CNB CZECH NATIONAL BANK

INFLATION REPORT

JULY 1999

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CHARTS

I. INTRODUCTION

In 1999 Q2, the fall in year-on-year inflation continued. However, after a more significant drop in previous quarters, the decline slowed considerably and inflation gradually stabilised at low levels. This characterises the course of both net inflation – whose outturns were negative in Q2 – and the consumer price index. According to the outlook for the end of 1999 and for 2000, inflation will gradually edge up. However, it should develop in line with the medium-run inflation target for 2000.

The decline in inflation in Q2 was fostered by the ongoing fall in net inflation and the slowdown in regulated price adjustments. The two components of net inflation developed differently. Food prices continued to fall relatively fast. Conversely, adjusted inflation rose moderately, thus curbing the price decline.

In Q2, prices were affected by the longer-term contraction of both domestic and foreign demand, which started as early as in 1997 and continued into the beginning of 1999. Food prices, which have contributed most to the decline in inflation in recent quarters, were affected by subsidised food imports from EU countries, relative domestic over-production and also by significant changes in the retail market structure.

In the shorter run, the slower rate of price index decline in Q2 was fostered by rising prices of raw materials and energy sources as well as by the koruna's depreciation vis-à-vis the main world currencies in Q1. However, the effect of the depreciation on prices turned out to be less strong than was expected by the CNB. This was because the ongoing economic recession prevented cost-push inflationary pressures from being felt fully. Expectations that under conditions of increasing capital inflow the exchange rate depreciation would not be a lasting tendency but only a temporary fluctuation may have played a role, too.

In Q1, the year-on-year decline in GDP further intensified. This was caused by a considerable deterioration of net exports and a contraction in gross fixed capital formation. A slight rise in household and government consumption counteracted the fall in GDP.

The worsening of net exports was generated in particular by a fall in exports to transition economies, which reflected the contraction of economic activity in these countries. The decline in investment activity corresponds with the cyclical development of the economy – the investment is of a strongly pro-cyclical nature. However, structural changes in the economy, where capital-intensive industries are declining in significance, may be reflected in a longer-term fall in investment growth and a reduction in the investment rate.

Growing real household incomes fed through into household consumption. However, the consumption and saving behaviour of households was affected by the increasing unemployment rate and by uncertainties about any possible future turnaround of the economy. These factors will continue to act in the forthcoming period, and so it is possible to expect only a slow rise in consumption and a moderate economic revival by the end of 1999.

This macroeconomic trend will continue to subdue the cost-push price pressures generated by the current growth in wage costs and by the rise in import prices connected with commodity price developments on global markets. Cost-push inflationary pressures will decrease in the longer-term horizon, mainly in connection with productivity growth. Owing to ongoing long-term restructuring, the economic upturn will be accompanied by a rise in unemployment.

The money supply growth rate picked up at the beginning of 1999, and the higher year-on-year increases continued into Q2. The growth in the money supply is linked with the rising inflow of foreign capital. The growth rate of domestic credit supply remains subdued.

In Q2, the CNB's monetary policy was based on an assessment of macroeconomic developments and of the effect of inflation factors on future price development. The centre of focus was gradually shifted to price development during 2000 and its consistency with the net inflation target for the end of 2000. Monetary policy was also based on the expected inflow of capital into the economy and the effect of this on the exchange rate. It also responded to changes in foreign interest rates, particularly the April interest rate cut by the European Central Bank.

The inflation prognosis up to the end of 2000 (when, even though price indices should be rather higher than in 1999 Q2, net inflation will nevertheless be moving in the lower half of the inflation target interval) facilitated a further moderate correction of interest rates. In the monitored period, the CNB cut the 2W repo rate in three steps by a total of 1 percentage point to 6.5%.

II. INFLATION DEVELOPMENT

During the course of 1999 Q2, the trend of a gradual slowdown in CPI inflation characterising prices in the previous twelve months slowed significantly (Chart II.1). Whereas year-on-year CPI inflation in each of the previous four quarters fell by several percentage points (and in 1999 Q1 by as much as 4.3 percentage points), in 1999 Q2 it decreased by only 0.3 percentage points. Both net inflation and regulated prices contributed to the considerably lower slowdown in CPI inflation in Q2; by comparison with Q1, the fall in year-on-year net inflation and the slowdown in year-on-year growth in regulated prices were insignificant (Table II.1).

Chart II.1 CPI and inflation rate from 1995 to June 1999

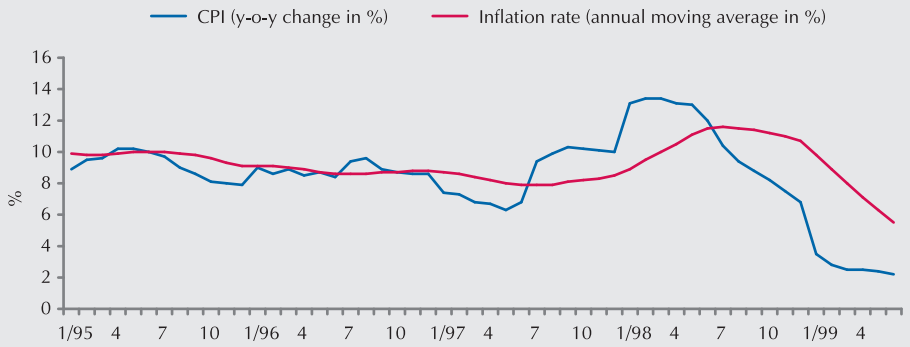


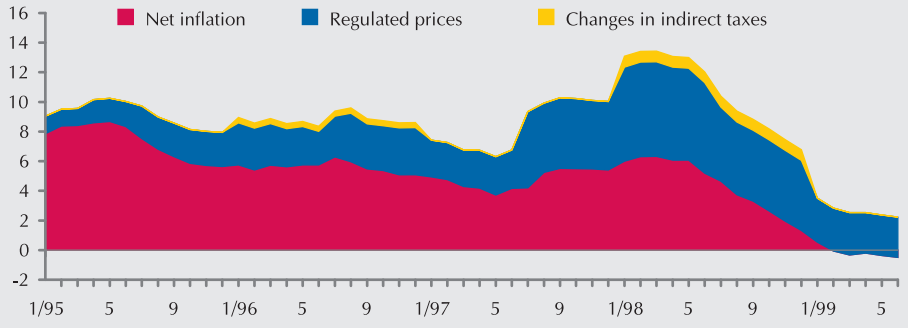
Table II.1 Basic data on consumer prices (in %)

	3/98		6/98		9/98		12/98		1/99		2/99		3/99		4/99		5/99		6/99	
CPI INFLATION (y-o-y)	13.4		12.0		8.8		6.8		3.5		2.8		2.5		2.5		2.4		2.2	
of which:		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Regulated prices	30.8	6.38	29.7	6.11	20.4	4.79	20.4	4.73	12.1	2.97	11.9	2.90	11.7	2.87	11.1	2.75	11.1	2.74	11.0	2.72
Influence of indirect taxes																				0.00
on unregulated prices		0.73		0.73		0.73		0.73		0.00		0.00		0.00		0.00		0.00	-0.6	-0.49
Net inflation	7.9	6.32	6.5	5.19	4.3	3.30	1.7	1.32	0.7	0.54	-0.1	-0.06	-0.4	-0.33	-0.3	-0.21	-0.5	-0.37		
of which:																				
- food prices	7.2	2.40	5.8	1.96	3.1	1.00	-1.2	-0.38	-2.0	-0.61	-3.2	-0.98	-4.0	-1.25	-4.3	-1.34	-4.8	-1.48	-5.0	-1.53
- adjusted inflation	8.4	3.92	6.9	3.22	5.1	2.30	3.7	1.70	2.6	1.15	2.1	0.91	2.1	0.92	2.5	1.13	2.5	1.11	2.3	1.04
INFLATION RATE (annual moving average)	10.0		11.5		11.4		10.7		9.8		8.9		8.0		7.1		6.3		5.5	

Note: Contrib. means contribution to CPI inflation

The only weakly declining year-on-year CPI inflation outturns in Q2 were a reflection of the month-on-month changes in these prices in the given period. In April, owing to rising fuel prices, month-on-month CPI inflation was the same as a year earlier (0.3%). By contrast, in May and June 1999, the month-on-month changes in consumer prices were lower than in the same period of the previous year. According to the CSO, the seasonally adjusted month-on-month changes in consumer prices were 0.28% in April 1999 and -0.10% in May.

Chart II.2 Structure of CPI inflation (y-o-y)
(in percentage points)



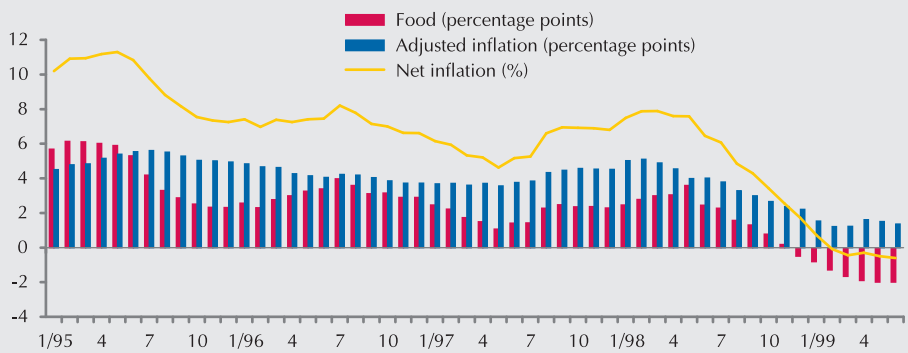
Regulated prices (excluding the effect of increases in indirect taxes on non-regulated prices)

Year-on-year growth in regulated prices during 1999 Q2 slowed by 0.7 percentage points against March 1999 (to 11% at the end of June). In Q2, no significant changes were made to regulated prices. The slight fall in year-on-year growth in these prices resulted from the increase in telephone fees in April 1998 (regulated prices showed a month-on-month rise of 0.6% in April 1998, whereas in 1999 Q2 the month-on-month changes moved between 0.0% and 0.1%).

Net inflation

Year-on-year net inflation[1)] continued to decline during 1999 Q2 (falling by a further 0.2 percentage points in comparison with the end of the previous quarter to -0.6% in June 1999). Underlying this decline, which was significantly smaller than in Q1, were contrary developments in the individual segments of net inflation – food price inflation and adjusted inflation.

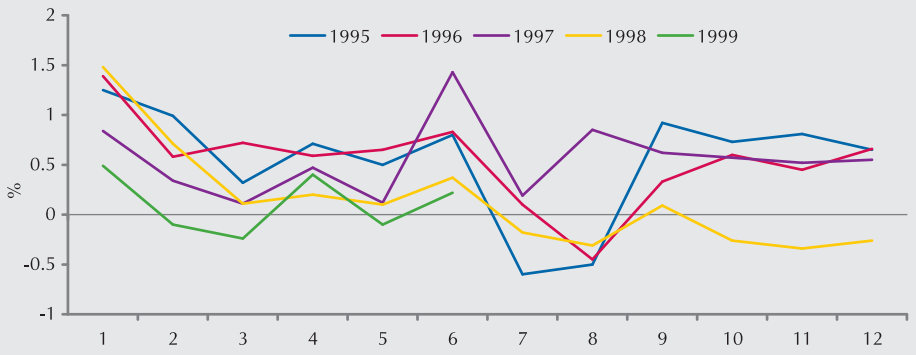
Chart II.3 Structure of net inflation (y-o-y)



1) Net inflation is defined as the CPI adjusted for regulated prices and for the effect of other administrative measures (e.g. increases in indirect taxes and abolition of subsidies). Within net inflation, food prices and adjusted inflation are separately monitored and analysed.

The almost halted downward trend in year-on-year net inflation reflected the month-on-month changes in Q2. The April rise in fuel prices led to month-on-month net inflation (0.4%) being 0.2 percentage points higher than in April 1997. The May and June month-on-month net inflation outturns were below the level of a year earlier (Chart II.4).

Chart II.4 Net inflation in 1995 - 1999 (m-o-m)



Net inflation factors

In 1999 Q1, net inflation was affected by favourable domestic and external factors of both demand and cost character. However, in Q2, the mode of action of some of these factors changed. In particular, the influence of external cost factors on net inflation changed direction: the considerable increase in oil prices during the first four months of the year fed through, with some lag, into fuel prices in the Czech Republic and directly affected net inflation. The positive effect of the koruna's appreciation in the previous three quarters gave way to the influence of its 1999 Q1 depreciation. However, this had no major effect on net inflation. These factors contributed to the slowdown in net inflation in 1999 Q2. Domestic demand continued to create an anti-inflationary environment in the economy and subdue a number of potential cost impulses, particularly of wage character (see part III.3). The pick-up in effective demand in Q1 and Q2 remained too weak to have any significant effect on inflation. Developments in the individual segments of net inflation were also affected by other external and domestic factors (e.g. in the food segment the effect of structural changes on the retail market; pressures for growth in imports to the Czech Republic following the Russian financial crisis; and overproduction of some commodities).

Food prices

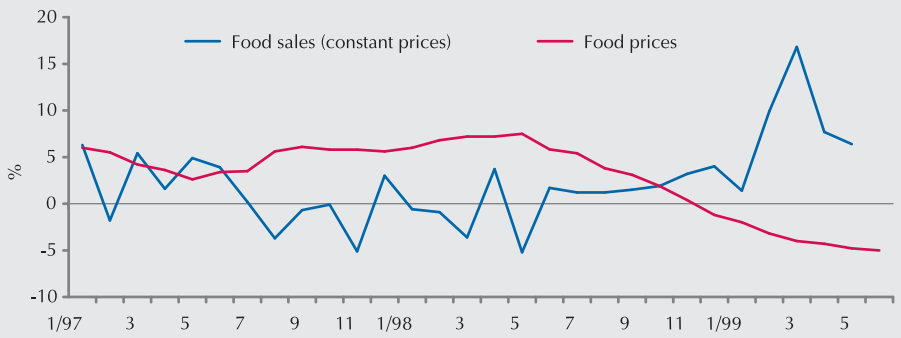
The continuing decline in food prices during 1999 Q2 (of 1 percentage point to -5% against 1999 Q1)[2)] resulted from a combination of both domestic and external factors. Agricultural producer prices for most commodities in 1999 Q2 remained at the very low level reached at the end of the last year following the Russian crisis[3)]. These prices were prevented from increasing by the limited export opportunities for domestic agricultural production resulting from the considerably lower subsidies provided to the agricultural sector than in EU countries; the low level of protection of the domestic market from subsidised imports; the sustained fall in prices of food commodities on global markets; and by other factors described in detail in part III.4 of this report (the monopolisation of some sectors of the food industry, etc.). In addition, pricing policy in the food area continued to be strongly affected by the structural changes on the retail market (the rapidly growing share of multinational organisations on this market).

2) Adjusted for administrative influences.

3) As a result of (among other things) the Russian financial crisis, surpluses in neighbouring countries significantly increased, thereby strengthening the pressures for imports of agricultural products into the Czech Republic

The pick-up in consumer demand in 1999 Q2, driven by the rise in household incomes and channelled primarily into the food segment, did not show up in food prices in that quarter. This was due neither to the rate of the recovery, which was relatively strong, nor to the usual certain time lag in the response of trade to the change in demand. It was probably attributable primarily to the policy of major retailers, which are monitoring an increase in turnover at low prices, amid a low level of input prices[4)].

Chart II.5 Prices and sales of food
(y-o-y change in %)



As in Q1, the overall price decline in 1999 Q2 was affected most of all by prices of meat and meat products, milk and dairy products, and mill and bakery products. For other food groups, prices stagnated, with the exception of current seasonal fluctuations.

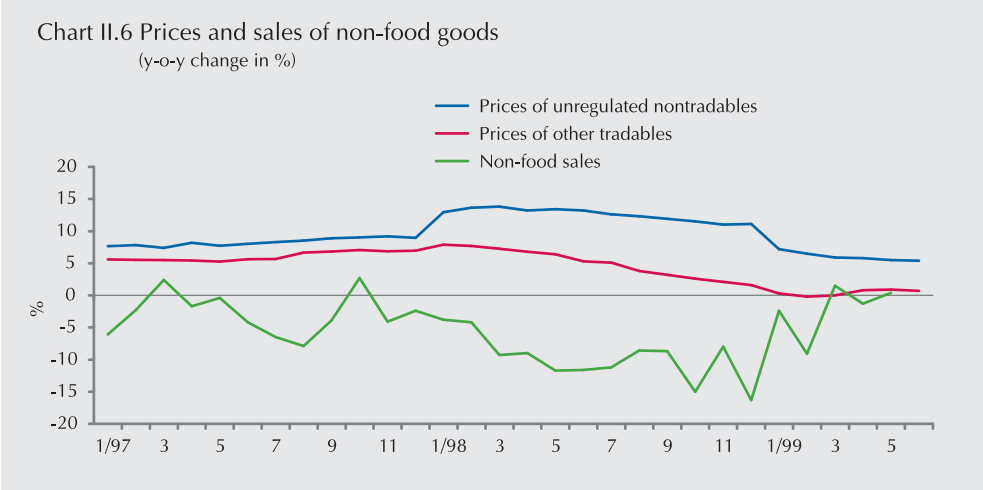
Adjusted inflation [5)]

The moderate rise in year-on-year adjusted inflation in 1999 Q2 against Q1 (of 0.2 percentage points to 2.3%) was generated mainly by the aforementioned external factor, i.e. the direct impact of the increase in world oil prices on fuel prices in the Czech Republic. The koruna's depreciation in 1999 Q1 had a very weak effect. The generally low level of adjusted inflation continued to be fostered in 1999 Q2 by the relatively low level of demand for non-food goods.

The April increase in fuel prices of 7.6% was the main cause of the rise in the month-on-month adjusted inflation outturn in April (of 0.6%). As a result, year-on-year adjusted inflation in April increased by 0.4 percentage points to 2.5%. The slight moderation of oil price growth on global markets in subsequent months helped calm the situation in the Czech Republic; in May 1999, fuel prices rose by 0.4% against a month earlier, while in June they fell by 1.1%. In May and June, adjusted inflation returned to the low outturns seen prior to April: 0.1% in May and 0.2% in June (the June outturn is higher only because of seasonal fluctuations; the seasonally adjusted figure would be 0.1%). The year-on-year adjusted inflation outturn also saw a slight fall, dropping by 0.2 percentage points in June against May to 2.3%.

4) The pricing policy of multinational units, which is preventing growth in food prices, is based on considerable capital strength, which means they do not necessarily have to generate profits in realising their intention to acquire larger market share. Also, their sophisticated sales logistics enable them to depress prices through larger sales volumes. Moreover, their capital strength (and the contribution of the "danger" from subsidised imports) allows them to impose their prices on manufacturers, which are still reporting surplus capacity vis-a-vis demand on the domestic market.

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



Prices of tradables and nontradables

Another way to assess consumer price development is to analyse the consumer basket items broken down into tradables and nontradables[6]. This facilitates a clearer analysis of the effects of external and internal factors on consumer prices. For tradables, prices may be directly affected by the external environment, while for nontradables, such a direct influence is not expected. However, an indirect effect from the external environment cannot be excluded (this group includes services in particular).

The basic trend in prices in both commodity groups during the course of 1999 Q2 remained unchanged compared with the previous quarter. However, it was less intensive than in Q1. The year-on-year decline of 2.1% in tradables prices at the end of June was virtually the same as at the end of March, whereas during 1999 Q1, the year-on-year growth rate fell by 2.7 percentage points. Nontradables saw a continuation of the trend of a moderate slowdown in growth. However, this was much weaker than in the previous quarter. Despite the significant slowdown in the previous period, year-on-year inflation in this group moved at a relatively high level around 9% (Table II.2).

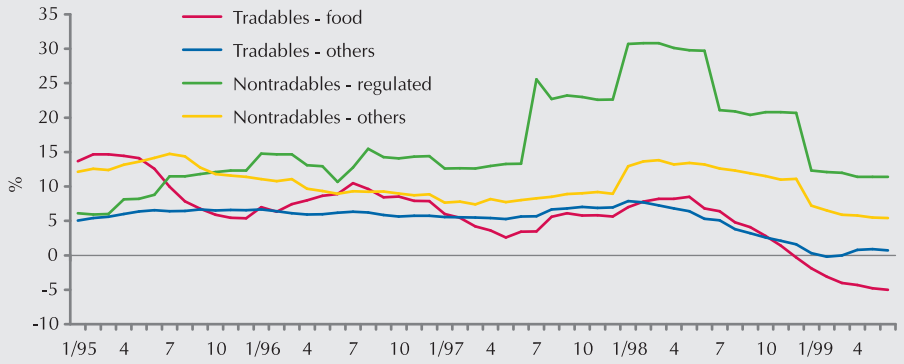
Table II.2 Tradables and nontradables prices (in %)

	1/98		2/98		3/98		9/98		12/98		1/99		2/99		3/99		4/99		5/99		6/99	
MONTH-ON-MONTH INCREASES		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	-0.09	-0.5	-0.26	0.4	0.24	-0.3	-0.18	-0.3	-0.19	0.4	0.24	-0.2	-0.10	0.2	0.10
Nontradables	7.4	2.79	0.9	0.34	0.3	0.11	0.4	0.18	0.2	0.08	1.4	0.58	0.4	0.15	0.1	0.03	0.1	0.04	0.1	0.02	0.2	0.07
YEAR-ON-YEAR INCREASES		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Tradables	7.4	4.77	7.7	4.96	7.7	4.95	3.7	2.30	0.7	0.40	-0.8	-0.50	-1.7	-1.00	-2.0	-1.20	-1.8	-1.10	-2.0	-1.20	-2.1	-1.30
Nontradables	23.2	8.31	23.5	8.50	23.6	8.48	17.2	6.50	16.9	6.40	10.3	4.00	9.9	3.90	9.6	3.80	9.3	3.60	9.1	3.60	9.0	3.50

Note: Contrib. means contribution to CPI inflation

6) CPI = weighted average of the index of food prices, other tradables prices, regulated nontradables prices and other nontradables prices

Chart II.7 Prices of tradables and nontradables
(y-o-y changes in %)



Prices of tradables

Underlying the continuing year-on-year decline in tradables prices in 1999 Q2 were contrary movements in the basic components of this item: a further decline in food prices and growth in other tradables prices. The fall in food prices was generated by the factors described in more detail in the "Net inflation" part of this report. In contrast, the rise in prices of other tradables in 1999 Q2 (from 0.0% in March to 0.7% in June 1999) meant a change in trend after roughly a year of gradual slowdown in growth. This was generated in particular by the fuel price inflation resulting from rising world oil prices. The koruna's depreciation in the first few months of 1999 had no significant effect on prices. The prices of other items included in this group not directly affected by fuel prices continued to be depressed by the very low demand for non-food commodities.

Prices of nontradables

The further slowdown in year-on-year nontradables inflation in 1999 Q2 against Q1 (of 0.6 percentage points to 5.4% in June 1999) was generated by slower growth in both regulated prices and prices of other nontradables. The weak month-on-month inflation for other nontradables in Q2 was driven in particular by a rise in the prices of some of the services included in this group (public catering and accommodation, health care, other goods and services) as well as in the transport group, where prices were affected by the growth in fuel prices. Prices in other groups remained flat amid the continuing low level of demand.

III. INFLATION FACTORS

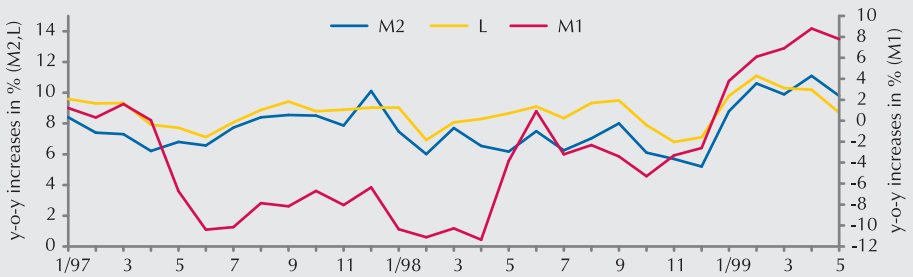
III.1 Money, interest rates and exchange rates

III.1.1 Monetary aggregates

Monetary aggregates between March and May saw a continuation of the upward trend in year-on-year growth seen since the beginning of 1999. Both their nominal and real growth outpaced the analogous growth of GDP. The extent of the rise was strongly affected by the non-debt capital inflow into the Czech Republic and the trend in the previous year's base. These influences were particularly strong in April, when year-on-year growth in M2 peaked at 11.1%.

The process of easing monetary policy has yet to be reflected significantly in commercial bank lending. The sensitivity of credit volume to interest rates is still being limited by the non-interest factors that banks take into account when granting credits. Credit supply is therefore not contributing to the higher increases in the money supply (a more detailed analysis of the causes of the higher money supply growth is given in a separate box).

Chart III.1 Monetary aggregates M1, M2 and L



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

Monetary aggregate M2

The trend of higher year-on-year increases in the monetary aggregate M2 seen since the beginning of 1999 was sustained. The average nominal year-on-year increase in M2 for the first five months of 1999 rose by 3.2 percentage points compared with the same period a year earlier to 10%; in real terms, it rose from -5.7% in 1998 to 7.1% this year. The biggest year-on-year increase in this aggregate so far this year – 11.1% – occurred in April. As with the other monetary aggregates, the individual monthly values are affected to a large extent by the previous year's base. Whereas in the first five months of this year the money supply rose in absolute terms by CZK 32.7 billion (2.6%), in the same period a year earlier it dropped by CZK 21.3 billion (1.8%). Nevertheless, an upward trend can be seen in money supply growth based on the seasonally adjusted annualised increases in M2 for the last six months.

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

		Annualised for last		
	1 month	3 months	6 months	1 year
February 99	1.0	16.0	7.2	10.6
March 99	1.6	16.9	8.3	9.9
April 99	0.8	13.8	12.9	11.1
May 99	-0.2	8.9	12.4	9.8

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

Sector structure of M2

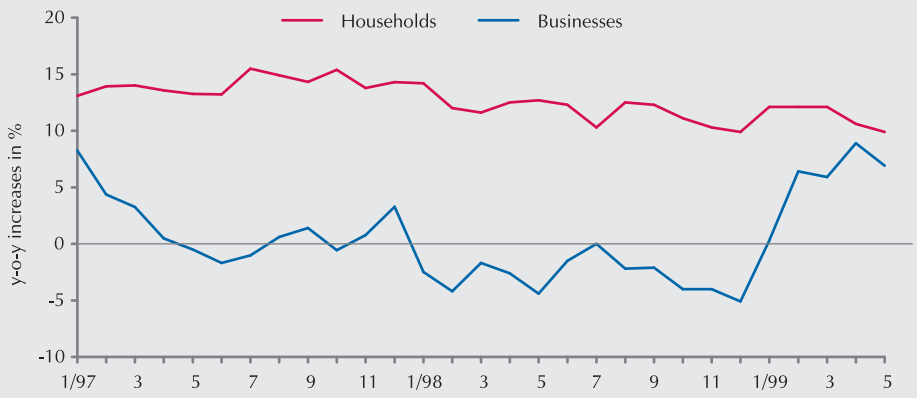
The ongoing higher increases in the money supply in March–May reflected in particular increases in the money balances of the corporate sector at banks. This is consistent with the hypothesis regarding the influence of capital inflow from abroad and its financing through koruna credits from banks.

Most (two thirds) of the money supply growth in the last three months was attributable to businesses and insurance companies (businesses 39%, insurance companies 27% and households 34%). Certificates of deposit, deposit bills and other bonds generated more than half of the increase for businesses. Also, the koruna demand deposits of businesses rose, while koruna time deposits and foreign currency deposits fell slightly.

The increase in the money supply in the household sector was generated in particular by currency in circulation and koruna demand deposits. Time deposits and foreign currency deposits were virtually flat at February's level.

The trend for total koruna time deposits (year-on-year growth fell from 12.3% in February to 9.9% in May) is linked with that for interest rates, whose nominal level is making such deposits less attractive.

Chart III.2 M2 by sector



Monetary aggregate L

The year-on-year growth rate of this, the broadest monetary aggregate was affected by similar factors to M2 (foreign capital inflow and the previous year's base). The effect of the previous year's base, however, was stronger than for M2 and led to a year-on-year decline in the growth rate of L. However, the seasonally adjusted and annualised increases in L for the last six months testify to an increasing

growth rate. In this respect, the broadest measure of the money supply in the Czech economy is experiencing accelerating growth.

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

		Annualised for last		
	1 month	3 months	6 months	1 year
February 99	0.7	16.1	6.5	11.1
March 99	1.2	17.2	8.1	10.3
April 99	0.6	10.3	10.9	10.2
May 99	-0.1	7.1	11.5	8.7

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

Monetary aggregate M1

The pick-up in year-on-year M1 growth, which started in January this year, continued also during the course of March to May. This growth resulted from a renewed rise in currency in circulation, which started in August 1998 and was not interrupted even by the usual seasonal influences at the beginning of the year. In May, the share of currency in circulation in M2 reached 10.5% and was gradually approaching the historical highs seen at the end of 1996 and the beginning of 1997 (10.8%).

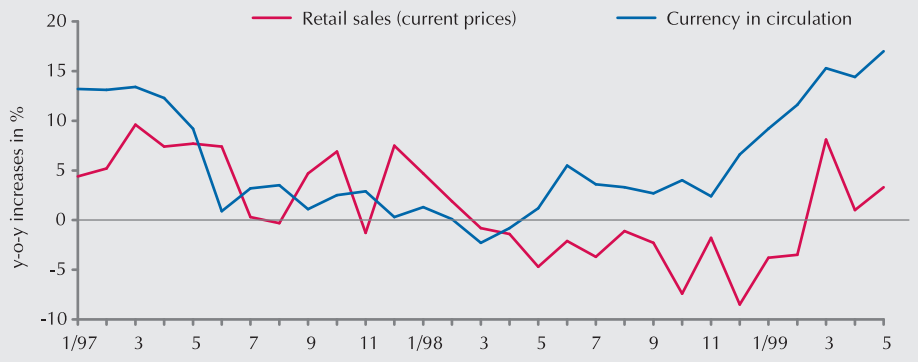
Table III.3 Increases in M1 (in %)

	Increase for last			
	1 month	3 months	6 months	1 year
February 99	1.4	0.7	1.2	6.1
March 99	0.3	-4.4	4.1	6.9
April 99	1.5	3.2	5.7	8.8
May 99	2.1	4.0	4.7	7.8

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

The year-on-year increase in currency in circulation reached 17% in May, against 4% for demand deposits (in February this year, the year-on-year increases were 11.6% and 3.7% respectively). The trend in currency in circulation is associated with the response by households to the decline in interest rates, i.e. an increase in cash and current deposits and lower interest in time deposits. In addition, other factors are acting on liquid money. The higher demand for cash corresponds with the certain increase in retail turnover.

