

INFLATION REPORT / III

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INFLATION REPORT / III

In 1998, the Czech National Bank switched to direct inflation targeting. In the inflation targeting regime, the central bank's communication with the public plays a significant role. One of the core elements of this communication is the publishing of quarterly Inflation Reports.

Section II of the Inflation Report describes economic and monetary developments in the previous quarter, which represent the starting conditions for the forecast for the Czech economy. Section III describes the forecast for the Czech economy as drawn up by the CNB's Monetary and Statistics Department.

The inflation forecast and the assumptions underlying it are published with the aim of making monetary policy as transparent, comprehensible, predictable and therefore credible as possible. The Czech National Bank is convinced that credible monetary policy effectively influences inflation expectations and minimises the costs of maintaining price stability. Maintaining price stability is the Czech National Bank's primary objective.

The forecast is the key, but not the only, input to the Bank Board's decision-making. At its meetings during the quarter, the Bank Board discusses the current forecast and the balance of risks and uncertainties surrounding it. The arrival of new information since the forecast was drawn up and the possibility of asymmetric assessment of the risks of the forecast and divergent views of some board members on the development of the external environment or the linkages between the various indicators within the Czech economy mean that the Bank Board's final decision need not always correspond entirely to the message of the forecast. Information on the Bank Board's discussions at the last two meetings and on the reasons for its monetary policy measures in that period is given in the minutes of the Bank Board meetings at the end of this Inflation Report.

This Inflation Report was approved by the CNB Bank Board on 14 August 2008 and contains the information available as of 25 July 2008.

Unless stated otherwise, the sources of the data contained in this Inflation Report are the CZSO or the CNB. All the Inflation Reports published to date are available on the CNB website at <http://www.cnb.cz/>. Underlying data for the tables and charts in the text of this Inflation Report are published at the same internet address.

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CHART I.1 FULFILMENT OF THE INFLATION TARGET

Inflation fell slightly in 2008 Q2, but still markedly exceeded the upper boundary of the inflation-target tolerance band
(annual percentage changes)



Inflation remained well above the upper boundary of the inflation-target tolerance band, despite declining somewhat in 2008 Q2 (see Chart I.1). The slowdown in annual consumer price inflation resulted from lower growth in food prices, as the remaining price categories recorded no major changes compared to the previous quarter. In line with the forecast, the Bank Board made no changes to monetary policy interest rates in Q2. The latest forecast predicts a decline in inflation to the inflation target. Consistent with the forecast is a declining interest rate path for the rest of 2008 and broad interest rate stability for most of 2009. At its August meeting the Bank Board assessed the risks of the forecast as being roughly balanced and decided unanimously to cut the monetary policy interest rates by 0.25 percentage point.

The monetary policy decision-making of the CNB Bank Board in 2008 Q2 was based on the inflation forecast described in the previous Inflation Report. Given the monetary policy transmission lag, the Board focused on hitting the inflation target in the second and third quarters of 2009. According to the forecast, inflation in this period should be in the lower half of the inflation-target tolerance band. Monetary-policy relevant inflation was expected to be almost the same as headline inflation at the monetary policy horizon. Consistent with the baseline macroeconomic forecast and its assumptions were broad stability in nominal interest rates initially, followed by a decline still in 2008 and stability in 2009.

TABLE I.1 KEY MACROECONOMIC INDICATORS

The koruna continued appreciating against both the euro and the dollar in 2008 Q2
(annual percentage changes unless otherwise indicated)

	3/08	4/08	5/08	6/08
Consumer price inflation	7.1	6.8	6.8	6.7
Industrial producer price inflation	5.3	4.7	5.2	5.3
Money supply growth (M2)	9.0	8.1	8.0	-
3M PRIBOR ^{a)} (in per cent)	4.0	4.1	4.1	4.2
CZK/EUR exchange rate ^{b)} (level)	25.22	25.07	25.10	24.31
CZK/USD exchange rate ^{b)} (level)	16.25	15.92	16.12	15.63
State budget balance since January ^{a)} (CZK bn)	-13.4	-28.1	-38.3	-5.7
GDP growth at constant prices ^{c)}	5.3			-
Average nominal wage in monitored organisations ^{d)}	10.4			-
Unemployment rate ^{e)} (in per cent)	5.6	5.2	5.0	5.0

a) average level for the month

b) incl. SFAOs, end-of-month position

c) figure for the quarter ending with the given month

d) seasonally adjusted

e) registered unemployment (MLSA); end-of-month position

At its meetings in 2008 Q2, the Bank Board left its monetary policy interest rates unchanged. These decisions were consistent with the macroeconomic forecast and its risks, which the Bank Board assessed as being only slightly inflationary in this period. The Bank Board identified rising commodity prices on world markets and higher external inflation pressures as the main inflationary risks. The appreciation of the koruna and the downswing in external demand were expected to have anti-inflationary effects.

The forecasted outlook for monetary policy interest rates was not reflected very significantly in money market interest rates in 2008 Q2. Interest rates with maturities of up to two months were flat during the second quarter and rates with longer maturities rose slightly towards the end of June. However, during July, and particularly in the second half of the month, interest rates with maturities of over one month fell sharply.

These movements in domestic interest rates, coupled with the July increase in the ECB's key interest rates, caused the current and expected negative interest rate differentials to widen. Nevertheless, the koruna's exchange rate against the euro and the dollar appreciated in 2008 Q2 and throughout most of July. The koruna was supported mainly by the continued uncertainty in the financial markets and by the related increased interest in Central European currencies. However, the koruna depreciated after the CNB Governor and other Bank Board members commented on the exchange rate and the outlook for interest rates in late July.

The annual rate of economic growth declined by more than one percentage point in 2008 Q1 compared to the previous quarter, falling below 6% for the first time in three years. The slowdown in GDP growth was due mainly to household consumption and to a lesser extent to government consumption and fixed investment. The lower contribution of these components was only partly offset by an increased contribution of net exports and changes in inventories.

The first signs of a possible change in trend appeared on the labour market in 2008 Q1. Annual employment growth slowed, in contrast to previous quarters, and job creation was roughly flat. Nominal wage growth in the business sector almost doubled compared to the previous quarter. This was due largely to extraordinary

factors, particularly tax optimisation via deferred payment bonuses for 2007 and a lower sickness rate due to zero benefits in the first three days of sickness. The increase in real wage growth was smaller due to the high inflation. By contrast, nominal wage growth in the non-business sector slowed by roughly one-half, which, owing to the high inflation, led to a year-on-year decline in real wages.

Inflation was approximately half a percentage point lower in 2008 Q2 than in the previous quarter. The decline in inflation was due mainly to lower growth in food prices. The contributions of regulated prices, indirect taxes changes and adjusted inflation excluding fuels were virtually unchanged. As in the previous quarter, the continued appreciation of the koruna partly dampened the impact of the persisting high prices of energy-producing materials on world markets on inflation as well as the domestic inflation pressures, which are linked mainly with wage growth. In 2008 Q2, inflation was almost at the forecasted level.

Section III of this Inflation Report describes the CNB's new forecast, which was drawn up using the new g3 forecasting model. This model was used to create the alternative forecast scenario in the previous Inflation Report.

The Czech economy is currently in a downward phase of the business cycle, which is manifesting itself in slower GDP growth. However, the domestic inflationary pressures are still relatively pronounced and stem primarily from rapid nominal wage growth in a situation where the price growth is being caused largely by administrative factors. However, the strong appreciation of the exchange rate is offsetting these domestic inflationary pressures via import prices and by affecting the real economy.

At the forecast horizon, inflation will be falling towards the inflation target thanks to the unwinding of the effect of the price shocks that occurred in late 2007 and early 2008, the anti-inflationary effect of the current appreciation of the koruna and a gradual decline in inflation pressures from the domestic economy. Headline inflation will be above the tolerance band of the inflation target until the end of 2008. At the beginning of 2009, inflation will fall rapidly and then gradually decline below the point inflation target. At the monetary policy horizon, i.e. in 2009 H2, headline inflation will thus be in the lower half of the 3% inflation-target tolerance band. At the beginning of 2010, owing to this development, inflation will lie in the upper half of the tolerance band of the new 2% inflation target.

Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, will also be above the upper boundary of the tolerance band for the inflation target until the end of 2008. The first-round effects of changes to indirect taxes will unwind gradually in 2009 H1, and from Q3, i.e. already at the monetary policy horizon, monetary-policy relevant inflation is forecasted to be the same as headline inflation.

GDP growth will continue slowing in the coming quarters owing to the dampening effect of the very strong exchange rate and weak external demand on export growth and gross capital formation. Household consumption will recover slightly in 2008, but will be depressed by slowing employment growth and downward pressure on nominal wage growth.

Consistent with the macroeconomic forecast and its assumptions is a declining interest rate path for the rest of 2008 and broad interest rate stability for most of 2009.

In addition to the baseline scenario, two alternative scenarios were constructed for the Czech economy going forward.

CHART I.2 THE HEADLINE INFLATION FORECAST

At the monetary policy horizon, the headline inflation forecast lies in the lower half of the inflation-target tolerance band
(annual percentage changes)

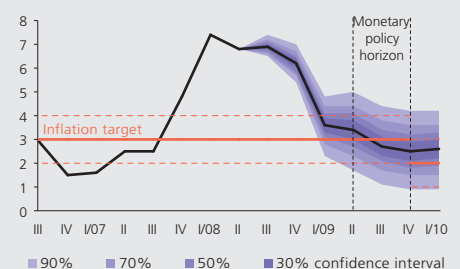


CHART I.3 THE MONETARY-POLICY RELEVANT INFLATION FORECAST

At the monetary policy horizon, monetary-policy relevant inflation lies in the lower half of the inflation-target tolerance band
(annual percentage changes)

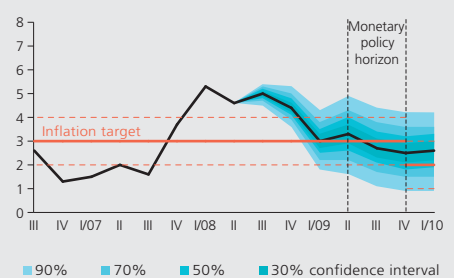
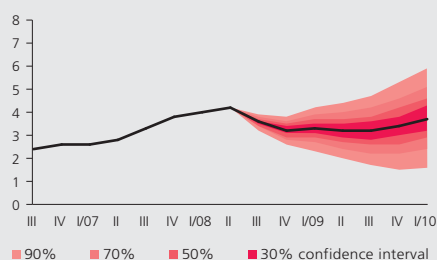


CHART I.4 THE INTEREST RATE FORECAST

Consistent with the forecast is a declining interest rate path for the rest of 2008 and broad interest rate stability for most of 2009
(3M PRIBOR, %)



The first alternative scenario reacts to the recent sharp appreciation of the exchange rate. It assumes that the exchange rate will stay at the record-high values seen in mid-July in Q3 and models this as a pure exchange rate shock that is one-off in nature and is not supported by economic fundamentals. The most significant effect of such an appreciation would be lower growth in real exports, which would foster an even more pronounced slowdown in GDP growth than projected in the baseline scenario. The exchange rate in the alternative forecast corrects quite quickly with the aid of an immediate marked reduction in interest rates. This facilitates a relatively modest and time-limited response of inflation and the real economy.

The second alternative scenario has been drawn up using the QPM structural model, which was used to prepare the baseline scenario in the past. The purpose of this alternative scenario is to describe the economy by means of an alternative model and to maintain continuity with the previous baseline scenario of the forecast. The headline inflation forecast and the speed of return of inflation to the inflation target is comparable with the baseline scenario in this alternative scenario, although differences are apparent in the forecast for the real economy, in the intensity of the effect of domestic and external inflation factors and partly also in the interest rate path. At the start of the forecast interest rates are slightly higher, while the exchange rate of the koruna is stronger. The slowdown in economic growth in 2009 is more pronounced and nominal wages grow faster.

At its August meeting the Bank Board assessed the risks of the baseline scenario as being roughly balanced. The upside risk, according to the Bank Board, could be higher-than-expected wage growth and in the opposite direction then, the development of the exchange rate of the koruna. A high degree of uncertainty continues to be associated with the evolution of world prices of food and commodities. At this meeting the Bank Board decided unanimously to cut the monetary policy rates by 0.25 percentage point.

II.1 THE EXTERNAL ENVIRONMENT

Annual GDP growth in the euro area in 2008 Q1 was lower than that in the USA. Slovakia remained the fastest growing economy in the Central European region, while Hungary was the slowest. The US dollar continued depreciating in 2008 Q2, repeatedly exceeding USD 1.6/EUR. The average price of Brent crude oil reached almost USD 125 a barrel in this period, increasing by 29% compared to the previous quarter.

As in the previous period, US GDP grew by 2.5% year on year in 2008 Q1. In annualised quarter-on-quarter terms, however, the economic growth was markedly weaker, reaching only 1%. Net exports improved substantially year on year and government spending growth increased. Household consumption growth slowed compared to the previous quarter, while fixed investment declined. No major improvement in the economic situation can be expected in Q2. The housing market crisis continued. House prices and sales of new homes kept falling, the stock of unsold dwellings remained almost unchanged and the number of repossessions rose. The problems in the financial market did not end either: the Californian mortgage lender IndyMac collapsed and the Treasury Department and the Federal Reserve were forced to explicitly express support for two large government-supported mortgage institutions Freddie Mac and Fannie Mae after doubts about the quality of their securities strengthened on the market.

During Q2, employment in the USA fell by 60,000 workers a month on average. The unemployment rate rose by 1 percentage point to 5.5% year on year and real wages stopped growing. Household demand was hit by worsening lending conditions and falling share prices. These effects were offset to some extent by a fiscal stimulus targeted at corporations and households approved by Congress in February and implemented during this period.

Consumer price inflation rose in the USA during Q2 as a result of rising global prices of oil and food (import prices increased by more than 20% overall, with energy import prices jumping by more than 70%), reaching almost 5% in June. Core inflation also increased (to 2.4%). So far in 2008 the Fed has lowered its key rate by 2.25 percentage points to 2% in four steps. The last cut came at the end of April. However, a further reduction in rates is unlikely given the rising inflation, the impending inflation risks and the danger of a sharp rise in inflation expectations, which have already shifted upwards slightly. On the other hand, given higher expected inflation it is unlikely that the Fed will tighten monetary policy in near term either. The Fed is concerned that this might reduce the growth of the economy, which is teetering on the verge of recession.

In the euro area, annual economic growth fell slightly further in 2008 Q1 compared to the previous quarter, to 2.1%, yet remained unexpectedly high thanks mainly to faster investment and export growth. Export growth has been outpacing import growth for several quarters now. The economic growth in the euro area is balanced and the economy is not threatened by any major imbalances. The 12-month cumulative current account surplus declined by EUR 10 billion in April, but remained positive. Growth in goods and services exports outpaced import growth by several tenths of a percentage point, and the services surplus thus rose by EUR 12 billion.

The unemployment rate in the euro area fell by 0.3 percentage point year on year in May, reaching its lowest level in more than 20 years. Inflation has been increasing since autumn 2007. This, however, is due not to internal inflation pressures, but to global commodity prices. Economic growth in the euro area can be expected to continue in Q2. External demand remained strong, because the world economy continued growing thanks to the emerging nations. Owing to high capacity utilisation and large corporate profits, investment probably increased and the labour

CHART II.1 THE DOLLAR-EURO EXCHANGE RATE
The exchange rate of the dollar against the euro fluctuated between USD 1.54 and 1.60 in 2008 Q2 and July 2008

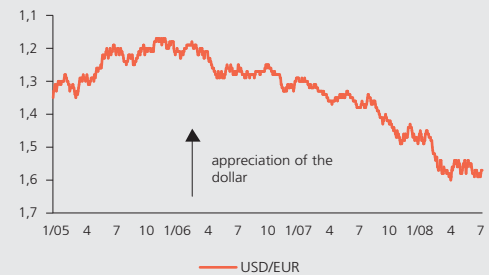


CHART II.2 BRENT AND URAL CRUDE OIL PRICES
The price of Brent crude oil continued rising sharply in 2008 Q2 and July 2008, breaking through USD 145 a barrel in July (USD/barrel)

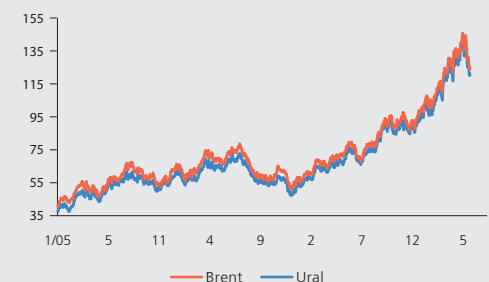
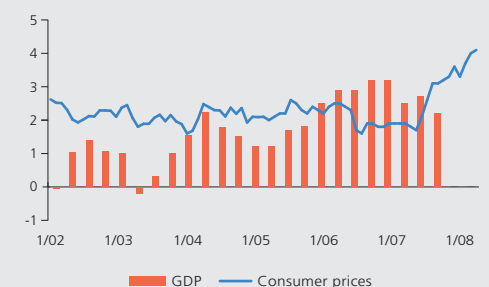


CHART II.3 GDP AND INFLATION IN THE EURO AREA
Inflation in the euro area continued rising strongly in 2008 Q2 and July 2008 (annual percentage changes)

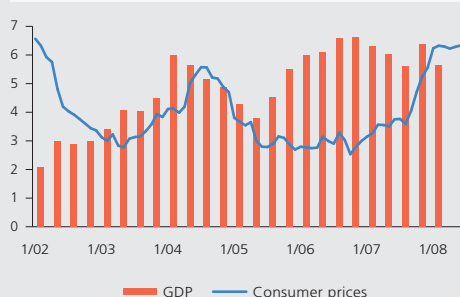


market situation improved further – the employment and labour participation rates increased, while the unemployment rate declined. However, the rate of economic growth is likely to fall slightly, as signalled by a year-on-year decline in industrial output and orders in May and decreases in construction output in April–May.

Inflation in the euro area increased further in June, to 4%, as a result of rising prices of energy, food, housing and transport. Core inflation also rose, reaching 1.8%. The ECB had left its key rate unchanged at 4% since June 2007, but at the beginning of July it raised it by 0.25 percentage point. This was due to inflation, which had been rising since the previous autumn, as well as to concerns about a rise in inflation expectations, strong growth in monetary and credit aggregates (M3 by 10.5% year on year in May, loans to corporations by 14.2%) and the favourable outlook for the euro area economy, which according to the ECB is not in danger of slowing down significantly.

Annual economic growth in Germany accelerated sharply in 2008 Q1, rising by 0.8 percentage point compared to the previous period to 2.6% (the annualised quarter-on-quarter increase was even larger – from 1% to 6%) thanks mainly to high rates of growth of investment and exports, which together with a mild winter led to a surge in industrial and construction output. Although consumption growth strengthened owing to rising employment and wages compared to the previous quarter, it remained low (0.6%) because of high inflation (energy and food). Conditions deteriorated in the German economy in Q2. The appreciating euro and weakening global growth reduced demand for exports and high inflation limited household consumption. Falling growth in construction and industrial output in April and May also suggest lower GDP growth in Q2. The rate of growth of industrial output fell below 1% in May and construction output declined in March–May. A downswing in household consumption is also being signalled by declining retail trade turnover in the same period. Consumer price inflation rose by a further 0.3 percentage point to 3.4% in June. This was due to surging energy and food prices, which rose by almost 13% and 8% respectively.

CHART II.4 GDP AND INFLATION IN THE NEW EU MEMBER STATES
GDP growth in the “new” EU Member States decreased in 2008 Q1
(annual percentage changes)



In 2008 Q1, strong GDP growth continued in Poland and Slovakia, while in Hungary the growth remained weak. Average inflation in April–June declined in Poland and Hungary compared to the previous quarter, but rose in Slovakia. The currencies of all three countries appreciated to new highs in this period (Chart II.5).

Despite slowing somewhat, the Slovak economy maintained a high annual rate of growth of 9.5% in 2008 Q1. The main source of this was rapid growth in household consumption, supported by a strong increase in employment of 2.8% and real wages of 6%. In April and May, construction output rose by 11% and industrial output by almost 7%, thanks mainly to the car industry growing by more than 40%.

HICP inflation rose in Slovakia in Q2, reaching 4.3% in June, mainly due to rising prices of oil and food and to a lesser extent to prices of housing-related services. The NBS has left its key rate at 4.25% so far this year. Given its obligation to align its rate with that of the ECB, the NBS is likely to change its rates only if the ECB does so first. The exchange rate for the conversion of the Slovak koruna to the euro was set at SKK 30.126, equal to its central rate in ERM II.

The growth of the Polish economy declined slightly in 2008 Q1, but remained above 6%. Its sources were high rates of growth of investment (over 14%), household consumption and exports. Given the continued strong growth of industrial and construction output (of 6% and 19% respectively) and retail trade turnover (of 7%) in April and May, the rapid economic growth can be expected to continue into Q2. The continuing growing household consumption was supported by year-on-year wage growth of 12% and employment growth of 2.5%, along with a decline in the unemployment rate of 2.3 percentage points.

In Poland, inflation remained at 4.3% as a result of rising energy and food prices, and core inflation increased to 3.4%. The NBP raised its reference rate by 0.25 percentage point at the end of March and again in June, to 6% in total. These increases were due to high inflation and buoyant wage growth, testifying to a tight labour market situation and the emergence of indirect effects of price shocks. The fast appreciation of the Polish zloty, which firmed by 18% year on year and by 14% compared to the start of the year, had an anti-inflationary effect.

In Hungary, GDP rose only by 0.8% year on year in 2008 Q1, similarly as in the two previous quarters. Government consumption and fixed investment decreased strongly, household consumption was almost flat and the only source of economic growth was a significant increase in net exports. The low GDP growth was reflected in a year-on-year decline in employment of 2% and a rise in the unemployment rate of 0.3 percentage point.

Inflation in Hungary dropped by 0.3 percentage point to 6.7% in June, but remained high because of energy and food prices. The MNB raised its base rate three times in a row in Q2, to a total of 8.5%, on concerns that the medium-term inflation target of 3% was being put at risk by excessive wage growth and static inflation expectations. However, in June and July the MNB left its base rate unchanged because of the appreciating forint, a decline in headline and core inflation in June and decrease in wage growth in May.

II.2 THE MONETARY CONDITIONS

The real monetary conditions tightened further in 2008 Q2 owing to a continuing sharp appreciation of the koruna, which was out of step with developments in the domestic economy and the interest rate differential. Interest rates increased slightly for the most part, but remain low in real terms and are fostering growth in domestic demand. The evolution of the two components of the monetary conditions in 2008 Q2 is described in more detail below.

II.2.1 Interest rates

The CNB left its key rates unchanged in 2008 Q2. With effect from 8 February 2008, the 2W repo rate was set at 3.75%, the Lombard rate at 4.75% and the discount rate at 2.75%. Market interest rates were mostly flat at first. However, at the end of May and during June they increased at almost all maturities. In the case of PRIBOR spot rates the rise was not as significant (the shortest rates were flat and longer rates rose by around 0.1 percentage point); the growth pertained mainly to FRA and IRS derivatives rates (up to 0.5 percentage point). The rise in rates was due mainly to external factors, including concerns about rising inflation, the high price of oil and an expected rise in key interest rates in the euro area and the USA. The observed increase was offset by the appreciating koruna and by signs of a slight slowdown of the domestic economy. The market therefore revised the expected CNB monetary policy settings quite significantly upwards.

At the beginning of July the situation changed. Interest rates started declining rapidly owing to a record appreciation of the koruna and lower-than-expected domestic inflation figures in June. Comments made by some Bank Board members on the strong anti-inflationary effect of the appreciating koruna and its negative impact on domestic economic growth were also significant. Analysts' comments and PRIBOR spot and FRA forward quotations at the end of July 2008 indicated that most financial market participants expected no changes to the CNB's key rates in near future. There was no consensus among the analysts on the longer-term picture.

CHART II.5 CENTRAL EUROPEAN CURRENCIES

All the currencies of the Central European region strengthened in 2008 Q2 and July 2008, most of all the Hungarian forint (average for January 2005 = 100)

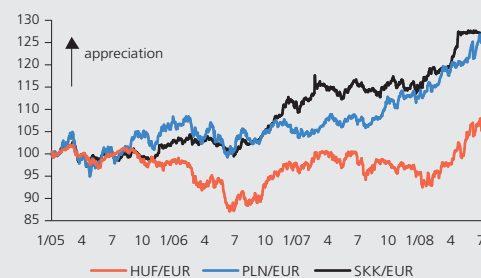


CHART II.6 THE CNB'S KEY RATES

The CNB left its key interest rates unchanged (percentages)

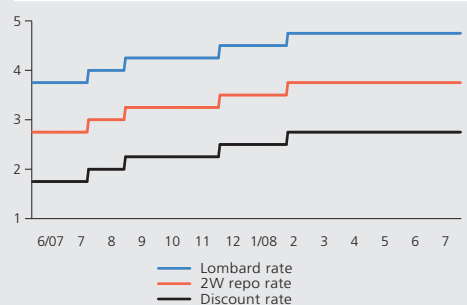


CHART II.7 MARKET INTEREST RATES

Interest rates showed greater volatility (percentages)

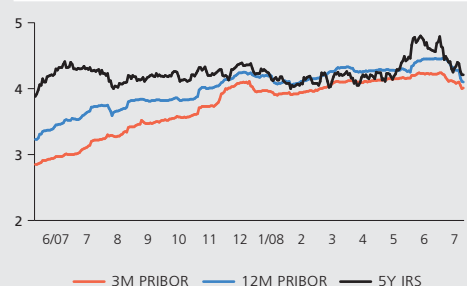
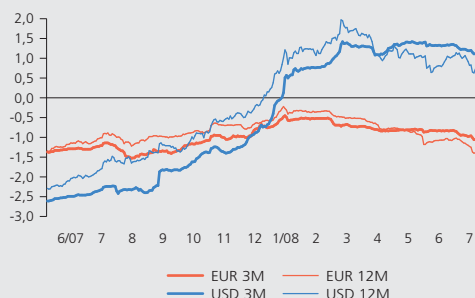


CHART II.8 INTEREST RATE DIFFERENTIALS

Interest rate differentials decreased vis-à-vis the euro and the dollar
(percentage points)



The PRIBOR yield curve shifted upwards slightly during 2008 Q2 in its middle and longer sections, while its short end remained stable. The spread between the 1Y PRIBOR and the 2W PRIBOR was 0.62 percentage point in June. The IRS yield curve shifted upwards at all maturities. The average 5Y–1Y spread in June was 0.10 percentage point and the 10Y–1Y spread 0.22 percentage point.

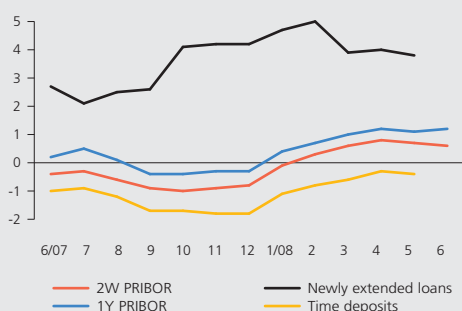
The interest rate differential on the money market (PRIBID/CZK-EURIBOR/EUR or EURIBOR/USD) was affected by changes in key rates and by movements in money market rates. The ECB raised its refinancing rate by 0.25 percentage point to 4.25%, while the Fed lowered its O/N rate by 0.25 percentage point to 2.00%. Overall, the interest rate differentials narrowed vis-à-vis dollar rates and widened their negative values vis-à-vis euro rates.

Seven auctions were held on the primary government bond market in the period under review, with original maturities of 3Y–15Y and a total volume of CZK 29.4 billion. At a time of rising interest rates, investor demand was insufficient in some of the auctions. Moreover, the Czech Ministry of Finance reduced some of the orders. The bonds that were not underwritten were purchased by the Ministry of Finance into its portfolio. In addition to koruna bonds, euro-denominated bonds with 10Y maturity were issued. The total issue volume was EUR 2 billion and the coupon 5%.

Nominal interest rates on new loans were 7.2% and rates on new time deposits 2.7% in May. Real interest rates¹ are affected not only by the level of nominal rates, but also by movements in inflation expectations. Consumer price inflation expectations did not change much during 2008 Q2, and expected industrial producer price inflation was also flat. Real rates on new loans were 3.8% in May, while real rates on time deposits were -0.4%.

CHART II.9 EX ANTE REAL RATES

Ex ante real interest rates on new loans were flat
(percentages)

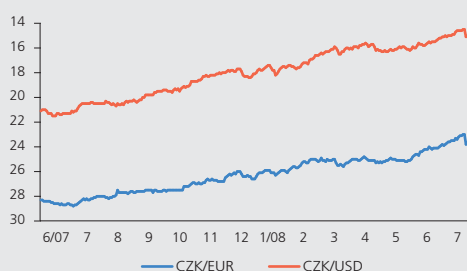


II.2.2 The exchange rate

The average exchange rate of the koruna against the euro in 2008 Q2 was CZK 24.8 (see Chart II.10), which represents a year-on-year appreciation of 12.2%. The rate also strengthened in quarter-on-quarter terms – by 2.9%. The koruna continued appreciating during the first three weeks of July. Of the external factors, the main cause of the appreciation of the koruna was foreign short-term investors' persisting interest in koruna assets, which, at a time of uncertainty in the financial markets, are regarded as a safe investment. The appreciation of the Czech koruna was also fostered by a sharp appreciation of the Slovak koruna in response to the revaluation of its central rate in ERM II and the recommendation to admit Slovakia into the euro area. The domestic factors contributing to the appreciation of the koruna in June included the announcement of a doubling of the government Eurobond issue to EUR 2 billion and the government-approved version of the Prague airport privatisation project. However, the impact of this information on the exchange rate was partly dampened by the Joint Agreement between the Government and the CNB for dealing with the exchange rate effects of such operations (see Inflation Report II/2008). The strengthening of the koruna was also supported by quite favourable domestic macro-data, although some information is now indicating a markedly slowing rate of economic growth. Although the appreciation trend was

CHART II.10 CZK/EUR AND CZK/USD EXCHANGE RATES

The koruna appreciated against the euro and the dollar in 2008 Q2



¹ Ex ante real interest rates: nominal interest rates on loans are deflated by the industrial producer price inflation forecasted by the CNB; nominal interest rates on deposits and PRIBOR rates are deflated by the consumer price inflation expected by financial market analysts.

not affected by the July increase in the ECB's key interest rates and the associated widening of the negative interest rate differential, it stopped in late July after the CNB Governor announced a possible lowering of the CNB's interest rates in the near future.

The average exchange rate of the koruna against the dollar in 2008 Q2 was CZK 15.9, which represents a year-on-year appreciation of 24.2% and a quarter-on-quarter appreciation of 7.0%. Like the koruna-euro rate, the koruna-dollar rate appreciated substantially in June following a slight correction in the previous month. The exchange rate strengthened by one koruna during June and continued appreciating during the first three weeks of July. The exchange rate was affected mainly by published economic data and statements made by the Fed, the ECB and the CNB. The main cause of the weakening of the dollar was still the USA's unfavourable current and expected economic situation, associated mainly with problems in its financial and property sectors and with its external imbalance.

The appreciation of the koruna's nominal effective exchange rate accelerated sharply again in 2008 Q2. The nominal effective exchange rate firmed by 14.1% year on year and its previous trend thus increased further (see Chart II.11). The appreciation was visible with respect to all twelve currency areas monitored, but the year-on-year strengthening was due mostly to the koruna's appreciation against the euro and also the pound and the dollar. At 17.0%, the year-on-year appreciation of the CPI-deflated real effective exchange rate was even more pronounced than that of the nominal rate, as a result of faster growth in consumer price inflation at home than abroad. By contrast, the appreciation of the PPI-deflated real effective exchange rate was more moderate, amounting to 11.7%, as a result of higher producer price inflation abroad than in the Czech Republic.

II.3 DEMAND AND OUTPUT

Economic growth slowed in 2008 Q1, reaching 5.2%. The slowdown in annual real GDP growth of 1.4 percentage points compared to 2007 Q4 was chiefly due to a pronounced downswing in the rate of growth of final consumption expenditure. In 2008 Q1, foreign trade was thus the largest contributor to economic growth, even though the rate of growth of its turnover moderated. However, exports continued growing faster than imports, recording a high rate of growth despite the appreciating koruna. This testifies to a still high export performance of the Czech economy, supported by structural changes and foreign capital inflows. By contrast, the contribution of household consumption to output growth declined, owing to a sharp slowdown in the rate of growth of households' real income. Fixed investment demand weakened sharply, too, and so the year-on-year growth in gross capital formation was primarily a result of higher additions to inventories.

II.3.1 Domestic demand

Domestic demand growth continued slowing in 2008 Q1. Most of its major components contributed to this development. As in the previous quarter, the slowdown was due to household final consumption expenditure, which is the main component of domestic demand. A sharp downswing in fixed investment growth also contributed significantly to the slowdown in domestic demand. Only additions to inventories were higher than in 2007 Q1.

