INFLATION REPORT / IV

2008

CZECH NATIONAL BANK

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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 correspond to the message of the forecast. Information on the Bank Board's discussions at the past 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 13 November 2008 and contains the information available as of 24 October 2008. The annex to this Inflation Report is the CNB Bank Board's announcement that the CNB will publish the forecasted path of the nominal exchange rate starting from the first forecast in 2009.

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.

CHART I.1 FULFILMENT OF THE INFLATION TARGET

Inflation fell very slightly in 2008 Q3 and thus continued to be markedly above the upper boundary of the inflation-target tolerance band

(annual percentage changes)

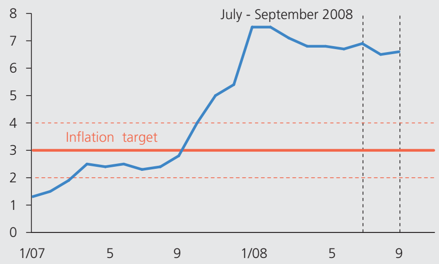


TABLE I.1 KEY MACROECONOMIC INDICATORS

The koruna's exchange rate has weakened since July

(annual percentage changes unless otherwise indicated)

	6/08	7/08	8/08	9/08
Consumer price inflation	6.7	6.9	6.5	6.6
Industrial producer price inflation	5.3	5.2	5.7	5.5
Money supply growth (M2)	6.7	8.4	8.3	-
3M PRIBOR[a] (in per cent)	4.2	4.1	3.8	3.8
CZK/EUR exchange rate[a] (level)	24.31	23.53	24.29	24.50
CZK/USD exchange rate[a] (level)	15.63	14.92	16.23	17.05
State budget balance since January[b] (CZK bn)	-5.7	9.3	5.3	10.5
GDP growth at constant prices[c, d]	4.6			-
Average nominal wage[c]	8.0			-
Unemployment rate[e] (in per cent)	5.0	5.3	5.3	5.3

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

Inflation fell very slightly in 2008 Q3 and remained well above the upper boundary of the inflation-target tolerance band (see Chart I.1). Economic growth slowed further. The Bank Board lowered monetary policy rates by 0.25 percentage point in Q3. The current forecast assumes a rapid decline in inflation to the inflation target. Consistent with the forecast is a decline in interest rates followed by a modest rise in late 2009/early 2010. At its November meeting the Bank Board assessed the risks of the forecast as being anti-inflationary and decided by a majority of votes cast to lower the interest rates by 0.75 percentage point.

The monetary policy decision-making of the CNB Bank Board in 2008 Q3 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 half of 2009. According to the forecast, inflation in this period should lie in the lower half of the inflation-target tolerance band of the 3% inflation target and at the start of 2010 it should be in the upper half of the tolerance band of the new 2% inflation target. Monetary-policy relevant inflation was expected to be the same as headline inflation at the monetary policy horizon. Consistent with the macroeconomic forecast and its assumptions was a declining interest rate path in the remaining part of 2008 followed by broad stability for most of 2009.

In 2008 Q3, the Bank Board decided to lower monetary policy rates by 0.25 percentage point with effect from 8 August. In this period, the Board assessed the risks of the macroeconomic forecast as being weakly anti-inflationary. According to the Bank Board, the main downside risk to inflation was the appreciation of the koruna and a correction of prices of food, oil and other commodities on world markets. By contrast, higher-than-forecasted wage growth and adjusted inflation excluding fuels could have an inflationary effect.

The lowering of monetary policy interest rates led to a decline in market interest rates, particularly at longer maturities. In the rest of 2008 Q3, as in Q2, money market interest rates deviated from the forecasted outlook. After declining slightly in August and early September, market interest rates rose gradually across the entire maturity spectrum to return to, or even slightly exceed, their early-July level in late October. This was due to the increased uncertainty and related risk premia resulting from the ongoing global financial crisis.

For most of 2008 Q3 the exchange rate of the koruna was, in addition to economic variables and the interest rate differential, affected to a large extent by highly volatile short-term capital flows, which were reflecting in particular the uncertain and quickly changing situation regarding the global financial crisis and the action taken to deal with its effects on the world economy. The koruna initially appreciated in July to new record highs. However, a subsequent outflow of short-term capital from the Czech Republic, as from many other economies in the region, led later in Q3 to a depreciation of the koruna of almost 25% against the dollar and roughly 10% against the euro.

The annual rate of economic growth declined further in 2008 Q2. The slowdown in annual GDP growth of almost one percentage point compared to the previous quarter was due to a decline in the contribution of gross capital formation into negative figures owing to a significant year-on-year fall in investment in inventories. This fall was only partly offset by higher contributions of the other categories, even though the contribution of net exports more than doubled.

The continuing economic growth slowdown led to a further decline in annual employment growth and a gradual decrease in the number of vacancies in Q2. Annual nominal wage growth in the business sector slowed after a marked acceleration in the previous quarter, but remained relatively high. Real wage growth was much slower owing to the persisting high inflation. Wage growth in the non-business sector was virtually unchanged compared to the previous quarter.

Inflation remained high despite the anti-inflationary effect of annual exchange rate appreciation and gradually unwinding domestic inflationary factors. It was mostly affected by changes to regulated prices and indirect taxes. Annual consumer price inflation was slightly below the previous quarter's level in 2008 Q3, whereas monetary policy-relevant inflation was slightly higher. The major components of inflation showed no significant changes compared to the previous quarter. Moreover, their effect was largely offset thanks to the contrary movements of these components. However, headline and monetary-policy relevant inflation were both slightly lower than forecasted by the CNB.

Section III of this Inflation Report describes the CNB's latest forecast, which takes into account new information obtained since the previous forecast was drawn up. The new information on the domestic economy confirms the previous assessment of the cyclical position of the economy. The Czech economy is currently in a downward phase of the business cycle, which is manifesting itself in slower GDP growth. The domestic inflationary pressures are gradually falling as a result of falling nominal wage growth. The inflationary effect of domestic factors is being weakened by import prices, where the impact of the past exchange rate appreciation is prevailing over the high external inflation.

At the forecast horizon, inflation will be falling towards the inflation target (see Chart I.2) thanks to the unwinding of the price shocks that occurred in late 2007 and early 2008, the anti-inflationary effect of the annual 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 3% point inflation target. At the monetary policy horizon, i.e. in 2009 Q4 and 2010 Q1, headline inflation will thus be at the 2% inflation target valid from 2010.

Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, will fall into the upper half of the tolerance band for the inflation target during 2008 Q4 (see Chart I.3). The first-round effects of changes to indirect taxes will unwind gradually in 2009 H1, and starting from Q3, i.e. already at the monetary policy horizon, monetary-policy relevant inflation is forecasted to be the same as headline inflation.

Real GDP growth will decrease quite sharply as from 2008 Q4 (see Chart I.4) due to the dampening effect of the pronounced exchange rate appreciation in 2008 H1 and weakening external demand on export growth and gross capital formation. Household consumption will recover slightly in 2009 thanks to a pick-up in real wage growth and despite a modest decrease in employment and declining nominal wage growth.

CHART I.2 THE HEADLINE INFLATION FORECAST

At the monetary policy horizon, the headline inflation forecast hits the 2% inflation target

(annual percentage changes)

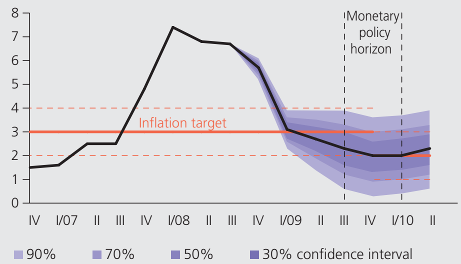


CHART I.3 THE MONETARY-POLICY RELEVANT INFLATION FORECAST

At the monetary policy horizon, monetary-policy relevant inflation is the same as headline inflation

(annual percentage changes)

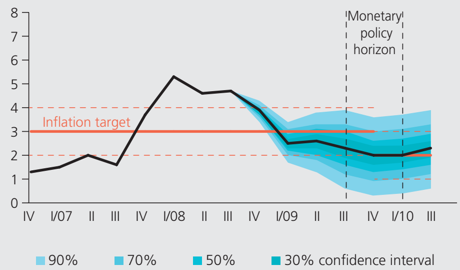


CHART I.4 THE GDP GROWTH FORECAST

GDP growth will slow considerably in the rest of 2008 and in 2009

(annual percentage changes; seasonally adjusted)

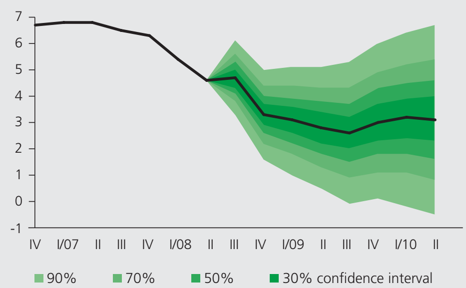
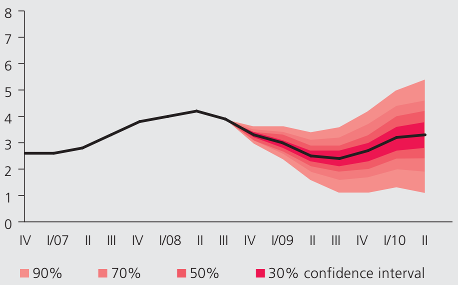


CHART I.5 THE INTEREST RATE FORECAST

Consistent with the forecast is a decline in interest rates followed by a modest rise in late 2009/early 2010

(3M PRIBOR, %)



Consistent with the macroeconomic forecast and its assumptions is a decline in interest rates followed by a modest rise in late 2009/early 2010 (see Chart I.5).

In addition to the baseline scenario, an alternative scenario was constructed for the Czech economy going forward. This covers the risk of lower external growth and a commensurate decline in external inflation and interest rates. Such a development would result in falling external demand for domestic exports, decreasing growth in domestic economic activity and subsequent slower growth in wages and lower domestic inflationary pressures. The implied outlook for interest rates in the alternative scenario is slightly below that in the baseline scenario, and the inflation forecast is almost identical.

At its November meeting, the Bank Board assessed the risks of the forecast as being anti-inflationary. According to the Bank Board, the larger-than-forecasted cooling of foreign economies, the continuing fall in world commodity and energy prices and lower-than-expected food price inflation could have an anti-inflationary effect. A high degree of uncertainty was associated with the evolution of the koruna's exchange rate and the highly volatile world prices of oil. In line with the forecast, the Bank Board decided to lower the monetary policy interest rates. Four of the five board members present at the meeting voted in favour of lowering rates by 0.75 percentage points, while one member was in favour of cutting rates by 0.50 percentage point.

II.1 THE EXTERNAL ENVIRONMENT

Economic growth declined in both the USA and the euro area in 2008 Q2. Slovakia remained the fastest growing economy in the Central European region, while Hungary was the slowest. The US dollar appreciated from almost USD 1.6/EUR to around USD 1.27/EUR in 2008 Q3. The price of Brent crude oil decreased significantly during Q3 and its average price was USD 116 a barrel in this period, down by 5.5% compared to the previous quarter. This fall continued into October and so the oil price dropped from almost USD 146 a barrel in early July to USD 61 a barrel at the end of October.

This September, the global financial crisis, which erupted last August initially as a problem of sub-prime mortgages and has since had a negative effect on the world economy, entered a new intensive phase that endangers the functioning of the entire global financial system. At present (the end of October), it seems that the advanced countries have finally found the instruments to combat the collapse of the financial system. These involve a combination of directly supplying liquidity to banks against a very wide range of securities, purchasing bad ("toxic") assets, guaranteeing inter-bank loans and investing directly in a large number of commercial banks (supplemented in the USA by purchases of corporate bonds by the Fed).

In 2008 Q2, annual economic growth in the USA declined by 0.4 percentage point to 2.1%, but the annualised quarter-on-quarter growth rose from 0.9% to 2.8%. This was fostered by fiscal policy measures taken in Q2 to dampen the downswing in domestic demand. Nonetheless, growth in all the components of domestic demand decreased. The rapid growth in exports, accompanied by falling imports, continued, but the outlook for the rest of this year and for the whole of 2009 has deteriorated markedly. The financial market crisis led to a rise in market interest rates and made it more difficult for both households and businesses to access credit, which resulted in falling consumption and investment expenditure. The GDP data for Q3 have not been released yet, but a number of economic indicators suggest that the US economy is probably already in recession. Unemployment rose by 1.4 percentage points year on year in September and by 0.7 percentage point on average in Q3 compared to Q2. The number of employed people dropped by almost 300,000 in Q3. Retail trade turnover declined by 1% and industrial production by 4.5% year on year. The fall in house prices continued as well.

Inflation in the USA declined by 0.5 percentage point month on month, to 4.9% in September, owing to a substantial decrease in world energy and commodity prices. In August and September, a 3% month-on-month fall in import prices and a slowdown in their annual growth resulted in lower producer price inflation. In a context of high inflation and a falling GDP growth outlook, the Fed left its key rate unchanged at 2% at its three regular meetings during Q3. On 8 October, it decreased this rate by 0.5 percentage point to 1.5% together with another five central banks in a coordinated attempt to suppress the global financial crisis in a situation where falling inflation was already apparent and the signs of weaker economic growth were growing. The federal deficit for the fiscal year 2008 ending 30 September increased to USD 455 billion (3.2% of GDP), compared to USD 162 billion last year, owing to lower economic growth and a fiscal measure amounting to USD 116 billion. A further significant rise in the deficit can be expected next year given the expected economic slowdown and the costs of dealing with the financial crisis.

Annual GDP growth in the euro area decreased markedly, from 2.1% in 2008 Q1 to 1.4% in Q2. An annualised quarter-on-quarter decline of 0.8% suggests an emerging recession. Three of the four major euro area economies (Germany, France and Italy) recorded quarter-on-quarter GDP decreases in this period. Low or negative growth is very likely to continue in the second half of the year. This is suggested not

Chart II.1 The dollar-euro exchange rate
The exchange rate of the dollar appreciated sharply to USD 1.27/EUR in 2008 Q3 and October 2008

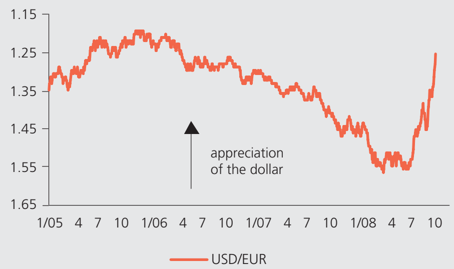


Chart II.2 Brent and Ural crude oil prices
The price of crude Brent oil decreased significantly from USD 146 a barrel to USD 61 a barrel in 2008 Q3 and October 2008
(USD/barrel)

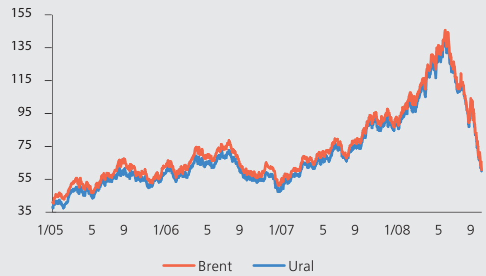
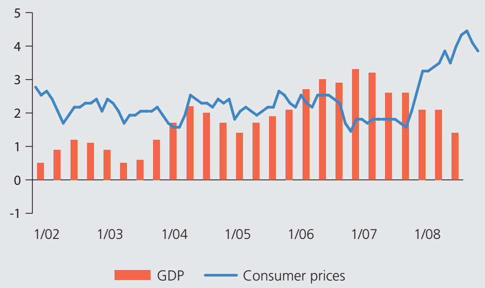


Chart II.3 GDP and inflation in the euro area
GDP growth in the euro area slowed in 2008 Q2 and euro area inflation declined in Q3
(annual percentage changes)



only by a strong decrease in the Purchasing Managers' Index in September, but also by falling retail sales and industrial production, as well as by rising unemployment visible since May this year. External demand decreased in connection with the global economic downswing and the trade surplus changed into a deficit. The cumulative trade balance deteriorated by EUR 40 billion in the first nine months of 2008 compared to the same period of 2007, recording a deficit of EUR 24 billion.

Annual consumer price inflation in the euro area was 3.8% in Q3, mainly as a result of strong annual growth in energy, transport and food prices. However, inflation decreased during the quarter, from 4% in July to 3.6% in September. Annual money supply (M3) growth slowed from 8.8% in August to 8.6% in September due to lower growth of loans to the private sector. Owing to concerns about the second-round effects of the high commodity prices, the ECB raised its key rate from 4% to 4.25% in July and left it unchanged until 8 October. On that date, the ECB, together with another five central banks, lowered its rate by 0.5 percentage point to 3.75% as a result of the deepening financial crisis. At the same time, it halved (to 1 percentage point) the interval between its lending rate and deposit rate (4.25% and 3.25% respectively) and started supplying almost unlimited liquidity to banks at its key rate.

GDP growth in Germany decreased by 0.9 percentage point to 1.7% in 2008 Q2. In quarter-on-quarter comparison it fell by 0.5%, partly as a result of extraordinary factors in Q1, when GDP rose by 1.3%, and partly due to declining demand of households, which, despite rising wages and employment, responded to the high energy and food price growth, the continuing financial crisis and the uncertain outlook for the global economy by reducing their consumption and increasing their saving rate. The month-on-month and year-on-year decline in the unemployment rate (to 7% in September), rising employment and growth in industrial production (up by 2% year on year in August) continued into Q3. By contrast, retail trade turnover and construction output indicated a weakening of the economy. The trade surplus increased by EUR 4 billion in August compared to August 2007, reaching EUR 14 billion. The current account deficit remained unchanged in year-on-year terms at EUR 3 billion. Inflation fell by 0.3 percentage point to 3% in September, chiefly due to a decrease in energy and food prices.

Chart II.4 GDP and inflation in the new EU Member States
GDP growth in the "new" EU Member States decreased further in 2008 Q2
(annual percentage changes)

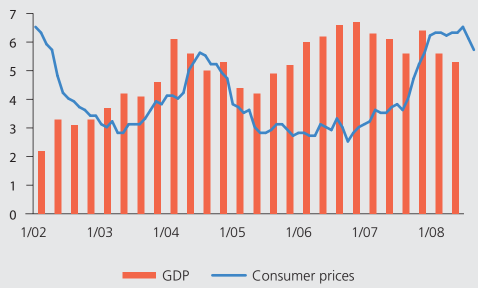
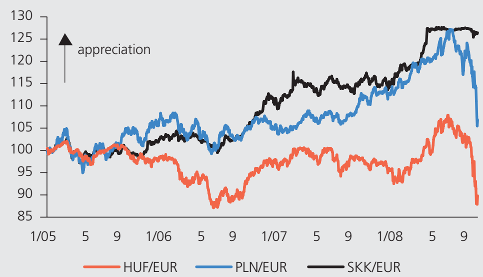


Chart II.5 Central European currencies
Following appreciation in 2008 Q2, the Hungarian forint and the Polish zloty weakened markedly in Q3 and in October
(average for January 2005 = 100)



Economic growth in Poland and Slovakia slowed in 2008 Q2, but was still high. Growth in Hungary increased, but remained the lowest in the Central European region. In Q3, inflation decreased in Poland and Hungary and increased in Slovakia. The Hungarian forint and the Polish zloty depreciated considerably in Q3 and in October.

GDP growth in Slovakia slowed by 0.8 percentage point in 2008 Q2 to a still fairly high 8%. The rapid rise in household consumption, affected by high wage growth (up by 4.8% in real terms), weakened somewhat, while the rates of growth of government consumption and fixed investment increased. The contribution of net exports to economic growth fell slightly owing to faster import growth than export growth. The fast economic growth was reflected in an almost 3% rise in employment in Q2 and a further month-on-month (0.1 percentage point) and year-on-year (1.3 percentage point) decrease in the unemployment rate to 9.9% in August. GDP data for Q3 are not yet available, but the evolution of industrial production is signalling a further downturn in output growth. HICP inflation picked up slightly in September to 4.5%. The NBS, which had left its key rate unchanged at 4.25% since April 2007, lowered it by 0.5 percentage point to 3.75% at the end of October to bring it into line with the ECB rate.

GDP growth in Poland decreased slightly (by 0.1 percentage point) in 2008 Q2 compared to the previous quarter, to 6.1%. The strong growth in consumption and investment continued, but the net export surplus decreased due to a decline in external demand and the appreciation of the zloty. The number of signals pointing to a slowdown in economic growth increased in Q3. Following rapid annual growth in previous quarters, industrial production was almost flat in this period and retail sales and employment growth slackened as well. In September, annual inflation fell by 0.3 percentage point compared to August, to 4.1%, thanks to a decline in food and energy prices. By contrast, core inflation and average wage growth recorded increases. In Q3, the NBP left its key interest rate unchanged at 6%, although inflation was again above its target band and rapid wage growth continued. The NBP took account of the expected slowdown in economic growth and the uncertainty regarding its magnitude.

Annual GDP growth in Hungary increased by 0.5 percentage point to 1.7% in 2008 Q2 thanks to faster growth in household and government consumption. Declining export growth and accelerating imports resulted in deteriorating net exports. Q3 probably saw a slowdown in economic growth, as indicated by both year-on-year and month-on-month increases in the unemployment rate, declining employment, an annual decrease in industrial production in July and September and a halt in retail turnover growth. In Q3, inflation fell from 7% in July to 5.6% in September, mainly because of lower growth in energy, food and services prices. As a consequence of the global financial crisis, the Hungarian forint came under strong pressure at the end of September and its exchange rate depreciated by more than 10% in October. On 22 October, to prevent a further depreciation, the MNB raised its key rate by 3 percentage points to 11.5%.

II.2 THE MONETARY CONDITIONS

The two components of the monetary conditions saw a change in trend in 2008 Q3. Interest rates initially decreased but then rose again owing to the financial crisis abroad. After peaking in July, the exchange rate started to depreciate gradually. The depreciation of the koruna strengthened during October in connection with the financial crisis.

II.2.1 Interest rates

Interest rates have been falling sharply since the start of July, mainly because of the record appreciation of the koruna. At the start of August, the CNB lowered its key interest rates by 0.25 percentage point. Effective 8 August 2008, the 2W repo rate was set at 3.50%, the Lombard rate at 4.50% and the discount rate at 2.50%. Market rates continued falling despite a short-lived koruna depreciation, but the fall was no longer so clear-cut. Financial market participants gradually became more concerned that the recently very strong koruna, expensive oil and slackening growth in the euro area would result in a slowdown in domestic economic growth. All these factors, together with the expected easing of inflationary pressures, led to a downward revision of the expected interest rate path.

The crisis on foreign financial markets erupted in full in mid- September. On the domestic money market, it manifested itself as a gradual increase in PRIBOR rates, a significant decrease in liquidity and a widening of the bid-offer spread (a liquidity and credit premia effect). The uneven distribution of liquidity among banks and their unwillingness to dispose of it led on some days to lower interest in the CNB's repo tenders. The banks' sole preference for O/N transactions resulted in surplus short-term liquidity, a temporary decrease of the O/N rate to the discount rate level and use of the deposit facility.[1]

1 In an effort to support liquidity in the interbank market, the CNB on 15 October 2008 commenced liquidity-providing repo operations with 2W maturity. Banks' bids are fully satisfied at a fixed rate corresponding to the 2W repo rate + 0.1 percentage point. T-bills and CNB bills as well as government bonds are used as collateral in these operations.

CHART II.6 THE CNB'S KEY RATES
The CNB decreased its key interest rates
(percentages)

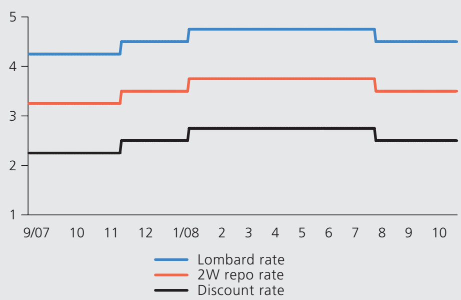
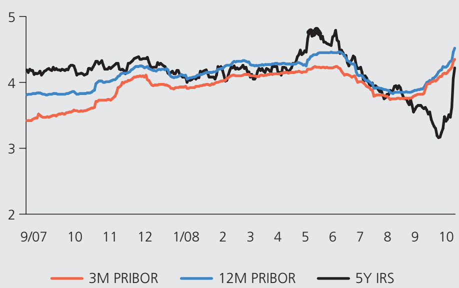
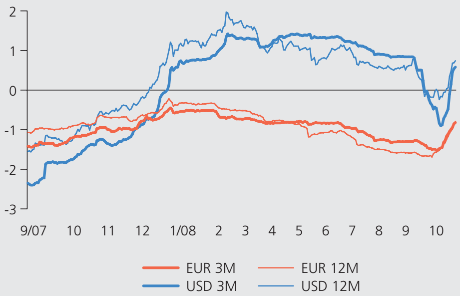


CHART II.7 MARKET INTEREST RATES
Interest rates were strongly affected by developments on foreign markets
(percentages)



By contrast, forward FRA rates and long-term IRS rates recorded rapid decreases on concerns about a sharp slowdown in economic growth and in expectation of a decrease in the CNB's key rates. However, these rates stopped falling in mid-October and started to rise at the same rate, probably as a result of the weakening koruna and the liquidation of investor positions in Central and Eastern European countries. Compared to the beginning of July, PRIBOR interest rates were broadly flat, FRA rates fell by 0.2–0.8 percentage point depending on maturity and IRS rates were down by 0.1–0.5 percentage point. At the end of October 2008, most financial market participants were expecting the CNB's key rates to decrease in the near future.

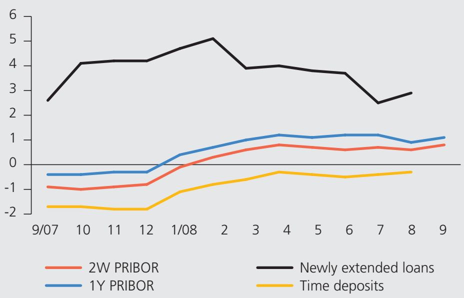
CHART II.8 INTEREST RATE DIFFERENTIALS
Interest rate differentials showed greater volatility
(percentage points)



The PRIBOR yield curve gradually shifted downwards during 2008 Q3, and its rising slope flattened slightly. The spread between the 1Y PRIBOR and the 2W PRIBOR was 0.30 percentage point in September. In October, the money market yield curve again shifted upwards. The IRS yield curve fell even more strongly until mid-October, when it too started to rise. The average 5Y-1Y spread was 0.08 percentage point and the 10Y-1Y spread 0.42 percentage point in September.

The interest rate differential on the money market (PRIBID/CZK-EURIBOR/EUR or LIBOR/USD) was affected by changes in key rates and by higher volatility of money market rates. The ECB raised its refinancing rate by 0.25 percentage point at the start of July and then lowered it by 0.50 percentage point to 3.75% in October. The Fed cut its key O/N rate by 0.50 percentage point to 1.50%. The interest rate differentials vis-à-vis euro rates remained negative, whereas those vis-à-vis dollar rates were mostly positive.

CHART II.9 EX ANTE REAL RATES
Ex ante real interest rates on new loans declined
(percentages)

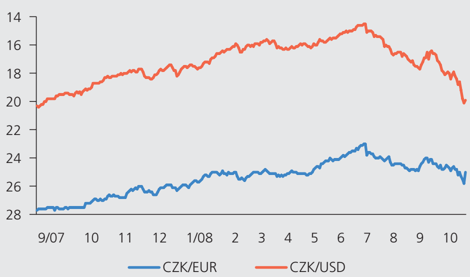


Two auctions were held on the primary government bond market in the period under review, with a fixed coupon and 5Y and 10Y maturities. Owing to the unfavourable market situation, the Czech Ministry of Finance revised the issuance calendar. Some planned auctions were cancelled and the Ministry only issued a variable interest rate bond with 8Y maturity. The total volume of bonds issued amounted to CZK 16.1 billion. The secondary market recorded a marked decrease in liquidity in October and market-makers even stopped quoting prices.

Nominal interest rates on new loans were 7.1% and rates on new time deposits 2.7% in August. Real interest rates[2] are affected not only by the level of nominal rates, but also by movements in inflation expectations. Consumer price inflation expectations decreased slightly during 2008 Q3, whereas expected industrial producer price inflation increased. Real rates on new loans were 2.9% in August, while real rates on time deposits were -0.3%.

