2002

INFLATION REPORT JULY/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
EU	European Union
EUR	euro
FDI	foreign direct investment
FRA	forward rate agreement
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IRS	interest rate swap
L	a monetary aggregate (see Section III.1.1.)
LIBOR	London Interbank Offered Rate
M1	a monetary aggregate (see Section III.1.1.)
M2	a monetary aggregate (see Section III.1.1.)
MLSA	Ministry of Labour and Social Affairs
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
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 these pivotal documents 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 was approved by the CNB Bank Board on 1 August 2002.

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

I. SUMMARY

The trends in the Czech economy in the second quarter of 2002 can be described, in a nutshell, as continuing moderate economic growth accompanied by disinflationary price indices. Inflation continued declining, and at the end of the quarter lay below the target band (see Chart I.1). GDP growth slowed somewhat in 2002 Q1 because of unfavourable external demand and the persisting appreciation of the koruna. The speed of the koruna's appreciation was again viewed as out of step with the trend on the supply side of the economy. For this reason the exchange rate of the koruna poses the biggest future macroeconomic risk.

Annual consumer price inflation declined markedly in 2002 Q2, from 3.7% in March to 1.2% in June. This sharp fall was due largely to the rapidly changing prices of a fairly narrow group of items, namely food, fuels and recreation. Regulated price inflation also fell sharply (owing to extraordinary adjustments to prices of some items). This, too, contributed to the decline in headline inflation. The disinflationary external factors and, in particular, the appreciation of the koruna's exchange rate fed through into the prices of other consumer basket items.

The economy continued to grow in the first quarter, albeit at a slightly slower pace. The buoyant growth rate of household consumption and gross fixed capital formation remained unchanged. Despite slackening economic growth abroad and rising domestic demand, there was no major deterioration in net exports. According to the CNB's estimates, GDP continues to be below its potential value and the output gap therefore remains negative.

The labour market recorded a continuing widening of the gap between the demand for and supply of labour in 2002 Q1. Owing to falling job creation, both short-term and long-term unemployment increased. Growth in the average nominal wage slowed, while the real average wage increased at roughly the same pace as in the previous quarter. Growth in nominal unit wage costs at the macroeconomic level eased, although the wage cost trends within the individual industries were mixed.

The CNB's monetary policy decision-making during 2002 Q2 was based on the inflation forecast published in the April Inflation Report. Owing to the length of the monetary policy transmission lag, the CNB's decision-making was focused on hitting the inflation target in 2002 Q2–Q3.

The April inflation forecast, discussed by the Bank Board at its meeting on 25 April 2002, indicated that inflation would be within the lower half of the target band at the horizon of most effective transmission (i.e. 12–18 months ahead). After weighing up the risks pertaining to this forecast and the uncertainties regarding future developments, the Bank Board decided at the April meeting to lower the monetary policy interest rates by 0.50 percentage points. At the start of April, the CNB responded to the appreciation of the koruna's exchange rate by intervening on the foreign exchange market.

At the subsequent Bank Board meetings in 2002 Q2, no changes were made to the monetary policy rates. Nevertheless, the prevalence of disinflationary risks – ensuing in particular from the ongoing appreciation of the koruna's exchange rate – was emphasised at these meetings.

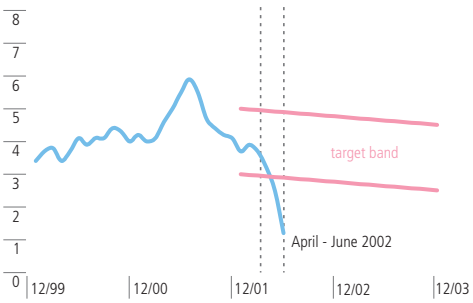
As usual, the Inflation Report describes the assumptions and message of the CNB's new quarterly inflation forecast. The July 2002 inflation forecast differs from its predecessors in that it drops the assumption of unvarying CNB interest rates. Because of this change, Section IV of the Inflation Report is conceptually different than before.

TABLE I.1
THE FALL IN INFLATION CONTINUED INTO 2002 Q2
(annual percentage figures unless otherwise indicated)

	3/02	4/02	5/02	6/02
Consumer price inflation	3.7	3.2	2.5	1.2
Industrial producer price inflation	-0.2	-0.1	-0.5	-0.8
Money supply growth (M2)	9.8	9.5	7.4	n.a.
3M PRIBOR [1]	4.30	4.21	3.81	3.78
Nominal CZK/EUR exchange rate [2]	30.85	30.63	30.43	29.26
State budget balance since January incl. SFAOs,[2] CZK bn	-15.7	-41.9	-32.4	-0.9
GDP growth at constant prices [3]	2.5	-	-	-
Unemployment rate [2]	9.1	8.8	8.6	8.7

1) average for the month
2) end-of-month position
3) figure for the quarter ending with the given month

CHART I.1
INFLATION FELL BELOW THE TARGET BAND IN 2002 Q2
(annual consumer price inflation; percentages)



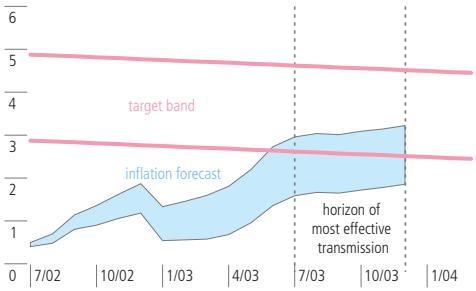
Based on the information available at the time the forecast was drawn up, a decline in interest rates in 2002 H2 and an increase thereafter is consistent with the basic scenario for the forecast and with its underlying assumptions. Despite the implied easing of monetary conditions, the July forecast indicates that inflation will be at a lower level than predicted in the April forecast (see Chart I.2). This is due to disinflationary external cost factors coupled with an absence of domestic inflationary factors. The inflationary pressures will be held down on the demand side primarily by a persisting negative output gap, and on the supply side by flat import prices, subdued domestic wage costs and a strong exchange rate of the koruna. In 2002 H2, the inflation forecast lies below the CNB's target band. A gradual unwinding of the disinflationary effects of the external cost factors, combined with reactive monetary policy, returns the inflation forecast at the horizon of most effective transmission to the lower limit of the target band. The overall risks attaching to the forecast are slightly disinflationary, although they are more balanced than in the April forecast.

A more detailed look at the structure of inflation suggests growth in adjusted inflation of around 1% in 2002 and a slight pick-up to around 2% in 2003. Food prices will continue to fall in 2002 and will not see renewed growth until 2003 H2. Based on the information available at the time it was drawn up, the forecast predicts that regulated price inflation will drop from 4.9% at the end of 2002 to around 2.5% in 2003 H1 and will then start rising again.

CHART I.2

THE INFLATION FORECAST IS AT THE LOWER BOUNDARY OF THE TARGET BAND AT THE HORIZON OF MOST EFFECTIVE TRANSMISSION

(annual consumer price inflation; percentages)



II. INFLATION DEVELOPMENTS

CHART II.1
ANNUAL CONSUMER PRICE INFLATION FELL SHARPLY IN 2002 Q2
(percentages)

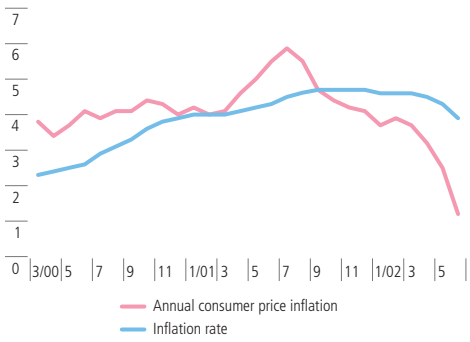


CHART II.2
THE SLOWDOWN IN CONSUMER PRICE INFLATION WAS CHIEFLY ATTRIBUTABLE TO NET INFLATION

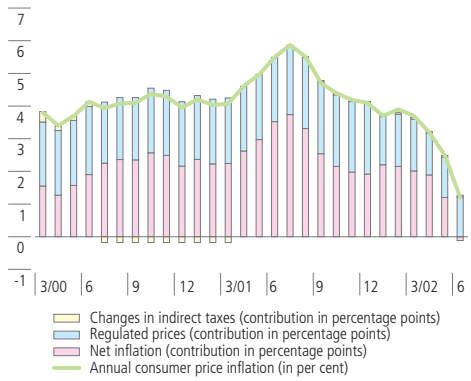
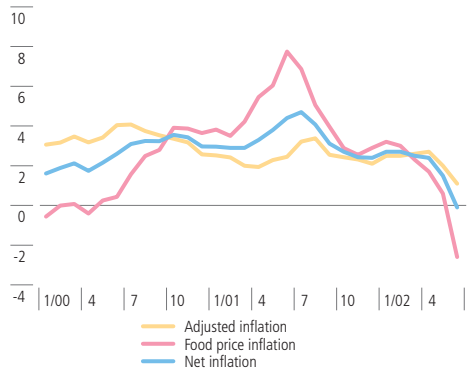


CHART II.3
FOOD PRICE INFLATION RECORDED THE BIGGEST DECREASE
(annual percentage changes)



As expected, the disinflationary trend that emerged in August 2001 continued during 2002 Q2. Relative to the previous quarters, however, the rate of decline in consumer price inflation picked up significantly in Q2. In 2002 Q1, annual consumer price inflation had been fluctuating just below the 4% level, but, following a considerable fall of 2.5 percentage points during Q2, it reached 1.2% in June. The last time consumer price inflation was at this level was in 1999 H2. The inflation rate[1] also dropped considerably (by 0.7 percentage points compared with March, to 3.9%).

The further decrease in consumer price inflation was chiefly due to market prices. Annual net inflation,[2] which is an aggregate indicator of market consumer prices in the Czech Republic, continued declining in the first two months of Q2 and attained negative values in June. Net inflation declined much more sharply during the course of Q2 than it had in Q1 (dropping by 2.6 percentage points compared with March to -0.1% in June). Regulated price inflation also fell more sharply in Q2 (owing to adjustments to prices of some items). This, too, contributed to the further decline in headline inflation. However, the contribution of regulated prices to the overall decline in inflation was smaller than that of market prices, owing to a more moderate rate of change and a lower weight in the consumer basket (see Chart II.2).

The considerable decline in consumer price inflation was due largely to the rapidly changing prices of a fairly narrow group of items, namely food, fuels and recreation. However, the structural developments in the individual groups of the consumer basket suggest that the disinflationary trend was of a more general nature. The only increase in inflation was recorded in the health category.

The continuing disinflationary trend in the Czech economy was again attributable to numerous factors. External factors and, in particular, the continuing robust appreciation of the koruna's exchange rate against the euro and the US dollar played a key role. According to the latest figures, the koruna-dollar and koruna-euro rates recorded year-on-year appreciation of 20.2% and 10.8% respectively in June. The main external factors were falling prices of energy-producing and non-energy-producing raw materials, and favourable prices of other imported commodities. Underlying the favourable price developments abroad was the weak economic growth recorded by the Czech Republic's major trading partners and by other nations and the related lower demand for raw materials and other commodities. The falling prices of imported inputs created room for a decline in producer prices. The growth rate of domestic consumer demand remained buoyant. However, given the strong competition on the retail market, and with production capacities not fully utilised, conditions for the exertion of demand-pull inflationary pressures were not created. The aforementioned disinflationary factors chiefly affected prices in the tradables segment. However, prices of nontradables also recorded something of a slowdown in growth, and in Q2 these factors fed through into regulated prices as well (in the form of adjustments to natural gas prices for households).

Food prices,[3] which made the biggest contribution to the decline in inflation, displayed less volatility throughout 2002 H1 than in the previous period. As regards structure, fluctuations were recorded for some commodities (in January, for instance), but no major upward year-on-year price swings of the sort seen in mid-2001 were registered.

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 *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).*
3 *Including beverages and tobacco products, and adjusted for administrative effects.*

On the contrary, a continuation of the long-running downward trend in food price inflation (which emerged in July of the previous year) was apparent in 2002 Q2.

Analyses of the individual food price segments indicate that the gradual slowdown in food price inflation, which at the end of 2002 Q2 culminated in an annual fall in prices (of 2.6%, compared with a 2.3% rise in March), is due to factors reflecting excess supply on the agriculture commodities market not only in the Czech Republic, but also abroad. This factor has progressively affected agricultural producer prices (see Section III.5 *Other costs and prices*), food industry prices and, ultimately, food prices. It is apparent that the strongly competitive environment on the domestic consumer market, coupled with favourable price developments abroad (bolstered in the case of imports by the sustained appreciation of the koruna's exchange rate), has been curbing inflation in this area. All these factors have led to a moderation and subsequent decline in producer prices and consequently in food prices in the case of both livestock and crop products. In June, for instance, potato prices did not display their typical seasonal rise; on the contrary, they were much lower than a year earlier (down by 40%). During the course of Q2, and in June in particular, prices of livestock products also fell quite sharply (especially meat prices, which were down by 15%–17%).

Despite some fluctuations since the beginning of 2002, prices of the non-food items of the consumer basket – measured by adjusted inflation[4] – have also indicated a downward trend in growth. Compared with food prices they have slowed at a more modest pace, partly because this segment comprises both tradables prices and nontradables prices, which are affected by the external conditions to different extents. This is why nontradables price inflation tends to be higher than tradables price inflation. Chart II.4 illustrates this long-term trend. During 2002 Q2, annual adjusted inflation fell by 1.5 percentage points to 1.1%. Recreation and fuel prices made the biggest contributions to this decrease.

Fuel prices are a consumer basket item that responds to import prices of oil with a fairly short lag. Chart II.6 shows that the growing annual decline in oil prices on world markets during Q2 was accompanied by a further decrease in fuel prices. Compared with the end of the previous quarter, the year-on-year fall in fuel prices accelerated by 6.9 percentage points in Q2 to reach 16.1% in June.

Owing to a faster decline in the annual recreation price index, 2002 Q2 also saw a slowdown in other nontradables price inflation, which had maintained relatively high outturns over the previous three quarters (of between 6.5% and 8.5% in year-on-year comparison). The sizeable decrease in the annual growth of these prices in Q2 (of 1.9 percentage points compared with March to 5% in June) was due to the fact that prices of package holidays abroad in April and May showed no repeat of the marked seasonal rise they recorded a year earlier, when travel agencies had responded to the introduction of mandatory insurance of package holidays by increasing their prices (by as much as 24%). The appreciation of the koruna's exchange rate also helped to lessen recreation price inflation (to 1.3% annually in June), by reducing the prices of package holidays abroad. Growth in prices of other nontradables continued to fluctuate at a higher level than that of the other segments of market prices. However, this segment chiefly comprises the services area and is consequently affected primarily by domestic factors and is not directly subject to foreign competition.

CHART II.4
PRICES OF NONTRADABLES ARE RISING FASTER THAN PRICES OF TRADABLES
(percentages; December 1999 = 100)

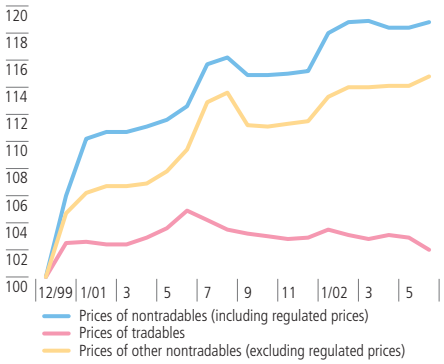


CHART II.5
WITHIN THE NON-FOOD ITEMS (i.e. ADJUSTED INFLATION), FUEL PRICES RECORDED THE LARGEST DECLINE
(annual percentage changes)

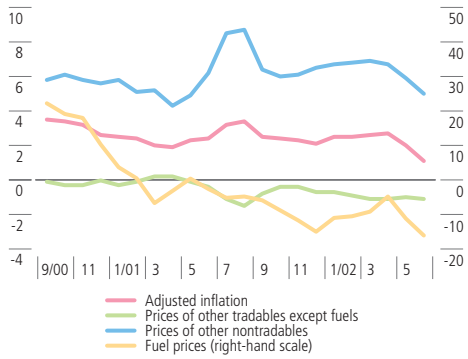
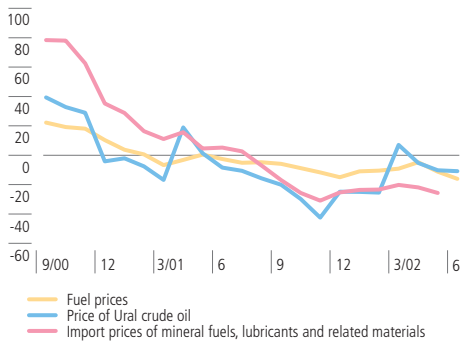


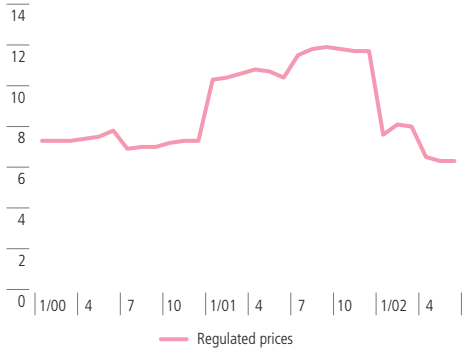
CHART II.6
FUEL PRICES WERE AFFECTED BY THE CHANGES IN OIL PRICES
(annual percentage changes)



4 *Adjusted inflation comprises the prices of the non-food items of the consumer basket excluding regulated prices and administrative interventions, i.e. fuel prices, other tradables prices and other nontradables prices.*

Unlike nontradables, prices of other tradables were – as in previous quarters – slightly below the level of the same period a year earlier (-1.1% in June in year-on-year comparison). The prices of these commodities are affected in particular by foreign competition. In 2002 H1, they were also affected by the continuing appreciation of the koruna.

CHART II.7
THE FALL IN PRICES OF REGULATED ITEMS CAME IN RESPONSE TO THE FAVOURABLE TREND IN IMPORT PRICES OF NATURAL GAS
(annual percentage changes)



The favourable external cost factors were also the main reason for a decline in annual regulated price inflation in April. Underlying this decline were very favourable prices of natural gas on world markets, bolstered by the appreciation of the koruna (see Section III.5. *Other costs and prices*). The extent of the decline in gas prices resulting from these two effects led the Energy Regulatory Office – for the first time since 1990 – to cut gas prices for households by 8.2%. In May and June, regulated prices developed according to the usual scenario, recording only minor changes with minimal impacts on inflation. A modest slowdown in regulated price inflation in May was caused by a temporary 50% reduction in the fee for installing telephone land lines. Overall, these effects led to a fall in annual regulated price inflation from 8% in March 2002 to 6.3% at the close of 2002 Q2. Although regulated price inflation slackened considerably during 2002 H1, regulated prices remained a significant component of the annual inflation outturn. In June, they were the only segment of the consumer basket to make a positive contribution to the 1.2% rise in consumer prices (see Chart II.2).

No other inflation-significant administrative changes above and beyond the framework of regulated prices were made in 2002 Q2. Annual inflation was thus affected only by changes made to excise duties in 2001 Q3 pursuant to an amendment to the Excise Duty Act (with effect from 1 July 2001). This amendment affected prices of cigarettes and tobacco products most, as it introduced a radical change in the system for calculating the excise duties on these commodities. The direct impact on inflation of the amendment to the Excise Duty Act has been put at approximately 0.05 percentage points.

