2002

INFLATION REPORT OCTOBER/2002

CNB CZECH NATIONAL BANK

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ABBREVIATIONS USED

CNB	Czech National Bank
CPI	consumer price index
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.)
LFS	Labour Force Survey
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
SITC	Standard International Trade Classification
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 7 November 2002.

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

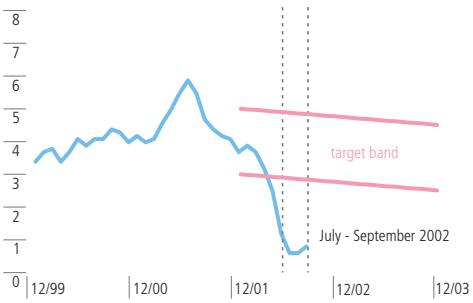
I. SUMMARY

TABLE I.1
THE FALL IN INFLATION CONTINUED INTO 2002 Q3
(annual percentage figures unless otherwise indicated)

	6/02	7/02	8/02	9/02
Consumer price inflation	1.2	0.6	0.6	0.8
Industrial producer price inflation	-0.8	-1.1	-0.9	-0.9
Money supply growth (M2)	4.4	4.3	4.8	n.a.
3M PRIBOR[1)]	3.78	3.37	3.06	2.99
Nominal CZK/EUR exchange rate[2)]	29.26	30.35	30.45	30.30
State budget balance since January incl. SFAOs,[2)] CZK bn	-0.9	-26.9	-33.0	-21.4
GDP growth at constant prices[3)]	2.5	-	-	-
Unemployment rate[2)]	8.7	9.2	9.4	9.4

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

CHART I.1
INFLATION WAS BELOW THE TARGET BAND IN 2002 Q3
(annual consumer price inflation; percentages)



The trends in the Czech economy in the third quarter of 2002 were essentially unchanged from those seen since the start of the year. Inflation continued falling, and fluctuated below the lower boundary of the target band throughout the quarter (see Chart I.1). GDP growth slowed somewhat in 2002 Q2 because of persisting unfavourable external demand and appreciation of the koruna's exchange rate. In August, these factors were compounded by the damage caused by severe flooding in the Czech Republic (see the Box in Section IV.3).

Annual consumer price inflation fell to 0.6% in the first two months of Q3, then edged up again in September. The fall in inflation was due mainly to the evolution of food and import prices and to the year-on-year appreciation of the koruna. It was also attributable to a further slowdown in annual regulated price inflation and other nontradables price inflation, where a smaller seasonal increase in prices of foreign package holidays compared with the previous year had a particularly disinflationary effect.

In 2002 Q2, the Czech economy continued growing considerably faster than the economies of most of the Czech Republic's major trading partners. The pace of domestic growth, however, slowed somewhat by comparison with the previous quarter. Judging from some of the available indicators on the supply side, there was probably a further slowdown in Q3 as well, due among other things to the August floods. The economic growth in Q2 continued to be driven predominantly by domestic demand, in particular household consumption and partly also gross fixed capital formation. Although the annual growth rate of government consumption increased, its contribution to GDP growth remained relatively low. The contribution of net exports in Q2 was lower than in Q1, falling to almost zero. This was chiefly attributable to the continuing weak economic growth recorded by the Czech Republic's major trading partners and the persisting appreciation of the koruna. The effect of the floods is difficult to quantify for the time being. According to all the predictions, the flooding should lead to a certain slackening of annual GDP growth in Q2, but for the year as a whole the impact should be relatively weak.

On the labour market, the long-running trend of a widening gap between the demand for, and supply of, labour continued. This led to a further decline in the number of vacancies and a rise in unemployment. Average nominal wage growth picked up in 2002 Q2 owing to a sizeable increase in wages in the non-business sector. The growth in nominal wages and, in particular, the pick-up in disinflation led to a considerable rise in annual growth in average real wages. Faster growth of income from wages and salaries coupled with a slight fall in whole-economy labour productivity growth generated a rise in nominal unit wage costs in Q2.

The monetary policy decision-making of the CNB Bank Board in 2002 Q3 was based on the inflation forecast discussed by the Board at its meeting on 25 July 2002 and published in the July Inflation Report. Owing to the monetary policy transmission lag, the Board's decision-making was focused on hitting the inflation target in 2003 H2. The inflation forecast at this time horizon was at the lower boundary of the target band. A decline in interest rates in 2002 H2 and an increase in the subsequent period were consistent with the starting assumptions of the forecast.

Based on this forecast and an assessment of additional risks, the Bank Board voted at its meeting at the end of July to reduce the monetary policy interest rates by 0.75 percentage points. In the remainder of Q3, the Bank Board observed a gradual balancing of the risks pertaining to the inflation forecast, due in particular to stabilisation of the koruna's exchange rate, a higher oil price than that worked into

the forecast, and uncertainties associated with the method to be used to cover the flood damage, or, more specifically, the effects of the flooding on demand and prices. Accordingly, the Bank Board made no further changes to interest rates in the remaining two months of Q3.

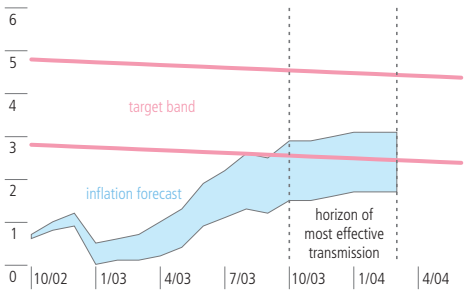
At its meetings, the CNB Bank Board dealt repeatedly with the issue of the koruna's exchange rate. The Board stated that its current level did not correspond to economic fundamentals and that negative effects of the excessively strong exchange rate on the domestic economy were already visible. It therefore repeatedly expressed its readiness to respond flexibly to the koruna's adverse exchange rate trend using all its instruments, including foreign exchange intervention. The CNB intervened on the foreign exchange market as and when necessary according to the existing market conditions.

A new inflation forecast for the six-year horizon was published following the Bank Board meeting on 31 October 2002. This forecast indicates a lower inflation level at the end of 2002 and throughout most of 2003 compared with the July forecast (see Chart I.2). This is because of disinflationary external cost factors (which, however, assuming a stable exchange rate, will gradually weaken during the course of 2003) and an absence of domestic inflation factors amid a widening negative output gap. The inflation forecast for 2002 H2 and for most of 2003 lies below the CNB's target band. Based on the information available at the time the macroeconomic forecast was drawn up, a decline in interest rates at the end of 2002 and subsequent stability in 2003 is consistent with the baseline scenario and its assumptions. A gradual unwinding of the disinflationary external cost factors and reactive monetary policy return the inflation forecast to the lower boundary of the target band at the horizon of most effective transmission. The possibility of a stronger-than-expected effect from the demand-generating component of the public budgets in 2003 is a significant alternative to this baseline scenario. This alternative indicates a somewhat higher pace of GDP growth and a narrower output gap.

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 IN 2002 Q3 TO ITS LOWEST LEVEL SINCE 1989
(percentages)

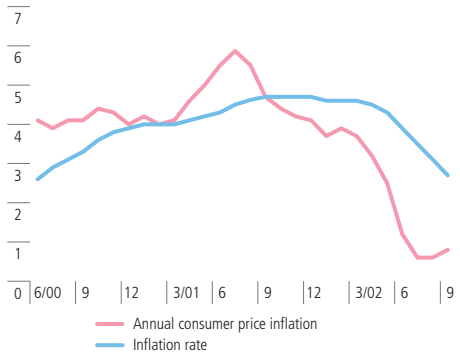
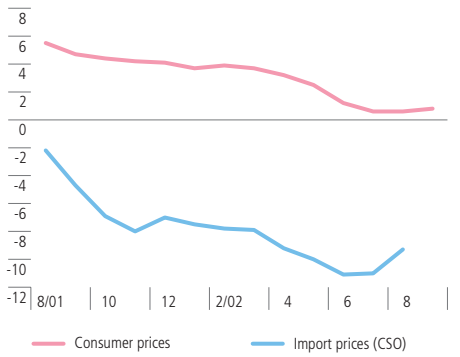


TABLE II.1
MOST OF THE CONSUMER BASKET CATEGORIES RECORDED A DISINFLATIONARY TREND
(annual percentage changes)

	9/01	12/01	3/02	6/02	9/02
Food and non-alcoholic beverages	4.5	3.2	3.0	-4.1	-4.9
Alcoholic beverages and tobacco	2.6	2.9	1.2	1.9	2.1
Clothing and footwear	-1.4	-1.2	-1.8	-2.2	-3.1
Housing, water, electricity, gas and other fuels	10.7	10.4	7.9	6.2	5.2
Furnishings, household equipment and routine maintenance of the house	0.3	0.3	0.2	0.0	-0.3
Health	4.3	4.1	4.8	5.2	4.3
Transport	-0.7	-3.3	-1.3	-3.7	-2.5
Communications	4.4	4.1	3.9	3.0	5.3
Recreation and culture	5.3	5.1	4.9	1.3	0.2
Education	3.3	3.3	3.4	3.3	3.7
Hotels, cafés and restaurants	3.1	3.2	4.0	3.9	3.1
Miscellaneous goods and services	5.0	5.4	4.8	3.8	3.6
Consumer prices	4.7	4.1	3.7	1.2	0.8

CHART II.2
THE CONTINUING DISINFLATION WAS FOSTERED BY EXTERNAL FACTORS AND BY APPRECIATION OF THE KORUNA
(annual percentage changes)



Annual consumer price inflation declined further during 2002 Q3. This disinflationary trend – seen for the fifth consecutive quarter – culminated at the beginning of Q3 in the lowest inflation figures recorded since the start of the transformation period (0.6% annually in July). Inflation remained very low in the remaining two months of Q3 as well, staying below the 1% level. Chart II.1 shows the rapid fall in consumer price inflation during the course of 2001 H2 and the first three quarters of 2002. At the close of the previous year inflation had been slightly above the 4% level, whereas in 2002 Q3 the outturns were more than 3 percentage points lower. The inflation rate[1] also dropped significantly during Q3 (by 1.2 percentage points compared with June, to 2.7% in September).

The disinflationary trend was across-the-board in nature. Almost all the main groups of items contributed to the further decline in consumer price inflation in Q3. The only exceptions were a further modest rise in annual inflation in the alcoholic beverages and tobacco category, the usual September pick-up in inflation in the education category and a pick-up in inflation in the post and telecommunications category. The other items of the consumer basket showed either a continuing downward inflation trend, an accelerating decline or a stagnation at the previous quarter's level. The disinflationary tendencies remained stronger in the tradables segment than for nontradables.

The continuing low inflation in the Czech economy was again attributable to a combination of several factors in Q3. External factors and continuing robust appreciation of the koruna's exchange rate played a key role. The koruna-dollar and koruna-euro rates recorded year-on-year appreciations of 18% and 11.7% respectively in September[2]. The main external factor was a continuing annual decline in prices of most energy-producing and non-energy-producing raw materials on world markets, which, together with the appreciation of the koruna's exchange rate, generated conditions for a decrease in import prices. Falling prices of imported inputs created room for a decline in producer prices. The downward trend in import prices simultaneously curbed any rise in the producer and consumer prices of competing domestic products. The growth rate of domestic consumer demand moderated. In a climate of strong competition on the retail market and incomplete utilisation of production capacities, a broadly anti-inflationary environment was thus created. The factors mentioned above chiefly affected market prices, most notably in the tradables segment. As in 2002 Q2, they also fed through in part into regulated prices in Q3.

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 *This refers to the average values for September*

Market prices and regulated prices both contributed to the further slackening of annual consumer price inflation in Q3. Annual net inflation[3], which is an aggregate indicator of market consumer prices in the Czech Republic, continued declining and recorded negative values throughout Q3 (-0.3% in September). Annual regulated price inflation fell sharply again in Q3 (by 1.4 percentage points to 4.9%). This was due a smaller increase in regulated prices in July than in the same period a year earlier. With annual net inflation negative, regulated prices were the only source of the 0.8% rise in consumer prices in September (see Chart II.3).

Within the market prices segment, it was mainly food prices that caused annual net inflation to lie below the level of the same period of the previous year throughout Q3. The annual decline in food prices[4] deepened further at the end of Q3 compared with the end of Q2 (by 0.3 percentage points to -2.9% in September). The fall in food prices below the level of a year earlier was in Q3 caused by a decrease in prices in the food and non-alcoholic beverages category (of 4.9% in September). Their positive effect on the overall consumer price index was offset in part by modest growth in prices of alcoholic beverages and tobacco products (of 2.1% in September).

The main causes of the continuing disinflation in the food segment were essentially the same as in the previous July Inflation Report. The chief factors underlying the food price trend in Q3 (see Chart II.4) again reflected excess supply on the agricultural commodities market, not only in the Czech Republic, but also abroad (see Section III.5 *Other costs and prices*). This factor affected prices in the agricultural-product manufacturing and retailing chain, i.e. agricultural producer prices, food industry prices and consequently retail food prices. At the same time, amid strong competition on the retail market, the mostly falling import prices (bolstered by the ongoing appreciation of the koruna's exchange rate) curbed domestic inflation in this area. These factors, seen for some time now, fed through particularly into the meat and bread and cereals categories, where the year-on-year price decline accelerated further during Q3. The relatively large fall in food prices in Q3 was also attributable to food groups that typically display significant price volatility. These food items, whose prices are determined chiefly by short-term shifts on the supply side, include fruit, vegetables and potatoes. The relatively strong annual growth in prices recorded previously for these commodities turned very quickly into a large annual decline in Q3[5].

In 2002 Q3, some of the non-food items included in adjusted inflation[6] also contributed to the negative outturns recorded for annual net inflation. Specifically, these items were other tradables (except food) and fuels, whose prices continued falling in Q3 in annual terms. Following a period of stagnation in their annual decline in Q2 (at around 1%), prices of other tradables (except fuels) recorded a further decrease in Q3 in annual comparison (to -1.7% in September). As in the case of headline inflation, these were record-low outturns for the transformation period (i.e. since 1989). They continued to be affected significantly by foreign competition via import prices, which also included the effect of the persisting appreciation of the koruna's exchange rate.

CHART II.3
THE SLOWDOWN IN CONSUMER PRICE INFLATION WAS DUE TO BOTH NET INFLATION AND REGULATED PRICES

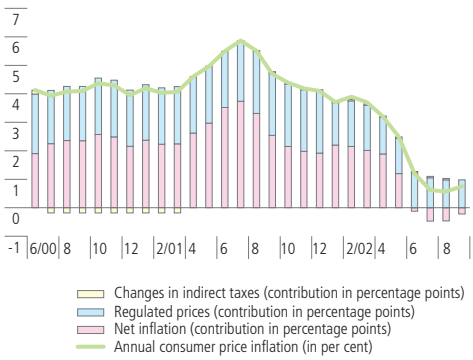


CHART II.4
THE FALL IN ANNUAL NET INFLATION WAS LARGELY DUE TO CONTINUING DISINFLATION IN THE FOOD SEGMENT
(annual percentage changes)

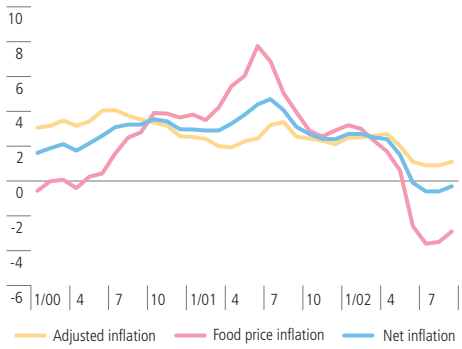
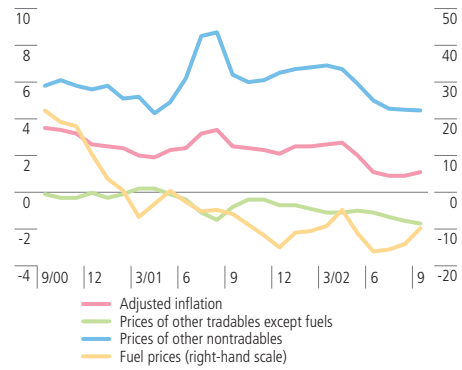


CHART II.5
THE YEAR-ON-YEAR DECLINE IN PRICES OF NON-FOOD TRADABLES CONTINUED
(percentages)



3 *Net inflation = consumer price inflation adjusted for regulated prices and other administrative measures.*

4 *Food prices = prices of food and non-alcoholic beverages + prices of alcoholic beverages and tobacco (adjusted for administrative effects).*

5 *Prices of temperate-zone fruit showed an annual rise of 7.4% in May, whereas in September they displayed a decline of 15.6%. Prices of tropical fruit meanwhile rose by 5.7% in May but fell by 9.1% in September. Similar developments were recorded in the same period for vegetables (7.2% and -4.1% respectively) and in particular for potatoes (111.9% and -11% respectively).*

6 *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 (except fuels) and other nontradables prices.*

CHART II.6
FUEL PRICES RECORDED ANOTHER LARGE YEAR-ON-YEAR DECLINE IN 2002 Q3
(annual percentage changes)

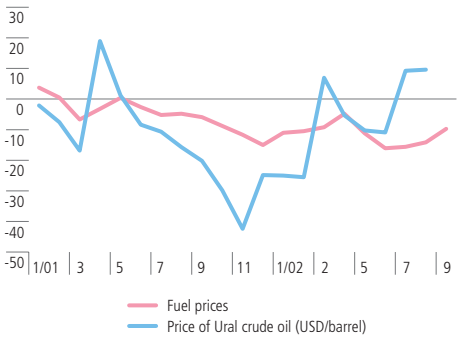


CHART II.7
FALLING PRICES OF IMPORTED INPUTS FOSTERED A DECREASE IN REGULATED PRICE INFLATION
(annual percentage changes)

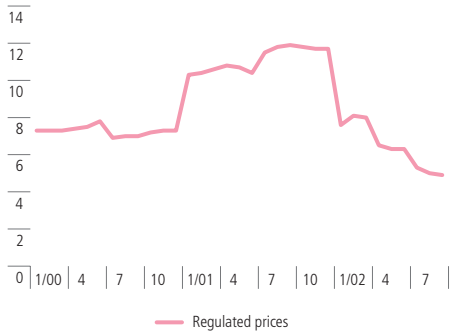
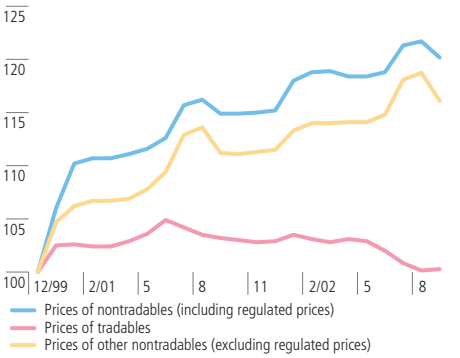


CHART II.8
PRICES OF NONTRADABLES HAVE LONG BEEN RISING FASTER THAN PRICES OF TRADABLES
(percentages; December 1999 = 100)



The decline in fuel prices was greater than the fall in prices of other tradables. However, during the course of Q3 the former gradually moderated owing renewed growth in oil prices on world markets. In July fuel prices had shown an annual decline of 16.1%, whereas in September the figure was 9.7%.