CHART II.11 EFFECTIVE EXCHANGE RATES OF THE KORUNA
The nominal and real effective exchange rates both significantly appreciated year on year in 2008 Q2
(year 2005 = 100)

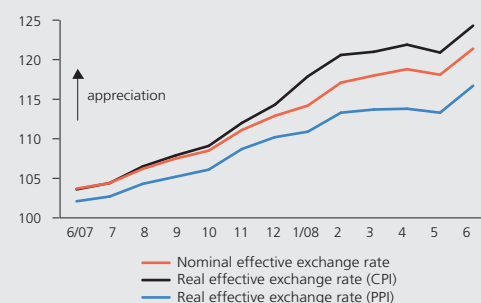


CHART II.12 GROSS DOMESTIC PRODUCT
Economic growth slowed in 2008 Q1
(annual and quarterly percentage changes at constant prices)

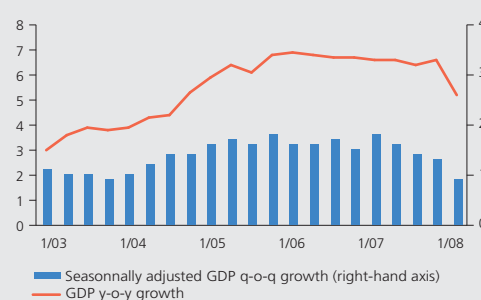


CHART II.13 STRUCTURE OF GDP GROWTH
Foreign trade was the largest contributor to output growth in 2008 Q1
(contributions in percentage points)

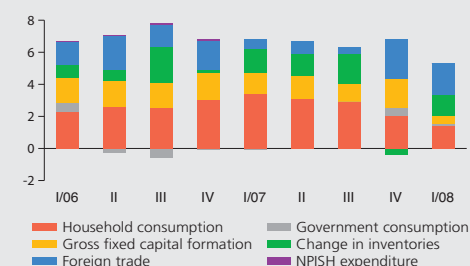
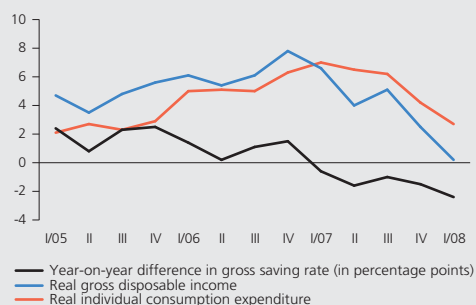
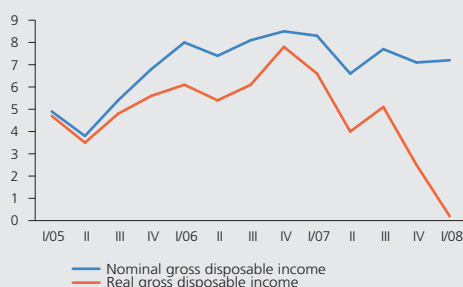
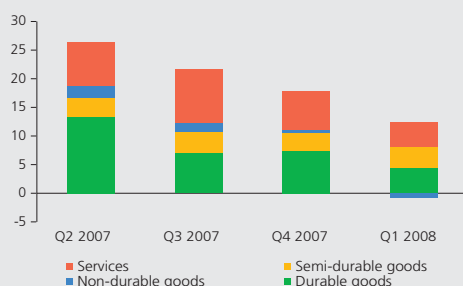


CHART II.14 HOUSEHOLD CONSUMPTION EXPENDITURE**Consumption growth eased further in 2008 Q1**
(annual percentage changes)**CHART II.15 DISPOSABLE INCOME****Growth in households' real disposable income slowed sharply owing to high inflation**
(annual percentage changes)**CHART II.16 STRUCTURE OF CONSUMPTION GROWTH****Growth of most components of household consumer expenditure decreased in 2008 Q1**
(annual changes in CZK billions; constant 2000 prices)

Consumption

The gradual slowdown in household final consumption expenditure continued into 2008 Q1. Its annual growth rate decreased to the lowest level in nine quarters, although in nominal terms household consumption expenditure growth rose to a ten-year high. This nominal growth was, however, accompanied by high consumer price inflation, so the real annual growth was only 2.7% in 2008 Q1.

The main reason for the substantial decline in the rate of real growth of household consumption was thus the same as in the previous quarter. High annual inflation² again significantly reduced the growth in the real purchasing power of households' disposable income in 2008 Q1 (see Chart II.15). Nominal disposable income maintained high annual growth rates exceeding 7%, but its real growth slowed sharply to levels close to zero (0.2%) owing to the high annual inflation.

As in previous quarters, the strong nominal growth in households' income in 2008 Q1 was driven primarily by compensation of employees (up by 9.8% year on year), the main component of which is wages and salaries. Compensation of employees accounted for almost two-thirds of the total annual rise in households' current income. However, the contribution of social benefits³ decreased significantly compared to 2007 Q4, as their year-on-year growth slowed from 14.8% to 5.4% in Q1. This effect was offset by faster growth in income from other sources,⁴ so that households' current incomes grew somewhat faster overall in Q1 than in the previous quarter (8.4% year on year). At the same time, however, current consumption expenditure of households continued growing quickly in year-on-year terms (by 10.8%). As a result, the growth in households' disposable income was 1.2 percentage points lower than that of current income.

The slowdown in household consumption growth was less marked than that in real disposable income growth. Some households continued to finance their consumption expenditure from credit, but its rate of growth moderated (for details see section II.6 *Monetary developments*). As households tried to keep their consumption growth at a certain level despite the sharply declining growth in the real purchasing power of their disposable income, they saved much less from their disposable income than in the previous quarter: gross saving fell by almost 20% year on year and the saving rate declined by 2.4 percentage point to 7.1%. Chart II.16 shows that the sizeable decrease in real income growth also affected the consumption behaviour of households: growth in households' expenditure on durable goods and services fell significantly, while expenditure on non-durable goods started declining year on year in Q1; only growth in expenditure on semi-durable goods remained roughly at the level of previous quarters.

Government consumption increased by 0.3% year on year in 2008 Q1.⁵ The growth was much slower than in the previous quarter, when government consumption had been strongly affected by one-off effects. Government consumption expenditure thus returned to the flat or slight downward trend visible since 2006 Q2. Government demand in 2008 Q1 thus helped to slow the increase in total final consumption. This conclusion is partly supported by data on the state budget, which accounts for the bulk of the government sector as a whole. There was a modest nominal fall in some expenditure items affecting government consumption in the period under review (particularly government sector pay), despite a rise in total expenditure in nominal terms.

² For details see Section II.8.1 *Current inflation*.

³ Social benefits other than social transfers in kind.

⁴ Annual growth in income from gross operating surplus and from other transfers increased to 5.3% and 8.9% respectively.

⁵ The seasonally and working-day adjusted annual increase was 0.7% (under the new CZSO methodology).

Investment

Contrary to expectations, the strong investment demand growth observed in the past two years slowed sharply in 2008 Q1. Fixed investment growth decreased to 2% year on year. This was mostly due to slowing growth in investment in machinery and equipment, which had been the main source of growth of gross fixed capital formation in the previous three quarters. The contribution of construction investment also decreased considerably, almost to zero, partly because of base effects in the other buildings and structures category. A modest recovery of investment in transport equipment and other investment⁶ was thus not sufficient to offset the slower rise in these two major components of investment in Q1.

The pronounced downturn in fixed investment growth in 2008 Q1 was due to several factors, acting variously across the individual sectors.⁷ It was probably due mostly to the non-financial corporations sector, which accounted for most of the investment. This is suggested primarily by a substantial decrease in annual growth in investment in machinery and equipment, from 15.4% in 2007 Q4 to 4.1% in 2008 Q1, which accounted for more than 60% of the moderation of the annual rate of growth of total investment in this period. At the same time, a decline in construction investment in this sector cannot be ruled out either, as construction investment is highly volatile, depending in particular on progress with the implementation of large investment projects. It is likely that the significant fluctuation in fixed investment formation seen at the start of 2008 was only transitory. Even so, a tendency towards a medium-term slowdown in growth in fixed investment by non-financial corporations can be expected, given the slowing growth in internal funds and long-term loans⁸ and the deteriorating expectations of corporations regarding future demand and the overall economic situation. This slowdown will be moderated by foreign direct investment.

The slowdown in fixed investment growth was also greatly affected by investment in dwellings (growth decrease to 4.5%), mainly reflecting declining growth in households' demand for housing. This should be judged from the point of view of the causes of the pronounced rise in demand for such investment particularly in 2007. As mentioned in previous Inflation Reports, this extraordinary phenomenon had been due mostly to the expected increase in VAT on construction work as of 1 January 2008, which very strongly stimulated demand for new dwellings in 2007. Thanks to the rising demand, supported by mortgage loans, the annual rate of growth of investment in dwellings had reached 18% in 2007 H2, in line with an increasing rate of growth of housing completions and a falling number of flats under construction during 2007 (see Chart II.18). The considerable decrease in the rate of growth of investment in dwellings in 2008 Q1 may thus signal that the growth will slacken this year. This may also be fostered by a more prudent approach of banks to mortgage lending.

II.3.2 Net external demand

According to the latest revised CZSO estimates, the year-on-year improvement in net exports of goods and services⁹ observed since 2004 Q3 continued into 2008 Q1. Net exports recorded a surplus of CZK 34.8 billion and were much higher

CHART II.17 GROSS FIXED CAPITAL FORMATION
Growth in investment demand slowed sharply in 2008 Q1

(annual percentage changes, contributions in percentage points, constant 2000 prices)

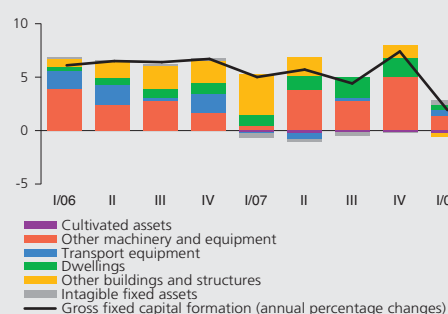


CHART II.18 INVESTMENT IN DWELLINGS

As expected, growth in housing completions and investment in dwellings slackened in 2008 Q1

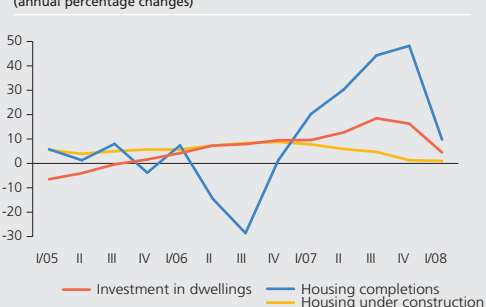
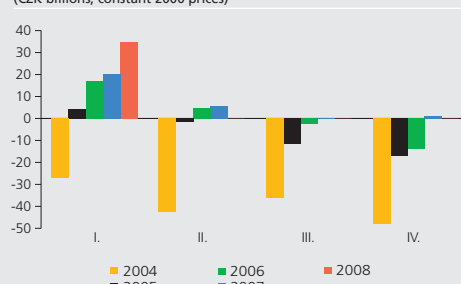


CHART II.19 NET EXTERNAL DEMAND

Net exports continued improving in 2008 Q1



⁶ i.e. investment in transport equipment and intangible fixed assets.

⁷ The CZSO only publishes data on the structure of investment by kind, so the analysis of total investment by economic sector is based on partial indicators.

⁸ For details see section II.6 Monetary developments.

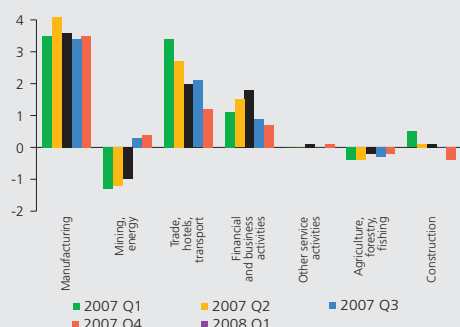
⁹ At 2000 prices.

CHART II.20 EXPORTS AND IMPORTS

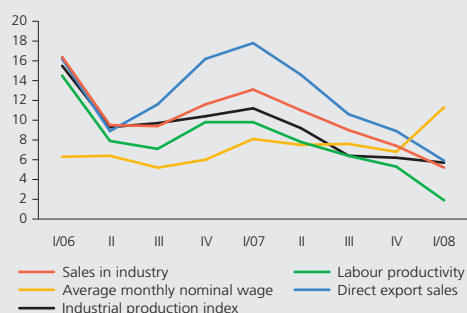
Real export growth and import growth slowed, and the lead of export growth over import growth narrowed
(annual percentage changes; constant prices)

**CHART II.21 CONTRIBUTIONS OF BRANCHES TO GDP GROWTH**

Manufacturing and market services were the biggest contributors to the growth in value added
(contributions in percentage points; constant 2000 prices)

**CHART II.22 INDICATORS OF DEVELOPMENTS IN INDUSTRY**

Industrial production growth eased further in 2008 Q1
(annual percentage changes; constant 2000 prices)



than in the same period a year earlier (see Chart II.19). The continued positive net export trend was achieved amid a further slight slowdown in annual foreign trade turnover growth, which, however, was still high and remained in double figures. Annual growth in real exports was 12.5%, down by 0.6 percentage point from the previous quarter. Owing to the high openness and high import propensity of the Czech economy, imports grew strongly as well (by 10.8% year on year). The slowdown in their growth was very modest and the lead of export growth over import growth thus narrowed to 1.7 percentage points. The contribution of net exports to GDP growth remained positive, however.

The increase in positive net exports in 2008 Q1 was primarily due to the balance of services, which changed from a deficit to a surplus for the first time in two quarters. This positive change was associated, among other things, with structural changes in services and the launch of new firms under other business services. These changes resulted in very fast year-on-year growth of exports of services, which reached 22.3% in 2008 Q1.

The trade balance, which had been the main contributor to the improving net exports in 2007 H1, recorded a large surplus in 2008 Q1, but its year-on-year increase was lower than that of services. The trade surplus was maintained thanks mainly to continuing positive structural changes on the supply side (particularly in engineering sectors), creating conditions for growth in export production. Despite the continuing year-on-year appreciation of the koruna, the annual rate of real growth of goods exports exceeded 10%, although it was lower than in the previous quarter (11.3%). The trend of declining growth of goods exports (from levels as high as 20% in 2006 and 2007) continued, mainly due to the koruna's appreciation and slowing growth in external demand. By contrast, growth in the total trade surplus was counteracted by still fast growing imports of goods, linked primarily with further expansion of international production cooperation and continuing domestic demand growth.

II.3.3 Output

On the supply side of the economy, annual growth in gross value added at constant prices slowed to 5.3% in 2008 Q1. This confirmed the effect of one-off factors¹⁰ on the pick-up in value added growth in 2007 Q4 and the return to a path of decelerating growth from the peak of 7.3% recorded at the start of 2006. As at the end of 2007, value added at constant prices was affected by a slowing rate of growth of sales in production industries amid robust growth of prices of some significant inputs of foreign and domestic origin and deteriorating terms of trade. The slowing value added growth was accompanied by decelerating year-on-year employment and aggregate labour productivity growth. Meanwhile, labour productivity was again the biggest contributor to the annual gross value added growth (accounting for almost two-thirds); the effect of increased employment was less significant.

Turning to sectors, the annual gross value added growth in 2008 Q1 was still driven chiefly by manufacturing and market services. In agriculture, value added continued falling in year-on-year comparison. In construction it decreased after having been unchanged in 2007 Q4.

Value added growth in manufacturing decreased further in 2008 Q1 from the high levels recorded in 2007 (to 11.7%). According to CZSO statistics, book value added in the individual branches¹¹ showed very mixed developments, industries with rising

¹⁰ For details see Inflation Report II/2008, section II.3.3 *Output*.

¹¹ According to data on book value added in monitored non-financial corporations with 50 employees or more at current prices.

value added still prevailed. In Q1, value added growth in manufacturing was mostly due to the manufacture of electrical and optical equipment, amid very fast growth in total sales, primarily from exports. The largest amounts of gross value added were still created in the manufacture of transport equipment, machinery and equipment, metals and fabricated metal products and electrical and optical equipment. However, value added in the manufacture of transport equipment stopped growing in nominal terms. Given the large share of exports in this industry's sales, it cannot be ruled out that the strong koruna and slowing external demand also contributed to its decrease.

In industry as a whole, the decrease in value added growth in Q1 (to 10.8% year on year) was accompanied by lower growth in production and productivity (see Chart II.22). According to the CZSO's latest survey results (for July), the effect of the slowing demand growth has also begun to show up in falling production capacity utilisation in manufacturing (see Chart II.23). However, the gross value added growth in industry was still high, largely due to structural changes supported to a large extent by foreign capital.

Within market services, the largest volumes of value added and the largest contributions to value added growth were again generated in trade, real estate and business services and in transport, postal and telecommunication services. The annual value added growth rate decreased further in the first two industries mentioned. The growth in transport accelerated slightly, but was below the average for 2007 as a whole.

According to the latest CZSO surveys conducted in July 2008, business confidence in industry, trade and services continued decreasing; in services it was even slightly below the 2005 starting level. Only construction firms expect the previous favourable trend to continue.

II.3.4 Financial performance of non-financial corporations¹²

According to the available CZSO data and CNB calculations, the financial performance indicators for non-financial corporations in 2008 Q1 confirmed a continuing slowdown in the annual rates of growth of the major volume indicators and a deterioration in financial performance, although the figures were still favourable. The annual growth of book value added declined for the third consecutive quarter, reaching 7.9%. This growth was achieved amid a further deceleration in output and sales growth. Nonetheless, the rate of growth of intermediate consumption remained at the previous quarter's level and personnel costs recorded a marked upswing in annual growth. On the basis of the available data it can be estimated that under these circumstances there was a marked year-on-year deterioration in the gross operating surplus in Q1.

In 2008 Q1, as in the previous period, profit generation was significantly affected by mixed developments in the prices of energy and raw material inputs, which fed through variously to the costs and performance of producers. Continued strong annual growth in the prices of energy-producing materials (particularly crude oil, natural gas and coal) and energy (particularly electricity) continued to drive up producer costs. By contrast, the impact of other imported raw material inputs of both mineral and vegetable origin weakened and falling prices of imported intermediate goods fostered cost reductions. The material cost-output ratio increased by 0.2 percentage point in 2008 Q1, as intermediate consumption grew faster than output (see Table II.2).

CHART II.23 PRODUCTION CAPACITY UTILISATION

Slowing demand growth has begun to show up in falling production capacity utilisation
(full capacity utilisation = 100)

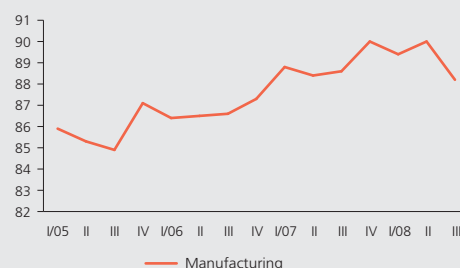


CHART II.24 CONFIDENCE INDICATORS

The confidence indicators in industry, trade and services fell in 2008 H1
(2005 average = 100)

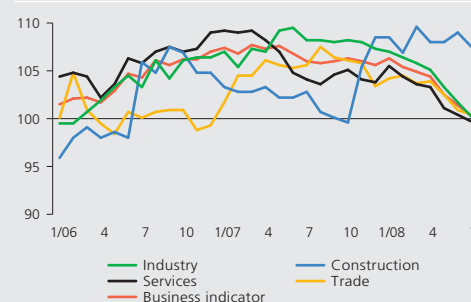


TABLE II.1 KEY FINANCIAL INDICATORS

Growth in book value added continued declining in 2008 Q1

(CZK billions; annual percentage changes)

	Q1		Annual changes	
	2007	2008	CZK billions	%
Output excl. profit margin ^{a)}	1,188.5	1,290.0	101.5	8.5
Intermediate consumption	846.4	920.9	74.5	8.8
Sales, total	1,534.8	1,651.5	116.6	7.6
Personnel costs ^{a)}	171.3	200.1	28.9	16.9
Book value added	342.1	369.1	27.0	7.9

a) CNB calculation

TABLE II.2 PERFORMANCE RATIOS

The personnel cost-output and material cost-output ratios both increased in 2008 Q1

(percentages; annual changes in percentage points)

	Q1		Change in p. p. against 2007 Q1
	2007	2008	
Personnel cost-output ratio ^{a)}	14.4	15.5	1.1
Material cost-output ratio ^{a)}	71.2	71.4	0.2
Ratio of personnel costs to value added ^{a)}	50.1	54.2	4.1
CZK thousands per month			Annual perc. changes
Book value added per employee	58.6	61.6	5.1

a) CNB calculation

¹² The assessment is based on a set of corporations with 50 employees or more and draws partly on calculations based on partial data published by the CZSO. The assessment in the last paragraph is based on a set of corporations with 250 employees or more. The data are at current prices.

The annual increase in the personnel cost-output ratio was more pronounced, at 1.1 percentage point. Its sizeable rise compared to the previous quarter was associated with a sharp pick-up in personnel cost growth (to 16.9%), which was not accompanied by a corresponding increase in output for the reasons detailed in section II.4 *The labour market*. At the same time, the ratio of personnel costs to value added rose significantly (see Table II.2), whereas in the previous quarter its growth had been insignificant.

With corporate assets and liabilities rising by 8.9% and equity rising by 8.3%, the increase in gross debt was 7.1%. Long-term liabilities grew faster than short-term ones. The debt ratio remained low (23.5% of liquid capital). The liquidity level, as measured by the ratio of short-term financial assets to short-term liabilities, was sufficient, although – like in 2007 Q4 – it recorded a decrease. The level of leverage, expressing the ratio of total assets to equity, remained largely unchanged as well.

II.4 THE LABOUR MARKET

In 2008 Q1, the continuing economic growth was again accompanied by rising labour demand. The rising employment helped to further decrease the unemployment rate. The labour market developments at the same time indicated a persisting shortage of labour, although to a lesser extent than in the previous quarter. The continuing inflow of labour from abroad provided only a partial solution to this problem. These conditions on the labour market fostered a pick-up in wage growth, which, amid slowing growth in economic activity, led to faster growth in nominal unit wage costs; this strong growth was also due partly to extraordinary factors. At the same time, the main labour market indicators in the first half of the year started to show signs of a change in trend: employment growth decreased, the number of jobs was flat or slightly falling and the decline in the unemployment rate stemmed primarily from the placing of job applicants, while the number of newly registered job applicants stopped falling, suggesting a shift to a downward phase of the business cycle.

II.4.1 Employment and unemployment

The long-running growth in employment observed since the end of 2004 continued into 2008 Q1. However, the year-on-year growth rate moderated in Q1; at 1.9%, annual employment growth was 0.3 percentage point lower than in 2007 Q4. The employment structure showed no major changes compared to the previous period: the annual growth was again due mainly to industry and market services, while employment in agriculture and public services continued falling in year-on-year comparison.

Within industry, employment again increased most in manufacturing (by 38.300 people, or 2.8%, year on year), owing primarily to foreign direct investment and the expansion of activities in related branches. Employment increased mainly in the manufacture of electrical apparatus, metal-processing and related production. However, the weakening demand and overall economic growth started to be reflected in a slowdown in employment growth in this branch.

As in previous quarters, employment in the tertiary sector grew most in market services. Rapid growth in the number of people employed continued primarily in real estate, renting and business activities (up by 25,600 people, or 7.6% year on year). Their annual growth moderated, however, in reaction to the slowing

CHART II.25 LABOUR MARKET INDICATORS

The continuing economic growth was accompanied by rising employment
(annual percentage changes; percentage points)

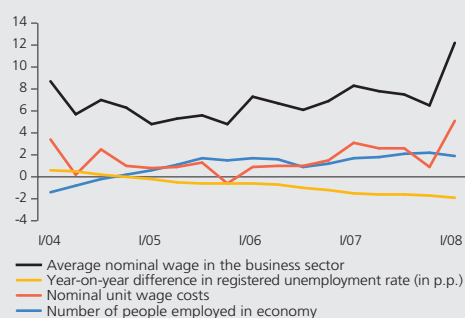
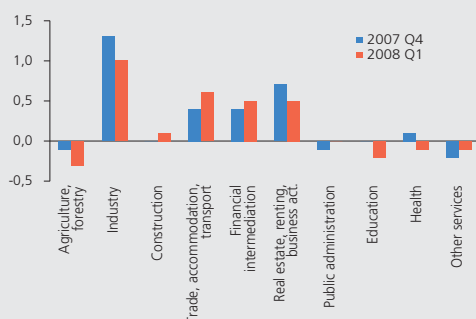


CHART II.26 EMPLOYMENT BREAKDOWN BY BRANCHES

Employment rose faster in the secondary than the tertiary sector in 2008 Q1
(contributions in percentage points to annual growth; selected branches)



economic growth in other segments of the economy. The pronounced growth in employment in financial intermediation continued and increased even further in 2008 Q1 (to 19.1%, or 17,900 persons). By contrast, employment in public services, education, health and social care and veterinary activities continued falling in year-on-year terms.

The number of vacancies, which are a potential source of increasing employment, also provided evidence of a gradually changing labour market situation. The number of seasonally adjusted vacancies was still very high, but, in contrast to the previous several years, it stopped rising. In the context of decelerating economic growth, this can be seen as an indication of an approaching change in the labour market trend. This assumption is suggested by the slope of the Beveridge curve, which shows the cyclical nature of the falling unemployment with a sign of change towards lower labour demand.

Up to now, the rising demand for labour has been met not only from domestic sources, but also from very quickly increasing external sources, as evidenced by persisting significant annual growth in the number of foreign workers (of more than 30% in Q1). They now account for almost 5% of the total labour force. Nevertheless, some branches continued experiencing shortages of workers in the required occupations and with the right skills. According to the CZSO's April and July surveys, however, this "barrier" to output growth in industry and construction is gradually decreasing.

The rising employment was accompanied by declining unemployment and a decrease in the number of inactive persons,¹³ who represent a potential labour force reserve. The general unemployment rate (according to the LFS) fell to 4.7% in Q1 (see Chart II.29), the lowest level since mid-1997. The decline in unemployment was across the board in nature. The biggest declines were recorded in regions with high and above-average unemployment rates. The fast declining unemployment was confirmed by the MLSA data, according to which the registered unemployment rate declined by 1.7 percentage point year on year to 5.9% in Q1. In 2008 Q2, it was 5.1%. This fall occurred amid a high number of applicants excluded after being placing in a job; however, the number of newly registered job applicants stopped falling, suggesting a shift to a downward phase of the business cycle.

The continuing fall in unemployment fostered an annual decline in the number of long-term unemployed people in 2008 Q1 (of 46,500 to 123,200 according to LFS figures). They accounted for almost one-half of all the unemployed. The long-term unemployed were still dominated by individuals with only basic education.

II.4.2 Wages and productivity

Annual growth in the average nominal wage in the national economy picked up strongly in 2008 Q1. At 10.4%, it was 3.8 percentage points higher than in the previous quarter (see Table II.3). Owing to higher inflation, the increase in annual growth in the average real wage was much lower: it rose by just 1.1 percentage point compared to the previous quarter, to 2.8%. The higher-than-expected wage growth was due to several factors. In addition to continuing economic growth and falling unemployment, wages were strongly affected by two extraordinary factors – tax optimisation by economic agents following the shift to a new tax system in

CHART II.27 LABOUR FORCE FLOWS

The rising employment was accompanied by a falling number of unemployed people
(annual changes in thousands of persons)

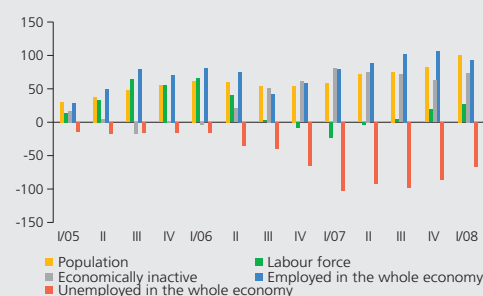


CHART II.28 THE BEVERIDGE CURVE

Job creation fostered a fall in unemployment, but stopped rising
(seasonally adjusted numbers in thousands)

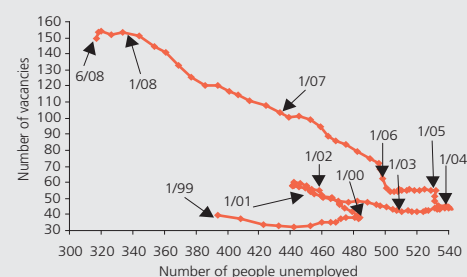


CHART II.29 THE UNEMPLOYMENT RATE

Long-term unemployment accounted for roughly half of all the unemployed
(percentages; percentage points; source: LFS)

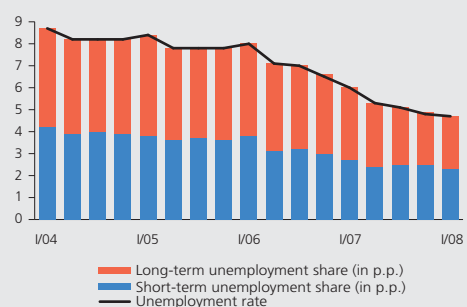


TABLE II.3 WAGES, PRODUCTIVITY, UNIT WAGE COSTS

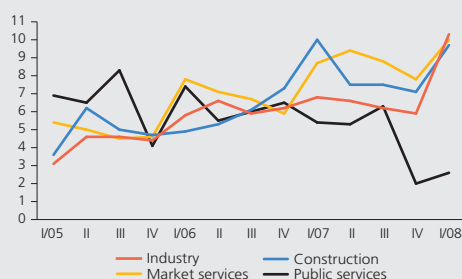
Average wage growth increased sharply in 2008 Q1
(annual percentage changes)

	I/07	II/07	III/07	IV/07	I/08
Average wage in monitored organisations					
nominal	7.8	7.4	7.5	6.6	10.4
real	6.2	4.9	4.9	1.7	2.8
Average wage in business sector					
nominal	8.3	7.8	7.5	6.5	12.2
real	6.7	5.3	4.9	1.6	4.5
Average wage in non-business sector					
nominal	6.2	6.1	7.5	7.1	3.5
real	4.6	3.6	4.9	2.2	-3.6
Whole-economy labour productivity	4.3	5.0	4.7	4.9	3.2
Nominal unit wage costs	3.1	2.6	2.6	0.9	5.1

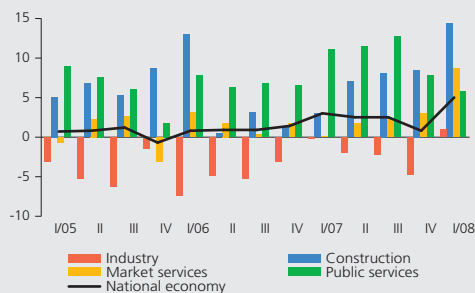
¹³ In this context, inactive persons are those who are not working and not actively seeking work, but who are interested in working.

CHART II.30 WAGE DEVELOPMENTS IN BRANCHES**All monitored branches recorded an upswing in average wage growth**

(annual percentage changes, selected branches)

**CHART II.31 UNIT WAGE COSTS****Nominal unit wage cost growth increased sharply in 2008 Q1**

(annual percentage changes)



2008 and a lower sickness rate due to new rules for sickness benefits in the first three days of sickness. The buoyant wage growth in Q1 was probably also affected by relatively high inflation expectations.

In 2008 Q1, wages continued to be influenced mainly by the business sector, which employs most of the employees in the monitored set of organisations. Annual wage growth in this sector, which is influenced primarily by inflation, labour productivity and competition, was also strongly affected in Q1 by the extraordinary factors listed above. The impact on wages of the shift of bonus payments from 2007 to the start of 2008 in connection with the new tax system¹⁴ varied across the individual branches and was directly proportional to the average wage. At the level of the whole business sector, the effect of this temporary factor on annual average wage growth can be estimated at around 1 percentage point. According to our estimates, the lower sickness rate in 2008 Q1 accounted for more than 1 percentage point of the year-on-year increase in average wages in the business sector. However, even when adjusted for the aforementioned extraordinary effects, wage growth in the business sector exceeded the level recorded in 2007.

In the non-business sector, average wage growth slowed to 3.5% in 2008 Q1, in line with the government's plan for wage growth in the state sector. Owing to the high inflation, however, average real wages in this sector fell by 3.6% year on year.

The rapid increase in nominal wages in 2008 Q1 contributed significantly to an acceleration of nominal unit wage cost growth, which indicates potential inflation pressures in the wage area (see Chart II.31). Annual nominal unit wage cost growth reached a sizeable 5.1% in Q1, amid a combination of slowing real GDP growth and a pick-up in growth in the volume of wages and salaries. When analysing the potential impacts of the rapidly rising nominal unit wage costs on inflation, however, one should take into account the nature of the aforementioned extraordinary factors, which should partially reduce, or eliminate, their inflationary effect.¹⁵

In most monitored sectors, nominal unit wage cost growth accelerated in 2008 Q1 and was mostly very high (see Chart II.31). In year-on-year comparison, nominal unit wage costs increased most in construction and market services, where the pick-up in average wage growth was accompanied by an annual decrease, or a slowdown in growth, of productivity. Also, in industry the annual decline in nominal unit wage costs was replaced by a modest rise (of 1%) for the first time in four years, owing to wages growing faster than productivity. The rate of growth of nominal unit wage costs decreased only in public services; it was still high, though, as productivity continued to fall year on year.

The nominal unit wage cost growth in 2008 Q1 confirmed the hypothesis given in the previous Inflation Report regarding the temporary nature of the slowdown in 2007 Q4. The sizeable pick-up in growth in Q1 suggests stronger potential inflation pressures stemming from the wage area in the rest of 2008 due to slower adjustment of wages and employment to the gradually weakening growth of the economy.

¹⁴ Some firms allowed their employees to choose the date of payment of bonuses for 2007. The new tax system is more advantageous for higher-income employees, and deferring bonus payments from 2007 to 2008 could save employees quite a lot of money.

¹⁵ The tax optimisation merely involved deferring bonus payments to the following quarter, but the impact of the lower sickness rate can be viewed as a real cost for producers which was not necessarily fully accompanied by a rise in production in the short run.

II.5 THE BALANCE OF PAYMENTS

In 2008 Q1, the balance of payments was affected by further growth in the surplus on the output balance,¹⁶ this time due exclusively to a marked improvement in the balance of services, and a persisting net direct investment inflow. At the same time, however, the income deficit continued widening, chiefly as a result of rising expenditure on employing foreign workers. The net portfolio investment outflow was associated above all with a decrease in holdings of domestic securities by non-residents. The deficit on other investment was due mainly to a net outflow in the corporate sector.

II.5.1 The current account

In 2008 Q1, the current account ended in a surplus of CZK 27.0 billion (see Table II.4), or 3.0% of GDP. In year-on-year terms the surplus increased by CZK 4.4 billion, aided chiefly by very favourable developments in the services surplus. However, this was largely offset by a continuing rise in the income deficit.

The trade balance ended 2008 Q1 in a surplus of CZK 41.7 billion, which, however, represented a decrease of almost CZK 4 billion following six consecutive quarters of annual growth (see Chart II.32). The decrease in the trade surplus was due exclusively to adverse price developments, with the terms of trade recording a negative year-on-year change of 1.4%, mainly as a result of high fuel price growth. Roughly a quarter of the negative price effects were offset by positive developments in real terms thanks to favourable supply-side changes resulting from past FDI inflows and the relocation of production to the Czech Republic. A decline in the rate of growth of aggregate domestic demand was counteracted by the koruna's sharp appreciation against the euro. However, the year-on-year improvement in the trade balance resumed in Q2, with the surplus increasing by CZK 8.2 billion in April and May.

As regards the commodity structure, the trade balance again showed very mixed trends in 2008 Q1. The annual decrease in the overall surplus was fostered chiefly by rapid growth in the deficit on mineral fuels, with imports of oil and natural gas rising in terms of volume and particularly in terms of value. The surplus on miscellaneous manufactured articles also deteriorated. By contrast, the surplus on machinery and transport equipment and the deficits on food and live animals improved significantly. From the geographical perspective, the year-on-year trade balance improvement was again visible in the case of the trade surplus with EU countries. Growth in surplus was recorded particularly for trade with France and Romania. The total trade deficit with non-EU countries widened, chiefly because of a further increase in the trade deficit with China and a resumed widening of the trade deficit with Russia.