TABLE II.1
THE INFLATION OUTTURN WAS LOWER THAN EXPECTED
(annual percentage changes; percentage points)

	FORECAST (APRIL 2001) (PER CENT)	OUTTURN (JUNE 2002) (PER CENT)	DIFFERENCE (PERCENTAGE POINTS)
Consumer prices, total	4.9	1.2	-3.7
of which:			
(1) regulated prices	8.3	6.3	-0.42
(2) administrative actions	0	0	-0.55
(3) net inflation	3.3	-0.1	-2.79
(4) food prices	3.3	-2.6	-1.64
(5) adjusted inflation	3.3	1.1	-1.15

Note: The figures in column 3 for items 1 - 5 represent the contribution to the 3.7% difference between the forecast and the outturn

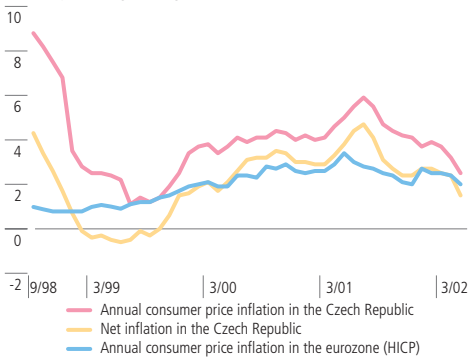
Overall, the continuing disinflation in 2002 Q2 was stronger than the CNB had expected. The CNB's conditional inflation forecast in April 2001 had predicted annual consumer price inflation of 4.9% for mid-2002. However, the actual consumer price inflation outturn in June 2002 (1.2%) was much lower than forecast – 3.7 percentage points lower, in fact. The lower-than-expected net inflation outturn was due chiefly to the exchange rate trend, but factors of foreign origin also contributed. The April 2001 forecast had assumed a stable nominal exchange rate. In the event, however, the exchange rate appreciated strongly between April 2001 and June 2002 (the koruna-euro rate firming by 12.3% and the koruna-dollar rate by 18.1%). The exchange rate effect simultaneously bolstered the disinflationary trend in prices of key imported raw materials and the significantly lower-than-expected inflation recorded by the Czech Republic's major trading partners. Food prices were a special case; here, the deviation was – in addition to import prices – attributable to a very different-than-expected evolution of agricultural producer prices. Regulated prices also rose more slowly than had been anticipated in the forecast. This was mainly because the changes made to regulated prices differed from the original plans of the government.

As regards international comparisons, consumer price inflation in the Czech Republic converged towards inflation in the eurozone. The difference between inflation in the eurozone and the Czech Republic, as measured by the HICP (Harmonised Index of Consumer Prices), decreased during Q2. Inflation fell in the eurozone as well, but the decrease in the Czech Republic was greater, the result being that the annual HICP outturns in the Czech Republic and in the eurozone were almost equal in May 2002 (the HICP falling to 2.1% in the Czech Republic and to 2.0% in the eurozone). The further convergence of inflation was attributable not only to the considerable decline in net inflation in the Czech Republic, but also (in the case of Q2) to the adjustments made to regulated prices. This can be illustrated by comparing net inflation (market prices) and consumer price inflation in the Czech Republic with the HICP in the eurozone (see Chart II.8).

CHART II.8

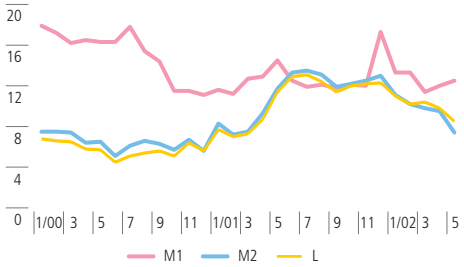
THE DIFFERENCE BETWEEN CONSUMER PRICE INFLATION IN THE CZECH REPUBLIC AND THAT IN THE EUROZONE NARROWED FURTHER

(annual percentage changes)



III. INFLATION FACTORS

CHART III.1
ANNUAL GROWTH IN THE BROADER MONETARY AGGREGATES DECLINED
(percentages)



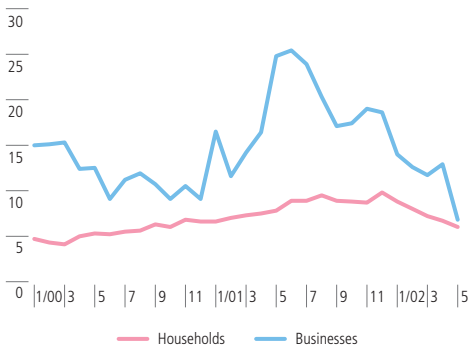
Definition of monetary aggregates:
M1 = currency in circulation + CZK demand deposits
M2 = M1 + quasi money
L = M2 + T-bills + CNB bills in portfolios of domestic non-banks

TABLE III.1
THE ANNUALISED 6-MONTH M2 GROWTH SUGGESTS A DOWNWARD TENDENCY IN THE MONEY SUPPLY
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
February	-0.7	4.9	5.1	10.2
March	0.9	9.9	6.1	9.8
April	1.3	6.1	8.8	9.5
May	0.1	9.5	7.2	7.4

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

CHART III.2
MARCH - MAY 2002 SAW CONVERGENCE IN ANNUAL MONEY SUPPLY GROWTH BETWEEN HOUSEHOLDS AND BUSINESSES
(percentages)



III.1. MONETARY DEVELOPMENTS

III.1.1. Monetary aggregates

The decline in annual growth in the broader monetary aggregates, which began in January 2002, continued in the period March–May. The decline was most marked in the case of M2 and rather less pronounced in the case of L. The lower demand for money reflected the slackening economic growth and falling inflation. On the money supply side, the decline in money demand corresponded to a stagnation in lending, a reduction in net credit to the government sector and a curbing of the effect of foreign capital inflow on money supply growth. The continuing fall in interest rates on demand deposits passed through into a rise in annual M1 growth, starting in April 2002.

Monetary aggregate M2

Annual M2 growth fell gradually in March–May 2002, dropping by 2.8 percentage points to stand at 7.4% in May. Although base effects played a significant role in the low figure in May, the decline in annual M2 growth throughout March–May suggests a generally smaller inflow of money into the economy than in the same period a year before. Whereas in March–May 2001 the M2 money stock had increased by CZK 75 billion, in the same period of 2002 the growth was only CZK 40 billion. The annualised seasonally adjusted M2 growth for six months also suggests a downward trend from May 2002.

Sector structure of M2

The convergence tendency in annual money supply growth between the household sector and the corporate sector continued throughout most of March–May 2002. In May, the difference was just 0.8 percentage points, M2 growth being 6.8% for businesses and 6.0% for households. This convergence was chiefly due to a decline in annual money supply growth in the corporate sector. A more modest fall was also recorded in the household sector. Convergence of the M2 growth rate of businesses and households is typical of a period of slackening economic growth, when lower economic performance is accompanied by a fall in demand for money in the corporate sector and subsequently also in households. The effect of low interest rates on time deposits gave rise (in addition to M1 growth for both businesses and households) to efforts to invest in more profitable products, such as T-bills in the case of businesses and building savings in the case of households.

Foreign currency deposits (adjusted for exchange rate effects) surged in March–May 2002, especially in the case of businesses.

Monetary aggregate M1

Following its one-off fall in March 2002, annual M1 growth started to rise again in April and May. In May it was 12.5%, well above the annual growth rate of the broader monetary aggregates. The rise in this period chiefly concerned demand deposits. Currency in circulation as a share of the money supply fluctuated around 11.5% in March–May. The annualised seasonally adjusted M1 growth suggests further growth in this segment of the money supply.

TABLE III.2
THE ANNUALISED SEASONALLY ADJUSTED M1 GROWTH SUGGESTS FURTHER GROWTH
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
February	0.4	6.1	8.5	13.3
March	-1.1	-9.8	4.5	11.4
April	2.4	6.9	10.9	12.0
May	3.9	22.4	14.0	12.5

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

Monetary aggregate L

The decline in annual L growth in March–May 2002 was smaller than that recorded for M2, since part of the funds of the corporate sector were transferred into T-bills, these being more profitable. Annual L growth fell by 1.7 percentage points in the period under review to 8.5% in May 2002. The annualised seasonally adjusted L growth for six months suggests a halt in the previous upward tendency from May 2002 .

TABLE III.3
THE ANNUALISED SEASONALLY ADJUSTED L GROWTH INDICATES A HALT IN THE RISE OF THIS AGGREGATE
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
February	-0.6	4.9	5.4	10.2
March	1.2	10.7	7.2	10.4
April	0.8	5.5	8.5	9.8
May	1.0	12.4	8.6	8.5

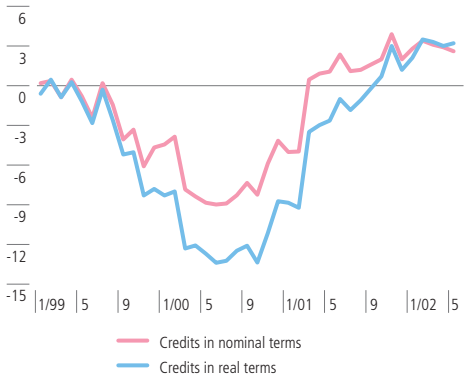
Note: Seasonally adjusted according to deviations from the series smoothed by the centred moving average method (length 13)

III.1.2. Credits granted to businesses and households

Lending continued to stagnate in March–May 2002. On average the annual growth adjusted for non-monetary effects was 2.9% in nominal terms and 3.2% in real terms (deflated by the industrial producer price index). The absolute volume of credits remained unchanged in this period.

The quarterly and half-yearly seasonally adjusted annualised increases, which indicate the current growth rate of lending, developed similarly to the annual growth. Except for March 2002 in the case of the quarterly growth and April 2002 in the case of the half-yearly growth, both these indicators recorded a decline. This trend reflected insufficient effective demand for credits by businesses and was linked to the slowdown in economic growth.

CHART III.3
ANNUAL CREDIT GROWTH REMAINED FLAT



The lending trends within the individual sectors were mixed in March–May 2002. Credits granted to foreign-controlled corporations continued to decline, whereas those to domestic businesses went up. The upward trend in credits for financing household spending continued as well.

Operating and investment credits continued to account for most of the total in March–May 2002. However, the share of operating credits dropped by 0.7 percentage points to 41.6% in the period, whereas the share of investment credits was flat at 29.4%. The share of mortgage credits meanwhile rose by 0.8 percentage points to 8%. This growth was promoted by the low level of interest rates and stimulated by state support and by increased supply of such credits by banks. The share of consumer credits was flat at 6.0% between March and May.

TABLE III.4
THE SEASONALLY ADJUSTED AND ANNUALISED 3-MONTH AND 6-MONTH CREDIT GROWTH DECLINED
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
February	0.7	6.2	6.4	3.4
March	-0.1	7.6	3.2	3.1
April	-0.1	2.2	4.5	2.9
May	-1.0	-4.6	0.7	2.6

Note: Adjusted for exchange rate effects, write-offs, unlicensed banks, loan portfolio restructuring, the conversion of Konsolidační banka into the Czech Consolidation Agency (CCA) and the transfer of ČSOB's receivables to the CCA

As regards time structure, the share of medium-term and long-term credits went up, whereas that of short-term credits went down. In May 2002, short-term credits accounted for 35%, medium-term credits for 31.1% and long-term credits for 33.9% of the total.

III.2. INTEREST RATES

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

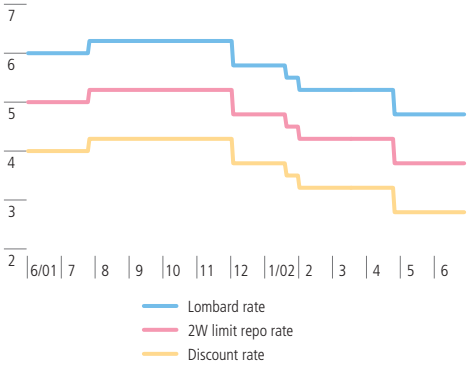


CHART III.5
MARKET INTEREST RATES FELL
(percentages)

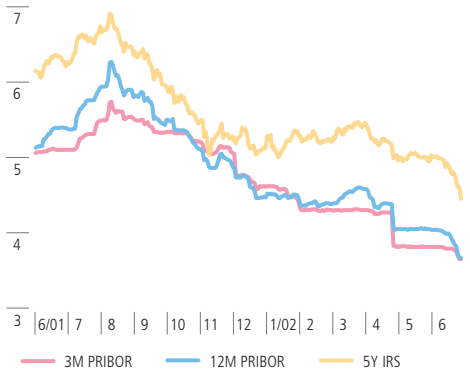
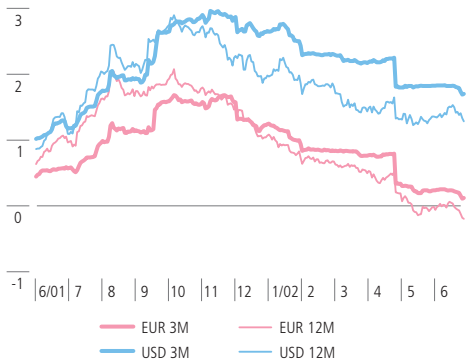


CHART III.6
THE INTEREST RATE DIFFERENTIAL NARROWED FURTHER
(percentage points)



Interest rates were strongly affected in 2002 Q2 by the reductions in the CNB's key rates. At the end of April, the CNB lowered all its key rates by 0.50 percentage points – the limit 2W repo rate to 3.75%, the Lombard rate to 4.75 % and the discount rate to 2.75% – with effect from 26 April 2002. Market interest rates responded by declining, albeit with mixed intensity on the different segments of the financial market. A more marked shift took place at the short end of the yield curve; the changes at longer maturities were in the order of just 0.2–0.3 percentage points. The medium-term and long-term rates were also affected by interest rates abroad, which were not falling at the time. Following a period of stabilisation, interest rates starting falling again at the end of June. The impulse for this came from the USA, where the only weak recovery of the US economy caused stock markets to fall. Investors' interest was therefore concentrated on bonds, whose yields started decreasing. The internal factors acting downwards on interest rates included the favourable inflation trend (including the outlook for the period ahead), the GDP figures and the appreciation of the koruna's exchange rate. Interest rates fell to new historical lows in all segments of the financial market. Among market participants, expectations prevailed that the CNB would further lower its key interest rates. In addition to the spot rates, this was indicated by the FRA rates.

With sporadic corrections, interest rates have been falling for around nine months. The shapes and levels of the yield curves have changed substantially over this period. During the course of 2002 Q2, the PRIBOR yield curve gradually shifted to a lower yield level, although it remained slightly upward sloping. Compared with March, the average 1W PRIBOR fell by 0.50 percentage points to 3.78% and the 1Y PRIBOR by 0.57 percentage points to 3.94%. The spread between the two rates was 0.15 percentage points in June (compared with 0.22 percentage points in March).

The interest rate differential (PRIBID/CZK-LIBOR/EUR,USD) was affected by changes in interest rates abroad and by the interest rate movements on the domestic interbank market. Key rates remained unchanged in all the major economies. 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 stayed at 3.25%. However, market rates did not remain stable, a downward trend being particularly visible in the USA. Domestic money market rates fell even faster, causing the interest rate differential to narrow. At some maturities the differential vis-à-vis euro rates attained negative values (of between -0.2 and 0.1 percentage points) at the end of June 2002. The interest rate differential vis-à-vis dollar rates was 1.3–1.7 percentage points.

There were three auctions on the primary government bond market, with residual maturities of 15Y, 3Y and 10Y and a total volume of CZK 20 billion. A maximum acceptable yield was not given, and demand significantly exceeded supply in all the auctions. The average gross yields were 5.64%, 4.44% and 5.24%. There were two issues on the mortgage bond market in this period, with a volume of CZK 2.5 billion. Issuing activity also continued on the primary koruna eurobond market, where the outstanding volume at the end of June 2002 was CZK 93.9 billion.

Client interest rates on credits and deposits responded to the adjustments to key rates and to the changes in financial market rates. Since credit rates are more flexible than deposit rates, their response was more pronounced. Interest rates on new credits stood at 4.9% in May, a decline of 0.1 percentage point from the start of the year. The CNB's

key rates were reduced to the same extent. Time deposit rates stood at 2.8%. The interest rate margin between the overall credit and deposit rates was virtually unchanged, amounting to 4.1 percentage points in May.

In addition to the level of nominal rates, real interest rates[5] were affected by the way in which the price indices developed. The expected consumer price indices decreased to approximately the same extent as the nominal rates, so the real rates deflated in this way were little changed. The industrial producer price indices changed to a lesser extent. Real rates on newly granted credits were 2.5% in May and real interest rates on time deposits -0.5%.

III.2.1. The exchange rate

In 2002 Q2, the koruna's exchange rate against the euro appreciated from approximately CZK 30.60 at the beginning of the quarter to around CZK 29.30 at the end of June. Against the dollar, the koruna appreciated from around CZK 34.90 to around CZK 29.70, chiefly because of the depreciation of the dollar on world markets. The nominal effective exchange rate index[6] recorded a year-on-year rise of 14.1% in 2002 Q2. The real effective exchange rate indices firmed by rather less than the nominal rate.

The CNB views the brisk appreciation of the koruna as a deviation from the equilibrium trend given by economic fundamentals and as a risk to future macroeconomic development. In this connection, the CNB intervened on the foreign exchange market at the beginning of Q2 to curb the appreciation of the koruna. The excessive appreciation of the exchange rate is causing a tightening of monetary and financial conditions. This led the CNB to reduce its monetary policy rates by 0.5 percentage points. The koruna weakened slightly following these measures, and in May and the first half of June the exchange rate fluctuated between CZK 30.30 and CZK 30.90 to the euro. Nevertheless, in the second half of June it appreciated further beyond CZK 30 to the euro.

