INFLATION REPORT

APRIL 1998

CNB CZECH
NATIONAL BANK

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I. INTRODUCTION

In December 1997, the CNB Board decided to change the monetary policy strategy, and from the beginning of 1998, it switched over to inflation targeting. Within this new framework, the Board announced two targets expressed by the newly introduced term *net inflation*. The achievement of net inflation within 3.5 - 5.5% by the end of 2000 is the key medium-term target, the interval of 5.5 - 6.5% set for the end of 1998 being a short-term "control" target.

The introduction of a new monetary policy strategy does not imply a change in its target as such, but only the way the monetary policy is implemented. By law, the central bank was entrusted to establish the credibility of the currency and to ensure its stability already at the very beginning of economic transformation. The considerable independence that the central bank was given at that time, corresponded to contemporary world trends, and it was a signal that there was an urgent need to found an institution which in the process of formulating macroeconomic policies would be able to effectively ensure a stable currency. Current economic experience provides evidence that monetary policy can significantly influence prices only, rather than employment and/or economic growth in the long run. Nevertheless, it is generally agreed that a stable price level supports productivity growth and stimulates productive investment, i.e. key factors which indirectly foster long-term growth of per capita output.

Though the introduction of inflation targeting has not been accompanied by a change in the ultimate monetary policy target, this decision witnesses the CNB's growing efforts to continue the disinflation process in the Czech economic environment. Direct inflation targeting was introduced in 1998 for three reasons. Turbulence on the foreign exchange market in May 1997 and the subsequent changeover to managed floating implied a loss of the nominal anchor which was one of the cornerstones of economic transformation from its very beginning. The fixed exchange rate helped stabilise import prices which had a positive impact on overall price stability due to the extensive openness of the economy. The second reason is inertia of inflation development in the economy. Though in the past few years, the inflation rate had been successfully stabilised at around 10% and sometimes even slightly lower, greater progress seemed difficult to achieve due, among others, to generally unchanged inflation expectations. This adverse experience was amplified not only by substantial depreciation of the koruna in 1997, but also by the potential for high inflation which is still hidden in the significant change of regulated prices expected in July. Thirdly, the CNB has chosen a strategy that would make convergence of domestic inflation with EU inflation smoother.

One of the main features of the inflation targeting strategy is its transparency. In the regimes of exchange rate targeting and monetary targeting, inflation targets are usually implicit. Moreover, the speed and timing of the disinflation process are not specified precisely in these regimes. In the inflation targeting regime, the central bank, through its inflation report, openly announces its disinflation intentions and acquaints the public as much as possible with the implementation of its policy. In this way, the bank actually forms inflation expectations and thus, future inflation. The transparency of inflation targeting implies that the decision-making process is well understood by the public and that monetary policy is more predictable. Predictability of the central bank's behaviour, along with its credibility achieved on the basis of past experience, will enable participants of economic processes to cut down on transaction costs and to reduce the impact of erroneous expectations.

The CNB is aware that the inflation target becomes more effective as the co-ordination of economic policies improves. However, the CNB would defend its inflation target even under less favourable conditions. Specifically, in the case of deviation of fiscal or wage policy from the expected trends of external shock that would be evaluated as disrupting the disinflation process, the bank would adopt monetary measures to compensate for inflationary impulses. Consequently, the new policy mix would be effective in terms of the inflation target, but it could be more costly in terms of economic growth, dynamics and the level of employment in the short run due to additional monetary restriction. The predictable feature of monetary policy, i.e. to react automatically to additional inflationary impulses, is expected to have disciplining effects on other economic policies. The deepening imbalances in the Czech economy, peaking in 1997, witnessed clearly what consequences an inadequate policy mix

could have and what adverse impact increased volatility of the fundamental economic variables such as interest rates and /or exchange rate has.

The medium-term basis of this strategy and the use of conditioned inflation forecast are significant features of inflation targeting. The implementation of monetary instruments inevitably causes problems related to lags between monetary policy actions and the response of economic variables which monetary measures are targeted at. Therefore, it is important to adequately formulate the inflation target for the medium run. This enables the bank to react with monetary instruments in order to correct the identified deviations of the inflation forecast from the target. Owing to this, the inflation target for 1998 has been implemented as a short-term "control" target. The degree of its fulfilment will verify whether short-term tendencies of monetary development are consistent with the CNB's medium-term target and whether the set of applied monetary instruments is appropriate.

The CNB inflation target was defined on the basis of *net inflation.* The net inflation index (CPIx) is derived from the overall consumer price index (CPI). A group of items (regulated prices, prices affected by administrative measures) is excluded. The remaining items adjusted for the influence of indirect tax changes make up the net inflation index. A description of the items excluded from the CPI is given in the annex of tables. For the needs of monetary decision-making, net inflation filters out the immediate impact of administrative measures connected to the incomplete transformation process on inflation development. In order to ensure that the information content is at a high level, the sub-indices of imported raw material and agricultural product prices were not excluded from the CPI when defining the net inflation index. At present, the net inflation index represents 82% of the overall price basket weight.

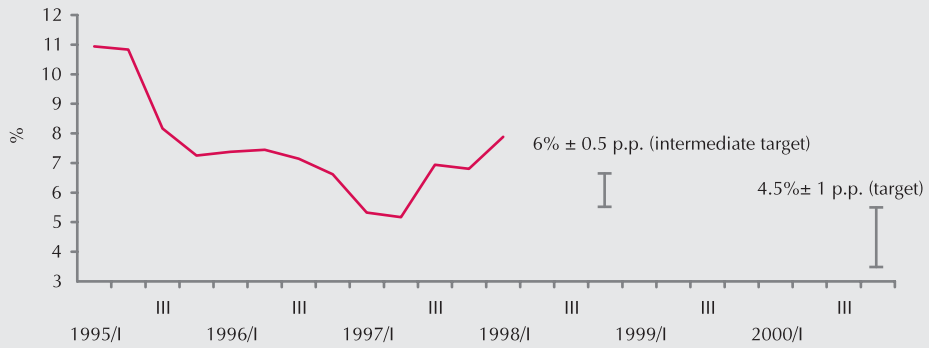
CPI inflation and net inflation will gradually converge in compliance with corrections in the segment of regulated prices. Hence, in the future, the inflation target will be specified in terms of the CPI.

Achieving both inflation targets will be a demanding task. However, the CNB designed the disinflation path carefully taking into consideration some limiting factors. Specifically, the inevitable convergence of domestic and foreign price levels will be an important factor. There are a lot of obstacles to overcome in the near future. Institutional rigidities, for example, limit the efficiency of monetary policy instruments. There is strong cost pressure from the segment of regulated prices on net inflation, and inflation expectations are rigid. Also, there is the continuous presence of political uncertainty. In spite of these obstacles, the CNB is dedicated to continuing the disinflation process.

II. INFLATION DEVELOPMENT

In 1995 - 1996, year-on-year inflation fluctuated between 8 - 10%. Price movements were mostly affected by the relatively low increase in regulated prices and by exchange rate stability. Net inflation[1/] gradually decreased compared to ca. 10% at the beginning of 1995, fluctuating between 6 - 7% in the second half of 1995 and in 1996, mostly owing to a favourable trend in food prices.

Chart II. 1. Year-on-year Net Inflation



In the first half of 1997, price development was favourable especially due to the appreciation of the koruna and less extensive changes in regulated prices. CPI inflation in May 1997 reached a three-year minimum (6.3%) and net inflation dropped to 4.6%. Inflation acceleration in the second half of 1997 was caused by turbulence on the foreign exchange market in May, subsequent koruna depreciation and the July increase in regulated prices. CPI inflation reached 10% in December 1997 and net inflation 6.8%.

In Q1 1998, CPI inflation continued to increase. At the end of March, CPI inflation was 13.4% and net inflation 7.9%. This acceleration was mainly generated by a substantial increase in some regulated prices and indirect taxes. In March, the share of these items in CPI inflation was 53%.

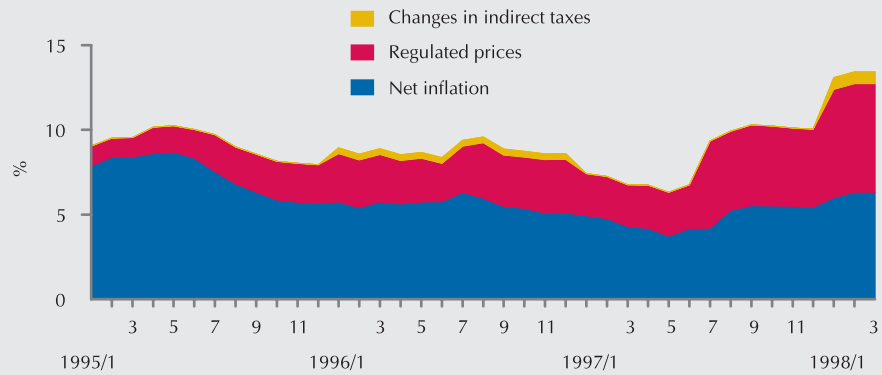
Tab. II. 1. Basic Data on Consumer Prices

INDICATOR	SITUATION											
	12/95		12/96		12/97		1/98		2/98		3/98	
CPI INFLATION (Y-O-Y)	7.9		8.6		10.0		13.1		13.4		13.4	
of which:		share		share		share		share		share		share
Regulated prices	10.2	(2.29)	13.8	(3.17)	22.7	(4.62)	30.8	(6.39)	30.9	(6.41)	31.0	(6.42)
Effects of indirect taxes in unregulated prices		(0.00)		(0.34)		(0.00)		(0.70)		(0.70)		(0.70)
Net inflation	7.3	(5.65)	6.6	(5.09)	6.8	(5.42)	7.5	(6.00)	7.9	(6.31)	7.9	(6.32)
of which:												
- food	5.4	(1.80)	6.8	(2.23)	5.6	(1.82)	6.0	(1.97)	6.8	(2.22)	7.2	(2.40)
- adjusted inflation	8.7	(3.85)	6.5	(2.86)	7.6	(3.60)	8.5	(4.03)	8.6	(4.09)	8.4	(3.92)
INFLATION RATE (annual moving average))	9.1		8.8		8.5		8.9		9.5		10.0	

Note: "Share" is the percentage of a given segment of total CPI inflation (in percentage points)

1/ The explanation of the term "net inflation" is given at the end of this chapter.

Chart II. 2. Structure of CPI Inflation (y-o-y)



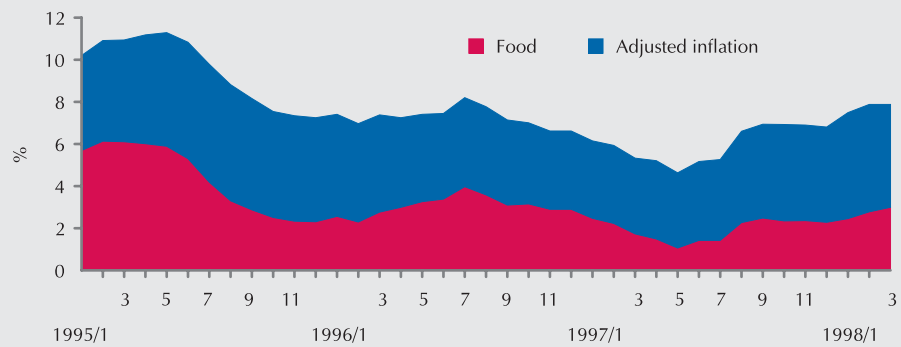
Net inflation

In Q1 1998, the pace of net inflation increased from 6.8% in December 1997 to 7.9% in March 1998. This acceleration was generated by food price growth (5.6% in Dec. 1997 and 6.8% in March 1998) as well as non-food products, i.e. adjusted inflation (from 7.6% in Dec. 1997 to 8.6% in March 1998).

The main reasons for the net inflation acceleration in Q1 1998 are the following:

- negative inflation expectations, fostered to a certain extent by some speculation on future inflation published in the media, internal political uncertainty in December 1997 and short-term depreciation of the koruna. All these factors were apparent prior to seasonal price changes in January and in some cases led to more significant price changes even though they were not always justified by cost increases;
- koruna depreciation in 1997;
- an increase in excise tax on fuels (agriculture, transportation).

Chart II.3. Structure of Net Inflation (y-o-y)



Regulated prices and administrative changes

Based on the decision of the previous Government and the approval of Parliament, the following changes were effected as of 1 January 1998:

- a VAT increase from 5% to 22% on electricity, gas and solid fuels (which led to price increases of 16.1% for electricity, 16.5% for gas and 19.7% for solid fuels),
- an excise tax increase on tobacco, alcohol and solid fuels (resulting in price increases of 5.6% for tobacco, 7.5% for alcohol and 5.1% for solid fuels),
- the elimination of school canteen subsidies (leading to a price increase of 19.2%),
- a substantial reduction in subsidies for heating for households, resulting in price growth of 19%,
- an increase in mandatory motor vehicle insurance by 59.4%.

Regulated prices approved at the level of local authorities also registered marked growth: particularly waste disposal (10.1% year-on-year), water and sewage (11.2%) and mass transportation (6.8%).

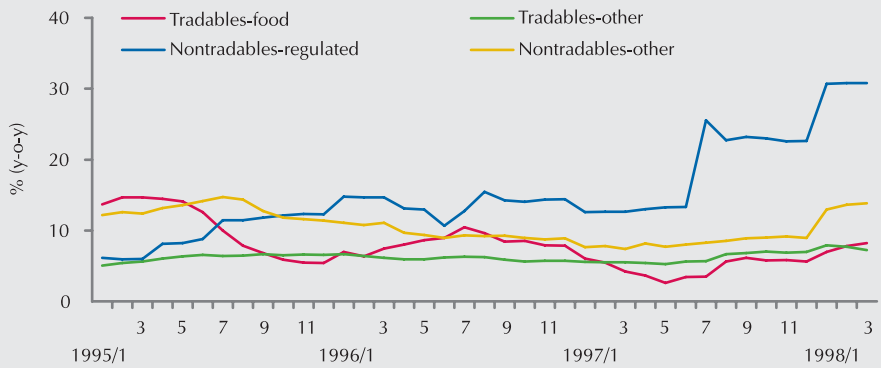
Prices of tradables and nontradables

While international competition and exchange rate movements contribute the most to the development of tradables prices, supply and demand on the domestic market and cost trends are decisive for nontradables price development.

In recent years, inflation in the tradables sector was substantially lower than that of nontradables. In mid 1997, due to koruna depreciation, inflation in the tradables sector gradually accelerated. Moreover, food prices were affected by the summer floods. In Q1 1998, inflation in the nontradables sector accelerated again (in the case of unregulated prices, particularly in services associated with culture and housing), but inflation in tradables - foodstuffs increased as well.

Chart II. 4. CPI Inflation

Breakdown into Tradables and Nontradables



Overall inflation - and the acceleration of inflation in the second half of 1997 in particular - was greatly affected by the changes in regulated prices which belong to the nontradables sector. Tradables registered, apart from the above acceleration of inflation due to exchange rate movements, some fluctuations connected to climatic conditions. The effects of the July floods were reflected in food price growth from the second half of 1997.

In Q1 1998, the prices of nontradables continued to grow more rapidly (by 23.6% as of the end of March) than those of tradables (7.7%). The rise in the prices of nontradables was mainly affected by increasing regulated prices, but marked growth of unregulated nontradables was also a significant factor indicating unfavourable inflation expectations.

Inflation[2/] of unregulated nontradables reached 13.8% as of the end of March (12.8% for services related to current maintenance and repairs of flats, 18.1% for services for households, 27.4% for rents in co-operative flats, 17.1% for maintenance and repairs of motor vehicles, 21.4% for cultural services, 20.7% for sport activities, 25.1% for school canteens and 40.6% for social services).

2/ i.e. year-on-year changes

Price Indices Used for the Evaluation of Inflation

The CPI consists of prices of selected consumer goods and services that account for a substantial portion of household consumption. The CPI is made up of the net inflation index and the index of regulated prices. At present, the CPI contains 754 items, the index of regulated prices, 91 items and the net inflation index, 663 items.) The sub-indices of tradables and nontradables prices are also used when analysing CPI inflation.

Net inflation

Net inflation represents the movements of unregulated prices (i.e. the CPI adjusted for regulated prices) further adjusted for the effect of indirect taxes or subsidy elimination. Within the net inflation index, there exist two important sub-indices whose trends are separately monitored due to different characteristics. The ***food price index*** is more variable and is subject to seasonal changes (e.g. weather factors and the impact of agricultural policies. The ***adjusted inflation index*** (i.e. the net inflation index adjusted for the food price index) has a stronger link to monetary measures of the central bank.

According to the CSO definition, net inflation is "calculated from an incomplete consumer basket, adjusted for items with regulated prices and items affected by other administrative measures. Items whose prices change due to tax adjustments remain part of the consumer basket (net inflation), but the effect of tax adjustments is eliminated".

Regulated prices

Regulated prices include maximum prices for which a ceiling can be set at the central as well as local levels, prices regulated on a cost-plus basis (items whose prices can only reflect economically justified costs and adequate profit) and administratively fixed fees. The selection of these items is based on the Price Bulletin of the Czech Ministry of Finance which publishes annually the list of goods with regulated prices.

The effect of indirect taxes, subsidy elimination

CPI adjustment for effects of indirect tax changes is carried out by all central banks which introduced the system of inflation targeting. In 1998, changes in indirect taxes on unregulated items apply to tobacco, alcohol and petroleum (excise tax increase) and coal and wood for heating (VAT increase); subsidy elimination applies to school canteens.

Tradables (consumer basket items)

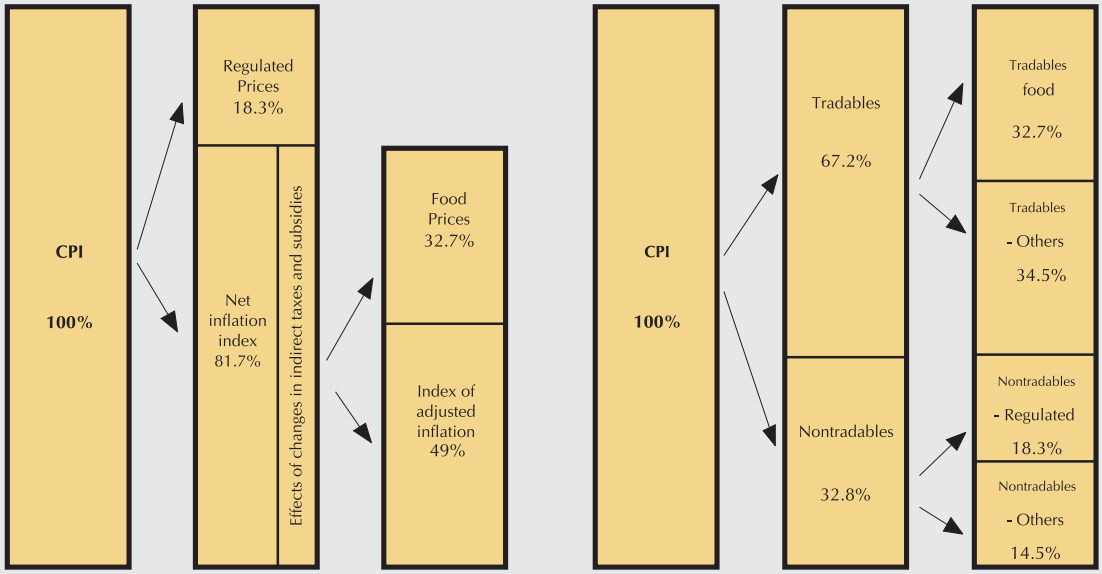
International competition and exchange rate movements are the main factors influencing the prices of tradables. This group includes those consumer basket items whose prices compete with prices of imported products. Tradables are further divided into tradable foodstuffs and other tradables.

Nontradables (consumer basket items)

This group includes those consumer basket items whose prices cannot be influenced by prices of imported products. Nontradables are further divided into regulated nontradables and other nontradables. Prices of regulated nontradables are influenced by state administration while prices of other nontradables are affected by supply and demand on the domestic market.

CPI Sub-indices Used for the Evaluation of Inflation

(breakdown by constant weights)



III. INFLATION FACTORS

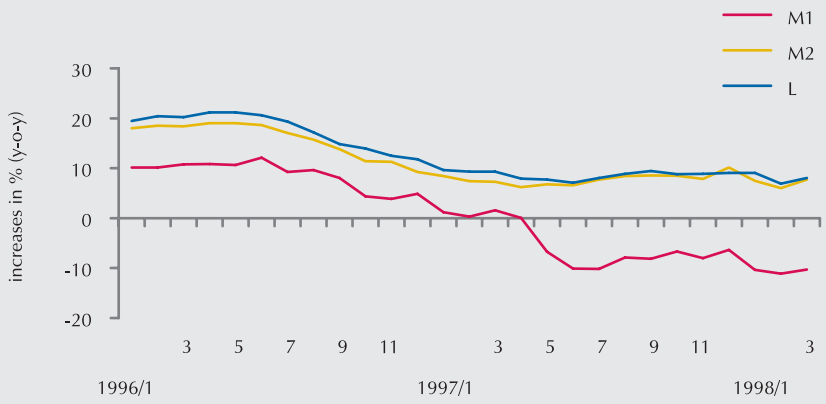
The important inflation factors consist of monetary aggregates, interest rates, exchange rate, supply and demand indicators, labour market and wage development indicators, producer price indices revealing cost inflationary pressures and various indicators relating to inflation expectations. A comprehensive assessment of all of these effects summarises the causes that had affected inflation in the past and shows inflation determinants in the future.

III. 1. Money, Interest Rates and Exchange Rates

III.1.1. Monetary Aggregates

From the second half of 1996, growth of the monetary aggregate M2 gradually declined from 19% to 7.7% in March 1998. Only at the end of 1997 did M2 growth increase by 2 percentage points to ca. 10%. This significant deviation from the gradual decline in M2 growth was attributable to the temporary sale of short-term securities by non-banking subjects to banks. In January, February and March 1998, growth rates of M2 again dropped to 7.5%, 6% and 7.7% respectively. Hence in the medium-term, money supply will act against demand and inflationary pressures.

Chart III. 1. Monetary Aggregates M1, M2 and L



Definition of Monetary Aggregates

M1 = currency + demand deposits
M2 = M1 + CZK time deposits + foreign currency deposits
L = M2 + T-bills + CNB bills + NPF bills in the portfolios of domestic non-banking subjects

Low increases in M2 are apparent also from seasonally adjusted and annualised M2 growth rates for the last 3 months. In this respect, the latest yearly change in money creation represents ca. 4%. Real money balances derived from M2/CPI decline and reflect the development in the individual components of domestic demand.

At the end of March, the growth of real money balances was ca. 5.7% (with CPI inflation 13.4%).

Tab.III.1. Increases in Seasonally Adjusted Monetary Aggregate M2 (%)

	Anualised for last		
	3 months	6 months	1 year
October 97	6.0	9.5	8.5
November 97	5.9	6.0	7.9
December 97	19.2	11.6	10.1
January 98	0.6	3.3	7.5
February 98	-2.2	1.7	6.0
March 98	-3.9	7.1	7.7

Note: Seasonally adjusted according to deviations from a series smoothed by the centred moving average method (length 13)

At the beginning of 1998, analogous development to that of M2 was recorded also for the monetary aggregate L that has been developed to capture the influence of short-term securities operations. The growth of L amounted to 8.1% at the end of March, ca. 1 percentage point lower than at the close of 1997. L fell by 5.3% in real terms.

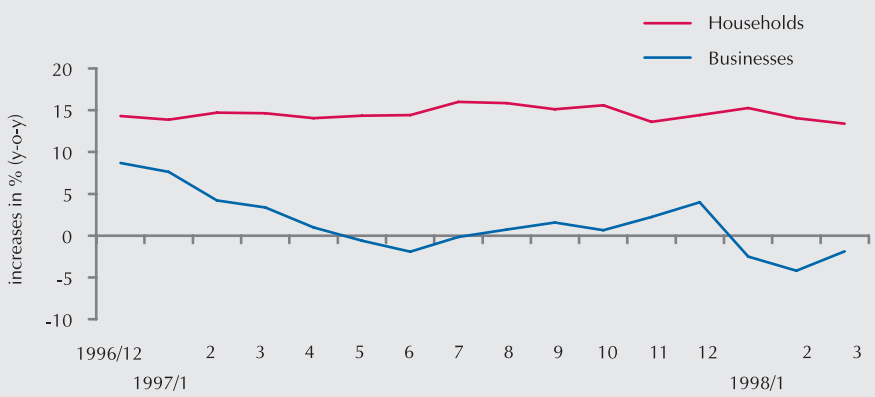
The monetary aggregate M1 experienced different development. From Q2 1997, this aggregate, in nominal terms, was declining, the year-on-year fall amounting to 10.3% at the end of March. M1 development saw a slight drop in currency in circulation (- 2.3% in March) and a rapid fall in business and household demand deposits (the year-on-year decline in the same period was 14.7% in business deposits and 11% in household deposits).