In the other nontradables segment, where prices are affected chiefly by domestic factors, prices recorded annual growth again in Q3. This growth remained higher than in the other segments, although relative to previous quarters it too continued to ease (to 4.5% in September). The further drop in annual growth in other nontradables prices was due mainly to prices of package holidays abroad, which this year showed no repeat of the marked seasonal rise they recorded a year earlier (mainly because of the introduction of mandatory insurance of package holidays the previous year). A continuing slowdown in non-regulated price inflation in the housing category relative to the previous quarter also helped to curb the growth in prices of other nontradables.

The persisting disinflationary effect of certain external cost inputs was also the main reason for a relatively small increase in regulated prices in 2002 Q3. In this case, the main factor was a continuing annual decline in gas import prices, which prevented any need for a further increase in the consumer prices of this commodity. Consequently, the usual July increase in gas prices did not take place in 2002. This decision was the main factor behind the further decrease in annual regulated price inflation in Q3 (see Chart II.7). Although some regulated prices went up during the course of Q3, this inflation-increasing effect was offset by the gas price development mentioned above.

Overall, the changes made to regulated prices were less extensive than in the same period a year earlier. The more significant changes made in Q3 included, in July, increases in regulated rents (of 9%), in prices of regulated items in the health category (of 2.4%) and in the fee for installing telephone lines (of 100%; this increase constituted a return to the original level following a temporary 50% reduction). The only change in August was a rise in postal fees, but this was of only marginal significance with regard to regulated prices overall. In contrast, gas prices – unlike in the previous year – were not increased in Q3. This meant that, following a decrease in April, they recorded an annual decline of 4% in September 2002.

No other administrative changes above and beyond the framework of the adjustments to regulated prices were made in 2002 Q3. Annual inflation was thus affected only by the 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 substantial change in the system for calculating the excise duties on these commodities. The direct effect on inflation of the amendment to the Excise Duty Act has been put at approximately 0.05 percentage points.

The foregoing structural assessment of consumer price inflation confirms the hypothesis that internal and external conditions affect prices in the individual consumer price segments to differing degrees. This is evidenced in the longer term by tradables and nontradables prices, as expressed by the basic index starting in 1999 (see Chart II.8). The long-running slower growth in tradables prices[7] clearly indicates the decisive effect of external conditions, which feed through into the consumer market via import prices of production inputs and products. Conversely, the broad

7 *The fall in the tradables price index towards zero in 2002 Q3 meant a decline in prices in year-on-year comparison.*

upward trend recorded by the nontradables price index indicates the prevalence of domestic factors. Lately, however, the inflation profiles in both monitored segments have been indicating that the overwhelming majority of the internal and external inflation factors are anti-inflationary. The only difference is in the intensity of their effect.

As regards international comparisons, annual consumer price inflation in the Czech Republic was below the inflation level in the eurozone. This can be seen by comparing the Harmonised Index of Consumer Prices (HICP) for the two areas and by comparing the HICP in the eurozone with the Czech consumer price and net inflation indices. According to the latest figures (for August), annual consumer price inflation measured by the comparable HICP index was 2.1% in the eurozone and 0.2% in the Czech Republic.

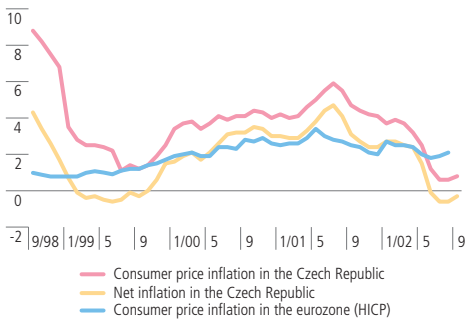
The change in the previous relationship between the inflation level in the Czech Republic and that in the eurozone was due mainly to the considerable consumer price disinflation in the Czech Republic ongoing since 2001 H2. Consumer price inflation in the eurozone has been falling at a slower pace. This is also demonstrated by the "rougher" comparison between the HICP and consumer price inflation in the Czech Republic measured by the CSO's annual consumer price index. Whereas in the eurozone annual consumer price inflation decreased by 0.7 percentage points to 2.1% in July 2001–August 2002, in the Czech Republic CPI inflation fell by 5.3 percentage points to 0.6% in the same period.

Structural analyses of consumer prices in the Czech Republic and the eurozone reveal that the main reason for the difference in their inflation levels was a difference in the evolution of food prices. In August 2002, food prices in the Czech Republic declined in annual terms for the third consecutive month, whereas food prices in the eurozone rose. In addition to certain specific domestic factors, prices in this group of the consumer basket were strongly affected by the appreciation of the koruna's exchange rate. The difference in inflation was also due in part to the lower level of regulation of agricultural producer prices in the Czech Republic than in the eurozone. Differences were also evident in several other categories of the consumer basket, most notably the transport category (where prices in the Czech Republic recorded an annual decline, but in the eurozone registered a rise). These, too, contributed to the generally lower level of inflation in the Czech Republic. The effect of the koruna's appreciation and other specific domestic factors on prices in the aforementioned and other groups of the Czech consumer basket was so significant that it outweighed the contribution to overall inflation of those commodities whose prices are, from the long-run perspective, rising much faster in the Czech Republic than in the eurozone countries (most notably in the health and housing, water, energy and fuels categories).

CHART II.9

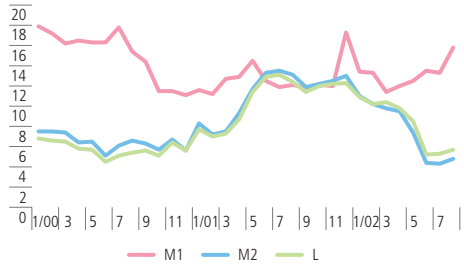
CONSUMER PRICE INFLATION IN THE CZECH REPUBLIC WAS LOWER THAN THAT IN THE EUROZONE

(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 INFLOW OF MONEY INTO THE ECONOMY
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
May	0.1	9.5	7.2	7.4
June	-2.0	-2.3	3.7	4.4
July	0.2	-6.4	-0.3	4.3
August	1.7	-0.3	4.5	4.8

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

CHART III.2
IN THE CASE OF BUSINESSES, THE DOWNWARD TENDENCY IN ANNUAL MONEY SUPPLY GROWTH WAS REPLACED BY A RISE
(percentages)

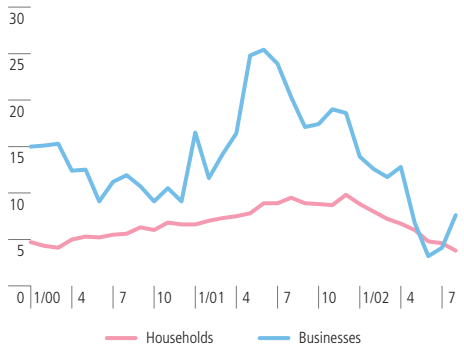


TABLE III.2
THE ANNUALISED SEASONALLY ADJUSTED M1 GROWTH SUGGESTS FURTHER GROWTH
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
May	3.9	22.4	14.0	12.5
June	2.1	38.9	12.0	13.5
July	0.3	27.7	16.7	13.3
August	3.3	24.9	23.6	15.8

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

III.1. MONETARY DEVELOPMENTS

III.1.1. Monetary aggregates

Annual growth in the broader monetary aggregates declined to historical lows in the period June–August 2002. This trend reflected low demand for money in line with the slackening economic growth and low inflation. Corresponding to the low demand for money on the money supply side were a decline in net credit to the government sector and a curbing of the effect of foreign capital inflow on money supply growth; there was only a slight increase in lending. Conversely, annual M1 growth rose significantly in June–August, primarily because of low interest rates on time deposits.

Monetary aggregate M2

In June–August 2002, annual M2 money supply growth fell below the 5% level for the first time since the start of 1993. Although some of this decline (around 1.5 percentage points) was due to the appreciation of the koruna's exchange rate and to base effects, its fundamental cause was lower inflow of money into the economy. The reduction in annual growth was accompanied in this period by a fall in the money stock in absolute terms. The biggest fall occurred in June 2002. Despite rising slightly in the subsequent months, the money stock remained below the May 2002 level, whereas in 2001 it had been CZK 35 billion higher in August than in May. The annualised seasonally adjusted M2 growth also suggests a downward tendency in the inflow of money into the economy.

Sector structure of M2

In the household sector, the long-term decline in annual M2 growth continued in June–August 2002. But in the corporate sector, annual money supply growth started rising in July and in August overtook the growth rate recorded by households. In June–August, the household sector registered a particularly large increase in deposits with building societies; this corresponds to the higher returns on this form of saving. On the other hand, the low interest rates in this period also led to a pick-up in growth of currency in circulation and demand deposits for households and businesses alike. Foreign currency deposits of both households and businesses (adjusted for exchange rate effects) were broadly flat in the same period.

Monetary aggregate M1

In June–August 2002, annual M1 growth remained above the level of the previous three months, recording an exceptionally large increase in August (caused both by the rise in the demand deposits of households and businesses and by the growth in currency in circulation). The share of currency in circulation in the money supply fluctuated around 11.7% in June–August, i.e. 0.4 percentage points above the level of the same period a year earlier. The annualised seasonally adjusted M1 growth suggests further growth in this segment of the money supply.

Monetary aggregate L

Annual L growth in June–August was higher than that recorded for M2, whose evolution it tracked in the individual months. As in the case of M2, annual growth in L fell in June to its lowest level this year, and even after a slight rise in July and August it did not reach the May level. In absolute terms, the decline in the volume of L was greater than in the case of M2, since the decrease in the volume of T-bills held by non-banks was more marked than the decline in deposits included in M2. The annualised seasonally adjusted L growth for six months has since August 2002 suggested a renewed upward tendency, albeit at a relatively low level.

TABLE III.3
THE ANNUALISED SEASONALLY ADJUSTED L GROWTH INDICATES A RENEWED UPWARD TENDENCY FOR THIS AGGREGATE
(percentages)

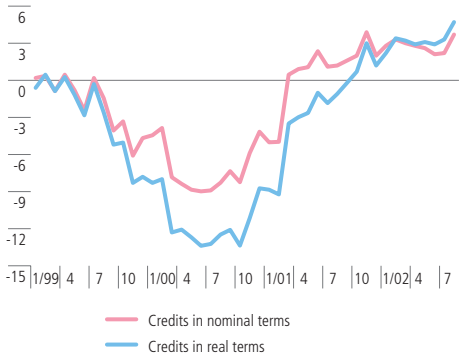
	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
May	1.0	12.4	8.6	8.5
June	-1.7	0.4	5.4	5.2
July	0.0	-2.8	1.4	5.3
August	1.7	-0.2	5.9	5.7

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

Following a stagnation recorded at the beginning of 2002, lending adjusted for non-monetary effects has increased. Annual growth increased from 2.7% in May 2002 to 3.7% in August 2002. The average growth was 2.7% in nominal terms and 3.6% in real terms (adjusted for the industrial producer price index). The absolute volume of credits rose by CZK 9.1 billion in the period under review, with koruna credits increasing by CZK 13 billion and foreign currency credits falling by CZK 3.9 billion. Owing to an extraordinary client transaction in one of the banks, the year-on-year growth in lending in August 2002 was in reality lower, at 2.9%. This relatively moderate growth reflected the worse financial situation of businesses.

CHART III.3
ANNUAL CREDIT GROWTH INCREASED SLIGHTLY
(percentages)



Credits granted to households accounted for the biggest share of the modest rise in lending, while credits to domestic non-financial corporations and foreign-controlled corporations declined. This reflected the worse financial situation of businesses, linked with the fall in domestic and external demand and with the exchange rate situation.

Credits granted to households rose by CZK 9 billion in June–August 2002. The annual growth rate stood at 28.6% (and 33% in the case of individuals). This was chiefly attributable to mortgage credits. Building savings loans and consumer loans rose to a lesser extent. The growth in mortgages for housing purchases was bolstered by lower interest rates.

As regards types of credits, operating and investment credits continued to account for most of the total. However, their shares fell in June–August 2002 – that of operating credits by 1 percentage point to 40.6% and that of investment credits by 0.1 percentage point to 29.4%. Rising shares were conversely recorded by mortgage credits (up by 0.8 percentage points to 8.8%), consumer loans (up by 0.3 percentage points to 6.2%) and building savings loans (up by 0.4 percentage points to 5.9%). Turning to the time structure, the share of medium-term and long-term credits went up.

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

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
May	-1.0	-4.7	0.5	2.6
June	1.1	0.1	3.6	2.1
July	-1.0	-3.6	-0.9	2.2
August	1.7	7.3	1.1	3.7

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

III.2. INTEREST RATES

Interest rates were affected significantly in 2002 Q3 by a further reduction in the CNB's key rates. At the end of July, the CNB lowered all its key rates by 0.75 percentage points – the limit 2W repo rate to 3%, the Lombard rate to 4% and the discount rate to 2% – with effect from 26 July 2002. Financial market participants had expected such a step, albeit not to such an extent. Accordingly, market interest rates declined before the changes had been announced. The downward trend continued thereafter, although it was interrupted by a short period of growth when uncertainties emerged regarding the impact of the flooding. However, after a few

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

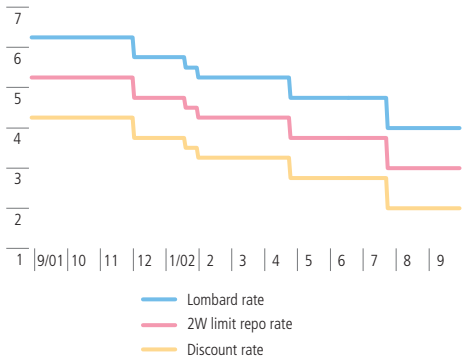


CHART III.5
MARKET INTEREST RATES FELL
(percentages)

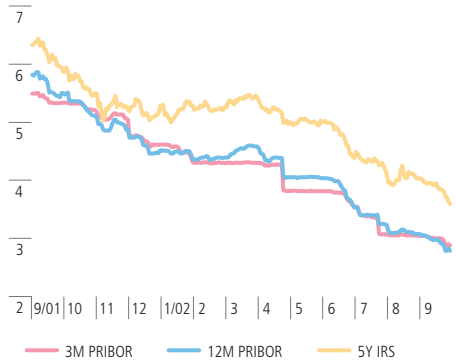
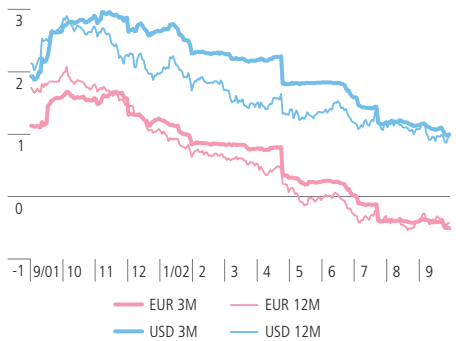


CHART III.6
THE INTEREST RATE DIFFERENTIAL NARROWED FURTHER
(percentage points)



days this effect proved to be temporary in nature and interest rates started declining steadily again. The main factors acting downwards on interest rates were the favourable inflation trend (including the outlook for the period ahead), an expected slackening of economic activity in the Czech Republic, the strong exchange rate and the risk of lower growth abroad. The published minutes from the CNB's Bank Board meetings played a role too, especially the minutes from the meeting at the end of July, which stated that a reduction in monetary policy interest rates in 2002 H2 was consistent with the July forecast. Interest rates fell to new historical lows in all segments of the financial market. Among market participants, expectations continued to prevail 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 since August 2001. The shapes and levels of the yield curves have changed substantially over this period. During the course of 2002 Q3, the PRIBOR yield curve gradually shifted to a lower yield level, while its slope changed from slightly positive to slightly negative. Compared with June, the average 1W PRIBOR fell by 0.76 percentage points to 3.02% and the 1Y PRIBOR by 0.98 percentage points to 2.96%. The spread between the two rates was -0.06 percentage points in September (compared with 0.15 percentage points in June).

