



INTRODUCTION

This publication, issued by the Ministry of Defense of the Czech Republic, for the eighth time, is intended, in compliance with the Act No. 106/1999 Coll., *Freedom of Information Act*, to provide the general public as well as the partner nations basic data on the MoD budget, its trends, structure, major categories of expenditures and internal proportions among them.

The essential sources of information for this publication have been the following documents **“The 2005 Draft State Budget of the Czech Republic – Ministry of Defense Chapter”** and **Act No. 675/2004 Coll., on the Czech Republic Budget for the year 2005**.

The Government approved *The Concept of the Build – Up of the Professional Armed Forces and Mobilization of the Armed Forces of the Czech Republic adjusted to the new framework of resources* by the Decree No. 1154 of 12 November 2003. It means that the expenditures for the MoD Chapter of the State Budget will be allocated in the amount which guarantees to cover the essential expenditures for the ongoing Concept implementation.

The budgetary means allocated for the Ministry of Defense were set in the absolute volume considering that it will not fall under this limit in individual years. The parameters of the Reform of the Armed Forces included in the *Mid-term Plan of the MoD Performance and Development for 2005 to 2010*, born in mind by the Government Decree No. 595 of 9 July 2004, were set to these limits as well. This planning document has become the basic input for compilation of the Draft Budget for 2005. The limit of expenditures for 2005 was set to the amount of CZK 53,84 billion.

The total limit of expenditures was decreased from the primary assigned amount of CZK 53,840 billion to CZK 52,953 billion following the Government Decree No. 907 of 21 September 2004 to the Draft State Budget for 2005 and during the negotiations on State Budget of the Czech Republic for 2005, before its approval by the Czech Parliament.

Under the Act No. 675/2004 Coll., on State Budget of the Czech Republic for 2005, budgetary means in total amount of CZK 52,953,193,000 have been allocated for the MoD which is by CZK 2,2 billion more than in previous year. The MoD expenditures share of Gross Domestic Product, predicted in the amount of CZK 2 920 billion for 2005, represents 1,81%. The MoD total revenues of CZK 2,779,884,000 are lower than in previous year by CZK 614,916,000. The main part, i.e. 86,6% will be the revenues from the social security insurance premiums and from the employment policy contributions for the career soldiers.

Remaining revenues are the means from own performance, rent of lands and immovables, interests, received sanction payments and other non-tax revenues. Structure and total amount of expenditures for 2005 take into account the changes resulting from the dissolution of conscription and expenditures for armed forces professionalisation.

The budget is compiled with the aim to ensure the MoD units and facilities running, its planned build-up, redislocation and reorganisation, increase of capabilities and development relating to available human, material and financial resources .

The budgetary expenditures for 2005 are planned primarily to cover the mandatory claims relating to planned numbers of individual personnel categories. They stem from the claims under the law and represent 53,4% of the total MoD budget expenditures.

Ongoing professionalisation of the ACR and necessity to replace essential current life running

of units in accordance with dissolution of conscription by 31 December 2004 results in the budget structure change in favour of expenditures provided for service outsourcing.

The system of programme financing will include other expenditures which bring the change in proportion in expenditure structure between the programme financing and current expenditures.

In comparison with 2004 this change represents the increase of expenditures in area of property reproduction programmes by CZK 2,7 billion.

The employment of resources from Russian debt deblocation in the amount of CZK 1,9 billion is planned in the area of property reproduction programmes above the limit of budgetary means.

In 2005, the amount of CZK 703,160,000 from NATO funds will be intended for NATO Security Investment Programme resulting from mutual commitments of Alliance members.

In 2005, the ACR will continue in their involvement aimed at solving security issues abroad. It is assumed that 2005 MoD budget will fund activities of the ACR units in international missions and operations. For these activities, the MoD budget will allocate CZK 1,264,651,000 (including costs for the equipment withdrawal from place of mission and its recovery), thereof CZK 1,156,455,000 is covered by the MoD budget and the amount of CZK 108,196,000 by the 2004 budgetary savings carried forward to 2005 through Surplus Fund under the Act No. 218/2000 Coll., *on Budgetary Rules*.

Comparison of Basic Macroeconomic Indicators

	2004	2005	Index 2005/2004
Gross Domestic Product (in CZK billion)	2 506,0	2 920,0	1,17
Expenditures of the CR State Budget (in CZK billion)	869,1	908,4	1,05
Rate of Inflation (increment in %)	2,6 %	3,30 %	1,27
MoD expenditures as % of GDP	2,02 %	1,81 %	0,90
MoD expenditures as % of CR State Budget expenditures	5,84 %	5,83 %	1,00

Basic Data on the State Budget of the Czech Republic - MoD Chapter

EXPENDITURES	Approved budget in CZK million		Comparison '05/'04
	2004	2005	
I. Capital expenditures total	10 013,8	9 505,0	0,95
II. Operating expenditures total	40 712,1	43 448,2	1,07
II.1. Salaries of employees and other payments for contract work	12 016,6	11 698,8	0,97
II.2. Retirement pensions and other social benefits	5 570,5	5 430,2	0,97
II.3. Mandatory employer-paid insurance and allocation to CSNF	4 102,5	4 112,3	1,00
II.4. Non-investment allocations to on-vote organizations	1 186,1	1 097,5	0,93
II.5. Non-investment subsidies to enterprises	223,6	219,9	0,98
II.6. Other material non-investment expenditures	17 612,8	20 889,5	1,19
III. MoD expenditures total (I. + II.)	50 725,9	52 953,2	1,04
<i>MoD expenditures (based on constant 2004 prices)</i>	<i>50 725,9</i>	<i>51 261,6</i>	<i>1,01</i>
REVENUES			
IV.1. Budgetary organizations revenues	960,4	372,6	0,39
IV.2. Insurance revenues	2 434,4	2 407,3	0,99
IV. MoD revenues total (IV.1.+ 2.)	3 394,8	2 779,9	0,82
RESULTING BUDGET BALANCE	47 331,1	50 173,3	1,06

