INFLATION REPORT

JANUARY 2001

CNB CZECH NATIONAL BANK

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CHARTS

Abbreviations used:

AEBP	average European border price
CIS	Commonwealth of Independent States
CNB	Czech National Bank
CPI	consumer price index
CSO	Czech Statistical Office
CZK	Czech koruna
ČS	Česká spořitelna
ECB	European Central Bank
EUR	euro
FRA	forward rate agreement
GDP	gross domestic product
HWWA	aggregate price index for raw materials and food
IRS	interest rate swap
L	a monetary aggregate (see part 3.1.1)
LIBOR	London Interbank Offered Rate
m-o-m	month-on-month
M1	a monetary aggregate (see part 3.1.1)
M2	a monetary aggregate (see part 3.1.1)
NPF	National Property Fund
PPI	producer price index
PRIBID	Prague Interbank Bid Rate
(1W, 1M, 1Y)	(one-week, one-month, one-year)
PRIBOR	Prague Interbank Offered Rate
SITC	Standard International Trade Classification
USD	US dollar
VAT	value added tax
y-o-y	year-on-year

I. INTRODUCTION

In 2000, the Czech economy experienced a recovery in economic activity; a pick-up in demand; favourable developments on the labour market; a modest appreciation of the koruna's nominal effective exchange rate; rising but generally low inflation; and a widening of the public finance deficit. In the course of the year, the economy displayed a widening current account deficit, caused primarily by an exogenous cost shock in the form of high prices of energy raw materials and, to a lesser extent, by the recovery in demand. Most of these trends continued into 2000 Q4.

Annual headline inflation gradually rose during the year, but in Q4 this trend halted and inflation fell slightly. Net inflation saw a similar trend, picking up during the year before declining somewhat in Q4. The year-on-year growth rate of regulated prices during 2000 oscillated around the level seen at the beginning of the year. The components of net inflation showed mixed development. From initial outturns of around zero, food price inflation picked up quite sharply during the year, chiefly because of pass-through of cost pressures from agricultural primary producers into food industry prices and subsequently into consumer prices of food. In H2, food prices were also driven up by the exhausting of yearly quotas on some agricultural products. Adjusted inflation rose in H1, largely owing to rising fuel prices, before falling back fairly quickly to its end-1999 levels in the remainder of the year. Annual industrial producer price inflation increased in H1 and fluctuated at a relatively high level in H2. The fluctuations in this indicator during the year were due to changes in electricity prices associated with the first-ever introduction of a cheaper summertime electricity tariff. The year-on-year growth rate of world prices of energy raw materials eased during the year, so that the external cost shock as a factor of industrial producer price inflation gradually unwound.

In December 2000, annual net inflation was lying just below the lower boundary of the inflation target set for end-2000. This medium-term target, set at the commencement of inflation targeting, had expressed the CNB's view of the disinflationary trajectory towards its long-term target of price stability. However, a sharp decline in prices of energy raw materials and agricultural products between 1998 and 1999 had caused inflation to fall well below the intended trajectory. At the turn of 2000, when monetary policy was focused on meeting the inflation target for end-2000, the net inflation forecast for end-2000 was on a heading moderately below the lower margin of this target. The inflationary risks mounted at the beginning of 2000 in connection with growing uncertainties regarding a possible acceleration of the economic recovery. Given the very narrow interest rate differential and the risk of an external cost shock in the form of rising prices of energy raw materials, any further interest rate cuts would have been associated with the risk of an outflow of domestic capital, a depreciation of the koruna, a surge in inflationary pressures and a subsequent monetary tightening needed to rein these trends in again. This would have led to an undesirable swing in macroeconomic fundamentals, which in turn would have been at odds with the CNB's aim of ensuring inflation stability in the medium run. Targeting inflation at the lower limit of the inflation target was, in the context of the previous trend, considered optimal, as it exploited the positive results of the disinflationary process while minimising the costs of any future disinflation.

According to the figures on GDP growth, the first three quarters of 2000 saw a continuing recovery, characterised by mixed developments in the individual components of demand. The year-on-year growth rate of gross fixed capital formation accelerated to fairly high values in Q3, during which there was an upturn in investment activity, particularly in the machinery and equipment category. Much of this investment was met from imports. The economic growth in Q3 was also attributable to a rise in household consumption, stimulated largely by reduced formation of gross savings amid flat real disposable incomes. On the other hand, it was slowed by a big increase in negative net exports and in part also by a decline in government consumption expenditure.

In 2000, year-on-year money supply growth, as measured by M2, failed to reach the 1999 level. In Q4 the decline in the growth rate of this monetary aggregate compared with the same period a year earlier became more pronounced. The gap between money supply growth and nominal GDP growth remained positive in 2000, although it did gradually narrow. The money supply trend did not therefore generate any build-up of inflationary pressures. Growth in bank lending stagnated on average at slightly positive values throughout the year.

Expectations of financial market participants of further economic growth and higher inflation strengthened. Interest rates increased steadily on all segments of the financial market during 2000 H2, chiefly as a result of these expectations. However, a correction to this trend occurred following the release of the GDP figures for Q3 in December.

In 2000, the situation on the labour market indicated an easing of the imbalance between demand for and supply of labour. The year-on-year decline in unemployment slowed sharply over the first three quarters of the year. Except for the usual seasonal fluctuations, the unemployment rate fell throughout the year. In the first three quarters, growth in nominal and, in particular, real wages was lower than in 1999. The lead of labour productivity growth over real wage growth in the national economy indicated that no significant wage-cost pressures arose during the course of 2000.

The statistical data released during 2000 and the preliminary analyses of this information did not significantly change the CNB's overall monetary policy view of the economic trend. The basic feature of this trend was again a recovery in economic activity, proceeding against a background of subdued demand pressures and an unfavourable external cost shock. The CNB Bank Board was of the opinion that any monetary policy response to the primary effects of this shock would be undesirable. However, increased attention was devoted to signals of possible secondary effects, particularly in connection with wage bargaining. In this climate, monetary policy decisions were focused on exploiting the positive results of the disinflationary process and on maintaining inflation stability. The risk associated with a narrowing of the interest rate differential was viewed as heightened. In April 2000, in co-operation with the Government, an inflation target of annual net inflation within the 2%–4% range was set for end-2001. The monetary policy rate settings were assessed as appropriate during the course of the year and therefore remained unchanged.

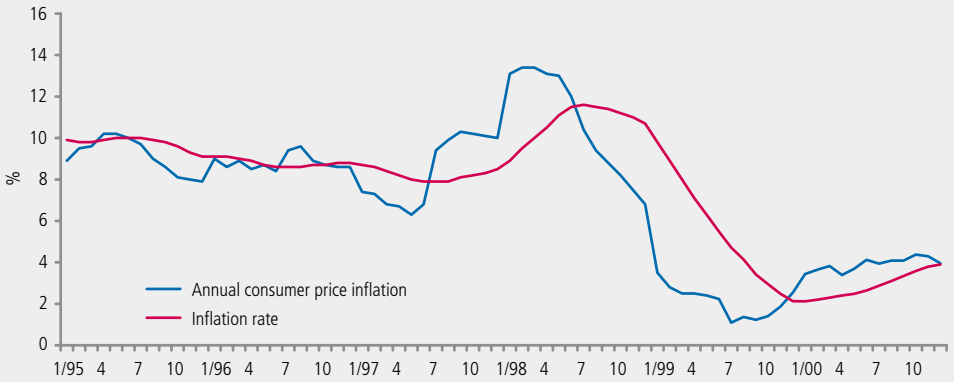
The koruna showed an appreciation tendency for most of 2000, caused by continuing inflow of foreign capital into the Czech economy. To prevent destabilising fluctuations in the exchange rate, the CNB, in co-operation with the Government, opened and operated a special privatisation account. Foreign exchange acquired by the NPF from the sale of state assets abroad was temporarily deposited on this account with the aim of preventing any undesirable strengthening and volatility of the exchange rate. In 2000 Q4, this account was used for the foreign exchange conversion of two payments from Erste Bank for the sale of the state-owned stake in Česká spořitelna.

The inflation forecast for end-2001, which is conditional on the current monetary policy rate settings, is based on the following assumptions. Given the expected trends in prices of energy raw materials and other raw materials and in foreign inflation, imported inflation will be negative. The koruna's expected stability against the euro and slight appreciation against the dollar are likely to have an anti-inflationary effect. As for domestic inflation factors, the forecast reckons on moderately pro-inflationary outturns for food price inflation and, in comparison with 2000, moderately rising wage-cost inflation, which, however, will have a broadly neutral effect on price growth. The forecast does not suggest any build-up of demand-pull inflationary pressures. This conditional CNB inflation forecast indicates that at end-2001 net inflation will be slightly below the midpoint of the inflation target for this period.

II.1 Inflation developments

In 2000 Q4, annual consumer price inflation stabilised at around 4%, the level it reached at the end of the previous quarter. In October it increased by 0.3 percentage points to 4.4%, but the outturns in November and December (4.3% and 4.0% respectively) marked a return to the end-Q3 level. The inflation rate[1] edged up to 3.9% in Q4.

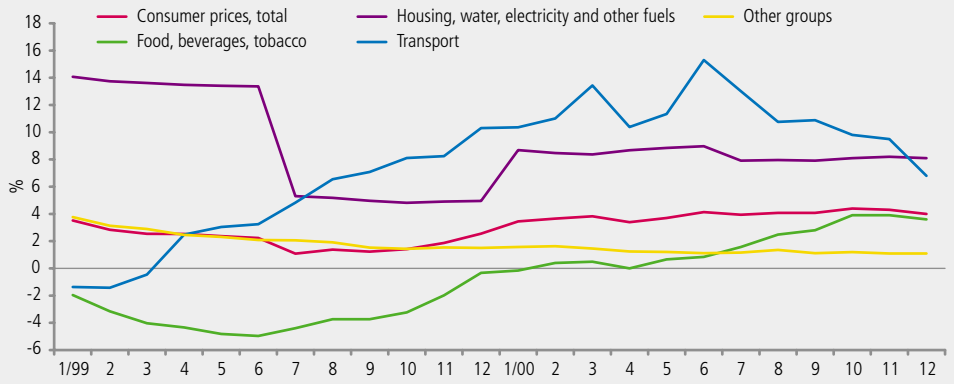
CHART II.1 Consumer price inflation and the inflation rate from 1995 to 2000



The price developments in Q4 reflected the stability of the macroeconomic framework, which did not change significantly compared with the previous quarter. This framework can be characterised by continuing modest growth in demand, favourable developments in wages and unit wage costs, and appreciation of the koruna's nominal and real exchange rate against the euro and, less markedly, of its effective exchange rate. The stable inflation was also fostered by a strongly competitive market, especially in the tradables segment. The favourable trend was additionally attributable to declining cost pressures from imported inflation, largely thanks to the oil price trend on world markets.

The continuing differences in price developments in the individual commodity groups reflected the varying significance of the specific inflation factors within those groups.

CHART II.2 Consumer prices and prices of consumer basket groups
(y-o-y change in %)



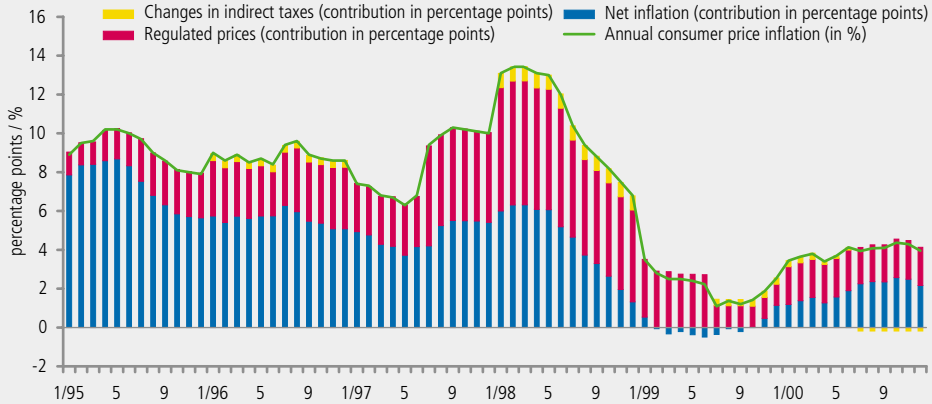
1 The inflation rate expressed as the increase in the average consumer price index for the last twelve months relative to the average for the previous twelve months.

2 The consumer basket used by the CSO for measuring the consumer price index.

Regulated prices and other administrative effects outside the framework of regulated prices

The slight pick-up in annual regulated price inflation relative to the previous quarter (to 7.3% at the close of Q4) resulted from pass-through of rising costs into the prices of items regulated on a cost-plus basis[3] in a climate of imperfect or completely absent competition. The share of regulated prices in annual consumer price inflation remained high, standing at almost 50% in December (see Chart II.3). As regards other administrative effects – outside the regulated price framework – there were no changes in excise duties in 2000 Q4, nor were there any other administrative measures that would have passed through into consumer prices.

CHART II.3 Structure of annual consumer price inflation



Net inflation[4]

At the close of 2000 Q4, annual net inflation was 0.2 percentage points lower than in September 2000 at 3%. However, as in the previous period, its two main components – food prices and adjusted inflation – and thus also their effect on the net inflation outturns, moved in opposite directions. Annual food price inflation rose, whereas the annual adjusted inflation outturns gradually decreased.

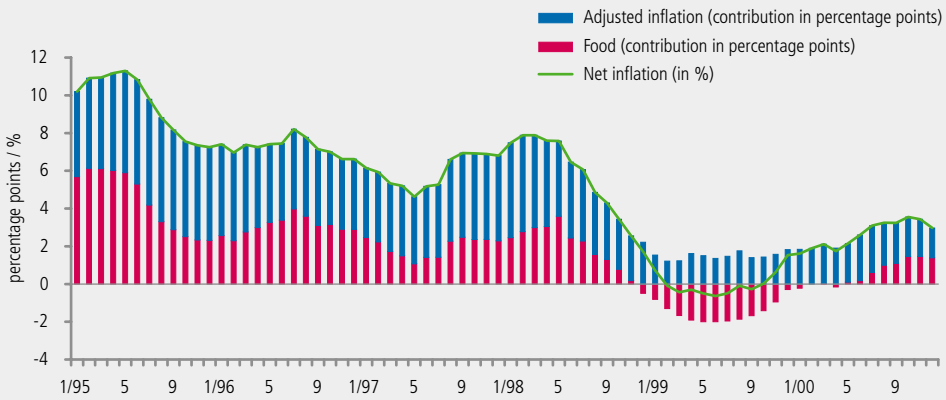
The 0.3 percentage point rise in year-on-year net inflation to 3.5% in October 2000 compared with September resulted from faster growth in food prices, caused chiefly by factors of domestic origin. In the subsequent two months, the course of net inflation was determined largely by weakening external influences via changes in adjusted inflation. Net inflation fell to 3.4% in November and continued down to 3% in December. The change in the direction of action of external cost factors on annual net inflation, evident since 2000 Q3, was largely due the trend in prices of energy raw materials (notably oil) on world markets.

Under these circumstances, the contribution of food prices to annual net inflation rose. However, adjusted inflation remained a significant contributor (accounting for 53% of the 3% net inflation outturn in December; see Chart II.4).

3 Specifically, prices of heat for households, transport and waste removal.

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

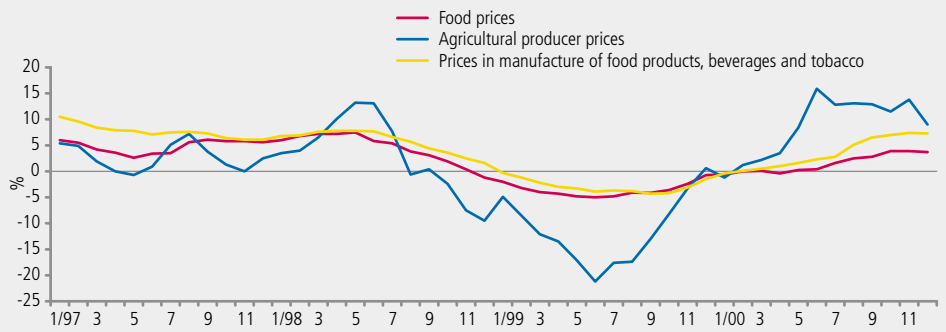
CHART II.4 Structure of annual net inflation



Food prices[5]

Food price growth picked up further in 2000 Q4 (rising by 0.9 percentage points on a year earlier to 3.7%), but was not as considerable as in the previous quarter. Whereas in Q3 an acceleration in food price inflation had been recorded throughout the quarter, in Q4 the only pick-up occurred in October.

CHART II.5 Food prices, agricultural producer prices and prices in manufacture of food products, beverages and tobacco (y-o-y change in %)



Note: Food prices adjusted for administrative influences

However, the causes of the continuing rise in food prices did not change. As in Q3, the further pick-up in annual growth was due to the pass-through of cost pressures associated with agricultural producer prices into food industry prices and subsequently into consumer prices of food. However, these cost pressures continued to affect only some groups of food products, most notably meat and meat products. Since 2000 Q3, the domestic cost pressures in some commodity groups have also been bolstered by temporarily weakened import arbitrage.[6] In addition, the prices of some crop commodities in Q4 indicated temporary growth resulting from a short-term improvement in sales conditions abroad. These factors caused prices to rise notwithstanding the persisting strongly competitive environment on the food retail market and the previous ability of the retail market[7] to effectively suppress growth in supplier prices.

5 Adjusted for administrative influences.

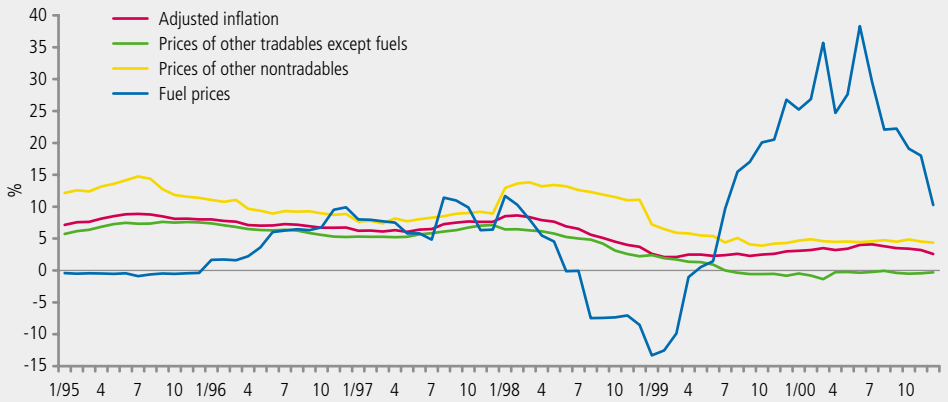
6 For details see Section III.4 *Costs and prices.*

7 Retail chains.

Adjusted inflation[8]

At the end of 2000 Q4, the 0.9 percentage point decline in annual adjusted inflation to 2.6% in comparison with end-Q3 was, as in the previous quarter, largely due to the gradual easing of external cost pressures and the strongly competitive domestic market.

CHART II.6 Components of adjusted inflation
(y-o-y change in %)



Within adjusted inflation, the year-on-year rise in fuel prices[9] slowed thanks to the trend in oil prices on world markets. The year-on-year decline in other tradables prices also continued.

As in the previous quarter, the ongoing year-on-year decline in other tradables prices, which in Q4 varied between -0.49% and -0.29%, resulted from several influences combined. For imported goods, these included the koruna's favourable exchange rate against the euro and a gradual slowdown in the inflation of the Czech Republic's major trading partners. Also favourable were the sizeable growth in productivity and the declining wage costs in industry, which allowed the transmission of high oil prices into producers' costs and prices to be offset. No less important was the aforementioned strongly competitive environment on the domestic retail market, which prevented the generation of inflationary impulses amid the continuing steady growth in domestic demand.

In Q4, the annual growth in prices of other nontradable unregulated commodities,[10] which are significantly affected by domestic cost factors, was broadly flat at just above 4% (4.3% in December). The prices of most items in this group continued to grow at around 3%, with higher growth rates being maintained only for those items significantly affected by the changes in energy and fuel prices (housing and transport).

II.2 Causes of the divergence of the annual net inflation outturn in December 2000 from the forecast

In the regular report on economic and monetary developments (known as the situational report) submitted to the CNB Bank Board on 21 January 2000 (and based on data for December 1999), the annual net inflation forecast for December 2000 was quantified at 2.5%–4.1%, with a midpoint of 3.3%. This forecast therefore indicated the slight risk of an undershooting of the target (as roughly two thirds of the forecast range, including the midpoint, lay below the inflation target range).

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

9 In September the year-on-year rise in fuel prices had been 22.2%, whereas in December it moderated to 10.3%.

10 Included are prices in education, hotels, cafés and restaurants, leisure, miscellaneous goods and services, health, transport, and housing.

The forecast assumed that:

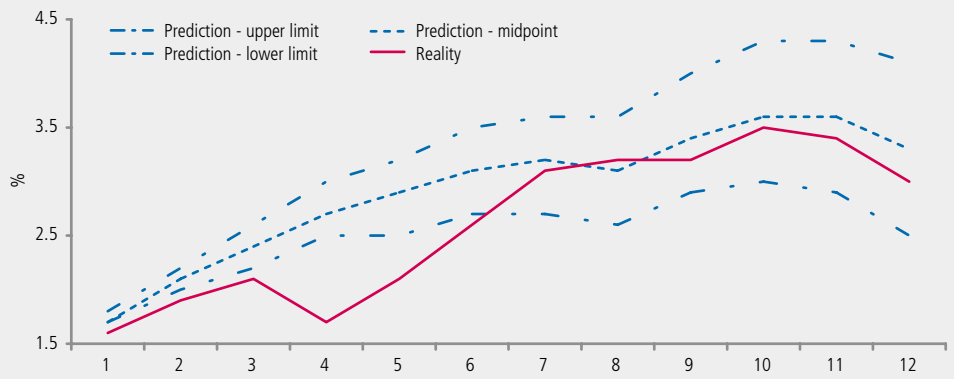
- broadly flat real current household incomes and an only very moderate rise in real household consumption would generate no significant room for a pick-up in demand-pull inflation;
- year-on-year growth of nominal unit costs in the national economy would be very weak;
- the external cost shocks would gradually ease during the year;
- the existing cost pressures and those expected in the near future would pass through gradually into prices;
- this pass-through would be curbed by subdued demand, which would not create excessive inflationary pressures, and by the strongly competitive market;
- inflation expectations would not be too strong;
- the strength of the recovery, expected to be below the potential output level, would also not stimulate sizeable growth in prices;
- the koruna's exchange rate against the euro would remain stable during the course of the year at the level recorded at the beginning of the year.

The forecast also took into account the main possible risks, which in January 2000 were considered to be:

- food price developments (an upside risk, i.e. a risk of higher-than-expected food price inflation);
- the extent of the pass-through of the rising import prices into inflation (a downside risk, i.e. a risk of lower-than-expected pass-through of external cost effects into consumer price inflation).

Given the contrary action of these main risks, the forecast was formulated conservatively, i.e. the risks were not incorporated into the forecast. However, they were covered in part by the bandwidth of the forecast.

CHART II.7 Annual net inflation: January 2000 prediction vs reality



An incomplete view of the past year shows that current household incomes were flat in 2000 Q1–Q3 in year-on-year terms and that household consumption rose only very modestly (1.5%–2.0%). The assumption that demand would not exert significant pressure for price growth was essentially confirmed. Nominal unit wage costs in the national economy were approximately 1% higher in Q1–Q3 than a year earlier, effectively curbing the pass-through of imported inflation into domestic prices. Import prices developed rather differently than foreseen at the start of 2000, as did both key exchange rates. Against the euro the koruna appreciated considerably more than originally expected, whereas against the US dollar it was weaker than originally forecast.

During the course of 2000 Q1, the statistical data signalled that the effect of import prices on consumer prices was less pronounced than would have corresponded to the assumptions in the original forecast. Analyses showed that whereas in the past all the key components of import prices (oil and natural gas prices, the CZK/EUR and CZK/USD exchange rates, and inflation abroad) had shown similar trends, at the end of 1999 there occurred a significant difference between the trend in raw material prices and the CZK/USD exchange rate (transmission into prices on the one hand very quickly through fuel prices and on the other via gradual pass-through into businesses'

costs) and the trend in the CZK/EUR exchange rate and, partially, foreign inflation (with an effect on the tradables price level). This gave rise to divergences from the forecast in individual commodity groups.

As regards the individual segments of net inflation, the forecast assumed:

- estimated food price inflation of 1.8%–3.4%, midpoint 2.6%, with a 1.04 percentage point effect on annual net inflation;
- an oil price level in 2000 Q4 of around USD 19/barrel and a broad year-on-year stagnation in fuel prices, with a 0.0 percentage point effect on annual net inflation;
- annual unregulated nontradables inflation of 4.0%–5%, with a 0.7–0.9 percentage point effect on annual net inflation;
- annual tradables inflation of 2.0%–4.0%, with a 0.7–1.5 percentage point effect on annual net inflation.

Based on these assumptions, forecasts were derived for December 2000 for annual net inflation (midpoint: 3.3%; range: 2.5%–4.1%) and for annual adjusted inflation (midpoint: 3.8%; range: 3.0%–4.5%).

The reality was as follows:

- annual food price inflation was 3.6%. Its 1.44 percentage point effect on net inflation meant a difference of +0.4 percentage points compared with the forecast. The outturn was 0.4 percentage points above the upper limit of the January 2000 forecast range;
- annual fuel price inflation was 10.2%, with a 0.5 percentage point effect on net inflation. The difference between the effect and the forecast was +0.5 percentage points. However, this was due to the different-than-expected developments in the CZK/USD exchange rate and oil prices. The reference scenario had assumed that Ural crude would cost CZK 660 per barrel, whereas in the event the price was CZK 1,125 per barrel. The year-on-year rise in the koruna price of oil in Q4 was 36%. Taking into account the effect of excise duty, the difference in the fuel price trend in Q4 compared with the scenario corresponds fairly exactly to the difference between the reality and the scenario with respect to the price of oil and the CZK/USD exchange rate;

Table II.1 Selected inflation factors
(reference scenario in the January situational report; figures in bold = reality)

	2/99	3/99	4/99	1/00	2/00	3/00	4/00
Oil price (USD/barrel of Ural crude)	14.20 [1)]	19.92 [1)]	23.69 [1)]	23.00	21.50	20.00	19.00
			26.30	**25.20**	**28.10**	**28.02**	
CZK/barrel of Ural crude				799.48	747.34	695.20	660.44
			959.24	**978.77**	**1100.90**	**1125.80**	
Exchange rate - nominal CZK/EUR level	37.61[1)]	36.43 [1)]	36.35 [1)]	36.50	36.50	36.50	36.50
			35.78	**36.29**	**35.77**	**34.90**	
Exchange rate - nominal CZK/USD level	35.55 [1)]	34.75 [1)]	34.94 [1)]	34.76	34.76	34.76	34.76
			36.48	**38.84**	**39.18**	**40.18**	
German producer prices (y-o-y changes)	-1.5 [1)]	-0.5 [1)]	0.3	0.5	0.1	1.0	1.0
			2.35	**3.05**	**4.35**	**4.32**	

1) Reality at the time the situational report was written

- annual unregulated nontradables price inflation stood at 5.5%, differing by +1.0 percentage point from the forecast. This had a +0.18 percentage point effect on net inflation. The divergence in this commodity group can be attributed to the higher-than-expected rise in fuel prices. Fuel prices play a significant role in the prices of numerous nontradable commodities. For some items (for example prices of package holidays abroad), the koruna's depreciation against the dollar may have played a role in the faster-than-expected growth.