CHART III.7
EX ANTE REAL INTEREST RATES RECORDED MIXED DEVELOPMENT
(percentages)

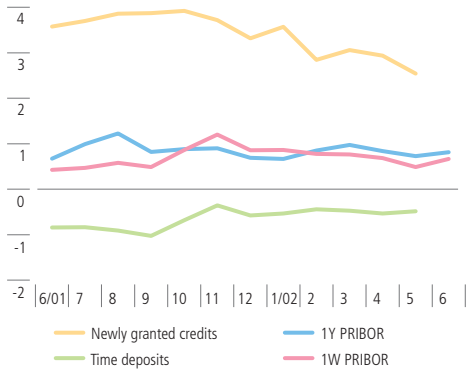


CHART III.8
THE KORUNA APPRECIATED

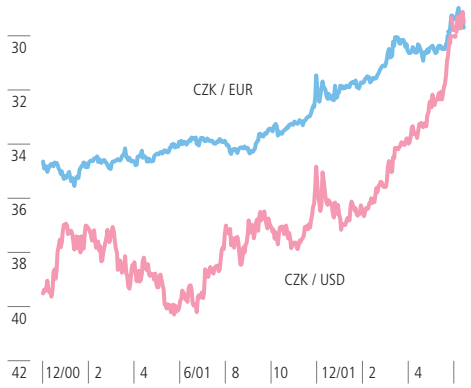
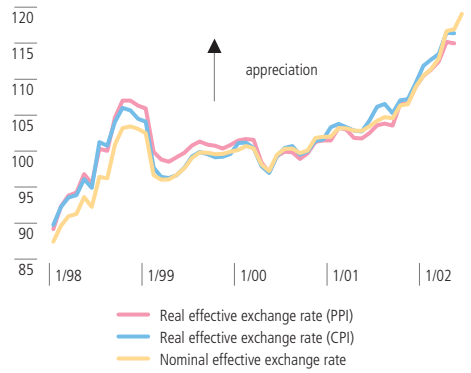


CHART III.9
THE EFFECTIVE EXCHANGE RATES CONTINUED STRENGTHENING
(Year 2000 = 100)



5 *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.*

6 *Weighted by shares in foreign trade, including Russia.*

III.2.2. Capital flows

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

	1999 Q1	2000 Q1	2001 Q1	2002 Q1
Financial account	17.8	35.5	32.6	44.9
Direct investment	31.9	37.1	38.5	22.3
- Czech abroad	-0.8	-1.0	-0.2	-0.7
- Foreign in Czech Republic	32.7	38.1	38.7	23.0
Portfolio investment	1.5	-12.6	9.5	7.8
- Czech abroad	-2.9	-19.6	-1.9	-13.7
- Foreign in Czech Republic	4.4	7.0	11.4	21.5
Financial derivatives	0.0	-1.9	0.3	-0.1
Other investment	-15.6	12.9	-15.4	14.8
1. Long-term investment	-0.5	4.5	-4.9	8.6
- Credits granted abroad	-12.4	9.2	-6.6	16.6
- Credits accepted from abroad	11.9	-4.7	1.7	-8.0
2. Short-term investment	-15.1	8.4	-10.5	6.2

The financial account ended 2002 Q1 in a surplus of CZK 44.9 billion, up by approximately one third compared with the same period a year earlier. However, unlike in previous years the structure of the inflow changed markedly. The most significant share of the total inflow of capital into the Czech Republic was attributable to a fall of more than CZK 70 billion in the short-term assets of commercial banks abroad. The share of foreign direct investment in the surplus shrank, mainly because of a considerable year-on-year fall in such investment (to approximately CZK 23 billion, as against CZK 38.7 billion in 2001 Q1). Purchases of domestic bonds by non-residents (around CZK 22 billion) were also a very significant component of the capital inflow. The overall financial account surplus was lessened in particular by a reduction in the net external debt of the business sector (of around CZK 45 billion), purchases of foreign securities by residents (almost CZK 14 billion) and repayments of the short-term external liabilities of commercial banks (around CZK 23 billion).

The net inflow of foreign direct investment in 2002 Q1 was CZK 22.3 billion, constituting a year-on-year decline of more than 40% (CZK 16.2 billion). The inflow of foreign direct investment totalled CZK 23.0 billion (a fall of CZK 15.7 billion). The decrease in the inflow reflected the world economic recession. Reinvested earnings in foreign-owned corporations active in the Czech Republic were the largest component of the capital inflow (CZK 10 billion). Capacity-creating investment financed by capital inflow from abroad amounted to CZK 8.2 billion and sales of assets totalled CZK 4.8 billion. Within sales of assets, real estate was the most significant item; sales of state-owned assets amounted only to CZK 0.8 billion (the sale of the state-owned stake in truck manufacturer Tatra Kopřivnice). EU countries accounted for approximately 80% of the total inflow of capital into the Czech Republic (Germany for around 35%, Belgium and the Netherlands for around 15% and France for 8%). As to sector, the share of investment in industry was up on previous years, rising to almost 50% (chiefly because of a decline in investment in services and a higher share of reinvested earnings). The investment was channelled mainly into the automobile and chemical industries and into manufacture of electrical appliances. The outflow of FDI capital totalled CZK 0.7 billion.

The net inflow of portfolio investment in 2002 Q1 was CZK 7.8 billion. The volume of domestic securities held by non-residents rose by CZK 21.5 billion. Non-residents' interest was concentrated exclusively on debt securities in the period under review (a rise of CZK 21.7 billion). There were no major movements from the non-resident side as regards shares (a fall in holdings of CZK 0.2 billion). On the portfolio capital outflow side, too, there was a marked prevalence of interest in debt securities. The volume of foreign securities held by residents went up by CZK 13.7 billion, with bonds accounting for 73% of the increase. The behaviour of both residents and non-residents suggested efforts to invest in lower-risk bonds in a period of economic uncertainty.

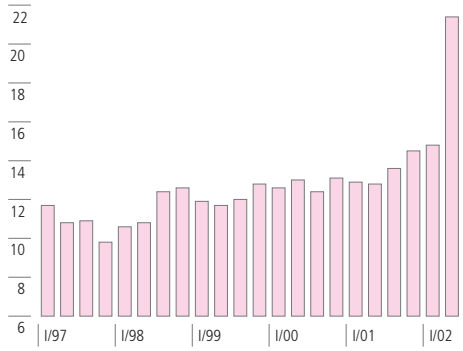
Financial derivatives transactions continued to have virtually no effect on the financial account in 2002 Q1, reducing the surplus by just CZK 0.1 billion.

Other investment showed a capital inflow of CZK 14.8 billion. Within the business sector, the net outflow of capital was CZK 45.4 billion. A one-off technical operation linked to the repayment of Russian debt accounted for around CZK 20 billion of this rather surprising development (the business credit area had previously recorded an inflow of capital; in the same period a year earlier there had been an inflow of CZK 6.3 billion). Growth in credits to non-residents and, to a lesser extent, a decline in supplier credits (associated probably with the decrease in imports into the Czech Republic)

continued to have a significant effect. In the government sector area there was a net inflow of capital of CZK 18.6 billion in 2002 Q1, caused largely by the one-off repayment of Russian debt. The inflow of capital into the banking sector amounted to CZK 41.6 billion. This was due chiefly to a decline of CZK 70.9 billion in the short-term assets of commercial banks (probably reflecting banks' efforts to reduce the proportion of low-yield short-term foreign exchange assets in their balance sheets).

According to preliminary figures, the CNB's international reserves rose by CZK 105.6 billion to CZK 627.4 billion during 2002 Q2. This rise was attributable to the CNB's operations to counter the appreciation of the koruna (i.e. foreign exchange operations, purchase of the government's revenues from the sale of Transgas, and purchase of funds acquired from the de-blocking of Russian debt) and to interest yields. The koruna value of the international reserves was reduced by the appreciation of the koruna against both the euro and the dollar. In dollar terms, the international reserves increased from USD 14.8 billion to USD 21.4 billion.

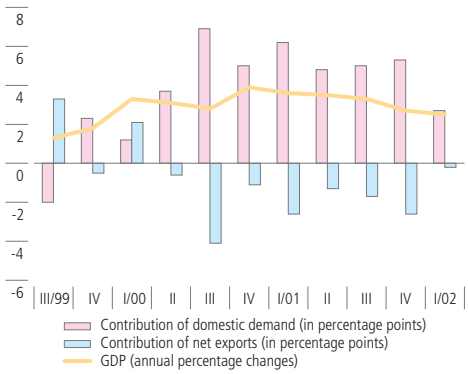
CHART III.10
CNB INTERNATIONAL RESERVES ROSE SHARPLY IN DOLLAR TERMS
(USD billions)



III.3. DEMAND AND OUTPUT

The ongoing economic growth in 2002 Q1 confirmed a continuation of the growth phase of the Czech economy. However, the annual GDP growth rate slowed further to 2.5%. As in the previous quarter, this moderate slowdown was mostly due to base effects, tougher conditions in the external economic environment and to the koruna's persisting appreciation trend. Any more pronounced decrease in Czech economic growth was prevented by the ongoing structural changes and by the active adjustment of the supply side of the economy to the worsening sales opportunities in some regions. This showed up primarily in the redirection of part of the fall in exports to Germany (the Czech Republic's most important trading partner) to other countries with advanced market economies and transition economies.

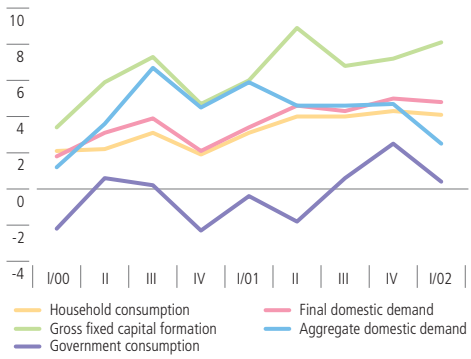
CHART III.11
THE CONTINUING ECONOMIC GROWTH WAS AGAIN DRIVEN BY DOMESTIC DEMAND IN 2002 Q1



The GDP growth was again underpinned by domestic demand (see Chart III.11). The contribution of net external demand to the GDP growth remained negative, although the figure was much lower than in the previous quarter (dropping to -0.2 percentage points) thanks to the equal growth rates recorded for imports and exports. On the supply side of the economy, the economic growth was attributable mostly to the services sector and, to a lesser extent, to manufacturing.

Although the growth phase of the Czech economy continued for an eleventh consecutive quarter, GDP remained below the potential output level according to CNB calculations. The economic growth recorded to date (including in 2002 Q1) has been achieved without full utilisation of factors of production. The unemployment rate has been above the natural rate, and the production sector indicators do not suggest full utilisation of production capacities.

CHART III.12
THE BUOYANT GROWTH IN FINAL DOMESTIC DEMAND WAS MAINTAINED IN 2002 Q1
(annual percentage changes)



III.3.1. Domestic demand

The GDP growth in 2002 Q1 was driven by final domestic demand, which maintained a buoyant growth rate (4.8% in year-on-year comparison) thanks in particular to increased gross fixed capital formation. The continuing growth in investment, most notably in the sector of non-financial corporations, led to a further increase in the production potential of the economy, which is one of the prerequisites for sustained economic growth and reduced imbalances in the economy and consequently for a decrease in inflationary pressures. Household consumption, which maintained a relatively stable growth rate, also made a substantial contribution to the GDP growth. The contribution of the

CHART III.13
THE RATE OF INVESTMENT WAS AT APPROXIMATELY THE SAME LEVEL AS A YEAR EARLIER
(percentages)

CHART III.14
THE LEVEL OF OVERALL AND EXPORT EFFICIENCY HAS INCREASED OVER THE PAST TWO YEARS
(in CZK)

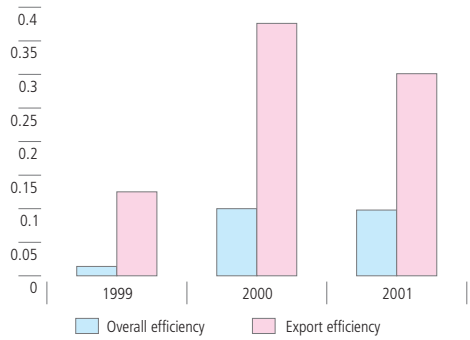
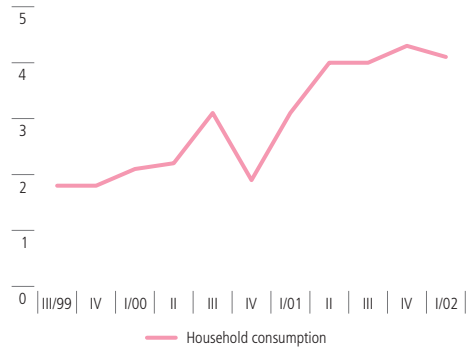


CHART III.15
GROWTH IN HOUSEHOLD CONSUMPTION SPENDING REMAINED BROADLY AT 4%
(annual percentage changes)



government sector was not significant. The positive contributions of the individual components of final demand to the economic growth were partly offset by a negative contribution from changes in inventories. The lower stockbuilding of work in progress and finished goods compared with 2001 Q1 probably reflected expectations of weaker external demand. This led to a substantial slowdown in annual aggregate domestic demand growth (including changes in inventories) in 2002 Q1 to 2.5%.

Investment demand

Investment demand remained at a high level in 2002 Q1. Annual growth in gross fixed capital formation (at 1995 prices) rose by a further 0.9 percentage points compared with 2001 Q4 to 8.1%. The rate of investment was above 30%. Underlying the continuing upward trend in investment was the growth in final domestic demand. The persisting low economic growth in advanced market economies and the subdued external demand significantly reduced the activity of foreign investors in the Czech Republic. This was reflected primarily in a halt of the favourable trend in acquisitions of fixed assets by large and medium-sized foreign-controlled non-financial corporations, where the previous brisk growth in investment activity gave way to a moderate year-on-year decline (of 3.1% at current prices) in 2002 Q1.

As in 2001 Q4, the rise in total investment was due to a large extent to government sector demand (as a result of increased investment by the Ministry of Defence). The government sector accounted for almost half (CZK 4.2 billion) of the overall absolute increase in gross fixed capital formation (of CZK 8.9 billion on a year earlier). Investment by the government sector was up by almost 50%. The other half of the investment growth was attributable to non-financial corporations (CZK 4.4 billion).

The slowdown in investment growth in non-financial corporations that emerged in the previous quarter had no substantial effect on progress with positive structural changes. As regards sectors, this was evidenced in particular by continuing robust growth in investment in manufacturing (of CZK 2.5 billion in year-on-year terms), where investment in branches with higher-value-added production (manufacture of transport equipment and electrical and optical equipment) remained dominant. Also favourable as regards laying the groundwork for future economic growth was the maintaining of much quicker year-on-year growth in machinery investment (up by CZK 7.6 billion) than in investment in premises and facilities (up by CZK 1.3 billion).

The changes on the supply side, which result chiefly from the strong inflow of foreign direct investment, are also evidenced by the gradually increasing – although still low – level of the overall and export efficiency of the investment (expressing, respectively, the ratio of GDP growth in the current year to the total volume of gross fixed capital formation in the previous year, and the ratio of total export growth in the current year to the total volume of investment in the previous year).

Consumer demand

As expected, consumer demand growth also remained relatively high in 2002 Q1, as in the previous period. For a fourth consecutive quarter, the growth rate of household spending on final consumption was around 4% (reaching 4.1% in 2002 Q1). The maintaining of household consumption at this level had been indicated in advance by consumer confidence. According to the *Ecoma plus* market situation test, January 2002 saw a large rise in the positive expectations regarding the Czech economy and, accordingly, there was an improvement in households' expectations regarding living

standards. The burgeoning consumer confidence for 2002 Q1 compared with 2001 Q4 was also flagged by the CSO's aggregate consumer confidence indicator. It is also likely that the buoyant growth rate of household consumption was fostered by the falling inflation.

Households continued to finance their increased spending on final consumption primarily from growth in disposable income, which amounted to 7% in Q1 in nominal year-on-year terms. Compared with the previous quarter, the increasing spending was financed to a larger extent from social incomes, whose nominal annual growth accelerated to 9.3%.[7] In real terms, disposable household incomes were up by 4.7% in Q1. Amid the rise in household spending on final consumption, the savings rate increased by 0.7 percentage points to 7.5% in Q1 after six consecutive quarters of year-on-year decline. The contribution of credits to the financing of the increasing consumer spending of households decreased – the net increase in lending to the household sector was about half that in the same period a year earlier.

The material structure of the increased consumer spending of households showed no substantial changes, confirming instead the across-the-board nature of the consumption growth. In 2002 Q1, increases were registered in particular for spending on food, footwear and clothing, household equipment, recreation, and hotels and restaurants. The continuing growth in spending on household equipment was probably supported by an increasing number of completed flats and by credit from mortgage banks and building societies.

Government demand

Government spending on final consumption in 2002 Q1 was only 0.4% higher than a year earlier. This is broadly in line with the government's plans for a moderate rise in 2002 linked with the reform of regional public administration and rises in energy and services prices.

In 2002 Q1, government consumption expenditure from the state budget was below the amount budgeted for 2002 in nominal terms. The year-on-year comparability of the figures is severely limited by methodological and organisational interventions ensuing from the second stage of the reform of regional public administration and from organisational changes in subsidised organisations. Non-investment purchases – the most important budget item with respect to the volume of spending on government consumption – had been drawn at only 14.9% of the approved budgeted amount by the end of March. Their main component – compensation of employees and other payments for work done (including insurance contributions paid by employers) – had meanwhile been drawn at 15.8% of the budgeted amount. Non-investment transfers (subsidies) to central public budgets (social and health insurance funds and state funds) were drawn at 23.8% of the planned amount (of which social and health insurance funds at 24.8%) and non-investment transfers to regional public budgets at 21.3%. Non-investment transfers to subsidised and similar organisations were drawn at 21.7% of the budgeted amount at the end of March.

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, eased substantially in 2002 Q1. Amid a further very

CHART III.16
THE SAVINGS RATE INCREASED AGAIN AFTER A LONG PERIOD OF YEAR-ON-YEAR DECLINE
(percentages)

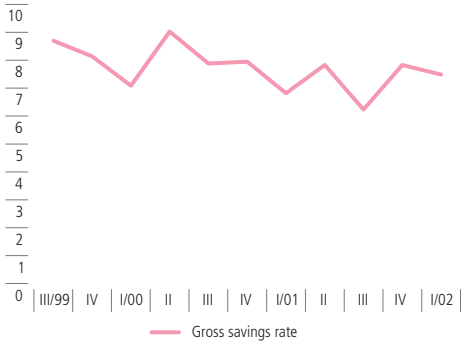


CHART III.17
GOVERNMENT CONSUMPTION ROSE MODERATELY IN 2002 Q1
(annual percentage changes)

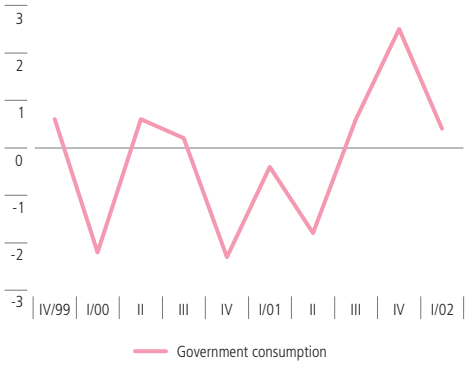
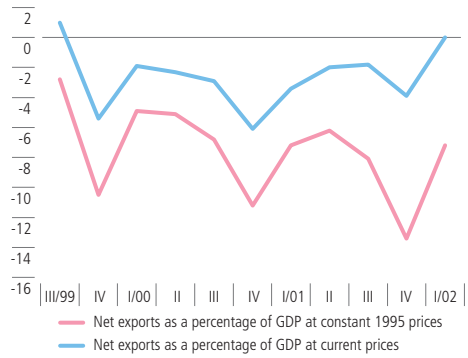


CHART III.18
THE TREND OF YEAR-ON-YEAR DETERIORATION IN NEGATIVE NET EXPORTS AS A SHARE OF GDP HALTED
(percentages)

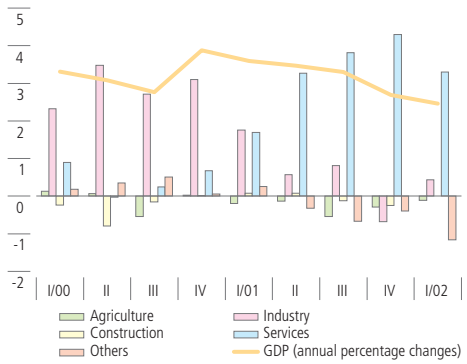


7 *i.e. social benefits other than social transfers in kind.*

CHART III.19
THE GROWTH RATES OF IMPORTS AND EXPORTS EQUALISED
(annual percentage changes; constant prices)

CHART III.20
THE TRADE BALANCE WAS POSITIVELY AFFECTED BOTH BY PRICE EFFECTS AND BY CHANGES IN THE RELATIONSHIPS BETWEEN REAL EXPORTS AND REAL IMPORTS
(CZK billions; current prices)

CHART III.21
THE GDP GROWTH IN 2002 Q1 WAS DUE CHIEFLY TO THE SERVICES SECTOR
(annual percentage changes and percentage points)



moderate slowdown in both export and import growth, negative net exports amounted to CZK 26.7 billion, a deterioration of just CZK 0.7 billion compared with a year earlier. Thanks to this, the negative contribution of net exports to GDP growth decreased to 0.2 percentage points (see Chart III.11). With GDP growth slowing more rapidly, however, negative net export growth as a percentage of GDP halted at -7.2% (the same figure as in 2001). The import propensity recorded only a very moderate rise.

