Municipal Infrastructure Investments Contribute to Sustainable Economic Growth

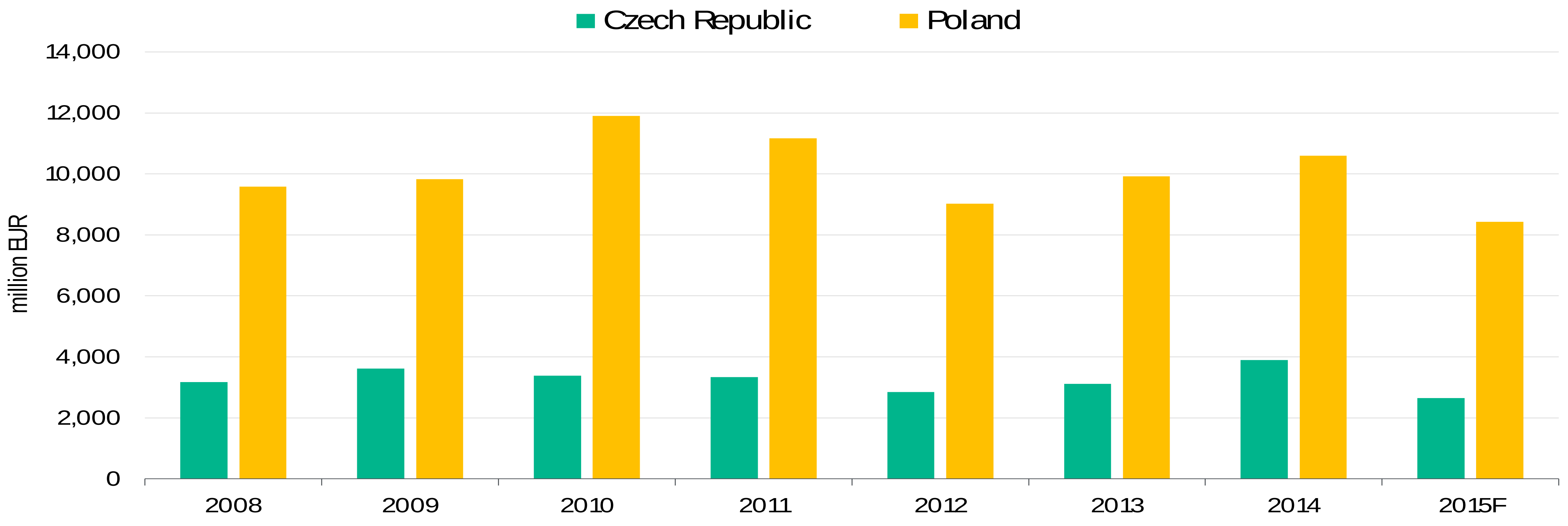
Case Studies from Czech Republic and Poland

Czech and Polish sub-sovereigns are key players in infrastructure development

- Czech and Polish sub-sovereigns are the most active infrastructure investors in Central and Eastern Europe (CEE)
- Over the past five years, Czech and Polish regional and local governments (RLGs) invested €67.9 billion in infrastructure
- The main focus was transportation projects (€27 billion), recreation and culture (€10 billion), education (€8.7 billion) and environmental protection (€8.4 billion)
- In both countries, investment spending as a percentage of GDP has been higher over the last five years (Czech Republic 2.2%, Poland 2.9%) than in their CEE counterparts (Slovakia 1.3%, Hungary 1.6%)
- Before 2020 approximately €62 billion will be invested in infrastructure in both countries

Czech and Polish sub-sovereigns are key players in infrastructure development (cont'd)

