



# INTRODUCTION

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

The essential sources of information for this publication have been the following documents: **“The 2004 Draft State Budget of the Czech Republic – MoD“** (MoD Prague, 2003); and **Act No. 457/2003 Coll., on the Czech Republic Budget for the year 2004.**

Measures taken by the CR to streamline the public finances and to decrease the CR state debt and to reduce expenses from the state budget resulted in significant cutting down of the MoD expenditures. Due to the reform of public budgets, resources framework needed for the reform of

the armed forces will be cut between 2004 and 2008 by CZK 48.468 billion (in 2004 by almost CZK 5.3 billion in comparison with the initial concept). The Concept of the Build-Up of the Professional Armed Forces of the Czech Republic and Mobilization of the Armed Forces of the Czech Republic approved by the Decree of the Government No. 1140 of 13 November 2002 had to be adjusted to the new framework of resources. Within the new adjusted framework of resources of the Concept the measures to be taken for complex reduction of infrastructure and reduction number of personnel and commands have been solved. Further, the issues relating to the principal reduction and change of organizational structure of the MoD and new deployment of the ACR resulting from the requirements of the reform, and ensuring of functioning of the armed forces to achieve higher cost effectiveness and efficiency of spending necessary for ensuring the defense in the future have also been solved. The essential task is to cut mandatory expenses and a long-term stabilization of their proportion in the MoD budget and in this way ensuring the funds for appropriate development and training of the ACR units.

*Under the Act No. 457/2003 Coll., (CR State Budget 2004 Act),* budgetary means in total amount of CZK 50,725,985,000 have been allocated for the Ministry of Defense which is by CZK 1.6 billion less than in the previous year. The MoD expenditures represent 2.02% of Gross Domestic Product planned for 2004 in the amount of CZK 2,506 billion. The MoD total revenues of CZK 3,394,800,000 are approx. the same as in the last year. Their main part, i.e. 71.7% will be the revenues from the social insurance and from the employment policy benefit for the career soldiers. Remaining revenues are the means from the sales of unusable property (approx. 15.7%) and from non-tax revenues (approx. 12.6%).

Budgetary expenditures for 2004 are planned primarily to cover the mandatory claims for the planned primarily numbers of individual categories of personnel. These are the claims under the law and they represent 53.6% of the total expenditures of the MoD budget.

The approved budget will cover funding of priority tasks and essential programme financing projects connected with the reform of the armed forces, and necessary expenses for immovable infrastructure and required expenses to provide for the current life support of military units and other MoD organizations.

In 2004, the Armed Forces of the Czech Republic will continue in their involvement aimed at solving security issues outside the CR. It is assumed that the 2004 MoD budget will fund activities of the ACR units in international missions and operations. For these activities, the MoD budget will allocate CZK 1,010,361,000 (incl. costs for the equipment withdrawal and its recovery).

The 2004 MoD budget is newly structured into the armed forces' activities and activities in responsibility of the central command components.

### Comparison of Basic Macroeconomic Indicators

	<b>2003</b>	<b>2004</b>	<b>Index 2004/2003</b>
Gross domestic product (in CZK billion)	2,374.0	2,506.0	<b>1.06</b>
Expenditures of the CR State Budget (in CZK billion)	795.4	869.1	<b>1.09</b>
Rate of inflation (increment in %)	0.4%	2.6%	<b>6.50</b>
MoD expenditures as % of GDP	2.20%	2.02%	<b>0.92</b>
MoD expenditures as % of CR State Budget expenditures	6.60%	5.80%	<b>0.89</b>

## Basic Data on the State Budget of the Czech Republic – MoD

EXPENDITURES	Approved budget in CZK million		Comparison 2004/2003
	2003	2004	
<b>I. Capital expenditures total</b>	<b>13,263.4</b>	<b>10,013.8</b>	<b>0.75</b>
<b>II. Operating expenditures total</b>	<b>39,056.9</b>	<b>40,712.1</b>	<b>1.04</b>
II.1. Salaries of employees and other payments for contract work	11,873.9	12,016.6	1.01
II.2. Retirement pensions and other social benefits	5,366.7	5,570.5	1.04
II.3. Mandatory employer-paid national insurance and allocation to CSNF	4,069.5	4,102.5	1.01
II.4. Non-investment allocations to on-vote organizations	1,171.0	1,186.1	1.01
II.5. Non-investment subsidies to enterprises	307.9	223.6	0.73
II.6. Other material non-investment expenditures	16,267.9	17,612.8	1.08
<b>III. MoD expenditures total (I.+II.)</b>	<b>52,320.3</b>	<b>50,725.9</b>	<b>0.97</b>
<i>MoD expenditures (based on constant 2003 prices)</i>	<i>52,320.3</i>	<i>49,440.4</i>	<i>0.94</i>
<b>REVENUES</b>			<b>Comparison 2004/2003</b>
IV.1. Budgetary organizations revenues	1,207.5	960.4	0.80
IV.2. Insurance revenues	2,186.6	2,434.4	1.11
<b>IV. MoD revenues total (IV.1.+2.)</b>	<b>3,394.1</b>	<b>3,394.8</b>	<b>1.00</b>
<b>RESULTING BUDGET BALANCE</b>	<b>48,926.2</b>	<b>47,331.1</b>	<b>0.97</b>

