Analysis

Moody's
Sub-Sovereign

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Prague, City of

Czech Republic

Table of Contents:

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Summary Rating Rationale

Moody's assigns an issuer rating of A1 with stable outlook to the City of Prague. The rating reflects the current institutional framework characterised by low budget flexibility, though demonstrating sufficient predictability and stability to avoid sharp detrimental changes to municipal budgets. It is also based on the city's strong financial performance, good liquidity and cash management, and sinking fund aimed at covering sizeable bullet repayments due in 2009. The city's substantial – albeit manageable – stock of debt, as a result of the implementation of sizeable capital expenditure programmes, is also factored in.

The City of Prague's long-term issuer rating of A1 with stable outlook reflects a Baseline Credit Assessment (BCA) of 6 on a scale of 1-21 (where 1 represents the lowest risk, 21 the highest) and our assessment of the very high likelihood that the national government of the Czech Republic (A1, positive) would act to prevent a default by the city.

This analysis provides an in-depth discussion of credit rating(s) for Prague, City of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Moody's Investors Service

Rating Outlook

The outlook for the City of Prague's rating remains stable.

Key Rating Considerations

Financial Position and Performance

Solid operating balances and high self-funding capacity

The city recorded solid operating financial performances over the period 1999-2006. Primary and gross operating balances were at a high 32.5% and 30%, respectively, on average, though slightly lower than their 2000 peak. Although both balances declined during this eight-year period, reflecting the impact of under funding as a result of tax reforms in 2001 and extra spending related to the 2002 floods (indeed, out of total costs of CZK15 billion, the city had to assume CZK5 billion from its own budget, most of it in 2003, with the rest being equally covered by the state and an EIB loan), Prague's budget performance was solid in 2005-2006. This was mainly the result of well-performing national shared taxes, which under the current institutional system Prague can fully utilise.

Over the same period, the net operating balance (NOB) remained, on average, at a solid 24%, except for 1999 when it turned negative due to a bullet bond payment. While Prague faces bullet bond payments over 2009-2013, its solid budget balances supported by the sinking fund should give the city sufficient funding capacity to absorb increased debt service provided national economic growth continues and the potential negative consequences of tax reforms, if implemented, are adequately compensated.

Prague's own funding capacity once debt is served – defined as the combination of NOB and its capital revenue – covered, on average, 67.6% of its investment programme between 1999 and 2006 and 100% in 2005-2006. It should be noted that unlike other municipalities in the country Prague finances its capex mainly with its own revenue with almost no recourse to EU funds or central government capital transfers. Though Prague's extensive capital expenditure programme necessitated a recurring recourse to borrowing, a moderate increase in debt in 2004 and 2005 and a slight reduction in 2006 allowed the city to keep the absolute amount of direct debt almost unchanged while reducing relative indebtedness (to operating revenue) thanks to good budget revenue growth.

Limited capacity to benefit from local economic buoyancy

As the Czech Republic's economic engine as well as its political and cultural hub, Prague enjoys the most robust, dynamic and diversified local economic environment within the country. However, under the current institutional and financial framework, the city's capacity to generate revenue remains disconnected from its economic profile. For instance, in 2006 Prague's taxpayers contributed around 27% to the total pool of taxes (including shared taxes) available for the budget system, but the city received only 7% of the total amount. In the event that the tax system ultimately grants local governments a more independent tax-raising capacity or allows them to benefit from a broadening in the tax base, Prague would be able to capitalise on its strong economy, which has consistently outperformed national averages on all indicators.

Lower than average revenue flexibility…

Over the period 1999-2006, on average 87.5% of Prague's current revenues consisted of central government transfers and shared taxes (a basket of personal income tax, corporate income tax and VAT), which are distributed by the central government on a per capita basis and adjusted by a coefficient that takes into account various criteria, including the size of each entity. The city's local fees are at a negligible 1% of the current revenue level. These limitations do not allow for the realisation of any meaningful additional revenue through tax rate increases.

Prague's revenue flexibility is lower than the municipal average in the Czech Republic owing to the city's dual status as a municipality and as a region, which gives it an additional share in the basket of shared taxes compared to "ordinary" municipalities, which in turn increases Prague's dependence on non-flexible types of revenue. At the same time, its complex administrative structure prevents it from keeping the entire amount of central government transfers, property tax and rentals on its property in its budget. These revenues are assigned to the districts and are not part of the city's own budget. Property tax and rentals usually give some level of flexibility to municipal budgets in the Czech Republic.

