CNB CZECH NATIONAL BANK

INFLATION REPORT

APRIL 1999

CONTENTS:

I. INTRODUCTION

The disinflationary process, which started in 1998 Q2 and accelerated in H2, continued into 1999 Q1. The favourable price developments were reflected in a fall in price indices, which reached their lowest levels since the start of the transformation. At the same time, aggregate output continued to decline and unemployment rose. At the end of Q1, the monthly trade deficits began to widen again.

Year-on-year net inflation stood at -0.4% in March, down 2.1 percentage points against December 1998. Owing to favourable net inflation and a substantially lower increase in regulated prices in January (compared with January 1998), the year-on-year CPI stood at 2.5% in March, 4.3 percentage points lower than at the end of 1998. The inflation rate dropped from 10.7% in December to 8.0% in March.

Prices in 1999 Q1 were affected by the external and internal factors which have been visible since 1998 H2 and which were analysed in the January Inflation Report. The reduction in net inflation was affected by the continuing domestic demand contraction in 1998 Q4, although the latter was more modest than in previous quarters. The slowdown in inflation continued to be generated by low commodity prices on global markets, the unwinding of the effects of the koruna's appreciation (persisting for most of 1998) and the ongoing fall in food prices. The decelerating demand prevented cost-push inflationary pressures from acting too strongly.

GDP fell by 4.1% year-on-year in Q4 and by 2.7% for 1998 as a whole. The positive contribution of net exports to economic growth registered since 1997 Q2 was exhausted. For the first time since 1995, both domestic demand and net exports acted together towards a decline in GDP.

The increased year-on-year money supply growth in January and February 1999 was mainly due to a lower base in the same period a year earlier. In absolute terms, the money supply rose by CZK 2.5 billion during January and February, which, from the point of view of the total quantity of money in the economy, represents a stagnation. This was consistent with the ongoing low increases in bank lending. It indicated that money supply developments in this period probably did not act to strengthen inflation. Interest rates were characterised by a moderating pace of decline in all segments of the financial market. Yield curves had horizontal or slightly positive slopes in the first three months of 1999.

Owing to a moderate rise in real wages accompanied by falling aggregate labour productivity, there occurred a build-up of latent cost inflationary factors in 1998 Q4. These pressures, which are a result of wage inertia and which have yet to be felt at the macroeconomic level, were partially eliminated by rising unemployment. In March 1999, the unemployment rate was 8.4%, its highest level since the start of the transformation.

The external environment had a largely anti-inflationary influence in 1999 Q1, although some inflationary pressures did begin to arise during this period. Oil prices, which had been on the decline for fifteen months, started increasing again in February. Also, from mid-January onwards the koruna was depreciating. Between 11 January and 10 February it fell by 10% against the euro and by more than 13% against the dollar. However, owing to time lags, this was not felt in the inflation level in Q1. Low import prices contributed to extraordinarily low year-on-year increases in industrial producer prices.

In 1999 Q1, the CNB continued to cut its key interest rates. At the end of March, the 2W repo rate was 7.5%, down 2 percentage points from the end of December 1998. This was accompanied by a parallel lowering of the discount and Lombard rates, which create the corridor for repo and short-term market rate movements. This has led to a gradual narrowing of the interest rate differential between the Czech Republic and EMU, and to a situation where the key interest rates have moved towards the level at which the exchange rate is increasingly sensitive to changes in these rates.

The CNB expects the generally anti-inflationary environment to persist during 1999. Domestic demand will continue to be subdued, depressing the cost-push inflation generated by the exchange rate depreciation in 1999 Q1 and by possible further increases in oil prices and renewed growth in raw materials prices on global markets. If the wage inertia continues and is insufficiently offset by rising unemployment, the cost-push inflationary pressures could strengthen.

The conditional inflation projection, which works with a one-year rolling horizon, is based on future inflation expectations. The CNB predicts that given the current monetary policy, year-on-year net inflation will be within the interval of 3.7%–6.7% in March 2000. The CPI will increase at a rate of 6.2%–8.4% year-on-year.

At the end of 1999, year-on-year net inflation will be in the area of the lower limit of the 4%–5% inflation target. Inflation factor forecasts indicate a modest fall in net inflation from 2000 Q2 onwards, which should enable the 3.5%–5.5% inflation target for the end of 2000 to be met.

II. INFLATION DEVELOPMENT

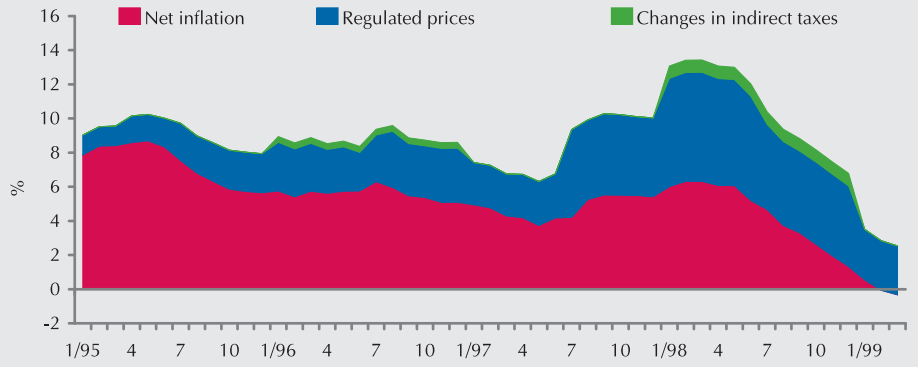
The disinflationary process, which started in 1998 Q2, continued into 1999 Q1. Following a surge at the beginning of 1998 – owing to higher increases in regulated prices, indirect taxes and, partly, net inflation (to 13.4% in March year-on-year) – CPI inflation gradually slowed from April onwards. At the end of 1998 it stood at 6.8%, and it continued to fall steadily to 2.5% at the end of March 1999. The year-on-year decline in 1999 Q1 was attributable to a significant slowdown in regulated price inflation and net inflation and the combined effects of favourable demand and cost inflationary factors. Because the gradual decline in year-on-year net inflation changed in February into an absolute year-on-year fall, the rise in consumer prices at the end of March resulted solely from growth in regulated prices. (Table II.1).

Tab. II.1 Basic data on consumer prices

	3/98		4/98		5/98		6/98		7/98		8/98		9/98		10/98		11/98		12/98		1/99		2/99		3/99	
CPI INFLATION (y-o-y)	13.4		13.1		13.0		12.0		10.4		9.4		8.8		8.2		7.5		6.8		3.5		2.8		2.5	
of which:		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Regulated prices	30.8	*6.38*	30.1	*6.26*	29.8	*6.20*	29.7	*6.11*	21.1	*5.00*	20.9	*4.91*	20.4	*4.79*	20.6	*4.81*	20.5	*4.78*	20.4	*4.73*	12.1	*2.97*	11.9	*2.90*	11.7	*2.87*
Influence of indirect taxes on unregulated prices		*0.73*		*0.73*		*0.73*		*0.73*		*0.73*		*0.73*		*0.73*		*0.73*		*0.73*		*0.73*		*0.00*		*0.00*		*0.00*
Net inflation	7.9	*6.32*	7.6	*6.08*	7.6	*6.07*	6.5	*5.19*	6.1	*4.66*	4.9	*3.73*	4.3	*3.30*	3.4	*2.64*	2.6	*1.96*	1.7	*1.32*	0.7	*0.54*	-0.1	*-0.06*	-0.4	*-0.33*
of which:																										
- food prices	7.2	*2.40*	7.2	*2.44*	7.5	*2.88*	5.8	*1.96*	5.4	*1.75*	3.8	*1.21*	3.1	*1.00*	1.9	*0.60*	0.4	*0.14*	-1.2	*-0.38*	-2.0	*-0.61*	-3.2	*-0.98*	-4.0	*-1.25*
- adjusted inflation	8.4	*3.92*	7.9	*3.64*	7.7	*3.19*	6.9	*3.22*	6.6	*2.91*	5.6	*2.53*	5.1	*2.30*	4.5	*2.04*	4.0	*1.82*	3.7	*1.70*	2.6	*1.15*	2.1	*0.91*	2.1	*0.92*
INFLATION RATE (annual moving average)	10.0		10.5		11.1		11.5		11.6		11.5		11.4		11.2		11.0		10.7		9.8		8.9		8.0	

Note: Contrib. means contribution to CPI inflation

Chart II.1 Structure of CPI inflation (y-o-y)



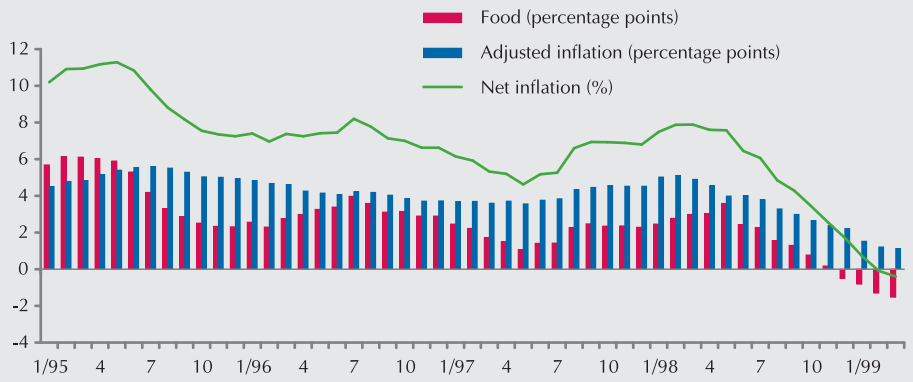
The ongoing downward trend in year-on-year CPI inflation in the first months of 1999 also reflected the month-on-month changes in consumer prices. The higher January month-on-month increase (0.8%) was influenced by the regular faster growth in regulated prices due to the adjustment of several centrally regulated prices, including prices regulated on a cost-plus basis and administratively set fees[1]; however, in comparison with January 1998, the month-on-month rise was considerably lower. In February, consumer prices remained flat, month-on-month, and in March they fell by 0.2%. According to the CSO, the seasonally adjusted month-on-month changes in consumer prices were 0.38% in January, -0.11% in February and -0.08% in March.

1 In January 1999, telephone fees, mandatory motor car insurance and water and sewerage fees were increased.

Net inflation[2]

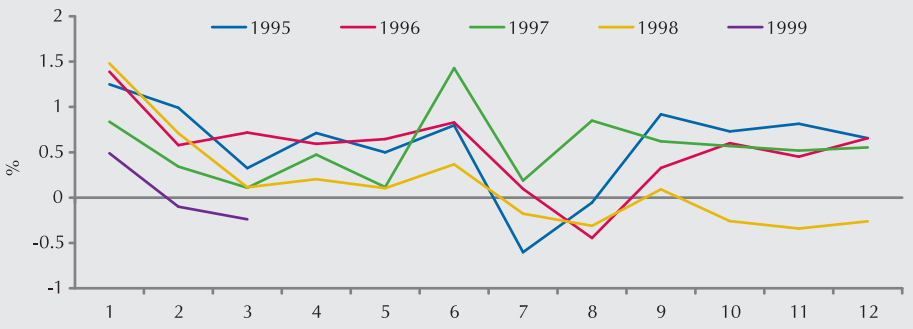
The year-on-year net inflation decline continued into 1999 Q1. After an increase of 1.7% at the end of 1998, year-on-year net inflation dropped to 0.7% in January, and from February onwards it saw negative values (-0.1% in February, -0.4% in March). This was due in particular to a further decline in food prices, which in 1999 Q1 fell by 2.8 percentage points against the end of 1998 to -4.0% at the end of March (year-on-year). Adjusted inflation also indicated a continuation of the 1998 trend; after adjustment for administrative influences, year-on-year adjusted inflation declined by a further 1.6 percentage points during 1999 Q1 to stand at 2.1% at the end of March.

Chart II.2 Structure of net inflation (y-o-y)



The trend in year-on-year net inflation also reflected the month-on-month net inflation outturns, whose changes in individual months of 1999 Q1 were lower compared with the same period a year earlier. In January, net inflation rose by 0.5% month-on-month, and in February it fell by 0.1% and in March by 0.2%. This trend was subject also to seasonal influences. Seasonally adjusted net inflation declined by 0.17% in January, 0.18% in February and 0.03% in March.

Chart II.3 Net inflation in 1995 - 1999 (m-o-m)



2 Net inflation = the CPI adjusted for regulated prices and for the effect of other administrative measures (eg increases in indirect taxes and abolition of subsidies). Within the net inflation index, the food price index and the adjusted inflation index are separately monitored and analysed.

Tab.II.2 Month-on-month net inflation in 1998 and 1999 (in %)

	1/98		2/98		3/98		6/98		9/98		12/98		1/99		2/99		3/99	
		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
NET INFLATION (m-o-m)	1.5	1.14	0.7	0.54	0.1	0.10	0.4	0.28	0.1	0.07	-0.3	-0.19	0.5	0.36	-0.1	-0.07	-0.2	-0.17
of which:																		
- food prices	1.7	0.52	0.8	0.24	0.2	0.08	0.4	0.12	0.0	0.00	-0.9	-0.26	0.9	0.25	-0.5	-0.13	-0.7	-0.19
- adjusted inflation	1.4	0.62	0.7	0.30	0.0	0.02	0.4	0.16	0.2	0.07	0.2	0.07	0.2	0.11	0.1	0.06	0.0	0.02

Note: Contrib. means contribution to CPI inflation

In 1999 Q1, net inflation continued to be affected by favourable domestic and external factors of both demand and cost character. The year-on-year fall in net inflation was attributable not only to the continuing decline in domestic effective demand, but also to favourable import prices for raw materials and food, the koruna's exchange rate and the ongoing strong competition between major retail chains, which particularly affected food prices.

The continuing domestic demand contraction in 1998 Q4 continued to subdue demand-led inflationary stimuli in the economy, albeit less so than in previous quarters. Consumer demand, the most important segment of domestic demand for inflation, was stagnant in 1998 Q4. Moreover, household income indicators were giving no signs of an occurrence of demand-led inflationary pressures in the economy. (Wage-inflationary impulses were generated in industry and in the non-business sector, although on the macroeconomic level this unfavourable development was offset by lay-offs of employees in other segments of the business sector – see part III.3).

External factors, which affected inflation mainly through lower input prices in the corporate sector, continued to have a significant effect. The year-on-year fall in prices of raw materials (oil excluded) and food on global markets created favourable conditions in 1999 Q1 for a slowdown in PPI inflation and consequently also in adjusted inflation[3]. The year-on-year decline in oil prices contributed to the fall in year-on-year inflation[4]. External factors had a major effect also on agricultural producer prices, which helped push food prices down. This exceptional trend in food prices resulted in particular from strong price pressure from subsidised agricultural products (especially of pork from the EU) combined with the flat consumer demand and the continuing strong competition between retail chains. External influences contributed substantially to a significant slowdown in tradables inflation.

Regulated prices (excluding the effect of increases in indirect taxes on non-regulated prices)

Year-on-year growth in regulated prices slowed sharply during 1998 Q1. In comparison with the end-1998 outturn (20.4% year-on-year) it was down by 8.7 percentage points to 11.7% year-on-year. This was caused by significantly lower month-on-month growth in regulated prices in January 1999 compared with the same month a year earlier (9.3% in January 1998 against just 1.8% in January 1999). In February and March, month-on-month regulated price inflation was low in both years and therefore affected the year-on-year index only slightly. Of the regulated prices, the biggest increases in Q1 were for telephone fees (14.2%), water and sewerage fees (12.4%) and mandatory motor car insurance (9.9%).

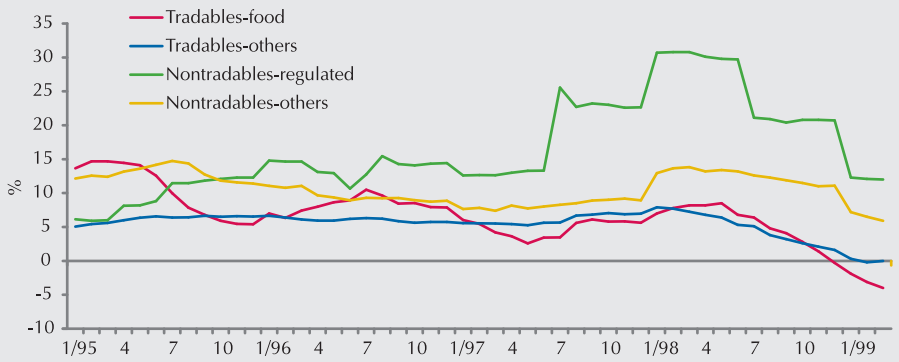
Prices of tradables and nontradables

A comparison of tradables and nontradables prices shows the importance of external factors in the disinflationary process. The trend towards a modest slowdown in the year-on-year growth in tradables prices seen during 1998 Q3 and Q4 continued into 1999 Q1. Nontradables price inflation continued to outpace tradables inflation considerably.

3 Adjusted inflation includes the prices of the non-food items of the consumer basket excluding regulated price items.

4 The decline in oil prices led to a drop in fuel and oil prices, which have a significant weight in the consumer basket. The fall in fuel and oil prices can also be expected to exert an indirect influence on inflation through transport prices and lower fuel and oil costs in businesses.

Chart II.4 Prices of tradables and nontradables (y-o-y changes)



Tradables inflation in February continued to slow substantially compared with December 1998. At the end of 1998, tradables prices posted a year-on-year increase of 0.7%, but in 1999 Q1 they were falling (-0.8% in January, -1.7% in February and -2% in March). The month-on-month outturns were negative in all months of Q1 except for January (which was affected mainly by seasonal influences) – 0.4% in January, -0.3% in February and -0.3% in March. The contribution of tradables prices to the overall year-on-year change in consumer prices between December 1998 and March 1999 fell by 1.6 percentage points to -1.2 percentage points in March 1999.

The unwinding influence of the koruna's appreciation at the end of 1998 and the domestic demand contraction also contributed to the favourable tradables prices, as did specific factors reflecting sales difficulties with agricultural commodities in EU countries. The influence of specific external factors was visible particularly for food prices, which had a major effect on the overall development of tradables prices. In particular, these factors included the influence of subsidised imports (especially from the EU) on meat prices, surpluses of milk and dairy products, sugar and some kinds of meat, lower grain prices, and the strong competition between retail chains. In comparison with December 1998, year-on-year growth in other tradables prices fell by 1.6 percentage points to 0.0% in March.

Tab.II.3 Tradables and nontradables prices (in %) [5]

	1/98		2/98		3/98		6/98		9/98		12/98		1/99		2/99		3/99	
MONTH-ON-MONTH INCREASES		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Tradables	1.9	1.20	0.5	0.29	0.0	0.02	0.3	0.20	-0.2	-0.09	-0.5	-0.26	0.4	0.24	-0.3	-0.18	-0.3	-0.19
Nontradables	7.4	2.79	0.9	0.34	0.3	0.11	0.3	0.10	0.4	0.18	0.2	0.08	1.4	0.58	0.4	0.15	0.1	0.03
YEAR-ON-YEAR INCREASES		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Tradables	7.4	4.77	7.7	4.96	7.7	4.95	6.1	3.90	3.7	2.30	0.7	0.40	-0.8	-0.50	-1.7	-1.00	-2.0	-1.23
Nontradables	23.2	8.31	23.5	8.50	23.6	8.48	22.7	8.10	17.2	6.50	16.9	6.40	10.3	4.00	9.9	3.90	9.6	3.77

Note: Contrib. means contribution to CPI inflation

5 CPI = weighted average of index of food prices, other tradables prices, nontradable regulated commodities prices and nontradable other commodities prices

Nontradables inflation also slowed in 1999 Q1 (by 7.3 percentage points in March against the end of 1998). Nonetheless, it remained relatively high: nontradables prices rose 10.3% year-on-year in January, 9.9% in February and 9.6% in March. These prices had a major effect on year-on-year CPI inflation (Table II.3). The considerable decline in nontradables inflation in 1999 Q1 was largely due to the above-mentioned smaller adjustments in regulated prices in January 1999. Conversely, growth in prices of some of the services included in the other nontradables group (cultural services, education, leisure time, housing and transport) contributed to the sustaining of a relatively high growth rate for other nontradables prices.

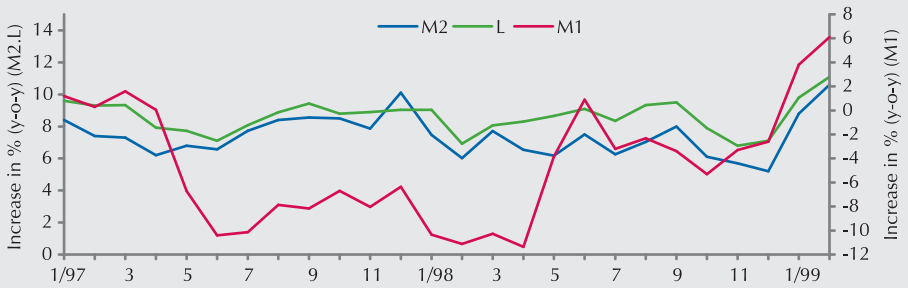
III. INFLATION FACTORS

III.1 Money, interest rates and exchange rates

III.1.1 Monetary aggregates

The year-on-year increases in the monetary aggregates M2 and L in December 1998 were the lowest since the beginning of 1993, bringing an end to the downward trend in year-on-year growth seen throughout 1998. By contrast, in January and February 1999 the year-on-year increases in monetary aggregates showed a sharp rise. However, this was largely attributable to the low starting base for the calculation in 1998. In absolute terms, the money supply increased slightly between December 1998 and February 1999, but still at a slow pace. The decline in nominal interest rates that started in July 1998 and continued into January and February 1999 had yet to pass through into growth in the money supply, which continued to be affected by non-interest factors. In particular, these factors included the surplus state budget and curtailed bank lending resulting from the increased prudence of banks vis-à-vis clients, whose situation is worsening because of the economic downturn.

Chart III.1 Monetary aggregates M1, M2 and L



Definition of monetary aggregates

M1 = currency in circulation + demand deposits in CZK
M2 = M1 + quasi money
L = M2 + T-bills + CNB bills in portfolios of domestic non-bank entities

Monetary aggregate M2

Between December 1998 and February 1999, M2 rose from its historically low level of 5.2% to reach 10.6% year-on-year. However, from an analytical point of view, the year-on-year increases are not very informative because of the low base for their calculation in January and February 1998. In absolute terms, the money supply in February 1999 did not change much compared with December 1999. The annualised seasonally adjusted increases in M2 for the last six months, which reflect the longer-term trend and are indicating continuing lower increases, are more important from the analytical point of view.

Tab. III.1 Increases in seasonally adjusted M2 (in %)

		annualised for last		
	1 month	3 months	6 months	1 year
November 98	0.1	-1.8	7.9	5.7
December 98	1.6	1.0	7.0	5.2
January 99	0.8	10.6	8.6	8.8
February 99	0.7	13.2	5.5	10.6

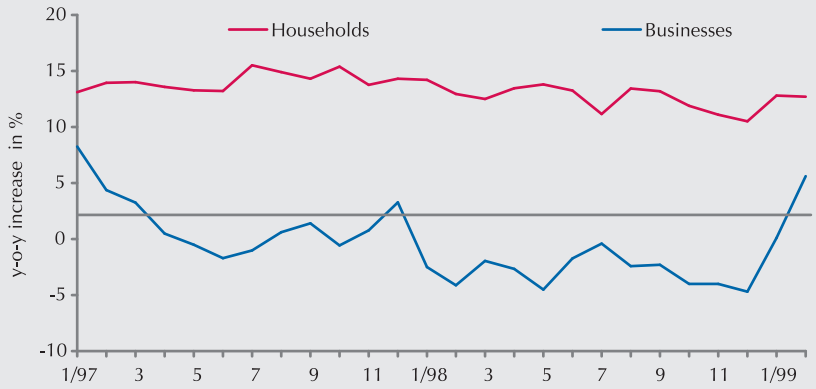
Note: Seasonally adjusted according to deviations from the series smoothed by the centred moving average method (length 13)

Sector structure of M2

From December 1998 to February 1999, the household sector (where time deposits are showing long-term growth despite a slowdown in February) continued to be of major importance for M2 growth. The long-term tendency of households to maintain their level of savings unchanged even under the conditions of economic downturn is confirmed by statistical findings of a sustained high average savings ratio (13% in both 1997 and 1998).

M2 growth picked up in January and particularly in February in the corporate sector, especially in the area of time deposits. This upturn was affected by the low year-on-year base and, in February, by a rise in business time deposits. However, despite this increase, business savings were lower than in September 1998.

Chart III.2 M2 by sector



Monetary aggregate L

The year-on-year increases in L in the December 1998–February 1999 period mirrored those of M2, gradually rising from 7.1% in December to 11.1% in February. However, this level was achieved largely thanks to the low starting base in 1998, and partly because of purchases of short-term securities by non-bank clients (insurance companies in particular) in January 1999. As in the case of M2, the seasonally adjusted annualised data for the last six months indicate lower growth.

Tab. III.2 Increases in seasonally adjusted L (in %)

		annualised for last		
	1 month	3 months	6 months	1 year
November 98	-0.2	-1.9	6.0	6.8
December 98	1.1	0.4	6.7	7.1
January 99	1.8	11.1	9.1	9.8
February 99	0.5	14.3	5.9	11.1

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

Monetary aggregate M1

The pick-up in year-on-year M1 growth, which started in November 1998, continued in subsequent months. Whereas in November M1 declined by 3.3%, in February it increased by 6.1%. As with the

other monetary aggregates, however, this increase resulted largely from a low starting base, and in absolute terms M1 grew by only CZK 2.8 billion in this period. Except for a temporary increase in December, demand deposits remained below the November 1998 level in absolute terms, owing to a stagnation of these deposits in the corporate sector.

III.1.2 Credits

In the December 1998–February 1999 period, bank lending activity was low. In year-on-year terms, the total volume of credits fell (in December by 2.7%, in January by 1.9%, and in February by 0.4%), and the year-on-year growth in lending remained flat even after adjustments for exchange rate effects, credit write-offs, interest capitalisation and credits of banks whose licences have been revoked.

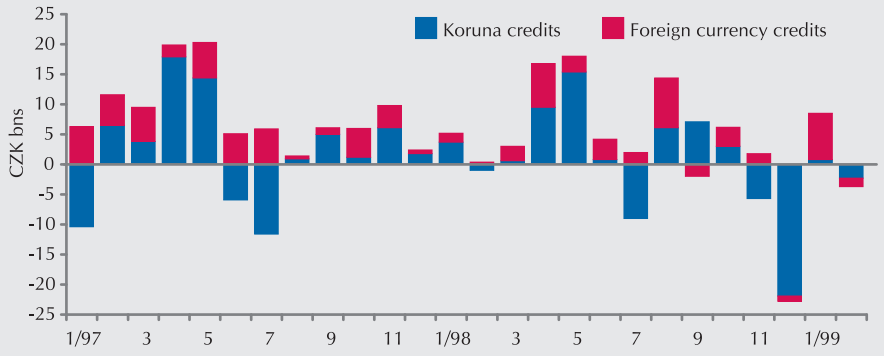
Tab. III.3 Increases in seasonally adjusted total credits (in %)

	Increases for last			
	1 month	3 months	6 months	1 year
November 98	-0.5	0.4	2.1	5.8
December 98	-2.0	-2.1	-0.6	3.5
January 99	1.3	-1.2	1.2	3.7
February 99	-0.3	-1.1	-0.7	3.4

Note: Adjusted for exchange rate influences, write-offs, interest capitalisation, banks with licences revoked and seasonal factors

The weakening of total credit supply was attributable in particular to koruna credits, whose year-on-year increases at the turn of the year were well below the level of a year earlier: -4.7% in December 1998, -5.1% in January and -5.4% in February (after adjustment: 0.9%, 0.6% and 0.4% respectively). Among the main factors curtailing koruna credit supply in the long run are increased bank prudence in granting credits and tighter criteria for client evaluation, together with the worsening economic situation (both generally and for individual clients), the difficulty in recovering credits and collateral, and insufficient information on clients. The major banks' prudence in providing loans is being fostered by uncertainty in the run-up to their privatisation. These factors are of a long-term nature.