Comparison of Expenditures Based on the UN Methodology in 2004 and 2005

UN Code	Expenditures	Approved budget in CZK million		Difference (in CZK mil.)	Index 05/04
		2004	2005		
1.	OPERATING EXPENDITURES	39 264,3	42 964,3	3 700,0	109,42 %
1.1.	Personnel	26 052,4	28 268,1	2 215,7	108,50 %
1.2.	Operation and maintenance	13 211,9	14 696,2	1 484,3	111,23 %
2.	PROCUREMENT AND CONSTRUCTION	10 759,0	9 339,7	-1 419,3	86,81 %
2.1.	Procurement	7 773,3	6 220,4	-1 552,9	80,02 %
2.2.	Construction	2 985,7	3 119,3	133,6	104,47 %
3.	RESEARCH AND DEVELOPMENT	483,8	489,6	5,8	101,20 %
4.	TOTAL (1 + 2 + 3)	50 507,1	52 793,6	2 286,5	104,53 %
5.	Non-military expenditures ¹⁾	218,8	159,6	-59,2	72,95 %
6.	MoD EXPENDITURES TOTAL (4 + 5)	50 725,9	52 953,2	2 227,3	104,39 %

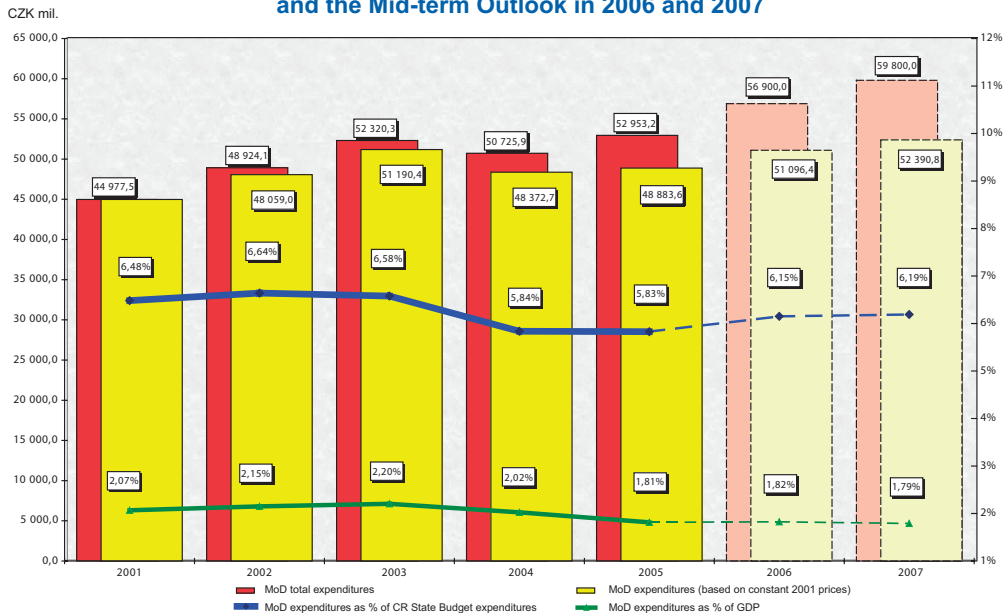
¹⁾ Expenditures not stated in the UN methodology

Breakdown of MoD Expenditures for 2005 Based on the UN Methodology

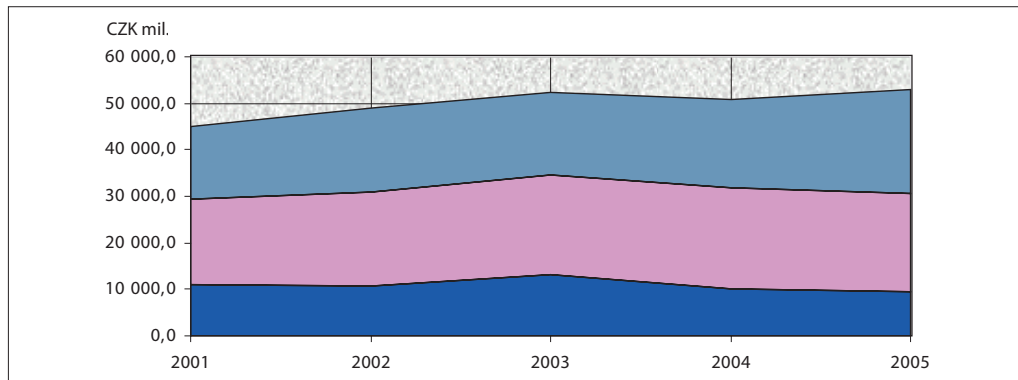
UN Code	Expenditures (in CZK thousand)	Ground Forces	Air Forces	Other Forces	Central Support	Adminis- tration and Command	Not distribu- ted ²⁾	TOTAL
1.	OPERATING EXPENDITURES	11331334	6713792	376528	17196608	1923019	5423050	42964341
1.1.	Personnel	7749469	3529783	350744	9939455	1275580	5423050	28268081
1.2.	Operation and maintenance	3581875	3184009	25784	7257153	647439	0	14696260
2.	PROCUREMENT AND CONSTRUCTION	2857134	4117750	6502	2172331	185954	0	9339671
2.1.	Procurement	2160301	3107098	6502	862535	83952	0	6220388
2.2.	Construction	696833	1010652	0	1309796	102002	0	3119283
3.	RESEARCH AND DEVELOPMENT	0	0	0	0	489579	0	489579
4.	TOTAL (1 + 2 + 3)	14188478	10831542	383030	19386939	2598552	5423050	52793591

²⁾ Retirement pensions and other centrally-paid social benefits

Basic Data on the MoD Budget Development 2001 – 2005 and the Mid-term Outlook in 2006 and 2007

