

2001

INFLATION
REPORT
JULY/2001

CNB CZECH
NATIONAL
BANK

INFLATION
REPORT
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ABBREVIATIONS USED:

AEBP	average European border price
CIS	Commonwealth of Independent States
CNB	Czech National Bank
CSO	Czech Statistical Office
CZK	Czech koruna
ECB	European Central Bank
EUR	euro
FDI	foreign direct investment
FRA	forward rate agreement
GDP	gross domestic product
IRS	interest rate swap
L	a monetary aggregate (see part 3.1.1)
LIBOR	London Interbank Offered Rate
M1	a monetary aggregate (see part 3.1.1)
M2	a monetary aggregate (see part 3.1.1)
NPF	National Property Fund
OPEC	Organisation of Petroleum Exporting Countries
PRIBID 1W (1M, 1Y)	Prague Interbank Bid Rate, one-week (one-month, one-year)
PRIBOR	Prague Interbank Offered Rate
USD	US dollar

FOREWORD

In 1998, the Czech National Bank switched to direct targeting of inflation. In the inflation targeting regime, communication of the central bank with the public plays a significant role. One of the core elements of this communication is the regular publishing of Inflation Reports. In this pivotal document the central bank provides information on monetary and economic developments in the previous quarter and on the reasons which led the Bank Board to adopt monetary policy measures. The Inflation Report also acquaints readers with the view of the Czech National Bank regarding future inflation factors and with the updated conditional inflation forecast. The inflation forecast and the assumptions underlying it are published with the aim of making monetary policy transparent, comprehensible, predictable and, as a final result, reliable. The Czech National Bank is convinced that reliable monetary policy effectively influences inflation expectations and minimises the costs of maintaining price stability. This is a necessary condition for maintaining overall currency stability, which by law is the Czech National Bank's primary objective.

This Inflation Report contains an annex describing the way in which the Czech National Bank interprets and is going to apply the mechanism of "escape clauses" – i.e. the allowable exceptions from hitting the inflation target – pertaining to the new inflation target announced for the 2002-2005 period. The Report was approved by the CNB Bank Board on 2 August 2001.

An annex of tables is available, together with this Report, on the enclosed CD and at <http://www.cnb.cz/>.

I. SUMMARY

The second quarter of 2001 saw a pick-up in inflation and a substantial increase in money supply growth. The supply-side data indicated that the Czech economy performed better than had been expected at the start of 2001. The revised GDP growth figures for Q1 and the aforementioned Q2 indicators suggest that economic growth in 2001 could be higher than the CNB had previously expected. Other important factors in the period under review include a decreasing unemployment rate, appreciation of the koruna against the euro, inflow of foreign investment and deficit tendencies both on the current account and in public finances.

Annual consumer price inflation started to increase in 2001 Q2 from the levels at which it had stabilised in the previous few quarters. The growth in both headline and net inflation was fuelled by large price increases in a few consumer basket groups only. Food price inflation was unusually high, chiefly because of a cost factor in the form of accelerating agricultural producer price inflation. A comparatively rapid rise in prices was also recorded in the recreation and culture category. There were no major changes to regulated prices in Q2.

TABLE I.1
INFLATION ROSE IN 2001 Q2

(annual figures unless otherwise indicated)

	3/01	4/01	5/01	6/01
Consumer price inflation	4.1	4.6	5.0	5.5
Net inflation	2.9	3.3	3.8	4.4
Industrial producer price inflation	4.1	4.0	3.8	3.4
Money supply growth (M2)	7.8	9.2	11.4	12.9
Growth in lending	-0.7	-0.6	-0.8	-1.3
3M PRIBOR ¹⁾	5.05	5.01	5.03	5.09
Nominal CZK/EUR exchange rate ²⁾	34.47	34.65	34.14	33.77
State budget balance since January ²⁾ in CZK billions	1.7	-17.9	-26.4	-31.9
GDP growth at constant prices ³⁾	3.8	-	-	-
Unemployment rate ²⁾	8.7	8.3	8.1	8.1

1) average for the month

2) end-of-month position

3) figures for the quarter ending with the given month

Economic activity in 2001 Q1 was characterised by continuing boom. As in the previous few quarters the GDP growth was driven by domestic demand. In contrast, the contribution of net exports was, as in previous quarters, negative. Domestic demand growth further accelerated compared with 2000 Q4. The contribution of household consumption increased very considerably. Nonetheless, the greatest contribution to the domestic demand growth again came from gross fixed capital formation and change in inventories. The contribution of government spending was again negative.

The developments on the labour market in 2001 Q1 and Q2 were in line with the growth phase of the business cycle. The continuing economic growth, together with foreign investment inflow, resulted in a further narrowing of the gap between the supply of and demand for labour. The first quarter saw a rise in the number of vacancies. Employment, which had been falling for several consecutive previous quarters, went up as well. The unemployment rate recorded a further moderate decrease. The annual growth rate of nominal unit wage costs increased to the threshold at which the generation of major wage-cost pressures on the demand side of the economy starts to threaten.

Owing to the monetary policy transmission lag, the CNB's monetary-policy decision-making in 2001 Q2 focused primarily on making sure that inflation develops in line with the target band set for headline inflation in 2002. During 2001 Q2, the conditional annual headline inflation forecast for 2002 moved within the target band. The CNB identified a gradual increase in the upside risks for inflation, the extent of which, however, did not demand an immediate change in monetary-policy rates. For this reason, these rates remained unchanged at the end-Q1 level throughout Q2.

The CNB revised its macroeconomic forecast in July. Following an analysis of economic and monetary developments in Q2 and the expected trends for inflation factors in the period ahead, the inflation forecast was revised upwards (see Chart I.1 below). At the same time, the forecast risks are rising because of the increasing expansiveness of the macroeconomic environment as characterised by the pick-up in economic growth, the gradual closing of the output gap despite a probable acceleration of growth in potential output, and by rapid money supply growth. This, together with the faster food price inflation and ongoing procyclical fiscal expansion, heightens the inflation risks, and particularly the risks of rising inflation expectations.

The CNB's conditional inflation forecast for July is based on a similar view of future world prices of raw materials to that contained in the forecast published in the April Inflation Report. In line with general expectations, the CNB assumes that oil and natural gas prices will remain relatively stable. However, the expected trajectory for the economic growth of the Czech Republic's major trading partners has been lowered somewhat in the forecast. The forecast assumes that annual producer price inflation in Germany will be much lower in 2002 than in 2001. According to the forecast assumptions, the nominal effective exchange rate of the koruna will continue to be subject to the counteracting pressures of current account deficit and financial account surplus. Overall, the koruna's effective exchange rate should thus be broadly stable in the forecast period.

With respect to agricultural producer prices, the forecast assumes a gradual slowdown in growth. This factor should therefore gradually cease to support food price inflation and, on the contrary, should start to weaken food price growth during 2002. The pass-through of cost pressures into food prices will moreover be attenuated by the high market share of retail chains. Food price inflation should therefore slacken in the second half of 2002. The potential inflationary pressures arising from rising household demand should be reflected in the non-food part of the consumer basket, as demand for food is broadly stable in the long term. The forecast also assumes that the effects on industrial producer prices of the external price shock in 1999 and 2000 fully unwound during the first half of 2001. According to the forecast, industrial producer price inflation will decrease in the remainder of 2001 and stabilise at a relatively low level in 2002. The labour market could become a major source of cost-inflationary impulses. Here, the forecast assumes rising employment and unit wage costs throughout the forecast period. The pass-through of cost pressures into prices depends on the phase of the business cycle, so the expected closing of the output gap may mean that the pro-inflationary risks of the labour market developments will be felt chiefly at the end of the forecast period.

In the light of the revised figures on GDP in 1994-2000 published by the CSO in June 2001, the forecast for GDP growth was increased relative to the April 2001 forecast. The main factor behind this change was a rise in the forecast growth rate of household demand. In view of the expected modest rise in employment and average wages, this growth rate should be even higher in 2002 than in 2001. In contrast, the forecast predicts a gradual slowing of the growth rate of gross fixed capital formation, with numerous opposing factors at work. Government consumption should fall somewhat in 2001 and be flat or slightly rising in 2002. GDP growth should be rather higher in 2001 than in 2000 and further accelerate in 2002. The negative effect of the weakening of foreign demand linked with the cooling of the boom in EU countries should be offset to some extent by an expected drop in the propensity to import. The present CNB estimates suggest a likelihood of modest inflationary pressures caused by the closing of the output gap.

Money supply growth should be rather higher in 2001 and 2002 than in the first months of 2001. The forecast is based chiefly on expectations of increasing demand for money owing to continuing economic growth. The dominant sources of money supply growth will include inflow of foreign direct investment, public budget deficits and, to a lesser extent, a gradual upturn in domestic lending. The forecast assumes a continuing deficit trend in public finances. The expected fiscal expansion is inconsistent with the upward phase of the cycle and may give rise to upward pressure on inflation and to external imbalances. The inflationary effects of the public finance deficits will depend among other things on whether the National Property Fund uses

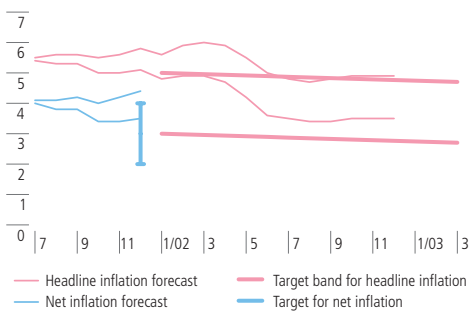
its funds for spending programmes that strengthen aggregate demand or for demand-neutral coverage of transformation losses and repayment of public debt. Other potential risks to inflation and macroeconomic and fiscal balance lie in the unresolved issue of financing the expenditure of the regions.

In the area of regulated prices, the forecast assumes a dominant influence from rising prices of gas, electricity and heating in the period up to the end of 2002. In general, regulated price inflation in 2001 should be much higher than in 2000. In 2002, the pace of growth of regulated prices should return roughly to the 2000 level. The impact of changes in indirect taxes on inflation should be insignificant in 2001 and there should be no changes to indirect taxes whatsoever in 2002.

One negative factor with regard to future inflation is that owing to the aforementioned factors, headline inflation will oscillate at relatively high values in 2001 H2. In 2002 H1, it will be near the upper limit of the inflation target, or even above it. This increases the risk of unfavourable inflation expectations and of wage-demand inflation. Should the increased inflation expectations pass through into wage bargaining at the turn of 2001 and 2002, this would imply secondary inflationary pressures and the danger of a wage-price spiral in 2002. A further acceleration of demand might thus allow the cost pressures to feed through into prices. A downside risk as regards inflationary pressures is the potential major slowdown of economic growth in EU countries.

Chart I.1 shows the conditional forecast for headline inflation up to the end of 2002. All the aforementioned prediction risks increase the probability of annual headline inflation moving near the upper limit of the inflation target band in 2002 H2.

CHART I.1
INFLATION FORECASTS CONDITIONAL ON A 2W REPO RATE OF 5%



II. INFLATION DEVELOPMENTS

Following a broad stabilisation in the previous three quarters at around 4%, annual consumer price inflation^{1/} gradually increased during the course of 2001 Q2. At the end of Q2 it was 1.4 percentage points higher than in March 2001 at 5.5%. The inflation rate^{2/} edged up during Q2 to reach 4.3% in June.

However, the inflation growth in Q2 was not of an across-the-board nature. This was evidenced both by the structure of consumer demand and by the structure of consumer prices. The aggregate analysis of the inflation trend showed that cost factors continued to have a particularly significant effect on prices. Consumer price inflation was also strengthened by a gradual weakening of the koruna's exchange rate against the dollar. Amid continuing economic recovery the growth in domestic demand was not strong enough to generate major demand pressures on prices. The strengthening appreciation trend of the koruna-euro exchange rate countered the rise in inflation. The downward year-on-year trend in oil prices on world markets had a similar effect.

The fact that the pick-up in inflation in 2001 Q2 did not apply across the board is confirmed by the price developments in the individual groups of the consumer basket. The inflationary factors in Q2 had a significant effect on prices in only two consumer basket items – food and recreation.

The cost pressures of domestic origin affected food prices in particular. As in the previous quarters they fed through into consumer prices via agricultural producer prices, whose buoyant annual growth picked up further in Q2. As in 2001 Q1, these cost pressures were associated chiefly with changes on the agricultural market ensuing from temporary excess demand for major livestock and crop products (see Section III.5 *Other costs and prices* for more details). In addition, the inflationary pressures in the food segment were reinforced in June by a strong seasonal swing in the prices of certain highly volatile food items. Owing to these factors, annual food price inflation picked up considerably in 2001 Q2. Whereas in Q1 it had risen by 0.6 percentage points, in Q2 it increased by 3.5 percentage points. At the close of Q2, annual food price inflation thus exceeded 7% (reaching 7.7% in June). This resulted in a further strengthening of the share of food prices in annual net inflation^{3/} and of their share in the 5.5% overall rise in consumer prices.

The higher-than-usual June rise in prices in the recreation item probably resulted from the combined effect of the koruna-dollar exchange rate and factors of domestic origin – namely gradual pass-through of the newly introduced mandatory travel agency insurance into prices of package holidays and higher demand in this area. The price developments in this item were the main cause of higher annual growth in other nontradables prices, which comprise one of the segments of adjusted inflation.^{4/} Compared with the end of the previous quarter, the annual growth in these commodities' prices rose by 1 percentage point to reach 6.2% in June 2001. This

CHART II.1

ANNUAL CONSUMER PRICE INFLATION PICKED UP IN 2001 Q2 (percentages)

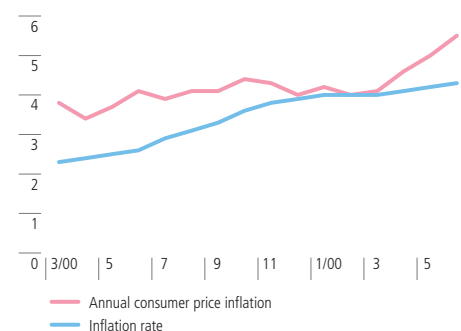


CHART II.2

PRICE DEVELOPMENTS IN THE INDIVIDUAL CONSUMER BASKET GROUPS WERE AGAIN MIXED, WITH FOOD AND RECREATION PRICES SHOWING STRONGER GROWTH (annual percentage changes)

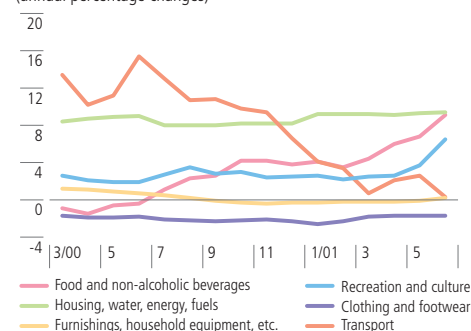
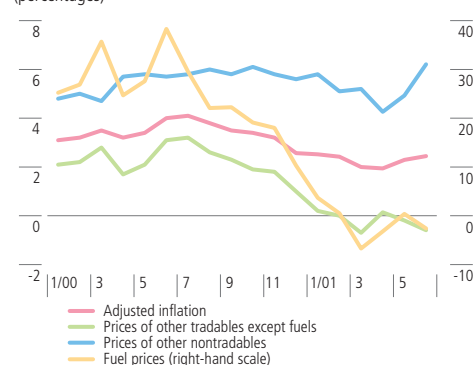


CHART II.3

THE RISE IN INFLATION IN THE RECREATION ITEM FOSTERED AN INCREASE IN ANNUAL ADJUSTED INFLATION (percentages)



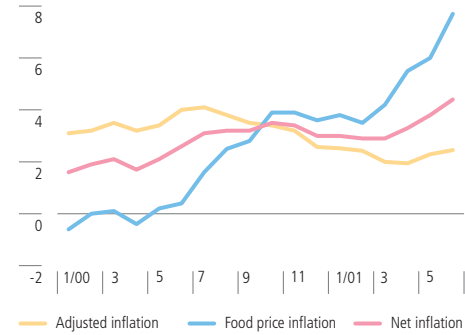
1/ Consumer price inflation = net inflation + regulated prices and other administrative effects outside the framework of regulated prices.

2/ The inflation rate expressed as the increase in the average consumer price index (basic) for the last 12 months relative to the average for the previous 12 months.

3/ Net inflation is defined as consumer price inflation 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.

4/ Adjusted inflation comprises the prices of the non-food items of the consumer basket excluding regulated prices and administrative interventions. Within adjusted inflation, its three components are analysed - fuel prices, other nontradables prices (primarily in the services area) and other tradables prices.

CHART II.4
 WITHIN NET INFLATION, FOOD PRICE INFLATION OUTPACED
 ADJUSTED INFLATION
 (annual percentage changes)

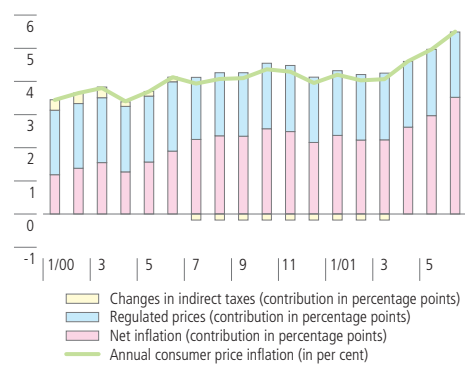


increase was partly offset by the price developments in the other two segments of adjusted inflation – other tradables prices and fuel prices.

During the course of Q2, fuel prices showed a predominantly downward year-on-year trend, in line with oil prices on world markets. Other tradables prices, fuel prices excluded, also fell, owing to strong competition from abroad, the koruna-euro exchange rate and, last but not least, rising productivity in industry. Under these circumstances the rise in the adjusted inflation outturns was not so high. Compared with the end of the previous quarter adjusted inflation rose by 0.4 percentage points, reaching 2.4% in June.

The increase in annual adjusted inflation and the more marked strengthening of food price inflation led to a gradual rise in net inflation during 2001 Q2, with food price inflation having the stronger effect. In June, annual net inflation was 1.5 percentage points higher than at the end of the previous quarter, reaching 4.4%. It made the biggest contribution to the overall pick-up in consumer price inflation (to 5.5% in June), since growth in regulated prices slowed modestly compared with the end of the previous quarter (annually by 0.2 percentage points to 10.4% in June). There were no changes in excise duties in Q2, nor were there any other administrative measures affecting inflation.

CHART II.5
 THE PICK-UP IN CONSUMER PRICE INFLATION RESULTED FROM
 HIGHER NET INFLATION OUTTURNS; REGULATED PRICE
 INFLATION SLOWED IN 2001 Q2



III. INFLATION FACTORS

III.1. MONETARY DEVELOPMENTS

III.1.1. Monetary aggregates

Following erratic developments at the turn of 2001 and a temporary stagnation in March, annual growth in the broader monetary aggregates began to increase relatively sharply in April. This increase corresponded to rising demand for money linked with the continuing economic growth. From the money supply side this demand was covered mainly by rising net credit to the government – resulting from a worsening state budget performance – and by inflow of funds from abroad, associated primarily with foreign investment and lending from abroad to businesses. The contribution of credits to money supply growth remained negligible in March-May 2001. Annual M1 growth remained buoyant.

Monetary aggregate M2

Annual M2 growth rose steadily from 7.8% to 11.4% between March and May 2000. The increase in the inflow of money into the economy is confirmed by the trend in the absolute money supply volume. In March-May 2000 the absolute increase in the M2 money stock in the economy had been CZK 26.9 billion, whereas in the same period a year later the figure was CZK 80.2 billion.

The effect of the dominant individual factors, i.e. the inflow of capital from abroad and the state budget deficit on money supply growth was felt in both April and May 2001. However, the May inflow of foreign capital was atypical in terms of both its volume and its nature, as it was associated with extraordinary property transfers. Their influence also passed through into the annualised values of M2, which are showing a very high growth rate. However, the growth rate of M2 would have been high – albeit less so – even without the extraordinary influence of privatisation.

Sector structure of M2

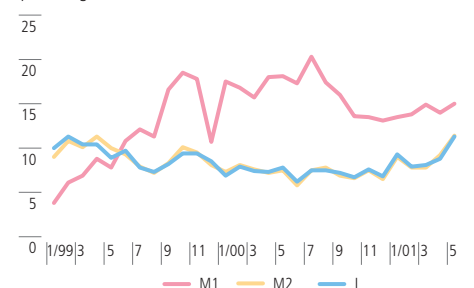
The tendencies in the M2 sector structure were essentially unchanged in March-May 2001. The year-on-year money supply growth of businesses continued to exceed that of households. In the long-term this trend is associated with the continuing economic recovery. The unusually large increase in the money supply growth of businesses (to 21.9%) in May 2001 was caused by a one-off inflow of capital from abroad.

The effects of the economic recovery have so far passed through into the household sector less markedly. The decline in money supply growth rate typical of 2000 had already halted. Since the start of 2001 this growth rate has been rising, with a certain acceleration recorded between March and April 2001. However, the annual money supply growth of households has remained at one third to one half the level in the business sector. The modest rise in the money supply growth of households has not been reflected significantly in the household savings rate, which in 2001 Q1 remained lower than a year earlier and below the overall savings rate in 2000. As regards new deposits, households are giving preference to time deposits, despite low interest rates. With businesses the opposite was true in March-May 2001.

Foreign currency deposits of businesses and households increased in March-May 2001. Nevertheless, in May they accounted for only 10.5% of the overall money supply, which corresponds to the same period a year earlier.

