The Czech and Slovak Federal Republic An Economy in Transition

By Jim Prust and an IMF Staff Team

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The following symbols have been used throughout this paper:

... to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;

– between years or months (e.g., 1989–90 or January–June to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 1989/90) to indicate a crop or fiscal (financial) year.

“Billion” means a thousand million

Minor discrepancies between constituent figures and totals are due to rounding.

The term “country,” as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

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Preface

This paper is based on an internal report prepared by the staff in connection with the application of the Czech and Slovak Federal Republic (Czechoslovakia) for membership in the IMF. Staff teams gathered statistical and other information for the report during two rounds of discussions in Prague, in March and April 1990. To the extent possible, the paper takes account of subsequent developments. But, given the inevitable time lag between preparation and publication and the rapid changes now taking place in Czechoslovakia's economic life, the information provided may in some respects already have been overtaken by events.

Any opinions expressed are those of the authors alone and should not be construed as reflecting the views of the Czechoslovak authorities, Executive Directors of the Fund, or other staff members. Similarly, the authors bear sole responsibility for any factual errors.

The authors gratefully acknowledge the assistance so generously extended to them by the many officials with whom they worked during the two visits to Prague. They would also like to record their appreciation to Mirko Novakovic for research assistance, to David Driscoll of the External Relations Department for editorial assistance, and to Valerie Ball, Hilda Newman, and Divina Tenorio for secretarial support.

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I Evolution of the Economic System and of the Economy

In the 1930s, Czechoslovakia ranked as a major European industrial country, enjoying a strong tradition of craftsmen skilled in producing machinery and other manufactures and of businessmen adept in exporting these goods. Incomes were high, and the well-developed economy had succeeded in forging close links with the rest of Europe. Though the Second World War amputated one third of the nation's territory and subjected the remainder to foreign domination, it did not inflict on Czechoslovakia the wholesale destruction of property, plant, and infrastructure that devastated Poland and Germany. Thus after liberation in 1945, the country looked forward to renewed growth and to reassuming its economic position in Europe. Following the setbacks of 40 years of central planning and close political and economic ties with the U.S.S.R., the country once again looks forward to developing as a market economy and to strengthening its ties to the international economic and financial system. This paper describes the economy of Czechoslovakia, examines developments in the country over the last 40 years, summarizes the economic reforms now under way, and suggests issues that may be critical in the future.

The first section of this paper surveys the economic system that had developed up to the time of the reforms begun in 1987, and outlines the economy's performance during 1945–85. It then discusses the economic developments of 1985–90, with separate sections on output, prices, public finance, money, and the balance of payments. Next follow a review of reform attempts in the past and a summary of the challenges facing the government (that replaced the Communist Party-controlled regime in 1989) in its attempt to move towards a market economy. More detailed descriptions of the fiscal, financial, and exchange and trade systems are contained in the appendices, together with a note on statistical issues. A set of tables, containing data on the economy since 1970, supports the text and provides useful reference.

The Economic System

Domestic Economy

Ownership and Management of Industry

Except for a short period around 1968, strict central planning has characterized the Czechoslovak economic system from the late 1940s until recently. Since 1948, all productive units, with the exception of cooperatives, small family businesses, and a small number of farms, have been owned by the state, although personal ownership of residential property has been permitted.

Immediately following World War II, major branches of industry, banking, and insurance were nationalized without compensation to domestic owners. After the Communist Party assumed full control of the Government in 1948, further nationalization took place. By the end of the year, almost all private companies employing more than 20 people and all those engaged in wholesale and foreign trade were under public ownership.

Following a two-year period of planning that allowed autonomous enterprise decision-making with worker participation in management, in the course of the First Five-Year Plan (1949–53) market mechanisms were completely eliminated and replaced by central planning. A four-tiered planning hierarchy was established. At the top was the State Planning Commission. Subordinate to it were first the branch ministries, and then 24 administrative bodies, each in charge of several enterprises. At the bottom of the planning pyramid were the individual enterprises. Priority was given to rapid industrialization, with particular emphasis on heavy industry.

By the end of the First Five-Year Plan period, a rigid, centrally directed system had emerged. Plan targets were

laid down in detail, prescribing the actual physical quantities that each economic unit was to produce and the inputs and financial resources which were to be made available to it. The sole measure of success for enterprises was fulfillment of the plan's production targets: profit as such did not matter. Under this system, enterprises tended to hoard scarce raw materials, in view of uncertainties about supplies, and to hold excessively large inventories of finished goods.

Agriculture

In 1948, since the upper limit for private ownership was set at 50 hectares, most agricultural property was taken over by the state. The subsequent "transition of the village to socialism" resulted in widespread agricultural collectivization, by creating large "Unified Agricultural Cooperatives" (JZDs) from single units. In recent years, cooperatives have produced about 66 percent of the total output, while the state farms have produced about 30 percent of total output. Private farmers accounted for only about 4 percent of agricultural land and output.

Investment

All investment decisions were made within the framework of national economic plans. In establishing investment targets, the planners sought to take a long-term view in setting down five-year and annual requirements. Investment was allocated to sectors and within their given money allocation enterprises decided on equipment purchases. Up to 1980, investment plans constituted legally binding directives on enterprises and other institutions in the state sector, with the Ministry of Finance providing the money to effect investments. In 1981, however, agricultural enterprises were permitted to establish development funds to generate more of their own resources for investment. This system was extended to other sectors in 1986.

Decisions on construction projects were incorporated in five-year plans that determined allocations to, as well as within, sectors. The Government made land available for construction and the Government or state enterprises primarily carried out construction projects.

Prices and Wages

Prices served mainly as an instrument of central planning: each price was set independently and a change in one price had no influence on other prices. Certain retail prices and some agricultural purchase prices were changed almost every year. Wholesale prices, on the

Czechoslovakia and the IMF

An original member, Czechoslovakia withdrew from the Fund on December 31, 1954, following the country's difficulties in providing information and consulting with the Fund on exchange restrictions. Czechoslovakia withdrew from the World Bank at the same time, remaining a member of the United Nations and the Bank for International Settlements.

After preliminary contacts in 1989, the government of Czechoslovakia applied to rejoin the Fund and World Bank in early January 1990. Following two visits by Fund staff to Prague to prepare the information required, the application was accepted by the Fund's Board of Governors. In September 1990, a representative of the Czech and Slovak Federal Republic signed the Fund's Articles of Agreement at the U. S. State Department, signaling the country's full return to the international financial system. Czechoslovakia was allotted a quota of SDR 590 billion under the Eighth Review, similar to those of Finland and Yugoslavia and making it the 30th largest member of the Fund, joining the constituency of Austria, Belgium, Hungary, Luxembourg, and Turkey.

The country's ties with the European Community were strengthened with the signing of trade pacts in 1989 and 1990. Eventual membership in the EC and the OECD has been suggested by the current government.

other hand, were normally changed only every fifth year, at the beginning of five-year plan periods. Wage rates were tightly controlled by predetermining either average wages or wage funds. Wage funds and bonuses for managers depended solely on the degree of fulfillment of plan indicators regardless of the actual earnings of the enterprise. If revenue from sales was not sufficient to cover these payments, the enterprise automatically received subsidies from the state budget.

Banks

Banking operations were fully subordinate to the requirements of the official plan. The banking system received detailed instructions regarding amounts to be collected from and paid to individual enterprises. Its main function was thus to provide evidence to the state of the fulfillment of the plan by the individual economic units.

Reform Attempts

From the mid-1950s to 1968, several attempts were joined to amend the system of planning so as to improve performance. The basic principles adopted in the Fourth Five-Year Plan (1966–70), though ensuring that the economy would continue to be guided by central development plans, supported measures to reduce the bureaucracy and to decentralize the planning system. Production targets deriving from the centrally fixed plan were drastically reduced, and the 383 production economic units (VHJs), which had in 1958 replaced the 24 administrative bodies (third from the top of the planning hierarchy), were amalgamated and reduced to 99. Enterprises were expected to reorient their activities in accordance with the recommended plan targets. After deductions in favor of both the VHJs and the state budget, individual enterprises could dispose freely of their remaining income, thereby giving them greater freedom to finance investment and allowing a more flexible wage policy. Wages were divided into basic wages set according to centrally determined scales and bonus payments.

Price reform was implemented in two phases. In the first phase, during 1966, wholesale prices were determined so as to cover production costs and to provide a rate of profit reflecting average efficiency in each branch. Different degrees of price flexibility were allowed for different categories of products: prices of essential inputs remained fixed. In 1967, the scope for price flexibility was increased. It was envisaged that a step-by-step deregulation would precede a move to full convertibility of the koruna. The monopoly of foreign trade enterprises over foreign trade was weakened at this time.

As the reform gathered momentum, it became clear that the new economic instruments were incompatible with the continuation of the centralized planning system. It also became clear that political considerations formed the main obstacle to the complete implementation of the economic reforms. In January 1968, a new reform-oriented regime under Alexander Dubcek came to power, which, during the following spring and summer, elaborated further on its reform program. It had three main aims: first, the separation of economic management from the state and party apparatus; second, the right of each enterprise to leave or join any association and the right to independent creation of new enterprises; and third, the authorization of "workers' councils," elected by the employees of each enterprise, to appoint directors and to undertake other basic entrepreneurial functions. However, the invasion by Warsaw Pact forces in August 1968 marked the end of this attempt at political reform. The summer of 1969 saw a sharp move back toward centralization. The government once again bound enterprises to detailed plans and revoked the guidelines for the formation of workers' councils. It merged agricultural units

into larger units once again and subordinated foreign trade to the centrally directed planning system. It reintroduced central wage controls and froze prices at the beginning of 1970. At the beginning of 1974 it formalized the return to the previous system of centralized price fixing.

This economic system remained essentially intact until January 1, 1989. In the intervening period, major price restructurings occurred in 1977 and again in 1981–82, mainly to take account of the increase in world prices following the first and second oil price rises. All the effects of the reform were not negated immediately, and in the late 1970s and early 1980s modest reform initiatives sought to improve the operation of the planning system through greater emphasis on rewarding skill and innovation and on penalizing poor performance. Despite these exceptions, throughout the years up to the period of "perestroika" in the U.S.S.R. the government by and large strove to bring the system back to its pre-reform status.

Foreign Trade and Payments

The annual foreign exchange plan, derived from the state plan, strictly controlled foreign exchange transactions. It specified imports and exports of goods and services by enterprises for the convertible and nonconvertible area. It also determined the amount of external borrowing, which comprised mainly bank loans by the Obchodni Bank and trade credits by enterprises. All trade was carried out through specialized foreign trade organizations. Virtually all foreign exchange receipts were surrendered and hardly any foreign currency deposits were allowed.

From June 1, 1953, the gold content of the koruna (0.123426 gram of fine gold) determined the official exchange rate of the koruna against convertible and CMEA currencies. From 1957, a coefficient was applied to the official rate in respect of noncommercial payments in convertible currencies, which implied a more depreciated exchange rate than the official rate. Starting in 1967, commercial payments in convertible currencies and in transferable rubles were effected under similar arrangements, but with different coefficients for commercial and noncommercial transactions. The coefficients were initially fixed for the duration of five-year plan periods. For example, during the 1970s, they were changed only once (1977),¹ and the coefficients established at that time remained in effect until 1981. In the early 1980s, however, changes occurred more fre-

¹ The official exchange rate, however, was appreciated against the U.S. dollar at the end of 1971 and in 1973 so that unchanged coefficients implied a corresponding appreciation of the commercial and noncommercial exchange rates.

quently. Since 1967 separate exchange rates have been applied to noncommercial transactions within the CMEA area, based on multilateral and bilateral agreements among the CMEA countries. Consequently, from 1967 until recently, the official exchange rate was used mainly for statistical purposes. The commercial exchange rate applied to virtually all merchandise transactions and, in addition, to a broad range of services transactions. The noncommercial exchange rate applied to a few categories of services, including tourism, embassy expenditures, and other foreign representation.

Prior to 1967, all settlements between domestic importers or exporters and foreign trade organizations took place on the basis of wholesale prices, which were fixed for long periods. All differences between wholesale prices and actual export and import prices calculated at the official exchange rate were bridged by subsidies from or taxes to the state budget. This system implied that domestic producers or consumers had no incentive to change production or consumption patterns as a consequence of changes in foreign trade prices. To strengthen the links between domestic and international prices, the system was changed in 1967. As stated above, internal price coefficients were introduced, which were derived as the factor by which the official exchange rate had to be multiplied to balance, in the aggregate, the difference between domestic wholesale prices and world prices in convertible currencies. To bridge any remaining differences between foreign and domestic prices, a complementary system of taxes and subsidies was introduced.

Economic Developments to 1985

The history of Czechoslovakia's economic development since World War II can broadly be characterized as one of generally declining growth rates. In some phases, performance has been affected by external developments, notably as a result of the oil price increase of the 1970s and the debt crisis of the early 1980s and its aftermath. From about the mid-1950s onward, however, successive governments have recognized that a main constraint on economic growth has been the system of central planning itself and its external counterpart, the emphasis on intra-CMEA trade to the relative neglect of trade with the convertible currency area. This diagnosis lay at the root of the various attempts at economic reform described above.

In interpreting official output statistics, it should be borne in mind that price rises may have been generally understated, thus imparting an upward bias to estimates of output growth in real terms (see Appendix 4). Further, to meet production targets and avoid possible shortages of future supplies, enterprises built up large inventories. Thus, by the standards of market economies, although

not of other planned economies, the share of output devoted to stock-building (thought to be often of limited utility) has been unusually high. For these two reasons, official statistics may tend to exaggerate Czechoslovakia's economic growth.

Under the system of five-year plans adopted in 1948, expansion of the economy through the diversion of additional manpower and material resources to the industrial sector was emphasized: the so-called extensive development approach. Agriculture, which accounted for almost one third of output in 1937, and other consumer goods sectors were relatively neglected. In fact, prewar agricultural production levels were not regained until the 1960s.

This strategy was initially successful in that under the First Five-Year Plan (1949–53) the recorded annual growth in real NMP was nearly 10 percent. Net investment, from a base of less than 20 percent of NMP, rose by almost 30 percent annually. However, imbalances emerged and prices and wages rose rapidly. The authorities responded with a currency conversion—the second after World War II—which greatly reduced the real value of financial assets.

Only annual plans were adopted for the years 1954 and 1955. Under the Second Five-Year Plan (1956–60), priorities were somewhat changed in favor of greater supplies of consumer goods. The growth in investment spending was scaled back but relatively rapid NMP growth, of 7 percent annually, continued. In the wake of the currency conversion, the cost of living fell, and by 1960 prices were 14 percent lower than in 1953.

Economic difficulties intensified during the period of the Third Five-Year Plan (1961–65). The reforms attempted in the late 1950s failed to prevent a decline in the productivity of investment, and price distortions became increasingly troublesome. Partly as a result of the emphasis on CMEA trade, domestic prices became progressively more insulated from world prices. Limitations on the supply of manpower and physical inputs had brought an end to the period of rapid extensive development. By 1965, agriculture and retail trade were in a slump, NMP was only 10 percent higher than in 1960, and net investment had declined by 20 percent over the same period. Thus “intensive” development, emphasizing productivity increases, was a major aim of the 1965–68 reforms. These reforms did indeed lead to some improvement, with output growth recovering to an average rate of 7 percent in 1965–70. Growth continued at almost the same rate in the following five-year period, spurred by changes in prices and in industrial structure undertaken during the preceding reform period. Wages were restrained and a reduction of stocks from exceptionally high levels eliminated much of the shortage of consumer goods.

The mid-1970s proved to be another turning point. Following the first oil price rises, the CMEA countries

Czechoslovakia: Political Background

Located in the center of Europe, with borders with Austria, both Germanies, Hungary, Poland and the U.S.S.R., the Czech and Slovak Federal Republic is a country of 50,000 square miles (see map) with a population of 15.8 million in 1989. The country is made up of three regions: Bohemia and Moravia, together representing the Czech lands, and Slovakia.

History

In 1085, Bohemia, then including Moravia and parts of Austria and Poland, became a semi-independent kingdom within the Holy Roman Empire. After being defeated by the Hapsburg armies in 1620, Bohemia lost its self-governing powers, but remained a constitutionally distinct entity within the Hapsburg Empire. In 1867, Austria and Hungary formed a dual empire, in which Bohemia was reduced to a province of Austria, and Hungary resumed direct administrative control over Slovakia.

In 1916, two leading Czech nationalists, Tomas Masaryk and Eduard Benes, together with several other Czech and Slovak leaders, formed the Czechoslovak National Council in Paris, which in 1918 was recognized as the provisional government of a new nation, Czechoslovakia. Masaryk served as its first president until 1935 when he was succeeded by Benes. In 1939, following the annexation of the Sudetenland in 1938, Germany declared Bohemia and Moravia protectorate while Slovakia became a separate republic under German control.

Benes formed a government-in-exile in London during World War II and, after returning to Czechoslovakia, became president in 1945. At elections in May 1946, the Communist Party gained a majority, and the Chairman of the Party was appointed Prime Minister of a coalition government. In 1948, the Communist Party and its supporters took over exclusive control of the government; in effect a one party state was established.

During the early 1960s, demands for freedom of expression grew. In early 1968, a new government was formed which introduced a program of reforms affecting many aspects of economic, social, and cultural life. Five months later, Warsaw Pact troops invaded the country and with the support of the U.S.S.R., a new government was installed.

Charter 77

A group of intellectuals and former politicians joined in 1977 to issue the "Charter 77" in defense of human rights and in support of the Helsinki Agreement which the Czechoslovak Government had signed in 1975. Members of this group emerged as leaders of the popular movement which developed in November 1989 against the Communist regime. The main opposition organizations, Civic Forum (CF) and Public Against Violence (PAV), were created at this time. The Communist Party dropped its claim to "a leading role" in national life, and on December 10, 1989, a new government was formed in which the Communists were in a minority. The Federal Assembly elected Vaclav Havel, playwright and dissident, president on December 29, 1989, for the period until the establishment of a new Federal Assembly following the June 1990 elections.

Government

The country, formally renamed the Czech and Slovak Federal Republic in April 1990, has a federal assembly and government, as well as parliaments and cabinets representing the Czech and Slovak territories separately.

The first free elections for over 40 years were held in Czechoslovakia on June 8-9, 1990. The new legislature is dominated by President Vaclav Havel's Civic Forum and its Slovak ally, Public Against Violence. The two groups had spearheaded the peaceful revolution against the Communists, and together won 170 seats in the bicameral federal parliament. The Communist Party, which had ruled unchallenged for four decades, won 47 seats in the new parliament. The third strongest group is the Christian Democratic Alliance, which won 40 seats.

The new Parliament re-elected President Havel for a term of two years. The new federal cabinet, appointed by President Havel and led, as before, by Marian Calfa, was sworn in at the end of June 1990. Based on an alliance of CF, PAV, and the Christian Democrats, it includes many of the ministers who formed the transitional government in November 1989. Alexander Dubcek, was reappointed Chairman of the Assembly.

agreed in 1975 to base their export and import prices on world prices. This raised the price of fuels and raw materials (Czechoslovakia's main import) much more than those of manufactured goods (its main export). There was a similar change in the terms of trade with nonsocialist countries—a development that may have been particularly harmful in view of the already widening gap in energy and raw material costs per unit of output between Czechoslovakia and Western Europe. As a result, trade deficits emerged with all trading areas, though this was partially offset by the continuation of surpluses in services. Initially, a sharp increase in external debt in convertible currencies financed these imbalances, but by 1980 the current account deficit in convertible currencies had already been reduced from its peak.

The deterioration in the terms of trade and the associated energy constraint, combined with poor performances in agriculture and construction, resulted in a slowdown in NMP growth in the second half of the 1970s. As imports were constrained, some shortages of consumer goods emerged but, protected from the full impact of the first oil shock by the nature of CMEA trade pricing and the Government's policy of safeguarding living standards, the rate of growth of consumption did not decline until late in the decade.

Tighter lending practices by Western banks toward Eastern European countries in the early 1980s prompted further adjustment. As a result, from 1981 the Government sought to achieve current account surpluses, primarily through import compression. Trade with the convertible area moved into surplus in 1981 but at the expense of slower economic growth. The Seventh Five-Year Plan covering 1981–85 sought to adjust the economy to the economic recession and high interest rates in the West, rising costs, and limited availability of energy resources. The result was a cutback in domestic absorption and, in 1981, a fall in real NMP. In 1982, output growth resumed and during the following three years averaged 3 percent annually. In part, these fluctuations reflected weather-related changes in agricultural output. Modest growth in consumption resumed in these years at the same time as the trade balance with the convertible area moved into substantial surplus and gross external debt was reduced. These demands on resources could be accommodated only by a sharp decline in real net fixed investment, including unfinished construction, of almost one half between 1980 and 1984.

The contribution of net investment to the growth of NMP fell and in some years became sharply negative because of growing depreciation charges. As a result, the share of total net investment (including stock changes) in NMP plummeted during the decade, from over 25 percent in 1980 to an estimated 18 percent in 1985. Over the same period, the corresponding share for total consumption rose from almost 73 percent to about 80 percent; most of this increase was accounted for by social consumption. After a marginal decline in 1981–82, real personal consumption resumed its trend of low but steady growth.

Following export volume growth during the 1970s of 7.1 percent to the CMEA and 3.7 percent annually to nonsocialist countries, export growth slowed during the 1980s. This partly reflected some loss in market shares in both CMEA and Western market economies for machinery, transport equipment, and other manufactured products. Trade credits often accompanied exports to developing countries encountering balance of payment difficulties. Nevertheless, external debt in convertible currencies was reduced, official reserves rose steadily from 1982, and Czechoslovakia was able to honor all its external debt-service obligations on a timely basis. The external debt-service obligations and external debt in convertible currencies remained well below those of Hungary, Poland and Yugoslavia. As regards transactions in transferable rubles, sharply increasing surpluses on the services balance during the first half of the 1980s, partly reflecting transportation earnings, mitigated trade deficits, and Czechoslovakia accumulated a net creditor position, in particular vis-à-vis the U.S.S.R. and Poland.

In sum, Czechoslovakia weathered the deterioration in its terms of trade and the external financing difficulties of the 1980s better than several other countries of the region. The viability of the country's external finances was maintained, modest growth was resumed after an initial drop in output early in the decade, and inflation never emerged as a serious problem. As throughout most of the postwar period, fiscal and monetary policies were consciously oriented towards anti-inflationary goals. Nevertheless, success in these limited respects could not mask the secular decline in Czechoslovakia's relative economic standing—an issue that, as described below, preoccupied policy makers more and more in the late 1980s.

I

The Czechoslovak Economy in the Late 1980s

Output, Incomes, and Expenditure

The Eighth Five-Year Plan for 1986–90 called for annual real output growth of 3½ percent, to be achieved mainly through productivity-induced gains in industrial output. Exports were to grow more rapidly than imports. These targets have not been met. Real NMP grew by an average 2¼ percent in 1986–89 (Table 1). This outcome was partly the result of poor agricultural years in 1987 and 1988; real industrial output rose by an average of about 3½ percent annually in the years 1986–88 (Appendix Tables A3 and A6). The growth rate in total NMP and in the industrial sector declined significantly in 1989, partially because of curtailed production of armaments and a decline in exports to socialist countries. Growth in NMP is officially expected to fall further, to below 1

percent in 1990, and the authorities see a resumption of higher growth rates as heavily dependent on a major restructuring of the economy.

Since domestic absorption increased faster than output during the second half of the 1980s, the surplus on external current transactions has fallen from the levels recorded earlier in the decade when convertible currency debt was being reduced. Within domestic absorption, the pattern in evidence in the first half of the decade continued. The commitment to raising consumption levels has necessitated the maintenance of relatively low levels of investment. The share of net fixed investment in NMP averaged just over 13 percent in 1987–89—a fall of about 3 percentage points from that in evidence in the first part of the 1980s. The growth in consumption was most marked in social consumption, which, in real terms, grew

Table 1. Summary Indicators of Output, Expenditure, and Prices, 1970–89

	1970–75	1975–80	1980–85	1986	1987	1988	1989
<i>(Change in percent)</i>							
Net material product	5.7	3.6	1.8	2.6	2.1	2.3	1.3
Personal consumption	4.8	1.7	1.0	2.3	2.8	4.9	1.6
Social consumption	6.8	4.8	4.3	5.9	5.3	3.5	4.8
Total net investment ¹	8.4	1.2	–7.3	12.2	–1.1	–10.2	7.4
Net fixed investment	10.6	0.9	–1.0	–5.4	–25.5	10.5	16.6
Exports of goods and services	5.0	11.8	5.4	–0.2	1.8	3.4	–1.0
Imports of goods and services	6.3	10.6	1.0	4.9	3.7	2.5	4.2
<i>(Share of NMP, in percent)</i>							
Personal consumption	52.4 ²	52.9 ³	53.5 ⁴	53.6	54.1	54.5	55.5
Social consumption	19.0 ²	19.9 ³	23.0 ⁴	23.8	24.7	24.7	25.1
Total net investment ¹	28.6 ²	25.5 ³	18.4 ⁴	19.8	18.2	16.5	15.9
Net fixed investment	19.7 ²	15.7 ³	16.4 ⁴	16.5	13.0	13.6	13.4
Exports of goods and services	35.6 ²	40.2 ³	42.2 ⁴	41.2	40.8	40.9	39.7
Imports of goods and services	37.0 ²	39.5 ³	38.2 ⁴	39.5	39.1	37.8	38.0
<i>(Change in percent)</i>							
Consumer prices	0.2	2.1	2.0	0.5	0.1	0.2	1.4
Nominal wages	3.5	2.7	1.8	1.5	2.0	2.3	2.3

Source: Data provided by the Czechoslovak authorities.

¹Includes stocks and unfinished construction.

²1975.

³1980.

⁴1985.

by 5 percent annually in 1986–89, compared with growth in private consumption of 3 percent. By 1988, social consumption represented almost 25 percent of NMP, and this ratio probably increased further in 1989 (see Chart 1 and Appendix Tables A1 and A2).

During 1985–89, households' real spending on goods rose at an annual rate of 2½ percent and their total money expenditure, excluding taxes and other levies, increased at a similar pace. Movements in expenditure during the 1980s were broadly in line with those of real household incomes (Appendix Table A4). The household propensity to save averaged about 4 percent of total money incomes: most savings for the financing of investment have been generated within the enterprise sector (Appendix Table A5).

Sectoral Performance

Following slow growth in the early 1980s, industrial performance revived during 1984–88 when output of the sector grew by an annual average of 3.7 percent. In 1989, however, industrial output rose by only 0.7 percent, in part because of curtailed production of armaments.

Growth in agriculture continued sluggish over the second half of the last decade (Appendix Table A7). From

1980 to 1989, agricultural output grew at an annual rate of about 1.6 percent, with growth shared evenly by crop and livestock production. During this period, agricultural purchase prices were stable. While the lack of price incentives may have retarded growth, other contributory factors were labor shortages, poor quality of domestic inputs, and lack of specialization among farms. Exports of agricultural products, which had expanded rapidly in the 1970s, grew at an annual rate of only 1.5 percent from 1980 to 1989. The bulk of agricultural exports (74 percent in 1989) go to the nonsocialist countries.

With over one half of the construction sector's output accounted for by industrial and commercial building, the slow annual growth of less than 1 percent in recent years has reflected partly the behavior of total investment, and partly a lower need for residential construction in the 1980s than in earlier decades (Appendix Table A9).

Investment

In recent years gross fixed investment has represented about 25 percent of GDP while the share of net fixed investment in NMP has been around 13 percent (Appendix Tables A1 and A2). Approximately 80 percent of

Chart 1. Net Material Product, 1980 and 1989

(In billions of koruny at current prices)

Source: Czechoslovak authorities.

Table 2. Investment, 1970–89

(In billions of koruny)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 ¹
Material sphere	61.3	89.8	100.2	98.6	102.4	105.5	108.8	115.0	116.9	123.0	129.5	126.4
Agriculture and forestry	10.4	17.4	16.0	17.0	18.9	21.7	24.0	25.8	26.4	25.9	26.3	24.6
Industry and water economy	36.8	50.9	59.6	59.2	59.8	59.5	60.5	64.1	65.5	72.1	78.2	77.4
Construction	3.3	5.4	9.8	8.6	9.6	9.9	9.6	9.8	8.2	8.1	8.0	7.3
Other	10.8	16.1	14.6	13.9	14.1	14.2	14.7	15.2	15.5	16.9	17.0	17.1
Nonmaterial sphere	36.3	51.9	50.4	45.7	48.1	48.7	51.3	53.3	53.1	53.8	56.6	57.7
Housing	17.7	22.0	19.8	19.6	21.0	20.8	22.0	22.1	20.8	21.2	22.1	23.3
Other	18.6	29.9	30.6	26.1	27.1	27.9	29.3	31.2	32.3	32.6	34.5	34.4
Total gross fixed investment	97.6	141.7	150.6	144.3	150.5	154.1	160.1	168.3	170.0	176.8	186.1	184.1
Other investment ²	...	...	7.1	10.5	11.2	10.3	16.8	13.0	21.8	8.2	11.7	...
Less: depreciation and losses of fixed assets	...	...	69.4	75.6	79.3	78.2	88.1	93.2	97.4	102.5	108.5	...
Net fixed investment ³	61.9	95.3	88.3	79.2	82.4	79.0	88.8	88.1	94.4	82.5	89.3	82.6
<i>(Index at constant prices, 1980 = 100)⁴</i>												
Gross fixed investment	56.9	84.3	100.0	95.4	93.2	93.7	89.8	94.6	96.0	100.2	104.3	103.8 ⁵
Net fixed investment ³	67.5	101.3	100.0	62.5	78.8	72.3	52.0	55.2	60.4	55.1	58.4	59.7

Sources: Data provided by the Czechoslovak authorities; and IMF staff estimates.

¹Preliminary.²Includes additions to value of capital in form of patents, designs and other items not included in investment work.³Including unfinished construction.⁴Based on investment in January 1, 1977, and January 1, 1984, prices.⁵Staff estimate.

investment is undertaken by the state sector through the Government and state enterprises. Of the remainder, agricultural cooperatives spend half, while housing construction by the private sector and cooperatives make up most of the rest. Capital expenditure by the private sector for purposes other than housing has been negligible.

One half of all investment takes place in industry and agriculture, reflecting the past emphasis on industry and, in recent years, moves to expand energy capacity, notably by building nuclear energy plants. Investment in other sectors is evenly divided between housing and infrastructure, including schools and hospitals (Table 2).

Following the 10 percent fall in gross fixed investment in real terms between 1980 and 1984, there were modest increases so that the level at the beginning of the decade has been regained. However, real *net* investment has been strongly influenced by rapidly rising depreciation costs. In 1988 and 1989 net fixed investment, including unfinished construction, remained over 40 percent lower than at the beginning of the decade. The authorities consider that the structure of investment needs to be overhauled. Their desire to reduce inappropriate investment is reflected in plans for 1990 when net fixed invest-

ment (abstracting from any possible growth in private sector investment) is expected to fall substantially.

Budgetary subsidies for investment have been restricted in recent years and are to be discontinued altogether for most manufacturing enterprises in 1990. Under the current system there are two major sources of financing for nonbudgetary capital expenditure—own resources, through profits and depreciation funds, and credits from the banking system. Total gross profits of enterprises were broadly stable at about 11 percent of gross output during the 1980s (Appendix Table A5). Partly reflecting higher net payments to the budget, retained earnings have tended to fall somewhat, but this has been partially offset by higher retained provision for depreciation. Consequently, own resources have accounted for virtually all investment financing by enterprises in recent years.

Since the early 1980s, stockbuilding has generally been positive and in the range of 2–3 percent of NMP; this figure is significantly larger than in typical market economies but smaller than in many other planned economies.

Czechoslovak Economy at a Glance

Economy

Apart from well-known consumer products such as beer and glass, the economy is based on heavy industry. Supplying much of the machinery needs of Eastern Europe and the U.S.S.R., it is very energy intensive. Attempts to switch away from the socialist market have begun in recent years and will be accelerated by the prospective changes in trading arrangements among the members of the Council for Mutual Economic Assistance (CMEA). The share of manufactured exports in total exports is over 80 percent. There is a large reliance on the U.S.S.R. for most raw materials, including oil.

Agriculture

Cooperatives own about two thirds of agricultural land, with state farms operating on almost all the rest, and with less than 5 percent in the hands of private farms. Compared with its neighbors, Czechoslovakia has a relatively small proportion of the population (10 percent of the work force) involved in farming.

Foreign Debt

With balanced or surplus trade with the nonsocialist countries, Czechoslovakia has a low level of convertible currency debt (US\$7.9 billion at the end of 1989), with largely offsetting reserves and claims on other countries. Czechoslovakia's trade with the other members of the CMEA is characterized by large overall surplus.

Employment and Education

About 90 percent of the work force is employed in the state and nonagricultural cooperative sector. Working a standard 42½ hour week with 3–4 weeks annual vacation, employees retire usually at 55 years for women, 60 years for men, though nearly 10 percent of workers are above retirement age. School attendance is obligatory for ten years with separation toward the end into either academic or trade studies, combined with an established system of apprenticeship.

