INFLATION REPORT

JULY 2000

CNB CZECH NATIONAL BANK

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CONTENTS:

ABBREVIATIONS USED:

CIS	Commonwealth of Independent States
ČMHB	Českomoravská hypotéční banka
CNB	Czech National Bank
CPI	consumer price index
CSO	Czech Statistical Office
ČSOB	Československá obchodní banka
CZK	Czech koruna
EIB	European Investment Bank
EU	European Union
EUR	euro
FRA	forward rate agreement
GDP	gross domestic product
HWWA	aggregate price index for raw materials and food
IMF	International Monetary Fund
IPB	Investiční a poštovní banka
IRS	interest rate swap
L	a monetary aggregate (see part 3.1.1)
m-o-m	month-on-month
M1	a monetary aggregate (see part 3.1.1)
M2	a monetary aggregate (see part 3.1.1)
OPEC	Organisation of Petroleum Exporting Countries
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
SITC	Standard International Trade Classification
T-bills	treasury bills
USD	US dollar
VAT	value added tax
Y2K	Year 2000
y-o-y	year-on-year

I. INTRODUCTION

In 2000 Q2, the Czech economy saw an accelerated recovery within a low-inflation environment. Demand-pull inflationary pressures remained subdued, and anti-inflationary effects strengthened in the wage-cost area. Conversely, growth in import prices, brought about chiefly by rising prices of energy raw materials on world markets and accompanied by a temporary weakening of the koruna's exchange rate against the US dollar, exerted upward pressure on inflation. According to CNB surveys, the inflation expectations of all economic agents remained low during Q2. These basic features of the macroeconomic framework will continue into 2000 H2, although the inflationary pressures ensuing from the import price trend will gradually ease.

In 2000 Q2, both overall and net inflation rose moderately, while the movement structure of overall inflation remained essentially the same as in Q1. The slight rise in overall inflation was caused by the pick-up in net inflation and by increases in some administered prices in April and June. Both food prices and adjusted inflation accelerated moderately. In Q2, the year-on-year rate of growth of industrial and agricultural producer prices continued to outpace consumer price inflation. The rising prices of energy raw materials fed through into industrial producer prices, although their effect on consumer prices (except for fuel prices) remained limited. Similarly, the rising agricultural producer prices passed through into food prices to only a limited extent. The uncertainties regarding possible spillover of these accumulated cost pressures into consumer prices in the next period thus persist.

In Q2, signals emerged testifying to a faster economic recovery than the CNB had foreseen at the beginning of the year. In addition to growth in retail sales, higher VAT receipts and the data on industrial and construction output, the possible faster growth was indicated in particular by rising export demand linked with the continuing boom in Western Europe. Expectations of faster growth in net exports led the CNB to slightly increase its forecast for real GDP growth for 2000 at the start of Q2. That this upward revision had been justified was confirmed by the GDP figures for Q1 released at the end of June. However, the resulting economic growth outturn was higher than the revised forecast. The main stimulus for the pick-up in the economic recovery came from the external sector. The faster growth rate of exports than of imports led to a year-on-year increase in net exports. This accounted for more than half the GDP growth. All the components of domestic demand also contributed to the economic growth. Particularly important for future economic developments was a rise in investment demand, which saw positive year-on-year figures for the first time in eleven quarters. Business competitiveness rose in line with the gradual recovery. This favourable trend reflected the positive structural changes taking place on the supply side.

Some favourable tendencies started to emerge on the labour market in Q2. Both the real and the seasonally adjusted unemployment rate fell. This decline reflected the economic recovery, the inflow of foreign investment and the active employment policy. In addition, the mutual trend for wage and output indicators showed a turnaround for the better at the beginning of 2000. In Q1, labour productivity growth at the whole-economy level significantly exceeded real wage growth, reaching its highest level for the last few years. This indicates a fall in the wage cost-output ratio and an easing of wage-cost inflationary pressures.

In April 2000, the CNB announced the inflation target for the end of 2001. The net inflation target was set at 3% ± 1 percentage point. Assuming that regulated prices are adjusted in line with the government document "The outlook for regulated prices", and given the expected changes to indirect taxes in 2001, this corresponds to an overall inflation level within the range of 4.3%–5.8%. The inflation target embodies the endeavour to maintain low, non-accelerating inflation and a stable macroeconomic environment in the medium term as a basis for achieving long-term sustainable economic growth. The setting of the target was preceded by expert co-operation between the CNB and the Ministry of Finance, under which basic agreement was reached on the medium-term outlook for macroeconomic development. The inflation target for 2001 could thus be announced with the agreement and support of the Minister of Finance. This sent out an important signal about the increasingly close co-ordination of monetary and fiscal policies.

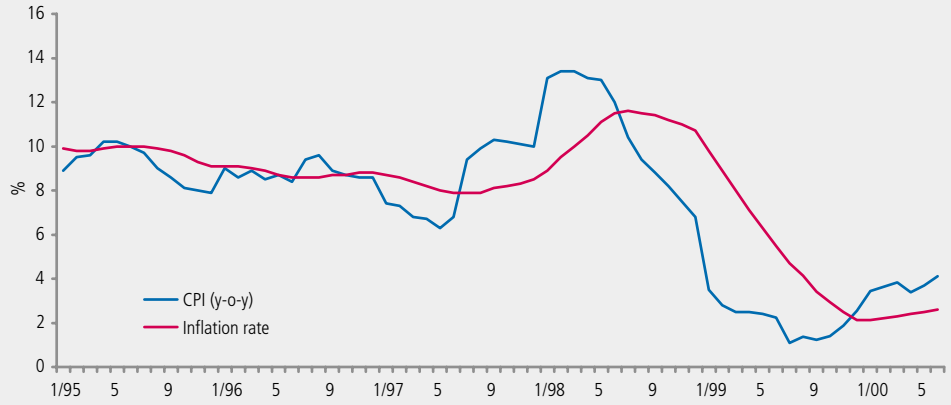
In the course of Q2, the monetary policy decision-making horizon was shifted to 2001. This shift is given objectively by the time lag between monetary policy measures and their effects on inflation. At the beginning of Q2, the CNB revised downwards its net inflation forecast for the end of 2000 and indicated that it was highly probable that the outturns would be at the lower limit of the inflation target or even below it. However, the inflation forecast for 2001 indicated outturns corresponding to the target for this year. In this situation, the monetary policy interest rate settings seemed consistent with the medium-term monetary policy objectives and so the CNB left them unchanged during Q2. On the contrary, any easing of monetary policy aimed at influencing the inflation profile in the remainder of 2000 would have been inappropriate. This would have led to a pick-up in inflation in the subsequent period and to the need to tighten monetary policy, with an adverse knock-on effect on economic growth and unemployment. Such an easing of the monetary conditions seemed myopic and would have been at odds with the CNB's medium-term targets. Nevertheless, there was a certain easing of the monetary conditions at the start of Q2 linked with the depreciation of the koruna following a CNB intervention on the foreign exchange market. This intervention came in response to an excessive strengthening of the koruna's exchange rate which did not correspond to the fundamentals.

The outlook for inflation up to the end of 2000 assumes that the demand and wage-cost pressures will remain low. The external cost pressures will be more moderate than in 2000 H1, and food prices will rise more slowly than was indicated by the CNB's forecasts at the beginning of 2000. The current inflation forecast for end-2000 indicates that net inflation will be just below the target. The projection for end-2001 suggests a stable net inflation profile at a level implying that the inflation target will be met.

II. INFLATION DEVELOPMENT

Year-on-year inflation increased slightly in 2000 Q2. However, the rise was slower than in the previous period. In each of the previous two quarters, the year-on-year CPI index had risen by more than 1 percentage point, whereas in Q2 it increased by only 0.3 percentage points, reaching 4.1% in June. The inflation rate rose modestly again to 2.6% at the end of Q2.

CHART II.1 CPI and inflation rate from 1995 to June 2000



In 2000 Q2, both main components of the CPI – regulated prices and net inflation – contributed to the slight change in its level. The contributions of regulated prices and net inflation were offset in part by a decrease in the contribution from changes in indirect taxes.

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

	3/99		6/99		9 /99		12/99		1/00		2/00		3/00		4/00		5/00		6/00	
CPI INFLATION (y-o-y)	2.5		2.2		1.2		2.5		3.4		3.7		3.8		3.4		3.7		4.1	
of which:		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.		contrib.
Regulated prices	11.7	*2.87*	11.0	*2.72*	4.3	*1.12*	4.2	*1.09*	7.3	*1.94*	7.3	*1.95*	7.3	*1.95*	7.4	*1.98*	7.5	*1.99*	7.8	*2.09*
Influence of indirect taxes on unregulated prices		*0.00*		*0.00*		*0.32*		*0.32*		*0.32*		*0.32*		*0.32*		*0.14*		*0.14*		*0.14*
Net inflation	-0.4	*-0.33*	-0.6	*-0.49*	-0.3	*-0.21*	1.5	*1.14*	1.6	*1.19*	1.9	*1.38*	2.1	*1.55*	1.7	*1.27*	2.1	*1.57*	2.6	*1.90*
of which:																				
- food prices	-4.0	*-1.25*	-5.0	*-1.53*	-4.1	*-1.24*	-0.7	*-0.22*	-0.6	*-0.16*	0.0	*0.00*	0.1	*0.02*	-0.4	*-0.12*	0.2	*0.07*	0.4	*0.13*
- adjusted inflation	2.1	*0.92*	2.3	*1.04*	2.3	*1.04*	3.0	*1.35*	3.1	*1.35*	3.2	*1.39*	3.5	*1.53*	3.2	*1.39*	3.4	*1.49*	4.0	*1.77*
INFLATION RATE (annual moving average)	8.0		5.5		3.4		2.1		2.1		2.2		2.3		2.4		2.5		2.6	

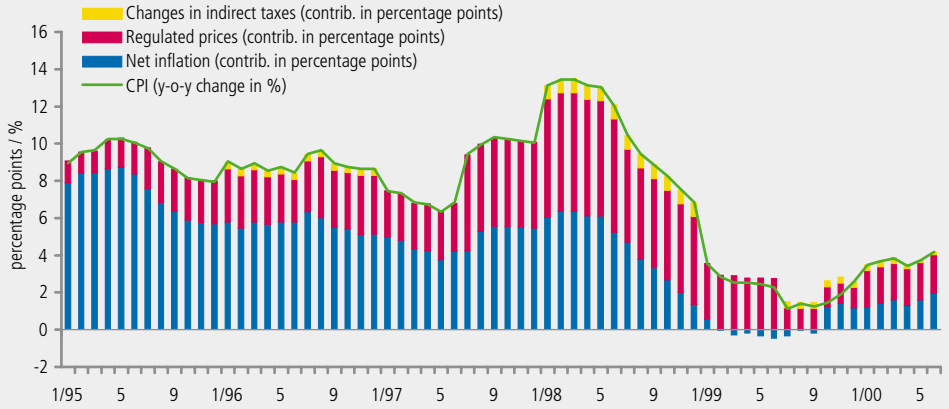
Note: "contrib." means contribution to CPI inflation in percentage points

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

The main factor behind the significantly slower year-on-year growth in regulated prices in 2000 Q2 was the substantially less extensive adjustment to the prices of centrally regulated items than in the previous period. The price adjustments in January 2000 had increased the year-on-year regulated price index by 3.1 percentage points compared with December 1999 to 7.3%, whereas the adjustments carried out during the course of Q2 accelerated regulated price inflation by only 0.5 percentage points to 7.8%. The change in regulated prices in Q2 was attributable chiefly to a rise in prices of heat, water and sewerage rates in April and an increase in railway fares in June.

In Q2, regulated prices remained a significant factor behind the year-on-year CPI inflation outturn. According to the figures for June, they accounted for more than half the 4.1% year-on-year rise in consumer prices (see Table II.1 and Chart II.2).

CHART II.2 Structure of CPI inflation (y-o-y)



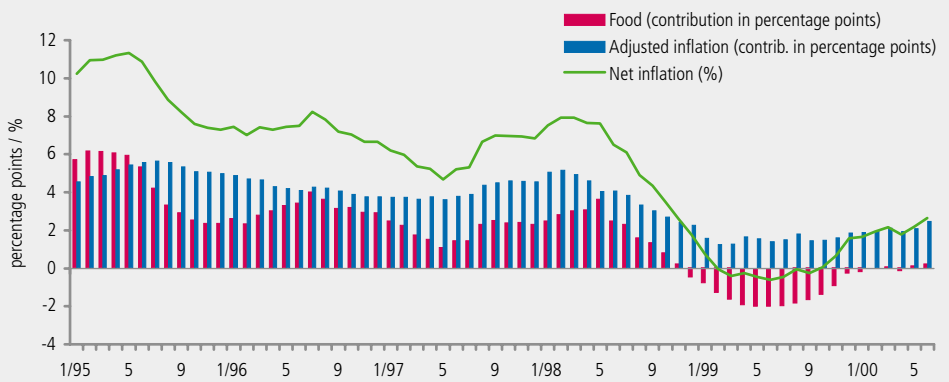
Other administrative influences excluded from net inflation (outside the framework of regulated prices)

In 2000 Q2, changes were also made to indirect taxes. Effective 1 April 2000, indirect taxes on services in hotels and restaurants were changed, with VAT on these services shifted from the higher rate to the lower rate.[1] As expected, though, there was no corresponding fall in the prices of these services, and this was reflected in net inflation (see Chart II.2).

Net inflation

During the course of 2000 Q2, year-on-year net inflation rose by 0.5 percentage points to 2.6%. This rise was due to increases in both components of net inflation – food prices and adjusted inflation. However, food prices rose only very slightly. Adjusted inflation accounted for most of the year-on-year net inflation outturn.

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



1 If operators of these services had cut their prices correspondingly, this would have reduced inflation by roughly 0.18 percentage points.

Net inflation factors

The moderate rise in year-on-year net inflation in 2000 Q2 was due to external cost factors. The high level of energy raw material prices along with the year-on-year depreciation of the CZK/USD exchange rate continued to sustain quite high year-on-year growth in import prices. These passed through variously into individual price groups. Their effect on industrial producer prices was fairly sizeable, whereas within adjusted inflation they affected fuel prices only. Their effect on the other components of net inflation was very limited. The result was that industrial producer price inflation continued to show substantially higher outturns than CPI inflation. This was due largely to weak growth in domestic demand and strong competition on the retail market, which at that time was preventing any greater pass-through of the external cost pressures into net inflation. Although consumer demand showed an ongoing slight recovery in the course of Q2, it did not turn out to be a source of inflationary stimuli. For some commodities, price competition from goods imported for the retail market prevented stronger pass-through of the cost pressures into inflation.

The as yet only weak pick-up in food prices reflected a rise in agricultural producer prices. However, various internal and external factors acting in the longer term on the agricultural and retail markets prevented agricultural producer prices from passing through any more strongly into food prices.

Food prices[2]

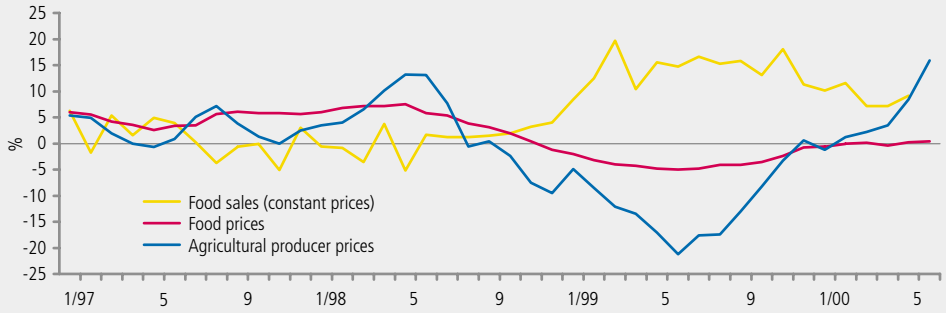
Food prices in 2000 Q2 confirmed the trend towards modest growth recorded in the previous quarter. After their long year-on-year decline bottomed out in February 2000, they showed weak growth, despite some monthly volatility. However, the growth was very low, rising from 0.1% in March to 0.4% in June.

The reason for the growth in food prices remains the same as in the previous quarter – the gradual pass-through of cost pressures from domestic primary producers to manufacturers. This led to higher purchase prices for agricultural products (particularly of livestock origin).

These inflation-increasing pressures were partially subdued in 2000 Q2 by a significant fall in prices of fruit and vegetables, which deviated from the usual seasonal pattern. A pick-up in food price inflation also continued to be prevented by the strong competition on the retail food market; the ability of retailers and manufacturers of agricultural products to slow the rise in supplier prices for agricultural and food production; and the price competition from products imported for the retail market. To a certain extent, their dampening effect on food prices is indicated by the several-quarter-long growth in retail food sales (see Chart II.4), which has not been accompanied by a rise in food prices. However, the informative quality of this indicator is limited to a certain extent by the fact that it contains non-food sales as well as food sales (sales in general stores).

2 Adjusted for administrative influences.

CHART II.4 Prices and sales of food and agricultural producer prices
(y-o-y change in %)

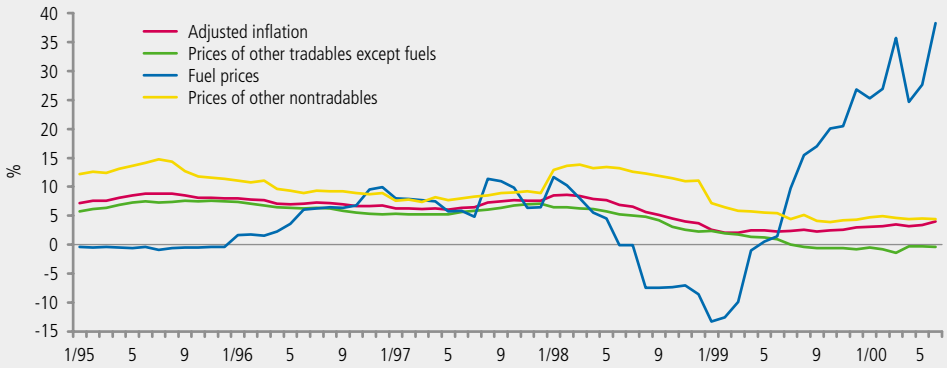


Note: Food prices adjusted for administrative influences

Adjusted inflation[3]

The 0.5 percentage point rise in year-on-year adjusted inflation to 4% in 2000 Q2 was, as in the previous period, driven by rising fuel prices. Their effect on inflation was partly offset by the other components of adjusted inflation – prices of other tradables (except fuel) and prices of other nontradables (see Chart II.5).

CHART II.5 Components of adjusted inflation
(y-o-y change in %)



Fuel prices reflected almost directly the changes in the world prices of oil and the koruna's exchange rate against the dollar. The month-on-month changes in adjusted inflation in 2000 Q2 were higher on average than in the same period a year earlier. The 2.8% and 7.1% fuel price increases in May and June gave rises of 0.26 percentage points and 0.64 percentage points respectively in month-on-month inflation. Month-on-month adjusted inflation was 0.3% in May and 0.8% in June.

Conversely, prices of other tradables (fuel excluded), which are affected by foreign competition, continued to show a year-on-year decline in Q2 (of 0.24% in May and of 0.35% in June). On account of the high share of consumer goods imports in total sales, this was due to the year-on-year appreciation of the CZK/EUR exchange rate in Q2, which to a large extent offset the rise in prices abroad, particularly in Germany.

3 Adjusted inflation comprises the prices of the non-food items of the consumer basket excluding regulated prices and is adjusted for administrative influences.

The year-on-year growth in other nontradables prices, which are affected by internal factors, moved around 4.5% in Q2. Compared with Q1 it slowed only very moderately. This relative stability was attributable to the broadly unchanged growth rate of prices in the groups of housing and hotels and restaurants.[4]

The negligible changes in prices of other nontradables and the ongoing year-on-year decline in prices of other tradables indicated that the slight upturn in demand for non-food goods and services had yet to generate any inflationary demand stimuli.

4 As a rule this involves the services items in these groups.

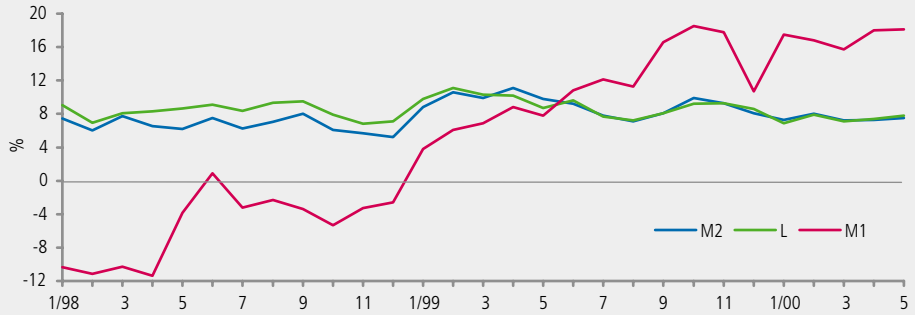
III.1 Money, interest rates and exchange rates

III.1.1 Monetary aggregates

Between March and May 2000, year-on-year M2 growth sustained a slightly upward trend, recording figures of 7.2% in March, 7.3% in April and 7.5% in May. The other monetary aggregates showed a more buoyant upward trend. L saw year-on-year growth from 7.1% in March to 7.4% in April and 7.8% in May. The growth in M1 was more pronounced but less smooth, rising from 15.7% in March to 18.0% in April and to 18.1% in May.

The monetary aggregate trend between March and May thus reconfirmed the common long-term trend for the broader monetary aggregates M2 and L, as well as the continuing higher rate and volatility of year-on-year M1 growth. The higher growth rate of M1 also showed up in its month-on-month growth in absolute terms. While the volume of liquid money included in M1 rose by CZK 24.8 billion between the beginning of March and the end of May, the volume of quasi money stagnated in the same period just below the end-1999 level. The main factor underlying the faster M1 growth continued to be the low level of interest rates, which is stimulating saving in demand deposits.

CHART III.1 Monetary aggregates M1, M2 and L
(y-o-y change in %)



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

The growth in money stock between March and May 2000 was fostered in particular by growth in net foreign assets (resulting from the recovery in foreign capital inflow and the monetary interventions at the turn of April) and the worse state budget performance, which gradually switched from a surplus of CZK 3.2 billion in February to a deficit of CZK 13.5 billion in May. Lending to businesses and households did not contribute to the increase in the volume of money in the economy in this period. Adjusted for write-offs, interest capitalisation and other non-monetary influences, lending in korunas increased, although this essentially involved further displacement of foreign currency credits, a process which has been continuing since the start of 1999.

Going forward, the greatest uncertainties relate to net foreign assets. A higher-than-expected inflow of foreign capital could lead to a pick-up in money supply growth. Nevertheless, if some of the foreseen actions associated with privatisation are not implemented, the money supply growth rate might even decline gradually.

Monetary aggregate M2

In Q1 the money supply continued to grow at roughly double the rate of nominal GDP. However, owing to the pick-up in nominal GDP growth from 2.0% in 1999 Q2 to 3.6% in 2000 Q1 and the slowdown in money supply growth, the gap between these two indicators narrowed further. Nevertheless, money supply growth is likely to continue outpacing GDP growth to some extent. The trend to date shows that in the climate of an emerging recovery, an increase in the volume of money in the economy, rather than fostering inflation, promotes economic growth.

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

Year 2000		Annualised for last		
	1 month	3 months	6 months	1 year
February	1.6	10.8	9.2	8.0
March	0.8	13.1	6.5	7.2
April	0.8	13.7	7.7	7.3
May	0.0	6.5	8.6	7.5

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

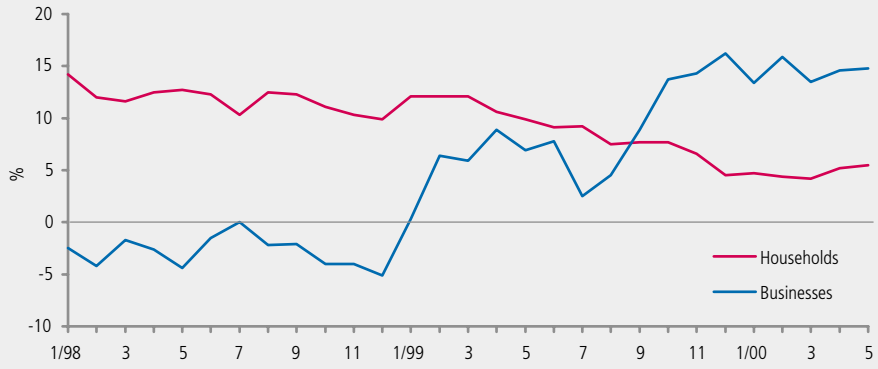
Sector structure of M2

The trend towards faster money supply growth in the corporate sector seen since the beginning of 1999 Q4 continued into March–May 2000. Year-on-year money supply growth in the corporate sector was 13.5% in March, 14.6% in April and 14.9% in May.

The high money supply growth rate for businesses in March–May reflected the economic recovery and the associated increase in demand for money. The growth rate was attributable in particular to a rise in the volume of demand deposits, which in the corporate sector rose by CZK 9.8 billion between March and May (compared with an increase of CZK 4.8 billion in the same period a year earlier). Time deposits fell by CZK 4.7 billion (compared with a decline of CZK 1.4 billion a year earlier), while the volume of certificates of deposit, deposit bills, other bonds and foreign currency deposits was flat.

The economic recovery also generated a pick-up in money supply growth in households, where, following the gradual decline seen since April 1999, year-on-year growth began to increase again, reaching 4.2% in March, 5.2% in April and 5.5% in May. For households, too, the low interest rates on time deposits generated a shift into demand deposits, which in this period rose by CZK 10.9 billion (compared with an increase of CZK 4.5 billion in the same period a year earlier). The volume of koruna demand deposits of households rose by CZK 5.5 billion between the beginning of April and the end of May (compared with a decline of CZK 0.4 billion a year earlier). The volume of foreign currency deposits also increased modestly in this sector.

CHART III.2 M2 by sector
(y-o-y change in %)



Monetary aggregate L

The trend similarity between the two broader monetary aggregates M2 and L, which is due to the low share of short-term securities in the assets of the corporate sector and households, is also demonstrated by the annualised year-on-year L growth. For the last six months this has confirmed a modestly upward trend, the same as for the money supply.

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

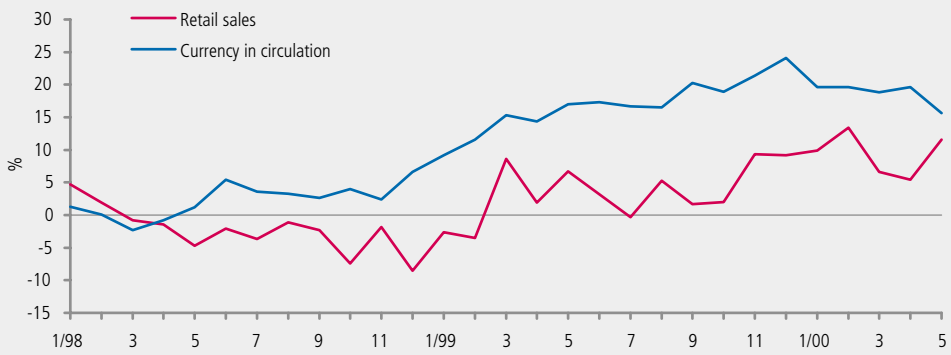
Year 2000		Annualised for last		
	1 month	3 months	6 months	1 year
February	1.6	10.2	7.8	7.9
March	0.5	10.8	5.9	7.1
April	0.9	12.4	7.2	7.4
May	0.3	6.7	8.4	7.8

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

Monetary aggregate M1

Since the unwinding of the Y2K effect at the close of 1999, demand deposits have been growing more quickly than currency in circulation. In May 2000, the two-year-long buoyant growth in currency in circulation (except for seasonal decreases in January and July) was replaced by a moderate decline in volume. This decline corresponded with a slowdown in retail sales growth. Conversely, in June, seasonal influences will have a pro-growth effect on currency in circulation.

CHART III.3 Currency in circulation and retail sales (current prices)
(y-o-y change in %)



M1 is still showing robust growth. Owing to the low level of interest rates on demand deposits and the foreseen slight recovery in consumer demand, the stronger year-on-year M1 growth can be expected to continue.