Chart III.3 Increases in adjusted koruna and foreign currency credits (m-o-m)



Note: Adjusted for exchange rate differences, write-offs, interest capitalisation and banks with revoked licences

The long-term trend for foreign currency credits is similar. These credits have been on the increase since the start of 1999, although the February rise was due solely to the koruna's depreciation. Adjusted for exchange rate influences, instead of a rise of CZK 10.5 billion foreign currency credits saw a decline of CZK 1.4 billion. Similar factors as with koruna credits are apparent also for foreign currency credits.

III.1.3 Interest rates

In 1999 Q1, interest rates saw a slower rate of decline – and in some cases a temporary modest rise – in all segments of the financial market. Short-term interest rates were still declining owing to the continuing cuts in the CNB's key rates, whereas long-term rates ended their long-term downward trend (except for a moderate fall at the end of March). Individual yield curves were thus flat or slightly positive. The expectations expressed by the yield curve's previously negative slope had been borne out, and financial market participants considered the interest rate level to be more or less neutral. The interest rate differential also fell, reaching a level where the koruna responded by weakening. The gradual cuts in the 2W repo rate passed through, with some delay, to nominal client interest rates. Loan interest rates fell to a historically low level.

III.1.3.1 Short-term interest rates

At the beginning of the year, short-term interest rates continued falling, although not at such a pace as in the previous period. Interest rates with shorter maturities were affected by two cuts in the repo rate, firstly by 0.75 percentage points to 8.75% effective 18 January and secondly by 0.75 percentage points to 8% effective 29 January. The longer end of PRIBOR yield curve reflected the Brazilian crisis which erupted following the announcement of the devaluation of the Brazilian currency. However, the market soon stabilised and the impact on interest rates was even smaller than that of the Russian financial crises in 1998. The inflow of liquidity precipitated by the lowering of the minimum reserve requirement from 7.5% to 5% did not show up too strongly on the market; the freed funds were allocated by the market into CNB bills through repo operations. By lowering the repo rate, the CNB more or less fulfilled the expectations of financial market participants, so that the PRIBOR yield curve stabilised at 8% and flattened out. The curve remained almost flat also after a further cut in the repo rate of 0.5 percentage points to 7.5% on 12 March. At the same time, the Lombard rate was lowered by 0.5 percentage points to 10% and the discount rate by 1.5 percentage points to 6%. With this move, the CNB was responding to the further decline in inflation (to below 3% in year-on-year terms). At the end of March, the market started speculating on a further lowering of official rates, which showed up at the yield curve's longer end.

Chart III.4. Key rates

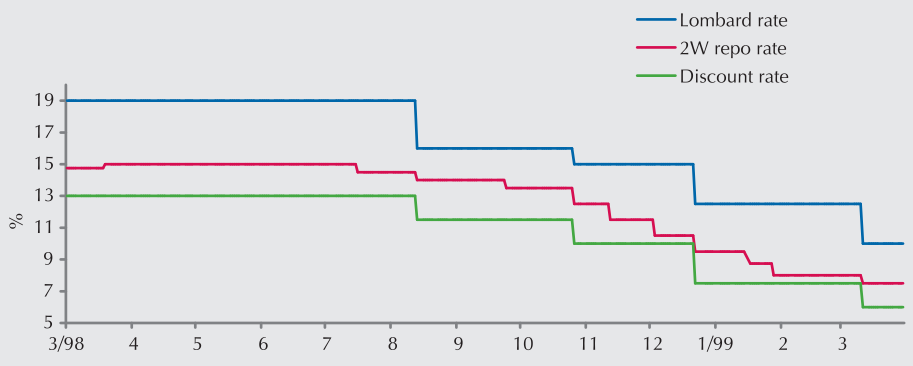
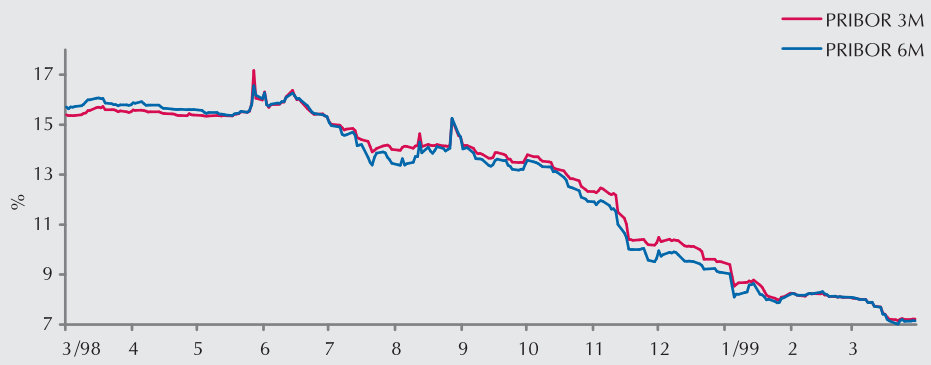


Chart III.5 3M and 6M PRIBOR rates



In January, the PRIBOR yield curve shifted to a lower yield level with the same negative slope. In subsequent months it flattened out because of a fall at its short end and moved to a lower yield level with only minor changes in its slope. Overall, compared with December 1998, the average 1W PRIBOR rate dropped by 2.8 percentage points to 7.8% and the 1Y PRIBOR by 1.7 percentage points to 7.6%. The narrow difference between both rates is demonstrated by the virtually flat shape of the yield curve, which also indicates the market's neutral position regarding future developments. The bid-offer interest rate spread moved between 0.2 and 0.3 percentage points throughout Q1.

Chart III.6 Yield curve for PRIBOR rates

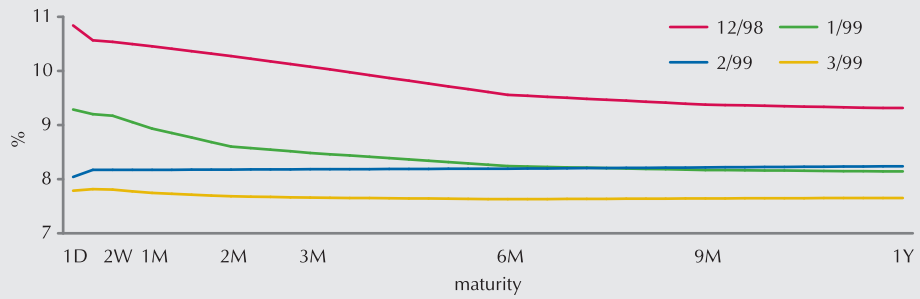
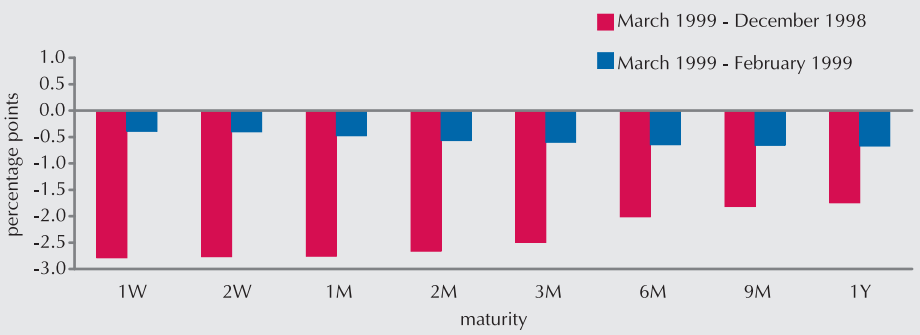
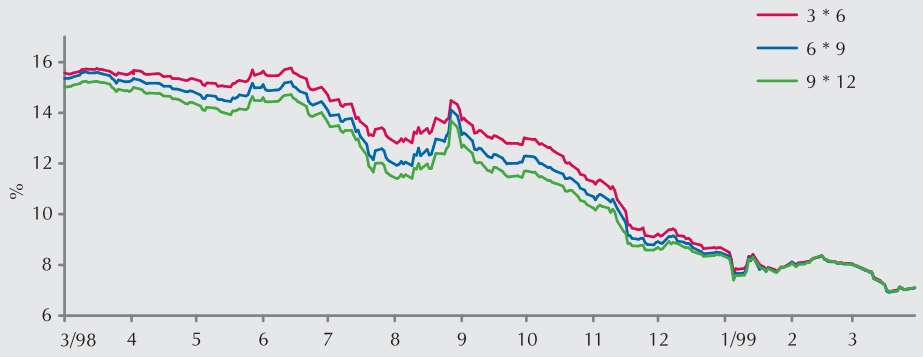


Chart III.7 Average PRIBOR rates



FRA interest rates did not continue in their end-1998 decline. This was partly because the Brazilian crisis had a stronger impact than it did on the interbank deposit market and partly because expectations regarding further interest rates were more or less borne out. FRA rates saw a modest fall in the second half of March in response to the decline in the repo rate. FRA quotations from the end of March indicate expectations of a further moderate fall of approximately 0.5 percentage points in 3M and 6M interest rates. Owing to its poor informative nature, the 12*24 FRA interest rate has not been monitored since February this year.

Chart III.8 3M FRA rates - offer

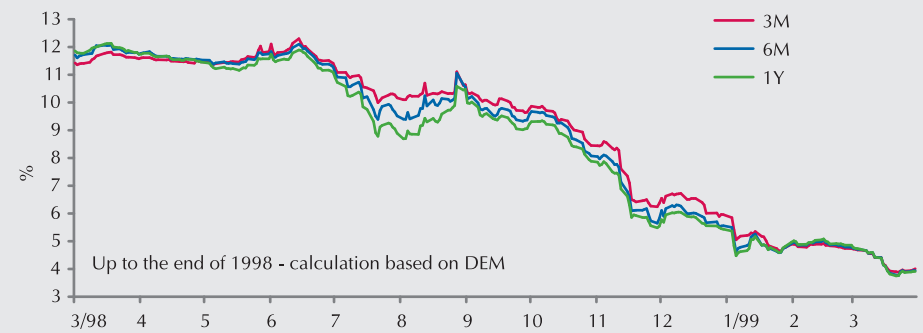


The short-term bond market comprises mainly T-bills. There were nine issues on the primary market, with 8W, 3M, 6M, 9M and 1Y maturities. Like the rates on other segments of the money market, gross yields in the auctions were generally stable, moving between 7.7% and 8.0% (and falling to 7% only at the close of March). Because of the attractiveness of these instruments, demand in primary auctions exceeded supply, sometimes by as much as twofold. On the secondary market, T-bill yields more or less mirrored the PRIBOR rates.

The interest rate differential expresses the difference between domestic and foreign interest rates (PRIBID/CZK-LIBOR/EUR). At the end of 1998, rates in EU countries were aligned at 3% (in connection with the launch of the euro) and stayed at this level throughout the period.

The interest rate differential was therefore given by domestic interest rates, which in contrast to 1998 H2 did not change very much. As a result, the differential fluctuated around 5% for most of the monitored period. However, following the numerous rate cuts its attractiveness fell sharply. This led to reduced foreign investor interest in the Czech koruna and consequently to a weakening of its exchange rate. At the end of March, the interest rate differential stood at 4 percentage points at 3M maturities and 3.9 percentage points at 6M and 1Y maturities.

Chart III.9 Interest rate differential between rates in CZK and EUR



III.1.3.2 Long-term interest rates

Long-term IRS rates did not continue in their marked downward trend, since the expectations that affected the rates throughout 1998 were borne out. In addition, the Brazilian crisis and unfavourable reports on the state of the Czech economy had an effect on the market. Owing to the unbalanced trend for individual maturities, the yield curve changed from negative to slightly positive in the second half of January. This did not change even after the repo rate cut in mid-March, when the yield curve merely shifted to a lower yield level.

Chart III.10 IRS rates

The position and slope of IRS yield curves show a change in the long-term interest rate trend. Compared with December, the 1Y rate dropped by 1.85 percentage points, the 5Y rate by 0.8 percentage points and the 10Y rate by 0.24 percentage points. The slope of the yield curve in March was thus slightly positive. The average 5Y–1Y spread stood at 0.46 percentage points and the 10Y–1Y spread was 0.7 percentage points. From the long-term perspective, the market was not expecting any major changes in interest rates.

Chart III.11 Yield curve for IRS rates

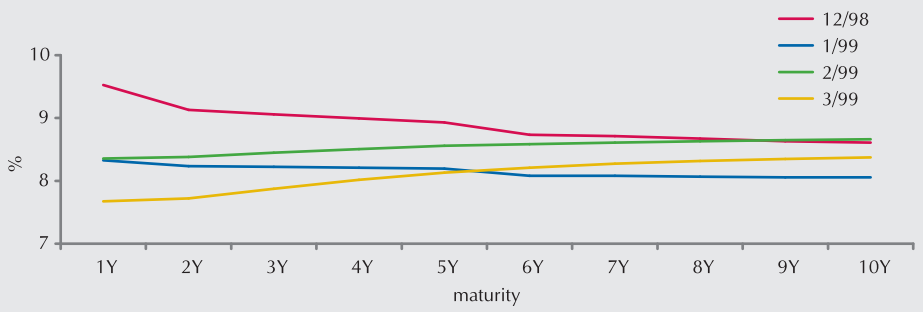
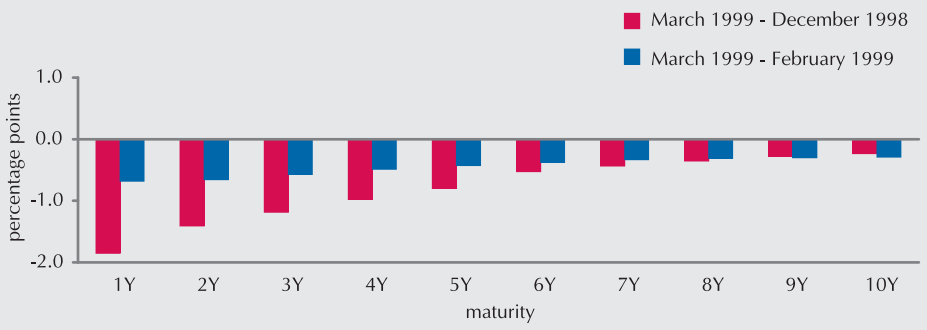


Chart III.12 Average IRS rates



Yields on the bond market exhibited a similar trend, with the yield curve gaining a positive slope in this segment as well. At the end of January, government bonds worth CZK 5 billion were issued, with 5Y maturity and a 7.95% coupon. However, problems with this issue (the maturity according to the issue terms was 5Y, but under the law was 15Y) led to a halt in trading, and the overall trading activity on this segment of the market fell sharply. On the corporate bond market, there were four issues totalling CZK 16.6 billion. Of relatively major significance was the first issue of EIB koruna eurobonds (totalling up to CZK 30 billion and with maturity of up to 30Y) under the approved programme.

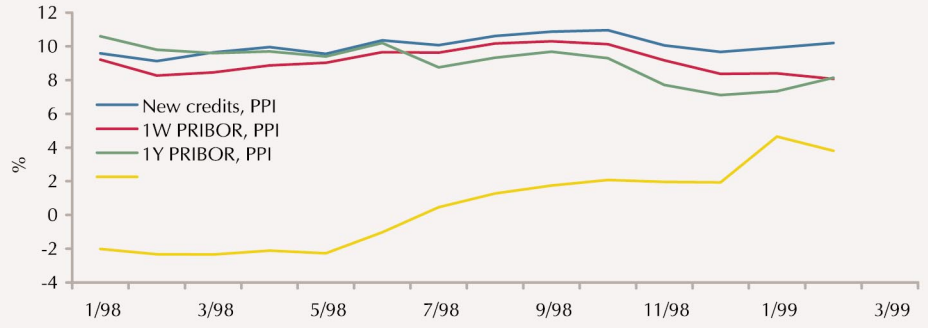
III.1.3.3 Client interest rates

In contrast to the financial market, client interest rates continued in their markedly downward trend, owing to the time lag in the transmission mechanism. Interest rates on newly granted credits have been falling since 1998; at the end of February they were down by 5.7 percentage points to 10.3%, an all-time low in the Czech Republic's history. Interest rates on time deposits showed a similar trend, although to a lesser extent (a decline of 3.4 percentage points to 6.6%). The interest rate margin was 4.44% in February, and was higher than in December and January (when it stood at 3.85% and 3.62% respectively) owing to a fall in rates on deposits. Nevertheless, it was still below the 1998 average (4.75%).

Real interest rates[6] were strongly affected by the ongoing disinflationary process. Because of the decline in inflation, which was faster than that in nominal interest rates, real interest rates rose. In this period, real interest rates remained fairly high from various perspectives (deflated by the CPI and by the PPI). In February, interest rates on newly granted credits stood at 7.5% in CPI terms and 10.2% in PPI terms. Real interest rates on time deposits were positive, reaching 3.8% in CPI terms in February.

6 Theoretically, the best way of calculating real rates is to deflate the latest nominal interest rates by expected inflation. However, there are no generally acknowledged statistical surveys of inflation expectations in the Czech Republic. Consequently, real interest rates are calculated by deflating nominal interest rates by the latest CPI and PPI outturns.

Chart III.13 Real interest rates

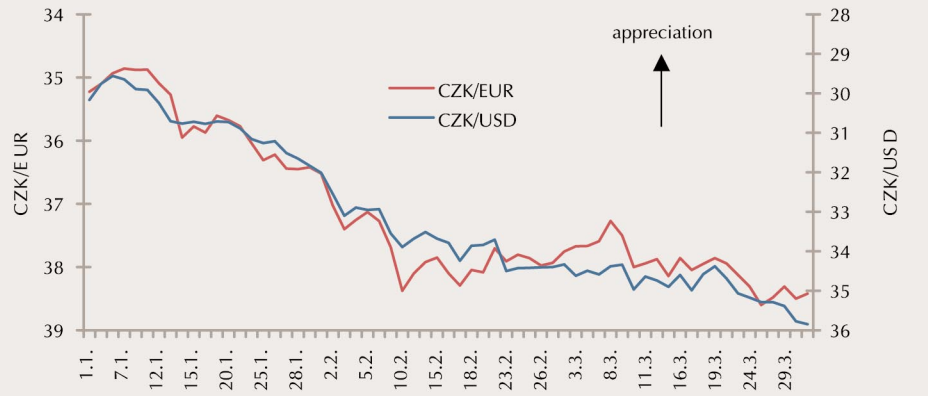


III.1.4 The exchange rate

The trend in the koruna's daily exchange rate against the euro in 1999 Q1 can be split into three different periods. As Chart III.14 demonstrates, between 11 January and 10 February the koruna depreciated considerably in nominal terms, falling by 10%. The major factors contributing to this depreciation were both external – the Brazilian financial crisis – and internal – the CNB's cuts in key interest rates and the release of unfavourable macroeconomic indicators for the Czech economy: foreign trade (exports stopped growing faster than imports), GDP, unemployment, etc. This depreciation was replaced by moderate nominal appreciation for a month, followed by a return to gradual depreciation on March 10. This development probably reflected the further lowering of CNB interest rates and, at the same time, was a response to the release of a series of none too optimistic reports on the state of the Czech economy.

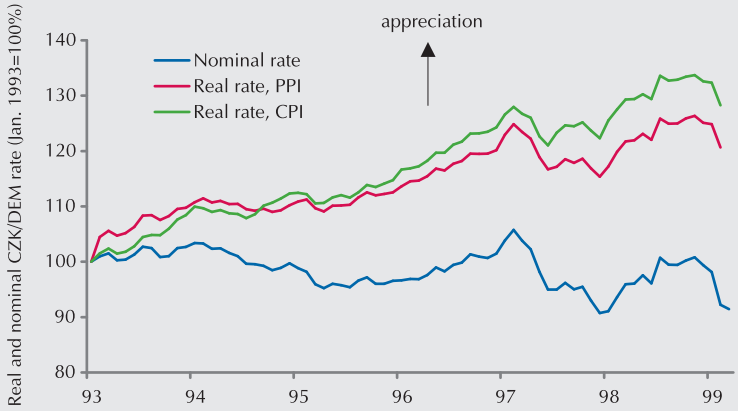
The koruna's rate against the dollar showed a similar trend as it did against the euro, although with smaller deviations. 1999 Q1 saw two different periods of development. From the beginning of January until mid-February, the koruna's exchange rate against the dollar was sharply depreciating (between 11 January and 10 February it fell by 13.3%). From the end of February to the end of March it kept on depreciating. This was a reflection of the strengthening of the dollar against the euro on world financial markets. In the week starting 22 March, the well-known effect of the dollar's strengthening during the tense international political situation (the launch of military operations in Kosovo) was felt particularly strongly.

Chart III.1.4 CZK/EUR and CZK/USD nominal rates



The koruna's real exchange rate against the Deutsche Mark (and the euro) has been depreciating strongly since the beginning of the year. This is due largely to the weakening nominal exchange rate and the very low domestic month-on-month inflation outturns.

Chart III.15 CZK/DEM nominal and real rates



III.1.5 Capital flows

The capital and financial accounts of the Czech Republic for 1998 ended in a surplus of CZK 84.9 billion, which was approximately 2.5 times higher than the 1997 net capital inflow. However, for 1998 Q1–Q3 there was a moderate 10% year-on-year decline. The significant year-on-year increase in net capital inflow was caused mainly by developments in 1998 Q4, which accounted for approximately 45% of the total annual inflow. In contrast, 1997 Q4 saw a relatively large outflow. Compared with previous years, the inflow structure improved substantially. Foreign direct investment represented a major capital inflow item in 1998, accounting for 95% of the total.

Tab. III.4 Financial account in 1993 - 1998 *(in CZK billions)*

	1993	1994	1995	1996	1997	1998
Financial account	88.2	97.0	218.3	116.6	34.3	84.9
Direct investment	16.4	21.5	67.0	37.7	40.5	80.2
- Czech abroad	-2.6	-3.5	-1.0	-1.1	-0.8	-1.7
- Foreign in the CR	19.0	25.0	68.0	38.8	41.3	81.9
Portfolio investment	46.7	24.6	36.1	19.7	34.4	32.7
- Czech abroad	-6.7	-1.3	-8.6	-1.3	-6.0	-2.6
- Foreign in the CR	53.4	25.9	44.7	21.0	40.4	35.3
Other investment	25.1	50.9	115.1	59.2	-40.6	-28.0
1.Long-term investment	23.5	31.9	89.3	84.4	12.9	-29.3
- Credits granted abroad	13.4	12.0	1.4	-10.8	-11.1	-24.9
- Credits accepted from abroad	10.1	19.9	87.9	95.2	24.0	-4.4
2.Short-term investment	1.6	19.0	25.8	-25.2	-53.5	1.3

The inflow of foreign direct investment amounted to CZK 81.9 billion in 1998, the highest figure since the establishment of the Czech Republic. In comparison with 1997, direct investment inflow almost doubled. The biggest foreign investments were the TelSource consortium's increased stake in SPT Telecom, the purchase of the state stake in Investiční a Poštovní banka by the London branch of the Japanese investment bank Nomura, and the French firm Vetrotex's investment in Vertex Litomyšl. The inflow of direct investment was concentrated mainly in 1998 Q4, when it accounted for approximately

half the annual amount. As in previous years, Czech direct investment abroad was very low, totalling CZK 1.7 billion. The total net inflow of foreign direct investment was CZK 80.2 billion.

Portfolio investment in 1998 was at roughly the same level as in 1997, notwithstanding the unfavourable world investment climate resulting from the spreading financial crisis on emerging markets. The net inflow was CZK 32.7 billion. One positive fact was its structure. A major item was the purchase of Czech equities amounting to CZK 34.8 billion by non-residents. These purchases were again concentrated mainly in 1998 Q4. The modest outflow of debt capital was caused in particular by declining interest in short-term securities. Interest in long-term securities remained virtually unchanged, with purchases slightly exceeding sales.

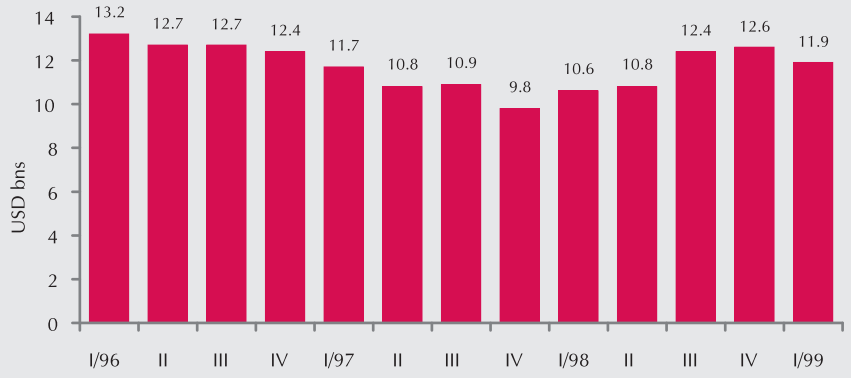
Other investment in 1998 ran a deficit of CZK 28 billion. The most important factor was a net outflow of long-term investment (above one-year) of CZK 29.3 billion. Owing to the short-term capital outflow in 1998 Q4 resulting from the interest rate decline, the surplus in short-term investment fell almost to zero, reaching CZK 1.3 billion (in 1998 Q1–Q3 it was CZK 13.9 billion). The net long-term investment outflow was influenced by a change in the position of commercial banks (a decrease in long-term liabilities vis-à-vis non-residents) and an increase in long-term credits provided to foreign legal entities. The repayment of credits extended to government at the beginning of the economic transformation also contributed significantly to the total net outflow. Only the corporate sector experienced a net inflow of debt capital, largely in the form of foreign financial credits drawn by businesses.

The total gross indebtedness of the Czech Republic as of 31 December 1998 was down CZK 21.8 billion to CZK 726.9 billion. This decline was generated mainly by the koruna's appreciation. In dollar terms, gross indebtedness rose to USD 24.3 billion (up by USD 2.7 billion). Short-term indebtedness accounted for approximately 35% of the total. Businesses accounted for 61%, commercial banks 29%, and government and the CNB 10%.

The fact that the financial account surplus was greater than the current account deficit led to a surplus of foreign currency on the market and to appreciation pressure on the koruna's exchange rate. The CNB therefore intervened on the foreign exchange market, which was reflected in a rise in international reserves. The reserves were further increased by interest yields. In 1998 they rose by CZK 62.6 billion, reaching CZK 376.7 billion at the end of the year.

