CNB CZECH NATIONAL BANK

INFLATION REPORT

JANUARY 1999

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I. INTRODUCTION

In the world economy, 1998 was characterised by gradually declining economic growth, disinflationary trends in most countries, falling prices on world markets of raw materials, energy resources and commodities and by significant volatility on global financial markets. These processes have greatly affected macroeconomic and price development in the Czech economy.

A disinflationary trend has gradually become apparent since 1998 Q2, following an increase in inflation at the beginning of the year resulting from the January rise in regulated prices and linked with ongoing unfavourable inflation expectations. The end of the year, too, was characterised by a slowdown in inflation. The main macroeconomic feature was a continuing contraction in GDP and domestic demand, which further restricted the room for cost pressures. These pressures have been constantly easing as a result of disinflationary development around the world generated by falling import prices. At the same time, a number of new macroeconomic tendencies were felt in Q4 that will probably strengthen in the future. An analysis of the main components of GDP in Q3 shows that the fall in domestic demand has been slowing and that the external imbalance has again increased. The former process has been, and may continue to be, fuelled by growth in real wages; the latter is a reflection of the worsening competitiveness of domestic producers and a result of falling demand in export markets. The increasing structural nature of the trade deficit and higher import propensity of GDP was confirmed by the unfavourable balance of trade in December 1998. Another trend that came to light in Q4 was a certain inertia of nominal variables, which in connection with the inflation slowdown is leading to accelerating growth rates for real variables. This applies to wages in particular.

In Q4, year-on-year net inflation dropped by 2.6 percentage points, from 4.3% in September to 1.7% in December. This was more than in Q3, when it fell by 2.2 percentage points. Month-on-month inflation was negative in Q4, although the year-on-year net inflation indices were positive. The disinflationary process seen since mid-1998 thus changed in the last quarter of 1998 into an absolute decline in the price level. The main contributing factor in this shift has been the substantial fall in food prices in recent months, which has been beyond all seasonal fluctuations experienced to date. At the end of 1998, food prices were 5% lower than in the middle of the year. This was due mainly to subsidised imports of agricultural products from EU countries and the escalating struggle of international retail chains for domestic market shares.

The slowdown in net inflation and in the rate of growth of regulated prices fed through into a slowdown in overall inflation. Year-on-year CPI inflation fell by 2 percentage points in Q4 from 8.8% in September to 6.8% in December. Overall inflation also registered an absolute decline in all months of Q4. The inflation rate, measured by the moving average of the CPI, reached 10.7% in December. The inflation rate fell more slowly than other price indices during the year, owing to the lag built into this indicator.

The anti-inflationary factors resulted in net inflation being 3.8 percentage points lower in December 1998 than the lower limit of the short-term inflation target range of 5.5%–6.5% set for the end of the year. Most of this fall below the target limit should be attributed to external factors, ie factors existing partly or completely outside the reach of monetary policy. According to CNB estimates – presented in chapter II.2 – the disinflationary trend was generated mainly by falling global prices of raw materials and the koruna's appreciation. Without these two factors, net inflation would have been 2–3 percentage points higher at the end of 1998.

Monetary development in Q4 reflected the continuing disinflationary process and ongoing economic recession. Year-on-year money supply growth slowed significantly, a reflection of low increases in lending. Also, the inverse slope of the yield curve steepened during Q4 and the curve fell to a lower level. This process, which began in mid-1998, confirms a further decline in inflation expectations.

The above-mentioned slowdown in the decline of domestic demand in Q3 was accompanied by a change in structure. Compared with Q2, the year-on-year fall in household consumption moderated

and the decline in the pace of fixed capital formation slowed somewhat. The persisting decline in investment activity reflects the tight financial situation of businesses ensuing from the low level of their own resources and difficult access to credit and to funds from the capital market. In contrast, government consumption saw a decline in Q3, as opposed to growth in the previous period.

The favourable development of inflationary factors in 1998 Q4, and particularly the drop in inflation projected for 1999, opened up room for further cuts in key interest rates. This was also fostered by the rate cuts made by many foreign central banks, stimulated by falling inflation in numerous countries and by the establishment of the euro. The lowering of interest rates accelerated in 1998 Q4 against Q3. In view of the risk of an unfavourable reaction from the financial markets and a possible worsening of the unbalanced trend, the manoeuvre to lower rates was divided into several steps. The main CNB interest rate on two-week repo rates was lowered from 13.5% to 9.5%, in four steps between October and December, each time by one percentage point. The discount rate and the Lombard rate were cut in two steps, from 11.5% to 7.5% and from 16% to 12.5% respectively. All these measures were part of a monetary strategy to gradually shift to a lower level of both nominal and real interest rates. This was made possible by lower inflation and declining inflation expectations.

A retrospective assessment of the monetary policy measures taken during 1998 might indicate that the process of cutting interest rates could have been started earlier and could have been more intensive. However, monetary policy reacts to the expected trend, which always implies a great degree of uncertainty. In spring 1998, neither the CNB's forecasts nor those of other domestic and foreign institutions presaged the steep fall in inflationary pressures that followed.

In 1998 Q4 the CNB took a further step to improve inflation expectations. To increase the transparency of its monetary strategy, the Bank Board on 27 November set the short-term net inflation target for the end of 1999 at 4.5% ± 0.5 percentage points. This target is in line with the long-term disinflation trajectory declared by the CNB in December 1997, when it switched over to inflation targeting. The ultimate goal of the long-term disinflation strategy is to achieve a price stability comparable with EMU countries. This target interval corresponds with the earlier approved approach to the adoption of short-term inflation targets. Part of declaring the 1999 target was the adoption of a concept of so-called exceptions. Exceptions from meeting the inflation targets are defined as extraordinary and unforeseen factors causing deviations from the inflation target to which the central bank is either unable or unwilling to react through its monetary policy.

In its efforts to influence inflation expectations favourably, the CNB at the end of 1998 launched another round of consultations with trade union representatives. The aim of these negotiations was to acquaint the unions with inflation projections and help push through the concept of the continuing disinflationary process into wage bargaining.

In line with the medium-term plan to lower the minimum reserve requirement, the Bank Board decided at its meeting on 17 December to cut the MRR on primary deposits from 7.5% to 5%, effective 28 January 1999. This forms part of the efforts to gradually harmonise monetary policy instruments with those of the European Central Bank and to boost the competitiveness of the domestic banking sector.

The extraordinarily favourable trend for demand and supply factors and the improving inflationary expectations in 1998 will continue into 1999 Q1. During the first half of the year inflation will continue falling. The conditional inflation projection indicates that the year-on-year net inflation indices in this period will move between -0.1% and 1.5%. Owing to the lesser extent of regulated price increases in 1999, the CPI should be lying between 3.1% and 4.2% at the end of the first half.

During the second half of 1999, the exceptionally favourable action of inflation factors will probably gradually unwind. In 1999, domestic demand will stop contracting and may rise slightly in year-on-year terms. Nevertheless, the generally subdued domestic demand situation will continue to restrict the room for cost-push inflation. Inflationary pressures in the world economy will be weak, but external price factors cannot be expected to develop as favourably as in 1998. Wages remain a certain risk factor for inflation in 1999. Given the inertia in average nominal wages and the present fall in inflation, wage cost pressures may gradually strengthen.

An analysis of future inflation factors indicates that inflation will pick up slightly in the second half of 1999. The updated conditional projection for net inflation shows that year-on-year net inflation will be between 2.5% and 5.5% at the end of 1999, depending mainly on the koruna's exchange rate. World prices of raw materials and other commodities will be another uncertain factor. In view of these uncertainties, the forecast inflation interval is wider than that for the short-term target set for the end of 1999. The inflation forecasts will gradually become more specific during the year and will serve as a basis for monetary policy to ensure that monetary conditions allow the inflation target to be met. Year-on-year CPI inflation will be somewhere between 4.2% and 6.4% at the end of 1999.

II. INFLATION DEVELOPMENT

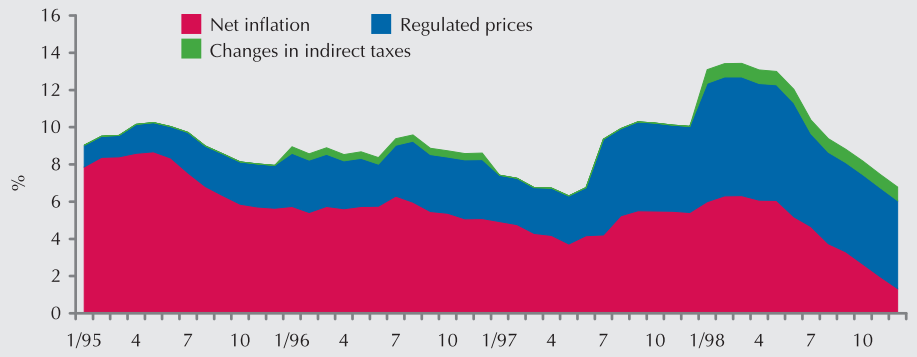
The last months of 1998 saw a continuation of the inflation decline that started in June 1998. At the end of 1998 Q2, year-on-year CPI inflation was down to 6.8% and the inflation rate[1/] stood at 10.7%. However, compared with 1998 Q3, the disinflationary process[2/] was less intense. In 1998 Q3, year-on-year CPI inflation dropped against Q2 by 3.2 percentage points (to 8.8%), whereas in Q4 it fell by 2 percentage points (to 6.8%).

The lower year-on-year CPI inflation in the first three quarters of 1998 resulted from lower year-on-year growth in regulated prices and a fall in year-on-year net inflation (see Table II.1 Basic data on consumer prices). In 1998 Q4, regulated price inflation remained flat and the lower year-on-year CPI inflation was due solely to lower year-on-year net inflation; the fall in net inflation was caused mainly by a significant decline in food prices. At the end of the year, unlike in December 1997, year-on-year CPI inflation was attributable more to regulated price inflation (4.73 percentage points) than to net inflation (1.32 percentage points). Changes in indirect taxation accounted for 0.73 percentage points.

Table II.1 Basic data on consumer prices (in %)

	3/98		6/98		7/98		8/98		9/98		10/98		11/98		12/98	
CPI INFLATION (y-o-y)	13.4		12.0		10.4		9.4		8.8		8.2		7.5		6.8	
of which:		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Regulated prices	30.8	6.38	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
Influence of indirect taxes on unreg. prices		0.73		0.73		0.73		0.73		0.73		0.73		0.73		0.73
Net inflation	7.9	6.32	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
of which:																
- food prices	7.2	2.40	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
- adjusted inflation	8.4	3.92	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
INFLATION RATE (annual moving average)	10.0		11.5		11.6		11.5		11.4		11.2		11.0		10.7	

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



1/ Inflation rate = annual moving average

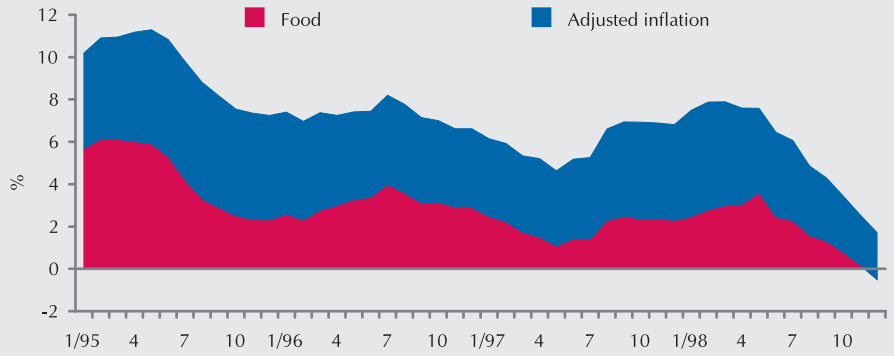
2/ Measured by CPI

The slowdown in CPI inflation in 1998 Q4 reflected a decline in month-on-month CPI inflation in all three months of Q4. The equal month-on-month falls of 0.2% in October, November and December were a result of low month-on-month regulated price growth and negative month-on-month net inflation. The seasonally adjusted month-on-month change in consumer prices (as calculated by the CSO) was -0.12% in October, -0.21% in November and -0.13% in December.

Net inflation[3/]

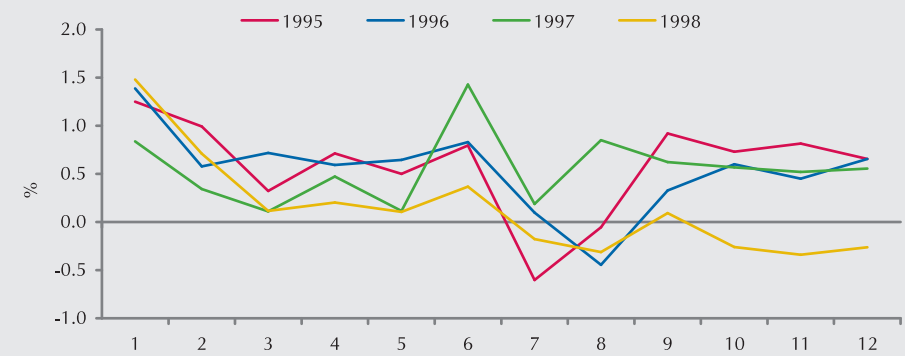
In 1998 Q4, the decline in year-on-year net inflation continued to gather pace; in Q3 year-on-year net inflation dropped by 2.2 percentage points (to 4.3%) against Q2, whereas in Q4 it fell by 2.6 percentage points (to 1.7%) against Q3. This was generated mainly by the extraordinary development of food prices, which, adjusted for administrative influences, fell by 1.2% year-on-year in December 1998, against a rise of 5.8% in June and 3.1% in September. Year-on-year non-food price inflation (ie adjusted inflation) also decreased, although to a lesser extent than food price inflation (after adjustment for administrative influences from 6.9% in June and 5.1% in September to 3.7% in December 1998).

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



The considerable year-on-year fall in net inflation in 1998 Q4 resulted from negative month-on-month net inflation in all months of this quarter (-0.26% in October, -0.34% in November and -0.29% in December). Seasonal influences also exerted a significant effect. Seasonally adjusted month-on-month net inflation was -0.29% in October and -0.36% in November. In December, the month-on-month net inflation decline was 0.35% after seasonal adjustment.

Chart II.3 Net inflation in 1995 - 1998 (m-o-m)



3/ Net Inflation = CPI adjusted for regulated prices and further adjusted for the effect of administrative measures (eg indirect tax increases, subsidy cancellations). Within the net inflation index, the food price index and the adjusted inflation index are separately monitored and analysed.

Table II.2 Month-on-month net inflation in 1998 (in %)

	1/98		2/98		3/98		4/98		5/98		6/98		7/98		8/98		9/98		10/98		11/98		12/98	
		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Month-on-month net inflation	1.5	1.14	0.7	0.54	0.1	0.10	0.2	0.16	0.1	0.08	0.4	0.28	-0.2	-0.13	-0.3	-0.23	0.1	0.07	-0.3	-0.19	-0.3	-0.25	-0.3	-0.19
of which:																								
- food prices	1.7	0.52	0.8	0.24	0.2	0.08	0.3	0.10	0.1	0.03	0.4	0.12	-1.4	-0.42	-0.9	-0.26	0	0.00	-0.6	-0.16	-1	-0.28	-0.9	-0.26
- adjusted inflation	1.4	0.62	0.7	0.30	0.0	0.02	0.1	0.06	0.1	0.04	0.4	0.16	0.6	0.28	0.1	0.03	0.2	0.07	-0.1	-0.03	0.1	0.03	0.2	0.07

Note: "contrib." means contribution to CPI inflation

As in the two previous quarters, the decline in year-on-year net inflation in 1998 Q4 was a result of internal and external factors, of both a demand and cost nature, and the favourable koruna exchange rate.

The internal factors subdued demand-pull inflationary impulses in the economy. One of the strongest internal factors was the ongoing decline in all components of domestic demand. In 1998 Q3, the year-on-year fall in domestic demand moderated, particularly in the most important segment for inflation: household consumption. This resulted from a slowdown in the year-on-year fall in real incomes of households[4/] and a decline in their savings ratio. However, the lower propensity to save did not feed through significantly into net inflation in the final months of 1998, partly because of a time lag and partly because of counteracting factors (namely the pricing policy of major business chains and a sharp drop in retail sales).

Prices in the individual segments of net inflation indicate that the outturn in 1998 Q4 was affected largely by external factors. These caused a considerable fall in food prices and generated only very low tradables inflation.

In Q2, the persisting extremely favourable prices of raw materials and food on world markets, the very low inflation enjoyed by the Czech Republic's main trading partners, and specific factors on the food market (subsidised food imports from EU countries) were among the main external factors acting on net inflation. These external factors exerted downward pressure on inflation through lower input prices in the business sector. With food in particular, a close link can be seen between the fall in food prices on world markets, the koruna exchange rate and the sales difficulties experienced by EU countries with some commodities. In Q4, the very favourable prices in these two most important groups of net inflation were affected only weakly by the constantly high and very slowly falling year-on-year nontradables inflation.

Regulated prices (excluding the influence of tax increases in non-regulated prices) and administrative changes

In 1998 Q4, year-on-year growth in regulated prices was stable, fluctuating in individual months between 20.4% and 20.6%. This was because the month-on-month growth in regulated prices in Q4 was roughly the same as a year ago. Centrally regulated prices were not adjusted, and month-on-month growth in other regulated price items (regulated at a local level and on a cost-plus basis) was not significant. Indirect taxes did not change during Q4.

Prices of tradables and nontradables[5/]

Tradables and nontradables prices indicate the significance of external factors in the disinflationary process. This is reflected in a different rate of price growth for these two groups of commodities. The trend towards a moderate slowdown in year-on-year nontradables price inflation and a considerable

4/ ie the savings ratio according to CNB methodology – see III.2.2.1 Household consumption.

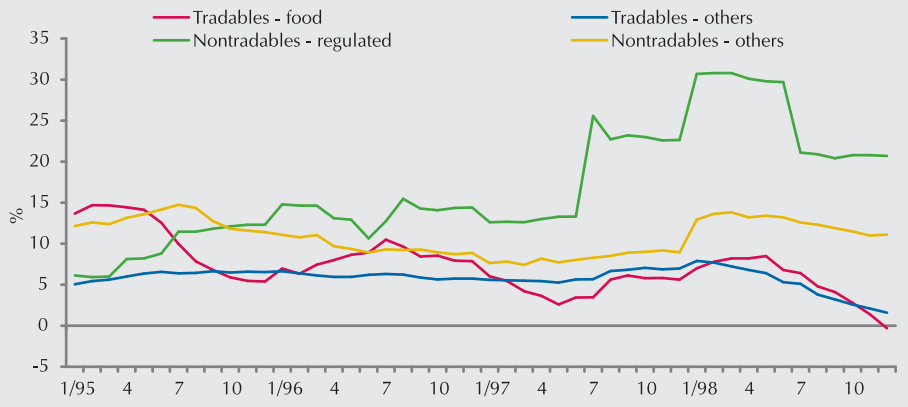
5/ CPI = weighted average of index of food prices, other tradables prices, nontradable regulated commodities prices and nontradable other commodities prices

slowdown in year-on-year tradables price inflation, which started in Q3, continued into Q4. Nontradables price inflation continued to considerably outpace tradables price inflation.

In December 1998, tradables inflation dropped significantly year-on-year compared with September 1998, falling 3 percentage points (2.7% year-on-year in October, 1.7% in November, and 0.7% in December). As in Q3, the month-on-month outturns were negative in all months of 1998 Q4, (October -0.4%, November -1%, and December -0.5%). The contribution of tradables inflation to overall year-on-year CPI growth between September and December 1998 continued to decline, falling by 1.9 percentage points to 0.4 percentage points in December 1998.

These prices were affected by international competition. The favourable trend was also generated by an appreciation of the koruna compared with 1997 and a decline in domestic demand. Year-on-year food price inflation fell by 4.3 percentage points compared with September 1998 to -1.2% (adjusted for administrative influences) in December 1998. This decline was caused by a fall in pork prices due to subsidised imports, a slump in tropical fruit prices, lower grain prices, competition among business chains and by a stagnation of demand for food. Year-on-year inflation for other tradables fell in December 1998 by 1.9 percentage points compared with September 1998 to 2.1%.

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



Year-on-year nontradables inflation saw a decline of 0.3 percentage points in December 1998 compared with September 1998. However, it remained relatively high (17.1% year-on-year in October, 16.9% in November, and 16.9% in December). Nontradables prices contributed significantly to year-on-year inflation, accounting for roughly 90% of the total. The certain decline in nontradables inflation in Q3 and Q4 was due largely to much smaller changes in regulated prices in 1998 compared with the same period a year earlier. Conversely, a sharp rise in the prices of a number of services included in this group (cultural services, sports activities, education, leisure) contributed significantly to the maintaining of high inflation for other nontradables, while year-on-year inflation for several other commodities declined.

Table II.3 Tradables and nontradables prices (in %)

	1/98		2/98		3/98		4/98		5/98		6/98		7/98		8/98		9/98		10/98		11/98		12/98	
MONTH-ON-MONTH INCREASES		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Tradables	1.9	1.20	0.5	0.29	0.0	0.02	0.2	0.11	0.0	0.03	0.3	0.20	-0.5	-0.28	-0.4	-0.26	-0.2	-0.09	-0.4	-0.21	-1.0	-0.28	-0.5	-0.26
Nontradables	7.4	2.79	0.9	0.34	0.3	0.11	0.5	0.18	0.1	0.06	0.3	0.10	5.6	2.22	0.1	0.00	0.4	0.18	0.1	0.06	0.1	0.04	0.2	0.08
YEAR-ON-YEAR INCREASES		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Tradables	7.4	4.77	7.7	4.96	7.7	4.95	7.5	4.79	7.4	4.70	6.1	3.90	5.7	3.60	4.3	2.70	3.7	2.30	2.7	1.70	1.7	1.10	0.7	0.40
Nontradables	23.2	8.31	23.5	8.45	23.6	8.48	22.9	8.28	22.9	8.30	22.7	8.10	18.0	6.80	17.7	6.70	17.2	6.50	17.1	6.50	16.9	6.40	16.9	6.40

Note: "contrib." means contribution to CPI inflation

II.1 Quantification of external inflation factors

In December 1998, year-on-year net inflation stood at 1.7%, or 3.8 percentage points below the lower limit of the inflation target interval and 5 percentage points below the end-1998 projection for year-on-year net inflation drawn up in January 1998 (6.7%).

This year-on-year net inflation projection (for December 1998) had assumed:

- year-on-year adjusted inflation of 7.1%
- year-on-year food price inflation of 6.2%
- a gradual depreciation of the koruna exchange rate to CZK 19.70/DEM at the end of 1998 (ie a depreciation of around 3% year-on-year)
- stability of raw materials prices on world markets at the end-1997 level
- subdued domestic demand and low household consumption (a year-on-year decline of around 1.4%).

The difference (of 5 percentage points) between the projected and actual outturn for year-on-year inflation can be quantified by individual groups using the method given in the following table[6/].

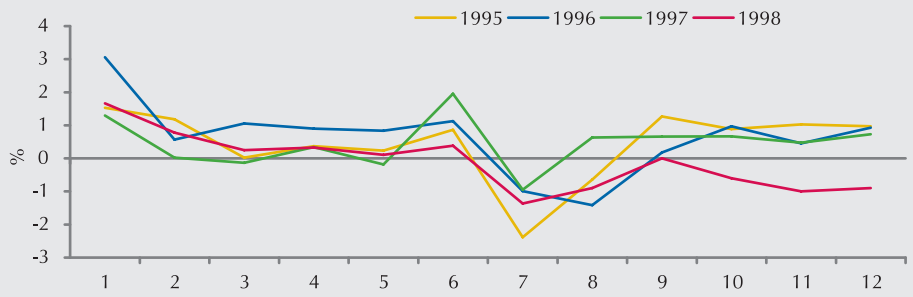
Table II.4 Share of individual groups of the consumer basket in the deviation of net inflation from the prediction

Item, commodity group	Weight (share in net inflation) in %	Prediction of y-o-y rise in Dec. 98 from Jan. 1998 in %	Y-o-y change (+rise, -fall) in Dec. 98 in %	Deviation of reality from expectation in percentage points (+reality higher, -reality lower)	Deviation weighted with share in net inflation in percentage points	Share in undershoot in %
Food prices	40.00	6.20	-1.20	7.40	2.96	58.40
Prices of meat and meat products	8.90	6.20	-6.90	13.10	1.16	22.90
Prices of tropical fruit	0.70	6.20	-9.80	16.00	0.11	2.20
Prices of temperate fruit	1.30	6.20	-29.30	35.50	0.46	9.00
Prices of mill and bakery products	5.00	6.20	-1.60	7.80	0.39	7.70
Prices of other foods	24.10	6.20	2.70	3.50	0.84	16.60
Prices of other tradables	42.00	5.80	0.70	5.10	2.11	41.60
Prices of apparatus and equipment for culture and sport	3.30	5.80	-1.30	7.10	0.23	4.60
Petrol prices	5.00	5.80	-13.10	18.90	0.94	18.50
Prices of other tradables excluding petrol	33.70	5.80	3.00	2.80	0.94	18.50
Prices of unreg. nontradables	18.00	10.10	10.10	0.00	0.00	0.00
Net Inflation	100.00	6.70	1.70	5.00	5.07	100.00

Whereas in the February–September period, food prices were broadly in line with past seasonal development (although concrete values in individual months were rather lower), in October–December they registered a completely atypical sharp month-on-month fall. This had a major effect on the value of year-on-year food price inflation at the end of the year.

6/ With regard to the projection methods used at the beginning of 1998, a quantified disaggregated estimate of adjusted inflation for the price development of other tradables (food excluded) and unregulated nontradables was not made. A continuation of the 3–4 percentage point discrepancy in the year-on-year growth rate between these groups of commodities (eg year-on-year growth of 5.5% for other commodities and 9.2% for nontradables in December 1997) was assumed. For year-on-year adjusted inflation, 5.8% year-on-year growth was thus assumed for tradables, food excluded, and 10.1% year-on-year growth for unregulated nontradables. Predictions for the year-on-year growth rate for individual groups of food commodities were not specified in detail either. Therefore, the evaluation of individual deviation factors assumes roughly equal year-on-year growth in all food groups.

Chart II.5 Food prices in 1995 - 1998 (m-o-m)

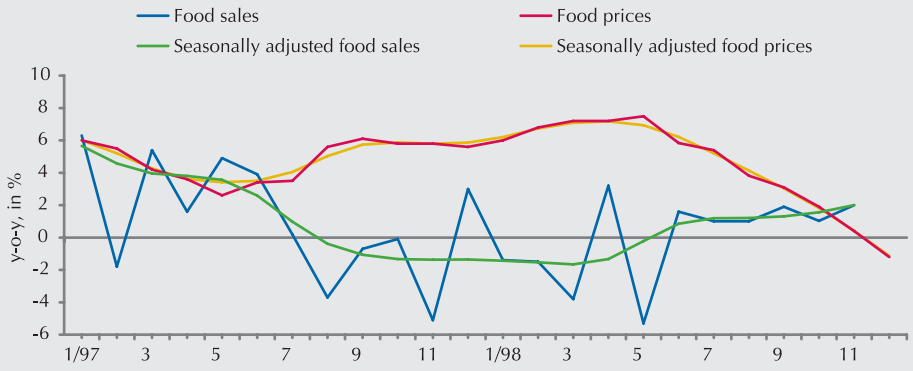


The significant fall in food prices can be attributed to the following factors:

- the generally low prices of agricultural products on world markets in the past period (some important commodities fell by up to 20%; the HWWA selection index was also approximately 20% lower on average compared with the previous year)
- a change of approximately 25 percentage points in year-on-year import price inflation for SITC groups 0 and 1 in October against January; the exchange rate situation also fed through into these changes
- ongoing price pressure from imported agricultural production at subsidised prices, including the favourable exchange rate for imports (wheat and pork in particular)
- the lower purchasing power of households in the second half of 1998 (compared with the same period of 1997)
- a decline in prices of tropical fruit and grain on world markets
- the relatively favourable domestic harvest
- the ongoing changes in food retailing (the continuing expansion of wholesale chains and the related stronger competition on the market, which is feeding through into prices; marketing projects and events aimed at gaining a bigger market share).