- other tradables prices saw a year-on-year decline of 0.3%. The difference from the prediction was -3.3 percentage points, with an effect of -1.22 percentage points. In this case, the difference was significantly affected by the divergence of the CZK/EUR exchange rate compared with the January situational report (an appreciation of up to CZK 1.7 against the euro in 2000 Q4). Another factor was the increasing role of the strongly competitive market as a significant price movement factor. In conditions of only moderately rising demand, this prevented faster growth in prices.

Table II.2 Prices in individual commodity groups

Commodity group	Prediction - midpoint		Reality		Difference in p.p.
	y-o-y change in %	contrib. to NI in p.p.	y-o-y change in %	contrib. to NI in p.p.	(reality - prediction)
	1	2	3	4	4 - 2
Food prices	2.6	1.0	3.6	1.4	+0.4
Fuel prices	0.0	0.0	10.2	0.5	+0.5
Nontradables prices	4.5	0.8	5.5	1.0	+0.2
Tradables prices	3.0	1.1	-0.3	-0.1	-1.2
Adjusted inflation	3.8	2.3	2.6	1.6	-0.7
Net inflation	3.3	3.3	3.0	3.0	-0.3

Note: NI = net inflation; p.p. = percentage points

Summary

The annual net inflation forecast for December 2000 was based on the annual net inflation outturn in December 1999 (1.5%) and on the assumption of neutral effects from demand and from wage-cost inflation. Food prices and the pass-through of the expected strong annual increase in imported inflation into domestic prices – along with relatively very autonomous fuel price developments linked with the risks of the oil price and exchange rate scenarios – were identified as the basic factors underlying growth in annual net inflation during the course of 2000.

The forecasts for demand and for wage-cost inflation and the expectations of their role in inflation in 2000 were essentially confirmed. Food prices rose somewhat faster than predicted. Although the annual growth in imported inflation deviated upward from the forecast, the effect of imported inflation and import prices on consumer prices was smaller than expected.

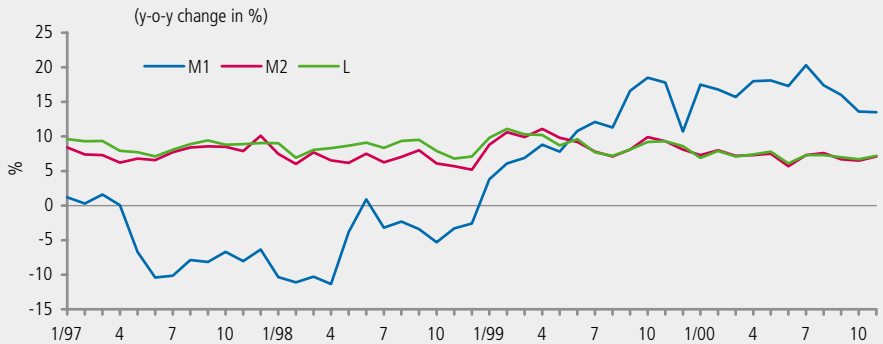
The reason for this can be seen chiefly in the difference between the trend in the CZK/EUR exchange rate and producer prices abroad on the one hand (these factors significantly affect tradables prices, which thanks to the real exchange rate trend were more favourable than expected) and the trend in raw material prices and the CZK/USD exchange rate on the other (the effect of these factors on consumer prices is weaker, with the exception of fuel prices, which have a direct effect on consumer prices). The higher-than-expected fuel price inflation was attributable to oil prices on world markets. The role of competition on the domestic market, which, in tandem with the appreciation of the CZK/EUR exchange rate and the only moderately rising demand, effectively prevented any rise in tradables prices, was probably rather stronger than expected.

III.1 Money, interest rates and exchange rates

III.1.1 Monetary aggregates

Less money flowed into the economy over the first eleven months of 2000 than in the same period a year earlier. In January–November 2000, the year-on-year increases in the broader aggregates M2 and L were below both the December 1999 level and the full-year average for 1999. From September onwards, the decline in the growth rate of these aggregates was more pronounced than in 1999. Conversely, both the volume of and the year-on-year increases in the liquid money included in M1 rose more markedly in 2000 than in 1999, owing to the low interest rates on time deposits and the economic recovery. Although year-on-year M1 growth has also been declining since August 2000, it continues to be roughly double that of the broader monetary aggregates.

CHART III.1 Monetary aggregates M1, M2 and L



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

Despite the lower growth rate of the broader aggregates, the gap between year-on-year money supply growth and nominal GDP growth remains positive, although it is gradually narrowing. This trend is in line with current monetary policy, which is supporting the economic recovery but is not generating any inflationary pressures.

Monetary aggregate M2

Between the beginning of 2000 and November, the year-on-year increases in M2 were for the most part between 6.5% and 8.0%, and approximately 2 percentage points lower than in 1999 on average. The absolute growth in the money supply over the first 11 months of 2000 remained 12% below the level in 1999. During the course of 2000, the money supply growth was bolstered by inflow of foreign capital and the gradually worsening state budget performance. Conversely, the deteriorating trade deficit and stagnation in lending acted against excessive inflow of money into the economy.

The annualised seasonally adjusted money supply increases for the last three and six months indicate that lower money supply growth can be expected in the near future.

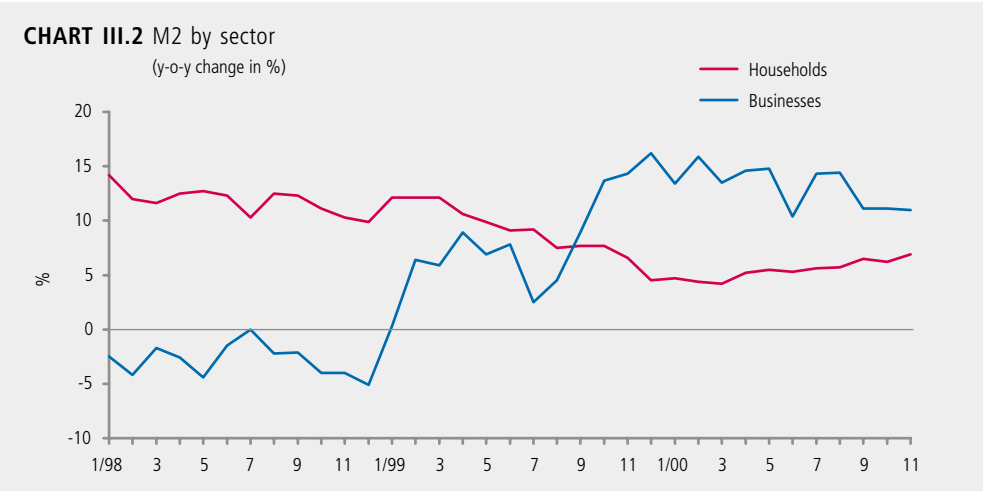
Table III.1 Increases in seasonally adjusted M2 (in %)

Year 2000	Annualised for last			
	1 month	3 months	6 months	1 year
August	1.5	5.4	6.0	7.6
September	1.2	12.7	6.9	6.7
October	0.1	11.7	5.4	6.5
Novenber	0.1	5.8	5.6	7.1

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

Sector structure of M2

Unlike in 1999, an upward trend in money supply growth prevailed in the business sector in 2000. This was in keeping with the economic recovery, which in the deposit area manifested itself more strongly in the business sector than in the household sector. Owing to the low interest rates on time deposits, demand deposits increased in both the business and household sectors. The increase in koruna demand deposits in the business sector in 2000 was accompanied by a rise in the volume of foreign currency deposits. However, this rise did not apply across the board, but related to a limited range of depositors with selected banks. It was therefore probably not associated with the increase in interest rates on foreign currency deposits announced by banks following the rise in foreign interest rates, but rather with specific deposits of some clients with foreign banks. Against this, the increase in the volume of foreign currency deposits of households in 2000 was very small. The volume of koruna deposits in the household sector also rose at a slower pace than in the business sector and the tendency to hold cash meanwhile strengthened. The upward trend in the volume of currency in circulation corresponded to the increase in the volume of retail turnover which started at the beginning of 2000 and picked up during the final months of the year. The trend towards increasing household consumption also corresponded to the approximately 1–2 percentage point reductions in the savings ratio in the individual quarters of 2000 relative to 1999. The differences in the individual quarters gradually widened during the course of 2000. In Q3, the savings ratio of households stood at 9.3%, compared with 11.3% in the same period a year earlier.



Monetary aggregate M1

In 2000, year-on-year growth in M1 moved within the 13.5%–20.3% range. In August–November, the growth eased, reaching its 2000 low in November, but nevertheless remained strong. The buoyant growth is due to large year-on-year increases in both currency in circulation and demand deposits (of 14.0% and 13.2% respectively in November). The share of currency in circulation in the money supply remains high (12.0% in November), owing to the low level of nominal and real interest rates on time deposits in conditions of rising retail turnover and a recovering economy.

Table III.2 Increases in M1 (in %)

Year 2000	Increase for last			
	1 month	3 months	6 months	1 year
August	0.7	5.1	10.5	17.4
September	0.9	3.3	12.2	16.0
October	-0.4	1.2	8.0	13.6
Novenber	2.3	2.9	8.1	13.5

Note: Not seasonally adjusted because of the low significance of seasonal factors

Given the increases in M1 for the last six months and one year, the M1 growth rate can be expected to remain relatively buoyant, notwithstanding a certain downward tendency.

Monetary aggregate L

Between the beginning of 2000 and end-November, the year-on-year growth rate of the monetary aggregate L moved for the most part within the 6.7%–7.9% range in individual months. In September–November, the growth rate remained below the average of the preceding months of 2000. As in previous years, L developed in line with M2, owing to the low share of short-term securities issued by the Government and the CNB in the assets of the corporate sector and households. Growth in the volume of these securities has long been low, and since April 2000 the volume of short-term government and CNB securities in non-bank portfolios has been flat.

Table III.3 Increases in seasonally adjusted L (in %)

Year 2000	Annualised for last			
	1 month	3 months	6 months	1 year
August	1.6	7.0	6.9	7.3
September	1.0	11.7	8.0	7.0
October	0.0	10.9	6.2	6.7
Novenber	0.2	5.1	6.0	7.2

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

As with M2, the annualised seasonally adjusted L data indicate low year-on-year growth.

Implications for inflation

The year-on-year money supply growth in 2000 did not reach the levels recorded in 1999. The gap between money supply growth and nominal GDP growth narrowed during 2000. At its current growth rate, the present inflow of money into the economy is not generating any significant build-up of inflationary pressures.

III.1.2 Credits granted to businesses and households

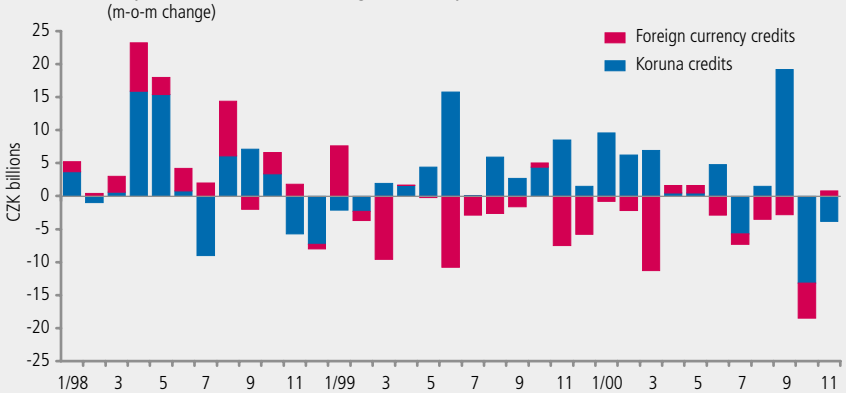
In 2000, growth in bank lending was flat at an average year-on-year rate of roughly 1%. In September–November, the average year-on-year increase fell to 0.5%. The total volume of credits shrank by CZK 5.1 billion. Foreign currency credits dropped by CZK 7.3 billion, while koruna credits rose by CZK 2.2 billion,

largely in the foreign bank group. Average year-on-year growth in koruna credits reached 4.3% in September–November, whereas foreign currency credits fell on average by 19.8%.

The flat lending trend was not a source of inflationary pressures in 2000. The credit market was affected mainly by demand factors. Notwithstanding the low effective demand of domestic businesses, their financial situation improved as a result of the economic growth.

A decline in credits was visible for large banks, while foreign and other banks (excluding Konsolidační banka) recorded year-on-year growth. Nevertheless, the trend in foreign and other banks was not sufficient to offset the decline in credits in the large banks group, hence bank lending was not a source of money supply growth. The credits granted by foreign banks went mostly foreign controlled corporations. Almost all the bank groups showed increased interest in extending credits to households. The decline in large bank credits showed up chiefly in lending to domestically controlled private and public corporations. This reflects the restructuring of the corporate sector, which is associated primarily with foreign investors, as well as the interest of commercial banks in lending to households and the incomplete restructuring of domestically owned businesses.

CHART III.3 Adjusted koruna and foreign currency credits
(m-o-m change)



Note: Adjusted for exchange rate influences, write-offs, interest capitalisation, banks without licences and operations linked with loan portfolio restructuring

The year-on-year increases in the volume of credits in 2000 were below the level of the annual inflation outturns. In real terms (deflated by the industrial producer price index) they stood at -3.6% on average. In September–November, the average real year-on-year growth fell to -5%. This was attributable to both the decline in the volume of credits and the rise in the price level.

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

Year 2000	Increase for last			
	1 month	3 months	6 months	1 year
August	0.1	0.0	-1.0	0.6
September	1.5	1.0	1.0	1.9
October	-1.7	-0.1	-0.5	-0.1
Novenber	-0.4	-0.6	-0.6	-0.4

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

As regards credit type, mortgage and consumer credits increased throughout 2000 and in the September–November period itself. However, their shares in overall lending remained marginal, standing at 3.9% for mortgage credits and 3.0% for consumer credits at end-November. This period saw also an increase in credits

granted for temporary shortage of funds to 9.0%. However, operating credits and investment credits continued to predominate, with shares of 49.5% and 31.3% respectively in the total.

The modest increase in the share of long-term credits in total credits characteristic of the previous period continued into September–November. Their share reached 42.8% at the close of November. The share of short-term credits in the same period was flat at 36.1%, whereas during the course of 2000 it had been falling. Medium-term credits decreased in the aforementioned periods. Their share in overall lending was 21% at end-November.

The stagnation in lending did not hinder the ongoing economic recovery. The economic growth was also financed by funds from abroad in the form of foreign direct investment and credits drawn. The balance of payments figures for the first three quarters of 2000 showed that foreign direct investment amounted to CZK 108.6 billion and that credits drawn totalled CZK 28.9 billion. The inflow of foreign credits drawn by businesses was particularly strong in 2000 Q3, when it stood at CZK 19.3 billion. The funds from abroad and partly from the domestic banking sector are being granted primarily to foreign controlled corporations. Domestic industrial businesses are being financed mainly out of own funds and through business credits.

III.1.3 Interest rates

Interest rates rose gradually on all segments of the financial market in 2000 Q4, reattaining the levels seen at the start of the year. Overall, rates on the money market were 0.4 percentage points higher than their May low (1Y PRIBOR). At longer maturities the increase was in the 0.4–0.7 percentage point range depending on maturity. The main factor underlying this trend was the expectations of financial market participants regarding economic growth and higher inflation. On the bond market, the growth in yields was also fostered by increased supply on the primary state and corporate bonds market. Yield curve slopes therefore became increasing positive on all segments. This trend can be viewed as consistent with the present phase of business cycle. However, the increase in rates was not strong enough to be interpreted as a signal for an increase in short-term rates. Moreover, at the close of the year, the aforementioned expectations were revised to a certain extent. The main impetus for this change was the release of the GDP figures for Q3, to which interest rates responded by falling moderately. Client interest rates, on both credits and deposits, had yet to reflect the trend on the financial market and remained flat or declined very moderately over the period as a whole.

III.1.3.1 Short-term interest rates

Unlike in the previous period, short-term interest rates increased moderately in 2000 Q4. However, the rise was not pronounced, thanks to two basic facts. The CNB left its key interest rates unchanged in this period: the 2W repo rate at 5.25%, the Lombard rate at 7.5% and the discount rate at 5.0%. And the factors that had caused the rise in short-term rates, in particular the expectations of economic growth and higher inflation, were not sufficiently strong to lead to more sizeable changes. PRIBOR rates rose by 0.2–0.3 percentage points in comparison with end-September, although only at longer maturities. Interest rates thus returned to the levels recorded at the start of 2000. The PRIBOR yield curve maintained its slightly upward profile throughout the period under review.

CHART III.4 Key rates

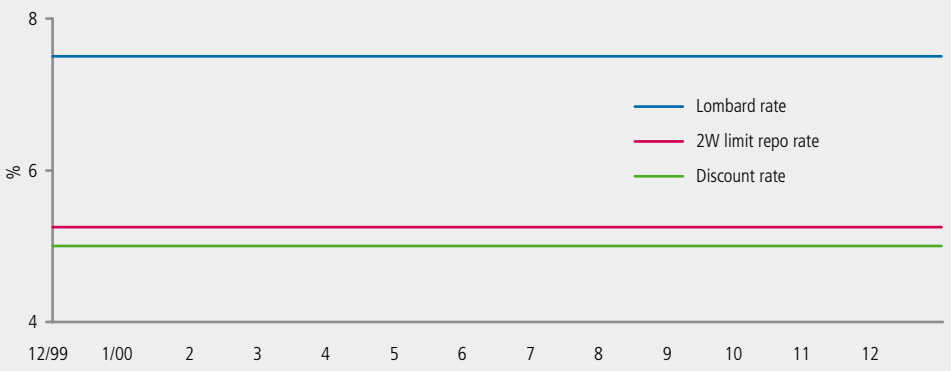
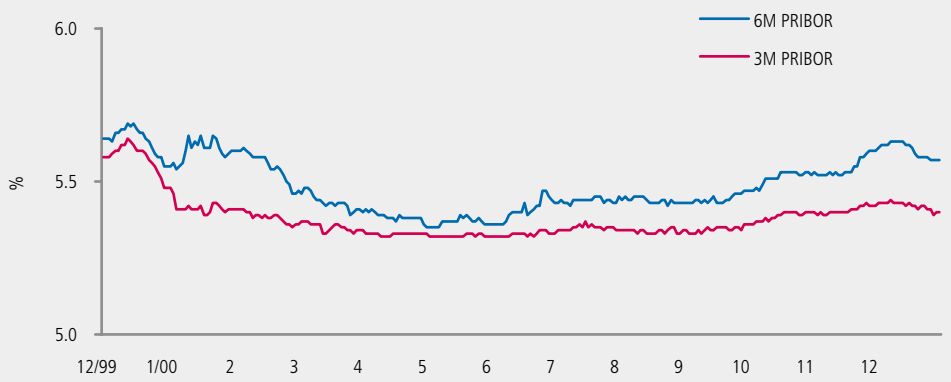
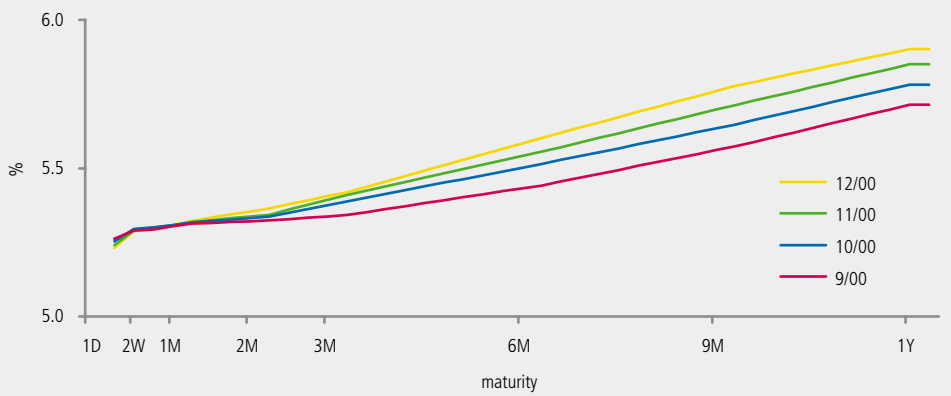


CHART III.5 3M and 6M PRIBOR



During the course of Q4, the slope of the PRIBOR yield curve gradually became more positive. The short end remained stable, while changes occurred from 3M maturities upwards. The average 1W PRIBOR rate remained broadly flat relative to September 2000 at 5.3%, while the 1Y PRIBOR, despite a decline in rates at the close of the year, rose by 0.19 percentage points to 5.9%. The spread between the two rates thus reached +0.61 percentage points in December.

CHART III.6 PRIBOR yield curve



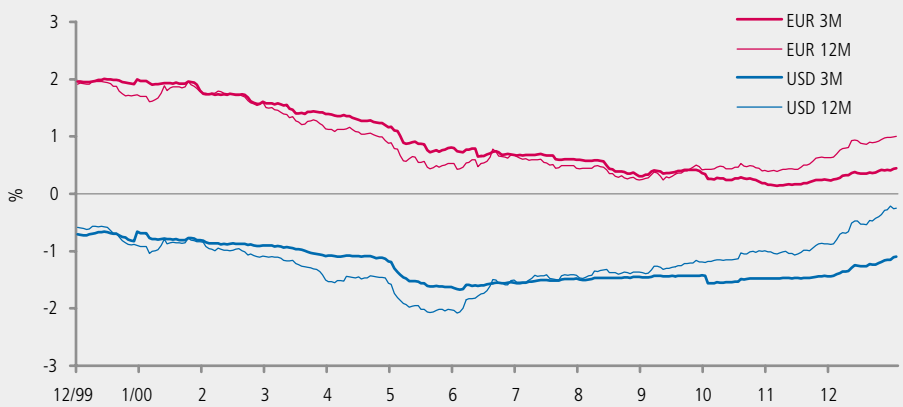
FRA rates also rose modestly, notwithstanding a decline at the end of the year. The FRA quotations from the end of December indicated (like the slope of the PRIBOR yield curve) that market participants were expecting rates to rise modestly. In the case of the 3M PRIBOR, a rise of 0.8 percentage points was expected in the one-year horizon.

CHART III.7 3M FRA rates - offer

The short-term bond market comprises T-bills only. There were eleven issues on the primary market, with 3M, 6M, 9M and 1Y maturities. Following several years of excess demand, the volume supplied was not fully subscribed in some auctions. Gross yields were therefore at the level of the set limit or just below it, varying between 5.4% and 5.9% 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 both by the changes in eurozone rates and by the movement of interest rates on the domestic interbank market. The ECB increased its key repo rate by 0.25 percentage points to 4.75% (on 5 October 2000). In the USA, the key overnight rate remained unchanged at 6.5%. The interest rate differential vis-à-vis euro rates rose slightly owing to the contrary movement of domestic and foreign rates, particularly at longer maturities, reaching 0.4–1.0 percentage points depending on maturity. Against the dollar, conversely, the negative differential narrowed to values of -0.3 to -1.1 percentage points. These changes were in the order of several tenths of a point, and so did not have any effect on short-term capital movement between the Czech Republic and other countries.

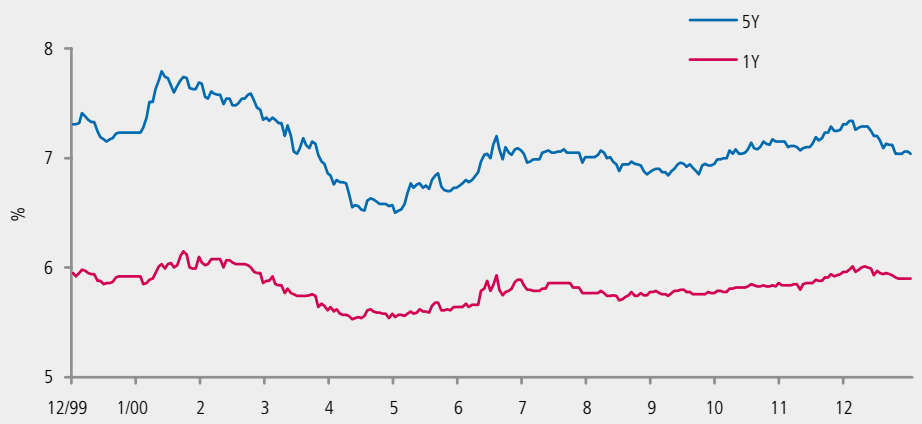
CHART III.8 Interest rate differential vis-à-vis rates in EUR and USD



III.1.3.2 Long-term interest rates

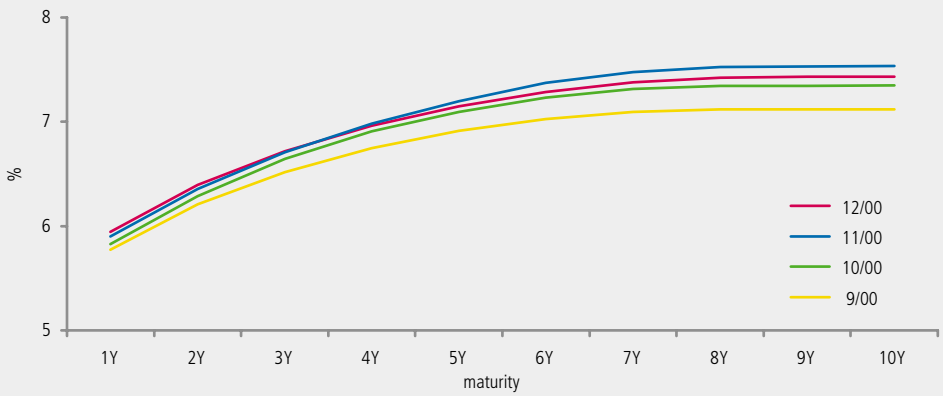
Long-term rates (IRS and bond yields) also increased throughout the period, except for a slight fall at the year-end. The rise in rates in this segment was greater than at shorter maturities, since it was closely linked to the expected economic growth and higher inflation, in other words to the longer time horizon. External factors – in particular the situation on the oil and dollar markets – fed through into the quotations as well. On the bond market, the growth in yields was additionally affected by the increased supply of state bonds. Investors took note of the expanding public debt, including the expectations of a further increase. Long-term rates also declined moderately at end-December. This decline was associated with the certain revision of market expectations in response to the figures released on GDP and inflation. Relative to September, the 1Y IRS rate was up by 0.17 percentage points and the 5Y IRS rate by 0.24 percentage points in December.