Table 3. Social Indicators¹

GNP per capita (current U.S. dollars)	3,300
Population and vital statistics	
Total population (in thousands)	15,608
Population growth rate (in percent)	0.2
Life expectancy at birth (in years)	
Male	68
Female	75
Population age structure (in percent)	
0–14 years	24
15–64 years	60
65 and above	16
Crude birth rate (per thousand)	14
Crude death rate (per thousand)	11
Infant mortality rate (per thousand)	12
Food, health, and nutrition	
Per capita supply of:	
Calories (per day)	3,225
Proteins (grams per day)	104
Population per physician	278
Population per hospital bed	79
Labor force	
Total labor force (in thousands)	7,804
Female (in percent)	46
Agriculture (in percent)	11
Industry (in percent)	37
Education	
Enrollment rates: (percent of school age children)	
Primary ²	101
Secondary	82
Colleges, specialized schools and universities	13
Pupil-teacher ratio:	
Primary	19
Secondary	15
Other	
Telephones (per thousand)	264
Private cars (per thousand)	187

Source: Data provided by the Czechoslovak authorities.

¹ Refers to most recent year (in most cases 1988) for which data is available.

² Exceeds 100 percent since some pupils are younger or older than the standard primary school age.

Housing

In 1988, the state owned 35 percent of residential dwellings, individuals, 45 percent and the remainder were with housing cooperatives. As rents and mortgage interest rates are very low, housing costs represent only a small percent of household budgets.

Table 4. Economic Indicators

	1980	1985	1986	1987	1988	1989
Net material product (in billions of koruny)	486	556	570	583	606	618
<i>(Change in percent)</i>						
Net material product produced	2.9	3.0	2.6	2.1	2.3	1.7
Private consumption	-0.1	1.8	2.3	2.8	4.9	1.6
Social consumption	3.7	4.6	5.9	5.3	3.5	4.8
Net fixed investment	5.9	1.9	-5.4	-25.5	10.4	16.7
Consumer price index	2.9	2.3	0.5	0.1	0.2	1.4
<i>(In billions of koruny)</i>						
State budget						
Revenue	265	334	327	344	360	363
Expenditure	265	334	330	344	376	370
Deficit as percent of NMP	—	—	(0.5)	(0.1)	(2.6)	(1.1)
Domestic credit	380	449	468	489	521	584
Broad money	318	433	450	478	532	546
<i>(In billions of U.S. dollars)</i>						
Trade balance	-0.1	0.7	0.2	-0.1	-0.1	0.4
Exports, f.o.b.	4.4	3.9	4.3	4.5	5.0	5.4
Imports, f.o.b.	4.4	3.2	4.1	4.7	5.1	5.0
Balance on services	-0.3	0.1	0.2	0.2	0.3	-0.8
Current account balance (as percent of NMP)	-0.3 (0.9)	0.7 (2.3)	0.4 (1.1)	0.6 (0.1)	0.9 (0.2)	0.3 (0.7)
Official reserves, excluding gold	1.8	0.9	1.2	1.5	1.7	2.2
External debt in convertible currencies; end-year	6.8	4.6	5.6	6.6	7.3	7.9
<i>(In percent of exports of goods and services)</i>						
Debt service ratio	16.2	16.5	17.6	16.0	19.4	18.6
<i>(In billions of transferable rubles)</i>						
Balance of payments in transferable rubles						
Trade balance	-0.1	-0.7	-0.7	-0.1	-0.5	-0.1
Exports, f.o.b.	6.4	10.6	11.1	11.7	12.3	11.7
Imports, f.o.b.	6.6	11.3	11.8	11.9	11.8	11.8
Balance on services	0.2	0.8	0.7	0.7	1.1	1.1
Current account balance (as percent of NMP)	0.1 (0.4)	0.2 (0.5)	— (—)	0.7 (1.3)	1.8 (3.1)	1.2 (1.8)
Exchange rate (July 31, 1990)						
Commercial/noncommercial:	Kcs 16.11 = US\$1					
Commercial (USSR):	Kcs 9.0 = TRs 1					
Tourist rate:	Kcs 27.17 = US\$1					

Source: Data provided by the Czechoslovak authorities.

Employment, Wages, and Prices

Employment

During 1970–89, total employment rose, with little variation, at an average annual rate of 0.7 percent, com-

pared with annual growth in real NMP of 3.3 percent (Appendix Table A10). The same period, however, marked a change in the structure of employment, as the share of agriculture declined from 17 percent to 10 percent, offset by an increase in the tertiary sector; the shares of industry (37–38 percent) and construction (8–9 percent) remained constant.

Wages

Following small declines in the previous years, real wage growth resumed at an annual rate of 1.5 percent over 1985–89. The spread between wages in the sphere of material production and in other spheres has widened significantly over the last 20 years. In 1970, wages in the material sphere were 1 percent above the national average, while wages in the nonmaterial sphere were about 4 percent below this average (Appendix Table A11). By 1989, wages in the material sphere had risen to nearly 3 percent above the national average, while wages in the nonmaterial sphere had fallen to more than 7 percent below this average. The highest wages are paid in building and construction (11 percent above the national average). Wages in agriculture (excluding cooperatives) and industry were both about 4½ percent above the national average. This contrasts to the situation in 1970, when industrial wages were 1½ percent above, and agricultural wages nearly 7 percent below, the national average.

Prices

Over 1985–88, industrial wholesale prices remained stable, before falling slightly in 1989 following a major reform of wholesale prices (Table 5). Most agricultural produce is sold to the state at purchase prices that are based on recorded costs in selected agricultural coopera-

tives and that include a markup for profit. Prices, therefore, remained very stable, despite changing weather conditions and other factors affecting supplies. Wholesale prices for electrical energy have been kept at the level of the average cost of production of the power-generation industry. Profitable gas and nuclear power plants have subsidized the loss-making coal-based power plants. Although wholesale prices for solid fuels increased fourfold over the last decade, the negative turnover tax largely sheltered prices at the retail level from these increases.² Consumer prices, overall, rose by only slightly more than 1 percent a year on average over 1970–89, and the sub-category of foodstuffs by even less; they remained stable over the period 1985–88, but rose by 1½ percent in 1989. The latter increase mainly reflected higher prices for industrial goods.

As in other planned economies, the official price indices do not capture inflation fully. The authorities estimate nonmeasured inflation in recent years at about 2½ percent annually. The latter reflects both “hidden” inflation (i.e., inflation that occurs in prices charged by the state sector but that is not captured by the indices) and “repressed inflation” (i.e., inflation that does not occur in prices charged by the state sector but that is expressed by an accumulation of excess demand pressures at the prevailing official price level). Hidden inflation manifests itself

² The basis for this tax/subsidy system is described in Appendix 1.

Table 5. Developments in Wholesale and Consumer Prices, 1970–89

(January 1, 1977 = 100)¹

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Preliminary
Wholesale prices												
Industry	95.2	94.9	102.3	107.2	115.5	115.2	124.7	126.9	126.9	127.0	127.0	126.1
Construction	103.9	101.7	100.0	100.0	109.0	109.0	123.6	123.6	123.6	123.6	123.6	120.9
Construction materials	106.1	104.3	101.0	102.9	116.2	116.3	131.5	132.7	137.1	137.1	137.1	135.6
Investment goods	110.0	108.1	101.1	101.5	108.5	109.3	118.6	118.5	118.7	118.2	118.6	117.8
Agriculture	91.9	95.3	109.8	111.1	121.3	121.8	125.7	126.7	127.6	128.0	127.7	...
Deliveries to agriculture	91.6	94.5	109.2	111.0	123.3	124.3	130.6	131.9	133.5	133.0	133.1	...
Foreign trade												
Imports	51.1	82.5	132.2	144.7	145.7	155.9	163.3	165.6	168.0	162.0	166.2	167.7
Exports	65.5	97.2	130.0	133.3	133.2	134.9	136.6	139.6	140.3	140.7	146.8	149.1
	Weights²											
Consumer prices												
Goods and services	100.00	97.9	98.7	109.5	110.4	116.0	117.1	118.2	120.9	121.5	121.6	121.8
Foodstuffs	31.31	100.5	100.1	106.4	106.4	116.4	117.1	117.9	121.0	121.5	121.7	121.3
Industrial goods	43.27	95.4	96.8	111.1	112.8	114.5	115.8	117.1	118.0	118.8	119.0	119.4
Services	15.16	100.0	100.7	114.3	115.1	115.5	116.7	118.2	118.2	118.3	118.2	119.3
Of which:												
Rents and communal services	5.46	102.0	101.8	113.7	113.7	113.7	114.7	114.7	114.7	114.7	114.7	114.7
Transport and communications	2.80	104.7	104.4	120.3	120.8	121.1	121.1	121.6	121.6	121.6	121.6	121.6
Public restaurants	10.26	98.2	99.9	106.5	106.5	121.5	122.2	124.0	135.3	135.9	135.9	136.7

Source: Data provided by the Czechoslovak authorities.

¹From 1987, data have been compiled on a base of January 1, 1984 = 100. The data from the two series have been combined in this table.

²As of January 1, 1984.

in several ways, for example, by enterprises changing the quality of products or introducing “new” products with only minor changes in quality.

Fiscal Developments

Overall Budgetary Trends

Czechoslovak general government operations are larger than in most market economies and have been expanding in the second half of the 1980s, with revenue peaking at 75 percent and expenditure peaking at 76½ percent of NMP, in 1989. Expenditure of the state budget (combining federal and republican budgets) including transfers, has been equivalent to 55 to 60 percent of NMP, and that of local councils (“national committees”) to 21–23 percent. Activity of the extrabudgetary funds has been minimal.³

Budgetary policies have generally been conservative, reflecting a comprehensive plan, rapid reaction to external shocks (through swift and sizable changes in tax rules), and tight administrative control over credit and prices. At the beginning of recent five-year plans, adjustments in revenue and expenditure have been more sizable than in intermediate years, with a tendency to upward drift in both over the period of the plan. This pattern reflected the preeminent role of the budget as a stabilizing and redistributive mechanism in the absence of price flexibility; the periodic adjustments in prices and foreign exchange coefficients reestablished macroeconomic balance, and permitted revenues and expenditures (i.e., budgetary redistribution) to decline temporarily.

Prior to 1985, the state budget was always in balance or surplus, though in some years general government operations showed small deficits on account of national committees’ operations. But in 1986 and 1987, at a time when national committee deficits were shrinking, the state budget began to run small deficits, and the general government deficit stayed at around 1 percent of NMP (Table 6). In 1988, the general government deficit increased to 3 percent, because of a one-time settlement by the government of retail organizations’ trade credits in an amount equivalent to 2½ percent of NMP. In 1989 (according to preliminary data), the general government deficit declined to 1¼ percent of NMP; adjusted for one-time factors, however, there was a further deterioration.

The deficits that emerged after 1985 may be traced mainly to continued growth in expenditure, consistent with the original plan targets in the face of downward revisions after 1986 in the plan’s assumptions concerning overall

economic growth. Moreover, the enterprise sector began to have difficulties in external trade, which the government addressed by increasing foreign trade subsidies (while trade-levy increases followed only with a lag) and providing financial support for state trading companies.

Revenue remained buoyant until 1989, partly reflecting the pricing policy of the authorities after the second oil shock. In the expectation of high world oil prices, and therefore of high import prices for oil and other raw materials, the authorities raised domestic wholesale prices significantly in 1981 and 1982. Since then, however, world commodity prices have tended to fall, with the result that profits (and hence the revenue contributions) of Czechoslovak producers were higher than envisaged when the prices were set. In January 1989, a price reform removed the price discrepancies created by the better-than-expected terms of trade, with a consequent dampening effect on enterprises’ contribution to the budget.

Despite the emerging deficits, the general government remained a net creditor at the State Bank through 1988. In 1989, however, the state budget took over certain export credits from the State Bank financed via a credit from the State Bank of Kcs 61 billion. Hence, the government ended the year as a net debtor to the State Bank to the tune of Kcs 6½ billion.

Revenue and Expenditure Trends, 1985–88

General government revenues moved from 69 percent to 71 percent of NMP in 1985–88. The contribution of the largest revenue component, enterprises’ profit tax, declined (Appendix Table A13). Partly owing to a change in levies on depreciation funds, the fall in the profit tax was offset by growth in nontax revenue from increased depreciation fund contributions. Receipts from the turnover tax and trade taxes grew in absolute terms and as a percent of NMP, as did the payroll tax. By 1988, the turnover tax contributed 30 percent of revenue to the state budget, overtaking the profit tax.

On the expenditure side, the shift from capital to current expenditure that began in the mid-1970s continued between 1985 and 1988: current expenditure rose from 61½ percent to 63½ percent of NMP, while capital expenditure remained stagnant (Appendix Table A14). In particular, government support of the enterprise sector moved from capital to current transfers, partly because of a policy of increasing enterprise self-sufficiency in investment, and partly because of a steady increase in negative turnover tax. Direct government investment has remained stable (at around 5¾ percent of NMP), but with a change in focus toward environmental projects.

Government wages remained almost constant in 1985–88; in order to create incentives for employment in production, no wage increase for government workers

³ Appendix 1 describes the components of government and the nature of revenues and expenditures.

Table 6. Consolidated General Government, 1975–90

(In billions of koruny)

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Estimated	1990 Budget
State budget												
Total revenue	243.4	264.7	273.8	283.0	293.1	316.6	334.1	327.3	343.8	359.9	362.6	378.5
Total expenditure	241.9	264.7	273.7	282.9	293.0	316.5	334.1	330.3	344.4	376.1	369.5	373.1
Of which:												
Transfers to nat. committees	52.7	56.1	57.1	62.4	63.6	71.5	74.0	66.5	69.4	72.4	53.4	55.4
Transfers to extra-budg. funds	0.6	0.7	0.9	1.5	0.8	1.0	0.5	1.4	1.5	1.4	1.4	0.7
Overall balance	1.5	0.0	0.1	0.1	0.1	0.1	—	−3.0	−0.6	−16.2	−6.9	5.4
National committees												
Total revenue	87.6	100.5	101.8	106.1	107.0	116.6	121.0	128.2	134.0	141.1	150.5	146.7
Of which:												
Transfers from state budget	52.7	56.1	57.1	62.4	63.6	71.5	74.0	66.5	69.4	72.4	53.4	55.4
Total expenditure	88.7	102.8	103.1	109.1	110.3	119.8	124.6	130.7	137.0	142.8	151.8	146.7
Overall balance	−1.1	−2.3	−1.3	−3.0	−3.3	−3.2	−3.6	−2.5	−3.0	−1.7	−1.3	0.0
Consolidated state budget and national committees¹												
Total revenue	278.3	309.1	318.5	326.8	336.6	361.7	381.0	389.0	408.4	428.5	459.7	469.8
Total expenditure	277.9	311.4	319.7	329.7	339.8	364.8	384.7	394.6	412.0	446.5	467.9	464.4
Of which:												
Transfers to extra-budg. funds	0.6	0.7	0.9	1.5	0.8	1.0	0.5	1.4	1.5	1.4	1.4	0.7
Overall balance	0.4	−2.3	−1.2	−2.9	−3.2	−3.1	−3.6	−5.5	−3.6	−17.9	−8.2	5.4
Extra-budgetary funds												
Total revenue (transfers)	3.3	3.8	3.7	4.1	3.4	3.9	4.4	4.6	4.5	4.3	5.4	4.9
Of which: from state budget	0.6	0.7	0.9	1.6	0.8	1.0	0.5	1.4	1.5	1.4	1.4	0.7
Total expenditure	3.5	3.9	4.4	4.5	3.4	3.8	4.3	4.7	4.7	4.4	5.3	4.9
Overall balance	−0.2	−0.1	−0.7	−0.4	0.0	0.1	0.1	−0.2	−0.2	−0.1	0.1	0.0
Consolidated general government												
Total revenue	281.0	312.1	321.3	329.4	339.2	364.6	384.9	392.2	411.4	431.4	463.7	474.0
Total expenditure	280.8	314.5	323.2	332.6	342.4	367.6	388.4	397.9	415.2	449.5	471.8	468.6
Overall balance	0.2	−2.4	−1.9	−3.3	−3.2	−3.0	−3.5	−5.7	−3.8	−18.1	−8.1	5.4
(in percent of NMP)	(0.1)	(−0.5)	(−0.4)	(−0.7)	(−0.6)	(−0.6)	(−0.6)	(−1.0)	(−0.7)	(−3.0)	(−1.3)	(0.9)
Financing (domestic)												
Banking system ²	−0.2	2.4	1.9	3.3	3.2	3.0	3.5	5.7	3.8	18.1	8.1	−5.4
Other ³	−0.2	−6.8	−8.3	−4.6	−0.5	−10.5	−3.0	6.2	3.0	14.5	74.1	...
	−0.2	9.2	10.2	7.9	3.7	13.5	6.5	−0.5	0.8	3.6	−66.0	−5.4

Source: Data provided by the Czechoslovak authorities.

¹This grouping corresponds most closely to the Czechoslovak presentation of budgetary data.²This figure represents the change in net credit to government from the State Bank; a minus sign indicates an increase in credit.³“Other” is at present a residual and could include some items properly classifiable as revenue or expenditure; in 1989, the figure includes as an increase in assets the government's take-over of export credits from State Bank.

was granted. Increases in outlays for internal security largely accounted for growth in expenditure on goods and services. Social security outlays accounted for about 15 percent of NMP, and subsidies (transfers to enterprises and agricultural cooperatives) for about 16 percent. From 1985, negative turnover tax outlays accounted for about 30 percent of total subsidies, but in 1989, in the wake of the wholesale and producer price reform, their share expanded to about half of the total (Table 7).

Developments in 1989

The 1989 deficit reflected many exceptionally large movements in revenues and expenditures. The budget prepared in the autumn of 1988 was balanced at the then-prevailing prices. Transfers to national committees were reduced to compensate partly for the assignment to them of wage tax revenue. The general payroll tax was extended to agriculture, and its rate was increased from 20 to 50 percent. On January 1, 1989, the reform of

Table 7. Budgetary Subsidies, 1975–90

(In billions of koruny)

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 Budget
Total budgetary subsidies ¹ (in percent of NMP)	46.7 (11.4)	50.8 (10.4)	63.6 (13.4)	61.2 (12.3)	64.9 (12.8)	78.2 (14.5)	80.0 (14.4)	85.4 (15.0)	88.7 (15.2)	96.1 (15.8)	...	...
Subsidies to enterprises and agricultural cooperatives (in percent of NMP)	31.7 (7.7)	42.6 (8.8)	48.8 (10.3)	38.2 (7.7)	40.4 (8.0)	43.8 (8.1)	40.8 (7.3)	39.2 (6.9)	41.1 (7.0)	47.7 (7.9)	60.4 (9.8)	51.9 (8.2)
Agriculture and foodstuffs	...	28.8	30.2	25.6	27.3	28.9	23.9	23.7	22.5	26.3	35.0	30.0
Industry and construction	...	3.7	7.2	4.4	4.0	4.1	3.3	3.7	4.3	4.8	...	4.4
Other subsidies to enterprises Of which:	...	10.2	11.4	8.1	9.1	10.9	13.6	11.7	14.3	16.6	...	17.5
Housing	...	3.8	4.3	3.9	...	...	6.1	6.1	6.4	6.3	5.0	6.3
Urban transport	...	1.9	2.2	2.4	...	...	3.5	3.6	4.0	4.3	4.6	4.0
Negative turnover tax (in percent of NMP)	4.2 (1.0)	7.3 (1.5)	8.8 (1.9)	15.6 (3.1)	15.8 (3.1)	22.6 (4.2)	26.6 (4.8)	28.6 (5.0)	29.8 (5.1)	29.8 (4.9)	49.1 (7.9)	49.2 (7.8)
Foodstuffs	2.0	4.8	4.9	10.9	11.1	14.4	18.0	18.7	19.4	19.4	36.1	...
Of which:												
Dairy	0.3	0.5	0.5	5.5	5.7	8.9	8.9	9.1	9.6	9.4	13.0	...
Meat and meat products	0.8	1.8	1.9	2.1	2.0	2.1	4.3	4.4	4.5	4.5	11.9	...
Non-food consumer subsidies	2.2	2.5	3.9	4.8	4.7	8.2	8.7	9.9	10.3	10.4	12.9	...
Of which:												
Coal	1.6	1.0	2.0	2.1	2.2	3.5	3.5	3.9	4.0	4.2	5.1	...
Gas	0.0	0.0	0.2	0.3	0.3	1.9	2.0	2.9	3.3	3.3	2.0	...
Foreign trade subsidies (in percent of NMP)	10.9 (2.7)	0.9 (0.2)	6.0 (1.3)	7.4 (1.5)	8.7 (1.7)	11.8 (2.2)	12.6 (2.2)	17.6 (3.1)	17.9 (3.1)	18.6 (3.1)	...	...
Memorandum item:												
Total price support ² (in percent of NMP)	23.5 (5.7)	35.9 (7.4)	45.8 (9.7)	42.2 (8.5)	44.3 (8.7)	52.7 (9.7)	51.6 (9.3)	50.7 (8.9)	52.2 (8.9)	55.2 (9.1)	86.7 (14.0)	85.8 (13.5)

Source: Data provided by the Czechoslovak authorities.

¹Total budgetary subsidies include subsidies paid by national committees (residential heating, housing, and urban transport) as well as current transfers to enterprises from the state budget.²For wholesale and retail prices, i.e., negative turnover tax and enterprise subsidies for prices.

wholesale prices led to significant increases in agricultural producer prices. With retail prices unchanged, the consumer subsidy on foodstuffs in the form of negative turnover tax rose by 60 percent.

To stem the emerging financial deterioration, defense expenditure was cut, and, in July, the retail price of diesel was raised by 36 percent, increasing costs in heavy industries already facing reduced profits following the price reform. Moreover, military production declined faster than foreseen. Thus, profit tax fell by 13 percent in 1989. Other revenue items were also lower than in previous years: foreign trade levies were halved compared with 1988 (an exceptionally buoyant year), owing to the effective devaluation of the koruna, and (other than residual payments) enterprises ceased to pay depreciation levies to the state budget.

On the expenditure side, outlays declined by 2 percent

compared with the exceptional levels of 1988. In the state budget, expenditure was dampened by the Kcs 19 billion (3 percent of NMP) cut in transfers to national committees, by a fall in foreign trade subsidies, and by a continuing decline in capital subsidies to enterprises (which are now restricted to environmental projects). However, government consumption rose by nearly 17 percent despite a reduction in defense spending, and social security outlays increased by nearly 6 percent, following an increase in old age pensions in October 1988.

The 1990 Budget

For 1990, the state budget was designed to move from deficit to a surplus of Kcs 5½ billion, or 1 percent of NMP. Revenue was to grow by 4½ percent, in line with

historical levels, reflecting the full-year impact of the increase in diesel prices, offset by reduced enterprise profit tax rates and the final disappearance of the wage tax and depreciation levies. Exchange rate adjustments were expected to dampen trade levies, but also trade subsidies, and the revenue loss was expected to be offset by receipts from the new customs tariff introduced on January 1.

Expenditure growth is to be restricted to $\frac{3}{4}$ percent, with government consumption frozen, except for costs of around Kcs 4 billion associated with the state budget's acquisition of foreign suppliers' credits. Expenditures on social security and health will rise, offset by further cuts in military outlays. As part of social protection in the reform effort, around Kcs 1 billion will be spent on each of two programs: retraining displaced workers and subsidizing mortgage interest payments. Current transfers to enterprises will be cut back by Kcs $4\frac{3}{4}$ billion, and their capital transfers will also decline further.

Despite the inevitable uncertainties for the 1990 budget in the face of reform, preliminary indications for the first quarter show the state budget performing slightly better than projected. While revenue is about 2 percent below target, expenditure is 5 percent under budget, albeit with larger-than-budgeted transfers to enterprises. Moreover, the budget outturn will be affected by the reduction in negative turnover tax, resulting from increases in retail food prices introduced in July 1990. This is, however, expected to be offset by compensatory income payments to the population of Kcs 140 each month (see below).

Monetary Developments

After growing by 7 percent a year in 1980–85, broad money grew by 6 percent a year during 1985–89 (Table 8 and Appendix Table A17). This compares with an annual growth rate of nominal NMP of only $2\frac{3}{4}$ percent for the whole decade. Meanwhile, domestic credit for the decade increased at an annual rate of 5 percent. Up to 1985, the increase was on average $3\frac{1}{2}$ percent, as expanded credit to enterprises was offset by a growth of net state assets held with the State Bank (see Chart 2 and Appendix Table A16). From 1986 onward, this trend was reversed, with enterprise credit slowing but net claims on government increasing. The income velocity of broad money circulation has consistently declined during the 1980s. By 1989 the ratio of NMP to M2 was just over 1 compared with a ratio of over 1.5 in 1980. Most interest rates have remained above the rate of inflation (Appendix 2 and Appendix Tables A19 and A20).

Virtually all financial assets held by cooperatives and enterprises consist of bank deposits. Over 90 percent of such holdings, including cash and demand deposits as well as limited investment accounts, represent narrow money. The remaining 10 percent of monetary assets of enterprises and cooperatives is made up of time deposits with a small amount of foreign currency holdings from 1984 onward.

The composition of monetary assets held by households has been reasonably constant. Holdings in the form of savings deposits with the savings banks have repre-

Table 8. Monetary Survey, 1970–89¹

(In billions of koruny)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Net foreign assets	21.8	19.5	-25.8	-25.3	-12.2	-2.2	-0.2	10.6	9.6	14.0	34.9	-5.2
Foreign assets	33.9	42.3	62.0	41.4	42.0	47.3	56.9	57.7	61.9	66.8	90.2	55.1
Foreign liabilities	12.1	22.8	87.8	66.7	54.2	49.5	57.1	47.1	52.3	52.8	55.3	60.3
Domestic credit	201.0	267.1	380.3	390.9	405.7	421.1	437.9	449.4	468.1	489.1	521.4	584.2
Credit to government (net)	-49.8	-40.7	-64.4	-72.7	-77.3	-77.8	-88.3	-91.3	-85.1	-82.1	-67.6	6.5
Credit to enterprises and households ²	250.8	307.8	444.7	463.6	483.0	498.9	526.2	540.7	553.2	571.2	589.0	577.7
Broad money	133.9	225.4	317.7	339.0	365.9	389.1	414.9	433.1	450.3	477.6	531.9	546.2
Money	107.9	164.8	207.1	220.9	236.6	245.7	257.5	261.2	261.3	270.7	309.5	307.1
Currency	17.8	27.7	41.6	43.3	46.1	49.3	52.0	53.9	56.2	58.6	62.5	68.0
Demand deposits	90.1	137.1	165.5	177.6	190.5	196.4	205.5	207.3	205.1	212.1	247.0	249.6
Quasi-money	26.0	60.6	110.6	118.1	129.3	143.4	157.4	171.9	189.0	206.9	222.4	239.1
Local currency time and savings deposits	26.0	60.6	104.9	114.6	126.8	141.0	154.7	170.0	185.4	202.9	217.5	232.5
Foreign currency deposits	...	...	5.7	3.5	2.5	2.4	2.7	1.9	3.6	4.0	4.9	6.6
Other items, net	88.9	61.2	36.8	26.6	27.6	29.8	22.8	26.9	27.4	25.5	24.4	32.8

Source: Data provided by the State Bank of Czechoslovakia.

¹ This table is in concept and coverage consistent with the monetary survey of the IMF's *International Financial Statistics*. Data are derived in some cases from different sources. Thus, there are minor differences between monetary survey and the State Bank balance sheet (Table 40).

² Including credits in foreign currency.

Chart 2. Sources of Monetary Expansion, 1984–89

(In percent of broad money at beginning of period)

Sources: IMF staff compilation from data provided by Czechoslovak authorities.

Note: Excludes transfer of government foreign credits valued at Kcs 61 billion to state budget from State Bank at end of 1989.

sented about 50 percent of such assets and demand deposits about 25 percent. The remainder is held in the form of currency.

The distribution between operational and investment credits has been very steady during the 1980s (Appendix Table A18). About three quarters of total credits from banks are operating credits provided to enterprises and cooperatives. Within such credits to industry, an increasing share has been accounted for by the mining, engineering, and metallurgy branches; credits to the mining sector declined significantly in 1989, however. Investment credits, other than those for agricultural cooperatives, are distributed fairly widely within industry, and the pattern has been fairly constant since 1980.

The main change in the structure of domestic credit in recent years has derived from the increase in the use of credits from the State Bank by the state budget, which went into deficit in 1986 and has been drawing down its

deposits with the State Bank.⁴ Preliminary data indicate that domestic credit has not increased in the first quarter of 1990, with a fall in credit to enterprises and cooperatives of Kcs 9 billion (2 percent), while credits by savings banks to households rose by 13 percent.

There have been periods when changes in inter-enterprise credits have been substantial. Such credits were not legal but arose from failure to pay on time. Overdue inter-enterprise accounts payable rose from about Kcs 1–2 billion at the beginning of the 1970s, to Kcs 4 billion in 1980 and, by the end of 1987, to Kcs 48 billion, nearly 10 percent of total outstanding credit. The problem peaked first in 1981–82 when the authorities imposed a restrictive monetary policy to eliminate a balance of payments problem. The rise up to 1987 coincided with a further period of relatively tight monetary policy. Arrears on payments were sharply reduced in 1988 and 1989 so that by the end of 1989 such arrears were less than Kcs 10 billion, with the state budget transferring resources of Kcs 15 billion at the end of 1988 to reduce this problem.

External Developments

Following a period of import compression in the early 1980s in response to tightened lending practices of Western banks toward East European countries, trade surpluses in convertible currencies have been recorded in all subsequent years except 1987–88 (see Chart 3). The services account was also generally in surplus over this period (Table 9 and Appendix Table A21). The cash flow position did not benefit to the full extent from the resultant current account surpluses because exports to some developing countries were accompanied by the provision of trade credits. Nevertheless, the external position in convertible currencies has been relatively strong in the late 1980s: official reserves have been rising and net external debt is negligible. As regards the balance of payments in transferable rubles, the current account has been in surplus in all years since 1985 (Table 10 and Appendix Table A22). This has largely reflected the balance on service transactions since the merchandise trade account has generally been in deficit. The trade and current accounts or transactions in other nonconvertible currencies have generally been close to balance (Appendix Table A23).

⁴ This analysis excludes the transfer of government credits from the State Bank to the state budget in 1989. Valued at Kcs 61 billion, the transfer reduced deposits of the state budget held with the State Bank, and hence boosts domestic credit, offset by a counter movement in net foreign assets.

Table 9. Balance of Payments in Convertible Currencies, 1968–89

(In millions of U.S. dollars)

	1970	1975	1977	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Current account	-16	-279	-635	-316	21	408	855	1,075	741	418	58	91	287
Trade balance	-71	-370	-586	-12	341	658	820	900	675	228	-122	-116	399
Exports, f.o.b. ¹	836	2,148	2,500	4,368	4,208	4,068	4,032	4,014	3,852	4,293	4,544	5,014	5,442
Imports, f.o.b. ¹	906	2,519	3,086	4,380	3,866	3,410	3,212	3,114	3,177	4,065	4,666	5,130	5,043
Services balance	61	118	-20	-262	-286	-88	71	204	106	226	226	258	-77
Receipts	259	739	853	1,468	1,514	1,285	1,491	1,639	1,469	1,587	1,615	1,696	2,194
Expenditures	198	620	873	1,730	1,801	1,373	1,420	1,435	1,364	1,360	1,388	1,438	2,271
Unrequited transfers	-6	-27	-28	-42	-33	-162	-36	-30	-40	-37	-47	-51	-35
Capital account	65	185	720	1,020	-615	-522	-613	-615	-744	102	524	358	345
Medium long-term capital	45	83	403	382	258	-47	-320	-625	-753	-378	303	7	203
Credits received by													
Czechoslovakia, net	45	79	566	524	405	160	3	-271	-359	-111	379	360	376
Credits extended by													
Czechoslovakia, net	—	4	-162	-142	-147	-206	-324	-354	-394	-267	-76	-352	-173
Short-term capital	20	102	316	638	-873	-475	-293	10	10	481	221	351	142
Errors and omissions ²	-11	-29	29	-347	-294	-51	-129	-302	-92	-264	-328	-240	-69
Overall balance	38	-123	114	357	-887	-164	113	158	-99	256	255	209	563
Change in reserves (increase -)	-38	123	-114	-357	887	164	-113	-158	99	-256	-255	-209	-563

Source: Data provided by the Czechoslovak authorities.