The balance of services ended Q1 in a surplus of CZK 23.7 billion, double the figure recorded a year earlier. This improvement was due to all three of its component balances, but the contribution of the other services balance was the largest, owing to strong growth in credits (mainly from business, professional and technical services). As a result of ongoing structural changes, the deficit on other services has been decreasing gradually since 2004, and by 2008 Q1 this item was almost balanced.

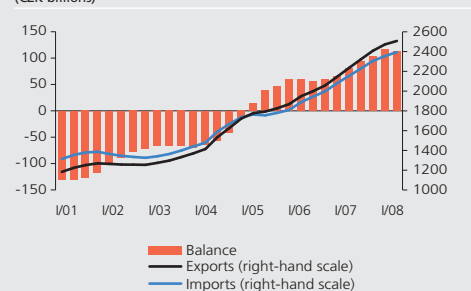
TABLE II.4 THE BALANCE OF PAYMENTS

The current account surplus increased in 2008 Q1 mainly as a result of growth in the services surplus
(CZK billions)

	I/05	I/06	I/07	I/08
A. CURRENT ACCOUNT	24.4	15.0	22.6	27.0
Trade balance	28.4	29.6	45.7	41.7
Balance of services	9.3	9.3	12.1	23.7
Income balance	-24.2	-24.1	-33.4	-43.7
Current transfers	11.0	0.2	-1.7	5.4
B. CAPITAL ACCOUNT	1.2	2.4	2.6	7.0
C. FINANCIAL ACCOUNT	-15.3	-5.1	-5.7	-7.4
Direct investment	27.5	10.9	34.2	20.9
Portfolio investment	-22.9	-8.1	-19.6	-13.0
Financial derivatives	1.1	-1.6	4.0	0.0
Other investment	-21.1	-6.3	-24.1	-15.2
D. ERRORS AND OMISSIONS	-7.1	-11.6	-18.8	-7.2
E. CHANGE IN RESERVES (= increase)	-3.2	-0.7	-0.8	-19.4

CHART II.32 THE TRADE BALANCE

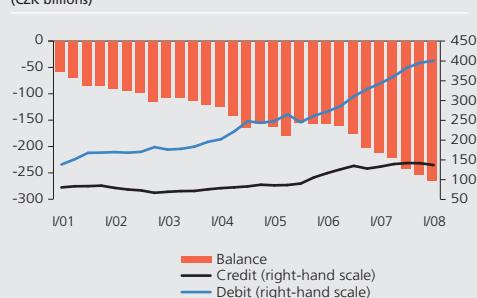
The annual moving total of the trade surplus decreased slightly in 2008 Q1
(CZK billions)



¹⁶ The output balance is the sum of the trade balance and the balance of services.

CHART II.33 THE INCOME BALANCE

The annual moving total of the income deficit increased further in 2008 Q1



The income deficit reached CZK 43.7 billion, representing a year-on-year deterioration of CZK 10.3 billion (see Chart II.33). This was due chiefly to a further widening of the deficit on compensation of employees, comprising mainly wages, owing to rapid growth in expenditure on foreigners working in the Czech Republic. The investment income deficit worsened as well, owing to a decline in credits. This was connected with a fall in the surpluses on portfolio investment income and other investment income (income on the CNB's international reserves and interest income of commercial banks on deposits abroad). By contrast, the persistently high direct investment deficit moderated slightly due to a more favourable reinvested earnings balance.

Current transfers recorded a surplus of CZK 5.4 billion, an improvement of CZK 7.1 billion on a year earlier. The determining factor for the current transfers surplus was a government transfers surplus exceeding CZK 10 billion. Within government transfers, the balance of transfers between the Czech Republic and the EU budget, recorded on the current account, showed a surplus of CZK 3.9 billion. However, a moderation in the private transfers deficit, owing to a decline in debits, was the largest contributor to the year-on-year improvement in the current transfers balance.

II.5.2 The capital account

The capital account recorded a surplus of CZK 7.0 billion in 2008 Q1 (a year-on-year increase of CZK 4.4 billion). Its largest component was government revenues from EU funds (CZK 6.8 billion), which increased significantly in year-on-year terms.

II.5.3 The financial account

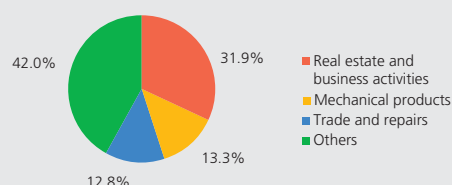
The financial account ended 2008 Q1 in a deficit of CZK 7.4 billion, or 0.8% of GDP, representing a slight year-on-year increase. Amid year-on-year decreases in the surpluses and deficits on its component balances, the financial account deficit was a result of a net outflow of portfolio and other investment, which was, however, largely offset by a net inflow of direct investment.

Direct investment recorded a surplus of CZK 20.9 billion, representing a year-on-year decrease of CZK 13.3 billion. The decrease in the surplus was due mainly to inflows of FDI into the Czech Republic, which moderated to CZK 28.8 billion owing to a decline in investment in other capital, including loans. Its largest component was again reinvested earnings (CZK 31.5 billion). Czech direct investment abroad increased to CZK 7.9 billion thanks mainly to a rise in investment in other capital. The annual decrease in the overall surplus was therefore associated chiefly with a widening of the deficit on other capital (linked with loans granted by resident parent companies to subsidiaries abroad and a rise in loans granted by foreign-owned companies to parent companies abroad). This was probably a result of worse availability of credit abroad as a result of the global financial crisis. With regard to industries, the foreign capital inflow was channelled primarily into manufacture of rubber and plastic products and into real estate and business services (see also Chart II.34). The outflow of capital went mainly into electricity, gas and water supply and manufacture of machinery.

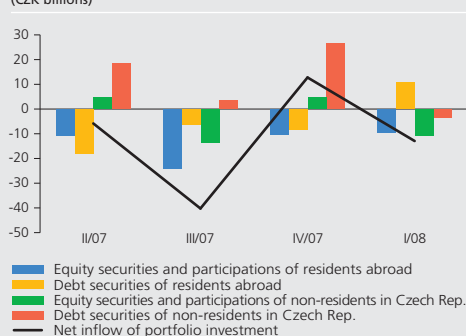
The net outflow of portfolio investment in 2008 Q1 was CZK 13.0 billion (see Chart II.35). In the same period a year earlier it had reached CZK 19.6 billion. Sales of domestic equity and debt securities by foreign investors, which rose to CZK 14.3 billion, were the most important transactions in Q1. In contrast to the large purchases executed last year, total holdings of foreign securities by domestic investors also decreased slightly in Q1. However, this was related only to sales of foreign bonds, mainly as a result of the rapid appreciation of the koruna. Residents

CHART II.34 FOREIGN DIRECT INVESTMENT

Investment in equity capital into the Czech Republic was directed mainly into real estate and business activities in 2008 Q1

**CHART II.35 PORTFOLIO INVESTMENT**

Portfolio investment recorded a net outflow in 2008 Q1

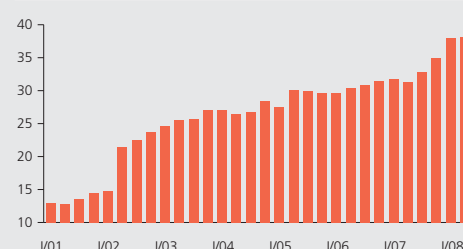


continued purchasing foreign shares despite the significant uncertainty on stock markets, although the volume of such transactions declined. The attractive prices of shares seem to have played a role as well. The diminished interest in foreign securities was reflected in a year-on-year decline in the overall portfolio investment outflow.

Other investment recorded a net capital outflow of CZK 15.2 billion in 2008 Q1 (compared to CZK 24.1 billion in 2007 Q1). The overall deficit was affected most by a net outflow of capital in the corporate sector of CZK 18.4 billion, which increased significantly in year-on-year terms. As in the case of direct investment, the fast growth in companies' export receivables and deposits on accounts abroad may have reflected the impacts of the global financial crisis. The government sector also showed a moderate net outflow of capital. This was linked mainly with the repayment of an EIB loan for infrastructure development. The year-on-year fall in the overall deficit was due mainly to a change in the flows of commercial banks' capital, with the net outflow switching to a net inflow of CZK 8.7 billion. This change was linked with a large increase in short-term foreign deposits with Czech banks.

The CNB's international reserves fell by CZK 30.0 billion to CZK 578.4 billion in 2008 Q2. This fall was again due mostly to valuation changes. In dollar terms, the reserves rose by USD 0.2 billion to USD 38.2 billion in the same period (see Chart II.36).

CHART II.36 THE CNB'S INTERNATIONAL RESERVES
The CNB's international reserves increased slightly in dollar terms in 2008 Q2
(USD billions)



II.6 MONETARY DEVELOPMENTS

Money supply growth decreased in the first five months of 2008 and was accompanied by a slowdown in nominal GDP growth and sharp exchange rate appreciation. Growth in deposits by non-financial corporations declined. The slower growth in highly liquid money was due to lower transaction demand and higher opportunity costs stemming from higher nominal interest rates. In addition to other factors, a further tightening of the credit conditions, signalled by a rising spread between lending rates and money market rates in Q1 and a subsequent stabilisation in April and May, fostered a decline in the rate of growth of loans to households and non-financial corporations. The monetary indicators were less inflationary in Q2 than in the previous quarter.

II.6.1 Money

Annual M2 growth slowed in 2008 Q1. This slowdown continued also in April and May, to 8% (see Chart II.37). This suggests a continuation of the lower economic growth recorded in Q1 and is due mainly to a slower expansion of domestic loans. The indicators of the appropriateness of the money supply growth, i.e. the monetary overhang and the nominal and real money gaps, decreased in Q2 compared to the previous quarter, suggesting weakening money-growth-related risks to inflation in the medium run.

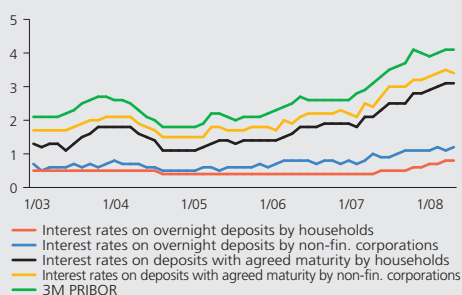
Within the money supply structure, M1 growth slowed in Q1 owing to lower transaction demand (see Table II.5). Turning to the components of M1, currency in circulation increased more slowly, in line with a deterioration of consumer confidence and a moderation in household consumption growth. Overnight deposits also recorded lower growth, due among other things to rising opportunity costs of holding highly liquid money. The annual rate of growth of quasi money decreased in Q1 but picked up again in April and May by comparison with the previous months. This was affected by deposits with agreed maturity, while the rate of growth of deposits redeemable at notice, especially of up to three months, increased throughout the period under review. In the longer term, the developments in quasi money are being driven mainly

CHART II.37 M1 AND M2
M2 growth slowed
(annual percentage changes)



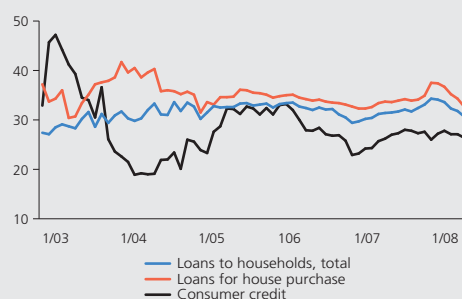
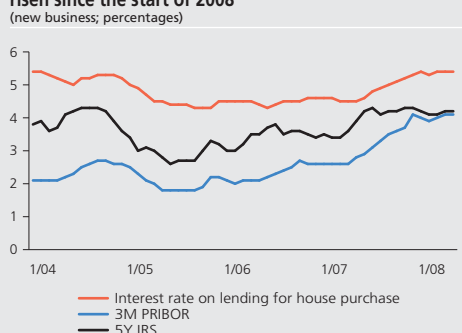
TABLE II.5 MONETARY AGGREGATE STRUCTURE
M1 growth slowed further
(quarterly averages and end-of-month stocks; annual percentage changes)

	I/07	I/08	4/08	5/08	Share in M2, % 5/08
M1	13.6	12.2	9.4	6.1	56.9
Currency in circulation	10.3	8.9	6.6	5.8	13.1
Overnight deposits	14.7	13.2	10.3	6.2	43.8
M2-M1 (quasi money)	9.2	7.3	6.5	10.6	43.1
Deposits with agreed maturity	5.2	0.7	-1.6	3.5	28.7
Deposits redeemable at notice	18.7	20.9	23.7	23.9	13.5
Repurchase agreements	27.8	99.3	169.4	158.4	0.9
M2	11.7	10.1	8.1	8.0	100.0

CHART II.38 INTEREST RATES ON DEPOSITS**Interest rates on deposits with agreed maturity rose**
(new business; percentages)**TABLE II.6 LOAN STRUCTURE****Growth in loans weakened slightly**

(quarterly averages and end-of-month stocks; annual percentage changes)

	IV/07	I/08	4/08	5/08	Share in total loans, %
Non-financial corporations	18.1	16.9	16.2	16.3	45.5
Loans up to 1 year	22.7	27.6	30.6	32.1	19.0
Loans over 1 year and up to 5 years	8.2	1.9	-3.5	-5.9	9.1
Loans over 5 years	19.8	16.0	14.8	15.6	17.4
Households	33.3	33.3	31.8	30.7	45.2
Consumer credit	27.0	27.4	27.1	26.4	8.7
Loans for house purchase	35.6	36.4	34.3	32.7	31.9
Other loans	30.5	24.6	24.7	25.4	4.6
Non-monetary financial institutions	16.3	36.4	37.6	38.9	9.3
Total loans	25.3	25.5	24.7	24.4	100.0

CHART II.39 LOANS TO HOUSEHOLDS**Growth in loans to households decreased**
(annual percentage changes)**CHART II.40 INTEREST RATE ON LENDING FOR HOUSE PURCHASE****The interest rate on lending for house purchase has risen since the start of 2008**
(new business; percentages)

by rising interest rates. The spreads between interest rates on new deposits with an agreed maturity of up to one year and deposits redeemable at notice of up to three months on the one hand and the interest rate on overnight deposits on the other hand continued to widen, with the exception of household deposits redeemable at notice (see Chart II.38). In terms of money-holding sectors, household deposits remained the main contributor to money supply growth, with their contribution stabilising in 2008 following a decline in late 2007. The slowdown in money supply growth was thus due mainly to deposits of non-financial corporations, which suggested a possible drying-up of companies' working capital. The contribution of deposits of (non-monetary) financial institutions also declined.

II.6.2 Credit

Growth in MFI loans to corporations and households slowed to 24.4% (see Table II.6). These loans accounted for 45.6% of GDP. The slower credit growth reflected rising interest rates, tightening credit conditions, expectations of lower economic growth and appreciation of the koruna-euro exchange rate.

The annual rate of growth of loans to non-financial corporations moderated, although it remained broadly flat at 16.3% in May. It was lower in Q2 compared to Q1 mainly as a result of an expected slowdown in GDP growth and exchange rate appreciation. The absolute volume of these loans reached CZK 789 billion. Slowing credit growth has long been apparent in almost all major industries except the financial intermediation sector. However, the credit growth continued to be supported chiefly by loans to developers and financial intermediaries. Medium-term loans recorded a decline and long-term loans grew at a slower pace, except in May, while the rate of growth of short-term loans – used to cover shortfalls in working capital – continued rising. The slowdown in loans with longer maturities was related to expectations of a downswing in corporate investment activity going forward. Annual growth in loans granted to corporations by non-banks rose to 15.8% in Q1, with the absolute volume of these loans reaching CZK 175 billion. The annual total flow of domestic loans remained well above that of foreign loans owing to the negative interest rate differential. The share of domestic foreign currency loans remained low (17%) despite the exchange rate appreciation, but the analogous figure for loans sourced from abroad was 71%.

By comparison with the end of 2007, the total debt of corporations with 250 employees or more, calculated as the ratio of external funds to shareholders' equity, declined by 3.5 percentage points to 83.1% in 2008 Q1, despite recording a slight year-on-year increase. Annual growth in gross corporate debt (including financial loans and bonds) was around 7%. The slowdown in the debt of non-financial corporations in 2008 Q1 by comparison with the same period a year earlier was accompanied by less favourable profitability.

The rate of growth of loans to households also fell, to 30.7% (see Chart II.39). However, it remained relatively high. The absolute volume of these loans reached CZK 784 billion. A slowdown in lending to households is also indicated by data on new loans. Slower growth was recorded for loans for house purchase and for consumer credit. This was a result of buoyant demand last year generated by an expected increase in VAT on construction work, a tightening of the credit conditions and slower real gross disposable income growth. The rate of growth of consumer credit granted by both banks and non-banks also declined (by 14.3% in Q1; the absolute volume is around CZK 140 billion in case of non-banks).

In Q1, the ratio of total (bank and non-bank) household debt to gross disposable income stood at 49%, or 25% of GDP. The ratio of households' interest expenses

to gross disposable income rose slightly in 2008 Q1, to 2.2%, owing to the rise in nominal interest rates. The positive gap between interest income and interest expenses thus narrowed further in year-on-year terms. The total debt burden of households (repayments of principal and interest) was 5.1% of net money income on average in Q1.

The average interest rate on new loans increased again in Q1, but was flat at 7.2% in April and May. A similar trend was recorded for the spread between this interest rate and the 1Y PRIBOR, indicating a further tightening of the credit conditions (due to an increase in the credit risk premium) in Q1, followed by stabilisation in April and May. The spreads against financial market interest rates for the individual types of rates on new loans showed a similar pattern.

The average interest rate on new loans to households was 12.2% in May. Like the financial market rates, the interest rate on new loans for house purchase rose in Q1 but was flat at 5.4% in April and May (see Chart II.40). Spreads between interest rates on new loans for house purchase with longer (over one year) and shorter fixations (up to one year) remained negative. Interest rates with fixations of over ten years recorded the largest deepening of spreads. The interest rate on new consumer credit was flat at 13.4% in May (see Chart II.41). The interest rate on new loans to non-financial corporations stood at 5.5% (see Chart II.42).

II.7 IMPORT PRICES AND PRODUCER PRICES

Import prices had mixed effects on the individual price categories in 2008 Q2. Continuing high annual growth in import prices of mineral fuels, caused by accelerating growth in prices of energy-producing materials on world markets, increased domestic producers' costs, as their impact on domestic prices was only partly dampened by appreciation of the koruna. An inflationary-effect was also suggested by rebounding import prices of non-energy producing materials. By contrast, falling prices of products with a higher degree of processing acted in the anti-inflationary direction, and only moderate growth in food import prices indicated weakening upward pressures on domestic prices. These contrary trends in imported input prices fed through variously to producer prices in the individual branches. The costs of some producers were also affected by rapidly rising electricity prices and an increased wage cost-output ratio. In industry, the persisting strong price growth continued to be driven by a small number of branches (power generation, food, primary oil processing), while price developments in the other branches were mostly moderate. Annual growth in construction work prices and market services picked up pace in Q2. By contrast, the high annual growth in agricultural producer prices did not rise any further.

II.7.1 Import prices

Import prices, which, given the high openness of the Czech economy, are an important domestic inflation factor, fell for the tenth consecutive month in May. In April they dropped by 4.2%, the largest decline since 2002. In May they decreased by 3.3% year on year. The continuing decline in import prices was due mainly to prices of imports with a higher degree of processing, as shown in Chart II.44.

As in 2007, import prices were significantly affected in the first two quarters of 2008 by strong year-on-year appreciation of the koruna-euro and koruna-dollar

CHART II.41 INTEREST RATE ON CONSUMER CREDIT

The interest rate on consumer credit remained high owing to higher credit risk (new business; percentages)

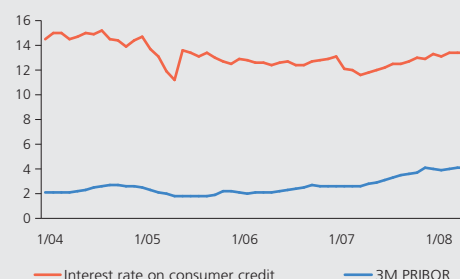


CHART II.42 INTEREST RATE ON LOANS TO NON-FINANCIAL CORPORATIONS

The interest rate on loans to non-financial corporations has risen since the start of this year (new business; percentages)

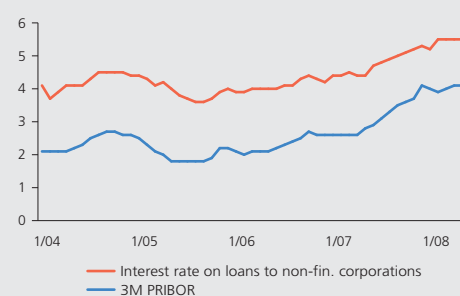


CHART II.43 PRODUCER PRICES

Prices kept rising fast in most branches of the production sector in 2008 Q2 (annual percentage changes)

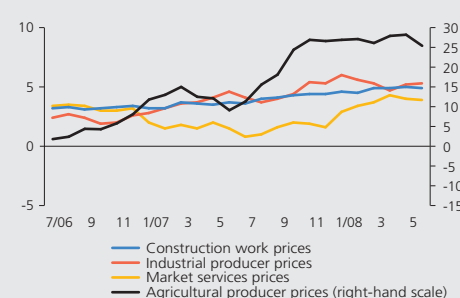


CHART II.44 IMPORT PRICES

The annual decline in import prices continued (annual percentage changes; contributions in percentage points)

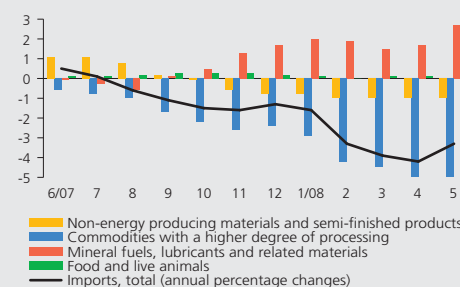
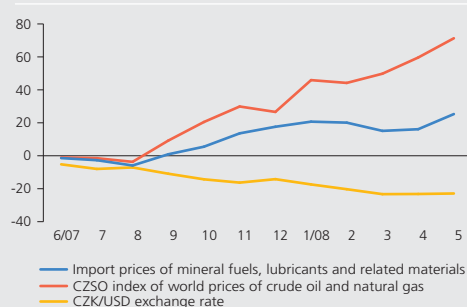


CHART II.45 MINERAL FUEL PRICES

The impact of the sharp growth in world prices of energy-producing materials on import prices was partially dampened by appreciation of the koruna-dollar exchange rate

(annual percentage changes)

**TABLE II.7 STRUCTURE OF THE IMPORT PRICE INDEX**

The mixed price trends across the import categories suggested different impacts on producer prices

(annual percentage changes)

	2/08	3/08	4/08	5/08
IMPORTS, TOTAL	-3.3	-3.9	-4.2	-3.3
of which:				
food and live animals	1.0	1.9	1.0	0.5
beverages and tobacco	-1.5	-2.1	-0.9	0.2
crude materials inedible, except fuels	1.9	-0.4	-0.2	4.2
mineral fuels and related products	20.1	15.1	16.1	25.3
animal and vegetable oils	9.8	10.0	8.2	7.1
chemicals and related products	-4.7	-5.4	-6.1	-6.3
manufactured goods classified chiefly by material	-5.1	-4.6	-4.6	-4.9
machinery and transport equipment	-7.4	-8.2	-9.2	-9.3
miscellaneous manufactured articles	-8.0	-7.7	-7.5	-7.2

exchange rates, which mostly reached double figures.¹⁷ The effect of the strong exchange rate was most visible in imports of commodities with a higher degree of processing, whose foreign prices usually grow only moderately. Import prices in this category continued to show a year-on-year decline, which deepened further owing to the strengthening koruna. In May, the largest year-on-year price decreases were recorded for machinery, transport equipment and miscellaneous manufactured articles (see Table II.7). A deepening decline in import prices could also be observed for imported chemicals. Import prices of manufactured goods also recorded further relatively significant annual decreases in the first two months of 2008 Q2.

By contrast, the already high annual growth in prices of energy-producing materials on world markets increased further and its impact on domestic prices was only partly dampened by the appreciation of the koruna-dollar exchange rate (see Chart II.45). According to the latest data for May, annual growth in Brent crude oil prices peaked at 83.5%. Consequently, the rate of increase of mineral fuel import prices rose by more than 10 percentage points to 25.3% compared to March 2008. Annual growth in world prices of natural gas, which usually follow oil prices with a lag, also picked up strongly (to 55.1% in May). The rising import prices of mineral fuels fed through above all to the costs of primary oil processing businesses. Import prices of non-energy-producing materials also rebounded noticeably in May. By contrast, prices of imported food recorded only a slight increase in the first two months of 2008 Q2 (0.5% year-on-year in May).

The fundamental view of import prices in terms of their potential effect on domestic prices remains unchanged from the previous Inflation Report. The structural trends in import prices remained mixed, indicating different impacts on the individual price categories. Strengthening growth in import prices of energy-producing materials increased the input costs of producers, especially those at the early stages of the production chain, signalling the emergence of inflationary pressures in other branches. On the other hand, the deepening decline in prices of manufactured goods and imports with a higher degree of processing fostered a reduction in domestic producers' costs and a decrease in consumer price inflation through imports of final products for the retail market.

II.7.2 Producer prices

Industrial producer prices

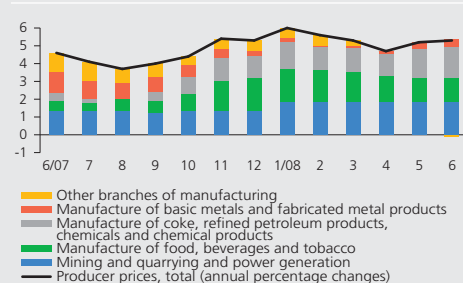
Industrial producer prices recorded continued fast growth in 2008 Q2, chiefly as a result of external factors. As Chart II.46 shows, their annual growth rate started accelerating again in May and reached 5.3% in June. This was due to further price increases in the manufacture of coke and refined petroleum products and renewed price growth in the manufacture of basic metals and fabricated metal products.

Manufacture of coke and refined petroleum products thus accounted for a large proportion (roughly one-third) of the annual producer price inflation recorded in Q2. In this industry, the rapidly rising import prices of oil fed through to producer prices with a short lag. According to the latest data for June, inflation reached a significant 30.2% in this branch. The combined contribution of mining and quarrying and electricity, gas and water supply, where a link with demand for

CHART II.46 INDUSTRIAL PRODUCER PRICES

Industrial producer price inflation was driven predominantly by fast growing producer prices of energy sources and food

(annual percentage changes; contributions in percentage points)



¹⁷ The annual rate of appreciation of the koruna against the dollar increased from 17.4% in January to 26.5% in June; the appreciation of the koruna-euro exchange rate also accelerated, from 6.4% to 14.8%.

energy abroad was apparent, was also around one-third.¹⁸ Thus, annual producer price inflation in industry continued to be driven mainly by rapidly rising prices in energy-producing branches in 2008 Q2 (see Chart II.46).

Rapidly rising prices in the food industry (8.7% in June) were again a major factor underlying annual industrial producer price inflation. However, a gradual decline in their growth rate from the high levels recorded in late 2007¹⁹ led to the reduction in their contribution to industrial producer price inflation to about one-quarter. By contrast, rising prices of basic commodities used in the production of metals, including mineral fuels, started affecting producer prices in the manufacture of basic metals and fabricated metal products, which resulted in a marked upswing in producer prices in this branch during Q2, to 3.9% in June.

The price developments in other manufacturing branches²⁰ were mixed in 2008 Q2, but had a broadly neutral overall effect on annual industrial producer price inflation (see Chart II.47). The movements in industrial producer prices reflected changes in conditions in terms of inputs, demand and competition. By comparison with the previous quarter, there was an increase in the number of branches which produce mostly final products with high value added and where prices are falling.²¹ However, prices of machinery and equipment rose moderately, as in previous quarters.

The continuing high growth in industrial producer prices in 2008 Q2 thus continued to be driven by prices in just a few branches, which were affected by rapidly increasing prices of some major imported raw material inputs. This factor was visible above all in the manufacture of coke and refined petroleum products, where oil is the main cost input component. At the same time, producer prices in some branches (especially electricity, gas and water supply and the food industry) were strongly affected by external demand developments and prices attained on foreign markets.

The very mixed developments in other manufacturing branches suggested that there has so far been no noticeable broad pass-through of the high energy prices to prices in related branches. This can be explained not only by the different energy intensity of production in different industries, but also by slowing demand, the prices of foreign competitors (especially for final products) and the strengthening koruna. The effect of contractual arrangements between producers and their customers, preventing them from responding flexibly to changing input prices, also cannot be ruled out. It is therefore likely that some producers experienced mounting cost pressures, further aggravated by rising wage cost-output ratios.²² The existence of pronounced cost pressures due to rising energy prices²³ is indicated by their overall increase of 16.1%, as shown in Chart II.48. The cost pressures stemming from prices of intermediate products were considerably lower.

Agricultural producer prices

Annual agricultural price inflation remained very high in 2008 Q2. According to the latest figures for June, it stood at 25.4%. This represented a partial decrease

CHART II.47 PRICES IN SELECTED BRANCHES

Inflation showed very mixed trends across the other branches of industry
(annual percentage changes; selected branches)

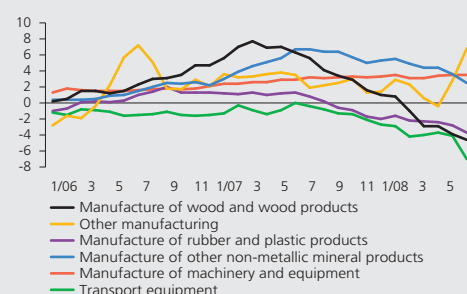


CHART II.48 PRICES OF PRODUCTS IN INDUSTRY

The high growth in energy prices pushed up producers' costs
(annual percentage changes)

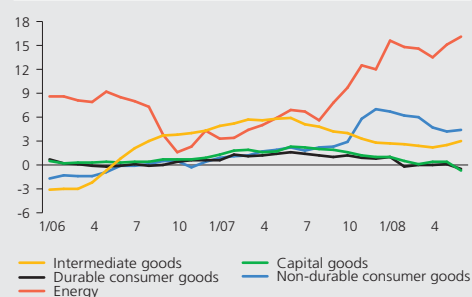
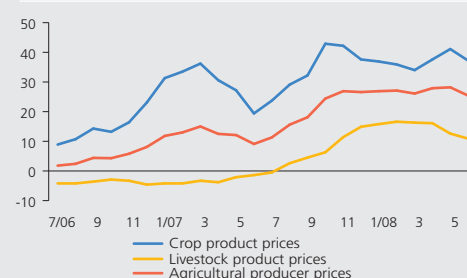


CHART II.49 AGRICULTURAL PRODUCER PRICES

Agricultural commodity price inflation remained high
(annual percentage changes)



¹⁸ In year-on-year terms, prices in mining and quarrying rose from 18% in March to 21.4% in June and prices in electricity, gas and water supply fell by 0.2 percentage point to 9.1%.

¹⁹ For details see *Agricultural producer prices*.

²⁰ All industrial branches excluding mining and quarrying, electricity, gas and water supply, manufacture of coke and refined petroleum products and the food industry.

²¹ A total of five branches recorded annual price decreases; the largest decrease was recorded for transport equipment (7%).

²² For details see section II.4 *The labour market* and section II.3.4 *Financial performance of non-financial corporations*.

²³ Energy = coal, peat, oil, natural gas, coke products, refined petroleum products, electricity (including distribution), heat (including distribution and supply of energy for cooling purposes), and the collection, purification and distribution of water.

compared to previous months. As in the previous three quarters, the continuing high growth in agricultural producer prices was due not only to crop product prices, but also to livestock product prices.

The main causes of the continuing high annual growth in agricultural producer prices in the Czech Republic remain the same as described in previous Inflation Reports. Their strong growth, observed since 2007 H2, was due to rising prices of agricultural and food commodities abroad (see Chart II.50), caused by a combination of several factors on the demand and supply sides. On the demand side, there was the effect of the long-running global growth in demand for food of animal and vegetable origin, mainly reflecting the fast economic growth in a number of developing economies, particularly in Asia. Inflation was also fostered by indirect effects of the expansion in biofuel production and increased investor interest in commodities. On the supply side, prices were affected by one-off falls in crop production (mainly cereals) caused by bad harvests experienced by all the major world exporters coupled with a long-term decrease in stocks in advanced countries. These factors resulted in a sharp increase in crop prices in the Czech Republic, despite a slightly above average domestic harvest and the appreciation of the koruna. Their already high annual rate of growth increased in Q2, peaking at 41.1% in May and then easing to 37.2% in June owing to a decline in commodity prices abroad and the koruna's appreciating exchange rate.

The high growth in livestock product prices, caused mainly by high external demand, started to slow in 2008 Q2. Overall, it fell back from levels exceeding 16% in the previous quarter to 10.9% in June. This decline was due mainly to the sharp appreciation of the koruna-euro exchange rate.

CHART II.50 WORLD COMMODITY PRICES
World prices of wheat for food use started falling (USD/ton)

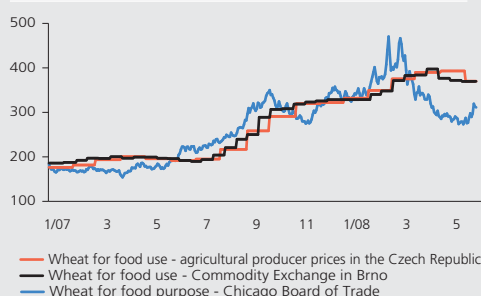


CHART II.51 OTHER PRODUCER PRICES
Construction work price inflation continued rising in 2008 Q2 (annual percentage changes)



Other producer prices

Construction work prices recorded continued growth in 2008 Q2, peaking in May at the highest level seen since 2002 (5% year on year; see Chart II.51). The growth declined slightly in June, to 4.9%. This confirmed a continuation of the long-term growth tendency derived from persisting high demand for construction work. By contrast, annual growth in prices of materials and products consumed in construction slowed further (to 2% in June), suggesting an easing of the shortfalls in some kinds of materials observed in the first three quarters of 2007 in particular.

Annual market services price inflation in the business sector increased slightly in June compared to March (to 3.9%) and thus remained at considerably higher levels compared to the previous year (see Chart II.51). The stronger growth in prices of market services was mainly due to a pick-up in prices of business services and real estate and renting services, which rose by 5.4% year on year in June. The largest increases were recorded for prices of advertising services (9%) and engineering and architectural services (10.5%), where was a clear link with investment in housing. Annual growth in prices of postal and telecommunication services and freight transport and storage increased, too. A continuing fall in prices was observed only in the insurance industry.

