

GLOSSARY

Capital adequacy ratio	The ratio of regulatory capital to total risk-weighted assets.
Carry trade	A speculative strategy on the financial markets where an investor borrows money in a currency with a lower interest rate and invests it in a currency with a higher interest rate in order to realise the profit arising from the interest rate differential. However, this profit can only be realised on the assumption that any movement of the exchange rate between the financing currency and the investment currency does not eliminate the gain from the interest rate differential.
Default	The failure of a debtor to pay principal and/or interest when due.
Default rate	The 12-month default rate is the number of new defaulters over a 12-month reference period as a proportion of the total number of entities existing in that period. The default rate can also be defined analogously in terms of volume based on the obligations assumed by debtors.
Equalisation provision	The equalisation provision is set aside for individual areas of non-life insurance and is intended to equalise increased insurance claim costs arising due to fluctuations in loss ratios as a result of facts independent of the will of the insurance company.
Global excess liquidity	Global excess liquidity is a name for the sharp rise in credit and the money stock in many countries in recent years. The deviations of the money stock and credit to the private sector as a proportion of GDP from their long-term trends are viewed as the most significant indicators of this phenomenon. The global liquidity excess is put into context with central banks' low monetary policy rates since 2001 and with the persisting historically low level of long-term nominal interest rates. See also Global savings surplus.
Global savings surplus	A situation seen over the past few years primarily in emerging economies, where there has been large growth in savings which cannot be invested in credible assets in those economies. This has resulted in huge capital flows from emerging economies to advanced countries. The effect has been compounded by growth in corporate sector savings in advanced countries as a result of relatively low investment. This is usually linked with an earlier investment wave, which, amid belief in the effects of the "new economy", generated excess capacity. One of the overall effects is a fall in global real interest rates, manifesting itself also in a historically low level of long-term nominal interest rates in key economies.
Herfindahl index (HI)	The sum of the squares of the market shares of all entities operating on a given market. It expresses the level of concentration in the market. It takes values between 0 and 10,000. The lower the HI, the less concentrated the market.
Interest rate spread	Also interest rate differential; the spread between the interest rate on a contract (deposit, security) and a reference interest rate.
Loan-to-value (LTV) ratio	The ratio of a loan to the value of pledged property
Natural population increase	The difference between the number of live births and the number of deaths in the same period of time in a given area. See also Total population increase.
Over the counter (OTC) operations	Operations not conducted on an organised market.

Present value of a basis point (PVBP)

The change in the real value of an instrument given a parallel shift in the interest rate curve of 1 basis point, i.e. 0.01%.

Property developers/developments

Companies/projects whose aim is to build a complex of residential and commercial property. Property developers' work includes choosing an appropriate site, setting up a project, obtaining the necessary permits, building the necessary infrastructure, constructing the buildings and selling the property. Developers also often organise purchase financing for clients and frequently lease or manage the property once it is built (especially in the case of commercial property). Given the combination of construction activity and speculative property purchases, developers' results are strongly dependent on movements in property prices.

Property supply prices

Property sale supply prices in estate agencies, which are published by the Institute for Regional Information, together with data on market rent supply prices. Supply prices should be higher than transfer prices. See also Property transfer prices.

Property transfer prices

Prices based on Ministry of Finance statistics from property transfer tax returns and published by the CZSO. These prices are the closest to actual market prices in terms of methodology, but are published with a time delay of roughly one year. See also Property supply prices.

Search for yield

The effort made by international investors to compensate for the historically low level of yields on low-risk assets from advanced countries by investing in higher-yield assets from emerging economies, for which nominal exchange rate appreciation can often be expected.

Solvency

Solvency in the insurance sector is the ability of an insurer to meet its insurance obligations, i.e. to settle eligible insurance claims arising from insured losses.

Technical provisions

Under the Act on Insurance, an insurer must set aside technical provisions to meet insurance obligations which are either likely to be incurred or certain to be incurred but uncertain as to amount or as to the date on which they will arise.

Tier 1

The highest quality and, for banks in the Czech Republic, also the most significant part of regulatory capital. The dominant components of Tier 1 are equity capital, retained earnings and mandatory reserve funds.

Tier 1 capital adequacy ratio

The ratio of Tier 1 capital to total risk-weighted assets. See also Tier 1.

Total population increase

The sum of the natural population increase and net migration in the same period of time in a given area. Net migration is the difference between immigration into and emigration from a given area in the same period of time. See also Natural population increase.

Value at risk

The size of loss, with predefined probability, which a bank may suffer when holding a current portfolio for a certain period if market factors (e.g. interest rates, exchange rates) develop unfavourably.

Yield spread

Also yield differential; the spread between the yield on a bond and the yield on a reference ("benchmark") bond.