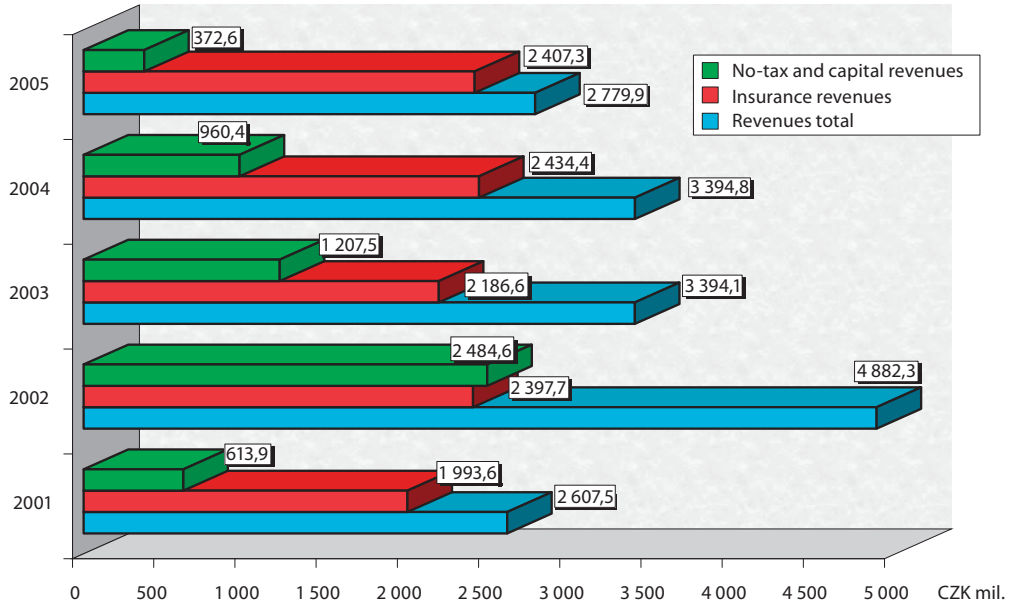


Structure of MoD Budgetary Expenditures in 2001–2005

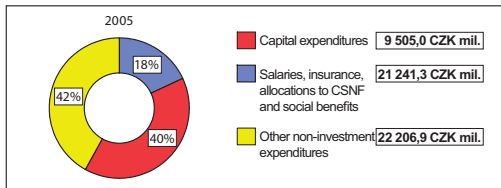
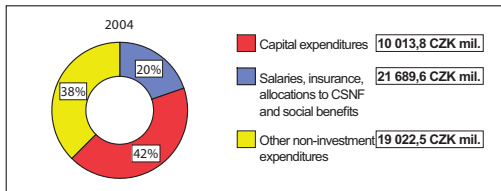
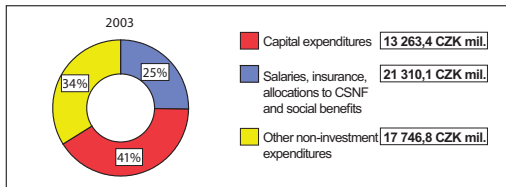
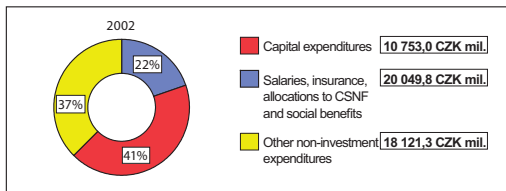


Category of expenditures (in CZK million)	Real terms 2001	Real terms 2002	Approved 2003	Approved 2004	Approved 2005
Capital expenditures	11 114,0	10 753,0	13 263,4	10 013,8	9 505,0
Salaries and contract work payments, insurance, CSNF and social benefits	18 142,2	20 049,8	21 310,1	21 689,6	21 241,3
Other non-investment expenditures	15 721,3	18 121,3	17 746,8	19 022,5	22 206,9

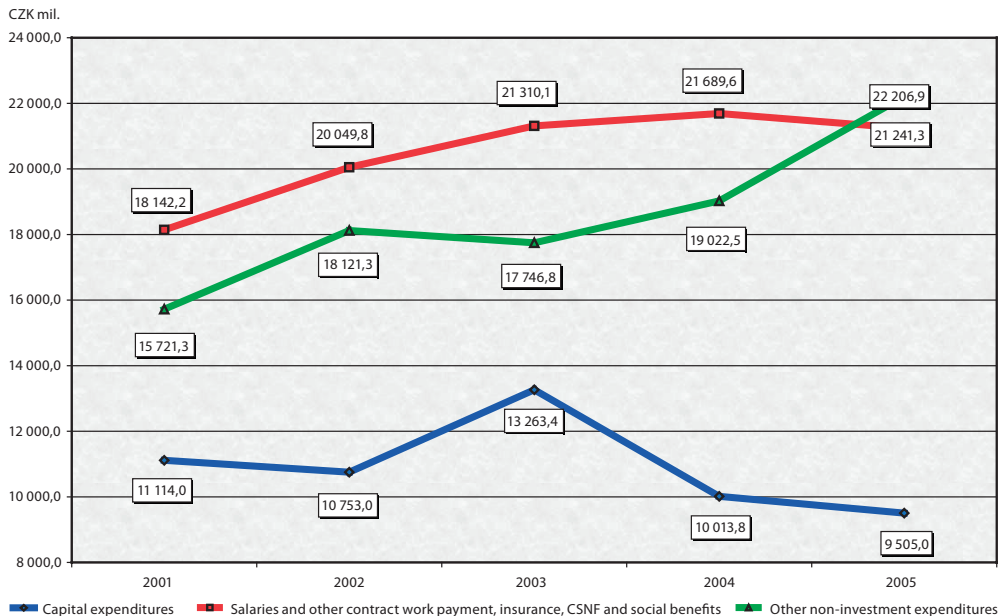
Development of MoD Budgetary Revenues in 2001–2005