II.8 INFLATION

The continuing high growth in consumer prices was due to both external and internal factors. Inflation was affected not only by world prices of energy-producing materials and food, but also by some reforms implemented at the start of 2008. Headline

inflation and monetary-policy relevant inflation were both above the inflation target in 2008 Q2. With the benefit of hindsight, the past monetary policy settings can be assessed as having been easier than necessary to fulfil the inflation target.

II.8.1 Current inflation

Annual inflation²⁴ decreased in 2008 Q2, but remained high (see Chart II.52). Compared to March, inflation in June was down by 0.4 percentage point to 6.7%. The decline in inflation in Q2 was mostly due to unregulated prices, excluding the impacts of changes to indirect taxes, in particular prices of food, whose annual growth slowed further from the high levels reached in late 2007 and early 2008. The downward effect of food on inflation was only partly offset by a slight annual increase in adjusted inflation. Annual monetary-policy relevant inflation was lower than annual headline inflation throughout 2008 Q2 (4.5% in June).

The still high annual growth in inflation in 2008 Q2 was due to a combination of factors of both external and domestic origin, which fed through variously into prices of most major items of consumer price inflation. The main external factors were strengthening high growth in prices of energy-producing materials, whose impact on domestic prices was only partly offset by the annual appreciation of the koruna. Their effect was visible in both regulated and market prices. By contrast, growth in world prices of food weakened, fostering lower upward pressures on domestic prices of food. The most significant inflationary factor of domestic origin was the implementation of some reform measures with effect from 1 January 2008,²⁵ which continued to affect annual consumer price inflation in Q2. In addition, nominal unit wage costs and the performance indicators of non-financial corporations signalled an increase in the personnel cost-output ratio.

A continuing weakening of demand reduced the opportunities for corporations to pass the cost pressures through to prices. The rate of economic growth moderated further in 2008 Q1, and the decline in consumer demand was even more pronounced. The long-running decline in import prices of products with a higher degree of processing, particularly products intended for the retail market, also had an anti-inflationary effect.

As in 2008 Q1, annual consumer price inflation was most affected by regulated prices (see Chart II.54). Their high annual growth (14.6% in June) was due to changes to prices of regulated items made in 2008 Q1, when there was a significant rise in prices of energy, fees were introduced in health care and VAT was increased from 5% to 9%.²⁶ The only significant change in Q2 was a 3% increase in prices of natural gas for households as from 1 April. Overall, changes to regulated prices and changes to indirect taxes²⁷ were the main source of annual consumer price inflation in Q2, accounting for more than 60% (see Chart II.54).

By contrast, the contribution of food prices (excluding tax changes) to total annual consumer price inflation decreased further in 2008 Q2, as shown in Chart II.54. Their significantly slower annual growth in Q2 (to 3% in June) was linked closely

CHART II.52 INFLATION
Inflation fell in 2008 Q2
(annual percentage changes)

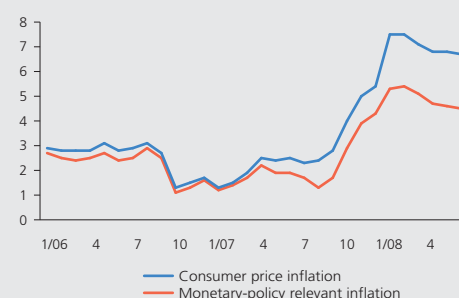


CHART II.53 INFLATION COMPONENTS
Food price inflation recorded the largest decline in 2008 Q2
(annual percentage changes; excluding indirect tax changes)

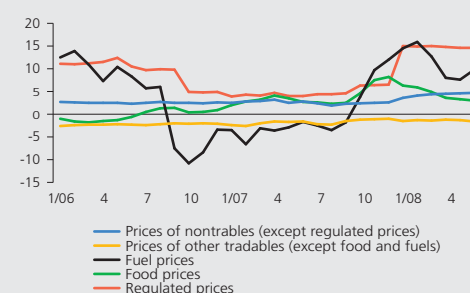
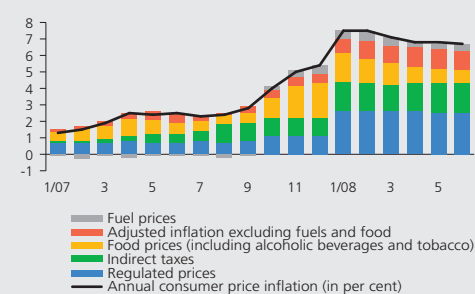


CHART II.54 STRUCTURE OF INFLATION
Regulated prices and indirect taxes accounted for more than 60% of the annual inflation
(annual percentage changes; contributions in percentage points)



²⁴ Measured by annual growth in consumer prices.

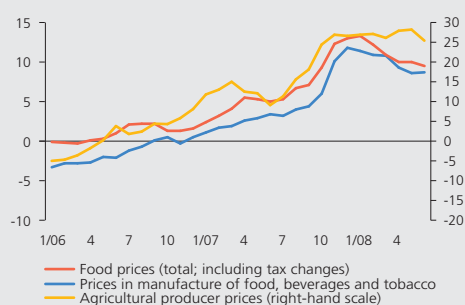
²⁵ An increase in the lower VAT rate from 5% to 9% for food and some services, a rise in excise duties on cigarettes, and the introduction of environmental taxes and fees in health care.

²⁶ In March, for example, regulated rents increased by 29.8% year on year, regulated items in transport by 11.5%, natural gas prices by 16.5%, heat supply prices by 11.3%, electricity prices by 9.5%, water supply charges by 8%, sewerage collection charges by 9.1% and regulated items in health care (fees) by 42.8%.

²⁷ The effect of changes to indirect taxes on unregulated prices.

CHART II.55 FOOD PRICES

Food price inflation slowed further in 2008 Q2
(annual percentage changes; including changes to indirect taxes)



with the continuing slowdown in world food price growth and with the strongly appreciating koruna. Some dampening effect of the weakening consumer demand cannot be ruled out either, as, according to CZSO statistics, consumption of non-durable goods declined slightly in Q1 after several years of growth. However, the slower overall growth in prices in the consolidated category of food was also largely due to prices of cigarettes, as these prices (adjusted for tax changes) declined significantly.²⁸ Annual growth in food prices, including tax changes, declined to 9.5% in 2008 Q2. The structural trends in food prices remained very mixed.

Adjusted inflation excluding fuels increased in 2008 Q2 (to 2.3% year on year). As in previous quarters, the rise was due to prices of non-tradable commodities, consisting mainly of services. Their annual growth was considerably faster in 2008 H1 than in the previous year; compared to December 2007, the rate of growth of these prices rose by 2.1 percentage points to 4.7% in June. In particular, there was a considerable rise (of almost 7%) in imputed rent, which expresses the hypothetical costs of flat owners, and in other housing-related services. Prices of non-tradable commodities were also strongly affected by fast growing prices in the hotels and restaurants category, reflecting the growth in prices of food and energy. However, buoyant price growth was also recorded in numerous other non-tradable commodity categories. This marked growth trend was probably due mainly to increasing energy costs and a rising personnel cost-output ratio, caused by faster growth in wages than in productivity (for details see section *II.4 Labour market*).

At the same time, the annual decline in prices of other tradable commodities, which are greatly affected by prices of consumer products abroad and by the koruna's exchange rate, deepened slightly to 1.6% in Q2. This was particularly apparent in the clothing and footwear category, where prices declined year on year throughout Q2.

Fuel prices remained volatile in 2008 Q2; up until May their annual growth slowed from the high levels reached in Q1 (15.9% in February), but then rebounded to 9.8% in June. This rise was mainly due to prices of oil, partly dampened by the appreciating koruna.

In the consumer basket, the main inflationary factors of both external and domestic origin were most clearly felt in terms of rising consumer prices of housing and food (including tax changes); these two categories accounted for three-quarters of the increase in consumer prices (see Chart II.56). The rising energy prices, administrative measures and other inflationary factors were also reflected in other categories of the consumer basket, particularly transport, health, hotels and restaurants and other services.

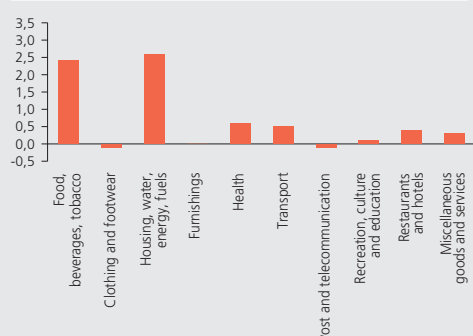
Although rapidly rising world prices of energy-producing materials and food also affected prices in other European countries, prices in the Czech Republic grew much faster than in most EU countries (see Chart II.57). This was mainly due to the reform measures implemented in the Czech Republic, which passed through to consumer prices. According to Eurostat's latest estimate, annual HICP inflation was 4.3% in the EU countries and 6.6% in the Czech Republic in June.

II.8.2 Fulfilment of the inflation target

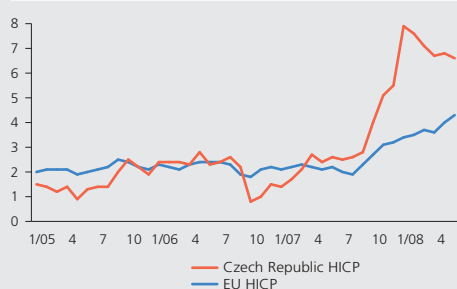
Headline inflation was well above the CNB's point inflation target in 2008 Q2 (see Chart I.1). This section of the Inflation Report briefly analyses the contribution of the CNB's monetary policy to this situation.

CHART II.56 CONSUMER BASKET PRICES

Prices in the housing and food categories accounted for three-quarters of the consumer price inflation
(June 2008; contributions in percentage points including changes to indirect taxes)

**CHART II.57 THE HICP IN THE CZECH REPUBLIC AND THE EU**

Inflation in the Czech Republic was considerably higher than that in the EU countries in 2008 Q2
(annual percentage changes)



28 Cigarettes suppliers (producers and importers) did not raise the final prices of cigarettes in 2008 Q2 even though, by the CNB's estimation, they were already selling cigarettes subject to the higher excise duty.

In order to assess the effect of monetary policy on the fulfilment of the inflation target one needs to analyse retrospectively the forecasts and the Bank Board's decisions based thereon in the relevant period. As monetary policy is focused on hitting the inflation target at the 12–18 month horizon, the key period for the fulfilment of the inflation target in 2008 Q2 is thus roughly from October 2006 to June 2007. For the sake of clarity, the analysis of the accuracy of the forecasts is limited here to a comparison of the forecast drawn up in January 2007 with inflation in 2008 Q2.

The January 2007 forecast had predicted first stable inflation at low levels, then a gradual rise into the upper half of the tolerance band of the inflation target (see Chart II.58). Rising regulated prices and the impact of higher indirect taxes on cigarettes were expected to have a significant effect on inflation. The domestic economy was expected to have an inflationary effect in 2007 and an anti-inflationary effect in 2008. This was reflected in a projected slight rise in adjusted inflation excluding fuels.

Headline inflation in reality was initially close to the forecast, but later rose well above it. The deviation of actual inflation from the forecast in Q2 was caused mainly by considerably higher growth in regulated prices, greater impacts of changes to indirect taxes and faster growth in food prices. The higher-than-forecasted inflation was also fostered by fuel prices. Adjusted inflation excluding fuels did not deviate significantly from the forecast (see Table II.8).

The overall effect of the external environment on domestic inflation in the period under review was inflationary compared to the January forecast assumptions. The impact of higher external demand, inflation, interest rates and oil prices was only partly offset by a weaker dollar-euro exchange rate (see Table II.9).

According to the current view, the monetary policy settings in the key period were easier in terms of both interest rates and the exchange rate compared to the assumptions of the January forecast. Although nominal interest rates were broadly at the level assumed by the January forecast, a change in the assumptions concerning the formation of inflation expectations decreased real interest rates. The nominal exchange rate of the koruna was slightly weaker in the key period than assumed by the January 2007 forecast.

When assessing the fulfilment of the inflation forecast, one needs to take into account changes in the CNB's view of the workings of the economy. The most important change made since 2007 is the transition to a new g3 core prediction model starting from this Inflation Report. However, the effect of this transition on the message of the forecast for key variables is almost negligible. In the previous QPM model, the pass-through of price shocks across individual price categories was reduced and the forward-lookingness of inflation expectations and monetary policy flexibility was increased in January 2008.

Any revisions made to economic indicators since the forecast was drawn up also have an effect on the fulfilment of the forecast. A new consumer basket acted towards lower inflation in 2007, although this effect had largely unwound by the start of 2008. Revisions to the national accounts generated an increase in the GDP growth estimate for 2004–2006.

Based on the CNB's current knowledge of the workings of the Czech economy and its current knowledge of actual economic developments, the developments since the January 2007 forecast was drawn up can be summed up in the following way. The assessment of monetary policy in the key period, which is viewed as easier from the current perspective, and the faster growth in external demand is in line with the

CHART II.58 FORECAST VERSUS ACTUAL INFLATION

Actual inflation in 2008 Q2 was well above the January 2007 forecast
(annual percentage changes)

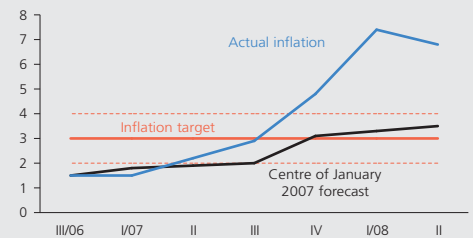


TABLE II.8 FULFILMENT OF THE INFLATION FORECAST

Regulated prices, the impacts of changes to indirect taxes and food prices deviated most from the forecast
(annual percentage changes; contributions in percentage points)

	January 2007 forecast	2008 Q2 outturn	Contribution to total difference ^{a)}
CONSUMER PRICES	3.5	6.8	3.3
Breakdown into contributions:			
regulated prices	4.5	14.7	1.5
first-round impacts of changes to indirect taxes	0.9	1.8	0.9
food prices ^{b)}	1.3	3.3	0.5
fuel prices ^{b)}	1.4	8.5	0.3
adjusted inflation excl. fuels ^{b)}	2.5	2.3	0.1

a) owing to rounding, the sum of the contributions need not be equal to the total difference; the contributions are influenced by changes in weights in the consumer basket as from January 2007

b) excluding the first-round impacts of changes to indirect taxes

TABLE II.9 FULFILMENT OF THE EXTERNAL ASSUMPTIONS

The effect of the external environment on the domestic economy was inflationary compared to the January 2007 forecast
(annual percentage changes unless otherwise indicated)

		I/07	II/07	III/07	IV/07	I/08	II/08
GDP in euro area ^{a), b), c)}	p	2.3	1.9	1.8	1.3	1.5	1.8
	o	3.2	2.6	2.6	2.0	2.5	-
CPI in euro area ^{a), b), c)}	p	2.7	2.2	1.8	1.6	0.9	1.5
	o	1.8	1.9	2.1	2.9	3.0	3.2
1Y EURIBOR (percentages)	p	3.9	3.9	3.9	3.8	3.8	3.8
	o	4.1	4.4	4.6	4.7	4.5	5.1
USD/EUR exchange rate (levels)	p	1.32	1.32	1.32	1.32	1.30	1.30
	o	1.31	1.35	1.37	1.45	1.50	1.56
Brent crude oil price (USD/barel)	p	62.3	64.3	65.7	66.6	67.3	67.7
	o	58.1	68.7	74.9	88.8	96.5	122.2

p – prediction, o – outturn

a) at constant prices

b) seasonally adjusted

c) effective indicator

TABLE II.10 FULFILMENT OF THE FORECAST FOR KEY VARIABLES

Real economic growth and nominal wages growth were higher than forecasted

		I/07	II/07	III/07	IV/07	I/08	II/08
3M PRIBOR (percentages)	p	2.7	2.7	3.0	3.2	3.2	3.4
	o	2.6	2.8	3.3	3.8	4.0	4.2
CZK/EUR exchange rate (levels)	p	27.5	27.7	27.8	27.9	27.9	27.8
	o	28.0	28.3	27.9	26.8	25.6	24.8
Real GDP ^{a)} (annual perc. changes)	p	5.5	5.4	5.2	5.0	4.8	4.8
	o	6.4	6.4	6.4	6.1	5.2	-
Nominal wages ^{a), b)} (annual perc. changes)	p	6.7	6.6	6.4	6.3	6.5	6.7
	o	7.1	7.4	7.5	8.0	9.0	-

p – prediction, o – outturn

a) seasonally adjusted

b) adjusted for estimated impacts of tax optimization and lower sickness rate in 2008 Q1

higher real economic activity compared to the January forecast. Growth in nominal wages was also faster (see Table II.10). However, adjusted inflation excluding fuels was broadly in line with the January forecast, despite the higher economic growth and the weaker koruna exchange rate in 2007 H1. Headline inflation was considerably higher, mainly due to unexpectedly rapid growth in regulated prices, greater impacts of changes to indirect taxes and higher growth in food prices. The significantly stronger exchange rate this year has had no major effect on inflation so far.

In addition to the message of the forecast itself, an assessment of the risks associated with this forecast is of importance for the Bank Board's decisions on monetary policy rates. At its meetings between October 2006 and June 2007 (see the relevant minutes) the Bank Board assessed the risks of the forecasts as being roughly balanced. This overall assessment was reflected in the Bank Board's interest rate decisions, which were in line with the forecasts. Since headline inflation and monetary-policy relevant inflation were both above the inflation target in 2008 Q2, interest rates can be assessed – with the benefit of hindsight – as having been lower than necessary to fulfil the inflation target.

III.1 SUMMARY OF THE STARTING CONDITIONS

We assess the current economic phase as being a decline from the peak of the business cycle, accompanied by domestic inflation pressures. However, the strong appreciation of the exchange rate is offsetting these domestic inflationary pressures via import prices and by affecting the real economy. Headline inflation fell in 2008 Q2. Real GDP growth is easing.

Consumer price inflation slowed somewhat in 2008 Q2, but is still well above the tolerance band of the inflation target. Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, also continues to fluctuate above the upper boundary of the inflation-target tolerance band. The current high inflation mainly reflects changes to indirect taxes, whose first-round effects accounted for more than two percentage points of headline inflation, increasing regulated prices (including the introduction of fees in health care) and the exceptionally high food price growth at the end of last year, which is gradually easing, however. Adjusted inflation excluding fuels increased slightly in Q2.

The annual growth of the Czech economy slowed in 2008 Q1 compared to the previous three years. The seasonally adjusted data have been signalling a decline in quarter-on-quarter growth in economic activity since mid-2007. The decline in GDP growth is due mainly to a sizeable slowdown in household consumer demand, caused above all by the higher inflation. By contrast, the contribution of net exports has increased recently despite the sharp exchange rate appreciation and weakening external demand growth.

The labour market is recording a slowdown in employment growth amid slightly falling job creation. Registered unemployment is still falling. Nominal wage growth was high in 2008 Q1. In addition to cyclical factors, this probably reflects the extraordinary effects of tax optimisation by economic agents and a lower sickness rate associated with changes to sickness benefits introduced in January 2008. However, wage growth continued rising year on year even when adjusted for these effects.

The forecast assumes a further decline in GDP growth in 2008 Q2, accompanied by slackening growth in employment and some slowdown in wage growth.

At present, the Czech economy is facing strongly inflationary domestic factors, primarily due to wage growth. The gradual rise in wage growth has fostered a rise in the cost-push inflation pressures of domestic production. By contrast, the sharp annual appreciation of the exchange rate is reducing import price inflation and is having a dampening effect on both production costs and consumer prices, despite the strong growth in world energy and food prices. The overall inflation pressures are thus currently assessed as being roughly neutral to slightly anti-inflationary.

III.2 THE FORECAST

At the forecast horizon, inflation will be falling towards the inflation target thanks to the unwinding of the effect of the price shocks that occurred in late 2007 and early 2008, the anti-inflationary effect of the previous appreciation of the koruna, and a gradual decline in inflation pressures from the domestic economy. GDP growth will continue slowing in the coming quarters owing to the dampening effect of the very strong exchange rate and weak external demand on export growth and gross capital formation. Household consumption will recover slightly in 2008, but will be depressed by slowing employment growth and downward pressure on nominal

wage growth. After an initial correction, the nominal exchange rate will again steadily appreciate. Consistent with the forecast is a declining interest rate path for the rest of 2008 and broad interest rate stability for most of 2009.

III.2.1 Assumptions of the forecast

The forecast is based on assumptions regarding the external economic environment, regulated prices, indirect tax changes and public budgets.

Expectations regarding the external environment are one of the key assumptions of the forecast. For this purpose, the CNB has as usual drawn on the publication Consensus Forecasts, which brings together the forecasts of a range of foreign analytical teams, and market outlooks. The current forecast is based on the July Consensus Forecasts data and the market outlooks effective on the survey date. Effective developments in the euro area are used to proxy for developments in the Czech Republic's major trading partner economies. The CNB forecast uses the outlook for prices of Brent crude oil as an indicator of energy prices. In addition, the outlook for petrol prices on the ARA markets is used in forecasting fuel prices.

The effect of the external environment will be characterised by weakening external demand and rising inflation associated with oil and food price developments. Effective GDP growth of 2% is expected for the euro area in 2008. This will decline to 1.3% in 2009 then recover to 1.8% in 2010. Expected external inflation in the coming four quarters has increased by comparison with the previous forecast. Growth of 3.1% in the effective indicator of consumer prices in the euro area is thus expected in 2008. The forecast is for 2.3% in 2009, followed by a decrease to 1.9% in 2010. The outlook for the effective indicator of producer price inflation this year has also been revised upwards, to 5.5%, and still relatively high growth of 3% is expected for 2009 and 2010.

The implied paths of foreign interest rates remain rather volatile. The foreign reference rate used in the forecast was changed from the one-year rate to the three-month rate as a result of the switch to the new model. Given the relatively high perceived risk in interbank operations over the past year, three-month rates are represented by the EONIA 3M swap rate²⁹ rather than the EURIBOR rate used in the past. The derived three-month euro rates should keep rising until the end of this year and then gradually fall. They are expected to stand at 4.2% on average this year and next year, while a decline to 4.0% is expected for 2010. The dollar-euro exchange rate path has been revised towards a weaker dollar over the entire forecast horizon. In 2008 Q3, the dollar should reach its trough against the euro and is then expected to firm gradually to USD 1.40 against the euro in 2010. The outlook for Brent crude oil prices has been increased significantly again, to an average of USD 147 a barrel at the forecast horizon.

The forecast assumes strong growth in domestic regulated prices over the entire forecast horizon. In addition to the inflationary effects of the rapidly rising world oil prices on regulated prices of energy for households, a significant inflationary

TABLE III.1 EXPECTED EXTERNAL DEVELOPMENTS
Foreign interest rates will rise this year and fall next year
(quarterly averages)

	III/08	IV/08	I/09	II/09	III/09	IV/09	I/10
Brent crude oil prices (USD/barrel)	141.7	146.9	148.3	148.4	148.1	147.7	147.3
GDP in euro area ^{a)}	1.8	1.6	0.8	1.3	1.5	1.6	1.7
Producer prices in euro area ^{a)}	6.2	5.3	4.1	2.8	2.6	2.6	2.8
Consumer prices in euro area ^{a)}	3.3	2.8	2.6	2.3	2.1	2.1	2.0
USD/EUR exchange rate	1.58	1.53	1.52	1.49	1.45	1.43	1.41
EONIA 3M swap (in per cent)	4.3	4.5	4.5	4.3	4.1	4.1	4.1

a) effective indicator; annual percentage changes

29 EONIA (Euro Over-Night Index Average) swaps are a rapidly growing, and the most liquid, segment of the European money market. Under this type of contract, one party pays a variable overnight rate for a specified period and in exchange receives an agreed fixed rate for the entire period. The contract is settled after it expires and the settlement only involves liabilities arising from the daily differences between these rates. This swap rate therefore contains the shortest possible term premium and its credit risk is very limited.

contribution is expected from rent deregulation at the forecast horizon. Following a rise of almost 17% at the end of 2008, regulated prices will increase by roughly 7% in 2009 and 2010.

The assumptions of the forecast also include the outlook for the first-round effects of indirect tax changes, which are subject to escape clauses. The first-round effects of the VAT increase and harmonisation of excise duties and environmental taxes with EU rules which took place in 2008 will affect annual consumer price inflation until mid-2009. Their impact on unregulated prices will reach 1.4 percentage points at the end of 2008 and unwind completely by the end of 2009.

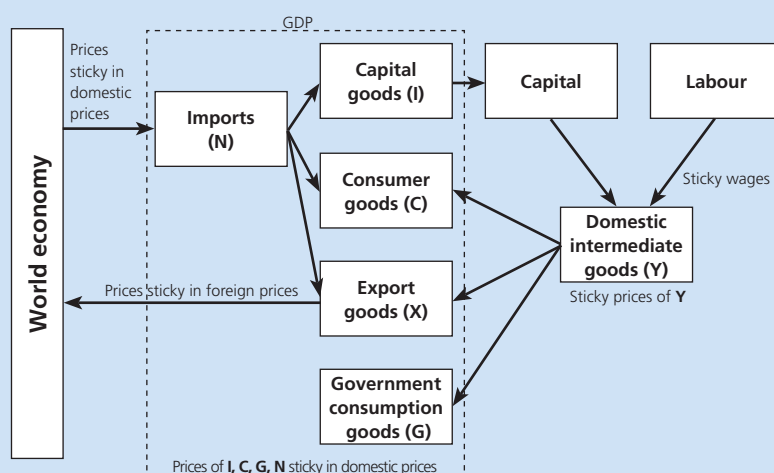
The estimated government sector deficit has been increased slightly to 1.1% of GDP in 2008 and reduced to 1.3% of GDP in 2009. The outlook for tax revenue collection has been revised upwards for both years. However, in 2008 it will be more than offset by the combined effect of a buy-back of the property of České dráhy (Czech Rail) and a rise in sickness benefit claims. In 2009, the higher expected tax revenues will slightly exceed the impact of a decrease in the social insurance rate for employees.

BOX 1

The sectoral and production structure of the g3 model

The sectoral and production structure of the g3 model is a pragmatic simplification of the structure of the Czech economy. The model economy is divided into a producer sector, a household sector, a state sector and an external sector.

The production structure of the model is shown in the scheme below. The core of the model is the intermediate goods production sector (Y). Using labour and capital, this sector produces intermediate goods, which are not intended directly for final use, but together with imported intermediate goods (N) comprise an input for the production of final goods for private and government consumption and exports. Each of the final goods production sectors can have a different ratio of domestic and foreign inputs with a different degree of mutual substitution. For example, for the export goods production sector (X) the model assumes high import intensity and a relatively low ability to substitute foreign inputs with domestic production in the short run.



Producers in individual production sectors are price-takers in terms of production inputs, so they can only decide how many goods they will produce and at what price. At the same time, prices of all goods are partly sticky. Producers cannot change their prices at any time, but only after some time has passed. Only a proportion of producers set their prices at any given moment; other producers index their prices to current inflation. In equilibrium, companies make a positive economic profit.

The production structure of the economy and the related flows of goods and services are reflected in the pricing of individual production sectors (consumer prices, export prices etc.). The degree of stickiness when price contracts are executed varies across the individual sectors. In the model, these linkages capture the gradual pass-through of demand and supply shocks to individual price categories. In the case of consumer prices, changes to regulated prices and indirect taxes also play a role.

The household sector consumes goods (C), rents capital to the intermediate goods production sector, offers labour to all production sectors and invests in domestic and foreign bonds. Households maximise their expected utility of consumption and leisure subject to budget constraints. As with producer pricing, wage creation is based on the assumption of stickiness. Only the wages of a proportion of households can be optimised at any given moment; the wages of the remaining households are set in line with the currently observed wage growth. Usable capital consists of the old capital stock and new capital goods (investment, I). Imperfect substitution between old and new capital is assumed.

The state sector is subdivided into the government and the central bank. The government collects taxes, distributes transfers and consumes government consumption goods (G). The government is allowed to generate public debt.

The central bank targets headline consumer goods price inflation and applies escape clauses to any first-round impacts of changes to indirect taxes. Headline inflation consists of regulated price inflation, unregulated price inflation and the effect of changes to indirect taxes. Unregulated price inflation consists of price inflation of inputs used in consumer goods production, i.e. intermediate consumption price inflation (domestic inflation pressures) and imported goods price inflation (external inflation pressures). Domestic inflation pressures stem from wage growth net of labour productivity growth and from growth in prices of capital goods. External inflation pressures are due to foreign prices of imported goods and the exchange rate.

In terms of world trade, the Czech economy is a small and highly open economy. External demand, prices and interest rates have a large impact on prices, production and employment. Domestic importers import goods at world prices and, conversely, exporters must compete with products from abroad. Exporters' trade contracts are nominally sticky in foreign currency in the short run. An unexpected sudden exchange rate movement thus first affects exporters' profit margins. Exporters can subsequently adjust their production prices, but at the risk of reducing their price competitiveness. Besides price competitiveness, the model also takes account of non-price competitiveness, reflecting developments in the structure of foreign trade and the growing share of goods requiring high technology and know-how.

In accounting terms, the external sector is described by the balance of payments. The difference between nominal exports and imports (putting it simply, the current account deficit) is offset by movements on the financial account relating to holdings of foreign bonds. Equilibrium is reached in bond trading through the uncovered interest parity. The interest rate differential between the foreign (EURIBOR) and domestic (PRIBOR) interest rate is offset by expected appreciation (depreciation) of the exchange rate, taking into account the risk premium.

III.2.2 The message of the forecast

Headline inflation will be above the tolerance band of the inflation target until the end of 2008. At the beginning of 2009, inflation will fall rapidly and then gradually decline below the point inflation target. At the monetary policy horizon, i.e. in 2009 H2, headline inflation will thus be in the lower half of the 3% inflation-target tolerance band. At the beginning of 2010, owing to this development, inflation will lie in the upper half of the tolerance band of the new 2% inflation target.

Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, will also be above the upper boundary of the tolerance band for the inflation target until the end of 2008. The first-round effects of changes to indirect taxes will unwind gradually in 2009 H1, and from Q3, i.e. already at the monetary policy horizon, monetary-policy relevant inflation is forecasted to be the same as headline inflation.

BOX 2

The withdrawal of 50-heller coins and its possible impact on prices

On 31 August 2008, 50-heller coins will cease to be legal tender. The reason for this measure is that small coins have ceased to fulfil the function of circulating currency. Keeping the 50-heller coins in circulation was causing the central bank and commercial banks and retailers to incur considerable costs.

Retailers have two options for dealing with this. They can round off all their prices to the nearest koruna or they can leave prices unrounded and only round off the cost of the overall purchase. The experience with the withdrawal of the 10-heller and 20-heller coins in 2003 suggests that most retailers will only round off the cost of the overall purchase.

Based on this experience, the maximum price impact of the withdrawal of 50-heller coins has been estimated under following assumptions: (i) all items priced less than CZK 5 will be rounded up to the nearest koruna; (ii) for items priced between CZK 5 and CZK 50, 30% of retailers will round up to the nearest koruna, while 70% will only round off the cost of the overall purchase; (iii) items priced over CZK 50 are already rounded to the nearest koruna; where this is not the case, it is for marketing reasons and the price will be not rounded even after the 50-heller coins have been withdrawn. Under these assumptions, the maximum impact would be 0.24 percentage point (see Table 1). The actual impact is very likely to be lower and barely identifiable in the natural volatility of prices. This can be assumed among

CHART III.1 THE HEADLINE INFLATION FORECAST

At the monetary policy horizon, the headline inflation forecast lies in the lower half of the inflation-target tolerance band (annual percentage changes)

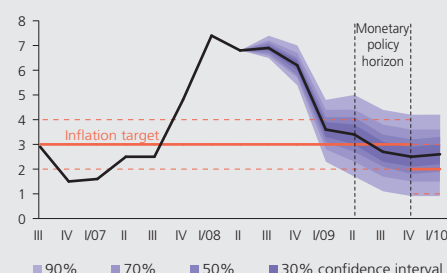


CHART III.2 THE MONETARY-POLICY RELEVANT INFLATION FORECAST

At the monetary policy horizon, monetary-policy relevant inflation lies in the lower half of the inflation-target tolerance band (annual percentage changes)

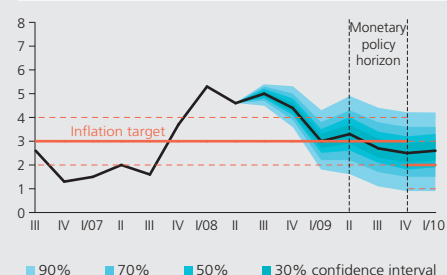


TABLE 1 (Box) MAXIMUM IMPACT OF 50H WITHDRAWAL

The estimated maximum impact of the withdrawal of 50-heller coins on inflation is relatively small

Price range of items	0-5 CZK	5-50 CZK	Total
Weight in consumer basket (in per cent) ^{a)}	0.8	28.4	29.2
Average price (in CZK) ^{b)}	2.50	25.70	
Average price increase rounded up (in CZK) ^{b)}	0.50	0.075	
Average price increase (in per cent) ^{b)}	20	0.3	
Max. impact on inflation (in perc. points)	0.16	0.08	0.24

a) CNB estimate

b) CNB maximum estimate

TABLE III.2 FORECAST OF KEY INFLATION COMPONENTS

The impact of regulated prices on inflation will be significant at the forecast horizon (annual percentage changes; quarterly averages)

	III/08	IV/08	I/09	II/09	III/09	IV/09	I/10
CONSUMER PRICES	6.9	6.2	3.6	3.4	2.7	2.5	2.6
Regulated prices ^{a)}	16.0	17.0	10.4	10.1	8.6	6.9	7.5
First-round impacts of indirect tax changes on consumer prices ^{b)}	1.9	1.8	0.6	0.1	0.0	0.0	0.0
Net inflation ^{c)}	3.1	2.0	1.8	1.9	1.6	1.5	1.6
Prices of food, beverages, tobacco ^{d)}	3.8	1.5	1.6	2.6	2.3	1.5	1.4
Adjusted inflation excl. fuels ^{d)}	2.2	1.2	0.6	0.2	-0.1	0.3	0.5
Fuel prices ^{d)}	10.1	14.9	19.3	20.2	18.5	15.4	12.0
Monetary-policy relevant inflation ^{d)}	5.0	4.4	3.0	3.3	2.7	2.5	2.6

a) including changes to indirect taxes

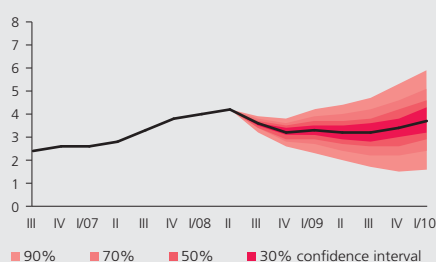
b) contributions in percentage points

c) excluding changes to indirect taxes

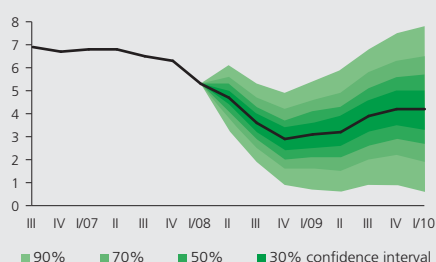
d) headline inflation excluding first-round impacts of changes to indirect taxes

CHART III.3 THE INTEREST RATE FORECAST

Consistent with the forecast is a declining interest rate path for the rest of 2008 and broad interest rate stability for most of 2009
(3M PRIBOR, %)

**CHART III.4 THE GDP GROWTH FORECAST**

GDP growth will slow in 2008, but will accelerate again during 2009
(annual percentage changes, seasonally adjusted)

**TABLE III.3 FORECAST OF KEY GDP COMPONENTS**

Underlying the decline in GDP growth will be a fall in export growth
(annual percentage changes, seasonally adjusted)

	2008	2009	2010
GROSS DOMESTIC PRODUCT	4.1	3.6	4.1
Household consumption	3.0	3.9	4.1
Government consumption	1.4	1.9	2.1
Gross capital formation	4.6	4.9	4.3
Imports of goods and services	10.1	8.4	8.6
Exports of goods and services	10.9	7.8	8.7
Net exports of goods and services (in CZK bn; at constant prices)	58.7	42.9	49.2

TABLE III.4 FORECAST OF SELECTED VARIABLES

Average nominal wage growth will slow in 2009
(annual percentage changes)

	2008	2009
Real gross disposable income of households	2.0	3.3
Total employment	1.6	-0.4
Unemployment rate (in per cent) ^{a)}	4.2	4.7
Labour productivity	2.4	4.0
Average nominal wage	8.9	6.6
Average nominal wage in business sector	10.3	7.4
Current account deficit (ratio to GDP in per cent)	-1.8	-2.3
M2	9.0	7.5

a) ILO methodology

other things based on the experience with the impacts of the withdrawal of small coins in 2003, when neither actual inflation nor the inflation perceptions and expectations of economic agents were significantly affected by this step.