CHART III.1

ANNUAL GROWTH IN THE BROADER MONETARY AGGREGATES ROSE SHARPLY (percentages)



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

TABLE III.1

THE EXCEPTIONAL RISE IN M2 FED THROUGH INTO AN INCREASE IN ANNUALISED GROWTH (PERCENTAGES)

	ANNUALISED FOR			
	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR
February 01	0.4	12.2	9.3	7.8
March 01	1.1	19.8	9.1	7.8
April 01	1.8	14.4	13.0	9.2
May 01	2.1	22.2	17.1	11.4

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

CHART III.2

THE BUSINESS SECTOR CONTINUES TO BE DOMINANT IN THE M2 GROWTH RATE (percentages)

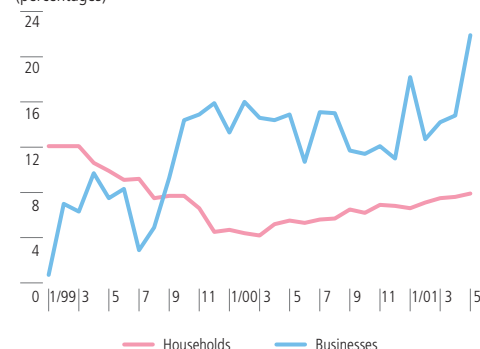


TABLE III.2
THE ANNUAL GROWTH RATE OF M1 REMAINS BUOYANT
(PERCENTAGES)

	ANNUALISED FOR			
	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR
February 01	1.1	0.4	6.1	13.8
March 01	0.3	6.5	4.9	14.9
April 01	2.7	17.8	11.5	14.0
May 01	3.1	27.3	13.1	15.0

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

TABLE III.3
THE RISE IN L GROWTH COPIED THE M2 TREND
(PERCENTAGES)

	ANNUALISED FOR			
	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR
February 01	0.3	11.8	8.7	7.9
March 01	0.9	17.5	8.5	8.1
April 01	1.2	10.4	11.3	8.8
May 01	2.7	21.1	16.4	11.3

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

CHART III.3
THE YEAR-ON-YEAR CREDIT GROWTH RATE WAS
AGAIN NEGATIVE
(percentages)

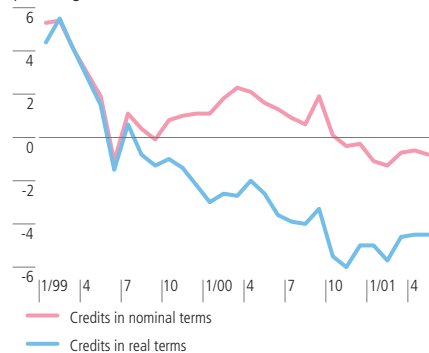


TABLE III.4
MONTHLY AND QUARTERLY SEASONALLY ADJUSTED
GROWTH IN CREDITS DECREASED
(PERCENTAGES)

	ANNUALISED FOR			
	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR
February 01	0.1	0.8	-1.3	-1.3
March 01	0.2	2.9	-3.7	-0.7
April 01	-0.1	1.0	-0.4	-0.6
May 01	-0.7	-2.3	-0.7	-0.8

Note: Adjusted for exchange rate effects, write-offs, interest capitalisation, banks without licences and loan portfolio restructuring

Monetary aggregate M1

Annual M1 growth moved within the 14%-15% range between March and May 2001. This buoyant growth is based on a high growth rate of demand deposits, particularly in the case of businesses. The share of currency in circulation in the money supply fell from 11.4% in February 2000 to 10.9% in May. The M1 growth for the last three and six months indicates a pick-up in the growth rate of this monetary aggregate.

Monetary aggregate L

Influenced by the same factors as the M2 money supply, L growth rose from 8.1% to 11.3%, closely following the annual increases in M2. As with the other monetary aggregates, the annualised seasonally adjusted year-on-year L growth indicates an accelerated inflow of money into the economy.

III.1.2. Credits granted to businesses and households

Annual growth in adjusted credits was again negative in March-May 2001, averaging -0.7%. The annual growth rate of credits was below the level of inflation in this period. In real terms (deflated by the industrial producer price index) the year-on-year decline in credits was 4.5% on average.

The growth rate of lending (measured in terms of the quarterly seasonally adjusted annualised increases) suggests a slight recovery in March and April 2001. This trend was due to increased lending by some of the large banks, foreign banks and building societies. The credits were granted chiefly to non-financial foreign corporations and to households. However, lending again did not contribute significantly to money supply growth in this period.

As regards type, operating and investment credits accounted for most of total credits between March and May 2001. Mortgage and consumer credits also rose. At the end of this period, mortgage credits accounted for 5.1% of overall credits (compared with 4.5% in February 2001) and consumer credits for 2.4% (compared with 2.3% in February 2001). The development of mortgage and consumer credits testifies to the banks' continuing interest in lending to individuals and to a gradually increasing credit channel effect in this economic sector. The period under review saw a rise in the share of credits granted for temporary shortage of funds to 10.1% in May 2001 (from 9.5% in February 2001).

As regards time structure, the share of medium-term and long-term credits increased in March-May 2001, whereas the share of short-term credits fell. At the end of the period under review, medium-term credits accounted for 22.3% of overall credits (a rise of 0.3 percentage points) and long-term credits for 42.7% (a rise of 0.9 percentage points). The share of short-term credits dropped by 1.2 percentage points to 35%.

III.2. INTEREST RATES

Interest rates stopped falling in 2001 Q2 and instead started rising gradually. In individual segments of the financial markets, interest rates reached historical lows in approximately mid-April. Yield curves became markedly less upward sloping, with the money market yield curve even becoming downward sloping for a while. Following the release of macroeconomic data (on inflation, the trade deficit and the state budget performance) interest rates started to rise. However, the increase was only modest, particularly in the case of rates with shorter maturities. The CNB did not change its key rates in this period. The limit 2W repo rate had been set at 5%, the Lombard rate at 6% and the discount rate at 4% with effect from 23 February 2001. The relatively small changes on the financial market passed through into client interest rates on credits and deposits.

III.2.1. Short-term interest rates

Short-term interest rates increased moderately in 2001 Q2. In the previous period, interest rates had declined fairly sharply in response to favourable data on the economy and to the changes in the central bank's key rates. Money market interest rates had reached historical lows. However, in mid-April the decline halted and interest rates started rising steadily. This was due mainly to agents on the financial market starting to be more aware of the growing inflation and of the situation in the public finance area. The expectations of a further possible lowering of key rates by the CNB therefore gradually faded. Overall, PRIBOR rates increased by no more than 0.4 percentage points relative to the end of March 2001, the largest rises being recorded at the longest maturities.

The shape of the PRIBOR yield curve changed during the course of the quarter, although the overall changes were minimal. Originally flat, the curve's slope changed to negative for a very short time before becoming slightly positive from the end of May onwards. Its short end remained stable throughout the period, with the changes taking place only at the longer end. Relative to March 2001, the average 1Y PRIBOR rose by 0.23 percentage points to 5.30%. The spread between the 1Y and 1W PRIBOR reached +0.26 percentage points in June.

At the beginning of the period under review, FRA rates still indicated expectations of a further very modest decline in spot rates. However, these soon faded and FRA rates started to grow even more extensively than PRIBOR rates. This suggests that they are more sensitive to market stimuli. At some maturities they rose by as much as 0.6 percentage points overall. The FRA quotations at the end of June 2001 indicated that a rise of 0.25 percentage points was expected for the 3M PRIBOR at the year-end.

The short-term bond market comprised T-bills only. There were nine auctions on the primary bond market, with 3M, 6M, 9M and 1Y maturities. In some auctions – particularly of bills with longer maturities – not all volumes were fully subscribed. Banks were put off by the low limit yield with regard to the given maturity. Gross yields moved between 4.9% and 5.3% depending on maturity and the market situation. On the secondary market, T-bill yields copied PRIBOR rates, i.e. they rose slightly at the end of Q2.

CHART III.4

THE CNB LEFT ITS KEY INTEREST RATES UNCHANGED

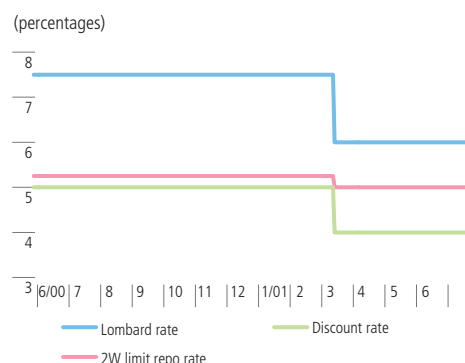


CHART III.5

PRIBOR RATES EDGED UP

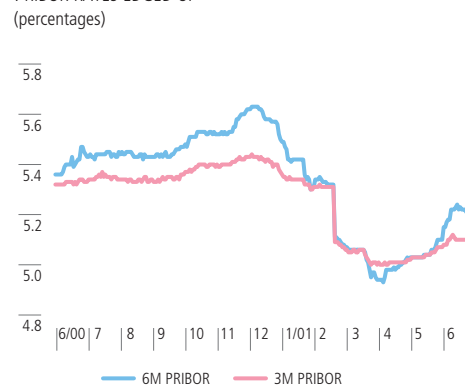


CHART III.6

THE PRIBOR YIELD CURVE BECAME MODERATELY UPWARD SLOPING

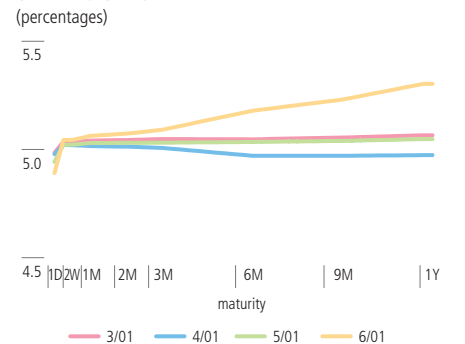


CHART III.7
THE INTEREST RATE DIFFERENTIAL WIDENED
(percentage points)

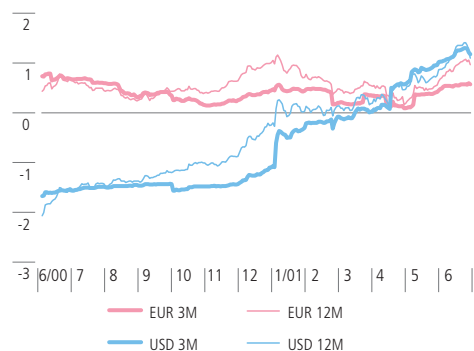


CHART III.8
IRS RATES ROSE
(percentage)

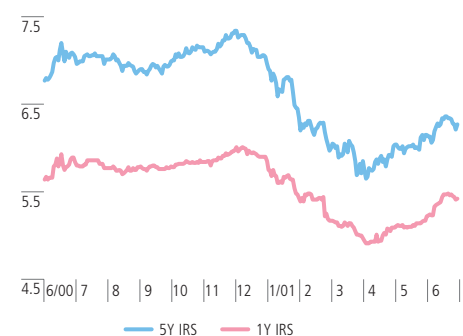
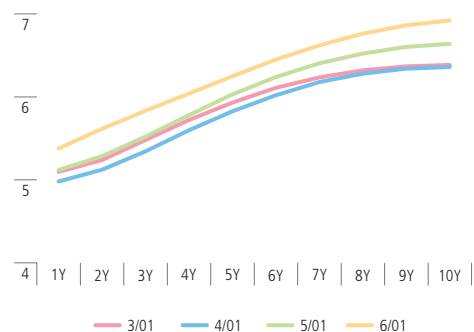


CHART III.9
THE IRS YIELD CURVE SHIFTED UPWARDS
(percentage)



The interest rate differential (PRIBID/CZK-LIBOR/EUR,USD) was affected by changes in interest rates abroad and by interest rate movements on the domestic interbank market. The changes in key foreign rates, particularly in the USA, were the larger factor. The Fed lowered its two key rates by a total of 1.25 percentage points in three steps: the overnight rate to 3.75% and the discount rate to 3.25%. The key rates in the eurozone were changed only once, the most important repo rate being cut by 0.25 percentage points to 4.5%. As the key domestic rates remained unchanged, the interest rate differential gradually widened. This was also fostered by a slight increase in PRIBOR rates at longer maturities during May and June. At the end of June the interest rate differential vis-à-vis euro rates was 0.6-1.0 percentage points depending on maturity. The differential vis-à-vis dollar rates was larger (1.1-1.2 percentage points).

III.2.2. Long-term interest rates

Long-term IRS rates and bond yields gradually increased almost throughout the period. Although the rise in this segment was greater than at shorter maturities, even here the rates did not reach the level they recorded at the beginning of the year. At that time, market expectations regarding inflation and economic growth had been relatively favourable and long-term rates had therefore started to decline. The decline halted at the beginning of April in response to signals of a certain increase in inflationary pressures, which may also be felt in the future. Relative to March 2001, the 1Y IRS rate was up by 0.28 percentage points and the 5Y IRS rate by 0.54 percentage points in June. In addition to the factors mentioned above, the rise in yields on the bond market was attributable to a growing supply of government bonds. The rising public finance debt therefore remains a significant pro-inflationary factor in the medium term.

The IRS yield curve gradually shifted to a higher yield level during the course of the quarter. It remained upward-sloping. The spreads between the longer and shorter parts of the curve widened somewhat. The average 5Y-1Y spread was +0.87 percentage points in June (compared with +0.84 percentage points in March) and the 10Y-1Y spread +1.55 percentage points (compared with 1.29 percentage points in March).

There were four auctions on the primary bond market, with 2Y, 9Y, 15Y and 4Y residual maturities and a total volume of CZK 16 billion. The average gross yields were 5.32%, 5.16%, 6.63% and 6.16%. Only the longest, 15Y bond was not fully subscribed, owing to a number of unfavourable factors. In the other auctions, however, demand always significantly exceeded supply and a maximum acceptable yield was not given. There were two issues on the municipal bond market in this period, with a volume of CZK 5 billion, and one issue on the mortgage bond market, totalling CZK 2 billion. Issuing activity also continued on the primary koruna eurobond market, where the outstanding volume at end-June was CZK 77.9 billion.

III.2.3. Client interest rates

Nominal client interest rates on both credits and deposits were little changed. This is consistent with the trend in money market rates. Interest rates on new credits were 6.3% in May. Time deposit rates stagnated at 3.7%. Since competition from open-end funds and other alternative financial instruments affects these rates significantly, a further decline is unlikely. The interest rate margin between credit and deposit rates has changed only minimally over recent months. In May it stood at 3.9 percentage points.

Real interest rates^{5/} were affected both by the level of nominal interest rates and by inflation expectations. Owing to the relative stability of nominal interest rates, the level of real interest rates was affected to a larger extent by expected inflation. Nevertheless, the changes were not considerable and, as in the previous period, were in the order of no more than tenths of a percentage point. In May, real rates on newly granted credits were 2.1% and real rates on time deposits -0.6%. In both cases these values are close to their historical lows.

III.2.4. The exchange rate

The koruna's nominal exchange rate against the euro appreciated further in 2001 Q2. At the end of Q1 the koruna had been trading at around CZK 35.40 to the euro, whereas it ended June at a high of around CZK 33.80 to the euro. The market thus responded to the release of the GDP growth figures for the previous quarter, the privatisation of Komerční banka and better-than-expected trade balance results. The currency was at its weakest in mid-April, trading at approximately CZK 34.80 to the euro following the change of Minister of Finance. The downgrading of the Czech Republic's domestic currency rating by Fitch by one category in response to the nation's growing indebtedness also played a role.

Overall, the koruna's exchange rate appreciation is the market response to the continuing inflow of foreign investment and the recovery of the domestic economy. In addition, the koruna's appreciation against the euro was bolstered by a further weakening of the euro against the dollar.

The koruna's exchange rate against the dollar fluctuated within the range of CZK 38.20-CZK 40.30 to the dollar in Q2, with a tendency towards depreciation thanks mainly to the weakening of the euro.

In 2001 Q2, the nominal effective exchange rate index^{6/} strengthened slightly relative to the previous quarter and also firmed on a year-on-year basis. This was due to the koruna's appreciation against the euro, which has the biggest weight in the index. The real effective exchange rate indices appreciated similarly to the nominal effective exchange rate.

CHART III.10
EX ANTE REAL INTEREST RATES WERE LITTLE CHANGED
(percentage)

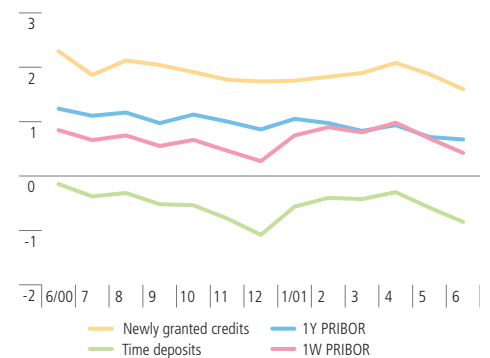
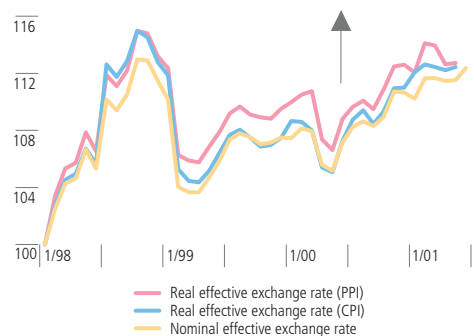


CHART III.11
THE KORUNA APPRECIATED FURTHER AGAINST THE EURO
AND WEAKENED AGAINST THE DOLLAR



CHART III.12
THE EFFECTIVE EXCHANGE RATE CONTINUED STRENGTHENING
(analytical exchange rate; 1998 = 100)



5/ Ex ante real interest rates, i.e. nominal interest rates deflated by the consumer price inflation outturns expected by financial market participants in individual months. The CNB started measuring inflation expectations on the financial market in May 1999.

6/ The weighted geometric mean of the average monthly nominal exchange rates vis-a-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 from the nominal effective exchange rate in the "Exchange Rate" table in the Statistical Annex.

TABLE III.5
THE FINANCIAL ACCOUNT SURPLUS PERSISTS
(CZK billions)

	1998	1999	2000	2001
Financial account	36.2	17.8	35.5	29.6
Direct investment	38.5	31.9	37.2	34.5
- Czech abroad	-0.1	-0.8	-1.0	-0.2
- Foreign in Czech Republic	38.6	32.7	38.2	34.7
Portfolio investment	1.0	1.5	-12.6	9.5
- Czech abroad	-2.4	-2.9	-19.6	-1.9
- Foreign in Czech Republic	3.4	4.4	7.0	11.4
Financial derivatives	0.0	0.0	-1.9	0.3
Other investment	-3.3	-15.6	12.9	-14.6
1. Long-term investment	-30.6	-0.5	4.5	-4.0
- Credits granted abroad	0.1	-12.4	9.2	-5.8
- Credits accepted from abroad	-30.7	11.9	-4.7	1.8
2. Short-term investment	27.3	-15.1	8.4	-10.6

III.2.5. Capital flows

The financial account ended 2001 Q1 with a surplus of CZK 29.6 billion, down by almost 20% (CZK 5.9 billion) from the same period a year earlier. Foreign direct investment inflow continued to account for most of the net capital inflow into the Czech Republic. The capital inflow also included portfolio investment (chiefly purchases of domestic bonds) and drawings on credits from abroad by the business sector.

The net inflow of foreign direct investment into the Czech Republic was CZK 34.5 billion in 2001 Q1, a year-on-year decline of around 7% (CZK 2.6 billion). This decline was caused mainly by the sale of state assets to foreign investors. Foreign investors continued to be interested primarily in the services area, particularly retailing and real estate. Investment totalling CZK 12 billion was channelled into industry. By territory, the biggest investors in terms of volume were Germany, Austria, the United Kingdom and the Netherlands. Czech direct investment abroad totalled CZK 0.2 billion.

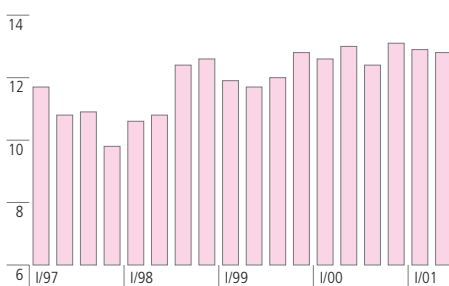
Following a more-than-one-year outflow of capital in the form of portfolio investment, a change in trend was recorded in Q2. Owing to the koruna's widening interest rate differential against the major world currencies and unfavourable developments on foreign stock markets the outflow of domestic capital abroad virtually halted (reaching just CZK 1.9 billion), declining by more than 90% year-on-year in 2001 Q1. In contrast, the inflow of capital rose by more than 60%, generated exclusively by purchases of domestic bonds. Interest in domestic shares fell markedly. Net inflow of portfolio investment stood at CZK 9.5 billion in Q1, compared with an outflow of CZK 12.6 billion a year earlier.

Other investment showed a deficit of CZK 14.6 billion in 2001 Q1. The debt capital outflow resulted chiefly from growth in the short-term assets of commercial banks abroad (of CZK 17.6 billion) and a rise in credits to non-residents (of CZK 9.3 billion). The business sector continued to increase its liabilities abroad. During the course of 2001 Q1 these rose by CZK 7.4 billion. This chiefly involved short-term liabilities (+CZK 8.6 billion), connected probably with financing of the growing imports.

In the area of other short-term investment, there was an outflow of capital of CZK 10.6 billion in 2001 Q1, accounted for exclusively by the banking sector. Other long-term investment recorded an outflow of CZK 4.0 billion, also entirely due to the banking sector.

The CNB's international reserves were affected solely by exchange rate movements and reserve management income in 2001 Q2. As of 30 June 2001, the value of the international reserves in dollar terms was down slightly compared with end-Q1 at USD 12.8 billion. In koruna terms the value of the reserves rose by CZK 3.1 billion to CZK 503.9 billion. Owing to the high growth rate of imports and the virtual stagnation of international reserves, the period of coverage of the Czech Republic's import needs with CNB international reserves decreased to 3.8 months.

CHART III.13
INTERNATIONAL RESERVES ARE FALLING IN DOLLAR TERMS
(USD billions)



III.3. DEMAND AND OUTPUT

The GDP growth in 2001 Q1 confirmed the continuing growth of the Czech economy, which has been ongoing since the second half of 1999. This process is perceived mainly as resulting from growing demand and from the positive effects of the structural changes in the economy, which in turn are to a significant extent related to the inflow of foreign capital.