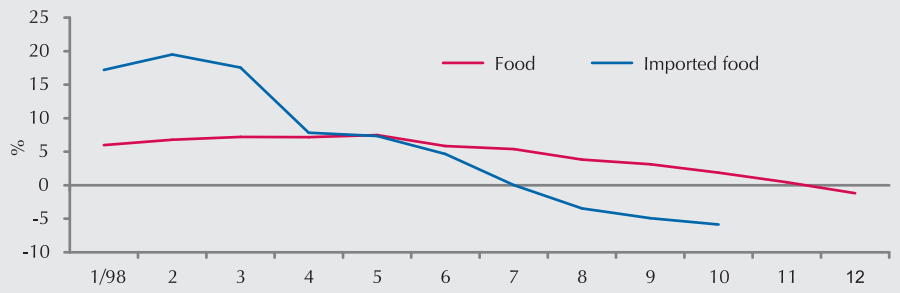
A comparison of food prices and food sales indicates that, of the factors mentioned above, the lower household purchasing power did not have a significant effect. This year's favourable harvest also had only a partial effect, since grain and potatoes prices dropped very modestly. Grain price inflation was also depressed by the low price of wheat on world markets. The pricing policy of wholesale chains probably had a much more significant effect on food prices.

Chart II.6 Food sales (y-o-y growth - constant prices) and food price inflation (in % y-o-y)



External influences had a dominant effect on the decline in food prices. This is confirmed by a comparison of food prices and food import prices as well as an analysis of food price development by commodity group (taking into account the time framework). The fall in prices in December compared with September was largely attributable to prices of meat and meat products (particularly pork, whose prices were affected considerably by subsidised imports from EU countries) and fruit (particularly tropical fruit: low world prices, surpluses due to the Russian crisis, the exchange rate). Other food groups did not experience such a severe fall in prices. Similar conclusions follow also from a comparison of the year-on-year indices for individual groups of food commodities.

Chart II.7 Comparison of import food prices and food prices in 1998 (in %, y-o-y changes)



To sum up, the decline in food prices was largely due to a fall in prices for the food groups that can justifiably be assumed to have been affected by:

- the fall in prices on world markets (grain, meat, tropical fruit)
- the sales difficulties of EU countries (subsidised pork imports, with a knock-on effect on prices of substitutes of this commodity)
- the koruna exchange rate (tropical fruit, wheat, partially also meat etc.).

From the total share of food prices (of 3 percentage points) in the deviation of year-on-year net inflation from the original expectation, we therefore estimate that the influence of external factors is very strong, accounting for 50%–66% of the overall deviation, ie 1.5–2.0 percentage points. A calculation by groups gives a smaller share (around 45%, although this does not take into account the influence of oil prices).

The divergence between the reality and the projection for adjusted inflation is concentrated largely in the segment of other tradables. Year-on-year unregulated nontradables inflation in December developed broadly in line with the original projection. In the tradables segment, the exchange rate, import prices and prices of raw materials on world markets played a significant role. Also of great importance was the extreme year-on-year slump in oil prices (of approximately 40%), which fed through strongly into petrol and oil prices (a year-on-year fall of around 13% adjusted for indirect tax changes, against the original estimate of approximately 6% based on an assumption of a year-on-year exchange rate depreciation of around 3%, world price stability and a certain influence from domestic demand). From the other commodities group, there was a significant development for apparatus and equipment for culture and sport, which in particular includes consumer electronics goods sensitive to changes in both the exchange rate and demand. In this group of commodities, a year-on-year fall in computer prices of approximately 25% was dominant.

From the above analysis, the influence of external factors can be quantified at roughly 2.6 percentage points. This means that had external influences been as expected, year-on-year net inflation would have been approximately 4.3%, ie 2.4 points below the prediction (a certain additional effect has to be

attributed to the influence of the domestic harvest and the retail chain expansion) and 1.2 points below the lower limit of the inflation target interval. These can be considered very conservative estimates and it cannot be ruled out that the influence was rather higher – minimally by a further 0.5 points (the indirect effect of petrol prices on the prices of other tradables and nontradables).

From the above analysis it seems that the overall discrepancy between the reality and the estimate was generated by factors that the central bank's monetary policy did not, or could not, affect. The sum of the estimate of the influence of external factors (2.6 percentage points) plus the indirect effect of petrol prices (0.5 percentage points) plus the influence of retail chains and the good harvest (which can be estimated at about 0.5 percentage points) totals 3.6 percentage points. Had external factors developed in line with the projection, year-on-year net inflation would have been 5.3% in December, only very slightly below the lower limit of the target interval (5.5%). In contrast with the analysis of individual components using their price changes and their share in net inflation, the influences of individual factors (external, domestic, supply, demand and specific) cannot be summed. Many individual prices were undoubtedly affected to a various extent by the subdued consumer demand. Given the weak demand, developments on the cost side gave sellers room to cut prices.

Table II.5 Estimated influence of external factors (incl. exchange rate) on individual net inflation commodity groups

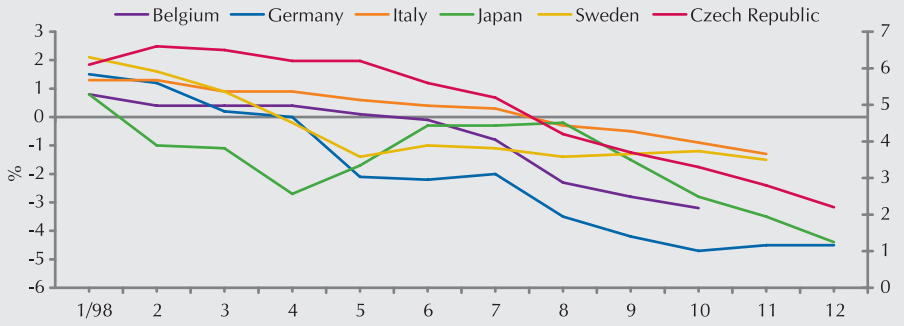
Item, commodity group	Deviation weighted with share in net inflation in percentage points [1)]	External factors Estimated share in %	Other factors Estimated share in %	Share in overshoot in percentage points (external/other)
Food prices	2.96			23,4/35,0
Prices of meat and meat products	1.16	0.70 Subsidised exports from EU countries	0.30 Retail chains Weak demand	16,0/6,9
Prices of tropical fruit	0.11	0.80 World prices Exchange rate effects	0.20 Retail chains Weak demand	1,8/0,4
Prices of temperate fruit	0.46	0.00	100.00 Specific influences	0,0/9,0
Prices of mill and bakery products	0.39	0.30 World grain prices	0.70 Retail chains, 1998 harvest Weak demand	2,3/5,4
Prices of other foods	0.84	0.20 Import prices of foods (change in y-o-y growth rate of 25 p.p.)	0.80 Retail chains Weak demand	3,3/13,3
Prices of other tradables	2.11			28,2/13,4
Petrol prices	0.94	0.90 Y-o-y fall in oil prices of 40%, exchange rate	0.10 Fall in receipts for fuel of 4%	16,7/1,8
Prices of apparatus and equipment	0.23	50.00 World prices, exchange rate	50.00 Demand	2,3/2,3
Prices of other tradables excluding the above items	0.94	0.50 Fall in world prices of raw materials of 20%, gradual apprec. of exchange rate, and fall in import prices of up to 8%	0.50 Weak demand Slower growth of industrial producer prices	9,2/9,3
Prices of unreg. nontradables	0.00	0.00	0.00	0,0 / 0,0
Net Inflation	5,07 - 5,08			51,6/48,4

1) Difference between actual (1.7%) and originally predicted (6.7%) y-o-y net inflation outturn

II.2 Inflation in selected countries

The favourable prices of raw materials and food on world markets (see III.4.2) in 1998 were a significant factor for prices in the group of selected countries. The influence of these prices, as in the Czech economy, fed through particularly into industrial producer prices, as the following chart shows:

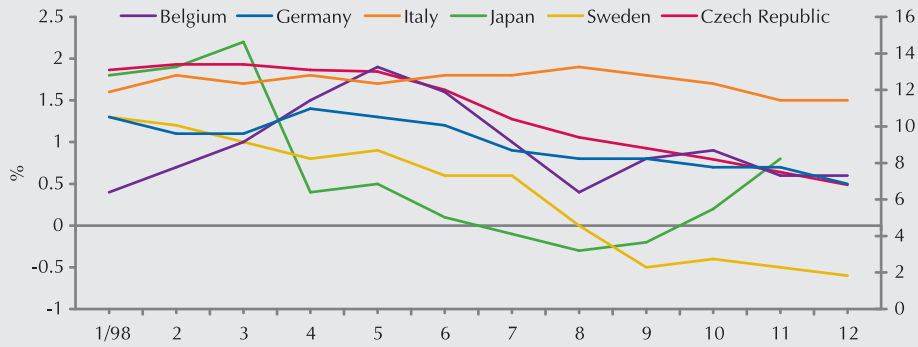
Chart II.8 PPI in selected countries (y-o-y)



Note: Czech Republic on right Y axis

In the first few months of 1998, external factors, which depressed input prices in the corporate sector, caused a slowdown in the year-on-year growth rate of industrial producer prices and from Q2 led to a year-on-year decline (industrial prices in Germany fell most significantly). In comparison with the Czech Republic, the changes in industrial producer prices were more considerable.

Chart II.9 CPI in selected countries (y-o-y)



Note: Czech Republic on right Y axis

The CPI curve (Chart II.9) shows that the drop in industrial producer prices had a positive effect on consumer prices. However, in the group of selected countries the extent of the change was smaller than for industrial producer prices (because of other modifying factors such as effective demand etc.).

Similar tendencies in industrial producer prices and consumer prices were also apparent in selected transition economies (Charts II.10 and II.11).

Chart II.10 PPI in selected transition economies (y-o-y)

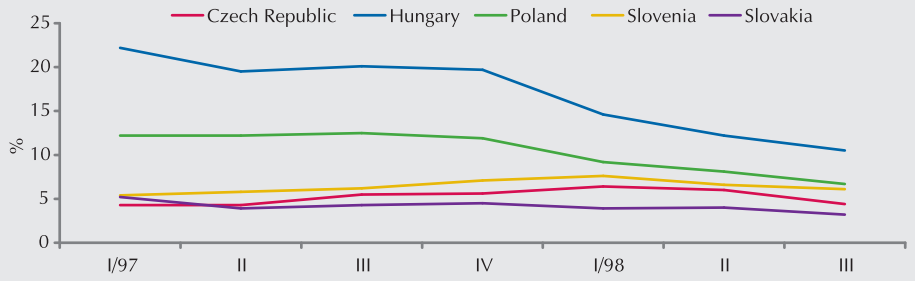
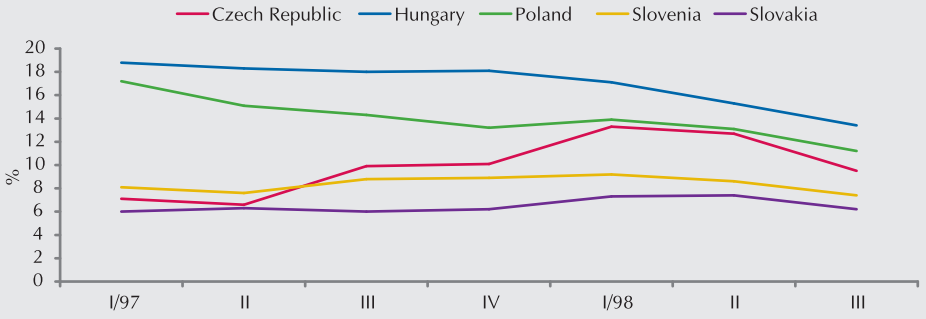


Chart II.11 CPI in selected transition economies (y-o-y)



III. INFLATION FACTORS

III.1 Money, interest rates and exchange rates

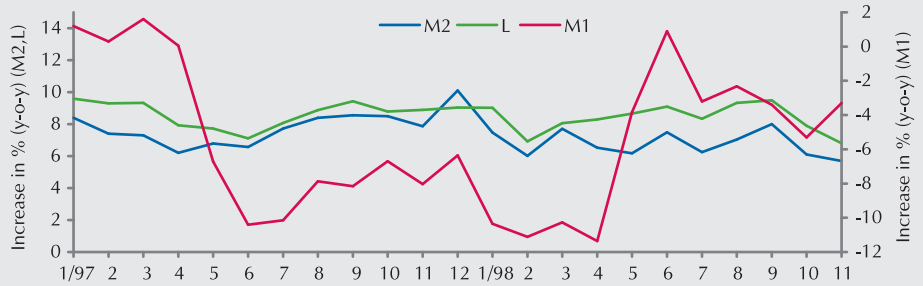
III.1.1 Monetary aggregates

The September–November period of 1998 saw a decline in money supply in the economy. This trend reflected a low level of lending and surpluses in the state budget. The decreasing money supply fed through into a slight absolute pick-up in M1 in this period, while the absolute volume of the broader monetary aggregates M2 and L in the monitored three months dropped below the August level.

The declining money supply is evident also from the year-on-year increases, which in November fell back for all three basic monetary aggregates compared with August. The slight pick-up in the year-on-year growth in M2 and L in September was caused mainly by last year's base. In the September–November period, the year-on-year M1 growth rate fluctuated persistently below the August 1998 level.

Monetary aggregates in September–November developed in line with the macroeconomic situation, which was characterised by low inflation and a decline in GDP. The monetary restriction was moderated by cuts in basic interest rates; however, the effects of these cuts will come through only in the longer run.

Chart III.1 Monetary aggregates M1, M2 and L



Definition of monetary aggregates:
M1 = currency in circulation + demand deposits
M2 = M1 + CZK time deposits + foreign currency deposits
L = M2 + T-bills + CNB bills + National Property Fund bills in portfolios of domestic non-bank entities

Monetary aggregate M2

After four months on the rise, M2 fell in absolute terms in September 1998. The decline intensified in October, when the effect of low supply was augmented by a shift of some deposits to short-term securities. Despite a pick-up in November, the money supply volume remained below the August level at the end of the period under review. This trend fed through strongly into a decline in the year-on-year growth rate in October and November.

The downward tendency of the year-on-year increases can also be seen for the seasonally adjusted M2 from the increases for the last three and six months.

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

		annualised for last		
	1 month	3 months	6 months	1 year
August 98	2.1	18.6	16.0	7.0
September 98	0.9	13.3	12.3	8.0
October 98	-1.4	6.6	10.5	6.1
November 98	0.1	-1.8	7.9	5.7

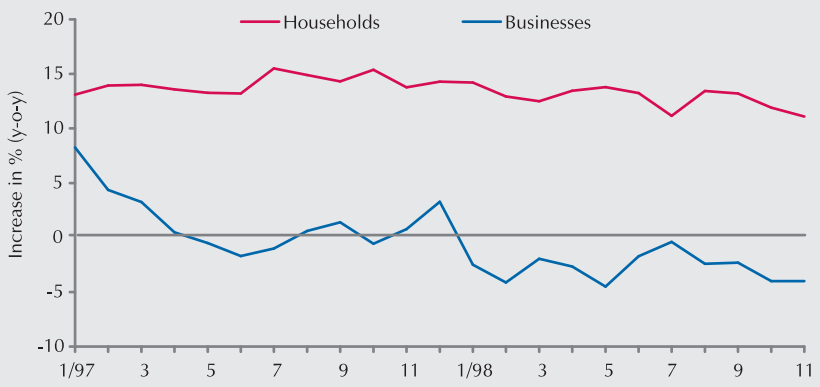
Note: Seasonally adjusted according to deviations from the series smoothed by the centred moving average method (length 13)

Structure of deposits

The decline in the money supply in absolute terms after August 1998 and its falling year-on-year growth rate stemmed mainly from the trend in business deposits, which fell in absolute terms. Both koruna deposits and foreign currency deposits decreased. The business deposit trend corresponded with the low money supply and reflected the difficult situation in the corporate sector, which saw a drop in business sales and an overall economic downturn.

In the household sector, koruna deposits rose in absolute terms in the September–November 1998 period, although at a slower pace than in previous months. This fed through into a decline in the savings ratio from 15% in Q2 to 13.2% in Q3 (CSO data). However, the savings ratio of households remained relatively high. The rise in household deposits in September–November confirms the long-term tendency of a preference for saving over consumption in a period of real wage decline.

Chart III.2 M2 by sector



Monetary aggregate L

In the September–November period, the trend for L was similar to that for M2, its volume in absolute terms being consistently lower than in August. The year-on-year growth seen in August was replaced by a decline in October and November. This shows that the factors determining M2 have a similar effect on the broadest aggregate L.

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

		annualised for last		
	1 month	3 months	6 months	1 year
August 98	2.0	14.6	16.6	9.3
September 98	0.5	13.3	12.8	9.5
October 98	-0.7	7.1	9.7	7.9
November 98	-0.2	-1.9	6.0	6.8

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

Monetary aggregate M1

The year-on-year decline in M1, which in August 1998 stood at -2.3%, intensified in September–November (-3.4% in September, -5.3% in October and -3.3% in November). This trend stemmed mainly from the significantly higher growth rate for this aggregate in 1997. In absolute terms, the M1 volume rose in October and November 1998, following a decline in September, mainly as a result of renewed growth in currency in circulation, although in year-on-year terms this item is also declining. Demand deposits remained lower than in August, despite a significant pick-up in volume in November.

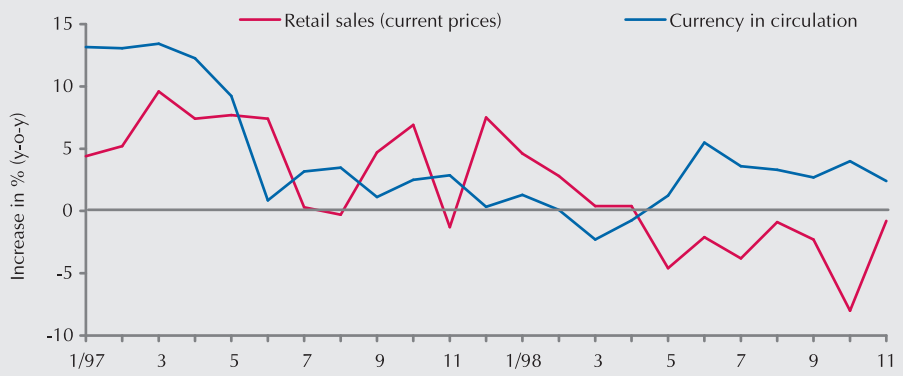
Table III.3 Increases in M1 (in %)

	Increases for last			
	1 month	3 months	6 months	1 year
August 98	4.0	2.5	4.9	-2.3
September 98	-2.6	-0.7	2.6	-3.4
October 98	0.1	1.4	3.0	-5.3
November 98	3.1	0.5	3.0	-3.3

Note: Seasonally unadjusted because of the low significance of seasonal factors

Currency in circulation saw broadly flat year-on-year growth in September–November. The fluctuations in the decline in retail turnover in October and November did not feed through significantly into currency in circulation.

Chart III.3 Currency in circulation and retail sales (current prices)



III.1.2 Credits

Lending to businesses and households in September–November shrank by CZK 40.5 bn in absolute terms compared with August. The decline, which occurred mainly in September and October, was caused by extraordinary influences (the revocation of the licences of two banks and substantial write-offs of credits at Komerční banka and Česká spořitelna). In year-on-year terms, lending to businesses and households rose by 3.3% in September and 0.4% in October, and fell by 0.6% in November.

The decline in overall credit volume was largely due to koruna credits, which were affected by the above-mentioned exceptional circumstances and which showed a decline both in absolute and year-on-year terms in all three months. The overall credit increase in November was generated by a pick-up in foreign currency credits. This, however, was linked largely with exchange rate developments.

Taking the data adjusted for exchange rate influences, write-offs, capitalisation of interest and banks without licences, the credit volume increases in September (CZK 5.1 bn) and October (CZK 6.2 bn), which were roughly at last year's levels, appear more favourable, despite being significantly lower than in August (CZK 14.4 bn). However, the decline in adjusted credits in November (CZK 3.9 bn) is atypical; this has always been one of the most significant months with regard to credit supply.

The year-on-year rise in adjusted credits fell by 0.2 percentage points to 7.1% in September, remained flat in October, and shrank by 1.1 percentage points to 6.0% in November.

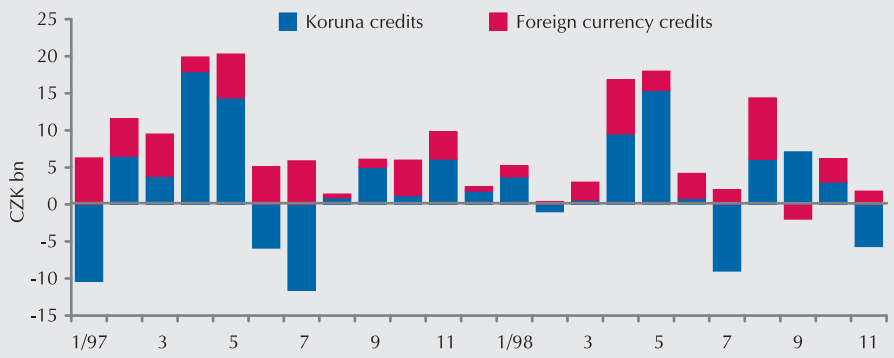
Table III.4 Increases in seasonally adjusted total credits (in %)

	Increases for last			
	1 month	3 months	6 months	1 year
August 98	1.6	1.7	4.1	7.3
September 98	0.5	1.5	4.6	7.1
October 98	0.4	2.5	3.8	7.1
November 98	-0.3	0.6	2.3	6.0

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

The month-on-month changes in adjusted koruna credits and foreign currency credits in September–November were mixed. Growth in koruna credits fell back sharply in October and November following a modest rise in September, whereas foreign currency credits saw fluctuations related mainly to exchange rate effects.

Chart III.4 Increases in koruna and foreign currency credits (m-o-m)



Note: Adjusted for exchange rate differences, write-offs, interest capitalisation and banks without licences

The interest rate cuts in September–November have yet to pass through significantly into lending. The persisting low sensitivity of credit volumes to interest rate changes has been caused by the financial situation in the corporate sector (profitability), the quality of the projects submitted for credit financing, and the unwillingness of commercial banks to lend because of their problems with classified credits.

III.1.3 Interest rates

In Q4, several favourable factors influenced interest rates. By the beginning of September, the financial crisis which started in Russia and spread to virtually all the financial markets around the world had unwound. Since then, interest rates in all segments of the Czech financial market have dropped sharply. This decline has been fuelled by favourable inflation, renewed capital inflow, the calmed situation on foreign markets, and expectations from market participants of cuts in key interest rates by the CNB. Data released on the real economy and their predicted values for future months – relating mainly to inflation – enabled the CNB to cut interest rates in several phases. If inflation is kept down, the lower rates could make credits more accessible to businesses and foster an economic upturn. In general, interest rates dropped in all financial market segments, particularly on longer maturities. Yield curves moved to a lower yield level and their slopes became more negative. This testifies to expectations of considerably lower inflation in the future.

III.1.3.1 Short-term interest rates

In Q4, unlike in the previous period, there was no significant stimulus on the short-term financial instrument market to interrupt the continuing downward trend in interest rates. At the beginning of the year, interest rates stood at 15%, any decline being prevented by the relatively high inflation rate (around 13% in year-on-year CPI terms). In June, inflation started falling, although an interest rate decline was prevented by the impact of the Russian financial crisis at the turn of May and June. In August, another crisis broke out on the Russian financial market. This spread to other world markets, including the developed and emerging markets. In both cases, Czech market interest rates surged for a short time; interest rates on 2W maturities deviated only slightly from the repo rate, whereas interest rates on longer maturities rose by 2 percentage points at maximum. By the start of September, the impact of the Russian financial crisis had definitively unwound. From then up to the end of the year, interest rates fell steadily. Besides the absence of other negative information, the main factors in this trend were falling inflation, the stable political situation, a restored inflow of foreign capital and an influx of liquidity into the market following a reduction in the minimum reserve requirement effective 30 July.

These favourable factors enabled the central bank to cut its key interest rates. From the mid-year onwards the repo rate was cut seven times, first by 0.5 percentage points and then from October onwards by 1 percentage point each time. At the year-end this rate stood at 9.5%. The Lombard rate and the discount rate were also cut in three phases, the Lombard rate from 19% to 12.5% and the discount rate from 13% to 7.5%.

Chart III. 5 Key rates

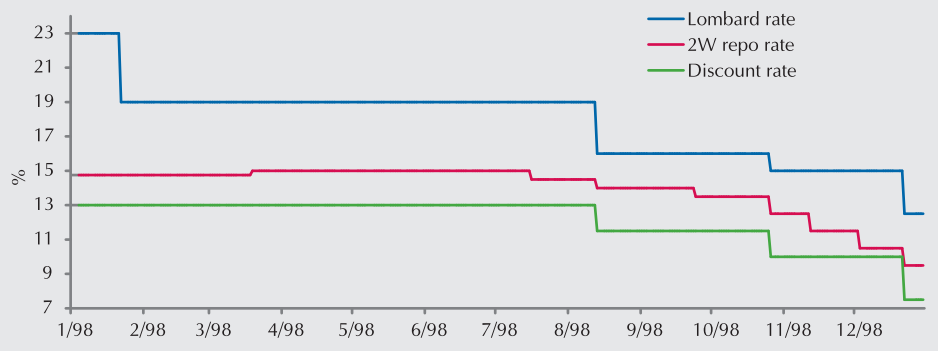
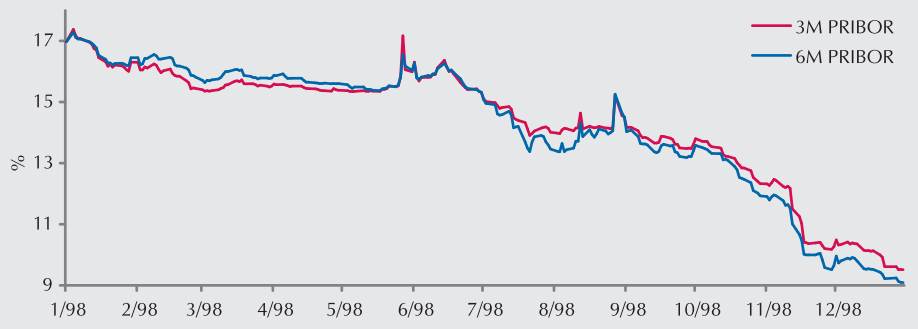


Chart III.6 3M and 6M PRIBOR rates



The changes in basic rates fed through into PRIBOR rates. In comparison with the average values in September, the December rates were down by 3.4 percentage points on 1W maturities, 3.7 percentage points on 3M maturities and 4.1 percentage points on 1Y maturities. The PRIBOR yield curve shifted downwards. Interest rates fell more at the yield curve's longer end. This made its slope more negative, indicating positive inflation expectations in the 1-year horizon. During the first half of the year, the PRIBOR yield curve had a positive slope (measured as the margin between the 1Y and 1W rates). In July, the slope became negative for the first time, and in November and December it reached negative values of -1.5 and -1.3 percentage points respectively. Bid-offer spread fluctuated in this period at the level usual in stable situations, ie 0.2–0.3 percentage points. The bigger fall in longer-term rates can be attributed both to foreign capital inflow and to expected cuts in short-term rates affected by the 2W repo rate announced by the central bank.