Simultaneously with the withdrawal of 50-heller coins, 20-koruna banknotes will be withdrawn due to rationalisation of currency issuance and money circulation. These banknotes have gradually been replaced by 20-koruna coins, so no price impact can be expected from their withdrawal.

Despite a decline in the contribution of regulated prices to inflation in 2009 and 2010 by roughly half compared to 2008, their contribution to headline inflation will be significant over the entire forecast horizon. Other components of inflation will be significantly affected by the gradual impact of the past appreciation of the exchange rate via import prices and by a decline in domestic price pressures due to lower economic growth and slower nominal wage growth. Adjusted inflation excluding fuels will initially decline owing to these anti-inflationary factors, but will rise slightly towards the end of the horizon in line with renewed growth in real economic activity. Prices in the consolidated category of food will be affected in the coming two quarters by a lagged pass-through of the increase in excise duties to prices of cigarettes. After this effect unwinds, their growth will ease. Subsiding growth in world food prices will also foster a decline in prices of food. Price of fuels will also slow at the forecast horizon.

Consistent with the macroeconomic forecast and its assumptions is a declining interest rate path for the rest of 2008 and broad interest rate stability for most of 2009.

According to the forecast, the exchange rate should at first weaken in 2008 Q3 and thereby partly correct its previous sharp appreciation. This will be aided among other things by a widening negative interest rate differential. After that, the exchange rate will steadily appreciate again.

The forecast expects a relatively sharp slowdown in economic growth. The impacts of the strong appreciation of the exchange rate, slowing external demand and fiscal reforms will cause GDP growth to decline as far as 3% in 2008. The recovery in 2009 and 2010 will be very moderate as a result of still weak external demand. Average annual GDP growth will decrease to 4.1% in 2008 and on to 3.6% in 2009. The economy is expected to grow by 4.1% in 2010.

Household consumption slowed in the past three quarters, mainly due to slower growth in real disposable income, reflecting the rise in inflation and the impacts of the fiscal reform. However, consumption growth will start to edge up in 2008 as a result of a slight increase in real wage growth and easier real interest rates. Consumption will thus grow at 3% in 2008 and increase to 3.9% in 2009. The rate of growth of government consumption at constant prices will rise to 1.4% in 2008 and reach 1.9% in 2009.

Gross capital formation will be dampened by weak export demand in 2008 and 2009. Total investment will grow at roughly 5% in 2008 and 2009.

Real exports will be affected by slackening external demand and a decline in the price competitiveness of domestic products, despite the exchange rate correction expected in the near future. Import growth will also slow markedly at the forecast horizon, but this decline is smaller than the fall in export growth and will occur with

a greater lag. The lower real export growth than real import growth will result in a negative contribution of net exports to GDP growth, which will be the main factor underlying the decline in output growth.

On the labour market, the slower economic growth will be accompanied by a sizeable decline in nominal wage growth. The downward pressures on wage growth will stem mainly from a decline in producers' profitability amid a sharp appreciation of the nominal exchange rate and a rise in labour costs. The average nominal wage in the economy will thus grow at roughly 9% in 2008 and less than 7% in 2009. The slowing wage growth will be accompanied by falling employment growth, which will turn negative in 2009, and by a gradually rising unemployment rate.

III.2.3 Alternative scenarios of the forecast

In addition to the baseline scenario, two alternative scenarios were constructed for the Czech economy going forward.

The first alternative scenario reacts to the recent sharp appreciation of the exchange rate. It assumes that the exchange rate will stay at the record-high values seen in mid-July in Q3 and models this as a pure exchange rate shock that is one-off in nature and is not supported by economic fundamentals. Consequently, pressure for an exchange rate correction arises after the exchange rate shock occurs. However, the exchange rate correction must be supported by a marked reduction in interest rates.

The exchange rate correction and the central bank's response lead to a relatively modest and time-limited response of inflation and the real economy. The most significant effect of such an appreciation would be lower growth in real exports, which would foster an even more pronounced slowdown in GDP growth than projected in the baseline scenario. The negative impact on private consumption and investment is small.

The second alternative scenario has been drawn up using the QPM structural model, which was used to prepare the baseline scenario in the past. The purpose of this alternative scenario is to describe the economy by means of an alternative model and to maintain continuity with the previous baseline scenario of the forecast. The headline inflation forecast and the speed of return of inflation to the inflation target is comparable with the baseline scenario in this alternative scenario, although differences are apparent in the forecast for the real economy, in the intensity of the effect of domestic and external inflation factors and partly also in the interest rate path. Slightly higher interest rates at the start of the forecast than in the baseline scenario lead to a stronger exchange rate. The tighter monetary conditions result in a more marked slowdown in economic growth in 2009. Unlike in the baseline scenario, however, this cyclical decline does not directly dampen the wage pressures, and so nominal wages grow faster.

CHART III.5 THE ALTERNATIVE INFLATION FORECASTS

Headline inflation in the alternative scenarios differs little from that in the baseline scenario (annual percentage changes)

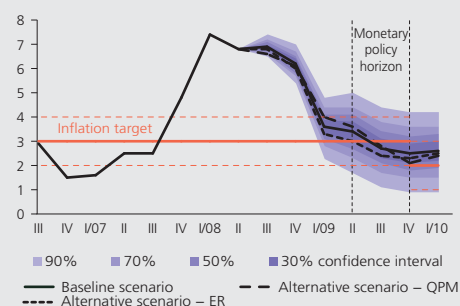


CHART III.6 ALTERNATIVE MONETARY-POLICY RELEVANT INFLATIONS

Monetary-policy relevant inflation in the alternative scenarios differs little from that in the baseline scenario (annual percentage changes, seasonally adjusted)

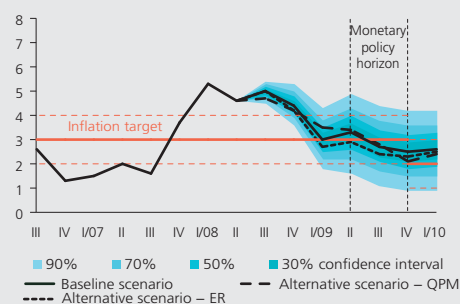


CHART III.7 THE ALTERNATIVE INTEREST RATE FORECASTS

Consistent with the alternative scenarios are higher/lower interest rates than in the baseline scenario in 2008 (3M PRIBOR, %)

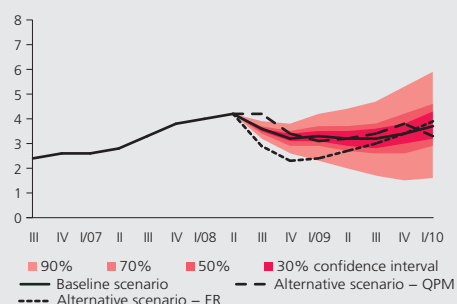
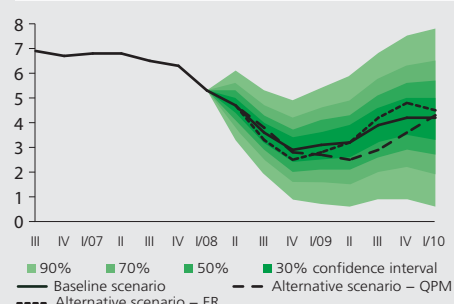


CHART III.8 THE ALTERNATIVE GDP GROWTH FORECASTS

GDP growth in the alternative scenarios differs from that in the baseline scenario (annual percentage changes; seasonally adjusted)



III.3 EXPECTATIONS OF ECONOMIC AGENTS

All indicators of expected inflation rose or were flat at both monitored horizons in Q2. Expected interest rates also shifted upwards slightly.

The CNB monitors the inflation expectations of the financial market and corporations at the one-year and three-year horizons by means of statistical surveys. In addition, it draws on the qualitative assessment of past and future inflation by households collected as part of the European Commission Business and Consumer Survey (see Box 2 in the July 2007 Inflation Report).

Future inflation expected by financial market participants at the one-year horizon increased slightly above the CNB's 3% inflation target. The main inflationary factors are expected to include high oil prices and wage growth. Conversely, the strong koruna is expected to have an anti-inflationary effect. The inflation expectations of corporations were unchanged and remained higher. At the three-year horizon, the inflation expectations of both the financial market and corporations remained above the 2% inflation target valid as from January 2010.

The indicator of perceived inflation remained positive in Q2. This means that households on average felt that prices tended to rise over the last 12 months. The indicator of expected inflation was also positive, i.e. the number of respondents who expected prices to increase more rapidly over the next 12 months than in the past exceeded the number of those who expected prices to stay the same. Both these indicators increased during Q2.

In Q2, the interest rates expected by financial analysts also increased slightly at virtually all the monitored maturities. The interest rate path consistent with the aforementioned CNB forecast was slightly lower than the expectations of financial market analysts for the near future. At the longer horizon, it was lower.

TABLE III.5 INFLATION EXPECTATIONS
Inflation expectations did not decline
(percentages)

	12/07	4/08	5/08	6/08	7/08
CONSUMER PRICES					
1Y horizon:					
Financial market	4.5	3.0	3.1	3.2	3.1
Corporations	4.9			4.9	
3Y horizon:					
Financial market	2.7	2.6	2.6	2.7	2.6
Corporations	3.8			4.0	
1Y PRIBOR					
1Y horizon:					
Financial market	4.1	3.9	4.0	4.1	4.0

CHART III.9 PERCEIVED AND EXPECTED INFLATION
Inflation expected by households increased in 2008 Q2



Source: European Commission Business and Consumer Survey

MINUTES OF THE BOARD MEETING ON 26 JUNE 2008

Present at the meeting:

Z. Tůma (Governor), M. Hampl (Vice-Governor), M. Singer (Vice-Governor), R. Holman (Chief Executive Director), P. Řežábek (Chief Executive Director), V. Tomšík (Chief Executive Director), E. Zamrazilová (Chief Executive Director)

The meeting opened with a presentation of the fourth situation report assessing the newly available information and the risks associated with the fulfilment of the May forecast. The risks to inflation were assessed as being on the upside overall, as most of the information available at the time the situation report had been prepared had been moving in this direction. At the same time, though, it was said that if the exchange rate were to stay at its current strong values it might offset these upside risks. Developments in the euro area were acting in the inflationary direction via the expected path of one-year Euribor rates. Rising prices of oil and – among the domestic factors – faster-than-forecast wage growth were also acting in the same direction. The downside risks to inflation were concentrated in the exchange rate and in slower-than-expected growth of the domestic economy. Moreover, there was considerable uncertainty about whether the current strong appreciation was a temporary or permanent phenomenon.

After the presentation of the situation report, the Board discussed the risks. The current situation was assessed as being difficult as regards monetary policy decision-making, and the Board agreed that the inflation risks remained balanced to moderately inflationary.

The Board's discussion began with a description of two extreme but plausible future scenarios. In the first scenario, the central bank would leave interest rates unchanged and the upside risks would materialise, with an exchange rate correction occurring, wages facing upward pressure and inflation expectations rising. This could result in problems hitting the inflation target at the monetary policy horizon. In the second scenario, the central bank would raise interest rates, but the upside risks would fail to materialise and the exchange rate would remain at a strong level or strengthen even further. This situation could lead, via the exchange rate channel of the transmission mechanism, to an undershooting of the inflation target and an inappropriate reduction in economic growth at the monetary policy horizon.

However, it was said in the ensuing discussion that the most likely outcome would be somewhere between these two scenarios. Opinions differed on whether the future path might lead in the inflationary or anti-inflationary direction. Generally higher inflation in the global economy and rising commodity prices were mentioned as upside risks to inflation. A tightening in the form of a rate increase would be necessary only if domestic inflation expectations were to rise. The opinion was also expressed that the upside effect of the external environment was not a central theme of current monetary policy decision-making.

In the subsequent debate about inflation expectations, it was said that a period of high inflation and of waiting for an appreciation to materialise can lead to volatility of inflation expectations. It was also said that the stability of inflation expectations could be disturbed by the expected rise in inflation in the coming months due to the additional one-off effects of the increase in excise duty on tobacco products and growth in natural gas prices. On the other hand, it was said that inflation expectations are not derived by economic agents solely from inflation and are also directly influenced by the exchange rate. The hypothesis of rising inflation expectations was supported by mention of the shape of the interest rate path expected by the financial market, which differed considerably from the implied interest rate path of the May forecast. This argument, however, was questioned by reference to the strong effect of current data on market expectations. In this context, it was also mentioned that given the current exchange rate trend, the implied interest rate path of the August forecast might be even lower than that of the May forecast.

In the discussion of the upside risks to inflation, it was then said that the observed evolution of wages might only be a virtual upside factor, since adjusted for one-off effects wages had not risen as fast in the first quarter of this year as expected in the May forecast. It was said that the nature of the wage trend would be made clearer by the second-quarter figures. The inflationary assessment of the effect of expected foreign interest rates was labelled as equally problematic. The interest rate differential channel underlying this effect assumes precisely the opposite exchange rate trend compared to the current observation. The opinion was also expressed that although the

current evolution of adjusted inflation excluding fuels might be a cause for some concern, it was emerging behind the peak of the business cycle, which, according to the revised GDP growth figures, had occurred back in the first quarter of last year. The current high annual growth could therefore be attributed to the jump in inflation in January this year, and adjusted inflation excluding fuels was already falling in quarter-on-quarter terms.

The Board agreed that the current evolution of the exchange rate was a major anti-inflationary factor. It was said that the exchange rate had recorded its highest-ever nominal year-on-year appreciation and it was repeated several times that if this situation were to continue it would inevitably have impacts on inflation and economic growth. In this context, the experience of the similar appreciation wave in 2001 and 2002 and the subsequent response of the economy were discussed at length. It was argued that the current situation was not qualitatively different from that in 2001 and 2002. On the other hand, the opinion was also expressed that the external environment was more inflationary.

There was broad agreement that the impacts of the appreciation on prices and real economic activity would show up mainly at the end of this year and the beginning of the next. It was also said that, moreover, the effects of previous interest rate increases should also start to appear at this time. It was said that signs of a decline in real economic activity were already being observed, in the form of a decrease in quarter-on-quarter GDP growth, a sharp slowdown in investment activity, a fall in vacancies and slowing money supply growth.

Another downside factor mentioned was the expected evolution of real economic activity abroad, as the view of future economic growth in Germany and the EU-15 as a whole was currently being revised.

At the close of the meeting the Board decided by a majority vote to leave the two-week repo rate unchanged at 3.75%. Six members voted in favour of this decision: Governor Tůma, Vice-Governor Singer, Chief Executive Director Holman, Chief Executive Director Řežábek, Chief Executive Director Tomšík and Chief Executive Director Zamrazilová. One member voted for increasing rates by 0.25 percentage point: Vice-Governor Hampl.

MINUTES OF THE BOARD MEETING ON 7 AUGUST 2008

Present at the meeting:

Z. Tůma (Governor), M. Singer (Vice-Governor), R. Holman (Chief Executive Director),
P. Řežábek (Chief Executive Director), V. Tomšík (Chief Executive Director),
E. Zamrazilová (Chief Executive Director)

The meeting opened with a presentation of the fifth situation report containing the new macroeconomic forecast. This was the first forecast prepared using the new core prediction model, which better captures the interactions between economic agents. Despite slowing slightly in the second quarter of 2008, consumer price inflation had remained well above the inflation-target tolerance band. The current high inflation, however, was still assessed as being a transitory phenomenon mainly reflecting changes to indirect taxes, whose first-round effects had accounted for more than two percentage points of headline inflation, increasing regulated prices (including the introduction of fees in health care) and the exceptionally high food price growth at the end of last year, which, however, was gradually easing.

The current economic phase was assessed as being a decline from the peak of the business cycle, accompanied by domestic inflation pressures. However, the strong appreciation of the exchange rate was offsetting these domestic inflationary pressures by depressing import prices and by affecting the demand side of the economy. GDP growth was slowing, as evidenced by several leading indicators.

At the forecast horizon inflation would be falling towards the inflation target after the unwinding of the effect of the tax and price shocks that occurred in late 2007 and early 2008, thanks to the anti-inflationary effect of the current appreciation of the koruna and a gradual decline in inflation pressures from the domestic economy. GDP growth would continue slowing in the coming quarters owing to the dampening effect of the very strong exchange rate and weak external demand on export growth and also as a result of slowing gross capital formation. Nominal wage growth in the business sector could also be expected to decline from its present values.

Consistent with the forecast was a declining interest rate path for the rest of 2008 and broad interest rate stability for most of 2009.

After the presentation of the situation report, the Board discussed the new forecast and the risks associated with it. The board members agreed that the domestic economy was slowing and that the inflationary pressures were weakening as a result. The ongoing correction in the commodity markets was identified as an additional downside risk to inflation.

At the start of the discussion, it was said that the current situation was very complicated. While it was relatively certain that economic growth was going to slow in both the domestic and external economy, the future path of inflation was far less predictable. The present situation was described as being a combination of three shocks: an inflationary shock to prices of food and energy-producing commodities, an external anti-inflationary demand shock and an exchange rate appreciation shock.

Wage growth, which might be higher than forecasted, was identified as an upside risk to inflation. The recently observed high growth in nominal unit wage costs was mentioned. In the subsequent discussion, however, the majority of the board members cast some doubt on this risk by referring to the deteriorating financial condition of businesses, which would not be able to accept employees' demands. It was mentioned that although corporations' current profitability was better than in 2002 and 2003, data on their financial performance revealed that their liquidity had fallen sharply. This was confirmed by the credit data, as operating loans had risen significantly while investment loans had fallen. The opinion was expressed that the combination of falling corporate liquidity and greater unwillingness of the banking sector to finance corporations might be an additional anti-inflationary factor.

The exchange rate remained a downside risk to inflation. On the one hand, it was said that the current exchange rate level would inevitably have repercussions both for real economic activity and for inflation. On the other hand, concerns were also expressed about an excessive correction of the exchange rate, which might be supported by the slowing economic growth. It was said that a reduction of interest rates was to a large extent already contained in the current exchange rate level, and that if rates were not lowered the exchange rate might strengthen again.

The Board also discussed in detail the outlook for domestic economic growth, in particular the effect of the individual components of domestic demand on the expected downswing in GDP growth. It was debated whether the slowdown in growth would arise via a downturn in consumer and investment demand, or whether it would be triggered by the expected decline in net exports. On the one hand, the case was made for a higher contribution of net exports to economic growth. On the other hand, however, it was also said that the observed still strong export growth might be persisting thanks only to the longer lag in its response to the appreciation of the exchange rate.

The recent correction in the commodity markets was identified as a downside risk to inflation, as commodity prices might stabilise at lower levels than assumed by the forecast. It was mentioned that this development might be linked with cooling economic growth and falling consumer confidence abroad. The opinion was expressed that at the forecast horizon commodity prices could be expected to decline further, or at least not start rising again.

At the close of the meeting the Board decided unanimously to lower the CNB two-week repo rate to 3.50%, effective 8 August 2004. At the same time it decided to lower the discount rate and Lombard rate by the same amount, to 2.50% and 4.50% respectively. Governor Tůma, Vice-Governor Singer, Chief Executive Director Holman, Chief Executive Director Řežábek, Chief Executive Director Tomšík and Chief Executive Director Zamrazilová voted in favour of this decision.

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ARA	Amsterdam–Rotterdam–Antwerp	ISDA	International Swaps and Derivatives Association
BCPP	Prague Stock Exchange	LFS	Labour Force Survey
ČEB	Czech Export Bank	M1, M2	monetary aggregates
ČMZRB	Czech-Moravian Guarantee and Development Bank	MNB	Hungarian National Bank
CNB	Czech National Bank	MLSA	Ministry of Labour and Social Affairs
CPI	consumer price index	NBP	National Bank of Poland
CZK	Czech koruna	NCG	net credit to government
CZSO	Czech Statistical Office	NDAs	net domestic assets
ECB	European Central Bank	NEAs	net external assets
EIB	European Investment Bank	NPISHs	non-profit institutions serving households
EONIA	Euro Over-Night Index Average	OMFIs	other monetary financial institutions
ERM II	Exchange Rate Mechanism	O/N	overnight
ESA 95	European System of National Accounts	PLN	Polish zloty
EU	European Union	PPI	producer price index
EUR	euro	PRIBID	Prague Interbank Bid Rate
Euribor	Euro Interbank Offered Rate	PRIBOR	Prague Interbank Offered Rate
FDI	foreign direct investment	(1W, 1M, 1Y)	(one-week, one-month, one-year)
Fed	US central bank	QPM	Quarterly Prediction Model
FRA	forward rate agreement	repo rate	repurchase agreement rate
GDP	gross domestic product	SFAOs	state financial assets operations
HICP	Harmonised Index of Consumer Prices	SITC	Standard International Trade Classification
HUF	Hungarian forint	SKK	Slovak koruna
ILO	International Labour Organization	USD	US dollar
IMF	International Monetary Fund	VAT	value added tax
IRS	interest rate swap		

Price indices used for the evaluation of inflation	(Box)	April 1998
Analysis of the money supply trend	(Box)	July 1999
Revisions to the statistical data on GDP	(Box)	July 1999
Measuring the inflation expectations of the financial market	(Annex)	October 1999
Oil prices and their impact on inflation	(Box)	July 2000
The effect of oil price changes on the balance of trade	(Box)	October 2000
The methodological framework for evaluating wage developments relative to inflation	(Box)	January 2001
The CNB's monetary policy rates	(Box)	April 2001
The setting of the inflation target for 2002–2005	(Annex)	April 2001
Harmonisation of the reserve requirements with European Central Bank standards	(Annex)	April 2001
Escape clauses pertaining to the new inflation target	(Annex)	July 2001
Changes in economic growth forecasts in the eurozone, Germany, the USA and Japan for 2001 and 2002	(Annex)	October 2001
Strategy for dealing with the exchange rate effects of capital inflows from privatisation of state property and from other foreign exchange revenues of the state	(Annex)	January 2002
Assessment of fulfilment of the CNB's net inflation target in December 2001	(Annex)	January 2002
Prediction of external variables	(Box)	April 2002
Estimated capital flows in 2002 and 2003 and their effect on the exchange rate	(Box)	April 2002
The Balassa–Samuelson effect	(Annex)	April 2002
The CNB changes its type of inflation forecast	(Box)	July 2002
An assessment of the effect of the August floods on Czech economic growth	(Box)	October 2002
The financial conditions of the Czech Republic's accession to the EU	(Box)	January 2003
Implications of the unexpectedly slow growth in regulated prices	(Box)	January 2003
The Czech Republic and the euro – Draft accession strategy	(Annex)	January 2003
Fiscal consolidation and its effect on economic growth	(Annex)	January 2003
Price deregulation in the period of transformation of the Czech economy	(Box)	April 2003
Revisions to the March 2003 GDP figures	(Box)	April 2003
Credit to households	(Box)	July 2003
The withdrawal of 10- and 20-heller coins and its possible impact on prices	(Box)	July 2003
Indirect taxes and the inflation forecast	(Box)	July 2003
Changes to the methodology for surveying inflation expectations	(Box)	July 2003
ERM II and the exchange-rate convergence criterion	(Annex)	July 2003
Use of the output gap indicator at the CNB	(Box)	October 2003
Monetary policy in the CNB's macroeconomic forecast	(Box)	October 2003
The Czech Republic's euro-area accession strategy	(Annex)	October 2003
Short-run food price prediction methods	(Box)	January 2004
Monetary conditions	(Box)	April 2004
The CNB's inflation target from January 2006	(Annex)	April 2004
The CNB has fully integrated into the European System of Central Banks	(Annex)	July 2004
The exchange rate in the CNB's forecasting system	(Box)	July 2004
Indicators of households' financial situation	(Box)	October 2004
GDP data revision	(Box)	October 2004
Petrol prices and their impact on inflation in the Czech Republic	(Box)	October 2004
Assessment of the fulfilment of the Maastricht convergence criteria and the degree of alignment of the Czech economy with the euro area	(Annex)	January 2005
The structure of lending	(Box)	January 2005
Uncertainty regarding the evolution of public finances in 2005 and 2006	(Box)	January 2005
Inflation expectations in the CNB's modelling system	(Box)	January 2005
The transmission of external cost shocks into domestic prices in 2003–2005	(Box)	April 2005
The effect of the exchange rate on inflation	(Box)	April 2005
The Czech National Bank's position on the revision of the Stability and Growth Pact	(Annex)	April 2005

The effect of EU accession on prices and inflation expectations	(Box)	July 2005
Foreign trade in the first year after the Czech Republic's accession to the EU	(Box)	July 2005
Financial flows between the Czech Republic and the European Union	(Box)	July 2005
The effect of world energy prices on consumer prices	(Box)	October 2005
The performance of large non-financial corporations 1998–2004	(Box)	October 2005
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Assessment of the fulfilment of the Maastricht Convergence criteria	(Annex)	January 2006
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Implications of household debt for consumption	(Box)	April 2006
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Employment of foreign nationals	(Box)	January 2007
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The new consumer basket as from January 2007	(Box)	April 2007
Financing of non-financial corporations	(Box)	April 2007
The application of escape clauses to indirect tax changes	(Box)	April 2007
The CNB's new inflation target and changes in monetary policy communication	(Annex)	April 2007
The relationship between interest rates and the structure of new loans for house purchase	(Box)	July 2007
The CNB's new approach to the monitoring of inflation expectations of households in the Czech Republic	(Box)	July 2007
The causes, course and impacts of the current turmoil in global financial markets	(Box)	October 2007
Household debt by income group in 2006 and its impact on consumption	(Box)	October 2007
The causes of the sharp growth in world prices of cereals	(Box)	October 2007
Fiscal measures and their impact on the economy in 2008	(Box)	October 2007
The Czech Republic's updated euro-area accession strategy	(Annex)	October 2007
Changes in the conduct and communication of monetary policy	(Box)	I/2008
Publication of the forecast-consistent interest rate path and the use of fan charts	(Box)	I/2008
The quarterly financial accounts statistics – New statistics at the CNB	(Box)	I/2008
Changes to the CNB's core prediction model	(Box)	I/2008
Assessment of the fulfilment of the Maastricht convergence criteria	(Annex)	I/2008
and the degree of economic alignment of the Czech Republic with the euro area		
The new g3 structural model	(Box)	II/2008
Joint agreement between the Czech Government and the Czech National Bank and Updated strategy for dealing with the exchange rate effects of foreign exchange revenues of the state	(Annex)	II/2008
The sectoral and production structure of the g3 model	(Box)	III/2008
The withdrawal of 50-heller coins and its possible impact on prices	(Box)	III/2008

This glossary explains some terms frequently used in the Inflation Report. A more detailed glossary can be found on the CNB website (www.cnb.cz/en/general/glossary/index.html).

Adjusted inflation excluding fuels: The increase in prices of non-food items of the consumer basket excluding items with regulated prices, indirect tax changes and fuels.

Balance of payments: Records economic transactions with other countries (i.e. between residents and non-residents) over a particular period. The basic structure of the balance of payments includes the current account, the capital and financial accounts and the change in CNB international reserves.

Consensus Forecasts: A regular monthly publication issued by Consensus Economics bringing together the forecasts of hundreds of prominent economists and analytical teams regarding future world developments. The CNB uses these predictions in its macroeconomic forecast when forming assumptions regarding the future development of the external environment.

Current account: Records exports and imports of goods and services, income from capital, investment and labour and unrequited transfers.

Discount rate: A monetary policy rate which as a rule represents the floor for short-term money market interest rates. The CNB applies it to the excess liquidity which banks deposit with the CNB overnight under the deposit facility.

Disinflation: A decline in inflation.

Effective euro area indicators: Proxy for the effect of economic activity (effective GDP) and inflation (effective producer prices and consumer prices) in the euro area on the Czech economy. The weights used in the calculation are the shares of the individual euro area economies in the foreign trade turnover of the Czech Republic.

Effective exchange rate: Shows the appreciation (index > 100) or depreciation (index < 100) of the national currency against a basket of selected currencies for a certain time period relative to a base period. The weights applied in the basket are the shares of major trading partners in foreign trade turnover.

Escape clause: Excuses the central bank from its obligation to hit the inflation target. In the flexible inflation targeting regime, it is applied in the event of large shock changes in exogenous factors (particularly supply-side shocks, e.g. indirect tax changes) that are completely or largely outside the purview of central bank monetary policy.

Euro area: The territory of all Member States of the European Union that have adopted the euro as a single currency pursuant to the Treaty Establishing the European Community.

Financial account: Records transactions connected with the creation, liquidation and change in ownership of the financial assets and liabilities of the government, the banking and corporate sectors and other entities vis-à-vis the rest of the world. It consists of direct investment, portfolio investment, other investment and financial derivatives transactions.

Fiscal impulse: Captures the effect of domestic fiscal policy on economic demand.

Food prices: In CNB documents, the term food prices refers to the consolidated category of prices of food and non-alcoholic beverages and prices of alcoholic beverages and tobacco.

Gross domestic product (GDP): The key indicator of economic development. It represents the sum of the value added by all economic sectors. In terms of use it consists of expenditure on final consumption (consumption of households, the government and non-profit institutions), gross capital formation (fixed investment and changes in inventories) and foreign trade (net exports of goods and services).

Inflation: Commonly, inflation is considered to be recurring growth of most prices in the economy. It means a decrease in the real value (i.e. purchasing power) of a given currency relative to the goods and services which consumers buy – if there is inflation in the economy, consumers need ever more currency units of the given country to buy the same basket of goods and services. In practice, inflation is measured by the increment of the consumer price index.

Inflation rate: The increase in the average (basic) consumer price index for the last 12 months relative to the average for the previous 12 months.

Inflation target: The level of consumer price inflation that the CNB endeavours to achieve, set publicly and well in advance.

Lombard rate: A monetary policy interest rate which provides a ceiling for short-term interest rates on the money market. The CNB applies it to the liquidity which it provides to banks overnight under the lending facility.

Monetary aggregates: Represent the amount of money in the economy covered in the monetary survey. According to the national definition, they are calculated from the monetary liabilities of resident monetary financial institutions to other resident sectors in the Czech Republic (households, non-financial corporations and financial institutions excluding the general government). Monetary aggregates differ according to the degree of liquidity of the individual components. The narrow monetary aggregate M1 comprises currency in circulation and overnight deposits. The broad monetary aggregate M2 comprises M1 plus deposits with agreed maturity, deposits redeemable at notice and repurchase agreements.

Monetary conditions: Represent the combined effect of interest rates (the interest rate component of the monetary conditions) and the exchange rate (the exchange rate component) on the economy. These are the key variables through which monetary policy can affect economic activity and, through it, inflation. In a period of easy monetary conditions monetary policy has been set in such a way as to support economic growth. If, conversely, monetary policy suppresses growth, we speak of a period of tight monetary conditions. Finally, in the case of neutral monetary policy settings, the monetary conditions are also termed neutral. The components of the monetary conditions do not necessarily affect the economy in the same direction.

Monetary policy horizon: The time horizon which monetary policy-makers focus on when making decisions and which takes into account the monetary policy transmission lag. This horizon is about 12–18 months ahead.

Monetary policy interest rates: Short-term interest rates associated with monetary policy-making. They comprise the two-week repo rate, the discount rate and the Lombard rate.

Monetary-policy relevant inflation: Inflation to which monetary policy reacts. It is defined as headline inflation adjusted for first-round effects of changes to indirect taxes.

Money market: The part of the financial markets which is used to obtain short-term loans and where debt instruments maturing in less than one year are traded. T-bills are typical securities traded on this market. Within this market the CNB carries out its repo operations.

Net inflation: Consumer price inflation net of regulated prices and adjusted for the first-round effects of changes to indirect taxes. Net inflation consists of food price inflation, fuel price inflation and adjusted inflation excluding fuels. Until the end of 2001, the CNB's inflation targets were set in terms of net inflation. Since 2002, the CNB has targeted headline inflation, using net inflation for analytical purposes only.

Nominal unit labour costs: The labour costs needed to produce a unit of output. Nominal unit labour costs are calculated as the ratio of the nominal volume of wages and salaries to GDP at constant prices.

Real marginal cost gap: Approximation of inflation pressures from the real economy. Marginal costs consist of the costs arising from the increasing volume of production (the "output gap") and wage costs (the "real wage gap"). A positive real marginal cost gap implies an inflationary effect of the real economy and a negative gap implies an anti-inflationary effect.

