



BALANCE
OF
PAYMENTS
2002

CONTENTS

A. EXECUTIVE SUMMARY

B. FULL REPORT

1. THE CURRENT ACCOUNT

1.1. GOODS

1.1.1. Terms of trade

1.1.2. Foreign trade by territory

1.1.3. Foreign trade by commodity

1.1.4. Inward and outward processing

1.1.5. High-technology trade

1.2. SERVICES

1.3. INCOME

1.4. CURRENT TRANSFERS

2. THE CAPITAL ACCOUNT

3. THE FINANCIAL ACCOUNT

3.1. FOREIGN DIRECT INVESTMENT

3.1.1. Czech direct investment abroad

3.1.2. Foreign direct investment in the Czech Republic

3.2. PORTFOLIO INVESTMENT

3.3. FINANCIAL DERIVATIVES

3.4. OTHER INVESTMENT

4. CNB INTERNATIONAL RESERVES

5. THE INTERNATIONAL INVESTMENT POSITION, EXTERNAL DEBT AND DEBT SERVICE

5.1. THE INTERNATIONAL INVESTMENT POSITION

5.2. EXTERNAL DEBT

5.3. DEBT SERVICE

C. ANNEXES

Annex 1 Portfolio investment on the financial account

Annex 2 The financial conditions of the Czech Republic's accession to the EU

Annex 3 Reinvested earnings: Methodological and economic aspects

Annex 4 The interbank foreign exchange market and the koruna exchange rate

Annex 5 External debt ratios

Annex 6 Balance of payments for January to December 2002

Annex 7 Balance of payments for January to December 2002 (in-depth)

Annex 8 International investment position

Annex 9 External debt

Annex 10 Debt service on long-term debt

Annex 11 Foreign direct investment

Annex 12 Portfolio investment

A. EXECUTIVE SUMMARY

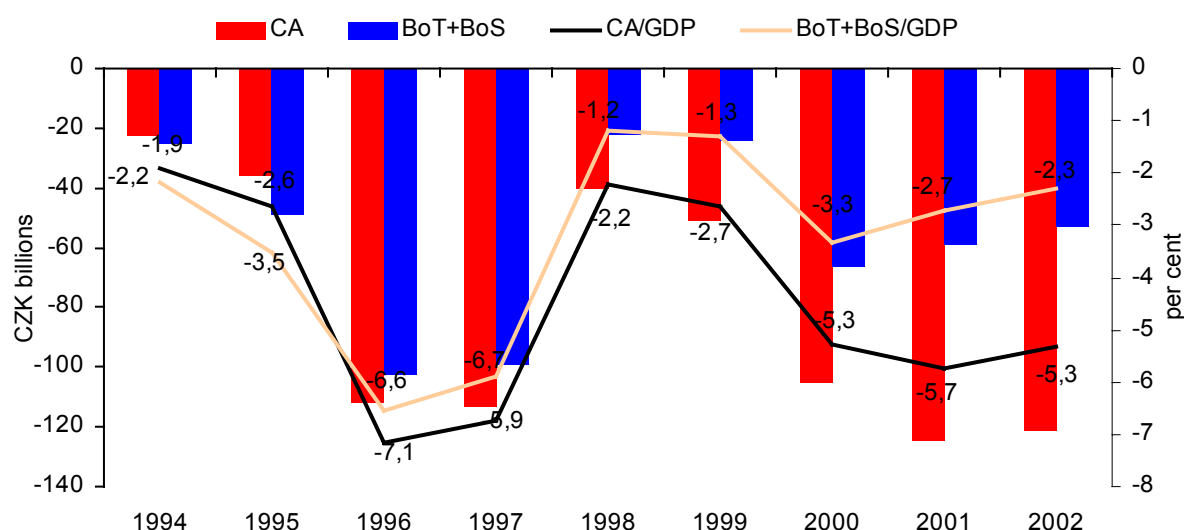
The main trends

The current account of the Czech Republic's balance of payments showed a deficit of CZK 121.4 billion (EUR 3.9 billion) in 2002. The financial account recorded a foreign capital inflow of CZK 340.3 billion (EUR 11 billion). CNB international reserves (valuation changes excluded) increased by CZK 216.9 billion (EUR 7 billion).

Current account

As a percentage of GDP the current account deficit reached 5.3%. Despite a decrease in the surplus on services, the ratio of net exports of goods and services to GDP improved to -2.3% against a year earlier. The income deficit increased, primarily because of a year-on-year fall in credits.

Current account and trade balance 1994–2002



Source: CNB, CSO

The year-on-year improvement on the *trade balance* at current prices was due to a greater fall in imports than in exports. Exports to the EU countries (which saw an increased surplus of almost CZK 40 billion) on the other hand generated demand for imports chiefly from South Asian countries. This occurred primarily in the context of goods for processing, which allowed products with a greater level of processing to be exported to advanced markets (manufacture and export of office machinery and computers, and to a lesser extent electrical machinery and apparatus and motor vehicles). On the import side, the positive factors included a decline in prices of raw materials on world markets in the first half of the year and exchange rate effects.

A year-on-year improvement of 2% in the terms of trade – amid a decline in both import and export prices (including the effects of the koruna's appreciation) – had a positive impact of around CZK 33 billion on the trade balance at current prices.

The global slump in foreign tourism and the August floods led to a fall in revenues from travel. There was a decrease in exports of other services, most notably telecommunications services, financial services and legal services.

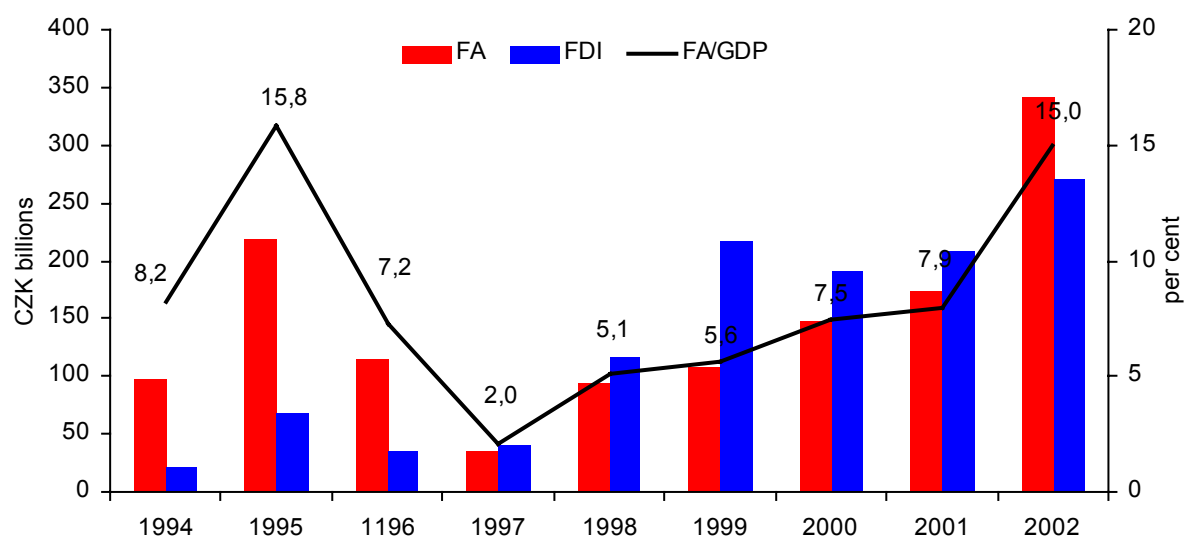
The deficit on the **income balance** became the most significant component of the current account in terms of volume. For the first time ever, this was higher than the trade deficit. There was a year-on-year decrease in interest income. Reinvested earnings in foreign-owned corporations in the Czech Republic are a major item in terms of volume (CZK -60 billion). Reinvested earnings do not represent real flows of funds abroad. The inflow of foreign direct investment capital on the financial account is increased by the same amount.

An increase in the **current transfers** surplus is the result of domestic insurance companies' extraordinary receipts of foreign reinsurance to cover flood damage in the third and fourth quarters of last year.

Financial account

The **financial account** was affected by a record-high inflow of foreign direct investment, due in turn to foreign investors' involvement in privatisations. The inflow of foreign funds onto the financial account increased to 15% of GDP in 2002.

Financial account and FDI 1994–2002



Source: CNB, CSO

The inflow of **foreign direct investment** (FDI) into the Czech economy was affected both by privatisations and by capital inflows into non-privatisation projects. Also significant in terms of volume is the projected amount of reinvested earnings. Direct investment by Czech entities was insignificant and was channelled into neighbouring countries and tax havens.

The increased attractiveness of foreign securities (due to a fall in domestic interest rates below the level abroad) led to a net outflow of **portfolio investment**, especially in Q4. There was a change in the structure of commercial banks' assets abroad, linked with massive purchases of

long-term bonds on foreign markets. Non-banking investors responded similarly. Poor returns, a lack of good-quality issues and exchange rate expectations meant that non-residents displayed little interest in purchasing domestic securities.

Other investment recorded a net inflow, linked chiefly with a fall in deposits of commercial banks and their use to finance purchases of foreign long-term bonds (especially in Q4) and, to a lesser extent, to repay liabilities taken on in the past.

There was an inflow of funds from abroad under government loans, this being associated with de-blocking of receivables and with repayments of government loans dating from the period of central planning.

CNB international reserves and external debt

The international reserves increased, thanks to the National Property Fund's proceeds from privatisation, foreign exchange interventions, and returns on reserve holdings. As at the end of the year, the reserves covered more than five months' worth of imports of goods and services.

As in previous years, the Czech Republic's external debt recorded a decrease (to 34.8% of GDP). Debt service on medium-term and long-term loans was roughly the same as in 2001 (CZK 134.8 billion).

The international investment position (the balance of financial assets and liabilities against non-residents) recorded an increased deficit owing to the sizeable inflow of foreign direct investment and the deficit on the current account (16.7% of GDP).

The external vulnerability indicators were largely favourable in 2002. The development of the balance of payments in 2002 can thus be seen as consolidated. The potential risks are linked chiefly with external factors such as prices of raw materials and a world economic recession.

B. FULL REPORT

1. THE CURRENT ACCOUNT

1.1. GOODS

The trade balance ended 2002 in a deficit of CZK 74.4 billion, down by CZK 42.3 billion from a year earlier. The foreign trade result was positively affected by favourable terms of trade (due to a fall in prices of raw materials on the world market) and a year-on-year appreciation of the koruna's nominal exchange rate against all the major currencies. Another contributory factor was a faster growth rate of the physical volume of exports as compared to that of imports. Weakening external demand, linked with the economic slowdown in Western Europe, made life more difficult for Czech exporters, leading to a fall in the surplus on goods for processing. Nevertheless, there was an increase in exports to the EU at constant prices compared to 2001. Even the downturn in trade resulting from the disastrous flooding in August was not significant enough to affect the trade balance to any great extent. From the geographical perspective, there was a marked improvement in the balance with advanced market economies, especially countries of the EU. The largest increases in surplus were recorded in trade with the United Kingdom and the Netherlands. The deficit with transition and state economies improved somewhat. This was fostered by a surplus with European countries (made up primarily of a reduced deficit with Russia in the fuels category), which offset an increased deficit in trade with non-European countries, most notably China. There was a further deterioration in the trade deficit with developing countries due to growth in imports of computer technology. Turning to the commodity structure, the surplus in the machinery and transport equipment category (most notably electronic equipment) recorded an increase. A decline in the import prices of natural gas and oil, bolstered by an appreciation of the koruna-dollar exchange rate, led to a reduced deficit in the fuels category.

Commodity structure according to IMF balance of payments methodology

in CZK billions

		2001	2002	y-o-y change
Exports	total	1 269,6	1 251,9	-17,7
	general merchandise	869,9	880,3	10,4
	goods for processing	398,5	369,8	-28,7
	non-monetary gold	1,2	1,8	0,6
Imports	total	1 386,3	1 326,3	-60,0
	general merchandise	1 093,9	1 052,4	-41,5
	goods for processing	292,1	273,7	-18,4
	non-monetary gold	0,3	0,2	-0,1
Balance	total	-116,7	-74,4	42,3
	general merchandise	-224,0	-172,1	51,9
	goods for processing	106,4	96,1	-10,3
	non-monetary gold	0,9	1,6	0,7

Notes: 1) The export and import data are based on the new foreign trade statistics methodology in force since 1 July 2000. The data on processing do not include the actual value of aircraft and boats, only the value added after processing. Also not included are temporary exportation and re-importation of goods (e.g. goods for display at exhibitions), and trade in monetary gold.

2) Goods procured in ports are recorded under general merchandise. Repairs on goods are recorded under goods for processing.

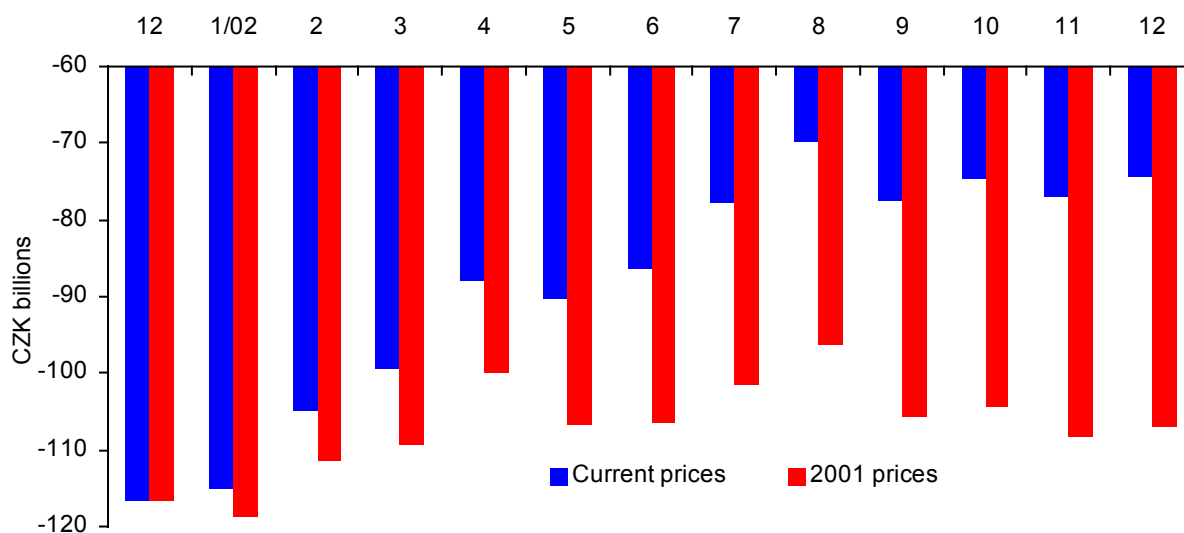
Source: CSO; CNB calculation

Exports at current prices fell by 1.4%, despite the physical volume of exports rising by 5.7%. This rise was particularly evident in the categories of machinery and transport equipment, fuels and chemicals. With sales in the auto industry stagnating, the biggest increase in sales was recorded for electronics production. Export prices fell by 6.7%.

Imports at current prices decreased by 4.3% as a result of an 8.5% fall in prices. The physical volume of imports increased by 4.6%, with particularly strong growth being recorded for raw materials, chemicals and manufactured goods.

Owing to the nominal appreciation of the koruna, the monthly export and import volumes at current prices spent most of the year below their levels of the same months of the previous year. Except in August, the physical volume of monthly exports and imports was higher than a year earlier. The overall balance at constant prices was better than in 2001 (a decline is particularly visible in February–April, whereas there was a deterioration towards the end of 2002). The favourable trend in the 12-month trade balance at current prices was due to the positive developments in the terms of trade.

Trade balance - aggregate for the last 12 months



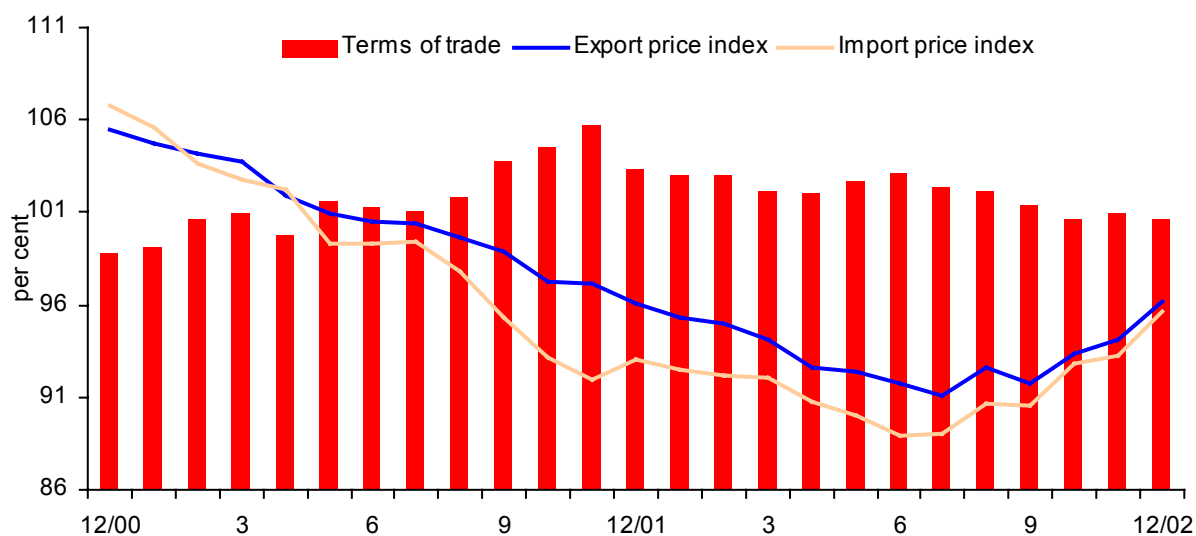
Source: CSO; CNB calculation

1.1.1. Terms of trade

With an annual average of 102 percentage points, the terms of trade had a positive impact on the trade balance at current prices. Compared to 2001, import prices fell by 8.5% while export prices decreased by 6.7%. The favourable terms of trade were felt in the following categories: fuels, raw materials, beverages and tobacco, manufactured goods, and machinery and transport equipment. Over the course of the year the improvement in the terms of trade slowed, mainly because of a gradual waning of the year-on-year fall in prices of energy-producing raw materials. In Q4, the annual index of fuel import prices was around 20 percentage points higher than in the first three quarters of the year.

Terms of trade

(same period of last year = 100; monthly data)



Source: CSO; CNB calculation

Despite the falling export trend, however, the favourable terms-of-trade level was maintained throughout all four quarters of the year.

Terms of trade according to CSO price indices

(same period of last year = 100)

SITC groups	Export price indices in 2002				Import price indices in 2002				Terms of trade in 2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
0 Food	95,1	89,1	86,6	87,9	100,2	98,7	95,3	95,2	94,9	90,3	90,9	92,3
1 Beverages and tobacco	98,7	101,4	102,0	113,5	98,8	92,9	90,0	92,8	99,9	109,1	113,3	122,3
2 Raw materials	89,3	92,4	94,4	94,9	87,4	84,4	85,4	90,2	102,2	109,5	110,5	105,2
3 Fuels	92,3	84,6	86,1	94,3	77,6	73,7	78,6	97,3	118,9	114,8	109,5	96,9
4 Fats and oils	104,0	100,7	102,8	99,6	101,4	100,9	103,8	106,1	102,6	99,8	99,0	93,9
5 Chemicals	83,8	87,2	89,9	93,5	91,5	90,1	90,9	92,9	91,6	96,8	98,9	100,6
6 Manufactured goods class. by material	95,8	93,1	92,1	94,2	92,5	90,2	90,1	93,3	103,6	103,2	102,2	101,0
7 Machinery and transport equipment	96,4	92,6	91,7	94,6	94,4	91,9	91,1	93,1	102,1	100,8	100,7	101,6
8 Miscellaneous manufactured articles	96,7	94,4	93,9	95,8	97,8	96,7	95,7	96,2	98,9	97,6	98,1	99,6
Total	94,8	92,2	91,8	94,6	92,3	89,9	90,0	93,9	102,7	102,6	102,0	100,7

Source: CSO; CNB calculation

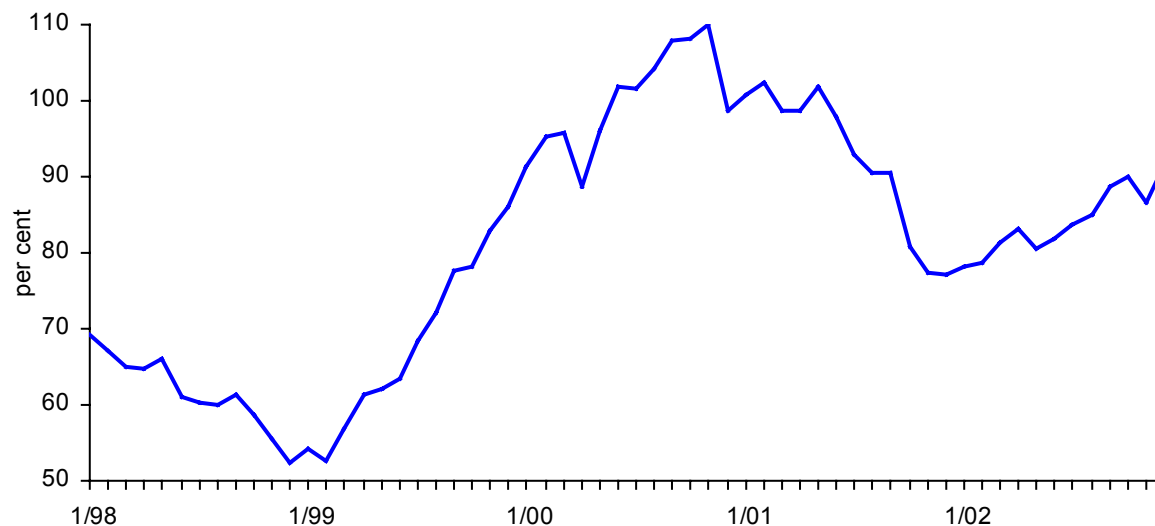
In addition to prices abroad, the level of export and import prices in korunas was influenced by a slowdown in the annual appreciation of the koruna's nominal exchange rate. In 2002, the nominal exchange rate of the koruna firmed by almost 10% against the euro and by around 14% against the dollar. Excluding exchange rate effects, prices abroad recorded year-on-year growth (on average by around 4% in the case of exports and 2% in the case of imports), which suggests improving competitiveness among Czech exporters.

World prices of industrial raw materials and food, as measured by the CSO's commodity indices, declined on aggregate in 2002 (annual index: 90.9). The decline in the aggregate

index was attributable to world prices of oil and natural gas in particular (index: 86.9 – Brent crude oil index 100.4 and natural gas index 75.5), as well as metals (96.7), wood (99.5) and leather (96.2). Growth relative to 2001 was recorded for world prices of textiles, rubber, food and oils.

Monthly indices of world prices of industrial raw materials and food – aggregate

(year 2000 = 100)



Source: CSO

World oil prices rose from March onwards as a result of the military conflict looming in Iraq and concerns about a subsequent destabilisation of the situation in the Middle East, where around two thirds of the world's oil reserves are concentrated. Towards the end of the year, the growth in world oil prices was bolstered by restrictions in oil output in Venezuela (the fifth largest exporter of oil in the world) as a result of the general strike there. The price of Ural crude oil on the European market reached its highest monthly levels in December, at around USD 27 a barrel. Koruna import prices of oil fell by around 19% year-on-year, chiefly because of the appreciation of the koruna. The dollar price of natural gas supplies recorded a year-on-year fall, as the growth in oil prices had yet to feed through fully into prices of heating oil on world markets (which, with a several-month lag, provide the benchmark for gas prices). Consequently, gas imports in koruna fell by around 24%.

1.1.2. Foreign trade by territory

From the geographical perspective, the largest turnover was registered in trade with the developed market economies. A major year-on-year structural change in the Czech trade balance was recorded between this group (in which the EU dominates) and the developing countries. The surplus with the EU increased while the deficit with the developing nations widened. The favourable developments in prices of raw materials, however, failed to generate any major reduction in the deficit with transition economies and economies with a state trading system, owing to growth in the deficit with China.

Geographical structure of foreign trade

Country group	Share in exports in per cent		Share in imports in per cent		Trade balance in CZK billions	
	2001	2002	2001	2002	2001	2002
Market economies	75,2	75,3	71,7	69,5	-38,6	21,0
- EU states	68,9	68,4	61,8	60,2	18,5	58,1
- other developed market economies	6,3	6,9	9,9	9,3	-57,1	-37,1
Transition/state trading system economies	21,5	21,2	23,0	23,3	-45,2	-42,6
European countries ¹⁾	21,2	20,8	19,9	18,5	-6,7	15,1
non-European countries ²⁾	0,3	0,4	3,1	4,8	-38,5	-57,7
Developing countries	3,3	3,5	5,3	7,2	-32,9	-52,8
Total	100,0	100,0	100,0	100,0	-116,7	-74,4

Note: Unspecified figures are included in the group *Transition/state trading system economies*

¹⁾ including the CIS

²⁾ China, North Korea, Cuba, Laos, Mongolia, Vietnam

Source: CSO

The year-on-year reduction in the overall trade deficit was due mainly to the trade balance with the developed market economies (which improved by CZK 59.6 billion). EU countries accounted for CZK 39.6 billion of the improvement. A fall in sales to Germany and also to Austria and Belgium was covered by increased exports to other EU states (such as the United Kingdom and the Netherlands). Exports to the EU were slightly higher than a year earlier (in terms of physical volume) despite slowing economic growth in EU countries and the appreciation of the koruna against the euro. The deficit with other developed market economies (outside the EU) meanwhile narrowed by CZK 16.7 billion thanks to improved trade results with the USA (in particular lower imports of machinery and aircraft), Switzerland (growth in exports of office machinery) and Norway (lower prices of natural gas).

The trade deficit with transition economies and economies with a state trading system narrowed by CZK 2.6 billion compared to the previous year. Large structural changes were recorded within this group, however.

The trade balance with European transition economies improved by CZK 21.8 billion, thanks mainly to a sizeable reduction in the deficit with Russia (due to savings of CZK 14.2 billion on imports of energy-producing raw materials). The surplus with CEFTA nations rose by CZK 5.5 billion on the back of increased supplies of goods for processing to Hungary, most notably computers and cars (growth of CZK 6 billion). On the other hand, there was a fall in the trade surplus with Poland due to reduced exports of fuels, chemicals, cars and car parts.

The deficit in trade with non-European transition economies and economies with a state trading system widened by CZK 19.2 billion. This deterioration reflects growth in the trade deficit with China (import index: 153.1) in the categories of computers and telecommunications and electrical equipment.

The trade deficit with the developing economies continued to widen (by CZK 19.9 billion). This was attributable to growth in the trade imbalance with the newly industrialised economies, especially those in Asia. The increased imports from these countries chiefly included parts for office machines, parts for automatic data processing machines, and electrical machinery (integrated circuits and suchlike).

1.1.3. Foreign trade by commodity

In 2002, the export commodity structure saw an increase of 2.2 points in the share of machinery and transport equipment, to 49.6%. This category was the only one to record an increase, doing so despite the marked appreciation of the koruna.

Export commodity structure

SITC groups	Exports in CZK billions		Index in per cent 2002/2001	Percentage of total		Difference in CZK billions
	2001	2002		2001	2002	
0 Food	34,4	31,1	90,4	2,7	2,5	-3,3
1 Beverages and tobacco	8,7	8,5	97,8	0,7	0,7	-0,2
2 Raw materials	38,6	34,8	90,1	3,0	2,8	-3,8
3 Fuels	38,2	36,0	94,2	3,0	2,9	-2,2
4 Fats and oils	1,4	1,0	68,3	0,1	0,1	-0,4
5 Chemicals	81,7	74,6	91,4	6,4	6,0	-7,1
6 Manufactured goods class. by material	309,1	294,1	95,1	24,4	23,3	-15,0
7 Machinery and transport equipment	601,4	620,7	103,2	47,4	49,6	19,3
8 Miscellaneous manufactured articles	154,9	149,2	96,4	12,2	11,9	-5,6
9 Commodities not elsewhere classified	1,3	1,9	151,2	0,1	0,2	0,6
Total	1 269,6	1 251,9	98,6	100,0	100,0	-17,7

Source: CSO

The growth in the machinery category was fostered in particular by an increase in computer exports of around CZK 38 billion (index: 197.1) within the framework of goods for processing. This chiefly concerned complete digital data processing systems, which increased by CZK 24.5 billion, and digital processing units, which rose by CZK 11.2 billion. To a lesser extent there was growth in power generating machinery and equipment, of CZK 2.7 billion (index: 107.7). Supplies of general industrial machinery and equipment also increased. The fall in exports of road vehicles was due to a decline in supplies of passenger cars (of CZK 9.5 billion), which was not offset by an increased volume (of CZK 7.9 billion) of exports of parts and accessories for motor vehicles. The year-on-year decline in export activity also affected the other machinery export categories. In the category of telecommunications and sound recording and reproducing apparatus and equipment, there was a fall in exports of TV receivers of CZK 6.8 billion (despite growth in exports of TV picture tubes of CZK 3 billion) and other electrical machinery, apparatus and appliances.

SITC 7 exports – Machinery and transport equipment

SITC 7 sub-categories	Exports in CZK billions		Index in per cent 2002/2001	Percentage of total		Difference in CZK billions
	2001	2002		2001	2002	
Power generating machinery and equipment	35,4	38,1	107,6	2,8	3,0	2,7
Machinery specialised for particular industries	41,4	41,4	100,0	3,3	3,3	0,0
Metalworking machinery	18,4	14,9	81,0	1,4	1,2	-3,5
General industrial machinery and equipment	75,6	77,0	101,9	6,0	6,2	1,4
Office machines and automatic data processing machines	39,3	77,5	197,2	3,1	6,2	38,2
Telecoms and sound recording and reproducing apparatus and equipment	44,6	37,5	84,1	3,5	3,0	-7,1
Electrical machinery, apparatus and appliances, n.e.s.	129,9	123,9	95,4	10,2	9,9	-6,0
Road vehicles	202,4	199,3	98,5	15,9	15,9	-3,1
Transport equipment, n.e.s.	14,4	11,0	76,7	1,1	0,9	-3,4
Total	601,4	620,7	103,2	47,4	49,6	19,3

Source: CSO, General Directorate of Customs of the Czech Republic

Turning to the other commodity groups, which account for 50.4% of exports, there was a decline in exports in all the categories monitored. Higher export activity was measured only in certain sub-categories, such as electric current (index: 123.6), essential oils and perfume materials (index: 124.8) and rubber tyres and manufactures (index: 124.2).

As for the commodity structure of imports, there was a slight increase in the share of the main import group: machinery and transport equipment, by 0.2 points to 42.4%. However, imports of this key group at current prices fell short of the previous year's level (index: 96.1).

Import commodity structure

SITC groups	Imports in CZK billions		Index in per cent 2002/2001	Percentage of total		Difference in CZK billions
	2001	2002		2001	2002	
0 Food	53,7	54,3	101,1	3,9	4,1	0,6
1 Beverages and tobacco	7,3	6,6	90,8	0,5	0,5	-0,7
2 Raw materials	40,0	38,2	95,4	2,9	2,9	-1,8
3 Fuels	125,7	100,5	80,0	9,1	7,6	-25,2
4 Fats and oils	3,1	3,0	96,3	0,2	0,1	-0,1
5 Chemicals	151,0	148,5	98,3	10,9	11,2	-2,6
6 Manufactured goods class. by material	280,2	273,0	97,4	20,2	20,6	-7,2
7 Machinery and transport equipment	585,0	561,9	96,1	42,2	42,4	-23,1
8 Miscellaneous manufactured articles	139,9	140,0	100,1	10,1	10,6	0,1
9 Commodities not elsewhere classified	0,3	0,3	78,6	0,0	0,0	-0,1
Total	1 386,3	1 326,3	95,7	100,0	100,0	-60,0

Source: CSO

The year-on-year decline of CZK 23 billion in imports of machinery and transport equipment was manifest chiefly in the following subgroups:

- industrial machinery and equipment, including metalworking machinery, e.g. machinery specialised for particular industries and printing and bookbinding machinery (by CZK 14.4 billion);
- electrical equipment, apparatus and appliances, e.g. electrical apparatus for switching or protecting electrical circuits or for making connections to or in electrical circuits, batteries, electric accumulators and capacitors (by CZK 6.4 billion);
- Telecommunications and sound recording and reproducing apparatus and equipment (by CZK 6.4 billion);
- Power generating machinery and equipment, e.g. nuclear reactors and reaction engines (by CZK 5.5 billion).

SITC 7 imports – Machinery and transport equipment

SITC 7 sub-categories	Imports in CZK billions		Index in per cent 2002/2001	Percentage of total		Difference in CZK billions
	2001	2002		2001	2002	
Power generating machinery and equipment	40,0	34,5	86,3	2,9	2,6	-5,5
Machinery specialised for particular industries	51,1	44,1	86,3	3,7	3,3	-7,0
Metalworking machinery	19,2	16,1	83,9	1,4	1,2	-3,1
General industrial machinery and equipment	79,7	75,4	94,6	5,7	5,7	-4,3
Office machines and automatic data processing machines	64,3	71,2	110,8	4,6	5,4	7,0
Telecoms and sound recording and reproducing apparatus and equipment	45,1	38,7	85,8	3,3	2,9	-6,4
Electrical machinery, apparatus and appliances, n.e.s.	164,4	158,0	96,1	11,9	11,9	-6,4
Road vehicles	111,0	115,5	104,1	8,0	8,7	4,5
Transport equipment, n.e.s.	10,3	8,4	81,8	0,7	0,6	-1,9
Total	585,0	561,9	96,1	42,2	42,4	-23,1

Source: CSO, General Directorate of Customs of the Czech Republic

Conversely, imports of office machines and automatic data processing machines (digital processing and storage units) rose by CZK 7 billion (index: 110.8). These, together with increased imports of electronic integrated circuits, suggest an increase in assembly of imported parts in these sectors. The rise in domestic demand was manifest in higher imports of road vehicles, most notably passenger cars (index: 116.7), which fell in price thanks to the appreciation of the koruna's exchange rate.

Turning to the other commodity groups, there was a sharp reduction in imports of fuels (of CZK 25.2 billion) due to the decline in prices of oil, oil products and natural gas. Falls in imports were also recorded for manufactured goods classified chiefly by material (iron and steel, nonferrous metals, and textile yarn and fabrics), chemicals (organic and inorganic chemicals, fertilisers, and miscellaneous chemical products), raw materials (textile fibres) and tobacco. The only year-on-year increases in imports were seen in the groups of miscellaneous manufactured articles and food, which are oriented mainly towards consumer goods. The lower overall level of imports compared to 2001 was the main factor behind the improvement in the trade deficit.

With regard to the purpose of use of the imported goods, there were declines in imports for intermediate consumption and in investment imports. Imports for personal consumption showed a slight increase.

Imports for intermediate consumption (index: 94.1) recorded decreases mainly in the power-generation and chemicals categories. Declines were also recorded by iron and steel, textile yarn and fabrics, and parts for assembly.

Imports for investment purposes (index: 94.7) were channelled into development of the auto industry and refineries as well as into technical and automation equipment and equipment to construct new factories and storage/production facilities. Investment in industrial zones and related infrastructure also created some demand for imports.

Imports for personal consumption (index: 101.3) chiefly reflected growth in imports of passenger cars, medicinal and pharmaceutical products, and certain kinds of food and beverages. Imports of household equipment and sports goods also posted an increase.

The aggregate balance on trade in goods, which showed a year-on-year improvement of CZK 42.3 billion, was favourably affected by developments in two commodity groups – an increase in the machinery and transport equipment surplus (due to both higher exports and lower imports) and a decrease in the deficit in the fuels category (thanks to price developments on the world market and the koruna's appreciation against the dollar). The other commodity groups (except for food and beverages) all recorded worse balances than a year earlier.

Trade balance commodity structure

SITC groups	Trade balance in CZK billions		Difference in CZK billions
	2001	2002	
0 Food	-19,2	-23,2	-3,9
1 Beverages and tobacco	1,5	1,9	0,5
2 Raw materials	-1,4	-3,4	-2,0
3 Fuels	-87,6	-64,6	23,0
4 Fats and oils	-1,7	-2,1	-0,3
5 Chemicals	-69,4	-73,9	-4,5
6 Manufactured goods class. by material	28,9	21,0	-7,9
7 Machinery and transport equipment	16,4	58,8	42,4
8 Miscellaneous manufactured articles	15,0	9,2	-5,8
9 Commodities not elsewhere classified	0,9	1,7	0,8
Total	-116,7	-74,4	42,3

Source: CSO; CNB calculation

1.1.4. Inward and outward processing

The economic activity of foreign-owned corporations is affecting the processing area and is strongly influencing the overall balance-of-trade figures.

The processing surplus stood at CZK 96.1 billion, a decline of CZK 10.3 billion from 2001 (with the inward processing surplus falling by CZK 15.0 billion and the outward processing surplus increasing by CZK 4.7 billion). The total processing turnover fell short of the previous year's level. The fall in the growth rate of imports was less than that of exports. The processing operations were associated chiefly with machinery commodities, with electronic items seeing sharp growth. The most significant trading partners in terms of export volume

(above CZK 25 billion) were Germany, the United Kingdom and the Netherlands. In terms of import volume (above CZK 10 billion) the Czech Republic's main trading partners were Germany, China and Malaysia.

Exports of goods following inward processing accounted for 28.9% of total exports (compared to 30.7% in 2001). Value added during inward processing totalled around CZK 99 billion. While many items recorded falling exports, there was a two-fold increase in exports of office machinery and computers (growth of CZK 38.2 billion), which accounted for 5.8% of total Czech exports in 2002.

Imports of goods for inward processing accounted for 19.9% of total imports, the same as a year earlier. Only a few commodity groups achieved year-on-year growth, most notably office machinery and computers (of CZK 12 billion) and radio, television and communication equipment (of CZK 8 billion). These two items increased their share in total Czech imports from 5.6% in 2001 to 7.3% in 2002. Imports of electrical machinery fell sharply (by CZK 14 billion). Geographically, imports from China posted the biggest increase (CZK 16.7 billion), followed by imports from other Asian and South American developing nations.

The year-on-year narrowing of the balance on goods for inward processing was due in large part to a much reduced surplus in part of the electronics category (radio, television and communication equipment), which decreased by CZK 21 billion as a consequence of a fall in exports of final production. Most items in both the engineering industry and manufacturing also recorded worse balances.

