2002

INFLATION REPORT APRIL/2002

CNB CZECH NATIONAL BANK

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CONTENTS

CHARTS IN THE TEXT

ABBREVIATIONS USED

CNB	Czech National Bank
CSO	Czech Statistical Office
CZK	Czech koruna
DEM	German mark
EMU	European Monetary Union
EU	European Union
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.)
MLSA	Ministry of Labour and Social Affairs
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
repo rate	interest rate applied to repurchase agreements
SFAOs	state financial assets operations
T-bills	treasury bills
USD	US dollar

FOREWORD

In 1998, the Czech National Bank switched to direct targeting of inflation. In the inflation targeting regime, the central bank's communication 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 for the Bank Board's 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 inflation forecast. The inflation forecast and the assumptions underlying it are published with the aim of making monetary policy transparent, comprehensible, predictable and therefore reliable. The Czech National Bank is convinced that reliable monetary policy effectively influences inflation expectations and minimises the costs of maintaining price stability. Maintaining price stability is the Czech National Bank's primary objective.

This Inflation Report contains an annex giving an approximate quantification of the Balassa-Samuelson effect on the real exchange rate of the Czech koruna. The Report was approved by the CNB Bank Board on 2 May 2002.

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

I. SUMMARY

Despite some contrary factors, the developments in the Czech economy in the first quarter of 2002 can be assessed as generally positive. Inflation continued declining within the bounds of the CNB's target band. The GDP growth in 2001 Q4 was rather lower than in Q3. Nevertheless, the overall GDP growth for 2001 as a whole was the highest since 1996. The long-running tendency towards a widening public finance deficit persisted in 2002 Q1. The strong rate of appreciation of the koruna's exchange rate against the euro was again assessed as out of step with the current state of the Czech economy.

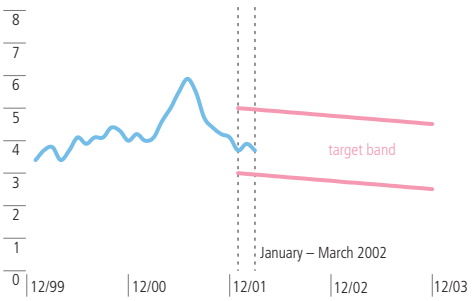
TABLE I.1
INFLATION DECREASED FURTHER IN 2002 Q1
(annual percentage figures unless otherwise indicated)

	12/01	1/02	2/02	3/02
Consumer price inflation	4.1	3.7	3.9	3.7
Industrial producer price inflation	0.8	0.6	-0.1	-0.2
Money supply growth (M2)	13.0	11.5	10.8	n.a.
3M PRIBOR[1]	4.69	4.55	4.30	4.30
Nominal CZK/EUR exchange rate[2]	31.98	31.92	31.60	30.85
State budget balance since January incl. SFAOs,[2] CZK bn	-67.7	-3.4	-24.9	-15.7
GDP growth at constant prices[3]	3.2	-	-	-
Unemployment rate[2]	8.9	9.4	9.3	9.1

1 Average for the month
2 End-of-month position
3 Figure for the quarter ending with the given month

The downward inflation trend continued into 2002 Q1, thanks to lower growth in regulated prices at the start of the year and to disinflationary cost factors. The effect of falling import prices of raw materials, most notably oil, was bolstered by appreciation of the koruna's exchange rate against both the euro and the dollar. The rise in food price inflation during Q1 was only temporary. The slowing annual consumer price inflation confirmed the trend of gradual convergence between inflation in the Czech Republic and that in the eurozone. The comparable March index in the Czech Republic was around one percentage point higher than the eurozone average.

CHART I.1
INFLATION WAS WITHIN THE TARGET BAND IN 2002 Q1
(annual consumer price inflation; percentages)



The CNB's new system of inflation targeting for 2002–2005 is based on a target for overall ("headline") inflation taking the form of a continuous descending band. This allows the CNB to monitor the fulfilment of the inflation target not only at the end of the year, as was the case in the previous system of targeting December net inflation, but also during the course of the year. The inflation target was fulfilled in 2002 Q1 – annual consumer price inflation rose from 3.7% in January to 3.9% in February, only to return to 3.7% in March.

The economic growth in 2001 Q4 was slightly lower than in the previous quarter. This was due to the slowdown in economic growth recorded by the Czech Republic's major EU trading partners. Nevertheless, it remained significantly higher than in the EU. Annual GDP growth was affected by the favourable domestic demand trend, and especially by growth in gross fixed capital formation and household consumption. The external sector trend, i.e. the widening trade deficit, had a downward effect on economic growth.

The imbalance between the demand for and supply of work – linked with the restructuring of the domestic economy and the slackening of external demand – continued to increase in 2001 Q4. The number of vacancies stagnated at the end of 2001 and began declining in year-on-year comparison at the start of 2002. This resulted in a year-on-year increase in the unemployment rate in 2002 Q1 above the level of the same period a year earlier. Annual growth in average wages slowed in 2001 Q4, generating a fall in the growth rate of nominal unit wage costs. The negative gap between real average wage growth and labour productivity growth remained at the Q3 level.

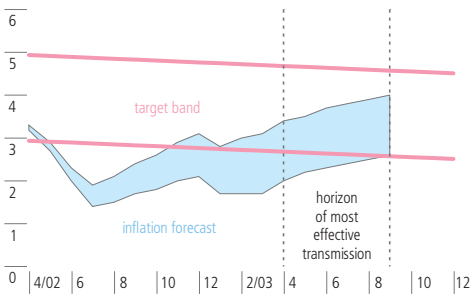
The CNB's monetary policy decision-making in 2002 Q1 was based on the inflation forecast published in the January Inflation Report and on considerations of the risks and uncertainties regarding future developments. Owing to the monetary policy transmission lag, the CNB's decision-making in 2002 Q1 focused primarily on making sure that inflation develops in line with the target band in the first half of 2003. As in the previous quarter, an expected short-term dip in inflation below the target range in mid-2002 was assessed to be the result of the short-term pick-up in inflation in mid-2001, which meant a rise in the comparison base for the inflation forecast. This factor – causing a deviation in the measurement of annual inflation – did not, and does not, give any grounds for taking monetary policy measures.

An important item in the CNB's monetary policy deliberations in 2002 Q1 was again the rapid appreciation of the koruna's exchange rate. At the turn of the year, the CNB and the Government held intensive discussions on measures to rein in any further strengthening of the koruna. These discussions led to the adoption of a joint *Strategy for Dealing with the Exchange Rate Effects of Capital Inflows from Privatisation of State Property and from Other Foreign Exchange Revenues of the State* at the start of 2002. This document was published in the January Inflation Report. Given that market participants were incorporating this information into their exchange rate expectations only very slowly, leading to further appreciation of the exchange rate and to a further disproportionate tightening of monetary conditions, the Bank Board decided at an extraordinary meeting on 21 January 2002 to reduce interest rates. The limit interest rate for two-week repos was lowered by 0.25 percentage points to 4.50%. This reduction was accompanied by interventions on the foreign exchange market aimed at weakening the koruna's exchange rate. After a short-lived depreciation, however, the exchange rate started appreciating again at the end of January. The year-on-year nominal appreciation of the koruna against the euro reached approximately 10% at the end of Q1.

At its subsequent regular meeting on 31 January 2002, the Board assessed the latest exchange rate and macroeconomic trends, and in particular discussed the new comprehensive inflation forecast published in the January Inflation Report. The position of the midpoint of the forecast at the horizon of most effective monetary policy transmission near the lower boundary of the target band, together with an assessment of the risks attaching to the inflation forecast, led to a decision to further lower the monetary policy interest rate for two-week repos by 0.25 percentage points to 4.25%. The subsequent Board meetings in Q1 decided to leave the CNB's monetary policy rates unchanged.

As usual, the Inflation Report contains the CNB's quarterly conditional inflation forecast. The April 2002 conditional forecast is at a slightly lower level than that published in the January Inflation Report (see Chart I.2). This forecast formed part of the source materials used for the CNB Bank Board's monetary policy decision-making on 25 April 2002.

CHART I.2
THE INFLATION FORECAST IS WITHIN THE LOWER PART OF THE TARGET BAND AT THE HORIZON OF MOST EFFECTIVE TRANSMISSION
(annual percentage changes)



The inflation forecast is the resultant of the prevailingly anti-inflationary or neutral effects of most external and internal inflation factors. The CNB does not expect economic growth to exceed the growth potential of the economy. Domestic demand-inflation pressures should thus remain subdued. Falling, or only moderately rising, import prices, combined with the inflation-neutral domestic wage cost trend and the strong exchange rate of the koruna, at the same time mean low cost-inflation pressures. Over the next few quarters, the inflation forecast lies below the CNB's target band. This dip during 2002 reflects external factors and base effects. Of particular relevance to the CNB is the inflation forecast at the horizon of most effective transmission, i.e. in April-September 2003. At this horizon, the inflation forecast lies within the lower part of the target band.

The CNB expects mixed price developments in the individual commodity groups. Tradables prices should rise at a rate of around 2%, while nontradables price inflation should be around 5%. Regulated price inflation will fall from its current level to around 4.5% in 2003 H2. The risks attaching to the forecast lie mainly on the downside and concern the evolution of the exchange rate itself relative to the reference scenario, as well as the intensity with which the current year-on-year appreciation of the koruna will pass through into tradables prices.

II. INFLATION DEVELOPMENTS

CHART II.1
ANNUAL CONSUMER PRICE INFLATION FELL FURTHER IN 2002 Q1
(percentages)

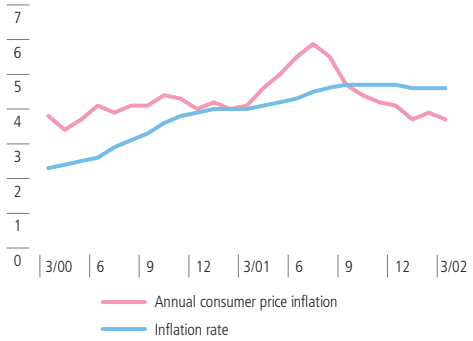


CHART II.2
CONSUMER PRICE INFLATION IN THE CZECH REPUBLIC APPROACHED THE EUROZONE LEVEL
(annual percentage changes)

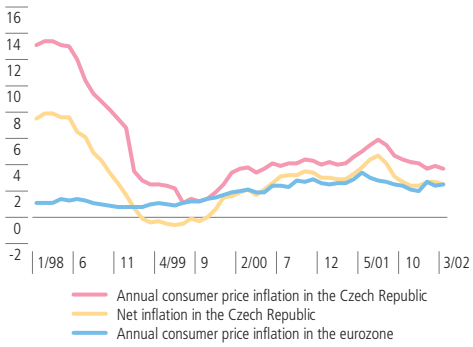
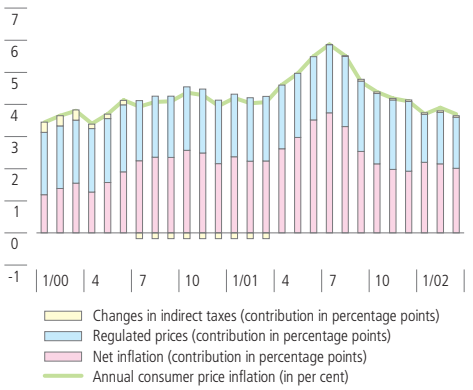


CHART II.3
THE SLOWDOWN IN CONSUMER PRICE INFLATION WAS CHIEFLY ATTRIBUTABLE TO REGULATED PRICES, BUT THEIR CONTRIBUTION TO INFLATION REMAINED SIGNIFICANT



Annual consumer price inflation declined further during 2002 Q1. In the previous quarter it had been fluctuating just above 4%, but in Q1 it fell below this level. In March 2002, consumer price inflation was 0.4 percentage points lower (at 3.7%) than at the end of 2001 Q4. The inflation rate[1] decreased slightly to 4.6%.

The continuing downward trend in annual consumer price inflation meant further convergence between inflation in the Czech Republic and that in the eurozone. Chart II.2 shows that this process is particularly apparent in the segment of market prices, which are measured by net inflation. This confirms that the main cause of the difference between consumer price inflation in the Czech Republic and that in the eurozone is the gradual adjustment of regulated prices in the Czech Republic to their market level. This can also be deduced from Chart II.3, which illustrates the contributions of the basic price segments to consumer price inflation. In the previous two years, the contribution of regulated prices to annual consumer price inflation had been around 50%, whereas in 2002 Q1 it decreased to around 40% thanks to less extensive adjustments to regulated prices.

It was the less extensive adjustment of regulated prices at the start of 2002 which was the main cause of the slowdown in consumer price inflation in 2002 Q1. During 2001 annual regulated price inflation had fluctuated around 10%–11%, whereas at the start of 2002 it declined to around 8%. In March 2002 alone, annual regulated price inflation, at 8%, was 3.7 percentage points lower than in December 2001.[2] The price adjustments this year encompassed a wider group of items, including energy, heat, train fares and public telecommunications services. No other inflation-significant administrative changes above and beyond the framework of regulated prices were made in Q1.

Unlike regulated prices, net inflation[3] rose somewhat in 2002 Q1. In March, it was 0.1 percentage point higher than in December 2001, standing at 2.5% (in annual comparison). However, the rise in this segment was not across the board in nature, as evidenced by the structural developments in net inflation and by developments in individual groups of the consumer basket. In addition, the decline in net inflation from 2.7% in January (compared with 2.4% in December 2001) to 2.5% in March, and the factors underlying it, suggested no change in the previous downward trend. The temporary upward swing in net inflation in Q1 was due to a modest rise in other nontradables price inflation. Also, the higher food price inflation in the first two months of Q1 was only temporary. Prices of many of the commodities making up net inflation conversely recorded slower growth, an annual decline, or stagnation at the previous quarter's level.

1 *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.*
2 *For example, natural gas prices for households had risen by 24.1% in January 2001, but increased by just 4.7% in January 2002.*
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).*

As in the previous quarter, numerous factors had a disinflationary effect. The main external cost factor was the downward trend in oil price growth on world markets. This trend had emerged in 2000 Q2, culminating in 2001 Q3 in a year-on-year decline in oil prices. Prices of other energy-producing and non-energy-producing raw materials on world markets were also favourable to producers. The price development of these inputs created room for lower growth, or a decline, in domestic producer prices and consequently consumer prices. These factors were simultaneously bolstered by continuing appreciation of the koruna's exchange rate against the US dollar and the euro. The main domestic factor counteracting an across-the-board rise in inflation was the strongly competitive environment. The factors mentioned above chiefly affected prices in the tradables segment.

The inflation-reducing factors affected fuel prices.[4] In line with the oil price trend on world markets, fuel prices fell again in 2002 Q1 in annual comparison (by 9.2% in March). Prices of other tradables except fuels, which are affected to a large extent by foreign competition and the koruna's exchange rate, also continued their decline during Q1 (falling by 1.1% in March). Only in the other nontradables segment did inflation remain relatively buoyant, picking up slightly during Q1 from 6.5% in December 2001 to 6.9% in March. Underlying this rise were adjustments to the prices of several items at the start of the year (e.g. imputed rents, rents in co-operative flats and third-party car insurance). Inflation in this segment, which chiefly comprises the services area, was also affected by other domestic factors (especially wage-cost factors). The pick-up in other nontradables inflation caused adjusted inflation to rise in Q1 (by 0.5 percentage points compared with December to 2.6% in March).

Food prices again displayed their traditional volatility in 2002 Q1. Despite the short-term fluctuations, however, the long-term downward trend in annual growth, visible since July of the previous year, continued. In January 2002, food price inflation rose slightly relative to December 2001 owing to above-average growth in the prices of certain highly volatile items (fruit and vegetables), but from February onwards it fell back. In March, annual food price inflation[5] was 0.6 percentage points lower than at the end of the previous quarter, standing at 2.3%. Underlying this favourable trend was a sharp decline in prices of some foodstuffs (meat, and bread and cereals) caused by a long-running steady decline in the prices of most of the major agricultural commodities (visible since the middle of the previous year).

CHART II.4
PRICES OF OTHER NONTRADABLES IN THE ADJUSTED INFLATION SEGMENT FOSTERED AN INCREASE IN NET INFLATION
(annual percentage changes)

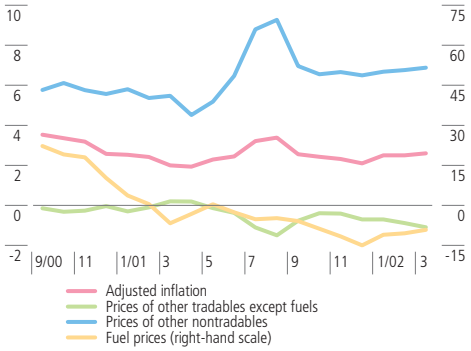
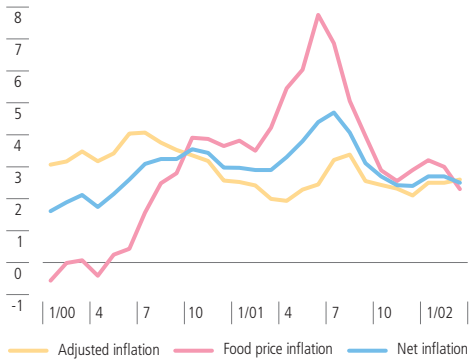


CHART II.5
THE RISE IN FOOD PRICE INFLATION WAS ONLY TEMPORARY
(annual percentage changes)

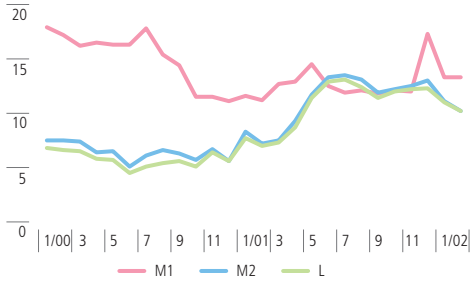


4 *Adjusted inflation = prices of other tradables + prices of other nontradables. Prices of other tradables = fuel prices + prices of other tradables except fuels*

5 *i.e. overall inflation in the groups "Food and non-alcoholic beverages" and "Alcoholic beverages and tobacco".*

III. INFLATION FACTORS

CHART III.1
ANNUAL GROWTH IN THE BROADER MONETARY AGGREGATES HAS BEEN STEADILY DECLINING SINCE JANUARY 2002
(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 ANNUALISED MONTHLY GROWTH SUGGESTS A DOWNWARD TENDENCY IN THE MONEY SUPPLY
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
November 01	0.9	5.3	7.7	12.5
December 01	-0.3	2.4	5.1	13.0
January 02	2.2	11.5	9.2	11.1
February 02	-0.7	4.9	5.1	10.2

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

CHART III.2
THE LEAD OF DEPOSIT GROWTH OF BUSINESSES OVER THAT OF HOUSEHOLDS IS NARROWING
(percentages)

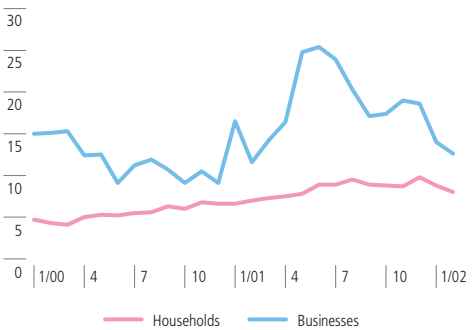


TABLE III.2
THE ANNUAL GROWTH RATE OF M1 GRADUALLY STABILISED AT THE START OF 2002
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
November 01	2.5	10.8	11.0	12.0
December 01	3.0	20.9	15.0	17.3
January 02	-1.9	15.0	9.8	13.3
February 02	0.4	6.1	8.5	13.3

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

III.1. MONETARY DEVELOPMENTS

III.1.1. Monetary aggregates

Annual money supply growth slowed slightly in December 2001–February 2002. This reflected lower demand for money on the part of economic agents. As regards its main counterparts, the slowdown was attributable to net foreign assets, net credit to government and bank lending.

The monetary aggregates developed in line with CNB forecasts. The slowdown in annual monetary aggregate growth in the first two months of 2002, accompanied by an absolute decline in the money stock, suggests a broadly non-inflationary environment in the economy.

Monetary aggregate M2

After rising to 13.0%[6] in December 2001, annual M2 growth gradually fell back in the subsequent two months, reaching 10.2% in February. The annualised seasonally adjusted monthly growth also suggests a downward tendency (see Table III.1).

Sector structure of M2

The long-term tendency of convergence in annual money supply growth between the household sector and the corporate sector – temporarily interrupted in December 2001 – continued into January and February 2002. The gradual decline in money demand in the corporate sector is consistent with the projected modest slowdown in economic growth, which usually passes through into the money holdings of the population with a lag. As regards the composition of corporate deposits, there was a seasonal fall in the volume of deposit bills of exchange at the start of 2001. However, this fall was not as large as in previous years. In the first two months of 2002, the volume of deposit bills of exchange was flat at just under CZK 100 billion (compared with CZK 30 billion in the same period a year earlier). A decline in koruna deposits in the corporate sector in December 2001–February 2002 was accompanied by a modest decrease in foreign currency deposits.

In the household sector, koruna deposits have been showing particularly strong growth since the start of 2002. This marks an end to the trend of faster growth in currency in circulation which, unlike in 2000, had emerged from September 2001 onwards as a consequence of increased Christmas purchasing and the conversion of national currencies into the euro, both of which were extraordinary factors. Households' foreign currency deposits were flat in December 2001–February 2002.

Monetary aggregate M1

Annual M1 growth rose to 17.3% in December 2001, but fell back to 13.3% in January and remained at that level in February. Currency in circulation as a share of the money supply also stabilised at 11.4%, just below the 2001 average. The annualised year-on-year M1 growth also suggests a further possible decline.

