

COUNTRY PROFILE:**CZECH REPUBLIC****DATED:****MAY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

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

Recent Political Highlights

- ❑ Chief of state since March 2003 has been President Vaclav Klaus.
- ❑ The president is elected by popular vote for a five-year term and is eligible for a second term. The next election is scheduled for February 2013.
- ❑ Government's effectiveness depends on its ability to balance the demands of its diverse governing coalition as well as on the continued support of renegade opposition deputies. Government's declining popularity ratings mean that any proposals for radical reform are likely to meet with strong resistance within the coalition.
- ❑ Government has entered into a deal with the US to make life easier for its American-bound citizens. A memorandum of understanding was signed that will allow Czechs to apply for a visa waiver online, skipping embassy queue and a \$131 fee and has agreed to plentiful data-sharing with American officialdom, and that American armed marshals may fly on Czech flights. This has infuriated the European Commission who wants to be the sole negotiator with America.

Recent Economic Highlights

- ❑ The Czech Republic has a population of 10.2m that is expected to grow at rate of -0.1% in 2008.
- ❑ The Economist expects domestic demand to drive economic expansion this year, but says that net trade will provide the main boost to growth from 2009. GDP growth is forecast at 4.7% in 2008, 5.4% in 2009 and 4.5% in 2010 from 6.5% in 2007.
- ❑ Inflation is expected to rise to 6.3% in 2008 from 2.9% in 2007 due to the increases in regulated prices and indirect taxes, but will decline to 3.6% in 2009.
- ❑ Government noted last November that the 2012 target date for the Czech Republic to adopt the euro was not feasible, stating that it could not join the euro zone without structural reforms being implemented. Authorities have proposed reforms but they face parliamentary hindrances.
- ❑ There are plans to overhaul the tax system in 2010, although the Ministry of Finance has acknowledged that the introduction of these reforms could be pushed back to 2011 if parliamentary discussions are prolonged.
- ❑ The finance minister said that he would not recommend to sell the state-run Prague airport to any bidder that would offer less than 100bn crowns. The airport is expected to be privatised at the beginning of 2009. Earlier reports have valued it at between 80bn and 100bn crowns.
- ❑ The spread of HIV is reaching an all-time high. In the first four months of 2008, 59 new cases of HIV infection were discovered – 11 more than in the same period last year. A total of 122 new cases were discovered last year, which is the highest since testing began. It has been observed that the HIV-positive group continues to get younger. The country has 1.090 known HIV-positive people and of this number, 247 have developed into AIDS.
- ❑ Public deficit fell last year to 1.6% of output from 2.7% in 2006. Overall public debt also fell to 28.7% of GDP last year from 29.4% in 2006. Strong growth levels were the main reason for squeezing debt and deficit levels in 2007.
- ❑ Toyota, Peugeot and Citroen's Czech car plant announced a 1.9bn koruna (76.2m euro/ \$116m) rise in 2007 sales to 51.3bn koruna compared to 2006. The plant experienced a 5% growth in car production. The TPCA plant produces the Toyota Aygo, Peugeot 107 and Citroen C1 with almost all production destined for export, predominantly to Europe.

Latest Trade Developments

- ❑ Major exports: machinery and transport equipment, raw materials and fuel and chemicals.
- ❑ Major imports: machinery and transport equipment, raw materials and fuels and chemicals.
- ❑ Main trading partners: Germany, Slovakia, Poland, France, Austria, UK and Italy.
- ❑ Main agricultural products: wheat, potatoes, sugar beets, hops, fruit, pigs and poultry.
- ❑ South African exports to the Czech Republic totaled R668m in 2006 and R799m in 2007 and R41m in January 2008.