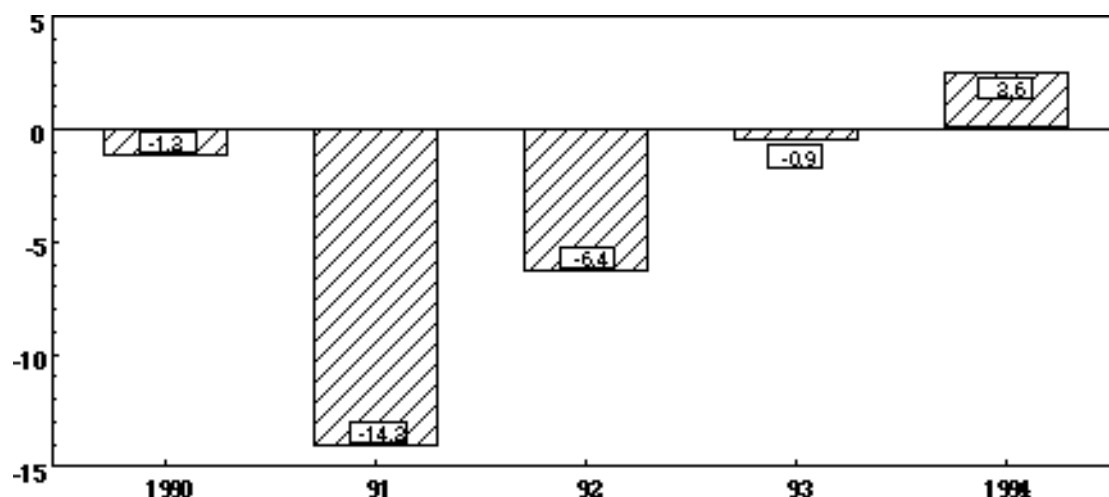


## I. THE ECONOMIC ENVIRONMENT

1. The Czech Republic became a sovereign State on 1 January 1993 as one of the two successor States to the Czech and Slovak Federal Republic (CSFR). A process of market-oriented reform, to dismantle the former central planning regime, had begun three years earlier and has been continued by the Czech Republic. Reform has encompassed the decontrol of prices, the privatization of State enterprises, the opening to foreign investment and the liberalization of international trade and foreign exchange.

2. Led by a collapse in export demand from countries of the Council for Mutual Economic Assistance (CMEA), Czech real GDP declined by some 21 per cent between 1990 and 1993 (Chart I.1). The effect of reforms became clear in 1994 when, underpinned by a rebound in domestic demand and somewhat aided by economic expansion in western Europe, real GDP expanded by 2.6 per cent. The restoration of growth has continued into 1995, with real GDP up by an estimated 5 per cent. In 1994, per capita GDP, calculated on the basis of the official exchange rate, was about US\$3,500.<sup>1</sup>

**Chart I.1**  
**Real GDP growth, 1990-94**  
Per cent



**Source:** Ministry of Industry and Trade, Czech Republic.

### (1) Major Features of the Czech Economy

3. The Czech Republic, located in central Europe, covers an area of 79,000 square kilometres and has a population of 10.3 million. Approximately 85 per cent of the population lives in towns of over 2,000 inhabitants and the capital, Prague, has 1.2 million inhabitants. The labour force is well educated and has a substantial manufacturing tradition. The importance of foreign trade to the economy is indicated by the fact that the value of goods and services trade exceeds GDP (Table I.1).

<sup>1</sup>Estimates based on purchasing power parity exchange rates ranged between US\$7,800 and 11,000 in 1989.

**Table I.1**  
**Major features of the Czech economy**

Population, 1994	10.3 million	Annual population growth, 1986-94	0.1 per cent
Labour force, 1993	4.8 million	Annual labour force growth, 1985-93	-0.8 per cent
Life expectancy at birth, 1993	73 years		
GDP, 1990 (at 1984 prices)	Kc 504 billion	Exchange rate, Kc per US\$, 1990	17.95
GDP, 1994 (at 1984 prices)	Kc 411 billion	Exchange rate, Kc per US\$, 1994	28.78
GDP, 1990	US\$31.6 billion	GDP per capita, 1990	US\$3,050
GDP, 1994	US\$36.0 billion	GDP per capita, 1994	US\$3,490
Share in GDP, 1993 (per cent)		Share in employment, 1993 (per cent)	
Agriculture and forestry	5.8	Agriculture and forestry	5.9
Industry <sup>a</sup> and construction	40.7	Industry <sup>a</sup> and construction	44.6
Services	53.5	Services	49.5
Trade and catering	9.8	Trade and catering	14.9
Transport, storage & communication	5.8	Transport, storage & communication	7.9
Banking & insurance	10.7	Banking & insurance	1.3
Public admin., education, health	11.4	Health care	5.4
Other services	15.8	Other services	20.0
Merchandise exports <sup>b</sup> , f.o.b., 1994	US\$14.3 billion	Merchandise imports <sup>b</sup> , f.o.b., 1994	US\$15.0 billion
Merchandise exports to GDP ratio, 1994	39 per cent	Merchandise imports to GDP ratio, 1994	41 per cent
Commercial services: credits, 1994	US\$4.5 billion	Commercial services: debits, 1994	US\$3.5 billion

a Including mining and quarrying, and electricity, gas and water.