6 *Calculated using a new monetary aggregate calculation methodology, according to which off-budget funds of the government sector as from 1 January 2002 are no longer included in the monetary aggregates (having been transferred to net credit to government). The changes also affect net credit to government and lending. Under the new methodology, CNB bills are not included in monetary aggregate L.*

Monetary aggregate L

Annual L growth was similar to M2 growth in December 2001–February 2002. After peaking at 12.3% in December, it gradually eased to 10.2% in February. As with the other monetary aggregates, the annualised seasonally adjusted L growth indicates a downward tendency.

III.1.2. Credits granted to businesses and households

Annual lending growth[7] adjusted for nonmonetary effects and for the transformation of Konsolidační banka into the Czech Consolidation Agency was flat in December 2001–February 2002. On average the growth rate was 3.0% in nominal terms and 2.5% in real terms (deflated by the industrial producer price index). In the same period, the absolute volume of credits was up by CZK 6.3 billion. Koruna credits rose by CZK 17.8 billion, while foreign currency credits fell by CZK 11.5 billion.

The stagnation in lending in December 2001–February 2002 is evidenced by the current growth rate of lending as measured by the quarterly seasonally adjusted and annualised figures, which except in January were flat or falling. A similar trend was recorded for the monthly credit growth.

The current trend in lending also affected its structure. Non-financial corporations recorded a particularly large decline in credit growth. This reflected lower effective demand for loans, linked with negative signals regarding the financial position of corporations. Conversely, credits to households increased in the period under review.

As regards credit type, operating and investment credits continued to account for most of the total. The share of operating credits was 42.3% and the share of investment credits 29.3%. Mortgage credits accounted for 7.2% of total credits and consumer credits for 6.4%. As regards time structure, short-term credits recorded the biggest share of the total in the period under review (37.5%). The share of medium-term credits was 30.0% and that of long-term credits was 32.5%.

III.2. INTEREST RATES

Interest rates in 2002 Q1 were strongly affected by reductions in the CNB's key rates. At the end of January, the CNB adjusted all its key rates in two steps, in total by 0.50 percentage points. The limit 2W repo rate was lowered to 4.25%, the Lombard rate to 5.25% and the discount rate to 3.25% with effect from 1 February 2002. The response of market interest rates was mixed on the different segments of the financial market. A noticeable decline was only recorded for rates with the shortest maturities. With growing maturities the reaction was less clear. Medium-term and long-term interest rates actually went up slightly for a while. This was due to the fact that domestic interest rates with longer maturities are increasingly being influenced by external factors linked with the expected convergence with EMU rates. Abroad, meanwhile, expectations of an upward trend – linked to the expected recovery in economic growth – predominated. The internal factors acting towards a decrease in rates included favourable trends in inflation and domestic demand pressures. During February, rates fell to historical lows in virtually all segments of the financial market.

7 *The figures on lending are not comparable with those in previous Inflation Reports, owing to the methodological change introduced on 1 January 2002. In connection with this change, off-budget and other funds of budgetary organisations were excluded from credits. The figures for the previous period were recalculated using the new methodology.*

TABLE III.3
ANNUAL L GROWTH HAS ALSO BEEN FALLING SINCE THE START OF 2002
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
November 01	0.9	5.9	8.4	12.2
December 01	-0.2	3.8	5.1	12.3
January 02	2.0	11.5	9.5	11.0
February 02	-0.6	4.9	5.4	10.2

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

CHART III.3
ANNUAL CREDIT GROWTH WAS FLAT IN NOMINAL TERMS
(percentages)

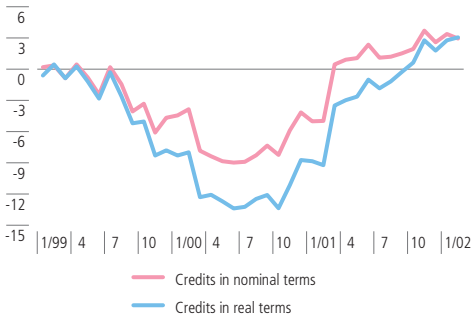
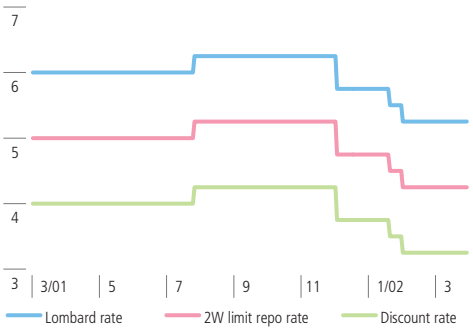


TABLE III.4
SEASONALLY ADJUSTED AND ANNUALISED 3-MONTH CREDIT GROWTH ALSO STAGNATED
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
November 01	0.7	6.0	4.3	3.7
December 01	0.3	1.4	1.9	2.6
January 02	1.2	9.6	6.6	3.4
February 02	-0.3	5.3	5.7	2.9

Note: Adjusted for exchange rate effects, write-offs, banks without licences, loan portfolio restructuring and the transformation of Konsolidační banka into the Czech Consolidation Agency

CHART III.4
THE CNB LOWERED ITS KEY INTEREST RATES TWICE IN JANUARY
(percentages)



However, they increased slightly at the end of March. Client interest rates on credits and deposits also responded to the adjustments to key rates and the changes in rates on the financial market.

CHART III.5
PRIBOR RATES FELL
(percentages)

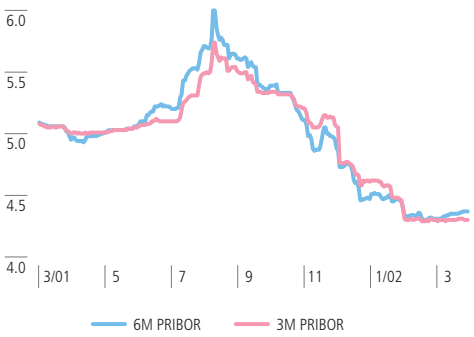


CHART III.6
THE PRIBOR YIELD CURVE CHANGED SHAPE
(percentages)

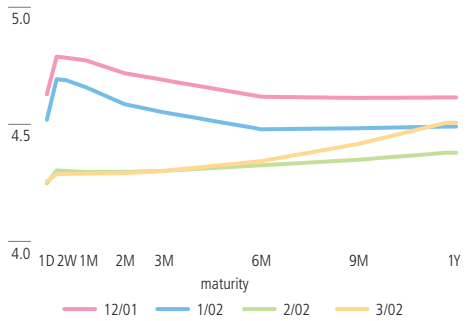
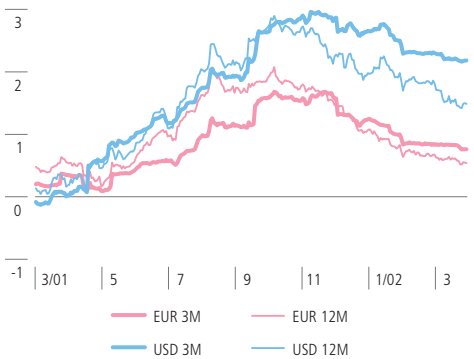


CHART III.7
THE INTEREST RATE DIFFERENTIAL NARROWED SOMEWHAT
(percentage points)



III.2.1. Short-term interest rates

Short-term interest rates continued their decline of the previous period at the beginning of 2002, although to a lesser extent. The CNB's reductions in key interest rates at the end of January provided a further impulse. At that time, PRIBOR rates reached a historical low. A phase of stabilisation followed, as the market considered this level to be consistent with the current economic situation. Interest rates on the money market had been declining for approximately six months, during which time they had fallen by 1.0–1.9 percentage points depending on maturity. Faster movement was recorded for rates with longer maturities. Interest rates increased somewhat at the end of March. However, this was only a minimal shift.

The shape of the PRIBOR yield curve changed during the course of the quarter. The curve gradually shifted to a lower yield level, although its slope remained inverted. However, the slope later decreased as rates with shorter maturities fell faster following the CNB's adjustments of key rates. The yield curve flattened out and became slightly upward sloping at the end of March. Compared with December 2001, the average 1W PRIBOR fell by 0.50 percentage points to 4.29% and the 1Y PRIBOR by 0.11 percentage points to 4.51%. The spread between the two rates was 0.22 percentage points in March (compared with -0.17 percentage points in December 2001).

FRA rates developed similarly to PRIBOR interest rates in the period under review, but showed greater fluctuations. The FRA quotations at the end of March 2002 suggested stability of spot rates over the next few months, followed by a modest increase.

The short-term bond market comprises T-bills only. There were nine auctions on the primary market, with 3M, 6M, 9M and 1Y maturities. The primary yields in the auctions varied between 4.3% and 4.5% depending on maturity and the market situation. On the secondary market, T-bill yields copied PRIBOR rates.

The interest rate differential (PRIBID/CZK-LIBOR/EUR,USD) was affected by the changes in interest rates abroad and by the interest rate movements on the domestic interbank market. Key rates remained flat in virtually all the major economies, although market rates were for the most part rising, owing to the expected economic recovery. In the USA, the overnight rate stayed at 1.75% and the discount rate at 1.25%. Nor were any changes made to the key rates in the eurozone, where the most important repo rate was 3.25%. Domestic money market rates fell, hence the interest rate differential narrowed slightly to 0.5–0.8 percentage points vis-à-vis euro rates and 1.5–2.3 percentage points vis-à-vis dollar rates at the end of March 2002 (depending on maturity).

III.2.2 Long-term interest rates

Long-term IRS rates and bond yields developed rather differently to the money market rates. The downward trend was not so obvious, particularly at longer maturities. These instruments are increasingly showing a linkage to similar instruments abroad, especially in Germany and the USA. In these countries, interest rates started to increase gradually, thanks to the expected economic recovery. In line with this rise, domestic rates also started to increase during March. Compared with December 2001, the 1Y IRS rate was down by 0.09 percentage points and the 5Y IRS rate up by 0.18 percentage points in March 2002.

The IRS yield curve changed little over the quarter, shifting only partially to a higher yield level and becoming more upward sloping. This is also visible from the spreads between the longer and shorter parts of the curve. The average 5Y-1Y spread was +0.83 percentage points in March (compared with +0.56 percentage points in December 2001) and the 10Y-1Y spread reached +1.17 percentage points (compared with +1.02 percentage points in December 2001).

There were three auctions on the primary government bond market, with residual maturities of 3Y, 10Y and 5Y and a total volume of CZK 23 billion. A maximum acceptable yield was not given, and demand exceeded supply in all the auctions – in one case even threefold – despite the offered volume being significantly increased compared with previous practice. The average gross yields were 4.68%, 5.41% and 5.03%. There was one issue on the mortgage bond market in this period, with a volume of CZK 1.35 billion. Issuing activity also continued on the primary koruna eurobond market, where the outstanding volume at the end of March 2002 was CZK 83.4 billion.

III.2.3 Client interest rates

Nominal client interest rates responded to the reduction of the CNB's key rates and to the movements in financial market rates. Since credit rates are more flexible, their response was more pronounced. Interest rates on new credits stood at 5.2% in February, a decline of 1.0 percentage point compared with a year earlier. Time deposit rates were 0.6 percentage points lower than a year earlier at 3.1%. The interest rate margin between credit and deposit rates changed only minimally, being 4.2 percentage points in February.

In addition to the level of nominal rates, real interest rates[8] were affected by the evolution of price indices. The expected consumer price indices decreased to approximately the same extent as the nominal rates, so the real rates deflated in this way did not change significantly. The industrial producer price indices changed less. Real rates on newly granted credits were 3.0% in February and real interest rates on time deposits -0.4%.

CHART III.8
IRS RATES INCREASED SLIGHTLY
(percentages)

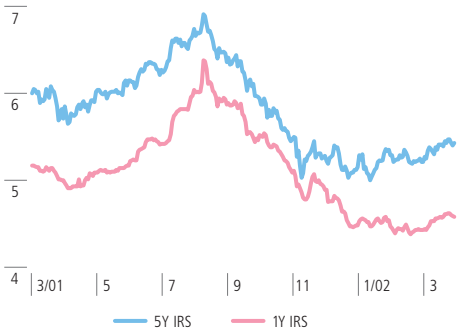


CHART III.9
THE IRS YIELD CURVE SHIFTED TO A HIGHER LEVEL
(percentages)

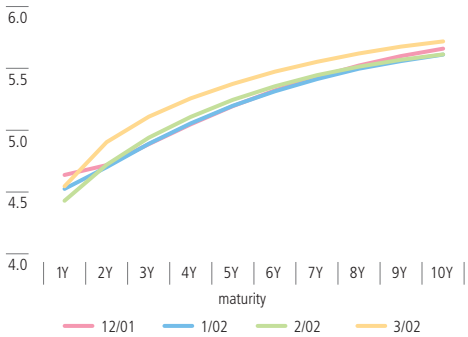
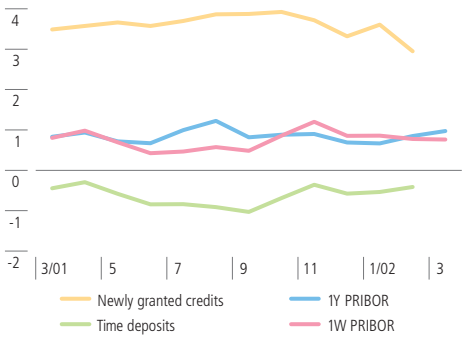


CHART III.10
EX ANTE REAL INTEREST RATES WERE LITTLE CHANGED
(percentages)



8 *Ex ante real interest rates: nominal interest rates on credits are deflated by the industrial producer price indices expected by the CNB each month; nominal interest rates on deposits and PRIBOR rates are deflated by the consumer price indices expected by financial market participants each month.*

CHART III.11
THE KORUNA APPRECIATED

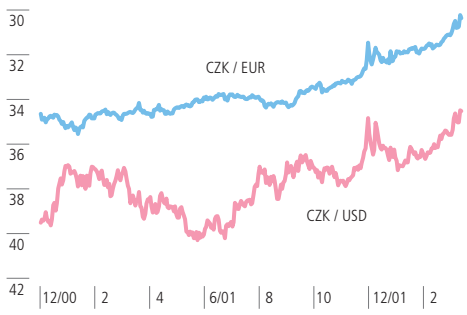


CHART III.12
THE EFFECTIVE EXCHANGE RATES CONTINUED STRENGTHENING
(Year 2000 = 100)

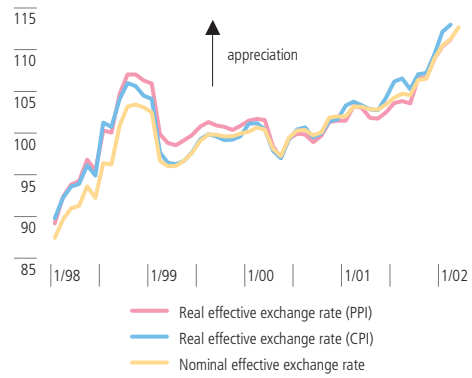


TABLE III.5
THE LARGE FINANCIAL ACCOUNT SURPLUS PERSISTS
(in CZK billions)

	1998	1999	2000	2001
Financial account	94.3	106.6	148.0	153.3
Direct investment	115.9	215.7	190.8	183.3
- Czech abroad	-4.1	-3.1	-1.6	-3.7
- Foreign in Czech Republic	120.0	218.8	192.4	187.0
Portfolio investment	34.5	-48.3	-68.2	34.9
- Czech abroad	-0.8	-65.6	-86.6	4.4
- Foreign in Czech Republic	35.3	17.3	18.4	30.5
Financial derivates	0.0	0.0	-1.4	-3.2
Other investment	-56.1	-60.9	26.8	-61.7
1. Long-term investment	-64.1	-25.2	-4.9	3.3
- Credits granted abroad	-24.3	-23.9	21.3	1.4
- Credits accepted from abroad	-39.8	-1.3	-26.2	1.9
2. Short-term investment	8.0	-35.7	31.7	-65.0

III.2.4. The exchange rate

The koruna's exchange rate continued appreciating against both the euro and the dollar in 2002 Q1. At the end of Q1 the koruna's exchange rate was around CZK 30.85 to the euro. Against dollar, the koruna appreciated from approximately CZK 36.30 in January 2002 to CZK 35.85 in March. The appreciation is connected with the expected exchange rate effects of the future inflow of funds into the Czech economy.

The appreciation of the koruna in Q1 occurred despite signs of a slowdown in non-privatisation foreign direct investment and a growing share of re-invested earnings in FDI, and despite an agreement between the Government and the CNB to prevent privatisation proceeds getting onto the foreign exchange market. An analysis of the Balassa-Samuelson effect investigating labour productivity growth supports the conclusion that the nominal appreciation of the koruna is too fast (see the Annex). In the opinion of the Czech National Bank, the rate of appreciation exceeds that explainable by the development of fundamentals in the Czech economy. The Czech National Bank, following an extraordinary Bank Board meeting in January, made open interventions on the foreign exchange market to curb the koruna's appreciation. It was agreed, together with the interventions, to decrease interest rates. At its subsequent regular meeting at the end of January, after assessing the new quarterly macroeconomic forecast, the Bank Board decided to further ease monetary policy. The appreciation of the exchange rate continued during Q1, and the members of the Bank Board publicly expressed the Czech National Bank's opinion that the appreciation was excessive in relation to the real development of the economy.

In 2002 Q1, the nominal effective exchange rate index recorded a year-on-year rise of 8.5%. Most of this growth occurred in the second half of the period, with the index firming by 7.8% in the last six months. The real effective exchange rate indices appreciated similarly to the nominal rate.

III.2.5. Capital flows

The financial account ended 2001 with a surplus of CZK 153.3 billion (around 7% of GDP), up by CZK 5.3 billion (3.6%) from a year earlier. Foreign direct investment (FDI) continued to dominate the inflow of capital. Portfolio investment contributed to the net capital inflow to a lesser extent. A customary pick-up in net capital inflow (CZK 66.7 billion) was recorded in 2001 Q4.

The net inflow of direct investment into the Czech Republic reached CZK 183.3 billion in 2001, constituting a modest year-on-year decline of 3.9% (CZK 7.5 billion). FDI inflow totalled CZK 187.0 billion (down by CZK 5.4 billion from the previous year). Underlying this virtually unchanged level were some significant changes in structure. In 2001 H2, the inflow of foreign investment in new production capacities eased significantly. This was probably linked with slowing economic growth in key investor countries. On the other hand, the weight of sales of state-owned assets in the overall inflow increased to around 30% in 2001. If we include the sale of a stake in Radiomobil by a state-controlled corporation, which was de facto the sale of a state-owned asset too, then sales of state-owned assets accounted for around 42% of the total FDI inflow in 2001. (In 2000, sales of state-owned assets had accounted for only around 18% of the total.) A further 17% or so of the total FDI inflow comprised reinvested earnings in foreign-owned corporations active in the Czech Republic (which do not affect the koruna's exchange rate). In 2001 Q4, sales of state-owned assets accounted for around 72% of the total FDI inflow and reinvested earnings for around

12%. The biggest investment events of 2001 were the sale of the state-owned stake in Komerční banka (CZK 39.9 billion), the sale of Radiomobil (CZK 22.1 billion), the sale of České radiokomunikace (CZK 6.8 billion) and the sale of shares in water utility Vodovody a kanalizace Praha (CZK 6.2 billion). The largest capacity-creating investment was that of Philips in the town of Hranice, North Moravia (CZK 6.8 billion – manufacture of picture tubes for TV sets). As to sector, most of the investment inflow (around 70%) was channelled into services; just under 30% went into industry. By territory, the biggest investors were Germany, France and the Netherlands, together accounting for almost 75% of the total FDI inflow. Czech direct investment abroad remained insignificant, reaching just CZK 3.7 billion.

There was a major year-on-year change in the area of portfolio investment. A net capital inflow of CZK 34.9 billion was recorded in 2001, representing a change of more than CZK 100 billion compared with a year earlier. Domestic investors accounted for more than 90% of the change in portfolio investment flows. They ceased to invest in foreign markets, probably because of losses associated with the decline in share prices on foreign markets and the negative effects of the koruna's appreciation on the value of, and returns on, foreign investments. The inflow of capital in the form of equity securities was virtually the same as a year earlier, reaching CZK 23.2 billion. Investment in domestic debt securities stood at CZK 7.2 billion.

Financial derivatives transactions reduced the financial account surplus by CZK 3.2 billion in 2001.

Other investment showed a net capital outflow of CZK 61.7 billion. The net outflow of short-term capital was CZK 65.0 billion, while long-term capital (more than 1 year) recorded a very modest net inflow of CZK 3.3 billion. The outflow of capital was concentrated in the banking sector (CZK 92.5 billion) and principally took the form of a rise in short-term assets and a fall in short-term liabilities. In the business sector, net drawings on credit sources from abroad totalled CZK 29.0 billion (chiefly comprising growth in short-term liabilities). The influence of the government sector and the CNB on movements in other capital was negligible (the public sector drew on net sources from abroad in an amount of CZK 1.8 billion).

In 2002 Q1, the CNB's international reserves were affected by foreign exchange operations, interest yields and to a significant extent also by valuation changes. Operations on the foreign exchange market (purchases of foreign currency to counter the appreciation of the koruna) fostered growth of EUR 405 million (around CZK 12.9 billion) in the CNB's reserves. In dollar terms, the reserves increased by USD 0.2 billion to USD 14.7 billion. The sizeable nominal appreciation of the koruna against both the euro and the dollar during 2002 Q1, however, reduced the koruna value of the reserves by CZK 4.0 billion to CZK 520.5 billion. According to the available information, the appreciation pressures at the start of 2002 are not connected with increased inflow of direct or portfolio investment, but rather with financial transactions executed by non-residents in order to take advantage of the koruna's appreciation trend and the interest rate differential.