CHART III.9 IRS rates



The IRS yield curve changed only negligibly, keeping its positive slope in the shorter part and remaining flat from 6Y maturities upwards. However, the spreads between the longer and shorter parts of the curve widened somewhat and the entire curve moved to a higher yield level. In December, the average 5Y–1Y spread was +1.21 percentage points and the 10Y–1Y spread +1.49 percentage points.

CHART III.10 IRS yield curve



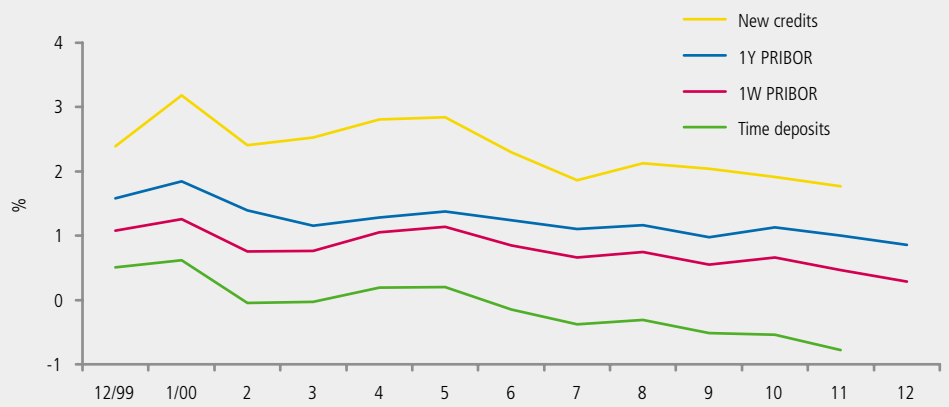
There were three auctions on the primary bond market, with 5Y, 7Y and 10Y maturities and a total volume of CZK 12 billion. The average gross yields were 6.48%, 7.46% and 7.60%. Demand in each auction considerably exceeded supply and a maximum acceptable yield was not given. On the non-state bond market there were five issues, with a total volume of CZK 12.95 billion, and one mortgage bond issue totalling CZK 1.5 billion. Issuing activity also continued on the primary koruna eurobonds market, where the outstanding volume was CZK 75.5 billion at end-2000.

III.1.3.3 Client interest rates

Client interest rates were broadly flat throughout the period under review. However, some banks announced a gradual increase in their basic rates in response to the movement of financial market rates. In November, interest rates on new credits stood at 6.6%, down by 0.8 percentage points in general since the beginning of 2000. Time deposit rates were 0.6 percentage points lower at 4.0%. Credit and deposit interest rates declined at roughly the same pace, so the interest rate margin between them changed only minimally and stood at 3.8 percentage points in November.

Real interest rates[11] have also shown a downward trend since the beginning of 2000 for all the rates under review. Although nominal interest rates have declined, the expected inflation outturns have risen. In November, real interest rates on newly extended credits stood at 1.8% and those on demand deposits at -0.8%.

CHART III.11 Real interest rates - ex ante



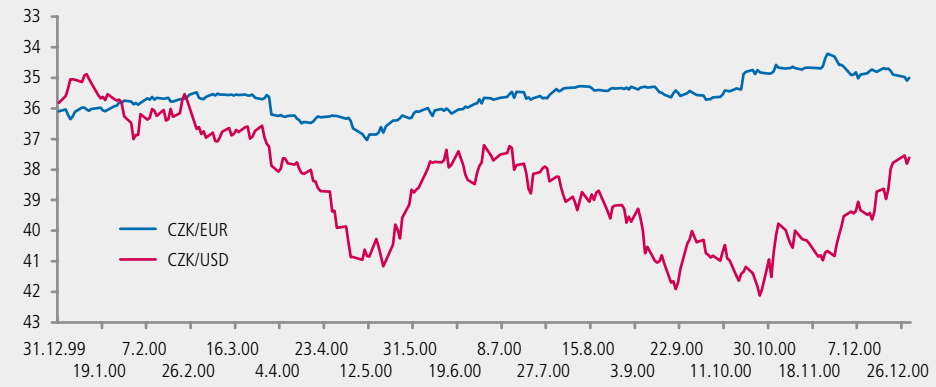
III.1.4 The exchange rate

The appreciation tendency of the koruna's nominal exchange rate against the euro persisted in 2000 Q4. At the start of October the koruna had been traded at approximately CZK 35.70 to the euro, whereas it ended the year at values of around CZK 35. It was weakest at the beginning of September at CZK 35.72 to the euro, and strongest at the end of November at CZK 34.22, a two-year high. The stronger koruna exchange rate reflected effects associated with the continuing inflow of foreign investment. The correction at the end of the year can be attributed to the significant appreciation of the euro against the dollar and to the conversion of part of the foreign exchange proceeds from privatisation directly into CNB reserves.

The koruna's exchange rate against the dollar saw a turnaround from its previous depreciation to a marked appreciation in Q4. At the beginning of October, the koruna's rate against the dollar had been moving around the CZK 40 mark and it reached a low at the close of October, when it exceeded CZK 42. But owing to the dollar-euro rate developments, it appreciated to as high as CZK 37.5 to the dollar during December.

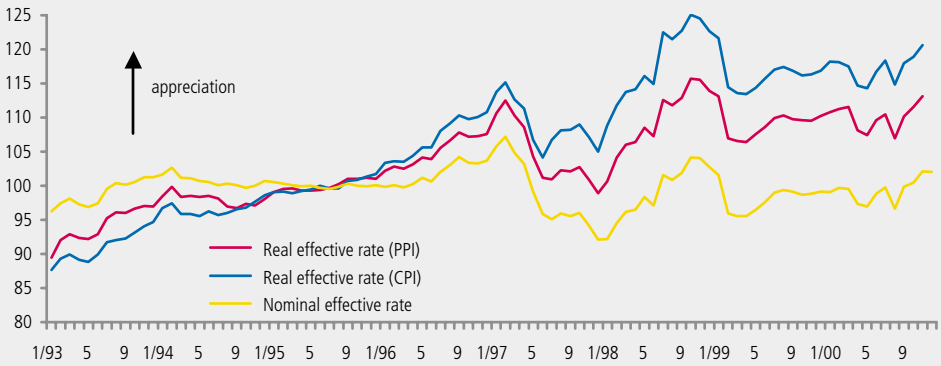
11 Ex ante real interest rates – nominal interest rates deflated by the CPI outturns expected by financial market participants in individual months. The CNB started measuring inflation expectations on the financial market in May 1999.

CHART III.12 CZK/EUR and CZK/USD nominal rates



In 2000 Q4, the nominal effective exchange rate index[12] strengthened relative to the previous quarter and also appreciated in year-on-year terms. This was due to the koruna's appreciation against the euro and the dollar, which have the biggest weight in the index. The real effective exchange rate indices appreciated similarly to the nominal exchange rate.

CHART III.13 Nominal and real effective exchange rates
(analytical rate, 1995 = 100)



III.1.5 Capital flows

In 2000 Q1–Q3, the financial account showed a surplus of CZK 54.9 billion, up by CZK 23.7 billion (roughly 80%) on a year earlier. The inflow of capital was again attributable almost exclusively to foreign direct investment. In Q3, the financial account surplus was just CZK 7.9 billion. The reduction in this surplus was due mainly to an outflow of short-term banking capital and partly to repayment of CNB bills.

12 A weighted geometric mean 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. Russia is not included, making this analytical effective exchange rate different to the nominal effective exchange rate in the "Exchange Rate" table in the Statistical Annex.

Table III.5 Financial account in Q1 - Q3 (1995 - 2000) *(in CZK billions)*

	1995	1996	1997	1998	1999	2000
Financial account	154.9	76.6	53.2	47.1	31.2	54.9
Direct investment	52.2	22.7	25.5	38.9	117.2	108.5
- Czech abroad	-0.6	-3.8	-0.8	-1.3	-4.7	-2.6
- Foreign in Czech Republic	52.8	26.5	26.3	40.2	121.9	111.1
Portfolio investment	18.3	11.2	18.8	8.7	9.1	-44.2
- Czech abroad	-8.6	-5.0	1.5	1.9	-19.1	-52.9
- Foreign in Czech Republic	26.9	16.2	17.3	6.8	28.2	8.7
Financial derivatives						-0.7
Other investment	84.3	42.8	8.9	-0.5	-95.1	-4.1
1. Long-term investment	55.7	61.4	30.4	-14.4	4.8	22.6
- Credits granted abroad	2.4	-6.1	-3.5	-3.6	-6.1	21.4
- Credits accepted from abroad	53.3	67.5	33.9	-10.8	10.9	1.2
2. Short-term investment	28.6	-18.6	-21.5	13.9	-99.9	-26.7

The inflow of foreign direct investment into the Czech Republic reached CZK 111.1 billion in 2000 Q1–Q3, approximately 8% lower than in the same period in 1999. The decline was attributable to lower sales of state assets to foreign investors. Foreign investors were interested primarily in the areas of services, banking, trade, real estate activities and the motor vehicle industry. By territory, the biggest investors in terms of volume were Germany, the Netherlands, Austria, Switzerland, the United Kingdom and the USA. Czech investment abroad reached CZK 2.6 billion. The net inflow of foreign direct investment stood at CZK 108.5 billion.

Portfolio investment saw a significant change in Q3. The strong outflow of portfolio investment lasting from 1999 Q4 to 2000 H1 had reflected sharp growth in domestic investors' interest in foreign equity securities. In Q3, owing to unfavourable stock prices, especially on American markets, the outflow on equity securities stopped. However, it was replaced by growth in residents' interest in foreign debt securities. The net outflow of capital in the form of portfolio investment in Q1–Q3 was CZK 44.2 billion. Residents' purchases of foreign securities reached CZK 52.9 billion (of which equity securities CZK 40.1 billion and debt securities CZK 12.8 billion). Foreign portfolio investment in the Czech Republic stood at CZK 8.7 billion in Q1–Q3 (approximately one third of the level in the same period a year earlier). Foreign investors' interest in domestic stocks rose slightly. The year-on-year decline in the inflow of foreign portfolio investment was brought about by a fall in foreign investors' holdings of domestic debt securities, due in part to the decrease in domestic interest rates. In 2000 Q3, these holdings shrank by CZK 9.0 billion, mainly due to a CZK 12.5 billion repayment of CNB bills.

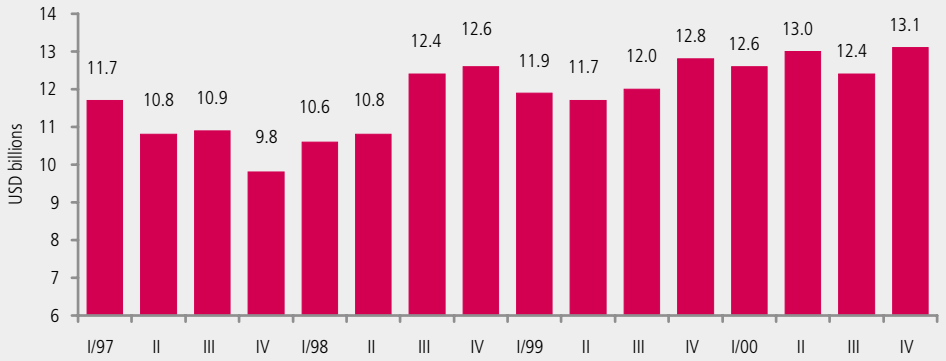
Other long-term investment showed a surplus of CZK 22.6 billion in 2000 Q1–Q3, a more than four-fold year-on-year increase. The increased net inflow was chiefly attributable to the repayment of long-term koruna bank credits by non-residents.

In the area of other short-term investment, the net outflow of capital abroad continued. However, the outflow in Q1–Q3 was, at CZK 26.7 billion, approximately 70% lower than a year earlier. The banking sector accounted for virtually all of this.

In the course of 2000 Q1–Q3, the business sector's net drawings on credits (both short-term and long-term) reached CZK 28.9 billion, a modest year-on-year increase of CZK 2.3 billion. In the banking sector in the same period, the net outflow of capital continued, reaching CZK 31.8 billion, a significant decline compared with the same period in 1999 (CZK 116.8 billion). The outflow was caused largely by repayments of short-term liabilities. This difference resulted from a significant year-on-year reduction in foreign currency surpluses on the market associated with the worsening of the trade balance and with the outflow of portfolio investment.

The CNB's international reserves were affected in 2000 Q4 by foreign exchange transactions totalling CZK 0.8 billion (purchase of foreign currencies) and transactions with the NPF worth CZK 8.9 billion consisting in the purchase of foreign exchange acquired through the sale of the state share in Česká spořitelna (two payments). The CNB's international reserves continued to be affected by valuation changes (the appreciation of the koruna against the dollar and the euro) and interest yields. As of 31 December 2000, in koruna terms, the reserves were CZK 5.5 billion lower than on 30 September (owing to the nominal appreciation against the dollar and the euro) and stood at CZK 494.0 billion. In dollar terms, the reserves were USD 0.7 billion higher, reaching USD 13.1 billion.

CHART III.14 CNB international reserves



Implications for inflation

Interest rates on all segments of the financial market gradually rose, with the increase being more pronounced at longer maturities. The slope of the yield curve therefore became more positive. This trend was associated with expectations of further economic growth and higher inflation. However, at the close of the year, figures on GDP and inflation were released which brought a certain change in the view on future developments. Financial market participants evaluated these figures as confirmation of the trend to date, concluding that stronger economic growth and higher inflation could not be expected for the time being.

In terms of its effect on the price level, the exchange rate can be characterised as anti-inflationary in Q4.

The continuing inflow of foreign direct investment again ensured a surplus on the financial account. This surplus was offset to a considerable extent in 2000 Q3 by an outflow of portfolio investment and growth in commercial banks' short-term assets abroad. The financial account surplus in Q3, adjusted for repayments of CNB bills from the central bank's reserves, corresponded approximately to the current account deficit. These developments did not have any significant positive or negative implications for inflation.

III.2 Demand and output

Five consecutive quarters of economic growth, fostered by a pick-up in all components on the demand side and accompanied by gradual structural changes on the supply side, suggested a more permanent change in the Czech economy. GDP growth was 2.2% in 2000 Q3 alone, slightly higher than in the previous quarter.

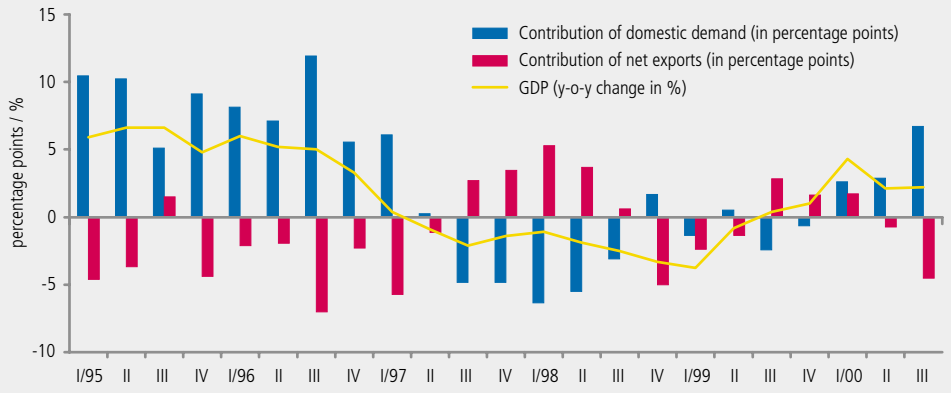
Table III.6 Real output and demand
(y-o-y change in %, constant 1995 prices)

	1995	1996	1997	1998	1999	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3
GROSS DOMESTIC PRODUCT	5.9	4.8	-1.0	-0.8	-0.2	-1.1	-1.8	-2.5	-3.3	-3.7	-0.8	0.4	1.0	4.3	2.1	2.2
AGGREGATE DEMAND (domestic demand and exports)	11.1	8.3	2.2	1.9	2.4	4.7	2.1	0.7	0.5	-2.9	1.6	1.4	4.8	9.6	7.4	10.4
DOMESTIC DEMAND	8.4	7.9	-0.9	-3.0	-0.9	-5.7	-5.1	-2.9	1.6	-1.3	0.5	-2.3	-0.6	2.4	2.7	6.5
FINAL DOMESTIC DEMAND[1)]	7.6	6.7	0.2	-2.7	-1.1	-3.5	-5.5	-2.3	0.0	-0.7	-1.4	-1.7	-0.6	1.8	2.7	3.3
of which:																
Household consumption	5.8	6.9	1.8	-2.9	0.7	-2.4	-7.1	-0.8	-1.3	2.4	1.2	-0.7	0.1	1.6	1.9	2.0
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	0.9	-1.6
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	0.0	0.0
Gross fixed capital formation	19.8	8.2	-2.9	-3.9	-4.4	-4.2	-6.1	-6.7	-0.2	-6.9	-6.5	-4.6	-1.3	2.3	5.8	9.1
EXPORTS OF GOODS AND SERVICES	16.7	9.2	8.1	10.7	4.8	25.6	14.7	7.1	-1.2	-5.3	3.1	7.5	13.6	21.0	14.0	16.0
IMPORTS OF GOODS AND SERVICES	21.2	14.3	7.2	7.9	4.0	13.5	7.7	5.5	5.6	-1.8	4.7	2.9	9.6	16.5	13.9	21.6
NET EXPORTS (CZK billions)	-65.7	-112.8	-113.1	-97.6	-94.3	-18.3	-15.4	-21.1	-42.8	-26.3	-20.1	-10.7	-37.2	-20.7	-22.7	-27.4

1) Domestic demand excluding change in inventories

Of primary importance was the strengthening rise in investment demand, signalling positive economic expectations as well as indicating a possible pick-up in growth in potential output. On the other hand, though, the sizeable pick-up in investment imports in Q3, generated by the increasing investment demand, was one reason for the contribution of net external demand to GDP growth being negative in Q3, despite buoyant growth in external demand (see Chart III.15).

CHART III.15 Contribution of domestic demand and net exports to y-o-y change in GDP
(at constant 1995 prices)

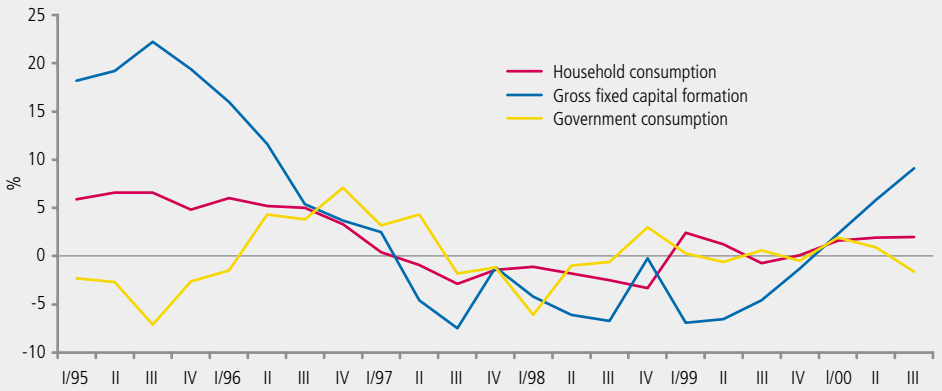


Moreover, the continuing steady rise in consumer demand, accompanied by changes in its mode of financing, suggested confidence in continuing economic growth on the part of both households and the institutions participating in debt financing the demand. Continuing structural changes on the supply side were confirmed by growth in value added in industry, visible for the third consecutive month, together with changes in the production trends in individual branches. Nonetheless, there is still plenty of room for a continuation of the long-term process of structural change in the economy.

III.2.1 Domestic demand

The gradual pick-up in domestic demand growth, witnessed since the start of 2000, continued into 2000 Q3. Compared with Q2, year-on-year domestic demand growth rose by 3.8 percentage points to 6.5%. This stronger acceleration was attributable chiefly to gross capital formation, as well as to change in inventories, since formation of inventories was much higher than in the same period a year earlier. Year-on-year growth in final domestic demand[13] was lower, at 3.3%. In Q3, the GDP growth was again generated largely by consumer demand. In contrast, the contribution from government demand was – unlike in the previous quarter – slightly negative.

CHART III.16 Components of domestic demand
(y-o-y change in %)



Consumer demand

Consumer demand in 2000 Q3 followed the previous slightly upward trend recorded since 1999 Q1 (see Chart III.16). Household spending on final consumption was 2.0% higher than a year earlier in 2000 Q3 alone and 1.8% higher in the first three quarters of the year.

With households' disposable incomes flat or declining moderately, the increased consumer spending was financed through lower gross saving and through drawing on loans. Particularly large was the decline in the gross savings rate, which was 2 percentage points lower than a year earlier at 9.26%, a fall of CZK 4.5 billion in absolute terms. Given the gradual downward tendency in the gross savings rate recorded during the first three quarters of 2000, this was no one-off fluctuation. Debt financing in the household sector also showed a gradual upward trend,[14] although its share in financing the rising household consumption was still not of major importance.

These trends in the structure of the sources of financing of the increasing household spending confirmed the postulated shift in the consumer behaviour of households, especially as regards access to debt forms of financing. The changes reflect the confidence of households and credit institutions in future economic growth. The present level of real interest rates on deposits has not hindered the trend.

As in the previous quarter, household consumption did not show any major structural changes. The rise in household expenditure on final consumption in Q3 was largely attributable to spending on telecommunications (especially mobile telephones) and on eating out. Spending on clothing and household equipment again made a large contribution to the expansion in household consumption following a fall in Q2. Expenditure on food and

13 Domestic demand excluding change in inventories.

14 In year-on-year comparison, the additional funds of the household sector (loans from banks and non-banks, leasing, etc.) were up by CZK 11.3 billion in 2000 Q3 to CZK 17.9 billion.

alcoholic beverages was flat. As in previous quarters, demand for transport (including fuels) decreased owing to the high fuel prices.

Investment demand

Growth in gross fixed capital formation[15] picked up sharply in 2000 Q3, rising by 3.3 percentage points compared with Q2 to 9.1% in year-on-year comparison. The rate of investment remained buoyant in this period (at 28.5% in constant 1995 prices). Investment demand in Q3 confirmed the renewed growth trend that had started in 2000 Q1. The rising investment activity chiefly reflected expectations of favourable developments in both domestic and external demand. The growth was fostered significantly by measures promoting inflow of foreign direct investment.

By sector, the rise in total investment in tangible goods[16] was due to the investment activity of non-financial corporations, which accounted for almost 70% of such investment in Q3.[17] Unlike in the previous quarter, investment activity grew most rapidly in large and medium-sized foreign controlled non-financial corporations (by 23.4% on a year earlier in current prices), which is entirely consistent with the strong inflow of foreign direct investment into the Czech Republic over the past two years. The investment by foreign firms was largely export oriented and signified further integration of the Czech Republic into world economic structures. Robust investment growth was also recorded in Q3 in public and private non-financial corporations (13.9% and 12.6% respectively).

In Q3, unlike in Q2, investment in manufacturing (businesses with 20 employees or more) saw renewed moderate year-on-year growth (of 3%).[18]

In addition to the inflow of foreign capital, the increased investment demand in non-financial corporations was fostered by the broadly favourable trend in firms' own funds. Conversely, investment financing through domestic investment credits remained at a low level. The inflow of foreign capital[19] – substituting for the temporary halt in growth in domestic lending – was connected primarily with foreign direct investment.

In other sectors, investment in tangible goods in Q3 was lower than a year earlier. The decrease in government sector investment demand was the smallest (2.7% adjusted for a methodological change). Household sector investment dropped by 5.4% owing to a reduction in investment by natural persons – entrepreneurs. The largest decline (16.7%) in investment in tangible goods was registered in the financial corporations sector.

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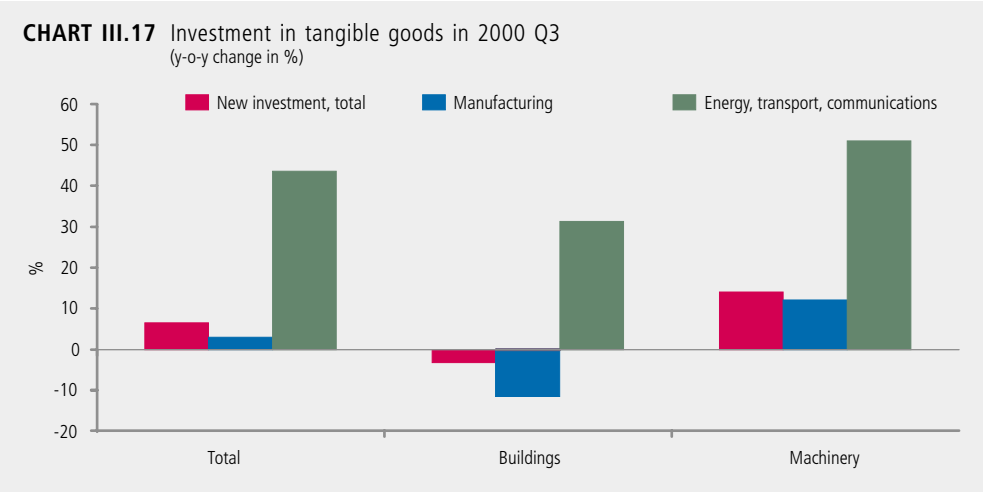
15 As part of GDP expenditure, including investment in new tangible and intangible goods.

16 Including investment in both new and used tangible goods.

17 In constant 1994 prices.

18 Manufacture of motor vehicles accounted for almost one quarter (22.8%) of investment in manufacturing in 2000 Q3. Investment in the manufacture of food products and beverages and non-metallic mineral products also accounted for large shares of the total. The biggest year-on-year increases were, however, registered in the manufacture of radio, television and communication equipment (111%) and recycling. The share of mechanical and electrical engineering investment in manufacturing investment recorded sizeable year-on-year growth (of 12.8 percentage points to 42.5%, a year-on-year growth rate of 47.6%). The rapid growth in investment in infrastructure (energy, transport and communications) in the non-financial corporations sector observed in 2000 Q2 continued into Q3 (43.6%).

19 Corporate loans drawn from foreign banks and foreign investors were 17.2% higher than a year earlier in Q3 according to preliminary data.



In Q3, investment in new tangible goods was 6.5% higher than a year earlier.[20] As in Q2 it went primarily into machinery and equipment, a key precondition for boosting the production capacity of the economy. In contrast, construction investment decreased. As in Q2, the rise in investment in new tangible goods was associated with a robust increase in investment imports (up 34.7% on a year earlier) amid a decline in domestic investment.

Government demand

The moderate, 1.4 percentage point rise in spending on final government consumption in constant prices in 2000 H1 was replaced by a year-on-year decline of 1.6 percentage points in Q3. Of the total volume of spending on government public consumption (CZK 340.4 billion) set for 2000 in the aggregate public budgets in the narrower sense,[21] about 74.4% had been drawn as of the end of September. This relatively favourable trend was fostered by economies in the state budget chapters, which, as part of the regulation of non-mandatory expenditures, cut back their spending on the major budget item, i.e. wages and salaries and other remuneration in return for work done, including insurance contributions (62.6% of the annual budget had been spent as at the end of September, with balanced year-on-year growth rates). Non-investment transfers to social and health insurance funds (up by only 0.4 percentage points on a year earlier) and non-investment transfers to subsidised organisations (down by 5 percentage points) were subject to similar regulation. Only spending on debt service showed a significant pick-up in growth (of 9.2 percentage points for interest and other financial expenditures), owing to the rising government debt.