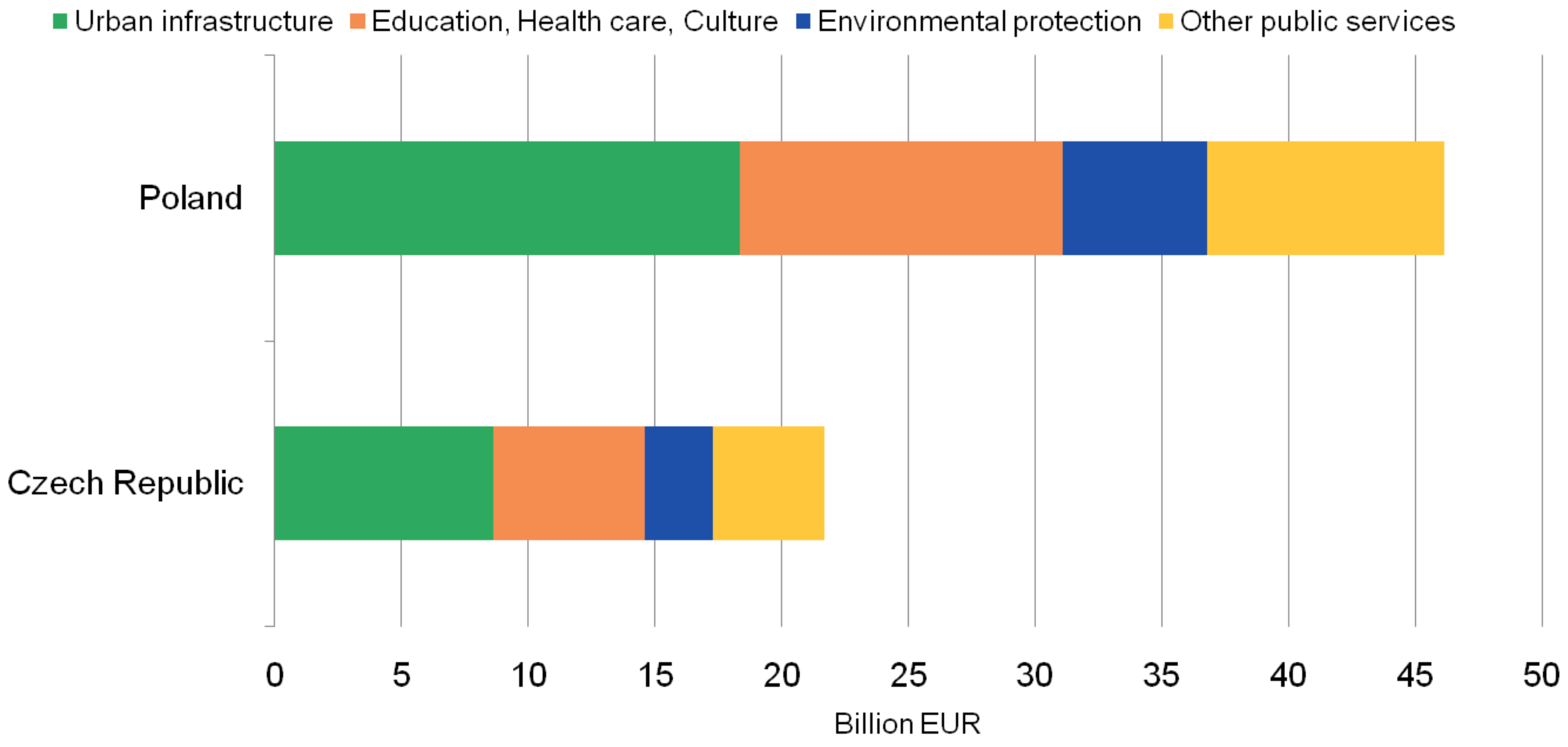
Total RLG capital investments per country



Source: Eurostat, author's calculations

Czech and Polish sub-sovereigns are key players in infrastructure development (cont'd)

Sub-sovereign capital expenditure by sector



Source: Eurostat, author's calculations

Higher value-added projects promote economic growth

Focus on higher value-added projects and the receipt of EU funds enables sub-sovereigns to overcome budgetary constraints and promote economic growth

The main areas of investment in the medium term will be:

Investments in urban infrastructure including transportation projects

Construction and refurbishment of social infrastructure and public facilities

Environmental protection

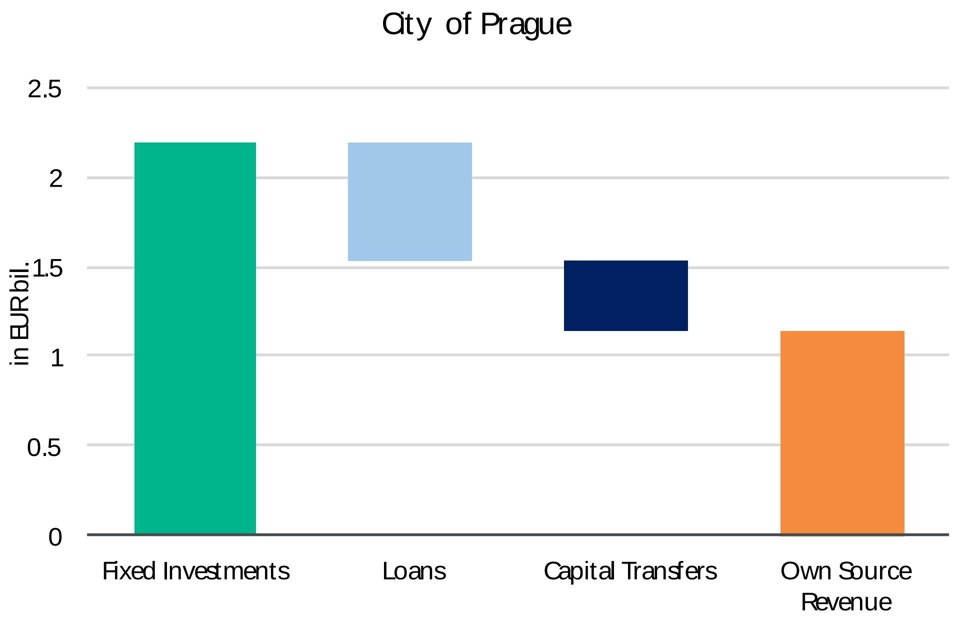
Czech and Polish sub-sovereigns are key players in infrastructure development (cont’d)

- Urban infrastructure, including transportation projects: improved urban mobility and better connections among regions enables the efficient and safe transportation of people, the labour force and goods and promotes tourism
- Construction and refurbishment of social infrastructure and public facilities: enhanced infrastructure improves the standard, availability and efficiency of public services, education, healthcare and social assistance
- Environmental protection: improving water and sewage systems to ensure the sustainable development of cities and regions, and compliance with EU directives

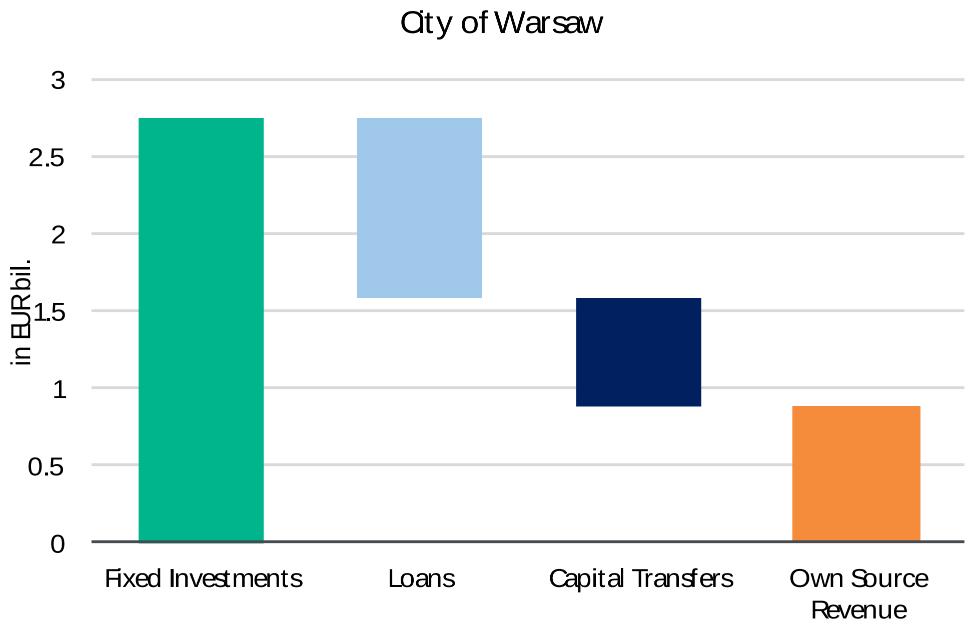
Capital cities’ investments and funding in 2008-15