CHART III.13
CNB INTERNATIONAL RESERVES INCREASED IN DOLLAR TERMS
(USD billions)

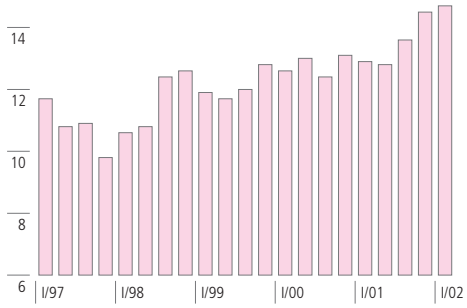
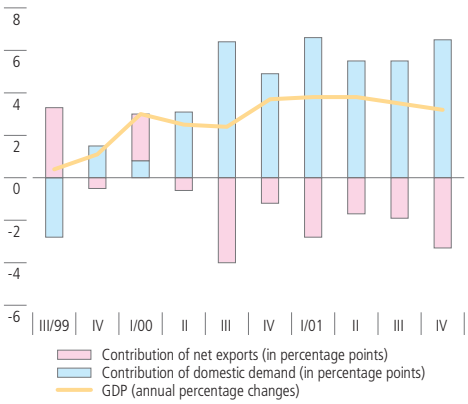


CHART III.14
THE CONTINUING ECONOMIC GROWTH WAS AGAIN DRIVEN BY DOMESTIC DEMAND IN 2001 Q4



III.3. DEMAND AND OUTPUT

The continuing economic growth in 2001 Q4, visible since 1999, confirmed a continuation of the growth phase of the Czech economy. The fact that GDP growth in Q4 remained above the 3% level testifies to the robustness of this recovery. Annual GDP growth for 2001 as a whole was 3.6%. As in Q3, a cooling of the boom

CHART III.15
THE CZECH ECONOMY RESPONDS TO DEVELOPMENTS IN THE GERMAN ECONOMY WITH A LAG
(annual percentage changes)

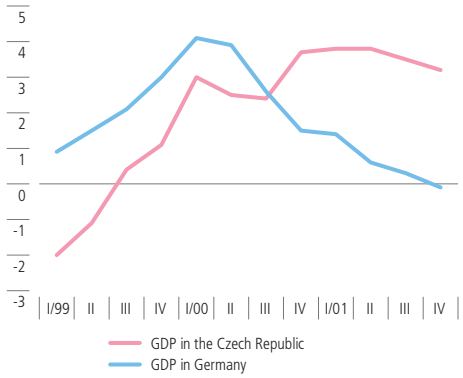


CHART III.16
INVESTMENT DEMAND RECORDED THE FASTEST GROWTH AGAIN IN 2001 Q4
(annual percentage changes)

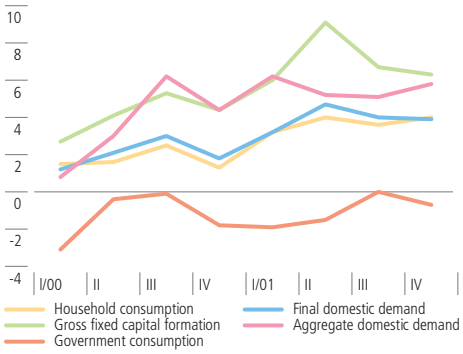
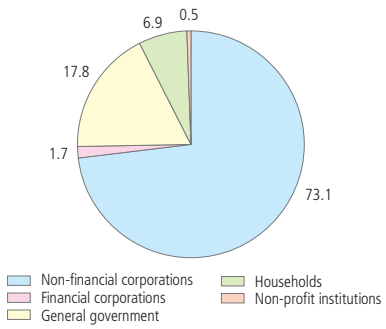


CHART III.17
ALMOST THREE QUARTERS OF THE TOTAL INVESTMENT WAS REALISED IN NON-FINANCIAL CORPORATIONS
(percentages; 2001 Q4)



experienced by the Czech Republic's major trading partners, as well as base effects, brought about a moderate slowdown in growth in Q4. A comparison of the changes in the GDP growth rate between the individual quarters of 2001 suggests that the weakening external demand had only partial effects on the Czech economy. In quarterly terms, the seasonally adjusted GDP growth in Q4 was the same as in Q3 (up by 0.7%).

The economic growth in the Czech Republic in Q4 was again much stronger than in the EU economies. This difference can be seen from Chart III.15, which compares GDP growth in the Czech Republic with that in Germany, the Czech Republic's most important trading partner.

In Q4, as in previous quarters, the GDP growth was driven by rising domestic demand. By contrast, the widening net exports deficit counteracted the trend. The overall contribution of domestic demand to GDP growth was 6.5 percentage points, whereas the negative net exports reduced this figure by 3.3 percentage points (see Chart III.14). On the supply side of the economy, the economic growth – unlike in Q3 – was driven exclusively by the services sector. The contribution from industry was slightly negative, following seven quarters of uninterrupted growth.

III.3.1. Domestic demand

The demand side developments during Q4 were essentially unchanged from the trends of the previous quarters of 2001. Aggregate domestic demand continued to rise at a fairly brisk pace (up by 5.8% on a year earlier). The growth was chiefly attributable to gross capital formation, particularly gross fixed capital formation, associated primarily with greater investment in machinery and equipment. Household spending on final consumption also contributed significantly to the domestic demand growth, whereas the contribution from government spending was again slightly negative. A smaller decline in inventories was recorded than in the same period a year earlier.

Investment demand

The relatively high level of investment activity in the economy continued into 2001 Q4. Annual growth in gross fixed capital formation (at 1995 prices) slowed insignificantly to 6.3%. The main factors positively affecting the fixed investment growth were the favourable domestic demand trend and the strong inflow of foreign direct investment over the last three years. The softening external demand and economic growth in advanced market economies had a slight downward effect on foreign investors' activities at the end of 2001. Foreign investment in the Czech Republic was again determined by the continuing comparative advantages of the Czech economy, by the range of investment incentives on offer, and by an orientation on at least the medium-term horizon. The rate of investment again considerably exceeded the 30% level, rising by 1.2 percentage points compared with a year earlier.

The rise in total investment in Q4 was mostly due to higher demand for government sector investment (up by 20.8% in year-on-year comparison), which recorded faster growth than in the previous quarters. Investment by financial institutions, however, saw the fastest growth. Household investment demand was more or less flat. The growth rate of investment by non-financial corporations (2.9% in year-on-year terms) fell short of that of total investment, but its share of the total remained the largest (73.1%). As in the previous three quarters, investment in manufacturing grew more rapidly than in the sector of non-financial corporations as a whole. However, its growth, mostly realised by foreign investors, slowed considerably during the year from 28.5% in Q1 to just 8% in Q4.

In Q4, large and medium-sized foreign-controlled non-financial corporations again recorded the fastest investment growth within the sector of non-financial corporations, although the growth was lower than in Q3 (38% at current prices in year-on-year terms, compared with 52.5% in Q3). Growth in investment by private corporations was much slower (6.9%) and investment by public corporations again recorded a year-on-year decrease (of 16.9%).[9]

As to the material breakdown of the gross fixed capital formation in 2001 Q4, unlike in Q3, investment in machinery recorded very buoyant growth, whereas investment in construction showed a modest decline. Machinery investment again had the biggest share of total investment in Q4, slightly exceeding 60%.

Consumer demand

In 2001 Q4, consumer demand – measured by household spending on final demand – recorded positive annual increases for the twelfth consecutive quarter. In Q4 alone, household spending on final consumption rose by 4% in real terms. In absolute terms, this meant a year-on-year increase of CZK 8.3 billion, i.e. CZK 1.1 billion more than in Q3. The increased household spending was realised in several consumption groups. As in Q3, the biggest increases were registered in postal and telecommunication services (37.8% at constant prices), hotels and restaurants, household equipment, clothing and footwear, and transport. These items also recorded the biggest increases for 2001 as a whole. By contrast, household spending on recreation, culture and sport fell in Q4 after quite a long period of growth.

The increasing consumer spending of households in Q4 was mostly financed by growth in their disposable income. Given roughly equal annual increases in absolute household spending on final consumption (at current prices) and nominal disposable income, the gross savings rate of households in Q4 remained at the level of the same period a year earlier. As in 2000 Q4 it was low relative to the other quarters of the year (at 3.6%, compared with 6.9% for 2001 as a whole). In relative terms, nominal disposable household income was 7.2% higher than a year earlier, and real household income 3.7% higher. This growth was mostly attributable to the main income component – wages and salaries, which rose by 6.8%.

CHART III.18
WITH REGARD TO INDUSTRY, THE BIGGEST INVESTMENT VOLUMES WERE AGAIN CHANNELLED INTO MANUFACTURING AND TRANSPORT AND STORAGE
(percentages; 2001 Q4)

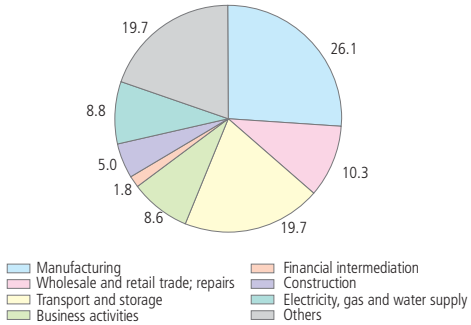


CHART III.19
MACHINERY INVESTMENT CONTINUED TO DOMINATE THE OVERALL INVESTMENT STRUCTURE
(percentages; 2001 Q4)

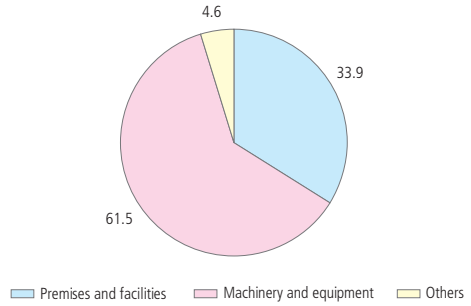
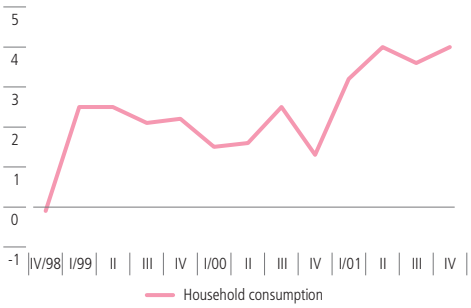


CHART III.20
HOUSEHOLD SPENDING ROSE BY 4% IN 2001 Q4 IN YEAR-ON-YEAR COMPARISON
(percentages)



9 *More than half (59.3%) of the investment in tangible and intangible goods in manufacturing (at current prices) was attributable to the manufacture of transport equipment, followed by manufacture of electrical and optical equipment, food and food products and basic metals and fabricated metal products. Investment in the manufacture of pulp, paper and paper products, publishing and printing showed the fastest growth.*

CHART III.21
GOVERNMENT SPENDING ON FINAL CONSUMPTION FELL MODERATELY IN YEAR-ON-YEAR COMPARISON
(percentages)

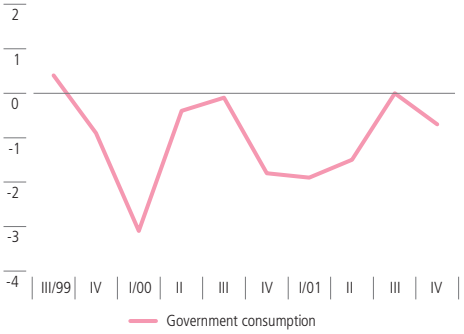


CHART III.22
IN 2001 Q4, NEGATIVE NET EXPORTS AS A SHARE OF GDP AT CONSTANT PRICES DETERIORATED IN YEAR-ON-YEAR COMPARISON
(percentages)

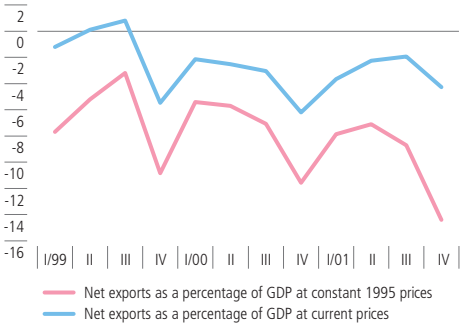


CHART III.23
THE SLOWDOWN IN EXPORT GROWTH WAS AGAIN ACCOMPANIED BY A DECLINE IN IMPORT GROWTH
(annual percentage changes; constant 1995 prices)

Government demand

Government spending on final consumption in 2001 Q4 – as in 2001 as a whole – was lower than in the same period a year earlier. In year-on-year terms it was down by 0.7% in Q4 and by 1% in 2001 overall.

In 2001, expenditure on public consumption – comprising non-investment purchases, non-investment transfers to subsidised and similar organisations, non-investment subsidies to non-profit and similar organisations, and non-investment transfers to central public budgets – was drawn slightly below the budgeted amount in all the aforementioned items. Drawing on non-investment purchases reached 95.5%, with no sub-item being entirely drawn. Drawing on compensation of employees and other payments for work done, accounting for a large part of public consumption, reached 99.3% of the budgeted amount, an annual nominal increase of 15% (due to a rise in civil servants' pay scales as of 1 January 2001); insurance premiums paid by employers reached 99.4% (up by 14.7%); interest and other financial expenditure only 83.1% (down by 2.8%); water, fuel and energy purchases 95% (down by 26.3%); and purchases of material 97.2% (up by 19.4%). Non-investment transfers to subsidised organisations were drawn at 99% of the planned annual amount (down by 26.2%), with none of the relevant budget chapters being exceeded. Drawing on non-investment subsidies to non-profit and similar organisations reached 96.2% of the budgeted amount (up by 9.3%). Non-investment transfers to central public budgets were drawn at almost the full budgeted amount of around CZK 33.4 billion, remaining at the previous year's level.

III.3.2. Net external demand

The unfavourable year-on-year trend in net exports of goods and services (at 1995 prices), visible since 2000 Q2, continued into 2001 Q4. Amid a further slowdown in both export and import growth, negative net exports amounted to CZK 55.4 billion. The contribution of net exports to GDP was negative for the seventh consecutive quarter (see Chart III.14). This led to a year-on-year deterioration of 2.8 percentage points in net exports as a percentage of GDP to -14.4% in Q4. The import propensity increased further in year-on-year terms.

As in the previous three quarters of 2001, the growth rate of both exports and imports continued to decrease. Imports grew 2.7 percentage points faster than exports (which were up by 5.9% on a year earlier). This was largely the result of the continuing decline in economic growth in advanced market economies, most notably Germany, as well as the increasing domestic demand and the koruna's pronounced appreciation against the euro. The slowdown in exports resulting from the declining external demand was counteracted, however, by an expansion in production of export-oriented commodities. The fall in exports to Germany was again partly offset by exports to other advanced market economies and transition economies.

As in the previous quarter, the annual growth in goods exports[10] to European transition countries (9.1%) outpaced that to the EU countries (6%). Exports to Germany were flat (-0.1%), whereas exports to Slovakia increased by 9.8%. The favourable trend of annual growth in the share of exports of higher-value-added commodities continued into Q4. Mechanical and electrical engineering commodities accounted for 56.1% of total exports, 1.7 percentage points more than a year earlier. By contrast, exports of food, raw materials and semi-manufactures saw decreasing shares.

As in previous quarters, the rise in imports in Q4 was closely linked with export growth, owing to the high import propensity of production. Growth of imports for intermediate consumption, constituting the largest component of total imports (55.1%), recorded a year-on-year decrease of 2.7% (following a previous considerable slowdown), owing to the decline in external demand and a sizeable fall in prices of energy-producing raw materials. As in Q3, imports for investment saw the fastest growth (9.6%), whereas the rise in imports for personal consumption was more modest (6.8%).

III.3.3. Gross domestic product

On the supply side of the economy, the economic growth in Q4 was driven solely by the services sector, which made the biggest contribution to GDP growth (see Chart III.25). Within services, the largest increases in value added were registered in the groups of transport, storage and telecommunications, and wholesale and retail trade and repairs, which showed an upward trend throughout 2001. These two groups accounted for about three quarters of the total value added growth in services in Q4. Contributions to GDP growth also came from financial intermediation and business activities. Year-on-year declines in value added in 2001 Q4 were registered only in hotels and restaurants and other services.

In contrast, value added in industry showed a slight decrease of 0.8% in Q4 following seven quarters of uninterrupted growth. This was caused by the decline in external demand and the continuing appreciation of the koruna against the euro, which affected mainly manufacturing. The result was a slowdown in value added growth during the course of 2001, culminating in an annual decrease of 0.4% in the last quarter. This decrease had been signalled by the CSO business surveys for three months ahead and, within these, by the expected orders indicator. Chart III.26 shows that producers had been expecting the fall in external demand in 2001 H2.

CHART III.24
EXPORT GROWTH TO ADVANCED MARKET ECONOMIES SLOWED, BUT THEY CONTINUED TO ACCOUNT FOR MOST OF TOTAL EXPORTS
(percentages; 2001 Q4)

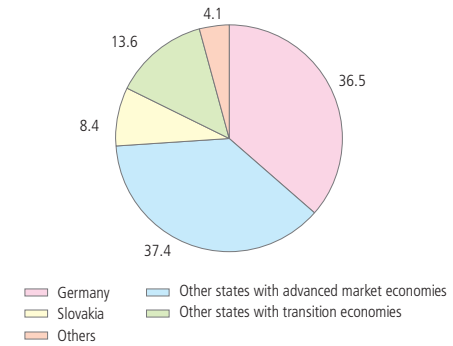


CHART III.25
THE GDP GROWTH IN 2001 Q4 WAS DRIVEN BY THE SERVICES SECTOR
(annual percentage changes and percentage points)

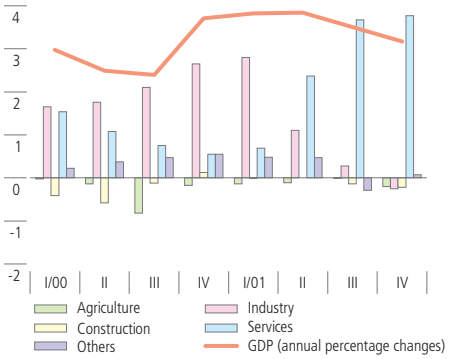
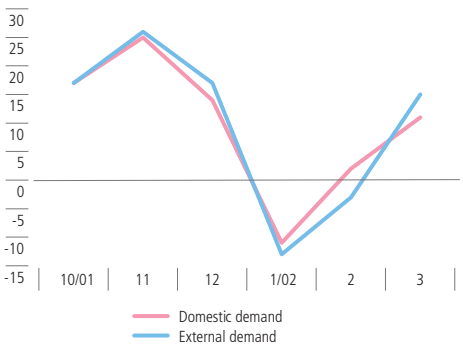


CHART III.26
EXPECTED ORDERS SIGNALLED A FALL IN EXTERNAL DEMAND
(response balances from the CSO's business surveys)



10 *The figures on the export and import structure are hereinafter only for goods at current prices.*

CHART III.27
THE STRUCTURAL CHANGES IN INDUSTRY CONTINUED
(percentages; 1995 base)

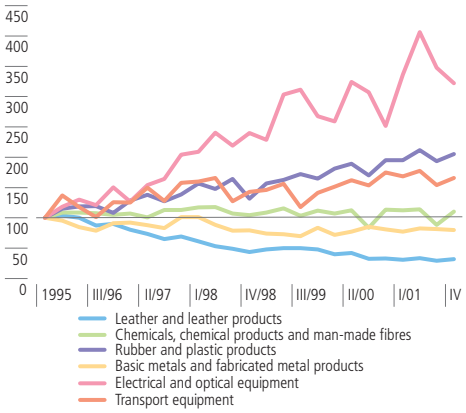


CHART III.28
SERVICES AND INDUSTRY ACCOUNTED FOR MOST OF GDP
(percentages; 2001 Q4)

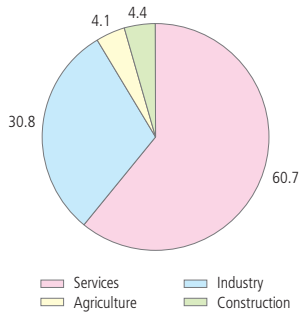


TABLE III.6
PROFITS INCREASED MODESTLY IN 2001
(annual percentage changes)

	2001	
	BUSINESSES TOTAL[1]	OF WHICH: FOREIGN[2]
Income, total	5.9	49.5
Output, total	10.4	61.2
Expenses, total	5.9	49.9
of which: intermediate consumption	11.5	59.9
personnel costs[3]	8.2	62.9
depreciation	6.5	71.0
Book value added	7.9	65.0
Pre-tax profit	7.2	41.8

1 For non-financial organisations and corporations with 100 employees or more, all industries
2 Businesses in which at least 50% of the equity capital is foreign
3 Comprises wage and other personnel costs, remunerations to members of companies and co-operatives, social security costs and social costs

However, the restructuring process continued in industry. This is evidenced not only by the output in individual industries (see Chart III.27), but also by the product group structure. According to 2001 figures, the fastest annual growth rates were recorded in the manufacture of capital goods (14%), products for intermediate consumption (8.3%) and durable goods (8.4%), while growth in production of non-durables and energy was much more sluggish (0.7% and 2.6% respectively). These structural changes were chiefly linked with growth in machinery investment in manufacturing, realised predominantly by foreign-owned export-oriented firms.

In construction, value added continued falling in 2001 Q4. The year-on-year decline (of 4.6%) in Q4 was the largest recorded in the whole of 2001. The decrease for the full year was 2.3%. However, the volume of construction output recorded a year-on-year increase of 0.9% in Q4. The persisting difference between these two variables was probably due to growing intermediate consumption connected with major construction projects financed by foreign investors, where much of the inputs were imported.

III.3.4. Financial performance of non-financial organisations and corporations[11]

The financial performance of non-financial organisations in 2001 was more favourable than in 2000. In addition to the continuing GDP growth, this trend can be attributed to restrained wage growth and a fall in financial and extraordinary expenses. All this helped to boost profits, leading to a modest improvement in efficiency and a year-on-year decline in the number of loss-making businesses. In 2001, gross profit was 7.2% (or CZK 9.6 billion) higher than a year earlier. However, the gross profitability trend varied considerably in the individual quarters. In the first three quarters, the gross profit growth rate gradually increased (year-on-year rises of 12.3%, 16.1% and 32.4% respectively), whereas the fourth quarter saw a year-on-year decline of 27.7%.