Table III.3 Increases in M1 (in %)

Year 2000	Increase for last			
	1 month	3 months	6 months	1 year
February	0.8	-0.1	6.2	16.8
March	-0.6	0.0	3.4	15.7
April	3.5	3.7	5.2	18.0
May	2.2	5.1	5.0	18.1

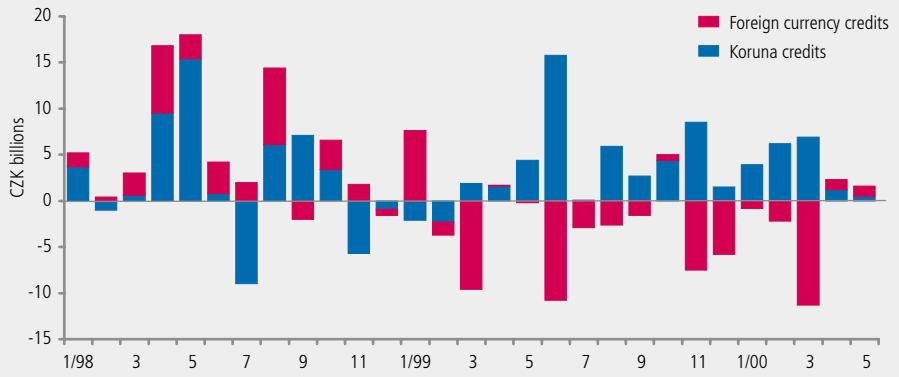
Note: Seasonally unadjusted because of the low significance of seasonal factors

III.1.2 Credits granted to businesses and households

Year-on-year growth in the volume of credits (adjusted for exchange rate influences, write-offs, interest capitalisation, banks with licences revoked and operations linked with credit portfolio restructuring) was flat in March–May. The average increase was 1.4%. The total volume of adjusted credits dropped by CZK 0.5 billion; a decline of CZK 4.4 billion was recorded in March 2000, while in the remaining months the volume of credits grew. The credits were granted chiefly by foreign banks. For the group of large banks credits declined, while for other banks they were flat. In terms of the currency structure of adjusted lending, the volume of koruna credits rose by CZK 8.6 billion, while foreign currency credits increased by CZK 9.1 billion. The year-on-year increases in koruna credits were steady at 6%, while foreign currency credits fell by 20.8%.

The rise in the volume of credits in April and May 2000 related mainly to short-term and medium-term credits; long-term credits were flat. By use, the increase chiefly concerned credits for temporary shortage of funds and operational credits, and partly also mortgage and consumer credits. In April 2000, for the first time since the start of the year, credits granted to households rose – by CZK 2.1 billion.

CHART III.4 Adjusted koruna and foreign currency credits



Note: Adjusted for exchange rate influences, write-offs, interest capitalisation, banks with licences revoked and operations linked with credit portfolio restructuring

Despite its stagnating trend, the year-on-year growth in adjusted credits was low in March–May and moved below the inflation level. This also reflected the low 1999 base. The average year-on-year increase in adjusted credits in real terms stagnated at -2.2%. Adjusted credits did not represent a significant source of money supply growth. The growth in seasonally adjusted credits for one, three and six months declined in March–May.

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

Year 2000	Increase for last			
	1 month	3 months	6 months	1 year
February	0.3	0.8	1.2	1.2
March	-0.6	0.5	0.4	1.5
April	-0.1	-0.4	0.0	1.5
May	-0.3	-1.0	-0.3	1.3

Note: Adjusted for exchange rate influences, write-offs, interest capitalisation, banks with licences revoked and operations linked with credit portfolio restructuring.

Unadjusted credits continued to see a downward trend in their year-on-year growth, which fell by 6.1% on average in March–May. At the same time, the total volume of credits decreased by CZK 15.2 billion. The decline in unadjusted credits occurred chiefly in March and was affected by a transfer of credits from Komerční banka to Konsolidační banka in an amount corresponding to the difference between their nominal value and the price of their transfer. The decline in the volume of unadjusted credits was also driven by credit write-offs, which reached CZK 6.4 billion in March–May.

Despite a slight rise in consumer credits in April and May, their trend in 2000 can be labelled flat, thus confirming the predicted tendency in the debt financing of consumer demand. Although consumer demand financed by debt instruments showed signs of a recovery in 1999, a major expansion cannot be expected in the near future owing to the expected trend in incomes. Financial non-banking institutions will play a more prominent role in financing consumer demand, and debt financing will help foster smooth household consumption.

Lending to businesses continues to be affected by their financial standing. A financial analysis conducted by the Ministry of Industry and Trade for 1999 shows reduced return on equity and reduced return on assets for businesses with 100 or more employees. By structure of liabilities, businesses experienced an increase especially in short and long-term liabilities. This is connected primarily with the involvement of foreign investors in Czech businesses. The share of bank credits in the external funds of businesses declined and the share of funds acquired through bond issuance was flat. The economic recovery in 2000 Q1 positively affected the financial position of businesses. This trend has yet to pass through into increased lending.

The substitution of domestic lending with the provision of koruna assets abroad was only of marginal significance in March–May. Koruna assets to non-residents fell by CZK 4.3 billion. A significant decrease was recorded in April, whereas March and May saw increases. The balance of payments for 2000 Q1 showed a fall in the significance of the domestic banking sector in financing the economic activities of foreign investors in the Czech Republic. The gross turnovers of commercial bank assets and liabilities had increased in 1999 Q1, whereas in 2000 Q1 they fell.

III.1.3 Interest rates

At the shorter end of the yield curve the interest rate trend in 2000 Q2 can be characterised as stable. The longer end saw mixed development. The stability of money market rates was associated with the CNB's unchanged interest rate settings. However, for long-term rates there were other factors at work. From the beginning of May onwards there was a slight increase in rates with longer maturities. This was due to a certain shift in the perceptions of the market, which, in connection with the economic recovery, started to expect a rise in interest rates. Other factors were also felt, e.g. the situation on the oil and dollar markets and nervousness associated with IPB. Yield curve slopes remained positive on all segments of the financial market. This, too, suggests that financial market participants are expecting rates to rise modestly in the future. This is primarily associated with expectations of higher inflation in comparison with the current outturns. Owing to the increase in basic rates abroad, the interest rate differential narrowed. Client interest rates on both credits and deposits were broadly flat.

III.1.3.1 Short-term interest rates

Short-term interest rates showed a fairly high degree of stability in 2000 Q2. The CNB did not change its basic rates during this period. The 2W repo rate was left at 5.25%, the Lombard rate at 7.5% and the discount rate at 5%. Only in mid-June did PRIBOR rates with 6M–1Y maturities edge upwards temporarily. This was due to heightened nervousness on the market connected with the situation around IPB. However, the increase did not exceed 0.2 percentage points. The PRIBOR yield curve maintained its slightly upward profile throughout the period under review.

CHART III.5 Key rates

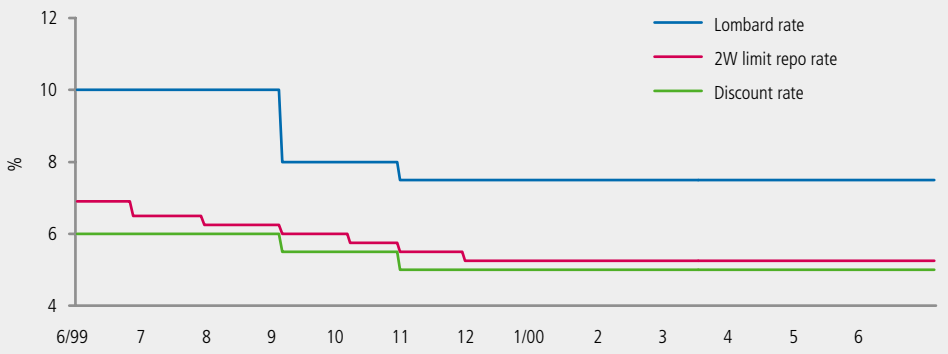
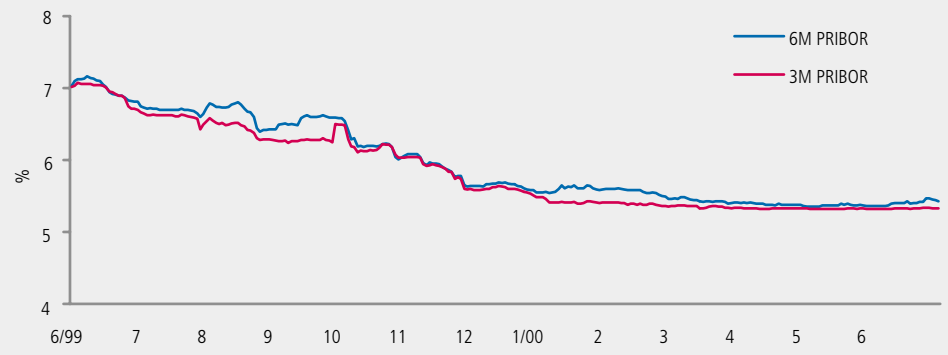
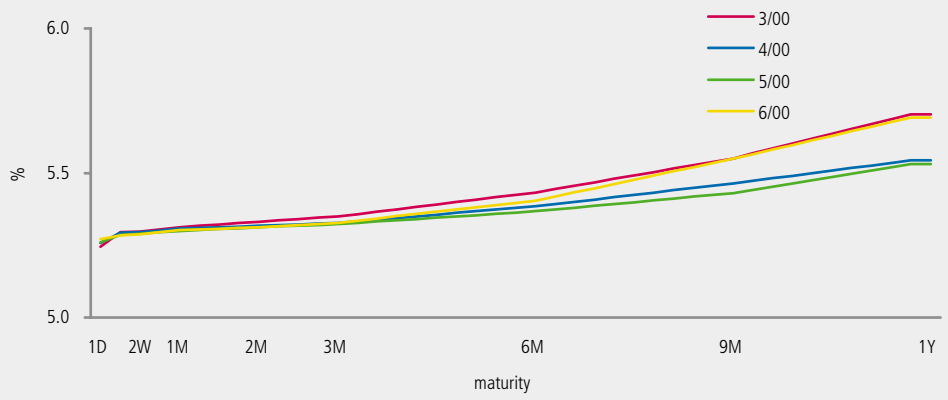


CHART III.6 3M and 6M PRIBOR rates



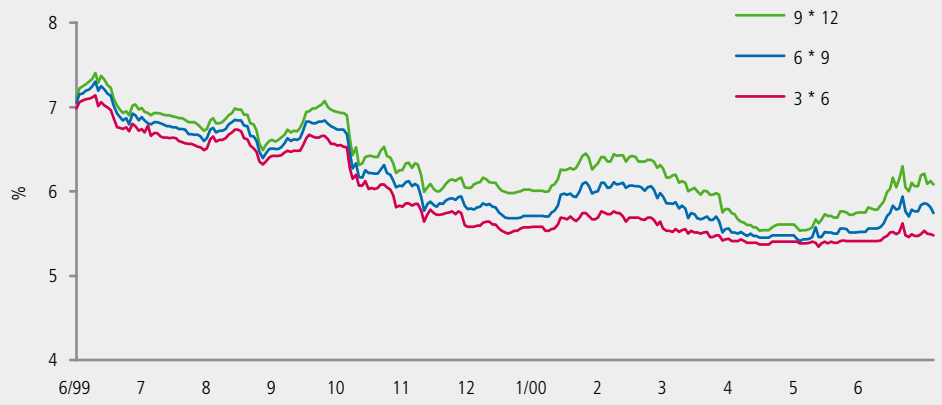
In the course of 2000 Q2, the positive slope of the PRIBOR yield curve changed only very moderately. The short end remained stable, while the longer end saw only minimal changes. Overall, in comparison with March, the average 1W PRIBOR rate declined by 0.02 percentage points to 5.28% and the 1Y PRIBOR rate by 0.01 percentage points to 5.69%. This, too, indicates only minimal changes in the slope of the yield curve; in June, the spread between the two rates was +0.41 percentage points.

CHART III.7 Yield curve for PRIBOR rates



FRA rates showed greater volatility than did the PRIBOR rates. This was particularly visible in the period when there was increased nervousness on the market associated with IPB. Although this situation was fairly short-lived, it added 0.1 percentage points to average FRA rates in June compared with March at virtually all maturities. The FRA quotations from the end of June indicated (like the slope of the PRIBOR yield curve) that market participants were expecting rates to rise modestly (in the case of the 3M PRIBOR by 0.15 percentage points at the three-month horizon and by 0.3 percentage points at the close of the year). This is confirmed by measurements of financial market expectations regarding the inflation and interest rate trend.

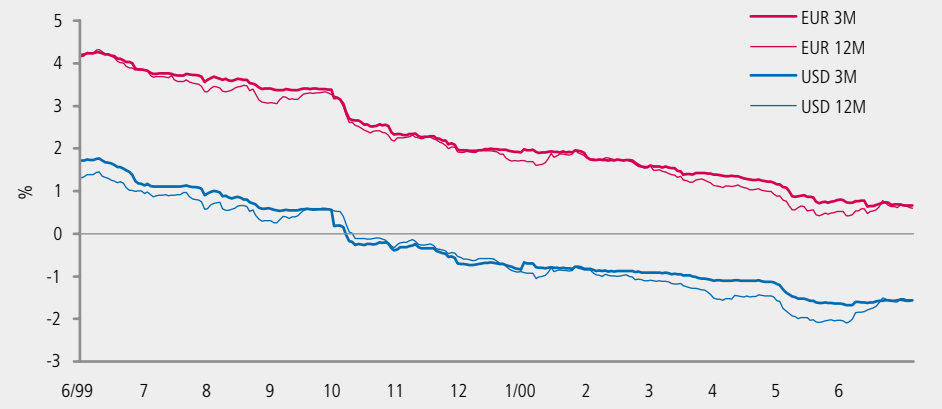
CHART III.8 3M FRA rates - offer



The short-term bond market comprised T-bills only. There were eleven issues on the primary market, with 3M, 6M, 9M and 1Y maturities. Investor demand in the auctions constantly exceeded supply, so the announced gross yields were always below the set limit, moving between 5.3% and 5.5% depending on maturity and the market situation. On the secondary market, T-bill yields copied the PRIBOR rates.

The interest rate differential (PRIBID/CZK-LIBOR/EUR,USD) was affected by changes in foreign rates. In the USA the key overnight rate was raised by 0.5 percentage points to 6.5%, and in the eurozone the most important repo rate was raised in two steps by 0.75 percentage points to 4.25%. During the period under review, the interest rate differential narrowed at individual maturities by up to 0.7 percentage points. At the end of June, the interest rate differential vis-à-vis the euro had narrowed to 0.5–0.7 percentage points depending on maturity. Vis-à-vis the dollar it showed negative values of -1.5 to -1.7 percentage points.

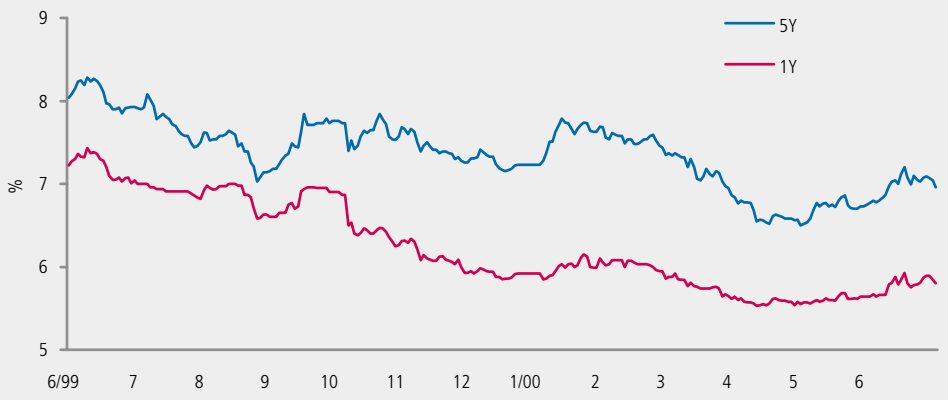
CHART III.9 Interest rate differential vis-à-vis rates in EUR and USD



III.1.3.2 Long-term interest rates

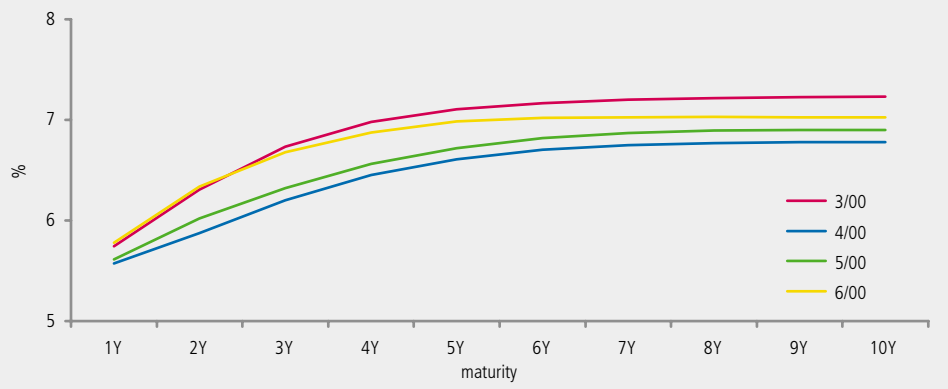
For long-term rates, the several-month-long downward trend halted at the start of May 2000 and rates started to rise steadily. This trend reflected the forecasts of economic growth for the second half of the year. Investors also incorporated certain external factors into their quotations (e.g. the situations on the Polish and Slovak financial markets and on the oil and dollar markets). These factors acted only temporarily and with various intensities. Nevertheless, some of them might feed through into the future price level. The situation around IPB was another major stimulus for the rise in interest rates. In this connection, the market reckoned on an increased need for state financing. Despite this, the yield curve was slightly flatter at the end of Q2 than at the beginning. In comparison with March, the 1Y rate was unchanged in June, while the 5Y rate was down by 0.12 percentage points and the 10Y rate down by 0.21 percentage points.

CHART III.10 IRS rates



The slope of the IRS yield curve changed only negligibly, shifting at its longer end to a lower yield level. However, the curve kept its positive slope in the shorter part and was flat from 6Y maturities upwards. In June, the average 5Y–1Y spread was +1.21 percentage points and the 10Y–1Y spread +1.24 percentage points.

CHART III.11 Yield curve for IRS rates



The bond market showed a similar trend to that for IRS rates. Up to May, the positive state-bond yield curve had been shifting to a lower yield level. Then, however, the trend changed. During Q2, there were three primary issues of state bonds, with 3Y, 5Y and 10Y maturities and totalling CZK 14 billion. The 3Y and 5Y bonds involved the re-opening of already existing issues, which is a novelty on the Czech market. At the same time, the yield curve was extended up to 10 years. Demand exceeded supply in all the auctions. Nevertheless, the overhang was not so large as at the beginning of the year. On the non-state-bond market there were only two issues (EIB and HZL ČMBH), with a total volume of CZK 4 billion. However, there was strong issuing activity on the primary koruna

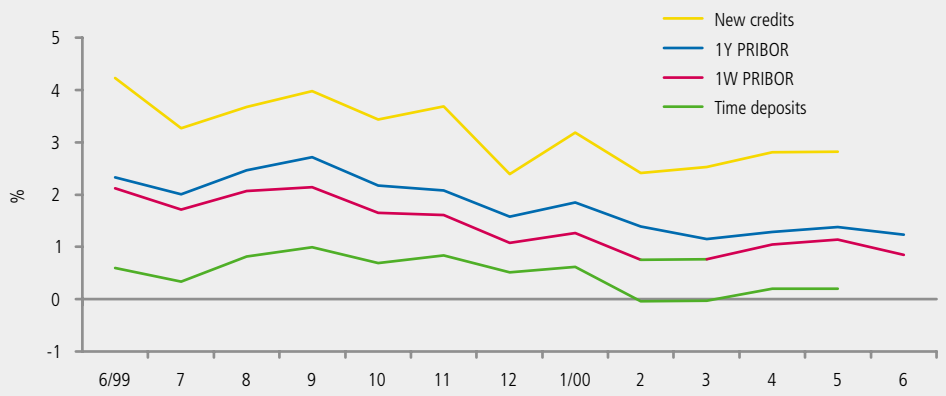
eurobonds market, with 17 bonds issued totalling CZK 13.05 billion. At the end of June, the outstanding volume of eurobonds was CZK 64.7 billion.

III.1.3.3 Client interest rates

Client interest rates have basically stagnated since the start of this year, reflecting the trend in money market rates, from which they mostly derive. In May, interest rates on newly granted credits reached 7.0% and rates on time deposits 4.3%. The interest margin between credit and deposit rates was also unchanged, and has stood at 3.7 percentage points in all months since the start of 2000.

Owing to the stability of nominal rates, real interest rates[5] were affected only by the expected inflation trend. But here, too, the changes were only in the order of tenths of a point, so real rates did not change very much either. In May, real interest rates on newly granted credits reached 2.8% and those on time deposits 0.2%.

CHART III.12 Real interest rates



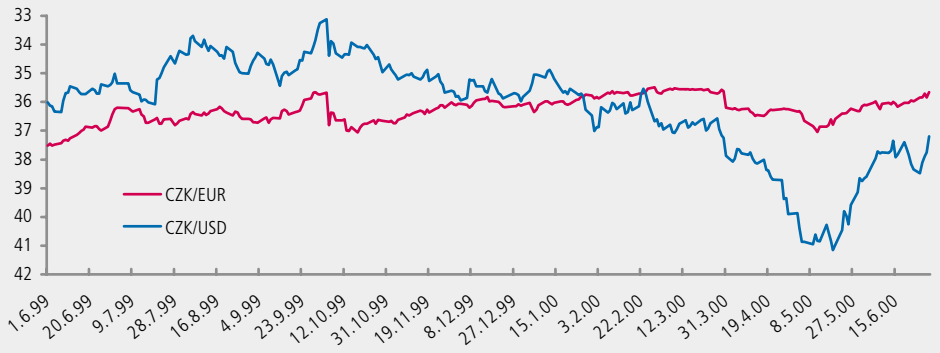
III.1.4 The exchange rate

During the course of 2000 Q2, the koruna's exchange rate vis-à-vis the euro slightly strengthened overall from around CZK 36.25 – achieved following the CNB's previous foreign exchange interventions – to around CZK 35.80, i.e. by around 1.3%. However, the koruna/euro rate did not show a clear trend. In April and at the beginning of May the koruna weakened to above CZK 37 to the euro, whereas in the second half of the quarter an appreciation tendency prevailed.

During the period under review, the koruna's exchange rate vis-à-vis the dollar underwent marked changes. Between the beginning and the end of the period the koruna moderately depreciated from around CZK 37.80 to the dollar to around CZK 38, i.e. by about 0.5%, but during the course of the period values of over CZK 41 to the dollar were also recorded.

5 Ex ante interest rates; nominal rates are deflated by the CPI outturns expected by financial market participants in individual months. The CNB started measuring inflation expectations on the financial market in May 1999.

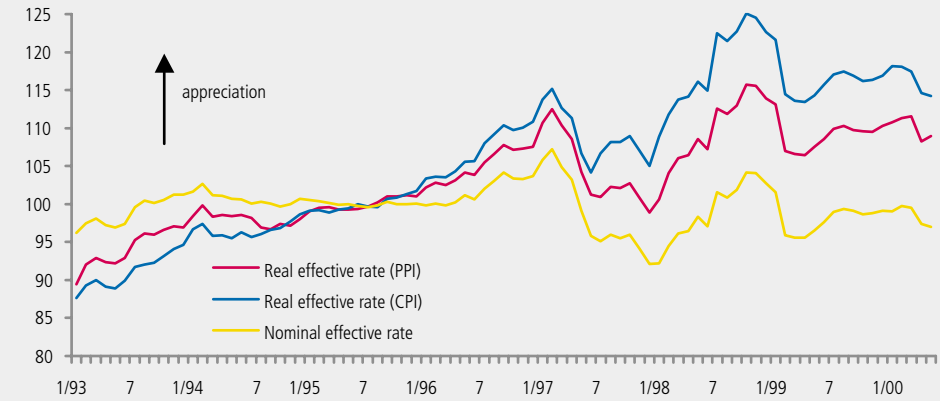
CHART III.13 CZK/EUR and CZK/USD nominal rates



The initial weakening of the koruna against the euro resulted from the unwinding effect of the CNB's interventions and the uncertain development on the financial markets in Poland and Slovakia. The koruna strengthened again when the situation in these countries calmed down. This appreciation reflected demand for the koruna either directly or indirectly connected with the inflow of foreign direct investment. The koruna's exchange rate against the dollar was affected by the euro/dollar rate, where the euro first weakened considerably and then showed a partial correction. During the euro's decline, extreme values were recorded in the relationship between the dollar and European currencies from the medium-term point of view.

In 2000 Q2, the nominal effective exchange rate index[6] weakened in comparison with the previous quarter but strengthened modestly compared with the same period a year earlier. The quarter-on-quarter weakening chiefly reflects the koruna's depreciation against the dollar, whereas the year-on-year strengthening is a result of the long-term upward tendency of the koruna vis-à-vis the euro, which is the main component of the index. From the point of view of the change in the price level, the exchange rate effect in Q2 can be described as approximately neutral to slightly anti-inflationary. This is because of the only gradual pass-through of the strong dollar into domestic consumer prices.

CHART III.14 Nominal and real effective exchange rates
(analytical rate, 1995 = 100)



The real effective exchange rate indices weakened by comparison with the previous quarter, similarly to the nominal exchange rate. This is because inflation in the Czech Republic is similar to that of its major trading partners. Nevertheless, in year-on-year terms both indices – based on consumer prices and producer prices – indicate a stronger real exchange rate.

6 A weighted geometric average of the average monthly exchange rate indices vis-à-vis the Czech Republic's major trading partners. The calculation includes 21 countries, the constant weights of which correspond to their share in trading turnover in 1995.

III.1.5 Capital flows

In 2000 Q1, the financial account showed a surplus of CZK 35.5 billion, i.e. more than double the 1999 figure. This was again largely attributable to inflow of foreign direct investment. The other components of the financial account saw a modest net outflow of capital.

Table III.5 Financial account in Q1 (1994 - 2000) *(in CZK billions)*

	1994	1995	1996	1997	1998	1999	2000
Financial account	19.2	43.0	2.2	21.2	24.1	14.4	35.5
Direct investment	-0.4	3.0	8.1	7.9	7.7	19.3	36.8
- Czech abroad	-2.8	-0.3	-0.6	-0.7	-0.2	-0.8	-0.7
- Foreign in Czech Republic	2.4	3.3	8.7	8.6	7.9	20.1	37.5
Portfolio investment	7.2	0.8	-3.5	-5.5	-0.5	1.5	-12.6
- Czech abroad	-0.2	-1.6	0.0	3.4	-3.9	-2.9	-19.6
- Foreign in Czech Republic	7.4	2.4	-3.5	-8.9	3.4	4.4	7.0
Financial derivatives							-1.9
- Assets							-6.8
- Liabilities							4.9
Other investment	12.4	39.2	-2.4	18.9	16.9	-6.4	13.2
1. Long-term investment	7.4	14.0	12.2	10.6	-12.1	5.8	5.3
- Credits granted abroad	2.9	0.9	-2.5	-2.9	0.9	-12.4	9.1
- Credits accepted from abroad	4.5	13.1	14.7	13.5	-13.0	18.2	-3.8
2. Short-term investment	5.0	25.2	-14.6	8.3	29	-12.2	7.9

In comparison with the same period in previous years, the net inflow of foreign direct investment increased considerably in 2000 Q1, reaching a record level of CZK 36.8 billion. The inflow was around 90% higher than a year earlier. Czech direct investment abroad continued to be of little significance (a rise of CZK 0.7 billion), moving at roughly the same level as in previous years. The increasing net inflow resulted from a rise of CZK 37.5 billion in foreign direct investment in the Czech Republic. This figure was attributable mostly to increases in equity capital at firms controlled by foreign retail chains.

Portfolio investment saw a sizeable increase in capital outflow compared with the same period in previous years. Net capital outflow in the form of portfolio investment was CZK 12.6 billion (compared with a net capital inflow of CZK 1.5 billion in the same period a year earlier). The outflow of capital was affected to a smaller extent by the interest rate differential between the koruna and the major world currencies, and was mainly attributable to a large rise in the interest of Czech entities in purchasing foreign securities. Czech entities purchased foreign equity securities in the volume of CZK 17.3 billion (net). In the same period a year ago, purchases of foreign shares by Czech entities amounted to only CZK 5.6 billion. The CZK 7.0 billion inflow of foreign portfolio investment into the Czech Republic was higher than in the same period in previous years. The stronger inflow was due exclusively to the growing interest of foreign investors in equity securities. Conversely, interest in bonds fell considerably owing to the changes in the interest rate differential between the Czech koruna and the major world currencies, with an inflow of just CZK 0.2 billion.

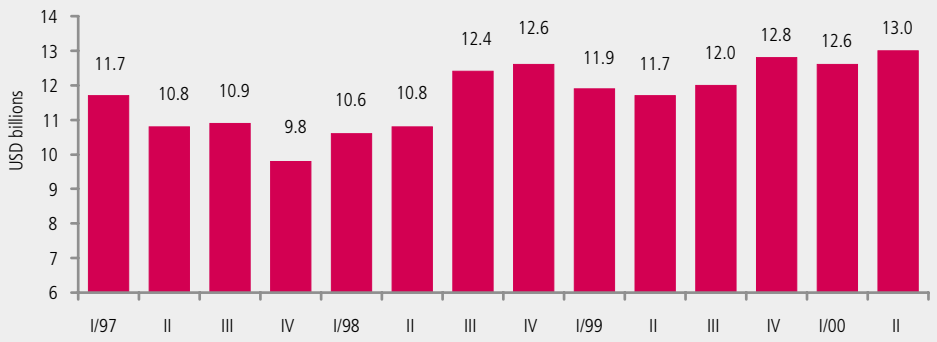
In the interests of bringing the current methodology for compiling the balance of payments into line with that of the IMF, a new item – financial derivatives – was added to the balance of payments at the start of 2000. This relates to those derivatives operations which are included in banks' balance sheets. For 2000 Q1, the net outflow of capital for financial derivatives was CZK 1.9 billion.