Central government transfers that are kept by Prague in its own budget account for only 7% (on average over the period 1999-2006) and all are earmarked, with 90% of the total being dedicated to the education sector and allocated according to very strict criteria, over which the city has no control.[1]

…but more flexible budget expenditure owing to high proportion of self-funding capex

Like other municipalities, Prague has a large proportion of capital expenditure (at 34% of total expenditure on average over the period 1999-2006), but unlike other municipalities, which widely use central government and EU transfers to fund capital expenditure, the city relies on its own resources or debt financing. Moreover, in 2005-2006 it markedly reduced its new borrowing as a source to fund its capex, which was extensively used in previous years.

Going forward, to keep up with its investment programme, which prioritises the development of the inner ring-road and expansion of the underground network and wastewater treatment plant, the city must maintain its capital expenditure at CZK14 billion a year, which includes CZK4-6 billion necessary just for the maintenance of existing facilities. In fact, the city achieved this level of investment in 2005-2006, which was fully funded by its own sources without recourse to debt. However, taking into account possible tax reform and the intention of the Prague authorities to stabilise debt burden, the city is considering employing EU or central government funds, as well as using alternative sources of funding such as PPP, lease, sale and buy back arrangements. It should be noted, however, that in Moody's view, PPP funding does not necessarily translate into debt burden relief.

Limited capacity to control current expenditure growth, especially in the transport sector

Transfers are the main budget item, which almost doubled between 1999 and 2006 and amounts to, on average, 67% of Prague's current expenditure. The city's 100%-owned transport company accounts for, on average, 49% of the city's total transfers, though the pace of growth of transport subsidies have been lower than that of the city's current expenditure as a whole. This is the result of a rise in tariffs in July 2005 – the first increase for eight years. Going forward, given Prague's strong intention to keep mass transit tickets at a low level by allowing only modest increases in tariffs (9% over the period 2000-2005, which brought cost coverage – cost covered by the users – to 27% versus a targeted 25%) and among other things discourage the use of cars in the city, it is unlikely that there will be any significant changes in the amount of subsidies provided by the city to the company. It should be noted that the city strongly encourages higher efficiency at the company through increases in passenger turnover and reductions in cost (via decreases in payroll and separation from non-core activities).

The education sector is the second main area subsidised by the city; it grew considerably following the transfer of secondary schools (for pupils 15-18 years old) to Prague in 2001, in conjunction with the creation of the regions.[2] The city benefits from earmarked state grants, which cover 100% of the teachers' salaries and school books – or about two-thirds of the costs relating to education; however, operational costs are not compensated by state transfers and therefore have to be covered by the city itself. On the back of declining demographic trends, the city has, since 2001, rationalised the education sector by merging units (around five per annum) and promoting a higher specialisation of the schools network. With the reverse demographic trend, Prague at some point may need to increase expenditure related to education.

[1] The sudden decrease in intergovernmental transfers in 2004 relates to a one-off change in the way the state transferred subsidies to the districts. Rather than using the city as a pass-through, districts received these transfers to their budget.

2 Primary schools are part of the districts' responsibilities.

Prague, City of

On average, over the period 1999-2006, personnel and administrative costs accounted for 6% and 23%, respectively, of the current expenditure. Civil servants' and teachers' wages[3] are set at national levels, thus constraining the ability of local governments to control this type of spending.[4]

Key Indicators

Prague, City of

	2001	2002	2003	2004	2005	2006
Net Direct and Guaranteed Debt/Operating Revenue (%)	63.52	57.91	88.09	89.18	74.23	69.51
Debt Service/Total Revenue (%)	2.16	2.87	2.50	5.01	2.89	3.42
Gross Operating Balance/Operating Revenue (%)	26.91	28.12	23.75	28.01	34.79	31.63
Cash Financing Surplus (Requirement)/Total Revenue (%)	-17.41	-7.06	-12.94	-14.29	3.05	1.76
Self-Funding Capacity	0.61	0.81	0.65	0.66	1.00	1.00
Intergovernmental Revenue/Operating Revenue (%) [1]	89.60	69.70	88.08	87.99	88.09	88.77
Capex/Total Expenditure (%)	38.26	34.45	32.95	37.12	33.12	31.41

[1] Intergovernmental revenue = current transfers + shared taxes

Debt & Liquidity

Debt Profile

Substantial stock of debt and large concentration of debt repayment mitigated by contributions to sinking fund to ease bullet repayments

From CZK11 billion, equivalent to 47% of current revenue, in 1999, Prague's direct debt grew to CZK32.1 billion in 2006, or 71% of current revenue, reflecting the city's significant investments in improving infrastructure, especially the public transport system, as well as the extensive repairs in the aftermath of the 2002 floods. This stock of direct debt places Prague among the highest in CEE. However, it should be noted that the absolute amount of direct debt has remained almost unchanged since 2003, decreasing gradually in relative terms from its peak of 88% to operating revenue in 2004 owing to increasing budget revenue.