Inward processing

Inward processing (IP) categories	Percentage of IP exports		Percentage of IP imports		Trade balance in CZK billions		Difference in CZK billions
	2001	2002	2001	2002	2001	2002	
Miscellaneous products	36	33	42	38	25,0	19,0	-6,0
agric. products + mining/quarrying products	0	0	1	1	-3,0	-3,0	0,0
misc. manufactured articles	30	27	35	32	19,0	15,0	-4,0
fabricated metal products	6	6	5	5	9,0	7,0	-2,0
Machinery, electronics, transport equipment	64	67	58	62	88,8	79,8	-9,0
office machinery and computers	9	20	9	14	9,4	35,6	26,2
electrical machinery	17	15	18	14	17,4	17,0	-0,4
radio, television and comm. equipment	16	14	19	23	11,0	-10,0	-21,0
motor vehicles and other transp. equipment	9	8	5	5	21,0	16,0	-5,0
other machinery and equipment	13	10	7	6	30,1	21,2	-8,9
Total IP	100	100	100	100	113,8	98,8	-15,0

Source: CSO; CNB calculation

1.1.5. High-technology trade

The share of high-technology products in total exports rose by 3 percentage points in 2002, to 12.2%. The key factor underlying this rise was dynamic growth in exports of computing equipment (index: 207.8), which tended to be assembled products. Electronics and telecommunications, scientific instruments and pharmaceuticals are also showing favourable export trends.

Imports of high-technology products (which accounted for 15.9% of total imports) were dominated by computing equipment (index: 114.2). Electronics and telecommunications, scientific instruments and pharmaceuticals continued to show rising imports.

The deficit in high-technology trade decreased by CZK 32.8 billion against 2001, to CZK 58.3 billion. This better figure was fostered by an improvement of CZK 30.7 billion in the sizeable surplus recorded for computing equipment.

1.2. SERVICES

In 2002, the surplus on the services account amounted to CZK 21.8 billion (EUR 0.7 billion), down by CZK 36.2 billion from the previous year. Credits fell by CZK 38.6 billion and debits by CZK 2.4 billion.

In the case of transport services, both credits and debits were little changed from 2001. Other services recorded a fall in receipts of almost CZK 15.8 billion amid an unchanged level of expenditure on services abroad, owing to a stagnation in economic growth in the countries to which the Czech Republic traditionally exports services. The disastrous floods in August negatively affected travel; compared to the previous year, receipts from foreign visitors were down by CZK 21.8 billion and there was also a drop of CZK 1.2 billion in spending on travel by Czech nationals.

Services

	in CZK billions		
	2001	2002	Change
Services balance	58,0	21,8	-36,2
of which:			
Credit	269,7	231,1	-38,6
Transport	57,5	56,5	-1,0
Travel	118,1	96,3	-21,8
Other services	94,1	78,3	-15,8
Debit	211,7	209,3	-2,4
Transport	30,6	29,3	-1,3
Travel	52,8	51,6	-1,2
Other services	128,3	128,4	0,1

Credits from international freight and passenger transport amounted to CZK 56.5 billion (a year-on-year fall of CZK 1.0 billion) while debits totalled CZK 29.3 billion (down by CZK 1.3 billion), which meant that the resultant transport surplus recorded on the services balance increased by CZK 0.3 billion.

Total costs for transport of domestic goods to foreign customers (where transportation is provided by the exporter and included in the price of the exported goods) were CZK 23.8 billion (CZK 0.4 billion lower than a year earlier).

Revenues from gas pipeline transport to Western European countries fell by CZK 1.1 billion (to CZK 8.0 billion) compared to 2001. Of this, the transit fee covered by gas supplies from Russia was down by CZK 0.8 billion and payments from German customers dropped by CZK 0.3 billion. Against this, the payment for oil and gas transport through Slovakia (including storage fees) and for use of the Ingolstadt pipeline was the same as in 2001, at CZK 3.9 billion.

According to information from Czech companies, net receipts from air transport improved by CZK 1.3 billion. Net receipts from rail, road, sea and inland waterway transport and from other transport-related services also increased (by CZK 0.4 billion).

The surplus on travel narrowed by CZK 20.5 billion to CZK 44.8 billion.

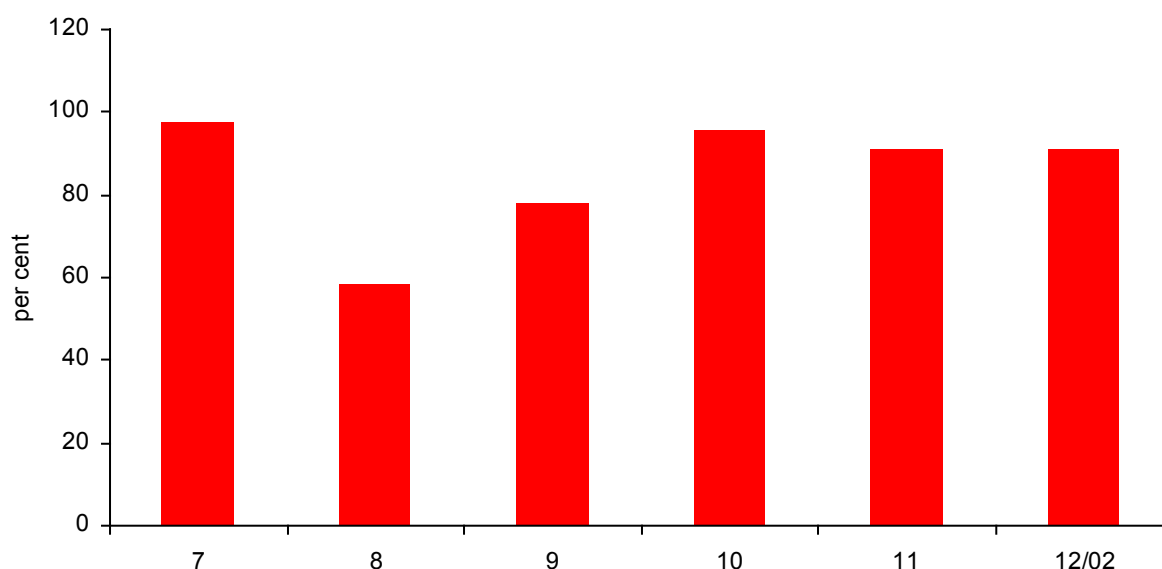
Foreign exchange receipts from travel fell by 18.5% to CZK 96.3 billion. Expressed in terms of euros, the year-on-year fall in receipts was 9.9% (to EUR 3.1 billion). In the first half of the year, receipts were flat in year-on-year comparison. Their sharp fall in the second half of 2002 was linked with the August floods and with the economic downturn in Europe. The strong koruna also took its toll, making the Czech Republic less attractive to foreign visitors. Moreover, people from certain countries (such as the USA, Israel and Australia) were put off travelling by the political situation in some parts of the world, including the threat of terrorist attacks. The number of arrivals via the border with Poland was lower than in 2001, which suggests a fall in day trips as well.

The number of arrivals at accommodation facilities was down by 15.3% from the previous year (4.6 million visitors). The average number of nights of stay fell to 4.2 days. The biggest decrease was recorded for visitors from Israel (43.5%). There were also falls in the number of visitors from the USA and Central and South America (of 25.5% on average) and Australia (30.5%), whereas the number of visitors from Japan showed a slight increase (of 1.4%).

The downturn in tourism revenues in August and September was very sharp, and receipts remained below the previous year's level in the remaining months of the year too.

Receipts from travel in 2002 H2 converted into EUR

(same period of last year = 100)



In August, when the floods hit, a decline of 32.8% was recorded in arrivals at accommodation facilities. Overnight stays at five-star hotels fell by 42.5% and stays at other facilities decreased by 39.2%.

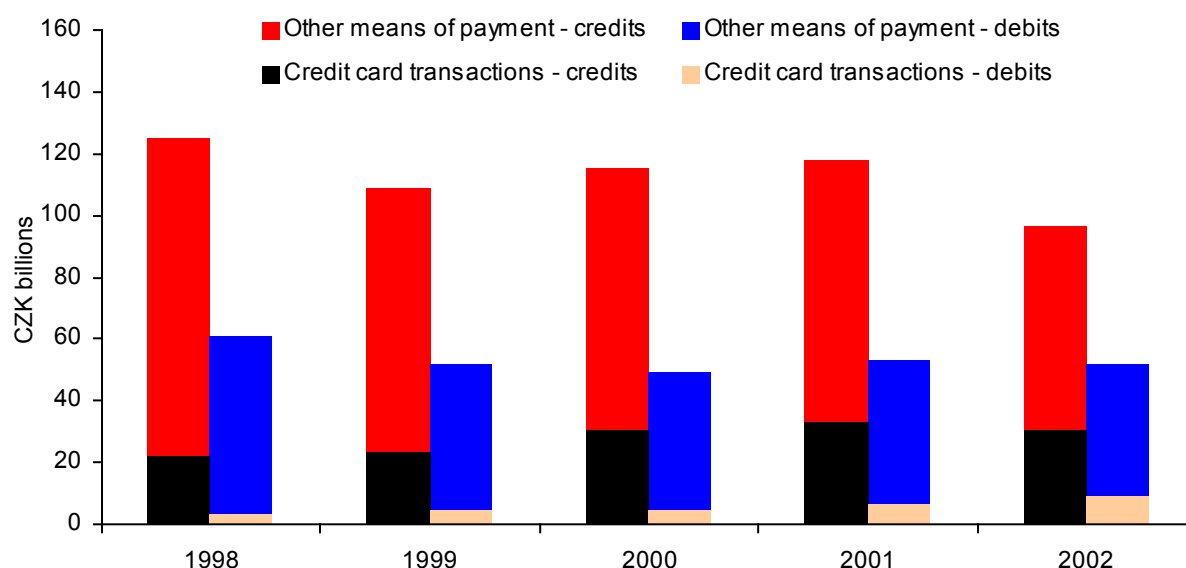
Spending by Czech citizens on foreign tourism fell by 2.4% to CZK 51.5 billion, although converted into euros there was a rise of 7.9% to EUR 1.7 billion. The number of Czechs

travelling abroad fell by 5.3%. The biggest decline (of 11.5%) was registered at the border with Poland, which probably ceased to be an attractive shopping destination for Czech citizens. On the other hand, there was a modest increase in the numbers travelling abroad via the Austrian border. Sizeable growth in demand for air transport was visible in November and December (of 15.2% and 30.3% respectively). Czech tourists sought longer and more luxurious package holidays abroad in 2002. According to preliminary information from travel agencies, and judging from the increase in air transport (especially in Q4), Czechs showed increased interest mainly in package deals to the Middle East and North Africa. This demand was stimulated by the koruna's favourable exchange rate and a considerable fall holiday prices prompted by the downturn in interest in these destinations on the part of Western European and overseas tourists.

In 2002, travel receipts realised via payment cards amounted to CZK 30.3 billion, accounting for 31.5% of total receipts.

This form of payment is also becoming increasingly popular with Czechs staying in other countries. Payment card spending by Czech citizens abroad amounted to CZK 9.0 billion and accounted for 17.4% of total foreign travel debits.

Structure of means of payment in travel credits and debits



The deficit on other business and non-business services exceeded CZK 50.1 billion, widening by CZK 15.9 billion compared to 2001. Debits totalled CZK 128.4 billion, which is essentially the same as the figure for the previous year. Receipts for services provided abroad amounted to CZK 78.3 billion, a year-on-year decrease of 17%.

The largest annual fall in receipts compared to 2001 was recorded for legal services. This decrease was partly offset by a fall on the debit side. Nevertheless, the legal services deficit increased by CZK 1.1 billion. A large fall in receipts for telecommunications services was accompanied by growth in payments abroad, increasing the deficit by CZK 8.3 billion. Financial services showed a similar trend, with a year-on-year deficit increase of CZK 11.0 billion. Continuing deficit growth was recorded for technical services (of CZK 2.5 billion) and cultural, recreational, sport and health services (of 1.3 billion CZK). Conversely, for "other business services" the deficit fell by CZK 9.7 billion from 2001 thanks to a sizeable

fall in debits. Lower payments for research and development services also generated a fall in deficit, of CZK 2.4 billion.

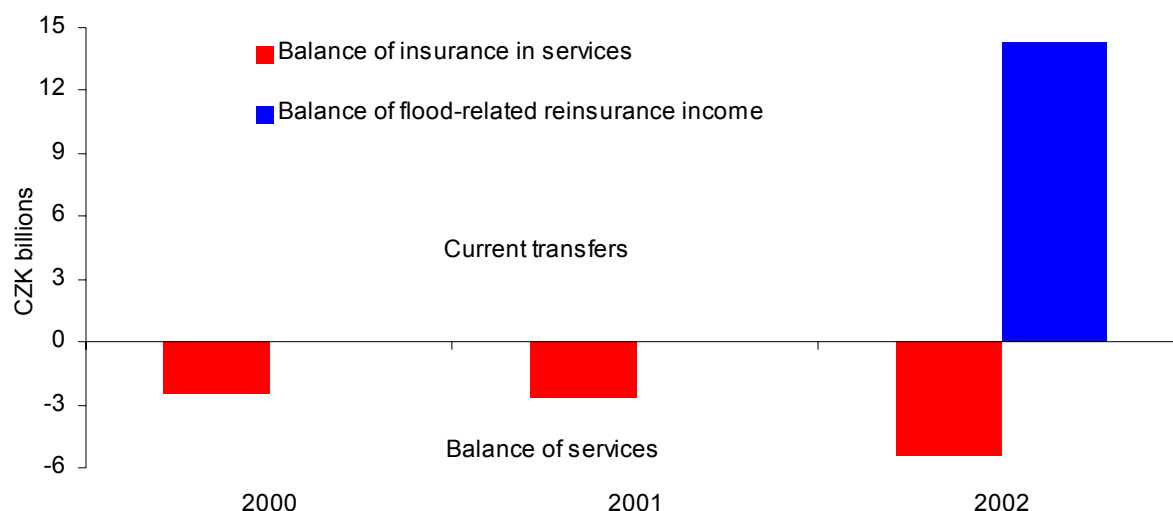
Major changes in trend in the insurance market, especially reinsurance, impinged on the 2002 balance of payments. Other items under “insurance services” recorded only minor differences from the previous year.

Premiums in the Czech insurance industry increased by 13%, or around CZK 10 billion, compared to 2001. Life insurance rose twice as fast as non-life insurance, which means the Czech market is closing the gap somewhat as regards the disparity between these two types of insurance compared to the EU countries. The higher premium payments were reflected in larger sums transferred to foreign reinsurers, which in the balance of services meant an increase of CZK 2.7 billion in payments abroad. Against this, Czech insurers – and through them also their foreign reinsurers – contributed significantly to the coverage of the damage caused by the floods. The insurers’ overall contribution to flood-damage repairs was CZK 37 billion. For 2002 alone, non-life insurance claim payments were almost CZK 20.0 billion higher than a year earlier. By the end of 2002, foreign reinsurers had paid around CZK 14.3 billion in flood-damage claims, almost 90% of which in Q4. The remaining claims on foreign reinsurers can be expected to be settled in the first few months of 2003. The total volume of reinsurance transfers is affected by the fact that insurance companies with a relatively high level of reinsurance abroad had the highest insurance claims. In the balance of payments, extraordinary flood-related transfers from foreign reinsurers are classed as unilateral transfers.

Insurance transactions are recorded in accordance with the national accounts methodology contained in the IMF’s Balance of Payments Manual (fifth edition) and its accompanying publications. Disasters in recent years have highlighted the need to rework this area (especially as regards reinsurance) in collaboration with the IMF, OECD, etc.

Payments for insurance services are recorded under services. They are calculated as the difference between premiums earned and claims payable. Investment income on technical reserves and suchlike is ignored for practical reasons. Use of the services of foreign reinsurers, coupled with the limited range of services offered, puts Czech insurers on the international market in the role of a “net” importer of services. For instance, payments abroad totalled CZK 2.5 billion in 2000, CZK 2.7 billion a year later, and almost CZK 5.4 billion in 2002. Under current transfers, premiums earned (minus the service charge recorded in the services balance) should be recorded on one side and claims payable on the other, and the two amounts basically cancel each other out. However, in the event of massive damage, such as we saw during the floods last year, claims payable far exceed premiums earned (or transferred to foreign reinsurers), which is reflected in the final balance of current transfers.

Insurance (including reinsurance) in the balance of payments



Source: CNB, returns from insurance companies

1.3. INCOME

The income deficit in 2002 was CZK 97.5 billion (EUR 3.2 billion), a deterioration of CZK 14.0 billion relative to 2001. A fall in credits of CZK 15.6 billion was accompanied by a reduction in debits of CZK 1.6 billion.

Income

	in CZK billions		
	2001	2002	Change
Income balance	-83,5	-97,5	-14,0
of which:			
Credit	84,9	69,3	-15,6
Compensation of employees	9,8	10,7	0,9
Investment income	75,1	58,6	-16,5
dividends	0,7	0,3	-0,4
reinvested earnings	2,3	0,0	-2,3
interest	72,1	58,3	-13,8
Debit	168,4	166,8	-1,6
Compensation of employees	27,0	29,0	2,0
Investment income	141,4	137,8	-3,6
dividends	19,4	19,4	0,0
reinvested earnings	57,8	60,0	2,2
interest	64,2	58,4	-5,8

Note: Reinvested earnings for 2002 are estimated and will be updated

Income on the CNB's reserve assets decreased by CZK 5.3 billion to CZK 21.2 billion. Interest costs associated with collateral transactions and a loan from the European Investment Bank fell by CZK 0.3 billion.

Commercial banks' income on deposits abroad and loans provided to foreign banks and clients (i.e. portfolio investment excluded) fell by CZK 8.8 billion, largely due to a gradual decrease in the stock thereof (which fell by more than CZK 150 billion between the start of January and the year-end). Moreover, this was accompanied by a steady fall in interest rates

on foreign financial market. A similar trend for domestic rates coupled with a fall in the volume of deposits accepted brought the banks a CZK 4.8 billion fall in interest costs. The net income of commercial banks thus decreased by CZK 4 billion from 2001, to CZK 4.3 billion

Interest costs associated with government loans from the World Bank and Japan within the framework of the G24 totalled CZK 0.3 billion. There were no major interest payments on loans provided to developing nations in the past under intergovernmental agreements.

Continuing financing of current operations and investment plans via loans from foreign banks and, in the case of foreign-owned corporations, from parent companies raised annual corporate interest costs by CZK 0.9 billion compared to the previous year, to CZK 21.3 billion. As for trade credits, interest income exceeded the amounts paid to foreign suppliers. The resultant interest balance of the corporate sector improved by CZK 0.4 billion.

Residents' holdings of foreign bonds rose by more than CZK 70 billion in 2002. However, lower rates of return led to a year-on-year fall in profits for investors of CZK 0.3 billion. The situation was similar for residents' investments in equity securities. Although the stock of such investments increased by almost CZK 18 billion, dividends fell by CZK 0.4 billion.

According to information from securities traders, non-residents earned CZK 13.4 billion on their investments in domestic bonds (government bonds in particular), i.e. CZK 0.8 billion less than a year earlier. Dividends paid abroad amounted to CZK 19.4 billion, the same as in 2001, of which CZK 17.3 billion went to direct investors, according to a survey of foreign-owned businesses.

Judging from previous years, foreign owners can be expected to retain around CZK 60 billion of the earnings generated in 2002 for further development of domestic businesses. In 2001 reinvested earnings were CZK 57.8 billion.

The item labour income (or, more specifically, compensation of employees, which comprises wages and salaries and contributions paid by employers, on behalf of employees, to social security schemes) records income from short-term (one year at maximum) working stays abroad. Expenditure in the host country was recorded under travel and income tax and social contributions under current transfers. According to CSO calculations, Czech nationals earned CZK 10.7 billion abroad in 2002, a rise of CZK 0.9 billion on a year earlier. More than 137,000 foreigners were working in the Czech Republic at the end of the year (including an estimate for the number illegally employed). Compensation of foreign employees was up by CZK 2 billion on the previous year to almost CZK 29 billion.

1.4. CURRENT TRANSFERS

The surplus on current transfers in 2002 increased by CZK 10.9 billion compared with 2001, to CZK 28.7 billion (EUR 0.9 billion).

Current transfers

	in CZK billions		
	2001	2002	Change
Current transfers (unilateral)	17,8	28,7	10,9
of which:			
Credit	36,4	46,7	10,3
Debit	18,6	18,0	-0,6

In the case of general government transfers, credits increased by CZK 0.5 billion to CZK 14.7 billion, while debits fell by the same amount to CZK 4.5 billion. The surplus on general government transfers thus improved by CZK 1 billion. Income from taxes and social security scheme contributions paid by foreigners employed in the Czech Republic increased significantly, exceeding CZK 11 billion last year. On the debit side, pension payments increased somewhat, while contributions to international organisations decreased.

Bilateral technical assistance is on the decrease, as most programmes have now been terminated. Last year the governments of Belgium and the Netherlands provided a total of CZK 40 million. In addition, the Japanese government contributed to the organising of a study visit for Czech experts.

There was a continued inflow of money from EU funds linked with the preparations for the Czech Republic's accession. Last year a total of around CZK 2.4 billion was received. The rate at which funds are released depends on the level of preparedness of projects on the Czech side; funds can only be drawn for specific projects, once the tender to select the supplier has been completed. The EU pledged to provide money for flood repairs from the Solidarity Fund. The Czech Republic did not receive this until January 2003.

In the case of private transfers, debits remained the same as in 2001 (CZK 13.5 billion) while on the credit side a rise of CZK 9.8 billion to CZK 32 billion was recorded. The lion's share of this increase was due to extraordinary transfers from foreign reinsurers to domestic insurers, amounting to CZK 14.3 billion.

2. THE CAPITAL ACCOUNT

The capital account ended 2002 in a slight net deficit of CZK 0.1 billion (EUR 3.8 million). This item covers purchases and sales of patents, trademarks, copyrights and franchises, and also migrants' transfers.

Capital account

	2001	2002	Change
Capital account	-331	-119,4	211,6

in CZK millions

3. THE FINANCIAL ACCOUNT

The financial account for 2002 recorded a net inflow of foreign capital of CZK 340.3 billion (EUR 11.0 billion), which is almost double the previous year's figure. The largest inflow is now traditionally from foreign direct investment (CZK 269.3 billion). The "other investment" item was affected by a decrease in the short-term assets of banks abroad. This decrease, however, was the counter-entry of a net outflow of portfolio investment (commercial banks were buying bonds in particular). The inflow of foreign funds as a percentage of GDP reached around 15%.

Financial account 2001–2002

in CZK billions

	2001	2002	Change
Financial account	172,9	340,3	167,4
Direct investment	208,3	269,3	61,0
Czech abroad	-6,3	-6,8	-0,5
foreign in Czech Rep.	214,6	276,1	61,5
Portfolio investment	34,9	-46,7	-81,6
Czech abroad	4,4	-75,6	-80,0
foreign in Czech Rep.	30,5	28,9	-1,6
Financial derivatives	-3,2	-4,3	-1,1
assets	-9,4	-15,5	-6,1
liabilities	6,2	11,2	5,0
Other investment	-67,1	122,0	189,1
1. Long-term investment	-3,0	27,8	30,8
loans granted abroad	1,3	28,7	27,4
loans received from abroad	-4,3	-0,9	3,4
2. Short-term investment	-64,1	94,2	158,3

3.1. FOREIGN DIRECT INVESTMENT

The balance of foreign direct investment increased by around CZK 60 billion year-on-year to CZK 269.3 billion in 2002.

3.1.1. Czech direct investment abroad

Czech direct investment abroad steadily increased for the third consecutive year, but remained at a low level. Compared with the previous year it increased by 8.8% to CZK 6.8 billion (EUR 0.2 billion), of which CZK 6.4 billion was invested in equity capital.

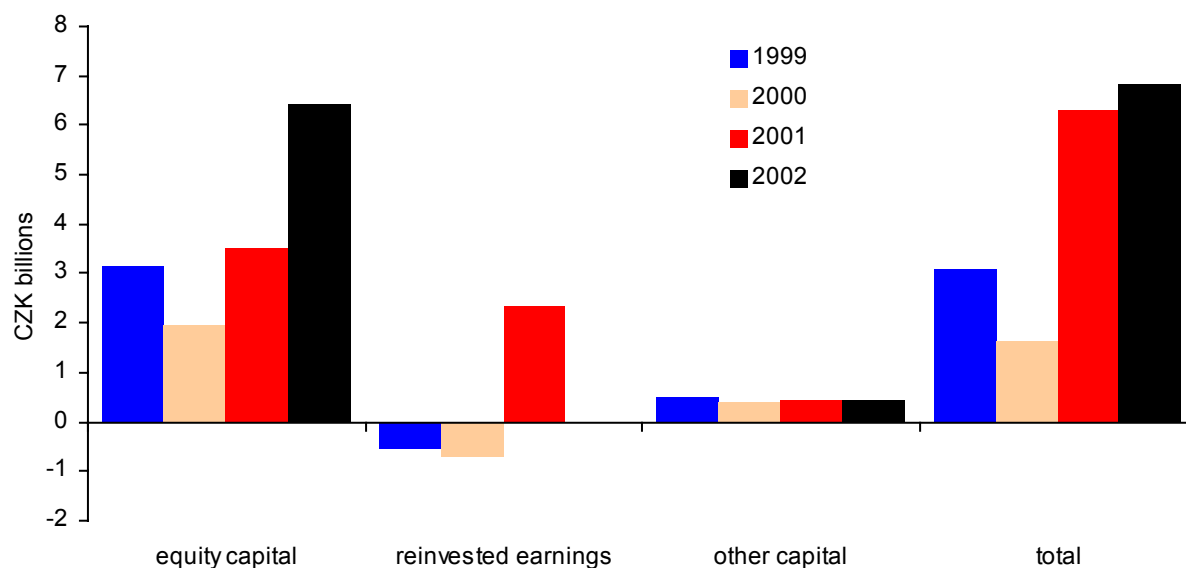
The largest proportion of the outflow is channelled into financial intermediation and into wholesale and retail trade and repair. Generally speaking, the direct investment abroad is for the most part associated with the sale of Czech products in other countries or with the need to locate free funds abroad. Business with foreign ownership interests increased their sales of goods and services from CZK 100.7 billion in 2000 to CZK 120.9 billion in 2001, i.e. by around 20%, while their combined workforce rose from 12,300 to 13,100. Imports of these companies' goods and services from the Czech Republic increased by CZK 14.8 billion to CZK 75.4 billion in 2001.

By economic activity, the largest volume of investment went into financial intermediation and insurance (40.9%), followed by real estate and business activities (25.7%), wholesale and retail trade and repair (12.1%), other services (11.2%) and manufacture of other non-metallic mineral products (10.1%).

By sector, direct investment in services remains relatively high (91.4%), ahead of investment in manufacturing and production (8.5%). The share of services in total direct investment increased by 10.5 percentage points compared to 2001. Investment in agriculture and mining and quarrying was insignificant, just as in 2001.

By territory, the largest shares of the direct investment were in Slovakia (45.4%), Slovenia (31.3%), the British Virgin Islands (16%) and the USA (5.7%).

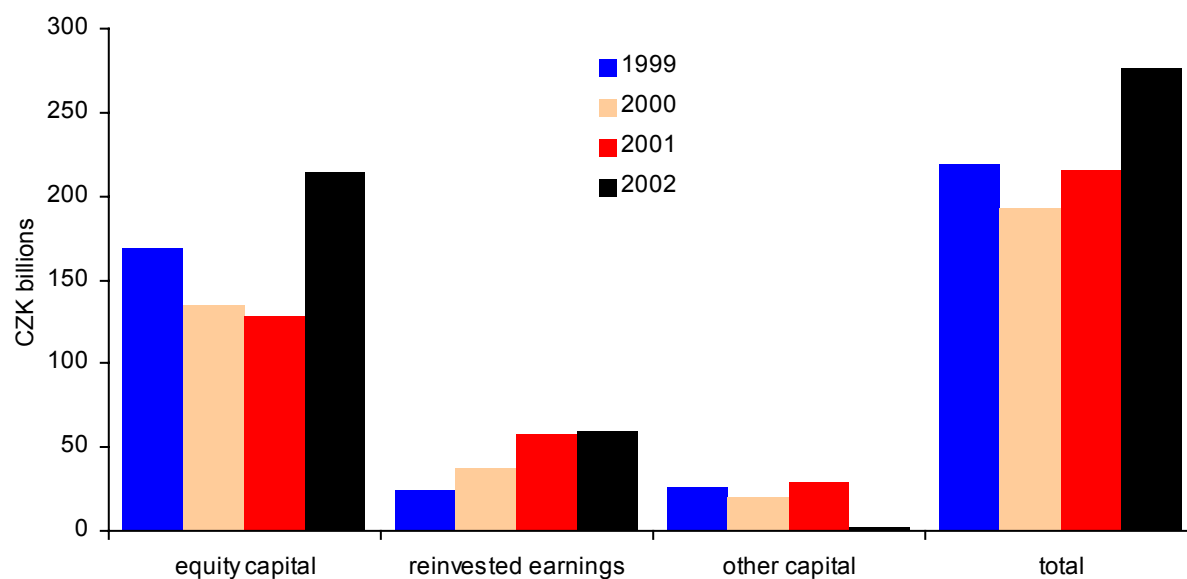
Outflow of direct investment from the Czech Republic



3.1.2. Foreign direct investment in the Czech Republic

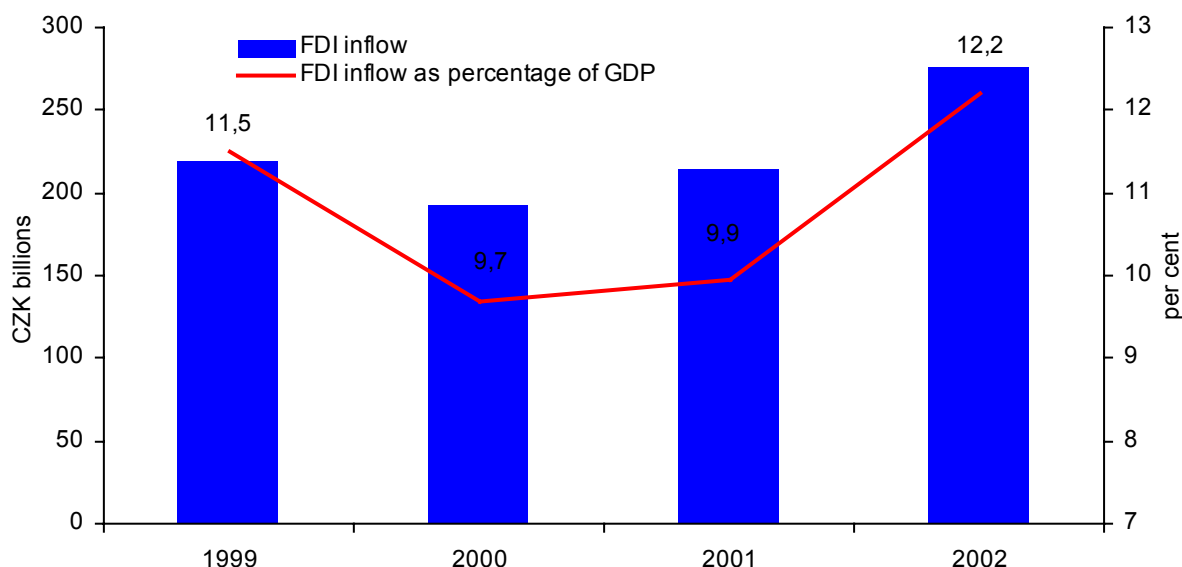
Foreign-owned corporations continued to increase their shares in the Czech Republic's macroeconomic indicators. Annual surveys conducted by the CNB reveal that the total sales of these companies in 2000 and 2001 increased from CZK 1,730 billion to CZK 1,933 billion, while their exports of goods and services rose from CZK 535 billion to CZK 646 billion and their imports from CZK 570 billion to CZK 628 billion. Foreign-owned corporations thus in 2001 generated a goods and services trade surplus of CZK 18 billion, as against a deficit of CZK 34 billion in 2000. A deficit in the services sector was exceeded by a manufacturing surplus. The trade surplus recorded by foreign-owned corporations constitutes a major shift compared to the deficit in 2000. Their combined workforce increased year-on-year from 574,000 to 614,000.

Inflow of foreign direct investment into the Czech Republic



The total volume of foreign direct investment in the Czech Republic in 2002 increased by around CZK 60 billion to a record CZK 276.1 billion (EUR 9.0 billion) according to preliminary figures, thanks to high privatisation revenues. Of the total, CZK 214 billion was in equity capital, while loans amounted to CZK 2.2 billion and reinvested earnings were around CZK 60 billion according to preliminary estimates. The ratio of FDI to GDP again exceeded 10%.

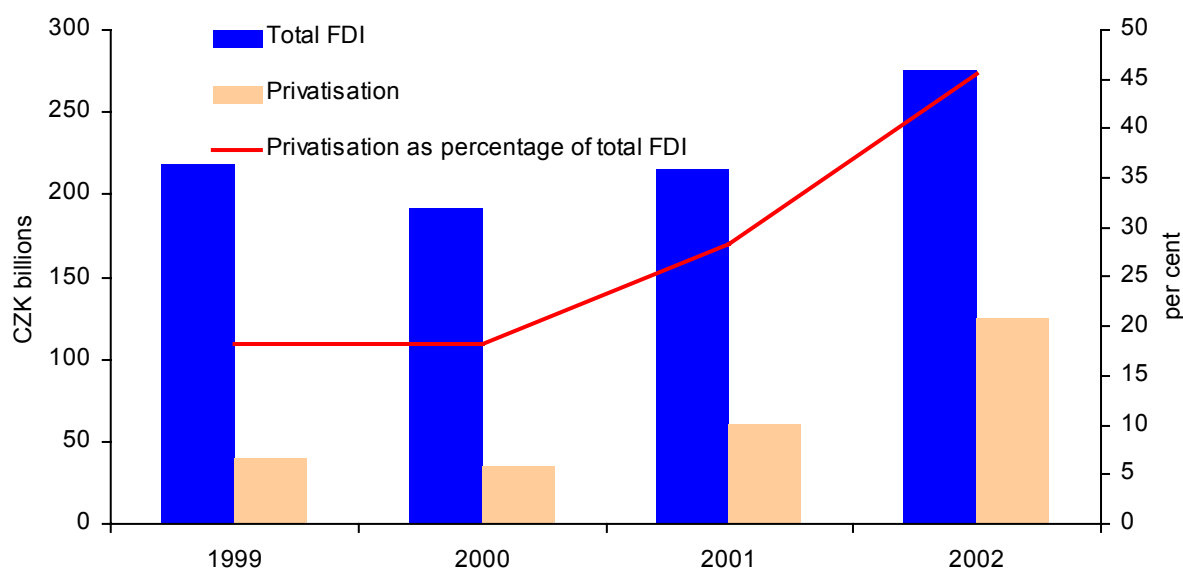
Inflow of foreign direct investment relative to GDP at current prices



The year-on-year increase of 22.3% was due in particular to the sale of Transgas to German firm RWE. As the following chart shows, the share of privatisation sales in total FDI has been gradually rising in recent years, reaching 45.5% in 2002.

Adjusted for the state's sale of Transgas and the purchase of 40% of Česká spořitelna's shares, the investment inflow was fairly even across the individual quarters of the year (between CZK 25 billion and CZK 28 billion), apart from in Q3, when there was an increase in purchases of corporate interests by foreign investors, these being realised via the Czech Securities Centre.

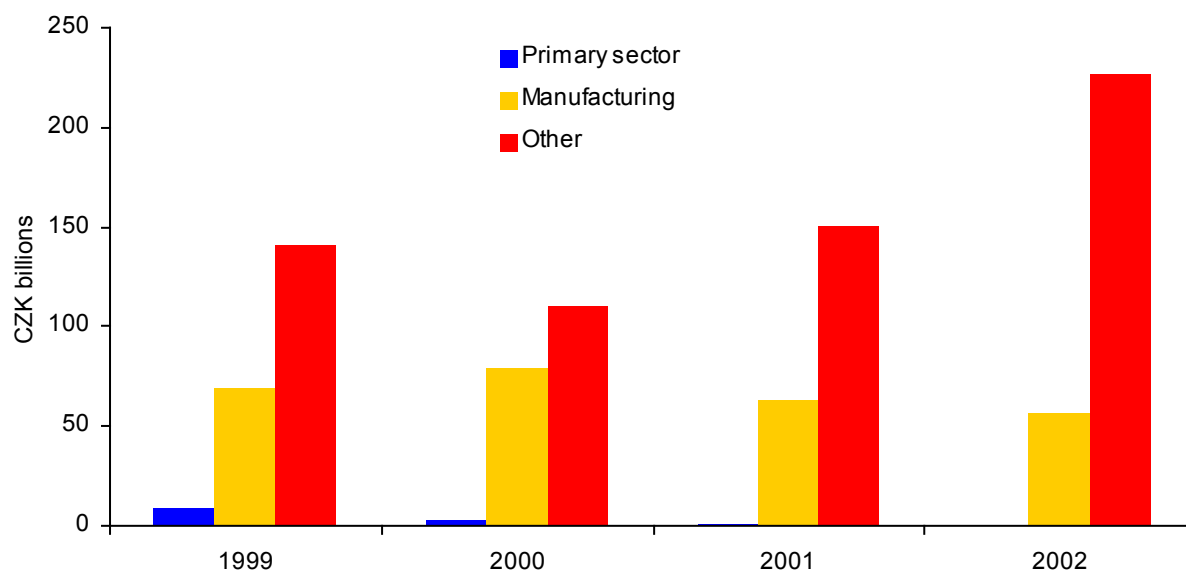
Share of privatisation in total FDI



As regards economic activity, the largest investment volumes went into transport and communications (49%) and financial intermediation and insurance (14.7%). Real estate and business activities accounted for 6.8%, wholesale and retail trade and repair 5%, electricity, gas and water supply 4.2% and manufacture of metal products 3.1%.

Direct investment in manufacturing saw a year-on-year decline from CZK 62.9 billion to CZK 56.1 billion. Most was invested in manufacture of motor vehicles and metals and metal products. The share of other branches of manufacturing rose from 69.6% in 2001 to 82.3% in 2002. The resultant balance of the primary sector for 2002 became negative due to the sale of a company's shares held by a majority foreign owner to a Czech investor.