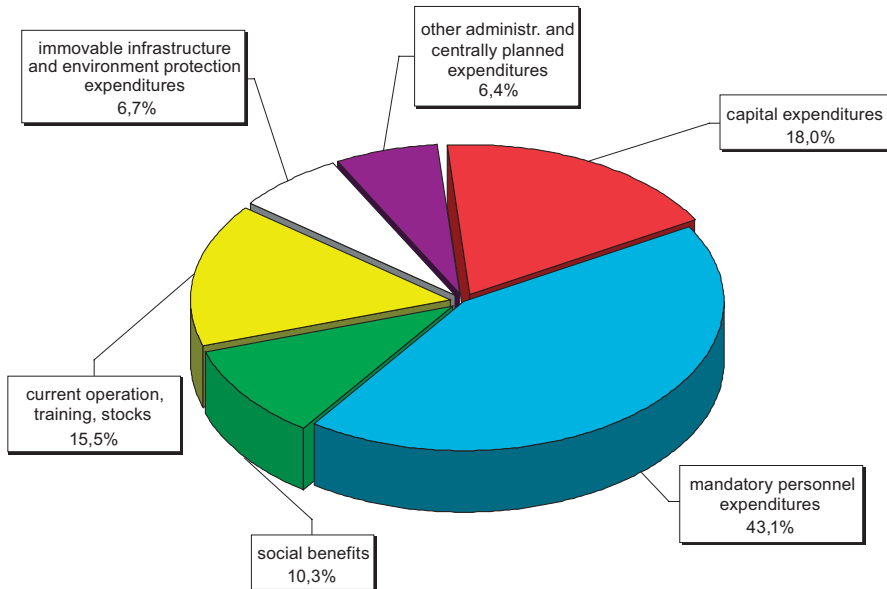
Development of Proportions among Main Categories of MoD Expenditures in 2002–2005



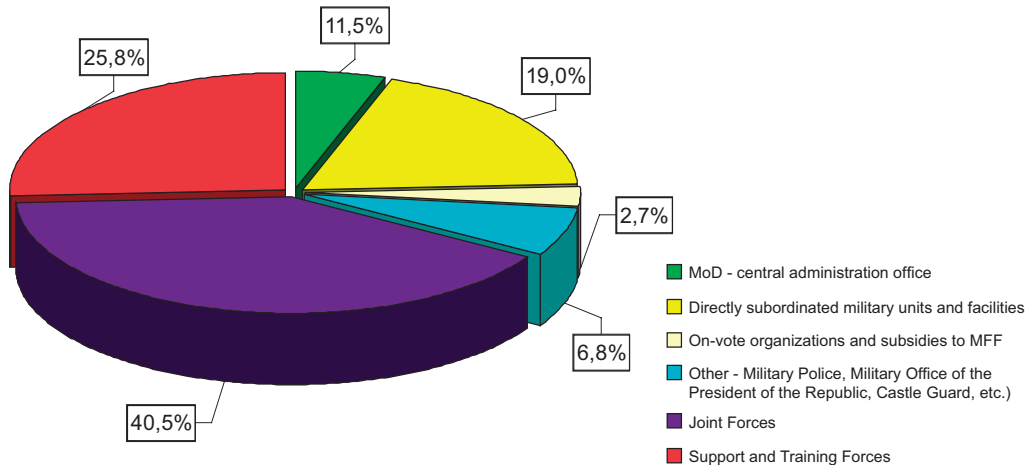
Development of Individual Categories of Expenditures in 2001–2005



MoD Budgetary Expenditures in 2005 by Kind Structure



Draft Budget for 2005 by Top Level Budget Holders





EXPENDITURES OF PROGRAMME FINANCING

The MoD 2005 budget in the area of programme financing follows up the objectives and tasks of *The Concept of the Build-up of Professional Armed Forces and Mobilization of the Armed Forces of the Czech Republic* and was compiled in accordance with the principals, objectives and tasks of the *Mid-term Plan of the MoD Performance and Development for 2005 - 2010*, born in mind by the Government Decree No. 595/2004.

The programme financing expenditures are earmarked in the approved budget in the amount of CZK 15,466,109,000, which is 29,2 % of total MoD expenditures for 2005, thereof capital expenditures amount CZK 9,505,039,000 and operating expenditures CZK 5,636,859,000. These means plus subsidies from NATO funds amounting CZK 703,160,000 will be used to ensure implementation of 539 actions and projects in 40 property reproduction programmes a 6 programmes in area of support to defense research and development (R&D).

To fund 436 projects and actions in 40 property reproduction programmes from MoD budget are allocated means in total amount of CZK 14,976,530,000, thereof capital expenditures amount CZK 9,339,671,000 and operating expenditures amount CZK 5,636,859,000. In 2005, the amount of CZK 6,688,999,000 is earmarked for continuation of 113 projects and actions and CZK 8,287,539,000 is planned for new projects and actions in support of the Reform and target capabilities of the ACR.

The amount of CZK 8,032,667,000, from the above mentioned number of projects and acti-

ons, is allocated to ensure the implementation of 12 prior projects, thereof CZK 7,745,160,000 are the budgetary means and CZK 287,507,000 from NATO funds. Priorities involve armament and modernization projects - e.g. leasing and operation of supersonic aircraft, operation and equipment of L-159 system, infrastructure reconstruction of the air bases Čáslav and Náměš' nad Oslavou, modernization of the T-72 M4 CZ tank, procurement and modernization of helicopters, ecological unusable ammunition disposal, the build-up of biological protection centre Těchonín and the build-up of field hospital, and last but not least, the build-up of special force units. The prior programmes expenditures represent 50,08 % of total programme financing expenditures.