In spite of sizeable debt stock, the repayment schedule is quite manageable, as, first, Prague's direct debt has long maturities and, second, the city established a sinking fund to meet bond bullet payments due in coming years. The city's direct debt is split almost evenly between bank loans and bonds. All bonds are of ten-year issues, maturing between 2009 and 2013. As of 31 December 2006 72% of the debt will mature between 2009 and 2013 (bonds together with an ING loan due in 2010). The remaining debt was obtained from the EIB and benefits from a five-to-seven-year grace period, with 15-to-30-year maturity depending on the investments. As of 31 December 2006, the reserve holds on the sinking fund was worth CZK5.6 billion, enabling the city to repay the approximately CZK5.4 billion bond issue due in 2009. The city, however, may also decide to use these funds for capital funding in order to avoid recourse to additional borrowing.

As result of practically no capital repayment falling due between 2002 and 2008, debt service stands below 3.5% of current revenue.

The city does not have any currency exposure or variable interest rate exposure, as all drawdowns of EIB loans are in CZK and all euro bond issues have been swapped to CZK and to fixed interest rate swaps until the maturity. A CZK denominated bond worth of 3 billion was also swapped to fixed interest rate until maturity.

Guarantees, which the city extended in the past to the congress centre, represent a negligible amount of CZK0.6 billion.

3 Wages distributed to teachers, employees working in social and cultural institutions, etc., are part of the city's transfers to the relevant sectors and are not included in the "personnel" item. The lack of control over wages therefore extends beyond 5% of current expenditure.

4 Local governments only have the capacity to adjust salaries upward.

City's indirect obligations mainly associated with transport company

The city holds participations in 17 companies, five of which provide vital services to the local population (including the supply of electricity, gas, urban heating and water and transport). Currently the transport company represents some concerns from a risk point of view. In 2005 and 2006, only the transport company received subsidies for current expenditure. The congress centre has not received subsidies for current expenditure since 2004.

The transport company, with a share capital of CZK30.7 billion, is 100%-owned by the city and provides mass transit, including trams, buses and the metro, in the City of Prague and some adjacent regions. It has a significant impact on the city's budget, given the executive's self-imposed political requirement to promote public transport and therefore to offer affordable/attractive tariffs for all passengers (discounted prepaid tickets) and special discounts for pensioners, children and free ride in line with national law for civil servants (soldiers, policemen, members of parliament). In this context, substantial growth posted in the company's operating costs has been weighing on the municipal budget given that the city ensures a constant "cost coverage ratio" (cost covered by the users) of around 25%. On top of operating transfers, the city also provides capital subsidies covering, on average, around 60% of the company's investments. As a whole, subsidies to the transport company accounted for 30% of the city's actual revenue in 2006.

At end-2006 the transport company's financial debt stood at CZK3.4 billion; a bank loan worth CZK4 billion not guaranteed by the city, with maturity in 2014. Given the strong link between the city and the company, in Moody's view, this debt should be considered as a contingent obligation of the city.

Another indirect risk is posed by the city's districts, which are heavily dependent on the city's subsidies. However, this exposure is insignificant; at end-2006 their debt was a negligible CZK0.4 billion.

Together with non-self-supporting entities, the total debt of the city, including guarantees, amounted to 82% of current revenue at end-2006, however net debt, which takes into account the sinking fund, was at 70%.

Substantial liquidity and good cash management

A significant part of the city's revenue, especially PIT and VAT, as well as current central government transfers, ensure regular monthly cash inflow. Some irregularity is associated with CIT, which has peak payments in June and December. On the current expenditure side peak disbursements occur in June to cover teachers' salaries for the rest of summer; these are, however, matched by central government subsidies. As a result, in 2006 the city kept a high cash amount on its account for the whole year, without recourse to credit lines.

Cash balance, including current accounts (77% of total) and short-term deposits (23% of total), at end-2006 was at CZK16 billion, which is equivalent to 38% of the city's total expenditure in 2006. Almost 84% of the city's deposits are held in banks that are rated at least A and almost 80% for no longer than a month, giving the city enough flexibility in case of emergency.