This marked drop in gross profit in Q4 was not universal. It was mostly attributable to the communications industry, where gross profit fell by CZK 20.3 billion from a year earlier. This was probably due to a high 2000 base, caused by strong profit creation that year connected with the privatisation process. In contrast, numerous other industries recorded growth in gross profits in Q4.

11 Evaluation based on figures for non-financial organisations and corporations with more than 100 employees, all industries.

The profit was created primarily by foreign-controlled private non-financial corporations, which in 2001 accounted for more than 80% of total gross profit in the set of monitored organisations. As regards sectors, industry had the largest share (around 70%) of the gross profit in 2001.

The fall in gross profit in Q4 affected the overall efficiency indicators in 2001. The profit-expenses ratio and the profit-equity ratio showed only a slight improvement in year-on-year comparison. A favourable trend was recorded for the material cost-output ratio, which showed a downward tendency in annual growth during 2001 (in January it had been 2.18 percentage points higher than a year earlier, whereas in Q4 it was 0.47 percentage points lower). In 2001, the personnel cost-output ratio was again below the previous year's level. The broadly favourable trend for the personnel cost-output ratio was also indicated by a relatively stable ratio of personnel costs to value added in 2001. The material cost-output ratio and personnel cost-output ratio meanwhile showed no signs of rising cost-inflation pressures within the set of monitored organisations in 2001.

As regards ownership structure, positive trends in the profit-expenses, profit-output and profit-equity ratios were registered only for private corporations. Foreign-controlled corporations saw a substantial deterioration. The sizeable decrease (of 5.66 percentage points compared with 2000) in the profit-equity ratio of foreign-controlled corporations was to a certain extent due to foreign investment inflows. The equity capital of these organisations was almost 88% higher in 2001 than a year earlier.

III.4. THE LABOUR MARKET

The labour market developments in 2001 Q4 signalled a continuing moderate deterioration of the relationship between demand for and supply of labour, associated primarily with the decline in external demand and the ongoing restructuring of the economy. The employment growth was very modest, showing a slowdown compared with 2001 H1. This was largely due to a falling supply of vacancies, culminating in a stagnation at the end of 2001 and a year-on-year decline at the start of 2002. This in turn led to a decrease in the year-on-year decline, and as from the end of 2001 a modest increase, in the number of unemployed persons. The unemployment rate saw a similar trend: a year-on-year increase at the end of 2001 and in 2002 Q1. Under these circumstances, the long-term unemployment rate remained relatively high and the short-term unemployment rate recorded a further moderate increase. Amid the rising unemployment, the annual growth rate of average nominal wages in the monitored organisations eased, particularly in 2001 Q4. The relationship between the wage and productivity variables in Q4 did not signal any risks of a rise in inflation. Growth in nominal unit wage costs slowed in Q4. The negative gap between real average wage growth and labour productivity growth remained at the previous quarter's level and was very small.

TABLE III.7
MOST OF THE RATIOS DETERIORATED IN FOREIGN-CONTROLLED CORPORATIONS
(percentages; percentage points)

	2000		2001		PERCENTAGE POINT CHANGES	
	BUSINESSES TOTAL[1]	OF WHICH: FOREIGN[2]	BUSINESSES TOTAL[1]	OF WHICH: FOREIGN[2]	BUSINESSES TOTAL[1]	OF WHICH: FOREIGN[2]
Profit-expenses ratio	3.89	4.90	3.94	4.63	0.05	-0.27
Profit-equity ratio	8.58	23.15	8.67	17.49	0.09	-5.66
Profit-output ratio	5.67	7.00	5.50	6.16	-0.17	-0.84
Material cost-output ratio	69.44	74.23	70.14	73.62	0.70	-0.61
Personnel cost-output ratio	15.86	11.77	15.53	11.90	-0.33	0.13

1 For non-financial organisations and corporations with 100 employees or more, all industries
2 Businesses in which at least 50% of the equity capital is foreign

CHART III.29
THE STRUCTURE OF VALUE ADDED IN MONITORED ORGANISATIONS WAS ESSENTIALLY UNCHANGED IN 2001 COMPARED WITH A YEAR EARLIER
(percentages)

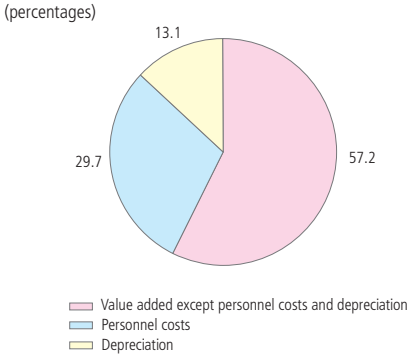
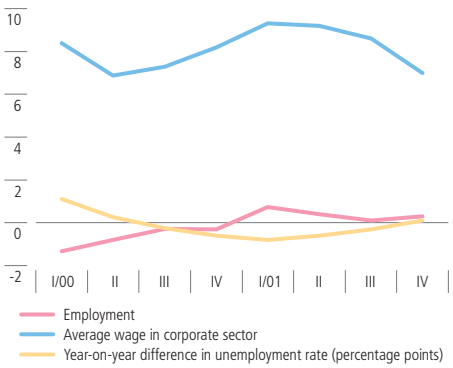


CHART III.30
THE PRINCIPAL LABOUR MARKET INDICATORS SUGGESTED A CONTINUING MODERATE DETERIORATION OF THE LABOUR MARKET SITUATION
(annual percentage changes and percentage points)



III.4.1. Employment and unemployment

The labour market developments in 2001 Q4 suggested no major changes in the employment trend. The year-on-year rise in the total number of people employed in the national economy picked up slightly in Q4 compared with Q3, but it did not reach the 2001 H1 levels. The growth of 0.3% in the number of employed people in Q4 meant an increase of 13,900 in absolute terms. This growth was visible with mixed intensity in the secondary and tertiary sectors. For 2001 as a whole, the structural employment trend suggested a renewed moderate strengthening of the share of the secondary sector in total employment (of 0.5 percentage points on a year earlier). The share of the tertiary sector decreased somewhat, but remained at a relatively high level (55.2%). It is still below the usual level in EU countries (around 66%). A continuing sizeable decline in employment in the primary sector was consistent with the gradual downturn in activity in this sector.

The continuing gradual slowdown in annual job creation growth in 2001 Q4 was probably the result of two factors – slowing economic growth in the Czech Republic's major trading partners and uncertainties associated with renewal thereof, and the ongoing restructuring of the economy. At the end of 2001, job creation was flat in year-on-year comparison, and in 2002 Q1 it was below the level of the same period a year earlier. According to the latest CSO figures for March 2002, the number of vacancies was around 6,400 lower than a year earlier. This implied a marked rise in the number of job applicants per vacancy to 9.6, the highest figure recorded since June 2000.

Against this background, the decline in the number of registered unemployed people in 2001 Q4 slowed further, culminating in a year-on-year increase in 2002 Q1 (of 20,200 persons as of the end of March 2002). The unemployment rate followed a similar trend. At the end of 2001, it slightly exceeded the previous year's level (by 0.1 percentage points in December) and the difference gradually widened to 0.4 points in March 2002, when the unemployment rate was 9.1%. Any decrease in unemployment was limited by long-term unemployment and by large regional differences in the unemployment rate. The unemployment rate exceeded 12% in 17 districts, most of them in North Bohemia and North Moravia.

Amid the deteriorating relationship between the demand for and supply of labour, long-term unemployment, which is a structural, regional and social problem, remained high. The number of long-term unemployed people was flat in 2001 Q4 at the level of previous quarters and the long-term unemployment rate continued to fluctuate around 3%. The fall in job creation, however, fed through into short-term unemployment, which was around 0.4 percentage points higher than in Q3.

CHART III.31
THE FALLING NUMBER OF VACANCIES LED TO GROWTH IN THE NUMBER OF PEOPLE UNEMPLOYED
(year-on-year changes; seasonally adjusted figures in thousands)

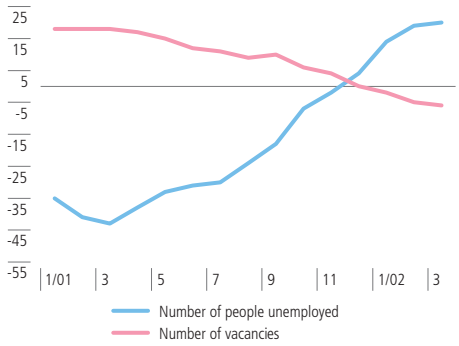


CHART III.32
THE UNEMPLOYMENT RATE WAS HIGHER THAN A YEAR EARLIER
(percentages)

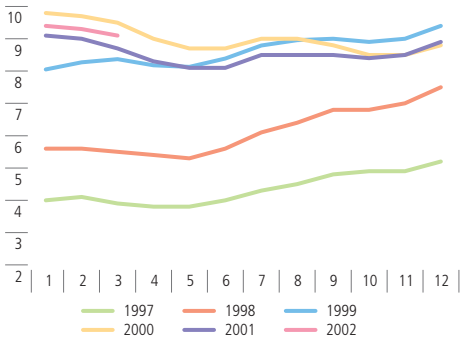


CHART III.33
THE RATE OF SHORT-TERM UNEMPLOYMENT RECORDED A FURTHER MODEST INCREASE
(percentages; period averages; MLSA figures)

III.4.2. Wages and productivity

The labour market trend – characterised by a gradually slackening decline in unemployment and a switch to moderate growth – passed through into the main wage indicators. Following a higher year-on-year rise in some wage variables in 2001 Q1, their growth gradually eased from Q2 onwards. The 1.2-percentage-point decrease in the annual growth rate of the average nominal wage in monitored organisations to 7.5% in 2001 Q4 was so large compared with Q3 that its value approached the previous year's level. Given current inflation, the annual growth in the average real wage was flat at the Q3 level (3.1%).

The sizeable slowdown in nominal wage growth in monitored organisations in 2001 Q4 was attributable to both sectors of the national economy – business and non-business. The decrease in annual nominal wage growth in the business sector (of 1.3 percentage points compared with the previous quarter to 7%) was consistent with the unemployment trend. The simultaneous 1.4-percentage-point slowdown in nominal wage growth in the non-business sector meant a return to the 2001 Q1 level. Nonetheless, the growth in the average non-business sector wage (9.5%) remained at a higher level than that in the business sector, owing to changes in wage scales. The growth in real wages in 2001 Q4 slowed to 2.6% in the business sector and 5% in the non-business sector.

The moderation in nominal wage growth and the total income from wages and salaries in 2001 Q4 helped to stabilise, or improve, the relationship between wage and productivity variables at the macroeconomic level. Whole-economy labour productivity growth slackened in Q4 (to 3% in year-on-year terms) because of the slower GDP growth and the slight rise in employment, but the gap between labour productivity growth and real average wage growth remained very narrow (-0.1 percentage points). Nominal unit wage costs at the macroeconomic level showed an improvement – their growth was 0.2 percentage points lower than in Q3, at 4.9%.

The slowdown in whole-economy labour productivity growth was confirmed by the developments in industrial organisations, which account for 40% of the total workforce in the set of monitored organisations. In Q4 this growth slackened further to 3%, but real wage growth was again slower. The growth in nominal unit wage costs in industry gradually increased during 2001, reaching 2.1% in Q4, but was much lower than the growth recorded on the macroeconomic level.

CHART III.34
THE SLOWDOWN IN AVERAGE NOMINAL WAGE GROWTH IN 2001 Q4 WAS ATTRIBUTABLE IN PART TO THE NON-BUSINESS SECTOR
(annual percentage changes)

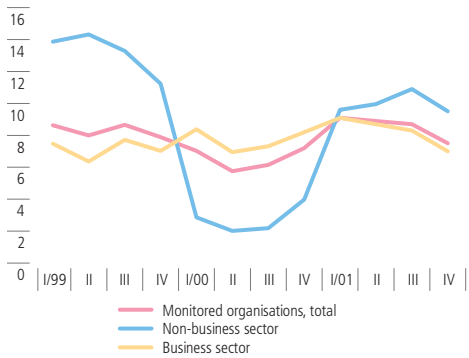


TABLE III.8
THE DOWNWARD TREND IN AVERAGE REAL WAGE GROWTH CONTINUED INTO 2001 Q4
(annual percentage changes)

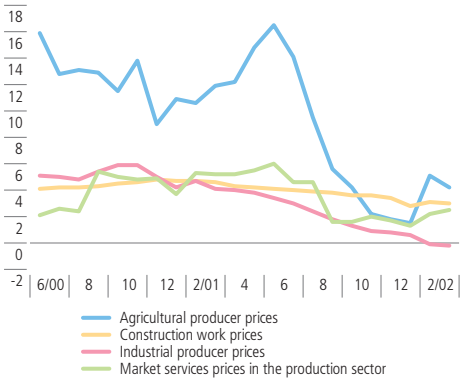
	2001					2002				
	Q1	Q2	Q3	Q4	2001	Q1	Q2	Q3	Q4	2002
Av. wage in monitored organisations (nominal)	7.0	5.8	6.2	7.2	6.6	9.1	8.9	8.7	7.5	8.5
Av. wage in monitored organisations (real)	3.3	2.0	2.0	2.9	2.6	4.8	3.7	3.1	3.1	3.6
Whole-economy labour productivity	4.7	3.4	2.6	3.9	3.7	3.0	3.0	3.2	3.0	3.0
Nominal unit wage costs	2.1	1.7	2.4	2.2	2.2	5.3	4.9	5.1	4.9	5.0
GDP deflator	-0.8	0.2	1.8	2.1	0.9	4.7	5.4	6.1	6.6	5.7

Source: CSO; CNB calculation

CHART III.35
THE GAP BETWEEN AVERAGE REAL WAGE GROWTH AND PRODUCTIVITY GROWTH WAS VERY NARROW IN 2001 Q4
(annual percentage changes)

III.5. Other costs and prices

Chart III.36
The producer price trend continued to create room for a fall in consumer price inflation
(annual percentage changes)

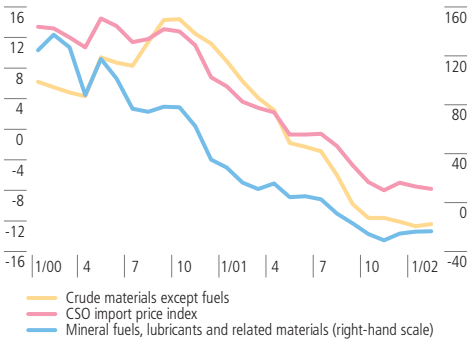


In 2002 Q1, the broadly favourable trend for other costs and prices – measured in terms of producer prices – again boded well for a slowdown in consumer price inflation. Most domestic producers experienced a slowdown in annual inflation, and in many industries prices actually fell. As in the previous quarters, this was largely due to favourable prices of raw materials, most notably oil, on world markets and to the continuing appreciation of the koruna's exchange rate. These two principal factors gave rise to a further strengthening of the year-on-year decline in import prices, allowing producers to cut their costs. The positive influence of the falling prices of external cost inputs was reflected chiefly in industrial producer prices, whose growth gradually slowed, culminating in an annual decline in 2002 Q1. This influence was again felt most strongly in producer prices in oil-product-processing industries. In the case of some producers – exporters – the benefits of the favourable prices of imported inputs were reduced by falling export prices. Following a short-term deviation in February brought about by some volatile price items, agricultural producer prices also confirmed a continuation of the downward trend in their annual growth. Construction work prices again recorded a moderate slowdown, and market services prices in the production sector saw faster growth.

III.5.1. Import prices

Import prices of energy-producing and non-energy-producing commodities continued falling in 2002 Q1. This decrease, which was quite sizeable for some commodities, was again chiefly due to favourable raw materials prices on world markets, which were substantially lower than in the same period a year earlier. This positive factor, reflecting falling demand for raw materials amid weakening growth of the world economy, was again bolstered in Q1 by the continuing appreciation of the koruna's exchange rate against both the dollar and the euro.[12] According to the latest CSO figures for February 2002, the decline in import prices, measured by the CSO import price index, increased by a further 0.8 percentage points compared with the previous quarter to 7.8%.

Chart III.37
The sharp decline in import prices of energy-producing and non-energy-producing materials continued into 2002 Q1
(percentages)



As in previous quarters, the most important determinant of the continuing downward trend in import prices was the favourable evolution of prices of energy-producing commodities, notably oil and natural gas, combined with gradual appreciation of the koruna against the dollar. In Q1, the price of Ural crude oil was slightly higher on average than in 2001 Q4 (the average Ural crude price was USD 20.25 per barrel in January-March, compared with USD 18.75 in 2001 Q4). In year-on-year comparison, however, oil prices continued decreasing, albeit at a reduced rate (down from -33.1% in 2001 Q4 to -15.1% in 2002 Q1). The oil price trend again contributed significantly to the fall in import prices.

12 *The year-on-year CZK/EUR appreciation was 9% in January 2002.*

A similar trend was registered for natural gas, whose prices react with a lag to changes in oil prices. The annual decline in gas prices was thus relatively high in 2002 Q1. Prices of other imported commodities – non-energy-producing raw materials, semi-manufactures, production equipment and industrial components – also developed favourably. According to the latest available CSO figures for February 2002, prices of seven of the nine monitored import groups were below the level of the same period a year earlier.

From the viewpoint of domestic producers, however, the continuing appreciation trend for the CZK/USD and, in particular, CZK/EUR exchange rates meant a deterioration of sales conditions for their exports, which leads, other things being equal, to a narrowing of profit margins. This was indicated by the continuing decline in export prices (of 5% in February).[13] The extent of this effect on the financial results and pricing decisions of producers varied, however, according to how import-intensive their production is and where they sell their products.

III.5.2. Producer prices

Industrial producer prices

Owing to the continuing favourable trend in prices of imported inputs and to certain other influences of domestic origin, the gradual downward trend in industrial producer price inflation culminated in a moderate annual decline in prices at the end of 2002 Q1 (of 0.2% in March). The long-running positive effect of external cost factors was particularly visible in manufacturing, where annual industrial producer price inflation had been moving around 0.1% since November 2001. In February and March, prices actually declined (by 0.8%). This was again chiefly attributable to oil-processing industries and the chemical industry. Their total contribution to the slowdown in annual growth, or decline, in prices in manufacturing was roughly the same as in the previous quarter. In March 2002, industrial producer prices were 18.1% lower than a year earlier in the manufacture of coke and refined petroleum products and 8% lower in the manufacture of chemicals, chemical products and man-made fibres.

Most other manufacturing industries saw a continuing modest downward trend in inflation or an annual decline in prices. In 2002 Q1 the annual inflation in these industries was relatively low overall (0.6% in March). Low inflation was also registered within individual industries. A downward trend was also visible for prices in the manufacture of food, beverages and tobacco, which is an important factor of consumer price inflation in the food prices segment. Inflation rose in the manufacture of machinery and equipment and wood and wood products, although the annual outturns were not high.

CHART III.38
FOR SOME PRODUCERS, THE POSITIVE EFFECT OF FALLING PRICES OF IMPORTED INPUTS WAS REDUCED BY A SIMULTANEOUS DECLINE IN EXPORT PRICES
(annual percentage changes)

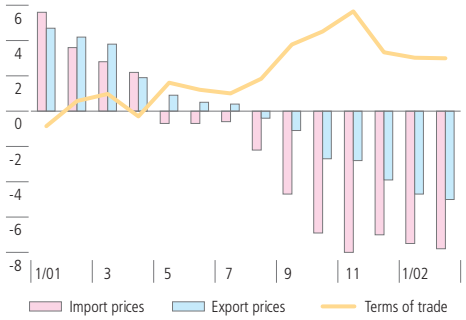


CHART III.39
ALL THE MAIN INDUSTRIES RECORDED EITHER SLOWING GROWTH OR A DECLINE IN PRODUCER PRICES
(annual percentage changes)

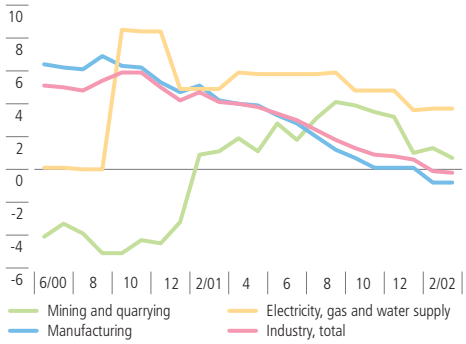
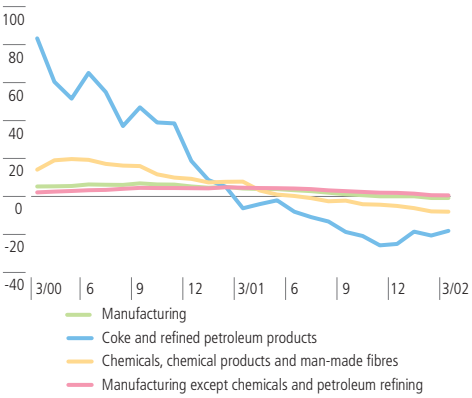


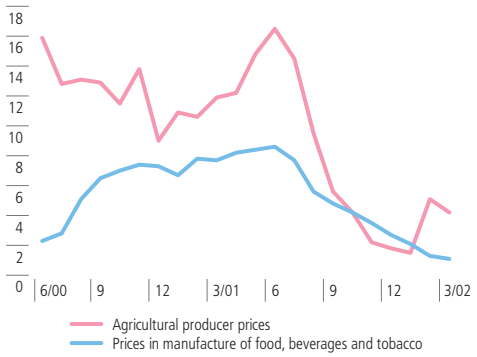
CHART III.40
PRODUCER PRICES CONTINUED FALLING SHARPLY IN OIL-PRODUCT-PROCESSING INDUSTRIES
(percentages)



13 *With export and import prices falling by 5% and 7.8% respectively in February 2002, the terms of trade improved by 3%. According to the CSO quantification, their positive effect on the import side was CZK 8.6 billion, their negative effect on the export side was CZK 5.4 billion and their net positive effect on the trade balance was CZK 3.2 billion.*

The annual slowdown in growth, or decline, in industrial producer prices in 2002 Q1 was also largely attributable to a sizeable fall in inflation in non-manufacturing industries – mining and quarrying, and electricity, gas and water supply (see Chart III.39). In the latter industry, industrial producer price inflation decreased by 1.1 percentage points to 3.7% in March 2002 compared with the end of 2001 Q4. An even bigger change was recorded in mining and quarrying, where annual inflation fell from 3.2% in December 2001 to 0.7% in March 2002. In these largely monopolised industries, the falling prices were primarily a result of stagnating demand for their output amid increasing foreign competition and a significant convergence of domestic and foreign prices.

