

KCCI - Country Wrap: Czech Republic (Nov.'18)



Czech Republic – a brief economic overview

Czech Republic (official short name: Czechia) is a prosperous market economy that boasts one of the highest GDP growth rates and lowest unemployment levels in the EU, but its dependence on exports makes economic growth vulnerable to contractions in external demand. Czechia's exports comprise some 80% of GDP and largely consist of automobiles, the country's single largest industry. Czechia acceded to the EU in 2004 but has yet to join the euro-zone. While the flexible koruna helps Czechia weather external shocks, it was one of the world's strongest performing currencies in 2017, appreciating approximately 16% relative to the US dollar after the central bank (CNB) ended its cap on the currency's value in early Apr'17, which it had maintained since Nov'13. The CNB hiked rates in Aug'17 and Nov'17, the first rate changes in nine years, to address rising inflationary pressures brought by strong economic growth and a tight labor market.

Since coming to power in 2014, the new government has undertaken some reforms to try to reduce corruption, attract investment, and improve social welfare programs, which could help increase the government's revenues and improve living conditions for Czechs. The government introduced in December 2016 an online tax reporting system intended to reduce tax evasion and increase revenues. The government also plans to remove labor market rigidities to improve the business climate, bring procurement procedures in line with EU best practices, and boost wages.

Long-term challenges include dealing with a rapidly aging population, a shortage of skilled workers, a lagging education system, funding an unsustainable pension and health care system, and diversifying away from manufacturing and toward a more high-tech, services-based, knowledge economy.

Key Industries of Czech Republic

Principal industries are heavy and general machine-building, motor vehicles, metallurgy, machinery and equipment, iron and steel production, metalworking, chemical production, electronics, transportation equipment, armaments, textiles, glass, brewing, ceramics, and pharmaceuticals. The auto industry remains the largest single industry together with its upstream suppliers, accounts for nearly 24% of Czech manufacturing. The Czech Republic produced more than a million cars for the first time in 2010, over 80% of which were exported. Its main agricultural products are sugarbeets, fodder roots, potatoes, wheat, hops, fruits, pigs, and poultry.

Czech Republic's major trading commodities and partners

Its major export partners are Germany (32.8%), Slovakia (7.8%), Poland (5.8%), UK (4.9%), France (5.1%), Italy (4.1%) and Austria (4.4%). Czech's major import partners are Germany (29.8%), Poland (9.1%), China (7.4%), Slovakia (5.8%), Netherlands (5.3%) and Italy (4%).

Economic Relations between Pakistan and Czech Republic

Diplomatic relations between the two countries were formally established in 1950. Czech Republic extended its invaluable and unstinting support to Pakistan for its graduation to the Generalized Scheme of Preferences (GSP) Plus Status. The two countries have signed bilateral investment treaty in May 1999 to promote investments. Moreover, various MoUs have been signed between the two countries, of which the establishment of bilateral cooperation between health institutions is an important one.

Pakistani Embassy, in cooperation with Pakistani businessmen, organized two mango festivals in Sep'12 and Jul'13 with the objective to open the door for export of Pakistani fruits and vegetables to the Czech Republic. Pakistan and Czech Republic have also signed MoU to increase military and defence cooperation between the two countries.

The 8th Round of Pakistan-Czech Republic bilateral political consultations was held in Mar'18 in Pakistan while the 9th round is scheduled in Prague in 2019. The two sides reviewed the entire spectrum of bilateral relations and identified opportunities and possibilities for further cooperation especially in the spheres of trade, investment, defence, education, culture, parliamentary exchanges and people-to-people contacts.

Bilateral trade relations between Pakistan and Czech Republic

Bilateral annual trade between the two countries is around \$ 258Mn. During 2017, Pakistan exported goods to Czech Republic worth \$ 189Mn as against exports of \$ 145Mn in 2016 showing an increase of 31%. The goods imported by Pakistan from Czech Republic stood at \$ 69Mn in 2017 as against \$ 72Mn in 2016 showing a decrease of 4%. The trade balance is in favor of Pakistan.

Potential for enhancing bilateral trade relations between Czech Republic and Pakistan

- Pakistan can look for importing mechanical, industrial and technological goods from the country. Similarly, the two countries can collaborate in the production of technologically sophisticated goods, such as communication devices and electronic products.

- Czechia needs to explore joint ventures in the automobile sector in Pakistan which is wide open for foreign investment.