FDI structure

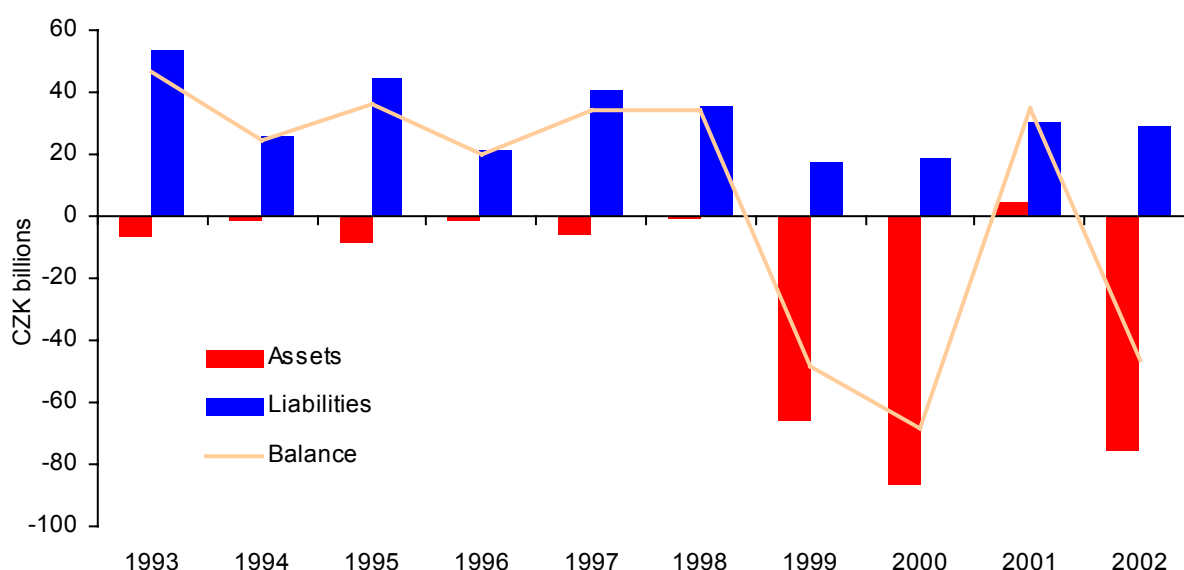


By territory, the largest direct investments came from Germany (56.3%), the Netherlands (11.3%) and Austria (9.6%). They were followed by France (4%), the United Kingdom (3.2%), Belgium (3%), Cyprus and Slovakia (1.9%).

3.2. PORTFOLIO INVESTMENT

Portfolio investment recorded a net outflow of CZK 46.7 billion (EUR 1.5 billion) in 2002. Compared to 2001, when a net inflow of CZK 34.9 billion had been recorded, that means a turnaround in financial flows of CZK 81.6 billion. This was chiefly due to domestic banks, which converted a large proportion of their assets held in the form of short-term deposits into portfolio investment holdings.

Balance of financial flows in portfolio investment area



Non-residents invested CZK 28.9 billion on balance in domestic portfolio investments, a rise of around CZK 1.6 billion on the previous year. Conversely, residents' investments in foreign securities rose by around CZK 80 billion compared to 2001, reaching CZK 75.6 billion on balance.

The largest outflow of portfolio investment occurred in Q4 (53.5 billion CZK), when domestic banks on balance invested CZK 34.8 billion in foreign bonds and there was a simultaneous decline in investment by foreign investors in domestic bonds. In the first half of the year in particular, foreign investors showed increased interest primarily in government bonds. In Q3 and Q4, though, their interest in Czech debt securities steadily waned. The behaviour of foreign investors was apparently linked with the evolution of the interest rate differential and the expected exchange rate of the koruna, as well as with the availability of more lucrative investments in neighbouring countries such as Poland and Hungary.

Non-residents' total trade turnover in domestic koruna securities amounted to CZK 1,543.2 billion, representing an increase of more than one third on the previous year. The stock of domestic koruna securities held by non-residents totalled CZK 171.5 billion at the year-end, up by CZK 17.8 billion on a year earlier. Non-residents invested predominantly in securities in the areas of financial intermediation and insurance (52%), services (16%), energy supply

(13%) and transport and communications (11%). Most of the investment came from Austria (21%), the Netherlands (16%), the United Kingdom (16%), the USA (13%), Germany (9%) and Luxembourg (9%).

Domestic entities issued two long-term bonds on foreign capital markets totalling CZK 14.2 billion. However, one previous issue worth CZK 8.3 billion was redeemed. The stock of foreign investment in Czech bonds issued on international capital markets in foreign currencies thus stood at CZK 29.6 billion at the end of 2002, an increase of CZK 3 billion compared with 2001.

Investment by domestic entities in foreign securities showed a net outflow of CZK 75.6 billion. The largest outflow was recorded in Q4 (CZK 41.7 billion), most notably in the banking sector. Erste banka shares and European Investment Bank koruna bonds, which were traded on the Prague Stock Exchange, proved very attractive investments. Residents' total annual trade turnover in foreign securities was about CZK 616 billion, which by comparison with 2001 represents a decline of around CZK 34 billion. Residents invested mainly in debt instruments, for which a net capital outflow of around CZK 67.8 billion was recorded.

3.3. FINANCIAL DERIVATIVES

Financial derivatives recorded a net capital outflow of CZK 4.3 billion (EUR 139 million), which is around CZK 1 billion higher than a year earlier. The largest volume of financial derivative trading was recorded in Q2, when banks' asset transactions exceeded their liability transactions by around CZK 4 billion.

3.4. OTHER INVESTMENT

Other investment showed a net inflow of funds of CZK 122.0 billion (around EUR 4 billion). As compared to the previous year, when this item had recorded a net outflow of around CZK 67.1 billion, this represents a sharp change in the direction of financial flows. The inflow of capital into the Czech Republic started in Q1 and steadily gathered pace, especially in Q4.

Domestic banks accounted for much of this inflow (CZK 115.5 billion). During the course of the year they gradually withdrew their short-term assets from foreign banks (total fall in short-term deposits: CZK 97.9 billion) and also steadily decreased their short-term credit exposure to non-residents. Repayments of earlier-accepted financial credits exceeded drawings thereon by around CZK 19.9 billion in 2002. In the case of the long-term assets of the banking sector there was also a net decrease, amounting to around CZK 5.3 billion. These funds were redirected into more lucrative assets, most notably bonds. Banks' liabilities to non-residents recorded a decrease during the year, implying an outflow of funds of CZK 11.9 billion.

The government sector accounted for CZK 21.6 billion on balance of the net capital inflow. On the asset side, this inflow was due in particular to a repayment of a government loan (of around CZK 19.5 billion) by the Russian Federation in 2002 Q1 and to further de-blocking of government credits dating from the period of central planning. During the year the government sector conversely paid a total of around CZK 1.5 billion abroad in repayments of government loans provided in the past.

In the area of other investment, the corporate sector recorded a net capital inflow (of around CZK 15 billion. This was achieved in large measure through growth in corporate assets in the form of short-term export receivables (CZK 17.2 billion). On the liability side, long-term financial credits were drawn from abroad (CZK 11.9 billion on balance). However, short-term corporate liabilities on balance recorded a reduction of around CZK 6.3 billion.

4. CNB INTERNATIONAL RESERVES

The financial account surplus of CZK 340.3 billion in 2002 exceeded the current account deficit by CZK 218.9 billion. Excluding valuation changes, CNB international reserves increased by CZK 216.9 billion (EUR 7.0 billion). The largest rise occurred in Q2, when, in addition to intervention purchases, government funds from the sale of Transgas and distribution companies were deposited on the CNB's foreign exchange account and subsequently converted into koruna. Reserve management income also contributed to the increase in reserves.

At the end of 2002, CNB international reserves totalled CZK 714.6 billion (EUR 22.6 billion), sufficient to cover 5.6 months' worth of imports of goods and services. Including valuation changes the reserves were CZK 190.1 billion (EUR 6.2 billion) higher than a year earlier.

CNB international reserves

	2001	2002	Change
CNB international reserves in CZK billions	524,5	714,6	190,1
Coverage of goods and services imports in months	3,9	5,6	1,7

5. THE INTERNATIONAL INVESTMENT POSITION, EXTERNAL DEBT AND DEBT SERVICE

5.1. THE INTERNATIONAL INVESTMENT POSITION

At the end of 2002, the international investment position of the Czech Republic showed a deficit of CZK 380.7 billion (EUR 12 billion). Compared with a year earlier, the debtor position of the state was up by CZK 136.6 billion. Underlying this figure was a rise in liabilities of CZK 172.3 billion, linked mainly with capital inflow in the form of direct investment. Assets were CZK 35.7 billion higher than a year earlier, due mainly to growth in CNB international reserves. Among other things, the international investment position was affected also by appreciation of the koruna, especially against the US dollar (on 31 December 2001 the USD rate had been CZK 36.259; on 31 December 2002 the figure was CZK 30.141).

International investment position

in CZK billions

	2001	2002	Change
Assets	1 544,9	1 580,6	35,7
Liabilities	1 789,0	1 961,3	172,3
Balance	-244,1	-380,7	-136,6

Note: Under liabilities, unlike for gross debt, direct investment includes ownership interests as well as credit transactions and portfolio investment includes equity securities as well as debt securities.

With regard to structure, the individual areas of the international investment position contributed as follows to the overall deficit:

- The largest growth in debtor position was recorded in the area of direct investment, the stock of which was CZK 1,113.8 billion on balance, up by CZK 172.6 billion on the previous year.
- Portfolio investment showed a net increase in creditor position of CZK 68.4 billion. Investment by domestic entities in foreign securities on balance saw a surplus of CZK 73.2 billion. The largest increase in residents' investment activity was recorded in Q4, when domestic banks in particular withdrew their deposit assets and invested them in foreign debt instruments. Domestic investors invested their free funds chiefly in long-term securities (65%), followed by equity securities (32%) and, least of all, short-term bonds (3%). By territory, securities issued in EU countries accounted for most (51%) of the assets of domestic investors (excluding the CNB). Investment in long-term bonds issued in Poland, Hungary, Slovakia and Slovenia formed around 11%. US securities had a share of around 10% and bonds issued by international organisations (in particular the EIB) around 7%. A significant proportion of banking investments (around 19%) take the form of mutual fund shares allocated in the Cayman Islands.
- Financial derivatives also recorded a net surplus of CZK 8.5 billion, which by comparison with 2001 represents an increase of CZK 4.2 billion in the creditor position.
- The CNB had the largest international creditor position (CZK 715.1 billion), recording a year-on-year rise of CZK 190.5 billion due to an increase in international reserves, which were boosted during the year by intervention purchases of foreign exchange, by the depositing of National Property Fund revenues from the sale of Transgas on a CNB account, and by exchange rate movements.
- The international net creditor position of commercial banks (excluding portfolio investment) saw a year-on-year decrease of CZK 133.1 billion, recording a net surplus of just CZK 42 billion at the year-end. The resultant position of commercial banks was affected in particular by a fall in short-term assets (CZK 145.8 billion); their long-term assets declined by CZK 11.7 billion. The banks' liabilities recorded a net fall of CZK 24.4 billion, with long-term liabilities decreasing by CZK 10.1 billion and short-term liabilities declining by CZK 14.3 billion. The change in the position of commercial banks was affected chiefly by their individual strategies for changing their asset structures in response to movements in the interest rate differential and their preference for holding their foreign assets in foreign securities.
- The government's investment position contributed a surplus of CZK 90 billion to the overall balance. By comparison with the previous year, its creditor position decreased by CZK 111.3 billion, mainly because of debt repayment by the Russian federation in Q1.

- Just as previous years, the foreign funds were mostly channelled into the corporate sector, whose debtor position amounted to CZK 195.7 billion at the year-end. However, businesses on balance drew CZK 17.3 billion less in funds from abroad than in 2001.

International investment position

in CZK billions

	2001	2002	Change
Direct investment	-941,2	-1 113,8	-172,6
Portfolio investment	4,8	73,2	68,4
Financial derivatives	4,3	8,5	4,2
CNB	524,6	715,1	190,5
Commercial banks	175,1	42,0	-133,1
Government	201,3	90,0	-111,3
Businesses	-213,0	-195,7	17,3
International investment position	-244,1	-380,7	-136,6

5.2. EXTERNAL DEBT

The total external debt of the Czech Republic expressed in koruna stood at CZK 792.1 billion (EUR 25.1 billion) at the end of 2002. Koruna-denominated debt accounted for around 28% of this figure, recording a year-on-year increase of CZK 34.6 billion to CZK 220.6 billion. Compared to the previous, the total debt was down by CZK 19.2 billion, with short-term debt falling by CZK 24.1 billion and long-term debt rising by CZK 4.9 billion. The fall in the overall debt expressed in koruna was also due in part to appreciation of the koruna, especially against the US dollar, which generated a decrease of about 20% in the value of dollar liabilities.

External debt

in CZK billions

	2001	2002	Change
External debt, total	811,3	792,1	-19,2
short-term	345,6	321,5	-24,1
long-term	465,7	470,6	4,9
Share of short-term debt	43%	41%	-2%
Share of debt in koruna instruments	22,9%	27,9%	5,0%

External debt from long-term liabilities amounted to CZK 470.6 billion as at 31 December 2002. Of this figure, public sector debt (i.e. government sector liabilities plus liabilities guaranteed by the government plus liabilities of entities majority-owned by the state) from long-term liabilities totalled CZK 207.3 billion at the year end. The share of public sector debt in long-term debt is 44%.

As regards debtors, the government sector (government and municipalities) accounted for around CZK 16.9 billion of the rise in long-term debt. Its liabilities formed around 10% of the Czech Republic's long-term debt at the year-end. Other sectors recorded an aggregate decrease in long-term liabilities of around CZK 12 billion. The largest fall in long-term debt in convertible currencies was recorded in the banking sector (CZK 8.3 billion). The banking sector accounted for 17% of long-term debt at the end of the year, which represents a fall of 2 percentage points from a year earlier. The corporate sector, too, recorded a decline in long-term debt of around CZK 3.6 billion to account for around 73% of long-term liabilities. In

year-on-year comparison, this sector's share in long-term indebtedness decreased by around 1.5 points.

Commercial banks also recorded the largest year-on-year fall in short-term liabilities (around CZK 15 billion), but despite this still accounted for around 55% of total short-term debt. In the corporate sector, short-term debt decreased by around CZK 9.4 billion. However, the share of this sector in total short-term debt was little changed at the year-end at 44.6% (compared to 44.2% at the end of 2001). Short-term liabilities in the government sector rose by around CZK 300 million. The short-term debtor position of the government was just CZK 761 million. The short-term debt of the central bank (CZK 44 million) is also negligible with respect to the total volume of short-term liabilities.

Turning to creditors, the largest foreign investors were, as ever, foreign banks (49.2%). They were followed by suppliers and direct investors (27.7%) and other investors (14.1%). Governmental and multilateral institutions contributed just 9% to the financing of the Czech Republic's total debt.

External debt broken down by instrument

	2001	2002	Change
Money market instruments	2,4	2,0	-0,4
Bonds and notes	49,2	70,9	21,7
Loans	335,5	318,7	-16,8
Deposits	189,1	171,7	-17,4
Trade credits	77,4	78,7	1,3
Other liabilities	12,8	9,5	-3,3
Intercompany FDI loans	144,9	140,6	-4,3
External debt	811,3	792,1	-19,2

in CZK billions

With regard to the instruments used, bank and corporate loans had the biggest share in the structure of the external debt (around 40%), despite a year-on-year fall of around 17%. A year-on-year decrease was also recorded for bank deposits, which accounted for around 22% of the total debt. Direct investment loans had a share of around 18% and also saw a modest decline compared to 2001 (CZK 4.2 billion). The rising interest of foreign investors in domestic long-term securities led to a year-on-year increase in debt of CZK 21.7 billion. This form of debt accounts for just 9% of the total. Corporate sector trade credits have roughly the same share, but their total volume was virtually flat at the previous year's level. Other instruments have a negligible share in the overall debt structure.

The ratio of total external debt to GDP decreased by 2.5 percentage points relative to the end of 2001, from 37.3% to 34.8%. For the second consecutive year, then, the Czech Republic's debt was below the 40% level acknowledged internationally as sensitive.

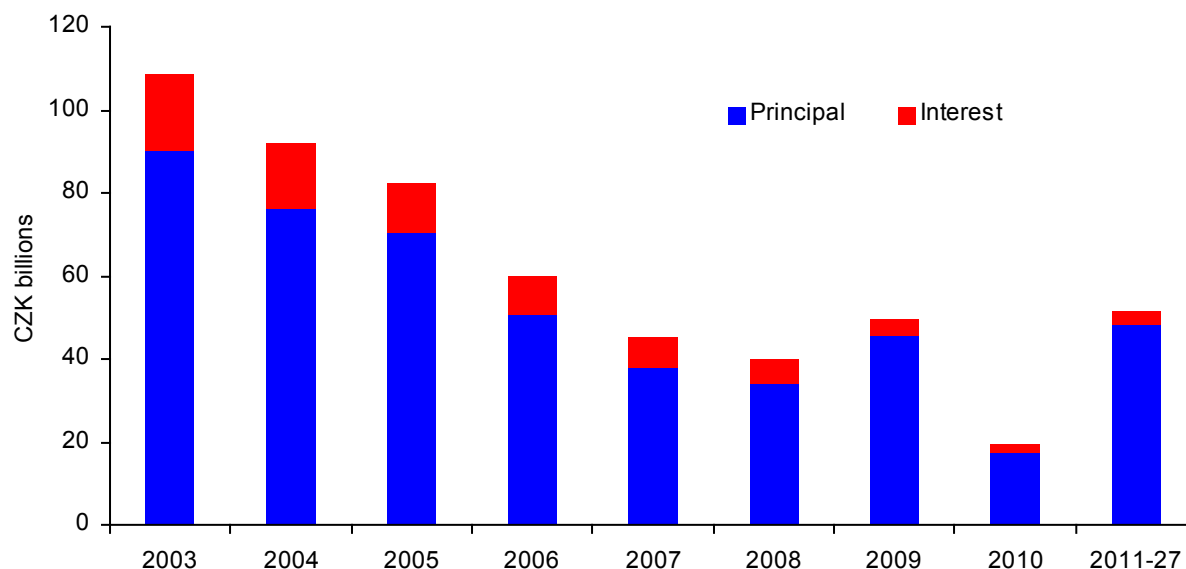
5.3. DEBT SERVICE

Debt service on long-term liabilities in convertible currencies amounted to CZK 134.8 billion (EUR 4.3 billion) in 2002. A total of CZK 101.9 billion was repaid in principal and CZK 32.9 billion in interest. Debt service costs were CZK 2.6 billion higher than a year earlier.

The largest amount of principal (CZK 69.3 billion) was repaid in 2002 by the corporate sector, which was paying off financial credits accepted directly from foreign entities as well as import liabilities. Commercial banks repaid a total of CZK 31.1 billion of their long-term external liabilities. Repayments by the government sector, including municipalities, amounted to CZK 1.5 billion. The central bank made an annual repayment of CZK 20.2 million on a loan drawn from the EIB.

Debt service financing represented 9.1% of exports of goods and services in 2002, an increase of 0.5 percentage points on a year earlier.

Debt service



C. ANNEXES

PORTFOLIO INVESTMENT ON THE FINANCIAL ACCOUNT

Inflow and outflow of portfolio investment capital is an important component of the Czech Republic's financial account. The movement of portfolio investment capital has been strongly influenced by the various stages of voucher privatisation, the liberalisation of capital flows, the level of oversight of the capital market in the Czech Republic, the ongoing signing of international treaties on investment protection, and last but not least the interest rate differential and exchange rate system.

1. The Czech capital market

The Czech capital market was re-established at the start of the 1990s. In the process of transformation of the Czech economy, voucher privatisation became the vehicle for transferring property from state to private ownership. The first wave of voucher privatisation was launched in the autumn of 1991 and completed with a fifth round in December 1992. Following the partition of Czechoslovakia, the Czech Republic (unlike Slovak) undertook a second wave of voucher privatisation, which was completed in 1995.

To allow the transformation process to take place by voucher privatisation, a series of laws were adopted in 1990 and 1991. These included in particular a *Joint-Stock Companies Act* (repealed in 1992 when the *Commercial Code* was passed), a *Citizens' Private Enterprise Act* and an *Act on the Terms and Conditions for the Transfer of State Property to Other Persons* (known as the *Transformation Act*), which provided for what was called the "Privatisation Project". The legislative scope for the operation of the Czech capital market was gradually delineated further with the adoption of new laws, the most important of which being the *Commercial Code*, the *Foreign Exchange Act*, the *Securities Act* and the *Bonds Act*. The capital market legislation is still undergoing various revisions to bolster investor protection and market transparency and enhance the oversight of market participants.

In line with the objective of attaining full compatibility with European Community law in this area, entirely new acts – a *Collective Investment Act* and a *Capital Market Business Act* – are currently in the pipeline. The Capital Market Business Act will replace the current Stock Exchange Act and a large part of the Securities Act (until the taking effect of the new Civil Code, which will integrate the general private law relating to securities and contractual relations). Given their specific nature, bonds will not be incorporated into the Capital Market Business Act, but will instead be dealt with in a separate new act. The aim of the new legislation is to comprehensively regulate, systematically classify and update the rules in the area of public law regulation of service provision on the capital market, and to enhance the operation of the Czech capital market.

As in other developed nations, a regulatory system has gradually been established for the capital market in the Czech Republic. The foundations were laid in 1992 at the Ministry of Finance, where a capital market supervision department was set up. On 1 April 1998, the Czech Securities Commission took on the function of administrative authority for the capital market. According to the Securities Commission Act, its mission is to promote capital market credibility in the eyes of investors and issuers of investment instruments. The Commission's

objective is to contribute to the protection of investors and the development of the capital market and to promote public education in this area. Under its statutory powers, the Commission performs state supervision of the capital market, inspects whether persons subject to the Commission's supervision are fulfilling their information duties, and carries on other activities relating to the development and protection of the capital market. In addition to the state supervisory authorities, self-regulating professional associations play an active role in the system of regulation. These include the Union of Investment Companies, the Association of Securities Traders, the Capital Market Association, the Association of Pension Funds and the Czech Insurance Association. The aim of such associations is to promote their members' interests. Membership of them is voluntary. The state administration works in collaboration with these associations when drafting legislative amendments.

2. Definition of portfolio investment in the balance of payments methodology

According to the fifth edition of the IMF's *Balance of Payments Manual*, and also in compliance with the *European Union balance of payments/international investment position statistical methods*, **portfolio investment** comprises equity securities and debt securities, except for those included in the categories of direct investment and reserve assets.

In line with IMF methodology, **financial derivatives** are excluded from portfolio investment and shown in a separate category of the financial account. Also excluded are collateralised loans related to repurchase agreements.

According to IMF and ECB statistical standards, the residency status of a security is based on the issuer principle. A foreign security is one issued by a non-resident, and a domestic security is one issued by a resident (see Article 1 (f) and (g) of the Foreign Exchange Act), regardless of the currency of denomination or the location of the market (country) on which the securities are issued.

In the Czech Republic, securities may be issued in certificated or uncertificated form and may be registered or unregistered.

Equity securities cover shares and stocks (both ordinary/common and preferred), interim certificates and mutual fund shares. Only those equity securities which account for less than 10% of the capital of an enterprise are recorded as portfolio investment. Where an investor owns 10% or more of the capital of an enterprise, this is classified as direct investment.

Debt securities are **bonds**, which are generally defined as securities which give the holder the right to a sum in repayment of principal on the maturity date and to payment of yields on specified dates, as well as imposing a duty on the issuer to settle that right.

The most widespread types of bond are standard corporate and bank bonds, but the category also includes mortgage bonds, government and municipal bonds, convertible and preferred bonds and subordinated bonds.

For balance of payments purposes, debt securities are classed as **short-term** and **long-term** according to initial maturity. Securities issued with an initial maturity of one year or less are short-term investment instruments or money market instruments. Examples of such instruments are Treasury bills and bankers' acceptances.

Transactions and holdings in securities issued with a maturity of more than one year are always classed in the balance of payments and international investment position as long-term bonds, even though their residual maturity at the time of the investment may be one year or less. Portfolio investment transactions are recorded in the balance of payments at the effective price paid or received, less commissions and expenses. Portfolio investment stocks are entered in the international investment position at market/actual prices as of the end of the reference period.

On the assets side (i.e. investment by residents in foreign securities), the geographical allocation of portfolio investment in both the balance of payments and the international investment position depends on the country of residence of the issuer (debtor). In the case of liabilities (investment by non-residents in domestic securities), it depends that of the creditor (holder). On both the assets and liabilities side, portfolio investment is further subdivided by institutional sector – banks, general government and others.

3. Portfolio investment data collection system for the balance of payment statistics

Pursuant to Article 41 of Act No. 6/1993 Coll., on the Czech National Bank, and Article 5 of Act No. 219/1995 Coll., the Foreign Exchange Act, the Czech National Bank is authorised to request that respondents supply data essential for the compilation of the balance of payments. The time limits and the means of submitting statements and complying with the reporting duty to the Czech National Bank are further stipulated in implementing regulations (known as “provisions” and “decrees”).

The Czech National Bank gathers data for portfolio investment items, on both the assets and liabilities side, from banks, securities dealers and institutional investors such as investment companies and investment funds, insurance companies, pension funds, holding companies and leasing companies. The latest amendment to the Foreign Exchange Act has made it possible to gather data directly from the Czech Securities Centre on the stock of domestic securities held by non-residents. In addition, under the Bonds Act, domestic issuers of securities on foreign markets also have a direct reporting duty to the CNB. In CNB Decree No. 34/2003 Coll., a direct reporting duty was introduced for residents who acquire securities via foreign securities dealers, for example through internet transactions.

At present, aggregated data on the stocks and flows of portfolio investment are collected at quarterly intervals, broken down by type of investment instrument (equity securities and long-term and short-term debt securities). In the case of domestic securities held by non-residents, the sector of the security issuer is monitored, as is the country in which the foreign investor has its registered office. In the case of foreign securities, the sector of the domestic investor is monitored (banking sector, government sector, others) together with the country in which the issuer of the foreign security has its registered office.

On the Czech Republic's accession to the European Union the CNB is expected to become involved in a portfolio investment data collection project based on the “security by security” principle, which is currently being prepared by the ECB.¹⁾

¹⁾ Monitoring of flows, stocks and yields of individual securities according to ISIN

4. Stocks and flows of portfolio investment between residents and non-residents of the Czech Republic

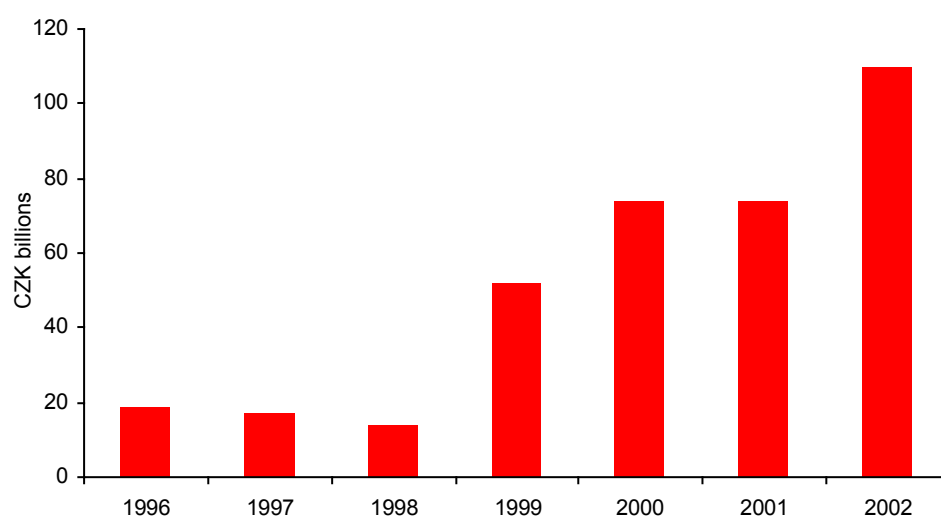
Since the foundation of the Czech Republic in 1993, the development and intensity of portfolio investment flows have been influenced both by economic factors and by the legislative framework. During this period, the foreign exchange regulations (The Foreign Exchange Act No. 528/1990 Coll., as amended by Act No. 228/1992 Coll.) were already extremely liberal with regard to non-residents. Non-residents in the Czech Republic were able quite freely to invest capital in both direct and portfolio investments. Their investments in the Czech Republic were moreover protected by bilateral international agreements on the support and mutual protection of investment. By the end of 2002, the Czech Republic had signed 78 such agreements. The reason for introducing such relatively liberal conditions for foreign investors was to encourage the inflow of funds from abroad and to strengthen the state's low foreign exchange reserves at the beginning of the economic transformation process.

Interest on the part of foreign investors in domestic shares showed a marked increase after the first and second waves of voucher privatisation. They invested primarily in particular sectors (banks, energy and telecommunications) and lucrative smaller companies that were being privatised. Through ongoing purchases of other shares on the capital market, foreign investors increased their holdings in companies with sound prospects. Recently, foreign investors have also shown increased interest in long-term koruna bonds, most notably government bonds.

The inflow of funds from abroad (growth in liabilities) was closely linked to bond issues by domestic entities abroad, especially in the early days of the Czech Republic's existence. In addition to the Czech National Bank, which was among the first to issue bonds on the Japanese market, the public sector was also an active issuer. In this way, the cities of Prague, Ostrava and, later on, Brno acquired long-term funds to finance their projects. This form of financing was also employed to complete the Congress Centre in Prague and to develop certain companies (the Plzeň Prazdroj and Radegast breweries, and Aero Vodochody). Česká exportní banka also made two foreign bond issues.

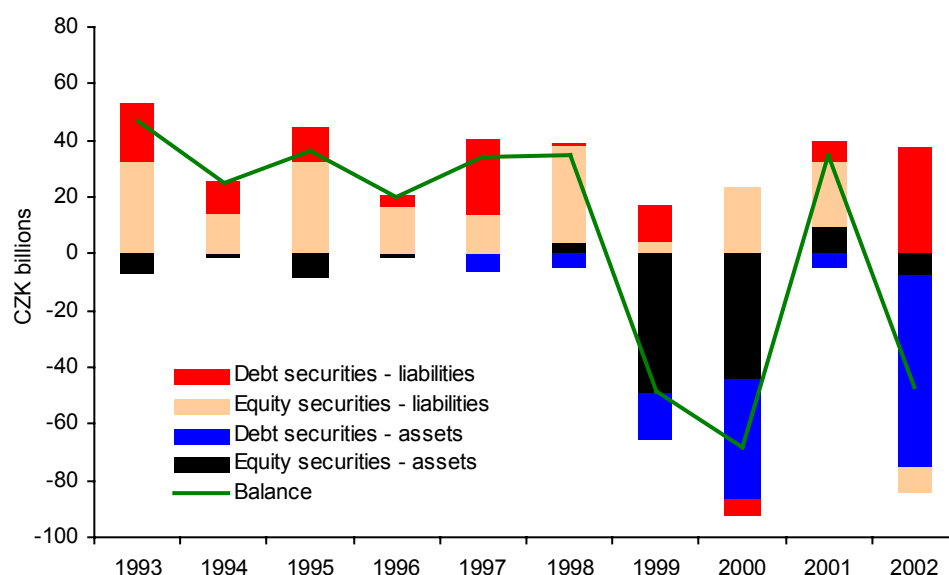
During the initial years of transformation, the foreign exchange regulations only permitted banks that had been granted the relevant licence to freely invest domestic funds in foreign securities. Non-banking domestic entities were allowed to invest their assets in foreign portfolio investments from the end of 1995 with the introduction of the new Foreign Exchange Act No. 219/1995 Coll. Under this Act, residents without a foreign exchange permit could freely purchase foreign securities either from or via authorised domestic foreign exchange entities, i.e. securities dealers. They were also permitted to acquire employee or other advantageous foreign shares, as well as publicly traded foreign bonds denominated in the Czech currency which had been issued under a foreign exchange permit in the Czech Republic. Without a foreign exchange permit residents could purchase Slovak shares from other residents which had been obtained as part of the privatisation process.

Another major step in the liberalisation of capital flows occurred around the middle of 1998, when investment companies and investment funds were allowed to purchase into their portfolios foreign securities that had been issued by member countries of the OECD or their central banks or which were traded on the public markets of OECD countries.

Chart 1: Liberalisation of trade in foreign securities by non-banking entities

Investment in foreign securities began to rise sharply in 1999, when, under Government Order No. 129/1998 Coll., all residents were allowed to execute transactions in foreign securities, irrespective of whether they had a foreign exchange permit. This measure and the situation on the domestic capital market, together with a narrowing of the interest rate differential, led for the first time to a net outflow of portfolio investment abroad.

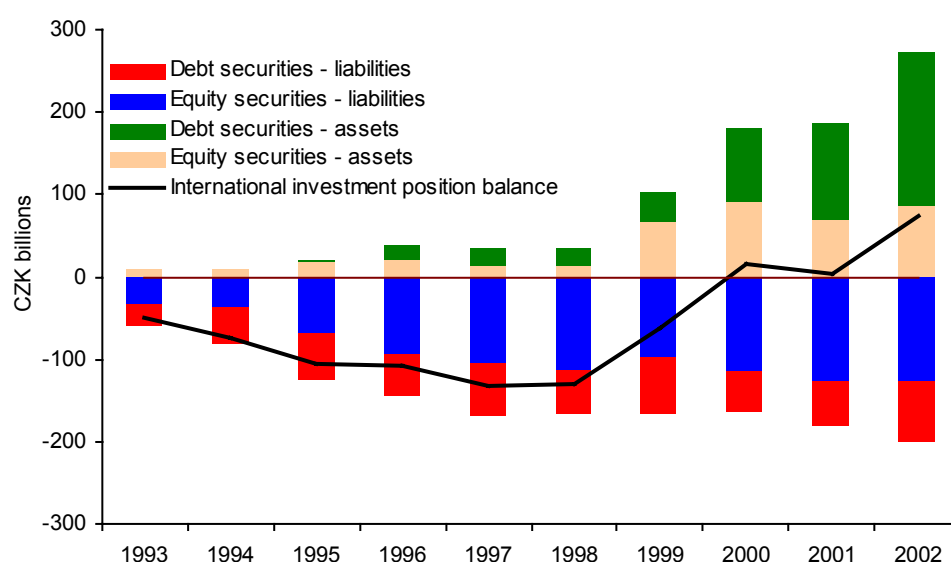
The weight of portfolio investment in total financial flows in the Czech Republic's balance of payments was low, particularly when compared to direct investment. From 1993, the quarterly portfolio investment balance accounted for 2% on average of the total financial account balance, whereas the proportion of direct investment was 99% and the proportion of other investment -1% of the total on average.

Chart 2: Portfolio investment – flows and balance

The balance of the Czech Republic's international investment position in portfolio investment reflected the portfolio investment flows and was negative up to 1999, recording its lowest figure (CZK -133.3 billion) at the end of 1997. The rise in non-residents' investment position in domestic securities (liabilities) in the first half of the 1990s was influenced particularly by

the first and second waves of voucher privatisation. From the middle of the 1990s the rise of liabilities in the investment position levelled off, with significant growth resuming only at the end of 2001 and beginning of 2002, when portfolio investment in the Czech Republic rose in response to the expected appreciation of the koruna following the privatisation of state property into the hands of foreign investors as well as the negative situation on the advanced securities markets. At the end of 2002, however, foreign entities largely abandoned Czech debt securities and there was an outflow of investment funds from the Czech Republic. In 1999, the restriction on residents investing in foreign securities was lifted, immediately resulting in a reduction of the negative international investment position. The marked growth in the investment position of Czech residents in foreign securities (assets) in 1999 (increase of CZK 68.5 billion) and 2000 (increase of CZK 76 billion) levelled off in 2001. The major post-liberalisation outflow of Czech capital (initially mainly in foreign equity securities) was replaced by a stabilisation of capital outflows due to a cooling on foreign capital markets. Thanks to these outflows the Czech Republic again began recording a positive international investment position. At the end of 2002 this reached its highest ever figure of CZK 73.1 billion. The improvement in the international investment position during 2002 was due largely to developments in the final quarter, which saw substantial purchases of foreign debt securities by Czech investors. The outflow was comparable to the previous highest post-liberalisation outflow of investment funds in the fourth quarter of 1999, with the difference that in 1999 Czech residents had invested mainly in equity securities. From the end of 2000, however, the proportion of equity securities began to fall sharply in favour of debt securities. At the end of 2002, foreign debt securities made up 68% of all foreign securities held by Czech residents, whereas foreign entities primarily owned equity securities in the Czech Republic, these making up 64% of total Czech securities held by foreign entities. The latter figure remained stable throughout the period.

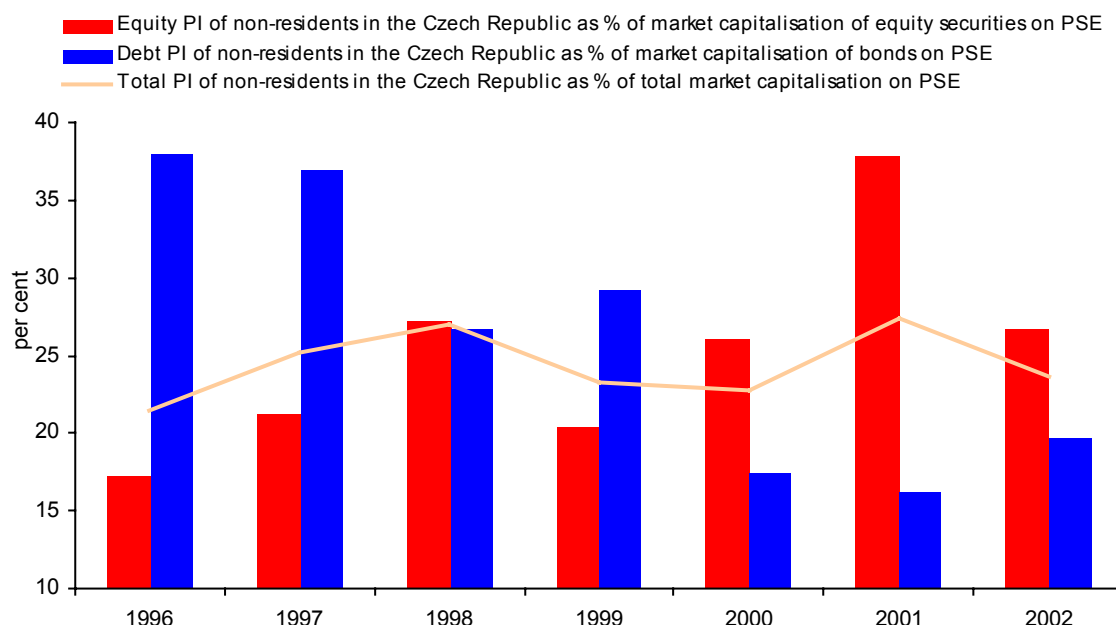
Chart 3: Stock of portfolio investment and its balance in the international investment position



Foreign entities were heavily involved in trading on the Prague Stock Exchange. Buys and sells by foreign entities were a leading factor in determining the price of Czech securities. In 2002, portfolio investment by non-residents in the Czech Republic represented 24% of the total market capitalisation on the Prague Stock Exchange. This is in line with the average figure recorded since 1996. Non-residents' equity portfolio investment in the Czech Republic made up 27% of the market capitalisation of equity securities (the average since 1996 being

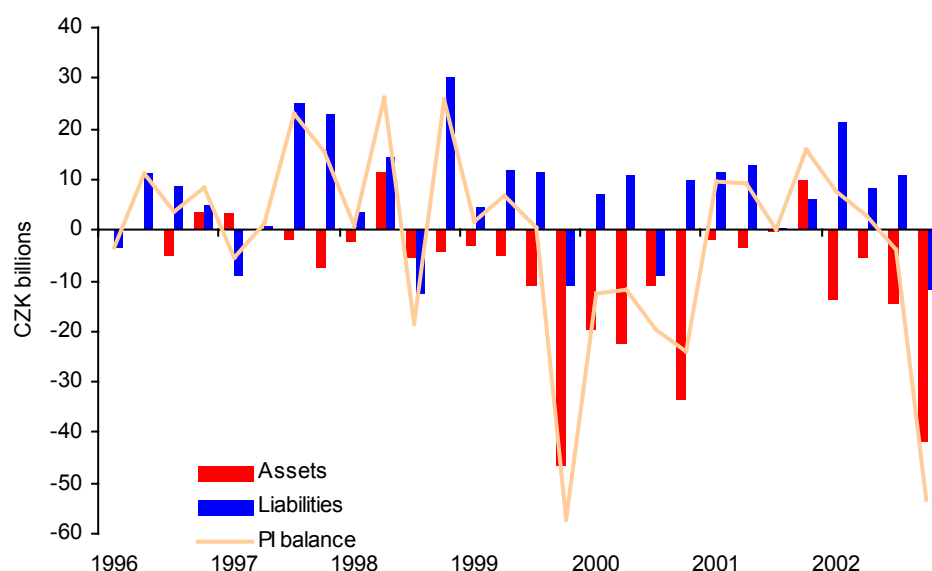
25%), while non-residents' debt portfolio investment as a proportion of the market capitalisation of debt securities was 20% (compared to an average of 26% since 1996).