ABBREVIATIONS

AFAM ČR	Association of Funds and Asset Management of the Czech Republic
AKAT	Czech Capital Market Association
APF ČR	Association of Pension Funds of the Czech Republic
ATM	automated teller machine
BIS	Bank for International Settlements
b.p.	basis point
BRIBOR	Bratislava InterBank Offered Rate
BUBOR	Budapest InterBank Offered Rate
Bund	German government bond
BUX	Hungarian stock market index
ČAP	Czech Insurance Association
CAR	capital adequacy ratio
CEA	Comité Européen des Assurances (European Insurance and Reinsurance Federation)
CEBS	Committee of European Banking Supervisors
CEC5	Central and Eastern European Countries (Czech Republic, Hungary, Poland, Slovakia and Slovenia)
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CERTIS	Czech Express Real Time Interbank Gross Settlement System
CESR	Committee of European Securities Regulators
ČLFA	Czech Leasing and Finance Association
CNB	Czech National Bank
CRC	Central Register of Credits
CSD	Central Securities Depository
CVCA	Czech Venture Capital Association
CZEONIA	Czech OverNight Index Average
CZK	Czech koruna
CZSO	Czech Statistical Office
DJ EuroStoxx	Dow Jones EuroStoxx (European stock market index)
DJ Stoxx 50	Dow Jones Stoxx 50 (European stock market index)
DJIA	Dow Jones Industrial Average (US stock market index)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EIB	European Investment Bank
EMBI	Emerging Market Bond Index
EONIA	Euro OverNight Index Average
ESCB	European System of Central Banks
EU	European Union
EU-12	euro area countries
EU-25	EU countries
EUR	euro
EURIBOR	Euro InterBank Offered Rate
EVCA	European Private Equity & Venture Capital Association
FDI	foreign direct investment
Fed	Federal Reserve System (the US central bank)
FRA	Forward Rate Agreement
FSAP	Financial Sector Assessment Program
FVO	fair value option
GDP	gross domestic product
HI	Herfindahl index
HUF	Hungarian forint

IAS/IFRS	International Accounting Standards/International Financial Reporting Standards
IBRD	International Bank for Reconstruction and Development
IF	investment firm
IMF	International Monetary Fund
IRI	Institute for Regional Information
JPY	Japanese yen
LGD	Loss Given Default
LIBOR	London InterBank Offered Rate
LTV	loan-to-value ratio
MF ČR	Ministry of Finance of the Czech Republic
MiFID	Markets in Financial Instruments Directive
MNB	Magyar Nemzeti Bank (the Hungarian central bank)
NMS-8	New Member States (excluding Malta and Cyprus)
O/N	overnight
OECD	Organisation for Economic Co-operation and Development
OMF	open-ended mutual fund
OR	operational risk
OTC	over-the-counter
p.p.	percentage point
P/E ratio	price to earnings ratio
PD	probability of default
PLN	Polish zloty
PRIBOR	Prague InterBank Offered Rate
PVBP	present value of a basis point
PX (PX-Glob)	Czech stock market index
QIS	quantitative impact study
RoA	return on assets
RoE	return on equity
S&P 500	Standard & Poor's 500 (US stock market index)
SITC	Standard International Trade Classification
SKD	Short-Term Bond System
SKK	Slovak koruna
SKONIA	Slovak OverNight Index Average
SMEs	small and medium-sized enterprises
SSS	securities settlement system
UCITS	Undertakings for the Collective Investment of Transferable Securities
USD	US dollar
VA	value added
VAT	value added tax
WB	World Bank
WIBOR	Warsaw InterBank Offered Rate
WIG	Polish stock market index

Abbreviations of city names (section 3.2 The Property Market):

BRN	Brno	OST	Ostrava
CB	České Budějovice	PAR	Pardubice
HK	Hradec Králové	PHA	Prague
JIH	Jihlava	PLZ	Plzeň
KV	Karlovy Vary	UnL	Ústí nad Labem
LIB	Liberec	ZLN	Zlín
OLC	Olomouc		

Country abbreviations:

AT	Austria	IT	Italy
AU	Australia	JP	Japan
BE	Belgium	LT	Latvia
BG	Bulgaria	LU	Luxembourg
CH	Switzerland	LV	Lithuania
CY	Cyprus	MT	Malta
CZ	Czech Republic	ME	Mexico
CR	Croatia	NL	Netherlands
DE	Germany	PL	Poland
DK	Denmark	PT	Portugal
EE	Estonia	RO	Romania
ES	Spain	SE	Sweden
FI	Finland	SI	Slovenia
FR	France	SK	Slovakia
GR	Greece	TR	Turkey
HU	Hungary	UK	United Kingdom
IE	Ireland	USA	United States

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