Currency in circulation development reflects a slump in demand for cash by businesses and individuals which corresponds to the decline in retail turnover and, subsequently, to household consumption. A fall in demand deposits by households in Q1 1998 was largely attributable to shifts from demand deposits to short-term deposits. The business sector also reduced its time deposits due to its worsened financial situation.

Structure of Deposits

At the beginning of 1998, the business sector's deposit volume with banks declined (in March, the year-on-year decline in business deposits with banks was 1.9%). This development conforms to the low credit issue of banks to businesses and a generally lower volume of financial resources in the business sector. With respect to M2 structure, the deposit volume of individuals is gaining importance.

Chart III.2. Structure of Deposits



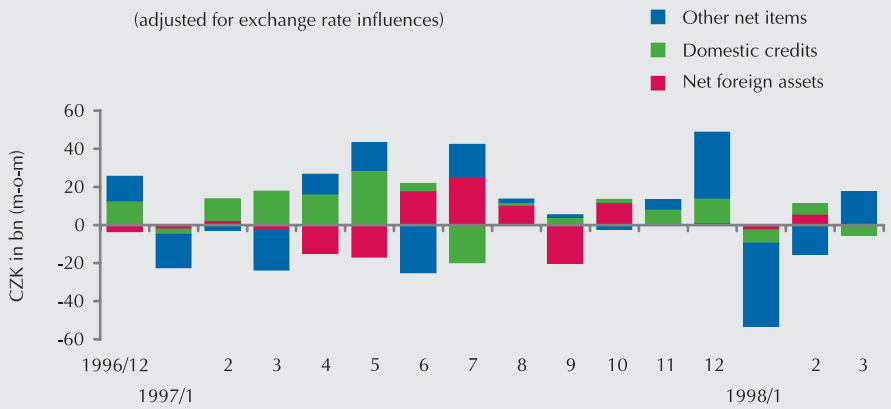
Contrary to the business sector whose increases in deposits with banks have been steadily declining and are now achieving negative values, development in the sector of individuals is different. At the end of March, deposits of individuals as part of the household sector rose 13.4% year-on-year. Since the end of 1996, year-on-year increases in deposits by individuals have been fluctuating ca. 14 - 15%. They have not so far substantially decreased. This development corresponds to the development in the household saving ratio which in 1997 was similar to that of 1996 (13%, and 12.6%, respectively). Households in the CR, thereby, despite a fall in incomes, prefer maintaining savings at relatively the same level to maintaining consumption.

Money Supply

In Q1 1998, M2 development was affected particularly by development in other net items. Their radical increase in December 1997, followed by a fall in January 1998, was a result of shifts of a substantial part of the short-term securities portfolios from non-banking subjects to banks influencing thus the M2 level. The money supply was also affected by changes in domestic credit issue, which reflected, in particular, public budget performance (a deficit in December 1997, and a surplus in Q1 1998 which acted against money supply growth). Credits to businesses and individuals stagnated in February and March. In February, net foreign assets moderately rose owing to short-term capital inflow from abroad. The main factor affecting money supply growth in March was other net items in which securities portfolios purchased by banks from non-banking subjects increased.

Chart III. 3. Sources of M2 Creation

(adjusted for exchange rate influences)

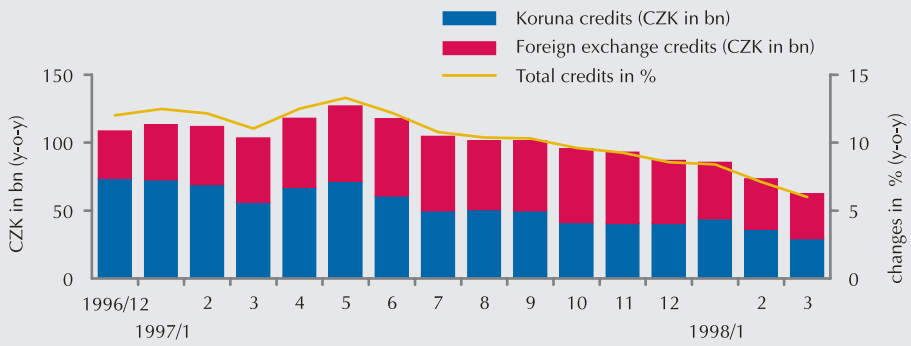


Note: Net foreign assets represent non-resident assets with domestic banks minus non-resident liabilities with domestic banks
Domestic credits include net government credit, net NPF credit and credits to domestic businesses and households
Other net items include unsettled items between clients and commercial banks, banks' capital and reserves, securities purchased from non-banking subjects and securities issued by banks, etc.

III. 1.2. Credits

The year-on-year increase in bank credit issues to businesses and individuals has a long-term downward tendency, amounting to 7.1% at the end of March. Analogous development can also be seen when comparing the so-called adjusted overall credit issue (adjusted for exchange rate changes, credit write-offs, capitalisation of interest and banks after the banking licences had been revoked). The year-on-year increase in credit issues in this respect was 6% at the end of March. Relatively low credit issue dynamics in 1993 - 1995 were initially connected to lower dynamics of overall economic development and later to lower credit demand by domestic subjects, owing to capital inflow from abroad. The development from 1996 to the present has reflected the increased prudential behaviour of banks on the one hand, and the higher level of interest rates affecting credit demand on the other.

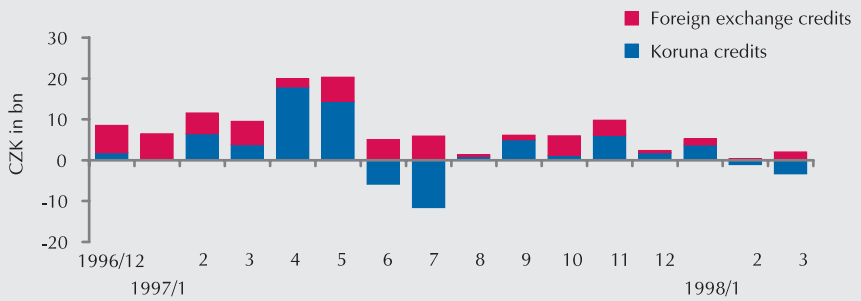
Chart III. 4. Total Credits, Koruna and Foreign Exchange Credits



Adjusted for exchange rate effects, write offs, interest capitalisation and banks with licences revoked

Credit issue increases rapidly declined as late as in the second half of 1997[3/]. From June 1997 to February 1998, they amounted on average to CZK 2 bn per month, foreign exchange credits being the most decisive factor in this period.

Chart III.5. Increases in Koruna and Foreign Exchange Credits (m-o-m)



Adjusted for exchange rate effects, write offs, interest capitalisation and banks with licences revoked

In Q1 1998, overall credit issue rose 0.3%. A small increase in credit volume is associated with the present interest rate level and further tightening of rules by banks for credit extension. The long-term decline in credit issue dynamics is illustrated in Table III.2 below.

With respect to credit issue type (i.e. development of the share of the two main credit types - operational and investment - in total credits), the share of investment credits in total credits in 1997 moderately decreased, conforming to the business sector's investment development. On the contrary, the share of business operational credits in the second half of 1997 increased.

3/ Adjusted data on credit issue development in compliance with the note under Graph No. III.4.

Tab.III.2. Increases in Adjusted Total Credits (%)

	Increase in credits during last		
	3 months	6 months	1 year
October 97	1.3	2.6	9.6
November 97	2.0	1.6	9.3
December 97	1.7	1.9	8.6
January 98	1.6	2.9	8.4
February 98	0.6	2.7	7.1
March 98	0.3	2.0	6.0

Adjusted for exchange rate effects, write offs, interest capitalisation and banks with licences revoked

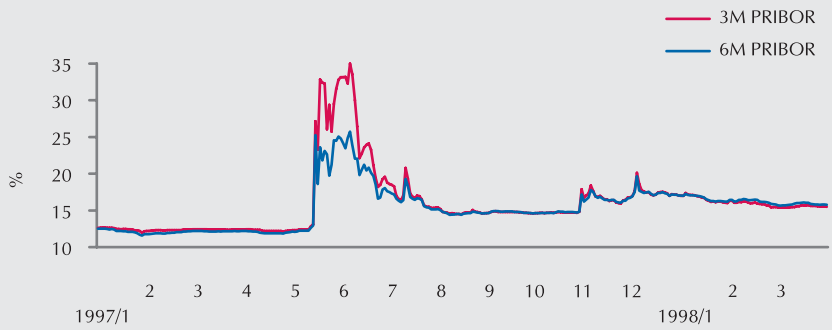
Banks had extended credits in the past and are continuing to extend credits at present, especially to the business sector (the share of this sector in total credits in 1997 accounted for 95.5%) and to a small extent to individuals (4.5%). Virtually no credits are provided to other financial institutions. With respect to the time structure of newly granted credits, short-term credits continue to prevail (ca. 85% of all newly granted credits).

III.1.3. Interest Rates

III.1.3.1. Short-term Interest Rates

The PRIBOR[4/] short-term interest rates are affected significantly by the CNB monetary policy actions. Also, during 1997 and at the beginning of 1998, the money market short-term interest rates were considerably affected by exchange rate deviations and overall economic and political developments in the CR.

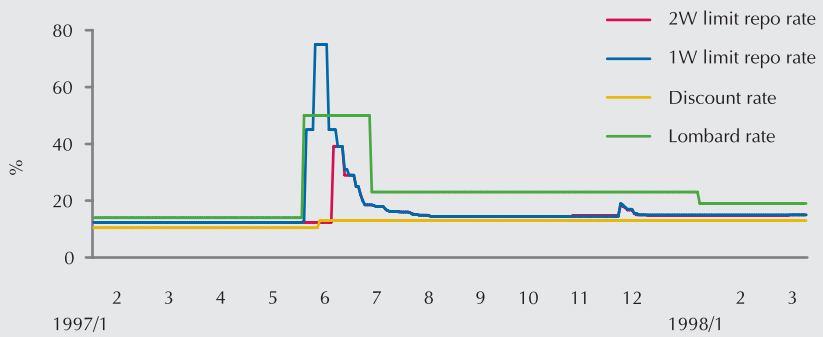
Chart III. 6 3M and 6M PRIBOR Rates
(2 Jan. 1997 - 31 Mar. 1998)



4/ PRague InterBank Offered Rate = interest rate on the interbank deposit market in Prague

Chart III. 7. Key Rates

(2 Jan. 1997 - 31 Mar. 1998)

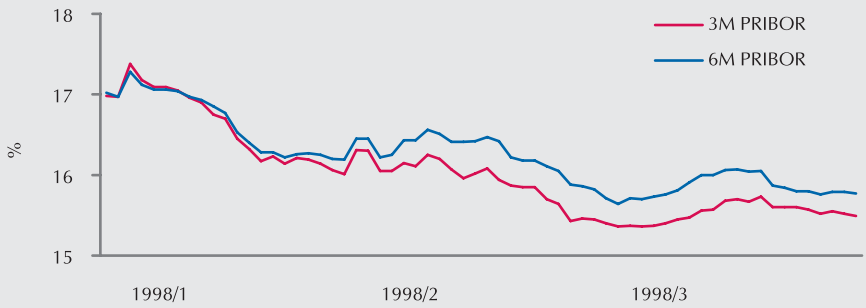


In 1997, short-term interest rates were affected by two more significant increases in the CNB base interest rates when monetary policy responded to the exchange rate fluctuations (May and December 1997). These periods were always followed by gradual calming and stabilisation on the financial market. The 2W repo base interest rate slightly increased from 14.75% to 15% on March 20, 1998.

Short-term interest rate development in Q1 1998 can be characterised particularly by a gradual decline in these rates as a reflection of stabilisation on the financial market which regulated the increase in these rates in December 1997. Compared to 1997, in March, average nominal interest rates fell on shorter maturities (1W) by 1.7 percentage points to 14.95% and on longer maturities (1Y) by 1.3 percentage points to 16.08%. Real interest rates experienced an even more significant decline in this period due to high inflation (measured by the CPI). By the end of March, compared to December, real interest rates dropped by 4.7 percentage points (from 7.4% to 2.7%) for 1Y PRIBOR.

Chart III. 8. 3M and 6M PRIBOR Rates

(2 Jan. 1998 - 31 Mar.1998)



In Q1 1998, the yield curve (1W to 1Y maturities) of the interbank deposit market started to have a significantly positive slope. The overall interest rate level dropped. The positive yield curve slope was caused by the relatively sufficient liquidity in the banking sector with shorter maturities, and conversely, by the rather reserved stance of commercial banks towards interbank deposit supply with longer maturities. Sufficient interbank deposit market liquidity is also demonstrated by the long-term low level of one-day interest rates compared to other maturities, whose response to liquidity development is always more sensitive.

Chart III.9.a) Yield Curve of PRIBOR Rates

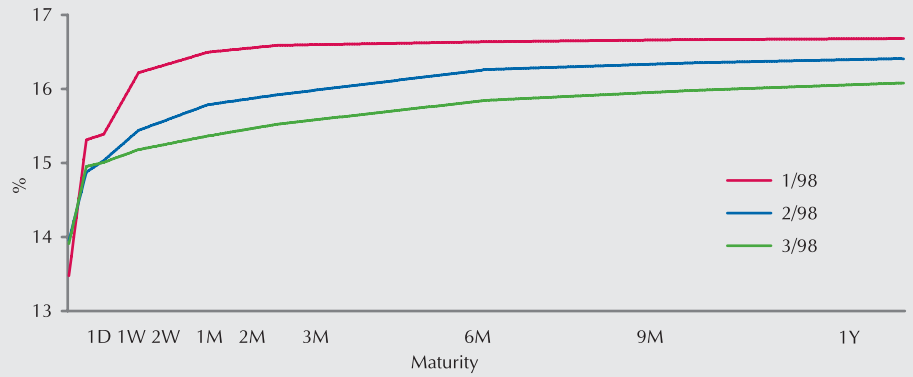
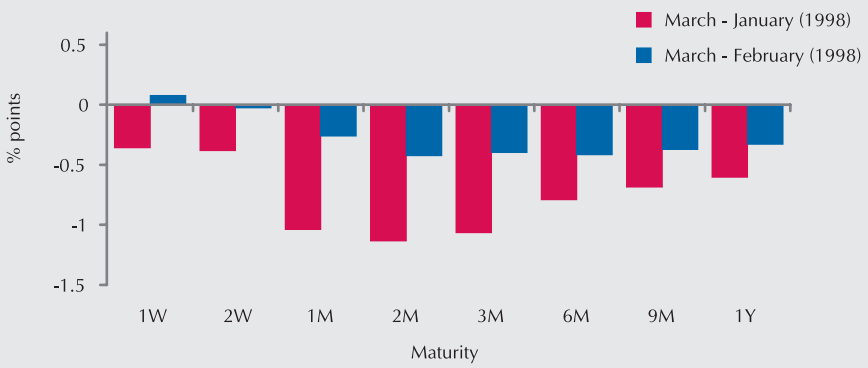


Chart III.9.b) Average PRIBOR Rates



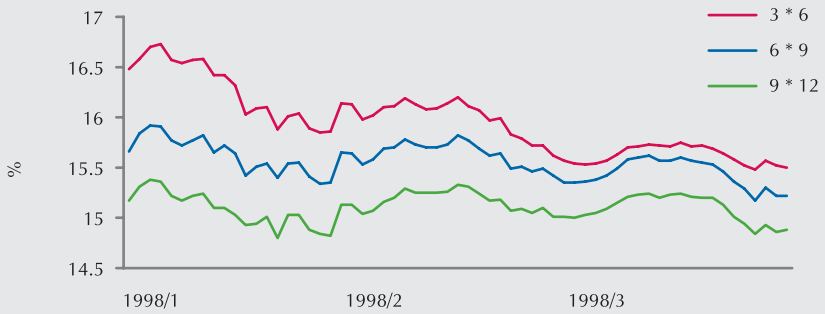
Note: Negative values mean interest rate decline

From the beginning of 1997, the CNB monetary policy has also had at its disposal the FRA[5/] interest rate indicator, expressing expectations of money market subjects concerning interest rate development in the future. The informative character of this indicator was impaired in the CR in May and at the close of 1997 (the period of exchange rate uncertainty). In Q1 1998, FRA interest rates, like PRIBOR interest rates, showed a downward tendency with several small adjustments. Interest rates on shorter maturities rapidly fell, thereby flattening the FRA yield curve and lessening to a certain degree its inverse slope. This indicates a certain weakening of disinflation expectations.

5/ FRA = forward rate agreement

Chart III. 10. 3M FRA

(offer, 2 Jan. 1998 - 31 Mar. 1998)

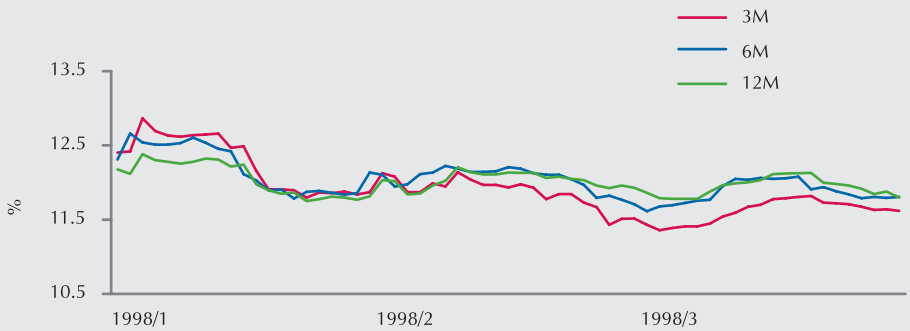


The short-term bond market last year also reflected in essence the interbank market deposit development, i.e. two periods of higher increases were recorded: the exchange rate turbulence period (May and June) and the period of the Asian financial crisis and the domestic political crisis in the CR (November and December 1997).

The interest rate differential (PRIBOR CZK - LIBOR[6/] DEM) in Q1 gradually declined, particularly that of interest rates on deposits with shorter maturities. With respect to the relatively long-term stability of interest rates abroad, the interest rate differential growth rate is attributable to domestic interest rate development. From the end of December 1997 to the end of March 1998, in harmony with PRIBOR interest rate development, the interest rate differential decreased for 1M maturities from 12.08% to 11.35% and 3M maturities from 12.40% to 11.60%.

Chart III.11. Interest Rate Differencial between Rates in CZK and DEM

(2 Jan. 1998 - 31 Mar. 1998)



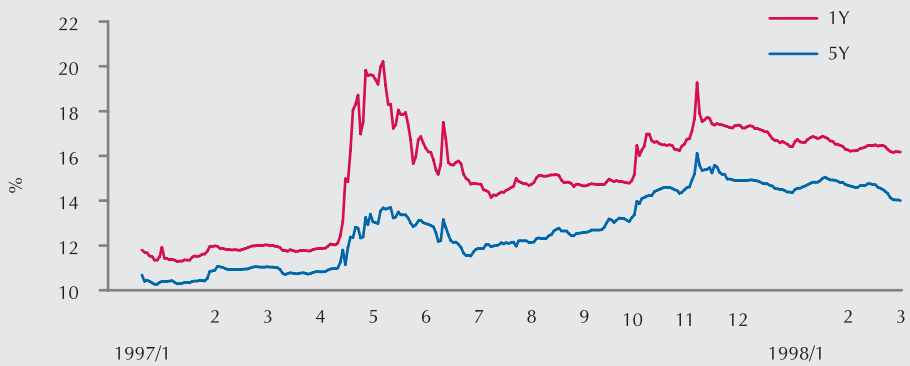
III. 1.3.2. Long-term Interest Rates

Owing to the absence of a more substantial volume of long-term savings (i.e. with maturities over 4Y, over 5Y in the EU) and thereby long-term investments financed from domestic resources, interest rates on maturities from 1Y to 5Y are considered as medium and long-term segments of the Czech financial market. This market, unlike transactions with maturities over 5Y, is more liquid. Long-term interest rates indicate market expectations of the future short-term interest rate and inflation.

6/ London InterBank Offered Rate

Chart III. 12. IRS Rates

(offer, 21 Jan. 1997 - 31 Mar.1998)

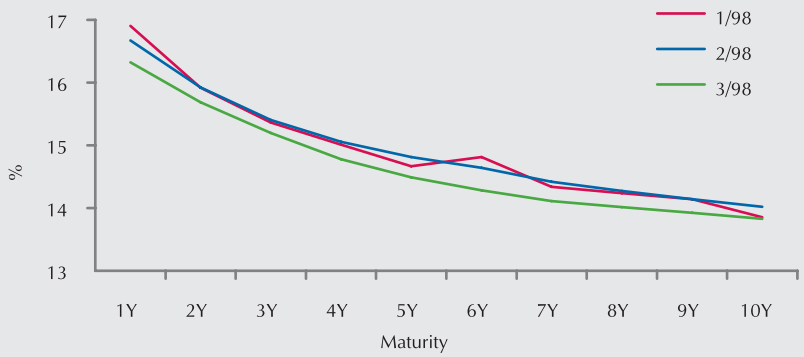


In 1997, long-term rate development indicated by IRS[7/] rates was smoother than that of short-term rates. Long-term interest rates experienced deviations in May and at the end of last year, however, they were not as large as in the case of short-term rates. In January 1998, a downward tendency prevailed with long-term rates. Average long-term rates indicated by the IRS rates fell in this period by ca. 0.5 percentage points. Following some stagnation in February, this decline continued in March, though more slowly. For the whole quarter, the IRS rates on some maturities decreased overall by up to 1 percentage point.

IRS yield curves throughout Q1 maintained a shape similar to that at the end of 1997, however at a lower level. Though the IRS yield curve's inverse slope indicates the continuation of disinflation expectations for long-term interest rates, the interest rate level has retained its increase compared to the 1997 pre-May situation. The position and slope of the yield curves of state taxed bonds and corporate bonds provide similar information.

Chart III. 13. a) Yield Curve of IRS Rates

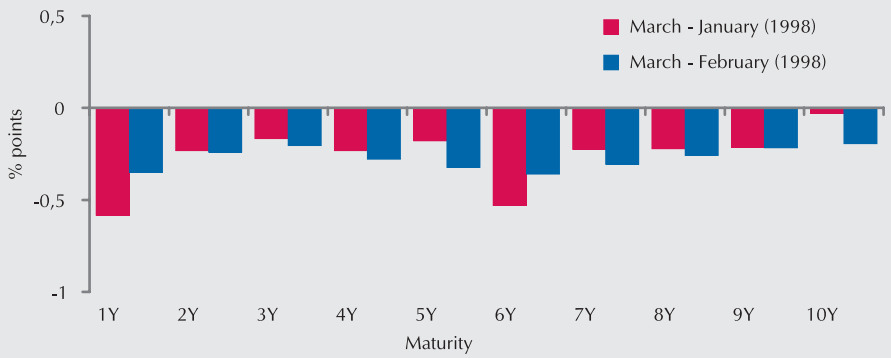
(offer)



7/ Measured by 1Y and 5Y interest rate swaps, i.e. interest rates on interest rate derivatives based on replacing the fixed exchange rate with floating

Chart III. 13. b) Average IRS Rates

(offer)



Note: Negative values mean interest rate decline

The interest rate decline on the PRIBOR yield curve's longer end, a decrease in FRA quotations and the inverse slope of the IRS yield curve in Q1 reflect a calming of the financial market situation and support expectations of interest rate declines in the future. From an inflation targeting point of view, development in the IRS interest rates rather indicates disinflation expectations by banks in the medium run.

III. 1.3.3. Client Interest Rates

With respect to the close link between the reference rates of most banks and PRIBOR interest rates, client interest rates on newly granted credits follow the situation on the money market. A temporary increase in client interest rates in the final quarter of 1997, was again replaced with a decrease in Q1 1998, in harmony with money market development. During January - March 1998, reference interest rates of most of the leading banks slumped by almost 2 percentage points to a level slightly below 16%, achieving thus the level prior to their increase in the last quarter of 1997.

In January and February, average interest rates on time short-term deposits, whose relationship to money market development is not so tight, slightly went up to 11.9%. However, they are expected to decline in forthcoming months.

Nevertheless, the present client interest rate level remains higher than prior to the exchange rate turbulence period in May 1997.

Client real interest rates in 1993 - 1996 especially mirrored inflationary development. Disinflation pushed up average real interest rates on short-term newly granted credits[8/] from 2.4% in 1994 to 4.4% in 1996. When deflating by the industrial producer price index, real interest rates on newly granted credits edged up from 7.1% to 8.5%. Real interest rates[8/] on short-term time deposits in the same period jumped from -0.6% to + 0.6%.