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

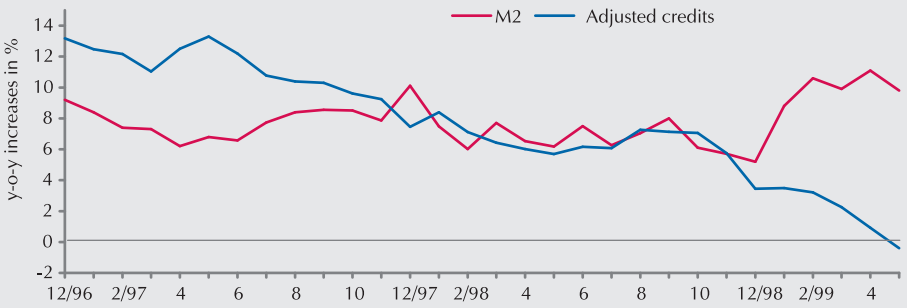


Analysis of the money supply trend

A pick-up in money supply growth has been visible since the beginning of 1999. The year-on-year growth rate rose from approximately 5% at the end of 1998 to around 10% at the end of May. The question arises as to what, in a situation of ongoing low credit supply by banks, is causing the rise in these year-on-year increases in M2.

In keeping with the present exchange rate regime, where the central bank makes virtually no foreign exchange interventions, the money supply was affected up to the end of 1998 mainly by bank lending to businesses and households. The external sector played no major role in the money supply. The equal rate of year-on-year growth in credit supply and M2 up to the end of 1998 is evident from the following chart.

Money supply and bank credit supply



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

Since the beginning of this year, the growth rates of these two indicators have differed substantially. In this period, the money supply has been affected by another factor, namely the trend in net foreign assets, which during the first five months this year rose by approximately CZK 87 billion. Valuation changes, which do not affect M2 growth, account for approximately CZK 40 billion of this amount and the actual increase in these assets for CZK 44 billion. This trend is very surprising at first glance, since in a managed floating regime which for approximately one year has not been accompanied by any major interventions/foreign exchange purchases by the central bank, financial flows should be offset within the framework of the balance of payments, and net foreign assets should not grow[7)].

A more detailed analysis of the structure of net foreign assets reveals that their growth is largely associated with an increase in koruna net foreign assets (of approximately CZK 34 billion), especially short-term koruna claims on non-residents. This development in the area of koruna assets of banks vis-à-vis non-residents probably reflects the continuing low interest of domestic banks in providing credits to businesses. The current level of the state budget deficit and the overall public debt financing need continues to be significantly lower than the volume of free koruna funds of banks (see the volume of sterilisation at the CNB). Consequently, when the repo rate declines, banks look for an alternative use of free funds, so that, in addition to the declared interest in investment in government securities, there is also interest in investing korunas abroad[8)]. This situation is accompanied by interest from some foreign entities in korunas because of the need to finance their purchases of capital stakes in Czech businesses and banks.

7) According to the theory, the monetary base and consequently the money supply therefore do not increase. However, on account of the volume of sterilised free liquidity of banks, the Czech banking system is far from being dependent on additional issue of korunas by the central bank, with the ensuing possible acceleration of money supply growth in the economy.

8) However, these operations do not lead to a decline in sterilised liquidity of banks at the CNB; the korunas are returned to the Czech Republic, either as resident or non-resident deposits at banks.

The increase in koruna assets of banks vis-à-vis non-residents (i.e. the growth in net foreign assets) need not be accompanied by foreign exchange operations with the central bank, since banks have at their disposal a sufficient volume of korunas in the form of CNB-bills. In reality, money creation can thus take place through the non-resident circle, leading to M2 growth. The pick-up in year-on-year M2 growth since the beginning of 1999 is thus about 50% due to the increase in koruna net foreign assets. The remaining part is attributable to the previous year's low base. The M2 increases of approximately 10%[9)] thus, despite the expected slight rise in inflation in 2000, guarantee a relatively high level of real money balances, which, if this higher M2 growth rate is sustained, could have a major effect on future economic and monetary developments in the Czech Republic.

III.1.2 Credits granted to businesses and households

Credits granted to clients (i.e. to businesses and households) showed a decline of CZK 3.6 billion at the end of May in comparison with February this year (of which foreign currency credits fell by CZK 9.6 billion and koruna credits rose by CZK 6 billion). In year-on-year comparison, client credits fell in March by 0.8%, in April by 2.3% and in May by 3.7%. Even after adjustments for exchange rate effects, credit write-offs, interest capitalisation and for the influence of banks whose licences have been revoked, the year-on-year credit growth rate showed a downward tendency (February's year-on-year increase of 3.2% fell in March to 2.3% and in April to 0.9%; May saw a year-on-year decline of 0.4%).

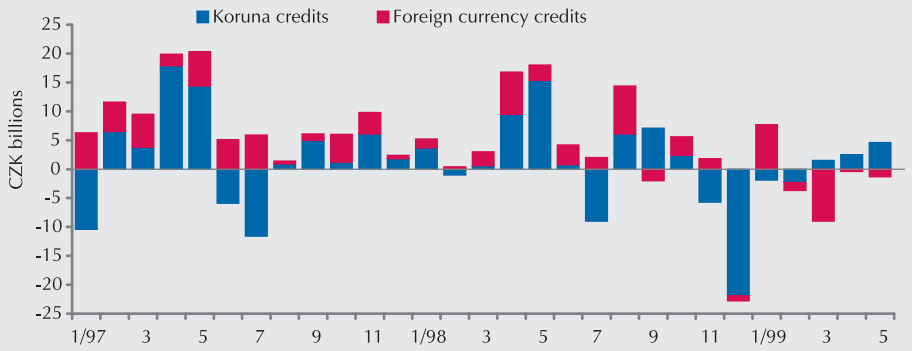
Table III.4 Increases in seasonally adjusted total credits (in %)

	Increases for last			
	1 month	3 months	6 months	1 year
February 99	-0.3	-1.3	-0.9	3.2
March 99	-0.9	-0.2	-2.3	2.3
April 99	-0.1	-1.3	-2.7	0.9
May 99	-0.2	-1.2	-2.4	-0.4

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

The lending activity of banks is being limited by the unfavourable trend in classified credits (in Q1 this year the banking sector posted absolute and relative growth in classified credits), the low supply of good-quality and low-risk credit projects, the unsatisfactory legislative position of creditors vis-à-vis debtors, the worsening financial situation of many previously problem-free businesses, etc[10)]. Credit activity at the large banks has been affected in this period by preparations for their denationalisation. The subdued credit supply to the economy (to residents) is at some banks being offset by the granting of credits to non-residents, which is feeding through into growth in net foreign assets.

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



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

9) When considering this nominal M2 growth in the context of the nominal GDP growth rate, money velocity has to be taken into account. A more relaxed monetary policy implies a gradual slowdown in money velocity.

10) The credit crunch does not apply to the foreign bank group, where, at the end of May, a two-digit year-on-year credit growth rate was again recorded. However, the increase in the absolute volume of credits provided by this group of banks could not offset the absolute decline in lending by the "large" Czech banks.

Within the credit time structure, the share of medium-term credits in total credits rose by 0.6 percentage points against February to 22.3%, while the shares of short and long-term credits both shrank by 0.3 points (to 41.2% and 36.5% respectively). The share of mortgage credits was unchanged. In comparison with the end of the previous year, the share of short-term credits rose by 0.2 percentage points at the expense of medium-term credits.

As regards credit structure by type, the share of operating and investment credits in total credits was down by 0.8 percentage points compared with February, while credits for temporary fund shortage were up by 1.3 percentage points. In absolute terms, operating and investment credits dropped by CZK 10 billion, while credits for temporary fund shortage rose by CZK 13.4 billion. Mortgage credits increased by CZK 0.4 billion in the period under review.

III.1.3 Interest rates

In Q2, interest rates were still for the most part decreasing, although at a much more moderate rate by comparison with the previous period. Short-term rates were affected by the further changes in the CNB's key interest rates, while long-term rates gradually started to reflect factors leading to a rise in inflation in the future. As a result, the yield curves on the money market changed shape: first of all from slightly negative to flat, then continuing to moderately positive in June (yield curves for long-term interest rates attained a positive slope as early as in Q1). The fall in interbank deposit market rates to a historically low level also affected the interest rate differential. Nevertheless, the koruna's exchange rate strengthened. The fall in interbank rates passed through into a decline in nominal client interest rates. Credit and deposit rates were at an all-time low in the history of the Czech Republic.

III.1.3.1 Short-term interest rates

Short-term interest rates continued to decline, although not so sharply as in the previous period. These rates were affected in particular by the lowering of the repo rate, which took place in three phases. First of all, the repo rate was cut by 0.3 percentage points to 7.2%, effective 9 April, then it was lowered by 0.3 percentage points to 6.9%, effective 4 May. There was a further decrease of 0.4 percentage points to 6.5% on 25 June. In comparison with previous changes, these decreases were not so sizeable, reflecting a fine tuning of the interest rate level. The changes were anticipated and accepted by financial market entities and were followed by a corresponding fall at the yield curve's long end. By cutting the repo rate, the CNB more or less fulfilled market entities' expectations of future interest rate developments. After the last repo rate cut at the end of June, the PRIBOR curve stabilised as slightly upward. According to preference theory, this indicates a more or less neutral position regarding the future interest rate level. The announcement of a further reduction in the minimum reserve requirement from 5% to 2% did not significantly affect the market, since this measure will not come into force until the beginning of October. The ensuing inflow of liquidity onto the market should not have a major one-off effect on interest rates.

Chart III.5 Key rates

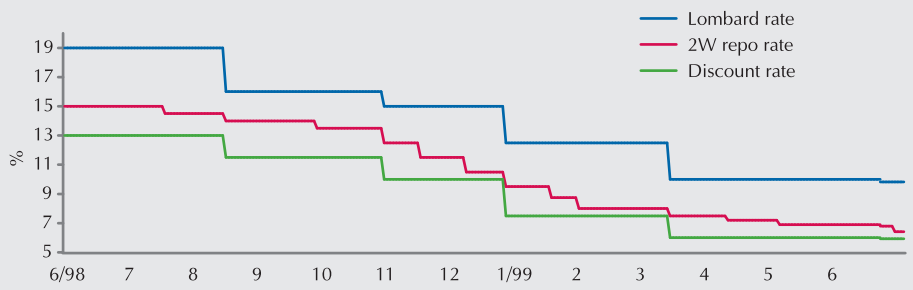


Chart III.6 3M and 6M PRIBOR rates

During the course of Q2, the PRIBOR yield curve continued to flatten out, particularly by comparison with the beginning of 1999. Its negative slope moderated owing to a steeper fall at its short end, and it meanwhile shifted to a lower yield level. During June, its slope changed to slightly positive. Market participants were thus responding to a number of factors that might lead to rising inflation in the future (the widening state budget deficit, real wage growth, stronger domestic demand). Overall, compared with March 1999, the average 1W PRIBOR dropped by 0.9 percentage points to 6.9% and the 1Y PRIBOR by 0.4 percentage points to 7.1%. The change in the yield curve's slope is clear from this, too; the difference between the two rates stood at +0.22 percentage points in June. The bid-offer interest rate spread was moving between 0.2 and 0.3 percentage points.

Chart III.7 Yield curve for PRIBOR rates

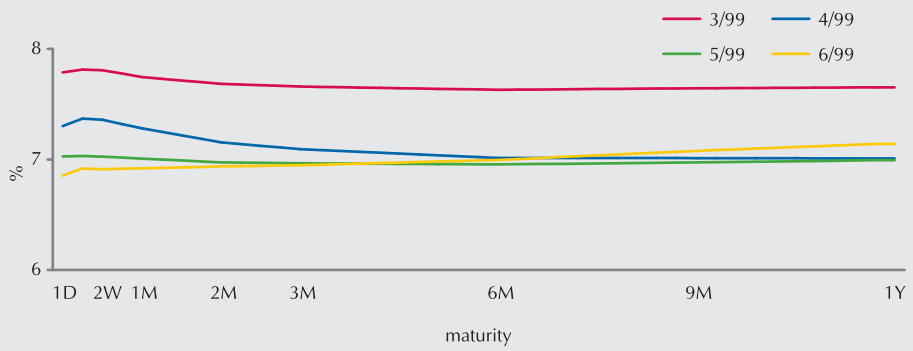
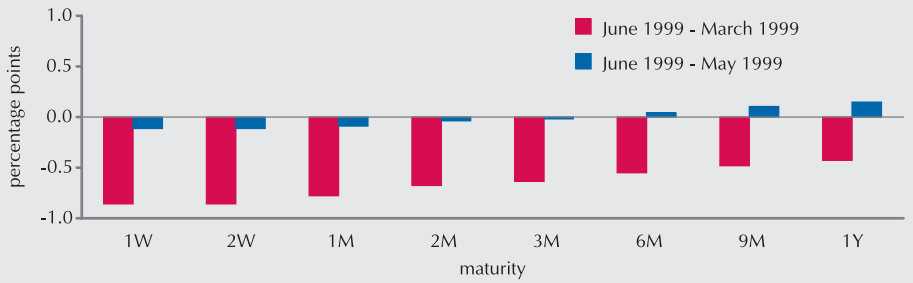


Chart III.8 Changes in average PRIBOR rates



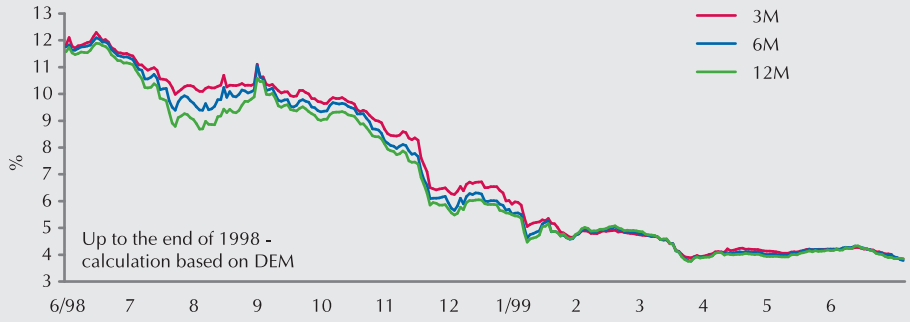
FRA interest rates fell to an all-time low at the turn of April and May. They then picked up amid expectations of a rise in inflation in the second half of the year. However, the data released indicated that the rise might not be significant, and so FRA rates returned to low values below the 7% level. This was attributable also to the repo rate cut at the end of June, which financial market entities incorporated into quotations of future rates. The FRA quotations from the end of June indicate (similarly to the slope of the PRIBOR yield curve) expectations of an unchanged or only slightly increasing interest rate level in the future.

Chart III.9 3M FRA rates - offer

The short-term bond market at present is composed entirely of T-bills. There were ten issues on the primary market, with 1M, 3M, 6M, 9M and 1Y maturities. Gross yields in the auctions, which moved between 6.7% and 7.0% depending on maturity, were always lower than the set limit, as investor demand constantly exceeded supply. On the secondary market, T-bill yields more or less mirrored PRIBOR rates.

The interest rate differential (PRIBID/CZK-LIBOR/EUR) was given on the one hand by the movements on the domestic deposit market, but on the other hand, in contrast to the previous period, also by changes in foreign interest rates. At the beginning of April, the European Central Bank lowered all its key rates in an effort to foster economic growth in EU countries (the most important repo rate was cut by 0.5 percentage points to 2.5%). On the domestic interbank deposit market, rates with longer maturities were lowered by approximately the same amount. The interest rate differential therefore fluctuated between 4.0% and 4.5% during the period under review. These relatively low values did not reduce foreign investors' interest in the Czech koruna and consequently were not reflected in the koruna exchange rate, which strengthened. At the end of June, the interest rate differential vis-à-vis the euro fell below 4% following the repo rate cut (to 3.8% at 3M maturities, 3.9% at 1Y maturities). Vis-à-vis the dollar it stood at approximately 1%.

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



III.1.3.2 Long-term interest rates

Long-term IRS rates saw a modest decline in Q2, although not a smooth one. They reached a low at the beginning of May, and their rise in the subsequent period was related to unfavourable data on the real economy. Compared with March, the 1Y rate fell in June by 0.46 percentage points, the 5Y rate by 0.06 percentage points and the 10Y rate by 0.15 percentage points. This, too, indicates that there were no major changes in long-term rates. The stronger decline in rates at shorter maturities was associated with the changes in the repo rate and the subsequent fall in money market rates. Rates with longer maturities developed in a more autonomous fashion and were influenced in particular by the data on the real economy.

Chart III.11 IRS rates

Contrary to short-term interest rates, the IRS yield curve gained a positive slope as early as in February and retained it from then onwards. Owing to the uneven development at individual maturities, the positive slope of the yield curve became more pronounced, particularly in its middle part. In June, the average 5Y–1Y spread stood at +0.86 percentage points (against +0.46 percentage points in March) and the 10Y–1Y spread was +1.01 percentage points (against +0.70 percentage points in March). From the long-term perspective, therefore, the market was expecting only a modest change in interest rates.

Chart III.12 Yield curve for IRS rates

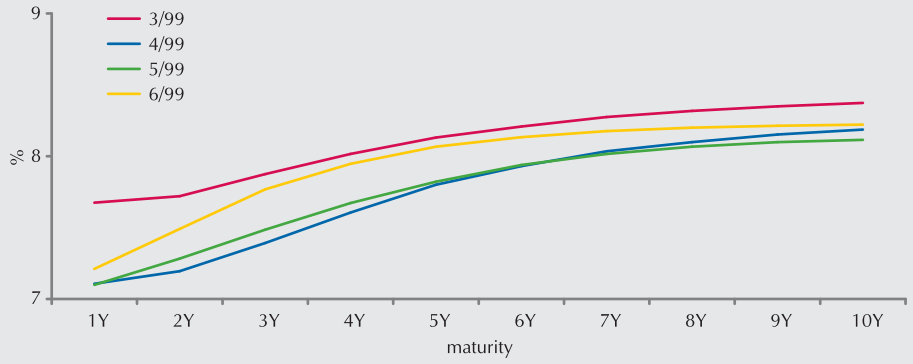
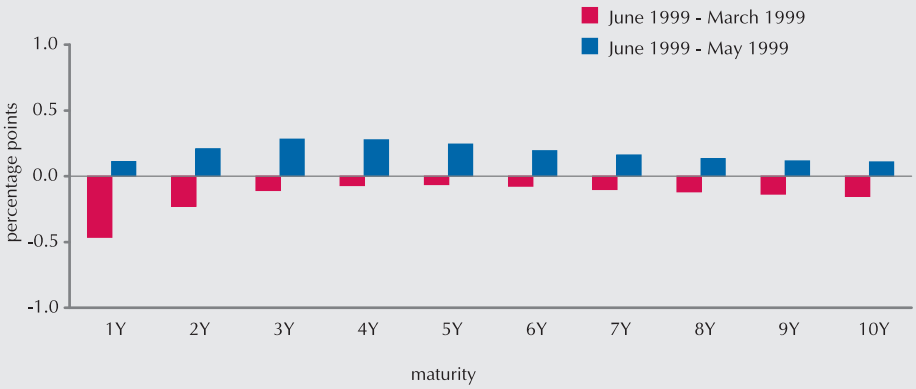


Chart III.13 Changes in average IRS rates



The yield curve on the bond market exhibited a similar trend. Its slope was positive from roughly the end of January, with only its gradient changing. Whereas in March the 4Y–1Y spread was +0.31 percentage points, in June it was +0.88 percentage points. At the end of April, a primary auction took place of a government bond worth CZK 5 billion, with 2Y maturity and a 6.80% coupon. Interest in the auction was approximately twice as high as the supplied volume. On the corporate bond market, there were two issues worth CZK 5 billion and four issues of mortgage bonds totalling CZK 10 billion. Issuance of koruna eurobonds also continued. At the end of June, their outstanding volume totalled CZK 55.1 billion. Their yield curve is moving at the highest level by comparison with government bonds and IRS.

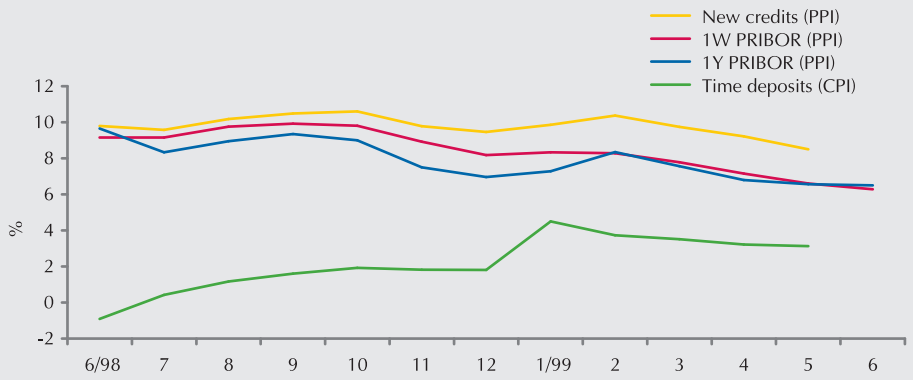
III.1.3.3 Client interest rates

Client interest rates continued in their downward trend. Interest rates on newly granted credits fell by 3 percentage points in the first five months of 1999, reaching 8.9% in May. Rates on time deposits saw a similar trend (dropping by 3.1 percentage points to 5.6%). Although deposit rates fell to a historical low, this did not affect the level of deposits. Among the factors sustaining high savings are a preference for traditional methods of depositing money, real wage growth, and possibly also households' concerns regarding future developments (lower purchasing power, loss of employment). The interest rate margin fluctuated just above the 4 percentage point level.

Following a temporary increase at the beginning of the year, real interest rates[11)] also started falling. Deflated by PPI, they were lower than in 1998, when they were running at a historical high. In May, real interest rates on newly granted credits stood at 6.4% in CPI terms and at 8.5% in PPI terms. Real interest rates on time deposits also fell; in CPI terms they were moving above the 3% level.

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

Chart III.14 Real interest rates



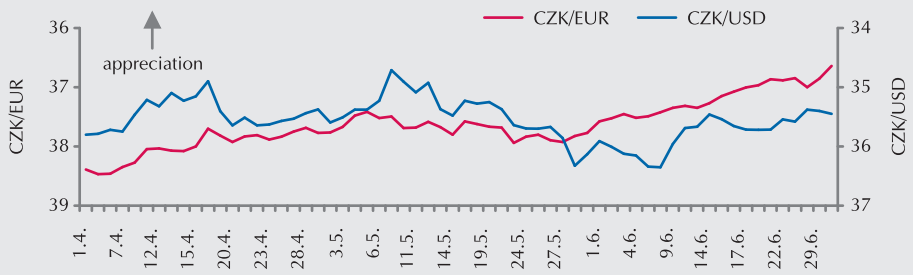
III.1.4 The exchange rate

In Q2, the average monthly values of the koruna's nominal exchange rate showed no major fluctuations. The average monthly exchange rate against the euro gradually strengthened, while against the dollar it weakened moderately. The gradual lowering of the repo rate during the period under review did not cause any substantial changes in the exchange rate.

As regards the koruna's daily exchange rate against the euro, a modest appreciation trend emerged at the beginning of April. This halted a month later. The price of the euro during May was moving without major fluctuations around the CZK 37.60 level. The appreciation trend resumed at the beginning of June. The strengthening of the koruna against the euro is attributable particularly to the government decision regarding the privatisation of ČSOB (the expected settlement of this transaction increased demand for korunas). In addition, the appreciation was fostered by expectations of capital inflow in connection with the other privatisation plans of the government and local authorities, and by incentives for foreign investors.

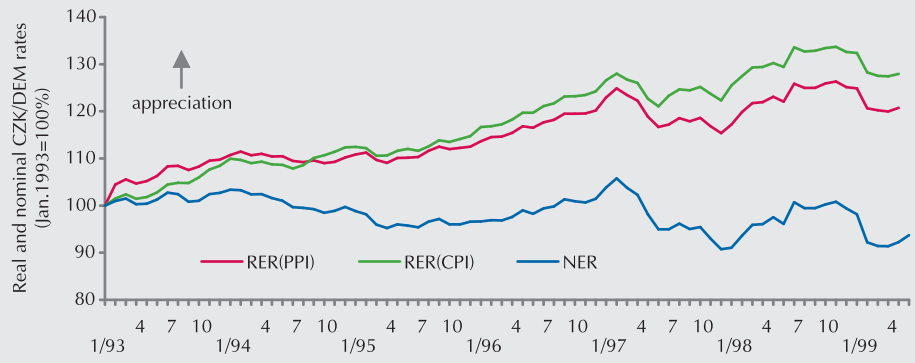
As in the past, the CZK/USD exchange rate was more volatile than the CZK/EUR rate. This was due to the big fluctuations of the dollar on international financial markets, in particular owing to the military operations in Kosovo and economic indicators in the USA and the EU. The renewed strengthening of the dollar against the euro in June was attributable to the favourable outlook for the US economy, the expected moderate increase in key rates in the USA, and information on problems with budgetary discipline within the EU.

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



The koruna's real exchange rate against the Deutsche Mark (the euro) was flat or slightly appreciating between March and May. In view of the low inflation outturns both in the Czech Republic and in EU countries, this trend can be attributed entirely to the nominal CZK/EUR exchange rate.

Chart III.16 CZK/DEM nominal and real rates



III.1.5 Capital flows

The financial account of the Czech Republic showed a surplus of CZK 14.3 billion for 1999 Q1, down by approximately 40% compared with the same period a year earlier. However, the inflow structure improved sharply in favour of foreign investment. The volume of this investment represented 135% of the overall financial account balance. Debt capital meanwhile saw a moderate outflow.

Table III.5 Financial account in the first quarters of 1993 - 1999 (in CZK billions)

	1993	1994	1995	1996	1997	1998	1999
Financial account	13.5	19.2	43.0	2.2	21.2	24.1	14.4
Direct investment	8.4	-0.4	3.0	8.1	7.9	7.7	19.3
- Czech abroad	-0.4	-2.8	-0.3	-0.6	-0.7	-0.2	-0.8
- Foreign in Czech Republic	8.8	2.4	3.3	8.7	8.6	7.9	20.1
Portfolio investment	-0.1	7.2	0.8	-3.5	-5.5	-0.5	1.5
- Czech abroad	-0.1	-0.2	-1.6	0.0	3.4	-3.9	-2.9
- Foreign in Czech Republic	0.0	7.4	2.4	-3.5	-8.9	3.4	4.4
Other investment	5.2	12.4	39.2	-2.4	18.9	16.9	-6.4
1. Long-term investment	1.6	7.4	14.0	12.2	10.6	-12.1	5.8
- Credits granted abroad	2.4	2.9	0.9	-2.5	-2.9	0.9	-12.4
- Credits accepted from abroad	-0.8	4.5	13.1	14.7	13.5	-13.0	18.2
2. Short-term investment	3.2	5.0	25.2	-14.6	8.3	29.0	-12.2

The inflow of foreign direct investment to the Czech Republic in 1999 Q1 reached CZK 20.1 billion, which is roughly 2.5 times higher than in the same period a year earlier. Within the inflow structure, investment in services accounted for the biggest share (trade 41.5%, communications 13.7%, and finance 10.0%). Investment in industry accounted for only about one third of the total direct investment in Q1. The largest investors were the Netherlands (with a total share of 23.4%), Germany (with 13.4%), the USA (12.8%) and Austria (10.9%). Czech direct investment abroad rose markedly (more than five times) in year-on-year terms; however, it continued to be of little significance (CZK 0.8 billion). The net inflow of direct investment was CZK 19.3 billion.

Portfolio investment remained virtually flat in 1999 Q1 with a net inflow of CZK 1.5 billion. Equity securities showed a net outflow of approximately CZK 5.9 billion, which was almost entirely due to purchases of foreign shares by residents. In comparison with the same period a year earlier, when the net inflow stood at CZK 6.1 billion, this represents a substantial worsening. Foreign investors' interest in domestic shares stagnated. However, given the developments on the domestic share market in 1999 Q2, growth in foreign investment in equity securities can be expected in Q2. Debt securities saw a net inflow of CZK 7.4 billion.

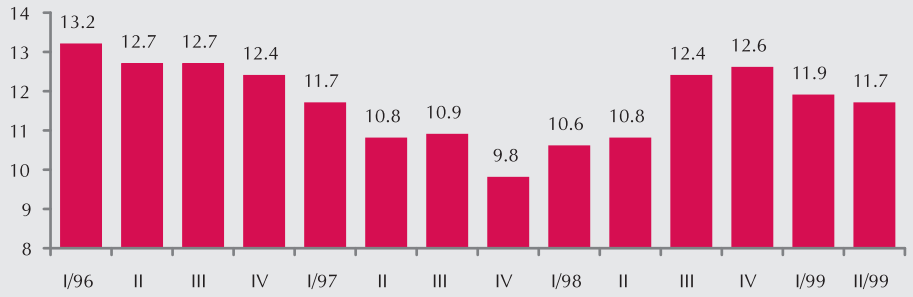
Other investment recorded a deficit of CZK 6.4 billion in 1999 Q1 owing to assets rising faster than liabilities. The most important item affecting the overall balance on the other investment account was the net outflow abroad of short-term capital of commercial banks, which reached CZK 14.3 billion. Another significant item was the net long-term capital outflow of CZK 8.0 billion in the commercial bank sector. In contrast to the banking sector, the business sector showed net debt capital inflow worth CZK 16.5 billion, of which long-term capital accounted for CZK 14.3 billion and short-term capital CZK 2.2 billion. Government and CNB operations were virtually negligible (CZK -0.6 billion).

The overall financial account surplus exceeded the current account deficit by CZK 4.0 billion. The CNB did not intervene on the foreign exchange market and limited its activities solely to purchases of foreign currency for debt servicing (government and CNB). The CNB's international reserves increased in real terms thanks to interest yields of CZK 3.4 billion. However, apart from these interest yields, the reserves were affected in particular by the koruna's exchange rate movement vis-à-vis the euro and the dollar and by the mutual development of the dollar and the euro. In koruna terms, the reserves rose by CZK 49.4 billion, from CZK 376.7 billion at the end of the year to CZK 426.1 billion, mainly because of the koruna's depreciation in Q1. However, in dollar terms, the reserves fell from USD 12.6 billion to USD 11.9 billion owing to the appreciation of the dollar against the euro (approximately two thirds of the CNB's international reserves are held in euros).

In April and May, the situation on the foreign exchange market stabilised, signalling approximate equilibrium between demand and supply. Starting in June, fairly strong appreciation pressures were felt, reflecting investors' changed view of the koruna in light of the expected sale of ČSOB, the prospects for further capital inflow in the second half of the year, and the slightly improving trade balance. However, direct purchases of korunas on the part of the Belgian KBS to pay for ČSOB shares have yet to take place. In Q2, the CNB purchased on the foreign exchange market foreign currency totalling approximately CZK 4.8 billion, which was used for repayment of foreign debt.

The international reserves rose moderately in real terms because of the interest yields. In koruna terms, they dropped moderately by CZK 10.9 billion to CZK 415.2 billion owing to the appreciation of the koruna at the end of the quarter. They also fell slightly in dollar terms, by USD 0.2 billion to USD 11.7 billion, mainly because of the dollar's appreciation against the euro.

Chart III.17 CNB international reserves (USD billions)



Implications for inflation

In the period under review, growth occurred in both nominal and real money balances, expressed as the year-on-year increases in the monetary aggregate M2. This is a result particularly of increased foreign investor interest in investment in the Czech Republic, which is being financed by domestic banks. The rise in year-on-year money supply growth is likely to affect monetary and economic developments in the longer run. However, in view of the current level of output, the CNB expects more significant implications for GDP. The M2 trend is consistent with the CNB's inflation targets.