## Comparison of Expenditures Based on the UN Methodology in 2003 and 2004

UN Code	Expenditures (in CZK thousand)	Approved budget in CZK mil.		Difference (in CZK mil.)	Index 2004/2003
		2003	2004		
<b>1.</b>	<b>OPERATING EXPENDITURES</b>	<b>38,233.4</b>	<b>39,264.3</b>	<b>1,030.9</b>	<b>102.70%</b>
1.1.	Personnel	23,281.8	26,052.4	2,770.6	111.90%
1.2.	Operation and maintenance	14,951.6	13,211.9	-1,739.7	88.36%
<b>2.</b>	<b>PROCUREMENT AND CONSTRUCTION</b>	<b>13,364.6</b>	<b>10,759.0</b>	<b>-2,605.6</b>	<b>80.50%</b>
2.1.	Procurement	9,950.8	7,773.3	-2,177.6	78.12%
2.2.	Construction	3,413.8	2,985.7	-428.0	87.46%
3.	Research and development	530.6	483.8	-46.8	91.19%
<b>4.</b>	<b>TOTAL (1+2+3)</b>	<b>52,128.6</b>	<b>50,507.1</b>	<b>-1,621.4</b>	<b>96.89%</b>
5.	Non-military expenditures <sup>1)</sup>	191.7	218.8	27.1	114.12%
<b>6.</b>	<b>MoD EXPENDITURES TOTAL (4+5)</b>	<b>52,320.3</b>	<b>50,725.9</b>	<b>-1,594.4</b>	<b>96.95%</b>

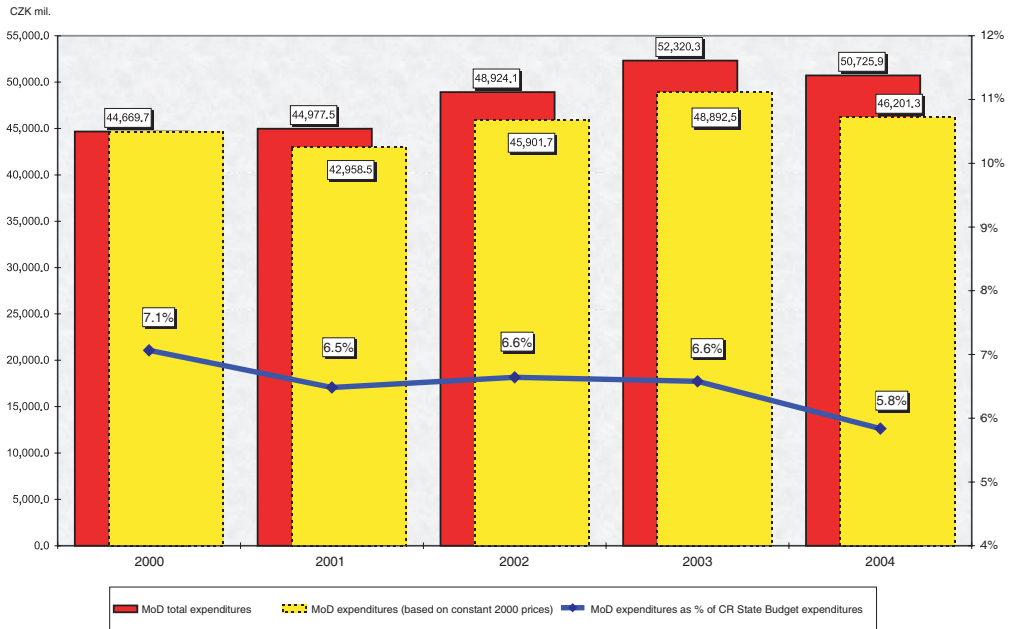
<sup>1)</sup> Expenditures not stated in the UN methodology

## Breakdown of MoD Expenditures for 2004 Based on the UN Methodology

UN Code	Expenditures (in CZK thousand)	Ground Forces	Air Forces	Other combat force	Central support	Administration command	Not distributed <sup>2)</sup>	TOTAL
<b>1.</b>	<b>OPERATING EXPENDITURES</b>	<b>5,715,310</b>	<b>5,686,191</b>	<b>4,546,470</b>	<b>8,242,449</b>	<b>9,549,069</b>	<b>5,525,830</b>	<b>39,264,319</b>
1.1.	Personnel	3,716,823	2,945,315	2,239,864	4,991,706	6,632,845	5,525,830	26,052,383
1.2.	Operation and maintenance	1,998,487	2,739,876	2,306,606	3,250,743	2,916,224	0	13,211,936
<b>2.</b>	<b>PROCUREMENT AND CONSTRUCTION</b>	<b>3,293,970</b>	<b>5,464,023</b>	<b>761,221</b>	<b>511,046</b>	<b>728,746</b>	<b>0</b>	<b>10,759,006</b>
2.1.	Procurement	2,602,096	4,324,416	547,976	206,457	92,316	0	7,773,261
2.2.	Construction	691,874	1,139,607	213,245	304,589	636,430	0	2,985,745
<b>3.</b>	<b>Research and development</b>	<b>77,319</b>	<b>168,523</b>	<b>9,835</b>	<b>295</b>	<b>227,828</b>	<b>0</b>	<b>483,800</b>
<b>4.</b>	<b>TOTAL (1+2+3)</b>	<b>9,086,599</b>	<b>11,317,737</b>	<b>5,317,526</b>	<b>8,753,790</b>	<b>10,505,643</b>	<b>5,525,830</b>	<b>50,507,125</b>