¹ Excluding interest payments and receipts related to suppliers' credits, which are part of the customs data.² Including valuation changes.**Table 10. Balance of Payments in Transferable Rubles, 1968–89**

(In millions of transferable rubles)

	1970	1975	1977	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Current account	91	-232	-100	126	277	196	-55	-92	224	34	681	1,809	1,182
Trade balance	94	-274	-303	-155	-74	-311	-567	-752	-693	-696	-146	514	-127
Exports, f.o.b.	2,184	3,789	4,887	6,424	7,157	7,987	8,894	9,978	10,646	11,083	11,731	12,351	11,697
Imports, f.o.b.	2,090	4,062	5,190	6,579	7,230	8,298	9,460	10,730	11,338	11,780	11,877	11,837	11,824
Service balance	-6	35	168	237	300	457	482	604	849	656	691	1,140	1,092
Receipts	143	304	465	636	832	960	1,153	1,360	1,618	1,349	1,420	1,719	1,922
Expenditures	150	269	297	399	532	503	671	756	769	693	728	579	830
Unrequited transfers	3	6	35	44	50	50	30	55	68	75	136	155	217
Capital account	-109	190	136	-113	-207	-143	108	175	-179	40	-512	-1,624	-966
Medium long-term capital	-72	86	9	2	-2	-75	-8	13	-39	-0	-163	-469	-1,101
Credits received by													
Czechoslovakia, net	-20	-10	38	-30	-26	-25	-20	-6	-8	-18	-12	7	18
Credits extended by													
Czechoslovakia, net	-52	97	-29	31	24	-50	12	19	-30	18	-152	-475	-1,119
Short-term capital	-37	104	127	-115	-206	-68	116	162	-140	40	-349	-1,155	135
Errors and omissions ¹	18	42	-36	-13	-69	-53	-53	-83	-45	-74	-169	-185	-217
Overall balance	—	—	—	—	—	—	—	—	—	—	—	—	—

Source: Data provided by the Czechoslovak authorities.

¹ Including valuation changes.

Foreign Trade

Commodity Composition

Foreign trade of Czechoslovakia is characterized by a relatively large share of raw materials and semi-manufac-

tured products on the import side and a high proportion of capital goods on the export side. Manufactured products (S.I.T.C. 5–8) account for the major part of exports to both the socialist area (91 percent in 1989) and the nonsocialist area (73 percent in 1989) (Appendix Tables A24 and A25). However, the share of machinery and transport equipment in exports to the socialist area

Chart 3. External Balance in Convertible Currencies and Transferable Rubles, 1970–89

Source: Czechoslovak authorities.

(60 percent) is considerably higher than in exports to the nonsocialist area (21 percent). The importance of that industry dates back to just after the war, when the machinery and transport industry in Czechoslovakia was more intact than that of other European countries. Major export items to the nonsocialist area are fuels, iron, steel, and petrochemical products. There have been no major changes in the commodity structure of exports in recent years.

On the import side, the major commodity groups are mineral fuels, semi-manufactured machinery, and transport equipment. Fuel, comprising crude oil and natural gas, is mainly imported from the U.S.S.R., accounting

for one fourth of imports from the socialist area. Machinery and equipment amount to more than one third of total imports from both the socialist and nonsocialist area (Appendix Tables A26 and A27). Food products, which declined in recent years, accounted for 12 percent of imports from the nonsocialist area and only 4 percent of imports from the socialist area in 1989.

Geographical Distribution

Trade with the CMEA area accounted for approximately 55 percent of total exports and imports in 1989 (Appendix Table A28). More than half of this trade was with the U.S.S.R., followed by the German Democratic Republic, Hungary, and Poland. Socialist countries accounted for 60 percent of exports and 61 percent of imports in 1989. Trade with the convertible area as well as with countries covered by bilateral payments agreements accounted for the remainder. Trade with nonsocialist industrial countries accounted for 31 percent of total trade in 1989. Austria and the Federal Republic of Germany were the most important trading partners, followed by Italy and the United Kingdom.

Trends in Volume and Prices

Export volume grew annually to the socialist area by only 0.7 percent and by 1.4 percent to the nonsocialist area between 1985 and 1989, which represented a deceleration compared with the first half of the 1980s (Table 11). This was a result not only of weakening in foreign markets but also of some continued loss in market shares in both CMEA and Western economies, particularly for machinery, transport equipment, and other manufactured products. Similarly, import volume growth decelerated: import volume actually declined by 1.0 percent a year from the socialist area, while import volume from the nonsocialist area grew by 1.4 percent a year from 1985 to 1989.

In 1989, export volume to the nonsocialist area picked up by 8.2 percent following the depreciation of the koruna vis-à-vis convertible currencies in early 1989 and the introduction of a retention system for export receipts. At the same time, exports declined to the socialist area. The geographical change in export structure was not mirrored in a similar shift of imports from the socialist to the nonsocialist area until the first quarter of 1990.

The terms of trade, which declined by 18.1 percent during the 1970s and a further 16 percent during the first half of the 1980s, recovered by 10.3 percent during 1985–89, primarily reflecting improvements relative to the socialist area.

Table 11. Indices for Export and Import Values, Volumes, and Prices, 1970–89¹

(1970 = 100)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 ²
Exports												
Value												
Total	100.0	169.7	227.7	204.6	220.5	228.1	258.8	269.3	270.6	276.0	286.0	289.5
Socialist countries	100.0	172.5	236.4	214.7	243.0	248.7	279.5	295.7	300.0	315.8	310.5	284.4
Nonsocialist countries	100.0	165.6	214.8	189.5	186.9	197.4	227.9	230.1	226.8	216.9	249.5	297.2
Volume												
Total	100.0	130.1	174.2	175.2	183.9	196.3	195.4	218.6	219.0	222.6	230.1	227.0
Socialist countries	100.0	144.6	199.1	200.9	216.6	225.1	251.5	260.5	259.1	272.4	285.2	268.3
Nonsocialist countries	100.0	112.9	144.5	144.5	144.9	162.0	128.4	168.5	171.2	163.1	164.2	177.8
Unit values												
Total	100.0	130.4	130.7	116.8	119.9	116.2	132.4	123.2	123.6	124.0	124.3	127.5
Socialist countries	100.0	119.3	118.7	106.9	112.2	110.5	111.1	113.5	115.8	115.9	108.9	106.0
Nonsocialist countries	100.0	146.7	148.7	131.2	129.0	121.9	177.5	136.5	132.5	133.0	151.9	167.1
Imports												
Value												
Total	100.0	190.9	237.5	205.9	221.4	227.2	255.0	270.5	282.5	287.0	288.4	294.1
Socialist countries	100.0	192.8	256.6	229.9	264.4	277.2	308.6	328.2	335.9	335.6	316.4	306.0
Nonsocialist countries	100.0	188.2	211.2	172.9	162.2	158.3	181.2	191.0	208.9	219.9	249.8	277.7
Volume												
Total	100.0	133.2	148.8	138.4	141.4	142.9	142.7	151.0	156.3	163.1	168.8	175.1
Socialist countries	100.0	144.9	176.0	166.3	172.9	177.1	178.1	184.4	185.4	191.8	199.8	206.8
Nonsocialist countries	100.0	120.3	118.8	107.5	106.6	105.1	102.9	114.0	124.1	131.4	134.4	140.1
Unit values												
Total	100.0	143.3	159.6	148.8	156.6	159.0	178.7	179.2	180.7	176.0	170.9	168.0
Socialist countries	100.0	133.1	145.8	138.3	152.9	156.5	172.7	178.0	181.2	175.0	158.4	148.0
Nonsocialist countries	100.0	156.4	177.7	160.8	152.2	150.6	176.1	167.5	168.3	167.4	185.9	198.7
Terms of trade												
Total	100.0	91.0	81.9	78.5	76.6	73.1	74.1	68.8	68.4	70.5	72.7	75.9
Socialist countries	100.0	89.6	81.4	77.3	73.4	70.6	64.3	63.8	63.9	66.2	68.8	71.6
Nonsocialist countries	100.0	93.8	83.7	81.6	84.8	80.9	100.8	81.5	78.7	79.5	81.7	84.1

Source: Data supplied by the Czechoslovak authorities.

¹The data are calculated according to the average exchange rate of the koruna in each respective year.²Estimate.

Services and Transfers

From 1985 to 1988 the balance on services in *convertible currencies* improved owing to an improvement in the balance for services, other than interest, transportation, and travel (Appendix Table A21). Receipts of interest payments on foreign assets of Czechoslovakia did not rise in tandem with the increase in foreign assets, in part because of the nonpayment of scheduled interest by some foreign debtors: only payments received are recorded in the balance of payments. In addition, external borrowing, and consequently interest payments, picked up in recent years. Travel receipts exceeded expenditures until 1989, when liberalization in exchange restrictions on travel for residents raised expenditure substantially. In 1989, a sizable worsening took place in the services balance. Both receipts and expenditures rose considerably because of the growing importance of transit trade. In addition, other services rose, reflecting payments by

joint ventures, which were financed by external borrowing by these companies.

The balance on services in *transferable rubles* (TRs) has shown a sizable and sharply increasing surplus throughout the 1980s reflecting net receipts from transportation, tourism, and interest. The surplus rose from TRs 237 million in 1980 to TRs 1,092 million in 1989 (Appendix Table A22). The balance on services in *other nonconvertible currencies* showed either small surpluses or deficits throughout the 1980s (Appendix Table A23).

Private and official transfers in convertible and non-convertible currencies, excluding the transferable ruble, were insignificant, although inflows of private transfers in transferable rubles grew during the 1980s from TRs 34 million in 1980 to TRs 204 million in 1989. These surpluses reflected the increasing number of Czechoslovak workers in the CMEA countries, particularly the U.S.S.R., associated with large projects such as the gas pipeline and a new iron ore processing plant.

Capital Account

Convertible Currencies

External borrowing has been determined in the context of the annual foreign exchange plan. In the first half of the 1980s, it was the policy of the Government to reduce the stock of external debt, as the payments crisis of other Eastern European countries caused difficulties in borrowing from banks or suppliers abroad. Since 1986, however, there has been renewed borrowing abroad, including, in 1989, bank borrowing of over US\$300 million by joint venture companies. During the three-year period 1987–89, the annual amount of net external medium- and long-term borrowing was in the range of US\$360–380 million. There was also a moderate amount of net short-term borrowing.

Transferable Rubles and Other Nonconvertible Currencies

Capital movements with the transferable ruble area and the nonconvertible area have reflected developments in current account balances. Since 1985, and particularly during 1987–89, current account surpluses were recorded in transferable rubles in all years. As a result, Czechoslovakia accumulated sizable creditor balances within the multilateral clearing arrangements of the CMEA's International Bank for Economic Cooperation (IBEC).

The current account in other nonconvertible currencies recorded both deficits and surpluses of a relatively small magnitude in recent years. Consequently, the net capital movements were relatively small and reflected mainly short-term trade-related credits.

External Debt and Debt Service

Total external debt in *convertible currencies* amounted to US\$7.9 billion at the end of 1989 (see Chart 4), of which about half comprised short-term and the remainder medium- and long-term obligations (Table 12); the debt was equivalent to 104 percent of convertible currency receipts from exports of goods and services in 1989. After declining in the early 1980s, external debt amounted to only US\$4.6 billion at the end of 1985. The increase in subsequent years reflects not only renewed external borrowing but also valuation changes. Taking account of gross reserves of gold, foreign exchange, and other assets in convertible currencies, Czechoslovakia's net external debt in convertible currencies was only US\$0.2 billion at the end of 1989, the same level as at the end of 1985.

Chart 4. External Debt and Debt-Service Liabilities, 1980–89

(In percent of exports of goods and services)

Source: Czechoslovak authorities.

Medium- and long-term debt remained almost constant during 1985 and 1986, reflecting a prudent borrowing policy in the wake of the external liquidity problems of the early 1980s. During 1987–89, however, medium- and long-term debt rose by about US\$1.6 billion to reach US\$4.3 billion by the end of 1989. This increase partly reflected valuation changes as the U.S. dollar depreciated against major European currencies: over the same period the balance of payments data recorded net medium- and long-term inflows of about US\$1.1 billion. About two thirds of medium- and long-term debt currently comprise financial credits from banks abroad. The associated borrowing was undertaken by the Obchodni Bank in the

Table 12. External Debt in Convertible and Nonconvertible Currencies, 1970–89

(In millions of U.S. dollars; end of period)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Debt in convertible currencies	608	1,398	6,850	6,316	5,769	5,160	4,737	4,608	5,567	6,657	7,281	7,915
Medium- and long-term ¹	248	616	2,861	3,139	3,094	2,976	2,872	2,689	2,877	3,581	3,874	4,328
By maturity:												
1–5 years ²	223	387	699	601	735	852	1,125	1,251	1,540	2,059	2,147	1,952
Over 5 years	25	229	2,162	2,538	2,358	2,124	1,747	1,438	1,337	1,522	1,728	2,377
By creditor:												
Banks	25	229	2,059	2,572	2,352	2,144	1,978	1,908	2,042	2,154	2,228	2,628
Governments	7	56	7	—	—	—	—	—	—	—	—	—
Suppliers	217	331	441	567	742	832	716	669	781	1,164	1,375	1,432
CMEA countries and institutions	—	—	354	—	—	—	178	111	54	262	272	268
Short-term	360	782	3,989	3,178	2,676	2,183	1,865	1,919	2,691	3,076	3,406	3,587
Debt in nonconvertible currencies	204	525	916	715	691	803	964	966	1,147	1,000	525	776
Medium- and long-term	6	83	179	147	141	114	86	79	68	71	70	70
Of which:												
1–5 years	1	—	22	34	57	54	39	34	32	41	40	29
Over 5 years	5	83	156	113	84	60	48	45	36	30	30	41
Short-term	198	442	737	568	550	689	878	887	1,079	929	454	706
Total external debt	812	1,922	7,765	7,031	6,460	5,963	5,702	5,574	6,715	7,657	7,805	8,691
Of which:												
Medium- and long-term	254	699	3,040	3,285	3,235	3,090	2,959	2,768	2,945	3,652	3,945	4,398
Short-term	558	1,224	4,725	3,745	3,225	2,873	2,743	2,806	3,770	4,005	3,861	4,293

(In percent of exports of goods and services in convertible currencies)

Memorandum item:

Total external debt, convertible currencies	55.6	48.4	117.4	110.4	107.8	93.4	83.8	86.6	94.7	108.1	108.5	103.7
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Source: Data provided by the Czechoslovak authorities.

¹Virtually all long-term commercial credits are guaranteed by the Government of Czechoslovakia.²Estimate.

form of classical instruments, such as syndicated credits, certificates of deposits, floating rate notes, and in recent years, private placements. The terms of borrowing remained favorable during 1985–89 with a minimal spread above LIBOR. The remainder of the medium- and long-term debt consists mostly of suppliers' credits and a small proportion of loans in convertible currencies extended by other CMEA countries. The main creditor countries for suppliers' credits were Austria, Germany, and Switzerland, which accounted for 74 percent of outstanding suppliers' credits at the end of 1989. No loans are outstanding from governments in the convertible area and Czechoslovakia has only used officially guaranteed suppliers' credits (i.e., guaranteed by the creditor government) sparingly, as loan conditions have often been more favorable on other forms of borrowing. The maturities of medium- and long-term debt shortened during the 1980s. At the end of 1989, about 55 percent of the outstanding stock of medium- and long-term debt had a maturity of over five years.

Short-term debt in convertible currencies, mainly related to trade, declined in the early 1980s. With the subsequent change in external creditors' attitudes, the outstanding amount of short-term credits rose from US\$1.9 billion at the end of 1984 to US\$3.6 billion by the end of 1989.

External debt in *nonconvertible currencies*, mainly denominated in transferable rubles, amounted to US\$0.8 billion at the end of 1989. Virtually all debt consisted of short-term trade-related credits, which typically remain outstanding only until clearing takes place through the IBEC.

Czechoslovakia has continued honoring all its debt service obligations on a timely basis during 1985–89: it has not incurred any external arrears nor requested any debt rescheduling. Debt service obligations on total convertible currency debt rose from US\$0.9 billion in 1985 to almost US\$1.5 billion in 1989, equivalent to an increase from 16.5 percent to 18.6 percent of exports of goods and services in convertible currencies (Table 13).

Table 13. Servicing of External Debt in Convertible Currencies, 1980–89

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
<i>(In millions of U.S. dollars)</i>										
Medium- and long-term debt service	473	670	620	753	912	808	930	922	1,124	1,258
Principal	185	236	266	484	615	500	692	699	860	957
Interest	288	434	354	269	297	306	238	223	264	301
Of which:										
Debt service to banks	337	487	458	454	642	573	581	506	533	559
Principal	111	107	161	248	403	337	420	381	385	389
Interest	226	380	297	206	238	236	161	124	148	170
Debt service to official creditors excluding CMEA countries and institutions	—	—	—	—	—	—	—	—	—	—
Principal	—	—	—	—	—	—	—	—	—	—
Interest	—	—	—	—	—	—	—	—	—	—
Debt service to foreign suppliers	136	183	162	299	271	229	334	406	571	672
Principal	74	129	105	236	212	161	258	318	475	566
Interest	62	54	57	63	59	68	76	88	96	106
Debt service to CMEA countries and institutions	—	—	—	—	—	4	15	11	20	27
Principal	—	—	—	—	—	2	14	—	—	2
Interest	—	—	—	—	—	2	1	11	20	25
Short-term interest	529	545	345	237	182	122	168	218	247	225
Banks	470	495	287	172	120	52	94	129	155	115
Foreign suppliers	59	50	58	65	62	70	74	89	92	110
Total debt service	1,001	1,216	965	989	1,094	928	1,098	1,040	1,371	1,483
Principal	185	236	266	484	615	500	692	699	860	957
Interest	816	980	699	505	479	428	406	441	511	526
<i>(In percent of exports of goods and services)</i>										
Memorandum item:										
Debt service	16.2	20.1	17.1	17.1	18.4	16.5	17.6	16.0	19.4	18.6
Of which: Interest	13.2	16.2	12.4	8.7	8.1	7.6	6.5	6.8	7.2	6.6

Source: Data provided by the Czechoslovak authorities.

¹ Total scheduled debt service obligations was equal to actual payments, i.e., there were no external arrears or debt rescheduling.

The ratio of interest payments alone to exports of goods and services remained roughly stable at 7–8 percent in recent years. Slightly less than half of external debt-service payments in 1989 went to banks and the remainder to foreign suppliers. Bank debt was typically at floating interest rates while suppliers' credits had fixed interest rates. The debt burden of Czechoslovakia has been much smaller than that for most other Eastern European countries (Appendix Table A30). The scheduled debt-service obligations of Hungary, Poland, and Yugoslavia in relation to exports of goods and services in convertible currencies were between double and four times those of Czechoslovakia in 1989. External debt in convertible currencies amounted to 104 percent of exports of goods and services at the end of 1989, as compared with 227 percent for Bulgaria, 319 percent for Hungary, 486 percent for Poland, and 96 percent for Yugoslavia.⁵

⁵ Coverage of goods and services varies (see Appendix Table A30).

Official Reserves and Other Foreign Assets

Official foreign exchange reserves in convertible currencies comprise (i) gold holdings, (ii) foreign exchange reserves of the Government (held by the State Bank of Czechoslovakia), (iii) foreign exchange reserves of the State Bank of Czechoslovakia, and (iv) foreign exchange holdings of other banks (Table 14). Gold reserves comprise the official Government gold, the monetary gold reserve, and gold holdings of the Obchodni Bank. The Government has the right to dispose of the official gold reserve and the State Bank of Czechoslovakia can dispose of the monetary reserve as well as the gold of the Obchodni Bank. The official foreign exchange reserves of the Government have not been used during the 1980s. They increased each year by the accrued interest and by a special payment by domestic companies that have borrowed abroad.

Official foreign exchange reserves in convertible currencies and gold rose almost continuously from US\$1.2 billion at the end of 1984 (4.6 months of imports from the

Table 14. Official External Reserves and Other Foreign Assets, 1970–89

(In millions of U.S. dollars; end of period)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Official reserves	320.1	671.3	1,982.7	1,095.5	931.1	1,043.7	1,201.5	1,107.1	1,363.3	1,617.6	1,827.0	2,390.1
Gold	95.0	114.9	128.9	128.6	148.4	157.9	160.3	160.7	159.3	152.4	152.8	153.0
Foreign exchange	225.1	556.4	1,853.8	966.9	782.7	885.8	1,041.2	946.4	1,204.0	1,465.2	1,674.2	2,237.1
Held by State Bank ¹	43.7	200.3	408.5	402.3	310.8	345.3	363.6	436.1	535.4	641.8	669.7	717.0
Held by State Bank ²	—	—	143.7	46.6	12.1	199.2	221.0	212.8	233.6	187.3	198.4	228.9
Held by other banks	181.4	356.1	1,301.6	518.0	459.8	341.3	456.6	297.5	435.0	636.1	806.1	1,291.2
Other foreign assets												
in convertible currencies	446.1	858.3	2,084.9	2,253.5	2,328.8	2,568.0	2,851.0	3,462.2	4,319.3	4,881.4	5,149.8	5,350.5
Held by enterprises	328.6	568.9	1,435.9	1,569.7	1,607.5	1,683.5	1,802.4	2,077.9	2,599.0	2,778.9	2,786.2	2,914.7
Held by government institutions	117.5	289.4	649.0	683.8	721.3	884.5	1,048.6	1,384.3	1,720.3	2,102.5	2,363.6	2,435.8
Foreign assets in nonconvertible currencies	949.1	1,464.5	2,205.6	1,969.8	1,958.3	1,977.3	1,853.9	2,060.3	2,275.6	2,772.7	3,331.2	4,103.5
Held by State Bank	—	—	68.1	58.4	72.0	92.2	93.7	123.5	176.3	170.1	181.8	210.4
Held by other banks	52.1	317.3	343.4	292.4	324.9	410.7	295.2	313.2	291.8	321.0	789.4	999.8
Held by enterprises	152.0	310.3	695.9	651.9	616.1	649.2	793.5	915.9	1,043.2	1,337.6	1,209.6	1,023.1
Held by government institutions	745.1	836.9	1,098.2	967.0	945.2	825.1	671.5	707.8	764.2	944.1	1,150.3	1,870.2
Total	1,715.3	2,994.1	6,273.2	5,318.8	5,218.2	5,589.0	5,906.4	6,629.6	7,958.2	9,271.7	10,308.0	11,844.1
<i>(In months of merchandise imports in convertible currencies)</i>												
Memorandum item:												
Official reserves in convertible currencies	4.2	3.2	5.4	3.4	3.3	3.9	4.6	4.2	4.0	4.2	4.3	5.7
<i>(In ounces)</i>												
Weight of gold ³	2,715,010.9	2,721,779.5	3,052,246.6	3,047,973.6	3,539,842.6	3,741,311.5	3,798,262.0	3,806,665.4	3,773,974.5	3,612,156.0	3,619,763.5	3,623,052.7
<i>(U.S. dollars per ounce)</i>												
Valuation of gold	35.0	42.2	42.2	42.2	42.2	42.2	42.2	42.2	42.2	42.2	42.2	42.2

Source: Data provided by the Czechoslovak authorities.

¹ Official reserves disposable by the Government.² Reserves disposable by the State Bank of Czechoslovakia.³ The government gold reserve, monetary gold reserve, and gold held by the Obchodni Banka.

convertible area) to US\$2.4 billion at the end of 1989 (5.7 months of imports) (Table 14). Gold holdings, which varied only slightly in recent years, amounted to US\$153 million at the end of 1989, valued at US\$42.22 per ounce.

In addition to official reserves, *other foreign assets in convertible currencies* amounted to US\$5.4 billion at end-1989 against US\$2.9 billion at the end of 1984. These assets represented both short- and long-term trade credits extended to foreign governments by foreign trade enterprises and the Government at concessional interest rates—typically about two thirds of LIBOR on enterprise credits and one quarter to one third of LIBOR on government loans. About 85 percent of these assets were extended to developing countries.

Foreign assets in nonconvertible currencies held by the State Bank of Czechoslovakia and other banks amounted to US\$1.2 billion at the end of 1989, which compared with US\$0.4 billion at the end of 1984. For-

eign assets held by enterprises and the Government rose sharply in recent years, particularly in transferable rubles vis-à-vis the U.S.S.R., Cuba, and Poland as well as in other nonconvertible currencies against Yugoslavia.

Exchange System

The exchange system remained basically unchanged during 1985–88. Since January 1989, however, the exchange and trade regime has been substantially changed and liberalized. A retention system for export receipts has been introduced under which retained amounts may be freely used to pay for imports. Moreover, private citizens and enterprises now have more opportunities to hold foreign exchange accounts. Initial steps have been taken toward a more market-determined exchange rate system. A comprehensive legal framework has been established for joint ventures, including rules for foreign exchange

transactions, taxes, and labor laws.

On January 1, 1989, the official exchange rate based on gold parity was abolished and two exchange rates (commercial and noncommercial) for convertible currencies were introduced (Table 15 and Appendix Table A29). On January 8, 1990, these latter two rates were unified at an initial level of US\$1 = Kcs 17 (representing a depreciation by 14 percent of the commercial rate and 44 percent of the noncommercial rate). At the same time, a new exchange rate, the "tourist rate," was established, which applied to tourist transactions and conversions into local currency from foreign currency deposits. It was initially set at US\$1 = Kcs 38, which represented a depreciation of 75 percent compared with the previous noncommercial exchange rate. At the same time, changes took place vis-à-vis the transferable ruble. Before January 8, 1990, there existed only one exchange rate between the koruna and the transferable ruble, but since then three different rates have been introduced, namely one rate for transactions with Bulgaria and Poland, another rate for Hungary, and the third rate for other CMEA countries. The koruna was appreciated by 12 percent for transactions with Bulgaria and Poland, depreciated by 4 percent for transactions with Hungary, and appreciated by 6 percent for transactions with other CMEA countries.

These exchange rate changes were not accompanied by any significant changes in domestic prices. As a result, border transactions rose sharply in response to the wide

disparity between the prices of certain consumer goods in Czechoslovakia and in neighboring countries. In response, the authorities introduced a coupon system for purchases of gasoline, imposed taxes on exports of consumer goods by tourists, and appreciated the tourist rate (to US\$1 = Kcs 28) at the end of April 1990.

Apart from discrete changes in the exchange rates, the koruna has been pegged to a basket of five currencies (at present those of Austria, France, Germany, the United States, and Switzerland) for purposes of establishing commercial and noncommercial exchange rates vis-à-vis convertible currencies. The currencies are those most commonly used in invoicing for exports and imports. The weights change every year. Identical arrangements are maintained for the current commercial/noncommercial rate. By contrast, the tourist rate follows movements in the parallel market exchange rate, although it is not as depreciated as the parallel market rate.

As a further move toward a market-determined exchange rate system, an auction system for foreign exchange transactions was introduced on an experimental basis in August 1989. Participation in this market has so far been limited to state enterprises, participants in joint ventures, and cooperatives. The volume of transactions at the monthly auctions has been minimal. The exchange rate has ranged between Kcs 134 and Kcs 40 per U. S. dollar through June 1990. Although it is substantially more depreciated than the parallel market rate, the spread has narrowed substantially in recent auctions.

Table 15. Exchange Rates, 1970–90

(Averages per period)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Jan.-April 1990
<i>(In koruny per U.S. dollar)</i>													
Official rate ¹	7.20	5.58	5.38	5.89	6.10	6.29	6.64	6.85	6.00	5.47	5.32	...	...
Commercial rate	27.00	20.93	14.26	13.25	13.73	14.15	16.60	17.18	15.00	13.68	14.36	15.05	16.57
Noncommercial rate	16.20	9.77	9.42	10.31	10.68	11.01	11.62	11.99	10.50	9.57	9.31	9.75	16.57
<i>(In koruny per transferable ruble)</i>													
Official rate ¹	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	...	...
Commercial rate	18.00	18.00	14.80	12.00	12.00	11.20	11.20	11.20	11.20	11.20	10.40	10.00	9.00
Noncommercial rate ²	32.81	27.86	19.00	19.00	19.00	17.00	17.00	16.00	16.00	16.00	16.00	15.00	12.00

Sources: Data supplied by the Czechoslovak authorities; and Schweizerischer Bankverein.

¹ Official rate was abolished from January 1, 1989.

² This rate is used for interstate settlements and differs according to individual countries. The data in the table represent those for the U.S.S.R.

III

Reform: Economics of Change

Reform Efforts up to 1990

Renewed efforts to reform the economic system began in Czechoslovakia in the late 1980s, after prolonged hesitation and following the example of *perestroika* in the U.S.S.R. In December 1987, the Central Committee of the Party, building on a set of proposals entitled "Principles of Restructuring the Economic Mechanism," adopted a resolution stating that a reform program was to be introduced in stages in advance of the Ninth Five-Year Plan (1991–95). While the program attempted to increase the role of the market in the economy, it was also stated that "it is essential not only to preserve, but even to enhance, the role of the center."

A number of the measures envisaged in this program were implemented during 1988–89. New regulations were put in place with the intention of breaking up a number of large enterprises into smaller firms which would be granted more autonomy, and the middle layer of administration in both industry and agriculture (consisting of VHJs and district farm administrations respectively) was abolished. A new system giving employees a voice in the selection of managers was introduced. A modest increase in the role of small-scale businesses—based on cooperatives rather than on private activity—was permitted, and a new joint venture law was adopted that allowed foreign majority holdings as well as repatriation of profits in convertible currencies.

The role of the planning system was reduced, thereby leaving to enterprises many of the detailed decisions previously contained in the annual plans. Incentive pay and rewards for meeting final demand rather than plan targets were increasingly stressed. At the same time, the state monopoly on foreign trade was weakened, a foreign exchange retention scheme was introduced in order to encourage exports to the convertible currency area, and the system of foreign trade taxes was modified. In a move toward a market-determined exchange rate system, a foreign exchange auction was introduced on an experimental basis in August 1989. Moreover, as the first stage in a reform of the price system, wholesale prices were restructured. According to the new system, prices were determined on the basis of average costs plus a uniform

rate of return of 4.5 percent on capital and total stocks. In addition, to take effect from January 1, 1990, a mixed system of centralized and decentralized prices was to be introduced, a two-tier banking system created out of the former monobank, and enterprises were to have greater freedom in determining employment and remuneration.

The reform program initiated by the former regime provides the basis on which the new government has built its economic strategy. The main objective of current economic policy is to revitalize the economy through greater market orientation and, concomitantly, a major reduction in the role of the state in economic life. The main issues the new government must address in pursuing these aims are outlined below. The position described is that of January 1, 1990.

Policy Issues

Production and Growth

The Czechoslovak economy has been characterized by sluggish growth and falling net investment. Increases in real NMP averaged only about 2 percent annually during the 1980s, and the share of net fixed investment in NMP fell from over 18 percent in 1980 to less than 15 percent in 1988. The state sector, through the Government and state enterprises, undertakes approximately 80 percent of investment spending. The investments undertaken have not always been appropriate, even given the structure of production. Moreover, the capital stock is old, and, despite attempts at modernization, many machines have been retained long after they have been written off according to their notional amortization schedule. For industry as a whole, an estimated 40 percent of the capital stock has exceeded its economic life.

The structure of production reflects the priority given to rapid industrialization, particularly heavy industry, since the beginning of central planning in Czechoslovakia, as well as the country's position in the CMEA. Within the CMEA, Czechoslovakia found itself able to produce comparatively more efficiently a wide range of

Energy in Czechoslovakia

Czechoslovakia is among the more energy-intensive countries in Europe (see Table 16 and Appendix Table A8). In per capita terms, it consumes approximately 42 percent more energy than the average for all European countries. Even when compared with the more industrialized countries in Europe, such as France, the Federal Republic of Germany, and Sweden, Czechoslovakia's use of energy is quite high as its per-capita consumption of energy exceeds all three of these countries. It consumes more energy than all other European countries shown in the table except East Germany.

Although no detailed study has as yet been made, it is generally believed that the relatively high intensity of use of energy in Czechoslovakia is attributable to an inefficient technological base coupled with comparatively low energy prices. Restructuring of the industrial base together with price adjustments could result in significant savings in energy usage.

A more efficient use of energy would also contribute to the improvement of balance of payments prospects of the country. Czechoslovakia imports a large fraction of its energy needs, some 44 percent in 1987. Export of energy on the other hand is

relatively limited, being only 11 percent of total energy production. Given CMEA trading arrangements, which allowed relatively cheap imports of energy from the U.S.S.R., both the high levels of energy intensity and imports were probably sustainable in the past. However, given the envisaged realignment of trading arrangements within the CMEA block, where trade is expected to be based on international prices and convertible currency, a continued high level of energy usage and reliance on imported energy could have serious implications for the balance of payment prospects of the country.

The composition of the sources of energy in Czechoslovakia differs significantly from the rest of Europe and is quite similar to other Eastern European countries. A great reliance is placed on solid fuels; of total energy consumption in Czechoslovakia, solid fuel consumption is 64 percent compared to a European average of 34 percent. The extensive use of solid fuels—mainly lignite—has resulted in considerable environmental damage. As a result, energy policies are now seeking to reduce the use of solid fuels. Recent efforts in this direction have led to increased development of nuclear energy.

Table 16. Energy Use in Selected European Countries¹

Country	Per Capita Income in U.S. Dollars ²	Energy			
		Per Capita Consumption ³	Export/ Production	Import/ Consumption	Solid Fuel Consumption/ Total Consumption
Europe ⁴	...	3,108	38.8	64.0	34.2
Czechoslovakia	3,300	4,418	10.9	44.4	64.2
Sweden	11,220	3,503	64.1	86.3	9.7
France ⁵	9,471	2,604	29.0	82.6	14.3
Germany, Federal Republic of	15,186	3,936	12.2	31.6	31.6
Poland	1,736	3,367	15.4	19.2	81.7
Hungary	1,342	2,673	26.0	60.0	29.6
Yugoslavia	2,250	1,696	4.3	46.0	45.8
Germany, Democratic Republic of	...	5,524	10.5	36.4	74.2

¹ Based on data from the *Energy Statistics Yearbook*, U.N., 1987.