Regulated prices: A sub-category of the consumer basket consisting of items with price ceilings (set at either central or local level), prices regulated on a cost-plus basis (items whose prices may only reflect economically justified costs and a reasonable profit) and administratively fixed fees. The selection of these items is based on the Price Bulletin of the Czech Ministry of Finance.

Repo rate: The CNB's key monetary policy rate, paid on commercial banks' excess liquidity as withdrawn by the CNB in two-week repo tenders.

Unemployment rate: The ratio of the number of unemployed persons to the total labour force. We distinguish between the general unemployment rate, as determined by the CZSO according to International Labour Organisation methodology, and the registered unemployment rate, as determined by the Ministry of Labour and Social Affairs.

Table 1

KEY MACROECONOMIC INDICATORS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DEMAND AND SUPPLY											
<i>Gross domestic product</i>											
GDP	CZK bn, constant p., seas. adjusted	2,189.9	2,243.5	2,286.0	2,368.3	2,474.3	2,630.6	2,809.6	2,994.2	3,117.4	3,229.7
GDP	%, y-o-y, real terms, seas. adjusted	3.7	2.5	1.9	3.6	4.5	6.3	6.8	6.6	4.1	3.6
Household consumption	%, y-o-y, real terms, seas. adjusted	1.4	2.3	2.2	6.0	2.9	2.5	5.4	5.9	3.0	3.9
Government consumption	%, y-o-y, real terms, seas. adjusted	0.7	3.6	6.7	7.1	-3.5	2.9	-0.7	0.5	1.4	1.9
Gross capital formation	%, y-o-y, real terms, seas. adjusted	10.1	6.7	4.7	-1.5	9.3	-0.9	10.0	9.6	4.6	4.9
Exports of goods and services	%, y-o-y, real terms, seas. adjusted	17.8	11.0	1.9	7.2	20.3	11.7	16.4	14.6	10.9	7.8
Imports of goods and services	%, y-o-y, real terms, seas. adjusted	17.3	12.6	4.9	8.0	17.6	5.0	14.7	13.8	10.1	8.4
Net exports	CZK bn, constant p., seas. adjusted	-63.9	-94.6	-144.6	-168.7	-152.5	-24.9	10.0	31.8	58.7	42.9
<i>Coincidence indicators</i>											
Industrial production	%, y-o-y, real terms	-	6.7	1.9	5.5	9.6	6.7	11.2	8.2	-	-
Construction output	%, y-o-y, real terms	5.3	9.6	2.5	8.9	9.7	4.2	6.6	6.7	-	-
Receipts in retail sales	%, y-o-y, real terms	4.3	4.5	3.0	4.9	2.5	4.0	6.5	7.5	-	-
PRICES											
<i>Main price indicators</i>											
Inflation rate	%, end-of-period	3.9	4.7	1.8	0.1	2.8	1.9	2.5	2.8	-	-
Consumer Price Index	%, y-o-y, end-of-period	4.0	4.1	0.6	1.0	2.8	2.2	1.7	5.4	6.2	2.5
Monetary-policy inflation (excl. tax changes)	%, y-o-y, end-of-period	4.4	4.2	0.6	0.8	1.9	2.2	1.6	4.3	4.4	2.5
Regulated prices (16.40%)**	%, y-o-y, end-of-period	7.3	11.7	3.3	1.3	4.4	9.0	4.9	6.5	17.0	6.9
Net inflation (83.60)**	%, y-o-y, end-of-period	3.0	2.4	-0.2	1.0	1.5	0.4	0.7	3.8	2.0	1.5
Food prices (including alcoholic beverages and tobacco) (24.44%)**	%, y-o-y, end-of-period	3.7	2.9	-3.4	2.7	0.9	-0.7	0.9	8.2	1.5	1.5
Adjusted inflation excluding fuels (55.12%)**	%, y-o-y, end-of-period	1.9	3.3	1.6	0.2	1.6	0.5	0.8	1.2	1.2	0.3
Fuel prices (4.04%)**	%, y-o-y, end-of-period	10.3	-15.0	1.4	-2.0	5.9	9.8	-3.4	12.0	14.9	15.4
GDP deflator	%, y-o-y, seas. adjusted	1.6	4.9	2.8	0.9	4.5	-0.2	1.3	3.3	3.9	4.0
<i>Partial price indicators</i>											
Producer prices	%, y-o-y, average	5.1	3.0	-0.5	-0.3	5.6	3.1	1.4	4.1	5.8	5.1
Agricultural prices	%, y-o-y, average	8.6	9.6	-7.5	-4.5	9.6	-9.8	1.3	16.4	17.9	-8.0
Construction work prices	%, y-o-y, average	4.1	4.0	2.7	2.2	3.7	3.0	2.9	3.9	-	-
Brent crude oil	%, y-o-y, average	71.1	-12.7	4.9	17.6	33.6	43.2	21.4	12.0	74.7	20.1
LABOUR MARKET											
Average monthly wages in monitored organizations	%, y-o-y, nominal terms	6.4	8.7	7.3	6.6	6.6	5.3	6.5	7.3	8.9	6.6
Average monthly wages in monitored organizations	%, y-o-y, real terms	2.4	3.8	5.4	6.5	3.7	3.3	3.9	4.4	2.0	3.5
Number of employees	%, y-o-y	-1.4	0.3	-0.8	-2.0	-0.2	2.2	1.2	1.9	1.5	-0.5
Nominal unit labour costs	%, y-o-y	1.4	6.2	4.6	2.3	1.8	0.6	1.1	2.3	5.0	2.9
Nominal unit labour costs in industry	%, y-o-y	-5.4	11.0	0.5	3.4	-4.5	-4.0	-5.2	-2.3	-	-
Aggregate labour productivity	%, y-o-y	3.6	2.5	1.9	3.6	4.1	5.2	5.1	4.7	2.4	4.0
ILO general unemployment rate	%, average	-	-	-	7.8	8.3	7.9	7.1	5.3	4.2	4.7
Registered unemployment rate	%, average	-	-	-	-	10.0	9.5	8.6	7.0	5.7	6.1
PUBLIC FINANCE											
Public finance deficit (ESA95)	CZK bn, current p.	-81.5	-135.0	-166.8	-170.0	-82.7	-106.6	-85.5	-55.4	-41.8	-54.0
Public finance deficit / GDP*	%, nominal terms	-3.7	-5.7	-6.8	-6.6	-2.9	-3.6	-2.7	-1.6	-1.1	-1.3
Public debt (ESA95)	CZK bn, current p.	405.4	591.5	702.3	775.0	855.1	888.6	951.5	1,019.4	1,070.5	1,117.0
Public debt / GDP*	%, nominal terms	18.5	25.1	28.5	30.1	30.4	29.7	29.4	28.7	27.7	27.2
EXTERNAL RELATIONS											
<i>Current account</i>											
Trade balance	CZK bn, current p.	-120.8	-116.7	-71.3	-69.8	-13.4	59.4	65.1	117.5	119.7	110.0
Trade balance / GDP	%	-5.5	-5.0	-2.9	-2.7	-0.5	2.0	2.0	3.3	3.0	2.5
Balance of services	CZK bn, current p.	54.6	58.0	21.9	13.2	16.6	36.5	42.2	55.4	94.7	100.0
Current account	CZK bn, current p.	-104.9	-124.5	-136.4	-160.6	-147.5	-48.5	-100.8	-89.0	-70.0	-100.0
Current account / GDP	%	-4.8	-5.3	-5.5	-6.2	-5.2	-1.6	-3.1	-2.5	-1.8	-2.4
<i>Foreign direct investment</i>											
Direct investment	CZK bn, current p.	190.8	208.3	270.9	53.5	101.8	279.6	102.8	158.2	145.0	235.0
<i>Exchange rates</i>											
CZK/USD	average	38.7	38.0	32.7	28.2	25.7	24.0	22.6	20.3	-	-
CZK/EUR	average	35.6	34.1	30.8	31.8	31.9	29.8	28.3	27.8	-	-
CZK/EUR	%, y-o-y, real (CPI euro area), average	-	-	-	-	-0.7	-6.7	-5.6	-2.4	-	-
CZK/EUR	%, y-o-y, real (PPI euro area), average	-	-	-	-	-3.2	-5.5	-1.2	-3.6	-	-
<i>Foreign trade prices</i>											
Prices of exports of goods	%, y-o-y, average	6.3	0.4	-6.6	0.8	3.7	-1.5	-1.2	1.3	-5.1	0.2
Prices of imports of goods	%, y-o-y, average	11.9	-1.5	-8.5	-0.3	1.6	-0.5	0.3	-1.0	-4.1	-0.4
MONEY AND INTEREST RATES											
M2	%, y-o-y, average	6.4	11.1	7.0	4.1	7.7	5.3	8.9	11.2	9.6	8.5
2W repo rate	%, end-of-period	5.25	4.75	2.75	2.00	2.50	2.00	2.50	3.50	-	-
3M PRIBOR	%, average	5.4	5.2	3.6	2.3	2.4	2.0	2.3	3.1	3.7	3.3

* CNB calculation

** brackets are constant weights in act—ual consumer basket

— data are not available / forecasted / released

data in bold = CNB forecast

2006				2007				2008				2009				2010
QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI
685.4	696.7	708.2	719.2	732.0	743.8	754.2	764.3	771.0	778.8	781.4	786.2	794.8	803.9	811.5	819.5	828.0
6.8	6.8	6.9	6.6	6.8	6.8	6.5	6.3	5.3	4.7	3.6	2.9	3.1	3.2	3.9	4.2	4.2
4.8	5.3	5.1	6.3	7.1	6.4	6.2	4.1	2.8	2.8	3.0	3.5	3.8	3.9	3.9	3.9	3.9
2.1	-1.4	-2.7	-0.6	-0.5	-0.1	0.0	2.5	0.7	2.4	2.1	0.4	1.6	1.7	2.1	2.4	2.2
10.3	8.8	13.3	7.6	11.0	10.7	11.0	5.5	7.1	3.4	3.5	4.8	4.7	5.4	5.0	4.7	4.4
17.3	16.6	13.6	17.9	16.4	14.4	15.3	12.4	13.8	12.4	9.6	7.9	7.0	6.8	8.2	8.9	8.9
16.2	14.0	12.0	16.5	16.4	14.0	15.1	10.0	12.1	10.5	9.2	8.7	8.1	8.0	8.6	8.9	8.8
7.4	2.6	-12.6	12.6	8.5	5.6	-13.4	31.1	22.6	20.1	-11.2	27.2	15.8	12.0	-15.3	30.3	18.6
15.5	9.3	9.7	10.4	11.2	9.2	6.4	6.2	5.8	-	-	-	-	-	-	-	-
0.5	6.2	7.4	9.5	28.8	3.5	-0.3	5.3	4.2	-	-	-	-	-	-	-	-
6.9	6.2	6.2	6.6	9.7	7.8	6.5	6.5	2.3	-	-	-	-	-	-	-	-
2.2	2.5	2.8	2.5	2.2	2.1	2.0	2.8	4.3	5.4	-	-	-	-	-	-	-
2.8	2.8	2.7	1.7	1.9	2.5	2.8	5.4	7.1	6.7	6.9	6.2	3.6	3.4	2.7	2.5	2.6
2.5	2.5	2.6	1.3	1.7	1.9	1.7	4.3	5.1	4.6	5.0	4.4	3.0	3.3	2.7	2.5	2.6
11.2	10.5	9.8	4.9	4.1	4.0	4.6	6.5	15.0	14.7	16.0	17.0	10.4	10.1	8.6	6.9	7.5
0.1	0.3	0.5	0.7	1.3	1.5	1.2	3.8	3.5	2.9	3.1	2.0	1.8	1.9	1.6	1.5	1.6
-1.8	-0.6	1.4	0.9	3.2	2.7	2.5	8.2	4.9	3.0	3.8	1.5	1.6	2.6	2.3	1.5	1.4
0.6	0.4	0.6	0.7	0.6	1.0	0.7	1.2	2.1	2.3	2.2	1.2	0.6	0.2	-0.1	0.3	0.5
10.9	8.3	-7.5	-3.4	-3.1	-1.7	-1.8	12.0	12.7	9.8	10.1	14.9	19.3	20.2	18.5	15.4	12.0
-0.4	0.7	1.6	1.8	3.6	3.7	3.4	3.8	3.3	3.2	4.0	6.1	5.8	5.1	3.9	1.3	1.0
0.1	1.1	2.4	2.0	3.2	4.2	3.9	5.0	5.6	5.1	6.3	6.2	6.7	5.7	4.2	4.0	-
-1.5	4.6	2.7	2.6	13.3	11.2	15.0	26.0	26.7	27.4	17.3	0.3	-10.1	-11.6	-6.9	-3.3	-
2.4	2.7	3.2	3.3	3.6	3.8	4.0	4.4	4.7	4.9	-	-	-	-	-	-	-
30.8	35.6	14.3	5.0	-6.3	-1.5	6.7	48.9	66.1	77.8	89.2	65.5	53.7	21.5	4.5	0.5	-0.7
7.0	6.6	5.9	6.3	7.8	7.4	7.5	6.6	10.4	8.7	8.8	7.8	6.6	7.0	6.8	6.1	6.2
4.1	3.6	2.9	4.7	6.2	4.9	4.9	1.7	2.8	1.9	1.7	1.5	3.0	3.5	4.0	3.5	3.5
2.2	1.6	0.3	0.7	1.3	1.8	2.1	2.3	2.1	1.6	1.5	0.8	0.3	-0.2	-0.7	-1.3	-1.4
0.9	1.0	1.0	1.5	3.1	2.6	2.6	0.9	5.1	4.4	5.4	5.1	4.0	3.7	2.6	1.6	1.6
-7.4	-4.9	-5.3	-3.1	-0.2	-1.9	-2.2	-4.8	1.0	-	-	-	-	-	-	-	-
6.0	5.4	4.7	4.3	4.3	5.0	4.7	4.9	3.2	2.8	1.9	1.8	2.7	3.5	4.7	5.3	5.6
8.0	7.1	7.0	6.5	6.0	5.3	5.1	4.8	4.7	3.9	4.0	4.1	4.5	4.4	4.8	5.1	5.4
9.7	8.5	8.3	8.0	8.2	7.0	6.7	6.3	6.3	5.5	5.5	5.6	6.0	5.7	6.2	6.4	6.9
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29.6	13.9	9.0	12.7	45.7	26.1	18.9	26.9	41.7	32.0	19.0	27.0	37.0	22.0	20.0	31.0	45.0
4.0	1.7	1.1	1.5	5.6	2.9	2.1	2.9	4.7	3.2	1.9	2.6	3.5	1.9	1.7	2.9	4.0
9.3	13.0	12.5	7.3	12.1	17.8	15.6	9.9	23.7	27.0	25.0	19.0	25.0	28.0	27.0	20.0	30.0
15.0	-38.9	-36.7	-40.1	22.6	-35.9	-42.8	-32.9	27.0	-27.0	-40.0	-30.0	18.0	-48.0	-41.0	-29.0	25.0
2.0	-4.8	-4.5	-4.8	2.8	-4.0	-4.8	-3.5	2.9	-2.8	-4.1	-3.0	1.8	-4.7	-3.9	-2.7	2.3
10.9	28.7	34.8	28.4	34.2	31.5	33.9	58.6	20.9	-	-	-	-	-	-	-	-
23.8	22.6	22.2	21.7	21.4	21.0	20.3	18.5	17.1	15.9	-	-	-	-	-	-	-
28.6	28.4	28.3	28.0	28.0	28.3	27.9	26.8	25.5	24.8	-	-	-	-	-	-	-
-5.7	-6.7	-5.8	-4.4	-1.4	-0.6	-1.5	-5.9	-12.6	-15.0	-	-	-	-	-	-	-
0.3	-1.3	-1.7	-2.3	-2.2	-2.4	-3.6	-6.0	-9.7	-11.5	-	-	-	-	-	-	-
-1.9	-2.3	-0.5	0.0	1.9	2.7	1.9	-1.2	-4.3	-6.0	-5.8	-4.1	-2.0	-0.5	1.2	2.0	2.3
1.6	0.6	0.2	-1.4	-1.7	-0.4	-0.5	-1.5	-3.0	-4.7	-4.8	-3.9	-2.3	-1.0	0.6	1.3	1.3
8.8	8.3	9.0	9.6	10.5	11.6	11.2	11.7	10.1	8.1	8.9	11.4	9.5	9.3	8.9	6.3	5.8
2.00	2.00	2.50	2.50	2.50	2.75	3.25	3.50	3.75	3.75	-	-	-	-	-	-	-
2.1	2.1	2.4	2.6	2.6	2.8	3.3	3.8	4.0	4.2	3.6	3.2	3.3	3.2	3.2	3.4	3.7

Table 2a

INFLATION DEVELOPMENT										annual percentage changes		
2004	1	2	3	4	5	6	7	8	9	10	11	12
Consumer prices	2.3	2.3	2.5	2.3	2.7	2.9	3.2	3.4	3.0	3.5	2.9	2.8
Regulated prices	5.0	4.9	4.7	3.1	2.4	2.4	2.4	2.3	2.3	4.4	4.4	4.4
(contribution to consumer price inflation)	1.01	0.99	0.96	0.64	0.50	0.50	0.50	0.47	0.47	0.91	0.90	0.90
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	0.69	0.69	0.69	0.73	0.77	0.84	0.88	0.89	0.92	0.92	0.92	0.92
Prices of food, beverages and tobacco	2.8	2.8	3.2	3.3	3.4	2.7	3.8	4.2	3.0	2.2	0.7	0.9
(contribution to consumer price inflation)	0.75	0.75	0.83	0.86	0.90	0.71	1.00	1.10	0.78	0.59	0.18	0.25
Adjusted inflation excluding fuels	0.6	0.7	0.9	0.9	1.0	1.4	1.4	1.4	1.6	1.6	1.6	1.6
(contribution to consumer price inflation)	0.32	0.36	0.47	0.43	0.51	0.69	0.72	0.74	0.81	0.81	0.80	0.79
Fuel prices	-4.3	-7.0	-5.6	-3.3	7.9	11.0	10.6	9.7	7.4	11.2	10.5	5.9
(contribution to consumer price inflation)	-0.11	0.19	-0.15	-0.09	0.23	0.30	0.29	0.28	0.21	0.31	0.29	0.16
Monetary-policy relevant inflation	1.6	1.6	1.8	1.6	2.0	2.0	2.4	2.5	2.1	2.6	2.0	1.9
Inflation rate (annual moving average)	0.3	0.5	0.8	1.0	1.2	1.4	1.7	2.0	2.2	2.5	2.7	2.8
2005												
Consumer prices	1.7	1.7	1.5	1.6	1.3	1.8	1.7	1.7	2.2	2.6	2.4	2.2
Regulated prices	2.9	2.9	2.9	3.1	4.0	5.8	6.6	6.8	6.8	9.0	9.0	9.0
(contribution to consumer price inflation)	0.61	0.60	0.61	0.66	0.83	1.21	1.38	1.41	1.41	1.87	1.87	1.87
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	0.17	0.17	0.17	0.13	0.09	0.02	-0.02	-0.03	-0.06	-0.06	-0.05	0.00
Prices of food, beverages and tobacco	0.4	0.6	0.4	-0.1	-0.1	0.2	-0.6	-0.6	-0.2	0.3	0.3	-0.7
(contribution to consumer price inflation)	0.11	0.17	0.12	-0.02	-0.03	0.04	-0.15	-0.17	-0.05	0.07	0.08	-0.17
Adjusted inflation excluding fuels	1.1	1.1	0.9	0.9	0.9	0.8	0.5	0.6	0.7	0.6	0.5	0.5
(contribution to consumer price inflation)	0.55	0.53	0.43	0.45	0.45	0.40	0.27	0.29	0.33	0.27	0.24	0.23
Fuel prices	2.2	2.1	1.4	8.9	1.1	2.7	8.2	8.3	21.6	16.1	11.4	9.8
(contribution to consumer price inflation)	0.06	0.05	0.04	0.23	0.03	0.08	0.23	0.23	0.60	0.46	0.32	0.26
Monetary-policy relevant inflation	1.5	1.5	1.4	1.5	1.2	1.7	1.7	1.8	2.3	2.7	2.5	2.2
Inflation rate (annual moving average)	2.8	2.7	2.6	2.6	2.5	2.4	2.2	2.1	2.0	2.0	1.9	1.9
2006												
Consumer prices	2.9	2.8	2.8	2.8	3.1	2.8	2.9	3.1	2.7	1.3	1.5	1.7
Regulated prices	11.0	11.0	11.2	11.5	12.4	10.5	9.7	9.8	9.8	4.9	4.8	4.9
(contribution to consumer price inflation)	2.27	2.28	2.30	2.37	2.55	2.19	2.02	2.06	2.05	1.08	1.07	1.08
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	0.21	0.34	0.39	0.39	0.39	0.39	0.39	0.21	0.21	0.21	0.21	0.16
Prices of food, beverages and tobacco	-1.0	-1.6	-1.8	-1.5	-1.3	-0.6	0.5	1.3	1.4	0.4	0.4	0.9
(contribution to consumer price inflation)	-0.25	-0.41	-0.47	-0.39	-0.34	-0.15	0.13	0.34	0.35	0.12	0.12	0.25
Adjusted inflation excluding fuels	0.6	0.5	0.5	0.5	0.5	0.3	0.5	0.7	0.7	0.6	0.6	0.8
(contribution to consumer price inflation)	0.32	0.28	0.26	0.27	0.26	0.14	0.25	0.35	0.33	0.31	0.32	0.39
Fuel prices	12.5	13.9	10.9	7.3	10.4	8.3	5.7	6.0	-7.5	-10.8	-8.4	-3.4
(contribution to consumer price inflation)	0.32	0.36	0.29	0.21	0.30	0.24	0.17	0.18	-0.25	-0.36	-0.27	-0.10
Monetary-policy relevant inflation	2.7	2.5	2.4	2.5	2.7	2.4	2.5	2.9	2.5	1.1	1.3	1.6
Inflation rate (annual moving average)	2.0	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.7	2.6	2.5
2007												
Consumer prices	1.3	1.5	1.9	2.5	2.4	2.5	2.3	2.4	2.8	4.0	5.0	5.4
Regulated prices	3.9	4.3	4.1	4.7	4.0	4.0	4.4	4.4	4.6	6.3	6.4	6.5
(contribution to consumer price inflation)	0.66	0.72	0.70	0.80	0.69	0.68	0.75	0.74	0.79	1.07	1.08	1.11
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	0.10	0.11	0.21	0.33	0.45	0.55	0.64	1.07	1.09	1.09	1.09	1.09
Prices of food, beverages and tobacco	2.0	2.7	3.2	4.1	3.5	2.7	2.6	2.3	2.5	4.6	7.5	8.2
(contribution to consumer price inflation)	0.48	0.67	0.78	1.01	0.85	0.67	0.64	0.56	0.63	1.17	1.90	2.09
Adjusted inflation excluding fuels	0.3	0.4	0.6	0.8	0.8	1.0	0.5	0.1	0.7	0.9	1.0	1.2
(contribution to consumer price inflation)	0.19	0.20	0.34	0.43	0.46	0.57	0.27	0.08	0.37	0.49	0.56	0.64
Fuel prices	-3.5	-6.6	-3.1	-3.6	-2.9	-1.7	-2.5	-3.5	-1.8	3.8	9.7	12.0
(contribution to consumer price inflation)	-0.14	-0.26	-0.12	-0.15	-0.12	-0.07	-0.11	-0.15	-0.07	0.15	0.38	0.46
Monetary-policy relevant inflation	1.2	1.4	1.7	2.2	1.9	1.9	1.7	1.3	1.7	2.9	3.9	4.3
Inflation rate (annual moving average)	2.4	2.3	2.2	2.2	2.1	2.1	2.1	2.0	2.0	2.2	2.5	2.8
2008							forecast					
Consumer prices	7.5	7.5	7.1	6.8	6.8	6.7	6.9	6.8	7.0			
Regulated prices	15.0	14.9	15.0	14.8	14.6	14.6	16.0	16.0	16.0			
(contribution to consumer price inflation)	2.60	2.59	2.59	2.55	2.53	2.52	2.77	2.76	2.77			
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	2.21	2.07	2.03	2.12	2.22	2.19	2.09	1.85	1.83			
Prices of food, beverages and tobacco	6.3	5.9	4.9	3.6	3.3	3.0	3.4	3.9	4.0			
(contribution to consumer price inflation)	1.66	1.53	1.29	0.96	0.89	0.80	0.90	1.03	1.07			
Adjusted inflation excluding fuels	1.6	2.0	2.1	2.2	2.3	2.3	2.2	2.2	2.3			
(contribution to consumer price inflation)	0.89	1.10	1.14	1.22	1.23	1.22	1.21	1.19	1.22			
Fuel prices	14.5	15.9	12.7	8.0	7.6	9.8	8.5	9.6	12.1			
(contribution to consumer price inflation)	0.54	0.58	0.47	0.31	0.31	0.40	0.35	0.39	0.49			
Monetary-policy relevant inflation	5.3	5.4	5.1	4.7	4.6	4.5	4.8	5.0	5.2			
Inflation rate (annual moving average)	3.4	3.9	4.3	4.7	5.0	5.4	5.8	6.1	6.5			

CNB calculation based on CZSO data

Table 2b

INFLATION DEVELOPMENT

monthly percentage changes

2004	1	2	3	4	5	6	7	8	9	10	11	12
Consumer prices	1.8	0.2	0.1	0.0	0.4	0.2	0.4	0.0	-0.8	0.5	-0.1	0.1
Regulated prices	3.7	0.2	0.0	-0.5	-0.7	0.0	0.0	-0.1	0.0	1.6	0.0	0.0
(contribution to consumer price inflation)	0.76	0.04	0.01	-0.10	-0.15	0.00	0.00	-0.03	0.01	0.34	-0.01	0.00
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	0.69	0.00	0.00	0.04	0.05	0.07	0.04	0.01	0.03	0.00	0.00	0.00
Prices of food, beverages and tobacco	1.0	-0.2	0.1	0.3	0.5	-0.1	-0.6	-0.6	-0.6	0.0	0.0	1.1
(contribution to consumer price inflation)	0.26	-0.05	0.02	0.07	0.14	-0.03	-0.15	-0.15	-0.16	-0.01	0.01	0.28
Adjusted inflation excluding fuels	1.0	0.3	0.0	-0.1	0.0	0.3	1.0	0.2	-1.2	0.1	0.0	0.0
(contribution to consumer price inflation)	0.50	0.16	0.00	-0.06	0.01	0.13	0.52	0.13	-0.61	0.06	-0.01	-0.01
Fuel prices	-0.8	-0.6	3.0	0.9	8.5	0.4	-1.2	0.4	-0.6	2.6	-1.2	-4.9
(contribution to consumer price inflation)	-0.02	-0.02	0.08	0.02	0.22	0.01	-0.04	0.01	-0.02	0.07	-0.04	-0.14
Monetary-policy relevant inflation	1.2	0.2	0.1	-0.1	0.4	0.1	0.3	0.0	-0.8	0.5	-0.1	0.1
2005												
Consumer prices	0.7	0.2	-0.1	0.1	0.2	0.6	0.3	0.0	-0.3	0.9	-0.3	-0.1
Regulated prices	2.2	0.2	0.1	-0.2	0.1	1.8	0.8	0.0	0.0	3.7	0.0	0.0
(contribution to consumer price inflation)	0.48	0.04	0.01	-0.05	0.02	0.39	0.16	0.00	0.01	0.78	0.00	0.00
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	-0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05
Prices of food, beverages and tobacco	0.5	0.0	-0.1	-0.2	0.5	0.2	-1.3	-0.7	-0.2	0.4	0.1	0.1
(contribution to consumer price inflation)	0.12	0.01	-0.02	-0.06	0.12	0.05	-0.33	-0.17	-0.04	0.11	0.02	0.03
Adjusted inflation excluding fuels	0.5	0.3	-0.2	-0.1	0.0	0.2	0.8	0.3	-1.1	0.0	-0.1	-0.1
(contribution to consumer price inflation)	0.25	0.13	-0.09	-0.05	0.01	0.08	0.38	0.14	-0.57	0.01	-0.05	-0.03
Fuel prices	-4.3	-0.7	2.3	8.4	0.7	1.9	4.1	0.4	11.6	-2.0	-5.2	-6.3
(contribution to consumer price inflation)	-0.12	-0.02	0.06	0.22	0.02	0.06	0.12	0.01	0.35	-0.07	-0.17	-0.20
Monetary-policy relevant inflation	0.7	0.2	-0.1	0.1	0.2	0.6	0.3	0.0	-0.3	0.9	-0.3	-0.2
2006												
Consumer prices	1.4	0.1	-0.1	0.1	0.5	0.3	0.4	0.2	-0.7	-0.5	-0.1	0.2
Regulated prices	4.1	0.2	0.2	0.1	0.9	0.1	0.0	0.2	0.0	-0.9	0.0	0.0
(contribution to consumer price inflation)	0.89	0.04	0.03	0.02	0.21	0.02	0.00	0.04	-0.01	-0.21	-0.01	0.01
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	0.16	0.13	0.05	0.00	0.00	0.00	0.00	-0.18	0.00	0.00	0.00	0.00
Prices of food, beverages and tobacco	0.2	-0.6	-0.3	0.1	0.7	0.9	-0.2	0.2	-0.1	-0.5	0.1	0.6
(contribution to consumer price inflation)	0.04	-0.15	-0.08	0.02	0.17	0.23	-0.05	0.05	-0.03	-0.13	0.03	0.15
Adjusted inflation excluding fuels	0.7	0.2	-0.2	-0.1	0.0	-0.1	1.0	0.5	-1.2	0.0	-0.1	0.1
(contribution to consumer price inflation)	0.35	0.08	-0.11	-0.03	0.01	-0.03	0.48	0.24	-0.57	-0.02	-0.04	0.04
Fuel prices	-2.0	0.5	-0.5	4.8	3.6	0.0	1.6	0.7	-2.6	-5.5	-2.7	-1.2
(contribution to consumer price inflation)	-0.06	0.02	-0.01	0.14	0.11	0.00	0.05	0.02	-0.08	-0.17	-0.08	-0.03
Monetary-policy relevant inflation	1.2	0.0	-0.2	0.1	0.5	0.3	0.4	0.3	-0.7	-0.5	-0.1	0.2
2007												
Consumer prices	1.0	0.3	0.3	0.7	0.4	0.3	0.4	0.3	-0.3	0.6	0.9	0.5
Regulated prices	3.2	0.6	0.0	0.6	0.3	0.1	0.4	0.1	0.2	0.7	0.0	0.2
(contribution to consumer price inflation)	0.54	0.10	0.01	0.11	0.05	0.01	0.07	0.02	0.03	0.12	0.01	0.03
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	0.10	0.14	0.15	0.12	0.12	0.10	0.10	0.25	0.02	0.01	0.00	0.00
Prices of food, beverages and tobacco	1.2	0.2	0.1	1.0	0.0	0.1	-0.3	-0.1	0.1	1.5	2.9	1.2
(contribution to consumer price inflation)	0.30	0.04	0.02	0.24	0.01	0.03	-0.07	-0.03	0.03	0.39	0.73	0.31
Adjusted inflation excluding fuels	0.3	0.2	0.0	0.1	0.1	0.1	0.4	0.1	-0.6	0.2	0.0	0.2
(contribution to consumer price inflation)	0.14	0.11	0.01	0.05	0.04	0.07	0.22	0.07	-0.34	0.10	0.02	0.13
Fuel prices	-2.1	-2.6	3.3	4.3	4.3	1.3	0.8	-0.3	-0.9	-0.1	2.9	0.8
(contribution to consumer price inflation)	-0.08	-0.10	0.12	0.16	0.17	0.05	0.03	-0.01	-0.03	0.00	0.11	0.03
Monetary-policy relevant inflation	0.9	0.1	0.2	0.6	0.3	0.2	0.3	0.1	-0.3	0.6	0.9	0.5
2008												
Consumer prices	3.0	0.3	-0.1	0.4	0.5	0.2	0.5	0.2	-0.1			
Regulated prices	11.4	0.5	0.1	0.5	0.1	0.0	1.7	0.1	0.2			
(contribution to consumer price inflation)	1.95	0.09	0.01	0.09	0.03	0.01	0.31	0.02	0.04			
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	1.22	0.00	0.10	0.22	0.21	0.07	0.00	0.00	0.00			
Prices of food, beverages and tobacco	-0.5	-0.3	-0.8	-0.3	-0.2	-0.2	0.2	0.4	0.2			
(contribution to consumer price inflation)	-0.13	-0.07	-0.21	-0.07	-0.06	-0.06	0.04	0.10	0.05			
Adjusted inflation excluding fuels	0.7	0.6	0.1	0.2	0.1	0.1	0.4	0.1	-0.6			
(contribution to consumer price inflation)	0.37	0.30	0.05	0.13	0.05	0.07	0.21	0.05	-0.29			
Fuel prices	0.1	-1.4	0.4	0.0	3.9	3.3	-0.4	0.7	1.4			
(contribution to consumer price inflation)	0.00	-0.06	0.01	0.00	0.15	0.13	-0.02	0.03	0.06			
Monetary-policy relevant inflation	1.8	0.3	-0.2	0.1	0.2	0.2	0.5	0.2	-0.1			