The 2000 state budget results, including "additions", and the relatively favourable results of local budgets to date indicate that final government consumption will not far exceed the 1999 figures. With respect to the narrower aggregation of public budgets, the year-on-year growth rate in spending on public consumption, including debt service in current prices, can be expected to decline by about 0.9 percentage points because of savings in the same budget items as in 2000 Q3.

III.2.2 Net external demand

Although export growth remained relatively buoyant in Q3, net exports of goods and services (in constant 1995 prices) developed very unfavourably. Negative net exports were CZK 4.7 billion higher in Q3 than in Q2, and compared with the same period a year earlier the decline was even greater at CZK 16.7 billion. This was due to a

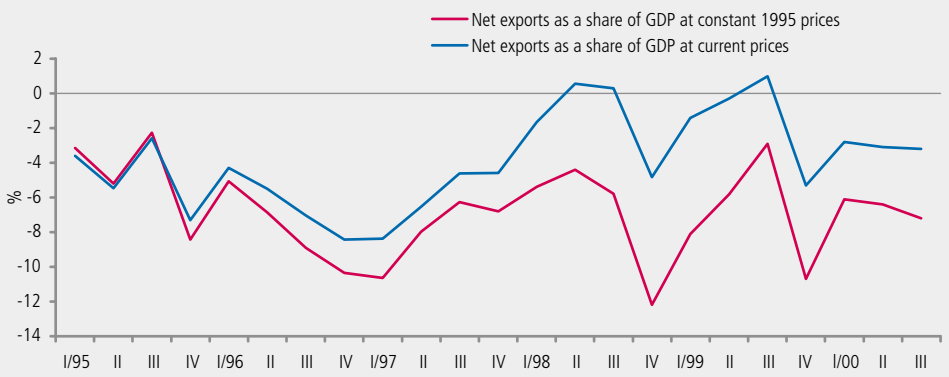
20 In constant 1994 prices.

21 State and local budgets, including debt service and foreign transfers.

considerable pick-up in import growth (21.6%), which exceeded export growth by 5.6 percentage points. As a result, the contribution of net exports to GDP growth was negative in Q3, as in the previous quarter.

The unfavourable absolute negative net export outturns passed through into a substantial deterioration in the relative figures, i.e. net exports as a percentage of GDP, from 2.9% in 1999 Q3 to 7.2% in 2000 Q3. Under these circumstances, the propensity to import remained relatively high (at 86.5%).

CHART III.18 Net exports as a share of GDP



The import growth was principally due to extraordinarily high investment imports, rising growth in industrial production and a further increase in international production collaborations. The further pick-up in year-on-year import growth (compared with the previous quarter) was largely attributable to imports for investment, which were 35.4% higher than a year earlier.[22] Imports for intermediate consumption also showed a big increase (of 34%), thanks to the high prices of energy raw materials, the continuing recovery in domestic industrial production and the development of production collaborations, and accounted for almost 60% of total imports. Imports for personal consumption also rose, but at a much lower rate (12.7%).

The buoyant export growth was again fostered by very favourable sales opportunities for Czech products in advanced market economies, particularly Germany, accompanied by rising demand for Czech products in transition economies and by an expansion in export-oriented production. In 2000 Q3, the overall export growth was again associated chiefly with rising exports of higher-value-added products. Their increased share of total exports was attributable mainly to exports of mechanical and electrical engineering commodities, which recorded year-on-year growth of 24.8%, taking their export share to 51.1%. Exports of food, raw materials and semi-manufactures grew more slowly and their share in total exports dropped slightly to 15.4%, despite buoyant year-on-year growth in their export prices.

By territory, the robust growth in exports to advanced market economies continued into Q3 (19.7% up on a year earlier, with exports to Germany rising by 14.6%). Also up significantly were exports to European transition economies (including the CIS, up by 23.2%), with exports to Slovakia increasing by 24.1%. The buoyant growth rate of exports to these countries, however, was due largely to base effects.

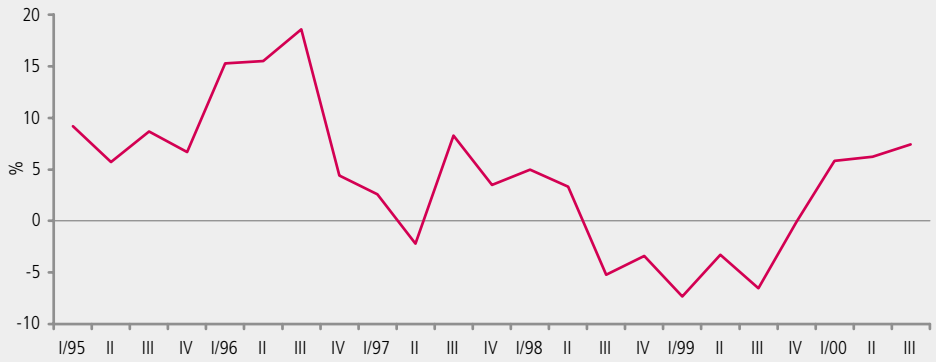
III.2.3 Gross domestic product

On the supply side of the economy, the continuing GDP growth in 2000 Q3 – as in the two previous quarters – was chiefly due to rising gross value added in industry. With a year-on-year growth rate of 7.4%, industry

22 The data on the structure of exports and imports are in current prices.

accounted for almost two thirds of the GDP growth in Q3. Both the overall and structural trends for gross value added in industry and for the other indicators of the continuing economic recovery confirmed the previous expectations of favourable developments in domestic and external producer demand in this sector. They were also a sign of continuing economic restructuring.

CHART III.19 GDP in industry
(y-o-y change in % at constant 1995 prices)



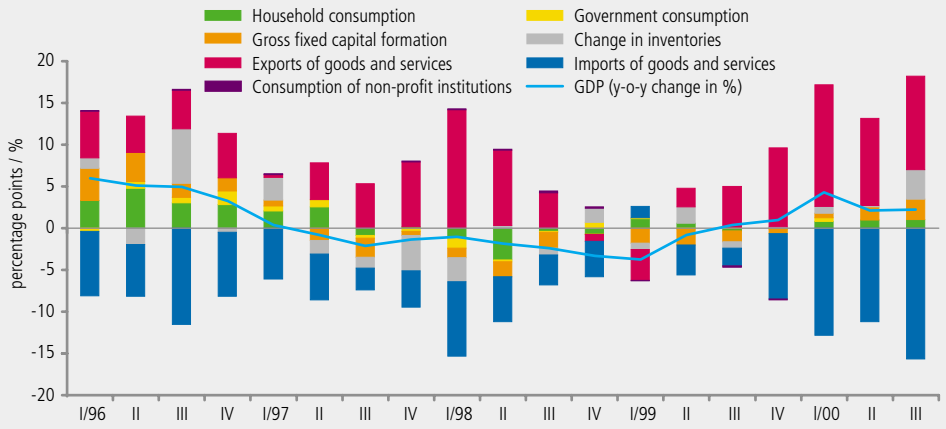
This is evidenced most notably by the long-term rise in sophisticated high-value-added production, which has been the major driving force behind the buoyant growth rates of gross value added in industry. The industries associated most closely with foreign capital inflows include manufacture of transport equipment, manufacture of electrical and optical equipment, manufacture of other machinery and equipment and manufacture of rubber and plastic products. The sizeable foreign capital inflow, particularly in 2000, can be expected to create the prerequisites for further structural change and future growth in gross value added in industry. The recovery in industrial output is also evidenced by an increasing pace of growth in the physical volume of industrial production,[23] which between the start of 2000 and the end of November was 5.8% higher than a year earlier, and by a considerable rise in real sales in industry (up by 8.4% in the same period).

The development of some industries, especially with the help of foreign capital, has in many cases been linked with an expansion of production collaborations. This predominantly export-oriented production has made a major contribution to the robust export growth rates. On the other hand, however, it has been accompanied to a large extent by strong imports of products for intermediate consumption.[24] This, together with the increasing investment imports, was one of the main reasons for net exports not being a factor behind the year-on-year GDP growth in 2000 Q3 (see Charts III.15 and III.20).

23 Measured by the physical volume of industrial production index.

24 See "Net external demand".

CHART III.20 Contribution of domestic demand components and net exports to GDP



In 2000 Q3, the service sector[25] maintained its more-than-50% share in gross GDP at basic prices. Its structural developments confirmed continuing growth in value added in the categories of trade, hotels and restaurants and commercial services, which has been visible since the start of 1999 in connection with the economic recovery. A similar trend was apparent for commercial services, where year-on-year growth rose to 6.6% in Q3. Conversely, value added in financial intermediation and in other services declined.

Value added also continued falling in construction (down by 4.3%), even though construction output rose in constant prices. The increase in construction output was mostly attributable to road and railway construction and to the building of new green-field facilities by foreign-owned businesses. Conversely, the share of construction work in new housing construction remained low. Value added in agriculture, financial intermediation and other services was also lower in Q3 than a year earlier.

Financial performance of non-financial organisations and corporations

As in Q2, the continuing GDP growth in Q3 linked with the structural changes in the economy was reflected in better financial performance by non-financial organisations.[26] Compared with the same period a year earlier, most quantitative and relative indicators saw an improvement in Q3. The same trend was also apparent for the cumulative outturns for the first three quarters of 2000. Year-on-year growth in gross profit was achieved amid higher cost, equity and output profitability. The positive phenomena include a decrease in the wage cost-output ratio (of 1.71 percentage points relative to 1999 Q1–Q3) and a 15.9% drop in the number of loss-making businesses. On the other hand, the increasing material cost-output ratio again reflected the persisting high prices of inputs (especially of oil, but also of some other raw materials).

25 Trade, repairs, hotels and restaurants, transport and communications, financial intermediation, commercial services, and other services.

26 Non-financial organisations with more than 100 employees.

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

	Year 2000				Q2		Q3		Q1-3		Change in perc. pts.		
	Q2	Q3	Q1-3		1999	2000	1999	2000	1999	2000	Q2	Q3	Q1-3
Total income	13.6	17.9	14.9	Cost profitability (profit/expenses)	4.03	4.40	1.73	2.78	3.36	4.18	0.37	1.05	0.82
Total output	12.5	13.5	12.7	Equity profitability (profit/equity)	2.01	2.40	0.83	1.50	4.77	6.50	0.39	0.67	1.73
Total expenses	13.2	16.7	13.9	Output profitability (profit/output)	5.66	6.22	2.49	4.13	4.72	5.95	0.56	1.64	1.23
of which:													
intermediate consumption	14.0	16.3	14.9	Material costs (intermediate consumption/output)	67.18	68.08	67.95	69.65	66.72	68.02	0.90	1.70	1.30
personnel costs[1)]	2.5	1.2	1.8	Wage costs (personnel costs/output)	17.21	15.67	18.32	16.34	17.61	15.90	-1.54	-1.98	-1.71
Book value added	9.5	7.4	8.3										
Pre-tax profit	23.7	88.0	42.1										

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

The 88% year-on-year increase in gross profit in Q3[27] was chiefly attributable to industry (66%). With respect to ownership structure, more than half the gross profit was generated in private organisations. Only the sectors of transport and electricity, gas and water supply showed losses.

The further improvements in efficiency led to a reduction in corporate sector debt. Past-due debts were CZK 13.5 billion lower at the end of 2000 Q3 than a year earlier. The primary insolvency-equity ratio also saw an improvement. The decline in the volume of liabilities was associated to a certain extent with the closure of inefficient businesses. On the other hand, the payment discipline of businesses[28] deteriorated.

Implications of demand and output developments for inflation

Although domestic demand growth picked up further in 2000 Q3, the analyses of inflation factors had yet to confirm that domestic demand was a source of demand-pull inflationary pressure in the economy. The potential inflationary pressures that might have affected some durables owing to increasing demand were offset by strong competition on the retail market. The moderating effects of competition were again also apparent in food sales thanks to the business policies of large retail chains, which focused on strengthening their position on the domestic market to the detriment of small retail units.

The financial performance of selected non-financial organisations and corporations in 2000 Q3 did not signal the emergence of any cost-push inflationary pressures either. As in the previous quarter, the continuing favourable trends for gross profit and the other profitability indicators suggested that the increase in the material cost-output ratio (brought about by rising prices of external inputs) had been partially offset by a further drop in the wage cost-output ratio and by other factors.

III.3 The labour market

The labour market developments in 2000 Q3 confirmed a continuation of the trend in previous quarters towards decreased imbalance between the demand for and supply of labour. The trends of a slowing decline in employment, falling unemployment and an increasing number of vacancies continued, thanks to the continuing economic recovery, the inflow of foreign direct investment and the various forms of the Government's active employment policy. Growth in employment in Q3 was particularly apparent in export-oriented industries. The

27 In absolute terms the increase in gross profit was CZK 10.9 billion in Q3 and CZK 29.9 billion in Q1–Q3 2000.

28 The average payment period reached almost 62 days.

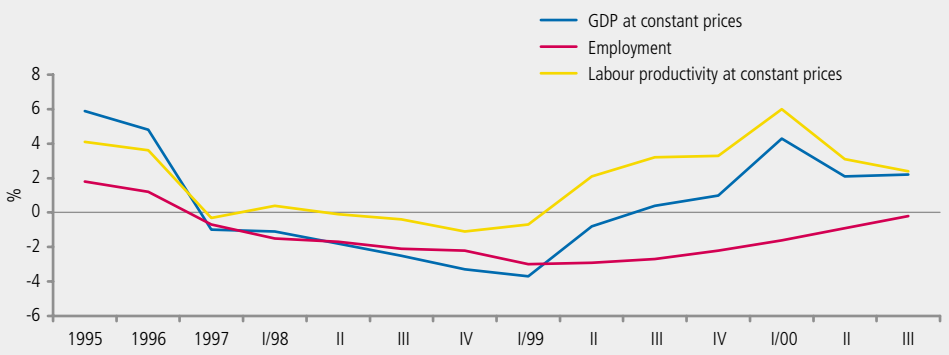
gradual easing of the situation on the labour market, however, had yet to result in significant weakening of the regional, skills and occupational imbalances between the demand for and supply of labour, which are the main reason for the relatively high share of long-term job seekers in the total number of people unemployed. No substantial changes were registered in the wage trends in Q3. The pick-up in average nominal wage growth was not significant, while the average real wage remained flat at the previous quarter's level. The lead of productivity growth over average real wage growth (at the macroeconomic level and in industry and construction) and the unit wage cost trend did not generate risks of a pick-up in inflation.

III.3.1 Employment and unemployment

The trend of a gradual slowing decline in employment and of decreasing unemployment, which had started in 1999, continued during the course of 2000 Q3. The main factors behind this were the inflow of foreign investment, the ongoing economic recovery and measures adopted under the Government's employment policy, which in 2000 chiefly involved placing graduates in public administration, granting investment incentives and providing support for the building of industrial zones. These measures helped substantially boost the inflow of foreign direct investment and consequently increase the number of new jobs. The active employment policy was strengthened relative to previous years and in 2000 helped to reduce the unemployment rate by about 1 percentage point. The slowing decline in employment in Q3 was also fostered by a decline in the number of secondary school leavers thanks to the one-year extension of compulsory school attendance introduced four years ago.

The gradual easing of the situation on the labour market due to the economic recovery and the other aforementioned factors is clearly shown in Chart III.21. A pronounced change is visible from 1999 Q4 onwards, with a marked slowdown in the decline in employment amid sustained growth in whole-economy labour productivity.[29] In the previous two quarters of 1999, employment had responded negligibly to the nascent pick-up in GDP growth, since the ongoing restructuring in the corporate sector – leading to a sizeable reduction in the number of employees – had prevailed. In contrast, the marked slowdown in the decline in employment from 1999 Q4 onwards, and particularly in 2000 Q3, signals a change in trend in the demand for labour.

CHART III.21 Employment, GDP and labour productivity
(y-o-y change in %)



Under these circumstances, the year-on-year decline in employment in the national economy moderated by a further 0.5 percentage points in 2000 Q3 alone to 0.3% compared with the previous quarter, or by about 14,000 people in absolute terms.[30] This was largely the result of developments in manufacturing, which, owing to restructuring, recorded the largest decrease in workforce in the course of one year. The number of jobs also

29 i.e. real GDP per employed person. The moderation of whole-economy labour productivity growth in 2000 Q2 and Q3 relative to Q1 was due to lower growth of real GDP.
30 According to the CSO's Labour Force Sample Survey.

continued to fall in retailing, owing to the liquidation of smaller outlets by large shopping centres. At the same time, however, the number of employees increased in some rapidly expanding branches of manufacturing backed by foreign capital.[31]

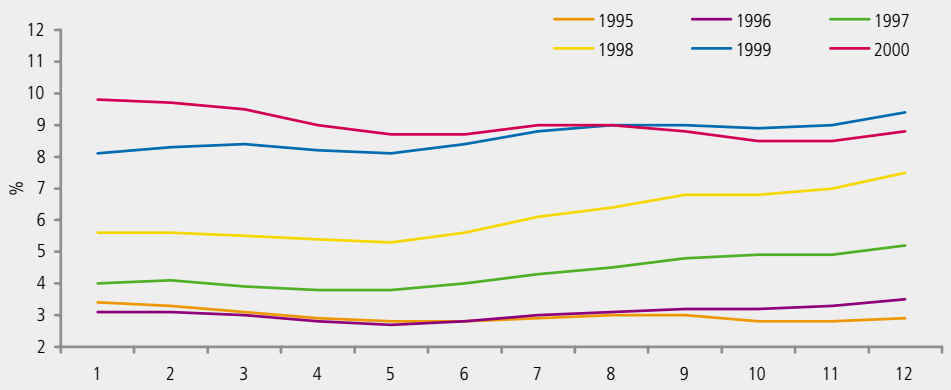
Table III.8 Basic data on employment and unemployment

						1999				2000			
	1995	1996	1997	1998	1999	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total no. of people employed in national economy (average)[1)]													
y-o-y change (in %)	0.7	0.2	-0.7	-1.4	-2.1	-2.3	-2.3	-2.0	-1.8	-1.3	-0.8	-0.3	.
natural persons - number (in thousands)	4963	4972	4937	4866	4764	4770	4765	4756	4765	4707	4727	4742	.
Number of people unemployed (in thousands)[2)]	153.0	186.3	268.9	386.9	487.6	433.3	435.0	469.8	487.6	493.4	451.4	458.3	457.4
Unemployment rate (in %)[2)]	2.9	3.5	5.2	7.5	9.4	8.4	8.4	9.0	9.4	9.5	8.7	8.8	8.8
Economic activity rate[1,3)] in %	.	61.2	61.1	61.0	61.0	61.0	60.9	61.0	61.1	60.7	60.3	60.4	.

. Figures unavailable
1) According to Labour Force Sample Survey
2) End-of-period figures from the Ministry of Labour and Social Affairs
3) Ratio of economically active population to total population of productive and post-working age

Thanks to the gradual change in demand for labour, unemployment continued to decrease (with some seasonal fluctuations) throughout 2000. At the end of December, the unemployment rate stood at 8.8%, down by 0.6 percentage points from the same period of 1999. Between the start of the year and the end of December, the number of people unemployed dropped by 51,100, largely because of a rise in job opportunities offered by foreign investors and small domestic firms and through the creation of new jobs within the active employment policy.

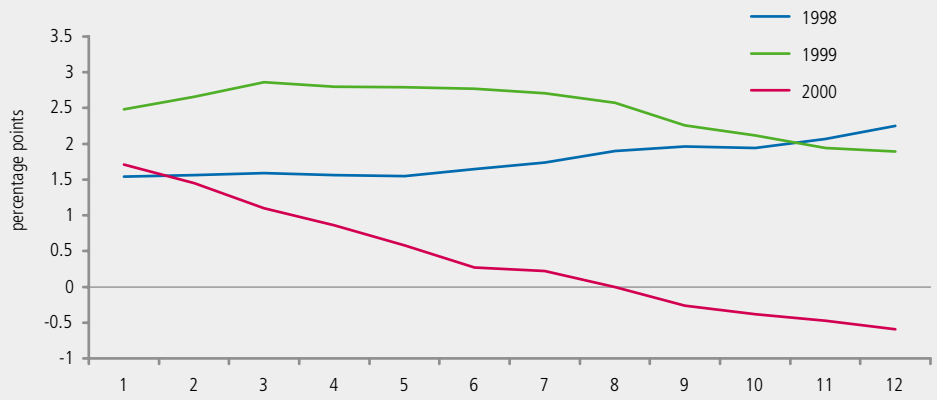
CHART III.22 Unemployment rate (1995 - 2000)



The trend of decreasing imbalance on the labour market is even more apparent from the gradually declining year-on-year growth in the unemployment rate recorded since 1999 Q2 (see Chart III.23). In January 2000 this growth had stood at 1.7 percentage points, whereas in December it was negative at -0.59 percentage points.

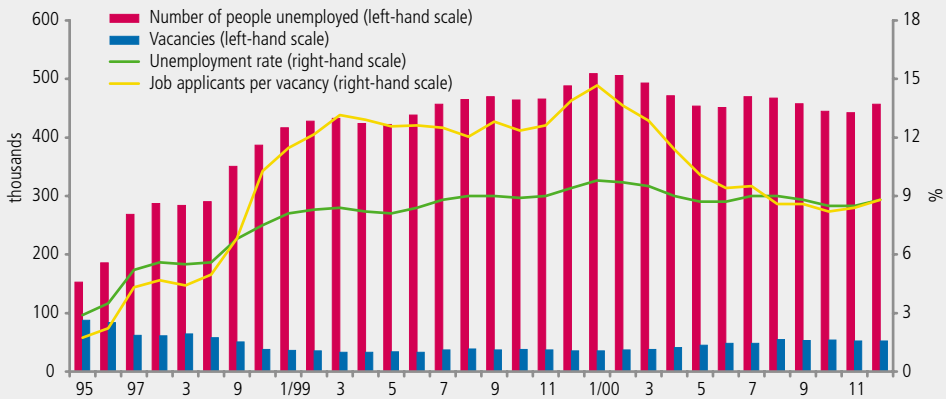
31 These include in particular manufacture of motor vehicles, with an 8.9% year-on-year rise in the number of employees in Q3, and manufacture of electrical and optical appliances, with a 7.8% increase in the same period.

CHART III.23 Unemployment rate in 1998 - 2000
(y-o-y change)



The gradual narrowing of the gap between the demand for and supply of labour is also evidenced by the steady increase in vacancies since the start of 2000. At the end of December 2000, employers had 52,000 vacancies on offer, up by 16,900 compared with a year earlier. At the end of November, there were 8.8 job applicants per vacancy.

CHART III.24 Labour supply and demand



The gradual easing of the situation on the labour market in 2000 Q3 was not accompanied by a significant reduction in the regional,[32] occupational and skills imbalances between the supply of and demand for labour. These structural imbalances on the labour market, which are a consequence of the restructuring of the economy and the removal of "overemployment", were one of the main causes of the lengthening average duration of unemployment. Although growth in the number of people long-term unemployed did not accelerate in Q3 and remained approximately at the previous quarter's level (2% in year-on-year comparison) no conclusions can be drawn so far about a change in trend. According to CSO data,[33] the number of people seeking a job for more than one year stood at 215,200 at the end of Q3, which represents almost half of the total number of people unemployed. In 2000 as a whole, the number of people long-term unemployed increased by 45,700.

32 High unemployment rates have been registered in the districts of North Bohemian and North Moravian regions for some considerable time. For example, according to the latest data for December 2000 the unemployment rate stood at 21.5% in the Most district, 18% in Karviná, 17% in Teplice, 16.9% in Chomutov, 17.2% in Bruntál and 17.1% in Louny.

33 Labour Force Sample Survey.

III.3.2 Wages and financial incomes

Although overall year-on-year growth in average nominal wages[34] increased again in Q3 relative to Q2 (by 0.4 percentage points to 6.1%), it did not exceed – except in 2000 Q2 – the outturns recorded in previous years. A modest pick-up in year-on-year growth was registered in both the business and non-business sectors.

With inflation growing more slowly than average nominal wages, year-on-year average real wage growth in 2000 Q3 moved broadly at the previous quarter's level (2%). In the business sector, average real wage growth remained at about 3%, while in the non-business sector real wages fell, as they had done in the previous two quarters.

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

	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	00 Q2	00 Q3
AVERAGE WAGE IN MONITORED ORGANISATIONS																		
nominal	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	5.7	6.1
real	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	2.0	2.0
of which: Non-business sector																		
nominal	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	1.9	2.2
real	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	-1.8	-1.8
Business sector																		
nominal	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	6.9	7.3
real	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	3.0	3.1
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	6.5	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	2.6	2.2
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	6.6	7.1
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	2.8	3.0
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	9.2	8.2
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	5.3	4.0

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)

Of primary importance as regards the build-up of potential wage inflationary pressures, however, was that the year-on-year growth in whole-economy labour productivity in Q3 was 1.5 percentage points higher than the growth in average real wages. The rise in real unit wage costs at the macroeconomic level showed a further sizeable slowdown (to 0.2% in Q3).

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

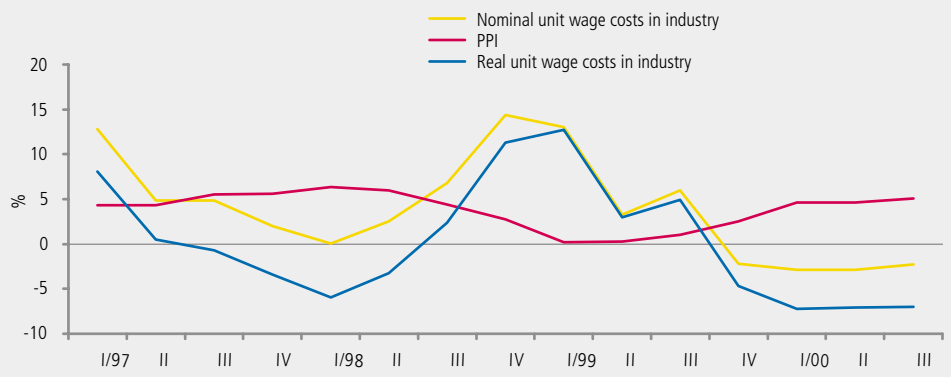
	96 Q1	96 Q2	96 Q3	96 Q4	1996	97 Q1	97 Q2	97 Q3	97 Q4	1997	98 Q1	98 Q2	98 Q3	98 Q4	1998	99 Q1	99 Q2	99 Q3	99 Q4	1999	00 Q1	00 Q2	00 Q3
Whole-economy labour productivity 1)	5.4	5.2	5.4	3.9	4.9	1.0	-0.3	-1.2	0.2	-0.1	1.4	0.7	0.9	0.0	0.7	0.0	2.7	2.9	3.1	2.2	6.2	3.6	3.5
Unit wage costs																							
nominal 2)	11.5	14.5	11.3	12.6	12.3	12.8	13.6	14.0	8.2	12.0	9.5	6.3	8.3	10.0	8.6	8.6	5.2	5.5	4.6	5.9	0.5	2.0	2.5
real 3)	3.8	4.4	2.5	3.6	3.4	3.2	6.9	6.1	2.0	4.5	1.0	-4.2	-1.7	-1.1	-1.5	1.9	2.1	5.3	3.1	3.1	2.3	1.9	0.2
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	6.6	3.0	0.2	1.5	2.7	-1.8	0.1	2.3

1) GDP at constant prices/employment in the national economy
2) Nominal wages and salaries/GDP at constant prices
3) Nominal unit wage costs deflated by the GDP deflator
Source: CSO; CNB calculation

34 Measured by average wage developments in monitored organisations.

These favourable wage indicators were registered mainly in industry. From the point of view of producers, the substantial lead of labour productivity growth over growth in the real product wage meant a further reduction in labour costs. Against this background, real unit wage costs in industry showed another substantial decrease in Q3 (of 7%). Nominal unit wage costs were 2.3% lower than a year earlier.