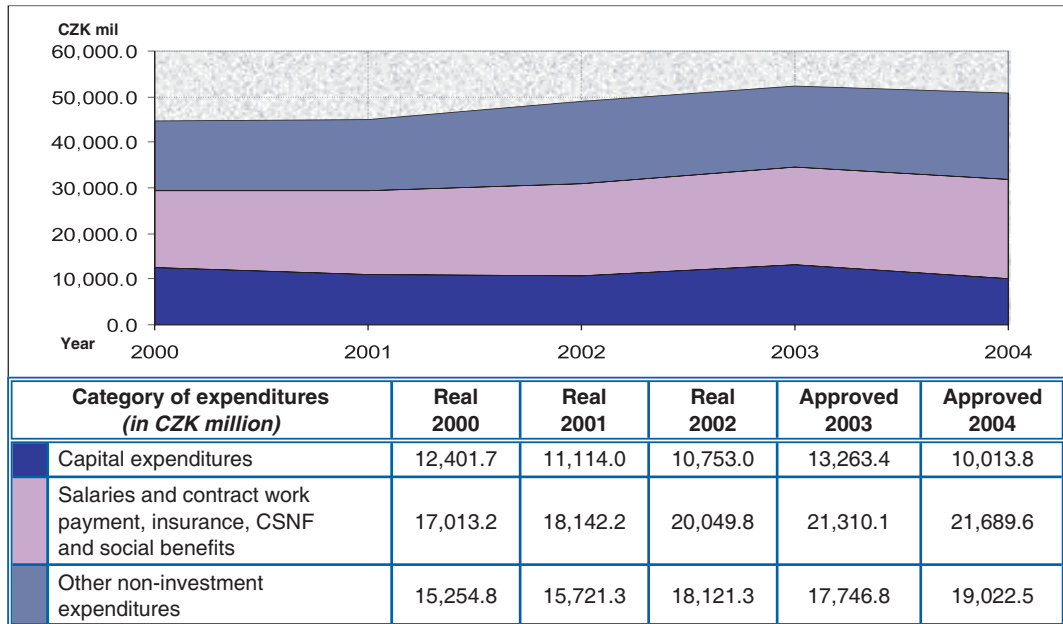
<sup>2)</sup> Retirement pensions and other centrally-paid social benefits

## Basic Data on the MoD Budget Development in 2000 – 2004

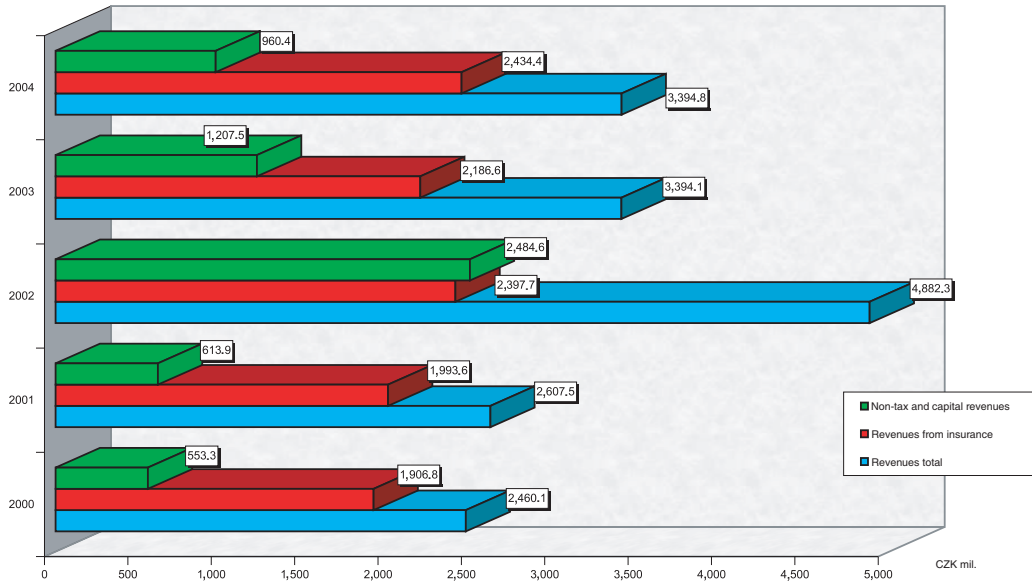




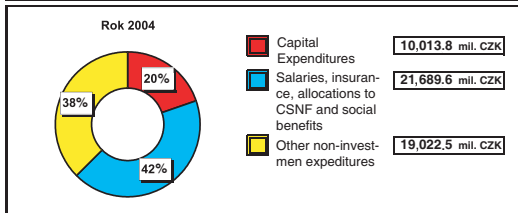
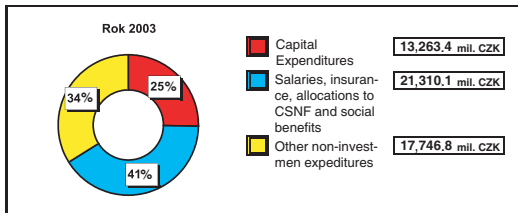
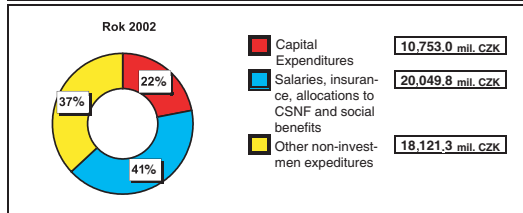
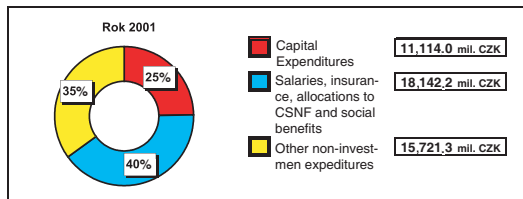
## Structure of MoD Budgetary Expenditures in 2000 – 2004