II.2.2 The exchange rate

CHART II.10 CZK/EUR AND CZK/USD EXCHANGE RATES
The koruna depreciated against the euro and the dollar as from the end of July 2008



The average exchange rate of the koruna against the euro was CZK 24.1 in 2008 Q3 (see Chart II.10), which represents a year-on-year appreciation of 13.7% and a quarter-on-quarter appreciation of 3.0%. In contrast to the previous four quarters, a gradual koruna depreciation trend emerged at the end of July and strengthened further during October. The appreciation of the koruna continued into the first three weeks of July thanks to foreign investors' interest in koruna assets, which were regarded as a safe investment. The appreciation came to a halt in late July

2 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.

after the CNB Governor announced a possible lowering of the CNB's interest rates, which – somewhat surprisingly for many investors – indeed occurred at the start of August. The communications of CNB Bank Board members regarding the exchange rate risks, combined with an appreciation of the dollar resulting chiefly from US data releases, which were more favourable than those on the euro area, led to an outflow of short-term capital and a gradual koruna depreciation that continued until early September. The subsequent temporary correction in mid-September was associated with a further escalation of the financial crisis in the USA. The rapid depreciation of the koruna-euro exchange rate starting in late September was due to a continuing outflow of short-term capital from koruna positions as a result of an easing of the tensions on the financial markets following huge state interventions and central bank measures to resolve the problems of the global financial sector.

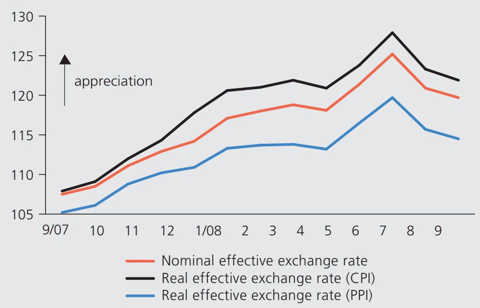
The koruna-dollar rate followed the same path as the koruna-euro rate. In 2008 Q3, the average exchange rate of the koruna against the dollar was CZK 16.0, which represents a year-on-year appreciation of 21.1% but a quarter-on-quarter depreciation of 1.0%. The trend of quarter-on-quarter koruna appreciation against the dollar thus halted after ten quarters. Q3 saw a significant koruna depreciation, which picked up pace in October. The koruna was roughly CZK 5 weaker in late October than in early July. The koruna-dollar rate was most strongly influenced by short-term capital flows, particularly in connection with the financial crisis (collapses of financial institutions and measures to minimise undesirable effects). Domestic macroeconomic data and the interest rate differential had little effect on the koruna-dollar rate.

Although the koruna's nominal and real effective exchange rate trend reversed in August and the koruna started to depreciate gradually, the year-on-year appreciation of the nominal effective exchange rate accelerated slightly in 2008 Q3. The nominal effective exchange rate firmed by 15.0% year on year, thus strengthening its previous trend (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 appreciation against the euro and also against the pound, the rouble and the dollar. At 17.1%, 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 higher consumer price inflation at home than abroad. By contrast, the appreciation of the PPI-deflated real effective exchange rate was more moderate, amounting to 12.1%, as a result of higher producer price inflation abroad than in the Czech Republic.

CHART II.11 EFFECTIVE EXCHANGE RATES OF THE KORUNA

The nominal and real effective exchange rates depreciated as from August 2008

(year 2005 = 100)



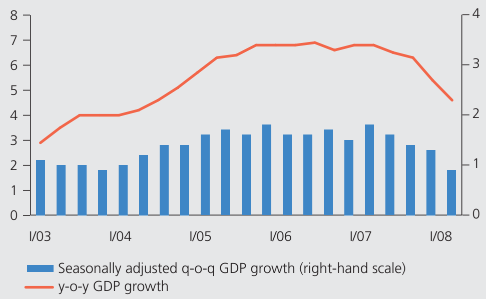
II.3 DEMAND AND OUTPUT

Economic growth slowed further in 2008 Q2, to 4.6%.[3] *The largest contributor to economic growth was foreign trade, even though the rate of growth of its turnover moderated. Exports grew much faster than imports, recording a high rate of growth despite the appreciating koruna. This testified to a still high export performance of the Czech economy, supported by structural changes and previous foreign capital inflows. The economic growth in Q2 was also due to rising final consumption expenditure. Only gross capital formation, which, after rapid growth in 2008 Q1, failed to reach the previous year's level, made no contribution to output growth.*

CHART II.12 GROSS DOMESTIC PRODUCT

Economic growth slowed in 2008 Q2

(annual and quarterly percentage changes at constant prices)



3 The evolution of GDP expenditure and GDP sources is based on seasonally adjusted data from the CZSO's national accounts.

CHART II.13 STRUCTURE OF GDP GROWTH

Foreign trade was the largest contributor to GDP growth

(contributions in percentage points)

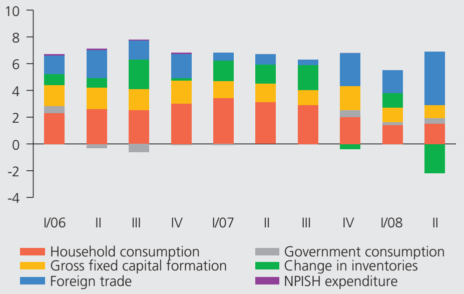


CHART II.14 HOUSEHOLD CONSUMPTION EXPENDITURE

Household consumption growth picked up pace in 2008 Q2 but was lower than in 2007

(annual percentage changes)

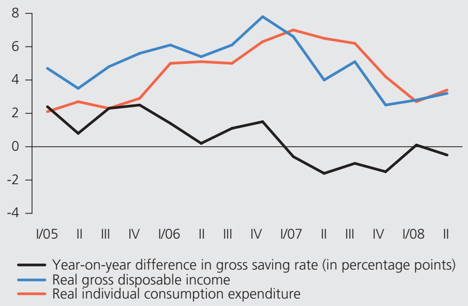


CHART II.15 DISPOSABLE INCOME

Real disposable income growth continued to be strongly affected by high inflation

(annual percentage changes)

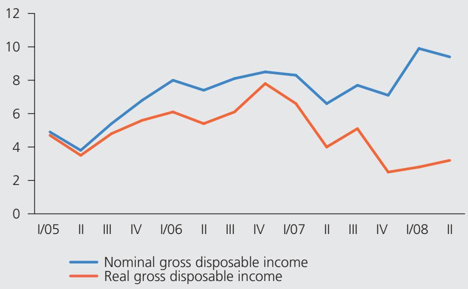
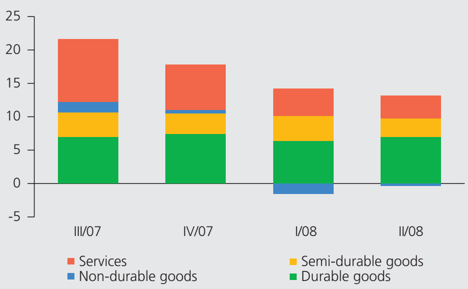


CHART II.16 STRUCTURE OF CONSUMPTION GROWTH

Growth in household expenditure on services slowed and expediture on non-durable goods declined

(annual changes in CZK billions; constant 2000 prices)



II.3.1 Domestic demand

Domestic demand growth slowed in 2008 Q2. This was chiefly due to gross fixed capital formation, particularly inventories, which increased much less than in 2007 Q2. Fixed investment growth also decreased further (to 4%). Only expenditure on final consumption grew faster than in the previous quarter: household final consumption expenditure rose to 3.2% and government expenditure was up by 1.8% year on year

Consumer demand

In 2008 Q2, after four quarters of gradual decline, growth in real household final consumption expenditure rose slightly year on year. Compared to 2008 Q1 it was up by 0.3 percentage point to 3.2%, but compared to 2006 and the first three quarters of 2007 it was considerably lower (see Chart II.14). This was due to the high inflation observed since 2007 Q4, which significantly reduced the real purchasing power of households' otherwise fast-growing nominal income (see Chart II.15). In these circumstances, household confidence remained low.[4]

Annual nominal gross disposable income growth slowed in 2008 Q2 (to 9.4%), but, as in the previous quarter, was still higher than in 2006 and 2007. Its real growth was again much lower than the nominal growth, although it did rise by 0.4 percentage point compared to Q1, to 3.2%, thanks to a slight decline in inflation. As in previous quarters, the strong nominal growth in households' current income was driven primarily by compensation of employees (up by 8.8% year on year), the main component of which is wages and salaries. Compensation of employees accounted for more than half of the total annual rise in households' current income. Unlike in previous quarters, social benefits[5] recorded subdued growth (2.2%). The rapid gross disposable income growth was also due to lower current expenditure, which showed only moderate growth compared to the previous quarter; the main reason was a 6.2% annual decrease in current income taxes connected with the introduction of a flat 15% tax.

Disposable income remained the main source of financing of household consumption expenditure in 2008 Q2. However, households used a larger proportion of their disposable income than in the previous quarter for consumption expenditure, which was reflected in a significant annual slowdown in gross saving growth (to 1.9%) and a decline of 0.5 percentage point in the saving rate (to 6.7%). Some households also financed their consumption expenditure from credit, but its rate of growth moderated (for details see section II.6 *Monetary developments*).

The persisting lower real disposable income growth compared to previous years was accompanied by continuing changes in the consumption behaviour of households. These primarily included an annual decrease in expenditure on non-durable goods and slowing growth in expenditure on services (see Chart II.16). Expenditure on durable goods still rose quickly, however, probably due to increasing investment in dwellings (furnishing of new flats).[6]

4 Measured by the CZSO confidence indicator. The low levels of this indicator primarily reflected households' unfavourable views as regards the financial situation and overall economic situation in the next twelve months.

5 i.e. social benefits other than social transfers in kind

6 Annual growth in expenditure on durable goods has also slowed from the peak of 31.2% recorded in 2007 Q1, but is still high (11.5% in 2008 Q2).

Government consumption increased by 1.8% year on year in 2008 Q2. Compared to Q1, when it had been more or less flat, government demand recorded a modest recovery in Q2. Nonetheless, its contribution to total final consumption can be assessed as very small. This conclusion is in line with data on the state budget, which accounts for the bulk of the government sector as a whole. Total state budget expenditure grew insignificantly in the period under review and some items affecting government consumption (i.e. compensation of employees in the government sector) even recorded a modest decline.

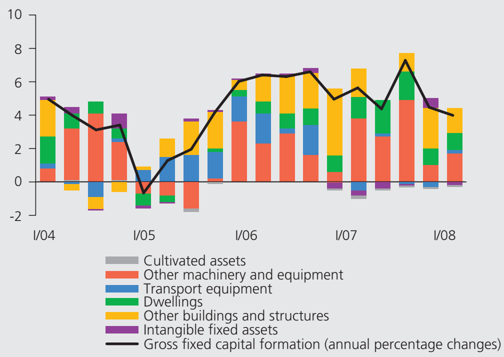
Investment demand

The evolution of investment demand in 2008 Q2 signalled a continuation of the downswing that started in Q1. According to revised CZSO estimates, annual fixed investment growth was down by 0.4 percentage point from the previous quarter, to 4%, compared to an average of around 6% in 2006 and 2007.[7] Chart II.17 shows that a marked slowdown in investment growth in 2008 H1 was recorded above all in the machinery and equipment category;[8] investment in dwellings also grew much more slowly in the first half of this year than in 2007 and the contribution of investment in transport equipment was insignificant.

CHART II. 17 GROSS FIXED CAPITAL FORMATION

Growth in investment demand slowed further in 2008 Q2

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



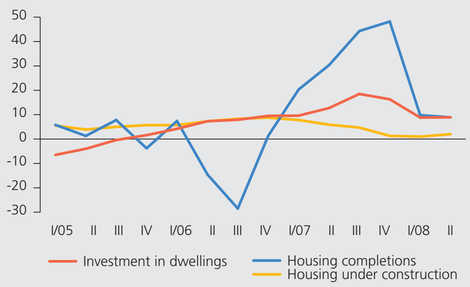
As regards sectors, the biggest contributor to the moderation in fixed investment growth in 2008 H1 was the non-financial corporations sector, as the most strongly falling investments in machinery and equipment are mostly realised in this sector. At the same time, it is possible that construction investment in this sector decreased as well, since the data on construction show that the structure of construction work in 2008 H1 was dominated by civil engineering, usually financed from public funds. Given the slackening growth in internal funds and long-term loans and corporations' deteriorating expectations regarding future demand and the overall economic situation, linked mainly with external developments, the downward tendency in growth in fixed investment by non-financial corporations can be expected to continue.

The slowdown of growth in investment in dwellings mainly reflects declining household demand for housing. In 2008 H1, its annual growth rate decreased to about half the rate recorded in 2007 H2, but was still high (8.9% in 2008 Q2). As mentioned in the previous Inflation Report, the decline in growth was due to base effects, since housing demand in 2007 was strongly stimulated by the expected increase in VAT on construction work as from 1 January 2008. The substantial decrease in annual growth in investment in dwellings and housing completions in 2008 H1 (to below the 10% level) may signal that their growth rates will be lower overall in the rest of 2008 than in the previous year (see Chart II.18). This may be fostered not only by a more prudent approach of banks to mortgage lending, but also by a decreasing number of people interested in taking out mortgage loans given the deteriorating economic outlook.

CHART II.18 INVESTMENT IN DWELLINGS

As expected, growth in housing completions and investment in dwellings slackened in 2008 H1

(annual percentage changes)



The largest change in 2008 Q2 was recorded by inventories. In Q1 they had accounted for roughly one-fifth of the annual GDP growth, but in Q2 their contribution was negative (-2.2 percentage points) owing to low additions to inventories compared to the same period of 2007.

7 It reached a year-on-year peak of 7.5% in 2007 Q4.

8 Their rate of growth decreased significantly, from 15.4% in 2007 Q4 to 4.7% in 2008 Q2.

CHART II.19 NET EXTERNAL DEMAND

Net exports improved significantly in year-on-year terms in 2008 Q2

(CZK billions; constant 2000 prices; seasonally adjusted data)

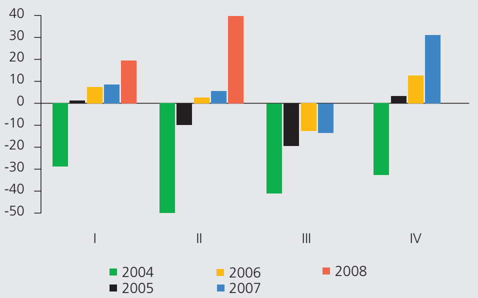


CHART II.20 EXPORTS AND IMPORTS

The growth rate of exports remained broadly unchanged, while imports slowed

(annual percentage changes; percentage points; constant prices; seasonally adjusted data)

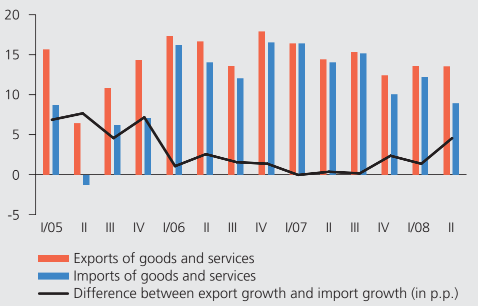
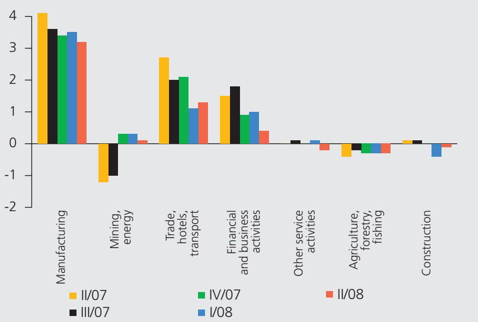


CHART II.21 CONTRIBUTIONS OF BRANCHES TO GDP GROWTH

Manufacturing and market services were the biggest contributors to the growth in value added

(contributions in percentage points; constant 2000 prices; selected branches)



II.3.2 Net external demand

The year-on-year improvement in net exports of goods and services[9] observed since 2004 Q3 continued into 2008 Q2. Net exports recorded a surplus of CZK 39.8 billion and were much higher than in the same period a year earlier. As Chart II.19 shows, the surplus was by far the highest in 2004–2008. This favourable result was achieved thanks to still high annual growth in total foreign trade turnover (11.2%), which was only slightly lower than in the previous quarter.

The high net export surplus in Q2 reflected favourable structural factors on the export side, which have so far exceeded the adverse effects of deteriorating external demand and the strong koruna, as well as a weakening of domestic demand, which resulted in a marked slowdown in import growth. In Q2, the annual rate of growth of real exports was 13.5%, only 0.1 percentage point lower than in the previous quarter. By contrast, annual import growth slowed by 3.3 percentage points compared to 2008 Q1, to 8.9%, the lowest growth rate recorded since the end of 2005. In these circumstances, the contribution of net exports to GDP growth was again positive, reaching 4 percentage points, amid total GDP growth of 4.6%.

The increase in the net export surplus was due mainly to an improvement in the trade balance, which, as in previous quarters, ended in a high surplus. The services surplus and its contribution to the improvement in net exports were only small in 2008 Q2, owing chiefly to a marked moderation of the rate of growth of services exports. The strong increase in the net export surplus was therefore due mainly to slightly higher annual growth in goods exports (up from 13% in 2008 Q1 to 13.4% in Q2), associated chiefly with the launch of new electrical engineering facilities. Goods export growth was still strong despite the continuing appreciation of the koruna, although it fell short of the 2006 and 2007 levels.[10]

The higher net export surplus in 2008 Q2 was also aided by a noticeable slowdown in goods import growth, reflecting the weakening domestic demand. By comparison with 2007, a significant decrease in the rate of growth of investment imports occurred in particular, as investment demand weakened amid slowing economic growth and increasing uncertainty regarding future developments. Nevertheless, the annual rate of growth of goods imports remained relatively high at 9.1%.

II.3.3 Output

On the supply side of the economy, annual growth in gross value added at basic prices also slowed further, to 4.6% in 2008 Q2.[11] This was a continuation of the long-running downward trend following the peak of 7.2% recorded in early 2006. In 2008 H1, value added growth was influenced by slower sales growth in production industries. The continuing noticeable downswing in economic performance was accompanied by slower adjustment in the area of employment growth, resulting in noticeably lower growth of aggregate labour productivity compared to 2007 H2.

As regards the structure of the slowing economic growth, manufacturing remained the most important sector, as Chart II.21 shows. Although value added growth has shown a gradual downward trend in this sector since mid-2006, it remains in

9 At 2000 prices, seasonally adjusted.
10 In 2006 goods exports had increased by 17.3% year on year and in 2007 they had gone up by 15.4%.
11 Seasonally adjusted data.

double figures (11.6% in Q2). The annual growth in value added was due mainly to manufacture and repair of machinery and equipment and transport equipment, which continued to record strong export growth.[12]

The evolution of the structure of output and value added indicated ongoing differentiation in the performance of individual branches. Many branches recorded slower growth or declines in the aforementioned variables. This was due mainly to weakening demand, intense foreign competition and the strong koruna. This view is supported by a slowdown in the growth of, and a subsequent year-on-year decrease in, industrial orders at current prices and a noticeably accelerating downward trend in the indicator of confidence in industry in August and September this year (see Chart II.24). According to the CZSO's latest survey results (for September), the slowing demand is also gradually manifesting itself in falling production capacity utilisation (see Chart II.23). However, annual growth in industrial output remained relatively strong in Q2 (5.8%), due mainly to an increase in the output of new facilities launched chiefly with the participation of foreign capital. According to the latest CZSO data for August, industrial production declined in year-on-year terms, but the seasonally adjusted data still showed an increase (of 2.5% year on year in August). However, their rate of growth declined further.[13]

Within market services, the largest volumes of value added and the largest contributions to value added growth in 2008 Q2 were recorded in trade. Trade was also the only services branch where value added growth picked up pace in Q2 (to 6.7%); this was probably due partly to the increase in the annual rate of growth of households' real consumption expenditure compared to 2008 Q1. Value added growth continued to slow in other services branches. This can be interpreted as a consequence of weakening demand in the economy. In Q2, this trend was visible mainly in real estate and business services, where annual value added growth decreased to 1.5% (compared to 7.5% in 2007).

According to the CZSO's September surveys, business confidence in industry, trade and services declined further and this decline accelerated in August and September. The confidence indicator in construction still reached high figures but also recorded a decline in Q3. The main cause of the fall in the confidence indicators across all sectors was the deteriorating demand outlook.

II.3.4 Financial performance of non-financial corporations[14]

According to the available data and CNB calculations, the financial performance indicators for non-financial corporations in 2008 Q2 indicated a continuing slowdown in the annual rates of growth of the major volume indicators and a deterioration in financial performance. Annual growth in output at current prices slowed to 6.2%. As in the previous quarter, however, this slowdown was not accompanied by a corresponding moderation of the growth of intermediate consumption and personnel costs. Continuing faster growth in the main cost items

CHART II.22 INDICATORS OF DEVELOPMENTS IN INDUSTRY

In 2008 Q2 industrial production again grew at a slower pace than in 2007

(annual percentage changes; constant prices)

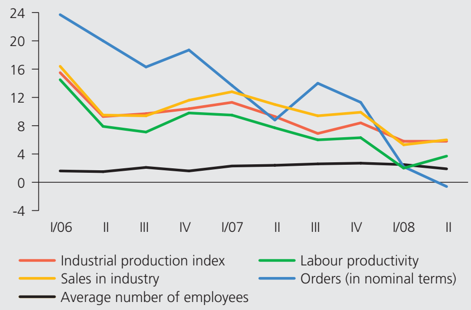


CHART II.23 PRODUCTION CAPACITY UTILISATION

Slowing demand growth has begun to show up in falling production capacity utilisation

(full capacity utilisation = 100)

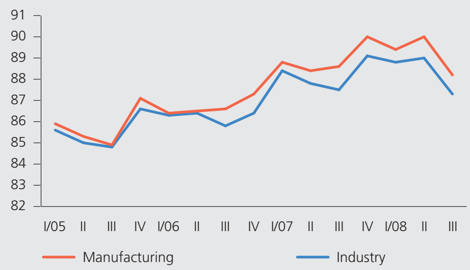
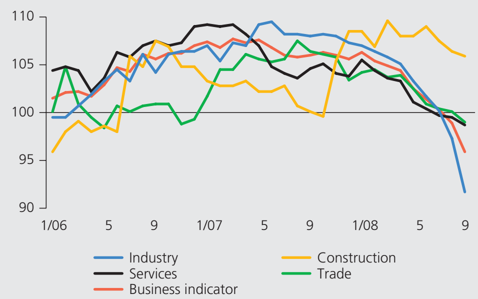


CHART II.24 CONFIDENCE INDICATORS

In 2008 Q3 the confidence indicators already declined in all monitored sectors

(2005 average = 100)



12 According to CZSO data on book value added in non-financial corporations with 50 employees or more at current prices.
13 According to seasonally adjusted data in real terms, industrial production rose by 8.3% year on year in April, 3% in June and 2.5% in August.
14 The assessment in this section (except in the last paragraph) 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 last paragraph assesses a set of corporations with 250 employees or more. The data are at current prices.

CHART II.25 KEY FINANCIAL INDICATORS

Growth in book value added continued declining in 2008 Q2

(annual percentage changes)

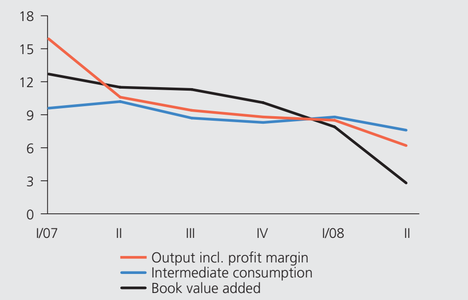


TABLE II.1 ABSOLUTE DATA AND PERFORMANCE RATIOS

The material cost-output and personnel cost-output ratios increased in 2008 Q2

(percentages; CZK billions; annual changes in percentage points and percentages)

	2008 Q2	2007 Q2	Annual percentage changes
Output incl. profit margin (CZK billions) a)	1,349.7	1,270.7	6.2
Personnel costs (CZK billions)a)	207.1	183.9	12.6
Intermediate consumption (CZK billions)	977.1	908.5	7.6
Book value added (CZK billions)	372.6	362.3	2.8
Sales (CZK billions)	1,757.6	1,642.9	7.0
	percentages	percentages	Annual changes in p.p.
Ratio of personnel costs to value added	55.6	50.8	4.8
Material cost-output ratio a)	72.4	71.5	0.9
Personnel cost-output ratio a)	15.3	14.5	0.9
Ratio of book value added to output	27.6	28.5	-0.9

a) CNB calculation

compared to output contributed to a further noticeable decline in the annual rate of growth of book value added to 2.8% (see Chart II.25). On the basis of the available data it can be estimated that the gross operating surplus recorded a year-on-year decline in 2008 Q2.

In 2008 Q2, profit generation was adversely affected by a growing material cost-output ratio, owing chiefly to import prices and domestic prices of energy and some other raw material inputs. In particular, 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. A recovery in the growth in import prices of non-energy-producing materials at the end of 2008 Q2 also led to a renewed increase in producer costs in some industrial branches. By contrast, falling prices of imported intermediate goods continued to foster cost reductions. These factors fed through variously to the costs of individual corporations. Despite the moderation of intermediate consumption growth in 2008 Q2, the fall in output growth was sharper. Thus, the material cost-output ratio increased more significantly than in the previous quarter (by 0.9 percentage point year on year; see Table II.1).

By contrast, year-on-year growth in the personnel cost-output ratio fell to 0.9 percentage point in Q2. This was due mainly to a slowdown in personnel cost growth to 12.6% for the reasons detailed in section II.4 *The labour market*. However, the ratio of personnel costs to value added rose by 4.8 percentage points. In addition to the higher wage cost-output ratio, this was caused by several other factors adversely affecting profits in individual corporations (especially the appreciating koruna in the case of exporters, adverse changes in the terms of trade, the effect of increasing foreign competition due to the declining import prices of many products, high energy prices and slowing demand growth). As mentioned in section II.3.3 *Output*, these factors started to manifest themselves in increasing differentiation of output growth and value added formation across the individual branches and a rising number of branches with falling output and value added.

The CZSO monitors financial indicators for a set of large corporations with 250 employees or more. Amid year-on-year increases in assets and liabilities (8.8%) and equity (6.2%), the gross debt of these corporations was up significantly (by 19.4%) as at the end of 2008 Q2; while long-term liabilities picked up only marginally (1.8% year on year), short-term liabilities recorded extraordinary annual growth of 45.1%. However, the total indebtedness of large corporations remains low (27.2% of equity). Liquidity[15] is also sufficient, although it again recorded a considerable decrease (to 111.4%). The solvency[16] of the monitored set of corporations fell below 100%. This, however, was due not to excessive debt liabilities, but to a low proportion of "other accounts receivable" for covering other liabilities. The asset turnover ratio (sales to total assets) remained largely unchanged. Financial leverage, expressing the ratio of total assets to equity, increased slightly owing to the strong rise in indebtedness.

15 The ratio of short-term financial assets to short-term liabilities.
16 The ratio of financial assets to financial liabilities.

II.4 THE LABOUR MARKET

In 2008 Q2, the slowing economic growth was again accompanied by rising employment, which helped to further decrease the unemployment rate. The labour market indicators continued to indicate a shortage of labour, although to a lesser extent than in the previous period. The continuing inflow of labour from abroad provided only a partial solution to this problem. Although wage growth slowed, this situation on the labour market helped to keep it high. Nominal unit wage cost growth eased but remained high, signalling persisting inflationary pressures stemming from wages. The personnel cost-output ratio fell only in industry. Throughout 2008 H1 and Q3, the main labour market indicators indicated a shift to a downward phase of the business cycle: employment growth decreased, the seasonally adjusted number of vacancies started to decline and the number of newly registered job applicants stopped falling.