Chart III.7 Yield curve for PRIBOR rates

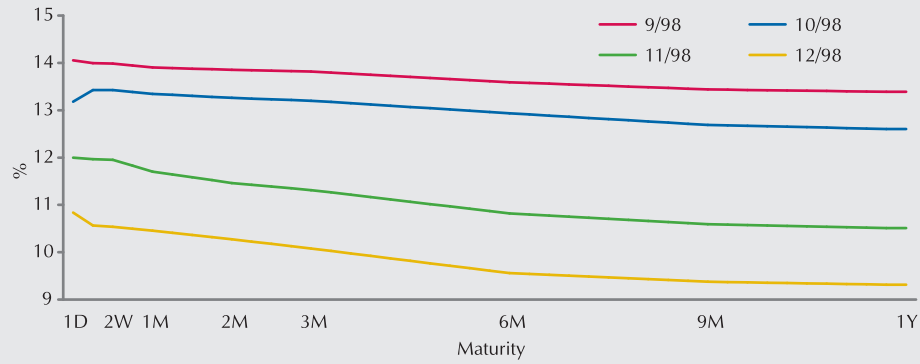
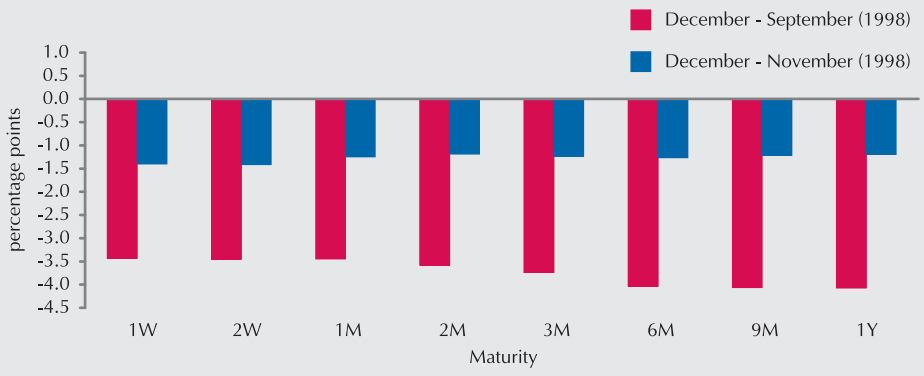
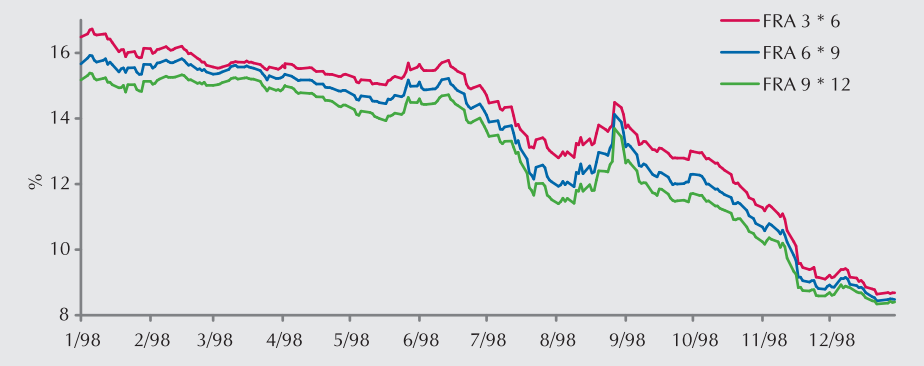


Chart III. 8. Average PRIBOR rates



FRA derivative rates mirrored PRIBOR rates, though with greater volatility because of their higher sensitivity. At the beginning of September, they started on a downward trend, interrupted by only a few minor adjustments. The FRA rates at the end of December hinted at expectations of a further drop in rates and thus a continuation of the disinflationary process. According to FRA quotations, the 3M PRIBOR is expected to fall by 0.8 percentage points in the 3-month horizon and the 12M PRIBOR by 0.3 percentage points in the 1-year horizon.

Chart III.9 3M FRA rates - offer

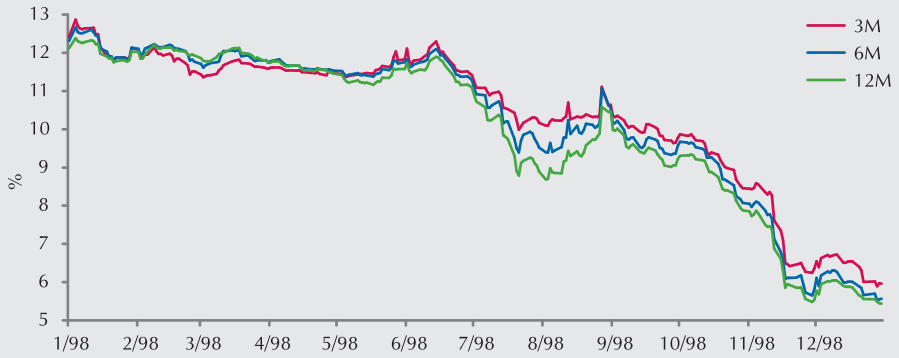


The short-term-bond market for the most part saw primary T-bill auctions, as the central bank issues CNB bills only for its own portfolio and then uses them as collateral in repo tenders. During Q4, ten T-bill auctions with 10W – 12M maturities took place on the primary market. Yields gradually decreased in line with the fall in interest rates in other segments of the money market. These instruments are very attractive for investors, and so the gross yields in all auctions were lower than the announced limit yields. There was also a demand overhang. At the beginning of October, gross yields amounted to approximately 13%; by the end of December they had dropped to below 9%.

The interest rate differential between domestic and foreign deposit market rates (PRIBID CZK-LIBOR DEM) primarily reflected movements in domestic market rates. In the USA, key interest rates were cut by 0.75 percentage points in three phases. European countries harmonised their rates in connection with the launch of EMU. However, the downward trend in rates on the domestic interbank deposit market was more marked and therefore of most significance for the interest rate differential. Despite the gradual interest rate cuts by the CNB and the resultant decrease in the interest rate differential, foreign investors remained interested in investing in koruna assets. This helped overcome short-term negative influences (the devaluation of the Slovak crown at the beginning of October, the unfavourable EU report issued on 4 November, the downgrading of the Czech Republic's rating by Standard & Poor's on 5 November) and maintain a relatively strong koruna exchange rate. Compared with the end of

September, the interest rate differential was down by 3.7 percentage points for 3M maturities, 3.8 percentage points for 6M maturities and 3.6 percentage points for 1Y maturities, and was fluctuating between 5.5 percentage points and 6.0 percentage points.

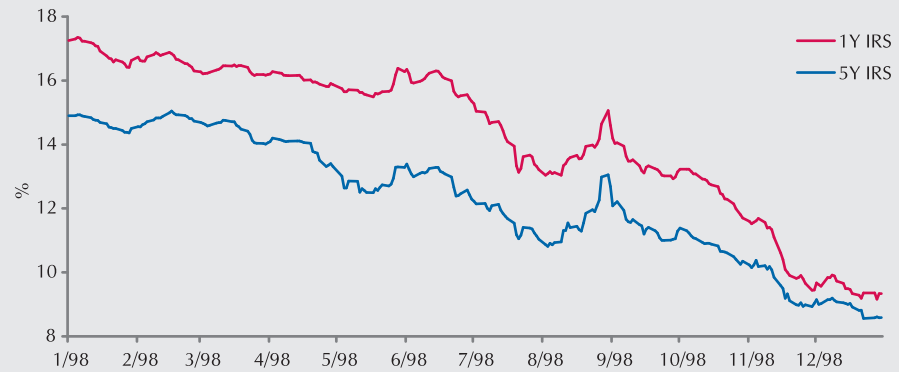
Chart III. 10. Interest rate differential between rates in CZK and DEM



III.1.3.2 Long-term interest rates

The trend for long-term interest rates was similar to that for short-term rates. However, the long-term rates responded to some stimuli more intensely because of their greater sensitivity and the lower liquidity on this segment of the financial market. After overcoming the impact of the Russian financial crisis at the beginning of September, IRS rates continued declining till the end of the year thanks to the falling inflation and the cuts in the CNB's key interest rates. From time to time this was interrupted by small adjustments, but these did not represent a change in trend. The main factors in these several-day adjustments were the change of government in Slovakia and the related devaluation of the Slovak crown, a critical report by the European Commission on the Czech Republic's preparations for EU accession, a critical report by the World Bank on the Czech capital market, the downgrading of the Czech Republic's rating by Standard & Poor's, the process of approving the state budget, and the Senate elections. In general, however, sentiment on the long-term rate market was relatively optimistic, boosted by the gradual lowering of the repo rate. In the final quarter, IRS rates fell by 1.9–3.6 percentage points according to individual maturities.

Chart III.11 IRS rates



The IRS yield curves confirm a continuous interest rate decline in all months. The December yield curve fluctuated 2.0–3.9 percentage points lower than in September. During November and December, the negative slope of the curve flattened somewhat, but only in its longer part. Nevertheless, this testifies to ongoing inflation expectations not only in the horizon of several months, as indicated by the PRIBOR yield curves, but also in the longer term.

Chart III. 12. Yield curve for IRS rates

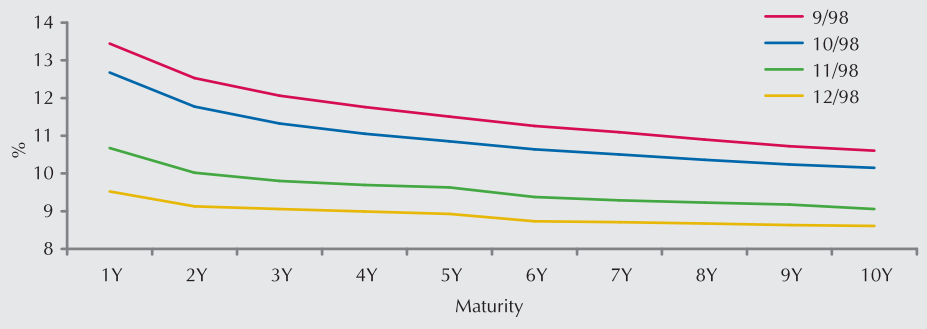
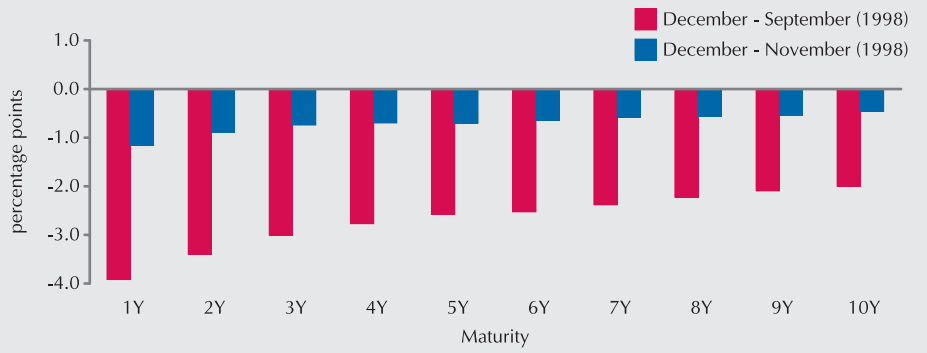


Chart III.13 Average IRS rates



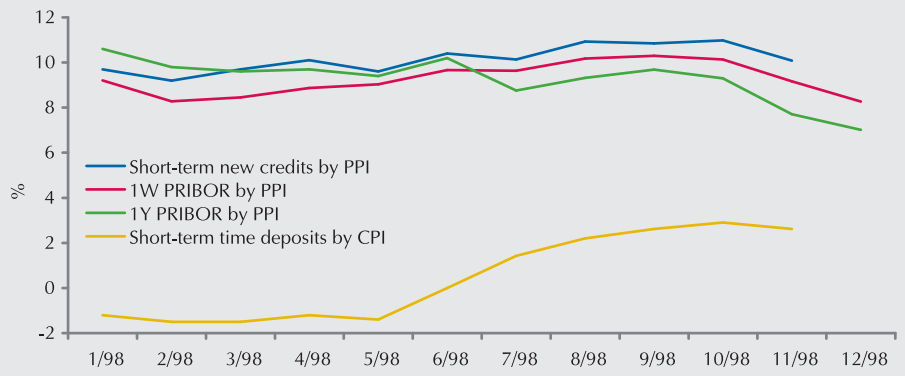
The bond market responded to the same stimuli as IRS rates, so the position and slope of the yield curves for T-bills and corporate bonds were similar. Confidence in the Czech capital market following the Russian financial crisis was renewed by increased interest in government bonds. Corporate bond prices rose only later. In addition to the above-mentioned factors in the decline in rates on long-term maturities, bond yields dropped because of other influences. These include buoyant demand from institutional investors, the banks' preference for investing in bonds rather than lending, and, on the other side, low supply. During 1998, bond trading surged, reaching record volumes at the end of the year. The interest in a primary government bond issue (2Y maturity, volume CZK 5 bn, gross yield 10.85%), when demand outstripped supply by more than twofold, testifies to the dearth of low-risk liquid issues. In Q4, there were five issues of CZK 10.8 bn volume on the corporate bond market.

III.1.3.3 Client interest rates

Client interest rates mirrored the trend on the interbank deposit market and other financial market segments. Interest rates on newly granted credits started falling in the mid-year and continued to do so up to the end of the year, declining in this period by 3.1 percentage points. In November, nominal interest rates on newly granted credits stood at 12.9%. The last time they were at this level was at the beginning of 1996. The major banks' reference rates indicate that this trend will continue. Interest rates on time deposits saw a smaller decline (-1.5 percentage points), reaching 9.5% in November. The interest rate differential also decreased. At the end of 1997 it stood at 5.8 percentage points, whereas in November 1998 it was only 4.3 percentage points.

Real interest rates[7/] were affected more by the ongoing disinflationary process than by the declining nominal interest rates. Nominal interest rates started falling in the mid-year. However, inflation was falling more rapidly and so real interest rates rose temporarily. In this period, real interest rates in various terms (deflated by the CPI and by the PPI) were at an all-time high[8]. As a result of several CNB interest rate cuts, the decline in client rates accelerated at the end of the year by means of the transmission mechanism. Interest rates on newly granted short-term credits in November were 5.4% in CPI terms and 10.1% in PPI terms. Owing to the greater stability of nominal interest rates on time deposits, the fall in inflation led to positive values for real interest rates on short-term time deposits. In CPI terms these stood at 2.6% in November.

Chart III.14 Real interest rates



III.1.4 The exchange rate

In Q4, the koruna's daily exchange rate against the Deutsche Mark saw three different periods of development. As the following chart shows, between the beginning of October and the first ten days in November the koruna's nominal exchange rate appreciated. At the start of December, this was replaced by a depreciation and subsequently a relative stabilisation of the exchange rate at around CZK 18/DEM. This trend reflects two aspects of the movement of domestic and foreign interest rates, particularly those in Euroland. Interest rates fell in the core Euroland countries (Germany, Benelux, France) and were lowered in peripheral countries before the euro's launch. In the Czech economy, there were also significant cuts in key money market rates (the repo rate, discount rate and Lombard rate) at the end of the monitored period.

The koruna's exchange rate against the US dollar moved broadly in line with that against the Deutsche Mark during the period under review, although with bigger fluctuations. In October, the koruna appreciated against the dollar. The main factors in this trend were expectations of interest rate cuts by the Federal Reserve System and concerns about US economic development following the capital market upheavals (a sharp fall in share prices on the US capital market). The strengthening of the koruna was replaced by a weakening, associated with the appreciation of the dollar against world currencies. The shift towards a stronger dollar at the end of October was related to a reassessment of the prospects for the US economy and the political stabilisation following the congressional elections. In the final weeks of the year, the dollar weakened slightly, which can be attributed to expectations related to the launch of the euro and the military conflict in Iraq.

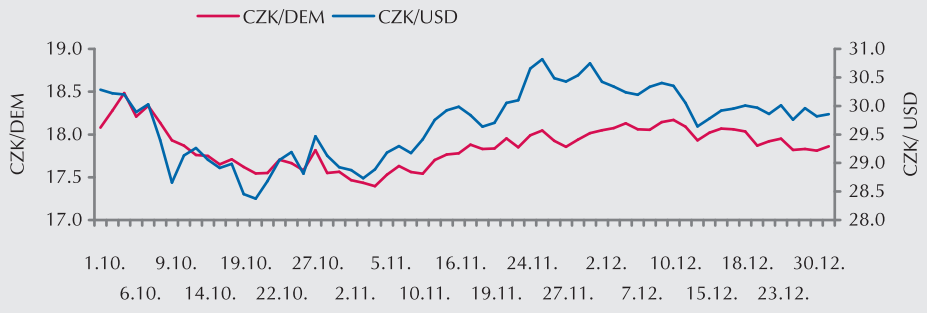
The koruna's significant strengthening against the Deutsche Mark in the first half of 1998 was supplanted in the second half of the year by a phase of stabilisation at CZK 18/DEM. This trend is one of the key factors in the ongoing very favourable development of inflation. On the one hand, the daily movements in the exchange rate testify to its sensitivity to the external environment, while on the other

7/ Theoretically, the best way to calculate real interest rates is by deflating nominal interest rates by expected inflation. However, there is no generally accepted statistical investigation of inflation expectations in the Czech Republic. For this reason, real interest rates are calculated by deflating nominal interest rates by the latest CPI and PPI figures.

8/ Except for the currency turbulence in May 1997

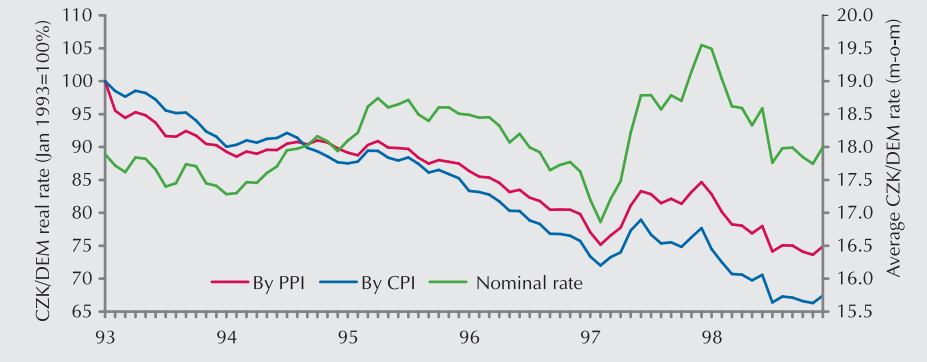
hand, the rapid fading of the fluctuations indicates a certain change in foreign investors' attitude towards the koruna and their evaluation of it as a relatively stable currency.

Chart III.15 CZK/DEM and CZK/USD nominal rates



The real exchange rate has been strengthening since the beginning of 1998, with a slight moderation in the second half of the year. The real appreciation of the koruna against the Deutsche Mark in the final few months of the year resulted from a stabilisation of the average values of the nominal exchange rate and almost zero values of domestic month-on-month inflation. This trend continued to worsen the competitiveness of domestic producers.

Chart III.16 CZK/DEM nominal and real rates



III.1.5 Capital flows

The capital and financial account for the first nine months of 1998 ended in a surplus of CZK 47.1 bn, down CZK 6.1 bn compared with the same period a year ago. The fall in year-on-year net capital inflow is primarily the result of an outflow of portfolio investment in Q3. However, the inflow structure improved sharply in favour of non-debt capital. Direct investment accounted for 82% of the capital flow surplus (compared with only 48% in the same period of 1997).

The inflow of foreign direct investment picked up considerably. For the three quarters it amounted to CZK 40.2 bn (against just CZK 20.0 bn for the first half). Against the same period of 1997, direct investment was up by CZK 13.8 bn. Approximately one third of the funds were channelled into finance

and insurance, one quarter into trade, services and real estate and the remainder into industry, especially the engineering and food industries. Three quarters of the investment came from four countries: Great Britain, the USA, Germany and the Netherlands. As of 30 September 1998, foreign direct investment totalled CZK 247.4 bn (USD 9.2 bn). Direct investment abroad by domestic entities remained insignificant (at CZK 1.3 bn) in the first nine months.

Portfolio investment substantially changed in Q3, when, following a capital inflow in the first half, there was a relatively strong outflow of CZK 18.5 bn. It can be assumed that the capital outflow in Q3 was generated mostly by the spreading financial crisis and growing investor distrust in emerging markets, and the decline in domestic interest rates. The total portfolio investment inflow from the beginning of the year dropped to CZK 8.7 bn. Non-residents' purchases on the capital market outstripped sales in Q1–Q3 by CZK 6.8 bn. Investment in equity securities reached CZK 16.6 bn and investment in debt securities experienced a capital outflow of CZK 9.8 bn. Especially in the first half of the year, the debt capital outflow was generated largely by a decline in T-bill holdings (of CZK 6.5 bn) related to changes in their taxation from 1 January 1998.

Table III.5 Financial account and international reserves (CZK bn)

	Q I - III					
	1993	1994	1995	1996	1997	1998
Financial account	65.8	60.0	154.9	79.7	53.2	47.1
Direct investment	12.8	10.8	52.2	25.7	25.5	38.9
- Czech abroad	-2.5	-3.2	-0.6	-0.7	-0.8	-1.3
- Foreign in the CR	15.2	14.0	52.8	26.4	26.3	40.2
Portfolio investment	36.9	23.2	18.3	11.2	18.8	8.7
- Czech abroad	-6.1	-0.9	-8.6	-4.9	1.5	1.9
- Foreign in the CR	43.0	24.1	26.9	16.1	17.3	6.8
Other investment	16.1	26.0	84.3	42.8	8.9	-0.5
1. Long-term investment	13.6	9.1	55.7	61.4	30.5	-14.4
- Credits granted abroad	6.5	9.7	2.4	-6.1	-3.5	-3.6
- Credits accepted from abroad	7.1	-0.6	53.3	67.5	34.0	-10.8
2. Short-term investment	2.5	16.9	28.6	-18.6	-21.6	13.9

The overall market value of domestic shares held by non-residents fell to CZK 110.9 bn (USD 3.7 bn), largely because of a considerable decline in share prices. Investment in transport and communications (27%), finance and banking (24%), services and trade (14%) and energy (11%) accounted for most of this sum.

In Q3, domestic investors' interest in purchasing foreign securities rose. As a result, the surplus in this area achieved in the first half of the year thanks to sales of foreign securities by domestic entities fell to CZK 1.9 bn. As of 30 September 1998, residents owned foreign securities worth CZK 33 bn (USD 1.1 bn).

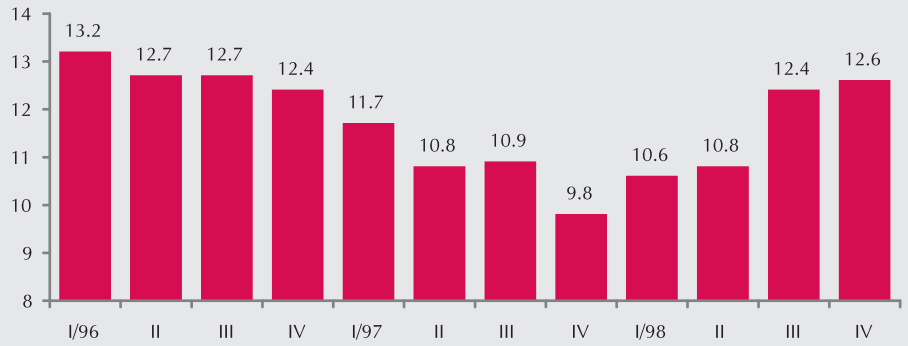
In the area of other investment, capital flows were approximately balanced, with a modest net outflow of CZK 0.5 bn. In the same period in 1997, other investment ran a surplus of CZK 8.9 bn. In the monitored period in 1998, foreign short-term capital inflow stood at CZK 38.9 bn. However, this inflow was offset by a drop in the long-term liabilities of commercial banks and by a rise in their short-term assets.

During Q1–Q3, the total gross indebtedness of the Czech Republic in koruna terms dropped by CZK 17.6 bn, from CZK 748.7 bn to CZK 731.1 bn (USD 24.5 bn). The decline was caused mainly by the koruna's appreciation. In contrast, gross indebtedness expressed in US dollars rose by USD 2.8 bn as a result of the movement of the exchange rate. The ratio of gross indebtedness to GDP during the period under review decreased from 45.4% to 41.6%. At the same time, its ratio to annual exports of goods and services also fell, from 78.8% at the end of 1997 to 66.9%. Businesses account for 47% of gross indebtedness, commercial banks 45% and the public sector 8%.

The growing financial account surplus and the declining current account deficit led to an overall balance of payments surplus. The central bank's interventions on the foreign exchange market in response to a surplus of foreign currency on the market strengthened the CNB's international reserves by CZK 58.4 bn (exchange rate differences excluded). As of 30 September 1998, international reserves totalled CZK 369.9 bn (ie approximately USD 12.4bn), equivalent to four-months' worth of goods and services imports.

During Q4, the foreign currency surplus on the market fell, probably thanks to the declining interest rate differential and the ongoing debt capital outflow, thereby also reducing the pressure for a koruna appreciation. The CNB's interventions on the market totalled CZK 2.5 bn. However, the international reserves were more significantly affected by exchange rate movements. On 31 December 1998, international reserves totalled CZK 376.9 bn (approximately USD 12.6 bn).

Chart III.17 CNB international reserves (USD bn)



III.2 Demand and output[9/]

III.2.1 Introduction

The gradual reduction in the external imbalance seen since mid-1997 came to an end in 1998 Q3. This imbalance, measured in absolute terms by the goods and services trade deficit (ie net exports), was slightly lower in 1998 Q3 than in the same period of 1997 (down by CZK 0.5 bn); compared with 1998 Q2, however, it had widened again by CZK 2.1 bn to CZK -21.2 bn, reflecting the deepening economic recession. The absolute rise in negative net exports also meant a moderate increase in its ratio to GDP, which was up by 0.5 percentage points against 1998 Q2 to 6.7%.

The interruption of the downward trend for both the absolute and relative indicators of the external disequilibrium was due to export growth slowing more quickly than import growth in year-on-year terms. The weaker year-on-year rise in exports resulted mainly from a deterioration of sales possibilities in some regions[10/] during 1998 and from the exchange rate developments. On the other hand, the ongoing year-on-year contraction in domestic demand tempered the rise in imports. Any faster drop in imports was still hindered by the high import propensity of GDP, reflected in above-average growth rates for imports for intermediate consumption.[10/] In contrast, the growth rate for consumer goods imports fell substantially.

9/ Data on GDP formation and expenditure are calculated in constant prices according to GDP methodology.

10/ For more details see part III.2.3 Net foreign demand

Under these circumstances the lower year-on-year rise in exports offset the effects of the year-on-year contraction in domestic demand on domestic output to a lesser extent than in 1998 Q2.[11/] In contrast, the growth rate for imports of consumer goods fell sharply.

Chart III.18 Ratio of net exports to GDP (constant prices)

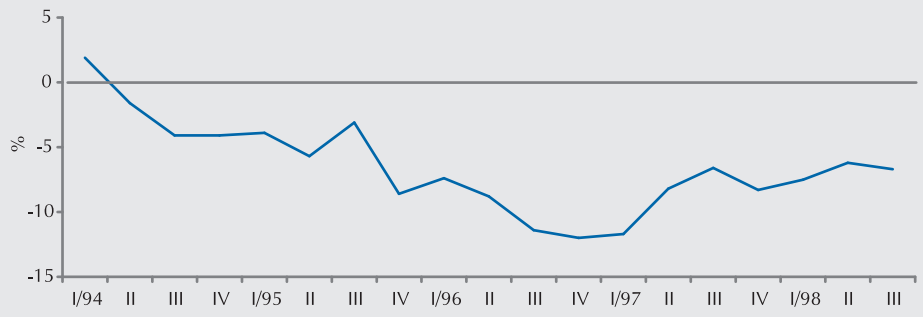


Table III.6 Real output and demand growth rate (in % y-o-y, 1994 constant prices)

	1995	1996	1997	I/1997	II/1997	III/1997	IV/1997	I/1998	II/1998	III/1998
GROSS DOMESTIC PRODUCT	6.4	3.9	1.0	1.2	0.5	-0.1	2.2	-0.9	-2.4	-2.9
AGGREGATE DEMAND (domestic demand and exports)	11.9	7.4	3.3	3.8	4.1	0.9	4.4	6.8	2.0	1.2
DOMESTIC DEMAND	9.8	8.5	-0.4	5.2	0.0	-4.4	-1.2	-4.5	-4.3	-2.8
DOMESTIC EFFECTIVE DEMAND 1)	9.1	7.0	-1.2	2.1	-0.8	-4.8	-0.7	-2.1	-4.6	-1.5
of which:										
Household consumption	6.9	7.0	1.6	4.0	5.7	-2.2	-0.3	-1.6	-7.0	-0.9
Government consumption 2)	-1.2	4.3	-1.8	1.1	-3.9	-3.2	-1.1	-2.7	0.6	-0.8
Gross fixed capital formation	21.0	8.7	-4.9	-0.6	-8.5	-9.5	-0.9	-2.5	-4.1	-3.1
EXPORTS OF GOODS AND SERVICES	16.1	5.4	10.2	1.3	11.7	11.3	15.5	27.4	12.3	8.1
IMPORTS OF GOODS AND SERVICES	22.0	12.9	6.7	7.5	9.4	2.4	7.7	17.3	7.9	7.1

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

III.2.2 Domestic demand

The downward trend in domestic demand continued into 1998 Q3. Following a 4.3% year-on-year decline in 1998 Q2 it slowed to 2.8% in Q3. Consequently, the year-on-year contraction in domestic demand in the first three quarters of 1998 also slowed, to 3.8%. The drop in domestic effective demand was lower than in Q2, standing at 2.8% for Q1–Q3 1998. The persisting decline in domestic demand helped to slow exports (consumer exports in particular) and subdue demand inflationary impulses.