CHART III.41
THE RISE IN AGRICULTURAL PRODUCER PRICE INFLATION IN FEBRUARY 2002 WAS DUE TO A FLUCTUATION IN THE PRICES OF SEVERAL COMMODITIES
(annual percentage changes)

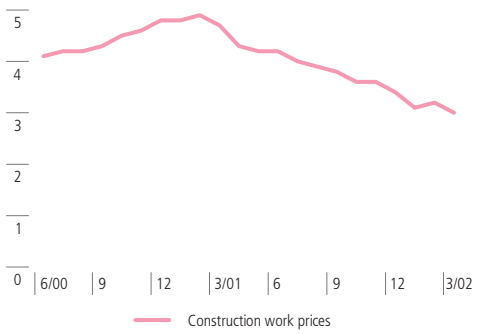


Agricultural producer prices

A further moderation of agricultural producer price inflation in January 2002 suggested a continuation of the trend of the previous two quarters (see Chart III.41). According to CSO figures, it fell to a mere 1.5% in annual terms. The achievement of this low inflation level relative to the 16% recorded in mid-2001 was attributable to several factors which fostered a moderation of the growth in prices of both livestock and crop products. As mentioned in the January Inflation Report, the sharp slowdown in the relatively high annual agricultural price inflation was a result of several factors which on the one hand weakened the bargaining position of domestic agricultural producers as regards selling prices and, on the other hand, created conditions for a reduction in prices. These factors included in particular: a higher domestic supply of agricultural products thanks to the favourable harvest in 2001; a decline in agricultural commodity demand and prices abroad; favourable trends in the prices of some imported inputs; and the koruna's appreciation, which bolstered the effects of the two last mentioned factors.

The rise in agricultural producer price inflation in February 2002, when prices recorded a step increase to 5.1%, was due largely to sizeable seasonal growth in prices of some volatile agricultural commodities in the fruit and vegetables group. The February rise in prices was thus not across the board in nature, as confirmed by an only slight rise in prices of other agricultural commodities and a renewed slowdown in agricultural producer price inflation in March (to 4.2%).

CHART III.42
THE DOWNWARD TREND IN CONSTRUCTION WORK PRICE INFLATION CONTINUED INTO 2002 Q1
(annual percentage changes)



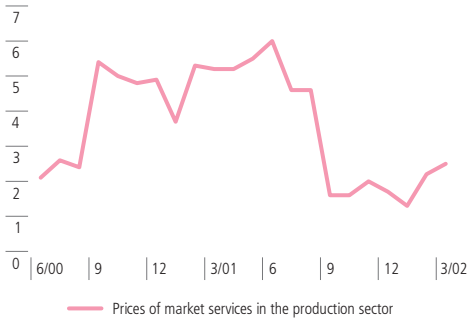
Construction work prices

Construction work price inflation, too, followed the overall downward trend registered for most price indices in the production sector in 2002 Q1. However, the slowdown was much less intense than in the case of industrial producer prices. According to preliminary CSO figures, annual construction work price inflation eased by 0.4 percentage points compared with the end of the previous quarter, reaching 3.0% in March. The gradual downward trend probably reflected falling demand for construction activity in an environment of stiff competition and relatively low utilisation of construction capacities. This was, among other things, indicated by a falling number and value of newly issued construction permits and the decreasing volume of construction output since 2001 H2.

Market services prices in the production sector

Annual growth in prices of market services in the production sector increased again during 2002 Q1 (from 1.7% in December 2001 to 2.5% in March 2002). Compared with the previous quarter, inflation picked up in other business services (to 3.4% in March, largely owing to higher prices of real estate services), in financial intermediation and in sewerage collection services. By contrast, prices of postal and telecommunication services were again lower than in the same period a year earlier.

CHART III.43
ANNUAL GROWTH IN MARKET SERVICES PRICES IN THE PRODUCTION SECTOR PICKED UP IN 2002 Q1
(percentages)



IV. THE INFLATION FACTORS OUTLOOK AND THE INFLATION FORECAST

IV.1. External assumptions of the inflation forecast

Economic developments in the small and open Czech economy are greatly affected by external factors. Prices of energy-producing raw materials and the economic situation of the Czech Republic's major trading partners play a particularly important role. The CNB takes its scenarios for the evolution of exogenous variables from the Consensus Forecasts published by Consensus Economics. Another important factor is the exchange rate of the koruna. The predictions for the exchange rate trend are based on the CNB's own analyses.

Prediction of external variables

To assess the future evolution of exogenous factors, the CNB uses the Consensus Forecasts published by Consensus Economics. This source, which brings together the predictions of around 20 reputable research institutes, ensures consistency of data and methodology and comparability of the variables over time. It is the primary source for forecasts of external factors at the CNB. The annual figures predicted in the Consensus Forecasts are taken directly and then intrapolated to obtain quarterly data compatible with the CNB's prediction system.

In the case of those variables which are not covered by the Consensus Forecasts but which nevertheless represent important external factors for the Czech economy, the CNB draws analogies with those variables which are covered. For example, to forecast the price of Ural crude oil, the CNB uses a statistical relationship with the price of West Texas Intermediate as published in the Consensus Forecasts.

Prices of energy-producing raw materials are one of the key external cost factors affecting domestic inflation. Crucial to the inflation forecast is the price of Ural crude, from which the prices of other sources of energy are derived. Compared with the January Inflation Report, the predicted future price of oil has increased. In 2002 Q2, in line with the Consensus Forecast, the price of Ural crude is expected to reach around USD 24 per barrel. In the subsequent period up to the end of 2002 and in 2003, it is expected to stabilise around USD 22 per barrel.

The considerations about the future price of oil, however, are currently subject to major uncertainties regarding the intensity and speed of the expected recovery of the world – and especially the European – economy. These uncertainties are being exacerbated by the difficult political situation in the Middle East. On the other hand, the policy of the OPEC cartel, which has recently been fairly effective in stabilising oil prices within the range of USD 22–28 per barrel, remains a key factor. Foreign analysts expect oil prices to stay within this range throughout the forecast period. The CNB still assumes a gradual decline in world prices of natural gas during 2002, followed by stabilisation at the end–2002 level throughout 2003.

The expectations of the economic growth of the Czech Republic's major trading partners remain broadly at the January level, although optimism is slowly growing as regards a gradual recovery during 2002. In the case of Germany, in line with the market consensus, the CNB assumes annual GDP growth of 0.9% for 2002. As for 2003, the market expectations regarding economic growth in Germany are around 2.5%.

The forecasts for inflation abroad, represented by producer and consumer price inflation in Germany, are little changed from the January Inflation Report. According to the expectations of market participants, industrial producer price inflation in Germany will be very low during 2002 (at 0.2%), because of a very slow recovery in demand. In 2003, it can be expected to rise to 1.7%, owing to a pick-up in economic growth in the EU. As for German consumer prices, the Consensus Forecast expects them to rise by around 1.7% in 2002 and by a similar 1.6% in 2003.

The exchange rate is an important factor influencing domestic inflation. In the long run, the key determinant of the real exchange rate of the koruna is relative productivity growth in the different sectors of the domestic economy and in international comparison. This is known as the Balassa-Samuelson effect, explained in more detail in the Annex. The medium-run exchange rate forecast is based on the CNB's expectations regarding future capital flows within the balance of payments projection. The CNB also assumes that privatisation foreign direct investment will be dealt with by the agreement between the CNB and the Government and will not affect the exchange rate (see the box). The CNB's current inflation forecast is based on the assumption of a stable exchange rate close to the level recorded at the end of 2002 Q1.

Estimated capital flows in 2002 and 2003 and their effect on the exchange rate

The CNB's assumption regarding the future exchange rate profile is based on the projected future development of the balance of payments. The CNB assumes a modest decline in the current account deficit in both 2002 and 2003, caused by favourable terms of trade. This positive factor will in turn depress growth in the deficit on income caused by rising transfers of profits to non-residents. On the financial account, the CNB expects a rise in the inflow of foreign direct investment, due to an increase in the sale of state-owned property to non-residents and a simultaneous decrease in other inflows. In 2003, the inflow of non-privatisation FDI should again increase slightly, owing to an expected recovery in major investor nations. The gradual deterioration of the balance on portfolio investment contained in the prediction stems from an expected renewal of residents' interest in investing abroad.

The key factor as regards the impact of these capital flows on the exchange rate of the koruna is that the proceeds from the sale of state-owned property to non-residents (around CZK 400 billion in 2002 and 2003) will, under an agreement between the CNB and the Government, be deposited on a CNB account and will be converted as needed off the foreign exchange market. This agreement will ensure that the remaining capital inflow will approximately cover the current account deficit. Consequently, unlike in previous years, there will be no excess supply of foreign exchange on the foreign exchange market to cause an appreciation of the koruna. The CNB assumes that the exchange rate will be stable.

IV.2. Internal inflation factors

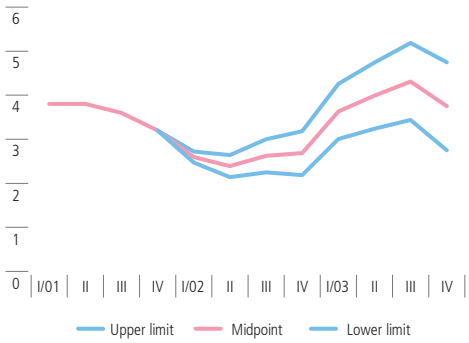
In addition to external factors, consumer price inflation will be affected over the next six quarters by numerous domestic cost and demand factors.

A modest fall in agricultural producer prices can be expected this year, thanks to large reserves of crop production from last year's harvest, declining prices and demand abroad, and continuing appreciation of the koruna. The predicted year-on-year decline in agricultural producer prices throughout most of this year should help to ease the upward pressures on food prices. This, combined with competition on the food market, will generate a fall in food price inflation during 2002. At the end of 2002, annual food price inflation is expected to be around 1.5%. An upturn in agricultural producer price inflation is not likely to emerge until 2003. In this connection, the CNB expects a gradual pick-up in food price inflation in 2003. A slight influence from rising economic growth can also gradually be expected.

Industrial producer prices are an important cost factor. The CNB expects industrial producer price inflation to rise gradually during 2002 to around 2.5% at the end of the year. In 2003, this very slow rise will continue. This forecast assumes that the external scenario described above will materialise. The relationship between wage growth and labour productivity growth in industry, and consequently the development of unit wage costs, is another important inflation factor. The assumed increase of around 7.5% in nominal business sector wages in 2002 represents favourable and non-inflationary growth in nominal unit wage costs of 4.5%. For 2003, the CNB predicts continuing economically rational restraint on the part of the trade unions during wage bargaining, even in a climate of an expected pick-up in economic growth. Fulfilment of this prediction would mean annual growth in unit wage costs within the 4%–5% range again in 2003. Their effect in both years can thus be assessed as inflation neutral.

On the demand factors side, the CNB assumes that as in previous years economic growth in 2002 will be driven by private demand and investment, whereas the contribution of the external sector will be negative, as in 2001. Growth in private demand, which the CNB estimates at around 3.0% for 2002, will continue to be fostered by buoyant growth in households' incomes, with the savings rate expected to remain at the 2001 level. The rise in gross fixed capital formation should also continue. Further inflow of foreign direct investment and a gradual recovery in investment and mortgage lending will boost investment activity. According to CNB estimates, economic growth will be approximately 2.6% in 2002 and should rise to around 3.9% in 2003 thanks in particular to expected higher demand for Czech exports resulting from the ongoing recovery in the EU. According to the CNB's analyses, the expected trend in real economic activity relative to the estimated growth rate of potential output implies no major inflationary pressures.

CHART IV.1
AFTER SLOWING IN 2002, ECONOMIC GROWTH WILL RISE IN 2003
(GDP growth at constant prices; percentages)



As in previous years, regulated prices will be most affected in 2002 by changes to gas prices, electricity prices and rents. The impact on consumer prices of rising electricity prices and rents will be offset in part by a decrease in gas prices as of 1 April 2002. According to CNB estimates, annual regulated price inflation should be around 5.5%. This considerable fall compared with previous years will pass through strongly into the overall level of annual consumer price inflation. The CNB expects a similar trend in 2003, when annual regulated price inflation will fall to around 4.5%. Neither in 2002 nor in 2003 does the CNB expect any administrative interventions above and beyond the framework of regulated prices.

As in the January Inflation Report, the CNB assumes annual money supply growth of between 9% and 12% in 2002 and 2003. Demand for money will be affected in 2002 by a slowdown in economic growth, so money supply growth can be expected to be in the lower half of this range. Most strongly affected will be non-financial

corporations, where money supply growth is linked primarily with the transactions motive for holding money. The forecast rise in economic growth in 2003 will boost demand for money. Money supply growth is also likely to be fostered by inflow of foreign non-debt capital and by a gradual recovery in bank lending. The CNB expects annual growth in credits to be 4%–6% in the forecast period. Lending to households will continue to show particularly strong growth. The public budgets deficits will also increase the money supply growth rate.

The negative tendencies in public budgets persist. The resultant deficit[14] at the end of 2002 can be expected to reach approximately 6% of GDP. The widening of the deficit tendency in the public budgets will pass through directly into a higher level of public debt, which can be expected to reach around 24.9% of GDP at the end of 2002. This figure includes the effect of the Czech Consolidation Agency's incorporation into the system of public finances, which will add around 5% of GDP to the overall debt. State debt – the principal component of public debt – is expected to reach 17.4% of GDP by the end of 2002. For 2003, the level of public debt is expected to copy the trend in public budgets, with its share of GDP probably reaching 26%.

IV.3. Inflation expectations of economic agents

The future inflation outturns and interest rates expected by financial market participants decreased further at the start of 2002. This meant a continuation of the trend that had started in the second half of 2001. The respondents were reacting primarily to the favourable downward trend in the inflation outturns. However, information on weak external demand in the eurozone and the USA also played a role. Two factors presented upside risks. The first remains the situation in public finances, in particular the fiscal imbalance, which is growing more quickly than originally forecast. The second factor is linked with possible faster growth in prices of raw materials on world markets. The lower inflation expectations brought about a fall in the expected interest rate level. According to financial market participants, money market interest rates should remain stable over the months ahead. A gradual rise is expected at the end of 2002.

TABLE IV.1
INFLATION EXPECTATIONS OF ECONOMIC AGENTS DECREASED AT THE 12-MONTH HORIZON
(percentages)

	Consumer price index			1Y PRIBOR
	Financial market	Businesses	Households	Financial market
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	4.8	5.1	5.8
7/01	4.6			6.0
8/01	4.7			6.3
9/01	4.8	4.8	4.9	6.2
10/01	4.4			5.7
11/01	4.0			5.2
12/01	3.9	3.9	4.6	5.1
1/02	3.8			5.0
2/02	3.5			4.8
3/02	3.5			4.9

IV.4. The inflation forecast

In April 2002, the CNB made its regular quarterly revision to the conditional macroeconomic forecast. As in the previous quarter, this was based not only on the new macroeconomic figures, but in particular on the ongoing analysis of the relationships between inflation and its underlying factors. Also assessed in detail was the experience gained from previous forecasts. The forecast formed part of the source materials used for the CNB Bank Board's monetary policy decision-making on 25 April 2002.

The CNB does not expect economic growth to exceed the growth potential of the economy. This means that the inflation pressures will not increase. Also, the favourable trend in imported inflation, the sustainable trend in domestic wage costs (as regards the inflation target) and the anti-inflationary effect of the strong exchange rate of the koruna all bode well for continuing subdued growth in market consumer prices. A low growth rate of regulated prices relative to previous years can also be expected. Consequently, the CNB expects the annual inflation outturns at the horizon

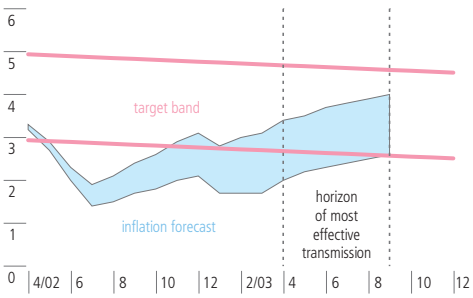
14 *Excluding privatisation proceeds and subsidies to transformation institutions. The CNB also classifies revenues from the de-blocking of Russian debt, sales of ministry assets and similar non-recurring revenues as part of non-recurring incomes.*

of most effective transmission to lie within the lower half of the inflation target band. In the short period of the next two to three quarters of 2002, inflation will dip below the lower boundary of the inflation target, owing to base effects and a decline in import prices.

The CNB traditionally discusses the risks attaching to the forecast, too. As regards exogenous factors – most notably oil prices and external economic and price trends – the upside and downside risks can be viewed as balanced at the moment. Conversely, the risks associated with the exchange rate and the domestic economy are on the downside. The first of these is the risk of a deviation of the exchange rate from its expected stable level. The second is the risk of pass-through of the year-on-year appreciation of the exchange rate into prices of tradable commodities (except food and fuels). The forecast predicts that the current strong appreciation of the koruna should pass through only partially into inflation – to approximately one-third of the extent that would correspond to the current elasticity of exchange rate pass-through into consumer prices. This is primarily because of the assumed downward inelasticity of the nominal price level, something that has been confirmed by experience over the last few months, as well as because of counteracting growth in several cost items in the tradables segment (energy-producing raw materials and wages) and increasing "indirect" price reductions (e.g. two-for-the-price-of-one deals), which the CSO's consumer price index statistical survey does not capture. If actual developments differ from these predictions, annual inflation will be lower than indicated by the CNB's current forecast.

The CNB is predicting only modest growth in the remaining groups of tradables prices. In the forecast period, the CNB expects food price inflation to be affected mainly by a gradual unwinding of the favourable cost factor, i.e. the decline in agricultural producer prices, during the course of 2002. Food price inflation should stay very low this year, and is even forecast to be zero for a short while. In 2003, conversely, it should pick up somewhat. In addition, fuel prices – which in the domestic environment are very closely dependent on oil prices on world markets and on the koruna's exchange rate against the US dollar – should not foster any significant growth in inflation. Overall, the CNB expects tradables price inflation to stagnate around 2%.

CHART IV.2
THE INFLATION FORECAST IS WITHIN THE LOWER PART OF THE TARGET BAND AT THE HORIZON OF MOST EFFECTIVE TRANSMISSION
(annual percentage changes)



In the next couple of years, unregulated nontradables prices will continue to rise faster than prices in other commodity groups. Considerable price inelasticity, lower competition on the domestic market compared with tradables, the high proportion of wage costs in the final prices of products (especially in the case of services) and the Balassa-Samuelson effect should stabilise the annual growth in the prices of such commodities at a level of around 5% over the next two years.

Drawing on its knowledge of future administrative changes and price measures by regulators, the CNB expects a gradual slowdown in regulated price inflation during the forecast period to around 4.5% in 2003 H2. This decline will accelerate at the start of 2003.

According to the conditional forecast, at the start of the horizon of most effective transmission, i.e. in April 2003, annual consumer price inflation should be lying within the 2.0%–3.4% range. At the end of the horizon of most effective transmission, i.e. in September 2003, it should be between 2.6% and 4.0%. The estimate for the inflation rate is 1.9%–2.7% in April 2003 and 2.1%–3.3% in September 2003.

ANNEX

The Balassa-Samuelson effect

Various factors contribute to the change in the real exchange rate of the koruna over time. One of these factors is differential trends in labour productivity in different sectors of the domestic and external economy. The contribution of this factor to the change in the real exchange rate is generally referred to as the Balassa-Samuelson (B-S) effect. Analyses of the B-S effect conducted by the CNB have focused on quantifying this effect on the CZK/EUR real exchange rate. Emphasis has been placed on the comparison with Germany, the dominant trading partner of the Czech Republic.

The analyses assume that all items (i.e. goods and services) consumed in the Czech Republic and in Germany can be broadly classed into tradables (for which the costs of international arbitrage are low) and nontradables (with high costs of international arbitrage). Let π_T and π_N, stand for the growth rates of prices in these two sectors, w for the share of tradable output in the consumer basket, and a_T and a_N for the growth rates of labour productivity; and let an asterisk denote values for Germany.

When quantifying the B-S effect, we assume for simplicity that (a) the nominal CZK/EUR exchange rate changes in accordance with changes in the relative Czech and German prices of tradable items, i.e. that the nominal appreciation of the koruna exchange rate is approximately equal to $\pi_T^* - \pi_T$, (b) that owing to "wage contagion", wages in the tradables and nontradables sectors of the economy rise at a similar rate, and (c) that the share of labour in value added in the two sectors of the economy is approximately the same. Using the standard microeconomic model of a two-sector economy, we can deduce from these assumptions that higher labour productivity growth in the tradables sector than in the nontradables sector will give rise to correspondingly higher growth in output prices in the nontradables sector than in the tradables sector, that is, $\pi_N - \pi_T = a_T - a_N$ and $\pi_N^* - \pi_T^* = a_T^* - a_N^*$.