The IRS yield curve also shifted to a lower yield level, although its positive shape was little changed. In September, the average 5Y-1Y spread was +0.92 percentage points and the 10Y–1Y spread +1.63 percentage points. IRS interest rates generally fell by 0.7–1.1 percentage points depending on maturity.

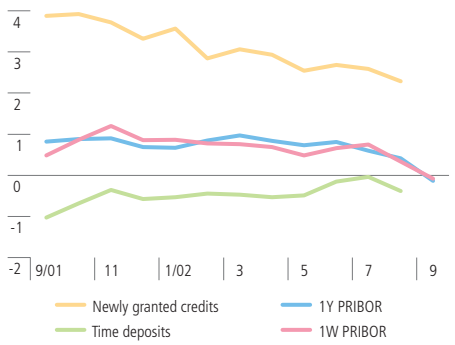
The interest rate differential (PRIBID/CZK-LIBOR/EUR,USD) was affected by changes in interest rates abroad and by the interest rate movements on the domestic interbank market. Although key interest rates were unchanged in all the major economies, market interest rates did not remain stable. A downward trend was visible in both the USA and the eurozone. Domestic market rates fell even faster, causing the interest rate differential to narrow. At all maturities, the differential vis-à-vis euro rates was negative (between -0.4 and -0.5 percentage points) at the end of September. The interest rate differential vis-à-vis dollar rates was 1.0–1.1 percentage points.

There were three auctions on the primary government bond market, with residual maturities of 5Y, 15Y and 3Y and a total volume of CZK 23 billion. A maximum acceptable yield was not given, and demand significantly exceeded supply in all the auctions. The average gross yields were 4.10%, 4.98% and 3.18%. There were no issues on the mortgage bond market in this period. But issuing activity continued on the primary koruna eurobond market, where the outstanding volume at the end of September 2002 was CZK 96.5 billion.

Client interest rates on credits and deposits also responded to the adjustments to key rates and to the changes in financial market rates. They, too, fell to new historical lows. Interest rates on new credits stood at 4.4% in August, a decline of 1.5 percentage points since the start of the year. Time deposit rates stood at 2.3%. The interest rate margin between the overall credit and deposit rates has remained virtually unchanged in recent months, amounting to 4.1 percentage points in August.

In addition to the level of nominal rates, real interest rates[8] were affected by the way in which the price indices developed. The expected consumer price indices are higher and less stable than the expected industrial producer price indices, a fact that is reflected in the specific levels of individual real rates. In August, real rates on newly granted credits were 2.3% and real rates on time deposits -0.4%.

CHART III.7
EX ANTE REAL INTEREST RATES FOR THE MOST PART DECLINED
(percentages)

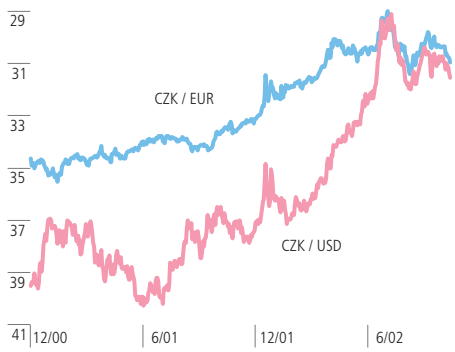


III.2.1. The exchange rate

The koruna's appreciation trend – seen for more than one year – came to a halt in 2002 Q3. Against the euro, the koruna depreciated from approximately CZK 29.40 at the start of July to CZK 30.40 at the end of September (a quarter-on-quarter weakening of around 3.7%). Against the dollar, the koruna depreciated by approximately 4% between the beginning of July and the end of September. In year-on-year comparison, the koruna's exchange rate was stronger against both the euro (by 11.6%) and the dollar (by 17.9%) at the end of September.

The koruna's depreciation started in July and continued until mid-August. This trend was due to several factors: the CNB's interest rate reductions and interventions, a strengthening of confidence in the agreement between the CNB and the Government on the sterilisation of privatisation proceeds, and, last but not least, the August floods. The koruna was at its weakest during the floods (at CZK 31.39 to the euro on 13 August). In mid-August, it started to appreciate again. The main reason for this appreciation is said to be the conversion of foreign aid following the floods and also transfers of funds by foreign reinsurance companies to domestic insurance companies. The koruna's appreciation was interrupted by the government crisis in September. After this was resolved, the exchange rate returned to around CZK 30.30 to the euro.

CHART III.8
THE KORUNA STOPPED APPRECIATING

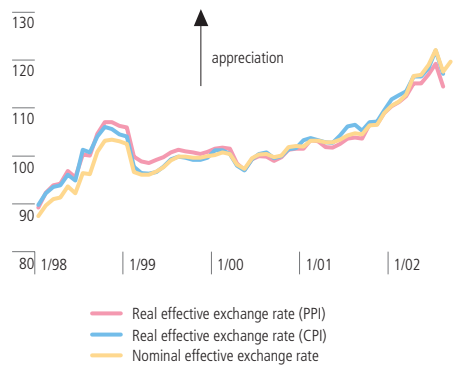


The nominal effective exchange rate index[9] declined by 2% in September relative to July, but was 14.7% higher than a year earlier. The real effective exchange rate indices copied the nominal effective exchange rate.

III.2.2. Capital flows

The financial account ended 2002 H1 in a surplus of CZK 217.1 billion (19.7% of GDP), which is approximately three times the level in the same period a year earlier. The structure of, and reasons for, the inflow were very different from previous years. In the previous four years, inflow of foreign direct investment linked with the creation of new capacities in the economy had played the most important role. This year, the dominant factor is the growing fiscal imbalance, which is being financed in large part by foreign capital inflow. Around three quarters of the total financial account surplus (approximately CZK 165 billion) was secured by the government through the sale of property, foreign assets and government bonds to non-residents. The surplus was also attributable to a decline in the short-term assets of commercial banks abroad (a one-off matter in 2002 Q1) and, to a lesser extent, to the inflow of capital into capacity-creating investment, to reinvested earnings and to the sale of small shareholders' shares in Česká spořitelna to the majority owner. A more significant outflow of capital took place only in Q1 through a reduction of the net liabilities of the corporate sector.

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



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

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

TABLE III.5
THE FINANCIAL ACCOUNT SURPLUS INCREASED
(in H1 1999 - 2002)

	1999	2000	2001	2002
Financial account	23.7	67.5	68.2	217.1
Direct investment	66.3	96.9	95.4	184.0
- Czech abroad	-1.6	-0.8	-1.6	-2.8
- Foreign in Czech Republic	67.9	97.7	97.0	186.8
Portfolio investment	8.5	-24.4	18.8	15.7
- Czech abroad	-8.0	-42.0	-5.2	-14.3
- Foreign in Czech Republic	16.5	17.6	24.0	30.0
Financial derivatives	0.0	-2.5	1.2	-4.1
Other investment	-51.1	-2.6	-47.2	21.5
1. Long-term investment	0.2	28.8	-8.1	11.9
- Credits granted abroad	-6.2	21.3	-1.8	21.1
- Credits accepted from abroad	6.4	7.5	-6.3	-9.2
2. Short-term investment	-51.3	-31.4	-39.1	9.6

To a lesser extent, outflow of capital was recorded in the form of portfolio investment of residents abroad.

The net inflow of foreign direct investment (FDI) in H1 was CZK 184.0 billion, constituting year-on-year growth of almost 100% (CZK 88.5 billion). The extraordinarily high FDI inflow (CZK 186.8 billion) was due in particular to the sale of the state-owned gas company Transgas to German firm RWE for CZK 124 billion and to the aforementioned purchase of around 40% of Česká spořitelna's shares dispersed among small shareholders by the majority owner Austrian Erste Bank (CZK 18.8 billion). The inflow of capital from abroad into capacity-creating investment fell to roughly CZK 20 billion (CZK 8.1 billion of which went into industry), chiefly because of economic recession in the most significant investor countries. Conversely, according to preliminary estimates the reinvested earnings of domestic firms owned by non-residents grew by around one quarter compared with a year earlier, to approximately CZK 20 billion. Turning to the territorial structure of the FDI, the biggest investors were Germany and Austria. The outflow of FDI (CZK 2.8 billion), despite being higher than a year earlier, remained insignificant.

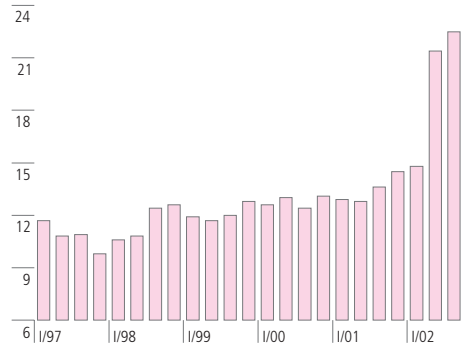
The net inflow of portfolio investment, renewed in 2001, continued into 2002 H1 (CZK 15.6 billion). However, it was almost 20% lower than in the same period a year earlier and was also fairly different in structure. After more than a year of decline, residents' interest in portfolio investment abroad rebounded. An outflow of CZK 14.3 billion was recorded, with shares accounting for around 40% of the total and bonds for 60%. In Q2 alone, however, interest in foreign debt securities was flat. Investment by non-residents in domestic securities totalled CZK 30.0 billion. Non-residents' interest was concentrated exclusively in debt securities (CZK 42.4 billion); public sector bonds, and particularly state budget bonds, accounted for approximately two thirds of this. Only once before in Czech history have non-residents shown such interest in domestic bonds – in 1997 H2. Average annual growth in non-residents' bond holdings was in the past around CZK 10 billion. A decline in interest in domestic shares (of CZK 12.4 billion) on the part of non-residents reflected a global fall in interest in holding shares.

Financial derivatives transactions reduced the financial account surplus by CZK 4.1 billion in H1.

Other investment showed a net capital inflow of CZK 21.5 billion in H1. Although the inflow was evenly divided between the two quarters, it resulted from entirely different transactions. The net inflow in Q1 was due primarily to a decline in the assets of commercial banks abroad totalling CZK 84.5 billion (with short-term assets falling by CZK 64.2 billion). This was offset by a fall in the liabilities of the corporate sector and, to a lesser extent, the banking sector. However, in Q2 the inflow of capital through the banking sector was insignificant. The overall net inflow of capital in Q2 in the area of other investment was chiefly attributable to growth in the short-term liabilities of the corporate sector (probably business credits).

The CNB's international reserves in 2002 Q3 were affected by foreign exchange operations, valuation changes and interest income. The CNB's foreign exchange market operations (purchases of foreign currency to counter the koruna's appreciation) increased the reserves by EUR 954 million (approximately CZK 28.8 billion). In dollar terms, the reserves rose by USD 1.1 billion in Q3, to USD 22.5 billion (CZK 689.9 billion). Relative to the start of 2002, the reserves were up by USD 8 billion.

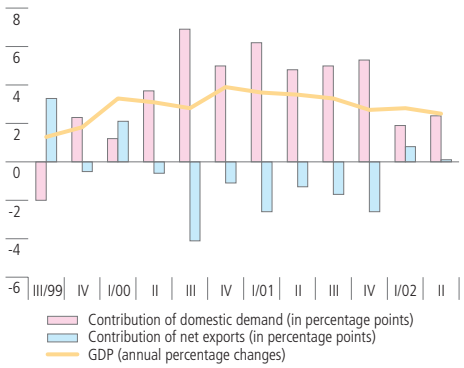
CHART III.10
CNB INTERNATIONAL RESERVES CONTINUE TO RISE IN DOLLAR TERMS
(USD billions)



III.3. DEMAND AND OUTPUT

According to the latest CSO estimates, economic growth continued to ease in 2002 Q2. The annual GDP growth rate of 2.5% was 0.3 percentage points lower than in Q1. The continuing moderate downward trend in economic growth was due to several factors: the weak economic growth recorded by the Czech Republic's major trading partners, the koruna's persisting relatively strong appreciation trend, and a lower growth rate of final domestic demand. The structural changes ongoing in the economy mitigated these unfavourable influences only to some extent. The persisting unfavourable conditions in the external economic environment, leading to lower sales opportunities in some regions, passed through into a further weakening of growth in exports. Overall, though, the contribution of net exports was positive again in Q2 thanks to a concurrent decrease in imports. Compared with the previous quarter, however, it was down by 0.7 percentage points to almost zero (see Chart III.11). The 2.5% economic growth was thus attributable chiefly to domestic demand again in Q2.

CHART III.11
ECONOMIC GROWTH SLOWED SOMEWHAT IN 2002 Q2



As in previous quarters, the economic growth in 2002 Q2 was again higher in the Czech Republic than in the EU countries, which are the major trading partners of the Czech economy[10]. GDP growth in the EU was 1.8 percentage points lower than that in the Czech Republic, reaching 0.7%. Significant from the Czech Republic's point of view was the fact that economic growth in Germany was 0.1%[11]. The structure of the individual components on the demand side has yet to indicate any improvement in export opportunities for Czech businesses either, since the EU economies recorded a year-on-year decline in imports in Q2. The generally stronger economic growth of the Czech economy compared with the EU was due mainly to higher growth in all the components of domestic demand. A particularly different trend was visible in investment demand, which recorded an increase in the Czech Republic but continued declining in the EU countries. Net external demand was, as in the Czech Republic, affected by the overall slackening of foreign trade in the current world economic climate.

TABLE III.6
THE ECONOMIC SITUATION OF THE CZECH REPUBLIC'S MAJOR TRADING PARTNERS IS CREATING NO ROOM FOR FASTER CZECH EXPORT GROWTH
(annual percentage changes; 2002 Q2, seasonally adjusted)

	EUROZONE	EU-15	CR
Gross domestic product	0.6	0.7	2.5
Household final consumption expenditure	0.3	0.1	3.7
Government final consumption expenditure	1.8	2	4.1
Gross fixed capital formation	-2.9	-3.2	3.3
Domestic demand	-0.2	0.2	x
Exports	0	-0.4	5.7
Imports	-2.2	-1.8	4.4

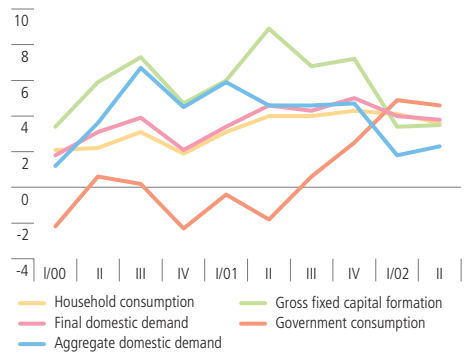
Source: Eurostat

For the time being, the available CSO figures on GDP growth in 2002 Q2 allow us to assess GDP only with respect to individual components on the demand side. The temporary absence of certain information on the corporate sector's financial performance due to the August floods means that it has not been possible so far to compile with the required accuracy a breakdown of gross value added by economic activity and thereby verify the balance between GDP resources and use. Some other data, primarily on gross capital formation, are not yet available for the same reason.

III.3.1. Domestic demand

The growth in final domestic demand in 2002 Q2 was slightly lower than in Q1, at 3.8% (in year-on-year terms). Much of this growth (roughly one half) was due to final consumption expenditure by households. Gross fixed capital formation also contributed significantly, although to a lesser extent than consumer demand (accounting for roughly one third of the total). As in the previous quarter, the final demand growth was also attributable to rapidly growing government consumption, although its contribution was smaller (about one fifth).

CHART III.12
GROWTH IN FINAL DOMESTIC DEMAND EASED, ESPECIALLY IN THE INVESTMENT AREA
(annual percentage changes)



10 *The EU countries accounted for 69% of total Czech exports in 2002 Q2.*
11 *Source: Eurostat, News Release No. 107/2002*

CHART III.13
BUT THE RATE OF INVESTMENT CONTINUED TO FLUCTUATE AROUND 30%
(percentages)

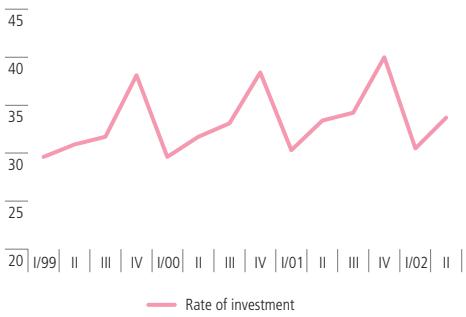


CHART III.14
THE AVERAGE RATE OF INVESTMENT IN THE CR WAS HIGH BY INTERNATIONAL COMPARISON
(percentages; computed from constant prices in national currencies)

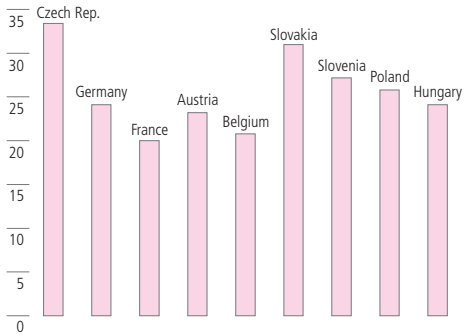
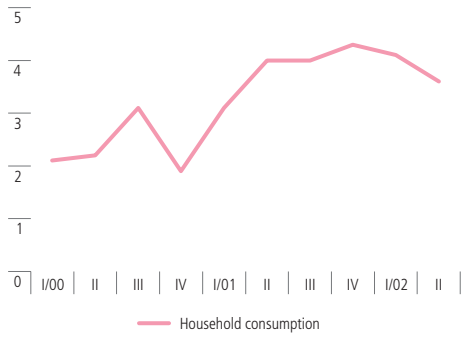


CHART III.15
GROWTH IN HOUSEHOLD CONSUMPTION SPENDING EASED SOMEWHAT
(annual percentage changes)



Government expenditure on final consumption was the only component of final demand to show an upward growth trend, as the remaining two components continued to record a downward tendency (see Chart III.12). It is likely that investment demand in particular was affected by external factors, and above all by the uncertainties regarding a future economic recovery abroad. This expectations factor probably also contributed in part to lower stockbuilding compared with 2001. For this reason, the growth of aggregate domestic demand (including changes in inventories) was lower than that of final domestic demand, at 2.8%.