In 1999 Q1, the situation on the foreign exchange market changed. Owing to the interest rate decline, the CNB was not forced to suppress imbalances on the market. The extent of the CNB's interventions fell sharply and was limited solely to purchases of foreign currency for debt servicing (government and CNB). Total purchases of foreign currency were worth an equivalent of CZK 1.3 billion, which corresponded to the level of settlement of government and CNB liabilities abroad. The level of the reserves remained flat. However, in koruna and dollar terms it was strongly affected by valuation changes ensuing from the weakening of the koruna against the euro and the dollar and the weakening of the euro against the dollar. In koruna terms the reserves rose by CZK 49.8 billion to CZK 426.5 billion; however, in dollars they were down from USD 12.6 billion to USD 11.9 billion.

Chart III.16 CNB international reserves



Implications of monetary developments for inflation

Monetary developments are being characterised by low credit supply, which is restricting the money supply in the economy. The rise in year-on-year money supply growth at the beginning of this year was caused by the technical effect of last year's low base. The money supply is therefore not indicating a potential increase in demand in the economy and should continue to act against inflation. This trend is proceeding in an environment of falling interest rates, which have yet to be reflected in the supply of credit. The yield curves of the various segments of the financial market are flat or slightly positive, which indicates favourable expectations regarding future inflation.

The exchange rate and inflation developments in 1999 Q1 show that the relatively significant weakening of the koruna has yet to feed through into inflation. This can be attributed in part to the subdued domestic demand, which is preventing the koruna's weakening from showing up fully in domestic prices. Nevertheless, it can be expected that a maintaining of the current nominal exchange rate will gradually act to increase inflation indicators (CPI, PPI).

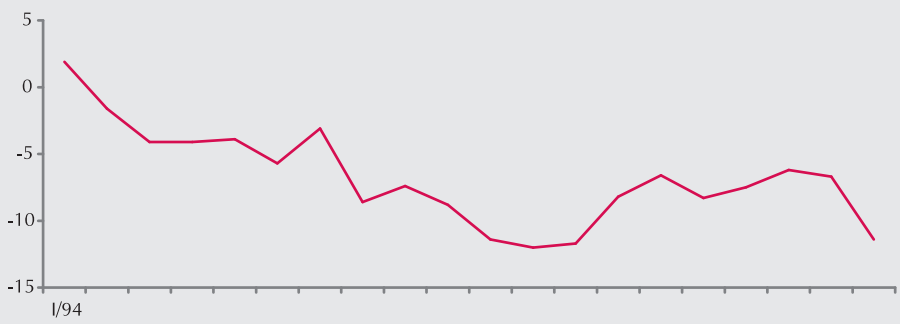
The fact that net capital inflow exceeded the current account deficit created a surplus of foreign currency on the market. Although this surplus was gradually withdrawn from the market through CNB interventions, thus increasing the CNB's international reserves, it nevertheless contributed approximately 10% to the koruna's appreciation during 1998. This fed through strongly into the inflation decline. The CNB's foreign exchange interventions were sterilised and so there was no increase in the money supply in the economy. Such an increase would have carried the risk of subsequent inflationary pressures.

III.2 Demand and output

III.2.1 Introduction

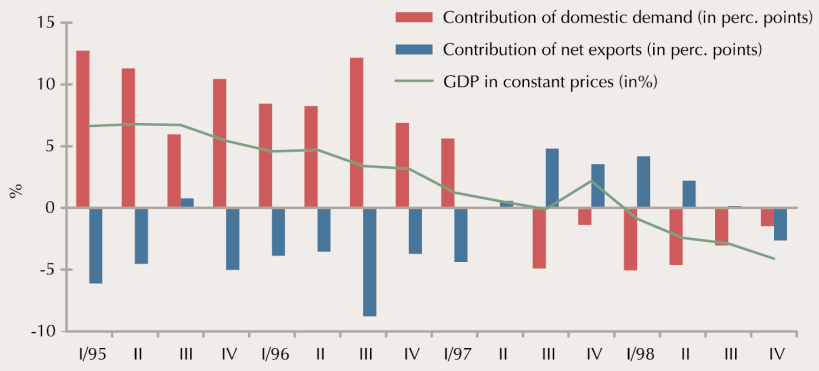
The favourable trend of gradual reduction in the external deficit seen since mid-1997 ended in 1998 Q3. In Q4, both the absolute and relative indicators of external balance signalled a renewed widening. In Q3 the level of negative net exports[7] decreased slightly (by CZK 0.5 billion year-on-year), while in Q4 it rose by CZK 9.3 billion. The absolute rise led also to an increase in the ratio of negative net exports to GDP, which in 1998 Q4 alone rose by 3.1 percentage points (to 11.4%) against the same period a year earlier.

Chart III.17 Ratio of net exports to GDP (constant prices)



This reversal in trend was largely due to a considerable fall in export growth in 1998 H2 (to 1.7% in Q4). Exports reacted particularly sensitively to the deterioration of sales opportunities in some regions and to the koruna's exchange rate developments. On the other hand, the growth of imports weakened more slowly[8] than that of exports, resulting in imports outpacing exports in 1998 Q4. Any faster drop in imports was hindered by the overall high import propensity of GDP for the reasons explained in detail in the January Inflation Report (the development of co-operative ties with other countries, the investment structure, etc). In 1998 Q4 the import propensity of GDP rose by 2.2 percentage points against Q3 to 79.9%.

Chart III.18 Contributions of domestic demand and net exports to y-o-y change in GDP



The renewed lead of import growth over export growth in 1998 Q4 meant a termination of the external sector's positive contribution to GDP growth. Since 1997 Q2, the lead of export growth over import growth had helped (in line with the objectives of economic policy) to narrow the external imbalance and had contributed to GDP growth, especially in industry. This trend had gradually been weakening during 1998. The above chart (Chart III.18) clearly illustrates the fact that in 1998 Q4 the external sector became a factor decreasing GDP growth.

Tab. III.5 Real output and demand growth rate (in %, y-o-y, 1994 constant prices)

	1995	1996	1997	1998	I/1998	II/1998	III/1998	IV/1998
GROSS DOMESTIC PRODUCT	6.4	3.9	1.0	-2.7	-0.9	-2.4	-2.9	-4.1
AGGREGATE DEMAND (domestic demand and exports)	11.9	7.4	3.3	2.3	6.8	2.0	1.2	-0.2
DOMESTIC DEMAND	9.8	8.5	-0.4	-3.2	-4.5	-4.3	-2.8	-1.4
DOMESTIC EFFECTIVE DEMAND [1]	9.1	7.0	-1.2	-2.1	-2.1	-4.6	-1.5	-0.6
of which:								
Household consumption	6.9	7.0	1.6	-2.4	-1.6	-7.0	-0.9	-0.2
Government consumption [2]	-1.2	4.3	-1.8	1.1	-2.7	0.6	-0.8	6.3
Fixed capital formation	21.0	8.7	-4.9	-3.7	-2.5	-4.1	-3.1	-4.7
EXPORTS OF GOODS AND SERVICES	16.1	5.4	10.2	11.5	27.4	12.3	8.1	1.7
EXPORTS OF GOODS AND SERVICES	22.0	12.9	6.7	9.0	17.3	7.9	7.1	5.1

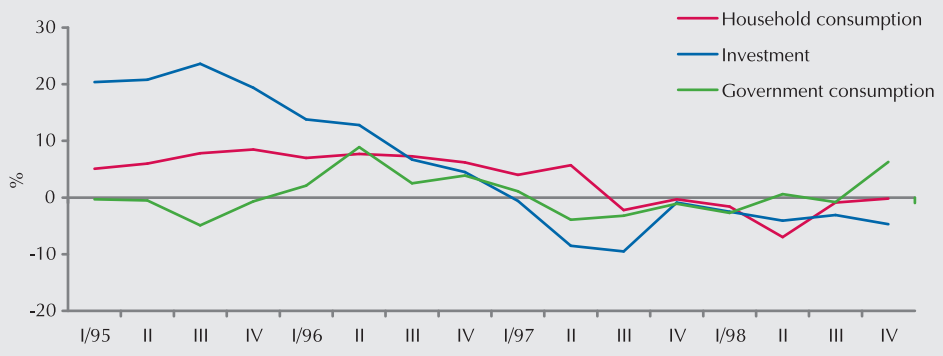
1) Domestic demand excluding change in inventories
2) Including non-profit institutions

8 For more details see part III.2.3 "Net foreign demand"

III.2.2 Domestic demand

Domestic demand[9] continued to fall in 1998 Q4, but the contraction was slower: after a 2.8% year-on-year drop in 1998 Q3 the downward trend moderated by 1.4 percentage points to -1.4%. This resulted in a drop in the cumulative values of the year-on-year fall in domestic demand for 1998 as a whole by 0.6 percentage points to -3.2% compared with 1998 Q1–Q3. Similar tendencies were seen in domestic effective demand, where the year-on-year decline moderated in 1998 Q4 by almost 1 percentage point against the previous quarter to -0.6% (Table III.5). According to the seasonally adjusted time series, domestic demand actually increased in Q4 in year-on-year terms.

Chart III.19 Components of domestic demand (y-o-y growth, 1994 constant prices)



Unlike in 1998 Q3, the moderation of the domestic demand contraction was mostly attributable to government consumption, which, following a slight decline in Q3, increased in Q4 by 6.3% (CZK 4.7 billion) in year-on-year terms because of an accumulation of several factors. Household consumption, which in Q4 registered a relatively low year-on-year decline of 0.2%, also contributed to the slowdown. This confirmed the hypothesis about the temporary nature of the substantial drop in household consumption in 1998 Q2 mentioned in the January Inflation Report.

Only investment demand saw no change in trend in 1998 Q4. On the contrary, the Q4 data signalled a worsening of the year-on-year decline in gross fixed capital formation (down by 1.6 percentage points against 1998 Q3 to -4.7%, which in absolute terms represented a year-on-year decline of CZK 6.6 billion).

The domestic demand developments in the final quarter of 1998 resulted not only from economic policies, but also from other factors affecting the decision-making of commercial banks, businesses and households and consequently partially modifying a number of economic policy measures. This problem was felt particularly in investment demand, which failed to pick up despite gradual interest rate cuts by the CNB in the second half of 1998. This is attributable to the time lag of the monetary policy transmission mechanism and above all to the increasing prudence of commercial banks in granting credits. Given the existing level of interest rates, the corporate sector's access to new investment credits was complicated primarily by the deteriorating financial situation of businesses, the incomplete restructuring (particularly in the area of ownership relations) and uncertainty about future economic development. In such a situation, commercial banks evidently gave priority to other, less risky forms of investment.

On the other hand, the slowdown in the household demand contraction was fostered by a certain deceleration in the fall of real incomes in 1998 H2. The more substantial increase in government

9 Domestic demand = domestic demand including the change in inventories; domestic effective demand = domestic demand excluding the change in inventories

consumption at the end of 1998 was caused not only by higher drawing on current expenditures, but also by extraordinary factors (eg realised state guarantees).

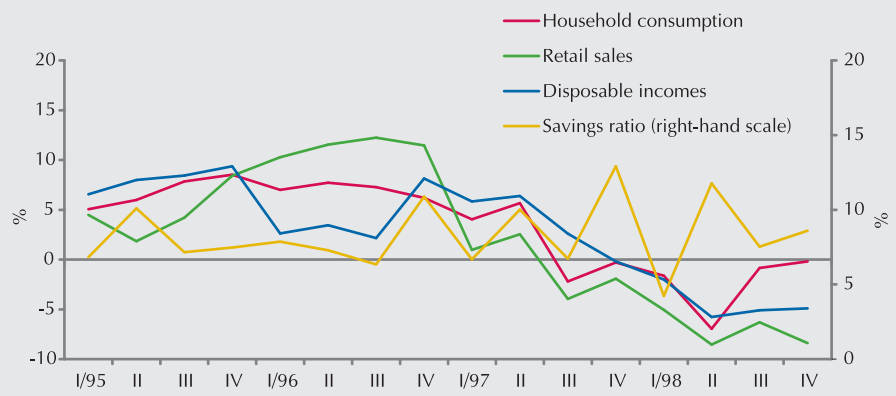
III.2.2.1 Household consumption

The decline in household consumption moderated still further in 1998 Q4. Compared with the same period a year earlier household consumption was more or less flat (falling 0.2%, or CZK 0.3 billion). The slowdown in Q3 and Q4 indicated that the substantial year-on-year decline in 1998 Q2 was exceptional and resulted from various factors, including a higher comparison base from the previous year.[10]

The slower fall in household consumption in the last quarter of 1998 was largely due to a further moderation of the fall in real household incomes, with inflation (especially for food prices) declining faster than nominal household incomes. The smaller decline in real incomes was mostly due to real wages, whose year-on-year decrease in 1998 Q4 was the lowest all year (for more details see part III.3.1).

At the same time, the propensity of households to save also remained relatively high in Q4. The savings ratio of households[11] was rather higher than in Q3, at 8.6% (Chart III.20). This trend is consistent with the results of an empirical survey of households carried out by institutions focusing on research into the consumer climate and household savings. According to the survey from the end of 1998[12] the proportion of regularly or irregularly saving households increased significantly (to 65% of the set of surveyed households) compared with the previous survey (October 1998), owing to pessimistic expectations about future incomes.

Chart III.20 Real consumption, retail sales, disposable incomes and savings ratio



Preliminary data on retail sales indicate that the lower decline in effective demand accompanied by the relatively large drop in food prices resulted in Q4 in a pick-up in food sales (up 2 percentage points against Q3). The fall in sales of household services also moderated (eg by 3.3 percentage points in catering and accommodation against Q3 to -4.5%). However, demand for durables remained subdued and in some cases continued to decline. The fall in automobile sales moderated by 2.3 percentage points against Q3 to 9.8%.

10 Increased savings ratio due to expectations of higher expenditure on rents and energy, the payment of only half of the "thirteenth salary" in the budgetary and subsidised sector, and the higher 1997 comparison base due to larger purchases in connection with the exchange rate turbulence.

11 Savings ratio (CNB methodology) = change in net financial assets/disposable income; Financial assets = CZK and foreign currency deposits + cash + securities + change in technical reserves for life insurance and supplementary pension insurance; Financial liabilities = CZK and foreign currency loans

12 Ecoma plus, February 1999

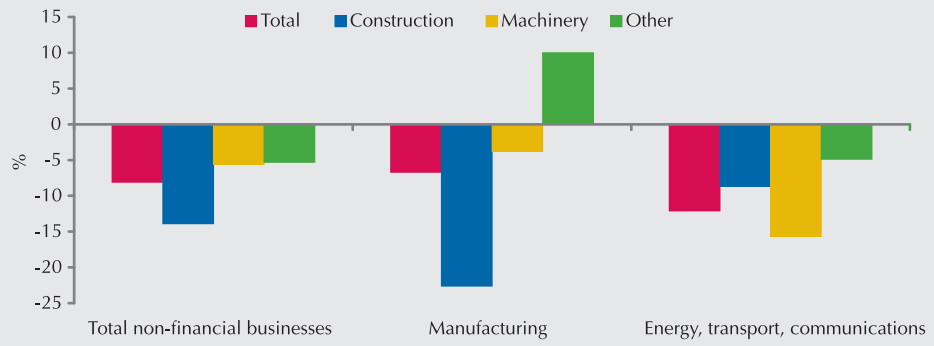
III.2.2.2 Investment demand

In contrast with the other main components of domestic demand, the drop in investment demand (ie gross fixed capital formation) further intensified in 1998 Q4. After a moderate slowdown in Q3 (to -3.1% y-o-y) the decline again accelerated in Q4 (to -4.7%), although in 1998 as a whole it was 1.2 percentage points lower than in 1997. The rate of investment still remained buoyant (at more than 30% of GDP) owing to seasonal fluctuations[13].

The structure of investment in 1998 Q4 followed the trend of the previous three quarters. Investment continued to decline in the areas that had experienced an investment boom in previous years: investment in infrastructure dropped by 7.7%, and financial institution investment was down by 39.4%. Investments of non-financial businesses, which represent a major part of overall capital investment (66% in constant prices), decreased as well. Their year-on-year rate of decline increased to 13.1%, largely because of a further decrease (of 24%) in construction investment; the decline in engineering investment was lower at 8.7%. In contrast, government sector investment rose significantly[14] (up 17.5% y-o-y); household sector investment remained at the previous year's level (up just 0.5%).

As in the previous three quarters of 1998, non-financial sector investment activity in Q4 increased only in firms under foreign control, where the volume of investment increased by 40%. In all large and medium-sized firms with other forms of ownership, investment fell in year-on-year terms. This reflects the various problems linked with the lack of funds needed to finance corporate sector investment, in particular the poor financial situation, high indebtedness, incomplete transformation of ownership relations, subdued domestic and weak external demand, and higher commercial bank prudence in granting credits.

Chart III.21 Changes in capital investment of non-financial businesses in 1998
(1997 = 100)



With respect to sector structure, demand fell particularly for manufacturing investment, which represents only about one fifth of total investment. In Q4, these investments were down by 7.3 percentage points year-on-year against the previous quarter to -15.4% (construction investment by 23% and machinery investment by only 4%). The rate of decrease in investment activity differed in individual branches of the manufacturing sector, while some branches even recorded a rise.

13 In constant prices

14 This can be explained by free transfers of already existing capital assets into the ownership of municipalities and by purchases of used investments.

III.2.2.3 Government consumption

Government consumption[15] (including non-profit institutions) grew by 1.1 percentage points year-on-year in 1998. The highest growth was concentrated in Q4 (+6.3%), mainly because of final drawing on state budget expenditures (the major component of final government consumption). In 1998, the share of public consumption in GDP increased by 0.8 percentage points against 1997 to 21.5%.

The year-on-year increase in spending on public consumption in 1998 was brought about mainly by extraordinary expenditures (not by higher wages), in particular those relating to the flood damage in 1997 and 1998, the early elections to the Lower House of Parliament in 1998 and higher state payments ensuing from the new Act No. 127/1998 Coll., which requires higher insurance contributions from the state for non-earners.

Tab. III.6 Public budgets

	1995	1996	1997	1998	1998 Q1	1999 Q1
State budget (CZK bns)						
Revenues	439.0	482.9	508.9	537.4	123.5	126.7
Expenditure	431.8	484.5	524.6	566.7	115.9	124.6
Balance	7.2	-1.6	-15.7	-29.3	7.6	2.1
Local budgets (CZK bns)						
Revenues	129.1	161.7	149.8	161.8	31.1	.
Expenditure	132.3	171.1	154.6	160.3	29.0	.
Balance	-3.2	-9.4	-4.8	1.5	2.1	.
Public budgets balance - total	4.0	-11.0	-20.5	-27.8	9.7	.
Share of public budgets balance in GDP (%)	0.3	-0.7	-1.2	-1.6	2.5	.

Note: Public budgets in the narrower sense, ie state budget and local budgets

III.2.3 Net foreign demand

The unfavourable trends prevailing in the goods and services balance[16] in 1998 Q4 had been signalled by the Q3 developments. Following the narrowing of the lead of exports over imports in Q3 (to 1 percentage point), in Q4 imports (up 5.1% y-o-y) outpaced exports (up 1.7%). This led to a 32% year-on-year increase in the trade deficit (ie net exports) and to a 3.1 percentage point rise in its share in GDP to 11.4%. Despite this, the import propensity remained below the 80% level.

The relationship between exports and imports deteriorated in 1998 Q4. Both saw slower growth, but exports decelerated faster than imports. The substantially slower export growth was largely due to worsening sales conditions for Czech products on foreign markets resulting from weaker external demand, the generally low competitiveness of these products and the strong koruna. Medium-sized and small firms without foreign ownership were hit hardest by the above factors. The fall in imports was linked mainly to a sizeable drop in imports for intermediate consumption due to the recession in industry.

15 The group of budgetary expenditures on public consumption comprises first of all the area of non-investment purchases of budgetary organisations (eg wages, mandatory insurance paid by employers, purchases of materials, fuels and energy, services, etc.), non-investment contributions to subsidised organisations, non-investment subsidies to non-profit and similar organisations (eg churches, civic associations, political parties) and non-investment transfers to public budgets at the central level (state funds, social and health insurance funds).

16 GDP methodology, in constant prices

The trade balance in 1999 Q1[17] indicated a continuation of the negative trends from 1998 H2, particularly Q4. In 1999 Q1, export growth fell faster than import growth (down 5.6% and 3.9% respectively). The trade deficit widened year-on-year by 19.4% to CZK 18.5 billion. Nevertheless, the terms of trade still had a positive effect in this period, albeit to a lesser extent.

Chart III.22 Balance of trade (12-month moving aggregate)

Notwithstanding the less favourable relationship between exports and imports in 1998 Q4, the structural development of exports[18] indicated a continuation of some positive tendencies, in particular a further increase in higher-value-added exports.

Despite the considerable slowdown in growth of total exports, engineering and electrical engineering exports in 1998 Q4 were up by 13.3% and their share in total exports rose by 5.9 percentage points to 52.3%. In contrast, exports of food, raw materials and semi-manufactures in the same period were down by 21%, largely because of subdued external demand for these commodities.

By territory, exports saw very mixed development in 1998 Q4. Exports to advanced market economies grew by 11.6% (with exports to Germany up by 14.4%), while exports to European transition economies, including the CIS, recorded a sharp fall of 20.5% (CZK 12.9 billion), largely as a result of a decline in exports to Slovakia (of 13.7%, or CZK3.4 billion) and Russia (of 61.6%, or CZK 5 billion).

In terms of direction of use, some changes in trend emerged in the structure of imports in 1998 Q4. Compared with previous quarters of 1998, imports for intermediate consumption recorded a marked drop (of 8.2% year-on-year). This was partly connected with the very low prices of raw materials and with the koruna's exchange rate, but mostly with the recession in domestic industrial production. In 1998 Q3, imports for intermediate consumption were still on the increase (up 5.2%). As in Q3, imports for personal consumption dropped in Q4 (by 2.1%). Unlike in Q3, only imports for investment rose significantly (up 11.4%).

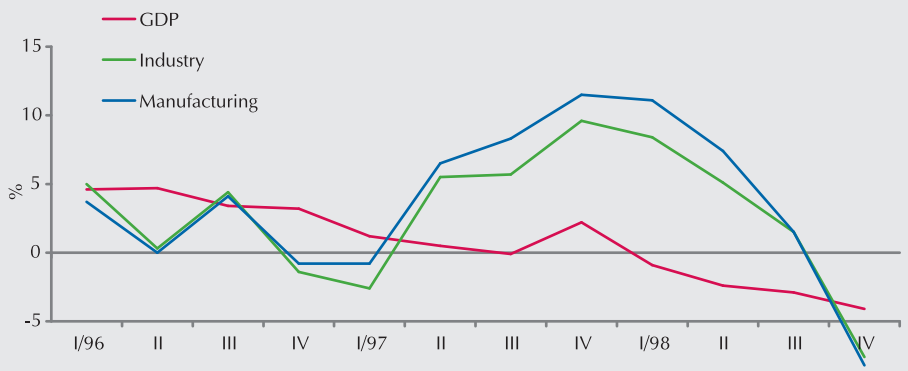
17 IMF balance of payments methodology, in current prices

18 The following data on the development and structure of the trade balance are in current prices.

III.2.4 Output

The gradual decline in GDP formation continued in the last quarter of 1998. The year-on-year fall in Q4 was the biggest in all of 1998 (4.1%). This was the result of a marked weakening of external demand and the continuing, though decelerating, contraction of domestic demand. The decline was distorted to a certain extent by a higher comparison base from the previous year. Also in 1998 Q4, the unfavourable GDP trend was due to the long-term factors on the demand side specified in the January Inflation Report (incomplete restructuring of the economy, including ownership relations, the structure of earlier investments, etc.).

Chart III.23 GDP, industrial production and manufacturing output
(y-o-y growth, constant prices)



The weaker external demand primarily affected industrial production, where the gradual slowdown of growth seen since mid-1997 changed into a decline of 7.6% year-on-year in 1998 Q4. According to industrial production indicators, this trend continued into the first months of 1999: the volume of production[19] in January–February was the lowest in the last two years, as was the industrial production index (-9.7%). This was, however, distorted to a certain extent by a higher comparison base from the previous year. The year-on-year decrease in manufacturing exceeded the 10% level (11.2% in January–February 1999).

The unfavourable trend persisted in 1998 Q4 also in construction, where the year-on-year decline increased to 9.9%. The downward trend in this sector, felt throughout the year[20], was primarily the result of demand contraction brought about by budgetary restriction of capital expenditures (leading to a reduction in public orders) and by the limited availability of credit, especially for the corporate sector.

Construction output in the first months of 1999 confirmed a continuation of the existing tendencies, but the year-on-year decline (of 19.7% in January–February 1999) was affected to a certain extent by a higher comparison base from the previous year. As in 1998, the decline in construction output was influenced by increased protection of the building market in neighbouring countries (Germany in particular). The low domestic and external demand affected all the main segments of construction output. Construction firms reacted to the lack of orders by cutting back their workforces (by 4.7% year-on-year in January-February).

The downward trend continued also in agriculture. According to data on gross agricultural production[21], however, the decline was less severe than in 1998 (1.3% y-o-y). The downturn occurred particularly in livestock production, where the reduction in cattle breeding continued.

19 Measured by sales in constant prices

20 Except for January and February, 1998.

21 The data on gross agricultural production are published once a year.

Developments in the service sector in 1998 Q4 differed in individual segments. Compared with Q3, the drop in retail sales further intensified to -8.1%. Sales of other market services were still growing, though to a lesser extent than in the previous quarter (1.3% y-o-y in constant prices). The rate of growth of sales in transport dropped by 4.2 percentage points year-on-year to 4%. Overall sales in communications grew relatively fast (by 22.8% y-o-y).

The considerable decrease in GDP formation in 1998 Q4 was reflected in the financial results of non-financial organisations – output profitability deteriorated substantially and the rise in gross profit creation slowed as a result. While Q3 still saw a profit, Q4 alone registered a loss of CZK 0.3 billion, owing particularly to a year-on-year rise in "other expenses", which include mainly financial and extraordinary expenses.

The worsening economic situation was indicated by unfavourable qualitative indicators, particularly for cost, output and equity profitability, and by increasing wage costs. Overdue liabilities were up by more than CZK 3 billion compared with Q3; by contrast, inventories dropped (by about CZK 30 billion) and inventory turnover time decreased (by 2.2 days).

Tab. III.7 Selected financial indicators in 1998 (current prices)
(for non-financial organisations and corporations with more than 100 employees for all industries)

Year-on-year change in %	Quarter 1998			Year-on-year change in %	Q III		Q IV		Q I - IV		Change in percentage points		
	III	IV	I - IV		1997	1998	1997	1998	1997	1998	Q III	Q IV	Q I - IV
Total revenues	7.0	5.4	9.2	Cost profitability (profit/costs)	2.02	2.50	0.22	-0.03	2.12	2.52	0.48	-0.25	0.41
Total output	5.4	0.3	7.7	Equity profitability (profit/equity)	0.90	1.19	0.12	-0.02	3.89	5.03	0.29	-0.14	1.17
Total costs of which:	6.5	5.6	8.8	Output profitability (profit/output)	2.75	3.45	0.32	-0.05	2.91	3.50	0.70	-0.37	0.59
intermediate consumption	4.1	-0.5	6.9	Material costs (intermediate consumption/output)	68.52	67.69	72.85	72.24	69.36	68.84	-0.83	-0.61	-0.50
personnel costs 1/	6.3	3.1	5.9	Wage costs (personnel costs/output)	17.36	17.52	17.06	17.53	17.35	17.05	0.16	0.47	-0.30
Pre-tax profit	32.0	-116.1	29.7										

1/ Includes wage and other personnel costs, remunerations to members of companies and cooperatives, social security costs and social costs

Despite the worse economic performance in 1998 Q4, 1998 as a whole saw a partial improvement in financial results compared with 1997. Gross profit creation was up by about 30%, the number of loss-making businesses dropped, income grew faster than expenses, cost and equity profitability improved, and material and wage costs decreased.