Chart 4: Non-residents' portfolio investment as a percentage of market capitalisation on the Prague Stock Exchange



5. Factors affecting the inflow and outflow of portfolio investment

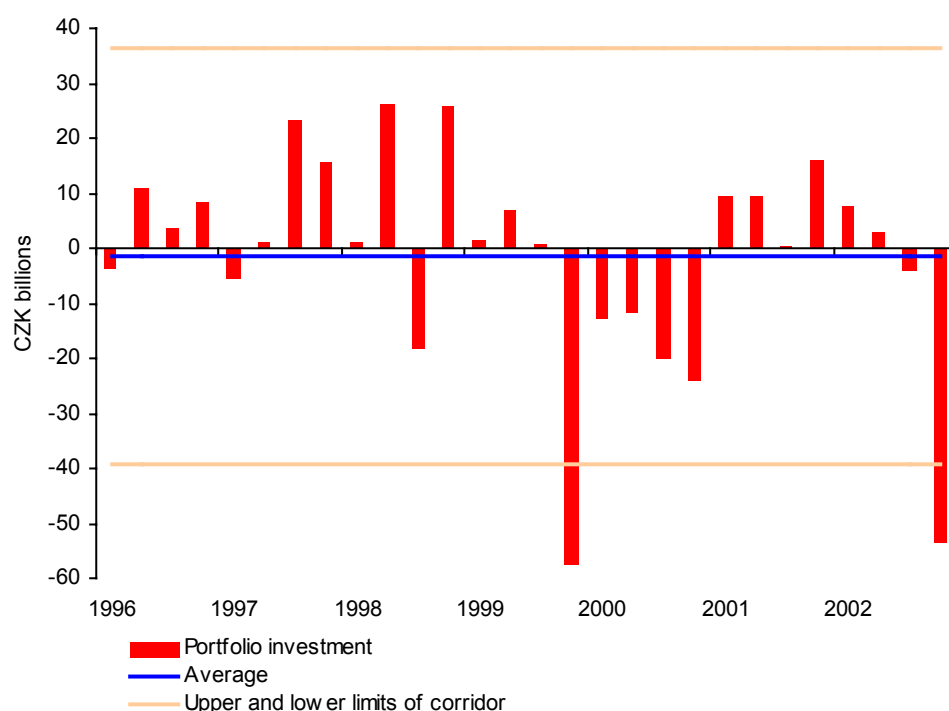
Chart 5: Quarterly flows and balance of portfolio investment



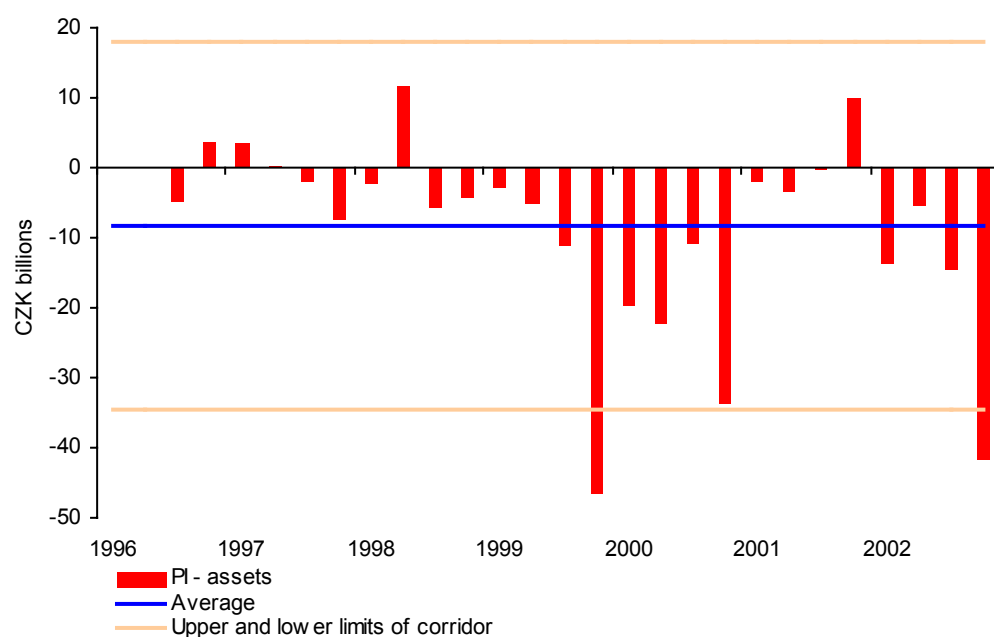
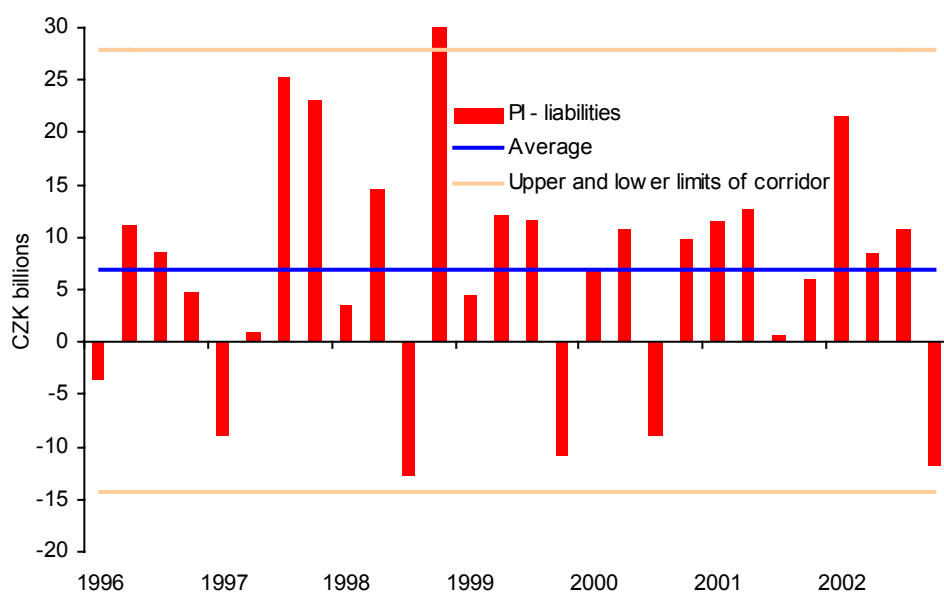
Many different factors influence portfolio investment flows and it is therefore extremely difficult to isolate any dominating relationship. The quarterly data from 1996 to 2002 have been used to derive the average portfolio investment flows and the corridor within which they most probably move ($1.9 \times \text{standard deviation}$). These figures are depicted graphically for flows of portfolio investment held by non-residents (portfolio investment – liabilities), flows of

portfolio investment held by residents (portfolio investment – assets) and for the total portfolio investment balance, and separately for equity securities and debt securities.

Chart 6: Portfolio investment balance



From the beginning of 1996 to the end of 2002, the quarterly total portfolio investment flows were on average almost balanced. The average outflow over all quarters was 1.4%. There were only two marked quarterly deviations during this period, both of them on the outflow side. The largest outflow of investment from the Czech Republic (CZK 57 billion) occurred in 1999 Q4 and was caused largely by an outflow of investment by Czech residents into foreign equity securities. The second major outflow (CZK 53 billion) took place in 2002 Q4, chiefly as a result of an outflow of investment by Czech non-residents into foreign debt securities. The largest inflow of portfolio investment into the Czech Republic (CZK 26 billion) occurred in 1998 Q2.

Chart 7: Portfolio investment: Assets**Chart 8: Portfolio investment: Liabilities**

The portfolio investment liabilities side (investment by non-residents in the Czech Republic) has seen an average quarterly inflow of CZK 6.8 billion since 1996. Investment portfolio flows connected with the financial transactions of non-residents fluctuated during the period under review in line with the probable movements of the boundaries of the corridor. Only in 1998 Q4 did the investment inflow exceed the upper limit (CZK 30 billion). This chiefly concerned investment in Czech equity securities. On the portfolio investment assets side (investment by Czech entities in foreign securities) the average quarterly outflow since 1996 has been CZK 8.3 billion, which is more than the figure for portfolio investment inflow into the Czech Republic. The outflow exceeded the corridor limit in 1999 Q4 (CZK 47 billion) and in 2002 Q4 (CZK 42 billion). The outflows of residents' investments in these two quarters were also affected by significant fluctuations in total portfolio investment flows (see Chart 6:

Portfolio investment balance). Whereas 75% of the first marked outflow in 1999 was into foreign equity securities, in 2002 97% was into foreign debt securities.

Chart 9: Investment in equity securities

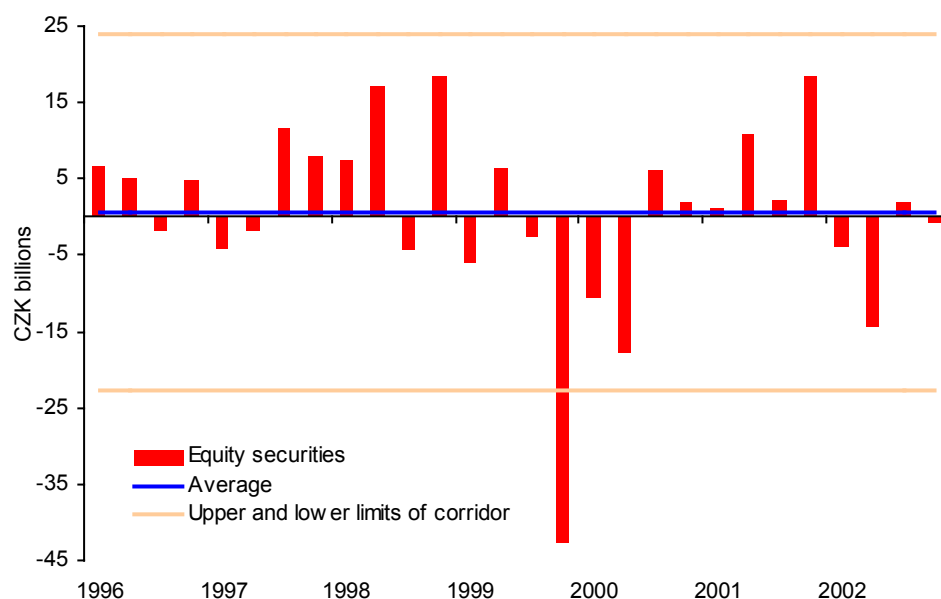
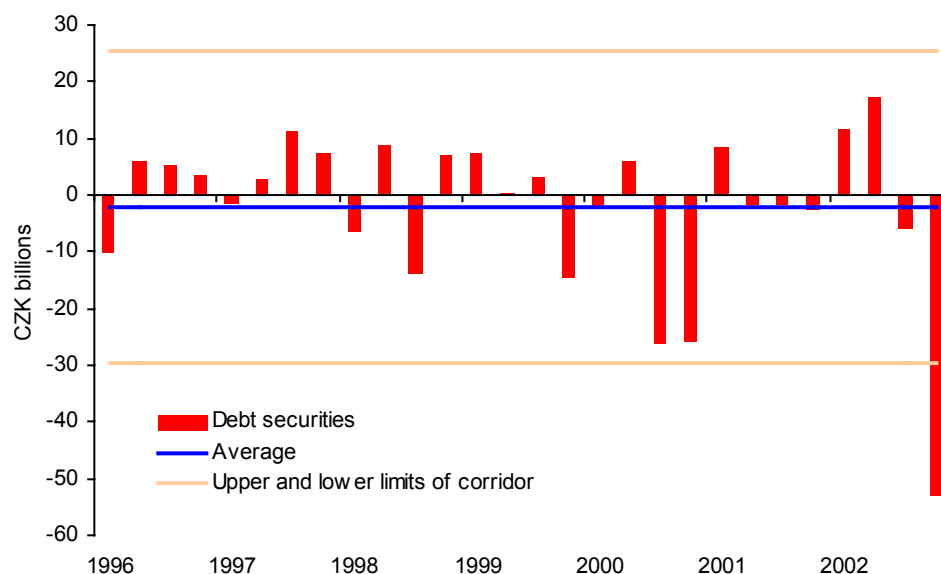


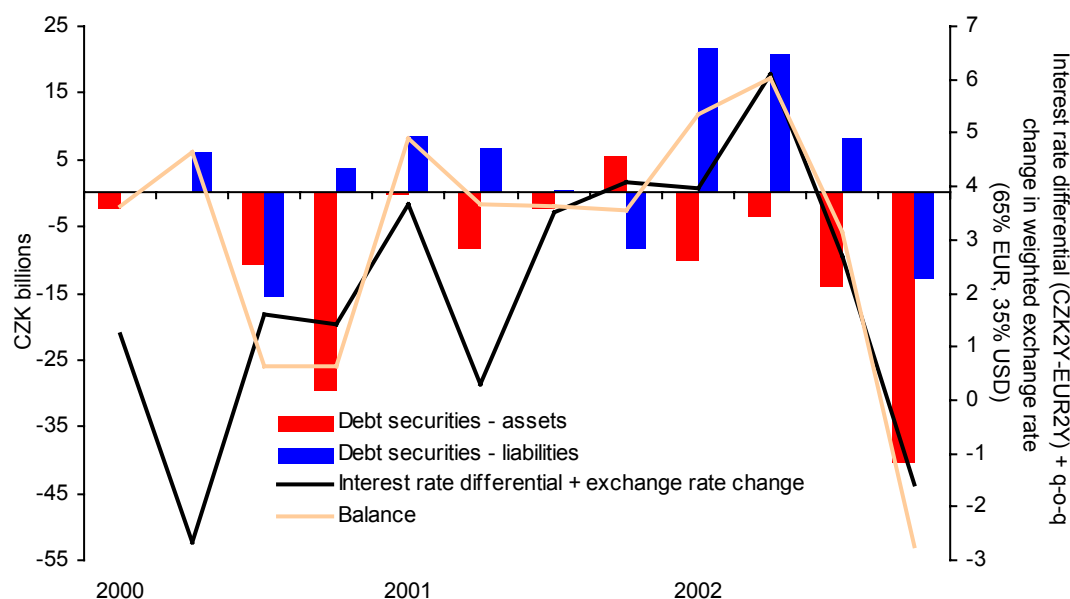
Chart 10: Investment in debt securities



As in the case of total portfolio investment, the quarterly flows of total equity and debt portfolio investment were both approximately balanced on average. Equity portfolio investment recorded a small surplus on average (CZK 658 million), whereas debt portfolio investment flowed out of the Czech Republic at a rate of CZK 2 billion a quarter on average. Financial transactions of residents were largely responsible for both equity and debt portfolio investment exceeding the relevant corridor. Equity portfolio investment recorded an outflow of CZK 43 billion in 1999 Q4 and debt portfolio investment recorded an outflow of CZK 53 billion in 2002 Q4. A change in trend was again confirmed, with Czech entities switching from equity portfolio investment to debt portfolio investment. This reflected both changes in

investment opportunities on advanced foreign markets and changes in investment opportunities in the Czech Republic.

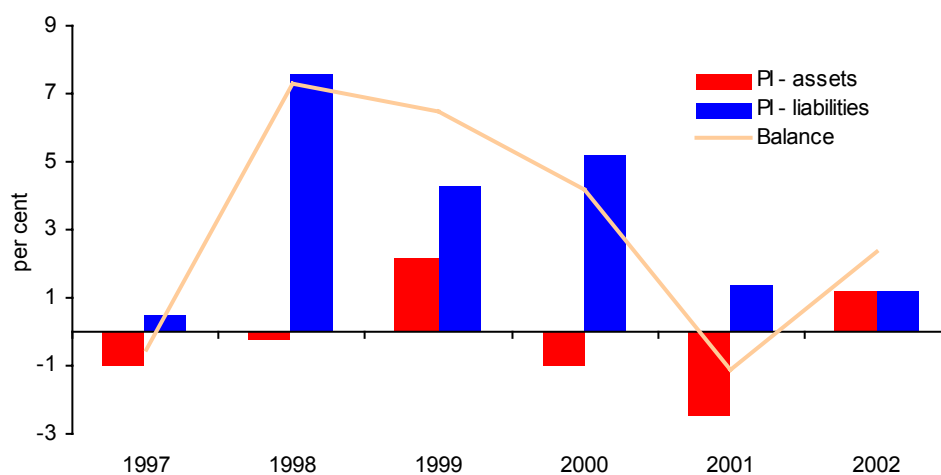
Chart 11: Debt securities and total growth of koruna investments



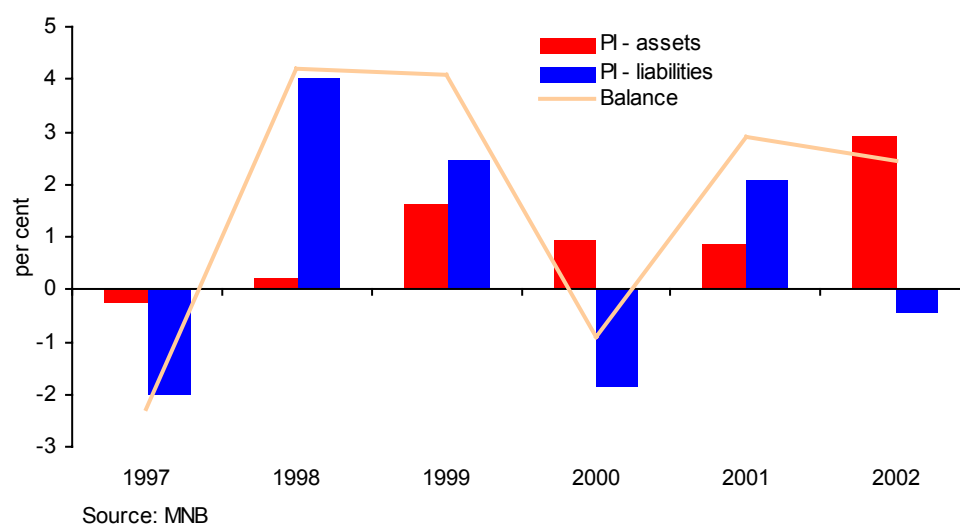
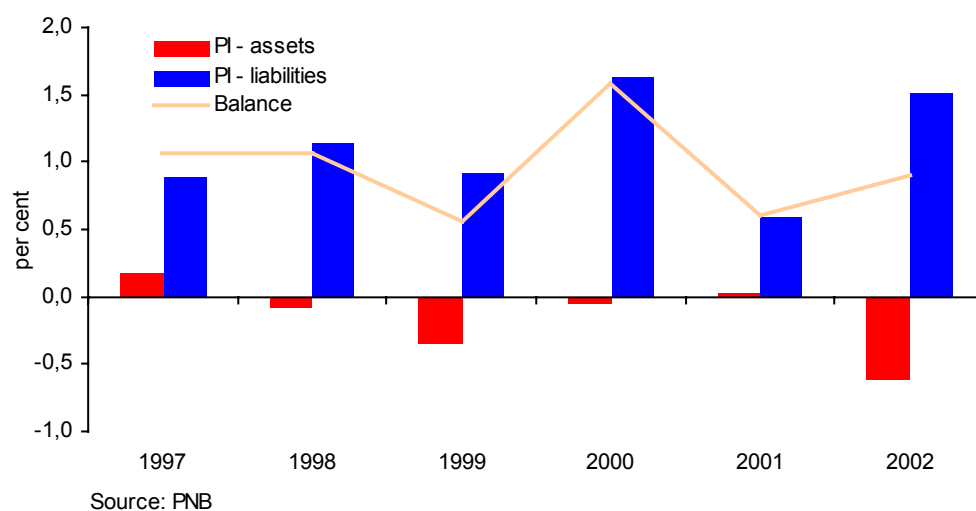
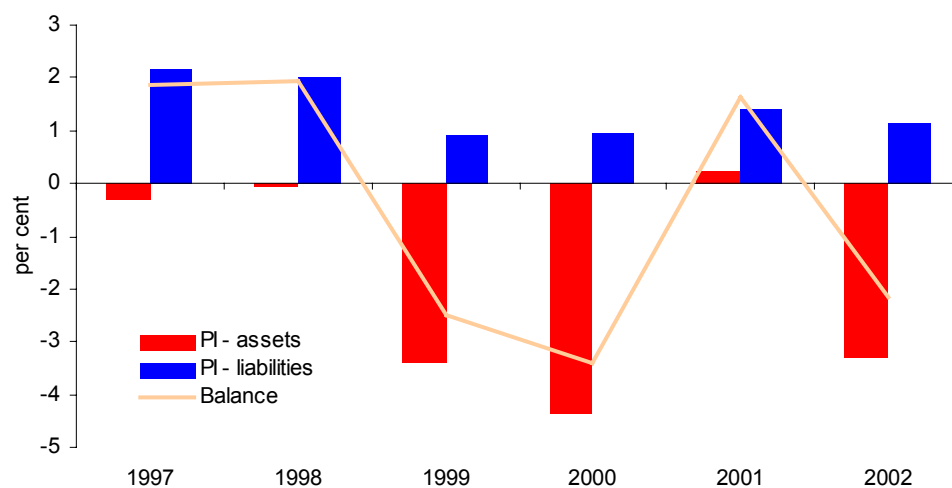
Recently, the debt portfolio investment balance has been affected by the interest rate differential and changes in the exchange rate of the koruna. If we assume that investors correctly anticipated the changes in the exchange rate, then the strong appreciation of the koruna, which was caused by a large expected inflow of foreign direct investment, fostered increased investment in koruna debt instruments, particularly in 2002. From the second half of 2002, the Czech economy had a negative interest rate differential with respect to the eurozone. This, together with a stabilisation of the koruna, probably did not provide scope for so great a rise in the value of koruna investments, which in turn would explain the marked outflow of debt portfolio investment at the end of 2002.

6. Portfolio investment in Poland, Hungary, Slovakia and the Czech Republic

Chart 12: Slovakia – Portfolio investment as a percentage of GDP



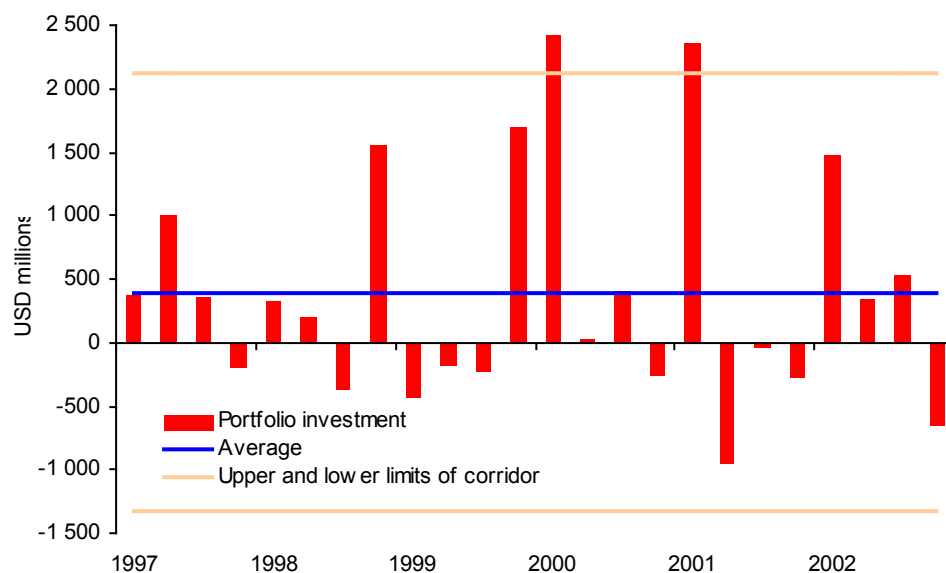
Source: NBS

Chart 13: Hungary – Portfolio investment as a percentage of GDP**Chart 14: Poland – Portfolio investment as a percentage of GDP****Chart 15: Czech Republic – Portfolio investment as a percentage of GDP**

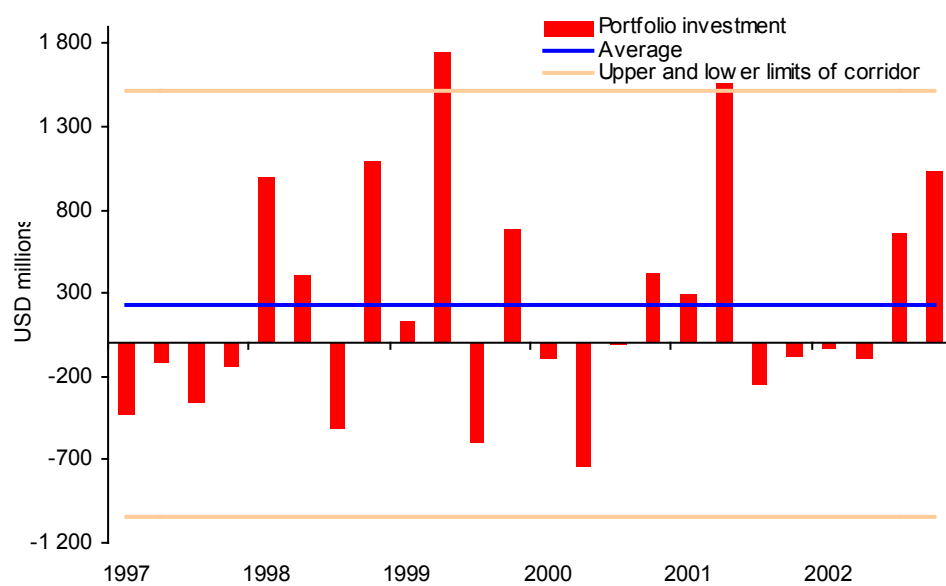
Poland, Hungary and Slovakia are the closest transition nations to the Czech Republic. Since 1997, Slovakia has recorded the largest average annual inflow of portfolio investment as a percentage of GDP (3.1%), followed by Hungary (1.7%) and Poland (1%). The Czech Republic was the only one of the countries under review to record a net outflow of portfolio investment on average in the period since 1997 (-0.4%). The outflow was due mainly to the significant activity of Czech residents in foreign securities, which exceeded that of residents of any other of the countries under review. Slovakia's attractiveness to foreign investors rose sharply in 1998 and then gradually fell back. The most stable inflows of portfolio investment by non-residents in the period under review were registered by Poland, followed by the Czech Republic. Poland also recorded the most stable outflows of portfolio investment by residents in foreign securities, with Hungary in second place. Poland thus recorded the most stable portfolio investment during the period under review.

The average quarterly portfolio investment figures and the corridor of most probable movement ($1.9 \times \text{standard deviation}$) have again been used to evaluate and compare past portfolio investment in the Central European countries.

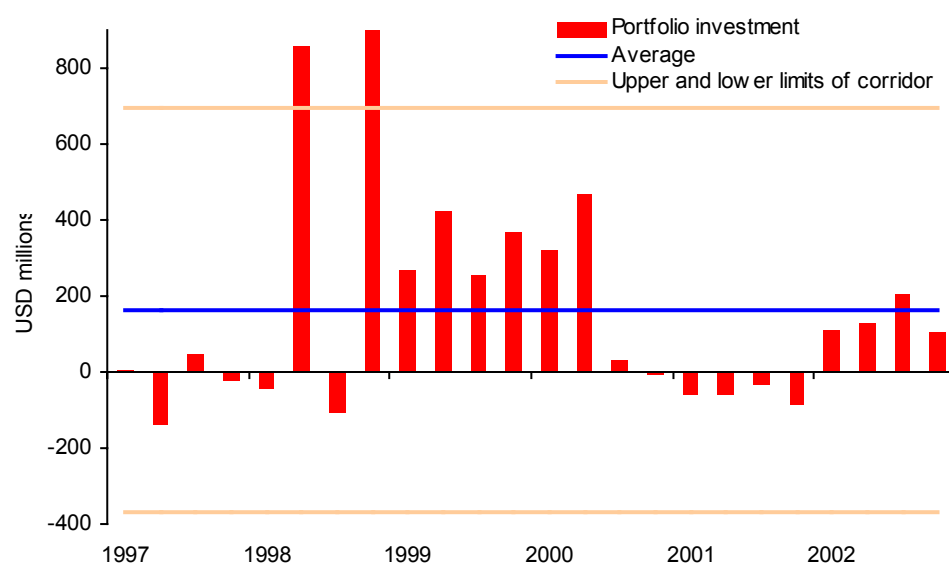
Chart 16: Poland



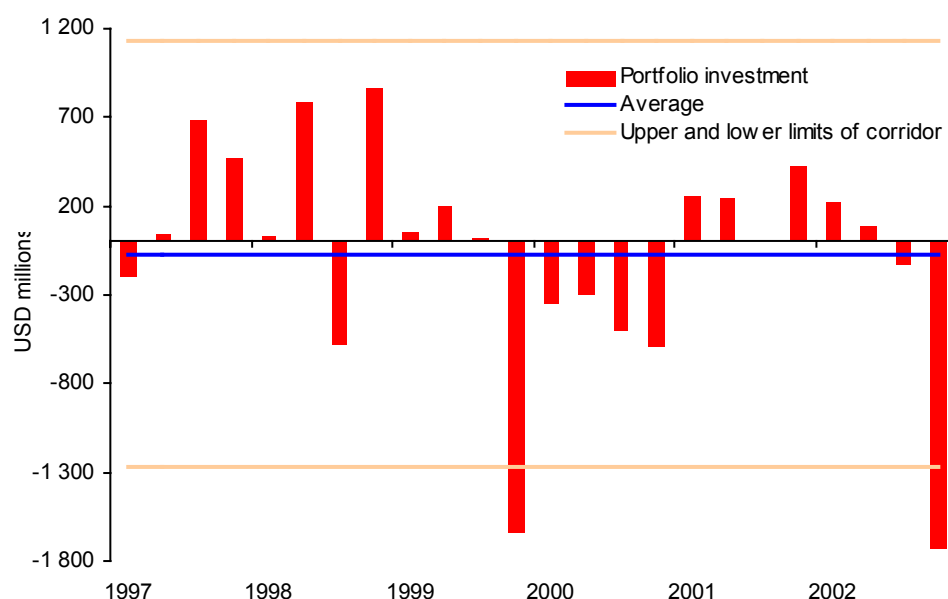
Source: PNB

Chart 17: Hungary

Source: MNB

Chart 18: Slovakia

Source: NBS

Chart 19: Czech Republic**Table 1: Portfolio investment balances (quarterly data 1997–2002)**

	<i>USD millions</i>			
	Average	Standard deviation	Maximum	Minimum
Czech Republic	-69.8	633.7	864.2	-1731.6
Poland	395.2	908.8	2421.0	-950.0
Hungary	231.6	672.9	1745.8	-745.6
Slovakia	164.7	279.8	898.7	-138.9

Source: PNB, MNB, NBS

Since 1997, the Czech Republic has been the only one of the countries under review to record a net outflow of portfolio investment as expressed in average quarterly figures. After Slovakia, it has registered the smallest deviations in portfolio investment balance from the average figures. The Czech Republic is also the only country to have recorded two sharp outflows of portfolio investment by residents in foreign securities (twice exceeding the lower limit of the corridor) – in 1999 Q4 (USD -1.3 billion) and 2002 Q4 (also USD -1.3 billion). The remaining countries, meanwhile, have each recorded two major portfolio investment inflows (and have only ever exceeded the upper limit of their corridors during the period under review). Poland recorded a large inflow of investment by non-residents in 2000 Q1 (USD 2.4 billion) and 2001 Q1 (USD 2.1 billion). The inflow of portfolio investment by non-residents into Hungary exceeded the upper limit of the corridor in 1999 Q2 (USD 1.7 billion) and 2001 Q2 (USD 1.6 billion). Slovakia experienced two large inflows of portfolio investment by non-residents – in 1998 Q2 (USD 829 million) and 1998 Q4 (USD 859 million).

Chart 20: Comparison of equity markets in the Czech Republic and in the advanced economies

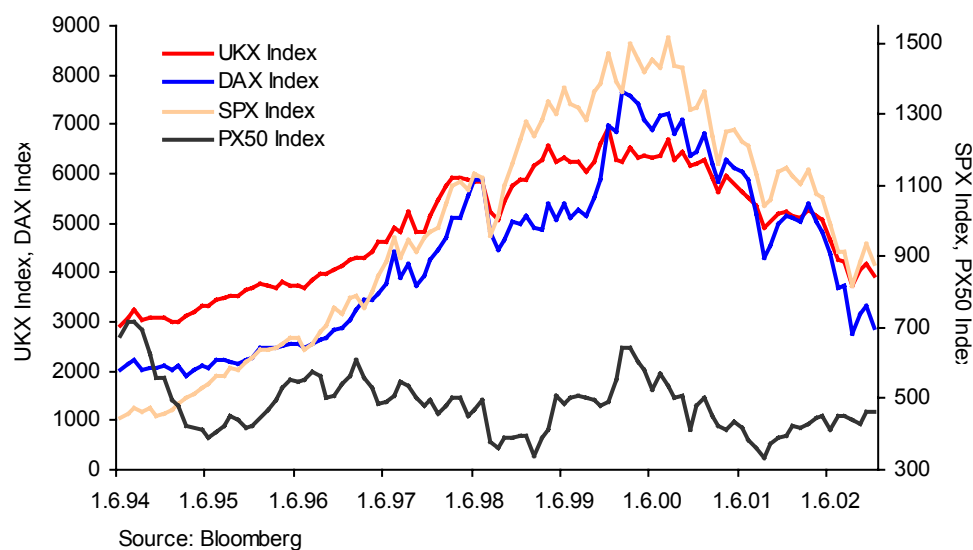


Chart 21: Comparison of equity markets in Poland and Hungary

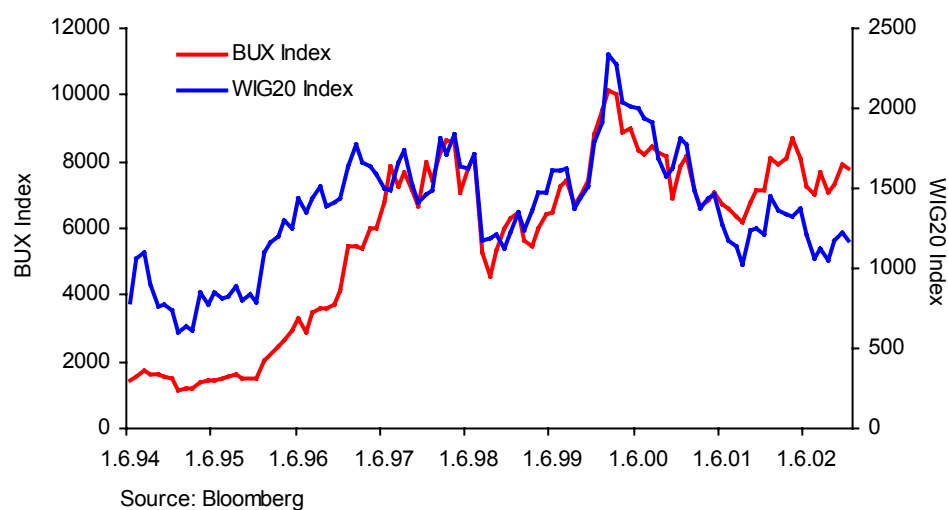


Chart 22: Comparison of equity markets in the Czech Republic and Hungary

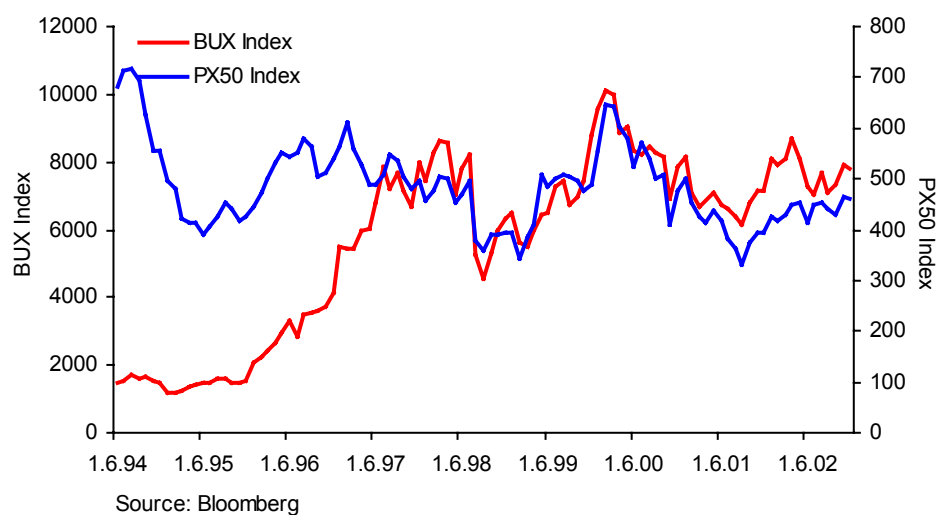
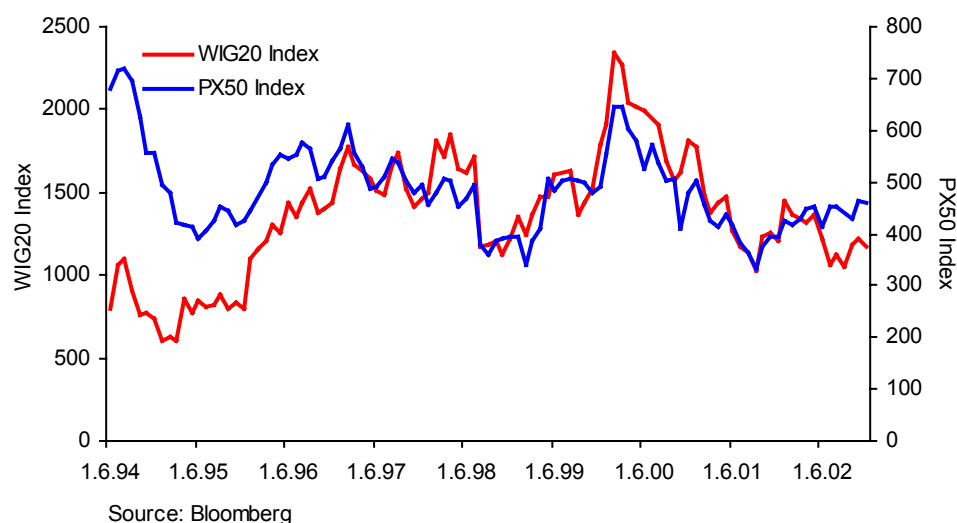


Chart 23: Comparison of equity markets in the Czech Republic and Poland

The investment sentiment on the different equity markets is best characterised by share indices. The correlation between such indices suggests a high degree of interdependence between the advanced equity markets of the United States, Germany and the United Kingdom (i.e. a correlation coefficient very close to 1). Simplifying to some extent we can therefore regard the advanced equity markets as a single market.