² GDP per capita in 1989 except Czechoslovakia which is 1988.

³ Kilograms per capita of oil equivalent.

⁴ Europe excluding U.S.S.R.

⁵ Including Monaco.

manufactured products, and as a result it now produces almost 90 percent of the global array of engineering and chemical products. Consumer goods industries have been relatively neglected, although, in response to growing demand, the share of consumer goods in total industrial

output did increase from an average 36 percent in the 1970s to 45 percent in 1989.

Lack of industrial specialization, together with the monopolistic, state-dominated structure of industry, isolation from world markets, and a preference for relying

on domestic technology, has led to low product quality and high costs, the latter also reflecting high energy and raw material use. In addition, little attention has been paid to the environmental costs of production, leading to severe problems of air and water pollution and of hazardous wastes.

The opening of the Czechoslovak economy to world markets can thus be expected to bring to light weaknesses in the structure of production given the country's comparative advantage. The structure of production will also have to adapt to prospective changes in CMEA trading arrangements, outlined below.

Prices

The structure of prices in Czechoslovakia is complex and shows substantial distortions. While centralized price fixing prevailed for most of the period up to 1989, a mixed system of centralized and decentralized prices was introduced on January 1, 1990. Prices now fall into three categories: centrally determined prices, centrally regulated prices, and contract prices. Centrally determined prices are fixed directly by the government, while prices in the latter two categories are negotiated between buyers and sellers, with varying degrees of government involvement. Some prices in the contract price category are entirely free, and the reform program envisaged a gradual shift of products into this category. Overall, centrally determined prices apply to about 30 percent of goods (based on the value of turnover) at the wholesale level, and 37 percent at the retail level. In agriculture, however, 83 percent of purchase prices are centrally determined.

The structure of prices exhibits distortions both in the relations between world market prices and domestic prices and in the relations between different domestic prices. These distortions resulted in explicit subsidies from the state budget to the tune of 15.8 percent of NMP in 1988, up from 10.4 percent in 1980.⁶

The difference between world market prices and domestic wholesale prices was for a long time either taxed away or compensated through subsidies from the state budget, but this scheme was modified in 1989 and 1990 as part of the reform effort. Currently, where export prices are lower than domestic wholesale prices, the difference continues to be covered by subsidies from the budget, subject to an overall budgetary ceiling; but enterprises keep much of any excess of export prices over domestic wholesale prices (100 percent of such excess for exports to the convertible area and 90 percent for non-

obligatory exports to the nonconvertible area). On the import side, for a basic group of imports including oil, raw materials, steel products, and certain consumer goods, the entire difference between foreign and domestic prices is covered by subsidies from or transfers to the budget, without budgetary limitation. For the remaining imports, no transfers or subsidies apply.

On the domestic market, there are in some important cases significant price distortions at both the producer and consumer levels. At the producer level, despite the wholesale price reform, there continue to be cases where wholesale prices, including agricultural purchase prices, do not cover costs (including a profit markup). In these cases the state budget provides direct transfers to the enterprise concerned to cover the difference. At the consumer level, gaps between retail prices and wholesale prices (including a profit mark-up) are bridged by a turnover tax. This tax may be positive or negative (a subsidy) and is generally levied as 50 to 100 percent of the difference between wholesale and retail prices, after the specified profit markup has been applied.

Agriculture is the most heavily subsidized sector of the economy, accounting traditionally for about one half of all subsidies. In addition, up to 1988 an implicit subsidy took the form of exemption of agricultural concerns from payroll tax. Removal of this exemption in 1989 is largely responsible for an increase in subsidies on food and agricultural products from Kcs 46 billion in 1988 to Kcs 71 billion in 1989, probably considerably more than half of all subsidies. At the producer level, the main subsidies to agriculture take the form of direct transfers to producers in high cost areas, the purchase price being based on average costs in the most productive areas. Subsidies are also provided for the production of certain specific crops. It is estimated that agricultural purchase prices cover less than four fifths of production costs.

Food is also heavily subsidized at the consumer level by means of negative turnover tax. This subsidy has tended to increase over the years, for, while changes in agricultural purchase prices have normally been fully reflected in wholesale prices of the food industry, such price increases have not in most cases been passed on to the retail level. With the reform of wholesale prices in 1989, when prices for food products and beverages rose on average by more than 17 percent, negative turnover tax on foodstuffs increased sharply, to the point of amounting to almost one quarter of the value of retail sales. Dairy products are the most heavily subsidized at this level, with subsidies equivalent to 84 percent of the retail price. Subsidies on fruit, vegetables, and meat retail prices amount to around 20 percent.

The housing sector also receives significant subsidies. Explicit budgetary subsidies to the sector take the form of grants to individuals and cooperatives and capital transfers to state-owned enterprises for the construction

⁶ Excludes subsidies between enterprises carried out outside the state budget (e.g., through VHJs).

of housing, subsidies to rents on state-owned housing, subsidies to the provision of heating from large heating plants, negative turnover tax on some construction materials, and subsidies to interest rates on housing loans, fixed at 1–2.7 percent. Further significant subsidies are provided for transport, coal, and gas.

Explicit budgetary subsidies to the industrial sector have been relatively minor and borrowing by that sector has been at non-preferential interest rates. In the past, cross-subsidization between enterprises within the same VHI or under the control of the same branch ministry is thought to have resulted in a significant transfer of resources from more efficient to less efficient enterprises. However, with the abolition of the VHJs and the greater independence of individual enterprises from branch ministries, such inter-enterprise transfers should no longer occur.

Employment and Wages

Until recently the allocation of labor in Czechoslovakia was administratively determined, and unemployment has been almost unknown. Enterprises had virtually no control over recruitment nor were they able to lay off workers. The economic reform program adopted in late 1987 envisaged a gradual transition to a system in which enterprises themselves would have control in these areas, and a decree that became effective on January 1, 1990, established rules to enable enterprises to lay off workers as necessary for the restructuring of production. The decree also established rules for retraining and benefits for laid-off workers.

There has been a centralized system of wage determination, with annual plans setting binding limits for both basic wages and bonus funds, in certain cases determined by branch and in others by skill. However, the system has gradually evolved so as to take more into account the economic results and profitability of enterprises in the central determination of wages and to allow enterprises somewhat more freedom in paying bonuses. Moreover, the economic reform program adopted in 1987 envisaged greater independence for enterprises in determining wages and other remuneration, with the aim that such payments would eventually be solely determined by the economic performance of the enterprise through collective bargaining between trade unions and employers. Enterprises can now, depending on their performance, pay bonuses and premia up to a limit corresponding to 10 percent of basic wages. However, basic wage rates are still centrally determined, and for 1990 the Government established limits for the growth of wages and other personnel costs with stiff penalties for exceeding these limits.

Financial Intermediation

On January 1, 1990, Czechoslovakia acquired a two-tier banking system through the separation of the central and commercial banking functions of the State Bank of Czechoslovakia. The resulting system, however, continues to be characterized by three major difficulties.

First, the banks' capital/asset ratios are low and may worsen when an evaluation of their loan portfolio is carried out, particularly if economic reform results in bankruptcies and loan defaults. The questionable financial health of the banks could interfere with efficient intermediation by raising the margins between deposit and lending rates; this would not only require continued protection of the banking system from foreign competition, but may also render the monetary authorities less willing to tighten monetary conditions when required.

Secondly, efficient intermediation is still hindered both by a lack of training of bank personnel in modern banking practices and by a lack of competition between financial institutions. Although the legal framework now allows for universal banking without geographical restrictions, both the newly formed commercial banks and the previously existing savings banks operate on the territory of one republic only, and, reflecting the previous separation of functions between the State Bank and the savings banks, the commercial banks continue to deal almost exclusively with enterprises and the savings banks with households.

Finally, monetary management is currently conducted largely by means of direct credit controls, enforced through moral suasion. Efficient intermediation will require instead a system of indirect monetary controls. The importance of restraining demand during the reform process heightens the need for the early development of such mechanisms.

External Issues

Czechoslovakia has not suffered from major external imbalances in recent years, in either convertible currencies or transferable rubles. Official reserves are at a comfortable level (US\$2.4 billion in convertible currencies and gold at the end of 1989) and external debt is relatively low (US\$7.9 billion in convertible currencies at the end of 1989). Indeed, in recent years Czechoslovakia's most pressing external problem has been the accumulation of unusable creditor balances in the form of both uncollectible trade credits to developing countries and a net creditor position within the CMEA.

However, three factors now combine to create the potential for balance of payments difficulties. One is the planned integration of Czechoslovakia into the world economy. This raises the question of the competitiveness

on world markets of Czechoslovak exports, and particularly of manufactured goods, which account for the major part of exports. In this connection, it is noteworthy that exports to the nonsocialist area generally consist of products involving less processing than exports to the socialist area. Fuels, iron, steel, and petrochemical products make up the major exports to the nonsocialist area, and exports of machinery and transport equipment make up only 21 percent of exports to the nonsocialist area, compared with 60 percent of exports to the socialist area.

Although without major industrial restructuring these difficulties are likely to impede attempts at a large-scale expansion of exports to the nonsocialist area, this does not exclude the possibility of successful increases at the margin. This was confirmed in 1989, when following the depreciation of the koruna against convertible currencies and the introduction of a foreign exchange retention scheme, there was a significant shift of exports away from the transferable ruble area and toward the convertible currency area: export volume to the nonsocialist area increased by over 8 percent.

A second factor which may adversely affect Czechoslovakia's balance of payments is the ongoing review of CMEA trading arrangements, which is likely to result in intra-CMEA trade being conducted at world prices and in convertible currencies. Trade with the CMEA accounted in 1989 for 54 percent of total exports and 56 percent of total imports. As noted above, exports to the CMEA consist largely of capital goods and other manufactured products, the prices of which may fall under the new trading arrangements, while imports from the CMEA consist mainly of raw materials and energy, the prices of which will rise on adoption of world prices. Changes in CMEA trading arrangements will likely begin to affect Czechoslovakia's balance of payments in 1991, but transition arrangements, including the possible drawdown of accumulated surpluses of transferable rubles, may initially soften their impact. Already in mid-1990, Czechoslovakia was forced to receive some oil supplies from the world market because of a shortfall in deliveries from the Soviet Union.

Finally, economic developments in the region will influence Czechoslovakia's balance of payments. The U.S.S.R. alone accounted for 30 percent of Czechoslovakia's exports in 1989, so that economic difficulties in that country may seriously weaken the demand for Czechoslovak exports. Simultaneous economic adjustment in other Eastern European countries, which account for almost a quarter of Czechoslovakia's exports, may have a similar effect.

Demand Management

It is generally considered that Czechoslovakia does not

suffer from such pronounced problems of excess demand and monetary overhang as have characterized several other Eastern European countries, and relations between household incomes and expenditures appear to bear this out. Financial savings of the population have been low and fairly stable in recent years, with the propensity to save averaging about 4 percent of total money incomes. However, the usual problems arise in assessing the desired level of household savings, and small deviations in flows from their desired level can result over time in large deviations in the levels of accumulated savings. In this connection it should be noted that there has been a persistent decline in the income velocity of broad money during the 1980s: by 1989 the ratio of NMP to M2 had fallen to 1.0, compared with almost 1.5 in 1980. While a significant part of these increased money balances is held by enterprises, the income velocity of money has also fallen throughout the period for households alone. It is an open question whether this trend reflects the emergence of a monetary overhang perhaps accompanied by an increase in the importance of the "second" economy, or a shift in behavior for other reasons. In any event, in order to avoid setting in motion an inflationary spiral, the restructuring and liberalization of prices and wages will need to be accompanied by financial policies that are both restrictive and responsive to changing economic conditions.

Measures Taken and Policy Intentions

The transition government that held office from December 1989 to June 1990, while allowing the economic reform measures prepared by the previous regime to enter into force on their appointed dates, also implemented a number of measures intended to speed up the economic transformation.

Foremost among the new reform measures have been legislative changes intended to remove restrictions on private economic activity, to encourage foreign investment, and to pave the way for the denationalization of state enterprises. A law on private enterprise was adopted, providing that private entrepreneurs can engage in virtually any economic activity subject only to a registration requirement, and a law on joint-stock companies was passed setting out procedures for their foundation and guaranteeing their independence from state authorities. The foreign trade law was amended to allow all economic units, including private entrepreneurs, to export their own products and import inputs for their own production; permission is, however, still required to engage in other forms of foreign trade. Furthermore, the law on cooperatives was amended to establish the right of a member of an agricultural cooperative to get back the land originally contributed, under the condition that the land continue to be used for agricultural purposes.

The law on joint ventures of January 1, 1989, was amended to allow 100 percent foreign ownership in Czechoslovak enterprises.⁷ Though the amendment also imposed on joint ventures a surrender requirement of 30 percent of foreign exchange earnings, as part of the effort to encourage foreign investment, joint ventures remain subject to more liberal foreign exchange regulations and a more favorable tax regime than applicable to domestically owned enterprises (see Appendix 3).

Finally, in preparation for denationalization and despite opposition from both enterprise managers and trade unions, the law on state enterprises was amended to provide for managements of state enterprises to be appointed directly by the authorities, rather than elected by employees from candidates selected by the authorities. The amendment also created two types of state enterprises: public service enterprises that are not profit-oriented and whose product prices would normally be controlled, and enterprises that should operate along commercial lines. For the latter, the law facilitates the creation of smaller units to promote competition and the eventual transformation of these enterprises into joint-stock companies.

In addition to legislative changes, the transition government took important measures in the fiscal area. In the light of the importance of restraining demand during economic reform, it adopted a budget showing a surplus of Kcs 5.4 billion, or 0.9 percent of NMP, compared with a 1989 deficit of 1.3 percent of NMP. Expenditure restraint plays an important role in the improvement in the budget balance compared with 1989, but as part of the social protection in the reform effort, provision of around Kcs 1 billion has been included for each of two programs: retraining and relocation for displaced workers, and support for subsidized fixed-interest payments on mortgages taken over by the new commercial banking system.

As regards the exchange rate, the transition government took several important steps, unifying and depreciating the commercial and noncommercial exchange rates for convertible currencies and introducing a new, more depreciated "tourist" exchange rate. At the same time, the previous single exchange rate against the transferable ruble was replaced by three different rates, reflecting differences in the domestic price level among CMEA countries as well as the de facto bilateral nature of

the CMEA clearing system. Action on the exchange rate was, however, not accompanied by significant changes in domestic prices, and the authorities responded to the resulting increase in border transactions through a combination of administrative, tax, and exchange rate measures (see Chapter II).

While these initial measures were being taken, extensive discussions on economic issues were taking place within the transition government. These culminated in the adoption on May 24, 1990, of a resolution setting forth the government's preferred economic strategy, which has since been endorsed by the new government formed following the June 8–9 elections. The program foresees a rapid restructuring and liberalization of prices and major changes in foreign exchange and exchange rate policy. The potential inflationary impact of these measures would be contained by maintenance of restrictive fiscal and monetary policies.

Regarding price policy, on July 9, 1990, the authorities increased retail prices of 30,000 items, including basic foodstuffs, by an average of 25 percent so that negative turnover tax of some Kcs 27 billion, out of a total of Kcs 49 billion, was eliminated. The population is being compensated for these price changes by means of income transfers in the amount of Kcs 140 per person per month, rendering the operation budget neutral. Further price changes, including prices for manufactured goods and transportation, are planned for the remainder of the year, and a substantial liberalization of retail and wholesale prices is to begin on January 1, 1991.

Regarding exchange rate policy, it is intended to provide unlimited access to foreign exchange for legitimate current account transactions to state enterprises and private businesses from January 1, 1991. The existing foreign exchange surrender scheme would be abolished and replaced by a total surrender requirement. All import controls would be abolished. At the same time, the exchange rate would likely be devalued and, for an initial period, a supplementary import duty may be applied.

These macroeconomic measures would be supported by a number of structural measures affecting various sectors of the economy, and most importantly by a denationalization of state enterprises other than public service enterprises. The exact modalities of the denationalization scheme have not yet been determined. However, consideration is being given to a scheme whereby state enterprises would be transformed into joint stock companies, and "ownership vouchers" would be distributed to the population which would entitle their holders to purchase stock in these companies.

⁷ The Joint Ventures Act also regulates 100 percent foreign-owned companies.

Appendix 1

Structure of Government Finances

Composition of Government

The federal budget and the budgets of the Czech Republic and the Slovak Republic comprise the state budget, which represents central government in Czechoslovakia. Local government entities, known as “national committees”, operate at the regional, district, and local levels. The Czech Republic has eight regions, including Prague, and the Slovak Republic has four, including Bratislava. There are 127 districts within the regions, and 6,794 “centralized” towns and villages. Each republic also has three small extra-budgetary funds: the Clean Air Fund, the Soil Cultivation Fund, and the Water Fund. At present, social security operations are part of the general budgets of the republics and the national committees. General government in Czechoslovakia is thus defined as the state budget, national committees, and the extra-budgetary funds. The operations of the state budget and the national committees are carried out by budgetary organizations, defined as the basic units of public administration.⁸

The coverage of government as defined here omits many quasi-governmental activities that have taken place at the sectoral and industry level, such as the cross-subsidization of loss-making enterprises by profitable enterprises in the same sector. However, since market-oriented reforms began in Czechoslovakia, these activities have been largely reduced or eliminated. The quasi-fiscal activities of the State Bank, such as subsidized credit programs, have also been excluded. As part of the reform of the banking system, the cost of some of these activities is being transferred to the state budget.

The fiscal year is the calendar year. The components of the state budget are usually approved in December of each year; National Committees approve their budgets in January (i.e., at the start of the current fiscal year). There exists a complementary period lasting until April 30, during which lower levels of government and the enter-

prise sector settle their accounts with the state budget.⁹ Thus, in the final government accounts—which are presented to the Federal Assembly and the Czech and Slovak National Councils in May following the budget year to which they refer—financial deficits of lower levels of government have been made good by transfers from the federal government. Overall deficits are therefore reflected only in the latter’s accounts, with the exception of small amounts corresponding to the use of accumulated reserve funds by national committees.¹⁰ The Budgetary Procedures Act, to be passed during 1990, will permit levels of government other than the Federation to show a deficit. The budget may be revised during the year. In the past, revisions were frequent, to accommodate adjustments in the State Plan, and the changes usually did not require approval by Parliament. Parliamentary approval is necessary only when a budget revision will worsen the overall budgetary outturn.

Relations Between Levels of Government

In 1988, the state budget accounted for two thirds of general government outlays, and the national committees for just under one third (Appendix Table A12). Excluding intergovernmental transfers, the federal government and the Czech Republic each accounted for around 38 percent of total state budget expenditure, while the direct expenditures of the Slovak Republic amounted to 23 percent of the total. The pattern of revenue collection is quite different from that of expenditure. In 1988 the federal government received 57 percent of general government revenue and 68 percent of state budget receipts. The Czech Re-

⁸ Excluded from the definition of general government are subsidized organizations. These are mainly cultural and research agencies which receive transfers from the state budget and national committees, but also earn their own revenues, and operate relatively autonomously.

⁹ Until January 15, certain invoices outstanding for capital expenditure may be liquidated; before February 15, enterprises must have calculated their profits and remitted all taxes; by March 20, transfers to enterprises to cover deficits must be settled; by March 30, transfers to lower levels of government to cover their deficits must be settled; and during April, the accounts of the state budget with the State Bank are balanced.

¹⁰ These are treated as revenue in the Czechoslovak presentation of budget statistics.

public contributed 22 percent of state budget revenue, and the Slovak Republic just under 10 percent.

The Federal Assembly approves only the federal budget, which influences the budgets of the republics through the level of transfers to them from the federal government. These transfers are significant. In 1988 they amounted to 52 percent of the total revenues of the Czech and 62 percent of those of the Slovak Republics. The republics, whose budgets are approved by their National Councils, are in turn responsible for transfers to the national committees in their territory, and to the extra-budgetary funds. Until 1989, transfers to national committees covered approximately half their expenditures.

In the past, each level of government received the income taxes paid by the enterprises and labor force under its jurisdiction. The federal government was responsible for strategic industry (such as energy, metallurgy, machinery, railroads, and communications). The republics managed other industries (including chemicals, construction, agriculture, and consumer goods). Services and small business ("local industry") reported to the national committees. The proceeds of the turnover tax accrued exclusively to the federal government and na-

tional committees, and all foreign trade levies (net of subsidies), regardless of the type of industry that paid them, accrued to the federal government.

In order to stabilize the revenue base for the national committees as much as possible, revenue allocation procedures have been changed in recent years. Since 1986, wage tax revenue has been transferred from the republics to the national committees, and transfers to the latter reduced by an equivalent amount. Moreover, from 1990 on, all turnover tax will accrue to the state budget, to be divided proportionately between the federal government and the republics. Payroll tax receipts will also be distributed between the republics. The net result of the reallocation is that, from 1990, the contribution of national committees to general government revenue will rise from 16.6 percent to 19.5 percent, while the share of transfers in their total revenue is projected to fall from about one half to around one third. And, within the state budget, the share of revenue accruing directly to the republics will be raised.

On the expenditure side, the federal government is responsible for defence, internal security, foreign relations, and economic concerns (such as energy and communications) relevant to the country as a whole. The republics cover all direct subsidies to agriculture, 95 percent of social security outlays, and more than 80 percent of direct subsidies to enterprises, while the national committees provide social services, such as education, hospitals, cultural activity, and subsidies for state housing, residential construction, and urban transport.

Chart 5. Composition of General Government Revenue, 1980-89

(In percent of total revenue)

Source: Czechoslovak authorities.

Revenues

Tax revenues generally accounted for around 85 percent of total general government revenue between the mid-1970s and 1988 (Chart 5 and Appendix Table A13). The contribution of taxes to the state budget was slightly higher—around 90 percent during the period—reflecting national committees' greater reliance on fees and charges for services, imposed at the local level. The most important single revenue items are the enterprise profit tax and the turnover tax, each of which contributes around 30 percent of total state budget revenue.¹¹ Non-tax revenue is composed mainly of the own-earnings of budgetary organizations (such as payments for school meals and veterinary services) and, prior to 1989, budgetary levies on enterprises' depreciation funds.

The following are the principal features of the main taxes.

¹¹ In the Czechoslovak presentation, turnover tax receipts are smaller, because only the net of turnover tax receipts and subsidies paid in the form of negative turnover tax is included in the state budget.

Taxes on Income and Profit

Profit taxes are levied on the earnings of state enterprises, cooperatives and joint ventures, and on agricultural income. The laws governing the taxation of profit were revised in 1989, with the aim of moving toward a unification of tax bases in the productive sector. Rates are being reduced from their former levels of 75–85 percent (depending on the type of enterprise) to 55 percent, to be phased in during 1990 and 1991.¹² Private sector firms are to be subject to the same regime, while foreign investors, including joint ventures, will be taxed at a rate of 40 percent.

The concept of net income is more restrictive than in market-economy accounting systems. Many expenses (such as advertising, late charges, inputs outside the plan, and 13th-month workers' bonuses) are considered a discretionary use of profit and must be included in the profit tax base. Depreciation schedules are typically very long, with 6 to 10 percent of the value of firms' capital amortized each year. (Prior to 1989, levies equivalent to 20 percent of depreciation—defined according to published schedules for each type of capital—were paid to the state budget, where they were recorded as non-tax revenue.)

There are few exemptions from the profit tax—mainly subsidized agencies, such as theatres and museums. Tax holidays may be negotiated for up to two years, or longer in exceptional cases in which foreign-capital joint ventures offer strategically important services (such as pollution control). A withholding tax on dividends, interest, and copyright earnings (at a general rate of 20 percent), and on royalties (at 30 percent) exists, but has been applied only to foreigners, with its incidence significantly mitigated by double-taxation agreements, signed with 18 countries. Enterprises that transgress wage or price ceilings are subject to a penalty tax, constructed so as to offset the profit tax foregone or pass onto the budget the "excess profit" earned.

The *payroll tax*, although part of general budgetary revenue (26 percent of state budget receipts since 1989, when its rate was raised from 20 to 50 percent), is conceived as the employer's contribution to social security. It is levied on all wages and bonuses, but is paid only by enterprises, not by budgetary organizations.

Individual income taxes are all paid to the national committees. The wages tax (withheld by enterprises) accounts for 95 percent of personal income tax revenue, since, under the present system, 90 percent of the labor force earns a wage. The wages tax, which now represents the main source of income to the national committees,

will contribute 37 percent of National Committee revenue and 59 percent of their own resources in 1990. The other individual taxes are levied on non-wage private sector activity, agricultural activity, literary and artistic activity, and rental income; they have a minimal revenue yield. Individual income taxes are levied at progressive rates, with top rates of 20 percent for the wage tax and 80 percent for the tax on non-wage private sector activity. The average tax burden from the wage tax is around 18 percent of wage income; that of the private sector income tax is now lower than the top rate would suggest, since abatements of up to 50 percent have been offered in 1989 and 1990 in anticipation of complete reform of private sector income taxation.

Indirect Taxes

In the Czechoslovak budgetary system, indirect taxes have been used primarily as instruments of redistribution via the price system. The turnover tax, the internal market differential, and foreign trade levies each siphon off profits earned from trading at administratively fixed prices, above a permitted margin.

The *turnover tax* is levied on final consumption goods. Capital goods and exports are exempt. In the majority of cases it is levied as 50 to 100 percent of the difference between wholesale and retail prices, after a specified profit mark-up has been applied. The prevalence of discretionary price adjustments implies that effective tax rates and overall revenue yield can shift significantly. Less frequently, the tax is applied as a fixed percentage of the wholesale price. (When the retail price is below the wholesale price plus a margin, turnover tax paid is negative—a subsidy.) In 1988, the turnover tax burden by industrial sector ranged from around 40 percent for chemicals, metals, and clothes, to subsidies of 76 percent on solid fuel, 38 percent on heat generation, and 23 percent on construction materials. There are no *excises* in Czechoslovakia. However, for some goods such as alcohol, tobacco, cars, gasoline, and electronics, the spread between the wholesale and retail prices is very large, so that the turnover tax includes an implicit excise tax component.

The *internal market differential* is levied on imports of consumer goods; based on the same rules as the turnover tax, it is the difference between the import price and the domestic retail price (less mark-up). *Foreign trade levies* (surrenders) are collected on the difference between import prices and domestic wholesale prices (less mark-up), at a rate of 100 percent, on a group of imports (mainly raw materials) sold to other than final consumers. Foreign trade surrenders are part of the FENZO (Economic Instruments for the Regulation of Foreign Trade) system of managing external trade, which is administered by the

¹² Technically from 1990 the rate is already 55 percent, but a surcharge of 10 percent in 1990 and 5 percent in 1991 is being levied on companies who formerly paid the higher rates.

Ministry of Foreign Trade. The FENZO system also includes subsidies (when import prices are higher than domestic wholesale prices) for the group of imports specified above, subsidies on exports, and a 10 percent tax on earnings from price differentials on non-obligatory exports to socialist countries.¹³

Other Revenue Sources

Czechoslovakia, like other planned economies, has a relatively comprehensive cadastre, or register, which is used as the basis for a *tax on agricultural land* (applicable to enterprises, cooperatives and individuals on the same conditions) and a *residential property tax*. These taxes are differentiated by the type and quality of land or the type and size of community. Exemptions are numerous, and their yield is minor. Stamp duties ("notary fees") are also levied, again with a small yield. National committees, in particular, but also budgetary organizations within the state budget, collect *fees and charges* on items such as school meals, dispensaries, veterinary services, spas, and dog licenses.

Tax Reform

In the latter half of the 1980s, Czechoslovakia undertook a certain amount of tax reform. The effective unification of the enterprise profit tax in 1989, the amendment and broader application of the Customs tariff (from January 1, 1990), the reallocation of revenues among different levels of government, and the removal of depreciation contributions from the revenue base have been the main fruits of reform so far.

Expenditure

Current expenditure accounts for a large and growing share of total general government outlays, reflecting a decline in capital transfers to enterprises and public investment and a steady increase in price subsidies (Chart 6 and Appendix Tables A14 and A15). Its share has risen from 78 percent in 1975 to 86 percent in 1988. Subsidies and transfers account for more than 50 percent of current expenditure; their share has also tended to rise—at the expense of direct government consumption.

Chart 6. General Government Expenditure, 1980–89
(In percent of total expenditure)

Source: Czechoslovak authorities.

Government wages are lower than in other sectors of the economy, and the civil service appears to be relatively small. Reflecting the responsibility of the national committees for expenditure on education and health, wages are concentrated at that level of government. Data on wages are understated to the extent that "service expenditure" may include some security-related remuneration.

Expenditure on *other goods and services* includes outlays for material and supplies, and service expenditure. The latter comprises spending on durables and security.

The *social security system* is comprehensive, covering practically all the population with provision for old-age, disability or widow's pensions, children's allowances, maternity benefits, and sickness insurance. Old age pensions account for more than 60 percent of social security expenditure. Depending on type and number of years of employment (and some other characteristics), workers are entitled to pension at 53–60 years of age, at a basic rate of 50–60 percent of their earnings, plus additions for years of employment. The average old age pension in 1988 was 49 percent of the average wage (which was Kcs. 3,054 a month).

Subsidies may be divided into three major components: negative turnover tax, direct transfers to enterprises (some of which are for price support and some of

¹³ The reporting system for FENZO does not permit a complete breakdown of trade subsidies and taxes at the budgetary level. Hence, the figures included in non-tax revenue of the state budget are net of import subsidies distributed to enterprises below the level of the republics.

which cover deficits), and foreign trade subsidies (Table 5). Foreign trade subsidies have always made up less than 20 percent of the total. The dairy and meat industries are the most heavily subsidized; coal is also highly subsidized through the negative turnover tax, both in absolute terms and as a share of its retail price (with a subsidy rate of 81 percent in 1988).

Capital expenditure by government has been shrinking since the 1970s, both as a share of total outlays (from 22 percent in 1975 to 12 percent in 1988) and in proportion

to NMP (from 15 percent to 8 percent over the period). The main reason for the decline is a fall in *capital transfers to enterprises*, as enterprises move toward self-sufficiency in financing investments. *Direct government investment* has remained fairly constant in terms of NMP since 1981 (at around 5.2 percent). About three-quarters of direct investment by government is carried out by national committees, which are responsible for the infrastructure in their localities (broadly defined to include schools and hospitals as well as roads and water supply).

Appendix 2

The Financial System

Institutions

Prior to 1990, Czechoslovakia's financial system comprised four banks supported by a separate savings bank and insurance house for each of the two republics. All these institutions were state owned, though one was a joint-stock company.

The State Bank of Czechoslovakia, established in 1950, was the central bank, while at the same time performing the functions of a commercial credit bank for the whole economy. In its capacity as a central bank, the State Bank issued currency, acted as the principal bank for the Government, refinanced other banks, held the official reserves of gold, and prepared the annual monetary plan. As the sole domestic commercial bank, the State Bank provided banking services to enterprises and cooperatives through an extensive network of regional offices and branches. Enterprises were required to deal with particular branches.

The Czechoslovak Obchodni Bank (COB), a joint-stock company with 51 percent of the shares owned by the State Bank and the remainder by foreign trade enterprises, was founded in 1964 as a commercial bank that services foreign trade enterprises and supervises all foreign trade transactions, in both foreign and domestic currencies. The bank undertakes short-term and long-term credit operations in connection with Czechoslovak imports and exports. It grants credit to foreign customers for Czechoslovak merchandise, directly or through the intermediary of their banks.

The Zivnostenska Bank, which has its head office in Prague and a branch office in London, has handled financial transactions for private individuals and nonprofit institutions. The head office accepts deposits from foreigners in domestic and foreign currencies and has kept accounts in domestic currency for Czechoslovak citizens who work abroad.

The Investment Bank, which prior to 1958 granted investment credits, was responsible for the holdings by the state budgets of the federation, republics, and other state funds of securities that were mainly foreign and had been originally acquired by the Government when such assets were nationalized in 1948. The portfolio has steadily fallen.

Each republic had its own savings bank, operating through a large network of small local offices. All household deposits and lending were channeled through them and they redeposited the bulk of their deposits with the State Bank. All deposits were guaranteed by the state. Much of the lending activity of the savings banks took the form of loans for housing and to newly married couples, with fixed and heavily subsidized interest rates. All insurance activities within each republic were handled by the respective republican insurance house. The financial assets of these institutions were deposited with the State Bank.

In 1989, preparations were made to split the State Bank, separating out the commercial bank activities from those of a central bank, while widening the role of the other banks and encouraging competition. From January 1, 1990, the new State Bank, with headquarters in Prague, became the central bank, responsible for regulating the operations of the banks and savings banks and carrying out bank supervision as necessary. The State Bank continues to be responsible for currency issue and for foreign exchange policy and keeps the accounts of the banks, savings banks, and state budget.