The interest rate developments in Q2 indicate a certain change in market expectations regarding future inflation. During May, interest rates started increasing in all segments of the financial market and yield curves attained positive slopes in connection with the higher inflation expected in the second half of 1999. Although the situation stabilised to some extent during June, a slight rise in inflation was still being expected.

The inflation outturns in Q2 did not confirm that the weakening of the Czech currency in the first months this year would have a major impact. It seems, therefore, that the subdued domestic demand in the monitored period was sufficient to counterbalance any pass-through of the koruna's weakened exchange rate into domestic prices. In Q2, the koruna's nominal exchange rate against the two key currencies (the euro and the dollar) developed in opposite directions (the koruna's exchange rate strengthened against the euro and moderately weakened against the dollar). With regard to its effect on current and future inflation, the exchange rate can be viewed overall as stabilised, or slightly anti-inflationary.

Capital flows in 1999 Q1 fully covered the current account deficit. The relatively pronounced weakening of the koruna's exchange rate resulted from changed investor expectations regarding the exchange rate owing to the less favourable trade balance in the second half of 1998 and the more negative attitude towards emerging markets following the Brazilian currency crisis. This fed through directly into the liquidation of non-residents' koruna positions within the off-balance sheet operations of commercial banks and into a reduction of koruna eurobond positions (items which are not included in the balance of payments). During the course of April and May the situation on the foreign exchange market stabilised. In June, the koruna started appreciating slightly because of more optimistic investor expectations (the renewed improvement in the trade balance and the expected impact of the sale of ČSOB on the foreign exchange market).

III.2 Demand and output

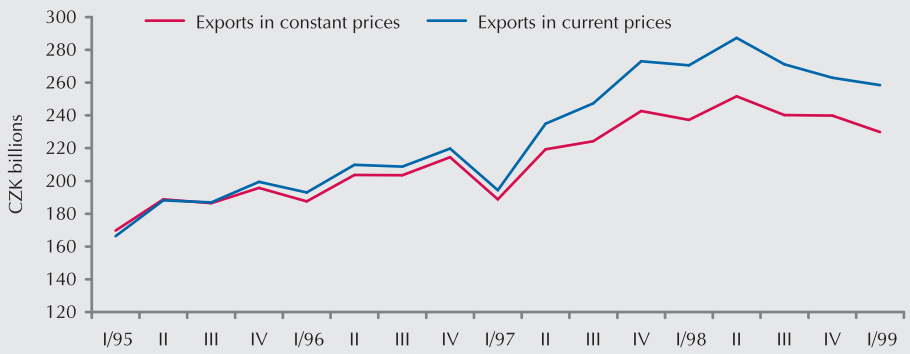
The decline in GDP further intensified in 1999 Q2[12]. This was largely the result of falling external demand in transition countries, which adversely affected the creation of value added in industry. The fall in domestic demand, caused primarily by decreasing investment, contributed to the GDP decline to a lesser extent. The continuing rise in government consumption and the moderate pick-up of household consumption amid renewed growth in real household incomes, however, were not sufficient to offset the decline in investment.

III.2.1 External demand

The previous quarter's negative trend in exports of goods and services continued into 1999 Q1. The year-on-year fall in exports increased by almost 2 percentage points against 1998 Q4 to -3.1%. This further decline was mostly due to the worsening sales opportunities for Czech products resulting from weaker external demand on a number of foreign markets, particularly nations with transition economies. The trade balance data for 1999 Q2 (in current prices), however, indicate a renewal of positive trends, with exports outpacing imports (in April–May 1999 exports rose by 9.4% and imports by 0.7%).

12) The evaluation of GDP is based on revised CSO estimates - for more details see the box on page 29 "Revisions to the statistical data on GDP". The new data do not signify a fundamental revision of the previous GDP analyses, but in some cases they modify the conclusions contained in earlier Inflation Reports.

Chart III.18 Exports of goods and services
(GDP methodology, 1995 constant prices)



The external trade conditions worsened mostly vis-à-vis countries with transition economies, including the CIS, where demand for imports fell owing to the unfavourable economic situation. The decline in exports to these countries continued into 1999 Q1, reaching extreme values (a year-on-year fall of 28.3%, or CZK 16.6 billion)[13]. Almost one third of this decline was attributable to a fall in exports to Slovakia (down by 22.3%, or CZK 5.1 billion), where weakening economic growth accompanied by falling industrial and construction output, rising unemployment and falling international reserves resulted in lower demand for Czech imports. Despite the rapid fall in mutual trade, Slovakia remains an important trading partner of the Czech Republic, with an 8.7% share of total exports. Exports to Russia also receded significantly, as no substantial progress was made in resolving its economic problems (a year-on-year fall of 65.6%, or CZK 4.5 billion).

On the other hand, exports to advanced market economies confirmed a continuing interest in Czech products. In 1999 Q1, exports to these economies rose by 4.3% in year-on-year terms. Exports to Germany were especially favourable (up 7.6%; and for January–May up 13.4%). At the same time, the export commodity structure indicated a rise in foreign demand for products with higher value added, and lower interest in food, raw materials and semi-manufactures.[14]

The accelerating contraction of exports in 1999 Q1 was also the main cause of a further worsening of the external imbalance, as measured by negative net exports, compared with the same period a year earlier. In absolute terms, negative net exports were close on CZK 30 billion (Table III.6).

Table III.6 Real output and demand (y-o-y growth in %, 1995 constant prices)

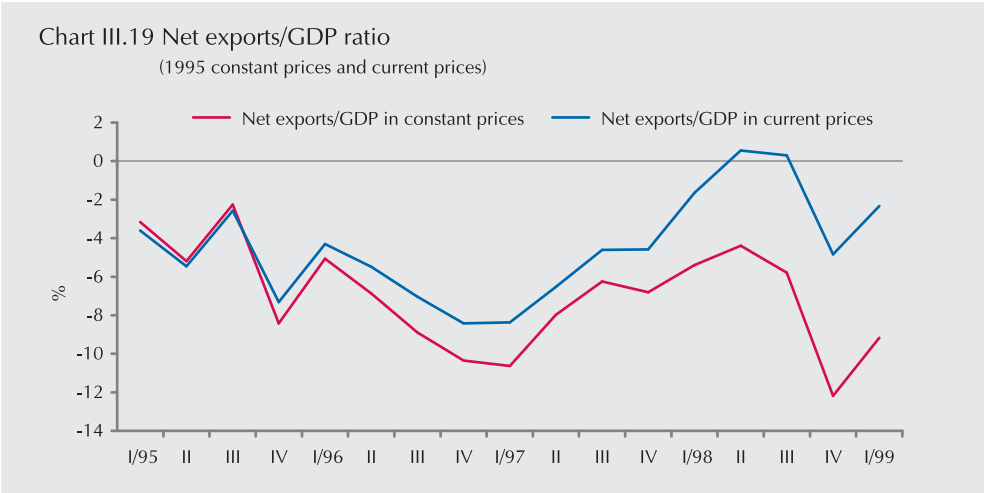
	1995	1996	1997	1998	I/1998	II/1998	III/1998	IV/1998	I/1999
GROSS DOMESTIC PRODUCT	6.4	3.8	0.3	-2.3	-0.7	-1.9	-2.6	-3.9	-4.5
AGGREGATE DEMAND (domestic demand and exports)	11.4	7.7	3.0	1.9	4.9	2.0	0.6	0.1	-1.9
DOMESTIC DEMAND	8.8	6.9	0.3	-3.2	-5.4	-5.2	-3.1	0.9	-1.0
DOMESTIC EFFECTIVE DEMAND [1]	7.8	5.7	0.3	-2.5	-3.2	-5.1	-2.1	0.1	-0.9
of which:									
Household consumption	6.0	6.9	2.1	-3.0	-2.5	-7.1	-0.8	-1.3	0.5
Government consumption [2]	-3.4	-1.1	3.4	0.8	-5.3	1.4	1.3	5.0	3.8
Gross fixed capital formation	19.9	8.2	-4.3	-3.8	-3.1	-5.9	-6.6	-0.6	-7.1
EXPORTS OF GOODS AND SERVICES	16.9	9.2	8.1	10.7	25.6	14.7	7.1	-1.2	-3.1
IMPORTS OF GOODS AND SERVICES	21.2	14.3	7.2	7.9	13.5	7.7	5.5	5.6	1.6
NET EXPORTS (CZK billions)	-65.7	-112.8	-113.1	-97.6	-18.3	-15.4	-21.2	-42.8	-29.7

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

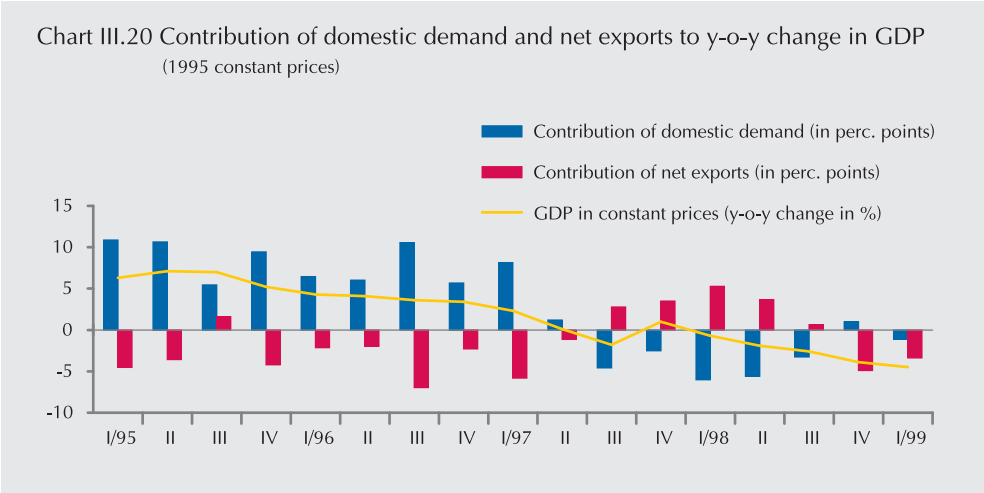
13) The data below on the territorial and commodity structure of exports are in current prices.

14) Engineering and electrical engineering products accounted for about half the exports (50.9%), up by 3.7 percentage points from a year earlier. Total exports of these commodities rose by 1.9% in 1999 Q1 in year-on-year terms. By contrast, exports of food, raw materials and semi-manufactures dropped in the same period by 23.3%, partly because of the falling prices of raw materials and foodstuffs on global markets, but mostly as a result of the subdued external demand for these commodities.

With the import propensity of GDP remaining high[15], the further decline in GDP caused a substantial weakening of import growth. However, exports fell more rapidly. The result was an increase in absolute negative net exports and a worsening of this indicator's share in GDP compared with the same period a year earlier.



The above developments in imports and exports meant that there was no renewal of the positive contribution of the external sector to GDP in 1999 Q1. With imports slightly rising (by 1.6%) and exports falling (by 3.1%) in year-on-year terms, the external sector in 1999 Q1 remained, as in 1998 Q4, a factor of GDP contraction. Unlike in 1998 Q4, however, the moderately falling domestic demand also contributed to the GDP decline.



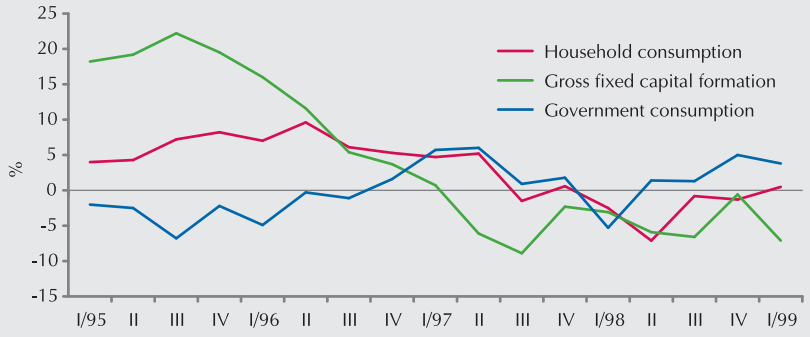
III.2.2 Domestic demand

According to the revised GDP estimates, domestic demand fell again in 1999 Q1, following the slight rise (of 0.9%) in 1998 Q4, which was due to a sizeable slowdown in the investment demand decline and an extraordinary increase in government consumption in the final months of 1998. The main reason for the decrease in domestic demand was a pick-up in the rate of decline in investment demand. After a slowdown in the year-on-year decline in 1998 Q4 to -0.9%, the rate of decrease of gross fixed capital formation returned to the levels of 1998 Q2 and Q3 (-7.1%). However, the decline was offset to

15) The import propensity of GDP in 1999 Q1 was 80.1%. Imports for intermediate consumption fell significantly (down 12.8% from a year earlier in current prices). This decrease was caused to a certain extent by the very low prices of raw materials (especially oil), but primarily by the recession in domestic industrial production. Investment imports rose by 16% in current prices.

a large extent by continuing growth in government consumption (of 3.8%) and by a moderate rise in household consumption (of 0.5%).

Chart III.21 Components of domestic effective demand
(y-o-y growth, 1995 constant prices)



Note: Government consumption including non-profit institutions

A more substantial revival of domestic demand, particularly investment demand, was prevented by the lack of projects acceptable to commercial banks from the point of view of credit-granting. This was largely due to the unfinished restructuring of the corporate sector (especially in the area of ownership relations), the present financial situation of businesses, and uncertainty about future economic developments. These were the main reasons for investment loans as yet signalling no desirable response to the CNB's gradual lowering of interest rates (the volume of investment loans granted remained virtually unchanged in 1999 Q1). At the same time, the influence of expectations of future economic developments on the investment decisions of the corporate sector cannot be excluded; these expectations are based on none too optimistic scenarios for both domestic and external demand.

The recovery in consumer demand was fostered by renewed year-on-year real growth in all the basic components of household incomes – wages (thanks mainly to wage changes in the non-business sector), as well as social and other incomes, which showed robust growth. The increase in government consumption was due mainly to increased health insurance company expenditures.

Investment demand

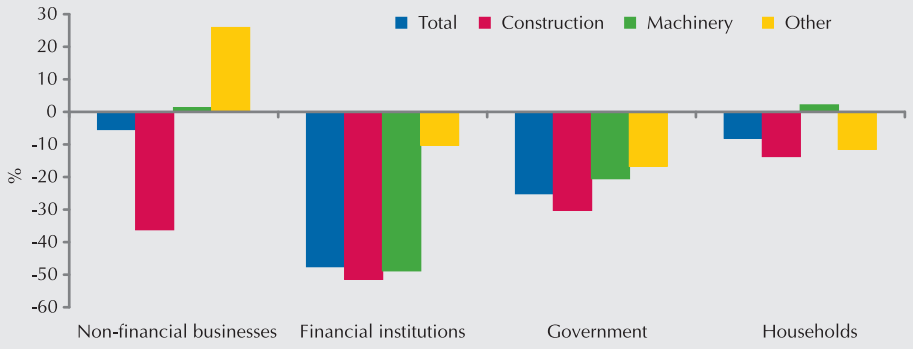
Although investment registered a relatively sharp decline in 1999 Q1 (of CZK 6.3 billion in year-on-year terms), the rate of investment remained relatively high (at 25.3%).[16] The ongoing steep drop in investment was caused not only by the above problems with obtaining sources of financing (owing to the incomplete restructuring of the corporate sector and uncertainties about future developments of both domestic and foreign demand, together with the greater prudence of commercial banks), but also by the ongoing structural changes in investment allocation. This showed up in a continuing contraction of investment in areas that experienced an investment boom in previous years. Moreover, investment by financial institutions fell by almost 50% (47.5%) in 1999 Q1, and investment in infrastructure dropped by 18.5%. Government investment also fell substantially (by 25.1%).[17]

On the other hand, capital investment by non-financial businesses recorded the smallest decrease of all the economic sectors (falling by 5.4%). However, in view of the weight of this sector in overall capital investment, its contribution to the investment contraction was the most substantial. The decline in investment by non-financial businesses was largely due to a further sizeable year-on-year drop in construction investment (of 36.2%); machinery investment meanwhile rose slightly (by 1.3%). The larger investment decline in other sectors meant that the share of non-financial businesses in total investment rose by 3.5 percentage points to 75.1%.

16) Rate of investment = ratio of gross fixed capital formation to GDP in 1995 constant prices.

17) The calculations in constant prices below are based on 1994 prices.

Chart III.22 Changes in capital investment in 1999 Q1 by sector and physical structure (y-o-y)



From the sectoral point of view, the investment trend signalled some positive changes. In 1999 Q1 – unlike in the previous quarter – growth was registered not only in large firms under foreign control (up 74.6% in current prices against a year earlier), but also in medium-sized domestic private firms (up 36.8% in current prices). In all non-financial businesses with other forms of ownership, the value of investment fell in year-on-year terms for the reasons given and analysed in previous Inflation Reports (increased bank prudence, incomplete restructuring of the corporate sector, insufficient creation of own funds from profit and write-offs, etc.).

The growth in investment in the manufacturing sector was a positive factor. With a rise of 10.8% against the same period a year earlier, its share in total investment rose to 26% (in 1994 prices). The rise in manufacturing investment was linked with an expansion in construction investment (up 19%) and machinery investment (up 15%). Within manufacturing, the share of investment in engineering and electrical engineering production rose most significantly (by 11.7 percentage points to 39.2%).

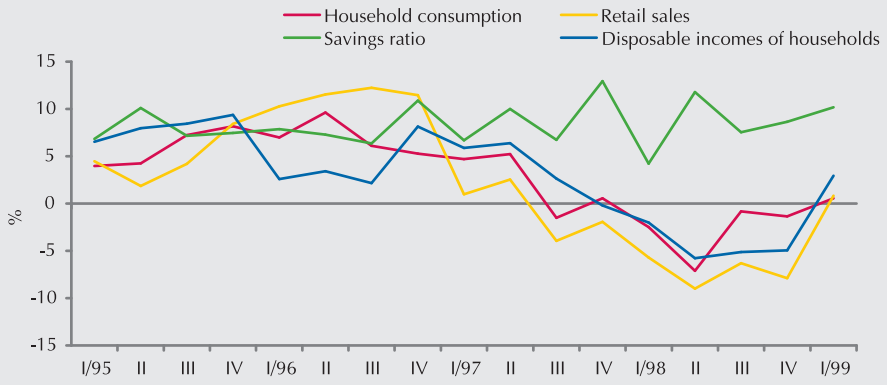
During 1999 Q1, investment in individual housing construction also increased (by 4%). However, total household sector investment dropped by 8.1% in year-on-year terms owing to declining investment by natural persons-entrepreneurs (down 14.9%).

Consumer demand

The decline in household consumption halted in 1999 Q1 (Charts III.21, III.23). Whereas in 1998 Q4, household consumption was still on the decrease in year-on-year terms (falling by 1.3%) amid continuing decline in real disposable household incomes, in 1999 Q1 it showed a moderate rise (up by CZK 0.9 billion, or 0.5%). This upturn in household consumption was triggered by renewed growth in all components of real household incomes, brought about by rising nominal household incomes and falling inflation (Table III.11). The concurrent rise in the savings ratio (to 10.1%[18]) indicated that the increased incomes were not being used exclusively for purchases of goods and services, but also partly for boosting financial reserves.

18) 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

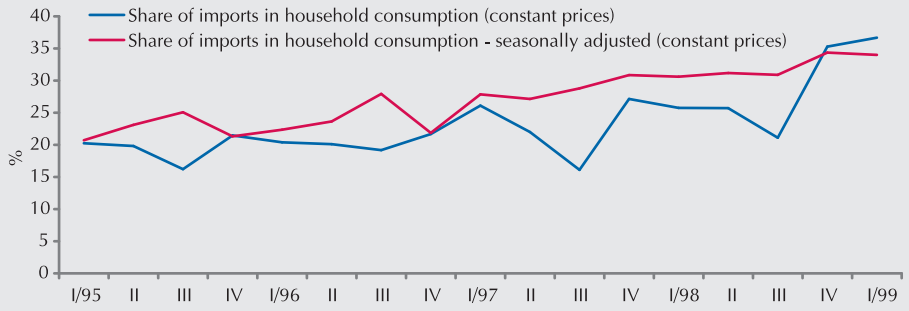
Chart III.23 Real consumption, retail sales, disposable incomes and savings ratio



The increased effective demand helped above all to further revive sales of food, whose prices dropped further during 1999 Q1. Year-on-year growth in food purchases in 1999 Q1 was up by 6.5 percentage points against 1998 Q4 to 9.6%. Households increased their spending also on recreation, culture, sport, transport and telecommunications. By contrast, sales of other goods (durables in particular) and services did not signal any recovery in demand. Lower household expenditures were registered especially in the areas of education, clothing and household equipment.

Consumer demand continued to be met mostly (about two thirds) from domestic sources. According to seasonally adjusted data, the share of imports in household consumption did not increase in 1999 Q1 (Chart III.24).

Chart III.24 Share of imports in household consumption
(goods imports/household consumption)



Note: Import prices were used for deflating consumer goods imports (1994 = 100)

Government demand

Government expenditure on public consumption rose by 3.8%[19] during 1999 Q1 against a year earlier. This was mostly due to a rise in transfers to social and health insurance funds, which, thanks to their advance payment, are the fastest-growing component of state budget expenditures. The rise in transfers was due on the one hand to a higher state contribution per insured person effective from 1 July 1998, and on the other hand to higher unemployment and an increase in the number of persons whose insurance is paid by the state.

19) Including non-profit institutions

The lower drawing on budget expenditures in 1999 Q1 (20.5% of the annual allocation) was in line with the usual trend for the first months of the year. The Ministry of Finance's regulatory measures for the budget chapters, including the General Cash Management chapter, are also contributing this year to slower drawing on expenditures. The drawing on individual types of expenditure has so far been quite uneven. Above all, a substantial reduction is visible in drawing on capital expenditure, which is 28.9% lower than the same period a year earlier despite the fact that the regulatory measures do not apply to this area.

The budget performance in 1999 Q2 is tending towards a gradual widening of the deficit, caused mainly by a decline in the revenues (especially tax revenues) that respond directly to economic decline. The continuing regulation of state budget spending (except for mandatory expenditures) means that the fastest growing component of expenditure on government consumption remains the group of transfers to social and health insurance funds and spending on state social contributions (passive and active employment policy) resulting from the acceleration in unemployment.

Table III.7 Public budgets

	1995	1996	1997	1998	1998 Q1	1998 Q2	1999 Q1	1999 Q2
State budget (CZK billions)								
Revenues	439.0	482.9	508.9	537.4	123.5	258.6	126.7	273.9
Expenditures	431.8	484.5	524.6	566.7	115.9	256.8	124.6	279.9
Balance	7.2	-1.6	-15.7	-29.3	7.6	1.8	2.1	-6.0
Local budgets (CZK billions)								
Revenues	129.1	161.7	149.8	161.8	31.1	72.2	33.4	
Expenditures	132.3	171.1	154.6	160.3	29.0	69.1	29.4	
Balance	-3.2	-9.4	-4.8	1.5	2.1	3.1	4.0	0.0
Net public budgets balance	4.0	-11.0	-20.5	-27.8	9.7	4.9	6.1	
Share of public budgets balance in GDP (%)	0.3	-0.7	-1.2	-1.5	2.3	0.6	1.4	

Note: Public budgets in the narrower sense, i.e. state budget and local budgets

Revisions to the statistical data on GDP

When releasing the data on GDP in 1999 Q1, the Czech Statistical Office (CSO) also published retrospective changes in the statistical data since 1994. The revisions were necessitated by the requirements of the EU Statistical Office (Eurostat) for making international comparisons of economic performance in different countries. In addition to Eurostat's methodological recommendations, the revisions took account of changes in indicators stemming from updated external data (e.g. in the area of foreign trade) and the results of revisions to the quarterly statistical statements for 1997 and 1998. The adjustments to the GDP statistics include:

- changes in the level of GDP and related changes in individual components of domestic demand in current prices;
- adjustments to deflators in individual years and quarters;
- changes to the GDP level in constant prices in individual years and quarters ensuing from the above changes;
- transfer of the time series from the price level of 1994 to that of 1999;
- changes in the distribution of annual GDP into individual quarters.

The GDP level in current prices has been increased by 2%–3% over the entire time series (1994–1998). The CSO has made partial adjustments to the deflators in all the revised years. These changes have partially modified the resulting relationship between data in constant prices and in current prices, but have not brought any fundamental changes in the year-on-year trends, as is clearly shown in Chart 3 on GDP in constant prices using the original and revised figures.

More significant changes have been made to the quarterly data on GDP and domestic demand and their individual segments (inventories in particular). The revisions affected the first and fourth quarters mostly strongly, with consequent implications of the altered bases for year-on-year GDP comparisons in individual quarters (Chart 2). These comparisons served as the foundation for analyses in previous Inflation Reports.

Compared to the previous CSO publications on GDP, the latest publication for 1999 Q1 also comprises a complete time series of data on GDP structure by sector in current and constant prices based on gross value added.

Chart 1 Original and revised data on GDP in current and constant prices

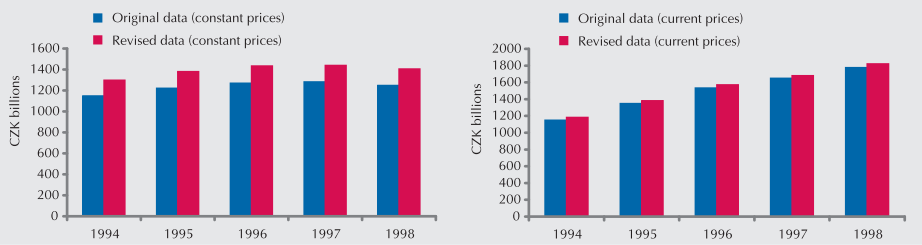


Chart 2 Changes in quarterly data on GDP (constant prices)

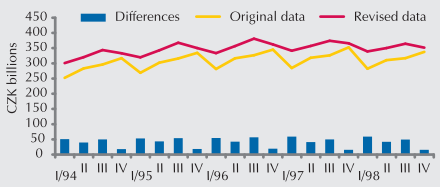
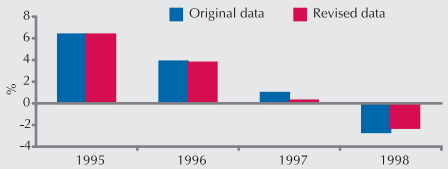


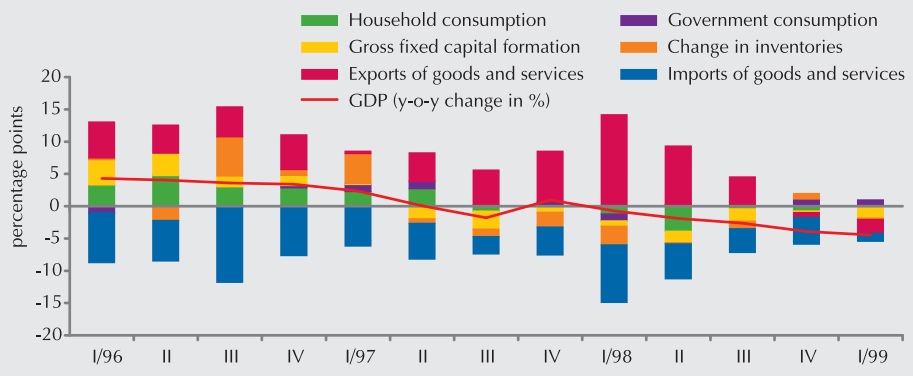
Chart 3 Changes in y-o-y GDP growth (constant prices)



III.2.3 Output

The decline in GDP further intensified in 1999 Q1. The year-on-year fall of 4.5% was the result of the further weakening of external demand and the renewed contraction of domestic demand for reasons analysed in more detail in other parts of this Report[20] (Charts III.20 and III.25).

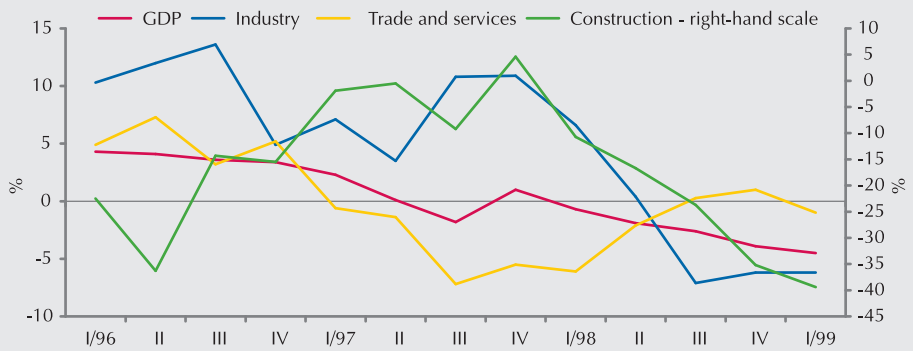
Chart III.25 Contribution of domestic demand components and net exports to y-o-y change in GDP



The weaker external demand above all affected gross value added in industry, which, together with the service sector, is the main component of GDP on the supply side.[21] Industry accounted for more than 50% of the year-on-year GDP decline in 1999 Q1, although there were differences in individual branches. The relatively large year-on-year drop (of 6.2%) in gross value added in industry was mostly the result of weaker external demand in transition economies.

However, the decline in gross value added did not increase, remaining flat compared with 1998 Q4 and slowing by 0.9 percentage points against 1998 Q3 (Chart III.26). Industrial output developed essentially in line with businesses' prior expectations, which were based primarily on order coverage of production. The latest business surveys show more favourable expectations associated with the export trend.

Chart III.26 GDP and gross value added by branch
(y-o-y change in %, 1995 constant prices)



20) See parts III.2.1 and III.2.2 of this Report.

21) According to CSO data, industry accounted for 41.1% of GDP, services and trade for 51.8%, construction for 2.8% and agriculture for 4.3% in 1999 Q1.

The decrease in value added in other sectors was, unlike in industry, the result of persisting low domestic demand. In 1999 Q1, the most sizeable falls in gross value added were in commercial services, other services and construction.

The greatest relative fall was registered in construction (down 39.4% against a year earlier). Demand for construction work depends primarily on the level and structure of domestic investment demand. The decline in investment and, in particular, the ongoing structural changes in non-financial sector investment (subdued investment in construction and buildings in favour of investment in machinery), combined with falling capital expenditures from the state budget and the decline in household and financial institution investment, contributed to the sharp fall in construction work in 1999 Q1.

The service sector was favourably affected in Q1 by a rise in value added in trade (under conditions of a slight consumer demand upturn) as well as in institutions involved in financial intermediation. In other services segments, the year-on-year decreases (of between 10% and 15.9%) indicated a persisting contraction of demand for these services.

Financial performance of non-financial organisations and corporations

From the point of view of the financial performance of non-financial institutions, the further fall in GDP reflects another decrease in gross profit amid generally worsening efficiency indicators (particularly wage costs). Part of the deterioration was also due to a higher comparison base from the previous year.

