



INTRODUCTION

This publication, issued by the Ministry of Defence of the Czech Republic (CR MoD) for the sixth time, is intended, in pursuance of the *Act No. 106/1999 Coll., on Freedom of Information*, to present to the general public as well as partner nations basic data on MoD Budget, its trends, structure, major expenditure categories and their internal proportions.

The essential information in support of this publication was drawn from the following documents: ***The 2003 Draft National Budget of the Czech Republic – MoD Vote*** (MoD, Prague 2002); and the ***Act No. 579/2002 Coll., on CR State Budget for 2003***.

The MoD Vote 2003 stems from the *CR Government Resolution No. 560/D of 9 June 1999, on the Concept of Development of Defence Department*, which stipulates that the total of MoD expenditure will not decline under 2.2% GDP in each consecutive year till 2004.

Under the *Act No. 579/2002 Coll., on CR State Budget 2003*, the Ministry of Defence was allocated with budgetary resources amounting to CZK 52,320,280 thousand, which exceeds the last year's Vote by CZK 4.8 billion.

Total receipts of Ministry of Defence Vote is set down to amount to CZK 3,394,142 thousand, while majority thereof includes social security premium and the employment policy benefit for career soldiers. Furthermore, the revenues head also encapsulates receipts from sales of surplus property.

When developing the MoD Vote structure, it was considered that 2003 is the first year of transformation of the Armed Forces of the Czech Republic, the aim of which is to set up a defence force of new quality, which lies in professional basis and fulfils its missions in a more effective and economic manner.

Contrarily to previous years, the 2003 will see all international operations, in which ACR members partake, funded for the first time from the Ministry of Defence's Vote and just partially from bond funds allocated in the Operation of State Financial Assets Vote in accordance with the *Act No. 283/2002 Coll., on Governmental Bonds Program to fund expenditure relating to deployment of the 6th Field Hospital to Afghanistan*. This year, SFOR and KFOR operations in the Balkans will continue, as well as the counter-terrorist Operation Enduring Freedom and UN peace mission in Afghanistan – the operation of International Security Assistance Force (ISAF).

The authorised expenditure makes it possible for the MoD to support tasks in relation to transitioning to full-volunteer forces, involving planned units realignment that seeks to centralise bases and installations in selected localities. As well, the appropriation will enable the Reform of Armed Forces, which provides for changing the structure of personnel categories and especially recruitment of future career soldiers.

Financial provisions are secured for priority areas stemming from ACR specialisation in NATO, which include development in the field of identification, detection and consequence management fol-

lowing use of chemical and biological weapons, as well as for NATO Integrated Extended Air Defence System (NATINEADS) in Europe, development and modernisation of Passive Surveillance Systems. Furthermore, in the area of medical support, the Field Hospital will be provided, Deployable Bio Event Response Team and a Stationary Bio Hospital.

Primarily, the 2003 budgetary resources are planned to meet mandatory requirements in relation to planned numbers of individual personnel categories. The expenditure is based on legal claims and constitutes 49.4% of the total MoD Vote spending.

Program financing consumes nearly 27.7% of the total MoD budget expenditure in 2003. Pursuant to *Act No. 130/2002 Coll., on Research and Development support from public funds and amendment of some relevant Acts*, a substantial change of specific programs will occur in 2003, i.e. there will be a subhead introduced called *assets reproduction* and another one titled *support of defence research and development*.

In 2003, there are two limiting factors with respect to fulfilment of individual assets reproduction programs: continuation of L-159 project, for which almost CZK 7 billion was allocated and the ongoing pilot project of T-72 M-4 CZ MBT modernisation accounting for an amount in excess of CZK 1.6 bn. Additional 9 major pilot projects were allocated CZK 2.6 billion. The remainder of tasks in the assets reproduction program area is to consume CZK 2.7 billion.

Spending connected with support of immovable infrastructure represents 6.5 %. Following planned realignment and concentration of units of same type into priority garrisons, it is expected that a step reduction of defence estate will be effected, seeking to attain operational savings while transitioning to full-professional force standards.

As a priority, current operation and training expenditure that totals 10.8% of the overall MoD spending will be used for meeting the expenditure connected with the missions of selected rapid reaction force units and determined specific purpose expenditures, especially Force Goals of the Armed Forces of the Czech Republic.

Comparison of Basic Indicators

	2002	2003	2003/2002 <i>y-to-y index</i>
Gross Domestic Product (<i>CZK billion</i>)	2,296.0	2,409.0	1.05
CR State Budget Expenditure (<i>CZK billion</i>)	736.6	795.4	1.08
Inflation rate (<i>per cent</i>)	2.0%	2.0%	1.00
MoD Expenditure as per cent of GDP	2.07%	2.17%	1.05
MoD Expenditure as per cent of CR State Budget	6.40%	6.60%	1.03

Basic Data on the State Budget of the Czech Republic – Ministry of Defence Vote

EXPENDITURE	Approved Budget		2003/2002 (y-to-y index)
	2002 (CZK million)	2003 (CZK million)	
I. Total Capital Expenditure	11,289.8	13,263.4	1.17
II. Total Operating Expenditure	36,215.7	39,056.9	1.08
1. Salaries and other payments for contracted work	10,805.5	11,873.9	1.10
2. Retirement pensions and other social benefits	4,580.6	5,366.7	1.17
3. Mandatory employer-paid national insurance and allocation for CSNF	3,785.7	4,069.5	1.07
4. Allocations to on-vote organisations	2,668.3	1,171.0	0.44
5. Non-investment subsidies to enterprises	109.0	307.9	2.82
6. Other material non-investment expenditures	14,266.6	16,267.9	1.14
Total Expenditure I. + II.	47,505.5	52,320.3	1.10
<i>Expenses based on constant 2002 prices</i>	<i>47,505.5</i>	<i>51,294.4</i>	<i>1.08</i>
RECEIPTS			
1. Receipts from budgetary organisation	2,484.6	1,207.5	0.49
2. Insurance revenues	2,397.7	2,186.6	0.91
Total Receipts 1 + 2	4,882.3	3,394.1	0.70
RESULTING BUDGET BALANCE	42,623.2	48,926.2	1.15