Under the 1989 banking law, all banks and savings banks are, with effect from January 1, 1990, permitted to operate anywhere in the country and in all fields of banking other than foreign lending and borrowing. Customers are free to choose branches or banks. The former commercial activities of the State Bank were handed over to the newly created banks. To facilitate a quick initial allocation of the assets and liabilities between the new banks, the commercial operations were divided along territorial lines. The Commercial Bank was set up to operate initially using former branches of the State Bank on the territory of the Czech Republic. The General Credit Bank performs similar functions on the territory of the Slovak Republic. Lastly, the Investment Bank, using the offices of the old bank of the same name, based in Prague, was set up by the Federal Ministry of Finance initially to handle transactions with federal institutions, primarily the Government.

The breakup of the State Bank was achieved by splitting up certain sections of the bank that had performed most of the commercial activities. Assets and liabilities

were similarly divided. With no additional capital having been brought in, the capital/assets ratios of the new banks were very low. Moreover, the quality of their loan portfolios has not yet been properly assessed. The manner of the allocation of the assets and liabilities resulted in a need for credit from the State Bank and Obchodni Bank. Although the new banks remain state owned, profits are no longer automatically surrendered to the state budget, but are subject to a tax (currently set at 75 percent).

Banking activity associated with foreign trade by enterprises remains the responsibility of the COB, although the law provides for other banks to be authorized to engage in such activity. Similarly, Zivnostenska Bank continues to be responsible for foreign transactions of private citizens. The former savings banks currently operate on a republic basis as before because of their existing branch networks. Competition between the financial institutions is currently limited by the location of bank offices and the lack of previous experience of the savings banks in conducting credit business with enterprises.

The recent legislation envisaged the establishment of further new banks, but the Government's intention is that the new banking structure be allowed to establish itself before facing competition. Foreign capital up to 35 percent of total capital is permitted in a banking institution but, as yet, the only bank with foreign participation clearly planned is the Agrobank, which started operating in July 1990 and concentrates on agricultural and food enterprises. Foreign banks are not yet permitted to conduct business in Czechoslovakia, though there are proposals for such banks to open representative offices and for foreign participation in some of the existing domestic banks.

Financial Markets

There were no money markets, stock exchange, or significant interbank transactions other than the routine deposit of assets by the savings banks with the State Bank; other interbank deposits are now permissible (since January 1, 1990) and a small market in such deposits has begun to emerge. Rates for these transactions have been in the 5.0–5.5 percent range. Promissory notes are barely used except in limited cases of inter-enterprise supplier credits. The Federal Government approved on February 8, 1990 the use of bonds in the domestic economy. Trade in bonds had been abolished in 1945 with the exception of a limited number of transactions concerning the issue of securities in joint-stock companies, bills of exchange, checks, and of lottery tickets. Bonds may now be issued by enterprises, banks, and savings institutions. Applications have to be presented to the Federal Ministry of Finance and the State

Bank, accompanied by detailed justifications and specifications. The primary sale of these bonds will be carried out either by enterprises or banks. Though some 40 issues—mainly to attract funds from enterprises' own employees—are being prepared, no bonds have yet been sold. Both the Commercial Bank and the General Credit Bank have drawn up proposals for large issues.

Monetary Policy and Prudential Control

Monetary policy, as implemented through the monetary plan, was formed as part of a generally cautious macroeconomic policy from the late-1970s onward. Under the traditional system, the basis for monetary policy was the state plan. Within that plan there was a monetary plan, drafted with the help of the State Bank, which sought to ensure that the evolution of money in circulation was in line with production developments and set out the level, type, and cost of credits to be granted at all levels of the economy. From 1970 onward, at least formally, there were three independent plans: the state economic plan (prepared by the State Planning Commission); the state budget (prepared by the Ministry of Finance); and the monetary plan, which included the foreign exchange plan. To the extent that the monetary plan was able to influence the other two, rather than being strictly responsive to those plans, monetary policy was not as completely passive as in some other socialist economies.

After Government approval, the monetary plan was broken down so as to specify for each economic unit in the socialist sector the scope of credits and foreign exchange it could draw upon. Interest rates were essentially fixed, and in the case of loans for housing and for newly married couples were set at low rates in the state plans. Changes in credit allocation and interest rates could only be made to correct for over- or under-fulfillment of the state plan's production and credit targets.

The last monetary plan was drafted for 1990. Though the concept of a central plan has been rejected for conducting monetary policy in the future, the draft plan did contain guidelines in force for the first part of 1990 which are interpreted and applied by the State Bank. The primary instrument of monetary control to be applied in 1990 is that the increase in internal credits is to be kept to a range of -2 to $+1$ percent compared with levels at the end of 1989. The State Bank set a maximum limit on refinancing credit for each bank.

The main method of implementing monetary policy in 1990 is moral suasion, with the State Bank advising the two main commercial banks closely. In addition, and in preparation for an expanded banking system, the State Bank established guidelines and prudential regulations for the banks which included limits on capital/assets

ratios, credit/deposit ratios, foreign credits and excessive concentration of credits. Moreover, in an attempt to begin to enforce minimum reserve requirements, banks had to increase, from zero, their obligatory minimum reserves kept with the State Bank by 5 percent of the growth of all koruny deposits, excluding interbank deposits.

Interest Rates

Credit and interest rates have not played as significant a role in the allocation of resources as in market economies. In general, interest rates have been fixed according to the type of deposit or credit, with different rates for enterprises and households (Appendix Tables A19 and A20). The general principle was that the longer the term of the loan, the higher the rate of interest charged; for deposits, minimum rates were set at lower levels. Most deposit and credit rates have been positive in real terms when assessed on the basis of changes in official price indices.

From January 1, 1990, the State Bank established a discount rate of 4 percent for banks seeking refinance. This rate was raised to 5 percent in April 1990 and the Bank intended to raise it further in the future. Official price indices showed inflation at 3½ percent in the 12 months from March 1989–March 1990, implying a small but positive real interest rate.

Interest rates on both operational and investment credits by enterprises have been very stable in recent years. Nominal interest rates on operational credits averaged about 5.7 percent, and on investment credits about

5.3 percent in the 1980s. Operational credits to cooperatives were slightly cheaper and credits for housing were charged only 1 percent. Interest rates are currently linked directly to the discount rate. For example, credits up to one year pay the discount rate +2 percentage points maximum while overdrafts necessitated by temporary lack of means of payment are charged the discount rate +8 percentage points maximum.

Enterprise deposits are almost all demand deposits. Deposits by enterprises and cooperatives with the State Bank, and now the commercial banks, received low rates of interest, averaging less than 1 percent. Minimum rates were raised in 1990 and now range from ½ of 1 percent a year for deposits of between six months to one year, to 5 percent for accounts maturing in over four years.

There is a set schedule of rates for housing loans for individuals from the savings banks. For single units, interest rates are 2.7 percent and for multiple units, 1 percent. Loans to newly married couples merit slightly lower rates of interest. For the small amount of other credit extended to households, notably for installment purchases of goods, interest rates have been about 3.6–4.3 percent in the 1980s. Rates on those credits have risen in 1990 with the increase in the discount rate to a current maximum of 12 percent for cash loans. In the past, interest rates paid on households' demand and time deposits (as on loans to households) were fixed by the State Bank in cooperation with the Federal Ministry of Finance and the relevant republican ministry. Demand deposits earned about 2 percent, while savings deposits received 4 percent. On May 1, 1990, these fixed rates on savings deposits were abolished.

Appendix 3

Exchange and Trade System

The Exchange System

According to the Foreign Exchange Act which was approved by the Federal Assembly on December 13, 1989, the Government outlines the principles for foreign exchange policy based on a proposal by the State Bank which is responsible for carrying out foreign exchange policy, in coordination with the Federal Ministry of Finance and the Czech and Slovak Ministries of Finance.

Exchange Rates

Convertible Currencies

The currency of Czechoslovakia is the koruna (100 hollers = 1 koruna) which is pegged to a basket of five currencies, as described above. The State Bank quotes exchange rates weekly for 22 convertible currencies as well as the ECU and SDR. Three rates are quoted for convertible currencies, that is, one rate for commercial/noncommercial transactions, a tourist rate, and the so-called Tuzex rate, which is applied to transactions in Tuzex (tax-free) stores. In addition, an auction rate is established on a monthly basis. The spreads between buying and selling rates amount to 2 percent for the commercial/noncommercial rate, with the exception of bank notes for convertible currencies that have larger spreads (normally 3–5 percent). For the tourist rate, which is adjusted in line with developments in the parallel foreign exchange market, the spread is 20 percent. There are no spreads for the Tuzex rate and the auction rate. There are no forward exchange transactions.

Nonconvertible Currencies

As regards exchange rates vis-à-vis the CMEA area, a complicated system of multiple exchange rates for commercial and noncommercial transactions is in place. Czechoslovakia is a member of the Council for Mutual Economic Assistance (CMEA), which also includes Bul-

garia, Cuba, the German Democratic Republic, Hungary, Mongolia, Poland, Romania, the U.S.S.R., and Viet Nam. Most trade and financial settlements with CMEA member countries are effected in transferable rubles through the International Bank for Economic Co-operation (IBEC). For *commercial transactions*, exchange rates against transferable rubles are now differentiated according to the trading partner. For example, at the end of April 1990, those rates were Kcs 8.55 (Bulgaria and Poland), Kcs 9.90 (Hungary), and Kcs 9.00 (all other CMEA countries) per transferable ruble. Multiple rates against the transferable ruble reflect differences in the domestic price level among the CMEA countries as well as the de facto bilateral nature of the clearing system within the CMEA area. In addition to commercial rates vis-à-vis the transferable ruble, commercial rates are quoted for the currencies of Bulgaria and the U.S.S.R., which apply to a small number of inter-enterprise transactions. The spread between buying and selling rates for all of the above exchange rates is 1 percent.

For *noncommercial transactions*, a system of multiple exchange rates is in place, which, in addition to the CMEA countries, also applies to Albania and the Democratic People's Republic of Korea. Exchange transactions with these countries are denominated in U.S.S.R. rubles. Subsequently, the deposits/credits to banking accounts arising from the transactions are converted into transferable rubles and cleared through the IBEC. This conversion takes place on the basis of coefficients (i.e., the number of U.S.S.R. rubles per transferable rubles) that are in the range 1.5–1.7 for all countries except the Democratic People's Republic of Korea, in which case it is 3.4.¹⁴

The noncommercial exchange rates were originally based on purchasing power calculations using two baskets of goods (for short-stay tourists and long-stay persons, respectively). The exchange rates, however, have increasingly become divorced from the actual price levels

¹⁴ At the end of April 1990, the noncommercial exchange rates were in the range Kcs 8–10 per U.S.S.R. ruble and Kcs 12–33 per transferable ruble.

in the different countries. Moreover, the rates have been set in multilateral or bilateral agreements and could therefore be changed only with the consent of the partner countries. As a substantial net exporter of services to the CMEA area and with a system of exchange rates that undervalued the koruna, the noncommercial payment system has become increasingly disadvantageous to Czechoslovakia. Consequently, in March 1990 the Government notified its partner countries of its decision to discontinue the arrangement with effect from July 1, 1990. The Government is discussing with its partner countries, on a bilateral basis, a new payments arrangement for noncommercial transactions.

Finally, on March 30, 1990, a *tourist exchange rate* was introduced vis-à-vis the German Democratic Republic (GDR) because of arbitrage transactions in expectation of monetary union between the GDR and the Federal Republic of Germany. The tourist rate was initially set almost equal to the parallel market rate and changed weekly in light of developments in that rate, but since April 1990 it has been kept about 15 percent below the parallel market rate.

Foreign Exchange Retention Scheme

On January 1, 1989, a foreign exchange retention scheme was introduced. It was intended as a transitional scheme between the previous system of total central allocation of foreign exchange and a market-determined exchange system. The aim was that enterprises would be self-sufficient in external financing. Retention quotas were not fixed on a uniform basis but individually for each enterprise based on their export receipts to the convertible area and on their planned need for foreign exchange for the respective year to settle import obligations. In addition, if an enterprise's exports to the convertible area exceeded the plan target, it was allowed to retain 70 percent of the difference, while the remainder would be surrendered. Moreover, enterprises had the choice between retaining foreign exchange from export earnings in the form of foreign currency deposits or selling the foreign exchange proceeds against local currency to banks with the right to buy back foreign exchange within a period of ten years at the exchange rate prevailing at the time the buyback takes place.¹⁵ Foreign exchange acquired via the buybacks can be used for basically the same transactions as foreign exchange deposited in foreign exchange accounts provided they are

within the specified activity of the enterprise. For the economy as a whole in 1989, 40–45 percent of total foreign exchange earnings in freely convertible currencies were retained by enterprises and the remainder transferred to the Central Fund for Foreign Exchange.¹⁶ From this fund enterprises with no foreign exchange receipts (or insufficient receipts) receive direct allocations. Such allocations are typically made through branch economic ministries, which enjoy discretion in the ultimate allocation of the available foreign exchange to specific enterprises.

Resident and Nonresident Accounts

Already before 1988, a limited number of private residents and enterprises were, on an exceptional basis, allowed to hold foreign exchange accounts, after having received a foreign exchange license from the State Bank. The amounts on these accounts, however, were insignificant. In late 1988, access to foreign exchange accounts was eased and, since May 1, 1989, it has no longer been necessary for private residents to provide information about the source of foreign exchange. The interest rates paid by the banks on deposits are related to interest rates in the international market for the currency of denomination of the deposits. The foreign exchange deposited on these accounts can be used without limitation in Czechoslovakia or abroad.¹⁷

Nonresidents are allowed to hold two categories of accounts in Czechoslovakia. The first category comprises accounts in domestic currency, which may receive deposits from abroad without any limit or permission. However, transfers to such nonresident accounts from residents require a license from the respective foreign exchange authority, except in some specified cases. All payments abroad from these accounts, except transfers concerning inheritance or alimony, require a foreign exchange license from the State Bank. The second category of nonresident accounts consists of those maintained in foreign exchange in Czechoslovakia. Nonresidents may deposit foreign exchange in the accounts without any restriction or license and also use the foreign exchange without limitation in Czechoslovakia or abroad.

¹⁶ Foreign exchange is surrendered to the Obchodni Bank which administers the pool of foreign exchange on behalf of the State Bank and the Government.

¹⁷ At the end of 1989, total foreign currency deposits amounted to the equivalent of US\$294 million, of which US\$119 million was held by households and the remainder by enterprises. In addition, enterprises held buyback claims on foreign exchange, which were denominated in koruny.

¹⁵ As an exception to this rule, in January 1990 when the koruna was depreciated against the U.S. dollar, the buyback claims (denominated in local currency) were raised by a similar amount.

Trade System

Imports and Exports

There is no general trade licensing requirement for exports and imports. For four categories of imports, however, an import license is required for health or security reasons: (i) live animals and animal products; (ii) plants and vegetable products; (iii) narcotics; and (iv) weapons, ammunition, and explosives.

Until recently, foreign trade was closely regulated. The foreign exchange plan specified overall targets for exports and imports with individual targets for branch ministries.¹⁸ This system is now changing. While branch ministries continue to play an important role in the allocation of foreign exchange for import financing, an increasing proportion of foreign trade is being conducted autonomously by enterprises. Since January 1, 1989, enterprises have no longer been obliged to surrender total export proceeds to the banks, and have therefore been able to import from their retained export proceeds *without any foreign exchange license. As explained above*, enterprises with no, or insufficient, export proceeds remain dependent on central allocations of foreign exchange, which are typically made available to them through branch ministries. In relation to the transferable ruble area and bilateral clearing partners (e.g., Albania, Democratic Kampuchea, the Democratic People's Republic of Korea, the Lao People's Democratic Republic), the specification of planned targets for imports represents a foreign exchange license for payments abroad.

Invisibles

The foreign exchange plan also applies to invisible receipts and payments to and from the convertible area. The organizations and companies specialized in providing services connected with foreign trade are given targets for foreign exchange receipts and expenditure, which at the same time imply a foreign exchange license. In relations with the transferable ruble area, transactions in some categories of invisibles are fixed by intergovernmental agreements, (e.g., transit payments in railways transport, transit of gas from the U.S.S.R., foreign workers, and tourism).

The regulations for tourism expenditure abroad have been liberalized. Until 1988, individual travel to the convertible area (apart from trips organized by travel agencies) was limited to those having received an invita-

tion from relatives or to those having received a foreign exchange allocation, which could be obtained from the State Bank for up to a maximum amount of US\$20 per day for 20 days. The resources in the foreign exchange plan typically covered only 10–20 percent of the amount of applications for convertible currencies. At the end of 1989, a new system was introduced whereby holders of a passport became entitled to buy convertible currency equivalent to Kcs 2,000 per year. Moreover, since 1988 it has been possible for residents to receive purpose-tied transfers from abroad to be used for covering travel expenses. In 1989, the share of tourism expenditure financed from foreign exchange accounts and from purpose-tied transfers surpassed the share financed from official allocations.

For tourism expenditure of residents in the transferable ruble area in 1989, a limit was set equivalent to Kcs 500 per person per day. From 1990, this was replaced by an overall limit equivalent to Kcs 15,000 per person per trip.

Foreign Trade Organizations

On July 1, 1988, the Law on External Economic Relations came into effect, which considerably increased the possibilities of companies to engage in foreign trade activities. Previously foreign trade had been confined to 50–60 foreign trade organizations under the supervision of the Federal Ministry of Foreign Trade. The number has since increased to more than 500 organizations, although the previous 50–60 foreign trade organizations still account for 80–85 percent of total foreign trade. The newly established organizations are concentrated in services and products used by small-scale industry. While authorization was required by the Federal Ministry of Foreign Trade in the past, since April 1990 only registration has been necessary.

Foreign Trade Subsidies and Taxes

Since 1989 the system of foreign trade and subsidies and taxes has been modified. The total difference between domestic and foreign prices is no longer covered by subsidies from or transfers to the budget. A distinction is made between exports and imports to the convertible and nonconvertible area, respectively. For exports to the convertible area, if export prices are less than domestic wholesale prices, the entire difference is covered by subsidies from the budget, although these are generally subject to an overall budgetary ceiling. If export prices are greater than wholesale prices, the enterprises keep the difference. For exports to the nonconvertible area, the scheme differs when export prices are greater than domestic prices, in which case the enterprise surrenders 10

¹⁸ Before 1989 the foreign exchange plan also specified exports and imports by enterprises.

percent of the difference to the state budget for export proceeds from nonobligatory exports.¹⁹ Only state enterprises receive subsidies, that is, private companies and joint ventures do not receive subsidies.

On the import side, a distinction is made between two categories of commodities. For a basic group of imports comprising oil, raw material, steel products, and the like, the entire difference between domestic and foreign prices is covered by subsidies from or transfers to the budget without budgetary limitation. In 1989, this group comprised 50 percent of imports from the socialist area and 37 percent from the nonsocialist area. For all remaining imports, no transfers or subsidies apply.

A further export incentive scheme was introduced on January 1, 1990, modifying a previous scheme.²⁰ The new incentive scheme applies to certain export commodities. It is a premium from the state budget on goods, other than raw material, energy, and mining products for which the ratio of export prices to domestic wholesale prices exceeds 0.95. The premium ranges from 1.1–5.3 percent for different export groups. The cost of the incentive scheme is about 2.5 percent of total exports.

Import Tariff

In December 1986, Czechoslovakia signed the Convention on the Harmonized Commodity Description and Coding System and on this basis a harmonized system of customs duties was introduced on January 1, 1989. The incidence of customs duties is 4.3 percent of imports. All goods are subject to customs duties except those that are explicitly listed as duty free in the customs tariff. Customs duties are preferential for developing countries. Tariff preferences are applied in relation to 124 developing countries and imports from 44 least-developed countries are exempt from duties. While customs duties have been collected in the past, they were later refunded because of domestic price control. However, from 1990, refunds of customs duties will apply only to a limited number of imports.

Trade Agreements

Czechoslovakia has seven export restraint agreements concerning exports of textile products (the basis of bilateral accords is the Multi-Fiber Agreement), metallurgical

products, and mutton. In relation to the *European Economic Communities* (EEC), there are regulations on exports of metallurgical products, textile products, and mutton. In relation to the *United States, Canada, and Norway*, export constraints relate to textile products.

In June 1988, a joint declaration on the establishment of official relations between the CMEA and the EEC was concluded. This was followed by the signing of the Agreement on Trade in Industrial Products between Czechoslovakia and the EEC on December 19, 1988, which became effective on April 1, 1989. The agreement was based on the principle of most-favored-nation treatment. In May 1990, Czechoslovakia and the EEC and the European Atomic Energy Community signed an agreement on trade and commercial and economic cooperation. The agreement, which extends over a ten-year period, covers all products except those subject to export restraint. It is similar in coverage, with a few exceptions, to agreements concluded between the EEC and Poland and Hungary.

In April 1990, a new trade agreement was signed between Czechoslovakia and the United States, which is based on the principle of most-favored-nation treatment accorded by each party to the other country's products, and as defined under the GATT. The agreement also provides for expansion in trade in goods and services between the two countries. In the past, trade with the United States accounted for a relatively small proportion of total trade (1–2 percent of trade in convertible currencies in 1989).

Capital

Authorized organizations for foreign trade can obtain suppliers' credits from abroad, provided the credits are part of the foreign exchange plan. Trade credits can be extended by the same organizations provided they hold foreign exchange in bank accounts or have buy-back claims. Borrowing from banks abroad requires a foreign exchange license which only the Obchodni Bank and the Zivnostenska Bank have obtained. Portfolio investment inflows or outflows generally require a foreign exchange license. In April 1990 the regulations for the acquisition by nonresidents of real estate in Czechoslovakia were tightened, as it was made no longer possible to obtain a foreign exchange license for such purposes. The only exception was inheritance. However, the Government could establish the conditions under which a nonresident, on an exceptional basis, could acquire real estate. Authorization for joint ventures is granted by the Federal Ministry of Finance and the Czech and Slovak Ministries of Finance, as well as by the State Bank in the case of financial institutions. Joint ventures can be established in all economic sectors except defense and security. There

¹⁹ Obligatory exports account for about 40 percent of exports to the nonconvertible area.

²⁰ In 1989 the total export premium amounted to Kcs 2.8 billion or 1.5 percent of exports.

is no limit on equity participation by nonresidents.²¹ They are subject to more liberal foreign exchange regulations than applicable to domestic enterprises; being obliged to surrender 30 percent of their foreign exchange receipts, which is less than the average proportion for domestically owned enterprises. Prior to April 1990, joint ventures were not subject to a surrender requirement. They can establish foreign exchange accounts abroad (with foreign exchange license) and are allowed to accept credits in foreign currency from Czechoslovak banks. Credits from foreign banks, which are not allowed for domestic companies, can take place with the approval by the State Bank. The foreign investor can transfer his share in the profits abroad if the enterprise disposes of sufficient funds in foreign exchange. The foreign investor may also repa-

triate capital or, in the event of liquidation of the enterprise, freely transfer the full value of his capital participation in the original currency and the share in the assets of the enterprise exceeding the value of his share in its capital. Repatriation of capital is not dependent on the availability of foreign exchange. Joint-venture companies have a more favorable tax status than domestic companies. They are subject to income tax, social security contributions, and turnover tax, but exempt from other dues. Finally, joint venture companies are subject to the same labor laws as domestic companies.

Regarding direct investment abroad by domestic companies, residents can acquire shares in foreign companies subject to the approval of the State Bank. If the transaction is related to foreign trade activity, permission is granted by the Federal Ministry of Foreign Trade in agreement with the State Bank. In early 1990, direct investment by Czechoslovak companies existed in 166 foreign companies, 7 of which are in the CMEA area. Most of them facilitate the exports of Czechoslovakia.

²¹ An amendment to the law introduced in April 1990 allowed 100 percent foreign ownership in companies in Czechoslovakia. Although such companies are not joint ventures, they are still regulated by the Joint Ventures Act.

Appendix 4

Czechoslovak Statistics

Czechoslovakia has a very well developed system of data collection and compilation covering the full range of economic and social statistics. In addition to information presented in annual and monthly publications, there is a considerable range of data that in the past was compiled for official use. These included balance of payments analyses, detailed monetary figures, and other financial indicators. The concepts and methods of compilation of these statistics are often different from those used in standard international presentations and to the extent possible appropriate adjustments have been made in the data included in this paper. One particular concern is the national accounts (see below). In addition, for monetary and balance of payments tables it was necessary to make considerable adjustments.

National Accounts

The discussion of economic performance in this paper is based mainly on net material product (NMP) using the System of Material Balances national accounting concepts. The difference between NMP and GDP (according to the U.N. System of National Accounts (SNA)) is primarily accounted for by the omission from NMP of depreciation and much of the value added of the nonmaterial service sector, including, in the case of the Czechoslovak methodology, personal transportation and communication. However, nonmaterial costs of the material sector are not deducted in calculating NMP. In recent years, the authorities have prepared unofficial estimates of GDP²² and intend shortly to shift to an SNA basis for their official national accounts. In 1980, GDP was 20.7 percent higher than NMP; in 1988 it was 22 percent higher. The gradually widening difference between the two measures of output reflects the rising relative importance of depreciation costs.

Official price indices are generally reckoned to have

understated true inflation, notably because certain price increases, spuriously claimed to be justified by quality improvements, have not been fully captured. Consequently, changes in real output may be somewhat overstated although it is difficult to estimate with precision the possible size of this effect.

Calculated as the value of the physical increase in stocks, measured on a historical cost basis, the estimate of stockbuilding is thought to be reasonably accurate through some small residual errors in the compilation of net material product by origin and final use are added to this figure.

Prices

Information on wholesale prices is collected quarterly from a sample of about 700 enterprises. Price indices are calculated for individual sectors, but no composite index for the total economy is presently published. Consumer price information is also collected quarterly from a wide variety of enterprises and shops. The weights for the goods component of the consumer price index are based on retail sales, while weights for services are based on expenditures of the population. Foodstuffs and industrial goods have the largest weights in the consumer price index—of 31 percent and 43 percent, respectively.

Balance of Payments

The balance of payments data are based on customs data for merchandise trade with a few supplementary adjustments to reflect revisions that have been made after publication of the customs data, which are never officially revised. Customs data for exports and imports include interest payments on any related suppliers' credits for the duration of the credit (e.g., the data for imports financed by a three-year suppliers' credit would include interest to be paid over the three years). In a partial correction for this problem, in the balance of payments in convertible currencies, calculated interest on suppliers' credits has been subtracted from the exports

²² The GDP figures were derived from the output and costs elements of NMP by origin, combined with data for missing components. To some extent, the authorities have estimated some information for earlier years based on more detailed analyses for 1987 and 1988.

and imports data and added to the services account. The sources of other balance of payments data are mainly payments statistics based on banking records and data from state enterprises on their capital transactions.

Exchange Rate Conversion

The conversion of balance of payments data from transferable rubles to U.S. dollars poses analytical difficulties. Trade in transferable rubles and in convertible currencies is subject to different price formation procedures. While prices for trade in convertible currencies broadly reflect market forces, import prices of energy products and other raw materials from the CMEA area are based on a five-year moving average of world market prices while prices of other traded goods with that area are subject to bilateral negotiations. Moreover, the conversion of data in transferable rubles into U.S. dollars is complicated by the absence of a market-based exchange rate between the two currencies. As a result, disaggregated balance of payments figures are presented to the extent possible. Where aggregate data are presented, they

are based on a conversion of transferable ruble data into U.S. dollars at the cross rate implicit in Czechoslovakia's commercial exchange rates for the two currencies.

The balance of payments data are presented by currency, that is, in (i) convertible currencies (Appendix Table A21), (ii) transferable rubles (Appendix Table A22), and (iii) other nonconvertible currencies (Appendix Table A23) (mainly under bilateral payments arrangements with Afghanistan, China, India, the Islamic Republic of Iran, Democratic Kampuchea, the Democratic People's Republic of Korea, Lao P.D.R., and Yugoslavia). By contrast, trade data are classified by country groupings, i.e., socialist and nonsocialist countries. The socialist countries comprise CMEA countries as well as Albania, China, Democratic Kampuchea, Korea P.D.R., Lao P.D.R., and Yugoslavia. All other countries are classified as nonsocialist. This classification implies, for example, that trade in convertible currencies with socialist countries is included in the balance of payments in convertible currencies while it is included in the category for socialist countries in the trade data. The bulk of trade with the CMEA area takes place in transferable rubles.

Appendix 5

Appendix Tables

Table A1. Derivation of Gross Domestic Product, 1980–88

(In billions of koruny at current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Domestic demand									
Personal consumption	257.2	262.5	271.1	279.7	287.2	297.6	306.1	315.3	330.4
Social consumption	96.5	101.9	106.6	111.5	123.9	127.9	135.9	143.8	149.5
Accumulation	124.2	91.8	96.6	94.5	101.5	102.3	112.6	106.2	99.9
Foreign balance	3.2	11.9	15.2	16.5	22.0	22.4	9.3	10.0	18.3
Losses on fixed capital and works ¹	5.1	5.1	6.5	5.8	6.5	6.1	6.2	8.0	8.3
Net material product	486.3	473.3	496.0	507.9	541.1	556.3	570.0	583.3	606.4
Value added on nonmaterial services	77.8	73.3	74.3	73.3	76.4	83.6	85.3	89.1	92.0
Less nonmaterial costs of material sphere	39.2	38.8	41.7	44.6	46.2	46.9	48.8	52.5	55.3
Depreciation ²	62.0	70.5	72.8	77.9	81.2	84.0	88.1	91.2	96.8
GDP at market prices	586.8	578.3	601.4	614.5	652.5	677.0	694.7	711.1	740.0

Source: Data provided by the Czechoslovak authorities.

¹ Depletion of capital assets in addition to normal depreciation.

² Less losses on stocks.

Table A2. Net Material Product at Current Market Prices, 1970–89

(In billions of koruny)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Estimate
Net material product ¹	312.3	408.4	486.3	473.3	496.0	507.9	541.1	556.3	570.0	583.3	606.4	617.7
By origin												
Agriculture	31.5	33.8	34.8	28.6	37.4	39.6	40.8	37.1	39.5	38.7	38.7	...
Industry	190.6	264.2	309.1	285.1	300.5	311.1	318.0	332.6	341.0	349.2	361.1	...
Construction	35.0	50.7	51.0	50.5	51.6	52.6	59.5	60.5	61.0	62.4	65.1	...
Trade and catering	28.6	36.6	49.9	66.3	61.6	59.2	74.5	75.0	76.4	82.5	91.8	...
Other	26.6	23.1	41.6	42.8	44.9	45.4	48.2	51.0	52.1	50.5	49.7	...
By final use												
Personal consumption	167.7	213.8	257.2	262.5	271.1	279.7	287.2	297.6	306.1	315.3	330.4	343.0
Social consumption	52.3	77.6	96.5	101.9	106.6	111.5	123.9	127.9	135.9	143.8	149.5	155.3
Accumulation	80.8	116.8	124.2	91.8	96.6	94.5	101.5	102.3	112.6	106.2	99.9	98.0
Net fixed investment ²	61.9	95.3	88.3	79.2	82.4	79.0	88.8	88.1	94.4	82.5	89.3	82.6
Change in stocks	18.9	21.5	35.9	12.6	14.2	15.4	12.7	14.2	18.2	23.7	10.6	15.4
Trade balance	6.2	-5.8	3.2	11.9	15.2	16.5	22.0	22.4	9.3	10.0	18.3	10.6
Exports of goods and services	83.9	145.5	195.5	176.4	189.7	194.7	223.3	234.9	234.6	238.1	247.7	245.4
Imports of goods and services	77.7	151.3	192.2	164.5	174.5	178.2	201.4	212.5	225.3	228.1	229.4	234.8
Losses on fixed capital and stocks	5.3	5.9	5.1	5.1	6.5	5.8	6.5	6.1	6.2	8.0	8.3	10.8

Source: Data provided by the Czechoslovak authorities.

¹ Excluding personal transport and communication.

² Includes change in unfinished construction.

Table A3. Net Material Product at Constant Prices, 1970–89¹

	Composition of NMP (In percent of total at 1988 prices)	Annual Average		Annual Percent Changes									
		1970–75	1975–80	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Estimate
Net material product	100.0	5.7	3.6	2.9	-0.1	0.2	2.3	3.5	3.0	2.6	2.1	2.3	1.3
By origin													
Agriculture	6.4	1.5	0.5	6.5	-15.5	11.9	0.5	9.3	-6.8	3.1	-2.8	-0.6	...
Industry	59.6	6.1	3.6	2.5	-0.1	-1.6	1.6	4.8	3.4	3.1	3.9	3.4	...
Construction	10.7	7.7	1.5	3.9	2.2	-2.9	2.6	-3.9	7.5	0.6	2.9	1.7	...
Trade and catering	15.1	7.0	8.1	4.7	4.2	3.8	5.5	3.3	2.8	2.1	-1.3	2.9	...
Other	8.2	2.9	1.9	-1.6	3.7	2.1	1.5	-0.3	3.3	2.0	-1.9	-2.5	...
By final use													
Personal consumption	54.5	4.8	1.7	-0.1	1.7	-2.3	2.1	1.7	1.8	2.3	2.8	4.9	1.6
Social consumption	24.7	6.8	4.8	3.7	4.9	1.8	4.2	5.7	4.6	5.9	5.3	3.5	4.8
Accumulation	16.5	8.4	1.2	8.2	-21.7	-3.6	-8.0	-6.6	5.4	12.2	-1.1	-10.2	7.4
Net fixed investment ²	14.7	2.6	-0.1	-1.1	-9.7	4.2	-1.7	-5.1	0.8	1.2	-1.2	0.7	...
Change in stocks ³	1.7	0.3	0.2	2.1	-4.0	0.5	-0.2	-1.1	0.5	0.7	1.0	-2.4	0.8
Trade balance ³	3.0	-1.1 ⁴	1.3 ⁴	0.2	3.3	1.8	1.6	2.3	0.0	-2.0	-0.6	0.4	-2.0
Exports	40.9	...	...	2.8	1.7	5.7	4.9	11.1	3.8	-0.2	1.8	3.4	-1.1
Imports	37.8	...	...	2.1	-7.6	1.9	0.3	6.9	4.1	4.9	3.7	2.5	4.2
Losses on fixed capital and stocks	1.4	...	...	5.3	-1.5	18.7	-11.2	9.5	-8.0	1.0	12.7	1.1	14.1

Source: Data provided by the Czechoslovak authorities.

