

I. GENERAL INFORMATION

Year 2000 in the Czech Republic – Major Political and Economic Events

January

- *No real problems with the Y2K bug reported.*
- *Unemployment in January reaches its long term peak of 9.4%.*
- *The new law on visas and entry into the Czech Republics takes effect.*
- *Negotiation finished, consensus on the third government state budget proposal for 2000 with a deficit of 35.2 billion CZK.*
- *Parliament debates changes in the constitution which should limit the power of the president.*

February

- *Monopoly of Czech Telecom is actually prolonged by two years, the new code on telecommunications approved.*
- *Erste Bank Sparkassen buys 53% of Česká spořitelna bank (the largest retail bank) for 19 billion CZK.*
- *Premier Zeman decides to exchange several members of his cabinet within several months in exchange for the budget proposal support by the ODS.*
- *The top management of KB recalled, several members will be charged in a law suit for the loss of 8 billion CZK this summer.*

March

- *The Prime Minister replaces two members of his cabinet.*
- *The Czech Republic, Hungary, and Poland are members of NATO for one year.*
- *The Parliament approves the state budget for year 2000.*
- *The government decided to change members of the KCP because of the commission internal personal problems.*

April

- *The Prime Minister replaces another two members of his cabinet, changes are over.*
- *The Parliament approves the treaty with Slovakia that ends the disputes stemming from the split of Czechoslovakia.*
- *New Labor code approved and the law on investment incentives takes effect.*

May

- *The Act on public support takes effect, the government can help enterprises out of financial troubles only with the explicit approval of the antimonopoly office.*

- *Act on Czech National Bank is discussed in the Parliament.*
- *The Parliament turns down the reform of the legal code and accompanying constitutional change.*
- *Volkswagen buys the remaining 30% of shares of car producer Škoda for 12 billion CZK.*
- *New election code was approved by the Parliament.*

June

- *IPB bank, one of the largest banks collapses, and is placed under forced administration. Government guarantees deposits and the bank is sold to its competitor, CSOB, which is owned by Belgian bank KBC.*
- *The Senate approves the new election code, the President vetoes it.*
- *The Constitutional Court claims the rent regulation to be in conflict with the constitutional rights, nevertheless the government prepares a new form of rent regulation.*
- *GDP reported to be growing by 4.4% in the first quarter compared to 1999.*

July

- *The Parliament approves controversial "Law on the Czech National Bank."*
- *The nuclear plant Temelín is loaded with nuclear fuel.*
- *The controversial exception to the law is approved that allows the new highway to Germany to go through National Preserve.*
- *The law on protection of employees wages in case of firm insolvency takes effect.*

August

- *The Senate disapproves the reading of the constitutional change that should affect the CNB.*
- *The first governmental draft of a 2001 state budget assumes a 94 billion CZK deficit; the government decides to prepare a new version.*

September

- *The Parliament overrides the President's veto of the new election code. The President files the case with the Constitutional Court.*
- *The annual meeting of the IMF and WB is held in Prague. Prague suffers from riots by protesters against these institutions and globalization.*

October

- *The government decides to sell the nation-wide and local electricity and gas distributors as a package to a single buyer. The government also prepares an act on state service.*

- *The government proposes a 2001 state budget which assumes a 20 billion CZK deficit; political agreement with the opposition is reached. The hidden deficit of the state budget is estimated to be around 70 billion CZK.*
- *The nuclear power plant Temelin is finished after 20 years of construction and almost 100 billion CZK in costs; nuclear fission is started.*
- *Insurance companies announce that premiums of mandatory no-fault insurance will increase by one third on average next year.*
- *After 11 years of service the governor of the CNB, Josef Tošovský, resigned; one board member resigns as well.*
- *The president wants to appoint a new governor and board member while the old law is still in effect.*

November

- *The European Commission publishes its annual report on EU member candidate countries. The report is not as favorable as expected.*
- *Senate and regional elections take place; voter participation rate is only 33%. The election results are a success for right and right-center parties.*

December

- *Battle for the Czech Public TV starts.*
- *Temelin's production of nuclear power is held up due to technical problems.*