As in the last three quarters of 2000, the annual GDP growth in 2001 Q1 (of 3.8%) was driven by domestic demand, the effect of net exports being negative. The development of export-oriented production substantially boosted export growth, but the increase in international production collaborations associated with this expansion resulted in a simultaneous rise in imports.

The analysis of past economic developments contained in this part of the Report, as well as the inflation factors outlook and the conditional forecast in Section IV, are based on the revised figures on GDP in 1994-2000 released by the CSO on 15 June 2001. This revision involved major changes to the original figures for 1996-2000, and particularly for 1997-1999. The figures for 1994 and 1995 remained virtually unchanged. As regards the annual figures, the most significant change was a reduction in the depth of the recession which the Czech economy experienced between 1997 and 1999. In addition, the revision partly corrected the intensity of previous trends in the components of GDP in individual quarters. However, the basic characteristics and the direction of the trends in the individual components on both the demand and supply side were left essentially unchanged. As regards the trends to date, the only major adjustment was to the household propensity to save (a fall) following revision of the intensity of household consumption growth.

III.3.1. Domestic demand

Compared with the previous quarter, growth in aggregate domestic demand continued to accelerate in 2001 Q1 (to 6.3%). Final domestic demand growth (excluding change in inventories) was more moderate (4.1 %), although it too picked up markedly relative to the previous quarter. The domestic demand growth was attributable chiefly to gross capital formation, in both its basic components – gross fixed capital formation and change in inventories and valuables. Also significant was the contribution of household spending. Conversely, spending on final consumption by the Government had a slightly negative effect. The continuing growth tendency in investment and consumer demand provided further support for the postulated long-term nature of the growth of the Czech economy.

As regards contributions to GDP growth there was no significant change in 2001 Q1 compared with last year, merely a strengthening of the existing economic trends.

Investment demand

The robust growth in gross fixed capital formation and the high rate of investment^{7/} in 2001 Q1 meant a further strengthening of investment activity in the economy. Annual growth in gross fixed capital formation^{8/} accelerated in Q1 relative to the previous year. The growth was 2.9 percentage points higher than in 2000 Q4,

CHART III.14

THE GDP FIGURES FOR 1994-2000 HAVE BEEN REVISED
(annual percentage changes; percentage points)

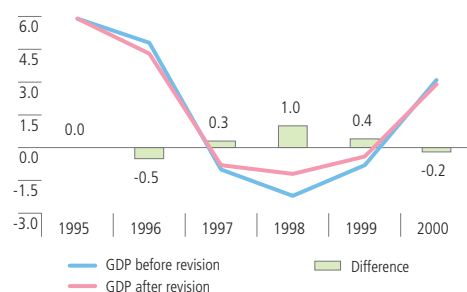


CHART III.15

THE GDP GROWTH WAS DRIVEN BY DOMESTIC DEMAND

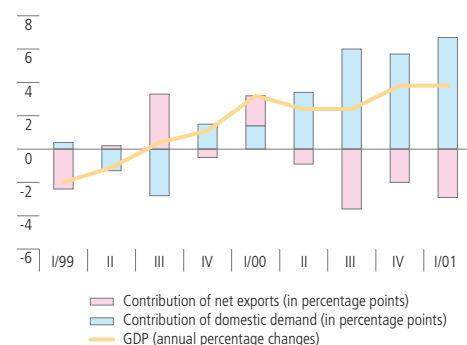
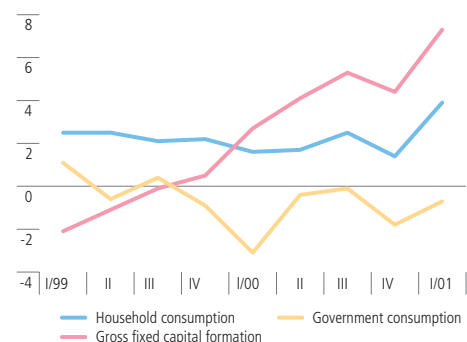


CHART III.16

THE GROWTH RATE OF DOMESTIC DEMAND PICKED UP
(annual percentage changes)



7/ Rate of investment (at constant prices) = gross fixed capital formation / GDP

8/ As part of GDP expenditure, including investment in new tangible and intangible goods, at constant 1995 prices.

CHART III.17
MOST OF THE INVESTMENT VOLUME WAS REALISED IN NON-FINANCIAL CORPORATIONS
(at 1994 prices)

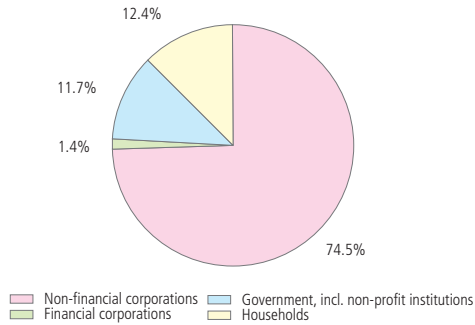


CHART III.18
IN 2001 Q1, MACHINERY INVESTMENT AGAIN GREW FASTER THAN INVESTMENT IN BUILDINGS
(annual percentage changes)

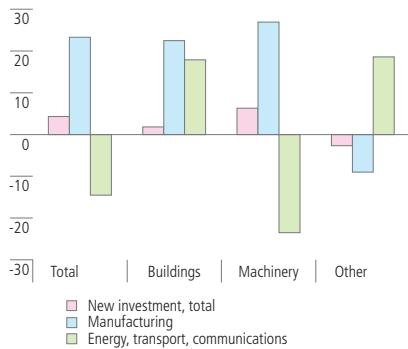
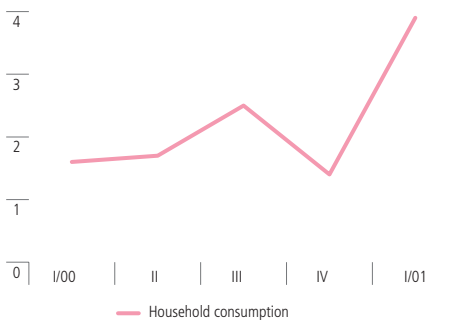


CHART III.19
CONSUMER DEMAND ROSE SHARPLY IN 2001 Q1
(annual percentage changes)



reaching 7.3%. The rate of investment rose by 1 percentage point to 31.1% in year-on-year comparison. The growth trend in gross fixed capital formation was fostered in particular by the favourable domestic and foreign demand and by the strong inflow of foreign direct investment over the last two years.

The growth in total investment in tangible goods^{9/} (of 3.3%) again resulted chiefly from investment demand by non-financial corporations. This rose by 3.1% (at constant 1994 prices), taking the share of non-financial corporations in total investment in tangible goods to 74.5% in Q1. Investment activity in large and medium-sized foreign-controlled non-financial corporations recorded exceptionally high growth in Q1 (45.1% on a year earlier at current prices). Conversely, investment by private firms continued to decline. Following moderate growth in 2000 Q4, investment by public corporations also decreased in 2001 Q1.

Although capital spending from public budgets (including the transport and housing funds) was lower in 2001 Q1 than a year earlier, government investment grew fastest of all the economic sectors (by 6% on a year earlier). However, its share in total investment in tangible goods was substantially lower than that of non-financial corporations. Growth in investment was also visible in the other sectors – investment by financial corporations rose by 5.3% year-on-year and household investment by 1.6% (thanks to a 3.2% rise in investment by natural persons-entrepreneurs; individual housing construction meanwhile stagnated).

As to the material structure of the investment in new tangible goods, growth in investment in machinery accelerated (to 6.3% in year-on-year terms), whereas construction investment increased only modestly (by 1.8%). However, relative to the previous year, only demand for investment from domestic sources grew (chiefly for machinery investment), whereas investment from imports declined slightly.

Consumer demand

Household spending on final consumption grew in 2001 Q1 for the ninth consecutive quarter. However, the growth rate in Q1 was the highest (3.9%). According to CSO data, this rise was caused by a substantial increase in spending on less significant consumption groups in volume terms, such as health, post and telecommunications and education. Spending on consumption by other groups also grew, but more slowly.

The main source of the growing consumer spending was an increase in the disposable incomes of households, which rose by 6.2% in nominal terms and 1.8% in real terms in Q1. Most of this increase was due to the most significant component by volume: wages and salaries, whose growth was fostered by the trends on the labour market (see Section III.4. *The labour market*). In year-on-year comparison the volume of wages and salaries rose by 7.3% in nominal terms in Q1. The higher consumer spending was also attributable to a lower propensity of households to save: although growth in household incomes accelerated, gross household savings were CZK 3.5 billion lower in Q1 than a year earlier. This resulted in a further decline in the savings rate to around 6%.

^{9/} i.e. investment in both new and used tangible goods.

Consumer loans, which rose by CZK 6.7 billion in year-on-year terms, also helped to finance the increased household consumption in 2001 Q1. The growing supply of consumer loans on the one hand, and the increasing willingness of households to finance their consumption using debt and their lower propensity to save on the other hand, suggested a strengthening of the consumer confidence of households in future economic growth. This is also confirmed by the latest results of the sample survey of households in April 2001, according to which households' assessment of their expected economic situation and living standard show a considerable shift towards an improvement.

Government demand

Government consumption was again stable, falling modestly (by 0.7%) in year-on-year terms. Drawing on most components was in line with the state budget approved for 2001, except for the "State debt" chapter, where roughly one third of the budgeted amount had been spent by the end of March. This is related mainly to mismatches between issuance and redemption of short-term and medium-term bonds, executed on a monthly basis since 2000.

Compared with the same period a year earlier, wages of public sector employees and other payments for work done showed the fastest growth in Q1. This was due to an across-the-board increase in wages connected with expected growth in inflation, an increase in teachers' wages connected with measures to support education, and to the ongoing reform of public administration. From the viewpoint of the annual budget, however, the drawing on this spending item was relatively low (13.7%) in Q1.

III.3.2. Net external demand

The growth rate of exports remained buoyant during 2001 Q1 (at 19.8%). However, the growth rate of imports was even faster (21.8%). Consequently, the unfavourable development of net exports of goods and services – visible since 2000 Q2 – continued into 2001 Q1. In year-on-year comparison, net exports worsened by CZK 9.7 billion to -CZK 29 billion (at constant 1995 prices). However, they were lower than in the previous quarter thanks to seasonal effects. The unfavourable net exports were also reflected in the relative figures (net exports as a percentage of GDP). Compared with a year earlier their negative share of GDP worsened by 2.6 percentage points to 8.3% and the propensity to import further increased.

As in the previous quarter, the import growth was again principally due to rising output growth in manufacturing, a further increase in international production collaborations (including development of inward processing) and high investment imports. Imports for investment were 27.7% higher in 2001 Q1 than a year earlier, accounting for 23.6% of total imports.^{10/} However, imports for intermediate consumption grew the fastest, rising by 30.3% to account for 60.3% of total imports. Imports for personal consumption grew at the slowest rate (13%).

CHART III.20
THE SAVINGS RATE WAS CONSIDERABLY LOWER THAN A YEAR EARLIER
(percentage)

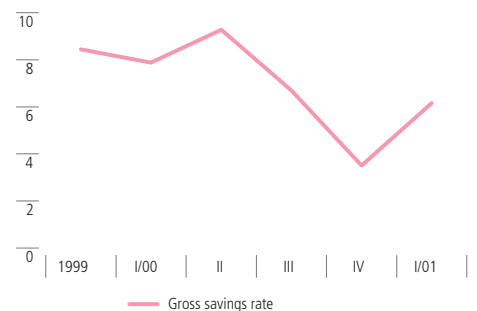


CHART III.21
GOVERNMENT CONSUMPTION WAS LOWER IN 2001 Q1 THAN A YEAR EARLIER
(percentage)

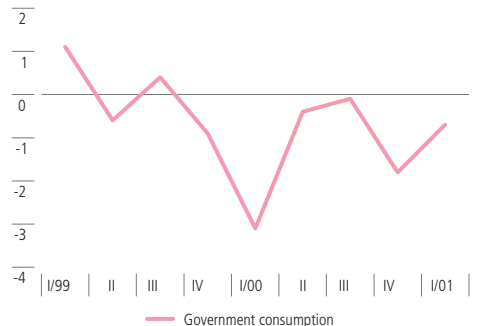
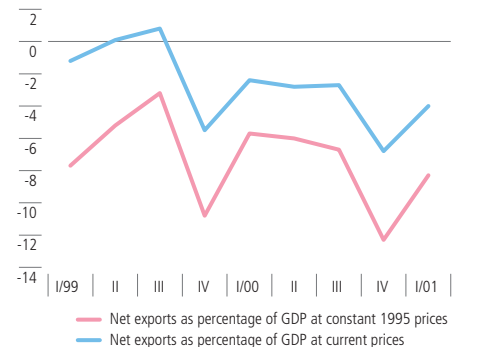


CHART III.22
NEGATIVE NET EXPORTS AS A SHARE OF GDP DETERIORATED IN 2001 Q1
(percentage)



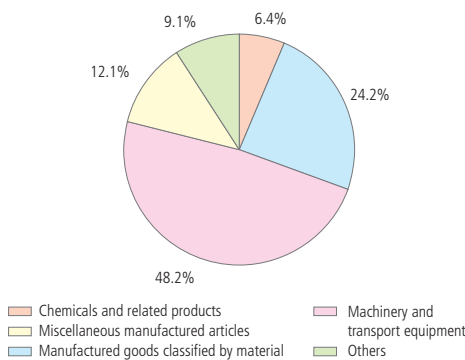
10/ The data on the structure of exports and imports are at current prices.

CHART III.23

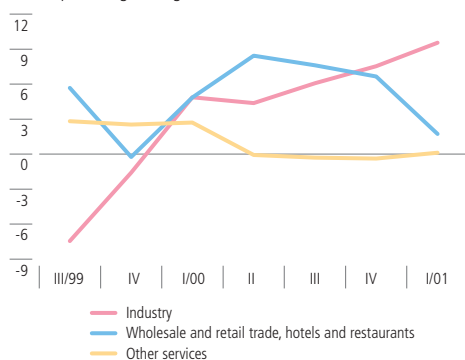
THE BUOYANT GROWTH RATE OF EXPORTS WAS ACCOMPANIED BY RAPIDLY RISING IMPORTS (annual percentage changes)

**CHART III.24**

PRODUCTS WITH HIGHER VALUE ADDED DOMINATED EXPORTS IN 2001 Q1 (percentage)

**CHART III.25**

GROWTH IN GROSS VALUE ADDED IN INDUSTRY WAS THE MAIN GDP GROWTH FACTOR (annual percentage changes)



On the other hand, export growth was fostered – despite a slackening of economic growth in the eurozone and the USA – by continuing favourable sales opportunities for Czech products in advanced market economies, including Germany, and by rapidly rising demand for Czech exports in transition economies. The growth in exports was also supported by changes on the supply side leading to an expansion in export-oriented production.

The positive structural tendencies in exports continued into Q1. The share of exports of higher-value-added products in total exports continued to increase. Exports of machinery and electrical engineering commodities showed a very high growth rate (31.5%), accounting for 55.3% of total exports. Conversely, exports of food, raw materials and semi-manufactures increased only modestly.

By territory, exports to transition economies showed particularly buoyant growth in Q1 (of 24.5%), modestly exceeding the growth in exports to advanced market economies (23%). Exports to Slovakia rose particularly quickly. The growth rate of exports to Germany slackened to 15.5%, mainly due to base effects.

III.3.3. Gross domestic product

On the supply side of the economy the economic growth in 2001 Q1 was again driven mostly by continuing growth in industry. The most rapid rise in value added in industry was recorded in manufacturing, with year-on-year growth of 12.1%. The share of industry in gross value added increased to 37.2%. The continuation of favourable trends in industry during the first months of 2001 was indicated by the industrial production index, which recorded a 10% year-on-year increase for Q1 as a whole. The pick-up in industrial production was again attributable mainly to higher-value-added industries with sophisticated production.^{11/} Overall, most industries showed an upward trend. The favourable tendencies in industry confirmed (and indicate for the future) positive expectations of increasing utilisation of production capacities.

Industrial production reflected the continuing restructuring of industry, a process largely attributable to foreign capital inflow and greatly supported by the investment incentives adopted by the Government. As mentioned in previous Inflation Reports, the development of sophisticated export production in foreign-controlled businesses based on international production collaborations has, however, given rise to increased demand for imports for intermediate consumption.

In 2001 Q1, the service sector maintained its dominant share of gross value added at 1995 constant prices, although this share decreased in year-on-year terms (to 58.3%). Unlike in industry, the annual growth rate of gross value added in this sector was very low in Q1, with mixed trends within individual segments. Increasing demand was recorded for business services (up by 7.6% on a year earlier) and in hotels and restaurants (10.5%). In construction, gross value added continued to fall

11/ In 2001 Q1 the industrial production index increased most in the manufacture of electrical and optical equipment (144.7), manufacture of machinery and equipment n.e.c. (122.9), manufacturing n.e.c. (120.8), manufacture of rubber and plastic products (114.8), manufacture of coke and petroleum products (114.4) and manufacture of transport equipment (113.7), which accounted for 14.2% of sales in industry.

(by 1.4% year-on-year), although overall construction output showed buoyant growth. The disparity between the rapid rise in construction output and the fall in value added is probably due to the use of new technology with more costly material and energy inputs.

III.3.4. Financial performance of non-financial organisations and corporations^{12/}

Non-financial organisations and corporations displayed a further pick-up in profit creation in 2001 Q1. Gross profit was 13.9% up on a year earlier, or CZK 5.7 billion higher in absolute terms. Industry accounted for more than 80% of the profit, whereas agriculture, transport and hotels and restaurants recorded losses.

The higher profit in Q1 was achieved amid only a very modest year-on-year improvement in cost and equity profitability compared with 2000 Q1. Output profitability was flat or very slightly lower than in the same period a year earlier. This can be associated to some extent with a deterioration in the material cost-output ratio, which was not fully offset by the decreasing wage cost-output ratio. The existing level of demand prevented the increased costs from being reflected in prices in some industries. However, growth in the material cost ratio and the related development of output profitability was not recorded across the board. Increasing material costs were particularly visible in private businesses. Mixed trends for the material cost ratio and the related profitability indicators were also indicated by analyses of businesses within individual industries, businesses with export activities, etc.

During the course of Q1 there was a decrease in corporate insolvency and a year-on-year decline in the number of loss-making organisations.

III.4. THE LABOUR MARKET

The labour market responded more substantially in Q1 to the ongoing process of economic recovery. The continuing economic growth, together with various forms of active employment policy and foreign direct investment, contributed to a further – more pronounced – reduction in the gap between the supply of and demand for labour. A higher absorption capacity of the economy resulting from the above factors was indicated by an increase in the number of vacancies, culminating in a rise in overall employment in 2001 Q1 following a long-term decline. Unemployment meanwhile continued to fall. Long-term unemployment resulting from the continuing regional, skills and occupational imbalances between the supply of and demand for labour remained high, however. Wage growth in the business sector was consistent with the employment trend.

CHART III.26

THE RISING OUTPUT IN INDUSTRY CONFIRMED THE PREVIOUS POSITIVE EXPECTATIONS OF PRODUCTION CAPACITY UTILISATION (percentage)

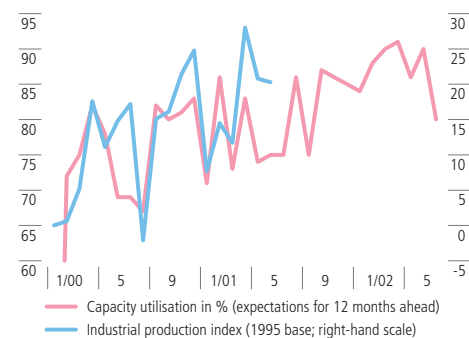


TABLE III.6

CORPORATE PROFITS INCREASED IN 2001 Q1

	Q1		% ANNUAL CHANGES
	2000	2001	
Income, total	776.1	874.3	12.7
Output, total	542.0	619.6	14.3
Expenses, total	735.3	827.8	12.6
of which: intermediate consumption	359.9	423.6	17.7
personnel costs ¹⁾	85.1	91.2	7.2
depreciation	39.7	41.0	3.2
Book value added	182.2	196.0	7.6
Pre-tax profit	40.8	46.5	13.9

* For non-financial organisations and corporations with 100 employees or more, all industries

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

TABLE III.7

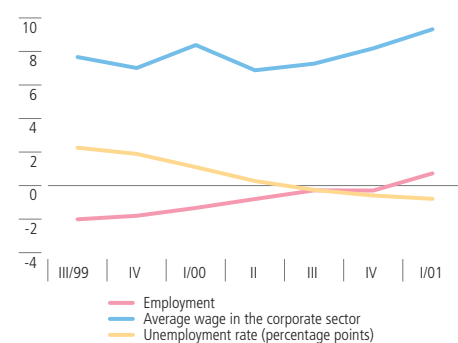
THE MATERIAL COST-OUTPUT RATIO WAS HIGHER THAN A YEAR EARLIER, BUT THE WAGE COST RATIO IMPROVED (percentages; percentage points)

	Q1		PERCENTAGE POINT CHANGES
	2000	2001	
Cost profitability (profit/expenses)	5.55	5.61	0.06
Equity profitability (profit/equity)	2.68	2.86	0.18
Output profitability (profit/output)	7.53	7.50	-0.03
Material costs (intermediate consumption/output)	66.39	68.36	1.97
Wage costs (personnel costs/output)	15.70	14.71	-0.99

* For non-financial organisations and corporations with 100 employees or more, all industries

CHART III.27

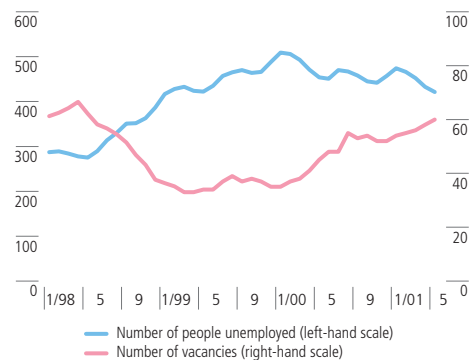
LABOUR MARKET INDICATORS SUGGESTED A DECREASE IN THE IMBALANCE BETWEEN LABOUR SUPPLY AND LABOUR DEMAND (annual changes in per cent and percentage points)



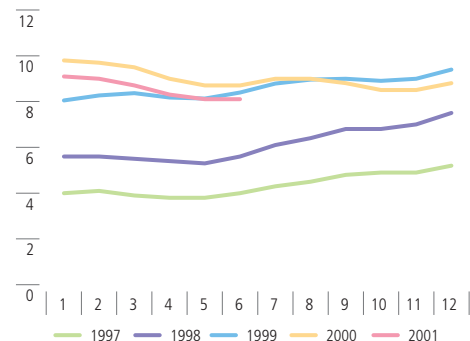
12/ Evaluation based on the data for non-financial organisations and corporations with more than 100 employees, all industries.