CNB calculation based on CZSO data

Table 3

CONSUMER PRICES

percentage changes; average for 2005 = 100

Group	Constant 2005 weights in per mille	Months												Average since start of year
		1	2	3	4	5	6	7	8	9	10	11	12	
Total – 2004	1,000.0	-2.5	-2.3	-2.3	-2.3	-1.8	-1.6	-1.3	-1.3	-2.1	-1.6	-1.6	-1.6	-1.9
Food and non-alcoholic beverages	162.6	1.3	1.0	1.1	1.4	1.0	1.0	0.3	-0.6	-1.3	-1.3	-1.2	0.5	0.3
Alcoholic beverages and tobacco	81.7	-3.6	-3.5	-3.4	-2.8	-1.2	-0.6	-0.3	-0.1	-0.2	-0.3	-0.4	-0.8	-1.4
Clothing and footwear	52.4	6.9	6.0	6.0	6.1	6.2	6.2	4.7	3.7	4.1	5.4	5.6	5.6	5.5
Housing, water, electricity, gas and other fuels	248.3	-4.4	-4.1	-4.0	-4.4	-4.7	-4.7	-4.4	-4.3	-4.1	-2.9	-2.9	-2.9	-4.0
Furnishings, household equipment and routine maintenance of the house	58.1	3.0	2.8	2.7	2.7	2.2	2.2	1.9	1.7	1.5	1.4	1.2	1.1	2.0
Health	17.9	-9.4	-9.1	-8.7	-8.4	-6.5	-6.2	-6.0	-5.8	-5.4	-6.0	-6.3	-6.3	-7.0
Transport	1,14.1	-2.3	-2.3	-1.3	-1.3	-0.1	-0.6	-0.9	-1.0	-1.7	-1.2	-1.5	-3.0	-1.4
Communications	38.7	-5.1	-6.0	-6.0	-6.1	-7.2	-7.3	-7.4	-8.5	-8.7	-7.4	-7.5	-7.6	-7.1
Recreation and culture	98.6	-3.5	-2.3	-3.3	-3.9	-3.4	-2.0	3.3	5.2	-2.1	-2.6	-3.0	-3.1	-1.7
Education	6.2	-4.2	-3.8	-3.9	-3.9	-3.6	-3.7	-3.7	-3.7	0.7	0.9	0.9	0.9	-2.3
Hotels, cafés and restaurants	58.4	-8.1	-7.9	-7.6	-7.4	-3.7	-3.4	-3.3	-3.2	-2.4	-2.0	-1.8	-1.7	-4.4
Miscellaneous goods and services	63.0	-2.8	-2.1	-1.6	-1.7	-0.7	-0.4	-0.3	-0.4	-0.5	-0.6	-0.4	-0.4	-1.0
Total – 2005	1,000.0	-0.9	-0.7	-0.8	-0.7	-0.5	0.1	0.3	0.3	0.1	0.9	0.7	0.6	0.0
Food and non-alcoholic beverages	162.6	0.8	0.8	0.7	0.5	1.2	1.4	-0.4	-1.3	-1.5	-1.0	-0.8	-0.4	0.0
Alcoholic beverages and tobacco	81.7	0.1	0.3	0.2	-0.2	-0.2	0.0	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1	0.0
Clothing and footwear	52.4	2.4	1.2	1.0	1.3	1.3	1.1	-0.6	-2.0	-1.9	-1.3	-1.1	-1.4	0.0
Housing, water, electricity, gas and other fuels	248.3	-1.0	-0.9	-0.7	-0.9	-0.9	-0.8	-0.4	-0.3	-0.2	2.0	2.0	2.0	0.0
Furnishings, household equipment and routine maintenance of the house	58.1	0.8	0.6	0.5	0.3	0.2	0.0	-0.2	-0.3	-0.5	-0.5	-0.6	-0.7	0.0
Health	17.9	-2.5	-2.0	-1.6	-1.1	0.3	1.1	1.1	1.3	1.8	0.9	0.6	0.6	0.0
Transport	1,14.1	-4.0	-4.2	-3.8	-1.3	-1.2	-0.4	1.1	1.2	4.9	4.4	2.6	0.5	0.0
Communications	38.7	-7.6	-8.2	-8.2	-8.3	-8.4	5.9	6.2	6.2	5.6	5.6	5.4	5.4	0.0
Recreation and culture	98.6	-1.3	0.1	-1.1	-2.1	-1.7	-1.1	4.1	6.1	-1.1	-0.1	-0.6	-0.7	0.0
Education	6.2	-1.9	-1.2	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	2.1	2.7	2.7	2.7	0.0
Hotels, cafés and restaurants	58.4	-1.1	-0.6	-0.4	-0.2	-0.2	-0.2	-0.4	-0.4	0.6	0.9	0.9	0.9	0.0
Miscellaneous goods and services	63.0	-0.4	0.1	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.0
Total – 2006	1,000.0	2.0	2.1	2.0	2.1	2.6	2.8	3.3	3.5	2.8	2.2	2.2	2.3	2.5
Food and non-alcoholic beverages	162.6	0.4	0.2	0.0	0.2	0.9	2.3	2.0	1.2	1.0	0.3	0.4	1.5	0.9
Alcoholic beverages and tobacco	81.7	0.9	1.1	1.1	0.9	1.3	1.1	1.2	1.2	1.2	1.3	1.5	0.8	1.1
Clothing and footwear	52.4	-3.7	-4.8	-5.1	-4.9	-5.1	-5.6	-7.6	-8.0	-7.6	-6.8	-6.4	-5.9	-6.0
Housing, water, electricity, gas and other fuels	248.3	5.8	6.1	6.1	6.3	6.4	6.5	6.6	6.6	6.6	6.0	6.0	6.0	6.3
Furnishings, household equipment and routine maintenance of the house	58.1	-0.9	-0.9	-1.1	-1.1	-1.2	-1.4	-1.6	-1.6	-1.6	-1.6	-1.4	-1.4	-1.3
Health	17.9	1.7	2.0	2.8	3.1	4.2	4.9	4.9	7.2	7.5	6.9	6.3	6.3	4.8
Transport	1,14.1	0.2	0.4	0.2	1.7	2.9	2.8	3.6	3.8	2.8	1.0	0.0	-0.2	1.6
Communications	38.7	6.0	4.0	4.0	1.7	7.3	7.3	8.1	8.7	8.5	8.7	8.5	8.5	6.8
Recreation and culture	98.6	0.7	1.8	0.7	0.1	0.4	0.3	5.5	8.1	1.0	0.2	-0.5	-0.3	1.5
Education	6.2	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6	5.2	5.2	5.2	5.2	3.5
Hotels, cafés and restaurants	58.4	1.6	1.9	2.0	2.2	2.4	2.5	2.7	2.9	3.1	3.2	3.3	3.5	2.6
Miscellaneous goods and services	63.0	0.9	1.4	1.6	1.8	1.8	1.8	2.1	2.1	2.1	2.2	2.2	2.2	1.9
Total – 2007	1,000.0	3.3	3.6	3.9	4.6	5.0	5.3	5.8	6.1	5.8	6.4	7.4	7.9	5.4
Food and non-alcoholic beverages	162.6	3.1	3.2	3.3	5.0	4.8	5.0	4.5	4.1	4.2	6.6	10.9	12.9	5.6
Alcoholic beverages and tobacco	81.7	2.6	4.6	6.5	7.7	9.7	10.9	12.2	15.8	16.2	16.5	17.4	17.5	11.5
Clothing and footwear	52.4	-7.3	-7.3	-6.8	-5.7	-5.5	-5.6	-7.6	-8.3	-7.5	-6.5	-6.2	-5.9	-6.7
Housing, water, electricity, gas and other fuels	248.3	8.2	8.5	8.6	9.0	9.3	9.5	9.9	10.2	10.6	11.3	11.5	11.7	9.9
Furnishings, household equipment and routine maintenance of the house	58.1	-1.5	-1.6	-1.6	-1.4	-1.3	-1.4	-1.4	-1.5	-1.5	-1.5	-1.4	-1.3	-1.4
Health	17.9	6.6	6.7	6.7	9.7	10.1	9.9	9.3	9.2	9.0	8.7	8.7	8.9	8.6
Transport	1,14.1	-0.8	-1.6	-0.4	0.9	2.3	2.9	3.2	3.2	2.7	2.8	3.9	4.5	2.0
Communications	38.7	8.1	8.0	7.9	7.7	7.6	7.5	7.5	6.3	5.4	5.3	5.1	4.9	6.8
Recreation and culture	98.6	1.5	2.3	1.4	0.9	0.8	1.1	4.2	5.2	0.7	0.4	-0.5	-0.2	1.5
Education	6.2	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.3	7.2	7.3	7.3	7.3	6.0
Hotels, cafés and restaurants	58.4	4.0	4.2	4.4	4.7	5.0	5.3	5.6	5.7	6.1	6.3	7.0	7.8	5.5
Miscellaneous goods and services	63.0	2.9	3.6	4.0	4.1	4.1	4.0	4.1	4.0	4.0	4.1	4.3	4.2	4.0
Total – 2008	1,000.0	11.1	11.4	11.3	11.7	12.2	12.4							11.7
Food and non-alcoholic beverages	162.6	15.5	14.9	14.5	15.1	15.9	15.9							15.3
Alcoholic beverages and tobacco	81.7	18.8	19.0	18.3	19.1	19.5	19.7							19.1
Clothing and footwear	52.4	-8.8	-9.1	-8.2	-7.0	-6.8	-6.9							-7.8
Housing, water, electricity, gas and other fuels	248.3	17.5	18.7	19.1	19.8	20.1	20.3							19.3
Furnishings, household equipment and routine maintenance of the house	58.1	-1.2	-1.3	-1.1	-0.8	-0.7	-0.6							-0.9
Health	17.9	42.4	42.2	41.3	41.1	42.0	42.2							41.9
Transport	1,14.1	6.0	5.5	5.7	5.7	7.1	8.0							6.3
Communications	38.7	5.2	5.0	5.0	5.0	4.8	4.7							5.0
Recreation and culture	98.6	2.2	3.2	2.3	1.8	1.5	2.0							2.2
Education	6.2	7.5	7.7	7.7	7.7	7.7	7.8							7.7
Hotels, cafés and restaurants	58.4	10.5	11.5	11.8	12.3	12.7	13.1							12.0
Miscellaneous goods and services	63.0	8.3	8.5	8.6	8.8	8.8	8.9							8.7

Source: CZSO

Table 4

CONSUMER PRICES – TRADABLES AND NONTRADABLES

annual percentage changes

	1	2	3	4	5	6	7	8	9	10	11	12
2003												
Fuel prices	6.1	10.5	11.4	1.9	-0.5	-1.1	-0.6	0.7	-2.5	-2.9	-2.7	-2.0
Other tradables excluding food and fuel prices	-2.3	-2.5	-2.6	-2.7	-2.7	-2.9	-3.0	-3.0	-2.9	-2.7	-2.8	-2.7
Prices of tradables excluding regulated prices	4.0	4.1	3.9	3.9	3.8	3.3	2.4	2.5	2.5	2.4	2.5	2.4
Prices of non-food commodities excluding regulated prices	1.5	1.7	1.6	1.1	0.9	0.5	0.1	0.2	0.1	0.1	0.1	0.1
Prices of tradables – food	-4.1	-3.8	-3.6	-3.5	-2.8	-1.1	-0.8	-0.8	-0.2	0.6	2.5	2.7
Prices of nontradables – regulated prices	-0.3	-0.8	-0.8	1.4	1.5	1.5	0.4	0.4	0.4	1.2	1.2	1.3
2004												
Fuel prices	1.0	-1.9	-0.3	2.0	11.0	14.2	13.7	12.8	10.5	14.4	13.7	8.9
Other tradables excluding food and fuel prices	-2.6	-2.4	-2.2	-2.3	-2.6	-2.6	-2.6	-2.6	-2.9	-2.9	-2.7	-2.8
Prices of tradables excluding regulated prices	3.3	3.3	3.4	3.4	5.2	5.9	5.9	5.9	6.4	6.4	6.3	6.3
Prices of non-food commodities excluding regulated prices	0.9	0.8	1.1	1.1	2.5	2.9	3.0	2.9	3.0	3.2	3.1	2.9
Prices of tradables – food	3.2	3.2	3.5	3.8	3.6	3.1	4.4	4.9	3.7	3.0	1.4	1.6
Prices of nontradables – regulated prices	5.0	4.9	4.7	3.1	2.4	2.4	2.4	2.3	2.3	4.4	4.4	4.4
2005												
Fuel prices	-0.4	-0.6	-1.2	6.1	1.1	2.7	8.2	8.3	21.6	16.1	11.4	9.8
Other tradables excluding food and fuel prices	-3.4	-3.6	-3.8	-3.7	-3.4	-3.1	-2.6	-2.6	-2.4	-2.3	-2.3	-2.3
Prices of tradables excluding regulated prices	5.2	5.2	5.0	5.0	3.5	3.1	2.6	2.6	2.6	2.4	2.3	2.2
Prices of non-food commodities excluding regulated prices	1.6	1.6	1.4	1.8	0.8	0.8	0.8	0.9	1.7	1.3	1.0	0.8
Prices of tradables – food	0.8	1.0	0.8	0.2	0.4	0.4	-0.4	-0.5	-0.2	0.3	0.3	-0.5
Prices of nontradables – regulated prices	2.9	2.9	2.9	3.1	4.0	5.8	6.6	6.8	6.8	9.0	9.0	9.0
2006												
Fuel prices	12.5	13.9	10.9	7.3	10.4	8.3	5.7	6.0	-7.5	-10.8	-8.4	-3.4
Other tradables excluding food and fuel prices	-2.1	-2.1	-2.1	-2.1	-2.1	-2.9	-2.7	-2.6	-2.4	-2.4	-2.3	-2.1
Prices of tradables excluding regulated prices	2.6	2.5	2.4	2.4	2.5	2.2	2.4	2.6	2.5	2.4	2.4	2.5
Prices of non-food commodities excluding regulated prices	1.2	1.2	1.0	0.9	1.0	0.7	0.8	1.0	0.1	-0.1	0.1	0.5
Prices of tradables – food	-0.1	-0.2	-0.3	0.1	0.3	1.0	2.1	2.2	2.2	1.3	1.3	1.6
Prices of nontradables – regulated prices	11.0	11.0	11.2	11.5	12.4	10.5	9.7	9.8	9.8	4.9	4.8	4.9
2007												
Fuel prices	-3.5	-6.6	-3.1	-3.6	-2.9	-1.7	-2.5	-3.5	-1.8	3.8	9.7	12.0
Other tradables excluding food and fuel prices	-2.4	-2.6	-2.0	-1.6	-1.7	-1.6	-2.2	-2.3	-1.5	-1.2	-1.1	-1.0
Prices of tradables excluding regulated prices	2.5	2.8	2.9	3.2	2.6	2.8	2.4	1.9	2.3	2.4	2.5	2.6
Prices of non-food commodities excluding regulated prices	0.1	-0.1	0.4	0.6	0.7	1.0	0.4	0.0	0.6	1.1	1.6	1.9
Prices of tradables – food	2.4	3.2	4.1	5.5	5.3	5.0	5.3	6.7	7.1	9.3	12.3	13.0
Prices of nontradables – regulated prices	3.9	4.3	4.1	4.7	4.0	4.0	4.4	4.4	4.6	6.3	6.4	6.5
2008												
Fuel prices	14.5	15.9	12.7	8.0	7.6	9.8						
Other tradables excluding food and fuel prices	-1.3	-1.3	-1.4	-1.1	-1.1	-1.4						
Prices of tradables excluding regulated prices	4.1	4.6	4.9	5.0	5.1	5.2						
Prices of non-food commodities excluding regulated prices	2.8	3.3	3.1	3.0	3.0	3.2						
Prices of tradables – food	13.3	12.2	10.9	10.0	10.0	9.5						
Prices of nontradables – regulated prices	15.0	14.9	15.0	14.8	14.6	14.6						

CNB calculation based on CZSO data

Table 5

INFLATION EXPECTATIONS OF SELECTED ECONOMIC SECTORS					percentage changes	
	Financial market		CPI		Businesses	
	1Y horizon	3Y horizon	1Y horizon	3Y horizon	1Y horizon	3Y horizon
1/03	2.5	2.7	-	-	-	-
2/03	2.4	2.8	-	-	-	-
3/03	2.5	2.9	2.1	2.6	-	-
4/03	2.6	2.7	-	-	-	-
5/03	3.7	2.8	-	-	-	-
6/03	3.2	2.7	2.6	2.8	-	-
7/03	3.3	2.8	-	-	-	-
8/03	3.2	2.6	-	-	-	-
9/03	3.1	2.7	2.6	2.6	-	-
10/03	3.0	2.7	-	-	-	-
11/03	3.1	2.7	-	-	-	-
12/03	3.3	2.8	2.9	2.8	-	-
1/04	2.9	2.9	-	-	-	-
2/04	3.2	2.8	-	-	-	-
3/04	3.0	2.8	3.3	3.1	-	-
4/04	2.8	2.9	-	-	-	-
5/04	2.6	2.9	-	-	-	-
6/04	2.7	2.7	3.1	3.0	-	-
7/04	2.8	2.6	-	-	-	-
8/04	2.8	2.7	-	-	-	-
9/04	3.0	2.9	3.1	2.7	-	-
10/04	2.8	2.9	-	-	-	-
11/04	2.8	2.7	-	-	-	-
12/04	2.8	2.8	3.2	2.7	-	-
1/05	2.8	2.7	-	-	-	-
2/05	2.6	2.7	-	-	-	-
3/05	2.6	2.6	2.7	2.8	-	-
4/05	2.5	2.5	-	-	-	-
5/05	2.4	2.4	-	-	-	-
6/05	2.3	2.5	2.7	3.1	-	-
7/05	2.4	2.5	-	-	-	-
8/05	2.5	2.6	-	-	-	-
9/05	2.5	2.5	2.8	2.8	-	-
10/05	2.7	2.5	-	-	-	-
11/05	2.8	2.6	-	-	-	-
12/05	2.6	2.5	2.8	2.9	-	-
1/06	2.5	2.4	-	-	-	-
2/06	2.5	2.4	-	-	-	-
3/06	2.5	2.4	2.7	2.9	-	-
4/06	2.6	2.4	-	-	-	-
5/06	2.6	2.4	-	-	-	-
6/06	2.8	2.4	2.9	3.1	-	-
7/06	2.9	2.6	-	-	-	-
8/06	3.1	2.7	-	-	-	-
9/06	3.2	2.7	3.0	3.2	-	-
10/06	3.1	2.7	-	-	-	-
11/06	3.4	2.7	-	-	-	-
12/06	3.3	2.7	3.0	2.9	-	-
1/07	3.1	2.6	-	-	-	-
2/07	3.0	2.6	-	-	-	-
3/07	3.2	2.5	3.0	3.1	-	-
4/07	3.1	2.5	-	-	-	-
5/07	3.2	2.5	-	-	-	-
6/07	3.2	2.5	3.0	2.9	-	-
7/07	3.1	2.5	-	-	-	-
8/07	3.6	2.5	-	-	-	-
9/07	4.2	2.5	3.6	3.4	-	-
10/07	4.3	2.5	-	-	-	-
11/07	4.3	2.6	-	-	-	-
12/07	4.5	2.7	4.9	3.8	-	-
1/08	3.7	2.8	-	-	-	-
2/08	3.4	2.6	-	-	-	-
3/08	3.2	2.6	4.9	3.1	-	-
4/08	3.0	2.6	-	-	-	-
5/08	3.1	2.6	-	-	-	-
6/08	3.2	2.7	4.9	4.0	-	-

Source: CNB statistical survey

Table 6

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	2003	2004	2005	2006	2007	2008
	12	12	12	12	12	6
European Union (27 countries)	2.1	2.5	2.3	2.2	3.2	4.3
European Union (25 countries)	1.9	2.4	2.1	2.2	3.1	4.1
Belgium	1.7	1.9	2.8	2.1	3.1	5.8
Bulgaria	5.6	4.0	7.4	6.1	11.6	14.7
Czech Republic	0.9	2.5	1.9	1.5	5.5	6.6
Denmark	1.2	0.9	2.2	1.7	2.4	4.2
Germany	1.0	2.3	2.1	1.4	3.1	3.4
Estonia	1.2	4.8	3.6	5.1	9.7	11.5
Ireland	3.0	2.4	1.9	3.0	3.2	3.9
Greece	3.1	3.1	3.5	3.2	3.9	4.9
Spain	2.7	3.3	3.7	2.7	4.3	5.1
France	2.4	2.3	1.8	1.7	2.8	
Italy	2.5	2.4	2.1	2.1	2.8	4.0
Cyprus	2.2	3.9	1.4	1.5	3.7	5.2
Latvia	3.5	7.4	7.1	6.8	14.0	17.5
Lithuania	-1.3	2.8	3.0	4.5	8.2	12.7
Luxembourg	2.4	3.5	3.4	2.3	4.3	5.3
Hungary	5.6	5.5	3.3	6.6	7.4	6.6
Malta	2.4	1.9	3.4	0.8	3.1	4.4
Netherlands	1.6	1.2	2.0	1.7	1.6	2.3
Austria	1.3	2.5	1.6	1.6	3.5	4.0
Poland	1.6	4.4	0.8	1.4	4.2	4.3
Portugal	2.3	2.6	2.5	2.5	2.7	3.4
Romania	14.1	9.3	8.7	4.9	6.7	8.7
Slovenia	4.7	3.3	2.4	3.0	5.7	6.8
Slovakia	9.4	5.8	3.9	3.7	2.5	4.3
Finland	1.2	0.1	1.1	1.2	1.9	4.3
Sweden	1.8	0.9	1.3	1.4	2.5	4.1
United Kingdom	1.3	1.7	1.9	3.0	2.1	3.8

Source: Eurostat

Table 7

MONETARY SURVEY						
	2003	2004	2005	2006	2007	2008
	12	12	12	12	12	5
positions at month-ends in CZK billions						
Total assets	1,766.1	1,844.1	1,992.1	2,188.7	2,478.3	2,945.7
Net external assets (NEAs)	821.5	863.3	1,076.4	972.6	969.7	941.7
NEAs of CNB	687.5	634.1	724.7	659.1	633.5	615.1
NEAs of OMFIs	134.0	229.3	351.7	313.5	336.2	326.6
Net domestic assets	944.5	980.8	915.8	1,216.0	1,508.6	1,554.0
Domestic loans	1,145.6	1,147.0	1,166.6	1,422.4	1,700.3	1,756.8
Net credit to government (NCG) (including securities)	354.0	257.5	99.1	136.3	72.1	21.8
NCG to central government (including securities)	408.7	312.4	163.0	206.9	146.0	161.4
NCG to other government (including securities)	-54.8	-54.9	-64.0	-70.6	-73.9	-139.6
Loans to corporations and households (excluding securities)	791.6	889.4	1,067.5	1,286.1	1,628.2	1,735.0
Loans to corporations (excluding securities)	554.1	574.2	649.7	745.5	901.9	951.0
Loans to households (excluding securities)	237.5	315.2	417.8	540.6	726.3	784.0
Other net items (including securities and capital)	-201.1	-166.2	-250.8	-206.4	-191.6	-202.8
Holdings of securities	16.6	18.8	14.4	14.0	26.6	19.0
Issued securities	-51.6	-74.9	-119.1	-121.8	-159.9	-153.9
Liabilities						
Monetary aggregate M2	1,766.1	1,844.1	1,992.1	2,188.7	2,478.3	2,945.7
Monetary aggregate M1	902.8	962.3	1,087.3	1,239.8	1,438.6	1,419.9
Currency in circulation	221.4	236.8	263.8	295.3	324.1	327.7
Overnight deposits	681.4	725.6	823.5	944.5	1,114.6	1,092.1
Overnight deposits – households	372.1	410.8	456.6	529.3	601.2	667.7
Overnight deposits – corporations	309.3	314.7	367.0	415.3	513.3	424.5
M2-M1 (quasi money)	863.3	881.8	904.8	948.9	1,039.7	1,075.9
Deposits with agreed maturity	666.4	675.3	671.4	674.9	709.8	716.7
Deposits with agreed maturity – households	439.8	458.6	445.1	433.6	429.0	422.6
Deposits with agreed maturity – corporations	226.6	216.7	226.3	241.3	280.8	294.2
Deposits redeemable at notice	185.6	198.8	224.1	265.6	315.5	335.8
Deposits redeemable at notice – households	182.3	194.6	220.6	260.8	311.2	330.1
Deposits redeemable at notice – corporations	3.2	4.2	3.6	4.8	4.3	5.7
Repurchase agreements	11.3	7.6	9.3	8.4	14.4	23.4
Annual percentage changes						
M1	14.6	6.6	13.0	14.0	16.0	6.1
M2	6.9	4.4	8.0	9.9	13.2	8.0
Loans to corporations and households	9.3	12.4	20.0	20.5	26.6	24.4
M2-M1 (deposits)	-0.1	2.1	2.6	4.9	9.6	10.6
Annual percentage growth rates						
M1	15.5	8.3	13.1	14.7	16.6	7.4
M2	8.1	5.8	8.1	10.6	13.8	9.5
Loans to corporations and households	11.8	15.3	20.8	21.6	27.3	26.2
M2-M1 (deposits)	1.2	3.3	2.6	5.7	10.2	12.2

Table 8

MARKET INTEREST RATES

percentages; monthly averages

A. INTEREST RATES ON INTERBANK DEPOSITS	2003 12	2004 12	2005 12	2006 12	2007 12	2008 6
1. Average PRIBOR ¹⁾						
– 1 day	1,98	2,49	2,00	2,48	3,40	3,56
– 7 day	2,02	2,51	2,04	2,51	3,58	3,74
– 14 day	2,03	2,51	2,04	2,51	3,63	3,77
– 1 month	2,04	2,53	2,05	2,52	3,98	3,87
– 2 month	2,06	2,55	2,10	2,54	4,02	4,01
– 3 month	2,08	2,57	2,17	2,56	4,05	4,21
– 6 month	2,13	2,67	2,33	2,67	4,09	4,29
– 9 month	2,22	2,76	2,44	2,79	4,15	4,34
– 12 month	2,30	2,85	2,53	2,89	4,20	4,40
2. Average PRIBID ¹⁾						
– 1 day	1,88	2,39	1,90	2,38	3,30	3,46
– 7 day	1,92	2,41	1,94	2,41	3,48	3,64
– 14 day	1,93	2,41	1,94	2,41	3,53	3,67
– 1 month	1,94	2,43	1,95	2,42	3,88	3,77
– 2 month	1,96	2,45	2,00	2,44	3,92	3,91
– 3 month	1,98	2,47	2,07	2,46	3,95	4,11
– 6 month	2,03	2,57	2,23	2,57	3,99	4,19
– 9 month	2,12	2,66	2,34	2,69	4,05	4,24
– 12 month	2,20	2,75	2,43	2,79	4,10	4,30

1) Commercial banks quoting their rates daily on the interbank deposit market

B. FRA RATES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 6
3 * 6	2,23	2,74	2,46	2,71	4,15	4,49
3 * 9	2,36	2,81	2,57	2,83	4,16	4,50
6 * 9	2,47	2,85	2,66	2,92	4,15	4,53
6 * 12	2,64	2,92	2,74	3,02	4,17	4,58
9 * 12	2,77	2,97	2,79	3,08	4,16	4,56
9*12 – 3*6 spread	0,55	0,24	0,33	0,37	0,02	0,07
6*12 – 3*9 spread	0,28	0,12	0,17	0,19	0,02	0,08

C. IRS RATES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 6
1Y	2,41	2,82	2,56	2,86	4,19	4,54
2Y	2,98	3,06	2,82	3,09	4,20	4,58
3Y	3,38	3,27	3,00	3,21	4,22	4,61
4Y	3,69	3,45	3,13	3,31	4,26	4,63
5Y	3,93	3,62	3,25	3,40	4,30	4,64
6Y	4,13	3,77	3,33	3,46	4,34	4,65
7Y	4,29	3,89	3,40	3,52	4,38	4,67
8Y	4,43	4,00	3,46	3,58	4,42	4,69
9Y	4,54	4,09	3,52	3,63	4,47	4,72
10Y	4,64	4,17	3,58	3,68	4,52	4,76
15Y	4,97	4,40	3,78	3,83	4,71	4,90
20Y	5,11	4,54	3,88	3,89	4,76	4,93
5Y – 1Y spread	1,52	0,80	0,69	0,54	0,11	0,10
10Y – 1Y spread	2,23	1,35	1,02	0,82	0,33	0,22

Table 9

NOMINAL AND REAL INTEREST RATES (ex post approach)

percentages

	Nominal rates				Real rates based on CPI				Real rates based on PPI		
	PRIBOR 2W	1Y	client rates new loans	time deposits	PRIBOR 2W	1Y	client rates new loans	time deposits	PRIBOR 2T	1R	new client loans
1/03	2.7	2.6	4.1	2.2	3.2	3.0	4.5	2.6	3.6	3.5	5.0
2/03	2.5	2.4	3.9	2.1	2.9	2.8	4.3	2.5	3.2	3.2	4.6
3/03	2.5	2.4	3.9	2.0	2.9	2.8	4.3	2.5	2.9	2.8	4.3
4/03	2.5	2.4	3.9	2.0	2.6	2.5	4.0	2.1	3.2	3.2	4.7
5/03	2.5	2.4	4.0	2.0	2.5	2.4	4.0	2.0	3.3	3.3	4.8
6/03	2.5	2.3	3.8	1.9	2.2	2.0	3.5	1.6	3.4	3.2	4.8
7/03	2.3	2.2	3.5	1.7	2.4	2.3	3.6	1.8	2.9	2.9	4.2
8/03	2.0	2.1	3.3	1.8	2.1	2.2	3.4	1.9	2.4	2.5	3.7
9/03	2.0	2.2	3.6	1.7	2.0	2.2	3.6	1.7	2.0	2.2	3.6
10/03	2.0	2.2	3.7	1.7	1.6	1.8	3.3	1.3	2.1	2.3	3.8
11/03	2.0	2.2	3.5	1.8	1.0	1.2	2.5	0.7	1.6	1.8	3.1
12/03	2.0	2.3	3.7	1.7	1.0	1.3	2.6	0.7	1.1	1.4	2.7
1/04	2.0	2.3	5.5	1.4	-0.3	0.0	3.1	-0.9	0.4	0.7	3.9
2/04	2.0	2.3	5.0	1.4	-0.3	0.0	2.7	-0.9	0.5	0.8	3.5
3/04	2.0	2.3	5.1	1.5	-0.5	-0.2	2.6	-1.0	-0.1	0.2	3.0
4/04	2.0	2.3	5.4	1.5	-0.3	0.0	3.0	-0.8	-1.6	-1.4	1.6
5/04	2.0	2.5	5.4	1.5	-0.7	-0.2	2.6	-1.2	-2.7	-2.3	0.5
6/04	2.1	2.8	5.3	1.6	-0.8	-0.1	2.4	-1.3	-3.9	-3.2	-0.8
7/04	2.3	3.0	5.7	1.7	-0.9	-0.2	2.4	-1.5	-4.7	-4.0	-1.5
8/04	2.3	3.0	6.0	1.7	-1.0	-0.4	2.5	-1.7	-5.3	-4.7	-1.9
9/04	2.5	3.1	5.9	1.8	-0.5	0.1	2.9	-1.2	-5.1	-4.5	-1.9
10/04	2.5	3.0	6.0	1.8	-1.0	-0.4	2.4	-1.6	-5.6	-5.1	-2.4
11/04	2.5	2.9	6.1	1.8	-0.4	0.0	3.1	-1.1	-5.3	-4.9	-2.0
12/04	2.5	2.8	6.1	1.9	-0.3	0.0	3.2	-0.9	-4.8	-4.5	-1.5
1/05	2.5	2.7	6.2	1.8	0.8	1.0	4.4	0.1	-4.4	-4.2	-1.0
2/05	2.3	2.2	6.0	1.7	0.6	0.5	4.2	0.0	-4.5	-4.5	-1.1
3/05	2.2	2.1	5.6	1.7	0.7	0.6	4.1	0.2	-3.9	-4.0	-0.7
4/05	2.0	2.1	5.9	1.6	0.4	0.4	4.2	0.0	-3.4	-3.4	0.2
5/05	1.8	1.8	5.7	1.4	0.5	0.5	4.3	0.1	-2.1	-2.1	1.6
6/05	1.8	1.8	5.3	1.4	0.0	0.0	3.4	-0.4	-0.9	-0.9	2.5
7/05	1.8	1.8	5.3	1.4	0.1	0.1	3.6	-0.3	-0.2	-0.2	3.3
8/05	1.8	1.9	5.3	1.4	0.1	0.2	3.5	-0.3	0.7	0.8	4.1
9/05	1.8	1.9	5.1	1.5	-0.4	-0.3	2.8	-0.7	0.8	0.9	4.1
10/05	1.8	2.2	5.6	1.5	-0.8	-0.4	2.9	-1.1	1.5	1.9	5.3
11/05	2.0	2.6	5.4	1.7	-0.4	0.2	2.9	-0.7	2.0	2.6	5.4
12/05	2.0	2.5	5.5	1.7	-0.2	0.3	3.2	-0.5	2.3	2.8	5.8
1/06	2.0	2.4	5.5	1.7	-0.8	-0.5	2.6	-1.2	1.7	2.1	5.2
2/06	2.0	2.2	5.5	1.7	-0.8	-0.6	2.6	-1.1	1.7	1.9	5.2
3/06	2.0	2.3	5.5	1.7	-0.8	-0.5	2.6	-1.1	1.7	2.0	5.2
4/06	2.0	2.4	5.6	1.7	-0.8	-0.4	2.7	-1.0	1.5	1.9	5.1
5/06	2.0	2.4	5.6	1.7	-1.0	-0.6	2.4	-1.3	0.5	0.9	4.0
6/06	2.0	2.6	5.5	1.7	-0.8	-0.2	2.6	-1.0	0.2	0.7	3.6
7/06	2.0	2.8	5.7	1.7	-0.9	-0.1	2.7	-1.2	-0.1	0.7	3.5
8/06	2.3	2.7	5.8	1.9	-0.8	-0.3	2.7	-1.2	-0.4	0.0	3.1
9/06	2.2	2.9	5.8	1.9	-0.4	0.2	3.0	-0.8	-0.2	0.5	3.3
10/06	2.5	3.1	6.1	2.0	1.2	1.8	4.7	0.7	0.6	1.2	4.1
11/06	2.5	3.0	6.0	2.0	1.0	1.5	4.4	0.5	0.5	1.0	3.9
12/06	2.5	2.9	5.9	2.0	0.8	1.2	4.1	0.3	-0.1	0.3	3.2
1/07	2.5	2.9	6.1	2.1	1.2	1.5	4.8	0.7	-0.3	0.1	3.3
2/07	2.5	2.8	6.1	2.1	1.0	1.3	4.5	0.6	-0.7	-0.4	2.8
3/07	2.5	2.8	6.1	2.1	0.6	0.9	4.1	0.2	-1.0	-0.8	2.4
4/07	2.5	2.9	6.1	2.1	0.0	0.4	3.5	-0.4	-1.1	-0.8	2.3
5/07	2.5	3.2	6.0	2.0	0.1	0.7	3.5	-0.4	-1.6	-0.9	1.8
6/07	2.8	3.4	6.1	2.2	0.3	0.9	3.5	-0.3	-1.7	-1.2	1.4
7/07	2.8	3.6	6.3	2.2	0.5	1.3	3.9	-0.1	-1.2	-0.5	2.1
8/07	3.0	3.7	6.5	2.3	0.6	1.3	4.0	-0.1	-0.7	0.0	2.7
9/07	3.3	3.8	6.5	2.4	0.5	1.0	3.6	-0.4	-0.7	-0.2	2.4
10/07	3.3	3.8	6.7	2.5	-0.7	-0.2	2.5	-1.5	-1.1	-0.5	2.2
11/07	3.3	4.0	6.8	2.5	-1.6	-1.0	1.7	-2.4	-2.0	-1.3	1.4
12/07	3.6	4.2	6.9	2.6	-1.7	-1.1	1.4	-2.7	-1.6	-1.0	1.5
1/08	3.6	4.2	6.8	2.6	-3.7	-3.1	-0.6	-4.6	-2.3	-1.7	0.8
2/08	3.8	4.1	7.1	2.6	-3.5	-3.2	-0.4	-4.6	-1.7	-1.4	1.4
3/08	3.8	4.2	7.2	2.6	-3.1	-2.7	0.1	-4.2	-1.4	-1.0	1.8
4/08	3.8	4.3	7.2	2.7	-2.8	-2.4	0.4	-3.8	-0.9	-0.4	2.4
5/08	3.8	4.3	7.2	2.7	-2.8	-2.4	0.3	-3.9	-1.3	-0.9	1.9
6/08	3.8	4.4	-	-	-2.7	-2.2	-	-	-1.5	-0.9	-

Note: real rates = nominal rates deflated by annual index (CPI/PPI) in given month.

