Investing in Czechia and in Accession Countries of Central Europe: the Pros and the Cons

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1. Geopolitical situation

In this paper the accession countries of Central Europe mean Czechia, Poland, Hungary, Slovakia, Estonia and Slovinia. The mentioned countries represent 68 million inhabitants with GDP of $ 320 billion at present exchange rate. Its real potential is approximately $ 600 if the purchasing power is taken for a benchmark. That implies that if the transformation of their economies is completed and those countries adjust to the environment of EU (let us say in 2010) then not only the local prices in the non-traded commodities could converge to the standard levels of such countries like Greece and Portugal but also the standards of living and the consumer behaviour in them could be equal or even become higher than in these two countries of present EU.

With a certain degree of fantasy and optimism regarding the EU enlargement, the Czech Lands can become the geographic centre of a region comprising all Europe, with nearly 700 million consumers. This would include 170 mil inhabitants of the Eastern and Central European countries, approximately 160 million of Russia and 370 million of the West European countries. Nearly a half of a billion of inhabitants would be integrated in one single market, though some of them only under a status of a free trade area or a customs union. Czechia, Poland and Hungary would thus become closely associated with the German hub of such a market. The development of CEFTA (or, in the near future, club of countries closely associated with EU on grounds of free trade arrangements) with potentially 110 million inhabitants is an initiative aimed at speeding up this most ambitious process.

Since the non-member countries of EU are, from the very nature of integration arrangements, challenged by not only higher transportation costs but also by various administrative costs, their competitive edge decreases and the level of profits earned is curtailed. Since Japan is one of those countries that could be hit most harshly by the EU economic discrimination, it should be of her paramount interest to retain the access on EU markets by dislocating a part of Japanese production either directly into EU or into countries associated with EU under free trade agreements. As was found in analytical studies of Czech factor intensities and competitiveness (see Benacek (1999), Benacek, Gronicki et al. (1999), Benacek and Zemplinerova (2000), Djankov and Hoekman (1998), Hunya (1998), Pommery (1998)) the production in the accession countries has comparative advantage in labour intensive commodities where the labour requirements are in demand are for the medium-skilled or technically skilled workers. Even a part of the R&D can be provided effectively in those countries. Therefore the recent intensive location of electronics, car assembly, car components and electricity material from highly developed into accession countries was a decision prudent from the economic point of view.

Another aspect, even more important, can be the access from this EU periphery to the core. In contrast with Portugal, Greece, Spain or Ireland, the access to the core of EU markets (comprising Berlin, Nurnberg, Munich, Milan and Vienna) from CEFTA countries, is much easier, including the distance measured both by geography and culture. The aspect of economies to scale and the gain of the market power by retaining a significant market share on the Eastern flank of EU is a unique chance that should not be neglected. What is also of importance is the fact that accession countries, though poorer in GDP per capita than the least developed countries of EU, are expected to have a prospect of a long-lasting fast growth in their GDP per capita calculated in US Dollars. This growth, combining the fast real growth of 3-5% with annual real exchange rate appreciation [1]

2. Foreign Direct Investment into Accession Countries

Though not very high, if compared with the FDI flows to the developed market economies or to some newly industrialised countries in Asia, the FDI to many post-Communist countries of Europe was significant. It was close zero in 1989 and $ 5 bn in 1994, but in 1998 and 1998 the annual inflows reached $ 18.5 and $ 17.5 bn respectively (WIFO [1999] Database on FDI). UNCTAD estimates that the total FDI flows in the world were $ 644 bn in 1998 (UN [1999]). The recent increasing trends of FDI inflows to Central and East European countries (CEECs) notwithstanding, the results for the whole region in 1998 still represented only 2.7 % of that amount.

The standing of CEECs would be even weaker if we considered their share on total accumulated stock FDI in the world (estimated at $ 4088 bn in 1998). UN (1999) statistics indicate that the FDI stocks in European post-Communist countries reached altogether $ 83 bn at the end of 1998. That would indicate that these 5.1% inhabitants of the world received only 2% of the total world FDI stock in 1998. However, one should keep in mind that there is a deep variation in the FDI absorption among CEECs. The main recipients belong to the accession countries of Central Europe. They received a flow of 4.5 bn $ in 1994, 8.1 bn $ in 1996 and $ 11.6 bn in 1998. Their FDI stock in 1998 was $ 63 bn.