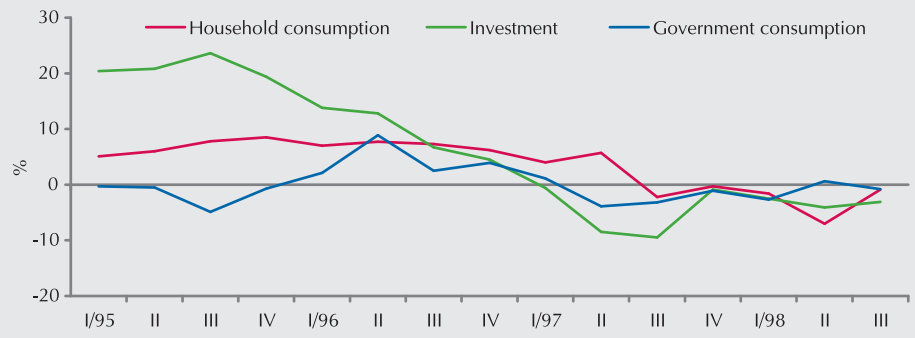
The main contribution to the slowdown in the domestic demand contraction in 1998 Q3 came from household consumption, which accounted for 48% of domestic demand in constant prices. The 6.1 percentage point drop in the year-on-year decline in household consumption against 1998 Q2 signalled that the rapid fall in the household sector's propensity to consume had come to an end. Household consumption was no longer the dominant factor of the reduction in domestic demand as it

11/ The absolute drop in exports in 1998 Q3 was sharper than the decline in overall domestic demand compared with the previous quarter (although the fall in domestic demand was more moderate).

had been in the previous quarter (in 1998 Q2 household consumption was responsible for 80% of the absolute fall in domestic demand, against only 14% in Q3).

In contrast, government consumption dropped slightly in Q3 (by 0.8%) following a moderate rise in Q2 (of 0.6%)[12/] in connection with the implementation of a prudential fiscal policy. Gross capital formation[13/] registered the fastest fall of all components of domestic demand in Q3 (6.7% year-on-year). Its effect on domestic demand was also the most significant, accounting for 80% of the absolute year-on-year fall of CZK 9.9 bn. The deepening decline in gross capital formation was fostered by changes in inventories, while gross fixed capital formation – like household consumption – registered a slower decline in Q3 (of 1 percentage point to 3.1%).

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



Domestic demand in 1998 Q3 continued to be affected by the factors specified in more detail in the October inflation report[14/]. These include not only economic policies aimed at gradually reducing the external imbalance (monetary policy, fiscal restriction, the curbing of wage growth in government institutions) but also a number of other factors. The most important influences reinforcing the economic policies were changes in the behaviour of commercial banks, households and businesses given the existing economic environment and expectations of low economic growth (the increased prudence of banks, an attempt to slow down wage growth in the business sector, greater interest in investing in securities than in the corporate sector, etc.).

However, the intensity and direction of some factors changed during 1998 Q3 compared with Q2. This was particularly noticeable in households' propensity to save: after a marked increase in Q2, the savings ratio returned to a lower level in Q3. Conversely, the increasing prudence of commercial banks in granting credits was apparent, leading to a further deceleration of the rise in lending, money supply and, consequently, sources of domestic demand growth (for more details see part III.1 Money, interest rates and exchange rates).

III.2.2.1 Household consumption

The downward trend in household consumption visible since 1997 Q3 continued into 1998 Q3. However, the rate of decline was much lower than in 1998 Q2: following a substantial year-on-year fall of 7% in 1998 Q2, household consumption in 1998 Q3 was only 0.9% lower than in the same period of 1997. This was mainly due to:

12/ Government consumption including non-profit-making institutions

13/ Gross capital formation = gross fixed capital formation + change in inventories

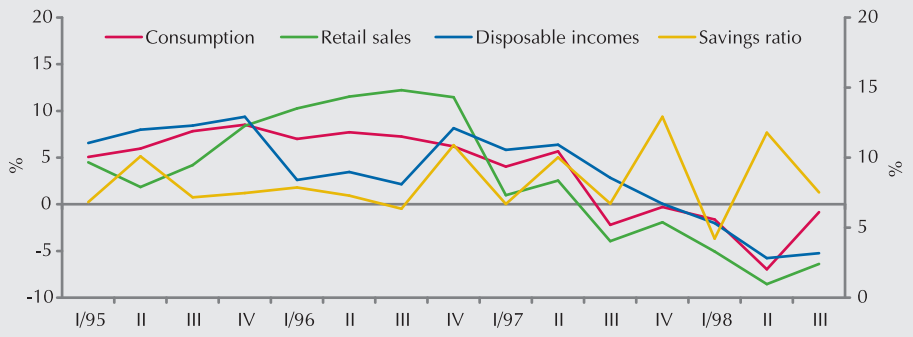
14/ Inflation report, CNB, October 1998

- a lower year-on-year decline in real household incomes; with inflation falling faster than nominal household income growth, real incomes fell by 4.8% in 1998 Q3, against 5.9% in 1998 Q2. (Table III.11 Basic data on household incomes);

- a significantly lower propensity of households to save. The return of the savings ratio of households to the 7.5% level[15/] signalled that the situation in 1998 Q2 (11.8%) was temporary and motivated to a certain extent by the relatively rapidly increasing unemployment rate and expectations of future development. Also, it cannot be ruled out that the Q2 rise in the savings ratio was generated by expectations of the effects of changes in regulated prices in 1998 Q3 (creation of reserves for higher rents and energy expenses), or that it was a random deviation. Part of the difference can be put down to the seasonal nature of the propensity to save.

Empirical surveys of the household sector[16/] showed that the proportion of saving households did not change significantly compared with the June and August surveys (a decline of 3–4 points), and was still above 60%.

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



In 1998 Q3, the slowing decline in real incomes of households, together with the lower propensity to save, was reflected in real sales in retail and catering and household services. This slowdown, however, was not as great as that for overall household consumption. Real household incomes continued to fall in Q3 year-on-year, and the retail sales structure confirmed the lower interest of households in purchasing durables and the roughly flat demand for foodstuffs (including alcoholic beverages). For other services (mainly of personal character) the rate of the decline in sales also gradually lessened.

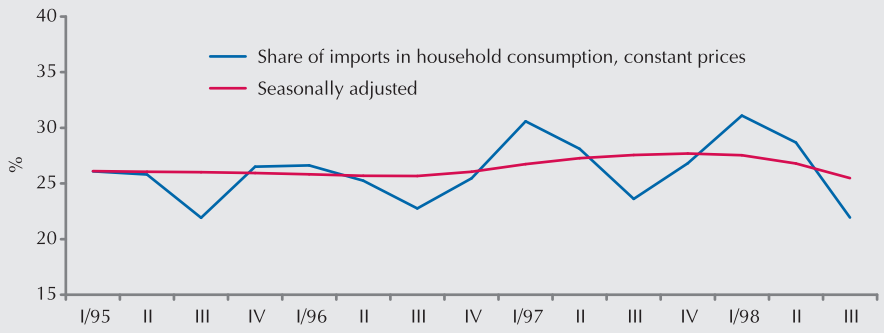
The overall and structural development of consumer demand in 1998 Q3 had a favourable effect on inflation and helped reduce consumer imports (by 2.9% year-on-year). The breaking of the recent trend of a growing import propensity of household consumption was a positive phenomenon. The decline in the import propensity was caused by lower demand for durables and probably also by saturation of consumer demand for some commodities[17/].

15/ 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

16/ Ecoma plus, market research: "A test of the market situation of households", December 1998

17/ There was a substantial fall in imports eg for automobiles (down 18% in Q1–Q3 1998), photographic appliances and optical products (14%) and office products, including computers (15%).

Chart III.21 Import of consumer goods/household consumption



III.2.2.2 Investment demand

In 1998 Q3 the year-on-year fall in gross fixed capital formation slowed by 1 percentage point compared with Q2 to 3.1% as a result of positive year-on-year increases in government and household sector investment. The rate of investment remained very high (31.4%)[18/].

Investment demand in individual sectors was as follows:

- Non-financial corporations accounted for the largest share of overall capital investment (67% in current prices). During Q3 the year-on-year decline in this sector's investment intensified compared with Q2 to -8.9%. This was largely due to a substantial (10.6%) reduction in plant and machinery investment, while the fall in construction investment was not so steep (4.5%).

  In 1998 Q3, investment activity increased only in firms under foreign control. The value of their investment remained virtually at the Q2 level and was up 57% year-on-year in current prices. All large and medium-sized firms with other forms of ownership registered a year-on-year decline in investment. A long-standing problem for domestic firms is a lack of available funds for investment projects.

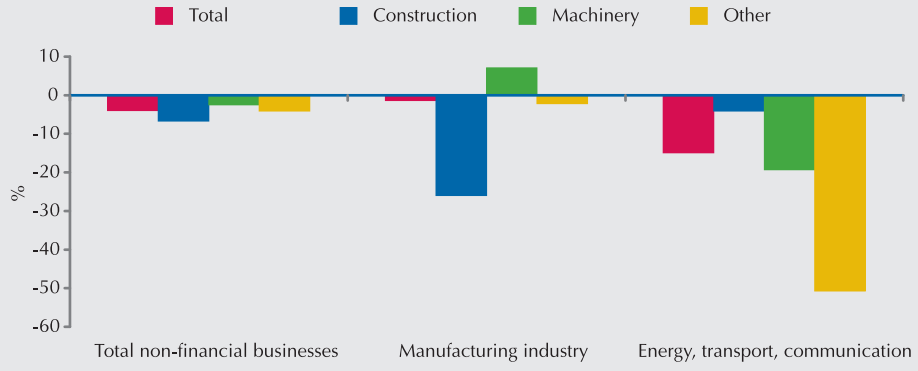
  With respect to the sector structure of investment, the share of the manufacturing sector in total investment dropped by 2 percentage points to 19.5%. This was a result of a year-on-year decline of 8.1% in manufacturing, while construction investment dropped by 12.8% and machinery investment by 3.2%. In manufacturing, the largest volumes of investment were in the production of motor vehicles, food and beverages, chemical products, electrical machinery and appliances, and non-metallic mineral products (56%). Unusually high year-on-year increases in investment were registered for secondary raw materials, production of office equipment and computers, electrical machinery and appliances, and leather products. Although the shares of these branches in manufacturing investment differed significantly, the investment allocations indicate that investor interest has gradually been shifting to projects for highly sophisticated production. Investment in infrastructure (energy, transport and communications) dropped by 21% year-on-year in 1998 Q3, of which machinery investment by almost 20%.

- The strongly subdued demand for financial institution investment continued into Q3 (down 42% year-on-year). Government sector investment rose by 1.4%. This can, however, be explained by free transfers of already existing capital assets into the ownership of municipalities and by purchases of used investments, since state budget spending on new investment was well below the level of the same period of 1997.

18/ Calculated in constant prices.

- Household sector investment also rose year-on-year (by 2.2%), thanks to an expansion of individual housing construction (of 1.4%) and increased investment by natural persons not listed in the companies register (up 2.5%).

Chart III.22 Changes in capital investment of non-financial businesses in QI-QIII 1998
(y-o-y) (QI-QIII 1997 = 100 %)



III.2.2.3 Government consumption

Government consumption dropped in 1998 Q3 by 0.8 percentage points year-on-year and did not have large effect on GDP in this period. This decline followed a short-term rise in Q2, which was a reaction to a number of extraordinary expenditures connected with the parliamentary elections and the increasing costs of health insurance companies. For the Q1–Q3 period, government consumption, including non profit making organisations, fell by 0.9% year-on-year, reflecting the situation of public budgets in the narrower sense (state budget and local budgets), where the state budget occupies a dominant position.

The 1998 state budget was affected by the 1997 "package" restrictions, which predetermined both the budgeted amount and the pace of budget spending in 1998. Budget revenues did not depart too far from seasonal development in the first three quarters of 1998. Despite the gradually increasing negative effects of the receding demand on indirect tax revenues (VAT, excise taxes), a substantially higher collection of corporate income tax offset the shortfall (mainly as a result of additional payments of this tax in 1998 due to the deferment of tax payments because of flood relief in 1997). Moreover, total revenues were raised by an extra subsidy of CZK 7 bn from the National Property Fund (for the floods and restitution claims), part of which was not drawn until the very end of 1998.

As of the end of September, spending on public consumption was running at about 70% of the budgeted amount, a year-on-year decline of 1.6%. This, however, represented a relative acceleration against Q2 (when the decline was 10.4% year-on-year). Investment spending was much slower compared with September 1997 (-17.4% year-on-year). During 1998, an urgent need arose for expenditure beyond the framework of the originally approved budget (due to the early elections, higher health insurance for state employees, early pension valorisation, the state guarantee for Česká spořitelna, coverage of Konsolidační banka's loss for 1997). This amounted to about CZK 27 bn and played a key role in predetermining the final state budget deficit in 1998.

The 1998 state budget deficit totalled CZK 29.3 bn, largely because of extraordinary budget expenditures released beyond the framework passed by Parliament for 1998. These extraordinary expenditures, however, did not mean a substantial revival of government consumption, as most of them were channelled outside the government sector. At the same time, the ratio of the public budgets deficit to GDP continued to rise in 1998.

Table III.7 Public budgets 1/

	1995	1996	1997	preliminary figures for 1998
State budget (CZK bn)				
Revenues	439.0	482.9	508.9	537.4
Expenditure	431.8	484.5	524.6	566.7
Balance	7.2	-1.6	-15.7	-29.3
Local budgets (CZK bn)				
Revenues	129.1	161.7	149.8	151.9
Expenditure	132.3	171.1	154.6	156.5
Balance	-3.2	-9.4	-4.8	-4.6
Overall public budgets balance	4.0	-11.0	-20.5	-33.9
Ratio of public budgets balance to GDP in current prices (in %)	0.3	-0.7	-1.2	-1.9

1/ Public budgets in the narrower sense, ie state budget and local budgets

III.2.3 Net foreign demand

The favourable trends in the goods and services balance[19/], still apparent in 1998 Q2, weakened substantially in Q3. The year-on-year growth rates for exports and imports of goods and services further decelerated against Q2. The lead of export growth (8.1% year-on-year) over import growth (7.1% year-on-year) fell to 1 percentage point (against 4.4 percentage points in 1998 Q2). The deficit (net exports) dropped by only 2.3% year-on-year and its ratio to GDP slightly increased against Q2 to 6.7%.

The above trends in the goods and services balance were to a large extent due to the high comparison base from the previous year, the worsening sales possibilities for exports and the high import propensity of GDP.

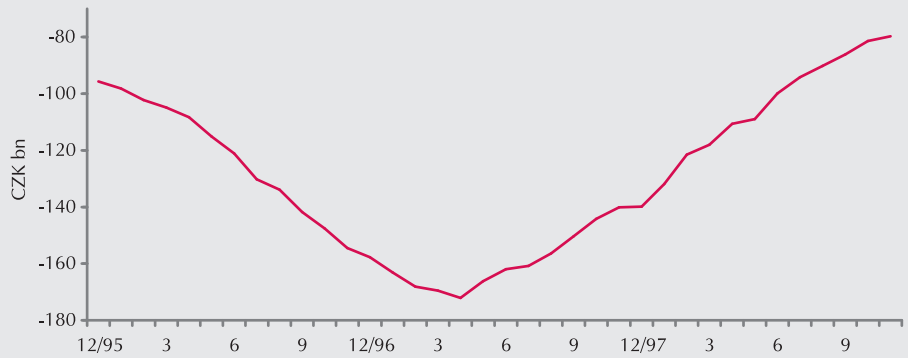
In contrast with the two previous quarters, the import propensity of GDP dropped below 80%, although it remained high (at 77.7%). This was due not only to increasing production co-operation, but also to the structure of investment projects (eg the restructuring of the energy industry) and the change in the structure of consumption of primary energy sources through the replacing of cheap solid fuels with imports of more expensive gas and liquid fuels. However, such projects have been necessary for realising environmental objectives. The development of collaborative ties abroad has been linked mainly with production for export.

From the beginning of 1998, the trade balance in current prices[20/] showed a much more favourable trend than in 1997, with the deficit falling in year-on-year terms. This situation continued into 1998 Q4. According to data for January–November 1998, the trade deficit narrowed by CZK 59.5 bn (ie 51%) year-on-year, of which 29.5% was in October–November alone. In Q3 the improvement in the terms of trade represented 129% of the year-on-year trade deficit reduction, thereby offsetting the unfavourable effects of the slight lead of the physical volume of exports over imports. This means that if the terms of trade had not improved, the deficit would have increased, all other things being equal.

19/ Data calculated in constant prices under GDP methodology.

20/ The data below are calculated in current prices according to the IMF balance of payments methodology.

Chart III.23 Balance of trade (12-month moving aggregate)



By territory, the three major importers of Czech goods (Germany, Slovakia, Austria) accounted for 55% of exports. As with overall Czech exports, the growth of exports to these three countries moderated year-on-year in the individual quarters of 1998, although with differing intensity. The fall in exports to Germany was not so marked as in Q2, despite the expected slowdown in its economic growth: exports to that country in individual quarters rose faster than total exports (by 6.3 percentage points in 1998 Q3). In contrast, exports to Austria registered a sharp slowdown in year-on-year growth in 1998 Q3 to 3.3%. Exports to Slovakia were a significant hindering segment. These started to fall in 1998 Q3, dropping 3.4% year-on-year. Exports to other regions (eg Russia) also contributed to the slowdown in export growth.

Despite the overall moderation in the growth of exports to Germany and Austria, the growth rates for exports of machinery and equipment (trade group 7) to these countries were still buoyant. Conversely, the reduction in exports to Slovakia was caused by a substantial decrease in exports within this group (of 13.6% in 1998 Q3). At the same time, during Q1–Q3 there was a positive trend toward a year-on-year rise in exports of products with higher value added. In 1998 Q3, machinery and electrical equipment constituted 48.2% of overall exports, up 3.5 percentage points year-on-year. In contrast, the share of food, raw materials and semi-manufactures fell by 3.2 percentage points to 16.4%.

In terms of direction of use, the composition of imports confirmed a higher growth rate for imports for intermediate consumption. Their year-on-year growth in 1998 Q3 (5.2%) was 2.3 percentage points higher than for overall imports. Investment imports rose more slowly (2.1%). Consumer imports were a major retarding element in overall imports, dropping 2.9% year-on-year in 1998 Q3. In terms of commodity structure, the proportion of lower value added imports dropped by 1.4 percentage points, while that of higher value added imports rose slightly (by 0.3 percentage points). This was largely due to very low prices of raw materials[21/].

III.2.4 Output

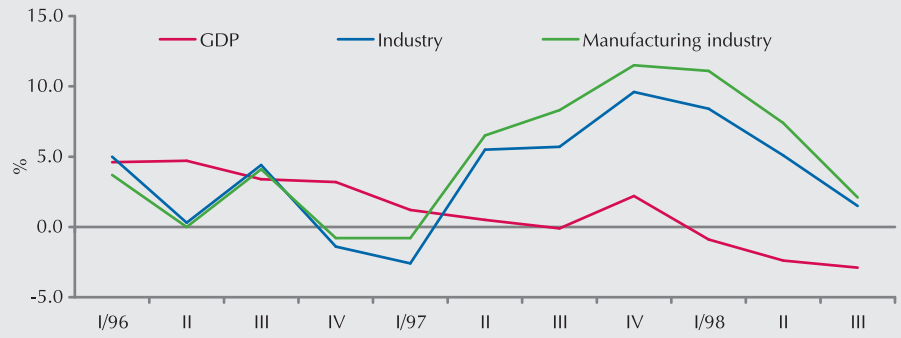
In 1998 Q3 the decline in GDP continued to intensify. Following a drop of 0.9% in Q1 and 2.4% in Q2, GDP fell by 2.9% (CZK 9.4 bn) in Q3. The decline was again mainly due to the service sector (including retail) and construction. Although the decline in the service sector slowed compared with Q2, another slowdown in value added growth in manufacturing meant that the fall was offset to a lesser extent than in the previous quarter.

21/ eg oil imports dropped by 2.3% in physical terms in 1998 Q3 while falling by 49% in terms of value.

The deceleration in the household demand contraction helped to moderate the decline in services, which account for almost 50% of GDP formation. The trend for most basic segments of this sector was more favourable than in Q2.

In Q3 the fall in retail sales was 2.2 percentage points lower than in Q2. Sales also declined more slowly in transport and in data processing and related services. Other services showed year-on-year growth of 3.5% in Q3 (following a decline of 0.4% in Q2). A moderate rise was also recorded in sales of services for businesses (0.2%). Sales in communications grew relatively fast (12.4% year-on-year).

Chart III.24 GDP, industrial production and manufacturing output
(y-o-y growth, constant prices)



In industrial production, growth continued to slow gradually in 1998 Q3: after an 8.4% year-on-year rise in output in Q1, it fell to 5.1% in Q2 and 1.5% in Q3. The latest available data for November confirmed a continuation of this trend: industrial production increased by 5% during the first three quarters of 1998, whereas year-on-year growth for the first eleven months fell to 2.6% as a result of a substantial drop in October and November. The gradual deceleration was felt, with different intensity, in almost all branches. In October, the only exceptions were in the production of machinery and electrical and optical appliances. The contraction occurred even in industries which had registered dynamic growth in the last three years.[22/]

From the beginning of the year to the end of October 1998, in comparison with the monthly average in 1995, vehicle manufacture jumped by 58%, rubber and plastics by 52%, paper and printing by 27%, and glass, ceramics and china by 16%. Leather production fell in the same period by 49%, coke production and oil refining by 11%, textile and clothing by 9% and energy extraction by 7%.

The above development of industrial production in 1998 has to be seen as a result of numerous factors: lower external demand and exchange rate developments in 1998, the structure of investments in previous years (eg the above-mentioned environmental investment in the energy sector), and incomplete restructuring (including of corporate governance) in the corporate sector.

The year-on-year drop in construction output did not lessen in 1998 Q3, remaining at the same level as in Q2 (9% year-on-year, 5.9% cumulatively for Q1–Q3 1998). The November data signalled a further

22/ For more details see Inflation Report, CNB, October 1998, Chapter "Output".

increase in the rate of decline (cumulatively 6.4%). A major downturn was recorded in new constructions, reconstructions and modernisations, while the situation in housing construction improved somewhat.

In Q1–Q3 1998, there was an increase in the number of housing starts (18%), completed flats (28.3%) and unfinished flats (19.2%) compared with the same period of 1997, mainly as a result of funds from public budgets (and insurance) for dealing with the aftermath of the 1997 floods. Work on repairs and maintenance increased as well. Construction firms reacted to the unfavourable situation in demand for construction work stemming from the overall economic decline and low economic growth expectations by reducing their number of employees (by almost 4% between the start of the year and the end of 1998 Q3) and by cutting wages.

Agricultural output also fell. According to CSO estimates, gross agricultural output (in constant prices) receded by 1.3% for 1998 as a whole compared with the same period of 1997. This decline was mostly due to a fall in livestock production (according to data for 1998 Q1–Q3, sales of cattle dropped by 15.9% year-on-year). Crop production was roughly at the 1997 level. Since 1989, agricultural production has fallen by 30% in constant prices, with crop production down by 21.5% and livestock production by 36.3%.

The worsening sales possibilities accompanying the weakening external and domestic demand brought mounting pressure for output efficiency in the sector of non-financial organisations and corporations. A drop in the prices of a number of imported inputs also helped improve efficiency. In 1998 Q1–Q3, the year-on-year rate of growth of gross profit increased, profitability improved and material costs declined. Inventories also fell (by 0.9% year-on-year). The number of loss-making businesses decreased by about one fifth year-on-year in 1998 Q3. A certain improvement was also registered in insolvency. As of the end of Q3, overdue liabilities were down by 0.1% against the same period a year earlier.

Table III.8 Selected financial indicators in 1998 (current prices)
(for non-financial organisations and corporations with more than 100 employees for all industries)

Year-on-year	1998				Q I		Q II		Q III		Change (in p.p.)		
increase in %	Q I	Q II	Q III		1997	1998	1997	1998	1997	1998	Q I	Q II	Q III
Total revenues	17.3	9.2	7.3	Cost profitability (profit/costs)	3.82	5.49	3.03	2.95	2.02	2.53	1.67	-0.08	0.51
Total output	16.7	11.0	5.9	Equity profitability (profit/equity)	1.50	2.51	1.38	1.48	0.90	1.20	1.01	0.11	0.30
Total costs	15.4	9.3	6.8	Output profitability (profit/output)	4.99	7.09	4.13	3.96	2.75	3.47	2.10	-0.17	0.72
of which:													
intermediate consumption	15.4	12.0	4.9	Material costs (intermediate consumption/output)	67.06	66.35	68.30	68.91	68.52	67.86	-0.71	0.61	-0.67
personnel costs 1/	8.4	6.0	6.2	Wage costs (personnel costs/output)	17.43	16.20	17.60	16.80	17.36	17.41	-1.23	-0.80	0.04
Pre-tax profit	65.9	6.4	33.6										

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

The 33.6% year-on-year rise in gross profit in 1998 Q3 represented an absolute growth of around CZK 4.5 bn against the same period a year earlier (and of CZK 20.2 bn in Q1–Q3). The biggest contributions in Q3 came from industry (48%) and transport and communications (32.6%). In contrast, a loss was registered in the industries experiencing declining economic activity. As for inventories, there was a drop in stocks of materials and goods, while stocks of unfinished products, semi-manufactures, products and livestock increased slightly. Inventory turnover time was down by 4.7 days.

III.3 The labour market

III.3.1 Wages and financial incomes

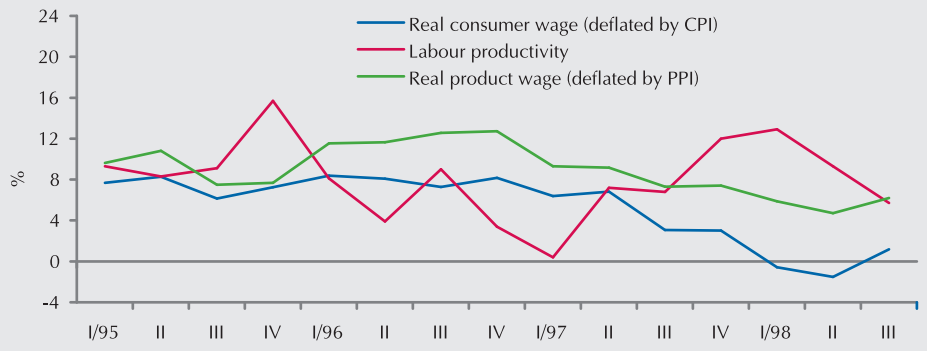
Table III.9 Basic data on wages *y-o-y change in %*

		I/96	II/96	III/96	IV/96	1996	I/97	II/97	III/97	IV/97	1997	I/98	II/98	III/98
AVERAGE WAGE IN THE CR	(nominal)	17.4	21.0	16.5	17.1	18.0	13.7	13.0	12.4	8.4	11.9	10.9	7.0	9.2
	(real)	7.9	11.6	6.6	7.8	8.4	6.1	6.0	2.3	-1.5	3.1	-2.1	-5.0	-0.3
of which:														
Non-business sector	(nominal)	15.0	33.0	15.3	18.5	20.6	12.2	11.1	10.2	-6.6	5.8	5.0	-6.2	3.0
	(real)	5.7	22.6	5.5	9.1	10.8	4.6	4.2	0.3	-15.2	-2.5	-7.4	-16.7	-5.9
Business sector	(nominal)	18.2	17.1	17.0	16.6	17.1	14.1	13.6	13.0	13.0	13.6	12.6	11.1	10.9
	(real)	8.7	7.9	7.0	7.3	7.6	6.4	6.6	2.8	2.6	4.7	-0.6	-1.4	1.2
of which:														
private organisations	(nominal) 1/	.	.	.	.	.	.	.	11.6	11.9	12.7	11.3	9.2	9.0
	(real)	.	.	.	.	.	.	.	1.6	1.7	3.9	-1.8	-3.1	-0.5
state organisations	(nominal) 2/	.	.	.	.	.	.	.	15.5	15.6	15.9	11.8	10.2	12.4
	(real)	.	.	.	.	.	.	.	5.1	5.0	6.8	-1.4	-2.3	2.6
international organisations	(nominal) 3/	.	.	.	.	.	.	.	14.7	13.5	14.4	14.1	17.3	12.1
	(real)	.	.	.	.	.	.	.	4.4	3.0	5.4	0.7	4.1	2.4

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

In 1998 Q3 a turnaround occurred in the real wage trend in the business sector. The inertia of nominal wages, coupled with the falling CPI inflation, resulted in year-on-year average real wage growth of 1.2%, the first rise in this sector since 1997 Q4. In contrast, average real wages in the business sector in 1998 H1 were lower than in 1997 H1, thereby helping to subdue demand inflationary pressures in the economy.