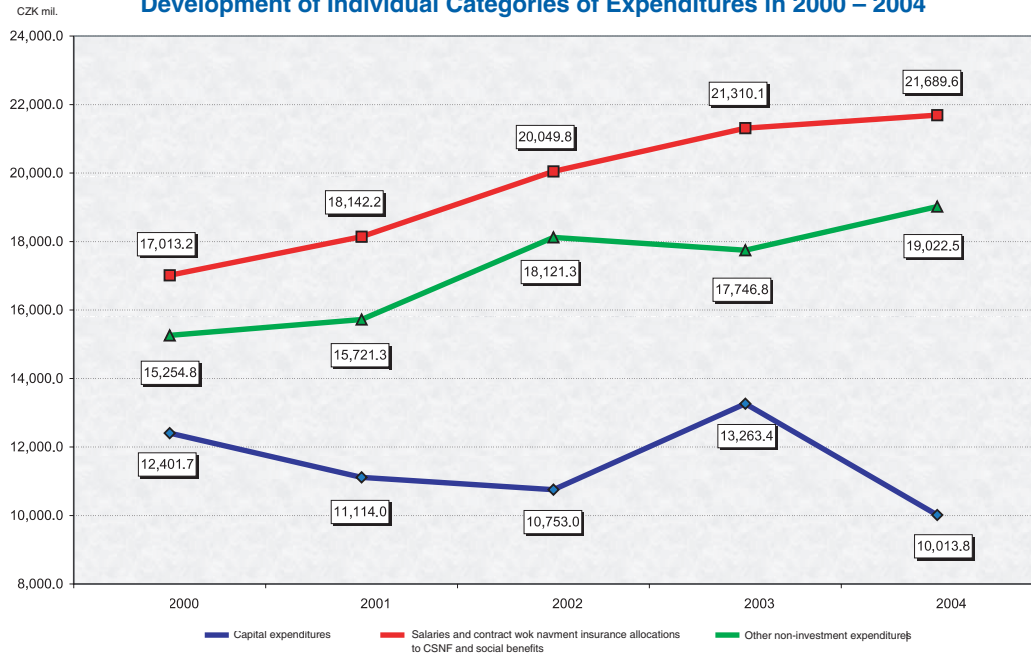
## Development of MoD Budgetary Revenues in 2000 – 2004



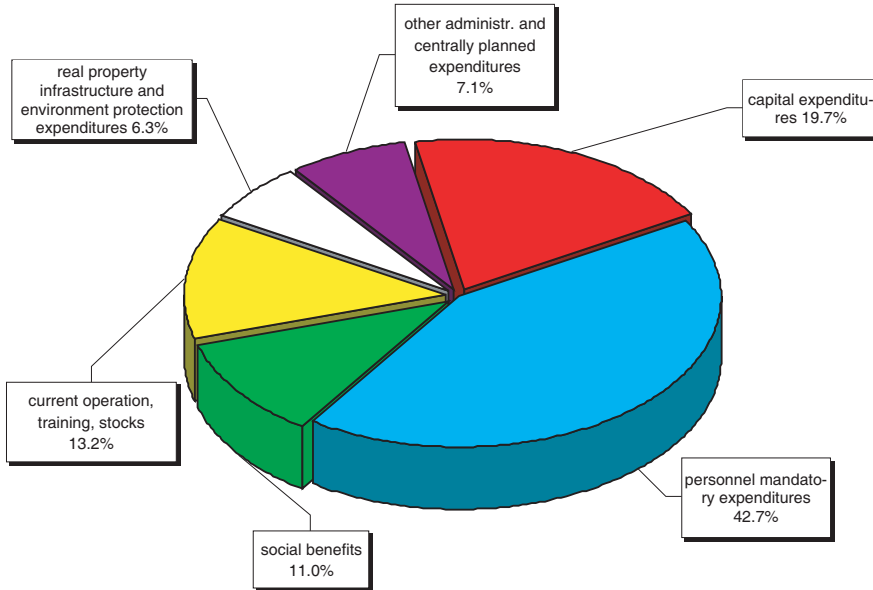
## Development of Proportions among Main Categories of MoD Expenditures in 2001 – 2004



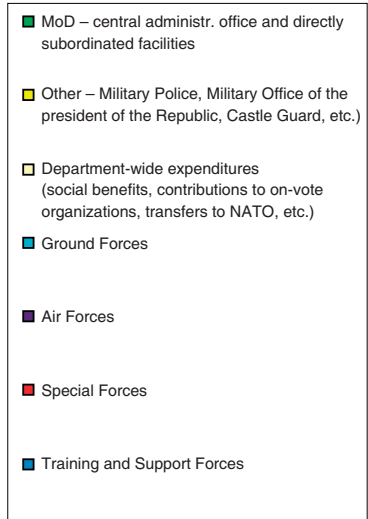
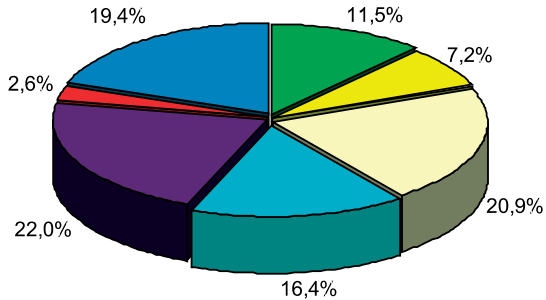
## Development of Individual Categories of Expenditures in 2000 – 2004



## Structure of MoD Budgetary Expenditures in 2004 by Category



## Draft Budget for 2004 by Top Level Budget Holders





## PROGRAMME FINANCING EXPENDITURES

The MoD 2004 budget in the area of programme financing follows up the objectives and tasks of the Concept of the Build-Up of Professional ACR and Mobilization of the Armed Forces of the CR. Based on the changes of resources, it has been necessary to make and carry out a number of essential decisions to re-evaluate number of material and financial needs for the events/projects at which acquisition process has already started and to adjust new requirements resulting from the reform of the armed forces to newly allocated finances. In this connection, 157 events/projects were re-evaluated already in 2003, thereof 103 events/projects were cut by CZK 1,321,613,000 and 54 events/projects which total CZK 631,214,000 were cancelled.