In terms of ownership structure, above-average results for profit creation and cost and equity profitability were achieved during 1998 in non-financial businesses under foreign control.

The implications of demand and output developments for inflation

The ongoing domestic demand contraction in 1998 Q4 continued to create an anti-inflationary framework in the economy, albeit with lower intensity. Consumer demand, the most important segment of domestic demand from the point of view of inflation, was flat. Also, the fact that growth in household financial incomes lagged behind nominal GDP growth in 1998 Q4 indicated that household incomes triggered no demand inflationary pressures in this period[22].

The demand developments reduced the room for pass-through of potential cost increases to prices. At the same time, in 1998 Q4, the financial indicators of a selected set of non-financial organisations pointed to a rise in the wage costs of output (with differences in individual sectors) and consequently to

22 See Chart III.26

the danger that the relatively higher wage costs might feed through to prices. According to analyses, however, wages have so far not been a source of cost inflationary impulses in the economy at the macroeconomic level (real unit wage costs at the macroeconomic level in 1998 Q4 were flat year-on-year)[23]. The ongoing year-on-year decline in material costs, though less intense than in Q3, mainly reflected the continuing favourable effects of global raw materials prices on prices of factors of production.

III.3 The labour market

In 1998 Q4, an important qualitative change occurred on the labour market: average real wages in the whole economy increased in year-on-year terms for the first time since 1997 Q3. The rise in the purchasing power of wage earners was not supported by an adequate improvement in the performance of the economy (and in labour productivity in particular). As a result, in the last quarter of 1998 the labour market tended towards increased inflexibility, ie an inability to react without a time lag to negative trends in the real economy. At the macroeconomic level it is still possible to refer to inflation-neutral wage development, but in industry and the non-business sector there already exists a danger of potential wage inflationary pressures being generated.

III.3.1 Wages and financial incomes

Tab. III.8 Basic data on wages *year-on-year change in %*

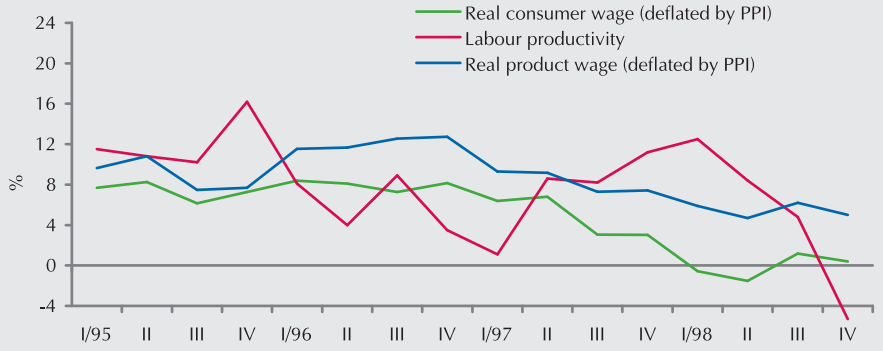
		1996	I/97	II/97	III/97	IV/97	1997	I/98	II/98	III/98	IV/98	1998
AVERAGE WAGE IN THE CR	(nominal)	18.0	13.7	13.0	12.4	8.4	11.9	10.9	7.0	9.2	10.1	9.3
	(real)	8.4	6.1	6.0	2.3	-1.5	3.1	-2.1	-5.0	-0.3	2.4	-1.3
of which:												
Non-business sector	(nominal)	20.6	12.2	11.1	10.2	-6.6	5.8	5.0	-6.2	3.0	15.1	3.9
	(real)	10.8	4.6	4.2	0.3	-15.2	-2.5	-7.4	-16.7	-5.9	7.1	-6.1
Business sector	(nominal)	17.1	14.1	13.6	13.0	13.0	13.6	12.6	11.1	10.9	8.9	10.9
	(real)	7.6	6.4	6.6	2.8	2.6	4.7	-0.6	-1.4	1.2	1.3	0.2
of which:												
private organisations	(nominal) 1/	.	.	.	11.6	11.9	12.7	11.3	9.2	9.0	6.6	8.9
	(real)	.	.	.	1.6	1.7	3.9	-1.8	-3.1	-0.5	-0.8	-1.6
state organisations	(nominal) 2/	.	.	.	15.5	15.6	15.9	11.8	10.2	12.4	11.3	11.4
	(real)	.	.	.	5.1	5.0	6.8	-1.4	-2.3	2.6	3.6	0.7
international organisations	(nominal) 3/	.	.	.	14.7	13.5	14.4	14.1	17.3	12.1	12.1	14.1
	(real)	.	.	.	4.4	3.0	5.4	0.7	4.1	2.4	4.3	3.1

1/ Including domestic (legal and natural) entities without state interests
2/ Including domestic (legal and natural) entities with state interests
3/ Including entities with domestic and foreign capital
Source: CSO

Real wages in the business sector in 1998 Q4 recorded their second consecutive year-on-year rise. The sharpest growth was seen, apart from international organisations, in state-owned entities in the business sector. In industry – a key component of the business sector – real unit wage costs grew by a full 11% year-on-year in this period, leading to a sharp increase in wage costs per unit product. This means that the real increase of the price of labour in industry was not accompanied by corresponding growth in labour productivity: the real product wage was up 5% year-on-year, whereas labour productivity was down 5.3%. The fall (of 2%) in employment in industry therefore failed to react fully to the falling labour productivity and rising real wages.

23 For more details see the following part III.3 "The labour market"

Chart III.24 Real wage and labour productivity in industry



Real wage growth in the business sector is mostly attributable to inertia in nominal wages, which are not reflecting the slowdown in inflation. This is another manifestation of the inflexibility of the labour market. The 2.4% rise in real wages in 1998 Q4 in the whole economy can, however, be attributed to the effective abandonment of wage restraint in the non-business sector, where average real wages grew by 7.1% year-on-year while employment remained flat. This resulted in the non-business sector also registering a rise in wage incomes in real terms, which, given the concurrent fall in real GDP, can be interpreted as a potential demand inflationary factor.

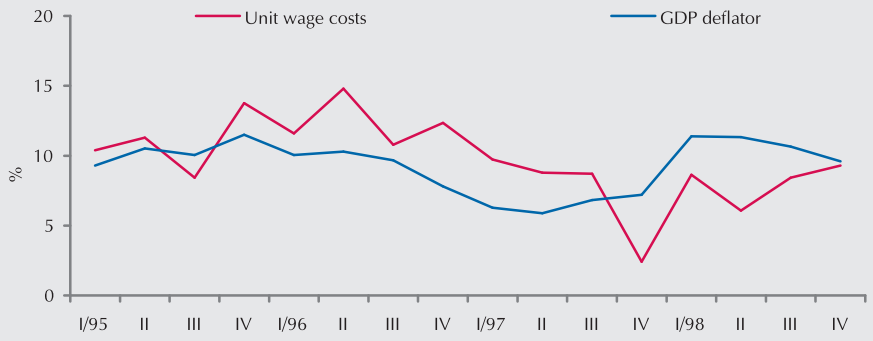
Tab. III.9 Wage, price and productivity indicators *year-on-year change in %*

	1996	I/97	II/97	III/97	IV/97	1997	I/98	II/98	III/98	IV/98	1998
Unit wage costs											
(nominal wage incomes/GDP in const. prices)	12.4	9.7	8.8	8.7	2.4	7.2	8.6	6.1	8.4	9.3	8.1
GDP deflator	9.4	6.3	5.9	6.8	7.2	6.6	11.4	11.3	10.6	9.6	10.7
Real unit wage costs (unit wage costs/GDP deflator)	2.8	3.2	2.7	1.8	-4.5	0.5	-2.5	-4.7	-2.0	-0.3	-2.3
Whole-economy labour productivity	2.7	1.4	0.8	1.0	3.6	1.7	0.6	-0.7	-0.8	-1.9	-0.8

Source: CSO, CNB calculation

The lower growth rate of overall (nominal and real) wage incomes compared with average wages can be explained by decreasing employment in most industries of the business sector (for more details see part III.3.2). Thanks to this, overall wage incomes at the macroeconomic level still remained within economically acceptable limits: real unit wage costs in 1998 Q4 remained approximately at the same level as in 1997 Q4 in the whole economy. On the other hand, attention should be given to the relatively significant acceleration of growth in nominal unit wage costs against 1997 Q4, which casts some doubt on the satisfactory development of this indicator in real terms.

Chart III.25 Unit wage costs and GDP deflator (y-o-y)



Total household incomes in 1998 Q4 mirrored wage incomes: both fell in real terms, but at a lower pace than in the previous quarter. Wage incomes saw their smallest year-on-year real decline all year in Q4, even though all the relevant economic indicators were deteriorating constantly. This again demonstrates the (short-run) insensitivity of wage and total income aggregates to developments in the real economy.

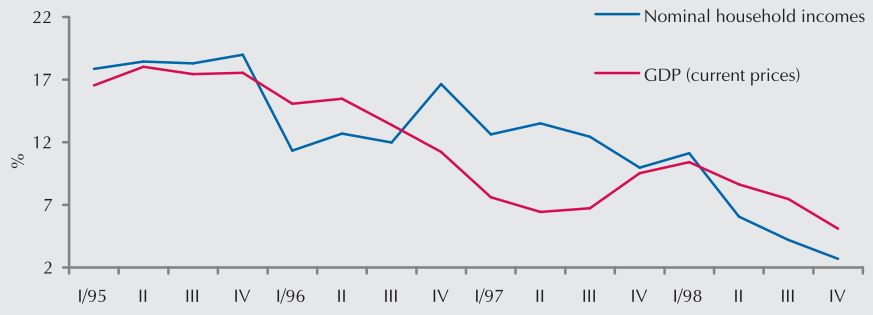
Tab. III.10 Basic data on household incomes *year-on-year change in %*

		1996	I/97	II/97	III/97	IV/97	1997	I/98	II/98	III/98	IV/98	1998
HOUSEHOLD FINANCIAL INCOMES	(nominal)	13.3	12.6	13.5	12.4	10.0	12.1	11.1	6.1	4.2	2.7	5.8
	(real)	4.1	5.1	6.5	2.3	-0.1	3.3	-1.9	-5.9	-4.8	-4.5	-4.4
of which:												
Wage incomes	(nominal)	16.8	11.1	9.4	8.6	4.6	8.2	7.7	3.5	5.3	4.8	5.2
	(real)	7.4	3.6	2.6	-1.1	-5.0	-0.3	-5.0	-8.2	-3.9	-2.5	-4.9
Social incomes	(nominal)	16.2	13.8	10.1	14.2	14.7	13.2	11.2	8.2	12.9	4.5	9.1
Other incomes	(nominal)	5.5	14.8	24.6	17.9	17.6	18.7	17.6	9.5	-2.0	-2.0	4.8

Source: CNB statistics

The rise in households' financial incomes in 1998 Q4 was about 3 percentage points less than that of nominal GDP, which led to a slight redistribution of total disposable income to the detriment of households. For the period as a whole, therefore, household incomes did not trigger any demand inflationary pressures. At the same time, it is quite clear that this was achieved mainly thanks to the fall in overall employment and also to the absolute year-on-year decline in the "other (nominal) household incomes" item.

Chart III.26 Relative income position of households
(y-o-y growth of nominal incomes and nominal GDP)



III.3.2 Employment and unemployment

The recent trends on the labour market – falling employment and rising unemployment – continued into 1998 Q4. Employment was down 1.1% against the same period a year earlier. The unemployment rate rose from 5.2% in December 1997 to 7.5% in December 1998 and reached 8.4% at the end of March 1999. The year-on-year reduction in employment in 1998 Q4 hit all sectors of the economy (primary, secondary and tertiary). With respect to the employment structure, there were above-average falls in the number of employed women, foreigners and disabled people. However, unemployment affected all age, professional and skill groups of the population to an ever greater extent.

Tab. III.11 Basic data on employment and unemployment

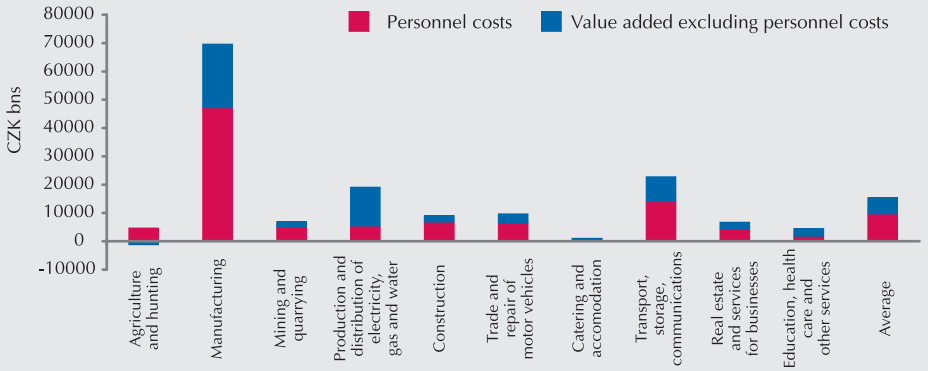
					1997 quarters				1998 quarters				1999
	1995	1996	1997	1998	I/97	II/97	III/97	IV/97	I/98	II/98	III/98	IV/98	I/99
Number of persons employed in whole economy (average numbers)													
Year-on-year change in %	2.6	0.6	-0.9	-1.2	-0.2	-0.3	-1.4	-1.4	-1.3	-1.4	-1.3	-1.1	.
Natural persons - number (in thousands)	5011	5044	4928.3	4870.8	4959	4967	4894	4904	4897	4899	4831	4851	.
Number of unemployed [1]													
Natural persons - number (in thousands)	153.0	186.3	268.9	386.9	199.6	202.6	247.6	268.9	284.1	289.5	350.7	386.9	433.3
Unemployment rate	2.9	3.5	5.2	7.5	3.9	4.0	4.8	5.2	5.5	5.6	6.8	7.5	8.4
Number of job applicants per vacancy [1]	1.7	2.2	4.3	10.3	2.3	2.5	3.4	4.3	4.4	5.0	6.8	10.3	13.1

1) as of end of period

The chart and table below illustrate the basic relationships between the fall in employment, personnel costs and book value added in individual (non-financial) industries. In construction and catering, a two-digit year-on-year reduction in employment (in firms with more than 100 employees) brought about a moderate improvement in the relation between personnel costs and book value added. This process can be interpreted as a relative decrease in labour costs and an indication that producers in the above sectors are adjusting employment, or personnel costs to the way in which their product develops. A similar process can be seen in the energy and distribution industries, trade, services for businesses, education and transport. Here, however, the relative decrease in labour costs did not require such a radical reduction in employment as it did in construction and catering.

However, the year-on-year declines in employment in agriculture (12.5%), mining (6.6%) and manufacturing (3.6%) failed to prevent a rise in labour costs in comparison with value added achieved. These industries are therefore becoming ever more demanding with respect to labour costs. This confirms, in an alternative way, the above-mentioned proposition (see part III.2.1) about the potential inflationary risk of wage developments in the business sector, particularly in manufacturing and mining.

Chart III.27 Share of personnel costs in book value added (1998 Q4) 1)

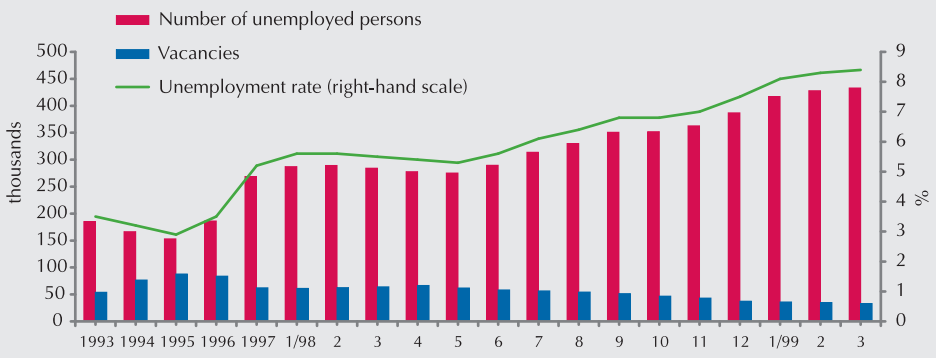


1) For non-financial organisations with more than 100 employees

	Agriculture and hunting	Manufacturing	Mining and quarrying	Prod. and distr. of el.,gas,water	Construction	Trade and rep.of mot.veh.	Catering and accomm.	Transport, comm.	Real estate and serv. for bus.	Educ.,health and other serv.	Average for sectors
Change in share of pers. costs in VAT in %	37.3	6.0	15.6	-3.3	-3.6	-3.4	-0.1	-14.0	-19.3	-3.6	0.3
Change in employment in %	-12.5	-3.6	-6.6	-3.5	-14.2	-2.3	-11.5	-5.7	0.2	-5.5	-6.5

At the end of 1999 Q1 the unemployment rate stood at 8.4%, which represented an increase in the number of new unemployed persons of 149,000 year-on-year and 46,400 against the end of 1998 Q4. In March 1999, 44.5% of all the unemployed were receiving unemployment benefit, 3.3 percentage points less than in the previous month. These data show that unemployment has been moving steadily upwards for more than 6 months.

Chart III.28 Unemployment



The gap between supply and demand for labour widened not only in aggregate terms, but also in the regional, professional and skill structure of the economically active population. The total disproportion between aggregate supply and demand for labour was reflected in an ever-increasing number of job applicants per vacancy. While in December 1997 there were 4.3 applicants per vacancy on average, at the end of December the figure was 10.3 and by the end of March 1999 it had reached 13.1.

The implications of labour market developments for inflation

An evaluation of the labour market in 1998 Q4 from the point of view of inflationary tendencies shows that there exists a possibility of wage-inflationary impulses being generated again, particularly in industry and the non-business sector. This has so far been offset by accelerated lay-offs of employees in the other segments of the business sector, so that real unit wage costs – an aggregate indicator of the labour market's influence on inflation – were flat in 1998 Q4 in year-on-year terms at the macroeconomic level.

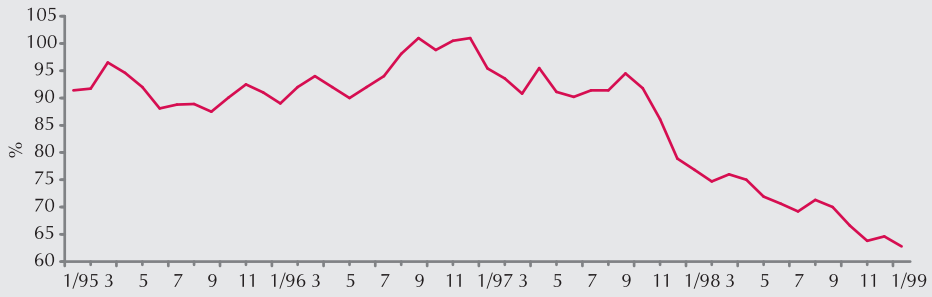
III.4 Costs and prices

III.4.1 Import prices

Prices of basic raw materials, which are imported to the Czech Republic in substantial volumes, remained quite favourable at the beginning of 1999 with respect to their effect on the domestic price

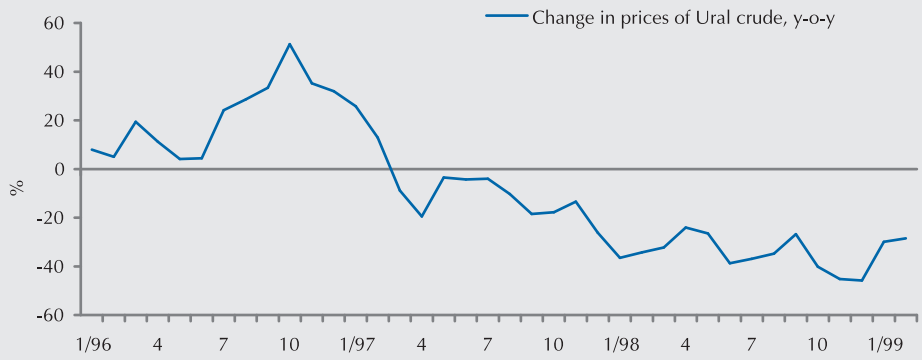
level. The HWWA index, an aggregate raw materials price index, dropped by 18.2% year-on-year in January–February 1999. Prices of energy raw materials fell the most (down 23.4%). The price of Ural crude dropped in February to just USD 9.39 per barrel, 21% lower than the average for 1998. Prices of food commodities and industrial raw materials also fell.

Chart III.29 HWWA index (1990 = 100)



The 1998 decline in import prices, as monitored by the CSO selection index, continued into the first months of 1999, though to a weakening extent. In January–February, import prices fell by another 8%. However, the gradual weakening of the koruna prevented any further intensification of the decline. On the other hand, the factor of low raw materials prices continued to act positively.

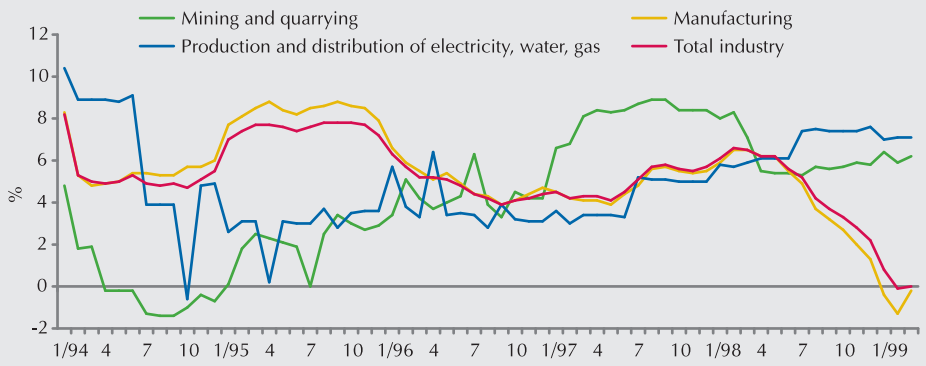
Chart III.30 Prices of Ural crude



III.4.2 Producer prices

In 1999 Q1, growth in industrial producer prices continued to decelerate. After a moderate year-on-year rise in January (0.8%), prices were down by 0.1% in February and flat in March. The month-on-month changes also reflected the downward trend, with rises of 0.4% in January, 0.1% in February and 0.2% in March. The January and February developments were to a large extent due to seasonal influences, while there were big differences in individual industrial branches.

Chart III.31 PPI inflation by industrial category, y-o-y



The main reason for the above trends was the still favourable prices on global markets (see part III.4), especially prices of energy raw materials. The low oil prices strongly affected prices in the manufacturing sector, particularly in coke production and oil refining (where prices were down by 9.5% year-on-year in February), and the chemical and pharmaceutical industry (down 7.8%). In other branches of manufacturing, prices rose much more slowly than in the previous quarters of 1998. Industrial producer prices were favourably affected by the slower industrial PPI inflation of the Czech Republic's most important trading partners and by the contraction in domestic demand. The favourable trend in industrial producer prices contributed to the slowdown in adjusted inflation.

Chart III.32 CSO import price index and industrial producer prices

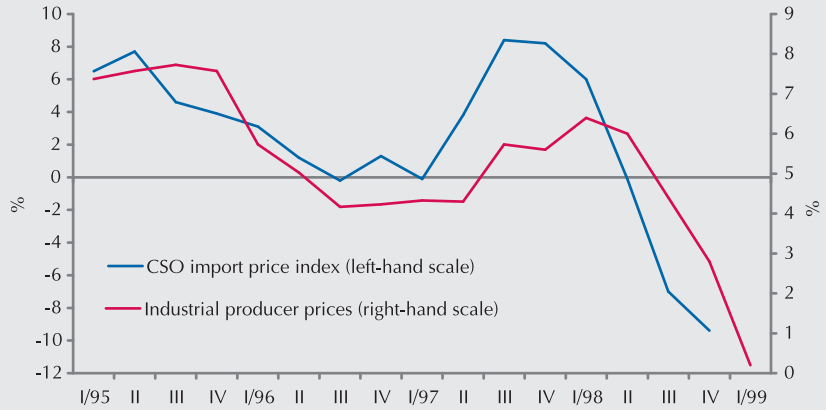
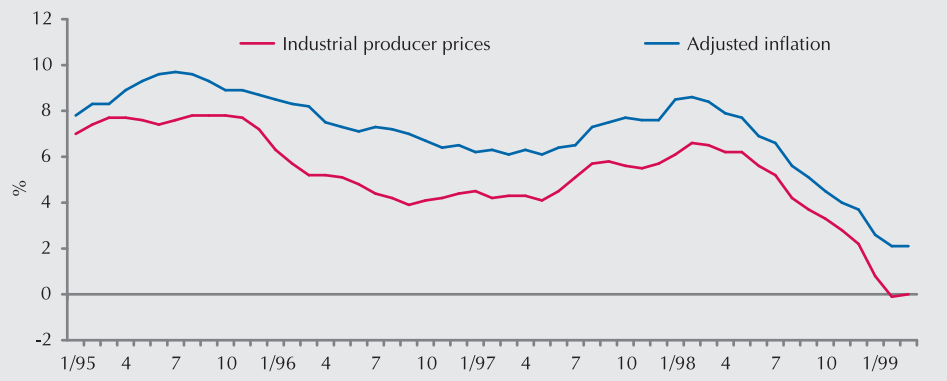
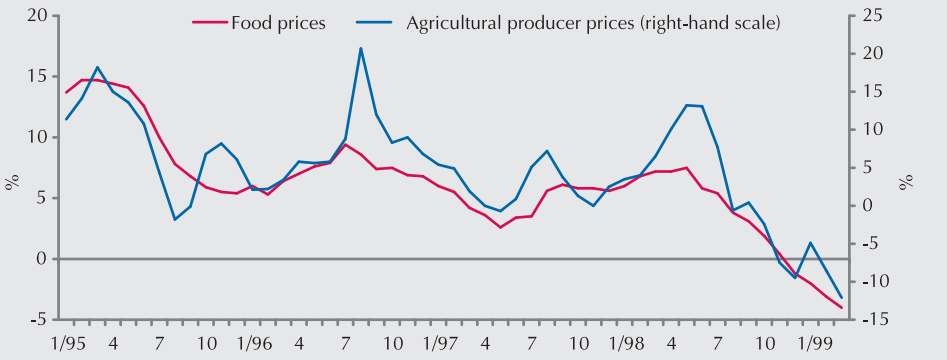


Chart III.33 Industrial producer price inflation and adjusted inflation, y-o-y



In 1999 Q1, the longer-term trend of slower growth continued also for construction work prices. With the month-on-month increases in the first months of 1999 being substantially lower than in the same period a year earlier (0.6% in January, 0.5% in February, 0.6% in March), the year-on-year growth dropped from 6.3% in January to 5.9% in February and then increased slightly to 6.2% in March. Nonetheless, despite a reduction in the volume of and demand for construction work, inflation in this area remained relatively high, probably because of construction firms' interest costs and a steady rise in prices of some building materials.