II.4.1 Employment and unemployment

The long-running growth in employment observed since 2004 continued into 2008 Q2 (see Chart II.26). However, the year-on-year growth rate fell for the second consecutive quarter: by comparison with Q1, annual employment growth declined by 0.1 percentage point to 1.8% in Q2.[17] So far, however, this very slow change has not led to significant changes in the employment structure: the annual growth in the number of employed people was again due mainly to industry and market services, while in agriculture and public services the number continued falling.

Within industry, employment again increased most in manufacturing (by 37,100 people, or 2.7%, year on year),[18] owing primarily to foreign direct investment and an expansion of activities in related branches. The numbers of employed people rose mainly in manufacture and repair of machinery and equipment, manufacture of basic metals, manufacture of electrical equipment and manufacture of transport equipment. The production of these branches is largely exported. Employment also continued to rise in electricity, gas and water supply and construction.

Overall, the rise in employment in the tertiary sector was lower than that in the secondary sector in Q2. As in previous quarters, employment in the tertiary sector grew most in market services. In 2008 Q2, the most significant increase in the number of employed people was recorded in trade, repair of motor vehicles and consumer goods (30,000 people year on year) and financial intermediation (19,600 people). Rapid employment growth also continued in real estate and business activities (16,700 people), but the rate of employment growth decreased slightly in response to the slowdown in economic growth in other segments of the economy. Employment in public services, education, health and social care and veterinary activities continued falling in year-on-year terms.

17 In 2008 Q1, the annual rate of growth of employment decreased by 0.3 percentage point compared to 2007 Q4.
18 In 2008 Q1 it rose by 2.8%.

CHART II.26 LABOUR MARKET INDICATORS

Employment continued to grow, but at a slightly slower pace

(annual percentage changes; percentage points)

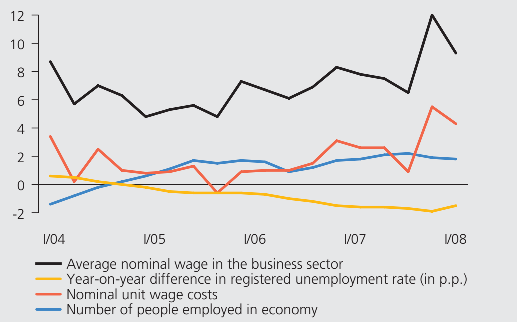


CHART II.27 EMPLOYMENT BREAKDOWN BY BRANCHES

Employment grew again in industry and market services

(contributions in percentage points to annual growth; selected branches)

CHART II.28 LABOUR FORCE FLOWS

The rising employment was accompanied by a falling number of unemployed people

(annual changes in thousands of persons)

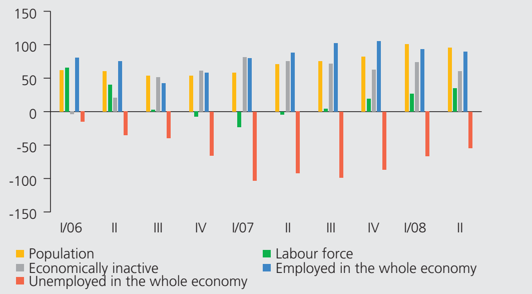
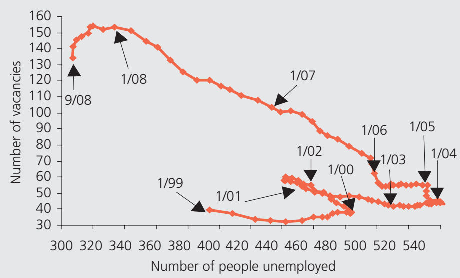


CHART II.29 THE BEVERIDGE CURVE

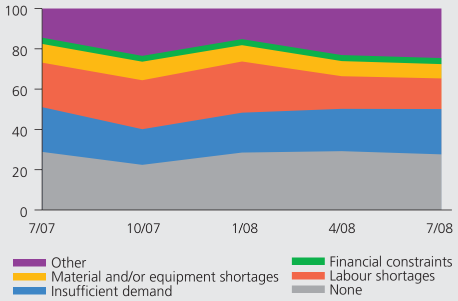
The number of vacancies started falling, but unemployment did not increase

(seasonally adjusted numbers in thousands)



The number of vacancies, which are a potential source of increasing employment, indicates a gradually changing labour market situation. The seasonally adjusted number of vacancies remained high, but, in contrast to the previous several years, it started decreasing as a result of the slowing economic growth. However, this fact, suggesting an incipient turnaround on the labour market towards lower labour demand, did not generate an increase in the number of unemployed people. It can be inferred from the slope of the Beveridge curve over the last few months that unemployment was probably favourably influenced by legislation aimed at bolstering the motivation of the unemployed to seek work (changes in social benefits, etc.). In these circumstances, the slope of the Beveridge curve tended to reflect a moderation of structural problems rather than cyclical unemployment.

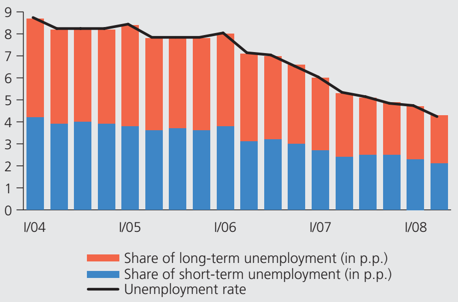
CHART II.30 BARRIERS TO GROWTH IN INDUSTRY
According to the CZSO's survey the barrier of labour shortages in industry is gradually diminishing
(percentages)



As in previous quarters, the rising demand for labour was also satisfied thanks to strong annual growth in the number of foreign workers, exceeding 30% in Q2. Their share in the labour force is estimated to have reached 5.3%.[19] Nevertheless, some branches continued experiencing shortages of workers in the required occupations and with the right skills. According to survey data, however, this "barrier" to industrial output growth is gradually weakening amid slowing economic growth and probably also thanks to the favourable effects of the aforementioned legislation (see Chart II.30). In construction, however, these changes are not so clearly visible.

The rising employment was accompanied by a decrease in the number of unemployed and inactive persons,[20] who represent a potential labour force reserve. The general unemployment rate (pertaining to persons aged 15 to 64 years according to the LFS) fell to 4.3% in 2008 Q2 (see Chart II.31), the lowest level since the end of 1996. The decline in unemployment occurred across all regions of the Czech Republic.[21] The declining unemployment was confirmed by the MLSA data, according to which the registered unemployment rate fell by 1.4 percentage points year on year to 5.1% in Q2. This fall occurred amid a decreasing, albeit still high, number of applicants excluded after being placed in a job; however, the number of newly registered job applicants stopped falling, suggesting a shift to a downward phase of the business cycle.

CHART II.31 THE UNEMPLOYMENT RATE
The unemployment rate fell to the lowest level since late 1996
(percentages; percentage points; source: LFS)



The continuing fall in unemployment in 2008 Q2 fostered a further annual decline in the number of long-term unemployed people (of 37,900 to 112,500 according to LFS figures). However, the long-term unemployed still accounted for roughly one-half of all the unemployed (51.1%). By comparison with other EU countries, the Czech Republic still has relatively high long-term unemployment. The skills structure of the unemployed, which does not match the requirements of the labour market, is one the major reasons for this long-running phenomenon.[22]

19 This share has increased by 1.4 percentage points over the last year. This figure is not exact, as it is based on incompatible statistics. The data on the number of foreign workers are provided by the MLSA and the data on the labour force are based on the CZSO's LFS.

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

21 The sharpest decrease was recorded in the Ústí region, where the unemployment rate is the highest.

22 Extraordinarily high shares of long-term unemployment prevail among unemployed people with basic education (64.7%) and unemployed people with secondary education without a school leaving certificate (49.2%).

II.4.2 Wages and productivity

Following a strong increase in 2008 Q1, annual growth in the average nominal wage in the economy slowed considerably in 2008 Q2. At 8%, it was 2.2 percentage points lower than in the previous quarter (see Table II.2). As in the previous two quarters, average real wage growth was down sharply owing to the high inflation; compared to 2008 Q1, it slowed to just 1.1%, the lowest level since 1998.

In 2008 Q2, 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 is influenced mainly by inflation, labour productivity and competition. However, its marked slowdown in Q2 was due chiefly to the unwinding of extraordinary factors that occurred at the beginning of 2008 (above all tax optimisation in connection with changes in the tax system). Average wage growth remained high despite a considerable moderation in Q2, owing chiefly to persisting excess demand for skilled labour in some branches. However, only in industry was average wage growth in line with labour productivity growth. According to MLSA data (AEIS[23]), annual growth in average hourly earnings in the business sector also slowed in 2008 Q2 (to 6.5%).

In the non-business sector, average wages again rose considerably slower than in the business sector in Q2. The annual rate of growth of the average nominal wage was only 3%. However, this was consistent with the government's plan for wage growth in the state sector. In real terms, the average wage in this sector continued to decline (by 3.6% in Q2) as a result of the high annual inflation.

The wage developments in Q2 contributed to a slowdown in nominal unit wage costs, which are an indicator of potential inflation pressures in the wage area. Given a more significant slowdown in annual growth in the volume of wages and salaries (at current prices) compared to real GDP, annual growth in nominal unit wage costs fell from a sizeable 5.5% in Q1 to 4.3% in Q2. However, this growth was still considerably higher than in 2007, as Chart II.33 shows.

This was caused by higher wage growth than productivity growth in most monitored sectors. Only in industry did nominal unit wage costs decline in year-on-year terms (by 3.3% in 2008 Q2), as productivity continued to rise faster than average wages. The wage cost-output ratio increased most in construction, where the still rapid wage growth was accompanied by a deepening decline in productivity. Nominal unit wage growth in market services also picked up considerably, amid a significant worsening of productivity growth and higher wage growth compared to 2007; this was probably due to an increase in employment, which was not followed by a corresponding rise in output. Annual nominal unit wage cost growth in non-market services slowed markedly but remained high amid falling productivity.

In 2008, the nominal unit wage cost developments indicated further stronger growth compared to 2007. The rates of growth of nominal unit wage costs in 2008 H1 suggest persisting inflation pressures stemming from wages.

23 Average Earnings Information System.

TABLE II.2 WAGES, PRODUCTIVITY, UNIT WAGE COSTS

Average wage growth slowed but remained high in 2008 Q2

(annual percentage changes)

	III/07	IV/07	I/08	II/08
Average wage in monitored organisations				
nominal	7.5	6.6	10.2	8.0
real	4.9	1.7	2.6	1.1
Average wage in business sector				
nominal	7.5	6.5	12.0	9.3
real	4.9	1.6	4.3	2.3
Average wage in non-business sector				
nominal	7.5	7.1	3.2	3.0
real	4.9	2.2	-3.9	-3.6
Whole-economy labour productivity	4.7	4.9	3.0	2.7
Nominal unit wage costs	2.6	0.9	5.5	4.3

CHART II.32 WAGE DEVELOPMENTS IN BRANCHES

All monitored branches recorded a slowdown in average wage growth

(annual percentage changes; selected branches)

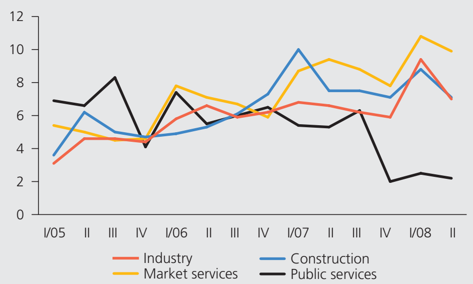
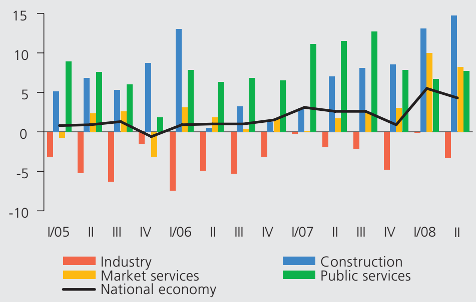


CHART II.33 UNIT WAGE COSTS

Nominal unit wage cost growth eased in 2008 Q2 but was higher than in 2007

(annual percentage changes)



II.5 THE BALANCE OF PAYMENTS

In 2008 H1, the balance of payments was affected by further growth in the deficit on the income balance as a result of a sharp increase in the dividends paid to non-residents and persisting high net direct investment inflows. At the same time, however, the surplus on the output balance[24] continued rising, driven almost equally by trade and services. The net portfolio investment inflow was due mainly to an issue of government bonds on foreign markets. The deficit on other investment was due primarily to a net outflow of long-term capital in commercial banking.

II.5.1 The current account

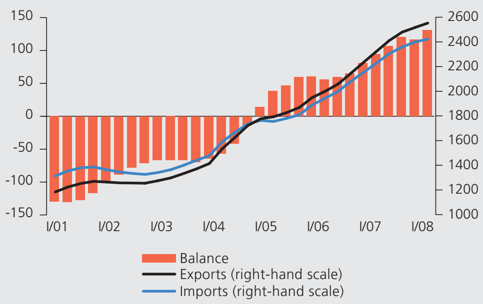
In 2008 H1, the current account ended in a deficit of CZK 32.2 billion (see Table II.3), or 1.7% of GDP. In year-on-year terms, the deficit increased by more than CZK 30 billion. Only around one-half of the significant year-on-year widening of the income deficit was offset by the favourable results of the remaining three balances.

TABLE II.3 THE BALANCE OF PAYMENTS
The current account deficit increased in 2008 H1 as a result of growth in the income deficit
(CZK billions)

	I-II/05	I-II/06	I-II/07	I-II/08
A. CURRENT ACCOUNT	1.5	-10.1	-1.7	-32.2
Trade balance	47.2	43.4	72.8	83.2
Balance of services	21.7	23.5	29.7	42.9
Income balance	-78.5	-72.7	-93.6	-161.0
Current transfers	11.1	-4.2	-10.7	2.7
B. CAPITAL ACCOUNT	2.5	0.9	2.8	19.7
C. FINANCIAL ACCOUNT	87.6	14.7	5.6	66.4
Direct investment	166.1	33.4	65.7	79.9
Portfolio investment	-25.9	-44.2	-25.6	26.3
Financial derivatives	0.7	0.6	15.0	0.0
Other investment	-53.4	24.8	-49.6	-39.7
D. ERRORS AND OMISSIONS	-4.7	-5.9	-14.4	-17.0
E. CHANGE IN RESERVES (- = increase)	-86.9	0.4	7.7	-36.9

In 2008 H1, the trade balance recorded a surplus of CZK 83.2 billion, up by CZK 10.3 billion on a year earlier (see Chart II.34). The increase in the trade surplus was due exclusively to favourable developments in real terms. The year-on-year change in the terms of trade was -1.6%, mainly as a result of high growth in import prices of fuels. Roughly two-thirds of the favourable trend in real terms, fostered by changes on the supply side of the economy as a result of past FDI inflows and the relocation of production to the Czech Republic, was thus offset by unfavourable price developments. A decline in the rate of growth of aggregate domestic demand was counteracted by the koruna's sharp appreciation against the euro. The year-on-year improvement in the trade balance continued into Q3, with the surplus increasing by CZK 11.8 billion in July and August.

CHART II.34 THE TRADE BALANCE
The annual moving total of the trade surplus increased in 2008 Q2
(CZK billions)



As regards the commodity structure, the trade balance again showed very mixed trends in 2008 H1. Fast growth in the surplus on machinery, especially electrical engineering products, made the largest contribution to the increase in the total surplus. By contrast, the largest deterioration was recorded in the deficit on mineral fuels, with imports of oil and natural gas rising in terms of volume and particularly in terms of value. From the geographical perspective, the year-on-year trade balance improvement was again visible in the trade surplus with EU countries. Growth in surplus was recorded particularly for trade with France and the Netherlands. The total trade deficit with non-EU countries widened, chiefly because of a further increase in the trade deficit with China as a result of growing imports of machinery intermediate goods and a resumed widening of the trade deficit with Russia owing to rising fuel prices.

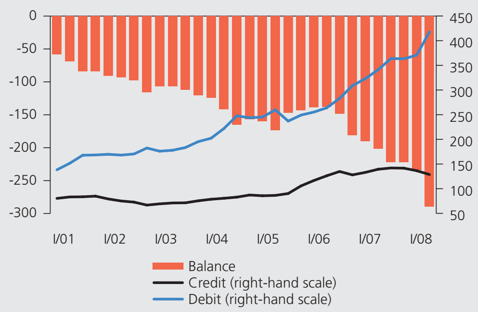
The balance of services ended H1 in a surplus of CZK 42.9 billion, up by CZK 13.1 billion on a year earlier. This improvement was aided chiefly by a decline in the deficit on other services as a result of strong growth in credits (mainly from merchanting and business, professional and technical services). The surplus on transport services also increased slightly. By contrast, the surplus on travel decreased somewhat owing to the accelerating appreciation of the koruna.

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

The income deficit reached CZK 161.0 billion, representing a year-on-year deterioration of CZK 67.4 billion (see Chart II.35). Its largest components were again earnings reinvested in the Czech Republic, and in this period above all dividends on foreign direct investment, whose value also recorded the largest growth. The direct investment income deficit thus widened (to CZK 154.6 billion) in year-on-year terms. 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) also deteriorated. This was associated with a decrease in credits, due among other things to significant interest rate cuts in the USA. The deficit on compensation of employees, comprising mainly wages, widened as well, owing to further growth in expenditure on foreigners working in the Czech Republic.

Current transfers recorded a surplus of CZK 2.7 billion, an improvement of CZK 13.4 billion on a year earlier. The determining factor was a government transfers surplus of almost CZK 11 billion, due to a rapid rise in credits. 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 7.2 billion. A moderation in the private transfers deficit, owing to a decline in debits, also contributed to the year-on-year improvement in the current transfers balance.

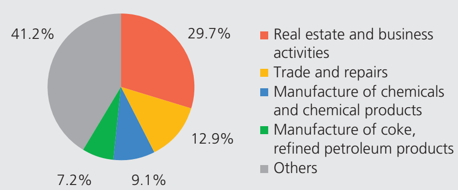
CHART II.35 THE INCOME BALANCE
The annual moving total of the income deficit increased further in 2008 Q2
(CZK billions)



II.5.2 The capital account

The capital account recorded a surplus of CZK 19.7 billion in 2008 H1 (a year-on-year increase of CZK 17.0 billion). Its largest component was government revenues from EU funds (CZK 19.5 billion), which increased significantly in year-on-year terms.

CHART II.36 FOREIGN DIRECT INVESTMENT
Investment in equity capital into the Czech Republic was directed mainly into real estate and business activities in 2008 H1

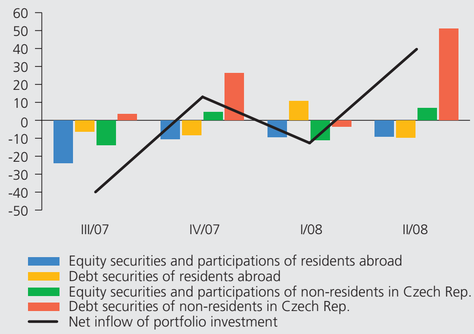


II.5.3 The financial account

The financial account ended 2008 H1 in a surplus of CZK 66.4 billion, or 3.6% of GDP, representing a strong year-on-year increase owing to the results for all three balances. Portfolio investment, which recorded a change in flows exceeding CZK 50 billion, was the determining factor.

Direct investment recorded a surplus of CZK 79.9 billion, representing a year-on-year increase of CZK 14.2 billion. This increase was due to a higher inflow of direct investment into the Czech Republic (CZK 90.0 billion), due mainly to renewed growth in investment in other capital as a result of domestic corporations drawing net credit from their foreign parent companies. Its largest component was again reinvested earnings (CZK 60.6 billion). Investment in equity capital was less than one-half of this figure. 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.36). By territory, the biggest individual investor countries were Germany and Luxembourg. Czech direct investment abroad increased only modestly year on year, reaching CZK 10.2 billion. The outflow of capital went mainly into electricity, gas and water supply and manufacture of machinery. Geographically, the main recipients were Poland and France.

CHART II.37 PORTFOLIO INVESTMENT
Portfolio investment recorded a net inflow in 2008 Q2
(CZK billions)



Portfolio investment recorded a net inflow of CZK 26.3 billion in 2008 H1 (see Chart II.37). In the same period a year earlier, it had ended in a net outflow of almost the same size. The June issue of government bonds on foreign markets totalling EUR 2 billion was the decisive operation that led to the change in flows. It represented a gross capital inflow of CZK 43.6 billion. Adjusted for the government eurobond issue, sales of domestic equity and debt securities by foreign investors exceeded purchases. The outflow of capital was CZK 17.4 billion in H1, due wholly to purchases of foreign equity securities. Despite the significant uncertainty on stock markets, residents continued purchasing foreign shares, probably influenced by the attractive prices offered. However, modest sales of foreign debt securities by residents were recorded, owing to the rapid appreciation of the koruna.

Other investment recorded a net capital outflow of CZK 39.7 billion in 2008 H1 (compared to CZK 49.6 billion in 2007 H1). The overall deficit and its year-on-year moderation were affected most by a net outflow of commercial banks' capital of CZK 33.3 billion. This was associated with a net outflow of long-term capital as a result of increased investment by domestic commercial banks abroad. The corporate and government sectors also recorded slight net investment outflows. In the case of the former, this was due to a faster increase in export credits and deposits abroad. The latter case was associated primarily with an increase in the Czech Republic's capital contribution to the EIB and the repayment of an EIB loan for infrastructure development.

The CNB's international reserves rose by CZK 49.7 billion to CZK 627.0 billion in 2008 Q3. This rise was again due mostly to valuation changes. In dollar terms, the reserves declined by USD 1.7 billion to USD 36.4 billion in the same period (see Chart II.38).

CHART II.38 THE CNB'S INTERNATIONAL RESERVES
The CNB's international reserves decreased in dollar terms in 2008 Q3
(USD billions)

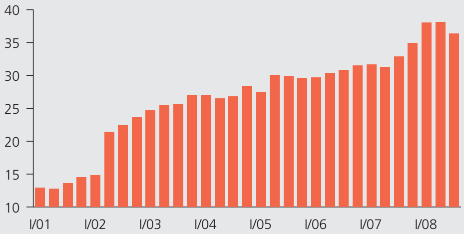


CHART II.39 M1 AND M2
M2 growth has slowed since early 2008
(annual percentage changes)

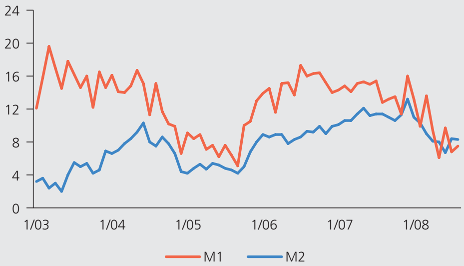


TABLE II.4 MONETARY AGGREGATE STRUCTURE
M1 growth mostly slowed
(quarterly averages and end-of-month stocks; annual percentage changes)

	I/08	II/08	7/08	8/08	Share in M2, % 8/08
M1	12.2	8.4	6.8	7.5	57.1
Currency in circulation	8.9	5.5	5.0	4.9	13.0
Overnight deposits	13.2	9.2	7.4	8.3	44.1
M2-M1 (quasi money)	7.3	6.6	10.6	9.4	42.9
Deposits with agreed maturity	0.7	-2.0	1.7	1.2	28.2
Deposits redeemable at notice	20.9	24.0	25.8	26.7	13.8
Repurchase agreements	99.3	185.1	284.1	103.4	0.9
M2	10.1	7.6	8.4	8.3	100.0

II.6 MONETARY DEVELOPMENTS

Money supply growth remained slower than at the beginning of 2008. At the same time, its potential medium-term inflationary effect is subsiding gradually. The money supply developments are in line with the lower economic growth. The slower growth in transaction money was consistent with lower demand in the economy and in the longer term also with higher nominal interest rates. Growth in loans to corporations and households also slowed further. The credit conditions tightened. However, the August data have so far not indicated any major impacts of the global financial crisis on money and credit.

II.6.1 Money

At 8.3% in August (see Chart II.39), annual M2 growth remained considerably lower than in late 2007 and early 2008. In recent months, the slower M2 growth has been affected by lower economic growth, rapid appreciation of the koruna and past interest rate increases, and has also reflected moderating growth in domestic loans. The temporary increase in M2 growth in July was due to higher growth in net external assets. Indicators of the appropriateness of the money supply growth suggested a subsiding of their potential inflationary effect in the medium term.

Within the money supply structure, M1 growth largely declined (see Table II.4), reflecting lower transaction demand. The continuing moderation of growth in currency in circulation is connected with a deterioration of consumer confidence and suggests further decline in household consumption. In August 2008, the rate of growth of overnight deposits was almost two-thirds lower than at the end of 2007, which also indicates weaker demand in the economy. In the longer term, the downward trend in M1 growth was also influenced by higher opportunity costs (as measured by the nominal interest rate). Overnight deposits are remunerated at a considerably lower rate than short-term deposits with agreed maturity and deposits redeemable at notice of up to two years or three months, even though the rates on short-term time deposits fell (see Chart II.40). The annual rate of growth of quasi money was relatively volatile in Q2 and in the part of Q3 for which data are available. Within quasi money, shorter-term components, i.e. deposits redeemable at notice of up to three months and deposits with an agreed maturity of up to two years, recorded fast growth. Longer-term components continued to decline.

As regards the money-holding sectors, household deposits were again the largest contributor to M2 growth (up by 10.4% year on year). The rate of growth of deposits of non-financial corporations has broadly decreased since early 2008, reaching 6.5% in August. Deposits of corporations helped to slow M1 growth, indicating a negative impact of the excessive appreciation of the koruna and other macroeconomic factors on corporate cash flows and profitability. Growth in the deposits of non-monetary financial institutions also decreased to 1.9%, contributing to the lower M2 dynamics.

II.6.2 Credit

Annual growth in MFI loans to corporations and households has slowed to 21.8% since the start of 2008 (see Table II.5). This was fostered by loans to both households and corporations. The slower rate of growth of loans reflected lower economic growth, past interest rate increases, a tightening of the credit conditions and the koruna's appreciation. Owing to the lower economic growth, there was a slight increase in default loans, especially among non-financial corporations and for house purchase loans.

Although the annual total of flow of domestic loans is still considerably higher than that of foreign loans, the difference between them has been slowly decreasing since 2007. The annual total of loans drawn by corporations abroad increased in Q2. However, the share of foreign currency loans in domestic loans remained low, despite the trend appreciation of the exchange rate in the first half of 2008. The ratio of loans to GDP stood at 47.3% on average in Q2, compared to 117% in the euro area.

Although annual growth in loans to non-financial corporations has long been declining, it rose in August (to 15.2%). The absolute volume of these loans reached CZK 832 billion. The fastest growth was again recorded by short-term loans, connected with the financing of the working capital of corporations. A decline in medium-term loans and a lower rate of growth of long-term loans is in line with the lower expected investment activity of corporations. A lower rate of growth of loans has in the longer term been recorded in all major industries, i.e. developers, financial intermediation institutions (leasing, factoring, financial companies, etc.), manufacturing and trade. Annual growth in loans granted to corporations by non-banks also declined by 3 percentage points to 12.8% in Q2, with the absolute volume of these loans reaching CZK 179 billion. Gross debt (financial loans and bonds) of corporations with 250 employees or more increased by 9.4% year on year in Q2.[25]

The rate of growth of loans to households also fell further, to 27.7% (see Chart II.41). The absolute volume of these loans reached CZK 828 billion. House purchase loans (mortgage loans and building society loans) and consumer credit rose less. This was due to rising interest rates, tightening credit conditions and lower growth in real gross disposable income. The housing financing trend is also in line with a slowing rate of growth of property prices. The rate of growth of consumer credit granted by non-banks edged up to 14.8% in Q2 compared to the previous quarter, with the absolute volume of these loans reaching CZK 145 billion.

25 The ratio of gross corporate debt to capital increased by 0.7 percentage point to 24.9% in Q2 (in particular short-term debt), amid a lower rate of growth of capital and lower growth in book value added of corporations. Gross debt, comprising option warrants and financial derivatives in addition to loans and bonds, rose by 19.4% year on year due to an increase in option warrants and financial derivatives in the electricity, gas and water supply industry.