Against the same period a year earlier, gross profit in selected non-financial organisations and corporations with more than 100 employees contracted roughly by one fifth in 1999 Q1, with costs outpacing revenues by 1.2 percentage points. Cost, revenue and equity profitability deteriorated, as did wage costs. Only material costs saw more favourable figures than a year earlier. Their improvement was largely due to lower input prices, with raw materials prices on global markets generally more favourable than a year earlier.

In 1999 Q1, the positive effects of lower input prices were sufficient to offset the increasing wage costs but failed to compensate for the influence of the rise in other operating costs. This led to a relatively large drop in gross profit creation compared with 1998 Q1.

Table III.8 Selected financial indicators in 1999 Q1
(for non-financial organisations and corporations of all industries with more than 100 employees)

	Q1				Q1		Change in
	in CZK billions		y-o-y change				perc. points
	1998	1999	in %		1998	1999	Q1
Total revenues	693.4	695.7	0.3	Cost profitability (profit/costs)	5.47	4.28	-1.19
Total output	508.3	481.0	-5.4	Equity profitability (profit/equity)	2.50	1.98	-0.52
Total costs	657.4	667.2	1.5	Output profitability (profit/output)	7.08	5.93	-1.15
of which: intermediate consumption	337.2	312.2	-7.4	Material costs (intermediate cons./output)	66.34	64.90	-1.44
personnel costs [1]	82.5	83.2	0.8	Wage costs (personnel costs/output)	16.23	17.29	1.07
Pre-tax profit	36.0	28.5	-20.7				

1) Includes wage and other personnel costs, remunerations to members of companies and co-operatives, social security costs and social costs

The deteriorating financial results in selected non-financial organisations was accompanied by a growing number of loss-making organisations (up 3.4% from a year earlier) and by rising insolvency. Above-average results for profit creation and output profitability in 1999 Q1 were achieved only in organisations under foreign control.

Implications of demand and output developments for inflation

The overall domestic demand trend in 1999 Q1 – characterised by a renewed moderate year-on-year decline following the stagnation in the previous quarter, did not create conditions for an upsurge in demand-pull inflationary pressures in the economy. Neither was such a danger generated by the moderate upturn in consumer demand fostered by the renewed growth in real household incomes, as household demand was focused mainly on food, where pricing has a distinct nature at present. The list of factors reducing the inflationary risks emanating from the more rapid rise in household incomes also includes the increase in the savings ratio in 1999 Q1.

At the same time, the financial performance of the set of selected non-financial organisations and corporations indicates the existence of potential risks of cost-push inflationary impulses arising from the increasing wage costs of output; these costs, however, have so far been offset by falling material costs. This is consistent with the conclusions of wage analyses conducted at the macroeconomic level, which point mainly to a rise in unit wage costs in 1999 Q1.

III.3 The labour market

During 1999 Q1, the labour market saw widening imbalance. Compared with the same period a year earlier, the excess of labour supply over demand increased. The gap between growth of real wages and labour productivity widened, as did that between real wage growth and the increasing unemployment. Labour costs grew not only in absolute terms, but also in relation to productivity. The above processes led to an accumulation of wage-inflationary potential, which has so far been subdued by the cyclical development of the economy. The rise in the unemployment rate was not strong enough to fully offset the unbalanced trends.

III.3.1 Wages and financial incomes

During the period under review, the growth rates of nominal wage indicators were generally falling, but in real terms all monitored indicators showed a sizeable increase. Average real wages in 1999 Q1 were up 5.4% in year-on-year terms, which means that the upward trend that started in the previous quarter continued. With respect to sector structure, the non-business sector registered a rise of 10.6% and the business sector an increase of 4.4%. Although wages rose across the board, employees of budgetary and subsidised organisations predominate on the one hand, and those of state-owned corporations on the other.

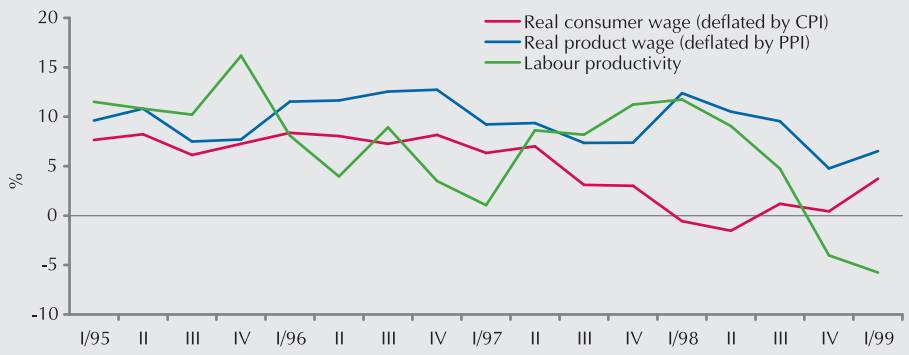
Table III.9 Basic data on wages *(y-o-y change in %)*

		96 Q1	96 Q2	96 Q3	96 Q4	1996	97 Q1	97 Q2	97 Q3	97 Q4	1997	98 Q1	98 Q2	98 Q3	98 Q4	1998	99 Q1
AVERAGE WAGE	(nominal)	17.4	21.0	16.5	17.1	18.0	14.0	13.3	12.8	8.4	11.9	10.9	7.0	9.2	10.1	9.3	8.6
	(real)	7.9	11.5	6.6	7.8	8.4	6.3	6.3	2.6	-1.5	3.2	-2.1	-5.0	-0.3	2.4	-1.4	5.4
of which:																	
Non-business sector	(nominal)	15.0	33.0	15.3	18.5	20.6	12.4	11.0	10.2	-6.6	5.8	5.0	-6.2	3.0	15.1	3.9	13.9
	(real)	5.6	22.5	5.5	9.1	10.8	4.9	4.2	0.3	-15.2	-2.4	-7.4	-16.7	-5.9	7.1	-6.2	10.6
Business sector	(nominal)	18.2	17.1	17.0	16.6	17.1	14.3	14.1	13.4	13.0	13.6	12.6	11.1	10.9	8.9	10.9	7.5
	(real)	8.6	7.9	7.0	7.3	7.6	6.7	7.0	3.2	2.7	4.8	-0.6	-1.4	1.2	1.3	0.1	4.4
of which:																	
private organisations	(nominal) 1)	.	.	.	.	.	14.0	13.6	12.4	12.0	12.8	11.3	9.2	9.0	6.6	8.9	6.0
	(real)	.	.	.	.	.	6.3	6.5	2.3	1.7	4.0	-1.8	-3.1	-0.5	-0.8	-1.7	3.0
state organisations	(nominal) 2)	.	.	.	.	.	16.2	16.3	15.4	15.5	15.9	11.8	10.2	12.4	11.3	11.4	11.1
	(real)	.	.	.	.	.	8.4	9.1	5.0	4.9	6.9	-1.4	-2.3	2.6	3.6	0.6	7.9
international organisations	(nominal) 3)	.	.	.	.	.	13.3	15.9	14.7	13.3	14.3	14.1	17.3	12.1	12.1	14.1	10.5
	(real)	.	.	.	.	.	5.7	8.7	4.4	2.9	5.4	0.7	4.1	2.4	4.3	3.0	7.4

1) Including domestic (legal and natural) entities without state ownership
2) Including domestic (legal and natural) entities with 100% state ownership
3) Including entities with domestic and foreign capital
Source: CSO

Labour productivity in industry fell by 5.8% in year-on-year terms, although the real product wage rose by 6.5%. As regards industrial producers, the price of labour per unit product (real unit wage costs) increased by 13%, compared with 9.1% in 1998 Q4 and 4.5% in Q3. This means that, in industry, growth in real product wages is showing a sustained lead over that of labour productivity.

Chart III.27 Real wage and labour productivity in industry (y-o-y growth)



The first quarter of 1999 saw a year-on-year rise in wage incomes for the first time since mid-1997 (see Table III.11). The increase in average real wages was so sharp that it could not be offset even by accelerated lay-offs. The previous downward trend in real unit wage costs halted and switched to a steep rise. The current growth in nominal unit wage costs is the fastest since 1997 Q3.

Chart III.28 Real consumer wage and unemployment rate

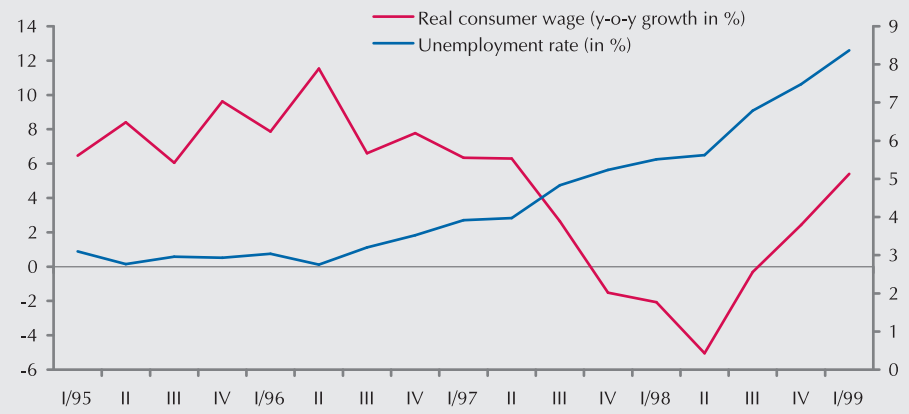
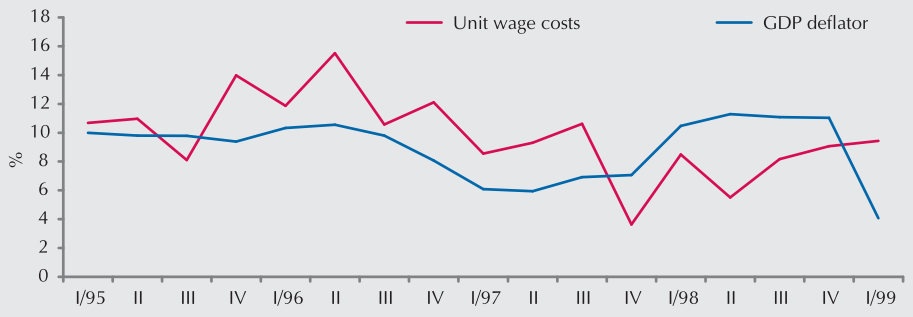


Table III.10 Wage, price and productivity indicators *(y-o-y change in %)*

	96 Q1	96 Q2	96 Q3	96 Q4	1996	97 Q1	97 Q2	97 Q3	97 Q4	1997	98 Q1	98 Q2	98 Q3	98 Q4	1998	99 Q1
Unit wage costs (nominal wage incomes/GDP in constant prices)	11.9	15.5	10.6	12.1	12.5	8.6	9.3	10.6	3.6	7.9	8.5	5.5	8.2	9.1	7.7	9.4
GDP deflator	10.3	10.6	9.8	8.1	9.7	6.1	5.9	6.9	7.1	6.5	10.5	11.3	11.1	11.0	11.0	4.1
Real unit wage costs (unit wage costs/GDP deflator)	1.4	4.5	0.7	3.7	2.6	2.3	3.2	3.5	-3.2	1.3	-1.8	-5.2	-2.6	-1.8	-2.9	5.2
Whole-economy labour productivity	2.4	2.9	1.8	3.3	2.6	2.5	0.4	-0.7	2.3	1.1	0.8	-0.2	-0.5	-1.7	-0.4	-1.5

Source: CSO, CNB calculation

Chart III.29 Nominal unit wage costs and GDP deflator (y-o-y growth)



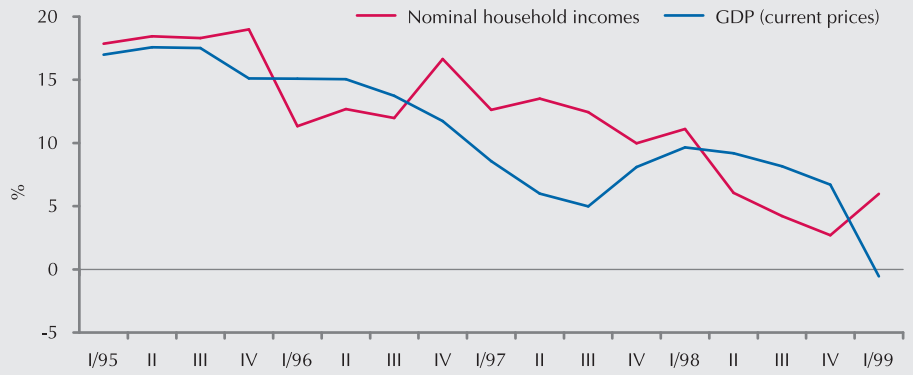
The upward trend in real wages was registered also in other segments of financial household incomes. Here it was even quicker: social incomes grew the fastest, followed by other incomes and incomes from wages.

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

		96 Q1	96 Q2	96 Q3	96 Q4	1996	97 Q1	97 Q2	97 Q3	97 Q4	1997	98 Q1	98 Q2	98 Q3	98 Q4	1998	99 Q1
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	2.7	5.8	6.0
	(real)	2.3	3.8	2.5	7.4	4.1	5.1	6.5	2.3	-0.1	3.3	-1.9	-5.9	-4.8	-4.5	-4.5	3.0
of which:																	
Wage incomes	(nominal)	16.7	20.2	14.5	15.9	16.8	11.1	9.4	8.6	4.6	8.2	7.7	3.5	5.3	4.8	5.2	4.6
	(real)	7.2	10.7	4.8	6.7	7.3	3.7	2.6	-1.1	-5.0	-0.2	-5.0	-8.2	-3.9	-2.5	-5.0	1.6
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	4.5	9.1	9.8
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	-2.0	4.8	5.9

Source: CNB statistics

Chart III.30 Relative income position of households
(y-o-y growth in %)



The developments in 1999 Q1 indicate a build-up of wage-inflationary pressures. The excessive rate of growth of wages and incomes, which departed from the developments in productivity and GDP indicators, was generated by two fundamental factors: a 17% increase in the tariff components of wages in the budgetary and subsidised sector; and the fact that, for wage bargaining purposes, the trade unions

sent out a signal about expected inflation into the economy that was very different from that of the CNB (as much as 9.5% higher). As regards the inflation estimate, the reality turned out to be close to the CNB's estimate. Nevertheless, the exaggerated parameters of collective wage bargaining passed through to a large extent into the economy in 1999 Q1. This was confirmed by year-on-year rises in nominal wages of 7.5% in the business sector and of almost 6.5% in industry. The build-up of wage-inflationary potential arising from exaggerated inflation expectations is visible from both the cost and the demand point of view.

III.3.2 Employment and unemployment

The trend of the previous two years on the labour market – decreasing employment and an increasing unemployment rate – continued into 1999 H1. In 1999 Q1, according to official CSO data, employment fell by 3.5% (or by 2.3% according to the results of the labour force survey, which additionally includes also women on maternity leave and the armed forces) compared with the same period a year earlier. In absolute terms, employment decreased by 170,000 persons in 1999 Q1 compared with the same period a year earlier, with all sectors of the economy (primary, secondary and tertiary) affected. The decline is the highest in both percentage and absolute terms since the 1991–1992 period. In this sense, it corresponds with the cyclical development of the economy; nevertheless, it was not sufficient to halt either the fall in labour productivity or the growth in real wages.

Table III.12 Basic data on employment and unemployment

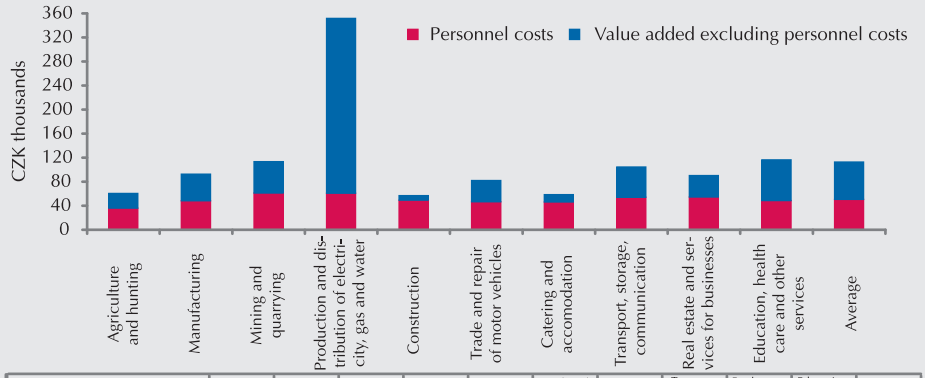
					1998				1999	
	1995	1996	1997	1998	Q1	Q2	Q3	Q4	Q1	Q2
Total no. of persons employed in whole economy (average numbers)										
Year-on-year change in %	2.6	0.8	-1.0	-1.2	-1.3	-1.4	-1.3	-1.1	-3.5	.
Natural persons - number (in thousands)	5011	5041	4991	4871	4894	4899	4831	4851	4723	.
Number of unemployed [1]										
Natural persons - number (in thousands)	153.0	186.3	268.9	386.9	284.1	289.5	350.7	386.9	433.3	435.0
Unemployment rate [1]	2.9	3.5	5.2	7.5	5.5	5.6	6.8	7.5	8.4	8.4
Number of job applicants per vacancy	1.7	2.2	4.3	10.3	4.4	5.0	6.8	10.3	13.1	12.6

1) As of end of period

In the primary sector, employment contracted by 9.7% against 1998 Q1. This long-term tendency was recorded in all industries of the primary sector. In the secondary sector, the number of employees was down by 4.2% in year-on-year terms as of 31 March. All industries of the secondary sector saw falls, with construction suffering the biggest decrease (8.3%). Here, a link can be seen with the increasing rate of economic decline in this industry (construction output was down by 16% in Q1 in constant prices). The number of employees in the tertiary sector fell by 2.2% compared with the same period a year earlier.

The chart and table below illustrate the relationship between employment, personnel costs and productive indicators (measured by the ratio of wages and other personnel costs in businesses with more than 100 employees in non-financial sectors of the economy). In non-financial industries, employment fell by 6.7% in 1999 Q1 against a year earlier, while labour costs per unit of value added decreased by 1 percentage point. Labour costs therefore decreased in relative terms. This aggregate result, however, conceals completely opposite trends, especially in construction, manufacturing and catering. These industries are characterised by an above-average share of personnel costs in value added. In 1999 Q1, labour costs per unit product rose even further.

Chart III.31 Share of personnel costs in book value added (1999 QI) 1)

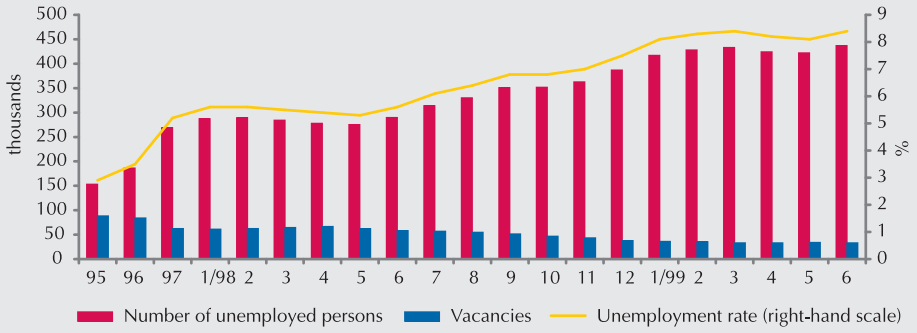


	Agriculture and hunting	Manufacturing	Mining and quarrying	Production and distribution of electricity, gas and water	Construction	Trade and repair of motor vehicles	Catering and accomodation	Transport, storage, communication	Real estate and services for businesses	Education, health care and other services	Average
Change in share of pers. costs in value added (perc. points)	-4.9	5.0	2.6	-0.9	7.1	3.1	5.3	-8.2	-1.8	-0.3	-1.0
Y-o-y change in employment %	-12.5	-6.7	-10.3	-4.2	-16.2	-0.4	-7.0	-3.2	-3.1	-4.9	-6.7

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

At the end of June 1999, the unemployment rate was running at 8.4%, representing a year-on-year rise of 145,500 in the number of newly unemployed persons. The moderate slowdown in the upward trend in unemployment during 1999 Q2 was affected by a number of seasonal factors. At the end of June, the unemployment rate was at the level of the end of 1999 Q1. A total of 41.7% of all the unemployed were receiving unemployment benefit, up 0.5 percentage points against a month earlier.

Chart III.32 Unemployment



The gap between supply and demand for labour widened not only in aggregate terms, but also particularly in the regional, professional and skill structure of the employable population. The overall disproportion between aggregate supply and demand for labour was reflected in an ever-increasing number of job applicants per vacancy. Whereas in December there were 10.3 applicants per vacancy, at the end of June the figure was 12.6.

Implications of labour market developments for inflation

The aforementioned labour market developments in 1999 Q1 resulted in a build-up of inflationary pressures with respect to all income variables. The growth rates of the relevant indicators reached the level which prevailed in the economy in 1997 Q2 and Q3, i.e. in the period when the unbalanced trends peaked in the economy. The open wage-inflationary processes in the economy are being blocked for now thanks mainly to the downward phase of the business cycle (to the detriment of producers' profit margins) and to movement in the opposite direction in other cost items. In connection with the gradual economic recovery, it is possible that these latent wage-inflationary risks may transform into real risks.

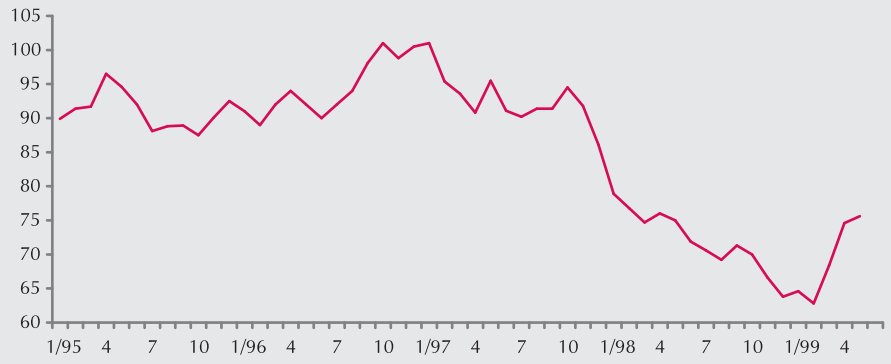
III.4 Costs and prices

The previous trend of a gradually slowing year-on-year rise (or year-on-year decline) in most producer price groups was interrupted in 1999 Q2 by a turnaround in industrial producer prices. Owing to the renewed rise in prices of energy raw materials (oil) and the koruna's depreciation, growth in import prices resumed, leading to a moderate upturn in price growth in this sector. Other producer price groups saw a continuation of their previous trends. Construction work prices showed a modest slowdown in growth against 1999 Q1, and the year-on-year decline in agricultural producer prices intensified (against 1999 Q1, however, agricultural producer prices remained flat at a generally very low level).

III.4.1 Import prices

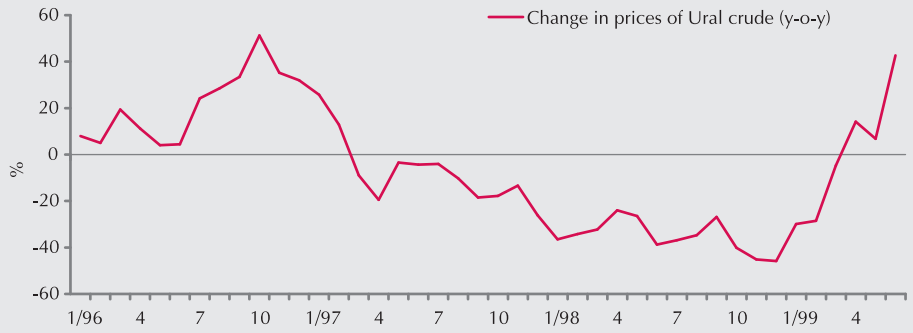
Prices of basic raw materials, which are imported to the Czech Republic in substantial volumes, registered a reversal in the previous positive trends with respect to their impact on the internal price level. The year-on-year decline in the HWWA index, an aggregate raw materials price index, slowed significantly in March and April 1999 against the first two months of the year (to -8.4% and -1.8% respectively). In May it increased slightly (by 0.8%) after 22 months of decline. This was due to prices of energy raw materials, which rose in April and May by 9.7% and 12.2% respectively in year-on-year terms after falling for almost two years (in March they registered a decrease of 2.9%). In April 1999, the price of Ural crude was up by 14.2% from a year earlier to USD 14.18 per barrel, and this year-on-year rise continued in the following two months (reaching 42.7% in June). In contrast, prices of industrial and food commodities on global markets continued to drop in March–May.

Chart III.33 HWWA index (1990 = 100)



The considerable rise in energy raw materials prices passed through directly into import prices in 1999 Q2. However, a gradual moderation of the year-on-year decline in import prices has been visible since the start of the year, influenced by the koruna's weakening exchange rate. In May 1999, import prices dropped by a mere 1.3% owing to the koruna's gradual weakening (particularly against the dollar, but also against the Deutsche Mark) and the rising prices of energy raw materials.

Chart III.34 Prices of Ural crude



III.4.2 Producer prices

Industrial producer prices

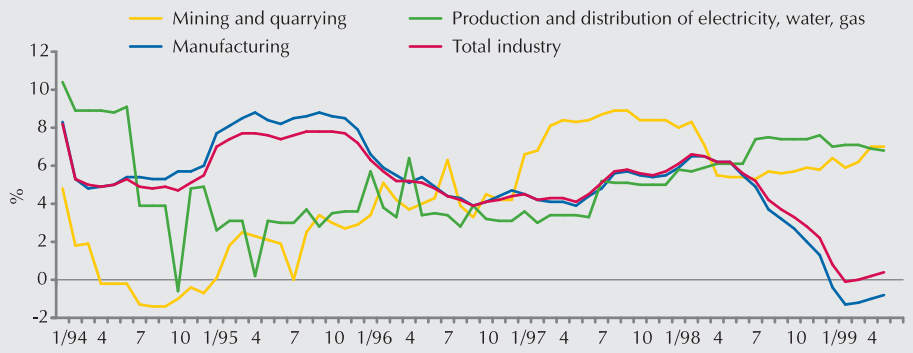
The change of trend in energy raw materials prices and the koruna's depreciation in 1999 Q1 were the main factors underlying the slight upturn in industrial producer price inflation in Q2 (Chart III.35). Following a gradual deceleration in growth culminating in stagnation[22)] in 1999 Q1, industrial producer prices recorded moderate year-on-year growth in April, May and June 1999 (of 0.2%, 0.4% and 0.4% respectively). The reversal in the industrial PPI trend was caused mainly by rising prices in manufacturing industries with a large share of oil-product processing (coke production and oil refining, the chemical and pharmaceutical industry).

Chart III.35 CSO import price index and industrial producer prices

(y-o-y change in quarterly average in %)

22) Industrial producer prices were up 0.8% in January 1999, up 0.1% in February and flat in March in year-on-year terms.

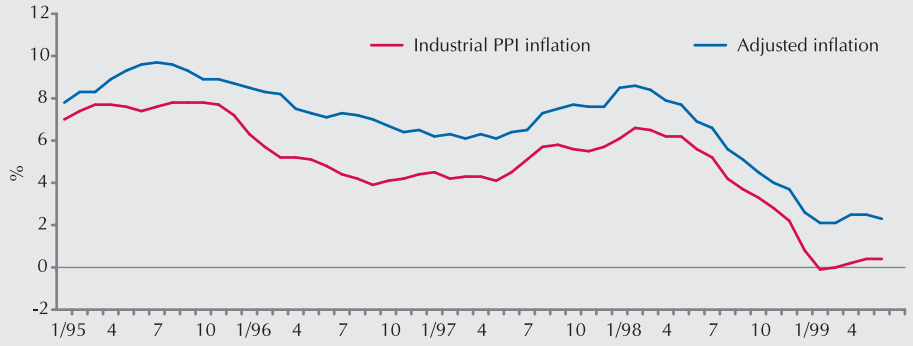
Chart III.36 PPI inflation by industrial category (y-o-y)



In most other branches of manufacturing, prices continued to fall in year-on-year terms (and remained flat in month-on-month comparison) as a result of the lower import prices in 1999 Q1 and the weak domestic demand. Prices in non-manufacturing industries (water, heat and energy distribution and mining) maintained growth rates roughly at the level of a year earlier.

The change in trend for industrial producer prices in 1999 Q2 was one of the main reasons for the renewed moderate growth in adjusted inflation (Chart III.37). Price changes in the oil-processing sector are transmitted very quickly into prices of fuels and lubricants (which are part of adjusted inflation), and the changes in oil prices then pass through, with different time lags, into other price groups of both the industrial PPI and adjusted inflation. Adjusted inflation was affected in 1999 Q2 by the direct pass-through of the price growth in oil refining into fuel prices.

Chart III.37 Industrial PPI inflation and adjusted inflation (y-o-y growth)



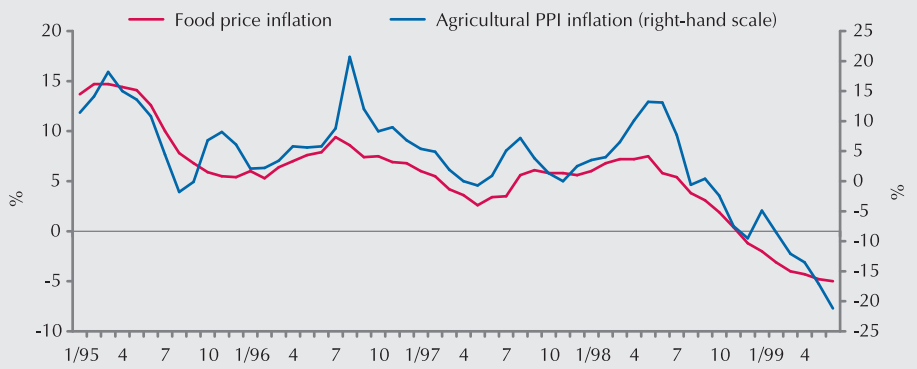
Construction work prices

The rise in construction work prices slowed in 1999 Q2 (0.5% in April, 0.4% in May and 0.2% in June in month-on-month terms and 6%, 5.8% and 5.3% respectively in year-on-year terms). Amid falling demand for construction work, the year-on-year rise in prices in June 1999 was roughly half that of June 1998 (5.3% against 9.7%). Nevertheless, the rise can still be considered quite high. It is mainly a result of the slow progress of restructuring in this industry and the relatively heavy interest burden of construction firms.

Agricultural producer prices

Agricultural producer prices were more or less flat in 1999 Q2 compared with Q1. However, in year-on-year terms their unprecedented decline continued (-13.5% in April, -17.1% in May and -20.2% in June). The prices of most agricultural commodities remained, with a few exceptions, at the level reached after the substantial decline at the close of 1998, which was caused primarily by the Russian crisis (agricultural producer prices subsequently fell below the level of real producer costs). The continuing low agricultural producer price level was also attributable to the limited opportunities for exporting surplus agricultural products. This was due to low state support for exports and the monopolisation of some branches of the food industry combined with the weak negotiating position of agricultural primary producers and the ongoing considerable excess of production of some commodities (milk) over domestic demand.