Chart III.34 Food price inflation and agricultural producer price inflation (y-o-y)



The downward trend in agricultural producer prices, which started in 1998 Q4, continued into the first months of 1999. Following a year-on-year decline of 4.9% in January, prices fell back further in February (by 8.5%) and March (by 12.1%). The cause was the same as in the previous period: the financial crisis in Russia, which led to a significant increase in surpluses of agricultural commodities in neighbouring countries, thereby strengthening the pressure for imports of agricultural commodities into the Czech Republic. These pressures were accompanied by limited export opportunities for domestic products (owing in particular to low subsidies for the agricultural sector) and very weak protection of the domestic market against subsidised imports of agricultural commodities. The trend was further reinforced by pressure from subsidised products from EU countries, which were of a significant dumping character and which worsened the already difficult sales position of domestic agricultural producers.

This influence was particularly apparent in livestock production, where prices in 1999 Q1 were still being affected by imports of subsidised pork from EU countries having the character of price dumping. At the same time, there still existed an excess of supply over demand for a number of other commodities affected by the Russian crisis (poultry, milk and dairy products). Prices of crop products fell because of the favourable harvest in 1998 (purchase prices of wheat, for example, fell by 10%–12%) and because of sufficient grain reserves from last year's harvest and limited export opportunities.

Implications of other cost indicators for inflation

The favourable development of other cost indicators in 1998 Q4 and the first months of 1999 played a major role in the low inflation rate achieved in the Czech Republic in 1999 Q1. The considerable year-on-year fall in import prices in 1998 H2 and at the beginning of 1999, together with the weak domestic demand, contributed significantly to the year-on-year decline in industrial producer prices and thereby indirectly also to the low year-on-year levels of adjusted inflation. The low level of purchase prices of agricultural producers in 1999 Q1 combined with the price war among retail chains on the domestic market allowed a continuation of the sharp year-on-year decline in food prices.

IV. MONETARY POLICY MEASURES AND INFLATION OUTLOOK

IV.1 Inflation and its determinants – an overview of the main trends

The disinflationary process, which started in April 1998, continued into 1999 Q1. Compared with 1998 Q4, prices fell at a faster pace. Overall inflation, expressed by the year-on-year increase in the CPI, fell in Q1 by 4.3 percentage points (from 6.8% in December 1998 to 2.5% in March 1999), against 2 percentage points in the previous quarter. This is a result of a further decline in net inflation, particularly food prices, and simultaneously very low regulated price inflation in 1999 Q1. Compared with March 1998, regulated prices rose by 11.8% in March 1999, which against December 1998 represents a fall of almost 9 percentage points. Year-on-year net inflation dropped from 1.7% in December 1998 to -0.4% in March 1999, namely by 2.1 percentage points. Against 1998 Q4, when net inflation fell by 2.6 percentage points (from 4.3% in September to 1.7% in December), the decline thus slowed moderately. The fall in food prices was a major factor in the net inflation decline. Compared with the same period a year earlier, food prices in March 1999 were down by 4%. The general decline in prices was also confirmed by the decrease in adjusted inflation from 3.7% in December 1998 to 2.1% in March 1999 year-on-year and in fall in the inflation rate from 10.7% to 8.2% in the same period.

The fall in inflation in 1999 Q1 resulted from ongoing anti-inflationary external and internal factors on both the demand and supply sides. Cost inflationary pressures were dampened by the domestic demand contraction and consumer demand stagnation in 1998 Q4. The most significant of the external factors was the decline in prices of raw materials and food on global markets, which fed through into lower import prices for inputs to the manufacturing sector. The considerable drop in food prices was largely due to strong price pressure from subsidised agricultural product imports from EU countries and the competition between retail chains on the domestic market. The fall in inflation in 1999 Q1 was generated partly by the still unwinding effect of the koruna's appreciation in 1998.

The year-on-year decline in domestic demand for 1998 as a whole was 3.2%. Following a year-on-year fall of 2.8% in 1998 Q3, the downward trend in domestic demand in Q4 moderated to a decline of 1.4%. This was fostered in 1998 Q4 by an only slight year-on-year decrease in household consumption (of 0.2%). However, the decline in investment demand intensified, with year-on-year gross fixed capital formation falling in Q4 by 1.6 percentage points to -4.7% compared with 1998 Q3. In contrast to 1998 Q3, the moderating domestic demand contraction in Q4 was attributable largely to government consumption, which in this period rose by 6.3% year-on-year (including non-profit institutions), mainly because of increased current expenditures at the close of 1998, and because of extraordinary expenditures, eg realisation of state guarantees.

Developments in the trade balance in 1999 Q1 did not lead to an improvement in the negative tendencies from 1998 Q4. For January–March 1999, imports were down by 5.6% year-on-year and imports by 3.9%. However, positive tendencies appeared in the structure of exports. In 1999 Q1, the share of engineering and electrical engineering exports in total exports picked up by 3.7 percentage points to 43.4%. The territorial structure of exports changed, with exports to EU countries in 1999 Q1 rising by 5.5% year-on-year despite the slowdown in economic growth in these countries. Exports to Russia and the Slovak Republic fell significantly.

The 4.1% year-on-year decline in GDP in 1998 Q4 was the lowest all year. Partial data for the first months of 1999 are not yet indicating an economic upturn. Receipts from industrial activity in constant prices fell by 6.5% year-on-year in February 1999, and the industrial production index in the same period was down by 8.1%. Construction output declined by 18.7% year-on-year in February and by 19.7% in January and February combined. The economic decline was accompanied by a rise in unemployment. As of 31 March 1999, labour offices had a total of 433,340 persons on their files and the unemployment rate stood at 8.4%.

At the beginning of 1999, there was a turnaround in the downward trend in year-on-year monetary aggregate growth seen throughout 1998. Year-on-year M2 growth rose from 5.2% in December 1998 (the lowest value since the beginning of 1993) to 10.6% in February 1999. This trend was affected by

the low comparison base in January and February 1998. During the last few months, the money supply has increased only moderately.

The fall in nominal interest rates, which started in July 1998 and continued into 1999 Q1, has yet to be reflected in money supply growth. Domestic credit supply continued to be limited by non-interest factors, particularly the low lending activity of banks and the state budget surplus. The weakening of overall credit supply was attributable largely to koruna credits, which fell sharply year-on-year (by 4.7% in December 1998, 5.1% in January and 5.5% in February). The decline in commercial banks' lending is mainly a reflection of their greater prudence in providing loans coupled with restraint on the part of the banks which are to be privatised.

The ongoing inflation decline created favourable conditions in 1999 Q1 for an improvement in inflation expectations. Whereas short-term rates fell steadily owing to cuts in the CNB's key rates, the downward trend in long-term rates virtually halted (a modest decline occurred at the end of March). Yield curves were flat or slightly positive. The interest rate differential shrank owing to the fall in rates on the interbank deposit market. This led to a decrease in foreign investors' interest in the Czech currency and subsequently to a weakening of the koruna's exchange rate. The depreciation of the koruna's exchange rate during 1999 Q1 (of approximately 10% against the euro) was also due to the release of many unfavourable figures on the development of the Czech economy.

The significant year-on-year fall in import prices in 1998 H2 and at the beginning of 1999, along with the receding domestic demand, helped to ease inflationary pressures in the production sector. Industrial producer prices rose 0.8% year-on-year in January, fell 0.1% in February and were flat in March. In manufacturing, which has a major effect on industrial producer prices, prices fell by 0.4 % year-on-year in January, 1.3% in February and 1.2% in March. This was due largely to the favourable prices on world markets, particularly for energy raw materials, and to a slowdown in the industrial producer price inflation of the Czech Republic's major trading partners. A longer-term slowdown in inflation is visible for construction work prices. Agricultural producer prices fell further (in January by 4.9%, in February by 8.5% and in March by 12.1%), notwithstanding the sharp decline in 1998 Q4.

IV.2 Monetary policy

In 1999 Q1, the CNB continued lowering its key interest rates. This process was started in mid-1998. Whereas the rates were cut relatively fast in 1998 Q4, in 1999 Q1 the CNB proceeded more slowly and interest rates gradually stabilised at a new level given by the low inflation level.

The more gradual lowering of key interest rates was due to the approaching of the critical level to which the exchange rate is sensitive, and also to the emergence of inflationary risks which did not show up significantly in 1998 Q4. The CNB considered the results of collective wage bargaining in 1999 Q1 to be the most serious risk to the meeting of the inflation target. Continuously provided information on this bargaining confirmed the CNB's concerns that wages might come into conflict with price development. In January, the first signs appeared of a worsening of the trade balance in constant prices, and of the current account. The accelerating growth in unit wage costs and the ensuing reduced competitiveness of Czech goods on world markets posed the threat of a widening of the external deficit. The effect of the external environment and exogenous shocks on the Czech economy were viewed as further potential risks. Their possible impact on inflation could act in the opposite direction to that of the positive exogenous shocks in 1998, leading to higher inflation. These signals may not have stopped the lowering of interest rates, but they did slow its fast pace. However, information testifying to the low inflation continuing in 1999 still predominated.

The assessment of Czech economic development and of the external influences showed up in CNB monetary policy as follows: whereas from October to December 1998 the repo rate was cut in four steps by a total of 4 percentage points (from 13.5% to 9.5%), in 1999 Q1 it was cut in three steps by a total of 2 percentage points (from 9.5% to 7.5%). The CNB's increased prudence in interest rate policy in 1999 Q1 is demonstrated by the two interest rate cuts in January (on 18 Jan. and 29 Jan.), each time by 0.75 percentage points, and the one cut in March (12 Mar.) of only 0.5 percentage points. The changes in the discount and Lombard rates, which create the corridor for repo rate movements, differed

in 1999 Q1 and 1998 Q4. Whereas in 1998 Q4, the discount rate was cut in two phases by a total of 4 percentage points (from 11.5% to 7.5%) and the Lombard rate in total by 3.5 points (from 16% to 12.5%), in 1999 Q1 the former was cut only once by 1.5 percentage points to 6% and the latter by 2.5 percentage points to 10%. The more modest fall in interest rates also reflects the transition to a lower level of key interest rates.

An important factor influencing the CNB's decisions regarding the setting of key interest rates was the gradual decrease in the interest rate differential between the Czech Republic and EU countries. Between January 1999 and March 1999, the differential exceeded 5% only exceptionally. In view of the risk premium, the gradual lowering of interest rates thus clearly reached the threshold of sensitivity of the koruna's exchange rate. The exchange rate gradually depreciated from approximately CZK 35.50/EUR at the start of January to CZK 38.50 in mid-February. In a further phase, ending after the first ten days of March, the exchange rate appreciated modestly to CZK 37.50/EUR and subsequently stabilised at CZK 38 /EUR, where it stayed for the rest of 1999 Q1. The CNB did not respond to the movements in the exchange rate, since the level remained consistent with the short-term inflation target of 4.5% ± 0.5 percentage points set for 1999. The gradual depreciation of the nominal exchange rate better reflected economic fundamentals and should improve the price competitiveness of Czech products on global markets.

As mentioned in the January Inflation Report, the minimum reserve requirement for primary deposits was lowered from 7.5% to 5% with effect from 28 January. The purpose of this measure was to take a further step in harmonising CNB instruments with those of the European Central Bank's monetary policy and to boost the competitiveness of the Czech banking sector. The MRR cut did not lead to an increase in bank lending, only to a greater quantity of CNB bills in banks' portfolios.

IV.3 Future inflation factors

The following factors form the basis for low inflation continuing into 1999 Q2:

- the ongoing economic recession,
- expectations of very low year-on-year growth in household consumption and overall domestic demand in 1999 Q2,
- import prices in the last quarter of 1998 (which with a time lag are affecting the industrial PPI and adjusted inflation),
- the expected favourable trend for food prices.

The above factors will be corrected by the inflationary effect of the koruna's depreciation in 1999 Q1 and by increasing oil prices. Both these factors should feed through into net inflation only in 1999 Q3 and Q4. However, they should not disrupt the whole-year trend of low inflationary pressures in the economy to any great extent.

The CNB expects the moderate pick-up in household consumption, particularly in 1999 H2, to be partly offset by the ongoing decrease in gross fixed capital formation and sluggish government consumption. The fall in net exports will continue, although this trend will probably moderate in 1999 H2 owing to the koruna's depreciation during 1999 Q1. The slight recovery of private consumption and a slowdown in the fall in net exports will create conditions for a termination of the GDP decline in 1999. However, this will not affect the onset of demand inflationary pressures.

Monetary aggregates have not so far signalled any inflation risks. The rapid lowering of interest rates during 1998 H2 and 1999 Q1 has not given rise to any expansion in credit supply. The overall economic recovery and the completion of banking sector privatisation will be the most important factors in this area. The first results therefore cannot be expected immediately, but in a one- or two-year horizon.

The labour market poses some potential risks in 1999. The latent inflationary rise in real wages generated by higher wage tariffs in budgetary and subsidised organisations in 1999 will be subdued by the expected rapid rise in unemployment, which will probably reach 10% at the end of 1999. The lead

of real wage growth (generated by the inertia of nominal wages in combination with the quick fall in inflation) over labour productivity growth visible in 1999 Q1 is another risk factor. The CNB expects the inflationary pressures stemming from the increase in real unit wage costs to weaken during 1999 and vanish completely in 2000.

Exogenous cost factors also present a certain risk of an increase in inflationary pressures in 1999. For example, the rise in global oil prices is expected to feed through soon into domestic prices of fuels and later also into producer prices. This tendency will be reinforced by the significant depreciation of the koruna in 1999 Q1. By contrast, expectations of a further slowdown in global economic growth and ongoing disinflationary tendencies, especially for the Czech Republic's biggest trading partners, will not create conditions for an upturn in inflation in the near future.

In 1999, the exchange rate of the koruna will be affected by a number of counteracting factors. Despite a probable worsening of the ratio of the current account deficit to GDP, the exchange rate is not expected to depreciate substantially in 1999. The lowering of domestic interest rates in 1998 H2 and 1999 Q1 was partly offset by interest rate cuts by the ECB and central banks of other advanced countries. Nonetheless, the interest rate differential has already reached the sensitive band where even small changes may provoke a difficult-to-predict reaction in the koruna's exchange rate. Moreover, the risk is still present of contagion of the economic turmoil in South East Asia, Russia, Slovakia and South America, with a knock-on depreciation effect on the koruna's exchange rate.

IV.4 Inflation outlook

The CNB's conditional inflation forecast is based on the assumption that the effects of the anti-inflationary macroeconomic framework will persist throughout 1999. According to this forecast, which is based on the present monetary policy setting and works with an annual rolling horizon, year-on-year net inflation will be lying within the interval of 3.7%–6.7% at the end of 2000 Q1. The CPI as of the same date will be up by 6.2%–8.4% year-on-year and net inflation will be between 3.5% and 4.6%.

At the end of 1999, year-on-year net inflation will be somewhere around the lower limit of the 4%–5% inflation target interval. The recent inflation trend and the preliminary outlook for inflationary factors indicate that the medium-term inflation target for the year 2000 (ie net inflation of 3.5%–5.5%) will be met.

Minutes of the CNB Board Meeting on 15 January 1999

Present at the meeting:

Josef Tošovský (Governor), Jan Vít (Vice-Governor), Pavel Kysilka (Vice-Governor), Miroslav Hrnčíř (Chief Executive Director), Ota Kaftan (Chief Executive Director), Luděk Niedermayer (Chief Executive Director), Jiří Pospíšil (Chief Executive Director)

The Bank Board opened the meeting by assessing the current economic and monetary situation as well as the outlook for the future. In addition, the Board examined the possible effects of the monetary crisis in Brazil and crisis escalation in Russia. The gradual weakening of the economic growth forecast for the Czech Republic's main trading partners and the effects of the launch of the euro in eleven EU member countries were also carefully considered. Current financial market development and assessment of new data on the Czech economy and inflation were used as a framework for the discussion.

On the basis of the analysis provided, the members of the Bank Board agreed that, given current and expected developments, there is no indication that the CNB should change the manner in which it handles monetary policy. In the upcoming months, very low price indices will prevail in the Czech economy because of external factors and low overall domestic demand. Nevertheless, the fact that the low inflation environment does not correspond to settings in other areas is a more pressing issue for the near future (especially wage agreements and budget revenues). There are growing signs of a negative reversal in the balance of trade and current account, and price-cost competitiveness of domestic production, ie especially an increase in the growth of unit labour costs, could cause even more complications. Short-term capital inflow is also a risk still involved. These trends indicated that the koruna exchange rate in the first half of January was not completely compatible with the inflation forecast and the CNB's inflation targets.

The exchange rate's sensitivity to interest rate changes was carefully discussed during the meeting. The Board concluded that any decision to lower rates further would not cause the nominal exchange rate to deviate in an undesirable fashion. During the discussion on minimum reserve requirements, it was again stressed that further steps will be considered in connection to the short-term programme and the implementation of already approved rate cuts (up to 28 Jan. 1999).

The Board confirmed its conclusion that the period of very low inflation will continue throughout a large part of 1999 owing to international developments. This low inflation in turn creates room for flexible monetary policy. On the basis of the submitted proposal and the discussion, the Board decided by a majority vote to lower the CNB two-week repo rate by 0.75 percentage points from 9.5% to 8.75%, effective 18 January 1999.

Author of the Minutes: Petr Krejčí, Council of Advisers

Minutes of the CNB Board Meeting on 28 January 1999

Present at the meeting:

Josef Tošovský (Governor), Jan Vít (Vice-Governor), Pavel Kysilka (Vice-Governor),
Miroslav Hrnčíř (Chief Executive Director), Ota Kaftan (Chief Executive Director),
Jiří Pospíšil (Chief Executive Director)

The Bank Board opened the meeting with its regular assessment of the monetary and economic situation. In particular, members evaluated the new developments that have taken place since the last meeting. Information on the progress and expected results of wage bargaining and data on the high December trade balance deficit were considered to be the most pressing issues on the agenda. The Board also expressed discontent over the possible effects of changes in the government economic forecast which had been implemented immediately following the approval of the state budget.

The board members stated once again that the most serious risk this year involves inconsistencies in wage and price developments. The unprecedented turn in inflation has come into conflict with steadily rising wages which secure collective agreements in the business sphere. With the anticipated stagnation in the economy, growth of average real wages has once again significantly deviated from productivity. Given that, from a macroeconomic standpoint, labour costs have the largest share of the overall level of costs and prices, growth in unit labour costs could negatively affect domestic economic competitiveness this year. One warning signal already visible is the balance of trade results for the last two months.

The risk of an external imbalance developing again has become even more of a reality considering that the factors that positively affected the trade balance and current account last year are not expected in 1999, ie growing foreign demand and slowing domestic demand and extremely favourable terms of trade. Foreign demand in 1999 will generate slowed economic growth for the Czech Republic's main trading partners and rigid price competitiveness worldwide, especially for countries that have gone through or are going through an exchange rate crisis. Possible loss of competitiveness in parts of the Czech economy while maintaining anticipated wage growth intact could lead to a sharp increase in unemployment as well as to social unrest. Therefore, from a monetary standpoint, more pronounced exchange rate corrections, although not desired, could be imminent.

The Bank Board stressed that, to a certain extent, these risks have a latent character and that it is still possible to lower the likelihood of their development. As a reminder during the meeting, the significance of the dialogue between the Government and other partners was also emphasised. This dialogue should contribute to the elimination of these risks. If the need arises to defend against further declines in the economy with the risk of a deflation spiral, stimulation of the supply side of the economy can play an important role. In every case, lowering interest rates would be one feasible option for dealing with such a situation. The nature of the exchange rate movement which has been seen recently has not significantly changed the rationale for correcting interest rates. Maintaining the CNB's inflation target for 1999 was again considered to be realistic. Bank Board decision-making will nonetheless be more contingent on the risk areas discussed.

On the basis of the detailed monetary and economic analysis and the related discussion, the members of the Bank Board decided unanimously to lower the CNB two-week repo rate by 0.75 percentage points from 8.75% to 8%, effective 29 January 1999.

Author of the Minutes: Petr Krejčí, Council of Advisers

Minutes of the CNB Board Meeting on 25 February 1999

Present at the meeting:

Josef Tošovský (Governor), Oldřich Dědek (Vice-Governor),
Zdeněk Tůma (Vice-Governor), Miroslav Hrnčíř (Chief Executive Director),
Luděk Niedermayer (Chief Executive Director), Pavel Racocha (Chief Executive Director),
Pavel Štěpánek (Chief Executive Director)

The board meeting opened with a summary of the new data on economic development. Price index growth has been significantly restrained. Data on economic activity in Q4 indicate that the economic slump is more severe than first expected. Rising unemployment will more than likely increase the uncertainty that was reflected in a higher propensity to save and curbed consumption in 1998. In the short run, the effect of suppressed domestic demand can be expected to continue, ie household consumption will only be slightly affected by growing real disposable household incomes. It is also unlikely that investment demand will send out a stronger demand impulse.

Economic recovery could be spurred on in particular by exports, although substantial incentive from foreign demand is not very likely because of slowing economic activity in EU countries and increasing competition from Asian economies. Other factors that could possibly affect export were also examined. One opinion was given that there is a risk that the growth lag in Central Europe might develop even further. It was mentioned, though, that this particular region is not decisive for the domestic economy. A sharp drop in performance could, in any case, complicate the recovery process in the Czech economy.

The board meeting continued with a discussion on the possible monetary policy response. Two options were considered: lowering rates or leaving rates at the set level. The first option was discussed in connection with the fact that the internal as well as external environment has significantly changed. Owing to this change, quantifying the various effects is now more complicated. The economic policy mix was also examined. In a period of economic growth, it could be described as a transition from restrictive policy to more relaxed policy. Fiscal policy, even with the non-standard character of some expenditures, aims at expansion. Wage policy can be characterised in a similar way. Monetary policy embraced a strategy of sharp interest rate cuts, and also the weakening of the koruna exchange rate has contributed to softening of monetary conditions. In a period of economic decline, assessing the impact of the same economic policy mix is considerably more difficult.

Also mentioned was the issue of a deflationary spiral and the opinion that it is probably good to differentiate the positive factors of the decline caused by a drop in the prices of import commodities and technology from technological advances and growing competition. It was stated that setting the parameters for monetary policy should be assessed especially from the side of maintaining macroeconomic stability. Keeping this stability intact is a condition for maintaining economic growth, and therefore reaching the medium-term inflation target for the year 2000 is also an important consideration.

The option of leaving rates at the set level was considered in connection with the actual risks involved. After the sharp rate cuts last year, it was not possible to immediately assess the overall impact of monetary policy measures. It was said that monetary policy had fulfilled its role through lowering rates and cannot take the place of other economic policies. Domestic inflation risk factors were also discussed during the meeting. One serious concern is wage development. Unbalanced development on the labour market is to a large extent caused by the inconsistency of wage demands with a low inflation environment and the resulting extreme growth in nominal wages. In relation to rising unemployment, the average wage is increasing faster than disposable household incomes. It was also mentioned that in the short run, these inflationary pressures are not significant.

The link between domestic price development and the exchange rate was also discussed. In the short run, less favourable foreign prices than were seen in 1998 could be expected. In addition, it is not very likely that the koruna exchange rate will be as strong as it was last year, because the interest differential

has been lowered. Furthermore, increased uneasiness has been seen recently on financial markets. In the last period, the koruna had depreciated 10% against the euro, and the capital market took a downward turn as well. A lower differential indicates that the koruna will now react more sensitively to risk premiums and reflect news on the state of the economy. One point mentioned was that in a period of economic decline, an inflation impulse sent by currency depreciation can be lower than indicated by estimates based on previous data. On the other hand, it was stated that the link between exchange rate and price development is fairly strong and reacts relatively fast.

At the close of the meeting, the CNB Bank Board decided by a majority vote not to change the settings of the CNB monetary policy instruments.

Author of the Minutes: Kateřina Šmídková, Council of Advisers

Minutes of the extraordinary CNB Board Meeting on 11 March 1999

Present at the meeting:

Josef Tošovský (Governor), Zdeněk Tůma (Vice-Governor), Oldřich Dědek (Vice-Governor), Miroslav Hrnčíř (Chief Executive Director), Luděk Niedermayer (Chief Executive Director), Pavel Štěpánek (Chief Executive Director), Pavel Racocha (Chief Executive Director)

The CNB Board opened the meeting by assessing the current monetary and economic situation. This assessment was based primarily on new developments that had occurred last week, inevitably shaping trends in the future as well. The published indices confirmed the prior expectations on current price developments which can at this time be classified as deflationary in some price groups. Up until now, the effects of exchange rate depreciation from the beginning of this year have not shown up in the actual level of prices. Reasons for this include not only the standard time lag of this transmission, but also the continuation of strongly curbed demand and probably even the existence of reserves that to a certain extent allow companies to absorb anticipated import price growth.

The Bank Board has identified the information on the decline in industrial and construction production as an important signal. The scope of this decline shows that the sharp economic slump in Q4 will probably not end. The Bank Board has also taken into consideration information on the steady expansion of the money supply in the first months of the year which is not consistent with the existing low inflation levels and observed decline in economic performance. Current data do not allow to identify to which extent there is a change in trend of money aggregate development and to which extent money supply reflects current institutional and methodological changes.

Published information on inflation and on a performance decline in the important sectors of the economy, as well as the interest rate cuts up to 29 January 1999, have not generated exchange rate movements that would cause values to be incompatible with the Czech National Bank's inflation targets. Even though the interest rate differential with respect to other world currencies has been significantly reduced, Bank Board members stated that, so far, room for cutting interest rates still exists at a level that would better correspond to the established inflation trends and the sharp economic decline. The Board continued with a discussion on the amount of room available to cut the rates as well as the link that should be attributed to short- and medium-term risks during decision-making. Nevertheless, it was stated that there is no change in the characteristic risks from the last meeting, ie notably the monetary effects of expansive wage and cash revenue development as well as the state budget deficit. This, along with completing the process of falling import prices, will shape price levels in the second half of this year and the beginning of next year.

Recently, the complexity of the Bank Board's decision-making process has been heightened considerably by substantial changes in the macroeconomic environment (production, demand and inflation). This has had such a large impact that it is not possible to directly rely on the previously analysed and identified links for the full range of economic variables. For this reason, current inflation forecasts move within a relatively wide band.

The Bank Board's main topic discussion was a proposal to lower the rate base for the CNB 2W repo by 0.5 percentage points. Some Bank Board members, though, recommended lowering the rate to a lesser degree, ie only by 0.25 percentage points. Reasons for this proposal mainly involve concerns that possible inadequate reactions of the foreign exchange market might drive the koruna to depreciate to a high level and in turn affect inflation.

Following the discussion, the Bank Board decided by a majority vote to lower the repo rate by 0.5 percentage points from 8% to 7.5%, effective 12 March 1999. In connection with this decision, the discount rate was lowered by 1.5 percentage points to 6%, and the Lombard rate by 2.5 percentage points to 10%.