In 1997, real interest rates more significantly reflected an increase in money market interest rates. Average real interest rates[8/] on short-term time deposits rose to 2.8% and on newly granted short-term credits to 7.8% (in terms of the nominal interest rate, the industrial producer price index rose to 11.3%).

The rise in inflation at the beginning of 1998 caused a rapid fall in real interest rates. Real interest rates on short-term time deposits[8/] slumped in February to as low as 1.5%, on newly granted short-term credits to 2.4% (9.2% in terms of the nominal interest rate - the industrial producer price index).

8/ Real interest rates = nominal interest rates - the CPI

III. 1.4. Exchange Rate

In the fixed exchange rate regime, the exchange rate was a significant stabilisation factor for prices in the CR. This was also true after the widening of the fluctuation band in 1996, since until February 1997, a tendency towards nominal appreciation of the koruna was apparent. This tendency was strengthened by the weakening of the DEM against the USD due to the definition of the basket. During the period of koruna appreciation, the monthly inflation rate for the consumer basket's tradable items and industrial producer prices was the lowest. However, the month-on-month inflation rate of industrial producer prices as well as of consumer prices, along with koruna appreciation led to real exchange rate appreciation. Hence, in addition to other factors, it contributed to worsening of the external imbalance. Following exchange rate turbulence in May and at the end of 1997, the koruna depreciated in nominal terms.

Appreciation of the koruna in Q1 1998, along with the calming of the political situation, is connected to the implementation of off-sheet positions established by foreign subjects in the previous period. Also, the decreasing current account deficit and a capital inflow renewal, stimulated by the steady high interest rate differential in combination with a series of favourable news on economic development, restored the tendency towards koruna appreciation vis-a-vis the DEM. Consequently, the exchange rate development in Q1 can be expected to dampen inflationary cost pressure for the upcoming period. Nominal appreciation of the koruna and the high month-on-month inflation growth rate in both internal price groups were reflected in the rapid real appreciation of the koruna at the beginning of 1998.

Chart III. 14. CZK/DEM Exchange Rate
(January 1996 - March 1998)

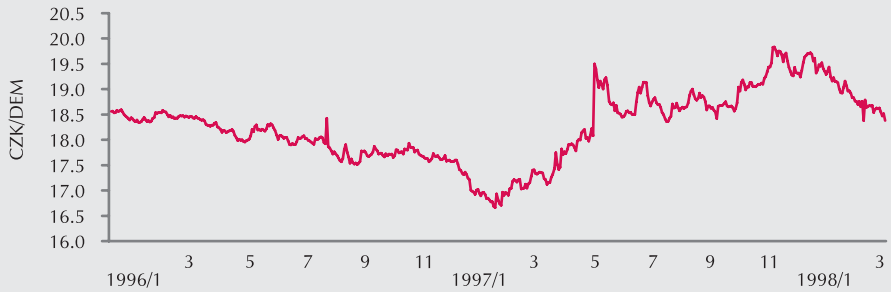
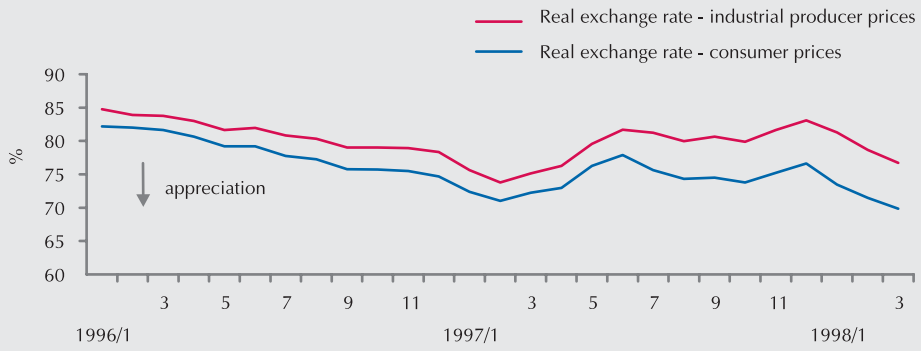


Chart III. 15. CZK/DEM Real Exchange Rate
(January 1990=100%)



III. 1.5. Capital Flows

Extraordinarily strong foreign capital inflow that peaked in 1995 was a significant factor of money supply growth and subsequently of domestic demand. A gradual weakening of capital inflow which occurred in 1996 and 1997, concurrently meant a decline in the influence of capital inflow on domestic demand in the economy. At the beginning of 1998, capital inflow was renewed. The current account deficit was improving, and the CNB foreign exchange reserves, after their fall in 1997, went up in Q1 1998.

Tab. III. 3

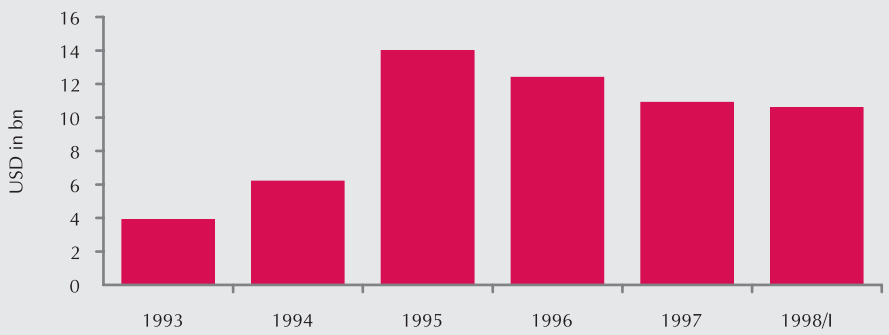
CZK in bn

	I/97	II/97	III/97	IV/97
Financial account	22.1	-6.1	33.1	-14.8
- direct investment	7.9	5.4	12.2	14.9
- portfolio investment	-5.6	1.3	23.1	15.6
- other long-term investment	11.1	13.6	2.9	-14.7
- other short-term investment	8.7	-26.4	-5.1	-30.6
Changes in CNB foreign exchange reserves (according to balance of payments, increase -)	1.1	33.6	-16.9	38.2

Note: Data for individual qwarters.

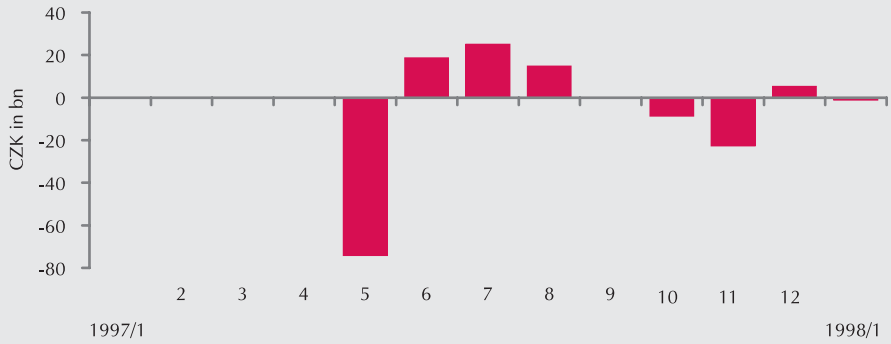
Development of the financial account[9/] in 1997 was particularly affected by the May exchange rate turbulence, resulting in koruna depreciation by roughly 10% against original parity. The political situation at the end of November resulting in the resignation of the government was also an important factor. Due to the above mentioned factors, short-term and long-term capital flows significantly affected the level of total financial flows and were the main cause of the decline in the financial account surplus from CZK 116.6 bn in 1996 to CZK 34.3 bn in 1997. Foreign direct investment inflow to the CR was roughly at the same level. Lower long-term capital inflow was mainly attributable to lower drawing on financial credits abroad by domestic banks. In this situation, the current account deficit was only partly covered by the financial account surplus which was mirrored in the balance of payments deficit and in the fall in the CNB foreign exchange reserves (excluding exchange rate differences) to CZK 338.5 bn (USD 9.8 bn).

Chart III. 16. CNB Foreign Exchange Reserves



9/ The financial account corresponds by its contents to the previously stated capital account

Chart III. 17. CNB Interventions on Foreign Exchange Market



Restored foreign capital inflow in Q1 1998 was particularly connected to stabilisation of the political situation and to the attractiveness of the interest rate differential for foreign investors. The strengthening of foreign capital inflow along with a lower trade balance deficit, exerted pressure for koruna appreciation. In this situation, the CNB intervened on the interbank foreign exchange market. Foreign exchange reserves increased from USD 0.8 bn (CZK 30.6 bn)[10/] at the beginning of the year to USD 10.6 bn (CZK 357.8 bn) at the end of Q1. This amount was sufficient to cover 3.9 months of goods and services imports. This indicator showed moderate improvement against the close of 1997 (3.6).

III. 2. Demand and Output

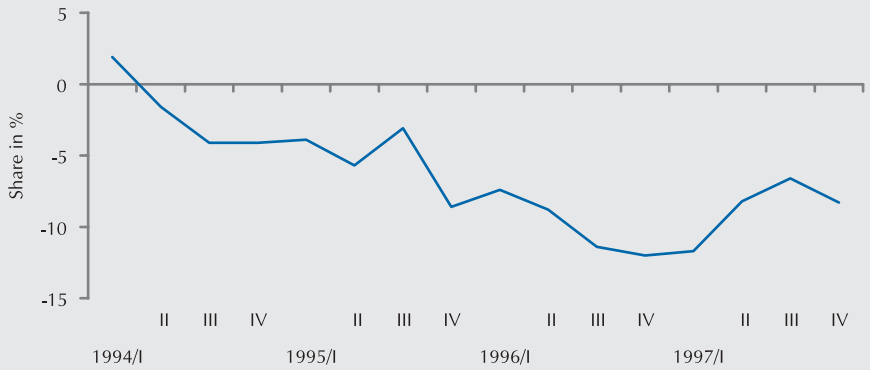
III.2.1. Introduction

Domestic demand growing faster than output in 1995 - 1996 was a potential source of inflationary demand pressure in the economy. Given the fixed exchange rate, this feature led to gradual growth in the external imbalance which peaked in the second half of 1996 when the trade deficit amounted to 11.7% of GDP.

In 1997, on the contrary, a gradual reduction in domestic demand dynamics, despite weak output growth, meant possible restraint of pressure on the price upsurge, slowing the growth rate of the external imbalance in Q1 and leading to its absolute fall in Q2. In Q2, given slight economic growth acceleration and a weak decline in domestic demand growth, the trade deficit slid to 8.3% of GDP. Overall, in 1997, the absolute level of the external imbalance decreased compared to the previous year.

10/ i.e. excluding exchange rate differences

Chart III. 18. Net Export Share in GDP



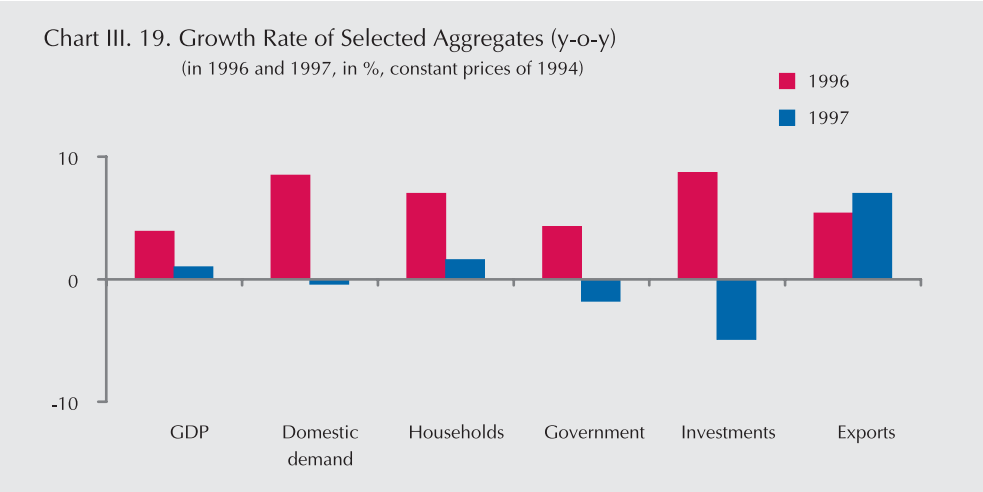
Tab. III. 4. Growth Rate of Real Supply and Demand (in %, y-o-y)

INDICATOR	SITUATION											
	I/95	II/95	III/95	IV/95	I/96	II/96	III/96	IV/96	I/97	II/97	III/97	IV/97
GROSS DOMESTIC PRODUCT	6.6	6.8	6.7	5.4	4.6	4.7	3.4	3.2	1.2	0.5	-0.1	2.2
AGGREGATE DEMAND (domestic demand and exports)	14.4	11.5	10.5	12.2	7.6	6.5	9.6	6.1	3.8	4.1	0.9	4.4
DOMESTIC DEMAND (including change in stock position)	13.0	11.1	5.7	10.0	8.1	7.8	11.8	6.3	5.2	0.0	-4.4	-1.2
of which:												
Household consumption	5.1	6.0	7.8	8.5	7.0	7.7	7.3	6.2	4.0	5.7	-2.2	-0.3
Government consumption	-0.3	-0.5	-4.9	-0.7	2.1	8.9	2.5	3.9	1.1	-3.9	-3.2	-1.1
Fixed capital creation	20.4	20.8	23.6	19.4	13.8	12.8	6.7	4.5	-0.6	-8.5	-9.5	-0.9
EXPORTS OF GOODS AND SERVICES	17.0	12.2	18.8	16.5	6.8	4.1	5.5	5.5	1.3	11.7	11.3	15.5
IMPORTS OF GOODS AND SERVICES	29.2	19.7	16.0	24.5	12.4	9.2	20.0	10.5	7.5	9.4	2.4	7.7

III. 2.2. Domestic Demand

Domestic demand in 1995-1996 significantly expanded (in 1995 by 9.8%, in 1996 by 8.5%). This development was attributable mainly to household consumption growth and growth in gross fixed capital creation. The excessive purchasing power of households and businesses in comparison with economic development, among others due to the strong foreign capital inflow, was the main source of strong domestic demand.

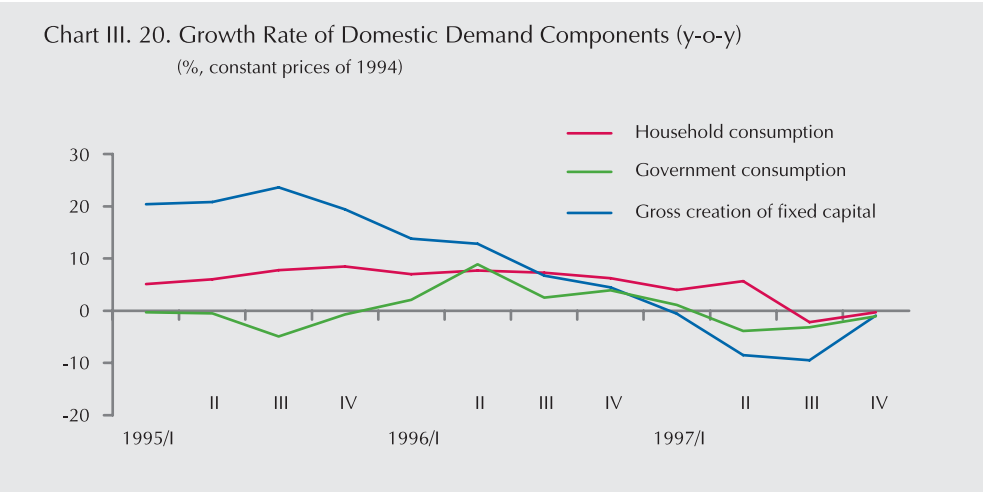
Development in the course of 1997 can be characterised by a gradual loss of dynamics of all domestic demand components. This development was affected by a series of factors which often acted contradictorily. The following were the most important factors: interest rate development, slowing of real wage and income growth, the worsened economic results of businesses, efforts to achieve a balanced budget (which was reflected in particular in the dampening of state budget investment activities), easing of the exchange rate, koruna depreciation and a slowdown in foreign capital inflow. The development was also significantly influenced by domestic and foreign investor expectations which resulted in the severe restraint of domestic demand dynamics (a decline of 0.4%, compared to an 8.5% increase in 1996). In Q4 1997, the absolute volume of domestic demand remained roughly 1% below the level of the same period a year ago.



III. 2.2.1. Household Consumption

In 1995 - 1996, dynamics of real household consumption growth achieved a high level (6.9% and 7%, respectively). This growth was initiated by a rapid increase in real wages (around 7.5% on average) which started at the beginning of 1994. Social and other incomes grew analogously.

A turn in the recent development occurred in 1997: while in Q1 1997, household consumption rose 4.9%, in the second half, it experienced an absolute year-on-year decline. The above development was a result of the effect of more factors acting concurrently. The slowing of nominal wage and income growth dynamics (a close link between incomes and consumption) owing to restrictions in the budgetary sphere and arising pressure on the business sector (worsened performance results and the ongoing change in ownership relations) had a significant impact. Stagnation in household consumption was also affected by an increase in unemployment, and partly by the impact of the July floods. Price growth acceleration in the second half of the year, nominal income dynamics falling, narrowed the space for real consumption growth.



III.2.2.2. Investment Demand

In 1995 - 1996, the Czech economy experienced robust investment growth (21% and 8.7%, respectively). A real decline in investments in 1991 - 1993 was one of the contributing factors. Foreign capital inflow, an increase in public sector investments (infrastructure, the environment, municipal

sphere investments), and initially a relatively satisfactory level of business internal resources, which, however, gradually worsened, significantly contributed to investment growth. Growth expectations were also favourable, and investment credits, including foreign credits, were available to most businesses. A substantial part of investments was channelled to infrastructure, and thereby did not immediately contribute to GDP growth. However, as early as 1996, investment growth started to decline.

Changes in investment demand gained momentum in 1997. Government investments significantly slumped as a result of the government austerity measures. The steadily declining ratio (in the last three years) between profit and investments in the sector of non-financial businesses and corporations (accounting for 60% of total implemented investments) contributed to an investment slump. In 1997, a gradual reduction in internal resources for investment financing was accompanied by a fall in external resources. Growth dynamics of newly granted domestic investment credits slowed. Currency depreciation pushed up prices for investment imports. The introduction of the floating exchange rate (and partly expectations of further depreciation) increased the risk of using foreign credits. The non-transparent capital market and unfavourable investor expectations had led to a foreign capital inflow decline. Investment demand of the financial sector plummeted as well. In 1997, the above mentioned development resulted in an absolute year-on-year investment decline (generation of gross fixed capital dropped by 4.9% against 1996).

Due to the investment decline, investment volume slightly dropped, but remained at a relatively high level (ca. 33% of constant prices).

Tab. III. 5. Savings and Investments

CZK in bn

INDICATOR	SITUATION				
	I/97	II/97	III/97	IV/97	1997
GDP in current prices	350.8	406.5	422.2	470.0	1649.5
Final consumption of government and households	258.6	299.3	294.9	328.4	1181.2
GROSS DOMESTIC SAVINGS	92.2	107.2	127.3	141.6	468.3
Net exports	29.0	22.8	16.6	22.2	90.6
GROSS CAPITAL CREATION	121.2	130.0	143.9	163.8	558.9
Gross domestic savings/GDP in %	26.3	26.4	30.2	30.1	28.4
Gross capital creation/GDP in %	34.5	32.0	34.1	34.9	33.9
difference	8.2	5.6	3.9	4.8	5.5

III.2.2.3. Government Consumption

In past years, government consumption[11/] was not one of the main domestic demand factors due to its relatively lower share of domestic demand (20.7% of GDP in 1997) and to the overall development tendency. In 1995, real government consumption declined by 1.6%, particularly due to certain limitations of government sector activities, and in 1996 rose 4.3%. The austerity measures according to the April and June government measures[12/] were the dominating factors affecting the year-on-year decline in government consumption in 1997. Starting in Q2, government consumption was lower compared to the same period a year ago.

In 1995 - 1997, overall development in public finance, particularly in the state budget, indicated a tendency towards gradual worsening of the budget deficit (the decline in surplus in 1995, compared to 1994, turned into deficit in 1996 (CZK - 1.6 bn) which continued to increase in 1997). Though the state budget spending policy in 1997 was affected by the mentioned government measures (which had to ensure strict spending restrictions (ca. CZK 42 bn), a balanced state budget and to create preconditions

11/ i.e. in GDP methodology, expenditures connected to the functioning of the government and activities with which the government is entrusted (defence, etc.)

12/ Corrections in economic policy and other transformation measures adopted by the Czech Government (April 1997), the Principles of the Czech Government budget stabilisation programme (June 1997)

for public consumption reduction in 1998), the budget in total ran a deficit of CZK 15.7 bn, owing to extraordinary factors in 1997[13/] which resulted in higher spending and lower revenues than expected. Restrictive measures had the largest impact on investment demand (the year-on-year index of budgetary and subsidised organisation investments amounted to 85.7% and of total state budget capital expenditures, to 88.6%) and wage development in budgetary organisations.

Spending restrictions in compliance with the government measure intentions had a structural impact on the individual segments of demand in the economy, especially investment demand and government consumption. The growing state budget deficit was also the main reason for the government sector's increasing need for credit resources, which were drawn mainly from the domestic banking sector. An increase in the government sector indebtedness of CZK 12.2 bn[14/] to domestic banks in 1997 to some extent crowded out the business sector from the credit market.

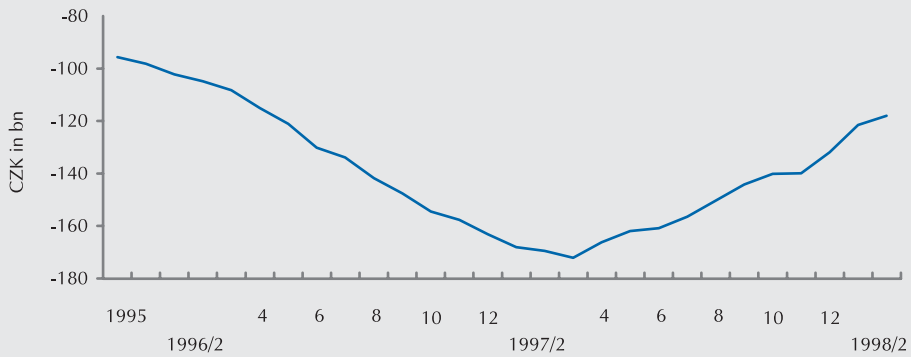
The current performance of municipal budgets showed a tendency towards worsened performance results until 1996 which was reflected in a deficit increase. The decline in the current performance deficit in 1997 was connected particularly to the restrictive government measures in April and June.

Development in Q1 1998 showed a seasonal "dampening" of government spending and expenditures in other segments of the government sector. On the other hand, development of revenues was more favourable (payments of the remaining taxes). A significant improvement in the state budget current performance (a surplus of CZK 7.6 bn at the end of March) facilitated a sharp decline in indebtedness to domestic banks in the first months of 1998.

III. 2.3. Net Foreign Demand

In 1995 - 1996, the trade deficit gradually rose, its share of GDP achieving in 1996 critical values. However, in 1997, a significant change took place. Following longer-term growth in the balance of payments current account deficit (particularly due to the trade balance's growing deficit), its growth in the first half of the year weakened, resulting in the second half of the year in an absolute decline (of CZK 12.5 bn over 1996); this development meant an improvement in the current account deficit from 7.5% of GDP to 4.9% in the second half.

Chart III. 21. Balance of Trade
(moving aggregate of trade balance deficit for 12 months)



More favourable development in the current account deficit reflected, above all, changes in the balance of trade, whose deficit fell by CZK 13.9[15/] bn in absolute terms against the previous year, due to a significant increase in exports. Exports rose more significantly against a year ago (by 21.5%, in real

13/ The July floods, settlement of Konsolidační banka's loss of CZK 5 bn

14/ i.e. net government credit granted by domestic banks

15/ i.e. in the IMF methodology for balance of payments compilation

terms by ca. 15.5%) under the effect of more factors acting both on the supply and demand sides. These factors were as follows: restoration of growth in Western European countries which created more favourable conditions for outlet on foreign markets; completed restructuring of production, including new investments creating preconditions for increasing exports with higher value added (particularly in businesses with foreign ownership interest); koruna depreciation; declining dynamics of domestic demand resulting in a change in the producers' orientation from the domestic market to the foreign market, thereby increasing exports and subsequently decreasing the trade balance deficit.