Breakdown of MoD Vote 2003 Expenditure according to UN Methodology

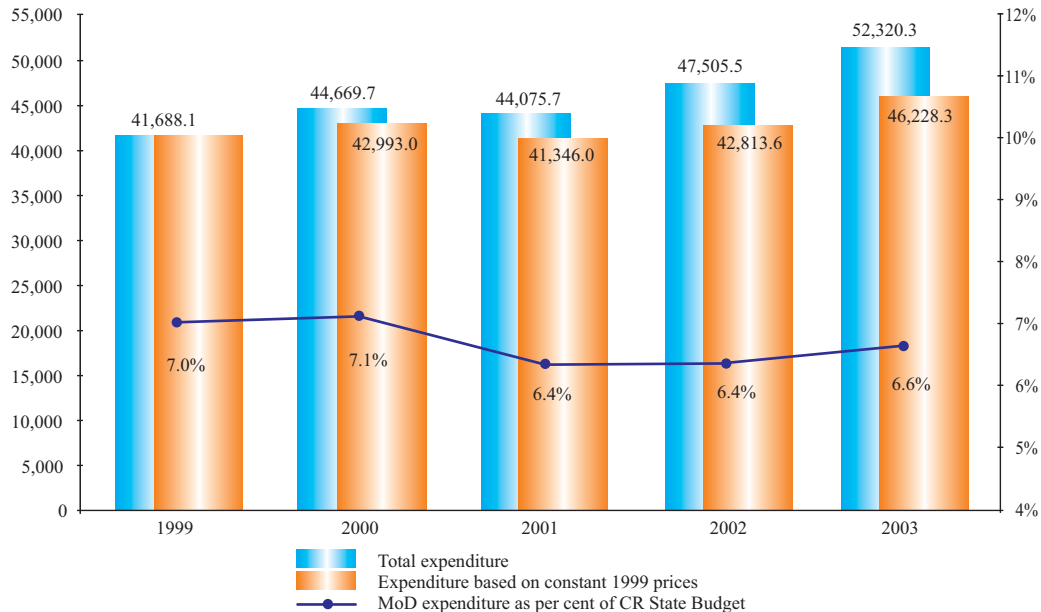
UN Code	Expenditure (CZK thousand)	Land Forces	Air Force	Administration and Command	Central Support	Other Forces	Non-allotted ²	TOTAL
1.	Operating Expenditure (Expenses)	6,019,665	5,593,822	9,934,678	5,087,850	6,261,611	5,335,804	38,233,429
1.1.	Personnel	3,182,384	2,723,542	5,192,268	2,906,897	3,940,903	5,335,804	23,281,798
1.2.	Operation and Maintenance	2,837,281	2,870,280	4,742,410	2,180,953	2,320,708	0	14,951,631
2.	Procurement and Construction	1,620,735	8,737,397	1,506,412	373,514	1,126,528	0	13,364,586
2.1.	Procurement	1,455,136	7,599,301	215,295	76,308	604,773	0	9,950,813
2.2.	Construction	165,599	1,138,096	1,291,117	297,206	521,755	0	3,413,773
3.	Research & Development	0	0	516,195	80	14,280	0	530,555
4.	Total (1+2+3)	7,640,399	14,331,219	11,957,285	5,461,444	7,402,420	5,335,804	52,128,570
5.	Non-military Expenses ¹	6,440	0	178,830	6,440	0	0	191,710
6.	Total MoD Expenditure (4+5)	7,646,839	14,331,219	12,136,115	5,467,884	7,402,420	5,335,804	52,320,280

¹ Expenditure that is not included in UN methodology

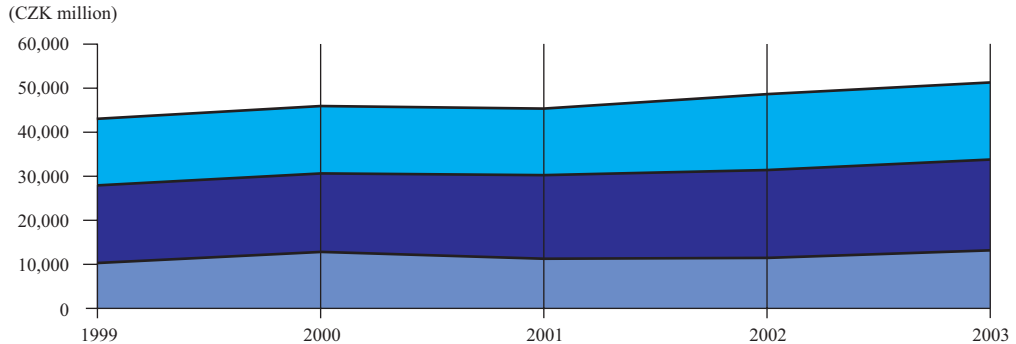
² Pensions and other social benefits paid on central level

Basic Data on Ministry of Defence's Vote in 1999–2003

(Expenditure in CZK million)