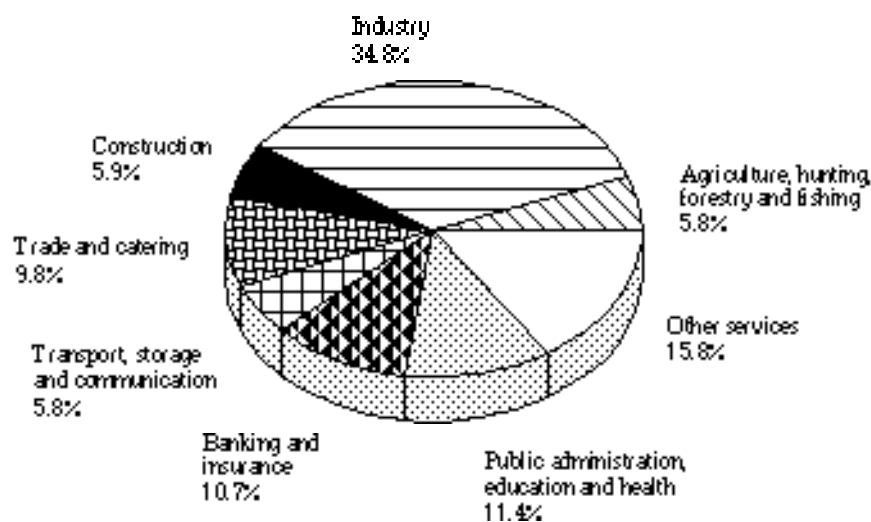
b Customs basis; preliminary data.

Source: Data provided by the Czech authorities.

4. Prague has traditionally been a European cultural centre and a popular tourist destination. The Czech Republic is rich in some natural resources, including coal and other non-metallic minerals, such as magnesite and kaolin; however, the domestic supply of oil and gas is not significant and ferrous and non-ferrous ores are not mined in substantial quantities. The Republic's river valleys are fertile, but much of the country's territory is hilly and conditions are not particularly favourable for agriculture.

5. The Czech economy is highly diversified. Industry, including construction, accounts for some 41 per cent of GDP and employs more than 44 per cent of the labour force (Chart I.2). The most developed industrial sectors include engineering, automobiles, metallurgy, glass, shoes, textiles and clothing, and beer. Industrial output, measured at constant prices, fell by some 42 per cent from 1989 through 1993 before levelling off in 1994. Manufacturing output, which fell by 26 per cent in 1991, contracted by 44 per cent from 1989 through 1993 and expanded slightly in 1994. In recent years the services sector has become the economy's largest, with a 53 per cent share of GDP. The contribution of agriculture (together with hunting, forestry and fishing) to GDP declined from 8 per cent in 1990 to about 7 per cent in 1993, partly because rapidly rising input prices and stagnant output prices following trade and price liberalization led to lower returns to labour and capital employed in the sector. Agriculture accounts for about 6 per cent of employment, a share that is expected to continue to fall as the ratio of output to input prices in the sector remains low.

**Chart I.2**  
**Sectoral distribution of GDP, 1994**



Source Czech National Bank.

(2) Recent Economic Performance

6. Before World War II Czechoslovakia was among the world's most industrialized countries. Following a change in régime in 1948, nearly all economic factors of production, including land, were nationalized and central planning was introduced. Foreign trade became a State monopoly and a handful of specialized State-owned foreign trade enterprises conducted all importing and exporting.

7. Until the end of 1989 resource allocation was based on centrally-determined economic plans, with markets assigned virtually no rôle. The economy's structure was geared in part to its rôle as a supplier of industrial goods within the CMEA. The system of economic management changed fundamentally after the "velvet revolution" of November 1989, which led the CSFR to embark on a wide-ranging economic transformation. Central planning was abolished in 1990, presaging a series of reform measures in 1990 and 1991 that were designed to rapidly lay the basis for a market-driven economy. These included price liberalization covering some 85 per cent of goods and services; the start of privatization; the introduction of a two-tier banking system; the elimination of the State's monopoly of foreign trade and the introduction of trade liberalization measures; and a relaxation of foreign exchange controls. Concurrently, macroeconomic management was prudent, and included a tightening of monetary and fiscal policy. During 1990 the authorities also significantly devalued

the domestic currency, the koruna, providing an important improvement in export competitiveness and a cushion against the costs of economic transition. Balance-of-payments concerns led to the introduction of a 20 per cent surcharge on imports of consumer goods in 1990, at a time when tariffs averaged some 5 per cent.<sup>2</sup>

8. The Czech economy began to contract in 1990. In 1991 the contraction was most severe with real GDP down by over 14 per cent. This downturn was led by the collapse of exports to the former USSR and other east European countries, with a decline in domestic demand playing a contributory role. Under the impact of price liberalization, inflation for the year was in the order of 57 per cent and unemployment reached 5 per cent. In 1992, the decline in real GDP was held to around 6.5 per cent as exports in convertible currencies rose rapidly. Inflation, with financial policies on a tight leash, declined to 11 per cent and unemployment was down to around 3 per cent (Table I.2).

9. The implementation of reforms continued apace in 1992, particularly with the first wave of voucher privatization and, within the framework of the small-scale privatization that had begun in 1991, the restitution of property to former owners. By the end of 1992, the share of the private sector in GDP had risen to almost 28 per cent, compared to less than 5 per cent at the start of reform process. In addition, the Prague Stock Exchange was founded, to begin operations in 1993, and several institutions were created to help small- and medium-scale enterprises and exporters. During the year, preparations were also made for the introduction of a value-added tax (VAT) in January 1993 and the import surcharge was reduced to 10 per cent in mid-year and eliminated at the end of 1992.

10. The CSFR was dissolved and the Czech Republic and Slovak Republic became sovereign States on 1 January 1993. The two countries established the Czech-Slovak Customs Union and initially were in monetary union. The latter was terminated in February 1993, with each country creating its own currency. During 1993, Czech real GDP remained broadly unchanged, a significant improvement over the declines of previous years. Exports to the Slovak Republic declined sharply but this was more than offset by the continued rapid growth of exports in convertible currencies. The current account was in surplus, which together with rapidly rising capital inflows led to a sharp increase in international reserves. Inflation was in the order of 21 per cent, but much of this reflected the introduction of the VAT. Unemployment remained low at around 3.5 per cent. During the year, fundamental changes were made in the area of social services, and the share of the private sector in GDP rose to around 45 per cent.