Investment demand

Investment demand growth, measured by year-on-year growth in gross fixed capital formation, showed, as in Q1, a relatively strong decline. Compared with a year earlier, the growth rate of investment slowed to around one half (to 3.5%, see Chart III.12). The softening of investment activity was to some extent linked with the slowdown in domestic demand growth, but it was mainly due to the lagged effect of the persisting weak external demand and economic growth in advanced market economies (most notably Germany). Nonetheless, the rate of investment again significantly exceeded the 30% level (rising by 0.3 percentage points on a year earlier to 33.7%).

In comparison both with the advanced market economies and with European transition economies, the rate of investment in the Czech Republic is generally at a higher level. In the Czech Republic the average rate of investment has been 33.4% over the last four years (1998–2001), whereas in most of the advanced market economies it has been more than 10 percentage points lower (24.1% in Germany, 23.2% in Austria, 20.8% in Belgium, 20.0% in France, 18.4% in the United Kingdom) and in the European transition economies around 6 percentage points lower (31.0% in Slovakia, 27.2% in Slovenia, 25.8% in Poland, 24.1% in Hungary). The higher rate of investment in the Czech Republic and other transition economies is associated mainly with the transformation requirements of their economies (fundamental structural changes on the supply side, the building of infrastructure and suchlike) and with inflow of foreign direct investment. On the other hand, the lower investment demand in the advanced market economies may also indicate more efficient use of non-investment factors of growth.

Household consumption

Growth in the final consumption expenditure of households eased further in 2002 Q2, although less so than in the case of gross fixed capital formation. The year-on-year growth rate of households' consumer spending was down by 0.5 percentage points from Q1, to 3.6%. The most important factors for the consumer spending of households were still growth of disposable income and the overall perception of current and future economic developments, which feeds back into the propensity of households to consume or to save.

The weaker annual growth in household consumption in 2002 Q2 was due to a slowdown in growth of disposable household income and a concurrent increase in households' propensity to save. Compared with Q1, growth in the nominal gross disposable income of households slackened in Q2 (by 0.9 percentage points to 5%). This was largely due to a more marked slowdown in growth of income from social benefits[12] (of 1.2 percentage points from Q1 to 8.1%). Growth of incomes from wages and salaries, which are the largest part of households' incomes, also decreased

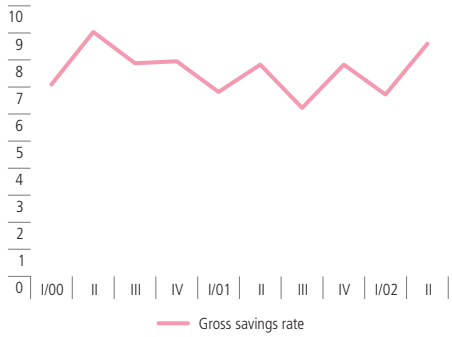
12 *i.e. social benefits other than social transfers in kind*

slightly (to 6.6%). In real terms, growth in disposable household incomes slowed by 0.4 percentage points to 4.3%[13].

As in previous quarters, real household consumption was also financed from credit. Although the net growth in borrowing, including leasing and instalment sales, was much higher in Q2 (up by 63.8% on a year earlier), the share of loan financing in household consumption remained insignificant.

With nominal disposable income growing faster (5%) than final consumption expenditure (4.3%), the gross savings rate of households increased to 8.6% in 2002 Q2 and was 0.8 percentage points higher than in the same period a year earlier. Only time will tell whether the increase in the savings rate (coming on the back of a long period of annual decline) signals a change in household behaviour, as the Ecoma survey of households is not indicating any significant changes in the consumer behaviour (or consumer confidence) of households.

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

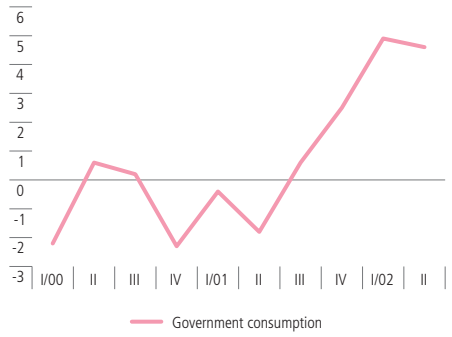


Government demand

Final consumption expenditure by the government recorded relatively buoyant growth in 2002 Q2. The year-on-year increase of 4.6% was, however, strongly affected by extraordinary spending by the Ministry of Defence[14]. Adjusted for this item, government sector spending rose by just 2.9%, primarily as a result of increased drawing on funds in the subsector of health insurance companies.

Government spending from the state budget was moderate. These expenditures, accounting for more than 70% of the coverage of government consumption, were drawn at below the planned amount (45.4% of the budgeted amount for 2002 H1 in nominal terms). The year-on-year comparability of the expenditure figures is severely complicated by methodological changes linked with the ongoing reform of public administration and organisational changes in budgetary and subsidised organisations. With respect to structure, there were some differences in drawings on government consumption expenditure from the state budget. For example, non-investment purchases and related expenditure – the most important item by volume – were drawn at only 37.8% of the amount budgeted for 2002 H1. Within this item, however, expenditure on compensation of employees, including insurance contributions, was drawn at 46.4%. Actual drawings on funds for non-investment subsidies and transfers varied between 47% and 50% of the approved budget.

CHART III.17
FINAL CONSUMPTION EXPENDITURE BY GOVERNMENT ROSE QUICKLY AGAIN IN 2002 Q2
(annual percentage changes)



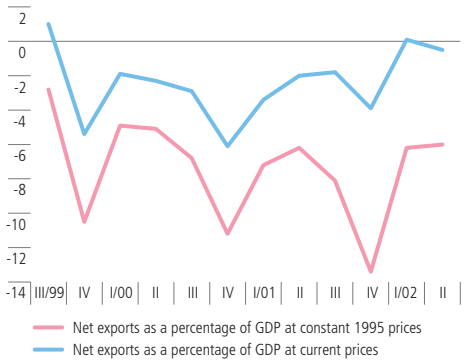
III.3.2. Net external demand

The favourable annual trend for net exports of goods and services[15] apparent from the revised figures in 2002 Q1 weakened significantly in Q2. Export growth outpaced import growth for the second consecutive quarter (following a long period during which import growth had exceeded export growth), but its lead narrowed considerably. This primarily reflected the adverse effects of the weak economic growth in advanced market economies on sales opportunities abroad (particularly in Germany) and was also partly due to the continuing appreciation of the koruna. These factors were partly offset by an expansion in production of export-oriented commodities and other structural changes on the supply side leading to improved export competitiveness.

CHART III.18
THE LEAD OF EXPORT GROWTH OVER IMPORT GROWTH NARROWED IN 2002 Q2
(annual percentage changes; constant prices)

13 *Deflated by the household consumption deflator.*
14 *Specifically, spending on more new military aircraft.*
15 *At constant 1995 prices.*

CHART III.19
THE SHARE OF NEGATIVE NET EXPORTS IN GDP AT CONSTANT PRICES DECREASED SLIGHTLY
(percentages)



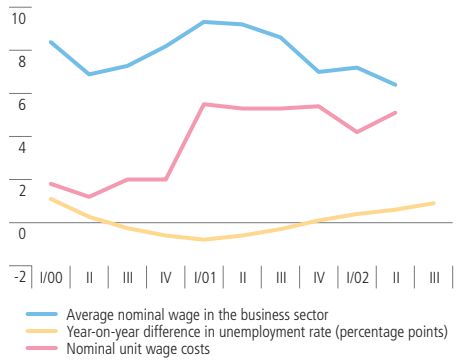
Amid a further very modest slowdown in the annual growth rate of both exports (to 4.2%) and imports (to 3.9%), negative net exports amounted to CZK 24.1 billion in Q2, an improvement of just CZK 0.2 billion on a year earlier. The positive contribution of net external demand to GDP growth in Q2 was lower than in Q1 (falling to 0.1 of a percentage point, see Chart III.11). The modest annual decline in negative net exports also led to a modest annual decline in their share of GDP (of 0.2 percentage points to -6%). The import propensity of GDP was relatively high again in 2002 Q2.

The influence of the koruna's appreciation on exports is illustrated by the figures on the export structure at current prices. Overall, exports in Q2 were 1.4% lower than a year earlier. As for individual regions, exports to advanced market economies (down by 1.5%) fell by less than those to transition economies (down by 2.8%). At the same time, the changes in the commodity structure continued to confirm a positive upward trend in the share of higher-value-added exports (the share of mechanical and electrical engineering commodities was up by 1 percentage point to 55.5%, while the share of exports of food, raw materials and semi-manufactures was down to 12.5%).

Total imports of goods and services at current prices recorded a year-on-year fall of 5.1% in 2002 Q2 (owing largely to the exchange rate appreciation). Imports decreased in all three main groups with respect to use. The biggest decrease was registered for imports for intermediate consumption (5.9%), reflecting not only the exchange rate appreciation but also the falling prices of energy-producing raw materials and the weaker external demand. The share of these imports, however, continued to dominate total imports, since the two remaining groups also recorded year-on-year declines (investment imports falling by 5.3% and imports for final consumption by 1.7%).

III.4. THE LABOUR MARKET

CHART III.20
THE SITUATION ON THE LABOUR MARKET FURTHER DETERIORATED IN BOTH Q2 AND Q3
(annual percentage changes and percentage points)



The labour market developments in 2002 Q2 and Q3 confirmed a persisting gradual deterioration of the relationship between the demand for, and supply of, labour. This meant a continuation of the previous trend seen since mid-2001, manifest primarily in a rise in the number of unemployed persons and the seasonally adjusted unemployment rate and a drop in the number of vacancies in year-on-year comparison. The annual growth in the unemployment rate in 2002 Q3 was the largest in the last four quarters (see Chart III.20). Average nominal wage growth picked up in 2002 Q2 owing to a sizeable increase in wages in the non-business sector. In contrast, wage growth in the business sector was slower than in the previous quarter. Average real wage growth accelerated in both sectors. A slowdown in whole-economy labour productivity growth and a pick-up in growth of income from wages and salaries implied faster growth of nominal unit wage costs at the macroeconomic level in Q2. The trends across individual industries were mixed, however. A deteriorating relationship between wage growth and productivity growth was also suggested by some indicators in industry and construction.

III.4.1. Employment and unemployment

In 2002 Q2, employment (monitored by the CSO business survey[16]) confirmed growing tension on the labour market. As in Q1, employment was below the level of the same period a year earlier, the decline increasing by 0.9 percentage points to 1.1%. Employment decreased in the business sector only (by 1.4% in year-on-year terms); the non-business sector recorded very slight growth (of 0.1%). The largest decreases in the number of employees were in industries experiencing a long-term fall in output (e.g. mining and quarrying: down by 7.1%). Banking and insurance also saw a considerable decline in workforce (of 4.3% from a year earlier). Employment also decreased further in manufacturing (by 2.2%). Within the business sector, growth in employment was recorded only in some services segments (e.g. wholesale and retail trade). According to the LFS[17] employment figures, the employment trends were also mixed with respect to region. In year-on-year comparison, the number of employed people increased in only three regions, whereas in most of the remainder it was flat.

Underlying the worsening situation on the labour market (i.e. the widening gap between the demand for, and supply of, labour) was slackening domestic and, in particular, external demand, reflecting weak economic growth in Western European countries and uncertainties associated with recovery. Unemployment was also still being affected by the ongoing restructuring of the economy. The deteriorating unemployment situation was indicated in particular by an annual rise in the seasonally adjusted unemployment rate, a decreasing number of vacancies and an increase in the number of unemployed people receiving unemployment benefits.

During the first three quarters of 2002, the supply of vacancies was below the levels of the same period of 2001. Moreover, the annual decline in the number of vacancies has gradually increased during the year: in January 2002 the supply of vacancies had been 1,800 lower than a year earlier, whereas at the end of September it was down by around 14,600 from a year before. This led to a worsening relationship between the number of job seekers and the number of vacancies. In September 2002 there were approximately 10.2 job applicants per vacancy, compared with 7 applicants in September 2001. There were no significant changes in the regional, occupational and skills structure of the supply of vacancies.

Owing to the decreasing supply of vacancies, the number of registered unemployed people has been gradually increasing (with seasonal fluctuations) since the start of 2002. At the end of September 2002, the figure was about 52,400 higher than in September 2001. The month-on-month rise in the number of unemployed people in September (4,600) was the highest since 1999. Annual growth in the unemployment rate showed a similar trend. The unemployment rate stood at 9.4% at the end of September, up by almost one percentage point on the same period of 2001. In September 2002, the unemployment rate exceeded 12% in 17 districts, most of them in northern Bohemia and northern Moravia. These trends are also illustrated by a gradually accelerating rise in unemployment benefits since May 2002.

The deteriorating situation on the labour market affected both long-term and short-term unemployment. Long-term unemployment – a persisting structural and regional problem – increased slightly in Q3 again (to 3.5%), following a period of stagnation. According to MLSA data, the number of long-term unemployed people was 10,500

CHART III.21
THE STEEPENING DECLINE IN VACANCIES INCREASED THE NUMBER OF PEOPLE UNEMPLOYED
(year-on-year changes; seasonally adjusted figures in thousands)

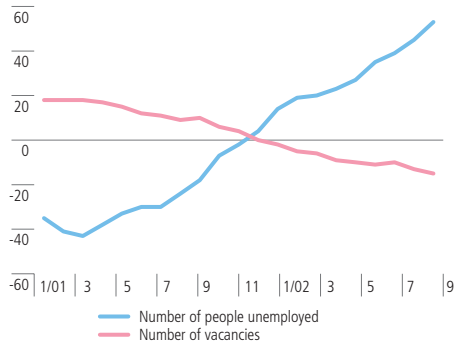


CHART III.22
THE UNEMPLOYMENT RATE INCREASED SHARPLY IN Q3 IN YEAR-ON-YEAR COMPARISON
(percentages; MLSA figures)

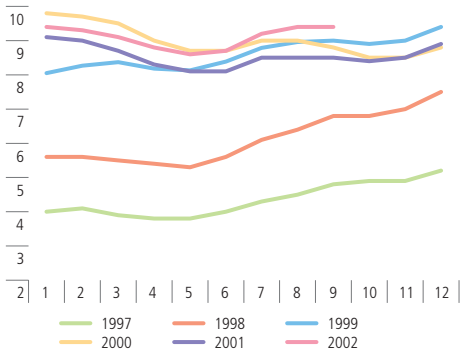


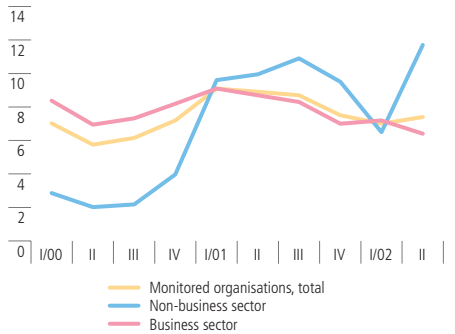
CHART III.23
THE RATES OF LONG-TERM AND SHORT-TERM UNEMPLOYMENT BOTH INCREASED
(percentages; period averages; MLSA figures)

16 *For businesses with 20 employees or more.*
17 *Labour Force Survey.*

higher in 2002 Q3 than in the previous quarter. The short-term unemployment rate continued to move at a higher level, rising in Q3 by 0.5 percentage points compared with Q2, to 5.9%.

III.4.2. Wages and productivity

CHART III.24
OVERALL GROWTH IN THE AVERAGE NOMINAL WAGE PICKED UP IN 2002 Q2, BUT WAGES IN THE BUSINESS SECTOR SHOWED MORE SLUGGISH GROWTH
(annual percentage changes)



The wage figures in 2002 Q2 indicated a moderate pick-up in average nominal wage growth in monitored organisations relative to the previous quarter (of 0.4 percentage points to 7.4%). In Q2, the trends again differed in the main two monitored sectors – the business sector and the non-business sector. In the business sector, average nominal wages confirmed the expectations expressed in the previous Inflation Report. The modest rise in their annual growth in 2002 Q1 was short-lived, and Q2 again saw a slowdown. The annual growth of 6.4% was the lowest since 1999 Q3. The slackening wage growth in the business sector was probably due mainly to weaker external demand and uncertainties associated with recovery. The structure of average wages at the same time displayed a link with the long-term fall in output in some industries (particularly agriculture, clothing manufacture, footwear and bag manufacture, etc.).