Author of the Minutes: Petr Krejčí, Council of Advisers

Minutes of the CNB Board Meeting on 25 March 1999

Present at the meeting:

Josef Tošovský (Governor), Zdeněk Tůma (Vice-Governor), Miroslav Hrnčíř (Chief Executive Director), Luděk Niedermayer (Chief Executive Director), Pavel Racocha (Chief Executive Director), Pavel Štěpánek (Chief Executive Director)

The Bank Board opened its regular meeting with a discussion of the current economic situation. Attention was first given to the new information that has developed during the two weeks since the extraordinary board meeting on 11 March 1999. New data on the Czech economy were presented, concerning mainly GDP and foreign trade. Significant changes have also occurred in the area of external factors.

According to data on GDP in 1998, economic performance has significantly declined. Data from the previous quarter, though, should be assessed in relation to the deviation from the trend in 1997 Q4 where GDP rose by 2.2%. Seasonally adjusted quarterly data indicate some acceleration of domestic demand, private and government consumption and to a certain extent, also investment activity. While it was indicated that GDP corresponds to the CNB estimate, acceleration of private and government consumption was identified as new information which reduces the likelihood of continued economic decline.

In connection with this, the difficulty in interpreting the link between retail sales and private consumption was mentioned. Attention was also given to the savings ratio and clearing up the significance of the savings ratio indicators published by the Czech Statistical Office and the CNB. Opinions were expressed that the savings ratio shows a tendency to decline which, given the falling interest rates from deposits, could continue. It was indicated, though, that according to CNB indicators the savings ratio is still relatively high.

It was expressed that the gap between domestic supply and demand has shown up in declining net export. In constant prices, the quarterly deficit was one of the largest since the beginning of transformation. The external balance in current prices, nevertheless, is much lower. This difference can be attributed to the unique development of the terms of trade in 1998. If this year's terms of trade take on a different character, this could cause the external balance to worsen, in current prices as well.

The Board now turned its attention to the exchange rate. Indications were given that the exchange rate level which had developed during the first months of 1999 corresponds to the situation in the economy, and the new exchange rate level was a desirable consequence of lower interest rates, supporting in turn Czech export competitiveness. More exchange rate movement has occurred recently. The discussion focused on whether the exchange rate is still searching for a new level or whether recent developments should be understood as volatility that will be followed by corrections.

Interpreting the developments as volatility was supported by the views suggesting a foreign exchange market affected by the activities of some important clients and also by the war in Kosovo. In support of the hypothesis on a new level, it was stated that, given a lack of other positive news, any stimulus causing a correction in volatility would probably not occur. In relation to the discussion on exchange rate movement, it was also stated that in a situation of declining foreign demand, it is not very likely that exchange rate depreciation would be reflected in export recovery. In addition, the external balance could be worsened by renewed domestic demand.

Higher crude oil prices were considered to be very important new information. As long as the other commodity markets follow the trend of the oil market or as long as crude oil prices continue to rise, import prices can be expected to send inflationary impulses in the Czech economy. The first reaction in the form of a rise in some domestic prices has already been observed.

After assessment of the new information, the Bank Board continued with a more general discussion on the possibilities of monetary policy given the current economic situation. It was stated that the setting of monetary policy parameters has undergone significant development in past months, and the decisions made during the last Bank Board meeting completed for the most part the manoeuvre period of monetary policy adaptation to the new phase of inflation development. Future meetings will more than likely involve corrections of current settings.

A possible resurgence of the external imbalance was indicated as one problem that economic as well as monetary policy could face in the future. In relation to this, it was stated that an adequate economic policy response in the given conditions is to switch expenditures instead of reducing them, which was the strategy used in 1996. This is due to the fact that the situation is different and the economy does not show any signs of positive growth. It was also suggested that monetary policy contributes to closing in the gap between domestic supply and demand by cutting investment activity costs.

The Bank Board continued by assessing the inflation risk factors in relation to the inflation target for 1999. On the basis of the most recent data on GDP, it is no longer possible to rule out inflationary pressures caused by domestic demand. This pressure could be supported by real wage growth whose impact on price development was significant. In addition, external factors have begun to give rise to inflation risk which will probably be reflected in import price growth. It is likely that the exchange rate will still search out a new level.

At the close of the meeting, the CNB Bank Board unanimously decided not to change the setting of CNB monetary policy instruments, and interest rates were left at their current levels.

Author of the Minutes: Kateřina Šmídková, Council of Advisers

INFLATION DEVELOPMENT

year-on-year change in %

		1	2	3	4	5	6	7	8	9	10	11	12
		1995											
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
(contribution to CPI inflation)	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 on unregulated prices													
(contribution to CPI inflation)		*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
(contribution to CPI inflation)	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
(contribution to CPI inflation)	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
(contribution to CPI inflation)	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*
Inflation rate	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
(contribution to CPI inflation)	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 on unregulated prices													
(contribution to CPI inflation)		*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
(contribution to CPI inflation)	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
(contribution to CPI inflation)	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
(contribution to CPI inflation)	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*
Inflation rate	2)	9.1	9.1	9.0	8.9	8.7	8.6	8.6	8.6	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
(contribution to CPI inflation)	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 on unregulated prices													
(contribution to CPI inflation)		*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
(contribution to CPI inflation)	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
(contribution to CPI inflation)	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
(contribution to CPI inflation)	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*
Inflation rate	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	13.1	13.0	12.0	10.4	9.4	8.8	8.2	7.5	6.8
Regulated prices	1)	30.7	30.8	30.8	30.1	29.8	29.7	21.1	20.9	20.4	20.6	20.5	20.4
(contribution to CPI inflation)	1)	*6.36*	*6.38*	*6.38*	*6.26*	*6.20*	*6.11*	*5.00*	*4.91*	*4.79*	*4.81*	*4.78*	*4.73*
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*
Net inflation		7.5	7.9	7.9	7.6	7.6	6.5	6.1	4.9	4.3	3.4	2.6	1.7
(contribution to CPI inflation)	1)	*6.00*	*6.31*	*6.32*	*6.08*	*6.07*	*5.19*	*4.66*	*3.73*	*3.31*	*2.64*	*1.96*	*1.32*
of which: food	1)	6.0	6.8	7.2	7.2	7.5	5.8	5.4	3.8	3.1	1.9	0.4	-1.2
(contribution to CPI inflation)	1)	*1.97*	*2.22*	*2.40*	*2.44*	*2.88*	*1.96*	*1.75*	*1.21*	*1.00*	*0.60*	*0.14*	*-0.38*
adjusted inflation	1)	8.5	8.6	8.4	7.9	7.7	6.9	6.6	5.6	5.1	4.5	4.0	3.7
(contribution to CPI inflation)	1)	*4.03*	*4.09*	*3.92*	*3.64*	*3.19*	*3.22*	*2.91*	*2.53*	*2.30*	*2.04*	*1.82*	*1.70*
Inflation rate	2)	8.9	9.5	10.0	10.5	11.1	11.5	11.6	11.5	11.4	11.2	11.0	10.7
		1999											
Consumer prices		3.5	2.8	2.5									
Regulated prices	1)	12.1	11.9	11.7									
(contribution to CPI inflation)	1)	*2.97*	*2.90*	*2.87*									
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.00*	*0.00*	*0.00*									
Net inflation		0.7	-0.1	-0.4									
(contribution to CPI inflation)	1)	*0.54*	*-0.06*	*-0.33*									
of which: food	1)	-2.0	-3.1	-4.0									
(contribution to CPI inflation)	1)	*-0.61*	*-0.98*	*-1.25*									
adjusted inflation	1)	2.6	2.1	2.1									
(contribution to CPI inflation)	1)	*1.15*	*0.91*	*0.92*									
Inflation rate	2)	9.8	8.9	8.0									

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

Source: CSO

INFLATION DEVELOPMENT

month-on-month change in %

	1	2	3	4	5	6	7	8	9	10	11	12
1995												
Consumer prices	1.4	0.8	0.3	1.0	0.4	1.1	0.0	-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
(contribution to CPI inflation) 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 on unregulated prices												
(contribution to CPI inflation)	*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
(contribution to CPI inflation) 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
(contribution to CPI inflation) 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
(contribution to CPI inflation) 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	0.6	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
(contribution to CPI inflation) 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 on unregulated prices												
(contribution to CPI inflation)	*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
(contribution to CPI inflation) 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
(contribution to CPI inflation) 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
(contribution to CPI inflation) 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
(contribution to CPI inflation) 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 on unregulated prices												
(contribution to CPI inflation)	*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
(contribution to CPI inflation) 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
(contribution to CPI inflation) 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
(contribution to CPI inflation) 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	0.3	0.1	0.3	1.9	-0.2	0.1	-0.2	-0.2	-0.2
Regulated prices 1)	9.3	0.4	0.2	0.6	0.0	0.1	8.4	0.0	0.1	0.2	0.0	0.0
(contribution to CPI inflation) 1)	*2.13*	*0.09*	*0.03*	*0.13*	*0.01*	*0.03*	*2.07*	*0.01*	*0.03*	*0.04*	*0.00*	*0.01*
Influence of indirect tax growth on unregulated prices												
(contribution to CPI inflation)	*0.73*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	1.5	0.7	0.1	0.2	0.1	0.4	-0.2	-0.3	0.1	-0.3	-0.3	-0.3
(contribution to CPI inflation) 1)	*1.14*	*0.54*	*0.10*	*0.16*	*0.07*	*0.28*	*-0.13*	*-0.23*	*0.07*	*-0.19*	*-0.25*	*-0.19*
of which: food 1)	1.7	0.8	0.2	0.3	0.1	0.4	-1.4	-0.9	0.0	-0.6	-1.0	-0.9
(contribution to CPI inflation) 1)	*0.52*	*0.24*	*0.08*	*0.10*	*0.03*	*0.12*	*-0.42*	*-0.26*	*0.00*	*-0.16*	*-0.28*	*-0.26*
adjusted inflation 1)	1.4	0.7	0.0	0.1	0.1	0.4	0.6	0.1	0.2	-0.1	0.1	0.2
(contribution to CPI inflation) 1)	*0.62*	*0.30*	*0.02*	*0.06*	*0.04*	*0.16*	*0.28*	*0.03*	*0.07*	*-0.03*	*0.03*	*0.07*
1999												
Consumer prices	0.8	0.0	-0.2									
Regulated prices 1)	1.8	0.2	0.0									
(contribution to CPI inflation) 1)	*0.46*	*0.04*	*0.01*									
Influence of indirect tax growth on unregulated prices												
(contribution to CPI inflation)	*0.00*	*0.00*	*0.00*									
Net inflation	0.5	-0.1	-0.2									
(contribution to CPI inflation) 1)	*0.36*	*-0.07*	*-0.17*									
of which: food 1)	0.9	-0.5	-0.7									
(contribution to CPI inflation) 1)	*0.25*	*-0.13*	*-0.19*									
adjusted inflation 1)	0.2	0.1	0.0									
(contribution to CPI inflation) 1)	*0.11*	*0.06*	*0.02*									

1) CNB calculation

Source: CSO

CONSUMER PRICES

change in %, December 1993 = 100

Group	Constant weights of 1993 in per mille	months 1	2	3	4	5	6	7	8	9	10	11	12	Average from start of year
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	-19.9	-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
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	26.2	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	12.2	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	26.3	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	48.7	48.8	49.2	52.1	51.8	51.9	51.7	51.3	51.0	50.0
Food, beverages, tobacco	327.1	38.0	39.1	39.4	39.9	40.0	40.6	38.7	37.5	37.4	36.7	35.4	34.2	38.1
Clothing	90.9	44.5	44.6	45.1	46.3	46.7	47.2	47.3	47.1	47.6	48.4	49.0	49.2	46.9
Housing	143.7	100.7	102.1	102.6	102.9	103.0	103.1	124.1	124.5	125.3	125.9	125.9	126.0	113.8
Household equipment	77.2	23.5	24.6	24.9	25.5	25.7	26.0	26.3	26.5	26.7	26.5	26.3	26.6	25.8
Health care	44.2	17.0	17.4	17.6	17.7	17.9	18.2	18.5	18.7	18.8	18.9	18.9	18.9	18.2
Transport	104.8	40.9	40.9	39.8	39.2	38.7	38.0	39.2	38.7	38.6	38.3	38.0	37.5	39.0
Leisure activities	97.5	34.8	35.8	35.2	34.7	35.0	36.9	40.0	40.0	37.7	36.6	36.8	38.1	36.8
Education	16.9	120.4	122.6	123.9	125.4	125.5	126.2	126.6	126.6	135.3	136.0	136.1	136.2	128.4
Catering and accommodation	47.2	41.4	43.7	44.8	45.2	45.6	46.0	46.5	46.9	47.2	47.4	47.3	47.4	45.8
Other goods and services	50.5	38.0	38.9	38.9	41.9	42.2	42.7	42.9	43.2	43.8	43.9	44.0	44.1	42.0
Total - 1999	1000.0	52.3	52.2	52.0										
Food, beverages, tobacco	327.1	35.3	34.7	33.8										
Clothing	90.9	48.4	47.1	46.9										
Housing	143.7	129.0	129.9	130.2										
Household equipment	77.2	27.0	27.6	27.6										
Health care	44.2	19.0	19.1	19.2										
Transport	104.8	38.9	38.9	39.2										
Leisure activities	97.5	38.5	39.1	38.4										
Education	16.9	137.3	138.0	138.2										
Catering and accommodation	47.2	48.0	48.2	48.5										
Other goods and services	50.5	48.3	48.9	49.2										

Source: CSO

NET INFLATION

change in %

	1995											
	1	2	3	4	5	6	7	8	9	10	11	12
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 previous 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 previous 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 previous 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 previous 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 previous 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 previous 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	0,2	0,1	0,4	-0,2	-0,3	0,1	-0,3	-0,3	-0,3
b) same period of previous year = 100	7,5	7,9	7,9	7,6	7,6	6,5	6,1	4,9	4,3	3,4	2,6	1,7
c) December of previous year = 100	1,5	2,2	2,3	2,5	2,6	3,0	2,8	2,5	2,6	2,4	2,0	1,7
	1999											
a) previous month = 100	0,5	-0,1	-0,2									
b) same period of previous year = 100	0,7	-0,1	-0,4									
c) December of previous year = 100	0,5	0,4	0,2									

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 transport	0.2081
telecommunication services - telephone	0.7605
b) set by local authorities	
municipal public transport	0.7716
parking services	0.0171
taxi services	0.0295
B. Items with prices regulated on a cost-plus basis	
water and sewerage	0.9867
heating for households	3.0174
bus transport	0.6899
postal services	0.1163
telegraph	0.0121
propane-butane gas	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 owners of two-cylinder motor vehicles	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

CONSUMER PRICES - TRADABLES AND NONTRADABLES

change in %

	Constant weight in consumer basket in %	1994	1995	1996	1997	1998	1999	
		měsíce						
		12	12	12	12	12	3	
		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	-0.3	-0.3	-4.0
of which:tradables	32.7	12.0	5.4	7.9	5.6	-0.3	-0.3	-4.0
nontradables	.	.	.	.	.	.	.	.
2. Clothing	9.1	9.2	10.9	9.6	9.1	3.1	-1.5	1.3
of which:tradables	8.8	9.2	10.7	9.6	9.0	2.9	-1.6	1.2
nontradables	0.3	9.0	16.6	9.7	12.3	7.5	1.2	5.2
3. Housing	14.4	14.1	13.0	13.5	22.9	25.6	1.9	13.6
of which:tradables	1.1	10.5	9.7	9.4	37.1	18.0	4.1	6.0
nontradables	13.3	14.4	13.3	13.8	21.7	26.1	1.8	14.2
4. Household equipment	7.7	4.3	5.6	3.6	7.7	3.0	0.8	2.2
of which:tradables	7.2	4.1	5.3	3.2	7.5	2.4	0.9	2.0
nontradables	0.5	6.4	9.1	9.0	10.3	9.4	0.6	4.5
5. Health care	4.4	2.4	4.3	2.2	6.5	2.3	0.2	1.4
of which:tradables	.	.	.	.	.	2.6	0.3	2.8
nontradables	4.4	2.4	4.3	2.2	6.5	2.3	0.2	1.3
6. Transport	10.5	5.5	6.4	8.3	9.2	3.6	1.3	-0.5
of which:tradables	7.5	3.0	3.0	6.2	6.2	-4.4	0.0	-5.4
nontradables	3.0	11.5	14.5	13.4	16.6	17.2	3.0	7.2
7. Leisure activities	9.8	5.7	9.9	4.5	9.7	3.7	0.2	2.4
of which:tradables	6.4	3.5	5.9	2.3	4.5	1.2	-0.9	-0.4
nontradables	3.4	12.0	21.3	11.0	19.8	7.0	1.7	6.1
8. Education	1.7	23.7	10.2	37.9	9.5	14.7	0.8	6.4
of which:tradables	.	.	.	.	.	.	.	.
nontradables	1.7	23.7	10.2	37.9	9.5	14.7	0.8	6.4
9. Catering, accommodation	4.7	12.9	7.3	6.5	7.3	6.5	0.5	2.5
of which:tradables	0.1	3.1	21.3	9.9	17.7	12.4	0.0	7.5
nontradables	4.6	13.2	6.9	6.4	7.0	6.3	0.5	2.4
10. Other goods and services	5.1	5.5	10.1	7.5	9.7	5.1	2.6	7.4
of which:tradables	3.2	5.9	5.8	5.0	7.1	1.5	0.3	1.5
nontradables	1.9	4.7	17.4	11.7	14.3	10.0	2.3	15.2
Total household consumer prices	100.0	9.7	7.9	8.6	10.0	6.8	0.6	2.5
of which:tradables	67.3	8.7	6.0	6.7	7.1	0.7	-0.2	-2.0
nontradables	32.7	11.9	11.9	12.5	15.9	16.9	1.8	9.6
Tradables - food	32.7	12.0	5.4	7.9	5.6	-0.3	-0.3	-4.0
Tradables - others	34.6	5.6	6.5	5.7	8.3	1.6	-0.2	0.0
Nontradables - regulated	18.3	9.0	9.7	11.2	19.7	20.7	2.0	12.0
Nontradables - others	14.4	14.2	12.3	8.9	9.3	11.1	1.6	5.9

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

INTERNATIONAL SURVEY - CONSUMER PRICES

year-on-year change in %

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	12	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	6.8	2.5
Slovakia	.	61.2	10.1	23.2	13.4	9.9	5.8	6.4	5.6	7.0
Hungary	.	35.0	23.0	22.5	18.8	28.2	23.6	18.4	10.3	9.3
Poland	585.8	70.3	43.0	35.3	29.5	27.8	19.9	13.0	8.6	6.2
Russia	20.0	193.0	1090.0	940.0	307.0	197.7	47.7	11.0	84.4	130.5
2. European Union Countries										
Belgium	3.4	3.2	2.4	2.8	2.4	2.0	2.5	1.1	0.6	1.2
Great Britain	9.5	5.9	3.7	1.6	2.4	3.2	2.5	3.6	2.8	2.1
France	3.4	3.2	2.4	2.1	1.6	2.1	1.7	1.1	0.3	0.4
Italy	6.1	6.5	5.3	4.2	3.9	5.8	2.6	1.5	1.5	1.4
Germany	2.7	3.5	4.0	4.1	3.0	1.8	1.4	1.8	0.5	0.4
Netherlands	2.5	3.7	3.2	2.6	2.7	1.6	2.5	2.3	1.7	2.2
Spain	6.7	5.9	5.9	4.6	4.7	4.3	3.2	2.0	1.4	
Austria	3.3	3.3	4.0	3.3	2.9	1.8	2.3	1.0	0.7	1.5
Sweden	10.5	9.3	2.3	4.6	3.2	2.5	-0.2	1.9	-0.6	0.0
3. Other countries										
Japan	3.1	3.3	1.7	1.3	0.7	-0.3	0.6	1.7	0.6	
Canada	4.8	5.6	1.5	1.8	-0.2	1.7	2.2	0.7	1.0	1.0
USA	5.4	4.2	3.0	3.0	2.6	2.5	3.3	1.7	1.6	1.7
Switzerland	5.4	5.8	4.0	3.3	1.0	1.9	0.8	0.4	-0.2	0.5

Source: The Economist

MONETARY SURVEY

position at month-end in CZK billions

		1993	1994	1995	1996	1997	1998	1999
		12	12	12	12	12	12	2
Total assets		720.4	870.4	1039.6	1120.5	1217.6	1280.8	1283.3
Net foreign assets		115.7	194.4	311.4	281.9	338.5	410.0	457.8
- assets		213.6	275.8	493.2	538.0	670.7	746.1	804.5
- liabilities		97.9	81.4	181.8	256.1	332.2	336.1	346.7
Net domestic assets		604.7	676.0	728.2	838.6	879.1	870.8	825.5
Domestic credits		713.9	817.5	929.5	1029.7	1137.7	1119.3	1129.5
Net credit to the government sector		18.4	5.1	10.1	12.6	24.8	36.1	20.5
- net credit to government		35.1	23.1	25.4	28.5	37.9	45.4	29.8
- net credit to NPF		-16.7	-18.0	-15.3	-15.9	-13.1	-9.3	-9.3
Client credits of commercial banks and CNB		695.5	812.4	919.4	1017.1	1112.9	1083.2	1109.0
CZK credits		669.6	768.9	822.3	888.6	912.6	869.6	867.0
- businesses		576.8	661.1	720.5	785.1	808.2	765.6	763.3
- households		92.8	107.8	101.8	103.5	104.4	104.0	103.7
Foreign currency credits		25.9	43.5	97.1	128.5	200.3	213.6	242.0
- businesses		.	.	.	.	194.3	210.1	237.9
- households		.	.	.	.	6.0	3.5	4.1
Other net items		-109.2	-141.5	-201.3	-191.1	-258.6	-248.5	-304.0
Liabilities								
M2	2)	720.4	870.4	1039.6	1120.5	1217.6	1280.8	1283.3
M1	1)	359.9	421.8	453.3	475.3	445.1	433.4	413.1
Currency in circulation		59.8	84.0	104.3	118.9	119.3	127.2	130.5
CZK demand deposits		300.1	337.8	349.0	356.4	325.8	306.2	282.6
- households		109.3	131.5	148.8	155.7	153.2	144.0	153.7
- businesses		185.1	201.1	195.6	195.6	168.2	158.9	125.0
- insurance companies		5.7	5.2	4.6	5.1	4.4	3.3	3.9
Quasi money		360.5	448.6	586.3	645.2	772.5	847.4	870.2
CZK time deposits		303.1	387.8	498.8	559.5	634.0	674.7	715.5
- households		206.8	244.7	306.5	366.0	474.4	550.8	558.4
- businesses		60.0	102.9	150.2	172.7	133.9	91.8	135.0
- insurance companies		36.3	40.2	42.1	20.8	25.7	32.1	22.1
Certificates of deposit, deposit bills of exchange and other bonds	6)	.	.	.	.	.	30.2	13.0
Foreign currency deposits		57.4	60.8	87.5	85.7	138.5	142.5	141.7
- households		45.7	42.2	35.8	40.1	68.8	73.6	78.9
- businesses		11.7	18.6	51.7	45.6	69.7	68.9	62.8
Monetary aggregate L	3)	704.6	845.5	1019.0	1138.9	1241.8	1329.9	1345.7
Year-on-year changes in %								
M1		17.5	17.2	7.5	4.9	-6.4	-2.6	6.1
M2	5)	19.8	19.9	19.8	9.2	10.1	5.2	10.6
L		19.8	20.0	20.5	11.8	9.0	7.1	11.1
Client credits of commercial banks and CNB		19.1	16.8	13.2	10.6	9.4	-2.7	-0.4
Client deposits with banks	4)	21.8	19.1	21.8	7.1	9.7	2.3	9.6

1) M1 = Currency in circulation + CZK demand deposits

2) M2 = M1 + quasi money

3) L = M2 + T-bills and CNB bills in the portfolios of domestic non-bank entities

4) CZK deposits + foreign currency deposits

5) Adjusted for float in 1993 and 1994, short-term operations of several banks in 1994 and for SPT Telecom deposit with CNB in 1995 and 1996

6) Because of changes in statistical reporting, deposit bills of exchange, CDs and other bonds are excluded from CZK deposits from January 1998

CREDIT SUPPLY

	1993	1994	1995	1996	1997	1998	1999
	12	12	12	12	12	12	2
Non-adjusted credits							
Total credits, CZK and foreign currency							
absolute volumes, in CZK bns	695.5	812.4	919.4	1017.1	1112.9	1083.2	1109.0
year-on-year changes in %	19.1	16.8	13.2	10.6	9.4	-2.7	-0.4
CZK credits							
absolute volumes, in CZK bns	669.6	768.9	822.3	888.6	912.6	869.6	867.0
year-on-year changes in %	17.9	14.8	6.9	8.1	2.7	-4.7	-5.4
Foreign currency credits							
absolute volumes, in CZK bns	25.9	43.5	97.1	128.5	200.3	213.6	242.0
year-on-year changes in %	57.0	68.0	123.2	32.3	55.9	6.6	22.6
Adjusted credits 1)							
Total credits, CZK and foreign currency							
absolute volumes, in CZK bns	696.2	807.6	906.1	1014.9	1101.9	1140.5	1144.7
year-on-year changes in %	19.2	16.0	12.2	12.0	7.5	3.5	3.5
CZK credits							
absolute volumes, in CZK bns	670.2	763.9	808.8	882.6	922.9	931.5	929.4
year-on-year changes in %	18.1	14.0	5.9	9.1	3.3	0.9	0.4
Foreign currency credits							
absolute volumes, in CZK bns	26.0	43.7	97.3	132.3	179.0	209.0	215.3
year-on-year changes in %	57.6	68.1	122.7	36.0	35.3	16.8	16.9

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

CREDIT BREAKDOWN BY TIME, SECTOR AND TYPE

share in total in %

	1993	1994	1995	1996	1997	1998	1999
	12	12	12	12	12	12	2
Time structure							
Total CZK and foreign currency credits	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	41.0	41.5
medium-term	28.3	30.2	29.1	25.7	24.8	22.5	21.7
long-term	29.9	29.3	29.0	30.8	33.2	36.5	36.8
Sector structure							
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Businesses	93.3	94.3	88.9	89.8	90.2	90.1	90.3
Households	6.7	5.7	11.1	10.2	9.8	9.9	9.7
Type structure							
Total CZK and foreign currency credits	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	52.9	53.0
Investment (incl. general housing construction)	33.9	33.6	33.2	32.4	31.3	32.2	32.5
Mortgage	0.4	0.1	0.1	1.0	1.6	2.2	2.1
Consumer	0.6	0.7	0.8	0.7	0.6	1.7	1.6
For privatisation	5.4	5.0	3.8	3.0	2.0	1.4	1.4
For temporary fund shortage	9.1	12.5	9.6	9.2	10.5	8.2	7.9
For securities purchase	0.2	0.6	1.0	2.8	1.1	1.4	1.5

Note:
1) Until 1996, only CZK credits excluding classified credits, and since 1997 total credits
(foreign currency credits broken down by sector not available up to 1996)