In the area of other investment, the net inflow of capital was CZK 13.2 billion. Of this, inflow of long-term investment (more than 1 year) accounted for CZK 5.3 billion and inflow of short-term investment for CZK 7.9 billion. The inflow of debt capital was concentrated exclusively in the banking sector (owing to the sale of commercial bank assets to the CNB resulting from the foreign exchange interventions). The credit operations of the Government and the CNB were insignificant as usual. A new tendency is the change in the behaviour of the business sector. Since 1993, this sector had been raising its volume of liabilities abroad. In 2000 Q1 this changed, with repayments of liabilities exceeding drawdown of credits by CZK 4.7 billion.

In contrast to the sizeable CNB interventions in Q1 (in the amount of CZK 15.6 billion), the CNB's presence on the foreign exchange market in Q2 was considerably smaller, with foreign currency purchases totalling CZK 2.7 billion.

The change in the level of the CNB's international reserves was largely due to the settlement of foreign exchange interventions undertaken in the last days of March (foreign exchange interventions are settled in the standard way with a two-day delay). The CNB's international reserves rose from USD 12.6 billion as of 31 March 2000 to USD 13.0 billion as of 30 June 2000.

CHART III.15 CNB international reserves



Implications for inflation

Given the stable growth rate of the money supply, which is in line with the CNB's expectations, and the trend witnessed to date (whereby the lead of the year-on-year nominal money supply growth rate over nominal GDP growth has fed through primarily into economic growth), the current M2 growth rate does not pose any inflationary risk.

Year-on-year growth in lending showed low outturns and moved below the inflation level. Therefore, the trend in adjusted credits did not represent any significant source of money supply growth or inflation.

With regard to its effects on the price level over the next few months, the exchange rate in Q2 can be described as roughly neutral to slightly pro-inflationary. The slight weakening of the nominal effective exchange rate was caused primarily by the change in the koruna's exchange rate against the dollar, to which import prices of raw materials in particular are tied. Changes in import prices of raw materials pass through only gradually into consumer prices.

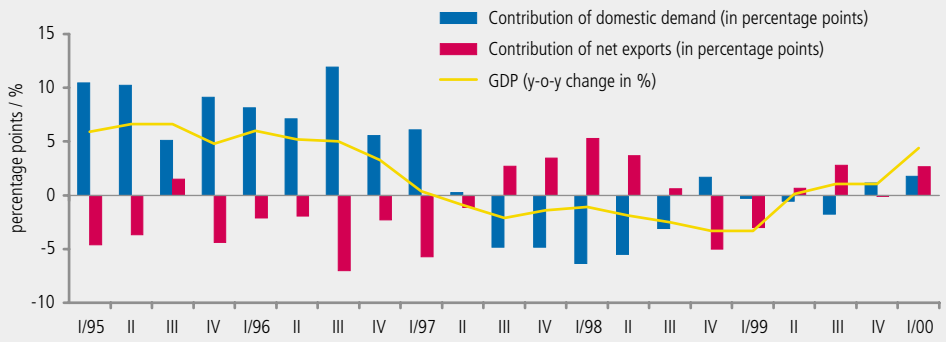
Despite a halt in the inflow of practically all forms of debt capital and the achievement of a modest outflow, the surplus on the financial account – which is largely due to foreign direct investment – is higher than the current account deficit. As a result, the exchange rate continues to show a modest appreciation tendency, which is helping to dampen inflationary pressures.

III.2 Demand and output

The GDP growth in 2000 Q1 (4.4% year-on-year) confirmed the ongoing economic recovery visible since 1999 Q2. This economic growth was due to the combined effect of the increasing domestic and external demand. The contribution of the external sector to GDP growth was particularly important (see Chart III.16). However, the strengthening economic growth reflected the improving sales opportunities for Czech products not only on foreign markets, but also on the domestic market. The ongoing pick-up in consumer demand, especially for durables, and

the renewed rise in investment indicated positive expectations as regards further economic development on the part of both households and the business sector. On the supply side, the structural trends showed a return to economic growth and confirmed the increasing competitiveness of businesses.

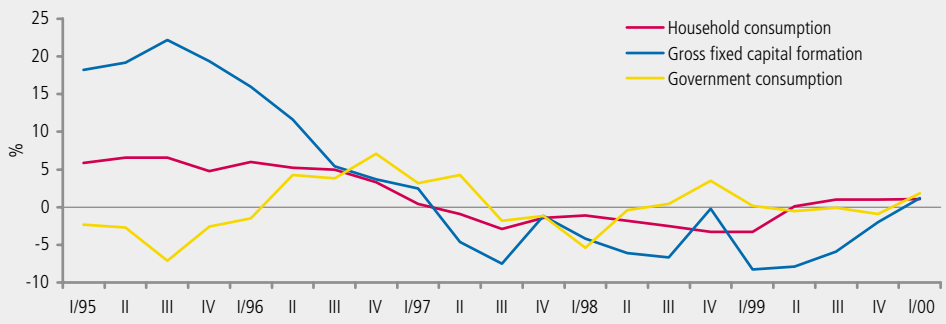
CHART III.16 Contribution of domestic demand and net exports to y-o-y change in GDP
(constant 1995 prices)



III.2.1 Domestic demand

The renewed growth trend for domestic demand seen in the previous quarter continued into 2000 Q1. In 1999 Q4, domestic demand had been 1% higher than a year earlier; in 2000 Q1 its growth accelerated to 1.6%. In addition to consumer demand, which has been increasing since the start of 1999, this acceleration was attributable to a renewed rise in investment demand. With respect to future economic development, the pick-up in investment demand can be considered the most significant. Government consumption also saw a year-on-year increase in Q1 following the previous long-term decline (see Chart III.17).

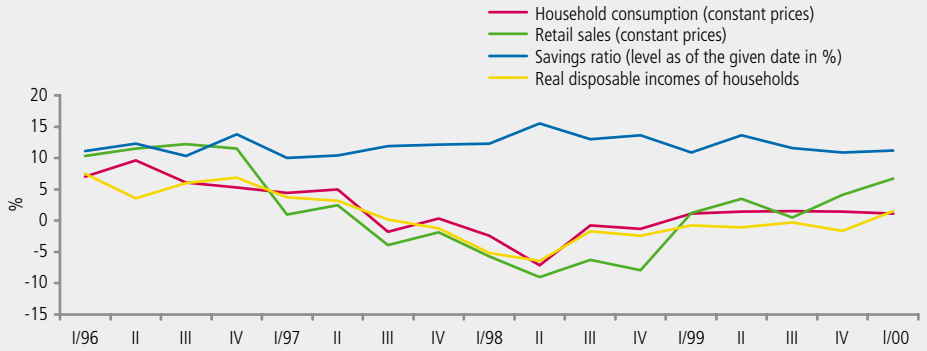
CHART III.17 Components of domestic demand
(y-o-y change in %)



Consumer demand

The 1.1% year-on-year rise in household consumption in 2000 Q1 confirmed the ongoing recovery in consumer demand visible since the start of 1999. The stable consumer demand growth during the last five quarters, fluctuating between 1.1% and 1.5%, has confirmed a shift in the consumer behaviour of households following the end of the previous recession. The increased household spending on final consumption was fostered in Q1 by a rise in real disposable incomes (up 1.5%), while the propensity to save was roughly the same as in the previous quarter. Moreover, the increasing consumer spending was associated with higher household demand for loans, particularly from non-banks (instalment sales).

CHART III.18 Real disposable incomes, retail sales, consumption and the savings ratio
(y-o-y change in %)



Note: To calculate real values, the CSO deflators of household consumption and retail sales are used.
Retail sales = total retail sales + sales in hotels and restaurants

The structure of consumer demand during Q1 indicated a widening range of commodities and services subject to increased purchases by households. Whereas in 1999 Q4 the increased consumer spending had been directed primarily towards transport expenditure and purchases of new cars and holidays, in 2000 Q1 it was concentrated mainly on postal services and telecommunications and on household equipment and furnishings. The increasing food sales also suggested further growth in demand for food, albeit with gradually falling intensity. In contrast, expenditures on transport, health care, holidays, culture, sport, alcoholic beverages and tobacco all saw year-on-year declines in 2000 Q1.

The overall and structural consumer demand and its means of financing in 2000 Q1 point to increasing household confidence in sustained economic growth in the future period. This is evidenced in particular by the increasing demand for durables, which reflects not only purchases deferred in the period of recession, but also the expanding supply of new products and services connected with the introduction of new progressive technologies. The decreasing growth rate of food sales is signalling gradual saturation of demand for food and thus probably an exhausting of the contribution of food spending to household consumption growth.

Investment demand

The gradual moderation of the year-on-year decline in gross fixed capital formation during 1999 changed into 1.2% growth in 2000 Q1. The renewed growth of investment demand after three years of constant decline was attributable primarily to the government sector. The investment demand recovery was fostered by positive expectations of a rise in both external and domestic demand. The rate of investment was quite high in Q1 (24.3%).[7]

The sector of non-financial businesses again accounted for most of the total capital investment (74.3% in 1994 constant prices). Adjusted for methodological changes[8], however, investment by non-financial businesses dropped by 2.2% in 2000 Q1, mainly because of a substantial decline in other investment. The decline was the result of an unfavourable trend for investment by private domestic firms (-21.2% in current prices). On the other hand, large and medium-sized firms under foreign control have being showing increased investment activity within this sector for quite some time now. Here, the rise in investment has been fostered by strong financial backing and by efficient corporate governance and good sales opportunities, especially on foreign markets. The fastest growing item, however, was investment by public non-financial businesses (up 32.6% in current prices in 2000 Q1).

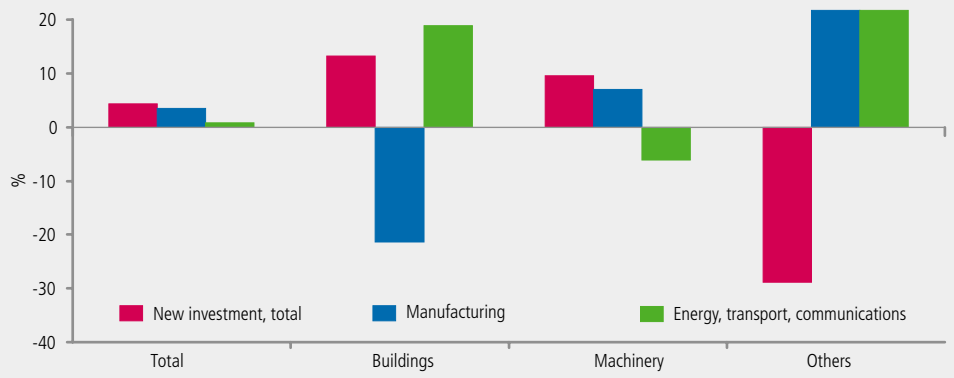
7 In constant 1995 prices.

8 In 2000, some subsidised organisations from the government sector are recorded within in the sector of non-financial businesses.

In many cases, the declining investment activity of domestic private firms is linked not only with their performance, but also with problems in acquiring the necessary funds to implement their investment projects. Heightened commercial bank prudence, a lack of good projects for lending and the unfavourable financial situation of numerous businesses were the main reasons why the value of koruna investment loans remained virtually unchanged in 2000 Q1.

With respect to industries, investment continued to grow in manufacturing (up 3.5% year-on-year).[9,10] The largest year-on-year increases in investment were registered in manufacture of coke and refined petroleum products and manufacture of radio, television and communication equipment. This was associated primarily with the inflow of foreign direct investment into the Czech Republic and the changes in the structure of the economy. The fall in investment in infrastructure halted in 2000 Q1.

CHART III.19 Capital investment in 2000 Q1
(y-o-y change in %)



The overall pick-up in investment demand in the economy was fostered by increased investment by the government sector, where a year-on-year increase of 7.5% (adjusted for methodological changes) was recorded. A rise in capital investment was also seen in the sector of financial institutions. Conversely, household sector investment decreased slightly (down 1.3% from a year earlier) owing to a stagnation in individual housing construction and a drop in investment by natural persons/entrepreneurs.

The increased investment demand was due to bigger year-on-year changes in the structure of new investments. Construction investment experienced the largest increase (13.2%), but the growth in machinery investment was also quite robust. By contrast, other investment[11] dropped substantially (down 28.8%). Despite its low weight, this also affected the increase in the overall indicator of gross fixed capital formation.

Government demand

In 2000 Q1, the previous year-on-year drop in government consumption was replaced by a 1.9% increase, although this related to only some items. Many expenditures were subject to the Finance Ministry's austerity measures.[12]

9 For businesses with 20 or more employees

10 The following four branches accounted for around half (51.6%) of the manufacturing investment: manufacture of motor vehicles, manufacture of food products and beverages, manufacture of metals and metal products, and manufacture of plastic and rubber products.

11 Other investment includes in particular costs for acquiring land and mineral resource beds, permanent tree stands for growing purposes, livestock for breeding, dairy and draught animals, other tangible capital investment assets, works of art, collections and articles of precious metals. Owing to its low share in total capital investment and to its great variety, this item is very volatile.

12 Limits were set on drawing on expenditures for individual months of 2000 Q1.

For example, drawing on employee remuneration and other payments for work done was far below the aliquot (14.4% of the annual sum, including mandatory insurance paid by employers); as a result, they were flat in 2000 Q1 (up 0.1% on a year earlier). Low drawing on expenditures was also registered for non-investment transfers to subsidised and similar organisations, which are a major current expenditures item. Only 20.9% of the annual budget was drawn in 2000 Q1, (down 7.1% in year-on-year comparison). By contrast, expenditures on interest payments and other financial payments were significantly exceeded (32.4% of the annual budget, i.e. year-on-year growth of 21%). This was the result of higher government bond issuance (T-bills and medium-term bonds) compared with 1999 Q1. In 1999 Q1 medium-term bonds had amounted to CZK 5 billion, with T-bills in roughly the same amount acting in the opposite direction, whereas in 2000 Q1 T-bill and medium-term bond issues totalled CZK 12.5 billion.

The state budget ended 2000 H1 with a deficit of CZK 4.9 billion. In the same period a year earlier the deficit was CZK 6 billion. This is quite a favourable result given the total deficit of CZK 35.2 billion planned for 2000. During June the deficit was fluctuating above the level of CZK 20 billion, but the seasonal collection of corporate income tax for 1999 from firms using the services of tax advisers decreased the deficit to the aforementioned level. Positive factors which have been affecting the budget balance for quite some time include the continuing regulation of non-mandatory expenditures and a CZK 6.4 billion one-off increase in non-tax incomes in March with the transfer of special-purpose funds from the state financial assets (restitutions, repair of flood damage, financial aid to Kosovo). These extraordinary revenues will be released gradually over the remainder of the year.

As of the end of June, the growth rate of revenues was exceeding that of expenditures by about 0.5 percentage points. VAT collection was particularly favourable (year-on-year growth of 12.1%), in line with the gradual pick-up in domestic demand. Excise tax collection was less favourable (a year-on-year decrease of 3.1%), chiefly reflecting the decline in fuel consumption owing to higher prices and, to a lesser extent, the introduction of returns from "green diesel". The growth rate of social security contributions is fairly stable (4%–5% in the long run), mirroring the rise in incomes in the private sector, while in budgetary and subsidised organisations the growth rate has long been flat.

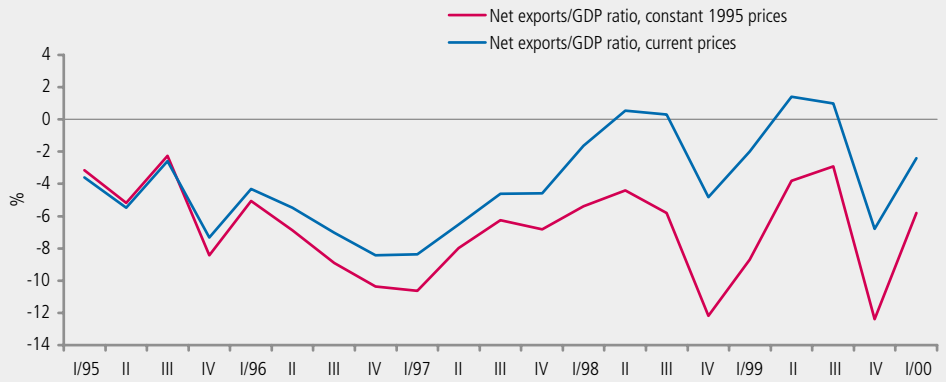
State budget expenditures showed a year-on-year rise of 3.9% in January–June, with current expenditures growing faster (up 4.3%) and capital expenditures falling (down 2%). Year-on-year increases were registered for social benefits, health care benefits and active employment policy costs in particular. Employee payments, transfers to health and social security insurance funds and spending on state social support benefits were flat. In connection with the expenditures channelled into the social area, it is necessary, however, to mention the widening deficit on the "pension account", which was running at CZK 12.9 billion as of the end of June (up CZK 2.9 billion on a year earlier).

III.2.2 Net external demand

The balance of goods and services[13] substantially improved in 2000 Q1 compared with the previous quarter. This was due to a strong pick-up in export growth accompanied by slower growth in imports. In 1999 Q4 the lead of export growth over import growth had been 2.2 percentage points, whereas in 2000 Q1 it increased to 5.8 percentage points. The improvement in this relationship helped to reduce the deficit on net exports of goods and services (= net exports) to CZK 19.8 billion (i.e. by 30.3%). As a result, net exports as a share of GDP were 2.9 percentage points lower than in the same period a year earlier, at 5.8%.

13 In constant 1995 prices according to GDP methodology.

CHART III.20 Net exports / GDP ratio



As in the previous period, the growth in exports was generated by very favourable sales opportunities for Czech products in advanced market economies, particularly Germany, accompanied by renewed growth in exports to transition economies (including Slovakia) and by an expansion in export-oriented production. The increasing imports were due above all to a pick-up in industrial production and by further intensification of international co-operation and of the integration of the Czech economy into international market structures. The rise in foreign trade turnover was also partly attributable to the low comparison base of the previous year.

The continuing upward trend for exports of goods in 2000 Q1 was, as in previous quarters, associated with positive structural changes.[14] With respect to the commodity structure, the share of exports of higher-value-added products increased. Engineering and electrical engineering commodities accounted for as much as 54% of total exports, and their exports were up by 38.8%. Exports of food, raw materials and semi-manufactures also saw very buoyant growth thanks to rapidly growing demand for food commodities and industrial semi-manufactures.

By territory, there was further robust growth in exports to advanced market economies (up 34.2% year-on-year, of which to Germany up 38.1%), accompanied since 1999 Q4 by a renewed rise in exports to the European transition countries, including the CIS. While the rise in exports to Slovakia was pretty insignificant, exports to Russia jumped by 28.6%. However, the high pace of growth was to a certain extent due to the low comparison base of the previous year. The territorial structure of exports in 2000 Q1 thus confirmed the ongoing rapid integration of the Czech economy into Western European economic structures and, in particular, its increasing orientation on Germany.

With respect to imports, the fastest growth was registered for imports for intermediate consumption (up 38.5%), which thus maintained the largest share in total imports (56%). Their growth was due mainly to the very high import prices of fuels, the development of production collaborations and to the pick-up in domestic industrial production. The rise in imports for investment and, in particular, for personal consumption was more moderate. The gradual development of production collaborations was the main reason why the import propensity of GDP remained very high in 2000 Q1 (89% in constant 1995 prices).

III.2.3 Output

From the point of view of demand, the GDP growth in 2000 Q1 was mostly the result of the aforementioned more favourable trend for net external demand, which passed through into a pronounced year-on-year reduction in negative net exports. The external sector accounted for more than half (60%) of the 4.4% GDP growth. From the supply-side point of view, the buoyant growth of both exports and imports testified to the increasing

14 The data below on the export and import structure are based on current prices.

importance of production collaborations in the Czech economy and to the high overall degree of openness of the economy. No less important for future economic development was the upturn in investment demand, although its contribution to GDP growth was much lower (7%). The contributions of household consumption (12.5%) and higher government consumption spending were significant as well. The change in inventories in 2000 Q1 also had a positive effect on GDP.

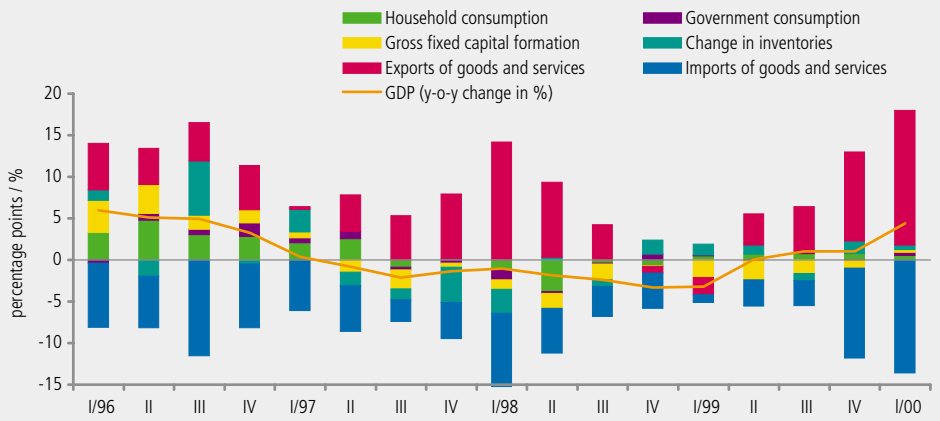
Table III.6 Real output and demand *(y-o-y growth in %, constant 1995 prices)*

	1995	1996	1997	1998	1999	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1
GROSS DOMESTIC PRODUCT	5.9	4.8	-1.0	-2.2	-0.2	-1.1	-1.8	-2.5	-3.3	-3.3	0.1	1.0	1.0	4.4
AGGREGATE DEMAND (domestic demand and exports)	11.1	8.3	2.2	1.9	2.4	4.7	2.1	0.7	0.5	-1.4	1.8	2.2	6.5	10.0
DOMESTIC DEMAND	8.4	7.9	-0.9	-3.0	-0.4	-5.7	-5.1	-2.9	-1.6	-0.3	-0.5	-1.7	1.0	1.6
FINAL DOMESTIC DEMAND1)	7.6	6.7	0.2	-2.7	-1.1	-3.5	-5.5	-2.3	0.0	-1.7	-1.7	-0.9	-0.3	1.3
of which:														
Household consumption	5.8	6.9	1.8	-2.9	1.4	-2.4	-7.1	-0.8	-1.3	1.1	1.4	1.5	1.4	1.1
Government consumption	-4.2	3.5	0.8	-0.9	-0.1	-6.1	-1.0	-0.6	3.0	0.3	-0.6	0.6	-0.5	1.9
Consumption of non-profit institutions	12.9	6.3	4.9	18.7	-7.9	13.6	17.4	24.1	18.2	-4.0	0.0	-13.9	-10.3	0.0
Gross fixed capital formation	19.8	8.2	-2.9	-3.9	-5.5	-4.2	-6.1	-6.7	-0.2	-8.3	-7.9	-5.9	-2.0	1.2
EXPORTS OF GOODS AND SERVICES	16.7	9.2	8.1	10.7	6.6	25.6	14.7	7.1	-1.2	-3.0	5.2	8.6	15.5	22.9
IMPORTS OF GOODS AND SERVICES	21.2	14.3	7.2	7.9	5.8	13.5	7.7	5.5	5.6	1.2	4.1	3.9	13.3	17.1
NET EXPORTS (CZK billions)	-65.7	-112.8	-113.1	-97.6	-95.6	-18.3	-15.4	-21.2	-42.8	-28.4	-13.2	-10.8	-43.2	-19.8

1) Domestic demand excluding change in inventories

The expanding production collaborations with foreign companies – both through the activities of firms with foreign ownership and through inward and outward processing – are clearly documented in Chart III.21. This shows a further pronounced increase in the volume of exports and imports during 2000 Q1 compared with the previous quarter.

CHART III.21 Contribution of domestic demand components and net exports to GDP



By sector, the greatest contribution to GDP growth in constant prices in 2000 Q1 came from industry (almost 60%). The favourable trend for creation of value added in this sector (up 6.4%) was due to the gradual growth in industrial production and improving efficiency. The real year-on-year rise of 4.8% in industrial production was connected with growth in the physical volume of production in most industrial branches.[15] The overall volume of production increased amid major structural changes. There was quite a strong tendency towards a rise in the proportion of sophisticated products in total industrial production, to the detriment of lower-value-added products.[16]

15 Only four branches failed to show a year-on-year increase in industrial production: manufacture of food and food products (99%), manufacture of leather and leather products (90.1%), manufacture of coke and refined petroleum products (95.2%) and manufacture of metals and metal products (97.4%).

16 For example, the volume of manufacture of electrical and optical equipment increased by 158.9% in 2000 Q1 compared with the average for 1995, while manufacture of rubber and plastic products rose by 81.3%, manufacture of transport equipment by 51.3%, manufacture of pulp, paper and paper products and publishing and printing by 30.9% and manufacture of machinery and equipment by 21.5%. By contrast, the largest falls occurred in the manufacture of leather and leather products (down 59.9%), manufacture of coke and refined petroleum products (down 32.9%), manufacture of metals and metal products (down 27.8%), mining and quarrying (down 12.6%) and manufacture of textiles and textile products (down 12.2%).

The second most important contribution to GDP growth came from the services sector. An ongoing recovery in the tertiary sector was visible in financial and business services, transport and trade. The trends in this area also confirmed the continuing structural changes in the economy.

An important indicator of the changes in the economic environment was construction output, which, following a long period of steep decline, showed only a modest year-on-year drop in value added in 2000 Q1. This reflected a gradual resumption in demand for construction investment. Large construction firms accounted for most of the pick-up. These have a better chance of succeeding in tenders for state orders thanks to their ability to purchase modern technology, which allows them to achieve higher labour productivity than small and medium-sized firms.

Financial performance of non-financial organisations and corporations

The financial performance of the selected set of non-financial organisations and corporations[17] was much more favourable in 2000 Q1 than in the same period a year earlier. Their results suggested that the ongoing GDP growth was connected with higher efficiency in the corporate sector.

Most of the monitored volumes and ratios showed an improvement. A year-on-year rise in gross profit was achieved, with higher cost, equity and output profitability. The fall in the wage cost-output ratio – of 1.58 percentage points compared with 1999 Q1 – was significant. However, the material cost-output ratio increased owing to rising prices of input components (oil and raw materials). The sizeable increase in book value added per employee indicated a rise in labour productivity.

Table III.7 Selected financial indicators in 2000 Q1 (in current prices)
(for non-financial organisations and corporations of all industries with more than 100 employees)

	Q1				Q1		Change
	CZK billions		y-o-y change				in perc. pts.
	1999	2000	in %		1999	2000	Q1
Total income	692.1	779.7	12.7	Cost profitability (profit/expenses)	4.38	5.48	1.10
Total output	484.0	534.8	10.5	Equity profitability (profit/equity)	1.98	2.66	0.68
Total expenses	663.0	739.2	11.5	Output profitability (profit/output)	5.99	7.57	1.58
of which: intermediate consumption	314.3	354.8	12.9	Material costs (int.cons./output)	64.94	66.34	1.40
personnel costs [1)]	83.8	84.1	0.4	Wage costs (personnel costs/output)	17.31	15.73	-1.58
Book value added	169.7	180.0	6.1		CZK billions		y-o-y change in %
Pre-tax profit	29.0	40.5	39.5	Book value added per employee	100.50	114.70	14.10

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

In 2000 Q1, gross profit was almost 40% higher than in the same period of 1999, i.e. up by CZK 11.5 billion in absolute terms. This profit was largely attributable to the industries of manufacturing, electricity, gas and water supply, and communications.[18]

By ownership structure, the year-on-year increase in gross profit was mostly attributable to public non-financial organisations and organisations under foreign control.[19] The performance of private non-financial organisations, which accounted for more than half of the total revenues, was less favourable. These organisations, which had

17 For non-financial organisations and corporations of all industries with more than 100 employees.

18 These three industries accounted for 44%, 34% and 10% respectively of the CZK 11.5 billion rise in gross profit.

19 Gross profit increased by CZK 7.9 billion year-on-year in public non-financial organisations (i.e. organisations majority-owned by the state) and by CZK 2.6 billion in organisations under foreign control. The favourable profit figures in public non-financial organisations were mostly attributable to the industries of electricity and gas supply and communications.

posted above-average results in the previous period, showed an insignificant year-on-year rise in gross profit (of CZK 0.9 billion). This was also confirmed by a 4.3% decline in book value added.[20]

Implications of demand and output developments for inflation

In 2000 Q1, as in previous quarters, domestic demand created no room for demand-pull inflationary pressures. Although consumer spending has been on the increase for more than a year and structural analyses are indicating a gradually widening range of increased consumer spending of households, consumer demand has yet to emerge as a source of demand-pull inflationary impulses. This was the result of the combined (inflation-subduing) effects of the numerous factors mentioned in previous Inflation Reports. These effects were connected chiefly with food prices, where a number of specific factors acting on the agricultural and retail market prevented any demand-pull or cost-push inflationary pressures from developing.