Governance and Management Factors

For the past five years (2002-2006), the city stayed well within its budget targets and demonstrated a prudent approach to its revenue and expenditure budgeting by fully taking into account its responsibilities and partially its revenue sources, excluding central government transfers. Its initial budget is usually a deficit budget, which in the course of the year turns into much smaller deficit (2002-2004) or surplus (2005-2006) as central government approves the annual amount of earmarked transfers and starts disbursements. It should be also noted that since shares in national taxes became its main source of revenue Prague benefits from rapid economic growth nationwide, which it usually projects conservatively.

Use of long-term budget forecasts and sophisticated and cautious debt management adds to Prague's good quality of governance. Its net debt, at 70% of operating revenue at end-2006, is mainly drawn in CZK as far as bank loans are concerned and all euro bond issues are swapped to CZK, minimising the city's currency exposure; almost all floating interest rate exposure is covered by fixed-rates contracts.

Reporting required by the Ministry of Finance is comprehensive and timely: a financial statement on a monthly basis; quarterly balance sheet (of itself as well as of its contributory organisations) and profit and loss account; yearly annual report (including its contributory organisations), information on new debts and borrowings with annual report available within six months of the next year. The annual financial accounts of regions and municipalities are audited by the independent auditor.

Economic Fundamentals

The country's most solid, diversified and attractive economy

With a contribution to national GDP of 25% and a GDP per capita accounting for 209% of the national average in 2005 (latest available data), Prague outperforms its peers and is well positioned in respect to other European cities. Prague also represents the largest labour market in the country, accounting for 12.8% of the national workforce, and attracts around 20% of all investments domiciled in the Czech Republic, including more than 54% of FDI (in 2005). Though Prague is the economic centre of the country and enjoys a robust economy, Moody's does not focus closely on the local economic environment given that, under the Czech RLGs' institutional and financial framework, local economic fundamentals do not directly influence their budgets, which instead rely almost entirely on the growth of the national economy.

Demographic trends, however, have a direct impact on the amount of revenue coming into the city's budget, therefore are valid for analysis. After years of population decline due both to negative natural balances and net migration, in recent years the city has seen a reversal in demographic trends owing mainly to positive migration inflows.

Operating Environment

The operating environment for Czech RLGs reflects that of OECD emerging market economies, with relatively high GDP per capita within the emerging markets universe, modest GDP volatility and relatively high ranking on the World Bank government effectiveness index. The combination of these characteristics suggests a low level of systemic risk, as reflected in the A1 rating assigned to the debt issued by the national government.

Institutional Framework

Stable and rather predictable environment; however, characterised by low budget flexibility

Under the current local government framework, municipalities have very limited scope for control over their revenues, with the vast majority dependent more or less on a pool of taxes collected nationally or on the state budget. More than 80% of their revenue is in the form of either shared taxes or transfers, while municipalities have marginal taxation power and ability to tap into wealth generated by the local economic environment. The tax base and tax rate of the most important taxes are set by the central government and there are also caps on the tax rates of cities' own taxes.

Low flexibility and limited control over structural and potential growth is also applicable to the expenditure side of municipal budgets. Cities' ability to influence operating expenditures is very constrained. As operating expenditures largely cover services that cities are obliged to provide under national law, they are partly subsidised by the central government and therefore cannot be markedly cut. For example, salaries of civil servants and the level of social benefits provided to citizens are set by the central government. Cutting back public service costs, such as waste management, road maintenance or public transport, is also difficult given that a majority of these are based on long-term contracts.

The only leeway that Czech cities enjoy is some flexibility over capital expenditure. Though the proportion of expenditure devoted to capital items is relatively large (at 33% of total expenditure in 2006), almost 40% of capex is funded either through investment subsidies from EU or central government, or through new debt. As a result, the ability of cities to obtain fiscal relief by cutting capex is not as great as its 33% share of total spending might imply. Moreover, part of self-funded capex is devoted to infrastructure maintenance and works in progress, spending items which can be delayed only temporarily.

Despite the municipalities' limited flexibility over revenues and expenditure and the absence of any central government regulations on their debt burden, the total stock of outstanding municipal debt is still low (33% of total revenues in 2006), which under current institutional framework indicates relative balance between responsibilities assigned to the municipalities and sources of their funding, especially on operating activities as municipalities borrow solely for investment. It should be noted that their indebtedness is constantly growing in relative and absolute terms under pressure from the need to upgrade municipal infrastructure to EU standards following the Czech Republic's entry into the EU.