INTEREST RATES ON INTERBANK DEPOSITS

%

	1993	1994	1995	1996	1997	1998	1999		
	12	12	12	12	12	12	1	2	3
1. AVERAGE PRIBOR RATE 1)									
- 1 day	5.47	10.75	10.83	12.44	12.55	10.84	9.29	8.04	7.75
- 7 day	5.90	12.28	11.17	12.61	16.64	10.56	9.20	8.17	7.78
- 14 day	6.14	12.38	11.20	12.61	16.77	10.54	9.17	8.17	7.77
- 1 month	6.68	12.55	11.01	12.63	17.49	10.46	8.94	8.17	7.70
- 2 month	7.34	12.61	10.97	12.62	17.54	10.27	8.60	8.18	7.61
- 3 month	8.00	12.65	10.93	12.67	17.50	10.08	8.49	8.18	7.58
- 6 month	9.21	12.65	10.89	12.55	17.41	9.56	8.24	8.19	7.55
- 9 month	10.69	12.65	10.89	12.25	17.39	9.38	8.17	8.22	7.56
- 12 month	11.90	12.66	10.90	12.23	17.36	9.31	8.14	8.24	7.57
2. AVERAGE PRIBID RATE 1)									
- 1 day	4.51	10.01	10.52	12.19	10.75	10.48	8.93	7.74	7.46
- 7 day	4.92	11.48	10.82	12.35	15.37	10.30	8.93	7.91	7.53
- 14 day	5.16	11.55	10.84	12.36	15.45	10.27	8.91	7.92	7.53
- 1 month	5.68	11.72	10.63	12.35	16.26	10.18	8.66	7.92	7.45
- 2 month	6.34	11.76	10.59	12.34	16.33	9.99	8.33	7.93	7.36
- 3 month	7.00	11.80	10.53	12.39	16.35	9.79	8.21	7.93	7.33
- 6 month	8.21	11.81	10.48	12.26	16.31	9.26	7.96	7.95	7.29
- 9 month	9.56	11.82	10.47	11.96	16.27	9.08	7.89	7.96	7.30
- 12 month	10.89	11.83	10.48	11.94	16.23	9.02	7.87	7.98	7.31

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

FRA RATES

monthly averages in %

	1997				1998				1999		
	3	6	9	12	3	6	9	12	1	2	3
3 * 6	11.82	14.60	14.53	16.70	15.62	15.38	13.16	9.02	7.99	8.15	7.43
3 * 9	11.52	14.22	14.53	16.70	15.80	15.39	13.02	8.99	7.99	8.17	7.46
6 * 9	11.00	13.32	14.02	16.03	15.43	14.81	12.46	8.79	7.89	8.12	7.41
6 * 12	10.97	13.13	13.97	16.01	15.52	14.82	12.37	8.79	7.92	8.17	7.46
9 * 12	10.57	12.63	13.52	15.47	15.09	14.34	11.94	8.62	7.85	8.12	7.42
12 * 24	10.44	12.16	13.00	15.28	14.95	13.78	11.45	9.03	8.59		
9*12 - 3*6 spread	-1.25	-1.97	-1.01	-1.23	-0.53	-1.04	-1.23	-0.40	-0.13	-0.03	-0.01
6*12 - 3*9 spread	-0.55	-1.09	-0.55	-0.69	-0.28	-0.57	-0.65	0.20	-0.07	-0.00	0.00
offer - bid spread (3*6)	0.10	0.21	0.21	0.21	0.16	0.12	0.16	0.19	0.16	0.15	0.12
offer - bid spread (12*24)	0.17	0.36	0.35	0.30	0.19	0.12	0.18	0.58	0.22	0.00	0.00

IRS RATES

monthly averages in %

	1997				1998				1999		
	3	6	9	12	3	6	9	12	1	2	3
1Y	11.89	18.07	14.92	17.54	16.32	15.97	13.44	9.52	8.33	8.36	7.67
2Y	11.17	15.34	13.94	16.58	15.69	15.00	12.53	9.13	8.24	8.38	7.72
3Y	11.05	14.34	13.26	15.93	15.20	14.17	12.07	9.06	8.22	8.45	7.87
4Y	11.01	13.79	12.84	15.54	14.78	13.49	11.76	8.99	8.21	8.51	8.02
5Y	10.98	13.28	12.50	15.25	14.49	12.98	11.51	8.93	8.20	8.56	8.13
6Y	10.97	12.81	12.28	15.19	14.28	12.43	11.26	8.73	8.08	8.58	8.21
7Y	10.91	12.64	12.09	14.88	14.11	12.08	11.09	8.71	8.08	8.61	8.27
8Y	10.94	12.47	12.03	14.90	14.01	11.85	10.90	8.67	8.07	8.63	8.32
9Y	10.90	12.31	11.92	14.29	13.93	11.65	10.72	8.63	8.06	8.65	8.35
10Y	10.88	12.20	11.81	14.24	13.83	11.60	10.61	8.61	8.06	8.66	8.37
2Y - 1Y spread	-0.72	-2.73	-0.98	-0.97	-0.64	-0.97	-0.91	-0.39	-0.09	0.02	0.05
5Y - 1Y spread	-0.91	-4.78	-2.42	-2.30	-1.83	-2.99	-1.94	-0.60	-0.13	0.20	0.46
10Y - 1Y spread	-1.01	-5.87	-3.11	-3.30	-2.50	-4.37	-2.84	-0.92	-0.27	0.31	0.70
offer - bid spread (1Y)	0.12	0.38	0.13	0.23	0.13	0.11	0.13	0.25	0.16	0.10	0.10
offer - bid spread (2Y)	0.12	0.54	0.19	0.30	0.18	0.16	0.19	0.28	0.23	0.13	0.10
offer - bid spread (5Y)	0.17	0.60	0.24	0.37	0.17	0.19	0.20	0.31	0.24	0.15	0.15
offer - bid spread (10Y)	0.35	0.76	0.29	0.46	0.35	0.29	0.28	0.20	0.18	0.15	0.15

REAL INTEREST RATES

%

	Nominal rates				Real rates based on CPI				Real rates based on PPI		
	PRIBOR		short-term		PRIBOR		short-term		PRIBOR		short-term
	1W	1Y	new credits	time deposits	1W	1Y	new credits	time deposits	1W	1Y	new credits
1/93	9.0	14.8	14.5	9.2	-12.2	-6.4	-6.7	-12.0	-3.2	2.6	2.3
2/93	11.3	15.5	14.5	9.4	-10.6	-6.4	-7.4	-12.5	-2.8	1.4	0.4
3/93	13.1	16.0	15.2	9.7	-8.8	-5.9	-6.7	-12.2	-1.4	1.5	0.7
4/93	17.9	18.5	15.6	10.1	-3.9	-3.3	-6.2	-11.7	3.7	4.3	1.4
5/93	14.6	17.2	15.2	10.4	-7.2	-4.6	-6.6	-11.4	1.5	4.1	2.1
6/93	13.3	15.7	15.1	9.4	-8.5	-6.1	-6.7	-12.4	0.5	2.9	2.3
7/93	9.7	14.4	14.2	9.4	-11.6	-6.9	-7.1	-11.9	-3.2	1.5	1.3
8/93	10.5	14.2	14.5	9.6	-10.9	-7.2	-6.9	-11.8	-2.5	1.2	1.5
9/93	9.2	13.8	15.1	9.6	-11.7	-7.1	-5.8	-11.3	-3.8	0.8	2.1
10/93	7.7	13.5	14.8	9.7	-12.2	-6.4	-5.1	-10.2	-5.3	0.5	1.8
11/93	6.0	12.8	13.1	9.6	-11.9	-5.1	-4.8	-8.3	-5.9	0.9	1.2
12/93	5.9	11.9	14.0	9.6	-12.3	-6.3	-4.2	-8.6	-5.5	0.5	2.6
1/94	7.8	10.9	11.9	9.7	-3.1	-0.0	1.0	-1.2	-0.4	2.7	3.7
2/94	7.7	10.5	12.2	9.6	-2.0	0.8	2.5	-0.1	2.4	5.2	6.9
3/94	8.4	10.4	12.2	9.7	-1.0	1.0	2.8	0.3	3.4	5.4	7.2
4/94	7.2	9.9	12.9	9.5	-2.0	0.7	3.7	0.3	2.3	5.0	8.0
5/94	6.7	9.1	12.3	9.3	-2.6	-0.2	3.0	-0.0	1.7	4.1	7.3
6/94	6.1	8.3	12.1	9.7	-3.7	-1.4	2.4	-0.0	0.8	3.0	6.8
7/94	7.5	8.4	12.3	9.2	-2.2	-1.3	2.6	-0.5	2.6	3.5	7.4
8/94	8.1	8.5	11.9	9.3	-2.1	-1.7	1.7	-0.9	3.3	3.7	7.1
9/94	8.7	9.0	13.1	9.1	-1.8	-1.5	2.6	-1.4	3.8	4.1	8.2
10/94	10.0	10.4	12.2	9.2	-0.7	-0.3	1.5	-1.5	5.3	5.7	7.5
11/94	11.1	11.3	13.0	9.2	0.4	0.6	2.3	-1.5	6.0	6.2	7.9
12/94	12.3	12.7	13.3	9.6	2.1	2.5	3.1	-0.6	6.7	7.1	7.7
1/95	11.2	11.5	13.5	9.6	2.3	2.6	4.6	0.7	4.2	4.5	6.5
2/95	10.7	10.8	13.2	9.5	1.2	1.3	3.7	0.0	3.3	3.4	5.8
3/95	10.3	10.4	13.3	9.5	0.7	0.8	3.7	-0.1	2.6	2.7	5.6
4/95	10.3	10.4	12.7	9.5	0.1	0.2	2.5	-0.7	2.6	2.7	5.0
5/95	10.3	10.4	12.4	9.6	0.1	0.2	2.2	-0.6	2.7	2.8	4.8
6/95	10.7	10.8	12.9	9.6	0.7	0.8	2.9	-0.4	3.3	3.4	5.5
7/95	11.6	11.7	12.8	9.7	1.9	2.0	3.1	-0.0	4.0	4.1	5.2
8/95	11.0	11.4	13.3	9.8	2.0	2.4	4.3	0.8	3.2	3.6	5.5
9/95	10.9	11.1	13.1	9.8	2.3	2.5	4.5	1.2	3.1	3.3	5.3
10/95	11.1	11.2	12.9	9.8	3.0	3.1	4.8	1.7	3.3	3.4	5.1
11/95	11.3	11.2	13.1	9.7	3.3	3.2	5.1	1.7	3.6	3.5	5.4
12/95	11.2	10.9	12.9	9.7	3.3	3.0	5.0	1.8	4.0	3.7	5.7
1/96	11.1	10.5	12.7	9.6	2.1	1.5	3.7	0.6	4.8	4.2	6.4
2/96	11.1	10.7	12.7	9.6	2.5	2.1	4.1	1.0	5.4	5.0	7.0
3/96	11.3	11.0	12.7	9.6	2.4	2.1	3.8	0.7	6.1	5.8	7.5
4/96	11.6	11.3	12.7	9.4	3.1	2.8	4.2	0.9	6.4	6.1	7.5
5/96	11.8	11.8	13.0	9.3	3.1	3.1	4.3	0.6	6.7	6.7	7.9
6/96	12.1	12.2	13.1	9.2	3.7	3.8	4.7	0.8	7.3	7.4	8.3
7/96	12.6	12.9	13.7	9.4	3.2	3.5	4.3	-0.0	8.2	8.5	9.3
8/96	12.6	12.8	13.8	9.3	3.0	3.2	4.2	-0.3	8.4	8.6	9.6
9/96	12.6	12.4	13.8	9.4	3.7	3.5	4.9	0.5	8.7	8.5	9.9
10/96	12.6	12.3	13.7	9.5	3.9	3.6	5.0	0.8	8.5	8.2	9.6
11/96	12.6	12.3	13.8	9.4	4.0	3.7	5.2	0.8	8.4	8.1	9.6
12/96	12.6	12.2	13.6	9.3	4.0	3.6	5.0	0.7	8.2	7.8	9.2
1/97	12.5	11.8	13.5	9.1	5.1	4.4	6.1	1.7	8.0	7.3	9.0
2/97	12.5	11.4	13.4	9.4	5.2	4.1	6.1	2.1	8.3	7.2	9.2
3/97	12.5	11.8	13.4	9.3	5.7	5.0	6.6	2.5	8.2	7.5	9.1
4/97	12.5	11.8	13.4	9.3	5.8	5.1	6.7	2.6	8.2	7.5	9.1
5/97	42.3	15.8	23.8	15.5	36.0	9.5	17.5	9.2	38.2	11.7	19.7
6/97	33.8	19.0	21.1	13.0	27.0	12.2	14.3	6.2	29.3	14.5	16.6
7/97	17.3	15.9	17.0	11.7	7.9	6.5	7.6	2.3	12.2	10.8	11.9
8/97	14.7	14.4	15.8	11.1	4.8	4.5	5.9	1.2	9.0	8.7	10.1
9/97	14.6	14.8	15.7	11.0	4.3	4.5	5.4	0.7	8.8	9.0	9.9
10/97	14.9	15.0	15.5	10.8	4.7	4.8	5.3	0.6	9.3	9.4	9.9
11/97	15.4	16.6	15.6	11.2	5.3	6.5	5.5	1.1	9.9	11.1	10.1
12/97	16.6	17.4	16.5	11.6	6.6	7.4	6.5	1.6	10.9	11.7	10.8
1/98	15.3	16.7	15.8	11.9	2.2	3.6	2.7	-1.2	9.2	10.6	9.7
2/98	14.9	16.4	15.8	11.9	1.5	3.0	2.4	-1.5	8.3	9.8	9.2
3/98	15.0	16.1	16.2	11.9	1.6	2.7	2.8	-1.5	8.5	9.6	9.7
4/98	15.1	15.9	16.3	11.9	2.0	2.8	3.2	-1.2	8.9	9.7	10.1
5/98	15.2	15.6	15.8	11.6	2.2	2.6	2.8	-1.4	9.0	9.4	9.6
6/98	15.3	15.8	16.0	12.0	3.3	3.8	4.0	-0.0	9.7	10.2	10.4
7/98	14.8	14.0	15.3	11.8	4.4	3.6	4.9	1.4	9.6	8.8	10.1
8/98	14.4	13.5	15.1	11.6	5.0	4.1	5.7	2.2	10.2	9.3	10.9
9/98	14.0	13.4	14.5	11.4	5.2	4.6	5.7	2.6	10.3	9.7	10.9
10/98	13.4	12.6	14.3	11.1	5.2	4.4	6.1	2.9	10.1	9.3	11.0
11/98	12.0	10.5	12.9	10.1	4.5	3.0	5.4	2.6	9.2	7.7	10.1
12/98	10.6	9.3	11.7	9.2	3.8	2.5	4.9	2.4	8.4	7.1	9.5
1/99	9.2	8.1	10.4	8.4	5.7	4.6	6.9	4.9	8.4	7.3	9.6
2/99	8.2	8.2	10.0	7.0	5.4	5.4	7.2	4.2	8.3	8.3	10.1
3/99	7.8	7.6	9.5	6.5	5.3	5.1	7.0	4.0	7.8	7.6	9.5

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

COMMERCIAL BANK INTEREST RATES

%

	1993	1994	1995	1996	1997	1998	1999		
	12	12	12	12	12	12	1	2	3
Newly drawn credits									
in CZK	14.6	13.7	13.1	13.6	16.5	11.9	10.7	10.3	9.7
- short-term	14.0	13.3	12.9	13.6	16.5	11.7	10.4	10.0	9.5
- medium-term	16.7	14.8	14.2	14.3	17.0	13.4	11.8	10.8	10.6
- long-term	14.5	14.2	13.3	12.5	16.0	11.7	12.7	11.9	11.1
in foreign currency	-	-	-	-	5.9	5.4	4.9	4.8	5.1
- short-term	-	-	-	-	5.9	5.3	4.9	4.7	5.1
- medium-term	-	-	-	-	5.6	5.9	4.7	4.5	4.8
- long-term	-	-	-	-	6.1	5.6	5.1	5.5	5.1
Credits									
in CZK	14.1	12.8	12.7	12.5	13.9	10.5	10.1	9.7	9.2
- short-term	15.6	12.7	12.5	12.4	14.1	10.6	10.0	9.7	9.3
- medium-term	15.9	14.5	14.2	13.5	14.6	10.7	10.3	10.0	9.5
- long-term	10.4	11.2	11.5	11.8	13.0	10.3	9.9	9.7	8.9
in foreign currency	-	-	-	-	6.1	6.4	6.3	6.3	6.2
- short-term	-	-	-	-	5.6	6.9	6.9	6.7	6.9
- medium-term	-	-	-	-	5.9	5.6	5.5	5.6	5.4
- long-term	-	-	-	-	6.7	6.0	5.9	5.9	5.7
Deposits									
in CZK	7.0	6.9	6.9	6.7	8.0	6.7	6.4	5.3	4.9
- demand	2.3	2.6	2.8	2.5	2.1	1.9	1.8	1.8	1.9
- time	11.0	10.6	10.0	9.2	10.9	8.7	8.2	6.6	6.1
- short-term	9.6	9.6	9.7	9.3	11.6	9.2	8.4	7.0	6.5
- medium-term	11.8	11.5	10.7	9.8	12.2	10.9	10.5	6.9	6.2
- long-term	13.7	11.3	8.8	6.2	5.2	4.2	4.2	4.1	3.9
in foreign currency	-	-	-	-	2.7	2.3	2.3	2.4	2.4
- demand	-	-	-	-	1.1	1.1	1.1	1.1	1.1
- time	-	-	-	-	3.7	3.2	3.1	3.4	3.3
- short-term	-	-	-	-	3.4	3.1	3.0	3.2	3.2
- medium-term	-	-	-	-	5.0	3.3	3.4	3.5	3.6
- long-term	-	-	-	-	5.5	3.5	3.4	4.1	4.2

BALANCE OF PAYMENTS 1)

in CZK millions

	1993	1994	1995	1996	1997	1998 2)
A. CURRENT ACCOUNT	13 286.7	-22 643.2	-36 331.3	-116 510.6	-101 856.2	-33 756.0
Balance of trade 3)	-15 313.0	-39 750.9	-97 598.6	-159 538.6	-144 025.9	-83 275.8
- exports	414 833.0	458 436.6	569 549.1	588 791.5	722 501.0	850 530.0
- imports	430 146.0	498 187.5	667 147.7	748 330.1	866 526.9	933 805.8
Services	29 465.2	14 052.8	48 881.2	52 198.9	55 935.0	60 738.1
Credit	137 691.2	148 404.0	178 270.4	222 030.4	227 193.6	238 979.4
- transport	36 186.6	35 757.9	38 757.4	36 209.6	41 661.6	43 430.5
- travel	45 437.4	64 170.3	76 301.3	110 620.0	115 700.0	120 000.0
- others	56 067.2	48 475.8	63 211.7	75 200.8	69 832.0	75 548.9
Debit	108 226.0	134 351.2	129 389.2	169 831.5	171 258.6	178 241.3
- transport	21 402.1	24 542.4	21 208.9	18 983.3	19 973.6	19 643.0
- travel	15 368.3	45 605.6	43 330.3	80 170.0	75 500.0	60 300.0
- others	71 455.6	64 203.2	64 850.0	70 678.2	75 785.0	98 298.3
Income	-3 424.7	-580.8	-2 804.0	-19 611.0	-25 102.4	-24 213.1
Credit	15 952.0	22 713.2	31 696.1	31 765.9	44 696.0	47 908.4
Debit	19 376.7	23 294.0	34 500.1	51 376.9	69 798.4	72 121.5
Current transfers	2 559.2	3 635.7	15 190.1	10 440.1	11 337.1	12 994.8
Credit	7 024.5	8 523.3	17 631.6	16 752.7	27 402.5	24 952.7
Debit	4 465.3	4 887.6	2 441.5	6 312.6	16 065.4	11 957.9
B. CAPITAL ACCOUNT	-16 175.0	-	179.1	15.6	315.9	66.8
Credit	5 976.0	-	307.8	28.1	493.0	454.4
Debit	22 151.0	-	128.7	12.5	177.1	387.6
Total A + B	-2 888.3	-22 643.2	-36 152.2	-116 495.0	-101 540.3	-33 689.2
C. FINANCIAL ACCOUNT	88 184.7	97 019.7	218 288.5	116 632.5	34 319.1	84 888.2
Direct investment	16 421.8	21 551.1	67 021.2	37 674.8	40 451.4	80 172.5
- abroad	-2 628.6	-3 443.3	-971.6	-1 100.0	-800.0	-1 175.0
- in the Czech Republic	19 050.4	24 994.4	67 992.8	38 774.8	41 251.4	81 947.5
Portfolio investment	46 658.5	24 595.9	36 144.4	19 692.5	34 438.9	32 681.4
Assets	-6 686.9	-1 327.1	-8 565.6	-1 291.1	-6 006.8	-2 581.9
- equity securities	-6 686.9	-1 327.1	-8 565.6	-1 291.1	19.9	2 402.7
- debt securities					-6 026.7	-4 984.6
Liabilities	53 345.4	25 923.0	44 710.0	20 983.6	40 445.7	35 263.3
- equity securities	32 569.8	14 369.8	32 761.7	16 340.9	13 783.7	34 846.2
- debt securities	20 775.6	11 553.2	11 948.3	4 642.7	26 662.0	417.1
Other investment	25 104.4	50 872.7	115 122.9	59 265.2	-40 571.2	-27 965.7
Assets	-83 911.4	-69 582.4	-66 050.8	-64 646.8	-142 725.1	-50 786.1
Long-term	13 340.8	12 046.4	1 384.4	-10 769.8	-11 117.6	-24 866.5
- CNB						
- commercial banks	-1 431.5	-31.7	-3 353.6	-14 168.2	-11 907.4	-26 952.8
- government	8 323.3	8 175.1	3 335.0	1 286.4	519.8	630.3
- other sectors	6 449.0	3 903.0	1 403.0	2 112.0	270.0	1 456.0
Short-term	-97 252.2	-81 628.8	-67 435.2	-53 877.0	-131 607.5	-25 919.6
- CNB						
- commercial banks	2 163.0	-4 289.4	-2 446.2	-48 976.0	-122 038.5	-21 641.6
- 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	-4 278.0
Liabilities	109 015.8	120 455.1	181 173.7	123 912.0	102 153.9	22 820.4
Long-term	10 131.9	19 865.1	87 965.8	95 193.1	24 047.6	-4 385.0
- CNB	1 297.3	-31 712.7	997.8		-368.0	-216.4
- commercial banks	-2 116.6	11 189.6	60 359.6	46 733.5	-14 875.5	-14 399.2
- government	-3 421.5	-5 249.5	-12 047.3	-7 132.6	-11 581.9	-11 765.4
- other sectors	14 372.7	45 637.7	38 655.7	55 592.2	50 873.0	21 996.0
Short-term	98 883.9	100 590.0	93 207.9	28 718.9	78 106.3	27 205.4
- CNB	1 670.5	-1 634.7	77.1	-59.6	-9.9	-6.0
- commercial banks	2 481.8	14 016.0	27 636.1	30 574.9	67 383.7	24 445.9
- government (liability vis-a-vis Slovakia)	91 895.5	86 555.8	56 262.2	-899.6	-69.5	-216.5
- other sectors	2 836.1	1 652.9	9 232.5	-896.8	10 802.0	2 982.0
Total A+B+C	85 296.4	74 376.5	182 136.3	137.5	-67 221.2	51 199.0
D. NET ERRORS AND OMISSIONS, VALUATION CHANGES	3 019.8	-6 121.9	15 779.4	-22 612.6	11 181.2	11 416.0
Total A+B+C+D	88 316.2	68 254.6	197 915.7	-22 475.1	-56 040.0	62 615.0
E. CHANGE IN RESERVES (- increase)	-88 316.2	-68 254.6	-197 915.7	22 475.1	56 040.0	-62 615.0

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 - in accordance with customs statistics methodology effective 1 Jan. 1996;
1993 and 1994 data were taken from the CSO publication "Czech Foreign Trade 1993-1995", Dec. 1997

INTERNATIONAL INVESTMENT POSITION

in CZK millions

	1993	1993	1994	1995	1996	1997	1998
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.1)
ASSETS	406 103.0	536 388.7	572 874.1	780 693.0	835 989.8	1 030 191.5	1 083 211.8
Direct investment abroad	2 634.0	5 432.9	8 426.9	9 190.1	13 609.2	18 989.4	19 738.5
- initial capital 2)	2 634.0	5 432.9	8 426.9	9 190.1	13 609.2	18 385.1	19 134.2
- other capital 3)	.	.	.	.	.	604.3	604.3
Portfolio investment	226.0	8 258.0	12 138.0	20 076.9	37 511.2	35 738.9	37 506.0
- equity securities	226.0	7 911.1	9 370.5	18 422.0	20 450.3	14 442.0	15 049.1
- debt securities	.	346.9	2 767.5	1 654.9	17 060.9	21 296.9	22 456.9
Other investment	378 895.6	406 717.6	377 187.3	378 388.3	444 985.4	636 938.5	649 284.3
Long-term	232 823.7	249 198.8	229 026.4	214 430.3	234 849.6	293 037.3	283 054.5
- CNB	23 102.5	24 572.5	24 573.3	26 172.3	26 122.8	26 122.4	26 122.4
- commercial banks 4)	365.9	1 852.3	1 763.0	5 116.6	25 181.3	37 088.8	64 041.6
- government 5) 6)	167 429.3	186 968.0	174 784.1	157 950.4	160 949.7	203 922.8	174 825.0
- other sectors	41 926.0	35 806.0	27 906.0	25 191.0	22 595.8	25 903.3	18 065.5
Short-term	146 071.9	157 518.8	148 160.9	163 958.0	210 135.8	343 901.2	366 229.8
- CNB	4.7	4.7	4.7	4.7	4.7	0.1	0.1
- commercial banks 4)	82 456.2	83 133.2	80 820.2	87 176.3	128 481.1	250 670.9	272 219.5
of which: gold + foreign currency 7) 8)	79 040.1	70 727.5	71 232.8	76 126.9	95 432.8	172 301.6	175 753.2
- government	.	5 501.9	.	.	.	.	.
- other sectors	63 611.0	68 879.0	67 336.0	76 777.0	81 650.0	93 230.2	94 010.2
CNB reserves	24 347.4	115 980.2	175 121.9	373 037.7	339 884.0	338 524.7	376 683.0
- gold 7)	2 488.2	2 466.4	2 309.3	2 234.6	2 290.3	1 521.9	369.1
- 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	376 313.9
LIABILITIES	307 887.2	423 237.7	507 337.9	723 101.9	906 073.2	1 138 248.1	1 206 768.9
Direct investment in the Czech Republic	83 488.7	102 539.1	127 533.5	195 526.3	234 301.1	319 820.3	401 767.8
- initial capital 2)	83 488.7	102 539.1	127 533.5	195 526.3	234 301.1	284 674.7	366 622.2
- other capital 3)	.	.	.	.	.	35 145.6	35 145.6
Portfolio investment	4 812.9	58 583.9	81 617.5	124 933.6	144 807.4	169 032.7	166 128.1
- equity securities	75.0	32 985.2	37 335.6	70 280.4	92 867.8	104 862.3	113 247.2
- debt securities	4 737.9	25 598.7	44 281.9	54 653.2	51 939.6	64 170.4	52 880.9
Other investment	219 585.6	262 114.7	298 186.9	402 642.0	526 964.7	649 395.1	638 873.0
Long-term	158 430.0	192 426.3	207 289.7	279 388.9	374 814.7	426 270.1	392 110.4
- CNB	31 109.9	33 697.4	1 695.7	2 491.5	2 272.7	2 188.3	1 883.3
- commercial banks 4)	14 491.1	16 175.5	26 040.1	90 299.3	143 454.2	143 120.2	124 286.3
- government 5)	70 771.0	82 295.1	76 533.9	53 200.2	44 003.7	38 001.1	23 993.3
- other sectors	42 058.0	60 258.3	103 020.0	133 397.9	185 084.1	242 960.5	241 947.5
Short-term	61 155.6	69 688.4	90 897.2	123 253.1	152 150.0	223 125.0	246 762.6
- CNB	8.2	4 581.0	37.9	115.0	55.3	45.5	39.5
- commercial banks 4)	19 527.4	22 249.3	41 339.9	69 502.9	101 543.5	168 927.1	193 373.0
- government 5)	.	.	5 013.4	1 104.1	314.8	287.5	103.2
- other sectors	41 620.0	42 858.1	44 506.0	52 531.1	50 236.4	53 864.9	53 246.9
NET INVESTMENT POSITION	98 215.8	113 151.0	65 536.2	57 591.1	-70 083.4	-108 056.6	-123 557.1