The financial performance of selected non-financial organisations and corporations in 2000 Q1 – as in the previous quarter – did not signal any generation of cost-push inflationary pressures. The increase in the material cost-output ratio, brought about chiefly by the rising prices of energy raw materials on world markets, was partially offset by a drop in the wage cost-output ratio. The favourable profitability and gross profit indicators suggested that the increase in material costs was probably offset by other areas of business performance.

At the same time, it cannot be ruled out that given the ongoing economic recovery some producers will try to pass their increased costs into prices. To what extent this problem is relevant will depend on a whole range of other factors – foreign competitors affecting domestic prices through imports, the consequences of corporate sector restructuring, financial streamlining, etc.

III.3 The labour market

The labour market developments in 2000 Q1 indicated a continuation of the favourable trends of the previous quarter. Most notably, a major shift occurred in the relationship between wage and output variables, with labour productivity growth at the macroeconomic level further increasing its lead over growth in average real wages. This reflected the pick-up in economic growth and the gradual implementation of rational wage and employment policies in the corporate sector. Nominal and real unit wage costs fell in 2000 Q1 in year-on-year comparison. The decreasing unemployment rate, rising number of vacancies and stagnation in the fall in employment all indicated a certain easing on the labour market. This was linked with the continuing economic recovery, the inflow of foreign direct investment and the Government's active employment policy. However, the developments in individual sectors were mixed. The widening lead of labour productivity growth over that of average wages, which is resulting in a substantial drop in the price of labour per unit product, was particularly visible in industry. In some sectors, however, the employment, wage and output variables have yet to confirm this desirable trend.

III.3.1 Wages and financial incomes

The trend towards a slowdown in average nominal wage growth, visible since the start of 1999, continued into 2000 Q1. This was largely due to wage developments in the non-business sector, where, as a result of administrative measures,[21] the rise in average nominal wages slowed substantially compared with 1999 Q4 (by 8.5 percentage points to 2.7%). In contrast, wages in the business sector, for example in private firms, saw a

20 i.e. output including trade margin less intermediate consumption

21 A wage freeze in budgetary and subsidised organisations.

modest pick-up in growth. In other organisations[22] – state organisations in particular – average nominal wages grew much more slowly. Given the concurrent slowdown of growth in average nominal wages and inflation, the decline in year-on-year average real wage growth in 2000 Q1 was even more pronounced (see Table III.8).

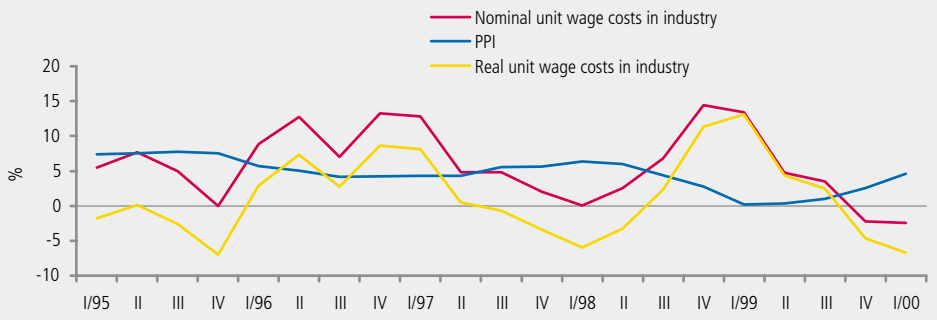
Table III.8 Basic data on wages *(y-o-y change in %)*

	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	99 Q2	99 Q3	99 Q4	1999	00 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	9.4	8.6	8.0	8.7	7.9	8.2	6.7
real	7.9	11.5	6.6	7.8	8.4	6.3	6.3	2.6	-1.5	3.1	-2.1	-5.0	-0.3	2.4	-1.4	5.4	5.5	7.4	5.8	6.0	3.0
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	14.3	13.3	11.2	13.1	2.7
real	5.6	22.5	5.5	9.1	10.8	4.9	4.2	0.3	-15.2	-2.5	-7.4	-16.7	-5.9	7.1	-6.2	10.6	11.7	11.9	9.1	10.7	-0.9
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	6.4	7.7	7.0	7.1	8.1
real	8.6	7.9	7.0	7.3	7.6	6.7	7.0	3.2	2.7	4.7	-0.6	-1.4	1.2	1.3	0.0	4.3	3.9	6.4	5.0	4.8	4.3
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	5.0	6.3	5.6	5.5	6.3
real	.	.	.	.	.	6.3	6.5	2.3	1.7	4.0	-1.8	-3.1	-0.5	-0.8	-1.7	2.9	2.6	5.0	3.6	3.3	2.6
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	9.3	7.6	5.5	8.4	4.9
real	.	.	.	.	.	8.4	9.1	5.0	4.9	6.9	-1.4	-2.3	2.6	3.6	0.6	7.9	6.8	6.3	3.5	6.2	1.2
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	7.4	10.3	12.2	9.7	10.5
real	.	.	.	.	.	5.7	8.7	4.4	2.9	5.4	0.7	4.1	2.4	4.3	3.0	7.3	4.9	9.0	10.1	7.5	6.7

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 statistics (Registered number of employees and their wages in the Czech Republic)

Year-on-year growth in average real wages fell to 3%. This was accompanied by a substantial rise in the pace of growth of whole-economy labour productivity to 6% (year-on-year). This represented a major turnaround in the relationship between these two variables at the macroeconomic level. Within individual industries, however, the developments were mixed. For example in industry, where labour productivity grew by 10.1%, the average real product wage increased by only 2.7%, which, from the industrial producer viewpoint, meant a 6.7% drop in real unit wage costs. This is documented from another perspective in Chart III.22, which shows that the pick-up in industrial PPI inflation in 2000 Q1 was generated not by wage cost pressures but by other factors.[23] Wages in industry are indicating gradual implementation of rational wage and employment policies in connection with the restructuring process. In some sectors, however, the fall in employment is not yet being accompanied by a corresponding trend for wages, as follows from the sector analyses given in part III.3.2 of this Report.

CHART III.22 PPI, nominal and real unit wage costs in industry
(y-o-y change in %)



22 i.e. officially monitored organisations, which account for about 70% of all organisations in the national economy.

23 For details see "Other cost indicators".

The slowdown in average real wage growth at the macroeconomic level in 2000 Q1 compared with 1999 Q4 was so substantial that, with the year-on-year decline in employment stagnating, overall real wage incomes fell faster in 2000 Q1 than in the previous quarter. Owing to the combination of falling real wage incomes and accelerating real GDP growth the year-on-year fall in real unit wage costs further intensified (to -1.1%).

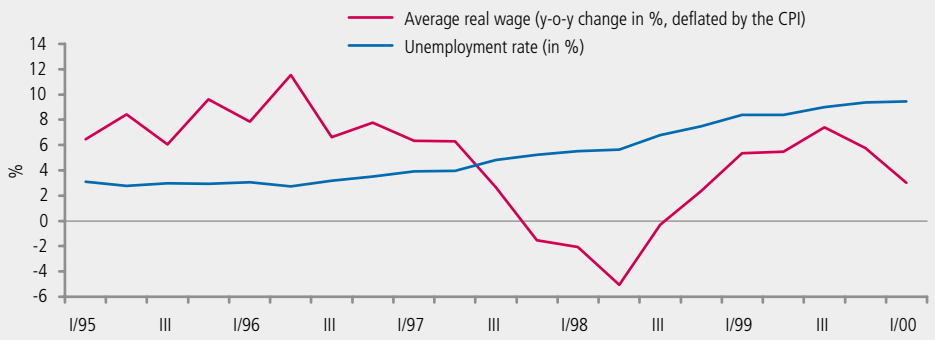
Table III.9 Wage, price and productivity indicators *(y-o-y change in %)*

	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	99 Q2	99 Q3	99 Q4	1999	00 Q1
Wage incomes of households																					
nominal	18.4	21.6	15.8	16.2	17.9	10.1	8.4	8.4	4.2	7.6	7.6	5.1	6.5	7.1	6.5	3.9	3.0	3.1	1.8	2.9	2.5
real	8.8	12.0	6.0	6.9	8.3	2.8	1.7	-1.3	-5.3	-0.8	-5.0	-6.7	-2.8	-0.4	-3.8	0.9	0.6	1.8	-0.1	0.7	-1.1
Whole-economy labour productivity	4.0	4.0	3.1	3.2	3.6	0.6	-0.6	-1.0	0.0	-0.3	0.4	-0.1	-0.4	-1.1	-0.3	-0.2	3.0	3.9	3.3	2.5	6.0
Unit wage costs																					
nominal	11.7	15.6	10.3	12.5	12.5	9.7	9.4	10.8	5.6	8.7	8.8	7.1	9.2	10.8	8.9	7.4	2.9	2.0	0.7	3.1	-1.8
real	4.0	5.4	1.6	3.5	3.6	0.3	2.9	3.0	-0.5	1.4	0.4	-3.5	-0.9	-0.4	-1.2	2.0	0.0	1.9	-0.7	0.8	-1.1
GDP deflator	7.4	9.7	8.6	8.8	8.6	9.3	6.3	7.5	6.1	7.2	8.4	10.9	10.2	11.2	10.2	5.3	2.8	0.1	1.5	2.4	-0.8

Source: CSO, CNB calculation

This meant that the wage cost-output ratio did not create a climate for the build-up of wage-inflationary potential. The gradually implemented effective regulation of wages in the microeconomic area led to a decline in the price of labour per unit product, thereby creating room for businesses to generate higher profits or compensate for other increasing costs. Under such circumstances, average real wage growth in 2000 Q1 was consistent with that of the unemployment rate.

CHART III.23 Average real wage and unemployment rate



The trend for nominal unit wage costs was also favourable from the point of view of the potential build-up of wage-inflationary pressures. The gradual easing of the year-on-year rise in nominal unit wage costs during 1999 culminated in a year-on-year decline in 2000 Q1. The relationship between the GDP deflator and nominal unit wage costs at the macroeconomic level confirmed that wages were not an inflationary factor in 2000 Q1 (see Table III.9).

The comparison of nominal household incomes and nominal GDP, which is an indicator of potential demand pressures in the economy, leads to similar conclusions. With overall nominal household incomes showing slightly slower year-on-year growth than nominal GDP, the relative income position of households remained virtually the same as in 1999 Q4.

III.3.2 Employment and unemployment

In 2000 Q1 the previous trend of a gradually accelerating decline in total employment halted. The year-on-year drop in employment was about the same as a year earlier (see Table III.10). This is attributable to the nascent

economic recovery and to foreign capital inflow, or more specifically to the rising number of new jobs offered by foreign investors and small domestic firms. According to preliminary CSO data, total employment as of the end of March was 3% lower than in same period of 1999, which represents a decrease of about 140,000 persons in absolute terms. Owing to the restructuring process, this decline affected all sectors of the national economy – primary, secondary and tertiary – though with differing degrees of intensity.

Table III.10 Basic data on employment

						1998				1999				2000
	1995	1996	1997	1998	1999	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total no. of persons employed in national economy (average):*														
y-o-y change in %	2.6	0.6	-1.9	-1.5	-3.5	-1.3	-1.4	-1.3	-1.1	-3.1	-3.7	-4.1	-4.0	-3.0
natural persons - number (in thousands)	5012	5044	4947	4873	4695	4894	4904	4845	4847	4757	4723	4649	4653	4615
Economic activity rate[1,2)] in %	.	61.2	61.1	61.0	61.0	61.0	60.8	61.0	61.3	61.0	60.9	61.0	61.1	60.7

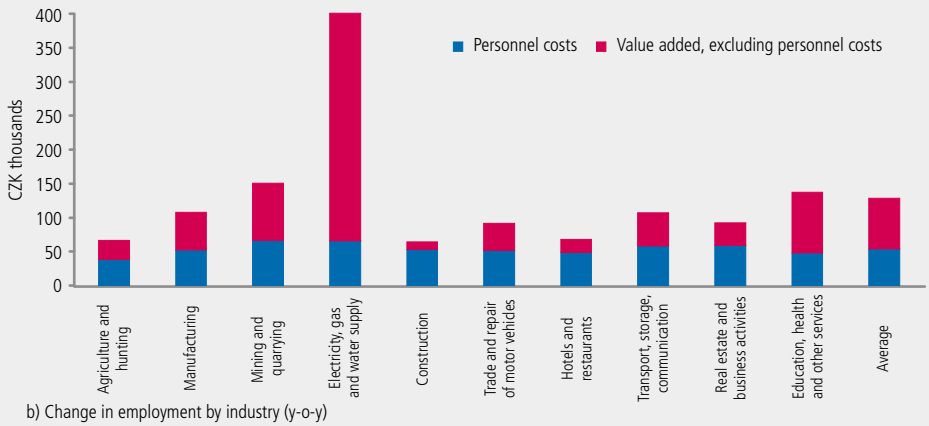
* from 1998 onwards preliminary data
1) Ratio of economically active population to total population of productive and post-working age
2) According to Labour Force Sample Survey

There was a 10.5% decline in employment in the primary sector in 2000 Q1. This was a continuation of the long-term downward trend in this sector and was visible in all industries. The secondary sector saw a smaller year-on-year decline – of 5.6% as of the end of March. The number of employees fell in all main industries of this sector. The smallest drop in the number of employees compared with the same period of 1999 occurred in the tertiary sector (down 0.2%).

At the same time, the analysis of the employment and value added structure in the main industries of the sector of non-financial businesses and corporations with more than 100 employees suggests that the wage cost-output ratio in the corporate sector is gradually improving. In 1999 Q4 the share of personnel costs in value added in the monitored sector of non-financial businesses had increased (albeit by less than in the previous quarter). But 2000 Q1 saw a 2.1 percentage point reduction in wage costs per unit of value added against the background of an overall year-on-year drop in employment of 7.1%. The fall in employment was accompanied by slower growth in the volume of nominal wages. The wage cost trend was particularly favourable in mining and manufacturing, where employment showed a sizeable decrease.

CHART III.24 Structure of value added and change in employment
(for non-financial organisations and corporations with more than 100 employees)

a) Share of personnel costs in book value added (2000 Q1)

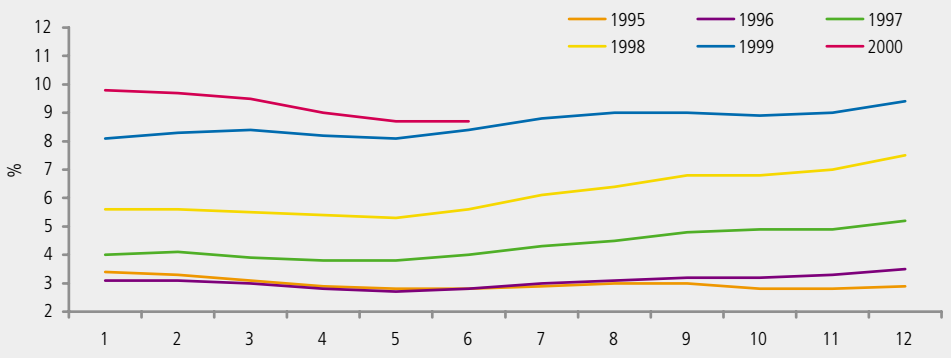


b) Change in employment by industry (y-o-y)

	Agriculture and hunting	Manu-facturing	Mining and quarrying	El., gas and water supply	Construction	Trade and rep. of mot. vehicles	Hotels and restaurants	Transp., stor., communication	Real est. and bus. activities	Educ., health and other serv.	Average
Change in share of personnel costs in value added (percentage pts)	-2.9	-3.8	-9.6	-0.8	-4.7	-1.3	-5.5	2.6	2.8	-6.8	-2.1
Change in employment (%)	-14.9	-7.7	-14.2	-6.4	-16.3	1.9	-8.2	-3.2	-1.4	1.2	-7.1

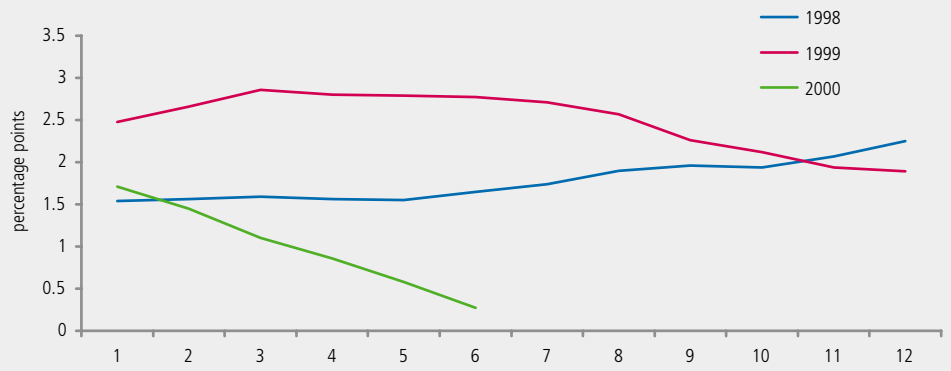
The substantial decline in unemployment and a moderate rise in demand for labour signalled an improvement on the labour market in 2000 Q2. This was confirmed both by the unemployment rate (see Chart III.25) and by its seasonally adjusted month-on-month fluctuations. In June, the unemployment rate was 1.1 percentage points lower than in January.

CHART III.25 Unemployment rate (1995 - 2000)



The easing of the situation on the labour market is evidenced from a different perspective by the systematically decreasing year-on-year growth in the unemployment rate. In January 2000 the increase had been 1.7 percentage points, whereas in June it was only 0.3 percentage points (see Chart III.26).

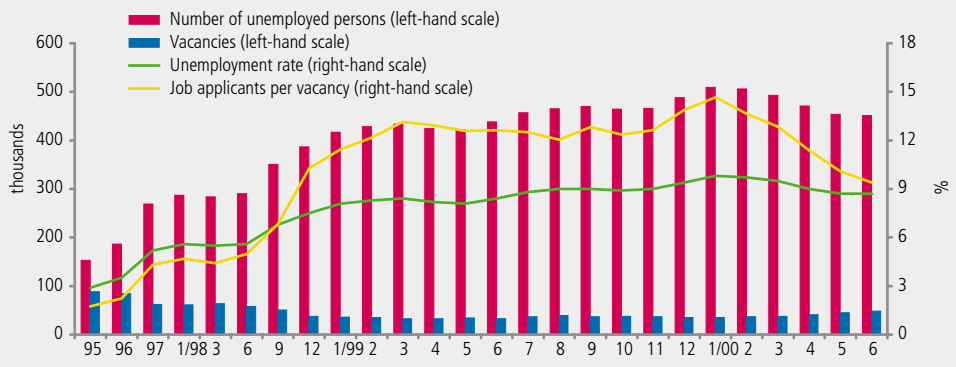
CHART III.26 Unemployment rate in 1998 - 2000
(y-o-y change)



In addition to a rising number of employees in the seasonal industries of agriculture, travel and construction, the reduction in unemployment this year has been fostered by short-term government labour market measures, jobs newly created within the active employment policy and jobs offered by foreign investors and domestic firms.

The supply of vacancies has been increasing since February 2000. Employers are currently offering 48,000 vacancies, or 13,500 more than in June 1999. Since the start of 1999, the number of job seekers finding new work has shown a seasonal, albeit modest, year-on-year rise. These facts may indicate a partial rise in demand for labour thanks to the nascent recovery of both the domestic and external economy. However, they may also have been generated by the situation in large businesses which are awaiting state assistance or privatisation and for this reason are deferring staff cutbacks.

CHART III.27 Unemployment characteristics (1995 - 2000)



By region, the imbalance between the supply of and demand for labour continued to grow.[24] This problem is linked with the ongoing restructuring of the economy and with low labour mobility.

Implications of labour market developments for inflation

In 2000 Q1 the labour market continued to show a gradual weakening of the imbalance between wage and output variables. The favourable evolution of cost and demand indicators on the labour market in Q1 confirmed a halt in the build-up of wage-inflationary pressures. This was evidenced by the substantial lead of the growth rate of whole-economy labour productivity over that of average real wages, the strengthening year-on-year decline in real unit wage costs and the change from a gradual year-on-year slowdown in real unit wage cost growth to a year-on-year decline in 2000 Q1. However, this process, which can be viewed as resulting primarily from the improving wage trend in the corporate sector, was patchy. Some industries were still experiencing unbalanced wage and output developments.

III.4 Costs and prices

The 2000 Q1 trends for most monitored groups of cost indicators continued into Q2. The rising oil prices on world markets continued to generate strong year-on-year growth of import prices, which led to a further pick-up in inflation in manufacturing. However, the long-term trend towards faster industrial PPI inflation halted, owing to the introduction of lower seasonal tariffs for electricity. Agricultural producer prices confirmed the continuing pick-up in growth recorded in the previous quarter. The previous trend towards a slowdown in construction work price inflation came to an end and changed into a moderate year-on-year rise at the close of Q2.

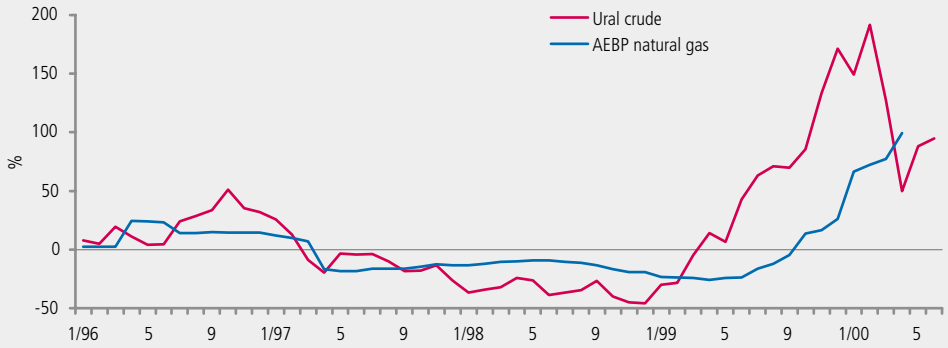
III.4.1 Import prices

The strong year-on-year growth in import prices continued into 2000 Q2. According to the latest data for May, the year-on-year import price index (14.5%) was 2.5 percentage points higher than at the end of Q1 (see Chart III.31). The ongoing buoyant growth in import prices was brought about by increasing prices of energy raw

24 Particularly large regional differences in the unemployment rate were registered between North Bohemia and North Moravia (15%–21%) and Prague (3.5% in June).

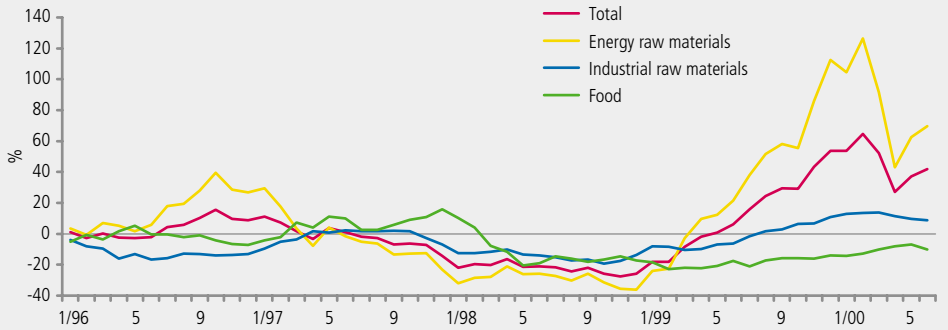
materials, notably oil and natural gas. In April, oil prices saw a more marked decline from the extraordinarily high values of the previous quarter, but from May onwards their growth picked up again (see Chart III.28). Similarly, an upward trend was visible for natural gas in Q2. The maintaining of the upward trend for prices of imported commodities was fostered by the prices of industrial raw materials on world markets, although their growth slowed somewhat in Q2.

CHART III.28 Prices of Ural crude and natural gas
(y-o-y change in %)



These trends for raw materials prices on world markets are documented by the HWWA index. The slowdown in the year-on-year rise in the HWWA index in April and its resumed acceleration in May and June were due largely to the prices of energy raw materials. Prices of food commodities on world markets continued falling.

CHART III.29 HWWA index
(y-o-y change in %)



The pass-through of the price growth in the main commodity groups on world markets into import prices is evidenced by the structural development of the CSO sample index of import prices, which uses the SITC classification. According to the latest data, by far the fastest growing items in 2000 Q2 were again prices of energy raw materials, chemicals and related products. In the other import groups, which are made up primarily of imports of finished products, the rise in prices was more subdued. In some groups, import prices were even lower than in the same period a year earlier.[25]

25 Amid an overall year-on-year rise of 14.5% in import prices according to the CSO sample index, prices of imported mineral fuels, lubricants and related materials saw year-on-year growth of 117.5% in May 2000. Prices of imported chemicals and related products rose by 12.8% and prices of raw materials except fuels by 9.4%.

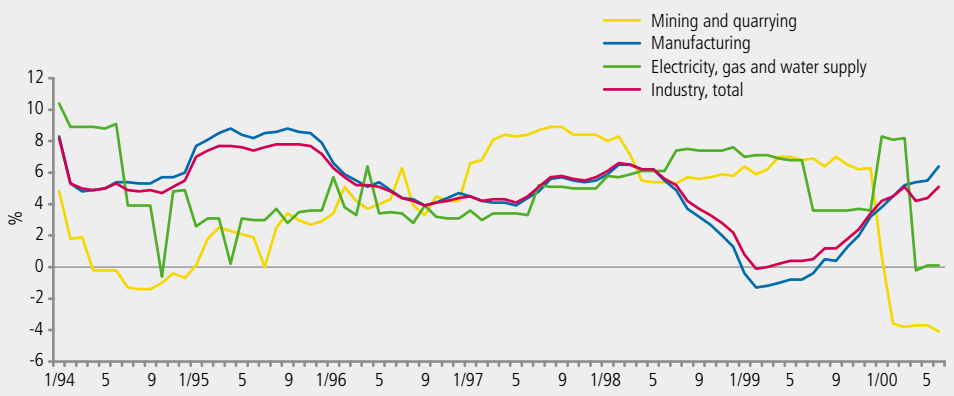
III.4.2 Producer prices

Industrial producer prices

The acceleration in industrial PPI inflation halted in 2000 Q2. Following a year-on-year slowdown in April and May (to 4.2% and 4.4% respectively), the June outturn signalled a renewed pick-up in growth, although the figure was the same as in March.

The main factor underlying this slowdown was the introduction of lower summer tariffs for electricity in April 2000. This led to a substantial year-on-year slowdown in inflation in this industry, as these tariffs had not been applied in 1999.[26] Another subduing factor was the continuing year-on-year decline in prices in mining and quarrying This reflects a fall in the prices of brown coal and lignite, for which supply is exceeding demand. By contrast, the ongoing trend towards faster inflation in manufacturing[27] reflected the continuing effects of the rising oil prices on world markets.

CHART III.30 PPI inflation by industrial category
(y-o-y change in %)

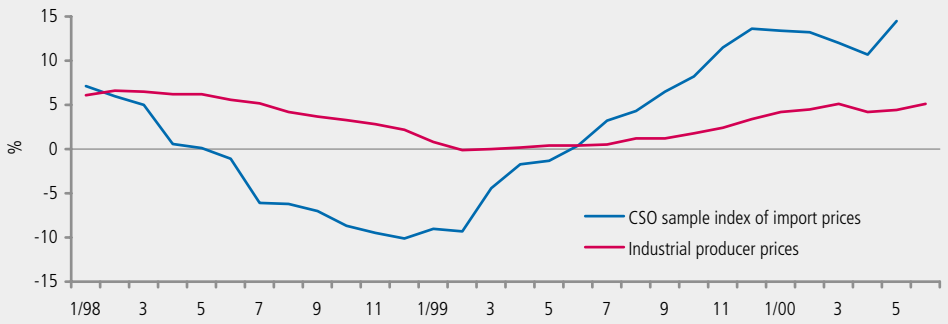


Against the background of subdued domestic demand, the main factors underlying the rise in producer prices in 2000 Q2 were again the high prices of imported energy raw materials and, to some extent, of industrial raw materials. The rising prices of energy raw materials continued to pass through into costs and subsequently into prices of outputs with large share of oil product processing (manufacture of coke and refined petroleum products and manufacture of chemicals, chemical products and man-made fibres). They also fed through into the costs of other industries.

26 In March 2000, prices of electricity, water and gas had risen by 8.2% year-on-year, whereas in April they fell by 0.2% and in May and June they showed slight growth (0.1% in both months).