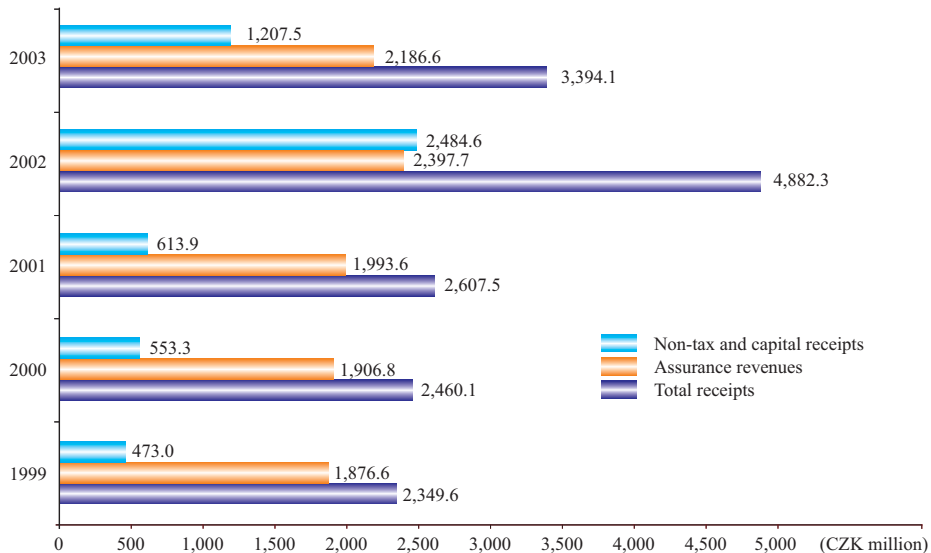


Structure of MoD Spending in 1999–2003

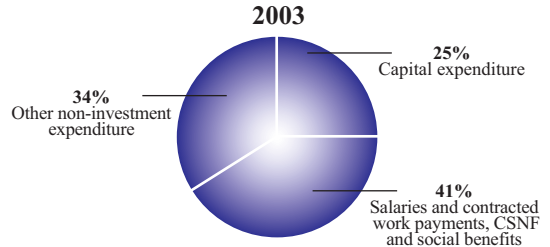
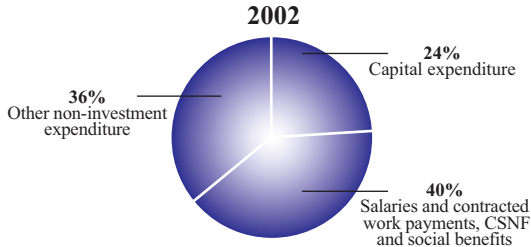
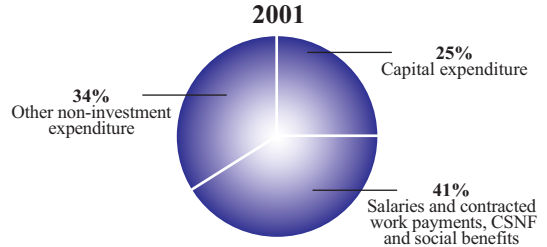
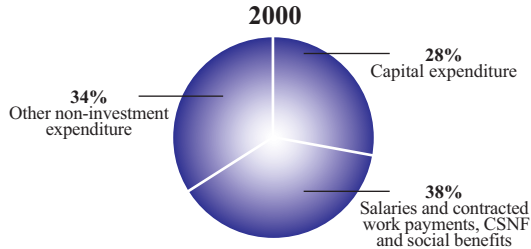


Category of Expenditure (CZK million)	Outturn 1999	Outturn 2000	Outturn 2001	Approved 2002	Approved 2003
Capital Expenditure	10,385.6	12,401.7	11,114.0	11,289.8	13,263.4
Salaries and contracted work payments, CSNF and social benefits	16,425.6	17,013.3	18,142.2	19,171.8	21,310.1
Other non-investment Expenditures	14,876.9	15,254.7	14,819.5	17,043.9	17,746.8

Development of MoD Vote Receipts in 1999–2003

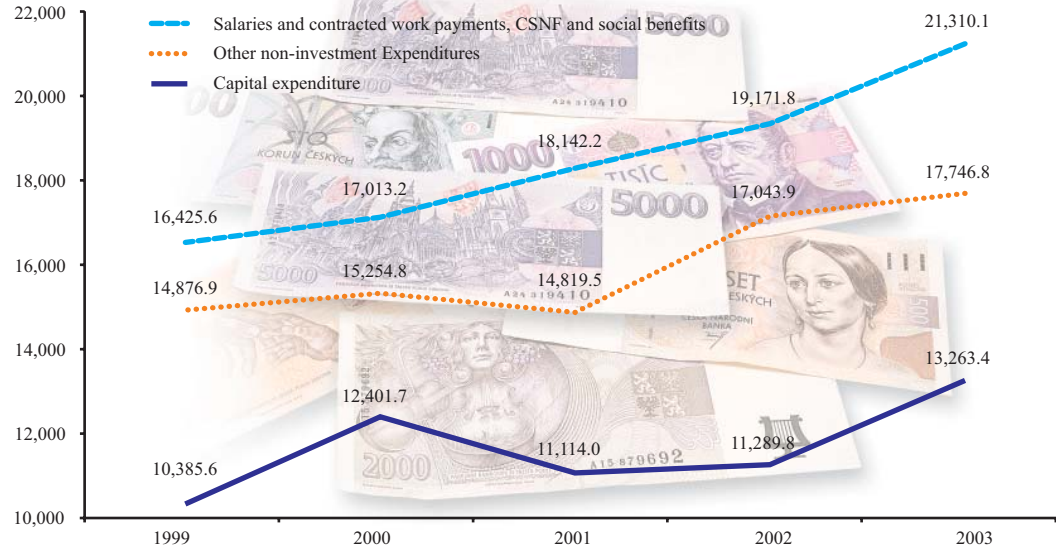


Development of Proportions among Major Expenditure Categories within MoD Vote in 2000–2003