CHART III.28

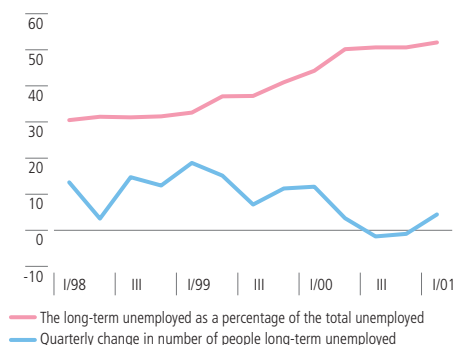
THE NUMBER OF VACANCIES WAS HIGHER THAN A YEAR EARLIER
(thousands)

**CHART III.29**

THE UNEMPLOYMENT RATE FELL
(percentage)

**CHART III.30**

BUT LONG-TERM UNEMPLOYMENT DID NOT IMPROVE
(percentage)



III.4.1. Employment and unemployment

During 2001 Q1, a major change in employment occurred in the national economy. The existing gradual long-term process of moderating decline in employment culminated in a rise in the overall number of employed persons in the first months of 2001. This substantial change – following almost four years of decline – indicated a further narrowing of the gap between the supply of and demand for labour. This trend suggested that the economic upturn is a lasting process, fuelled by inflow of foreign direct investment and by more effective implementation of the active employment policy. Major contributions to the rise in employment came from the Government's measures to create new jobs (particularly in the form of investment incentives for foreign and domestic investors) and support for the building of new industrial zones in regions with high unemployment.

The aforementioned reversal in trend in 2001 Q1 was evidenced by a 0.7% year-on-year rise in overall employment, representing 34,500 people in absolute terms. With respect to the employment structure, the biggest increase was in the number of self-employed people with no staff (up by 6.4% on a year earlier). By industry, the largest increases in workforce were recorded in other public administration, social and personal services and manufacturing. The rise in employment in manufacturing was due to ongoing growth in the performance of the economy linked with rising domestic and external demand.

An important indicator of the continuing pick-up in demand for labour was a rising number of vacancies registered by labour offices. At the end of June, the number of registered vacancies was 12,000 higher than a year earlier. There were 7 applicants per vacancy on average, the lowest figure in two years.

The higher labour demand helped to reduce unemployment. The unemployment rate fell to a two-year low of 8.1% in June, a year-on-year decrease of 0.6 percentage points. The last few months have seen a moderation in the seasonally adjusted month-on-month decline in the number of people unemployed. The decline in unemployment was limited by long-term unemployment and by large regional differences in the unemployment rate.

As in 2000, the changes in the supply of and demand for labour, brought about chiefly by the economic restructuring process, had mixed effects on employment and unemployment in individual regions. The biggest problems were recorded in industries hit hardest by the restructuring, i.e. in regions that formerly had heavy industry and that have a high concentration of employment in agriculture. Unemployment rates exceeding 12% were registered in 12 districts in North Bohemia and North Moravia. Neither the skills gap nor the occupational gap between the supply of and demand for labour was eliminated. The unfavourable trend in long-term unemployment showed no substantial changes. At the end of 2001 Q1, the average duration of unemployment was the same as in the previous quarter at around 14 months.

III.4.2. Wages and productivity

The increasing demand for labour that led to the rise in overall employment in the national economy was accompanied in 2001 Q1 by faster growth in wage indicators. Year-on-year growth in average wages in monitored organisations^{13/} was recorded in both nominal and real terms. The rise in average wages was more across the board than in the previous quarter, occurring in a wider range of segments of the economy. Average wage growth accelerated in both the business and non-business sectors. For the first time in several quarters, the growth rates of average nominal and real wages in the non-business sector matched average nominal wage growth in the business sector. This acceleration was due primarily to an increase in wage tariffs. Within the business sector, wages grew fastest in international organisations. In private organisations the growth was slower than in the previous quarter. Lower year-on-year increases in average wages were also recorded in state organisations. Nonetheless, both the nominal and real figures were still relatively high.

At the macroeconomic level, the gap between real wage growth and labour productivity growth closed in 2001 Q1. Average real wage growth in monitored organisations outpaced that of whole-economy labour productivity by 1.3%. The growth rate of nominal unit wage costs was 5.4% higher than a year earlier, whereas real unit wage costs remained at approximately the 2000 level. However, the producer price analyses, the structural analyses of consumer prices and the relationship between total household incomes and nominal GDP^{14/} all suggest that wages did not generate any demand pressures in Q1.

The situation on the labour market in 2001 Q1 is illustrated by the mutual GDP, productivity and employment trends at the macroeconomic level. Chart III.32 shows a certain change connected with the ongoing economic recovery. In the previous quarters of 2000, the response of employment to the nascent pick-up in GDP growth had been negligible and employment had continued to fall as a result of corporate restructuring. However, the Q1 developments showed that rising employment fostered by higher job creation is feeding through increasingly into GDP growth.

Employment also went up in industry alone, but labour productivity growth maintained its lead over real wage growth. Under such conditions, real unit wage costs continued to fall sharply (down by 5.5% from a year earlier). For producers this meant another reduction in labour costs per unit of output, allowing them to boost their profits or offset other rising expenditures. This trend confirmed continuing efforts by industrial producers to prevent any rise in wage costs per unit of output.

TABLE III.8
NOMINAL AND REAL UNIT WAGE COSTS RECORDED
FASTER GROWTH
(annual percentage changes)

	1999	2000	2000	2000	2000	2000	2001
	Q1	Q2	Q3	Q4	2000	2000	Q1
Av. wage in monitored organisations (nominal)	8.2	7.0	5.8	6.2	7.2	6.6	9.3
Av. wage in monitored organisations (real)	6.0	3.2	2.1	2.1	2.9	2.6	5.0
Whole-economy labour productivity	2.6	5.1	3.9	3.7	5.0	4.4	3.7
Real unit wage costs	2.3	3.2	1.5	0.5	0.0	1.3	1.2
Nominal unit wage costs	5.5	2.1	1.8	2.3	2.1	2.1	5.4
GDP deflator	3.1	-1.1	0.3	1.9	2.1	0.9	4.2

Source: CSO; CNB calculation

CHART III.31
THE GAP BETWEEN WAGE GROWTH AND LABOUR
PRODUCTIVITY IS CLOSING
(annual percentage changes)



CHART III.32
EMPLOYMENT IS RESPONDING TO THE GROWTH IN GDP
(annual percentage changes; constant prices)

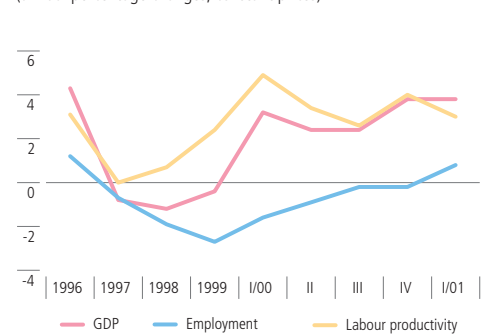
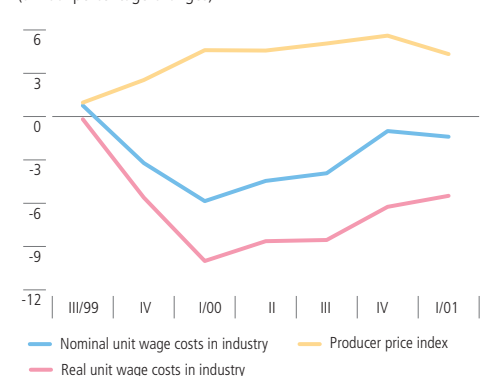


CHART III.33
UNIT WAGE COSTS IN INDUSTRY FELL FURTHER
(annual percentage changes)



13/ i.e. the organisations monitored by the CSO with respect to average wages. These organisations represent about 70% of the organisations in the national economy.

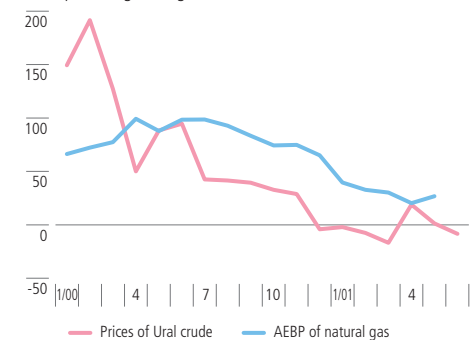
14/ The year-on-year rise in household incomes lagged 2 percentage points behind nominal GDP growth.

CHART III.34

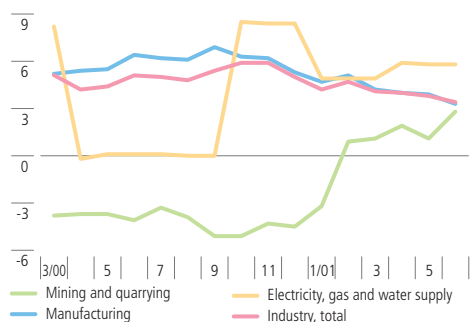
IMPORT PRICES SWITCHED FROM SLOWING GROWTH TO ABSOLUTE DECLINE IN 2001 Q2
(annual percentage changes)

**CHART III.35**

IMPORT PRICES WERE AFFECTED CHIEFLY BY OIL AND NATURAL GAS PRICES ON WORLD MARKETS
(annual percentage changes)

**CHART III.36**

INDUSTRIAL PRODUCER PRICE INFLATION SLOWED FURTHER, BUT THE MIXED TRENDS IN INDIVIDUAL INDUSTRIES PERSISTED
(annual percentage changes)



III.5. OTHER COSTS AND PRICES

As in previous quarters, the mixed intensity and direction of growth in the prices of individual producers reflected the diversity of factors underlying these trends and the extent of their impact on consumer prices. During 2001 Q2, producer prices continued to be affected by the import prices of key energy-producing raw materials, whose growth – despite some fluctuations – continued to slow in year-on-year terms. Producer prices were also positively affected by prices of other imported commodities, which were mostly on the decrease according to the latest data for May, and by the productivity developments in industry. Industrial producer price inflation in Q2 slowed in year-on-year comparison, except in the food industry, where it recorded a sizeable acceleration owing to increasing input prices. Prices in construction indicated a change in trend towards a modest decline. Annual agricultural producer price inflation accelerated again, following a temporary stabilisation in Q1, and remained relatively high.

III.5.1. Import prices

In 2001 Q2, import prices were again affected most by prices of energy-producing raw materials on world markets. Oil and gas prices contributed significantly to a further slowdown in annual growth and subsequent drop in import prices (of 0.7% in May). The price of Ural crude, which is the largest component of the oil imported into the Czech Republic, went up in April, but in the following two months resumed its previous downward trend. At the end of Q2, oil prices were falling in year-on-year terms. The April fluctuation in the Ural crude price was due to base effects. In absolute terms (USD/barrel), however, the average price of Ural crude was slightly higher in 2001 Q2 than in Q1.

As for natural gas prices, a further slowdown in year-on-year growth in 2001 Q2 was accompanied by a fall compared with the previous quarter. The structural breakdown of the CSO import price index also indicated a favourable trend for prices of other imported commodities – non-energy-producing raw materials, semi-manufactures, production equipment and industrial components. According to the latest available data for May 2001, prices of seven of the nine monitored import groups were lower than in the same period a year earlier.

III.5.2. Producer prices

Industrial producer prices

The continuing downward trend in raw materials price growth (particularly for energy-producing raw materials) on world markets and the favourable productivity trend in industry were the major factors creating room for a slowdown in industrial producer price inflation in 2001 Q2. These factors affected producer prices in manufacturing in particular. In other industrial branches (e.g. mining and quarrying and electricity and gas supply), the price movements were very mixed as a result of specific factors. According to the June 2001 figures, the growth rate of industrial producer prices slowed by 0.7 percentage points relative to the end of the previous quarter to 3.4%.

In manufacturing, annual producer price inflation fell by 0.9 percentage points compared with end-Q1 to 3.3% in June, thanks to the slower growth/fall in prices of energy-producing raw materials on world markets. This primarily affected the

manufacture of coke and refined petroleum products, where producer prices decreased throughout the quarter in year-on-year comparison, and the manufacture of chemicals, chemical products and man-made fibres, where inflation slowed significantly (to 0.3% in June). In this situation, the contribution of these industries to the year-on-year growth in industrial producer prices gradually diminished, reaching negative values at the end of 2001 Q2.

A continuing modest decline in inflation in most other branches of manufacturing also contributed to the favourable price trend in this industry in Q2, suggesting that the secondary transmission of the cost shock was not significant in Q2.

Agricultural producer prices

After stabilising in Q1 at just above 10%, agricultural producer price inflation gradually edged up again in Q2, reaching 16.5% in annual terms in June. Both crop and livestock products recorded accelerated growth in prices. Prices of numerous major commodities reached – and in some cases even exceeded – their mid-1998 levels, i.e. prior to the sharp fall in agricultural producer prices.

As in Q1, the continuing buoyant or accelerating growth in agricultural producer prices in Q2 was greatly fostered by temporary excess demand for key agricultural products on the domestic market. This imbalance was generated by advantageous sales opportunities for domestic agricultural products in other countries due to relatively high prices there. This new factor significantly weakened the role of import arbitrage, which in previous years had been one of the fundamental determinants subduing growth in agricultural product prices in the Czech Republic (where, by international comparison, the agricultural market has a very low level of protection).

Construction work prices

The latest CSO estimates of construction work prices confirmed a continuation in Q2 of the trend towards a very modest slowdown in growth visible since 2001 Q1. According to the latest data for June 2001, annual construction work price inflation was 4.2%, reflecting the strongly competitive environment and the positive impact of increasing productivity on the costs of construction activities.

CHART III.37
ANNUAL INFLATION IN OIL-PRODUCT PROCESSING SECTORS
EITHER SLOWED OR WAS NEGATIVE
(percentage)

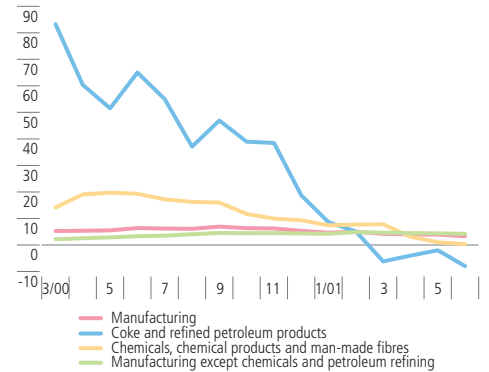


CHART III.38
ANNUAL AGRICULTURAL PRODUCER PRICE INFLATION
AGAIN ACCELERATED
(percentage)

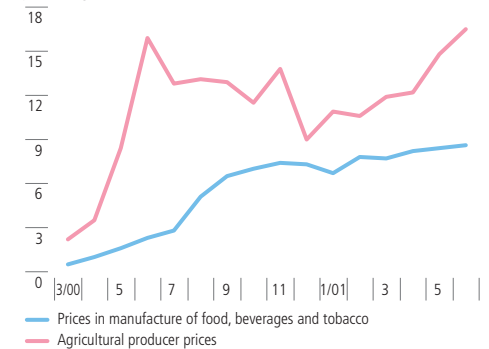
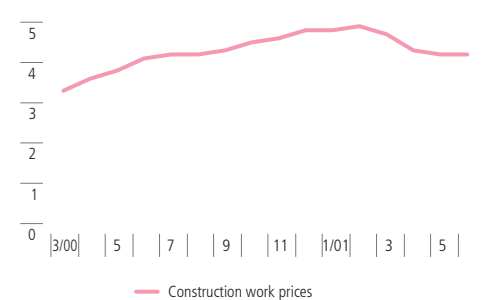


CHART III.39
THE RISE IN CONSTRUCTION WORK PRICES SLOWED
SOMEWHAT IN 2001 Q2
(annual percentage changes)



IV. THE INFLATION FACTORS OUTLOOK AND THE CONDITIONAL FORECAST

The expert inflation forecast contained in this Inflation Report is conditional on the 2W repo rate being kept at 5% for the entire forecast horizon, i.e. up to the end of 2002. This section gives the assumptions regarding the external factors entering the conditional forecast, analyses the anticipated trend in internal inflation factors and presents an expert conditional inflation forecast.

IV.1. EXTERNAL ASSUMPTIONS OF THE CONDITIONAL INFLATION FORECAST

The CNB's assumptions regarding the future trends in raw materials prices on world markets and the economic developments in Germany given below are based on the consensual forecasts of foreign institutions and on the expectations of market participants.

The forecast trend in raw materials prices on world markets – one of the key external cost-push inflation factors in the Czech economy in the past period – is little changed from the forecast published in the April Inflation Report. In 2001 Q1, the price of Ural crude oscillated around USD 25 per barrel, the average price for the quarter as a whole being slightly higher than in Q1. The forecast trend in oil prices is based on expectations of stable oil prices. This assumption is expressed in terms of a reference scenario for the Ural crude price of USD 25 per barrel up to the end of 2002. As for natural gas, import prices into the Czech Republic (long-term contracts) have been declining very modestly since the start of 2001, whereas prices of short-term contracts on world markets fell much more sharply in mid-2001. The CNB assumes that gas import prices will continue to fall steadily up to the end of 2001 and then remain at the end-2001 level in 2002. Prices of other raw materials mostly declined in Q2. This trend will probably continue up to the end of 2001. In 2002, however, the CNB expects a stable trend.

The outlook for economic growth in the Czech Republic's major trading partners decreased further compared with the assumptions given in the April Inflation Report. The CNB, in line with most analysts, expects a downturn in annual GDP growth in Germany, the Czech Republic's most important trading partner, to 1.2% in 2001 compared with the 2% anticipated in the April Inflation Report. In 2002, GDP growth in Germany should then accelerate to 2.2%, in the CNB's view. Analysts expect inflation in Germany to be affected in the months ahead by the slowing growth in the USA and Western Europe and the unwinding effects of the oil shock. The CNB anticipates a downturn in industrial producer price inflation in Germany to an average of around 4% in 2001 and 1% in 2002.

The exchange rate is an important domestic inflation factor. From the long-term perspective, the koruna's real exchange rate will be affected by the productivity of the domestic economy relative to other countries. The assumption of real convergence of the Czech economy to the economic level of its major trading partners implies a broad and balanced tendency of moderate exchange rate appreciation in the long term. In the medium term, assuming constant monetary policy settings, the koruna's exchange rate will be affected by two counteracting factors: the current account deficit and foreign investment inflows. According to the conditional inflation forecast, the koruna's nominal effective exchange rate should remain approximately stable up to the end of 2002.

IV.2. INTERNAL INFLATION FACTORS

The CNB expects that inflation will continue to be influenced by domestic cost inflation factors – particularly food prices, industrial producer prices and labour market developments – and by domestic demand inflation factors. The future trend is linked with certain inflation risks. In particular, the recent pick-up in inflation – despite being due mainly to rising food prices – is proceeding in a situation of quicker economic growth, fiscal expansion, a possible faster closing of the output gap and accelerated money supply growth. This increases the danger of rising inflation expectations, easier pass-through of cost pressures into inflation and of inflation persisting at a higher level.

In the remainder of 2001 and in 2002 food prices will be determined by agricultural producer prices. At the same time, it is assumed that the structure of the retail market will be stable, with retail chains having a relatively large market share. According to the CNB, food prices will not be much affected by the expected growth in domestic consumer demand. This should rather affect prices of non-food goods and services. On the supply side, food prices have in the past been influenced by agricultural producer prices. The CNB expects that up to end-2002 this factor should no longer be a source of food price inflation. In contrast, a slowdown in average annual agricultural producer inflation in the last months of 2001 and in 2002 H1, followed by stagnation in 2002 H2, should help to gradually weaken food price inflation in this period. The CNB expects annual food price inflation to be around 5.8% in 2001 and about 3.6% in 2002.

These expectations are based on the following assumptions. First of all, the agricultural producer prices of a number of major commodities during 2001 H1 exceeded the level recorded prior to their sharp fall in mid-1998. Part of the rise in 2000 and in 2001 H1 has already passed through into food prices. The CNB forecast also presupposes that the current external effects underpinning the relatively high year-on-year growth in agricultural producer prices are only temporary and will gradually unwind. This chiefly concerns the aforementioned temporary weakening of the downward effect of import arbitrage on prices of domestic producers. This phenomenon resulted from improved export conditions for domestic products on foreign markets, leading to a slight excess of demand for certain major commodities on the domestic market.

Industrial producer prices, which in the past period were affected by the external price shock in 1999 and 2000, are still an important cost factor as regards future inflation. Taking into account the unwinding of the primary and secondary effects of the rise in oil prices on domestic prices and the expected absence of other major inflationary pressures, the CNB expects a gradual reduction in annual industrial producer price inflation in the remaining quarters of 2001 to just below 3%. The year 2002 should see stabilised annual growth in industrial producer prices at a similar pace. These expectations are based on the assumptions that there will be no excessive rise in demand and that productivity growth will continue to outpace growth in average real wages in industrial production.