Chart III.25 Real wage and labour productivity in industry
(y-o-y changes in %)



The reversal in the trend is evident also from a comparison of the real product wage and labour productivity. In industry – a key component of the business sector – labour productivity growth outpaced growth in the real product wage during 1998 H1, resulting in an absolute year-on-year drop in real unit wage costs in industry of 6.0% in 1998 Q1 and 3.8% in Q2. This downward trend, visible since 1997 Q3, can be interpreted as a successful effort by industrial producers not to allow any increase in wage costs per unit product. However, industrial producers failed to maintain the favourable relation between labour productivity and the real product wage in Q3, when the labour productivity growth rate (5.7%) lagged behind that of the real product wage (6.2%). Such an increase

in real unit wage costs (of 1.1%) had not occurred in industry since 1997 Q2. An even more marked change was registered in construction, where a year-on-year unit wage cost increase was accompanied by an absolute decline in labour productivity. The 1998 Q3 results thus represented a certain reversal in the previous favourable wage trends.

Average nominal wages in the non-business sector in 1998 felt the effects of the restrictive measures in budgetary and subsidised organisations implemented during 1997. Average real wages in the non-business sector dropped by 5.9% year-on-year in Q3. This was the fourth consecutive real quarterly decline, although the growth rate was lower than in the previous quarter.

Overall, average nominal wages in the economy rose 9.2% in Q3 year-on-year. Real wages dropped by 0.3%, which means they were virtually flat in comparison with the same period of 1997. In view of the decline in overall employment, the year-on-year growth rate for nominal wage incomes in 1998 Q3 was much lower than that of the average nominal wage and, consequently, the year-on-year fall in real wage incomes was much more significant than that of the average real wage. The overall fall in employment in Q3 thus suppressed some of the disturbing factors in average wage development, especially in the business sector.

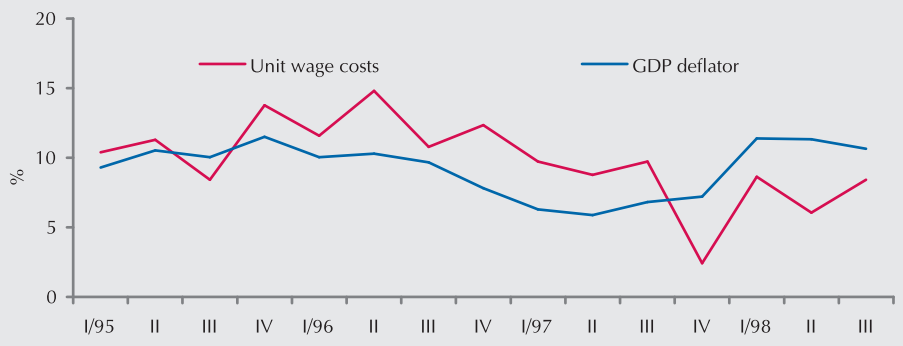
Table III.10 Wage, price and productivity indicators *y-o-y change in %*

	I/96	II/96	III/96	IV/96	1996	I/97	II/97	III/97	IV/97	1997	I/98	II/98	III/98
Unit wage costs (nominal wage incomes/GDP in constant prices)	11.6	14.8	10.8	12.4	12.4	9.7	8.8	8.7	2.4	7.2	8.6	6.1	8.4
GDP deflator	10.0	10.3	9.7	7.8	9.4	6.3	5.9	6.8	7.2	6.6	11.4	11.3	10.6
Real unit wage costs (unit wage costs/GDP deflator)	1.4	4.1	1.0	4.2	2.8	3.2	2.7	2.7	-4.5	0.5	-2.5	-4.7	-2.0
National economy labour productivity	2.6	3.6	1.6	3.1	2.7	1.4	0.8	1.0	3.6	1.7	0.8	-0.7	-0.8

Source: CSO, CNB calculation

The year-on-year rate of growth of nominal unit wage costs in the economy has been easing since 1997 Q1. In 1998 Q3 this indicator stood at 8.4%, which again represents a year-on-year decline compared with the same period of 1997. As the GDP deflator rose by 10.6% during the same period, real unit wage costs fell by 2% in absolute terms. Overall, the negative signals generated by real product wages and labour productivity in industry and construction in Q3 have so far not had a substantial effect at the macroeconomic level in the form of wage-cost inflationary pressures.

Chart III.26 Nominal unit wage costs and GDP deflator



The fact that wage-cost inflationary pressures remained within acceptable limits at the macroeconomic level should be attributed primarily to the overall decline in employment and to wage restraint in the non-business sector. However, the room for non-inflationary wage development narrowed in 1998 Q3 because of a second consecutive year-on-year decline in labour productivity.

The rate of growth of households' financial incomes has been consistently falling since 1997 Q4. In 1998 Q3 it was at less than half the level of the same period of 1997. This was primarily due (thanks to its weight in overall incomes) to a lower year-on-year rate of growth of nominal wage incomes (down 3.3 percentage points year-on-year, ie from 8.6% in 1997 Q3 to 5.3% in 1998 Q3). In absolute terms, the greatest fall in year-on-year growth was registered by other household incomes (down 19.9 percentage points year-on-year). This, together with a certain slowdown in the growth of social incomes, resulted in an overall increase in households' financial incomes of just 4.2% in 1998 Q3, or a drop of 4.8% in real terms.

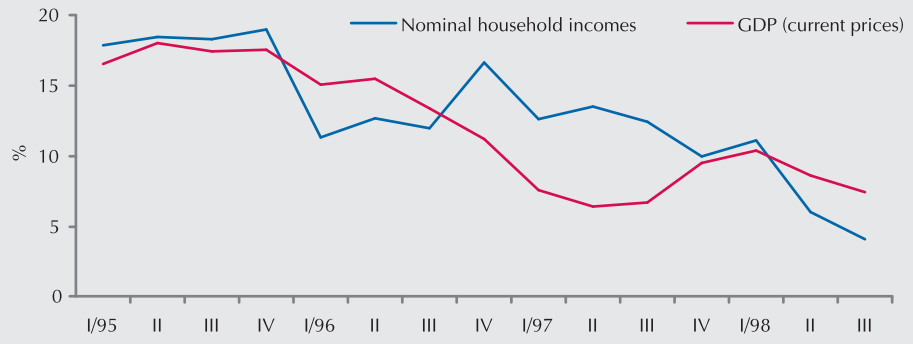
Table III.11 Basic data on household incomes *y-o-y change in %*

		I/96	II/96	III/96	IV/96	1996	I/97	II/97	III/97	IV/97	1997	I/98	II/98	III/98
HOUSEHOLD FINANCIAL INCOMES														
	(nominal)	11.3	12.7	12.0	16.6	13.3	12.6	13.5	12.4	10.0	12.1	11.1	6.1	4.2
	(real)	2.3	3.9	2.5	7.4	4.1	5.1	6.5	2.3	-0.1	3.3	-1.9	-5.9	-4.8
of which:														
Incomes from wages	(nominal)	16.7	18.6	14.5	15.9	16.8	11.1	9.4	8.6	4.6	8.2	7.7	3.5	5.3
	(real)	7.3	10.8	4.8	6.7	7.4	3.6	2.6	-1.1	-5.0	-0.3	-5.0	-8.2	-3.9
Social incomes	(nominal)	13.3	21.2	12.0	18.4	16.2	13.8	10.1	14.2	14.7	13.2	11.2	8.2	12.9
Other incomes	(nominal)	1.0	-4.5	8.0	17.0	5.5	14.8	24.6	17.9	17.6	18.7	17.6	9.5	-2.0

Source: CNB statistics

These processes led to a deterioration in the relative income position of households in 1998 Q3. From the point of view of demand inflationary pressures this means that there was a lower volume of funds held by households per unit nominal GDP than in the same period of 1997. However, the overall value of the redistribution – given by faster growth in nominal GDP compared with household financial incomes – was less than CZK 3 bn (after deducting the savings ratio), which represents only a negligible part of household disposable incomes. The demand inflationary pressures in 1998 Q3 can thus still be considered relatively insignificant.

Chart III.27 Relative income position of households
(y-o-y growth in %)



III.3.2 Employment and unemployment

Since 1997, aggregate employment has been falling while the unemployment rate has been on the rise. These trends continued into 1998. In 1998 Q3, employment dropped by 1.3% compared with the same period of 1997. Year-on-year, employment fell by 60,000 persons during the first three quarters of 1998, and a decrease was seen in all sectors of the national economy (primary, secondary and tertiary).

In the primary sector, the number of employees as of 30 September 1998 was down by 4.4% year-on-year. From the sectoral point of view, the long-term decline in the number of employees continued in both industries of the primary sector. In the secondary sector, employment fell by 1.8% year-on-year overall; the decline was felt in all industries except manufacturing, and was biggest in construction (down 11%). The number of employees in the tertiary sector decreased by 0.3% against the same period of 1997, the biggest fall (8%) being registered in catering and accommodation.

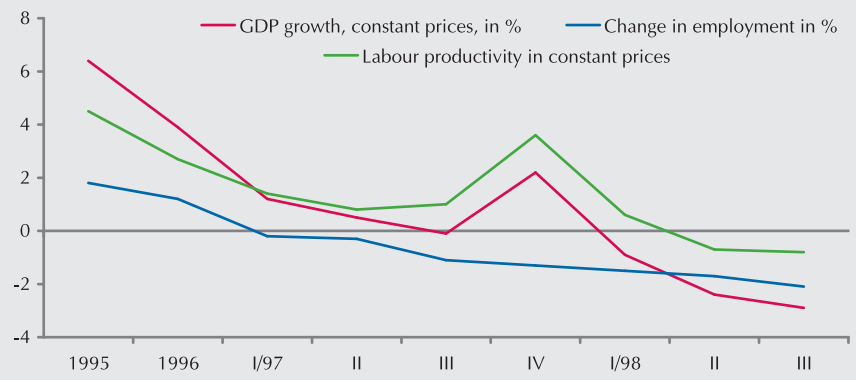
Table III.12 Basic data on employment and unemployment

				1997				1998			
	1995	1996	1997	I/97	II/97	III/97	IV/97	I/98	II/98	III/98	IV/98
Number of persons employed in national economy (average numbers)											
Y-o-y change in %	2.6	0.6	-1.0	-0.2	-0.3	-1.4	-1.4	-1.3	-1.4	-1.3	.
Natural persons - number (in thousands)	5011.6	5044	4922	4959.3	4967	4894	4908	4897	4899	4831	.
Number of unemployed 1)											
Natural persons - number (in thousands)	153.0	186.3	268.9	199.6	202.6	247.6	268.9	284.1	289.5	350.7	386.9
Unemployment rate	2.9	3.5	5.2	3.9	4.0	4.8	5.2	5.5	5.6	6.8	7.5
Number of job applicants per vacancy 1)	1.7	2.2	4.3	2.3	2.5	3.4	4.3	4.4	5.0	6.8	10.3

1) as of end of period

As to the employment structure, there were above-average falls in the number of employed women, foreigners and disabled people. The decrease in employment was predominantly cyclical in nature; in connection with the decline in real GDP it hit all economic sectors, as well as all professional and age groups.

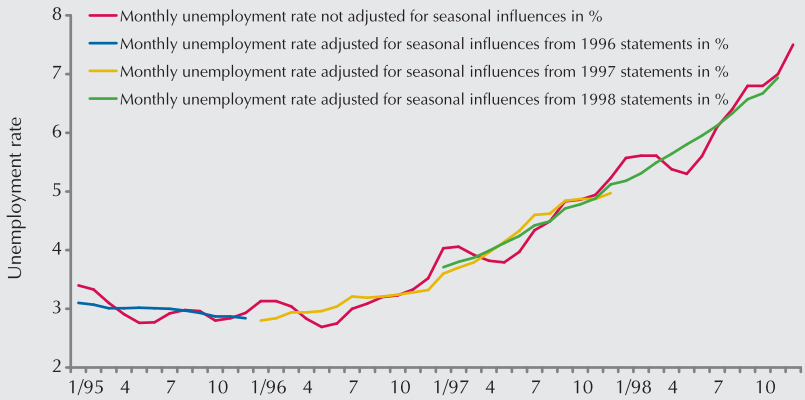
Chart III.28 Employment, GDP and labour productivity



In 1998 Q2 and Q3, overall employment fell more slowly than real GDP. This resulted in an absolute year-on-year fall in whole-economy labour productivity (real GDP per employed person) in both quarters. Although employment cannot be expected to react to real GDP growth in full and without any time lag, the deteriorating level of labour productivity signalled an inefficient use of labour force and continuing overemployment. For labour productivity not to have fallen in 1998 Q2 and Q3,

employment would have to have decreased by an additional 41,000 persons, all other things being equal. Had all these persons been transferred to the register of job seekers, the unemployment rate as of 30 September 1998 would not have been 6.8% but 7.6%.

Chart III.29 Seasonally adjusted unemployment rate



In 1998, the seasonal trend in unemployment was similar to that of the same period of 1997, although at a higher level. At the end of December, unemployment was running at 7.5% and the number of unemployed persons was up by 118,000 year-on-year. Approximately one half of those seeking work were receiving unemployment benefit. In regional terms, unemployment was highest in districts of North Bohemia and North Moravia, where employment dropped significantly (particularly in mining).

At the end of December 1998, unemployment was highest in the districts of Most (15.6%) and Louny (15.5%). Unemployment rates of above 12% were registered also in the districts of Chomutov, Karviná, Teplice and Přerov, while the lowest values were recorded as usual in the districts of Prague-East (1.6%), Prague-West (2.2%) and the City of Prague (2.3%).

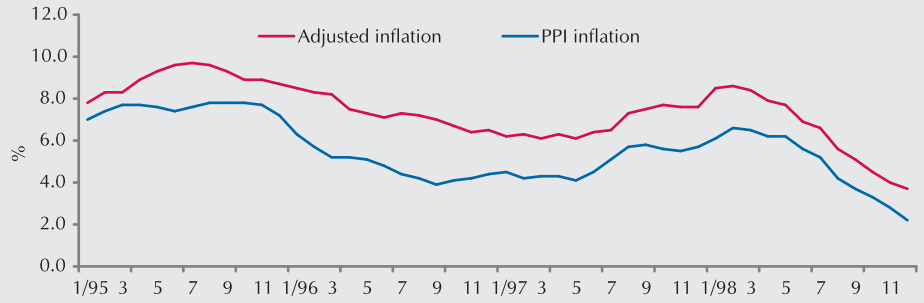
Whereas in September 1998 there were 6.8 job applicants per vacancy on average, at the end of December the figure was 10.3. The ever-widening disproportion between supply and demand for work has resulted in an increase in the average duration of unemployment, which at present is about 300 days. The proportion of persons out of work for more than 6 months represents more than 40% of the overall number of unemployed. Worst hit by unemployment are workers with lower qualifications (people with basic education and apprenticeships), who accounted for 61% of all the unemployed as of 30 September 1998. Disabled persons, school and university graduates, young people and women (particularly those with small children) made up 83% of the overall volume of unemployment as of 31 December 1998.

III.4 Costs and prices

III.4.1 Producer prices

The gradual decline in year-on-year PPI inflation seen in Q2 and Q3 continued into Q4. In month-on-month terms, producer prices were flat in October, before falling by 0.4% in both November and December. As a result, the PPI in October fell by 0.4 percentage points year-on-year against the previous month to 3.3%, and then to 2.8% in November and 2.2% in December.

Chart III.30 PPI inflation and adjusted inflation (y-o-y)



This gradual decline in year-on-year PPI inflation was the result of favourable prices on global markets (especially for energy raw materials – see part III.4.2), contracting domestic demand and, last but not least, the koruna's exchange rate. The extremely low oil prices (a 25-year low) in particular, together with exchange rate developments, fed through into a substantial year-on-year decline in import prices during 1998 Q3 and Q4. Above all, this affected prices in manufacturing (up by 2% year-on-year in November), which has the largest influence on producer prices. Within manufacturing, the biggest price falls were seen in coke production and oil refining (down 17.5% in November) and the chemical industry (down 5% in November). Price growth in other branches of this sector was much lower than in previous quarters of 1998. In contrast, the year-on-year rise in prices in mining and in the production and distribution of water, electricity and gas remained relatively buoyant in Q4.

Chart III.31 PPI inflation by category of industrial production (y-o-y)

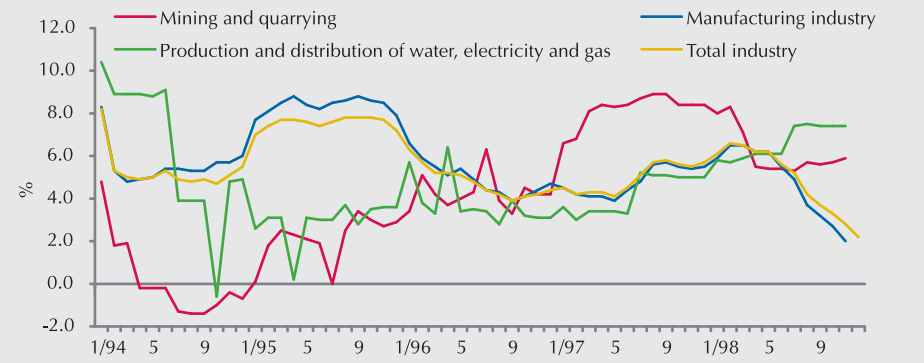
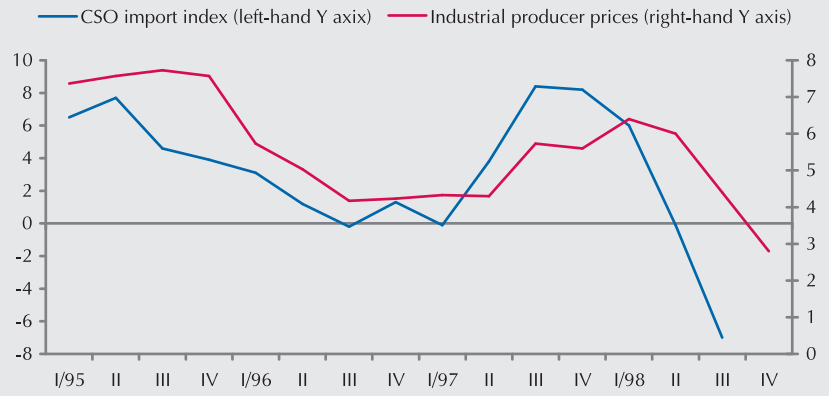


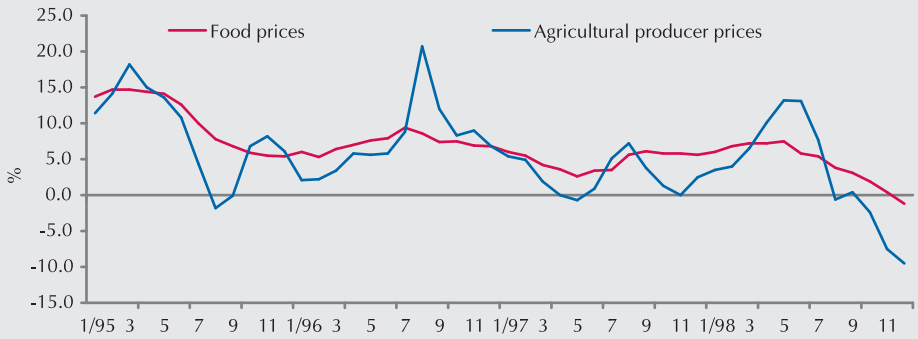
Chart III.32 PPI inflation and import prices (y-o-y in %)



The longer-term trend of a moderate fall in the year-on-year growth of construction work prices continued into 1998 Q4. Although prices went up month-on-month by 0.5% in October, 0.4% in November and 0.4% in December, the year-on-year rise slowed from 8.1% in October to 7.7% in November and 7.2% in December. Nevertheless, inflation in this area is relatively high, mainly because of the continuing wage growth (which is in sharp contrast with the trend in the volume of construction work), together with a steady rise in prices of building materials. At the same time, the influence of the constant demand from the "grey" economy cannot be ignored. However, the overall reduction in domestic demand has been gradually weakening these factors.

After a slowdown in year-on-year growth in Q3, agricultural producer prices fell significantly in 1998 Q4, (-2.4% in October, -7.5% in November and -9.5% in December). As in Q3, this decline was mainly due to much lower crop prices (resulting in particular from the favourable 1998 harvest and the potential threat of imports of subsidised wheat from Hungary). However, the influence of grain prices on the overall growth in agricultural producer prices will be multiplied, because crops have a substantially greater weight in the agricultural PPI in the second half of the year than in the first half. Another reason for the decline was a substantial year-on-year fall in livestock prices of 7.6% in November and 8.1% in December. This was caused mainly by a fall in pork prices due to imports of subsidised pork from EU countries (prices of pigs fell by 2% in October and 13.7% in November year-on-year) and by lower growth or stagnation of prices for other livestock products.

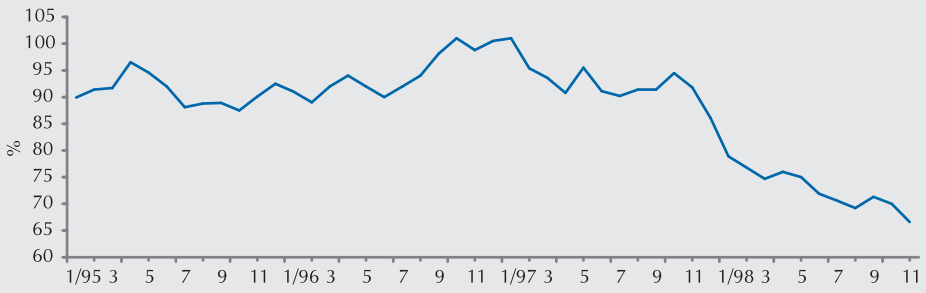
Chart III.33 Agricultural PPI inflation and food price inflation (y-o-y)



III.4.2 Import prices

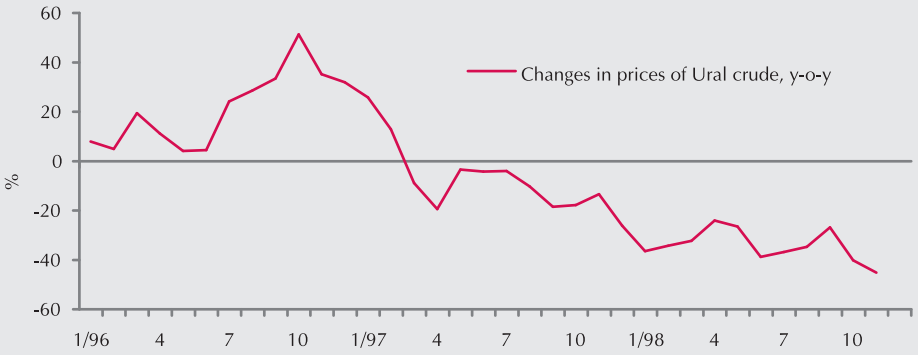
Prices of basic raw materials, which are imported into the Czech Republic in substantial volumes, remained quite favourable in 1998 Q4 from the point of view of their effect on domestic price levels. The HWWA index, an aggregate price index of raw materials and foodstuffs, dropped by 26.7% year-on-year in October–November. Prices of energy raw materials fell the most (down 33.4%). The price of Ural crude stood at USD 10.45 per barrel, down 43% against the average for 1997. Prices of industrial raw materials and food commodities continued to fall significantly in 1998 Q4. Global prices of raw materials and foodstuffs reflected the ongoing excess of supply over demand.

Chart III.34 HWWA Index
(international index of raw material and food prices, 1990 = 100)



Import prices, monitored by the CSO selection index, have been falling more and more since June 1998 in year-on-year comparison (down 8.7% in October). This extraordinarily favourable trend has resulted from the significant drop in raw material prices on global markets and the considerable appreciation of the koruna.

Chart III.35 Prices of Ural crude



IV. MONETARY POLICY MEASURES AND INFLATION OUTLOOK

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

The disinflationary process continued into 1998 Q4. In September, all inflation indicators (except for the inflation rate) reached their lowest levels since the start of the year. Year-on-year net inflation dropped by 2.6 percentage points from 4.3% in September to 1.7% in December. This was rather more than in Q3, when it fell by 2.2 percentage points (from 6.5% in June to 4.3% in September). The slowdown in net inflation during 1998 gradually changed into an absolute decline. This trend strengthened in the final few months of the year. Between March and December the prices of goods and services constituting net inflation dropped by 0.6%, while in Q4 they fell by almost 0.9%. Food prices, which developed much more favourably than in the same period of 1997, contributed most to the fall in net inflation. In September they rose by 3.1% year-on-year, whereas in December they fell by 1.2%. Adjusted inflation fell from 5.1% to 3.7% in the same period.

The slowdown in net inflation and in the rate of growth of regulated prices fed through into a slowdown in overall inflation. Year-on-year CPI inflation fell by 2 percentage points from 8.8% in September to 6.8% in December. Compared with the previous period, the disinflation slowed a little, as in Q3 the year-on-year CPI fell by 3.2 points. The inflation rate, measured by the moving average of the CPI, dropped from 11.4% in September to 10.7% in December, ie by 0.7 percentage points.

The above information shows that year-on-year net inflation in December was 3.8 percentage points below the lower limit of the short-term inflation target range of 5.5%–6.5% set for the end of the year. The more marked decline in inflation is the result of the exceptionally favourable effects of strong anti-inflationary factors on both the demand and supply side, particularly costs. As described in detail in Chapter II, an important role is being played by external factors which are either partly (the koruna's exchange rate) or completely (raw material prices on global markets) outside the reach of the central bank's monetary policy. According to CNB estimates, these factors had an influence of between 2 and 3 percentage points on net inflation in 1998. In other words, had this influence remained at the February level in the second half of the year, net inflation would have been lying between 3.7% and 4.7% in December 1998. Subsidised imports of agricultural products from the EU and the continuing struggle among retail chains for domestic market shares also played a role in the non-fulfilment of the inflation target. The restrictive macroeconomic measures, including the tightening of monetary policy since mid-1996 as well as the strongly restrictive fiscal and income measures of the two "government packages" from April and May 1997, also had significant effects, especially on domestic demand and wage and monetary development.

The decline in import prices, monitored by the CSO selection index, accelerated from June 1998 in year-on-year terms, reaching 8.7% in October. This exceptionally favourable trend was largely due to the continuing decline in global prices of raw materials and food commodities and to the koruna's appreciation since Q3 (in year-on-year terms).

The rate of decline in domestic effective demand, which was running at -4.6% year-on-year in Q2, slowed to -1.5% in Q3. Substantial changes occurred in the structure of domestic final demand. The year-on-year contraction in household consumption, which stood at -7% in Q2, slowed considerably in Q3 to -0.9%. In Q3, the year-on-year fall in gross fixed capital formation slowed to -3.1% (from -4.1% in Q2). The persisting decline in investment activity reflects the tight financial situation of businesses ensuing from the low level of their own resources and difficult access to credit and funds from the capital market. The 0.8% year-on-year fall in government consumption in Q3 was a reflection of the government's effort to make savings in the state budget.

The rapid disinflationary process was accompanied by an overall decline in economic activity. In Q3, GDP fell by 2.9% year-on-year, ie 0.5 percentage points more than in Q2. Whereas in the first half of the year the improvement in net exports counteracted the decline in domestic demand, in Q3 this

effect substantially weakened and the contribution from net exports to GDP growth was fairly insignificant.

Domestic demand in Q4 was affected not only by a moderate easing of monetary policy, but also by fiscal and income policies. The state budget ran a deficit of approximately CZK 29 bn for January–December, compared with a surplus of CZK 6.2 bn for January–September. This resulted from an accumulation of extraordinary expenditures at the end of the year. In 1998 Q3, the decline in real wages slowed sharply. In Q2 average real wages fell by 5% year-on-year, whereas in Q3 they dropped by only 0.3%. This was particularly apparent in the business sector, where the average real wage decline of 1.4% in Q2 was replaced by a rise of 1.2% in Q3. This upturn in real wages was brought about by the inertia of wages in nominal terms and by declining CPI inflation. Faster growth in nominal wages in the corporate sector continued to be prevented by the tight financial situation of most firms, the ongoing restructuring, and increasing competition in the labour market, which worsened the position of employees in wage bargaining.

Monetary developments in Q4 were consistent with the continuing disinflationary process. In Q4, year-on-year money supply growth gradually declined from 7.8% in September to 5.7% in November, largely as a result of low increases in lending, which has not yet picked up despite radical cuts in interest rates. The main reasons were the greater effectiveness of investing in high-quality and less risky assets (eg CNB bills) compared with credits, and the continuing prudence of banks in granting new credits. The high proportion of risk credits is forcing banks to create reserves to cover them, which in turn is taking its toll on profits.