11. Growth recovered in 1994, with a rebound in domestic demand the major factor behind an increase of 2.6 per cent in real GDP. The growth of exports slowed substantially while imports rose sharply, in line with the recovery in economic activity; the trade deficit widened to some 2 per cent of GDP, which with a moderate decline in the services balance left the current account in approximate balance. Nevertheless, there was a further substantial increase in foreign exchange reserves, largely due to the growing inflows of foreign capital. Although these latter flows tended to complicate stabilization efforts, continued prudent financial management held inflation to around 10 per cent, and unemployment remained low at 3 per cent.

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<sup>2</sup>The surcharge was reduced to 18 and later 15 per cent during 1991.

Table I.2

Economic performance of the Czech economy, 1991-95

	Share of 1994 GDP (per cent)	1992	1993	1994	1995 <sup>a</sup>
		Percentage change			
Real GDP	100.0	-6.4	-0.9	2.6	5.0 <sup>b</sup>
Private consumption	57.6	15.1	2.9	5.3	5.2
Government consumption	22.2	-3.1	-0.1	-2.3	-3.0
Gross capital formation	20.4	-17.6	-2.2	22.1	43.3
Fixed capital	26.7	8.9	-7.7	17.3	11.6
Net change in stocks (Kc bill.)	-6.4 <sup>c</sup>	-18.2	-11.1	-8.1	38.9
Net exports of goods and services (Kc bill.)	-0.2 <sup>c</sup>	3.0	16.7	-2.7	-26.9
	1991	1992	1993	1994	1995
Consumer prices (per cent change; period average)	56.6	11.1	20.8	10.0	9.0 <sup>b</sup>
Unemployment (per cent; end of year)	4.1	2.6	3.5	3.2	2.8
Real effective exchange rate (per cent change) <sup>d</sup>	-20.7	15.5	17.1	10.5	...
Nominal effective exchange rate (per cent change) <sup>d</sup>	-39.4	-4.1	3.2	-1.4	-8.7
Money supply (M2; per cent change)	...	23.0	20.5	21.5	2.3
Interest rates (average of rates)					
On credits	14.5	13.5	14.1	13.1	12.8
On deposits	8.2	7.2	7.0	6.1	5.8
Share of private sector in GDP (per cent)	17.3	27.7	45.1	56.3	62.0
		1992	1993	1994	1995
		Per cent of GDP			
General Government balance <sup>e</sup>	...	1.4	0.5	-1.3 <sup>f</sup>	
Revenue	...	50.5	49.4	47.8 <sup>f</sup>	
Expenditure	...	50.0	50.7	50.2 <sup>f</sup>	
Current account balance		-0.5	2.2	0.0	-4.2 <sup>b</sup>
Merchandise trade balance		-4.5	-1.0	-2.4	-8.4
Exports, f.o.b.		39.8	41.5	39.0	36.7
Imports, f.o.b.		44.3	42.5	41.5	45.1
Services balance		5.8	3.2	2.1	3.5
Receipts		12.9	15.1	13.3	13.7
Expenditures		7.1	11.9	11.2	10.2
Net factor income and current transfers		-1.8	0.0	0.2	1.6
Capital account balance		-0.1	7.7	11.6	14.3
Net direct foreign investment		3.5	1.7	2.1	...
Portfolio investment & long-term capital		0.9	6.0	7.5	8.4 <sup>g</sup>
Short-term capital		-4.6	0.0	2.0	5.8
Balance of payments <sup>h</sup>		-1.0	9.5	9.7	13.7
Change in gross reserves (-, increase)		0.3	-9.7	-6.6	-13.7
International reserves (US\$ billion)		0.8	3.9	6.2	9.2
International reserves (months of imports of goods and services)		0.7	2.7	4.0	4.6
Gross domestic investment		24.0	18.7	22.4	23.4
Gross national savings		23.6	20.9	22.4	19.2

... Not available.

a First half of 1995 unless otherwise noted; preliminary data.

b Figure for the full year 1995; preliminary data.

c Share of 1994 GDP.

d Positive sign indicates appreciations.

e The difference between revenue and expenditure is not equal to the balance as the latter includes privatization revenue.

f Estimate.

g Figure for net direct investment, portfolio investment and other long-term capital.

h The balance of payments as reported is not equal to the sum of the current and capital account because of errors and omissions.

Source: Data provided by the Czech authorities; and International Monetary Fund.

12. The pace of economic recovery quickened in 1995. Strong growth in consumption and investment underpinned an increase in real GDP estimated at some 5 per cent. However, with export growth slower and imports up sharply, the trade deficit widened to about 8 per cent of GDP, leading a deterioration of the current account to a deficit equivalent to some 4 per cent of GDP. Nevertheless, continued large inflows of foreign funds resulted in a further substantial increase in exchange reserves, to a coverage of well over 4 months of imports of goods and services in mid-1995, compared to less than a month in 1992. The capital inflows have added to the difficulty of financial management, and fiscal policy appears to have become marginally expansionary. Inflation for the year was some 9 per cent, and unemployment remained near 3 per cent.

(i) Fiscal policy

13. The basic objectives of Czech fiscal policy since the beginning of the reform process have been to avoid crowding out private investment by maintaining a balanced budget and to reduce the State's rôle in the economy. These efforts would appear to have been largely successful. There were small budget deficits in 1991 and 1992 but surpluses equivalent to 1.4 per cent and 0.5 per cent of GDP in 1993 and 1994.<sup>3</sup> The ratio of government expenditure to GDP decreased from 56 per cent in 1990 to 50 per cent in 1993 and continued at about this level in 1994 and 1995. A balanced budget for 1996 has been approved by Parliament.