It is clear that the amount of FDI inflows depends on the stage of transformation to market-based economies. The countries (including Russia, Ukraine, Belarus, Lithuania, Latvia and the Balkan countries, altogether with approximately 260 mil inhabitants) have all received in 1998 $ 5.9 bn, what makes $ 23 of FDI flows per capita only. Their total FDI stock is estimated at $ 23 bn. On the other hand, the most intensive FDI total absorption at the end of 1998 was in Hungary ($ 18.3 bn), Poland ($ 24.8 bn) and Czechia ($ 13.5 bn). These countries represent over 60 million inhabitants what makes approximately 940 $ of FDI stock per capita, what is quite an imposing record achieved in mere 8 years.

As the economies of the accession countries keep proceeding in their process of restructuring, modernisation and openness, we can assume that the inflows of FDI to them would continue at an abated intensity or even increase. It can be also expected that, due to past financial shocks, the attractiveness of many Pacific Rim countries and some Latin American countries will get under an abatement. The stabilisation of Germany after the shock of absorbing Eastern Germany and the present expectations of increased German growth rates when the planned new taxation scheme into operation, these are factors that could strengthen the position of Europe in the world three super-power conquest. Then one could conclude **that the Central European accession countries might soon become candidates for one of the world's most attractive and the most important destinations of foreign capital investment outside the club of industrially developed countries**. Thus we can expect an acceleration and not a slow-down in the future FDI activities in that region. Recent FDI annual inflows of the mentioned accession countries, with $ 173 per capita in 1998, was already higher than what was

[1] *This monetary based growth is caused by the processes of price convergence and the unit labour cost appreciation since the post-Communist countries entered the world economy in 1990 with depressed prices (especially in the non-traded commodity sectors) and very low wages.*

achieved in 1998 in Latin America ($ 145) or the world average (109) – see UN [1990]. The results would be even more impressive if the most recent flows of FDI is calculated per thousand $ of GDP (in nominal USD), what is shown in Table 1.

Table 1: FDI flows per capita and per GDP in 1998

Country	FDI $ mil	Inhab. mil.	GDP $ bn	GDP/capita $	FDI as % of GDP	FDI/capita $	FDI/GDP $
Portugal	1800	9,8	107	10904	1.7	183,67	16,84
Chile	4600	14,8	73	4932	6.3	310,81	63,02
Malaysia	3800	21	98	4682	3.9	180,95	38,65
Mexico	10200	100,2	415	4141	2.5	101,80	24,58
Argentina	6150	36,1	298	8255	2.1	170,36	20,64
Austria	6000	8,1	212	26180	2.8	742,57	28,36
Hungary	1940	10,13	45	4436	4.3	191,51	43,17
Poland	5100	38,7	136	3519	3.8	131,95	37,49
Czechia	2655	10,3	56	5474	4.7	257,77	47,09

Source: IMF Monthly Report, June, 2000

3. Foreign Direct Investment into the Czech Economy

The average annual volume of Czech FDI inflows, measured as a percentage of GDP in the period 1993-1998 (converted to US$ at commercial exchange rate), is comparable with recipients as successful as Spain or Portugal. The Czech average of 3.6% was higher than what was received during 1991-96 by Spain (1.4%), Portugal (2.5% - see Corado et al. [1996]) or Chile (2.5% of GDP during 1990-95). A less satisfactory result will be received if the FDI per capita or FDI per GDP in PPP were used as a criterion. Here, until 1998, the Czech FDI relative intake lagged behind both Spain and Portugal. However, the inflows of 1999-2000, reaching nearly exactly the same amount as in the previous 10 years (i.e. $ 11.2 bn) stroke with an intensity that was not expected by any optimist.

The accumulated amount of incoming foreign direct investment to the Czech Republic reached only $ 5.7 bn in 1995. At that time approximately 60% of all FDI were deals negotiated with the government. After 1995 the initiative was moving to stock market and private transactions. This also brought with itself an uncertainty about what was and what was not an FDI and the problems of measurement were mounting. The total stock of FDI at the end of 2000 is estimated to reach $ 22 billion.