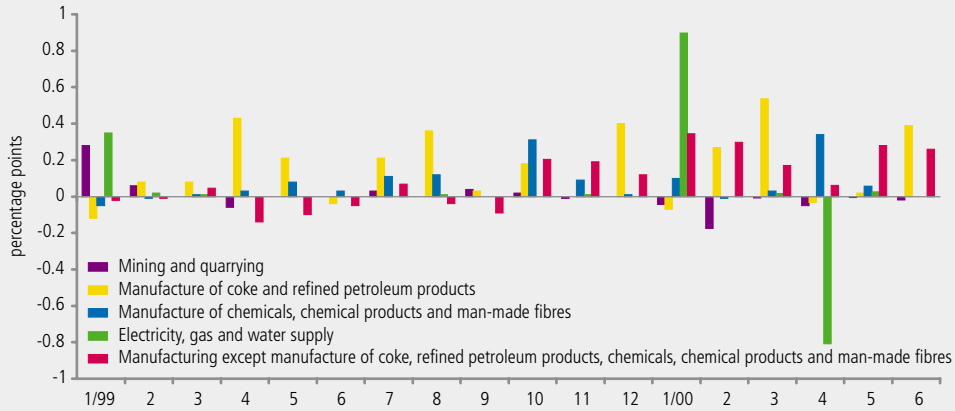
27 Year-on-year producer price inflation in manufacturing rose from 5.2% in March to 6.4% in June.

CHART III.31 CSO import price sample index and industrial producer prices
(y-o-y change in %)



The continuing transmission of prices of raw materials (energy raw materials in particular) into the prices of other manufacturers[28] is clearly documented by the month-on-month changes in producer prices in manufacturing (see Chart III.23). The stronger rise in prices in manufacture of coke and refined petroleum products in March and in manufacture of chemicals, chemical products and man-made fibres in April, and the higher prices in other manufacturing branches in May and June, suggest that these sizeable month-on-month changes were probably a reaction to the more pronounced rise in oil prices at the beginning of 2000 (particularly in February). The more marked month-on-month change in manufacture of coke and refined petroleum products in June was probably a direct response to the accelerating growth in oil prices in May and June.

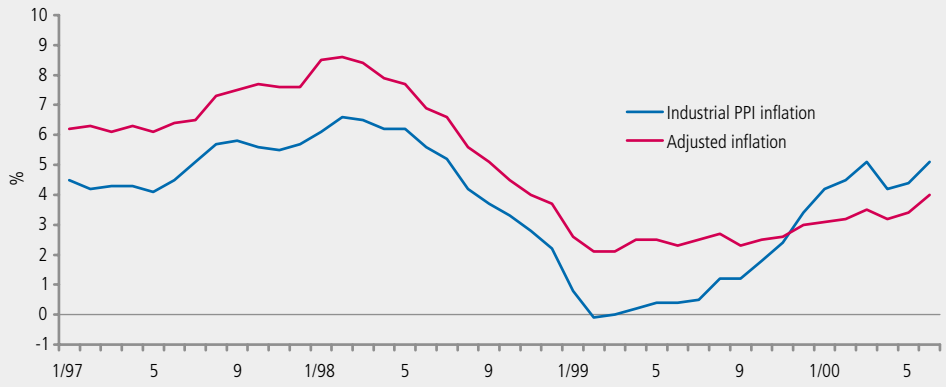
CHART III.32 Structure of m-o-m industrial PPI inflation



Under these circumstances, the aforementioned external cost factors ensuing from raw materials prices on world markets were the main factor underlying the pick-up in PPI inflation and consequently in adjusted inflation in 2000 Q1. As in 1999 Q4, however, their influence on adjusted inflation was dampened in part by demand-side factors.

28 i.e. excluding manufacture of coke and refined petroleum products and manufacture of chemicals, chemical products and man-made fibres

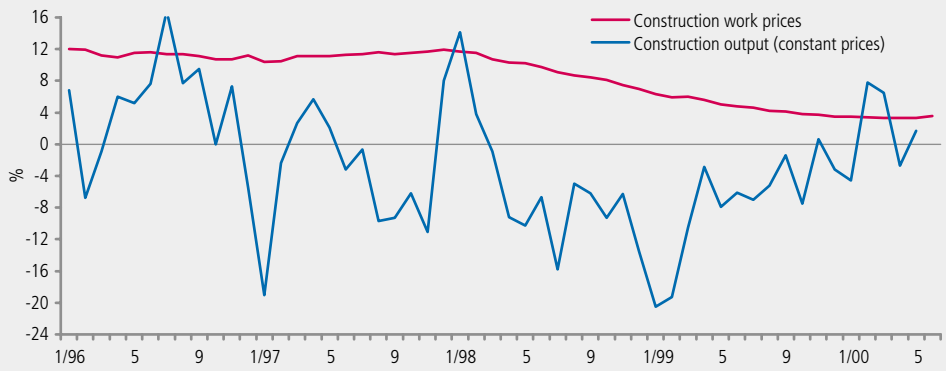
CHART III.33 Industrial PPI inflation and adjusted inflation (y-o-y)



Construction work prices

Construction work prices were again affected largely by domestic factors. The flat year-on-year construction work price inflation in April and May 2000 at the end-Q1 level (3.3%) and the moderate acceleration to 3.6% in June marked a change in trend (see Chart III.34). The reason for this change was probably the upturn in demand for construction investment following the previous long-term decline. This indicates renewed growth in gross fixed capital formation, including investment in buildings, in 2000 Q1. The continuation of this trend into 2000 Q2 is evidenced by construction output. Nonetheless, in this quarter too, year-on-year inflation was substantially lower than in the same period a year earlier.

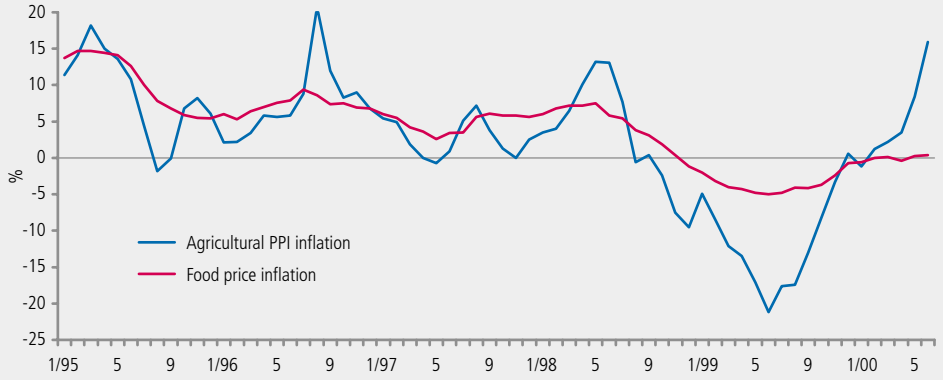
CHART III.34 Construction work prices and construction output
(y-o-y change in %)



Agricultural producer prices

Agricultural producer prices in 2000 Q2 confirmed the expectations of a further pick-up in growth. Following a moderate upturn in year-on-year growth at the end of 1999 (to 0.6%) and an acceleration in 2000 Q1 to 2.2%, agricultural producer prices showed a rise to 15.9% in Q2 (in June). The reasons for this steady pick-up after the previous steep and sustained decline remain the same: the gradual pass-through of cost pressures from agricultural primary producers to manufacturers, which has been visible since the second half of 1999. These pressures have resulted in rising purchase prices, particularly for livestock products. As in 2000 Q1, agricultural PPI inflation was also affected by the previous year's low base. The further increase in agricultural producer prices fed through partially into food prices, which showed a very moderate upward trend in Q2 compared with the previous period (see Chart III.35).

CHART III.35 Food price inflation and agricultural PPI inflation (y-o-y)



The pick-up in prices of agricultural products in 2000 Q2, however, did not signify any major change from the viewpoint of agricultural producers, as the prices still were far below their pre-1999 levels. This was due to the combination of various internal and external factors mentioned in previous Inflation Reports, notably:

- excess supply on the agricultural market (particularly excess production of some key crop commodities);
- the limited export opportunities for domestic agricultural products and substantially lower subsidies compared with EU countries (including export subsidies);
- the relatively low level of protection of the domestic market against subsidised imports;
- the long-term fall in prices of some food commodities on world markets; and
- the monopolisation of some branches of the food industry, coupled with pricing pressure from retail chains on the food market.

Implications of other cost indicators for inflation

The mixed inflation developments in the individual industries included in the industrial producer price calculation reflected the diversity of the factors affecting their growth in 2000 Q2. The halt in the trend towards faster industrial PPI inflation in Q2 was due largely to domestic cost factors, most notably the seasonal reduction in electricity tariffs. This measure undoubtedly helped to ease the cost pressures in all industrial branches. The ongoing fall in prices in mining and quarrying reflected the lower demand for this industry's products.

The further pick-up in inflation in manufacturing during 2000 Q2 confirmed ongoing external cost pressures ensuing from the rising prices of energy raw materials and industrial raw materials on world markets. As in the previous quarter, the sectoral analyses of inflation suggest that prices in manufacturing were affected not only by the direct effects of rising energy raw materials prices on world markets on the costs and prices of industries with a high share of oil product processing, but also by their indirect effects on the prices and costs of other industries. This is evidenced in particular by the month-on-month price changes in individual manufacturing branches[29] during Q1 and Q2. The resumed rise in construction work price inflation at the end of Q2 reflected a moderate pick-up in demand for construction.

Most important with respect to adjusted inflation were external cost stimuli. These fed through directly into adjusted inflation via increased prices of fuels, which are a consumer basket item. Compared with the previous quarter, however, this effect decreased in intensity. The indirect effect of rising raw materials prices on inflation was not significant (owing to the none-too-robust growth in domestic demand, the strongly competitive environment on the retail market, etc.).

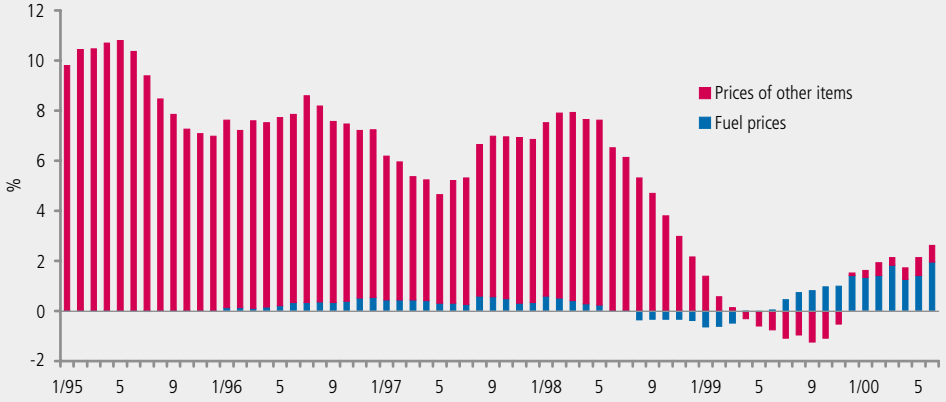
The ongoing moderate pick-up in agricultural producer prices, which had been expected, showed that the low prices for numerous important commodities are not sustainable in the long term given the trends and levels of costs in agriculture. In this context, a repeat of the increased pressures of agricultural primary producers on manufacturers – with an ultimate impact on consumer price inflation in 2000 H2 – cannot be ruled out.

29 i.e. excluding manufacture of coke and refined petroleum products and manufacture of chemicals, chemical products and man-made fibres.

Box: Oil prices and their impact on inflation

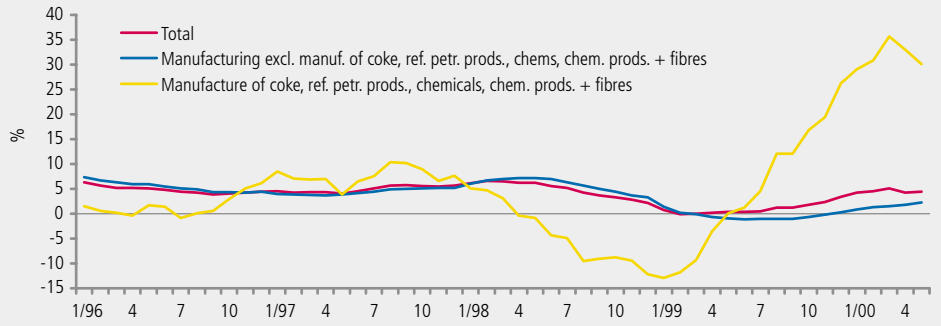
Oil prices are an important inflation factor in a small economy strongly dependent on oil imports. There are two ways in which oil prices pass through into domestic inflation. They are reflected directly – with a short time lag – in fuel prices, where they represent a dominant cost factor. This price effect is fairly significant. Given the share of fuel items in the consumer baskets for overall inflation (about 4%) and net inflation (about 5%), a sizeable change in oil prices, followed by a change in fuel prices, has quite a strong impact on price indices (e.g. a 10% rise in fuel prices implies a 0.5 percentage point rise in the net inflation index).

CHART 1 Contribution of fuel price changes to net inflation



Oil prices pass through much more slowly – with a longer time lag – into prices of other products, where oil does not represent a key raw material or where it goes through several stages of processing. In this case, the impact of oil price changes on the prices of related products is difficult to monitor, as it is modified significantly by numerous other factors, e.g. the phase of the business cycle, competition on the markets for individual products, and the capacity of companies to absorb costs. It is very difficult to quantify these indirect effects when forecasting the future inflation profile.

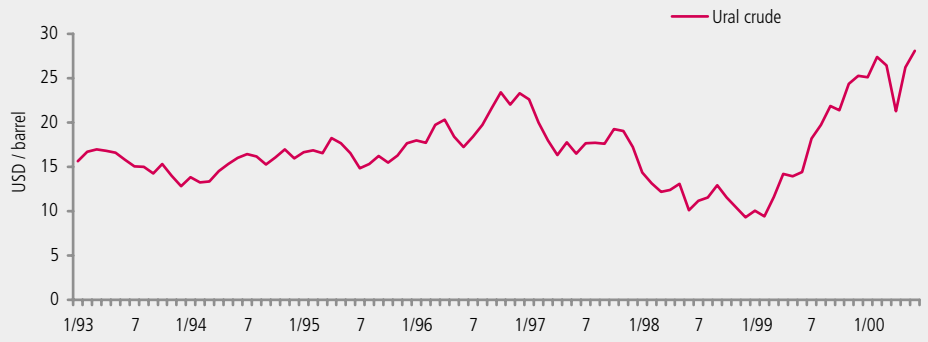
CHART 2 Prices in oil processing and in other industries
(y-o-y change in %)



A similarly important complication in forecasting the effect of oil prices on inflation is their high volatility. From the historical point of view, the high volatility of oil prices on world markets over the last two years has in no way been exceptional, as is confirmed by the long-term time series. The volatility is the result of numerous economic and non-economic factors. Among the economic factors, the most important are global cyclical

fluctuations, the seasons of the year, the opening of new raw materials beds and, last but not least, speculation about future price developments. The non-economic factors primarily include OPEC agreements on extraction quotas and military conflicts. These factors also affect the price of Ural crude, which accounts for most of the oil supplied into the Czech economy and whose prices follow essentially the same trend as the prices of oil from OPEC countries (e.g. Brent crude).

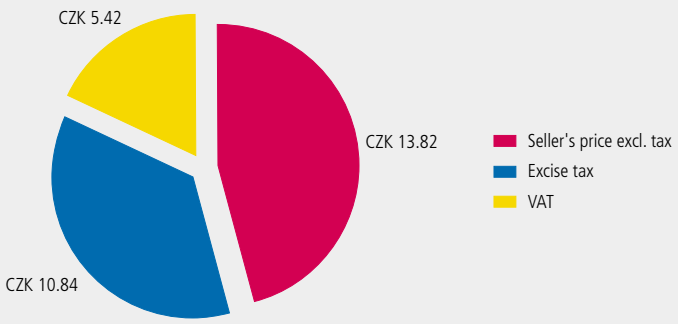
CHART 3 Price of Ural crude (1993 - June 2000)



The accuracy of forecasts of the impact of oil prices on inflation is moreover affected by the CZK/USD exchange rate. The exchange rate level can either multiply or, conversely, offset the impact of global oil price changes on domestic cost and price levels. For example, an increase in the current price of Ural crude from USD 28.08/barrel to USD 33.6/barrel for a period of six months – amid a concurrent depreciation of the CZK/USD rate of, for example, 10% (i.e. 3–4 CZK/USD) – would generate a 0.5 percentage point change in year-on-year net inflation in December 2000.

Fuel prices are strongly affected by indirect taxes. Excise tax on fuels (tax on hydrocarbon fuels and lubricants) is constant per unit volume of fuel. This decreases the price volatility with respect to changes in costs. As of 30 June 2000, the excise tax on all types of petrol stood at CZK 10.84.

CHART 4 Price structure of 1 litre of two-star petrol in June 2000 (CZK 30.08)



Note: Seller's price = price of oil + other expenses + producer's profit + seller's margin

In addition to its own costs, the price at which the Česká rafinérská oil-refining company sells its fuels to final sellers is strongly affected by import arbitrage (Česká rafinérská's share in the volume of fuels sold is at present estimated to be around 54%; foreign refineries also have a major share in the domestic fuel market).

IV. MONETARY POLICY MEASURES AND INFLATION OUTLOOK

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

Inflation increased somewhat in 2000 Q2. However, this growth was slower than in Q1. Overall inflation, expressed as year-on-year CPI growth, increased by 0.3 percentage points (from 3.8% in March to 4.1% in June). This was considerably smaller than the increase between 1999 Q4 and 2000 Q1, when the year-on-year CPI had risen by 1.3 percentage points (from 2.5% in December to 3.8% in March). Year-on-year net inflation rose by 0.5 percentage points in Q2 compared with Q1 (from 2.1% in March to 2.6% in June), whereas between 1999 Q4 and 2000 Q1 it had risen by 0.6 percentage points (from 1.5% in December to 2.1% in March). During Q2, the inflation rate increased from 2.3% in March to 2.6% in June.

Regulated prices saw increased growth. In 2000 Q2 their growth rate picked up by 0.5 percentage points (from 7.3% in March to 7.8% in June) owing to a rise in heat, water and sewerage rates in April and in railway fares in June. Both the sub-groups of net inflation showed low growth. Food price inflation rose by 0.3 percentage points during Q2 (from 0.1% in March to 0.4% in June). Adjusted inflation saw a rise of 0.5 percentage points (from 3.5% in March to 4.0% in June), which, as in 2000 Q1, was due to rising fuel prices on world markets. The effect of the rising fuel prices was offset by very low growth in the prices of the other components of adjusted inflation.

Economic activity, expressed as the year-on-year change in real GDP, rose by 4.4% in 2000 Q1. This figure confirmed a continuation of the economic recovery which started in 1999 Q2. Both external and domestic demand contributed to the economic growth in Q1. A year-on-year increase in exports (22.9%) coupled with a slower rise in imports (17.1%) resulted in net exports accounting for the largest part of the GDP growth. Following eleven quarters of decline, renewed growth in investment demand (1.2%) started to indicate positive expectations regarding future economic development in the corporate sector. In contrast to a fall in 1999 Q4, the year-on-year growth rate of government consumption also rose (1.9%). The moderate pick-up in private consumption (1.1%) was consistent with the trend in the real disposable incomes of households.

The unemployment rate continued to decline during the course of 2000 Q2, falling from 9.0% in April to 8.7% in both May and June. In comparison with the end of Q1 (9.5% in March), it was down by 0.8 percentage points. The seasonally adjusted unemployment rate dropped from 9.6% in February to 9.3% in May. The decline in the unemployment rate reflects the economic recovery, the inflow of foreign direct investment and the Government's active employment policy.

The downward trend in the year-on-year growth rate of nominal (6.7%) and real wages (3.0%) continued into 2000 Q1. Unlike in 1999 Q4, when real wage growth was 5.8% and whole-economy labour productivity growth was only 3.3%, in 2000 Q1 whole-economy labour productivity growth (6%) exceeded year-on-year real wage growth. In Q1, labour productivity growth reached its highest level for five years. The lead of labour productivity growth over real wage growth was particularly visible in industry. Real unit wage costs at the whole-economy level fell in Q1 (by 1.1%), as did nominal unit wage costs (by 1.8%). These indicators show a falling wage cost-output ratio and subdued wage cost pressures.

Between March and May 2000, year-on-year M2 growth was stable with a slight upward tendency, rising by 7.2% in March, 7.3% in April and 7.5% in May. This period saw a continuing upward trend in the share of highly liquid assets in the overall money supply. Year-on-year M1 growth reached 15.7% in March, picked up to 18.0% in April and continued to 18.1% in May. The M1 growth was fostered by low interest rates, which stimulated conversion from time deposits to demand deposits. During March–May, lending showed a slight

increase in year-on-year terms, with growth in adjusted lending reaching 1.5% in March and April and then falling to 1.3% in May.

During 2000 Q2, the koruna's exchange rate against the euro strengthened from CZK 36.3 to around CZK 35.8, i.e. by roughly 1.3%. The koruna/euro rate went through several phases during Q2. Following the CNB's foreign exchange intervention at the end of 2000 Q1, which sent the koruna back to CZK 36.2 to the euro, the exchange rate weakened gradually to around CZK 37 to the euro. However, in mid-May, the rate started to return to the appreciation trend typical of the period prior to the foreign exchange interventions. The koruna's exchange rate against the US dollar underwent more considerable changes. Between end-Q1 and end-Q2, it weakened only slightly, from CZK 37.8 to the dollar to CZK 38.0. However, during Q2, the exchange rate first depreciated fairly considerably to around CZK 41 to the dollar, then at the end of May it started to appreciate again and returned to around CZK 38. The nominal effective exchange rate index weakened in 2000 Q2 in comparison with Q1, but compared to 1999 Q2 it strengthened modestly.

In 2000 Q2, the Q1 tendencies in the area of cost indicators eased. The rise in oil prices halted, although natural gas prices continued to grow. As a result, the growth in import prices continued, but at a more moderate pace than in the previous quarter. Industrial producer prices showed slower growth. In March industrial PPI inflation had reached 5.1%, but it was lower throughout Q2 despite a modest acceleration (4.2% in April, 4.4% in May, 4.5% in June). As in 2000 Q1, agricultural producer prices rose quickly, picking up from 3.5% in April to 8.4% in May and continuing to 15.9% in June.

IV.2 Monetary policy

In comparison with the CNB's forecasts at the start of the year, the macroeconomic framework in 2000 Q2 indicated a continuing low-inflation environment with respect to domestic inflation factors. At the same time, there was a relatively rapid increase in imported inflation. The macroeconomic indicators testified to a continuing, and possible accelerating, economic recovery.

The assessment of macroeconomic developments and the macroeconomic outlook led to downward revisions to the inflation forecasts and to a slight upward adjustment of the GDP growth estimate. The conditional inflation forecast for the end of 2000 was lowered owing to adjustments to all three components of the CPI. The rise in food prices was reassessed in the light of the ongoing changes on the retail market, the strong import arbitrage and the continuing decline in food commodity prices on world markets. Excluding the effect of the changes in fuel prices, adjusted inflation also signalled weaker growth for the remainder of 2000 compared with Q1 expectations. New information on adjustments to some regulated prices prompted a reduction in the forecast in this segment of overall inflation as well. At the end of Q2, the overall inflation forecast for the end of 2001 was further reduced technically in connection with the Government's decision not to proceed with its originally planned increase in excise tax on hydrocarbon fuels and lubricants at the beginning of 2001.

Owing to the lags in the transmission mechanism, the monetary policy focus was shifted during Q2 to 2001. Throughout the quarter, the setting of monetary conditions was assessed as consistent with the inflation target for 2001. This was the main reason for leaving the monetary policy interest rates unchanged.

During the course of 2000 Q2, the fundamental question of forward-looking monetary policy was whether the low-inflation trend was sustainable in a climate of ongoing and possibly accelerating economic recovery. As mentioned before, there were signals that the economic recovery might be quicker than the CNB had foreseen at the beginning of the year. This was suggested by the data on construction output and industrial production, growing retail sales, higher VAT revenues and the rising demand for domestic production abroad thanks to the continuing boom being experienced by the Czech Republic's major trading partners. Owing to the higher external demand in particular, the CNB revised its GDP estimate for 2000 up slightly in Q2. Nevertheless, the upward

revision of the economic growth prospects and the estimates of potential output did not signal any danger that the economy would start to run into capacity constraints within the end-2001 horizon.

Despite the correction to the economic growth forecast, monetary policy was based on the fact that the demand-pull inflationary pressures deriving from the domestic demand trend remained subdued in Q2, and that a significant strengthening in subsequent quarters was unlikely. This conclusion followed from the analysis of the expected trend for the wage incomes and overall incomes of households (which affect the level of private consumption); from the analysis of the data on planned state budget expenditure in 2000 and 2001 and on public finances as a whole (which affect public consumption); and from the expectations of an only modest pick-up in investment activity. The expectations of a gradual pick-up in the growth rate of domestic demand were also based on the analysis of monetary developments, and particularly on the diminishing lead of the money supply growth rate over that of nominal output, and also on an assessment of financial market indicators. At the close of Q2, the expectations of a moderate upturn in domestic demand growth were confirmed by the data on GDP and on the individual components of aggregate demand for 2000 Q1.

Some uncertainties also existed with regard to external demand. Since the start of the year, the figures on foreign trade and on export and import prices have been signalling a possible pick-up in the growth rate of real net exports. When assessing this, consideration was given to the extent to which this is a longer-term trend or only a temporary development given by the surge in growth in Western Europe. In the latter case, a gradual stabilisation of economic growth abroad and, conversely, the recovery of the domestic economy would cause the effects of this demand-side factor to gradually unwind. The foreseen slight real appreciation of the koruna was expected to help to depress the external demand.

The wage-cost developments in Q2 were evaluated as anti-inflationary. The analyses of the wage trend in the context of labour productivity growth so far in 2000 signalled a favourable trend in unit wage costs affecting not only inflation, but also the financial results of the corporate sector. The favourable wage-cost trend was also confirmed by the analysis of the available information on future wages.

Nevertheless, cost pressures persisted in Q2 owing to the prices of energy raw materials on world markets. However, there existed considerable uncertainty regarding the price outlook in this area. On the one hand, the recovery in the world economy and the limited investment in mining capacity in the area of primary energy sources – having an impact on the supply of and demand for energy raw materials – could lead to continued high prices on the world market. On the other hand, the countries producing and exporting oil indicated that the price could fall slightly from the level reached in 2000 Q2.

Although the price movements of energy raw materials and other imported commodities are perceived as an exogenous price factor, the uncertainties regarding their evolution and their primary and secondary effects on domestic prices played a role in monetary policy decision-making. A persisting question was the extent of the pass-through of the high prices of energy raw materials into individual price groups. In 2000 Q2, producer prices rose faster than consumer prices. The rising prices of energy raw materials affected industrial producer prices, but their pass-through into consumer prices was very limited, ignoring the direct effect of high oil prices on fuel prices. The question was: whether, with what intensity and with what time lag would the high prices of oil gradually show up in the other components of the CPI.

A corresponding problem existed in the relationship between agricultural producer prices and food prices. This Inflation Report gives the factors which led to the low rise in food prices despite the relatively high growth rate of agricultural producer prices. These include competition in the agricultural, food and retail sectors, and, for example, technological advancement in the food industry, which has facilitated productivity growth in food production. However, uncertainty lingers regarding the extent of the gradual pass-through of the rising agricultural producer prices into food prices.

In addition to the facts stated above, monetary policy took other factors into account. These included in particular the interest rate differential of the Czech koruna vis-à-vis the euro and the US dollar, and real interest

rates. Real rates attained very low levels in Q2. Owing to rises in key rates in the USA and the eurozone, the negative differential vis-à-vis the US dollar widened and the positive differential vis-à-vis the euro narrowed. The interest rate differential was a significant criterion for assessing the interest rate level. Any further narrowing of the differential could have led to an outflow of domestic capital, which might have destabilised the financial market. A partial outflow of domestic capital had occurred in 1999 and in 2000 Q1. This outflow had to a certain extent offset the effects of the continuing inflow of foreign direct investment on the exchange rate and thus on the competitiveness of domestic producers. The exchange rate was affected in Q2 by the CNB's intervention at end-Q1. After a short-lived weakening, the koruna returned to its appreciation trend during the course of Q2.

The CNB's interest rates remained unchanged during Q2. Its key rates have thus been stable for more than two quarters. The unchanged level was consistent with the expectations of low and non-accelerating inflation in the future and reflected the overall macroeconomic stabilisation.