The framework for Czech municipalities, which started taking shape in the mid-1990s, is relatively stable and predictable. Following a number of institutional and financial adjustments over recent years, the fundamentals of the system related to the funding of municipal responsibilities and their budget structure has been settled and is unlikely to be changed. However, some corrections to the system of public finance are still possible. Indeed, currently the right-wing central government is considering measures to keep the public sector deficit within the EU limits (3% of GDP). Among the measures that may affect municipal budgets is a reduction in tax rates for corporate income tax (CIT) (to 19% from 24%) and personal income tax (PIT) (to flat 15% from progressive 32%) together with enlargement of the tax base of the latter, increase in VAT rates and optimisation of spending on social welfare. Reduction of CIT and PIT rates not offset by an increase in VAT for the municipal budgets (all these taxes form the basket of national taxes shared between the centre and the municipalities) may be compensated in a number of ways, including extension of the basket of taxes shared by the centre with the municipalities. Central government hopes that reduction in tax rates will be offset by economic growth. However, currently no public sector reform measures have been adopted by the parliament.

City's range of responsibilities and composition of revenue affected by its complex structure and generate contingent liabilities

The city is divided into 57 districts, the boundaries of which can be changed only by the city's assembly. Given the districts strong representation in the assembly, a reduction in the number of districts through mergers is unlikely. Although districts are self governing bodies recognised by the national law with their own legislature, council and mayors, financially they are heavily dependent on central government transfers. A high proportion of these transfers can be explained by the range of their responsibilities outlined in the city's status, especially education under the age of 15 and social welfare benefits, which in the Czech budget system are funded by the central government. The rest is non-tax revenue generated by the property entrusted to them by the city and taxes either fully assigned to them (property tax) or shared with the city.

Their financial performance is strictly controlled by the city. In theory, districts do not need approval from the city to borrow (without the city's guarantees), but in practice smaller ones are required collateral for the city's owned property, whereas the biggest (12-13 of the total) borrow freely. Though Moody's presents the city's accounts without the districts, owing to the close links between the city and its districts, the obligations of the districts are disclosed in the city's overall debt as indirect obligations of the city.

Prague, City of

Annual Statistics

CZK millions	1999 realized	%	2000 realized	%	2001 realized	%	2002 realized	%	2003 realized	%	2004 realized	%	2005 realized	%	2006 realized	%
FINANCIAL INDICATORS																
Total Revenues [1]	23,907		25,594		30,211		34,724		37,305		36,671		44,327		45,647	
Total Expenditure [2]	25,517		24,298		35,470		37,176		42,133		41,912		42,976		44,844	
OPERATING REVENUES																
Tax revenues	21,783	*91.2*	23,589	*92.4*	24,495	*81.7*	27,242	*80.4*	29,998	*81.0*	32,137	*87.8*	36,686	*83.2*	37,230	*82.8*
Assigned taxes	21,167	*88.6*	22,794	*89.3*	23,076	*77.0*	25,819	*76.2*	27,647	*74.6*	30,105	*82.2*	34,435	*78.1*	35,131	*78.1*
o/w Personal Income(PIT)	19,586	*82.0*	21,282	*83.4*	8,125	*27.1*	8,954	*26.4*	9,428	*25.4*	10,431	*28.5*	11,257	*25.5*	10,612	*23.6*
Corporate Income (CIT)	1,582	*6.6*	1,512	*5.9*	5,407	*18.0*	6,602	*19.5*	7,268	*19.6*	7,953	*21.7*	9,018	*20.5*	9,379	*20.8*
VAT	0	*0.0*	0	*0.0*	9,543	*31.8*	10,263	*30.3*	10,951	*29.6*	11,720	*32.0*	14,161	*32.1*	15,140	*33.7*
Own taxes (local taxes & collections)																
o/w Real Estate (Property Tax)	0	*0.0*	0	*0.0*	15	*0.1*	14	*0.0*	21	*0.1*	1	*0.0*	2	*0.0*	6	*0.0*
Local Fees (taxes)	109	*0.5*	124	*0.5*	131	*0.4*	152	*0.4*	154	*0.4*	174	*0.5*	185	*0.4*	187	*0.4*
Tax reimbursments on proceeds	483	*2.0*	559	*2.2*	818	*2.7*	510	*1.5*	1,577	*4.3*	1,151	*3.1*	1,185	*2.7*	984	*2.2*
Other taxes and collections	24	*0.1*	111	*0.4*	454	*1.5*	747	*2.2*	599	*1.6*	706	*1.9*	877	*2.0*	922	*2.0*
Intergovernmental revenues	90	*0.4*	-1,871	*-7.3*	3,771	*12.6*	3,570	*10.5*	4,988	*13.5*	2,104	*5.7*	4,393	*10.0*	4,804	*10.7*
Transfers & grants	785	*3.3*	785	*3.1*	6,693	*22.3*	7,026	*20.7*	9,717	*26.2*	8,252	*22.5*	8,197	*18.6*	8,680	*19.3*
Subsidy from Region	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*
Subsidies from abroad	0	*0.0*	0	*0.0*	1	*0.0*	2	*0.0*	0	*0.0*	0	*0.0*	2	*0.0*	0	*0.0*
Other subsidies	-696	*-2.9*	-2,656	*-10.4*	-2,923	*-9.8*	-3,458	*-10.2*	-4,729	*-12.8*	-6,147	*-16.8*	-3,807	*-8.6*	-3,876	*-8.6*
Non-tax revenue	2,023	*8.5*	3,801	*14.9*	1,698	*5.7*	3,087	*9.1*	2,064	*5.6*	2,366	*6.5*	3,002	*6.8*	2,952	*6.6*
Charges on services	788	*3.3*	420	*1.6*	74	*0.2*	124	*0.4*	181	*0.5*	210	*0.6*	216	*0.5*	228	*0.5*
Property rents and leases	3	*0.0*	2	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*
Revenues from city-owned entities	681	*2.9*	2,593	*10.2*	833	*2.8*	1,993	*5.9*	539	*1.5*	462	*1.3*	942	*2.1*	806	*1.8*
Interest income & realization of financial assets	467	*2.0*	655	*2.6*	472	*1.6*	620	*1.8*	1,166	*3.1*	1,508	*4.1*	1,547	*3.5*	1,601	*3.6*
Other	85	*0.4*	131	*0.5*	319	*1.1*	350	*1.0*	178	*0.5*	186	*0.5*	296	*0.7*	317	*0.7*
Total operating revenues	23,895	*100.0*	25,519	*100.0*	29,964	*100.0*	33,899	*100.0*	37,050	*100.0*	36,607	*100.0*	44,080	*100.0*	44,986	*100.0*