Capital cities leading by example

- The two capital cities of Prague and Warsaw absorbed high proportions of the EU funds allocated to their respective countries for the 2007-13 programming period
- Prague and Warsaw received 12% and 13% of the country total, respectively



Source: City of Prague, City of Warsaw, author’s calculations



Czech and Polish sub-sovereigns' investments and funding

Czech Republic

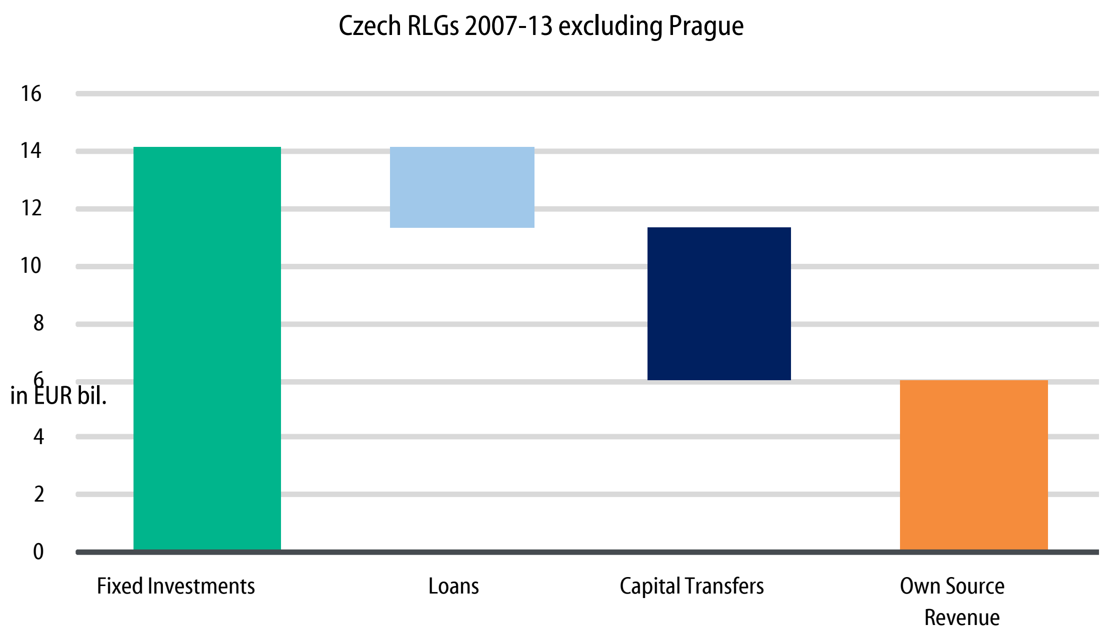
- EU capital transfers accounted for 40% of fixed investment expenses
- Prague – largest net beneficiary of EU funds in the Czech Republic
- RLG investment activity triggered new borrowing of EUR3.5 bln