Starting from January 2004, the methodology for new loans and time deposits was changed. Newly drawn credits were replaced by newly extended loans.

Table 10

REAL INTEREST RATES (ex ante approach)										percentages
	Real rates expected by financial markets					Real rates expected by businesses				
	PRIBOR		client rates			PRIBOR		client rates		
	2W	1Y	new loans	time deposits		2W	1Y	new loans	time deposits	
1/03	0.2	0.1	1.6	-0.3		-	-	-	-	-
2/03	0.1	0.0	1.4	-0.3		-	-	-	-	-
3/03	0.0	-0.1	1.3	-0.4		0.4	0.3	1.7	-0.1	-
4/03	-0.1	-0.2	1.3	-0.6		-	-	-	-	-
5/03	-1.2	-1.2	0.3	-1.6		-	-	-	-	-
6/03	-0.7	-0.9	0.6	-1.2		-0.1	-0.3	1.2	-0.6	-
7/03	-1.0	-1.0	0.2	-1.5		-	-	-	-	-
8/03	-1.1	-1.1	0.1	-1.4		-	-	-	-	-
9/03	-1.0	-0.9	0.5	-1.3		-0.6	-0.4	1.0	-0.8	-
10/03	-0.9	-0.8	0.6	-1.2		-	-	-	-	-
11/03	-1.0	-0.8	0.4	-1.3		-	-	-	-	-
12/03	-1.2	-1.0	0.4	-1.5		-0.8	-0.6	0.7	-1.1	-
1/04	-0.9	-0.6	2.5	-1.4		-	-	-	-	-
2/04	-1.2	-0.8	1.8	-1.7		-	-	-	-	-
3/04	-1.0	-0.7	2.1	-1.5		-1.2	-1.0	1.8	-1.8	-
4/04	-0.8	-0.5	2.5	-1.3		-	-	-	-	-
5/04	-0.6	-0.1	2.7	-1.1		-	-	-	-	-
6/04	-0.6	0.1	2.6	-1.1		-1.0	-0.3	2.2	-1.5	-
7/04	-0.5	0.2	2.8	-1.1		-	-	-	-	-
8/04	-0.5	0.2	3.1	-1.1		-	-	-	-	-
9/04	-0.5	0.1	2.9	-1.2		-0.6	0.0	2.8	-1.3	-
10/04	-0.3	0.2	3.1	-1.0		-	-	-	-	-
11/04	-0.3	0.1	3.2	-1.0		-	-	-	-	-
12/04	-0.3	0.0	3.2	-0.9		-0.7	-0.3	2.8	-1.3	-
1/05	-0.3	-0.1	3.3	-0.9		-	-	-	-	-
2/05	-0.3	-0.3	3.3	-0.8		-	-	-	-	-
3/05	-0.4	-0.5	2.9	-0.9		-0.5	-0.6	2.8	-1.0	-
4/05	-0.5	-0.4	3.3	-0.9		-	-	-	-	-
5/05	-0.6	-0.6	3.2	-0.9		-	-	-	-	-
6/05	-0.5	-0.5	2.9	-0.8		-0.9	-0.9	2.5	-1.2	-
7/05	-0.6	-0.6	2.9	-0.9		-	-	-	-	-
8/05	-0.7	-0.6	2.7	-1.0		-	-	-	-	-
9/05	-0.7	-0.6	2.5	-1.0		-1.0	-0.9	2.2	-1.3	-
10/05	-0.9	-0.5	2.8	-1.1		-	-	-	-	-
11/05	-0.7	-0.2	2.5	-1.1		-	-	-	-	-
12/05	-0.5	-0.1	2.8	-0.9		-0.8	-0.3	2.6	-1.1	-
1/06	-0.5	-0.1	3.0	-0.8		-	-	-	-	-
2/06	-0.5	-0.3	2.9	-0.8		-	-	-	-	-
3/06	-0.5	-0.2	2.9	-0.8		-0.7	-0.4	2.7	-1.0	-
4/06	-0.6	-0.2	2.9	-0.9		-	-	-	-	-
5/06	-0.6	-0.2	2.9	-0.9		-	-	-	-	-
6/06	-0.8	-0.2	2.6	-1.0		-0.8	-0.3	2.5	-1.1	-
7/06	-0.9	-0.1	2.7	-1.2		-	-	-	-	-
8/06	-0.8	-0.3	2.7	-1.2		-	-	-	-	-
9/06	-0.9	-0.3	2.5	-1.3		-0.8	-0.1	2.7	-1.1	-
10/06	-0.6	0.0	2.9	-1.1		-	-	-	-	-
11/06	-0.9	-0.4	2.5	-1.3		-	-	-	-	-
12/06	-0.8	-0.4	2.5	-1.2		-0.5	-0.1	2.8	-0.9	-
1/07	-0.6	-0.2	3.0	-1.0		-	-	-	-	-
2/07	-0.5	-0.2	3.0	-0.9		-	-	-	-	-
3/07	-0.7	-0.4	2.8	-1.1		-0.4	-0.1	3.0	-0.8	-
4/07	-0.6	-0.2	2.9	-1.0		-	-	-	-	-
5/07	-0.7	0.0	2.7	-1.1		-	-	-	-	-
6/07	-0.4	0.2	2.8	-1.0		-0.3	0.3	3.0	-0.8	-
7/07	-0.3	0.5	3.1	-0.9		-	-	-	-	-
8/07	-0.6	0.1	2.8	-1.2		-	-	-	-	-
9/07	-0.9	-0.4	2.2	-1.7		-0.3	0.2	2.8	-1.2	-
10/07	-1.0	-0.4	2.3	-1.7		-	-	-	-	-
11/07	-0.9	-0.3	2.4	-1.8		-	-	-	-	-
12/07	-0.8	-0.3	2.3	-1.8		-1.2	-0.6	2.0	-2.2	-
1/08	-0.1	0.4	3.0	-1.1		-	-	-	-	-
2/08	0.3	0.7	3.6	-0.8		-	-	-	-	-
3/08	0.6	1.0	3.9	-0.6		-1.0	-0.6	2.2	-2.1	-
4/08	0.8	1.2	4.1	-0.3		-	-	-	-	-
5/08	0.7	1.1	3.9	-0.4		-	-	-	-	-
6/08	0.6	1.2	-	-		-1.0	-0.4	-	-	-

Note: real rates = nominal rates deflated by inflation expected by selected economic sectors according to the CNB statistical survey.

Starting from January 2004, the methodology for new loans and time deposits was changed. Newly drawn credits were replaced by newly extended loans.

Table 11

KORUNA INTEREST RATES (stock of business)						percentages
	2003	2004	2005	2006	2007	2008
	12	12	12	12	12	5
Koruna interest rates on loans provided by banks to residents:						
Households and non-profit institutions serving households (S.14+S.15) – total						
– maturity up to 1 year	8.24	7.96	7.20	6.80	6.63	6.77
– maturity over 1 year and up to 5 years	11.21	12.82	12.96	13.75	13.96	13.48
– maturity over 5 years	10.17	12.40	11.43	11.35	12.46	12.74
for consumption – total	6.65	6.39	5.96	5.84	5.79	5.98
– maturity up to 1 year	13.83	14.89	13.88	13.59	13.32	13.27
– maturity over 1 year and up to 5 years	14.26	15.48	16.22	17.31	17.34	16.31
– maturity over 5 years	13.86	15.17	14.94	14.67	15.13	15.10
for house purchase – total	13.21	13.45	11.85	11.93	11.65	11.90
– maturity up to 1 year	6.31	5.93	5.24	4.91	4.89	5.02
– maturity over 1 year and up to 5 years	6.24	4.48	4.29	5.39	6.56	6.69
– maturity over 5 years	7.05	6.57	6.22	6.15	6.19	6.28
other – total	6.09	5.89	5.19	4.88	4.86	5.00
– maturity up to 1 year	7.80	7.50	7.09	6.87	6.98	7.10
– maturity over 1 year and up to 5 years	8.49	8.96	9.09	9.52	10.35	10.33
– maturity over 5 years	8.02	7.63	7.17	7.74	8.56	8.89
Non-financial corporations (S.11) – total	7.02	6.58	5.79	5.51	5.70	5.86
– maturity up to 1 year	4.53	4.75	4.20	4.45	5.52	5.67
– maturity over 1 year and up to 5 years	4.08	4.35	3.84	4.23	5.37	5.59
– maturity over 5 years	4.64	4.68	4.18	4.38	5.60	5.77
	5.14	5.39	4.72	4.74	5.63	5.71
Koruna interest rates on deposits accepted by banks from residents:						
Households and non-profit institutions serving households (S.14+S.15) – total						
overnight	1.30	1.41	1.25	1.28	1.41	1.56
with agreed maturity – total	0.50	0.52	0.40	0.41	0.55	0.80
– with agreed maturity up to 2 years	2.02	2.13	1.92	1.96	2.11	2.26
– with agreed maturity over 2 years	0.96	1.37	1.03	1.49	2.14	2.48
redeemable at notice – total	2.90	2.69	2.50	2.31	2.08	2.02
– redeemable at notice up to 3 months	1.26	1.63	1.71	1.97	2.14	2.18
– redeemable at notice over 3 months	1.67	2.14	2.27	2.34	2.42	2.43
Non-financial corporations (S.11) – total	0.98	1.12	0.81	1.00	1.08	1.09
overnight	0.85	1.21	0.91	1.18	1.67	1.97
with agreed maturity – total	0.64	0.68	0.52	0.72	1.06	1.15
– with agreed maturity up to 2 years	1.50	2.08	1.64	2.09	3.01	3.24
– with agreed maturity over 2 years	1.49	2.05	1.61	2.08	3.02	3.25
redeemable at notice – total	3.04	3.12	2.47	2.28	2.62	2.58
– redeemable at notice up to 3 months	1.17	1.60	1.14	1.64	1.89	2.19
– redeemable at notice over 3 months	1.14	1.49	1.07	1.53	1.79	2.14
	1.32	2.26	1.64	2.21	2.93	3.24

Table 12

BALANCE OF PAYMENTS ¹⁾						
	2003	2004	2005	2006	2007	2008 ²⁾
	Q1 – 4	Q1 – 4	Q1 – 4	Q1 – 4	Q1 – 4	Q1
in CZK millions						
A. Current account	-160,614.6	-147,455.7	-48,500.2	-100,814.7	-88,959.4	27,047.9
Balance of trade	-69,793.0	-13,384.0	59,369.5	65,094.0	117,461.0	41,725.4
exports	1,370,930.0	1,722,657.4	1,868,585.8	2,144,573.4	2,472,350.8	636,369.8
imports	1,440,723.0	1,736,041.4	1,809,216.3	2,079,479.4	2,354,889.8	594,644.4
Services	13,236.7	16,564.4	36,542.0	42,185.6	55,421.9	23,650.1
credit	219,151.1	247,084.8	282,016.3	309,814.1	341,470.9	87,597.1
transport	60,556.3	69,859.0	76,701.5	82,484.4	101,691.6	25,283.7
travel	100,310.1	107,231.8	111,839.3	124,255.2	133,772.3	30,479.1
others	58,284.7	69,994.0	93,475.5	103,074.5	106,007.0	31,834.3
debit	205,914.4	230,520.4	245,474.3	267,628.5	286,049.0	63,947.0
transport	33,725.7	47,571.4	56,254.1	62,140.7	72,972.9	17,230.0
travel	54,419.2	58,398.0	57,777.6	62,174.3	73,450.3	14,543.9
others	117,769.5	124,551.0	131,442.6	143,313.5	139,625.8	32,173.1
Income	-119,858.4	-156,637.9	-155,700.6	-201,331.8	-253,778.7	-43,723.3
credit	75,508.3	87,206.1	105,728.7	127,975.4	141,589.4	31,219.5
debit	195,366.7	243,844.0	261,429.3	329,307.2	395,368.1	74,942.8
Current transfers	15,800.1	6,001.8	11,288.9	-6,762.5	-8,063.6	5,395.7
credit	46,976.7	53,050.6	78,545.3	64,103.5	82,379.1	29,465.9
debit	31,176.6	47,048.8	67,256.4	70,866.0	90,442.7	24,070.2
B. Capital account	-82.2	-14,186.5	4,689.3	8,467.0	19,655.2	6,995.8
credit	198.2	5,608.2	5,525.2	14,269.5	21,273.7	7,200.1
debit	280.4	19,794.7	835.9	5,802.5	1,618.5	204.3
<i>Total A + B</i>	<i>-160,696.8</i>	<i>-161,642.2</i>	<i>-43,810.9</i>	<i>-92,347.7</i>	<i>-69,304.2</i>	<i>34,043.7</i>
C. Financial account	157,093.5	177,312.0	154,767.4	104,934.4	104,474.2	-7,425.0
Direct investment	53,500.3	101,776.3	279,630.5	102,778.2	158,185.5	20,854.2
abroad	-5,815.7	-26,067.3	449.0	-33,169.6	-27,088.9	-7,904.1
equity capital and reinvested earnings	-3,124.6	-20,260.0	-4,262.8	-33,886.7	-16,033.2	-2,480.5
other capital	-2,691.1	-5,807.3	4,711.8	717.1	-11,055.7	-5,423.6
in the Czech Republic	59,316.0	127,843.6	279,181.5	135,947.8	185,274.4	28,758.3
equity capital and reinvested earnings	59,350.4	121,482.9	262,471.8	142,115.1	188,103.8	43,667.8
other capital	-34.4	6,360.7	16,709.7	-6,167.3	-2,829.4	-14,909.5
Portfolio investment	-35,719.1	53,032.5	-81,243.8	-26,882.5	-53,232.1	-13,033.3
assets	-83,892.7	-70,245.2	-82,095.7	-68,383.5	-94,653.0	1,311.8
equity securities	5,630.5	-36,457.1	-35,342.4	-43,559.2	-61,643.8	-9,441.4
debt securities	-89,523.2	-33,788.1	-46,753.3	-24,824.3	-33,009.2	10,753.2
liabilities	48,173.6	123,277.7	851.9	41,501.0	41,420.9	-14,345.1
equity securities	30,133.5	19,558.6	-36,408.9	5,758.0	-5,855.7	-10,948.4
debt securities	18,040.1	103,719.1	37,260.8	35,743.0	47,276.6	-3,396.7
Financial derivatives	3,860.1	-3,208.0	-2,798.6	-6,236.9	1,799.6	-
assets	7,083.7	-15,565.8	-2,860.9	-10,850.5	-14,081.6	-
liabilities	-3,223.6	12,357.8	62.3	4,613.6	15,881.2	-
Other investment	135,452.2	25,711.2	-40,820.7	35,275.6	-2,278.8	-15,245.9
assets	67,071.3	-30,507.4	-114,430.6	-31,054.7	-148,727.3	-73,653.9
long-term	1,141.3	20,434.2	-16,338.0	-6,119.2	-47,220.2	-17,580.5
CNB	-	-184.9	-176.3	-	2.3	-
commercial banks	-999.9	505.0	-24,641.7	-10,715.8	-45,465.8	-16,738.8
government	5,714.3	22,790.7	14,056.5	4,983.6	-691.7	-670.6
other sectors	-3,573.1	-2,676.6	-5,576.5	-387.0	-1,065.0	-171.1
short-term	65,930.0	-50,941.6	-98,092.6	-24,935.5	-101,507.1	-56,073.4
commercial banks	44,971.2	-34,248.5	-87,137.0	24,866.4	-88,574.5	-31,701.1
government	2,193.8	92.9	9.4	-	-	-
other sectors	18,765.0	-16,786.0	-10,965.0	-49,801.9	-12,932.6	-24,372.3
liabilities	68,380.9	56,218.6	73,609.9	66,330.3	146,448.5	58,408.0
long-term	26,361.6	36,550.9	49,022.1	68,702.1	39,116.3	-820.6
CNB	-20.4	-20.5	-19.1	-18.1	-18.1	-8.6
commercial banks	-5,038.0	-1,410.8	311.1	12,733.4	28,170.7	47.6
government	10,304.7	10,296.1	20,809.1	9,847.3	2,935.0	-4,187.0
other sectors	21,115.3	27,686.1	27,921.0	46,139.5	8,028.7	3,327.4
short-term	42,019.3	19,667.7	24,587.8	-2,371.8	107,332.2	59,228.6
CNB	-21.4	843.7	5,060.1	-4,147.6	-552.8	-706.0
commercial banks	37,899.4	-15,344.5	14,808.8	2,250.5	89,693.2	57,102.5
government	-	-	-	-	-	-
other sectors	4,141.3	34,168.5	4,718.9	-474.7	18,191.8	2,832.1
<i>Total A + B + C</i>	<i>-3,603.3</i>	<i>15,669.8</i>	<i>110,956.5</i>	<i>12,586.7</i>	<i>35,170.0</i>	<i>26,618.7</i>
D. Net errors and omissions, valuation changes	16,506.7	-8,887.6	-18,104.9	-10,512.3	-19,503.5	-7,229.7
<i>Total A + B + C + D</i>	<i>12,903.4</i>	<i>6,782.2</i>	<i>92,851.6</i>	<i>2,074.4</i>	<i>15,666.5</i>	<i>19,389.0</i>
E. Change in reserves (- increase)	-12,903.4	-6,782.2	-92,851.6	-2,074.4	-15,666.5	-19,389.0

1) Balance of payments structure based on the Balance of Payments Manual (5th edition), IMF 1993

2) Preliminary data

Table 13

INTERNATIONAL INVESTMENT POSITION

in CZK millions

	2003 31 Dec.	2004 31 Dec.	2005 31 Dec.	2006 31 Dec.	2007 31 Dec.	2008 ¹⁾ 31 Mar.
Assets	1,537,284.6	1,549,333.7	1,875,403.8	1,888,248.1	2,088,989.0	2,096,216.3
Direct investment abroad	58,581.5	84,087.4	88,772.7	104,743.3	126,025.0	127,195.0
– equity capital	50,965.5	70,664.0	80,061.1	96,748.8	107,880.0	104,710.0
– other capital	7,616.0	13,423.4	8,711.6	7,994.5	18,145.0	22,485.0
Portfolio investment	343,968.7	372,237.6	467,808.5	532,163.4	606,406.8	579,424.2
– equity securities	47,337.7	76,121.3	146,957.6	202,322.0	256,779.1	247,588.6
– debt securities	296,631.0	296,116.3	320,850.9	329,841.4	349,627.7	331,835.6
Financial derivatives	24,129.5	39,695.3	42,556.2	53,406.7	67,488.3	82,677.0
Other investment	419,090.0	417,071.9	549,564.4	541,297.0	658,052.7	698,464.4
long-term	157,598.6	118,432.7	136,314.1	128,334.6	163,697.5	174,510.7
– CNB	468.4	600.0	3,184.5	2,993.8	2,848.9	2,635.0
– commercial banks	66,121.3	58,137.8	83,231.1	87,666.2	126,639.6	137,157.2
– government	79,483.9	48,574.9	38,408.5	29,894.6	27,359.0	28,528.5
– other sectors	11,525.0	11,120.0	11,490.0	7,780.0	6,850.0	6,190.0
short-term	261,491.4	298,639.2	413,250.3	412,962.4	494,355.2	523,953.7
– CNB	98.8	71.7	71.1	131.3	102.1	168.5
– commercial banks	161,150.2	184,588.0	273,879.1	233,831.1	310,703.1	327,855.2
of which: gold and foreign exchange	115,884.8	128,119.8	198,042.8	166,588.9	200,945.9	200,359.0
– government	102.4	9.5	0.1	-	-	-
– other sectors	100,140.0	113,970.0	139,300.0	179,000.0	183,550.0	195,930.0
CNB reserves	691,514.9	636,241.5	726,702.0	656,637.7	631,016.2	608,455.7
– gold	4,784.3	4,253.9	5,526.8	5,690.9	6,431.6	6,423.8
– SDR	238.7	118.0	289.8	346.0	363.3	342.7
– reserve position in the IMF	11,949.9	9,137.5	4,447.7	2,324.6	1,521.6	1,405.1
– foreign exchange	674,451.8	622,606.4	716,315.2	648,192.1	618,048.0	589,253.3
– other reserve assets	90.2	125.7	122.5	84.1	4,651.7	11,030.8
Liabilities	2,064,768.3	2,374,328.4	2,710,646.3	2,969,225.5	3,329,266.4	3,367,869.1
Direct investment in the Czech Republic	1,161,783.6	1,280,594.8	1,491,564.0	1,666,760.7	1,827,224.6	1,849,652.4
– equity capital	1,009,391.8	1,121,842.3	1,316,101.8	1,497,465.8	1,665,564.6	1,709,232.4
– other capital	152,391.8	158,752.5	175,462.2	169,294.9	161,660.0	140,420.0
Portfolio investment	223,620.4	381,019.4	437,806.0	487,994.5	556,342.4	526,429.1
– equity securities	140,788.6	208,872.1	220,495.8	241,594.8	262,518.8	237,873.8
– debt securities	82,831.8	172,147.3	217,310.2	246,399.7	293,823.6	288,555.3
Financial derivatives	19,448.3	31,806.1	31,868.4	36,482.0	52,363.2	66,927.7
Other investment	659,916.0	680,908.1	749,407.9	777,988.3	893,336.2	924,859.9
long-term	360,279.2	373,456.4	417,645.7	464,073.2	485,570.5	477,822.1
– CNB	96.1	70.2	47.8	27.2	8.8	-
– commercial banks	58,056.3	52,020.8	51,639.8	62,263.6	87,448.8	93,890.6
– government	22,456.0	32,065.4	52,322.1	61,686.4	64,197.4	59,476.0
– other sectors	279,670.8	289,300.0	313,636.0	340,096.0	333,915.5	324,455.5
short-term	299,636.8	307,451.7	331,762.2	313,915.1	407,765.7	447,037.8
– CNB	22.8	866.5	5,926.5	1,779.0	1,226.2	520.3
– commercial banks	208,534.0	185,025.2	201,315.7	193,816.1	272,729.5	315,937.5
– government	-	-	-	-	-	-
– other sectors	91,080.0	121,560.0	124,520.0	118,320.0	133,810.0	130,580.0
Net investment position	-527,483.7	-824,994.7	-835,242.5	-1,080,977.4	-1,240,277.4	-1,271,652.8

1) Preliminary data

Table 14

EXTERNAL DEBT							in CZK millions
	2003 31 Dec.	2004 31 Dec.	2005 31 Dec.	2006 31 Dec.	2007 31 Dec.	2008 ¹⁾ 31 Mar.	
Debt in convertible currencies	895,139.6	1,011,807.9	1,142,180.3	1,193,682.9	1,348,819.8	1,353,835.2	
of which:							
Long-term	535,995.9	667,327.6	783,533.1	872,113.2	926,756.3	900,016.1	
by debtor							
– CNB	96.1	70.2	47.8	27.2	8.8	-	
– commercial banks	73,276.4	64,346.5	65,418.9	76,426.6	107,852.7	115,376.2	
– government	69,029.9	147,729.1	221,003.4	247,019.8	266,992.2	266,305.8	
– other sectors	393,593.5	455,181.8	497,063.0	548,639.6	551,902.6	518,334.1	
by creditor							
– foreign banks	251,535.3	269,081.3	276,594.3	324,908.9	348,801.1	339,279.5	
– government institutions	-	-	9,636.0	9,555.5	8,686.0	7,249.6	
– multilateral institutions	83,779.6	84,862.4	105,187.7	107,043.6	99,219.6	102,476.9	
– suppliers and direct investors	109,287.9	143,301.2	170,586.6	179,903.7	173,410.0	152,630.0	
– other investors	91,393.1	170,082.7	221,528.5	250,701.5	296,639.6	298,380.1	
Short-term	359,143.7	344,480.3	358,647.2	321,569.7	422,063.5	453,819.1	
by debtor							
– CNB	22.8	866.5	5,926.5	1,779.0	1,226.2	520.3	
– commercial banks	210,017.0	188,495.9	202,616.9	196,529.5	274,731.5	317,804.6	
– government	710.0	3,334.6	1,102.4	350.0	5,722.8	761.8	
– other sectors	148,393.9	151,783.3	149,001.4	122,911.2	140,383.0	134,732.4	
by creditor							
– foreign banks	218,436.1	202,372.6	197,820.7	187,186.7	240,864.7	279,629.3	
– multilateral institutions	-	861.3	5,918.8	1,768.2	1,220.3	514.6	
– suppliers and direct investors	105,563.9	98,611.3	102,235.6	78,391.2	88,700.0	83,620.0	
– other investors	35,143.7	42,635.1	52,672.1	54,223.6	91,278.5	90,055.2	
Debt in non-convertible currencies	-	-	-	-	-	-	
of which:							
– long-term	-	-	-	-	-	-	
– short-term	-	-	-	-	-	-	
Total external debt	895,139.6	1,011,807.9	1,142,180.3	1,193,682.9	1,348,819.8	1,353,835.2	
of which:							
– long-term	535,995.9	667,327.6	783,533.1	872,113.2	926,756.3	900,016.1	
– short-term	359,143.7	344,480.3	358,647.2	321,569.7	422,063.5	453,819.1	
Total long-term debt	535,995.9	667,327.6	783,533.1	872,113.2	926,756.3	900,016.1	
of which:							
– IMF loans	-	-	-	-	-	-	
– liabilities of government sector and guaranteed by government, and liabilities of entities majority owned by state	222,120.9	272,202.1	322,498.4	342,241.9	375,189.8	379,906.7	
– liabilities of entities with majority private capital	313,875.0	395,125.5	461,034.7	529,871.3	551,566.5	520,109.4	

1) Preliminary data

Table 15

FOREIGN EXCHANGE AND CAPITAL MARKETS

in CZK; foreign exchange market rates

A. NOMINAL RATE	2003 1 – 12	2004 1 – 12	2005 1 – 12	2006 1 – 12	2007 1 – 12	2008 4 – 6
CZK exchange rate against selected currencies						
– annual/quarterly averages						
1 EUR	31.84	31.90	29.78	28.34	27.76	24.83
1 USD	28.23	25.70	23.95	22.61	20.31	15.89
100 SKK	76.75	79.69	77.15	76.16	82.20	79.12
	12	12	12	12	12	6
– monthly averages						
1 EUR	32.31	30.65	28.98	27.78	26.30	24.31
1 USD	26.32	22.87	24.44	21.02	18.04	15.63
100 SKK	78.57	78.81	76.51	79.44	78.77	80.19
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	30 Jun.
– last day of the month						
1 EUR	32.41	30.47	29.01	27.50	26.62	23.90
1 USD	25.65	22.37	24.59	20.88	18.08	15.16
100 SKK	78.71	78.63	76.57	79.86	79.18	79.11

B. NOMINAL EFFECTIVE RATE	2003	2004	2005	2006	2007	2008 6
CZK nominal effective exchange rate (percentages) (2005=100)						
weights – foreign trade turnover	93.97	94.34	100.00	104.78	106.65	121.40
weights – foreign trade turnover SITC 5-8	93.82	94.19	100.00	104.96	106.98	122.02

Drawing on CZSO statistics on the geographical and commodity structure of foreign trade for 2005, 26 countries which account for around 90% of the Czech Republic's foreign trade were selected. The weights were processed in two alternatives:

Alternative I, used by the IMF, applies to the Czech Republic's entire foreign trade turnover

Alternative II, used by the European Central Bank, applies to only four commodity groups of the Czech Republic's foreign trade

C. REAL EFFECTIVE RATE	2003	2004	2005	2006	2007	2008 6
CZK real effective exchange rate (percentages) (2005=100)						
a) industrial producer prices						
weights – foreign trade turnover	93.00	95.70	100.00	102.10	104.50	116.70
weights – foreign trade turnover SITC 5-8	92.40	95.40	100.00	102.40	105.00	117.60
b) consumer prices						
weights – foreign trade turnover	95.30	95.30	100.00	104.30	106.90	124.30
weights – foreign trade turnover SITC 5-8	94.60	94.90	100.00	104.70	107.60	125.70

Source: CZSO – consumer prices and industrial producer prices of the Czech Republic
Monthly IMF publication – International Financial Statistics – and the CNB's own calculations

D. STOCK MARKET INDICES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 6
BCPP						
PX	659.1	1,032.0	1,473.0	1,588.9	1,815.1	1,483.5
PX-GLOB	816.9	1,232.7	1,811.3	1,987.4	2,268.4	1,877.5

On 20 March 2006, the Prague Stock Exchange's PX 50 and PX-D indices were replaced by a single index called the PX. Calculation of both the original indices was terminated on Friday, 17 March 2006. The new main PX index carries on from the PX 50 and takes over its history.

Table 16

CNB MONETARY POLICY INSTRUMENTS

rate valid from relevant date

	2W repo rate (%)	Discount rate (%)	Lombard rate (%)	Minimum reserve requirement for primary deposits (%)	
				Banks	Building societies and ČMZRB
1999					
18 January	8.75	-	-	-	-
28 January	-	-	-	5.00	-
29 January	8.00	-	-	-	-
12 March	7.50	6.00	10.00	-	-
9 April	7.20	-	-	-	-
4 May	6.90	-	-	-	-
25 June	6.50	-	-	-	-
30 July	6.25	-	-	-	-
3 September	6.00	5.50	8.00	-	-
5 October	5.75	-	-	-	-
7 October	-	-	-	2.00	2.00
27 October	5.50	5.00	7.50	-	-
26 November	5.25	-	-	-	-
2000			No changes made		
2001					
23 February	5.00	4.00	6.00	-	-
27 July	5.25	4.25	6.25	-	-
30 November	4.75	3.75	5.75	-	-
2002					
22 January	4.50	3.50	5.50	-	-
1 February	4.25	3.25	5.25	-	-
26 April	3.75	2.75	4.75	-	-
26 July	3.00	2.00	4.00	-	-
1 November	2.75	1.75	3.75	-	-
2003					
31 January	2.50	1.50	3.50	-	-
26 June	2.25	1.25	3.25	-	-
1 August	2.00	1.00	3.00	-	-
2004					
25 June	2.25	1.25	3.25	-	-
27 August	2.50	1.50	3.50	-	-
2005					
28 January	2.25	1.25	3.25	-	-
1 April	2.00	1.00	3.00	-	-
29 April	1.75	0.75	2.75	-	-
31 October	2.00	1.00	3.00	-	-
2006					
28 July	2.25	1.25	3.25	-	-
29 September	2.50	1.50	3.50	-	-
2007					
1 June	2.75	1.75	3.75	-	-
27 July	3.00	2.00	4.00	-	-
31 August	3.25	2.25	4.25	-	-
30 November	3.50	2.50	4.50	-	-
2008					
8 February	3.75	2.75	4.75	-	-

Table 17

MACROECONOMIC AGGREGATES						
	in CZK millions; annual percentage changes; constant 2000 prices					
	2003 Q1 – 4	2004 Q1 – 4	2005 Q1 – 4	2006 Q1 – 4	2007 Q1 – 4	2008 Q1
Gross domestic product						
– in CZK millions	2,367,818	2,474,006	2,630,273	2,808,784	2,993,414	737,043
– percentages	3.6	4.5	6.3	6.8	6.6	5.2
Final consumption						
– in CZK millions	1,817,625	1,834,457	1,882,570	1,949,121	2,031,614	483,317
– percentages	6.3	0.9	2.6	3.5	4.2	1.9
of which:						
Households						
– in CZK millions	1,258,158	1,294,377	1,327,217	1,398,284	1,481,252	355,699
– percentages	6.0	2.9	2.5	5.4	5.9	2.7
Government						
– in CZK millions	545,999	526,656	541,825	538,094	540,618	125,730
– percentages	7.1	-3.5	2.9	-0.7	0.5	0.3
Non-profit institutions						
– in CZK millions	13,362	14,579	14,629	16,195	16,562	3,968
– percentages	6.2	9.1	0.3	10.7	2.3	-3.4
Gross capital formation						
– in CZK millions	709,600	773,916	767,420	847,801	928,964	220,648
– percentages	-1.4	9.1	-0.8	10.5	9.6	7.2
of which:						
Fixed capital						
– in CZK millions	689,117	716,285	729,043	776,498	821,400	184,655
– percentages	0.4	3.9	1.8	6.5	5.8	2.0
Changes in inventories						
– in CZK millions	15,642	54,706	35,654	68,587	104,708	35,243
Acquisitions less disposals of valuables						
– in CZK millions	4,841	2,925	2,723	2,716	2,856	750
– percentages	40.8	-39.6	-6.9	-0.2	5.2	6.6
Foreign trade						
of which:						
Exports of goods						
– in CZK millions	1,479,795	1,820,657	2,032,500	2,369,984	2,736,571	737,297
– percentages	9.3	23.0	11.6	16.6	15.5	11.3
Exports of services						
– in CZK millions	212,807	226,614	251,989	278,317	302,937	79,629
– percentages	-4.2	6.5	11.2	10.4	8.8	22.3
Imports of goods						
– in CZK millions	1,623,393	1,928,984	2,032,807	2,332,984	2,681,556	705,975
– percentages	9.0	18.8	5.4	14.8	14.9	11.1
Imports of services						
– in CZK millions	235,915	263,438	268,311	295,911	311,869	71,099
– percentages	1.8	11.7	1.8	10.3	5.4	7.9
Final domestic demand						
– in CZK millions	2,506,742	2,550,742	2,611,613	2,725,619	2,853,014	667,972
– percentages	4.6	1.8	2.4	4.4	4.7	2.0
Aggregate domestic demand						
– in CZK millions	2,527,225	2,608,373	2,649,990	2,796,922	2,960,578	703,965
– percentages	4.0	3.2	1.6	5.5	5.9	3.5
Gross domestic product at current prices						
– in CZK millions	2,577,110	2,814,762	2,983,862	3,215,642	3,551,364	893,203
– percentages	4.6	9.2	6.0	7.8	10.4	8.7

Source: CZSO

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