The labour market could become a significant potential source of cost-push inflationary impulses. In contrast to the expected future development of agricultural and industrial producer prices, a risk of potential pro-inflationary effects can be identified on the labour market. This risk, discussed already in the April Inflation Report, was backed up by the data on labour market developments in 2001 Q1, according to which the resumption of employment growth was accompanied by

higher growth in average wages and nominal unit wage costs. Although this Inflation Report does not make any fundamental revision to the expectations regarding nominal unit wage costs (around 5% in 2001 and around 4% in 2002), it is possible that their pass-through into prices will be more pronounced than was anticipated in April. This is chiefly due to the fact that the transmission of cost pressures into prices depends on the phase of the business cycle. Given the expected closing of the negative output gap, the inflationary risks of labour market developments are associated mainly with the end of the forecast period.

The CNB forecast regarding domestic demand factors is based on revised GDP figures. This revision, carried out by the CSO, has changed the CNB's view of the growth intensity of individual components of final domestic demand in the previous period. Particularly affected was household consumption, whose previous growth was revised upwards. Further to the upward revision of the consumer demand growth figures (most notably for 2000), the CNB has reassessed its outlook compared with the previous Inflation Report. It now expects a rise in consumer demand of more than 3% in 2001 and a further acceleration in 2002 to 3.7%. The expected expansion in household consumption should be fostered by modest growth in employment and average wages. The growth rate of gross capital formation should gradually ease according to the current CNB forecast. Government consumption is expected to decline in 2001 and be flat or moderately rising in 2002. Owing to the expected demand-side trends and given the positive changes on the supply side in 2001 Q1, the CNB expects economic growth to pick up to 3.8% in 2001 and around 4.5% in 2002. This will, however, depend largely on the degree to which the boom in EU countries weakens and the effect this has on external demand. In the CNB's view, however, these effects should be offset to a large extent by continuing buoyant domestic demand growth and a concurrent decline in the propensity to import. The expected further reduction in external demand and the decrease in the propensity to import are, at the same time, two counteracting factors in the trade deficit forecast which have emerged since the April Inflation Report. At present, the CNB expects a trade deficit of between CZK 125 billion and CZK 135 billion in both 2001 and 2002.

The impact of real economic activity on inflation is associated with numerous uncertainties caused by the difficulty of estimating the growth rate of potential output in a transition economy and by uncertainties about the relationship between the size of the output gap and inflation. According to the present CNB estimates, given the forecast growth rate of GDP, the negative output gap should gradually close at a rate depending on the pace of growth of potential output. This could, other things being equal, give rise to inflationary pressures towards the end of the inflation forecast horizon.

In 2001-2002, money supply growth should move within the range of 8%-12%, a rise of 2 percentage points compared with the April Inflation Report. This forecast assumes continuing economic growth and an associated pick-up in demand for money. The expectations of higher money supply growth are backed up by an assessment of the main counter-items of money creation, which will probably continue to be dominated by net foreign assets and net credit to the Government. Net foreign assets will probably be affected most by FDI inflow. The rise in net credit to the Government will reflect the deficits on public budgets. Lending to businesses and households should make only a limited contribution to money supply growth in 2001-2002. According to the CNB's expectations, its year-on-year growth will not exceed 3% in each year. In addition to relatively low interest rate levels, the gradual rise in lending will be fostered on the demand side by an improving economic

situation of clients and on the supply side by the completion of the fundamental restructuring of the banking sector.

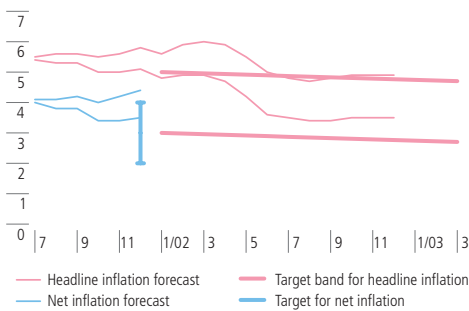
Public budgets will continue to show deficits in 2001 and 2002. According to CNB estimates the deficits will lie between 5%-7% of GDP in the period ahead. This trend, representing a stagnation or even widening of the deficits, is not consistent, however, with the current phase of the business cycle. Against a background of a closing output gap, the pro-cyclical fiscal policy raises concerns about a possible escalation of inflationary pressures and about a threat to external balance. In addition to the main risk of public finances, i.e. the erosion of their stabilising function, a potential danger can be also seen in the financing of the regions and in the unbalanced National Property Fund (NPF) balance sheet. One of the potential inflation risks will also be whether the National Property Fund uses its funds for spending programmes that strengthen aggregate demand, or for coverage of transformation losses and repayment of public debt. Last but not least, the unresolved issue of the financing of the regions may endanger public finance stability in the future. With insufficient regular tax revenues, the newly established regions could seek funding through increased indebtedness with banks or through excessive bond issuance. Timely setting of debt regulations would help to reduce the likelihood of such developments in the regions. Consolidated gross public debt will continue to grow overall, and could rise to as high as 25% of GDP by the end of next year.

The state administration also affects the regulated prices segment, which in turn has major effects on overall consumer price inflation. Consumer prices may also be affected by other decisions, in particularly concerning changes to excise duty rates. The CNB expects that the increase in regulated prices in 2001 will be generated mostly by growth in prices of gas, electricity, heating and water, with knock-on effects on consumer price inflation. In 2002, regulated prices will probably be affected above all by higher prices of electricity, gas, heating and rents. Year-on-year growth in regulated prices should be around 11.5% in 2001 and around 8% in 2002. Moreover, under the amendment to the excise duty act in force since July 2001, inflation will be affected by higher excise duty on engine oils and by a change in the methodology for calculating excise duty on cigarettes. The direct impact of these changes on inflation will be only small (totalling around 0.05 percentage points). The CNB does not expect any administrative interventions above and beyond the framework of regulated prices in the remainder of 2002. According to the present proposals, there should be no further changes until January 2003.

The difficult-to-predict trend in inflation expectations represents a considerable risk to future inflation. The current inflation forecast assumes that inflation expectations will remain subdued in the forecast horizon. However, given that headline inflation should be fluctuating above the inflation target range up to mid-2002, and since the inflation expectations of market participants are strongly backward-looking, there is a danger that the relatively high inflation expectations will feed through into the wage bargaining at the turn of 2001 and 2002. Should this be the case, the risk of a wage-price spiral being generated would increase. This in turn could give rise to secondary inflationary pressures. In an environment of accelerating demand stimulated by pro-cyclical fiscal expansion, this would mean the possibility of easier pass-through of cost pressures into inflation, a process which has not been very visible in the Czech economy in recent years.

CHART IV.1

INFLATION FORECASTS CONDITIONAL ON A 2W REPO RATE OF 5%



IV.3. THE CONDITIONAL INFLATION FORECAST

The CNB revised its medium-term macroeconomic forecast in July 2001, after assessing the revised GDP growth figures and reappraising the future inflation factor trends. The result was an upward correction to the inflation forecast. The prediction foresees that from approximately mid-2002, owing to the expected lower extent of regulated price changes and slowdown in food price growth, inflation will fall back to values in the upper half of the inflation target range. This expected inflation profile is, however, associated with a number of upside risks. These chiefly include the strengthening fiscal expansion, accelerating money supply growth, the expected closing of the output gap (implying increasing demand inflationary pressures) and a possible worsening of inflation expectations. Even after the aforementioned short-term price effects unwind, these factors could lead to a maintaining of inflation at the upper limit of the inflation target range. Conversely, a downside risk is the potential impact of the slowdown in economic growth in the EU countries. The basic version of the forecast is based on the following assumptions.

In the period up to end-2001 and in most of 2002, inflation will be characterised by mixed price trends for individual commodity groups. At the end of 2001, prices of fuels and other tradables should be slightly lower than a year earlier, provided the starting assumptions are met regarding the stability of oil prices and the exchange rate. Fuel prices are expected to be flat again in 2002, with zero annual growth throughout most of the year.

The CNB assumes that, despite the aforementioned decline in food price inflation in 2002 H2, food prices will rise at a higher rate on average than the other components of net inflation in the forecast horizon. Given the high volatility of food prices and their strong dependence on factors that are difficult to predict, the food price forecast is associated with considerable uncertainties.

According to the CNB forecast, tradables prices will be determined in the period up to end-2001 and in 2002 chiefly by the expected exchange rate stability, increasing consumer demand and the strongly competitive environment. The expected very low rise in tradables prices will probably be affected favourably by slower growth in producer and consumer prices in Western Europe, and especially in Germany.

Except for food prices, the most rapid growth is expected in the category of unregulated nontradables. The expectation is that the persisting influence of several factors – in particular the weaker competition in this area and the high share of wage costs in the prices of these commodities – should, together with the closing of the negative output gap, help to maintain the relatively high annual growth in this segment of consumer prices, at a level just above 5%.

Rapid annual growth is still expected in the segment of regulated prices. Together with the expected administrative measures, this should cause headline inflation to rise more than one percentage point faster than net inflation in the forecast period.

The CNB inflation forecast predicts that annual consumer price inflation should be within the 3.5%-4.9% range and the inflation rate within the 4.0%-5.3% range at end-2002. The inflation risks described above meanwhile signify a higher probability of annual headline inflation being within the upper part of the forecast range. The CNB's end-2001 target is set in the form of net inflation within the 2%-4% range.

The CNB expects net inflation to be within the 3.5%-4.4% range and consumer price index within the 5.1%-5.8% range in December 2001.

IV.4. INFLATION EXPECTATIONS OF ECONOMIC AGENTS

In parallel with drawing up its prediction, the CNB regularly monitors the inflation expectations of various economic agents, i.e. financial market participants and selected businesses and households. However, these expectations are not fully comparable with the CNB's predictions, since they do not assume that monetary-policy interest rates will be held constant at 5%.

The expectations of financial market participants regarding future inflation and interest rates changed somewhat in Q2. The future macroeconomic trend was not evaluated as favourably as in Q1. In particular, the higher current inflation figures and the situation in public finances led to higher inflation expectations at the 12-month horizon. The expected outturns returned broadly to the levels recorded at the beginning of 2001. Interest rate expectations increased somewhat as well, although to a lesser extent. In June 2001, these expectations suggested a rise in money market rates of around 0.5 percentage points at the 12-month horizon. The yield curve should remain slightly upward sloping.

TABLE IV.1
INFLATION EXPECTATIONS OF ECONOMIC AGENTS
INCREASED AT THE TWELVE-MONTH HORIZON

	CONSUMER PRICE INDEX			1Y PRIBOR
	FINANCIAL MARKET	BUSINESSES	HOUSEHOLDS	FINANCIAL MARKET
12/00	5.0	4.7	4.1	6.5
1/01	4.5			6.2
2/01	4.3			5.8
3/01	4.2	4.2	4.0	5.5
4/01	4.0			5.4
5/01	4.3			5.6
6/01	4.6			5.8

ANNEX

ESCAPE CLAUSES PERTAINING TO THE NEW INFLATION TARGET

The Czech National Bank, by agreement with the Government, has announced an inflation target for annual consumer price index growth in 2002-2005. The inflation target takes the form of a continuous band descending evenly from 3%-5% in January 2002 to 2%-4% in December 2005. Following the shift from targeting net inflation to targeting headline inflation the CNB extended the range of cases in which exceptions from hitting the inflation target may be applied. These "escape clauses" now include changes in regulated prices whose impact on headline inflation would be greater than 1-1.5 percentage points, and step changes in indirect taxes.^{15/}

In the inflation targeting regime, the need for escape clauses derives from the relatively frequent occurrence of shock changes in exogenous factors (particularly demand-side shocks) that are completely or largely outside the purview of central bank monetary policy. These exogenous factors were first defined at the end of 1998 (see the January 1999 Inflation Report) and extended in April 2001 (see the April 2001 Inflation Report). The factors are:

- major deviations in world prices of raw materials, energy-producing materials and other commodities;
- major deviations of the koruna's exchange rate that are not connected with domestic economic fundamentals and domestic monetary policy;
- major changes in the conditions for agricultural production having an impact on agricultural producer prices;
- natural disasters and other extraordinary events having cost and demand impacts on prices;
- changes in regulated prices whose effects on headline inflation would exceed 1-1.5 percentage points;
- step changes in indirect taxes.

In connection with the Czech Republic's accession to the European Union, the set of escape clauses is also likely to include one involving one-time, difficult-to-predict price shocks associated with the adoption of EU standards (see the *CNB Monetary Strategy* document).

In the inflation targeting regime, the main decision-making factor regarding changes to monetary-policy instruments is any deviations of the conditional forecast from the inflation target band at the horizon of most effective transmission. There are basically two reasons for such a deviation:

- the settings of monetary policy instruments are out of line with inflationary pressures in the economy, forcing the central bank to react by changing its monetary policy instruments so as to return the conditional inflation forecast back to the inflation target band at the horizon of most effective transmission;
- in the conditional inflation forecast it is possible to identify for a given period shock changes in the exogenous factors contained in the escape clauses.

Whereas the first case requires a change in monetary conditions that will return the conditional inflation forecast to within the inflation target band, in the second case the central bank may decide to leave its monetary-policy instruments unchanged, as once the exogenous shock unwinds inflation should return to its original trajectory. Hitting the target under these conditions would probably be accompanied by excessive fluctuations in macroeconomic and monetary variables. In such a situation the Czech National Bank may opt for temporary non-fulfilment of the inflation target and apply the escape clause mechanism.

To sum up, the escape clauses will be applied in cases where the conditional inflation forecast is heading outside the inflation target range at the horizon of most effective transmission, and where the Czech National Bank, on the basis of its analyses, considers that this deviation is due to shock changes in the exogenous factors contained in the escape clauses. To explain these situations to the public, the CNB will use the Minutes of the Bank Board meetings, press conferences and Inflation Reports.

^{15/} For details see Annex 1 of the April 2001 Inflation Report.

MINUTES OF THE CNB BANK BOARD MEETINGS

MINUTES OF THE BANK BOARD MEETING ON 26 APRIL 2001

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 Racoča (Chief Executive Director), Pavel Štěpánek (Chief Executive Director)

The April situational report on economic and monetary development had not changed the CNB's outlook on overall monetary and macroeconomic developments. Net inflation and consumer inflation were expected to be stable this year with a slight increase in 2002. The anticipated rise in inflation, consistent with the announced inflation target, was based on the assumption of a gradually closing output gap.

Closing of the output gap should have an effect on employment. This should, in turn, generate a slight rise in wage inflation pressures (i.e. growth in nominal unit wage costs). Although nominal unit wage costs were not a serious concern from the standpoint of rising inflation, wage development would, nevertheless, cease to be an anti-inflationary factor. The report had also anticipated a gradual change in the structure of price movement. The cost effect of import price growth should die out this year. In 2002, import prices should have a stabilising effect on inflation.

Internal and external factors would affect economic growth in a contradictory fashion. As for external factors, the CNB was expecting a decline in the dynamics of foreign demand. In this respect, the report indicated that the slowdown in economic growth for the Czech Republic's main business partners could not be entirely linked to the recent deterioration of the Czech Republic's trade balance. A more detailed structural analysis of foreign trade indicated that the worsening deficit in past months had been mainly caused by structural changes in the Czech economy and dynamic investment growth. However, the anticipated slowdown in foreign demand could have a negative impact on domestic economic growth in the future. This had been reflected to a certain extent in the CNB's forecast. The analyses of the national accounts did not indicate that the rise in stocks for the last quarter of 2000 had been caused by a decline in foreign demand. Despite stock growth, the turnover period had been reduced. This confirmed that the increase in stocks was not disproportionate.

As for internal factors, there had been more and more concrete signs of continuing or moderately accelerating economic growth. An increase in industrial and construction production, the unemployment decline and the latest information on the structure of the trade balance had all indicated a rise in investment activity. There had also been a gradual increase in real disposable household income, which should stimulate consumption. While real disposable income declined in 2000, a moderate increase was to be expected this year.

A considerable part of the April situational report focused on the disturbing developments in public finances. An analysis of budgetary performance pointed to the risk of overestimating privatisation revenues this year. In the discussion to follow, emphasis was put on the acute danger that fiscal policy would behave in a pro-cyclical manner, implying in turn, a rise in the structural deficit of public finance.

In a discussion on the inflation forecast, board members warned against the risks of higher or lower price growth than was originally stated in the forecast. It was expressed that underestimating or overestimating the inflationary risks associated with wage developments depended to a high degree on the future growth of labour productivity. The estimate of labour productivity growth, though, was also uncertain. Another view suggested that the weight of unit wage costs in the total costs of enterprises would most likely be overestimated, and that factors other than wages must be considered when assessing cost-push inflation. Despite the relatively strong real appreciation of the exchange rate, measured by unit wage costs, the competitiveness of tradable goods would not be compromised. Therefore, it could be indirectly inferred that the wage increase in the tradables sector had been offset by other cost factors.

It was expressed during the discussion that comparison of the current macroeconomic situation with the situation in the mid-1990s had revealed substantial qualitative differences. The external deficit was currently structural in nature, and a rise in the import of technologies was expected to improve the competitiveness of the economy. However, the dynamics of the deteriorating current account balance had given reason for concern.

Contrary to past meetings on the situational report, current exchange rate developments were not a topic of discussion at today's meeting.

At the close of the meeting, the Board decided unanimously (with all seven members voting) to leave the CNB two-week repo rate at its current level.

MINUTES OF THE BANK BOARD MEETING ON 31 MAY 2001

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 Štěpánek (Chief Executive Director), Jiří Rusnok (Minister of Finance)

The May situational report on economic and monetary development confirmed that even the newly available figures would not call for any significant change in the CNB's assessment of the overall economic situation. The slightly higher-than-expected rise in food and fuel prices had not suggested a shift that would generate movement outside the targeted CPI-inflation interval. Moderate development in the unregulated prices of nontradable commodities was a positive indicator of price movement. As for external factors, high consumer inflation in Germany was considered to be an unfavourable indicator of future inflation. The M2 monetary aggregate had gained some momentum owing to an increase in net credit to the government and net foreign assets. However, the signs of a recovery in lending remained very weak. The year-on-year dynamics of the money supply (slightly above 9%) had not changed the CNB's expectations of anticipated economic growth or of achieving the inflation target, despite reaching the upper part of the M2 forecast.

The medium-term outlook for public finances was still disturbing. In addition, the report had pointed to some of the negative factors related to current developments - the relatively low dynamics of indirect tax collection, a possible rise in the general government budget deficits, and delayed privatisation income, which could interfere with the National Property Fund's financial performance.

Although the current account deficit had corresponded so far this year to CNB forecasts, real developments suggested that the annual results could be worse than originally expected. The deficits were no longer caused by rising world prices alone, but also by deterioration of real import and export. In the near future, the growth slowdown in Germany would have a negative effect on foreign demand.

Despite a rise in some of the inflation growth risks, the report concluded that a change in the setting of monetary policy instruments would not be needed.

In the discussion to follow, the Board emphasised that the deterioration of public finances along with the external balance (worsening of the "double deficit") was the main problem at this time. This type of situation would require optimal coordination of monetary and fiscal policy. The Board agreed that a priority instrument leading to renewed equilibrium was a government fiscal policy corresponding to the current economic cycle and the internal and external deficit tendencies. Isolated monetary policy measures were considered to be a sub-optimal solution.

Considerable attention was given to the trade and current account deficits and to possible analogies to the situation before the 1997 monetary crisis. Nevertheless, the favourable difference in the structure of resources was emphasised with respect to their role in financing the trade deficits. Another important factor was the floating exchange rate regime, which would offset the imbalance on the current account in the medium term. However, the Board also pointed out the danger to the stability of the economy if this balancing process were to occur in an abrupt fashion. Other risk factors were mentioned as well: the recent relatively strong outflow of portfolio capital, the high volatility of foreign direct investment inflow, expansive fiscal policy and, in turn, pressure on its financing, as well as any decline in the surplus inflow of long-term resources on the financial account in relation to the current account deficit.

In view of the inflation forecast risks, members also discussed the increase in wage growth, which could be another factor leading to a rise in inflation pressures during the forecast horizon.

Board members agreed that the current market expectations of further appreciation of the Czech koruna were largely based on the anticipated effect of new foreign investment related to privatisation. With the new minister of finance present at the meeting, agreement was once again confirmed on continuing the close cooperation between the CNB,

the Ministry of Finance and the National Property Fund for using the NPF privatisation account to eliminate sharp rises in demand for the koruna.

There was consensus among the Board that developments in recent weeks and months meant a change in the monetary outlook. While in the past, uncertainties on various inflation developments had been evenly distributed, now the risks of an increase prevailed. However, these risks were not strong enough to require any immediate change in the setting of the monetary policy instruments.

At the close of the meeting, the Board decided unanimously (with all seven members voting) to leave the CNB two-week repo rate at its current level.

MINUTES OF THE BANK BOARD MEETING ON 28 JUNE 2001

Present at the meeting: Zdeněk Tůma (Governor), Luděk Niedermayer (Vice-Governor), Michaela Erbenová (Chief Executive Director), Jan Frait (Chief Executive Director), Pavel Štěpánek (Chief Executive Director)

The meeting opened with a presentation of the June situational report on monetary and economic development. It was expressed that domestic economic activity had recently picked up momentum. A number of indicators from various economic sectors confirmed this development: a decline in unemployment, increased M2 growth, or a rise in the use of production capacity according to a survey of the industries. New GDP figures for 2001 Q1 showed that total demand had increased faster than was expected by the macroeconomic framework used for the quarterly inflation forecast in April 2001. In addition, import prices had slowed down domestic inflation to a lesser extent than the April forecast originally anticipated. Current price fluctuations were also affected by food prices. In general, food prices are very volatile, and their seasonality is difficult to predict. A change in the prices of natural gas was another factor affecting price movement. However, these effects should only be temporary in nature and would be reflected accordingly in the inflation forecast.

A number of factors could contribute to a slowdown in inflation. The anticipated growth decline in Europe would alleviate demand pressure on prices. Monetary conditions would tighten with the strengthening exchange rate and a shift in the longer end of the yield curve. It was mentioned during the presentation that revising GDP data would change the forecast base. However, owing to time considerations, this effect had not yet been fully assessed. The general conclusion suggested an increase in inflationary risks in comparison to May, while the present inflation forecast, prior to the July reassessment, was in line with the inflation target.