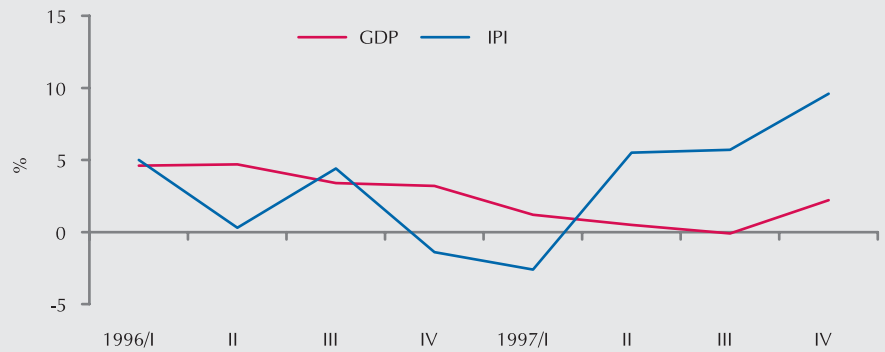
Slower import growth (by 9% in real terms) was, in particular, a response to lower domestic demand growth due to the implementation of restrictive monetary and fiscal policy measures. Their dampening influence was reflected both in imports for investments and consumption, thereby also weakening the influence of koruna depreciation on domestic inflation. Growing imports of goods for intermediate consumption continued even under these circumstances, due to growing co-operation in manufacturing between some businesses, especially those with foreign ownership interest. These imports were closely connected to the export activities of the above mentioned subjects.

The development in the first months of 1998 signalled the continuation of tendencies from the previous year. Export growth continuing to outpace import growth contributed to more favourable trade balance results, in comparison with 1997, despite significant strengthening of the real exchange rate at the beginning of the year. Development in the commodity structure of imports in Q1 1998 indicated the steady growth of imports for intermediate consumption, as well as relatively high import dynamics for investments. The increase in imports for personal consumption was much lower, however the volumes of these imports in physical terms achieved roughly the same level as in a comparable period in 1997.

III. 2.4. Output

The gross domestic product rose year-on-year 6.4% in 1995, 3.9% in 1996, mainly due to strong domestic demand, especially a demand effect of very fast growing investments and household consumption. However, in the second half of 1996, symptoms of receding growth began to appear in the economy, particularly owing to the slowing of investment dynamics. While in 1995 economic growth was generated mainly by industry, construction and services, in 1996 this growth was generated in particular by services.

Chart III. 22. GDP and Industrial Production Index (y-o-y)



Weak economic growth in 1997 was a result of the concurrent effect of several factors: the unsatisfactory process of business restructuring, contracting domestic demand in the conditions of monetary and fiscal restrictions, and partly, the impact of the July floods. Compared to 1996, GDP in 1997 rose 1%, its growth, especially in the second half, mainly stemming from export growth.

Economic growth again picked up steam in Q4 1997 due to robust export growth initiated not only by the economic boom in the countries of our main trade partners and koruna depreciation in May, but also by rising production using equipment installed in the previous two to three years. However, the loss in the domestic demand growth rate was only partially replaced by real export growth (with regard to its importance in aggregate demand).

While in 1995 industrial production measured by the indicator of goods production rose 8.7%, the 2% industrial production index growth in 1996 signalled that robust industrial production growth in the previous year was not a result of qualitative changes in the business sector. Some improvement occurred as late as in 1997, when despite some adverse influences (the July floods, the railway workers' strike), the industrial production index rose 4.5%, while the number of employees in industry fell by 4.3%. On the contrary, a rise in exports contributed favourably to production growth in the second half of the year. A tendency towards industrial production growth continued also in the first months of 1998 (7.2% for January - February), output in individual branches differing.

Construction output in 1994-1996 rose on average ca. 7%. Private as well as public demand for construction work was a motivating force for this growth, particularly due to an extensive wave of reconstruction and modernisation work, repairs and investments in infrastructure (banking, telecommunications, transport, water distribution, desulphurisation in electricity production, etc.). In 1997, demand for construction work rapidly shrunk owing to a substantial slump in government investments (by ca. 15%), the gradual termination of the reconstruction boom and the worsened financial situation of businesses. Due to these factors, construction output volume in 1997 was 3.9% lower than in 1996. Though construction output at the beginning of 1998 rose (in Q1 by ca. 1.9%), demand being low, this growth can be considered a consequence of the low comparison base of the previous year.

Agricultural production development was not even in past years, however, in general, it had a downward tendency. A decline in gross agricultural production in 1994 (of 6%), was in 1995 followed by a significant increase of 5%. In 1996-1997, agricultural production again declined (in 1996 by 1.4%, in 1997 by 2%).

Trade and catering sales in 1995-1996 rapidly increased (in 1996 by as much as 11.4%). In 1997, on the contrary, as a follow up to the overall slowdown in economic growth and household consumption, sales fell by 0.5%. In the first two months of 1998, sales dropped by 3.9%.

Performance results in the non-financial business and corporation sector signalled in some indicators a turn in the previous adverse trends (profitability of equity, wage costs). Conversely, the costs of businesses rose faster than outputs in 1997 and the increase in profit was lower than growth in personal costs. Also, cost profitability worsened compared to 1996.

Tab. III.6. Selected Financial Indicators in 1997
(for non-financial organisations and corporations with more than 100 employees for all industries)

Increase in 1997 (y-o-y)	in percentage points	Change 1997/1996	in percentage points
TOTAL REVENUES	8.6	PROFITABILITY OF COSTS (profit/costs)	-0.05
TOTAL OUTPUT	9.5	PROFITABILITY OF EQUITY (profit/equity)	0.21
TOTAL COSTS	8.7	PROFITABILITY OF OUTPUT (profit/output)	0.10
of which:			
Intermediate consumption	10.3	MATERIAL COSTS (intermediate consumption/output)	0.50
Compensation per employee 1)	9.5		
		WAGE COSTS (compensation per employee/output)	-0.01
PRE-TAX PROFIT	5.9		

1) includes wage and other individual costs, remuneration to members of companies and cooperatives, social security costs and social costs

III.3. Labour Market

III.3.1 Wages and Financial Incomes

In the previous period, financial incomes had substantially affected the development of demand, and consequently, inflation. A gradual decline in the growth of overall household financial incomes was registered during 1994 - 1996, but in general the growth rate still remained quite high.

Tab. III. 7. Basic Data on Wage Development and Labour Productivity

change in% (y-o-y)

INDICATOR		SITUATION				1997				
		1993	1994	1995	1996	1997	I.	II.	III.	IV.
Household incomes	(nominal)	27.6	19.0	18.4	13.3	12.1	12.6	13.5	12.4	10.0
	(real)	5.6	8.3	8.5	4.1	3.3	5.2	6.5	2.3	-0.1
of which:										
Incomes from wages	(nominal)	25.7	19.0	18.1	16.8	8.2	11.1	9.4	8.6	4.6
	(real)	4.1	8.3	8.2	7.4	-0.3	3.8	2.6	-1.2	-5.0
Average wage in the CR	(nominal)	25.0	17.1	17.5	18.0	11.9	13.7	13.0	12.4	8.4
	(real)	3.5	6.6	7.7	8.5	3.1	6.2	6.0	2.3	-1.5
National economy labour productivity [1)]		1.9	1.6	4.5	2.7	1.7	1.4	0.8	1.0	3.6
Unit wage costs (nominal incomes from wages / GDP in constant prices)		37.6	15.3	11.0	12.4	7.2	9.7	8.8	9.7	2.4

1) CNB calculation (GDP adjustment considered)

In 1997, the rise in household incomes (12.1%) slowed by 1.2 percentage points (p.p.) against 1996. At the same time, considerable deceleration of the real incomes growth rate was observed in Q3, followed by a year-on-year decline in Q4. In 1997, the growth in household real incomes (3.3%) dropped in a similar way (by 0.8 p.p.). This deceleration was mostly generated by wage incomes. In the business sector, wage incomes grew faster than in the non-business sector (formerly the budgetary sector), where the marked slowdown in year-on-year growth resulted from the government austerity measures. Increasing unemployment also had a substantial effect on nominal wage income deceleration by ca. 9 p.p. against 1996. Consequently, the adjusted purchasing power of households reduced demand inflationary pressures.

In 1997, the increase in social incomes (13.2%) declined by 3 p.p. compared to 1996, mostly owing to slower growth of pensions and social benefits (in 1997, the valorised pensions and social benefits derived from the subsistence level were paid four months later than in 1996).

Other incomes[16/] grew more rapidly in 1997, and the 13.2 point increase compared to 1996 was attributable to higher interest received, incomes from foreign countries, incomes from insurance and incomes from the combined incomes of households in business activities.

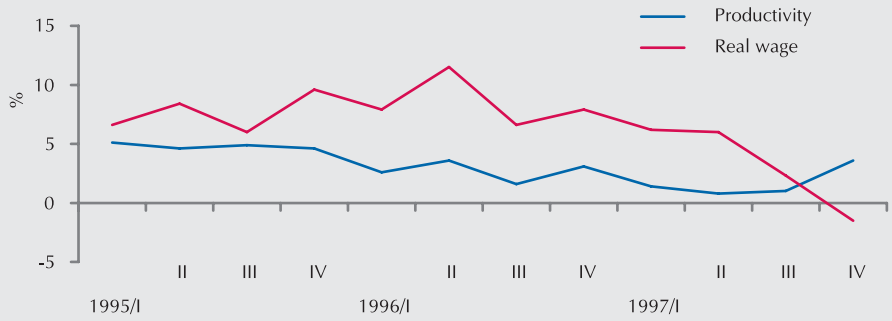
Average wage growth in 1994 - 1996 fluctuated between 17 - 18%, and in 1997 radically dropped to 11.9%. Up to 1995, its growth rate lagged behind wage incomes; in 1996, this ratio reversed as a result of rising unemployment, or declining employment, and increasing financial difficulties in the corporate sector. These pressures intensified in 1997 when the favourable trend in the average wage was also fostered by austerity measures in the public sector.

16/ Other incomes include interest on deposits, incomes from insurance and from wealth, incomes from foreign countries, alimony, dividends, incomes from land, estimates of winnings, incomes from property, etc.

The lead of average real wage growth over labour productivity growth (measured on the basis of GDP), experienced in recent years and culminating in 1996, was substantially reduced for the first time in Q3 1997. In Q4, the growth rate of productivity exceeded that of average real wage. The improvement of this relationship generated a further reduction in demand as well as cost pressures on prices.

In addition, the growth rate of unit wage costs[17/], considered as an indicator of price competitiveness, showed a marked decline in 1997 (compared to previous years) and reached 7.2%. However, it still remained too high compared to advanced countries. Incomes from wages played the most important role in this process, registering a fall in growth rates against the preceding year by 9 p.p., while GDP annual growth was only moderate.

Chart III. 23. Growth Rates of National Economy Productivity and Average Real Wage (y-o-y)



III.3.2. Employment and Unemployment

Labour market developments in the monitored period partly affected wage and income growth rates (representing one of the fundamental factors of price development) as well as price growth itself through its impact on changes in potential demand.

Tab. III. 8. Basic Data on Employment and Unemployment

INDICATOR	SITUATION									1998		
	1993	1994	1995	1996	I/97	II/97	III/97	IV/97	1997	1/98	2/98	3/98
Total number of employees in national economy (averages)												
Year-on-year change in %	-1.6	0.8	2.6	0.8	-0.2	-0.3	-1.4	-1.6	-1.0	.	.	.
Natural entities - number (in thousands)	4848.2	4884.7	5011.6	5054.1	5000.2	5016.3	4987.4	4975	4989.8	SITUATION		.
Number of unemployed [1)]												
Natural entities - number (in thousands)	185.2	166.5	153	186.3	199.6	202.6	242.6	.	268.9	287.1	289.2	284.1
Unemployment rate	3.5	3.2	2.9	3.5	3.9	4.0	4.8	.	5.2	5.6	5.6	5.5
Number of applicants per vacancy [1)]	3.4	2.2	1.7	2.2	2.3	2.5	3.4	.	4.3	4.7	4.6	4.4

1) end of period balance

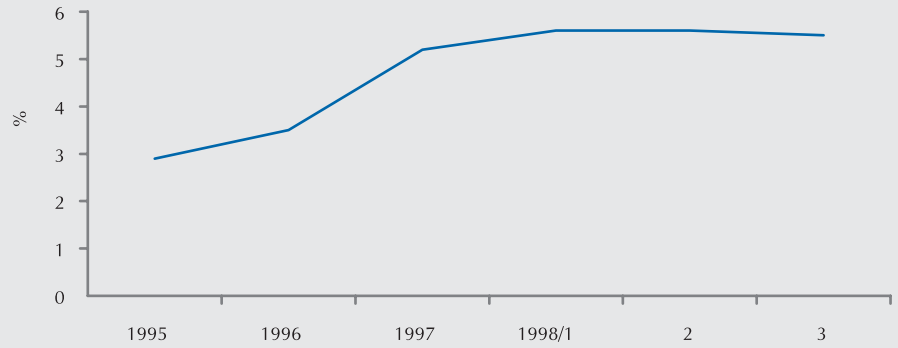
Following a substantial drop in employment in 1989 - 1993 (by 554,000 persons, i.e. 10.3%), the average number of employees started to rise at the beginning of 1994 due to economic growth

17/ i.e. nominal wage incomes per unit of real GDP

acceleration, and culminated in 1995 (2.6%). Employment continued to fall particularly in agriculture and mining and partly also in the manufacturing industry. Principal changes, however, occurred in the services sector. In 1993, its share in total employment was ca. 48.5%, in 1995, ca. 53%. The services sector was characterised by a high absorption capacity throughout the entire monitored period and was one of the most important factors of low unemployment in preceding years. In 1996, year-on-year growth of the average number of employees dropped (year-on-year increase of 0.8%) due to a lower economic growth rate.

The number of employees fell, and differences between industries further deepened during 1997, and especially in July - December, as a result of changes in the structure of businesses and of government measures in the public sector, leading to another decline in overall employment. In monitored organisations[18/], employment decreased year-on-year in 1997 by 2.5% (2% in the business sector and 4.2% in the non-business sector).

Chart III. 24 Unemployment Rate
from 1995 to Q I 1998



The unemployment rate in recent years has been affected by several factors. The most important, those which influenced unemployment in the initial period, include, apart from the services sector's high absorption capacity, also the significant space created by reducing the employment of persons who are no longer in the productive age category. A new trend in unemployment development presumably started in the second half of 1996; since then, with the exception of a seasonal decline in March - June 1997, unemployment has been steadily increasing. This rise in unemployment was associated with a declining economic growth rate, the end of the construction "boom" at the beginning of the period, ongoing restructuring of all industries (whose implementation was not completed at the beginning of the transformation period) and austerity measures in the area of wages.

The unemployment rate was 5.5% as of the end of Q1 1998. Unemployment growth was accompanied by a substantial decline in vacancies. While in 1996 the average number of job offerings was 101,000 per month with 1.6 persons per vacancy, at the end of February 1998, the average number of job offerings dropped by ca. 39,000 with 3 persons per vacancy. Compared to previous years, the number of persons unemployed long-term has increased as well. Unemployment growth in 1997 affected wage developments and dampened cost and demand pressures arising from these developments.

18/ Organisations with 20 or more employees in the business sector and the whole non-business sector.

III.4. Costs and Prices

III.4.1. Import Prices

In 1997, the rise in import prices (price hikes in Q2 and Q3 which did not continue in Q4) was largely generated by koruna depreciation as the prices of most commodities on world markets tumbled in 1997; this is also confirmed by a moderate decline in the HWWA Index (by 1.7 points). Prices were affected by sufficient supply on world markets and by low expectations reducing speculative demand for raw materials. The fall of this index was particularly seen in the group of energy raw materials. Despite certain volatility, mainly connected to the political situation in Iraq, oil prices registered a downward trend during the year, due mostly to sufficient market supply.

Relatively calm price development on international commodity markets and a downward trend for energy raw materials continued in Q1 1998, contributing, despite year-on-year koruna depreciation, to a decrease in the import prices of fuels (year-on-year index 83.1 for the first two months of the year). Taking into account this trend and koruna exchange rate development in Q1, it can be expected that, in the following period, import prices will not be a source of inflationary pressures for the Czech economy.

Tab. III.9. Indices of Average Quarterly Import Prices (in %, y-o-y)

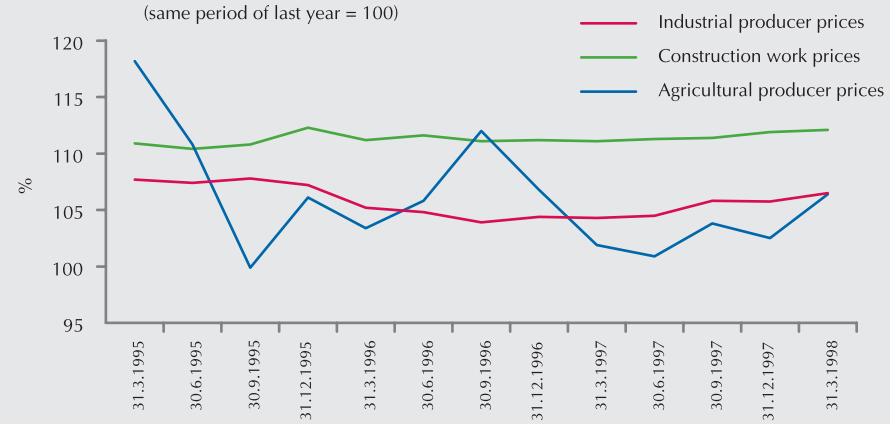
	1997				1998
S.I.T.C.	I Q	II Q	IIII Q	IV Q	Jan.-Feb.
0 Food	98.6	105.8	116.5	119.4	118.9
1 Beverages, tobacco	108.4	121.7	114.7	110.6	114.5
2 Raw materials	93.3	101.6	111.4	115.7	114.8
3 Fuels	122.0	110.4	112.7	100.3	83.1
4 Fats	93.9	100.9	115.8	113.5	117.2
5 Chemicals	98.9	103.9	109.7	111.1	112.1
6 Market products	95.3	101.4	109.5	112.2	112.0
7 Machinery	95.3	100.0	103.1	104.3	106.1
8 Industrial products	106.2	109.1	110.5	107.9	107.0
Total Czech Republic	99.9	103.8	108.4	108.2	106.5

Note: Same period of the previous year = 100

III.4.2. Producer Prices

Following a decrease in 1996 (by 2.8 points to 4.4%), the growth rate of industrial producer prices again increased in 1997 (to 5.7%), largely generated by koruna depreciation. In Q1 1998, industrial producer prices grew quite quickly, but the growth rate gradually weakened (by 1.8% month-on-month and 6.1% year-on-year in January; by 0.9% and 6.7% in February; by 0.1% and 6.5% in March). Inflation acceleration at the beginning of the year resulted from negative expectations and, moreover, was fostered by the impact of koruna depreciation from the end of the previous year. Presumably, domestic businesses used the space created by koruna weakening for raising the prices of their production in order to cover increased costs.

Chart III. 25. Producer Prices



Construction work prices maintained a relatively high growth rate: a moderate decline in 1996 (by 1.1 p.p. to 11.2%) was replaced by increasing growth in 1997 (by 0.7 p.p. to 11.9%). In the first months of 1998, the trend toward the acceleration of construction work prices continued (to 12.1% year-on-year at the end of March). While in previous years inflation in construction work prices was connected with high demand in this industry (particularly in 1995), the trend toward a gradual decline in construction output in subsequent years accompanied by the high growth rate of prices in this industry indicates that inflation in construction is caused by increasing costs (building material price growth, etc.).

Growth in agricultural producer prices in 1997 considerably decelerated (6.1% in 1995, 6.8% in 1996 and 2.5% in 1997). At the beginning of 1998, inflation moved around 3.5% in January, 4% in February and 5.5% in March. This inflation was largely generated by increasing input prices in agriculture. The developments in recent years have confirmed that agricultural producer prices directly influence food prices and thereby the overall CPI.

IV. MONETARY POLICY MEASURES AND INFLATION OUTLOOK

IV.1. Inflation and its Determinants - An Overview of the Main Trends

During last year, demand inflationary pressures implied by domestic demand growing faster than output, had gradually diminished. The narrowed gap between domestic demand and output created conditions for sound economic growth. This is a result of monetary and fiscal policies and a slowdown in wage growth in the previous period. It is characterised by: a decline of the share of the current account deficit in GDP, a considerable reduction of the difference between the rate of investment and the national rate of savings, as well as a reverse in the existing development of labour productivity and real wages. In Q4 1998, for the first time in the recent three years, the year-on-year growth rate of labour productivity outpaced real wages.

This particular development was reflected in the monetary area. In the second half of 1997 and Q1 1998, the long-lasting decline in money supply growth continued. At the same time, growth of credit issues registered a substantial decline.

At the end of 1997, economic growth accelerated. Following a gradual lowering of real GDP growth during the year and its virtual year-on-year stagnation in Q2 and Q3, real GDP increased in Q4 by 2.2% . Exports were the main factor for improvement on the demand side.

However, the fact that balanced economic trends have been launched does not mean that the problems from previous periods have been overcome; the imbalance is still quite extensive. In absolute terms, a considerable gap continues to exist between domestic demand and output, resulting in an ever-diminishing, but still high, current account deficit. The rate of savings lags behind the rate of investment, and the lead of labour productivity growth over that of real wages during one quarter only could not offset the long-established disequilibrium between the two variables. The continuing existence of a certain demand inflationary gap makes it possible for cost inflationary impulses to push through quite easily.

Inflation is also affected by the considerable inertia of inflation expectations in view of inflation stabilisation at a level of about 10% in recent years. In the second half of 1997 and especially at the turn of 1997-1998, inflation expectations were unfavourably affected by political uncertainty and by efforts to reflect risk premiums in the prices of goods and services.

The lag between demand developments and their impact on prices is enlarged by a certain institutional rigidity. Not all markets for goods, services and factors of production function well, and demand impulses are not sufficiently reflected in prices.

At the beginning of 1998, inflation was affected by various factors (mostly cost factors). The main factors were: nominal depreciation of the koruna at the end of 1997; changes in regulated prices, VAT rates and rates on excise taxes for selected commodities; a rise in some food prices; and annual price adjustments from the side of producers and suppliers at the beginning of 1998.

The effects of the above factors resulted in increased inflationary tendencies in the second half of 1997 and in Q1 1998. In Q3 and Q4 1997, monthly indices of both CPI and net inflation increased against the year beginning (in year-on-year terms). In Q1 1998, the price rise further accelerated when in March CPI inflation reached 13.4% and net inflation 7.9%.

IV.2. Monetary Policy

In the second half of 1997, monetary policy was implemented under the conditions of gradual calming on the money and foreign exchange markets after the May exchange rate turbulence. This allowed the CNB to start landing high interest rates. On 26 June, the Lombard rate was lowered to 23%, and the limit repo rate gradually fell (in 23 steps) from 75% to 14.5% on 4 August. The yield curve in August stabilised at a level about 2 p.p. higher than in the period before the turbulence, and the exchange rate index stopped weakening and settled at ca. 8 - 10% below the former central parity. In Q3 1997, the strengthening of monetary stability was favourably affected by the adjustment of desirable macroeconomic proportions.

During Q4 1997, pressures on the koruna were renewed for a short period as a result of increasing tensions on the domestic political scene culminating in the Government's resignation, and also in connection with the Asian financial crisis. The koruna almost reached the limit of 20 CZK/DEM as of 10 December and the limit repo rate was raised in two steps from 14.5% in August to 18.5% as of 1 December. Thanks to the fading of the negative effects of the above factors and following the appointment of the new Government, the situation stabilised relatively quickly. The limit repo rate fell in six quick steps to 14.75% and the exchange rate strengthened to CZK 19.30/DEM at the end of 1997. Therefore, the inflationary impulses following from temporary koruna depreciation were not significant.

Despite a gradual restoration of external balance, the implementation of monetary policy at the beginning of 1998 was affected by uncertainties with respect to the sustainability of the favourable trends and by forecasts indicating the rapid slowdown of economic growth. In addition, cost inflationary pressures, which replaced demand pressures prevailing in the previous period, strengthened.

When evaluating the economic and monetary developments in December 1997, the December balance of trade and public budget deficits were considered the main risk factors of an increase in potential inflationary pressures while the slowing growth rate of demand and lower growth in average wages were considered favourable factors. Because some of the negative factors seemed to be only temporary, the Board decided at the end of January 1998 not to change the extent of monetary policy restriction, but warned that the continuation of unfavourable trends may lead to policy tightening. The Board decided to lower the Lombard rate from 23% to 19% effective 23 January. This step was aimed at stabilising the situation on the money and foreign exchange markets by narrowing the corridor for short-term interest rate movement and thereby reducing fluctuation.