Table 2 suggests that FDI was not an exclusive foreign funding coming to Czech economy. Long-term foreign credits, with a net contribution of over $ 9 bn during 1990-99, became a very important element of restructuring of the Czech economy. Also the inflows of foreign portfolio investments were significant, though the institutional arrangement at the Czech capital market was ailing chronically. The net inflows of foreign capital of all kinds, (including the consolidation with the negative balance on the factor payments), amounted to $ 23.8 bn during 1991-99. That was more than any of the annual volumes of domestic savings in the post-Communist period.

As far as the industrial composition of FDI is concerned, financial services, hotels, telecommunications, trade networks and business services attracted at least 38% of all FDI. The manufacturing industry was the most important beneficiary - attracting approximately a half of all FDI until 1999. The highest attention of foreign investors was dedicated to automobile industry, electronics, glass, building materials, plastics, rubber and the food industry. The remaining 10% went to various unspecified services. Agriculture, mining and other natural resources received little (if any) attention.

4. Summary of Main Issues in the Czech Economic, Political and Social Spheres

The following main sources for sustainable growth of the Czech economy in the future can be mentioned first:

a] Foreign direct investment because of its high productivity, reinvestment of profits, high profitability, availability of credits and ability to export.

b] Intensive credit lines from domestic resources, because the Czech savings rate is one of the highest in the world.

c] Credit lines from foreign banks because Czech interest yield is and will be higher than the world average.

d] Small and medium-sized businesses because their property rights were solved. As they produce approximately 35% of GDP, at 2004 approximately 85% of GDP will be produced by enterprises that would be able to withstand the competitive pressures of the free EU market.

e] Relatively skilled labour, especially in technical fields and in electronic business (though not the high-tech labour).

f] The rising quality of Czech products that are accompanied by rising export and domestic prices (what is, by confusion, often interpreted as inflation).

g] The exports to EU and to the accession countries have been sharply rising in the last 16 months, notwithstanding the real appreciation of Euro.

The following problems can be enlisted as the main impediments to growth:

a] Problems with legislation (especially its enforcement).

b] Very high taxation burden [2] (including hidden extra-budgetary revenues and spending), relative to the low Czech GDP per capita.

c] Rising bureaucracy up to the levels that are hardly tenable for a country with $ 6000 per capita (see tables 3 and 4); this problem is correlated with the previous point of high taxation that allow to run inefficiently functioning Government institutions. The state sector could then accumulate too many functions and powers which could be better managed by private commercial sector or by NGOs.

d] Collusion between the politics on one hand and the (ailing) business sector and the inefficient bureaucracy, leading to corruption, nepotism and unwillingness to speed-up the legal changes. The embedded common vested interests among politicians, collapsing former state-owned behemoth enterprises and bureaucracy explains why there was for such a long time postponed the legal framework for deep restructuring and bankruptcy, and the introduction of a modern (or even liberal) system of institutions of the State and the markets.

e] Delays and political disputes about the privatization of banks.

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[2] *Officially the share of the taxation quota on GDP is 44%. Unfortunately the extrabudgetary revenues of the State is generally larger in transformation countries than in developed market economies. Therefore, in the Czech case, the State finance should be extended by at least by another 6-8% of such funds like transactions of the Czech National Bank (inflation tax, seignorage, intervention gains), the Fund of National Property, quasi-fiscal budgets of Konsolidation Bank, hidden debt, unpaid taxes and social insurance, etc. See for more details Corricelli et al. (1997) or Benacek (1997)*

f] Low working morals (lack of initiative, resistance to cooperation, absenteeism, etc.) in a part of working force, as a legacy of the Communist past. The other side of the same coin is a shortage of labour that would services pertinent to the standard requirements of a 40-hours' working week.

g] The high inflows of FDI and recent surpluses in the trade with EU will cause the Koruna to appreciate what will undermine the competitiveness of Czech exports and bring in more imports that will squeeze-out the domestic competing production.

