximately one half of its activities can be considered as delegated state administration, the other half of activities are connected with independent responsibilities. Its budget amounts hundreds of million CZK. The main source of budget seems to be grants, but as there are included also transfers from money funds of the municipality, it is not so in reality. Tax revenues are of great importance too as they are not acquired to finance specific purposes. Current expenditures dominated over capital expenditures in all the monitored period.

Table 7. Budget Structure of Municipality Rousinov

In million of CZK	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
I. Tax revenue	27.7	29.1	32.3	43.2	53.9	54.9	51.2	57.3	65.9	43.9
II. Non-tax revenue	1.9	1.2	1.0	0.9	0.7	0.5	0.9	3.0	1.1	0.7
III. Capital revenue	0.8	0.6	5.1	3.3	0.0	0.6	7.2	6.0	1.0	0.0
<i>Own revenue</i>	<i>30.4</i>	<i>30.9</i>	<i>38.4</i>	<i>47.4</i>	<i>54.6</i>	<i>56.0</i>	<i>59.3</i>	<i>66.3</i>	<i>68.1</i>	<i>44.6</i>
IV. Grants	60.7	72.5	70.5	93.0	90.4	127.1	103.3	100.4	149.4	7.3
Total revenue	91.0	103.4	108.9	140.4	145.0	183.2	162.6	166.7	217.5	51.9
V. Current expenditure	86.3	98.5	90.0	109.0	96.3	120.0	117.2	132.0	181.5	0.0
VI. Capital expenditure	4.3	13.4	6.5	20.9	34.5	63.3	42.9	41.7	45.1	0.0
Total expenditure	90.6	111.9	96.5	129.9	130.8	183.4	160.1	173.7	226.6	71.9
B a l a n c e	0.4	-8.5	12.4	10.5	14.2	-0.2	2.6	-7.0	-9.1	-20.0

Source: Ministry of Finance of the Czech Republic. ARIS web. "Prezentace údajů ÚSC" [online]. 2010.

Economic slump affected the budget of Vyskov rather negatively. Table shows negative economic result on the level of 9.1 million CZK even when tax revenues against general trend increased by 11 % in 2009 (mainly VAT). But current revenues grew faster, by almost 40 %, which caused final deficit. The previous year 2008 resulted also in deficit and the outlook for 2010 is not optimistic. Tax revenues should return almost on the level of the year 2004, which might cause tensions in expenditures and possible further growth of municipality's debt. On the other hand, the municipality can obtain more grants than are listed in the approved budget.

4.3 Vyskov (the case of municipality with extended responsibilities)

Municipality Vyskov has 21 875 inhabitants and cadastral area of 5 040 hectares. Its budget amounts thousand of million CZK. Table 8 shows development of economic performance of Vyskov in the last years. It is transparent that the most important source is grants, but tax revenues are important as well. Non-tax revenues are insignificant, while capital revenues from time to time helped to fund the budget (2007 and 2008). In the structure of expenditure dominate current expenditures.

Table 8. Budget Structure of Municipality Vyskov

In million of CZK	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
I. Tax revenue	134	160	172	190	212	218	246	289	263	214
II. Non-tax revenue	21	28	8	21	14	18	18	32	25	18
III. Capital revenue	13	3	28	6	25	72	194	250	45	10
<i>Own revenue</i>	<i>168</i>	<i>191</i>	<i>207</i>	<i>216</i>	<i>251</i>	<i>309</i>	<i>457</i>	<i>571</i>	<i>333</i>	<i>241</i>
IV. Grants	596	612	856	788	553	716	1 025	1 300	1 061	100
Total revenue	764	803	1 063	1 005	804	1 025	1 483	1 871	1 393	341
V. Current expenditure	659	674	899	938	724	897	1 238	1 585	1 359	284
VI. Capital expenditure	147	150	154	89	59	116	128	145	213	58
Total expenditure	807	824	1 053	1 027	783	1 012	1 366	1 729	1 572	341
B a l a n c e	-42	-21	10	-22	22	13	117	142	-179	0

Source: Ministry of Finance of the Czech Republic. ARIS web. "Prezentace údajů ÚSC" [online]. 2010.

Economic performance of Vyskov followed the approved budget in 2009. Estimated deficit (220.6 million CZK) was supposed to be financed by reserves from bank account of the municipality. The real deficit was lower than estimated (179 million CZK) but it was still the worst budget result in the history of the municipality. Budget of the municipality was twenty times adjusted during the year according to the economic development. The main issue was tax revenues. Even though municipality predicted only 4 % growth of tax revenues in contrast to the Ministry of Finance, which initially announced 8 % growth, tax revenues fell by 40 million CZK contrary to approved budget for 2009. Considering individual parts of tax revenues, all of them were negatively influence by economic crisis. The biggest slump was monitored in corporate income tax revenues. Municipality decided to cut expenditures as reaction to lowered tax revenues. Considering approved budget for 2010, tax revenue item is almost on the level of 2005 or 2006, respectively. Certain scepticism is visible in every item. Both current and capital expenditures are partially dependent on received grants. Table shows that Vyskov calculated with only a small amount of grants in its planned budgets. On the other hand, it is quite usual as was mentioned before.