Therefore, the essence of the B-S effect is that differential trends in labour productivity in the tradables and nontradables sectors of the Czech and German economies affect the differential between the inflation difference in the two sectors in the Czech Republic and the same difference in Germany. It is this differential which determines the change in the real CZK/DEM exchange rate, because we obtain the real appreciation of the koruna's exchange rate when we deflate the nominal exchange rate by the ratio between inflation in the Czech Republic and that in Germany, i.e.:

real appreciation of koruna $\approx (\pi_T^* - \pi_T) + [w \,.\, \pi_T + (1 - w) \,.\, \pi_N] - [w^* \,.\, \pi_T^* + (1 - w^*) \,.\, \pi_N^*]$.

To obtain a rough quantification of the B-S effect, it is necessary to make assumptions about the rate of productivity growth in each sector of the Czech Republic and Germany. These assumptions can be based *inter alia* on past developments in the Czech Republic and on experience in other countries. If, for example, we assume that labour productivity in Germany will rise in future at a rate of 3% in the tradables sector and 2% in the nontradables sector, while labour productivity growth in the Czech Republic will be 5% in the tradables sector and 2% in the nontradables sector, and if we further assume that the share of the tradables sector in the consumer basket will be around 50% in both countries, then the aforementioned methodology implies a B-S effect (i.e. a contribution to the real CZK/EUR exchange rate trend from labour productivity growth) consisting of a real appreciation of the koruna of around 1% a year. This estimate differs little from the results of various studies for the economies of the other Central and Eastern European countries that are candidates for EU and EMU membership.

If the CNB fulfils its inflation targets, and assuming German inflation of 2%, consumer price inflation in the Czech Republic could be 1–1.5 percentage points higher than in Germany on average over the next few years. This inflation differential, coupled with the real appreciation of around 1% derived above, would imply approximate stability of the nominal exchange rate. Consequently, if the aforementioned assumptions hold true, there is little support to be found in the B-S effect alone for the frequently mentioned expectations of a medium-run nominal appreciation of the koruna against the euro.

MINUTES OF THE CNB BANK BOARD MEETINGS

Minutes of the Extraordinary Board Meeting on 21 January 2002

Present at the meeting:

Zdeněk Tůma (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)

The Board discussed the exchange rate of the Czech koruna and the changes in monetary conditions following the Government's meeting on 16 January 2002. The material "Strategy for resolving the exchange rate effects of capital inflow from the privatisation of state assets and other exchange rate incomes of the state" was approved at this meeting. The rapid strengthening of the koruna observed at the end of 2001 was primarily linked to the anticipation of converting a significant part of the state's foreign exchange incomes into Czech koruna. It was stated that considering the extent of the approved measures, the exchange rate was likely to shift back to a level corresponding to the economic fundamentals.

However, the exchange rate did not react in this way, and as a result, monetary conditions were disproportionately tightened. This tightening had occurred at a time when inflationary pressures were low. Board members also took into consideration the fact that liquidity was reduced on the foreign exchange market after the Government's meeting. It was expressed that monetary policy measures leading to looser monetary conditions, if adopted during the regular meeting on monetary policy at the end of January, would more than likely need to respond to a stronger deviation in the exchange rate. Members, therefore, agreed during the discussion to react immediately to the situation by lowering the base rates and to accompany this measure with exchange rate intervention.

Effective 22 January 2002, the Board decided unanimously to lower the CNB two-week repo rate by 0.25 percentage points to 4.50% and to lower the discount and Lombard rates by 0.25 percentage points to 3.50% and 5.50%, respectively. The Board also decided unanimously to intervene on the foreign exchange market.

MINUTES OF THE BOARD MEETING ON 31 JANUARY 2002

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), Jiří Rusnok (Minister of Finance)

The presentation of the 1st situational report on economic and monetary development was based on the new economic forecast for the period 2002 to 2003. It was said that the Monetary Department had made downward adjustments in the inflation forecast and GDP growth forecast - in comparison with the forecast from October 2001 - for the range of the most effective monetary transmission. During 2002, inflation would decline until June, at which time it would temporarily stray from the targeted band due to technical factors. From June to the end of 2002, inflation would pick up momentum and then return to the lower half of the band. The forecast risks mainly involved the effects of slow recovery in Germany, the strong exchange rate, and underestimating the downward flexibility of prices. The risks accompanying the inflation forecast were, therefore, asymmetric - with more weight on the anti-inflationary side.

The presentation also contained more detailed analyses of the specific areas of the economy from which the forecast was derived. Growth in domestic aggregate demand was expected to be in a range of 3% to 4% in 2002 and 4% to 5% in 2003. The negative output gap would gradually close up in 2003. Inflation would be pushed towards the lower boundary of the targeted band thanks to the strong anti-inflationary effect of external factors. Adjusted inflation would slightly rise. The inflation forecast operated under the assumption of substantial downward price rigidity. If prices were flexible, the resulting inflation could be lower than the forecast indicated. Slowing M1 and M2 growth would signal a potential slowdown in economic growth. However, a recovery in credit issue was taking place, and if confirmed by current dynamics, this could mean a return to the standard observed in similar European economies. The fiscal impulse was somewhat neutral in comparison with the original expectations in 2001.

The presentation of the 1st situational report was followed by a discussion on the new economic outlook. Several views stressed that the outlook was realistic and that the situational report provided a number of arguments in favour of lowering rates. However, it was repeatedly stated that the risks of the current forecast were not concentrated on the anti-inflationary side alone, especially from the viewpoint of domestic factors. Expected domestic demand growth was relatively strong. The monetary aggregates were increasing at a higher rate than nominal GDP. Fiscal policy had eased up, and credit growth was once again recovering. In all probability, the world would experience economic recovery in 2003. Commodity prices could also rise on international markets. In the range of the most effective transmission, the macroeconomic framework would be too loose, and inflation would fluctuate more towards the upper boundary of the targeted band.

In this respect, the Board discussed the current level of interest rates. It was said that interest rates were at an historical long-term low in absolute terms. Nevertheless, it was mentioned that this level was consistent with the new economic outlook, provided that the output gap would be closing up during 2003. It was also expressed that the interest rate level was to some extent inherited from the past, i.e. low rates corresponded to conditions of very low growth, and was in part compensation for tightening overall monetary conditions due to the strong koruna exchange rate. Some board members also expressed that maintaining the current level of rates was an adequate reaction in view of the risks of loosening the macroeconomic framework.

Attention was focused on the effect of the agreement concluded with the Government to handle the exchange rate effects of state incomes on the strengthening koruna. There was consensus that the agreement had a high potential for alleviating pressure on the koruna, but that markets would only evaluate its significance over time.

The Board also focused its discussion on the inflation forecast for the whole period of monetary transmission. It was expressed that inflation's signalled short-term deviation from the targeted band during 2002 was a reflection of technical factors relating to the CPI in 2001 and not a result of monetary restriction. Moreover, inflation was pushed towards the lower boundary of the targeted band by external factors. It was also mentioned that the technical deviation from the band was not cause for implementing monetary policy measures. When considering the length of monetary transmission, completely eliminating the technical deviations would be too costly in view of the volatility of important economic variables.

Other views expressed that a change in interest rates - though not a perfect substitute for the exchange rate - could be used to ease monetary conditions. These monetary conditions were not only tightened by the effect of the strengthening koruna, but also by the effect of falling inflation expectations.

Following the discussion of the January situational report, the Board decided, by a vote of three to two, to lower the CNB two-week repo rate by 0.25 percentage points to 4.25% and to lower the discount and Lombard rates by 0.25 percentage points to 3.25% and 5.25%, respectively, effective 1 February 2002. Two board members voted in favour of leaving the rates at their current levels.

Minutes of the Board Meeting on 28 February 2002

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 presentation of the Monetary and Statistics Department focused primarily on assessment of the information available since the discussion of the January situational report. The published figures revealed no information that would suggest any significant change in the inflation forecast or that would change the current view on expected demand, economic growth or the current account. The risks relating to the inflation forecast were distributed evenly in both directions.

In January, there was a decline in CPI inflation to 3.7%, which corresponded to the CNB's expectations. Although this level was 0.2 percentage points higher than the predicted value in the January situational report, this deviation did not cause any re-evaluation of the anticipated trend in CPI inflation in view of the assessment of the wider range of new information. The higher-than-anticipated price growth was mainly caused by faster price growth in the food sector as well as higher adjusted inflation. Year-on-year growth in industrial producer prices and agricultural producer prices corresponded to the forecasts. Retail and catering sales, industrial production earnings and revenues from VAT collection indicated a slowdown in economic activity in the first quarter of this year. However, the latest figures on industrial production were somewhat better than originally expected. External cost factors had been and would continue to be anti-inflationary in nature according to expectations. In December 2001, the year-on-year decline in import prices had been stronger than expected, especially as a result of a sharper drop in energy raw material prices.

Following the presentation of the February situational report, the Board turned their attention to certain thematic areas. The focus of the discussion was on the balance of risks for future inflation development. The majority of members were of the opinion that the inflation forecast presented in January was still an adequate measure of monetary policy decision-making, and there was no reason to doubt the symmetric distribution of inflation risks. The main downward risks were identified as the effects of the recent strengthening of the koruna's nominal and real exchange rate on further price and demand developments, any further decline in raw material prices or the possibility of more profound transmission of the strengthened nominal exchange rate to tradable commodity prices. The main uncertainties in the opposite direction included the sustainability of the longer-term anti-inflationary impact of the nominal exchange rate, raw material prices, and the potential effect of eased fiscal policy on domestic demand. One view expressed that the new data indicated a downward change in the balance of future inflation risks, especially due to a somewhat stronger real koruna exchange rate and higher real interest rates in comparison to previous assumptions.

In view of the discussion on inflation risk distribution, the Board focused its attention on the outlook for world economic recovery. It was stated that the information on the growth perspectives of the world economy, for Europe in particular, continued to show inconsistencies. The uncertainty concerning the speed and dynamics of economic recovery still remained high.

Evaluating the effect of the last cut in short-term interest rates on the yield curve slope was another issue discussed. The effectiveness of the repo rate's transmission to interest rates with longer maturities does not only depend on the central bank's transparency in disclosing the inflation forecast, but also on financial market expectations towards economic development and the central bank's response. One view indicated that the assessment of the effect of short-term rates on the slope of the yield curve had also been complicated by the fact that the central bank's measures were often anticipated by the financial markets and that changes in long-term interest rates would take place before the actual change in monetary policy interest rates. It was mentioned that interest rates in the EU, especially for the longer end of the yield curve, had already begun to create an effective boundary for a further decline in corresponding domestic currency rates. While assessing interest rate settings, it was stressed that the current macroeconomic environment created a natural constraint for additional declines in the yield curve.

Attention was again focused on the assessment of exchange rate developments for the previous month. It was expressed that the foreign exchange market had stabilised to some extent and that a recovery in market liquidity had occurred. Nevertheless, the Board agreed that the CNB's view on exchange rate development would remain unchanged and that longer-term trends on the foreign exchange market were decisive for evaluating monetary conditions. It was emphasised that the pace of real exchange rate strengthening during the last several weeks exceeded the real capabilities of the Czech economy.

Following the discussion of the February situational report, the Board decided unanimously to leave the CNB two-week repo rate at its current level.

Minutes of the Board Meeting on 28 March 2002

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)

According to the March situational report, macroeconomic development was consistent with the assumptions of the January forecast.

Monthly consumer price growth in February was slightly lower than predicted owing to a correction in food prices since January. Unregulated prices in February were flat overall. Annual inflation continued to fluctuate slightly above the midpoint of the January forecast. However, this was only a small deviation from the expected development. Industrial producer prices did not signal any inflation risks and registered a slight year-on-year decline in February. Agricultural producer prices shifted above the assumptions. This departure was, nevertheless, considered to be only short-term in nature. World prices for oil and other raw materials would cause prices to rise at a faster pace. The continued appreciation of the exchange rate, though, had an anti-inflationary effect. In April, the announced cut in regulated natural gas prices would also push towards lower inflation.

GDP growth in 2001 Q4 was slightly higher than the prediction, but overall, it was still consistent with the assumption of gradually slowing growth. According to expectations, growth was encouraged by investment and household consumption. Contrary to the prediction, investment in stocks, in particular, promoted stronger growth. However, a deterioration in net export, which was somewhat stronger than predicted, had a negative effect on growth.

Monthly indicators, on the other hand, pointed to a reduction in the risk associated with domestic demand pressures. Growth in industrial production slowed in January. Industrial sales continued to decline in real terms, which signalled a rise in stocks due to low demand. Retail sales registered year-on-year growth, though, at a slower pace than in the previous period. There was a substantial decline in personal automobile sales. The seasonally adjusted unemployment rate recorded no real change. The ratio of unplaced job applicants to one job vacancy increased. Information on wage developments in the last quarter of 2001 also signalled lower inflation risks.

The exchange rate of the Czech koruna vis-à-vis the weighted average of the currencies of the Czech Republic's main business partners appreciated in real terms by more than 8% in January. In view of the analysis of the balance of payments, there was no real justification for any further strengthening. As a result of the agreement between the CNB and the Government, privatisation incomes would not have an effect on the foreign exchange market. The share of non-privatisation direct investment declined in 2001, and the reinvestment of profit, which did not represent any real flow of money through the foreign exchange market, would play an increasingly larger role. Moreover, recovery in the USA and in other advanced market economies would support a rise in foreign interest rates, making portfolio investment abroad more attractive.

In the discussion to follow, the Board agreed that the risks of the current forecast were balanced from an overall perspective. However, in contrast to the assessment in the situational report, attention was focused more on the medium-term risks. During this time frame, the risks shifted slightly upwards.

Current information from abroad confirmed the onset of recovery. This would gradually find its way into the Czech economy thanks to higher demand in Western Europe. In addition, global recovery would affect price pressures at a quicker pace due to higher raw material prices. The published GDP figures for 2001 Q4 could be assessed positively, despite the substantial growth boost from stocks. In this respect, there were some doubts concerning the predicted slowdown in the rate of economic growth and domestic demand for the first half of 2002 due to weaker, but already recovering, foreign demand. One view was that this prediction might be too pessimistic. However, it was mentioned that certain information, to some extent, even supported the forecast's scenario. Included in this information was the decline in import, which, along with the declining prices, could also be associated with a decline in domestic economic activity. In the medium term, though, even the present forecast assumed that the domestic economy would recover and that the output gap would close up more quickly.

Hence, the Board agreed that the Czech economy did not need any additional demand impulses at this time. In this respect, attention was turned to developments in the fiscal area. While fiscal policy helped the economy overcome weakening foreign growth last year, now fiscal policy had again become inconsistent with the economic cycle. Besides long-term unsustainability, fiscal development could again be characterised as destabilising in the medium term.

The Board paid particular attention to the exchange rate. Current data on the trade balance had so far not confirmed any substantial negative exchange rate impact on the Czech economy. Nevertheless, one view expressed that this effect had not yet managed to surface fully, because the koruna had only really begun to show substantial signs of strengthening at the end of 2001. There was also mention of microeconomic data and certain information on the production and financial performance of export firms pointing to exchange rate overvaluation. Despite the existing uncertainties connected with structural changes in the economy, current exchange rate developments were still perceived as unbalanced in nature. This was considered to be one of the main downward risks of macroeconomic development.

Board members discussed the projection of the effect of the balance of payments on the exchange rate, which was presented during the first part of the meeting. It was stressed that the agreement between the CNB and the Government had remained a key instrument in this area. Implementation of this agreement - focused on resolving the impact of the state's foreign currency revenues - should prevent any surplus of foreign currency on the market. The Board also considered the strategies of foreign exchange intervention.

At the close of the meeting, the Board decided unanimously to leave the CNB two-week repo rate unchanged at 4.25%.

Table 1a

INFLATION DEVELOPMENT

annual percentage changes

	1998											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
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	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)	*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)	*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: prices of food, beverages and tobacco	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)	*1.97*	*2.22*	*2.40*	*2.44*	*2.88*	*1.96*	*1.75*	*1.21*	*1.00*	*0.60*	*0.14*	*-0.38*
adjusted inflation	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)	*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 (annual moving average)	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	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)	*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)	*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: prices of food, beverages and tobacco	-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)	*-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	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)	*1.15*	*0.91*	*0.92*	*1.13*	*1.11*	*1.04*	*1.08*	*1.17*	*1.04*	*1.11*	*1.17*	*1.35*
Inflation rate (annual moving average)	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	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)	*1.94*	*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)	*1.19*	*1.38*	*1.55*	*1.27*	*1.57*	*1.90*	*2.25*	*2.36*	*2.35*	*2.57*	*2.49*	*2.16*
of which: prices of food, beverages and tobacco	-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)	*-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	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)	*1.35*	*1.39*	*1.53*	*1.39*	*1.49*	*1.77*	*1.80*	*1.63*	*1.56*	*1.51*	*1.43*	*1.15*
Inflation rate (annual moving average)	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	5.9	5.5	4.7	4.4	4.2	4.1
Regulated prices	10.3	10.4	10.6	10.8	10.7	10.4	11.5	11.8	11.9	11.8	11.7	11.7
(contribution to consumer price inflation)	*1.95*	*1.98*	*2.01*	*1.98*	*2.00*	*1.97*	*2.12*	*2.19*	*2.19*	*2.19*	*2.16*	*2.17*
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*	*0.01*	*0.01*	*0.05*	*0.05*	*0.05*	*0.05*
Net inflation	3.0	2.9	2.9	3.3	3.8	4.4	4.7	4.1	3.1	2.7	2.4	2.4
(contribution to consumer price inflation)	*2.37*	*2.23*	*2.24*	*2.62*	*2.97*	*3.52*	*3.74*	*3.31*	*2.54*	*2.15*	*1.98*	*1.92*
of which: prices of food, beverages and tobacco	3.8	3.5	4.2	5.5	6.0	7.7	6.9	5.1	4.0	2.9	2.6	2.9
(contribution to consumer price inflation)	*1.09*	*1.02*	*1.25*	*1.62*	*1.78*	*2.24*	*2.11*	*1.70*	*1.28*	*0.97*	*0.87*	*0.80*
adjusted inflation	2.5	2.4	2.0	1.9	2.3	2.4	3.2	3.4	2.5	2.4	2.3	2.1
(contribution to consumer price inflation)	*1.28*	*1.21*	*0.99*	*1.00*	*1.18*	*1.27*	*1.63*	*1.62*	*1.26*	*1.17*	*1.11*	*1.12*
Inflation rate (annual moving average)	4.0	4.0	4.0	4.1	4.2	4.3	4.5	4.6	4.7	4.7	4.7	4.7
	2002											
Consumer prices	3.7	3.9	3.7									
Regulated prices	7.6	8.1	8.0									
(contribution to consumer price inflation)	*1.49*	*1.60*	*1.59*									
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.05*	*0.05*	*0.05*									
Net inflation	2.7	2.7	2.5									
(contribution to consumer price inflation)	*2.20*	*2.15*	*2.01*									
of which: prices of food, beverages and tobacco	3.2	3.0	2.3									
(contribution to consumer price inflation)	*0.88*	*0.82*	*0.65*									
adjusted inflation	2.5	2.5	2.6									
(contribution to consumer price inflation)	*1.32*	*1.33*	*1.37*									
Inflation rate (annual moving average)	3.7	3.8	3.7									

CNB calculation based on CSO data

INFLATION DEVELOPMENT

monthly percentage changes

	1	2	3	4	5	6	7	8	9	10	11	12
	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: prices of food, beverages and tobacco	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: prices of food, beverages and tobacco	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: prices of food, beverages and tobacco	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	1.0	-0.2	-0.7	0.0	-0.1	0.1
Regulated prices	7.7	0.3	0.2	0.3	0.0	0.1	2.1	0.3	0.2	0.1	0.0	0.0
(contribution to consumer price inflation)	*1.43*	*0.05*	*0.05*	*0.06*	*0.00*	*0.01*	*0.41*	*0.06*	*0.04*	*0.03*	*-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*	*0.01*	*0.00*	*0.05*	*0.00*	*0.00*	*0.00*
Net inflation	0.6	0.0	0.0	0.4	0.8	1.3	0.7	-0.3	-1.0	-0.1	-0.1	0.2
(contribution to consumer price inflation)	*0.45*	*0.01*	*-0.01*	*0.31*	*0.57*	*1.07*	*0.56*	*-0.21*	*-0.82*	*-0.10*	*-0.05*	*0.10*
of which: prices of food, beverages and tobacco	1.2	-0.2	0.1	0.7	0.8	2.0	-0.9	-1.0	-0.8	0.0	0.0	0.9
(contribution to consumer price inflation)	*0.33*	*-0.06*	*0.03*	*0.19*	*0.23*	*0.56*	*-0.24*	*-0.27*	*-0.21*	*0.00*	*-0.01*	*0.24*
adjusted inflation	0.2	0.1	-0.1	0.2	0.7	1.0	1.5	0.1	-1.2	-0.2	-0.1	-0.3
(contribution to consumer price inflation)	*0.12*	*0.07*	*-0.04*	*0.12*	*0.34*	*0.51*	*0.81*	*0.06*	*-0.62*	*-0.10*	*-0.03*	*-0.14*
	2002											
Consumer prices	1.5	0.2	-0.1									
Regulated prices	3.7	0.8	0.2									
(contribution to consumer price inflation)	*0.75*	*0.16*	*0.04*									
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*									
Net inflation	0.9	0.0	-0.2									
(contribution to consumer price inflation)	*0.74*	*-0.03*	*-0.14*									
of which: prices of food, beverages and tobacco	1.5	-0.4	-0.5									
(contribution to consumer price inflation)	*0.41*	*-0.11*	*-0.14*									
adjusted inflation	0.6	0.2	0.0									
(contribution to consumer price inflation)	*0.33*	*0.08*	*0.00*									