By contrast, the growth rate of average nominal wages in the non-business sector increased significantly in 2002 Q2 (by 5.2 percentage points compared with 2002 Q1, to 11.7%) as a result of a change in public servants' wage scales. This pick-up was also fostered by another wage increase for teachers and health-sector workers.

TABLE III.7
AVERAGE NOMINAL AND REAL WAGE GROWTH IN MONITORED ORGANISATIONS PICKED UP IN 2002 Q2
(annual percentage changes)

	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2001	2002 Q1	2002 Q2
Average wage in monitored organisations (nominal)	9.1	8.9	8.7	7.5	8.5	7.0	7.4
Average wage in monitored organisations (real)	4.8	3.7	3.1	3.1	3.6	3.2	5.0
Whole-economy labour productivity	2.7	2.7	3.0	2.5	2.7	2.6	2.3
Nominal unit wage costs	5.5	5.3	5.3	5.4	5.4	4.2	5.1
GDP deflator	4.1	4.5	5.9	6.6	5.3	4.2	2.2

Source: CSO; CNB calculation

The second quarter of 2002 also saw a rise in average real wage growth in monitored organisations (of 1.8 percentage points compared with Q1, to 5% in year-on-year comparison). Both monitored sectors contributed to this rise. The contribution of the business sector (which recorded annual average real wage growth of 0.7 percentage points, to 4%) was much smaller than that of the non-business sector (where the previous regular decreases in the growth rate were replaced in Q2 by an increase of 6.6 percentage points, to 9.2%).

Productivity growth at the macroeconomic level softened slightly in Q2, whereas growth in income from wages and salaries was faster than in Q1. In this situation, growth in nominal unit wage costs in Q2 picked up at the macroeconomic level, but varied across individual industries. Growth in the personnel cost-output ratio – unfavourable with respect to inflation – was also suggested by some indicators of the relationship between wage growth and productivity growth. In industry, average real wages grew faster than productivity[18] (year-on-year growth of 2.7% and 1% respectively). The August figures suggested a further worsening of this relationship, since productivity was down by 1.6% while real wages were up by 4.1%. A rise in the personnel cost-output ratio was also suggested by wages and productivity in construction, where productivity fell by 6.1% and average wages rose by 3% in August compared with a year earlier. It can be assumed that the growth in the personnel cost-output ratio in these industries reflected the lagged response of employment to the decreasing sales opportunities, especially on foreign markets. It is clear, however, that in industry especially – against a background of continuing favourable prices of imported inputs – the increase in the personnel cost-output ratio did not generate inflationary pressures. This assumption is borne out by both producer and consumer price inflation to date. Growth in the personnel cost-output ratio – like falling export prices – could only help moderate the slowdown in growth, or decline, in prices.

18 i.e. productivity based on sales

III.5. OTHER COSTS AND PRICES

The trend recorded for most domestic producer prices in 2002 Q3 again created the right conditions for slower growth, or a fall, in consumer prices. The disinflationary tendencies were again largely due to external factors, in particular a continuing annual decline in prices of most imported raw materials and other commodities on world markets. This, together with the continuing appreciation of the koruna's exchange rate, generated conditions for maintaining the relatively strong annual decline in import prices. This decline was, with some exceptions, of a general nature. In Q3 again, in the case of some exporters the benefits of the favourable prices of imported inputs were offset in part by falling export prices. This was probably one of the reasons why the decline in producer prices was slower than the fall in prices of imported inputs. The disinflationary nature of the external cost factors primarily affected industrial producer prices, whose annual decline further intensified. But the biggest decrease was again registered for agricultural producer prices. In construction and market services, where domestic effects predominated, prices continued to rise in annual terms. Only in market services for the business sector did inflation rise.

The strong influence of external factors on domestic producer prices was also indicated by inflation abroad. A comparison of industrial and agricultural producer prices in the Czech Republic and Germany confirmed an identical trend, determined in 2001 and the first three quarters of 2002 to a large extent by the same external factors (most notably falling prices of raw materials on world markets in a climate of generally weak growth of the world economy).

III.5.1. Import prices

The annual decline in import prices continued into 2002 Q3. The maintaining of this disinflation trend was largely attributable to falling prices of raw materials and other commodities on world markets and the continuing year-on-year appreciation of the koruna. According to the latest available figures (for August), the fall in import prices measured by the CSO annual import price index slowed to 9.3%. Declines were recorded in most of the SITC import categories, with only one of the nine showing annual price growth. The rate of annual decline differed considerably across the categories, varying between 4% and 27% in the first two months of Q3.

In 2002 Q3, the largest decreases were again registered for prices of imported energy-producing and non-energy-producing raw materials. However, the latest available figures signalled certain changes from the previous period for some commodities. The biggest change was recorded by oil prices, where the previous sharp annual decline was replaced by annual growth during Q3. The price of Ural crude oil rebounded to USD 25.8 per barrel in August. In year-on-year comparison this meant a 9.6% rise in August, whereas in June a 10.9% decrease had been recorded. According the CSO world price index, natural gas prices, which react with a certain lag to changes in oil prices, showed a weaker annual decline on world markets (down from 31.1% in June to 20.6% in August). Particularly the turnaround in the oil price trend caused the decline in prices of imported mineral fuels[19] to ease considerably in Q3 (by 11.5 percentage points compared with June, to 19.6% in August). The fall in import prices of non-energy-producing raw materials[20] slowed somewhat compared with the previous quarter (from 16.8% in June to 13.8% in August).

CHART III.25
THE PRODUCER PRICE TREND CONTINUED TO CREATE CONDITIONS FOR A FALL IN CONSUMER PRICE INFLATION
(annual percentage changes)

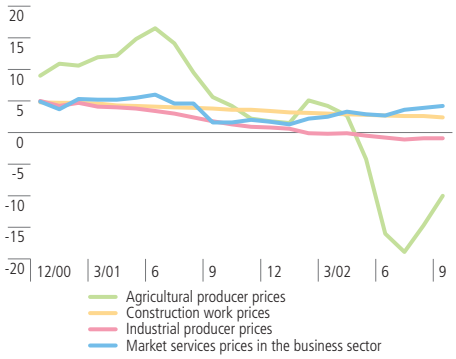


CHART III.26
THE SHARP YEAR-ON-YEAR DECLINE IN IMPORT PRICES CONTINUED INTO Q3
(percentages)

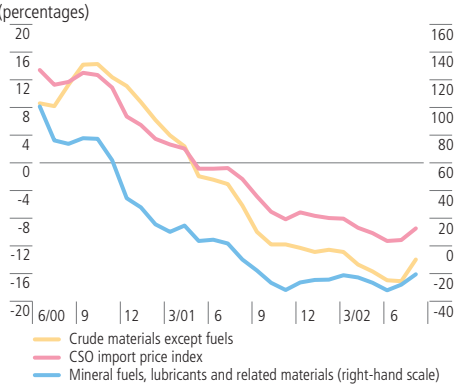


TABLE III.8
IN MOST IMPORT CATEGORIES, IMPORT PRICES RECORDED A YEAR-ON-YEAR DECLINE
(percentages)

	1/02	2	3	4	5	6	7	8
Imports, total	-7.5	-7.8	-7.9	-9.2	-10.0	-11.1	-11.0	-9.3
Food and live animals	-1.3	0.4	1.5	-0.6	-0.8	-2.4	-4.0	-4.9
Beverages and tobacco	-1.4	-0.1	-2.3	-5.8	-7.5	-8.0	-10.3	-9.8
Crude materials except fuels	-12.7	-12.4	-12.7	-14.5	-15.5	-16.8	-16.9	-13.8
Mineral fuels and lubricants	-23.7	-23.4	-20.2	-21.9	-25.7	-31.1	-27.2	-19.6
Animal and vegetable oils	-0.5	1.7	3.0	0.8	0.0	1.8	1.1	5.4
Chemicals and related products	-7.9	-8.5	-9.2	-10.0	-9.7	-10.0	-9.7	-8.8
Manufactured goods	-7.3	-7.3	-8.0	-9.3	-9.9	-10.3	-10.6	-9.0
Machinery and transport equipment	-4.7	-5.6	-6.6	-7.6	-8.1	-8.5	-9.2	-8.5
Misc. manufactured articles	-2.5	-2.2	-2.0	-3.2	-3.3	-3.5	-4.0	-3.8

19 *i.e. mineral fuels, lubricants and related materials.*
20 *Crude materials except fuels.*

CHART III.27
FALLING PRICES OF MOST IMPORTED INPUTS FOSTERED A DECLINE IN INDUSTRIAL PRODUCER PRICES
(annual percentage changes)

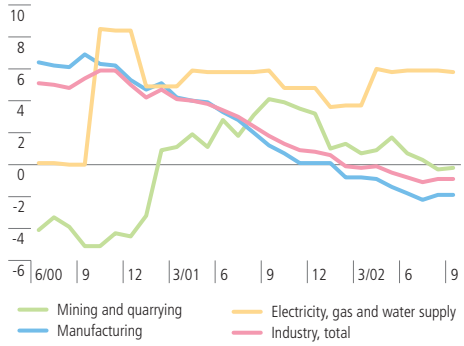


CHART III.28
PRODUCER PRICES CONTINUED FALLING MOST SHARPLY IN OIL-PRODUCT-PROCESSING INDUSTRIES
(annual percentage changes)

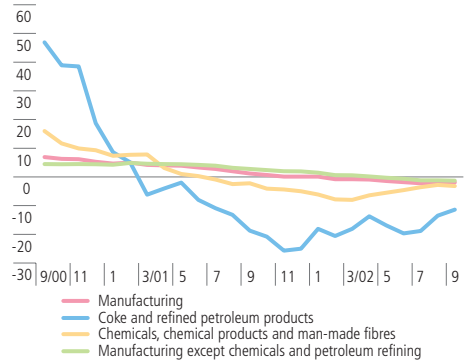
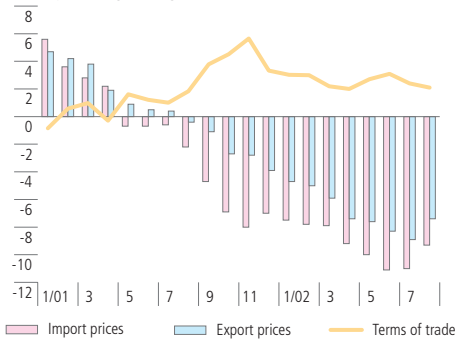


CHART III.29
FOR EXPORTING PRODUCERS, THE POSITIVE EFFECT OF FALLING PRICES OF IMPORTED INPUTS WAS OFFSET IN PART BY A SIMULTANEOUS DECLINE IN EXPORT PRICES
(annual percentage changes)



Prices of other imported commodities displayed a continuation of their long-running trend of deepening annual decline. This trend was visible for most imported foods, semi-manufactures, production equipment and manufactured articles. Import prices of products with higher value-added also decreased (for example, import prices of machinery and transport equipment – which have a 40% weight in the import price index – were 8.5% down from a year earlier in August).

III.5.2. Producer prices

Industrial producer prices

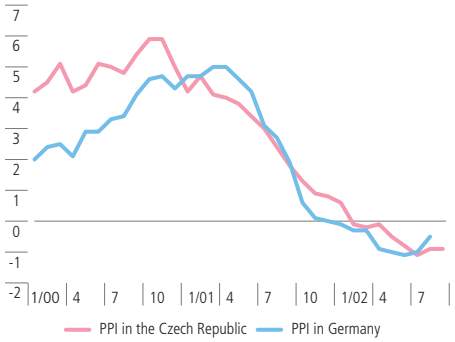
The long-running disinflationary trend in prices of imported inputs helped to maintain the across-the-board nature of the annual decline in industrial producer prices in 2002 Q3 (with some exceptions). Relative to previous quarters, this decline intensified somewhat further in Q3 (to -0.9% in September). The longer-term anti-inflationary effects of external cost factors were particularly visible in manufacturing, where the annual decline increased somewhat further (from -1.8% in June to -1.9% in September) and was stronger than in other sectors. Within manufacturing, the biggest decreases were again recorded in branches involved directly in processing energy-producing raw materials and in the chemical industry. However, their contribution to the overall decline in prices in manufacturing decreased in Q3, owing to the aforementioned reversal in the oil price trend. Compared with June 2002, the price decline in the manufacture of coke and refined petroleum products thus slowed by 8.3 percentage points to 11.4% and in the manufacture of chemicals, chemical products and man-made fibres by 1.4 percentage points to 3.2% in September.

In Q3, most other manufacturing industries recorded either a continuing modest downward trend in price growth or a further annual decline in prices. In March 2002 prices had risen slightly in these industries (by 0.6%); in May there was a modest annual decline (of 0.3%), and this decline intensified during Q3 (to 1.3% in September). This was particularly apparent in the manufacture of food, beverages and tobacco, whose prices strongly affect food price inflation on the consumer market. In industries with more sophisticated products (e.g. manufacture of transport equipment and electrical and optical equipment) the price decline was more moderate (at 0.4% and 0.7% respectively). The smaller annual decline in producer prices in these industries than in prices of imported inputs was probably due, among other things, to falling export prices. In other words, the positive contributions of the falling input prices to the financial results of domestic producers were, in the case of some exporters, again partly offset in Q3 by falling export prices. Given the competitive environment both at home and abroad, the producers' options for passing on this negative effect – caused primarily by the continuing appreciation of the koruna's exchange rate – into their selling prices were limited.

The non-manufacturing industries showed mixed trends again in Q3. Prices in mining and quarrying confirmed the short-lived nature of the slightly higher price increase in Q2, as in August and September they recorded annual decreases (of 0.2% in September). Producer prices in the electricity, gas and water supply industry were flat at the Q2 level (5.8% in September).

The disinflationary effect of external cost impulses on industrial producer prices is also indicated by producer price inflation in other countries. For example, during recent quarters industrial producer price inflation in Germany has followed broadly the same trajectory as that in the Czech Republic. This is mostly due to the prevalence of identical and similarly acting factors, such as the aforementioned trends in prices of raw materials and other commodities on world markets. Domestic factors also played a role (in the Czech Republic the indirect influence of strong competition on the retail market, and in Germany probably subdued domestic consumer demand). At the same time, producer prices in Germany had a feedback effect on inflation in the Czech Republic, since prices of imported intermediate products in large measure account for the total costs of final production. This "imported disinflation" effect was bolstered considerably by the koruna's appreciation.

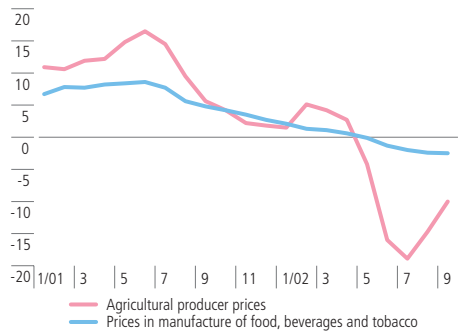
CHART III.30
THE DISINFLATIONARY TREND IN PRICES OF CRUDE MATERIALS AND OTHER COMMODITIES ON WORLD MARKETS AFFECTED PRICES IN OTHER ECONOMIES AS WELL
(annual percentage changes)



Agricultural producer prices

Agricultural producer prices showed the biggest decrease of all in 2002 Q3. After recording their largest annual decrease since 1991 in July (18.9%), the decline weakened somewhat in the months that followed. However, it remained quite strong (10% in September) and, as in previous months, very much across-the-board in nature. The marked reduction in agricultural producer prices below the level of the same period a year earlier was attributable to several long-term factors mentioned in previous Inflation Reports. These included specifically the increasing excess supply of some commodities on the domestic market thanks to sizeable stocks remaining from the good harvest in 2001, which, with the new harvest approaching, had not yet been placed on the market. There were also external factors counteracting any rise in prices, most notably falling demand for, and prices of, agricultural commodities abroad at the start of Q3. The prices of some imported inputs also created some room for a reduction in domestic producer prices. Also important was the continuing appreciation of the koruna, which reinforced the effects of the two last-mentioned factors.

CHART III.31
PRICES OF AGRICULTURAL PRODUCERS AND IN RELATED MANUFACTURING BRANCHES RECORDED A YEAR-ON-YEAR DECLINE FOR THE SECOND CONSECUTIVE QUARTER
(percentages)



The above effects substantially weakened the bargaining position of agricultural producers and had a favourable knock-on effect on producer prices in both main segments of agricultural production – livestock and crops – and related areas of manufacturing. Prices of both livestock and crop products were again below the previous year's level in Q3 (by 10.8% and 8.5% respectively in September).

As in the case of industrial producer prices, the trajectory of agricultural producer price inflation in the Czech Republic is broadly the same as that in Germany. The reasons have also been more or less the same since around mid-2001, i.e. a combination of a good 2001 harvest and deteriorating sales opportunities on other markets. Specific domestic factors have also played a role – the deeper annual decline in agricultural producer prices in the Czech Republic was due to less regulation of domestic agricultural prices and to the appreciation of the koruna.