The sharp increase in price indices in January 1998 generated temporary nervousness on the market accompanied by speculation on a possible rise in the CNB base interest rates. Although January inflation growth was higher than expected, the Board maintained that there is no imminent threat to the inflation target, defined for net inflation. The Board assumed that the month-on-month inflation rate in February should return to the common levels and that the cost inflationary shock would be quickly absorbed. The wage and exchange rate developments continued to impose uncertainties. The Board emphasised the necessity to continue controlling domestic demand and to implement economic and political measures on the part of the Government that would strengthen the supply side of the economy.

The analysis of February inflation (for both consumer and producer prices) showed that the absorption of price shocks was slower than expected and that the inflation target for the end of 1998 could be threatened. The public sector influence on economic growth (local budget deficits), the sustainability of favourable wage growth particularly in the non-public sector and unfavourable inflation expectations were regarded as risk factors. In order to eliminate the potential creation of inflation expectations, the Board decided to raise the short-term repo rate from 14.75% to 15% effective 20 March.

During Q1 1998, the koruna strengthened slowly but consistently, and the CNB foreign exchange reserves substantially grew throughout February and March. Since the exchange rate short-term developments did not correspond to macroeconomic fundamentals and there was a need to reduce the

expanding short-term fluctuations, the CNB openly intervened on the foreign exchange market. In reaction to this intervention, the exchange rate slightly weakened and then remained stable throughout the first half of April.

IV.3. Inflation Outlook

Inflation development in the forthcoming period will be influenced by the following factors:

Prices should be favourably affected by the development of the relationship between the growth rates of domestic demand and output. The continuation of the existing restrictive economic policies will further reduce demand, mainly fixed capital creation and government consumption. However, it is uncertain to what extent domestic demand restriction will be reflected in reducing the external imbalance and to what extent in decreasing demand inflationary pressures.

Demand for investment will be determined by a continuation of the present monetary policy, low credit issuance of the banking sector, austere fiscal policy and a return from the relatively high values of gross capital creation relative to GDP registered in 1995 - 1996 to a more common level. The expansion of investment activities can be expected in industrial companies which underwent restructuring and which are making profits due to export incomes.

Government consumption development is also uncertain. The state budget at the beginning of 1998 indicates the emergence of demand inflationary pressures. The developments of local budgets indicate a permanent inclination towards deficits and debts. The development of the system of public budgets will therefore be difficult to predict and can generate undesirable growth in public sector demand.

Based on the decline in real incomes and real average wages, a low growth rate for household consumption is expected. Changes in household wealth (e.g. in connection with price developments on financial markets or real estate markets) which could more seriously affect consumption, are not very probable. Nonetheless, some risks exist in the case of wage development. The public obviously considers the present suppression of wage growth as an extraordinary and temporary measure and not as an inevitable and longer-term correction of the previous uneven development. Wages as the main factor of domestic demand thereby still represent a potential risk for inflation and the exchange rate, although rising unemployment will moderate such pressures.

During 1998, inflation will also be influenced by cost impulses. In particular, an increase in regulated prices as of 1 July 1998 will be reflected in overall inflation. This price change will not be directly reflected in net inflation, but indirect inflationary pressures can be expected, affecting net inflation. These secondary pressures can emerge via a wage indexation mechanism in response to an increase in the cost of living. Potential indexation pressures on wage growth will, however, be weakened by expanding unemployment. The income effect can also contribute to reducing inflationary pressures, as it leads to decreasing household demand for commodities with unregulated prices. However, growth in regulated prices can, on the contrary, support inflationary tendencies through price contagion and leaking over to the segment of unregulated prices. Another risk is the continuation of cost pressures on food prices whose development can reflect the pressure on the price growth of agricultural primary production.

Due to the openness of the Czech economy, inflation will be strongly affected by the development of the nominal exchange rate. The exchange rate will be influenced by a gradual renewal of macroeconomic equilibrium and the stabilisation of economic trends. Some risks may arise from the developments on the world financial markets and from political uncertainty in connection with elections.

Other uncertainties also exist in the area of global raw material prices. It cannot be assumed that the recent favourable price development in this area will automatically continue in the future.

A relatively unfavourable outlook exists for some indicators of inflation expectations. The increases in month-on-month and year-on-year price indices at the beginning of 1998 did not help form disinflation expectations. This risk factor of future inflation development has also been confirmed by forecasts made by numerous institutions.

In the near future, monetary policy will have to take into account several factors which are risky from the viewpoint of inflation, particularly wages and public finance. Potential inadequately high growth in wages or a rise in public finance deficits will generate an appropriate monetary policy response directed at increasing restriction. If monetary policy is actually forced in this direction, the costs of the disinflation process might be higher.

Tab. IV. 1. Forecast of Inflation Development in 1998

Institution	Inflation in % (y-o-y) (December/December)	Inflation rate	Date of publication
Ministry of Finance	x	11.0 - 11.7	12 Mar. 1998
Komerční banka	8.5 - 10.0	10.0 - 11.0	20 Feb. 1998
ČSOB	9.6	10.7	9 Mar. 1998
Živnostenská banka	x	9.5 - 12.0	3 Jan. 1998
CSO	10.5 - 12.0	x	3 Feb. 1998
Patria Finance	x	11.0	26 Feb. 1998
Wood Commerz	x	13.00	9 Apr. 1998
Expandia Finance	x	11.6	13 Feb. 1998
Creditanstalt	x	9.5	3 Jan. 1998
OECD	x	11.5	10 Apr. 1998

Favourable March development of the month-on-month CPI as well as net inflation, however, could be the first signal of reversing the existing undesirable trend in inflation growth. If this development is also confirmed in the months to come, and the economy is not exposed to any external shocks and if the above risk factors do not deepen, meeting the inflation target in 1998, near its upper limit, will be realistic. Nevertheless, it is necessary to take into consideration that values of the CPI and net inflation will culminate in May, and only then will they start to fall. This is due to low bases in the first five months of 1997 when inflation was receding. For this reason, inflation assessment in April and May will require a prudential approach.

Minutes of the CNB Board Meeting on 22 January 1998

The Board classified numerous signals indicating that demand growth deceleration would continue. Private consumption would be formed by decreasing growth in average wages, particularly in the public sector. Rising unemployment would prevent wages from accelerating. An opinion was expressed that unemployment, together with other uncertainties, would avert a fall in savings. Investment demand corresponded to the level of interest rates and would be affected to a greater extent by prudential behaviour of the banking sector in granting new credits.

The discussion focused on the problem of whether the unfavourable development of the trade deficit in November and December had not meant a change in the trend which could have led to the reappearance of the external imbalance. The January data on the balance of trade were not available at the time of the Board meeting. The trade deficit for December amounting to approx. CZK 17 bn was unexpectedly unfavourable. There was uncertainty about the impact of demand deceleration on the current account. Consequently, there was no agreement on whether a decline in monthly deficits could be expected in 1998. It was stated that the pace of economic restructuring was not sufficient. In addition, the high share of investment in the infrastructure during recent years did not directly increase the potential product or export capacity of the country. The export potential was mainly increased by a narrow segment of the restructured part of the economy, e.g. the automobile industry. With regard to Asian events, economic growth in OECD countries was also identified as a source of uncertainty. The Board also considered a hypothesis, according to which the change in the balance of trade had the character of a short-term deviation due to seasonal factors and creating stocks of imported goods in advance.

The Board evaluated the adequacy of interest rate levels from the point of view of financial market development. The consequences of the Asian crisis could result in the reassessment of the Czech economy's risk premium by foreign investors. For this reason, any easing of monetary policy would be risky. In addition, the November and December trade deficits were regarded as a potential impulse for weakening the exchange rate. At the same time, it was stated that the growth in foreign credits would probably not affect the exchange rate significantly, because a considerable portion of these credits was linked to export activities.

The reaction of the financial markets to short-term fiscal development was discussed next. The Board identified two potential impulses for weakening of the exchange rate: the higher-than-expected 1997 state budget deficit and the gradual publishing of a hidden public debt. However, from a longer-term point of view, the improved transparency of public finance was viewed as a very favourable factor.

Despite numerous uncertainties, estimates of future inflation were in compliance with the inflation target. The data on January inflation were not yet available. December data on prices and demand signalled moderation of the expected growth in industrial producer prices. At the same time, it was stated that this favourable outlook could be threatened by the effects of January re-pricing. The anticipated influence of an increase in the pace of deregulation did not pose any threat to meeting the inflation target, although it was evident that in the first months of 1998, net inflation would increase.

The Board identified as one of the uncertainties of the decision-making process the longer-term development of the external imbalance. In view of the fact that the accumulated external imbalance was quite extensive, it was not clear whether the correction in the economic policy in the preceding period was sufficient and whether the current account developments at the end of 1997 did not call for further corrections.

At its January meeting, the Board for the first time made decisions on interest rate setting within the framework of inflation targeting. Available information did not signal that a change in rates was necessary. The repo rate remained at 14.75%. The Board also decided to lower the Lombard rate from 23% to 19% (effective 23 January). This technical measure was aimed at reducing the volatility of short-term interest rates.

Minutes of the CNB Board Meeting on 19 February 1998

The Board stated that the January price increases were higher than indicated in last month's analyses, in consumer prices as well as industrial and agricultural producer prices and prices of services. After the January price surge, the short-term inflation forecast moved in the upper part of the interval for the 1998 inflation target. An opinion was expressed that the January price rise could mostly be explained by cost factors and that because of low demand, a correction of monthly price increases could be expected in the months to follow. Yet, some Board members pointed to the risk of inertia in accumulated demand pressures and a potential threat to the short-term inflation target.

With respect to domestic demand development in the medium-term horizon, it was stated that the money supply growth was stable and should not lead to higher domestic demand growth in the future. The data on real household consumption in Q3 1997 indicated a growth rate decrease generated to a large extent by price movements. Further developments in this area would depend on ongoing wage bargaining. A balanced state budget predetermined the level of government consumption. Growth in credits to the business sector, slowed by prudential bank behaviour, did not create space for investment acceleration.

Wage and exchange rate developments were identified as the sources of uncertainty in the short-time horizon of several upcoming months. All members agreed that, due to difficulties in predicting the January price corrections, and the necessity of not subjugating monetary policy decisions to short-term effects, the decision on raising interest rates should not be based on the unexpectedly high month-on-month price rise in the first month of 1998.

Based on an evaluation of the economic situation, the Board decided to maintain the repo rate at its current level. In this way, a consensus was reached to reject the alternative of raising interest rates. This alternative was under consideration because of the effects of short-term inflationary impulses, including the risk of aggravating inflation expectations due to inflation development in January.

Minutes of the CNB Board Meeting on 19 March 1998

The Bank Board discussed two alternatives of monetary policy measures: raising the repo rate or maintaining it at its current level. In March, a debate concerning the above alternatives was generated by new information, signalling that the risks of higher future inflation might outweigh the favourable trends in the economy.

This discussion on repo rate raising was incited first of all by unfavourable developments in the major price indices (CPI, PPI and CPIx). After the first two months of 1998, the indices signalled that without an adequate policy response, net inflation in December 1998 might exceed the upper limit of the target interval. At the same time, available CPI forecasts suggested that target net inflation should rather be in the middle of this interval to compensate for the expected higher CPI inflation. The upward slope of the interest yield curve indicated that inflation expectations were not sufficiently settled on the disinflation trajectory. Hence, it was important to strengthen the credibility of the medium-term inflation target. It was said during the discussion that, although the observed exchange rate development supported the gradual reduction of inflation, it would not be desirable to shift the weight of the monetary transmission mechanism from the interest rate to the exchange rate channel.

The Board preferred using the repo rate to signal its intention to defend the target as opposed to significantly increasing the repo rate. The Board took into consideration that expected demand inflationary pressure decreased. The development of monetary aggregates corresponded to the inflation target. The external imbalance and the exchange rate did not indicate any significant external inflationary impulses. However, possible strengthening of the exchange rate was not considered to be sustainable in the medium-term.

The Board identified a series of uncertainties when deciding on the extent of the repo rate change. It was not clear to what extent the January and February data on inflation development were affected by a reaction of the private sector to administrative measures and by the effort to reflect various inflationary impulses in annual re-pricing. It was difficult to classify the effects of public sector behaviour on economic development and for this reason, the Government initiative aimed at making fiscal operations more transparent was supported. The sustainability of the relatively favourable wage development particularly in the public sector and deficit tendencies in the area of public finance outside the state budget were also subjects of discussion.

After extensive discussion, the Board decided by a majority vote to increase the 2W repo rate by 0.25 p.p. to 15%.

STATISTICAL ANNEX

INFLATION DEVELOPMENT

increase in %, same period of last year = 100

		1995											
		1	2	3	4	5	6	7	8	9	10	11	12
Consumer prices		8,9	9,5	9,6	10,2	10,2	10,0	9,7	9,0	8,6	8,1	8,0	7,9
Regulated prices	1)	5,0	4,8	4,9	6,7	6,7	7,2	9,4	9,4	9,7	10,0	10,1	10,2
(share in consumer price growth)	1)	*1,17*	*1,13*	*1,15*	*1,56*	*1,57*	*1,69*	*2,19*	*2,19*	*2,25*	*2,28*	*2,30*	*2,29*
Influence of indirect tax growth in unregulated prices													
(share in consumer price growth)		*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*
Net inflation		10,2	10,9	10,9	11,2	11,3	10,8	9,8	8,8	8,2	7,5	7,3	7,3
(share in consumer price growth)	1)	*7,86*	*8,38*	*8,41*	*8,59*	*8,68*	*8,33*	*7,54*	*6,80*	*6,32*	*5,86*	*5,72*	*5,65*
of which:food	1)	13,7	14,7	14,7	14,4	14,1	12,6	10,0	7,8	6,8	5,9	5,5	5,4
(share in consumer price growth)	1)	*4,38*	*4,71*	*4,69*	*4,63*	*4,53*	*4,08*	*3,22*	*2,55*	*2,23*	*1,95*	*1,82*	*1,80*
adjusted inflation	1)	7,8	8,3	8,3	8,9	9,3	9,6	9,7	9,6	9,3	8,9	8,9	8,7
(share in consumer price growth)	1)	*3,48*	*3,67*	*3,71*	*3,96*	*4,15*	*4,26*	*4,31*	*4,26*	*4,09*	*3,91*	*3,90*	*3,85*
Rate of inflation	2)	9,9	9,8	9,8	9,9	10,0	10,0	10,0	9,9	9,8	9,6	9,3	9,1
		1996											
Consumer prices		9,0	8,6	8,9	8,5	8,7	8,4	9,4	9,6	8,9	8,7	8,6	8,6
Regulated prices	1)	12,6	12,5	12,5	11,3	11,4	9,9	11,8	14,1	13,0	13,0	13,6	13,8
(share in consumer price growth)	1)	*2,85*	*2,82*	*2,81*	*2,57*	*2,59*	*2,27*	*2,74*	*3,28*	*3,05*	*3,02*	*3,16*	*3,17*
Influence of indirect tax growth in unregulated prices													
(share in consumer price growth)		*0,34*	*0,34*	*0,34*	*0,34*	*0,34*	*0,34*	*0,34*	*0,34*	*0,34*	*0,34*	*0,34*	*0,34*
Net inflation		7,4	7,0	7,4	7,3	7,4	7,4	8,2	7,8	7,1	7,0	6,6	6,6
(share in consumer price growth)	1)	*5,73*	*5,40*	*5,72*	*5,61*	*5,74*	*5,75*	*6,29*	*5,96*	*5,47*	*5,37*	*5,09*	*5,09*
of which:food	1)	6,6	5,9	7,0	7,5	8,1	8,4	9,9	9,1	7,9	8,0	7,4	7,4
(share in consumer price growth)	1)	*2,20*	*2,00*	*2,34*	*2,50*	*2,71*	*2,79*	*3,21*	*2,93*	*2,56*	*2,60*	*2,41*	*2,41*
adjusted inflation	1)	8,0	7,7	7,7	7,1	6,9	6,7	6,9	6,8	6,6	6,3	6,0	6,1
(share in consumer price growth)	1)	*3,53*	*3,40*	*3,38*	*3,10*	*3,03*	*2,96*	*3,07*	*3,03*	*2,91*	*2,78*	*2,68*	*2,68*
Rate of inflation	2)	9,1	9,1	9,0	8,9	8,8	8,6	8,6	8,7	8,7	8,7	8,8	8,8
		1997											
Consumer prices		7,4	7,3	6,8	6,7	6,3	6,8	9,4	9,9	10,3	10,2	10,1	10,0
Regulated prices	1)	12,6	12,7	12,6	13,0	13,3	13,3	25,6	22,7	23,2	23,0	22,6	22,7
(share in consumer price growth)	1)	*2,49*	*2,49*	*2,47*	*2,55*	*2,59*	*2,58*	*5,15*	*4,68*	*4,78*	*4,72*	*4,63*	*4,62*
Influence of indirect tax growth in unregulated prices													
(share in consumer price growth)		*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*
Net inflation		6,1	5,9	5,3	5,2	4,6	5,2	5,3	6,6	6,9	6,9	6,9	6,8
(share in consumer price growth)	1)	*4,93*	*4,76*	*4,29*	*4,18*	*3,72*	*4,17*	*4,20*	*5,25*	*5,51*	*5,50*	*5,48*	*5,42*
of which:food	1)	6,0	5,5	4,2	3,6	2,6	3,4	3,5	5,6	6,1	5,8	5,8	5,6
(share in consumer price growth)	1)	*1,98*	*1,79*	*1,39*	*1,20*	*0,86*	*1,14*	*1,13*	*1,80*	*1,97*	*1,87*	*1,88*	*1,82*
adjusted inflation	1)	6,2	6,3	6,1	6,3	6,1	6,4	6,5	7,3	7,5	7,7	7,6	7,6
(share in consumer price growth)	1)	*2,96*	*2,97*	*2,90*	*2,98*	*2,87*	*3,03*	*3,07*	*3,44*	*3,54*	*3,63*	*3,60*	*3,60*
Rate of inflation	2)	8,7	8,6	8,4	8,2	8,0	7,9	7,9	7,9	8,1	8,2	8,3	8,5
		1998											
Consumer prices		13,1	13,4	13,4									
Regulated prices	1)	30,8	30,9	31,0									
(share in consumer price growth)	1)	*6,39*	*6,41*	*6,42*									
Influence of indirect tax growth in unregulated prices													
(share in consumer price growth)		*0,70*	*0,70*	*0,70*									
Net inflation		7,5	7,9	7,9									
(share in consumer price growth)	1)	*6,00*	*6,31*	*6,32*									
of which:food	1)	6,0	6,8	7,2									
(share in consumer price growth)	1)	*1,97*	*2,22*	*2,40*									
adjusted inflation	1)	8,5	8,6	8,4									
(share in consumer price growth)	1)	*4,03*	*4,09*	*3,92*									
Rate of inflation	2)	8,9	9,5	10,0									

1) CNB calculation
2) Moving average of CPI for last 12 months to previous 12 months

Source: CSO

INFLATION DEVELOPMENT

increase in %, previous month = 100

		1995											
		1	2	3	4	5	6	7	8	9	10	11	12
Consumer prices		1,4	0,8	0,3	1,0	0,4	1,0	0,1	-0,0	0,9	0,6	0,7	0,5
Regulated prices	1)	1,6	0,3	0,1	1,8	0,1	1,9	2,2	0,1	1,0	0,3	0,2	0,0
(share in consumer price growth)	1)	*0,36*	*0,07*	*0,03*	*0,41*	*0,03*	*0,43*	*0,51*	*0,02*	*0,23*	*0,06*	*0,04*	*0,01*
Influence of indirect tax growth in unregulated prices													
(share in consumer price growth)		*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*
Net inflation		1,2	1,0	0,3	0,7	0,5	0,8	-0,6	-0,1	0,9	0,7	0,8	0,7
(share in consumer price growth)	1)	*1,00*	*0,77*	*0,25*	*0,55*	*0,39*	*0,62*	*-0,46*	*-0,04*	*0,70*	*0,56*	*0,62*	*0,50*
of which:food	1)	1,5	1,2	0,0	0,4	0,2	0,9	-2,4	-0,6	1,3	0,9	1,0	1,0
(share in consumer price growth)	1)	*0,51*	*0,40*	*0,01*	*0,12*	*0,08*	*0,29*	*-0,79*	*-0,21*	*0,41*	*0,29*	*0,33*	*0,32*
adjusted inflation	1)	0,8	0,6	1,0	0,7	0,7	0,8	0,4	0,7	0,6	0,7	0,4	0,4
(share in consumer price growth)	1)	*0,49*	*0,37*	*0,24*	*0,43*	*0,31*	*0,33*	*0,33*	*0,17*	*0,29*	*0,27*	*0,29*	*0,19*
		1996											
Consumer prices		2,3	0,5	0,6	0,6	0,5	0,8	1,0	0,2	0,3	0,5	0,5	0,5
Regulated prices	1)	3,9	0,2	0,1	0,8	0,2	0,5	3,9	2,2	0,1	0,2	0,8	0,1
(share in consumer price growth)	1)	*0,89*	*0,05*	*0,03*	*0,18*	*0,05*	*0,12*	*0,91*	*0,52*	*0,02*	*0,05*	*0,18*	*0,03*
Influence of indirect tax growth in unregulated prices													
(share in consumer price growth)		*0,34*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*
Net inflation		1,4	0,6	0,7	0,6	0,6	0,8	0,1	-0,4	0,3	0,6	0,5	0,7
(share in consumer price growth)	1)	*1,07*	*0,44*	*0,55*	*0,45*	*0,49*	*0,63*	*0,08*	*-0,34*	*0,25*	*0,45*	*0,34*	*0,50*
of which:food	1)	2,3	0,6	1,1	0,9	0,8	1,1	-1,0	-1,4	0,2	1,0	0,5	0,9
(share in consumer price growth)	1)	*0,76*	*0,19*	*0,35*	*0,30*	*0,28*	*0,37*	*-0,33*	*-0,46*	*0,06*	*0,31*	*0,15*	*0,30*
adjusted inflation	1)	0,7	0,6	0,5	0,4	0,5	0,6	0,9	0,3	0,4	0,3	0,4	0,4
(share in consumer price growth)	1)	*0,31*	*0,25*	*0,20*	*0,16*	*0,21*	*0,26*	*0,41*	*0,12*	*0,19*	*0,14*	*0,19*	*0,20*
		1997											
Consumer prices		1,2	0,3	0,1	0,6	0,1	1,2	3,5	0,7	0,6	0,4	0,4	0,5
Regulated prices	1)	2,6	0,3	0,1	1,1	0,3	0,2	16,0	0,2	0,5	0,0	0,1	0,1
(share in consumer price growth)	1)	*0,53*	*0,06*	*0,02*	*0,23*	*0,06*	*0,04*	*3,30*	*0,04*	*0,13*	*0,00*	*0,02*	*0,03*
Influence of indirect tax growth in unregulated prices													
(share in consumer price growth)		*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*	*0,00*
Net inflation		0,8	0,3	0,1	0,5	0,1	1,4	0,2	0,8	0,6	0,6	0,5	0,6
(share in consumer price growth)	1)	*0,67*	*0,27*	*0,09*	*0,38*	*0,09*	*1,13*	*0,15*	*0,65*	*0,48*	*0,44*	*0,40*	*0,43*
of which:food	1)	1,3	0,0	-0,1	0,3	-0,2	2,0	-0,9	0,6	0,7	0,7	0,5	0,7
(share in consumer price growth)	1)	*0,42*	*0,01*	*-0,04*	*0,11*	*-0,06*	*0,63*	*-0,31*	*0,19*	*0,20*	*0,21*	*0,15*	*0,23*
adjusted inflation	1)	0,5	0,6	0,3	0,6	0,3	1,1	1,0	1,0	0,6	0,5	0,5	0,4
(share in consumer price growth)	1)	*0,25*	*0,26*	*0,13*	*0,27*	*0,15*	*0,50*	*0,46*	*0,46*	*0,27*	*0,23*	*0,25*	*0,20*
		1998											
Consumer prices		4,0	0,6	0,1									
Regulated prices	1)	9,4	0,4	0,2									
(share in consumer price growth)	1)	*2,16*	*0,09*	*0,03*									
Influence of indirect tax growth in unregulated prices													
(share in consumer price growth)		*0,70*	*0,00*	*0,00*									
Net inflation		1,5	0,7	0,1									
(share in consumer price growth)	1)	*1,14*	*0,54*	*0,10*									
of which:food	1)	1,7	0,8	0,2									
(share in consumer price growth)	1)	*0,52*	*0,24*	*0,08*									
adjusted inflation	1)	1,4	0,7	0,0									
(share in consumer price growth)	1)	*0,62*	*0,30*	*0,02*									