The approved budget consists of financial means allocated for the programme financing expenditures in the amount of CZK 12,700,000,000, i.e. 25.04% of the MoD 2004 budget, thereof capital expenditures in the amount of CZK 10,013,839,000 and operating expenditures CZK 2,686,161,000. These means plus subsidies from NATO funds amounting CZK 743,601,000

will be used to ensure implementation of 334 events and projects in 47 programs and 13 sub-programs.

From 2003, the individual programs are divided *into the area of property reproduction and area of support to defense research and development (R&D)*.

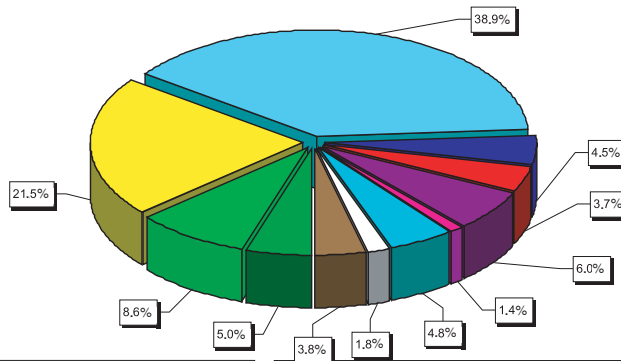
To fund 246 projects and events in 43 programs included in the property reproduction from the MoD budget is planned a total amount of CZK 12,216,111,000, thereof capital expenditures of CZK 9,871,467,000 and operating expenditures CZK 2,344,644,000. CZK 10,528,309,000 will be earmarked for continuation of 142 projects and events. In 2004, the amount of CZK 1,687,802,000 will be allocated to 104 new projects and events in support of reform and target capabilities of the ACR. Also in 2004, a limiting factor of programme financing in the property reproduction remains a continuation of the L-159 project and modernization of the T-72 M4 CZ tank, which represent 52.4% of the total expenditures in programme financing. For the L-159 project is allocated CZK 4,401,820,000, there of for capital expenditures CZK 3,378,034,000 and for operating expenditures CZK 1,023,786,000. The amount CZK 2,253,349,000 will be allocated for modernization of T-72 M4 CZ tank, there of for capital expenditures CZK 1,945,301,000 and operating expenditures CZK 308,048,000. The amount of CZK 2,876,010,000 will be intended for other 8 priority projects. They will include projects of reconstruction of infrastructure of the air bases Čáslav and Náměšť nad Oslavou, the build-up of special forces of ACR, modernization and the build-up of special forces of ACR, reconstruction of the Central Military Hospital in Prague, ammunition ecological disposal, helicopter modernization, and modernization of passive tracking systems and system of air defense troops. For other investment development of the defense department will be allocated CZK 2,684,932,000.



88 projects in 4 programs in support of defense R&D from the area of purpose and institutional support will be funded by total amount of CZK 483,889,000, i.e. 3.81% of total programme financing expenditures, thereof capital expenditures in the amount of CZK 142,372,000 and operating expenditures CZK 341,517,000. Of these means, the amount of CZK 333,889,000 will be allocated to the purpose support of defense research and development and CZK 150,000,000 for the purpose of institutional support. The objective is to solve the areas relating to long-term needs of the country security and defense, maintenance and development of technology base of the defense of the country and technological innovation, development focused on modernization of armament systems and military equipment consistent with the NATO strategic conception. Taking into account the objectives of the build-up of the ACR, change of international situation and newly defined security risks, the projects solve in the area of protection of individuals, units and civilian population against use or misuse of chemical, biological and other means, their identification and disposal. In the area of development, the projects are focused on passive tracking systems and development of military medical service.

In 2004, the amount of CZK 743,601,000 from NATO funds will be intended for NATO Security Investment Program, they results from our commitments towards NATO.

## Proportion of Individual Programme Areas in the MoD Total Expenditures for Programme Financing in 2004



	<i>in CZK thousand</i>
Command and Control development	631,124
Military Intelligence and topography development	1,094,850
Ground Forces development	2,936,552
Air Forces development	4,936,552
International cooperation development	566,907

	<i>in CZK thousand</i>
Development of military medical services	468,488
Logistics development and environment protection	766,500
Human resources development and support of central administrative functions	174,700
Information systems	609,600
Priority reform-related projects in the area of infrastructure	230,971
Science and defence research development	483,889



## OPERATING EXPENDITURES

For the MoD **operating expenditures** (including related operating expenditures of programme financing in the amount of CZK 2,686,146,000), **total amount of CZK 40,712,146,000** has been planned in 2004. The essential part of these expenditures consists of state administration organization units' operating expenditures, allocations for the operation of allowance organizations and non-investment subsidies to them and non-investment subsidies to business subjects.

The basis in drafting the operating expenditures budget for 2004 has been – in the area of personnel expenditures: the planned organizational structure of the MoD, annual salary increase established by the Ministry of Finances and number of personnel based on the goals of the Concept of the Build-Up of the Professional Armed Forces of the CR and Mobilization of the Armed Forces depending on adjusted resources. In the area of operating expenditures, the expenditures will be allocated for large-scale re-dislocation of units and facilities of the ACR.

The priority in 2004 will be given to expenditures in support of the reform of the Czech Armed Forces and outlays to meet commitments towards NATO.

In comparison with the approved budget for 2003, in 2004 the operating expenditures will rise by CZK 1,655,258,000, which is an increase by 4.2%. Increased will be especially personnel mandatory expenditures and operating expenditures for every day operation.