Now let us talk some of the problems in more detail:

(1) The two years of depression (summer 1997-summer 1999) in the Czech economy, when the GDP fell by 4.5% in 24 months, was a turning point in the local and international expectations for the development of this country. Depressed wages, falling employment and tight credit conditions generated a substantial drop in domestic demand. The economic decline slowly bottomed out in the third quarter of 1999 and the cycle then turned into a revival. At present the growth rate is around 3% per year and the prospects for a mild further increase are quite realistic.

(2) There are many misunderstandings about the main reasons for the past Czech recession. Some politicians and industrial lobbyists blame the Czech National Bank and its tight monetary policy. Though its tight policy for about 6 months in 1997 accelerated the slow-down, it definitely was not the cause of the problems. The Bank's policy since 1998 was either neutral or expansionary, bordering at inflationary rebounding.

(3) It is obvious for any impartial observer that the economic setback resulted from slow enterprise restructuring, misconceived privatization, mishandled financial system and lavish credit sprees of the commercial banks. Multiplied by over-optimistic macroeconomic reports praising the "Czech economic miracle", they all opened space for false positive expectations, rent seeking, asset stripping and a moral hazard in businesses. The cycle was the natural mechanism of postponed adjustment. It had its high costs but also it could have its positive purgatory effect, bringing about a new wave of growth based on sounder economic foundations.

(4) The flawed real economic system got into a deadlock once the rule of law became non-operational and the property rights could not have been enforced. The procrastination of legislative reforms, including the setup of an operational system of judiciary, will remain for long one of the most important impediments to prosperity in this country.

(5) The financial paralysis of Czech indigenous enterprises will continue. The small businesses, though quite successful in restructuring, will remain without sufficient credit funding because of weak or missing laws against payment defaults. The domestic corporate sector cannot be credited because of its intransparent ownership.

(6) The firms with foreign capital will be exempt from these problems and their fast drive for the dominance in this economy will continue unabated.

(7) The presence of the foreign capital has been in fact much higher than what the past government (committed ideologically to the "Czech way" of privatization) has recorded. Instead of mere USD 7 billion of FDI stock in 1997, the real absorption was at least $ 12 billion. In 1999 the foreign capital produced approximately 25% of GDP (at the official statistics). By considering the real state of the affairs and by indirect influences of the foreign capital, foreign capital actually controls approximately 35% of the Czech GDP. In 2004, when Czechia should become a member of EU, it will be over 50%.

(8) The use of current economic policy mix will continue. Law interest rates and historically high general government deficit will be retained until the economy gets on a path of a high growth (definitely not before 2001). The fiscal expansion will partially contribute to the recovery, whatsoever inefficient the present Government schemes will be. However, the rising public debt will be a burden levied on future growth.

(9) The economy needs further stimuli for its success. It is not the macroeconomy that needs revamping in the first place. The core of the problems is in the ailing microeconomic functioning at the level of firms (see point 9 above for a review).

(10) A large part of the present "new industrial policy" (budget deficit, revitalization program, export promotion) is generally but a political window-dressing. Unless the consolidation of big unsuccessful and indebted companies is made tightly conditional and based strictly on objective criteria (what would be done better by commercial banks), the agony of those enterprises will be but prolonged.

(11) The privatization of the three biggest Czech banks (KB, CSp and IPB) will have to be helped by bailing-out schemes requiring an approximately 5 billion US$ from the public funds. This will be the cost for having a prudent banking sector in a performing state in 2003.

(12) The FDI promotion scheme is the most important industrial policy instrument. Once its inconsistencies in the government proposal are settled, it may become a major break-through in the Czech policy-making.

(13) Owing to expected terms of trade improvements, currency real appreciation and prudent monetary policy, the inflation will not be a credible threat. There seem to be only a minor transitory inflation risk in the future, as a consequence of recent relaxation of monetary policy, the deregulation of some prices and the real wage growth outpacing productivity gains.

(14) Because of only a piecemeal progress in creating an efficient legal framework to regulate the local capital market and the behaviour of its agents, the lost confidence in Czech Republic from foreign portfolio investors will not recover soon. The responsibility for the local financial services will be left for long on banks.

(15) The political system seems to be the weakest link in the organisation of the Czech society. The myopic parties lacking both the sense of direction and the will to communicate with the public, is a problem that will not be easily changed.