CHART III.25 PPI and nominal and real unit wage costs in industry
(y-o-y change in %)



Nominal unit wage costs in industry and industrial producer prices in Q3 (see Chart III.25) indicated that, in this quarter again, the industrial PPI inflation of around 5% was not generated by wage-cost factors. The relationship between nominal unit wage costs and price indicators at the macroeconomic level leads to similar conclusions about the influence of wages on inflation in the economy.

The positive effects of the restructuring process, reflected in a steady improvement in wage restraint in the corporate sector, are also indicated by analyses of changes in the structure of value added (and changes in the share of personnel costs in value added) linked with the ongoing changes in employment in different sectors of the economy. According to the 2000 Q3 data, the relationship between the above variables in non-financial organisations and corporations with more than 100 employees[35] improved in most industries.

In manufacturing, for example, the 1.8 percentage point year-on-year decline in employment was accompanied by a 3.6 percentage point drop in personnel costs as a share of value added. The adjustment of employment (or personnel costs) to the GDP trend is also evidenced by the aggregate figures for all monitored sectors;[36] amid a 3.5 percentage point fall in employment, the ratio of personnel costs to value added decreased by 4.7 points. The financial performance indicators of the same set of organisations and corporations yield the same information with respect to the wage cost-GDP ratio.[37]

Similar conclusions about the influence of wages on inflation follow from comparing nominal household incomes (including wage incomes) with nominal GDP. In Q3, this relative variable, which is an indicator of potential demand pressures in the economy, indicated a modest redistribution of overall disposable income away from households.

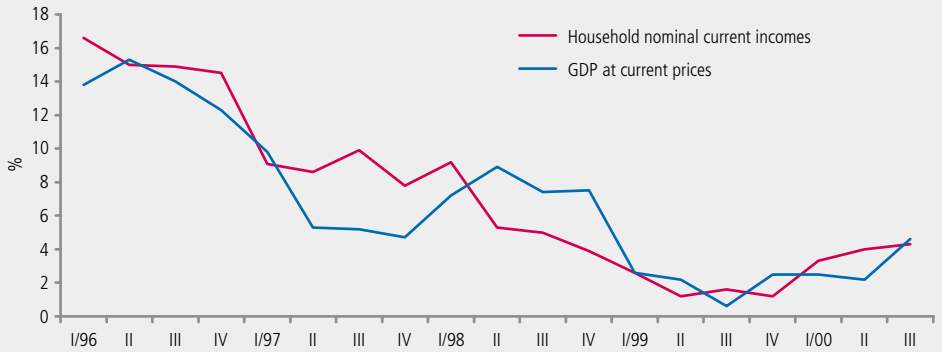
Although growth in household incomes picked up somewhat in Q3 owing to the developments in wage incomes and some other incomes, overall it was more sluggish than GDP growth. Also, the analyses of household consumption relative to inflation did not signal any inflationary impulses on the demand side.

35 This set of organisations includes about 70% of the organisations in the economy.

36 Agriculture and hunting; manufacturing; mining and quarrying; electricity, gas and water supply; construction; trade and repair of motor vehicles; hotels and restaurants; transport, storage and communication; real estate and business activities; education; health; and other services.

37 For more details see *Demand and output* – "Financial performance of non-financial organisations and corporations with more than 100 employees".

CHART III.26 Household nominal incomes and GDP at current prices
(y-o-y change in %)



Implications of labour market developments for inflation

The labour market developments in 2000 Q3 did not signal any major changes relative to the previous quarter. The relationship between wage and output variables created no room for the build-up of inflationary potential. At the macroeconomic level, this conclusion is supported by the faster growth of whole-economy labour productivity than of average real wages. Nominal unit wage costs were higher than a year earlier, but their sluggish growth rate relative to the rise in consumer prices suggested that the inflation was primarily due to factors not connected with labour market developments. The wage cost outturns at the industrial branch level also suggest that that the current trend on the labour market should not, in the short run, generate risks of a pick-up in producer price inflation and consequently in consumer price inflation. The influence of the increasing rationalisation of wage and employment policies is strongest in industry against a background of continuing restructuring. The inflationary demand indicators in Q3 signalled no build-up of inflationary potential, either.

The methodological framework for evaluating wage developments relative to inflation

The approach to evaluating the influence of wage developments on inflation is based on the two possible ways in which wages can affect inflation. Wages can simultaneously be potential cost-push and demand-pull inflationary factors. It is not easy to differentiate between wage-cost and wage-demand inflation. This difficulty becomes evident when we try to estimate the contributions of demand-pull and cost-push inflation to overall inflation.[38]

Wage-cost inflation due to excess demand

This inflation can be said to occur when the faster wage growth (relative to GDP growth) is due to growth in aggregate demand running into supply-side constraints in the economy. The imbalance on the goods market transfers to the labour market. This shows up in falling unemployment (and/or reciprocally rising employment), with a knock-on effect on the growth in average nominal wage rates. Wages rise faster than GDP chiefly for the following reasons:

- the number of occupational and regional imbalances on the labour market rises; the newly employed workers also increase the bargaining power of the trade unions; these factors generally lead to a rise in wage rates;
- the law of diminishing returns to variable inputs applies, i.e. even if average wage rates remain unchanged, the newly employed workers produce less than the average quantity of goods and services

38 In this sense, overall inflation is often likened to a dripstone connecting the floor and ceiling of a cave, where one cannot define where the stalagmite ends and the stalactite begins.

but are paid as if they were producing the average quantity, which at constant mark-up pricing must bring about growth in prices of final production.

These additional costs gradually feed through into consumer prices. The rise in prices therefore comes from the costs side, passing from producers to sellers. Each of these is, at its own level, able to absorb and suppress these higher prices for a time out of its mark-up, but sooner or later it must either exit the market (go bankrupt) or let the price pressure pass through into prices for the final consumer. The extent of this pass-through depends on the degree of competition in the relevant segment of the retail market, the price elasticity of demand, the size and duration of the imbalanced wage pressure and on the strength of other non-demand cost factors (prices abroad, exchange rates, etc.).

Autonomous wage-cost inflation

We talk of autonomous wage-cost inflation when the excessive wage growth (relative to GDP growth) results from partial breakdowns in the linkage between wages and output, in particular:

- as a result of unexpected production outages (breakdowns, natural disasters);
- due to the existence of structural overemployment in certain sectors;
- when trade unions drive up wages in order to increase the share of wages in GDP with no link to the current demand climate;
- due to exaggerated inflation expectations.

In a way, this inflation takes the form of an exogenous shock (similar in effect to imported inflation, for example), and is often limited in duration or quickly unwinds. It does not act globally, but locally with limited overspill from sector to sector. That is to say, it does not result from imbalances between output demanded and supplied, and the response to it cannot be based on restricting demand through fiscal and monetary measures implemented by the economic and political authorities.

The basic indicator of possible imbalances on the labour market as an inflation factor is nominal/real unit wage costs.[39] This indicator provides information both at a sector level and at the whole-economy level on whether or not the trend in wages (as part of value added) is reasonable, i.e. in proportion to the trend in value added as a whole. The nature of any inflationary pressures (cost-push, demand-pull, bilateral) ensuing from growth in nominal unit wage costs can be determined by only subsequent analyses of the causes of the changes in this growth.

The change in nominal unit wage costs[40] is calculated as follows:

y-o-y change in nominal unit wage costs = y-o-y change in average nominal wages / y-o-y change in real labour productivity

Growth in nominal unit wage costs means an increase in the nominal wage cost-output ratio resulting from disproportional wage growth relative to productivity growth. The difference between nominal unit wage costs and the inflation indicator indicates either the extent of the absorption of such cost pressures into current prices or the accumulation of these pressures – i.e. a build-up of wage-inflationary potential that might pass through into prices if conditions in the economy ease, for example in a phase of economic recovery. There are three basic scenarios that can arise when comparing nominal unit wage costs with an inflation indicator (such as the GDP deflator) where the change in these indicators has proceeded in the same direction but with different intensity:

39 Nominal unit wage costs = volume of nominal wages/GDP at constant prices; real unit wage costs = nominal unit wage costs/GDP deflator.

40 In Eurostat statistical practice, the nominal unit labour costs indicator is calculated using "compensation of employees" (which comprises not only wages and salaries, but also employers' contributions to health and social funds) and real GDP.

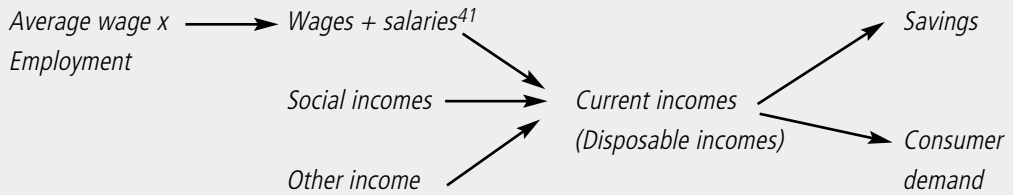
- GDP deflator < nominal unit wage costs
- GDP deflator > nominal unit wage costs
- GDP deflator = nominal unit wage costs

However, assessing the effect of wage developments on inflation within these three scenarios also depends on the direction in which the change in nominal unit wage costs and the GDP deflator was proceeding. If, say, in the first scenario, the change in nominal unit wage costs was greater than the change in the GDP deflator amid growth in nominal unit wage costs (nominal unit wage costs > 0), then real unit wage costs increased. In this case, we can then talk of a build-up, via current price developments, of unabsorbed excessive wage growth.

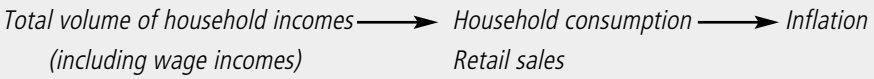
Demand-pull inflation

The second channel through which high demand affects retail prices is its impact on the pricing policy of consumer goods sellers themselves. Here, wages are part of households' current incomes, which co-determine their level of disposable income and final consumption, or in other words their purchasing power on the retail market. In conditions of high demand (during a boom) generated by strong customer purchasing power, and in conditions of weak competition, the final sellers of consumer goods – who are in day-to-day contact with their customers and with the competition in their sector – may feel the need to maximise their revenues and profits by raising prices. Given sufficiently inelastic demand, this may genuinely improve their economic situation. They therefore raise prices "voluntarily" with an eye to higher (than normal) profits without being "forced" to do so by suppliers and by their own cost situation. This can occur even when the economy is running below its potential (for example in a period of weak external demand). This tendency, however, is effectively prevented by competition on the retail market, which (for example when multinational retail chains penetrate the market and redistribution of market shares occurs) can to a large extent block the tendency of traders to put up prices in the absence of significant cost pressures. Competition can thus engender price restraint in sellers and can lead them to maximise their profits through non-price measures.

Analyses of this demand-pull inflationary impulse of wage growth as a factor of aggregate demand are based on examining wages as one of the items of household disposable incomes, which are a key factor of consumer – and therefore also aggregate – demand.



The assessment of the possible effect of household current incomes on inflation is based on evaluating whether the growth rate of consumer demand, or of household consumption, is prompting sellers to raise their prices regardless of their cost or profit situation. The basic scheme of this approach is as follows:



Also taken into account are other circumstances that might, given the current income trend, modify households' propensity to consume, in particular their propensity to save and access to debt financing (additional sources of consumer demand). The elasticity of the demand side of the economy with regard to household incomes is also analysed, as increased demand for imports, and hence a decrease in inflationary pressures, cannot be ruled out either. With regard to the inflation forecast, also important are analyses of the price elasticity of individual household expenditure items, consumer sentiment and expectations of economic

41 In the Czech economy, wages and salaries make up 42% of household current incomes, social incomes 18% and other incomes (employers' social contributions, property income, gross mixed income and other current transfers) 30%.

developments, own incomes, etc., and, last but not least, the factors modifying the impact of demand on inflation (for example the business and pricing policies of retail chains).

Differentiating between wage-cost inflation due to excess demand and autonomous wage-cost inflation

The basic guide for assessing cost and demand factors is an evaluation of the effect of the input variables (average wages and productivity) on nominal unit wage costs. Other macroeconomic indicators (employment, unemployment, supply and demand in the economy) are also taken into account when assessing the trends in both the numerator and denominator.

For example, the developments in 1999 when the very high growth in nominal unit wage costs was caused *inter alia* by strong growth in average wages in the business sector (resulting chiefly from the trade unions' inflation expectations) can be identified as a wage-cost shock.

The potential effects of imbalanced wage developments on inflation are also viewed in the wider context of changes in other cost items, since an unfavourable trend in wages per unit of output can be offset by favourable developments in other costs. This can be demonstrated by again using the example of 1999, when the high growth in nominal unit wage costs was offset in businesses' costs – especially in the first half of the year – by favourable imported inflation.

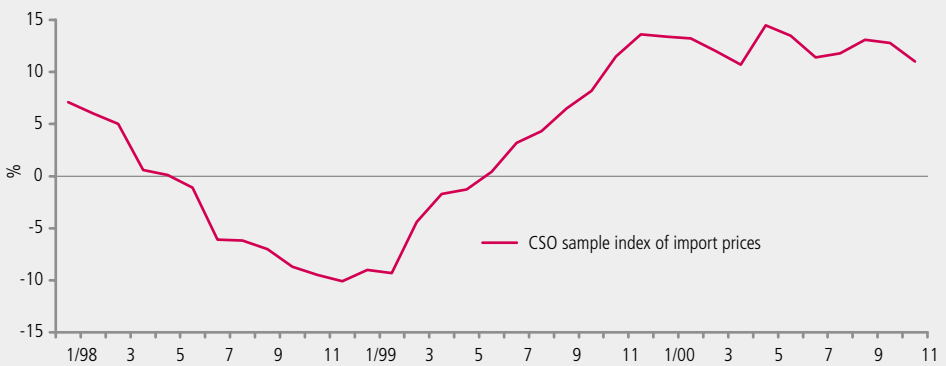
III.4 Costs and prices

In 2000 Q4, most cost indicators saw no change in price trend relative to the previous quarter. The strong rise in import prices continued, although it eased in intensity thanks to slower year-on-year growth in prices of energy raw materials (particularly oil and natural gas). Industrial producer price inflation continued to pick up markedly, as a result of a step change in electricity prices and rising prices in the food industry. But in December it slowed substantially, thanks to the aforementioned external influences. Agricultural producer prices continued to rise at a relatively high pace in 2000 Q4. A further pick-up in construction work price inflation confirmed a continuation of the moderate upward tendency in conditions of economic recovery.

III.4.1 Import prices

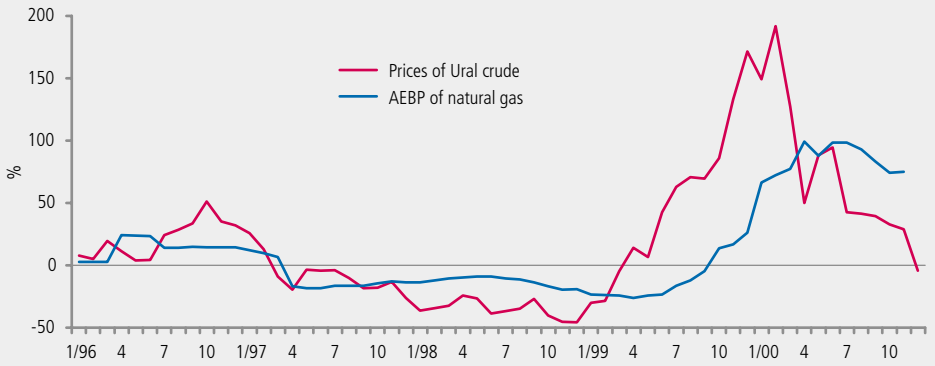
Annual import price inflation continued to slow modestly in 2000 Q4 (to 11% in November 2000). This trend, evident since 2000 Q3 with some volatility, was chiefly attributable to the slowdown in annual price inflation for all major imported energy raw materials – especially oil and natural gas.

CHART III.27 CSO import price sample index
(y-o-y change in %)



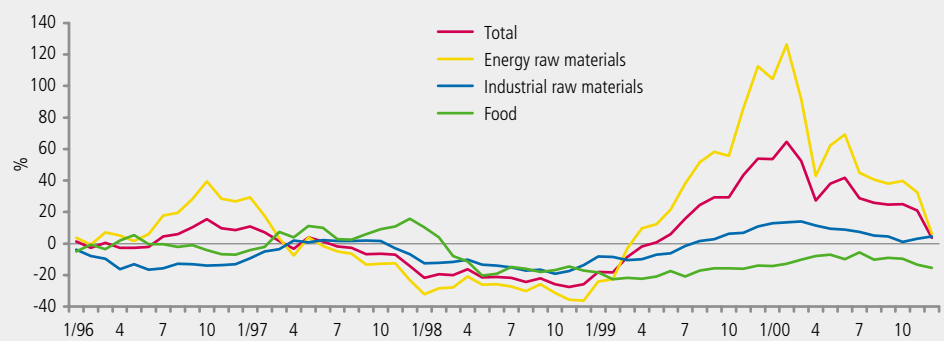
Although the price of Ural crude,[42] which is the most significant component of the oil imported into the Czech Republic, rose modestly in October and November 2000 relative to the previous quarter, its year-on-year growth continued to slow because of base effects (see Chart III.28). Following a sizeable absolute fall in December 2000, oil prices have been on the decline in year-on-year comparison. Gas prices,[43] which had been rising constantly until Q3, showed a similar trend. Although they edged up again slightly in Q4, their year-on-year growth also slowed because of base effects. Overall, prices of other import commodities also contributed to the slowing annual growth in CSO import prices and the other raw materials indices.

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



The direct effect of these energy raw materials price developments on world markets on prices of imported products is shown clearly by both the HWWA index, which expresses the import prices of advanced European market economies, and, in the case of the Czech Republic, the structural developments in the CSO sample index of import prices, which uses the SITC classification.

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



For domestic producers, the slower annual growth in oil prices meant reduced upward pressures on costs. Nevertheless, given the growth rate of prices of imported oil products, the intensity of these external impulses remained very high in year-on-year comparison. According to CSO data, growth in oil product prices fluctuated between -4% and 192% in the January–December 2000 period and growth in natural gas prices moved within the 66%–99% range in the first eleven months of the year. The growth rates of other raw material commodities prices were substantially lower, but even their effect on producer costs cannot be viewed as insignificant, since in

42 USD per barrel

43 USD per thousand cubic metres

January-December they fluctuated between 5% and 14%. Prices of imported agricultural and food products were higher than a quarter earlier, but their growth was relatively low.

III.4.2 Producer prices

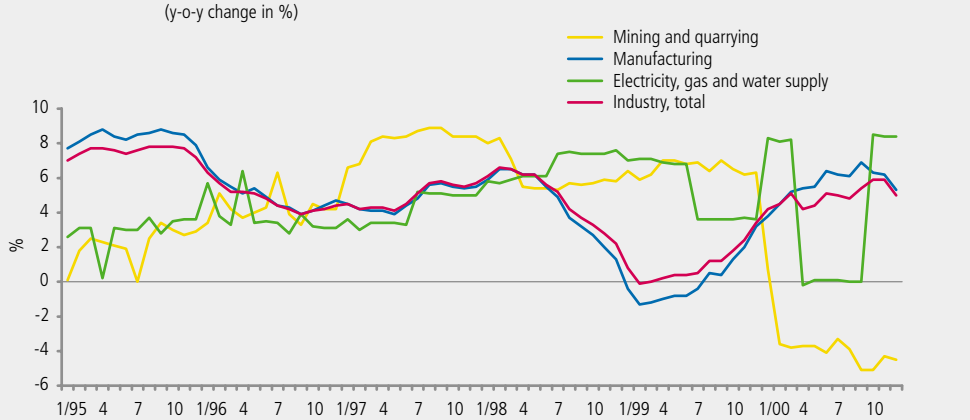
Industrial producer prices

Industrial producer price inflation continued to pick up in the first two months of 2000 Q4. The main reason for the annual increase of 0.5 percentage points to 5.9% compared with the end of the previous quarter was the step rise in electricity prices in October owing to the switch from summertime tariffs – introduced for wholesale customers for the first time in 2000 – back to winter rates. The increase in industrial producer price inflation was also attributable to a further sizeable rise in producer prices in the food industry, due to persisting pressures on manufacturers from agricultural primary producers.

The pro-growth effect of these domestic cost factors was partially offset by the slowing growth in import prices of raw materials (especially oil). The year-on-year decline in oil prices in December 2000 caused annual industrial producer price inflation to fall below the end-Q3 level at the close of Q4 (down by 0.4 percentage points to 5%). Another factor curbing industrial producer price inflation in Q4 was prices in mining and quarrying, where, amid continuing excess supply of some commodities (brown coal, lignite), prices declined for the fourth consecutive quarter.

Although the external cost influences were not a source of faster growth in industrial producer prices relative to the previous quarter, they continued to contribute significantly to the overall annual rise in these prices.

CHART III.30 Industrial producer prices by industrial category
(y-o-y change in %)

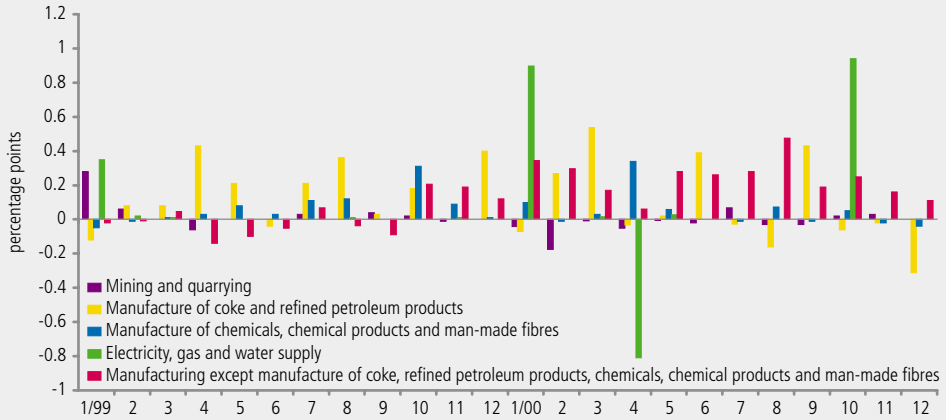


The oil price developments in 2000 Q4 chiefly affected prices in manufacturing, where annual producer price inflation eased by 1.6 percentage points compared with the previous quarter to 5.3% in December. This factor was strongest in industries involved in processing oil products and natural gas – most notably manufacture of coke and refined petroleum products and manufacture of chemicals, chemical products and man-made fibres. At the same time, analyses of prices developments in other manufacturing industries[44] signalled either weakening transmission of the high oil prices into prices in these industries or elimination of their effect on costs and subsequently on prices thanks primarily to rising productivity. Under these circumstances, the further pick-up in food industry prices was not strong enough to offset these downward effects on overall inflation in manufacturing.

44 i.e. all branches of manufacturing except for manufacture of coke and refined petroleum products and manufacture of chemicals, chemical products and man-made fibres

The weakening influence of external cost impulses and the simultaneous strengthening effect of domestic factors on producer prices in manufacturing during 2000 Q4 is also evident from the structure of monthly industrial producer price inflation (see Chart III.31). The contribution from industries involved primarily in processing oil products to monthly industrial producer price inflation was negative throughout Q4. The effect from other manufacturing industries resulted primarily from the rising prices in the food industry and in industries involved chiefly in producing semi-manufactures.

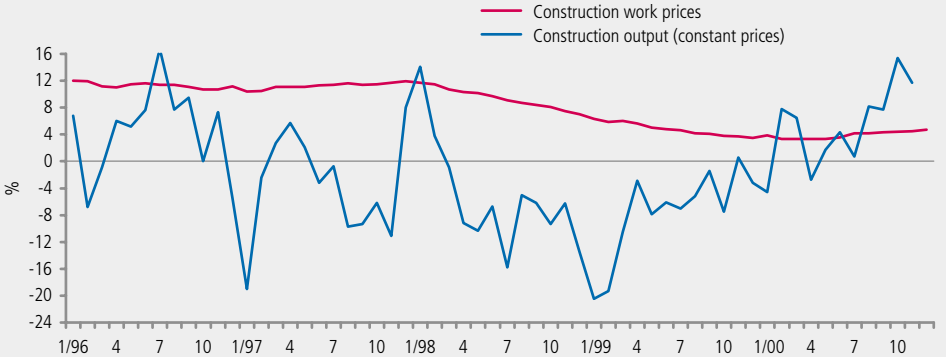
CHART III.31 Structure of monthly industrial producer price inflation



Construction work prices

Construction work prices showed a continued pick-up in growth in 2000 Q4. According to the data for December, annual construction work price inflation increased by a further 0.4 percentage points compared with the previous period to 4.7%. The reasons for the three-quarter-long recovery in prices in this sector remain the same. The upturn is most probably due mainly to rising input prices and increasing demand for construction work linked with the continuing economic recovery, but a possible effect from expectations of a further rise in investment demand cannot be ruled out either.

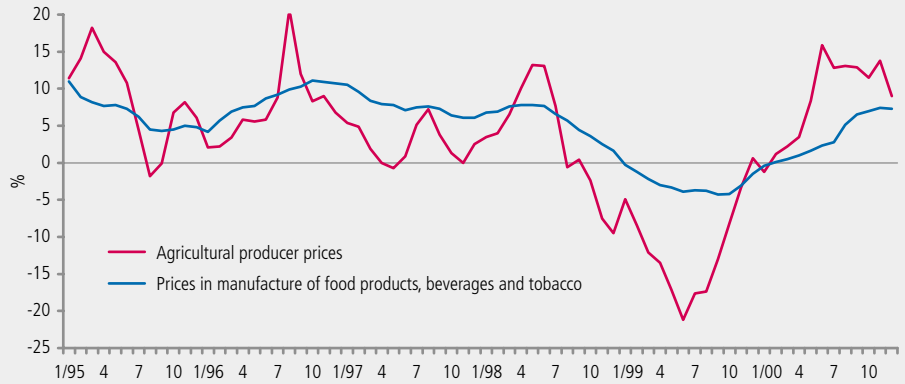
CHART III.32 Construction work prices and construction output
(y-o-y change in %)



Agricultural producer prices

Agricultural producer prices saw no major change in trend in 2000 Q4 and continued to show a high annual growth rate (of 9%, according to the latest data for December). As in the previous quarters of 2000, the October and November outturns were partially affected by the previous year's low base. The buoyant annual agricultural producer price inflation was again a significant cost factor underlying the further increase in food price inflation on the retail market in Q4.