An important change in trend in 2002 Q1 was that the growth rates of imports and exports equalised at 3.1% (import growth had previously been outpacing export growth for some considerable time). Despite slackening economic growth in advanced market economies (culminating in Germany's case in a decline in GDP) and despite rising domestic demand, there was no major deterioration in negative net exports. The slowdown in export growth was counteracted by an expansion in production of export-oriented commodities resulting from the positive structural changes on the supply side of the economy. The fall in exports to Germany, which accounts for around 37% of Czech goods exports, was again partly offset by exports to other advanced market economies and transition economies. The positive upward trend in the proportion of higher-value-added commodities continued into 2002 Q1.

The balance of trade was also strongly affected in Q1 by price effects arising from the price developments in other countries and from the continuing appreciation of the koruna's exchange rate. These price effects, together with the change in volume, were reflected in the balance of trade at current prices. In year-on-year comparison, the trade balance improved by CZK 17.2 billion at current prices in 2002 Q1. The aggregate effect of the price changes (calculated using the export and import price indices) on the annual change in the trade balance was CZK 9.8 billion. This effect was strongest in the category of mineral fuels, where the deficit decreased by CZK 6.2 billion thanks to favourable import prices of energy-producing raw materials (coupled with the koruna's appreciation). The favourable trend in the relationships between real exports and imports reduced the deficit by CZK 7.3 billion. This was chiefly attributable to machinery and transport equipment, where the surplus was CZK 8.2 billion higher than a year earlier.

III.3.3. Gross domestic product

On the supply side of the economy, the economic growth in 2002 Q1 was again driven primarily by the services sector. Its contribution to GDP growth continued to far exceed those of other sectors (see Chart III.21). Services accounted for roughly 60% of GDP at basic prices. From the structural point of view it was evident that all segments except for other services contributed to the favourable trend in gross value added in services. The largest increase in gross value added was again registered in transport, storage and communication (10.9% on a year earlier). The category of wholesale and retail trade and repair of motor vehicles, motorcycles and personal and household goods also maintained a buoyant growth rate (9.1%). Business activities and research and development (which rose by 6%) also contributed quite significantly to the gross value added growth in services. Hotels and restaurants recorded a very weak rise in Q1 following a two-quarter-long decline.

In manufacturing, which accounts for about one third of GDP, value added increased by 2.4%. The financial results in manufacturing in 2002 Q1 as surveyed in larger organisations (employing more than 100 employees), however, suggest a very patchy trend in value added growth within this industry (see Section III.3.4). The loss recorded in manufacturing in the monitored set of organisations in Q1 (together with the very low

growth of revenues from sales of own products and the deteriorating profitability indicators) was probably linked with the fall in sales opportunities abroad and with the appreciation of the koruna.

In other industries, gross value added in 2002 Q1 was flat to falling in year-on-year comparison. In construction, after two consecutive quarters of decline, value added remained at the 2001 Q1 level and its share of gross value added stayed at around 5%.

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

In 2002 Q1, the aggregate financial performance of non-financial organisations and corporations was more favourable than a year earlier. Gross profitability was 29.2% higher than in 2001 Q1 (rising by CZK 13.4 billion in absolute terms). However, this increase was mostly attributable to transport and communications, as were the improvements in ratios such as profit-expenses, profit-equity and profit-output. These two industries showed an annual rise in profit of CZK 12.5 billion, mainly because of a rise in fares in January 2002 and the development of, and higher prices for, telecommunications services. These industries also showed a greater increase in overall book value added than did the other industries.

Overall, however, the growth rates of some indicators – particularly the quantitative ones – were lower in 2002 Q1 than in 2001 Q1. This was the case with output, cost of sales and total expenses. The net operating surplus[8] decreased by almost 10% and the number of loss-making organisations was 6% higher than a year earlier (i.e. up by 78 organisations). As regards individual industries, the results of manufacturing corporations were substantially worse than the aggregate results.

In manufacturing, the financial results were particularly affected by the slackening export growth caused by the falling external demand in the EU combined with price and exchange rate effects. These factors affected both the output and expenses of corporations and consequently also their profits. Manufacturing recorded a drop in profits in 2002 Q1 compared with a year earlier, resulting in a worsening of all its efficiency indicators. The profitability indicators and the ratio of profit to sales revenues decreased, whereas the material cost-output ratio and the personnel cost-output ratio increased. Book value added and value added per employee declined. The net operating surplus was one fifth lower than a year earlier. Unlike value added, which fell in most manufacturing industries, personnel costs increased despite lower employment. This showed up in a sizeable increase in personnel costs as a proportion of value added. As regards ownership structure, a decline in the profit-expenses and profit-equity ratios was registered in all ownership segments of manufacturing.

TABLE III.6
PROFITS INCREASED IN 2002 Q1
(annual percentage changes)

	2002 Q1	
	BUSINESSES, TOTAL[1)]	OF WHICH: MANUF.
Income, total	3.3	2.6
Revenues from sales of own products	0.7	0.4
Output, total	1.7	0.5
Expenses, total	1.9	3.2
of which: cost of sales	1.6	1.8
personnel costs[2)]	6.2	5.3
depreciation	9.3	4.2
Book value added	1.8	-3.3
Equity capital	4.3	6.3
Net operating surplus	-9.6	-20.5
Profit before tax	29.2	-9.2

1) For non-financial institutions and corporations with 100 employees or more, all industries
2) Comprises wage and other personnel costs, remunerations to members of companies and co-operatives, social security costs and social costs

TABLE III.7
MOST OF THE RATIOS IN MANUFACTURING DETERIORATED
(percentages and percentage points)

	2001 Q1		2002 Q1		PERCENTAGE POINT CHANGES	
	BUSINESSES TOTAL[1)]	OF WHICH: MANUF.	BUSINESSES TOTAL[1)]	OF WHICH: MANUF.	BUSINESSES TOTAL[1)]	OF WHICH: MANUF.
Profit-expenses ratio	5.47	5.45	6.93	4.79	1.46	-0.66
Profit-equity ratio	2.81	4.39	3.48	3.75	0.67	-0.64
Profit-output ratio	7.30	5.98	9.28	5.40	1.98	-0.58
Material cost-output ratio	68.60	74.33	68.55	75.29	-0.05	0.96
Personnel cost-output ratio	14.74	12.30	15.40	12.88	0.66	0.58
Personnel costs as a proportion of value added	46.93	47.89	48.97	52.15	2.04	4.26
Profit as a proportion of revenues	7.57	6.05	9.71	5.47	2.14	-0.58
		CZK thousands			Annual percentage changes	
Book value added per employee	124.0	141.4	127.6	140.0	2.9	-0.7

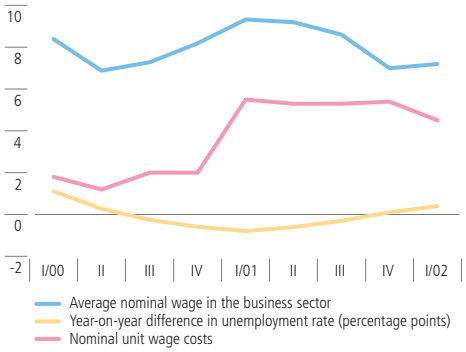
1) For non-financial institutions and corporations with 100 employees or more, all industries

8 *i.e. value added minus depreciation and personnel costs.*

III.4. THE LABOUR MARKET

In 2002 Q1, the labour market recorded a deteriorating relationship between the demand for and supply of labour. The gradually falling supply of vacancies had culminated in a year-on-year decline at the start of 2002, and this continued into 2002 H1. The decreasing job creation led to a rise in the number of registered unemployed people in the economy. Short-term unemployment and long-term unemployment were both slightly higher than in the previous quarter. Average nominal wage growth moderated further, thanks largely to wages in the non-business sector. Average nominal wage growth in the business sector picked up slightly compared with 2001 Q4. However, the structural wage trends and the overall situation on the labour market indicated no change in the existing downward trend for wage growth in the business sector. Whole-economy labour productivity growth moderated further. However, growth in nominal unit wage costs at the macroeconomic level slowed, although the trends within the individual industries were mixed.

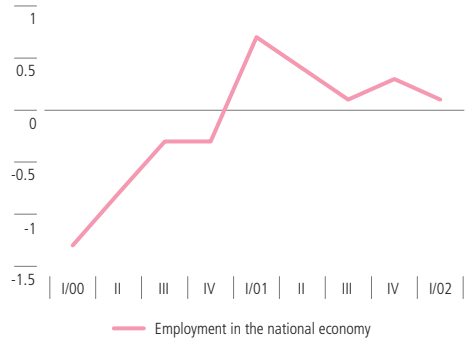
CHART III.22
THE LABOUR MARKET INDICATORS SUGGESTED A CONTINUING DETERIORATION OF THE LABOUR MARKET SITUATION
(annual percentage changes and percentage points)



III.4.1. Employment and unemployment

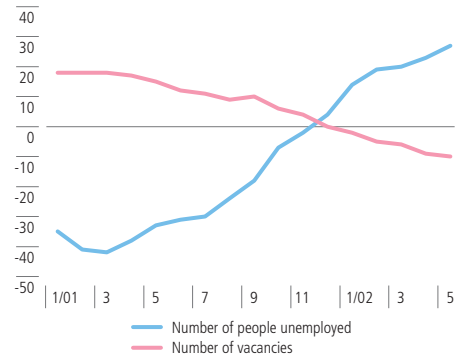
The labour market developments in 2002 Q1 suggested no major changes in the employment trend. The moderate rise in the total number of people employed in the national economy, visible since the first quarter of the previous year, continued into the first months of 2002. However, the growth rate slowed by a further 0.2 percentage points compared with the previous quarter. According to CSO figures,[9] growth in total employment increased by only 0.1% in year-on-year comparison, representing a rise of 5,900 in absolute terms. The continuing modest rise in employment, however, was not across-the-board in nature in 2002 Q1. The mixed trends with respect to sectors, regions and type of employment reflected the continuing structural changes on the supply side of the economy and the uncertainties associated with external demand. This effect of the latter factor on employment had been flagged by business surveys indicating that the corporate sector was not expecting any improvement in sales opportunities abroad in Q1.

CHART III.23
THE GROWTH IN UNEMPLOYMENT SLACKENED SOMEWHAT IN 2002 Q1
(annual percentage changes)



As for the individual sectors, the proportion of employment in the services sector continued to increase. Compared with the previous quarter, the share of this sector in total employment increased by 0.3 percentage points in 2002 Q1 to 55.3%. This trend was confirmed with respect to the individual industries: services predominated in the seven industries that registered an increase in employment.[10] By region, the employment trends were also mixed – annual increases in the number of employed people were recorded in only three regions; the remainder all saw declines.

CHART III.24
THE DECLINE IN THE NUMBER OF VACANCIES CAUSED GROWTH IN THE NUMBER OF PEOPLE UNEMPLOYED
(year-on-year changes; seasonally adjusted figures in thousands)



According to Ministry of Labour and Social Affairs statistics,[11] all the main unemployment indicators registered an increase compared with the previous period. The slackening economic growth recorded by the Czech Republic's major trading partners, the uncertainties associated with the renewal of that growth, and the ongoing restructuring of the economy were again probably the main factors behind the falling supply of vacancies (registered by labour offices) and the rising number of people unemployed in 2002 H1. Throughout the first six months of 2002, the supply of vacancies was below the level of the same period a year earlier. In December 2001 the number of vacancies had been the same as at the end of 2000, but at the end of June

9 *The Labour Force Survey.*
10 *Employment increased primarily in hotels and restaurants, health, transport and communications, and retail and wholesale trade.*
11 *The MLSA's unemployment statistics are based primarily on registered unemployment.*

2002 the number was about 10,700 lower than a year before. The ratio of the number of job applicants to the number of vacancies deteriorated as well. There were around 9.3 applicants per vacancy in June 2002, a rise of more than two compared with June 2001. There were no changes in the regional, occupational and skills gaps between the supply of and demand for labour in 2002 H1.

The falling supply of vacancies implied a rise in the number of registered unemployed people. This rise has been visible, despite seasonal fluctuations, since the start of 2002. As of the end of June the number of registered unemployed people was around 34,000 higher than a year earlier. The same trend was displayed by the unemployment rate, which increased by 0.6 percentage points to 8.7% in year-on-year comparison. Any decrease in unemployment continued to be limited by long-term unemployment, which is to a large extent associated with large regional differences in the unemployment rate arising in particular from the structural changes in the economy. In May 2002, the unemployment rate exceeded 12% in 13 districts, most of them in North Bohemia and North Moravia.

After having been flat in the two previous quarters, long-term unemployment showed a very slight increase in 2002 Q1. According to MLSA data, the number of long-term unemployed people[12] was 2,700 higher in 2002 Q1 than in the previous quarter, and the long-term unemployment rate edged up in both quarter-on-quarter and year-on-year terms (to 3.4%). Short-term unemployment remained relatively high in Q1 (at 5.7%), confirming the upward trend that has now been visible for three consecutive quarters.

III.4.2. Wages and productivity

The average nominal wage trend in 2002 Q1 suggested a continuation of the existing tendencies. The average nominal wage growth in monitored organisations continued decreasing gradually for a fourth consecutive quarter. At 7%, the annual growth rate in 2002 Q1 was 0.5 percentage points lower than in the previous quarter. The maintaining of this downward trend was attributable to the non-business sector, where the annual growth rate was 3 percentage points lower than in the previous quarter. This significant slowdown was mostly due to the deferral from January to March of the government-approved increase in wage scales. In some cases (for instance in education) this increase was subsequently offset by a decrease in the non-scale components of wages. In the business sector, the growth in the average nominal wage picked up slightly in 2002 Q1 (by 0.2 percentage points to 7.2%). It is unlikely, though, that this minor fluctuation constituted a change in the downward trend in wage growth in this sector, especially when one considers the uncertainties associated with external demand and the fact that the pick-up in wage growth in the business sector was mostly attributable to financial intermediation and insurance.

CHART III.25
THE UNEMPLOYMENT RATE WAS HIGHER THAN A YEAR EARLIER
(percentages; MLSA figures)

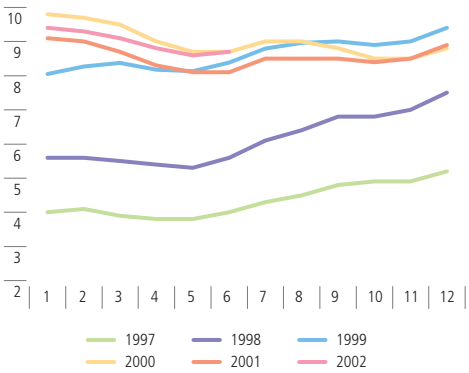
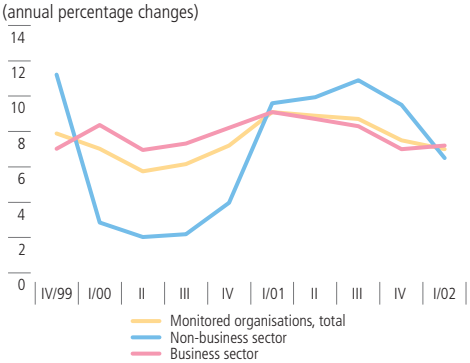


CHART III.26
THE RATES OF BOTH SHORT-TERM AND LONG-TERM UNEMPLOYMENT RECORDED A MODEST INCREASE
(percentages; period averages; MLSA figures)

CHART III.27
THE SLOWDOWN IN AVERAGE NOMINAL WAGE GROWTH IN 2002 Q1 WAS ATTRIBUTABLE IN PART TO WAGES IN THE NON-BUSINESS SECTOR
(annual percentage changes)



12 *i.e. those unemployed for more than 12 months.*

TABLE III.8
AVERAGE REAL WAGE GROWTH WAS FLAT
(annual percentage changes)

UKAZATEL	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2000	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2001	2002 Q1
Average 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	7.0
Average 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	3.2
Whole-economy labour productivity	5.0	4.0	3.0	4.1	4.0	2.7	2.7	3.0	2.5	2.7	2.3
Nominal unit wage costs	1.8	1.2	2.0	2.0	1.8	5.5	5.3	5.3	5.4	5.4	4.5
GDP deflator	-0.8	0.7	1.6	2.6	1.1	4.1	4.5	5.9	6.6	5.3	5.1

Source: CSO; CNB calculation

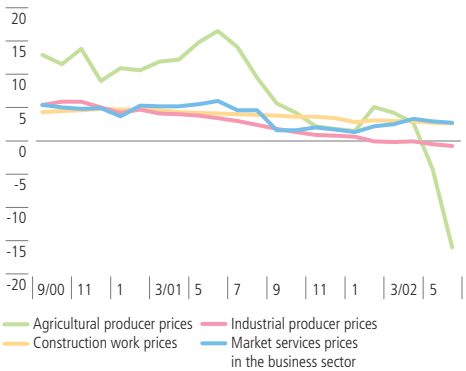
With inflation still favourable, average real wages saw no significant changes in Q1 compared with the previous quarter. Average real wage growth showed only a very modest annual increase (edging up by 0.1 percentage points to 3.2%). In the business sector the growth was up by 0.7 percentage points on the previous quarter, whereas in the non-business sector it was down by 2.4 percentage points.

Productivity growth also softened further in 2002 Q1 (see Table III.8). This trend has been visible at the macroeconomic level since 2001 H2. In Q1, annual growth in whole-economy labour productivity dropped to 2.3%, suggesting that the decreasing GDP growth was not fully compensated for by commensurate changes in employment.

However, the slowdown in the growth of average nominal wages and of the total income from wages and salaries was stronger than that recorded for labour productivity. This resulted in a further moderation (of 0.9 percentage points) in the growth of nominal unit wage costs at the macroeconomic level in Q1 compared with the previous quarter (see Chart III.22). However, it remained quite high (at 4.5% in year-on-year terms). The wage cost trends within the individual sectors were mixed. For example in industry, both nominal unit wage costs[13] and the ratio of personnel costs to output[14] indicated a rise in production wage costs. Should this trend continue, a build-up of inflationary cost pressures and a consequent weakening of the competitiveness of exported production cannot be ruled out. However, in conditions of favourable prices of imports (of production inputs and consumer goods) and a strongly competitive environment on the retail market, the wage trend to date has yet to precipitate any rise in producer price inflation or, consequently, consumer price inflation.