The Board followed the presentation on the situational report with a discussion of the new economic data. A considerable amount of newly available information confirmed that economic recovery had been faster than expected. Data concerning the labour market was mentioned several times. According to these figures, the economy could now move towards an environment of rising inflationary pressures. It was also expressed that current inflation factors were at this time more cost-related according to the figures. However, demand pressures could be underestimated due to difficulties interpreting information on consumption and income in the household sector.

Next, the Board turned to an assessment of the risks relating to the current economic outlook. The non-accelerating inflation growth that does not create other imbalances was discussed. It was said that the current non-accelerating inflation growth was higher than estimates from past years due to structural changes, but had probably not increased significantly. This suggested that the rate of economic growth might reach a level generating demand inflation. A theory presented during the meeting suggested that one possible inflationary risk concerned a rise in households' propensity to consume. Such a development could be caused by an increase in consumer optimism supported by rising incomes. A view was put forth that the change in the level of inflation from 3%-4% to 5% could negatively affect the inflation expectations of economic agents. In this respect, it was also mentioned that current price developments were formed by temporary factors whose impact had been gradually dying out.

The Board now focused on a more general discussion of optimal interest rate settings. It was expressed that the phase of the economic cycle and fiscal policy settings should also be considered during decision-making on interest rates. If the economy experienced a recovery phase coupled with loosened fiscal policy, then a different level of rates would be required than, for example, during an economic decline or slow-growth phase. It was mentioned that temporary shocks during a recovery phase would be reflected more easily in inflation than during an economic decline and could, in this case, even be more permanent in character. The second general discussion concerned the nature and length of monetary transmission. In an open economy, the transmission of demand pressures could be very specific in character. The impact could initially carry over, for example, to the external deficit and then, in turn, affect price developments.

Board members also concentrated on factors that could lead to a slowdown in price growth. These factors included the expected economic growth decline in Europe, the strengthening effective exchange rate of the Czech koruna and a rise in the yield curve's slope.

The Board acknowledged that, in comparison to the May discussion on risks, the nature of these risks could be more precisely described in June. One view was expressed that, in the light of the new information, the current forecast no longer needed to fully reflect economic developments. Board members agreed that the July economic forecast could imply a substantial reassessment of the economic outlook.

At the close of the meeting, the Board decided by a majority vote to leave the CNB two-week repo rate at its current level. Four board members voted for keeping the rates at the same level, and one member voted in favour of increasing the rates.

INFLATION DEVELOPMENT

annual percentage changes

		1997											
		1	2	3	4	5	6	7	8	9	10	11	12
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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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 consumer price 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
		2001											
Consumer prices		4.2	4.0	4.1	4.6	5.0	5.5						
Regulated prices	1)	10.3	10.4	10.6	10.8	10.7	10.4						
(contribution to consumer price inflation)	1)	1.95	1.98	2.01	1.98	2.00	1.97						
Influence of indirect tax growth on unregulated prices													
(contribution to consumer price inflation)		-0.18	-0.18	-0.18	0.00	0.00	0.00						
Net inflation		3.0	2.9	2.9	3.3	3.8	4.4						
(contribution to consumer price inflation)	1)	2.37	2.23	2.24	2.62	2.97	3.52						
of which: food	1)	3.8	3.5	4.2	5.5	6.0	7.7						
(contribution to consumer price inflation)	1)	1.09	1.02	1.25	1.62	1.78	2.24						
adjusted inflation	1)	2.5	2.4	2.0	1.9	2.3	2.4						
(contribution to consumer price inflation)	1)	1.28	1.21	0.99	1.00	1.18	1.27						
Inflation rate	2)	4.0	4.0	4.0	4.1	4.2	4.3						

1) CNB calculation

2) Moving average of consumer price index for last 12 months compared with previous 12 months

Source: CSO

INFLATION DEVELOPMENT

monthly percentage changes

	1997											
	1	2	3	4	5	6	7	8	9	10	11	12
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	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 consumer price inflation)	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 consumer price 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 consumer price inflation)	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	1.3	0.0	-0.1	0.3	-0.2	2.0	-0.9	0.6	0.7	0.7	0.5	0.7
(contribution to consumer price inflation)	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	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 consumer price inflation)	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	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 consumer price inflation)	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 consumer price 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 consumer price inflation)	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	1.7	0.8	0.2	0.3	0.1	0.4	-1.4	-0.9	0.0	-0.6	-1.0	-0.9
(contribution to consumer price inflation)	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	1.4	0.7	0.0	0.1	0.1	0.4	0.6	0.1	0.2	-0.1	0.1	0.2
(contribution to consumer price inflation)	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	1.8	0.2	0.0	0.1	0.0	0.0	1.9	0.0	0.1	0.0	0.0	0.0
(contribution to consumer price inflation)	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 consumer price 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 consumer price inflation)	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	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 consumer price inflation)	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	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 consumer price inflation)	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	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 consumer price inflation)	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 consumer price 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 consumer price inflation)	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	1.0	0.1	-0.6	-0.5	0.3	0.4	-0.1	0.7	0.3	1.1	0.3	0.6
(contribution to consumer price inflation)	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	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 consumer price inflation)	0.12	0.10	0.15	0.13	0.14	0.37	0.36	-0.02	-0.15	-0.04	0.02	-0.02
	2001											
Consumer prices	1.9	0.0	0.1	0.4	0.6	1.0						
Regulated prices	7.7	0.3	0.2	0.3	0.0	0.1						
(contribution to consumer price inflation)	1.43	0.05	0.05	0.06	0.00	0.01						
Influence of indirect tax growth on unregulated prices (contribution to consumer price inflation)	0.00	0.00	0.00	0.00	0.00	0.00						
Net inflation	0.6	0.0	0.0	0.4	0.8	1.3						
(contribution to consumer price inflation)	0.45	0.01	-0.01	0.31	0.57	1.07						
of which: food	1.2	-0.2	0.1	0.7	0.8	2.0						
(contribution to consumer price inflation)	0.33	-0.06	0.03	0.19	0.23	0.56						
adjusted inflation	0.2	0.1	-0.1	0.2	0.7	1.0						
(contribution to consumer price inflation)	0.12	0.07	-0.04	0.12	0.34	0.51						

1) CNB calculation

Source: CSO

Table 2a

CONSUMER PRICES

percentage changes; December 1999 = 100

Group	Constant 1999 weights in per mille	months												Average since start of year
		1	2	3	4	5	6	7	8	9	10	11	12	
Total - 2000	1000.0	1.8	2.0	2.0	1.9	2.1	2.7	3.3	3.5	3.5	3.8	3.9	4.1	2.9
Food and non-alcoholic beverages	197.6	1.8	1.9	1.1	0.4	0.7	1.3	1.1	1.7	2.1	3.5	3.8	4.6	2.0
Alcoholic beverages and tobacco	79.2	0.5	0.6	0.8	0.9	1.0	1.0	1.4	2.3	2.5	2.5	2.6	2.4	1.5
Clothing and footwear	56.9	-0.7	-1.7	-2.2	-2.1	-2.0	-2.0	-2.5	-2.9	-3.0	-2.8	-2.6	-2.7	-2.3
Housing, water, electricity, gas and other fuels	236.4	4.6	4.8	4.9	5.2	5.3	5.5	7.0	7.2	7.3	7.6	7.8	7.8	6.3
Furnishings, household equipment and routine maintenance of the house	67.9	-0.3	-0.4	-0.3	-0.3	-0.4	-0.6	-0.6	-0.7	-0.7	-0.9	-0.8	-0.7	-0.6
Health	14.3	1.8	2.2	2.6	2.8	3.1	3.5	3.7	3.9	4.1	4.0	3.9	4.1	3.3
Transport	101.4	0.8	1.4	4.0	3.6	4.8	8.4	8.8	8.0	8.6	8.4	8.0	6.9	6.0
Communications	22.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Recreation and culture	95.5	0.1	1.2	0.4	-0.3	-0.4	0.5	3.8	4.7	1.7	0.9	1.1	2.0	1.3
Education	4.5	0.2	0.9	1.0	1.0	1.0	1.3	1.3	1.3	3.3	3.3	3.3	3.4	1.8
Hotels, cafés and restaurants	74.2	0.6	0.9	0.9	1.1	1.3	1.3	1.4	1.5	2.0	2.4	2.5	2.6	1.5
Miscellaneous goods and services	49.5	2.1	2.3	2.4	2.4	2.5	2.6	2.6	2.7	2.7	2.9	3.1	3.1	2.6
Total - 2001	1000.0	6.1	6.1	6.2	6.6	7.2	8.3							6.8
Food and non-alcoholic beverages	197.6	6.0	5.5	5.5	6.4	7.5	10.5							6.9
Alcoholic beverages and tobacco	79.2	3.4	3.9	4.3	4.6	4.9	5.0							4.4
Clothing and footwear	56.9	-3.3	-4.0	-4.0	-3.8	-3.7	-3.7							-3.7
Housing, water, electricity, gas and other fuels	236.4	14.2	14.4	14.6	14.8	15.1	15.4							14.8
Furnishings, household equipment and routine maintenance of the house	67.9	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4							-0.5
Health	14.3	4.7	4.9	5.1	5.3	5.4	5.7							5.2
Transport	101.4	4.9	4.8	4.7	5.8	7.5	8.7							6.1
Communications	22.5	7.2	7.1	7.1	7.0	6.8	6.7							7.0
Recreation and culture	95.5	2.7	3.4	2.9	2.3	3.3	7.0							3.6
Education	4.5	3.4	3.4	3.5	3.5	3.5	3.6							3.5
Hotels, cafés and restaurants	74.2	3.1	3.6	3.3	3.7	4.0	4.1							3.6
Miscellaneous goods and services	49.5	5.0	5.5	6.2	7.3	7.4	7.4							6.5

Source: CSO

Table 2b

CONSUMER PRICES

percentage changes; December 1993 = 100

Group	Constant 1993 weights in per mille	months												Average since start of year
		1	2	3	4	5	6	7	8	9	10	11	12	
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
Recreation and culture	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	126.0	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
Recreation and culture	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
Recreation and culture	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
Recreation and culture	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

percentage changes

	1995											
	1	2	3	4	5	6	7	8	9	10	11	12
a) previous month = 100	1.2	1.0	0.3	0.7	0.5	0.8	-0.6	-0.1	0.9	0.7	0.8	0.7
b) same period of previous year = 100	10.2	10.9	10.9	11.2	11.3	10.8	9.8	8.8	8.2	7.5	7.3	7.3
c) December of previous year = 100	1.2	2.3	2.6	3.3	3.8	4.7	4.0	4.0	4.9	5.7	6.6	7.3
	1996											
a) previous month = 100	1.4	0.6	0.7	0.6	0.6	0.8	0.1	-0.4	0.3	0.6	0.5	0.7
b) same period of previous year = 100	7.4	7.0	7.4	7.3	7.4	7.4	8.2	7.8	7.1	7.0	6.6	6.6
c) December of previous year = 100	1.4	2.0	2.7	3.3	4.0	4.8	4.9	4.5	4.8	5.4	5.9	6.6
	1997											
a) previous month = 100	0.8	0.3	0.1	0.5	0.1	1.4	0.2	0.8	0.6	0.6	0.5	0.6
b) same period of previous year = 100	6.1	5.9	5.3	5.2	4.6	5.2	5.3	6.6	6.9	6.9	6.9	6.8
c) December of previous year = 100	0.8	1.2	1.3	1.8	1.9	3.3	3.5	4.4	5.1	5.7	6.2	6.8
	1998											
a) previous month = 100	1.5	0.7	0.1	0.2	0.1	0.4	-0.2	-0.3	0.1	-0.3	-0.3	-0.3
b) same period of previous year = 100	7.5	7.9	7.9	7.6	7.6	6.5	6.1	4.9	4.3	3.4	2.6	1.7
c) December of previous year = 100	1.5	2.2	2.3	2.5	2.6	3.0	2.8	2.5	2.6	2.4	2.0	1.7
	1999											
a) previous month = 100	0.5	-0.1	-0.2	0.4	-0.1	0.2	0.0	0.1	-0.1	0.0	0.3	0.6
b) same period of previous year = 100	0.7	-0.1	-0.4	-0.3	-0.5	-0.6	-0.5	-0.1	-0.3	0.0	0.6	1.5
c) December of previous year = 100	0.5	0.4	0.2	0.5	0.4	0.6	0.6	0.7	0.6	0.6	0.9	1.5
	2000											
a) previous month = 100	0.6	0.2	0.0	0.0	0.3	0.7	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
	2001											
a) previous month = 100	0.6	0.0	0.0	0.4	0.8	1.3						
b) same period of previous year = 100	3.0	2.9	2.9	3.3	3.8	4.4						
c) December of previous year = 100	0.6	0.6	0.6	1.0	1.7	3.1						

Source: CSO

ITEMS EXCLUDED FROM THE CPI FOR "NET INFLATION" CALCULATION

	Constant 1999 weights in per cent
Housing items	
regulated rent	1.9772
water supply	0.8202
refuse collection	0.3029
sewerage services	0.2446
electricity	3.3181
natural gas	1.9570
propane-butane gas	0.0527
heating for households	3.3381
Health items	
medicines and health care output	1.0107
Transport items	
parking	0.0457
motorway tax sticker	0.0937
car roadworthiness test fee	0.1302
passenger railway transport	0.2138
municipal public transport	0.0999
bus transport	0.5265
taxi services	0.0109
combined passenger transport	0.5117
Communications items	
postal services	0.0806
telephone charges - fixed lines	1.8878
Recreation and culture items	
radio licence fee	0.1957
television licence fee	0.4362
Education items	
nursery school fees	0.0812
university entrance examination fee	0.0115
university tuition fees	0.0182
Hotel, café and restaurant items	
hostel accommodation	0.0567
Other items	
old people's home accommodation	0.4040
postal order A	0.0295
divorce application fee	0.0096
building permit issuance	0.0242
fee for preparing a will	0.0478
dog ownership fee	0.0305
Regulated, total	17.9674

Table 4

CONSUMER PRICES - TRADABLES AND NONTRADABLES

	Constant weight in consumer basket in %	percentage changes							
		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	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, etc.	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

annual percentage changes

	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	4.7	4.1	3.6
1/01	4.5			3.2
2/01	4.3			3.1
3/01	4.2	4.2	4.0	3.0
4/01	4.0			2.7
5/01	4.3			3.0
6/01	4.6			

Source: CNB statistical survey

INTERNATIONAL SURVEY - CONSUMER PRICES

	annual percentage changes								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
	12	12	12	12	12	12	12	12	6
1. Central and Eastern Europe									
Czech Republic	18.2	9.7	7.9	8.6	10.0	6.8	2.5	4.0	5.5
Slovakia	23.2	13.4	9.9	5.8	6.4	5.6	14.2	8.4	8.0
Hungary	22.5	18.8	28.2	23.6	18.4	10.3	11.2	10.1	10.5
Poland	35.3	29.5	27.8	19.9	13.0	8.6	9.8	8.5	6.2
Russia	940.0	307.0	197.7	47.7	11.0	84.4	36.7	20.2	23.7
2. European Union countries									
Belgium	2.8	2.4	2.0	2.5	1.1	0.6	1.9	2.5	2.9
United Kingdom	1.6	2.4	3.2	2.5	3.6	2.8	1.8	2.9	1.9
France	2.1	1.6	2.1	1.7	1.1	0.3	1.3	1.6	2.1
Italy	4.2	3.9	5.8	2.6	1.5	1.5	2.1	2.7	3.0
Germany	4.1	3.0	1.8	1.4	1.8	0.5	1.2	2.2	3.1
Netherlands	2.6	2.7	1.6	2.5	2.3	1.7	2.2	2.9	4.5
Spain	4.6	4.7	4.3	3.2	2.0	1.4	2.9	4.0	4.2
Austria	3.3	2.9	1.8	2.3	1.0	0.7	1.4	2.6	2.8
Sweden	4.6	3.2	2.5	-0.2	1.9	-0.6	1.2	1.4	2.9
3. Other countries									
Japan	1.3	0.7	-0.3	0.6	1.7	0.6	-1.1	-0.2	
Canada	1.8	-0.2	1.7	2.2	0.7	1.0	2.6	3.2	3.3
USA	3.0	2.6	2.5	3.3	1.7	1.6	2.7	3.4	3.2
Switzerland	3.3	1.0	1.9	0.8	0.4	-0.2	1.7	1.5	1.6

Source: The Economist

MONETARY SURVEY

position at month-end in CZK billions

	1995	1996	1997	1998	1999	2000	2001
	12	12	12	12	12	12	5
Total assets	1039.6	1125.3	1219.8	1285.2	1389.2	1479.5	1578.6
Net foreign assets	311.4	281.9	338.5	425.3	570.4	673.1	733.9
- assets	493.2	538.0	670.7	761.4	940.2	998.8	1058.8
- liabilities	181.8	256.1	332.2	336.1	369.8	325.7	324.9
Net domestic assets	728.2	843.4	881.3	859.9	818.8	806.4	844.7
Domestic credits	929.5	1029.7	1137.7	1109.9	1095.8	1120.4	1157.9
Net credit to the government sector	10.1	12.6	24.8	36.1	63.4	117.4	152.3
- net credit to government	25.4	28.5	37.9	45.4	73.6	116.3	140.4
- net credit to NPF	-15.3	-15.9	-13.1	-9.3	-10.2	1.1	11.9
Client credits of commercial banks and CNB	919.4	1017.1	1112.9	1073.8	1032.4	1003.0	1005.6
CZK credits	822.3	888.6	912.6	860.0	838.5	838.3	849.5
- businesses	720.5	785.1	808.2	756.3	729.6	717.8	722.4
- households	101.8	103.5	104.4	103.7	108.9	120.5	127.1
Foreign currency credits	97.1	128.5	200.3	213.8	193.9	164.7	156.1
- businesses	.	.	194.3	210.3	190.5	162.4	154.5
- households	.	.	6.0	3.5	3.4	2.3	1.6
Other net items	-201.3	-186.3	-256.4	-250.0	-277.0	-314.0	-313.2
Liabilities							
M2	1039.6	1125.3	1219.8	1285.2	1389.2	1479.5	1578.6
M1	453.3	475.3	445.1	433.4	479.8	542.5	583.4
Currency in circulation	104.3	118.9	119.3	127.2	157.9	171.8	172.6
CZK demand deposits	349.0	356.4	325.8	306.2	321.9	370.7	410.8
- households	148.8	155.7	153.2	144.0	162.6	195.0	223.8
- businesses	195.6	195.6	168.2	158.9	156.4	172.9	184.6
- insurance companies	4.6	5.1	4.4	3.3	2.9	2.8	2.4
Quasi money	586.3	650.0	774.7	851.8	909.4	937.0	995.2
CZK time deposits	498.8	564.3	636.2	679.1	661.4	656.5	789.8
- households	306.5	366.0	474.4	550.8	537.5	549.8	579.5
- businesses	150.2	177.5	136.1	96.2	87.3	90.4	195.7
- insurance companies	42.1	20.8	25.7	32.1	36.6	16.3	14.6
Certificates of deposit, deposit bills of exchange and other bon 5)	.	.	.	30.2	100.1	123.0	39.5
Foreign currency deposits	87.5	85.7	138.5	142.5	147.9	157.5	165.9
- households	35.8	40.1	68.8	73.6	80.8	83.7	87.8
- businesses	51.7	45.6	69.7	68.9	67.1	73.8	78.1
Monetary aggregate L	1019.0	1143.7	1244.0	1334.3	1448.2	1546.3	1651.2
Annual percentage changes							
M1	7.5	4.9	-6.4	-2.6	10.7	13.1	15.0
M2	19.8	9.7	9.8	5.4	8.1	6.5	11.4
L	20.5	12.2	8.8	7.3	8.5	6.8	11.3
Client credits of commercial banks and CNB	13.2	10.6	9.4	-3.5	-3.9	-2.8	-1.9
Client deposits with banks	21.8	7.6	9.4	2.5	0.3	4.7	12.5

1) M1 = Currency in circulation + CZK demand deposits

2) M2 = M1 + quasi money

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

4) CZK deposits + foreign currency deposits

5) In 1998 - 2000 including certificates of deposit

CREDIT SUPPLY

	1995	1996	1997	1998	1999	2000	2001
	12	12	12	12	12	12	5
Non-adjusted credits							
Total credits, CZK and foreign currency							
absolute volumes in CZK billions	919.4	1017.1	1112.9	1073.8	1032.4	1003.0	1005.6
annual percentage changes	13.2	10.6	9.4	-3.5	-3.9	-2.8	-1.9
CZK credits							
absolute volumes in CZK billions	822.3	888.6	912.6	860.0	838.5	838.3	849.5
annual percentage changes	6.9	8.1	2.7	-5.8	-2.5	0.0	1.3
Foreign currency credits							
absolute volumes in CZK billions	97.1	128.5	200.3	213.8	193.9	164.7	156.1
annual percentage changes	123.2	32.3	55.9	6.7	-9.3	-15.1	-16.3
Adjusted credits 1)							
Total credits, CZK and foreign currency							
absolute volumes in CZK billions	858.6	1005.2	1116.8	1179.3	1192.6	1189.4	1193.7
annual percentage changes	13.4	17.1	11.1	5.6	1.1	-0.3	-0.8
CZK credits							
absolute volumes in CZK billions	755.4	864.8	926.4	955.7	1003.5	1027.4	1039.9
annual percentage changes	6.3	14.5	7.1	3.2	5.0	2.4	1.4
Foreign currency credits							
absolute volumes in CZK billions	103.2	140.4	190.4	223.6	189.1	162.0	153.8
annual percentage changes	122.6	36.0	35.3	17.5	-15.4	-14.3	-13.5

1) Adjusted for exchange rate effects, write-offs, banks with licences revoked and loan portfolio restructuring