CHART III.33 Agricultural producer prices and prices in manufacture of food products, beverages and tobacco (y-o-y change in %)



Although agricultural producer price inflation picked up considerably in the final three quarters of 2000, the prices of many key commodities, particularly in crop production, still did not exceed the 1999 level. This can be regarded as the main cause of the continuing gradual pass-through of agricultural primary producers' cost pressures into the food industry, which is resulting in rising purchase prices, particularly for livestock products, and subsequent pressures on consumer prices. This process was also fostered in Q3 and Q4 by temporary excess demand for key livestock products resulting from the exhausting of duty-free quotas for imports. It was impossible to balance flexibly the subsequent restrictions on imports to the Czech Republic through increased domestic supply, since in the previous period the number of animals in domestic primary production had fallen sharply owing to competition from cheap imports.

Implications of other cost indicators for inflation

The varying rates and directions of price growth in the industries included in industrial producer prices reflected not only differences in the underlying factors affecting them, but also the extent of their potential impact on consumer prices. With respect to inflation, the most important factor in 2000 Q4 – as in the previous period – was the continuing relatively buoyant growth in agricultural producer prices, which contributed to the further pick-up growth in food industry prices and, ultimately, in food prices on the retail market. For the second consecutive quarter, the cost pressures from domestic producers were bolstered by temporary excess demand for some food commodities.

On the other hand, the reduced annual growth in oil prices on world markets in the first two months of 2000 Q4 and their year-on-year decline in December led to slower growth in output prices in industries heavily involved in

processing oil products. The resulting slower growth in fuel prices, which form part of the consumer basket used to calculate consumer price inflation, became a factor reducing the adjusted inflation outturns and consequently also the rise in consumer prices. As in the previous quarter, these fuel price developments partially offset the transmission of the high oil prices into costs and prices in other industries. Furthermore, prices analyses at the industrial level indicated that the process of transmission of the high oil prices into other manufacturing industries had been offset to a large extent by the cost effects of rising productivity. Also, against a background of sustained strong competition on the retail market, the growth rate of consumer demand did not establish conditions for sizeable pass-through of the indirect effects of the high oil prices into inflation.

IV. MONETARY POLICY MEASURES AND THE INFLATION OUTLOOK

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

In 2000 Q4, headline inflation edged up to 4.4% in October (from 4.1% in September), before falling back in the remaining two months of the quarter to 4.0% in December. Compared with the 3.2% outturn in September, annual net inflation initially rose (to 3.5% in October and 3.4% in November), but was lower in December (at 3%). The inflation rate gradually rose from 3.3% in September to 3.9% in December.

Regulated price inflation picked up somewhat relative to the previous period (to 7.3%) owing to pass-through of increased costs into prices of items regulated on a cost-plus basis. As in the previous period, the two main components of net inflation moved in opposite directions. Food price inflation increased from 2.8% in September to 3.6% in December, while adjusted inflation fell from 3.5% to 2.6% over the same period.

Economic activity, expressed as year-on-year growth in real GDP, increased by 2.2% in 2000 Q3. Underlying this were mixed developments in the components of demand. Consumer demand rose by 2% in Q3 in line with the previous slightly upward trend. With households' disposable incomes flat or declining moderately, the increased consumer spending was financed through lower gross saving and through drawing on loans. A more pronounced rise in investment demand (of 9.1%) signalled positive economic expectations and indicated growth in potential output. On the other hand, though, the sizeable pick-up in investment imports in Q3, generated by the increasing investment demand, was one reasons for the contribution of net external demand to GDP growth being negative in Q3, despite buoyant growth in external demand.

The labour market developments in 2000 Q3 confirmed the long-term tendency towards decreasing imbalance between demand for and supply of labour. The year-on-year decline in employment in the national economy eased by a further 0.5 percentage points in 2000 Q3 compared with the previous quarter to 0.3%. The decline in the unemployment rate halted in October at the 8.5% level, an outturn that was repeated in November. December saw a customary seasonal rise in the unemployment rate to 8.8%. The decreasing imbalance on the labour market is even more apparent from the continuing decline in year-on-year growth of the unemployment rate from -0.4 percentage points in October to -0.6 percentage points in December.

Overall year-on-year growth in nominal wages in 2000 Q3 increased modestly again relative to Q2 (by 0.4 percentage points to 6.1%). A pick-up was recorded in both the business and non-business sectors. The lead of average nominal wage growth over inflation led to stagnation in average real wage growth in 2000 Q3 at the Q2 level (2%). The year-on-year growth in whole-economy labour productivity in Q3 was 1.5 percentage points higher than the growth in average real wages.

In September–November, the money supply growth rate, as measured by year-on-year M2 growth, remained within the band typical for the whole of 2000 and stood at 6.7% in September, 6.5% in October and 7.1% in November. The broader aggregate L showed a similar trend in the same period. Year-on-year M1 growth continued to decline markedly, a trend that started in August 2000. Nevertheless, the November outturn of 13.5% was still relatively buoyant. Average year-on-year growth in lending in this period was 0.5%, down from the average outturns of around 1% recorded in the previous months of 2000.

The koruna's exchange rates against the euro and the dollar developed differently. Against the euro, the exchange rate confirmed its long-term appreciation tendency, which is due in particular to the continuing inflow of foreign investment. From values of around CZK 35.70 to the euro at the start of October, the exchange rate appreciated to a high of CZK 34.22 to the euro at the end of November. Following a correction during December, it ended 2000 at around CZK 35 to the euro. Against the dollar, the exchange rate initially continued depreciating, falling below CZK 42 to the dollar at close of October. However, the subsequent appreciation of the

euro's exchange rate against the dollar led to the koruna appreciating to as high as CZK 37.50 to the dollar at end-December.

Most cost indicators in 2000 Q4 saw no change in trend relative to the previous quarter. The strong rise in import prices continued, although it eased in intensity thanks to a slowdown in the year-on-year growth in prices of energy raw materials (particularly oil and natural gas). Industrial producer price inflation increased from 5.4% in September to 5.9% in October and in November, mainly as a result of a rise in electricity prices in October due to the switch from summer tariffs to winter tariffs. Another factor was a further pronounced increase in producer price inflation in the food industry. However, industrial producer price inflation slowed to 5% in December thanks to the aforementioned external influences. Annual agricultural producer price inflation remained high in Q4, moving around 10% with some volatility.

IV.2 Monetary policy

In December 2000, annual net inflation was 0.5 percentage points below the lower limit of the inflation target range. This section will first provide a monetary policy assessment of this outturn in the context of three years of inflation targeting, and will then focus on the monetary policy decisions in 2000 Q4.

When the CNB decided to switch to inflation targeting at the end of 1997, in addition to a target for end-1998 it set a medium-term inflation target for end-2000. These targets – net inflation of 6% ± 0.5 percentage points and 4.5% ± 1 percentage point respectively – delineated the CNB's idea of the steepness of the disinflationary trajectory it was aiming to achieve (see *Inflation Report – April 1998* and *Inflation Targeting in the Czech Republic* at http://www.cnb.cz). In December 2000, the first phase of inflation targeting thus came to a close.

As described in detail in past Inflation Reports, inflation was affected in a fundamental way in 1998 and 1999 by a sharp and unexpected decline in prices of energy raw materials and agricultural products. This led to markedly faster disinflation in this period than had been forecast by the CNB at the end of 1997. In one and a half years, annual net inflation fell from almost 8% at the start of 1998 into the deflation range in mid-1999. Owing to a sharp decrease in inflationary pressures, the prospects for favourable future inflation started to improve as early as at the end of 1998. The CNB responded with a series of monetary policy interest rate cuts, ending in November 1999. Against the background of the economic contraction in the 1997–1999 period, and with the help of external factors, the Czech economy switched to a considerably lower inflation level than it had experienced over the most of the transformation period. At a time of strong disinflationary pressures, the CNB in November 1998 set the inflation target for end-1999 at a level below the line connecting the targets for 1998 and 2000. In doing so, the CNB was aiming to keep inflation expectations at a low level corresponding to the low inflation outturns achieved.[45]

In 1999 H2, when the positive external shock was unwinding, net inflation started to edge up again. The January 2000 inflation forecast indicated that annual net inflation in December 2000 would be lying within the 2.5%–4.1% range, with a mid-point of 3.3%, i.e. somewhere around or just below the lower limit of the 3.5%–5.5% inflation target range (see Section II.2 for more details). Although the forecast level of annual net inflation at the end of 2000 was not in itself high, it was approximately 4 percentage points higher than the negative outturns seen for this indicator in mid-1999. In this sense, the trend signified a not insignificant pick-up in inflation with a potential impact on inflation expectations. The real economy also experienced a marked turnaround. The economic growth forecasts in 2000 Q1 indicated a further possible pick-up in comparison with previous predictions. This, along with rising oil prices on world markets in the spring months and the danger of secondary price effects, increased the inflationary risks. The CNB's efforts to stabilise the macroeconomic and monetary developments in the medium run therefore took precedence over occasional considerations regarding the possible lowering of interest rates. In evaluating the future trend, uncertainties existed as to whether,

45 The CNB's efforts to exploit the disinflation between 1998 and 1999 to anchor inflation at a low level was reflected in the setting of the inflation target for end-2001 within the 2%–4% range. This target was set in co-operation with the Ministry of Finance in April 2000 at a lower level than would have ensued from the line connecting the mid-points of the targets for end-2000 and end-2005, when, according to the *CNB Monetary Strategy* document (published in April 1999), price stability is to be achieved.

following such an interest rate cut, an increase in interest rates would be needed shortly thereafter owing to a possible rise in inflationary pressures. The CNB thus focused on restricting any excessive price volatility and on preventing contrary movements in interest rates.

Another risk weighed up in connection with lowering interest rates was the interest rate differential. A further narrowing of the differential vis-à-vis the euro and a widening of the negative differential vis-à-vis the dollar might have resulted in an outflow of domestic capital and the danger of exchange rate turbulence. In the open Czech economy, the subsequent depreciation would have necessitated a monetary tightening, which would have had unfavourable effects on the expectations of financial markets, investors and households. Such a scenario would probably have facilitated the achieving of the end-2000 inflation target, but it would also have increased the costs of the disinflationary process over the following years. The CNB therefore concentrated on preventing such a trend, stabilising the favourable inflation expectations and exploiting the positive results of the disinflationary process to date.

For monetary policy decision-making in 2000 Q4 itself, the net inflation developments at the end of 2000 were no longer of relevance as regards the inflation target for 2000. Monetary policy was at that time focused on the end-2001 inflation target. However, the macroeconomic and monetary developments in 2000 Q4 were one of the starting points for the forecasts for 2001.

In 2000 Q4, the macroeconomic and monetary framework did not experience any major changes compared with Q3. The gradual economic recovery, based chiefly on the increased investment activity associated with the inflow of foreign direct investment, continued. Amid continuing subdued demand pressures, prices were affected primarily by the external cost shock and rising prices of food products. In Q4 increased attention was devoted to the possibility of secondary inflationary pressures arising from the high prices of energy raw materials, the widening trade deficit and the expected developments in the wage area.

The external cost pressures – in the form of high prices of oil and natural gas – persisted in Q4, although they did ease during the quarter. This was reflected in a slowdown in annual industrial producer price inflation in December. Within the consumer price index, the exogenous price pressures passed through into the transport category only. Given the nature of the external cost shock, the CNB concentrated on its possible future secondary effects. These remained a risk factor for future inflation, although the likelihood of their occurring gradually decreased. Despite a modest rise in the oil price reference scenario at the start of Q4, the CNB's analyses suggested that the pass-through of the rise in oil prices into other consumer basket groups would continue to be offset by sluggish demand growth, favourable unit wage costs and the highly competitive environment. This assumption was based, *inter alia*, on the favourable inflationary expectations of economic agents.

During the course of Q4, the CNB closely monitored the external balance of the economy. The current account deficit continued to be financed by foreign investment inflow. Although the inflow of investment could be expected to lead in the medium run to the establishment of new capacities and to growth in the export possibilities of the Czech economy, in the short run the investment inflow was increasing the import demand of the Czech economy. The CNB's analyses suggested that a more pronounced slowdown in the economic growth of the Czech Republic's main trading partners could be a risk factor for the future trade balance.

During the course of Q4, the CNB Bank Board, with an eye on the approaching wage bargaining period, repeatedly addressed the factors of the future trend in the wage area. A pick-up in wage growth to above the level corresponding to labour productivity growth might have allowed the secondary effects of the external cost shock to feed through into inflation. The analyses in this area concentrated on the possibility of an equalisation of wage growth between sectors of the national economy differing in labour productivity. This wage contagion was appraised in the light of the effect of foreign-controlled businesses on the overall employment rate and also in the light of the unemployment rate and the bargaining power of the trade unions. The Board concluded that the risks of inflationary effects from wage developments were generally moderate.

The expected trend in the wage area was also reflected in the CNB's forecasts for the domestic demand trend, which in terms of its implications for the economic imbalances was appraised as low risk. In this connection, the analyses indicated that the modest recovery in real economic activity had sound foundations and, given the only slow closing of the output gap, should not generate significant inflationary pressures.

In Q4, the risks associated with the trend in public finances were not revised. The growth in the public finance deficits in the medium term, together with the rising state debt and concerns linked with municipalities' debt, remained a significant risk for the internal and external balances. Replacing the remedial measures in this area with a monetary tightening would have been inappropriate and could have given rise in the future to considerations of a renewal of the unfavourable pre-1997 trend.

The koruna's exchange rate appreciation in Q4 was caused mainly by the inflow of foreign direct investment, which outweighed the contrary effect of the trade deficit. The CNB tried to counter the further likely appreciation linked with the conversion of NPF foreign exchange funds acquired through the sale of the state-owned stake in Česká spořitelna by depositing them on a special privatisation account. Although the koruna's appreciation during the course of quarter was viewed as broadly consistent with the inflation target for 2001, a more favourable course of action with regard to maintaining the competitiveness of the Czech economy would have been to replace the tightening of monetary conditions ensuing from the stronger exchange rate with tighter fiscal policy.

The discussion of these factors in response to the economic developments during Q4 was reflected in the conditional net inflation forecast for 2001. During the quarter, the conditional forecast was initially increased by 0.2 percentage points, taking account of the aforementioned increase in the oil price reference scenario, the decrease in the reference scenario for the euro-dollar exchange rate and the considerations regarding wage-cost pressures. In the second half of the quarter, the plan to shift some services to a higher VAT bracket as from 2001 was abandoned. This returned the conditional net inflation forecast to roughly the end-Q3 level. The CNB's analyses also indicated a change in the structure of future net inflation. Whereas at the end of 2000 external cost effects were the most important factors in the structure of net inflation, during the course of 2001 these effects should be replaced by demand-pull and wage-cost factors.

Within the inflation targeting regime, the relationship between the conditional net inflation forecast and the inflation target is the fundamental criterion for setting monetary policy conditions. As the conditional net inflation forecast for 2001 was in keeping during Q4 with the relevant inflation target and with the medium-term monetary policy objectives, the CNB left interest rates unchanged at the November 1999 level.

IV.3 Future inflation factors

The CNB's inflation forecast for 2001 assumes a moderate rise in domestic demand of around 3% and household consumption growth of around 2%. The growth in domestic demand in 2001 should not be a source of any significant increase in inflation. The forecast modest growth in consumer demand is based on expected weak growth in real household incomes, which should be accompanied by an only very moderate decline in the savings ratio.

The inflation forecast for 2001 furthermore assumes a stable exchange rate of the koruna against the euro, an appreciation of the koruna's rate against the dollar and a further year-on-year decline in oil prices during the course of 2001. Given this trend, prices of Ural crude should head towards a level of around USD 25 per barrel in 2001 H2. A gradual slowdown in year-on-year growth, or possibly a year-on-year decline, in prices of other raw materials is also expected. This, accompanied by a slowdown in the producer price inflation of the Czech Republic's major trading partners (Germany in particular) and by the aforementioned exchange rate trend, should give rise to a year-on-year decline in import prices in 2001. The external effects in 2001 should not therefore exert upward pressure on prices; on the contrary, their overall trend should help to slow inflation.

As for domestic cost factors, the expected trend on the labour market can be deemed favourable. The present assumptions regarding wage and productivity growth in 2001 lead to the conclusion that the wage-cost inflation risks are not likely to be considerable. In its forecast for 2001, the CNB also reckons on continuing cost pressures in agricultural primary production, which will remain only partially offset by the strongly competitive environment on the retail food market and will lead to a slightly higher food price inflation by comparison with non-food price inflation.

The impact of fuel prices on businesses' costs has so far shown up primarily in producer prices and has affected consumer prices only weakly. The gradual modest pass-through of the growth in businesses' costs into consumer price inflation will continue during the course of 2001. Contrary to the original assumption, inflation in 2001 will not be negatively affected by changes in VAT rates (which would have involved the shifting of a significant part of services to the higher rate bracket), since the relevant amendment to the legislation was not approved. However, consumer price inflation will be affected by increases in prices of regulated items in January 2001 (gas by 24.1%, electricity by 14%, heat energy by around 5%, water and sewerage rates by approximately 10%, telephones by 6.2%, etc.).

IV.4 Inflation outlook

The conditional CNB forecast is based on predictions of the factors affecting consumer prices. Given the current monetary policy settings, annual net inflation should be within the 2.7%–3.1% range at the close of 2000 Q1. As of the same date, consumer price inflation should be within the 4.4%–4.7% range and the inflation rate should be around 4.1%.

At end-2001, we expect annual net inflation to be lying between 1.7% and 3.4%. The CPI as of the same date will probably be 3.6%–4.8% higher than a year earlier and the inflation rate should stand at 4.0%–4.7%.

Minutes of the Bank Board Meeting on 26 October 2000

Present at the meeting:

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

The Board opened the meeting with an assessment of current economic and monetary developments. It was expressed that the new data and analyses had not significantly changed the overall economic outlook, i.e. continued recovery in an environment of relatively low inflation. The economy had been experiencing discontinuity on the supply side. Although the external cost shock was deeper and had been lasting longer than originally expected, according to CNB assumptions, this should only be temporary in nature. Monetary policy reaction to the primary cost shock would be counterproductive. However, more attention must be focused on the events signalling the shock's secondary effects (especially wage negotiations).

Board members closely examined the relations of actual and potential output growth and how monetary policy would react to developments in this area. The Board agreed as a whole that the real GDP growth rate would be situated more in the upper band of the CNB's current forecasts (this year between 1.8% and 2.8%, and next year between 1.5% and 3.5%). Nevertheless, according to some signals on the supply side of the economy, this increase in economic growth would not generate any inflationary risks. It was expressed again that maintaining low, more stable interest rates in nominal terms had helped stimulate sustainable growth this year. Board members, nonetheless, were fully aware of the fact that the present rates had been set in a period of declining recession. The Board said that the recent strengthening of the exchange rate had caused some tightening of monetary conditions.

The Czech Republic's foreign trade results for August, together with continued growth in energy raw materials and the impact of a strong dollar, had caused a rise in this year's trade deficit estimate to CZK 130 billion. Although prices played a predominant role in the high deficit, more concrete evidence for the deficit had recently started to surface, e.g. the worsening import/export ratio expressed in real terms. The expected slowdown in growth for the European economies could also have a negative impact in this area.

A large-volume transaction on the foreign exchange market was responsible for the koruna's strengthening against the euro during the past few days. However, attention was drawn to the fact that, in the present phase of completing state share privatisation, this distinct type of divergence could occur again, and even possibly lead to new exchange rate levels. The CNB would carefully monitor and analyse any developments in this direction.

As in the last meeting, the Board once again focused its attention on public finances. It was said that the expected growth of the structural deficit, around 1 p.p./GDP annually, (i.e. the deficit adjusted for its cyclical element and the one-time income and expenses relating to transition) would not be sustainable in the long run. Therefore, the results of the Czech Government's assessment of the medium-term fiscal outlook would be especially important for the Board.

The future of public finances had been complicated by the need to deal with two problematic areas. Revision of the structure of budget expenditures was the first area of concern. This meant making expenditures sustainable in relation to income. The second area was concerned with preventing the emergence of pro-cyclical fiscal policy. This type of fiscal conduct would encourage imbalance, excessive internal demand and a rise in inflation. While discussing these issues, the Board pointed to the danger of reverting back to pre-1997 developments, where

expansive fiscal policy and inert fiscal policy in relation to the imbalance significantly contributed to the subsequent monetary crisis. Theory and practice have shown that some form of government action would be the most appropriate way to minimise these risks. However, in the absence of corrective measures, it is the central bank's responsibility to employ monetary measures - though it would only be the second best response in this particular case.

Financial market developments, as illustrated on the implied interest rate curves, had indicated a clear shift in market inflation expectations. Nevertheless, inflation analyses and forecasts did not sufficiently justify such expectations. According to CNB predictions so far, net inflation at the end of 2001 would fluctuate around the mid-point of the announced inflation target (an increase of 2%-4%), though temporarily higher in the first half of the year. The structure of inflation would experience a substantial change: while its emphasis at this time was on the primary consequences of the rise in energy raw material prices, in 2001, net inflation would mainly be affected by recent developments in the area of consumer and producer prices.

After reviewing the situational report, the Board decided unanimously not to change the setting of monetary policy instruments and to leave the CNB two-week repo rate at its current level.

Minutes of the Bank Board Meeting on 30 November 2000

Present at the meeting:

Oldřich Dědek (Vice-Governor), Zdeněk Tůma (Vice-Governor), Luděk Niedermayer (Chief Executive Director), Pavel Racocha (Chief Executive Director), Pavel Štěpánek (Chief Executive Director), Pavel Mertlík (Minister of Finance)

The Board opened the meeting with a discussion of the November situational report on monetary and economic development. It was expressed that the newly available information had not changed the current monetary assessment. In an environment of curbed demand pressures, the economy was now confronted with an external cost shock. After the effect of this year's high year-on-year rise in energy raw material prices had faded away, the central bank expected net inflation to stabilise in 2001 at a level consistent with next year's inflation target. The board members' view on the anticipated change in the structure of inflation had not changed. In addition, the cost factors of net inflation were expected to be gradually replaced by demand determinants.

In an assessment of the monetary and credit aggregates, the Board had not identified any specific information suggesting an incorrect monetary policy setting. Year-on-year M2 growth in October was 6.5%, which implied further slowing of the money supply's year-on-year dynamics. It was mentioned that no inconsistencies had been found when comparing year-on-year M2 growth with forecasted GDP growth in constant prices and the targeted year-on-year growth of the domestic price level. A view was expressed that the volatility of lending growth had been higher recently and that the decline in domestic lending would cease in the medium run. The forecast for next year presumes a slight recovery in domestic credit dynamics.

A part of the meeting was spent discussing the sudden strengthening of the koruna vis-à-vis the euro in the second half of October - i.e. from CZK 35.4 to 34.9. Thereafter, the exchange rate continued to appreciate to CZK 34.2. In this respect, the Board agreed with the transfer of funds acquired through the sale of the state share in Česká spořitelna for increasing the CNB's international reserves. The purpose of this transaction was to guard against the one-time rise in the volatility of the Czech koruna. During the discussion, it was stated that even though strengthening of the koruna had still been consistent with the inflation target and partially eliminated the inflationary impact of rising commodity prices on world markets, this appreciation meant tightening of monetary conditions in the current economic environment. From the standpoint of ensuring macroeconomic stability, tighter fiscal policy would be a more appropriate instrument.

It was expressed that the trade deficit in October had reached record values compared with the previous period. This deterioration signalled domestic demand acceleration in 2000 Q3. The main reason for this year's worse trade deficit in current prices continued to be the price effect of the rise in energy raw material prices. In Q3, however, the impact of changes in the physical volume of net exports had started to increase. A structural analysis of the trade deficit in constant prices showed that the worsening trade deficit occurred mainly in chemicals, market products and machinery and transport equipment. Developments in the last two of these groups were related to ongoing investment activities. The negative net export balance in the chemical group can be attributed to continued restructuring and privatisation in the domestic chemical industry. The significance of the time lag between the demand effect of foreign direct investment and the production of new capacities in the economy was mentioned during a discussion on the medium-term sustainability of the current account deficit.

Wage developments were discussed on two levels: first of all, in view of the expected results of wage negotiations, and secondly, with respect to the impact of foreign direct investment inflow on wages. It was stressed that a key factor for the central bank was ensuring that the rises in average nominal wages next year corresponded to realistic assumptions of future inflation and growth in national labour productivity. The CNB would put considerable emphasis on the objective presentation of its analyses during the upcoming meetings with trade union leaders, now held on a regular basis. The risk of future wage developments was also analysed in the light of higher dynamics and the absolute level of wages in foreign controlled companies - those most

often receiving foreign investment - in comparison to other corporations. The Board focused its attention on the expected influence of the Balassa-Samuelson effect, ensuing from the different wage dynamics in sectors with varying labour productivity growth. It was expressed that the impact of foreign controlled companies on overall employment had still been relatively low, despite its share in employment increasing over the last two years from 4.5% to 7.8% (source: CSO). Therefore, it was expected that the risk stemming from the different level and dynamics of wages in the sector of highly productive foreign companies in comparison to other companies would be minimal only. Other factors affecting wage developments included the existing differences in the qualification structure of the labour force on the demand side in contrast to supply.

During the discussion on inflation expectations, it was expressed that never in the past had the inflation forecasts of market agents, the Ministry of Finance and the CSO, as well as the results of the CNB's survey, been so close to the central bank's inflation forecast.

In contrast to the last situational report, there was no over-assessment this time of the risk connected to any excess demand impulses from public finance performance in the context of continuing economic growth. Given the expected rise in the national debt next year, the Minister of Finance and board members discussed the issue of optimal national debt management in view of the financial system's smooth functioning and its impact on monetary policy. Due to increased government demand needed for securing national debt financing, there was a substantial rise in the slope of the yield curve.

The slight deterioration in external demand was indicated as a risk to future development. A wide range of indicators and new data pointed to a slowdown in economic activity for the Czech Republic's main business partners. The negative consequences of a possible slowdown in foreign demand would appear in the area of the external balance, though would, nevertheless, be positive in relation to the expected decline in import prices.

At the close of the meeting, members were invited to vote on the setting of monetary instruments. The Board decided unanimously to leave the CNB two-week repo rate at its current level (5.25%).