CHART III.32
GERMAN AGRICULTURAL PRODUCER PRICES RECORDED A SIMILAR DOWNWARD TREND
(annual percentage changes)

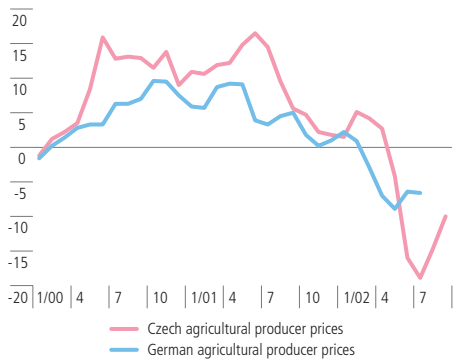


CHART III.33
THE LONG-RUNNING DOWNWARD TREND IN CONSTRUCTION WORK PRICE INFLATION CONTINUED INTO Q3
(annual percentage changes)

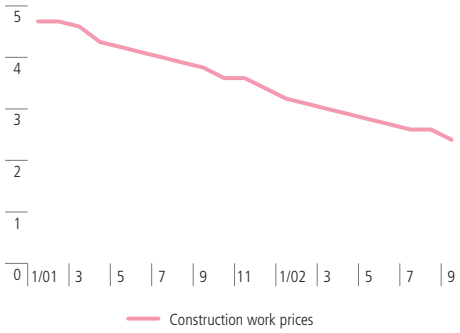
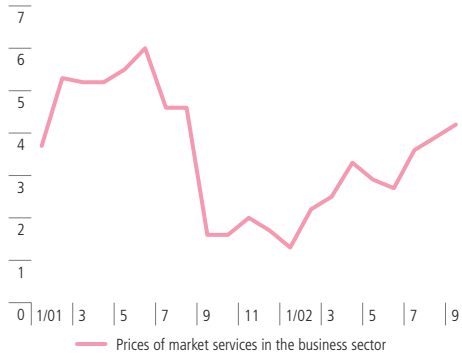


CHART III.34
THE ONLY PICK-UP IN GROWTH WAS SHOWN BY MARKET SERVICES PRICES IN THE BUSINESS SECTOR
(annual percentage changes)



Construction work prices

Construction work prices in 2002 Q3 confirmed the long-running gradual downward trend in annual growth seen since the beginning of 2001. In Q3, annual construction work price inflation fell by a further 0.3 percentage points to 2.4%. The fact that prices in this segment – unlike in most other price groups in the producer sector – kept rising was due to the prevalence of domestic factors. The inflation outturns were quite low, however. The gradual decline in the first three quarters of 2002 probably reflected a long-running decline in demand for construction activity in an environment of stiff competition and relatively low utilisation of construction capacities.

Market services prices in the business sector

Market services prices in the business sector remained the only price segment experiencing a pick-up in inflation in 2002 Q3. Here, the effects of domestic factors were even more apparent than in the construction work area. At the end of Q3, inflation was relatively high (at 4.2% annually, compared with 2.7% in June).

The pick-up in market services price inflation in the business sector was again attributable to other business services, where inflation rose considerably in Q3 (to 4.2% in year-on-year terms). Growth of around 4% was recorded for most components of these services – in particular real estate, computer services and other business activities (a marked increase was registered for advertising prices, for example). Communication services prices also saw sizeable growth (5.2%), as did sewerage collection charges (6.9%), although in the latter case the rise was smaller than in Q2. Only in the areas of national goods transport and financial intermediation did inflation remain at a lower level (not exceeding 2%).

IV. THE INFLATION FORECAST AND ITS ASSUMPTIONS

IV.1. External assumptions of the inflation forecast

Assumptions regarding the external environment have a substantial effect on the message of the macroeconomic forecast. Prices of energy-producing raw materials, foreign producer price indices and the business cycle of the Czech Republic's major trading partners play a key role in this respect. The forecast scenarios for the evolution of these variables are taken from the predictions of foreign analytical teams contained in the publication *Consensus Forecast*.

In the case of prices of energy-producing raw materials, the forecast for the last quarter of 2002 and the first three quarters of 2003 has been reassessed. The expected price of Ural crude oil in 2002 Q4 has been increased to USD 27 per barrel. During 2003 the price is expected to fall (to below USD 23 per barrel in Q4). This price level is little changed from the assumptions of the previous macroeconomic forecast. The only significant change to the assumed scenario for natural gas prices is for 2002 Q4, where the expected price has been increased.

Compared with the July forecast, the estimates of economic growth abroad, represented by GDP in Germany, have been decreased for both 2002 (where the estimate of GDP growth is down from 0.9% in July to 0.4% currently) and 2003 (where GDP growth of about 1.5% is expected, whereas the July forecast had been around one percentage point higher).

In line with the delay in the expected recovery abroad, the expectations regarding inflation in other countries have been revised as well, although the changes are not so pronounced as in the case of GDP. Industrial producer prices in Germany are expected to decrease somewhat in 2002 and to increase by 1% in 2003. The outlook for consumer price inflation in Germany is little changed from July. The forecast assumes consumer price inflation of 1.4% in both 2002 and 2003.

IV.2. Internal assumptions of the inflation forecast

The macroeconomic forecast is affected not only by the external environment, but also by assumptions regarding the internal environment of the Czech economy and its starting conditions. These include the autonomous effect of fiscal policy, the trajectory of the equilibrium values of key macroeconomic variables, and the current position of the economy in the business cycle.

The public budget deficit, excluding privatisation proceeds and subsidies to transformation institutions, will reach approximately 7% of GDP in both 2002 and 2003. With respect to the fiscal sector's effect on GDP growth, it is, however, more useful to monitor the year-on-year changes in the demand-generating component of this deficit. The figures published to date leave considerable uncertainties regarding the level and timing of the demand-generating component in 2002. Consequently, it is impossible to determine specifically to what extent the GDP growth is being driven this year by demand from the public budgets. Besides the question mark hanging over the effect of the fiscal sector in 2002, the other uncertainty in the forecast is the very sketchy outlook for public finances in the years ahead. The baseline forecast scenario assumes that the demand-generating component of the public budget deficit will increase by approximately CZK 20 billion between 2002 and 2003.

The forecast assumes that the exchange rate will remain broadly at the 2002 Q3 average. In addition to interest rate movements consistent with the forecast, the

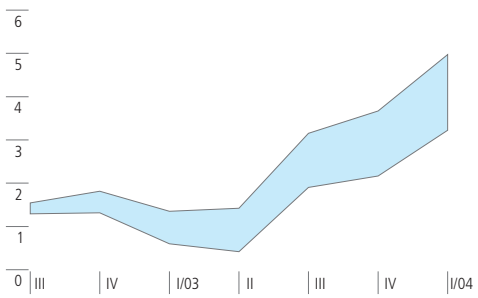
unchanged exchange rate level in the forecast is supported by the overall neutral effect of the expected financial flows. The CZK/USD rate has been calculated on the basis of the aforementioned CZK/EUR rate and the foreign consensus forecast of the EUR/USD rate, which foresees approximate parity between the euro and the dollar for end-2002 and for 2003.

The growth expected in potential output is slightly below 3% in 2003 and 3.5% in the following years. The growth rate of equilibrium appreciation of the koruna's real exchange rate against the euro should gradually fall from the level assumed in previous forecasts. By contrast, equilibrium real interest rates should remain stable. The one-year equilibrium real interest rate on the interbank market is estimated at just above 1.5%.

The starting conditions of the macroeconomic forecast, represented in particular by the output gap and the settings of the individual components of the monetary conditions, are based on a comparison of the actual situation and the assumptions regarding the evolution of equilibrium values. The estimate of the output gap has widened slightly compared with the July forecast to -1.6%, owing to the weak external demand and the adjustments to the monetary settings since the end of 2001.

IV.3. THE MESSAGE OF THE FORECAST

CHART IV.1
AFTER SLOWING IN 2002 H2 AND 2003 H1, ECONOMIC GROWTH WILL START RISING SHARPLY
(GDP growth at constant prices; percentages)



In 2002 H2, the macroeconomic forecast assumes a slowdown in GDP growth to roughly 1.5%, compared with 2.6% in 2002 H1, owing to several factors combined. The rise in real interest rates and the overvalued exchange rate seen since the end of 2001 will be reflected primarily in a very low growth rate of private investment. On the other hand, notwithstanding the rise in real interest rates, household consumption will maintain a growth rate of around 4% up to the end of 2002, thanks primarily to the supply stimulus of household borrowing, but also to higher real disposable incomes. The cooling of the world economy, which will lead to a deterioration of net exports, will have a significant downward effect on GDP growth. At the same time, GDP growth in 2002 H2 has been revised downwards by 0.7 percentage points relative to the July forecast owing to the impact of the August floods on GDP in Q3, the stronger-than-expected effect of the exchange rate appreciation on gross fixed capital formation, and the greater-than-expected cooling of the world economy.

The effects of the floods in August 2003 on GDP growth are examined in the following box. The analysis shows that the impact of the flooding will be quite significant in 2002 H2, but very limited in 2002 overall and in 2003.

An assessment of the effects of the August floods on Czech economic growth

Although the August floods were an extraordinary event in terms of both scale and effect, their macroeconomic impacts, including on the fiscal side, will probably not be fundamental. According to a government report on the state budget performance in 2002 H1 submitted to the Chamber of Deputies at the start of November, the total damage caused to the national economy by the floods amounted to CZK 70 billion. The transport, energy and communications infrastructure was seriously hit. The worst-affected sectors were the chemical, food, mining and energy industries. The analysis of the effects of the flooding involved

a comprehensive examination of its impacts on economic growth, the labour market, inflation, the external balance and public finances. The experience of the 1997 floods was drawn upon as well.

The supply side should not be affected in the long run. The damage to production facilities and the temporary fall in sales is expected to bring about weaker growth of industrial production, particularly in 2002 Q3. In agriculture, the final effect of the flood damage should not be too serious, as the flooding only affected less significant agricultural areas at an advanced stage of harvesting. A short-term decrease in performance in Q3 is also likely in the services sector, and especially in transport, communications, retail trade and travel services. On the other hand, activities connected with the repair of property damaged by the floods should foster growth in construction output as early as 2002 H2.

The negative effects of the floods on the demand side should be visible primarily in 2002 Q3. A temporary decline in domestic demand should manifest itself primarily in consumer demand. The expected weakening of industrial production growth caused by the floods will show up in lower stockbuilding in 2002 Q2 with negative effects on economic growth. At the same time we can expect a short-term decline in imports for final consumption and a drop in revenues from travel in the areas hit by the floods. As a result, 2002 H2 should see some deterioration in net exports. On the other hand, a rise is expected in public spending, particularly in 2002 Q3, in connection with rescue and clean-up operations (though part of this spending will be offset by a reduction in other planned spending on government consumption).

An increase in domestic demand is expected in 2003 in connection with transfers in the form of payment of insurance claims, one-off government subsidies and other transfers, and with repairs to damaged property and infrastructure. Compensation payments associated with foreign re-insurance of insurance companies are also expected. The higher inflow of transfers should provide a supplementary impulse to growth in household consumption. The additional investment demand associated with infrastructure renewal should boost growth in gross fixed capital formation.

The impact of the floods on the overall GDP growth in both 2002 and 2003 should be relatively weak. Drawing on preliminary considerations regarding demand-side developments and GDP expenditure, and taking into account the experience of the 1997 floods, we can expect the flooding to cause real GDP growth to slow by about 0.2–0.3 percentage points in 2002. In 2003, conversely, we can expect an additional positive impulse for GDP growth of about the same magnitude as in 2002. The effect of the flooding on unemployment is not expected to be significant, although it could generate a slight rise in 2002 H2. Given the expected impact of the flooding on economic activity, the overall effect on consumer price inflation and industrial producer price inflation should be very small in both 2002 and 2003. Turning to public finances, a partial fall in revenues from both direct and indirect taxes (of around CZK 2 billion a year) can be expected in 2002 and 2003 alike.

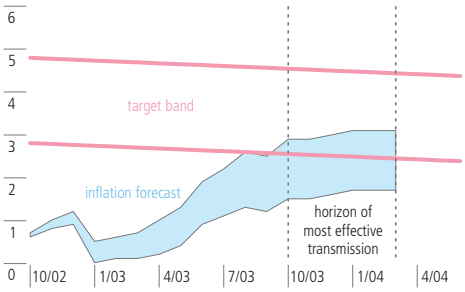
GDP growth in 2003, when a slowdown to 1.8% is expected compared with the July forecast (2.9%), will be affected chiefly by almost zero annual growth in gross fixed capital formation and by a slowdown in household consumption growth. The stagnation in gross fixed capital formation is due on the one hand to the draining of government sector resources and on the other hand to subdued private sector investment owing to the persisting tight monetary conditions during 2002. The

decrease in household consumption derives from an expected fall in real disposable incomes due to lower growth in wages and social transfers and to rising inflation. In 2003 H2, and especially in 2003 Q4, GDP growth will gradually pick up. Underlying this, according to the forecast, is a rise in exports caused by the expected recovery abroad and also a moderate increase in gross fixed capital formation in response to a forecast-consistent easing of monetary conditions. Thereafter, in 2004, the forecast assumes a more pronounced pick-up in GDP growth resulting from the same combination of factors.

As mentioned in Section IV.2, there is considerable uncertainty surrounding the demand-generating component of public finances in the forecast for 2003. Here, the possibility that the effect of this component will be stronger than assumed in the baseline scenario is a significant alternative scenario. In such case, GDP growth – particularly in the second half of the forecast period – would follow a slightly higher trajectory and the output gap would narrow. However, the inflation forecast would be little different from that in the baseline scenario.

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)



Compared with the July macroeconomic forecast, the inflation outlook for end-2002 reflects a further moderate increase in disinflation ensuing from lower-than-expected regulated price inflation and stronger seasonal decreases in food prices during 2002 Q3. Given the negative output gap, the forecast assumes an absence of demand-pull inflationary pressures. Consequently, consumer price inflation of around 1% is expected at the end of 2002.

The negative output gap will be a major anti-inflationary factor during 2003 as well, although its anti-inflationary effects will be limited by the fact that the widening output gap is largely due to a fall in investment activity with a less substantial impact on consumer price groups. Inflation will be higher in 2003 than in 2002 according to the forecast, since the aforementioned anti-inflationary effect of the negative output gap will be outweighed by a gradual unwinding of the strong positive cost effect of import prices and agricultural producer prices. Given a stable exchange rate, import prices and agricultural producer prices are expected to switch from annual declines to zero or slightly positive changes. According to the forecast, adjusted inflation and food price inflation will thus be higher at the end of 2003 than in 2002. Compared with the previous macroeconomic forecast, the only substantial change is in the outlook for regulated prices, where for the end of 2003 annual regulated price inflation has been lowered by one percentage point. Overall, the end-2003 forecast for annual consumer price inflation is thus about 0.3 percentage points lower than the July prediction, at just above 2%. In connection with the closing of the output gap at the end of 2003 and in particular during 2004, the disinflationary demand-pull factors unwind and inflation returns to the target band.

To sum up, the macroeconomic forecast expects a slowdown in economic growth at the end of 2002 and in 2003 H1, based on strong anti-inflationary effects from the exchange rate and on an increased cooling of the world economy. In the near future, inflation will still be affected by an absence of demand-pull pressures and low imported inflation. The effect of the latter, however, will change to neutral during 2003. Nonetheless, inflation will remain below the lower margin of the target band up until mid-2004. Based on the information available at the time the forecast was drawn up, a decline in interest rates in 2002 Q4 and subsequent stability in 2003 is consistent with the aforementioned baseline scenario and its assumptions.

V.4. EXPECTATIONS OF ECONOMIC AGENTS

The future inflation outturns and interest rates expected by financial market participants decreased further in 2002 Q3 to historical lows. The respondents were reacting primarily to the persisting low-inflation environment. The expected inflation also reflected other factors, for instance the strong exchange rate and the slow recovery of the world economy. At the end of the period under review, inflation expectations increased slightly. The main reason given for the expected faster growth in inflation next year is an expected rise in food price inflation (caused by the August floods and poorer harvest). Potential inflation risks are also associated with geo-political developments and the related prospect of growth in oil prices.

The predicted interest rates and the shape of the money market yield curve indicated expectations of a modest reduction of the repo rate at the one-quarter horizon. Looking further ahead, however, the interest rate level is expected to increase owing to the aforementioned inflation risks.

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
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	2.7	1.6	4.6
7/02	2.8			4.1
8/02	2.7			4.0
9/02	3.1			3.7

MINUTES OF THE CNB BANK BOARD MEETINGS

MINUTES OF THE BOARD MEETING ON 11 JULY 2002

Present at the meeting:

Zdeněk Tůma (Governor), Oldřich Dědek (Vice-Governor), Luděk Niedermayer (Vice-Governor),
Michaela Erbenová (Chief Executive Director), Pavel Štěpánek (Chief Executive Director)

Due to the sharp appreciation of the Czech koruna over the past few days, the CNB Board exceptionally devoted its regular weekly meeting to monetary policy issues. The Board opened the meeting with an assessment of current economic developments, and in particular, of the risks associated with koruna appreciation. With the koruna appreciating at a faster pace, the board members discussed whether or not postponing any decision-making until the next regular monetary policy meeting would expose the economy to the negative effects of a strong koruna. Two alternative reactions to the existing exchange rate fluctuation were, therefore, analysed.

