

Central European Update

Czech Republic

Czech President **Vaclav Klaus** announced on 11 July that he is ready to intervene in resolving the post-election political stalemate that has gripped the country for five weeks. Klaus said that he will meet with party leaders this weekend and encourage political compromise. **Jiri Paroubek** remains in the post of Prime Minister.

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The Czech ministry of defense announced that experts from the U.S. will visit the country on 18 July to examine possible locations for future missile-defense bases. Three military sites will be assessed where U.S. interceptor rockets could be positioned to destroy long-range missiles as part of a global missile defense network.

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The European Commission gave the green light to EON in purchasing the Czech gas distribution and supply company Praska Plynarska. This latest acquisition will strengthen the German energy company's position in the Czech gas supply market.

Hungary

Under significant pressure to reduce the country's skyrocketing budget deficit, Prime Minister **Ferenc Gyurcsany** pushed through an array of tax hikes as part of his New Equilibrium program. The package of tax hikes approved on 10 July is expected to cut Hun-

gary's soaring budget deficit and stabilize the economy. The most important changes include raising both the middle bracket of VAT and the "simplified entrepreneurial tax" (EVA) rate from 15 to 20 percent. The bill also introduces the heavily debated 4 percent "solidarity tax" for profitable companies and persons earning above HUF 6 million a year (EUR 21,500), as well as a new 20 percent tax on interest and exchange rate gains. Although facing strong social protests and opposition from the banking sector, the austerity package received a positive market response with the forint strengthening to a two-week high after its historic depression last week. The Gyurcsany package also included a reform of the local council system, but this failed to obtain the necessary two-thirds majority support in parliament.

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The Hungarian government announced the creation of a "Convergence Council" to advise the government on the details of its future convergence program due to be submitted to Brussels by 1 September.

Poland

Polish President **Lech Kaczynski** appointed on 10 July his twin brother **Jaroslav Kaczynski** as Prime Minister. Outgoing Prime Minister **Kazimierz Mar-**

kiewicz resigned due to reports of disagreements with Jaroslav Kaczynski on Poland's economic policy. Most ministers from the former cabinet are expected to stay and Marcinkiewicz will run as the Law and Justice party's candidate for mayor in the Warsaw fall elections.

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Polish and foreign emergency teams are taking part in rescue exercises in Poland. Approximately 500 rescuers from eight nations are participating in the Klomino range exercises located in northwestern Poland, which started on 10 July and will last for one week. The exercises and training procedures will enhance cooperation in joint international relief efforts.

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The world's largest producer of PCs, Dell Corporation, is considering building a production plant in Lodz, Poland, instead of Slovakia. The investment is worth at least EUR 100 million and 2,500 jobs will be created.

Slovakia

The first official visit abroad of newly appointed Slovak Foreign Minister **Jan Kubis** calmed fears in Budapest over the newly formed government, which includes the Slovak National Party, known for its anti-Hungarian stance. On 11 July, Kubis de-

fended the coalition and asked Hungary to evaluate the new government in light of its program and concrete steps, adding that it will duly respect European values and the rights of the Hungarian and Roma minorities.

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Despite Prime Minister **Robert Fico's** earlier statements regarding a possible postponement of joining the euro zone, on 11 July, Finance Minister **Jan Pociatek** assured Brussels that a key economic priority for Slovakia is to meet the Maastricht criteria for a 2009 euro adoption. Conflicting statements by government officials regarding the adoption of the euro are likely to discourage investors and fuel the Slovak crown's further devaluation. The currency reached a two-month low this week forcing the Central Bank (NBS) to intervene for the third time since the elections in June.



Featured Photo: Lake Plesne, Czech Republic

Baltic States Update

Lithuania

On 11 July the Lithuanian Air Force set up a commission to investigate a suspected violation of Lithuania's airspace by a Mi-24 helicopter of the Belarusian Air Force on 10 July. The Belarusian Defense Ministry denied there was any violation. This was the third alleged airspace violation in the past three weeks.

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On 11 June consultations among representatives of the Lithuanian,

Latvian, and Estonian defense ministries were held in Vilnius. The focus was on air policing missions in the Baltic states, participation in international operations, and issues related to the Baltic Defense College.

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On 12 July Lithuanian President **Valdas Adamkus** signed a decree approving a new government. The parliament will vote on the final cabinet composition next week. The new government will have a

minority in parliament (53 out of 141 seats). It has fourteen members drawn from four parties and is led by Prime Minister **Gediminas Kirkilas**. Six cabinet ministers are from the left-wing Social Democratic Party.

Latvia

On 10 July Latvian President **Vaira Vike-Freiberga** met with British Prime Minister **Tony Blair** in London to discuss NATO reforms and cooperation between

EU member states. This is a historical year in bilateral relations with the upcoming NATO summit in Riga and Queen Elizabeth II's planned visit to Latvia.

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A new Eurobarometer poll showed that some 64 percent of Latvians surveyed associate the EU with travel, jobs, and studies. Twenty-two percent associate the bloc with peace.

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Baltic States Update Contd.

Latvia contd.

On 12 July the U.S. Treasury barred American financial institutions from doing business with Latvia's *VEF Banka*, which it suspects of money laundering. The Treasury also lifted trading restrictions between U.S. banks and Latvia's *Multibanka*, which, along with VEF, had been listed by Washington in April 2005 as a suspect in financial crimes.