Minutes of the Bank Board Meeting on 21 December 2000

Present at the meeting:

Zdeněk Tůma (Governor), Oldřich Dědek (Vice-Governor), Luděk Niedermayer (Vice-Governor),
Michaela Erbenová (Chief Executive Director), Jan Frait (Chief Executive Director), Pavel Racocha (Chief Executive Director), Pavel Mertlík (Minister of Finance)

The Board opened the meeting with a discussion of the economic forecast. The Czech economy had begun 2001 with a favourable inflation outlook and gradual economic growth recovery. The attained economic growth had generated only slight demand inflation pressures. The inflation forecast for 2001 corresponded to this conclusion. The forecast's mid-point had been situated slightly below the mid-point of the inflation target. The koruna exchange rate had been stable, and the current account deficit was financed by an inflow of foreign investment. Moreover, the effects of the external cost shock had been fading away in agreement with the assumptions on its temporary character.

The Board discussed the risks of this particular scenario. Members agreed on the need to monitor the balance of payments, which could be significantly affected by the current account deficit and restructuring of portfolio investment. Some views suggested that the baseline scenario for the inflation forecast had overestimated certain inflationary pressures, particularly in the exchange rate and monetary area. It was also said that after taking these risks into account, the inflation forecast would most likely be headed towards the lower half of the targeted interval. In this respect, it was mentioned that the ongoing restructuring of the banking sector could still have a restrictive effect on the money supply next year. It was, furthermore, expressed that the expected slowdown in economic growth in Europe would also be an anti-inflationary factor.

Nevertheless, some views warned against the inflationary risks that could, on the contrary, cause the inflation forecast to deviate in an upward direction. The abrupt rise in regulated prices at the beginning of 2001 and the upward swing in the PPI due to an external shock could cause inflation expectations to worsen. As was mentioned, the Czech economy belonged to a region characterised by declining one-digit inflation. If CPI inflation were to rise above the current level, this would be a trend differentiating the Czech economy from neighbouring countries.

The Board continued by discussing two areas of economic development that could interfere with the stability of the Czech economic framework. The first area concerned wage developments. Under certain conditions, this could be a source of imbalance. It was expressed that sectoral wage differentiation would not necessarily affect the aggregate data and that the business sector had been faced with hard budget constraints. However, one inflationary risk, as suggested during the discussion, involved the spread of wage contagion to sectors, in which labour productivity had not been increasing at a corresponding rate. The rising public budget deficit was the second area of concern. In this context, the Board concentrated on the issue of autonomous tightening of monetary conditions, which had developed in connection to the rise in long-term interest rates. Board members discussed the relationship of this particular development to the increasing need to finance public budget deficits. This topic was considered to be potentially relevant to the monetary area, and members agreed that further analysis of this specific situation was needed.

The Board identified both of the areas mentioned above as risky, even though their impact on inflation would presumably not be observed next year. However, without a change in some of the current trends and adequate economic policy response, these factors could complicate economic developments in the medium run. Discussions on monetary policy measures next year will concentrate more on fundamental domestic factors. Considering the extent of external shocks in the past, earlier meetings were focused more on applying the mechanism of caveats in a situation of price shocks.

The Board decided unanimously 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	3.9	4.1	4.1	4.4	4.3	4.0
Regulated prices	1)	7.3	7.3	7.3	7.4	7.5	7.8	6.9	7.0	7.0	7.2	7.3	7.3
(contribution to CPI inflation)	1)	*1.94*	*1.95*	*1.96*	*1.98*	*1.99*	*2.09*	*1.87*	*1.90*	*1.91*	*1.98*	*1.99*	*1.97*
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.32*	*0.32*	*0.32*	*0.14*	*0.14*	*0.14*	*-0.18*	*-0.18*	*-0.18*	*-0.18*	*-0.18*	*-0.18*
Net inflation		1.6	1.9	2.1	1.7	2.1	2.6	3.1	3.2	3.2	3.5	3.4	3.0
(contribution to CPI inflation)	1)	*1.19*	*1.38*	*1.55*	*1.27*	*1.57*	*1.90*	*2.25*	*2.36*	*2.35*	*2.57*	*2.49*	*2.16*
of which: food	1)	-0.6	0.0	0.1	-0.4	0.2	0.4	1.6	2.5	2.8	3.9	3.9	3.6
(contribution to CPI inflation)	1)	*-0.16*	*0.00*	*0.02*	*-0.12*	*0.07*	*0.13*	*0.45*	*0.73*	*0.79*	*1.06*	*1.06*	*1.01*
adjusted inflation	1)	3.1	3.2	3.5	3.2	3.4	4.0	4.1	3.8	3.5	3.4	3.2	2.6
(contribution to CPI inflation)	1)	*1.35*	*1.39*	*1.53*	*1.39*	*1.49*	*1.77*	*1.80*	*1.63*	*1.56*	*1.51*	*1.43*	*1.15*
Inflation rate	2)	2.1	2.2	2.3	2.4	2.5	2.6	2.9	3.1	3.3	3.6	3.8	3.9

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	0.6	0.2	0.0	0.3	0.1	0.2
Regulated prices	1)	4.8	0.1	0.1	0.2	0.1	0.4	1.0	0.1	0.1	0.2	0.1	0.1
(contribution to CPI inflation)	1)	*1.29*	*0.04*	*0.02*	*0.05*	*0.02*	*0.10*	*0.27*	*0.02*	*0.03*	*0.06*	*0.03*	*0.01*
Influence of indirect tax growth on unregulated prices													
(contribution to CPI inflation)		*0.00*	*0.00*	*0.00*	*-0.18*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation		0.6	0.2	0.0	0.0	0.3	0.7	0.5	0.2	-0.1	0.3	0.1	0.2
(contribution to CPI inflation)	1)	*0.42*	*0.13*	*-0.01*	*-0.01*	*0.21*	*0.48*	*0.34*	*0.18*	*-0.08*	*0.26*	*0.10*	*0.14*
of which: food	1)	1.0	0.1	-0.6	-0.5	0.3	0.4	-0.1	0.7	0.3	1.1	0.3	0.6
(contribution to CPI inflation)	1)	*0.30*	*0.03*	*-0.17*	*-0.14*	*0.07*	*0.11*	*-0.02*	*0.20*	*0.08*	*0.29*	*0.08*	*0.16*
adjusted inflation	1)	0.3	0.2	0.3	0.3	0.3	0.8	0.8	0.0	-0.4	-0.1	0.0	0.0
(contribution to CPI inflation)	1)	*0.12*	*0.10*	*0.15*	*0.13*	*0.14*	*0.37*	*0.36*	*-0.02*	*-0.15*	*-0.04*	*0.02*	*-0.02*

1) CNB calculation

Source: CSO

CONSUMER PRICES

change in %, December 1993 = 100

Group	Constant weights of 1993 in per mille	months 1	2	3	4	5	6	7	8	9	10	11	12	Average since 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 and footwear	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, water, electricity, gas and other fuels	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
Furnishings, household equipment and routine maintenance of the house	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	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	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
Hotels, cafés and restaurants	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
Miscellaneous 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 and footwear	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, water, electricity, gas and other fuels	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
Furnishings, household equipment and routine maintenance of the house	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	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	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
Hotels, cafés and restaurants	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
Miscellaneous 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 and footwear	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, water, electricity, gas and other fuels	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
Furnishings, household equipment and routine maintenance of the house	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	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	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
Hotels, cafés and restaurants	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
Miscellaneous 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	59.8	60.1	60.1	60.6	60.8	61.0	59.2
Food, beverages, tobacco	327.1	35.1	35.3	34.5	33.8	34.2	34.7	34.7	35.6	36.0	37.4	37.8	38.6	35.6
Clothing and footwear	90.9	46.6	45.0	44.4	44.4	44.6	44.7	43.9	43.2	43.1	43.5	43.7	43.6	44.2
Housing, water, electricity, gas and other fuels	143.7	148.9	149.3	149.5	150.2	150.5	150.9	154.6	154.9	155.2	156.0	156.4	156.5	152.7
Furnishings, household equipment and routine maintenance of the house	77.2	29.2	29.1	29.2	29.3	29.1	28.9	28.8	28.7	28.7	28.5	28.6	28.8	28.9
Health	44.2	20.3	20.4	20.6	20.6	20.8	20.9	21.0	21.1	21.2	21.1	21.1	21.2	20.9
Transport	104.8	53.3	54.1	57.9	57.4	59.1	64.3	64.9	63.6	64.5	64.1	63.6	62.0	60.7
Leisure	97.5	41.6	43.2	42.0	41.0	40.9	42.2	46.9	48.2	43.9	42.7	43.0	44.3	43.3
Education	16.9	144.5	145.1	145.1	145.1	145.1	145.8	145.9	146.2	150.0	150.5	150.6	150.7	147.0
Hotels, cafés and restaurants	47.2	52.8	53.4	53.4	53.7	54.0	54.1	54.2	54.5	54.8	55.4	55.6	55.7	54.3
Miscellaneous goods and services	50.5	53.2	53.6	53.8	53.9	54.1	54.1	54.2	54.4	54.5	54.9	55.2	55.5	54.3

Source: CSO

NET INFLATION

change in %

	1	2	3	4	5	6	7	8	9	10	11	12
	1995											
a) previous month = 100	1.2	1.0	0.3	0.7	0.5	0.8	-0.6	-0.1	0.9	0.7	0.8	0.7
b) same period of 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	0.5	0.2	-0.1	0.3	0.1	0.2
b) same period of previous year = 100	1.6	1.9	2.1	1.7	2.1	2.6	3.1	3.2	3.2	3.5	3.4	3.0
c) December of previous year = 100	0.6	0.7	0.7	0.7	1.0	1.7	2.1	2.4	2.3	2.6	2.8	3.0

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	12
		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	3.6
- tradables	32.7	12.0	5.4	7.9	5.6	-0.3	-0.3	3.6
- nontradables	.	.	.	.	.	.	.	.
2. Clothing and footwear	9.1	9.2	10.9	9.6	9.1	3.1	-1.4	-2.4
- tradables	8.8	9.2	10.7	9.6	9.0	2.9	-1.6	-2.6
- nontradables	0.3	9.0	16.6	9.7	12.3	7.5	3.3	4.8
3. Housing, water, electricity, gas and other fuels	14.4	14.1	13.0	13.5	22.9	25.6	4.9	8.1
- tradables	1.1	10.5	9.7	9.4	37.1	18.0	4.2	3.1
- nontradables	13.3	14.4	13.3	13.8	21.7	26.1	5.0	8.5
4. Furnishings, household equipment and routine maintenance of the house	7.7	4.3	5.6	3.6	7.7	3.0	1.9	-0.2
- tradables	7.2	4.1	5.3	3.2	7.5	2.4	1.9	-0.7
- nontradables	0.5	6.4	9.1	9.0	10.3	9.4	2.5	4.6
5. Health	4.4	2.4	4.3	2.2	6.5	2.3	1.0	0.8
- tradables	.	.	.	.	.	2.6	1.3	1.4
- nontradables	4.4	2.4	4.3	2.2	6.5	2.3	1.0	0.8
6. Transport	10.5	5.5	6.4	8.3	9.2	3.6	10.3	6.8
- tradables	7.5	3.0	3.0	6.2	6.2	-4.4	14.9	6.3
- nontradables	3.0	11.5	14.5	13.4	16.6	17.2	3.9	7.6
7. Leisure	9.8	5.7	9.9	4.5	9.7	3.7	1.9	2.6
- tradables	6.4	3.5	5.9	2.3	4.5	1.2	-0.5	1.8
- nontradables	3.4	12.0	21.3	11.0	19.8	7.0	5.0	3.5
8. Education	1.7	23.7	10.2	37.9	9.5	14.7	2.7	3.3
- tradables	.	.	.	.	.	.	.	.
- nontradables	1.7	23.7	10.2	37.9	9.5	14.7	2.7	3.3
9. Hotels, cafés and restaurants	4.7	12.9	7.3	6.5	7.3	6.5	2.3	3.2
- tradables	0.1	3.1	21.3	9.9	17.7	12.4	9.4	4.5
- nontradables	4.6	13.2	6.9	6.4	7.0	6.3	2.1	3.1
10. Miscellaneous goods and services	5.1	5.5	10.1	7.5	9.7	5.1	4.5	3.2
- tradables	3.2	5.9	5.8	5.0	7.1	1.5	1.0	1.0
- nontradables	1.9	4.7	17.4	11.7	14.3	10.0	9.0	5.8
Household consumer prices, total	100.0	9.7	7.9	8.6	10.0	6.8	2.5	4.0
- tradables	67.3	8.7	6.0	6.7	7.1	0.7	1.3	2.3
- nontradables	32.7	11.9	11.9	12.5	15.9	16.9	4.3	6.2
Tradables - food	32.7	12.0	5.4	7.9	5.6	-0.3	-0.3	3.6
Tradables - others	34.6	5.6	6.5	5.6	8.3	1.6	3.0	1.0
Nontradables - regulated	18.3	9.0	9.7	11.2	19.7	20.7	4.2	7.3
Nontradables - others	14.4	14.2	12.3	14.4	9.3	11.1	4.3	4.3

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

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	4.8	4.1	2.9
7/00	4.6			2.9
8/00	4.5			3.1
9/00	4.7	5.0	4.6	3.4
10/00	4.6			3.3
11/00	4.8			3.4
12/00	5.0			3.6

Source: CNB statistical survey

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	12
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	4.0
Slovakia	61.2	10.1	23.2	13.4	9.9	5.8	6.4	5.6	14.2	8.4
Hungary	35.0	23.0	22.5	18.8	28.2	23.6	18.4	10.3	11.2	10.1
Poland	70.3	43.0	35.3	29.5	27.8	19.9	13.0	8.6	9.8	8.5
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	2.5
United Kingdom	5.9	3.7	1.6	2.4	3.2	2.5	3.6	2.8	1.8	2.9
France	3.2	2.4	2.1	1.6	2.1	1.7	1.1	0.3	1.3	1.6
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	2.2
Netherlands	3.7	3.2	2.6	2.7	1.6	2.5	2.3	1.7	2.2	2.9
Spain	5.9	5.9	4.6	4.7	4.3	3.2	2.0	1.4	2.9	4.0
Austria	3.3	4.0	3.3	2.9	1.8	2.3	1.0	0.7	1.4	2.6
Sweden	9.3	2.3	4.6	3.2	2.5	-0.2	1.9	-0.6	1.2	1.4
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	3.2
USA	4.2	3.0	3.0	2.6	2.5	3.3	1.7	1.6	2.7	3.4
Switzerland	5.8	4.0	3.3	1.0	1.9	0.8	0.4	-0.2	1.7	1.5

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	11
Total assets		720.4	870.4	1039.6	1120.5	1217.6	1280.8	1384.9	1446.2
Net foreign assets		115.7	194.4	311.4	281.9	338.5	425.3	570.4	684.5
- assets		213.6	275.8	493.2	538.0	670.7	761.4	940.2	997.2
- liabilities		97.9	81.4	181.8	256.1	332.2	336.1	369.8	312.7
Net domestic assets		604.7	676.0	728.2	838.6	879.1	855.5	814.5	761.7
Domestic credits		713.9	817.5	929.5	1029.7	1137.7	1109.9	1095.8	1101.7
Net credit to the government sector		18.4	5.1	10.1	12.6	24.8	36.1	63.4	93.6
- net credit to government		35.1	23.1	25.4	28.5	37.9	45.4	73.6	106.2
- net credit to NPF		-16.7	-18.0	-15.3	-15.9	-13.1	-9.3	-10.2	-12.6
Client credits of commercial banks and CNB		695.5	812.4	919.4	1017.1	1112.9	1073.8	1032.4	1008.1
CZK credits		669.6	768.9	822.3	888.6	912.6	860.0	838.5	841.3
- businesses		576.8	661.1	720.5	785.1	808.2	756.3	729.6	724.7
- households		92.8	107.8	101.8	103.5	104.4	103.7	108.9	116.6
Foreign currency credits		25.9	43.5	97.1	128.5	200.3	213.8	193.9	166.8
- businesses		.	.	.	.	194.3	210.3	190.5	165.1
- households		.	.	.	.	6.0	3.5	3.4	1.7
Other net items		-109.2	-141.5	-201.3	-191.1	-258.6	-254.4	-281.3	-340.0
Liabilities									
M2	2)	720.4	870.4	1039.6	1120.5	1217.6	1280.8	1384.9	1446.2
M1	1)	359.9	421.8	453.3	475.3	445.1	433.4	479.8	548.5
Currency in circulation		59.8	84.0	104.3	118.9	119.3	127.2	157.9	173.0
CZK demand deposits		300.1	337.8	349.0	356.4	325.8	306.2	321.9	375.5
- households		109.3	131.5	148.8	155.7	153.2	144.0	162.6	202.3
- businesses		185.1	201.1	195.6	195.6	168.2	158.9	156.4	170.4
- insurance companies		5.7	5.2	4.6	5.1	4.4	3.3	2.9	2.8
Quasi money		360.5	448.6	586.3	645.2	772.5	847.4	905.1	897.7
CZK time deposits		303.1	387.8	498.8	559.5	634.0	674.7	657.1	700.2
- households		206.8	244.7	306.5	366.0	474.4	550.8	537.5	547.9
- businesses		60.0	102.9	150.2	172.7	133.9	91.8	83.0	135.6
- insurance companies		36.3	40.2	42.1	20.8	25.7	32.1	36.6	16.7
Certificates of deposit, deposit bills of exchange and other bonds	6)	.	.	.	.	.	30.2	100.1	40.4
Foreign currency deposits		57.4	60.8	87.5	85.7	138.5	142.5	147.9	157.1
- households		45.7	42.2	35.8	40.1	68.8	73.6	80.8	84.4
- businesses		11.7	18.6	51.7	45.6	69.7	68.9	67.1	72.7
Monetary aggregate L	3)	704.6	845.5	1019.0	1138.9	1241.8	1329.9	1443.9	1513.1
Year-on-year changes in %									
M1		17.5	17.2	7.5	4.9	-6.4	-2.6	10.7	13.5
M2	5)	19.8	19.9	19.8	9.2	10.1	5.2	8.1	7.1
L		19.8	20.0	20.5	11.8	9.0	7.1	8.6	7.2
Client credits of commercial banks and CNB		19.1	16.8	13.2	10.6	9.4	-3.5	-3.9	-4.6
Client deposits with banks	4)	21.8	19.1	21.8	7.1	9.7	2.3	0.3	5.3

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-banks
4) CZK deposits + foreign currency deposits
5) Adjusted for float in 1993 and 1994, short-term operations of several banks in 1994 and for SPT Telecom deposit with CNB in 1995 and 1996
6) Because of changes in statistical reporting, deposit bills of exchange, CDs and other bonds are excluded from CZK deposits from January 1998 onwards

CREDIT SUPPLY

	1993	1994	1995	1996	1997	1998	1999	2000
	12	12	12	12	12	12	12	11
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	1008.1
year-on-year changes in %	19.1	16.8	13.2	10.6	9.4	-3.5	-3.9	-4.6
CZK credits								
absolute volumes in CZK billions	669.6	768.9	822.3	888.6	912.6	860.0	838.5	841.3
year-on-year changes in %	17.9	14.8	6.9	8.1	2.7	-5.8	-2.5	-1.8
Foreign currency credits								
absolute volumes in CZK billions	25.9	43.5	97.1	128.5	200.3	213.8	193.9	166.8
year-on-year changes in %	57.0	68.0	123.2	32.3	55.9	6.7	-9.3	-16.6
Adjusted credits 1)								
Total credits, CZK and foreign currency								
absolute volumes in CZK billions	696.2	807.6	906.1	1014.9	1102.6	1162.8	1171.1	1170.2
year-on-year changes in %	19.2	16.0	12.2	12.0	7.4	5.5	0.7	-0.4
CZK credits								
absolute volumes in CZK billions	670.2	763.9	808.8	882.6	923.6	953.6	996.0	1022.5
year-on-year changes in %	18.1	14.0	5.9	9.1	3.3	3.2	4.4	2.8
Foreign currency credits								
absolute volumes in CZK billions	26.0	43.7	97.3	132.3	179.0	209.2	175.1	147.7
year-on-year changes in %	57.6	68.1	122.7	36.0	35.3	16.9	-16.3	-18.4

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	1994	1995	1996	1997	1998	1999	2000
	12	12	12	12	12	12	12	11
Time structure								
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1000.0
Short-term	41.8	40.5	41.9	43.5	42.0	41.1	37.9	36.1
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	42.8
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	88.3
Households	6.7	5.7	11.1	10.2	9.8	10.0	10.9	11.7
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	49.5
Investment (incl. general housing construction)	33.9	33.6	33.2	32.4	31.3	32.4	32.3	31.3
Mortgage	0.4	0.1	0.1	1.0	1.6	2.2	2.9	3.9
Consumer	0.6	0.7	0.8	0.7	0.6	1.7	2.8	3.0
For privatisation	5.4	5.0	3.8	3.0	2.0	1.3	2.2	1.9
For temporary fund shortage	9.1	12.5	9.6	9.2	10.5	8.1	7.1	9.0
For securities purchase	0.2	0.6	1.0	2.8	1.1	1.3	1.5	1.4

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	12
1. AVERAGE PRIBOR RATE 1)								
- 1 day	5.47	10.75	10.83	12.44	12.55	10.84	5.21	5.23
- 7 day	5.90	12.28	11.17	12.61	16.64	10.56	5.32	5.29
- 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	5.32
- 2 month	7.34	12.61	10.97	12.62	17.54	10.27	5.58	5.36
- 3 month	8.00	12.65	10.93	12.67	17.50	10.08	5.58	5.42
- 6 month	9.21	12.65	10.89	12.55	17.41	9.56	5.64	5.60
- 9 month	10.69	12.65	10.89	12.25	17.39	9.38	5.72	5.78
- 12 month	11.90	12.66	10.90	12.23	17.36	9.31	5.84	5.90
2. AVERAGE PRIBID RATE 1)								
- 1 day	4.51	10.01	10.52	12.19	10.75	10.48	5.05	5.11
- 7 day	4.92	11.48	10.82	12.35	15.37	10.30	5.16	5.18
- 14 day	5.16	11.55	10.84	12.36	15.45	10.27	5.23	5.19
- 1 month	5.68	11.72	10.63	12.35	16.26	10.18	5.42	5.22
- 2 month	6.34	11.76	10.59	12.34	16.33	9.99	5.40	5.26
- 3 month	7.00	11.80	10.53	12.39	16.35	9.79	5.41	5.31
- 6 month	8.21	11.81	10.48	12.26	16.31	9.26	5.46	5.49
- 9 month	9.56	11.82	10.47	11.96	16.27	9.08	5.54	5.67
- 12 month	10.89	11.83	10.48	11.94	16.23	9.02	5.67	5.79

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

FRA RATES

monthly averages in %

	1997	1998				1999				2000			
	12	3	6	9	12	3	6	9	12	3	6	9	12
3 * 6	16.70	15.62	15.38	13.16	9.02	7.43	6.92	6.55	5.57	5.48	5.48	5.51	5.68
3 * 9	16.70	15.80	15.39	13.02	8.99	7.46	7.04	6.69	5.70	5.61	5.64	5.65	5.85
6 * 9	16.03	15.43	14.81	12.46	8.79	7.41	7.05	6.70	5.75	5.67	5.73	5.72	5.93
6 * 12	16.01	15.52	14.82	12.37	8.79	7.46	7.15	6.85	5.94	5.84	5.92	5.87	6.10
9 * 12	15.47	15.09	14.34	11.94	8.62	7.42	7.15	6.85	6.04	5.94	6.02	5.94	6.19
12 * 24	15.28	14.95	13.78	11.45	9.03	.	.	.	.	.	.	.	.
9*12 - 3*6 spread	-1.23	-0.53	-1.04	-1.23	-0.40	-0.01	0.23	0.30	0.47	0.46	0.55	0.43	0.51
6*12 - 3*9 spread	-0.69	-0.28	-0.57	-0.65	0.20	0.00	0.11	0.15	0.24	0.23	0.28	0.22	0.25

IRS RATES

monthly averages in %

	1997	1998				1999				2000			
	12	3	6	9	12	3	6	9	12	3	6	9	12
1Y	17.54	16.32	15.97	13.44	9.52	7.67	7.21	6.82	5.92	5.74	5.78	5.77	5.94
2Y	16.58	15.69	15.00	12.53	9.13	7.72	7.49	7.20	6.54	6.31	6.34	6.21	6.40
3Y	15.93	15.20	14.17	12.07	9.06	7.87	7.77	7.40	6.95	6.73	6.68	6.52	6.72
4Y	15.54	14.78	13.49	11.76	8.99	8.02	7.95	7.51	7.16	6.98	6.88	6.75	6.96
5Y	15.25	14.49	12.98	11.51	8.93	8.13	8.07	7.54	7.26	7.11	6.99	6.91	7.15
6Y	15.19	14.28	12.43	11.26	8.73	8.21	8.13	7.56	7.29	7.17	7.02	7.03	7.29
7Y	14.88	14.11	12.08	11.09	8.71	8.27	8.18	7.57	7.28	7.20	7.03	7.09	7.38
8Y	14.90	14.01	11.85	10.90	8.67	8.32	8.20	7.57	7.27	7.22	7.03	7.12	7.42
9Y	14.29	13.93	11.65	10.72	8.63	8.35	8.21	7.57	7.27	7.23	7.03	7.12	7.43
10Y	14.24	13.83	11.60	10.61	8.61	8.37	8.22	7.58	7.27	7.23	7.03	7.12	7.43
5Y - 1Y spread	-2.30	-1.83	-2.99	-1.94	-0.60	0.46	0.86	0.73	1.34	1.36	1.21	1.14	1.21
10Y - 1Y spread	-3.30	-2.50	-4.37	-2.84	-0.92	0.70	1.01	0.76	1.35	1.49	1.24	1.35	1.49

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	7.1	4.3	1.5	1.8	3.2	0.6	0.9	1.1	2.5
6/00	5.3	5.7	6.8	4.2	1.1	1.5	2.6	0.1	0.2	0.6	1.6
7/00	5.3	5.8	6.5	4.2	1.3	1.8	2.5	0.3	0.3	0.7	1.5
8/00	5.3	5.7	6.7	4.2	1.1	1.6	2.5	0.1	0.5	0.9	1.8
9/00	5.3	5.7	6.8	4.2	1.1	1.5	2.6	0.1	-0.1	0.3	1.4
10/00	5.3	5.8	6.6	4.0	0.9	1.3	2.1	-0.3	-0.6	-0.1	0.7
11/00	5.3	5.9	6.7	4.0	0.9	1.5	2.3	-0.3	-0.6	0.0	0.7
12/00	5.3	5.9			1.2	1.8			0.3	0.9	

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.