Like the equity markets of other Central European countries, the Czech equity market is classed among the emerging markets. Measured using its main stock exchange index, the Czech equity market shows scarcely any statistical dependence on the advanced equity markets. The Polish market has developed differently, its dependence on the advanced equity markets having increased appreciably since 1996, suggesting that it may have made greater progress than the Czech market. The Hungarian equity market has long shown a high degree of interdependence with the advanced equity markets, as measured by the correlation between their main stock exchange indices.

The lack of correlation between the Czech equity market and foreign equity markets may lead portfolio investors to move funds between the individual markets depending on their investment expectations. These expectations were clearly different for the Czech market than for the advanced equity markets. An analysis of the correlation coefficients, moreover, reveals that the development of the Czech market since 1996 shows no significant interdependence with that of the Polish and Hungarian equity markets. The interdependence of the Czech and Hungarian equity markets has long been negligible, while that of the Czech and Polish markets has fallen markedly. This is in sharp contrast to the increasing interdependence of the Polish and Hungarian markets since 1996.

THE FINANCIAL CONDITIONS OF THE CZECH REPUBLIC'S ACCESSION TO THE EU ¹⁾

1. The outcome of the negotiations in Copenhagen and the conditions for the candidate countries

Accession to the European Union in 2004 will have a major effect on financial flows between the candidate countries and the EU. On the capital inflow side, there will be a change in both the volume and structure of structural and regional aid, with pre-accession funds gradually being replaced by standard EU sources (structural funds and cohesion fund). Conversely, some outflow of capital can be expected in connection with payments into the EU budget and certain other transactions (e.g. the contribution to the EIB's budget).

The Copenhagen European Council in December 2002 set the financial conditions and other fixed rules under which the accession process will unfold. The groundwork was laid for the Accession Treaty to be signed in Athens on 17 April 2003. The Treaty contains the two sides' commitments under each of the chapters closed at the summit.

The negotiations with the EU took as their starting point what was offered after the Brussels summit last October, when the EU accepted some phasing-in of direct payments to farmers. Following a change to the EU budget rules, a justifiable requirement was raised that no new member state should be worse off after accession. The corrective measures included budgetary compensation payments to top up the candidate countries' incomes so that their net budgetary positions remain no worse than in 2003.

The Danish Presidency sweetened this offer. The future member states would be allowed to top up direct payments to their farmers and they would be given additional money for meeting the Schengen requirements on the protection of external EU borders. At Copenhagen the new member states won a further concession: a cash-flow lump-sum facility to further improve their budgetary positions. The total enlargement costs are put at around EUR 40.8 billion, well within the ceiling established under the 1999 Berlin Agreement.

1) All figures are quoted at 1999 prices, as they are derived from the EU's 1999 Financial Perspectives and the results must be comparable with that. An exchange rate of 31 korunas to the euro has been used.

Table 1: The EU's enlargement-related commitments for 10 new Member States*EUR millions*

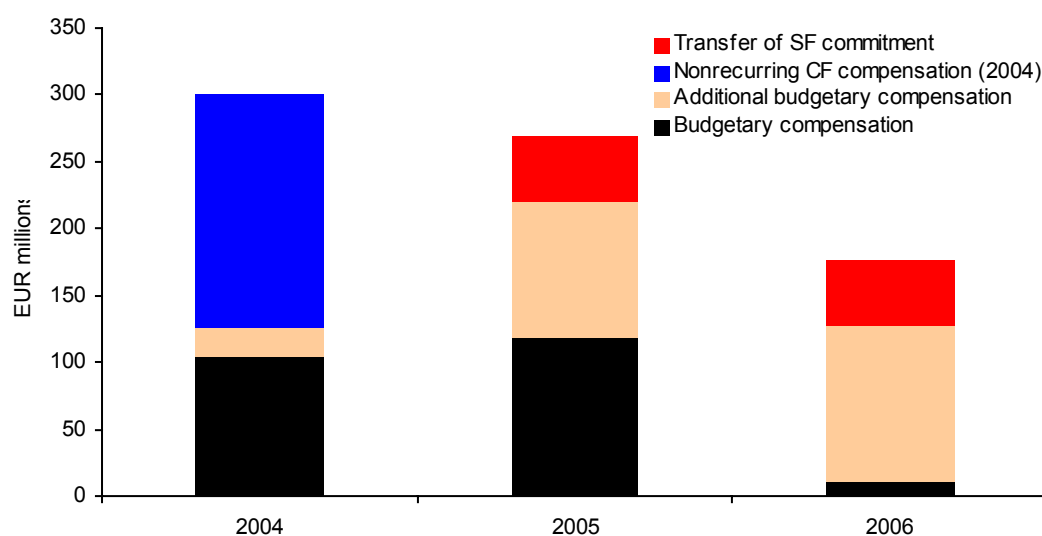
<i>1999 prices</i>	2004		2005		2006	
	Total 10 states	% share Czech Rep.	Total 10 states	% share Czech Rep.	Total 10 states	% share Czech Rep.
Heading 1 Agriculture	1 897	10.2%	3 747	11.7%	4 147	11.8%
Common Agricultural Policy	327	13.8%	2 032	13.7%	2 322	13.6%
Rural development	1 570	9.4%	1 715	9.4%	1 825	9.4%
Heading 2 Structural actions	6 095	11.2%	6 940	11.1%	8 812	11.1%
Structural Funds	3 478	11.4%	4 788	11.1%	5 990	11.1%
Cohesion Fund	2 617	10.9%	2 152	10.9%	2 822	11.1%
Heading 3 Internal policies	1 421	10.0%	1 376	10.1%	1 351	10.2%
Existing internal policies	882	13.9%	917	13.9%	952	13.9%
Transitional nuclear safety measures	125		125		125	
Transitional institution building measures	200	9.8%	120	9.8%	60	9.8%
Transitional Schengen measures	286		286		286	
Heading 5 Administration	503		558		612	
Total commitments (Headings 1, 2, 3 and 5)	9 952	10%	12 657	11%	14 958	11%
Total compensation	1 260	24%	1 129	24%	896	20%

Source: Ministry of Finance; CNB calculation

2. Financial conditions of the Czech Republic's accession

The net position of the Czech Republic (i.e. the difference between payments from, and payments to, the EU budget) is considerably better than that originally proposed. Compared to the Danish offer, the Czech Republic's overall net position for 2004–2006 has increased by around EUR 113 million to a final EUR 778 million (around CZK 24 billion).

In the case of the Czech Republic, the payments it will receive without having to fulfil any particular conditions have acquired greater significance, to the detriment of income from EU funds tied, for example, to the submission of particular projects and the securing of specific forms of co-financing. Prior to the summit, lump-sum budgetary compensation payments amounting to EUR 204 million had been agreed for 2004–2006 to top up the net position to the 2003 level, and a further EUR 30 million had been agreed as a refund for the Schengen system. The Danish Presidency had proposed additional compensation totalling EUR 155 million, to be spread over the three years following accession. At Copenhagen, the Czech Republic negotiated itself a further EUR 358 million, chiefly in the form of a special cash-flow facility worth EUR 175 million for 2004. The negotiating team's objective was to improve the cash-flow of the budget, as the new members would be required to start making payments into the budget as from the accession date. Right at the end of the negotiations, the Czech side also succeeded in securing a transfer of EUR 100 million from the structural funds commitment to compensation for 2005–2006 (i.e. EUR 50 million a year). Under the new Heading X on budget compensation, the Czech Republic will therefore obtain EUR 747 million (i.e. CZK 23 billion) in compensation for 2004–2006.

Chart 1: Structure of financial compensation

Source: Ministry of Finance; CNB calculation

Like compensation, income related to agricultural policy (excluding rural development) is not tied to any particular conditions. Support to farmers has been spread over ten years, starting in 2004 at 25% of the average of the European subsidies and rising by 5% a year thereafter. The Czech Republic will be entitled to top up these payments from its national budget (to 45% in 2004, 50% in 2005 and 55% in 2006). From 2007, the topping-up of direct payments may be no more than 20 percentage points above the level set for each year. The agricultural contributions may also be co-financed from rural development funds (the guarantee component of the European Agriculture Guidance and Guarantee Fund). However, under no circumstances may the topping-up cause the total to exceed the direct payments to farmers in the current member states. A total of EUR 975 million (i.e. CZK 30.23 billion) will be made available for agriculture in the three years following accession.

The larger part of the funds from the EU, however, may only be drawn on the basis of projects, although the availability of financing will improve significantly following accession. At present, financial assistance can only be drawn from the pre-accession funds (Phare, Ispa and Sapard). Assistance worth EUR 170 million was made available for 2003, although drawing on pre-accession aid will not peak until the first year of membership, as project financing is usually spread over several years. At the same time, however, funds will start coming in from the structural funds (ERDF, ESF, EAGGF and FIFG²⁾) and from the cohesion fund under regimes identical to those in the Member States. After 2004, as the Czech economy's ability to absorb EU structural aid grows, we can expect a gradual rise in the inflow of capital in the form of structural and regional assistance. The basic prerequisites for raising the absorption capacity of the Czech Republic are (i) to prepare a sufficient number of development projects and (ii) to have adequate (budgetary) capacity to co-finance those projects. Around EUR 950 million (i.e. CZK 29.46 billion) is expected to be drawn from the structural actions and EUR 432 million (i.e. CZK 13.38 billion) from the pre-accession funds in 2004–2006.

On the other hand, the Czech Republic will be obliged to contribute to the joint EU budget after accession. Payments will be made according to a key that is the same for all EU members. The contributions will be covered from traditional own resources (customs duties

²⁾ ERDF – European Regional Development Fund, ESF – European Social Fund, EAGGF – European Agriculture Guidance and Guarantee Fund, FIFG – Financial Instrument for Fisheries Guidance

on imports from non-member states and agricultural fees on imports of agricultural products from non-member states), from VAT payments, and according to gross national product. One special contribution is a payment for the United Kingdom. This originated as a rebate for the UK's higher payments into the EU budget at the start of the 1990s. However, the candidate countries will be subject to current EU legislation and will therefore have to contribute to this rebate. Overall, EUR 2.5 billion (i.e. almost CZK 80 billion) will be paid into the EU budget over the first three years following accession. The original Czech request for a reduction in its payments in the first year of accession in order to mitigate the post-accession shock was unsuccessful, but thanks to its budgetary compensation the Czech Republic's net position will be EUR 778 million (i.e. CZK 24.11 billion), which is substantially more than under the original proposals prior to the Copenhagen summit

The financial flows associated with the Czech Republic's accession also include payments associated with its membership of international organisations such as the European Investment Bank (EIB). At Copenhagen, conditions were established under which the Czech Republic will, following accession, subscribe EUR 1.2 billion to the capital of the EIB, only EUR 60.6 million of which is payable before the nation joins the EMU. Furthermore, the EIB's reserves need to be increased by roughly EUR 158 million by 2009. The total amount will be paid in eight equal payments of EUR 27.3 million, so that in the first three years following accession the Czech Republic will have to pay EUR 82 million (CZK 2.5 billion).

Table 2: Summary of financial flows between the EU and Czech budgets
(pre-accession aid in 2003: EUR 170 million)

<i>EUR millions</i>				
<i>1999 prices</i>	2004	2005	2006	Total
Payments from EU budget				
Pre-accession aid	181	153	98	432
Heading 1 Agriculture	100	392	483	975
1a – Common Agricultural Policy	45	278	315	638
<i>Market measures</i>	45	109	111	265
<i>Direct payments</i>	0	169	205	373
1b – Rural development	55	115	167	337
Heading 2 Structural actions	169	355	427	950
Structural Funds	163	289	308	760
Cohesion Fund	6	66	118	190
Heading 3 Internal policies	51	85	111	247
Existing internal policies	44	76	102	222
Institution building measures	7	9	9	25
Heading X Compensation	300	270	177	747
Total payments	801	1 255	1 295	3 351
Payments to EU budget				
Traditional own resources	-66	-105	-105	-276
VAT resource	-74	-116	-119	-309
GNP resource	-426	-653	-670	-1 750
UK rebate	-56	-88	-93	-238
Total own resources	-623	-963	-988	-2 573
Estimated net position	178	293	308	778
Total compensation	300	270	177	747

Source: Ministry of Finance; CNB calculation

3. Other aspects of accession to the EU

The Copenhagen Agreement completed the negotiations on the financial terms of accession and cleared up other contentious issues (such as the sale of land to foreigners and the transitional period limiting movement of labour). It can be expected that the increase in the official financial flows from the EU to the Czech Republic will not have major economic effects in the first few years following accession, as the inflow will remain relatively small.

No substantial changes in the volume of trade can be expected, as the Czech economy is already very open. Trade with the EU forms around two-thirds of the Czech Republic's total foreign trade, while the inflow of foreign investment from EU countries makes up four-fifths of all the investment flowing into the Czech economy. Other major partners are the countries of Central and Eastern Europe, which are joining the EU simultaneously with the Czech Republic. This will mean the formation of a single trading zone accounting for 80% of the Czech Republic's foreign trade. Nevertheless, given the EU's common trading policy vis-à-vis nations outside the EU, foreign trade with third countries (e.g. the USA, Russian Federation and China) may undergo certain changes.

As regards the balance of payments, we can expect something of an increase in the current transfers balance, which will in turn help to finance the current account deficit (a net budgetary position of CZK 5–9 billion can be expected in 2004–2006). The predicted total volume on the income side (of CZK 38 billion) will foster a favourable environment for economic growth in the years immediately following accession. In the longer term, i.e. from 2007 onwards, as the Czech economy's ability to absorb EU structural aid grows, we can expect a further rise in the inflow of capital in the form of structural and regional assistance. The basic prerequisites for raising the absorption capacity of the Czech Republic are (i) to prepare a sufficient number of development projects and (ii) to have adequate (budgetary) capacity to co-finance those projects. The demands for co-financing of structural actions after accession may generate a widening public budgets deficit and thus further heighten the need for reform of budgetary policy.

REINVESTED EARNINGS: METHODOLOGICAL AND ECONOMIC ASPECTS

1. Introduction

For several years now, the Czech economy has been enjoying strong interest from foreign investors, interest that has manifested itself in a rising volume of foreign direct investment (FDI). The components of FDI are equity capital, reinvested earnings and other capital, which covers the borrowing and lending of funds between direct investors and subsidiaries. The growing volume of reinvested earnings of corporations owned by non-residents is strongly affecting the balance of payments. Reinvested earnings form part of the current account (under income) and are included in equal amounts on the financial account (under direct investment). Growth in reinvested earnings therefore on the one hand generates an increase in the current account deficit (foreign investors' claims on profits) and on the other hand gives an increase in direct investment inflow (additions to foreign investors' equity in domestic corporations). Given that the current account and its ratio to GDP is one of the key indicators of the economy and its external balance, changes in reinvested earnings can have a bearing on these macroeconomic indicators.

A second, and frequently discussed, problem is the method used to estimate and revise reinvested earnings, a task performed by the CNB as part of its work to predict the balance of payments and its main components, which include the income account. The need to estimate reinvested earnings stems from the fact that decisions to reinvest earnings are made at AGMs and only become known with a sizeable lag. AGMs decide on the allocation of overall FDI income into reinvested earnings and dividends. Estimates of the income balance and FDI are therefore subject to two sources of uncertainty, the first residing in the forecasts of foreign investors' total profits and the second stemming from the decision-making regarding the allocation of income into reinvestment and dividends. The first uncertainty affects the estimate of the income balance and hence the current account balance. The second uncertainty lies in the estimate of how large a proportion of total earnings will be recorded as the counter-entry in the financial account.

2. Methodological definition of reinvested earnings

According to the IMF's Balance of Payments Manual (fifth edition), the income account comprises income from two factors: labour and capital. Income on capital is subdivided into direct investment income, portfolio investment income and other investment income. On the income account, direct investment consists of reinvested earnings and dividends. The component that increases the current account deficit without exerting any external imbalance pressures is reinvested earnings. In the balance of payments, reinvested earnings are a credit item under direct investment on the financial account and simultaneously a debit item on the current account. Consequently, they increase the current account deficit despite the fact that such funds de facto never leave the country.

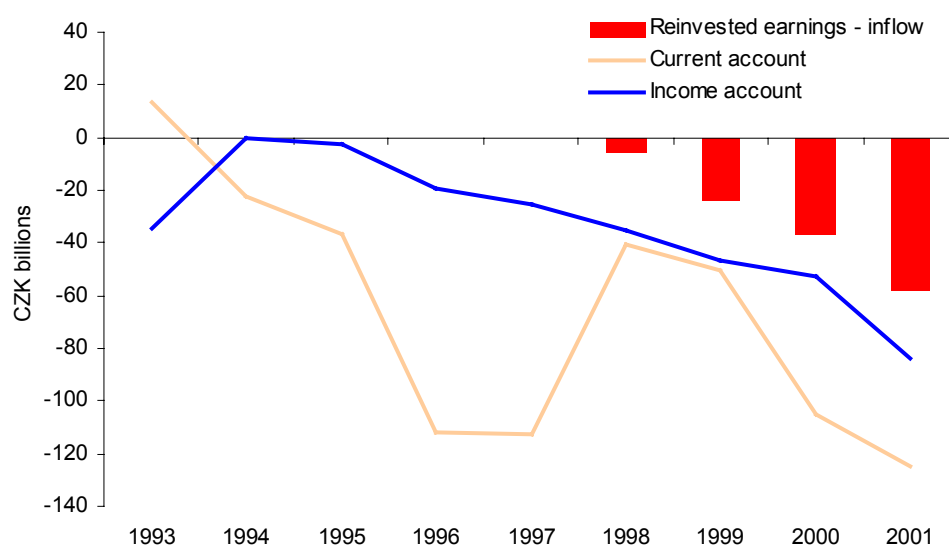
Reinvested earnings represent the value of retained profits in foreign-owned corporations which have been reinvested in the host country. The exact definition of reinvested earnings in the balance of payments is: the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends. The calculation of reinvested earnings can be written in the following way:

Reinvested earnings = current year profit after tax - current year loss - dividends

In recent years, the share of reinvested earnings in the cost item of the income balance has been rising fairly briskly (from around 20% in 1999 to 34% in 2001). However, the current account deficit caused by this trend¹⁾ should not be viewed as dangerous to the external balance. In this respect there is a substantial difference between the nature of the current account deficit in the period 1996–1997 and that in 2000–2001. At the start of the mid-1990s, the deficit had been caused by a widening of the trade deficit, unlike in 2000–2001, when the trade balance developed relatively favourably and the current account deficit was due chiefly to an income deficit.

For a more profound interpretation of the extent and possible impacts of the deficit, it is therefore useful to analyse the structure of the current account, and in particular those components of it that make a significant contribution to its level and dynamics. The current account is made up of several items: goods, services, current transfers and income. It is the income deficit that has been growing constantly since 1995 and is contributing in large part to the widening of the current account deficit (see Chart 1). To assess the harmfulness of the deficit to the economy, it is important to analyse the size and dynamics of reinvested earnings, which since 1999 have been making a major contribution to the widening of the income deficit.

Chart 1: Current account, income account and reinvested earnings



3. Method of estimating reinvested earnings and the figures actually recorded

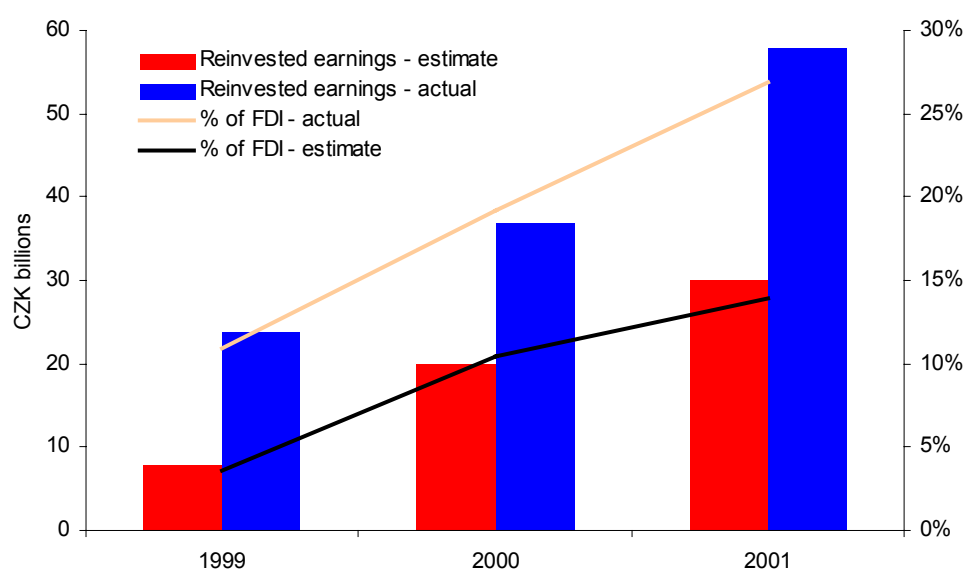
Reinvested earnings are published by the Czech National Bank once a year. The figures for the most recent period are only preliminary and are obtained from surveys and estimates

¹⁾ The current account (CA) deficit as a percentage of GDP increased again in 2000 and 2001. This ratio, which now exceeds 5%, is often regarded as an indicator of unsustainable economic development. In such a situation, foreign investors frequently react to a negligible impulse by liquidating their financial positions in the nation, thereby causing an exchange rate crash.

	1994	1995	1996	1997	1998	1999	2000	2001
CA/GDP	-1.91	-2.63	-7.14	-6.73	-2.20	-2.68	-5.35	-5.80

undertaken prior to corporate AGMs. These preliminary figures are subsequently revised. Revision of reinvested earnings is therefore a routine procedure performed once the final volumes and distributions of corporate earnings become known. Since 1999, when the CNB started monitoring and recording income on equity capital broken down into reinvested earnings and dividends, the original estimates of reinvested earnings have been periodically reviewed (see Chart 2). In its estimates of reinvested earnings, the CNB has drawn upon very short time series (actual reinvested earnings figures, based on questionnaires, have been available since the 1998 reference year). When such estimates were being drawn up, the time distribution of the privatisation of large corporations (potentially to foreign investors) was also uncertain. Moreover, the estimates were not continuously revised, which gave rise to revisions to the reinvested earnings data of a serial nature. Based on an evaluation of the surveys conducted to date, the estimate for reinvested earnings will – from the 2003 reference year (or, more precisely, for the Q1 figures) – be revised continuously using information obtained progressively from the enterprise sector combined with the average profit ratio of each particular sector in previous years (based on the results of previous surveys).

Chart 2: Estimated and actual reinvested earnings



Reinvested earnings have been rising constantly since 1998. In 2001, they formed almost 27% of foreign investors' direct investment in the Czech Republic. Looking at Chart 2, we can see that reinvested earnings as a percentage of FDI have been growing at a constant rate since 1999. The question is, though, whether this trend is set to continue. The future path will depend on many factors which may change over time. These factors are discussed in the sections that follow.

4. Factors affecting reinvested earnings

Reinvested earnings as an aggregate item are affected by a wide range of factors that can differ on the one hand with respect to sector, economic activity and individual corporations and on the other with respect to the nature of the FDI (privatisation acquisitions versus green-field investments). The main factors affecting reinvested earnings can be broken down into the following categories:

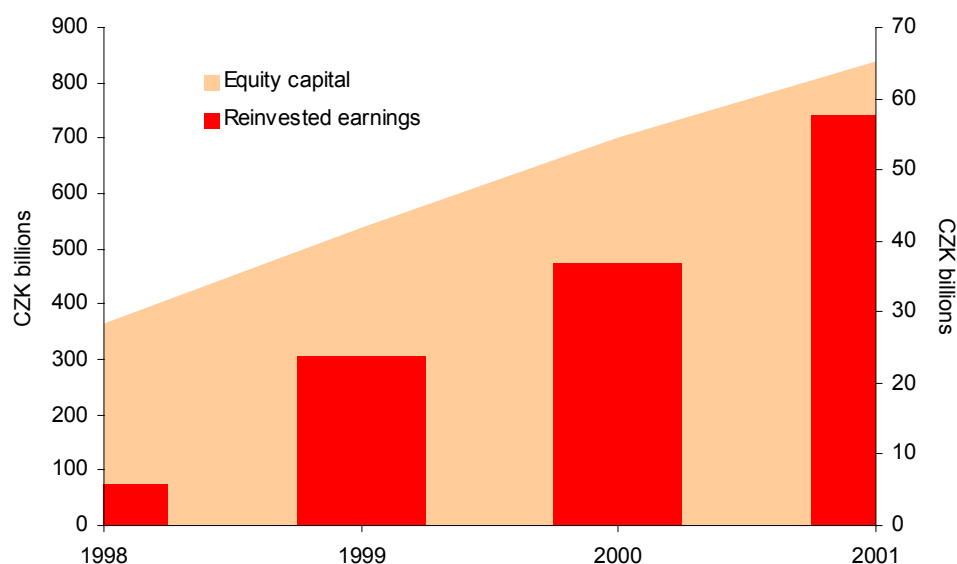
1. factors affecting the growth rate of direct investment in equity capital (economic transformation, privatisation method, state incentives, ...),
2. the growth rate of earnings from FDI broken down by economic activity,

3. the life cycle of FDI.

1) Factors affecting the growth rate of the total amount of direct investment in equity capital

The key determinant of reinvested earnings is the growth rate of the total amount of direct investment in equity capital. The higher the investment in equity capital, the greater the potential amount that can be reinvested (subject, of course, to the generation of profits). Direct investment in equity capital (excluding reinvested earnings) has been rising since 1997. Chart 3 shows that reinvested earnings have been rising faster than direct investment in equity capital itself. By the end of 2001, the total amount of FDI had reached CZK 982.3 billion, which represents a year-on-year increase of around CZK 164 billion. The growth in the equity capital investment position was above average in 1999 and 2000. In 2001 the equity capital investment position rose by about 20%, which is below the average for 1994–2001 (30%). Conversely, the flow of reinvested earnings reached CZK 58 billion, up by 44% on 2000.

Chart 3: International investment position – foreign direct investment in equity capital and reinvested earnings

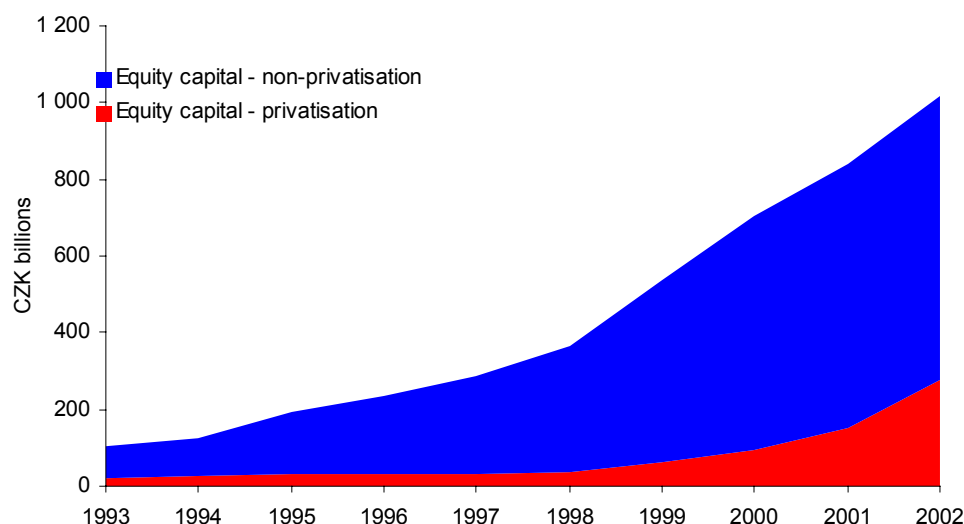


The Czech Republic, which has the highest FDI per capita ratio in Central Europe, has enjoyed strong interest from foreign investors ever since its establishment in 1993. The degree of interest reflects on the one hand the undercapitalisation of the economies in this region, which has created room for higher returns than in developed industrialised nations. On the other hand, the extent of the FDI inflow has also been due to the quality and level of macroeconomic policies and to the specifics of the transformation process in the Czech Republic. Chart 4 shows that the growth rate and structure of FDI has been undergoing some changes since 1998. The Czech government has since 1998 been pursuing a privatisation strategy directed at finding strategic foreign investors. This strategy has been associated with higher growth in non-privatisation FDI and simultaneously with a rising proportion of privatisation inflow. The change in the growth rate and structure of FDI can be expected to affect the growth rate and composition of direct investment income (see *The life cycle of FDI* for more details).

Although both privatisation and non-privatisation FDI contributed to reinvested earnings, Chart 2 clearly shows the strong growth rate of reinvested earnings. In other words, reinvested earnings have been growing since 1999, when the intensive privatisation of state-owned corporations to strategic foreign investors entered its second year. The purchase agreements

included provisions requiring foreign investors to make further investment in the Czech Republic, reflected in growth in reinvested earnings. Another factor that unquestionably stimulated reinvested earnings was a programme of investment incentives, introduced in April 1998. Originally the incentive of tax relief only applied to new legal entities with no past record of doing business in the Czech Republic. This attracted much foreign direct investment in equity capital and hence raised the potential for future profits. With effect from 1 May 2000, the Investment Incentives Act also made corporate expansion projects eligible for tax relief, which probably fostered growth in reinvested earnings.

Chart 4: Inflow structure of foreign direct investment (cumulative data)



2) Factors determining the growth rate of earnings from FDI

Reinvested earnings are of course dependent on the profitability of individual businesses and economic activities. The following sectors made the largest contributions to reinvested earnings in 2001: (i) banking and insurance (around 25%), (ii) wholesale and retail trade and repair (around 10%) and (iii) manufacture of food products, beverages and tobacco (8%). To assess the growth rate of earnings from FDI, it would be desirable to analyse reinvested earnings as a share of total earnings in each sector. However, aggregate earnings data are not available for foreign-owned corporations. The Czech Statistical Office's breakdown only contains foreign-controlled corporations, i.e. those more than 50%-owned by foreign investors, and corporations as a whole in each sector. Nevertheless, these ratios can be used to get some idea of the behavioural characteristics in each sector.

Table 1 shows the diversity in the shares of reinvested earnings in profit/loss before taxation in each sector. A look at the sectors that account for most of the reinvested earnings reveals that even for them no single formula can be derived for the behaviour of corporations in those sectors. This diversity over time both across the different sectors and within individual sectors can be attributed to factors associated with the transformation and privatisation process. In the period under review there was a change in privatisation strategy which implied a sizeable shift in ownership structure in favour of foreign strategic investors and simultaneously allowed the companies and banks to be stabilised and "cleaned up" ahead of privatisation. This in turn probably affected the generation of direct investment income and its allocation into reinvested earnings and dividends.

Although very few observations are available, it would seem that overall in non-financial corporations the ratio of reinvested earnings to profit before taxation is fairly stable around 26%. The same can be said for financial intermediation, where the ratio is around 33% on average. The question remains, though, whether these ratios will stay this stable going forward, or whether foreign investors will start to transfer their investments more in the form of dividends. What can be said is that the growth rate and structure of direct investment income will depend on the phase of the life cycle in which the particular foreign investment lies.

Table 1: Reinvested earnings as a percentage of profit/loss after taxation in particular sectors for corporations as a whole

in per cent	1999	2000	2001	Average
Agriculture, forestry and fishing	-1.5	-1.0	1.1	-0.5
Mining and quarrying	0.5	21.0	16.9	12.8
Manufacturing	92.9	44.9	42.3	60.0
Food products, beverages and tobacco	39.7	24.7	35.3	33.2
Textiles, wearing apparel	-0.4	-0.1	-10.4	-3.6
Leather and leather products	n	n	n	n
Wood and wood products; paper; publishing and printing	38.0	36.6	38.3	37.6
Refined petroleum products; chemicals; rubber and plastic products	58.9	45.2	35.3	46.5
Other non-metallic mineral products	46.5	40.8	48.5	45.2
Basic metals and fabricated metal products	n	n	55.2	n
Machinery and equipment not elsewhere classified	n	93.4	63.6	78.5
Electrical machinery and apparatus not elsewhere classified	58.2	43.3	33.0	44.8
Office machinery and computers; radio, television and communication equipment and apparatus	2.1	2.1	n	n
Medical and optical instruments	36.3	42.0	53.0	43.8
Motor vehicles	44.5	53.1	44.4	47.3
Other transport equipment	n	n	0.6	n
Furniture; manufacturing not elsewhere classified	36.5	26.8	7.3	23.5
Recycling	n	68.8	13.2	41.0
Electricity, gas and water supply	10.5	16.2	13.7	13.5
Construction	-0.6	7.4	14.0	6.9
Services				
Wholesale and retails trade; repair	n	-45.7	62.1	8.2
Hotels and restaurants	n	31.5	27.4	29.4
Transport, storage and communication	9.9	3.6	7.4	7.0
Financial intermediation (except insurance)	n	58.3	71.6	65.0
Real estate, renting and business activities	-22.2	8.4	3.3	-3.5
Total (non-financial corporations)	26.7	22.3	29.5	26.1
Total (profit/loss except insurance)	39.1	25.4	35.1	33.2

3) Factors associated with the FDI life cycle

To assess the development of direct investment income in transition economies, it is useful to draw on the hypothesis of the life cycle of FDI in the host country.²⁾ This hypothesis assumes that FDI goes through various life-cycle phases, within which various factors affecting both

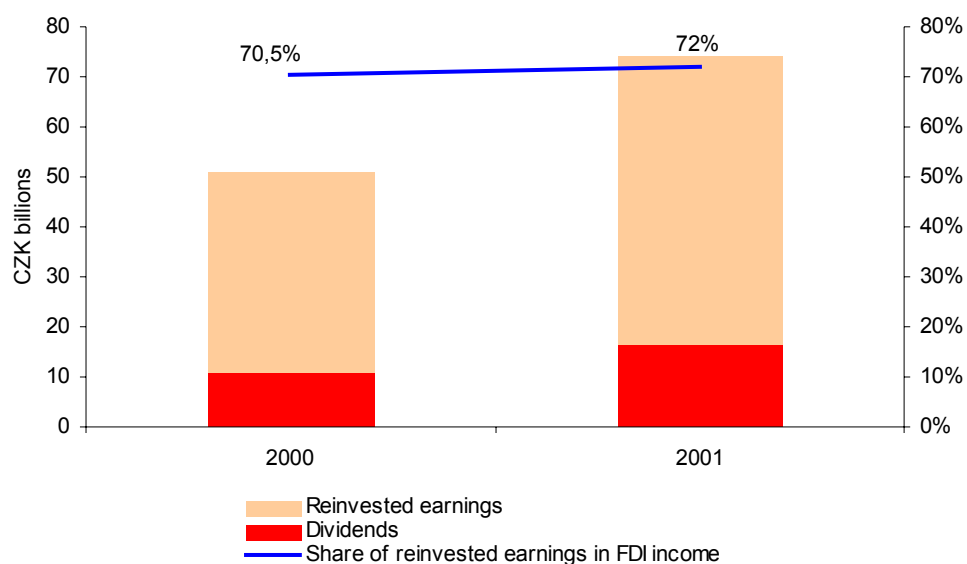
²⁾ J. C. Brada, V. Tomšík: Reinvested Earnings Bias, The “Five Percent” Rule and Interpretation of the Balance of Payments – With an Application to Transition Economies. William Davidson WP 543, 2003.

profit ratios and profit allocation between reinvested earnings and dividends paid abroad are at work.

In the first phase after a multinational company invests in a host country, a newly established foreign-controlled corporation will post a loss (the loss phase). Nevertheless, in the case of acquisitions, which in transition economies mostly take the form of privatisation FDI, this first phase can be short or need not occur at all. In the case of green-field investments, it is logical to assume that the duration of the period in which a company is loss-making and pays no dividends will depend on the nature of its production. In the second phase, the company's performance improves, it becomes competitive and its profits rise. Nevertheless, the successful development of the company is associated with further investment, as in this phase – and especially in its early stages – earnings can be fully reinvested in production. The length of the second phase depends on the size of the domestic market and the company's position on that market, on the stability of export markets, and on the possible alternative means of financing the development of the company. The size of reinvested earnings and the share of dividends in direct investment income can be strongly affected by the degree to which the company or bank is stabilised prior to privatisation. In the third phase, the company attains “maturity” and its market share and profitability stabilises. In this phase, the parent company transfers most of the accumulated earnings as dividends. It is therefore reasonable to expect that reinvested earnings will fall sharply – both as a percentage of total earnings and in absolute terms – in favour of transferred dividends.

Longer time series on the growth rate and structure of foreign direct investment income are not available. However, the figures for 2000 and 2001 show that total income is rising pretty briskly (at a rate of more than 40%) but that the share of reinvested earnings in that income has changed hardly at all.

Chart 5: Foreign direct investment income



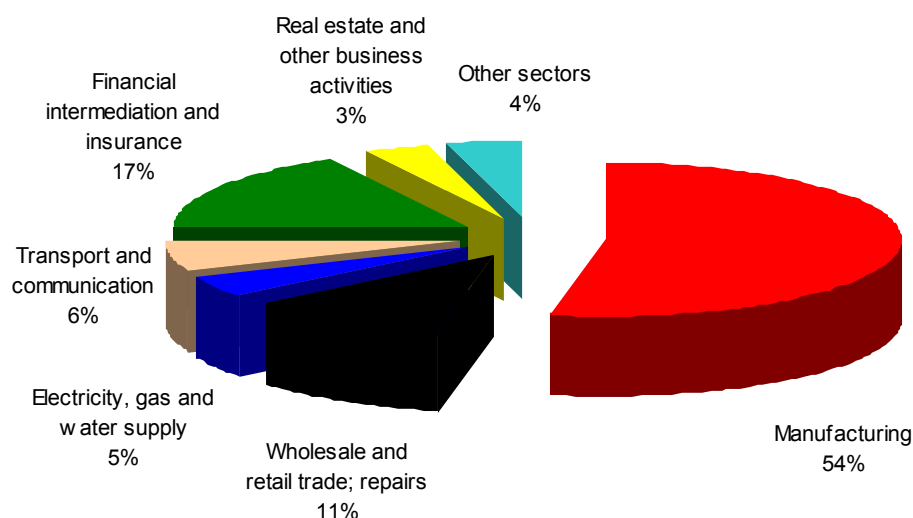
Direct investment income, which can be seen as shareholders' returns on capital invested in the form of corporate equity, generally takes the form of an equity participation or other ownership interest entitling the owner the right to manage the company, receive a share of its profits and liquidation balance and suchlike (the exception being preference shares, which carry preferential rights to dividends but do not generally bear the right to vote at AGMs). The income can be left in the company, for example to finance investment in the coming year, but the shareholders may decide to pay it out as dividends. This decision weighs up the needs of

the business and the plans of its owners in relation to their investment. According to the balance of payments statistics, the volume of dividends paid out in 2001 increased by more than 50% on the previous year, to CZK 16.4 billion.