III.5. OTHER COSTS AND PRICES

CHART III.28
THE PRODUCER PRICE TREND CONTINUED TO CREATE ROOM FOR A FALL IN CONSUMER PRICE INFLATION
(annual percentage changes)



The continuing favourable producer price trend in 2002 Q2 again created the right conditions for a fall in consumer price inflation. Most domestic producers experienced a slowdown in annual inflation, and in many industries prices actually fell. This trend was more across-the-board with respect to industries than in Q1. The disinflationary tendencies were largely due to external factors, specifically the favourable prices of raw materials (most notably oil and gas) and other imported inputs on world markets, and the continuing appreciation of the koruna's exchange rate. However, in the case of some exporters, the benefits of the favourable prices of imported inputs were offset in part by falling export prices. The positive external factors passed through primarily into industrial producer prices, which declined in Q2 in year-on-year comparison. Agricultural producer prices also dropped below the level of the same period a year earlier at the end of Q2, thanks to the favourable external and internal factors. Construction work price inflation indicated a continuing downward trend. Only market services prices in the business sector experienced further growth.

13 *Calculated on the basis of either revenues at constant prices or industrial production at constant prices.*
14 *These data are for the set of monitored organisations – see Section III.3.4. Financial performance of non-financial organisations and corporations.*

III.5.1. Import prices

Import prices of energy-producing and non-energy-producing commodities, imported goods and semi-manufactures continued falling sharply in 2002 Q2. This decline, which affected almost all groups of imported commodities,[15] was again chiefly due to the favourable prices of raw materials and other commodities on world markets and to the continuing appreciation of the koruna's exchange rate against both the dollar and the euro. According to the latest CSO figures (for May 2002), the decline in import prices – as measured by the CSO import price index – increased by a further 2.1 percentage points to 10%.

This decline was largely attributable to prices of imported energy-producing raw materials, most notably oil. The price of Ural crude oil was slightly higher in 2002 Q1 than in 2001 Q4 (USD 3–4 per barrel higher on average), but in year-on-year comparison oil prices were still falling sharply. Although the rate of decrease was much lower than in the previous period (down from -33.1% in 2001 Q4 and -15.1% in 2002 Q1), it remained relatively high in Q2 (at -8.8% on average in April–June). A similar trend was registered for import prices of natural gas, which react with a lag to changes in oil prices. The significant acceleration in the annual decline in gas prices in 2002 Q2 was a response to the large decline in oil prices in 2001 H2 and at the start of 2002. According to the CSO commodity index, natural gas import prices fell by 35% in April and by 31.1% in June.

Prices of other imported commodities (non-energy-producing raw materials, semi-manufactures, production equipment and industrial components) also decreased in year-on-year terms. The decline was particularly intense in the case of imported higher-value-added products (for instance, import prices in the category of machinery and transport equipment – which have a weight of around 40% in the import price index – were down in June by 8.1% from a year earlier).

III.5.2. Producer prices

Industrial producer prices

The continuing favourable trend in prices of imported inputs helped significantly to maintain the disinflationary trend in industrial producer prices during 2002 Q2. The gradual decline in annual industrial producer price inflation, which started in 2001 Q1, culminated in a year-on-year decline in prices of 0.8% in June. In 2002 Q2, the positive contributions of the falling input prices to the financial results of domestic producers were, in the case of some exporters, offset in part by falling export prices. This deterioration of the conditions for exported production, brought about primarily by the continuing appreciation of the koruna's exchange rate against the dollar and euro, led to a decrease in producers' profit margins.[16] However, given the competitive environment both at home and abroad, the producers' options for incorporating these effects into their prices were limited. This was presumably one of the reasons for the relatively slow fall in producer prices despite the generally very favourable prices of external inputs.

CHART III.29
THE SHARP DECLINE IN IMPORT PRICES OF BOTH ENERGY-PRODUCING AND NON-ENERGY-PRODUCING MATERIALS CONTINUED INTO 2002 Q2
(annual percentage changes)

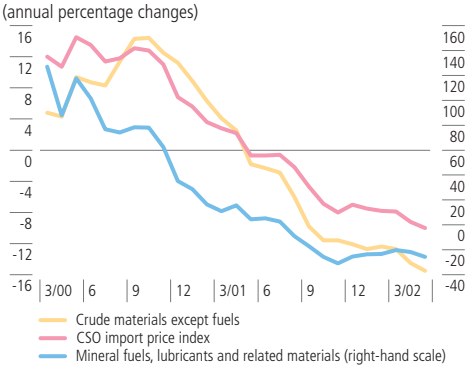


CHART III.30
FAVOURABLE PRICES OF IMPORTED INPUTS FOSTERED A DECLINE IN INDUSTRIAL PRODUCER PRICES
(annual percentage changes)

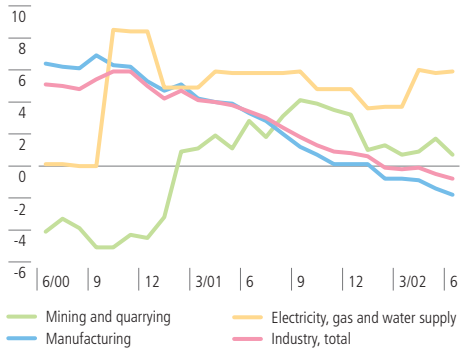
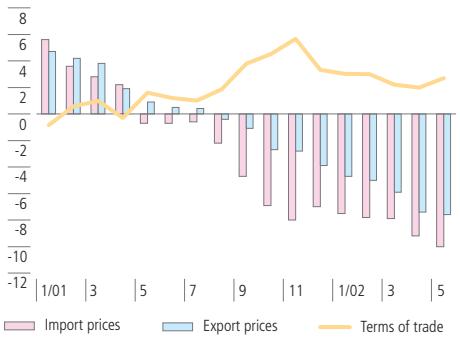


CHART III.31
FOR EXPORTING PRODUCERS, THE POSITIVE EFFECT OF FALLING PRICES OF IMPORTED INPUTS WAS OFFSET IN PART BY A SIMULTANEOUS DECLINE IN EXPORT PRICES
(annual percentage changes)



15 *In June 2002, eight of the nine commodity groups in the CSO import price index showed an annual price decline. In seven groups, the decline was below 5%.*

16 *See Section III.3.4. Financial performance of non-financial organisations and corporations.*

CHART III.32
PRODUCER PRICES CONTINUED FALLING SHARPLY IN OIL-PRODUCT-PROCESSING INDUSTRIES
(annual percentage changes)

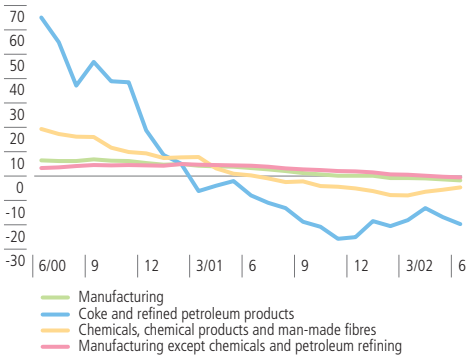


CHART III.33
THE LONG-RUNNING DOWNWARD TREND IN AGRICULTURAL PRODUCER PRICE INFLATION CULMINATED IN A YEAR-ON-YEAR DECLINE IN PRICES IN 2002 Q2
(percentages)

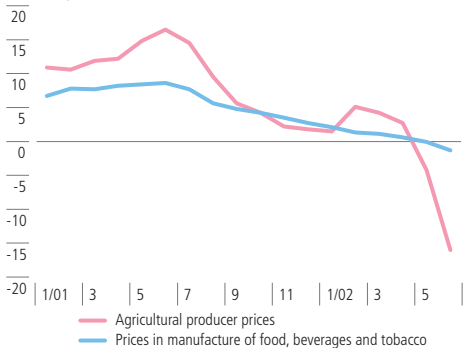
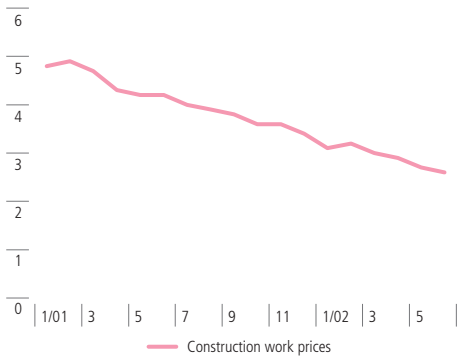


CHART III.34
CONSTRUCTION WORK PRICE INFLATION CONTINUED DECLINING GRADUALLY IN 2002 Q2
(annual percentage changes)



The positive effect of the external cost factors was particularly visible in manufacturing, where annual producer price inflation had been at the 0.1% level since November 2001. In February 2002 these prices started declining in annual terms, and in June the decline reached -1.8%. Oil-processing industries and the chemical industry responded most sensitively to the fall in prices of external inputs. They again made the largest total contribution to the overall fall in growth/decline of prices in manufacturing in 2002 Q2. In June 2002, producer prices were 19.7% lower than a year earlier in the manufacture of coke and refined petroleum products and 4.6% lower in the manufacture of chemicals, chemical products and man-made fibres.

Most other manufacturing industries recorded either a continuing modest downward trend in price growth or an increased annual decline in prices. This trend was more across-the-board in nature than it had been in the previous quarter. Annual inflation in these industries had been relatively low in 2002 Q1 (0.6% in March), but prices in these industries actually fell in Q2 (by 0.6% in June). In May 2002, for the first time since January 2000, an annual decrease in prices was also registered in the manufacture of food, beverages and tobacco, which is an important factor for consumer price inflation in the food prices segment.

Only in non-manufacturing industries – mining and quarrying, and electricity, gas and water supply – was a significant pick-up in inflation visible (see Chart III.30). Underlying the larger rise in prices for electricity, gas and water supply (of 2 percentage points to 5.9% in June compared with March) was a smaller seasonal decline in the summer prices of electricity for the corporate sector than in the same period of 2001. The rise in prices in mining and quarrying was only temporary; in June, their rate of growth was back at the end-Q1 level.

Agricultural producer prices

The agricultural producer price trend in 2002 Q2 confirmed that the surge in price growth in February had been only temporary. From March onwards, agricultural producer prices returned to their previous trend of falling inflation, visible since mid-2001. According to the latest figures, this switched to an annual decline in prices (of 16%) in June. As mentioned in previous Inflation Reports, this was attributable to several factors leading to a slowdown in the price growth of crop products and a larger annual decline in prices of livestock products.

The main underlying factor was an increasing excess supply of some commodities on the domestic market thanks to the favourable harvest in 2001. With the new harvest approaching, agricultural producers still have sizeable stocks from the 2001 harvest which they have been unable to place on the market. Another factor counteracting any pick-up in inflation was a decline in agricultural commodity demand and prices abroad, whose effect on domestic producers was reinforced by the appreciation of the koruna. On the other hand, the favourable prices of some imported inputs created room for a reduction in prices. All this weakened the bargaining position of domestic agricultural producers and had a positive effect on the food industry, which also recorded an annual decline in prices in May.

Construction work prices

The gradual downward trend in construction work price inflation, visible since the beginning of 2001, continued into 2002 Q2. According to preliminary CSO figures, annual construction work price inflation eased by a further 0.4 percentage points compared with the end of the previous quarter, reaching 2.6% in June. The gradual decline in 2002 H1 was probably due to falling demand for construction activity in an environment of stiff competition and relatively low utilisation of construction capacities. This was indicated, among other things, by a falling number of newly issued construction permits and a decreasing volume of construction output since 2001 H2.

Market services prices in the business sector

Annual growth in prices of market services in the business sector increased again in 2002 Q2 (from 2.5% in March to 2.7% in June). Following a large year-on-year rise to 3.2% in April, however, the growth rate gradually eased in the subsequent two months. Compared with March, prices in financial intermediation and insurance recorded annual growth. In other business services, inflation continued to rise until April and then fell back (to 3.3% in June in year-on-year comparison). Communication services prices were again lower than in the same period a year earlier, and national goods transport prices maintained a trend of stable, modest annual growth (of around 2%).

CHART III.35

ANNUAL GROWTH IN MARKET SERVICES PRICES IN THE BUSINESS SECTOR RECORDED FURTHER MODEST GROWTH IN 2002 Q2

(percentages)

IV. THE INFLATION FORECAST AND ITS ASSUMPTIONS

As usual, this section of the Inflation Report is devoted to the inflation forecast on which the CNB Bank Board based its decision-making at its most recent monetary policy meeting. A change was made to the nature of this forecast starting in July 2002. The following box describes this change in more detail.

The CNB changes its type of inflation forecast

Central banks that target inflation use essentially two types of inflation forecast as the basis for their monetary policy decisions. In addition to a forecast constituting the most likely future economic scenario, a "conditional inflation forecast" is often used. The latter simulates future trends under the not-necessarily-realistic assumption that the central bank will not alter the settings of its monetary policy instruments. The former is sometimes referred to as the "unconditional forecast" to differentiate it from the "conditional forecast", despite the fact that this unconditional forecast is conditional on a whole range of assumptions, as is every forecast of the complex evolution of real economic systems.

To date, the key basis for the CNB Bank Board's decisions has been the forecast based on the assumption that monetary policy instruments will not change. By comparing the values of this forecast for the period of most effective transmission (approximately 12–18 months ahead) with the corresponding period of the target range it has been possible in this regime to assess what changes in monetary policy settings should be made at any given moment to prevent inflation from deviating from the target band in the period of most effective transmission.

In parallel with the "conditional forecast", the CNB's Monetary and Statistics Department (MSD) some time ago started preparing a forecast of the most likely future economic scenario. This forecast differs in principle from the "conditional forecast" in that it simulates the workings of the entire economy *including monetary policy.* The model on which this forecast is based contains a simple central bank reaction function which is consistent with the definitions of the CNB's objectives and which generates an implied interest rate trajectory. However, this trajectory cannot be considered binding as regards the future path of interest rates. There are two reasons for this. First, the economic outlook – and consequently the reaction of the central bank – can change in the light of new information received after the forecast is published. And second, the model does not perfectly describe the workings of the economy.

Now that the MSD has completed work on a forecasting system incorporating the reactions of the central bank, this type of forecast has become (as from July 2002) the primary source material for the CNB Bank Board's decision-making. This part of the Inflation Report describes the forecast used as the basis for monetary policy decision-making at the end of July 2002. The quarterly interval of the forecast remains unchanged, so that the next forecast will be compiled in October 2002.

IV.1. External assumptions of the inflation forecast

Both the Czech economy and the CNB's forecast are greatly affected by external factors. These factors – most notably prices of energy-producing raw materials, foreign producer prices and the economic cycle of the Czech Republic's major trading partners – play a key role in determining the rate of economic growth and inflation. For the

forecast, scenarios for the expected evolution of these variables are taken from the Consensus Forecasts (of foreign analytical teams) published by Consensus Economics.

The price of Ural crude oil remains the most important external price-determining effect for the forecast. This price, from which the prices of other energy-producing resources are derived, presents one of the main risks as regards short-term inflation volatility, owing to its fairly direct pass-through into fuel prices. The Consensus Forecast is little changed from the April Inflation Report and foresees the price of Ural crude fluctuating around USD 22 per barrel over the next six quarters. This trend, *ceteris paribus,* would mean stable fuel prices and would have a knock-on effect on overall price stability. Given the expected oil price trend, the forecast assumes stable gas prices over the next six quarters.

The forecasts for inflation abroad, represented by producer and consumer prices in Germany, are little changed from the April Inflation Report. According to the Consensus Forecast, industrial producer price inflation in Germany will be held down (at around 0.3%) during 2002 by a slow recovery in demand. Expectations of a pick-up in economic growth in 2003 should feed through into a rise in producer price inflation to around 1.4%. As for German consumer prices, the Consensus Forecast expects them to rise by around 1.5% in 2002 and by a similar 1.6% in 2003.

The current assumptions about the economic growth of the Czech Republic's major trading partners also differ little from those on which the April forecast was based. Economic growth in Germany, the Czech Republic's key trading partner, is estimated at 1.8% for the second half of this year, whereas in 2003 it should strengthen to an expected 2.5%.

The exchange rate remains a significant price-determining factor in the Czech economy. The reference scenario for the koruna-euro exchange rate used for the forecast assumes that this rate will be broadly flat at the June 2002 level. The koruna-dollar exchange rate is calculated from the koruna-euro rate using the euro-dollar cross rate, which is obtained from the Consensus Forecast and which assumes approximate euro-dollar parity over the next six quarters.

IV.2. Internal assumptions of the inflation forecast

The inflation forecast is affected not only by assumptions regarding the external environment, but also by assumptions regarding the internal environment of the Czech economy. These take on board the autonomous effect of fiscal policy, the current position of the economy in the business cycle and the future equilibrium values of key macroeconomic variables. In the CNB's forecasting apparatus, the starting cyclical position of the economy is arrived at by making assumptions about the initial levels of GDP, the real exchange rate and real interest rates relative to their equilibrium values. In the case of GDP, we speak in this connection about the "output gap" (i.e. the difference between actual and potential GDP). The deviations of the other two variables from their equilibrium levels co-determine the "monetary conditions".

In the area of public budgets, the forecast assumes persisting deficit tendencies. According to the CNB, the public budget deficit, excluding privatisation proceeds and subsidies to transformation institutions, will reach approximately 6% of GDP in 2002. The forecast for 2003 is based on a similar assumption. According to the CNB's analyses, this trend represents a relaxing of the fiscal position, i.e. a widening of the structural deficit by around 1.8% of GDP in 2002 and 0.7% of GDP in 2003.

The principal feature as regards the starting position of the economy is the output gap, which is currently estimated at around -1.5%. The gap continues to stagnate, and has even widened slightly since the April forecast. In the area of the potential output of the Czech economy, the forecast for the next six quarters assumes an annual growth rate of around 3%.

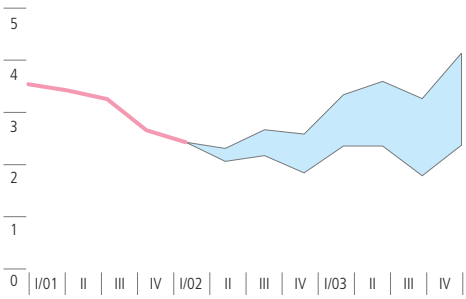
The final key starting point for the forecast is an assumption regarding the current settings of monetary conditions. Analyses indicate that despite the cuts in the CNB rates in April, the current settings of monetary conditions can be assessed as tight. In 2002 Q2, both the real exchange rate and real interest rates[17] recorded a tightening.

The real appreciation of the koruna's exchange rate against the euro (of around 12% compared with a year earlier) was repeatedly assessed in Q2 as being out of step with economic fundamentals. The estimate of the rate of equilibrium year-on-year appreciation of the koruna against the euro remains at 5.5% going forward, with a moderate downward trend. The combination of the previous level of the exchange rate, its actual appreciation in recent months and the assumption regarding the equilibrium appreciation rate, has led to the conclusion that the real exchange rate is strongly overvalued at present.

The tightening of monetary conditions in Q2 was also attributable to growth in real interest rates, or, to be more specific, their deviation from the equilibrium value. Underlying this trend was a faster-than-expected fall in inflation expectations, which was only partially offset by the sizeable reduction of interest rates at the end of April. The forecast assumes that equilibrium real interest rates will remain broadly flat in the months ahead.