The Czech Republic – An Economic Summary of 2000

The Czech economy has recovered from the crisis that lasted until 1999. In 1999 the GDP fell only by 0.2% due to moderate growth in the second half of 1999 and the overall GDP real growth is expected to be around 2.6% in 2000 and inflation 4%. The unemployment reached its peak of 9.8% in January and started to wane. However, these improvements are slow compared to neighboring countries and since the structural reform of the Czech economy is not over yet, the situation can change almost any instant in the other direction. The major positive news is that the high inflow of FDI (4.9 billion USD) observed in 1999 further increased in 2000, and the Czech Republic has been able to attract long-term investors, partly due to new investment incentives.

The weakness of the economy revealed itself during the summer when one of the largest banks, IPB, which was controlled indirectly by Nomura group, went bankrupt. The audit of the CNB (Czech National Bank) has shown that the majority of the loans were substandard, and after a short period of forced administration, the assets of IPB were sold to the CSOB bank. The government put forward a guarantee for the bad loans to protect the deposits. The costs of the guarantee are unknown, yet estimated from 10 to 100 billion CZK.

Due to the existing agreement between the ruling minority Social-Democratic government and the major opposition party, the governmental position is weak, and the government has limited power to intervene in the economy. The government is not able to effectively push its agenda ahead and is forced to limit its activities to those acceptable in the Parliament.

Since the last European Commission's yearly report that was extremely unfavorable for the Czech Republic, the major political parties were able to find acceptable compromises to fulfill certain EU requirements on the candidate countries. On the other hand, the lack of a clear governing coalition and leading force allowed personal animosities to rule over professional attitudes in the policymaking and, consequently, the economy.

The major parties agreed on controversial changes in the laws and, if possible, a constitution that would limit the President's power, change the electoral system in favor of large parties and limit the independency of the national bank. The President vetoed all these changes but the Parliament has overridden his vetoes. The challenges to the constitutionality of these new laws were filed with the Constitutional Court, and the decisions have not been made yet.

These unhealthy underlying recent trends probably guided the European Commission during the yearly evaluation of EU candidate countries. The current report was expected to be far more favorable than the preceding one. It is better; yet, for most it was also a cold shower since the Czech Republic was ranked in the third group in terms of economic criteria, characterized by phrase "can be regarded a market economy" rather than in the first two classified as "is a market economy." The different wording reflects the fact that there are still bureaucratic obstacles in the Czech Republic to entry into the market and the protection of property rights still needs to be substantially improved. The hidden state deficit reaching 7.7% of GDP is alarming evidence of the needed reform of the public finance system. On the other hand the Commission appreciates the improvements made in the implementation of acquis and the re-attained macroeconomic stability.

The European Commission mentions the problematic state administration, needed reform of the judicatory system, and inadequate taming of corruption. It also declares the new act on the CNB to be incompatible with the EU standards. Economic problems still include the lagging structural reforms, inadequate capital market regulation, and lasting systemic problems in the financial sector. These warnings should provide a clear message to the Czech political representation.

An efficient solution of each the above-mentioned problems requires majority support in the Parliament; the consensus is hard to achieve. Despite political problems, the economy is benefiting from a massive inflow of FDI, which supports economic growth, though inflation is expected to be only slightly below 5% next year due to a large "actual" state deficit. The interest rate is thus expected to be raised in the near future.

I.1 History

The first signs of people living in what is today the Czech Republic are as old as 1.6–1.7 million years and were found near Beroun in Central Bohemia. The first Slavonic people came in the 5th and 6th centuries. The first written references to the Czechs, Prague, and regions of Bohemia appeared in the 8th and 9th centuries. In about the year 870, the Czech prince Bořivoj was mentioned for the first time. He came from Prague and belonged to the house of Přemysl, which later became the royal dynasty of Bohemia. This dynasty governed the Czech kingdom until 1306. After the reign of the House of Luxembourg (1310–1436), Bohemia was the center of the so-called Holy West Roman Empire of German People and Prague became one of cultural centers of Europe. A short period of elected kings ended in 1526, when the Czech Kingdom (Bohemia, Moravia and Silesia) became a part of Austria, later the Austro-Hungarian monarchy.