CNB calculation based on CSO data

CONSUMER PRICES

percentage changes; December 1999 = 100

Group	Constant 1999 weights in per mille	months 1	2	3	4	5	6	7	8	9	10	11	12	Average since start of year
Total - 1998	1000.0	-4.9	-4.3	-4.2	-3.9	-3.8	-3.5	-1.7	-1.9	-1.8	-1.9	-2.2	-2.4	-3.0
Total - 1999	1000.0	-1.6	-1.6	-1.7	-1.5	-1.5	-1.4	-0.6	-0.5	-0.6	-0.5	-0.3	0.1	-1.0
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	9.4	9.2	8.4	8.4	8.3	8.4	7.7
Food and non-alcoholic beverages	197.6	6.0	5.5	5.5	6.4	7.5	10.5	9.2	7.7	6.7	6.6	6.5	7.9	7.2
Alcoholic beverages and tobacco	79.2	3.4	3.9	4.3	4.6	4.9	5.0	4.9	4.9	5.2	5.5	5.6	5.4	4.8
Clothing and footwear	56.9	-3.3	-4.0	-4.0	-3.8	-3.7	-3.7	-3.9	-4.4	-4.4	-4.1	-3.8	-3.9	-3.9
Housing, water, electricity, gas and other fuels	236.4	14.2	14.4	14.6	14.8	15.1	15.4	18.4	18.6	18.8	18.9	19.0	19.0	16.8
Furnishings, household equipment and routine maintenance of the house	67.9	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.2	-0.3	-0.4	-0.4
Health	14.3	4.7	4.9	5.1	5.3	5.4	5.7	6.5	7.5	8.6	8.9	8.3	8.4	6.6
Transport	101.4	4.9	4.8	4.7	5.8	7.5	8.7	8.2	7.6	7.8	6.5	5.3	3.4	6.3
Communications	22.5	7.2	7.1	7.1	7.0	6.8	6.7	6.6	6.5	6.0	5.9	5.8	5.7	6.5
Recreation and culture	95.5	2.7	3.4	2.9	2.3	3.3	7.0	13.7	15.3	7.1	6.5	6.8	7.2	6.5
Education	4.5	3.4	3.4	3.5	3.5	3.5	3.6	3.6	3.6	6.7	6.8	6.8	6.8	4.6
Hotels, cafés and restaurants	74.2	3.1	3.6	3.3	3.7	4.0	4.1	4.2	4.4	5.2	5.5	5.7	5.9	4.4
Miscellaneous goods and services	49.5	5.0	5.5	6.2	7.3	7.4	7.4	7.7	7.6	7.8	8.4	8.6	8.7	7.3
Total - 2002	1000.0	10.0	10.2	10.1										10.1
Food and non-alcoholic beverages	197.6	10.0	9.4	8.7										9.4
Alcoholic beverages and tobacco	79.2	5.8	5.8	5.6										5.7
Clothing and footwear	56.9	-4.7	-5.5	-5.7										-5.3
Housing, water, electricity, gas and other fuels	236.4	23.5	23.6	23.7										23.6
Furnishings, household equipment and routine maintenance of the house	67.9	-0.4	-0.5	-0.3										-0.4
Health	14.3	9.2	9.7	10.1										9.7
Transport	101.4	3.0	3.0	3.3										3.1
Communications	22.5	6.0	11.4	11.3										9.6
Recreation and culture	95.5	7.4	8.5	7.9										7.9
Education	4.5	6.9	7.0	7.0										7.0
Hotels, cafés and restaurants	74.2	6.4	7.0	7.4										6.9
Miscellaneous goods and services	49.5	11.0	11.2	11.3										11.2

Source: CSO

CONSUMER PRICES - TRADABLES AND NONTRADABLES

percentage changes; December 1999 = 100

Group	Constant 1999 weights in per mille	2000	2001	2002		
		12	12	1	2	3
1. Food and non-alcoholic beverages	197.6	4.6	7.9	10.0	9.4	8.7
- tradables	197.6	4.6	7.9	10.0	9.4	8.7
2. Alcoholic beverages and tobacco	79.2	2.4	5.4	5.8	5.8	5.6
- tradables	79.2	2.4	5.4	5.8	5.8	5.6
3. Clothing and footwear	56.9	-2.7	-3.9	-4.7	-5.5	-5.7
- nontradables	1.4	6.1	13.0	13.9	14.9	15.7
- tradables	55.5	-2.9	-4.3	-5.2	-6.0	-6.2
4. Housing, water, electricity, gas and other fuels	236.4	7.8	19.0	23.5	23.6	23.7
- nontradables	226.1	8.1	19.7	24.3	24.5	24.6
- tradables	10.3	2.3	2.7	4.9	4.5	4.0
5. Furnishings, household equipment and routine maintenance of the house	67.9	-0.7	-0.4	-0.4	-0.5	-0.3
- nontradables	2.9	4.3	7.5	8.2	8.6	8.8
- tradables	65.0	-0.9	-0.8	-0.8	-0.9	-0.7
6. Health	14.3	4.1	8.4	9.2	9.7	10.1
- nontradables	11.0	4.9	10.1	11.1	11.5	12.1
- tradables	3.3	1.5	2.7	3.1	3.7	3.7
7. Transport	101.4	6.9	3.4	3.0	3.0	3.3
- nontradables	27.4	6.2	11.7	13.3	15.0	15.5
- tradables	74.0	7.2	0.3	-0.8	-1.5	-1.2
8. Communications	22.5	1.5	5.7	6.0	11.4	11.3
- nontradables	21.0	2.7	8.5	9.0	14.8	14.8
- tradables	1.5	-16.4	-34.7	-36.8	-37.7	-39.3
9. Recreation and culture	95.5	2.0	7.2	7.4	8.5	7.9
- nontradables	60.4	4.4	14.3	14.7	16.3	15.7
- tradables	35.1	-2.2	-5.0	-5.2	-4.9	-5.5
10. Education	4.5	3.4	6.8	6.9	7.0	7.0
- nontradables	4.5	3.4	6.8	6.9	7.0	7.0
11. Hotels, cafés and restaurants	74.2	2.6	5.9	6.4	7.0	7.4
- nontradables	74.2	2.6	5.9	6.4	7.0	7.4
12. Miscellaneous goods and services	49.5	3.1	8.7	11.0	11.2	11.3
- nontradables	22.0	5.7	17.5	22.5	23.0	23.5
- tradables	27.5	1.1	1.7	1.8	1.8	1.6
Household consumer prices, total	1000.0	4.1	8.4	10.0	10.2	10.0
Tradables	549.1	2.5	2.9	3.5	3.1	2.8
- food	276.8	4.0	7.2	8.8	8.4	7.8
- others	272.3	1.0	-1.5	-1.9	-2.3	-2.3
Nontradables	450.9	6.0	15.2	18.0	18.8	18.9
- others	271.2	4.7	11.5	13.3	14.0	14.0
- regulated	179.7	8.0	20.6	25.1	26.1	26.3

CNB calculation based on CSO data

Table 4

INFLATION EXPECTATIONS OF SELECTED ECONOMIC SECTORS FOR 12 MONTHS AHEAD

annual percentage changes

	CPI		
	Financial market	Businesses	Households
12/98			
1/99			
2/99			
3/99			
4/99			
5/99	5.0		
6/99	4.7	4.3	3.6
7/99	4.8		
8/99	4.2		
9/99	3.9	3.9	2.1
10/99	4.1		
11/99	3.9		
12/99	4.2	3.9	3.1
1/00	4.0		
2/00	4.5		
3/00	4.5	4.3	4.1
4/00	4.2		
5/00	4.1		
6/00	4.4	4.8	4.1
7/00	4.6		
8/00	4.5		
9/00	4.7	5.0	4.6
10/00	4.6		
11/00	4.8		
12/00	5.0	4.7	4.1
1/01	4.5		
2/01	4.3		
3/01	4.2	4.2	4.0
4/01	4.0		
5/01	4.3		
6/01	4.6	4.8	5.1
7/01	4.6		
8/01	4.7		
9/01	4.8	4.8	4.9
10/01	4.4		
11/01	4.0		
12/01	3.9	3.9	4.6
1/02	3.8		
2/02	3.5		
3/02	3.5		

Source: CNB statistical survey

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	1998	1999	2000	2001	2002
	12	12	12	12	2
Belgium	0.7	2.1	3.0	2.0	2.5
Denmark	1.1	3.1	2.3	2.1	2.4
Finland	0.8	2.2	2.9	2.3	2.5
France	0.3	1.4	1.7	1.4	2.3
Ireland	2.2	3.9	4.6	4.4	4.9
Italy	1.7	2.1	2.8	2.2	2.7
Luxembourg	0.4	2.3	4.3	0.9	2.2
Germany	0.2	1.4	2.3	1.5	1.8
Netherlands	1.5	1.9	2.9	5.1	4.5
Portugal	2.8	1.7	3.8	3.9	3.3
Austria	0.5	1.7	1.8	1.8	1.7
Greece	2.7	2.3	3.7	3.5	3.8
Spain	1.4	2.8	4.0	3.0	3.2
Sweden	0.0	1.2	1.3	3.2	2.7
United Kingdom	1.6	1.2	0.9	1.0	1.5
European Union	1.0	1.7	2.3	1.9	2.3
Czech Republic	.	.	.	3.9	

Source: Eurostat

MONETARY SURVEY

position at month-end in CZK billions

		1998	1999	2000	2001	2002
		12	12	12	12	2
Total assets		1241.4	1337.5	1412.3	1596.0	1585.3
Net foreign assets		425.3	570.4	673.1	800.6	769.6
- assets		761.4	940.2	998.8	1088.4	1037.9
- liabilities		336.1	369.8	325.7	287.8	268.3
Net domestic assets		816.1	767.1	739.2	795.4	815.7
Domestic credits		1079.8	1058.5	1068.8	1011.9	994.0
Net credit to the government sector		33.1	57.5	104.9	236.5	232.7
- net credit to government		42.4	67.7	103.8	246.2	244.9
- net credit to NPF		-9.3	-10.2	1.1	-9.7	-12.2
Client credits of commercial banks and CNB		1046.7	1001.0	963.9	775.4	761.3
CZK credits		847.0	824.6	819.7	661.2	655.6
- businesses		743.3	715.7	699.1	524.2	516.4
- households		103.7	108.9	120.6	137.0	139.2
Foreign currency credits		199.7	176.4	144.2	114.2	105.7
- businesses		196.2	173.0	141.9	111.9	103.5
- households		3.5	3.4	2.3	2.3	2.2
Other net items		-263.7	-291.4	-329.6	-216.5	-178.3
Liabilities						
M2	2)	1241.4	1337.5	1412.3	1596.0	1585.3
M1	1)	404.0	447.8	497.7	583.6	575.2
Currency in circulation		127.2	157.9	171.8	180.4	182.3
CZK demand deposits		276.8	289.9	325.9	403.2	392.9
- households		144.1	162.6	195.0	230.2	247.1
- businesses		129.4	124.4	128.0	169.2	142.2
- insurance companies		3.3	2.9	2.9	3.8	3.6
Quasi money		837.4	889.7	914.6	1012.4	1010.1
CZK time deposits		672.5	653.1	645.0	742.2	761.1
- households		550.4	537.6	549.8	596.6	598.2
- businesses		90.0	78.9	78.9	120.8	133.2
- insurance companies		32.1	36.6	16.3	24.8	29.7
Deposit bills of exchange and other bonds	5)	26.5	91.3	114.0	112.8	98.3
Foreign currency deposits		138.4	145.3	155.6	157.4	150.7
- households		73.6	80.8	83.7	91.5	90.3
- businesses		64.8	64.5	71.9	65.9	60.4
Monetary aggregate L	3)	1285.5	1386.3	1463.5	1643.9	1640.7
Annual percentage changes						
M1		-3.6	10.8	11.1	17.3	13.3
M2		5.4	7.7	5.6	13.0	10.2
L		7.1	7.8	5.6	12.3	10.2
Client credits of commercial banks and CNB		-4.7	-4.4	-3.7	-19.6	-20.6
Client deposits with banks	4)	2.8	0.1	3.5	15.7	5.6

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

	1998	1999	2000	2001	2002
	12	12	12	12	2
Non-adjusted credits					
Total credits, CZK and foreign currency					
absolute volumes in CZK billions	1046.7	1001.0	963.9	775.4	761.3
annual percentage changes	-4.7	-4.4	-3.7	-19.6	-20.6
CZK credits					
absolute volumes in CZK billions	847.0	824.6	819.7	661.2	655.6
annual percentage changes	-6.0	-2.6	-0.6	-19.3	-20.1
Foreign currency credits					
absolute volumes in CZK billions	199.7	176.4	144.2	114.2	105.7
annual percentage changes	1.0	-11.7	-18.3	-20.8	-23.2
Adjusted credits 1)					
Total credits, CZK and foreign currency					
absolute volumes in CZK billions	1017.5	969.9	929.5	953.6	956.2
annual percentage changes	0.7	-4.7	-4.2	2.6	2.9
CZK credits					
absolute volumes in CZK billions	808.7	797.8	787.7	832.3	843.3
annual percentage changes	-1.7	-1.3	-1.3	5.7	6.4
Foreign currency credits					
absolute volumes in CZK billions	208.8	172.1	141.8	121.3	112.9
annual percentage changes	11.1	-17.6	-17.6	-14.5	-17.1

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

CREDIT BREAKDOWN BY TIME, SECTOR AND TYPE

percentages of the total

	1998	1999	2000	2001	2002
	12	12	12	12	2
Time structure					
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0
Short-term	42.1	39.0	36.6	37.5	37.5
Medium-term	22.8	24.2	22.2	26.0	30.0
Long-term	35.1	36.8	41.2	36.5	32.5
Sector structure					
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0
Businesses	89.8	88.8	87.2	82.0	81.4
Households	10.2	11.2	12.8	18.0	18.6
Type structure 1)					
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0
Operating	54.1	52.0	49.3	42.6	42.3
Investment (incl. general housing construction)	31.0	31.1	30.8	35.2	29.3
Mortgage	2.2	2.8	4.1	6.7	7.2
Consumer	1.7	2.9	3.3	3.6	6.4
For privatisation	1.4	2.3	2.0	0.4	0.3
For temporary fund shortage	8.3	7.4	9.1	9.8	7.9
For securities purchase	1.3	1.5	1.4	1.7	1.5
Building savings loans					4.9
Others					0.2

1) Owing to new metholodology introduced on 1 January 2002, the figures on type structure are not comparable with the previous period's figures

INTEREST RATES ON INTERBANK DEPOSITS

percentages

	1998	1999	2000	2001	2002
	12	12	12	12	3
1. AVERAGE PRIBOR 1)					
- 1 day	10.84	5.21	5.23	4.63	4.26
- 7 day	10.56	5.32	5.29	4.79	4.29
- 14 day	10.54	5.40	5.29	4.78	4.29
- 1 month	10.46	5.59	5.32	4.77	4.29
- 2 month	10.27	5.58	5.36	4.72	4.29
- 3 month	10.08	5.58	5.42	4.69	4.30
- 6 month	9.56	5.64	5.60	4.62	4.34
- 9 month	9.38	5.72	5.78	4.61	4.42
- 12 month	9.31	5.84	5.90	4.62	4.51
2. AVERAGE PRIBID 1)					
- 1 day	10.48	5.05	5.11	4.53	4.17
- 7 day	10.30	5.16	5.18	4.69	4.20
- 14 day	10.27	5.23	5.19	4.69	4.20
- 1 month	10.18	5.42	5.22	4.68	4.19
- 2 month	9.99	5.40	5.26	4.62	4.20
- 3 month	9.79	5.41	5.31	4.59	4.21
- 6 month	9.26	5.46	5.49	4.52	4.25
- 9 month	9.08	5.54	5.67	4.52	4.32
- 12 month	9.02	5.67	5.79	4.52	4.41

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

Table 9

FRA RATES

percentages; monthly averages

	1998	1999	2000	2001	2002
	12	12	12	12	3
3 * 6	9.02	5.57	5.68	4.49	4.35
3 * 9	8.99	5.70	5.85	4.53	4.43
6 * 9	8.79	5.75	5.93	4.53	4.50
6 * 12	8.79	5.94	6.10	4.52	4.61
9 * 12	8.62	6.04	6.19	4.54	4.69
12 * 24	9.03	.	.	.	
9*12 - 3*6 spread	-0.40	0.47	0.51	0.05	0.35
6*12 - 3*9 spread	0.20	0.24	0.25	-0.02	0.18

IRS RATES

percentages; monthly averages

	1998	1999	2000	2001	2002
	12	12	12	12	3
1Y	9.52	5.92	5.94	4.64	4.55
2Y	9.13	6.54	6.40	4.72	4.90
3Y	9.06	6.95	6.72	4.89	5.11
4Y	8.99	7.16	6.96	5.05	5.26
5Y	8.93	7.26	7.15	5.19	5.37
6Y	8.73	7.29	7.29	5.32	5.47
7Y	8.71	7.28	7.38	5.43	5.55
8Y	8.67	7.27	7.42	5.52	5.62
9Y	8.63	7.27	7.43	5.60	5.68
10Y	8.61	7.27	7.43	5.66	5.72
15Y	.	.	.	5.85	5.84
5Y - 1Y spread	-0.60	1.34	1.21	0.56	0.83
10Y - 1Y spread	-0.92	1.35	1.49	1.02	1.17

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
1/98	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	-0.1	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	6.3	3.7	-0.4	-0.2	0.7	-1.7	1.6	1.8	2.8
7/01	5.1	5.6	6.4	3.7	-0.8	-0.2	0.5	-2.1	2.0	2.6	3.3
8/01	5.3	6.0	6.6	3.7	-0.2	0.5	1.0	-1.7	2.8	3.5	4.1
9/01	5.3	5.7	6.6	3.7	0.6	0.9	1.8	-0.9	3.4	3.8	4.7
10/01	5.3	5.3	6.6	3.7	0.9	0.9	2.1	-0.7	3.9	4.0	5.3
11/01	5.3	4.9	6.3	3.6	1.0	0.7	2.0	-0.5	4.3	4.0	5.4
12/01	4.8	4.6	5.9	3.3	0.7	0.5	1.7	-0.8	4.0	3.8	5.1
1/02	4.7	4.5	5.8	3.2	1.0	0.8	2.0	-0.4	4.1	3.9	5.2
2/02	4.3	4.4	5.2	3.1	0.4	0.5	1.3	-0.8	4.4	4.5	5.3
3/02	4.3	4.5			0.6	0.8			4.5	4.7	

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	1.6	-0.8	0.2	0.5	1.4	-1.0	-0.1	0.2	1.1	-1.3
7/01	0.5	1.0	1.7	-0.8								
8/01	0.6	1.2	1.8	-0.9								
9/01	0.5	0.8	1.7	-1.0	0.5	0.8	1.7	-1.0	0.4	0.7	1.6	-1.1
10/01	0.9	0.9	2.1	-0.7								
11/01	1.2	0.9	2.2	-0.4								
12/01	0.9	0.7	1.9	-0.6	0.9	0.7	1.9	-0.6	0.2	0.0	1.2	-1.2
1/02	0.9	0.7	1.9	-0.5								
2/02	0.8	0.8	1.7	-0.4								
3/02	0.8	1.0										

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

	1998	1999	2000	2001	2002
	12	12	12	12	3
Newly drawn credits					
in CZK	10.8	6.7	6.8	5.9	5.3
- short-term	11.6	6.7	6.5	5.6	5.0
- medium-term	7.4	5.1	8.0	7.5	7.6
- long-term	11.7	10.2	8.1	7.1	7.2
in foreign currency	5.4	6.1	6.4	4.8	4.7
- short-term	5.3	6.2	6.2	4.5	4.6
- medium-term	5.9	5.3	6.4	4.9	4.4
- long-term	5.6	6.0	7.2	5.5	5.4
Credits					
in CZK	10.5	7.7	6.9	7.0	6.6
- short-term	10.6	7.4	6.6	6.2	5.5
- medium-term	10.7	8.3	7.8	7.7	7.3
- long-term	10.3	7.6	6.8	7.3	7.0
in foreign currency	6.4	6.6	7.2	5.2	5.0
- short-term	6.9	7.7	8.0	4.5	4.6
- medium-term	5.6	5.4	6.3	4.9	5.1
- long-term	6.0	5.9	6.7	5.7	5.2
Deposits					
in CZK	6.7	3.7	3.0	2.6	2.5
- demand	1.9	1.6	1.5	1.4	1.5
- time	8.7	4.7	3.9	3.3	3.0
- short-term	9.2	4.8	4.0	3.4	3.0
- medium-term	10.9	5.6	3.9	3.1	2.7
- long-term	4.2	3.6	3.5	3.2	3.3
in foreign currency	2.3	2.7	3.2	1.5	1.3
- demand	1.1	0.9	1.1	0.6	0.5
- time	3.2	4.0	4.6	2.1	1.8
- short-term	3.1	3.9	4.6	2.1	1.9
- medium-term	3.3	4.2	4.2	2.5	3.2
- long-term	3.5	4.7	5.1	3.5	1.1