Prague, City of

CZK millions	1999 realized	%	2000 realized	%	2001 realized	%	2002 realized	%	2003 realized	%	2004 realized	%	2005 realized	%	2006 realized	%
OPERATING EXPENDITURE																
Wages, salaries & overheads	1,408	*8.1*	1,360	*8.7*	1,220	*5.6*	1,267	*5.2*	1,330	*4.7*	1,424	*5.4*	1,417	*4.9*	1,507	*4.9*
Services, supplies & consumables	5,029	*28.9*	4,641	*29.8*	3,810	*17.4*	5,101	*20.9*	5,473	*19.4*	6,167	*23.4*	6,134	*21.3*	6,662	*21.7*
Subsidies and Current transfers	10,097	*58.0*	8,999	*57.9*	16,194	*73.9*	17,079	*70.1*	20,549	*72.7*	17,685	*67.1*	20,095	*69.9*	21,480	*69.8*
Interest expenses	845	*4.9*	519	*3.3*	648	*3.0*	887	*3.6*	802	*2.8*	1,049	*4.0*	1,087	*3.8*	1,078	*3.5*
Other operating costs	16	*0.1*	31	*0.2*	30	*0.1*	33	*0.1*	98	*0.3*	27	*0.1*	11	*0.0*	30	*0.1*
Total operating expenditure	17,394	*100.0*	15,550	*100.0*	21,900	*100.0*	24,368	*100.0*	28,252	*100.0*	26,353	*100.0*	28,743	*100.0*	30,757	*100.0*
Primary operating balance	7,346		10,487		8,711		10,418		9,601		11,304		16,424		15,307	
Gross operating balance	6,501		9,968		8,063		9,531		8,799		10,254		15,337		14,229	
Net operating balance	-796		6,030		8,058		9,421		8,669		9,468		15,143		13,743	
CAPITAL REVENUES																
Property sales	0	*1.2*	2	*2.1*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*
Sales of shares & intangible assests	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*
Other capital rvenues	9	*71.0*	1	*1.3*	49	*19.6*	11	*1.4*	0	*0.0*	5	*7.8*	4	*1.6*	21	*3.2*
Capital transfers	3	*25.2*	72	*96.3*	192	*77.4*	812	*98.5*	255	*99.9*	59	*91.3*	242	*97.8*	637	*96.3*
Loans returned to the City	0	*2.6*	0	*0.3*	7	*3.0*	2	*0.2*	0	*0.1*	1	*0.9*	1	*0.6*	3	*0.5*
Total capital revenues	12	*100.0*	75	*100.0*	248	*100.0*	825	*100.0*	255	*100.0*	64	*100.0*	248	*100.0*	661	*100.0*
CAPITAL EXPENDITURE																
Investments	5,670	*69.8*	6,108	*69.8*	8,367	*61.7*	7,643	*59.7*	6,869	*49.5*	9,066	*58.3*	8,714	*61.2*	7,640	*54.2*
Purchase of intangible asset	350	*4.3*	27	*0.3*	17	*0.1*	0	*0.0*	0	*0.0*	38	*0.2*	12	*0.1*	0	*0.0*
Capital transfers	2,103	*25.9*	2,536	*29.0*	5,186	*38.2*	5,166	*40.3*	7,012	*50.5*	6,455	*41.5*	5,504	*38.7*	6,439	*45.7*
Other	0	*0.0*	77	*0.9*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*
Loans provided by the City	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	0	*0.0*	2	*0.0*	9	*0.1*
Total capital expenditure	8,123	*100.0*	8,748	*100.0*	13,570	*100.0*	12,808	*100.0*	13,881	*100.0*	15,559	*100.0*	14,233	*100.0*	14,087	*100.0*
CAPITAL BALANCE	-8,111		-8,673		-13,322		-11,983		-13,626		-15,495		-13,985		-13,426	
FINANCING FICIT/SURPLUS	-1,610		1,296		-5,259		-2,452		-4,828		-5,240		1,352		803	

