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Regional Budgets under Scrutiny: where their revenues come from, what they are spent on, and what the budgetary allocation of taxes change will bring²

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Summary

- Since 2000, self-governing regions have played an important role in the Czech public administration system and have managed significant resources. This study analyses the 2023 revenues and expenditures of 13 regions and the impacts of proposed changes in allocation of regional revenues. We subtract earmarked transfers and do not include Prague, which fulfils the roles of both a region and a municipality.
- The revenues of the 13 remaining regions amounted to CZK 120 billion in 2023. Their expenditures were slightly lower, at CZK 109 billion. The key to regional budgets is the allocation of taxes, which determines the vast majority of regional budget revenues, and thus dictates their scope for spending. Budgetary allocation of taxes determines how much of tax revenue collected will go to regions, municipalities, and the state.
- Regions with higher gross domestic product (GDP) per capita manage budgets that are, on average, smaller per capita than do regions with lower GDP per capita. This can be seen as supporting regions with lower GDP per capita, i.e., as a redistributive aspect of regional budgets. We also show that the current budgetary allocation of taxes system tends to favour regions with smaller populations at the expense of those with larger ones, particularly Moravia-Silesia and South Moravia.

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- In per capita terms, the regions that benefit most from the budgetary allocation of taxes system today are Vysočina, South Bohemia, and Karlovy Vary region, while South Moravia and Moravia-Silesia receive the least funds per capita. There are large differences in budgetary allocation of tax revenues between the regions: today, the Vysočina region receives almost twice as much tax revenue per capita as does South Moravia.
- In 2024, the government approved an amendment to the budgetary allocation of taxes Act based on a proposal by the Association of Regions of the Czech Republic, which is currently awaiting approval in Parliament. We show how the new system would change regional budgetary allocation of tax revenues per capita. For example, the Pardubice and Olomouc regions currently receive roughly average per capita revenues, but with the proposed changes, the Pardubice region would receive significantly more and the Olomouc region would receive less. The Pardubice region, along with the Zlín, Liberec, and Karlovy Vary regions are expected to see the largest increases in revenue. Conversely, the Ústí nad Labem region, which is one of the poorest (measured by GDP per capita), would see a decrease. The primary loser in the changes would be Moravia-Silesia, where an already low budgetary allocation of taxes revenues would decrease further, by about CZK 700 per capita. For South Bohemia, South Moravia, Central Bohemia and Pilsen region, the changes would not result in any major alterations in the budgetary allocation of taxes revenues.
- In our view, the proposed changes to the budget allocation of taxes system are moving in a good direction, replacing long-term fixed shares with a variable mechanism based on changing regional characteristics. However, it would be helpful to consider adding incentive elements to the system that would motivate regions to, for example, encourage greater economic activity in their territory, to make strategic investments, or to improve the quality and efficiency of public services.
- Regarding the structure of regional non-transfer expenditures, where regions have room to take their own priorities into account:
 - Roughly one-seventh of regional spending goes to education, supplementing transfer funding from the state budget. Moravia-Silesia and South Moravia spend the largest shares of their expenditures on education (19% and 17% respectively).
 - Regions spend 12–25% of their total expenditures on construction and maintenance of road networks, and 16–31% on public transport. The differences between regions in this respect are quite large. In aggregate, the largest percentage of the regional budget is spent on public transport in Central and South Bohemia and in Vysočina.
 - Other important regional expenditures include health (8–17%), public administration (7–12%) and culture (5–15%). Health expenditures primarily include funding for regional hospitals and emergency medical services. Expenditures on public administration consists, for example, of salaries of employees of regional authorities; expenditures on culture consists of contributions to cultural organisations.