Chart III.38 Food price inflation and agricultural PPI inflation (y-o-y)



Implications of other cost indicators for inflation

The trend in industrial producer prices switched from a decline in 1999 Q1 into a moderate year-on-year rise in Q2. This was attributable to pass-through of the exchange rate depreciation and, in particular, the substantial oil price increases into industrial producer prices. Oil prices fed through directly into adjusted inflation, which as a result started to show stronger year-on-year growth following the previous slowdown. The expected further growth in energy raw materials prices[23)] is creating conditions for further growth in import prices in the future and for subsequent increased pressure for growth in industrial producer prices. At the same time, there are only limited possibilities for other factors to offset these effects.

The ongoing dramatic fall in agricultural producer prices in 1999 Q2, accompanied by the present pricing policy of large retail chains, allowed the sizeable year-on-year drop in food prices to continue. This trend in agricultural producer prices can be considered unsustainable in the long run from the cost point of view and is creating significant potential for both producer and food price inflation.

23) Assuming at the same time a stagnation of prices of other imported raw materials and foodstuffs and of prices in the Czech Republic's most important trading partner economies, as well as a relatively stable koruna exchange rate.

IV. MONETARY POLICY MEASURES AND INFLATION OUTLOOK

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

The decline in inflation, which started in 1998 Q2, continued into 1999 Q2, although at a slower pace than in the previous quarter. The slowdown in the rate of disinflation showed up most strongly in the indicators of overall inflation. Year-on-year CPI inflation fell by 0.3 percentage points in Q2 (from 2.5% in March to 2.2% in June). The decrease was much less than in Q1, when CPI inflation dropped by 4.3 percentage points (from 6.8% in December 1998 to 2.5% in March 1999). Month-on-month CPI inflation was 0.3% in April (mainly because of rising fuel prices), -0.1% in May and 0.2% in June. Year-on-year regulated price inflation slowed by 0.6 percentage points during 1999 Q2 against March 1999 to 11.1%. The disinflation slowdown in Q2 was attributable above all to rising oil prices and to a limited extent also to the lagged inflationary impact of the koruna's depreciation in 1999 Q1. The inflation rate, expressed as the increase in the average CPI in the last twelve months (against the average of the previous twelve months), dropped by 2.5 percentage points, from 8% in March to 5.5% in June.

Net inflation mirrored overall inflation. The fall in inflation as expressed by the year-on-year net inflation index accelerated further during 1999 Q2, from -0.4% in March to -0.6% in June. This drop in net inflation (with negative outturns in five consecutive months) was mostly the result of the ongoing decline in food prices, which outweighed the modest increase in adjusted inflation (the other component of the net inflation index). The most important factors contributing to the further, albeit more moderate, decline in inflation were the still atypical food price trend (emanating from the pricing policies of the entities being newly established on the Czech retail market, which are focusing on gaining market share); continuing imports of subsidised food from the European Union; and the depressed prices of domestic primary producers. Apart from food prices, the slower increase in regulated prices (against the same period of 1998) also contributed to the ongoing moderate disinflation.

Following a modest rise in 1998 Q4, domestic aggregate demand fell back in 1999 Q1 (by 0.9%), thereby contributing to the creation of the disinflationary environment in the economy. The main cause was the renewed fall in investment demand (down 7.1%), which was only partly offset by the continuing rise in government consumption (up 3.8%) and the moderate pick-up in household consumption (up 0.5%).

Economic activity, expressed as the year-on-year change in GDP, receded by 4.5% in 1999 Q1. This was 0.4 percentage points more than the fall in 1998 Q4 (-4.1%). The main contributors to the GDP decline were net exports (-3.4 percentage points), gross fixed capital formation (-1.9 percentage points) and inventories (-0.2 percentage points). Household consumption (+0.3 percentage points) and government consumption (+0.7 percentage points) acted in the opposite direction, but their contribution was not of great significance. Net exports testified to a further deterioration of the external imbalance in 1999 Q1 against the same period a year earlier. In absolute terms, negative net exports increased from CZK 18.3 billion to almost CZK 30 billion, or 9.1% of GDP in constant prices.

The unemployment rate fluctuated during 1999 Q2, reaching 8.4% at the end of June (the same as at the end of March). The seasonal adjustment indicates constant growth and thus a continuation of the trend that started in 1997.

The trend of higher year-on-year growth in monetary aggregates seen since the start of the year continued into Q2. The average nominal year-on-year growth in M2 in the first five months was up 3.2 percentage points against the same period a year earlier to 10% (and in real terms up from -5.7% in 1998 to 7.1% in 1999). The rate of money supply growth was high and differed from the rate of nominal GDP growth. However, the short-term money supply growth, whose real impact can be evaluated only in the longer run, did not trigger any direct inflationary pressures. The rate of monetary aggregate growth was largely due to increased foreign investor interest in investment in the Czech

Republic, which is being financed to a large extent by domestic banks. One of significant trends in 1999 Q2 was money supply growth from non-resident sources via a rise in net foreign assets generated by inflow of non-debt capital. During the course of Q2, money supply departed ever more conspicuously from credit supply, which remained very low by virtue of the limited functionality of the credit channel. Client credits fell by 0.8% in March, 2.3% in April and 3.7% in May notwithstanding the ongoing downward trend in nominal interest rates.

The daily course of the koruna's exchange rate against the euro showed a modest upward trend from the start of April. However, this temporarily halted at the beginning of May. The appreciation pressures resumed at the start of June in connection with the privatisation of ČSOB. The expected settlement of this transaction raised demand for korunas, thereby contributing to the appreciation trend typical of the whole of Q2. The nominal exchange rate's tendency towards moderate appreciation indicates possible disinflationary pressures in the quarters to come.

Several cost factors contributed to the disinflation slowdown. The year-on-year decline in the HWWA aggregate raw materials price index, which indicates import price developments, substantially decelerated in March and April 1999 against the first two months of the year. This was primarily due to rising prices of energy raw materials, particularly oil (Ural crude was up by 14.2% in April from a year earlier). Nonetheless, prices of industrial and food commodities on global markets continued to fall in this period. The rise in energy raw materials prices and the koruna's depreciation in 1999 Q1 led to a moderate rise in producer prices. Year-on-year industrial PPI inflation was 0.2% in April and 0.4% in both May and June. Agricultural producer prices continued to show an increased rate of year-on-year decline (-13.5% in April, -17.1% in May and -20.2% in June).

IV.2 Monetary policy

Decisions on changes in monetary policy within the inflation targeting regime are derived from the conditional rolling inflation projections, analysis of inflation factors and assessment of price development risks in the forthcoming period.

IV.2.1 Past developments in inflation factors, inflation projections and their risks

As described in the April Inflation Report, anti-inflationary effects predominated in 1999 Q1 on both the demand and supply sides. However, in Q2, this macroeconomic framework gradually started to change. Though domestic demand remained subdued, tendencies appeared on the supply side towards a renewal of inflationary pressures. This contributed to the slowing rate of decline in inflation in Q2. As stated in previous sections, there was a sharp rise in prices of energy raw materials on global markets and a gradual pass-through of the effects of the exchange rate depreciation in Q1.

The basic conditional inflation projection at the beginning of Q2 was based on the expected pass-through of the aforementioned factors into future inflation. It was also based on previous experience concerning the transmission of past import price developments into inflation. This projection indicated that year-on-year net inflation at the end of 1999 would be at the lower limit of the inflation target (set within the interval of 4%–5%), and that the inflation target for 2000 (3.5%–5.5%) would be fulfilled. The uncertainties regarding future inflation developments included food prices, the extent to which cost factors would feed through into price developments, and the exchange rate trend. On the demand side, the uncertainties concerned wage developments and public finances.

Nevertheless, during the course of Q2, these inflationary pressures passed through into prices to a limited extent only. In view of this and the expectations of the future effects of inflationary factors, the inflation projection was gradually adjusted downwards. The ongoing structural changes on the retail market and imports of cheap food from abroad led to a further fall in food prices. Expected overhangs in the supply of agricultural products over demand increased the likelihood that this trend would

persist into the future. The effect of import prices on inflation was substantially weaker than the CNB expected. This testified to a considerable depressing effect of the low level of demand on inflation. The none too strong effect of the depreciation on prices was fostered also by the possible expectation that the depreciation was only temporary (in light of the ongoing and future capital inflow exerting pressure for renewed appreciation). The stabilisation of the exchange rate, with a slight trend towards appreciation, was in Q2 a factor that favourably affected future developments from the inflation point of view. The risks from the growth in real wages (resulting from a combination of nominal wage growth inertia and the decline in inflation) were curbed in Q2 by the developments on the labour market. Moreover, public finances in Q2 did not indicate an excessive stimulation of demand and consequently the occurrence of more significant inflationary risks.

As a result of the aforementioned processes, the conditional net inflation projections at the end of Q2 signalled a fairly major deviation from the inflation target for the end of 1999 and an only gradual increase in year-on-year inflation during 2000.

In Q2, the CNB took into account the existing risks when deciding on changes in interest rates. These risks included uncertainties about the time path of the future upturn in inflation (even though only a slight increase was expected); the narrowing interest rate differential vis-à-vis abroad; and the uncertainties regarding developments on the financial markets, which were responding very sensitively to interest rates. Another sensitive issue was to choose a lowering of interest rates that would not lead to an excessive exchange rate depreciation and at the same time would not trigger an outflow of domestic savings abroad or a significant rise in the propensity to consume. At the same time, there existed the risk that an excessive easing of monetary policy would stimulate demand-pull inflationary pressures. Another important issue was the possibility of effectively countering the appreciation effect of the inflow of foreign capital. A longer-lasting exchange rate appreciation would contribute to a further fall in inflation; however, if not accompanied by corresponding productivity growth, it would also result in reduced price competitiveness and an unfavourable effect on the long-term sustainability of the current account trend. A significant risk was the weakened link between interest rates and the volume of newly granted credits. This fact raised the issue of the mutual relationship between the credit and exchange rate channels of the transmission mechanism and the possibilities of using them to influence inflation. The decision regarding the extent of monetary policy tightness was also complicated by the insufficient reliability of the estimations of expected inflation necessary for assessment of the real interest rate level.

In addition to the aforementioned circumstances and future development risks, some specific factors that were significant in the relevant months were taken into account in each decision to change the monetary policy setting. These included, for example, changes in interest rates abroad and new information revising overall macroeconomic development.

IV.2.2 Monetary policy response

The CNB responded to the developments described above with a further lowering of the repo rate. However, the room for further interest rate cuts in Q2 was narrower than in the previous period, which led to a more moderate pace of lowering. Between January and March, the repo rate was cut three times by a total of 2 percentage points (from 9.5% to 7.5%). In Q2, it was again lowered three times, but only by 1 percentage point overall (from 7.5% to 6.5%). The extent of these cuts did not necessitate a change in the discount and Lombard rates, which define the corridor for repo rate movements.

Owing to the expected time lags in the action of monetary policy on macroeconomic and price developments, the CNB's attention was focused ever more closely in Q2 on price development in 2000. Since the introduction of inflation targeting, the CNB has considered the medium-term target for 2000 to be pivotal and monetary policy has been geared towards achieving this target.

The first interest rate cut in Q2 (from 7.5% to 7.2%) was made with immediate effect at the extraordinary Bank Board meeting on 9 April. This meeting was held in connection with the European

Central Bank's lowering of its key interest rate the previous day, which was quickly followed by several other central banks. The aim of the repo rate cut, which took into account the high functional openness of the Czech economy towards the external environment, was to forestall the likely appreciation pressures ensuing from the aforementioned ECB measure, which would have led to a tightening of monetary conditions.

The April net inflation projection for the end of 1999 indicated that net inflation would be lying in the lower part of the inflation target interval and that the inflation target would be fulfilled in 2000. The risks affecting price development up to 2000, which were discussed in connection with the setting of monetary policy, included longer-term fiscal developments and uncertainties relating to the trend in commodity prices. Also, some uncertainties remained about how the earlier relaxing of monetary policy would feed through into household consumption and savings in the longer run. On the other hand, there were indications that, in an environment of subdued demand, the external cost pressures ensuing from the wage and exchange rate developments were passing through into prices to a limited extent only. In addition, a future strengthening of the exchange rate had started to seem likely in connection with the expected capital inflow. Such a trend would have meant a disproportionate increasing of the restrictiveness of monetary development. After weighing up these factors, the Bank Board decided to lower the repo rate from 7.2% to 6.9%, effective 4 May 1999.

In the assessment of economic and monetary developments at the end of May, the arguments in favour of a further slight reduction of interest rates were almost balanced by those in favour of leaving the rates unchanged. The partial signals indicated that, while the supply side was exhibiting a steady decline, the demand side was showing signs of a possible revival in the future. One factor in favour of interest rate cuts was the further lowering of the net inflation projection for the end of 1999 and for 2000 H1 (the projection for the end of 2000 remained unchanged); the projection indicated that net inflation would be lying clearly below the lower limit of the inflation target in 1999. A further argument for a rate reduction was the slight reduction in the GDP estimate for Q1. Another favourable circumstance was the fact that the exchange rate depreciation at the beginning of the year did not cause significant inflationary pressures, and, moreover, a modest appreciation had started. However, acting against the lowering of interest rates were the continuing rise in prices of oil and other commodities on global markets; the high growth in retail sales in March; the rapid wage growth, which was not being accompanied by corresponding growth in labour productivity; the negligible response of the last repo rate cut at the long end of the yield curve; the relatively high money supply growth; and the likely halt in the downward trend in interest rates abroad. These factors resulted in the adoption of a decision to hold interest rates at the existing level.

Interest rates were not lowered until the end of June, following an assessment of the developments in May. The renewal of the year-on-year decline in net inflation and the downward correction of the inflation projection for the end of 1999 signalled a further drop in inflationary pressures and an improvement in the favourable inflation outlook. Since the inflationary pressures on the demand side turned out to be weaker than in the previous period, room opened up for a further interest rate cut. The repo rate was lowered from 6.9% to 6.5%, effective 25 June. Also acting in favour of the reduction in rates was the assessment of the future trend in the relationship between demand and supply. The moderate future revival of demand at the end of 1999 and in 2000, which will be followed by an upturn in supply, is not expected to lead to unbalanced development with the risk of an acceleration in inflation. The rate cut also took into account the expected future exchange rate trend.

The CNB continued implementing its medium-term programme to lower the minimum reserve requirement. On 20 May, it announced that the reserve requirement was to be reduced from 5% to 2%, effective 7 October 1999.

IV.3 Future inflation factors

The revival in household consumption can be expected to continue during 1999 H2 and into the first months of 2000 as a result of real income growth. However, the real growth in household demand will not exceed the level that would stimulate higher inflation. In contrast, investment demand is likely to

continue declining in year-on-year terms, and government demand will remain flat. Aggregate domestic demand will be broadly flat and will not ignite inflation growth. A gradual weakening of the year-on-year decline in GDP and a modest economic revival can be expected in 1999 Q4. In 2000, a moderate pick-up in economic growth can be envisaged. The demand risks will not be significant.

The labour market continues to retain its distinct features, given in particular by the uncompleted privatisation and ongoing restructuring of the corporate sector. Despite the rising unemployment rate, wage cost inflationary stimuli – expressed as the increase in real unit wage costs – can be expected to continue in the forthcoming period. Although a fall in the growth of these costs to approximately 4.0%–6.0% can be expected in connection with the upturn in industrial growth in Q4, at the present level of year-on-year producer price inflation (around 1%) this means relatively strong cost pressures. The factors which in 1999 H1 curbed the pass-through of wage costs into price growth (the strong year-on-year decline in "imported inflation", the extremely weak household demand and the fall in profit margins) will not continue to act in the forthcoming period. The demand risks of labour market developments will no longer be dampened by rising unemployment (the average real wage in 1999 will rise by approximately 5.5% and real incomes by 3.5%), but will be partially subdued by savings (household consumption will rise by only 1.4%).

Other cost-push inflationary factors can be expected to exert a stronger effect, mainly as a result of the growing oil prices on global markets. Given the expected exchange rate trend, the expected increase in oil prices (and partly also in natural gas prices) together with the stagnation of prices of other imported raw materials and food and the stagnation of prices abroad constitute preconditions for a renewed year-on-year rise in import prices. The rise in oil prices will feed through directly and relatively strongly into fuel prices and gradually – through higher costs (transport costs and a strong upsurge in prices in the chemical industry, coking industry and in oil processing) – also into the overall price level. Given sustained growth in wage costs, the expected rise in imported inflation and the very weak profit margins of most businesses, a slight pick-up in industrial producer prices can be expected. Also, the extremely favourable influence of agricultural producer prices (year-on-year falls in the order of 10%–20%) will be supplanted by a gradual increase in these prices, though a more precise quantification and time determination is difficult to give.

The expected exchange rate appreciation (resulting in particular from the financial account trend, with the current account remaining favourable) will help moderate the external cost-push inflationary risks and will exert pressure on the level of domestic producer prices in the tradable goods sector.

Financial market entities are generally expecting a certain pick-up in inflation as a result of the gradual unwinding of the extremely favourable combined effect of the main inflationary factors. However, the price rise is not expected to be too pronounced.

IV.4 Inflation outlook

The conditional inflation forecast with an annual rolling horizon is based on the assumptions concerning the future development of inflation factors. According to this forecast, given the present monetary policy setting, net inflation should be lying within the interval of 2.3%–4.8% in June 2000. CPI inflation as of the same date should not be outside the interval of 3.3%–5.1%.

The aforementioned prediction with a rolling horizon implies net inflation at the end of 1999 lying within the interval of 1.3%–2.3%, which is more than 2.5 percentage points below the inflation target (4%–5%). The CPI as of the same date will be up by 2.4%–3.1% against a year earlier. Taking into account the present inflation trend and the outlook for inflation factors, the CNB expects net inflation to be lying at the lower limit of the medium-term inflation target at the end of 2000. The year-on-year CPI outturn should be approximately 2 percentage points higher.

MINUTES OF THE BANK BOARD MEETING

Minutes of the Extraordinary Bank Board Meeting on 9 April 1999

Present at the meeting:

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

The CNB Bank Board assessed the situation that developed as a result of the European Central Bank's announcement on 8 April to cut its key refinancing rate from 3% to 2.5%. This move by the ECB was followed by other central banks. The opinion prevailed during the discussion that leaving CNB rates alone could lead to undesired tightening of domestic monetary conditions and to deviations on the foreign exchange market.

Bank Board members agreed that this does not change the assessment of the economic and monetary situation in the Czech Republic made during the last bank board meeting, in spite of new information on inflation, wages and unemployment. The main reason for holding an extraordinary meeting was the ECB decision mentioned above. Even though the CNB Bank Board bases the majority of its monetary policy decision-making on analyses of the economic and monetary situation in the Czech Republic, substantial changes in the monetary environment in main business partner regions cannot be ignored even in the future.

A more extensive discussion was taken up on the similarities and differences between the euro-zone and the Czech economy. A significantly higher degree of openness in the Czech economy means that the koruna is more sensitive to measures in the area of interest rates. It was also brought up as a reminder that the previous interest rate differential against euro-zone currencies has already been cut by more than half due to the gradual lowering of domestic interest rates. The possible impact of rate movement on the CZK/USD exchange rate was also mentioned. This is an important factor for the import price level and for financial account movements.

At the close of the meeting, the CNB Bank Board decided by a majority vote to cut the CNB 2W repo rate by 0.3 percentage points from 7.5% to 7.2%, effective immediately.

Minutes of the Bank Board Meeting on 3 May 1999

Present at the meeting:

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

The Bank Board opened the meeting with an assessment of the current economic and monetary situation. Setting monetary policy instruments in relation to the CNB inflation targets for 1999 and 2000 was the main task at hand. The Board stated that keeping these two targets consistent with each other largely depends on how external cost pressures will affect inflation this year. In view of the sharp decline in inflation last year, net inflation should be gradually directed back to the inflation target in the year 2000. CNB's forecast indicates an increase in net inflation at the beginning of next year. Excessive monetary policy easing in order to eliminate the weaker-than-expected or delayed impact of external exogenous factors on inflation could, therefore, produce excessive rises in demand-led inflation pressures, and in turn, threaten the inflation target at the end of the year 2000.

One significant factor affecting the inflation outlook is household savings. On the one hand, the decline in deposit rates, reaching a sensitive level, could possibly prompt households to increase personal consumption. At the same time, this could lead to a partial conversion of resident savings to foreign currencies. On the other hand, one hypothesis was put forward that the rising unemployment rate and the relatively low level of economic activity would ultimately lead to a higher savings level.

The Bank Board said that this year's state budget performance does not indicate any development of excessive demand-led inflationary impulses. A concern was raised that even with the anticipated strong restrictions on the expenditure side, the state budget deficit would still sharply increase next year. If no adjustments in the planned public budgets occur in 2000, an unfavourable mix of monetary and fiscal policy could surface once again.

The Bank Board extensively discussed what would be the preferable CNB strategy for dealing with the expected sharp inflow of foreign direct investment this year and in the year 2000. In the short run, the current account deficit cannot correct a financial account surplus of this size. This surplus would lead to potential pressure on the nominal strengthening of the koruna in the future. It was stressed that such excessive tightening of monetary policy is not desirable. Given a neutral interest rate setting, real exchange rate appreciation could be permitted only in the case of a positive difference in labour productivity growth in comparison to the external environment.

It was mentioned during the discussion that in the light of expected exchange-rate development, the central bank should be prepared for more flexible policy in the area of interest rates. With more persistent exchange rate appreciation caused by capital movements on the financial account, other things constant, short-term interest rates would be lowered and vice versa. As a response, it was noted that the optimal CNB reaction to the inflow of foreign resources depends on the character of the capital inflow. Short-term foreign capital motivated by the interest rate differential exists in the Czech Republic at a very limited level only. On the other hand, the interest rate cut supports the inflow of capital into the equity market. Lowering the interest rate differential does not have to significantly affect the inflow of foreign direct investment, but it could lead to the conversion of domestic koruna savings to foreign currencies.

The Bank Board continued by discussing the impact that cutting short-term interest rates could have through various transmission channels on the segments of the real economy. It was said that cutting interest rates would mean lowering costs of the already existing loans and at the same time lowering the costs of financing new investments. One opposing argument stressed that the results of the internal CNB analysis supports the relatively low share of credit costs in overall costs of the business sector. Therefore, lowering short-term interest rates would more than likely have no serious impact. In

addition, no significant credit expansion can be expected due to structural problems of the economy, nor can improvements be anticipated in export companies that in the case of income from exports in foreign currency are financed in those currencies. There is a likelihood that financial markets could interpret lowering short-term interest rates as inflationary, and therefore, they might expect short-term rates to be corrected in the future. This could have a negative effect on the current level of long-term interest rates and in turn lead to a rise in the cost of credit.

In comparison to the cost effects of interest rates, the exchange rate channel has been considered to be significantly more important. In view of the low year-on-year growth of domestic demand and unfavourable development of external demand against last year, a change in the nominal exchange rate, and consequently the real exchange rate, was considered to be an effective stimulus for the Czech economy.

The Bank Board stated that implementing monetary strategy this year as well as in the year 2000 is complicated by a variety of uncertainties. One problem that is encountered when assessing the level of restriction through real interest rates is the reliability of estimates of expected inflation. Significant uncertainty exists when looking at the future structure of the revenues and expenditures side of state budget, other public sector entries and the easing of regulated prices. Commodity price predictions are traditionally conditioned by a large number of economic and political factors. Agricultural producer prices will be strongly affected by the undergoing domestic structural changes in the sectors of this industry.

The Bank Board examined the uncertainties linked to the estimation of potential output growth in the Czech economy. A characteristic of macroeconomic developments between 1995 and 1997 was real economic growth exceeding potential growth, as is shown, among others, in the edge that domestic demand had over supply during this period. Without fundamental systemic changes, significant growth in potential output cannot be expected in the Czech economy.

On the basis of the submitted proposal and the discussion that followed, the Bank Board decided unanimously to cut the CNB 2W repo rate by 0.3 percentage points, effective 4 May 1999.

Minutes of the Bank Board Meeting on 27 May 1999

Present at the meeting:

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

During the meeting on monetary and economic developments, the Bank Board paid special attention to the analysis of some events that have occurred in past weeks. Information on industrial and construction output indicates the likelihood of a larger-than-expected decline in GDP for Q1. Economic developments around the world and particularly in Europe will complicate the Czech Republic's position on international markets.

On the demand side, the impact of this year's wage growth, a slowdown in the dynamics of savings deposits and more opportunities to buy on credit have in all probability led to a rise in retail sales. It was stated that overestimation of the inflation level in wage negotiations this year has contributed to high unemployment and weaker competitiveness of the Czech economy. Nevertheless, due to more binding budget constraints, this will not occur again.

The money supply has been increasing in recent months more than originally expected. One view was discussed that although money supply growth in a standard situation could be considered expansive – in the light of low inflation and output developments - a more significant factor for the current situation is the status of koruna credits, which is still lower than a year ago. The main element influencing faster M2 growth is net foreign assets.

The actual exchange rate level and developments correspond in principle to the achieved level of external balance. The Board extensively discussed the possible effects of the reduction in the current interest rate differential on the financial account as well as the anticipated halt in the process of lowering interest rates on world financial markets. Koruna depreciation at the beginning of the year has so far only had an impact on rising fuel prices. Curbed domestic demand continues to guard against any serious impact on the prices of other products and services. Food prices have developed in a very specific way, affected not only by lowered domestic demand, but also by worsening prospects in export and strong competitive pressure from inexpensive imports. Favourable forecasts for this year's harvest indicate that these factors will continue to have an impact for some months to come. It was mentioned that food prices are to a large extent independent of monetary policy settings and that even the demand mechanism has a very limited capacity in this area.

This extraordinary development in food prices in particular and its short-term perspective have led to another reassessment, i.e. lowering the short-term net inflation forecast. It can be expected that, in relation to food price stagnation, any future developments in consumer prices will be slower than the CNB had expected when the original 1999 short-term inflation target had been set. Accordingly, year-on-year net inflation growth should be about one percentage point below the control target's boundary in December. On the other hand, the basic medium-term target forecast for the end of 2000, announced at the end of 1997 during approval of the inflation target strategy, will not change.

The Bank Board decided by a majority vote to leave interest rates unchanged.

Minutes of the Bank Board Meeting on 24 June 1999

Present at the meeting:

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

The Bank Board opened the meeting by assessing the accuracy of interest rates in relation to achieving inflation targets. In this context, the macroeconomic outlook for 1999 and 2000 was also discussed. According to the baseline scenario, a slight recovery in demand will occur within this time frame. After a certain time lag, supply will also show signs of recovery. It is expected that the disequilibrium in supply and demand will not increase to a large extent. Hence, there would not be a significant risk of inflation acceleration or of a rise in the current account deficit. The factors not affected by monetary policy directly create a favourable environment for price stability. Some of the factors that are still developing more favourably than originally expected in the last period include commodity prices, the current exchange rate, and food prices. According to the baseline scenario, reaching the medium-term inflation target for the year 2000 is realistic considering that there is a risk of undershooting the target for 1999 due to the factors mentioned above. At this time, though, room exists for lowering rates.

A number of views were expressed pointing to the risks involved with the baseline scenario. These risks could lead to underestimating the potential for imbalance. The decline in GDP has been mainly caused by a fall in investment, which is structural in nature and reflects reductions in excessive capacities. Due to the current structural changes, it is difficult to predict whether improvements in supply will occur fast enough to prevent an imbalance on the goods market as demand starts to make a comeback. Some important indicators show that the recovery in demand should be higher than the baseline scenario indicates. Increases in household incomes should be carefully watched due to the potential pressures that could develop as a result. Money supply growth will also be analysed. For this period, money supply growth in relation to the specific growth structure of this aggregate is becoming a more relevant indicator than credit growth. Fiscal policy is expansive. It is possible that demand recovery will be difficult to sustain in view of its structure. It was also stated that favourable food price development in the longer run does not need to be sustainable due to the low profitability of this industry.

Other comments during the meeting stressed that the baseline scenario could lead to overestimating the potential for imbalance. Money supply growth will not necessarily create demand pressure on the goods market, but could affect the stock market. As long as demand recovery occurs first in the next period, demand's lead over supply will have a significantly lower impact on the development of imbalances than it had in a period of economic growth. The central bank should not obstruct the process of demand recovery, and therefore, it is important to keep exports competitive. It was also stated that one of the reliable indicators of economic recovery in the past was raising budget revenues through indirect taxes, which so far has not taken place. The latest economic information on inflation for May and on GDP for Q1 was also mentioned. This information indicates that it is very difficult to formulate inflation forecasts on the basis of historical experience, because the present economic situation is formed in internal as well as external low-inflation conditions. This fact along with last year's disinflation process contributed to lowering domestic inflation expectations.

The Bank Board also examined the issue of capital inflow. The koruna exchange rate has appreciated once again. Further development in this direction presents uncertainty for monetary policy decision-making. Appreciation, though, could have been triggered by the privatisation of CSOB and therefore, might be only temporary in nature. On the other hand, it was mentioned that global capital flow has begun to return to emerging markets. It was stated that it might be necessary to compare the current situation with experiences from 1994 and 1995 and to carefully consider the alternatives of economic policy. One way to respond to capital inflow might be with market instruments, because membership in the OECD does not allow the use of some regulatory measures that could obstruct capital inflow, as for example in some South American countries. Even though the central bank has the capacity to intervene, isolated intervention strategy would not be efficient enough nor consistent with economic

policy aims. An adequate reaction to capital inflow could be to correctly set the mix of all economic policies far enough in advance so that costly policy corrections do not have to be made at a later time.

At the end of the meeting, the Bank Board decided unanimously to lower the CNB two-week repo rate from 6.9% to 6.5% (by 0.4 percentage points), effective 25 June 1999.