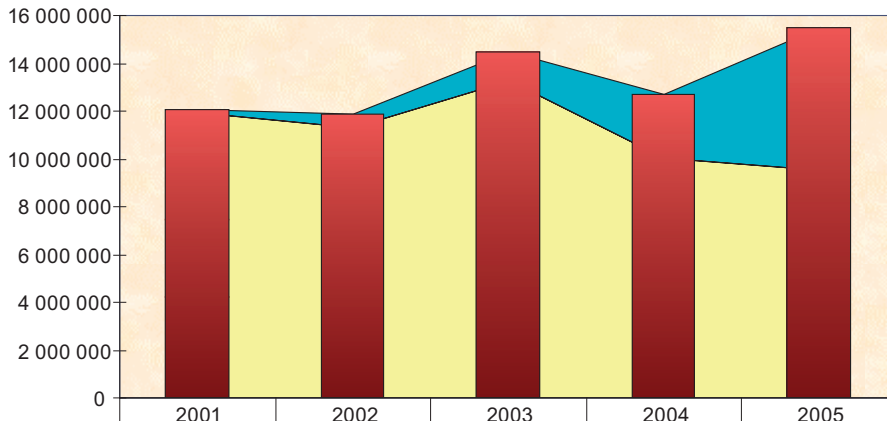
103 projects in 6 programmes in support of defense R&D from the area of purpose and institutional support will be funded by total amount of CZK 489,579,000, i.e. 3,17 % of total programme financing expenditures, thereof capital expenditures amounting CZK 165,368,000 and operating expenditures CZK 324,211,000. The objective is to solve the areas relating to long-term needs of the country defense, maintenance and development of the country defense technology base and technological innovation, further the development focused on modernization of armament systems and military equipment consistent with the NATO strategic conception. Taking into account the objectives of the ACR build-up, change of international situation and newly defined security risks, the projects are focused on protection against mass destruction weapons, on creation of conditions for proper and timely chemical and biological detection and identification, field medical support and protection against terrorism.

In 2005, the amount of CZK 703,160,000 from NATO funds will be intended for NATO Security Investment Programme resulting from mutual commitments of Alliance members.

The employment of resources from Russian debt deblocation amounting CZK 1,9 billion is planned in the area of property reproduction programmes, above the limit of budgetary means.

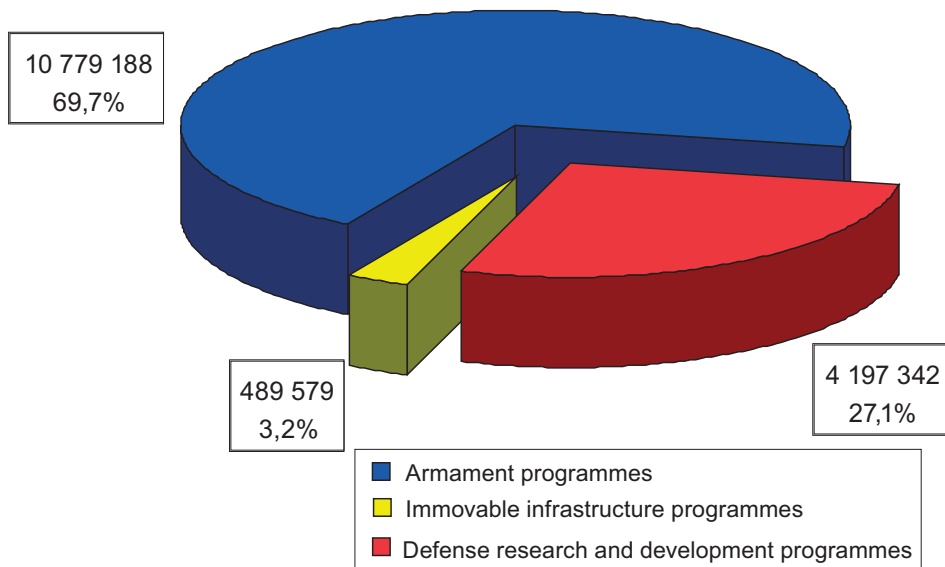
Comparison of Programme Financing Expenditures in 2001-2005

CZK thousand



	2001	2002	2003	2004	2005
■ Operating expenditures	136 720	609 819	1 215 904	2 686 161	5 961 070
■ Capital expenditures	11 918 287	11 289 832	13 263 422	10 013 839	9 505 039
□ Total	12 055 007	11 899 651	14 479 326	12 700 000	15 466 109

Breakdown of Programme Financing Expenditures in 2005 (in CZK thousand)





OPERATING EXPENDITURES

Operating expenditures of MoD Chapter (including related programme financing operating expenditures in the amount of CZK 5,961,070,000) have been approved for 2005 in the total amount of **CZK 43,448,154,000**. The main part of these expenditures consists of operating expenditures of state administration organization units, further there are involved contributions for operation and non-investment subsidies to on-vote organizations and non-investment enterprises subsidies.

Starting point in drafting operating expenditures in the area of personnel expenditures for 2005 has been: the planned organizational structure of the MoD, annual salary increase set by the Ministry of Finance and assigned personnel numbers stemming from the objectives of *The Concept of the Build-Up of the Professional Armed Forces and Mobilization of the Armed Forces of the Czech Republic adjusted to the new resource framework* with modification carried out in accordance with the approved *Mid-term Performance and Development Plan of the MoD for 2005-2010* and parameters negotiated with the Ministry of Finance during compilation of Draft State Budget – MoD Chapter.

In 2005, the area of operating expenditures is influenced by dissolution of conscription to 31 December 2004 and ongoing armed forces professionalisation. The increase of expenditures in this area was affected by leasing of supersonic aircraft and relating expenditures and expenditures occurred following up the new way of service support through outsourcing (especially guarding of military facilities).

The expenditures supporting the ACR Reform and expenditures ensuring the fulfilment the commitments within the North Atlantic Treaty and other international commitments belong to the priorities in 2005.

The increase of operating expenditures in 2005 represents the amount of CZK 2,736,008,000 (by 6,7%) in comparison with the approved budget for 2004.

The area of personnel mandatory expenditures, stemming from claims under the law, was approved in the amount of CZK 28,268,081,000, i.e. 65,06% of the total operating expenditures.

In comparison with 2004, there is an increase by 3,89 %, i.e. CZK 1,058,599,000 in absolute volume. This area includes not only salaries and directly related expenditures (insurance, contribution to CSNF), but also other personnel expenditures, such as foodstuffs, accoutrement, housing allowance and education and re-training related expenditures and the whole area of social security benefits paid by the MoD. Salaries and directly related expenditures, social benefits, as part of personnel mandatory expenditures, represent the amount of CZK 21,241,301,000, i.e. 48,89% of the total operating expenditures.

The number of staff compared to approved budget for 2004 will decrease totally by 400 persons with change its structure in favour of the career soldiers. The number of the civilians will be decreased by 1 202 positions and on the contrary the number of the career soldiers will increase by 802 ones. Need of substitution of conscripts by professionals according to legislative decision on dissolution of conscription and implementation of full professionalisation of ACR following the necessary provisions in framework of the Reform.