CHART II.40 INTEREST RATES ON DEPOSITS
Interest rates on deposits with agreed maturity were much higher than rates on overnight deposits, although they decreased
(new business; percentages)

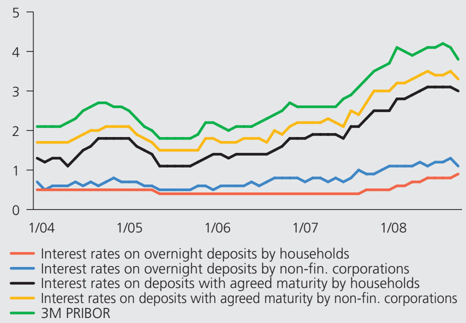


TABLE II.5 LOAN STRUCTURE
Growth in loans eased further
(quarterly averages and end-of-month stocks; annual percentage changes)

	I/08	II/08	7/08	8/08	Share in total loans, % 8/08
Non-financial corporations	16.9	16.3	14.0	15.2	45.5
Loans up to 1 year	27.6	32.8	27.4	30.6	19.3
Loans over 1 year and up to 5 years	1.9	-5.3	-6.7	-4.2	9.2
Loans over 5 years	16.0	14.2	14.6	12.6	17.0
Households	33.3	30.7	29.1	27.7	45.4
Consumer credit	27.4	26.4	25.8	24.8	8.8
Loans for house purchase	36.4	32.8	30.3	28.8	32.0
Other loans	24.6	25.5	27.2	25.8	4.6
Non-monetary financial institutions	36.4	37.3	31.2	28.6	9.1
Total loans	25.5	24.3	22.0	21.8	100.0

CHART II.41 LOANS TO HOUSEHOLDS
Growth in loans to households slowed
(annual percentage changes)

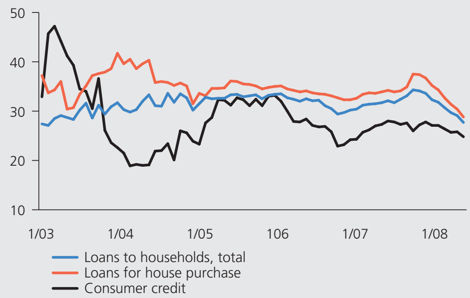


CHART II.42 INTEREST RATE ON LENDING FOR HOUSE PURCHASE
The interest rate on lending for house purchase rose faster than financial market interest rates
(new business; percentages)

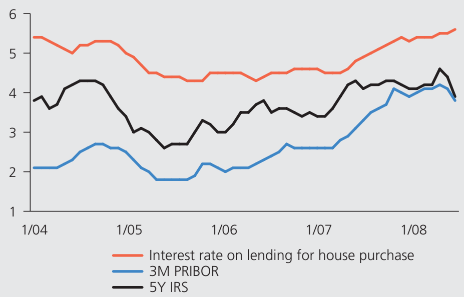


CHART II.43 INTEREST RATE ON CONSUMER CREDIT

The spread between the interest rate on consumer credit and the 3M PRIBOR widened

(new business; percentages)

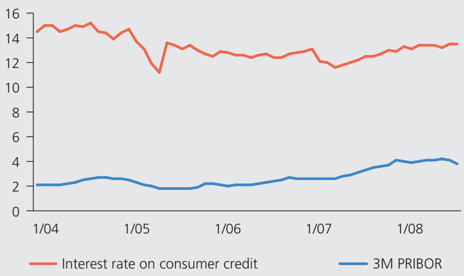


CHART II.44 INTEREST RATE ON LOANS TO NON-FINANCIAL CORPORATIONS

The interest rate on loans to non-financial corporations fell less sharply than the 3M PRIBOR

(new business; percentages)

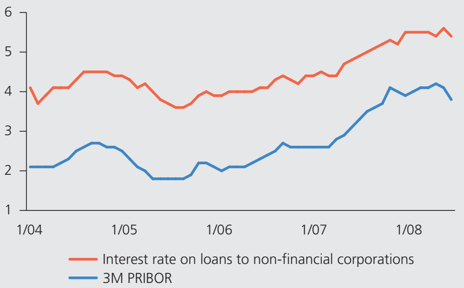


CHART II.45 PRODUCER PRICES

Growth in agricultural producer prices slowed considerably in 2008 Q3, but prices in industry continued to rise apace

(annual percentage changes)

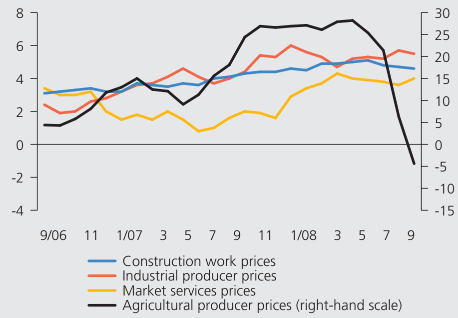
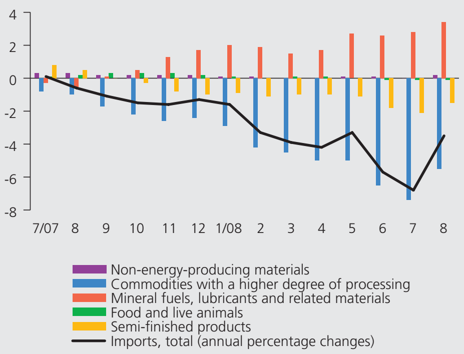


CHART II.46 IMPORT PRICES

The annual decline in import prices continued

(annual percentage changes; contributions in percentage points)



In Q2, total (bank and non-bank) household debt accounted for 49.4% of gross disposable income, or 25.3% of GDP. The ratio of households' interest expenses remained at 1.9%. The total debt burden of households (repayments of principal and interest) was 4.8% of net money income on average in Q2.

The average interest rate on new loans declined by 0.1 percentage point to 7.1% in August 2008, owing partly to a decline in monetary policy interest rates. The 1Y PRIBOR declined by 0.4 percentage point. The spread between the rates thus increased, suggesting a further tightening of the credit conditions. The spreads against financial market interest rates for the individual types of rates on new loans also recorded an increase. The tightening of the credit conditions dampened the supply of loans and was affected by the expected slowdown in economic growth and concerns about a decline in prices of property acting as collateral.

The average interest rate on new loans to households was 12.6% in August. The interest rate on new loans for house purchase increased in Q2, July and August to 5.6% (see Chart II.42). It has not yet reflected the August decline in monetary policy rates. This effect can be expected to emerge with a lag in September 2008. The interest rate on new consumer credit stood at 13.5% (see Chart II.43). The interest rate on new loans to non-financial corporations was 5.4% (see Chart II.44). Rates on consumer credit and loans to corporations declined slightly in Q2, increased in July and were flat or fell again in August, albeit less so than the relevant financial market interest rates.

II.7 IMPORT PRICES AND PRODUCER PRICES

The very strong growth in import prices of energy-producing materials, deriving from their prices on world markets, continued into 2008 Q3. Renewed growth in import prices of non-energy-producing materials also had an inflationary effect. By contrast, the mostly strongly falling import prices of products with a higher degree of processing acted in the anti-inflationary direction. Prices of imported food and agricultural commodities, which have again been showing an annual decline since June, acted in the same direction. Producer prices reflected mixed developments in prices of imported inputs and increasing other costs due to rising prices of energy and solid fuels and an increasing personnel cost-output ratio in some industries. The persisting strong industrial producer price inflation continued to be driven by a small number of industries (in particular, power generation and primary processing of oil and metals). Price growth in other industries was moderate, tending mostly towards lower growth or a decline. Slower growth in producer prices in construction and agriculture signalled a change in trend, whereas growth in prices of market services picked up slightly.

II.7.1 Import prices

Import prices, which, given the high openness of the Czech economy, significantly affect domestic inflation, continued falling in year-on-year terms in the first two months of 2008 Q3. After their decline increased to 6.8% in July, the lowest level recorded since December 2002, it moderated to 3.5% in August according to the latest data. Chart II.46 shows that this decline was again due mainly to prices of imports with a higher degree of processing. Continuing buoyant growth in import prices of mineral fuels was not strong enough to offset this sharp downward effect.

26 The annual rate of appreciation of the koruna-dollar exchange rate rose from 23.3% in March to 27.7% in July, then fell back to 20.6% in August. The annual appreciation of the koruna-euro exchange rate was 10.1%, 16.9% and 12.8% respectively over the same period.

As in previous quarters, the declining import prices were largely due to year-on-year appreciation of the koruna-dollar and koruna-euro exchange rates, which reached double figures. The effect of the appreciation of the koruna's exchange rate in the period under review was most visible in a significant deepening of the annual decline in import prices of commodities with a higher degree of processing, whose foreign prices usually grow only moderately. Import prices of machinery and transport equipment and miscellaneous manufactured articles again recorded the largest annual declines in July and August (10.9% and 8.2% respectively in August). The marked decline in these figures compared to July, as shown in Table II.6, can be viewed mainly as a consequence of the August moderation of the year-on-year appreciation of the koruna's exchange rate.

Given the appreciating koruna, import prices also fell in other groups of commodities included in the import price index. A relatively strong annual decline in prices persisted for imported manufactured goods and chemicals. In addition, import prices of food recorded a renewed annual decline (1.6% in August), amid the concurrent year-on-year appreciation of the koruna's exchange rate and slower growth in prices of agricultural and food commodities.

Only import prices of energy-producing and non-energy-producing materials continued to grow fast despite the strong year-on-year appreciation of the koruna, since the rate of growth of their world prices remained very high. Annual growth in Brent crude oil prices peaked at around 90% in June. There was a reversal on world markets in July, when prices of Brent oil started falling steeply from their record-high June levels; according to the latest CZSO data for August, the annual growth dropped by a considerable 30 percentage points compared to June. Annual growth in world prices of natural gas, which usually follow oil prices with a lag, rose to 73.4% in July; the renewed decline in prices of oil has not yet passed through to gas prices. According to the latest figures for August, annual growth in prices of imported energy-producing materials was 31.8%. This growth rate suggests that the appreciating exchange rate of the koruna partially dampened the impact of the high world prices of energy-producing materials on domestic prices, as shown in Chart II.47. Import prices of non-energy-producing materials grew relatively fast in August. However, their growth did not exceed 10% and their contribution to the annual import price index remained insignificant (see Chart II.46).

Overall, import prices remained mixed in the first two months of 2008 Q3, indicating different impacts on the individual price categories. The fundamental view of import prices in terms of their potential effect on domestic prices remains unchanged from the previous Inflation Report, as the import price structure saw no major changes. There were still two categories of imported goods with contrary price trends. On the one hand, there were fast growing import prices of energy-producing materials, which 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. The rising prices of non-energy-producing materials acted in the same direction, albeit to a lesser extent than prices of energy-producing materials. On the other hand, the sharply falling prices of commodities 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. A renewed slight decline in prices of imported food also had an anti-inflationary effect.

CHART II.47 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)

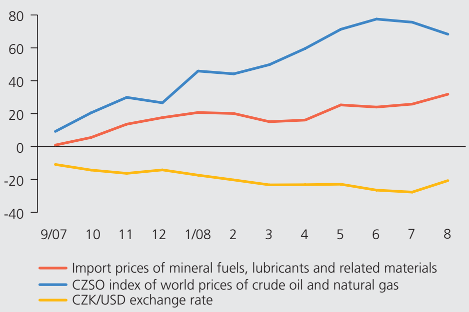


TABLE II.6 STRUCTURE OF THE IMPORT PRICE INDEX

The decline in import prices deepened especially for products with a higher degree of processing

(annual percentage changes)

	5/08	6/08	7/08	8/08
IMPORTS, TOTAL	-3.3	-5.7	-6.8	-3.5
of which:				
food and live animals	0.5	-0.8	-2.4	-1.6
beverages and tobacco	0.2	-4.3	-6.4	-4.4
crude materials inedible, except fuels	4.2	4.7	1.5	7.4
mineral fuels and related products	25.3	24.0	25.8	31.8
animal and vegetable oils	7.1	4.7	5.0	7.0
chemicals and related products	-6.3	-9.0	-8.9	-4.2
manufactured goods classified chiefly by material	-4.9	-8.2	-9.3	-6.5
machinery and transport equipment	-9.3	-12.1	-14.2	-10.9
miscellaneous manufactured articles	-7.2	-9.6	-11.0	-8.2

CHART II.48 INDUSTRIAL PRODUCER PRICES

Rapid growth in industrial producer prices was driven mainly by producer prices of energy, primary processing of oil and metals

(annual percentage changes; contributions in percentage points)

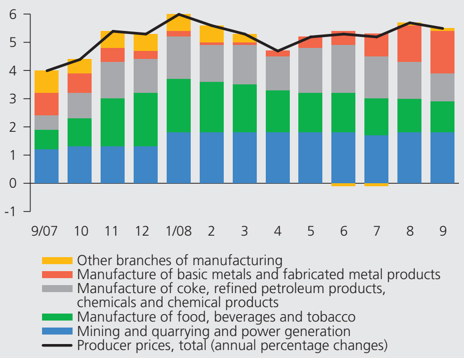


CHART II.49 PPI IN THE CZECH REPUBLIC AND THE EURO AREA

Producer price inflation in the Czech Republic was slower than in the euro area

(annual percentage changes)

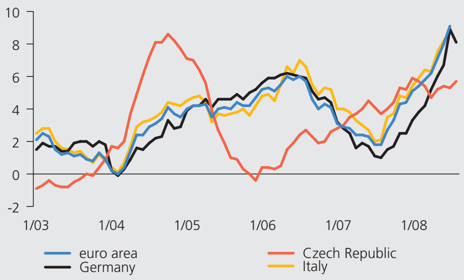
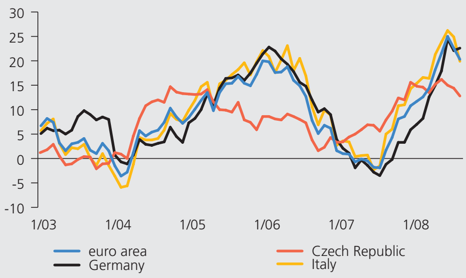


CHART II.50 ENERGY PRICES IN THE CZECH REPUBLIC AND THE EURO AREA

Rapidly rising energy prices significantly affected producer price inflation in the Czech Republic and the euro area

(annual percentage changes)



II.7.2 Producer prices

Industrial producer prices

The continuing buoyant industrial producer price inflation in 2008 Q3 was due mainly to external factors. As Chart II.48 shows, annual industrial producer price inflation exceeded 5% during Q3. According to the latest CZSO figures, it reached 5.5% in September, up by 0.2 percentage point compared to June. As in the previous quarter, the rapid growth in industrial producer prices was mostly due to energy sectors[27] and industries involved in processing imported energy-producing and non-energy-producing materials (primarily metal-based) at the initial stages of the production chain. The contribution of the food industry also remained relatively high.

Price inflation in industry was most affected by fast growing producer prices in power generation and mining and quarrying, which was linked mainly with energy prices abroad and increasing prices of inputs used in power generation. In particular, prices of coal and other energy-producing commodities have been recording sizeable double-digit growth since mid-2007 (20.8% in September). Producer prices in the electricity, gas and water supply industry have been rising since January 2004; since then, their growth rate has risen by 6.3 percentage points, reaching 9.1% in September 2008. The significant effect of external factors on the rate of growth of energy prices and subsequently industrial producer prices in the Czech Republic is confirmed by a comparison with the euro area countries. Charts II.49 and II.50 show that the annual rate of growth of producer prices and energy prices in the euro area considerably exceeded the figures in the Czech Republic.

However, prices in the manufacture of coke and refined petroleum products, which respond to oil prices on world markets with a short lag, were the fastest growing item of the industrial producer price index. Their annual inflation, exceeding 30% in June, eased significantly in Q3 as a result of a pronounced slowdown in growth in oil prices on world markets (to 18.1% in September). Fast price increases were also recorded by producer prices in the manufacture of basic metals and fabricated metal products, annual growth of which surged by 6.9 percentage points compared to June, to 10.8% in September, which significantly helped to keep industrial producer price inflation above 5% in Q3.

By contrast, a gradual slowdown in annual inflation from the high levels recorded at the end of 2007 continued in the food industry in 2008 Q3, reflecting the changing situation on the agricultural and food commodity market.[28] Annual producer price inflation in this sector had been just over 10% in January 2008, whereas it was about half that level in September (6.5%).

The price developments in other manufacturing branches[29] were mixed. However, a trend of slowing growth and an increasing number of industries with price decreases prevailed (see Chart II.51).[30] Overall, their contribution to annual industrial producer price inflation in 2008 Q3 was more or less negligible (see Chart II.48).

27 Coal mining and electricity, gas and water supply.
28 For details see *Agricultural producer prices*.
29 All industrial branches excluding mining and quarrying, electricity, gas and water supply, manufacture of coke and refined petroleum products and the food industry.
30 A total of six branches recorded annual price decreases; the largest decrease was recorded for transport equipment (6%).

The overall picture of industrial producer prices was unchanged from the previous Inflation Report. The continuing high growth in industrial producer prices 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. At the same time, fast growing producer prices in some branches (especially electricity, gas and water supply) were strongly affected by external demand developments and prices attained on foreign markets.

The prevailing trend of slowing growth, or a decline, in prices in other manufacturing branches suggested that there was no noticeable broad pass-through of energy prices to prices in related branches in 2008 Q3. As was mentioned in the previous Inflation Report, there may be several reasons for this: the different energy intensity of production in different industries, slowing demand, the prices of foreign competitors (especially for final products), the strengthening koruna and contractual arrangements between producers and their customers, which prevent them from responding immediately to changing input prices. It is likely that, above all, strong foreign competition, acting via a pronounced decline in import prices of final products, fostered the continuing trend of slowing growth, or a decline, in prices in other manufacturing sectors. Some producers may have experienced mounting cost pressures due to rising prices of energy and other inputs (see Chart II.52). This hypothesis is supported by the worsening financial results of non-financial manufacturing corporations in 2008 Q2.

Agricultural producer prices

Agricultural producer prices saw a significant change in trend in 2008 Q3, manifesting itself in a very rapid slowdown in growth and a subsequent annual decline in the last month of the quarter. Agricultural producer prices had risen at a double-digit rate in 2008 Q2 (25.4% in June), but they declined by 4.4% in September, the first decrease since May 2006. As Chart II.53 shows, this significant change was due not only to crop product prices, but also to livestock product prices.

The sizeable annual decline in agricultural producer prices in the Czech Republic at the end of 2008 Q3 was due to a combination of several factors, most notably prices of crop commodities on world markets, the above-average domestic harvest this year and the annual appreciation of the koruna's exchange rate. The decline in prices on world markets in the summer was mainly associated with the expected above-average harvest in major world producers (Australia, the USA and the euro area) and thus with an expected future increase in stocks. Stocks have declined in recent years owing to a long-term increase in demand for food in many developing economies, particularly in Asia, and also owing to poor harvests in many countries in 2007. According to preliminary CZSO data, the domestic harvest was also significantly above-average, being the second highest since 1990 (the largest was recorded in 2004). Annual growth in the most important item – cereals – was 17.8%. Koruna prices of major crop commodities thus declined significantly at the end of this year's harvest, amid continuing strong appreciation of the exchange rate. In September, crop product prices fell by 7.2% year on year.

The slowdown in livestock product prices observed since the end of 2008 Q1 continued into 2008 Q3. As with crop products, their annual growth slowed during the first two months of Q3 and switched to an annual decline of 1% in September. The slowdown in the previously high annual growth in livestock product prices was due mainly to the strong appreciation of the koruna-euro exchange rate and a slight decline in prices on world markets.

CHART II.51 PRICES IN SELECTED BRANCHES
Producer prices declined year on year in some manufacturing branches
(annual percentage changes; selected branches)

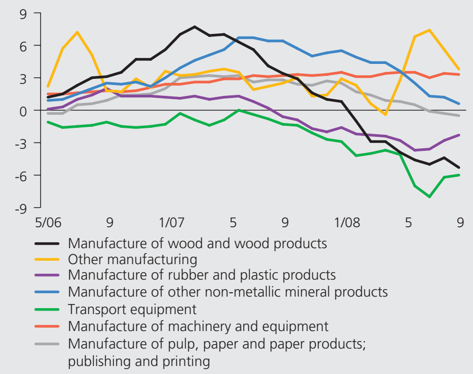


CHART II.52 PRICES OF PRODUCTS IN INDUSTRY
The high growth in energy prices pushed up producers' costs
(annual percentage changes)

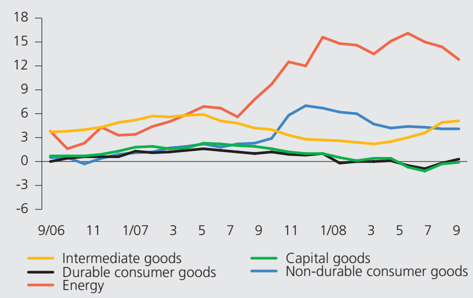


CHART II.53 AGRICULTURAL PRODUCER PRICES
Agricultural producer price inflation slowed significantly and turned negative in September
(annual percentage changes)

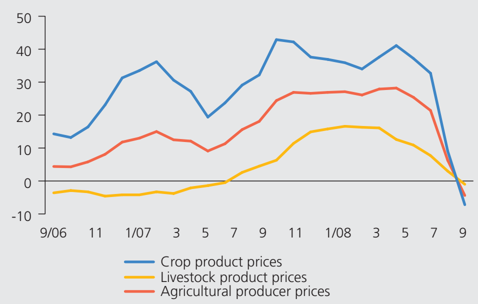


CHART II.54 COMMODITY PRICES

Prices of main crop commodities were declining

(CZK/ton; selected commodities)

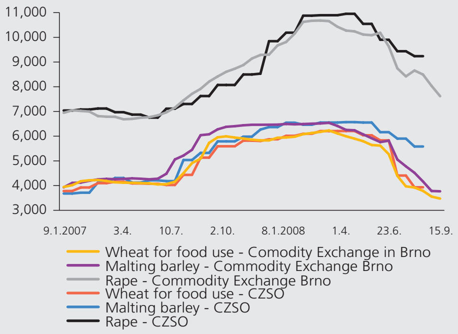


CHART II.55 OTHER PRODUCER PRICES

Long-running growth in construction work prices came to a halt and began to slow in Q3

(annual percentage changes)

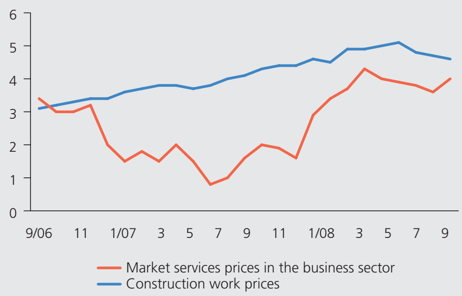


CHART II.56 INFLATION

Inflation remained high, falling only marginally in 2008 Q3

(annual percentage changes)

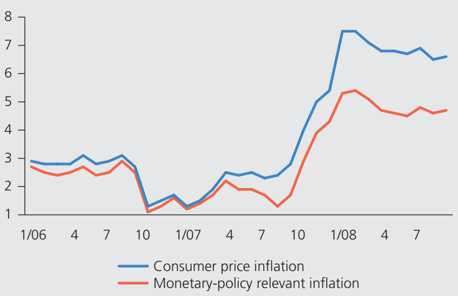
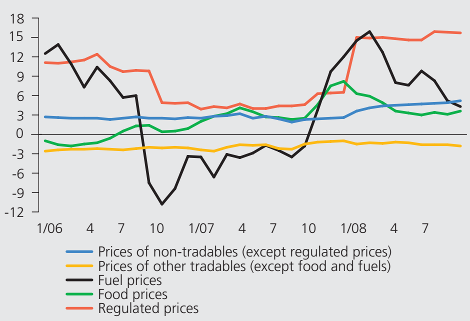


CHART II.57 INFLATION COMPONENTS

The inflation components did not record any major changes, only growth in fuel prices slowed noticeably

(annual percentage changes; excluding indirect tax changes)



Other producer prices

Construction work prices also saw a change in the previous tendencies in 2008 Q3. Their long-term upward trend, fostered by strong demand for construction work, peaked at 5.1% in June and then started to ease. According to the latest CZSO figures for September, construction work price inflation was still high. However, it decreased by 0.5 percentage point compared to June, to 4.6%. On the other hand, growth in prices of materials and products consumed in construction has picked up since August, amounting to 2.7% in September (2% in June).

Market services price inflation in the business sector increased slightly in 2008 Q3, reaching 4% in September. This was mostly due to prices of real estate business services, which rose by 5.4% year on year in September. As in previous quarters, the fastest growth in this category was recorded for prices of advertising services (7.7%) and engineering and architectural services (10.8%), where there is a clear link with investment in housing. High price growth was also maintained by sewerage collection charges, which usually change at one-year intervals (5%). Other categories of the market price index saw mixed price developments, with growth not exceeding 4%. Prices of insurance services continued to fall year on year, while prices in freight transport picked up significantly.

II.8 INFLATION

The continuing high annual growth in consumer prices in 2008 Q3 was due to both external and internal factors. It was mainly affected by world prices of energy-producing materials and by some reforms implemented at the start of 2008. Headline inflation and monetary-policy relevant inflation were both above the CNB's inflation target in Q3.

II.8.1 Current inflation

Consumer price inflation[31] remained high in 2008 Q3, staying broadly at the previous quarter's level (see Chart II.56). Compared to June, inflation in September was down by only 0.1 percentage point to 6.6%. This very moderate decline was due to mixed developments in the major components of inflation. Monetary-policy relevant inflation was again significantly lower than annual headline inflation throughout 2008 Q3 (4.7% in September), but remained well above the tolerance band.

The high annual growth in prices in 2008 Q3 was still due to a combination of factors of both external and domestic origin. High growth in prices of energy-producing materials was still an important factor. Its impact on domestic prices was only partly offset by the annual appreciation of the koruna. The effect of prices of energy-producing materials was visible in both regulated and market prices. However, the impact on regulated prices was more pronounced see Box 1 *The impact of the still fast growing world prices of energy-producing materials on inflation in the Czech Republic*. Some reform measures effective from 1 January 2008 also contributed to the high inflation. In addition, the continuing lead of wage growth over productivity growth in some sectors resulted in an increase in the personnel cost-output ratio. By contrast, growth in world prices of food weakened further, fostering lower upward pressures on food prices. Also important was the anti-inflationary effect of the long-running decline in import prices of products with a higher degree of processing, which was reflected in low growth, or a decline, in consumer prices

31 Measured by annual growth in consumer prices

in some commodity groups. A continuing weakening of demand, reducing the opportunities for corporations to pass the cost pressures through to prices, acted in the same direction; real growth in consumer demand was visibly lower in the first half of 2008 than in 2007.

Almost two-thirds of the increase in consumer prices in 2008 Q3 was due to regulated prices and indirect taxes (see Chart II.58). The still high annual growth in regulated prices (of 15.7% in September) was due mainly to developments in the first two quarters, when energy prices for households (electricity, natural gas, etc.) had risen, fees had been introduced in health care and VAT had been increased from 5% to 9%. The further rise in regulated price inflation in Q3 was due to July increases in natural gas prices (of 9.7%) and regulated rents (1.1%).

Turning to market prices, the price developments across the individual categories were mixed, depending on the main factors affecting their growth. Annual growth in food prices and adjusted inflation rose as a result of factors of mainly domestic origin, while fuel price growth weakened considerably in connection with oil prices on world markets. Overall, annual growth in market prices, as measured by net inflation,[32] remained broadly at the previous quarter's level, amounting to 2.9% in September.

Annual growth in food prices (excluding tax changes) went up from 3% in June to 3.6% in September, as a result of an increase in cigarette prices, reflecting – with a lag – the increases in excise duty introduced in January 2008.[33] However, annual food price inflation excluding cigarette prices moderated further. This continuing slowdown was associated with weaker annual growth in world food prices and the strong appreciation of the koruna, leading to a renewed annual decline in import prices of food. Domestic agricultural producer prices also recorded a marked change in trend towards lower growth, culminating in an annual decline. Subsequently, producer price inflation in the food industry also fell. At the same time, the effect of weakening consumer demand on lower food price inflation cannot be ruled out, as, according to CZSO statistics, consumption of non-durable goods recorded a year-on-year decline for the second consecutive quarter.