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Estonia

On 13 July the EU started a three-day evaluation mission to check Estonia's compliance with the air border requirements of the Schengen visa area, which allows people to move between Schengen states without passing border posts. Estonia must comply with the common security and justice requirements to join the Schengen visa area. Its sea border was inspected in June and the land border will be inspected in September. The EU has already con-

ducted checks in Latvia and Lithuania.

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The Bank of Estonia will raise the obligatory reserve requirement of commercial banks from 13 to 15 percent in September. This is likely to curb the increasing domestic demand for loans. Bank of Estonia Governor **Andres Listok** claimed that joint action of the central bank and the government is needed to prevent the economy from overheating.

Southeast European Update

Bulgaria

On 12 July Bulgarian Prime Minister **Sergei Stanishev** announced that his country plans to invest more than USD 6 billion in infrastructure projects over the next three years. The initiative is embedded in the government's National Strategy for Integrated Development of Bulgaria's Infrastructure. About two-thirds of the funds are earmarked for upgrading the road and rail network, while the rest will be used for environmental and energy projects. According to the document, an additional USD 9.5 billion will be invested in these sectors in the period 2009-2015. The planned infrastructure overhaul will be financed by the Bulgarian government, the European Investment Bank, the European Bank for Reconstruction and Development, and the World Bank.

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On 14 July Bulgaria, Greece, and Iraq signed an agreement to train Iraqi security forces for peace-keeping operations. According to the document, 30 Iraqi troops will participate in a two-week training in Bulgaria, conducted by Bulgarian and Greek instructors. **Haider al-Barak**, Iraq's ambassador to Sofia, expressed hopes that a similar deal will be signed with the Bulgarian interior ministry to train Iraqi policemen.

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On 10 July Bulgaria announced the seven finalists in the tender for supervising the construction of a USD 300 million bridge over the Danube river. The potential con-

tractor will receive USD 9 million for overseeing the proper implementation of the project. The bridge will be the second one linking Bulgaria and Romania, between the ports of Vidin and Calafat, and it will be part of the EU transport corridor number four, running from Germany to Greece and Turkey.

Croatia

On 11 July Croatian President **Stjepan Mesic** signed a joint agreement on international passenger and cargo transportation with Kazakh President **Nursultan Nazarbayev**. Mesic said that Croatia was particularly interested in transporting oil and oil derivatives from Kazakhstan in order to ensure a stable energy supply. The two leaders also signed a joint statement that pledges Croatia's continued support for Kazakhstan to join the World Trade Organization.

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On 11 July **Harry Broadman**, a World Bank economic adviser, said that Croatia has made significant progress in integrating into the world trade system and if it continues with reforms, it may be a good example to other states in Southeast Europe. Croatia's success is illustrated not only by its trade policy reform, but also by its internal market structural reforms, which have streamlined capabilities for processing foreign direct investment. However, Zagreb still needs to limit its public spending to ensure economic growth.

Romania

The Romanian Economy Ministry

plans to build a USD 71.5 million hydro power plant on the Siret River in the region of Iasi. The announcement was made on 10 July and the government will soon organize a tender to select the construction company that will pursue the project. The new power plant will provide electricity in the region, create jobs, and will decrease flood risks in the area.

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A United Nations commission backed Romania in the dispute over the construction of a ship canal by Ukraine in the Danube delta. Romania has argued that the section of the Danube delta that joins the Black Sea is an environmentally sensitive area and that Ukraine had failed to notify Romanian authorities in accordance with the provisions of the UN's environmental treaty.

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The French automaker Renault will invest USD 228 million in the Pitesti area for upgrading its Dacia manufacturing plant. The upgrade is needed for Romania's automobile production sector in order to comply with the EU's anti-pollution standards. Renault has invested USD 832 million in the Dacia Romanian plant in the last six years since the introduction of the new Logan model.

Slovenia

On 8 July the executive board of the International Monetary Fund (IMF) congratulated the Slovenian government for the country's successful economic transformation that has helped pave the way

for Slovenia's entry into the euro zone. Macroeconomic and income policy reforms have led to solid economic growth, low inflation, and a moderate public debt. However, the IMF pointed out that the Slovenian economy is still not performing as well as it could due to weak bank supervision and a lack of foreign direct investment.

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On 11 July representatives from the Slovenian parliament held a roundtable discussion on legislative issues with members of the Roma community. Proponents of a new bill maintain that this legislation will enable the Roma population to become better organized, streamline complaints from the Roma community, and improve the involvement of state authorities. However, the vice president of the Slovenian Roma Association, **Anton Hudorovac**, contended that the bill was completely unnecessary and that the Roma community was ready to stage protest marches in Ljubljana against it.

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On 11 July Slovenian Prime Minister **Janez Jansa** met with U.S. President **George W. Bush** to discuss strategic planning for the Balkans, Iraq, and Afghanistan. At a news conference after the meeting, Bush thanked Jansa and the Slovenian people for helping coalition forces stabilize Afghanistan and Iraq. Ljubljana has contributed troops to Afghanistan and has assisted with the training of Iraqi security forces.

Select Briefing is produced by the New European Democracies Project, formerly the Eastern Europe Project, at the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. The CSIS New European Democracies Project monitors daily developments throughout the East, Central, and Southeast European regions. This publication highlights news in the new European Union (EU) member states, as well as in the countries scheduled to join in the next rounds of EU enlargement. *Select Briefing* team: Janusz Bugajski, Director; Ilona Teleki, Deputy Director and Fellow; Milena Staneva, Research Associate and Editor of *Select Briefing*; and Research Interns Besian Bočka, Jacob Kuipers, Anna Stumpf, and Ieva Vilutyte.

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