IV.3. THE MESSAGE OF THE FORECAST

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



If the external and internal assumptions are fulfilled, we can expect only modest GDP growth over the next six months, with no demand-pull inflationary implications. By the end of 2002, the growth rate is expected to slightly exceed 2%, and in 2003 it should increase to around 3%. A comparison of these estimates with the growth rate of potential GDP shows the existence of a negative output gap for the entire forecast period.

The low annual GDP growth in 2002 will reflect the sizeable exchange rate appreciation at the end of 2001 and at the start of 2002. This will show up primarily in the growth rate of gross fixed capital formation, whereas household consumption will continue to grow steadily thanks to rising disposable incomes and dynamic growth in credit financing. In 2003, the GDP growth rate is expected to increase moderately. Domestic demand will be stimulated by a foreseen easing of both components of the monetary conditions. As regards net exports, in 2003 we expect the positive demand stimulus of the external recovery (i.e. export growth) to be offset by a lagged substitution effect from the overvalued exchange rate (i.e. import growth).

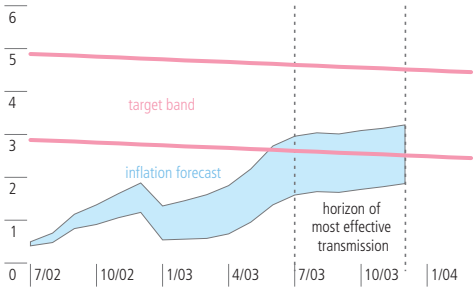
17 *Real interest rates are based on inflation expectations, in which the backward-looking component predominates.*

The inflation outlook reckons on strong anti-inflationary pressures up to the end of 2002. Domestic demand-pull inflationary factors will be absent at the forecast horizon, meaning that the path of inflation will be affected most strongly by external cost factors, the exchange rate, agricultural producer prices and regulated prices. According to the forecast, annual headline inflation will fall to around 1% by the end of 2002. Although the deflationary effects of the external cost factors can be expected to unwind during the course of 2003, domestic demand and regulated prices will both remain anti-inflationary. The forecast assumes that annual headline inflation will rise back to 2.5% at the end of 2003. This means that it will be at the lower boundary of the target band at the horizon of most effective transmission.

A more detailed look at the structure of the future inflation path suggests that adjusted inflation will be around 1% in 2002 and will edge up to 2% in 2003. The pick-up in adjusted inflation next year is associated mainly with a modest upturn in domestic demand. In the food segment, another slight decline in agricultural producer prices can be expected in 2002. This creates favourable cost conditions for a continuing decline in food prices. Annual food price inflation is not forecast to return to positive figures until the second half of 2003. Over the forecast period, annual regulated price inflation – the final key segment of overall inflation – is expected to fall from 4.9% at the end of 2002 to values of around 2.5% in the first half of 2003. Based on the information available at the time the forecast was drawn up, the growth in regulated prices should rise to values exceeding 3% by the end of 2003.

The economic trends expected in 2002 and 2003 can therefore be summed up as a slowdown in economic growth coupled with strong anti-inflationary effects from the exchange rate and from exogenous factors. Inflation will be affected by an absence of demand pressures and low imported inflation. For most of the forecast period, the inflation rate will be fluctuating below the lower limit of the target band. According to the forecast, the persisting negative output gap and low expected inflation are consequently creating room for an easing of monetary policy during the second half of 2002. But even the forecast-consistent easing of monetary conditions will not be able to counter the strong disinflationary pressures sufficiently to quickly steer inflation back within the target band.

CHART IV.2
THE INFLATION FORECAST IS AT THE LOWER BOUNDARY OF THE TARGET BAND AT THE HORIZON OF MOST EFFECTIVE TRANSMISSION
(annual consumer price inflation; percentages)



IV.4. EXPECTATIONS OF ECONOMIC AGENTS

The expectations of economic agents are important to monetary policy for two main reasons. First, inflation expectations in large part determine the level of real interest rates. Second, the effectiveness of the CNB's monetary policy measures depends on the extent to which those measures affect long-term expectations, as only then are they able to influence the strategic decision-making of agents.

The fall in inflation expectations that started in 2001 H2 continued into 2002 H1. The respondents – financial market analysts, businesses and households – were reacting primarily to the favourable inflation outturns and the ensuing absence of any immediate threat to the domestic economy from inflationary pressures. Other factors, however, also played a role in the fall in inflation expectations, for instance the strengthening exchange rate, the falling import price inflation and the low domestic demand.

TABLE IV.1
THE 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
6/01	4.6	4.8	5.1	5.8
9/01	4.8	4.8	4.9	6.2
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	3.6	3.9	4.9
4/02	3.5			4.9
5/02	3.3			4.6
6/02	3.1			4.6

The lower inflation expectations, and the related considerations of financial market participants regarding the possibility of a further reduction of the two-week repo rate by the CNB, fed through into a fall in interest rates on the money market. It is clear from the expectations of financial market participants and from the shape of the money market yield curve that the market was expecting the repo rate to come down by 0.50 percentage points at the horizon of one quarter. The market expectations were thus in line with the aforementioned macroeconomic forecast, which in turn is consistent with a fall in interest rates in 2002 H2 and with growth in rates thereafter.

MINUTES OF THE CNB BANK BOARD MEETINGS

Minutes of the Board Meeting on 25 April 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), Jiří Rusnok (Czech Minister of Finance)

The Board discussed the 4th situational report on economic and monetary development, which contained the new forecast for 2002 and 2003. The report confirmed the continuation of trends in the Czech economy and the external environment that had first emerged at the end of last year. Domestic demand strengthened economic growth, while foreign demand (net export) continued to decline. The rise in oil prices signalled a weakening of the exogenous disinflationary cost shock. The indicators and estimates of economic development abroad pointed to slow recovery. Consumer prices were consistent with the inflation targets. In addition, prices in the tradable commodities sector had been flat over the longer term.

The sharp appreciation of the Czech koruna presented a growing threat to macroeconomic stability. With no change in key policy rates, this meant a substantial tightening of monetary conditions. How and when the exchange rate would return to a trajectory corresponding more to fundamentals was a significant uncertainty for the inflation forecast.

According to the new inflation forecast, year-on-year consumer price growth was expected to be in a range of 2.1% to 3.1% at the end of this year, in contrast to the previous 2.5% to 3.8%. In 2003 Q2 and Q3, i.e. during the period of the most effective monetary policy transmission, inflation should be situated in the lower half of the targeted band. The GDP growth estimate for this year and next year slightly declined in comparison to the previous forecast. There had been no changes so far in the forecast for the general government deficit (ca CZK 140 billion according to "Maastricht methodology") and the trade balance (CZK 90 billion).

In the discussion to follow, the board members stressed that annual inflation would be situated below the targeted band for the rest of 2002 according to the new forecast, and that it should stay in the lower half of the band throughout next year. In view of the decline in inflation and inflation expectations, such development would lead to an increase in real interest rates and, in turn, to further tightening of monetary conditions. The discussion also focused on the risks of the existing forecast. Some views expressed that the potential impact of the exchange rate on investment and domestic demand could imply a further decline in inflation. A similar forecast risk could arise from any increase in the downward flexibility of tradable goods prices.

The Board's discussion then turned to exchange rate developments. The koruna exchange rate was a problem now, because it had appreciated rapidly over a short period of time. This created a sudden tightening of monetary conditions and put pressure on firms to either very quickly increase productivity or to lower costs. In this context, it was reminded that the ability of firms to quickly adapt was not only hindered by the downward rigidity of material input prices (import), but also by the steady rise in other costs, especially wage costs which had become excessive in the current environment. This had an impact on export companies as well as sub-suppliers and producers for the domestic market who were dealing with the effects of a sudden decline in their competitiveness. The negative consequences of rapid appreciation were expected to surface with a certain time lag.

Board members confirmed their previous theory that the exchange rate during the past weeks was a deviation from the trend that did not respect the basic development of macroeconomic fundamentals. The Board discussed the duration and risk level of this "bubble" phenomenon. Some of the members recommended waiting for new, more conclusive data on the exchange rate and its effect on economic growth before making any monetary policy move. Among other things, they pointed to the positive perception of economy development, domestic demand and the balance of payments. However other members rejected this argument suggesting that the situation was in need of a flexible response.

At the close of the meeting, the Board decided by a majority vote to cut interest rates by 0.5 percentage points, effective 26 April 2002. As a result, the two-week repo rate was lowered to 3.75%, the discount rate to 2.75% and the Lombard rate to 4.75%. Four members voted in favour of this proposal, one member was in favour of lowering interest rates by 0.25 percentage points and two members voted to leave rates at their current level.

Minutes of the Board Meeting on 30 May 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 Štěpánek (Chief Executive Director)

The Board opened the meeting with a discussion of the May situational report. The report assessed the new information published since the inflation forecast was presented in the large April situational report.

Inflation in April developed in line with the forecast and ended close to the lower boundary of the CNB's targeted band. Fuel prices as a part of "adjusted inflation" registered higher growth than originally expected. However, the month-on-month decline in other prices offset this development, confirming the absence of any significant inflationary pressures in the economy. Producer prices also corresponded with the forecast. Import prices registered a slightly higher decline due to a strong Czech koruna.

Industrial production continued to display dynamic growth. There was, nevertheless, a slowdown in industrial sales, which was primarily connected to supplies for the domestic market. This could signal a slowdown in domestic economic activity. On the other hand, growth in retail sales pointed to steady private consumption dynamics more towards the upper half of the forecast band. On the labour market, growth in seasonally adjusted unemployment and the decline in the number of job vacancies continued. Wages in industry rose in March at a slightly slower pace than predicted by the forecast. Nominal unit wage costs in industry were, for the time being, relatively flat.

In nominal terms, the April balance of trade improved year-on-year by about CZK 10 billion. From January to April, this improvement had already reached CZK 27 billion. This indicated that the deficit for 2002 as a whole could be lower than the CNB's current prediction. Approximately 50% of this improvement was due to price effects. However, development in real terms was also favourable, especially thanks to higher export in the group of machinery and transport, which reflected the positive development on the supply side of the economy. The decline in investment imports also had some impact. This could, on the contrary, indicate a decline in domestic investment activity.

After the April reduction in the two-week repo rate, the money market registered a proportional decline in the yield curve. The cut in the repo rate prevented any sharper rises in real interest rates due to the decline in inflation and inflation expectations. From an ex ante viewpoint, real rates slightly dropped, while ex post, rates showed a slight increase only.

On the whole, the May situational report indicated that some figures published last month were headed in an upward direction compared to the April forecast, while other data were weaker than expected. Overall, though, the balance of inflation forecast risks had not changed. There was a prevalence of downward risks associated with the strong exchange rate and the potentially higher downward flexibility of tradable goods prices, which could result from longer-term persistence of the exchange rate at this level.

In the discussion following the presentation of the situational report, the Board, though, stressed that the risks of the April inflation forecast could not be perceived in the same way as during the April board meeting. The 50 basis point cut in the repo rate, at the very least, had compensated for the risk related to the spontaneous tightening of the interest rate component of real monetary conditions due to declining inflation and inflation expectations.

Even so, some of the board members argued that the CNB was still more capable of identifying the anti-inflationary risks than the inflationary ones, and hence, the balance of risks would continue in a slightly downward direction. In spite of the strong cut in interest rates, real monetary conditions were not more relaxed than before. The exchange rate remained at a strong level. Contrary to this, however, one view suggested that the risks may now be seen as balanced.

Lowering interest rates corrected some of the risks. The exchange rate was stabilised, and even from a more pessimistic standpoint, the real economy data were at worst mixed in nature.

There was consensus among the board members that the trade balance figures partially reflected the previous wave of export-oriented investment and structural changes in the economy. However, it was warned that no definite conclusions could be made so far on the economy's ability to cope without interference from abrupt exchange rate appreciation. The negative impact of this strengthening was expected to surface with some delay. In this context, the decline in investment imports was also discussed. This particular development could indirectly reflect the effect of the strong exchange rate, reducing company profits and, in turn, funds for investment. A slowdown in investment activity could have a negative effect on the supply side of the economy if persistent over a longer period of time.

The Board also focused on credit growth, which at this time, mainly concerned loans to private individuals. It was mentioned that the debt financing of consumption and housing construction would start to be a significant factor not only from the standpoint of the high rate of growth, but also in terms of absolute volume. In this way, monetary policy would acquire one of the standard channels for transmitting interest rate changes to aggregate demand. Accordingly, one view expressed that the present private consumption forecast did not take the actual situation into full account.

At the close of the meeting, the Board decided unanimously to leave the CNB two-week repo rate unchanged at 3.75%.

Minutes of the Board Meeting on 27 June 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), Jiří Rusnok (Minister of Finance)

It was confirmed in the 6th situational report that monetary and economic development corresponded overall to the assumptions which led to the Board's decision of 26 April 2002 (a 0.5 p. p. interest rate cut). Predicted year-on-year inflation was headed below the targeted band. A return to the band could be expected during the second half of 2003. As for the weight of pro- and anti-inflationary risks, the mid-point shifted further to the disinflationary side. Exogenous factors were the primary reason for this development: world raw material prices, the exchange rate, especially vis-à-vis the dollar, and a continuation of sluggish global economic recovery.

Following the April interest rate cut, the koruna exchange rate vis-à-vis the euro stabilised for approximately two months and did not react to the new data on inflation, the trade balance, production and sales, or to the election results. When disposing of the foreign currency revenues attained from the privatisation of the gas industry, the CNB and the National Property Fund proceeded according to the Government's decision for resolving the exchange rate effect of capital inflow from privatisation. The negative consequences of the previous rapid koruna appreciation caused the manufacturing industry's financial performance in Q1 to worsen. According to the structure of credit issue, these results presumably also led to further constraints in banks' corporate lending. However in view of the available data, there was not sufficient evidence as of yet that the exchange rate had any significant impact on the competitiveness of exports, employment and wages, overall economic growth and on the external imbalance. The Czech koruna had appreciated again in recent days. Monetary conditions were also tightened again as a result of exchange rate fluctuation and inflation expectations.

Interest rates encountered little change along the whole length of the yield curve. The spread in relation to foreign rates was minimal for long-term and medium-term rates. Low real interest rates contributed to the massive increase in household lending, up year-on-year by one fourth. A significant part of this increase was caused by mortgages. On the other hand, corporate lending to foreign-controlled companies declined.

The slowdown in GDP dynamics for Q1 corresponded to the CNB's forecast, and domestic demand registered satisfactory development. The most recent data on foreign trade (from May of this year) partially corrected the previous, very positive development. The state budget, excluding temporary privatisation income, had worsened in comparison to last year.

In the discussion to follow, the Board confirmed the shift of risks to the disinflationary side owing to exogenous factors. More volatile than internal demand and cost effects, these factors could generate higher uncertainty for the inflation forecasts. This was also reflected in the degree of deviation from the Consensus Forecasts, which are generally used for predicting exogenous factors. It was, therefore, reminded that sharp deviations in world prices or exchange rates were to be classified as escape clauses when targeting inflation.

The Board's discussion centred around the exchange rate developments in recent days, as the Czech koruna appreciated once again against the euro. Certain theories on the cause of this appreciation were discussed. In all probability, the strong koruna was largely related to global developments, which were assessed very negatively by financial markets: particularly, growing uncertainty about the US dollar and American stock markets, the threat of financial crises in specific regions and slow recovery of the world economy. It was mentioned that the current figures on the supply side could indicate the economy's improved resistance to the effects of a strong exchange rate in comparison to previous assumptions. Nevertheless, it was expressed that, although the economy could cope with short-term shocks, constant exchange rate appreciation would lead to changes in the structure of the real economy and, in turn, negatively affect economic growth.

Some board members stressed that the Czech economy's investment wave was dying out, as revealed by import structure changes, a decline in the dynamics of non-privatisation FDI and by developments in corporate lending. Household consumption continued to be dynamic and was supported by transfers from the area of public finances and consumer lending developments. In view of the data on internal economic development, especially domestic demand growth, any additional strong monetary impulse could ultimately threaten the sustainability of economic growth.

On the contrary, it was argued that the risk of inflation remaining below the targeted band had increased and that lowering rates in this particular circumstance would be an adequate response. Weakening of the US dollar vis-à-vis the euro was apparently not a short-term deviation, and import prices were well below last year's level. The elasticity of certain domestic prices had already increased to some extent given the decline in external costs. With the absence of other internal pro-inflationary factors, there was no real reason for inflation to return to the targeted band at a faster rate. Relaxed fiscal policy was a medium-term inflation risk, and its real weight would not be significant enough to offset immediate disinflationary pressures.

There was consensus among board members that the sharp interest rate cut in April proved to be adequate for the current situation and was based on a correct assessment of the risks of future development.

At the close of the meeting, the Board decided by a majority vote to leave the CNB two-week repo rate unchanged at 3.75%. Five board members were in favour of this decision and two voted for lowering interest rates by 0.25 percentage points.