(16) It seems that the stability of the present CSSD minority government has recently much improved after the economic recovery, the Government reshuffle and the professional handling of the privatization of banks. Forming a new right-left coalition with ODS cannot be excluded as an option for the next elections due to a new electoral system that protects the large political parties. These two parties in fact cooperate on grounds of an Opposition Agreement signed in 1998. This explicit political cartel allows them to dominate the local political market.

(17) Public opinion polls in the last year showed that reformed Communist Party has seen its biggest jump in support (up to 20%). It is a natural rebounding of a social system in crisis. As the economy will recover, the preferences for Communists will return back to its normal level of approximately 16%.

(18) Though the social situation is serious, a possibility of a lasting general social unrest in Czechia is low. We can envisage problems with farmers, railroad workers and the medical workers. One should not expect that the unrest would get further than to uncoordinated and isolated short-term strikes.

(19) The progress and prospects for the EU enlargement remain still high. Even though the accession term of 2003 was not so far disclaimed by the European Commission, it was neither confirmed. Though in 1998 and 1999 the Czech government was criticized by the European Commission for a slowdown in preparations to join the EU, the attitude in this year has turned to more positive approaches. The slow progress in introducing the communitarian laws on the Czech side and the problems with reforming internal EU institutions (Euro, voting rights and CAP) will remain the major hindrances to speeding up the Czech accession.

5. List of Expected Czech Reforms

In order to bring the country to stability (both macro and micro-economic) and on the path of a fast growth, the following problems should be brought to a change. The list reflects some essential current issues discussed in the Czech society. The majority of them have been already officially investigated and some pending reforms will be even soon introduced.

a) The **political system** should generate better politicians that would consider politics and the Government services as a service to the public and not a service the vested interests of their own or of their parties. The present generation of politicians in their 50s and 60s should be replaced by a more innovative structure of power. With a bit of luck, this can happen in the next elections.

b) The existing social incentive schemes, opening too large window of opportunities for rent-seeking, re-distribution of property and appropriation, should be turned into the preference of creative activities, productive entrepreneurship and co-operation. This can be called a **moral revival** of the society and its elite that should come along with the changes in the political system.

c) The **role of the state,** involved in the redistribution of the GDP (approximately 50% of the GDP is taxed or appropriated by the government) should decrease. This will give less power to the bureaucracy and offer more opportunities to the private sector.

d) The past attempts to **re-vitalise** the economy by relying on the state capitalism are ill fated, leading only to the growing indebtedness of the state. It should be superseded by a reliance on **private initiative** what the present Government began to consider.

e) The pre 1998 lukewarm or even suspicious relationship to the **EU accession** has been recently changed at the level of the Government to a more co-operative pragmatic attitude.

f) The **legislation and the judiciary** should become the underpinnings of the rule of order, superseding the present frail (and in some respects practically non-existent) enforcement of the law. The past tendency to leave the contracts incomplete, what resulted in general cheating among trading partners (the Czech ingenious word for this activity is **"tunneling"**), is no more tenable politically because the public opinion is highly hostile against it. The legal system and the judiciary are also slowly "turning the screw" and the most flagrant cases have been recently prosecuted.

g) A new wave of a **real privatisation** (mostly by foreign owners) will continue and redress the fatal errors of the voucher privatisation, which led to dispersed ownership and weak corporate governance.

h) The **privatisation of banks** should improve the functioning of the **financial market**, helping thus transfer the large fund of savings available into efficient investments.

i) A reform of the **pension system** should proceed during the next 7 years when the ratio of retired persons (the wave of the post-war baby boom) on the working population will dramatically increase. This reform is also closely connected with the help to the ailing **capital market**.

j) The system of **taxation** is inefficient and the tax evasion should be eliminated. The tax burden should be reduced to approximately 38-40% of GDP.

k) A real **regulation of the capital market** should supersede the present timid attempts and terminate the Wild East approach to stock "trading" that has damaged this economy so much during 1993-96.

l) The whole strategy of preparation for EU accession should be overhauled and transferred into a manageable system. The **adjustment of the local legislation to EU** legislation should be speeded up urgently, otherwise Czechia may be delayed from the entry.

m) The **regional administration**, included in the constitution since 1993, is due to be established in 2001-2.

n) The principles and the organisation of the **public service** are undergoing through a process of overhauling and the present practice will be soon regulated by a new law.