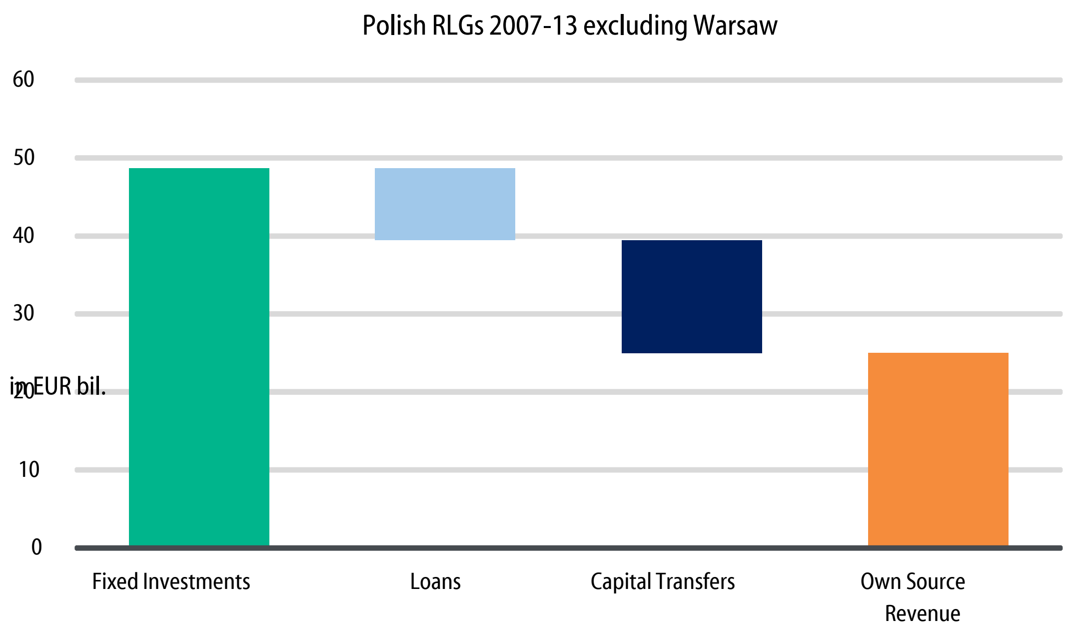
Poland

- EU capital transfers accounted for 47% of fixed investment expenses
- Warsaw – largest net beneficiary of EU funds in Poland
- RLG investment activity triggered new borrowing of EUR9.1 bln

Czech and Polish sub-sovereigns' investments and funding

Compared to other CEE countries, Czech and Polish sub-sovereigns benefited more from EU capital transfers





Source: Eurostat, Czech Ministry of Finance, Polish Statistical Office, author's calculations

EU capital transfers will be the main funding source for sub-sovereign projects beyond 2015