1)CNB calculation

Source: CSO

CONSUMER PRICES

increase in %, December 1993 = 100

Group	Constant weights of 1993 in per mille	Months												Average from the year beginning
		1	2	3	4	5	6	7	8	9	10	11	12	
Total - 1991	1000,0	-37,5	-33,6	-30,9	-29,2	-27,8	-26,2	-26,8	-27,1	-27,2	-27,3	-26,1	-25,2	-28,7
Total - 1992	1000,0	-24,1	-23,5	-23,0	-22,6	-22,3	-21,6	-21,0	-21,0	-20,0	-18,5	-16,5	-15,8	-20,8
Total - 1993	1000,0	-8,1	-6,7	-6,2	-5,7	-5,4	-4,5	-4,2	-4,1	-3,1	-2,2	-1,5	0,0	-4,3
Total - 1994	1000,0	2,0	2,4	2,6	3,0	3,4	4,7	5,0	5,7	7,1	8,2	9,0	9,7	5,2
Total - 1995	1000,0	11,2	12,1	12,4	13,5	14,0	15,2	15,2	15,2	16,3	17,0	17,8	18,4	14,8
Food, beverages, tobacco	327,1	13,7	15,2	15,1	15,5	15,8	16,8	14,0	13,3	14,7	15,7	16,9	18,1	15,4
Clothing	90,9	9,6	10,8	12,1	13,1	14,2	14,8	15,2	15,6	17,0	19,1	20,2	21,0	15,2
Housing	143,7	17,1	18,1	18,2	18,5	18,6	21,7	26,1	26,3	28,3	28,6	28,9	29,0	23,3
Household equipment	77,2	4,9	5,8	6,4	7,1	7,5	7,8	8,0	8,4	8,9	9,4	9,9	10,2	7,9
Health care	44,2	2,5	2,5	2,5	2,6	3,5	4,4	5,1	5,6	5,8	6,7	6,8	6,9	4,6
Transport	104,8	6,4	6,8	7,2	9,5	9,8	10,3	10,6	10,7	11,5	11,7	12,2	12,2	9,9
Leisure activities	97,5	7,5	8,1	8,4	10,4	11,3	13,2	15,0	15,4	14,3	14,2	15,4	16,2	12,4
Education	16,9	25,0	25,5	25,8	27,1	27,4	27,9	28,0	28,1	35,5	36,0	36,3	36,3	29,9
Catering and accommodation	47,2	15,4	16,0	16,5	17,2	18,2	18,9	19,5	20,0	20,3	20,7	20,8	21,2	18,7
Other goods and services	50,5	5,7	6,5	6,9	12,1	12,6	13,1	13,6	14,1	14,8	15,4	16,0	16,2	12,3
Total - 1996	1000,0	21,1	21,7	22,4	23,2	23,9	24,8	26,0	26,2	26,6	27,2	27,9	28,6	25,0
Food, beverages, tobacco	327,1	21,7	22,4	23,7	24,8	25,8	27,2	26,0	24,2	24,4	25,6	26,4	27,4	24,9
Clothing	90,9	21,8	22,7	23,5	24,6	25,9	27,1	27,7	28,1	29,2	30,7	31,9	32,7	27,2
Housing	143,7	30,8	31,3	31,6	31,9	31,9	31,9	40,7	45,2	45,7	46,0	46,3	46,4	38,3
Household equipment	77,2	10,6	11,2	11,7	11,2	12,3	12,6	12,9	13,1	13,4	13,6	13,9	14,1	12,6
Health care	44,2	7,1	7,2	7,3	7,3	7,5	7,5	7,4	7,7	8,2	8,6	8,9	9,2	7,8
Transport	104,8	15,4	15,6	16,0	16,6	17,3	18,8	19,1	19,2	19,3	19,7	21,2	21,6	18,3
Leisure activities	97,5	17,3	17,9	18,2	18,0	18,7	20,0	22,3	22,7	21,4	20,5	20,6	21,4	19,9
Education	16,9	73,2	74,7	75,6	76,1	76,3	77,2	77,3	77,3	84,3	84,9	87,7	88,0	79,4
Catering and accommodation	47,2	22,4	23,1	23,5	23,7	24,3	25,0	25,7	26,2	27,1	28,2	28,7	29,0	25,6
Other goods and services	50,5	17,3	17,8	18,3	21,6	22,0	22,3	22,6	22,9	23,2	23,6	24,3	24,9	21,7
Total - 1997	1000,0	30,1	30,5	30,7	31,5	31,7	33,2	37,8	38,8	39,6	40,2	40,8	41,5	35,5
Food, beverages, tobacco	327,1	29,0	29,0	28,9	29,3	29,1	31,6	30,4	31,2	32,0	32,9	33,6	34,5	31,0
Clothing	90,9	33,1	33,6	34,3	35,7	37,0	38,2	38,5	38,8	39,9	42,3	43,7	44,7	38,3
Housing	143,7	48,3	48,9	49,1	49,7	49,7	49,8	78,1	78,6	79,1	79,4	79,7	79,9	64,2
Household equipment	77,2	14,4	15,3	16,1	16,5	16,9	18,3	18,9	19,5	20,7	21,5	22,2	22,9	18,6
Health care	44,2	9,6	9,8	9,8	11,4	12,9	13,9	14,8	15,0	15,3	15,4	15,8	16,3	13,3
Transport	104,8	26,0	23,3	26,3	26,6	26,6	28,1	28,0	31,8	33,0	32,7	32,5	32,8	29,2
Leisure activities	97,5	22,2	23,1	22,9	23,5	23,7	25,7	33,1	33,7	32,2	31,7	32,4	33,2	28,1
Education	16,9	91,9	92,8	93,1	93,3	93,4	94,0	94,1	94,1	104,5	105,4	105,8	105,9	97,3
Catering and accommodation	47,2	29,5	30,3	30,7	31,3	31,5	32,8	34,2	35,1	36,6	37,5	38,1	38,4	33,8
Other goods and services	50,5	25,5	26,4	27,0	31,5	31,9	32,5	33,3	34,0	35,0	35,9	36,8	37,1	32,2
Total - 1998	1000,0	47,1	48,0	48,2										47,8
Food, beverages, tobacco	327,1	38,0	39,1	39,4										38,9
Clothing	90,9	44,5	44,6	45,1										44,7
Housing	143,7	100,7	102,1	102,6										101,8
Household equipment	77,2	23,5	24,6	24,9										24,3
Health care	44,2	17,0	17,4	17,6										17,3
Transport	104,8	40,9	40,9	39,8										40,5
Leisure activities	97,5	34,8	35,8	35,2										35,2
Education	16,9	120,4	122,6	123,9										122,3
Catering and accommodation	47,2	41,4	43,7	44,8										43,3
Other goods and services	50,5	38,0	38,9	38,9										38,6

Source: CSO

NET INFLATION

increase in %

	Months											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1995												
a) previous month = 100	1,2	1,0	0,3	0,7	0,5	0,8	-0,6	-0,1	0,9	0,7	0,8	0,7
b) same period of last year = 100	10,2	10,9	10,9	11,2	11,3	10,8	9,8	8,8	8,2	7,5	7,3	7,3
c) December of last year = 100	1,2	2,3	2,6	3,3	3,8	4,7	4,0	4,0	4,9	5,7	6,6	7,3
1996												
a) previous month = 100	1,4	0,6	0,7	0,6	0,6	0,8	0,1	-0,4	0,3	0,6	0,5	0,7
b) same period of last year = 100	7,4	7,0	7,4	7,3	7,4	7,4	8,2	7,8	7,1	7,0	6,6	6,6
c) December of last year = 100	1,4	2,0	2,7	3,3	4,0	4,8	4,9	4,5	4,8	5,4	5,9	6,6
1997												
a) previous month = 100	0,8	0,3	0,1	0,5	0,1	1,4	0,2	0,8	0,6	0,6	0,5	0,6
b) same period of last year = 100	6,1	5,9	5,3	5,2	4,6	5,2	5,3	6,6	6,9	6,9	6,9	6,8
c) December of last year = 100	0,8	1,2	1,3	1,8	1,9	3,3	3,5	4,4	5,1	5,7	6,2	6,8
1998												
a) previous month = 100	1,5	0,7	0,1									
b) same period of last year = 100	7,5	7,9	7,9									
c) December of last year = 100	1,5	2,2	2,3									

Source: CSO

Prices and fees excluded from the CPI for "net inflation" calculation

	Constant weight in %
A. Items with maximum prices	
a) set by the CR Ministry of Finance	
net rent for rental flats	1,6531
electricity	2,5249
gas	0,9589
medicine and health care output	0,6734
passenger railway transportation	0,2081
telecommunication services - telephone	0,7605
b) set by local authorities	
municipal mass transportation	0,7716
parking services	0,0171
tax services	0,0295
B. Items with prices regulated on a cost-plus basis	
water and sewage	0,9867
heating for households	3,0174
bus transportation	0,6899
post office	0,1163
telegraph	0,0121
gas propane-butane	0,1464
household waste disposal	0,2744
housing-related services for rental flats	0,2495
housing-related services for co-operative flats	0,1131
supplementary educational services (student fares)	0,1785
C. Fees	
health insurance	3,4783
mandatory insurance of motor vehicles	0,4099
registration of two-cylinder motor vehicle holder	0,0196
radio and TV fees	0,8155
signature authentication	0,0629
divorce application fee	0,0154
dog ownership fee	0,0247
postal order C	0,0354
building permit issue	0,0808
	18,3239
Recalculated weight of regulated prices as of 31 Dec.1997 in % 1)	**22,7818**

1) According to the CSO methodology based on the different velocity of particular items during the period

CONSUMER PRICES - TRADABLES AND NONTRADABLES

increase in %

	Constant weight in consumer basket in %	1994	1995	1996	1997	1998					
		Months									
		12	12	12	12	1		2		3	
		a=b	a=b	a=b	a=b	a	b	a	b	a	b
1. Food, beverages, tobacco	32,7	12,0	5,4	7,9	5,6	2,6	7,0	3,4	7,8	3,7	8,2
of which: tradables	32,7	12,0	5,4	7,9	5,6	2,6	7,0	3,4	7,8	3,7	8,2
nontradables	.	.	.	.	.	.	.	.	.	.	.
2. Clothing	9,1	9,2	10,9	9,6	9,1	-0,1	8,6	-0,1	8,2	0,2	8,0
of which: tradables	8,8	9,2	10,7	9,6	9,0	-0,2	11,6	-0,1	8,1	0,1	7,9
nontradables	0,3	9,0	16,6	9,7	12,3	1,2	8,6	2,4	12,4	3,4	12,2
3. Housing	14,4	14,1	13,0	13,5	22,9	11,6	35,4	12,3	35,8	12,6	35,9
of which: tradables	1,1	10,5	9,7	9,4	37,1	14,4	11,8	15,6	24,9	15,4	24,5
nontradables	13,3	14,4	13,3	13,8	21,7	11,4	36,2	12,1	36,6	12,4	36,8
4. Household equipment	7,7	4,3	5,6	3,6	7,7	0,5	8,0	1,4	8,0	1,6	7,6
of which: tradables	7,2	4,1	5,3	3,2	7,5	0,3	7,6	1,1	7,8	1,3	7,3
nontradables	0,5	6,4	9,1	9,0	10,3	2,8	12,2	4,1	11,0	5,3	11,4
5. Health care	4,4	2,4	4,3	2,2	6,5	0,6	6,7	1,0	6,9	1,1	7,0
of which: tradables	.	.	.	.	.	.	.	.	.	.	.
nontradables	4,4	2,4	4,3	2,2	6,5	0,6	6,7	1,0	6,9	1,1	7,0
6. Transport	10,5	5,5	6,4	8,3	9,2	6,1	11,8	6,1	11,5	5,3	10,7
of which: tradables	7,5	3,0	3,0	6,2	6,2	2,9	7,8	2,4	7,3	1,1	6,0
nontradables	3,0	11,5	14,5	13,4	16,6	11,7	18,9	12,6	18,9	12,6	18,8
7. Leisure activities	9,8	5,7	9,9	4,5	9,7	1,2	10,3	2,0	10,3	1,5	9,9
of which: tradables	6,4	3,5	5,9	2,3	4,5	0,6	4,6	0,9	4,5	0,7	4,5
nontradables	3,4	12,0	21,3	11,0	19,8	2,1	19,1	3,5	19,2	2,6	18,2
8. Education	1,7	23,7	10,2	37,9	9,5	7,1	14,9	8,1	15,4	8,8	16,0
of which: tradables	.	.	.	.	.	.	.	.	.	.	.
nontradables	1,7	23,7	10,2	37,9	9,5	7,1	14,9	8,1	15,4	8,8	16,0
9. Catering, accomodation	4,7	12,9	7,3	6,5	7,3	2,2	9,2	3,8	10,3	4,6	10,8
of which: tradables	0,1	3,1	21,3	9,9	17,7	3,5	16,8	4,1	17,0	5,5	17,3
nontradables	4,6	13,2	6,9	6,4	7,0	2,1	9,0	3,8	10,1	4,6	10,6
10. Other goods and services	5,1	5,5	10,1	7,5	9,7	0,7	9,9	1,3	9,9	1,3	9,4
of which: tradables	3,2	5,9	5,8	5,0	7,1	0,1	6,3	1,1	6,8	0,6	5,8
nontradables	1,9	4,7	17,4	11,7	14,3	1,4	15,2	1,7	14,3	2,3	14,6
Total household consumer prices	100,0	9,7	7,9	8,6	10,0	4,0	13,1	4,7	13,4	4,8	13,4
of which: tradables	67,3	8,7	6,0	6,8	6,3	1,9	7,4	2,4	7,8	2,5	7,7
nontradables	32,7	11,7	11,9	12,0	16,8	7,4	23,2	8,3	23,5	8,6	23,6
Tradables - food	32,7	12,0	5,4	7,9	5,6	2,6	7,0	3,4	7,8	3,7	8,2
Tradables - others	34,6	5,5	6,5	5,7	7,0	1,3	7,9	1,4	7,7	1,3	7,2
Nontradables - regulated	18,3	11,6	12,3	14,4	22,7	9,4	30,8	9,8	30,9	10,0	31,0
Nontradables - others	14,4	11,7	11,4	8,9	8,9	4,4	12,9	6,1	13,6	6,6	13,8

a) December of last year = 100
b) same period of last year = 100

INTERNATIONAL SURVEY - CONSUMER PRICES

increase in %

	1990	1991	1992	1993	1994	1995	1996	1997	1998
	12	12	12	12	12	12	12	12	3
1. Central and Eastern Europe									
Czech Republic	9,6	56,6	12,7	18,2	9,7	7,9	8,6	10,0	13,4
Slovakia	.	61,2	10,1	23,2	13,4	9,9	5,8	6,4	
Hungary	.	35,0	23,0	22,5	18,8	28,2	23,6	18,4	
Poland	585,8	70,3	43,0	35,3	29,5	27,8	19,9	13,0	
Russia	20,0	193,0	1090,0	940,0	307,0	197,7	47,7	11,0	
2. European Union Countries									
Belgium	3,4	3,2	2,4	2,8	2,4	2,0	2,5	1,1	1,0
Great Britain	9,5	5,9	3,7	1,6	2,4	3,2	2,5	3,6	
France	3,4	3,2	2,4	2,1	1,6	2,1	1,7	1,1	0,8
Italy	6,1	6,5	5,3	4,2	3,9	5,8	2,6	1,5	1,7
Germany	2,7	3,5	4,0	4,1	3,0	1,8	1,4	1,8	1,1
Netherlands	2,5	3,7	3,2	2,6	2,7	1,6	2,5	2,3	2,3
Spain	6,7	5,9	5,9	4,6	4,7	4,3	3,2	2,0	1,8
Austria	3,3	3,3	4,0	3,3	2,9	1,8	2,3	1,0	
Sweden	10,5	9,3	2,3	4,6	3,2	2,5	-0,2	1,9	1,0
3. Other countries									
Japan	3,1	3,3	1,7	1,3	0,7	-0,3	0,6	1,7	
Canada	4,8	5,6	1,5	1,8	-0,2	1,7	2,2	0,7	
USA	5,4	4,2	3,0	3,0	2,6	2,5	3,3	1,7	1,4
Switzerland	5,4	5,8	4,0	3,3	1,0	1,9	0,8	0,4	0,0

Source: The Economist

MONETARY SURVEY

CZK in bn

	1993	1994	1995	1996	1997	1998		
	12	12	12	12	12	1	2	3
TOTAL ASSETS	720,4	870,4	1039,6	1120,5	1217,6	1164,4	1160,1	1172,3
A. NET FOREIGN ASSETS	89,6	194,4	311,4	281,9	338,5	341,2	344,5	341,7
- assets	187,5	275,8	493,2	538,0	670,7	660,8	647,8	626,0
- liabilities	97,9	81,4	181,8	256,1	332,2	319,6	303,3	284,3
B. NET DOMESTIC ASSETS	630,8	676,0	728,2	838,6	879,1	823,2	815,6	830,6
1. Domestic credits	713,9	817,5	929,5	1029,7	1137,7	1134,4	1131,2	1123,7
a) Net credit to government	35,1	23,1	25,4	28,5	37,9	25,0	34,5	28,9
b) Net credit to National Property Fund	-16,7	-18,0	-15,3	-15,9	-13,1	-13,9	-17,3	-15,7
c) Credits of domestic banks and the CNB	695,5	812,4	919,4	1017,1	1112,9	1123,3	1114,0	1110,5
ca) credits in CZK	669,6	768,9	822,3	888,6	912,6	917,7	916,6	913,3
- enterprises	623,1	722,5	786,8	850,6	864,1	869,2	867,6	863,2
- households	46,5	46,4	35,5	38,0	48,5	48,5	49,0	50,1
cb) foreign exchange credits	25,9	43,5	97,1	128,5	200,3	205,6	197,4	197,2
2. Other net items	-83,1	-141,5	-201,3	-191,1	-258,6	-311,2	-315,6	-293,1
MONEY SUPPLY	720,4	870,4	1039,6	1120,5	1217,6	1164,4	1160,1	1172,3
A. MONEY	359,9	421,8	453,3	475,3	445,1	392,5	389,4	387,7
1. Currency in circulation	59,8	84,0	104,3	118,9	119,3	117,6	116,9	114,7
2. Demand deposits	300,1	337,8	349,0	356,4	325,8	274,9	272,5	273,0
a) Enterprises	209,2	232,2	226,6	229,8	204,1	152,9	151,2	153,0
b) Households	85,2	100,4	117,8	121,5	117,3	117,9	117,9	116,5
c) Insurance companies	5,7	5,2	4,6	5,1	4,4	4,1	3,4	3,5
B. QUASI MONEY	360,5	448,6	586,3	645,2	772,5	771,9	770,7	784,6
1. Time deposits	303,1	387,8	498,8	559,5	634,0	634,1	636,9	651,7
a) Enterprises	61,0	105,2	153,6	175,9	138,2	140,6	136,4	134,7
b) Households	205,8	242,4	303,1	362,8	470,1	476,0	483,2	488,5
c) Insurance companies	36,3	40,2	42,1	20,8	25,7	17,5	17,3	28,5
2. Certificates of deposit, deposit bills of exchange and other bonds 1)	.	.	.	.	.	3,8	3,3	3,2
3. Foreign currency deposits	57,4	60,8	87,5	85,7	138,5	134,0	130,5	129,7
a) Enterprises	11,7	18,6	51,7	45,6	71,6	66,5	64,1	63,5
b) Households	45,7	42,2	35,8	40,1	66,9	67,5	66,4	66,2
Adjusted M2 2)	704,6	845,1	1012,3	1105,8	1217,6	1164,4	1160,1	1172,3
Monetary aggregate L 5)	704,6	845,5	1019,0	1138,9	1241,8	1209,7	1211,1	1221,4
For information:								
Increase to the same month of the previous year								
1. Monetary aggregate M1 3)								
- CZK in bn	53,6	61,9	31,5	22,0	-30,2	-45,3	-48,7	-44,4
- %	17,5	17,2	7,5	4,9	-6,4	-10,3	-11,1	-10,3
2. Monetary aggregate M2 4)								
- CZK in bn	116,5	140,5	167,2	93,5	111,8	81,0	65,8	83,9
- %	19,8	19,9	19,8	9,2	10,1	7,5	6,0	7,7
3. Monetary aggregate L								
- CZK in bn	116,5	140,9	173,5	119,9	102,9	100,2	78,4	91,2
- %	19,8	20,0	20,5	11,8	9,0	9,0	6,9	8,1

1) Due to changes in statistical statements, deposit bills of exchange, certificates of deposit and other bonds are excluded from crown deposits
2) Adjusted for float in 1993 and 1994, short-term operations of some banks and for SPT Telecom deposit with CNB in 1995 and 1996
3) Currency in circulation, demand deposits
4) Currency in circulation, demand deposits, time deposits, residents' foreign currency deposits
5) Adjusted M2 plus T-bills, CNB bills and NPF bills in the portfolios of domestic nonbank institutions

CREDIT ISSUE

	1993	1994	1995	1996	1997	1998		
	12	12	12	12	12	1	2	3
Nonadjusted credits								
Total credits in CZK and foreign currency								
absolute volume, CZK in bn	695,5	812,4	919,4	1017,1	1112,9	1123,3	1114,0	1110,5
year-on-year changes in %	19,1	16,8	13,2	10,6	9,4	11,2	8,9	7,1
CZK credits								
absolute volume, CZK in bn	669,6	768,9	822,3	888,6	912,6	917,7	916,6	913,3
year-on-year changes in %	17,9	14,8	6,9	8,1	2,7	4,5	3,7	2,7
Foreign exchange credits								
absolute volume, CZK in bn	25,9	43,5	97,1	128,5	200,3	205,6	197,4	197,2
year-on-year changes in %	57,0	68,0	123,2	32,3	55,9	55,4	41,7	33,9
Adjusted credits 1)								
Total credits in CZK and foreign currency								
absolute volume, CZK in bn	696,2	807,6	906,1	1014,9	1101,9	1107,1	1106,4	1105,1
year-on-year changes in %	19,2	16,0	12,2	12,0	8,6	8,4	7,1	6,0
CZK credits								
absolute volume, CZK in bn	670,2	763,9	808,8	882,6	922,9	926,6	925,5	922,2
year-on-year changes in %	18,1	14,0	5,9	9,1	4,6	5,0	4,1	3,3
Foreign exchange credits								
absolute volume, CZK in bn	26,0	43,7	97,3	132,3	179,0	180,5	180,9	182,9
year-on-year changes in %	57,6	68,1	122,7	36,0	35,3	30,2	25,9	22,4

1) Credit issue adjusted for exchange rate effects, write-offs, interest capitalisation and banks with licenses revoked

CREDIT BREAKDOWN BY TIME, SECTOR AND TYPE

share in %

	1993	1994	1995	1996	1997	1998		
	12	12	12	12	12	1	2	3
Time structure								
Total crown and forex credits	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
short-term	41,8	40,5	41,9	43,5	42,0	41,8	41,4	41,3
medium-term	28,3	30,2	29,1	25,7	24,8	24,1	24,4	24,2
long-term	29,9	29,3	29,0	30,8	33,2	34,1	34,2	34,5
Sector structure								
Total crown and forex credits	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Businesses	93,1	94,0	95,7	95,7	95,5	95,5	95,5	95,4
Households	6,9	6,0	4,3	4,3	4,5	4,5	4,5	4,6
Other financial institutions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Type structure								
Total crown and forex credits	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Operating	50,4	47,5	51,5	50,9	52,9	53,4	52,7	52,7
Investment (incl. general housing construction)	33,9	33,6	33,2	32,4	31,3	31,3	31,8	32,1
Mortgage	0,4	0,1	0,1	1,0	1,6	1,6	1,7	1,7
Consumer	0,6	0,7	0,8	0,7	0,6	0,7	0,6	0,6
For privatisation	5,4	5,0	3,8	3,0	2,0	1,9	1,8	1,8
For temporary fund shortage	9,1	12,5	9,6	9,2	10,5	9,2	9,5	9,4
For securities purchase	0,2	0,6	1,0	2,8	1,1	1,9	1,9	1,7

Until 1996, only crown credits excluding classified credits (forex credits broken down by sector are not available) and since 1997, total credits