Adjusted inflation excluding fuels increased by 0.2 percentage point in 2008 Q3 compared to June, to 2.4% in September. However, it was still subdued and, as in previous quarters, driven by prices of non-tradable commodities, as prices of tradable goods continued to decline year on year.

As Chart II.59 shows, the rate of growth in the category of non-tradable goods (in particular services) went up considerably in the first three quarters of 2008, reaching 5.2% in September (having been half that level in December 2007). In particular, there was a considerable rise in imputed rent, expressing the hypothetical costs of flat owners, and in prices of other housing-related services. Prices of non-tradable commodities were also noticeably affected by fast growing prices in the hotels and restaurants category (up by 7.5%), reflecting the growth in prices of food and energy. Prices of other services, consisting of advisory and administrative services, hairdressing and other services, also showed rapid growth (of 9.4%). Overall, fast growth in prices was observed in most non-tradable commodity categories. The main causes of this pronounced growth trend remain the same as in the previous two quarters: increasing energy costs and rents and a rising personnel cost-output ratio, caused by faster growth in wages than in productivity. These accumulated cost effects passed through to prices in a context of gradually slowing demand.

32 Net inflation = the increment of the consumer price index net of regulated prices and adjusted for the effects of other administrative measures.

33 Food price inflation including tax changes was higher, reaching 8.6% in September.

CHART II.58 STRUCTURE OF INFLATION

Regulated prices and indirect taxes were again the largest contributors to the annual inflation
(annual percentage changes; contributions in percentage points)

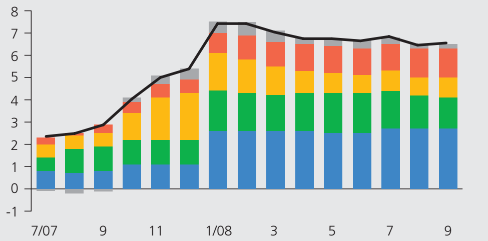


CHART II.59 ADJUSTED INFLATION

Adjusted inflation increased slightly in 2008 Q3 due to growing prices of services
(annual percentage changes)

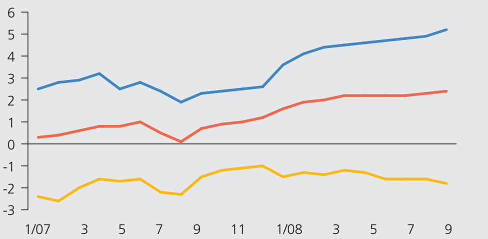
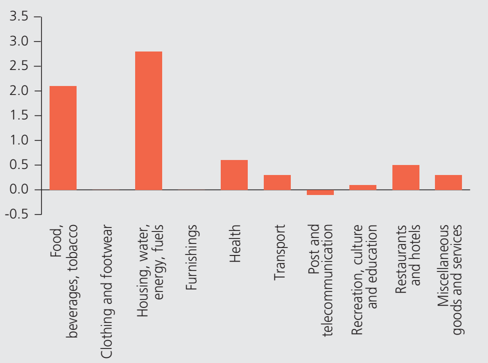


CHART II.60 CONSUMER BASKET PRICES

Prices in the housing and food categories were the biggest contributors to the consumer price inflation
(September 2008; contributions in percentage points, including changes to indirect taxes)



By contrast, the long-term decline in prices persisted in the category of tradable commodities (excluding food and fuels). It was significantly affected by the prices of such goods abroad and the appreciating koruna (see Chart II.59). The annual decline in prices in this category deepened somewhat in 2008 Q3, to 1.8%. This was particularly apparent in the clothing and footwear category, while prices of household equipment increased very slightly in Q3.

Fuel prices were again significantly affected by oil prices on world markets in 2008 Q3, which have been recording a fast decline from high levels since July 2008. Annual growth in fuel prices had been almost 10% in June and was about half that level in September (see Chart II.57).

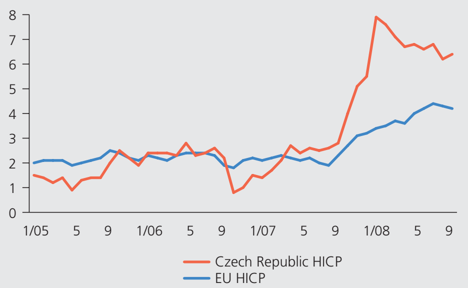
Looking at consumer prices broken down by the major categories of the consumer basket, the main inflationary factors were most apparent in prices of housing and food. These two categories accounted for three-quarters of consumer price inflation in Q3 (see Chart II.60). The rising energy prices, administrative measures and other inflationary factors were also reflected in other categories of the consumer basket, particularly health, transport, hotels and restaurants.

By international comparison, consumer prices, as measured by the HICP, continued to rise faster in the Czech Republic in 2008 Q3 than on average in the EU countries. This was mainly due to the reform measures implemented in the Czech Republic at the start of 2008, which have been affecting consumer prices throughout 2008. According to Eurostat's latest estimate, annual HICP inflation was 4.2% in the EU countries and 6.4% in the Czech Republic in September.

CHART II.61 THE HICP IN THE CZECH REPUBLIC AND THE EU

Inflation in the Czech Republic was above the EU average in 2008 Q3

(annual percentage changes)



BOX 1

The impact of the still fast growing world prices of energy-producing materials on inflation in the Czech Republic

The strong upswing in prices of energy-producing materials on world prices, observed since September 2007, has significantly affected inflation in the Czech Republic. This box focuses on defining the impact of this cost shock on consumer prices in the Czech Republic, in particular in terms of its magnitude and the speed of pass-through to final prices on the consumer market.

The definition is based on the classification of energy prices in the consumer basket. The energy category in the consumer basket comprises prices of electricity, gas, heat, liquid and solid fuels, and vehicle fuels. Their weight in this basket is around 13%. The overall impact of energy prices on inflation is also determined by the rates of growth of their individual items, which are often substantially different from the other consumer basket items. As Chart 1 (Box) shows, the contribution of the prices of these energy components to the annual increase in consumer prices exceeded one percentage point in the period of highest growth of world prices of energy-producing materials at the start of 2008. But energy prices are not contained solely in the above consumer price items; they indirectly affect inflation in other categories of goods and services. However, quantifying the impact of rising energy prices on consumer prices is more difficult in these cases.

Prices of energy for households are mostly regulated; the share of energy with entirely free pricing is lower. But it should be mentioned in this connection that prices of electricity, heat and gas are currently regulated only partially: the energy price itself is determined by market conditions, and only the services component, associated with the supply (distribution) of energy to consumers, is still subject to regulation.

CHART 1 (BOX) ENERGY PRICE DEVELOPMENTS

Rapid growth in world prices of energy fed through markedly to inflation

(contributions in percentage points to annual CPI growth in per cent)

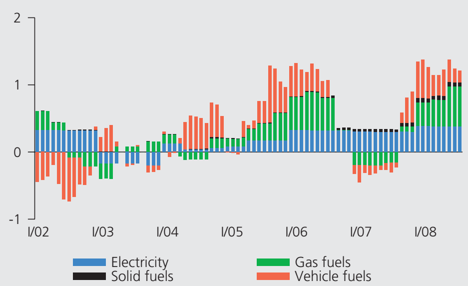


TABLE 1 (BOX) WEIGHTS OF ENERGY IN THE CONSUMER BASKET

Energy prices are mostly regulated

(per mil)

Weights of energy in CPI	130.337
Regulated prices	87.267
of which:	
Electricity	35.046
Natural gas	22.841
Propane-butane	0.389
Energy for heating, hot water	28.991
Unregulated prices	43.07
of which:	
Liquid fuels	0.036
Solid fuels	2.623
Vehicle fuels	40.411

Of the above energy items, changes in world prices of energy-producing materials pass through most quickly to consumer prices of vehicle fuels. Oil price movements adjusted by the koruna-dollar exchange rate are reflected in consumer prices of fuels with a lag of up to two months. However, consumer prices of fuels do not respond to oil price movements to the full extent, as part of their price is determined by a fixed excise duty rate per litre and only the remaining part is affected by changes in koruna oil prices. Different excise duty rates are set for different types of fuels (about 39% for petrol and around 33% for diesel at their current prices), which implies different impacts on their consumer prices.

Prices of natural gas on world markets follow changes in oil prices with a lag of roughly two or three quarters. This relatively close linkage is due not only to the substitutability of oil and gas as energy-producing materials, but also to the fact that contracts for natural gas are derived from past oil prices. Natural gas prices for households respond to changes in world prices of natural gas with a lag of roughly one quarter. Moreover, changes to regulated prices of natural gas are always made at the start of the quarter, which may prolong the transmission of foreign prices to domestic prices in the case of major fluctuations in world gas prices. The dependence of electricity prices on oil prices is less pronounced than in the case of natural gas, since electricity can be generated to a larger extent on the European market using other sources (nuclear power plants, etc.). The composition of energy-producing materials varies from one European country to the next, and this is reflected in the costs of electricity generation. Consumer prices of electricity, whose "market" component is derived from electricity prices on the European market, is thus not primarily determined by prices of oil and oil products on world markets. However, a correlation between consumer prices of coal and electricity for the domestic market is observed for two reasons: coal is an important energy source used in electricity generation and, at the same time, a substitute source of heat for households. For these reasons, regulated prices of electricity are changed at longer time intervals (typically annually) than natural gas prices, as shown in Chart 1 (Box).

In the other consumer basket categories, a pronounced effect of the fast growing energy prices has been observed for non-tradable commodities (mostly services), where the options for offsetting rising costs by increasing productivity are limited. Despite this, the pass-through of changes in energy prices to this segment of consumer prices is far more gradual than for the above-mentioned energy components, as service providers face stiffer market competition than corporations in power generation, and, moreover, the weight of energy in prices of services is lower.

In order to quantify the effect of energy prices on consumer price inflation, a simulation has been carried out using the CNB's modelling system. The simulation assumes an increase in oil prices of USD 25 a barrel for the next two years compared to the current outlook used in the CNB forecast (see Table III.1). The effect of this increase in dollar prices of oil on the corresponding foreign variables used in the CNB's modelling system (towards higher inflation and interest rates amid broadly unchanged demand) was computed by means of a NIGEM model simulation. The higher oil prices have an upward effect on domestic regulated prices also via higher natural gas prices. The impact on annual growth in consumer prices is the highest in the course of the first year of the shock, amounting to 0.4 percentage point. It is reflected in both regulated and market prices, although the transmission channel through regulated prices is markedly stronger. The scenario of a decline in oil prices would lead to the same conclusions, but with the opposite sign.

CHART 2 (BOX) CRUDE OIL AND VEHICLE FUEL PRICES
Oil prices feed through to fuel prices with a short lag
(annual percentage changes)

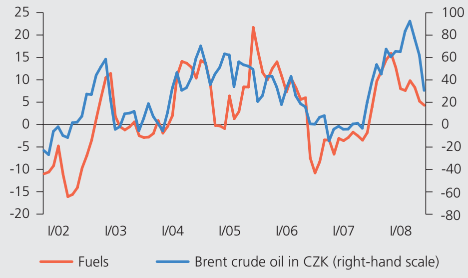


CHART 3 (BOX) ELECTRICITY AND SOLID FUEL PRICES
Correlation between developments in electricity prices and solid fuel prices exists
(annual percentage changes)

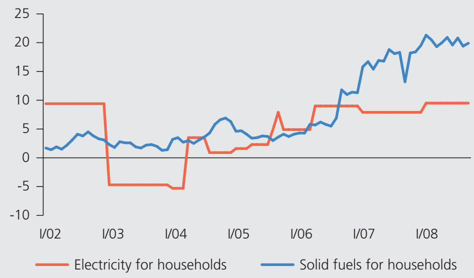


CHART 4 (BOX) SENSITIVITY ANALYSIS OF CRUDE OIL PRICE DEVELOPMENTS
A pick-up in oil prices of 25 USD a barrel over the next two years would increase consumer price inflation by up to 0.4 percentage point
(annual percentage changes)

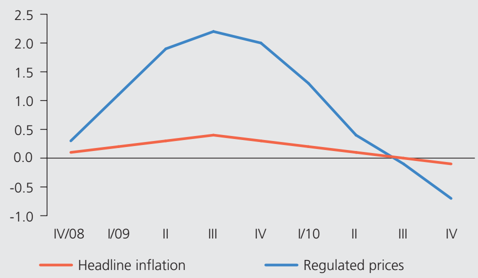


CHART II.62 FORECAST VERSUS ACTUAL INFLATION
Actual inflation in 2008 Q3 was well above the April 2007 forecast
(annual percentage changes)

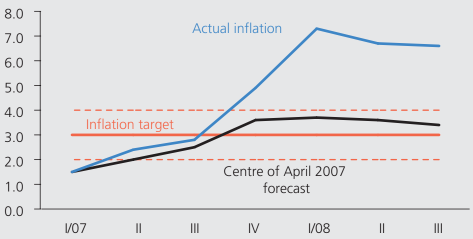


TABLE II.7 FULFILMENT OF THE INFLATION FORECAST
Regulated prices, the impacts of changes to indirect taxes and food prices deviated most from the forecast
(annual percentage changes; contributions in percentage points)

	April 2007 forecast	2008 Q3 outturn	Contribution to total difference[a)]
CONSUMER PRICES	3.4	6.6	3.2
Breakdown into contributions:			
regulated prices	4.4	15.8	2.0
first-round impacts of changes to indirect taxes	0.6	1.5	1.0
food prices[b)]	1.3	3.4	0.5
fuel prices[b)]	5.8	5.9	0.0
adjusted inflation excl. fuels[b)]	3.0	2.3	-0.3

a) owing to rounding, the sum of the contributions need not be equal to the total difference.
b) excluding the first-round impacts of changes to indirect taxes

TABLE II.8 FULFILMENT OF THE EXTERNAL ASSUMPTIONS
The effect of the external environment on the domestic economy was inflationary compared to the April 2007 forecast
(annual percentage changes unless otherwise indicated)

		II/07	III/07	IV/07	I/08	II/08	III/08
GDP in euro area[a), b), c)]	p	2.2	2.2	1.9	2.3	2.2	2.1
	o	2.6	2.6	1.9	2.3	2.0	-
CPI in euro area[b), c)]	p	1.7	1.8	1.9	1.8	1.6	1.6
	o	1.9	2.1	2.9	3.0	3.2	3.4
1Y EURIBOR[d)]	p	4.1	4.1	4.0	4.0	4.0	4.0
(percentages)	o	4.0	4.1	4.0	4.0	4.1	4.3
USD/EUR exchange rate	p	1.32	1.32	1.32	1.31	1.31	1.31
(levels)	o	1.35	1.37	1.45	1.50	1.56	1.50
Brent crude oil price	p	61.2	63.0	64.2	64.9	65.4	65.7
(USD/barrel)	o	68.7	74.9	88.8	96.5	122.2	115.9

p - prediction, o - outturn
a) at constant prices
b) seasonally adjusted
c) effective indicator
d) the outturn is measured by the EONIA 3M swap

II.8.2 Fulfilment of the inflation target

Headline inflation was well above the CNB's point inflation target in 2008 Q3 (see Chart I.1). This section of the Inflation Report briefly analyses the contribution of the CNB's monetary policy to this situation.

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 Q3 is thus roughly from January to September 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 April 2007 with inflation in 2008 Q3.

The April 2007 forecast had predicted a gradual rise in inflation from low levels into the upper half of the tolerance band of the inflation target (see Chart II.62). Growth in all components of inflation was forecasted. The domestic economy was expected to have inflationary effects in 2007 and 2008. This was reflected in a projected gradual rise in adjusted inflation excluding fuels. According to the forecast, prices of food and fuels were also expected to grow faster. The contribution of regulated prices to headline inflation was also expected to increase gradually. Higher indirect taxes on cigarettes were expected to affect inflation significantly as well.

Headline inflation in reality was initially close to the forecast, but has been well above it since 2007 Q4. The deviation of actual inflation from the forecast in 2008 Q3 was caused mainly by considerably higher growth in regulated prices, greater impacts of changes to indirect taxes and faster growth in food prices (see Table II.7). By contrast, adjusted inflation excluding fuels grew more slowly than forecasted. Growth in fuel prices in 2008 Q3 was in line with the forecast.

The overall effect of the external environment on domestic inflation in the period under review was inflationary compared to the April forecast assumptions. The impact of higher external inflation and oil prices was only partly offset by a weaker dollar-euro exchange rate (see Table II.8). Although growth in external demand was at first slightly higher than forecasted, it was somewhat lower in 2008 Q2.

According to the current view, the monetary policy settings in the key period were slightly easier overall than assumed by the April forecast. The monetary conditions were easier than forecasted in 2007 Q2, owing to a weaker exchange rate and lower real interest rates stemming from slightly higher-than-expected inflation. In 2007 Q3, the monetary conditions were broadly in line with the April forecast, with a slightly stronger exchange rate and somewhat lower real rates.

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 the forecast was drawn up in April 2007 was the transition to a new g3 core prediction model starting from the previous Inflation Report. However, the effect of this transition on the message of the forecast and its main components is almost negligible.

Any revisions made to economic indicators since the forecast was drawn up also have an effect on the fulfilment of the forecast. 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 April 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 initially faster growth in external demand are in line with the consequent higher real economic activity compared to the April forecast. Growth in nominal wages was also higher than forecasted (see Table II.9). Despite the faster economic growth, adjusted inflation excluding fuels was lower than expected by the April forecast. The exchange rate was weaker in 2007 Q2 and quite substantially stronger from 2007 Q4 onwards than expected by the forecast. 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.

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 January and September 2007 (see the relevant minutes), the Bank Board initially assessed the risks of the forecasts as being roughly balanced. The risks in 2007 Q2 were assessed as being on the upside and those in 2007 Q3 as being on the downside. However, the Bank Board's decisions followed the recommendations of the forecast with a lag. With the benefit of hindsight, it can be said that the slightly easier monetary policy in the period under review as compared to the forecast contributed partly to the overshooting of the inflation target, with headline inflation and monetary-policy relevant inflation being well above the inflation target in 2008 Q3.

TABLE II.9 FULFILMENT OF THE FORECAST FOR KEY VARIABLES

Real economic growth and growth in nominal wages were higher than forecasted

		II/07	III/07	IV/07	I/08	II/08	III/08
3M PRIBOR	p	2.8	3.1	3.4	3.5	3.7	3.9
(percentages)	o	2.8	3.3	3.8	4.0	4.2	3.9
CZK/EUR exchange rate	p	28.0	28.0	28.0	28.0	27.9	27.7
(levels)	o	28.3	27.9	26.8	25.6	24.8	24.1
Real GDP[a)]	p	5.7	5.7	5.5	5.4	5.3	5.3
(annual perc. changes)	o	6.6	6.6	6.3	5.4	4.5	-
Nominal wages[a), b)]	p	7.1	7.1	7.1	7.2	7.3	7.5
(annual perc. changes)	o	7.7	7.8	8.3	9.1	9.2	-

p - prediction, o - outturn
a) seasonally adjusted
b) adjusted for estimated impacts of tax optimisation and lower sickness rate in 2008 Q1

III.1 SUMMARY OF THE STARTING CONDITIONS

Headline inflation fell slightly in 2008 Q3 and real GDP growth has been gradually declining so far this year, as have employment growth and nominal wage growth. The current economic situation is thus assessed as being a decline from the peak of the business cycle, accompanied by gradually subsiding domestic inflation pressures. The past exchange rate appreciation, which is more than offsetting the domestic inflation pressures, is acting in the opposite, anti-inflationary direction. Overall, the current inflation pressures are thus assessed as being anti-inflationary.

Inflation was volatile in 2008 Q3, but was slightly lower on average than in the previous quarter. Headline inflation remains 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. This confirms the assumption of the previous forecasts that inflation will remain high until Q3 and start to fall more markedly towards the target only in the last quarter of this year. The current high annual inflation mainly reflects the impacts of changes to regulated prices and indirect taxes, which at present account for more than four percentage points of inflation. Food price inflation rose slightly in Q3 due to the lagged pass-through of changes in excise duties to prices of cigarettes. Growth in fuel prices slowed. Adjusted inflation excluding fuels increased slightly in Q3, but remained the smallest component of headline inflation.

The annual growth of the Czech economy continued slowing in 2008 Q2. The decline in GDP growth was due to a sharp fall in gross capital formation. Household consumption growth remains low as well. By contrast, real export growth, which has yet to reflect the sharp exchange rate appreciation and weakening external demand growth, is still high. The contribution of net exports to overall economic growth is thus dominant at present. The forecast assumes roughly the same rate of economic growth in 2008 Q3 as in Q2.

The labour market situation corresponds to the downward phase of the business cycle. Employment growth is slowing, and lasting growth is largely due to the new employment of foreign nationals and people at retirement age. The number of vacancies is continuing to decrease and wage growth is slowing accordingly. This wage slowdown is particularly significant when compared with 2008 Q1, which was affected by tax optimisation. The CNB forecast is adjusted for this extraordinary effect, but even the adjusted wage growth is decreasing. According to the forecast, 2008 Q3 saw a further decline in nominal wage growth.

As a result of the past exchange rate appreciation, import prices are dampening the inflationary effect of domestic factors. However, the impact of the exchange rate appreciation on import prices was partly offset by high external inflation.

Based on the above developments and other information, the current inflation pressures are assessed as being anti-inflationary. The gradually subsiding inflationary effects of domestic cost factors (particularly wages) are being more than offset by the anti-inflationary effects of import prices.

III.2 THE FORECAST

At the start of next year, inflation will fall quickly to the 3% inflation target thanks to the unwinding of the price shocks that occurred in late 2007 and early 2008, the anti-inflationary effect of the past appreciation of the koruna, and a gradual decline in inflation pressures from the domestic economy. In late 2009/early 2010, inflation will already be at the 2% inflation target valid from 2010. The forecast expects a relatively sharp slowdown in economic growth. This year the economy will still grow at a relatively high pace, but next year the GDP growth rate will fall below 3%. After initial fluctuations, the nominal exchange rate will again steadily appreciate. Consistent with the macroeconomic forecast is a decline in interest rates followed by a modest rise in late 2009/early 2010.

III.2.1 Assumptions of the forecast

The forecast is based on the starting conditions summarised in section III.1 and on assumptions regarding the external economic environment, regulated prices, indirect tax changes and public budgets. Box 2 *Pricing in the g3 model* continues to present the g3 model, which has been used to construct the baseline scenario of the forecast since the previous Inflation Report.

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 October 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.

TABLE III.1 EXPECTED EXTERNAL DEVELOPMENTS

External environment expectations have shifted towards lower economic growth, lower oil prices and easier monetary policy

(quarterly averages)

	IV/08	I/09	II/09	III/09	IV/09	I/10	II/10
Brent crude oil prices (USD/barrel)	84.1	82.3	85.1	87.0	88.3	89.5	90.4
GDP in euro area a)	0.7	-0.2	0.1	0.8	1.2	1.3	1.4
Producer prices in euro area a)	5.9	4.7	2.7	2.1	3.0	3.2	3.2
Consumer prices in euro area a)	2.9	2.5	2.2	2.0	1.9	1.9	2.0
USD/EUR exchange rate	1.37	1.37	1.36	1.35	1.33	1.32	1.31
EONIA 3M swap (in per cent)	3.8	3.0	2.9	2.7	2.8	3.2	3.4

a) effective indicator; annual percentage changes

The deepening financial crisis in recent months has generated a substantial deterioration of the prospects for economic growth in all the world's economies, including the euro area. Effective GDP growth of 1.5% is expected for the euro area in 2008. This will decline to 0.5% in 2009 and then recover to 1.4% in 2010. The slowing economic growth combined with falling prices of oil, other raw materials and agricultural commodities will contribute to a gradual decline in external inflation. Growth of 3.1% in the effective indicator of consumer prices in the euro area is expected in 2008. The forecast is for only 2.2% in 2009 and 2.0% in 2010. Following record growth of 6.2% this year, the effective indicator of producer price inflation should fall to 3.1% next year, and the same figure should be seen in 2010.

International financial institutions and central banks, including the ECB, are combating the ongoing financial crisis by taking steps to ease monetary policy. The implied path of foreign interest rates adjusted for the effect of credit risk and proxied by the EONIA 3M swap rate thus fell significantly. Three-month euro rates adjusted for credit premia are expected to decrease in the rest of this year and in 2009 and rebound in 2010. The expected average level of foreign interest rates is 4.0% this year, 2.9% in 2009 and 3.3% in 2010. Due to the ongoing repatriation of US investments, the expected path of the dollar-euro exchange rate has been revised towards a stronger dollar. The dollar is expected to firm gradually against the euro from an average of USD 1.37 in 2008 Q4 to USD 1.31 in 2010. A sizeable downward revision was made to the outlook for oil and petrol prices. The price of Brent crude oil should fluctuate around USD 80 a barrel in late 2008/early 2009 and then rise slightly to about USD 90 a barrel in 2010.

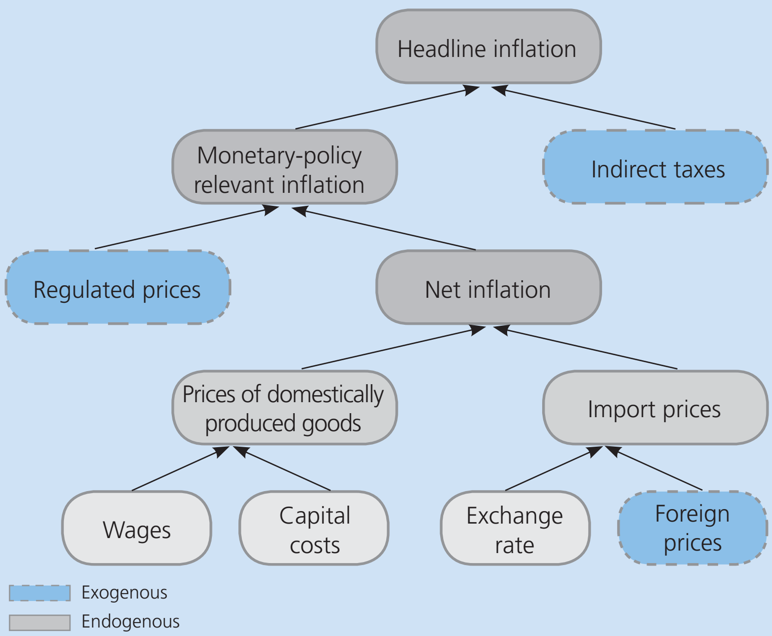
Although the external economic outlook used in this forecast was determined after the escalation of the financial crisis, there is a risk of a further deterioration of the outlook towards a deeper and longer-term economic decline abroad. This risk was captured in an alternative forecast scenario.

The forecast expects domestic regulated prices to make a large contribution to headline inflation. Regulated prices will increase in the coming two years, primarily because of rent deregulation and rising electricity prices. The forecast does not expect rents to rise to the maximum level derived from the current legislation, but to increase by about 29% on average in 2010. Following a rise of almost 17% at the end of 2008, regulated prices will increase by almost 5% at the end of 2009 and roughly 6% at the end of 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 reduced to 0.8% of GDP in 2008 and increased slightly to 1.4% of GDP in 2009. The forecast for 2010 is 1.6% of GDP. Based on revised data on the government sector's performance last year, the estimate of government investment in 2008 and 2009 has been reduced, whereas that of nominal government consumption and excise duty revenues has been increased. However, the lower economic growth forecast has reduced the estimate of total tax revenues, most of all in the case of direct taxes and social security contributions. The widening of the deficit in 2010 is linked primarily with a decline in corporate income tax collection due to a corporate income rate reduction and with the effects of the new Health Insurance Act.

BOX 2
Pricing in the g3 model



In the g3 model, consumer prices are determined by prices of goods produced in the home economy and prices of imported goods. Prices of domestically produced goods (domestic prices) and prices of imported goods (import prices) are sticky in the home currency and comprise a mark-up on nominal marginal costs.

Labour and capital costs are the main costs for the production of domestic goods. The price of goods in the foreign currency and the nominal exchange rate constitute costs for imported goods. Given the price rigidities, changes in nominal marginal costs pass through to final prices with a lag. Firms cannot change prices every quarter and spread the price response to a change in nominal marginal costs over time to the detriment of their mark-ups (profit margins), mainly because of the price elasticity of demand.