In April, the inflation target for 2001 was set. Co-operation with the Government became an important and new feature of setting the inflation target. The Government's contribution consisted in particular in drafting and publishing an "Outlook for Changes in Regulated Prices". This medium-term outlook (the absence of which had previously represented a major constraint for the inflation targeting regime) laid the groundwork for a gradual switch to the targeting of overall inflation after 2002, even though a complete switch to targeting overall inflation was prevented by the preliminary nature of much of the data contained in it and by the uncertainty about the evolution of regulated prices beyond the scenario horizon. The analytical sections of the CNB and the Ministry of Finance collaborated in preparing the announcement of the inflation target. The outcome was agreement on the medium-term macroeconomic outlook. The CNB based its specific inflation target for 2001 on the principles for setting inflation targets after 2000 formulated in the "CNB Monetary Strategy" document published in April 1999. The following principles in particular played a significant role: to continue with disinflation in such a way as to achieve price stability – defined as year-on-year net inflation of 2% ± 1 percentage point – in 2005, i.e. to take into account the macroeconomic outlook; not to trigger a pick-up in inflation, i.e. to take into consideration the actual inflation outturns; and to announce inflation targets 20 months ahead, i.e. always in April of the previous year. With due consideration to all these aspects, the year-on-year net inflation target for the end of 2001 was set at 3% ± 1 percentage point. The CNB's forecasts for the Czech economy in subsequent years suggested that this inflation target would be consistent with a continuing pick-up in economic growth. The net inflation target corresponds to overall inflation of between 4.3% and 5.8%, taking into consideration the information contained in the "Outlook for Changes in Regulated Prices". The support which the Government expressed for the inflation target for 2001 was a significant positive signal and testified to the degree of co-ordination achieved between monetary and fiscal policy.

IV.3 Future inflation factors

According to the CNB's forecast, year-on-year inflation should remain flat in 2000 H2, with a slowdown in the rise in regulated prices and a moderate increase in net inflation.

The expectations of a modest rise in year-on-year net inflation in 2000 H2 are based largely on the foreseen lagged effects of the imported inflation witnessed in H1, which chiefly reflects the oil price growth and, to a lesser extent, the rising prices of other raw materials. Despite the considerable uncertainties surrounding future oil price developments, the CNB's forecast assumes that a further major pick-up in oil price growth is not likely in H2. Nevertheless, if oil prices remain at the Q2 level, this still implies robust year-on-year growth in fuel prices. At the same time, prices of other raw materials and prices of final products abroad are expected to increase in year-on-year comparison.

In 2000 H2, domestic inflation factors can be expected to act in the segment of food, where gradual pass-through of the strong rise in agricultural producer prices should result in modest food price inflation. By contrast,

the labour market trend, which culminated in a halt to the build-up of wage-inflationary potential in 2000 Q1, substantially reduces the probability of major risks of wage-cost inflation in 2000 H2. The CNB forecasts a slowdown in year-on-year growth in average wages and unit wage costs in the second half of the year.

No sizeable demand pressures on inflation are expected in the remainder of 2000, since only a very slow pick-up in domestic demand, especially consumer demand (as measured by household consumption), is expected. Given the expected stability of the savings ratio, the effects of the expected weak growth in real household incomes should be suppressed by an increase in the unemployment rate. The estimated growth rate of around 1.5% for both overall domestic demand and household consumption in 2000 should not be a substantial impulse for more pronounced inflation.

The inflation forecast for 2001 assumes that the exchange rate and imported inflation will be stable starting from 2000 Q4. The probability that oil prices will grow beyond the level reached at the end of 2000 H1 is very low. We also expect a gradual slowdown in growth – or possibly a year-on-year decline – in prices of other raw materials. This, together with a slowdown in producer price inflation in the Czech Republic's most important trading partners (Germany in particular) and the expected exchange rate stability, should give a year-on-year decline in import prices in 2001. The expected trends for prices of oil and other raw materials should give a gradual reduction in year-on-year import price inflation. External effects thus should not play a major role in inflation during 2001.

As regards domestic cost-push inflationary factors, the CNB forecast for 2001 reckons on a further rise in food prices generated by cost factor pressures. This rise, however, should remain very moderate as a result of the strongly competitive environment on the retail food market. On the other hand, the expected trends on the labour market can be viewed as favourable. The current expectations of wage and productivity growth in 2000 H2 and in 2001 mean that the risks of wage-cost inflation should not be very high.

The gradual upturn in domestic demand is likely to continue into 2001 within a band of year-on-year growth that should not generate stronger demand-oriented pressure on inflation.

The rise in corporate costs generated by increasing fuel prices has showed up partly in producer prices but has yet to pass through significantly into consumer prices. With a certain lag and lower intensity, this pass-through can be expected to occur in 2000 H2, and a further potential impact on prices is expected as late as 2001. The CNB forecast also assumes that inflation will be affected in 2001 by further changes in VAT rates, with a large part of services being moved to the higher VAT rate.

The expectations of the CNB and financial market agents with respect to year-on-year CPI and net inflation in 2001 gradually converged during 2000 H1. For next year they are signalling a maintaining of year-on-year net inflation essentially at this year's level and an only modest rise in the CPI.

IV.4 Inflation outlook

The forecast is based on predictions of the factors influencing consumer prices. Given the current monetary policy settings, net inflation should lie within the interval of 2.1%–2.9% at end-2000. The CPI as of the same date should be within the 3.3%–3.9% range and the inflation rate within 3.6%–3.8%.

At the end of 2001 H1, year-on-year net inflation is expected to lie between 2.0% and 3.7%. The CPI will probably be up by 3.8%–5.1% and the inflation rate should stand at 3.7%–4.0% as of the same date.

Minutes of the Bank Board Meeting on 27 April 2000

Present at the meeting:

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

The Board opened the meeting by reviewing the report on monetary and economic development, which included a revision of the inflation forecast. Board members agreed that the new inflation forecast for the end of 2000 (CPIx 2.2%–3.5%; CPI 2.9%–3.9%) reflected a higher likelihood that this year's target would not be reached. It was mentioned that, in respect to the outlook for 2001, the forecast corresponded to the recently announced inflation target (CPIx = 3% ± 1 percentage point).

It was repeatedly confirmed that even though there is a high likelihood of reaching a lower level of inflation than the inflation target had indicated for this year, this could not be grounds for allowing monetary policy to increase the volatility of prices. One reason is the costs connected to the monetary restriction that would inevitably follow. In addition, the effects of monetary policy decisions had become increasingly relevant for 2001 in relation to the time horizon.

The Board paid special attention to the consistency of lowering the inflation forecast and to the slight upward shift in the economic growth estimate this year (between 0.5%–2.5%). In view of low inflationary expectations, particularly on the labour market and which, in turn, helped curb some of the cost and demand inflation pressures, adjustments in the forecast for consumer prices and GDP in the opposite direction had been taken into consideration. In addition, a rise in foreign direct investment had positively affected developments on the supply side. In this respect, board members discussed various scenarios for gradually closing in the gap between actual and potential output. Some data on economic development in Q1, which registered substantial year-on-year growth (retail sales, nominal wages, production in industry and construction, and VAT collections), had been influenced in part by a very low comparison base – the economic recession was at its height in 1999 Q1. It was also mentioned that, for example, high sales for certain products that significantly increased retail sales (mobile telephones, new types of personal automobiles), had no impact on inflation owing to a consumer basket that no longer fully reflected current consumption patterns. Existing notions of rising GDP growth for this year are moderate and have no effect on inflation development. The Board also reviewed the data on the slight rise in koruna credit issue from the start of this year, while data on domestic credit issue were compared to the business sector's foreign position, which reflected an inflow of resources from abroad.

The Board also took into account the effects of the interest rate increase in the eurozone and the overall rise in this year's economic growth estimates in this area. Another area of concern was the sustainability of very slow food price growth. The real likelihood of these risks had been accounted for in the new inflation forecast.

Board members favourably assessed the results of intervening on the foreign exchange market in March this year. The koruna vis-à-vis the euro weakened and then remained at a relatively stable level. By easing monetary conditions, this development helped create better assumptions for the trade balance. It was confirmed that any decisions on further intervention would depend on the actual monetary and economic situation at hand.

At the close of the meeting, the Board decided, by a majority vote, to leave the CNB two-week repo rate at its current level.

Minutes of the Bank Board Meeting on 25 May 2000

Present at the meeting:

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

The Board said that this year's inflation forecast suggested undershooting of the inflation target. In respect to the time lag of the transmission mechanism, monetary policy's targeted horizon had been gradually shifting into the first half of 2001. When assessing monetary policy settings for the time horizon beyond December 2000, the consistency of the inflation forecast and inflation target for indicated that monetary policy instruments would have a neutral effect.

Available data had shown that a wide range of sectors in the economy were experiencing economic recovery (industry, construction and services). Wages in industry had registered substantial growth, and a rise in the wage dynamics in some areas of the public sector had also not been ruled out. In the previous period, some indicators had not confirmed acceleration in the recovery process, particularly VAT collection and retail sales. The latest data on export dynamics also contributed to this view. However, this involved short-term information on variables with a higher level of volatility. A main obstacle to stronger GDP growth continued to be the supply side of the economy, especially the institutional area.

The Board intensively discussed the development of oil and petroleum prices during the past few weeks and the implications it would have for future price development and inflation expectations. After a certain period of decline in the prices of oil and natural gas, these prices started accelerating once again, primarily as a result of institutional factors. Therefore, contrary to original assumptions, a longer lasting inflationary effect with higher price growth for these commodities cannot be ruled out. There was a higher risk that the secondary inflationary effect of fuel price growth on the other items in the consumer basket would strengthen. Widespread publicity on rising fuel prices intensifies the risk of increasing inflation expectations.

A considerable amount of attention was given to assessing expected agricultural producer prices. In discussing domestic price-creation factors, it was noted that most primary producers conclude long-term contracts. For this reason, prices would more than likely be rigid in the short run. It was stressed that even though for the first time this year "green petrol" could be taken advantage of more extensively, costs for agricultural production had not been reduced – in spite of original expectations. Therefore, pressure on rising food prices would most likely be caused by increased costs for food processing and product distribution. Contract renegotiations and, in turn, a rise in prices would not be anticipated sooner than next year. During a discussion on the main external factors affecting domestic food prices, it was stressed that a substantial drop in food prices on European markets had occurred after the Russian economic crisis. The subsequent decline in demand for food in Europe caused a sharp decline in prices. With the gradual improvement of the Russian economy, supported by the strong fiscal stimulus of high oil prices on world markets, increased demand for food products could be expected. In this context, economic recovery in Russia could in the short run have a more significant role in the development of food prices than the impact of unfavourable climatic conditions or commodity price growth.

An analysis of the CPI structure suggested that there were substantial differences in the segments of the consumer basket, especially between tradables and non-tradables. In the area of tradable commodities, the price level had not registered any month-on-month changes. After eliminating the effect of fuel prices, the month-on-month price index for this subgroup would be negative. Another important factor for the future structure of prices was the deepening gap between consumer price inflation and net inflation. This development had been caused by institutional changes, mainly higher expected deregulation at the beginning of next year and an increase in

the effective rate from VAT. In anticipation of revisions in the consumer basket in July of this year using 1999 as the base year, those price items that experienced above-average growth would be expected in the future to have a higher weight in the CPI.

The money supply indicated that the gap between nominal income and M2 would gradually narrow. Nevertheless, an analysis of the main sources of M2 growth – domestic credits, credits from abroad, financing through foreign direct investment resources – showed that these forms of financing would allow economic recovery to continue.

From the viewpoint of the Czech economy, world economic growth for this year was given a very favourable assessment. Strong growth in the US economy had continued. Growth in Europe and in emerging markets was also accelerating. At the same time, short-term interest rates had also experienced a rising trend, especially in the USA. Rate increases could also be expected in the Eurozone. The interest rate differential continued to narrow vis-à-vis the euro, and the negative interest rate differential vis-à-vis the USD had worsened. The meeting also focused on the situation in Poland, where economic developments, along with emerging political instability, had created a risk-potential environment. The necessity of monitoring further developments in the region was emphasised.

The degree and length of time that it would take for the year-on-year growth of industrial producer prices to show up in net inflation was considered to be one of the most important sources of uncertainty for setting short-term interest rates. While import prices had already significantly influenced growth in industrial producer prices, PPI growth had not yet significantly affected consumer inflation. An estimate of the impact of unfavourable climatic conditions was another strong source of uncertainty, and, in turn, affects the reliability of the inflation forecast.

The Board expressed that, in comparison to the situation a month ago, monetary conditions had eased up, particularly due to weakening of the effective exchange rate. Furthermore, with growing inflation expectations, which were reported in CNB research, real interest rates fell *ex ante*. Developments in the external area, particularly current and expected short-term interest rate movements, have to a certain extent substituted for the effect of possible domestic interest rate cuts, which could have been motivated by the likelihood of undershooting the inflation target for 2000. Foreign interest rates might have a rising effect on the koruna exchange rate in the future. Monetary policy must be very prudent in this area.

At the close of the meeting, the Board unanimously decided to leave the CNB two-week repo rate at its current level.

Minutes of the Bank Board Meeting on 29 June 2000

Present at the meeting:

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

The Board opened the meeting by reviewing the latest information based on the report on monetary and economic development in the Czech Republic in order to provide possible interpretations for this information as well as to put it into context with overall developments. The Board said that assessment of the overall macroeconomic framework, its causes and the outlook for the future had not significantly changed and that there was a prevalence within this framework towards more positive trends.

Special attention was devoted to the published data on GDP growth in Q1 and the significant contribution of net export as a part of GDP. It was said that the data had been confirmed by the validity of signals, which for certain economic indicators could already be observed from the beginning of this year. The numbers confirmed that the evidence for only gradual recovery of domestic demand, which does not in itself generate inflationary risks, was still valid. With the substantial, positive rise in the import and export of goods and services in constant prices, a key factor would be the sustainability of these high dynamics in the subsequent period as well. Although with continuing improvements in the structure of Czech foreign trade, it is reasonable to assume that the results for Q1 were not all that exceptional. It was also mentioned that the problematic ("inert") part of the Czech economy had stopped declining. In assessing economic performance and net export, the possibility of better-than-expected developments on the supply side of the economy were also discussed. In keeping with the previous GDP estimate, it was stated that the growth level would fluctuate more in the upper boundaries of the interval. However, this depended on whether or not the analyses for the next situational report could provide grounds for changing the forecasted interval.

Inflation developments had confirmed the prevailing positive assessments and expectations. Even in the presence of a certain risk stemming from the present dynamics of industrial and agricultural producer prices, the demand side continued to prevent their full transmission to final consumption prices. The current data on inflation had not justified any change in the existing inflation forecast for this year or for 2001. As was already mentioned at previous board meetings, the inflation forecast for next year had become a more and more significant criterion for the adequacy of monetary conditions. Considering the duration of the transmission mechanism, the growing likelihood that the level of the net inflation indices would be below the lower boundary of the medium-term inflation target for 2000 continued to have less significance in the setting of monetary policy instruments.

Board members stressed during the meeting the importance of the interest rate differential. After the European Central Bank's decision to increase the euro reference rate by a half percentage point, the interest rate differential between the koruna and the euro was reduced even further. This differential now fluctuates between 0.6–0.9 percentage points depending on maturity. Along with the negative interest rate differential against the US dollar and British pound, this difference had created incentives for the outflow of capital abroad mainly through investment in foreign securities. It was mentioned that in the absence of the inflow of foreign investment, the current balance of payments and in particular the outflow of capital would produce a deficit and, in turn, cause the koruna to weaken. At this time, the interest rate differential is a limiting factor that influences the movement of domestic interest rates.

The Board also discussed the possible consequences of the recent developments at Investiční a Poštovní banka (IPB) and the sale of the bank to ČSOB. The causes and effects as well as the progress made towards resolving the IPB crisis were positively assessed abroad and did not produce any unfavourable reaction on the markets. The anticipation of stricter criteria for lending by ČSOB could speed up needed structural changes in a restricted segment of the economy.

All in all, it was expressed during the meeting that very favourable trends had been developing in the economy, such as accelerating economic growth accompanied by low inflation. The forecast for the near future indicated that these positive elements could be expected to continue even in the upcoming quarters. The koruna's present exchange rate must be evaluated in context with the overall economic situation. In view of this, board members considered the exchange rate to be at a tolerable level. The longer-term forecasts for economic and monetary conditions will be the subject of the next situational report, which is to be discussed by the Board at the end of July.

At the close of the meeting, the Board unanimously decided to leave the CNB two-week repo rate at its current level.

STATISTICAL ANNEX

INFLATION DEVELOPMENT

year-on-year change in %

		1	2	3	4	5	6	7	8	9	10	11	12
		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	1.1	1.4	1.2	1.4	1.9	2.5
Regulated prices	1)	12.1	11.9	11.7	11.1	11.1	11.0	4.4	4.3	4.3	4.2	4.2	4.2
(contribution to CPI inflation)	1)	*2.97*	*2.90*	*2.87*	*2.75*	*2.74*	*2.72*	*1.13*	*1.12*	*1.12*	*1.08*	*1.08*	*1.09*
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.32*	*0.32*	*0.32*	*0.32*	*0.32*	*0.32*
Net inflation		0.7	-0.1	-0.4	-0.3	-0.5	-0.6	-0.5	-0.1	-0.3	0.0	0.6	1.5
(contribution to CPI inflation)	1)	*0.54*	*-0.06*	*-0.33*	*-0.21*	*-0.37*	*-0.49*	*-0.36*	*-0.06*	*-0.21*	*0.02*	*0.47*	*1.14*
of which: food	1)	-2.0	-3.1	-4.0	-4.3	-4.8	-5.0	-4.8	-4.1	-4.1	-3.6	-2.4	-0.7
(contribution to CPI inflation)	1)	*-0.61*	*-0.98*	*-1.25*	*-1.34*	*-1.48*	*-1.53*	*-1.44*	*-1.24*	*-1.24*	*-1.09*	*-0.71*	*-0.22*
adjusted inflation	1)	2.6	2.1	2.1	2.5	2.5	2.3	2.5	2.7	2.3	2.5	2.6	3.0
(contribution to CPI inflation)	1)	*1.15*	*0.91*	*0.92*	*1.13*	*1.11*	*1.04*	*1.08*	*1.17*	*1.04*	*1.11*	*1.17*	*1.35*
Inflation rate	2)	9.8	8.9	8.0	7.1	6.3	5.5	4.7	4.1	3.4	2.9	2.5	2.1
		2000											
Consumer prices		3.4	3.7	3.8	3.4	3.7	4.1						
Regulated prices	1)	7.3	7.3	7.3	7.4	7.5	7.8						
(contribution to CPI inflation)	1)	*1.94*	*1.95*	*1.96*	*1.98*	*1.99*	*2.09*						
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.32*	*0.32*	*0.32*	*0.14*	*0.14*	*0.14*						
Net inflation		1.6	1.9	2.1	1.7	2.1	2.6						
(contribution to CPI inflation)	1)	*1.19*	*1.38*	*1.55*	*1.27*	*1.57*	*1.90*						
of which: food	1)	-0.6	0.0	0.1	-0.4	0.2	0.4						
(contribution to CPI inflation)	1)	*-0.16*	*0.00*	*0.02*	*-0.12*	*0.07*	*0.13*						
adjusted inflation	1)	3.1	3.2	3.5	3.2	3.4	4.0						
(contribution to CPI inflation)	1)	*1.35*	*1.39*	*1.53*	*1.39*	*1.49*	*1.77*						
Inflation rate	2)	2.1	2.2	2.3	2.4	2.5	2.6						

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
		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	0.8	0.1	-0.1	0.0	0.2	0.5
Regulated prices	1)	1.8	0.2	0.0	0.1	0.0	0.0	1.9	0.0	0.1	0.0	0.0	0.0
(contribution to CPI inflation)	1)	*0.46*	*0.04*	*0.01*	*0.02*	*0.01*	*0.01*	*0.49*	*0.00*	*0.02*	*0.00*	*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*	*0.32*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation		0.5	-0.1	-0.2	0.4	-0.1	0.2	0.0	0.1	-0.1	0.0	0.3	0.6
(contribution to CPI inflation)	1)	*0.36*	*-0.07*	*-0.17*	*0.27*	*-0.08*	*0.16*	*-0.01*	*0.06*	*-0.08*	*0.03*	*0.20*	*0.47*
of which: food	1)	0.9	-0.5	-0.7	0.0	-0.4	0.2	-1.2	-0.2	0.0	0.0	0.3	0.8
(contribution to CPI inflation)	1)	*0.25*	*-0.13*	*-0.19*	*0.00*	*-0.11*	*0.06*	*-0.35*	*-0.05*	*0.00*	*-0.01*	*0.09*	*0.22*
adjusted inflation	1)	0.2	0.1	0.0	0.6	0.1	0.2	0.7	0.3	-0.1	0.1	0.2	0.6
(contribution to CPI inflation)	1)	*0.11*	*0.06*	*0.02*	*0.27*	*0.03*	*0.10*	*0.33*	*0.12*	*-0.07*	*0.04*	*0.10*	*0.25*
		2000											
Consumer prices		1.7	0.2	0.0	-0.1	0.2	0.6						
Regulated prices	1)	4.8	0.1	0.1	0.2	0.1	0.4						
(contribution to CPI inflation)	1)	*1.29*	*0.04*	*0.02*	*0.05*	*0.02*	*0.10*						
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.00*	*0.00*	*0.00*	*-0.18*	*0.00*	*0.00*						
Net inflation		0.6	0.2	0.0	0.0	0.3	0.7						
(contribution to CPI inflation)	1)	*0.42*	*0.13*	*-0.01*	*-0.01*	*0.21*	*0.48*						
of which: food	1)	1.0	0.1	-0.6	-0.5	0.3	0.4						
(contribution to CPI inflation)	1)	*0.30*	*0.03*	*-0.17*	*-0.14*	*0.07*	*0.11*						
adjusted inflation	1)	0.3	0.2	0.3	0.3	0.3	0.8						
(contribution to CPI inflation)	1)	*0.12*	*0.10*	*0.15*	*0.13*	*0.14*	*0.37*						

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
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	53.8	53.9	53.8	53.8	54.2	54.9	53.2
Food, beverages, tobacco	327.1	35.3	34.7	33.8	33.8	33.3	33.6	32.6	32.3	32.3	32.3	32.7	33.7	33.4
Clothing	90.9	48.4	47.1	46.9	47.3	47.4	47.3	47.0	46.5	46.5	46.7	46.8	47.0	47.1
Housing	143.7	129.0	129.9	130.2	130.2	130.2	130.3	136.0	136.1	136.5	136.8	137.0	137.2	133.3
Household equipment	77.2	27.0	27.6	27.6	27.9	28.0	28.0	28.1	28.3	28.7	28.9	29.0	29.0	28.2
Health care	44.2	19.0	19.1	19.2	19.3	19.7	20.0	20.2	20.1	20.1	20.2	20.1	20.2	19.8
Transport	104.8	38.9	38.9	39.2	42.6	42.9	42.5	45.9	47.7	48.4	49.5	49.4	51.7	44.8
Leisure activities	97.5	38.5	39.1	38.4	38.1	38.2	39.7	43.1	43.2	40.0	38.5	39.7	40.7	39.8
Education	16.9	137.3	138.0	138.2	138.2	138.1	138.5	138.5	138.5	142.4	142.5	142.6	142.6	139.6
Catering and accommodation	47.2	48.0	48.2	48.5	49.1	49.2	50.1	50.7	50.6	50.5	50.6	50.6	50.8	49.7
Other goods and services	50.5	48.3	48.9	49.2	49.3	49.2	49.3	49.5	49.7	50.0	50.1	50.5	50.6	49.6
Total - 2000	1000.0	57.5	57.8	57.8	57.6	57.9	58.9							57.9
Food, beverages, tobacco	327.1	35.1	35.3	34.5	33.8	34.2	34.7							34.6
Clothing	90.9	46.6	45.0	44.4	44.4	44.6	44.7							45.0
Housing	143.7	148.9	149.3	149.5	150.2	150.5	150.9							149.9
Household equipment	77.2	29.2	29.1	29.2	29.3	29.1	28.9							29.1
Health care	44.2	20.3	20.4	20.6	20.6	20.8	20.9							20.6
Transport	104.8	53.3	54.1	57.9	57.4	59.1	64.3							57.7
Leisure activities	97.5	41.6	43.2	42.0	41.0	40.9	42.2							41.8
Education	16.9	144.5	145.1	145.1	145.1	145.1	145.8							145.1
Catering and accommodation	47.2	52.8	53.4	53.4	53.7	54.0	54.1							53.5
Other goods and services	50.5	53.2	53.6	53.8	53.9	54.1	54.1							53.8

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	0.0	0.1	-0.1	0.0	0.3	0.6
b) same period of previous year = 100	0.7	-0.1	-0.4	-0.3	-0.5	-0.6	-0.5	-0.1	-0.3	0.0	0.6	1.5
c) December of previous year = 100	0.5	0.4	0.2	0.5	0.4	0.6	0.6	0.7	0.6	0.6	0.9	1.5
	2000											
a) previous month = 100	0.6	0.2	0.0	0.0	0.3	0.7						
b) same period of previous year = 100	1.6	1.9	2.1	1.7	2.1	2.6						
c) December of previous year = 100	0.6	0.7	0.7	0.7	1.0	1.7						

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
motor vehicle owner registration	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 issuance	0.0808
	18.3239

CONSUMER PRICES - TRADABLES AND NONTRADABLES

change in %

	Constant weight in consumer basket in %	1994	1995	1996	1997	1998	1999	2000	
		months							
		12	12	12	12	12	12	6	
		a=b	a=b	a=b	a=b	a=b	a=b	a	b
1. Food, beverages, tobacco	32.7	12.0	5.4	7.9	5.6	-0.3	-0.3	0.8	0.8
- tradables	32.7	12.0	5.4	7.9	5.6	-0.3	-0.3	0.8	0.8
- nontradables	.	.	.	.	.	.	.	.	.
2. Clothing	9.1	9.2	10.9	9.6	9.1	3.1	-1.4	-1.6	-1.8
- tradables	8.8	9.2	10.7	9.6	9.0	2.9	-1.6	-1.8	-2.0
- nontradables	0.3	9.0	16.6	9.7	12.3	7.5	3.3	3.6	5.3
3. Housing	14.4	14.1	13.0	13.5	22.9	25.6	4.9	5.8	9.0
- tradables	1.1	10.5	9.7	9.4	37.1	18.0	4.2	-1.5	2.0
- nontradables	13.3	14.4	13.3	13.8	21.7	26.1	5.0	6.3	9.4
4. Household equipment	7.7	4.3	5.6	3.6	7.7	3.0	1.9	-0.1	0.7
- tradables	7.2	4.1	5.3	3.2	7.5	2.4	1.9	-0.4	0.3
- nontradables	0.5	6.4	9.1	9.0	10.3	9.4	2.5	3.3	4.8
5. Health care	4.4	2.4	4.3	2.2	6.5	2.3	1.0	0.6	0.8
- tradables	.	.	.	.	.	2.6	1.3	0.7	1.5
- nontradables	4.4	2.4	4.3	2.2	6.5	2.3	1.0	0.6	0.8
6. Transport	10.5	5.5	6.4	8.3	9.2	3.6	10.3	8.3	15.3
- tradables	7.5	3.0	3.0	6.2	6.2	-4.4	14.9	9.4	21.2
- nontradables	3.0	11.5	14.5	13.4	16.6	17.2	3.9	6.6	7.2
7. Leisure activities	9.8	5.7	9.9	4.5	9.7	3.7	1.9	1.1	1.8
- tradables	6.4	3.5	5.9	2.3	4.5	1.2	-0.5	0.9	0.0
- nontradables	3.4	12.0	21.3	11.0	19.8	7.0	5.0	1.3	4.3
8. Education	1.7	23.7	10.2	37.9	9.5	14.7	2.7	1.4	3.1
- tradables	.	.	.	.	.	.	.	.	.
- nontradables	1.7	23.7	10.2	37.9	9.5	14.7	2.7	1.4	3.1
9. Catering, accommodation	4.7	12.9	7.3	6.5	7.3	6.5	2.3	2.1	2.7
- tradables	0.1	3.1	21.3	9.9	17.7	12.4	9.4	5.0	2.8
- nontradables	4.6	13.2	6.9	6.4	7.0	6.3	2.1	2.0	2.7
10. Other goods and services	5.1	5.5	10.1	7.5	9.7	5.1	4.5	2.4	3.2
- tradables	3.2	5.9	5.8	5.0	7.1	1.5	1.0	0.1	0.7
- nontradables	1.9	4.7	17.4	11.7	14.3	10.0	9.0	5.0	6.3
Total household consumer prices	100.0	9.7	7.9	8.6	10.0	6.8	2.5	2.6	4.1
- tradables	67.3	8.7	6.0	6.7	7.1	0.7	1.3	1.2	2.3
- nontradables	32.7	11.9	11.9	12.5	15.9	16.9	4.3	4.5	6.7
Tradables - food	32.7	12.0	5.4	7.9	5.6	-0.3	-0.3	0.8	0.8
Tradables - others	34.6	5.6	6.5	5.6	8.3	1.6	3.0	1.5	3.7
Nontradables - regulated	18.3	9.0	9.7	11.2	19.7	20.7	4.2	5.8	8.0
Nontradables - others	14.4	14.2	12.3	14.4	9.3	11.1	4.3	2.3	4.4