In 1918, after World War I, Czechoslovakia emerged from the ruins of the Austro-Hungarian monarchy as a modern democratic state. Czechoslovakia consisted of Bohemia and Moravia, Slovakia and Carpatho-Russia (today a part of Ukraine). In 1939, Slovakia separated from Czecho-

slovakia and the Czech part of the country was occupied by the German army and incorporated as a special autonomous state into the German Empire. In 1945, Czechoslovakia was liberated by the Soviet and American army. The Czechoslovak state was restored without Carpatho-Russia which joined the Soviet Union.

In February 1948, the Communist party gained power (in a formal constitutional way), and Czechoslovakia was under the Soviet sphere of influence until 1989. After the “Velvet Revolution” in 1989, the democratic regime was restored.

In response to the Slovak desire for greater self-determination, a federal constitution was introduced in 1968. Completely controlled by the Communist Party, the Czechoslovak Federation had not satisfied the legitimate aspirations of the Slovak people. From 1990 on, Czech and Slovak political parties negotiated the future form of the federation. After two years of unsuccessful negotiation and following the 1992 parliament elections, the division of the country began. On January 1, 1993, the Czech Republic and Slovak Republic were peacefully separated and established as independent states.

Milestones of the Czech Lands in the 20th Century

- 1918** After the collapse of the Austro-Hungarian monarchy, the first Czechoslovak Republic as a common state of Czechs and Slovaks was established.
- 1920** A democratic constitution was adopted.
- 1938** The Munich agreement, occupation of part of Czechoslovakia by Germany and Hungary; the so-called Second Republic, Czecho-Slovakia, was established with extended Slovak autonomy.
- 1939** The rest of the Czech territory was occupied by Germany, an independent Slovak State was established.
- 1945** Liberation, the Czechoslovak Republic was restored.
- 1948** Communists took over the country, marking the beginning of a 40-year totalitarian regime.
- 1968** Prague Spring, the invasion of Warsaw Pact armies, a federal constitution adopted.
- 1989** The Velvet Revolution, end of the totalitarian regime.
- 1990** The first democratic parliamentary election in 42 years.
- 1991** Last Soviet military troops left the country.
- 1992** The separation of Czechoslovakia, establishing the Czech and Slovak Republics in 1993.
- 1999** On March 12, the Czech Republic officially joined NATO.

I.2 Geography



In terms of its area (76,867 square kilometres), the Czech Republic ranks among the smaller European countries. The Czech Republic shares borders with Germany, Austria, the Slovak Republic and Poland. It has special trade relations with the Slovak Republic based on the Customs Union Treaty of 1992.

The Czech Republic is a signatory of CEFTA (Central European Free Trade Agreement, which also includes Hungary, Poland, Romania, the Slovak Republic and Slovenia), an associated member of the EU, and has been a member of the OECD since 1995. It is a founding member of the UNO, a member of the World Bank, the IMF, the WTO and the Council of Europe. The Czech Republic submitted its application for full

EU membership in 1996. The Czech Republic joined the Partnership for Peace with NATO and after the 1997 Madrid summit was invited (together with Poland and Hungary) to join NATO. It became a full member of NATO in 1999. Since the 1997 Amsterdam summit of the EU the Czech Republic has been considered one of the “first wave” countries (together with Poland, Hungary, Estonia, Slovenia and Cyprus) to negotiate entry into the European Union.

The Czech Republic has no unresolved territorial disputes with neighbouring countries. With the exception of the Principality of Liechtenstein, which has made property claims dating back to before the communist regime, the Czech Republic enjoys good diplomatic relations with all European countries.

One Year of the Czech Republic's Membership in NATO

The first year of integration in NATO can be characterized as reorganization and an attempt to establish systematic and efficient system rules. Reorganization took place in all levels of the Czech Army. Being part of the NATO defense system required many changes in planning, armament standardization, infrastructure, legislation, etc. For example, the role of organizational units created deliberately for the integration process has been modified to "policy making" tasks for NATO and other partner countries.