¹ Constant price rises are periodically rebased; the changes shown represent a combination of data using constant prices of January 1, 1967, January 1, 1977, and January 1, 1984.² Includes change in unfinished construction.³ Contribution to real growth of net material product.⁴ Includes losses on fixed capital and stocks.**Table A4. Money Incomes and Expenditures of the Population, 1970–89**

(In billions of koruny)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Total money incomes	226.4	292.1	356.9	366.1	381.8	393.5	403.8	416.6	430.1	444.4	463.3	478.7
Wages	148.7	186.7	226.5	232.4	239.8	246.8	252.4	258.8	265.3	273.4	281.7	289.3
Social money benefits ¹	40.3	51.7	68.2	69.5	75.2	77.9	79.8	84.0	86.1	87.4	89.8	95.0
Nonwage incomes from economic activity ²	24.5	32.5	37.6	38.4	40.2	40.8	42.2	43.1	45.2	45.8	47.8	...
Interest income	1.3	2.9	4.3	4.6	5.0	5.4	5.9	6.3	6.9	7.5	8.1	...
Other ³	11.6	18.3	20.3	21.2	21.6	22.6	23.5	24.4	26.6	30.3	35.9	...
Total money expenditures	216.0	281.4	346.4	355.0	366.2	377.3	388.1	401.6	411.8	424.9	446.0	461.6
Retail purchases	149.9	194.2	232.1	236.5	243.7	250.6	257.7	267.4	273.6	281.7	296.6	307.1
Services	28.8	37.0	48.5	49.9	51.7	52.8	54.2	55.5	56.6	58.3	60.8	62.1
Taxes and levies to government	25.4	32.1	41.0	42.4	43.6	45.2	46.8	48.2	49.6	51.5	53.6	55.7
Interest payments	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.5	...
Other	11.1	16.9	23.9	25.0	26.0	27.3	27.8	29.2	30.7	32.0	33.5	...
Financial savings	10.3	10.6	10.4	11.1	15.6	16.2	15.7	15.0	18.3	19.5	17.3	17.1
Cash	0.7	2.1	2.3	1.7	3.1	3.1	2.6	1.0	2.4	2.6	3.5	5.0
Savings	9.6	8.5	8.1	9.4	12.5	13.1	13.1	14.0	15.9	16.9	13.8	12.1
Savings ratio (In percent)	4.5	3.6	2.9	3.0	4.1	4.1	3.9	3.6	4.3	4.4	3.7	3.6
<i>(Index at constant prices, 1980 = 100)⁴</i>												
Real money incomes	71.0	90.8	100.0	101.8	101.0	103.1	104.8	105.7	108.6	112.1	116.7	118.9
Real money expenditures	69.7	90.1	100.0	101.6	99.8	101.9	103.8	105.0	107.1	110.5	115.8	118.2

Sources: Data provided by the Czechoslovak authorities; and staff estimates.

¹ Social benefits comprise mainly pensions, sickness benefits, and social aid for families with children.² Includes incomes of cooperative farms.³ Includes interest payments on savings accounts, payments from insurance claims, gambling wins, business travel allowances, subsidies paid by enterprises in connection with work mobility, and borrowing by the household sector from the banking system.⁴ Deflated using retail prices of goods and services.

Table A5. Financial Position of Enterprises, 1980–89

(Including the monetary sector; in billions of koruny)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 ¹
1. Output	1,165	1,220	1,295	1,332	1,450	1,497	1,552	1,595	1,627	1,621
Of which: Price subsidies	15	22	17	18	22	21	20	20	22	33
2. Costs	1,058	1,115	1,187	1,211	1,321	1,363	1,414	1,452	1,477	1,513
Of which:										
Material costs	747	796	857	872	963	995	1,018	1,039	1,049	1,036
Of which:										
Depreciation	57	62	65	68	72	77	80	84	89	90
Of which:										
Tax	8	10	11	14	15	14	22	22	22	10
Nonmaterial costs	24	25	26	28	29	31	33	34	37	37
Wage costs	186	193	198	203	208	213	218	223	228	225
Wage tax	30	31	32	37	38	39	40	44	49	108
Interest payments	25	26	26	27	27	28	28	28	28	31
Other	46	44	48	44	56	57	77	84	86	76
3. 1 – 2 = gross profit	107	105	108	121	129	134	138	143	150	108
4. Price differences on foreign trade	1	—	—	1	13	20	19	21	21	23
5. Extraordinary receipts	23	19	21	22	23	23	21	20	20	3
6. 3 + 4 + 5 = total gross profit	131	124	129	144	165	177	178	184	191	134
7. Subsidies other than price subsidies	81	61	55	55	55	54	57	62	69	75
8. Profit taxes	112	92	101	110	127	145	135	147	147	89
9. 6 + 7 – 8 = net profit after taxation	100	93	83	89	93	86	100	99	113	120
10. Other resources	17	–4	41	19	6	3	24	23	2	–16
11. 9 + 10 = profit for distribution	117	89	124	108	99	89	124	122	115	104
12. Distributed profit	44	39	39	32	28	33	28	26	34	38
Of which:										
Wage fund	8	6	6	7	8	8	7	8	10	15
Fund for cultural and social needs	4	4	4	4	4	5	6	6	6	6
13. 11 – 12 = retained earnings	73	50	85	76	71	56	96	96	81	66
14. Depreciation after taxation	49	52	54	54	57	63	58	62	67	80
15. Borrowing from banks	33	14	18	14	22	12	13	16	15	–10
16. 13 + 14 + 15 = total financial resources	155	116	157	144	150	131	167	174	163	136
17. Use of financial resources	155	116	157	144	150	131	167	174	163	136
18. Investment	107	112	100	106	116	132	131	130	139	136
19. Stocks	36	6	31	18	21	—	17	17	2	18
20. Financial assets	12	–2	26	20	13	–1	19	27	22	–18

Source: Data provided by the Czechoslovak authorities.

¹ Excluding the monetary sector.

Table A6. Industrial Production, 1970–1989¹

	1988	1988	1970–75	1975–80	1980–85	1986	1987	1988	1989
	<i>(In billions of koruny, at current prices)</i>	<i>(Share in total industrial production)</i>	<i>(Annual percentage change, at constant 1980 prices)</i>						
Fuel	43.7	4.4	3.2	1.6	−0.5	−0.7	−0.5	0.2	−3.3
Power	39.4	4.0	6.1	4.8	2.4	4.7	2.7	1.6	2.0
Iron metallurgy	89.7	9.0	5.3	2.7	0.7	1.5	1.8	0.9	0.3
Nonferrous metals	23.4	2.3	9.2	2.8	0.6	2.3	1.8	2.2	1.3
Chemicals and rubber	135.1	13.5	10.0	5.6	2.5	4.0	3.2	2.0	0.2
Machinery	219.1	22.0	1.7	6.6	4.8	4.4	3.3	2.3	−0.8
Electrotechnical and metalworks (including plastics)	88.7	8.9	...	6.3	5.3	6.1	5.9	4.4	2.0
Construction parts	34.2	3.4	6.6	4.3	0.7	2.2	2.2	3.9	—
Word processing	29.1	2.9	7.4	5.8	2.4	3.0	2.5	2.5	0.3
Paper and cellulose	19.3	1.9	6.9	4.1	3.9	1.2	4.6	3.3	2.7
Glass ceramics and porcelain	12.7	1.3	6.8	4.5	2.4	2.6	0.9	6.7	6.3
Textiles	42.6	4.3	5.9	3.5	2.0	2.5	1.7	2.2	1.4
Clothing	13.3	1.3	5.3	3.5	2.3	1.6	1.5	2.3	4.4
Leather processing	21.4	2.1	6.1	3.3	1.5	1.4	−0.5	1.4	1.9
Print	5.8	0.6	4.0	3.8	2.4	3.8	1.8	3.6	1.7
Food and beverages	140.4	14.1	4.1	2.8	1.5	1.7	0.5	0.5	2.3
Frozen foods, spring water, and tobacco products	4.6	0.5	10.5	1.8	2.1	5.0	4.8	2.3	4.4
Other	35.4	3.6	8.8	4.8	2.3	2.1	2.7	2.3	3.7
Total gross output	997.9	100.0	6.7	4.4	2.6	3.1	2.5	2.1	0.8

Source: Data provided by the Czechoslovak authorities.

¹ In real terms, 1980 prices.**Table A7. Agricultural Production, 1970–89**

	1988	1988	1970–75	1975–80	1980–85	1986	1987	1988	1989
	<i>(In billions of koruny, at current prices)</i>	<i>(Share in total agricultural production)</i>	<i>(Annual percentage change, at constant 1980 prices)</i>						
Total gross agricultural production	146.9	100.0	2.2	1.9	1.8	0.5	1.0	2.9	1.0
Crop production	68.7	46.8	1.5	1.5	2.5	−2.6	1.9	3.9	0.2
Of which:									
Grains	23.3	15.9	5.4	2.9	2.2	−7.5	8.6	1.5	0.5
Fodder and root crops	17.2	11.7	—	1.4	3.6	−4.1	2.6	−4.2	—
Potatoes	6.5	4.4	−5.6	−5.6	4.7	2.9	−11.4	19.4	−16.2
Vegetables	5.1	3.5	−0.7	−2.2	1.6	—	11.1	−6.7	3.6
Animal production	78.3	53.3	2.8	2.1	1.3	3.0	0.3	2.1	1.6
Of which:									
Livestock for slaughter	35.0	23.8	4.3	1.7	0.9	0.7	1.6	2.6	1.3
Of which:									
Cattle	15.1	10.3	4.9	0.9	1.4	0.7	0.7	−1.4	0.7
Pigs	19.1	13.0	5.0	3.0	—	1.3	3.3	7.6	0.6
Milk	26.8	18.2	2.7	1.5	3.2	1.9	−1.4	0.5	2.8
Eggs	5.4	3.7	2.7	1.5	2.6	—	—	—	2.0

Source: Data provided by the Czechoslovak authorities.

Table A8. Energy Balance, 1970–89

(In millions of tons of coal equivalent)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Primary domestic sources	64.9	65.4	68.9	67.9	68.2	69.8	70.5	71.5	73.2	74.8	74.4	73.1
Coal	61.8	62.5	64.3	63.4	63.4	64.8	64.9	63.8	63.2	63.1	62.2	60.5
Other solid fuels	0.9	0.9	1.2	1.0	1.1	1.2	1.3	1.4	1.4	1.4	1.4	1.4
Liquid fuel	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Other (excluding hydro- and nuclear-generated electricity)	1.9	1.8	3.3	3.4	3.6	3.7	4.2	6.1	8.4	10.1	10.6	11.0
Imports	22.0	33.3	41.9	40.6	39.5	39.9	40.7	41.1	42.5	42.1	42.7	43.6
Liquid fuel	15.3	23.7	28.1	27.1	24.9	24.7	24.5	24.5	24.9	25.1	24.6	24.3
From CMEA	15.3	23.7	27.8	16.7	24.8	24.7	24.4	24.4	24.9	25.1	24.6	24.3
From other countries	...	...	0.3	0.4	0.1	—	0.1	0.1	—	—	—	—
Gas	1.5	4.1	8.7	9.0	9.4	10.0	11.2	11.3	12.4	12.9	12.9	14.2
From CMEA	1.5	4.1	8.7	9.0	9.4	10.0	11.2	11.3	12.4	12.9	12.9	14.2
From other countries	...	...	...	...	...	...	...	...	...	...	...	...
Other primary energy imports	5.2	5.5	5.1	4.5	5.1	5.2	5.0	5.2	5.2	4.1	5.2	5.1
Exports	6.7	6.9	7.7	6.7	6.5	7.1	7.0	7.1	7.0	7.3	7.6	8.1
Liquid fuels	0.9	0.4	1.4	1.1	1.1	1.5	1.4	1.5	2.0	2.3	2.7	2.7
Gas	—	—	—	—	—	0.3	0.5	0.6	0.4	0.7	0.7	0.7
Solid fuels	5.8	6.5	6.3	5.6	5.4	5.3	5.1	5.0	4.6	4.3	4.2	4.7
Change in stocks	−0.6	0.3	−0.3	0.1	−0.2	−0.1	−0.4	1.0	−0.5	−0.5	−1.3	−1.5
Domestic use of primary energy	79.6	92.1	102.8	101.9	101.0	102.5	103.8	106.5	108.2	109.1	108.2	107.1
For electricity generation by steam (excluding hydro- and nuclear power)	16.9	21.3	23.7	24.0	24.1	24.5	25.0	23.6	23.0	21.5	21.5	...
By industry	29.5	34.0	36.2	36.2	35.5	36.0	35.8	36.5	36.2	36.4	35.7	...
By agriculture	2.2	3.2	3.7	3.7	3.5	3.5	3.6	3.8	3.8	4.0	3.9	...
By households	9.5	11.0	13.2	13.0	13.2	13.5	13.7	14.6	14.9	15.4	15.6	...
For other purposes ¹	21.5	22.6	26.0	25.0	24.7	25.0	25.7	28.0	30.3	31.8	31.5	...

Source: Data provided by the Czechoslovak authorities.

¹ Includes, among other things, energy used in the energy industry, energy used in public heating stations, and transmission and other losses.

Table A9. Construction and Housing, 1970–89¹

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
<i>(In billions of koruny, at current prices)</i>												
Net output of the construction sector ²	60.4	86.0	87.7	85.4	89.1	90.3	96.0	98.1	96.4	94.8	98.0	97.2
<i>(In percent of total construction sector output)</i>												
Private housing	6.5	7.2	7.3	7.7	7.7	7.5	6.9	6.0	5.7	5.9	6.8	...
Other residential construction	17.8	14.9	13.5	11.8	12.3	12.1	11.9	13.7	11.9	12.3	12.4	...
Industrial and commercial construction	49.1	51.5	52.8	54.3	54.4	52.9	53.0	52.3	54.2	54.6	53.5	...
Roads and infrastructure	26.6	26.4	26.4	26.2	25.6	27.5	28.2	28.1	28.2	27.2	27.2	...
<i>(Thousands of units)</i>												
Dwellings completed	112.1	144.7	128.9	95.4	101.8	95.9	91.9	104.5	78.7	79.6	82.9	88.5
<i>(In percent of total number of units completed)</i>												
Private	26.2	26.7	25.1	30.8	29.6	30.3	31.6	28.3	31.3	31.2	29.4	30.3
Municipal	16.8	22.7	22.3	19.8	21.4	19.8	18.7	20.0	21.6	24.1	25.9	27.5
Cooperatives	39.5	27.0	35.7	35.2	41.3	46.9	47.4	47.8	44.8	42.0	42.7	41.3
Business	17.5	29.6	16.9	14.2	7.8	3.0	2.4	3.9	2.3	2.7	1.9	0.9
<i>(In koruny)</i>												
Average monthly rent												
State owned	106	117	130	132	134	135	137	140	143	146	149	...
Cooperative	151	200	243	248	254	258	268	273	274	243	287	...
Enterprise owned	100	132	173	185	196	197	189	188	196	203	202	...

Source: Data provided by the Czechoslovak authorities.

¹ For 1970–75, 1967 constant price data was used; for 1975–80 and 1980–85, 1977 constant price data was used; and for later years, 1984 constant price data was used.² These figures represent net output of construction activity in all sectors and are not comparable with those of Table 4 because of certain differences in classification.**Table A10. Employment by Sector, 1970–1989**

(In thousands, yearly average)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Preliminary
Total employment ¹	6,871	7,060	7,358	7,407	7,435	7,466	7,534	7,606	7,705	7,754	7,804	7,833
Material sphere	5,425	5,508	5,612	5,631	5,636	5,657	5,694	5,728	5,788	5,817	5,824	5,824
Agriculture	1,178	978	896	894	883	865	867	865	861	853	839	817
Industry	2,601	2,693	2,761	2,778	2,791	2,809	2,822	2,840	2,879	2,898	2,908	2,916
Construction	554	637	659	650	644	645	653	657	679	690	694	699
Other	1,095	1,200	1,296	1,309	1,318	1,338	1,352	1,366	1,369	1,376	1,383	1,392
Nonmaterial sphere	1,446	1,552	1,746	1,776	1,799	1,809	1,840	1,878	1,917	1,937	1,980	2,009
Education	327	359	400	408	415	422	433	442	455	461	472	482
Health	225	266	294	301	306	314	319	326	330	334	342	349
Transport passenger	153	150	159	158	159	150	151	152	156	156	157	158
Science, research, and development	153	158	168	165	168	168	171	175	177	179	181	183
Other	588	619	725	744	751	755	766	783	799	807	828	837
Memorandum items:												
Women in work force												
In percent	45.5	45.4	45.4	45.6	45.7	45.8	46.0	46.1	46.0	46.1	46.0	46.0
Workers in the socialist sector In percent ²	86.0	88.7	90.2	90.3	90.4	90.6	90.6	90.6	90.3	90.3	90.2	89.8
Average number of hours worked per week ³	43.8	43.6	43.5	43.3	43.1	43.1	43.0	43.1	43.1	43.1	43.0	40.6 ⁴

Source: Data provided by the Czechoslovak authorities.

¹ Excluding trainees and women on maternity leave.² Excluding agricultural cooperatives JZDs.³ Manufacturing only.⁴ Excluding meal-breaks.

Table A11. Average Monthly Earnings in State and Cooperative Sector, 1970–89¹

	1970	1980	1989 Preliminary	1970	1975	1980	1985	1986	1987	1988	1989 Preliminary
	<i>(Total state and cooperative sector, excluding JZDs = 100)</i>			<i>(In koruny)</i>							
Total state and cooperative sector, excluding JZDs	100.0	100.0	100.0	1,937	2,304	2,637	2,883	2,927	2,985	3,054	3,123
Material sphere	101.0	101.8	102.8	1,957	2,327	2,685	2,960	3,009	3,066	3,138	3,211
Of which:											
Agriculture	93.2	97.3	104.5	1,806	2,221	2,567	2,936	2,986	3,048	3,145	3,262
Industry	101.5	103.3	104.8	1,967	2,338	2,723	3,037	3,086	3,139	3,204	3,274
Building and construction	111.5	109.6	111.6	2,160	2,557	2,889	3,200	3,258	3,332	3,395	3,484
Nonmaterial sphere	96.1	94.7	92.7	1,862	2,225	2,496	2,669	2,702	2,765	2,830	2,895
Of which:											
Education	94.1	95.6	92.1	1,823	2,213	2,520	2,696	2,704	2,768	2,835	2,876
Health	93.6	95.6	92.5	1,813	2,272	2,522	2,714	2,744	2,793	2,832	2,889

Source: Data provided by the Czechoslovak authorities.

¹ Includes wages, bonuses, and other payments; excludes JZDs.**Table A12. The Structure of General Government, 1975–88¹**

	1975	1980	1985	1988	1975	1980	1985	1988
	<i>(In billions of koruny)</i>				<i>(In percent of each item)</i>			
Total revenue								
General government	281.0	312.2	384.9	431.4	100.0	100.0	100.0	100.0
State budget	243.4	264.7	334.1	359.9	86.6	84.8	86.8	83.4
Federation	150.7	167.8	221.6	245.4	53.6	53.8	57.6	56.9
CR	67.3	69.3	80.5	79.5	24.0	22.2	20.9	18.4
SR	25.4	27.6	32.0	35.0	9.0	8.8	8.3	8.1
National committees	34.9	44.4	47.0	68.7	12.4	14.2	12.2	15.9
Extra-budgetary funds	2.7	3.1	3.9	2.9	1.0	1.0	1.0	0.7
Tax revenue								
General government	243.9	270.8	343.1	375.4	100.0	100.0	100.0	100.0
State budget	223.1	244.1	313.4	327.7	91.5	90.1	91.3	87.5
Federation	137.2	155.1	209.3	229.2	56.3	57.3	61.0	61.0
CR	62.5	63.5	74.6	69.4	25.6	23.4	21.7	18.5
SR	23.4	25.5	29.5	29.1	9.6	9.4	8.6	7.8
National committees	20.8	26.7	29.7	47.7	8.5	9.9	8.7	12.7
Extra-budgetary funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure								
General government	280.8	314.6	388.5	449.5	100.0	100.0	100.0	100.0
State budget	188.6	207.9	259.6	302.3	67.1	66.1	66.8	67.3
Federation	68.3	67.5	94.0	116.4	24.3	21.5	24.2	25.9
CR	76.2	88.6	102.8	115.8	27.1	28.2	26.5	25.8
SR	44.1	51.8	62.8	70.1	15.7	16.5	16.2	15.6
National committees	88.7	102.8	124.6	142.8	31.6	32.7	32.1	31.8
Extra-budgetary funds	3.5	3.9	4.3	4.4	1.2	1.2	1.1	1.0
Current expenditure								
General government	220.7	257.6	342.9	385.9	100.0	100.0	100.0	100.0
State budget	158.3	182.2	242.8	269.0	56.4	57.9	70.8	69.8
Federation	53.3	51.9	85.7	93.8	19.0	16.5	25.0	24.3
CR ²	69.8	84.4	99.0	110.3	24.8	26.8	28.9	28.6
SR ²	35.2	45.9	58.1	64.9	12.5	14.6	16.9	16.8
National committees	60.4	72.8	98.2	114.7	21.5	23.1	28.6	29.7
Extra-budgetary funds	2.0	2.5	2.0	1.6	0.7	0.8	0.6	0.4

(continued)

Table A12 (concluded). The Structure of General Government, 1975–88¹

	1975	1980	1985	1988	1975	1980	1985	1988
	<i>(In billions of koruny)</i>				<i>(In percent of each item)</i>			
Capital expenditure								
General government	60.1	57.0	45.6	63.6	100.0	100.0	100.0	100.0
State budget ³	30.3	25.7	17.0	32.6	50.4	45.1	37.3	51.3
Federation	15.0	15.6	8.5	21.9	25.0	27.4	18.6	34.4
CR	6.4	4.2	3.8	5.5	10.6	7.4	8.3	8.6
SR	8.9	5.9	4.7	5.2	14.8	10.4	10.3	8.2
National committees ³	28.3	30.0	26.4	28.1	47.1	52.6	57.9	44.2
Extra-budgetary funds	1.5	1.3	2.2	2.8	2.5	2.3	4.8	4.4
Overall balance								
General government	0.2	–2.4	–3.5	–18.1	...	...	...	...
State budget	54.8	56.8	74.5	57.5	...	...	...	...
Federation	82.4	100.3	127.6	128.9	...	...	...	...
CR	–8.9	–19.3	–22.3	–36.3	...	...	...	...
SR	–18.7	–24.2	–30.8	–35.1	...	...	...	...
National committees	–53.8	–58.4	–77.6	–74.1	...	...	...	...
Extra-budgetary funds	–0.8	–0.8	–0.4	–1.5	...	...	...	...
Memorandum items:								
Federal transfer to republics	80.3	99.6	127.2	143.8	100.0	100.0	100.0	100.0
To CR	44.9	56.9	73.4	85.5	55.9	57.1	57.7	59.5
To SR	35.4	42.7	53.8	58.3	44.1	42.9	42.3	40.5

Source: Data provided by the Czechoslovak authorities.

¹ In this table, only direct revenues and expenditures of the various parts of general government are shown; i.e., data are presented net of intra-governmental transfers.² Capital transfers to national committees are assumed to have been classified under current expenditure of the republics, from which they have therefore been netted out.³ In 1988, capital transfers from the state budget to national committees have been included as direct state budget capital expenditure.**Table A13. Components of General Government Revenue, 1975–90***(In billions of koruny)*

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Estimated	1990 Budget
State budget												
Total revenue	243.4	264.7	273.8	283.0	293.1	316.6	334.1	327.3	343.8	359.9	362.6	378.5
Tax revenue	223.1	244.1	249.0	260.5	266.9	291.8	313.4	293.7	313.7	327.7	343.5	360.1
Income and profits taxes	121.2	118.2	114.9	123.6	135.0	149.2	170.6	148.7	159.9	158.1	109.9	107.6
Population	30.4	38.9	40.2	41.4	42.9	44.4	45.7	32.5	33.6	34.7	2.6	0.2
Wages tax	30.3	38.8	40.1	41.3	42.8	44.2	45.6	32.4	33.4	34.5	2.4	0.0
Literary/arts tax	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Profits taxes	90.8	79.3	74.7	82.2	92.1	104.8	124.9	116.2	126.3	123.4	107.3	107.5
Enterprises	80.6	68.6	64.0	69.6	79.0	87.7	107.4	97.6	107.0	104.4	107.3	82.4
Financial companies	10.2	10.7	10.8	12.5	13.1	17.1	17.5	18.6	19.3	19.0	...	19.8
Agricultural profit tax	—	—	—	—	—	—	—	—	—	—	...	5.3
Payroll tax	29.6	26.8	25.6	26.4	27.4	28.1	28.8	29.3	32.9	37.0	93.6	99.9
Domestic taxes on goods and services	71.8	91.3	90.2	98.8	98.9	105.2	110.4	110.7	110.9	116.7	132.0	138.9
Turnover tax (gross) ¹	67.1	85.6	84.4	91.7	91.8	96.9	101.7	103.0	104.0	108.3	122.7	127.9
Internal market differential	4.8	5.6	5.8	7.1	7.1	8.3	8.7	7.7	6.9	8.4	9.3	11.0
Taxes on international trade	0.5	7.9	18.3	11.7	5.6	9.3	3.6	5.0	10.0	15.9	8.0	13.7
Customs	0.5	0.5	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.3	...	3.2
Other foreign trade levies ²	0.0	7.4	17.8	11.5	5.4	9.1	3.4	4.8	9.8	15.6	8.0	10.5

(continued)

Table A13 (concluded). Components of General Government Revenue, 1975–90

(In billions of koruny)

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Estimated	1990 Budget
Nontax revenue	20.3	20.6	24.8	22.5	26.2	24.8	20.7	33.7	30.1	32.2	19.1	18.3
Entrep. and property income	16.1	13.0	16.4	13.2	17.6	15.9	11.6	25.2	21.6	23.1	19.1	7.4
Contribs. to deprec. funds	0.6	1.3	1.0	1.7	7.7	5.2	2.1	14.6	12.5	12.7	...	0.0
Other surrenders	2.2	6.5	10.4	6.1	4.4	5.3	4.0	5.5	3.7	4.6	4.2	1.4
Transfers from subsid. orgs.	0.2	0.3	0.3	0.6	0.6	0.6	0.6	0.5	0.5	0.6	...	0.4
Own resources of budget. orgs.	13.1	4.9	4.7	4.9	4.9	4.8	4.9	4.7	4.9	5.2	14.9	5.7
Administrative fees	0.8	1.0	1.1	1.1	1.2	1.3	1.2	1.2	1.2	1.4	...	1.2
Fines and forfeits	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	...	0.4
Other nontax revenue	3.3	6.5	7.0	7.9	7.2	7.4	7.6	7.0	7.0	7.3	...	9.4
National committees												
Total revenue	87.6	100.5	101.8	106.1	107.0	116.6	121.0	128.2	134.0	141.1	150.5	146.7
Tax revenue	20.8	26.7	27.8	26.2	27.3	28.8	29.7	44.2	45.2	47.7	77.2	91.3
Income and profits taxes	13.8	12.3	11.2	10.0	10.5	11.1	11.6	25.6	26.3	27.9	58.5	...
Wages tax	0.5	0.6	0.6	0.5	0.6	0.6	0.6	15.2	15.9	16.6	52.7	53.3
Corporate taxes	13.4	11.8	10.6	9.5	9.9	10.6	11.1	10.4	10.4	11.3	5.8	...
Payroll tax	2.0	7.3	9.4	9.5	10.2	10.7	11.0	11.4	11.7	12.2	18.7	...
Domestic taxes on goods and services	5.0	7.1	7.3	6.6	6.6	6.9	7.0	7.1	7.2	7.6	—	...
Nontax revenue	12.3	15.0	13.5	14.5	14.4	15.2	15.8	15.9	18.2	19.2	16.1	...
Entrepren. and property income	7.6	11.1	9.7	10.6	10.4	11.1	11.5	11.5	12.1	12.3	9.2	...
Administrative fees	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	...
Fines and forfeits	0.4	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	...
Other nontax revenue	4.1	3.3	3.3	3.4	3.5	3.7	3.8	3.9	5.5	6.2	6.3	...
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	...
Transfers from other government	52.7	56.1	57.1	62.4	63.6	71.5	74.0	66.5	69.4	72.4	53.4	55.4
Other transfers	1.8	2.6	3.2	3.0	1.6	1.0	1.4	1.5	1.0	1.7	3.7	...
Extra-budgetary funds												
Total revenue	3.3	3.8	3.7	4.1	3.4	3.9	4.4	4.6	4.5	4.3	5.4	4.9
Nontax revenue	2.7	3.1	2.9	2.5	2.7	2.9	3.9	3.1	3.0	2.9	4.0	4.4
Transfers (from other govt.)	0.6	0.7	0.9	1.6	0.8	1.0	0.5	1.4	1.5	1.4	1.4	0.7
Memorandum items:												
Net turnover tax	61.6	78.3	75.6	76.1	76.0	74.3	75.1	74.3	74.2	78.5	73.6	78.7
Net foreign trade surrenders ³	-10.9	6.5	11.8	4.1	-3.3	-2.7	-9.2	-12.8	-8.1	-3.0	...	...

Source: Data provided by the Czechoslovak authorities.

¹ Includes Kcs 1.31 billion in motor vehicle tax in 1975.² "Other foreign trade levies" are receipts from levies on exports and imports, on a gross basis.³ "Net foreign trade surrenders" indicates the net budgetary tax or subsidy on trade in that year, with a minus sign indicating a subsidy.