INTEREST RATES ON INTERBANK DEPOSITS

%

	1993	1994	1995	1996	1997	1998		
	12	12	12	12	12	1	2	3
1. AVERAGE PRIBOR RATE 1)								
- 1 day	5,47	10,75	10,83	12,46	12,55	13,48	13,95	13,91
- 7 day	5,90	12,28	11,17	12,61	16,64	15,31	14,87	14,95
- 14 day	6,14	12,38	11,20	12,61	16,77	15,39	15,03	15,01
- 1 month	6,68	12,55	11,01	12,63	17,49	13,22	15,44	15,18
- 2 month	7,34	12,61	10,97	12,62	17,54	16,50	15,79	15,36
- 3 month	8,00	12,65	10,93	12,67	17,50	16,59	15,92	15,52
- 6 month	9,21	12,65	10,89	12,55	17,40	16,64	16,26	15,85
- 9 month	10,69	12,65	10,89	12,24	17,39	16,67	16,35	15,98
- 12 month	11,36	12,66	10,90	12,23	17,36	16,68	16,41	16,08
2.AVERAGE PRIBID RATE 1)								
- 1 day	4,51	10,01	10,52	12,22	10,75	12,18	13,17	13,19
- 7 day	4,92	11,48	10,82	12,35	15,37	14,54	14,32	14,56
- 14 day	5,16	11,55	10,84	12,36	15,45	14,61	14,46	14,62
- 1 month	8,18	11,72	10,63	12,35	16,26	15,47	14,87	14,80
- 2 month	6,34	11,76	10,59	12,34	16,33	15,71	15,18	14,95
- 3 month	7,00	11,80	10,53	12,39	16,35	15,82	15,37	15,14
- 6 month	8,21	11,81	10,48	12,26	16,31	15,87	15,67	15,45
- 9 month	9,56	11,82	10,47	11,96	16,27	15,87	15,75	15,59
- 12 month	10,89	11,83	10,48	11,94	16,23	15,89	15,80	15,69

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

FRA INTEREST RATES

monthly averages in %

	03/97	04/97	05/97	06/97	07/97	08/97	09/97	10/97	11/97	12/97	01/98	02/98	03/98
3 * 6	11,82	11,64	12,59	14,60	14,87	14,15	14,53	14,55	15,89	16,70	16,28	16,00	15,92
3 * 9	11,52	11,48	12,28	14,22	14,51	14,06	14,53	14,54	15,84	16,70	16,29	16,10	15,80
6 * 9	11,00	11,04	11,89	13,33	13,69	13,49	14,02	14,00	15,15	16,03	15,63	15,63	15,43
6 * 12	10,97	10,95	11,80	13,13	13,56	13,40	13,97	14,00	15,16	16,01	15,63	15,72	15,52
9 * 12	10,57	10,71	11,47	12,63	12,96	12,91	13,52	13,54	14,63	15,47	15,08	15,17	15,09
12 * 24	10,44	10,38	10,99	12,16	12,33	12,42	13,00	13,21	14,35	15,28	14,74	15,04	14,95
spread 9*12 - 3*6	-1,25	-0,93	-1,13	-1,97	-1,90	-1,24	-1,01	-1,01	-1,26	-1,23	-1,19	-0,83	-0,53
spread 6*12 - 3*9	-0,55	-0,52	-0,47	-1,09	-0,95	-0,66	-0,55	-0,54	-0,68	-0,69	-0,67	-0,38	-0,28
spread offer - bid (3*6)	0,10	0,10	0,15	0,21	0,20	0,19	0,21	0,19	0,21	0,21	0,20	0,18	0,16
spread offer - bid (12*24)	0,17	0,19	0,18	0,36	0,38	0,38	0,35	0,25	0,29	0,30	0,28	0,20	0,19

IRS INTEREST RATES

monthly averages in %

	03/97	04/97	05/97	06/97	07/97	08/97	09/97	10/97	11/97	12/97	01/98	02/98	03/98
1Y	11,89	11,85	14,82	18,07	15,64	14,55	14,92	15,02	16,58	17,54	16,91	16,67	16,32
2Y	11,17	11,16	12,81	15,34	14,05	13,54	13,94	14,15	15,55	16,58	15,92	15,93	15,69
3Y	11,05	10,96	12,21	14,34	13,08	12,79	13,26	13,64	15,03	15,93	15,37	15,40	15,20
4Y	11,01	10,92	11,94	13,79	12,59	12,31	12,84	13,34	14,68	15,54	15,01	15,06	14,78
5Y	10,98	10,84	11,73	13,28	12,27	12,07	12,50	13,13	14,47	15,25	14,67	14,81	14,49
6Y	10,97	10,79	11,49	12,81	12,11	11,80	12,28	12,88	14,30	15,19	14,81	14,64	14,28
7Y	10,91	10,74	11,41	12,64	11,95	11,63	12,09	12,66	14,15	14,88	14,34	14,42	14,11
8Y	10,94	10,75	11,39	12,47	11,87	11,58	12,03	12,52	14,08	14,90	14,24	14,27	14,01
9Y	10,90	10,73	11,34	12,31	11,73	11,50	11,92	12,37	13,98	14,29	14,14	14,14	13,93
10Y	10,88	10,71	11,29	12,20	11,64	11,46	11,81	12,22	13,86	14,24	13,86	14,02	13,83
spread 2Y - 1Y	-0,72	-0,69	-2,01	-2,73	-1,59	-1,01	-0,98	-0,87	-1,03	-0,96	-0,99	-0,75	-0,64
spread 5Y - 1Y	-0,91	-1,00	-3,09	-4,78	-3,37	-2,48	-2,42	-1,90	-2,12	-2,30	-2,24	-1,86	-1,83
spread 10Y - 1Y	-1,01	-1,13	-3,53	-5,87	-4,00	-3,09	-3,11	-2,80	-2,72	-3,30	-3,05	-2,65	-2,50
spread offer - bid (1Y)	0,12	0,12	0,34	0,38	0,22	0,16	0,13	0,12	0,19	0,23	0,21	0,14	0,13
spread offer - bid (2Y)	0,12	0,13	0,38	0,54	0,30	0,21	0,19	0,18	0,22	0,30	0,22	0,20	0,18
spread offer - bid (5Y)	0,17	0,16	0,47	0,60	0,37	0,25	0,24	0,21	0,25	0,37	0,30	0,23	0,17
spread offer - bid (10Y)	0,35	0,32	0,54	0,76	0,44	0,35	0,29	0,28	0,37	0,46	0,48	0,37	0,35

REAL INTEREST RATES

	Nominal rates			Real rates based on CPI			Real rates based on PPI	
		short-term			long-term			short-term
	PRIBOR 1Y	new credits	time deposits	PRIBOR 1Y	new credits	time deposits	PRIBOR 1Y	new credits
1/93	14,79	14,50	9,22	-6,41	-6,70	-11,98	2,59	2,30
2/93	15,47	14,54	9,41	-6,43	-7,36	-12,49	1,37	0,44
3/93	15,97	15,20	9,71	-5,93	-6,70	-12,19	1,47	0,70
4/93	18,54	15,61	10,07	-3,26	-6,19	-11,73	4,34	1,41
5/93	17,25	15,23	10,42	-4,55	-6,57	-11,38	4,15	2,13
6/93	15,71	15,10	9,42	-6,09	-6,70	-12,38	2,91	2,30
7/93	14,44	14,20	9,39	-6,86	-7,10	-11,91	1,54	1,30
8/93	14,24	14,50	9,56	-7,16	-6,90	-11,84	1,24	1,50
9/93	13,78	15,12	9,57	-7,12	-5,79	-11,33	0,78	2,11
10/93	13,53	14,83	9,67	-6,37	-5,08	-10,23	0,53	1,83
11/93	12,81	13,11	9,57	-5,09	-4,79	-8,33	0,91	1,21
12/93	11,89	14,03	9,60	-6,31	-4,17	-8,60	0,49	2,63
1/94	10,88	11,92	9,74	-0,02	1,02	-1,17	2,68	3,72
2/94	10,00	12,18	9,61	0,30	2,48	-0,09	4,70	6,88
3/94	10,36	12,21	9,68	0,96	2,81	0,28	5,36	7,21
4/94	9,92	12,90	9,47	0,72	3,70	0,27	5,02	8,00
5/94	9,13	12,29	9,29	-0,17	2,99	-0,01	4,13	7,29
6/94	8,30	12,08	9,66	-1,40	2,38	-0,04	3,00	6,78
7/94	8,43	12,27	9,15	-1,27	2,57	-0,55	3,53	7,37
8/94	8,52	11,91	9,29	-1,68	1,71	-0,91	3,72	7,11
9/94	8,99	13,11	9,13	-1,51	2,61	-1,37	4,09	8,21
10/94	10,38	12,22	9,17	-0,32	1,52	-1,53	5,68	7,52
11/94	11,28	12,96	9,23	0,58	2,26	-1,47	6,18	7,86
12/94	12,66	13,34	9,64	2,46	3,14	-0,56	7,06	7,74
1/95	11,52	13,51	9,57	2,62	4,61	0,67	4,52	6,51
2/95	10,79	13,21	9,53	1,29	3,71	0,03	3,39	5,81
3/95	10,44	13,28	9,54	0,84	3,68	-0,06	2,74	5,58
4/95	10,40	12,73	9,53	0,20	2,53	-0,67	2,70	5,03
5/95	10,40	12,40	9,57	0,20	2,20	-0,63	2,80	4,80
6/95	10,82	12,89	9,62	0,82	2,89	-0,38	3,42	5,49
7/95	11,72	12,82	9,68	2,02	3,12	-0,02	4,12	5,22
8/95	11,37	13,33	9,76	2,37	4,33	0,76	3,57	5,53
9/95	11,08	13,09	9,79	2,48	4,49	1,19	3,28	5,29
10/95	11,15	12,93	9,78	3,05	4,83	1,68	3,35	5,13
11/95	11,22	13,11	9,72	3,22	5,11	1,72	3,52	5,41
12/95	10,90	12,90	9,69	3,00	5,00	1,79	3,70	5,70
1/96	10,48	12,67	9,65	1,48	3,67	0,65	4,18	6,37
2/96	10,68	12,71	9,60	2,08	4,11	1,00	4,98	7,01
3/96	10,95	12,68	9,62	2,05	3,78	0,71	5,75	7,48
4/96	11,27	12,75	9,39	2,77	4,25	0,89	6,07	7,55
5/96	11,75	12,96	9,28	3,05	4,26	0,58	6,65	7,86
6/96	12,18	13,13	9,24	3,78	4,73	0,84	7,38	8,33
7/96	12,86	13,69	9,37	3,46	4,29	-0,03	8,46	9,29
8/96	12,75	13,77	9,32	3,15	4,17	-0,28	8,55	9,57
9/96	12,36	13,83	9,40	3,46	4,92	0,50	8,46	9,92
10/96	12,30	13,67	9,47	3,60	4,97	0,77	8,20	9,57
11/96	12,28	13,76	9,43	3,68	5,16	0,83	8,08	9,56
12/96	12,23	13,65	9,33	3,63	5,05	0,73	7,83	9,25
1/97	11,81	13,53	9,10	4,41	6,13	1,70	7,31	9,03
2/97	11,38	13,43	9,38	4,08	6,13	2,08	7,18	9,23
3/97	11,83	13,42	9,26	5,03	6,61	2,46	7,53	9,11
4/97	11,77	13,37	9,29	5,07	6,67	2,59	7,47	9,07
5/97	15,81	23,83	15,55	9,51	17,53	9,25	11,71	19,73
6/97	19,02	21,09	12,98	12,22	14,29	6,18	14,52	16,59
7/97	15,85	17,04	11,68	6,45	7,64	2,28	10,75	11,94
8/97	14,42	15,83	11,06	4,52	5,93	1,16	8,72	10,13
9/97	14,76	15,72	10,98	4,46	5,42	0,68	8,96	9,92
10/97	15,01	15,51	10,79	4,81	5,31	0,59	9,41	9,91
11/97	16,55	15,59	11,22	6,45	5,49	1,12	11,05	10,09
12/97	17,36	16,53	11,58	7,36	6,53	1,58	11,66	10,83
1/98	16,68	15,84	11,88	3,58	2,74	-1,22	10,58	9,74
2/98	16,41	15,83	11,91	3,01	2,43	-1,49	9,81	9,23
3/98	16,08			2,68			9,58	

Note: real rates = nominal rates - actual index (CPI and PPI) in given month

COMMERCIAL BANK INTEREST RATES

%

	1993	1994	1995	1996	1997	1998	
	12	12	12	12	12	1	2
1. AVERAGE RATES ON CREDITS							
IN TOTAL							
A) BY SECTOR IN TOTAL	14,1	12,8	12,7	12,5	13,9	13,7	13,6
of which:							
- state sector	14,6	12,2	12,2	11,7	12,8	12,9	12,8
- private sector (co-operatives included)	14,6	13,5	13,3	13,1	14,5	14,2	14,1
- businesses under foreign control	15,4	12,6	12,3	12,7	14,4	14,1	13,9
- households	7,2	8,1	6,5	7,7	9,3	9,3	9,3
B) BY TIME	14,1	12,8	12,7	12,5	13,9	13,7	13,6
IN TOTAL							
of which:							
- short-term	15,6	12,7	12,5	12,4	14,1	13,8	13,6
- medium-term	15,9	14,5	14,2	13,5	14,6	14,5	14,4
- long-term	10,4	11,2	11,5	11,8	13,0	13,0	12,9
2. AVERAGE RATES							
ON NEWLY GRANTED CREDITS							
A) BY SECTOR IN TOTAL	14,6	13,7	13,1	13,6	16,5	15,7	15,7
of which:							
- state sector	16,1	13,2	12,7	13,5	17,6	16,8	16,7
- private sector (co-operatives included)	16,1	14,6	13,4	13,8	17,0	15,5	16,2
- businesses under foreign control	10,4	12,1	11,9	13,2	17,0	16,9	15,3
- households	15,4	14,4	14,1	11,5	12,4	11,7	11,4
- foreign countries	15,7	15,9	14,1	13,0	10,1	13,6	14,4
B) BY TIME							
IN TOTAL	14,6	13,7	13,1	13,6	16,5	15,7	15,7
including:							
- short-term	14,0	13,3	12,9	13,6	16,5	15,8	15,8
- medium-term	16,7	14,8	14,2	14,3	17,0	16,5	15,5
- long-term	14,5	14,2	13,3	12,5	16,0	13,9	14,9
3. AVERAGE RATES ON DEPOSITS							
IN TOTAL							
A) BY SECTOR IN TOTAL	7,0	6,9	6,9	6,7	8,0	8,5	8,5
of which:							
- state sector	7,9	6,3	5,9	6,8	7,9	8,6	8,8
- private sector (co-operatives included)	4,8	5,9	6,1	5,4	6,1	7,0	6,8
- businesses under foreign control	5,4	3,6	5,1	5,0	7,0	7,1	7,8
- households	7,9	8,3	8,0	7,3	9,0	9,1	9,1
B) BY TIME							
IN TOTAL	7,0	6,9	6,9	6,7	8,0	8,5	8,5
including:							
- demand	2,3	2,6	2,8	2,5	2,1	2,1	2,3
- time	11,0	10,6	10,0	9,2	10,9	11,1	11,1
- short-term	9,6	9,6	9,7	9,3	11,6	11,9	11,9
- medium-term	11,8	11,5	10,7	9,8	12,2	12,2	12,2
- long-term	13,7	11,3	8,8	6,2	5,2	5,1	5,0
For information:							
Commercial bank interest rate margin (%)	7,1	5,9	5,8	5,8	5,9	5,2	5,1

BALANCE OF PAYMENTS

CZK in mil.

	1993	1994	1995	1996	1997 2)
A. CURRENT ACCOUNT	13.286,7	-22.643,2	-36.331,3	-116.510,6	-100.106,3
Balance of trade 3)	-15.313,0	-39.750,9	-97.598,6	-159.538,6	-145.585,9
- exports	414.833,0	458.436,6	569.549,1	588.791,5	714.680,0
- imports	430.146,0	498.187,5	667.147,7	748.330,1	860.265,9
Balnce of services	29.465,2	14.052,8	48.881,2	52.198,9	54.936,0
Revenues	137.691,2	148.404,0	178.270,4	222.030,4	226.768,0
- transport	36.186,6	35.757,9	38.757,4	36.209,6	41.236,0
- travel	45.437,4	64.170,3	76.301,3	110.620,0	115.700,0
- others	56.067,2	48.475,8	63.211,7	75.200,8	69.832,0
Expenditures	108.226,0	134.351,2	129.389,2	169.831,5	171.832,0
- transport	21.402,1	24.542,4	21.208,9	18.983,3	20.547,0
- travel	15.368,3	45.605,6	43.330,3	80.170,0	75.500,0
- others	71.455,6	64.203,2	64.850,0	70.678,2	75.785,0
Balance of incomes	-3.424,7	-580,8	-2.804,0	-19.611,0	-20.626,4
- credit	15.952,0	22.713,2	31.696,1	31.765,9	48.176,0
- debit	19.376,7	23.294,0	34.500,1	51.376,9	68.802,4
Current transfers	2.559,2	3.635,7	15.190,1	10.440,1	11.170,0
- revenues	7.024,5	8.523,3	17.631,6	16.752,7	27.552,2
- expenditures	4.465,3	4.887,6	2.441,5	6.312,6	16.382,2
B. CAPITAL ACCOUNT	-16.175,0	0,0	179,1	15,6	324,0
- revenues	5.976,0		307,8	28,1	501,2
- expenditures	22.151,0		128,7	12,5	177,2
Total A + B	-2.888,3	-22.643,2	-36.152,2	-116.495,0	-99.782,3
C. FINANCIAL ACCOUNT	88.184,7	97.019,7	218.288,5	116.632,5	34.319,1
Direct investments	16.421,8	21.551,1	67.021,2	37.674,8	40.451,4
- abroad	-2.628,6	-3.443,3	-971,6	-1.100,0	-800,0
- in Czech Republic	19.050,4	24.994,4	67.992,8	38.774,8	41.251,4
Portfolio investments	46.658,5	24.595,9	36.144,4	19.692,5	34.438,9
Assets	-6.686,9	-1.327,1	-8.565,6	-1.291,1	-6.006,8
- property securities and interests	-6.686,9	-1.327,1	-8.565,6	-1.291,1	19,9
- debt securities					-6.026,7
Liabilities	53.345,4	25.923,0	44.710,0	20.983,6	40.445,7
- property securities and interests	32.569,8	14.369,8	32.761,7	16.340,9	13.783,7
- debt securities	20.775,6	11.553,2	11.948,3	4.642,7	26.662,0
Other investments	25.104,4	50.872,7	115.122,9	59.265,2	-40.571,2
Assets	-83.911,4	-69.582,4	-66.050,8	-64.646,8	-142.725,1
Long-term	13.340,8	12.046,4	1.384,4	-10.769,8	-11.117,6
- CNB					
- commercial banks	-1.431,5	-31,7	-3.353,6	-14.168,2	-11.907,4
- government	8.323,3	8.175,1	3.335,0	1.286,4	519,8
- other sectors	6.449,0	3.903,0	1.403,0	2.112,0	270,0
Short-term	-97.252,2	-81.628,8	-67.435,2	-53.877,0	-131.607,5
- CNB					
- commercial banks	2.163,0	-4.289,4	-2.446,2	-48.976,0	-122.038,5
- government	-97.397,2	-76.040,4	-60.179,4		
- other sectors	-2.018,0	-1.299,0	-4.809,6	-4.901,0	-9.569,0
Liabilities	109.015,8	120.455,1	181.173,7	123.912,0	102.153,9
Long-term	10.131,9	19.865,1	87.965,8	95.193,1	24.047,6
- CNB	1.297,3	-31.712,7	997,8		-368,0
- commercial banks	-2.116,6	11.189,6	60.359,6	46.733,5	-14.875,5
- government	-3.421,5	-5.249,5	-12.047,3	-7.132,6	-11.581,9
- other sectors	14.372,7	45.637,7	38.655,7	55.592,2	50.873,0
Short-term	98.883,9	100.590,0	93.207,9	28.718,9	78.106,3
- CNB	1.670,5	-1.634,7	77,1	-59,6	-9,9
- commercial banks	2.481,8	14.016,0	27.636,1	30.574,9	67.383,7
- government (liability vis-a-vis Slovakia)	91.895,5	86.555,8	56.262,2	-899,6	-69,5
- other sectors	2.836,1	1.652,9	9.232,5	-896,8	10.802,0
Total A+B+C	85.296,4	74.376,5	182.136,3	137,5	-65.463,2
D. BALANCE OF ERRORS AND OMISSIONS AND EXCHANGE RATE DIFFERENCES	3.019,8	-6.121,9	15.779,4	-22.612,6	9.423,2
Total A+B+C+D	88.316,2	68.254,6	197.915,7	-22.475,1	-56.040,0
E. CHANGE IN FOREIGN EXCHANGE RESERVES (- increase)	-88.316,2	-68.254,6	-197.915,7	22.475,1	56.040,0

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

2) Preliminary data

3) Based on data published by the CSO - according to customs statistics methodology effective 1 Jan. 1996;
1993 and 1994 data were taken from the CSO publication "Czech Foreign Trade 1993-1995", Dec. 1997

INVESTMENT POSITION VIS-A-VIS FOREIGN COUNTRIES

CZK in mil.

		1993	1993	1994	1995	1996	1997
		1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
ASSETS		406.103,0	536.388,7	572.874,1	780.693,0	832.925,3	1.025.106,4
Direct investments abroad		2.634,0	5.432,9	8.426,9	9.190,1	10.544,7	13.300,0
- initial capital		2.634,0	5.432,9	8.426,9	9.190,1	10.544,7	13.300,0
- other capital							
Portfolio investments		226,0	8.258,0	12.138,0	20.076,9	37.511,2	35.738,9
- property securities and interests		226,0	7.911,1	9.370,5	18.422,0	20.450,3	14.442,0
- debt securities			346,9	2.767,5	1.654,9	17.060,9	21.296,9
Other investments		378.895,6	406.717,6	377.187,3	378.388,3	444.985,4	637.542,8
Long-term		232.823,7	249.198,8	229.026,4	214.430,3	234.849,6	293.651,8
- CNB		23.102,5	24.572,5	24.573,3	26.172,3	26.122,8	26.122,4
- commercial banks	2)	365,9	1.852,3	1.763,0	5.116,6	25.181,3	37.088,8
- government	3) 4)	167.429,3	186.968,0	174.784,1	157.950,4	160.949,7	203.922,8
- other sectors		41.926,0	35.806,0	27.906,0	25.191,0	22.595,8	26.517,8
Short-term		146.071,9	157.518,8	148.160,9	163.958,0	210.135,8	343.891,0
- CNB		4,7	4,7	4,7	4,7	4,7	0,1
- commercial banks	2)	82.456,2	83.133,2	80.820,2	87.176,3	128.481,1	250.670,9
of which: gold and foreign currency	5) 6)	79.040,1	70.727,5	71.232,8	76.126,9	95.432,8	172.301,6
- government			5.501,9				
- other sectors		63.611,0	68.879,0	67.336,0	76.777,0	81.650,0	93.220,0
CNB reserves		24.347,4	115.980,2	175.121,9	373.037,7	339.884,0	338.524,7
- gold	5)	2.488,2	2.466,4	2.309,3	2.234,6	2.290,3	1.521,9
- SDR		852,5	247,3		4,7		
- foreign currency		21.006,7	113.266,5	172.812,6	370.798,4	337.593,7	337.002,8
LIABILITIES		269.842,8	385.205,3	469.305,5	685.146,2	864.759,4	1.087.812,1
Direct investments to Czech Republic		45.444,3	64.506,7	89.501,1	157.570,6	192.987,3	234.238,7
- initial capital		45.444,3	64.506,7	89.501,1	157.570,6	192.987,3	234.238,7
- other capital							
Portfolio investments		4.812,9	58.583,9	81.617,5	124.933,6	144.807,4	169.032,7
- property securities and interests		75,0	32.985,2	37.335,6	70.280,4	92.867,8	104.862,3
- debt securities		4.737,9	25.598,7	44.281,9	54.653,2	51.939,6	64.170,4
Other investments		219.585,6	262.114,7	298.186,9	402.642,0	526.964,7	684.540,7
Long-term		158.430,0	192.426,3	207.289,7	279.388,9	374.814,7	452.997,6
- CNB		31.109,9	33.697,4	1.695,7	2.491,5	2.272,7	2.188,3
- commercial banks	2)	14.491,1	16.175,5	26.040,1	90.299,3	143.454,2	143.120,2
- government	3)	70.771,0	82.295,1	76.533,9	53.200,2	44.003,7	38.001,1
- other sectors		42.058,0	60.258,3	103.020,0	133.397,9	185.084,1	269.688,0
Short-term		61.155,6	69.688,4	90.897,2	123.253,1	152.150,0	231.543,1
- CNB		8,2	4.581,0	37,9	115,0	55,3	45,5
- commercial banks	2)	19.527,4	22.249,3	41.339,9	69.502,9	101.543,5	168.927,1
- government		0,0	0,0	5.013,4	1.104,1	314,8	287,5
- other sectors		41.620,0	42.858,1	44.506,0	52.531,1	50.236,4	62.283,0
BALANCE OF INVESTMENT POSITION		136.260,2	151.183,4	103.568,6	95.546,8	-31.834,1	-62.705,7

1) Preliminary data

2) In connection with the introduction of CZK convertibility (1 Oct. 1995), crown assets and liabilities vis-a-vis non-residents are included in the bank position. (Non-resident crown deposits are included in commercial bank short-term liabilities as of 31 Dec. 1994)

3) During January 1993, part of the receivables in convertible and non-convertible currencies was transferred from the CSOB position to the Ministry of Finance; in column 1 Jan.1993 these amounts are included in the Government position; the receivable vis-a-vis CIS in data as of 1 Jan.1993 is expressed by the balance of accounts in XTR and USD, while in later periods accounts are kept via turnover

4) Including foreign exchange shares in international non-financial organisations (The World Bank, EBRD, IBEC, IIB)

5) Gold worth USD 42.22 per Troy ounce

6) Foreign exchange - convertible currencies

EXTERNAL INDEBTEDNESS

CZK in mil.