Cost pressures on final prices are characterised by real marginal costs, or the real marginal cost gap. Real marginal costs are measured as nominal marginal costs divided by the production price, and are thus the inverse of the mark-up. Growth in a producer's nominal marginal costs without a commensurate increase in the final price results in a decline in the mark-up, i.e. an increase in real marginal costs. Growth in real marginal costs, or a positive real marginal cost gap, exerts upward cost pressures on prices. We speak of a real marginal cost gap because it refers to the deviation from the required level of real marginal costs and thus from the required mark-up. Pricing is affected not only by the current level of nominal or real marginal costs, but also by their expected evolution.

Import prices and domestic prices of intermediate goods constitute the production costs of final consumption goods. Prices of final consumption goods are again sticky and changes thereto represent net inflation. The real marginal cost gap in the consumption goods sector is therefore the main indicator of overall cost pressures in the economy.

Net inflation, together with regulated prices and changes to indirect taxes, determines headline consumer inflation. The monetary authority targets monetary-policy relevant inflation, i.e. headline consumer price inflation adjusted for the first-round effects of changes to indirect taxes.

In terms of predicting inflation, the future evolution of indirect taxes, regulated prices and foreign producer prices are treated as exogenous, so they are not modelled by internal model mechanisms.

The pricing structure in the g3 model together with the price stickiness cascade allows the observed data and the cyclical behaviour of the economy to be replicated.

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 3% inflation target. At the monetary policy horizon, i.e. in late 2009/early 2010, headline inflation will thus be at the 2% inflation target valid from the start of 2010 (see Chart III.1).

Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, will fall into the upper half of the tolerance band for the inflation target during 2008 Q4 (see Chart III.2). The first-round effects of

CHART III.1 THE HEADLINE INFLATION FORECAST

At the monetary policy horizon, the headline inflation forecast hits the 2% inflation target valid from 2010
(annual percentage changes)

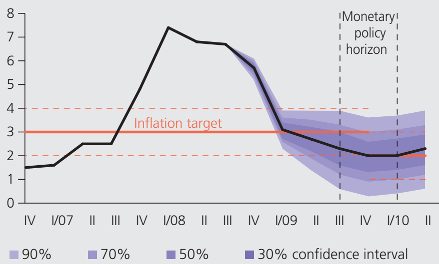


CHART III.2 THE MONETARY-POLICY RELEVANT INFLATION FORECAST

At the monetary policy horizon, monetary-policy relevant inflation is the same as headline inflation

(annual percentage changes)

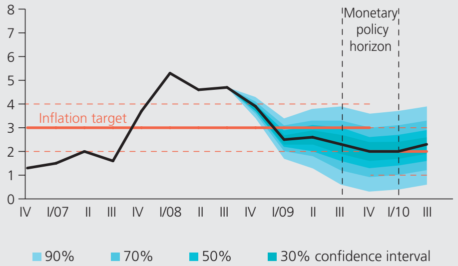


TABLE III.2 FORECAST OF KEY INFLATION COMPONENTS

The impact of regulated prices on inflation will continue to be significant at the forecast horizon

(annual percentage changes; quarterly averages)

	IV/08	I/09	II/09	III/09	IV/09	I/10	II/10
CONSUMER PRICES	5.7	3.1	2.7	2.3	2.0	2.0	2.3
Regulated prices[a)]	16.7	9.5	7.3	6.2	4.6	4.7	6.4
First-round impacts of indirect tax changes on consumer prices[b)]	1.8	0.6	0.1	0.0	0.0	0.0	0.0
Net inflation[c)]	1.6	1.5	1.6	1.6	1.4	1.4	1.5
Prices of food, beverages, tobacco[c)]	0.6	0.5	1.5	0.5	-0.6	0.0	0.5
Adjusted inflation excl. fuels[c)]	2.3	2.4	2.3	2.5	2.2	1.8	1.8
Fuel prices[c)]	-1.4	-3.5	-6.0	-3.7	3.1	5.7	4.9
Monetary-policy relevant inflation[d)]	3.8	2.5	2.6	2.3	2.0	2.0	2.3

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 decline in interest rates followed by a modest rise in late 2009/early 2010

(3M PRIBOR, %)

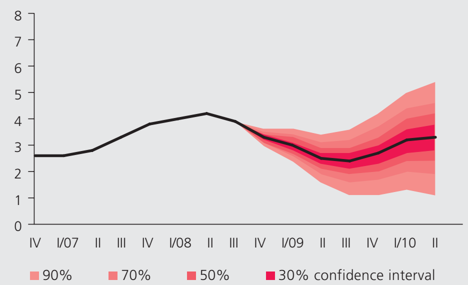
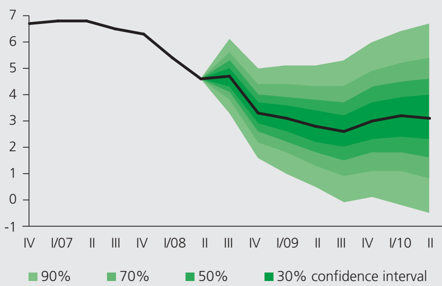


CHART III.4 THE GDP GROWTH FORECAST

GDP growth will slow considerably in the rest of 2008 and in 2009

(annual percentage changes; seasonally adjusted)



changes to indirect taxes will unwind gradually in 2009 H1, and starting from 2009 Q3, i.e. also at the monetary policy horizon in 2009 Q4 and 2010 Q1, monetary-policy relevant inflation is forecasted to be already the same as headline inflation.

Although the contribution of regulated prices to headline inflation will fall sharply in 2009, it will remain significant (see Table III.2). In 2009 and 2010, regulated prices will account for about one-half of headline inflation. Other components of inflation will be 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 wage growth. Adjusted inflation excluding fuels will initially be flat due to the still inflationary domestic cost pressures, but will fall below 2% in late 2009/early 2010 as these pressures subside. Prices in the consolidated category of food will be affected in the last quarter of the year by a lagged pass-through of the increase in excise duties to prices of cigarettes. After this effect unwinds, food prices will slow as a result of a decline in world prices of agricultural products and food and the past appreciation of the nominal exchange rate. They will start rising again moderately in 2010. Similar developments are forecasted for fuel prices, which will decline in 2009 owing to the current decline in oil prices. Fuel prices will start growing again moderately in 2010.

Consistent with the macroeconomic forecast is a decline in interest rates followed by a modest rise in late 2009/early 2010 (see Chart III.3). The decline in interest rates in the rest of this year and in 2009 H1 is a result of anti-inflationary cost factors and also of the short-term outlook for interest rates abroad. As inflation returns to the target, the rate implied by the forecast returns to its policy neutral level, which is estimated at 3%. The renewed growth in interest rates in 2010 is also fostered by an expected increase in interest rates abroad and a renewed slight pick-up in regulated price inflation.

Owing to lower domestic interest rates, a positive interest rate differential will not open up vis-à-vis euro rates. This will ease the appreciation pressures on the exchange rate. The nominal exchange rate will thus appreciate only slightly after initial fluctuations.

The forecast expects a relatively sharp slowdown in economic growth (see Chart III.4). The economy will grow at a relatively high pace this year (4.6%). However, the lagged impacts of the strong exchange rate and slower external demand will cause GDP growth to fall below 3% next year. Real GDP growth will recover slightly, in line with the expected pick-up in external demand growth in 2010, but will remain close to 3%.

Household consumption has slowed so far this year, 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 the last quarter of the year as a result of a slight increase in real wage growth, which will mainly reflect a decline in inflation, and a decrease in real interest rates. Real wage growth will continue into next year; consumption growth will thus increase, despite a slight decline in employment and slower nominal wage growth. Consumption will grow at 2.9% in 2008 and increase slightly to 3.5% in 2009 and 2010.

Gross capital formation will be dampened by weak external demand in 2008 and 2009. It will pick up only in 2010, in connection with a renewed recovery abroad. As regards the current situation on financial markets, the forecast assumes a negative impact on investment. Following this year's sharp decline in total investment growth to around 1%, investment will pick up slightly in the years ahead. Total investment will increase by 2% in 2009 and 4% in 2010.

The growth slowdown abroad will affect real exports most of all (see Table III.3). Slower export growth will also be fostered by lower price competitiveness in the coming few quarters, due to the strong appreciation of the real exchange rate in 2007 H2 and 2008 H1. Export growth will increase again steadily as external demand recovers gradually and price competitiveness is restored. Import growth also slows markedly at the start of the forecast, albeit less so than export growth. The contribution of net exports to real GDP growth will thus fall sharply in 2009 and will be almost zero in 2009 and 2010.

On the labour market, the slower economic growth will be accompanied by a sizeable fall in nominal wage growth, a gradual decline in employment and an increase in unemployment (see Table III.4). 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 8.4% in 2008 and less than 7% and 6% in 2009 and 2010 respectively. Although higher wage growth will be recorded in the business sector, the lead of growth in the business sector over growth in the non-business sector will decline significantly compared to this year. Employment growth will slow gradually, culminating in a decline of 1.5% in 2010. The unemployment rate should increase accordingly.

III.2.3 Alternative scenario of the forecast

The baseline forecast scenario shows the most probable path of the economy from the CNB's point of view. The forecasts for the individual variables, however, are associated with numerous uncertainties. Given the current uncertainties associated with the impacts of the financial crisis, an alternative scenario for the future development of the Czech economy has been drawn up in addition to the baseline scenario, covering the risk of lower external growth accompanied by quite a pronounced slowdown of the Czech economy.

The alternative scenario for the external environment assumes a sharp fall in economic growth abroad and a commensurate decline in external inflation and interest rates abroad. One percentage point lower external growth on average would lead to lower domestic exports and subsequently to lower growth in real economic activity in the domestic economy. The lower GDP growth in the alternative scenario (see Chart III.7) brings about lower nominal wage growth and lower domestic inflationary pressures. This is only partly offset by the inflationary effect of reduced labour productivity. A sudden and significant decline in external demand amid still growing domestic demand due to smoothed consumption will result in a wider current account deficit and lower net foreign assets. The deterioration of the country's debt position is reflected in an increase in the risk premium. The higher premium then exerts pressure on the koruna's nominal exchange rate, which is weaker than in the baseline scenario.

The implied interest rate outlook in the alternative scenario is only slightly below that in the baseline scenario (see Chart III.6) amid significantly lower real economic growth, as the anti-inflationary effect of lower real economic activity is offset by the inflationary effect of the exchange rate depreciation. The contrary effects of these factors and the central bank's response lead to almost unchanged paths for headline inflation and monetary-policy relevant inflation (see Chart III.5).

TABLE III.3 FORECAST OF KEY GDP COMPONENTS
Underlying the decline in GDP growth in 2009 will be above all a fall in export growth
(annual percentage changes; seasonally adjusted)

	2008	2009	2010
GROSS DOMESTIC PRODUCT	4.5	2.9	3.1
Household consumption	3.0	3.5	3.5
Government consumption	0.3	1.2	1.0
Gross capital formation	1.3	2.0	4.0
Imports of goods and services	9.2	6.1	7.4
Exports of goods and services	12.0	6.2	7.0
Net exports of goods and services (in CZK bn; at constant prices)	120.4	128.4	120.1

TABLE III.4 FORECAST OF SELECTED VARIABLES
Average nominal wage growth will slow in 2009 and 2010
(annual percentage changes)

	2008	2009	2010
Real gross disposable income of households	2.8	3.5	2.6
Total employment	1.6	-0.3	-1.5
Unemployment rate (in per cent)[a]	4.3	4.8	5.9
Labour productivity	2.7	3.2	4.7
Average nominal wage	8.4	6.6	5.6
Average nominal wage in business sector	9.8	7.0	5.7
Current account deficit (ratio to GDP in per cent)	-1.4	0.0	0.5
M2	9.1	10.9	8.4

a) ILO methodology

CHART III.5 THE ALTERNATIVE INFLATION FORECAST
Headline inflation and monetary-policy relevant inflation in the alternative scenario differ little from the baseline scenario
(annual percentage changes)

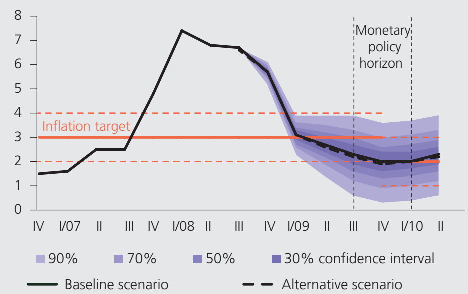


CHART III.6 THE ALTERNATIVE INTEREST RATE FORECAST
Consistent with the alternative scenario are slightly lower interest rates than in the baseline scenario
(3M PRIBOR, %)

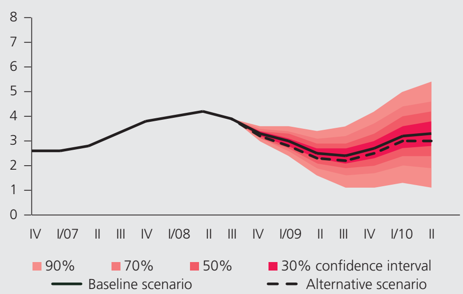


CHART III.7 THE ALTERNATIVE GDP GROWTH FORECAST

GDP growth in the alternative scenario is markedly lower than in the baseline scenario

(annual percentage changes; seasonally adjusted)

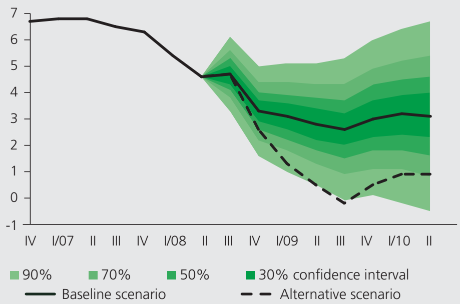


TABLE III.5 INFLATION EXPECTATIONS

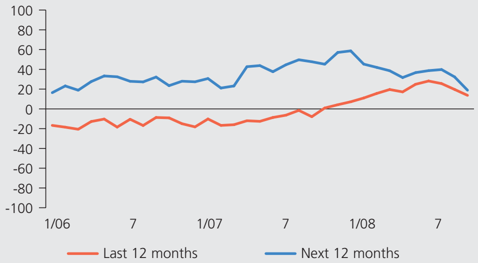
Inflation expectations declined

(percentages)

	12/07	7/08	8/08	9/08	10/08
CONSUMER PRICES					
1Y horizon:					
Financial market	4.5	3.1	3	2.8	2.5
Corporations	4.9			4.1	
3Y horizon:					
Financial market	2.7	2.6	2.6	2.6	2.5
Corporations	3.8			3.8	
1Y PRIBOR					
1Y horizon:					
Financial market	4.1	4.0	3.7	3.7	3.5

CHART III.8 PERCEIVED AND EXPECTED INFLATION

Inflation expected by households decreased in 2008 Q3



Source: European Commission Business and Consumer Survey

III.3 EXPECTATIONS OF ECONOMIC AGENTS

The indicators of expected inflation declined at the one-year horizon in Q3. Expected interest rates also shifted downwards.

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 fell below the CNB's 3% inflation target (see Table III.5). The analysts reflected the expected anti-inflationary real economy, a decline in commodity prices and lower wage growth in their predictions. Although the inflation expectations of corporations also recorded a decline, they remain higher. At the three-year horizon, the inflation expectations of both the financial market and corporations remained flat, still exceeding the 2% inflation target valid as from January 2010.

The indicator of perceived inflation remained positive in Q3 (see Chart III.8). 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. However, both these indicators declined during Q3.

In Q3, interest rates expected by financial analysts also decreased at all the monitored maturities. The interest rate path consistent with the aforementioned CNB forecast is in line with the expectations of financial market analysts for the near future. At the longer horizon, it is slightly lower.

THE CNB TO START PUBLISHING FORECASTED PATH OF NOMINAL EXCHANGE RATE

At its meeting on 30 October 2008, the CNB Bank Board decided that the CNB would publish its forecast for the koruna-euro nominal exchange rate in numerical form (as a fan chart) starting from the first forecast in 2009.

This decision will make the CNB the only central bank in the world to publish a forecast for a nominal exchange rate vis-à-vis a specific currency (although a handful of the most advanced inflation-targeting central banks do currently publish effective exchange rate forecasts). The CNB will thus become a leader in communication openness and monetary policy transparency.

Until now, the CNB has disclosed its exchange rate forecast as a verbal description only. However, after assessing the CNB's almost one-year experience of publishing the forecast-consistent interest rate path, the Bank Board took the view that a numerical forecast could be published for the exchange rate as well. As in the case of the interest rate path, it can be expected that the published exchange rate path will, with the aid of CNB communication, be correctly understood by the public as being conditional on the assumptions of the forecast and by the information available at the time it was prepared. New information obtained after the preparation of the forecast, along with factors not covered by the forecast, may cause the actual exchange rate to deviate from the forecast. As with the forecasts for other key variables, a fan chart will be used to describe this degree of uncertainty, which is generally high for the exchange rate.

The disclosure of the exchange rate forecast in numerical form will mean that full transparency of the CNB forecast will have been achieved. This will, in turn, enhance the transparency of the Bank Board's monetary-policy considerations, giving external observers a better understanding of CNB monetary policy.

MINUTES OF THE BOARD MEETING ON 25 SEPTEMBER 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)

The meeting opened with a presentation of the sixth situation report assessing the newly available information and its impact on the risks to the fulfilment of the inflation forecast from the fifth situation report. The new situation report assessed the risks in relation to the forecast as being slightly anti-inflationary overall.

At 6.5%, inflation in August had been 0.3 percentage point lower than forecasted. The lower inflation in August had been due mainly to slower food price growth and lower fuel prices. The assumption regarding the effects of the changes to indirect taxes and regulated prices was materialising. By contrast, adjusted inflation excluding fuels had been 0.2 percentage point higher than forecasted. Domestic economic growth in the second quarter of 2008 had been slightly lower compared to the forecast and wage growth in the business sector had also remained below the forecast. The exchange rate, which had, on average, appreciated more markedly than forecasted during the third quarter, was also acting in a slightly anti-inflationary direction.

The outlook for external developments was uncertain owing to the deepening global financial market crisis. Information available during the preparation of the situation report suggested a risk of an anti-inflationary effect of the external environment. It was also possible that the outlook for domestic regulated prices of energy would be lowered due to falling world energy prices. Short-term risks associated with developments in prices of food and fuels were also assessed as being on the downside.

After the presentation of the situation report, the Board began its discussion. The Board agreed that the overall balance of risks posed a slight downside risk to inflation. Information on the deepening global financial market crisis indicated additional risks in both directions, which were, moreover, surrounded by considerable uncertainty. The new data were also very volatile. The Board stated that the slowdown in economic growth owing to the worse external demand outlook could be more significant than forecasted.

In connection with expected future inflation developments it was said that inflation would gradually return to the current inflation target of 3%. It was added, however, that inflation at the monetary policy horizon would still be above the point inflation target of 2% valid from the beginning of 2010. The opinion was expressed that rates should remain unchanged in view of the new inflation target. It was said that a declining interest rate path until the end of 2008 was consistent with the baseline scenario of the forecast from the fifth situation report and that the degree of uncertainty of the forecast had been expressed using an alternative scenario, with which higher interest rates and their later return to lower levels by comparison with the baseline scenario were consistent. Against this, it was pointed out that reality could also deviate from the forecast in the opposite direction, which was currently the case.

It was repeatedly mentioned in the discussion of the forecast risks that the slightly higher adjusted inflation excluding fuels could pose an upside risk to inflation. It was said several times that the current higher inflation could feed through into inflation expectations. The opinion was also expressed that the high inflation had already fed through into inflation expectations and therefore inflation would not slow and return rapidly towards the inflation target. It was also said that it was unclear whether wages would act in the inflationary or anti-inflationary direction.

The Board discussed in detail the global financial crisis and its potential impacts on the Czech economy. It was mentioned that the outlook for external demand was deteriorating significantly and the effects of the financial crisis would undoubtedly also appear in Europe. It could therefore be expected that domestic economic growth would be lower than forecasted. It was also said that no immediate impacts of the financial crisis on the Czech financial sector were currently visible. It was repeatedly said that the effects of the financial crisis on external demand could not be expected to unwind rapidly. It was also argued that global developments were uncertain and it was difficult to assess the impact of the financial crisis. The fluctuations in the dollar's exchange rate, which was very sensitive to news concerning the crisis, were mentioned in the respect.

The Board stated that the recent evolution of the exchange rate posed a downside risk to the inflation forecast. There was consensus that future exchange rate movements were subject to great uncertainty. A stronger-than-forecasted exchange rate could be a result of the koruna's continued role of a "safe haven". However, it was also argued that the koruna would partly lose this position following the unwinding of the crisis and might depreciate. It was also said that the ECB probably would not decrease its rates in the nearest months and therefore a CNB interest rate cut would widen the negative interest rate differential. As a result, the exchange rate could depreciate more markedly. Against this, however, it was stated that a similar interest rate differential had been recorded in the past without having significant effects on the exchange rate. The point was also made that the exchange rate of the koruna would still show considerable year-on-year appreciation even after this potential weakening.

It was said during the discussion that prices of oil and food were a downside risk to the inflation forecast. The short-term outlook for these commodities was more favourable by comparison with the forecast. In the case of food prices, this was indicated by the much better harvest than last year and the expected lower demand for food. It was also said that the exchange rate of the dollar was dampening the changes in oil prices. The opinion was also repeatedly expressed that the outlook for prices of oil and food was surrounded by great uncertainty.

At the close of the meeting the Board decided by a majority vote to leave the two-week repo rate unchanged at 3.50%. Four members voted in favour of this decision: Governor Tůma, Vice-Governor Hampl, Chief Executive Director Holman and Chief Executive Director Tomšík. Two members voted for lowering rates by 0.25 percentage point: Vice-Governor Singer and Chief Executive Director Řežábek.

MINUTES OF THE BOARD MEETING ON 6 NOVEMBER 2008

Present at the meeting: Z. Tůma (Governor), M. Singer (Vice-Governor), M. Hampl (Vice-Governor), P. Řežábek (Chief Executive Director), V. Tomšík (Chief Executive Director)

The meeting opened with a presentation of the seventh situation report containing the new macroeconomic forecast. Headline inflation had remained well above the tolerance band of the inflation target in 2008 Q3. However, it had started falling quite quickly and was 0.3 percentage point below the previous forecast. The domestic economy was continuing to decline from the peak of the business cycle. The inflationary domestic cost pressures, especially in the wage area, were steadily easing and were being outweighed by the anti-inflationary effect of import prices resulting from the past exchange rate appreciation. The initial inflation pressures were assessed being on the downside.

According to the new forecast, inflation would fall rapidly to the 3% inflation target at the start of next year thanks to the unwinding of the price shocks that occurred in late 2007 and early 2008, the anti-inflationary effect of the appreciation of the koruna, and a decline in domestic price pressures due to slowing economic activity and subdued wage growth. In late 2009 and early 2010, inflation would then be at the 2% inflation target valid from 2010. The forecast expected a significant downswing in economic growth. This year the economy would still show a relatively high rate of growth, but next year GDP growth would fall below 3% as a result of the lagged effects of the exchange rate appreciation and slowing external demand. In 2010 there would be just a slight increase in domestic GDP growth as a result of a gradual recovery in external demand. Consistent with the forecast was a decline in interest rates followed by a modest rise in late 2009/early 2010. The new situation report assessed the risks of the baseline forecast scenario as being on the downside. The risk of a deeper and longer economic decline abroad had been captured in an alternative forecast scenario. Consistent with this alternative scenario were only slightly lower rates than in the baseline scenario, with virtually identical paths for headline and monetary-policy relevant inflation but with considerably lower economic growth.

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 overall balance of risks to inflation was clearly on the downside and that the new information received since the previous monetary policy meeting and since the completion of the new forecast was tending towards a more significant reduction of interest rates. In particular, the outlook for the euro area was deteriorating, interest rates were falling around the world, and prices of commodities, energy-producing materials and food were decreasing sharply. The exchange rate, which was continuing to show quite a sizeable year-on-year appreciation, also remained an anti-inflationary factor. The only potential inflationary factors identified in the discussion of the forecast risks were a possible decline in the rate of growth of potential output and persisting relatively high growth in nominal unit wage costs.

The Board stated that the domestic economy was currently exposed to an unusual combination of anti-inflationary shocks of a cost, exchange rate and demand nature. This situation might last for some time, as the focus was shifting towards a demand shock. The downswing in economic activity abroad was gradually transmitting to the domestic economy as a result of the latter's strong export orientation. It was said in the discussion that the last time the Czech economy had faced such a clear combination of risks had been back in 1998, but unlike in 1998 the current decline in demand and the significantly worse functioning of credit markets were global phenomena. Given these facts, doubts were also expressed whether the modest economic recovery predicted for 2010 by the new forecast would actually occur so soon.

The risks associated with the potential transmission of the credit crunch abroad to the domestic economy were also discussed. The funding of investment projects and the financing of the operational needs of non-financial corporations were both identified as growing risks. A sharp rise in interest rates on loans for operational financing and constraints on the availability of such loans would lead to a deterioration in the financial situation of corporations.

The opinion was expressed in the discussion that a sharper reduction in monetary policy rates was not necessarily the optimal response, as it would not necessarily influence effectively the situation in the interbank market and might also send out the wrong signal regarding the soundness of the Czech financial sector and the prospects for the domestic economy. Attention was also drawn to the fact that after the wave of problems in emerging market economies the koruna had been the only currency in this category to return to its original values. This could be interpreted not only as meaning that the Czech economy was still regarded by foreign financial investors as a safe haven, but also as a sign that the domestic real economy would be affected by the external problems to a relatively lesser extent. In this context, the opinion was also expressed that the relative stability of the financial sector could mean a faster return to normal lending conditions in the Czech Republic than in surrounding economies. Against this, the opinion was expressed if the risk of a deeper and longer economic decline abroad, as expressed in the alternative forecast scenario, were to materialise, interest rates would have to be lowered more substantially to keep inflation near the inflation target and reduce the fall in domestic economic growth.

The Board discussed the current financial market situation in depth. It was said that the existence of quite a large difference between the two-week repo rate and the three-month PRIBOR, caused by a high credit premium on the interbank market, constituted a disturbance of the monetary policy transmission mechanism. In this context, the Board discussed a proposal to reduce the spread between the repo rate and the Lombard rate to 0.5 percentage point in order to make the marginal lending facility more attractive as a way of solving banks' potential liquidity needs. In support of this proposal, it was said that reducing the spread between interest rates for refinancing through this facility might be seen as a positive signal. However, the prevailing view was that in a situation where a liquidity-providing facility was already in place, Lombard operations were being used by banks only to a very minor extent and only for technical fine-tuning in the maintenance of required reserves. The proposed change would thus have a negligible effect.

At the close of the meeting the Board decided by a majority vote to lower the CNB two-week repo rate by 0.75 percentage point to 2.75%, effective 7 November 2008. Four members voted in favour of this decision: Governor Tůma, Vice-Governor Singer, Chief Executive Director Řežábek and Chief Executive Director Tomšík. Vice-Governor Hampl voted for lowering the repo rate by 0.50 percentage point.

The Board also decided by a majority vote to leave the spread between the repo rate and the Lombard rate unchanged at 1 percentage point. Four members voted in favour of this decision: Governor Tůma, Vice-Governor Singer, Vice-Governor Hampl and Chief Executive Director Tomšík. Chief Executive Director Řežábek voted for reducing the spread between the repo rate and the Lombard rate to 0.50 percentage point. The Board thus decided by a majority vote to lower the discount rate and Lombard rate by 0.75 percentage point to 1.75% and 3.75% respectively.