CREDIT BREAKDOWN BY TIME, SECTOR AND TYPE

	1995	1996	1997	1998	1999	2000	2001
	12	12	12	12	12	12	5
percentages of the total							
Time structure							
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Short-term	41.9	43.5	42.0	41.1	37.9	35.6	35.0
Medium-term	29.1	25.7	24.4	22.4	23.5	21.4	22.3
Long-term	29.0	30.8	33.6	36.5	38.6	43.0	42.7
Sector structure							
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Businesses	88.9	89.8	90.2	90.0	89.1	87.8	87.2
Households	11.1	10.2	9.8	10.0	10.9	12.2	12.8
Type structure							
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Operating	51.5	50.9	52.9	53.0	51.2	47.9	46.3
Investment (incl. general housing construction)	33.2	32.4	31.3	32.4	32.3	32.6	32.7
Mortgage	0.1	1.0	1.6	2.2	2.9	4.2	5.1
Consumer	0.8	0.7	0.6	1.7	2.8	3.2	2.4
For privatisation	3.8	3.0	2.0	1.3	2.2	1.9	2.2
For temporary fund shortage	9.6	9.2	10.5	8.1	7.1	8.8	10.1
For securities purchase	1.0	2.8	1.1	1.3	1.5	1.4	1.2

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

		percentages						
		1995	1996	1997	1998	1999	2000	2001
		12	12	12	12	12	12	6
1. AVERAGE PRIBOR	1)							
- 1 day		10.83	12.44	12.55	10.84	5.21	5.23	4.89
- 7 day		11.17	12.61	16.64	10.56	5.32	5.29	5.04
- 14 day		11.20	12.61	16.77	10.54	5.40	5.29	5.04
- 1 month		11.01	12.63	17.49	10.46	5.59	5.32	5.06
- 2 month		10.97	12.62	17.54	10.27	5.58	5.36	5.07
- 3 month		10.93	12.67	17.50	10.08	5.58	5.42	5.09
- 6 month		10.89	12.55	17.41	9.56	5.64	5.60	5.18
- 9 month		10.89	12.25	17.39	9.38	5.72	5.78	5.23
- 12 month		10.90	12.23	17.36	9.31	5.84	5.90	5.30
2. AVERAGE PRIBID	1)							
- 1 day		10.52	12.19	10.75	10.48	5.05	5.11	4.79
- 7 day		10.82	12.35	15.37	10.30	5.16	5.18	4.94
- 14 day		10.84	12.36	15.45	10.27	5.23	5.19	4.95
- 1 month		10.63	12.35	16.26	10.18	5.42	5.22	4.97
- 2 month		10.59	12.34	16.33	9.99	5.40	5.26	4.98
- 3 month		10.53	12.39	16.35	9.79	5.41	5.31	4.99
- 6 month		10.48	12.26	16.31	9.26	5.46	5.49	5.08
- 9 month		10.47	11.96	16.27	9.08	5.54	5.67	5.13
- 12 month		10.48	11.94	16.23	9.02	5.67	5.79	5.20

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

FRA RATES

percentages; monthly averages

	1997	1998	1999				2000				2001	
	12	12	3	6	9	12	3	6	9	12	3	6
3 * 6	16.70	9.02	7.43	6.92	6.55	5.57	5.48	5.48	5.51	5.68	4.98	5.21
3 * 9	16.70	8.99	7.46	7.04	6.69	5.70	5.61	5.64	5.65	5.85	5.01	5.32
6 * 9	16.03	8.79	7.41	7.05	6.70	5.75	5.67	5.73	5.72	5.93	4.98	5.33
6 * 12	16.01	8.79	7.46	7.15	6.85	5.94	5.84	5.92	5.87	6.10	5.01	5.41
9 * 12	15.47	8.62	7.42	7.15	6.85	6.04	5.94	6.02	5.94	6.19	5.01	5.43
12 * 24	15.28	9.03	.	.	.	.	.	.	.	.	.	.
9*12 - 3*6 spread	-1.23	-0.40	-0.01	0.23	0.30	0.47	0.46	0.55	0.43	0.51	0.04	0.22
6*12 - 3*9 spread	-0.69	0.20	0.00	0.11	0.15	0.24	0.23	0.28	0.22	0.25	0.00	0.09

IRS RATES

percentages; monthly averages

	1997	1998	1999				2000				2001	
	12	12	3	6	9	12	3	6	9	12	3	6
1Y	17.54	9.52	7.67	7.21	6.82	5.92	5.74	5.78	5.77	5.94	5.10	5.38
2Y	16.58	9.13	7.72	7.49	7.20	6.54	6.31	6.34	6.21	6.40	5.24	5.62
3Y	15.93	9.06	7.87	7.77	7.40	6.95	6.73	6.68	6.52	6.72	5.48	5.83
4Y	15.54	8.99	8.02	7.95	7.51	7.16	6.98	6.88	6.75	6.96	5.72	6.04
5Y	15.25	8.93	8.13	8.07	7.54	7.26	7.11	6.99	6.91	7.15	5.93	6.25
6Y	15.19	8.73	8.21	8.13	7.56	7.29	7.17	7.02	7.03	7.29	6.11	6.45
7Y	14.88	8.71	8.27	8.18	7.57	7.28	7.20	7.03	7.09	7.38	6.24	6.62
8Y	14.90	8.67	8.32	8.20	7.57	7.27	7.22	7.03	7.12	7.42	6.32	6.76
9Y	14.29	8.63	8.35	8.21	7.57	7.27	7.23	7.03	7.12	7.43	6.37	6.86
10Y	14.24	8.61	8.37	8.22	7.58	7.27	7.23	7.03	7.12	7.43	6.38	6.92
15Y	.	.	.	.	.	.	.	.	.	.	6.50	7.09
5Y - 1Y spread	-2.30	-0.60	0.46	0.86	0.73	1.34	1.36	1.21	1.14	1.21	0.84	0.87
10Y - 1Y spread	-3.30	-0.92	0.70	1.01	0.76	1.35	1.49	1.24	1.35	1.49	1.29	1.55

NOMINAL AND REAL INTEREST RATES (ex post approach)

percentages

	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
1/96	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	6.8	3.9	1.2	1.8	2.7	-0.3	0.3	0.9	1.7
1/01	5.3	5.6	6.3	3.9	1.0	1.3	2.0	-0.3	1.0	1.3	2.0
2/01	5.2	5.3	6.2	3.9	1.2	1.3	2.1	-0.1	0.5	0.6	1.4
3/01	5.0	5.1	6.2	3.7	0.9	0.9	2.0	-0.3	0.9	0.9	2.0
4/01	5.0	5.0	6.2	3.7	0.4	0.4	1.5	-0.9	1.0	0.9	2.1
5/01	5.0	5.1	6.3	3.7	0.0	0.0	1.2	-1.2	1.2	1.2	2.4
6/01	5.0	5.3			-0.4	-0.2			1.6	1.8	

Note: real rates = nominal rates deflated by annual index (CPI/PPI) in given month

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

REAL INTEREST RATES (ex ante approach)

percentages

	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	1.7	-1.1	0.6	1.1	2.0	-0.8	1.1	1.7	2.6	-0.2
1/01	0.7	1.1	1.8	-0.6								
2/01	0.9	1.0	1.8	-0.4								
3/01	0.8	0.8	1.9	-0.4	0.8	0.8	1.9	-0.4	1.0	1.0	2.1	-0.2
4/01	1.0	0.9	2.1	-0.3								
5/01	0.7	0.7	1.9	-0.6								
6/01	0.4	0.7										

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

percentages

	1995	1996	1997	1998	1999	2000	2001
	12	12	12	12	12	12	5
Newly drawn credits							
in CZK	13.1	13.6	16.5	10.8	6.7	6.8	6.3
- short-term	12.9	13.6	16.5	11.6	6.7	6.5	6.0
- medium-term	14.2	14.3	17.0	7.4	5.1	8.0	8.1
- long-term	13.3	12.5	16.0	11.7	10.2	8.1	7.0
in foreign currency	-	-	5.9	5.4	6.1	6.4	5.6
- short-term	-	-	5.9	5.3	6.2	6.2	5.5
- medium-term	-	-	5.6	5.9	5.3	6.4	6.0
- long-term	-	-	6.1	5.6	6.0	7.2	5.7
Credits							
in CZK	12.7	12.5	13.9	10.5	7.7	6.9	6.8
- short-term	12.5	12.4	14.1	10.6	7.4	6.6	6.2
- medium-term	14.2	13.5	14.6	10.7	8.3	7.8	7.7
- long-term	11.5	11.8	13.0	10.3	7.6	6.8	6.9
in foreign currency	-	-	6.1	6.4	6.6	7.2	6.5
- short-term	-	-	5.6	6.9	7.7	8.0	7.2
- medium-term	-	-	5.9	5.6	5.4	6.3	5.9
- long-term	-	-	6.7	6.0	5.9	6.7	6.1
Deposits							
in CZK	6.9	6.7	8.0	6.7	3.7	3.0	2.9
- demand	2.8	2.5	2.1	1.9	1.6	1.5	1.5
- time	10.0	9.2	10.9	8.7	4.7	3.9	3.7
- short-term	9.7	9.3	11.6	9.2	4.8	4.0	3.8
- medium-term	10.7	9.8	12.2	10.9	5.6	3.9	3.5
- long-term	8.8	6.2	5.2	4.2	3.6	3.5	3.4
in foreign currency	-	-	2.7	2.3	2.7	3.2	2.6
- demand	-	-	1.1	1.1	0.9	1.1	1.1
- time	-	-	3.7	3.2	4.0	4.6	3.5
- short-term	-	-	3.4	3.1	3.9	4.6	3.5
- medium-term	-	-	5.0	3.3	4.2	4.2	4.6
- long-term	-	-	5.5	3.5	4.7	5.1	3.8

Table 14

BALANCE OF PAYMENTS 1)

in CZK millions

	1995	1996	1997	1998	1999	2000	2001 2)
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
A. Current account	-36 331.3	-116 510.6	-101 856.2	-43 101.0	-54 221.4	-91 428.1	-26 665.5
Balance of trade 3)	-97 598.6	-159 538.6	-144 025.9	-82 394.8	-65 830.8	-126 783.0	-30 130.0
exports	569 549.1	588 791.5	722 501.0	850 308.0	908 756.0	1 120 427.0	316 234.0
imports	667 147.7	748 330.1	866 526.9	932 702.8	974 586.8	1 247 210.0	346 364.0
Services	48 881.2	52 198.9	55 935.0	57 854.7	38 119.3	53 861.9	7 969.0
credit	178 270.4	222 030.4	227 193.6	241 801.2	239 709.0	279 574.2	55 572.0
transport	38 757.4	36 209.6	41 661.6	44 829.3	53 520.3	53 732.7	13 471.7
travel	76 301.3	110 620.0	115 700.0	120 000.0	105 000.0	110 700.0	21 800.0
others	63 211.7	75 200.8	69 832.0	76 971.9	81 188.7	115 141.5	20 300.3
debit	129 389.2	169 831.5	171 258.6	183 946.5	201 589.7	225 712.3	47 603.0
transport	21 208.9	18 983.3	19 973.6	22 794.0	27 071.4	27 787.1	8 616.4
travel	43 330.3	80 170.0	75 500.0	60 300.0	51 000.0	48 500.0	9 700.0
others	64 850.0	70 678.2	75 785.0	100 852.5	123 518.3	149 425.2	29 286.6
Income	-2 804.0	-19 611.0	-25 102.4	-31 708.0	-44 187.6	-29 495.1	-7 007.2
credit	31 696.1	31 765.9	44 696.0	45 945.4	56 867.3	70 639.4	19 517.4
debit	34 500.1	51 376.9	69 798.4	77 653.4	101 054.9	100 134.5	26 524.6
Current transfers	15 190.1	10 440.1	11 337.1	13 147.1	17 677.7	10 988.1	2 502.7
credit	17 631.6	16 752.7	27 402.5	25 387.9	37 184.4	27 604.6	5 127.0
debit	2 441.5	6 312.6	16 065.4	12 240.8	19 506.7	16 616.5	2 624.3
B. Capital account	179.1	15.6	315.9	65.8	-73.2	-195.3	-43.0
credit	307.8	28.1	493.0	454.6	637.3	224.9	10.0
debit	128.7	12.5	177.1	388.8	710.5	420.2	53.0
Total A + B	-36 152.2	-116 495.0	-101 540.3	-43 035.2	-54 294.6	-91 623.4	-26 708.5
C. Financial account	218 288.5	113 582.5	34 319.1	94 324.5	106 564.4	129 632.2	29 639.4
Direct investment	67 021.2	34 624.8	40 451.4	115 866.3	215 703.9	172 768.1	34 451.5
abroad	-971.6	-4 150.0	-800.0	-4 102.2	-3 107.6	-4 557.6	-218.1
equity capital and reinvested earnings	-971.6	-4 150.0	-800.0	-2 538.8	-2 585.3	-4 005.0	-410.9
other capital				-1 563.4	-522.3	-552.6	192.8
in the Czech Republic	67 992.8	38 774.8	41 251.4	119 968.5	218 811.5	177 325.7	34 669.6
equity capital and reinvested earnings	67 992.8	38 774.8	41 251.4	87 762.8	192 615.5	162 378.8	32 949.3
other capital				32 205.7	26 196.0	14 946.9	1 720.3
Portfolio investment	36 144.4	19 692.5	34 438.9	34 508.2	-48 268.9	-68 172.9	9 476.5
assets	-8 565.6	-1 291.1	-6 006.8	-755.1	-65 608.0	-86 631.8	-1 946.8
equity securities	-8 565.6	-1 291.1	19.9	3 855.7	-48 965.2	-44 181.0	-1 862.1
debt securities			-6 026.7	-4 610.8	-16 642.8	-42 450.8	-84.7
liabilities	44 710.0	20 983.6	40 445.7	35 263.3	17 339.1	18 458.9	11 423.3
equity securities	32 761.7	16 340.9	13 783.7	34 846.2	4 394.2	23 810.9	2 984.6
debt securities	11 948.3	4 642.7	26 662.0	417.1	12 944.9	-5 352.0	8 438.7
Financial derivatives						-1 817.9	348.4
assets						-4 916.7	-2 206.3
liabilities						3 098.8	2 554.7
Other investment	115 122.9	59 265.2	-40 571.2	-56 050.0	-60 870.6	26 854.9	-14 637.0
assets	-66 050.8	-64 646.8	-142 725.1	-46 628.7	-91 273.9	35 832.1	-27 001.1
long-term	1 384.4	-10 769.8	-11 117.6	-24 280.2	-23 884.0	21 322.2	-5 805.4
CNB							
commercial banks	-3 353.6	-14 168.2	-11 907.4	-26 952.8	-25 858.5	14 362.2	-9 294.5
government	3 335.0	1 286.4	519.8	630.3	977.5	2 937.0	1 441.1
other sectors	1 403.0	2 112.0	270.0	2 042.3	997.0	4 023.0	2 048.0
short-term	-67 435.2	-53 877.0	-131 607.5	-22 348.5	-67 389.9	14 509.9	-21 195.7
commercial banks	-2 446.2	-48 976.0	-122 038.5	-21 641.6	-63 804.7	22 001.9	-17 639.7
government	-60 179.4						
other sectors	-4 809.6	-4 901.0	-9 569.0	-706.9	-3 585.2	-7 492.0	-3 556.0
liabilities	181 173.7	123 912.0	102 153.9	-9 421.3	30 403.3	-8 977.2	12 364.1
long-term	87 965.8	95 193.1	24 047.6	-39 840.7	-1 286.1	-26 212.5	1 716.2
CNB	997.8		-368.0	-216.4	-2 083.5	-22.8	-11.1
commercial banks	60 359.6	46 733.5	-14 875.5	-14 399.2	-7 109.5	-31 523.7	2 131.5
government	-12 047.3	-7 132.6	-11 581.9	-11 765.4	-6 384.3	-1 837.6	-846.3
other sectors	38 655.7	55 592.2	50 873.0	-13 459.7	14 291.2	7 171.6	442.1
short-term	93 207.9	28 718.9	78 106.3	30 419.4	31 689.4	17 235.3	10 647.9
CNB	77.1	-59.6	-9.9	-6.0	84.9	-17.0	2.1
commercial banks	27 636.1	30 574.9	67 383.7	24 445.9	36 615.6	-3 812.5	2 063.3
government	56 262.2	-899.6	-69.5	-216.5	-103.2		
other sectors	9 232.5	-896.8	10 802.0	6 196.0	-4 907.9	21 064.8	8 582.5
Total A + B + C	182 136.3	-2 912.5	-67 221.2	51 289.3	52 269.8	38 008.8	2 930.9
D. Net errors and omissions, valuation changes	15 779.4	-19 562.6	11 181.2	11 325.7	4 866.9	-6 416.0	3 849.6
Total A + B + C + D	197 915.7	-22 475.1	-56 040.0	62 615.0	57 136.7	31 592.8	6 780.5
E. Change in reserves (- increase)	-197 915.7	22 475.1	56 040.0	-62 615.0	-57 136.7	-31 592.8	-6 780.5

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

1999-2001 - in accordance with revised methodology for customs statistics in force since 1 July 2000

INTERNATIONAL INVESTMENT POSITION

in CZK millions

	1995	1996	1997	1998	1999	2000	2001
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Mar. 1)
ASSETS	782 003.5	837 143.2	1 031 410.7	1 087 507.3	1 347 954.9	1 450 573.1	1 493 501.9
Direct investment abroad	9 190.1	13 609.2	18 989.4	24 003.5	25 114.9	29 656.6	30 085.0
- equity capital 2)	9 190.1	13 609.2	18 385.1	21 901.2	22 415.9	26 400.6	27 020.0
- other capital 3)			604.3	2 102.3	2 699.0	3 256.0	3 065.0
Portfolio investment	20 076.9	37 511.2	35 738.9	35 872.4	104 345.3	180 431.3	183 979.2
- equity securities	18 422.0	20 450.3	14 442.0	13 415.5	66 318.2	92 222.9	90 976.6
- debt securities	1 654.9	17 060.9	21 296.9	22 456.9	38 027.1	88 208.4	93 002.6
Financial derivatives 4)						6 762.3	8 553.5
Other investment	379 698.8	446 138.8	638 157.7	650 948.4	757 065.5	736 903.7	769 980.1
Long-term	215 740.8	236 003.0	294 256.5	287 328.8	323 131.1	315 625.5	326 893.7
- CNB 5)	26 172.3	26 122.8	26 122.4	26 122.4		329.1	328.6
- commercial banks 6)	5 116.6	25 181.3	37 088.8	64 041.6	89 900.1	75 537.9	84 832.4
- government 7)	159 260.9	162 103.1	205 142.0	176 213.4	210 221.3	220 777.8	222 182.3
- other sectors	25 191.0	22 595.8	25 903.3	20 951.4	23 009.7	18 980.7	19 550.4
Short-term	163 958.0	210 135.8	343 901.2	363 619.6	433 934.4	421 278.2	443 086.4
- CNB 8)	4.7	4.7	0.1	0.1		52.9	51.3
- commercial banks 6)	87 176.3	128 481.1	250 670.9	272 219.5	336 117.2	314 115.3	331 735.1
of which: gold and foreign exchange 9) 10)	76 126.9	95 432.8	172 301.6	175 753.2	218 995.8	228 961.7	249 911.5
- government							
- other sectors	76 777.0	81 650.0	93 230.2	91 400.0	97 817.2	107 110.0	111 300.0
CNB reserves 11)	373 037.7	339 884.0	338 524.7	376 683.0	461 429.2	496 819.2	500 904.1
- gold 9)	2 234.6	2 290.3	1 521.9	369.1	677.0	4 640.4	4 498.9
- SDR	4.7					7.7	11.9
- reserve position in the IMF						116.0	1 605.5
- foreign exchange	370 798.4	337 593.7	337 002.8	376 313.9	460 752.2	491 001.2	494 079.6
- other reserve assets						1 053.9	708.2
LIABILITIES	723 101.9	906 073.2	1 138 248.1	1 204 984.0	1 458 893.3	1 619 540.0	1 678 630.7
Direct investment in the Czech Republic	195 526.3	234 301.1	319 820.3	429 167.8	631 505.3	797 681.6	832 046.6
- equity capital 2) 12)	195 526.3	234 301.1	284 674.7	364 816.5	538 379.3	689 887.3	722 836.6
- other capital 3)			35 145.6	64 351.3	93 126.0	107 794.3	109 210.0
Portfolio investment	124 933.6	144 807.4	169 032.7	166 128.1	165 579.2	164 592.0	172 166.3
- equity securities	70 280.4	92 867.8	104 862.3	113 247.2	98 011.8	115 670.6	117 988.3
- debt securities	54 653.2	51 939.6	64 170.4	52 880.9	67 567.4	48 921.4	54 178.0
Financial derivatives 4)						5 307.9	7 862.6
Other investment	402 642.0	526 964.7	649 395.1	609 688.1	661 808.8	651 958.5	666 555.2
Long-term	279 388.9	374 814.7	426 270.1	358 510.5	379 172.2	352 323.4	357 106.8
- CNB	2 491.5	2 272.7	2 188.3	1 883.3	197.1	180.4	166.4
- commercial banks 6)	90 299.3	143 454.2	143 120.2	124 286.3	118 368.9	84 607.4	87 107.3
- government	53 200.2	44 003.7	38 001.1	23 789.1	20 813.0	19 215.8	18 465.1
- other sectors	133 397.9	185 084.1	242 960.5	208 551.8	239 793.2	248 319.8	251 368.0
Short-term	123 253.1	152 150.0	223 125.0	251 177.6	282 636.6	299 635.1	309 448.4
- CNB	115.0	55.3	45.5	39.5	25.8	8.8	10.9
- commercial banks 6)	69 502.9	101 543.5	168 927.1	193 373.0	229 988.7	226 176.2	228 239.5
- government	1 104.1	314.8	287.5	103.2			
- other sectors	52 531.1	50 236.4	53 864.9	57 661.9	52 622.1	73 450.1	81 198.0
NET INVESTMENT POSITION	58 901.6	-68 930.0	-106 837.4	-117 476.7	-110 938.4	-168 966.9	-185 128.8