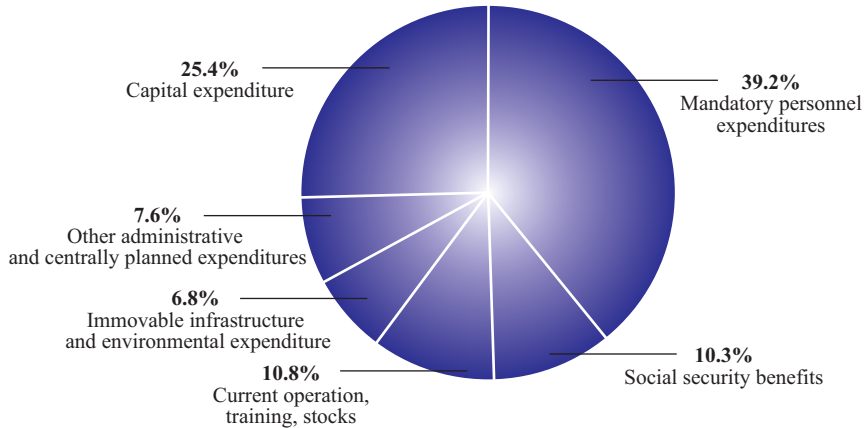


Development of Individual Expenditures in 1999–2003

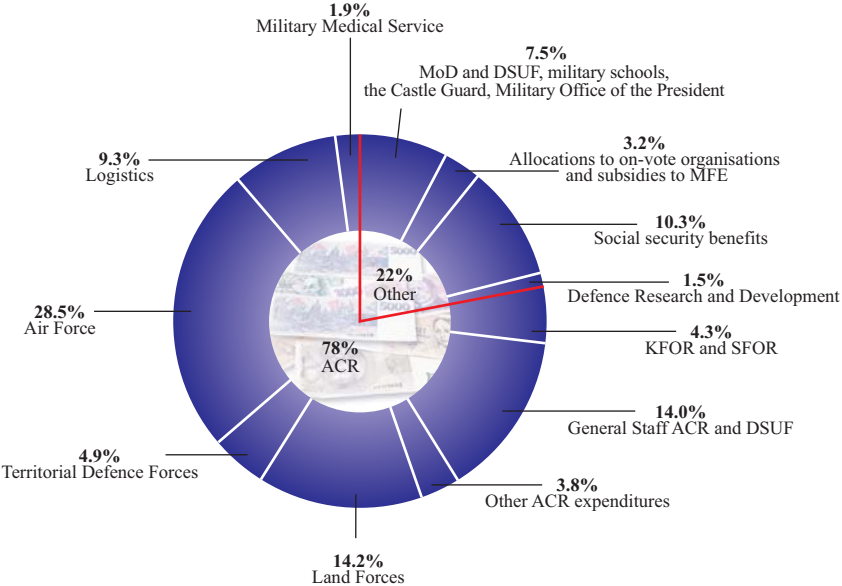
(CZK million)



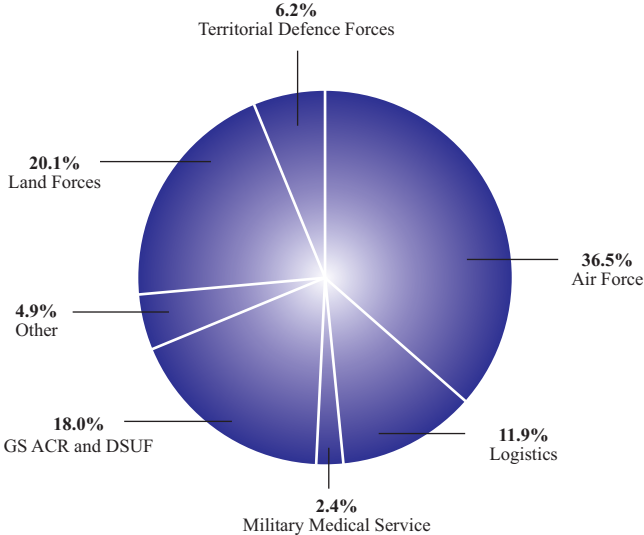
Structure of MoD Vote Expenditure by Category in 2003



Expenditure Breakdown by Organisational Unit in 2003



ACR Expenditure in 2003 by organisational structure





PROGRAM FINANCING EXPENDITURE

The 2003 Ministry of Defence Vote was elaborated in the area of capital and related expenditure in pursuance of the developed *MoD Mid-term Development Plan for 2003–2008*, as well as the Reform underway of the Armed Forces of the Czech Republic and in compliance with the principles, goals and objectives of the *Concept of Development of Professional ACR and the Concept of Armed Forces Mobilisation*.

The Program structure encompasses the total of 49 programs included 9 program packages. In order to finance 331 projects and activities, funds were allocated in the overall amount of CZK 14,479,326 thousand, i.e. almost 27.7% of the total MOD Vote expenditure in 2003, of which capital expenditure represents CZK 13,263,422 thousand and connected operating expenditure amounts to CZK 1,215,904 thousand.

In 2003, a fundamental re-distribution of individual programs is implemented, particularly to the *Assets reproduction* subhead and the subhead of *Support of defence research and development*, based on entering into power of the *Act No. 130/2002 Coll., on Research and Development support from public funds and amendment of some relevant Acts*, as of 1 July 2002, which was reflected upon in a different manner of planning and regulating documentation development for Programs and Activities (Projects) as well as financing thereof.