The rapid decline in the growth of all price indices created favourable conditions for an improvement in inflation expectations during Q4. In mid-1998, the yield curve changed from upward sloping to inverted, and in Q4 the slope became more negative and the curve shifted to a lower level.

The improving inflation expectations, accompanied by favourable cost factors and the contraction in domestic demand, fed through into a further deceleration of PPI inflation, which is an aggregate indicator of cost pressures. This decline, however, was slower in Q4 than in Q3, with PPI inflation falling from 5.6% in June to 3.7% in September and 2.2% in December year-on-year. A longer-term downward trend is persisting for prices of construction work. After a slowdown in growth in Q3, agricultural producer prices recorded a substantial fall in Q4 (-2.4% in October, -7.5% in November and -9.5% in December). The increasing real unit wage costs in industry and construction in Q3 signified a turnaround in the previous positive wage trends. However, this has yet to be felt at the macroeconomic level in the form of cost inflationary pressures.

IV.2 Monetary policy

The development of inflation factors in 1998 Q4 and the gradual updating of inflation forecasts opened up room for further cuts in the key interest rates through which the CNB influences monetary and economic developments. As mentioned in the October Inflation Report, the CNB started to lower interest rates during Q3. Further strong impulses for rate cuts occurred in Q4.

The falling inflation forecasts for 1999, especially for the first half of the year, were the main reason for the rate cuts. At the same time, an increasing number of indicators were signalling that the disinflationary character of economic development was strengthening in Q4. Evidence for the significant weakening of future inflationary pressures was provided above all by the positive influence of cost factors, predominantly external in nature, and by the exceptional and seasonally atypical disinflationary trend in the food market. The ongoing reduction in domestic demand during Q3 confirmed that the effects of the co-ordinated fiscal, income and monetary restrictions introduced in mid-1997 were intensifying. Another important stimulus for lowering interest rates was the rate cuts made by many foreign central banks in connection with falling inflation, declining economic growth in

numerous countries and the establishment of the euro. The cuts were also partly motivated by the low effectiveness of the interest rate transmission channel in credit creation.

The rate cuts in Q4 were faster than in Q3. The most important CNB rate – the 2W repo rate – was lowered in four steps by 4 percentage points during Q4, from 13.5% to 9.5%, each time by one percentage point (in Q3, this rate was lowered by 1.5 percentage points from 15% to 13.5%). The discount rate was decreased in two steps by 4 percentage points from 11.5% to 7.5% (in Q3 in one step by 1.5 percentage points from 13% to 11.5%). The Lombard rate was reduced in two steps by 3.5 percentage points from 16% to 12.5% (in Q3 in one step by 3 percentage points from 19% to 16%). The manoeuvre to lower rates was divided into several steps to minimise the risk of shocks on the financial markets and to prevent the disruption of balanced domestic development.

On 27 November, the Bank Board set the short-term net inflation target for the end of 1999 at 4.5% ± 0.5 percentage points. This target was derived from the conditional inflation forecast in the context of a long-term disinflationary process aimed at achieving price stability comparable with EMU countries. The purpose of this step was to make the CNB's conception for short-term inflation more precise and to help anchor the inflation expectations of economic entities and stabilise price development in 1999. The interval of ±0.5 percentage points was set to cover the current degree of volatility of economic and monetary variables, the admissible level of inaccuracy of inflation forecasts, and the imperfect knowledge of the transmission mechanism, including the relevant and varying lags. Part of declaring the 1999 target was the adoption of a concept of so-called exceptions. Exceptions from meeting the inflation targets are defined as extraordinary and unforeseen factors causing deviations from the inflation target for which the central bank cannot bear responsibility. These factors include: substantial deviations of global prices of raw materials, energy sources and other commodities from the prediction; major deviations of the koruna's exchange rate from the prediction, provided these changes are not connected with economic fundamentals and are not the result of domestic monetary policy; marked changes in the conditions for agricultural production with an impact on agricultural producer prices; and, finally, natural disasters or similar extraordinary events with cost and demand impacts on prices. These factors are, by their nature, outside the short-term reach of monetary policy instruments.

As emphasised in the first Inflation Report in April 1998, one of the attributes of inflation targeting is the influencing of inflation expectations. In Q4 the Bank Board continued to work with the public in order to increase the transparency and understanding of present and future monetary policy. The CNB launched another round of consultations with trade union representatives on future economic and monetary developments, focusing on the expected progress of inflation. The aim of these negotiations was to acquaint the unions with inflation projections and help form inflation expectations that would, during wage bargaining, be consistent with the medium-term disinflationary process.

In line with the medium-term plan to lower the minimum reserve requirement declared by the CNB in mid-1998 the Bank Board decided on 17 December to cut the MRR on primary deposits from 7.5% to 5%, effective 28 January 1999. This forms part of the efforts to harmonise monetary policy instruments with those used in EMU and to create internationally comparable conditions to boost the competitiveness of the domestic banking sector.

IV.3 Future inflation factors

Most inflation factors will probably have disinflationary effects in 1999 H1. In H2, the CNB expects a slight increase in net inflation.

The exceptionally favourable trends for external factors, which contributed to a rapid fall in import prices in 1998, will probably gradually unwind. Prices of some commodities on world markets are currently at their lowest levels for several decades, which reduces the probability of their recent rapid rate of decline being maintained. The expected changes in the external environment – decelerating

global economic growth and disinflationary trends – will not create conditions for price growth in the near future.

The koruna's exchange rate in 1999 will be subject to various contradictory processes. The favourable recent trend for the ratio of the current account to GDP will not, despite a potential slight deterioration in 1999, revive pressures for a weakening of the exchange rate. The cuts in domestic interest rates in 1998 H2 were partly offset by a reduction of rates in advanced economies and by a lowering of the risk premium. As a result, investment in koruna instruments remains attractive, which means the current volume of foreign capital inflow will be maintained or even grow moderately. On the other hand, there exists a risk of economic problems being transferred from Southeast Asia, Russia, Slovakia and South America. This may increase investors' lack of confidence in the emerging markets, including the Czech Republic, and lead to a weakening of the koruna's exchange rate.

The expected slowdown of the year-on-year decline (or very moderate rise) in domestic demand in 1999 will not substantially increase inflationary pressures. Because of the limited possibilities for increasing state budget revenues, the rise in government spending will result in a widening public finance deficit. The ratio of this deficit to GDP, which including hidden debt was running at about 1.5%–2.3% at the end of 1998, is nearing the 3% limit set by the Maastricht Treaty, which the Government has stated it will not exceed. The outlook for real wages in 1999 is uncertain due to contradictory influences. Wage growth in budgetary and subsidised organisations in 1999 will feed through into real wage growth not only directly, but also indirectly through stronger pressure for wage rises in the corporate sector. The declining labour productivity, if the trends from 1998 Q2 and Q3 continue, will narrow the room for non-inflationary wage development. The rise in real unit wage costs in industry and construction in 1998 Q3 has yet to have a significant effect on overall real unit wage costs, largely because of a wage freeze in budgetary and subsidised organisations. After wage tariffs in this sector are increased for 1999, the only factor acting against wage-cost inflationary pressures will be the expected further rise in unemployment.

The rapid fall in interest rates in 1998 H2 has so far not had much effect on lending. The prerequisites for a revival of new credit extension are an overall upturn in the economy and the adoption of certain institutional and legislative measures. These should be directed at resolving the existing inappropriate situation in the relationships between creditors and debtors to allow faster write-offs of bad debts against reserves and more effective foreclosure proceedings in the case of defaulted loans. This, however, probably exceeds the 1999 horizon.

At the same time, the improving inflation expectations, reflecting favourable inflation developments in 1999 H1, will counteract the potential expansion of cost inflationary pressures. This will probably result in an only moderate increase in PPI inflation.

IV.4 Inflation outlook

As in the October Inflation Report, the CNB's conditional inflation forecast in this report assumes that the anti-inflationary economic and monetary environment will continue in the near future. The projected inflation factors suggest that all inflation indicators will drop in 1999 H1. Year-on-year net inflation indices will move between -0.1% and 1.5%. Owing to the lesser extent of regulated price increases in January 1999, the year-on-year CPI should be lying between 3.1% and 4.2% in mid-1999.

The CNB expects that the exceptionally favourable action of inflation factors will probably gradually unwind during the second half of 1999. In 1999, domestic demand will stop contracting and may rise slightly in year-on-year terms. Nevertheless, the generally subdued domestic demand situation will continue to restrict the room for cost-push inflation. Inflationary pressures in the world economy will be weak, but external price factors cannot be expected to develop as favourably as in 1998. Wages remain a certain risk factor for inflation in 1999. Given the inertia in average nominal wages and the present fall in inflation, wage-cost pressures may gradually strengthen.

Inflation will pick up slightly in the second half of 1999. The latest net inflation forecast indicates that year-on-year net inflation will be between 2.5% and 5.5% at the end of 1999, depending mainly on the koruna's exchange rate. Prices of raw materials and other commodities on global markets remain an uncertain element in this outlook. This may be reflected in significant import price fluctuations if the volatility of the exchange rate increases. In view of these uncertainties, the forecast inflation interval is wider than that for the short-term target set for the end of 1999. The inflation forecasts will be gradually updated during the year and will serve as the main guide for monetary policy to ensure that monetary conditions allow the inflation target to be met. Year-on-year CPI inflation will be somewhere between 4.2% and 6.4% at the end of 1999.

Minutes of the CNB Board Meeting on 26 October 1998

Present at the meeting:

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

The Board assessed the short- and medium-term inflation outlook in the context of the newly available September data. By the end of 1998, net inflation should be significantly below the lower bounds of the target interval. In the first half of 1999, net inflation will most likely experience a temporary slowdown. In the second half of the year, net inflation will return to the disinflation trajectory implied by the medium-term target for the year 2000.

During the discussion, many reasons were given for this shifting development. Net inflation was strongly affected by an external shock, notably a drop in the world prices of some imported commodities which in turn led to an acceleration of the disinflation process. The combined effects of the positive price demand shock with fiscal and wage developments, in reality more restrictive than expected at the beginning of the year, had set in. Due to significant uncertainty stemming from international financial developments, it was difficult to avoid a cumulation of factors acting in the same direction during decisions on monetary policy measures. The rate of the disinflation process can be classified ex post as fairly rapid.

In addition, the Bank Board analysed the international economic outlook for 1999. International factors will play a significant role in monetary policy decision-making next year as well. In all probability, there will be a drop in international economic activity. Financial developments could be affected by a cut in US interest rates and in turn by a relative cut in European rates (in connection to euro introduction), because rates will converge to the lower boundary instead of the originally expected convergence to the medial values of European interest rates. After the introduction of the euro, the koruna could become one of the alternative currencies. As a result, increased uncertainty about the future of exchange rate developments must be taken into consideration, because a strong inflow of capital or worsening of the indicators for the current account causing a reverse outflow effect cannot be ruled out.

The Bank Board assessed the current risk factors influencing the Czech economy. Substantial uncertainty exists in relation to wage and fiscal developments for next year. The likelihood of lowering this uncertainty in the area of wages is significantly higher than last year considering that consistency in inflation and wages had not been attained last year due to objective reasons, mainly time inconsistencies. During the meeting, a consensus was reached on initiating informative meetings with professional and labour organisations with the aim of creating conditions for long-term economic stability. A favourable situation would be if wage negotiations could be integrated into the framework of a realistic inflation outlook with the possibility of using inflation clauses.

It was stressed that the inflation target for the year 2000 is so far the only valid medium-term economic target announced for the Czech economy. Uncertainty on fiscal development could be lowered by the government's medium-term economic outlook for this area. Lowering uncertainty would help the central bank arrive at an optimal disinflation trajectory, because monetary policy would not react to economic development in isolation.

Opinions during the meeting on the assessment of the proposal for cutting rates were presented from two points of view. First of all, with the expected development in 1999, a cut in rates was evaluated as a reaction to the shifting inflation outlook. This problem should be partially solved through the accommodation of the positive price shock to the disinflation trajectory and partially through sharp rate

cuts in advance. Due to a drop in net inflation to low values in the first half of the year, it is important to prevent sharp increases in real rates even though the annual inflation outlook coincides with the disinflation trajectory.

The central bank should guard against sharp deviations or a reversal in inflation. The proposed solution can prevent rates from being lowered in a period when it might be necessary to respond to developments in the second half of 1999. The risks of this solution in comparison to a slower lowering of rates reside more in the uncertainty on fiscal and wage developments of domestic factors (public finance, real wages) than in external factors. These risks cannot be lowered by making the inflation outlook more accurate. The active involvement of the central bank should help in lowering the uncertainty.

The proposal was also assessed in a backward-looking manner as a completed manoeuvre of rate landing at the level attained before the May 1997 turbulence. Landing occurred at a higher level of ex ante real rates in a period of economic recession and for this reason, it does not entail monetary policy easing. Further space could be created for cutting rates if wage negotiations are consistent with the central bank's inflation outlook. The opposite situation, though, would create dangerous overshooting of monetary policy easing. Following a sharp cut in rates, there are two anti-inflation safety valves: prudent behaviour on the part of banks and the possibility of an expected real increase in household incomes.

After assessment of the economic outlook, the CNB Board unanimously decided to cut the 2W repo rate by 1 percentage point from 13.5% to 12.5%, to cut the discount rate by 1.5 percentage points from 11.5% to 10% and the Lombard rate by 1 percentage point from 16% to 15% effective 27 October 1998. In addition, the introduction of an O/N deposit facility was approved and will take effect 1 December 1998. This involves monetary and technical measures which are aimed at simplifying the management of the liquidity of financial market participants and at gradually harmonising CNB instruments with the instruments of the ECB.

Minutes of the CNB Board Meeting on 12 November 1998

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)

During discussions on setting the inflation target for 1999, the CNB Board assessed the current data on economic and monetary developments. The source of this new data is CNB analysts' reassessment of inflation forecasts for the end of this year and for 1999. It was stated that the existing macroeconomic framework possesses a strong anti-inflation character that will temporarily push net inflation values, especially at the beginning of next year, even further below the announced medium-term target.

The main cause of the unexpectedly sharp drop in inflation in the second half of 1998 was a supply shock generated by world economic developments and prices of imported commodities. This shock interacted in the Czech economy with the effects of restrictive pressure from the previously set parameters of monetary and fiscal policy. Significant improvement in the external and internal macroeconomic equilibrium is connected to capital inflow and koruna appreciation which puts further restrictions on monetary conditions.

Current world economic indicators reveal that in less stabilised regions there is reduced risk of the global effects of a crisis. Internal factors indicate a clear tendency towards more prudent wage development even though there are doubts as to whether this trend will continue into next year. Money supply growth will move more in the lower part of the permitted range. Due to behavioural changes in the group of large domestic banks, credit activity will decline to a certain extent. Inflation expectations are positive, as confirmed by the inverse slope of the yield curves and the population's continued propensity to save.

CNB Board members agreed that at this time, there is a reasonably large amount of room for cutting interest rates. At the same time, members refused the notion that interest rates alone affect the performance of the economy and its recovery and stressed that a fundamental condition for renewing growth is the implementation of essential structural, institutional and legislative changes. In particular, questions were raised concerning the transmission mechanism and the time lag effects of monetary policy decision-making on domestic demand as well as the impact of the expected non-linear course of inflation for monetary policy adjustments next year.

A proposal was made during assessment of the 1999 inflation outlook to ease monetary policy further by cutting interest rates. In this context, some indications from the previous period were given that attempts by politicians to influence the board decision-making process could possibly cause misinterpretation of any adopted measures. The need to adopt a short-term inflation target for 1999 that would be consistent with the current forecast was also stressed.

By a majority vote, the Bank Board decided to cut the CNB two-week repo rate by one percentage point from 12.5% to 11.5%, effective 13 November 1998.

Minutes of the CNB Board Meeting on 3 December 1998

Present at the meeting:

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

Ivo Svoboda (Czech Minister of Finance)

On the basis of the regularly issued report on monetary and economic development, the CNB Board assessed the setting of monetary policy parameters in relation to expected inflation development and the macroeconomic situation in the Czech Republic. All members of the Board agreed that further room exists for cutting interest rates. Nevertheless, the current situation does not indicate that any significant change in the credit activity of commercial banks will occur.

Evaluation of the criteria for specifying the optimal interest rate level and identifying the sensitivity limits of the exchange rate and savings deposits for interest rate changes was the main topic of discussion. From this standpoint, deciding on rate changes is now more complex than in the past. The level of interest rates from the first half of 1996 can be used as a benchmark for assessing real interest rates on newly granted credits.

The Board assessed the likelihood of various economic scenarios in the Czech Republic in relation to changing international as well as domestic conditions. A quick recovery based on demand growth was, nonetheless, seen as the least realistic of all.

Board members stressed once again that the main cause of net inflation falling well below the set range is the unexpected, sharp drop in the prices of raw materials and food on world markets. The world economic situation indicates that the period of extremely slow inflation will likely continue even well into next year. This provides more space for flexible monetary policy in the future.

The Board has taken into consideration the current information on lowering interest rates in the majority of Western European countries and views it as a signal of long-term suppression of demand-led inflation impulses.

At the close of the discussion and after a careful examination of the analyses and current data, the CNB Board decided unanimously to cut the two-week repo rate by one percentage point from 11.5% to 10.5%, effective 4 December 1998. The next Bank Board meeting on monetary and economic development will take place on 28 January 1999.

Minutes of the CNB Board Meeting on 17 December 1998

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)

Ivo Svoboda (Czech Minister of Finance)

During its regular meeting, the CNB Board discussed several different approaches to setting the medium-term inflation target for 2001 and longer-term inflation targets. On the basis of the analytical framework provided, Bank Board members were in agreement that the ultimate long-term goal of monetary policy is clear and explicit, ie creation of conditions for the Czech Republic's accession to the European Monetary Union. For this reason, the economic conditions connected to joining the euro block (rate of inflation, level of long-term interest rates) have a normative character. The only remaining concern now will be the path to take for reaching this goal.

At the beginning of 1999, the Czech National Bank will present its views on long-term monetary policy strategy to the government and the public. The announcement of the medium-term inflation target for 2001 will also be presented at this time.

The CNB Board also discussed a proposal for lowering minimum reserve requirements and for making some adjustments in the calculation methods. The Board stated that the role of minimum reserve requirements in monetary policy is gradually losing significance. The main reason then for lowering these rates is to strengthen the financial status and competitiveness of the domestic banking sector as well as to initiate further steps towards harmonising monetary policy instruments with those of the European Union. In addition, the Board evaluated the effect that minimum reserve cuts would have on the necessary and anticipated demonetisation of the public debt and on some of the technical issues concerning clearing settlement.

On the basis of the proposal and related discussion, the Board decided unanimously to lower the rate base of minimum reserve requirements from the current 7.5% to 5% (existing preferential rates for some banks remaining unchanged). The base for calculating minimum reserves will be supplemented with the remaining primary debt in foreign currency which, up to this point and time, has not been accurately classified in accounting (client credits, deposits of government and municipal institutions and issued debt securities with maturities of up to 5 years). These measures will come into effect 28 January 1999.

Minutes of the Extraordinary CNB Board Meeting on 22 December 1998

Present at the meeting:

Josef Tošovský (Governor), Pavel Kysilka (Vice-Governor), Jan Vít (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 newly available information on economic development. The current situation indicates that the trends of slowing inflation and declining economic activity are still strengthening. A close analysis of the decline in GDP by components shows that the share of household consumption in GDP is no longer declining. Fixed machinery investment has slowed, and construction investment is falling. Nevertheless, about 50% of the decline in GDP can be attributed to changes in stock reserves. This area is traditionally where all of the errors are contained, and for this reason, developments are difficult to interpret. Prices indices in sectors that are relatively open indicate slower growth than in more closed sectors. The yield curve is inverted with a slightly wider spread.

The Board meeting primarily addressed the issue of monetary policy strategy for 1999 with the aim of securing the disinflation process as specified by the inflation targets for 1999 and 2000. The Board confirmed the positive inflation outlook for 1999. Domestic factors, mainly curbed domestic demand, will probably not cause any inflationary pressures in the economy. From this point of view, the Czech economy has entered a new phase of development characterised by low inflation.

This new development prompted the Board to consider steps towards shifting the band for the base rates (discount and Lombard rates) and the repo rate, so that it would correspond to a low inflation environment. Two options were explored: a) lowering the base rates by 2% and the repo rate by 1%, b) lowering the base rates by 3% and the repo rate by 1.5%.

The discussion also focused on inflation risks in 1999. There are two groups of factors that could lead to a reversal in inflation development and cause inflation in 1999 to deviate from the outlook projected in December 1998. The first group includes the response of domestic economic entities to the transition to low inflation. If inflation expectations are not consistent with the positive outlook, inflation impulses will undoubtedly develop in the economy. One occurrence of inconsistency could be wage negotiations based on an over-targeted inflation forecast. An opinion was given that, to a certain extent, this type of inconsistency could be eliminated by the self-regulatory mechanism of the hard budget constraints that corporations face now.

The second group of risk factors is made up of the effects of the external environment that, in the form of a variety of shocks, could affect the domestic economy. The world economic situation in 1998 was driven by extraordinarily favourable price development and a significant fall in commodity prices. At the present time, it is especially difficult to predict future developments in world price indices. Given the openness of the Czech economy, this particular situation causes increased uncertainty for the 1999 inflation outlook. For similar reasons, it is very difficult to predict developments on financial markets which were shaped in 1998 by the effects of the Russian and Asian crises.

The Bank Board discussed how the given risks could potentially affect monetary policy strategy in 1999. If any of these risks develop, the central bank would then assess the resulting situation as an exogenous shock. This, in turn, would increase the likelihood of reverse inflation development in the second half of 1999. In this case, it would be necessary to modify the current inflation outlook in an upward direction. In the case of deviation from the targeted path, an increase in rates would be in order. The Bank Board agreed that any reversal in development should, however, be relatively slow. It was mentioned that even if a reversal does occur, leaving nominal rates at their original levels could still cause extensive volatility in real rates.

On the basis of the discussion, the CNB Bank Board decided unanimously to lower the two-week repo rate by 1 percentage point from 10.5% to 9.5%, to lower the discount rate by 2.5% percentage points, from 10% to 7.5% and the Lombard rate by 2.5% percentage points from 15% to 12.5%, effective 23 December 1998.

STATISTICAL ANNEX

INFLATION DEVELOPMENT

increase in %, same period of last year = 100

		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

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

Source: CSO

INFLATION DEVELOPMENT

increase in %, same period of last year = 100

	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*

1) CNB calculation

Source: CSO

CONSUMER PRICES

increase 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
Food, beverages, tobacco	327.1	13.7	15.1	15.1	15.5	15.8	16.8	14.0	13.3	14.7	15.7	16.9	18.1	15.4
Clothing	90.9	9.6	10.8	12.1	13.1	14.2	14.8	15.2	15.6	17.0	19.1	20.2	21.0	15.2
Housing	143.7	17.1	18.1	18.2	18.5	18.6	21.7	26.1	26.3	28.3	28.6	28.9	29.0	23.3
Household equipment	77.2	4.9	5.8	6.4	7.1	7.5	7.8	8.0	8.4	8.9	9.4	9.9	10.2	7.9
Health care	44.2	2.5	2.5	2.5	2.6	3.5	4.4	5.1	5.6	5.8	6.7	6.8	6.9	4.6
Transport	104.8	6.4	6.8	7.2	9.5	9.8	10.3	10.6	10.7	11.5	11.7	12.2	12.2	9.9
Leisure activities	97.5	7.5	8.1	8.4	10.4	11.3	13.2	15.0	15.4	14.3	14.2	15.4	16.2	12.4
Education	16.9	25.0	25.5	25.8	27.1	27.4	27.9	28.0	28.1	35.5	36.0	36.3	36.3	29.9
Catering and accommodation	47.2	15.4	16.0	16.5	17.2	18.2	18.9	19.5	20.0	20.3	20.7	20.8	21.2	18.7
Other goods and services	50.5	5.7	6.5	6.9	12.1	12.6	13.1	13.6	14.1	14.8	15.4	16.0	16.2	12.3
Total - 1996	1000.0	21.1	21.7	22.4	23.2	23.9	24.8	26.0	26.2	26.6	27.2	27.9	28.6	25.0
Food, beverages, tobacco	327.1	21.7	22.4	23.7	24.8	25.8	27.2	26.0	24.2	24.4	25.6	26.2	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

Source: CSO

NET INFLATION

increase in %

	months											
	1	2	3	4	5	6	7	8	9	10	11	12
1995												
a) previous month = 100	1.2	1.0	0.3	0.7	0.5	0.8	-0.6	-0.1	0.9	0.7	0.8	0.7
b) same period of last year = 100	10.2	10.9	10.9	11.2	11.3	10.8	9.8	8.8	8.2	7.5	7.3	7.3
c) December of last year = 100	1.2	2.3	2.6	3.3	3.8	4.7	4.0	4.0	4.9	5.7	6.6	7.3
1996												
a) previous month = 100	1.4	0.6	0.7	0.6	0.6	0.8	0.1	-0.4	0.3	0.6	0.5	0.7
b) same period of last year = 100	7.4	7.0	7.4	7.3	7.4	7.4	8.2	7.8	7.1	7.0	6.6	6.6
c) December of last year = 100	1.4	2.0	2.7	3.3	4.0	4.8	4.9	4.5	4.8	5.4	5.9	6.6
1997												
a) previous month = 100	0.8	0.3	0.1	0.5	0.1	1.4	0.2	0.8	0.6	0.6	0.5	0.6
b) same period of last year = 100	6.1	5.9	5.3	5.2	4.6	5.2	5.3	6.6	6.9	6.9	6.9	6.8
c) December of last year = 100	0.8	1.2	1.3	1.8	1.9	3.3	3.5	4.4	5.1	5.7	6.2	6.8
1998												
a) previous month = 100	1.5	0.7	0.1	0.2	0.1	0.4	-0.2	-0.3	0.1	-0.3	-0.3	-0.3
b) same period of last 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 last 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

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
Recalculated weight of regulated prices as of 31 Dec.1998 in % 1)	**26.4091**

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

CONSUMER PRICES - TRADABLES AND NONTRADABLES

increase in %

	Constant weight in consumer basket in %	1994	1995	1996	1997	1998						
		months										
		12	12	12	12	3		6		9		12
		a=b	a=b	a=b	a=b	a	b	a	b	a	b	a=b
1. Food, beverages, tobacco	32.7	12.0	5.4	7.9	5.6	3.7	8.2	4.5	6.8	2.2	4.1	-0.3
of which: tradables	32.7	12.0	5.4	7.9	5.6	3.7	8.2	4.5	6.8	2.2	4.1	-0.3
nontradables	.	.	.	.	.	.	.	.	.	.	.	
2. Clothing	9.1	9.2	10.9	9.6	9.1	0.2	8.0	1.7	6.6	2.0	5.5	3.1
of which: tradables	8.8	9.2	10.7	9.6	9.0	0.1	7.9	1.6	6.4	1.8	5.4	2.9
nontradables	0.3	9.0	16.6	9.7	12.3	3.4	12.2	5.3	10.7	6.8	9.2	7.5
3. Housing	14.4	14.1	13.0	13.5	22.9	12.6	35.9	12.9	35.6	25.3	25.8	25.6
of which: tradables	1.1	10.5	9.7	9.4	37.1	15.4	24.5	12.4	21.9	16.6	19.1	18.0
nontradables	13.3	14.4	13.3	13.8	21.7	12.4	36.8	12.9	36.6	25.9	26.3	26.1
4. Household equipment	7.7	4.3	5.6	3.6	7.7	1.6	7.6	2.5	6.5	3.1	4.9	3.0
of which: tradables	7.2	4.1	5.3	3.2	7.5	1.3	7.3	2.2	6.1	2.7	4.5	2.4
nontradables	0.5	6.4	9.1	9.0	10.3	5.3	11.4	6.9	11.6	8.0	9.6	9.4
5. Health care	4.4	2.4	4.3	2.2	6.5	1.1	7.0	1.7	3.8	2.1	3.0	2.3
of which: tradables	.	.	.	.	.	0.0	2.6	1.8	4.3	2.5	4.1	2.6
nontradables	4.4	2.4	4.3	2.2	6.5	1.2	7.3	1.6	3.7	2.1	3.0	2.3
6. Transport	10.5	5.5	6.4	8.3	9.2	5.3	10.7	3.9	7.7	4.4	4.1	3.6
of which: tradables	7.5	3.0	3.0	6.2	6.2	1.1	6.0	-1.6	1.7	-3.0	-3.4	-4.4
nontradables	3.0	11.5	14.5	13.4	16.6	12.6	18.8	13.4	18.1	16.9	17.1	17.2
7. Leisure activities	9.8	5.7	9.9	4.5	9.7	1.5	9.9	2.8	9.0	3.4	4.2	3.7
of which: tradables	6.4	3.5	5.9	2.3	4.5	0.7	4.5	2.1	3.3	2.4	2.1	1.2
nontradables	3.4	12.0	21.3	11.0	19.8	2.6	18.2	3.8	17.7	4.8	7.1	7.0
8. Education	1.7	23.7	10.2	37.9	9.5	8.8	16.0	9.9	16.6	14.3	15.0	14.7
of which: tradables	.	.	.	.	.	.	.	.	.	.	.	.
nontradables	1.7	23.7	10.2	37.9	9.5	8.8	16.0	9.9	16.6	14.3	15.0	14.7
9. Catering, accomodation	4.7	12.9	7.3	6.5	7.3	4.6	10.8	5.5	10.0	6.3	7.7	6.5
of which: tradables	0.1	3.1	21.3	9.9	17.7	5.5	17.3	13.8	14.9	15.6	12.9	12.4
nontradables	4.6	13.2	6.9	6.4	7.0	4.6	10.6	5.2	9.8	6.0	7.6	6.3
10. Other goods and services	5.1	5.5	10.1	7.5	9.7	1.3	9.4	4.1	7.7	4.9	6.5	5.1
of which: tradables	3.2	5.9	5.8	5.0	7.1	0.6	5.8	1.0	5.0	1.5	3.5	1.5
nontradables	1.9	4.7	17.4	11.7	14.3	2.3	14.6	8.3	11.2	9.6	10.4	10.0
Total household consumer prices	100.0	9.7	7.9	8.6	10.0	4.8	13.4	5.5	12.0	7.4	8.8	6.8
of which: tradables	67.3	8.7	6.0	6.7	7.1	2.5	7.7	3.0	6.1	2.0	3.7	0.7
nontradables	32.7	11.9	11.9	12.5	15.9	8.6	23.6	9.5	22.7	16.3	17.2	16.9
Tradables - food	32.7	12.0	5.4	7.9	5.6	3.7	8.2	4.5	6.8	2.2	4.1	-0.3
Tradables - others	34.6	5.6	6.5	5.7	8.3	1.3	7.2	1.6	5.3	1.7	3.2	1.6
Nontradables - regulated	18.3	9.0	9.7	11.2	19.7	9.9	30.8	10.8	29.7	20.4	20.7	20.7
Nontradables - others	14.4	14.2	12.3	8.9	9.3	6.6	13.8	7.8	13.2	10.2	11.9	11.1