The first alternative considered was an immediate response to the situation. It was stated that strong, temporary fluctuations in the exchange rate could be costly for the economy if they resulted in the loss of production capacity. Furthermore, it was mentioned that the available aggregate data did not reflect the potential negative impact of a strong currency. Some figures, however, were already sending clear signals, and a quick response from the central bank could soften the negative impact.

In this respect, the Board discussed the role the exchange rate would have in its inflation-targeting strategy. It was expressed repeatedly that a discussion on the exchange rate did not imply in any way that the inflation target's role had been reduced. In view of the economy's openness, stronger exchange rate fluctuations inevitably had an effect on the aggregate economic variables, including inflation. It was said that current exchange rate developments clearly showed that one of the fundamental inflation-forecast assumptions would be corrected in July, and for this reason, a monetary policy response should be considered. Foreign exchange intervention was seen, in this context, as a legitimate monetary policy instrument whose success depended on the efficiency of the market.

The second alternative was to postpone any monetary decisions until the next regular monetary policy meeting. It was mentioned that the new quarterly forecast on economic development would be available at this meeting, and disclosing this information could increase the effectiveness of the adopted measures. A view also expressed that intervention might not be totally adequate if not accompanied by a reduction in rates and if not a part of a more comprehensive strategy.

There was consensus among board members that the strong currency was such a serious problem that the central bank's monetary policy instruments could not cope with the situation alone. A valuable role was also played by the Government's cooperation in sterilising the impact of privatisation income and additional inflows of foreign currency revenue. However, exchange rate developments were also closely connected to fiscal policy settings. Closer coordination of economic policies was therefore desired, especially in respect to exchange rate development.

By a vote of four to one, the Board decided to leave the CNB two-week repo rate at its current level. One member of the Board was in favour of reducing rates by 0.5 percentage points. In addition, the Board decided to intervene on the foreign exchange market according to the existing conditions.

Minutes of the Board Meeting on 25 July 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), Bohuslav Sobotka (Minister of Finance)

The presentation of the 7th situational report opened with an analysis of current economic development. June inflation was lower than the April forecast had predicted. Price fluctuations had slowed in all price segments. The strongest slowdown had occurred in the segments of net inflation, the food segment in particular. However, the prices of non-tradable goods had also shown slower growth. An unexpected sharp drop in import prices and a decline in agricultural producer prices contributed to this deviation. Demand pressures were also more moderate due to slower GDP growth. Growth at this time was mainly supported by consumption. The slowdown in inflation did not constrain wage developments, therefore, real wages rose more than expected. The monetary aggregates corresponded to slower GDP growth and the low-inflation environment.

The July forecast reflected the reality that, in 2002, cost factors would be anti-inflationary in nature and that the slowdown in GDP and foreign demand would curb demand-inflation pressures. Cost factors would be neutral to slightly expansive for the first time in 2003. The output gap in 2003 would close as a result of foreign demand recovery and GDP growth. Regulated prices would also be anti-inflationary, because deregulation was so far lower then predicted in the scenario – a part of the agreement with the Government during their discussion on the inflation target. According to the July forecast, inflation in 2002 would fluctuate below the targeted band and in 2003 would move towards its lower boundary. The July forecast framework brought about a change. The assumption of invariable rates would now be abandoned in the forecast period. The July forecast was consistent with the reduction in monetary policy rates in the second half of 2002 and with increasing these rates in the following period.

The Board followed up the presentation of the 7th situational report with a discussion on the new economic outlook. The Board confirmed that the downward correction in the inflation forecast and growth corresponded with other analyses. A combination of various factors had contributed to the slowdown in GDP growth and the decline in inflation. These factors were described in the situational report. The Board agreed that an appropriate response to the July forecast, which predicted inflation below the targeted band up to 2003, would be to lower rates. It was mentioned that the extent and phasing of this reduction would be an important part of the discussion.

The Board considered a rate cut of 0.75 percentage points as well as dividing this cut into two phases depending on whether or not the new data corresponded to assumptions. It was expressed that a quick and strong response could be needed in view of the unexpected slowdown in inflation, coupled with real wage growth, and the problems associated with the strong currency. Spreading the rate cut over a longer time period would only offset the exogenous tightening of monetary conditions. In support of a lower initial cut, it was said that the combination of an exceptionally large rate change with domestic rates at a lower level than Eurozone rates could send too strong of a signal. In this respect, the exchange rate was also discussed. Some views expressed that the impact of a strong currency was so far not visible in the aggregate data. However, members repeatedly stressed that slower GDP growth was a signal of certain negative exchange rate effects combined with the impact of slowed foreign demand. Figures from the corporate sphere were mixed at this time. Monetary policy would have to respond in advance to lessen the negative impact.

The Board now turned to a discussion of the new framework for generating the inflation forecast. With this framework, the July forecast could be presented to the public as a forecast consistent with certain rate fluctuations. The forecast was based on a model that worked with the simple reaction function of the central bank. This function, in turn, corresponded to the definition of the CNB's target. From an overall perspective, the Board suggested that the new framework was more advantageous. A certain risk related to the transitional phase was also mentioned. In this phase, the correction in the forecast was caused by a combination of changes in the assumptions along with actual changes in the forecasting methodology itself.

The Board discussed the risks of future economic development. It was stated that the rigid development of nominal variables – wages in particular – was one risk involved when inflation unexpectedly slowed down. This factor along with a rise in real rates could worsen the financial situation of companies and work in an anti-inflationary direction. However, a temporary increase in real wages could prompt the acceleration of private consumption, so the final effect may not be clearly quantified. In this context, members expressed that wage bargaining in November should take into account the existing low-inflationary development. The impact of wage momentum would then only be temporary. A possible reverse in exchange rate developments was indicated as another risk. For the time being, though, appreciation was perceived as a more enduring shock. It was repeatedly stated that the current lack of information in the fiscal area was a risk for the economic outlook.

Following the discussion of the July situational report, the Board decided, effective 26 July 2002, to lower the CNB two-week repo rate by 0.75 percentage points to 3.00%. The discount and Lombard rates were also decreased by 0.75 pp to 2.00% and 4.00%, respectively. Five members were in favour of this rate change, and two members voted for a rate cut of 0.5 percentage points.

Minutes of the Board Meeting on 29 August 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), Bohuslav Sobotka (Minister of Finance)

The Bank Board discussed the August situational report on economic and monetary development. This report contained an analysis of information newly available since the previous report had been discussed, together with an assessment of the significance of that information with respect to the July inflation forecast. The fall in consumer price inflation in July was in line with the forecast, despite being rather smaller than the central bank had predicted. The greater-than-expected increase in consumer prices was due chiefly to recreation prices and, to a lesser extent, to prices of regulated commodities. Conversely, annual industrial producer price inflation, at -1.1% in July, was 0.5 percentage points lower than had been forecast by the CNB.

Numerous short-run indicators from the real economy were pointing to a slowdown in economic growth. The year-on-year growth rate of industrial production slackened to 1.3% in June. Retail sales were 0.5% lower than a year earlier at constant prices. Developments on the labour market – most notably a continuation at around trend of the rise in the seasonally adjusted unemployment rate and a further decrease in the number of job vacancies – were also consistent with an assumption of slowing economic activity.

There were mixed developments as regards future inflation pressures from the external environment. The expected growth in oil prices on world markets suggested a moderately pro-inflationary impulse with respect to import prices, whereas the current GDP growth rate in Germany and a fall in the GDP growth forecast there indicated a softening of external demand growth relative to the assumptions contained in the July forecast. Likewise, annual industrial producer price inflation in the EU, which had been -1% in July, was also anti-inflationary.

The effect of the recent floods on the Czech economy was assessed on numerous levels. According to the preliminary and incomplete information available, the supply side of the economy had been affected only slightly. Damage to production facilities was concentrated in just a few sectors, most notably the chemical, food and power generation industries. During the discussion of the demand situation for this year, the view was expressed that the floods were unlikely to cause a significant decline in economic growth compared with the July forecast. On the contrary, a modest positive demand impulse could be expected next year, due mainly to an expected rise in investment activity both in the private and public sectors. The estimated current level of the negative output gap should accommodate both the possible modest decline in potential output this year and the expected demand stimulus in 2003.

Following the presentation of the situational report, the Board heard detailed information from the Minister of Finance on the flood-related budget changes under consideration. This led to an in-depth discussion of the preliminary evaluation of the planned tax changes' macroeconomic implications for prices and household consumption and the elimination of the effect of foreign aid inflow on the koruna's exchange rate. There was general agreement that in the context of the expected economic trends it would be highly desirable to spread out, as much as possible, the tax changes' restrictive impact over time and thereby to attempt to minimise the downward effect on domestic demand. Although the Board members attached differing significance to the effect of the planned tax changes on economic growth, they concurred that the central bank would regularly monitor and assess fiscal policy in this area. There would need to be an assessment of the risks – short-term and long-term – associated with an absence of major fiscal reforms. As to the potential implications of the foreign aid inflow for the koruna's exchange rate, it was stated that the existing agreement between the Ministry of Finance and the CNB was sufficient to prevent the inflow of flood aid from abroad giving rise to appreciation of the koruna's exchange rate.

The next item on the agenda – loosely related to the foregoing exchange of information between the Board and the Minister of Finance – was the expected pace of economic growth this year and next year. The Board agreed that the

current increasingly robust signs of a slowdown in domestic economic activity were in line with the CNB's previous expectations. It was highly likely that this was confirmation of the lagged adverse consequences of the recent excessive real appreciation of the koruna and depressed external demand on domestic economic growth.

The issue of the exchange rate was discussed on two levels: with regard to the current exchange rate situation on the foreign exchange market, and with regard to central bank strategy in this area. The opinion was expressed that a turnaround was occurring as regards the market view on the future exchange rate and that expectations were now more balanced. The Board agreed that the exchange rate could only be appraised from the long-run perspective. Consequently, the recent depreciation could only be interpreted as a modest correction of the previous excessive appreciation. This modest correction changed nothing in the CNB's view regarding the exchange rate. The CNB was aware of the now perceptible negative consequences of the strong koruna on the domestic economy and remained ready to use all its instruments, including foreign exchange intervention. This readiness to respond flexibly to the koruna's adverse exchange rate trend was confirmed unequivocally by the Board during the discussion of central bank's strategy on the foreign exchange market.

The recent floods constituted a new risk to inflation and to the economy as a whole. In this context it was mentioned that there might be disturbances to the stability of some of the behavioural linkages on which the forecast of key macroeconomic variables were based, and that the Czech Statistical Office might also face temporary, objective problems when collecting and disseminating data. This increased the risk of errors in the estimation of future trends relative to the past period. Although the floods were not expected to affect prices significantly, they could generate price increases in particular segments of the economy, most notably agricultural producer prices, construction work prices and insurance premiums. The quantification and timing of these price effects constituted an important uncertainty surrounding the inflation forecast.

In a concluding discussion on interest rates, views were expressed that if, in the months ahead, the recent signals of a more pronounced slowdown in economic activity were to be further confirmed, and if, simultaneously, there were no easing of monetary conditions by means of the exchange rate channel, it might be appropriate to consider lowering interest rates further.

After discussing the August situational report, the Board decided unanimously to leave the two-week repo rate unchanged at 3%. It also decided to continue with operations on the foreign exchange market according to the existing market conditions.

Minutes of the Board Meeting on 26 September 2002

Present at the meeting:

Zdeněk Tůma (Governor), Luděk Niedermayer (Vice-Governor), Michaela Erbenová (Chief Executive Director), Jan Frait (Chief Executive Director), Pavel Racocha (Chief Executive Director), Pavel Štěpánek (Chief Executive Director)

The Board opened the meeting with a presentation of the 9th situational report on economic and monetary development. It was stated that current consumer prices, which had increased 0.6% year-on-year in August, corresponded to the CNB's inflation forecast. There was a more substantial drop in food prices, though, some services did register growth. The prices of these services were affected by the decisions of relevant regulatory institutions. Industrial producer prices in August showed a year-on-year decline of 0.9%, and disinflation for agricultural producers was even stronger.

The GDP data for Q2 also corresponded to the CNB's forecast. Although the Czech Statistical Office had allowed more uncertainty in their estimates than usual, the figures on year-on-year dynamics could indicate a certain slowdown in economic growth due primarily to weak foreign demand and exchange rate developments. Despite considerable fluctuation in monthly industrial production data, overall growth for this year had so far been satisfactory, i.e. +5.3%. However, these figures were for the first seven months, and a slowdown could be expected in August due to the severe flooding in the Czech Republic. This situation also applied to the dynamics of retail sales, which rose January to June by 3.8%.

In recent months, the rate of money supply growth had slowed. In July, M2 increased by 4.4% year-on-year. The August estimate showed a slightly higher figure. These data corresponded to exceptionally low inflation and to slowing economic activity. Longer money-market interest rates revealed a declining trend. The inverted shape of the yield curve (up to 1Y maturity) could reflect the behaviour of some market participants, who admitted the possibility of another reduction in the CNB's repo rate.

The average EUR exchange rate in Q3 had thus far reached CZK 30.18. Overall, the current account deficit (3.5% of GDP) registered a substantial year-on-year improvement, despite worsening balances for incomes and services.

The situational report examined the risks of the last quarterly macroeconomic forecast. World oil prices were considered to be the main risk involved in achieving the forecast. Within a short period of time, the average price of Ural oil could be expected to move at least 10% above the current estimates. The second pro-inflationary risk was related to uncertainty about the character of the final flood-repair resolution and its effect on demand and prices. The nature of disinflationary risks remained unchanged from the last situational report. The effects of weak foreign demand and low inflation (related mainly to Germany) were still seen to be the main risk.

In the discussion to follow, board members agreed that pro-inflationary and anti-inflationary risks seemed to be more balanced than during the last discussion on the situational report. The difference was that disinflationary pressures on the whole could be reliably identified – in particular continuation of a sluggish economic recovery in Europe. Nonetheless, there were serious uncertainties generated by political factors at home and abroad. This mainly involved the outcome of the Middle East crisis, the likelihood of approval as well as the content of tax legislation and other government regulatory measures proposed for dealing with flood damages and the state of public finance.

In the discussion on monetary policy decision-making, one view expressed that internal inflationary pressures did not exist at this time and that the July inflation forecast had been achieved. The anticipation of low-inflationary developments was further supported by information on world economic perspectives.

On the contrary, it was said that the reduction in rates along with a stabilised exchange rate had caused monetary policy to ease up somewhat in relation to the forecast. Members also pointed to the dominant pro-inflationary character of growing uncertainties, especially in the area of cost-push inflation. As for public finance, data would be available in the

near future that could alleviate some of the pending uncertainties – in particular, the budget proposal for 2003 and the medium-term fiscal outlook.

Doubts were expressed about whether a small interest rate reduction could at this time move the economy towards potential growth and cause inflation to return more quickly to the targeted band. However, it was reminded that the current price indices showed characteristic development in that there was a reverse in all price segments according to the forecast and that the effect of an additional monetary impulse could be uncertain in such a situation.

Board members agreed once again that the current koruna exchange rate did not correspond to economic fundamentals. In this respect, the Board discussed the CNB@s approach to foreign exchange intervention.

Following the discussion on the situational report, the Board decided by a majority vote to leave the CNB two-week repo rate unchanged. Five members voted in favour of the decision, and one member voted for cutting interest rates by 0.25 percentage points.