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

Table 5

INFLATION EXPECTATIONS OF SELECTED ECONOMIC SECTORS FOR 12 MONTHS AHEAD

year-on-year change in %

	CPI			net inflation
	financial market	businesses	households	financial market
12/98				
1/99				
2/99				
3/99				
4/99				
5/99	5.0			3.5
6/99	4.7	4.3	3.6	3.2
7/99	4.8			3.1
8/99	4.2			2.6
9/99	3.9	3.9	2.1	2.6
10/99	4.1			2.6
11/99	3.9			2.7
12/99	4.2	3.9	3.1	2.8
1/00	4.0			2.8
2/00	4.5			3.0
3/00	4.5	4.3	4.1	3.2
4/00	4.2			2.7
5/00	4.1			2.4
6/00	4.4			2.9

Source: CNB statistical survey

Table 6

INTERNATIONAL SURVEY - CONSUMER PRICES

year-on-year change in %

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	12	12	12	12	12	12	12	12	12	6
1. Central and Eastern Europe										
Czech Republic	56.6	12.7	18.2	9.7	7.9	8.6	10.0	6.8	2.5	4.1
Slovakia	61.2	10.1	23.2	13.4	9.9	5.8	6.4	5.6	14.2	15.4
Hungary	35.0	23.0	22.5	18.8	28.2	23.6	18.4	10.3	11.2	9.1
Poland	70.3	43.0	35.3	29.5	27.8	19.9	13.0	8.6	9.8	10.2
Russia	193.0	1090.0	940.0	307.0	197.7	47.7	11.0	84.4	36.7	20.2
2. European Union countries										
Belgium	3.2	2.4	2.8	2.4	2.0	2.5	1.1	0.6	1.9	2.8
United Kingdom	5.9	3.7	1.6	2.4	3.2	2.5	3.6	2.8	1.8	3.3
France	3.2	2.4	2.1	1.6	2.1	1.7	1.1	0.3	1.3	1.7
Italy	6.5	5.3	4.2	3.9	5.8	2.6	1.5	1.5	2.1	2.7
Germany	3.5	4.0	4.1	3.0	1.8	1.4	1.8	0.5	1.2	1.9
Netherlands	3.7	3.2	2.6	2.7	1.6	2.5	2.3	1.7	2.2	2.7
Spain	5.9	5.9	4.6	4.7	4.3	3.2	2.0	1.4	2.9	3.4
Austria	3.3	4.0	3.3	2.9	1.8	2.3	1.0	0.7	1.4	2.7
Sweden	9.3	2.3	4.6	3.2	2.5	-0.2	1.9	-0.6	1.2	1.2
3. Other countries										
Japan	3.3	1.7	1.3	0.7	-0.3	0.6	1.7	0.6	-1.1	
Canada	5.6	1.5	1.8	-0.2	1.7	2.2	0.7	1.0	2.6	2.9
USA	4.2	3.0	3.0	2.6	2.5	3.3	1.7	1.6	2.7	3.7
Switzerland	5.8	4.0	3.3	1.0	1.9	0.8	0.4	-0.2	1.7	1.9

Source: The Economist

MONETARY SURVEY

position at month-end in CZK billions

		1993	1994	1995	1996	1997	1998	1999	2000
		12	12	12	12	12	12	12	5
Total assets		720.4	870.4	1039.6	1120.5	1217.6	1280.8	1384.9	1411.5
Net foreign assets		115.7	194.4	311.4	281.9	338.5	425.3	570.4	616.1
- assets		213.6	275.8	493.2	538.0	670.7	761.4	940.2	926.8
- liabilities		97.9	81.4	181.8	256.1	332.2	336.1	369.8	310.7
Net domestic assets		604.7	676.0	728.2	838.6	879.1	855.5	814.5	795.4
Domestic credits		713.9	817.5	929.5	1029.7	1137.7	1109.9	1095.8	1115.7
Net credit to the government sector		18.4	5.1	10.1	12.6	24.8	36.1	63.4	90.7
- net credit to government		35.1	23.1	25.4	28.5	37.9	45.4	73.6	93.6
- net credit to NPF		-16.7	-18.0	-15.3	-15.9	-13.1	-9.3	-10.2	-2.9
Client credits of commercial banks and CNB		695.5	812.4	919.4	1017.1	1112.9	1073.8	1032.4	1025.0
CZK credits		669.6	768.9	822.3	888.6	912.6	860.0	838.5	838.4
- businesses		576.8	661.1	720.5	785.1	808.2	756.3	729.6	729.3
- households		92.8	107.8	101.8	103.5	104.4	103.7	108.9	109.1
Foreign currency credits		25.9	43.5	97.1	128.5	200.3	213.8	193.9	186.6
- businesses		.	.	.	.	194.3	210.3	190.5	184.4
- households		.	.	.	.	6.0	3.5	3.4	2.2
Other net items		-109.2	-141.5	-201.3	-191.1	-258.6	-254.4	-281.3	-320.3
Liabilities									
M2	2)	720.4	870.4	1039.6	1120.5	1217.6	1280.8	1384.9	1411.5
M1	1)	359.9	421.8	453.3	475.3	445.1	433.4	479.8	507.4
Currency in circulation		59.8	84.0	104.3	118.9	119.3	127.2	157.9	159.7
CZK demand deposits		300.1	337.8	349.0	356.4	325.8	306.2	321.9	347.7
- households		109.3	131.5	148.8	155.7	153.2	144.0	162.6	189.9
- businesses		185.1	201.1	195.6	195.6	168.2	158.9	156.4	154.4
- insurance companies		5.7	5.2	4.6	5.1	4.4	3.3	2.9	3.4
Quasi money		360.5	448.6	586.3	645.2	772.5	847.4	905.1	904.1
CZK time deposits		303.1	387.8	498.8	559.5	634.0	674.7	657.1	713.6
- households		206.8	244.7	306.5	366.0	474.4	550.8	537.5	554.6
- businesses		60.0	102.9	150.2	172.7	133.9	91.8	83.0	135.8
- insurance companies		36.3	40.2	42.1	20.8	25.7	32.1	36.6	23.2
Certificates of deposit, deposit bills of exchange and other bonds	6)	.	.	.	.	.	30.2	100.1	42.7
Foreign currency deposits		57.4	60.8	87.5	85.7	138.5	142.5	147.9	147.8
- households		45.7	42.2	35.8	40.1	68.8	73.6	80.8	82.0
- businesses		11.7	18.6	51.7	45.6	69.7	68.9	67.1	65.8
Monetary aggregate L	3)	704.6	845.5	1019.0	1138.9	1241.8	1329.9	1443.9	1478.2
Year-on-year changes in %									
M1		17.5	17.2	7.5	4.9	-6.4	-2.6	10.7	18.1
M2	5)	19.8	19.9	19.8	9.2	10.1	5.2	8.1	7.5
L		19.8	20.0	20.5	11.8	9.0	7.1	8.6	7.8
Client credits of commercial banks and CNB		19.1	16.8	13.2	10.6	9.4	-3.5	-3.9	-6.5
Client deposits with banks	4)	21.8	19.1	21.8	7.1	9.7	2.3	0.3	4.7

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 12	1994 12	1995 12	1996 12	1997 12	1998 12	1999 12	2000 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	1073.8	1032.4	1025.0
year-on-year changes in %	19.1	16.8	13.2	10.6	9.4	-3.5	-3.9	-6.5
CZK credits								
absolute volumes in CZK billions	669.6	768.9	822.3	888.6	912.6	860.0	838.5	838.4
year-on-year changes in %	17.9	14.8	6.9	8.1	2.7	-5.8	-2.5	-2.8
Foreign currency credits								
absolute volumes in CZK billions	25.9	43.5	97.1	128.5	200.3	213.8	193.9	186.6
year-on-year changes in %	57.0	68.0	123.2	32.3	55.9	6.7	-9.3	-20.1
Adjusted credits 1)								
Total credits, CZK and foreign currency								
absolute volumes in CZK billions	696.2	807.6	906.1	1014.9	1101.9	1162.1	1170.4	1177.0
year-on-year changes in %	19.2	16.0	12.2	12.0	7.5	5.5	0.7	1.3
CZK credits								
absolute volumes in CZK billions	670.2	763.9	808.8	882.6	922.9	952.9	995.3	1014.0
year-on-year changes in %	18.1	14.0	5.9	9.1	3.3	3.3	4.4	6.0
Foreign currency credits								
absolute volumes in CZK billions	26.0	43.7	97.3	132.3	179.0	209.2	175.1	163.0
year-on-year changes in %	57.6	68.1	122.7	36.0	35.3	16.9	-16.3	-20.8

1) Adjusted for exchange rate effects, write-offs, interest capitalisation, banks with licences revoked and operations linked with restructuring of loan portfolios

CREDIT BREAKDOWN BY TIME, SECTOR AND TYPE

share in total in %

	1993 12	1994 12	1995 12	1996 12	1997 12	1998 12	1999 12	2000 5
Time structure								
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Short-term	41.8	40.5	41.9	43.5	42.0	41.1	37.9	37.0
Medium-term	28.3	30.2	29.1	25.7	24.8	22.4	23.5	21.1
Long-term	29.9	29.3	29.0	30.8	33.2	36.5	38.6	41.9
Sector structure								
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Businesses	93.3	94.3	88.9	89.8	90.2	90.0	89.1	89.1
Households	6.7	5.7	11.1	10.2	9.8	10.0	10.9	10.9
Type structure								
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Operating	50.4	47.5	51.5	50.9	52.9	53.0	51.2	50.5
Investment (incl. general housing construction)	33.9	33.6	33.2	32.4	31.3	32.4	32.3	31.0
Mortgage	0.4	0.1	0.1	1.0	1.6	2.2	2.9	3.6
Consumer	0.6	0.7	0.8	0.7	0.6	1.7	2.8	2.3
For privatisation	5.4	5.0	3.8	3.0	2.0	1.3	2.2	2.1
For temporary fund shortage	9.1	12.5	9.6	9.2	10.5	8.1	7.1	8.5
For securities purchase	0.2	0.6	1.0	2.8	1.1	1.3	1.5	2.0

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	2000
	12	12	12	12	12	12	12	6
1. AVERAGE PRIBOR RATE 1)								
- 1 day	5.47	10.75	10.83	12.44	12.55	10.84	5.21	5.27
- 7 day	5.90	12.28	11.17	12.61	16.64	10.56	5.32	5.28
- 14 day	6.14	12.38	11.20	12.61	16.77	10.54	5.40	5.29
- 1 month	6.68	12.55	11.01	12.63	17.49	10.46	5.59	5.30
- 2 month	7.34	12.61	10.97	12.62	17.54	10.27	5.58	5.31
- 3 month	8.00	12.65	10.93	12.67	17.50	10.08	5.58	5.33
- 6 month	9.21	12.65	10.89	12.55	17.41	9.56	5.64	5.40
- 9 month	10.69	12.65	10.89	12.25	17.39	9.38	5.72	5.55
- 12 month	11.90	12.66	10.90	12.23	17.36	9.31	5.84	5.69
2. AVERAGE PRIBID RATE 1)								
- 1 day	4.51	10.01	10.52	12.19	10.75	10.48	5.05	5.14
- 7 day	4.92	11.48	10.82	12.35	15.37	10.30	5.16	5.15
- 14 day	5.16	11.55	10.84	12.36	15.45	10.27	5.23	5.16
- 1 month	5.68	11.72	10.63	12.35	16.26	10.18	5.42	5.18
- 2 month	6.34	11.76	10.59	12.34	16.33	9.99	5.40	5.19
- 3 month	7.00	11.80	10.53	12.39	16.35	9.79	5.41	5.21
- 6 month	8.21	11.81	10.48	12.26	16.31	9.26	5.46	5.28
- 9 month	9.56	11.82	10.47	11.96	16.27	9.08	5.54	5.42
- 12 month	10.89	11.83	10.48	11.94	16.23	9.02	5.67	5.57

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

FRA RATES

monthly averages in %

	1997				1998				1999				2000	
	3	6	9	12	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	6.55	5.57	5.48	5.48
3 * 9	11.52	14.22	14.53	16.70	15.80	15.39	13.02	8.99	7.46	7.04	6.69	5.70	5.61	5.64
6 * 9	11.00	13.33	14.02	16.03	15.43	14.81	12.46	8.79	7.41	7.05	6.70	5.75	5.67	5.73
6 * 12	10.97	13.13	13.97	16.01	15.52	14.82	12.37	8.79	7.46	7.15	6.85	5.94	5.84	5.92
9 * 12	10.57	12.63	13.52	15.47	15.09	14.34	11.94	8.62	7.42	7.15	6.85	6.04	5.94	6.02
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	0.30	0.47	0.46	0.55
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	0.15	0.24	0.23	0.28

IRS RATES

monthly averages in %

	1997				1998				1999				2000	
	3	6	9	12	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	6.82	5.92	5.74	5.78
2Y	11.17	15.34	13.94	16.58	15.69	15.00	12.53	9.13	7.72	7.49	7.20	6.54	6.31	6.34
3Y	11.05	14.34	13.26	15.93	15.20	14.17	12.07	9.06	7.87	7.77	7.40	6.95	6.73	6.68
4Y	11.01	13.79	12.84	15.54	14.78	13.49	11.76	8.99	8.02	7.95	7.51	7.16	6.98	6.88
5Y	10.98	13.28	12.50	15.25	14.49	12.98	11.51	8.93	8.13	8.07	7.54	7.26	7.11	6.99
6Y	10.97	12.81	12.28	15.19	14.28	12.43	11.26	8.73	8.21	8.13	7.56	7.29	7.17	7.02
7Y	10.91	12.64	12.09	14.88	14.11	12.08	11.09	8.71	8.27	8.18	7.57	7.28	7.20	7.03
8Y	10.94	12.47	12.03	14.90	14.01	11.85	10.90	8.67	8.32	8.20	7.57	7.27	7.22	7.03
9Y	10.90	12.31	11.92	14.29	13.93	11.65	10.72	8.63	8.35	8.21	7.57	7.27	7.23	7.03
10Y	10.88	12.20	11.81	14.24	13.83	11.60	10.61	8.61	8.37	8.22	7.58	7.27	7.23	7.03
5Y - 1Y spread	-0.91	-4.78	-2.42	-2.30	-1.83	-2.99	-1.94	-0.60	0.46	0.86	0.73	1.34	1.36	1.21
10Y - 1Y spread	-1.01	-5.87	-3.11	-3.30	-2.50	-4.37	-2.84	-0.92	0.70	1.01	0.76	1.35	1.49	1.24

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
1/95	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
7/99	6.6	6.9	8.2	5.2	5.4	5.7	7.1	4.0	6.1	6.4	7.7
8/99	6.4	6.8	8.0	5.0	4.9	5.3	6.5	3.6	5.1	5.5	6.7
9/99	6.1	6.7	8.0	4.9	4.9	5.5	6.8	3.7	4.9	5.5	6.8
10/99	5.8	6.4	7.7	4.8	4.4	4.9	6.2	3.4	3.9	4.5	5.8
11/99	5.5	6.0	7.7	4.8	3.6	4.1	5.7	2.8	3.1	3.6	5.2
12/99	5.3	5.8	6.7	4.7	2.8	3.3	4.1	2.2	1.9	2.4	3.2
1/00	5.3	5.9	7.3	4.6	1.8	2.4	3.8	1.2	1.1	1.7	3.0
2/00	5.3	6.0	7.0	4.5	1.5	2.2	3.2	0.7	0.8	1.4	2.4
3/00	5.3	5.7	7.1	4.5	1.4	1.8	3.2	0.6	0.2	0.6	1.9
4/00	5.3	5.5	7.1	4.4	1.8	2.1	3.6	1.0	1.0	1.3	2.8
5/00	5.3	5.5	7.0	4.3	1.5	1.8	3.2	0.6	0.9	1.1	2.5
6/00	5.3	5.7			1.1	1.5			0.2	0.6	

Note: real rates = nominal rates deflated by y-o-y index (CPI/PPI) in given month
The average rates on credits in December 1999 were affected mainly by the settlement of medium-term loan receivables for which the interest rate was taken into account in the purchase price. These receivables are incorporated into the interest-rate statistics with a zero interest rate.

REAL INTEREST RATES (ex ante approach)

in %

	real rates expected by fin. markets				real rates expected by businesses				real rates expected by households			
	PRIBOR		client rates		PRIBOR		client rates		PRIBOR		client rates	
	1W	1Y	new credits	time deposits	1W	1Y	new credits	time deposits	1W	1Y	new credits	time deposits
12/98												
1/99												
2/99												
3/99												
4/99												
5/99	1.9	1.9	3.7	0.6								
6/99	2.1	2.3	4.2	0.6	2.5	2.7	4.6	1.0	3.2	3.4	5.3	1.7
7/99	1.7	2.0	3.3	0.3								
8/99	2.1	2.5	3.7	0.8								
9/99	2.1	2.7	4.0	1.0	2.1	2.7	4.0	1.0	3.9	4.5	5.8	2.8
10/99	1.7	2.2	3.4	0.7								
11/99	1.6	2.1	3.7	0.8								
12/99	1.1	1.6	2.4	0.5	1.4	1.9	2.7	0.8	2.2	2.7	3.5	1.6
1/00	1.3	1.8	3.2	0.6								
2/00	0.8	1.4	2.4	0.0								
3/00	0.8	1.2	2.5	0.0	1.0	1.3	2.7	0.2	1.1	1.5	2.9	0.4
4/00	1.0	1.3	2.8	0.2								
5/00	1.1	1.4	2.8	0.2								
6/00	0.8	1.2										

Note: real rates = nominal rates deflated by inflation expected by selected economic sectors according to the CNB statistical survey
The average rates on credits in December 1999 were affected mainly by the settlement of medium-term loan receivables for which the interest rate was taken into account in the purchase price. These receivables are incorporated into the interest-rate statistics with a zero interest rate.

COMMERCIAL BANK INTEREST RATES

in %

	1993	1994	1995	1996	1997	1998	1999	2000
	12	12	12	12	12	12	12	5
Newly drawn credits								
in CZK	14.6	13.7	13.1	13.6	16.5	11.9	6.7	7.0
- short-term	14.0	13.3	12.9	13.6	16.5	11.7	6.7	6.7
- medium-term	16.7	14.8	14.2	14.3	17.0	13.4	5.1	8.1
- long-term	14.5	14.2	13.3	12.5	16.0	11.7	10.2	8.4
in foreign currency	-	-	-	-	5.9	5.4	6.1	5.4
- short-term	-	-	-	-	5.9	5.3	6.2	5.4
- medium-term	-	-	-	-	5.6	5.9	5.3	6.3
- long-term	-	-	-	-	6.1	5.6	6.0	5.7
Credits								
in CZK	14.0	12.8	12.7	12.5	13.9	10.5	7.7	7.2
- short-term	15.4	12.7	12.5	12.4	14.1	10.6	7.4	7.0
- medium-term	15.6	14.5	14.2	13.5	14.6	10.7	8.3	7.9
- long-term	10.6	11.2	11.5	11.8	13.0	10.3	7.6	7.0
in foreign currency	-	-	-	-	6.1	6.4	6.6	6.8
- short-term	-	-	-	-	5.6	6.9	7.7	7.8
- medium-term	-	-	-	-	5.9	5.6	5.4	5.8
- long-term	-	-	-	-	6.7	6.0	5.9	6.3
Deposits								
in CZK	6.8	6.9	6.9	6.7	8.0	6.7	3.7	3.5
- demand	2.4	2.6	2.8	2.5	2.1	1.9	1.6	1.7
- time	10.7	10.6	10.0	9.2	10.9	8.7	4.7	4.3
- short-term	9.6	9.6	9.7	9.3	11.6	9.2	4.8	4.4
- medium-term	11.4	11.5	10.7	9.8	12.2	10.9	5.6	4.6
- long-term	13.0	11.3	8.8	6.2	5.2	4.2	3.6	3.5
in foreign currency	-	-	-	-	2.7	2.3	2.7	3.0
- demand	-	-	-	-	1.1	1.1	0.9	1.0
- time	-	-	-	-	3.7	3.2	4.0	4.4
- short-term	-	-	-	-	3.4	3.1	3.9	4.3
- medium-term	-	-	-	-	5.0	3.3	4.2	4.7
- long-term	-	-	-	-	5.5	3.5	4.7	5.0

The average rates on credits in December 1999 were affected mainly by the settlement of medium-term loan receivables for which the interest rate was taken into account in the purchase price. These receivables are incorporated into the interest-rate statistics with a zero interest rate.

BALANCE OF PAYMENTS 1)

in CZK millions

	1993	1994	1995	1996	1997	1998	1999 2)	2000 2) Q1
A. CURRENT ACCOUNT	13 286.7	-22 643.2	-36 331.3	-116 510.6	-101 856.2	-43 101.0	-36 615.0	-12 762.3
Balance of trade 3)	-15 313.0	-39 750.9	-97 598.6	-159 538.6	-144 025.9	-82 394.8	-71 281.8	-18 872.0
- exports	414 833.0	458 436.6	569 549.1	588 791.5	722 501.0	850 308.0	928 865.0	268 990.0
- imports	430 146.0	498 187.5	667 147.7	748 330.1	866 526.9	932 702.8	1 000 146.8	287 862.0
Services	29 465.2	14 052.8	48 881.2	52 198.9	55 935.0	57 854.7	42 544.3	8 225.6
Credit	137 691.2	148 404.0	178 270.4	222 030.4	227 193.6	241 801.2	239 622.6	52 687.5
- transport	36 186.6	35 757.9	38 757.4	36 209.6	41 661.6	44 829.3	53 433.9	11 999.2
- travel	45 437.4	64 170.3	76 301.3	110 620.0	115 700.0	120 000.0	105 000.0	21 500.0
- others	56 067.2	48 475.8	63 211.7	75 200.8	69 832.0	76 971.9	81 188.7	19 188.3
Debit	108 226.0	134 351.2	129 389.2	169 831.5	171 258.6	183 946.5	197 078.3	44 461.9
- transport	21 402.1	24 542.4	21 208.9	18 983.3	19 973.6	22 794.0	27 560.0	7 032.3
- travel	15 368.3	45 605.6	43 330.3	80 170.0	75 500.0	60 300.0	51 000.0	9 500.0
- others	71 455.6	64 203.2	64 850.0	70 678.2	75 785.0	100 852.5	118 518.3	27 929.6
Income	-3 424.7	-580.8	-2 804.0	-19 611.0	-25 102.4	-31 708.0	-25 564.1	-4 976.9
Credit	15 952.0	22 713.2	31 696.1	31 765.9	44 696.0	49 056.6	57 135.6	16 071.2
Debit	19 376.7	23 294.0	34 500.1	51 376.9	69 798.4	80 764.6	82 699.7	21 048.1
Current transfers	2 559.2	3 635.7	15 190.1	10 440.1	11 337.1	13 147.1	17 686.6	2 861.0
Credit	7 024.5	8 523.3	17 631.6	16 752.7	27 402.5	25 387.9	36 784.3	6 589.8
Debit	4 465.3	4 887.6	2 441.5	6 312.6	16 065.4	12 240.8	19 097.7	3 728.8
B. CAPITAL ACCOUNT	-16 175.0	-	179.1	15.6	315.9	65.8	-73.2	-54.3
Credit	5 976.0	-	307.8	28.1	493.0	454.6	637.3	39.7
Debit	22 151.0	-	128.7	12.5	177.1	388.8	710.5	94.0
Total A + B	-2 888.3	-22 643.2	-36 152.2	-116 495.0	-101 540.3	-43 035.2	-36 688.2	-12 816.6
C. FINANCIAL ACCOUNT	88 184.7	97 019.7	218 288.5	113 582.5	34 319.1	94 324.5	85 929.1	35 533.1
Direct investment	16 421.8	21 551.1	67 021.2	34 624.8	40 451.4	85 224.0	169 936.5	36 846.8
- abroad	-2 628.6	-3 443.3	-971.6	-4 150.0	-800.0	-2 538.8	-6 807.4	-721.6
- in the Czech Republic	19 050.4	24 994.4	67 992.8	38 774.8	41 251.4	87 762.8	176 743.9	37 568.4
Portfolio investment	46 658.5	24 595.9	36 144.4	19 692.5	34 438.9	34 508.2	-48 268.9	-12 601.6
Assets	-6 686.9	-1 327.1	-8 565.6	-1 291.1	-6 006.8	-755.1	-65 608.0	-19 608.7
- equity securities	-6 686.9	-1 327.1	-8 565.6	-1 291.1	19.9	3 855.7	-18 047.8	-17 299.3
- debt securities					-6 026.7	-4 610.8	-47 560.2	-2 309.4
Liabilities	53 345.4	25 923.0	44 710.0	20 983.6	40 445.7	35 263.3	17 339.1	7 007.1
- equity securities	32 569.8	14 369.8	32 761.7	16 340.9	13 783.7	34 846.2	4 394.2	6 759.3
- debt securities	20 775.6	11 553.2	11 948.3	4 642.7	26 662.0	417.1	12 944.9	247.8
Financial derivatives	.	.	.	.	.	.	.	-1 880.9
- assets	.	.	.	.	.	.	.	-6 804.4
- liabilities	.	.	.	.	.	.	.	4 923.5
Other investment	25 104.4	50 872.7	115 122.9	59 265.2	-40 571.2	-25 407.7	-35 738.5	13 168.8
Assets	-83 911.4	-69 582.4	-66 050.8	-64 646.8	-142 725.1	-48 192.1	-91 796.2	39 233.3
Long-term	13 340.8	12 046.4	1 384.4	-10 769.8	-11 117.6	-24 853.5	-23 339.5	9 061.3
- CNB								
- commercial banks	-1 431.5	-31.7	-3 353.6	-14 168.2	-11 907.4	-26 952.8	-25858.5	7464.5
- government	8 323.3	8 175.1	3 335.0	1 286.4	519.8	630.3	977.5	124.7
- other sectors	6 449.0	3 903.0	1 403.0	2 112.0	270.0	1 469.0	1541.5	1472.1
Short-term	-97 252.2	-81 628.8	-67 435.2	-53 877.0	-131 607.5	-23 338.6	-68 456.7	30 172.0
- CNB								
- commercial banks	2 163.0	-4 289.4	-2 446.2	-48 976.0	-122 038.5	-21 641.6	-63 804.7	35 681.0
- 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	-1 697.0	-4 652.0	-5 509.0
Liabilities	109 015.8	120 455.1	181 173.7	123 912.0	102 153.9	22 784.4	56 057.7	-26 064.5
Long-term	10 131.9	19 865.1	87 965.8	95 193.1	24 047.6	-4 485.0	12 369.3	-3 761.1
- CNB	1 297.3	-31 712.7	997.8		-368.0	-216.4	-2 083.5	-11.5
- commercial banks	-2 116.6	11 189.6	60 359.6	46 733.5	-14 875.5	-14 399.2	-7 651.1	-6 504.5
- government	-3 421.5	-5 249.5	-12 047.3	-7 132.6	-11 581.9	-11 765.4	-6 384.3	-873.3
- other sectors	14 372.7	45 637.7	38 655.7	55 592.2	50 873.0	21 896.0	28 488.2	3 628.2
Short-term	98 883.9	100 590.0	93 207.9	28 718.9	78 106.3	27 269.4	43 688.4	-22 303.4
- CNB	1 670.5	-1 634.7	77.1	-59.6	-9.9	-6.0	84.9	-9.8
- commercial banks	2 481.8	14 016.0	27 636.1	30 574.9	67 383.7	24 445.9	36 615.6	-19 351.4
- government (liability vis-à-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	3 046.0	7 091.1	-2 942.2
Total A + B + C	85 296.4	74 376.5	182 136.3	-2 912.5	-67 221.2	51 289.3	49 240.9	22 716.5
D. NET ERRORS AND OMISSIONS, VALUATION CHANGES	3 019.8	-6 121.9	15 779.4	-19 562.6	11 181.2	11 325.7	7 895.8	-4 752.5
Total A + B + C + D	88 316.2	68 254.6	197 915.7	-22 475.1	-56 040.0	62 615.0	57 136.7	17 964.0
E. CHANGE IN RESERVES (- increase)	-88 316.2	-68 254.6	-197 915.7	22 475.1	56 040.0	-62 615.0	-57 136.7	-17 964.0

