

Local government debt and its monitoring in the Czech Republic

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Abstract: Early detection of local fiscal problems can help to resolve them before they turn into crises. The Czech Republic uses two types of fiscal rules which serve as such early detection devices: monitoring of local government management and rules for fiscal responsibility. Monitoring is with some modifications in place since 2009 and rules for budget responsibility since 2017.

The financial situation of the Czech local government is generally very good, total debt amounted by the end of 2021 to 1,4% of GDP, i.e. 3,4% of total public debt. Out of 6 250 municipalities, only five rather small municipalities did not fulfill any of the valid rules and 578 municipalities and no region violated the rule of budget responsibility in 2021.

The purpose of the paper is to evaluate the effectiveness of these rules regarding their ability to provide early detection of fiscal problems and to compare their outcomes with other signs of risky management such as audit findings and substantial lag in approval of financial statements.

The analysis is based on data provided by the Ministry of Finance either through its data portal Monitor (in case of monitoring, rules for budget responsibility, and approval of financial statements) and open data database (in case of audit findings) and covers the period from 2012 to 2021.