14. VAT was introduced at the start of 1993 with two rates: the basic rate of 23 per cent, and a reduced rate of 5 per cent, which applies to foodstuffs and some other products. The basic rate was reduced to 22 per cent in 1995. The global tax burden falling on enterprises has also been decreased, as the basic corporate income tax rate was reduced from 55 per cent in 1992 to 41 per cent in 1995 and 39 per cent in 1996. The social security contribution rate was reduced from 50 to 36 per cent in 1993. Personal income tax rates vary from 15 to 40 per cent, the top rate having recently been reduced from 43 per cent.

(ii) Monetary policy

15. Since the start of the reform process, Czech monetary policy has been prudent, with its development reflecting the progress of the economic transition. Inflation control has been at the heart of policy. Monetary management has moved to decentralized control: in 1992, direct instruments of monetary policy were withdrawn; interest rate ceilings were eliminated in April and credit ceilings were abolished in October. The refinancing system was developed and diversified.

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<sup>3</sup>Figures include revenue from privatization. Excluding this revenue, there was a surplus equivalent to 0.6 per cent of GDP in 1993 and a deficit equivalent to 1.3 per cent of GDP in 1994.

16. In 1994 and early 1995 developments were influenced by a strong foreign resource inflow. To keep monetary aggregates within targeted ranges, the monetary authorities continued to partially sterilize free reserves in the banking sector. These monetary measures have put upward pressure on short-term rates. Significant interest rate spreads and insufficient availability of long-term credits from domestic banks would appear to have contributed to the capital inflows, with domestic credits having been replaced to a large extent by foreign credits.

(iii) Exchange rate policy

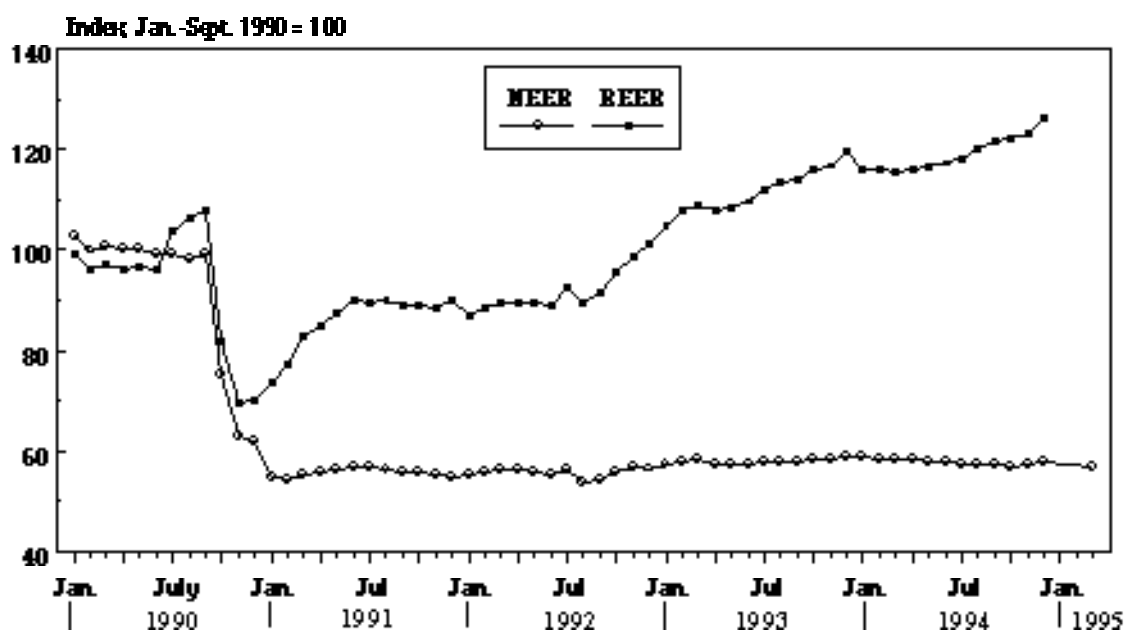
17. The Czech Republic undertook the obligations of Article VIII of the International Monetary Fund on 1 October 1995 and removed all remaining restrictions on the convertibility of the Czech koruna for current account purposes (Annex I.1).

18. The Czech Republic has maintained a pegged exchange rate for the koruna since 1991. The rate is based on a currency basket that presently consists of the German mark (65 per cent) and the U.S. dollar (35 per cent). The exchange rate is set daily by the Czech National Bank (CNB), the central bank, and is used for trading between the CNB and commercial banks. Its level may fluctuate within a range of  $\pm 0.5$  per cent depending on the interbank market for foreign exchange. Commercial banks may use for their trading either the exchange rate set by the CNB or their own exchange rates.

19. Exchange rate policy has played a central rôle in the transformation process, with the external value of the koruna functioning as a nominal anchor. Devaluations in 1990 helped to improve export competitiveness and cushion the transition. While the nominal rate against the currency basket has remained steady, in real effective terms the koruna has appreciated substantially (Chart I.3), cutting into the gains in competitiveness from the initial depreciation of the koruna.

20. From February 1993 until October 1995 settlement for commercial transactions between the Czech and Slovak Republic, excluding transactions relating to re-exports and payments from foreign exchange accounts, was effected through a clearing account maintained by the central banks of the two countries. Transactions were converted from the currency of the contract into clearing ECU's at a rate set by the central banks that was allowed to differ by as much as 5 per cent from the market cross rate. During most of the course of the arrangement the Slovak currency was devalued versus the Czech currency. This difference was narrowed during 1994 and 1995 and eliminated soon before the arrangement was dissolved on 1 October 1995, when the currencies of both Republics became convertible for all current account transactions.

**Chart I.3**  
**Nominal and Real effective exchange rate indices, 1990-95**



**Note:** REER measured on a unit labour cost basis.

**Source:** Data provided by the authorities.

(iv) Privatization

21. Privatization has been a major element of the Czech economic transition.<sup>4</sup> Under small-scale privatization, started in 1991, small business such as retail stores, restaurants and service facilities were returned to their previous owners or sold to private individuals, primarily through public auctions. The total sales value of assets from small-scale privatization reached US\$1.1 billion by its completion in mid-1993.