An analysis of dividend flows broken down by economic activity reveals that the largest dividend payments come from manufacturing, wholesale and retail trade, and telecommunications. In 2001, sharp growth in dividends was also recorded in financial intermediation. The rising profitability of banks is due in part to privatisations in the late 1990s, which among other things involved a clean-up of the loan portfolios of the large banks (Česká spořitelna, Komerční banka). The banks were first required to set aside provisions for a large part of their loan portfolios, but the privatisations also involved the transfer of a large proportion of the outstanding loans to the bail-out institution Konsolidační banka (now called the Czech Consolidation Agency). The banks are now benefiting not only from relatively high-quality loan portfolios and sufficient capital coverage, but also from release of provisions created in the past, which is having a positive impact on their profitability.

A higher profit can support the investment plans of the business, but it can also increase shareholders' interest in claiming their share of the income. Some companies have made large profits in the last two years, something that has been reflected in their dividend pay-outs. Philip Morris, for example, paid its foreign investors almost CZK 1 billion in dividends in 2001, and a pay-out of three times this amount was approved for 2002³⁾. Likewise, brewer Prazdroj is planning for the first time to pay dividends amounting to almost CZK 2 billion, 98% of which will go to its foreign owner. At its AGM, the board of directors of bank ČSOB proposed a dividend also totalling almost CZK 2 billion, with most of it (around CZK 1.6 billion) again going to the foreign investor. Český Telecom and savings bank Česká spořitelna also turned in high profits in 2002 (of CZK 4.3 billion and CZK 5.8 billion respectively) and announced dividend pay-outs. The exact amount of their dividends will have to be approved by their AGMs. At the request of its majority shareholder (the state), Český Telecom will have to pay a dividend this year, although its priority remains an expected investment in Eurotel. Erste Bank has announced a group dividend of CZK 2 billion, so it can be expected to be interested in claiming a suitable share of Česká spořitelna's profit.

Chart 6: Shares of each sector in dividends paid in 2001



³⁾ Most of the figures in this section were not available when the 2002 balance of payments was compiled.

Consequently, it is not possible to determine with any certainty the extent to which corporations will pay dividends in the years ahead. Information from large foreign-owned corporations suggests that for 2002 there will be sizeable dividend payments, which may in turn be reflected in a fall in reinvested earnings as a percentage of direct investment income. In the period ahead the trend in reinvested earnings and dividends will depend on a combination of two key assumptions. The first of these is the financial and sales conditions for foreign-owned businesses and the second is growth in the ratio of “stabilised” privatisation acquisitions to green-field and brown-field projects. Although it is difficult to estimate the relative weights of these factors, we can expect further modest growth in reinvested earnings (either as a result of foreign owners’ efforts to increase the value of businesses at a time of uncertain economic prospects, or as a reflection of economic recovery) and a rise in the proportion of transferred earnings via an increase in the proportion of privatisation investment, for which a minimal first phase and short second phase of the life cycle can be expected.

5. Conclusion

The current account deficit increased again in 2000 and 2001. As a percentage of GDP it exceeded the 5% level. Unlike in 1996 and 1997, the present current account deficit – occurring amid generally favourable balance of trade developments – is due to an income deficit whose size and dynamics are associated with a growing volume of foreign direct investment income, chiefly in the form of reinvested earnings. Reinvested earnings form part of both the current account (under income) and the financial account (under direct investment), where they are recorded in equal amounts as a counter-entry. Consequently, the present size of the current account deficit and its ratio to GDP cannot be viewed as an indicator of increasing external imbalance. Factoring out reinvested earnings, the current account deficit would have been 3.5% of GDP in 2000 and 3.1% in 2001.

At the aggregated level, direct investment income (reinvested earnings plus transferred dividends) is affected by a wide range of factors that can differ on the one hand across sectors, economic activities and individual corporations and on the other with respect to the nature of the FDI. Nevertheless, as a result of the economic transformation and privatisation process the economies of Central Europe – including the Czech Republic – are net recipients of FDI. The main determinants of the extent and growth rate of foreign investors’ total earnings in recent years can be identified as the growing stock of direct investment in equity capital, the favourable profit trends recorded by foreign-controlled corporations, and other institutional and sales conditions (investment incentives, alternative means of financing company development, and the gaining of footholds on the domestic market and foreign markets).

Another important factor in the development of reinvested earnings and their ratio to transferred dividends is the age (life-cycle phase) and nature of the direct investment (privatisation versus non-privatisation). Unlike in Hungary, for example, where the foreign investment has been channelled into existing privatised businesses, the direct investment in the Czech Republic was initially targeted predominantly at non-privatisation investments (green-field and brown-field projects), which take longer to start generating profits and where, in the growth phase, such profits tend to be reinvested to a greater extent to ensure further growth in the performance of the business. The fact that reinvested earnings are rising faster than investment in equity capital is, in the Czech Republic, a manifestation of the predominance of non-privatisation foreign investment in the late 1990s.

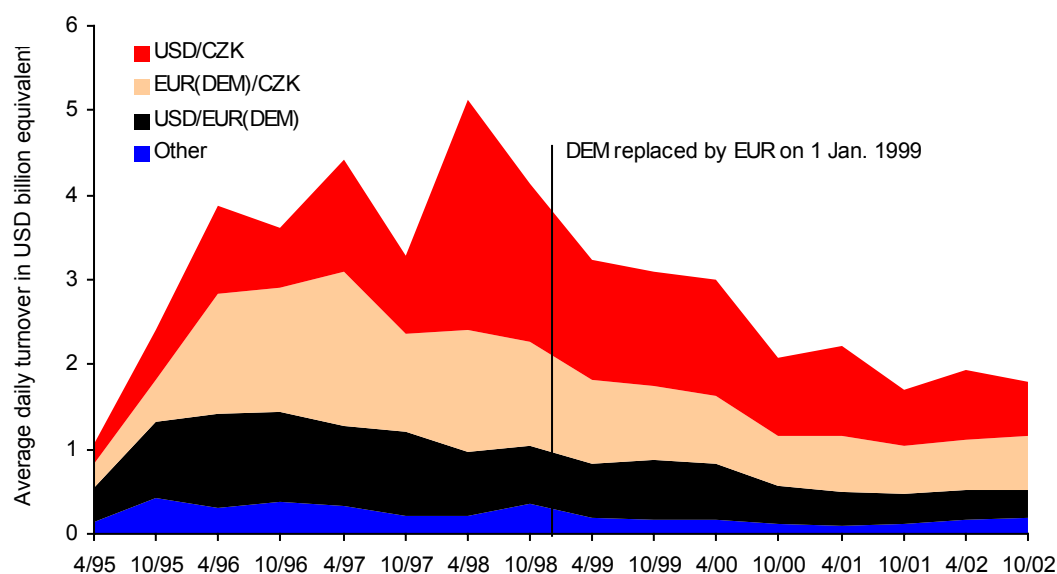
A change in the government's privatisation strategy has led to growth in privatisation FDI. As the privatisations – directed at finding strategic foreign investors – have been associated with various stabilisation, debt-removal and clean-up measures in the banks and businesses concerned, it is likely that profits in such businesses in the near future will remain at the current level and that the motive of profit-payment in the form of dividends will dominate among foreign owners. Dividends are recorded as a debit item on the income account and as a credit item in the positions of banks. Greater dividend pay-outs can therefore increase the external imbalance. Although direct investment income is currently dominated by reinvested earnings, and the size of dividends transferred is relatively small, it is essential to periodically evaluate the composition and age of FDI and its effects on the balance of payments. Qualitative analysis and quantitative estimation of the income balance and its impacts on the balance of payments are an integral part of the CNB's communication policy.

THE INTERBANK FOREIGN EXCHANGE MARKET AND THE KORUNA EXCHANGE RATE

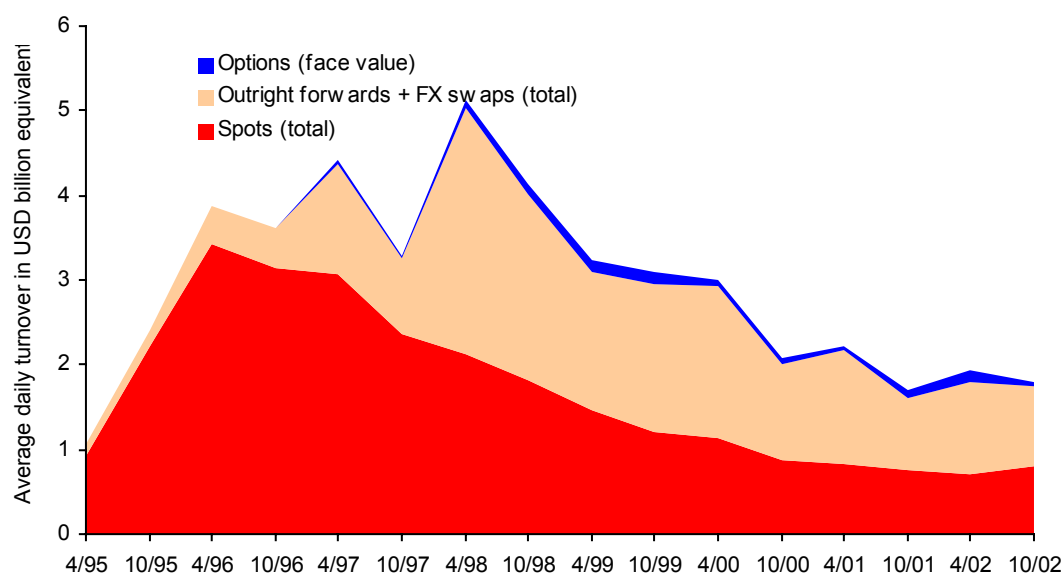
1. The interbank foreign exchange market

According to the October 2002 survey, the average daily volume of trading on the interbank foreign exchange market was down only slightly (by USD 0.14 billion) from April 2002. Compared to the same period of 2001 it was flat (growth of USD 0.1 billion).

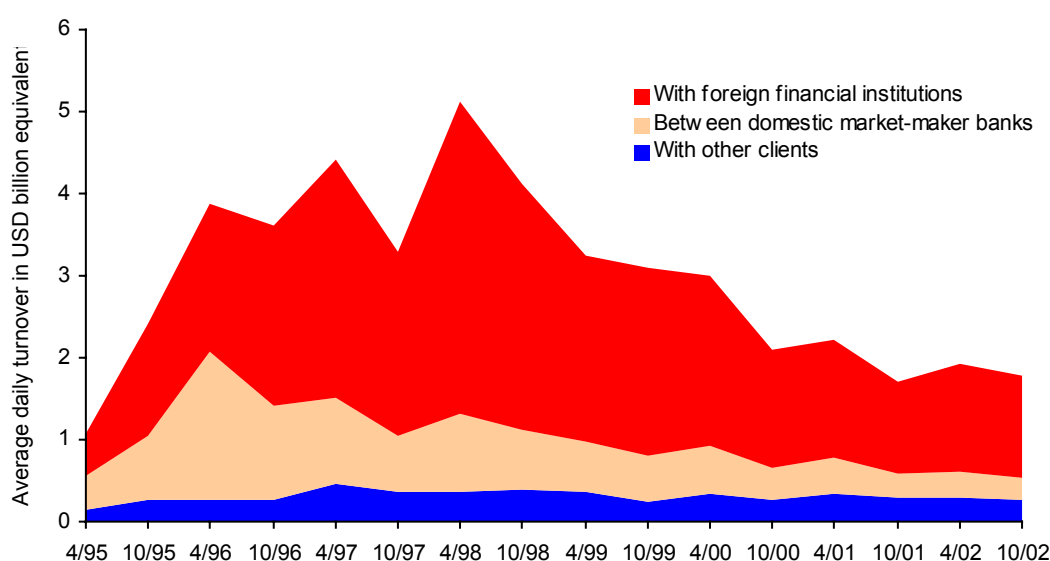
Chart 1: Turnover on the Czech foreign exchange market (by currency pair)



As regards the structure of the transactions by currency pair, the average daily turnover in USD/CZK trading decreased somewhat by comparison with the previous survey – by USD 0.2 billion. Its weight equalled that of EUR/CZK trading, which increased by a negligible USD 0.05 billion. The share of each was around 35% of the total volume. USD/EUR turnover dropped by USD 0.02 billion and its share of the total remained at 18.4 %.

Chart 2: Turnover on the Czech foreign exchange market (by instrument type)

Turning to instrument type, the volume of forwards and swaps decreased slightly (by USD 0.04 billion) and, despite a fall of 4.2 percentage points, they maintained the biggest share of the total (52.4%). The average daily turnover of spot transactions increased by USD 0.1 billion to account for 44.8% of the total.

Chart 3: Turnover on the Czech foreign exchange market (by counterparty type)

With respect to the structure of transactions by counterparty, a larger fall compared to the previous survey was recorded for trading with foreign financial institutions. Despite a decline in average daily turnover of around USD 0.1 billion, its share of the total increased by 1.5 percentage points to 70.3%. Trading between domestic market-maker banks fell modestly (by USD 0.05 billion) compared to the previous survey. Its share decreased to 14.2%, which is less than that of trading with other clients.

2. Nominal exchange rate of the koruna

Chart 4: CZK/EUR exchange rate (2002)



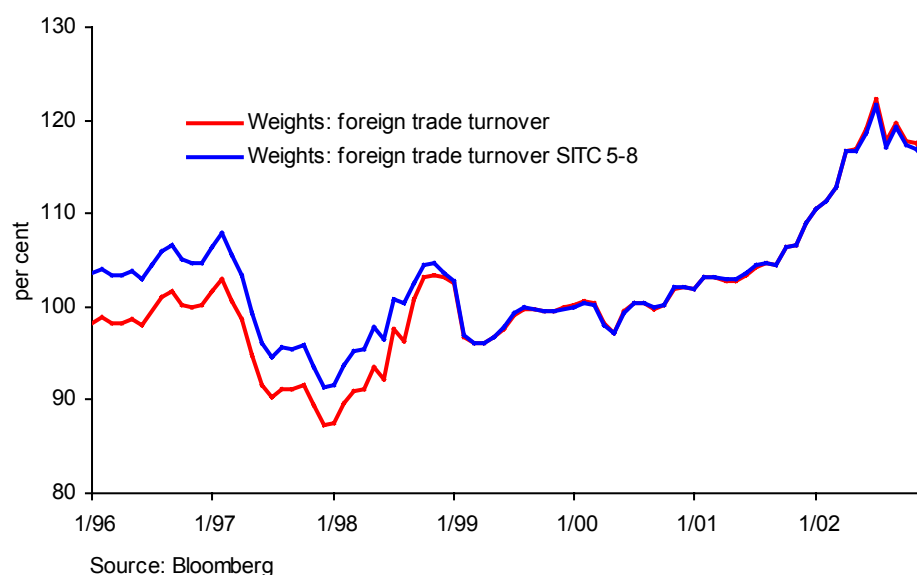
Over the first four months of last year the koruna steadily appreciated as a consequence of persisting investment inflow and market sentiment to test psychological barriers. The rate of appreciation, however, was out of step with economic fundamentals, so the CNB decided several times to intervene in the market, both verbally and via open interventions in the foreign exchange market. With inflation falling, the CNB also lowered interest rates several times. The appreciation sentiment on the market was fairly strong at the time, however, and the CNB's interventions failed to have any long-term effect on the koruna. There was something of a stabilisation in the middle of the year, when the appreciation trend halted after the koruna hit a historical high of EUR/CZK 28.800. This halt was attributable to covert interventions, through which the CNB succeeded in keeping the market in suspense. A sharp reduction in key rates (of 75 bp in July) also had a psychological effect. This took the rates below those of the ECB. After a swing in August linked with the uncertain impacts of the floods, the exchange rate of the koruna set off on a downward course. Acting against the domestic currency were large foreign trade deficits (reported by the Czech Statistical Office), a negative interest rate differential against other Central European currencies (bolstered by a further 25 bp reduction in CNB rates at the end of October), and, at the end of the year, a sharp weakening of the dollar. Owing to the action of market forces and an easing of speculative pressures, the CNB in October stopped intervening directly in the foreign exchange market. Looking at the year as a whole, then, the koruna started 2002 at EUR/CZK 31.650 and with a strong appreciation trend, but a turnaround in this trend in the second half of the year meant that it ended the year essentially unchanged at EUR/CZK 31,600.

3. The nominal effective exchange rate of the koruna

The nominal effective exchange rate (NEER), expressed as an index, 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 (2000). The NEER index was calculated in two alternatives by weighting the exchange rates with the shares in trading turnover of 23 countries covering approximately 90% of Czech foreign trade. Alternative I uses the weights of the total exports and imports of these countries, whereas Alternative II uses the weights of the exports and imports of these countries in SITC (Standard International

Trade Classification) commodity groups 5–8. The NEER is calculated in a time series as the monthly average and yearly average on the 2000 base for 12 currency areas. The eurozone countries' exports and imports are recorded as a single weight using the CZK/EUR rate.

Chart 5: Nominal effective exchange rate of the koruna - monthly figures (year 2000 = 100)



The koruna's monthly NEER index firmed continuously from the start of the year. The greatest appreciation was seen in 2002 Q3, peaking in July at 122.2% (Alternative I) and 121.5% (Alternative II) relative to the 2000 base.

The average annual NEER index appreciated by almost 11.6% (Alternative I) and by 11.2% (Alternative II) compared to the previous year. The strengthening is attributable to appreciation of the koruna against all the index currencies, in particular the high-weight ones.

Table 1: Nominal effective exchange rate of the koruna (year 2000 = 100)

in per cent	2002											
	1	2	3	4	5	6	7	8	9	10	11	12
<i>Weights: foreign trade turnover</i>	110,54	111,39	112,83	116,72	116,97	119,11	122,18	117,69	119,63	117,61	117,26 ^a	115,95 ^a
<i>Weights: foreign trade turnover SITC 5-8</i>	110,50	111,36	112,76	116,61	116,71	118,66	121,54	117,12	119,18	117,19	116,82 ^a	115,46 ^a
appreciation > 100; depreciation < 100;												

4. The real effective exchange rate of the koruna

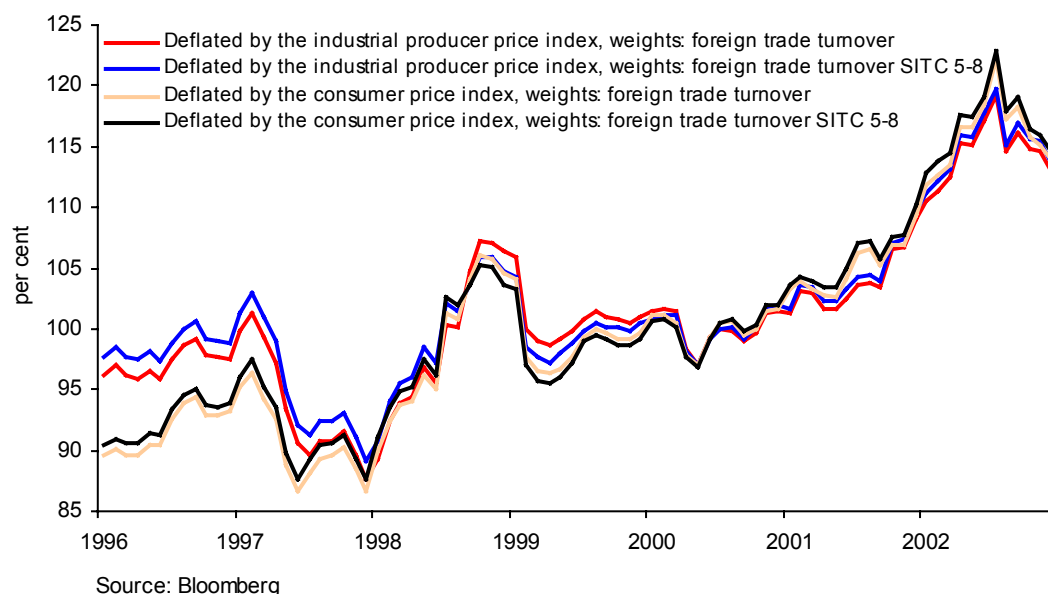
The real effective exchange rate of the koruna (REER) is one of the indicators of the international price competitiveness of a nation and in general represents differences between foreign and domestic prices and costs expressed in a particular currency. In this respect, an REER index above 100 signals a downward trend in the nation's competitiveness against the base period, whereas values below 100 represent an upward trend.

The REER is calculated as the geometric weighted average of the koruna's nominal effective exchange rate indices adjusted for the price differential (the ratio of foreign price indices to domestic price indices). The weights applied are the shares of the Czech Republic's major trading partners in overall trade turnover. It follows from the nature of the REER calculation

that the REER trend depends on the nominal exchange rate of the koruna against the selected currencies and is corrected by the price differential.

To construct the REER, the consumer and industrial producer prices of 23 countries were used. For calculation purposes the eurozone countries are given as one area. The structure of the countries and their weights are identical to those used for calculating the NEER. In Alternative I, the weights relate to the entire trading turnover, whereas in Alternative II they only relate to SITC commodity groups 5–8.

Chart 6: Real effective exchange rate of the koruna (year 2000 = 100)



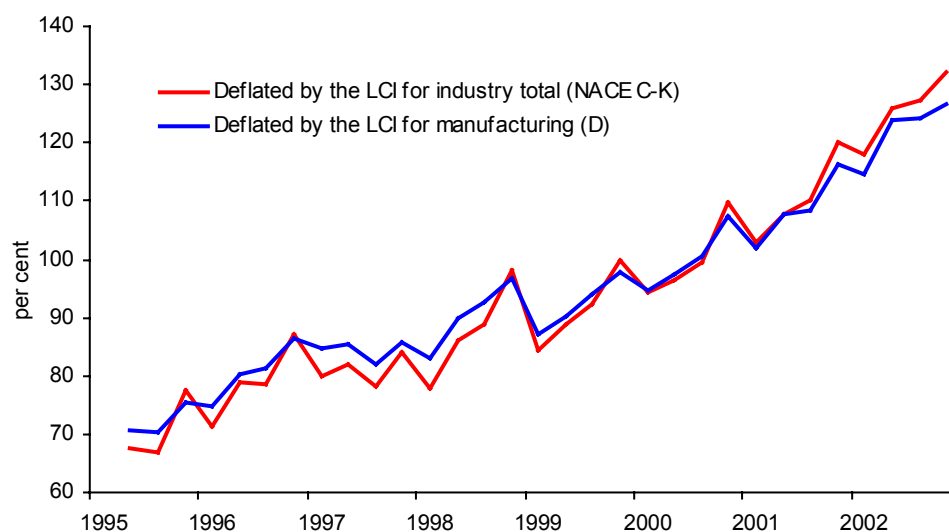
In 2002, the REER followed the overall nominal exchange rate trend, which means it was affected chiefly by the exchange rate and was merely corrected by the price differential. According to year-on-year data, in industrial producer prices the REER appreciated (i.e. there was a decrease in competitiveness) by 14.51% in Alternative I and by 15.23% in Alternative II. In consumer prices, the REER appreciation was more pronounced: 15.99% in Alternative I and 16.85% in Alternative II. An analysis of the annual and monthly figures shows that the koruna's appreciation had a major effect on the REER. Prices themselves fostered an appreciation of the REER, i.e. falling competitiveness.

Table 2: Real effective exchange rate of the koruna (year 2000 = 100)

in per cent	2002											
	1	2	3	4	5	6	7	8	9	10	11	12
<i>Weights: foreign trade turnover</i>												
in industrial producer prices	110,45	111,36	112,46	115,26	115,21	117,15	119,28	114,57	116,13	114,83	114,66	112,82
in consumer prices	111,87	112,71	113,47	116,61	116,54	118,36	122,17	117,30	118,22	115,72	115,18	113,80
<i>Weights: foreign trade turnover SITC 5-8</i>												
in industrial producer prices	111,15	112,08	113,12	115,97	115,85	117,73	119,79	115,17	116,89	115,56	115,39	113,48
in consumer prices	112,83	113,73	114,46	117,61	117,45	119,12	122,79	117,95	119,01	116,43	115,90	114,51

5. The real exchange rate of the koruna deflated by the Labour Cost Index (LCI)

Chart 7: Real effective exchange rate of the koruna relative to the EU-15



Source: Czech Statistical Office, EUROSTAT; CNB calculation

Table 3: Real effective exchange rate of the koruna (year 2000 = 100)

in per cent	2001				2002			
measured by the Labour Cost Index (LCI) relative to EU-15	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
LCI for industry, total (NACE C-K)	102,8	107,8	110,1	120,1	118,0	126,1	127,3	132,2
LCI for manufacturing (D)	102,0	107,7	108,5	116,3	114,5	123,9	124,3	126,7

The LCI is based on the following formula:

hourly labour costs = total labour costs/total number of hours worked

The LCI is monitored in seven categories of economic activity as defined by the NACE classification. Labour costs comprise wages and salaries, including compensation for time not worked, mandatory social contributions and other costs independent of wages and salaries.

The real exchange rate of the koruna deflated by labour costs is calculated as the basic index for the EUR/CZK rate, where the year 2000 = 100, divided by the ratios of the LCIs in the EU-15 countries and in the Czech Republic. Chosen as the deflator was the ratio of the LCIs in industry as a whole plus market services (NACE C–K) and the sector index for manufacturing. For the LCIs the base year is also 2000.

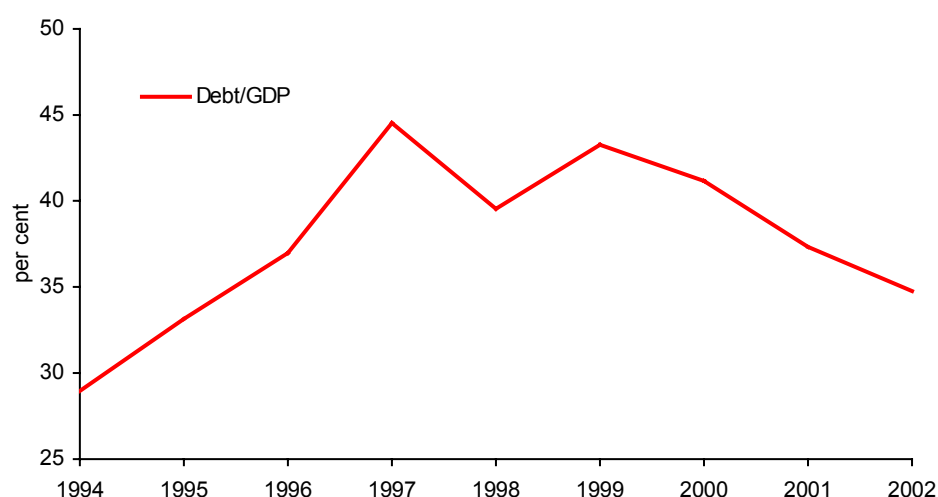
The appreciation of the real exchange rate was due to two factors: the nominal exchange rate of the koruna against the euro in 2002 and growth in the labour cost index. The LCI in industry and services as a whole (NACE C–K) showed a rise of around 14.9% relative to 2000 in the Czech Republic, but just 7.5% in the EU member states. The same trend is visible for 2002 relative to 2001, with the index up by 5.6% in the Czech Republic and by 3.7% in the EU-15, which means that hourly labour costs have been rising twice as fast in the Czech Republic than in the EU-15.

EXTERNAL DEBT RATIOS

1. External debt/GDP

The year 2002 saw a continuation of the favourable tendency of a declining external debt/GDP ratio below the sensitive level of 40%. At the end of 2002 the figure was 34.8%.

Chart 1: External debt/GDP (annual figures)

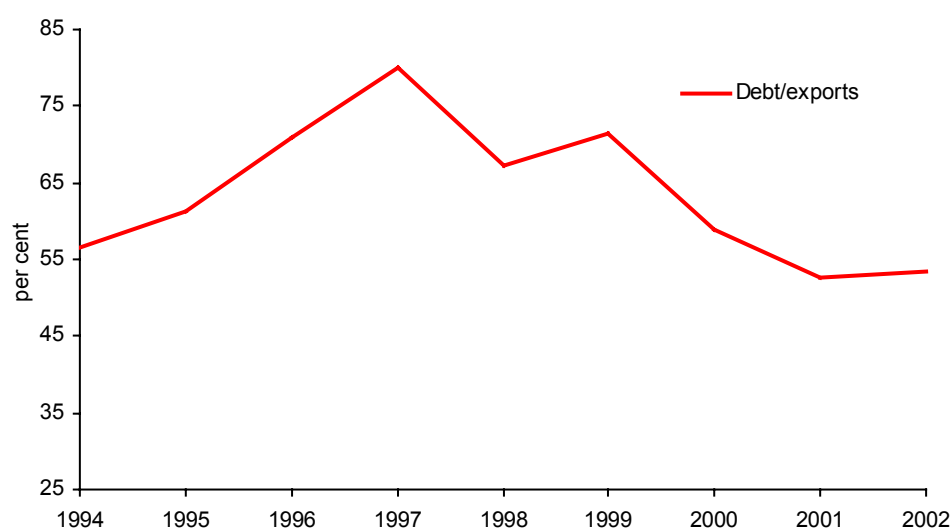


Source: Czech Statistical Office; CNB calculation

2. External debt/exports

The ability of the economy to pay off external debt through exports of goods and services was virtually the same as a year earlier (the external debt covers around 53% of annual exports). As regards the degree of coverage, this indicator is developing favourably.

Chart 2: External debt/exports (annual figures)



Source: Czech Statistical Office; CNB calculation

3. CNB international reserves/short-term debt

At the end of 2002, the CNB's international reserves were more than 50% higher than short-term external debt (short-term liabilities, including due debt service on long-term debt in the corresponding year). This indicator is developing favourably in terms of both trend and level.

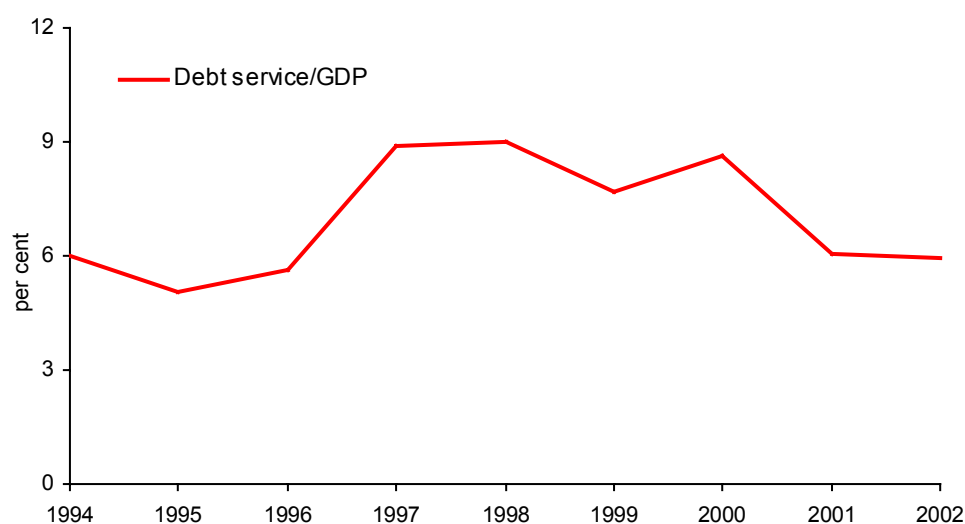
Chart 3: CNB international reserves/short-term debt (annual figures)



4. Debt service/GDP

The downward tendency in the ratio of debt service on long-term liabilities to GDP (less than 6% in 2002) continued. By comparison with previous years this indicator developed favourably.

Chart 4: Debt service/GDP (annual figures)

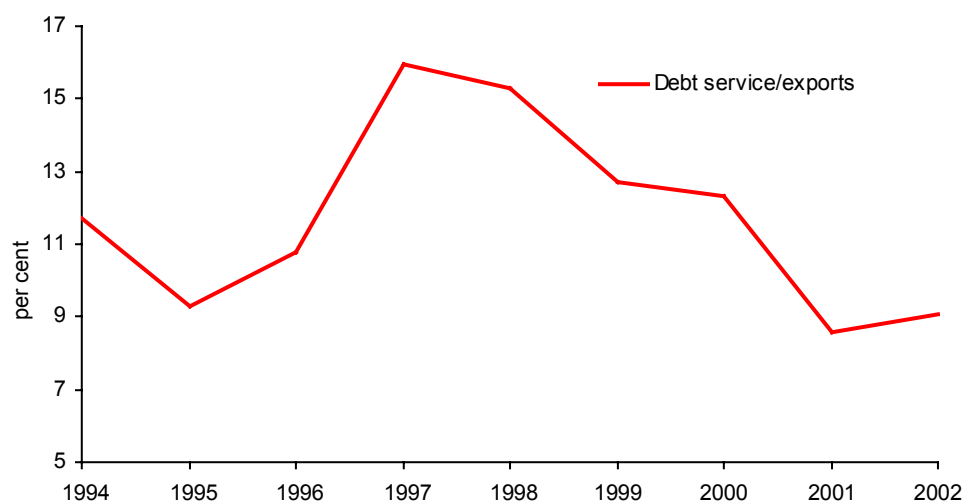


Source: Czech Statistical Office; CNB calculation

5. Debt service/exports

Debt service on medium-term and long-term liabilities stood at 9% of annual exports of goods and services in 2002. This level is favourable by international standards.

Chart 5: Debt service/exports (annual figures)



Source: Czech Statistical Office; CNB calculation

6. Conclusion

The relative debt indicators were stable in 2002, with some of them (most notably the level of external debt, which backed further away from 40% of GDP, and the level of short-term debt and its coverage with CNB international reserves) seeing a continuation of the improving trend recorded in previous years. Although an annual decline in export activity at current prices, together with a moderate increase in repayments of principal, led to a correction of the previous trends in the related ratios (the degree of coverage of external debt and debt service with exports of goods and services), the tendency as regards the levels of the indicators can be viewed as acceptable, with positive distance having been put between them and their limiting values.

BALANCE OF PAYMENTS for January to December 2002

(preliminary data - 18 March 2003)

	in CZK millions	in EUR millions	in USD millions
A. CURRENT ACCOUNT	-121 385,6	-3 939,6	-3 708,0
Trade balance	-74 455,0	-2 416,4	-2 274,4
Exports	1 251 884,0	40 629,8	38 241,8
Imports	1 326 339,0	43 046,2	40 516,2
Services	21 850,8	709,2	667,5
Credit	231 131,1	7 501,4	7 060,5
Transport	56 560,5	1 835,7	1 727,8
Travel	96 289,2	3 125,1	2 941,4
Other services	78 281,4	2 540,6	2 391,3
Debit	209 280,3	6 792,2	6 393,0
Transport	29 332,8	952,0	896,1
Travel	51 549,3	1 673,0	1 574,7
Other services	128 398,2	4 167,2	3 922,2
Income	-97 490,5	-3 164,1	-2 978,1
Credit	69 251,4	2 247,5	2 115,4
Debit	166 741,9	5 411,6	5 093,5
Current transfers	28 709,1	931,7	877,0
Credit	46 709,0	1 515,9	1 426,8
Debit	17 999,9	584,2	549,8
B. CAPITAL ACCOUNT	-119,4	-3,8	-3,7
Credit	221,0	7,2	6,7
Debit	340,4	11,0	10,4
<i>Total A + B</i>	<i>-121 505,0</i>	<i>-3 943,4</i>	<i>-3 711,7</i>
C. FINANCIAL ACCOUNT	340 292,6	11 044,1	10 395,1
Direct investment	269 294,5	8 739,9	8 226,3
Abroad	-6 840,6	-222,0	-208,9
Equity capital and reinvested earnings	-6 417,2	-208,3	-196,0
Other capital	-423,4	-13,7	-12,9
In the Czech Republic	276 135,1	8 961,9	8 435,2
Equity capital and reinvested earnings	273 952,9	8 891,1	8 368,5
Other capital	2 182,2	70,8	66,7
Portfolio investment	-46 748,7	-1 517,2	-1 428,0
Assets	-75 602,1	-2 453,6	-2 309,4
Equity securities	-7 807,9	-253,4	-238,5
Debt securities	-67 794,2	-2 200,2	-2 070,9
Liabilities	28 853,4	936,4	881,4
Equity securities	-9 035,7	-293,3	-276,0
Debt securities	37 889,1	1 229,7	1 157,4
Financial derivatives	-4 281,7	-139,0	-130,8
Assets	-15 458,4	-501,7	-472,2
Liabilities	11 176,7	362,7	341,4
Other investment	122 028,5	3 960,4	3 727,6
Assets	133 121,8	4 320,4	4 066,5
Long-term	28 711,4	931,8	877,0
CNB			
Commercial banks	5 271,7	171,1	161,0
Government	25 333,6	822,2	773,9
Other sectors	-1 893,9	-61,5	-57,9
Short-term	104 410,4	3 388,6	3 189,5
Commercial banks	122 163,8	3 964,8	3 731,8
Government	-2 237,4	-72,6	-68,3
Other sectors	-15 516,0	-503,6	-474,0
Liabilities	-11 093,3	-360,0	-338,9
Long-term	-869,7	-28,2	-26,6
CNB	-20,2	-0,6	-0,6
Commercial banks	-8 059,2	-261,6	-246,2
Government	-1 517,2	-49,2	-46,4
Other sectors	8 726,9	283,2	266,6
Short-term	-10 223,6	-331,8	-312,3
CNB	-24,3	-0,8	-0,7
Commercial banks	-3 871,2	-125,6	-118,3
Government			
Other sectors	-6 328,1	-205,4	-193,3
<i>Total A + B + C</i>	<i>218 787,6</i>	<i>7 100,7</i>	<i>6 683,4</i>
D. NET ERRORS AND OMISSIONS, VALUATION CHANGES	-1 842,6	-59,8	-56,3
<i>Total A + B + C + D</i>	<i>216 945,0</i>	<i>7 040,9</i>	<i>6 627,1</i>
E. CHANGE IN RESERVES (-increase)	-216 945,0	-7 040,9	-6 627,1

CZK/EUR 30,812

CZK/USD 32,736

Note: Definitive data will be published following the release of definitive CSO figures on the trade balance.