Another very important issue is the active participation of the Czech Army in humanitarian and peaceful NATO operations. In the units SFOR, KFOR and AFOR over 1600 Czech were involved. The Czech Army not only provides support for NATO operations but also gains through participation experienced soldiers who are able to operate in the NATO defense system.

The Army of the Czech Republic strengthened its integration into the structures of NATO in the year 2000. Nevertheless, there are still limiting factors (personnel and physical) hindering more intensive integration and more efficient functioning.

Of the personnel factors, it is language skills which are still below the required level, although the number of STANAG 6001, the NATO language standards, holders among soldiers has increased substantially.

As for army expenditure, even though the state budget expenses for the Army of the CR increased (2% of GDP in 2000), the structure is still in favor of a high personnel and operation expense and thus only a few expenditures are allocated for renovation and the purchase of new technique. Starting January 2000 the "National Bureau for Armament" (NÚV) was established which focuses on supporting Czech armament production and on preparing for the Czech Republic's integration into the West European Armament Group (WEAG).



1.3 Population

With a population of 10.331 million (1995), the Czech Republic is similar in size to Austria, Belgium or Hungary. Its ethnically homogeneous population with an overwhelming majority of Czechs (94.8 per cent), a Slovak minority (3.1 per cent) and small Polish (0.6 per cent) and German (0.5 per cent) minorities minimizes the possibility of ethnic conflicts. The Czech language is a part of the family of west Slavic languages (together with Polish and Slovak).

The working age population (15-59 years) accounts for 63.5 per cent of the total (1995). The population tends to be ageing slowly as life expectancy, which is still far behind that in West European countries, increases. The prognoses of demographic development suggest a slow decrease in the

Ethnic Minorities in the Czech Republic (in thousands)

	1991		1995	
	Census	%	Estimate	%
Slovak	315	3.1	300	2.9
Polish	59	0.6	60	0.6
German	49	0.5	48	0.5
Romany	33	0.3	300	2.9
Hungarian	20	0.2	21	0.2
Ukrainian	8	0.1	12	0.1
Russian	5	0.1	5	0.1
Total	489	4.7	746	7.2

Source: *Lidové noviny*, May 5, 1998

population from 10.333 million in 1995 to 10.289 million in 2000.

Descriptive Statistics for Population

	1993	1994	1995	1996	1997	1998	1999
Population (in thousands, average)							
Total	10,331	10,336	10,331	10,315	10,304	10,295	10,284
Women	5,309	5,315	5,311	5,301	5,293	5,287	5,280
Age structure of population (in %)							
0-14	20.00	19.50	18.80	18.30	17.90	17.70	17.00
15-64	67.10	67.60	68.00	68.40	68.70	69.00	69.30
65+	12.90	13.00	13.10	13.30	13.40	13.60	13.70
Average age	36.60	36.80	37.00	37.30	37.60	37.90	38.30
Median age	35.90	36.00	36.20	36.40	36.60	36.80	37.00
Index of Aging*	64.30	66.80	69.60	72.30	75.30	78.10	80.50
Life expectancy at birth							
Men	69.28	69.53	69.96	70.37	70.50	71.13	n. a.
Women	76.35	76.55	76.63	77.27	77.49	78.06	n. a.
Men at age 60	75.67	75.86	75.94	76.25	76.39	76.72	n. a.
Women at age 60	79.79	79.90	80.04	80.39	80.67	81.00	n. a.

Sources: CSO Statistical Yearbook of the Czech Republic 2000, <http://popin.natur.cuni.cz>

* Index of aging – number of persons aged 65 or over for 100 children aged 0-14

Demographic Ageing – Challenge for Future Decennia

Demographic ageing will be one of the dominant demographic processes during the next few decennia, with far-reaching social and economic consequences. The number of inhabitants over 65 years of age will increase by one million (70 per cent) up to 2030 and their numbers in the population will reach almost one quarter of the total. This trend is mainly due to:

- the transition of numerous generations born in the 1940s and especially after World War II over the age of 65 years;
- the improvement in mortality since the end of the 1980s at the top of the age pyramid (absolute ageing); life expectancy for both men and women at the age of 65 has increased by almost two years;
- the dramatic decrease in the number of births during the last decade (relative ageing at the bottom of the age pyramid); the total fertility rate (the number of children born per woman) decreased from 1.9 to 1.1 in the period 1990–1999.