The amount of CZK 27,209,482,000 will be allocated for the personnel mandatory expenditures, which is 66.8% of the total operating expenditures. In comparison with 2003, they increased by 5.2%, which is in absolute figures by CZK 1,358,139,000. This area includes not only salaries and directly related expenditures (insurance, contributions into the CSNF fund), but also other personal expenditures such as foodstuffs, accoutrement, dwelling allowance and education and re-training related expenditures, and the whole area of social security benefits paid by the MoD. In the initial phase, a radical reduction of the personnel will bring a transitory growth of mandatory expenditures. To attain a saving of cost, the MoD organizational structure will be changed, especially the civilian employee numbers will be reduced and in the category of career soldiers, due to professionalization, mainly the senior officer ranks will be affected.

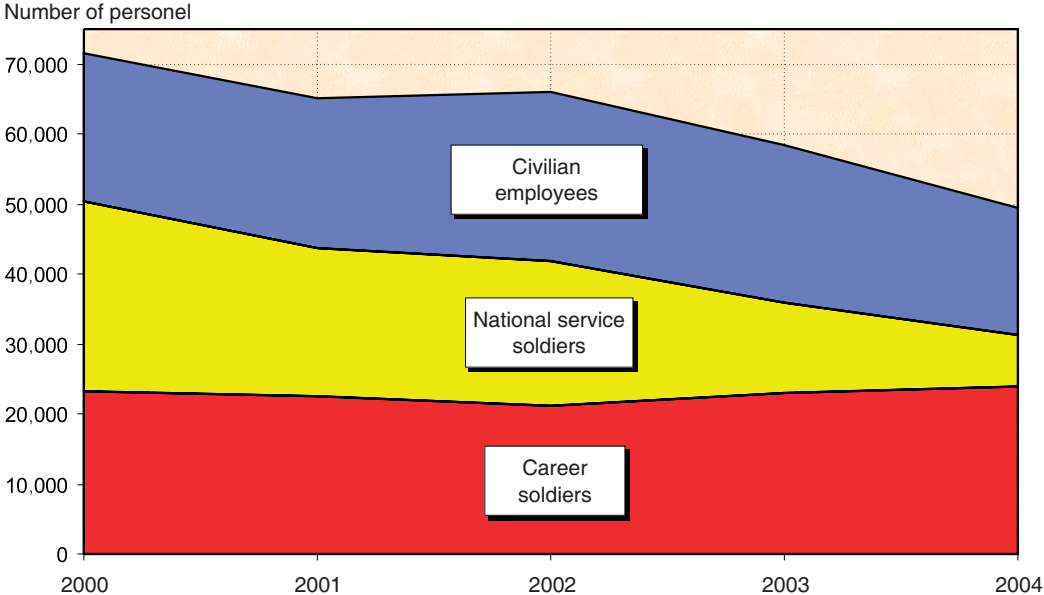
The amount of CZK 2,945,240,000, which is 7.2% of the total operating expenditures, will be allocated to the area of immovable infrastructure. In comparison with 2003, necessary optimization of garrisons resulted in decrease of expenditures by CZK 442,753,000.

Expenditures necessary for every day operation approved in the amount of CZK 6,677,733,000 represent 16.45% of total operating expenditures. For other administrative and centrally planned expenditures that include, inter alia, allocation for operation of the MoD allowance organizations, non-investment transfers to NATO and to international organizations will be allocated CZK 3,510,942,000.

## Structure of Operating Expenditures

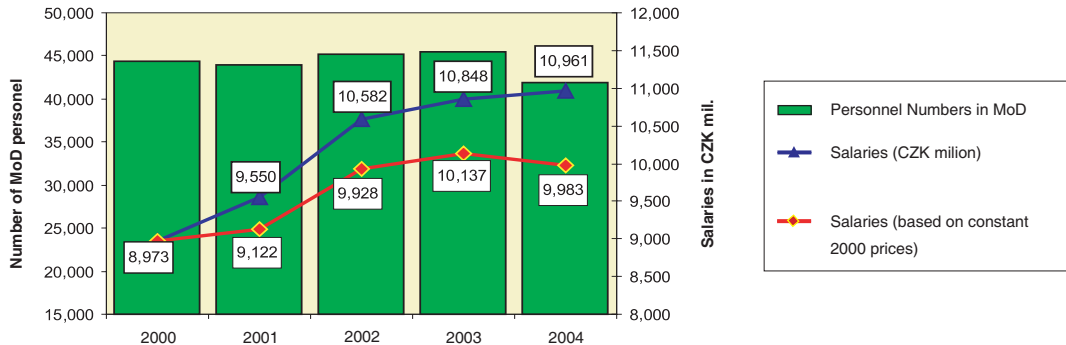
	In CZK thousand			Index 2004/2003
	Approved budget		Difference 2004/2003	
	2003	2004		
<b>Operating expenditures</b>	<b>39,056,888.0</b>	<b>40,712,146.0</b>	<b>1,655,258.0</b>	<b>104.24 %</b>
I. Mandatory personnel expenditures	25,851,342.8	27,209,482.0	1,358,139.2	105.25 %
1. Salaries, insurance, CSNF	15,943,408.9	16,119,103.0	175,694.1	101.10%
2. Other mandatory personnel expenditures (foodstuffs, accoutrement, dwelling allowance, travel expenses, education-related expenses, etc.)	4,541,270.3	5,519,899.0	978,628.7	121.55%
3. Social benefits, severance payment	5,366,663.6	5,570,480.0	203,816.4	103.80%
II. Real property infrastructure expenditures	3,387,993.6	2,945,240.0	-442,753.6	86.93%
III. Environment protection expenditures	185,452.4	265,789.0	80,336.6	143.32%
IV. Current operation expenditures	5,665,200.1	6,677,733.0	1,012,532.9	117.87%
V. Other administr. and centrally planned expenditures, other expenditures	3,863,939.1	3,510,942.0	-352,997.1	90.86%
VI. Military Forests and other state enterprises	102,960.0	102,960.0	0.0	100.00%