The total of CZK 13,948,771 thousand was allocated in favour of implementing 268 projects and activities in the framework of 45 Assets reproduction programs, of which capital expenditure amounts to CZK 13,117,948 thousand and the related operating expenditure totals CZK 830,823 thousand.

In 2003 as well, the limiting factor of program financing in the assets reproduction area remains the continuation of L-159 pilot project, and pilot project of T-72 M-4 CZ MBT modernisation. Funds amounting to CZK 6,978,251 thousand were allocated for L-159 project, of which capital expenditure totals CZK 6,830,251 thousand and the connected operating expenditure amounts to CZK 148,000 thousand. Planned allocation for pilot project of T-72 M-4 CZ MBT modernisation amounts to 1,635,554 thousand CZK, of which capital expenditure totals CZK 1,633,554 thousand and the related operating expenses represents CZK 2,000 thousand. Funds amounting to CZK 2,606,498 thousand were allocated in support of further pilot projects. Thus, the Pilot Projects system consumes CZK 11,220,303 thousand, i.e. 80.44% of the total Assets Reproduction programs expenditure. Other assets reproduction programs within the MoD Vote were allocated the fund remainder of CZK 2,728,468 thousand, i.e. 19.56%, which will be used to meet the expenses of a number of other budget priorities.

The subhead of specific purpose and institutions support includes funds allocation amounting to CZK 530,555 thousand to support 63 projects in 4 programs in the area of Support of science and defence research and development.

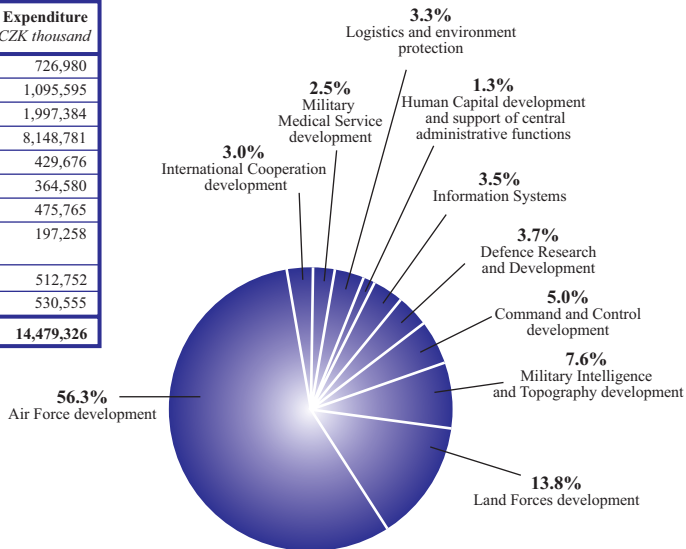
Capital expenditure totals CZK 145,474 thousand, of which specific purpose expenditure in favour of defence research amounts to CZK 73,399 thousand, specific allocation for development represents CZK 55,700 thousand and institutions-related expenditure makes up CZK 16,375 thousand.

The budget provides for operating expenditure to amount to CZK 385,081 thousand, of which defence research operating expenditure totalling CZK 189,756 thousand, development operating expenditure amounting to CZK 104,300 thousand and institutional operating expenditure representing CZK 91,025 thousand.

Defence research and development is specifically allocated CZK 423,155 thousand and institutional support amounts to CZK 107,400 thousand in 2003. High priority programs in the defence research and development area in 2003, which stem from MoD requirements pursuant the Armed Forces reform underway, include Passive Surveillance Systems, Chemical and Biological Weapons Detection and Military Medical Service.

Defence Program Financing Expenditure by Program Packages in 2003

Program Package Specification	Expenditure <i>CZK thousand</i>
Command and Control development	726,980
Military Intelligence and Topography development	1,095,595
Land Forces development	1,997,384
Air Force development	8,148,781
International Cooperation development	429,676
Military Medical Service development	364,580
Logistics and environment protection	475,765
Human Capital development and support of central administrative functions	197,258
Information Systems	512,752
Defence Research and Development	530,555
Total Program Financing Expenditure	14,479,326





OPERATING EXPENDITURE

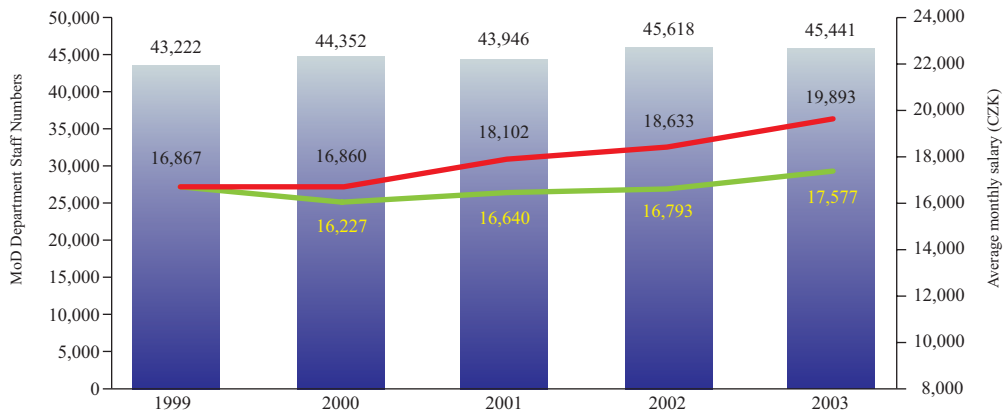
Operating expenditure of the 2003 Ministry of Defence Vote (including related operating expenditure of program financing amounting to CZK 1,215,904 thousand) was allocated with the **total amount of CZK 39,056,858 thousand**. Essential portion of this spending consists of operating expenditure of state organisation units, allocations for operation and non-investment subsidies granted to on-vote organisations and non-investment subsidies to businesses.