BALANCE OF PAYMENTS 1)

in CZK millions

	1998	1999	2000	2001 2)
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
A. Current account	**-44 709.0**	**-54 221.4**	**-109 733.1**	**-100 950.7**
Balance of trade 3)	-84 002.8	-65 830.8	-120 825.0	-118 985.0
exports	834 227.0	908 756.0	1 121 099.0	1 268 522.0
imports	918 229.8	974 586.8	1 241 924.0	1 387 507.0
Services	57 854.7	38 119.3	51 058.8	53 953.9
credit	241 801.2	239 709.0	260 435.2	264 856.6
transport	44 829.3	53 520.3	53 734.3	57 492.3
travel	120 000.0	105 000.0	110 700.0	113 300.0
others	76 971.9	81 188.7	96 000.9	94 064.3
debit	183 946.5	201 589.7	209 376.4	210 902.7
transport	22 794.0	27 071.4	27 543.0	30 570.5
travel	60 300.0	51 000.0	48 500.0	52 000.0
others	100 852.5	123 518.3	133 333.4	128 332.2
Income	-31 708.0	-44 187.6	-51 420.4	-48 422.3
credit	45 945.4	56 867.3	68 363.1	82 135.6
debit	77 653.4	101 054.9	119 783.5	130 557.9
Current transfers	13 147.1	17 677.7	11 453.5	12 502.7
credit	25 387.9	37 184.4	27 873.6	26 160.9
debit	12 240.8	19 506.7	16 420.1	13 658.2
B. Capital account	**65.8**	**-73.2**	**-198.2**	**-330.7**
credit	454.6	637.3	223.4	90.4
debit	388.8	710.5	421.6	421.1
Total A + B	*-44 643.2*	*-54 294.6*	*-109 931.3*	*-101 281.4*
C. Financial account	**94 324.5**	**106 564.4**	**148 046.6**	**153 310.4**
Direct investment	115 866.3	215 703.9	190 767.4	183 343.8
abroad	-4 102.2	-3 107.6	-1 653.7	-3 657.5
equity capital and reinvested earnings	-2 538.8	-2 585.3	-1 245.9	-3 508.6
other capital	-1 563.4	-522.3	-407.8	-148.9
in the Czech Republic	119 968.5	218 811.5	192 421.1	187 001.3
equity capital and reinvested earnings	87 762.8	192 615.5	171 777.2	183 839.8
other capital	32 205.7	26 196.0	20 643.9	3 161.5
Portfolio investment	34 508.2	-48 268.9	-68 172.9	34 857.3
assets	-755.1	-65 608.0	-86 631.8	4 405.6
equity securities	3 855.7	-48 965.2	-44 181.0	9 447.8
debt securities	-4 610.8	-16 642.8	-42 450.8	-5 042.2
liabilities	35 263.3	17 339.1	18 458.9	30 451.7
equity securities	34 846.2	4 394.2	23 810.9	23 203.6
debt securities	417.1	12 944.9	-5 352.0	7 248.1
Financial derivatives			-1 402.8	-3 220.3
assets			-4 501.6	-9 407.6
liabilities			3 098.8	6 187.3
Other investment	-56 050.0	-60 870.6	26 854.9	-61 670.4
assets	-46 628.7	-91 273.9	35 832.1	-48 850.5
long-term	-24 280.2	-23 884.0	21 322.2	1 349.8
CNB				
commercial banks	-26 952.8	-25 858.5	14 362.2	-4 125.8
government	630.3	977.5	2 937.0	6 928.9
other sectors	2 042.3	997.0	4 023.0	-1 453.3
short-term	-22 348.5	-67 389.9	14 509.9	-50 200.3
commercial banks	-21 641.6	-63 804.7	22 001.9	-45 523.2
government				-87.1
other sectors	-706.9	-3 585.2	-7 492.0	-4 590.0
liabilities	-9 421.3	30 403.3	-8 977.2	-12 819.9
long-term	-39 840.7	-1 286.1	-26 212.5	1 921.7
CNB	-216.4	-2 083.5	-22.8	-22.0
commercial banks	-14 399.2	-7 109.5	-31 523.7	-7 222.2
government	-11 765.4	-6 384.3	-1 837.6	-5 000.8
other sectors	-13 459.7	14 291.2	7 171.6	14 166.7
short-term	30 419.4	31 689.4	17 235.3	-14 741.6
CNB	-6.0	84.9	-17.0	59.7
commercial banks	24 445.9	36 615.6	-3 812.5	-35 688.6
government	-216.5	-103.2		
other sectors	6 196.0	-4 907.9	21 064.8	20 887.3
Total A + B + C	*49 681.3*	*52 269.8*	*38 115.3*	*52 029.0*
D. Net errors and omissions, valuation changes	**12 933.7**	**4 866.9**	**-6 522.5**	**15 124.0**
Total A + B + C + D	*62 615.0*	*57 136.7*	*31 592.8*	*67 153.0*
E. Change in reserves (- increase)	**-62 615.0**	**-57 136.7**	**-31 592.8**	**-67 153.0**

1) Balance of payments structure based on the Balance of Payments Manual (5th edition), IMF 1993
2) Preliminary data
3) In accordance with customs statistics methodology in force since 1 July 2000

INTERNATIONAL INVESTMENT POSITION

in CZK millions

	1998	1999	2000	2001
	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
ASSETS	1 087 507.3	1 347 954.9	1 448 400.7	1 536 670.9
Direct investment abroad	24 003.5	25 114.9	27 899.3	30 174.0
- equity capital	21 901.2	22 415.9	24 797.5	27 075.0
- other capital	2 102.3	2 699.0	3 101.8	3 099.0
Portfolio investment	35 872.4	104 345.3	180 431.3	185 138.6
- equity securities	13 415.5	66 318.2	92 222.9	68 675.5
- debt securities	22 456.9	38 027.1	88 208.4	116 463.1
Financial derivatives 2)			6 347.2	15 754.8
Other investment	650 948.4	757 065.5	736 903.7	781 145.7
Long-term	287 328.8	323 131.1	315 625.5	310 133.9
- CNB 3)	26 122.4		329.1	307.3
- commercial banks	64 041.6	89 900.1	75 537.9	79 663.7
- government 4)	176 213.4	210 221.3	220 777.8	210 694.9
- other sectors	20 951.4	23 009.7	18 980.7	19 468.0
Short-term	363 619.6	433 934.4	421 278.2	471 011.8
- CNB 5)	0.1		52.9	51.2
- commercial banks	272 219.5	336 117.2	314 115.3	359 638.5
of which: gold and foreign exchange 6) 7)	175 753.2	218 995.8	228 961.7	257 138.5
- government				87.1
- other sectors	91 400.0	97 817.2	107 110.0	111 235.0
CNB reserves 8)	376 683.0	461 429.2	496 819.2	524 457.8
- gold 6)	369.1	677.0	4 640.4	4 469.9
- SDR			7.7	31.0
- reserve position in the IMF			116.0	5 478.3
- foreign exchange	376 313.9	460 752.2	491 001.2	514 188.0
- other reserve assets			1 053.9	290.6
LIABILITIES	1 204 984.0	1 458 893.3	1 640 270.0	1 784 507.6
Direct investment in the Czech Republic	429 167.8	631 505.3	818 411.6	970 450.9
- equity capital	364 816.5	538 379.3	702 217.8	857 595.9
- other capital	64 351.3	93 126.0	116 193.8	112 855.0
Portfolio investment	166 128.1	165 579.2	164 592.0	180 346.2
- equity securities	113 247.2	98 011.8	115 670.6	128 740.1
- debt securities	52 880.9	67 567.4	48 921.4	51 606.1
Financial derivatives 2)			5 307.9	11 495.2
Other investment	609 688.1	661 808.8	651 958.5	622 215.3
Long-term	358 510.5	379 172.2	352 323.4	339 013.2
- CNB	1 883.3	197.1	180.4	133.4
- commercial banks	124 286.3	118 368.9	84 607.4	73 688.6
- government	23 814.8	20 852.9	19 699.2	9 476.2
- other sectors	208 526.1	239 753.3	247 836.4	255 715.0
Short-term	251 177.6	282 636.6	299 635.1	283 202.1
- CNB	39.5	25.8	8.8	68.5
- commercial banks	193 373.0	229 988.7	226 176.2	190 487.6
- government	103.2			
- other sectors	57 661.9	52 622.1	73 450.1	92 646.0
NET INVESTMENT POSITION	-117 476.7	-110 938.4	-191 869.3	-247 836.7

1) Preliminary data
2) Financial derivatives have been recorded since 31 March 2000 (from bank position)
3) At the end of 1999 the receivable from the National Bank of Slovakia was transferred from the non-resident position to the resident position
4) Including foreign currency shares in international non-monetary organisations (The World Bank, EBRD, IBEC, IIB)
5) Since 31 March 2000, this item has included gold not recorded in CNB reserves
6) Gold valued at USD 42.22 per Troy ounce (until 31 December 1999) and at market price (since 31 March 2000)
7) Foreign currency - convertible currencies
8) In compliance with IMF requirements, CNB reserves have been recorded with a more detailed breakdown (since 31 March 2000)

EXTERNAL DEBT

in CZK millions

	1998	1999	2000	2001
	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
DEBT IN CONVERTIBLE CURRENCIES	717 923.6	813 576.5	808 122.8	786 676.4
of which:				
Long-term	446 484.3	497 872.1	464 323.8	461 217.5
By debtor				
- CNB	10 952.2	12 527.6	180.4	133.4
- commercial banks	133 376.5	128 703.3	95 737.1	88 401.4
- government	32 953.5	32 303.5	29 753.5	30 839.2
- other sectors	269 202.1	324 337.7	338 652.8	341 843.5
By creditor				
- foreign banks	248 712.0	257 410.0	228 709.6	235 115.5
- government institutions	4 409.6	4 239.2	3 405.7	2 373.6
- multilateral institutions	49 036.3	58 202.2	67 521.2	70 879.0
- suppliers and direct investors	72 624.6	93 831.4	99 560.2	95 664.0
- other investors	71 701.8	84 189.3	65 127.1	57 185.4
Short-term	271 439.3	315 704.4	343 799.0	325 458.9
By debtor				
- CNB	39.5	25.8	8.8	68.5
- commercial banks	193 373.0	230 000.5	226 246.1	192 438.4
- government	22.0	7.0	2 115.0	465.0
- other sectors	78 004.8	85 671.1	115 429.1	132 487.0
By creditor				
- foreign banks	175 604.1	201 808.8	203 333.8	195 166.4
- suppliers and direct investors	67 446.7	81 794.6	106 988.6	93 127.0
- other investors	28 388.5	32 101.0	33 476.6	37 165.5
DEBT IN NON-CONVERTIBLE CURRENCIES	8 996.7	8 925.7	8 950.9	
of which:				
- long-term	8 893.5	8 925.7	8 950.9	
- short-term	103.2			
TOTAL EXTERNAL DEBT	726 920.3	822 502.2	817 073.7	786 676.4
of which:				
- long-term	455 377.8	506 797.8	473 274.7	461 217.5
- short-term	271 542.5	315 704.4	343 799.0	325 458.9

1) Preliminary data

EXCHANGE RATES

A. NOMINAL RATE

in CZK; foreign exchange market rates

	1998	1999	2000	2001	2002
	1-12	1-12	1-12	1-12	1-3
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES					
- annual/quarterly averages					
1 EUR	.	36.88	35.61	34.08	31.76
1 USD	32.27	34.60	38.59	38.04	36.23
100 SKK	91.61	83.64	83.64	78.68	75.20
	12	12	12	12	3
- monthly averages					
1 EUR	.	36.05	34.82	32.59	31.39
1 USD	30.06	35.63	38.94	36.48	35.84
100 SKK	83.04	84.70	80.07	75.61	74.82
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Mar.
- last day of the month					
1 EUR	.	36.13	35.09	31.98	30.85
1 USD	29.86	35.98	37.81	36.26	35.35
100 SKK	80.97	85.08	79.70	74.81	73.76

B. NOMINAL EFFECTIVE RATE

	1998	1999	2000	2001	2002
					3
CZK nominal effective exchange rate (percentages) (2000=100)					
weights - foreign trade turnover	96.0	98.5	100.0	104.3	112.7
weights - foreign trade turnover SITC 5-8	98.9	98.6	100.0	104.4	112.7

Drawing on CSO statistics on the geographical and commodity structure of foreign trade for 2000, 23 countries which account for around 90% of the Czech Republic's foreign trade were selected. The weights were processed in two alternatives:
Alternative I, used by the IMF, applies to the Czech Republic's entire foreign trade turnover
Alternative II, used by the European Central Bank, applies to only four commodity groups of the Czech Republic's foreign trade

C. REAL EFFECTIVE RATE

	1998	1999	2000	2001	2002
					2
CZK real effective exchange rate (percentages) (2000=100)					
a) industrial producer prices					
weights - foreign trade turnover	99.6	100.6	100.0	103.8	111.2
weights - foreign trade turnover SITC 5-8	99.9	99.5	100.0	104.3	112.2
b) consumer prices					
weights - foreign trade turnover	99.1	98.8	100.0	105.1	112.6
weights - foreign trade turnover SITC 5-8	99.4	98.2	100.0	105.7	113.7

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

	1998	1999	2000	2001	2002
	1-12	1-12	1-12	1-12	1-3
STATE BUDGET					
TOTAL REVENUE	537.4	567.3	586.2	626.2	148.8
Tax revenue	509.6	540.1	559.5	598.3	139.9
Taxes on income, profits and capital gains	87.4	86.4	87.0	147.4	33.8
Domestic taxes on goods and services	187.2	211.4	216.8	187.0	39.9
- value-added taxes	119.4	138.3	145.9	121.3	24.9
- excises	67.8	73.1	70.9	65.7	15.0
Taxes on international trade and transactions	13.6	12.1	13.6	10.0	2.3
Taxes on property	6.3	6.8	6.0	6.4	1.6
Social and health security contributions and payroll taxes	203.9	210.9	222.2	242.3	61.1
Non-tax and capital incomes and received subsidies	27.8	27.2	26.7	27.9	8.9
TOTAL EXPENDITURE	566.7	596.9	632.3	693.9	164.5
Current expenditure	516.2	537.9	571.4	642.5	158.2
Capital expenditure	50.5	59.0	60.9	51.4	6.3
Public budgets (balance in IMF GFS methodology)	-28.2	-11.1	-62.0	-53.3	
state budget	-29.3	-29.6	-46.1	-67.7	-15.7
local budget	1.5	18.5	-2.5	-11.2	
state financial assets	3.7	-5.2	-5.7	.	
state funds	0.9	-0.6	2.6	11.2	
Land Fund	0.1	-0.3	-0.5	-0.1	
National Property Fund	-5.1	2.9	-11.5	13.2	
health insurance companies	0.7	2.5	2.1	1.4	
others	-0.7	0.7	-0.4	-0.1	

CAPITAL MARKET

A. STOCK MARKET INDICES

last day of the month in points

	1998	1999	2000	2001	2002
	12	12	12	12	3
BCPP					
PX 50	394.2	489.7	478.5	394.6	428.7
PX-D	.	1296.7	1366.0	1065.2	1142.8
PX-GLOB	478.3	587.9	570.6	492.9	537.3
RM-SYSTÉM					
PK-30	564.5	713.2	724.8	593.0	649.8

B. TRADE VOLUMES

in CZK millions

	1998	1999	2000	2001	2002
	12	12	12	12	3
BCPP					
Monthly trade volumes	92 553.0	99 604.0	73 240.5	142 803.6	156 121.6
of which:					
a) shares	18 873.1	13 974.5	11 113.9	12 819.3	18 489.0
b) units	224.3	394.2	61.3	4.3	0.3
c) bonds	73 455.6	85 235.3	62 065.3	129 980.0	137 632.3
RM-SYSTÉM					
Monthly trade volumes	20 836.9	22 014.7	4 861.7	2 162.5	1 026.7
of which:					
a) shares	16 573.5	20 642.3	4 190.1	1 841.0	434.8
b) units	570.3	176.8	25.9	212.2	8.2
c) bonds	3 693.1	1 195.6	645.7	109.3	583.7

CNB MONETARY POLICY INSTRUMENTS

	2W repo rate (%)	Discount rate (%)	Lombard rate (%)	Minimum reserve requirement for primary deposits (%)	
				Banks	Building societies and ČMZRB
			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		
27 July	5.25	4.25	6.25		
30 November	4.75	3.75	5.75		
			2002		
22 January	4.50	3.50	5.50		
1 February	**4.25**	**3.25**	**5.25**		

MACROECONOMIC AGGREGATES

in CZK millions; annual percentage changes; constant 1995 prices

	1998	1999	2000	2001
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
GROSS DOMESTIC PRODUCT				
- in CZK millions	1 412 217	1 406 725	1 447 425	1 499 176
- percentages	-1.2	-0.4	2.9	3.6
FINAL CONSUMPTION				
- in CZK millions	1 026 165	1 040 239	1 051 220	1 078 103
- percentages	-2.1	1.4	1.1	2.6
of which:				
Households				
- in CZK millions	747 765	765 078	778 425	807 356
- percentages	-2.2	2.3	1.7	3.7
Government				
- in CZK millions	265 824	265 625	262 127	259 495
- percentages	-2.4	-0.1	-1.3	-1.0
Non-profit institutions				
- in CZK millions	12 576	9 536	10 668	11 252
- percentages	19.6	-24.2	11.9	5.5
GROSS CAPITAL FORMATION				
- in CZK millions	483 114	460 804	504 723	564 552
- percentages	-2.2	-4.6	9.5	11.9
of which:				
Fixed capital				
- in CZK millions	465 190	462 346	481 806	515 539
- percentages	0.1	-0.6	4.2	7.0
Inventories and reserves				
- in CZK millions	17 924	-1 542	22 917	49 013
TRADE BALANCE				
- in CZK millions	-97 062	-94 318	-108 518	-143 479
of which:				
Exports of goods				
- in CZK millions	747 211	809 782	971 782	1 112 493
- percentages	11.6	8.4	20.0	14.5
Exports of services				
- in CZK millions	207 913	205 260	217 266	219 197
- percentages	1.1	-1.3	5.8	0.9
Imports of goods				
- in CZK millions	875 925	920 347	1 106 477	1 276 683
- percentages	6.2	5.1	20.2	15.4
Imports of services				
- in CZK millions	176 261	189 013	191 089	198 486
- percentages	7.7	7.2	1.1	3.9
DOMESTIC DEMAND (excl. change in inventories)				
- in CZK millions	1 491 355	1 502 585	1 533 026	1 593 642
- percentages	-1.4	0.8	2.0	4.0
AGGREGATE DEMAND (excl. change in inventories)				
- in CZK millions	2 446 479	2 517 627	2 722 074	2 925 332
- percentages	2.5	2.9	8.1	7.5
GROSS DOMESTIC PRODUCT AT CURRENT PRICES				
- in CZK millions	1 837 060	1 887 325	1 959 585	2 146 103
- percentages	9.4	2.7	3.8	9.5
PRICE DEFLATOR				
- percentages	10.7	3.1	0.9	5.7

Source: CSO

LABOUR MARKET

A. CURRENT INCOME AND EXPENDITURE OF HOUSEHOLDS

annual percentage changes

	1998	1999	2000	2001
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
Current income	5.7	2.2	3.1	7.3
of which:				
- compensation of employees	6.3	3.4	3.5	8.2
- gross operating surplus and mixed income	5.4	1.1	2.5	6.2
- property income	7.4	-18.4	-5.8	2.0
- social benefits	9.9	8.2	9.3	6.1
- other current transfers	-12.1	9.4	-7.9	11.4
Current expenditure	6.3	2.9	3.7	7.6
of which:				
- property income	-4.1	-27.2	-15.7	2.7
- current taxes on income, wealth etc.	7.6	0.5	2.8	6.0
- social contributions	5.8	4.0	6.6	8.8
- other current transfers	11.2	14.1	-2.2	5.7
Gross disposable income	5.5	1.9	2.8	7.1
Change in net equity of households in pension funds reserves	-17.6	19.5	45.7	26.0
Individual consumption expenditure	6.5	2.3	4.6	7.5
Gross saving	-4.5	-0.4	-14.1	4.2
Gross savings rate	10.7	8.4	7.0	6.9
(gross saving/gross disposable income - ratio in per cent)				

B. AVERAGE WAGES

annual percentage changes

	1998	1999	2000	2001
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
Overall nominal wage	9.4	8.2	6.6	8.5
Business sector	11.0	7.1	7.8	8.2
Non-business sector	3.9	13.1	2.8	10.0
Overall real wage	-1.2	6.0	2.6	3.6
Business sector	0.3	4.9	3.8	3.3
Non-business sector	-6.1	10.8	-1.1	5.1

C. UNEMPLOYMENT

end of period

	1998	1999	2000	2001
	12	12	12	12
Registered job applicants (thousands)	386.9	487.6	457.4	461.9
Unemployment rate (percentages)	7.5	9.4	8.8	8.9

Source: CSO

PRODUCER PRICES

percentage changes

	1998	1999	2000	2001	2002
					3
INDUSTRIAL PRODUCER PRICES					
a) previous month = 100	0.2	0.3	0.4	0.1	0.0
b) same period of last year = 100	4.9	1.0	4.9	2.9	-0.2
c) average for 2000 = 100	.	.	0.0	2.8	3.0
d) December 1999 = 100	.	.	3.4	6.3	6.5
CONSTRUCTION WORK PRICES					
a) previous month = 100	0.6	0.3	0.4	0.3	0.2
b) same period of last year = 100	9.4	4.8	4.0	4.1	3.0
c) average for 2000 = 100	.	.	0.0	4.1	6.3
d) December 1999 = 100	.	.	2.3	6.5	8.7
AGRICULTURAL PRODUCER PRICES					
b) same period of last year = 100	2.3	-11.7	9.2	8.4	4.2
of which:					
crop products					
b) same period of last year = 100	-5.4	-15.0	12.6	9.3	21.9
livestock products					
b) same period of last year = 100	5.7	-10.5	8.0	8.0	-5.0
MARKET SERVICES PRICES (excluding interest rates)					
a) previous month = 100	0.6	0.3	0.4	0.1	0.1
b) same period of last year = 100	8.8	4.1	3.4	3.9	2.5
c) average for 2000 = 100	.	.	0.0	4.0	6.8
d) December 1999 = 100	.	.	0.6	4.6	7.4

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

Source: CSO

Table 23

RATIOS OF KEY INDICATORS TO GDP

percentage ratios

	1998	1999	2000	2001
State budget balance	-1.6	-1.6	-2.4	-3.2
Public budgets balance	-1.5	-0.6	-3.2	-2.5
Public debt	13.8	15.2	17.9	24.1
Debt in convertible currencies	39.1	43.1	41.2	36.7
Trade balance 1)	-4.4	-3.4	-6.2	-5.5
Current account balance	-2.4	-2.9	-5.6	-4.7
M2	67.6	70.9	72.1	74.4

Note: ratio = indicator/GDP at current prices

1) Source: CSO

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