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 bank position)

5) At the end of 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) Including foreign currency shares in international non-monetary organisations (The World Bank, EBRD, IBEC, IIB)

8) Since 31 March 2000, this item has included gold not recorded in CNB reserves

9) Gold valued at USD 42.22 per Troy ounce (until 31 December 1999) and at market price (since 31 March 2000)

10) Foreign currency - convertible currencies

11) In compliance with IMF requirements, CNB reserves have been recorded with a more detailed breakdown (since 31 March 2000)

12) Since 1998, direct investment has included data on equity capital from the balance sheets of foreign-owned companies

EXTERNAL DEBT

in CZK millions

	1995	1996	1997	1998	1999	2000	2001
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)	31 Mar. 1)
DEBT IN CONVERTIBLE CURRENCIES	440 229.3	569 723.6	739 563.0	717 923.6	813 576.5	799 723.3	821 004.2
of which:							
Long-term	306 034.4	405 143.6	495 058.5	446 484.3	497 872.1	466 278.3	471 036.8
By debtor							
- CNB	22 268.0	11 178.4	11 548.4	10 952.2	12 527.6	180.4	166.4
- commercial banks 2)	95 433.3	150 780.1	158 503.7	133 376.5	128 703.3	95 737.1	99 181.5
- government	52 101.7	46 738.6	42 877.1	32 927.8	32 263.6	29 270.1	27 329.4
- other sectors	136 231.4	196 446.5	282 129.3	269 227.8	324 377.6	341 090.7	344 359.5
By creditor							
- foreign banks	215 916.7	297 305.5	355 794.1	286 227.5	302 825.8	284 670.5	290 256.0
- government institutions	7 039.1	6 631.8	7 269.4	4 409.6	4 239.2	3 405.7	2 976.4
- multilateral institutions	21 381.4	21 250.4	18 825.6	11 520.8	12 786.4	11 560.3	10 909.8
- suppliers and direct investors	24 567.0	27 116.0	46 465.5	72 624.6	93 831.4	101 514.7	103 425.0
- other investors	37 130.2	52 839.9	66 703.9	71 701.8	84 189.3	65 127.1	63 469.6
Short-term	134 194.9	164 580.0	244 504.5	271 439.3	315 704.4	333 445.0	349 967.4
By debtor							
- CNB	115.0	55.3	45.5	39.5	25.8	8.8	10.9
- commercial banks 2)	71 911.8	106 852.6	170 147.0	193 373.0	230 000.5	226 246.1	234 844.2
- government	15 114.0	2 786.0	8 164.0	22.0	7.0	2 115.0	145.0
- other sectors	47 054.1	54 886.1	66 148.0	78 004.8	85 671.1	105 075.1	114 967.3
By creditor							
- foreign banks	58 874.2	85 424.0	142 463.2	175 604.1	201 808.8	203 333.8	214 090.4
- suppliers and direct investors	41 986.4	45 914.0	57 831.1	67 446.7	81 794.6	96 634.6	94 945.0
- other investors	33 334.3	33 242.0	44 210.2	28 388.5	32 101.0	33 476.6	40 932.0
DEBT IN NON-CONVERTIBLE CURRENCIES 3)	17 065.9	9 180.7	9 148.1	8 996.7	8 925.7	8 950.9	8 939.0
of which:							
- long-term	10 484.7	8 865.9	8 860.6	8 893.5	8 925.7	8 950.9	8 939.0
- short-term	6 581.2	314.8	287.5	103.2			
TOTAL EXTERNAL DEBT	457 295.2	578 904.3	748 711.1	726 920.3	822 502.2	808 674.2	829 943.2
of which:							
- long-term	316 519.1	414 009.5	503 919.1	455 377.8	506 797.8	475 229.2	479 975.8
- short-term	140 776.1	164 894.8	244 792.0	271 542.5	315 704.4	333 445.0	349 967.4

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

3) Debt vis-à-vis the Slovak Republic: in 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. AVERAGE NOMINAL RATE

in CZK; foreign exchange market rates

	1995	1996	1997	1998	1999	2000	2001
	1-12	1-12	1-12	1-12	1-12	1-12	1-6
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES							
1 ECU	34.31	34.01	35.80	36.16	.	.	.
1 EUR	.	.	.	.	36.88	35.61	34.55
1 GBP	41.89	42.33	51.95	53.45	55.97	58.43	55.38
1 FRF	5.32	5.31	5.43	5.47	5.62	5.43	5.27
1000 ITL	16.30	17.59	18.61	18.57	19.05	18.39	17.85
100 JPY	28.34	24.99	26.29	24.71	30.53	35.84	31.98
1 CAD	19.34	19.90	22.91	21.83	23.29	25.99	25.06
1 NLG	16.53	16.11	16.24	16.26	16.74	16.16	15.68
1 ATS	2.63	2.57	2.60	2.61	2.68	2.59	2.51
1 DEM	18.52	18.06	18.28	18.33	18.86	18.21	17.67
1 CHF	22.45	22.02	21.85	22.26	23.05	22.85	22.57
1 USD	26.55	27.14	31.71	32.27	34.60	38.59	38.44
100 SKK	89.49	88.57	94.18	91.61	83.64	83.64	79.54
	12	12	12	12	12	12	6
1 ECU	34.01	34.09	38.69	35.34	.	.	.
1 EUR	.	.	.	.	36.05	34.82	33.98
1 GBP	41.00	45.48	57.72	50.20	57.46	56.78	55.78
1 FRF	5.37	5.21	5.84	5.38	5.50	5.31	5.18
1000 ITL	16.71	17.90	19.94	18.18	18.62	17.98	17.55
100 JPY	26.21	24.05	26.87	25.55	34.75	34.80	32.63
1 CAD	19.47	20.10	24.37	19.51	24.16	25.51	26.06
1 NLG	16.53	15.71	17.35	15.97	16.36	15.80	15.42
1 ATS	2.63	2.51	2.78	2.56	2.62	2.53	2.47
1 DEM	18.50	17.63	19.55	18.00	18.43	17.80	17.37
1 CHF	22.89	20.64	24.16	22.10	22.52	23.01	22.31
1 USD	26.66	27.34	34.73	30.06	35.63	38.94	39.78
100 SKK	89.76	86.42	100.58	83.04	84.70	80.07	79.31

B. NOMINAL EFFECTIVE RATE

	1995	1996	1997	1998	1999	2000	2001
	6						
Nominal CZK effective exchange rate index (1995 = 100)	100.00	102.21	99.48	102.47	106.81	106.79	112.61

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

	1995	1996	1997	1998	1999	2000	2001
	5						
Real CZK effective exchange rate index (1995 = 100)							
a) consumer prices	100.00	105.27	106.95	117.27	117.33	116.11	121.22
b) industrial producer prices	100.00	103.03	102.15	109.41	111.66	109.34	112.66

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

	1995	1996	1997	1998	1999	2000	2001
	1-12	1-12	1-12	1-12	1-12	1-12	1-5
STATE BUDGET							
TOTAL REVENUE	440.0	482.8	509.0	537.4	567.3	586.2	230.6
Tax revenue	409.7	457.4	478.4	509.6	540.1	559.5	220.7
Taxes on income, profits and capital gains	72.7	78.3	74.8	87.4	86.4	87.0	44.8
Domestic taxes on goods and services	151.5	170.5	181.8	187.2	211.4	216.8	72.5
- value-added taxes	94.8	109.3	117.6	119.4	138.3	145.9	47.3
- excises	56.7	61.2	64.2	67.8	73.1	70.9	25.2
Taxes on international trade and transactions	17.4	19.7	14.9	13.6	12.1	13.6	4.1
Taxes on property	3.2	3.9	5.0	6.3	6.8	6.0	2.0
Social and health security contributions and payroll taxes	154.3	174.3	191.0	203.9	210.9	222.2	95.2
Non-tax and capital incomes and received subsidies	30.3	25.4	30.5	27.8	27.2	26.7	6.6
State Financial Assets Operations	.	.	.	.	.	.	3.3
TOTAL EXPENDITURE	432.7	484.4	524.7	566.7	596.9	632.3	259.3
Current expenditure	388.6	427.3	474.1	516.2	537.9	571.4	245.9
State Financial Assets Operations	.	.	.	.	.	.	5.6
Capital expenditures	44.1	57.1	50.6	50.5	59.0	60.9	7.8
State Financial Assets Operations	.	.	.	.	.	.	.
BALANCE							
Public budgets	4.8	-4.3	-19.8	-28.2	-10.5	-62.6	
state budget	7.2	-1.6	-15.7	-29.3	-29.6	-46.1	-28.7
local budget	-2.3	-7.3	-4.8	1.5	18.5	-2.5	
state financial assets	-10.6	-5.7	-1.7	3.7	-5.2	-5.7	
state funds	0.0	0.6	1.7	0.9	0.1	2.2	
Land Fund	1.2	1.1	-1.6	0.1	-0.3	-0.5	
National Property Fund	13.9	9.6	0.8	-5.1	2.9	-11.5	
health insurance companies	-4.5	-3.0	-1.7	0.7	2.9	1.9	
other	-0.1	2.0	3.2	-0.7	0.2	-0.4	

CAPITAL MARKET

A. STOCK MARKET INDICES

last day of the month in points

	1997	1998	1999	2000				2001
	12	12	12	3	6	9	12	6
PX-50	495	394	490	644	525	502	479	418
PX-GLOB	599	478	588	740	620	595	571	515
PK-30	664	564	713	956	781	751	725	622

B. TRADE VOLUMES

in CZK millions

	1997	1998	1999	2000				2001
	12	12	12	3	6	9	12	6
PRAGUE STOCK EXCHANGE								
Total trade volume	63 249	92 553	99 604	163 230	144 868	43 954	73 241	130 826
of which:								
a) automated system	1 368	6 772	11 554	43 573	16 569	10 890	10 094	9 281
b) direct and block trades	61 881	85 781	88 050	119 657	128 299	33 064	63 147	121 545
RM-SYSTÉM								
Total trade and transfer volume	36 870	20 837	22 015	4 554	4 664	3 392	4 862	1 058
of which:								
a) continuous auction	547	491	446	772	370	273	253	194
b) direct and block trades	36 290	20 334	21 569	3 782	4 294	3 119	4 609	864
c) transfers with declared price	33	12	.	.	.	.	.	.
SECURITIES CENTRE								
Total volume of charged transfers	150 980	141 892	201 904	249 748	278 785	125 500	196 375	150 160

CNB MONETARY POLICY INSTRUMENTS

	2W repo rate (%)	Discount rate (%)	Lombard rate (%)	Minimum reserve requirement for primary deposits (%)	
				Banks	Building societies and CMZRB
				1995	
As of 1 January	-	8.5	11.5	-	-
26 June	-	9.5	12.5	-	-
3 August	-			8.5	4.0
8 December	11.30				
				1996	
29 March	11.50				
29 April	11.60				
9 May	11.80				
21 June	12.40	10.5	14.0		
1 August				11.5	
				1997	
8 May			50.0	9.5	
16 May					
27 May		13.0			
4 June	39.00				
11 June	29.00				
18 June	25.00				
20 June	22.00				
23 June	20.00				
24 June	18.50				
27 June			23.0		
30 June	18.20				
1 July	17.90				
7 July	17.00				
8 July	16.50				
9 July	16.20				
16 July	16.00				
22 July	15.70				
23 July	15.40				
24 July	15.20				
28 July	14.90				
1 August	14.70				
4 August	14.50				
31 October	14.80				
1 December	18.50				
2 December	18.00				
3 December	17.50				
4 December	16.75				
9 December	15.50				
10 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				
				2000	
	No changes made				
				2001	
23 February	5.00	4.0	6.0		

MACROECONOMIC AGGREGATES

in CZK billions; annual percentage changes; constant 1995 prices

	1995	1996	1997	1998	1999	2000	2001
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
GROSS DOMESTIC PRODUCT							
- in CZK billions	1 381 049	1 440 350	1 429 329	1 412 217	1 406 725	1 448 116	350 150
- percentages	5.9	4.3	-0.8	-1.2	-0.4	2.9	3.8
FINAL CONSUMPTION							
- in CZK billions	976 718	1 042 166	1 047 878	1 026 165	1 040 239	1 051 752	243 547
- percentages	2.8	6.7	0.5	-2.1	1.4	1.1	2.8
of which:							
Households							
- in CZK billions	692 119	747 056	764 953	747 765	765 078	778 957	185 692
- percentages	5.8	7.9	2.4	-2.2	2.3	1.8	3.9
Government							
- in CZK billions	275 035	284 921	272 408	265 824	265 625	262 127	55 259
- percentages	-4.3	3.6	-4.4	-2.4	-0.1	-1.3	-0.7
Non-profit institutions							
- in CZK billions	9 564	10 189	10 517	12 576	9 536	10 668	2 596
- percentages	12.5	6.5	3.2	19.6	-24.2	11.9	1.4
GROSS CAPITAL FORMATION - TOTAL							
- in CZK billions	470 038	510 548	494 227	483 114	460 804	508 294	135 616
- percentages	22.4	8.6	-3.2	-2.2	-4.6	10.3	13.4
of which:							
Fixed capital							
- in CZK billions	442 452	478 537	464 714	465 190	462 346	481 780	108 966
- percentages	19.8	8.2	-2.9	0.1	-0.6	4.2	7.3
Inventories and reserves							
- in CZK billions	27 586	32 011	29 513	17 924	-1 542	26 514	26 650
TRADE BALANCE							
- in CZK billions	-65 707	-112 364	-112 776	-97 062	-94 318	-111 930	-29 013
of which:							
Exports of goods							
- in CZK billions	554 337	588 899	669 694	747 211	809 782	971 186	281 730
- percentages	17.0	6.2	13.7	11.6	8.4	19.9	24.1
Exports of services							
- in CZK billions	186 414	212 947	205 572	207 913	205 260	234 048	46 768
- percentages	15.7	14.2	-3.5	1.1	-1.3	14.0	-1.0
Imports of goods							
- in CZK billions	662 070	744 822	824 438	875 925	920 347	1 111 283	313 299
- percentages	27.0	12.5	10.7	6.2	5.1	20.7	25.9
Imports of services							
- in CZK billions	144 388	169 388	163 604	176 261	189 013	205 881	44 212
- percentages	0.2	17.3	-3.4	7.7	7.2	8.9	-1.1
DOMESTIC DEMAND (excl. change in inventories)							
- in CZK billions	1 419 170	1 520 703	1 512 592	1 491 355	1 502 585	1 533 532	352 513
- percentages	7.6	7.2	-0.5	-1.4	0.8	2.1	4.1
AGGREGATE DEMAND (excl. change in inventories)							
- in CZK billions	2 159 921	2 322 549	2 387 858	2 446 479	2 517 627	2 738 766	681 011
- percentages	10.5	7.5	2.8	2.5	2.9	8.8	11.1
GROSS DOMESTIC PRODUCT AT CURRENT PRICES							
- in CZK billions	1 381 049	1 566 968	1 679 921	1 837 060	1 887 325	1 959 479	477 391
- percentages	16.8	13.5	7.2	9.4	2.7	3.8	8.2
PRICE DEFLATOR							
- percentages	10.2	8.8	8.0	10.7	3.1	0.9	4.2

Source: CSO

LABOUR MARKET

A. CURRENT INCOME AND EXPENDITURE OF HOUSEHOLDS

	annual percentage changes						
	1995 Q1 - 4	1996 Q1 - 4	1997 Q1 - 4	1998 Q1 - 4	1999 Q1 - 4	2000 Q1 - 4	2001 Q1
Current incomes	.	15.2	8.8	5.7	2.2	2.9	6.2
of which:							
- compensation of employees	.	17.8	6.9	6.3	3.4	3.5	7.7
- gross operating surplus and mixed income	.	5.6	0.8	5.4	1.1	2.5	6.4
- property income	.	9.1	21.0	7.4	-18.4	-5.8	-2.7
- social benefits	.	17.0	13.5	9.9	8.2	9.3	4.5
- other current transfers	.	24.0	28.2	-12.1	9.4	-11.2	7.3
Current expenditure	.	16.7	8.0	6.3	2.9	3.7	6.4
of which:							
- property income	.	0.2	0.5	-4.1	-27.2	-15.7	4.6
- current taxes on income, wealth etc.	.	18.1	9.8	7.6	0.5	2.8	4.7
- social contributions	.	15.5	7.1	5.8	4.0	6.6	8.9
- other current transfers	.	32.4	13.6	11.2	14.1	-2.2	-0.8
Gross disposable income	.	14.5	9.2	5.5	1.9	2.6	6.2
Change in net equity of households in pension funds reserves	.	60.6	-4.2	-17.6	19.5	45.7	49.3
Individual consumption expenditure	.	15.6	10.0	6.5	2.3	4.7	8.4
Gross saving	.	9.7	2.2	-4.5	-0.4	-17.4	-17.1
Gross savings rate (gross saving/gross disposable income - ratio in per cent)	.	12.0	11.2	10.7	8.4	6.8	6.2

B. AVERAGE WAGES

	annual percentage changes						
	1995 Q1 - 4	1996 Q1 - 4	1997 Q1 - 4	1998 Q1 - 4	1999 Q1 - 4	2000 Q1 - 4	2001 Q1
Overall nominal wage	18.5	18.4	10.5	9.4	8.2	6.6	9.3
Business sector	19.2	17.7	11.7	11.0	7.1	7.8	9.3
Non-business sector	17.0	20.7	5.8	3.9	13.1	2.8	9.4
Overall real wage	8.7	8.8	1.9	-1.2	6.0	2.6	5.0
Business sector	9.2	8.2	2.9	0.3	4.9	3.8	5.0
Non-business sector	7.3	10.9	-2.5	-6.1	10.8	-1.1	5.1

C. UNEMPLOYMENT

	end of period						
	1995 12	1996 12	1997 12	1998 12	1999 12	2000 12	2001 6
Registered job applicants (thousands)	153.0	186.3	268.9	386.9	487.6	457.4	420.3
Unemployment rate in per cent	2.9	3.5	5.2	7.5	9.4	8.8	8.1

Source: CSO

PRODUCTION

	annual percentage changes						
	1995	1996	1997	1998	1999	2000	2001
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	1-5
INDUSTRY							
Industrial production, total 1)	.	2.0	4.5	1.6	-3.1	5.1	9.6
of which:							
Mining and quarrying	.	1.4	-2.9	-5.7	-12.0	7.7	0.3
Manufacturing	.	1.7	6.4	2.5	-2.7	4.8	11.1
Electricity, gas and water supply	.	3.7	-2.7	-1.5	-3.5	6.1	3.4
CONSTRUCTION							
Construction output, total	8.5	5.3	-3.9	-7.0	-6.5	5.3	15.4

1) Since 1996 the Index of Industrial Production based on statistics for production of selected products

2) Constant prices

Source: CSO

PRODUCER PRICES

	1995	1996	1997	1998	1999	2000	percentage changes	
							2001	
							6	average
INDUSTRIAL PRODUCER PRICES								
a) previous month = 100	0.6	0.4	0.5	0.2	0.3	0.4	0.2	0.2
b) same period of last year = 100	7.6	4.8	4.9	4.9	1.0	4.9	3.4	4.0
c) average for 2000 = 100	.	.	.	.	.	0.0	3.0	2.8
d) December 1999 = 100	.	.	.	.	.	3.4	6.5	6.3
e) average for 1994 = 100	7.6	12.7	18.2	24.0	25.2	31.4	.	.
f) December 1993 = 100	12.7	18.1	23.9	29.9	31.2	37.7	.	.
CONSTRUCTION WORK PRICES								
a) previous month = 100	1.0	0.9	0.9	0.6	0.3	0.4	0.4	0.4
b) same period of last year = 100	10.6	11.3	11.3	9.4	4.8	4.0	4.2	4.5
c) average for 2000 = 100	.	.	.	.	.	0.0	4.1	3.3
d) December 1999 = 100	.	.	.	.	.	2.8	6.5	5.7
e) average for 1994 = 100	10.6	23.1	36.8	49.7	56.9	63.1	.	.
f) December 1993 = 100	19.6	33.1	48.1	62.0	69.8	76.5	.	.
AGRICULTURAL PRODUCER PRICES								
b) same period of last year = 100	7.6	8.3	2.9	2.3	-11.7	9.2	16.5	12.9
of which:								
crop products								
b) same period of last year = 100	7.1	16.7	3.3	-5.4	-15.0	12.6	20.1	15.1
livestock products								
b) same period of last year = 100	8.1	5.1	2.7	5.7	-10.5	8.0	14.4	11.7
MARKET SERVICES PRICES (excluding interest rates)								
a) previous month = 100	1.6	0.9	0.9	0.6	0.3	0.4	0.1	0.4
b) same period of last year = 100	17.6	12.7	10.9	8.8	4.1	3.4	6.0	5.2
c) average for 2000 = 100	.	.	.	.	.	0.0	4.9	4.2
d) December 1999 = 100	.	.	.	.	.	0.6	5.5	4.8
e) average for 1994 = 100	17.7	32.6	47.1	60.0	66.4	72.1	.	.
f) December 1993 = 100	22.9	38.4	53.5	67.0	73.8	79.6	.	.

a) average = average monthly growth rate in the year
b,c,d) average = average since the start of the year

Source: CSO

RATIOS OF KEY INDICATORS TO GDP

	percentage ratios					
	1995	1996	1997	1998	1999	2000
State budget balance	0.5	-0.1	-0.9	-1.6	-1.6	-2.4
Public budgets balance	0.3	-0.3	-1.2	-1.5	-0.6	-3.2
Public debt	15.6	13.6	13.5	13.8	15.2	17.9
Debt in convertible currencies	31.9	36.4	44.0	39.1	43.1	40.8
Trade balance 1)	-7.2	-9.5	-8.8	-4.3	-3.4	-6.3
Current account balance	-2.6	-7.4	-6.1	-2.3	-2.9	-4.7
M2	75.3	71.8	72.6	70.0	73.6	75.5

Note: ratio = indicator/GDP at current prices

1) Source: CSO

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