STATISTICAL ANNEX

INFLATION DEVELOPMENT

year-on-year change in %

		1	2	3	4	5	6	7	8	9	10	11	12
		1995											
Consumer prices		8.9	9.5	9.6	10.2	10.2	10.0	9.7	9.0	8.6	8.1	8.0	7.9
Regulated prices	1)	5.0	4.8	4.9	6.7	6.7	7.2	9.4	9.4	9.7	10.0	10.1	10.2
(contribution to CPI inflation)	1)	*1.17*	*1.13*	*1.15*	*1.56*	*1.57*	*1.69*	*2.19*	*2.19*	*2.25*	*2.28*	*2.30*	*2.29*
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation		10.2	10.9	10.9	11.2	11.3	10.8	9.8	8.8	8.2	7.5	7.3	7.3
(contribution to CPI inflation)	1)	*7.86*	*8.38*	*8.41*	*8.59*	*8.68*	*8.33*	*7.54*	*6.80*	*6.32*	*5.86*	*5.72*	*5.65*
of which: food	1)	13.7	14.7	14.7	14.4	14.1	12.6	10.0	7.8	6.8	5.9	5.5	5.4
(contribution to CPI inflation)	1)	*4.38*	*4.71*	*4.69*	*4.63*	*4.53*	*4.08*	*3.22*	*2.55*	*2.23*	*1.95*	*1.82*	*1.80*
adjusted inflation	1)	7.8	8.3	8.3	8.9	9.3	9.6	9.7	9.6	9.3	8.9	8.9	8.7
(contribution to CPI inflation)	1)	*3.48*	*3.67*	*3.71*	*3.96*	*4.15*	*4.26*	*4.31*	*4.26*	*4.09*	*3.91*	*3.90*	*3.85*
Inflation rate	2)	9.9	9.8	9.8	9.9	10.0	10.0	10.0	9.9	9.8	9.6	9.3	9.1
		1996											
Consumer prices		9.0	8.6	8.9	8.5	8.7	8.4	9.4	9.6	8.9	8.7	8.6	8.6
Regulated prices	1)	12.6	12.5	12.5	11.3	11.4	9.9	11.8	14.1	13.0	13.0	13.6	13.8
(contribution to CPI inflation)	1)	*2.85*	*2.82*	*2.81*	*2.57*	*2.59*	*2.27*	*2.74*	*3.28*	*3.05*	*3.02*	*3.16*	*3.17*
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.34*	*0.34*	*0.34*	*0.34*	*0.34*	*0.34*	*0.34*	*0.34*	*0.34*	*0.34*	*0.34*	*0.34*
Net inflation		7.4	7.0	7.4	7.3	7.4	7.4	8.2	7.8	7.1	7.0	6.6	6.6
(contribution to CPI inflation)	1)	*5.73*	*5.40*	*5.72*	*5.61*	*5.74*	*5.75*	*6.29*	*5.96*	*5.47*	*5.37*	*5.09*	*5.09*
of which: food	1)	6.6	5.9	7.0	7.5	8.1	8.4	9.9	9.1	7.9	8.0	7.4	7.4
(contribution to CPI inflation)	1)	*2.20*	*2.00*	*2.34*	*2.50*	*2.71*	*2.79*	*3.21*	*2.93*	*2.56*	*2.60*	*2.41*	*2.41*
adjusted inflation	1)	8.0	7.7	7.7	7.1	6.9	6.7	6.9	6.8	6.6	6.3	6.0	6.1
(contribution to CPI inflation)	1)	*3.53*	*3.40*	*3.38*	*3.10*	*3.03*	*2.96*	*3.07*	*3.03*	*2.91*	*2.78*	*2.68*	*2.68*
Inflation rate	2)	9.1	9.1	9.0	8.9	8.7	8.6	8.6	8.6	8.7	8.7	8.8	8.8
		1997											
Consumer prices		7.4	7.3	6.8	6.7	6.3	6.8	9.4	9.9	10.3	10.2	10.1	10.0
Regulated prices	1)	12.6	12.7	12.6	13.0	13.3	13.3	25.6	22.7	23.2	23.0	22.6	22.7
(contribution to CPI inflation)	1)	*2.49*	*2.49*	*2.47*	*2.55*	*2.59*	*2.58*	*5.15*	*4.68*	*4.78*	*4.72*	*4.63*	*4.62*
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation		6.1	5.9	5.3	5.2	4.6	5.2	5.3	6.6	6.9	6.9	6.9	6.8
(contribution to CPI inflation)	1)	*4.93*	*4.76*	*4.29*	*4.18*	*3.72*	*4.17*	*4.20*	*5.25*	*5.51*	*5.50*	*5.48*	*5.42*
of which: food	1)	6.0	5.5	4.2	3.6	2.6	3.4	3.5	5.6	6.1	5.8	5.8	5.6
(contribution to CPI inflation)	1)	*1.98*	*1.79*	*1.39*	*1.20*	*0.86*	*1.14*	*1.13*	*1.80*	*1.97*	*1.87*	*1.88*	*1.82*
adjusted inflation	1)	6.2	6.3	6.1	6.3	6.1	6.4	6.5	7.3	7.5	7.7	7.6	7.6
(contribution to CPI inflation)	1)	*2.96*	*2.97*	*2.90*	*2.98*	*2.87*	*3.03*	*3.07*	*3.44*	*3.54*	*3.63*	*3.60*	*3.60*
Inflation rate	2)	8.7	8.6	8.4	8.2	8.0	7.9	7.9	7.9	8.1	8.2	8.3	8.5
		1998											
Consumer prices		13.1	13.4	13.4	13.1	13.0	12.0	10.4	9.4	8.8	8.2	7.5	6.8
Regulated prices	1)	30.7	30.8	30.8	30.1	29.8	29.7	21.1	20.9	20.4	20.6	20.5	20.4
(contribution to CPI inflation)	1)	*6.36*	*6.38*	*6.38*	*6.26*	*6.20*	*6.11*	*5.00*	*4.91*	*4.79*	*4.81*	*4.78*	*4.73*
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*	*0.73*
Net inflation		7.5	7.9	7.9	7.6	7.6	6.5	6.1	4.9	4.3	3.4	2.6	1.7
(contribution to CPI inflation)	1)	*6.00*	*6.31*	*6.32*	*6.08*	*6.07*	*5.19*	*4.66*	*3.73*	*3.31*	*2.64*	*1.96*	*1.32*
of which: food	1)	6.0	6.8	7.2	7.2	7.5	5.8	5.4	3.8	3.1	1.9	0.4	-1.2
(contribution to CPI inflation)	1)	*1.97*	*2.22*	*2.40*	*2.44*	*2.88*	*1.96*	*1.75*	*1.21*	*1.00*	*0.60*	*0.14*	*-0.38*
adjusted inflation	1)	8.5	8.6	8.4	7.9	7.7	6.9	6.6	5.6	5.1	4.5	4.0	3.7
(contribution to CPI inflation)	1)	*4.03*	*4.09*	*3.92*	*3.64*	*3.19*	*3.22*	*2.91*	*2.53*	*2.30*	*2.04*	*1.82*	*1.70*
Inflation rate	2)	8.9	9.5	10.0	10.5	11.1	11.5	11.6	11.5	11.4	11.2	11.0	10.7
		1999											
Consumer prices		3.5	2.8	2.5	2.5	2.4	2.2						
Regulated prices	1)	12.1	11.9	11.7	11.1	11.1	11.0						
(contribution to CPI inflation)	1)	*2.97*	*2.90*	*2.87*	*2.75*	*2.74*	*2.72*						
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*						
Net inflation		0.7	-0.1	-0.4	-0.3	-0.5	-0.6						
(contribution to CPI inflation)	1)	*0.54*	*-0.06*	*-0.33*	*-0.21*	*-0.37*	*-0.49*						
of which: food	1)	-2.0	-3.1	-4.0	-4.3	-4.8	-5.0						
(contribution to CPI inflation)	1)	*-0.61*	*-0.98*	*-1.25*	*-1.34*	*-1.48*	*-1.53*						
adjusted inflation	1)	2.6	2.1	2.1	2.5	2.5	2.3						
(contribution to CPI inflation)	1)	*1.15*	*0.91*	*0.92*	*1.13*	*1.11*	*1.04*						
Inflation rate	2)	9.8	8.9	8.0	7.1	6.3	5.5						

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

Source: CSO

INFLATION DEVELOPMENT

month-on-month change in %

	1	2	3	4	5	6	7	8	9	10	11	12
1995												
Consumer prices	1.4	0.8	0.3	1.0	0.4	1.1	0.0	0.0	0.9	0.6	0.7	0.5
Regulated prices 1)	1.6	0.3	0.1	1.8	0.1	1.9	2.2	0.1	1.0	0.3	0.2	0.0
(contribution to CPI inflation) 1)	*0.36*	*0.07*	*0.03*	*0.41*	*0.03*	*0.43*	*0.51*	*0.02*	*0.23*	*0.06*	*0.04*	*0.01*
Influence of indirect tax growth on unregulated prices (contribution to CPI inflation)	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	1.2	1.0	0.3	0.7	0.5	0.8	-0.6	-0.1	0.9	0.7	0.8	0.7
(contribution to CPI inflation) 1)	*1.00*	*0.77*	*0.25*	*0.55*	*0.39*	*0.62*	*-0.46*	*-0.04*	*0.70*	*0.56*	*0.62*	*0.50*
of which: food 1)	1.5	1.2	0.0	0.4	0.2	0.9	-2.4	-0.6	1.3	0.9	1.0	1.0
(contribution to CPI inflation) 1)	*0.51*	*0.40*	*0.01*	*0.12*	*0.08*	*0.29*	*-0.79*	*-0.21*	*0.41*	*0.29*	*0.33*	*0.32*
adjusted inflation 1)	0.8	0.6	1.0	0.7	0.7	0.8	0.4	0.7	0.6	0.7	0.4	0.4
(contribution to CPI inflation) 1)	*0.49*	*0.37*	*0.24*	*0.43*	*0.31*	*0.33*	*0.33*	*0.17*	*0.29*	*0.27*	*0.29*	*0.19*
1996												
Consumer prices	2.3	0.5	0.6	0.6	0.6	0.8	1.0	0.2	0.3	0.5	0.5	0.5
Regulated prices 1)	3.9	0.2	0.1	0.8	0.2	0.5	3.9	2.2	0.1	0.2	0.8	0.1
(contribution to CPI inflation) 1)	*0.89*	*0.05*	*0.03*	*0.18*	*0.05*	*0.12*	*0.91*	*0.52*	*0.02*	*0.05*	*0.18*	*0.03*
Influence of indirect tax growth on unregulated prices (contribution to CPI inflation)	*0.34*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	1.4	0.6	0.7	0.6	0.6	0.8	0.1	-0.4	0.3	0.6	0.5	0.7
(contribution to CPI inflation) 1)	*1.07*	*0.44*	*0.55*	*0.45*	*0.49*	*0.63*	*0.08*	*-0.34*	*0.25*	*0.45*	*0.34*	*0.50*
of which: food 1)	2.3	0.6	1.1	0.9	0.8	1.1	-1.0	-1.4	0.2	1.0	0.5	0.9
(contribution to CPI inflation) 1)	*0.76*	*0.19*	*0.35*	*0.30*	*0.28*	*0.37*	*-0.33*	*-0.46*	*0.06*	*0.31*	*0.15*	*0.30*
adjusted inflation 1)	0.7	0.6	0.5	0.4	0.5	0.6	0.9	0.3	0.4	0.3	0.4	0.4
(contribution to CPI inflation) 1)	*0.31*	*0.25*	*0.20*	*0.16*	*0.21*	*0.26*	*0.41*	*0.12*	*0.19*	*0.14*	*0.19*	*0.20*
1997												
Consumer prices	1.2	0.3	0.1	0.6	0.1	1.2	3.5	0.7	0.6	0.4	0.4	0.5
Regulated prices 1)	2.6	0.3	0.1	1.1	0.3	0.2	16.0	0.2	0.5	0.0	0.1	0.1
(contribution to CPI inflation) 1)	*0.53*	*0.06*	*0.02*	*0.23*	*0.06*	*0.04*	*3.30*	*0.04*	*0.13*	*0.00*	*0.02*	*0.03*
Influence of indirect tax growth on unregulated prices (contribution to CPI inflation)	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	0.8	0.3	0.1	0.5	0.1	1.4	0.2	0.8	0.6	0.6	0.5	0.6
(contribution to CPI inflation) 1)	*0.67*	*0.27*	*0.09*	*0.38*	*0.09*	*1.13*	*0.15*	*0.65*	*0.48*	*0.44*	*0.40*	*0.43*
of which: food 1)	1.3	0.0	-0.1	0.3	-0.2	2.0	-0.9	0.6	0.7	0.7	0.5	0.7
(contribution to CPI inflation) 1)	*0.42*	*0.01*	*-0.04*	*0.11*	*-0.06*	*0.63*	*-0.31*	*0.19*	*0.20*	*0.21*	*0.15*	*0.23*
adjusted inflation 1)	0.5	0.6	0.3	0.6	0.3	1.1	1.0	1.0	0.6	0.5	0.5	0.4
(contribution to CPI inflation) 1)	*0.25*	*0.26*	*0.13*	*0.27*	*0.15*	*0.50*	*0.46*	*0.46*	*0.27*	*0.23*	*0.25*	*0.20*
1998												
Consumer prices	4.0	0.6	0.1	0.3	0.1	0.3	1.9	-0.2	0.1	-0.2	-0.2	-0.2
Regulated prices 1)	9.3	0.4	0.2	0.6	0.0	0.1	8.4	0.0	0.1	0.2	0.0	0.0
(contribution to CPI inflation) 1)	*2.13*	*0.09*	*0.03*	*0.13*	*0.01*	*0.03*	*2.07*	*0.01*	*0.03*	*0.04*	*0.00*	*0.01*
Influence of indirect tax growth on unregulated prices (contribution to CPI inflation)	*0.73*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	1.5	0.7	0.1	0.2	0.1	0.4	-0.2	-0.3	0.1	-0.3	-0.3	-0.3
(contribution to CPI inflation) 1)	*1.14*	*0.54*	*0.10*	*0.16*	*0.07*	*0.28*	*-0.13*	*-0.23*	*0.07*	*-0.19*	*-0.25*	*-0.19*
of which: food 1)	1.7	0.8	0.2	0.3	0.1	0.4	-1.4	-0.9	0.0	-0.6	-1.0	-0.9
(contribution to CPI inflation) 1)	*0.52*	*0.24*	*0.08*	*0.10*	*0.03*	*0.12*	*-0.42*	*-0.26*	*0.00*	*-0.16*	*-0.28*	*-0.26*
adjusted inflation 1)	1.4	0.7	0.0	0.1	0.1	0.4	0.6	0.1	0.2	-0.1	0.1	0.2
(contribution to CPI inflation) 1)	*0.62*	*0.30*	*0.02*	*0.06*	*0.04*	*0.16*	*0.28*	*0.03*	*0.07*	*-0.03*	*0.03*	*0.07*
1999												
Consumer prices	0.8	0.0	-0.2	0.3	-0.1	0.2						
Regulated prices 1)	1.8	0.2	0.0	0.1	0.0	0.0						
(contribution to CPI inflation) 1)	*0.46*	*0.04*	*0.01*	*0.02*	*0.01*	*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*						
Net inflation	0.5	-0.1	-0.2	0.4	-0.1	0.2						
(contribution to CPI inflation) 1)	*0.36*	*-0.07*	*-0.17*	*0.27*	*-0.08*	*0.16*						
of which: food 1)	0.9	-0.5	-0.7	0.0	-0.4	0.2						
(contribution to CPI inflation) 1)	*0.25*	*-0.13*	*-0.19*	*0.00*	*-0.11*	*0.06*						
adjusted inflation 1)	0.2	0.1	0.0	0.6	0.1	0.2						
(contribution to CPI inflation) 1)	*0.11*	*0.06*	*0.02*	*0.27*	*0.03*	*0.10*						

1) CNB calculation

Source: CSO

CONSUMER PRICES

change in %, December 1993 = 100

Group	Constant weights of 1993 in per mille	months 1	2	3	4	5	6	7	8	9	10	11	12	Average from start of year
Total - 1991	1000.0	-37.5	-33.6	-30.9	-29.2	-27.8	-26.2	-26.8	-27.1	-27.2	-27.3	-26.1	-25.2	-28.7
Total - 1992	1000.0	-24.1	-23.5	-23.0	-22.6	-22.3	-21.6	-21.0	-21.0	-19.9	-18.5	-16.5	-15.8	-20.8
Total - 1993	1000.0	-8.1	-6.7	-6.2	-5.7	-5.4	-4.5	-4.2	-4.1	-3.1	-2.2	-1.5	0.0	-4.3
Total - 1994	1000.0	2.0	2.4	2.6	3.0	3.4	4.7	5.0	5.7	7.1	8.2	9.0	9.7	5.2
Total - 1995	1000.0	11.2	12.1	12.4	13.5	14.0	15.2	15.2	15.2	16.3	17.0	17.8	18.4	14.8
Total - 1996	1000.0	21.1	21.7	22.4	23.2	23.9	24.8	26.0	26.2	26.6	27.2	27.9	28.6	25.0
Food, beverages, tobacco	327.1	21.7	22.4	23.7	24.8	25.8	27.2	26.0	24.2	24.4	25.6	26.2	27.4	24.9
Clothing	90.9	21.8	22.7	23.5	24.6	25.9	27.1	27.7	28.1	29.2	30.7	31.9	32.7	27.2
Housing	143.7	30.8	31.3	31.6	31.9	31.9	31.9	40.7	45.2	45.7	46.0	46.3	46.4	38.3
Household equipment	77.2	10.6	11.2	11.7	12.2	12.3	12.6	12.9	13.1	13.4	13.6	13.9	14.1	12.6
Health care	44.2	7.1	7.2	7.3	7.3	7.5	7.5	7.4	7.7	8.2	8.6	8.9	9.2	7.8
Transport	104.8	15.4	15.6	16.0	16.6	17.3	18.8	19.1	19.2	19.3	19.7	21.2	21.6	18.3
Leisure activities	97.5	17.3	17.9	18.2	18.0	18.7	20.0	22.3	22.7	21.4	20.5	20.6	21.4	19.9
Education	16.9	73.2	74.7	75.6	76.1	76.3	77.2	77.3	77.3	84.3	84.9	87.7	88.0	79.4
Catering and accommodation	47.2	22.4	23.1	23.5	23.7	24.3	25.0	25.7	26.2	27.1	28.2	28.7	29.0	25.6
Other goods and services	50.5	17.3	17.8	18.3	21.6	22.0	22.3	22.6	22.9	23.2	23.6	24.3	24.9	21.7
Total - 1997	1000.0	30.1	30.5	30.7	31.5	31.7	33.2	37.8	38.8	39.6	40.2	40.8	41.5	35.5
Food, beverages, tobacco	327.1	29.0	29.0	28.9	29.3	29.1	31.6	30.4	31.2	32.0	32.9	33.6	34.5	31.0
Clothing	90.9	33.1	33.6	34.3	35.7	37.0	38.2	38.5	38.8	39.9	42.3	43.7	44.7	38.3
Housing	143.7	48.3	48.9	49.1	49.7	49.7	49.8	78.1	78.6	79.1	79.4	79.7	79.9	64.2
Household equipment	77.2	14.4	15.3	16.1	16.5	16.9	18.3	18.9	19.5	20.7	21.5	22.2	22.9	18.6
Health care	44.2	9.6	9.8	9.8	11.4	12.9	13.9	14.8	15.0	15.3	15.4	15.8	16.3	13.3
Transport	104.8	26.0	26.3	26.3	26.6	26.6	28.1	28.0	31.8	33.0	32.7	32.5	32.8	29.2
Leisure activities	97.5	22.2	23.1	22.9	23.5	23.7	25.7	33.1	33.7	32.2	31.7	32.4	33.2	28.1
Education	16.9	91.9	92.8	93.1	93.3	93.4	94.0	94.1	94.1	104.5	105.4	105.8	105.9	97.3
Catering and accommodation	47.2	29.5	30.3	30.7	31.3	31.5	32.8	34.2	35.1	36.6	37.5	38.1	38.4	33.8
Other goods and services	50.5	25.5	26.4	27.0	31.5	31.9	32.5	33.3	34.0	35.0	35.9	36.8	37.1	32.2
Total - 1998	1000.0	47.1	48.0	48.2	48.7	48.8	49.2	52.1	51.8	51.9	51.7	51.3	51.0	50.0
Food, beverages, tobacco	327.1	38.0	39.1	39.4	39.9	40.0	40.6	38.7	37.5	37.4	36.7	35.4	34.2	38.1
Clothing	90.9	44.5	44.6	45.1	46.3	46.7	47.2	47.3	47.1	47.6	48.4	49.0	49.2	46.9
Housing	143.7	100.7	102.1	102.6	102.9	103.0	103.1	124.1	124.5	125.3	125.9	125.9	126.0	113.8
Household equipment	77.2	23.5	24.6	24.9	25.5	25.7	26.0	26.3	26.5	26.7	26.5	26.3	26.6	25.8
Health care	44.2	17.0	17.4	17.6	17.7	17.9	18.2	18.5	18.7	18.8	18.9	18.9	18.9	18.2
Transport	104.8	40.9	40.9	39.8	39.2	38.7	38.0	39.2	38.7	38.6	38.3	38.0	37.5	39.0
Leisure activities	97.5	34.8	35.8	35.2	34.7	35.0	36.9	40.0	40.0	37.7	36.6	36.8	38.1	36.8
Education	16.9	120.4	122.6	123.9	125.4	125.5	126.2	126.6	126.6	135.3	136.0	136.1	136.2	128.4
Catering and accommodation	47.2	41.4	43.7	44.8	45.2	45.6	46.0	46.5	46.9	47.2	47.4	47.3	47.4	45.8
Other goods and services	50.5	38.0	38.9	38.9	41.9	42.2	42.7	42.9	43.2	43.8	43.9	44.0	44.1	42.0
Total - 1999	1000.0	52.3	52.2	52.0	52.4	52.3	52.6							
Food, beverages, tobacco	327.1	35.3	34.7	33.8	33.8	33.3	33.6							
Clothing	90.9	48.4	47.1	46.9	47.3	47.4	47.3							
Housing	143.7	129.0	129.9	130.2	130.2	130.2	130.3							
Household equipment	77.2	27.0	27.6	27.6	27.9	28.0	28.0							
Health care	44.2	19.0	19.1	19.2	19.3	19.7	20.0							
Transport	104.8	38.9	38.9	39.2	42.6	42.9	42.5							
Leisure activities	97.5	38.5	39.1	38.4	38.1	38.2	39.7							
Education	16.9	137.3	138.0	138.2	138.2	138.1	138.5							
Catering and accommodation	47.2	48.0	48.2	48.5	49.1	49.2	50.1							
Other goods and services	50.5	48.3	48.9	49.2	49.3	49.2	46.3							

Source: CSO

NET INFLATION

change in %

	1995											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
a) previous month = 100	1.2	1.0	0.3	0.7	0.5	0.8	-0.6	-0.1	0.9	0.7	0.8	0.7
b) same period of previous year = 100	10.2	10.9	10.9	11.2	11.3	10.8	9.8	8.8	8.2	7.5	7.3	7.3
c) December of previous year = 100	1.2	2.3	2.6	3.3	3.8	4.7	4.0	4.0	4.9	5.7	6.6	7.3
	1996											
a) previous month = 100	1.4	0.6	0.7	0.6	0.6	0.8	0.1	-0.4	0.3	0.6	0.5	0.7
b) same period of previous year = 100	7.4	7.0	7.4	7.3	7.4	7.4	8.2	7.8	7.1	7.0	6.6	6.6
c) December of previous year = 100	1.4	2.0	2.7	3.3	4.0	4.8	4.9	4.5	4.8	5.4	5.9	6.6
	1997											
a) previous month = 100	0.8	0.3	0.1	0.5	0.1	1.4	0.2	0.8	0.6	0.6	0.5	0.6
b) same period of previous year = 100	6.1	5.9	5.3	5.2	4.6	5.2	5.3	6.6	6.9	6.9	6.9	6.8
c) December of previous year = 100	0.8	1.2	1.3	1.8	1.9	3.3	3.5	4.4	5.1	5.7	6.2	6.8
	1998											
a) previous month = 100	1.5	0.7	0.1	0.2	0.1	0.4	-0.2	-0.3	0.1	-0.3	-0.3	-0.3
b) same period of previous year = 100	7.5	7.9	7.9	7.6	7.6	6.5	6.1	4.9	4.3	3.4	2.6	1.7
c) December of previous year = 100	1.5	2.2	2.3	2.5	2.6	3.0	2.8	2.5	2.6	2.4	2.0	1.7
	1999											
a) previous month = 100	0.5	-0.1	-0.2	0.4	-0.1	0.2						
b) same period of previous year = 100	0.7	-0.1	-0.4	-0.3	-0.5	-0.6						
c) December of previous year = 100	0.5	0.4	0.2	0.5	0.4	0.6						

Source: CSO

ITEMS EXCLUDED FROM THE CPI FOR "NET INFLATION" CALCULATION

	Constant weight in %
A. Items with maximum prices	
a) set by the Ministry of Finance of the Czech Republic	
net rent for rental flats	1.6531
electricity	2.5249
gas	0.9589
medicine and health care output	0.6734
passenger railway transport	0.2081
telecommunication services - telephone	0.7605
b) set by local authorities	
municipal public transport	0.7716
parking services	0.0171
taxi services	0.0295
B. Items with prices regulated on a cost-plus basis	
water and sewerage	0.9867
heating for households	3.0174
bus transport	0.6899
postal services	0.1163
telegraph	0.0121
propane-butane gas	0.1464
household waste disposal	0.2744
housing-related services for rental flats	0.2495
housing-related services for co-operative flats	0.1131
supplementary educational services (student fares)	0.1785
C. Fees	
health insurance	3.4783
mandatory insurance of motor vehicles	0.4099
registration of owners of two-cylinder motor vehicles	0.0196
radio and TV fees	0.8155
signature authentication	0.0629
divorce application fee	0.0154
dog ownership fee	0.0247
postal order C	0.0354
building permit issue	0.0808
	18.3239

CONSUMER PRICES - TRADABLES AND NONTRADABLES

change in %

	Constant weight in consumer basket in %	1994	1995	1996	1997	1998	1999	
		months						
		12	12	12	12	12	6	
		a=b	a=b	a=b	a=b	a=b	a	b
1. Food, beverages, tobacco	32.7	12.0	5.4	7.9	5.6	-0.3	-0.4	-5.0
- tradables	32.7	12.0	5.4	7.9	5.6	-0.3	-0.4	-5.0
- nontradables	.	.	.	.	.	.	.	.
2. Clothing	9.1	9.2	10.9	9.6	9.1	3.1	-1.3	0.0
- tradables	8.8	9.2	10.7	9.6	9.0	2.9	-1.4	-0.1
- nontradables	0.3	9.0	16.6	9.7	12.3	7.5	1.6	3.7
3. Housing	14.4	14.1	13.0	13.5	22.9	25.6	1.9	13.4
- tradables	1.1	10.5	9.7	9.4	37.1	18.0	0.7	5.6
- nontradables	13.3	14.4	13.3	13.8	21.7	26.1	2.0	13.9
4. Household equipment	7.7	4.3	5.6	3.6	7.7	3.0	1.1	1.6
- tradables	7.2	4.1	5.3	3.2	7.5	2.4	1.1	1.4
- nontradables	0.5	6.4	9.1	9.0	10.3	9.4	1.1	3.5
5. Health care	4.4	2.4	4.3	2.2	6.5	2.3	0.8	1.5
- tradables	.	.	.	.	.	2.6	0.5	1.3
- nontradables	4.4	2.4	4.3	2.2	6.5	2.3	0.9	1.5
6. Transport	10.5	5.5	6.4	8.3	9.2	3.6	3.6	3.2
- tradables	7.5	3.0	3.0	6.2	6.2	-4.4	3.8	0.9
- nontradables	3.0	11.5	14.5	13.4	16.6	17.2	3.3	6.8
7. Leisure activities	9.8	5.7	9.9	4.5	9.7	3.7	1.2	2.0
- tradables	6.4	3.5	5.9	2.3	4.5	1.2	0.5	-0.5
- nontradables	3.4	12.0	21.3	11.0	19.8	7.0	2.1	5.3
8. Education	1.7	23.7	10.2	37.9	9.5	14.7	1.0	5.4
- tradables	.	.	.	.	.	.	.	.
- nontradables	1.7	23.7	10.2	37.9	9.5	14.7	1.0	5.4
9. Catering, accommodation	4.7	12.9	7.3	6.5	7.3	6.5	1.8	2.8
- tradables	0.1	3.1	21.3	9.9	17.7	12.4	11.8	10.3
- nontradables	4.6	13.2	6.9	6.4	7.0	6.3	1.4	2.5
10. Other goods and services	5.1	5.5	10.1	7.5	9.7	5.1	3.6	4.7
- tradables	3.2	5.9	5.8	5.0	7.1	1.5	0.4	0.9
- nontradables	1.9	4.7	17.4	11.7	14.3	10.0	7.7	9.4
Total household consumer prices	100.0	9.7	7.9	8.6	10.0	6.8	1.0	2.2
- tradables	67.3	8.7	6.0	6.7	7.1	0.7	0.2	-2.1
- nontradables	32.7	11.9	11.9	12.5	15.9	16.9	2.2	9.0
Tradables - food	32.7	12.0	5.4	7.9	5.6	-0.3	-0.4	-5.0
Tradables - others	34.6	5.6	6.5	5.6	8.3	1.6	0.8	0.7
Nontradables - regulated	18.3	9.0	9.7	11.2	19.7	20.7	2.1	11.4
Nontradables - others	14.4	14.2	12.3	14.4	9.3	11.1	2.3	5.4

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

INTERNATIONAL SURVEY - CONSUMER PRICES

year-on-year change in %

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	12	12	12	12	12	12	12	12	12	6
1. Central and Eastern Europe										
Czech Republic	9.6	56.6	12.7	18.2	9.7	7.9	8.6	10.0	6.8	2.2
Slovakia	.	61.2	10.1	23.2	13.4	9.9	5.8	6.4	5.6	7.1
Hungary	.	35.0	23.0	22.5	18.8	28.2	23.6	18.4	10.3	9.1
Poland	585.8	70.3	43.0	35.3	29.5	27.8	19.9	13.0	8.6	6.5
Russia	20.0	193.0	1090.0	940.0	307.0	197.7	47.7	11.0	84.4	120.5
2. European Union Countries										
Belgium	3.4	3.2	2.4	2.8	2.4	2.0	2.5	1.1	0.6	0.7
Great Britain	9.5	5.9	3.7	1.6	2.4	3.2	2.5	3.6	2.8	1.3
France	3.4	3.2	2.4	2.1	1.6	2.1	1.7	1.1	0.3	0.3
Italy	6.1	6.5	5.3	4.2	3.9	5.8	2.6	1.5	1.5	1.4
Germany	2.7	3.5	4.0	4.1	3.0	1.8	1.4	1.8	0.5	0.4
Netherlands	2.5	3.7	3.2	2.6	2.7	1.6	2.5	2.3	1.7	2.3
Spain	6.7	5.9	5.9	4.6	4.7	4.3	3.2	2.0	1.4	2.2
Austria	3.3	3.3	4.0	3.3	2.9	1.8	2.3	1.0	0.7	0.4
Sweden	10.5	9.3	2.3	4.6	3.2	2.5	-0.2	1.9	-0.6	0.3
3. Other countries										
Japan	3.1	3.3	1.7	1.3	0.7	-0.3	0.6	1.7	0.6	.
Canada	4.8	5.6	1.5	1.8	-0.2	1.7	2.2	0.7	1.0	1.6
USA	5.4	4.2	3.0	3.0	2.6	2.5	3.3	1.7	1.6	2.0
Switzerland	5.4	5.8	4.0	3.3	1.0	1.9	0.8	0.4	-0.2	0.6