Table A14. Components of General Government Expenditure by Economic Category, 1975–90

(In billions of koruny)

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Estimated	1990 Budget
State budget												
Total expenditure	241.9	264.7	273.7	282.9	293.0	316.5	334.1	330.3	344.4	376.1	369.5	373.1
Current expenditure	189.3	213.4	234.2	241.7	253.3	279.2	292.5	288.0	301.7	317.0	355.0	330.9
Consumption	52.7	67.7	69.1	69.1	72.3	78.2	85.6	79.8	87.1	92.4	107.8	100.8
Wages and salaries	12.6	15.5	15.8	16.2	16.6	16.8	17.4	17.8	18.4	19.1	...	20.4
Material and repairs	4.6	5.6	6.3	6.3	6.5	7.0	7.4	7.8	8.1	8.4	...	80.4
Services	35.6	46.6	47.0	46.7	49.2	54.3	60.8	54.2	60.6	64.9	...	...
Current transfers	136.6	145.7	165.1	172.6	181.0	201.0	206.9	208.3	214.6	224.6	247.2	230.1
Social security outlays ¹	49.6	65.5	66.8	72.4	75.1	76.9	80.8	83.0	84.2	86.6	91.6	94.5
To national committees ²	30.4	30.5	34.5	39.1	41.2	47.7	49.4	41.5	44.3	46.0	53.4	29.6
To extra-budgetary funds	0.6	0.7	0.9	1.5	0.8	1.0	0.5	1.4	1.5	1.4	...	0.7
To subsidized organizations	3.3	3.5	4.4	5.0	5.3	5.9	5.9	6.5	6.5	6.6	...	6.8
To enterprises, agric. coops.	52.7	45.5	58.5	54.6	58.7	69.5	70.3	75.9	78.2	84.0	102.2	98.5
Of which:												
Negative turnover tax ³	4.2	7.3	8.8	15.6	15.8	22.6	26.6	28.6	29.8	29.8	49.1	49.2
Foreign trade subsidies	10.9	0.9	6.0	7.4	8.7	11.8	12.6	17.6	17.9	18.6	13.8	10.7
Capital expenditure and net lending	52.6	51.3	39.5	41.2	39.7	37.3	41.6	42.3	42.8	59.0	14.5	42.2
By budgetary organizations	5.8	6.0	5.9	6.4	6.0	6.9	7.4	7.3	7.5	7.8	8.1	8.3
Capital transfers	46.8	45.3	33.7	34.8	33.7	30.4	34.2	35.0	35.2	51.2	6.4	31.8
To national committees	22.3	25.6	22.7	23.3	22.3	23.8	24.6	24.9	25.2	26.4	...	25.5
To subsidized organizations	0.9	0.8	0.5	0.4	0.4	0.3	0.4	0.4	0.6	0.7	...	...
To enterprises ⁴	23.5	19.0	10.5	11.1	11.0	6.3	9.2	9.7	9.5	24.1	6.4	6.3
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.1
National Committees												
Total expenditure	88.7	102.8	103.1	109.1	110.3	119.8	124.6	130.7	137.0	142.8	151.8	146.7
Current expenditure	60.4	72.8	79.0	84.0	86.1	94.3	98.2	104.1	110.1	114.7	121.9	120.0
Consumption	47.1	56.2	61.8	64.4	66.1	70.0	73.6	79.2	83.2	87.2	92.6	...
Wages, salaries, travel	19.9	24.2	25.5	26.1	26.6	27.2	28.5	29.7	30.8	32.1	33.2	...
Material and repairs	24.4	28.4	31.5	33.4	34.3	37.4	39.3	43.0	45.7	47.9	59.5	...
Services	2.8	3.6	4.8	4.9	5.2	5.4	5.8	6.5	6.7	7.2	...	...
Current transfers	13.3	16.6	17.2	19.6	20.0	24.3	24.6	24.9	26.9	27.5	29.3	...
Social security outlays	2.8	3.2	3.2	3.5	3.6	3.7	4.0	4.2	4.2	4.4	4.6	5.2
To subsidized organizations	5.7	6.7	6.2	7.7	7.3	9.5	8.4	7.9	8.8	9.2	24.7	...
To enterprises and agric. coops.	4.8	6.7	7.8	8.4	9.1	11.1	12.2	12.8	13.9	13.9	...	14.3
Capital expenditure and transfers	28.3	30.0	24.1	25.1	24.2	25.5	26.4	26.7	26.9	28.1	29.9	26.9
By budgetary organizations	22.9	23.3	19.6	20.3	19.9	20.6	21.4	21.9	22.4	23.2	25.4	24.1
Capital transfers	5.4	6.7	4.5	4.8	4.3	4.9	5.0	4.8	4.5	4.9	4.5	2.8
To subsidized organizations	0.8	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.3	...	...
To enterprises	4.6	6.4	4.3	4.6	4.1	4.7	4.8	4.5	4.3	4.6	4.5	2.8
Extra-budgetary Funds												
Total expenditure	3.5	3.9	4.4	4.5	3.4	3.8	4.3	4.7	4.7	4.4	5.3	4.9
Current expenditure	2.0	2.5	2.9	2.9	2.0	2.0	2.1	2.3	1.8	1.6	2.5	1.7
Transfers to enterprises	2.0	1.6	2.1	2.3	2.0	2.0	2.1	2.2	1.5	1.6	...	1.7
Other transfers	0.0	0.9	0.8	0.5	0.0	0.0	0.0	0.1	0.3	0.0	...	0.0
Capital expenditure	1.5	1.3	1.5	1.6	1.4	1.8	2.2	2.4	2.9	2.8	2.9	3.2

Source: Information provided by the Czechoslovak authorities.

¹ Social security outlays in the state budget are exclusively the responsibility of the federal government.² In 1989, current transfers to national committees also include capital transfers.³ In the Czechoslovak presentation, negative turnover tax is netted out against turnover tax.⁴ In 1988, includes Kcs 15 billion, used to extinguish debts of retail trade organizations.

Table A15. Components of General Government Expenditure by Function, 1975–88

(In billions of koruny)

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988
State budget ¹										
Total expenditure	241.9	264.7	273.7	282.9	293.0	316.5	334.1	330.3	344.4	376.1
General public services	4.0	4.8	5.6	6.2	5.7	5.9	6.4	6.8	6.7	7.1
Defense	19.8	24.6	24.4	25.8	26.9	31.0	29.6	31.7	33.5	35.3
Public order and safety	5.7	6.7	7.7	8.0	8.3	8.5	8.8	9.0	9.3	9.7
Education	4.4	5.3	6.8	6.7	6.8	6.8	6.9	7.4	8.7	7.4
Health	1.5	1.7	1.7	1.5	1.6	2.1	2.6	2.2	2.4	2.9
Social security and welfare	50.0	65.8	67.1	72.9	75.6	77.6	81.4	83.6	84.8	87.3
Housing	...	...	0.6	1.3	1.5	1.0	1.8	1.6	1.6	2.1
Recreat., cult., religious affairs	1.0	1.1	2.2	2.4	2.5	2.5	2.8	2.9	3.3	3.9
Economic affairs and services	...	...	84.2	82.5	85.8	93.3	97.8	103.6	106.3	111.2
Fuel and energy	...	...	4.5	4.3	5.5	3.1	4.4	3.4	2.9	2.1
Agric., forest., fishing, hunt.	...	...	30.8	21.2	28.7	28.0	29.0	29.8	31.5	35.8
Mining, manuf. and construction	...	...	22.6	27.4	20.5	24.3	20.8	25.4	24.3	25.3
Transport and communication	...	...	4.8	5.6	4.9	3.5	4.9	5.6	6.0	5.9
Other economic affairs	...	...	21.4	24.1	26.2	34.5	38.8	39.3	41.6	42.1
Of which:										
Negative turnover tax	...	...	8.8	15.6	15.8	22.6	26.6	28.6	29.8	29.8
Other expenditure	155.4	154.6	73.5	75.5	78.3	87.9	96.2	81.6	88.0	109.1
Of which:										
Trans. to other govt.	53.3	56.8	57.9	63.9	64.4	72.5	74.5	67.9	70.9	73.8
National committees										
Total expenditure	88.7	102.8	103.1	109.1	110.3	119.8	124.6	130.7	137.0	142.8
General public services	2.8	3.4	3.7	3.7	3.7	3.8	4.0	4.2	4.1	4.3
Public order and safety	1.0	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.2
Education	15.0	18.7	21.8	23.1	23.5	24.3	25.0	26.0	26.9	28.0
Health	19.4	20.8	22.0	23.3	24.2	25.5	26.9	29.1	30.9	33.1
Social security and welfare	4.1	4.9	5.0	5.5	5.7	6.0	6.4	6.7	6.9	7.3
Housing	18.0	21.1	20.8	23.4	22.8	25.8	25.3	25.5	26.8	27.5
Rec., cult., religious affairs	3.0	4.7	5.6	5.5	5.8	5.7	6.1	6.2	6.4	6.8
Economic affairs and services	16.4	19.0	21.3	22.3	22.3	25.7	27.1	28.1	29.4	30.0
Agric., forest., fishing, hunt.	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Mining, manuf. and construction	0.9	1.1	1.1	1.1	1.2	1.5	1.6	1.6	1.7	1.5
Transport and communication	12.9	14.5	14.5	15.2	15.3	17.5	18.6	18.9	19.7	20.0
Other economic affairs	2.3	3.2	5.3	5.7	5.5	6.4	6.6	7.2	7.5	8.0
Other expenditure	9.0	9.3	1.8	1.4	1.3	2.0	2.7	4.0	4.5	4.7
Extra-budgetary funds										
Other economic affairs	3.5	3.9	4.4	4.5	3.4	3.8	4.3	4.7	4.7	4.4

Source: Information provided by the Czechoslovak authorities.

¹ In 1975 and 1980, the classification of state budget expenditure does not permit a full functional breakdown; economic expenditures and housing are included in "other" expenditure.

Table A16. State Bank of Czechoslovakia, 1980–89

(In billions of koruny; end of period)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Assets										
Domestic credit	325.3	332.7	346.9	364.8	378.9	388.6	405.2	422.3	451.2	513.3
Socialist sector for working capital	389.7	405.4	424.2	442.6	467.2	479.9	490.3	504.4	518.8	506.8
Net lending to government	-64.4	-72.7	-77.3	-77.8	-88.3	-91.3	-85.1	-82.1	-67.6	6.5
Coins, metals and BIS membership	0.6	0.5	2.7	2.7	2.8	1.3	1.3	1.3	1.4	1.4
Other domestic assets	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7
Foreign assets	40.7	32.8	30.8	32.9	38.7	48.4	51.5	55.1	67.7	20.9
Of which:										
Gold ¹	1.2	2.0	3.8	3.9	4.3	4.3	4.3	4.3	4.4	4.4
Government credits to abroad	24.5	20.8	21.6	23.4	27.5	31.9	34.0	37.8	48.3	—
Commercial (via COB)										
In convertible currency	7.6	7.3	8.1	9.3	11.2	11.1	10.1	10.7	10.9	—
In nonconvertible currencies	13.5	10.6	10.4	9.5	9.2	9.5	9.2	9.3	14.9	—
Special										
In convertible currency	3.1	2.6	2.9	4.4	6.9	11.0	14.5	17.6	22.3	—
In nonconvertible currency	0.4	0.3	0.2	0.2	0.3	0.2	0.3	0.3	0.3	—
Other										
In convertible currencies	14.1	9.2	4.5	4.6	5.6	10.4	11.1	10.8	12.4	13.5
In nonconvertible currencies	0.9	0.7	0.9	1.0	1.3	1.9	2.1	2.2	2.5	3.0
Total assets	367.2	366.6	381.1	401.1	421.0	439.0	458.6	479.3	520.9	536.4
Liabilities										
Currency in circulation	41.6	43.3	46.1	49.3	52.0	54.0	56.2	58.6	62.5	68.0
Of which: enterprises	3.6	3.6	3.4	3.5	3.6	4.5	4.4	4.3	4.6	5.2
Deposits	297.1	302.4	313.1	332.2	355.3	372.7	390.2	408.2	443.8	449.8
State enterprises and cooperatives	86.7	84.8	87.6	93.2	98.6	97.9	96.9	100.3	128.4	117.8
Czech savings bank	93.1	98.3	106.1	114.5	123.3	131.9	142.4	151.7	158.2	165.4
Slovak savings bank	38.4	40.8	44.4	48.4	52.6	57.1	62.5	67.6	70.7	75.3
Obchodni bank	52.2	48.8	41.6	38.6	40.3	41.6	41.6	38.7	34.8	35.6
Insurance companies	26.7	29.7	33.4	37.5	40.5	44.2	46.8	49.9	51.7	55.7
Funds of banks held at SB	1.5	1.1	1.1	1.3	1.2	1.1	1.2	1.3	1.3	1.6
Foreign liabilities	4.9	1.8	1.9	0.7	0.8	1.1	1.3	1.4	1.3	1.0
Of which:										
In convertible currencies	3.9	1.2	1.2	0.2	—	—	—	—	—	—
In nonconvertible currencies	1.0	0.6	0.7	0.5	0.7	1.1	1.3	1.4	1.3	1.0
Other	22.1	18.1	18.9	17.6	11.7	10.1	9.6	9.7	12.0	16.0
Of which:										
Capital	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Reserves	4.8	4.9	5.2	5.5	5.0	5.4	5.4	4.9	5.0	5.2
Total liabilities	367.2	366.6	381.1	401.1	421.0	439.0	458.6	479.3	520.9	536.4

Source: State Bank of Czechoslovakia.

¹ Includes only government foreign exchange gold holdings. Monetary reserve gold is in other foreign assets.

Table A17. Monetary Survey, 1970–89¹

(In billions of koruny)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Net foreign assets	21.8	19.5	-25.8	-25.3	-12.2	-2.2	-0.2	10.6	9.6	14.0	34.9	-5.2
Foreign assets	33.9	42.3	62.0	41.4	42.0	47.3	56.9	57.7	61.9	66.8	90.2	55.1
Of which:												
In convertible currencies	10.0	18.1	39.6	24.1	23.1	27.9	38.7	39.4	44.2	48.1	59.8	11.1
In nonconvertible currencies	23.9	24.2	22.4	17.3	18.9	19.4	18.2	18.7	17.7	18.7	30.4	44.0
Foreign liabilities	12.1	22.8	87.8	66.7	54.2	49.5	57.1	47.1	52.3	52.8	55.3	60.3
Of which:												
In convertible currencies	7.0	16.4	81.2	62.7	51.1	44.6	48.4	40.5	43.0	47.5	54.4	56.8
In nonconvertible currencies	5.1	6.4	6.6	4.0	3.1	4.9	8.7	6.6	9.3	5.3	1.9	3.5
Domestic credit	201.0	267.1	380.3	390.9	405.7	421.1	437.9	449.4	468.1	489.1	521.4	584.2
Credit to government (net)	-49.8	-40.7	-64.4	-72.7	-77.3	-77.8	-88.3	-91.3	-85.1	-82.1	-67.6	6.5
Credit to enterprises and households ²	250.8	307.8	444.7	463.6	483.0	498.9	526.2	540.7	553.2	571.2	589.0	577.7
Credit to enterprises	242.9	287.3	412.8	429.8	447.6	462.8	489.4	502.5	514.3	529.8	543.8	530.8
Credit to households	7.9	20.5	31.9	33.8	35.4	36.1	36.8	38.2	38.9	41.4	45.2	46.9
Broad money	133.9	225.4	317.7	339.0	365.9	389.1	414.9	433.1	450.3	477.6	531.9	546.2
Money	107.9	164.8	207.1	220.9	236.6	245.7	257.5	261.2	261.3	270.7	309.5	307.1
Currency	17.8	27.7	41.6	43.3	46.1	49.3	52.0	53.9	56.2	58.6	62.5	68.0
Enterprises	1.7	2.6	3.6	3.6	3.4	3.5	3.6	4.5	4.4	4.3	4.6	5.2
Households	16.1	25.1	38.0	39.7	42.7	45.8	48.4	49.4	51.8	54.3	57.9	62.8
Demand deposits	90.1	137.1	165.5	177.6	190.5	196.4	205.5	207.3	205.1	212.1	247.0	249.6
Enterprises	37.8	62.3	81.6	91.5	100.1	102.6	109.2	108.9	103.8	108.1	141.3	142.1
Households	52.3	74.8	83.9	86.1	90.4	93.8	96.3	98.4	101.3	104.0	105.7	107.5
Quasi-money	26.0	60.6	110.6	118.1	129.3	143.4	157.4	171.9	189.0	206.9	222.4	239.1
Local currency time and savings deposits	26.0	60.6	104.9	114.6	126.8	141.0	154.7	170.0	185.4	202.9	217.5	232.5
Enterprises	6.9	5.4	5.2	4.7	5.0	5.4	5.5	5.3	5.0	5.3	5.9	6.6
Households	11.6	41.8	73.0	80.2	88.4	98.1	108.7	120.5	133.6	147.7	159.9	170.2
Insurance companies	7.5	13.4	26.7	29.7	33.4	37.5	40.5	44.2	46.8	49.9	51.7	55.7
Foreign currency deposits	...	...	5.7	3.5	2.5	2.4	2.7	1.9	3.6	4.0	4.9	6.6
Enterprises	...	...	5.6	3.4	2.4	2.3	2.4	1.6	3.2	3.5	4.0	4.9
Households	...	...	0.1	0.1	0.1	0.1	0.3	0.3	0.4	0.5	0.9	1.7
Other items, net	88.9	61.2	36.8	26.6	27.6	29.8	22.8	26.9	27.4	25.5	24.4	32.8

Source: Data provided by the State Bank of Czechoslovakia.

¹ This table is in concept and coverage consistent with the monetary survey of *International Financial Statistics*. Data are derived in some cases from different sources. Thus, there are minor differences between monetary survey and the State Bank balance sheet.² Including credits in foreign currency.

Table A18. Enterprise Credits from Banks, 1980–89

(In billions of koruny; end of period)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Total credits	412.8	429.8	447.6	462.8	489.4	502.5	514.4	529.8	543.8	529.6
Operating credits	280.6	296.8	311.5	319.5	346.2	353.9	363.1	374.4	387.3	372.1
To enterprises	256.6	277.0	283.7	291.9	318.0	324.0	332.5	341.5	355.6	339.2
To cooperatives	24.0	26.0	27.8	27.6	28.3	30.0	30.6	33.0	31.7	33.0
To nonsocialist entities										
Operating credits	280.6	296.8	311.5	319.5	346.2	354.0	363.1	374.4	387.3	372.1
To industry	138.6	153.6	158.6	173.0	181.2	180.4	186.6	196.3	206.5	206.1
Mining ¹	6.1	7.5	8.3	9.6	11.2	11.7	16.7	22.7	25.5	16.5
Engineering	48.8	51.5	52.6	56.3	57.9	57.7	57.3	59.3	62.8	74.2
Light industry	13.5	14.8	14.6	15.1	14.6	14.9	15.1	16.4	16.4	16.1
Metallurgy	36.0	43.1	43.2	45.4	50.3	50.3	51.6	53.7	58.1	57.4
Chemicals	10.1	11.4	11.4	12.9	12.4	13.0	13.5	13.9	14.7	12.2
Food processing	13.3	13.2	15.6	19.2	20.4	19.5	20.4	18.6	18.5	17.7
Other	11.0	11.4	11.4	12.9	12.4	13.0	13.5	13.9	14.7	12.2
To nonindustrial activities	141.9	143.3	153.0	146.5	165.0	173.5	176.6	178.2	180.8	166.0
Of which: Agriculture	34.3	37.0	38.3	39.7	42.6	45.6	46.2	48.2	48.3	49.0
Investment credits	132.3	132.9	136.0	143.3	143.2	148.7	151.3	155.4	156.5	157.4
To enterprises	85.7	85.6	87.9	94.1	92.1	95.2	96.7	100.0	101.3	101.9
To cooperatives	29.8	30.7	32.3	34.2	36.1	37.8	39.3	39.7	40.2	40.2
To nonsocialist entities										
Investment credits	132.3	132.9	136.0	143.3	143.2	148.7	151.3	155.4	156.5	157.4
To industry	85.7	85.6	87.9	94.1	92.1	95.2	96.7	100.0	101.3	101.9
Mining ¹	12.9	13.2	14.9	17.5	18.0	18.5	18.2	17.5	16.4	15.6
Engineering	24.6	23.7	23.2	24.2	23.5	24.9	25.8	27.6	28.7	29.5
Light industry	8.1	5.5	4.9	4.5	4.5	5.4	6.0	7.2	8.1	8.1
Metallurgy	11.9	12.3	12.7	12.8	12.7	12.7	12.9	12.2	11.5	10.9
Chemicals	6.3	8.4	8.2	8.7	3.5	8.1	8.2	8.5	9.0	8.9
Food processing	5.7	5.6	5.4	6.0	5.9	7.0	7.6	8.7	9.1	8.2
Other	16.4	17.0	18.6	24.2	19.0	18.7	18.0	18.4	18.5	20.5
To nonindustrial activities	46.5	47.4	44.2	49.2	51.1	53.4	54.6	55.4	55.2	55.8
Of which: Agriculture	14.5	14.4	15.0	15.9	16.6	17.0	17.2	16.8	16.4	14.8

Source: State Bank of Czechoslovakia.

¹ Coal and gas industry.

Table A19. Average Interest Rates on Bank Credits, 1980–89

(In percent a year)

	Value of Credits at End-1988 (In billions of koruny)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Credits for socialized economy	543.8	4.97	5.00	5.08	5.03	5.02	5.04	5.07	5.14	5.06	5.70
Investment credits for enterprises	116.3	5.79	5.86	5.88	5.75	5.61	5.69	5.65	5.61	5.65	6.37
Investment credits for housing cooperatives	28.6	1.08	1.07	1.07	1.05	1.05	1.04	1.05	1.04	1.01	1.02
Operating credits	387.3										
Of which:											
To state enterprises	355.6	5.16	5.23	5.39	5.31	5.35	5.33	5.39	5.50	5.39	6.08
To cooperatives	31.7	3.98	3.63	3.46	3.34	3.35	3.90	4.12	4.42	4.03	4.82
Credits for households	45.2	3.24	3.19	3.27	3.29	3.28	3.33	3.43	3.43	3.49	3.36
Installment purchases of goods and services	27.7	3.67	3.64	3.81	4.07	4.11	4.20	4.39	4.28	4.29	4.03
Housing	17.5	2.54	2.54	2.53	2.29	2.29	2.30	2.29	2.37	2.37	2.38

Source: State Bank of Czechoslovakia.

Table A20. Average Interest Rates on Deposits, 1980–89

(In percent a year)

	Value of Deposits at End-1988 (In billions of koruny)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
<i>(Deposits with State Bank)</i>											
Enterprise and Cooperatives											
Total deposits	128.4	0.32	0.41	0.73	0.78	0.08	0.85	1.08	1.12	1.07	1.11
Of which:											
Demand deposits	122.5	0.08	0.08	0.08	0.08	0.08	0.08	0.30	0.30	0.30	0.31
Time deposits	5.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	3.0
<i>(Deposits with the Savings Banks)</i>											
Households											
Total deposits	265.6	2.89	2.96	3.00	3.02	3.05	3.07	3.14	3.14	3.20	3.22
Of which:											
Demand deposits	105.7	1.96	1.94	2.00	2.00	2.00	2.00	2.04	1.89	1.95	1.95
Savings deposits	159.9	3.89	3.99	3.97	3.96	3.96	3.95	3.94	4.00	4.01	4.00
Fixed for at least											
Six months	4.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
One year	140.6	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Five-year premium	14.6	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2

Source: State Bank of Czechoslovakia.

Table A21. Balance of Payments in Convertible Currencies, 1968–89

(In millions of U.S. dollars)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Current account	-20.1	122.7	-16.1	7.1	102.5	-22.5	-59.9	-279.2	-601.5	-634.6	-432.9	-569.3
Trade balance	-73.1	93.0	-70.8	-67.7	-19.2	-168.4	-173.7	-370.5	-746.3	-585.9	-422.5	-537.3
Exports, f.o.b. ¹	675.5	778.2	835.7	955.7	1,185.3	1,571.6	2,184.5	2,148.5	2,080.9	2,499.7	2,909.1	3,530.7
Imports, f.o.b. ¹	748.6	685.2	906.5	1,023.3	1,204.5	1,739.9	2,358.2	2,519.0	2,827.2	3,085.6	3,331.6	4,068.0
Services balance	60.7	35.2	60.6	78.4	129.2	157.1	126.8	118.4	168.5	-20.3	25.5	6.9
Receipts	220.2	193.4	258.6	276.8	353.9	485.5	552.5	738.8	742.6	852.7	1,035.7	1,234.4
Shipment and other	43.3	43.0	56.2	73.8	111.8	150.5	173.0	191.9	192.3	235.1	263.7	301.0
Travel	38.4	16.3	22.0	24.9	32.8	42.0	49.0	57.3	58.9	62.0	72.4	83.1
Interest	36.9	27.5	45.6	40.9	51.1	58.0	86.4	169.5	88.9	102.9	162.6	230.3
Other ²	101.6	106.7	134.8	137.2	158.2	235.1	244.2	320.1	402.4	452.6	537.0	619.9
Expenditures	159.6	158.2	198.0	198.4	224.7	328.4	425.8	620.4	574.1	873.0	1,010.3	1,227.4
Shipment and other ²	8.4	27.1	47.6	46.1	73.9	131.1	169.0	201.4	198.9	236.5	261.2	334.7
Travel	40.3	23.9	21.6	20.7	27.3	30.1	30.8	35.1	23.7	27.7	35.2	52.7
Interest	21.6	18.5	56.8	16.7	19.6	22.0	30.3	225.2	143.9	190.9	336.3	511.1
Other	89.2	88.6	72.0	114.8	104.0	145.2	195.8	158.7	207.6	418.0	377.6	328.9
Unrequited transfers	-7.6	-5.6	-5.9	-3.6	-7.5	-11.3	-13.0	-27.1	-23.7	-28.4	-35.9	-38.9
Private	1.4	2.8	2.8	1.3	-0.3	-2.9	-2.1	-4.2	-0.7	-1.8	-2.1	-1.8
Official	-9.0	-8.4	-8.7	-5.0	-7.2	-8.4	-10.9	-22.9	-22.9	-26.6	-33.8	-37.1
Capital account	-18.9	-39.1	64.9	88.2	-54.5	14.1	182.7	185.1	888.5	719.6	750.7	957.9
Medium long-term capital	9.5	8.7	44.6	9.4	9.1	40.8	31.9	82.9	364.0	403.4	-54.3	531.1
Credits received by												
Czechoslovakia, net	39.7	46.8	44.6	24.0	6.5	35.8	57.5	78.7	404.5	565.7	146.5	670.9
Of which:												
Bank credits, net	...	...	...	...	...	...	...	...	...	...	...	478.0
Disbursements	...	...	...	...	...	...	...	...	...	...	...	864.0
Repayments	...	...	...	...	...	...	...	...	...	...	...	386.0
Suppliers' credits, etc., net	...	...	...	...	...	...	...	...	...	...	...	192.9
Credits extended by												
Czechoslovakia, net	-30.2	-38.1	—	-14.7	2.6	5.0	-25.6	4.2	-40.5	-162.3	-200.8	-139.7
Short-term capital	-28.4	-47.8	20.3	78.9	-63.6	-26.6	150.7	102.2	524.5	316.2	805.1	426.8
Valuation changes	—	—	-10.4	-6.2	27.7	84.4	33.6	-33.6	-111.8	34.5	67.5	69.2
Errors and omissions	-6.6	0.6	-0.9	3.1	-1.5	7.9	4.8	4.3	-0.8	-5.8	-3.6	-11.2
Overall balance	-45.5	84.1	37.5	92.3	74.3	83.9	161.2	-123.4	174.3	113.6	381.6	446.6
Change in reserves (increase -)	45.5	-84.1	-37.5	-92.3	-74.3	-83.9	-161.2	123.4	-174.3	-113.6	-381.6	-446.6

(continued)

Table A21 (concluded). Balance of Payments in Convertible Currencies, 1968–89

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Current account	-315.7	21.4	408.3	854.7	1,074.8	740.8	417.9	57.9	91.0	287.1
Trade balance	-11.6	341.2	658.1	819.9	900.2	675.4	228.1	-121.5	-116.5	399.0
Exports, f.o.b. ¹	4,368.2	4,207.6	4,068.5	4,031.8	4,013.7	3,852.0	4,292.7	4,544.5	5,013.5	5,441.6
Imports, f.o.b. ¹	4,379.8	3,866.4	3,410.4	3,211.9	3,113.5	3,176.6	4,064.6	4,666.0	5,130.0	5,042.6
Services balance	-262.2	-286.5	-87.8	71.1	204.2	105.5	226.5	226.5	258.2	-76.9
Receipts	1,467.8	1,514.5	1,285.2	1,491.0	1,639.1	1,469.1	1,586.8	1,615.1	1,696.0	2,194.0
Shipment and other	388.4	366.4	312.0	296.8	274.1	265.6	323.6	360.3	368.1	368.1
Travel	92.2	89.4	87.0	81.2	76.8	82.5	102.8	131.5	149.2	158.4
Interest	303.8	333.1	243.6	231.0	239.1	241.4	263.0	301.4	327.0	379.9
Other ²	683.4	725.6	642.6	882.0	1,049.1	879.6	897.4	821.0	851.7	1,287.6
Expenditures	1,730.0	1,801.0	1,373.0	1,419.9	1,434.9	1,363.6	1,360.3	1,388.5	1,437.8	2,270.9
Shipment and other ²	443.6	265.2	245.5	202.3	152.0	126.2	188.9	218.1	239.1	272.8
Travel	58.9	69.8	54.2	59.0	66.9	60.2	69.6	79.5	114.1	179.0
Interest	816.2	979.5	699.1	505.4	478.9	428.2	406.0	440.9	511.0	525.9
Other	411.8	486.5	374.2	653.2	737.1	749.0	695.8	650.0	573.6	1,293.2
Unrequited transfers	-41.9	-33.3	-162.0	-36.3	-29.6	-40.1	-36.7	-47.1	-50.7	-35.0
Private	-1.7	-2.0	-2.3	-2.6	-2.4	-3.0	-5.2	-5.1	-9.1	-4.8
Official	-40.2	-31.3	-159.7	-33.7	-27.2	-37.1	-31.5	-42.0	-41.6	-30.2
Capital account	1,020.3	-614.8	-522.0	-612.7	-615.4	-743.5	102.4	524.2	358.0	344.9
Medium long-term capital	382.0	258.4	-46.6	-320.1	-625.4	-753.0	-378.2	303.3	7.3	203.3
Credits received by										
Czechoslovakia, net	524.4	405.0	159.6	3.4	-270.7	-359.3	-110.8	379.2	359.7	376.0
Of which:										
Bank credits, net	471.0	173.0	-181.0	-233.0	-377.0	-310.0	-119.0	137.0	213.0	375.0
Disbursements	652.0	348.0	25.0	58.0	70.0	122.0	359.0	562.0	453.0	559.0
Repayments	181.0	175.0	206.0	291.0	447.0	432.0	478.0	425.0	240.0	184.0
Suppliers' credits, etc., net	53.4	232.0	340.6	236.4	106.3	-49.3	9.8	242.2	146.7	1.0
Credits extended by										
Czechoslovakia, net	-142.4	-146.6	-206.2	-323.5	-354.3	-393.7	-267.4	-75.9	-352.4	-172.7
Short-term capital	638.3	-873.2	-475.4	-292.6	9.6	9.5	480.6	220.9	350.7	141.6
Valuation changes	-356.7	-272.8	-74.2	-137.9	-258.8	-122.6	-242.3	-344.6	-225.2	-103.0
Errors and omissions	9.4	-21.0	23.5	8.5	-42.9	30.9	-21.8	17.1	-14.8	34.2
Overall balance	357.3	-887.2	-164.4	112.6	157.8	-99.4	256.2	254.7	209.0	563.1
Change in reserves (increase -)	-357.3	887.2	164.4	-112.6	-157.8	99.4	-256.2	-254.7	-209.0	-563.1

Source: Data provided by the Czechoslovak authorities.

¹ Excluding interest payments and receipts related to suppliers' credits, which are part of the customs data.² Excluding export related expenditures and assembly costs and commissions related to transactions between nonresidents.