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

INTERNATIONAL SURVEY - CONSUMER PRICES

increase in %

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

Source: The Economist

MONETARY SURVEY

in CZK bn

	1993	1994	1995	1996	1997	1998				
	12	12	12	12	12	3	6	9	10	11
TOTAL ASSETS	720.4	870.4	1039.6	1120.5	1217.6	1172.3	1207.8	1236.2	1225.9	1235.4
A. NET FOREIGN ASSETS	115.7	194.4	311.4	281.9	338.5	349.3	388.8	386.8	384.8	414.2
- assets	213.6	275.8	493.2	538.0	670.7	631.0	704.7	726.7	716.8	739.1
- liabilities	97.9	81.4	181.8	256.1	332.2	281.7	315.9	339.9	332.0	324.9
B. NET DOMESTIC ASSETS	604.7	676.0	728.2	838.6	879.1	823.0	819.0	849.4	841.1	821.2
1. Domestic credits	713.9	817.5	929.5	1029.7	1137.7	1120.9	1148.6	1133.3	1115.1	1125.0
a) Net credit to the government sector	18.4	5.1	10.1	12.6	24.8	10.4	7.5	7.9	10.5	15.8
- net credit to government	35.1	23.1	25.4	28.5	37.9	26.0	27.9	19.3	21.2	26.6
- net credit to NPF	-16.7	-18.0	-15.3	-15.9	-13.1	-15.6	-20.4	-11.4	-10.7	-10.8
b) Credits of commercial banks and CNB	695.5	812.4	919.4	1017.1	1112.9	1110.5	1141.1	1125.4	1104.6	1109.2
ba) CZK credits	669.6	768.9	822.3	888.6	912.6	913.3	932.4	915.2	899.4	893.2
- businesses	576.8	661.1	720.5	785.1	808.2	807.8	830.2	813.4	797.7	791.7
- households	92.8	107.8	101.8	103.5	104.4	105.5	102.2	101.8	101.7	101.5
bb) foreign currency credits	25.9	43.5	97.1	128.5	200.3	197.2	208.7	210.2	205.2	216.0
2. Other net items	-109.2	-141.5	-201.3	-191.1	-258.6	-297.9	-329.6	-283.9	-274.0	-303.8
MONEY SUPPLY	720.4	870.4	1039.6	1120.5	1217.6	1172.3	1207.8	1236.2	1225.9	1235.4
A. MONEY	359.9	421.8	453.3	475.3	445.1	387.7	400.9	397.9	398.1	410.3
1. Currency in circulation	59.8	84.0	104.3	118.9	119.3	114.7	120.1	120.3	123.7	125.0
2. Demand deposits	300.1	337.8	349.0	356.4	325.8	273.0	280.8	277.6	274.4	285.3
- households	109.3	131.5	148.8	155.7	153.2	145.5	149.8	149.5	146.5	148.3
- businesses	185.1	201.1	195.6	195.6	168.2	124.0	127.1	124.6	125.2	134.0
- insurance companies	5.7	5.2	4.6	5.1	4.4	3.5	3.9	3.5	2.7	3.0
B. QUASI MONEY	360.5	448.6	586.3	645.2	772.5	784.6	806.9	838.3	827.8	825.1
1. Time deposits	303.1	387.8	498.8	559.5	634.0	651.7	662.8	693.6	686.5	683.4
- households	206.8	244.7	306.5	366.0	474.4	493.9	512.6	528.0	531.0	533.0
- businesses	60.0	102.9	150.2	172.7	133.9	129.3	123.7	137.4	133.3	128.8
- insurance companies	36.3	40.2	42.1	20.8	25.7	28.5	26.5	28.2	22.2	21.6
2. Certificates of deposit, deposit bills of exchange and other bonds 1)	.	.	.	.	.	3.2	4.9	10.1	10.0	9.2
3. Foreign currency deposits	57.4	60.8	87.5	85.7	138.5	129.7	139.2	134.6	131.3	132.5
- households	45.7	42.2	35.8	40.1	68.8	68.5	71.4	72.2	71.4	73.7
- businesses	11.7	18.6	51.7	45.6	69.7	61.2	67.8	62.4	59.9	58.8
Adjusted M2 2)	704.6	845.1	1012.3	1105.8	1217.6	1172.3	1207.8	1236.2	1225.9	1235.4
Monetary aggregate L 5)	704.6	845.5	1019.0	1138.9	1241.8	1221.4	1257.4	1289.4	1286.5	1291.2
For information:										
Increase against the same month of the previous year										
1. M1 3)										
- in CZK bn	53.6	61.9	31.5	22.0	-30.2	-44.4	3.6	-14.2	-22.5	-14.1
- %	17.5	17.2	7.5	4.9	-6.4	-10.3	0.9	-3.4	-5.3	-3.3
2. M2 4)										
- in CZK bn	116.5	140.5	167.2	93.5	111.8	83.9	84.6	91.7	70.2	66.4
- %	19.8	19.9	19.8	9.2	10.1	7.7	7.5	8.0	6.1	5.7
3. L										
- in CZK bn	116.5	140.9	173.5	119.9	102.9	91.2	105.2	111.4	94.3	82.5
- %	19.8	20.0	20.5	11.8	9.0	8.1	9.1	9.5	7.9	6.8

1) Because of changes in statistical reporting, deposit bills of exchange, certificates of deposit and other bonds are excluded from CZK deposits
2) Adjusted for float in 1993 and 1994, short-term operations of some banks in 1994 and for SPT Telecom deposit with CNB in 1995 and 1996
3) Currency in circulation, demand deposits
4) Currency in circulation, demand deposits, time deposits, residents' foreign currency deposits
5) Adjusted M2 plus T-bills, CNB bills and NPF bills in the portfolios of domestic non-bank institutions
For credits and deposits individuals were replaced by the household sector (according to SNA - individuals + traders)

CREDIT ISSUE

	1993	1994	1995	1996	1997	1998				
	12	12	12	12	12	3	6	9	10	11
Non-adjusted credits										
Total credits, CZK and foreign currency										
absolute volumes, in CZK bn	695.5	812.4	919.4	1017.1	1112.9	1110.5	1141.1	1125.4	1104.6	1109.2
year-on-year changes in %	19.1	16.8	13.2	10.6	9.4	7.1	4.8	3.3	0.4	-0.6
CZK credits										
absolute volumes, in CZK bn	669.6	768.9	822.3	888.6	912.6	913.3	932.4	915.2	899.4	893.2
year-on-year changes in %	17.9	14.8	6.9	8.1	2.7	2.7	1.9	1.0	-0.9	-2.3
Foreign currency credits										
absolute volumes, in CZK bn	25.9	43.5	97.1	128.5	200.3	197.2	208.7	210.2	205.2	216.0
year-on-year changes in %	57.0	68.0	123.2	32.3	55.9	33.9	20.2	14.9	6.7	7.2
Adjusted credits 1)										
Total credits, CZK and foreign currency										
absolute volumes, in CZK bn	696.2	807.6	906.1	1014.9	1101.9	1109.5	1148.5	1161.0	1167.2	1163.3
year-on-year changes in %	19.2	16.0	12.2	12.0	8.6	6.4	6.2	7.1	7.1	5.8
CZK credits										
absolute volumes, in CZK bn	670.2	763.9	808.8	882.6	922.9	926.2	951.9	956.1	959.1	953.4
year-on-year changes in %	18.1	14.0	5.9	9.1	4.6	3.7	3.5	4.6	4.8	3.5
Foreign currency credits										
absolute volumes, in CZK bn	26.0	43.7	97.3	132.3	179.0	183.3	196.6	204.9	208.1	209.9
year-on-year changes in %	57.6	68.1	122.7	36.0	35.3	22.7	21.1	20.6	19.1	17.7

1) Credit issue 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				
	12	12	12	12	12	3	6	9	10	11
Time structure										
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
short-term	41.8	40.5	41.9	43.5	42.0	41.3	42.8	40.4	40.6	40.5
medium-term	28.3	30.2	29.1	25.7	24.8	24.2	22.9	24.8	24.1	24.0
long-term	29.9	29.3	29.0	30.8	33.2	34.5	34.3	34.8	35.3	35.5
Sector structure										
Total CZK and foreign currency credits	100.0	100.0	100.0	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	90.6	90.5	90.4	90.5
Households	6.7	5.7	11.1	10.2	9.8	9.9	9.4	9.5	9.6	9.5
Type structure										
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Operating	50.4	47.5	51.5	50.9	52.9	52.7	53.8	54.2	53.8	53.7
Investment (incl. general housing construction)	33.9	33.6	33.2	32.4	31.3	32.1	30.4	30.7	31.0	31.1
Mortgage	0.4	0.1	0.1	1.0	1.6	1.7	1.8	2.0	2.1	2.1
Consumer	0.6	0.7	0.8	0.7	0.6	0.6	1.3	1.3	1.3	1.5
For privatisation	5.4	5.0	3.8	3.0	2.0	1.8	1.6	1.5	1.4	1.4
For temporary fund shortage	9.1	12.5	9.6	9.2	10.5	9.4	9.1	8.1	8.0	7.7
For securities purchase	0.2	0.6	1.0	2.8	1.1	1.7	2.0	2.2	2.4	2.5

Note:
1) Until 1996, only CZK credits excluding classified credits (foreign currency credits broken down by sector are not available) and since 1997, total credits
2) Since June 1998 Agrobanka's residual part excluded

INTEREST RATES ON INTERBANK DEPOSITS

%

	1993	1994	1995	1996	1997	1998					
	12	12	12	12	12	3	6	9	10	11	12
1. AVERAGE PRIBOR RATE 1)											
- 1 day	5.47	10.75	10.83	12.44	12.55	13.91	13.63	14.05	13.18	12.00	10.84
- 7 day	5.90	12.28	11.17	12.61	16.64	14.95	15.26	13.99	13.43	11.97	10.56
- 14 day	6.14	12.38	11.20	12.61	16.77	15.01	15.34	13.99	13.42	11.95	10.54
- 1 month	6.68	12.55	11.01	12.63	17.49	15.18	15.63	13.90	13.35	11.70	10.46
- 2 month	7.34	12.61	10.97	12.62	17.54	15.36	15.77	13.86	13.26	11.46	10.27
- 3 month	8.00	12.65	10.93	12.67	17.50	15.52	15.81	13.82	13.20	11.31	10.08
- 6 month	9.21	12.65	10.89	12.55	17.41	15.85	15.83	13.59	12.94	10.82	9.56
- 9 month	10.69	12.65	10.89	12.25	17.39	15.98	15.84	13.44	12.69	10.59	9.38
- 12 month	11.90	12.66	10.90	12.23	17.36	16.08	15.84	13.39	12.60	10.51	9.31
2.AVERAGE PRIBID RATE 1)											
- 1 day	4.51	10.01	10.52	12.19	10.75	13.19	12.60	13.63	12.66	11.68	10.48
- 7 day	4.92	11.48	10.82	12.35	15.37	14.56	14.87	13.73	13.17	11.72	10.30
- 14 day	5.16	11.55	10.84	12.36	15.45	14.62	14.94	13.72	13.16	11.70	10.27
- 1 month	5.68	11.72	10.63	12.35	16.26	14.80	15.22	13.60	13.07	11.43	10.18
- 2 month	6.34	11.76	10.59	12.34	16.33	14.95	15.34	13.56	12.98	11.18	9.99
- 3 month	7.00	11.80	10.53	12.39	16.35	15.14	15.39	13.52	12.92	11.04	9.79
- 6 month	8.21	11.81	10.48	12.26	16.31	15.45	15.40	13.29	12.65	10.53	9.26
- 9 month	9.56	11.82	10.47	11.96	16.27	15.59	15.40	13.13	12.39	10.30	9.08
- 12 month	10.89	11.83	10.48	11.94	16.23	15.69	15.41	13.09	12.31	10.22	9.02

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

FRA RATES

monthly averages in %

	1997				1998											
	3	6	9	12	1	2	3	4	5	6	7	8	9	10	11	12
3 * 6	11.82	14.60	14.53	16.70	16.28	16.00	15.62	15.46	15.21	15.38	13.78	13.39	13.16	12.36	10.27	9.02
3 * 9	11.52	14.22	14.53	16.70	16.29	16.10	15.80	15.56	15.22	15.39	13.67	13.20	13.02	12.21	10.15	8.99
6 * 9	11.00	13.32	14.02	16.03	15.63	15.63	15.43	15.07	14.66	14.81	13.08	12.60	12.46	11.68	9.82	8.79
6 * 12	10.97	13.13	13.97	16.01	15.63	15.72	15.52	15.14	14.67	14.82	13.06	12.51	12.37	11.57	9.75	8.79
9 * 12	10.57	12.63	13.52	15.47	15.08	15.17	15.09	14.67	14.18	14.34	12.62	12.07	11.94	11.17	9.47	8.62
12 * 24	10.44	12.16	13.00	15.28	14.74	15.04	14.95	14.56	13.75	13.78	12.13	11.70	11.45	10.85	9.71	9.03
9*12 - 3*6 spread	-1.25	-1.97	-1.01	-1.23	-1.19	-0.83	-0.53	-0.79	-1.03	-1.04	-1.16	-1.31	-1.23	-1.19	-0.81	-0.40
6*12 - 3*9 spread	-0.55	-1.09	-0.55	-0.69	-0.67	-0.38	-0.28	-0.42	-0.55	-0.57	-0.61	-0.69	-0.65	-0.64	-0.40	0.20
offer - bid spread (3*6)	0.10	0.21	0.21	0.21	0.20	0.18	0.16	0.14	0.11	0.12	0.11	0.15	0.16	0.15	0.16	0.19
offer - bid spread (12*24)	0.17	0.36	0.35	0.30	0.28	0.20	0.19	0.15	0.15	0.12	0.18	0.19	0.18	0.30	0.66	0.58

IRS RATES

monthly averages in %

	1997				1998											
	3	6	9	12	1	2	3	4	5	6	7	8	9	10	11	12
1Y	11.89	18.07	14.92	17.54	16.91	16.67	16.32	16.06	15.71	15.97	14.16	13.65	13.44	12.68	10.68	9.52
2Y	11.17	15.34	13.94	16.58	15.92	15.93	15.69	15.39	14.83	15.00	13.24	12.77	12.53	11.77	10.02	9.13
3Y	11.05	14.34	13.26	15.93	15.37	15.40	15.20	14.83	14.01	14.17	12.58	12.24	12.07	11.32	9.80	9.06
4Y	11.01	13.79	12.84	15.54	15.01	15.06	14.78	14.33	13.27	13.49	12.11	11.85	11.76	11.05	9.69	8.99
5Y	10.98	13.28	12.50	15.25	14.67	14.81	14.49	13.88	12.75	12.98	11.67	11.55	11.51	10.85	9.63	8.93
6Y	10.97	12.81	12.28	15.19	14.81	14.64	14.28	13.55	12.25	12.43	11.32	11.28	11.26	10.64	9.38	8.73
7Y	10.91	12.64	12.09	14.88	14.34	14.42	14.11	13.33	11.88	12.08	11.03	11.06	11.09	10.51	9.29	8.71
8Y	10.94	12.47	12.03	14.90	14.24	14.27	14.01	13.18	11.69	11.85	10.83	10.85	10.90	10.36	9.23	8.67
9Y	10.90	12.31	11.92	14.29	14.14	14.14	13.93	13.05	11.55	11.65	10.68	10.73	10.72	10.24	9.17	8.63
10Y	10.88	12.20	11.81	14.24	13.86	14.02	13.83	13.01	11.45	11.60	10.51	10.60	10.61	10.15	9.06	8.61
2Y - 1Y spread	-0.72	-2.73	-0.98	-0.97	-0.99	-0.75	-0.64	-0.67	-0.88	-0.97	-0.92	-0.87	-0.91	-0.90	-0.66	-0.39
5Y - 1Y spread	-0.91	-4.78	-2.42	-2.30	-2.24	-1.86	-1.83	-2.18	-2.96	-2.99	-2.49	-2.09	-1.94	-1.82	-1.05	-0.60
10Y - 1Y spread	-1.01	-5.87	-3.11	-3.30	-3.05	-2.65	-2.50	-3.04	-4.27	-4.37	-3.64	-3.04	-2.84	-2.53	-1.62	-0.92
offer - bid spread (1Y)	0.12	0.38	0.13	0.23	0.21	0.14	0.13	0.13	0.12	0.11	0.12	0.14	0.13	0.12	0.18	0.25
offer - bid spread (2Y)	0.12	0.54	0.19	0.30	0.22	0.20	0.18	0.17	0.12	0.16	0.16	0.20	0.19	0.18	0.21	0.28
offer - bid spread (5Y)	0.17	0.60	0.24	0.37	0.30	0.23	0.17	0.18	0.20	0.19	0.19	0.21	0.20	0.21	0.34	0.31
offer - bid spread (10Y)	0.35	0.76	0.29	0.46	0.48	0.37	0.35	0.32	0.26	0.29	0.22	0.28	0.28	0.28	0.21	0.20

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			3.8	2.5			8.4	7.1	

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

COMMERCIAL BANK INTEREST RATES

%

	1993	1994	1995	1996	1997	1998				
	12	12	12	12	12	3	6	9	10	11
1. AVERAGE RATES ON TOTAL CREDITS										
A) BY SECTOR IN TOTAL	14.1	12.8	12.7	12.5	13.9	13.4	13.5	12.7	12.2	11.6
of which:										
- state sector	14.6	12.2	12.2	11.7	12.8	12.6	12.3	11.9	11.3	11.0
- private sector (incl. co-operatives)	14.6	13.5	13.3	13.1	14.5	13.9	13.9	13.1	12.6	11.9
- businesses under foreign control	15.4	12.6	12.3	12.7	14.4	13.9	14.4	13.7	13.2	12.5
- households	7.2	8.1	6.5	7.7	9.3	9.4	9.5	9.5	9.5	9.4
B) BY TIME IN TOTAL	14.1	12.8	12.7	12.5	13.9	13.4	13.5	12.7	12.2	11.6
of which:										
- short-term	15.6	12.7	12.5	12.4	14.1	13.5	14.1	13.4	12.8	12.0
- medium-term	15.9	14.5	14.2	13.5	14.6	14.3	13.9	13.2	12.9	12.3
- long-term	10.4	11.2	11.5	11.8	13.0	12.8	12.4	11.6	11.2	10.7
2. AVERAGE RATES ON NEWLY GRANTED CREDITS										
A) BY SECTOR IN TOTAL	14.6	13.7	13.1	13.6	16.5	16.1	16.0	14.6	14.3	12.9
of which:										
- state sector	16.1	13.2	12.7	13.5	17.6	16.3	16.0	13.6	14.2	13.1
- private sector (incl. co-operatives)	16.1	14.6	13.4	13.8	17.0	16.4	16.2	15.0	14.6	13.0
- businesses under foreign control	10.4	12.1	11.9	13.2	17.0	15.7	15.8	14.4	14.0	12.7
- households	15.4	14.4	14.1	11.5	12.4	12.4	11.4	11.3	11.1	10.7
- foreign countries	15.7	15.9	14.1	13.0	10.1	14.3	14.4	13.9	13.4	12.0
B) BY TIME IN TOTAL	14.6	13.7	13.1	13.6	16.5	16.1	16.0	14.6	14.3	12.9
of which:										
- short-term	14.0	13.3	12.9	13.6	16.5	16.2	16.0	14.5	14.3	12.9
- medium-term	16.7	14.8	14.2	14.3	17.0	17.1	15.2	14.5	14.0	12.8
- long-term	14.5	14.2	13.3	12.5	16.0	14.1	16.2	15.0	14.3	12.7
3. AVERAGE RATES ON TOTAL DEPOSITS										
A) BY SECTOR IN TOTAL	7.0	6.9	6.9	6.7	8.0	8.5	8.4	8.2	8.0	7.3
of which:										
- state sector	7.9	6.3	5.9	6.8	7.9	8.7	9.0	8.8	8.3	7.5
- private sector (incl. co-operatives)	4.8	5.9	6.1	5.4	6.1	6.9	7.0	6.8	6.4	5.8
- businesses under foreign control	5.4	3.6	5.1	5.0	7.0	6.9	7.2	7.6	7.0	6.3
- households	7.9	8.3	8.0	7.3	9.0	9.1	8.9	8.6	8.5	7.9
B) BY TIME IN TOTAL	7.0	6.9	6.9	6.7	8.0	8.5	8.4	8.2	8.0	7.3
of which:										
- demand	2.3	2.6	2.8	2.5	2.1	2.1	2.0	1.9	1.9	2.0
- time	11.0	10.6	10.0	9.2	10.9	11.0	11.0	10.5	10.3	9.5
- short-term	9.6	9.6	9.7	9.3	11.6	11.9	12.0	11.4	11.1	10.1
- medium-term	11.8	11.5	10.7	9.8	12.2	12.2	11.9	11.7	11.6	11.1
- long-term	13.7	11.3	8.8	6.2	5.2	4.9	4.7	4.6	4.4	4.2
For information:										
Commercial bank interest rate margin (%)	7.1	5.9	5.8	5.8	5.9	4.9	5.1	4.5	4.2	4.3

BALANCE OF PAYMENTS 1)

in CZK mil.

	1993	1994	1995	1996	1997	1998 2) QI - III
A. CURRENT ACCOUNT	13 286.7	-22 643.2	-36 331.3	-116 510.6	-101 856.2	-15 933.3
Balance of trade 3)	-15 313.0	-39 750.9	-97 598.6	-159 538.6	-144 025.9	-50 097.1
- exports	414 833.0	458 436.6	569 549.1	588 791.5	722 501.0	642 397.0
- imports	430 146.0	498 187.5	667 147.7	748 330.1	866 526.9	692 494.1
Services	29 465.2	14 052.8	48 881.2	52 198.9	55 935.0	44 566.1
Credit	137 691.2	148 404.0	178 270.4	222 030.4	227 193.6	178 187.3
- transport	36 186.6	35 757.9	38 757.4	36 209.6	41 661.6	33 387.3
- travel	45 437.4	64 170.3	76 301.3	110 620.0	115 700.0	85 500.0
- others	56 067.2	48 475.8	63 211.7	75 200.8	69 832.0	59 300.0
Debit	108 226.0	134 351.2	129 389.2	169 831.5	171 258.6	133 621.2
- transport	21 402.1	24 542.4	21 208.9	18 983.3	19 973.6	15 024.8
- travel	15 368.3	45 605.6	43 330.3	80 170.0	75 500.0	48 500.0
- others	71 455.6	64 203.2	64 850.0	70 678.2	75 785.0	70 096.4
Income	-3 424.7	-580.8	-2 804.0	-19 611.0	-25 102.4	-19 917.8
Credit	15 952.0	22 713.2	31 696.1	31 765.9	44 696.0	35 135.9
Debit	19 376.7	23 294.0	34 500.1	51 376.9	69 798.4	55 053.7
Current transfers	2 559.2	3 635.7	15 190.1	10 440.1	11 337.1	9 515.5
Credit	7 024.5	8 523.3	17 631.6	16 752.7	27 402.5	19 172.5
Debit	4 465.3	4 887.6	2 441.5	6 312.6	16 065.4	9 657.0
B. CAPITAL ACCOUNT	-16 175.0	-	179.1	15.6	315.9	49.9
Credit	5 976.0	-	307.8	28.1	493.0	403.3
Debit	22 151.0	-	128.7	12.5	177.1	353.4
Total A + B	-2 888.3	-22 643.2	-36 152.2	-116 495.0	-101 540.3	-15 883.4
C. FINANCIAL ACCOUNT	88 184.7	97 019.7	218 288.5	116 632.5	34 319.1	47 114.4
Direct investment	16 421.8	21 551.1	67 021.2	37 674.8	40 451.4	38 940.4
- abroad	-2 628.6	-3 443.3	-971.6	-1 100.0	-800.0	-1 250.0
- in the Czech Republic	19 050.4	24 994.4	67 992.8	38 774.8	41 251.4	40 190.4
Portfolio investment	46 658.5	24 595.9	36 144.4	19 692.5	34 438.9	8 715.3
Assets	-6 686.9	-1 327.1	-8 565.6	-1 291.1	-6 006.8	1 912.5
- equity securities	-6 686.9	-1 327.1	-8 565.6	-1 291.1	19.9	2 195.3
- debt securities					-6 026.7	-282.8
Liabilities	53 345.4	25 923.0	44 710.0	20 983.6	40 445.7	6 802.8
- equity securities	32 569.8	14 369.8	32 761.7	16 340.9	13 783.7	16 570.6
- debt securities	20 775.6	11 553.2	11 948.3	4 642.7	26 662.0	-9 767.8
Other investment	25 104.4	50 872.7	115 122.9	59 265.2	-40 571.2	-541.3
Assets	-83 911.4	-69 582.4	-66 050.8	-64 646.8	-142 725.1	-29 630.0
Long-term	13 340.8	12 046.4	1 384.4	-10 769.8	-11 117.6	-3 633.2
- CNB						
- commercial banks	-1 431.5	-31.7	-3 353.6	-14 168.2	-11 907.4	-5 213.8
- government	8 323.3	8 175.1	3 335.0	1 286.4	519.8	301.6
- other sectors	6 449.0	3 903.0	1 403.0	2 112.0	270.0	1 279.0
Short-term	-97 252.2	-81 628.8	-67 435.2	-53 877.0	-131 607.5	-25 996.8
- CNB						
- commercial banks	2 163.0	-4 289.4	-2 446.2	-48 976.0	-122 038.5	-17 658.8
- 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	-8 338.0
Liabilities	109 015.8	120 455.1	181 173.7	123 912.0	102 153.9	29 088.7
Long-term	10 131.9	19 865.1	87 965.8	95 193.1	24 047.6	-10 837.1
- 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	-16 344.4
- government	-3 421.5	-5 249.5	-12 047.3	-7 132.6	-11 581.9	-9 852.3
- other sectors	14 372.7	45 637.7	38 655.7	55 592.2	50 873.0	15 576.0
Short-term	98 883.9	100 590.0	93 207.9	28 718.9	78 106.3	39 925.8
- CNB	1 670.5	-1 634.7	77.1	-59.6	-9.9	-9.1
- commercial banks	2 481.8	14 016.0	27 636.1	30 574.9	67 383.7	31 666.2
- government (liability vis-a-vis Slovakia)	91 895.5	86 555.8	56 262.2	-899.6	-69.5	-0.3
- other sectors	2 836.1	1 652.9	9 232.5	-896.8	10 802.0	8 269.0
Total A+B+C	85 296.4	74 376.5	182 136.3	137.5	-67 221.2	31 231.0
D. NET ERRORS AND OMISSIONS, VALUATION CHANGES	3 019.8	-6 121.9	15 779.4	-22 612.6	11 181.2	26 719.0
Total A+B+C+D	88 316.2	68 254.6	197 915.7	-22 475.1	-56 040.0	57 950.0
E. CHANGE IN RESERVES (- increase)	-88 316.2	-68 254.6	-197 915.7	22 475.1	56 040.0	-57 950.0

1) Balance of payments structure based on the Balance of Payments Manual (5th edition) (IMF 1993)
2) Preliminary data
3) Based on data published by the CSO - according to customs statistics methodology effective 1 Jan. 1996;
1993 and 1994 data were taken from the CSO publication "Czech Foreign Trade 1993-1995", Dec. 1997

INVESTMENT POSITION VIS-A-VIS FOREIGN COUNTRIES

in CZK mil.