22. The privatization of large-scale industrial enterprises has included standard methods, such as direct sales, and the voucher privatization programme, which redistributed State assets to Czech citizens by enabling them to bid for shares of State-owned enterprises through a system of voucher points. The voucher privatization was implemented in two waves that covered 2,200 enterprises with a book value equivalent to about US\$14 billion; it included about 30 per cent of the total value of assets to be privatized in the country. The second wave of voucher privatization was completed at the beginning of 1995.

23. The share of the private sector in Czech GDP grew rapidly, from some 17 per cent in 1991 to well over 60 per cent in 1995: private activity accounts for almost half of industrial output and for up to 90 per cent of services and agricultural productions. Privatization was quickly implemented, mainly due to the voucher programme, and has enjoyed large popular support.

<sup>4</sup>Prior to 1989, the share of the private sector in the Czech economy was low even in comparison to other centrally planned economies; at that point the private sector produced about 4 per cent of GDP and owned some 2 per cent of assets.



## (v) Enterprise restructuring

24. A particular feature of Czech privatization has been that the change in enterprise ownership has not been preceded by industrial restructuring, which the Government has left instead to be undertaken by the new owners. The change of ownership to private individuals and groups, such as Investment Privatization Funds, may not yet have resulted in an appropriate deconcentration of enterprise control. In combination with rather passive bankruptcy practices and corporate reporting requirements, this may be delaying the industrial restructuring that is a critical part of the economic transition. Because control has not been effectively dissipated, a relatively small group of individuals and enterprises exercises effective control in many economic sectors. Troubled enterprises, which might have been declared bankrupt under more aggressive bankruptcy rules and practices, continue in business, with losses covered by controlling enterprises in other sectors, particularly banking.

25. An indication of this problem may be the large spread, of up to six or seven percentage points, between financial institutions' deposit and lending rates. Partly as a result of this some Czech enterprises are induced to borrow abroad. The resulting capital inflows may have contributed to a real effective appreciation of the Czech koruna, perhaps undermining the competitiveness of exports.

## (vi) Unemployment

26. The Czech unemployment rate remained low, at under 3 per cent in mid-1995, particularly as compared to other European economies in transition.<sup>5</sup> The low rate of unemployment may be partially explained by the many departures from the labour force, which declined by some 9 per cent from 1990 to 1993. However, in the same period measured production fell more than 20 per cent, which partly reflects the growth in the grey economy.<sup>6</sup> The Government notes that the low unemployment rate is also due to an active employment policy, increased opportunities in services, and strict eligibility requirements for unemployment benefits. Another important factor appears to be the slow pace of enterprise restructuring; as this picks up the unemployment rate may rise, although it would seem that the services sector has been efficient in absorbing labour.

(3) Trade Performance

27. The Czech economy was insulated from the world economy during the central planning period and world market prices had little or no direct influence on domestic prices and economic decisions. Trade with CMEA countries was conducted on the basis of bilateral agreements which included obligatory delivery quotas and fixed prices. At its peak, trade with CMEA countries accounted for about 80 per cent of Czechoslovakia's trade, with the Soviet Union as the largest trading partner. Manufactured products comprised a large share of exports to CMEA markets but a much smaller share of Czech exports to market economies, as the latter consisted mostly of primary and intermediate goods.<sup>7</sup> Since the collapse of CMEA trade in 1990 and 1991 both the geographic and the product composition of Czech trade have changed dramatically.

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<sup>5</sup>In the CIS countries and the Baltic republics the rate of unemployment was similarly low, varying between 0.3 and 6.0 per cent at the end of 1994 (Economic Commission for Europe, 1995, pp.110-121).

<sup>6</sup>According to estimates by PlanEcon, economic activity in the grey economy is equivalent to 12 per cent of that in the official economy. PlanEcon also estimates that inflation estimates that neglect the grey economy overstate the price level by some 8 per cent and that actual economic growth in 1994 was equivalent to 5.2 rather than the 2.6 per cent (PlanEcon, 1995).

<sup>7</sup>Almost 60 per cent of exports to CMEA countries consisted of machinery and transport equipment.

(i) Commodity pattern of trade

28. The main shift in the composition of Czech exports has been away from machinery and transport equipment toward other manufactured products (Chart I.4). Between 1989 and 1994, the share of machinery and transport equipment in the country's exports declined from 40 to 26 per cent, while the proportion of manufactured goods classified chiefly by material has increased from 21 to 31 per cent, largely reflecting the redirection of exports from the CMEA to developed market economies. Changes in the composition of imports have, with respect to machinery and transport equipment, mirrored this change: these products accounted for 28 per cent of imports in 1989 but 35 per cent in 1994. The shares of other manufactures and chemicals have also increased. Imports of raw materials and fuels as a share of total imports nearly halved during this period, falling to 15 per cent.

(ii) Regional pattern of trade

29. In 1989 trade with centrally-planned economies amounted to more than half of the Czech Republic's exports and imports, with the Soviet Union as the largest trading partner. Since then, the geographic distribution of trade has changed toward developed market economy countries, particularly those in western Europe, which in 1994 represented more than 60 per cent of total Czech trade, nearly half of which was with Germany. Trade with former CMEA partners (other than eastern Germany) dropped to some 15 per cent of the total (Chart I.5)

30. A very large share of its trade is with countries with which the Czech Republic has preferential trade agreements. These include European Union (EU) members (45 per cent in 1994); Slovakia (15 per cent, down from 19 per cent during the first year of separation); Austria, part of EFTA in 1994 but an EU member beginning in 1995 (8 per cent); Hungary (2 per cent); and Poland (4 per cent) (Tables I.3 and I.4).