1) Preliminary data
2) Data on initial capital updated to include holdings in associated companies; since 31 December 1997, initial capital has included also reinvested profits
3) Starting with the position on 31 December 1997, part of the credits stemming from credit relations between direct investors and companies have been transferred from other investment (other sectors) to direct investment (other capital)
4) In connection with the introduction of CZK convertibility (1 October 1995), koruna assets and liabilities vis-a-vis non-residents are included in the bank position. (Non-resident CZK deposits are included in commercial bank short-term liabilities as of 31 December 1994)
5) During January 1993, part of the receivables and payables in convertible and non-convertible currencies were transferred from the CSOB position to the Ministry of Finance; in column 1 January 1993 these amounts are included in the government position; the receivable vis-a-vis CIS in the data as of 1 January 1993 is expressed as the balance of accounts in XTR and USD, while in later periods the accounts are held in terms of turnover
6) Including foreign exchange shares in international non-monetary organisations (The World Bank, EBRD, IBEC, IIB)
7) Gold worth USD 42.22 per Troy ounce
8) Foreign exchange - convertible currencies

EXTERNAL INDEBTEDNESS

in CZK millions

	1993	1993	1994	1995	1996	1997	1998
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
INDEBTEDNESS IN CONVERTIBLE CURRENCIES	204 674.7	254 488.1	299 960.7	440 229.3	569 723.6	739 563.0	717 902.8
of which:							
Long-term	152 695.1	194 525.0	218 944.5	306 034.4	405 143.6	495 058.5	461 697.1
by debtor							
- CNB	35 399.8	58 836.1	22 845.3	22 268.0	11 178.4	11 548.4	10 952.2
- commercial banks 2)	14 491.1	16 175.5	27 620.1	95 433.3	150 780.1	158 503.7	133 376.5
- government	61 147.2	59 477.1	61 763.4	52 101.7	46 738.6	42 877.1	33 132.0
- other sectors	41 657.0	60 036.3	106 715.7	136 231.4	196 446.5	282 129.3	284 236.4
by creditor 3)							
- foreign banks	62 121.2	82 849.8	124 224.8	218 310.9	300 910.4	360 725.6	324 035.8
- government institutions	6 685.9	7 346.8	7 482.1	7 039.1	6 631.8	7 269.4	4 409.6
- multilateral institutions	50 127.1	52 891.7	19 889.7	18 987.2	17 645.5	13 894.1	7 222.4
- suppliers and direct investors	29 023.0	25 838.0	32 601.0	24 567.0	27 116.0	46 465.5	54 327.5
- other investors	4 737.9	25 598.7	34 746.9	37 130.2	52 839.9	66 703.9	71 701.8
Short-term	51 979.6	59 963.1	81 016.2	134 194.9	164 580.0	244 504.5	256 205.7
by debtor							
- CNB	7.9	4 581.0	37.9	115.0	55.3	45.5	39.5
- commercial banks 2)	17 819.7	21 117.0	32 610.3	71 911.8	106 852.6	170 147.0	193 373.0
- government	.	.	9 535.0	15 114.0	2 786.0	8 164.0	22.0
- other sectors	34 152.0	34 265.1	38 833.0	47 054.1	54 886.1	66 148.0	62 771.2
by creditor 3)							
- foreign banks	11 402.7	22 256.0	28 467.5	58 874.2	85 424.0	142 463.2	171 504.1
- suppliers and direct investors	33 069.0	29 664.0	34 132.0	41 986.4	45 914.0	57 831.1	56 313.1
- other investors	7 507.9	8 043.1	18 416.7	33 334.3	33 242.0	44 210.2	28 388.5
INDEBTEDNESS IN NON-CONVERTIBLE CURRENCIES 4)	19 648.8	33 225.3	42 508.1	17 065.9	9 180.7	9 148.1	8 996.7
of which:							
- long-term	10 472.8	23 500.0	23 092.1	10 484.7	8 865.9	8 860.6	8 893.5
- short-term	9 176.0	9 725.3	19 416.0	6 581.2	314.8	287.5	103.2
TOTAL EXTERNAL INDEBTEDNESS	224 323.5	287 713.4	342 468.8	457 295.2	578 904.3	748 711.1	726 899.5
of which:							
- long-term	163 167.9	218 025.0	242 036.6	316 519.1	414 009.5	503 919.1	470 590.6
- short-term	61 155.6	69 688.4	100 432.2	140 776.1	164 894.8	244 792.0	256 308.9

1) Preliminary data

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

3) As of 31 December 1997 the breakdown of indebtedness by creditor is adjusted for the updated credit position under direct investment

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

EXCHANGE RATE

A. NOMINAL RATE

CZK, foreign exchange market rates

	1993	1994	1995	1996	1997	1998	1999		
	1-12	1-12	1-12	1-12	1-12	1-12			1-3
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES									
1 ECU	34.10	34.06	34.31	34.01	35.80	36.16	.	.	.
1 EUR	.	.	.	.	.	.	.	.	37.11
1 GBP	43.78	44.03	41.89	42.33	51.95	53.45	.	.	53.95
1 FRF	5.15	5.19	5.32	5.31	5.43	5.47	.	.	5.66
1000 ITL	18.56	17.85	16.30	17.59	18.61	18.57	.	.	19.17
100 JPY	26.32	28.15	28.34	24.99	26.29	24.71	.	.	28.37
1 CAD	22.61	21.09	19.34	19.90	22.91	21.83	.	.	21.85
1 NLG	15.70	15.82	16.53	16.11	16.25	16.26	.	.	16.85
1 ATS	2.51	2.52	2.63	2.57	2.60	2.61	.	.	2.70
1 DEM	17.64	17.75	18.52	18.06	18.28	18.33	.	.	18.98
1 CHF	19.74	21.06	22.45	22.02	21.85	22.25	.	.	23.20
1 USD	29.16	28.78	26.55	27.14	31.71	32.27	.	.	33.03
100 SKK	.	.	89.49	88.57	94.18	91.61	.	.	85.51
	12	12	12	12	12	12	1	2	3
1 ECU	33.59	34.20	34.01	34.09	38.69	35.34	.	.	.
1 EUR	.	.	.	.	.	.	35.64	37.72	37.99
1 GBP	44.37	43.99	41.00	45.48	57.72	50.20	50.62	54.79	56.44
1 FRF	5.09	5.21	5.37	5.21	5.84	5.38	5.43	5.75	5.79
1000 ITL	17.63	17.28	16.71	17.89	19.94	18.18	18.41	19.48	19.62
100 JPY	27.12	28.18	26.21	24.05	26.87	25.55	27.13	28.84	29.13
1 CAD	22.34	20.34	19.47	20.10	24.37	19.51	20.14	22.44	22.97
1 NLG	15.54	16.02	16.52	15.71	17.35	15.97	16.19	17.11	17.24
1 ATS	2.48	2.55	2.63	2.51	2.78	2.56	2.59	2.74	2.76
1 DEM	17.41	17.94	18.50	17.63	19.55	18.00	18.22	19.28	19.42
1 CHF	20.30	21.21	22.89	20.64	24.16	22.10	22.20	23.58	23.82
1 USD	29.76	28.22	26.66	27.34	34.73	30.06	30.66	33.60	34.84
100 SKK	.	.	89.76	86.42	100.58	83.04	83.28	87.66	85.60

B. REAL RATE

	1993	1994	1995	1996	1997	1998	1999		
	12	12	12	12	12	12	1	2	3
Index of real CZK/DEM exchange rate (January 1993=100)									
a) consumer prices	108.43	112.33	114.76	124.27	122.30	132.52	132.36	128.28	127.54
b) industrial producer prices	109.73	110.22	112.53	120.17	115.35	125.11	124.86	120.64	120.22

Real rate: nominal rate adjusted for inflation differential (ratio of producer or consumer price levels between the CR and Germany)
(Index < 100, koruna strengthened vs 1993 base)

PUBLIC FINANCES

in CZK billions

	1993	1994	1995	1996	1997	1998	1999
	1-12	1-12	1-12	1-12	1-12	1-12	1-3
STATE BUDGET							
TOTAL REVENUES	358.0	390.5	440.0	482.8	509.0	537.4	126.7
Tax revenues	330.2	360.1	409.7	457.4	478.4	509.6	118.9
Income tax	71.9	70.2	72.7	78.3	74.8	87.4	20.1
Social security insurance	106.0	130.0	154.3	174.3	191.0	203.9	49.7
Property tax	0.8	2.1	3.2	3.9	5.0	6.3	1.4
Domestic taxes on goods and services	111.8	136.4	155.4	174.8	186.3	191.5	43.0
- VAT	70.4	85.8	94.8	109.3	117.6	119.4	27.2
- Excise taxes	37.1	46.4	56.7	61.2	64.2	67.8	15.1
Foreign trade taxes	15.2	17.4	17.4	19.7	14.9	13.6	2.5
Other tax revenues	24.4	4.1	6.7	6.4	6.4	6.9	2.3
Non-tax revenues	27.8	30.4	30.3	25.4	30.5	27.7	7.8
Corporate and property revenues	14.7	12.8	7.3	8.5	8.5	7.3	1.4
Fees, fines and penalties and other non-tax revenues	4.0	8.2	16.7	10.4	13.8	13.8	5.6
Government credit repayments	9.0	9.4	6.3	6.5	8.2	6.7	0.8
TOTAL EXPENDITURES	356.9	380.1	432.7	484.4	524.7	566.7	124.6
Current expenditures	324.6	346.7	388.6	427.3	474.1	516.2	120.5
Expenditures on goods and services	125.6	121.2	109.8	123.5	126.7	143.0	32.7
Debit interest	13.7	.	2.6	14.0	17.6	18.5	4.6
Subsidies and current transfers	180.3	218.3	268.7	285.7	326.2	349.6	80.9
Subsidies	42.8	49.3	77.1	84.5	92.5	105.5	13.1
- to businesses	29.3	27.0	27.8	27.3	33.2	44.9	4.9
- to subsidised organisations	13.5	22.3	49.3	57.3	59.3	60.6	8.2
Transfers	137.4	169.1	191.5	201.1	233.7	244.0	67.8
- to local budgets	17.0	29.3	33.3	16.8	24.7	17.9	7.3
- to households	116.6	136.9	155.6	181.0	206.0	222.8	59.5
- abroad	.	.	.	.	.	.	0.2
Government credits	5.0	7.2	7.6	4.1	3.6	5.1	2.3
Capital expenditures	32.3	33.3	44.1	57.1	50.6	50.5	4.1
Investment expenditures to budgetary organisations	19.0	19.7	21.5	24.9	16.4	16.5	1.4
Capital transfers	13.3	13.6	22.7	32.1	34.2	34.0	2.7
BALANCE							
Public budggets	23.3	5.5	2.9	-21.9	-27.8	-28.7	0.1
state budget	1.1	10.4	7.2	-1.6	-15.7	-29.3	2.1
local budget	0.9	-1.1	-3.2	-9.4	-4.8	1.5	1.2
state financial assets	1.5	1.0	-2.7	-2.3	-2.5	2.4	-4.1
state funds	0.1	0.4	0.0	1.1	1.7	0.9	0.2
Land Fund	1.3	1.1	1.2	0.6	-1.6	0.1	0.0
National Property Fund	13.4	-5.4	4.0	-5.9	-4.5	-5.1	0.5
health insurers	5.0	-0.9	-3.6	-4.4	-0.4	0.8	0.2

CAPITAL MARKET

A. SHARE MARKET INDICES

last day of the month in points

	1997				1998				1999		
	3	6	9	12	3	6	9	12	1	2	3
PX-50	558	489	536	495	505	467	360	394	395	341	388
PX-GLOB	670	592	652	599	615	568	460	478	478	429	472
PK-30	748	649	740	664	698	656	521	564	577	501	569

B. BOND MARKET

monthly averages in %

	1997				1998				1999		
	3	6	9	12	3	6	9	12	1	2	3
A. YIELDS OF TAXED GOVERNMENT BONDS											
Maturity in years											
1Y	.	.	.	.	.	14.51	12.81	8.88	7.92	8.04	7.52
2Y	.	14.35	13.65	16.23	14.95	14.39	12.55	8.77	7.88	8.15	7.58
3Y	.	13.84	13.30	15.67	14.64	13.58	11.98	8.57	7.76	8.25	7.72
4Y	.	14.72	12.94	15.10	14.38	13.13	11.59	8.52	7.72	8.29	7.82
5Y	.	12.97	12.63	14.85	14.41	13.03	11.51	8.64	7.91	8.59	8.29
6Y	.	12.88	12.39	14.84	14.43	.	.	.	.	.	.

C. TRADE VOLUMES

in CZK millions

	1997				1998				1999		
	3	6	9	12	3	6	9	12	1	2	3
PSE											
Total trade volume	51 225	73 413	48 545	63 249	52 525	88 271	87 771	92 553	85 995	91 586	103 009
of which:											
a) automated system	2 358	1 125	1 589	1 368	1 718	6 210	11 892	6 772	7 527	7 153	10 791
b) outright and block trades	48 867	72 288	46 956	61 881	50 807	82 061	75 879	85 781	78 468	84 433	92 218
RM-SYSTEM											
Total trade and transfer volume	10 517	5 239	13 662	36 870	17 562	22 163	11 271	20 837	8 296	12 563	16 020
of which:											
a) running auction	692	392	742	547	1 036	643	552	491	455	576	611
b) outright and block trades	9 814	4 841	12 915	36 290	16 520	21 425	10 715	20 334	7 841	11 987	15 409
c) transfers with declared price	10	6	4	33	6	95	4	12	.	.	.
SC											
Total volume of charged transfers	100 019	125 576	93 634	150 980	138 738	153 081	159 095	141 892	114 119	129 988	162 739

CNB MONETARY POLICY INSTRUMENTS

	Repo rate (%)		Discount rate (%)	Lombard rate (%)	Minimum reserve requirement for primary deposits (%)	
	1 week	2 week			banks	building societies and ČMZRB
			1995			
As of 1 Jan.	-	-	8.5	11.5	-	-
26 June	-	-	9.5	12.5	-	-
3 August	-	-			8.5	**4.0**
8 December	11.25	11.30				
			1996			
29 March	11.50	11.50				
29 April	11.60	11.60				
9 May	11.80	11.80				
21 June	12.40	12.40	10.5	14.0		
1 August					11.5	
			1997			
8 May					9.5	
16 May	12.90			50.0		
19 May	45.00					
23 May	75.00					
27 May			13.0			
2 June	45.00					
4 June		39.00				
6 June	39.00					
11 June	31.00	29.00				
13 June	29.00					
18 June	25.00	25.00				
20 June	22.00	22.00				
23 June	20.00	20.00				
24 June	18.50	18.50				
27 June				23.0		
30 June	18.20	18.20				
1 July	17.90	17.90				
7 July	17.00	17.00				
8 July	16.50	16.50				
9 July	16.20	16.20				
15 July	16.00					
16 July		16.00				
22 July	15.70	15.70				
23 July	15.20	15.40				
24 July		15.20				
28 July	14.90	14.90				
1 August		14.70				
4 August	14.50	14.50				
31 October		14.80				
1 December	19.00	18.50				
2 December	18.50	18.00				
3 December	17.75	17.50				
4 December	17.00	16.75				
9 December	15.50	15.50				
10 December		15.00				
11 December	**15.00**					
17 December		14.75				
			1998			
23 January				19.0		
20 March		15.00				
17 July		14.50				
30 July					7.5	
14 August		14.00	11.5	16.0		
25 September		13.50				
27 October		12.50	10.0	15.0		
13 November		11.50				
4 December		10.50				
23 December		9.50	7.5	12.5		
			1999			
18 January		8.75				
28 January					**5.0**	
29 January		8.00				
12 March		**7.50**	**6.0**	**10.0**		

MACROECONOMIC AGGREGATES

in CZK billions, year-on-year change in %, 1994 constant prices

	1994	1995	1996	1997	1998
	Q I - IV	Q I - IV	Q I - IV	Q I - IV	Q I - IV
1. GROSS DOMESTIC PRODUCT					
- CZK bns	1148.6	1221.6	1269.4	1281.8	1247.7
- %	.	6.4	3.9	1.0	-2.7
FINAL CONSUMPTION					
- CZK bns	827.0	861.8	915.4	921.2	908.2
- %	.	4.2	6.2	0.6	-1.4
of which:					
a) Households					
- CZK bns	564.0	603.1	645.5	656.1	640.2
- %	.	6.9	7.0	1.6	-2.4
b) Government					
- CZK bns	255.5	250.3	260.6	255.0	257.6
- %	.	-2.0	4.1	-2.1	1.0
c) Non-profit institutions					
- CZK bns	7.5	8.4	9.3	10.1	10.4
- %	.	12.0	10.7	8.6	3.0
GROSS CAPITAL FORMATION - TOTAL					
- CZK bns	346.1	426.1	481.5	470.7	439.5
- %	.	23.1	13.0	-2.2	-6.6
of which:					
a) Fixed capital					
- CZK bns	339.9	411.2	446.8	425.1	409.2
- %	.	21.0	8.7	-4.9	-3.7
b) Inventories and reserves					
- CZK bns	6.2	14.9	34.7	45.6	30.3
4. TRADE BALANCE					
- CZK bns	-24.5	-66.3	-127.5	-110.1	-100.0
of which:					
a) Exports					
- CZK bns	608.0	705.6	743.9	819.9	914.1
- %		16.1	5.4	10.2	11.5
b) Imports					
- CZK bns	632.5	771.9	871.4	930.0	1014.1
- %		22.0	12.9	6.7	9.0
DOMESTIC EFFECTIVE DEMAND					
- CZK bns	1166.9	1273.0	1362.2	1346.3	1317.4
- %	.	9.1	7.0	-1.2	-2.1
AGGREGATE EFFECTIVE DEMAND					
- CZK bns	1774.9	1978.6	2106.1	2166.2	2231.5
- %	.	11.5	6.4	2.9	3.0
GROSS DOMESTIC PRODUCT IN CURRENT PRICES					
- CZK bns	1148.6	1348.7	1532.6	1649.5	1776.7
- %	.	17.4	13.6	7.6	7.7
PRICE DEFLATOR					
- %	.	10.4	9.4	6.6	10.7

Source: CSO

THE LABOUR MARKET

A. HOUSEHOLD CURRENT INCOMES AND EXPENDITURES

y-o-y change in %

	1993	1994	1995	1996	1997	1998	1999
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
Current incomes	.	.	.	13.4	10.6	7.3	.
of which:							
- compensation of employees	.	.	.	16.9	7.9	4.8	.
- mixed income	.	.	.	3.5	15.0	14.0	.
- property income	.	.	.	-0.9	20.4	19.3	.
- social benefits	.	.	.	16.2	13.9	9.9	.
- other current transfers	.	.	.	15.3	7.7	-8.4	.
Current expenditures	.	.	.	13.0	11.4	6.8	.
of which:							
- property income	.	.	.	-16.6	-0.8	-0.6	.
- current taxes on income and wealth	.	.	.	13.4	10.0	8.5	.
- social contributions	.	.	.	15.2	10.7	5.4	.
- other current transfers	.	.	.	18.1	24.1	14.1	.
Disposable income	.	.	.	13.6	10.2	7.6	.
Changes in net share of households in pension fund reserves	.	.	.	60.6	-4.2	-17.6	.
Expenditures on individual consumption	.	.	.	15.6	9.7	7.3	.
Savings	.	.	.	3.6	12.3	7.7	.
Household savings ratio (savings/disposable income - ratio in %)	.	.	.	12.7	13.0	13.0	.

B. AVERAGE WAGES

y-o-y change in %

	1993	1994	1995	1996	1997	1998	1999
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
Total nominal wage	25.3	18.5	18.5	18.4	10.5	9.3	.
Business sector	.	18.2	19.2	17.7	11.7	10.9	.
Non-business sector	.	19.8	17.0	20.7	5.8	3.9	.
Total real wage	3.7	7.7	8.7	8.8	1.9	-1.3	.
Business sector	.	7.4	9.2	8.2	2.9	0.2	.
Non-business sector	.	8.9	7.3	10.9	-2.5	-6.1	.

C. UNEMPLOYMENT

as of end of period

	1993	1994	1995	1996	1997	1998	1999
	12	12	12	12	12	12	3
Registered job applicants (thousands)	185.2	166.5	153.0	186.3	268.9	386.9	433.3
Unemployment rate in %	3.5	3.2	2.9	3.5	5.2	7.5	8.4

Source: CSO

PRODUCTION

in CZK billions, y-o-y change in %

	1993	1994	1995	1996	1997	1998	1999
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	1-2
INDUSTRY							
TOTAL PRODUCTION OF GOODS 1)	-5.3	2.1	8.7	6.4	.	.	.
TOTAL INDUSTRIAL PRODUCTION 2)	.	.	.	2.0	4.5	1.6	-9.7
CONSTRUCTION							
TOTAL CONSTRUCTION OUTPUT 3) 4)	-7.5	7.5	8.5	5.3	-3.9	-7.0	-19.7
AGRICULTURE							
TOTAL GROSS PRODUCTION 5)							
- CZK billions	83.1	78.1	82.0	80.9	76.8	75.9	.
- %	-2.3	-6.0	5.0	-1.4	-5.1	-1.3	.
of which							
Crop production							
- CZK billions	37.4	34.7	35.7	36.4	35.1	35.1	.
- %	4.6	-7.2	2.9	2.1	-3.6	0.0	.
Livestock production							
- CZK billions	45.7	43.4	46.3	44.5	41.7	40.8	.
- %	-7.3	-4.9	6.7	-4.0	-6.3	-2.3	.

1) Constant prices as of 1 January 1989; since 1997 not monitored
2) Since 1996 the Index of Industrial Production based on statistics for production of selected products
3) Natural entities registered and not registered in the companies register included
4) Constant prices
5) 1989 constant prices

Source: CSO

PRODUCER PRICES

change in %

	1994		1995		1996		1997		1998		1999	
	12	average	12	average	12	average	12	average	12	average	3	average
INDUSTRIAL PRODUCER PRICES												
a) previous month = 100	0.3	0.5	-0.2	0.6	0.0	0.4	0.2	0.5	-0.4	0.2	0.2	0.2
b) same period of last year = 100	5.6	5.3	7.2	7.6	4.4	4.8	5.7	4.9	2.2	4.9	0.0	0.2
c) average of 1994 = 100	2.0	0.0	9.4	7.6	14.1	12.7	20.6	18.2	23.3	24.0	24.0	23.9
d) December 1993 = 100	6.9	4.8	14.6	12.7	19.6	18.1	26.4	23.9	29.2	29.9	30.0	29.8
e) moving average	5.3	x	7.6	x	4.8	x	4.9	x	4.9	x	3.3	x
CONSTRUCTION WORK PRICES												
a) previous month = 100	0.1	0.8	0.1	1.0	0.5	0.9	0.7	0.9	0.2	0.6	0.6	0.6
b) same period of last year = 100	9.7	13.9	12.3	10.6	11.2	11.3	11.9	11.3	7.0	9.4	6.2	6.1
c) average of 1994 = 100	2.9	0.0	15.2	10.6	28.0	23.1	43.3	36.8	53.3	49.7	55.9	55.1
d) December 1993 = 100	11.0	7.9	24.6	19.6	38.5	33.1	55.0	48.1	65.9	62.0	68.7	67.8
e) moving average	13.9	x	10.6	x	11.3	x	11.3	x	9.4	x	8.1	x
AGRICULTURAL PRODUCER PRICES												
b) same period of last year = 100	10.1	4.7	6.1	7.6	6.8	8.3	2.5	2.9	-9.5	2.3	-12.1	-8.8
e) moving average	4.7	x	7.6	x	8.3	x	2.9	x	2.3	x	-0.6	x
of which:												
Crop products												
b) same period of last year = 100	-4.0	-4.4	15.6	7.1	12.8	16.7	-4.3	3.3	-10.9	-5.4	-16.7	-14.4
e) moving average	-4.4	x	7.1	x	16.7	x	3.3	x	-5.4	x	-7.2	x
Livestock products												
b) same period of last year = 100	15.8	11.5	2.8	8.1	4.4	5.1	2.8	2.1	-8.1	5.9	-11.3	-7.9
e) moving average	11.5	x	8.1	x	5.1	x	2.1	x	5.9	x	2.6	x
MARKET SERVICES PRICES												
a) previous month = 100	.	.	.	.	-0.3	0.4	1.8	0.8	-4.2	-0.4	-0.5	-1.7
b) same period of last year = 100	.	.	.	.	5.5	6.2	11.2	9.2	-4.9	6.0	-11.8	-10.4
c) average of 1994 = 100	.	.	.	.	17.9	16.3	31.2	26.8	24.8	34.5	18.3	20.2
d) December 1993 = 100	.	.	.	.	19.6	17.9	33.0	28.5	26.5	36.5	20.0	21.9
e) moving average	.	.	.	.	6.2	x	9.2	x	6.0	x	0.0	x

a) average = average monthly growth rate in the year
b,c,d) average = average since the start of the year
e) average of indices for last 12 months against average for previous 12 months

Source: CSO

RATIOS OF KEY INDICATORS TO GDP

ratio in %

	1993	1994	1995	1996	1997	1998
State budget balance	0.1	0.9	0.5	-0.1	-1.0	-1.6
Public budgets balance	2.3	0.5	0.2	-1.4	-1.7	-1.6
Public debt	19.2	18.4	16.3	14.2	13.7	14.1
Indebtedness in convertible currencies	25.4	26.1	32.6	37.2	44.8	40.4
Trade balance 1)	-0.4	-3.1	-7.1	-10.3	-8.4	-4.5
Current account balance	1.3	-2.0	-2.7	-7.6	-6.2	-1.9
M2	70.3	73.6	75.1	72.2	73.8	72.1

Note: ratio = indicator / GDP in current prices
1) Source: CSO

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