Financial means associated with running of immovable infrastructure and environment protection expenditures have been approved in Budget Chapter 307 – MoD for 2005 in necessary scope of CZK 3,566,245,000 and represent 8,21 % of the total operating expenditures.

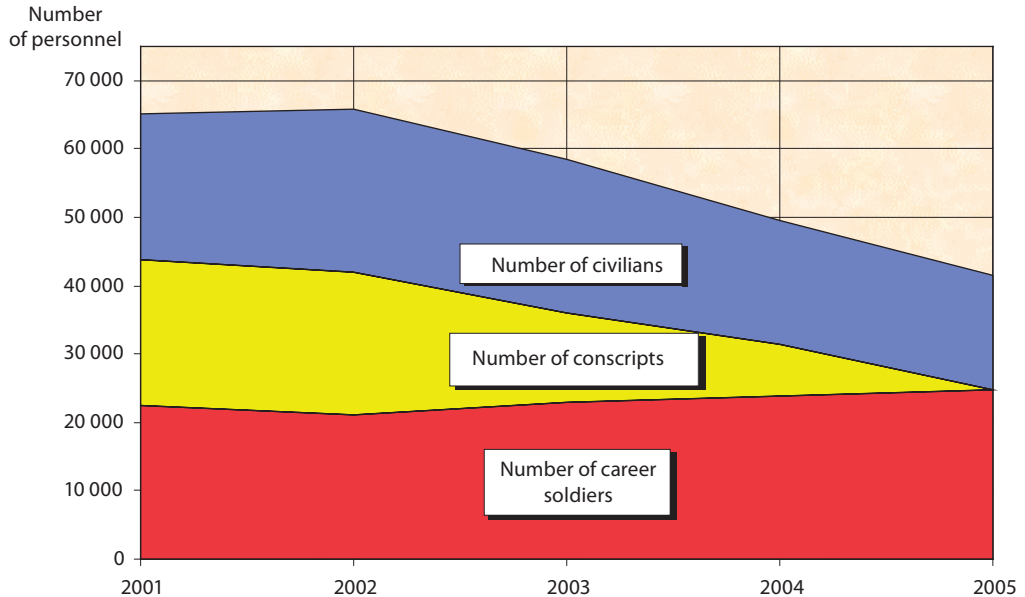
The 2005 expenditures for current operation and training are allocated in amount of CZK 8,206,256,000, which represent 18,89 % of the total operating expenditures (repairs and maintenance of movable property, troops training, procurement of ammunition and services associated with operating of movable property, etc.).

Administration and centrally planned expenditures, including inter alia non-investment contributions to on-vote organizations, non-investment transfers to NATO and other international organizations and further expenditures not specified, are budgeted in the amount of CZK 3,341,392,000.

Structure of Operating Expenditures

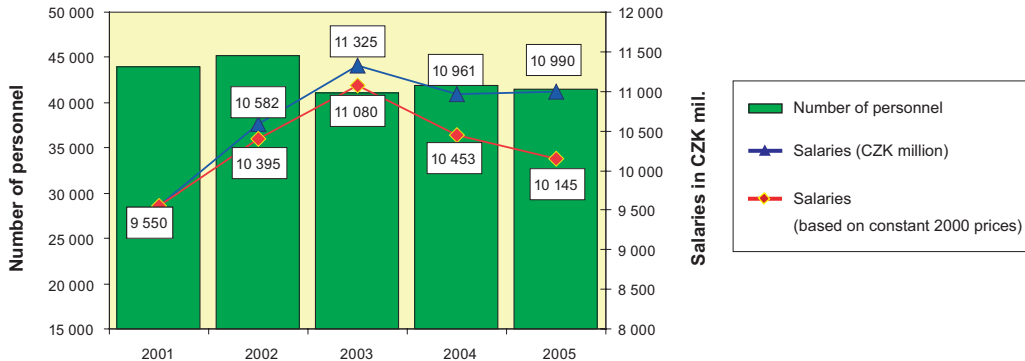
	in CZK thousand			
	2004 (approved budget)	2005 (approved budget)	difference 05-04	index 05/04
Operating expenditures	40 712 146,0	43 448 154,0	2 736 008,0	106,72 %
I. Personnel mandatory expenditures	27 209 482,0	28 268 081,0	1 058 599,0	103,89 %
1. <i>Salaries, insurance, CSNF</i>	16 119 103,0	15 811 101,0	308 002,0	98,09 %
2. <i>Other personnel mandatory expenditures (foodstuffs, accoutrement, housing allowance, travelling expenses, education - related expenses, etc.)</i>	5 519 899,0	7 026 780,0	1 506 881,0	127,30 %
3. <i>Social benefits, severance payment</i>	5 570 480,0	5 430 200,0	-140 280,0	97,48 %
II. Immovable infrastructure expenditures	2 945 240,0	3 253 745,0	308 505,0	110,47 %
III. Environment protection expenditures	265 789,0	312 500,0	46 711,0	117,57 %
IV. Current operation expenditures	6 677 733,0	8 206 256,0	1 528 523,0	122,89 %
V. Other administration and centrally planned expenditures not specified	3 510 942,0	3 341 392,0	-169 550,0	95,17 %
VI. Subsidies to MFF	102 960,0	66 180,0	-36 780,0	64,28 %