Table 12

REAL INTEREST RATES (ex ante approach)

in %

	real rates expected by financial 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	2.3	-0.1	0.5	0.9	1.9	-0.5	1.1	1.5	2.6	0.1
7/00	0.7	1.1	1.9	-0.4								
8/00	0.7	1.2	2.1	-0.3								
9/00	0.6	1.0	2.0	-0.5	0.3	0.7	1.8	-0.8	0.7	1.1	2.1	-0.4
10/00	0.7	1.1	1.9	-0.5								
11/00	0.5	1.0	1.8	-0.8								
12/00	0.3	0.9										

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	11
Newly drawn credits								
in CZK	14.6	13.7	13.1	13.6	16.5	11.9	6.7	6.7
- short-term	14.0	13.3	12.9	13.6	16.5	11.7	6.7	6.4
- medium-term	16.7	14.8	14.2	14.3	17.0	13.4	5.1	7.9
- long-term	14.5	14.2	13.3	12.5	16.0	11.7	10.2	7.8
in foreign currency	-	-	-	-	5.9	5.4	6.1	6.3
- short-term	-	-	-	-	5.9	5.3	6.2	6.3
- medium-term	-	-	-	-	5.6	5.9	5.3	6.3
- long-term	-	-	-	-	6.1	5.6	6.0	6.5
Credits								
in CZK	14.0	12.8	12.7	12.5	13.9	10.5	7.7	6.9
- short-term	15.4	12.7	12.5	12.4	14.1	10.6	7.4	6.6
- medium-term	15.6	14.5	14.2	13.5	14.6	10.7	8.3	7.8
- long-term	10.6	11.2	11.5	11.8	13.0	10.3	7.6	6.8
in foreign currency	-	-	-	-	6.1	6.4	6.6	7.1
- short-term	-	-	-	-	5.6	6.9	7.7	7.9
- medium-term	-	-	-	-	5.9	5.6	5.4	6.2
- long-term	-	-	-	-	6.7	6.0	5.9	6.7
Deposits								
in CZK	6.8	6.9	6.9	6.7	8.0	6.7	3.7	3.1
- demand	2.4	2.6	2.8	2.5	2.1	1.9	1.6	1.5
- time	10.7	10.6	10.0	9.2	10.9	8.7	4.7	4.0
- short-term	9.6	9.6	9.7	9.3	11.6	9.2	4.8	4.1
- medium-term	11.4	11.5	10.7	9.8	12.2	10.9	5.6	3.9
- 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	3.3
- demand	-	-	-	-	1.1	1.1	0.9	1.1
- time	-	-	-	-	3.7	3.2	4.0	4.7
- short-term	-	-	-	-	3.4	3.1	3.9	4.6
- medium-term	-	-	-	-	5.0	3.3	4.2	4.7
- long-term	-	-	-	-	5.5	3.5	4.7	5.1

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 - 3
A. CURRENT ACCOUNT	13 286.7	-22 643.2	-36 331.3	-116 510.6	-101 856.2	-43 101.0	-35 591.2	-47 038.8
Balance of trade 3)	-15 313.0	-39 750.9	-97 598.6	-159 538.6	-144 025.9	-82 394.8	-65 830.8	-76 825.0
- exports	414 833.0	458 436.6	569 549.1	588 791.5	722 501.0	850 308.0	908 756.0	808 618.0
- imports	430 146.0	498 187.5	667 147.7	748 330.1	866 526.9	932 702.8	974 586.8	885 443.0
Services	29 465.2	14 052.8	48 881.2	52 198.9	55 935.0	57 854.7	38 119.3	32 538.5
Credit	137 691.2	148 404.0	178 270.4	222 030.4	227 193.6	241 801.2	239 709.0	196 482.0
- transport	36 186.6	35 757.9	38 757.4	36 209.6	41 661.6	44 829.3	53 520.3	39 009.2
- travel	45 437.4	64 170.3	76 301.3	110 620.0	115 700.0	120 000.0	105 000.0	84 800.0
- others	56 067.2	48 475.8	63 211.7	75 200.8	69 832.0	76 971.9	81 188.7	72 672.8
Debit	108 226.0	134 351.2	129 389.2	169 831.5	171 258.6	183 946.5	201 589.7	163 943.5
- transport	21 402.1	24 542.4	21 208.9	18 983.3	19 973.6	22 794.0	27 071.4	20 342.5
- travel	15 368.3	45 605.6	43 330.3	80 170.0	75 500.0	60 300.0	51 000.0	36 700.0
- others	71 455.6	64 203.2	64 850.0	70 678.2	75 785.0	100 852.5	123 518.3	106 901.0
Income	-3 424.7	-580.8	-2 804.0	-19 611.0	-25 102.4	-31 708.0	-25 557.4	-12 565.7
Credit	15 952.0	22 713.2	31 696.1	31 765.9	44 696.0	45 945.4	57 745.7	52 630.7
Debit	19 376.7	23 294.0	34 500.1	51 376.9	69 798.4	77 653.4	83 303.1	65 196.4
Current transfers	2 559.2	3 635.7	15 190.1	10 440.1	11 337.1	13 147.1	17 677.7	9 813.4
Credit	7 024.5	8 523.3	17 631.6	16 752.7	27 402.5	25 387.9	37 184.4	21 344.6
Debit	4 465.3	4 887.6	2 441.5	6 312.6	16 065.4	12 240.8	19 506.7	11 531.2
B. CAPITAL ACCOUNT	-16 175.0	-	179.1	15.6	315.9	65.8	-73.2	-129.4
Credit	5 976.0	-	307.8	28.1	493.0	454.6	637.3	181.8
Debit	22 151.0	-	128.7	12.5	177.1	388.8	710.5	311.2
Total A + B	-2 888.3	-22 643.2	-36 152.2	-116 495.0	-101 540.3	-43 035.2	-35 664.4	-47 168.2
C. FINANCIAL ACCOUNT	88 184.7	97 019.7	218 288.5	113 582.5	34 319.1	94 324.5	86 470.7	59 438.3
Direct investment	16 421.8	21 551.1	67 021.2	34 624.8	40 451.4	85 224.0	169 936.5	108 527.3
- abroad	-2 628.6	-3 443.3	-971.6	-4 150.0	-800.0	-2 538.8	-6 807.4	-2 564.9
- 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	111 092.2
Portfolio investment	46 658.5	24 595.9	36 144.4	19 692.5	34 438.9	34 508.2	-48 268.9	-44 245.9
Assets	-6 686.9	-1 327.1	-8 565.6	-1 291.1	-6 006.8	-755.1	-65 608.0	-52 920.0
- equity securities	-6 686.9	-1 327.1	-8 565.6	-1 291.1	19.9	3 855.7	-48 965.2	-40 090.3
- debt securities					-6 026.7	-4 610.8	-16 642.8	-12 829.7
Liabilities	53 345.4	25 923.0	44 710.0	20 983.6	40 445.7	35 263.3	17 339.1	8 674.1
- equity securities	32 569.8	14 369.8	32 761.7	16 340.9	13 783.7	34 846.2	4 394.2	17 848.1
- debt securities	20 775.6	11 553.2	11 948.3	4 642.7	26 662.0	417.1	12 944.9	-9 174.0
Financial derivatives	.	.	.	.	.	.	.	-716.2
- assets	.	.	.	.	.	.	.	-5 042.3
- liabilities	.	.	.	.	.	.	.	4 326.1
Other investment	25 104.4	50 872.7	115 122.9	59 265.2	-40 571.2	-25 407.7	-35 196.9	-4 126.9
Assets	-83 911.4	-69 582.4	-66 050.8	-64 646.8	-142 725.1	-48 192.1	-91 796.2	8 424.0
Long-term	13 340.8	12 046.4	1 384.4	-10 769.8	-11 117.6	-24 853.5	-23 339.5	21 446.1
- CNB								
- commercial banks	-1 431.5	-31.7	-3 353.6	-14 168.2	-11 907.4	-26 952.8	-25 858.5	18 488.2
- government	8 323.3	8 175.1	3 335.0	1 286.4	519.8	630.3	977.5	722.2
- other sectors	6 449.0	3 903.0	1 403.0	2 112.0	270.0	1 469.0	1 541.5	2 235.7
Short-term	-97 252.2	-81 628.8	-67 435.2	-53 877.0	-131 607.5	-23 338.6	-68 456.7	-13 022.1
- CNB								
- commercial banks	2 163.0	-4 289.4	-2 446.2	-48 976.0	-122 038.5	-21 641.6	-63 804.7	-95.4
- 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	-12 926.7
Liabilities	109 015.8	120 455.1	181 173.7	123 912.0	102 153.9	22 784.4	56 599.3	-12 550.9
Long-term	10 131.9	19 865.1	87 965.8	95 193.1	24 047.6	-4 485.0	12 910.9	1 156.2
- CNB	1 297.3	-31 712.7	997.8		-368.0	-216.4	-2 083.5	-22.8
- commercial banks	-2 116.6	11 189.6	60 359.6	46 733.5	-14 875.5	-14 399.2	-7 109.5	-23 991.4
- government	-3 421.5	-5 249.5	-12 047.3	-7 132.6	-11 581.9	-11 765.4	-6 384.3	-1 830.8
- other sectors	14 372.7	45 637.7	38 655.7	55 592.2	50 873.0	21 896.0	28 488.2	27 001.2
Short-term	98 883.9	100 590.0	93 207.9	28 718.9	78 106.3	27 269.4	43 688.4	-13 707.1
- CNB	1 670.5	-1 634.7	77.1	-59.6	-9.9	-6.0	84.9	-106.2
- commercial banks	2 481.8	14 016.0	27 636.1	30 574.9	67 383.7	24 445.9	36 615.6	-26 234.2
- government	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	12 633.3
Total A + B + C	85 296.4	74 376.5	182 136.3	-2 912.5	-67 221.2	51 289.3	50 806.3	12 270.1
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	6 330.4	9 720.6
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	21 990.7
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	-21 990.7

1) Balance of payments structure based on the Balance of Payments Manual (5th edition), IMF 1993
2) Preliminary data
3) 1993-1998 - in accordance with methodology for customs statistics in force since 1 January 1996
1999 and 2000 - in accordance with revised methodology for customs statistics in force since 1 July 2000

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)	30 Sep. 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	1 471 398.5
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	35 890.9
- 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	33 673.6
- other capital 3)	.	.	.	.	.	604.3	2 102.3	2 162.3	2 217.3
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	154 970.7
- 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	99 681.7
- debt securities	.	346.9	2 767.5	1 654.9	17 060.9	21 296.9	22 456.9	38 027.1	55 289.0
Financial derivatives 4)	.	.	.	.	.	.	.	.	6 887.9
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	774 189.7
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	319 988.5
- CNB 5)	23 102.5	24 572.5	24 573.3	26 172.3	26 122.8	26 122.4	26 122.4	.	343.8
- 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	71 411.9
- 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	226 951.6
- 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	21 281.2
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	454 201.2
- CNB 9)	4.7	4.7	4.7	4.7	4.7	0.1	0.1	.	3 211.9
- 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	336 212.6
of which: gold and foreign exchange 10)	79 040.1	70 727.5	71 232.8	76 126.9	95 432.8	172 301.6	175 753.2	218 995.8	219 364.2
- 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	114 776.7
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	499 459.3
- gold 10)	2 488.2	2 466.4	2 309.3	2 234.6	2 290.3	1 521.9	369.1	677.0	1 759.5
- SDR	852.5	247.3	.	4.7	.	.	.	.	8.0
- reserve position in the IMF									
- foreign exchange	21 006.7	113 266.5	172 812.6	370 798.4	337 593.7	337 002.8	376 313.9	460 752.2	497 668.6
- other reserve assets	.	.	.	.	.	.	.	.	23.2
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	1 545 093.7
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	695 113.8
- 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	626 763.8
- other capital 3)	.	.	.	.	.	35 145.6	64 351.3	66 851.3	68 350.0
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	161 132.0
- 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	114 626.0
- 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	46 506.0
Financial derivatives 4)	.	.	.	.	.	.	.	.	6 535.2
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	682 312.7
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	401 010.0
- CNB	31 109.9	33 697.4	1 695.7	2 491.5	2 272.7	2 188.3	1 883.3	197.1	182.2
- 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	93 566.5
- 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	20 046.3
- 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	287 215.0
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	281 302.7
- CNB	8.2	4 581.0	37.9	115.0	55.3	45.5	39.5	124.4	18.2
- 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	203 754.5
- 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	77 530.0
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	-73 695.2

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 the table as of 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 currency 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 (until 31 December 1999) and at market price (since 31 March 2000)
11) Foreign currency - 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)	30 Sep. 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	794 753.0
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	485 833.0
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	182.2
- commercial banks 2)	14 491.1	16 175.5	27 620.1	95 433.3	150 780.1	158 503.7	133 376.5	128 703.3	105 398.5
- 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	28 367.1
- 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	351 885.2
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	330 457.8
- 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	3 832.0
- 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	12 226.1
- 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	73 950.0
- 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	65 367.1
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	308 920.0
By debtor									
- CNB	7.9	4 581.0	37.9	115.0	55.3	45.5	39.5	124.4	680.7
- 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	209 674.9
- 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	98 564.4
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	198 909.2
- 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	77 465.0
- 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	32 545.8
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	8 950.9
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	8 950.9
- 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	803 703.9
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	494 783.9
- 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	308 920.0

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 on 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 1-12	1994 1-12	1995 1-12	1996 1-12	1997 1-12	1998 1-12	1999 1-12	2000 1-12
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES								
1 ECU	34.11	34.06	34.31	34.01	35.80	36.16	.	.
1 EUR	.	.	.	.	.	.	36.88	35.61
1 GBP	43.78	44.03	41.89	42.33	51.95	53.45	55.97	58.43
1 FRF	5.15	5.19	5.32	5.31	5.43	5.47	5.62	5.43
1000 ITL	18.56	17.85	16.30	17.59	18.61	18.57	19.05	18.39
100 JPY	26.32	28.15	28.34	24.99	26.29	24.71	30.53	35.84
1 CAD	22.61	21.09	19.34	19.90	22.91	21.83	23.29	25.99
1 NLG	15.70	15.82	16.53	16.11	16.24	16.26	16.74	16.16
1 ATS	2.51	2.52	2.63	2.57	2.60	2.61	2.68	2.59
1 DEM	17.64	17.75	18.52	18.06	18.28	18.33	18.86	18.21
1 CHF	19.74	21.06	22.45	22.02	21.85	22.26	23.05	22.85
1 USD	29.16	28.78	26.55	27.14	31.71	32.27	34.60	38.59
100 SKK	.	.	89.49	88.57	94.18	91.61	83.64	83.64
	12	**12**	**12**	**12**	**12**	**12**	**12**	**12**
1 ECU	33.59	34.20	34.01	34.09	38.69	35.34	.	.
1 EUR	.	.	.	.	.	.	36.05	34.82
1 GBP	44.37	43.99	41.00	45.48	57.72	50.20	57.46	56.78
1 FRF	5.09	5.21	5.37	5.21	5.84	5.38	5.50	5.31
1000 ITL	17.63	17.28	16.71	17.90	19.94	18.18	18.62	17.98
100 JPY	27.12	28.18	26.21	24.05	26.87	25.55	34.75	34.80
1 CAD	22.34	20.34	19.47	20.10	24.37	19.51	24.16	25.51
1 NLG	15.54	16.02	16.53	15.71	17.35	15.97	16.36	15.80
1 ATS	2.48	2.55	2.63	2.51	2.78	2.56	2.62	2.53
1 DEM	17.41	17.94	18.50	17.63	19.55	18.00	18.43	17.80
1 CHF	20.30	21.21	22.89	20.64	24.16	22.10	22.52	23.01
1 USD	29.76	28.22	26.66	27.34	34.73	30.06	35.63	38.94
100 SKK	.	.	89.76	86.42	100.58	83.04	84.70	80.07

B. NOMINAL EFFECTIVE RATE

	1993	1994	1995	1996	1997	1998	1999	2000
Nominal CZK effective exchange rate index (1995 = 100)	89.84	95.79	100.00	102.21	99.48	102.47	106.81	106.79

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
								11
Real CZK effective exchange rate index (1995 = 100)								
a) consumer prices	95.51	97.82	100.00	105.23	106.94	117.25	117.21	119.82
b) industrial producer prices	99.96	99.94	100.00	103.04	102.15	109.41	111.65	112.84

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	1-11
STATE BUDGET								
TOTAL REVENUES	358.0	390.5	440.0	482.8	509.0	537.4	567.3	528.1
Tax revenues	330.2	360.1	409.7	457.4	478.4	509.6	540.1	503.2
Income tax	71.9	70.2	72.7	78.3	74.8	87.4	86.4	77.0
Social security insurance	106.0	130.0	154.3	174.3	191.0	203.9	210.9	199.1
Property tax	0.8	2.1	3.2	3.9	5.0	6.3	6.8	5.5
Domestic taxes on goods and services	111.8	136.4	155.4	174.8	186.3	191.5	216.7	203.2
- VAT	70.4	85.8	94.8	109.3	117.6	119.4	138.3	134.5
- excise taxes	37.1	46.4	56.7	61.2	64.2	67.8	73.1	63.9
Foreign trade taxes	15.2	17.4	17.4	19.7	14.9	13.6	12.1	12.3
Other tax revenues	24.4	4.1	6.7	6.4	6.4	6.9	7.3	6.1
Non-tax revenues	27.8	30.4	30.3	25.4	30.5	27.6	27.1	24.9
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	547.2
Current expenditures	324.6	346.7	388.6	427.3	474.1	516.2	537.9	504.6
Expenditures on goods and services	125.6	121.2	109.8	123.5	126.7	141.5	154.9	131.3
Debit interest	13.7	.	2.6	14.0	17.6	19.8	16.3	18.1
Subsidies and current transfers	180.3	218.3	268.7	285.7	326.2	349.8	363.5	352.0
Subsidies	42.8	49.3	77.1	84.5	92.5	104.5	96.9	88.8
- to businesses	29.3	27.0	27.8	27.3	33.2	44.9	29.9	28.9
- to subsidised organisations	13.5	22.3	49.3	57.3	59.3	59.6	67.0	59.9
Transfers	137.4	169.1	191.5	201.1	233.7	245.3	266.6	263.2
- to local budgets	17.0	29.3	33.3	16.8	24.7	17.9	20.9	28.0
- to households	116.6	136.9	155.6	181.0	206.0	222.8	239.9	232.8
- 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	42.6
Investment expenditures to budgetary organisations	19.0	19.7	21.5	24.9	16.4	16.5	20.0	14.3
Capital transfers	13.3	13.6	22.7	32.1	34.2	34.0	39.0	28.3
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	-19.1
local budget	0.9	-1.1	-3.2	-9.4	-4.8	1.5	18.5	1.5
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	0.1	
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	2.9	

CAPITAL MARKET

A. SHARE MARKET INDICES

last day of the month in points

	1997	1998	1999				2000			
	12	12	3	6	9	12	3	6	9	12
PX-50	495	394	388	484	503	490	644	525	502	479
PX-GLOB	599	478	472	574	596	588	740	620	595	571
PK-30	664	564	569	703	720	713	956	781	751	725

B. TRADE VOLUMES

in CZK millions

	1997	1998	1999				2000			
	12	12	3	6	9	12	3	6	9	12
PRAGUE STOCK EXCHANGE										
Total trade volume	63 249	92 553	103 009	89 889	105 297	99 604	163 230	144 868	43 954	73 241
of which:										
a) automated system	1 368	6 772	10 791	14 158	11 832	11 554	43 573	16 569	10 890	10 094
b) direct and block trades	61 881	85 781	92 218	75 731	93 465	88 050	119 657	128 299	33 064	63 147
RM-SYSTÉM										
Total trade and transfer volume	36 870	20 837	16 020	12 848	5 631	22 015	4 554	4 664	3 392	4 862
of which:										
a) continuous auction	547	491	611	688	469	446	772	370	273	253
b) direct and block trades	36 290	20 334	15 409	12 160	5 162	21 569	3 782	4 294	3 119	4 609
c) transfers with declared price	33	12	.	.	.	.	.	.	.	.
SECURITIES CENTRE										
Total volume of charged transfers	150 980	141 892	162 739	156 822	155 629	201 904	249 748	278 785	125 500	196 375

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	1995	1996	1997	1998	1999	2000
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 3
GROSS DOMESTIC PRODUCT							
- in CZK billions	1303.6	1381.1	1447.7	1432.8	1401.3	1390.6	1071.9
- in %	2.2	5.9	4.8	-1.0	-2.2	-0.8	2.8
FINAL CONSUMPTION							
- in CZK billions	949.9	976.8	1035.1	1051.4	1028.5	1032.2	758.5
- in %	4.8	2.8	6.0	1.6	-2.2	0.4	1.4
of which:							
Households							
- in CZK billions	654.2	692.1	740.1	753.6	731.4	736.3	548.7
- in %	5.6	5.8	6.9	1.8	-2.9	0.7	1.8
Government							
- in CZK billions	287.2	275.1	284.8	287.1	284.4	284.2	201.6
- in %	3.1	-4.2	3.5	0.8	-0.9	-0.1	0.3
Non-profit institutions							
- in CZK billions	8.5	9.6	10.2	10.7	12.7	11.7	8.2
- 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	452.7	384.2
- in %	18.5	22.3	11.8	-5.9	-4.9	-3.8	9.3
of which:							
Fixed capital							
- in CZK billions	369.2	442.4	478.5	464.7	446.4	426.9	293.8
- in %	9.1	19.8	8.2	-2.9	-3.9	-4.4	5.9
Inventories and reserves							
- in CZK billions	15.0	27.6	46.9	29.8	24.0	25.8	90.4
TRADE BALANCE							
- in CZK billions	-30.5	-65.7	-112.8	-113.1	-97.6	-94.3	-70.8
of which:							
Exports of goods and services							
- in CZK billions	635.0	740.8	809.2	875.0	968.9	1015.0	867.3
- in %	1.7	16.7	9.2	8.1	10.7	4.8	16.8
Imports of goods and services							
- in CZK billions	665.5	806.5	922.0	988.1	1066.5	1109.3	938.1
- in %	14.7	21.2	14.3	7.2	7.9	4.0	17.3
DOMESTIC DEMAND (excl. change in inventories)							
- in CZK billions	1319.1	1419.2	1513.6	1516.1	1474.9	1459.1	1052.3
- in %	5.9	7.6	6.7	0.2	-2.7	-1.1	2.6
AGGREGATE DEMAND (excl. change in inventories)							
- in CZK billions	1954.1	2160.0	2322.8	2391.1	2443.8	2474.1	1919.6
- in %	4.5	10.5	7.5	2.9	2.2	1.2	8.6
GROSS DOMESTIC PRODUCT IN CURRENT PRICES							
- in CZK billions	1182.8	1381.1	1572.3	1668.8	1798.3	1833.0	1408.0
- in %	15.9	16.8	13.8	6.1	7.8	1.9	3.1
PRICE DEFLATOR							
- in %	13.4	10.2	8.6	7.2	10.2	2.7	0.3

Source: CSO

LABOUR MARKET

A. CURRENT INCOME AND EXPENDITURE OF HOUSEHOLDS

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 - 3
Current incomes	.	.	.	15.2	8.8	5.7	2.2	3.9
of which:								
- compensation of employees	.	.	.	17.8	6.9	6.3	3.4	3.7
- gross operating surplus and mixed income	.	.	.	5.6	0.8	5.4	1.1	1.6
- property income	.	.	.	9.1	21.0	7.4	-18.4	3.6
- social benefits	.	.	.	17.0	13.5	9.9	8.2	10.6
- other current transfers	.	.	.	24.0	28.2	-12.1	9.4	-8.7
Current expenditure	.	.	.	16.7	8.0	6.3	2.9	3.4
of which:								
- property income	.	.	.	0.2	0.5	-4.1	-27.2	-5.0
- current taxes on income, wealth etc.	.	.	.	18.1	9.8	7.6	0.5	1.5
- social contributions	.	.	.	15.5	7.1	5.8	4.0	6.3
- other current transfers	.	.	.	32.4	13.6	11.2	14.1	-4.6
Gross disposable income	.	.	.	14.5	9.2	5.5	1.9	4.1
Change in net equity of households in pension funds reserves	.	.	.	60.6	-4.2	-17.6	19.5	5.8
Individual consumption expenditure	.	.	.	15.6	10.0	6.5	2.3	6.0
Gross saving	.	.	.	9.7	2.2	-4.5	-0.4	-12.3
Gross savings ratio	.	.	.	12.0	11.2	10.7	10.5	8.9
(gross saving/gross disposable income - ratio in %)								

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 - 3
Overall nominal wage	25.3	18.5	18.5	18.4	10.5	9.4	8.2	6.3
Business sector	.	18.2	19.2	17.7	11.7	11.0	7.1	7.6
Non-business sector	.	19.8	17.0	20.7	5.8	3.9	13.1	2.3
Overall real wage	3.7	7.7	8.7	8.8	1.9	-1.2	6.0	2.4
Business sector	.	7.4	9.2	8.2	2.9	0.3	4.9	3.7
Non-business sector	.	8.9	7.3	10.9	-2.5	-6.1	10.8	-1.4

C. UNEMPLOYMENT

as of end of period

	1993	1994	1995	1996	1997	1998	1999	2000
	12	12	12	12	12	12	12	12
Registered job applicants (thousands)	185.2	166.5	153.0	186.3	268.9	386.9	487.6	457.4
Unemployment rate in %	3.5	3.2	2.9	3.5	5.2	7.5	9.4	8.8

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	1-11
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	5.8
CONSTRUCTION								
TOTAL CONSTRUCTION OUTPUT 3) 4)	-7.5	7.5	8.5	5.3	-3.9	-7.0	-6.5	5.6
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) Including incorporated and unincorporated natural persons
4) Constant prices
5) Constant 1989 prices

Source: CSO

Table 24

PRODUCER PRICES

change in %

	1995		1996		1997		1998		1999		2000	
	12	average	12	average	12	average	12	average	12	average	12	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	-0.2	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	5.0	4.9
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	33.9	31.4
d) December 1993 = 100	14.6	12.7	19.6	18.1	26.4	23.9	29.2	29.9	33.6	31.2	40.3	37.7
e) moving average	7.6	x	4.8	x	4.9	x	4.9	x	1.0	x	4.9	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	0.2	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	4.7	4.0
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	66.1	63.1
d) December 1993 = 100	24.6	19.6	38.5	33.1	55.0	48.1	65.9	62.0	71.7	69.8	79.7	76.5
e) moving average	10.6	x	11.3	x	11.3	x	9.4	x	4.8	x	4.0	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	9.0	9.2
e) moving average	7.6	x	8.3	x	2.9	x	2.3	x	-11.7	x	9.2	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	23.1	12.6
e) moving average	7.1	x	16.7	x	3.3	x	-5.4	x	-15.0	x	12.6	x
livestock products												
b) same period of last year = 100	2.8	8.1	4.4	5.1	5.6	2.7	-9.0	5.7	3.9	-10.5	5.4	8.5
e) moving average	8.1	x	5.1	x	2.7	x	5.7	x	-10.5	x	8.5	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	0.0	0.4
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	4.9	3.4
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	76.0	72.1
d) December 1993 = 100	27.5	22.9	41.7	38.4	57.2	53.5	69.4	67.0	75.1	73.8	83.7	79.6
e) moving average	17.6	x	12.7	x	10.9	x	8.8	x	4.1	x	3.4	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	-1.5	-0.6
Public debt	18.9	17.9	15.9	13.8	13.5	14.1	16.2
Debt in convertible currencies	24.9	25.4	31.9	36.2	44.3	39.9	44.4
Trade balance 1)	-0.4	-3.3	-7.2	-9.5	-8.9	-4.4	-3.5
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	75.6

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

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