BALANCE OF PAYMENTS for January to December 2002

(preliminary data - 18 March 2003)

	in CZK millions	in EUR millions	in USD millions
A. CURRENT ACCOUNT	-121 385,6	-3 939,6	-3 708,0
Trade balance	-74 455,0	-2 416,4	-2 274,4
Exports	1 251 884,0	40 629,8	38 241,8
Imports	1 326 339,0	43 046,2	40 516,2
Services	21 850,8	709,2	667,5
Credit	231 131,1	7 501,4	7 060,5
Transport	56 560,5	1 835,7	1 727,8
Pipeline transport	8 023,6	260,4	245,1
Other	48 536,9	1 575,3	1 482,7
Travel	96 289,2	3 125,1	2 941,4
Other business and non-business services	78 281,4	2 540,6	2 391,3
Postal services	715,9	23,2	21,9
Telecommunication and radiocommunication services	4 907,9	159,3	149,9
Construction and assembly work	3 970,4	128,8	121,3
Life insurance and pension funding	13,1	0,4	0,4
Freight insurance	4,1	0,1	0,1
Other direct insurance	33,5	1,1	1,1
Reinsurance	219,9	7,2	6,7
Auxiliary insurance services	1,0		
Financial services	6 024,9	195,5	184,0
Computer services	4 477,2	145,3	136,8
Information services	159,5	5,2	4,9
Royalties, licence fees, etc.	1 474,8	47,9	45,0
Merchandising			
Intermediation services	4 019,6	130,5	122,8
Rental and leasing of machinery and equipment	1 508,8	49,0	46,1
Legal services	5 331,6	173,0	162,9
Accounting and auditing services	319,4	10,4	9,7
Business and management consultancy, public relations	1 354,6	44,0	41,4
Advertising, market research services, etc.	1 481,7	48,1	45,3
Research and development	1 361,9	44,2	41,6
Technical services	2 541,8	82,5	77,7
Agriculture services	149,5	4,8	4,6
Mining services	112,4	3,6	3,4
Waste treatment and depollution services	210,4	6,8	6,4
Repairs	648,2	21,1	19,8
Rents	2 465,8	80,0	75,3
Other business services	26 803,0	869,9	818,8
Czech company representations abroad	142,0	4,6	4,3
Foreign company representations in the Czech Republic	524,1	17,0	16,0
Audio-visual and related services	849,4	27,6	25,9
Rental and leasing of intangible assets	335,5	10,9	10,2
Personal, cultural and recreational services	3 272,2	106,2	100,0
Health services	925,5	30,0	28,3
Czech embassies and consulates abroad	21,1	0,7	0,6
Foreign embassies and consulates in the Czech Republic	1 834,8	59,5	56,1
Government income (UN peacekeeping forces, NATO, etc.)	51,8	1,7	1,6
Other government income	14,1	0,5	0,4
Debit	209 280,3	6 792,2	6 393,0
Transport	29 332,8	952,0	896,1
Pipeline transport	3 866,3	125,5	118,1
Other	25 466,5	826,5	778,0
Travel	51 549,3	1 673,0	1 574,7
Other business and non-business services	128 398,2	4 167,2	3 922,2
Postal services	1 096,2	35,6	33,5
Telecommunication and radiocommunication services	7 488,6	243,0	228,7
Construction and assembly work	5 203,1	168,9	158,9
Life insurance and pension funding			
Freight insurance			
Other direct insurance			
Reinsurance	5 649,4	183,4	172,6
Auxiliary insurance services	3,0	0,1	0,1
Financial services	19 587,0	635,7	598,3
Computer services	3 723,2	120,8	113,7
Information services	254,0	8,3	7,8
Royalties, licence fees, etc.	3 920,3	127,2	119,8
Merchandising	2 774,8	90,0	84,8
Intermediation services	4 778,2	155,1	145,9
Rental and leasing of machinery and equipment	1 036,2	33,6	31,6
Legal services	6 769,3	219,7	206,8
Accounting and auditing services	643,5	20,9	19,6
Business and management consultancy, public relations	2 740,0	88,9	83,7
Advertising, market research services, etc.	2 488,1	80,7	76,0
Research and development	4 248,6	137,9	129,8
Technical services	6 198,0	201,2	189,3
Agriculture services	67,2	2,2	2,1
Mining services	236,3	7,7	7,2

	in CZK millions	in EUR millions	in USD millions
Waste treatment and depollution services	61,5	2,0	1,9
Repairs	714,1	23,2	21,8
Rents	2 897,9	94,0	88,6
Other business services	37 188,8	1 207,0	1 136,0
Czech company representations abroad	534,3	17,3	16,3
Foreign company representations in the Czech Republic	258,2	8,4	7,9
Audio-visual and related services	716,3	23,2	21,9
Rental and leasing of intangible assets	977,0	31,7	29,9
Personal, cultural and recreational services	3 368,8	109,3	102,9
Health services	590,1	19,2	18,0
Czech embassies and consulates abroad	1 673,4	54,3	51,1
Foreign embassies and consulates in the Czech Republic	473,8	15,4	14,5
Government income (UN peacekeeping forces, NATO, etc.)	18,4	0,6	0,6
Other government income	20,6	0,7	0,6
Income	-97 490,5	-3 164,1	-2 978,1
Credit	69 251,4	2 247,5	2 115,4
Interest received and income on CNB reserve assets	58 227,8	1 889,8	1 778,7
Compensation of employees	10 696,0	347,1	326,7
Other (dividends etc.)	327,6	10,6	10,0
Debit	166 741,9	5 411,6	5 093,5
Interest paid	58 372,5	1 894,5	1 783,1
Compensation of employees	28 986,0	940,7	885,4
Other (reinvested earnings, dividends and other yields on domestic securities)	79 383,4	2 576,4	2 425,0
Current transfers	28 709,1	931,7	877,0
Credit	46 709,0	1 515,9	1 426,8
Debit	17 999,9	584,2	549,8
B. CAPITAL ACCOUNT	-119,4	-3,8	-3,7
Credit	221,0	7,2	6,7
Debit	340,4	11,0	10,4
C. FINANCIAL ACCOUNT	340 292,6	11 044,1	10 395,1
Direct investment	269 294,5	8 739,9	8 226,3
Czech abroad	-6 840,6	-222,0	-208,9
Equity capital and reinvested earnings	-6 417,2	-208,3	-196,0
Other capital	-423,4	-13,7	-12,9
Foreign in the Czech Republic	276 135,1	8 961,9	8 435,2
Equity capital and reinvested earnings	273 952,9	8 891,1	8 368,5
Other capital	2 182,2	70,8	66,7
Portfolio investment	-46 748,7	-1 517,2	-1 428,0
Assets	-75 602,1	-2 453,6	-2 309,4
Equity securities	-7 807,9	-253,4	-238,5
Debt securities	-67 794,2	-2 200,2	-2 070,9
Liabilities	28 853,4	936,4	881,4
Equity securities	-9 035,7	-293,3	-276,0
Debt securities	37 889,1	1 229,7	1 157,4
Financial derivatives	-4 281,7	-139,0	-130,8
Assets	-15 458,4	-501,7	-472,2
Liabilities	11 176,7	362,7	341,4
Other investment	122 028,5	3 960,4	3 727,6
Assets	133 121,8	4 320,4	4 066,5
Long-term	28 711,4	931,8	877,0
CNB			
Commercial banks	5 271,7	171,1	161,0
Government	25 333,6	822,2	773,9
Other sectors	-1 893,9	-61,5	-57,9
Short-term	104 410,4	3 388,6	3 189,5
Commercial banks	122 163,8	3 964,8	3 731,8
Government	-2 237,4	-72,6	-68,3
Other sectors	-15 516,0	-503,6	-474,0
Liabilities	-11 093,3	-360,0	-338,9
Long-term	-869,7	-28,2	-26,6
CNB	-20,2	-0,6	-0,6
Commercial banks	-8 059,2	-261,6	-246,2
Government	-1 517,2	-49,2	-46,4
Other sectors	8 726,9	283,2	266,6
Short-term	-10 223,6	-331,8	-312,3
CNB	-24,3	-0,8	-0,7
Commercial banks	-3 871,2	-125,6	-118,3
Government			
Other sectors	-6 328,1	-205,4	-193,3
D. NET ERRORS AND OMISSIONS, VALUATION CHANGES	-1 842,6	-59,8	-56,3
E. CHANGE IN RESERVES (- increase)	-216 945,0	-7 040,9	-6 627,1

CZK/EUR 30,812

CZK/USD 32,736

INTERNATIONAL INVESTMENT POSITION

in CZK millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
ASSETS	782 003,5	837 143,2	1 031 410,7	1 087 507,3	1 347 954,9	1 448 400,7	1 544 963,0	1 580 600,8
Direct investment abroad	9 190,1	13 609,2	18 989,4	24 003,5	25 114,9	27 899,3	41 176,1	45 075,0
Equity capital	9 190,1	13 609,2	18 385,1	21 901,2	22 415,9	24 797,5	37 633,6	41 280,0
Other capital			604,3	2 102,3	2 699,0	3 101,8	3 542,5	3 795,0
Portfolio investment	20 076,9	37 511,2	35 738,9	35 872,4	104 345,3	180 431,3	185 138,6	274 344,7
Equity securities	18 422,0	20 450,3	14 442,0	13 415,5	66 318,2	92 222,9	68 675,5	86 464,7
Debt securities	1 654,9	17 060,9	21 296,9	22 456,9	38 027,1	88 208,4	116 463,1	187 880,0
Financial derivatives						6 347,2	15 754,8	31 213,2
Other investment	379 698,8	446 138,8	638 157,7	650 948,4	757 065,5	736 903,7	778 435,7	515 356,2
Long-term	215 740,8	236 003,0	294 256,5	287 328,8	323 131,1	315 625,5	310 133,9	179 639,6
CNB	26 172,3	26 122,8	26 122,4	26 122,4		329,1	307,3	280,9
Commercial banks	5 116,6	25 181,3	37 088,8	64 041,6	89 900,1	75 537,9	79 663,7	67 966,9
Government	159 260,9	162 103,1	205 142,0	176 213,4	210 221,3	220 777,8	210 694,9	97 156,8
Other sectors	25 191,0	22 595,8	25 903,3	20 951,4	23 009,7	18 980,7	19 468,0	14 235,0
Short-term	163 958,0	210 135,8	343 901,2	363 619,6	433 934,4	421 278,2	468 301,8	335 716,6
CNB	4,7	4,7	0,1	0,1		52,9	51,2	376,7
Commercial banks	87 176,3	128 481,1	250 670,9	272 219,5	336 117,2	314 115,3	359 638,5	213 815,4
of which gold and foreign exchange	76 126,9	95 432,8	172 301,6	175 753,2	218 995,8	228 961,7	257 138,6	163 032,9
Government							87,1	2 324,5
Other sectors	76 777,0	81 650,0	93 230,2	91 400,0	97 817,2	107 110,0	108 525,0	119 200,0
CNB reserve assets	373 037,7	339 884,0	338 524,7	376 683,0	461 429,2	496 819,2	524 457,8	714 611,7
Gold	2 234,6	2 290,3	1 521,9	369,1	677,0	4 640,4	4 469,9	4 653,8
SDR	4,7					7,7	31,0	137,1
Reserve position in the Fund						116,0	5 478,3	7 081,5
Foreign exchange	370 798,4	337 593,7	337 002,8	376 313,9	460 752,2	491 001,2	514 188,0	686 516,1
Other reserve assets						1 053,9	290,6	16 223,2
LIABILITIES	723 101,9	906 073,2	1 138 248,1	1 204 984,0	1 458 893,3	1 640 270,0	1 789 030,7	1 961 252,0
Direct investment in the Czech Republic	195 526,3	234 301,1	319 820,3	429 167,8	631 505,3	818 411,6	982 335,0	1 158 923,4
Equity capital	195 526,3	234 301,1	284 674,7	364 816,5	538 379,3	702 217,8	837 537,3	1 018 353,4
Other capital			35 145,6	64 351,3	93 126,0	116 193,8	144 797,7	140 570,0
Portfolio investment	124 933,6	144 807,4	169 032,7	166 128,1	165 579,2	164 592,0	180 346,2	201 120,0
Equity securities	70 280,4	92 867,8	104 862,3	113 247,2	98 011,8	115 670,6	128 740,1	128 097,7
Debt securities	54 653,2	51 939,6	64 170,4	52 880,9	67 567,4	48 921,4	51 606,1	73 022,3
Financial derivatives						5 307,9	11 495,2	22 671,9
Other investment	402 642,0	526 964,7	649 395,1	609 688,1	661 808,8	651 958,5	614 854,3	578 536,7
Long-term	279 388,9	374 814,7	426 270,1	358 510,5	379 172,2	352 323,4	332 593,2	319 061,3
CNB	2 491,5	2 272,7	2 188,3	1 883,3	197,1	180,4	133,4	114,5
Commercial banks	90 299,3	143 454,2	143 120,2	124 286,3	118 368,9	84 607,4	73 688,6	63 541,0
Government	52 934,9	43 934,7	37 754,7	23 814,8	20 852,9	19 699,2	9 476,2	9 475,8
Other sectors	133 663,2	185 153,1	243 206,9	208 526,1	239 753,3	247 836,4	249 295,0	245 930,0
Short-term	123 253,1	152 150,0	223 125,0	251 177,6	282 636,6	299 635,1	282 261,1	259 475,4
CNB	115,0	55,3	45,5	39,5	25,8	8,8	68,5	44,2
Commercial banks	69 502,9	101 543,5	168 927,1	193 373,0	229 988,7	226 176,2	190 487,6	176 196,2
Government	1 104,1	314,8	287,5	103,2				
Other sectors	52 531,1	50 236,4	53 864,9	57 661,9	52 622,1	73 450,1	91 705,0	83 235,0
NET INVESTMENT POSITION	58 901,6	-68 930,0	-106 837,4	-117 476,7	-110 938,4	-191 869,3	-244 067,7	-380 651,2

1) revised data

2) preliminary data

INTERNATIONAL INVESTMENT POSITION

in EUR millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
ASSETS	22 960,9	24 688,6	26 984,7	31 053,0	37 308,5	41 276,8	48 310,3	50 019,0
Direct investment abroad	269,8	401,3	496,8	685,4	695,1	795,1	1 287,6	1 426,4
Equity capital	269,8	401,3	481,0	625,4	620,4	706,7	1 176,8	1 306,3
Other capital			15,8	60,0	74,7	88,4	110,8	120,1
Portfolio investment	589,5	1 106,3	935,0	1 024,3	2 888,1	5 142,0	5 789,2	8 681,8
Equity securities	540,9	603,1	377,8	383,1	1 835,6	2 628,2	2 147,5	2 736,2
Debt securities	48,6	503,2	557,2	641,2	1 052,5	2 513,8	3 641,7	5 945,6
Financial derivatives						180,9	492,6	987,8
Other investment	11 148,6	13 157,3	16 696,1	18 587,4	20 954,0	21 000,4	24 341,3	16 308,7
Long-term	6 334,6	6 960,1	7 698,6	8 204,5	8 943,6	8 994,8	9 697,8	5 684,8
CNB	768,5	770,4	683,4	745,9		9,4	9,6	8,9
Commercial banks	150,2	742,6	970,4	1 828,7	2 488,3	2 152,7	2 491,1	2 150,8
Government	4 676,2	4 780,7	5 367,1	5 031,6	5 818,5	6 291,8	6 588,3	3 074,6
Other sectors	739,7	666,4	677,7	598,3	636,8	540,9	608,8	450,5
Short-term	4 814,0	6 197,2	8 997,5	10 382,9	12 010,4	12 005,6	14 643,5	10 623,9
CNB	0,1	0,1				1,5	1,6	11,9
Commercial banks	2 559,6	3 789,1	6 558,3	7 773,0	9 303,0	8 951,7	11 245,7	6 766,3
of which gold and foreign exchange	2 235,2	2 814,5	4 507,9	5 018,5	6 061,3	6 525,0	8 040,6	5 159,3
Government							2,7	73,6
Other sectors	2 254,3	2 408,0	2 439,2	2 609,9	2 707,4	3 052,4	3 393,5	3 772,1
CNB reserve assets	10 953,0	10 023,7	8 856,8	10 755,9	12 771,3	14 158,4	16 399,6	22 614,3
Gold	65,6	67,5	39,8	10,5	18,7	132,3	139,8	147,3
SDR	0,1					0,2	1,0	4,3
Reserve position in the Fund						3,3	171,3	224,1
Foreign exchange	10 887,3	9 956,2	8 817,0	10 745,4	12 752,6	13 992,6	16 078,4	21 725,2
Other reserve assets						30,0	9,1	513,4
LIABILITIES	21 231,5	26 721,5	29 779,9	34 407,5	40 379,0	46 744,7	55 942,2	62 064,9
Direct investment in the Czech Republic	5 741,0	6 909,9	8 367,4	12 254,6	17 478,7	23 323,2	30 717,2	36 674,8
Equity capital	5 741,0	6 909,9	7 447,9	10 417,1	14 901,2	20 011,9	26 189,4	32 226,4
Other capital			919,5	1 837,5	2 577,5	3 311,3	4 527,8	4 448,4
Portfolio investment	3 668,2	4 270,6	4 422,4	4 743,7	4 582,8	4 690,6	5 639,3	6 364,6
Equity securities	2 063,5	2 738,8	2 743,5	3 233,7	2 712,7	3 296,4	4 025,6	4 053,7
Debt securities	1 604,7	1 531,8	1 678,9	1 510,0	1 870,1	1 394,2	1 613,7	2 310,9
Financial derivatives						151,3	359,5	717,4
Other investment	11 822,3	15 541,0	16 990,1	17 409,2	18 317,5	18 579,6	19 226,2	18 308,1
Long-term	8 203,3	11 053,9	11 152,4	10 237,0	10 494,7	10 040,5	10 400,0	10 096,9
CNB	73,2	67,0	57,3	53,8	5,5	5,1	4,2	3,6
Commercial banks	2 651,3	4 230,7	3 744,4	3 548,9	3 276,2	2 411,1	2 304,2	2 010,8
Government	1 554,2	1 295,7	987,7	680,0	577,2	561,4	296,3	299,9
Other sectors	3 924,6	5 460,5	6 363,0	5 954,3	6 635,8	7 062,9	7 795,3	7 782,6
Short-term	3 619,0	4 487,1	5 837,7	7 172,2	7 822,8	8 539,1	8 826,2	8 211,2
CNB	3,4	1,6	1,2	1,1	0,7	0,3	2,1	1,4
Commercial banks	2 040,7	2 994,7	4 419,7	5 521,7	6 365,6	6 445,6	5 956,5	5 575,8
Government	32,4	9,3	7,5	2,9				
Other sectors	1 542,5	1 481,5	1 409,3	1 646,5	1 456,5	2 093,2	2 867,6	2 634,0
NET INVESTMENT POSITION	1 729,4	-2 032,9	-2 795,2	-3 354,5	-3 070,5	-5 467,9	-7 631,9	-12 045,9

1) revised data

2) preliminary data

INTERNATIONAL INVESTMENT POSITION

in USD millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
ASSETS	29 396,4	30 628,7	29 778,6	36 426,3	37 465,0	38 304,3	42 609,1	52 440,2
Direct investment abroad	345,5	497,9	548,2	804,0	698,0	737,8	1 135,6	1 495,5
Equity capital	345,5	497,9	530,8	733,6	623,0	655,8	1 037,9	1 369,6
Other capital			17,4	70,4	75,0	82,0	97,7	125,9
Portfolio investment	754,7	1 372,4	1 031,9	1 201,6	2 900,2	4 771,7	5 106,0	9 102,0
Equity securities	692,5	748,2	417,0	449,4	1 843,3	2 438,9	1 894,0	2 868,7
Debt securities	62,2	624,2	614,9	752,2	1 056,9	2 332,8	3 212,0	6 233,3
Financial derivatives						167,8	434,5	1 035,6
Other investment	14 273,3	16 323,0	18 424,7	21 803,6	21 041,9	19 488,1	21 468,8	17 098,2
Long-term	8 109,9	8 634,7	8 495,7	9 624,1	8 981,1	8 347,0	8 553,3	5 960,0
CNB	983,8	955,8	754,2	875,0		8,7	8,5	9,3
Commercial banks	192,3	921,3	1 070,8	2 145,1	2 498,7	1 997,7	2 197,1	2 255,0
Government	5 986,8	5 930,9	5 922,8	5 902,3	5 842,9	5 838,7	5 810,8	3 223,4
Other sectors	947,0	826,7	747,9	701,7	639,5	501,9	536,9	472,3
Short-term	6 163,4	7 688,3	9 929,0	12 179,5	12 060,8	11 141,1	12 915,5	11 138,2
CNB	0,2	0,2				1,4	1,4	12,5
Commercial banks	3 277,1	4 700,8	7 237,3	9 118,0	9 342,1	8 307,1	9 918,6	7 093,8
of which gold and foreign exchange	2 861,7	3 491,6	4 974,6	5 886,9	6 086,8	6 055,1	7 091,7	5 409,0
Government							2,4	77,1
Other sectors	2 886,1	2 987,3	2 691,7	3 061,5	2 718,7	2 832,6	2 993,1	3 954,8
CNB reserve assets	14 022,9	12 435,4	9 773,8	12 617,1	12 824,9	13 138,9	14 464,2	23 708,9
Gold	84,0	83,8	43,9	12,4	18,8	122,7	123,3	154,4
SDR	0,2					0,2	0,8	4,6
Reserve position in the Fund						3,1	151,1	234,9
Foreign exchange	13 938,7	12 351,6	9 729,9	12 604,7	12 806,1	12 985,0	14 181,0	22 776,8
Other reserve assets						27,9	8,0	538,2
LIABILITIES	27 182,2	33 150,7	32 863,2	40 361,2	40 548,4	43 378,5	49 340,3	65 069,2
Direct investment in the Czech Republic	7 350,0	8 572,4	9 233,8	14 375,0	17 552,0	21 643,7	27 092,2	38 450,1
Equity capital	7 350,0	8 572,4	8 219,1	12 219,6	14 963,7	18 570,8	23 098,8	33 786,3
Other capital			1 014,7	2 155,4	2 588,3	3 072,9	3 993,4	4 663,8
Portfolio investment	4 696,4	5 298,1	4 880,3	5 564,5	4 602,1	4 352,8	4 973,8	6 672,6
Equity securities	2 641,9	3 397,8	3 027,6	3 793,2	2 724,1	3 059,0	3 550,5	4 249,9
Debt securities	2 054,5	1 900,3	1 852,7	1 771,3	1 878,0	1 293,8	1 423,3	2 422,7
Financial derivatives						140,4	317,0	752,2
Other investment	15 135,8	19 280,2	18 749,1	20 421,7	18 394,3	17 241,6	16 957,3	19 194,3
Long-term	10 502,6	13 713,5	12 307,1	12 008,4	10 538,7	9 317,5	9 172,7	10 585,6
CNB	93,7	83,2	63,2	63,1	5,5	4,8	3,7	3,8
Commercial banks	3 394,5	5 248,6	4 132,1	4 163,0	3 289,9	2 237,5	2 032,3	2 108,1
Government	1 989,9	1 607,5	1 090,0	797,7	579,6	521,0	261,3	314,4
Other sectors	5 024,5	6 774,2	7 021,8	6 984,6	6 663,7	6 554,2	6 875,4	8 159,3
Short-term	4 633,2	5 566,7	6 442,0	8 413,3	7 855,6	7 924,1	7 784,6	8 608,7
CNB	4,3	2,0	1,3	1,3	0,7	0,2	1,9	1,5
Commercial banks	2 612,7	3 715,2	4 877,2	6 477,1	6 392,3	5 981,4	5 253,5	5 845,7
Government	41,5	11,5	8,3	3,5				
Other sectors	1 974,7	1 838,0	1 555,2	1 931,4	1 462,6	1 942,5	2 529,2	2 761,5
NET INVESTMENT POSITION	2 214,2	-2 522,0	-3 084,6	-3 934,9	-3 083,4	-5 074,2	-6 731,2	-12 629,0

1) revised data

2) preliminary data

EXTERNAL DEBT

by debtor and creditor

in CZK millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
DEBT IN CONVERTIBLE CURRENCIES	440 229,3	569 723,6	739 563,0	717 923,6	813 576,5	808 122,8	811 258,1	792 129,0
of which:								
Long-term	306 034,4	405 143,6	495 058,5	446 484,3	497 872,1	464 323,8	465 687,8	470 599,4
<i>by debtor</i>								
CNB	22 268,0	11 178,4	11 548,4	10 952,2	12 527,6	180,4	133,4	114,5
Commercial banks	95 433,3	150 780,1	158 503,7	133 376,5	128 703,3	95 737,1	88 401,4	80 063,7
Government	51 836,4	46 669,6	42 630,7	32 953,5	32 303,5	29 753,5	30 839,2	47 701,3
Other sectors	136 496,7	196 515,5	282 375,7	269 202,1	324 337,7	338 652,8	346 313,8	342 719,9
<i>by creditor</i>								
Foreign banks	207 604,7	285 698,8	335 055,5	248 712,0	257 410,0	228 709,6	229 305,5	223 329,8
Government institutions	7 039,1	6 631,8	7 269,4	4 409,6	4 239,2	3 405,7	2 373,6	1 747,2
Multilateral institutions	29 693,4	32 857,1	39 564,2	49 036,3	58 202,2	67 521,2	70 879,0	69 894,7
Suppliers and direct investors	24 567,0	27 116,0	46 465,5	72 624,6	93 831,4	99 560,2	105 944,3	97 855,0
Other investors	37 130,2	52 839,9	66 703,9	71 701,8	84 189,3	65 127,1	57 185,4	77 772,7
Short-term	134 194,9	164 580,0	244 504,5	271 439,3	315 704,4	343 799,0	345 570,3	321 529,6
<i>by debtor</i>								
CNB	115,0	55,3	45,5	39,5	25,8	8,8	68,5	44,2
Commercial banks	71 911,8	106 852,6	170 147,0	193 373,0	230 000,5	226 246,1	192 438,4	177 474,4
Government	15 114,0	2 786,0	8 164,0	22,0	7,0	2 115,0	465,0	761,0
Other sectors	47 054,1	54 886,1	66 148,0	78 004,8	85 671,1	115 429,1	152 598,4	143 250,0
<i>by creditor</i>								
Foreign banks	58 874,2	85 424,0	142 463,2	175 604,1	201 808,8	203 333,8	192 126,4	166 140,7
Suppliers and direct investors	41 986,4	45 914,0	57 831,1	67 446,7	81 794,6	106 988,6	116 278,4	121 375,0
Other investors	33 334,3	33 242,0	44 210,2	28 388,5	32 101,0	33 476,6	37 165,5	34 013,9
DEBT IN NON-CONVERTIBLE CURRENCIES	17 065,9	9 180,7	9 148,1	8 996,7	8 925,7	8 950,9	0,0	0,0
of which:								
Long-term	10 484,7	8 865,9	8 860,6	8 893,5	8 925,7	8 950,9		
Short-term	6 581,2	314,8	287,5	103,2				
TOTAL EXTERNAL DEBT	457 295,2	578 904,3	748 711,1	726 920,3	822 502,2	817 073,7	811 258,1	792 129,0
of which:								
Long-term	316 519,1	414 009,5	503 919,1	455 377,8	506 797,8	473 274,7	465 687,8	470 599,4
Short-term	140 776,1	164 894,8	244 792,0	271 542,5	315 704,4	343 799,0	345 570,3	321 529,6
Total long-term debt	316 519,1	414 009,5	503 919,1	455 377,8	506 797,8	473 274,7	465 687,8	470 599,4
of which:								
- IMF loans								
- Liabilities of government sector and guaranteed by government, and of entities majority-owned by state	153 224,7	173 488,0	231 624,2	241 734,0	254 398,0	245 389,0	203 102,3	207 325,2
- Liabilities of entities with majority private ownership	163 294,4	240 521,5	272 294,9	213 643,8	252 399,8	227 885,7	262 585,5	263 274,2

1) revised data

2) preliminary data

EXTERNAL DEBT

by debtor and creditor

in EUR millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
DEBT IN CONVERTIBLE CURRENCIES	12 925,9	16 802,0	19 349,2	20 499,8	22 518,1	23 030,0	25 367,7	25 067,4
of which:								
Long-term	8 985,7	11 948,3	12 952,2	12 749,0	13 780,1	13 232,3	14 561,9	14 892,4
<i>by debtor</i>								
CNB	653,8	329,7	302,2	312,7	346,8	5,1	4,2	3,6
Commercial banks	2 802,1	4 446,7	4 146,9	3 808,5	3 562,2	2 728,3	2 764,3	2 533,7
Government	1 522,0	1 376,4	1 115,3	940,9	894,1	847,9	964,3	1 509,5
Other sectors	4 007,8	5 795,5	7 387,8	7 686,9	8 977,0	9 651,0	10 829,1	10 845,6
<i>by creditor</i>								
Foreign banks	6 095,6	8 425,7	8 766,0	7 101,8	7 124,6	6 517,8	7 170,3	7 067,4
Government institutions	206,7	195,6	190,2	125,9	117,3	97,0	74,2	55,3
Multilateral institutions	871,9	969,0	1 035,1	1 400,2	1 610,9	1 924,2	2 216,4	2 211,9
Suppliers and direct investors	721,3	799,7	1 215,7	2 073,7	2 597,1	2 837,3	3 312,8	3 096,7
Other investors	1 090,2	1 558,3	1 745,2	2 047,4	2 330,2	1 856,0	1 788,2	2 461,1
Short-term	3 940,2	4 853,7	6 397,0	7 750,8	8 738,0	9 797,7	10 805,8	10 175,0
<i>by debtor</i>								
CNB	3,4	1,6	1,2	1,1	0,7	0,3	2,1	1,4
Commercial banks	2 111,4	3 151,2	4 451,6	5 521,7	6 365,9	6 447,6	6 017,5	5 616,3
Government	443,8	82,2	213,6	0,6	0,2	60,3	14,5	24,1
Other sectors	1 381,6	1 618,7	1 730,6	2 227,4	2 371,2	3 289,5	4 771,7	4 533,2
<i>by creditor</i>								
Foreign banks	1 728,6	2 519,3	3 727,3	5 014,3	5 585,6	5 794,7	6 007,7	5 257,6
Suppliers and direct investors	1 232,8	1 354,1	1 513,0	1 925,9	2 263,9	3 049,0	3 636,0	3 841,0
Other investors	978,8	980,3	1 156,7	810,6	888,5	954,0	1 162,1	1 076,4
DEBT IN NON-CONVERTIBLE CURRENCIES	501,1	270,8	239,3	256,9	247,0	255,1	0,0	0,0
of which:								
Long-term	307,8	261,5	231,8	254,0	247,0	255,1		
Short-term	193,3	9,3	7,5	2,9				
TOTAL EXTERNAL DEBT	13 427,0	17 072,8	19 588,5	20 756,7	22 765,1	23 285,1	25 367,7	25 067,4
of which:								
Long-term	9 293,5	12 209,8	13 184,0	13 003,0	14 027,1	13 487,4	14 561,9	14 892,4
Short-term	4 133,5	4 863,0	6 404,5	7 753,7	8 738,0	9 797,7	10 805,8	10 175,0
Total long-term debt	9 293,5	12 209,8	13 184,0	13 003,0	14 027,1	13 487,4	14 561,9	14 892,4
of which:								
- IMF loans								
- Liabilities of government sector and guaranteed by government, and of entities majority-owned by state	4 498,9	5 116,4	6 060,0	6 902,5	7 041,2	6 993,1	6 350,9	6 560,9
- Liabilities of entities with majority private ownership	4 794,6	7 093,4	7 124,0	6 100,5	6 985,9	6 494,3	8 211,0	8 331,5

1) revised data

2) preliminary data

EXTERNAL DEBT

by debtor and creditor

in USD millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
DEBT IN CONVERTIBLE CURRENCIES	16 548,8	20 844,6	21 352,4	24 047,0	22 612,5	21 371,6	22 374,0	26 280,8
of which:								
Long-term	11 504,2	14 823,1	14 293,2	14 955,1	13 837,9	12 279,5	12 843,4	15 613,3
<i>by debtor</i>								
CNB	837,1	409,0	333,4	366,9	348,2	4,8	3,7	3,8
Commercial banks	3 587,5	5 516,6	4 576,2	4 467,5	3 577,2	2 531,8	2 438,1	2 656,3
Government	1 948,6	1 707,5	1 230,9	1 103,7	897,9	786,9	850,5	1 582,6
Other sectors	5 131,0	7 190,0	8 152,7	9 017,0	9 014,6	8 956,0	9 551,1	11 370,6
<i>by creditor</i>								
Foreign banks	7 804,1	10 452,9	9 673,6	8 330,6	7 154,4	6 048,4	6 324,1	7 409,5
Government institutions	264,6	242,6	209,9	147,7	117,8	90,1	65,5	58,0
Multilateral institutions	1 116,3	1 202,2	1 142,2	1 642,5	1 617,7	1 785,7	1 954,8	2 318,9
Suppliers and direct investors	923,5	992,1	1 341,6	2 432,6	2 608,0	2 633,0	2 921,9	3 246,6
Other investors	1 395,7	1 933,3	1 925,9	2 401,7	2 340,0	1 722,3	1 577,1	2 580,3
Short-term	5 044,6	6 021,5	7 059,2	9 091,9	8 774,6	9 092,1	9 530,6	10 667,5
<i>by debtor</i>								
CNB	4,3	2,0	1,3	1,3	0,7	0,2	1,9	1,5
Commercial banks	2 703,3	3 909,5	4 912,4	6 477,1	6 392,6	5 983,3	5 307,3	5 888,1
Government	568,2	101,9	235,7	0,7	0,2	55,9	12,8	25,3
Other sectors	1 768,8	2 008,1	1 909,8	2 612,8	2 381,1	3 052,7	4 208,6	4 752,6
<i>by creditor</i>								
Foreign banks	2 213,2	3 125,4	4 113,1	5 881,9	5 609,1	5 377,4	5 298,7	5 512,1
Suppliers and direct investors	1 578,3	1 679,9	1 669,7	2 259,1	2 273,3	2 829,4	3 206,9	4 026,9
Other investors	1 253,1	1 216,2	1 276,4	950,9	892,2	885,3	1 025,0	1 128,5
DEBT IN NON-CONVERTIBLE CURRENCIES	641,5	335,9	264,1	301,4	248,1	236,7	0,0	0,0
of which:								
Long-term	394,1	324,4	255,8	297,9	248,1	236,7		
Short-term	247,4	11,5	8,3	3,5				
TOTAL EXTERNAL DEBT	17 190,3	21 180,5	21 616,5	24 348,4	22 860,6	21 608,3	22 374,0	26 280,8
of which:								
Long-term	11 898,3	15 147,5	14 549,0	15 253,0	14 086,0	12 516,2	12 843,4	15 613,3
Short-term	5 292,0	6 033,0	7 067,5	9 095,4	8 774,6	9 092,1	9 530,6	10 667,5
Total long-term debt	11 898,3	15 147,5	14 549,0	15 253,0	14 086,0	12 516,2	12 843,4	15 613,3
of which:								
- IMF loans								
- Liabilities of government sector and guaranteed by government, and of entities majority-owned by state	5 759,9	6 347,5	6 687,4	8 096,9	7 070,8	6 489,5	5 601,4	6 878,5
- Liabilities of entities with majority private ownership	6 138,4	8 800,0	7 861,6	7 156,1	7 015,2	6 026,7	7 242,0	8 734,8

1) revised data

2) preliminary data

EXTERNAL DEBT

by instrument

in CZK millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
I. Government	77 219,2	58 636,3	59 942,8	41 972,2	41 236,2	40 819,4	31 304,2	48 462,3
<i>Short-term</i>	16 218,1	3 100,8	8 451,5	125,2	7,0	2 115,0	465,0	761,0
Money market instruments	15 114,0	2 786,0	8 164,0	22,0	7,0	2 115,0	465,0	761,0
Loans								
Trade credits								
Other debt liabilities	1 104,1	314,8	287,5	103,2				
<i>Long-term</i>	61 001,1	55 535,5	51 491,3	41 847,0	41 229,2	38 704,4	30 839,2	47 701,3
Bonds and notes	8 066,2	11 600,8	13 736,6	18 032,2	20 376,3	19 005,2	21 363,0	38 225,5
Loans	43 770,2	35 068,8	28 894,1	14 921,3	11 927,2	10 748,3	9 476,2	9 475,8
Trade credits								
Other debt liabilities	9 164,7	8 865,9	8 860,6	8 893,5	8 925,7	8 950,9		
II. CNB	22 383,0	11 233,7	11 593,9	10 991,7	12 553,4	189,2	201,9	158,7
<i>Short-term</i>	115,0	55,3	45,5	39,5	25,8	8,8	68,5	44,2
Money market instruments								
Loans								
Currency and deposits	115,0	55,3	45,5	39,5	25,8	8,8	68,5	44,2
Other debt liabilities								
<i>Long-term</i>	22 268,0	11 178,4	11 548,4	10 952,2	12 527,6	180,4	133,4	114,5
Bonds and notes	19 776,5	8 905,7	9 360,1	9 068,9	12 330,5			
Loans	2 491,5	2 272,7	2 188,3	1 883,3	197,1	168,9	133,4	114,5
Currency and deposits								
Other debt liabilities						11,5		
III. Banks	167 345,2	257 632,7	328 650,7	326 749,5	358 703,8	321 983,2	280 839,8	257 538,1
<i>Short-term</i>	71 911,9	106 852,6	170 147,0	193 373,0	230 000,5	226 246,1	192 438,4	177 474,4
Money market instruments	2 409,0	5 309,1	1 219,9		11,8	69,9	1 950,8	1 278,2
Loans	7 351,1	2 863,6	8 030,5	25 209,7	39 666,7	25 262,6	10 702,3	5 854,0
Currency and deposits	61 002,2	95 169,0	151 141,0	156 076,2	172 845,7	187 663,7	167 189,3	160 882,7
Other debt liabilities	1 149,6	3 510,9	9 755,6	12 087,1	17 476,3	13 249,9	12 596,0	9 459,5
<i>Long-term</i>	95 433,3	150 780,1	158 503,7	133 376,5	128 703,3	95 737,1	88 401,4	80 063,7
Bonds and notes	5 134,0	7 325,9	15 383,5	9 090,2	10 334,4	11 129,7	14 712,8	16 522,7
Loans	43 892,1	71 911,4	85 843,3	95 800,4	91 050,7	66 994,3	51 636,7	52 752,0
Currency and deposits	46 407,2	71 542,8	57 276,9	28 485,9	27 318,2	17 613,1	21 828,1	10 789,0
Other debt liabilities							223,8	
IV. Other sectors	190 347,8	251 401,6	313 378,1	282 855,6	316 882,8	337 888,1	354 114,5	345 399,9
<i>Short-term</i>	52 531,1	54 886,1	57 729,9	58 768,1	53 776,5	73 580,5	91 705,0	83 235,0
Money market instruments		4 649,7	3 865,0	1 106,2	1 154,4	130,4		
Loans	5 067,7	8 836,4	4 451,9	9 451,9	2 722,1	8 310,1	36 320,0	21 875,0
Currency and deposits								
Trade credits	47 463,4	41 400,0	49 413,0	48 210,0	49 900,0	65 140,0	55 385,0	61 360,0
Other debt liabilities								
<i>Long-term</i>	137 816,7	196 515,5	255 648,2	224 087,5	263 106,3	264 307,6	262 409,5	262 164,9
Bonds and notes	4 153,5	11 362,4	12 441,3	15 561,4	23 353,0	16 471,2	13 114,5	16 234,9
Loans	107 776,2	168 803,1	223 468,9	181 016,1	207 153,3	222 621,4	227 255,0	228 630,0
Currency and deposits								
Trade credits	25 887,0	16 350,0	19 738,0	27 510,0	32 600,0	25 215,0	22 040,0	17 300,0
Other debt liabilities								
V. Direct investment: Intercompany lending	0,0	0,0	35 145,6	64 351,3	93 126,0	116 193,8	144 797,7	140 570,0
Debt liabilities to affiliated enterprises								
Debt liabilities to direct investors			35 145,6	64 351,3	93 126,0	116 193,8	144 797,7	140 570,0
Gross External Debt	457 295,2	578 904,3	748 711,1	726 920,3	822 502,2	817 073,7	811 258,1	792 129,0