o) The number of public sector clerks should be substantially decreased (e.g. by 30%) so that the **power of bureaucracy** is reduced. Unfortunately, although this is one of the most fundamental problems to be changed, necessary changes will be difficult to start with.

p) The **incentive scheme for foreign direct investment** should be revamped and bring an even more open environment for investments from whatever sources (foreign or domestic). The incentives should be extended to include the promotion of subcontracting of indigenous firms by more successful foreign-owned firms, so that the spillovers from the latter to the former are significantly higher than it is at present.

q) The **price deregulation** in energy, fuels and some government services should be speeded up.

r) The **prices of housing and land** should be deregulated so that a normal market in real estates can be established.

s) The **natural monopolies** (such as electricity grids and public utilities) should be regulated once the markets are not effective in those fields. The regulation should be accompanied by their **privatisation**.

t) The **health system and the health insurance** need a global change that would fincrease their efficiency, as its system of financing and incentives was neglected and delayed for long.

u) The regulation of farming products and the system of **subsidies to agriculture** should be adjusted to the regulatory norms of the EU (even though one has doubts whether this is a rational system).

v) The reform of **basic and secondary education** should be quickly initiated because these schools fail in providing the necessary skills required in globalized societies.

w) The fee-free **university education** excludes 60% of applicants because of the Government controlled quotas. The result is a corruption and a low quality of high education. The system should be changed and more open approach introduced.

x) A new system of financing the **basic and applied research** should be implemented, allowing for competition and efficiency. The system separating the high education from R&D should be abandoned and the incentive schemes for research should promote more the applied character of R&D and reward the performing researchers.

Though the mentioned list of main problems looks too demanding to implement just in one generation, one should realize that what matters is a tendency to a change. I believe that the recently overcome deep crisis and the problems with EU accession can also become assets obviating the impediments to growth.

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Appendix : Selected Macroeconomic Indicators for the Czech Republic in 1989-1999 (22/7/00)

I n d I c a t o r	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999[g]
Nominal GDP [a]	524.5	579.3	749.6	846.8	1002.3	1148.6	1348.7	1532.6	1680.5	1798.0	1836.0
Real GDP[b] % annual change	4.5	-1.2	-14.2	-6.6	+0.6	2.7	6.4	3.9	1.0	-2.7	-0.1
Productivity of labour[b] 1990=100%	100.4	100.0	90.7	87.2	88.9	90.3	94.3	96.9	98.5	98.1	99.2
Real wage (1990=100)	98.2	100.0	73.7	81.2	85.7	92.8	100.7	109.2	112.6	111.2	114.7
Real output of industry [b] 1990=100%	103.6	100.0	77.7	69.5	65.8	67.2	73.0	77.7	81.2	82.6	80.4
Real output in industry[b] %	2.4	-3.5	-22.3	-10.6	-5.3	+2.1	8.7	6.4	4.5	1.6	-3.4
Employment in industry (thous.)	2177	2025	1948	1798	1710	1619	1628	1615	1587	1550	1451
Real output in construction[b] %	2.4	-2.6	-35.6	+4.2	-7.5	+7.5	8.5	4.8	-3.9	-7.0	-4.9
Producer price annual inflation %	1.2	16.6	54.8	9.9	13.1	5.3	7.6	4.8	4.9	2.2	3.4
Consumer price annual inflation %	1.9	10.0	57.9	11.1	20.8	10.0	9.1	8.8	8.5	6.8	2.5
Real personal income [b] % change	2.2	-0.2	-27.1	5.9	5.6	8.2	8.5	8.8	1.9	-1.3	-0.7
Private consumption [b] % change	2.8	6.7	-28.5	-15.1	+2.9	5.3	6.9	7.0	1.9	-2.7	0.9
Public consumption [b] % change	+7.6	-0.8	-9.1	-3.1	-0.1	-2.3	-1.2	+4.3	-1.8	-1.0	1.1
Share of savings on GDP %	n.a.	n.a.	36.7	27.4	27.3	30.1	34.1	35.5	33.9	32.2	30.0
Houselold savings per dispos. income	4.2	0.3	8.9	7.8	11.7	10.5	14.0	12.7	13.0	13.0	11.8
Fixed capital invest. [b] % change	+3.2	-2.1	-17.7	+6.3	7.1	16.3	21.0	8.7	-4.2	-3.7	-3.0
Share of investment on GDP %	32.5	28.7	19.2	25.0	27.7	30.1	34.9	38.0	36.7	33.5	32.6
Change in inventories [b] % p.a.	3.8	12.1	2.9	-18.2	-11.1	-8.1	+16.4	+105.8	+31.4	-33.6	?
Profits per production costs %	n.a.	n.a.	n.a.	n.a.	1.8	3.7	4.3	2.2	2.1	3.6	4.0
Aggregate effective demand %	n.a.					n.a.	11.5	6.4	2.9	3.0	0.0
Average wage per month in $	212	195	142	163	199	239	308	357	337	388	395
Rate of unemployment %	0.0	0.8	4.1	2.6	3.5	3.2	2.9	3.5	5.2	7.5	10.0
% of non-state sector on GDP	11.2	13.1	17.3	27.7	45.1	56.3	63.8	74.7	77.0	82.0	85.0
Bad debts in banks (incl. Konsol. Bk) [a]	n.a.				n.a.	283	308	324	337	332	375
Inter-enterprise indebtedness [a]	n.a.	39.3	113.2	94.4	138	119	122	121	144	154	180