CHARTS IN THE TEXT

TABLES IN THE TEXT

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

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
Potential output in the CNB's forecasting system	(Box)	October 2005
Fiscal policy in the CNB's modelling system	(Box)	January 2006
Assessment of the fulfilment of the Maastricht Convergence criteria		
and the degree of economic alignment of the Czech Republic with the euro area	(Annex)	January 2006
Implications of household debt for consumption	(Box)	April 2006
Effective indicators of external developments	(Box)	July 2006
Oil and petrol prices in the CNB forecast	(Box)	July 2006
The role of monetary aggregates in the CNB's forecasts	(Box)	October 2006
Assessment of the fulfilment of the Maastricht convergence criteria		
and the degree of economic alignment of the Czech Republic with the euro area	(Annex)	October 2006
Employment of foreign nationals	(Box)	January 2007
The extension of the core prediction model to include the effect of real wages	(Box)	January 2007
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 and the degree		
of economic alignment of the Czech Republic with the euro area	(Annex)	I/2008
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
The impact of the still fast growing world prices of energy-producing materials		
on inflation in the Czech Republic	(Box)	IV/2008
Pricing in the g3 model	(Box)	IV/2008
The CNB to start publishing forecasted path of nominal exchange rate	(Annex)	IV/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 consist 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

		years										
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
DEMAND AND SUPPLY												
Gross domestic product												
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	**3,128.5**	**3,218.2**	**3,318.3**
GDP	%, y-o-y, real terms, seas. adjusted	3.7	2.5	1.9	3.6	4.5	6.3	6.8	6.6	**4.5**	**2.9**	**3.1**
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**	**3.5**	**3.5**
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	**0.3**	**1.2**	**1.0**
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	**1.3**	**2.0**	**4.0**
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	**12.0**	**6.2**	**7.0**
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	**9.2**	**6.1**	**7.4**
Net exports	CZK bn, constant p., seas. adjusted	-63.9	-94.6	-144.6	-168.7	-152.5	-24.9	10.0	31.8	**120.4**	**128.4**	**120.1**
Coincidence indicators												
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												
Main price indicators												
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	**5.1**	**2.0**	**2.4**
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	**16.6**	**4.6**	**6.3**
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	**1.0**	**1.4**	**1.7**
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	**-0.8**	**-0.6**	**1.1**
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	**2.3**	**2.2**	**1.9**
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	**-3.9**	**3.1**	**3.0**
Monetary-policy inflation (excluding tax changes)	%, y-o-y, end-of-period	4.4	4.2	0.6	0.8	1.9	2.2	1.6	4.3	**3.3**	**2.0**	**2.4**
GDP deflator	%, y-o-y, seas. adjusted	1.6	4.9	2.8	0.9	4.5	-0.2	1.3	3.3	**3.4**	**4.3**	**0.7**
Partial price indicators												
Producer prices	%,y-o-y, average	5.1	3.0	-0.5	-0.3	5.6	3.1	1.4	4.1	**5.3**	**4.7**	**3.5**
Agricultural prices	%,y-o-y, average	8.6	9.6	-7.5	-4.5	9.6	-9.8	1.3	16.4	**12.5**	**-11.6**	**2.9**
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	12.3	**47.3**	**-14.6**	**6.1**
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	**8.4**	**6.6**	**5.6**
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	**1.7**	**4.0**	**3.2**
Number of employees	%, y-o-y	-1.4	0.3	-0.8	-2.0	-0.2	2.2	1.2	1.9	**1.7**	**-0.4**	**-1.6**
Nominal unit wage costs	%, y-o-y	1.4	6.2	4.6	2.3	1.8	0.6	1.1	2.3	**4.6**	**3.6**	**2.0**
Nominal unit wage 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	**2.7**	**3.2**	**4.7**
ILO general unemployment rate	%, average	-	-	-	7.8	8.3	7.9	7.1	5.3	**4.3**	**4.8**	**5.9**
Registered unemployment rate	%, average	-	-	-	-	10.0	9.5	8.6	7.0	**5.8**	**6.2**	**7.1**
PUBLIC FINANCE												
Public finance deficit (ESA95)	CZK bn, current p.	-81.5	-135.0	-166.8	-170.0	-82.7	-106.6	-85.5	-34.2	**-32.6**	**-56.8**	**-68.4**
Public finance deficit / GDP**	%, nominal terms	-3.7	-5.7	-6.8	-6.6	-2.9	-3.6	-2.7	-1.0	**-0.8**	**-1.4**	**-1.6**
Public debt (ESA95)	CZK bn, current p.	405.4	591.5	702.3	775.0	855.1	888.6	951.5	1,020.7	**1,061.3**	**1,110.6**	**1,179.1**
Public debt / GDP**	%, nominal terms	18.5	25.1	28.5	30.1	30.4	29.8	29.6	28.9	**27.6**	**26.8**	**26.9**
EXTERNAL RELATIONS												
Current account												
Trade balance	CZK bn, current p.	-120.8	-116.7	-71.3	-69.8	-13.4	59.4	65.1	120.6	**150.2**	**175.0**	**190.0**
Trade balance / GDP	%	-5.5	-5.0	-2.9	-2.7	-0.5	2.0	2.0	3.4	**3.9**	**4.3**	**4.5**
Balance of services	CZK bn, current p.	54.6	58.0	21.9	13.2	16.6	36.9	46.4	56.6	**69.9**	**60.0**	**65.0**
Current account	CZK bn, current p.	-104.9	-124.5	-136.4	-160.6	-147.5	-39.8	-82.2	-62.6	**-55.2**	**0.0**	**20.0**
Current account / GDP	%	-4.8	-5.3	-5.5	-6.2	-5.2	-1.3	-2.6	-1.8	**-1.4**	**0.0**	**0.5**
Foreign direct investment												
Direct investment	CZK bn, current p.	190.8	208.3	270.9	53.5	101.8	279.6	90.3	158.2	**165.0**	**165.0**	**105.0**
Exchange rates												
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), avg.	-	-	-	-	-0.7	-6.7	-5.6	-2.4	-	-	-
CZK/EUR	%, y-o-y, real (PPI euro area), avg.	-	-	-	-	-3.2	-5.5	-1.2	-3.6	-	-	-
Foreign trade prices												
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	**-5.6**	**-1.3**	**1.0**
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	**-4.3**	**-1.6**	**0.8**
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	**9.1**	**10.9**	**8.4**
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	3.5	2.3	2.3	2.0	2.3	3.1	**3.8**	**2.6**	**3.2**

* in brackets are constant weights in actual consumer basket
** CNB calculation
– 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	QII	QIII	QIV
685.4	696.7	708.2	719.2	732.0	743.8	754.2	764.3	771.3	778.1	789.4	789.6	795.0	799.9	809.9	813.5	820.0	824.8	834.5	839.0
6.8	6.8	6.9	6.6	6.8	6.8	6.5	6.3	5.4	4.6	4.7	3.3	3.1	2.8	2.6	3.0	3.1	3.1	3.0	3.1
4.8	5.3	5.1	6.3	7.1	6.4	6.2	4.1	2.9	3.2	2.7	3.1	3.3	3.3	3.6	3.6	3.6	3.5	3.5	3.5
2.1	-1.4	-2.7	-0.6	-0.5	-0.1	0.0	2.5	0.7	1.8	0.1	-1.6	0.1	0.5	2.1	2.0	1.2	1.1	0.9	0.9
10.3	8.8	13.3	7.6	11.0	10.7	11.0	5.5	8.4	-4.7	0.7	1.2	1.1	3.4	1.7	2.1	2.8	3.6	4.4	5.1
17.3	16.6	13.6	17.9	16.4	14.4	15.3	12.4	13.6	13.5	11.9	9.4	7.1	5.8	5.4	6.4	7.1	7.0	6.8	6.9
16.2	14.0	12.0	16.5	16.4	14.0	15.1	10.0	12.2	8.9	8.3	7.6	6.1	6.0	5.9	6.6	7.1	7.4	7.5	7.7
7.4	2.6	-12.6	12.6	8.5	5.6	-13.4	31.1	19.5	39.8	12.8	48.2	29.0	40.4	9.0	50.0	30.3	40.4	3.7	45.7
15.5	9.3	9.7	10.4	11.2	9.2	6.4	6.2	5.8	5.8	-	-	-	-	-	-	-	-	-	-
0.5	6.2	7.4	9.5	28.8	3.5	-0.3	5.3	4.0	-1.3	-	-	-	-	-	-	-	-	-	-
6.9	6.2	6.2	6.6	9.7	7.8	6.5	6.5	2.3	2.5	-	-	-	-	-	-	-	-	-	-
2.2	2.5	2.8	2.5	2.2	2.1	2.0	2.8	4.3	5.4	6.4	-	-	-	-	-	-	-	-	-
2.8	2.8	2.7	1.7	1.9	2.5	2.8	5.4	7.1	6.7	6.6	5.1	3.1	2.7	2.3	2.0	2.0	2.3	2.4	2.4
11.2	10.5	9.8	4.9	4.1	4.0	4.6	6.5	15.0	14.7	15.7	16.6	9.5	7.3	6.2	4.6	4.7	6.4	6.3	6.3
0.1	0.3	0.5	0.7	1.3	1.5	1.2	3.8	3.5	2.9	2.9	1.0	1.5	1.6	1.6	1.4	1.4	1.5	1.6	1.7
-1.8	-0.6	1.4	0.9	3.2	2.7	2.5	8.2	4.9	3.0	3.6	-0.8	0.5	1.5	0.5	-0.6	0.0	0.5	0.8	1.1
0.6	0.4	0.6	0.7	0.6	1.0	0.7	1.2	2.1	2.3	2.4	2.3	2.4	2.3	2.5	2.2	1.8	1.8	1.9	1.9
10.9	8.3	-7.5	-3.4	-3.1	-1.7	-1.8	12.0	12.7	9.8	4.3	-3.9	-3.5	-6.0	-3.7	3.1	5.7	4.9	3.5	3.0
2.5	2.5	2.6	1.3	1.7	1.9	1.7	4.3	5.1	4.6	4.7	3.3	2.5	2.6	2.3	2.0	2.0	2.3	2.4	2.4
-0.4	0.7	1.6	1.8	3.6	3.7	3.4	3.8	2.8	2.0	3.1	6.5	5.6	5.6	5.1	1.2	1.1	0.9	0.7	0.1
0.1	1.1	2.4	2.0	3.2	4.2	3.9	5.0	5.6	5.1	5.5	5.1	5.4	4.6	4.4	4.6	3.5	3.7	3.3	3.3
-1.5	4.6	2.7	2.6	13.3	11.2	15.0	26.0	26.7	27.2	7.7	-11.5	-19.2	-20.7	-7.2	0.7	2.2	3.0	3.3	3.3
2.4	2.7	3.2	3.3	3.6	3.8	4.0	4.4	4.7	5.0	4.7	-	-	-	-	-	-	-	-	-
30.8	35.6	14.3	5.0	-6.3	-1.5	6.7	48.9	66.5	77.9	54.2	-9.4	-14.7	-30.1	-23.6	10.2	8.9	6.3	5.0	4.3
7.0	6.6	5.9	6.3	7.8	7.4	7.5	6.6	10.2	8.0	8.2	7.3	6.7	7.0	6.6	6.0	5.9	5.6	5.5	5.2
4.1	3.6	2.9	4.7	6.2	4.9	4.9	1.7	2.6	1.1	1.5	1.5	3.5	4.2	4.3	3.9	3.8	3.2	3.1	2.8
2.2	1.6	0.3	0.7	1.3	1.8	2.1	2.3	2.1	1.9	1.6	1.1	0.6	0.0	-0.7	-1.3	-1.9	-1.9	-1.6	-1.2
0.9	1.0	1.0	1.5	3.1	2.6	2.6	0.9	5.5	4.3	4.1	4.5	4.1	4.1	3.7	2.5	2.0	1.8	2.1	2.1
-7.4	-4.9	-5.3	-3.1	-0.2	-1.9	-2.2	-4.8	-0.1	-3.3	-	-	-	-	-	-	-	-	-	-
6.0	5.4	4.7	4.3	4.3	5.0	4.7	4.9	3.0	2.7	3.1	2.1	2.4	3.0	3.3	4.1	5.0	4.9	4.5	4.3
8.0	7.1	7.0	6.5	6.0	5.3	5.1	4.8	4.7	4.2	4.2	4.2	4.5	4.5	4.9	5.2	5.9	5.8	6.1	6.0
9.7	8.5	8.3	8.0	8.2	7.0	6.7	6.3	6.3	5.5	5.6	5.7	6.1	5.8	6.4	6.6	7.3	6.8	7.2	7.1
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29.6	13.9	9.0	12.7	45.5	27.3	20.8	27.0	41.7	41.4	33.0	34.0	48.0	47.0	40.0	40.0	52.0	51.0	43.0	44.0
4.0	1.7	1.1	1.5	5.5	3.0	2.3	2.9	4.7	4.3	3.4	3.3	5.0	4.5	3.8	3.8	5.2	4.7	4.0	4.0
9.4	14.0	14.0	8.9	12.1	17.7	16.0	10.8	24.2	18.7	16.0	11.0	21.0	16.0	14.0	9.0	22.0	17.0	16.0	10.0
21.5	-31.5	-28.4	-43.8	28.2	-29.9	-35.2	-25.8	28.8	-61.0	-14.0	-9.0	34.0	-10.0	-23.0	-1.0	39.0	-5.0	-18.0	4.0
2.9	-3.9	-3.5	-5.2	3.4	-3.3	-3.9	-2.8	3.2	-6.4	-1.4	-0.9	3.5	-1.0	-2.2	-0.1	3.9	-0.5	-1.7	0.4
7.8	25.6	31.7	25.2	34.2	31.5	33.9	58.6	22.1	57.8	-	-	-	-	-	-	-	-	-	-
23.8	22.6	22.2	21.7	21.4	21.0	20.3	18.5	17.1	15.9	16.1	-	-	-	-	-	-	-	-	-
28.6	28.4	28.3	28.0	28.0	28.3	27.9	26.8	25.5	24.8	24.1	-	-	-	-	-	-	-	-	-
-5.7	-6.7	-5.8	-4.4	-1.4	-0.6	-1.5	-5.9	-12.6	-15.0	-16.3	-	-	-	-	-	-	-	-	-
0.3	-1.3	-1.7	-2.3	-2.2	-2.4	-3.6	-6.0	-9.7	-10.9	-12.0	-	-	-	-	-	-	-	-	-
-1.9	-2.3	-0.5	0.0	1.9	2.7	1.9	-1.2	-4.3	-6.2	-7.1	-5.0	-3.4	-1.6	-0.4	0.1	0.1	0.7	1.5	1.7
1.6	0.6	0.2	-1.4	-1.7	-0.4	-0.5	-1.5	-3.0	-4.4	-5.5	-4.3	-3.1	-1.9	-1.2	-0.4	0.2	0.7	1.1	1.4
8.8	8.3	9.0	9.6	10.5	11.6	11.2	11.7	10.1	7.6	8.4	10.2	10.4	11.7	10.7	10.6	9.8	8.6	7.9	7.4
2.00	2.00	2.50	2.50	2.50	2.75	3.25	3.50	3.75	3.75	3.50	-	-	-	-	-	-	-	-	-
2.1	2.1	2.4	2.6	2.6	2.8	3.3	3.8	4.0	4.2	3.9	3.3	3.0	2.5	2.4	2.7	3.2	3.3	3.2	3.2

Table 2a

INFLATION DEVELOPMENT

annual percentage changes

2005	1	2	3	4	5	6	7	8	9	10	11	12
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
Net inflation	0.9	0.9	0.7	0.8	0.6	0.7	0.4	0.4	1.1	1.0	0.8	0.4
(contribution to consumer price inflation)	0.72	0.75	0.59	0.68	0.46	0.53	0.35	0.35	0.89	0.80	0.65	0.32
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
Net inflation	0.5	0.3	0.1	0.1	0.3	0.3	0.7	1.1	0.5	0.1	0.2	0.7
(contribution to consumer price inflation)	0.40	0.23	0.08	0.09	0.22	0.24	0.55	0.88	0.43	0.06	0.17	0.54
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
Net inflation	0.7	0.8	1.3	1.7	1.6	1.5	1.1	0.7	1.2	2.2	3.4	3.8
(contribution to consumer price inflation)	0.53	0.62	1.00	1.29	1.19	1.17	0.80	0.49	0.92	1.81	2.84	3.19
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											**prognóza**	
Consumer prices	7.5	7.5	7.1	6.8	6.8	6.7	6.9	6.5	6.6	**6.4**	**5.5**	**5.1**
Regulated prices	15.0	14.9	15.0	14.8	14.6	14.6	15.9	15.8	15.7	**16.7**	**16.7**	**16.6**
(contribution to consumer price inflation)	2.60	2.59	2.59	2.56	2.53	2.52	2.74	2.72	2.72	**2.89**	**2.87**	**2.85**
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	**1.82**	**1.82**	**1.82**
Net inflation	3.6	3.8	3.4	2.9	2.9	2.9	2.9	2.7	2.9	**2.5**	**1.4**	**1.0**
(contribution to consumer price inflation)	3.06	3.18	2.87	2.46	2.39	2.38	2.45	2.27	2.41	**2.10**	**1.17**	**0.84**
Prices of food, beverages and tobacco	6.3	5.9	4.9	3.6	3.3	3.0	3.4	3.1	3.6	**2.8**	**0.0**	**-0.8**
(contribution to consumer price inflation)	1.66	1.53	1.28	0.96	0.89	0.80	0.90	0.81	0.94	**0.76**	**0.02**	**-0.20**
Adjusted inflation excluding fuels	1.6	1.9	2.0	2.2	2.2	2.2	2.2	2.3	2.4	**2.3**	**2.4**	**2.3**
(contribution to consumer price inflation)	0.86	1.07	1.11	1.19	1.19	1.19	1.21	1.25	1.29	**1.25**	**1.26**	**1.20**
Fuel prices	14.5	15.9	12.7	8.0	7.6	9.8	8.3	5.2	4.3	**2.3**	**-2.5**	**-3.9**
(contribution to consumer price inflation)	0.54	0.58	0.47	0.31	0.31	0.40	0.34	0.21	0.17	**0.09**	**-0.10**	**-0.16**
Monetary-policy relevant inflation	5.3	5.4	5.1	4.7	4.6	4.5	4.8	4.6	4.7	**4.6**	**3.7**	**3.3**
Inflation rate (annual moving average)	3.4	3.9	4.3	4.7	5.0	5.4	5.8	6.1	6.4	**6.6**	**6.6**	**6.6**

CNB calculation based on CZSO data

Table 2b

INFLATION DEVELOPMENT												monthly percentage changes
2005	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
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*
Net inflation	0.3	0.2	-0.1	0.1	0.2	0.2	0.2	0.0	-0.3	0.1	-0.2	-0.3
(contribution to consumer price inflation)	*0.26*	*0.13*	*-0.06*	*0.11*	*0.15*	*0.19*	*0.17*	*-0.01*	*-0.26*	*0.05*	*-0.20*	*-0.20*
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*
Net inflation	0.4	-0.1	-0.3	0.2	0.4	0.3	0.6	0.4	-0.9	-0.4	-0.1	0.2
(contribution to consumer price inflation)	*0.33*	*-0.05*	*-0.21*	*0.12*	*0.28*	*0.20*	*0.47*	*0.31*	*-0.69*	*-0.31*	*-0.09*	*0.16*
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*
Net inflation	0.4	0.1	0.2	0.6	0.3	0.2	0.2	0.0	-0.4	0.6	1.1	0.6
(contribution to consumer price inflation)	*0.36*	*0.05*	*0.15*	*0.46*	*0.22*	*0.16*	*0.18*	*0.03*	*-0.35*	*0.49*	*0.87*	*0.47*
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										**prognóza**		
Consumer prices	3.0	0.3	-0.1	0.4	0.5	0.2	0.5	-0.1	-0.2	**0.5**	**0.0**	**0.2**
Regulated prices	11.4	0.5	0.1	0.5	0.1	0.0	1.5	0.1	0.1	**1.5**	**0.1**	**0.1**
(contribution to consumer price inflation)	*1.95*	*0.09*	*0.01*	*0.09*	*0.03*	*0.01*	*0.28*	*0.01*	*0.02*	***0.28***	***0.02***	***0.02***
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*	***0.00***	***0.00***	***0.00***
Net inflation	0.3	0.2	-0.2	0.1	0.2	0.2	0.3	-0.2	-0.3	0.2	0.0	0.2
(contribution to consumer price inflation)	*0.22*	*0.17*	*-0.14*	*0.06*	*0.14*	*0.15*	*0.25*	*-0.13*	*-0.21*	*0.19*	*-0.03*	*0.15*
Prices of food, beverages and tobacco	-0.5	-0.3	-0.8	-0.3	-0.2	-0.2	0.1	-0.4	0.6	**0.8**	**0.0**	**0.4**
(contribution to consumer price inflation)	*-0.13*	*-0.07*	*-0.21*	*-0.07*	*-0.06*	*-0.06*	*0.04*	*-0.11*	*0.15*	***0.20***	***0.01***	***0.10***
Adjusted inflation excluding fuels	0.6	0.6	0.1	0.2	0.1	0.1	0.5	0.2	-0.6	**0.1**	**0.1**	**0.1**
(contribution to consumer price inflation)	*0.34*	*0.30*	*0.05*	*0.13*	*0.05*	*0.07*	*0.24*	*0.11*	*-0.29*	***0.06***	***0.04***	***0.07***
Fuel prices	0.1	-1.4	0.4	0.0	3.9	3.3	-0.6	-3.1	-1.7	**-2.0**	**-2.0**	**-0.6**
(contribution to consumer price inflation)	*0.00*	*-0.06*	*0.01*	*0.00*	*0.15*	*0.13*	*-0.03*	*-0.13*	*-0.07*	***-0.08***	***-0.08***	***-0.02***
Monetary-policy relevant inflation	*1.8*	*0.3*	*-0.2*	*0.1*	*0.2*	*0.2*	*0.5*	*-0.1*	*-0.2*	***0.5***	***0.0***	***0.2***

CNB calculation based on CZSO data

Table 3

CONSUMER PRICES percentage changes; average for 2005 = 100

Group	Constant 2005 weights in per mille	Months 1	2	3	4	5	6	7	8	9	10	11	12	Average since start of year
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	114.1	-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														
Furnishings, household equipment and routine	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
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	114.1	-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	114.1	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	114.1	-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	13.0	12.9	12.7				12.1
Food and non-alcoholic beverages	162.6	15.5	14.9	14.5	15.1	15.9	15.9	15.4	13.6	12.9				14.9
Alcoholic beverages and tobacco	81.7	18.8	19.0	18.3	19.1	19.5	19.7	21.2	23.3	26.7				20.6
Clothing and footwear	52.4	-8.8	-9.1	-8.2	-7.0	-6.8	-6.9	-8.6	-9.4	-8.2				-8.1
Housing, water, electricity, gas and other fuels	248.3	17.5	18.7	19.1	19.8	20.1	20.3	21.8	22.1	22.3				20.2
Furnishings, household equipment and routine														
maintenance of the house	58.1	-1.2	-1.3	-1.1	-0.8	-0.7	-0.6	-0.6	-0.7	-1.1				-0.9
Health	17.9	42.4	42.2	41.3	41.1	42.0	42.2	43.4	43.7	44.0				42.5
Transport	114.1	6.0	5.5	5.7	5.7	7.1	8.0	7.6	6.3	5.4				6.4
Communications	38.7	5.2	5.0	5.0	5.0	4.8	4.7	4.3	4.2	3.0				4.6
Recreation and culture	98.6	2.2	3.2	2.3	1.8	1.5	2.0	4.9	5.7	1.8				2.8
Education	6.2	7.5	7.7	7.7	7.7	7.7	7.8	7.8	7.9	11.1				8.1
Hotels, cafés and restaurants	58.4	10.5	11.5	11.8	12.3	12.7	13.1	13.5	13.5	14.1				12.6
Miscellaneous goods and services	63.0	8.3	8.5	8.6	8.8	8.8	8.9	8.9	9.4	9.3				8.8

Source: CZSO

Table 4

CONSUMER PRICES - TRADABLES AND NONTRADABLES annual percentage changes

2003	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
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	8.3	5.2	4.3			
Other tradables excluding food and fuel prices	-1.3	-1.3	-1.4	-1.1	-1.1	-1.4	-1.4	-1.4	-1.6			
Prices of tradables excluding regulated prices	*4.1*	*4.6*	*4.9*	*5.0*	*5.1*	*5.2*	*5.3*	*5.4*	*5.7*			
Prices of non-food commodities excluding regulated prices	2.8	3.2	3.1	3.0	3.0	3.1	3.0	2.9	2.9			
Prices of tradables - food	*13.3*	*12.2*	*10.9*	*10.0*	*10.0*	*9.5*	*9.6*	*8.2*	*8.6*			
Prices of nontradables - regulated prices	15.0	14.9	15.0	14.8	14.6	14.6	15.9	15.8	15.7			

CNB calculation based on CZSO data

Table 5

INFLATION EXPECTATIONS OF SELECTED ECONOMIC SECTORS percentage changes

	CPI			
	Financial market		Businesses	
	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	3.7
4/08	3.0	2.6	-	-
5/08	3.1	2.6	-	-
6/08	3.2	2.7	4.9	4.0
7/08	3.1	2.6	-	-
8/08	3.0	2.6	-	-
9/08	2.8	2.6	4.1	3.8

Source: CNB statistical survey

Table 6

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	2003 12	2004 12	2005 12	2006 12	2007 12	2008 9
European Union (27 countries)	2.1	2.5	2.3	2.2	3.2	4.2
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	5.5
Bulgaria	5.6	4.0	7.4	6.1	11.6	11.4
Czech Republic	0.9	2.5	1.9	1.5	5.5	6.4
Denmark	1.2	0.9	2.2	1.7	2.4	4.5
Germany	1.0	2.3	2.1	1.4	3.1	3.0
Estonia	1.2	4.8	3.6	5.1	9.7	10.8
Ireland	3.0	2.4	1.9	3.0	3.2	3.2
Greece	3.1	3.1	3.5	3.2	3.9	4.7
Spain	2.7	3.3	3.7	2.7	4.3	4.6
France	2.4	2.3	1.8	1.7	2.8	3.3
Italy	2.5	2.4	2.1	2.1	2.8	3.9
Cyprus	2.2	3.9	1.4	1.5	3.7	5.0
Latvia	3.5	7.4	7.1	6.8	14.0	14.7
Lithuania	-1.3	2.8	3.0	4.5	8.2	11.3
Luxembourg	2.4	3.5	3.4	2.3	4.3	4.8
Hungary	5.6	5.5	3.3	6.6	7.4	5.6
Malta	2.4	1.9	3.4	0.8	3.1	4.9
Netherlands	1.6	1.2	2.0	1.7	1.6	2.8
Austria	1.3	2.5	1.6	1.6	3.5	3.7
Poland	1.6	4.4	0.8	1.4	4.2	4.1
Portugal	2.3	2.6	2.5	2.5	2.7	3.2
Romania	14.1	9.3	8.7	4.9	6.7	7.3
Slovenia	4.7	3.3	2.4	3.0	5.7	5.6
Slovakia	9.4	5.8	3.9	3.7	2.5	4.5
Finland	1.2	0.1	1.1	1.2	1.9	4.7
Sweden	1.8	0.9	1.3	1.4	2.5	4.2
United Kingdom	1.3	1.7	1.9	3.0	2.1	5.2