Development of Personnel Number in 2001–2005

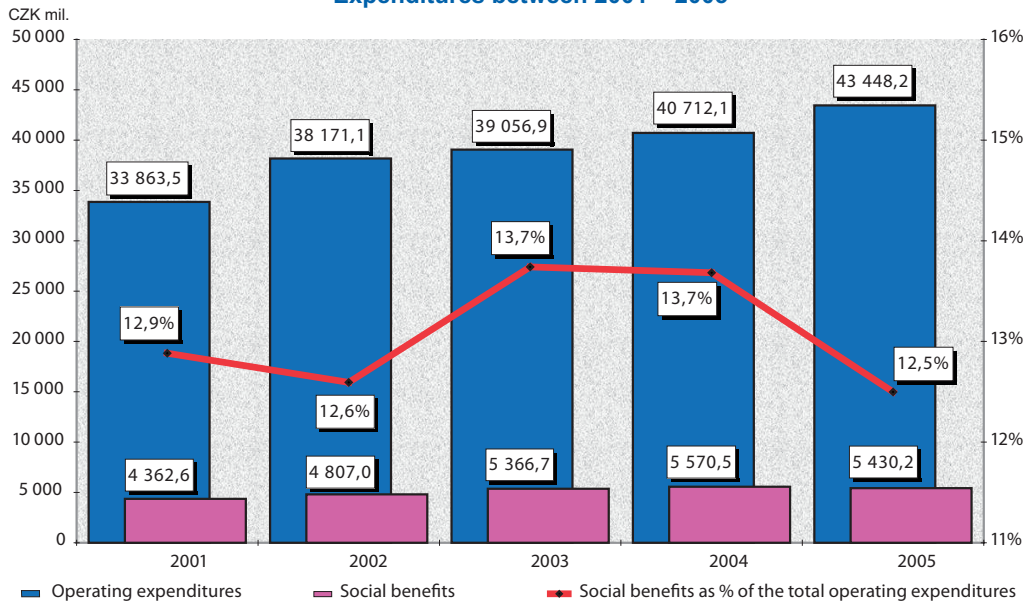


Development of Personnel Number and Salaries in MoD

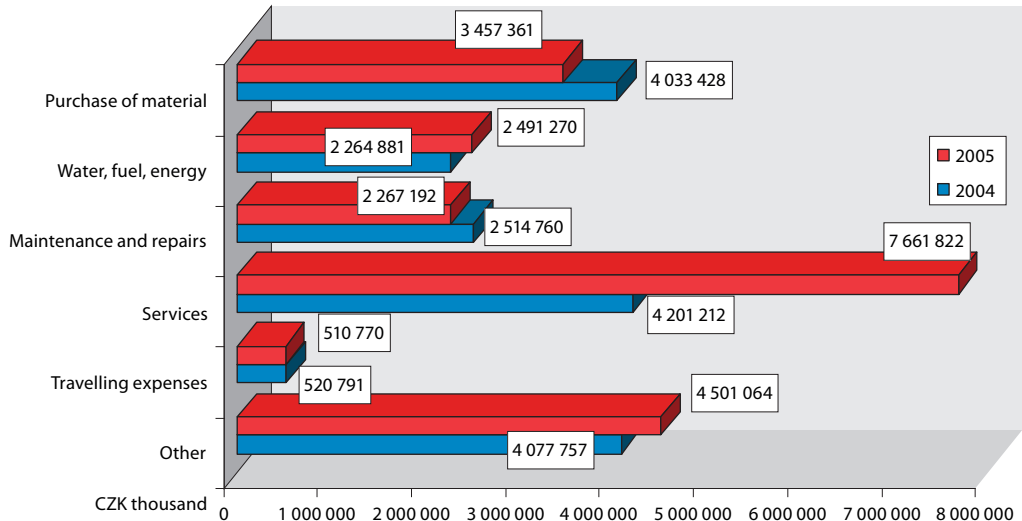
	real terms			approved budget	
	2001	2002	2003	2004	2005
Career soldiers	22 509	21 198	22 991	23 875	24 677
Civilians	21 437	24 025	18 055	18 055	16 853
Total staff	43 946	45 223	41 046	41 930	41 530
Salaries (CZK million)	9 550	10 582	11 325	10 961	10 990
Salaries (based on constant 2000 prices)	9 550	10 395	11 080	10 453	10 145



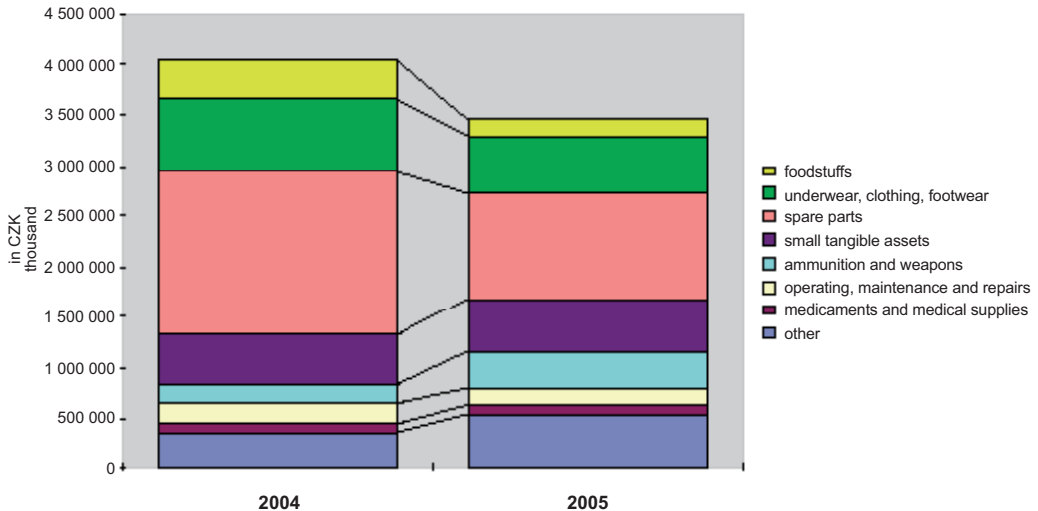
Expenditures for Pensions and Other Social Benefits as % of MoD Total Operating Expenditures between 2001 – 2005



Comparison of Main Categories of Other Non-investment Expenditures in 2004 and 2005