Prague, City of

CZK millions	1999 realized	%	2000 realized	%	2001 realized	%	2002 realized	%	2003 realized	%	2004 realized	%	2005 realized	%	2006 realized	%
DEBT INDICATORS																
DEBT MOVEMENTS																
Gross new borrowings	7,672		4,371		6,839		2,299		12,711		1,487		1,628		96	
Debt repayment	7,297		3,939		5		110		130		786		194		485	
Change in debt [3]	375		432		6,833		2,189		12,581		701		1,434		-390	
TOTAL BUDGET BALANCE	-1,235		1,728		1,575		-263		7,754		-4,539		2,786		414	
DIRECT DEBT	11,212	*97.7*	11,373	*91.4*	17,781	*93.4*	19,969	*88.6*	32,429	*88.2*	32,349	*85.6*	33,141	*86.4*	32,140	*87.1*
of which																
Direct debt (CZK)	3,986	*34.7*	4,355	*35.0*	10,906	*57.3*	13,175	*58.5*	19,953	*54.3*	20,620	*54.6*	21,974	*57.3*	21,584	*58.5*
Direct debt(FX - USD)	200	*1.7*	200	*1.6*	215	*1.1*	215	*1.0*	385	*1.0*	385	*1.0*	385	*1.0*	384	*1.0*
Direct debt(FX - EUR)	55	*0.5*	55	*0.4*	55	*0.3*	55	*0.2*	55	*0.1*	55	*0.1*	55	*0.1*	55	*0.1*
Total direct debt	11,212	*97.7*	11,373	*91.4*	17,781	*93.4*	19,969	*88.6*	32,429	*88.2*	32,349	*85.6*	33,141	*86.4*	32,140	*87.1*
Guaranteed debt	0	*0.0*	800	*6.4*	969	*5.1*	836	*3.7*	792	*2.2*	792	*2.1*	790	*2.1*	645	*1.7*
TOTAL DEBT	11,471	*100.0*	12,439	*100.0*	19,033	*100.0*	22,539	*100.0*	36,773	*100.0*	37,782	*100.0*	38,354	*100.0*	36,905	*100.0*