--- to continue ---

I n d i c a t o r	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999[g]

Exports (incl. Services) [c]	16401	13833	12576	13860	18952	21086	28181[f]	29870[f]	29679[f]	32943[f]	34116[d]
Imports (incl. Services) [c]	15482	14611	11187	15860	18466	21978	30016[f]	33824[f]	32537[f]	35465[f]	34595[d]
Current account balance [c]	292	-721	356	53	456	-787	-1369	-4292	-3156	-1822	-1058
Nominal exch. Rate (Kc/$), average	15.1	18.3	29.5	28.3	29.2	28.8	26.6	27.1	31.7	32.3	34.6
Nominal exch. Rate (Kc/DM)			17.8	18.1	17.6	17.7	18.5	18.1	18.3	18.3	18.9
Real exch.rate DM (PPI) 1990=100%	100.0	124.8	125.8	119.3	101.6	98.7	97.5	90.3	87.6	82.9	82.0
Share of OECD on exports [e] %	38.1	45.0	55.8	68.5	69.9	71.4	76.8	74.2	75.1	77.0	78.0
Exports to EU 12 [c] (goods)	3423	3407	4020	5402	6509	7704	9406	9114	13545[f]	15100	17200
Imports from EU 12 [c] (goods)	3412	3895	3530	6108	6717	8326	11747	13236	16767[f]	18300	18000
FDI annual inflow [c]	n.a.	49	595	1003	654	869	2562	1428	1300	2719	5108
Share of FDI on investment %	0.0	0.7	10.7	14.1	6.5	7.4	16.3	8.0	6.9	13.1	20.0
Total external Debt [c]	7900	8100	9400	7762	9605	12210	17190	21181	21617	23758	23974
GDP per capita in current US $	3360	3010	2455	2890	3280	3500	4820	5460	5177	5645	5020
Budget deficit or surplus [a]	+3.5	+4.2	-12.0	-1.7	+1.1	+10.4	+7.2	-1.6	-15.7	-29.3	-32.0
Share of public budgets on GDP %	67.2				47.2	46.3	45.8	45.7	44.7	43.8	43.0
M2[a], % change	4.4	3.7	27.3	25.4	19.8	19.9	19.8	9.2	10.1	5.2	8.0
M1[a], % change	n.a.	-10.0	+26.7	+15.0	+16.3	17.3	12.3	4.9	-6.4	-2.6	3.0
Average lending interest rate %	5.0	6.1	15.4	13.8	14.9	13.0	13.2	13.4	16.2	11.7	9.0
Loans [a], % change	-2.0	-7.7	+14.5	+13.7	+17.9	+14.8	6.9	8.1	2.7	9.3	1.0
Foreign Exchange Reserves of CNB [c]	n.a.	1200	3300	843	3872	6243	14023	12435	9774	12600	13900

Sources: Statistics of the Czech National Bank (1993-97), Czech Statistical Office (1993-98)

Notes: [a] billion Kc, nominal [b] billion Kc, until 1992 constant prices of 1984, since 1993 constant prices of 1994

[c] million U.S. dollars [d] provisional figures for trade [e] without trade with Slovakia

[f] new methodology - including processing traffic and leasing which enhance the total figures for exports by 26% and for imports by 22%, relative to methodology before 1995. The augmenting factor for EU exports is 38% and for EU imports is 31%.