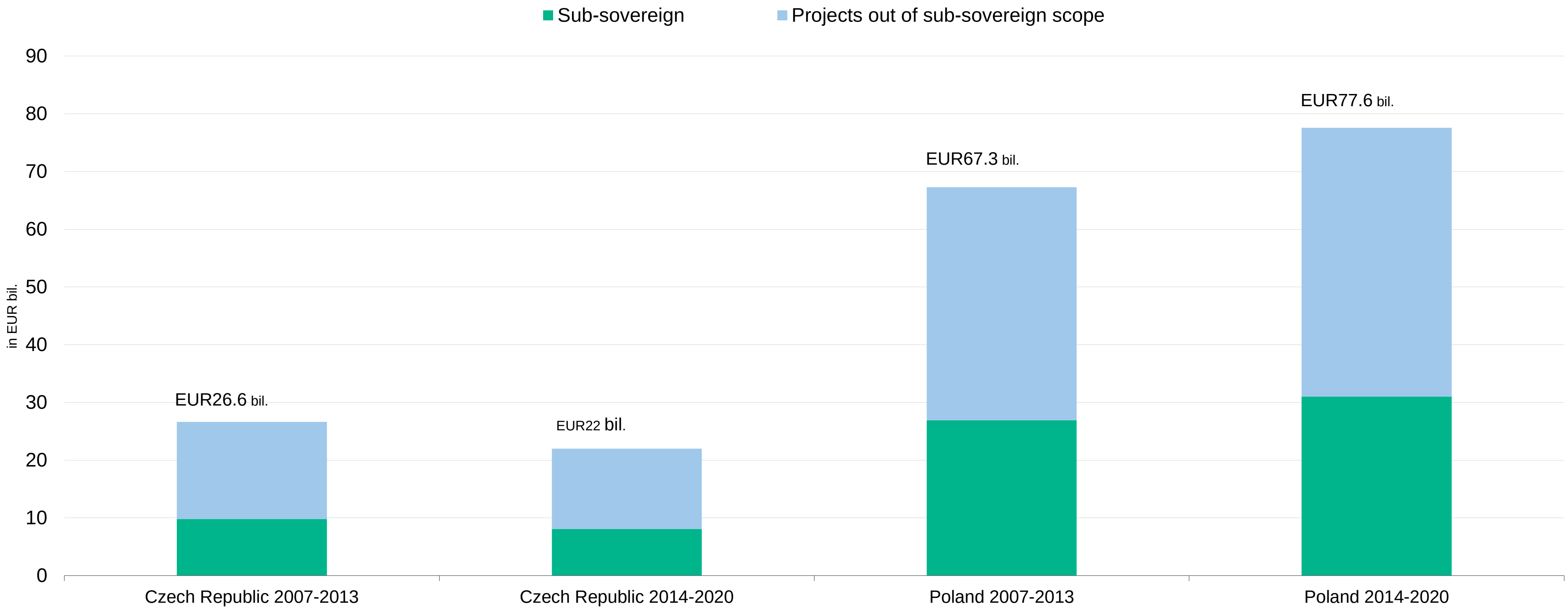
- EU capital transfers for the 2014-2020 programming period will account for roughly 50%-55% of Czech and Polish sub-sovereign investment activities

- In 2014-2020, total EU triggered capex is likely to reach €13 billion in the Czech sub-sovereigns and around €49 billion in case of Polish sub-sovereigns, including their own contribution, which is equivalent to 2.1% of the Czech Republic's GDP growth and 2.8% of Poland's GDP during that period

- Of the €39 billion allocation for the sub-sovereigns of both countries, estimate is that €8.1 billion could be destined for Czech sub-sovereigns and €31 billion for Polish sub-sovereigns*

* calculations are based on the sub-sovereign share on EU capital transfers allocation in 2007-13