(4) Outlook

31. The Government considers that the Czech economy has fulfilled the basic transformation tasks and that the Czech Republic has entered the early post-transformation stage. Its goals for the future include the completion of the economic liberalization and deregulation process. The Government does not intend to introduce industrial policies or similar interventions.<sup>8</sup>

32. The Government aims to decrease inflation to annual rates of 3 to 4 per cent at the turn of the century while the rate of unemployment is expected to grow to some 5 or 6 per cent. The authorities intend that the fixed exchange rate will continue to be the nominal anchor of the economy. The Government takes the view that merchandise trade deficits will be compensated by a surplus in services and that the balance of payments will remain stable.

33. The authorities expect robust growth into the medium term. This will require effective restructuring of the privatized enterprises and continued prudent financial policies, particularly to forestall any weakening of the competitiveness of domestic enterprises, which in turn could bring demands for protection.

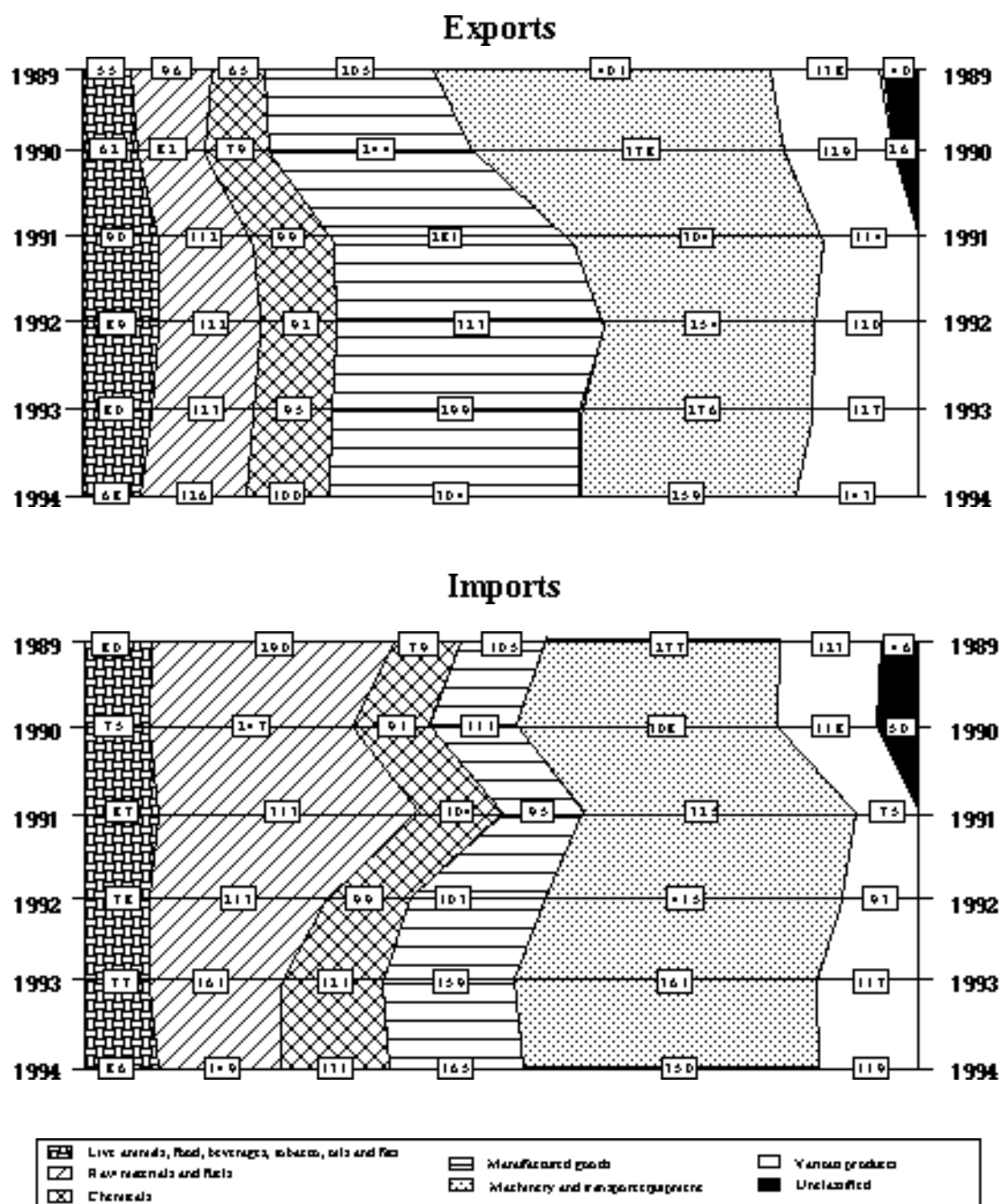
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<sup>8</sup>V. Klaus (1995), p.5.

Chart I.4

Changes in the composition of exports and imports of the  
Czech Republic, 1989-94