Source: The Economist

MONETARY SURVEY

position at month-end in CZK billions

		1993	1994	1995	1996	1997	1998	1999
		12	12	12	12	12	12	5
Total assets		720.4	870.4	1039.6	1120.5	1217.6	1280.8	1313.5
Net foreign assets		115.7	194.4	311.4	281.9	338.5	410.0	512.5
- assets		213.6	275.8	493.2	538.0	670.7	746.1	858.8
- liabilities		97.9	81.4	181.8	256.1	332.2	336.1	346.3
Net domestic assets		604.7	676.0	728.2	838.6	879.1	870.8	801.0
Domestic credits		713.9	817.5	929.5	1029.7	1137.7	1119.3	1146.1
Net credit to the government sector		18.4	5.1	10.1	12.6	24.8	36.1	40.7
- net credit to government		35.1	23.1	25.4	28.5	37.9	45.4	49.7
- net credit to NPF		-16.7	-18.0	-15.3	-15.9	-13.1	-9.3	-9.0
Client credits of commercial banks and CNB		695.5	812.4	919.4	1017.1	1112.9	1083.2	1105.4
CZK credits		669.6	768.9	822.3	888.6	912.6	869.6	873.0
- businesses		576.8	661.1	720.5	785.1	808.2	765.6	767.6
- households		92.8	107.8	101.8	103.5	104.4	104.0	105.4
Foreign currency credits		25.9	43.5	97.1	128.5	200.3	213.6	232.4
- businesses		.	.	.	.	194.3	210.1	228.1
- households		.	.	.	.	6.0	3.5	4.3
Other net items		-109.2	-141.5	-201.3	-191.1	-258.6	-248.5	-345.1
Liabilities								
M2	2)	720.4	870.4	1039.6	1120.5	1217.6	1280.8	1313.5
M1	1)	359.9	421.8	453.3	475.3	445.1	433.4	429.5
Currency in circulation		59.8	84.0	104.3	118.9	119.3	127.2	138.2
CZK demand deposits		300.1	337.8	349.0	356.4	325.8	306.2	291.3
- households		109.3	131.5	148.8	155.7	153.2	144.0	158.2
- businesses		185.1	201.1	195.6	195.6	168.2	158.9	129.8
- insurance companies		5.7	5.2	4.6	5.1	4.4	3.3	3.3
Quasi money		360.5	448.6	586.3	645.2	772.5	847.4	884.0
CZK time deposits		303.1	387.8	498.8	559.5	634.0	674.7	722.5
- households		206.8	244.7	306.5	366.0	474.4	550.8	558.0
- businesses		60.0	102.9	150.2	172.7	133.9	91.8	133.6
- insurance companies		36.3	40.2	42.1	20.8	25.7	32.1	30.9
Certificates of deposit, deposit bills of exchange and other bonds	6)	.	.	.	.	.	30.2	20.1
Foreign currency deposits		57.4	60.8	87.5	85.7	138.5	142.5	141.4
- households		45.7	42.2	35.8	40.1	68.8	73.6	79.0
- businesses		11.7	18.6	51.7	45.6	69.7	68.9	62.4
Money aggregate L	3)	704.6	845.5	1019.0	1138.9	1241.8	1329.9	1371.7
Year-on-year changes in %								
M1		17.5	17.2	7.5	4.9	-6.4	-2.6	7.8
M2	5)	19.8	19.9	19.8	9.2	10.1	5.2	9.8
L		19.8	20.0	20.5	11.8	9.0	7.1	8.7
Client credits of commercial banks and CNB		19.1	16.8	13.2	10.6	9.4	-2.7	-3.7
Client deposits with banks	4)	21.8	19.1	21.8	7.1	9.7	2.3	7.5

1) M1 = Currency in circulation + CZK demand deposits

2) M2 = M1 + quasi money

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

4) CZK deposits + foreign currency deposits

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

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

CREDIT SUPPLY

	1993	1994	1995	1996	1997	1998	1999
	12	12	12	12	12	12	5
Non-adjusted credits							
Total credits, CZK and foreign currency							
absolute volumes in CZK billions	695.5	812.4	919.4	1017.1	1112.9	1083.2	1105.4
year-on-year changes in %	19.1	16.8	13.2	10.6	9.4	-2.7	-3.7
CZK credits							
absolute volumes in CZK billions	669.6	768.9	822.3	888.6	912.6	869.6	873.0
year-on-year changes in %	17.9	14.8	6.9	8.1	2.7	-4.7	-7.2
Foreign currency credits							
absolute volumes in CZK billions	25.9	43.5	97.1	128.5	200.3	213.6	232.4
year-on-year changes in %	57.0	68.0	123.2	32.3	55.9	6.6	11.8
Adjusted credits 1)							
Total credits, CZK and foreign currency							
absolute volumes in CZK billions	696.2	807.6	906.1	1014.9	1101.9	1139.9	1139.9
year-on-year changes in %	19.2	16.0	12.2	12.0	7.5	3.4	-0.4
CZK credits							
absolute volumes in CZK billions	670.2	763.9	808.8	882.6	922.9	930.9	935.3
year-on-year changes in %	18.1	14.0	5.9	9.1	3.3	0.9	-1.7
Foreign currency credits							
absolute volumes in CZK billions	26.0	43.7	97.3	132.3	179.0	209.0	204.6
year-on-year changes in %	57.6	68.1	122.7	36.0	35.3	16.8	5.9

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

CREDIT BREAKDOWN BY TIME, SECTOR AND TYPE

share in total in %

	1993	1994	1995	1996	1997	1998	1999
	12	12	12	12	12	12	5
Time structure							
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
short-term	41.8	40.5	41.9	43.5	42.0	41.0	41.2
medium-term	28.3	30.2	29.1	25.7	24.8	22.5	22.3
long-term	29.9	29.3	29.0	30.8	33.2	36.5	36.5
Sector structure							
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
businesses	93.3	94.3	88.9	89.8	90.2	90.1	90.1
households	6.7	5.7	11.1	10.2	9.8	9.9	9.9
Type structure							
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
operating	50.4	47.5	51.5	50.9	52.9	52.9	52.2
investment (incl. general housing construction)	33.9	33.6	33.2	32.4	31.3	32.2	31.7
mortgage	0.4	0.1	0.1	1.0	1.6	2.2	2.2
consumer	0.6	0.7	0.8	0.7	0.6	1.7	1.6
for privatisation	5.4	5.0	3.8	3.0	2.0	1.4	1.3
for temporary fund shortage	9.1	12.5	9.6	9.2	10.5	8.2	9.2
for securities purchase	0.2	0.6	1.0	2.8	1.1	1.4	1.8

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

INTEREST RATES ON INTERBANK DEPOSITS

in %

	1993	1994	1995	1996	1997	1998	1999	
	12	12	12	12	12	12	3	6
1. AVERAGE PRIBOR RATE 1)								
- 1 day	5.47	10.75	10.83	12.44	12.55	10.84	7.75	6.84
- 7 day	5.90	12.28	11.17	12.61	16.64	10.56	7.78	6.92
- 14 day	6.14	12.38	11.20	12.61	16.77	10.54	7.77	6.91
- 1 month	6.68	12.55	11.01	12.63	17.49	10.46	7.70	6.92
- 2 month	7.34	12.61	10.97	12.62	17.54	10.27	7.61	6.94
- 3 month	8.00	12.65	10.93	12.67	17.50	10.08	7.58	6.95
- 6 month	9.21	12.65	10.89	12.55	17.41	9.56	7.55	7.00
- 9 month	10.69	12.65	10.89	12.25	17.39	9.38	7.56	7.08
- 12 month	11.90	12.66	10.90	12.23	17.36	9.31	7.57	7.14
2. AVERAGE PRIBID RATE 1)								
- 1 day	4.51	10.01	10.52	12.19	10.75	10.48	7.46	6.57
- 7 day	4.92	11.48	10.82	12.35	15.37	10.30	7.53	6.71
- 14 day	5.16	11.55	10.84	12.36	15.45	10.27	7.53	6.70
- 1 month	5.68	11.72	10.63	12.35	16.26	10.18	7.45	6.71
- 2 month	6.34	11.76	10.59	12.34	16.33	9.99	7.36	6.73
- 3 month	7.00	11.80	10.53	12.39	16.35	9.79	7.33	6.74
- 6 month	8.21	11.81	10.48	12.26	16.31	9.26	7.29	6.80
- 9 month	9.56	11.82	10.47	11.96	16.27	9.08	7.30	6.87
- 12 month	10.89	11.83	10.48	11.94	16.23	9.02	7.31	6.93

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

FRA RATES

monthly averages in %

	1997				1998				1999	
	3	6	9	12	3	6	9	12	3	6
3 * 6	11.82	14.60	14.53	16.70	15.62	15.38	13.16	9.02	7.43	6.92
3 * 9	11.52	14.22	14.53	16.70	15.80	15.39	13.02	8.99	7.46	7.04
6 * 9	11.00	13.33	14.02	16.03	15.43	14.81	12.46	8.79	7.41	7.05
6 * 12	10.97	13.13	13.97	16.01	15.52	14.82	12.37	8.79	7.46	7.15
9 * 12	10.57	12.63	13.52	15.47	15.09	14.34	11.94	8.62	7.42	7.15
12 * 24	10.44	12.16	13.00	15.28	14.95	13.78	11.45	9.03		
9*12 - 3*6 spread	-1.25	-1.97	-1.01	-1.23	-0.53	-1.04	-1.23	-0.40	-0.01	0.23
6*12 - 3*9 spread	-0.55	-1.09	-0.55	-0.69	-0.28	-0.57	-0.65	0.20	0.00	0.11
offer - bid spread (3*6)	0.10	0.21	0.21	0.21	0.16	0.12	0.16	0.19	0.12	0.11
offer - bid spread (12*24)	0.17	0.36	0.35	0.30	0.19	0.12	0.18	0.58	0.00	0.00

IRS RATES

monthly averages in %

	1997				1998				1999	
	3	6	9	12	3	6	9	12	3	6
1Y	11.89	18.07	14.92	17.54	16.32	15.97	13.44	9.52	7.67	7.21
2Y	11.17	15.34	13.94	16.58	15.69	15.00	12.53	9.13	7.72	7.49
3Y	11.05	14.34	13.26	15.93	15.20	14.17	12.07	9.06	7.87	7.77
4Y	11.01	13.79	12.84	15.54	14.78	13.49	11.76	8.99	8.02	7.95
5Y	10.98	13.28	12.50	15.25	14.49	12.98	11.51	8.93	8.13	8.07
6Y	10.97	12.81	12.28	15.19	14.28	12.43	11.26	8.73	8.21	8.13
7Y	10.91	12.64	12.09	14.88	14.11	12.08	11.09	8.71	8.27	8.18
8Y	10.94	12.47	12.03	14.90	14.01	11.85	10.90	8.67	8.32	8.20
9Y	10.90	12.31	11.92	14.29	13.93	11.65	10.72	8.63	8.35	8.21
10Y	10.88	12.20	11.81	14.24	13.83	11.60	10.61	8.61	8.37	8.22
2Y - 1Y spread	-0.72	-2.73	-0.98	-0.97	-0.64	-0.97	-0.91	-0.39	0.05	0.28
5Y - 1Y spread	-0.91	-4.78	-2.42	-2.30	-1.83	-2.99	-1.94	-0.60	0.46	0.86
10Y - 1Y spread	-1.01	-5.87	-3.11	-3.30	-2.50	-4.37	-2.84	-0.92	0.70	1.01
offer - bid spread (1Y)	0.12	0.38	0.13	0.23	0.13	0.11	0.13	0.25	0.10	0.10
offer - bid spread (2Y)	0.12	0.54	0.19	0.30	0.18	0.16	0.19	0.28	0.10	0.10
offer - bid spread (5Y)	0.17	0.60	0.24	0.37	0.17	0.19	0.20	0.31	0.15	0.10
offer - bid spread (10Y)	0.35	0.76	0.29	0.46	0.35	0.29	0.28	0.20	0.15	0.10

NOMINAL AND REAL INTEREST RATES (ex post approach)

in %

	Nominal rates				Real rates based on CPI				Real rates based on PPI		
	PRIBOR		client rates		PRIBOR		client rates		PRIBOR		new client
	1W	1Y	new credits	time deposits	1W	1Y	new credits	time deposits	1W	1Y	credits
1/93	9.0	14.8	14.9	11.2	-10.1	-5.3	-5.2	-8.3	-2.9	2.3	2.4
2/93	11.3	15.5	14.2	11.2	-8.7	-5.3	-6.4	-8.8	-2.5	1.2	0.0
3/93	13.1	16.0	14.7	11.3	-7.2	-4.9	-5.9	-8.7	-1.2	1.3	0.2
4/93	17.9	18.5	15.9	11.4	-3.2	-2.7	-4.9	-8.6	3.3	3.8	1.5
5/93	14.6	17.2	15.6	11.6	-5.9	-3.7	-5.1	-8.4	1.3	3.7	2.2
6/93	13.3	15.7	15.1	10.9	-7.0	-5.0	-5.5	-9.0	0.5	2.6	2.0
7/93	9.7	14.4	15.1	10.8	-9.6	-5.7	-5.1	-8.7	-2.9	1.4	1.9
8/93	10.5	14.2	15.2	10.9	-9.0	-5.9	-5.1	-8.7	-2.2	1.1	1.9
9/93	9.2	13.8	15.6	10.9	-9.7	-5.9	-4.4	-8.2	-3.4	0.7	2.3
10/93	7.7	13.5	15.1	11.0	-10.2	-5.3	-4.0	-7.5	-4.7	0.5	1.8
11/93	6.0	12.8	13.6	10.9	-10.1	-4.3	-3.6	-5.9	-5.3	0.8	1.6
12/93	5.9	11.9	14.6	10.7	-10.4	-5.3	-3.1	-6.3	-4.9	0.4	2.8
1/94	7.8	10.9	12.7	10.9	-2.8	0.0	1.6	0.0	-0.4	2.5	4.2
2/94	7.7	10.5	12.9	10.8	-1.8	0.7	2.9	1.0	2.3	5.0	7.2
3/94	8.4	10.4	12.8	11.1	-0.9	0.9	3.1	1.6	3.3	5.1	7.4
4/94	7.2	9.9	13.5	10.8	-1.8	0.7	3.9	1.4	2.2	4.8	8.2
5/94	6.7	9.1	12.8	10.8	-2.4	-0.2	3.2	1.3	1.6	3.9	7.5
6/94	6.1	8.3	12.4	10.9	-3.3	-1.3	2.5	1.1	0.7	2.8	6.8
7/94	7.5	8.4	12.9	10.5	-2.0	-1.2	3.0	0.8	2.5	3.4	7.7
8/94	8.1	8.5	12.5	10.6	-1.9	-1.5	2.1	0.4	3.1	3.6	7.3
9/94	8.7	9.0	13.4	10.3	-1.6	-1.4	2.7	-0.2	3.7	3.9	8.1
10/94	10.0	10.4	12.7	10.3	-0.6	-0.3	1.8	-0.4	5.1	5.4	7.6
11/94	11.1	11.3	13.4	10.2	0.3	0.5	2.4	-0.5	5.7	5.9	7.9
12/94	12.3	12.7	13.7	10.6	1.9	2.2	3.2	0.3	6.3	6.7	7.7
1/95	11.2	11.5	13.5	10.4	2.1	2.4	4.3	1.3	4.0	4.2	6.1
2/95	10.7	10.8	13.4	10.3	1.1	1.2	3.6	0.7	3.0	3.2	5.6
3/95	10.3	10.4	13.5	10.3	0.6	0.8	3.5	0.6	2.4	2.5	5.4
4/95	10.3	10.4	13.0	10.2	0.1	0.2	2.6	0.0	2.4	2.5	5.0
5/95	10.3	10.4	12.7	10.3	0.1	0.2	2.3	0.1	2.5	2.6	4.7
6/95	10.7	10.8	13.1	10.3	0.6	0.7	2.8	0.3	3.0	3.2	5.3
7/95	11.6	11.7	13.1	10.3	1.7	1.8	3.1	0.5	3.7	3.8	5.1
8/95	11.0	11.4	13.5	10.2	1.9	2.2	4.2	1.1	3.0	3.3	5.3
9/95	10.9	11.1	13.3	10.2	2.1	2.3	4.3	1.5	2.9	3.0	5.1
10/95	11.1	11.2	13.2	10.2	2.8	2.8	4.7	1.9	3.1	3.1	5.0
11/95	11.3	11.2	13.4	10.1	3.0	3.0	5.0	2.0	3.3	3.3	5.2
12/95	11.2	10.9	13.1	10.0	3.0	2.8	4.8	1.9	3.7	3.5	5.5
1/96	11.1	10.5	12.9	9.9	2.0	1.4	3.5	0.9	4.6	3.9	6.2
2/96	11.1	10.7	13.0	9.8	2.3	1.9	4.0	1.1	5.1	4.7	6.9
3/96	11.3	11.0	12.8	9.8	2.2	1.9	3.6	0.8	5.8	5.5	7.3
4/96	11.6	11.3	13.0	9.6	2.8	2.6	4.1	1.0	6.1	5.8	7.4
5/96	11.8	11.8	13.1	9.4	2.9	2.8	4.1	0.7	6.4	6.3	7.6
6/96	12.1	12.2	13.4	9.3	3.4	3.5	4.6	0.8	6.9	7.0	8.2
7/96	12.6	12.9	13.8	9.3	2.9	3.2	4.0	-0.1	7.8	8.1	9.0
8/96	12.6	12.8	13.9	9.3	2.7	2.9	3.9	-0.3	8.0	8.2	9.3
9/96	12.6	12.4	14.0	9.3	3.4	3.2	4.6	0.3	8.4	8.1	9.7
10/96	12.6	12.3	13.8	9.3	3.6	3.3	4.7	0.6	8.2	7.9	9.3
11/96	12.6	12.3	13.9	9.3	3.7	3.4	4.8	0.6	8.1	7.8	9.3
12/96	12.6	12.2	13.6	9.2	3.7	3.3	4.6	0.5	7.9	7.5	8.8
1/97	12.5	11.8	13.6	9.0	4.8	4.1	5.8	1.5	7.7	7.0	8.7
2/97	12.5	11.4	13.5	9.1	4.8	3.8	5.8	1.7	7.9	6.9	9.0
3/97	12.5	11.8	13.5	9.1	5.3	4.7	6.3	2.2	7.8	7.2	8.8
4/97	12.5	11.8	13.4	9.0	5.4	4.8	6.3	2.2	7.8	7.2	8.7
5/97	42.3	15.8	21.6	13.5	33.9	8.9	14.4	6.8	36.7	11.2	16.8
6/97	33.8	19.0	20.4	11.8	25.3	11.4	12.7	4.7	28.1	13.9	15.2
7/97	17.3	15.9	17.0	10.9	7.3	5.9	7.0	1.3	11.6	10.2	11.3
8/97	14.7	14.4	15.8	10.4	4.4	4.1	5.4	0.5	8.5	8.3	9.6
9/97	14.6	14.8	15.8	10.4	3.9	4.0	5.0	0.0	8.3	8.5	9.4
10/97	14.9	15.0	15.5	10.2	4.3	4.4	4.8	0.0	8.8	8.9	9.4
11/97	15.4	16.6	15.8	10.5	4.8	5.9	5.2	0.4	9.4	10.5	9.7
12/97	16.6	17.4	16.5	10.9	6.0	6.7	5.9	0.8	10.4	11.0	10.3
1/98	15.3	16.7	15.7	11.1	2.0	3.2	2.3	-1.8	8.7	10.0	9.0
2/98	14.9	16.4	15.7	11.1	1.3	2.6	2.1	-2.0	7.8	9.2	8.6
3/98	15.0	16.1	16.1	11.1	1.4	2.4	2.4	-2.1	7.9	9.0	9.0
4/98	15.1	15.9	16.2	11.0	1.7	2.5	2.7	-1.9	8.4	9.1	9.4
5/98	15.2	15.6	15.8	10.7	2.0	2.3	2.4	-2.0	8.5	8.9	9.0
6/98	15.3	15.8	16.0	11.0	2.9	3.4	3.5	-0.9	9.1	9.7	9.8
7/98	14.8	14.0	15.3	10.9	4.0	3.2	4.4	0.4	9.2	8.3	9.6
8/98	14.4	13.5	14.8	10.7	4.5	3.8	4.9	1.2	9.8	8.9	10.2
9/98	14.0	13.4	14.6	10.5	4.8	4.2	5.3	1.6	9.9	9.3	10.5
10/98	13.4	12.6	14.3	10.3	4.8	4.1	5.6	1.9	9.8	9.0	10.6
11/98	12.0	10.5	12.9	9.5	4.2	2.8	5.0	1.8	8.9	7.5	9.8
12/98	10.6	9.3	11.9	8.7	3.5	2.4	4.7	1.8	8.2	7.0	9.5
1/99	9.2	8.1	10.7	8.2	5.5	4.5	7.0	4.5	8.3	7.3	9.9
2/99	8.2	8.2	10.3	6.6	5.2	5.3	7.3	3.7	8.3	8.3	10.4
3/99	7.8	7.6	9.7	6.1	5.1	4.9	7.1	3.5	7.8	7.6	9.7
4/99	7.4	7.0	9.4	5.8	4.8	4.4	6.8	3.2	7.2	6.8	9.2
5/99	7.0	7.0	8.9	5.6	4.5	4.5	6.4	3.1	6.6	6.6	8.5
6/99	6.9	7.1	9.1	5.3	4.6	4.8	6.8	3.1	6.5	6.7	8.7

Note: real rates = nominal rates defleted by y-o-y index (CPI/PPI) in given month

COMMERCIAL BANK INTEREST RATES

in %

	1993	1994	1995	1996	1997	1998	1999	
	12	12	12	12	12	12	3	6
Newly drawn credits								
in CZK	14.6	13.7	13.1	13.6	16.5	11.9	9.7	9.1
- short-term	14.0	13.3	12.9	13.6	16.5	11.7	9.5	8.9
- medium-term	16.7	14.8	14.2	14.3	17.0	13.4	10.6	9.7
- long-term	14.5	14.2	13.3	12.5	16.0	11.7	11.1	10.4
in foreign currency	-	-	-	-	5.9	5.4	5.1	4.5
- short-term	-	-	-	-	5.9	5.3	5.1	4.5
- medium-term	-	-	-	-	5.6	5.9	4.8	4.3
- long-term	-	-	-	-	6.1	5.6	5.1	4.8
Credits								
in CZK	14.1	12.8	12.7	12.5	13.9	10.5	9.2	8.5
- short-term	15.6	12.7	12.5	12.4	14.1	10.6	9.3	8.5
- medium-term	15.9	14.5	14.2	13.5	14.6	10.7	9.5	8.8
- long-term	10.4	11.2	11.5	11.8	13.0	10.3	8.9	8.2
in foreign currency	-	-	-	-	6.1	6.4	6.2	6.0
- short-term	-	-	-	-	5.6	6.9	6.9	6.8
- medium-term	-	-	-	-	5.9	5.6	5.4	5.2
- long-term	-	-	-	-	6.7	6.0	5.7	5.6
Deposits								
in CZK	7.0	6.9	6.9	6.7	8.0	6.7	4.9	4.3
- demand	2.3	2.6	2.8	2.5	2.1	1.9	1.9	1.8
- time	11.0	10.6	10.0	9.2	10.9	8.7	6.1	5.3
- short-term	9.6	9.6	9.7	9.3	11.6	9.2	6.5	5.6
- medium-term	11.8	11.5	10.7	9.8	12.2	10.9	6.2	5.6
- long-term	13.7	11.3	8.8	6.2	5.2	4.2	3.9	3.8
in foreign currency	-	-	-	-	2.7	2.3	2.4	2.2
- demand	-	-	-	-	1.1	1.1	1.1	0.9
- time	-	-	-	-	3.7	3.2	3.3	3.2
- short-term	-	-	-	-	3.4	3.1	3.2	3.0
- medium-term	-	-	-	-	5.0	3.3	3.6	3.6
- long-term	-	-	-	-	5.5	3.5	4.2	4.1

BALANCE OF PAYMENTS 1)

in CZK millions

	1993	1994	1995	1996	1997	1998 2)	1999 2) Q1
A. CURRENT ACCOUNT	13 286.7	-22 643.2	-36 331.3	-116 510.6	-101 856.2	-33 756.0	-10 437.1
Balance of trade 3)	-15 313.0	-39 750.9	-97 598.6	-159 538.6	-144 025.9	-83 275.8	-18 461.0
- exports	414 833.0	458 436.6	569 549.1	588 791.5	722 501.0	850 530.0	204 982.0
- imports	430 146.0	498 187.5	667 147.7	748 330.1	866 526.9	933 805.8	223 443.0
Services	29 465.2	14 052.8	48 881.2	52 198.9	55 935.0	60 738.1	8 584.4
Credit	137 691.2	148 404.0	178 270.4	222 030.4	227 193.6	238 979.4	53 556.2
- transport	36 186.6	35 757.9	38 757.4	36 209.6	41 661.6	43 430.5	11 514.5
- travel	45 437.4	64 170.3	76 301.3	110 620.0	115 700.0	120 000.0	23 000.0
- others	56 067.2	48 475.8	63 211.7	75 200.8	69 832.0	75 548.9	19 041.7
Debit	108 226.0	134 351.2	129 389.2	169 831.5	171 258.6	178 241.3	44 971.8
- transport	21 402.1	24 542.4	21 208.9	18 983.3	19 973.6	19 643.0	7 093.8
- travel	15 368.3	45 605.6	43 330.3	80 170.0	75 500.0	60 300.0	10 000.0
- others	71 455.6	64 203.2	64 850.0	70 678.2	75 785.0	98 298.3	27 878.0
Income	-3 424.7	-580.8	-2 804.0	-19 611.0	-25 102.4	-24 213.1	-4 050.0
Credit	15 952.0	22 713.2	31 696.1	31 765.9	44 696.0	47 908.4	12 930.0
Debit	19 376.7	23 294.0	34 500.1	51 376.9	69 798.4	72 121.5	16 980.0
Current transfers	2 559.2	3 635.7	15 190.1	10 440.1	11 337.1	12 994.8	3 489.5
Credit	7 024.5	8 523.3	17 631.6	16 752.7	27 402.5	24 952.7	7 799.5
Debit	4 465.3	4 887.6	2 441.5	6 312.6	16 065.4	11 957.9	4 310.0
B. CAPITAL ACCOUNT	-16 175.0	-	179.1	15.6	315.9	66.8	-30.5
Credit	5 976.0	-	307.8	28.1	493.0	454.4	94.4
Debit	22 151.0	-	128.7	12.5	177.1	387.6	124.9
Total A + B	-2 888.3	-22 643.2	-36 152.2	-116 495.0	-101 540.3	-33 689.2	-10 467.6
C. FINANCIAL ACCOUNT	88 184.7	97 019.7	218 288.5	116 632.5	34 319.1	84 888.2	14 379.8
Direct investment	16 421.8	21 551.1	67 021.2	37 674.8	40 451.4	80 172.5	19 322.8
- abroad	-2 628.6	-3 443.3	-971.6	-1 100.0	-800.0	-1 175.0	-800.0
- in the Czech Republic	19 050.4	24 994.4	67 992.8	38 774.8	41 251.4	81 947.5	20 122.8
Portfolio investment	46 658.5	24 595.9	36 144.4	19 692.5	34 438.9	32 681.4	1 504.3
Assets	-6 686.9	-1 327.1	-8 565.6	-1 291.1	-6 006.8	-2 581.9	-2 908.2
- equity securities	-6 686.9	-1 327.1	-8 565.6	-1 291.1	19.9	2 402.7	-5 596.3
- debt securities					-6 026.7	-4 984.6	2 688.1
Liabilities	53 345.4	25 923.0	44 710.0	20 983.6	40 445.7	35 263.3	4 412.5
- equity securities	32 569.8	14 369.8	32 761.7	16 340.9	13 783.7	34 846.2	-306.3
- debt securities	20 775.6	11 553.2	11 948.3	4 642.7	26 662.0	417.1	4 718.8
Other investment	25 104.4	50 872.7	115 122.9	59 265.2	-40 571.2	-27 965.7	-6 447.3
Assets	-83 911.4	-69 582.4	-66 050.8	-64 646.8	-142 725.1	-50 786.1	-51 788.1
Long-term	13 340.8	12 046.4	1 384.4	-10 769.8	-11 117.6	-24 866.5	-12 390.9
- CNB							
- commercial banks	-1 431.5	-31.7	-3 353.6	-14 168.2	-11 907.4	-26 952.8	-12474.4
- government	8 323.3	8 175.1	3 335.0	1 286.4	519.8	630.3	122.5
- other sectors	6 449.0	3 903.0	1 403.0	2 112.0	270.0	1 456.0	-39.0
Short-term	-97 252.2	-81 628.8	-67 435.2	-53 877.0	-131 607.5	-25 919.6	-39 397.2
- CNB							
- commercial banks	2 163.0	-4 289.4	-2 446.2	-48 976.0	-122 038.5	-21 641.6	-37 397.2
- government	-97 397.2	-76 040.4	-60 179.4	.	.	.	.
- other sectors	-2 018.0	-1 299.0	-4 809.6	-4 901.0	-9 569.0	-4 278.0	-2 000.0
Liabilities	109 015.8	120 455.1	181 173.7	123 912.0	102 153.9	22 820.4	45 340.8
Long-term	10 131.9	19 865.1	87 965.8	95 193.1	24 047.6	-4 385.0	18 154.2
- CNB	1 297.3	-31 712.7	997.8		-368.0	-216.4	-131.4
- commercial banks	-2 116.6	11 189.6	60 359.6	46 733.5	-14 875.5	-14 399.2	4 419.5
- government	-3 421.5	-5 249.5	-12 047.3	-7 132.6	-11 581.9	-11 765.4	-438.9
- other sectors	14 372.7	45 637.7	38 655.7	55 592.2	50 873.0	21 996.0	14 305.0
Short-term	98 883.9	100 590.0	93 207.9	28 718.9	78 106.3	27 205.4	27 186.6
- CNB	1 670.5	-1 634.7	77.1	-59.6	-9.9	-6.0	-9.1
- commercial banks	2 481.8	14 016.0	27 636.1	30 574.9	67 383.7	24 445.9	23 058.9
- government (liability vis-a-vis Slovakia)	91 895.5	86 555.8	56 262.2	-899.6	-69.5	-216.5	-103.2
- other sectors	2 836.1	1 652.9	9 232.5	-896.8	10 802.0	2 982.0	4 240.0
Total A + B + C	85 296.4	74 376.5	182 136.3	137.5	-67 221.2	51 199.0	3 912.2
D. NET ERRORS AND OMISSIONS, VALUATION CHANGES	3 019.8	-6 121.9	15 779.4	-22 612.6	11 181.2	11 416.0	-477.2
Total A + B + C + D	88 316.2	68 254.6	197 915.7	-22 475.1	-56 040.0	62 615.0	3 435.0
E. CHANGE IN RESERVES (- increase)	-88 316.2	-68 254.6	-197 915.7	22 475.1	56 040.0	-62 615.0	-3 435.0