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	2000
	1 Jan.	31 Dec.	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	1 086 118.9	1 354 659.2	1 377 739.7
Direct investment abroad	2 634.0	5 432.9	8 426.9	9 190.1	13 609.2	18 989.4	24 003.5	32 670.9	33 652.5
- equity capital 2)	2 634.0	5 432.9	8 426.9	9 190.1	13 609.2	18 385.1	21 901.2	30 508.6	31 480.2
- other capital 3)	.	.	.	.	.	604.3	2 102.3	2 162.3	2 172.3
Portfolio investment	226.0	8 258.0	12 138.0	20 076.9	37 511.2	35 738.9	35 872.4	104 345.3	127 841.1
- equity securities	226.0	7 911.1	9 370.5	18 422.0	20 450.3	14 442.0	13 415.5	66 318.2	81 008.9
- debt securities	.	346.9	2 767.5	1 654.9	17 060.9	21 296.9	22 456.9	38 027.1	46 832.2
Financial derivatives 4)									8 650.0
Other investment	378 895.6	406 717.6	377 187.3	378 388.3	444 985.4	636 938.5	649 560.0	756 213.8	738 213.9
Long-term	232 823.7	249 198.8	229 026.4	214 430.3	234 849.6	293 037.3	285 940.4	321 246.6	317 894.5
- CNB 5)	23 102.5	24 572.5	24 573.3	26 172.3	26 122.8	26 122.4	26 122.4	.	
- commercial banks 6)	365.9	1 852.3	1 763.0	5 116.6	25 181.3	37 088.8	64 041.6	89 900.1	82 435.6
- government 7) 8)	167 429.3	186 968.0	174 784.1	157 950.4	160 949.7	203 922.8	174 825.0	208 832.9	214 296.4
- other sectors	41 926.0	35 806.0	27 906.0	25 191.0	22 595.8	25 903.3	20 951.4	22 513.6	21 162.5
Short-term	146 071.9	157 518.8	148 160.9	163 958.0	210 135.8	343 901.2	363 619.6	434 967.2	420 319.4
- CNB 9)	4.7	4.7	4.7	4.7	4.7	0.1	0.1	.	3 006.2
- commercial banks 6)	82 456.2	83 133.2	80 820.2	87 176.3	128 481.1	250 670.9	272 219.5	336 117.2	313 193.2
of which: gold and foreign currency 10) 11)	79 040.1	70 727.5	71 232.8	76 126.9	95 432.8	172 301.6	175 753.2	218 995.8	211 241.2
- government	.	5 501.9	.	.	.	.	.	.	.
- other sectors	63 611.0	68 879.0	67 336.0	76 777.0	81 650.0	93 230.2	91 400.0	98 850.0	104 120.0
CNB reserves 12)	24 347.4	115 980.2	175 121.9	373 037.7	339 884.0	338 524.7	376 683.0	461 429.2	469 382.2
- gold 10)	2 488.2	2 466.4	2 309.3	2 234.6	2 290.3	1 521.9	369.1	677.0	1 649.4
- SDRs	852.5	247.3	.	4.7	.	.	.	.	5.1
- foreign currency	21 006.7	113 266.5	172 812.6	370 798.4	337 593.7	337 002.8	376 313.9	460 752.2	454 754.5
- other reserve assets									12 973.2
LIABILITIES	307 887.2	423 237.7	507 337.9	723 101.9	906 073.2	1 138 248.1	1 204 984.0	1 438 285.3	1 490 159.8
Direct investment in the Czech Republic	83 488.7	102 539.1	127 533.5	195 526.3	234 301.1	319 820.3	429 167.8	584 524.0	622 017.4
- equity capital 2) 13)	83 488.7	102 539.1	127 533.5	195 526.3	234 301.1	284 674.7	364 816.5	517 672.7	555 241.1
- other capital 3)	.	.	.	.	.	35 145.6	64 351.3	66 851.3	66 776.3
Portfolio investment	4 812.9	58 583.9	81 617.5	124 933.6	144 807.4	169 032.7	166 128.1	165 579.2	196 745.7
- equity securities	75.0	32 985.2	37 335.6	70 280.4	92 867.8	104 862.3	113 247.2	98 011.8	137 418.3
- debt securities	4 737.9	25 598.7	44 281.9	54 653.2	51 939.6	64 170.4	52 880.9	67 567.4	59 327.4
Financial derivatives 4)									7 132.6
Other investment	219 585.6	262 114.7	298 186.9	402 642.0	526 964.7	649 395.1	609 688.1	688 182.1	664 264.1
Long-term	158 430.0	192 426.3	207 289.7	279 388.9	374 814.7	426 270.1	358 510.5	393 389.0	390 218.2
- CNB	31 109.9	33 697.4	1 695.7	2 491.5	2 272.7	2 188.3	1 883.3	197.1	194.4
- commercial banks 6)	14 491.1	16 175.5	26 040.1	90 299.3	143 454.2	143 120.2	124 286.3	118 368.9	110 223.7
- government 7)	70 771.0	82 295.1	76 533.9	53 200.2	44 003.7	38 001.1	23 789.1	20 813.0	20 220.1
- other sectors	42 058.0	60 258.3	103 020.0	133 397.9	185 084.1	242 960.5	208 551.8	254 010.0	259 580.0
Short-term	61 155.6	69 688.4	90 897.2	123 253.1	152 150.0	223 125.0	251 177.6	294 793.1	274 045.9
- CNB	8.2	4 581.0	37.9	115.0	55.3	45.5	39.5	124.4	768.6
- commercial banks 6)	19 527.4	22 249.3	41 339.9	69 502.9	101 543.5	168 927.1	193 373.0	229 988.7	210 637.3
- 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	57 661.9	64 680.0	62 640.0
NET INVESTMENT POSITION	98 215.8	113 151.0	65 536.2	57 591.1	-70 083.4	-108 056.6	-118 865.1	-83 626.1	-112 420.1

1) Preliminary data
2) Since 31 December 1997, equity capital has also included 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) Financial derivatives have been recorded since 31 March 2000 (from banks' position)
5) As of end-1999 the receivable from the National Bank of Slovakia was transferred from the non-resident position to the resident position
6) 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)
7) 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
8) Including foreign exchange shares in international non-monetary organisations (The World Bank, EBRD, IBEC, IIB)
9) Since 31 March 2000, this item has included gold not recorded in CNB reserves
10) Gold valued at USD 42.22 per Troy ounce (by 31 December 1999, market valuation (since 31 March 2000)
11) Foreign exchange - convertible currencies
12) In compliance with IMF requirements, CNB reserves have been recorded with a more detailed breakdown (since 31 March 2000)
13) Since 1998, direct investment has included data on equity capital from the balance sheets of companies with foreign ownership

EXTERNAL DEBT

in CZK millions

	1993	1993	1994	1995	1996	1997	1998	1999	2000
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)	31 Mar. 1)
DEBT IN CONVERTIBLE CURRENCIES	204 674.7	254 488.1	299 960.7	440 229.3	569 723.6	739 563.0	717 923.6	813 675.1	788 573.1
of which:									
Long-term	152 695.1	194 525.0	218 944.5	306 034.4	405 143.6	495 058.5	446 484.3	497 872.1	486 517.1
By debtor									
- CNB	35 399.8	58 836.1	22 845.3	22 268.0	11 178.4	11 548.4	10 952.2	12 527.6	12 583.7
- commercial banks 2)	14 491.1	16 175.5	27 620.1	95 433.3	150 780.1	158 503.7	133 376.5	128 703.3	120 539.2
- government	61 147.2	59 477.1	61 763.4	52 101.7	46 738.6	42 877.1	32 927.8	32 263.6	26 325.4
- other sectors	41 657.0	60 036.3	106 715.7	136 231.4	196 446.5	282 129.3	269 227.8	324 377.6	327 068.8
By creditor									
- foreign banks	62 121.2	82 449.5	123 078.4	215 916.7	297 305.5	355 794.1	286 227.5	317 042.6	311 595.8
- government institutions	6 685.9	7 346.8	7 482.1	7 039.1	6 631.8	7 269.4	4 409.6	4 239.2	3 955.1
- multilateral institutions	50 127.1	53 292.0	21 036.1	21 381.4	21 250.4	18 825.6	11 520.8	12 786.4	12 310.4
- suppliers and direct investors	29 023.0	25 838.0	32 601.0	24 567.0	27 116.0	46 465.5	72 624.6	79 614.6	82 144.6
- other investors	4 737.9	25 598.7	34 746.9	37 130.2	52 839.9	66 703.9	71 701.8	84 189.3	76 511.2
Short-term	51 979.6	59 963.1	81 016.2	134 194.9	164 580.0	244 504.5	271 439.3	315 803.0	302 056.0
By debtor									
- CNB	7.9	4 581.0	37.9	115.0	55.3	45.5	39.5	124.4	768.6
- commercial banks 2)	17 819.7	21 117.0	32 610.3	71 911.8	106 852.6	170 147.0	193 373.0	230 000.5	217 775.7
- government	.	.	9 535.0	15 114.0	2 786.0	8 164.0	22.0	7.0	
- other sectors	34 152.0	34 265.1	38 833.0	47 054.1	54 886.1	66 148.0	78 004.8	85 671.1	83 511.7
By creditor									
- foreign banks	11 402.7	22 256.0	28 467.5	58 874.2	85 424.0	142 463.2	175 604.1	213 965.3	203 655.3
- suppliers and direct investors	33 069.0	29 664.0	34 132.0	41 986.4	45 914.0	57 831.1	67 446.7	69 736.7	68 351.7
- other investors	7 507.9	8 043.1	18 416.7	33 334.3	33 242.0	44 210.2	28 388.5	32 101.0	30 049.0
DEBT IN NON-CONVERTIBLE CURRENCIES 3)	19 648.8	33 225.3	42 508.1	17 065.9	9 180.7	9 148.1	8 996.7	8 925.7	8 927.3
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	8 925.7	8 927.3
- short-term	9 176.0	9 725.3	19 416.0	6 581.2	314.8	287.5	103.2	.	.
TOTAL EXTERNAL DEBT	224 323.5	287 713.4	342 468.8	457 295.2	578 904.3	748 711.1	726 920.3	822 600.8	797 500.4
of which:									
- long-term	163 167.9	218 025.0	242 036.6	316 519.1	414 009.5	503 919.1	455 377.8	506 797.8	495 444.4
- short-term	61 155.6	69 688.4	100 432.2	140 776.1	164 894.8	244 792.0	271 542.5	315 803.0	302 056.0

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, whereas in the 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) Debt 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	2000
	1-12	1-12	1-12	1-12	1-12	1-12	1-12	1- 6
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES								
1 ECU	34.11	34.06	34.31	34.01	35.80	36.16	.	.
1 EUR	.	.	.	.	.	.	36.88	36.04
1 GBP	43.78	44.03	41.89	42.33	51.95	53.45	55.97	58.87
1 FRF	5.15	5.19	5.32	5.31	5.43	5.47	5.62	5.49
1000 ITL	18.56	17.85	16.30	17.59	18.61	18.57	19.05	18.61
100 JPY	26.32	28.15	28.34	24.99	26.29	24.71	30.53	35.14
1 CAD	22.61	21.09	19.34	19.90	22.91	21.83	23.29	25.57
1 NLG	15.70	15.82	16.53	16.11	16.24	16.26	16.74	16.35
1 ATS	2.51	2.52	2.63	2.57	2.60	2.61	2.68	2.62
1 DEM	17.64	17.75	18.52	18.06	18.28	18.33	18.86	18.43
1 CHF	19.74	21.06	22.45	22.02	21.85	22.26	23.05	22.73
1 USD	29.16	28.78	26.55	27.14	31.71	32.27	34.60	37.51
100 SKK	.	.	89.49	88.57	94.18	91.61	83.64	85.49
	12	12	12	12	12	12	12	6
1 ECU	33.59	34.20	34.01	34.09	38.69	35.34	.	.
1 EUR	.	.	.	.	.	.	36.05	36.02
1 GBP	44.37	43.99	41.00	45.48	57.72	50.20	57.46	57.28
1 FRF	5.09	5.21	5.37	5.21	5.84	5.38	5.50	5.49
1000 ITL	17.63	17.28	16.71	17.90	19.94	18.18	18.62	18.60
100 JPY	27.12	28.18	26.21	24.05	26.87	25.55	34.75	35.74
1 CAD	22.34	20.34	19.47	20.10	24.37	19.51	24.16	25.69
1 NLG	15.54	16.02	16.53	15.71	17.35	15.97	16.36	16.34
1 ATS	2.48	2.55	2.63	2.51	2.78	2.56	2.62	2.62
1 DEM	17.41	17.94	18.50	17.63	19.55	18.00	18.43	18.42
1 CHF	20.30	21.21	22.89	20.64	24.16	22.10	22.52	23.07
1 USD	29.76	28.22	26.66	27.34	34.73	30.06	35.63	37.98
100 SKK	.	.	89.76	86.42	100.58	83.04	84.70	84.92

B. NOMINAL EFFECTIVE RATE

	1993	1994	1995	1996	1997	1998	1999	2000
								6
Nominal CZK effective exchange rate index (1995 = 100)	89.84	95.79	100.00	102.21	99.48	102.47	106.81	107.98

Nominal effective exchange rate indices have been calculated by weighting exchange rates with shares in trade turnover for 22 countries which cover around 90% of the Czech Republic's foreign trade. Resultant values above 100 represent appreciation of the nominal effective exchange rate vis-à-vis the base period and values below 100 represent depreciation.

C. REAL EFFECTIVE RATE

	1993	1994	1995	1996	1997	1998	1999	2000
								5
Real CZK effective exchange rate index (1995 = 100)								
a) consumer prices	95.51	97.82	100.00	105.23	106.94	117.25	117.22	114.57
b) industrial producer prices	99.96	99.94	100.00	103.03	102.14	109.40	111.63	109.60

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	2000
	1-12	1-12	1-12	1-12	1-12	1-12	1-12	1- 5
STATE BUDGET								
TOTAL REVENUES	358.0	390.5	440.0	482.8	509.0	537.4	567.3	221.2
Tax revenues	330.2	360.1	409.7	457.4	478.4	509.6	540.1	208.7
Income tax	71.9	70.2	72.7	78.3	74.8	87.4	86.4	28.3
Social security insurance	106.0	130.0	154.3	174.3	191.0	203.9	210.9	86.7
Property tax	0.8	2.1	3.2	3.9	5.0	6.3	6.8	2.7
Domestic taxes on goods and services	111.8	136.4	155.4	174.8	186.3	191.5	216.7	82.4
- VAT	70.4	85.8	94.8	109.3	117.6	119.4	138.3	55.5
- excise taxes	37.1	46.4	56.7	61.2	64.2	67.8	73.1	24.4
Foreign trade taxes	15.2	17.4	17.4	19.7	14.9	13.6	12.1	5.2
Other tax revenues	24.4	4.1	6.7	6.4	6.4	6.9	7.3	3.5
Non-tax revenues	27.8	30.4	30.3	25.4	30.5	27.6	27.1	12.5
Corporate and property revenues	14.7	12.8	7.3	8.5	8.5	7.4	7.7	.
Fees, fines and penalties and other non-tax revenues	4.0	8.2	16.7	10.4	13.6	14.5	15.4	.
Government credit repayments	9.0	9.4	6.3	6.5	8.4	5.7	4.0	.
TOTAL EXPENDITURES	356.9	380.1	432.7	484.4	524.7	566.7	596.9	234.7
Current expenditures	324.6	346.7	388.6	427.3	474.1	516.2	537.9	220.6
Expenditures on goods and services	125.6	121.2	109.8	123.5	126.7	141.5	154.9	56.6
Debit interest	13.7	.	2.6	14.0	17.6	19.8	16.3	8.1
Subsidies and current transfers	180.3	218.3	268.7	285.7	326.2	349.8	363.5	155.4
Subsidies	42.8	49.3	77.1	84.5	92.5	104.5	96.9	36.2
- to businesses	29.3	27.0	27.8	27.3	33.2	44.9	29.9	10.9
- to subsidised organisations	13.5	22.3	49.3	57.3	59.3	59.6	67.0	25.3
Transfers	137.4	169.1	191.5	201.1	233.7	245.3	266.6	119.2
- to local budgets	17.0	29.3	33.3	16.8	24.7	17.9	20.9	11.6
- to households	116.6	136.9	155.6	181.0	206.0	222.8	239.9	106.4
- abroad	.	.	.	.	.	1.7	1.2	.
Government credits	5.0	7.2	7.6	4.1	3.6	5.1	3.2	.
Capital expenditures	32.3	33.3	44.1	57.1	50.6	50.5	59.0	14.1
Investment expenditures to budgetary organisations	19.0	19.7	21.5	24.9	16.4	16.5	20.0	5.3
Capital transfers	13.3	13.6	22.7	32.1	34.2	34.0	39.0	8.8
BALANCE								
Public budgets	23.3	5.5	2.9	-21.9	-27.8	-27.5	-10.7	
state budget	1.1	10.4	7.2	-1.6	-15.7	-29.3	-29.6	-13.5
local budget	0.9	-1.1	-3.2	-9.4	-4.8	1.5	18.5	-0.5
state financial assets	1.5	1.0	-2.7	-2.3	-2.5	3.7	-5.2	
state funds	0.1	0.4	0.0	1.1	1.7	0.9	0.7	
Land Fund	1.3	1.1	1.2	0.6	-1.6	0.1	-0.3	
National Property Fund	13.4	-5.4	4.0	-5.9	-4.5	-5.1	2.9	
health insurance companies	5.0	-0.9	-3.6	-4.4	-0.4	0.7	2.3	

CAPITAL MARKET

A. SHARE MARKET INDICES

last day of the month in points

	1997	1998				1999				2000	
	12	3	6	9	12	3	6	9	12	3	6
PX-50	495	505	467	360	394	388	484	503	490	644	525
PX-GLOB	599	615	568	460	478	472	574	596	588	740	620
PK-30	664	698	656	521	564	569	703	720	713	956	781

B. TRADE VOLUMES

in CZK millions

	1997	1998				1999				2000	
	12	3	6	9	12	3	6	9	12	3	6
PRAGUE STOCK EXCHANGE											
Total trade volume	63 249	52 525	88 271	87 771	92 553	103 009	89 889	105 297	99 604	163 230	144 868
of which:											
a) automated system	1 368	1 718	6 210	11 892	6 772	10 791	14 158	11 832	11 554	43 573	16 569
b) direct and block trades	61 881	50 807	82 061	75 879	85 781	92 218	75 731	93 465	88 050	119 657	128 299
RM-SYSTÉM											
Total trade and transfer volume	36 870	17 562	22 163	11 271	20 837	16 020	12 848	5 631	22 015	4 554	4 664
of which:											
a) continuous auction	547	1 036	643	552	491	611	688	469	446	772	370
b) direct and block trades	36 290	16 520	21 425	10 715	20 334	15 409	12 160	5 162	21 569	3 782	4 294
c) transfers with declared price	33	6	95	4	12	.	.	.	.	.	.
SECURITIES CENTRE											
Total volume of charged transfers	150 980	138 738	153 081	159 095	141 892	162 739	156 822	155 629	201 904	249 748	278 785

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 January	-	-	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				
30 July		6.25				
3 September		6.00	5.5	8.0		
5 October		5.75				
7 October					**2.0**	**2.0**
27 October		5.50	**5.0**	**7.5**		
26 November		**5.25**				

MACROECONOMIC AGGREGATES

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

	1994 Q1 - 4	1995 Q1 - 4	1996 Q1 - 4	1997 Q1 - 4	1998 Q1 - 4	1999 Q1 - 4	2000 Q1
GROSS DOMESTIC PRODUCT							
- in CZK billions	1303.6	1381.1	1447.7	1432.8	1401.3	1397.9	340.1
- in %	2.2	5.9	4.8	-1.0	-2.2	-0.2	4.4
FINAL CONSUMPTION							
- in CZK billions	949.9	976.8	1035.1	1051.4	1028.5	1037.2	234.4
- in %	4.8	2.8	6.0	1.6	-2.2	0.8	1.3
of which:							
Households							
- in CZK billions	654.2	692.1	740.1	753.6	731.4	741.3	168.7
- in %	5.6	5.8	6.9	1.8	-2.9	1.4	1.1
Government							
- in CZK billions	287.2	275.1	284.8	287.1	284.4	284.2	63.3
- in %	3.1	-4.2	3.5	0.8	-0.9	-0.1	1.9
Non-profit institutions							
- in CZK billions	8.5	9.6	10.2	10.7	12.7	11.7	2.4
- in %	.	12.9	6.3	4.9	18.7	-7.9	0.0
GROSS CAPITAL FORMATION - TOTAL							
- in CZK billions	384.2	470.0	525.4	494.5	470.4	456.3	125.5
- in %	18.5	22.3	11.8	-5.9	-4.9	-3.0	2.2
of which:							
Fixed capital							
- in CZK billions	369.2	442.4	478.5	464.7	446.4	421.7	82.6
- in %	9.1	19.8	8.2	-2.9	-3.9	-5.5	1.2
Inventories and reserves							
- in CZK billions	15.0	27.6	46.9	29.8	24.0	34.6	42.9
TRADE BALANCE							
- in CZK billions	-30.5	-65.7	-112.8	-113.1	-97.6	-95.6	-19.8
of which:							
Exports of goods and services							
- in CZK billions	635.0	740.8	809.2	875.0	968.9	1032.7	282.9
- in %	1.7	16.7	9.2	8.1	10.7	6.6	22.9
Imports of goods and services							
- in CZK billions	665.5	806.5	922.0	988.1	1066.5	1128.3	302.7
- in %	14.7	21.2	14.3	7.2	7.9	5.8	17.1
DOMESTIC DEMAND (excl. change in inventories)							
- in CZK billions	1319.1	1419.2	1513.6	1516.1	1474.9	1458.9	317.0
- in %	5.9	7.6	6.7	0.2	-2.7	-1.1	1.3
AGGREGATE DEMAND (excl. change in inventories)							
- in CZK billions	1954.1	2160.0	2322.8	2391.1	2443.8	2491.6	599.9
- in %	4.5	10.5	7.5	2.9	2.2	2.0	10.5
GROSS DOMESTIC PRODUCT IN CURRENT PRICES							
- in CZK billions	1182.8	1381.1	1572.3	1668.8	1798.3	1836.3	439.0
- in %	15.9	16.8	13.8	6.1	7.8	2.1	3.6
PRICE DEFLATOR							
- in %	13.4	10.2	8.6	7.2	10.2	2.4	-0.8

Source: CSO

LABOUR MARKET

A. HOUSEHOLD CURRENT INCOMES AND EXPENDITURES

y-o-y change in %

	1993	1994	1995	1996	1997	1998	1999	2000
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
Current incomes	.	.	.	15.2	8.8	5.7	1.6	3.5
of which:								
- compensation of employees	.	.	.	17.8	6.9	6.3	3.1	2.3
- miscellaneous income	.	.	.	5.6	0.8	5.4	-3.6	2.8
- property income	.	.	.	9.1	21.0	7.4	-17.7	-9.0
- social benefits	.	.	.	17.0	13.5	9.9	8.4	13.5
- other current transfers	.	.	.	24.0	28.2	-12.1	16.4	2.5
Current expenditures	.	.	.	16.7	8.0	6.3	3.0	-0.7
of which:								
- property income	.	.	.	0.2	0.5	-4.1	-19.3	-7.0
- current taxes on income and wealth	.	.	.	18.1	9.8	7.6	0.5	0.4
- social contributions	.	.	.	15.5	7.1	5.8	4.4	4.0
- other current transfers	.	.	.	32.4	13.6	11.2	9.7	-16.6
Disposable income	.	.	.	14.5	9.2	5.5	1.0	5.8
Changes in net share of households in pension fund reserves	.	.	.	60.6	-4.2	-17.6	29.7	9.1
Expenditures on individual consumption	.	.	.	15.6	10.0	6.5	3.4	5.3
Savings	.	.	.	9.7	2.2	-4.5	-12.8	9.5
Household savings ratio (savings/disposable income - ratio in %)	.	.	.	12.0	11.2	13.6	11.8	11.2

B. AVERAGE WAGES

y-o-y change in %

	1993	1994	1995	1996	1997	1998	1999	2000
	Q1 - 4	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	9.4	8.2	6.7
Business sector	.	18.2	19.2	17.7	11.7	11.0	7.1	8.1
Non-business sector	.	19.8	17.0	20.7	5.8	3.9	13.1	2.7
Overall real wage	3.7	7.7	8.7	8.8	1.9	-1.2	6.0	3.0
Business sector	.	7.4	9.2	8.2	2.9	0.3	4.9	4.3
Non-business sector	.	8.9	7.3	10.9	-2.5	-6.1	10.8	-0.9

C. UNEMPLOYMENT

as of end of period

	1993	1994	1995	1996	1997	1998	1999	2000
	12	12	12	12	12	12	12	6
Registered job applicants (thousands)	185.2	166.5	153.0	186.3	268.9	386.9	487.6	451.4
Unemployment rate in %	3.5	3.2	2.9	3.5	5.2	7.5	9.4	8.7

Source: CSO

PRODUCTION

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

	1993	1994	1995	1996	1997	1998	1999	2000
	Q1 - 4	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	-3.1	4.8
CONSTRUCTION								
TOTAL CONSTRUCTION OUTPUT 3) 4)	-7.5	7.5	8.5	5.3	-3.9	-7.0	-6.5	1.7
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 both registered and not registered in the companies register included
4) Constant prices
5) Constant 1989 prices

Source: CSO

PRODUCER PRICES

change in %

	1995		1996		1997		1998		1999		2000	
	12	average	12	average	12	average	12	average	12	average	6	average
INDUSTRIAL PRODUCER PRICES												
a) previous month = 100	-0.2	0.6	0.0	0.4	0.2	0.5	-0.4	0.2	0.6	0.3	0.6	0.4
b) same period of last year = 100	7.2	7.6	4.4	4.8	5.7	4.9	2.2	4.9	3.4	1.0	5.1	4.6
c) average of 1994 = 100	9.4	7.6	14.1	12.7	20.6	18.2	23.3	24.0	27.5	25.2	30.9	29.9
d) December 1993 = 100	14.6	12.7	19.6	18.1	26.4	23.9	29.2	29.9	33.6	31.2	37.2	36.1
e) moving average	7.6	x	4.8	x	4.9	x	4.9	x	1.0	x	3.1	x
CONSTRUCTION WORK PRICES												
a) previous month = 100	0.1	1.0	0.5	0.9	0.7	0.9	0.2	0.6	0.1	0.3	0.4	0.4
b) same period of last year = 100	12.3	10.6	11.2	11.3	11.9	11.3	7.0	9.4	3.5	4.8	3.6	3.4
c) average of 1994 = 100	15.2	10.6	28.0	23.1	43.3	36.8	53.3	49.7	58.7	56.9	62.3	61.0
d) December 1993 = 100	24.6	19.6	38.5	33.1	55.0	48.1	65.9	62.0	71.7	69.8	75.6	74.2
e) moving average	10.6	x	11.3	x	11.3	x	9.4	x	4.8	x	3.7	x
AGRICULTURAL PRODUCER PRICES												
b) same period of last year = 100	6.1	7.6	6.8	8.3	2.5	2.9	-9.5	2.3	0.6	-11.7	15.9	4.9
e) moving average	7.6	x	8.3	x	2.9	x	2.3	x	-11.7	x	-4.7	x
of which:												
crop products												
b) same period of last year = 100	15.6	7.1	12.8	16.7	-4.3	3.3	-10.9	-5.4	-7.6	-15.0	7.4	-6.4
e) moving average	7.1	x	16.7	x	3.3	x	-5.4	x	-15.0	x	-13.5	x
livestock products												
b) same period of last year = 100	2.8	8.1	4.4	5.1	2.8	2.1	-8.1	5.9	5.0	-10.5	17.2	6.7
e) moving average	8.1	x	5.1	x	2.1	x	5.9	x	-10.5	x	-0.9	x
MARKET SERVICES PRICES (excluding interest rates)												
a) previous month = 100	0.8	1.6	-0.1	0.9	-0.1	0.9	-0.1	0.6	-0.1	0.3	-0.4	0.2
b) same period of last year = 100	20.4	17.6	11.1	12.7	10.9	10.9	7.8	8.8	3.4	4.1	2.1	2.6
c) average of 1994 = 100	22.1	17.7	35.7	32.6	50.6	47.1	62.3	60.0	67.7	66.4	70.1	70.3
d) December 1993 = 100	27.5	22.9	41.7	38.4	57.2	53.5	69.4	67.0	75.1	73.8	77.6	77.8
e) moving average	17.6	x	12.7	x	10.9	x	8.8	x	4.1	x	2.9	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

Table 25

RATIOS OF KEY INDICATORS TO GDP

ratio in %

	1993	1994	1995	1996	1997	1998	1999
State budget balance	0.1	0.9	0.5	-0.1	-0.9	-1.6	-1.6
Public budgets balance	2.3	0.5	0.2	-1.4	-1.7	-1.6	-0.7
Public debt	18.9	17.9	15.9	13.8	13.5	14.1	16.2
Indebtedness in convertible currencies	24.9	25.4	31.9	36.2	44.3	39.9	44.3
Trade balance 1)	-0.4	-3.0	-6.9	-10.0	-8.3	-4.4	-3.8
Current account balance	1.3	-1.9	-2.6	-7.4	-6.1	-2.4	-2.0
M2	69.1	71.4	73.3	70.3	73.0	71.2	75.4

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

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