

COUNTRY PROFILE:**THE CZECH REPUBLIC**

IES/02: ATTACHMENT A

DATED:**MAY 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No Restrictions

Recent Political Highlights

- ❑ A three party coalition comprising the Civic Democratic Party (ODS), the Christian Democratic Union-Czechoslovak People's Party (KDU-CSL) and the Green party was confirmed in parliament in January 2007. The effectiveness of the Government will depend on the ability of Prime Minister Mirek Topolánek to balance the demands of the diverse governing coalition with those of the main opposition party;
- ❑ Government announced that it will provide a base for American anti-missile radar and in return, Czechs expect visa-free travel to America. The issue of stationing the anti-missile system in the Czech Republic and Poland will strengthen the two countries' relations;
- ❑ The Czech Republic is scheduled to host the rotating EU Presidency during the first half of 2009.

Recent Economic Highlights

- ❑ The Czech Republic has a population of 10m that will grow at an estimated rate of -0.07% in 2007;
- ❑ Unfavourable demographic trends and the need for considerable public investment in infrastructure imply faster growth in public debt in the coming years. One of the more serious socioeconomic problems is the rapidly aging population. The Czech Republic has the lowest birthrate in the EU, restrictive immigration laws and an exodus of workers to the West. As a result the Republic is looking at a deficit of 1.5m employees by 2050 – a third of its current staff;
- ❑ Government deficit of 3.7% of GDP in 2006 is likely to rise to 4.1% in 2007 – over the target needed to adopt the euro. Drastic reform of state administration and public services is needed as well as of that of the pension system. The slow pace of fiscal consolidation has forced officials to abandon the target date of 2010 for the adoption of the euro. With public finance deficit expected to exceed the EU ceiling in 2007 by more than 1%, Czech authorities have postponed the euro adoption date to 2012. A fiscal reform package unveiled in April expects the public deficit to be reduced to 2.3% of GDP by 2010. In healthcare, proposals include transforming health insurance into joint-stock companies and to introduce patient co-payments for medical services and prescriptions;
- ❑ Economic growth of about 6% last year was largely due to robust domestic demand and is expected at 5% in 2007 and 4% in 2008. The koruna has been strengthening against the euro and the dollar since 2004 and this could act as a drag on export growth in 2007 and beyond;
- ❑ Foreign direct investment reached \$11.7bn in 2005 before falling back to \$6bn in 2006. FDI will be supported by South Korea's Hyundai which is constructing an automotive facility in the country in 2007-2008;
- ❑ Inflation was 2.5% in 2006 and is expected to fall slightly to 2.4% in 2007;
- ❑ Unemployment stood at 7.7% in 2006;
- ❑ Manufacturing is still a major economic activity, especially the production of automobiles, machine tools and engineering products. Iron and steel industries are important in Moravia;
- ❑ Government is struggling to simplify the mechanisms that regulate EU structural funding for local businesses and municipalities, many of which say the current system is ineffective. To access EU funds, applicants must go through the Government programmes which require specialised steps and is extremely long. The EU has awarded the Czech Republic \$36.1bn for programmes between 2007-2013.

Latest Trade Developments

- ❑ Main exports: machinery and transport equipment, chemicals, raw materials and fuel;
- ❑ Main imports: machinery and transport equipment, raw materials, fuel and chemicals;
- ❑ Main industries: metallurgy, machinery and equipment, motor vehicles, glass and armaments;
- ❑ Major trading partners: Germany, Russia, Slovakia, China, Poland, Italy, France, Netherlands, Austria and UK;
- ❑ SA's exports to the Czech Republic totaled R668m in 2006 and R185m in the year to March 2007.

Lily Maharaj – Economic Services