- Czechia can share its experiences of reducing corruption and tax evasion with Pakistan which is also experiencing similar problems. Pakistan, looking to attract foreign investment and improve its social welfare programs, could also draw from Czech knowledge base in these areas.

- The Honorary Consulate of the Czech Republic in K-P, inaugurated in Oct'18, can be used to improving investment and business relations between two countries.

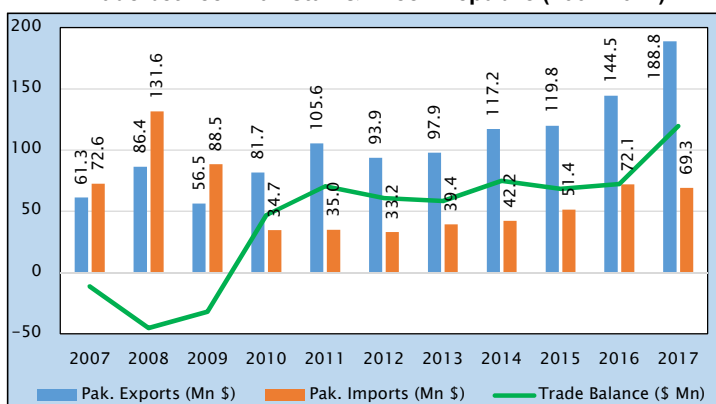
- Czech companies need to be encouraged to invest in energy, SME, information and communication technology, water management and agriculture sectors in Pakistan.

Economic Indicators

Indicators	Unit	2016	2017	Change
GDP (PPP)	\$ Bn	360.5	375.9	4.27%
GDP per Capita	\$	34,200	35,500	3.80%
GDP growth	%	2.50	4.30	1.80%
Forex Reserves	\$ Bn	85.7	148.0	72.64%
External Debt	\$ Bn	138.0	205.2	48.70%
Exports of Goods	\$ Bn	131.1	144.8	10.45%
Imports of Goods	\$ Bn	120.8	134.7	11.51%
Trade Balance	\$ Bn	10.3	10.1	-1.94%
Current Account	\$ Bn	3.04	2.32	-23.71%
FDI - at Home	\$ Bn	139.6	185.6	32.95%
FDI - at Abroad	\$ Bn	43.1	54.4	26.22%
CPI	%	0.70	2.40	1.70%
Avg. Bank Prime Lending Rat	%	3.91	3.59	-0.32%
Population	Mn	N/A	10.7	N/A
Unemployment	%	3.9	2.9	-1.00%
Litracy Rate	%	N/A	99.0	N/A

Sources: **KCCI Research, CIA Factbook**

Trade between Pakistan & Czech Republic (2007-2017)



Note: Trade data may differ from SBP, UNComm Trade & PBS

Source: **KCCI Research, Trademap**

Czech Republic's Top 10 Trade Items With World (2017)

Import Items	(\$ Bn)	Export Items	(\$ Bn)
Electric mach. & equip.	30.78	Vehicles other than railway	38.48
Machinery, mech. Apps	27.37	Machinery, mech. Apps	33.76
Vehicles other than railway	17.58	Electric mach. & equip.	30.72
Plastics & articles	8.99	Articles of iron or steel	6.67
Mineral fuels & oils	8.80	Plastics & articles	6.39
Iron & steel	5.95	Furniture; bedding	5.36
Articles of iron or steel	4.57	Rubber & articles	3.93
Pharma. products	4.56	Iron & steel	3.77
Optical, photo. parts	3.57	Optical, photo. parts	3.60
Furniture; bedding	3.37	Toys, games & sports	3.26

Sources: **KCCI Research, Trademap**

Pakistan - Czech Republic Top 10 Trade Items (2017)

Pakistan's Export Items	(\$ Mn)	Pakistan's Import Items	(\$ Mn)
Articles of apparel, not	61.69	Machinery, mech. Apps	13.95
Articles of apparel, knitted	31.32	Electric mach. & equip	12.58
Other made-up textile	28.89	Arms & ammunition	11.99
Cotton	16.95	Paper, paperboard	7.53
Articles of leather	16.87	Optical, photo. parts	4.94
Optical, photo. parts	7.38	Articles of wood	4.13
Plastics & articles	7.18	Rubber & articles	2.70
Man-made staple fibres	4.32	Iron & steel	1.44
Toys, games & sports	2.75	Articles of iron/steel	1.16
Arms & ammunition	1.98	Dairy produce	1.05

Sources: **KCCI Research, Trademap**