Consistent EU allocations will help finance investments beyond 2015

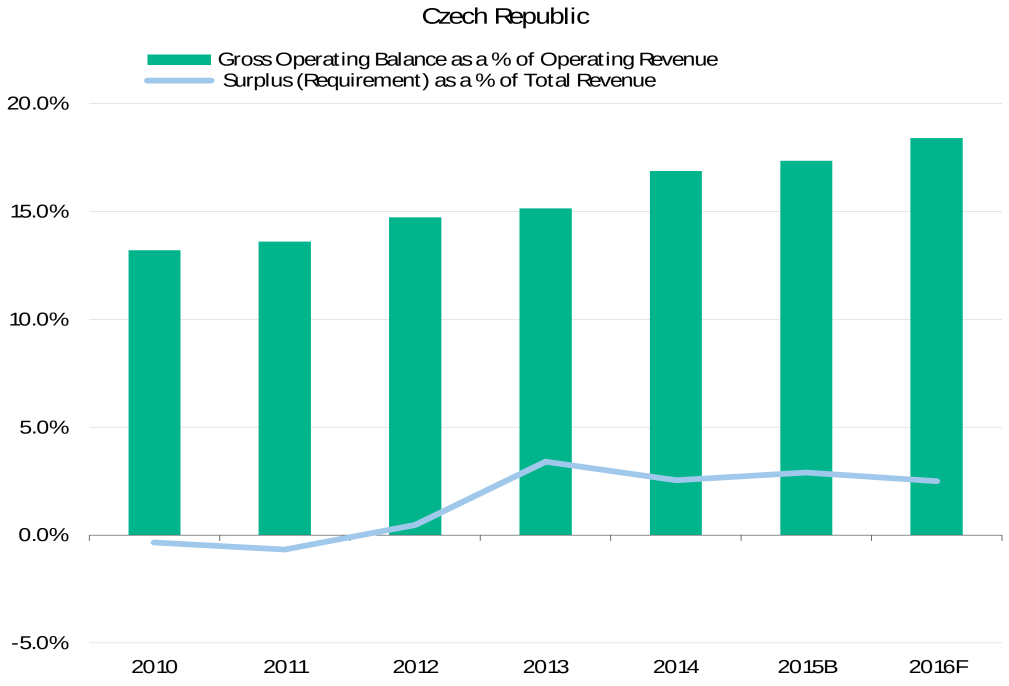


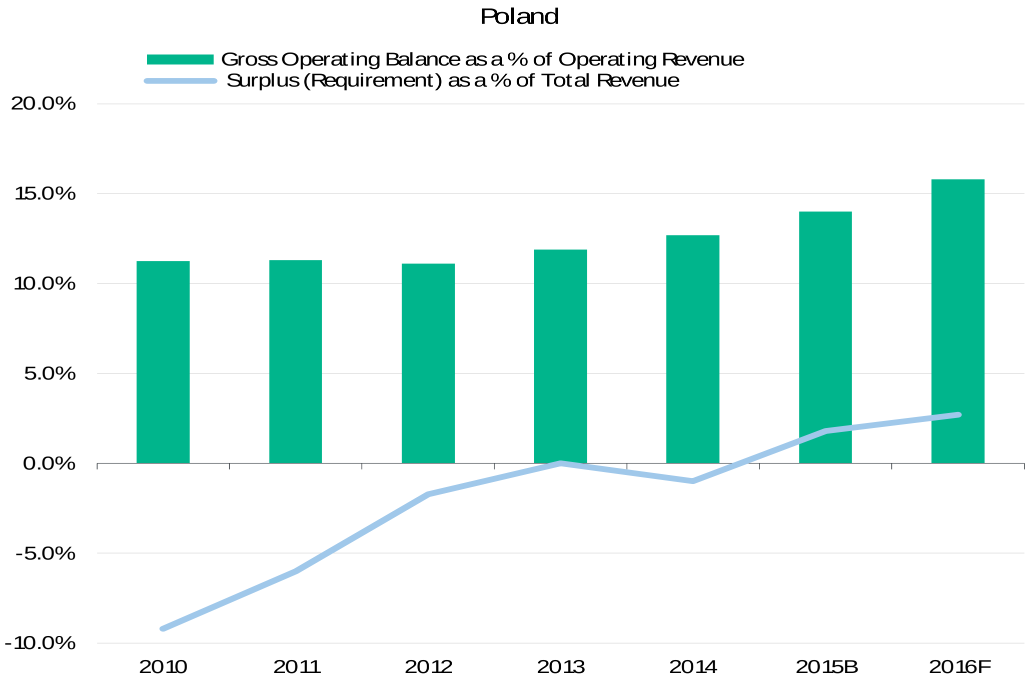
Source: European Commission, author's calculations

Co-funding of EU-sponsored projects will not exert much pressure on sub-sovereign budgets

Czech and Polish RLGs have:

- Solid overall operating performances
- Improving financial results
- Relatively low debt levels (2.9% of GDP in the Czech Republic and 4.3% of GDP in Poland)





Co-funding of EU-sponsored projects will not exert much pressure on sub-sovereign budgets

- Prague and Warsaw are aiming to self-finance investments given their greater revenue-generation capacity and stronger financial performances than their domestic peers

- Capital cities’ investments expected to be supported by co-financing from the EU or central governments, avoiding as much as possible a recourse to debt

- Both cities on track to align their capex funding scheme with the approach used in 2007-13

Thank you