[g] provisional data of March 2000

Table 2: Review of the Czech FDI, portfolio investments, long-term credits and deposits from abroad (in million USD)

Item	Foreign financial flows	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1990-1999	*2000 estim.*
1	FDI annual inflows (in current $)	49	546	1003	653	868	2562	1428	1300	2719	5108	16236	*6000*
2	Growth rate of FDI (prev. year=100	-	1,114	184	57	152	297	56	91	209	188	-	*117*
3	FDI flow per capita (in $)	4.8	53	97	55	84	250	139	127	265	498	1584	*585*
4	Cumulated FDI stock from abroad	49	595	1,598	2,251	3,119	5,681	7109	8409	1112	1623	-	*22236*
5	FDI / GDP in current prices (in %)	0.09	2.25	3.54	1.80	2.18	5.05	2.52	2.50	4.88	9.63	27.4	*10.00*
6	FDI / total gross investment	0.7	11.7	14.1	6.5	7.4	16.3	8.0	6.9	13.1	20.0	-	*22.0*
7	Net flow of portfolio inv. (liab.-	n.a.	n.a.	-23	1600	855	1362	726	1086	1069	-1395	5280	
8	Net long-term credits (liabilities-	n.a.	n.a.	215	806	1109	3367	3110	407	-918	-316	9014	
9	Net short-term financial transactions	n.a.	n.a.	-1274	56	659	971	-927	-1687	122	-716	-2806	
10	Annual gross capit. inflow	49	546	-79	3115	3491	8262	4337	1106	2992	2681	27,724	
11	Current account balance	n.a.			456	-787	-1369	-4292	-3156	-1822	-1058	-12,028	
12	Net factor payments (incl. dividends)	n.a.	n.a.	-560	-118	-20	-106	-723	-650	-983	-739	-3899	
13	FDI flow abroad (outgoing)	n.a.	n.a.	n.a.	-90	-120	-37	-41	-25	-110	-197	-620	

Source: Bulletin of CNB, Annual Report of CNB, Balance of Payments [1993-99]

Table 3: Employment in the Civil Sectors of the Public Administration in Czechia

Sector	1990	1993	1994	1995	1996	1997	1998
Central government offices [1]	n.a.	8761	8769	8660	9841	10683	n.a.
- 1993 = 100 %	-	100	100	99	112	122	-
Centrally managed regional governments [1]	n.a.	25216	32297	31186	30891	31294	n.a.
- 1993 = 100 %	-	100	128	124	123	124	-
Public administration (army+police excl.) [2]	**95743**	**132675**	**146266**	**161644**	**167917**	**175478**	**177066**
- 1990 = 100 %	100	139	153	169	175	183	185
- of which education [2]	316807	323893	321458	321601	321839	308705	304403

Sources: [1]data of CSO, 1998, [2] Statistical Yearbooks, 1997 and 1998

Table 4: International comparison of the employment in public sector in 1995 (in thous.)

Public sector:	**Czechia**+	Greece	Spain	Nether.	Britain	Austria	Portg	Belg.	Sweden
Central	**n.a.**	230	576	522	1020	169	537	138	234
Regional and local	**n.a.**	133	897	191	2040	297	87	597	1032
Total	**638**	363	1473	713	3060	466	624	735	1266
no. of inhabitants	**10331**	10426	40002	15397	57280	7832	10228	10052	8615
share on population in %	**6,18**	3,48	3,68	4,63	5,34	5,95	6,10	7,31	14,7

\+ Czech figures exclude the employment in the army and police (approximately 90 000 persons), the figures would be otherwise higher than those in Belgium.

Sources: Measuring Public Employment in OECD Countries. PUMA, OECD, 1997
Statistical Yearbook of Czech Republic, 1997