Table 1a

INFLATION DEVELOPMENT

annual percentage changes

	1	2	3	4	5	6	7	8	9	10	11	12
	1998											
Consumer prices	13.1	13.4	13.4	13.1	13.0	12.0	10.4	9.4	8.8	8.2	7.5	6.8
Regulated prices	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	3.2	2.5	1.2						
Regulated prices	7.6	8.1	8.0	6.5	6.3	6.3						
(contribution to consumer price inflation)	*1.49*	*1.60*	*1.59*	*1.28*	*1.24*	*1.22*						
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.05*	*0.05*	*0.05*	*0.05*	*0.05*	*0.05*						
Net inflation	2.7	2.7	2.5	2.4	1.5	-0.1						
(contribution to consumer price inflation)	*2.20*	*2.15*	*2.01*	*1.89*	*1.20*	*-0.12*						
of which: prices of food, beverages and tobacco	3.2	3.0	2.3	1.7	0.6	-2.6						
(contribution to consumer price inflation)	*0.88*	*0.82*	*0.65*	*0.47*	*0.16*	*-0.72*						
adjusted inflation	2.5	2.5	2.6	2.7	2.0	1.1						
(contribution to consumer price inflation)	*1.32*	*1.33*	*1.37*	*1.43*	*1.04*	*0.60*						
Inflation rate (annual moving average)	4.6	4.6	4.6	4.5	4.3	3.9						

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	-0.1	-0.1	-0.3						
Regulated prices	3.7	0.8	0.2	-1.1	-0.1	0.0						
(contribution to consumer price inflation)	*0.75*	*0.16*	*0.04*	*-0.23*	*-0.03*	*0.00*						
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*						
Net inflation	0.9	0.0	-0.2	0.2	-0.1	-0.3						
(contribution to consumer price inflation)	*0.74*	*-0.03*	*-0.14*	*0.20*	*-0.11*	*-0.24*						
of which: prices of food, beverages and tobacco	1.5	-0.4	-0.5	0.1	-0.3	-1.2						
(contribution to consumer price inflation)	*0.41*	*-0.11*	*-0.14*	*0.01*	*-0.08*	*-0.32*						
adjusted inflation	0.6	0.2	0.0	0.3	-0.1	0.2						
(contribution to consumer price inflation)	*0.33*	*0.08*	*0.00*	*0.18*	*-0.04*	*0.08*						

CNB calculation based on CSO data

Table 2

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	10.0	9.9	9.6							10.0
Food and non-alcoholic beverages	197.6	10.0	9.4	8.7	8.3	7.8	6.0							8.4
Alcoholic beverages and tobacco	79.2	5.8	5.8	5.6	6.8	7.0	7.0							6.3
Clothing and footwear	56.9	-4.7	-5.5	-5.7	-5.7	-5.7	-5.8							-5.5
Housing, water, electricity, gas and other fuels	236.4	23.5	23.6	23.7	22.6	22.6	22.6							23.1
Furnishings, household equipment and routine maintenance of the house	67.9	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4							-0.4
Health	14.3	9.2	9.7	10.1	10.2	10.9	11.2							10.2
Transport	101.4	3.0	3.0	3.3	5.5	5.1	4.7							4.1
Communications	22.5	6.0	11.4	11.3	11.3	9.9	9.9							10.0
Recreation and culture	95.5	7.4	8.5	7.9	7.2	7.0	8.4							7.7
Education	4.5	6.9	7.0	7.0	7.0	7.0	7.0							7.0
Hotels, cafés and restaurants	74.2	6.4	7.0	7.4	7.9	8.0	8.2							7.5
Miscellaneous goods and services	49.5	11.0	11.2	11.3	11.6	11.6	11.5							11.4

Source: CSO

CONSUMER PRICES - TRADABLES AND NONTRADABLES

percentage changes; December 1999 = 100

Group	Constant 1999 weights in per mille	2000	2001	2002			
		12	12	3	4	5	6
1. Food and non-alcoholic beverages	197.6	4.6	7.9	8.7	8.3	7.8	6.0
- tradables	197.6	4.6	7.9	8.7	8.3	7.8	6.0
2. Alcoholic beverages and tobacco	79.2	2.4	5.4	5.6	6.8	7.0	7.0
- tradables	79.2	2.4	5.4	5.6	6.8	7.0	7.0
3. Clothing and footwear	56.9	-2.7	-3.9	-5.7	-5.7	-5.7	-5.8
- nontradables	1.4	6.1	13.0	15.7	16.2	16.8	16.9
- tradables	55.5	-2.9	-4.3	-6.2	-6.3	-6.3	-6.4
4. Housing, water, electricity, gas and other fuels	236.4	7.8	19.0	23.7	22.6	22.6	22.6
- nontradables	226.1	8.1	19.7	24.6	23.5	23.5	23.5
- tradables	10.3	2.3	2.7	4.0	3.0	3.3	1.9
5. Furnishings, household equipment and routine maintenance of the house	67.9	-0.7	-0.4	-0.3	-0.3	-0.3	-0.4
- nontradables	2.9	4.3	7.5	8.8	9.0	9.2	9.3
- tradables	65.0	-0.9	-0.8	-0.7	-0.7	-0.7	-0.8
6. Health	14.3	4.1	8.4	10.1	10.2	10.9	11.2
- nontradables	11.0	4.9	10.1	12.1	12.1	13.0	13.4
- tradables	3.3	1.5	2.7	3.7	4.0	4.0	4.0
7. Transport	101.4	6.9	3.4	3.3	5.5	5.1	4.7
- nontradables	27.4	6.2	11.7	15.5	15.8	15.9	16.0
- tradables	74.0	7.2	0.3	-1.2	1.7	1.1	0.5
8. Communications	22.5	1.5	5.7	11.3	11.3	9.9	9.9
- nontradables	21.0	2.7	8.5	14.8	14.8	13.5	13.5
- tradables	1.5	-16.4	-34.7	-39.3	-39.3	-41.3	-41.3
9. Recreation and culture	95.5	2.0	7.2	7.9	7.2	7.0	8.4
- nontradables	60.4	4.4	14.3	15.7	15.1	15.0	17.6
- tradables	35.1	-2.2	-5.0	-5.5	-6.5	-6.8	-7.4
10. Education	4.5	3.4	6.8	7.0	7.0	7.0	7.0
- nontradables	4.5	3.4	6.8	7.0	7.0	7.0	7.0
11. Hotels, cafés and restaurants	74.2	2.6	5.9	7.4	7.9	8.0	8.2
- nontradables	74.2	2.6	5.9	7.4	7.9	8.0	8.2
12. Miscellaneous goods and services	49.5	3.1	8.7	11.3	11.6	11.6	11.5
- nontradables	22.0	5.7	17.5	23.5	24.1	24.1	24.2
- tradables	27.5	1.1	1.7	1.6	1.7	1.7	1.4
Household consumer prices, total	1000.0	4.1	8.4	10.0	10.0	9.9	9.6
Tradables	549.1	2.5	2.9	2.8	3.1	2.9	2.0
- food	276.8	4.0	7.2	7.8	7.9	7.6	6.3
- others	272.3	1.0	-1.5	-2.3	-1.7	-1.9	-2.3
Nontradables	450.9	6.0	15.2	18.9	18.4	18.4	18.8
- others	271.2	4.7	11.5	14.0	14.1	14.1	14.8
- regulated	179.7	8.0	20.6	26.3	24.9	24.7	24.8

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	3.6	3.9
4/02	3.5		
5/02	3.3		
6/02	3.1		

Source: CNB statistical survey

Table 5

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	1998	1999	2000	2001	2002
	12	12	12	12	5
Belgium	0.7	2.1	3.0	2.0	1.4
Denmark	1.1	3.1	2.3	2.1	1.9
Finland	0.8	2.2	2.9	2.3	1.8
France	0.3	1.4	1.7	1.4	1.5
Ireland	2.2	3.9	4.6	4.4	5.0
Italy	1.7	2.1	2.8	2.2	2.4
Luxembourg	0.4	2.3	4.3	0.9	1.3
Germany	0.2	1.4	2.3	1.5	1.0
Netherlands	1.5	1.9	2.9	5.1	3.8
Portugal	2.8	1.7	3.8	3.9	3.4
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	2.5	3.7
Sweden	0.0	1.2	1.3	3.2	1.7
United Kingdom	1.6	1.2	0.9	1.0	0.8
European Union	1.0	1.7	2.3	1.9	1.8
Czech Republic	5.8	2.5	4.0	3.9	2.1

Source: Eurostat

MONETARY SURVEY

position at month-end in CZK billions

		1998	1999	2000	2001	2002
		12	12	12	12	5
Total assets		1241.4	1337.5	1412.3	1596.0	1625.0
Net foreign assets		425.3	570.4	673.1	800.6	872.1
- assets		761.4	940.2	998.8	1088.4	1155.7
- liabilities		336.1	369.8	325.7	287.8	283.6
Net domestic assets		816.1	767.1	739.2	795.4	752.9
Domestic credits		1079.8	1058.5	1068.8	1011.9	898.9
Net credit to the government sector		33.1	57.5	104.9	236.5	183.3
- net credit to government		42.4	67.7	103.8	246.2	313.1
- net credit to NPF		-9.3	-10.2	1.1	-9.7	-129.8
Client credits of commercial banks and CNB		1046.7	1001.0	963.9	775.4	715.6
CZK credits		847.0	824.6	819.7	661.2	617.2
- businesses		743.3	715.7	699.1	524.2	472.2
- households		103.7	108.9	120.6	137.0	145.0
Foreign currency credits		199.7	176.4	144.2	114.2	98.4
- businesses		196.2	173.0	141.9	111.9	97.1
- households		3.5	3.4	2.3	2.3	1.3
Other net items		-263.7	-291.4	-329.6	-216.5	-146.0
Liabilities						
M2	2)	1241.4	1337.5	1412.3	1596.0	1625.0
M1	1)	404.0	447.8	497.7	583.6	605.0
Currency in circulation		127.2	157.9	171.8	180.4	184.9
CZK demand deposits		276.8	289.9	325.9	403.2	420.1
- households		144.1	162.6	195.0	230.2	261.4
- businesses		129.4	124.4	128.0	169.2	155.5
- insurance companies		3.3	2.9	2.9	3.8	3.2
Quasi money		837.4	889.7	914.6	1012.4	1020.0
CZK time deposits		672.5	653.1	645.0	742.2	775.0
- households		550.4	537.6	549.8	596.6	599.3
- businesses		90.0	78.9	78.9	120.8	142.8
- insurance companies		32.1	36.6	16.3	24.8	32.9
Deposit bills of exchange and other bonds	5)	26.5	91.3	114.0	112.8	99.3
Foreign currency deposits		138.4	145.3	155.6	157.4	145.7
- households		73.6	80.8	83.7	91.5	83.0
- businesses		64.8	64.5	71.9	65.9	62.7
Monetary aggregate L	3)	1285.5	1386.3	1463.5	1643.9	1692.8
Annual percentage changes						
M1		-3.6	10.8	11.1	17.3	12.5
M2		5.4	7.7	5.6	13.0	7.4
L		7.1	7.8	5.6	12.3	8.5
Client credits of commercial banks and CNB		-4.7	-4.4	-3.7	-19.6	-25.9
Client deposits with banks	4)	2.8	0.1	3.5	15.7	3.0

1) M1 = Currency in circulation + CZK demand deposits
2) M2 = M1 + quasi money
3) L = M2 + T-bills and CNB bills in the portfolios of domestic non-bank institutions
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	5
Non-adjusted credits					
Total credits, CZK and foreign currency					
absolute volumes in CZK billions	1046.7	1001.0	963.9	775.4	715.6
annual percentage changes	-4.7	-4.4	-3.7	-19.6	-25.9
CZK credits					
absolute volumes in CZK billions	847.0	824.6	819.7	661.2	617.2
annual percentage changes	-6.0	-2.6	-0.6	-19.3	-25.7
Foreign currency credits					
absolute volumes in CZK billions	199.7	176.4	144.2	114.2	98.4
annual percentage changes	1.0	-11.7	-18.3	-20.8	-27.3
Adjusted credits 1)					
Total credits, CZK and foreign currency					
absolute volumes in CZK billions	1017.5	969.9	929.5	947.9	960.0
annual percentage changes	0.7	-4.7	-4.2	2.0	2.6
CZK credits					
absolute volumes in CZK billions	808.7	797.8	787.7	826.6	848.5
annual percentage changes	-1.7	-1.3	-1.3	4.9	5.8
Foreign currency credits					
absolute volumes in CZK billions	208.8	172.1	141.8	121.3	111.5
annual percentage changes	11.1	-17.6	-17.6	-14.5	-16.4

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	5
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	35.0
Medium-term	22.8	24.2	22.2	26.0	31.1
Long-term	35.1	36.8	41.2	36.5	33.9
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	79.6
Households	10.2	11.2	12.8	18.0	20.4
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	41.6
Investment (incl. general housing construction)	31.0	31.1	30.8	35.2	29.4
Mortgage	2.2	2.8	4.1	6.7	8.0
Consumer	1.7	2.9	3.3	3.6	6.0
For privatisation	1.4	2.3	2.0	0.4	0.3
For temporary fund shortage	8.3	7.4	9.1	9.8	7.8
For securities purchase	1.3	1.5	1.4	1.7	1.3
Building savings loans					5.5
Others					0.1

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

Table 8

INTEREST RATES ON INTERBANK DEPOSITS

percentages

	1998	1999	2000	2001	2002
	12	12	12	12	6
1. AVERAGE PRIBOR 1)					
- 1 day	10.84	5.21	5.23	4.63	3.75
- 7 day	10.56	5.32	5.29	4.79	3.78
- 14 day	10.54	5.40	5.29	4.78	3.79
- 1 month	10.46	5.59	5.32	4.77	3.78
- 2 month	10.27	5.58	5.36	4.72	3.78
- 3 month	10.08	5.58	5.42	4.69	3.78
- 6 month	9.56	5.64	5.60	4.62	3.80
- 9 month	9.38	5.72	5.78	4.61	3.85
- 12 month	9.31	5.84	5.90	4.62	3.94
2. AVERAGE PRIBID 1)					
- 1 day	10.48	5.05	5.11	4.53	3.66
- 7 day	10.30	5.16	5.18	4.69	3.70
- 14 day	10.27	5.23	5.19	4.69	3.70
- 1 month	10.18	5.42	5.22	4.68	3.69
- 2 month	9.99	5.40	5.26	4.62	3.68
- 3 month	9.79	5.41	5.31	4.59	3.68
- 6 month	9.26	5.46	5.49	4.52	3.70
- 9 month	9.08	5.54	5.67	4.52	3.76
- 12 month	9.02	5.67	5.79	4.52	3.84

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	6
3 * 6	9.02	5.57	5.68	4.49	3.78
3 * 9	8.99	5.70	5.85	4.53	3.86
6 * 9	8.79	5.75	5.93	4.53	3.90
6 * 12	8.79	5.94	6.10	4.52	4.02
9 * 12	8.62	6.04	6.19	4.54	4.09
12 * 24	9.03	.	.	.	
9*12 - 3*6 spread	-0.40	0.47	0.51	0.05	0.31
6*12 - 3*9 spread	0.20	0.24	0.25	-0.02	0.16

IRS RATES

percentages; monthly averages

	1998	1999	2000	2001	2002
	12	12	12	12	6
1Y	9.52	5.92	5.94	4.64	3.96
2Y	9.13	6.54	6.40	4.72	4.29
3Y	9.06	6.95	6.72	4.89	4.53
4Y	8.99	7.16	6.96	5.05	4.71
5Y	8.93	7.26	7.15	5.19	4.86
6Y	8.73	7.29	7.29	5.32	4.97
7Y	8.71	7.28	7.38	5.43	5.07
8Y	8.67	7.27	7.42	5.52	5.16
9Y	8.63	7.27	7.43	5.60	5.22
10Y	8.61	7.27	7.43	5.66	5.28
15Y	.	.	.	5.85	5.44
5Y - 1Y spread	-0.60	1.34	1.21	0.56	0.90
10Y - 1Y spread	-0.92	1.35	1.49	1.02	1.32

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	5.7	3.2	1.0	0.8	2.0	-0.4	4.1	3.9	5.1
2/02	4.3	4.4	5.1	3.0	0.4	0.5	1.2	-0.8	4.4	4.5	5.2
3/02	4.3	4.5	5.3	3.0	0.6	0.8	1.6	-0.7	4.5	4.7	5.5
4/02	4.2	4.4	5.1	2.9	1.0	1.1	1.8	-0.2	4.3	4.5	5.2
5/02	3.8	4.1	4.9	2.8	1.3	1.5	2.3	0.3	4.3	4.6	5.4
6/02	3.8	3.9	5.0	2.9	2.6	2.7	3.8	1.7	4.6	4.8	5.9

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	1.6	-0.4								
3/02	0.8	1.0	1.8	-0.5	0.7	0.9	1.7	-0.6	0.4	0.6	1.4	-0.9
4/02	0.7	0.8	1.5	-0.5								
5/02	0.5	0.7	1.6	-0.5								
6/02	0.7	0.8	1.9	-0.2								

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

Table 12

COMMERCIAL BANK INTEREST RATES

percentages

	1998	1999	2000	2001	2002
	12	12	12	12	5
Newly drawn credits					
in CZK	10.8	6.7	6.8	5.9	4.9
- short-term	11.6	6.7	6.5	5.6	4.6
- medium-term	7.4	5.1	8.0	7.5	5.6
- long-term	11.7	10.2	8.1	7.1	6.2
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	4.6
- long-term	5.6	6.0	7.2	5.5	5.8
Credits					
in CZK	10.5	7.7	6.9	7.0	6.3
- short-term	10.6	7.4	6.6	6.2	5.2
- medium-term	10.7	8.3	7.8	7.7	7.0
- long-term	10.3	7.6	6.8	7.4	6.7
in foreign currency	6.4	6.6	7.2	5.2	5.0
- short-term	6.9	7.7	8.0	4.5	4.7
- 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	2.3
- demand	1.9	1.6	1.5	1.4	1.3
- time	8.7	4.7	3.9	3.3	2.8
- short-term	9.2	4.8	4.0	3.4	2.7
- 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	1.9
- short-term	3.1	3.9	4.6	2.1	1.9
- medium-term	3.3	4.2	4.2	2.5	3.9
- long-term	3.5	4.7	5.1	3.5	1.0

BALANCE OF PAYMENTS 1)

in CZK millions

	1998	1999	2000	2001	2002 2)
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
A. Current account	**-40 492.0**	**-50 596.4**	**-104 877.1**	**-100 337.7**	**-16 019.7**
Balance of trade 3)	-84 002.8	-65 830.8	-120 825.0	-117 189.0	-9 384.0
exports	834 227.0	908 756.0	1 121 099.0	1 269 749.0	313 394.0
imports	918 229.8	974 586.8	1 241 924.0	1 386 938.0	322 778.0
Services	61 935.7	41 501.3	54 559.8	57 984.9	9 416.1
credit	246 703.2	243 851.0	264 806.2	269 689.6	59 009.3
transport	44 829.3	53 520.3	53 734.3	57 492.3	13 469.5
travel	124 902.0	109 142.0	115 071.0	118 133.0	21 584.0
others	76 971.9	81 188.7	96 000.9	94 064.3	23 955.8
debit	184 767.5	202 349.7	210 246.4	211 704.7	49 593.2
transport	22 794.0	27 071.4	27 543.0	30 570.5	7 822.3
travel	61 121.0	51 760.0	49 370.0	52 802.0	9 686.0
others	100 852.5	123 518.3	133 333.4	128 332.2	32 084.9
Income	-35 078.0	-46 673.6	-52 978.4	-58 904.3	-18 377.3
credit	55 042.4	64 298.3	75 439.1	82 482.6	16 947.2
debit	90 120.4	110 971.9	128 417.5	141 386.9	35 324.5
Current transfers	16 653.1	20 406.7	14 366.5	17 770.7	2 325.5
credit	34 558.9	45 394.4	36 594.6	36 404.9	6 746.6
debit	17 905.8	24 987.7	22 228.1	18 634.2	4 421.1
B. Capital account	**65.8**	**-73.2**	**-198.2**	**-330.7**	**22.0**
credit	454.6	637.3	223.4	90.4	73.3
debit	388.8	710.5	421.6	421.1	51.3
Total A + B	*-40 426.2*	*-50 669.6*	*-105 075.3*	*-100 668.4*	*-15 997.7*
C. Financial account	**94 324.5**	**106 564.4**	**148 046.6**	**153 310.4**	**44 867.9**
Direct investment	115 866.3	215 703.9	190 767.4	183 343.8	22 344.0
abroad	-4 102.2	-3 107.6	-1 653.7	-3 657.5	-686.1
equity capital and reinvested earnings	-2 538.8	-2 585.3	-1 245.9	-3 508.6	-1 048.0
other capital	-1 563.4	-522.3	-407.8	-148.9	361.9
in the Czech Republic	119 968.5	218 811.5	192 421.1	187 001.3	23 030.1
equity capital and reinvested earnings	87 762.8	192 615.5	171 777.2	183 839.8	22 660.3
other capital	32 205.7	26 196.0	20 643.9	3 161.5	369.8
Portfolio investment	34 508.2	-48 268.9	-68 172.9	34 857.3	7 782.4
assets	-755.1	-65 608.0	-86 631.8	4 405.6	-13 729.6
equity securities	3 855.7	-48 965.2	-44 181.0	9 447.8	-3 749.9
debt securities	-4 610.8	-16 642.8	-42 450.8	-5 042.2	-9 979.7
liabilities	35 263.3	17 339.1	18 458.9	30 451.7	21 512.0
equity securities	34 846.2	4 394.2	23 810.9	23 203.6	-160.0
debt securities	417.1	12 944.9	-5 352.0	7 248.1	21 672.0
Financial derivatives	0.0	0.0	-1 402.8	-3 220.3	-71.5
assets			-4 501.6	-9 407.6	659.8
liabilities			3 098.8	6 187.3	-731.3
Other investment	-56 050.0	-60 870.6	26 854.9	-61 670.4	14 813.0
assets	-46 628.7	-91 273.9	35 832.1	-48 850.5	71 044.1
long-term	-24 280.2	-23 884.0	21 322.2	1 349.8	16 600.9
CNB					
commercial banks	-26 952.8	-25 858.5	14 362.2	-4 125.8	-3 544.9
government	630.3	977.5	2 937.0	6 928.9	20 414.3
other sectors	2 042.3	997.0	4 023.0	-1 453.3	-268.5
short-term	-22 348.5	-67 389.9	14 509.9	-50 200.3	54 443.2
commercial banks	-21 641.6	-63 804.7	22 001.9	-45 523.2	70 852.2
government				-87.1	-986.0
other sectors	-706.9	-3 585.2	-7 492.0	-4 590.0	-15 423.0
liabilities	-9 421.3	30 403.3	-8 977.2	-12 819.9	-56 231.1
long-term	-39 840.7	-1 286.1	-26 212.5	1 921.7	-7 973.1
CNB	-216.4	-2 083.5	-22.8	-22.0	-10.2
commercial banks	-14 399.2	-7 109.5	-31 523.7	-7 222.2	-2 452.2
government	-11 765.4	-6 384.3	-1 837.6	-5 000.8	-773.8
other sectors	-13 459.7	14 291.2	7 171.6	14 166.7	-4 736.9
short-term	30 419.4	31 689.4	17 235.3	-14 741.6	-48 258.0
CNB	-6.0	84.9	-17.0	59.7	68.1
commercial banks	24 445.9	36 615.6	-3 812.5	-35 688.6	-23 317.5
government	-216.5	-103.2			
other sectors	6 196.0	-4 907.9	21 064.8	20 887.3	-25 008.6
Total A + B + C	*53 898.3*	*55 894.8*	*42 971.3*	*52 642.0*	*28 870.2*
D. Net errors and omissions, valuation changes	**8 716.7**	**1 241.9**	**-11 378.5**	**14 511.0**	**-14 930.2**
Total A + B + C + D	*62 615.0*	*57 136.7*	*31 592.8*	*67 153.0*	*13 940.0*
E. Change in reserves (- increase)	**-62 615.0**	**-57 136.7**	**-31 592.8**	**-67 153.0**	**-13 940.0**