Comparison of Expenditures Planned for Purchase of Material in 2004 and 2005





EXPENDITURES BY ACTIVITIES

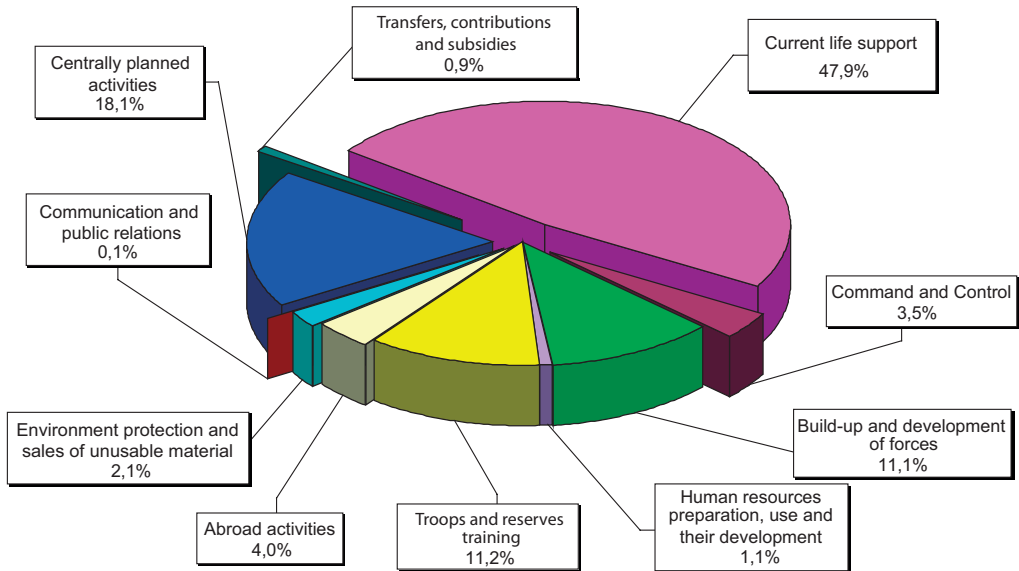
The 2005 approved budget – Chapter 307 – MoD is expressed, as in previous year, in kind and branch classification and activity classification. The activities represent concrete specific performance outputs of individual units and facilities. The activity classification aims at correlation of material and financial planning and at the same time to achieve increased transparency and effectiveness allocation of budgetary means of the State Budget – MoD Chapter. Expenditures are distinguished into current life support expenditures of units and facilities and expenditures above the limit of these needs, i.e. to fulfilment of material tasks arisen from the Performance Plan of the MoD for 2005.

Expenditures for current life support are linked, above all, with personnel mandatory expenditures by particular categories, i.e. salaries and directly related expenditures, foodstuffs, accoutrement and related services, compensations paid to natural persons (mainly housing allowance for career soldiers), travelling expense and immovable infrastructure expenditures.

Draft MoD Budgetary Expenditures by Activities

Areas of Activities	Planned Expenditures in CZK thousand
Command and control	1 871 565
Build-up and development of forces	5 859 922
Human resources preparation, use and their development	557 904
Troops and reserves training	5 943 260
Abroad activities	2 098 337
Environment protection and sales of unusable material	1 125 610
Communication and public relations	68 728
Centrally planned activities	9 561 642
Transfers, contributions and subsidies	483 891
Total expenditures by activities	27 570 859
Current life support	25 382 334
TOTAL	52 953 193

Breakdown of MoD Expenditures by Activities in 2005





USED ABBREVIATIONS

ACR	Armed Forces of the Czech Republic
CSNF	Cultural and Social Needs Fund
GDP	Gross Domestic Product
MoD, MoD CR	Ministry of Defense, Ministry of Defense of the Czech Republic
NATO	North Atlantic Treaty Organization
NSIP	NATO Security Investment Programme
CWP	Contract Work Payments
MFF	Military Forests and Farms, the State Enterprise
CZK	Czech Crown



CONTENTS

INTRODUCTION	1
Comparison of Basic Macroeconomic Indicators.....	4
Basic Data on the State Budget of the Czech Republic – MoD Chapter.....	5
Comparison of Expenditures Based on the UN Metodology in 2004 and 2005.....	6
Breakdown of MoD Expenditures for 2005 Based on the UN Methodology.....	7
Basic Data on MoD Budget Development in 2001-2005 and Mid-term Outlook in 2006 and 2007.....	8
Structure of MoD Budgetary Expenditures in 2001-2005.....	9
Development of MoD Budgetary Revenues in 2001-2005.....	10
Development of Proportions among Main Categories of MoD Expenditures in 2002 - 2005.....	11
Development of Individual Categories of Expenditures in 2001-2005.....	12
MoD Budgetary Expenditures in 2005 by Kind Structure	13
Draft Budget for 2005 by Top Level Budget Holders	14
EXPENDITURES OF PROGRAMME FINANCING	15
Comparison of Programme Financing Expenditures in 2001- 2005.....	17
Breakdown of Programme Financing Expenditures in 2005	18
OPERATING EXPENDITURES	19
Structure of Operating Expenditures.....	21
Development of Personnel Numbers in 2001- 2005.....	22
Development of Personnel Numbers and Salaries in MoD.....	23

Expenditures for Pensions and Other Social Benefits as % of MoD Total Operating Expenditures between 2001 - 2005.....	24
Comparison of Main Categories of Other Non-investment Expenditures in 2004 and 2005	25
Comparison of Expenditures Planned for Purchase of Material in 2004 and 2005.....	26
EXPENDITURES BY ACTIVITIES	27
Draft MoD Budgetary Expenditures by Activities.....	28
Breakdown of MoD Expenditures by Activities in 2005.....	29
Used Abbreviations	30

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Budget – Facts & Trends 2005

Published by the Ministry of Defense of the Czech Republic – Military Information and Service Agency

Rooseveltova 23

161 05 Praha 6-Dejvice

<http://www.army.cz>

Special Purpose Publications Editorial Office

Editor in Chief: Jaroslav Roušar

Editor: Hana Košťálová

Layout: Hana Rozmanitá

Released for print: February 21, 2005

Printed by: polygrafická základna AVIS, číslo zakázky 104/05

1 st edition

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© Ministry of Defense of the Czech Republic
– Military Information and Service Agency, 2005

ISBN 80-7278-229-0

ISBN 80-7278-187-2 (Czech version)