4.4 Comparison of Selected Municipalities and Discussion

Table 8 summarizes economic performance of the three selected municipalities in the last three years. Individual items of both types of revenues and expenditures are expressed in percentage of total revenue/expenditure to abstract away from size of the budgets of selected municipalities. The table demonstrates that all the municipalities obtain at least half of the sources from own revenues. And it is not without interest that the smaller the municipality is the bigger proportion of own resources it gains. This could be explained by the extent of activities a municipality exercises for example. Bigger municipalities provide wider range of public goods and services than smaller ones and thus they get higher subsidies from the state. Other reason could be the quantity of municipality's property, which bigger municipalities use and manage. They also take part in more investment projects, which they can ask grants for. Essential role is probably played also by rules for grant drawing, namely from the EU funds or state special-purpose funds.

There is often set a condition concerning number of inhabitants or other requirement connected to size of municipality. Moreover smaller municipalities are perceived as less credible clients for financial institutions than larger towns and cities. Sometimes there is courage of the political leadership to start a large investment in a small municipality is missing and also a lack of information (e.g. where and how to ask for a grant) and other capacities (insufficient cooperation between a municipality and the private sector organizations) may represent an important barrier. The last but not least issue could be poor erudition of municipality's representatives.

Table 9. Comparison of Budget Structure of Selected Municipalities

In % of total revenue/expenditure	Vyskov			Rousinov			Olsany		
	2008	2009	2010*	2008	2009	2010*	2008	2009	2010*
I. Tax revenue	36.8	40.9	62.6	84.5	84.5	84.7	95.5	89.3	90.7
II. Non-tax revenue	2.1	3.0	5.2	0.6	0.5	1.3	1.6	2.2	1.8
III. Capital revenue	16.9	6.0	2.9	3.0	0.2	0.0	0.0	0.1	1.4
<i>Own revenue</i>	<i>55.8</i>	<i>50.0</i>	<i>70.7</i>	<i>88.2</i>	<i>85.1</i>	<i>86.0</i>	<i>97.1</i>	<i>91.6</i>	<i>93.9</i>
IV. Grants	44.2	50.0	29.3	11.9	14.9	14.0	2.9	8.4	6.1
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
V. Current expenditure	76.4	73.0	83.1	53.0	46.6	na	71.4	69.7	na
VI. Capital expenditure	23.6	27.0	16.9	47.0	53.4	na	28.6	30.3	na
Total expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance of the Czech Republic. ARIS web. "Prezentace údajů ÚSC" [online]. 2010.

Table 8 also shows that tax revenues are the essential type of own revenues of selected municipalities. Tax revenues are mainly dependent on a gross national tax yield of shared taxes (PIT, CIT, VAT), the only tax revenue that can be partially influenced directly by municipalities is a real-estate tax. There is also a difference between selected municipalities concerning their tax revenues. While tax revenues in Vyskov represent about 40 % of total revenues (except for prediction 2010), in Rousinov it is approximately 85 % and in Olsany 90 %. It could be deduced that fall in tax revenues caused by economic slump affects small municipality more because of its revenue structure. But previously showed Tables 6 – 8 give other evidence. In case of selected municipalities, the smallest one (Olsany) was affected by economic crisis the least.

5. Conclusions

Data on Czech public finance show that the economic slowdown has had a negative impact on public budgets. The impact so far concerned mainly the central level, where the slump in tax revenues and the expenditures related to the growing unemployment rates have been causing a growth in the cyclical element of the deficit.

The municipal level has been influenced negatively as well. This was, among other things, caused by the fact that the tax revenue represents 55 % of their revenues. Transfers from the national and regional levels into municipal budgets remain the important instrument too. The development of the Czech municipal

budgets has therefore still been rather anti-cyclical, mainly thanks to the following two factors. Firstly, the history of the current structure of municipal public administration in the Czech Republic has been short and marked by the context of economic growth. Management of the municipalities has led to a quite low utilization of debt instruments and the municipalities also tended to create financial reserves. The second factor causing the so-far anti-cyclical behaviour of the municipal budgets was the “slow” response of the central government, specifically the State Budget. The State Budget for 2009 was deliberately built on the premise of high economic growth. The subsidy expenditures in favour of the municipalities were not adversely affected by the impending economic crisis when the budget was drawn up. In fact, government transferred additional 9 billions CZK to municipalities to help them face the economic slump. Unfortunately, it seems, the above-mentioned factor is likely to turn against the municipalities in 2010 or rather 2011. It will be no longer possible for the municipality to rely on the state’s previous generosity as public finance reform is being projected by the new Czech executives. The more or less anti-cyclical behaviour of the municipalities in the Czech Republic is in line with the finance development in the municipal government levels of other OECD countries (see Blöchliger, 2010). Blöchliger also points out that more protracted economic downturns eventually do lead to cuts in municipal budgets. Such a situation mostly happens within a 1 – 2 year delay.

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