		1993	1993	1994	1995	1996	1997	1998
		1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)	30 Sept. 1)
ASSETS		406 103.0	536 388.7	572 874.1	780 693.0	832 925.3	1 025 106.4	1 044 494.2
Direct investment abroad		2 634.0	5 432.9	8 426.9	9 190.1	10 544.7	13 300.0	13 520.0
- initial capital		2 634.0	5 432.9	8 426.9	9 190.1	10 544.7	13 300.0	13 520.0
- other capital								
Portfolio investment		226.0	8 258.0	12 138.0	20 076.9	37 511.2	35 738.9	33 006.0
- equity securities		226.0	7 911.1	9 370.5	18 422.0	20 450.3	14 442.0	11 313.1
- debt securities			346.9	2 767.5	1 654.9	17 060.9	21 296.9	21 692.9
Other investment		378 895.6	406 717.6	377 187.3	378 388.3	444 985.4	637 542.8	628 027.2
Long-term		232 823.7	249 198.8	229 026.4	214 430.3	234 849.6	293 651.8	265 349.4
- CNB		23 102.5	24 572.5	24 573.3	26 172.3	26 122.8	26 122.4	26 122.4
- commercial banks	2)	365.9	1 852.3	1 763.0	5 116.6	25 181.3	37 088.8	42 302.6
- government	3) 4)	167 429.3	186 968.0	174 784.1	157 950.4	160 949.7	203 922.8	175 119.2
- other sectors		41 926.0	35 806.0	27 906.0	25 191.0	22 595.8	26 517.8	21 805.2
Short-term		146 071.9	157 518.8	148 160.9	163 958.0	210 135.8	343 891.0	362 677.8
- CNB		4.7	4.7	4.7	4.7	4.7	0.1	0.1
- commercial banks	2)	82 456.2	83 133.2	80 820.2	87 176.3	128 481.1	250 670.9	268 329.7
of which: gold + foreign currency	5) 6)	79 040.1	70 727.5	71 232.8	76 126.9	95 432.8	172 301.6	179 244.0
- government			5 501.9					
- other sectors		63 611.0	68 879.0	67 336.0	76 777.0	81 650.0	93 220.0	94 348.0
CNB reserves		24 347.4	115 980.2	175 121.9	373 037.7	339 884.0	338 524.7	369 941.0
- gold	5)	2 488.2	2 466.4	2 309.3	2 234.6	2 290.3	1 521.9	370.0
- 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	369 571.0
LIABILITIES		269 842.8	385 205.3	469 305.5	685 146.2	864 759.4	1 087 812.1	1 098 060.5
Direct investment in Czech Republic		45 444.3	64 506.7	89 501.1	157 570.6	192 987.3	234 238.7	274 429.1
- initial capital		45 444.3	64 506.7	89 501.1	157 570.6	192 987.3	234 238.7	274 429.1
- other capital								
Portfolio investment		4 812.9	58 583.9	81 617.5	124 933.6	144 807.4	169 032.7	142 226.8
- equity securities		75.0	32 985.2	37 335.6	70 280.4	92 867.8	104 862.3	92 503.6
- debt securities		4 737.9	25 598.7	44 281.9	54 653.2	51 939.6	64 170.4	49 723.2
Other investment		219 585.6	262 114.7	298 186.9	402 642.0	526 964.7	684 540.7	681 404.6
Long-term		158 430.0	192 426.3	207 289.7	279 388.9	374 814.7	452 997.6	413 911.3
- CNB		31 109.9	33 697.4	1 695.7	2 491.5	2 272.7	2 188.3	1 653.8
- commercial banks	2)	14 491.1	16 175.5	26 040.1	90 299.3	143 454.2	143 120.2	122 259.6
- government	3)	70 771.0	82 295.1	76 533.9	53 200.2	44 003.7	38 001.1	25 208.9
- other sectors		42 058.0	60 258.3	103 020.0	133 397.9	185 084.1	269 688.0	264 789.0
Short-term		61 155.6	69 688.4	90 897.2	123 253.1	152 150.0	231 543.1	267 493.3
- CNB		8.2	4 581.0	37.9	115.0	55.3	45.5	36.4
- commercial banks	2)	19 527.4	22 249.3	41 339.9	69 502.9	101 543.5	168 927.1	200 593.4
- government		0.0	0.0	5 013.4	1 104.1	314.8	287.5	311.5
- other sectors		41 620.0	42 858.1	44 506.0	52 531.1	50 236.4	62 283.0	66 552.0
BALANCE OF INVESTMENT POSITION		136 260.2	151 183.4	103 568.6	95 546.8	-31 834.1	-62 705.7	-53 566.3

1) Preliminary data
2) In connection with the introduction of CZK convertibility (1 Oct. 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 Dec. 1994)
3) During January 1993, part of the receivables and payables in convertible and non-convertible currencies were transferred from the CSOB position to the Minis in column 1 Jan.1993 these amounts are included in the government position; the receivable vis-a-vis CIS in data as of 1 Jan.1993 is expressed by the balance in XTR and USD, while in later periods accounts are kept via turnover
4) Including foreign exchange shares in international non-monetary organisations (The World Bank, EBRD, IBEC, IIB)
5) Gold worth USD 42.22 per Troy ounce
6) Foreign exchange - convertible currencies

EXTERNAL INDEBTEDNESS

in CZK mil.

	1993	1993	1994	1995	1996	1997	1998
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)	30 Sept. 1)
A. INDEBTEDNESS IN CONVERTIBLE CURRENCIES	204 674.7	254 488.1	299 960.7	440 229.3	569 723.6	739 563.0	721 919.1
of which:							
1. Long-term	152 695.1	194 525.0	218 944.5	306 034.4	405 143.6	495 058.5	453 057.1
a) by debtor							
-CNB	35 399.8	58 836.1	22 845.3	22 268.0	11 178.4	11 548.4	9 475.3
- commercial banks 2)	14 491.1	16 175.5	27 620.1	95 433.3	150 780.1	158 503.7	131 683.3
- government	61 147.2	59 477.1	61 763.4	52 101.7	46 738.6	42 877.1	36 669.7
- other sectors	41 657.0	60 036.3	106 715.7	136 231.4	196 446.5	282 129.3	275 228.8
b) by creditor							
- foreign banks	62 121.2	82 849.8	124 224.8	218 310.9	300 910.4	373 453.1	339 327.1
- government institutions	6 685.9	7 346.8	7 482.1	7 039.1	6 631.8	7 269.4	5 217.3
- multilateral institutions	50 127.1	52 891.7	19 889.7	18 987.2	17 645.5	13 894.1	7 236.8
- suppliers and direct investors	29 023.0	25 838.0	32 601.0	24 567.0	27 116.0	33 738.0	33 314.0
- other investors	4 737.9	25 598.7	34 746.9	37 130.2	52 839.9	66 703.9	67 961.9
2. Short-term	51 979.6	59 963.1	81 016.2	134 194.9	164 580.0	244 504.5	268 862.0
a) by debtor							
- CNB	7.9	4 581.0	37.9	115.0	55.3	45.5	36.4
- commercial banks 2)	17 819.7	21 117.0	32 610.3	71 911.8	106 852.6	170 147.0	200 593.4
- government	.	.	9 535.0	15 114.0	2 786.0	8 164.0	.
- other sectors	34 152.0	34 265.1	38 833.0	47 054.1	54 886.1	66 148.0	68 232.2
b) by creditor							
- foreign banks	11 402.7	22 256.0	28 467.5	58 874.2	85 424.0	144 881.3	182 466.1
- suppliers and direct investors	33 069.0	29 664.0	34 132.0	41 986.4	45 914.0	55 413.0	58 632.0
- other investors	7 507.9	8 043.1	18 416.7	33 334.3	33 242.0	44 210.2	27 763.9
B. INDEBTEDNESS IN NON-CONVERTIBLE CURRENCIES 3)	19 648.8	33 225.3	42 508.1	17 065.9	9 180.7	9 148.1	9 208.7
of which:							
a) long-term	10 472.8	23 500.0	23 092.1	10 484.7	8 865.9	8 860.6	8 897.2
b) short-term	9 176.0	9 725.3	19 416.0	6 581.2	314.8	287.5	311.5
TOTAL INDEBTEDNESS VIS-A-VIS FOREIGN COUNTRIES (A+B)	224 323.5	287 713.4	342 468.8	457 295.2	578 904.3	748 711.1	731 127.8
of which:							
a) long-term	163 167.9	218 025.0	242 036.6	316 519.1	414 009.5	503 919.1	461 954.3
b) short-term	61 155.6	69 688.4	100 432.2	140 776.1	164 894.8	244 792.0	269 173.5

1) Preliminary data

2) As of 31 Dec. 1995 short-term and as of 31 Dec. 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 Dec. 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 the introduction of CZK convertibility from 1 Oct. 1995)

3) Indebtedness vis-a-vis the Slovak Republic: in 1993 to 1995 in non-convertible currencies, from 1996 the unsettled balance of mutual accounts after 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 Dec. 1995.

EXCHANGE RATE

A. NOMINAL RATE

CZK, exchange rate fixing

	1993	1994	1995	1996	1997	1998			
	1-12	1-12	1-12	1-12	1-12	1-3	4-6	7-9	9-12
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES									
1 GBP	43.78	44.03	41.89	42.33	51.95	56.95	54.88	52.21	49.76
1 FRF	5.15	5.19	5.32	5.31	5.43	5.68	5.52	5.34	5.33
1000 ITL	18.56	17.85	16.30	17.59	18.61	19.33	18.76	18.15	18.05
100 JPY	26.32	28.15	28.34	24.99	26.29	27.05	24.49	22.58	24.78
1 CAD	22.61	21.09	19.34	19.90	22.91	24.21	22.97	20.91	19.27
1 NLG	15.70	15.82	16.53	16.11	16.25	16.90	16.42	15.88	15.84
1 ATS	2.51	2.52	2.63	2.57	2.60	2.71	2.63	2.55	2.54
1 DEM	17.64	17.75	18.52	18.06	18.28	19.05	18.50	17.91	17.86
1 CHF	19.74	21.06	22.45	22.02	21.85	23.48	22.24	21.48	21.84
1 USD	29.16	28.78	26.55	27.14	31.71	34.62	33.19	31.61	29.69
100 SKK	.	.	89.49	88.57	94.18	98.43	95.71	90.18	82.22
	12	12	12	12	12	3	6	9	12
1 GBP	44.37	43.99	41.00	45.48	57.72	56.42	54.83	51.57	50.20
1 FRF	5.09	5.21	5.37	5.21	5.84	5.56	5.54	5.37	5.38
1000 ITL	17.63	17.28	16.71	17.89	19.94	18.93	18.87	18.21	18.18
100 JPY	27.12	28.18	26.21	24.05	26.87	26.43	23.72	22.77	25.55
1 CAD	22.34	20.34	19.47	20.10	24.37	24.00	22.73	20.17	19.51
1 NLG	15.54	16.02	16.52	15.71	17.35	16.54	16.49	15.95	15.97
1 ATS	2.48	2.55	2.63	2.51	2.78	2.65	2.64	2.56	2.56
1 DEM	17.41	17.94	18.50	17.63	19.55	18.64	18.59	17.99	18.00
1 CHF	20.30	21.21	22.89	20.64	24.16	22.89	22.31	21.86	22.10
1 USD	29.76	28.22	26.66	27.34	34.73	34.00	33.27	30.73	30.06
100 SKK	.	.	89.76	86.42	100.58	97.01	95.59	87.93	83.04

B. REAL RATE

	1993	1994	1995	1996	1997	1998			
	12	12	12	12	12	3	6	9	12
Index of real CZK/DEM exchange rate (January 1993=100)									
a) consumer prices	91.57	87.67	85.24	75.73	77.70	70.70	70.59	67.13	67.41
b) industrial producer prices	90.27	89.78	87.47	79.83	84.65	78.25	77.97	75.02	74.89

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)

STATE BUDGET

CZK bn

	1993	1994	1995	1996	1997	1998			
	1-12	1-12	1-12	1-12	1-12	1-3	1-6	1-9	1-11
TOTAL REVENUES	358.0	390.5	440.0	482.8	509.0	123.5	258.6	395.9	486.5
Tax revenues	330.2	360.1	409.7	457.4	478.4	116.4	246.2	369.9	457.9
Income tax	71.9	70.2	72.7	78.3	74.8	18.8	45.2	64.9	77.5
Social security insurance	106.0	130.0	154.3	174.3	191.0	48.7	99.2	149.7	183.4
Property tax	0.8	2.1	3.2	3.9	5.0	1.2	2.9	4.3	5.5
Domestic taxes on goods and services	111.8	136.4	155.4	174.8	186.3	42.4	88.6	135.8	173.2
- VAT	70.4	85.8	94.8	109.3	117.6	25.7	55.6	84.0	107.7
- Excise taxes	37.1	46.4	56.7	61.2	64.2	16.1	31.2	49.0	61.8
Foreign trade taxes	15.2	17.4	17.4	19.7	14.9	3.2	6.6	9.9	12.3
Other tax revenues	24.4	4.1	6.7	6.4	6.4	2.0	3.7	5.2	6.1
Non-tax revenues	27.8	30.4	30.3	25.4	30.5	7.1	12.4	25.9	28.6
Corporate and property revenues	14.7	12.8	7.3	8.5	8.5	1.7	3.3	5.0	5.8
Fees, fines and penalties and other non-tax revenues	4.0	8.2	16.7	10.4	13.8	4.2	5.9	16.6	17.6
Government credit repayments	9.0	9.4	6.3	6.5	8.2	1.2	3.1	4.3	5.1
TOTAL EXPENDITURES	356.9	380.1	432.7	484.4	524.7	115.9	256.8	389.7	484.3
Current expenditures	324.6	346.7	388.6	427.3	474.1	110.1	239.2	361.0	446.1
Expenditures on goods and services	125.6	121.2	109.8	150.2	135.5	22.4	60.3	93.4	118.7
Debit interest	13.7		2.6	14.0	17.6	4.4	9.4	14.5	17.1
Subsidies and current transfers	180.3	218.3	268.7	259.0	317.4	81.1	166.0	248.4	305.1
Subsidies	42.8	49.3	77.1	84.5	90.9	19.4	45.3	67.5	82.3
- to businesses	29.3	27.0	27.8	27.3	31.8	5.6	16.2	23.2	27.3
- to subsidised organisations	13.5	22.3	49.3	57.3	59.1	13.8	29.1	44.3	55.0
Transfers	137.4	169.1	191.5	174.4	226.6	61.7	120.7	180.9	222.8
- to local budgets	17.0	29.3	33.3	16.8	18.0	8.5	10.2	15.4	17.2
- to households	116.6	136.9	155.6	154.3	206.0	52.7	108.5	163.8	202.4
- abroad						0.3	0.5	0.6	0.6
Government credits	5.0	7.2	7.6	4.1	3.6	2.2	3.4	4.7	5.1
Capital expenditures	32.3	33.3	44.1	57.1	50.6	5.8	17.6	28.7	38.2
Investment expenditures to budgetary organisations	19.0	19.7	21.5	24.9	16.4	1.5	3.9	7.2	10.1
Capital transfers	13.3	13.6	22.7	32.1	34.2	4.3	13.7	21.6	28.1
to businesses	5.0	3.7	5.5	4.6	5.6	0.7	2.1	3.8	5.3
to subsidised organisations	8.4	9.9	17.2	27.5	28.6	3.6	11.6	17.8	22.8
BALANCE	1.1	10.4	7.2	-1.6	-15.7	7.6	1.8	6.2	2.2

CAPITAL MARKET

A. SHARE MARKET INDICES

last day of the month in points

	1997				1998					
	3	6	9	12	3	6	9	10	11	12
PX-50	558	489	536	495	505	467	360	388	390	394
PX-GLOB	670	592	652	599	615	568	460	474	476	478
PK-30	748	649	740	664	698	656	521	549	554	564

B. BOND MARKET

monthly averages in %

	1997				1998					
	3	6	9	12	3	6	9	10	11	12
A. YIELDS OF TAXED GOVERNMENT BONDS										
Maturity in years										
1Y	.	.	.	.	.	14.51	12.81	12.10	10.11	8.88
2Y	.	14.35	13.65	16.23	14.95	14.39	12.55	11.82	9.96	8.77
3Y	.	13.84	13.30	15.67	14.64	13.58	11.98	11.35	9.67	8.57
4Y	.	14.72	12.94	15.10	14.38	13.13	11.59	11.01	9.48	8.52
5Y	.	12.97	12.63	14.85	14.41	13.03	11.51	10.90	9.49	8.64
6Y	.	12.88	12.39	14.84	14.43	.	.	.	.	.
B. YIELDS OF CORPORATE BONDS										
Maturity in years										
1Y	11.57	16.38	15.14	17.93	16.29	.	.	.	.	.
2Y	11.34	15.23	14.19	16.57	15.63	14.57	12.92	12.46	11.50	.
3Y	11.05	14.10	13.50	15.70	15.41	14.21	12.86	12.70	11.75	.
4Y	11.08	13.71	13.37	15.20	15.21	13.82	12.48	12.31	11.47	.
5Y	11.14	13.45	12.97	15.07	14.87	13.33	11.86	11.54	10.93	.
6Y	11.12	13.30	12.71	15.06	14.55	12.95	11.86	11.65	11.14	.
7Y	11.35	13.42	12.72	14.92	14.86	12.86	12.23	12.05	11.44	.
8Y	11.13	13.11	12.83	14.69	14.68	12.62	12.15	11.99	11.37	.
9Y	11.07	12.94	12.64	14.42	14.35	12.37	12.08	11.94	11.31	.
10Y	11.07	12.77	13.03	14.98	15.02	12.31	.	.	.	.
11Y	11.03	12.53	.	.	.	.	.	.	.	.

C. TRADE VOLUMES

in CZK mil.

	1997				1998					
	3	6	9	12	3	6	9	10	11	12
PSE										
Total trade volume	51 225	73 413	48 545	63 249	52 525	88 271	87 771	96 643	93 902	92 553
of which:										
a) automated system	2 358	1 125	1 589	1 368	1 718	6 210	11 892	9 886	8 347	6 772
b) outright and block trades	48 867	72 288	46 956	61 881	50 807	82 061	75 879	86 757	85 555	85 781
RM-SYSTEM										
Total trade and transfer volume	10 517	5 239	13 662	36 870	17 562	22 163	11 271	17 075	20 244	20 837
of which:										
a) running auction	692	392	742	547	1 036	643	552	467	505	491
b) outright and block trades	9 814	4 841	12 915	36 290	16 520	21 425	10 715	16 603	19 737	20 334
c) transfers with declared price	10	6	4	33	6	95	4	5	2	12
SC										
Total volume of charged transfers	100 019	125 576	93 634	150 980	138 738	153 081	159 095	142 123	151 337	141 892

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			
26 June			9.5	12.5		
3 August						**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					7.50	
14 August		14.00	11.50	16.00		
25 September		13.50				
27 October		12.50	10.5	15.0		
13 November		11.50				
4 December		10.50				
23 December		**9.50**	**7.5**	**12.5**		

MACROECONOMIC AGGREGATES

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

	1994	1995	1996	1997	1998
	Q I - IV	Q I - IV	Q I - IV	Q I - IV	Q I - III
1. GROSS DOMESTIC PRODUCT					
- CZK bn	1148.6	1221.6	1269.4	1281.8	909.8
- %	.	6.4	3.9	1.0	-2.1
2. FINAL CONSUMPTION - TOTAL					
- CZK bn	827.0	861.8	915.4	921.2	655.3
- %	.	4.2	6.2	0.6	-2.6
of which:					
a) Households					
- CZK bn	564.0	603.1	645.5	656.1	466.4
- %	.	6.9	7.0	1.6	-3.2
b) Government					
- CZK bn	255.5	250.3	260.6	255.0	181.2
- %	.	-2.0	4.1	-2.1	-1.3
c) Non-profit-making institutions					
- CZK bn	7.5	8.4	9.3	10.1	7.7
- %	.	12.0	10.7	8.6	6.9
3. GROSS CAPITAL FORMATION - TOTAL					
- CZK bn	346.1	426.1	481.5	470.7	316.1
- %	.	23.1	13.0	-2.2	-6.4
of which:					
a) Fixed capital					
- CZK bn	339.9	411.2	446.8	425.1	274.5
- %	.	21.0	8.7	-4.9	-3.3
b) Inventories and reserves					
- CZK bn	6.2	14.9	34.7	45.6	41.6
4. TRADE BALANCE					
- CZK bn	-24.5	-66.3	-127.5	-110.1	-61.6
of which:					
a) Exports					
- CZK bn	608.0	705.6	743.9	819.9	682.4
- %		16.1	5.4	10.2	15.3
b) Imports					
- CZK bn	632.5	771.9	871.4	930.0	744.0
- %		22.0	12.9	6.7	10.5
For information:					
1. DOMESTIC EFFECTIVE DEMAND					
- CZK bn	1166.9	1273.0	1362.2	1346.3	929.8
- %	.	9.1	7.0	-1.2	-2.8
2. AGGREGATE EFFECTIVE DEMAND					
- CZK bn	1774.9	1978.6	2106.1	2166.2	1612.2
- %	.	11.5	6.4	2.9	4.1
3. GROSS DOMESTIC PRODUCT IN CURRENT PRICES					
- CZK bn	1148.6	1348.7	1532.6	1649.5	1282.6
- %	.	17.4	13.6	7.6	8.7
4. PRICE DEFLATOR					
- %	.	10.4	9.4	6.6	11.1

Source: CSO

HOUSEHOLD CURRENT INCOMES AND EXPENDITURES

increase in % against the same period of previous year

	1993	1994	1995	1996	1997	1998
	Q I - IV	Q I - IV	Q I - IV	Q I - IV	Q I - IV	Q I - III
Current incomes				13.4	10.6	8.0
of which:						
- employee remuneration				16.9	7.9	4.4
- mixed income				3.5	15.0	19.4
- property income				-0.9	20.4	20.9
- social benefits				16.2	13.9	11.6
- other current transfers				15.3	7.7	-13.2
Current expenditures				13.0	11.4	6.9
of which:						
- property income				-16.6	-0.8	9.4
- current taxes on income and wealth				13.4	10.0	8.7
- social contributions				15.2	10.7	5.3
- other current transfers				18.1	24.1	11.6
Disposable income				13.6	10.2	8.6
Changes in net share of households in pension fund reserves				60.6	-4.2	-27.0
Expenditures on individual consumption				15.6	9.7	7.7
Savings				3.6	12.3	12.1
Household savings ratio (savings/disposable income - ratio in %)				12.7	13.0	13.3

Source: CSO

PRODUCTION

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

	1993	1994	1995	1996	1997	1998			
	Q I - IV	Q I - IV	Q I - IV	Q I - IV	Q I - IV	Q I	Q II	Q III	1-11
A. INDUSTRY									
1. TOTAL PRODUCTION OF GOODS 1)	-5.3	2.1	8.7	6.4	.	.	.	.	.
2. TOTAL INDUSTRIAL PRODUCTION 2)	.	.	.	2.0	4.5	8.4	5.1	1.5	2.6
B. CONSTRUCTION									
TOTAL CONSTRUCTION OUTPUT 3) 4)	-7.5	7.5	8.5	5.3	-3.9	4.2	-9.0	-9.0	-6.4
C. AGRICULTURE									
TOTAL GROSS PRODUCTION 5)									
- CZK bn	83.1	78.1	82.0	80.9	76.1	.	.	.	.
- %	-2.3	-6.0	5.0	-1.4	-5.9	.	.	.	.
of which:									
a) Crop production									
- CZK bn	37.4	34.7	35.7	36.4	35.3	.	.	.	.
- %	4.6	-7.2	2.9	2.1	-2.9	.	.	.	.
b) Livestock production									
- CZK bn	45.7	43.4	46.3	44.5	40.8	.	.	.	.
- %	-7.3	-4.9	6.7	-4.0	-8.4	.	.	.	.

1) Constant prices as of 1 Jan. 1989, 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 company register included
4) Constant prices
5) 1989 constant prices

Source: CSO

PRODUCER PRICES

increase in %

	1993		1994		1995		1996		1997		1998	
	12	average	12	average	12	average	12	average	12	average	12	average
INDUSTRIAL PRODUCER PRICES												
a) previous month = 100	-0.1	0.9	0.3	0.5	-0.2	0.6	0.0	0.4	0.2	0.5	-0.4	0.2
b) same period of last year = 100	11.4	13.1	5.6	5.3	7.2	7.6	4.4	4.8	5.7	4.9	2.2	4.9
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
d) December 1993 = 100	0.0	-1.8	6.9	4.8	14.6	12.7	19.6	18.1	26.4	23.9	29.2	29.9
e) moving average	13.1	x	5.3	x	7.6	x	4.8	x	4.9	x	4.9	x
CONSTRUCTION PRICES												
a) previous month = 100	1.1	2.0	0.1	0.8	0.1	1.0	0.5	0.9	0.7	0.9	0.2	0.6
b) same period of last year = 100	27.4	25.9	9.7	13.9	12.3	10.6	11.2	11.3	11.9	11.3	7.2	9.4
c) average of 1994 = 100	.	.	2.9	0.0	15.2	10.6	28.0	23.1	43.3	36.8	53.5	49.8
d) December 1993 = 100	0.0	-6.4	11.0	7.9	24.6	19.6	38.5	33.1	55.0	48.1	66.1	62.1
e) moving average	25.9	x	13.9	x	10.6	x	11.3	x	11.3	x	9.4	x
AGRICULTURAL PRODUCER PRICES												
b) same period of last year = 100	4.3	8.4	10.1	4.7	6.1	7.6	6.8	8.3	2.5	2.9	-9.5	2.3
e) moving average	8.4	x	4.7	x	7.6	x	8.3	x	2.9	x	2.3	x
of which:												
Crop production												
b) same period of last year = 100	8.3	14.4	-4.0	-4.4	15.6	7.1	12.8	16.7	-4.3	3.3	-10.9	-5.4
e) moving average	14.4	x	-4.4	x	7.1	x	16.7	x	3.3	x	-5.4	x
Livestock products												
b) same period of last year = 100	2.8	4.3	15.8	11.5	2.8	8.1	4.4	5.1	2.8	2.1	-8.1	5.9
e) moving average	4.3	x	11.5	x	8.1	x	5.1	x	2.1	x	5.9	x
MARKET SERVICES PRICES												
a) previous month = 100	.	.	.	.	.	.	-0.3	0.4	1.8	0.8	-3.5	-0.2
b) same period of last year = 100	.	.	.	.	.	.	5.5	6.2	11.2	9.2	-1.8	6.6
c) average of 1994 = 100	.	.	.	.	.	.	17.9	16.3	31.2	26.8	28.8	35.3
d) December 1993 = 100	.	.	.	.	.	.	19.6	17.9	33.0	28.5	30.6	37.2
e) moving average	.	.	.	.	.	.	6.2	x	9.2	x	6.6	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
State budget balance	0.1	0.9	0.5	-0.1	-1.0
Public budgets balance	2.3	0.5	0.2	-1.4	-1.7
Public debt	19.2	18.4	16.3	14.2	13.7
Indebtedness in convertible currencies	25.4	26.1	32.6	37.2	44.8
Trade balance 1)	-0.4	-3.1	-7.1	-10.3	-8.4
Current account balance	1.3	-2.0	-2.7	-7.6	-6.2
M2	70.3	73.6	75.1	72.2	73.8

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

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