Source: Eurostat

Table 7

MONETARY SURVEY

positions at month-ends in CZK billions

	2003 12	2004 12	2005 12	2006 12	2007 12	2008 8
Total assets	1,766.1	1,844.1	1,992.1	2,188.7	2,478.3	2,533.5
Net external assets (NEAs)	821.5	863.3	1,076.4	972.6	970.4	989.3
NEAs of CNB	687.5	634.1	724.7	659.1	633.5	628.0
NEAs of OMFIs	134.0	229.3	351.7	313.5	336.9	361.3
Net domestic assets	944.5	980.8	915.8	1,216.0	1,508.0	1,544.3
Domestic loans	1,145.6	1,147.0	1,166.6	1,422.4	1,700.4	1,736.6
Net credit to government (NCG) (including securities)	354.0	257.5	99.1	136.3	72.2	-89.2
NCG to central government (including securities)	408.7	312.4	163.0	206.9	146.1	63.6
NCG to other government (including securities)	-54.8	-54.9	-64.0	-70.6	-73.9	-152.8
Loans to corporations and households (excluding securities)	791.6	889.4	1,067.5	1,286.1	1,628.2	1,825.8
Loans to corporations (excluding securities)	554.1	574.2	649.7	745.5	901.9	997.9
Loans to households (excluding securities)	237.5	315.2	417.8	540.6	726.3	827.8
Other net items (including securities and capital)	-201.1	-166.2	-250.8	-206.4	-192.4	-192.3
Holdings of securities	16.6	18.8	14.4	14.0	26.6	17.0
Issued securities	-51.6	-74.9	-119.1	-121.8	-159.9	-151.0
Liabilities						
Monetary aggregate M2	1,766.1	1,844.1	1,992.1	2,188.7	2,478.3	2,533.5
Monetary aggregate M1	902.8	962.3	1,087.3	1,239.8	1,438.7	1,447.1
Currency in circulation	221.4	236.8	263.8	295.3	324.1	329.3
Overnight deposits	681.4	725.6	823.5	944.5	1,114.6	1,117.8
Overnight deposits - households	372.1	410.8	456.6	529.3	601.2	689.5
Overnight deposits - corporations	309.3	314.7	367.0	415.3	513.4	428.2
M2-M1 (quasi money)	863.3	881.8	904.8	948.9	1,039.7	1,086.4
Deposits with agreed maturity	666.4	675.3	671.4	674.9	709.8	714.0
Deposits with agreed maturity - households	439.8	458.6	445.1	433.6	429.0	413.8
Deposits with agreed maturity - corporations	226.6	216.7	226.3	241.3	280.8	300.1
Deposits redeemable at notice	185.6	198.8	224.1	265.6	315.5	349.1
Deposits redeemable at notice - households	182.3	194.6	220.6	260.8	311.2	343.2
Deposits redeemable at notice - corporations	3.2	4.2	3.6	4.8	4.3	5.9
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	7.5
M2	6.9	4.4	8.0	9.9	13.2	8.3
Loans to corporations and households	9.3	12.4	20.0	20.5	26.6	21.8
M2-M1 (deposits)	-0.1	2.1	2.6	4.9	9.6	9.4
Annual percentage growth rates						
M1	15.5	8.3	13.1	14.7	16.6	8.7
M2	8.1	5.8	8.1	10.6	13.8	9.6
Loans to corporations and households	11.8	15.3	20.8	21.6	27.3	23.3
M2-M1 (deposits)	1.2	3.3	2.6	5.7	10.2	10.8

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 9
1. Average PRIBOR [1]						
- 1 day	1.98	2.49	2.00	2.48	3.40	3.45
- 7 day	2.02	2.51	2.04	2.51	3.58	3.58
- 14 day	2.03	2.51	2.04	2.51	3.63	3.59
- 1 month	2.04	2.53	2.05	2.52	3.98	3.67
- 2 month	2.06	2.55	2.10	2.54	4.02	3.74
- 3 month	2.08	2.57	2.17	2.56	4.05	3.81
- 6 month	2.13	2.67	2.33	2.67	4.09	3.83
- 9 month	2.22	2.76	2.44	2.79	4.15	3.85
- 12 month	2.30	2.85	2.53	2.89	4.20	3.89
2. Average PRIBID [1]						
- 1 day	1.88	2.39	1.90	2.38	3.30	3.35
- 7 day	1.92	2.41	1.94	2.41	3.48	3.46
- 14 day	1.93	2.41	1.94	2.41	3.53	3.47
- 1 month	1.94	2.43	1.95	2.42	3.88	3.55
- 2 month	1.96	2.45	2.00	2.44	3.92	3.63
- 3 month	1.98	2.47	2.07	2.46	3.95	3.69
- 6 month	2.03	2.57	2.23	2.57	3.99	3.72
- 9 month	2.12	2.66	2.34	2.69	4.05	3.74
- 12 month	2.20	2.75	2.43	2.79	4.10	3.77

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

percentages; monthly averages

B. FRA RATES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 9
3 * 6	2.23	2.74	2.46	2.71	4.15	3.59
3 * 9	2.36	2.81	2.57	2.83	4.16	3.57
6 * 9	2.47	2.85	2.66	2.92	4.15	3.46
6 * 12	2.64	2.92	2.74	3.02	4.17	3.47
9 * 12	2.77	2.97	2.79	3.08	4.16	3.45
9*12 - 3*6 spread	0.55	0.24	0.33	0.37	0.02	-0.15
6*12 - 3*9 spread	0.28	0.12	0.17	0.19	0.02	-0.11

percentages; monthly averages

C. IRS RATES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 9
1Y	2.41	2.82	2.56	2.86	4.19	3.62
2Y	2.98	3.06	2.82	3.09	4.20	3.62
3Y	3.38	3.27	3.00	3.21	4.22	3.65
4Y	3.69	3.45	3.13	3.31	4.26	3.67
5Y	3.93	3.62	3.25	3.40	4.30	3.70
6Y	4.13	3.77	3.33	3.46	4.34	3.74
7Y	4.29	3.89	3.40	3.52	4.38	3.79
8Y	4.43	4.00	3.46	3.58	4.42	3.87
9Y	4.54	4.09	3.52	3.63	4.47	3.95
10Y	4.64	4.17	3.58	3.68	4.52	4.04
15Y	4.97	4.40	3.78	3.83	4.71	4.31
20Y	5.11	4.54	3.88	3.89	4.76	4.33
5Y - 1Y spread	1.52	0.80	0.69	0.54	0.11	0.08
10Y - 1Y spread	2.23	1.35	1.02	0.82	0.33	0.42

Table 9

NOMINAL AND REAL INTEREST RATES (ex post approach)

percentages

	Nominal rates				Real rates based on CPI				Real rates based on PPI		
	PRIBOR		client rates		PRIBOR		client rates		PRIBOR		new
	2W	1Y	new loans	time deposits	2W	1Y	new loans	time deposits	2W	1Y	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	7.2	2.6	-3.5	-3.2	-0.3	-4.6	-1.7	-1.4	1.5
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	6.9	2.6	-2.7	-2.2	0.2	-3.8	-1.5	-0.9	1.5
7/08	3.8	4.3	7.2	2.7	-2.9	-2.4	0.3	-3.9	-1.4	-0.9	1.9
8/08	3.6	3.9	6.9	2.7	-2.7	-2.4	0.3	-3.6	-2.0	-1.7	1.1
9/08	3.6	3.9	-	-	-2.8	-2.5	-	-	-1.8	-1.5	-

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	3.6	-0.5	-1.0	-0.4	2.0	-2.1
7/08	0.7	1.2	4.0	-0.4	-	-	-	-
8/08	0.6	0.9	3.8	-0.3	-	-	-	-
9/08	0.8	1.1	-	-	-0.5	-0.2	-	-

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 12	2004 12	2005 12	2006 12	2007 12	2008 8
Koruna interest rates on loans provided by banks to residents:						
Households and non-profit institutions						
serving households (S.14+S.15) - total	8.24	7.96	7.20	6.80	6.63	6.78
- maturity up to 1 year	11.21	12.82	12.96	13.75	13.96	13.85
- maturity over 1 year and up to 5 years	10.17	12.40	11.43	11.35	12.46	11.25
- maturity over 5 years	6.65	6.39	5.96	5.84	5.79	6.08
for consumption - total	13.83	14.89	13.88	13.59	13.32	12.95
- maturity up to 1 year	14.26	15.48	16.22	17.31	17.34	16.86
- maturity over 1 year and up to 5 years	13.86	15.17	14.94	14.67	15.13	12.84
- maturity over 5 years	13.21	13.45	11.85	11.93	11.65	12.02
for house purchase - total	6.31	5.93	5.24	4.91	4.89	5.10
- maturity up to 1 year	6.24	4.48	4.29	5.39	6.56	6.98
- maturity over 1 year and up to 5 years	7.05	6.57	6.22	6.15	6.19	6.29
- maturity over 5 years	6.09	5.89	5.19	4.88	4.86	5.08
other - total	7.80	7.50	7.09	6.87	6.98	7.07
- maturity up to 1 year	8.49	8.96	9.09	9.52	10.35	10.22
- maturity over 1 year and up to 5 years	8.02	7.63	7.17	7.74	8.56	8.83
- maturity over 5 years	7.02	6.58	5.79	5.51	5.70	5.92
Non-financial corporations (S.11) - total	4.53	4.75	4.20	4.45	5.52	5.58
- maturity up to 1 year	4.08	4.35	3.84	4.23	5.37	5.38
- maturity over 1 year and up to 5 years	4.64	4.68	4.18	4.38	5.60	5.70
- maturity over 5 years	5.14	5.39	4.72	4.74	5.63	5.75
Koruna interest rates on deposits accepted by banks from residents:						
Households and non-profit institutions						
serving households (S.14+S.15) - total	1.30	1.41	1.25	1.28	1.41	1.58
overnight	0.50	0.52	0.40	0.41	0.55	0.86
with agreed maturity - total	2.02	2.13	1.92	1.96	2.11	2.25
- with agreed maturity up to 2 years	0.96	1.37	1.03	1.49	2.14	2.46
- with agreed maturity over 2 years	2.90	2.69	2.50	2.31	2.08	1.99
redeemable at notice - total	1.26	1.63	1.71	1.97	2.14	2.18
- redeemable at notice up to 3 months	1.67	2.14	2.27	2.34	2.42	2.41
- redeemable at notice over 3 months	0.98	1.12	0.81	1.00	1.08	1.05
Non-financial corporations (S.11) - total	0.85	1.21	0.91	1.18	1.67	1.92
overnight	0.64	0.68	0.52	0.72	1.06	1.13
with agreed maturity - total	1.50	2.08	1.64	2.09	3.01	3.13
- with agreed maturity up to 2 years	1.49	2.05	1.61	2.08	3.02	3.14
- with agreed maturity over 2 years	3.04	3.12	2.47	2.28	2.62	2.84
redeemable at notice - total	1.17	1.60	1.14	1.64	1.89	2.37
- redeemable at notice up to 3 months	1.14	1.49	1.07	1.53	1.79	2.32
- redeemable at notice over 3 months	1.32	2.26	1.64	2.21	2.93	3.32

Table 12

BALANCE OF PAYMENTS [1)]

in CZK millions

	2003 Q1 - 4	2004 Q1 - 4	2005 Q1 - 4	2006 Q1 - 4	2007 Q1 - 4	2008 [2)] Q2
A. Current account	-160,614.6	-147,455.7	-39,826.1	-82,245.4	-62,613.5	-61,021.3
Balance of trade	-69,793.0	-13,384.0	59,369.5	65,094.0	120,616.9	41,411.2
exports	1,370,930.0	1,722,657.4	1,868,585.8	2,144,573.4	2,479,233.8	651,054.7
imports	1,440,723.0	1,736,041.4	1,809,216.3	2,079,479.4	2,358,616.9	609,643.5
Services	13,236.7	16,564.4	36,937.1	46,403.8	56,626.1	18,707.0
credit	219,151.1	247,084.8	282,411.4	314,032.3	346,583.3	90,222.9
transport	60,556.3	69,859.0	76,701.5	85,700.7	101,840.5	26,306.9
travel	100,310.1	107,231.8	112,234.4	124,744.2	134,058.3	34,626.4
others	58,284.7	69,994.0	93,475.5	103,587.4	110,684.5	29,289.6
debit	205,914.4	230,520.4	245,474.3	267,628.5	289,957.2	71,515.9
transport	33,725.7	47,571.4	56,254.1	62,140.7	73,128.4	17,674.8
travel	54,419.2	58,398.0	57,777.6	62,174.3	73,450.3	19,539.3
others	117,769.5	124,551.0	131,442.6	143,313.5	143,378.5	34,301.8
Income	-119,858.4	-156,637.9	-143,427.6	-180,853.8	-221,674.7	-122,728.0
credit	75,508.3	87,206.1	105,728.7	127,975.4	141,589.4	30,101.4
debit	195,366.7	243,844.0	249,156.3	308,829.2	363,264.1	152,829.4
Current transfers	15,800.1	6,001.8	7,294.9	-12,889.4	-18,181.8	1,588.5
credit	46,976.7	53,050.6	76,655.5	56,193.1	69,680.1	18,818.5
debit	31,176.6	47,048.8	69,360.6	69,082.5	87,861.9	17,230.0
B. Capital account	-82.2	-14,186.5	4,689.3	8,454.6	19,654.8	12,782.5
credit	198.2	5,608.2	5,525.2	14,269.6	21,273.7	13,033.3
debit	280.4	19,794.7	835.9	5,815.0	1,618.9	250.8
Total A + B	*-160,696.8*	*-161,642.2*	*-35,136.8*	*-73,790.8*	*-42,958.7*	*-48,238.8*
C. Financial account	157,093.5	177,312.0	154,767.4	92,417.9	94,413.2	73,040.8
Direct investment	53,500.3	101,776.3	279,630.5	90,261.7	158,185.5	57,815.1
abroad	-5,815.7	-26,067.3	449.0	-33,169.6	-27,088.9	-2,614.9
equity capital and reinvested earnings	-3,124.6	-20,260.0	-4,262.8	-33,886.7	-16,033.2	-4,072.6
other capital	-2,691.1	-5,807.3	4,711.8	717.1	-11,055.7	1,457.7
in the Czech Republic	59,316.0	127,843.6	279,181.5	123,431.3	185,274.4	60,430.0
equity capital and reinvested earnings	59,350.4	121,482.9	262,471.8	129,598.6	188,103.8	43,678.6
other capital	-34.4	6,360.7	16,709.7	-6,167.3	-2,829.4	16,751.4
Portfolio investment	-35,719.1	53,032.5	-81,243.8	-26,882.5	-53,232.1	39,306.2
assets	-83,892.7	-70,245.2	-82,095.7	-68,383.5	-94,653.0	-18,673.4
equity securities	5,630.5	-36,457.1	-35,342.4	-43,559.2	-61,643.8	-9,101.1
debt securities	-89,523.2	-33,788.1	-46,753.3	-24,824.3	-33,009.2	-9,572.3
liabilities	48,173.6	123,277.7	851.9	41,501.0	41,420.9	57,979.6
equity securities	30,133.5	19,558.6	-36,408.9	5,758.0	-5,855.7	6,832.4
debt securities	18,040.1	103,719.1	37,260.8	35,743.0	47,276.6	51,147.2
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	-12,339.8	-24,080.5
assets	67,071.3	-30,507.4	-114,430.6	-31,054.7	-158,727.3	-119,454.8
long-term	1,141.3	20,434.2	-16,338.0	-6,119.2	-47,220.2	-22,847.5
CNB	-	-184.9	-176.3	-	2.3	-
commercial banks	-999.9	505.0	-24,641.7	-10,715.8	-45,465.8	-23,324.6
government	5,714.3	22,790.7	14,056.5	4,983.6	-691.7	26.0
other sectors	-3,573.1	-2,676.6	-5,576.5	-387.0	-1,065.0	451.1
short-term	65,930.0	-50,941.6	-98,092.6	-24,935.5	-111,507.1	-96,607.3
commercial banks	44,971.2	-34,248.5	-87,137.0	24,866.4	-88,574.5	-69,101.7
government	2,193.8	92.9	9.4	-	-	-
other sectors	18,765.0	-16,786.0	-10,965.0	-49,801.9	-22,932.6	-27,505.6
liabilities	68,380.9	56,218.6	73,609.9	66,330.3	146,387.5	95,374.3
long-term	26,361.6	36,550.9	49,022.1	68,702.1	39,055.3	18,228.6
CNB	-20.4	-20.5	-19.1	-18.1	-18.1	-
commercial banks	-5,038.0	-1,410.8	311.1	12,733.4	28,170.7	3,004.3
government	10,304.7	10,296.1	20,809.1	9,847.3	2,874.0	3,847.2
other sectors	21,115.3	27,686.1	27,921.0	46,139.5	8,028.7	11,377.1
short-term	42,019.3	19,667.7	24,587.8	-2,371.8	107,332.2	77,145.7
CNB	-21.4	843.7	5,060.1	-4,147.6	-552.8	-303.5
commercial banks	37,899.4	-15,344.5	14,808.8	2,250.5	89,693.2	47,377.2
government	-	-	-	-	-	-
other sectors	4,141.3	34,168.5	4,718.9	-474.7	18,191.8	30,072.0
Total A + B + C	*-3,603.3*	*15,669.8*	*119,630.6*	*18,627.1*	*51,454.5*	*24,802.0*
D. Net errors and omissions, valuation changes	16,506.7	-8,887.6	-26,779.0	-16,552.7	-35,788.0	-7,284.4
Total A + B + C + D	*12,903.4*	*6,782.2*	*92,851.6*	*2,074.4*	*15,666.5*	*17,517.6*
E. Change in reserves (- increase)	-12,903.4	-6,782.2	-92,851.6	-2,074.4	-15,666.5	-17,517.6

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] 30 Jun.
Assets	1,537,284.6	1,549,334.9	1,875,403.8	1,888,248.1	2,088,989.0	2,166,467.3
Direct investment abroad	58,581.5	84,087.4	88,772.7	104,743.3	126,025.0	123,590.0
- equity capital	50,965.5	70,664.0	80,061.1	96,748.8	107,880.0	103,590.0
- other capital	7,616.0	13,423.4	8,711.6	7,994.5	18,145.0	20,000.0
Portfolio investment	343,968.7	372,237.6	467,808.5	532,163.4	606,406.8	576,887.8
- equity securities	47,337.7	76,121.3	146,957.6	202,322.0	256,779.1	248,865.1
- debt securities	296,631.0	296,116.3	320,850.9	329,841.4	349,627.7	328,022.7
Financial derivatives	24,129.5	39,695.3	42,556.2	53,406.7	67,488.3	102,912.6
Other investment	419,090.0	417,071.9	549,564.4	541,297.0	658,052.7	785,808.0
long-term	157,598.6	118,432.7	136,314.1	128,334.6	163,697.5	189,645.6
- CNB	468.4	600.0	3,184.5	2,993.8	2,848.9	2,657.6
- commercial banks	66,121.3	58,137.8	83,231.1	87,666.2	126,639.6	155,199.9
- government	79,483.9	48,574.9	38,408.5	29,894.6	27,359.0	27,398.1
- other sectors	11,525.0	11,120.0	11,490.0	7,780.0	6,850.0	4,390.0
short-term	261,491.4	298,639.2	413,250.3	412,962.4	494,355.2	596,162.4
- CNB	98.8	71.7	71.1	131.3	102.1	72.0
- commercial banks	161,150.2	184,588.0	273,879.1	233,831.1	310,703.1	384,980.4
of which: gold and foreign exchange	115,884.8	128,119.8	198,042.8	166,588.9	200,945.9	233,078.2
- government	102.4	9.5	0.1	-	-	-
- other sectors	100,140.0	113,970.0	139,300.0	179,000.0	183,550.0	211,110.0
CNB reserves	691,514.9	636,242.7	726,702.0	656,637.7	631,016.2	577,268.9
- gold	4,784.3	4,253.9	5,526.8	5,690.9	6,431.6	5,985.6
- SDR	238.7	118.0	289.8	346.0	363.3	327.4
- reserve position in the IMF	11,949.9	9,137.5	4,447.7	2,324.6	1,521.6	1,498.7
- foreign exchange	674,451.8	610,659.1	716,315.2	648,192.1	618,048.0	553,300.4
- other reserve assets	90.2	12,074.2	122.5	84.1	4,651.7	16,156.8
Liabilities	2,064,768.3	2,374,328.4	2,710,646.3	2,969,225.5	3,329,266.4	3,539,956.5
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	1,904,581.8
- equity capital	1,009,391.8	1,121,842.3	1,316,101.8	1,497,465.8	1,665,564.6	1,751,756.8
- other capital	152,391.8	158,752.5	175,462.2	169,294.9	161,660.0	152,825.0
Portfolio investment	223,620.4	381,019.4	437,806.0	487,994.5	556,342.4	572,591.8
- equity securities	140,788.6	208,872.1	220,495.8	241,594.8	262,518.8	242,951.2
- debt securities	82,831.8	172,147.3	217,310.2	246,399.7	293,823.6	329,640.6
Financial derivatives	19,448.3	31,806.1	31,868.4	36,482.0	52,363.2	78,594.6
Other investment	659,916.0	680,908.1	749,407.9	777,988.3	893,336.2	984,188.3
long-term	360,279.2	373,456.4	417,645.7	464,073.2	485,570.5	477,850.3
- 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	93,851.1
- government	22,456.0	32,065.4	52,322.1	61,686.4	64,197.4	62,728.7
- other sectors	279,670.8	289,300.0	313,636.0	340,096.0	333,915.5	321,270.5
short-term	299,636.8	307,451.7	331,762.2	313,915.1	407,765.7	506,338.0
- CNB	22.8	866.5	5,926.5	1,779.0	1,226.2	216.8
- commercial banks	208,534.0	185,025.2	201,315.7	193,816.1	272,729.5	351,581.2
- government	-	-	-	-	-	-
- other sectors	91,080.0	121,560.0	124,520.0	118,320.0	133,810.0	154,540.0
Net investment position	-527,483.7	-824,993.5	-835,242.5	-1,080,977.4	-1,240,277.4	-1,373,489.2

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] 30 Jun.
Debt in convertible currencies	895,139.6	1,011,807.9	1,142,180.3	1,193,682.9	1,348,819.8	1,466,653.9
of which:						
Long-term	535,995.9	667,327.6	783,533.1	872,113.2	926,756.3	936,570.3
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	115,263.8
- government	69,029.9	147,729.1	221,003.4	247,019.8	266,992.2	313,082.4
- other sectors	393,593.5	455,181.8	497,063.0	548,639.6	551,902.6	508,224.1
by creditor						
- foreign banks	251,535.3	269,081.3	276,594.3	324,908.9	348,801.1	338,172.1
- 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	105,061.3
- suppliers and direct investors	109,287.9	143,301.2	170,586.6	179,903.7	173,410.0	146,575.0
- other investors	91,393.1	170,082.7	221,528.5	250,701.5	296,639.6	339,512.3
Short-term	359,143.7	344,480.3	358,647.2	321,569.7	422,063.5	530,083.6
by debtor						
- CNB	22.8	866.5	5,926.5	1,779.0	1,226.2	216.8
- commercial banks	210,017.0	188,495.9	202,616.9	196,529.5	274,731.5	353,701.2
- government	710.0	3,334.6	1,102.4	350.0	5,722.8	320.0
- other sectors	148,393.9	151,783.3	149,001.4	122,911.2	140,383.0	175,845.6
by creditor						
- foreign banks	218,436.1	202,372.6	197,820.7	187,186.7	240,864.7	323,275.8
- multilateral institutions	-	861.3	5,918.8	1,768.2	1,220.3	213.2
- suppliers and direct investors	105,563.9	98,611.3	102,235.6	78,391.2	88,700.0	119,175.0
- other investors	35,143.7	42,635.1	52,672.1	54,223.6	91,278.5	87,419.6
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	1,466,653.9
of which:						
- long-term	535,995.9	667,327.6	783,533.1	872,113.2	926,756.3	936,570.3
- short-term	359,143.7	344,480.3	358,647.2	321,569.7	422,063.5	530,083.6
Total long-term debt	535,995.9	667,327.6	783,533.1	872,113.2	926,756.3	936,570.3
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	422,966.4
- liabilities of entities with majority private capital	313,875.0	395,125.5	461,034.7	529,871.3	551,566.5	513,603.9

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 7 – 9
CZK exchange rate against selected currencies						
- annual/quarterly averages						
1 EUR	31.84	31.90	29.78	28.34	27.76	24.09
1 USD	28.23	25.70	23.95	22.61	20.31	16.05
100 SKK	76.75	79.69	77.15	76.16	82.20	79.48
	12	**12**	**12**	**12**	**12**	**9**
- monthly averages						
1 EUR	32.31	30.65	28.98	27.78	26.30	24.50
1 USD	26.32	22.87	24.44	21.02	18.04	17.05
100 SKK	78.57	78.81	76.51	79.44	78.77	80.89
	31.12.	**31.12.**	**31.12.**	**31.12.**	**31.12.**	**30.9.**
- last day of the month						
1 EUR	32.41	30.47	29.01	27.50	26.62	24.67
1 USD	25.65	22.37	24.59	20.88	18.08	17.25
100 SKK	78.71	78.63	76.57	79.86	79.18	81.40

B. NOMINAL EFFECTIVE RATE	2003	2004	2005	2006	2007	2008 9
CZK nominal effective exchange rate (percentages)						
(2005=100)						
weights - foreign trade turnover	93.97	94.34	100.00	104.78	106.65	119.67
weights - foreign trade turnover SITC 5-8	93.82	94.19	100.00	104.96	106.98	120.24

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 9
CZK real effective exchange rate (percentages)						
(2005=100)						
a) industrial producer prices						
weights - foreign trade turnover	92.96	95.71	100.00	102.07	104.48	114.53
weights - foreign trade turnover SITC 5-8	92.43	95.40	100.00	102.38	105.02	115.39
b) consumer prices						
weights - foreign trade turnover	95.28	95.28	100.00	104.33	106.89	121.88
weights - foreign trade turnover SITC 5-8	94.61	94.89	100.00	104.73	107.57	123.24

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

last days of months in points

D. STOCK MARKET INDICES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 9
BCPP						
PX	659.1	1,032.0	1,473.0	1,588.9	1,815.1	1,204.7
PX-GLOB	816.9	1,232.7	1,811.3	1,987.4	2,268.4	1,536.9

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	-	-
8 August	3.50	2.50	4.50	-	-
7 November	2.75	1.75	3.75	-	-

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 Q2
Gross domestic product						
- in CZK millions	2,367,818	2,474,006	2,630,273	2,808,784	2,993,414	797,570
- percentages	3.6	4.5	6.3	6.8	6.6	4.5
Final consumption						
- in CZK millions	1,817,625	1,834,457	1,882,570	1,949,121	2,031,614	517,692
- percentages	6.3	0.9	2.6	3.5	4.2	2.9
of which:						
Households						
- in CZK millions	1,258,158	1,294,377	1,327,217	1,398,284	1,481,252	381,326
- percentages	6.0	2.9	2.5	5.4	5.9	3.4
Government						
- in CZK millions	545,999	526,656	541,825	538,094	540,618	134,663
- percentages	7.1	-3.5	2.9	-0.7	0.5	2.0
Non-profit institutions						
- in CZK millions	13,362	14,579	14,629	16,195	16,562	4,025
- percentages	6.2	9.1	0.3	10.7	2.3	-2.3
Gross capital formation						
- in CZK millions	709,600	773,916	767,420	847,801	928,964	244,611
- percentages	-1.4	9.1	-0.8	10.5	9.6	-4.3
of which:						
Fixed capital						
- in CZK millions	689,117	716,285	729,043	776,498	821,400	217,624
- percentages	0.4	3.9	1.8	6.5	5.8	4.1
Changes in inventories						
- in CZK millions	15,642	54,706	35,654	68,587	104,708	26,234
Acquisitions less disposals of valuables						
- in CZK millions	4,841	2,925	2,723	2,716	2,856	753
- percentages	40.8	-39.6	-6.9	-0.2	5.2	5.7
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	767,635
- percentages	9.3	23.0	11.6	16.6	15.5	14.6
Exports of services						
- in CZK millions	212,807	226,614	251,989	278,317	302,937	84,065
- percentages	-4.2	6.5	11.2	10.4	8.8	10.6
Imports of goods						
- in CZK millions	1,623,393	1,928,984	2,032,807	2,332,984	2,681,556	725,446
- percentages	9.0	18.8	5.4	14.8	14.9	9.7
Imports of services						
- in CZK millions	235,915	263,438	268,311	295,911	311,869	80,921
- percentages	1.8	11.7	1.8	10.3	5.4	8.6
Final domestic demand						
- in CZK millions	2,506,742	2,550,742	2,611,613	2,725,619	2,853,014	735,316
- percentages	4.6	1.8	2.4	4.4	4.7	3.2
Aggregate domestic demand						
- in CZK millions	2,527,225	2,608,373	2,649,990	2,796,922	2,960,578	762,303
- percentages	4.0	3.2	1.6	5.5	5.9	0.5
Gross domestic product at current prices						
- in CZK millions	2,577,110	2,814,762	2,983,862	3,215,642	3,551,364	960,692
- percentages	4.6	9.2	6.0	7.8	10.4	6.4

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