### Development of Personnel Numbers in 2000 – 2004

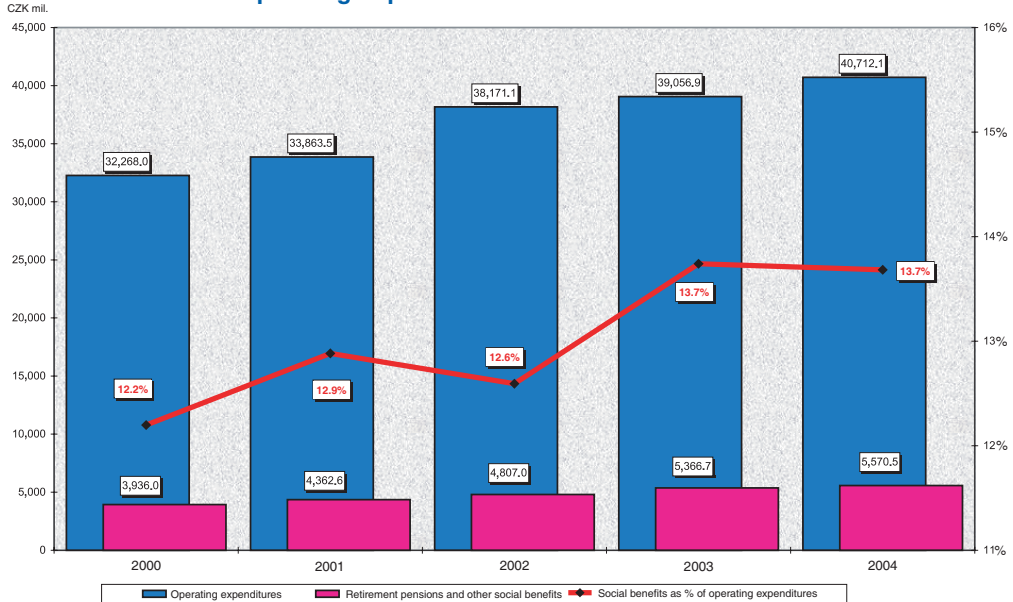


## Development of Personnel Numbers and Salaries in MoD

	Real terms			Approved budget	
	2000	2001	2002	2003	2004
Career soldiers	23,153	22,509	21,198	22,926	23,875
Civilian employees	21,199	21,437	24,025	22,515	18,055
<b>Total Staff</b>	<b>44,352</b>	<b>43,946</b>	<b>45,223</b>	<b>45,441</b>	<b>41,930</b>
<b>Salaries (CZK million)</b>	<b>8,973</b>	<b>9,550</b>	<b>10,582</b>	<b>10,848</b>	<b>10,961</b>
Salaries (based on constant 2000 prices)	8,973	9,122	9,928	10,137	9,983