The driving factors for development of operating expenditure budget for 2003 are the following:

- In the area of personnel expenditure: the planned organisational structure of MoD Department; the set 7% year-to-year growth in relation to the planned personnel numbers according to categories; pensions revaluation; and provision of housing allowance to career soldiers, in pursuance to legal regulations relating to career service, stipulated through the *Act No. 254/2002 Coll., which amends the Act No. 221/1999 Coll., on Career Soldiers, as amended*, of 24 May 2002,
- In the area of immovable infrastructure: especially transfers in the framework of MoD budget in connection with changes implemented in funding the supply of services and labour due to transferring these activities from an on-vote organisation to a state organisational unit.

Compared to the approved 2002 budget, this constitutes a growth of operating expenditure by CZK 2,841,190 thousand, which is a 7,8% increase. Especially, the subheads of mandatory personnel expenditure and immovable infrastructure were risen. In the field of mandatory personnel expenditures, which stand for 66.2% of overall operating expenditure, an increase by 13.8% occurs, which makes the figure of CZK 3,139,470 thousand. Spending in the area of immovable infrastructure represents nearly 8.7% of total operating expenditure, while the growth vis-à-vis 2002 amounts to CZK 632,851 thousand. As for the expenditure to cover current operation, which amounts to 14.5% of the overall operating expenditure, only a 2% increase was effected. The resources were reduced that support the current operation expenses of units and facilities unaccounted for in the Reform plans.

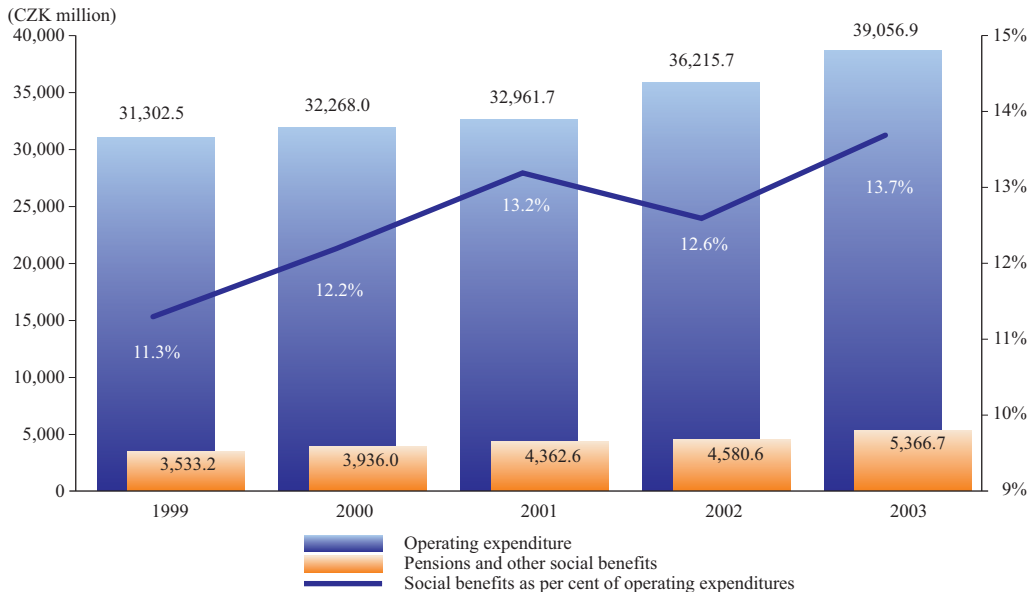
Staff Numbers and Average Monthly Salary in MoD Department



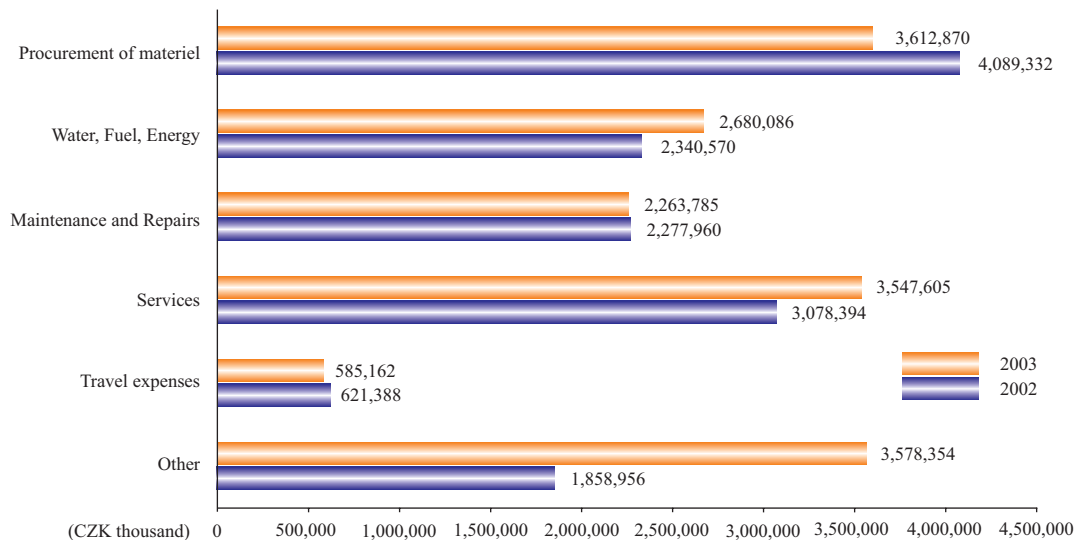
	Real			Approved Budget	
	1999	2000	2001	2002	2003
Career Service Personnel	22,106	23,153	22,509	26,534	22,926
Civilian Employees	21,116	21,199	21,437	19,084	22,515
Total Staff	43,222	44,352	43,946	45,618	45,441
Average Monthly Salary	16,867	16,860	18,102	18,633	19,893
Average Monthly Salary (in constant 1999 prices)	16,867	16,227	16,640	16,793	17,577

