

# CONTENTS

<b>I.</b>	<b>General Information</b> . . . . .	<b>5</b>
	Major Political and Economic Events in 1999 . . . . .	5
	An Economic Summary of 1999 . . . . .	7
I.1	History . . . . .	8
I.2	Geography . . . . .	10
	Membership in NATO . . . . .	11
I.3	Population . . . . .	13
	The Wall in Ústí: Unresolved Problems of the Romany Minority . . . . .	14
I.4	Economy: Ten Years of Transformation . . . . .	15
<b>II.</b>	<b>Political Transformation of the Czech Society</b> . . . . .	<b>17</b>
II.1	Last Years of Czechoslovakia . . . . .	17
	Czech and Slovak Parliamentary Parties after the 1992 Elections . . . . .	19
II.2	Constitutional System after the Separation . . . . .	20
	State Representatives in 1999 . . . . .	20
II.3	Electoral System . . . . .	21
	Major Political Parties in 1999 . . . . .	22
II.4	New Electoral History of the Czech Republic . . . . .	23
	Government Coalitions . . . . .	24
II.5	Regional Administration . . . . .	26
	Local Governments . . . . .	28
<b>III.</b>	<b>Macroeconomy</b> . . . . .	<b>29</b>
III.1	Gross Domestic Product . . . . .	29
	Structure of Gross Value Added . . . . .	30
III.2	Inflation . . . . .	31
	Inflation targeting . . . . .	32
	Was there a steep decline in output? . . . . .	34
III.3	Investments . . . . .	36
III.4	Foreign Direct Investment . . . . .	37
	Foreign Direct Investment and Investment Climate in 1999 . . . . .	39
	Did We Achieve Achievable? . . . . .	40
III.5	State Budget . . . . .	41
	Mandatory Expenditure Squeeze . . . . .	42
III.6	Exchange Rate . . . . .	44
	Structural Breaks in Exchange Rates of the CEE Countries . . . . .	45
<b>IV.</b>	<b>Microeconomy</b> . . . . .	<b>46</b>
IV.1	Current Privatization Status . . . . .	46
	Liberalization of the Energy Sector: Electricity . . . . .	47

IV.2	Enterprise Restructuring . . . . .	48
	Regulatory Environment . . . . .	49
	Privatization Still Ahead . . . . .	51
IV.3	Bank Privatization Issues . . . . .	52
IV.4	Business Environment in the CEE . . . . .	53
IV.5	Czech Capital Markets . . . . .	54
	Relationship between Stock Market Returns and Economic Factors for Visegrad Countries. . . . .	56
	Credit Union Crises . . . . .	58
	A Note on the Efficiency of the Czech Financial Markets. . . . .	59
<b>V.</b>	<b>Foreign Trade. . . . .</b>	<b>60</b>
V.1	Exports and Imports by Groups of Countries . . . . .	60
V.2	Export and Import by Commodity Groups . . . . .	61
	Central European Free Trade Agreement (CEFTA) . . . . .	63
<b>VI.</b>	<b>Work and Pay . . . . .</b>	<b>65</b>
VI.1	Age Structure and Trends . . . . .	65
	A Ticking Bomb: Pensions. . . . .	67
VI.2	Unemployment . . . . .	68
VI.3	Wages . . . . .	69
	Changes in Minimum Wages and the Work Act. . . . .	70
	Did Wage Grids Survive the Transition? . . . . .	71
VI.4	Welfare . . . . .	72
	Not Rich Enough for Our Generous Welfare System . . . . .	73
<b>VII.</b>	<b>Ecology . . . . .</b>	<b>75</b>
VII.1	Environmental Legislation and the EU . . . . .	75
VII.2	Wastes and Pollution. . . . .	77
	Global Cooperation . . . . .	79
<b>VIII.</b>	<b>The Czech Republic on its Way to the European Union. . . . .</b>	<b>80</b>
VIII.1	From Trade Co-operation and Association to Full Membership. . . . .	80
	CEEC Enlargement . . . . .	82
	Accession Negotiations and European Commission Assessment. . . . .	84
VIII.2	Czech Republic and Convergence Criteria . . . . .	85
VIII.3	The European Union as a Major Trading Partner of the Czech Republic . . . . .	86
VIII.4	Regional Reform and European Regions in the Czech Republic. . . . .	88
<b>IX.</b>	<b>Comparative Statics. . . . .</b>	<b>89</b>
<b>X.</b>	<b>Forecasts . . . . .</b>	<b>92</b>
	CERGE-EI Working Papers 1999 . . . . .	93
	CERGE Discussion Papers 1999 . . . . .	94
	CERGE-EI Discussion Papers 1999 . . . . .	94