Per cent



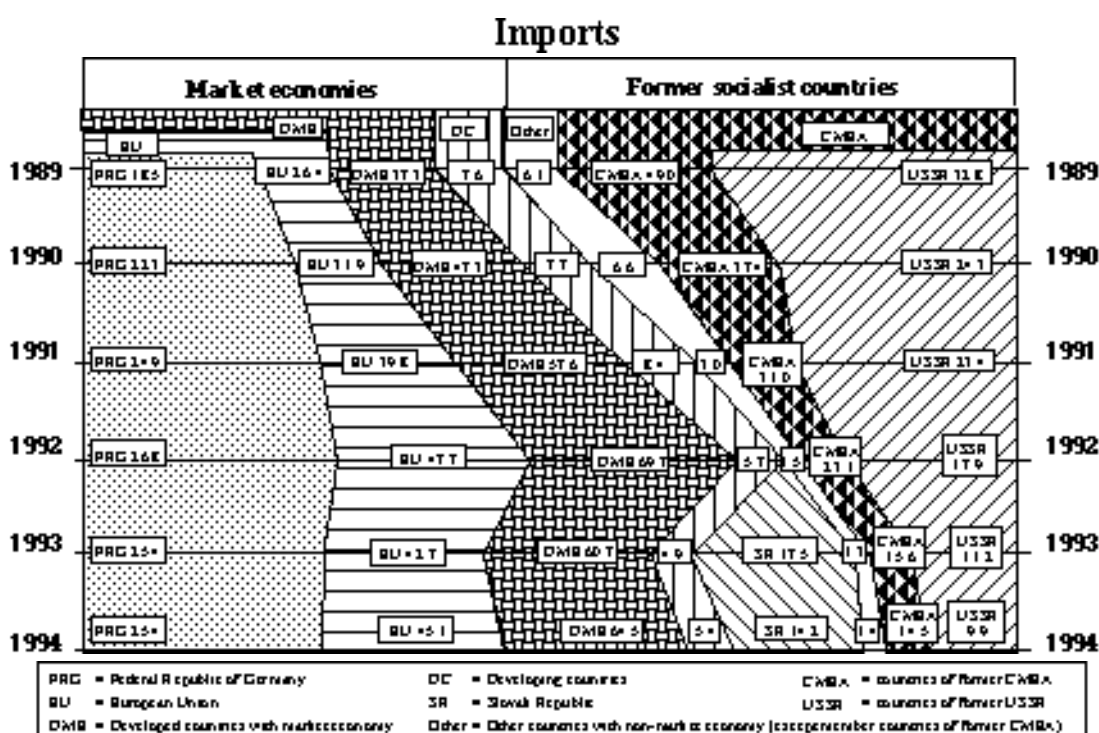
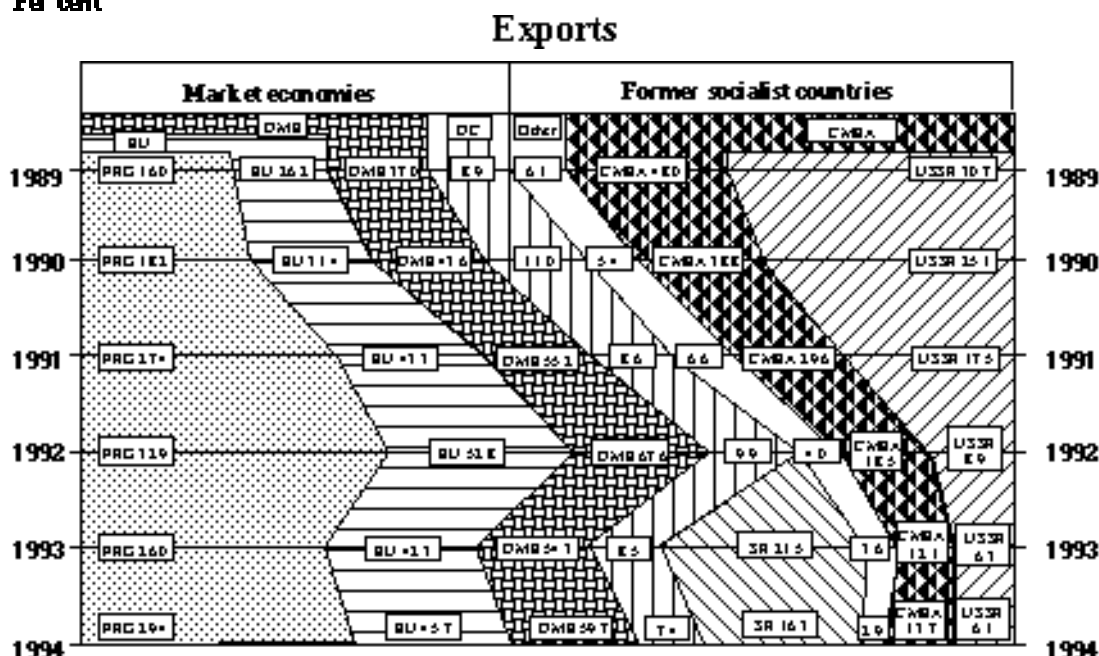
Note: Data for 1994 are preliminary.

Source: Ministry of Industry and Trade, Czech Republic.

Chart I.5

Changes in the territorial structure of exports and imports of the Czech Republic, 1989-94

Per cent



**Note** Data for 1994 are preliminary.

**Source** Ministry of Industry and Trade, Czech Republic.

Table I.3

## Direction of exports, 1989-94

(US\$ million and per cent)