Table A22. Balance of Payments in Transferable Rubles, 1968–89

(In millions of transferable rubles)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Current account	-230.0	-159.7	91.0	105.3	251.7	122.9	-93.7	-232.2	94.7	-100.4	-142.1
Trade balance	-194.3	-138.4	94.1	116.0	194.4	66.8	-142.0	-273.5	-86.1	-302.7	-404.9
Exports, f.o.b.	1,818.8	1,856.2	2,183.8	2,373.8	2,675.1	2,849.9	3,046.0	3,789.0	4,434.6	4,887.4	5,291.0
Imports, f.o.b.	2,013.1	1,994.6	2,089.7	2,257.8	2,480.7	2,783.1	3,188.0	4,062.5	4,520.6	5,190.1	5,695.9
Services balance	-40.6	-27.4	-6.5	-18.4	45.4	45.4	45.6	34.9	155.7	167.6	221.6
Receipts	97.9	85.6	143.3	161.2	237.1	248.8	295.4	304.0	429.9	464.7	646.1
Shipment and other	73.3	59.8	89.1	102.9	119.7	126.4	152.0	167.0	213.5	257.6	346.5
Travel	11.8	14.6	18.2	35.7	83.7	92.1	112.7	119.3	118.2	127.4	192.8
Interest	0.9	0.1	8.6	9.1	11.8	16.7	21.4	15.8	18.9	8.7	19.8
Other ¹	11.8	11.1	27.4	13.5	21.9	13.6	9.3	1.9	79.3	70.9	87.0
Expenditures	138.5	113.0	149.8	179.6	119.7	203.4	249.8	269.1	274.1	297.0	424.6
Shipment and other ¹	91.2	59.8	73.9	80.5	86.2	88.6	109.9	126.7	134.1	167.9	210.1
Travel	36.1	40.8	53.3	65.9	79.9	80.2	97.2	105.4	99.7	117.4	164.0
Interest	0.7	0.3	5.8	9.3	0.5	0.9	0.9	2.9	2.1	2.3	4.0
Other	10.5	12.1	16.8	23.9	25.1	33.7	41.8	34.1	38.2	9.5	46.5
Unrequited transfers	4.9	6.1	3.4	7.7	11.9	10.8	2.7	6.4	25.0	34.7	41.2
Private	-0.7	-2.2	-3.5	-4.2	-0.2	1.2	0.7	-0.9	20.4	22.0	23.2
Official	5.6	8.3	6.9	11.9	12.2	9.6	2.0	7.3	4.6	12.6	18.1
Capital account	235.1	170.4	-109.3	-122.4	-260.2	-122.2	81.9	189.9	-78.1	136.4	176.6
Medium long-term capital	6.2	1.2	-71.9	19.6	29.6	-16.8	-31.3	86.3	16.4	9.2	-6.8
Credits received by											
Czechoslovakia, net	48.3	-8.7	-19.8	64.4	55.1	8.8	-1.6	-10.3	66.6	37.8	-9.7
Credits extended by											
Czechoslovakia, net	-42.2	9.9	-52.1	-44.8	-25.4	-25.6	-29.7	96.6	-50.2	-28.6	2.9
Short-term capital	228.9	169.2	-37.4	-142.1	-289.8	-105.4	113.2	103.6	-94.5	127.2	183.4
Valuation changes	—	—	6.3	18.2	7.5	0.8	4.9	34.7	-15.2	-43.3	-31.5
Errors and omissions	-5.1	-10.7	12.0	-1.1	0.9	-1.6	6.8	7.6	-1.3	7.4	-3.1
Overall balance	—	—	—	—	—	—	—	—	—	—	—

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Current account	204.5	125.8	276.8	196.1	-54.7	-92.5	223.7	34.1	681.0	1,808.7	1,182.1
Trade balance	-15.6	-154.7	-73.9	-311.2	-566.7	-751.6	-692.7	-696.5	-146.1	513.9	-126.9
Exports, f.o.b.	6,179.2	6,424.5	7,156.6	7,986.7	8,893.5	9,977.9	10,645.7	11,083.3	11,730.9	12,350.6	11,697.3
Imports, f.o.b.	6,194.8	6,579.2	7,230.5	8,297.9	9,460.2	10,729.5	11,338.4	11,779.8	11,877.0	11,836.7	11,824.2
Services balance	169.0	236.8	300.3	456.8	482.4	604.3	848.7	655.6	691.3	1,140.1	1,091.8
Receipts	560.7	635.9	831.9	960.2	1,153.4	1,360.4	1,618.0	1,348.6	1,419.7	1,719.3	1,922.1
Shipment and other	288.0	371.2	521.1	623.5	657.2	802.1	843.8	805.1	793.9	833.1	844.6
Travel	205.9	182.7	200.8	207.5	241.2	301.9	347.0	370.9	436.6	629.3	631.1
Interest	9.3	43.8	38.2	63.8	37.5	16.0	24.7	15.2	18.9	35.0	86.4
Other ¹	57.6	38.2	71.8	65.4	217.5	240.4	402.5	157.4	170.3	221.9	360.0
Expenditures	391.7	399.1	531.6	503.4	671.0	756.1	769.3	693.0	728.4	579.2	830.3
Shipment and other ¹	205.9	210.6	269.8	295.2	289.3	308.1	300.6	314.0	294.6	322.2	317.5
Travel	161.4	162.9	186.3	187.8	218.7	251.5	322.7	281.6	318.0	320.7	305.7
Interest	7.2	7.4	3.6	1.6	1.4	3.2	4.5	4.3	8.9	2.1	2.0
Other	17.3	18.2	71.9	18.8	161.6	193.3	141.5	93.1	106.9	-65.8	205.1
Unrequited transfers	51.1	43.7	50.4	50.5	29.6	54.8	67.7	75.0	135.8	154.7	217.2
Private	35.3	33.7	35.4	40.5	25.3	44.4	56.2	76.7	117.4	136.5	204.1
Official	15.8	10.0	15.0	10.0	4.3	10.4	11.5	-1.7	18.4	18.2	13.1
Capital account	-164.4	-112.9	-207.4	-142.7	107.6	175.4	-178.8	40.1	-512.1	-1,623.8	-965.5
Medium long-term capital	-391.3	1.7	-1.9	-74.6	-8.1	13.4	-38.9	-0.3	-163.4	-468.7	-1,100.9
Credits received by											
Czechoslovakia, net	-4.1	-29.5	-25.8	-25.0	-20.1	-5.7	-8.5	-17.9	-11.7	6.6	17.7
Credits extended by											
Czechoslovakia, net	-387.2	31.2	23.9	-49.6	12.0	19.1	-30.4	17.6	-151.7	-475.3	-118.6
Short-term capital	226.9	-114.6	-205.5	-68.1	115.7	162.0	-139.9	40.4	-348.7	-1,155.1	135.4
Valuation changes	-44.6	-13.4	-58.3	-42.0	-42.0	-57.7	-66.3	-82.1	-154.2	-208.4	-191.6
Errors and omissions	4.5	0.5	-11.1	-11.4	-10.9	-25.2	21.4	7.9	-14.7	23.5	-25.0
Overall balance	—	—	—	—	—	—	—	—	—	—	—

Source: Data provided by the Czechoslovak authorities.

¹ Excluding export related expenditures and assembly costs and commissions between nonresidents.

Table A23. Balance of Payments in Nonconvertible Currencies, 1968–89

(In millions of U.S. dollars)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Current account	50.5	63.8	101.7	120.0	74.3	-2.1	-68.3	-4.7	162.7	45.0	80.0	74.9
Trade balance	62.6	73.5	78.8	101.5	62.0	17.4	-104.7	10.2	130.3	21.3	74.2	91.0
Exports, f.o.b.	334.4	414.6	483.5	508.1	458.9	497.3	593.5	663.5	631.7	698.9	808.5	793.8
Imports, f.o.b.	271.9	341.1	404.7	406.6	396.8	479.8	698.2	653.3	501.4	677.6	734.3	702.8
Service balance	-3.9	-2.1	28.7	23.3	17.0	-9.2	48.5	-0.8	34.5	25.8	6.1	-15.5
Receipts	72.6	69.7	104.4	88.0	51.3	54.1	133.6	150.5	133.1	136.1	157.3	185.2
Shipment and other	28.3	25.4	32.7	43.6	24.6	28.0	35.6	40.6	40.4	53.3	73.6	88.9
Travel	4.1	3.1	2.5	2.1	1.9	1.4	7.5	7.8	1.6	1.7	5.2	2.4
Interest	12.4	12.6	7.0	4.4	8.1	11.4	6.9	10.8	7.0	5.9	8.1	7.1
Other ¹	27.8	28.7	62.2	37.8	16.7	13.3	83.7	91.3	84.2	75.2	70.4	86.9
Expenditures	76.6	71.8	75.7	64.7	34.3	63.3	85.0	151.3	98.7	110.3	151.1	200.8
Shipment and other ¹	14.6	15.0	27.1	33.2	1.9	24.3	35.1	41.4	48.8	48.8	70.0	96.5
Travel	23.9	23.1	11.1	8.9	13.6	15.0	23.2	27.3	20.4	23.3	30.4	32.2
Interest	0.6	0.4	0.9	0.3	0.2	1.5	0.5	1.0	0.6	1.5	4.2	1.4
Other	37.5	33.4	36.6	22.3	18.6	22.5	26.2	81.6	28.9	36.8	46.6	70.9
Unrequited transfers	-8.1	-7.6	-5.8	-4.7	-4.8	-10.3	-12.1	-14.1	-2.1	-2.1	-0.3	-0.6
Private	-0.8	-1.0	-0.4	-0.5	-0.5	-0.1	-1.0	-0.3	2.8	1.1	0.4	0.1
Official	-7.3	-6.6	-5.4	-4.3	-4.2	-10.2	-11.1	-13.8	-4.9	-3.3	-0.7	-0.7
Capital account	-59.8	-72.4	-102.6	-123.9	-59.9	-6.6	80.8	47.5	-122.1	-56.7	-72.3	-57.1
Medium long-term capital	-22.4	-29.0	-46.6	-56.7	-44.6	82.8	14.5	22.4	-50.0	-108.7	-32.3	27.9
Credits received by												
Czechoslovakia, net	—	7.1	4.6	-6.2	—	-0.2	0.2	1.0	—	4.0	4.5	12.8
Credits extended by												
Czechoslovakia, net	-22.4	-36.1	-51.2	-50.5	-44.6	83.0	14.2	22.3	-50.0	-112.7	-36.8	15.2
Short-term capital	-37.4	-43.4	-56.0	-67.1	-15.3	-89.4	66.3	25.1	-72.1	52.0	-40.0	-85.0
Valuation changes	—	—	—	8.6	-16.9	17.1	-2.3	-30.7	-43.6	4.7	-10.6	-20.1
Errors and omissions	9.3	8.6	0.9	-4.8	2.5	-8.4	-10.2	-12.1	3.1	7.1	2.9	2.3
Overall balance	—	—	—	—	—	—	—	—	—	—	—	—

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Current account	-21.6	-46.8	-23.8	36.7	-58.5	50.4	-29.8	65.4	109.4	-34.6
Trade balance	22.9	-22.8	-85.1	24.6	27.9	37.9	-28.2	77.5	29.8	-160.3
Exports, f.o.b.	869.1	790.1	819.1	876.7	848.9	875.2	963.0	1,078.9	1,111.1	1,034.0
Imports, f.o.b.	846.2	812.9	904.2	852.1	821.0	837.3	991.2	1,001.4	1,081.3	1,194.3
Service balance	-43.5	-22.5	59.2	11.0	-87.5	12.1	6.0	-16.2	75.4	126.8
Receipts	189.7	137.4	205.2	186.1	93.9	176.3	196.7	227.9	260.8	309.7
Shipment and other	92.0	76.6	74.1	77.3	64.5	63.8	80.2	88.7	69.7	75.3
Travel	2.1	1.5	1.7	1.6	1.4	2.2	2.6	2.8	2.5	3.6
Interest	13.2	5.6	10.0	8.3	7.3	6.3	6.5	3.9	4.8	5.4
Other ¹	82.4	53.7	119.4	98.9	20.7	104.0	107.4	132.5	183.8	226.4
Expenditures	233.2	159.9	146.0	175.1	181.4	164.2	190.7	244.1	185.4	183.9
Shipment and other ¹	94.7	82.4	64.8	58.5	61.0	57.6	76.7	73.4	54.5	64.0
Travel	34.8	37.6	34.6	45.7	51.1	61.7	69.0	69.2	53.2	47.8
Interest	1.0	0.5	3.0	1.5	2.4	1.2	1.3	0.9	1.1	0.9
Other	102.7	39.4	43.6	69.4	66.9	43.7	43.7	100.6	76.6	71.2
Unrequited transfers	-1.0	-1.5	2.1	1.1	1.1	0.4	-7.6	4.1	4.2	-1.1
Private	-0.6	—	3.0	1.6	1.3	0.4	0.5	4.0	4.5	-0.9
Official	-0.4	-1.5	-0.9	-0.5	-0.2	—	-8.1	0.1	-0.3	-0.2
Capital account	5.5	90.2	50.1	-56.9	22.2	-15.4	54.4	-78.3	-84.3	26.7
Medium long-term capital	-22.0	19.5	37.0	-81.7	-2.6	-21.2	-12.4	45.7	51.1	18.0
Credits received by										
Czechoslovakia, net	1.5	12.3	25.8	-1.1	-12.5	-6.9	-5.6	5.2	2.9	-11.7
Credits extended by										
Czechoslovakia, net	-23.5	7.2	11.2	-80.6	9.9	-14.3	-6.8	40.5	48.2	29.7
Short-term capital	27.5	70.7	13.1	24.8	24.8	5.8	66.8	-124.0	-135.4	8.7
Valuation changes	26.2	-48.2	-24.1	19.3	-15.8	1.4	-11.4	10.9	12.9	-4.1
Errors and omissions	-10.1	4.8	-2.2	0.9	52.1	-36.4	-13.2	2.0	-38.0	12.0
Overall balance	—	—	—	—	—	—	—	—	—	—

Source: Data provided by the Czechoslovak authorities.

¹ Excluding export related expenditures and assembly costs and commissions between nonresidents.

Table A24. Composition of Exports to Nonsocialist Countries, 1970–89¹

(S.I.T.C. Classification)

S.I.T.C. Category	Description	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1980	1989
<i>(In millions of koruny)</i>														<i>(In percent)</i>	
0	Food and live animals	2,610	5,169	6,088	4,483	3,748	3,668	4,825	4,898	5,024	4,777	6,044	9,004	9.4	10.1
1	Beverages and tobacco	90	150	236	132	264	123	144	145	181	205	297	277	0.4	0.3
2	Crude materials inedible, except fuels	2,494	3,470	6,266	2,759	2,781	3,054	3,730	4,079	3,931	3,968	4,804	5,468	9.7	6.1
3	Minerals, fuels, lubricants and related materials	1,332	4,013	7,833	5,930	6,679	7,107	8,536	7,228	5,769	6,121	5,647	8,117	12.1	9.1
33	Petroleum and petroleum products	(413)	(1,147)	(4,225)	(3,555)	(4,057)	(4,683)	(5,772)	(4,559)	(3,044)	(3,898)	(3,342)	(5,228)	(6.5)	(5.9)
4	Animals and vegetable oils and fats	42	42	19	29	23	27	99	167	121	30	203	295	—	0.3
5	Chemicals	1,718	3,579	6,025	4,950	5,147	6,006	6,498	7,135	6,214	6,793	9,707	9,968	9.3	11.2
6	Manufactured goods, classified chiefly by material	9,653	13,673	15,426	15,914	15,187	14,636	17,940	18,692	19,298	18,922	22,310	29,250	23.9	32.7
7	Machinery and transport equipment	8,888	14,092	15,925	15,900	16,127	18,711	19,727	19,646	20,007	16,414	16,238	18,690	24.7	20.9
8	Miscellaneous manufactured articles	2,932	5,432	6,528	6,086	5,465	5,376	6,295	6,475	6,916	7,418	8,023	7,605	10.1	8.5
9	Miscellaneous transactions and commodities not classified according to kind	306	169	233	793	762	646	733	699	735	552	1,734	644	0.4	0.7
Total, S.I.T.C. 0–9		30,064	49,790	64,578	56,978	56,183	59,354	68,528	69,170	68,197	65,199	75,007	89,318	100.0	100.0

Source: Data provided by the Czechoslovak authorities.

¹ The data are converted at the average commercial exchange rate of koruna in each respective year.**Table A25. Composition of Exports to Socialist Countries, 1970–89¹**

(S.I.T.C. Classification)

S.I.T.C. Category	Description	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1980	1989
<i>(In millions of koruny)</i>														<i>(In percent)</i>	
0	Food and live animals	530	852	1,240	1,285	1,770	1,096	1,276	1,375	1,109	1,207	1,070	1,428	1.2	1.1
1	Beverages and tobacco	119	441	747	722	681	658	789	838	585	570	511	487	0.7	0.4
2	Crude materials inedible, except fuels	1,921	2,068	3,599	3,213	3,292	3,117	3,254	3,407	3,298	3,082	1,304	2,676	3.4	2.1
3	Minerals, fuels, lubricants and related materials	1,513	3,602	3,821	2,654	3,006	2,650	2,782	3,336	2,931	2,928	3,207	3,449	3.6	2.7
33	Petroleum and petroleum products	(66)	(104)	(576)	(342)	(353)	(302)	(289)	(282)	(345)	(386)	(520)	(600)	(0.5)	(0.5)
4	Animals and vegetable oils, and fats	—	—	—	17	20	9	12	34	11	11	16	12	—	—
5	Chemicals	1,923	3,366	5,625	4,968	5,781	5,715	6,411	6,609	7,109	7,764	7,934	6,657	5.3	5.2
6	Manufactured goods, classified chiefly by material	7,705	15,447	16,281	15,331	16,603	17,937	19,417	19,687	18,987	19,916	18,025	20,101	15.4	15.8
7	Machinery and transport equipment	25,371	41,878	62,916	56,924	61,985	64,422	74,397	79,754	81,346	88,149	84,778	75,702	59.5	59.5
8	Miscellaneous manufactured articles	5,175	9,374	11,444	10,925	13,476	13,832	14,408	14,855	15,592	15,808	14,806	13,242	10.8	10.4
9	Miscellaneous transactions and commodities not classified according to kind	393	118	65	2	2,097	1,824	2,258	2,361	2,231	1,824	7,229	3,487	—	2.7
Total, S.I.T.C. 0–9		44,730	77,146	105,739	96,043	108,708	111,260	125,005	132,257	134,199	141,259	138,880	127,201	100.0	100.0

Source: Data provided by the Czechoslovak authorities.

¹ The data are converted at the average commercial exchange rate of the koruna in each respective year.

Table A26. Composition of Imports from Nonsocialist Countries, 1970–89¹

(S.I.T.C. Classification)

S.I.T.C. Category	Description	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1980	1989
<i>(In millions of koruny)</i>														<i>(In percent)</i>	
0	Food and live animals	4,961	7,330	12,068	8,653	7,664	6,200	7,310	7,834	8,207	7,483	8,869	10,117	18.7	11.9
1	Beverages and tobacco	344	631	716	302	471	253	411	515	673	643	586	573	1.1	0.7
2	Crude materials inedible, except fuels	6,210	10,935	10,920	9,267	8,555	8,472	9,362	9,571	8,264	8,152	9,674	11,434	16.9	13.5
3	Minerals, fuels, lubricants and related materials	278	720	1,450	1,888	1,948	1,812	2,763	1,627	1,453	1,950	1,135	2,221	2.2	2.6
33	Petroleum and petroleum products	(256)	(717)	(1,426)	(1,857)	(1,877)	(1,731)	(2,605)	(1,425)	(1,265)	(1,936)	(1,068)	(2,155)	(2.2)	(2.5)
4	Animals and vegetable oils and fats	258	521	234	340	434	412	692	631	514	332	544	673	0.4	0.8
5	Chemicals	4,418	9,344	10,504	8,843	7,869	8,480	9,024	9,769	10,091	10,742	12,221	13,981	16.3	16.5
6	Manufactured goods, classified chiefly by material	3,229	7,217	7,596	6,145	5,294	5,803	6,725	7,198	9,278	8,114	8,027	9,532	11.8	11.2
7	Machinery and transport equipment	8,768	16,879	16,778	13,675	14,194	13,671	15,164	16,762	20,766	24,282	28,983	30,335	26.0	35.8
8	Miscellaneous manufactured articles	1,669	3,417	2,998	2,350	2,207	2,345	2,875	3,866	3,685	4,349	5,093	5,272	4.6	6.2
9	Miscellaneous transactions and commodities not classified according to kind	400	461	1,213	1,236	907	824	992	542	847	1,110	1,148	667	1.9	0.8
Total, S.I.T.C. 0–9		30,536	57,454	64,477	52,783	49,541	48,333	55,318	58,314	63,778	67,157	76,280	84,804	100.0	100.0

Source: Data provided by the Czechoslovak authorities.

¹ The data are converted at the average commercial exchange rate of koruna in each respective year.**Table A27. Composition of Imports from Socialist Countries, 1970–89¹**

(S.I.T.C. Classification)

S.I.T.C. Category	Description	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1980	1989
<i>(In millions of koruny)</i>														<i>(In percent)</i>	
0	Food and live animals	4,976	5,615	5,502	4,523	5,492	4,832	5,562	5,933	6,066	5,292	5,974	5,051	5.1	3.9
1	Beverages and tobacco	1,087	1,058	1,311	1,107	1,636	1,486	1,214	1,588	1,121	1,116	1,057	944	1.2	0.7
2	Crude materials inedible, except fuels	4,808	8,154	8,873	7,846	8,307	8,249	8,683	9,060	9,024	8,927	7,924	7,600	8.2	5.9
3	Minerals, fuels, lubricants and related materials	5,191	14,225	26,326	28,293	37,147	40,844	45,996	49,009	50,679	46,774	38,763	33,697	24.4	26.2
33	Petroleum and petroleum products	(3,036)	(8,694)	(16,602)	(18,670)	(24,524)	(26,767)	(30,092)	(32,198)	(33,137)	(29,711)	(23,762)	(19,547)	(15.4)	(15.2)
4	Animals and vegetable oils and fats	204	440	333	291	250	252	181	282	243	214	238	126	0.3	—
5	Chemicals	2,205	3,283	5,557	4,258	5,503	5,371	5,676	6,403	6,438	6,140	5,998	6,458	5.1	5.0
6	Manufactured goods, classified chiefly by material	6,317	11,987	12,510	10,218	11,438	11,230	11,855	12,498	12,152	11,760	11,419	12,763	11.6	9.9
7	Machinery and transport equipment	13,649	32,080	42,517	36,405	34,603	37,165	42,361	43,051	44,180	49,159	46,852	48,442	39.3	37.7
8	Miscellaneous manufactured articles	3,069	4,246	4,964	3,887	4,997	5,623	5,780	6,776	7,233	7,136	7,837	7,863	4.6	6.1
9	Miscellaneous transactions and commodities not classified according to kind	611	123	201	8	1,974	1,713	2,657	3,632	4,330	4,826	7,212	5,695	0.2	4.4
Total, S.I.T.C. 0–9		42,117	81,209	108,093	96,837	111,347	116,765	129,965	138,233	141,466	141,343	133,274	128,864	100.0	100.0

Source: Data provided by the Czechoslovak authorities.

¹ The data are converted at the average commercial exchange rate of the koruna in each respective year.

Table A28. Geographical Composition of Exports and Imports, 1970–89¹

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1980	1989
	<i>(In millions of koruny)</i>												<i>(In percent)</i>	
Exports, f.o.b.	74,934	128,775	172,080	153,843	165,357	171,630	195,542	203,968	206,711	211,701	220,146	218,202	100.00	100.0
Nonconvertible area	45,147	77,297	103,968	94,185	104,510	108,026	122,153	131,718	136,325	143,889	142,069	130,015	60.4	59.6
Of which: China	501	1,447	1,170	1,023	1,137	1,214	2,625	3,529	3,293	4,051	6,218	5,545	0.7	2.5
Yugoslavia	4,040	6,620	7,237	6,872	7,003	7,859	7,148	8,268	8,261	7,782	6,769	6,920	4.2	3.2
CMEA	39,912	68,809	95,400	86,131	96,162	99,986	108,719	119,592	124,573	131,894	128,895	117,353	55.4	53.8
Of which: Bulgaria	1,574	2,264	3,755	3,856	3,938	4,077	4,432	5,027	5,552	6,227	6,026	5,035	2.2	2.3
G.D.R.	7,428	12,851	13,511	12,433	12,808	12,971	14,012	15,240	15,016	15,812	14,959	13,652	7.9	6.3
Hungary	3,263	6,122	7,865	6,495	7,554	7,675	7,910	7,868	8,689	9,773	9,382	8,265	4.6	3.8
Poland	4,979	9,172	11,031	8,635	8,863	10,227	11,283	12,727	14,734	16,779	17,801	18,164	6.4	8.3
U.S.S.R.	19,828	36,507	52,957	49,160	56,478	59,719	67,803	72,373	73,892	76,058	73,920	65,633	30.8	30.1
Convertible area														
and bilateral trade	29,787	51,478	68,112	59,658	60,847	63,604	73,389	72,250	70,386	67,812	78,077	88,187	39.6	40.4
Industrial countries	20,268	34,698	46,220	38,737	38,182	38,406	46,324	47,184	47,734	48,928	58,371	67,793	26.9	31.1
Of which: Austria	2,043	4,163	6,965	5,819	6,441	6,339	7,293	7,768	7,142	7,060	8,896	9,938	4.0	4.6
France	1,384	2,383	2,473	1,916	2,092	2,024	2,355	2,524	2,730	2,745	3,325	3,936	1.4	1.8
Italy	1,899	2,699	3,109	2,721	2,765	2,418	2,711	2,792	3,000	3,116	3,751	4,623	1.8	2.1
Germany	5,640	9,671	13,751	11,573	10,893	11,089	13,413	13,503	14,138	14,171	16,573	17,964	8.0	8.2
United Kingdom	2,165	3,673	3,596	2,933	2,262	2,563	3,140	3,092	3,174	3,711	4,413	4,396	2.1	2.0
Netherlands	1,092	1,956	2,541	2,172	1,729	1,825	2,261	2,259	2,519	2,413	2,854	3,316	1.5	1.5
United States	636	676	1,047	854	741	791	1,220	1,262	1,120	1,149	1,309	1,413	0.6	0.6
Developing countries	8,939	15,065	18,596	18,251	17,979	20,959	22,204	21,626	20,241	16,032	16,636	17,448	10.8	8.0
Of which: India	886	1,303	1,015	867	885	762	1,085	1,326	1,207	1,346	1,625	1,823	0.6	0.8
Syria	704	1,152	2,341	1,793	2,103	3,655	4,682	6,004	2,358	612	691	1,367	1.4	0.6
Brazil	229	675	331	334	258	232	190	444	548	272	398	427	0.2	0.2
Socialist countries— convertible currency:	580	1,715	3,296	2,670	4,686	4,239	4,861	3,440	2,411	2,852	3,070	2,946	1.9	1.4
Imports, f.o.b.	73,090	140,506	173,539	150,088	160,258	165,233	187,543	198,318	209,373	212,972	214,992	213,354	100.0	100.0
Nonconvertible area	42,887	81,852	106,186	95,327	108,577	114,357	130,074	138,753	143,229	144,033	135,842	131,699	61.2	61.7
Of which: China	419	1,190	1,542	1,348	777	1,400	2,048	3,576	4,947	3,699	5,428	5,900	0.9	2.8
Yugoslavia	2,876	6,155	6,552	6,726	7,766	7,860	7,303	7,505	6,299	6,737	6,732	6,898	3.8	3.2
CMEA	38,389	74,289	97,882	87,076	99,857	106,306	120,528	127,321	131,724	133,395	123,432	118,655	56.4	55.6
Of which: Bulgaria	1,492	2,819	3,117	3,168	3,783	3,959	4,479	5,376	5,578	9,184	5,383	4,775	1.8	2.2
G.D.R.	7,261	13,831	15,399	12,597	13,210	14,574	16,293	15,885	16,648	18,000	17,620	16,436	8.9	7.7
Hungary	2,991	5,922	7,976	6,893	7,335	7,162	8,791	9,666	9,540	9,791	9,020	10,108	4.6	4.7
Poland	4,423	10,870	11,357	8,336	8,861	8,869	11,312	13,299	15,230	17,455	17,781	18,168	6.5	8.5
U.S.S.R.	19,605	36,389	54,165	51,450	61,085	66,454	74,120	77,059	78,620	77,002	67,231	62,983	31.2	29.5
Convertible area														
and bilateral trade	30,203	58,654	67,353	54,761	51,681	50,876	57,379	59,565	66,144	68,939	79,150	83,655	38.8	39.2
Industrial countries	23,660	46,858	52,651	42,991	40,182	38,819	43,055	46,053	51,722	56,102	64,698	66,717	30.3	31.3
Of which: Austria	2,755	6,068	4,223	5,723	6,892	6,339	5,628	6,701	8,645	9,508	11,102	11,830	2.4	5.5
France	1,646	3,211	2,094	1,611	1,643	1,780	2,205	2,005	2,738	3,085	3,407	3,350	1.2	1.6
Italy	2,146	2,826	2,708	2,054	1,643	2,084	2,090	2,737	3,254	3,749	3,804	3,695	1.6	1.7
Germany	5,673	12,264	11,680	9,752	9,919	10,484	11,828	12,727	15,371	17,533	19,580	19,931	6.7	9.3
United Kingdom	2,510	4,248	6,224	3,759	3,455	2,973	3,439	3,679	3,709	3,575	4,553	4,731	3.6	2.2
Netherlands	1,516	2,286	2,443	2,235	1,713	1,564	1,850	2,110	2,022	2,227	2,529	2,184	1.4	1.0
United States	733	2,835	4,392	2,148	2,014	1,334	763	712	751	481	825	813	2.5	0.4
Developing countries	5,795	10,573	11,814	9,757	9,279	9,466	12,226	11,713	11,856	10,788	11,582	14,199	6.8	6.7
Of which: India	916	1,267	1,082	1,176	1,271	806	1,418	982	1,137	1,351	1,672	3,182	0.6	1.5
Syria	111	303	322	259	284	257	292	206	143	666	453	454	0.2	0.2
Brazil	399	1,296	2,333	2,699	1,661	1,522	1,210	1,119	526	848	1,072	1,639	1.3	0.8
Socialist countries— convertible currency:	748	1,223	2,888	2,013	2,220	2,591	2,098	1,799	2,566	2,049	2,870	2,739	1.7	1.3

Source: Data provided by the Czechoslovak authorities.

¹ Converted on the basis of average commercial exchange rates of the koruna in each year.

Table A29. Exchange Rates, 1970–90

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	January–April 1990
<i>(In koruny per U.S. dollar)</i>													
Average per period													
Official rate ¹	7.20	5.58	5.38	5.89	6.10	6.29	6.64	6.85	6.00	5.47	5.32	...	...
Commercial rate ^{2, 7}	27.00	20.93	14.26	13.25	13.73	14.15	16.60	17.18	15.00	13.68	14.36	15.05	16.57
Noncommercial rate ^{3, 7}	16.20	9.77	9.42	10.31	10.68	11.01	11.62	11.99	10.50	9.57	9.31	9.75	16.57
Auction rate ⁴	...	...	...	...	...	...	...	...	...	...	...	121.24	75.45
Parallel market rate ⁵	40.89	23.52	26.18	27.03	28.25	30.77	33.22	34.72	29.76	27.78	33.44	42.39	41.14
Tourist rate	...	...	...	...	...	...	...	...	...	...	...	...	36.73
<i>(In koruny per transferable ruble)</i>													
Official rate ¹	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	...	...
Commercial rate	18.00	18.00	14.80	12.00	12.00	11.20	11.20	11.20	11.20	11.20	10.40	10.00	9.00
Noncommercial rate ⁶	32.81	27.86	19.00	19.00	19.00	17.00	17.00	16.00	16.00	16.00	16.00	15.00	12.00
<i>(In koruny per U.S. dollar)</i>													
End of period													
Official rate ¹	7.20	5.80	5.60	5.85	6.25	6.50	6.85	6.40	5.75	5.20	5.30	...	...
Commercial rate ^{2, 7}	27.00	21.75	14.84	13.16	14.06	14.63	17.13	16.00	14.38	13.00	14.31	14.29	16.60
Noncommercial rate ^{3, 7}	16.20	10.15	9.80	10.24	10.94	11.38	11.99	11.20	10.06	9.10	9.28	9.26	16.60
Auction rate ⁴	...	...	...	...	...	...	...	...	...	...	...	114.35	65.30
Parallel market rate ⁵	38.45	26.46	26.45	29.92	30.69	32.80	36.29	35.65	29.55	30.54	40.35	43.48	38.83
Tourist rate	...	...	...	...	...	...	...	...	...	...	...	...	30.69
<i>(In koruny per transferable ruble)</i>													
Official rate ¹	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	...	...
Commercial rate	18.00	18.00	14.80	12.00	12.00	11.20	11.20	11.20	11.20	11.20	10.40	10.00	9.00
Noncommercial rate ⁶	32.81	23.00	19.00	19.00	19.00	17.00	17.00	16.00	16.00	16.00	16.00	15.00	12.00

Sources: Data supplied by the Czechoslovak authorities; and Schweizerischer Bankverein.

¹ Official rate was abolished from January 1, 1989.² Until December 31, 1988 the commercial rate equaled the official rate multiplied by a coefficient for commercial payments.³ Until December 31, 1988 the commercial rate equaled the official rate multiplied by a coefficient for noncommercial payments.⁴ First auction took place on August 30, 1989.⁵ Data from Schweizerischer Bankverein.⁶ This rate is used for interstate settlements and differs according to individual countries. The data in the table represent those for the U.S.S.R.⁷ The commercial and noncommercial rates were unified on January 8, 1990.

Table A30. External Debt Service and Official Reserves in Selected Eastern European Countries, 1985–89

	1985	1986	1987	1988	1989
	<i>(In percent of exports of goods and services)¹</i>				
Scheduled external debt service ¹					
Bulgaria	38.4	82.6	64.4	57.6	74.4
Czechoslovakia	16.5	17.6	16.0	19.4	18.6
Hungary ²	88.1	99.9	74.2	63.8	54.5
Poland ³	88.5	105.0	90.9	85.1	90.6
Yugoslavia ⁴	44.1	46.6	42.0	35.9	29.1
	<i>(In millions of U.S. dollars)</i>				
External debt (end period) ¹					
Bulgaria	3,240	4,671	6,139	8,186	9,201
Czechoslovakia	4,608	5,567	6,657	7,281	7,915
Hungary	13,955	16,914	19,592	19,626	20,605
Poland	29,700	33,500	39,700	39,100	40,578
Yugoslavia	19,178	19,665	20,031	18,454	16,666
	<i>(In percent of exports of goods and services)¹</i>				
External debt (end period) ¹					
Bulgaria	80	141	152	187	227
Czechoslovakia	87	95	108	109	104
Hungary ²	333	404	388	357	319
Poland ³	523	567	577	490	486
Yugoslavia ⁴	160	145	140	112	96
	<i>(In millions of U.S. dollars)</i>				
Official reserves (end period) ¹					
Bulgaria ⁵	2,136	1,522	1,199	1,801	1,381
Czechoslovakia ⁶	1,107	1,363	1,618	1,827	2,390
Hungary ⁷	2,793	3,053	2,159	1,976	1,725
Poland ⁸	1,059	887	1,684	2,244	2,503
Yugoslavia ⁴	1,174	1,539	777	2,378	4,216
	<i>(In months of merchandise imports)¹</i>				
Official reserves (end period) ¹					
Bulgaria	6.9	5.2	3.4	4.8	3.8
Czechoslovakia ⁶	4.2	4.0	4.2	4.3	5.7
Hungary ⁷	8.3	7.8	5.2	4.7	3.2
Poland ⁸	3.2	2.5	3.9	4.3	4.0
Yugoslavia ⁴	3.7	3.8	2.4	4.3	6.9

Sources: Fund documents; and data provided by the Czechoslovak authorities.

¹In convertible currencies.²In percent of exports of goods.³In percent of exports of goods and nonfactor services.⁴In percent of exports of goods, services, and net remittances.⁵Gold valued at US\$300 per ounce.⁶Gold valued at US\$42.2 per ounce.⁷Gold valued at US\$320 per ounce.⁸Gold valued at US\$400 per ounce.

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