1) revised data

2) preliminary data

EXTERNAL DEBT

by instrument

in EUR millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
I. Government	2 267,3	1 729,4	1 568,2	1 198,4	1 141,4	1 163,3	978,8	1 533,6
<i>Short-term</i>	476,2	91,5	221,1	3,5	0,2	60,3	14,5	24,1
Money market instruments	443,8	82,2	213,6	0,6	0,2	60,3	14,5	24,1
Loans								
Trade credits								
Other debt liabilities	32,4	9,3	7,5	2,9				
<i>Long-term</i>	1 791,1	1 637,9	1 347,1	1 194,9	1 141,2	1 103,0	964,3	1 509,5
Bonds and notes	236,9	342,2	359,4	514,9	564,0	541,6	668,0	1 209,6
Loans	1 285,1	1 034,2	755,9	426,0	330,1	306,3	296,3	299,9
Trade credits								
Other debt liabilities	269,1	261,5	231,8	254,0	247,1	255,1		
II. CNB	657,2	331,3	303,4	313,8	347,5	5,4	6,3	5,0
<i>Short-term</i>	3,4	1,6	1,2	1,1	0,7	0,3	2,1	1,4
Money market instruments								
Loans								
Currency and deposits	3,4	1,6	1,2	1,1	0,7	0,3	2,1	1,4
Other debt liabilities								
<i>Long-term</i>	653,8	329,7	302,2	312,7	346,8	5,1	4,2	3,6
Bonds and notes	580,6	262,7	244,9	258,9	341,3			
Loans	73,2	67,0	57,3	53,8	5,5	4,8	4,2	3,6
Currency and deposits								
Other debt liabilities						0,3		
III. Banks	4 913,5	7 597,9	8 598,5	9 330,2	9 928,1	9 175,9	8 781,8	8 150,0
<i>Short-term</i>	2 111,4	3 151,2	4 451,6	5 521,7	6 365,9	6 447,6	6 017,5	5 616,3
Money market instruments	70,7	156,5	31,9		0,3	2,0	61,0	40,5
Loans	215,8	84,5	210,1	719,9	1 097,9	719,9	334,7	185,2
Currency and deposits	1 791,1	2 806,7	3 954,3	4 456,6	4 784,0	5 348,1	5 227,9	5 091,2
Other debt liabilities	33,8	103,5	255,3	345,2	483,7	377,6	393,9	299,4
<i>Long-term</i>	2 802,1	4 446,7	4 146,9	3 808,5	3 562,2	2 728,3	2 764,3	2 533,7
Bonds and notes	150,8	216,0	402,5	259,6	286,0	317,2	460,1	522,9
Loans	1 288,7	2 120,8	2 245,9	2 735,5	2 520,1	1 909,2	1 614,7	1 669,4
Currency and deposits	1 362,6	2 109,9	1 498,5	813,4	756,1	501,9	682,5	341,4
Other debt liabilities							7,0	
IV. Other sectors	5 589,0	7 414,2	8 198,9	8 076,8	8 770,6	9 629,2	11 073,0	10 930,4
<i>Short-term</i>	1 542,5	1 618,7	1 510,4	1 678,1	1 488,4	2 096,9	2 867,6	2 634,0
Money market instruments		137,2	101,1	31,6	31,9	3,7		
Loans	148,8	260,6	116,5	269,9	75,4	236,8	1 135,7	692,2
Currency and deposits								
Trade credits	1 393,7	1 220,9	1 292,8	1 376,6	1 381,1	1 856,4	1 731,9	1 941,8
Other debt liabilities								
<i>Long-term</i>	4 046,5	5 795,5	6 688,5	6 398,7	7 282,2	7 532,3	8 205,4	8 296,4
Bonds and notes	121,9	335,0	325,5	444,4	646,4	469,4	410,1	513,8
Loans	3 164,5	4 978,3	5 846,6	5 168,8	5 733,5	6 344,3	7 106,1	7 235,1
Currency and deposits								
Trade credits	760,1	482,2	516,4	785,5	902,3	718,6	689,2	547,5
Other debt liabilities								
V. Direct investment: Intercompany lending	0,0	0,0	919,5	1 837,5	2 577,5	3 311,3	4 527,8	4 448,4
Debt liabilities to affiliated enterprises								
Debt liabilities to direct investors			919,5	1 837,5	2 577,5	3 311,3	4 527,8	4 448,4
Gross External Debt	13 427,0	17 072,8	19 588,5	20 756,7	22 765,1	23 285,1	25 367,7	25 067,4

1) revised data

2) preliminary data

EXTERNAL DEBT

by instrument

in USD millions	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	31 Dec. 2000	31 Dec. 2001 1)	31 Dec. 2002 2)
I. Government	2 902,8	2 145,3	1 730,7	1 405,9	1 146,2	1 079,5	863,3	1 607,9
<i>Short-term</i>	609,7	113,4	244,0	4,2	0,2	55,9	12,8	25,3
Money market instruments	568,2	101,9	235,7	0,7	0,2	55,9	12,8	25,3
Loans								
Trade credits								
Other debt liabilities	41,5	11,5	8,3	3,5				
<i>Long-term</i>	2 293,1	2 031,9	1 486,7	1 401,7	1 146,0	1 023,6	850,5	1 582,6
Bonds and notes	303,2	424,4	396,7	604,0	566,4	502,6	589,2	1 268,2
Loans	1 645,4	1 283,1	834,2	499,8	331,5	284,3	261,3	314,4
Trade credits								
Other debt liabilities	344,5	324,4	255,8	297,9	248,1	236,7		
II. CNB	841,4	411,0	334,7	368,2	348,9	5,0	5,6	5,3
<i>Short-term</i>	4,3	2,0	1,3	1,3	0,7	0,2	1,9	1,5
Money market instruments								
Loans								
Currency and deposits	4,3	2,0	1,3	1,3	0,7	0,2	1,9	1,5
Other debt liabilities								
<i>Long-term</i>	837,1	409,0	333,4	366,9	348,2	4,8	3,7	3,8
Bonds and notes	743,4	325,8	270,2	303,8	342,7			
Loans	93,7	83,2	63,2	63,1	5,5	4,5	3,7	3,8
Currency and deposits								
Other debt liabilities						0,3		
III. Banks	6 290,8	9 426,1	9 488,6	10 944,6	9 969,8	8 515,1	7 745,4	8 544,4
<i>Short-term</i>	2 703,3	3 909,5	4 912,4	6 477,1	6 392,6	5 983,3	5 307,3	5 888,1
Money market instruments	90,6	194,3	35,2		0,3	1,9	53,8	42,4
Loans	276,3	104,8	231,8	844,4	1 102,5	668,1	295,1	194,2
Currency and deposits	2 293,2	3 482,0	4 363,7	5 227,8	4 804,1	4 962,9	4 611,0	5 337,7
Other debt liabilities	43,2	128,4	281,7	404,9	485,7	350,4	347,4	313,8
<i>Long-term</i>	3 587,5	5 516,6	4 576,2	4 467,5	3 577,2	2 531,8	2 438,1	2 656,3
Bonds and notes	193,0	268,0	444,1	304,5	287,3	294,3	405,8	548,2
Loans	1 650,0	2 631,0	2 478,4	3 208,9	2 530,6	1 771,7	1 424,1	1 750,2
Currency and deposits	1 744,5	2 617,6	1 653,7	954,1	759,3	465,8	602,0	357,9
Other debt liabilities							6,2	
IV. Other sectors	7 155,3	9 198,1	9 047,8	9 474,3	8 807,4	8 935,8	9 766,3	11 459,4
<i>Short-term</i>	1 974,7	2 008,1	1 666,8	1 968,5	1 494,7	1 946,0	2 529,2	2 761,5
Money market instruments		170,1	111,6	37,1	32,1	3,5		
Loans	190,5	323,3	128,5	316,6	75,7	219,8	1 001,7	725,7
Currency and deposits								
Trade credits	1 784,2	1 514,7	1 426,7	1 614,8	1 386,9	1 722,7	1 527,5	2 035,8
Other debt liabilities								
<i>Long-term</i>	5 180,6	7 190,0	7 381,0	7 505,8	7 312,7	6 989,8	7 237,1	8 697,9
Bonds and notes	156,1	415,8	359,2	521,2	649,0	435,6	361,7	538,6
Loans	4 051,4	6 176,0	6 451,9	6 063,2	5 757,6	5 887,4	6 267,5	7 585,3
Currency and deposits								
Trade credits	973,1	598,2	569,9	921,4	906,1	666,8	607,9	574,0
Other debt liabilities								
V. Direct investment: Intercompany lending	0,0	0,0	1 014,7	2 155,4	2 588,3	3 072,9	3 993,4	4 663,8
Debt liabilities to affiliated enterprises								
Debt liabilities to direct investors			1 014,7	2 155,4	2 588,3	3 072,9	3 993,4	4 663,8
Gross External Debt	17 190,3	21 180,5	21 616,5	24 348,4	22 860,6	21 608,3	22 374,0	26 280,8

1) revised data

2) preliminary data

**CZECH REPUBLIC: Amortisation schedule of medium and long-term debt in convertible currencies
outstanding at 31 December 2002**

Annex 10

		(in CZK millions)									
		External debt at 31.12.2002	2003	2004	2005	2006	2007	2008	2009	2010	2011-27
BY CREDITOR:	principal	470 599	90 319	76 278	70 149	50 568	37 888	34 325	45 686	17 390	47 996
	interest		17 924	15 671	12 342	9 407	7 343	5 577	4 186	1 987	3 412
Foreign banks	principal	223 329	41 188	39 715	36 189	29 426	24 844	15 957	12 583	9 010	14 417
	interest		8 938	7 202	5 478	3 984	2 726	1 760	1 135	657	276
Governments	principal	1 747	437	67	43	18					
	interest		92	67	43	18					
Multilateral institutions	principal	69 895	13 536	9 490	9 221	6 624	5 455	3 999	5 188	2 823	13 559
	interest		2 236	1 771	1 376	1 020	745	539	409	280	770
Suppliers and direct investors	principal	97 855	30 978	20 782	14 273	11 683	6 444	4 833	2 417	4 833	1 612
	interest *		3 224	2 372	1 408	1 167	778	519	352	185	37
Other investors	principal	77 773	4 180	5 854	10 029	2 399	1 145	9 536	25 498	724	18 408
	interest		3 434	4 259	4 037	3 218	3 094	2 759	2 290	865	2 329
BY DEBTOR:	principal	470 599	90 319	76 278	70 149	50 568	37 888	34 325	45 686	17 390	47 996
	interest		17 924	15 671	12 342	9 407	7 343	5 577	4 186	1 987	3 412
CNB	principal	114	20	20	20	20	14				
	interest		8	6	4	3	2	0			
Commercial banks	principal	80 064	10 682	10 567	8 701	2 853	2 814	10 809	17 258	2 623	13 757
	interest		2 221	2 281	2 046	1 764	1 742	1 390	858	110	159
Government	principal	47 701	4 421	4 678	3 303	3 527	666	91	13 916	820	16 279
	interest		1 703	2 056	1 796	1 575	1 387	1 359	1 357	628	1 947
Other sectors	principal	342 720	75 196	61 013	58 125	44 168	34 388	23 411	14 512	13 947	17 960
	interest		13 992	11 328	8 496	6 065	4 212	2 828	1 971	1 249	1 306
TOTAL	principal	470 599	90 319	76 278	70 149	50 568	37 888	34 325	45 686	17 390	47 996
	interest		17 924	15 671	12 342	9 407	7 343	5 577	4 186	1 987	3 412
TOTAL DEBT SERVICE			108 243	91 949	82 491	59 975	45 231	39 902	49 872	19 377	51 408

* Interest is included in the repayments of principal.

**CZECH REPUBLIC: Amortisation schedule of medium and long-term debt in convertible currencies
outstanding at 31 December 2002**

		(in USD millions)									
		External debt at 31.12.2002	2003	2004	2005	2006	2007	2008	2009	2010	2011-27
BY CREDITOR:	principal	15 613	2 997	2 531	2 328	1 679	1 256	1 137	1 516	577	1 592
	interest		595	520	410	313	244	185	140	66	113
Foreign banks	principal	7 409	1 367	1 318	1 201	976	824	529	417	299	478
	interest		297	239	182	132	90	58	38	22	9
Governments	principal	58	14	15	14	15					
	interest		3	2	1	1					
Multilateral institutions	principal	2 319	449	315	306	220	180	133	172	94	450
	interest		74	59	46	34	25	18	14	9	26
Suppliers and direct investors	principal	3 247	1 028	689	474	388	214	160	81	160	53
	interest *		107	79	47	39	26	17	12	6	1
Other investors	principal	2 580	139	194	333	80	38	315	846	24	611
	interest		114	141	134	107	103	92	76	29	77
BY DEBTOR:	principal	15 613	2 997	2 531	2 328	1 679	1 256	1 137	1 516	577	1 592
	interest		595	520	410	313	244	185	140	66	113
CNB	principal	4	1	1	1	1					
	interest										
Commercial banks	principal	2 656	354	351	289	95	93	358	573	87	456
	interest		74	76	68	59	58	46	30	4	5
Government	principal	1 583	147	155	110	117	22	3	462	27	540
	interest		57	68	60	52	46	45	45	21	65
Other sectors	principal	11 370	2 495	2 024	1 928	1 466	1 141	776	481	463	596
	interest		464	376	282	202	140	94	65	41	43
TOTAL	principal	15 613	2 997	2 531	2 328	1 679	1 256	1 137	1 516	577	1 592
	interest		595	520	410	313	244	185	140	66	113
TOTAL DEBT SERVICE			3 592	3 051	2 738	1 992	1 500	1 322	1 656	643	1 705

* Interest is included in the repayments of principal.

**CZECH REPUBLIC: Amortisation schedule of medium and long-term debt in convertible currencies
outstanding at 31 December 2002**

		(in EUR millions)									
		External debt at 31.12.2002	2003	2004	2005	2006	2007	2008	2009	2010	2011-27
BY CREDITOR:	principal	14 892	2 857	2 414	2 220	1 601	1 199	1 087	1 445	550	1 519
	interest		568	496	391	298	233	176	132	63	108
Foreign banks	principal	7 067	1 303	1 257	1 145	932	786	505	398	285	456
	interest		283	228	173	126	86	56	36	21	9
Governments	principal	55	14	14	14	13					
	interest		3	2	1	1					
Multilateral institutions	principal	2 212	428	300	292	210	173	127	164	89	429
	interest		71	56	44	32	24	17	13	9	24
Suppliers and direct investors	principal	3 097	980	658	452	370	204	153	76	153	51
	interest *		102	75	45	37	25	16	11	6	1
Other investors	principal	2 461	132	185	317	76	36	302	807	23	583
	interest		109	135	128	102	98	87	72	27	74
BY DEBTOR:	principal	14 892	2 857	2 414	2 220	1 601	1 199	1 087	1 445	550	1 519
	interest		568	496	391	298	233	176	132	63	108
CNB	principal	4	1	1	1	1					
	interest		0	0	0	0					
Commercial banks	principal	2 534	338	334	275	90	90	343	546	83	435
	interest		71	72	65	56	56	44	27	3	5
Government	principal	1 509	139	148	105	112	21	3	440	26	515
	interest		54	65	57	50	44	43	43	20	62
Other sectors	principal	10 845	2 379	1 931	1 839	1 398	1 088	741	459	441	569
	interest		443	359	269	192	133	89	62	40	41
TOTAL	principal	14 892	2 857	2 414	2 220	1 601	1 199	1 087	1 445	550	1 519
	interest		568	496	391	298	233	176	132	63	108
TOTAL DEBT SERVICE			3 425	2 910	2 611	1 899	1 432	1 263	1 577	613	1 627

* Interest is included in the repayments of principal.

Foreign Direct Investment Outward Flows

broken down by country

Outward flows in 2002				
<i>Eurostat/OECD Code</i>	<i>Geographical and economic zones</i>	<i>Total in CZK millions</i>	<i>Total in USD thousands</i>	<i>Total in EUR thousands</i>
E1	EUROPE	5 237,9	160 034,9	170 007,9
D2	EU-15	277,0	8 462,8	8 990,2
	of which:			
DE	Germany	4,1	126,2	134,1
ES	Spain	3,4	105,4	111,9
IE	Ireland	33,1	1 010,9	1 073,9
IT	Italy	0,5	14,8	15,8
NL	Netherlands	42,9	1 310,0	1 391,7
AT	Austria	14,0	428,3	455,0
FI	Finland	91,7	2 802,0	2 976,6
GB	United Kingdom	87,2	2 665,2	2 831,3
A5	EFTA	-338,0	-10 327,0	-10 970,5
	of which:			
CH	Switzerland	-338,0	-10 327,0	-10 970,5
E2	OTHER EUROPEAN COUNTRIES	5 299,0	161 899,1	171 988,2
	of which:			
BG	Bulgaria	-6,2	-188,7	-200,5
BY	Belarus	1,8	54,9	58,3
CY	Cyprus	0,1	3,3	3,5
HR	Croatia	6,9	209,8	222,8
HU	Hungary	24,6	750,5	797,3
PL	Poland	-10,2	-311,5	-330,9
RO	Romania	-0,9	-26,4	-28,0
RU	Russia	15,9	486,2	516,4
SI	Slovenia	2 142,3	65 455,2	69 534,2
SK	Slovakia	3 102,5	94 790,6	100 697,7
UA	Ukraine	22,1	675,2	717,2
E4	AFRICA	1,1	34,0	36,1
	of which:			
DZ	Algeria	1,0	29,4	31,2
SL	Sierra Leone	0,2	4,6	4,9
E7	AMERICA	1 513,4	46 240,1	49 121,6
E8	NORTH AMERICA	437,3	13 362,3	14 195,0
	of which:			
CA	Canada	49,3	1 504,9	1 598,7
US	USA	388,1	11 857,3	12 596,3
E9	CENTRAL AMERICA	1 077,2	32 910,7	34 961,6
	of which:			
CR	Costa Rica	-18,5	-566,1	-601,4
VG	British Virgin Islands	1 095,7	33 476,8	35 563,0
F1	SOUTH AMERICA	-1,1	-32,9	-34,9
	of which:			
BR	Brazil	-1,1	-32,9	-34,9
F2	ASIA	40,8	1 247,5	1 325,3
F3	NEAR AND MIDDLE EAST	0,2	4,6	4,9
	of which:			
AZ	Azerbaijan	0,2	4,6	4,9
F6	OTHER ASIAN COUNTRIES	40,7	1 242,9	1 320,4
	of which:			
CN	China	7,8	237,2	252,0
KZ	Kazakhstan	32,7	1 000,1	1 062,5
MN	Mongolia	0,2	5,6	5,9
F7	OCEANIA AND POLAR REGIONS	47,2	1 442,7	1 532,6
	of which:			
AU	Australia	47,2	1 442,7	1 532,6
A1	Total	6 840,5	208 999,2	222 023,5
U2	EUROZONE	189,8	5 797,6	6 158,9
A8	OECD	3 540,4	108 170,5	114 911,4
B1	NAFTA	437,3	13 362,3	14 195,0

* – preliminary data

Foreign Direct Investment Outward Flows

Annex 11/2
broken down by economic activity

Outward flows in 2002					
Eurostat/OECD Code	sectors	Total in CZK millions	Total in USD thousands	Total in EUR thousands	NACE
595	AGRICULTURE, HUNTING AND FISHING	4,1	123,8	131,5	1 - 5
1495	MINING AND QUARRYING	0,3	10,3	11,0	10 - 14
3995	MANUFACTURING	584,6	17 861,9	18 975,0	15 - 37
	of which:				
1605	Food products, beverages and tobacco products	141,2	4 314,6	4 583,5	15 - 16
1805	Textiles, wearing apparel	12,5	380,8	404,5	17 - 18
1900	Tanning and dressing of leather; manufacture of luggage, handbags and footwear	0,0	0,0	0,0	19
2205	Wood, publishing and printing	6,7	205,5	218,3	20 - 22
2300	Refined petroleum products, coke and nuclear fuel	2,0	61,0	64,8	23
2400	Chemicals and chemical products	0,8	25,9	27,5	24
2500	Rubber and plastic products	5,6	172,2	183,0	25
2600	Other non-metallic mineral products	690,0	21 082,7	22 396,5	26
2805	Metal products	26,6	813,2	863,9	27 - 28
2900	Mechanical products	55,8	1 705,2	1 811,5	29
3000	Office machinery and computers	0,1	3,8	4,0	30
3100	Electrical machinery and apparatus n.e.c.	-364,0	-11 122,3	-11 815,4	31
3200	Radio, television and communication equipment and apparatus	0,0	0,0	0,0	32
3300	Medical, precision and optical instruments and equipment	0,0	0,0	0,0	33
3400	Motor vehicles	0,9	27,8	29,5	34
3500	Other transport equipment	0,0	0,0	0,0	35
3600	Furniture; manufacturing n.e.c.	6,3	191,5	203,5	36
3700	Recycling	0,0	0,0	0,0	37
4195	ELECTRICITY, GAS AND WATER SUPPLY	88,2	2 694,0	2 861,8	40 - 41
4500	CONSTRUCTION	8,0	245,1	260,4	45
5295	WHOLESALE AND RETAIL TRADE; REPAIRS	826,7	25 259,7	26 833,8	50 - 52
5500	HOTELS AND RESTAURANTS	4,3	129,9	138,0	55
6495	TRANSPORT AND COMMUNICATION	4,8	147,0	156,2	60 - 64
6895	FINANCIAL INTERMEDIATION AND INSURANCE	2 799,5	85 534,7	90 865,0	65 - 67
7395	REAL ESTATE AND OTHER BUSINESS ACTIVITIES	1 757,2	53 688,6	57 034,3	70 - 74
9995	OTHER SERVICES	762,8	23 304,3	24 756,6	75 - 99
9999	TOTAL	6 840,5	208 999,2	222 023,5	

* - preliminary data

Foreign Direct Investment Inward Flows

Annex 11/3,4

broken down by country

Inward flows in 2002				
<i>Eurostat/OECD Code</i>	<i>Geographical and economic zones</i>	<i>Total in CZK millions</i>	<i>Total in USD thousands</i>	<i>Total in EUR thousands</i>
E1	EUROPE	263 878,5	8 062 282,5	8 564 703,2
D2	EU-15	253 816,8	7 754 867,3	8 238 130,7
	of which:			
BE	Belgium	8 211,5	250 885,8	266 520,4
LU	Luxembourg	3 583,3	109 481,5	116 304,1
DK	Denmark	1 449,1	44 275,1	47 034,2
DE	Germany	155 554,1	4 752 646,3	5 048 819,0
GR	Greece	237,0	7 241,1	7 692,3
ES	Spain	357,8	10 932,7	11 614,0
FR	France	11 004,6	336 225,1	357 177,8
IE	Ireland	131,0	4 001,8	4 251,2
IT	Italy	3 021,3	92 309,4	98 061,9
NL	Netherlands	31 112,6	950 583,0	1 009 820,9
AT	Austria	26 596,8	812 610,9	863 250,7
PT	Portugal	455,7	13 922,8	14 790,4
FI	Finland	682,4	20 848,0	22 147,2
SE	Sweden	2 482,1	75 834,2	80 560,0
GB	United Kingdom	8 937,6	273 069,6	290 086,6
A5	EFTA	-2 151,1	-65 723,7	-69 819,4
	of which:			
CH	Switzerland	-3 471,2	-106 054,9	-112 664,0
IS	Iceland	0,2	6,1	6,5
LI	Liechtenstein	889,0	27 162,6	28 855,3
NO	Norway	430,8	13 162,6	13 982,9
E2	OTHER EUROPEAN COUNTRIES	12 212,8	373 138,9	396 391,9
	of which:			
AD	Andorra	1,6	48,9	51,9
BA	Bosnia and Herzegovina	0,9	28,1	29,9
BG	Bulgaria	6,3	192,4	204,4
BY	Belarus	7,6	233,7	248,2
CY	Cyprus	5 216,6	159 383,3	169 315,7
GG	Guernsey	124,0	3 789,9	4 026,0
GI	Gibraltar	9,9	301,6	320,4
HR	Croatia	-0,5	-16,0	-17,0
HU	Hungary	771,0	23 556,8	25 024,8
IM	Isle of Man	38,4	1 172,6	1 245,7
JE	Jersey	-43,7	-1 334,5	-1 417,6
LT	Lithuania	0,4	11,0	11,7
MD	Moldova	1,1	34,8	37,0
MT	Malta	115,7	3 533,5	3 753,7
PL	Poland	81,1	2 478,5	2 632,9
RO	Romania	2,9	88,5	94,0
RU	Russia	67,2	2 053,6	2 181,6
SI	Slovenia	-5,8	-177,9	-189,0
SK	Slovakia	5 136,6	156 939,9	166 719,9
SM	San Marino	-0,5	-16,2	-17,2
TR	Turkey	0,2	5,8	6,2
UA	Ukraine	659,3	20 144,8	21 400,2
YU	Yugoslavia	22,4	685,9	728,6
E4	AFRICA			
	of which:			
SC	Seychelles	12,5	382,6	406,4

Inward flows in 2002				
<i>Eurostat/OECD Code</i>	<i>Geographical and economic zones</i>	<i>Total in CZK millions</i>	<i>Total in USD thousands</i>	<i>Total in EUR thousands</i>
E7	AMERICA	7 427,1	226 921,4	241 062,6
E8	NORTH AMERICA	4 644,4	141 899,5	150 742,3
	of which:			
CA	Canada	95,1	2 904,9	3 086,0
US	USA	4 549,3	138 994,5	147 656,3
E9	CENTRAL AMERICA	2 762,6	84 406,0	89 666,0
	of which:			
AN	Netherlands Antilles	36,7	1 122,1	1 192,0
CR	Costa Rica	71,0	2 168,4	2 303,5
DO	Dominican Republic	0,6	19,3	20,5
KY	Cayman Islands	273,0	8 342,3	8 862,1
MX	Mexico	29,5	900,1	956,2
PA	Panama	6,6	202,5	215,1
VC	St Vincent and the Grenadines	0,5	13,7	14,6
VG	Virgin Islands	2 344,7	71 637,7	76 102,0
F1	SOUTH AMERICA	20,2	615,9	654,3
	of which:			
BO	Bolivia	0,2	4,9	5,2
SR	Suriname	20,0	611,1	649,1
F2	ASIA	4 819,6	147 253,2	156 429,6
F3	NEAR AND MIDDLE EAST	22,1	676,2	718,3
	of which:			
AE	United Arab Emirates	2,8	86,2	91,6
AZ	Azerbaijan	-1,9	-57,4	-60,9
GE	Georgia	11,1	339,1	360,2
IL	Israel	7,8	237,0	251,8
IR	Iran	0,3	10,4	11,0
JO	Jordan	0,2	4,6	4,9
LB	Lebanon	0,6	19,6	20,9
SA	Saudi Arabia	1,2	36,7	38,9
F6	OTHER ASIAN COUTRIES	4 797,5	146 577,0	155 711,3
	of which:			
CN	China	1,3	39,0	41,4
HK	Hong Kong	-35,8	-1 092,9	-1 161,0
IN	India	3,6	110,3	117,2
JP	Japan	4 397,5	134 355,9	142 728,6
KG	Kyrgyzstan	0,2	6,1	6,5
KZ	Kazakhstan	279,2	8 529,8	9 061,4
MY	Malaysia	44,6	1 363,0	1 448,0
PK	Pakistan	0,6	18,3	19,5
SG	Singapore	101,6	3 104,8	3 298,3
VN	Vietnam	4,7	142,7	151,6
F7	OCEANIA AND POLAR REGIONS	-2,7	-81,6	-86,7
	of which:			
NU	Niue	8,1	246,0	261,3
AU	Australia	-10,6	-324,0	-344,2
WS	Samoa	-0,1	-3,5	-3,8
A1	Total	276 135,1	8 436 758,1	8 962 515,2
U2	EUROZONE	240 948,1	7 361 688,4	7 820 449,9
A8	OECD	265 826,3	8 121 793,5	8 627 922,7
B1	NAFTA	4 673,8	142 799,6	151 698,5

/ * - preliminary data

Foreign Direct Investment Inward Flows

Annex 11/5
broken down by economic activity

Inward flows in 2002					
Eurostat/OECD Code	sectors	Total in CZK millions	Total in USD thousands	Total in EUR thousands	NACE
595	AGRICULTURE, HUNTING AND FISHING	242,9	7 421,6	7 884,1	1 - 5
1495	MINING AND QUARRYING	-7 561,2	-231 016,8	-245 413,2	10 - 14
3995	MANUFACTURING	56 121,5	1 714 681,1	1 821 535,7	15 - 37
	of which:				
1605	Food products, beverages and tobacco products	6 757,1	206 448,3	219 313,7	15 - 16
1805	Textiles, wearing apparel	2 105,7	64 335,6	68 344,8	17 - 18
1900	Tanning and dressing of leather; manufacture of luggage, handbags and footwear	214,4	6 551,7	6 960,0	19
2205	Wood, publishing and printing	4 462,9	136 356,1	144 853,5	20 - 22
2300	Refined petroleum products, coke and nuclear fuel	1 885,4	57 604,4	61 194,2	23
2400	Chemicals and chemical products	3 284,3	100 344,8	106 598,0	24
2500	Rubber and plastic products	3 084,3	94 233,9	100 106,3	25
2600	Other non-metallic mineral products	3 369,2	102 938,0	109 352,9	26
2805	Metal products	8 604,4	262 890,3	279 273,0	27 - 28
2900	Mechanical products	5 089,8	155 508,1	165 199,0	29
3000	Office machinery and computers	-124,3	-3 796,7	-4 033,3	30
3100	Electrical machinery and apparatus n.e.c.	5 072,6	154 981,9	164 640,0	31
3200	Radio, television and communication equipment and apparatus	777,8	23 763,1	25 243,9	32
3300	Medical, precision and optical instruments and equipment	937,4	28 639,8	30 424,5	33
3400	Motor vehicles	8 644,9	264 128,5	280 588,3	34
3500	Other transport equipment	509,1	15 554,6	16 523,9	35
3600	Furniture; manufacturing n.e.c.	1 417,9	43 320,9	46 020,5	36
3700	Recycling	28,7	877,7	932,4	37
4195	ELECTRICITY, GAS AND WATER SUPPLY	11 551,1	352 922,0	374 915,2	40 - 41
4500	CONSTRUCTION	5 471,3	167 163,2	177 580,4	45
5295	WHOLESALE AND RETAIL TRADE; REPAIRS	13 781,6	421 069,7	447 309,6	50 - 52
5500	HOTELS AND RESTAURANTS	732,2	22 370,0	23 764,1	55
6495	TRANSPORT AND COMMUNICATION	135 187,6	4 130 389,1	4 387 784,3	60 - 64
6895	FINANCIAL INTERMEDIATION AND INSURANCE	40 666,0	1 242 470,2	1 319 897,7	65 - 67
7395	REAL ESTATE AND OTHER BUSINESS ACTIVITIES	18 883,0	576 932,1	612 885,0	70 - 74
9995	OTHER SERVICES	1 059,0	32 355,9	34 372,2	75 - 99
9999	TOTAL	276 135,1	8 436 758,1	8 962 515,2	

* – preliminary data

NON-RESIDENTS' PORTFOLIO INVESTMENT IN KORUNA INSTRUMENTS

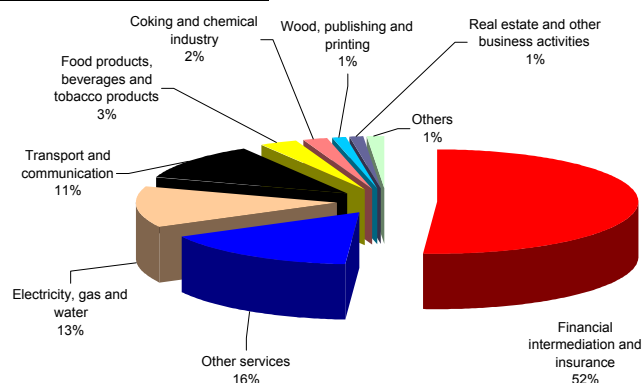
by economic activity, territory and type of instrument as of 31 December 2002

in CZK billions

ECONOMIC ACTIVITY	Market value	TERRITORY	Market value	INSTRUMENT TYPE	Market value
Financial intermediation and insurance	87,7	Austria	36,5	Shares	128,1
Other services	27,4	Netherlands	28,2	Bonds	15,3
Electricity, gas and water	22,1	United Kingdom	26,6	Government bonds	28,1
Transport and communication	19,4	USA	21,5		
Food products, beverages and tobacco products	5,3	Germany	16,1		
Coking and chemical industry	3,2	Luxembourg	15,6		
Wood, publishing and printing	2,2	Switzerland	8,3		
Real estate and other business activities	2,0	Ireland	8,0		
Others	2,1	Others	10,7		
TOTAL	171,5	TOTAL	171,5	TOTAL	171,5

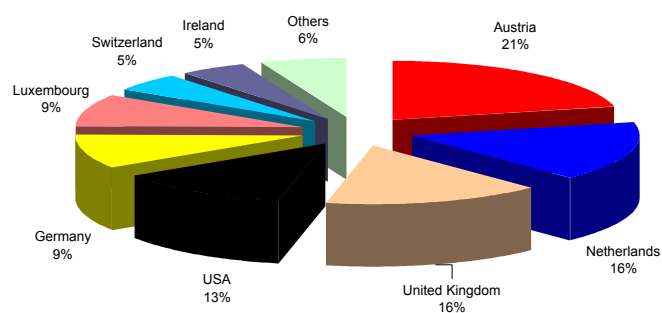
NON-RESIDENTS' PORTFOLIO INVESTMENT IN KORUNA INSTRUMENTS

economic activity



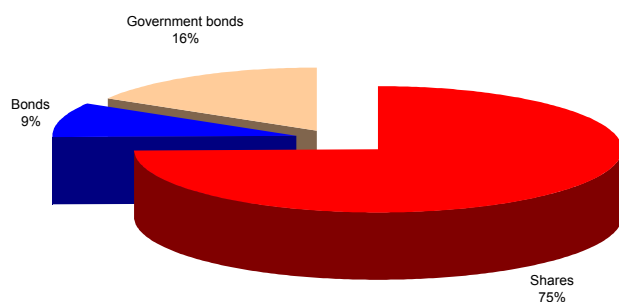
NON-RESIDENTS' PORTFOLIO INVESTMENT IN KORUNA INSTRUMENTS

territory



NON-RESIDENTS' PORTFOLIO INVESTMENT IN KORUNA INSTRUMENTS

instrument type



RESIDENTS' PORTFOLIO INVESTMENT ABROAD AS OF 31 DECEMBER 2002
by territory and type of security

Eurostat/OECD Code	Geographical and Economic Zones	in CZK millions			
		Equity securities	Long-term securities	Short-term securities	Total
E1	EUROPE	40 023,9	140 791,9	8 032,7	188 848,5
D2	EU-15	37 097,0	112 100,8	7 945,9	157 143,7
	of which:				
AT	Austria	3 189,3	9 656,8	30,4	12 876,5
BE	Belgium	10 465,4	64,4		10 529,8
DE	Germany	3 046,4	18 649,5	6 525,1	28 221,0
DK	Denmark	1,2	120,6		121,8
ES	Spain	95,1	4 867,5		4 962,6
FI	Finland	133,5	56,6		190,1
FR	France	1 739,5	4 321,1		6 060,6
GB	United Kingdom	884,0	9 303,2	49,6	10 236,8
GR	Greece	5,5	1,1		6,6
IE	Ireland	489,7	2 814,1	5,8	3 309,6
IT	Italy	253,4	5 108,0		5 361,4
LU	Luxembourg	15 828,3	4 112,8		19 941,1
NL	Netherlands	406,2	31 680,2	1 335,0	33 421,4
PT	Portugal	16,3	1 002,2		1 018,5
SE	Sweden	41,5	2 174,7		2 216,2
	International organisations	501,7	18 168,0		18 669,7
A5	EFTA	339,2	1 575,0	30,1	1 944,3
	of which:				
IS	Iceland		1 031,5		1 031,5
CH	Switzerland	334,5	18,6		353,1
LI	Lichtenstein	2,4			2,4
NO	Norway	2,3	524,9	30,1	557,3
E2	OTHER EUROPEAN COUNTRIES	2 587,7	27 116,1	56,7	29 760,5
	of which:				
CY	Cyprus		443,0		443,0
HR	Croatia		183,6		183,6
HU	Hungary	392,3	5 147,6	46,4	5 586,3
IM	Isle of Man		41,6		41,6
PL	Poland	219,3	5 698,6		5 917,9
RU	Russia	5,0	13,0		18,0
SI	Slovenia		1 080,7		1 080,7
SK	Slovakia	1 949,2	14 343,1	10,3	16 302,6
TR	Turkey		164,9		164,9
UA	Ukraine	21,9			21,9
E7	AMERICA	46 407,7	35 960,5	22,3	82 390,5
E8	NORTH AMERICA	3 282,2	24 723,1	22,3	28 027,6
	of which:				
CA	Canada	27,5	891,3		918,8
US	USA	3 254,7	23 831,8	22,3	27 108,8
E9	CENTRAL AMERICA	43 125,3	11 234,1	0,0	54 359,4
	of which:				
AN	Netherlands Antilles		300,4		300,4
BM	Bermuda	205,9	4,5		210,4
KY	Cayman Islands	42 919,4	10 530,6		53 450,0
MX	Mexico		398,6		398,6
F1	SOUTH AMERICA	0,2	3,3	0,0	3,5
	of which:				
BR	Brazil	0,2	3,3		3,5
F2	ASIA	32,4	1 685,9	2,3	1 720,6
	of which:				
CN	China	0,1			0,1
HK	Hong Kong	2,0			2,0
IL	Israel	0,2			0,2
IR	Iran	3,0			3,0
JP	Japan	7,2		2,3	9,5
KR	Korea	0,6			0,6
KZ	Kazakhstan	1,0	1 685,9		1 686,9
SG	Singapore	1,8			1,8
TH	Thailand	16,5			16,5
F7	AUSTRALIA AND OCEANIA	0,7	1 305,0	79,4	1 385,1
	of which:				
AU	Australia	0,7	1 305,0	79,4	1 385,1
A1	Total	86 464,7	179 743,3	8 136,7	274 344,7

* - provisional data