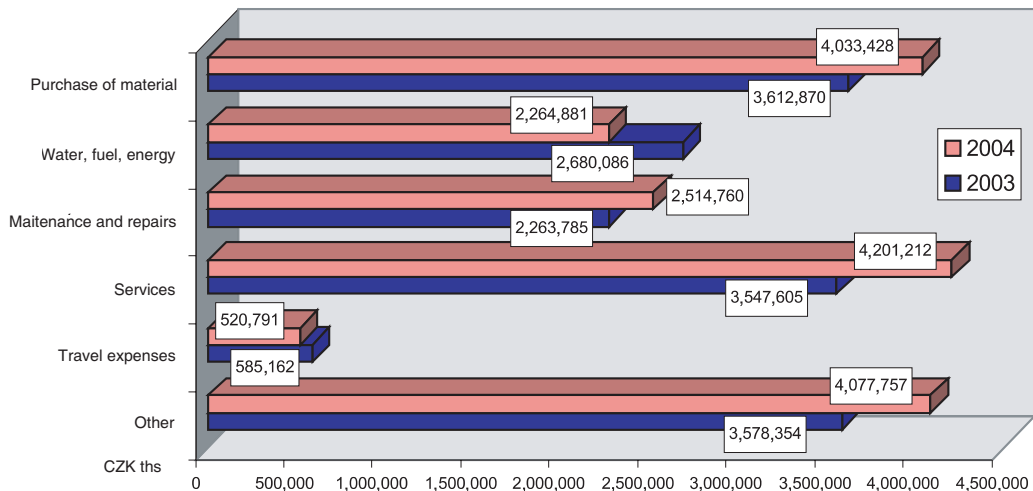


## Expenditures for Pensions and Other Social Benefits as % of MoD Total Operating Expenditures between 2000 and 2004

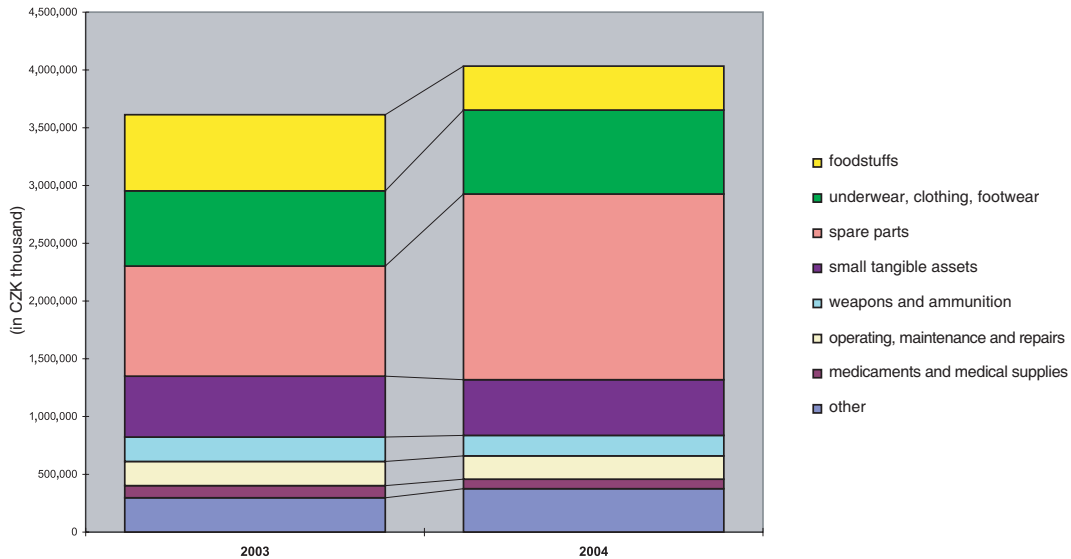




## Comparison of Main Categories of Other Non-investment Expenditures in 2003 and 2004



## Comparison of Expenditures Planned for Purchase of Material in 2003 and 2004





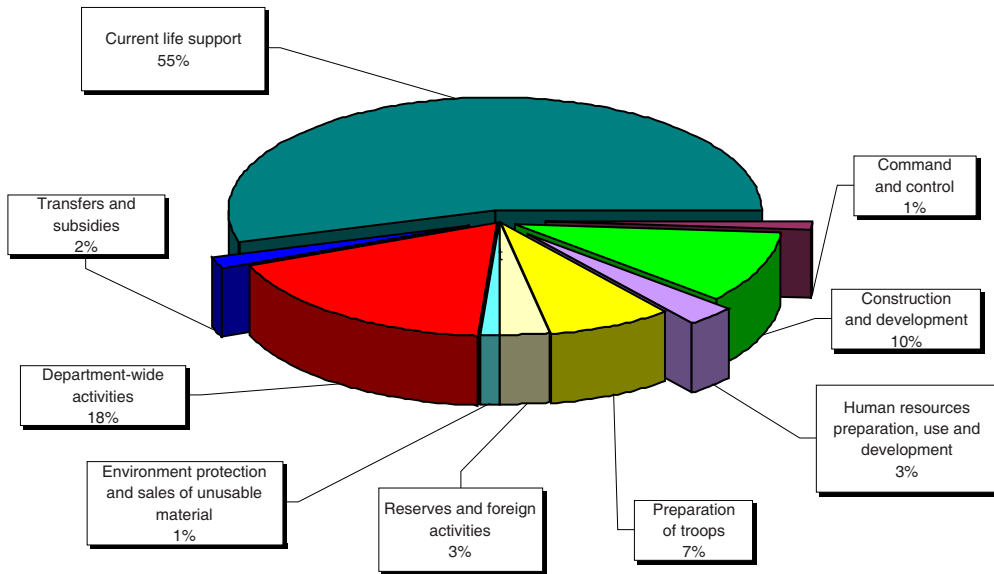
## EXPENDITURES BY ACTIVITIES

To interconnect material and financial planning and simultaneously, in a substantial manner, to contribute to an improvement of transparency and effective use of the MoD budgetary means for the aims for which they were intended, in addition to budgetary items and line classification, the MoD 2004 expenditures have also been divided based on activities. Thus, the expenditures are divided into the expenditures to ensure the basic needs of military units and entities and into the expenditures beyond these needs, i.e. these expenditures are to ensure the specific material tasks resulting from the MoD Plan of Activities for 2004.

### Draft MoD Budgetary Expenditures by Activities

Areas of Activities	Planned Expenditures in CZK thousand
Command and control	599,196
Construction and development	5,126,688
Human resources preparation, use and their development	1,638,985
Troops training	3,710,660
Reserves training and international activities	1,675,562
Environment protection and sales of unusable material	485,808
Department-wide activities – in responsibility of central control elements	9,020,139
Transfers and subsidies	809,735
<b>Total expenditures by activities</b>	<b>23,066,773</b>
Current life support	27,659,212
<b>TOTAL</b>	<b>50,725,985</b>

## Breakdown of MoD Expenditures by Activities in 2004





## USED ABBREVIATIONS

<b>ACR</b>	Armed Forces of the Czech Republic
<b>CSNF</b>	Cultural and Social Needs Fund
<b>CWP</b>	Contract Work Payments
<b>CZK</b>	Czech crowns
<b>DCI</b>	Defense Capability Initiative
<b>DSUF</b>	Directly Subordinate Units and Facilities
<b>FG</b>	Force Goals
<b>GDP</b>	Gross Domestic Product
<b>GS ACR</b>	General Staff of the Armed Forces of the Czech Republic
<b>ISAF</b>	International Security Assistance Force
<b>KFOR</b>	JOINT GUARDIAN Operation in Kosovo
<b>MEYPT</b>	Ministry of Education, Youth and Sports
<b>MFF</b>	Military Forests and Farms, the State Enterprise, Prague
<b>MoD, MoD CR</b>	Ministry of Defense, Ministry of Defense of the Czech Republic
<b>NATO</b>	North Atlantic Treaty Organization
<b>NSIP</b>	NATO Security Investment Programme
<b>SFOR</b>	STABILIZATION FORCE in Bosnia and Hercegovina



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