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	2002
	31 Dec.	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	1 400 391.5
Direct investment abroad	24 003.5	25 114.9	27 899.3	30 174.0	30 075.0
- equity capital	21 901.2	22 415.9	24 797.5	27 075.0	27 415.0
- other capital	2 102.3	2 699.0	3 101.8	3 099.0	2 660.0
Portfolio investment	35 872.4	104 345.3	180 431.3	185 138.6	197 976.3
- equity securities	13 415.5	66 318.2	92 222.9	68 675.5	73 391.2
- debt securities	22 456.9	38 027.1	88 208.4	116 463.1	124 585.1
Financial derivatives 2)			6 347.2	15 754.8	15 095.0
Other investment	650 948.4	757 065.5	736 903.7	781 145.7	635 410.0
Long-term	287 328.8	323 131.1	315 625.5	310 133.9	219 980.7
- CNB 3)	26 122.4		329.1	307.3	299.2
- commercial banks	64 041.6	89 900.1	75 537.9	79 663.7	83 208.6
- government 4)	176 213.4	210 221.3	220 777.8	210 694.9	117 609.9
- other sectors	20 951.4	23 009.7	18 980.7	19 468.0	18 863.0
Short-term	363 619.6	433 934.4	421 278.2	471 011.8	415 429.3
- CNB 5)	0.1		52.9	51.2	54.9
- commercial banks	272 219.5	336 117.2	314 115.3	359 638.5	288 786.3
of which: gold and foreign exchange 6) 7)	175 753.2	218 995.8	228 961.7	257 138.5	216 782.6
- government				87.1	1 073.1
- other sectors	91 400.0	97 817.2	107 110.0	111 235.0	125 515.0
CNB reserves 8)	376 683.0	461 429.2	496 819.2	524 457.8	521 835.2
- gold 6)	369.1	677.0	4 640.4	4 469.9	4 776.2
- SDR			7.7	31.0	46.6
- reserve position in the IMF			116.0	5 478.3	5 309.2
- foreign exchange	376 313.9	460 752.2	491 001.2	514 188.0	511 665.5
- other reserve assets			1 053.9	290.6	37.7
LIABILITIES	1 204 984.0	1 458 893.3	1 640 270.0	1 784 507.6	1 776 933.5
Direct investment in the Czech Republic	429 167.8	631 505.3	818 411.6	970 450.9	990 766.2
- equity capital	364 816.5	538 379.3	702 217.8	857 595.9	880 256.2
- other capital	64 351.3	93 126.0	116 193.8	112 855.0	110 510.0
Portfolio investment	166 128.1	165 579.2	164 592.0	180 346.2	214 455.0
- equity securities	113 247.2	98 011.8	115 670.6	128 740.1	146 341.0
- debt securities	52 880.9	67 567.4	48 921.4	51 606.1	68 114.0
Financial derivatives 2)			5 307.9	11 495.2	10 763.9
Other investment	609 688.1	661 808.8	651 958.5	622 215.3	560 948.4
Long-term	358 510.5	379 172.2	352 323.4	339 013.2	324 831.7
- CNB	1 883.3	197.1	180.4	133.4	119.8
- commercial banks	124 286.3	118 368.9	84 607.4	73 688.6	70 477.0
- government	23 814.8	20 852.9	19 699.2	9 476.2	8 559.9
- other sectors	208 526.1	239 753.3	247 836.4	255 715.0	245 675.0
Short-term	251 177.6	282 636.6	299 635.1	283 202.1	236 116.7
- CNB	39.5	25.8	8.8	68.5	136.6
- commercial banks	193 373.0	229 988.7	226 176.2	190 487.6	167 170.1
- government	103.2				
- other sectors	57 661.9	52 622.1	73 450.1	92 646.0	68 810.0
NET INVESTMENT POSITION	-117 476.7	-110 938.4	-191 869.3	-247 836.7	-376 542.0

1) Preliminary data
2) Financial derivatives (from banks position) have been recorded since 31 March 2000
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)

Table 15

EXTERNAL DEBT

in CZK millions

	1998	1999	2000	2001	2002
	31 Dec.	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	739 572.4
of which:					
Long-term	446 484.3	497 872.1	464 323.8	461 217.5	462 789.7
By debtor					
- CNB	10 952.2	12 527.6	180.4	133.4	119.8
- commercial banks	133 376.5	128 703.3	95 737.1	88 401.4	88 528.5
- government	32 953.5	32 303.5	29 753.5	30 839.2	37 349.6
- other sectors	269 202.1	324 337.7	338 652.8	341 843.5	336 791.8
By creditor					
- foreign banks	248 712.0	257 410.0	228 709.6	235 115.5	225 488.4
- government institutions	4 409.6	4 239.2	3 405.7	2 373.6	2 061.2
- multilateral institutions	49 036.3	58 202.2	67 521.2	70 879.0	68 076.4
- suppliers and direct investors	72 624.6	93 831.4	99 560.2	95 664.0	92 875.0
- other investors	71 701.8	84 189.3	65 127.1	57 185.4	74 288.7
Short-term	271 439.3	315 704.4	343 799.0	325 458.9	276 782.7
By debtor					
- CNB	39.5	25.8	8.8	68.5	136.6
- commercial banks	193 373.0	230 000.5	226 246.1	192 438.4	167 977.1
- government	22.0	7.0	2 115.0	465.0	849.0
- other sectors	78 004.8	85 671.1	115 429.1	132 487.0	107 820.0
By creditor					
- foreign banks	175 604.1	201 808.8	203 333.8	195 166.4	150 538.8
- suppliers and direct investors	67 446.7	81 794.6	106 988.6	93 127.0	87 330.0
- other investors	28 388.5	32 101.0	33 476.6	37 165.5	38 913.9
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	739 572.4
of which:					
- long-term	455 377.8	506 797.8	473 274.7	461 217.5	462 789.7
- short-term	271 542.5	315 704.4	343 799.0	325 458.9	276 782.7

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	3 - 6
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES					
- annual/quarterly averages					
1 EUR	.	36.88	35.61	34.08	30.41
1 USD	32.27	34.60	38.59	38.04	33.13
100 SKK	91.61	83.64	83.64	78.68	70.74
	12	12	12	12	6
- monthly averages					
1 EUR	.	36.05	34.82	32.59	30.30
1 USD	30.06	35.63	38.94	36.48	31.73
100 SKK	83.04	84.70	80.07	75.61	68.34
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	30 Jun.
- last day of the month					
1 EUR	.	36.13	35.09	31.98	29.26
1 USD	29.86	35.98	37.81	36.26	29.35
100 SKK	80.97	85.08	79.70	74.81	66.65

B. NOMINAL EFFECTIVE RATE

	1998	1999	2000	2001	2002
					6
CZK nominal effective exchange rate (percentages) (2000=100)					
weights - foreign trade turnover	96.0	98.5	100.0	104.3	119.1
weights - foreign trade turnover SITC 5-8	98.9	98.6	100.0	104.4	118.6

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
					5
CZK real effective exchange rate (percentages) (2000=100)					
a) industrial producer prices					
weights - foreign trade turnover	99.6	100.6	100.0	103.8	115.0
weights - foreign trade turnover SITC 5-8	99.9	99.5	100.0	104.3	115.6
b) consumer prices					
weights - foreign trade turnover	99.1	98.8	100.0	105.1	116.4
weights - foreign trade turnover SITC 5-8	99.4	98.2	100.0	105.7	117.3

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

Table 17

PUBLIC FINANCES

in CZK billions

	1998	1999	2000	2001	2002
	1-12	1-12	1-12	1-12	1-6
STATE BUDGET					
TOTAL REVENUE	537.4	567.3	586.2	626.2	348.5
Tax revenue	509.6	540.1	559.5	598.3	295.3
Taxes on income, profits and capital gains	87.4	86.4	87.0	147.4	75.0
Domestic taxes on goods and services	187.2	211.4	216.8	187.0	83.8
- value-added taxes	119.4	138.3	145.9	121.3	53.2
- excises	67.8	73.1	70.9	65.7	30.6
Taxes on international trade and transactions	13.6	12.1	13.6	10.0	4.7
Taxes on property	6.3	6.8	6.0	6.4	3.6
Social and health security contributions and payroll taxes	203.9	210.9	222.2	242.3	125.6
Non-tax and capital incomes and received subsidies	27.8	27.2	26.7	27.9	53.2
TOTAL EXPENDITURE	566.7	596.9	632.3	693.9	349.4
Current expenditure	516.2	537.9	571.4	642.5	332.7
Capital expenditure	50.5	59.0	60.9	51.4	16.7
Public budgets (balance in IMF GFS methodology)	-28.2	-11.1	-62.0	-52.3	
state budget	-29.3	-29.6	-46.1	-67.7	-0.9
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	0.9	

Table 18

CAPITAL MARKET

A. STOCK MARKET INDICES

last day of the month in points

	1998	1999	2000	2001	2002
	12	12	12	12	6
BCPP					
PX 50	394.2	489.7	478.5	394.6	412.6
PX-D	.	1296.7	1366.0	1065.6	1047.1
PX-GLOB	478.3	587.9	570.6	492.9	522.3
RM-SYSTÉM					
PK-30	564.5	713.2	724.8	593.0	636.0

B. TRADE VOLUMES

in CZK millions

	1998	1999	2000	2001	2002
	12	12	12	12	6
BCPP					
Monthly trade volumes	92 553.0	99 604.0	73 240.5	142 803.6	156 057.2
of which:					
a) shares	18 873.1	13 974.5	11 113.9	12 819.3	12 645.9
b) units	224.3	394.2	61.3	4.3	2.6
c) bonds	73 455.6	85 235.3	62 065.3	129 980.0	143 408.7
RM-SYSTÉM					
Monthly trade volumes	20 836.9	22 014.7	4 861.7	2 162.5	836.2
of which:					
a) shares	16 573.5	20 642.3	4 190.1	1 841.0	598.8
b) units	570.3	176.8	25.9	212.2	8.5
c) bonds	3 693.1	1 195.6	645.7	109.3	228.9

Table 19

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		
26 April	**3.75**	**2.75**	**4.75**		

MACROECONOMIC AGGREGATES

in CZK millions; annual percentage changes; constant 1995 prices

	1998	1999	2000	2001	2002
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
GROSS DOMESTIC PRODUCT					
- in CZK millions	1 414 422	1 421 043	1 467 285	1 515 076	369 429
- percentages		0.5	3.3	3.3	2.5
FINAL CONSUMPTION					
- in CZK millions	1 023 403	1 042 354	1 058 969	1 090 812	256 159
- percentages		1.9	1.6	3.0	3.3
of which:					
Households					
- in CZK millions	751 235	765 638	783 454	813 726	196 931
- percentages		1.9	2.3	3.9	4.1
Government					
- in CZK millions	260 293	266 199	263 628	264 500	56 205
- percentages		2.3	-1.0	0.3	0.4
Non-profit institutions					
- in CZK millions	11 875	10 517	11 887	12 586	3 023
- percentages		-11.4	13.0	5.9	5.3
GROSS CAPITAL FORMATION					
- in CZK millions	481 383	467 412	511 229	556 941	140 008
- percentages		-2.9	9.4	8.9	1.1
of which:					
Fixed capital					
- in CZK millions	467 862	463 128	487 874	523 243	118 117
- percentages		-1.0	5.3	7.2	8.1
Changes in inventories					
- in CZK millions	13 019	3 880	22 990	33 316	21 798
Acquisitions less disposals of valuables					
- in CZK millions	502	404	365	382	93
- percentages		-19.5	-9.7	4.7	2.2
TRADE BALANCE					
- in CZK millions	-90 364	-88 723	-102 913	-132 677	-26 738
of which:					
Exports of goods					
- in CZK millions	747 211	809 783	971 784	1 113 902	289 418
- percentages		8.4	20.0	14.6	2.7
Exports of services					
- in CZK millions	215 396	211 548	223 676	228 658	51 830
- percentages		-1.8	5.7	2.2	5.8
Imports of goods					
- in CZK millions	875 929	920 348	1 106 476	1 276 002	319 464
- percentages		5.1	20.2	15.3	2.2
Imports of services					
- in CZK millions	177 042	189 706	191 897	199 235	48 522
- percentages		7.2	1.2	3.8	9.2
FINAL DOMESTIC DEMAND					
- in CZK millions	1 491 265	1 505 482	1 546 843	1 614 055	374 276
- percentages		1.0	2.7	4.3	4.8
AGGREGATE DOMESTIC DEMAND					
- in CZK millions	1 504 786	1 509 766	1 570 198	1 647 753	396 167
- percentages		0.3	4.0	4.9	2.5
GROSS DOMESTIC PRODUCT AT CURRENT PRICES					
- in CZK millions	1 839 088	1 902 293	1 984 833	2 157 828	531 379
- percentages		3.4	4.3	8.7	7.7

Source: CSO

LABOUR MARKET

A. NATIONAL ACCOUNTS OF THE HOUSEHOLD SECTOR

annual percentage changes

	1998	1999	2000	2001	2002
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
Current income	.	3.9	4.8	6.7	7.1
of which:					
- gross operating surplus and mixed income	.	5.2	3.0	10.2	10.2
- compensation of employees	.	3.8	4.9	7.1	7.0
- property income	.	-15.8	-7.0	2.6	-8.5
- social benefits other than social transfers in kind	.	8.6	9.6	6.0	9.3
- other current transfers	.	20.5	10.2	-4.7	4.1
Current expenditure	.	5.3	4.8	7.1	7.2
of which:					
- property income	.	-11.9	-8.4	1.9	21.9
- current taxes on income, wealth, etc.	.	2.5	3.8	4.7	7.8
- social contributions	.	4.9	5.9	9.8	7.3
- other current transfers	.	20.3	5.6	-0.2	2.3
Gross disposable income	.	3.3	4.8	6.5	7.0
Change in net equity of households in pension funds reserves	.	-20.0	24.6	47.2	29.7
Individual consumption expenditure	.	5.7	5.3	7.7	6.4
Gross saving	.	-18.7	0.6	-4.4	17.6
Gross savings rate	.	8.33	8.00	7.19	7.49
(gross saving/gross disposable income - ratio in per cent)					

B. AVERAGE WAGES

annual percentage changes

	1998	1999	2000	2001	2002
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
Overall nominal wage	9.4	8.2	6.6	8.5	7.0
Business sector	11.0	7.1	7.8	8.2	7.2
Non-business sector	3.9	13.1	2.8	10.0	6.5
Overall real wage	-1.2	6.0	2.6	3.6	3.2
Business sector	0.3	4.9	3.8	3.3	3.4
Non-business sector	-6.1	10.8	-1.1	5.1	2.7

C. UNEMPLOYMENT

end of period

	1998	1999	2000	2001	2002
	12	12	12	12	6
Registered job applicants (thousands)	386.9	487.6	457.4	461.9	454.3
Unemployment rate (percentages)	7.5	9.4	8.8	8.9	8.7

Source: CSO

PRODUCER PRICES

percentage changes

	1998	1999	2000	2001	2002
					6
INDUSTRIAL PRODUCER PRICES					
a) previous month = 100	0.2	0.3	0.4	0.1	-0.1
b) same period of last year = 100	4.9	1.0	4.9	2.9	-0.8
c) average for 2000 = 100	.	.	0.0	2.8	2.2
d) December 1999 = 100	.	.	3.4	6.3	5.7
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	2.6
c) average for 2000 = 100	.	.	0.0	4.1	6.7
d) December 1999 = 100	.	.	2.3	6.5	9.2
AGRICULTURAL PRODUCER PRICES					
b) same period of last year = 100	2.3	-11.7	9.2	8.4	-16.0
of which:					
crop products					
b) same period of last year = 100	-5.4	-15.0	12.6	9.3	-17.4
livestock products					
b) same period of last year = 100	5.7	-10.5	8.0	8.0	-15.1
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	2.7
c) average for 2000 = 100	.	.	0.0	4.0	7.8
d) December 1999 = 100	.	.	0.6	4.6	8.4

Source: CSO

Table 23

RATIOS OF KEY INDICATORS TO GDP

percentage ratios

	1998	1999	2000	2001
State budget balance	-1.6	-1.6	-2.3	-3.1
Public budgets balance	-1.5	-0.6	-3.1	-2.4
Public debt	13.8	15.1	17.7	24.0
Debt in convertible currencies	39.0	42.8	40.7	36.5
Trade balance 1)	-4.4	-3.4	-6.1	-5.4
Current account balance	-2.2	-2.7	-5.3	-4.6
M2	67.5	70.3	71.2	74.0

Note: ratio = indicator/GDP at current prices

1) Source: CSO

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Design, layout and production: JEROME s. r. o.