	1989	1990	1991	1992	1993	1994
US\$ million						
Total exports f.o.b.	10,770	9,052	7,985	8,892	13,203	14,253
Per cent						
AMERICA	2.6	2.8	2.6	3.4	3.1	3.5
United States	0.7	0.8	1.0	1.7	1.8	2.2
EUROPE	85.7	83.4	87.9	86.0	87.1	88.4
EC12	26.3	31.4	43.3	52.9	42.3	45.7
Belgium-Luxembourg	0.8	1.0	1.5	1.8	1.3	1.5
France	1.6	2.1	2.4	2.5	1.9	2.5
Germany	16.0	18.2	27.4	32.9	26.1	29.4
Italy	2.2	3.0	4.2	6.2	5.0	4.4
Netherlands	1.4	2.0	3.0	3.2	2.4	2.6
Spain	0.4	0.6	0.7	1.2	1.2	0.9
United Kingdom	2.5	2.8	2.2	2.3	3.0	2.8
EFTA	8.5	9.7	9.0	10.6	8.5	10.1
Austria	4.0	5.0	5.8	7.2	6.1	7.1
Switzerland	2.6	2.2	1.2	1.3	1.1	1.4
Eastern Europe	46.9	37.9	29.5	18.2	33.3	30.0
Poland	7.9	6.1	7.0	4.8	2.7	3.8
Slovakia	n.a.	n.a.	n.a.	n.a.	21.5	16.4
Former USSR	30.7	25.1	17.5	8.9	6.3	6.1
of which: Russia	n.a.	n.a.	n.a.	7.3	4.5	3.9
Hungary	3.5	3.7	3.3	3.1	2.3	2.7
Other Europe	4.0	4.4	6.1	4.3	3.0	2.6
Turkey	1.0	1.3	0.7	1.3	1.0	0.6
Former Yugoslavia	3.0	3.1	5.3	2.9	1.4	2.1
of which: Slovenia	n.a.	n.a.	n.a.	0.6	0.9	1.1
MIDDLE EAST	2.4	2.5	3.2	2.7	1.9	1.8
ASIA	7.1	8.0	4.6	5.5	6.0	4.6
East Asia	5.3	5.3	3.6	4.5	5.3	4.0
China	3.0	2.2	1.0	1.0	1.9	0.6
Japan	0.7	0.9	0.8	1.0	0.5	0.6
OCEANIA	0.0	0.0	0.1	0.0	0.0	0.0
AFRICA	2.2	2.2	1.6	2.1	1.9	1.6
Egypt	0.7	0.9	0.6	0.5	1.1	0.9
Other countries, not identified	0.0	1.1	0.0	0.2	0.0	0.1

n.a. Not applicable.

Source: Czech National Bank; Central Statistical Office; Ministry of Industry and Trade.

**Table I.4**  
**Origin of imports, 1989-94**  
(US\$ million and per cent)

	1989	1990	1991	1992	1993	1994
US\$ million						
Total imports f.o.b.	10,776	9,815	7,145	10,273	12,858	14,971
Per cent						
AMERICA	4.0	3.8	5.3	7.4	4.8	5.0
United States	1.1	1.4	2.3	5.1	3.0	3.4
EUROPE	86.1	84.8	86.9	85.9	88.9	87.9
EC12	26.4	31.9	39.7	47.7	42.6	45.1
Belgium-Luxembourg	0.6	0.8	1.2	1.7	1.6	2.0
France	1.8	1.9	2.8	6.3	3.1	3.7
Germany	18.5	22.3	24.9	26.8	25.4	25.5
Italy	1.6	2.2	3.7	4.8	4.7	5.1
Netherlands	1.0	1.4	2.6	3.2	2.8	2.2
Spain	0.4	0.3	0.5	0.5	0.8	1.1
United Kingdom	1.8	2.1	2.5	2.7	2.7	3.0
EFTA	7.9	12.3	13.3	13.7	12.2	13.2
Austria	3.9	6.9	8.2	9.1	7.8	8.1
Finland	0.6	0.5	0.6	0.7	0.7	1.1
Switzerland	2.4	3.5	2.9	2.2	2.2	2.2
Sweden	0.8	1.2	1.2	1.4	1.1	1.4
Eastern Europe	47.8	36.9	30.8	22.9	32.4	28.5
Poland	6.8	7.5	5.2	3.4	2.5	2.8
Slovakia	n.a.	n.a.	n.a.	n.a.	17.5	14.2
Former USSR	32.8	24.3	23.4	17.9	11.2	9.9
of which: Russia	n.a.	n.a.	n.a.	16.1	9.8	8.5
Hungary	4.3	3.0	1.4	1.1	1.4	1.1
Other Europe	3.9	3.7	3.0	1.6	1.6	1.1
Former Yugoslavia	3.5	3.3	2.1	1.0	0.6	0.7
of which: Slovenia	n.a.	n.a.	n.a.	0.5	0.4	0.5
MIDDLE EAST	1.3	1.3	1.3	0.3	0.3	0.3
ASIA	7.5	8.1	4.7	5.8	5.5	6.3
East Asia	5.4	6.1	4.0	5.4	5.2	5.8
China	2.6	3.2	0.9	0.5	0.6	0.7
Chinese Taipei	0.2	0.1	0.3	0.9	1.0	1.0
Japan	0.7	0.9	1.4	2.2	1.7	2.0
OCEANIA	0.0	0.0	0.0	0.0	0.0	0.0
AFRICA	1.1	1.0	1.8	0.6	0.4	0.5
Other countries, not identified	0.0	1.0	0.0	0.0	0.1	0.0

n.a. Not applicable.

Source: Czech National Bank; Central Statistical Office; Ministry of Industry and Trade.

**Annex I.1****The Foreign Exchange Control System of the Czech Republic**

34. Upon dissolution of the Czech and Slovak Federal Republic (CSFR) on 1 January 1993, the Czech Republic entered a currency union with Slovakia, with both countries retaining the use of the CSFR currency, the Czechoslovak koruna. The currency union ended on 8 February 1993 and the Czech koruna (Kc) was introduced as the Czech Republic's currency. The Czech National Bank (CNB), the central bank, has the primary responsibility for monetary policy and shares responsibility for the control of foreign exchange with the Ministry of Finance. The Governor, the two Vice-Governors and the four other members of the governing Council of the CNB are appointed by the President. While independent of the Government with respect to its main task, that of assuring the stability of the Czech currency, the CNB advises the Government on monetary and banking issues and the Governor of the CNB is authorized to participate in meetings of the Government.

35. The elimination of the bilateral payments system with the Slovak Republic (Chapter I(2)(iii)) cleared the way for the introduction of full current account convertibility of the koruna and the entry into force of a new Foreign Exchange Law on 1 October 1995. On that date, the Czech Republic also accepted the obligations of Article VIII of the International Monetary Fund.

36. Some restrictions remain on the use of foreign exchange for capital account transactions, such as restrictions on foreign exchange accounts held abroad by Czech residents and on outflows of portfolio investment.