Prague, City of

CZK millions	1999 realized	%	2000 realized	%	2001 realized	%	2002 realized	%	2003 realized	%	2004 realized	%	2005 realized	%	2006 realized	%
KEY RATIOS AND INDICATORS																
TOTAL ACCOUNTS																
Total revenue growth rate [1] (%)	--		7.1		18.0		45.2		7.4		-1.7		20.9		3.0	
Total expense growth rate [2] (%)	--		-4.8		46.0		45.7		13.3		-0.5		2.5		4.3	
Total revenues per capita CZK millions	19.9		21.7		26.0		29.9		32.0		31.3		37.5		38.4	
Total expenses per capita CZK millions	21.2		20.6		30.6		32.0		36.1		35.8		36.4		37.7	
Total tax revenues/ total revenues (%)	91.1		92.2		81.1		78.5		80.4		87.6		82.8		81.6	
Total intergovernmental revenues/total revenues(%)	0.4		-7.0		13.1		12.6		14.1		5.9		10.5		11.9	
Total transfers/total expenses (%)	47.8		47.5		60.3		59.8		65.4		57.6		59.6		62.3	
Financing deficit/ surplus[3] as % of total revenues (%)	-6.7		5.1		-17.4		-7.1		-12.9		-14.3		3.0		1.8	
OPERATING ACCOUNTS																
Operating revenues/total revenues (%)	99.9		99.7		99.2		97.6		99.3		99.8		99.4		98.6	
Operating expenses/total expenses (%)	68.2		64.0		61.7		65.5		67.1		62.9		66.9		68.6	
Tax revenues/operating revenues (%)	91.2		92.4		81.7		80.4		81.0		87.8		83.2		82.8	
Intergovernmental revenues (operations related)/ operating revenues (%)	0.4		-7.3		12.6		10.5		13.5		5.7		10.0		10.7	
Service charges/operating revenues (%)	3.3		1.6		0.2		0.4		0.5		0.6		0.5		0.5	
Transfers (op. related)/ operating expenses (%)	58.0		57.9		73.9		70.1		72.7		67.1		69.9		69.8	
Primary operating balance/ operating revenues (%)	30.7		41.1		29.1		30.7		25.9		30.9		37.3		34.0	
Gross operating balance/ operating revenues (%)	27.2		39.1		26.9		28.1		23.7		28.0		34.8		31.6	
Net operating balance/ operating revenues (%)	-3.3		23.6		26.9		27.8		23.4		25.9		34.4		30.6	
Financing (deficit/surplus)[3]/ operating revenues (%)	-6.7		5.1		-17.6		-7.2		-13.0		-14.3		3.1		1.8	
Gross financing (deficit/ surplus)/ operating revenues (%)	-37.3		-10.4		-17.6		-7.6		-13.4		-16.5		2.6		0.7	

Prague, City of

CZK millions	1999 realized	%	2000 realized	%	2001 realized	%	2002 realized	%	2003 realized	%	2004 realized	%	2005 realized	%	2006 realized	%
CAPITAL ACCOUNTS																
Capital revenues/ total revenues (%)	0.1		0.3		0.8		2.4		0.7		0.2		0.6		1.4	
Capital expenses/ total expenses (%)	31.8		36.0		38.3		34.5		32.9		37.1		33.1		31.4	
Intergovernmental revenues (capital related)/ capital revenues (%)	25.2		96.3		77.4		98.5		99.9		91.3		97.8		96.3	
Net operating balance/ capital expenses (%)	-9.8		68.9		59.4		73.6		62.4		60.9		106.4		97.6	
DEBT																
Total debt growth rate (%)	--		8.4		53.0		96.5		63.1		2.7		1.5		-3.8	
Total debt per capita CZK millions	9.5		10.5		16.4s		19.4		31.5		32.3		32.5		31.1	
Total debt / total revenues (%)	48.0		48.6		63.0		64.9		98.6		103.0		86.5		80.8	
Total debt in yrs of gross operating balance (yrs)	1.8		1.2		2.4		2.4		4.2		3.7		2.5		2.6	
Debt growth rate (%)	--		1.4		56.4		78.1		62.4		-0.2		2.4		-3.0	
Debt per capita CZK millions	9.3		9.6		15.3		17.2		27.8		27.6		28.0		27.1	
Debt/total revenues (%)	46.9		44.4		58.9		57.5		86.9		88.2		74.8		70.4	
Debt in yrs of gross operating balance (yrs)	1.7		1.1		2.2		2.1		3.7		3.2		2.2		2.3	
Short-term debt/debt (%)	35.1		0.0		0.6		0.7		2.4		0.6		1.5		1.2	
Interest expense growth rate (%)	--		-38.6		24.8		5.0		-9.5		30.8		3.6		-0.9	
Interest expenses/total revenues (%)	3.5		2.0		2.1		2.6		2.2		2.9		2.5		2.4	
Debt service growth rate(%)	--		-45.3		-85.4		-87.8		-6.5		96.9		-30.2		22.0	
Debt service/total revenues (%)	34.1		17.4		2.2		2.9		2.5		5.0		2.9		3.4	
Gross new borrowings/debt (%)	68.4		38.4		38.5		11.5		39.2		4.6		4.9		0.3	
Gross new borrowings/debt repayment (%)	105.1		111.0		135664.0		2090.0		9777.8		189.2		838.1		19.7	
Gross new borrowings/ capital expenses (%)	94.4		50.0		50.4		17.9		91.6		9.6		11.4		0.7	
Debt repayment/gross operating balance (%)	112.2		39.5		0.1		1.2		1.5		7.7		1.3		3.4	

[1] Excludes new borrowings

[2] Excludes debt repayment

[3] Financing deficit/surplus before debt movements

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