- MoD Department Staff Numbers
- Average monthly salary (CZK)
- Average monthly salary (in constant 1999 prices)

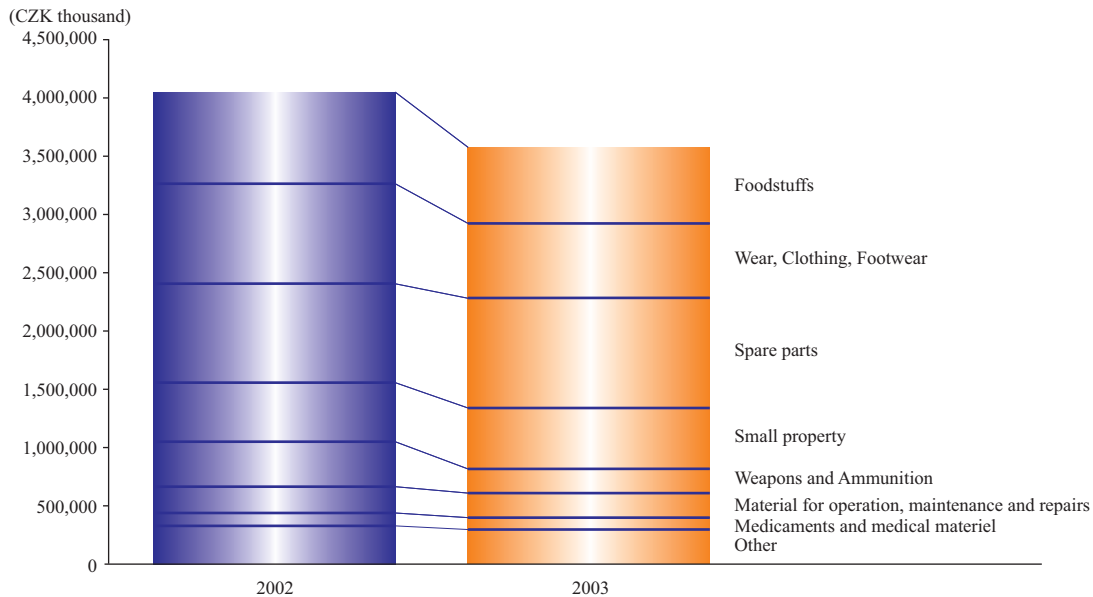
Pensions and other Social Benefits as per cent of MoD Total Operating Expenditure in 1999–2003



Comparison of Main Categories of other Non-investment Expenditure in 2002 and 2003



Comparison of Materiel Procurement Expenditure Structures in 2002 and 2003



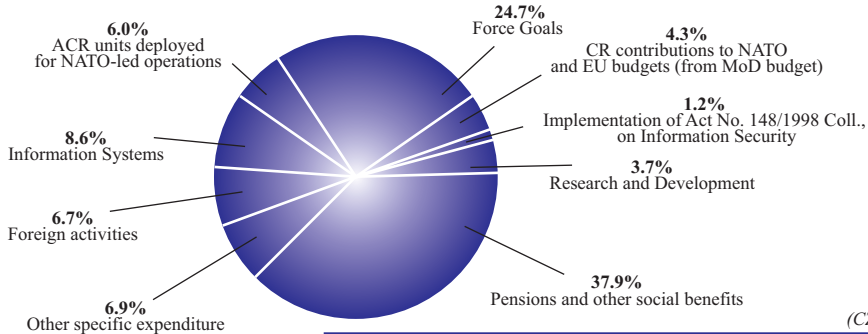


SPECIFIC PURPOSE EXPENDITURE

In the framework of budget planning and realisation, the specific purpose expenditure of Ministry of Defence's Vote is understood as expenditures in support of activities in the purview of MoD Department, in which case the liability of separate budgeting and reporting is determined by generally binding legal regulations and Government decrees or the liability results from internal needs and requirements of the Ministry.

The amount of selected specific purpose expenditures, out of the overall 2003 planned MoD Vote expenditure, totals CZK 14,158,664 thousand, which represents 27.1% of the endorsed Vote for the Ministry of Defence in the year 2003.