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

INTERNATIONAL INVESTMENT POSITION

in CZK millions

	1993	1993	1994	1995	1996	1997	1998	1999
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)	31 Mar. 1)
ASSETS	406,103.0	536,388.7	572,874.1	780,693.0	835,989.8	1,030,191.5	1,083,211.8	1,228,809.7
Direct investment abroad	2,634.0	5,432.9	8,426.9	9,190.1	13,609.2	18,989.4	19,738.5	22,854.3
- initial capital 2)	2,634.0	5,432.9	8,426.9	9,190.1	13,609.2	18,385.1	19,134.2	22,130.0
- other capital 3)	.	.	.	.	.	604.3	604.3	724.3
Portfolio investment	226.0	8,258.0	12,138.0	20,076.9	37,511.2	35,738.9	37,506.0	42,055.1
- equity securities	226.0	7,911.1	9,370.5	18,422.0	20,450.3	14,442.0	15,049.1	21,879.1
- debt securities	.	346.9	2,767.5	1,654.9	17,060.9	21,296.9	22,456.9	20,176.0
Other investment	378,895.6	406,717.6	377,187.3	378,388.3	444,985.4	636,938.5	649,284.3	737,840.6
Long-term	232,823.7	249,198.8	229,026.4	214,430.3	234,849.6	293,037.3	283,054.5	329,630.4
- CNB	23,102.5	24,572.5	24,573.3	26,172.3	26,122.8	26,122.4	26,122.4	26,122.4
- commercial banks 4)	365.9	1,852.3	1,763.0	5,116.6	25,181.3	37,088.8	64,041.6	76,516.0
- government 5) 6)	167,429.3	186,968.0	174,784.1	157,950.4	160,949.7	203,922.8	174,825.0	205,885.4
- other sectors	41,926.0	35,806.0	27,906.0	25,191.0	22,595.8	25,903.3	18,065.5	21,106.6
Short-term	146,071.9	157,518.8	148,160.9	163,958.0	210,135.8	343,901.2	366,229.8	408,210.2
- CNB	4.7	4.7	4.7	4.7	4.7	0.1	0.1	0.1
- commercial banks 4)	82,456.2	83,133.2	80,820.2	87,176.3	128,481.1	250,670.9	272,219.5	309,710.1
of which: gold and foreign currency 7) 8)	79,040.1	70,727.5	71,232.8	76,126.9	95,432.8	172,301.6	175,753.2	197,373.1
- government	.	5,501.9	.	.	.	.	.	.
- other sectors	63,611.0	68,879.0	67,336.0	76,777.0	81,650.0	93,230.2	94,010.2	98,500.0
CNB reserves	24,347.4	115,980.2	175,121.9	373,037.7	339,884.0	338,524.7	376,683.0	426,059.7
- gold 7)	2,488.2	2,466.4	2,309.3	2,234.6	2,290.3	1,521.9	369.1	441.7
- SDRs	852.5	247.3	.	4.7	.	.	.	.
- foreign currency	21,006.7	113,266.5	172,812.6	370,798.4	337,593.7	337,002.8	376,313.9	425,618.0
LIABILITIES	307,887.2	423,237.7	507,337.9	723,101.9	906,073.2	1,138,248.1	1,206,768.9	1,316,192.1
Direct investment in the Czech Republic	83,488.7	102,539.1	127,533.5	195,526.3	234,301.1	319,820.3	401,767.8	424,390.6
- initial capital 2)	83,488.7	102,539.1	127,533.5	195,526.3	234,301.1	284,674.7	366,622.2	386,745.0
- other capital 3)	.	.	.	.	.	35,145.6	35,145.6	37,645.6
Portfolio investment	4,812.9	58,583.9	81,617.5	124,933.6	144,807.4	169,032.7	166,128.1	172,692.2
- equity securities	75.0	32,985.2	37,335.6	70,280.4	92,867.8	104,862.3	113,247.2	105,179.1
- debt securities	4,737.9	25,598.7	44,281.9	54,653.2	51,939.6	64,170.4	52,880.9	67,513.1
Other investment	219,585.6	262,114.7	298,186.9	402,642.0	526,964.7	649,395.1	638,873.0	719,109.3
Long-term	158,430.0	192,426.3	207,289.7	279,388.9	374,814.7	426,270.1	392,110.4	443,860.0
- CNB	31,109.9	33,697.4	1,695.7	2,491.5	2,272.7	2,188.3	1,883.3	2,021.8
- commercial banks 4)	14,491.1	16,175.5	26,040.1	90,299.3	143,454.2	143,120.2	124,286.3	135,068.1
- government 5)	70,771.0	82,295.1	76,533.9	53,200.2	44,003.7	38,001.1	23,993.3	25,722.6
- other sectors	42,058.0	60,258.3	103,020.0	133,397.9	185,084.1	242,960.5	241,947.5	281,047.5
Short-term	61,155.6	69,688.4	90,897.2	123,253.1	152,150.0	223,125.0	246,762.6	275,249.3
- CNB	8.2	4,581.0	37.9	115.0	55.3	45.5	39.5	30.4
- commercial banks 4)	19,527.4	22,249.3	41,339.9	69,502.9	101,543.5	168,927.1	193,373.0	216,432.0
- government	.	.	5,013.4	1,104.1	314.8	287.5	103.2	.
- other sectors	41,620.0	42,858.1	44,506.0	52,531.1	50,236.4	53,864.9	53,246.9	58,786.9
NET INVESTMENT POSITION	98,215.8	113,151.0	65,536.2	57,591.1	-70,083.4	-108,056.6	-123,557.1	-87,382.4

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

EXTERNAL INDEBTEDNESS

in CZK millions

	1993	1993	1994	1995	1996	1997	1998	1999
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)	31 Mar. 1)
INDEBTEDNESS IN CONVERTIBLE CURRENCIES	204,674.7	254,488.1	299,960.7	440,229.3	569,723.6	739,563.0	717,902.8	815,371.8
of which:								
Long-term	152,695.1	194,525.0	218,944.5	306,034.4	405,143.6	495,058.5	461,697.1	530,015.1
By debtor								
- CNB	35,399.8	58,836.1	22,845.3	22,268.0	11,178.4	11,548.4	10,952.2	12,466.2
- commercial banks 2)	14,491.1	16,175.5	27,620.1	95,433.3	150,780.1	158,503.7	133,376.5	147,674.0
- government	61,147.2	59,477.1	61,763.4	52,101.7	46,738.6	42,877.1	33,132.0	40,092.5
- other sectors	41,657.0	60,036.3	106,715.7	136,231.4	196,446.5	282,129.3	284,236.4	329,782.4
By creditor 3)								
- foreign banks	62,121.2	82,849.8	124,224.8	218,310.9	300,910.4	360,725.6	324,035.8	358,786.8
- government institutions	6,685.9	7,346.8	7,482.1	7,039.1	6,631.8	7,269.4	4,409.6	4,777.9
- multilateral institutions	50,127.1	52,891.7	19,889.7	18,987.2	17,645.5	13,894.1	7,222.4	8,287.0
- suppliers and direct investors	29,023.0	25,838.0	32,601.0	24,567.0	27,116.0	46,465.5	54,327.5	68,327.5
- other investors	4,737.9	25,598.7	34,746.9	37,130.2	52,839.9	66,703.9	71,701.8	89,835.9
Short-term	51,979.6	59,963.1	81,016.2	134,194.9	164,580.0	244,504.5	256,205.7	285,356.7
By debtor								
- CNB	7.9	4,581.0	37.9	115.0	55.3	45.5	39.5	30.4
- commercial banks 2)	17,819.7	21,117.0	32,610.3	71,911.8	106,852.6	170,147.0	193,373.0	216,432.0
- government	.	.	9,535.0	15,114.0	2,786.0	8,164.0	22.0	82.0
- other sectors	34,152.0	34,265.1	38,833.0	47,054.1	54,886.1	66,148.0	62,771.2	68,812.3
By creditor 3)								
- foreign banks	11,402.7	22,256.0	28,467.5	58,874.2	85,424.0	142,463.2	171,504.1	194,762.5
- suppliers and direct investors	33,069.0	29,664.0	34,132.0	41,986.4	45,914.0	57,831.1	56,313.1	59,153.1
- other investors	7,507.9	8,043.1	18,416.7	33,334.3	33,242.0	44,210.2	28,388.5	31,441.1
INDEBTEDNESS IN NON-CONVERTIBLE CURRENCIES 4)	19,648.8	33,225.3	42,508.1	17,065.9	9,180.7	9,148.1	8,996.7	8,896.2
of which:								
- long-term	10,472.8	23,500.0	23,092.1	10,484.7	8,865.9	8,860.6	8,893.5	8,896.2
- short-term	9,176.0	9,725.3	19,416.0	6,581.2	314.8	287.5	103.2	.
TOTAL EXTERNAL INDEBTEDNESS	224,323.5	287,713.4	342,468.8	457,295.2	578,904.3	748,711.1	726,899.5	824,268.0
of which:								
- long-term	163,167.9	218,025.0	242,036.6	316,519.1	414,009.5	503,919.1	470,590.6	538,911.3
- short-term	61,155.6	69,688.4	100,432.2	140,776.1	164,894.8	244,792.0	256,308.9	285,356.7

1) Preliminary data

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

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

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

EXCHANGE RATE

A. NOMINAL RATE in CZK, foreign exchange market rates

	1993	1994	1995	1996	1997	1998	1999	
	1-12	1-12	1-12	1-12	1-12	1-12	Q1	Q2
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES								
1 ECU	34.11	34.06	34.31	34.01	35.80	36.16	.	.
1 EUR	.	.	.	.	.	.	37.11	37.61
1 GBP	43.78	44.03	41.89	42.33	51.95	53.45	53.95	57.15
1 FRF	5.15	5.19	5.32	5.31	5.43	5.47	5.66	5.73
1000 ITL	18.56	17.85	16.30	17.59	18.61	18.57	19.17	19.43
100 JPY	26.32	28.15	28.34	24.99	26.29	24.71	28.37	29.45
1 CAD	22.61	21.09	19.34	19.90	22.91	21.83	21.85	24.13
1 NLG	15.70	15.82	16.53	16.11	16.25	16.26	16.85	17.07
1 ATS	2.51	2.52	2.63	2.57	2.60	2.61	2.70	2.73
1 DEM	17.64	17.75	18.52	18.06	18.28	18.33	18.98	19.23
1 CHF	19.74	21.06	22.45	22.02	21.85	22.26	23.20	23.51
1 USD	29.16	28.78	26.55	27.14	31.71	32.27	33.03	35.55
100 SKK	.	.	89.49	88.57	94.18	91.61	85.51	82.87
	12	12	12	12	12	12	3	6
1 ECU	33.59	34.20	34.01	34.09	38.69	35.34	.	.
1 EUR	.	.	.	.	.	.	37.99	37.15
1 GBP	44.37	43.99	41.00	45.48	57.72	50.20	56.44	57.14
1 FRF	5.09	5.21	5.37	5.21	5.84	5.38	5.79	5.66
1000 ITL	17.63	17.28	16.71	17.90	19.94	18.18	19.62	19.19
100 JPY	27.12	28.18	26.21	24.05	26.87	25.55	29.13	29.60
1 CAD	22.34	20.34	19.47	20.10	24.37	19.51	22.97	24.34
1 NLG	15.54	16.02	16.53	15.71	17.35	15.98	17.24	16.86
1 ATS	2.48	2.55	2.63	2.51	2.78	2.56	2.76	2.70
1 DEM	17.41	17.94	18.50	17.63	19.55	18.00	19.42	19.00
1 CHF	20.30	21.21	22.89	20.64	24.16	22.10	23.82	23.30
1 USD	29.76	28.22	26.66	27.34	34.73	30.06	34.85	35.76
100 SKK	.	.	89.76	86.42	100.58	83.04	85.60	81.67

B. REAL RATE

	1993	1994	1995	1996	1997	1998	1999	
	12	12	12	12	12	12	3	6
Real CZK/DEM exchange rate index (January 1993 = 100)								
a) consumer prices	108.43	112.33	114.76	124.27	122.30	132.52	127.54	129.07
b) industrial producer prices	109.73	110.22	112.53	120.17	115.35	125.11	120.22	122.14

Real rate: nominal rate adjusted for inflation differential (ratio of producer or consumer price levels between the Czech Republic and Germany) (Index > 100, koruna strengthened against the January 1993 base)

C. REAL EFFECTIVE RATE

	1993	1994	1995	1996	1997	1998	1999	
							3	6
Real CZK exchange rate index (1995 = 100)								
a) consumer prices	95.51	97.81	100.00	105.23	106.97	112.91	.	.
b) industrial producer prices	100.64	99.98	100.00	103.07	102.28	108.03	.	.

Source: CSO - consumer prices and industrial producer prices of the Czech Republic
Monthly IMF publication - International Financial Statistics, and the CNB's own calculations

PUBLIC FINANCES

in CZK billions

	1993	1994	1995	1996	1997	1998	1999
	1-12	1-12	1-12	1-12	1-12	1-12	1-6
STATE BUDGET							
TOTAL REVENUES	358.0	390.5	440.0	482.8	509.0	537.4	273.9
Tax revenues	330.2	360.1	409.7	457.4	478.4	509.6	261.7
Income tax	71.9	70.2	72.7	78.3	74.8	87.4	49.3
Social security insurance	106.0	130.0	154.3	174.3	191.0	203.9	102.1
Property tax	0.8	2.1	3.2	3.9	5.0	6.3	3.1
Domestic taxes on goods and services	111.8	136.4	155.4	174.8	186.3	191.5	97.4
- VAT	70.4	85.8	94.8	109.3	117.6	119.4	63.1
- excise taxes	37.1	46.4	56.7	61.2	64.2	67.8	32.1
Foreign trade taxes	15.2	17.4	17.4	19.7	14.9	13.6	5.6
Other tax revenues	24.4	4.1	6.7	6.4	6.4	6.9	4.1
Non-tax revenues	27.8	30.4	30.3	25.4	30.5	27.7	12.2
Corporate and property revenues	14.7	12.8	7.3	8.5	8.5	7.3	2.8
Fees, fines and penalties and other non-tax revenues	4.0	8.2	16.7	10.4	13.6	13.8	8.2
Government credit repayments	9.0	9.4	6.3	6.5	8.4	6.7	1.2
TOTAL EXPENDITURES	356.9	380.1	432.7	484.4	524.7	566.7	279.9
Current expenditures	324.6	346.7	388.6	427.3	474.1	516.2	261.0
Expenditures on goods and services	125.6	121.2	109.8	123.5	126.7	143.0	68.9
Debit interest	13.7	.	2.6	14.0	17.6	18.5	7.4
Subsidies and current transfers	180.3	218.3	268.7	285.7	326.2	349.6	182.2
Subsidies	42.8	49.3	77.1	84.5	92.5	105.5	47.0
- to businesses	29.3	27.0	27.8	27.3	33.2	44.9	15.7
- to subsidised organisations	13.5	22.3	49.3	57.3	59.3	60.6	31.3
Transfers	137.4	169.1	191.5	201.1	233.7	244.0	135.3
- to local budgets	17.0	29.3	33.3	16.8	24.7	17.9	12.7
- to households	116.6	136.9	155.6	181.0	206.0	222.8	119.5
- abroad	.	.	.	.	.	.	0.5
Government credits	5.0	7.2	7.6	4.1	3.6	5.1	2.4
Capital expenditures	32.3	33.3	44.1	57.1	50.6	50.5	18.9
Investment expenditures to budgetary organisations	19.0	19.7	21.5	24.9	16.4	16.5	5.5
Capital transfers	13.3	13.6	22.7	32.1	34.2	34.0	13.4
BALANCE							
Public budgets	23.3	5.5	2.9	-21.9	-27.8	-28.7	-6.5
state budget	1.1	10.4	7.2	-1.6	-15.7	-29.3	-6.0
local budget	0.9	-1.1	-3.2	-9.4	-4.8	1.5	4.0
state financial assets	1.5	1.0	-2.7	-2.3	-2.5	2.4	-5.0
state funds	0.1	0.4	0.0	1.1	1.7	0.9	0.0
Land Fund	1.3	1.1	1.2	0.6	-1.6	0.1	-0.1
National Property Fund	13.4	-5.4	4.0	-5.9	-4.5	-5.1	0.0
health insurance companies	5.0	-0.9	-3.6	-4.4	-0.4	0.8	0.6

CAPITAL MARKET

A. SHARE MARKET INDICES — last day of the month in points

	1997				1998				1999	
	3	6	9	12	3	6	9	12	3	6
PX-50	558	489	536	495	505	467	360	394	388	484
PX-GLOB	670	592	652	599	615	568	460	478	472	574
PK-30	748	649	740	664	698	656	521	564	569	703

B. BOND MARKET — monthly averages in %

	1997				1998				1999	
	3	6	9	12	3	6	9	12	3	6
YIELDS OF TAXED GOVERNMENT BONDS										
Maturity in years										
1Y	.	.	.	.	.	14.51	12.81	8.88	7.52	6.77
2Y	.	14.35	13.65	16.23	14.95	14.39	12.55	8.77	7.58	7.01
3Y	.	13.84	13.30	15.67	14.64	13.58	11.98	8.57	7.72	7.08
4Y	.	14.72	12.94	15.10	14.38	13.13	11.59	8.52	7.82	7.64
5Y	.	12.97	12.63	14.85	14.41	13.03	11.51	8.64	8.29	.
6Y	.	12.88	12.39	14.84	14.43	.	.	.	.	.

C. TRADE VOLUMES — in CZK millions

	1997				1998				1999	
	3	6	9	12	3	6	9	12	3	6
PSE										
Total trade volume	51 225	73 413	48 545	63 249	52 525	88 271	87 771	92 553	103 009	89 889
of which:										
a) automated system	2 358	1 125	1 589	1 368	1 718	6 210	11 892	6 772	10 791	14 158
b) outright and block trades	48 867	72 288	46 956	61 881	50 807	82 061	75 879	85 781	92 218	75 731
RM-SYSTEM										
Total trade and transfer volume	10 517	5 239	13 662	36 870	17 562	22 163	11 271	20 837	16 020	12 848
of which:										
a) running auction	692	392	742	547	1 036	643	552	491	611	688
b) outright and block trades	9 814	4 841	12 915	36 290	16 520	21 425	10 715	20 334	15 409	12 160
c) transfers with declared price	10	6	4	33	6	95	4	12	.	.
SC										
Total volume of charged transfers	100 019	125 576	93 634	150 980	138 738	153 081	159 095	141 892	162 739	156 822

CNB MONETARY POLICY INSTRUMENTS

	Repo rate (%)		Discount rate (%)	Lombard rate (%)	Minimum reserve requirement for primary deposits (%)	
	1 week	2 week			banks	building societies and ČMZRB
			1995			
As of 1 Jan.	-	-	8.5	11.5	-	-
26 June	-	-	9.5	12.5	-	-
3 August	-	-			8.5	**4.0**
8 December	11.25	11.30				
			1996			
29 March	11.50	11.50				
29 April	11.60	11.60				
9 May	11.80	11.80				
21 June	12.40	12.40	10.5	14.0		
1 August					11.5	
			1997			
8 May					9.5	
16 May	12.90			50.0		
19 May	45.00					
23 May	75.00					
27 May			13.0			
2 June	45.00					
4 June		39.00				
6 June	39.00					
11 June	31.00	29.00				
13 June	29.00					
18 June	25.00	25.00				
20 June	22.00	22.00				
23 June	20.00	20.00				
24 June	18.50	18.50				
27 June				23.0		
30 June	18.20	18.20				
1 July	17.90	17.90				
7 July	17.00	17.00				
8 July	16.50	16.50				
9 July	16.20	16.20				
15 July	16.00					
16 July		16.00				
22 July	15.70	15.70				
23 July	15.20	15.40				
24 July		15.20				
28 July	14.90	14.90				
1 August		14.70				
4 August	14.50	14.50				
31 October		14.80				
1 December	19.00	18.50				
2 December	18.50	18.00				
3 December	17.75	17.50				
4 December	17.00	16.75				
9 December	15.50	15.50				
10 December		15.00				
11 December	**15.00**					
17 December		14.75				
			1998			
23 January				19.0		
20 March		15.00				
17 July		14.50				
30 July					7.5	
14 August		14.00	11.5	16.0		
25 September		13.50				
27 October		12.50	10.0	15.0		
13 November		11.50				
4 December		10.50				
23 December		9.50	7.5	12.5		
			1999			
18 January		8.75				
28 January					**5.0**	
29 January		8.00				
12 March		7.50	**6.0**	**10.0**		
9 April		7.20				
4 May		6.90				
25 June		**6.50**				

MACROECONOMIC AGGREGATES

in CZK billions, year-on-year change in %, 1995 constant prices

	1994	1995	1996	1997	1998	1999
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
GROSS DOMESTIC PRODUCT						
- in CZK billions	1297.7	1381.1	1433.9	1438.5	1405.0	323.9
- in %	.	6.4	3.8	0.3	-2.3	-4.5
FINAL CONSUMPTION						
- in CZK billions	947.5	976.8	1021.8	1047.0	1027.0	232.5
- in %	.	3.1	4.6	2.5	-1.9	1.4
of which:						
Households						
- in CZK billions	652.8	692.1	740.1	755.6	733.2	166.4
- in %	.	6.0	6.9	2.1	-3.0	0.5
Government						
- in CZK billions	286.2	275.1	271.8	281.5	283.3	63.9
- in %	.	-3.9	-1.2	3.6	0.6	3.9
Non-profit institutions						
- in CZK billions	8.5	9.6	9.9	9.9	10.5	2.2
- in %	.	12.9	3.1	0.0	6.1	0.0
GROSS CAPITAL FORMATION						
- in CZK billions	382.4	470.0	524.9	504.6	475.6	121.1
- in %	.	22.9	11.7	-3.9	-5.7	-5.5
of which:						
Fixed capital						
- in CZK billions	369.0	442.4	478.5	457.9	440.7	82.1
- in %	.	19.9	8.2	-4.3	-3.8	-7.1
Inventories and reserves						
- in CZK billions	13.4	27.6	46.4	46.7	34.9	39.0
TRADE BALANCE						
- in CZK billions	-32.2	-65.7	-112.8	-113.1	-97.6	-29.7
of which:						
Exports of goods and services						
- in CZK billions	633.5	740.8	809.2	875.0	968.9	229.8
- in %	.	16.9	9.2	8.1	10.7	-3.1
Imports of goods and services						
- in CZK billions	665.7	806.5	922.0	988.1	1066.5	259.5
- in %	.	21.2	14.3	7.2	7.9	1.6
DOMESTIC EFFECTIVE DEMAND						
- in CZK billions	1316.5	1419.2	1500.3	1504.9	1467.7	314.6
- in %	.	7.8	5.7	0.3	-2.5	-0.9
AGGREGATE EFFECTIVE DEMAND						
- in CZK billions	1950.0	2160.0	2309.5	2379.9	2436.6	544.4
- in %	.	10.8	6.9	3.0	2.4	-1.9
GROSS DOMESTIC PRODUCT IN CURRENT PRICES						
- in CZK billions	1182.7	1381.1	1572.3	1680.0	1820.7	423.3
- in %	.	16.8	13.8	6.8	8.4	-0.6
PRICE DEFLATOR						
- in %	.	9.7	9.7	6.5	11.0	4.1

Source: CSO

LABOUR MARKET

A. HOUSEHOLD CURRENT INCOMES AND EXPENDITURES y-o-y change in %

	1993	1994	1995	1996	1997	1998	1999
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
Current incomes	.	.	.	15.2	8.8	5.7	4.8
of which:							
- compensation of employees	.	.	.	17.8	6.9	6.3	4.3
- miscellaneous income	.	.	.	5.6	0.8	5.4	2.8
- property income	.	.	.	9.1	21.0	7.4	-3.3
- social benefits	.	.	.	17.0	13.5	9.9	11.0
- other current transfers	.	.	.	24.0	28.2	-12.1	9.0
Current expenditures	.	.	.	16.7	8.0	6.3	2.7
of which:							
- property income	.	.	.	0.2	0.5	-4.1	-34.6
- current taxes on income and wealth	.	.	.	18.1	9.8	7.6	4.3
- social contributions	.	.	.	15.5	7.1	5.8	4.6
- other current transfers	.	.	.	32.4	13.6	11.2	7.0
Disposable income	.	.	.	14.5	9.2	5.5	5.9
Changes in net share of households in pension fund reserves	.	.	.	60.6	-4.2	-17.6	41.4
Expenditures on individual consumption	.	.	.	15.6	10.0	6.5	2.4
Savings	.	.	.	9.7	2.2	-4.5	56.3
Household savings ratio (savings/disposable income - ratio in %)	.	.	.	12.0	11.2	10.1	10.5

B. AVERAGE WAGES y-o-y change in %

	1993	1994	1995	1996	1997	1998	1999
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
Overall nominal wage	25.3	18.5	18.5	18.4	10.5	9.3	8.6
Business sector	.	18.2	19.2	17.7	11.7	10.9	7.5
Non-business sector	.	19.8	17.0	20.7	5.8	3.9	13.9
Overall real wage	3.7	7.7	8.7	8.8	1.9	-1.3	5.4
Business sector	.	7.4	9.2	8.2	2.9	0.2	4.4
Non-business sector	.	8.9	7.3	10.9	-2.5	-6.1	10.6

C. UNEMPLOYMENT as of end of period

	1993	1994	1995	1996	1997	1998	1999
	12	12	12	12	12	12	6
Registered job applicants (thousands)	185.2	166.5	153.0	186.3	268.9	386.9	435.0
Unemployment rate in %	3.5	3.2	2.9	3.5	5.2	7.5	8.4

Source: CSO

PRODUCTION

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

	1993	1994	1995	1996	1997	1998	1999
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	1-5
INDUSTRY							
TOTAL PRODUCTION OF GOODS 1)	-5.3	2.1	8.7	6.4	.	.	.
TOTAL INDUSTRIAL PRODUCTION 2)	.	.	.	2.0	4.5	1.6	-7.2
CONSTRUCTION							
TOTAL CONSTRUCTION OUTPUT 3) 4)	-7.5	7.5	8.5	5.3	-3.9	-7.0	-11.0
AGRICULTURE							
TOTAL GROSS PRODUCTION 5)							
- in CZK billions	83.1	78.1	82.0	80.9	76.8	77.3	.
- in %	-2.3	-6.0	5.0	-1.4	-5.1	0.7	.
of which							
Crop production							
- in CZK billions	37.4	34.7	35.7	36.4	35.1	34.5	.
- in %	4.6	-7.2	2.9	2.1	-3.6	-1.7	.
Livestock production							
- in CZK billions	45.7	43.4	46.3	44.5	41.7	42.8	.
- in %	-7.3	-4.9	6.7	-4.0	-6.3	2.8	.

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

Source: CSO

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PRODUCER PRICES

change in %

	1994		1995		1996		1997		1998		1999	
	12	average	12	average	12	average	12	average	12	average	6	average
INDUSTRIAL PRODUCR PRICES												
a) previous month = 100	0.3	0.5	-0.2	0.6	0.0	0.4	0.2	0.5	-0.4	0.2	-0.1	0.2
b) same period of last year = 100	5.6	5.3	7.2	7.6	4.4	4.8	5.7	4.9	2.2	4.9	0.4	0.3
c) average of 1994 = 100	2.0	0.0	9.4	7.6	14.1	12.7	20.6	18.2	23.3	24.0	24.6	24.2
d) December 1993 = 100	6.9	4.8	14.6	12.7	19.6	18.1	26.4	23.9	29.2	29.9	30.6	30.2
e) moving average	5.3	x	7.6	x	4.8	x	4.9	x	4.9	x	1.9	x
CONSTRUCTION WORK PRICES												
a) previous month = 100	0.1	0.8	0.1	1.0	0.5	0.9	0.7	0.9	0.2	0.6	0.2	0.4
b) same period of last year = 100	9.7	13.9	12.3	10.6	11.2	11.3	11.9	11.3	7.0	9.4	5.3	5.8
c) average of 1994 = 100	2.9	0.0	15.2	10.6	28.0	23.1	43.3	36.8	53.3	49.7	57.4	56.0
d) December 1993 = 100	11.0	7.9	24.6	19.6	38.5	33.1	55.0	48.1	65.9	62.0	70.3	68.8
e) moving average	13.9	x	10.6	x	11.3	x	11.3	x	9.4	x	6.9	x
AGRICULTURAL PRODUCER PRICES												
b) same period of last year = 100	10.1	4.7	6.1	7.6	6.8	8.3	2.5	2.9	-9.5	2.3	-20.2	-12.9
e) moving average	4.7	x	7.6	x	8.3	x	2.9	x	2.3	x	-6.4	x
of which:												
crop products												
b) same period of last year = 100	-4.0	-4.4	15.6	7.1	12.8	16.7	-4.3	3.3	-10.9	-5.4	-15.1	-16.4
e) moving average	-4.4	x	7.1	x	16.7	x	3.3	x	-5.4	x	-8.9	x
livestock products												
b) same period of last year = 100	15.8	11.5	2.8	8.1	4.4	5.1	2.8	2.1	-8.1	5.9	-20.8	-12.6
e) moving average	11.5	x	8.1	x	5.1	x	2.1	x	5.9	x	-5.3	x
MARKET SERVICES PRICES												
a) previous month = 100	.	.	.	.	-0.3	0.4	1.8	0.8	-4.2	-0.4	-0.5	-1.3
b) same period of last year = 100	.	.	.	.	5.5	6.2	11.2	9.2	-4.9	6.0	-16.4	-13.3
c) average of 1994 = 100	.	.	.	.	17.9	16.3	31.2	26.8	24.8	34.5	15.5	18.1
d) December 1993 = 100	.	.	.	.	19.6	17.9	33.0	28.5	26.5	36.5	17.1	19.7
e) moving average	.	.	.	.	6.2	x	9.2	x	6.0	x	-5.3	x

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

Source: CSO

RATIOS OF KEY INDICATORS TO GDP

ratio in %

	1993	1994	1995	1996	1997	1998
State budget balance	0.1	0.9	0.5	-0.1	-0.9	-1.6
Public budgets balance	2.3	0.5	0.2	-1.4	-1.7	-1.6
Public debt	19.2	17.9	15.9	13.8	13.4	13.9
Indebtedness in convertible currencies	25.4	25.4	31.9	36.2	44.0	39.4
Trade balance 1)	-0.4	-3.0	-6.9	-10.0	-8.3	-4.4
Current account balance	1.3	-1.9	-2.6	-7.4	-6.1	-1.9
M2	70.3	71.5	73.3	70.3	72.5	70.3

Note: ratio = indicator/GDP in current prices

1) Source: CSO

Abbreviations used:

CIS	Commonwealth of Independent States
CNB	Czech National Bank
CPI	consumer price index
CPIx	net inflation index
CSO	Czech Statistical Office
ČSOB	Československá obchodní banka
CZK	Czech koruna
DEM	Deutsche Mark
ECB	European Central Bank
EU	European Union
EUR	euro
Eurostat	Statistical Office of the European Union
FRA	forward rate agreement
GDP	gross domestic product
HWWA	aggregate price index for raw materials and food
IMF	International Monetary Fund
IRS	interest rate swap
L	a monetary aggregate (see part 3.1.1)
LIBOR	London Interbank Offered Rate (an interbank lending rate)
M1	a monetary aggregate (see part 3.1.1)
M2	a monetary aggregate (see part 3.1.1)
m-o-m	month-on-month
NER	nominal exchange rate
NPF	National Property Fund
PPI	producer price index
PRIBID	Prague Interbank Bid Rate
(1W, 1M, 1Y)	(one-week, one-month, one-year)
PRIBOR	Prague Interbank Offered Rate
repo rate	repurchase agreement rate
RER	real exchange rate
T-bills	treasury bills
USD	US dollar
VAT	value added tax
y-o-y	year-on-year