The increase of pensioners in the Czech Republic will be partly reduced by a gradual increase in the retirement age; it will increase to 61 years by the year 2007 for men and to 58 years for women with two children; further increases up to 65 years can be expected.

Expected Demographic Ageing of Czech Population up to 2030*

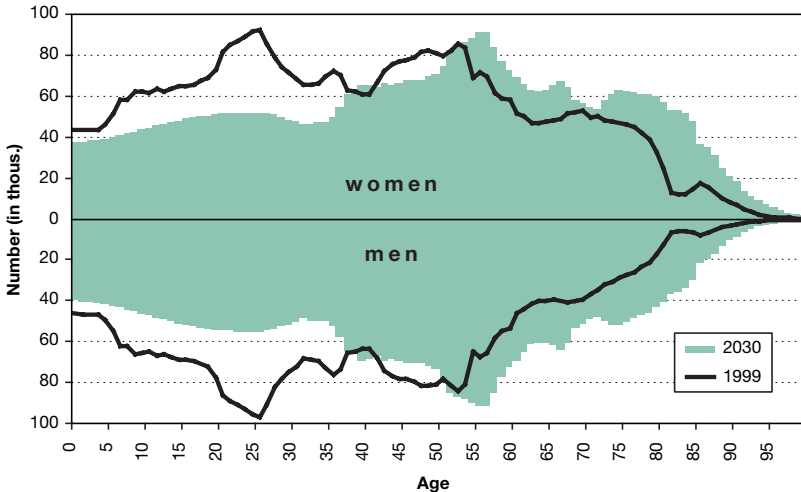
Year	2000	2005	2010	2015	2020	2025	2030
Number of persons aged 65+ (in thousands)	1,421	1,472	1,652	1,956	2,209	2,346	2,470
Percentage of persons aged 65+ in total population	13.8	14.3	16.0	18.9	21.4	22.9	24.4
Ratio of 65+ to 15-64 (in %)	19.8	20.2	23.0	28.5	33.4	36.1	38.9

* middle variant, population over 65 years of age at 31 December of the given year

Source: Burcin, Kučera, *Population Forecast of the Czech Republic up to 2030*, Dept. of Demography and Geodemography, Faculty of Science, Charles University, Prague 2000.

Expected trends in the levels of natality and mortality will be more and more obvious in the age pyramid. Low numbers of children and young people will move into older groups which will become smaller with a simultaneous widening of old age groups. The number of inhabitants in the age group 15–64 will decrease by 800 thousand (11 per cent) up to the year 2030; The total number of inhabitants will decrease by 200 thousand (2 per cent) even if a certain amount of immigration is expected. During the last five years, around 50 thousand immigrants were accommodated.

Comparison of Age Structure in 1999 and 2030



Source: Burcin, Kučera, *Population Forecast of the Czech Republic up to 2030*, Dept. of Demography and Geodemography, Faculty of Science, Charles University, Prague 2000

Demographic ageing will have significant consequences

- **economic:** the considerable decrease of an economically active population; the economic burden connected with the increase of pensioners will double;
- **social:** necessary transformation of a retirement system will require tax reforms; the growing number of pensioners will lead to a new redistribution of consumption in favor of economically post-active age groups;
- **social and medical care:** the increase in expenses for; old people in medical institutions of all kinds, necessary places in houses for pensioners enable to take care of themselves, changes in household structures will require changes in flat structures, the increase of one member households etc.

The increasing share of an older population with lower income and specific consumption structure and needs could also affect the overall social mentality. Certain features of conservatism and stagnation might be expected, although they are difficult to specify and measure. The low share of young people signifies a loss of human capital and so a certain impoverishment of the whole society.