Structure of Specific Purpose Expenditure in 2003



(CZK thousand)

Foreign activities	950,670	6.7%
Information Systems	1,212,396	8.6%
ACR units deployed for NATO-led operations	850,322	6.0%
Force Goals	3,491,375	24.7%
CR contributions to NATO and EU budgets (from MoD budget)	606,502	4.3%
Implementation of Act No. 148/1998 Coll., on Information Security	174,010	1.2%
Research and Development	530,555	3.7%
Pensions and other social benefits	5,366,664	37.9%
Other specific expenditure	976,170	6.9%
Total	14,158,664	100.0%

Budgetary Resources to support Specific Expenditure in 2003

<i>Specific Expenditure</i>	<i>Planned Expenditure (CZK thousands)</i>
ACR Force Goals	3,491,375
ACR units partaking in NATO-led operations – CR Government Resolution No. 866/2002 of 9 Sept 2002	850,322
International Activities	950,670
a. Open Skies Treaty – CR Government Resolution No. 412/1992	7,520
b. PfP Program incl. Military exercises (except NATO exercises)	9,003
c. Posts abroad (except in NATO)	84,966
d. NATO posts abroad	397,107
e. NATO military exercises	147,608
f. Other International Activities	190,210
g. Czech-Polish-Slovak Brigade	9,896
h. Students in courses abroad	104,360
Research & Development	530,555
a. Institutional expenditure for Research and Development	107,400
b. Purpose-oriented R&D support	423,155
Information Systems	1,212,396

<i>Specific Expenditure</i>	<i>Planned Expenditure (CZK thousands)</i>
CR contributions to NATO and EU common budgets (out of MoD Vote)	606,502
a. Contribution to NATO military budget	297,657
b. Contribution to NSIP – member countries	200,000
c. Contributions to NATO Agencies' budgets	106,745
d. Contributions WEU and EU common budget	2,100
Implementation of the Act No. 148/1998 Coll., on Information Security	174,010
Prevention of socially pathological phenomena	21,500
of which: • Drug Control Policy Program	4,800
• Social Prevention and Crime Control Program	16,700
Co-ordination of care for war graves – CR Government Resolution No. 427/1999	14,000
Restitution Compensation – Act No. 229/1994 Coll.	108,128
Defence estates safeguarding – CR Government Resolution No. 125/1994	36,971
Radon Control Program	3,440
Defence Standardisation	2,295
Military Railway Office Prague (a State administration body)	69,861
Military Forests Administration Prague	3,166

<i>Specific Expenditure</i>	<i>Planned Expenditure (CZK thousands)</i>
Foreign students' courses	8,019
Consequence Management following flood with respect damage incurred to MoD Estate	130,000
Other specific purpose expenditures	42,447
Pensions and other Social benefits	5,366 664
Subsidies for corporate entities and natural persons – CR Government Decree No. 24/1999 Coll.	410,562
National sports representation – Act No. 115/2001 Coll. , CR Government Resolution No. 718/1999 of which: • funds allocated from MoD Vote • funds allocated from the Vote of the Ministry of Education, Youth and Sports	294,566 125,781 168,785
A. Total planned MoD Vote expenditure	14,158,664
B. Total expenditure planned in other Votes (Vote of the Ministry of Education, Youth and Sports)	168,785
TOTAL SPECIFIC PURPOSE EXPENDITURE	14,327,449

Basic Structure of Force Goals (Total 49)

Force Goals – General

(CZK thousand)

- Capital Expenditure 824,920
- Operating Expenditure 200,862
- Total 1,025,782

Force Goals – Land Forces

(CZK thousand)

- Capital Expenditure 1,917,974
- Operating Expenditure 102,687
- Total 2,020,661

Force Goals – Air Force

(CZK thousand)

- Capital Expenditure 293,079
- Operating Expenditure 151,853
- Total 444,932



INDEX OF ABBREVIATIONS

ACR	Armed Forces of the Czech Republic
CR	Czech Republic
CSNF	Cultural and Social Needs Fund
CZK	Czech crowns
DSUF	Directly Subordinate Units and Facilities
EU	European Union
FG	Force Goal
GDP	Gross Domestic Product
GS ACR	General Staff of the Armed Forces of the Czech Republic
ISAF	International Security Assistance Force (UN peace mission in Afghanistan)
KFOR	Kosovo Force (units of Joint Guardian operation in the province of Kosovo)
MBT	Main Battle Tank
MFE	Military Forests and Estates, state enterprise
MoD, CR MoD	Ministry of Defence, Ministry of Defence of the Czech Republic
NATO	North Atlantic Treaty Organisation
NSIP	NATO Security Investment Programme
PfP	Partnership for Peace
SFOR	Stabilisation Force (units participating in Joint Forge operation in the territory of Bosnia and Herzegovina)
UN	United Nations
WEU	Western European Union



CONTENTS

INTRODUCTION	1
Comparison of Basic Indicators	5
Basic Data on the State Budget of the Czech Republic – Ministry of Defence Vote	6
Breakdown of MoD Vote 2003 Expenditure according to UN Methodology	7
Basic Data on Ministry of Defence’s Vote in 1999–2003	8
Structure of MoD Spending in 1999–2003	9
Development of MoD Vote Receipts in 1999–2003	10
Development of Proportions among Major Expenditure Categories within MoD Vote in 2000–2003	11
Development of Individual Expenditures in 1999–2003	12
Structure of MoD Vote Expenditure by Category in 2003	13
Expenditure Breakdown by Organisational Unit in 2003	14
ACR Expenditure in 2003 by organisational structure	15
PROGRAM FINANCING EXPENDITURE	16
Defence Program Financing Expenditure by Program Packages in 2003	19

OPERATING EXPENDITURE	20
Staff Numbers and Average Monthly Salary in MoD Department	22
Pensions and other Social Benefits as per cent of MoD Total Operating Expenditure in 1999–2003.....	23
Comparison of Main Categories of other Non-investment Expenditure in 2002 and 2003	24
Comparison of Materiel Procurement Expenditure Structures in 2002 and 2003	25
SPECIFIC PURPOSE EXPENDITURE	26
Structure of Specific Purpose Expenditure in 2003.....	27
Budgetary Resources to support Specific Expenditure in 2003	28
Basic Structure of Force Goals (Total 49)	31
INDEX OF ABBREVIATIONS	32

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