	1993	1993	1994	1995	1996	1997
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
A. INDEBTEDNESS IN CONVERTIBLE CURRENCIES	204.674,7	254.488,1	299.960,7	440.229,3	569.723,6	739.563,0
of which:						
1. Long-term	152.695,1	194.525,0	218.944,5	306.034,4	405.143,6	495.058,5
a) by debtor						
-CNB	35.399,8	58.836,1	22.845,3	22.268,0	11.178,4	11.548,4
- commercial banks 2)	14.491,1	16.175,5	27.620,1	95.433,3	150.780,1	158.503,7
- government	61.147,2	59.477,1	61.763,4	52.101,7	46.738,6	42.877,1
- other sectors	41.657,0	60.036,3	106.715,7	136.231,4	196.446,5	282.129,3
b) by creditor						
- foreign banks	62.121,2	82.849,8	124.224,8	218.310,9	300.910,4	373.453,1
- government institutions	6.685,9	7.346,8	7.482,1	7.039,1	6.631,8	7.269,4
- multilateral institutions	50.127,1	52.891,7	19.889,7	18.987,2	17.645,5	13.894,1
- suppliers and direct investors	29.023,0	25.838,0	32.601,0	24.567,0	27.116,0	33.738,0
- other investors	4.737,9	25.598,7	34.746,9	37.130,2	52.839,9	66.703,9
2. Short-term	51.979,6	59.963,1	81.016,2	134.194,9	164.580,0	244.504,5
a) by debtor						
-CNB	7,9	4.581,0	37,9	115,0	55,3	45,5
- commercial banks 2)	17.819,7	21.117,0	32.610,3	71.911,8	106.852,6	170.147,0
- government			9.535,0	15.114,0	2.786,0	8.164,0
- other sectors	34.152,0	34.265,1	38.833,0	47.054,1	54.886,1	66.148,0
b) by creditor						
- foreign banks	11.402,7	22.256,0	28.467,5	58.874,2	85.424,0	144.881,3
- suppliers and direct investors	33.069,0	29.664,0	34.132,0	41.986,4	45.914,0	55.413,0
- other investors	7.507,9	8.043,1	18.416,7	33.334,3	33.242,0	44.210,2
B. INDEBTEDNESS IN NON-CONVERTIBLE CURRENCIES 3)	19.648,8	33.225,3	42.508,1	17.065,9	9.180,7	9.148,1
of which:						
a) long-term	10.472,8	23.500,0	23.092,1	10.484,7	8.865,9	8.860,6
b) short-term	9.176,0	9.725,3	19.416,0	6.581,2	314,8	287,5
TOTAL INDEBTEDNESS VIS-A-VIS FOREIGN COUNTRIES (A+B)	224.323,5	287.713,4	342.468,8	457.295,2	578.904,3	748.711,1
of which:						
a) long-term	163.167,9	218.025,0	242.036,6	316.519,1	414.009,5	503.919,1
b) short-term	61.155,6	69.688,4	100.432,2	140.776,1	164.894,8	244.792,0

1) Preliminary data

2) As of 31 Dec. 1995 short-term and as of 31 Dec. 1996 also long-term crown liabilities vis-a-vis non-residents are included in commercial bank liabilities in convertible currencies, while in data as of 31 Dec. 1994 means in non-resident crown accounts are included in short-term liabilities in non-convertible currencies and vis-a-vis the Slovak Republic.
(methodological change connected to the introduction of CZK convertibility from 1 Oct. 1995)

3) Indebtedness vis-a-vis the Slovak Republic: in 1993 to 1995 in non-convertible currencies, from 1996 the unsettled balance of mutual accounts after cancelling clearing is given in non-convertible currencies; other liabilities vis-a-vis the Slovak Republic are included in convertible currencies in compliance with the Ministry of Finance Provision No 282/70 490/95 of 22 Dec. 1995.

EXCHANGE RATE

A. NOMINAL RATE

CZK, average rate midpoint

	1993	1994	1995	1996	1997	1998		
	1-12	1-12	1-12	1-12	1-12	1	1-2	1-3
CZK EXCHANGE RATE								
VIS-A-VIS SELECTED CURRENCIES								
1 GBP	43,78	44,03	41,89	42,33	51,95	57,85	57,22	56,95
1 FRF	5,15	5,19	5,32	5,31	5,43	5,82	5,74	5,68
1000 ITL	18,56	17,85	16,30	17,59	18,61	19,81	19,53	19,33
100 JPY	26,32	28,15	28,34	24,99	26,29	27,29	27,33	27,05
1 CAD	22,61	21,09	19,34	19,90	22,91	24,58	24,31	24,21
1 NLG	15,70	15,82	16,53	16,11	16,25	17,30	17,08	16,90
1 ATS	2,51	2,52	2,63	2,57	2,60	2,77	2,74	2,71
1 DEM	17,64	17,75	18,52	18,06	18,28	19,49	19,25	19,05
1 CHF	19,74	21,06	22,45	22,02	21,85	23,99	23,76	23,48
1 USD	29,16	28,78	26,55	27,14	31,71	35,36	34,93	34,62
100 SKK	.	.	89,49	88,57	94,18	100,60	99,11	98,43
	12	**12**	**12**	**12**	**12**	**1**	**2**	**3**
1 GBP	44,37	43,99	41,00	45,48	57,72	57,85	56,60	56,42
1 FRF	5,09	5,21	5,37	5,21	5,84	5,82	5,68	5,56
1000 ITL	17,63	17,28	16,71	17,90	19,94	19,81	19,29	18,93
100 JPY	27,12	28,18	26,21	24,05	26,87	27,29	27,46	26,43
1 CAD	22,34	20,34	19,47	20,10	24,37	24,58	24,04	24,00
1 NLG	15,54	16,02	16,53	15,71	17,35	17,30	16,89	16,54
1 ATS	2,48	2,55	2,63	2,51	2,78	2,77	2,71	2,65
1 DEM	17,41	17,94	18,50	17,63	19,55	19,49	19,03	18,64
1 CHF	20,30	21,21	22,89	20,64	24,16	23,99	23,58	22,89
1 USD	29,76	28,22	26,66	27,34	34,73	35,36	34,54	34,00
100 SKK	.	.	89,76	86,42	100,58	100,60	97,71	97,01

B. REAL RATE

	1993	1994	1995	1996	1997	1998		
	12	12	12	12	12	1	2	3
Index of real exchange rate of CZK/DEM (January 1990=100)								
a) consumer prices	109,69	113,54	115,93	125,31	123,37	126,54	128,50	130,27 1)
b) industrial producer prices	111,39	111,87	114,13	121,64	116,91	118,70	121,32	123,11

1) Estimate

Real exchange rate: nominal exchange rate adjusted for inflation differential (ratio of producer price levels between the CR anad Germany)

STATE BUDGET

CZK in bn, end of period balance

	1993	1994	1995	1996	1997	1998		
	12	12	12	12	12	1	2	3
TOTAL REVENUES	358,0	390,5	440,0	482,8	509,0	49,8	80,8	123,5
Tax revenues	330,2	360,1	409,7	457,4	478,4	47,1	76,6	116,4
Income tax	71,9	70,2	72,7	78,3	74,8	6,9	12,0	18,8
Social security insurance	106,0	130,0	154,3	174,3	191,0	17,7	33,5	48,7
Property tax	0,8	2,1	3,2	3,9	5,0	0,3	0,7	1,2
Domestic taxes on goods and services	111,8	136,4	155,4	174,8	186,3	20,5	26,9	42,4
- VAT	70,4	85,8	94,8	109,3	117,6	13,0	14,0	25,7
- Consumer taxes	37,1	46,4	56,7	61,2	64,2	7,2	12,3	16,1
Foreign trade taxes	15,2	17,4	17,4	19,7	14,9	1,0	2,0	3,2
Other tax revenues	24,4	4,1	6,7	6,4	6,4	0,6	1,4	2,0
Non-tax revenues	27,8	30,4	30,3	25,4	30,5	2,7	4,2	7,1
Corporate and property revenues	14,7	12,8	7,3	8,5	8,5	0,3	0,6	1,7
Fees, fines and penalties and other non-tax revenues	4,0	8,2	16,7	10,4	13,8	2,0	2,8	4,2
Government credit repayment	9,0	9,4	6,3	6,5	8,2	0,3	0,7	1,2
TOTAL EXPENDITURES	356,9	380,1	432,7	484,4	524,7	32,7	76,0	115,9
Current expenditures	324,6	346,7	388,6	427,3	474,1	31,8	72,5	110,1
Expenditures on goods and services	125,6	121,2	109,8	150,2	135,5	4,4	13,3	22,4
Debit interest	13,7		2,6	14,0	17,6	0,9	2,9	4,4
Subsidies and current transfers	180,3	218,3	268,7	259,0	317,4	24,4	54,1	81,1
Subsidies to:	42,8	49,3	77,1	84,5	90,9	5,3	13,0	19,4
- businesses	29,3	27,0	27,8	27,3	31,8	0,7	3,7	5,6
- subsidised organisations	13,5	22,3	49,3	57,3	59,1	4,6	9,2	13,8
Transfers to:	137,4	169,1	191,5	174,4	226,6	19,1	41,2	61,7
- local budgets	17,0	29,3	33,3	16,8	18,0	2,0	6,5	8,5
- households	116,6	136,9	155,6	154,3	206,0	16,9	34,6	52,7
- foreign countries								0,3
Government credits	5,0	7,2	7,6	4,1	3,6	2,2	2,2	2,2
Capital expenditures	32,3	33,3	44,1	57,1	50,6	0,9	3,5	5,8
Investment expenditures to budgetary organisations	19,0	19,7	21,5	24,9	16,4	0,4	0,8	1,5
Capital transfers	13,3	13,6	22,7	32,1	34,2	0,6	2,7	4,3
to businesses	5,0	3,7	5,5	4,6	5,6	0,2	0,5	0,7
to subsidised organisations	8,4	9,9	17,2	27,5	28,6	0,4	2,1	3,6
BALANCE	1,1	10,4	7,2	-1,6	-15,7	17,0	4,8	7,6
For information:								
Budget balance in % of GDP	0,1	0,9	0,5	-0,1	-1,0	.	.	.

CAPITAL MARKET

A. STOCK EXCHANGE

CZK in mil., number

	1993	1994	1995	1996	1997	1998			
	1-12	1-12	1-12	1-12	1-12	1	2	3	1-3
A. VOLUME OF TRADE									
1. Total volume of trade	9020	62026	195407	393200	679537	31898	32924	52525	117347
of which:									
a) Automated system	2009	16026	21985	28772	22081	856	1148	1718	3722
b) Direct trades and block trades	7011	46000	173422	364428	657456	31042	31776	50807	113625
2. Traded issues									
(number of securities - average)	140	376	630	622	385	189	211	214	205
B. TRADE STRUCTURE									
1. Total volume of trade	9020	62026	195407	393200	679537	31898	32924	52525	117347
of which:									
a) Main market (until 1 Sept. 1995 quoted market)	3534	43353	136690	262665	564527	22837	24173	42894	89904
- bonds	1267	15501	57975	112896	366581	18576	16659	30232	65467
- shares and share certificates	2267	27852	78715	149769	197946	4261	7514	12663	24438
b) Free market (until 1 Sept. 1995 unquoted market)	5486	18673	58503	92112	93781	6604	5460	5857	17921
- bonds	624	3931	11789	28584	64521	5221	4554	4174	13949
- shares and share certificates	4862	14742	46714	63528	29260	1383	906	1683	3972
c) Secondary market	.	.	214	38423	21229	2457	3291	3774	9522
- bonds	.	.	.	1785	2134	0	59	529	588
- shares and share certificates	.	.	214	36638	19095	2457	3232	3245	8934
C. INDICES									
PX-50 (average for given period)	.	.	436	522	521	469	470	496	478
PX-GLOB (average for given period)	.	.	610	666	665	570	571	602	581

B. RM - SYSTEM

CZK in mil., number

	1993	1994	1995	1996	1997	1998			
	1-12	1-12	1-12	1-12	1-12	1	2	3	1-3
1. Total volume of trade	2904	4411	27291	100690	158690	18994	15384	17562	51940
of which:									
a) Periodic auction	2904	2278	.	.	.	.	.	.	.
b) Running auction	0	2133	5825	9498	7585	477	508	1036	2021
c) Direct and block trades	0	0	19376	90930	150982	18515	14770	16520	49805
d) Transfers with price declared	0	0	2090	262	123	2	106	6	114
2. Traded issues									
(number of security issues - average)	664	672	600	836	624	519	573	622	571
3. PK-30 (average for given period)	.	.	596	687	713	635	639	687	653

CNB MONETARY POLICY INSTRUMENTS

	As of 1 Jan. 1998	Change during the period			
		1996			
1. REPO RATE		29 Mar.	11.50 %	9 May	11.80 %
a) 1 week		29 Apr.	11.60 %	21 Jun.	12.40 %
		1997			
		16 May	12.90 %	8 Jul.	16.50 %
		19 May	45.00 %	9 Jul.	16.20 %
		23 May	75.00 %	15 Jul.	16.00 %
		2 Jun.	45.00 %	22 Jul.	15.70 %
		6 Jun.	39.00 %	23 Jul.	15.20 %
		11 Jun.	31.00 %	28 Jul.	14.90 %
		13 Jun.	29.00 %	4 Aug.	14.50 %
		18 Jun.	25.00 %	1 Dec.	19.00 %
		20 Jun.	22.00 %	2 Dec.	18.50 %
		23 Jun.	20.00 %	3 Dec.	17.75 %
		24 Jun.	18.50 %	4 Dec.	17.00 %
		30 Jun.	18.20 %	9 Dec.	15.50 %
		1 Jul.	17.90 %	11 Dec.	15.00 %
		7 Jul.	17.00 %		
		1998			
	15.00 %				
		1996			
b) 2 week		29 Mar.	11.50 %	9 May	11.80 %
		29 Apr.	11.60 %	21 Jun.	12.40 %
		1997			
		4 Jun.	39.00 %	23 Jul.	15.40 %
		11 Jun.	29.00 %	24 Jul.	15.20 %
		18 Jun.	25.00 %	28 Jul.	14.90 %
		20 Jun.	22.00 %	1 Aug.	14.70 %
		23 Jun.	20.00 %	4 Aug.	14.50 %
		24 Jun.	18.50 %	31 Oct.	14.80 %
		30 Jun.	18.20 %	1 Dec.	18.50 %
		1 Jul.	17.90 %	2 Dec.	18.00 %
		7 Jul.	17.00 %	3 Dec.	17.50 %
		8 Jul.	16.50 %	4 Dec.	16.75 %
		9 Jul.	16.20 %	9 Dec.	15.50 %
		16 Jul.	16.00 %	10 Dec.	15.00 %
		22 Jul.	15.70 %	17 Dec.	14.75 %
		1998			
	14.75 %	20 Mar.	15.00 %		
		1996			
2. DISCOUNT RATE		21 Jun.	10.5 %		
		1997			
		27 May	13.0 %		
		1998			
	13.0 %				
		1996			
3. LOMBARD RATE		21 Jun.	14.0 %		
		1997			
		16 May	50.0 %	27 Jun.	23.0 %
		1998			
	23.0 %	23 Jan.	19.0 %		
4. MINIMUM RESERVE REQUIREMENT		**1996**			
a) of primary deposits of banks		1 Aug.	11.5 %		
		1997			
		8 May	9.5 %		
		1998			
	9.5 %				
b) of primary deposits of building societies and ČMZRB	4.0 %				

MACROECONOMIC AGGREGATES

CZK in bn, increase in % to the same period of the previous year, constant prices of 1994

	1994	1995	1996	1997
	I -IV Q	I -IV Q	I -IV Q	I -IV Q
1. GROSS DOMESTIC PRODUCT				
- CZK in bn	1148,6	1221,6	1269,4	1281,8
- %	.	6,4	3,9	1,0
2. FINAL CONSUMPTION - TOTAL				
- CZK in bn	827,0	861,8	915,4	921,2
- %	.	4,2	6,2	0,6
of which:				
a) Households	564,0	603,1	645,5	656,1
- CZK in bn	.	6,9	7,0	1,6
- %				
b) Government				
- CZK in bn	255,5	250,3	260,6	255,0
- %	.	-2,0	4,1	-2,1
c) Non-profit institutions				
- CZK in bn	7,5	8,4	9,3	10,1
- %	.	12,0	10,7	8,6
3. CREATION OF GROSS CAPITAL - TOTAL				
- CZK in bn	346,1	426,1	481,5	470,7
- %	.	23,1	13,0	-2,2
of which:				
a) Fixed capital				
- CZK in bn	339,9	411,2	446,8	425,1
- %	.	21,0	8,7	-4,9
b) Stocks and reserves				
- CZK in bn	6,2	14,9	34,7	45,6
4. FOREIGN TRADE BALANCE				
- CZK in bn	-24,5	-66,3	-127,5	-110,1
of which:				
a) Exports				
- CZK in bn	608,0	705,6	743,9	819,9
		16,1	5,4	10,2
b) Imports				
- CZK in bn	632,5	771,9	871,4	930,0
		22,0	12,9	6,7
For information:				
1. DOMESTIC ACTUAL DEMAND				
- CZK in bn	1166,9	1273,0	1362,2	1346,3
- %	.	9,1	7,0	-1,2
2. AGGREGATE ACTUAL DEMAND				
- CZK in bn	1774,9	1978,6	2106,1	2166,2
- %	.	11,5	6,4	2,9
3. GROSS DOMESTIC PRODUCT IN CURRENT PRICES				
- CZK in bn	1148,6	1348,7	1532,6	1649,5
- %	.	17,4	13,6	7,6
4. PRICE DEFLATOR				
- %	.	10,4	9,4	6,6

Source: CSO

HOUSEHOLD CURRENT INCOMES AND EXPENDITURES

increase in % to the same period of previous year

	1993	1994	1995	1996	1997
	I -IV Q	I -IV Q	I -IV Q	I -IV Q	I -IV Q
Current incomes				13,4	10,6
of which:					
- employee compensation				16,9	7,9
- combined income				3,5	15,0
- property income				-0,9	20,4
- social benefits				16,2	13,9
- other current transfers				15,3	7,7
Current expenditures				13,0	11,4
of which:					
- property income				-16,6	-0,8
- current taxes on income and wealth				13,4	10,0
- social contributions				15,2	10,7
- other current transfers				18,1	24,1
Disposable income				13,6	10,2
Changes in net share of households in pension fund reserves				60,6	-4,2
Expenditures on individual consumption				15,6	9,7
Savings				3,6	12,3
Household savings rate (savings/disposable income - share in %)				12,7	13,0

Source: CSO

PRODUCTION

CZK in bn, increase in % to the same period of the previous year

	1993	1994	1995	1996	1997	1998		
	I -IV Q	I -IV Q	I -IV Q	I -IV Q	I -IV Q	1	2	1-2
A. INDUSTRY								
1. TOTAL PRODUCTION OF GOODS 1)	-5,3	2,1	8,7	6,4	.			
2. TOTAL INDUSTRIAL PRODUCTION 2)	.	.	.	1,8	4,5	5,9	8,7	7,2
B. CONSTRUCTION								
1. TOTAL CONSTRUCTION OUTPUT 4)	-7,5	7,5	8,5	4,8	-3,9	13,8	1,6	7,0
of which:								
a) Businesses with 20 or more employees	-10,1	6,0	8,4	4,2	-4,1	13,9	1,9	7,3
b) Businesses with up to 19 employees 3)	1,5	14,7	9,1	8,1	-2,9	13,1	0,2	5,5
C. AGRICULTURE								
1. TOTAL GROSS PRODUCTION 5)								
- CZK in bn	83,1	78,1	82,0	80,9	76,1			
- %	-2,3	-6,0	5,0	-1,4	-5,9			
of which:								
a) Crop production								
- CZK in bn	37,4	34,7	35,7	36,4	35,3			
- %	4,6	-7,2	2,9	2,1	-2,9			
b) Livestock production								
- CZK in bn	45,7	43,4	46,3	44,5	40,8			
- %	-7,3	-4,9	6,7	-4,0	-8,4			

1) Constant prices as of 1 Jan. 1989, from 1997 not monitored
2) Since 1996, the Index of Industrial Production based on statistics of production of selected products
3) Natural entities registered and not registered in the company register included
4) Constant prices
5) Constant prices of 1989

Source: CSO

PRODUCER PRICES

	1993		1994		1995		1996		1997		1998	
	Dec.	Average	Dec.	Average	Dec.	Average	Dec.	Average	Dec.	Average	Mar.	Average
INDUSTRIAL PRODUCER PRICES												
a) previous month = 100	-0,1	0,9	0,3	0,5	-0,2	0,6	0,0	0,4	0,2	0,5	0,1	0,9
b) same period of last year = 100	11,4	13,1	5,6	5,3	7,2	7,6	4,4	4,8	5,7	4,9	6,5	6,4
c) average of 1994 = 100	.	.	2,0	0,0	9,4	7,6	14,1	12,7	20,6	18,2	24,0	23,6
d) December 1993 = 100	0,0	-1,8	6,9	4,8	14,6	12,7	19,6	18,1	26,4	23,9	30,0	29,5
e) moving average	13,1	x	5,3	x	7,6	x	4,8	x	4,9	x	5,5	x
PRICES IN CONSTRUCTION												
a) previous month = 100	1,1	2,0	0,1	0,8	0,1	1,0	0,5	0,9	0,7	0,9	0,4	1,3
b) same period of last year = 100	27,4	25,9	9,7	13,9	12,3	10,6	11,2	11,3	11,9	11,3	12,1	12,4
c) average of 1994 = 100	.	.	2,9	0,0	15,2	10,6	28,0	23,1	43,3	36,8	48,8	47,6
d) December 1993 = 100	0,0	-6,4	11,0	7,9	24,6	19,6	38,5	33,1	55,0	48,1	61,0	59,7
e) moving average	25,9	x	13,9	x	10,6	x	11,3	x	11,3	x	11,7	x
AGRICULTURAL PRODUCER PRICES												
b) same period of last year = 100	4,3	8,4	10,1	4,7	6,1	7,6	6,8	8,3	2,5	2,9	6,4	4,8
e) moving average	8,4	x	4,7	x	7,6	x	8,3	x	2,9	x	3,1	x
of which:												
Crop production												
b) same period of last year = 100	8,3	14,4	-4,0	-4,4	15,6	7,1	12,8	16,7	-4,3	3,3	8,6	4,7
e) moving average	14,4	x	-4,4	x	7,1	x	16,7	x	3,3	x	3,1	x
Livestock products												
b) same period of last year = 100	2,8	4,3	15,8	11,5	2,8	8,1	4,4	5,1	5,6	2,7	5,9	4,8
e) moving average	4,3	x	11,5	x	8,1	x	5,1	x	2,7	x	3,1	x
MARKET SERVICES PRICES												
a) previous month = 100	.	.	.	.	.	.	-0,3	0,4	1,8	0,8	-0,1	0,9
b) same period of last year = 100	.	.	.	.	.	.	5,5	6,2	11,2	9,2	13,8	14,4
c) average of 1994 = 100	.	.	.	.	.	.	17,9	16,3	31,2	26,8	34,8	34,6
d) December 1993 = 100	.	.	.	.	.	.	19,6	17,9	33,0	28,5	36,7	36,5
e) moving average	.	.	.	.	.	.	6,2	x	9,2	x	11,9	x

a) average = average monthly velocity in this year
b,c,d) average = average for the year beginning
e) of averages for last 12 months to averages for previous 12 months

Source: CSO

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