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	0.6	0.6	0.8			
Regulated prices	7.6	8.1	8.0	6.5	6.3	6.3	5.3	5.0	4.9			
(contribution to consumer price inflation)	*1.49*	*1.60*	*1.59*	*1.28*	*1.24*	*1.22*	*1.05*	*0.98*	*0.98*			
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*	*0.05*	*0.05*	*0.00*			
Net inflation	2.7	2.7	2.5	2.4	1.5	-0.1	-0.6	-0.6	-0.3			
(contribution to consumer price inflation)	*2.20*	*2.15*	*2.01*	*1.89*	*1.20*	*-0.12*	*-0.47*	*-0.46*	*-0.22*			
of which: prices of food, beverages and tobacco	3.2	3.0	2.3	1.7	0.6	-2.6	-3.6	-3.5	-2.9			
(contribution to consumer price inflation)	*0.88*	*0.82*	*0.65*	*0.47*	*0.16*	*-0.72*	*-0.97*	*-0.96*	*-0.79*			
adjusted inflation	2.5	2.5	2.6	2.7	2.0	1.1	0.9	0.9	1.1			
(contribution to consumer price inflation)	*1.32*	*1.33*	*1.37*	*1.43*	*1.04*	*0.60*	*0.50*	*0.50*	*0.56*			
Inflation rate (annual moving average)	4.6	4.6	4.6	4.5	4.3	3.9	3.5	3.1	2.7			

CNB calculation based on CSO data

INFLATION DEVELOPMENT

monthly percentage changes

	1	2	3	4	5	6	7	8	9	10	11	12
	1998											
Consumer prices	4.0	0.6	0.1	0.3	0.1	0.3	1.9	-0.2	0.1	-0.2	-0.2	-0.2
Regulated prices	9.3	0.4	0.2	0.6	0.0	0.1	8.4	0.0	0.1	0.2	0.0	0.0
(contribution to consumer price inflation)	*2.13*	*0.09*	*0.03*	*0.13*	*0.01*	*0.03*	*2.07*	*0.01*	*0.03*	*0.04*	*0.00*	*0.01*
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.73*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	1.5	0.7	0.1	0.2	0.1	0.4	-0.2	-0.3	0.1	-0.3	-0.3	-0.3
(contribution to consumer price inflation)	*1.14*	*0.54*	*0.10*	*0.16*	*0.07*	*0.28*	*-0.13*	*-0.23*	*0.07*	*-0.19*	*-0.25*	*-0.19*
of which: prices of food, beverages and tobacco	1.7	0.8	0.2	0.3	0.1	0.4	-1.4	-0.9	0.0	-0.6	-1.0	-0.9
(contribution to consumer price inflation)	*0.52*	*0.24*	*0.08*	*0.10*	*0.03*	*0.12*	*-0.42*	*-0.26*	*0.00*	*-0.16*	*-0.28*	*-0.26*
adjusted inflation	1.4	0.7	0.0	0.1	0.1	0.4	0.6	0.1	0.2	-0.1	0.1	0.2
(contribution to consumer price inflation)	*0.62*	*0.30*	*0.02*	*0.06*	*0.04*	*0.16*	*0.28*	*0.03*	*0.07*	*-0.03*	*0.03*	*0.07*
	1999											
Consumer prices	0.8	0.0	-0.2	0.3	-0.1	0.2	0.8	0.1	-0.1	0.0	0.2	0.5
Regulated prices	1.8	0.2	0.0	0.1	0.0	0.0	1.9	0.0	0.1	0.0	0.0	0.0
(contribution to consumer price inflation)	*0.46*	*0.04*	*0.01*	*0.02*	*0.01*	*0.01*	*0.49*	*0.00*	*0.02*	*0.00*	*0.01*	*0.01*
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.32*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	0.5	-0.1	-0.2	0.4	-0.1	0.2	0.0	0.1	-0.1	0.0	0.3	0.6
(contribution to consumer price inflation)	*0.36*	*-0.07*	*-0.17*	*0.27*	*-0.08*	*0.16*	*-0.01*	*0.06*	*-0.08*	*0.03*	*0.20*	*0.47*
of which: prices of food, beverages and tobacco	0.9	-0.5	-0.7	0.0	-0.4	0.2	-1.2	-0.2	0.0	0.0	0.3	0.8
(contribution to consumer price inflation)	*0.25*	*-0.13*	*-0.19*	*0.00*	*-0.11*	*0.06*	*-0.35*	*-0.05*	*0.00*	*-0.01*	*0.09*	*0.22*
adjusted inflation	0.2	0.1	0.0	0.6	0.1	0.2	0.7	0.3	-0.1	0.1	0.2	0.6
(contribution to consumer price inflation)	*0.11*	*0.06*	*0.02*	*0.27*	*0.03*	*0.10*	*0.33*	*0.12*	*-0.07*	*0.04*	*0.10*	*0.25*
	2000											
Consumer prices	1.7	0.2	0.0	-0.1	0.2	0.6	0.6	0.2	0.0	0.3	0.1	0.2
Regulated prices	4.8	0.1	0.1	0.2	0.1	0.4	1.0	0.1	0.1	0.2	0.1	0.1
(contribution to consumer price inflation)	*1.29*	*0.04*	*0.02*	*0.05*	*0.02*	*0.10*	*0.27*	*0.02*	*0.03*	*0.06*	*0.03*	*0.01*
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*	*-0.18*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	0.6	0.2	0.0	0.0	0.3	0.7	0.5	0.2	-0.1	0.3	0.1	0.2
(contribution to consumer price inflation)	*0.42*	*0.13*	*-0.01*	*-0.01*	*0.21*	*0.48*	*0.34*	*0.18*	*-0.08*	*0.26*	*0.10*	*0.14*
of which: prices of food, beverages and tobacco	1.0	0.1	-0.6	-0.5	0.3	0.4	-0.1	0.7	0.3	1.1	0.3	0.6
(contribution to consumer price inflation)	*0.30*	*0.03*	*-0.17*	*-0.14*	*0.07*	*0.11*	*-0.02*	*0.20*	*0.08*	*0.29*	*0.08*	*0.16*
adjusted inflation	0.3	0.2	0.3	0.3	0.3	0.8	0.8	0.0	-0.4	-0.1	0.0	0.0
(contribution to consumer price inflation)	*0.12*	*0.10*	*0.15*	*0.13*	*0.14*	*0.37*	*0.36*	*-0.02*	*-0.15*	*-0.04*	*0.02*	*-0.02*
	2001											
Consumer prices	1.9	0.0	0.1	0.4	0.6	1.0	1.0	-0.2	-0.7	0.0	-0.1	0.1
Regulated prices	7.7	0.3	0.2	0.3	0.0	0.1	2.1	0.3	0.2	0.1	0.0	0.0
(contribution to consumer price inflation)	*1.43*	*0.05*	*0.05*	*0.06*	*0.00*	*0.01*	*0.41*	*0.06*	*0.04*	*0.03*	*-0.01*	*0.01*
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.01*	*0.00*	*0.05*	*0.00*	*0.00*	*0.00*
Net inflation	0.6	0.0	0.0	0.4	0.8	1.3	0.7	-0.3	-1.0	-0.1	-0.1	0.2
(contribution to consumer price inflation)	*0.45*	*0.01*	*-0.01*	*0.31*	*0.57*	*1.07*	*0.56*	*-0.21*	*-0.82*	*-0.10*	*-0.05*	*0.10*
of which: prices of food, beverages and tobacco	1.2	-0.2	0.1	0.7	0.8	2.0	-0.9	-1.0	-0.8	0.0	0.0	0.9
(contribution to consumer price inflation)	*0.33*	*-0.06*	*0.03*	*0.19*	*0.23*	*0.56*	*-0.24*	*-0.27*	*-0.21*	*0.00*	*-0.01*	*0.24*
adjusted inflation	0.2	0.1	-0.1	0.2	0.7	1.0	1.5	0.1	-1.2	-0.2	-0.1	-0.3
(contribution to consumer price inflation)	*0.12*	*0.07*	*-0.04*	*0.12*	*0.34*	*0.51*	*0.81*	*0.06*	*-0.62*	*-0.10*	*-0.03*	*-0.14*
	2002											
Consumer prices	1.5	0.2	-0.1	-0.1	-0.1	-0.3	0.5	-0.2	-0.5			
Regulated prices	3.7	0.8	0.2	-1.1	-0.1	0.0	1.1	0.0	0.1			
(contribution to consumer price inflation)	*0.75*	*0.16*	*0.04*	*-0.23*	*-0.03*	*0.00*	*0.23*	*-0.01*	*0.03*			
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*			
Net inflation	0.9	0.0	-0.2	0.2	-0.1	-0.3	0.3	-0.2	-0.7			
(contribution to consumer price inflation)	*0.74*	*-0.03*	*-0.14*	*0.20*	*-0.11*	*-0.24*	*0.20*	*-0.19*	*-0.58*			
of which: prices of food, beverages and tobacco	1.5	-0.4	-0.5	0.1	-0.3	-1.2	-1.9	-1.0	-0.1			
(contribution to consumer price inflation)	*0.41*	*-0.11*	*-0.14*	*0.01*	*-0.08*	*-0.32*	*-0.50*	*-0.25*	*-0.03*			
adjusted inflation	0.6	0.2	0.0	0.3	-0.1	0.2	1.3	0.1	-1.0			
(contribution to consumer price inflation)	*0.33*	*0.08*	*0.00*	*0.18*	*-0.04*	*0.08*	*0.70*	*0.07*	*-0.56*			

CNB calculation based on CSO data

CONSUMER PRICES

percentage changes; December 1999 = 100

Group	Constant 1999 weights in per mille	Months 1	2	3	4	5	6	7	8	9	10	11	12	Average since start of year
Total - 1998	1000.0	-4.9	-4.3	-4.2	-3.9	-3.8	-3.5	-1.7	-1.9	-1.8	-1.9	-2.2	-2.4	-3.0
Total - 1999	1000.0	-1.6	-1.6	-1.7	-1.5	-1.5	-1.4	-0.6	-0.5	-0.6	-0.5	-0.3	0.1	-1.0
Total - 2000	1000.0	1.8	2.0	2.0	1.9	2.1	2.7	3.3	3.5	3.5	3.8	3.9	4.1	2.9
Food and non-alcoholic beverages	197.6	1.8	1.9	1.1	0.4	0.7	1.3	1.1	1.7	2.1	3.5	3.8	4.6	2.0
Alcoholic beverages and tobacco	79.2	0.5	0.6	0.8	0.9	1.0	1.0	1.4	2.3	2.5	2.5	2.6	2.4	1.5
Clothing and footwear	56.9	-0.7	-1.7	-2.2	-2.1	-2.0	-2.0	-2.5	-2.9	-3.0	-2.8	-2.6	-2.7	-2.3
Housing, water, electricity, gas and other fuels	236.4	4.6	4.8	4.9	5.2	5.3	5.5	7.0	7.2	7.3	7.6	7.8	7.8	6.3
Furnishings, household equipment and routine maintenance of the house	67.9	-0.3	-0.4	-0.3	-0.3	-0.4	-0.6	-0.6	-0.7	-0.7	-0.9	-0.8	-0.7	-0.6
Health	14.3	1.8	2.2	2.6	2.8	3.1	3.5	3.7	3.9	4.1	4.0	3.9	4.1	3.3
Transport	101.4	0.8	1.4	4.0	3.6	4.8	8.4	8.8	8.0	8.6	8.4	8.0	6.9	6.0
Communications	22.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Recreation and culture	95.5	0.1	1.2	0.4	-0.3	-0.4	0.5	3.8	4.7	1.7	0.9	1.1	2.0	1.3
Education	4.5	0.2	0.9	1.0	1.0	1.0	1.3	1.3	1.3	3.3	3.3	3.3	3.4	1.8
Hotels, cafés and restaurants	74.2	0.6	0.9	0.9	1.1	1.3	1.3	1.4	1.5	2.0	2.4	2.5	2.6	1.5
Miscellaneous goods and services	49.5	2.1	2.3	2.4	2.4	2.5	2.6	2.6	2.7	2.7	2.9	3.1	3.1	2.6
Total - 2001	1000.0	6.1	6.1	6.2	6.6	7.2	8.3	9.4	9.2	8.4	8.4	8.3	8.4	7.7
Food and non-alcoholic beverages	197.6	6.0	5.5	5.5	6.4	7.5	10.5	9.2	7.7	6.7	6.6	6.5	7.9	7.2
Alcoholic beverages and tobacco	79.2	3.4	3.9	4.3	4.6	4.9	5.0	4.9	4.9	5.2	5.5	5.6	5.4	4.8
Clothing and footwear	56.9	-3.3	-4.0	-4.0	-3.8	-3.7	-3.7	-3.9	-4.4	-4.4	-4.1	-3.8	-3.9	-3.9
Housing, water, electricity, gas and other fuels	236.4	14.2	14.4	14.6	14.8	15.1	15.4	18.4	18.6	18.8	18.9	19.0	19.0	16.8
Furnishings, household equipment and routine maintenance of the house	67.9	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.2	-0.3	-0.4	-0.4
Health	14.3	4.7	4.9	5.1	5.3	5.4	5.7	6.5	7.5	8.6	8.9	8.3	8.4	6.6
Transport	101.4	4.9	4.8	4.7	5.8	7.5	8.7	8.2	7.6	7.8	6.5	5.3	3.4	6.3
Communications	22.5	7.2	7.1	7.1	7.0	6.8	6.7	6.6	6.5	6.0	5.9	5.8	5.7	6.5
Recreation and culture	95.5	2.7	3.4	2.9	2.3	3.3	7.0	13.7	15.3	7.1	6.5	6.8	7.2	6.5
Education	4.5	3.4	3.4	3.5	3.5	3.5	3.6	3.6	3.6	6.7	6.8	6.8	6.8	4.6
Hotels, cafés and restaurants	74.2	3.1	3.6	3.3	3.7	4.0	4.1	4.2	4.4	5.2	5.5	5.7	5.9	4.4
Miscellaneous goods and services	49.5	5.0	5.5	6.2	7.3	7.4	7.4	7.7	7.6	7.8	8.4	8.6	8.7	7.3
Total - 2002	1000.0	10.0	10.2	10.1	10.0	9.9	9.6	10.1	9.9	9.3				9.9
Food and non-alcoholic beverages	197.6	10.0	9.4	8.7	8.3	7.8	6.0	3.2	1.7	1.5				6.3
Alcoholic beverages and tobacco	79.2	5.8	5.8	5.6	6.8	7.0	7.0	7.1	7.3	7.4				6.6
Clothing and footwear	56.9	-4.7	-5.5	-5.7	-5.7	-5.7	-5.8	-6.4	-7.4	-7.4				-6.0
Housing, water, electricity, gas and other fuels	236.4	23.5	23.6	23.7	22.6	22.6	22.6	24.9	25.0	25.0				23.7
Furnishings, household equipment and routine maintenance of the house	67.9	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.5	-0.7	-0.7				-0.5
Health	14.3	9.2	9.7	10.1	10.2	10.9	11.2	12.9	13.1	13.3				11.2
Transport	101.4	3.0	3.0	3.3	5.5	5.1	4.7	4.1	3.9	5.1				4.2
Communications	22.5	6.0	11.4	11.3	11.3	9.9	9.9	11.1	11.0	11.6				10.4
Recreation and culture	95.5	7.4	8.5	7.9	7.2	7.0	8.4	13.8	15.2	7.3				9.2
Education	4.5	6.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0	10.7				7.4
Hotels, cafés and restaurants	74.2	6.4	7.0	7.4	7.9	8.0	8.2	8.4	8.4	8.5				7.8
Miscellaneous goods and services	49.5	11.0	11.2	11.3	11.6	11.6	11.5	11.5	11.4	11.7				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	6	7	8	9
1. Food and non-alcoholic beverages	197.6	4.6	7.9	8.7	6.0	3.2	1.7	1.5
- tradables	197.6	4.6	7.9	8.7	6.0	3.2	1.7	1.5
2. Alcoholic beverages and tobacco	79.2	2.4	5.4	5.6	7.0	7.1	7.3	7.4
- tradables	79.2	2.4	5.4	5.6	7.0	7.1	7.3	7.4
3. Clothing and footwear	56.9	-2.7	-3.9	-5.7	-5.8	-6.4	-7.4	-7.4
- nontradables	1.4	6.1	13.0	15.7	16.9	16.9	17.1	17.6
- tradables	55.5	-2.9	-4.3	-6.2	-6.4	-7.0	-8.0	-8.0
4. Housing, water, electricity, gas and other fuels	236.4	7.8	19.0	23.7	22.6	24.9	25.0	25.0
- nontradables	226.1	8.1	19.7	24.6	23.5	25.9	25.9	26.0
- tradables	10.3	2.3	2.7	4.0	1.9	2.8	4.2	4.0
5. Furnishings, household equipment and routine maintenance of the house	67.9	-0.7	-0.4	-0.3	-0.4	-0.5	-0.7	-0.7
- nontradables	2.9	4.3	7.5	8.8	9.3	9.6	9.6	9.8
- tradables	65.0	-0.9	-0.8	-0.7	-0.8	-1.0	-1.2	-1.2
6. Health	14.3	4.1	8.4	10.1	11.2	12.9	13.1	13.3
- nontradables	11.0	4.9	10.1	12.1	13.4	16.0	15.8	16.0
- tradables	3.3	1.5	2.7	3.7	4.0	2.9	4.3	4.6
7. Transport	101.4	6.9	3.4	3.3	4.7	4.1	3.9	5.1
- nontradables	27.4	6.2	11.7	15.5	16.0	16.1	15.8	16.1
- tradables	74.0	7.2	0.3	-1.2	0.5	-0.3	-0.5	1.0
8. Communications	22.5	1.5	5.7	11.3	9.9	11.1	11.0	11.6
- nontradables	21.0	2.7	8.5	14.8	13.5	14.8	14.8	15.6
- tradables	1.5	-16.4	-34.7	-39.3	-41.3	-42.3	-43.9	-45.6
9. Recreation and culture	95.5	2.0	7.2	7.9	8.4	13.8	15.2	7.3
- nontradables	60.4	4.4	14.3	15.7	17.5	26.3	29.0	16.5
- tradables	35.1	-2.2	-5.0	-5.5	-7.3	-7.7	-8.6	-8.6
10. Education	4.5	3.4	6.8	7.0	7.0	7.0	7.0	10.7
- nontradables	4.5	3.4	6.8	7.0	7.0	7.0	7.0	10.7
11. Hotels, cafés and restaurants	74.2	2.6	5.9	7.4	8.2	8.4	8.4	8.5
- nontradables	74.2	2.6	5.9	7.4	8.2	8.4	8.4	8.5
12. Miscellaneous goods and services	49.5	3.1	8.7	11.3	11.5	11.5	11.4	11.7
- nontradables	22.0	5.7	17.5	23.5	24.2	24.3	24.4	25.2
- tradables	27.5	1.1	1.7	1.6	1.4	1.3	1.0	0.9
Household consumer prices, total	1000.0	4.1	8.4	10.0	9.6	10.1	9.9	9.2
Tradables	549.1	2.5	2.9	2.8	2.0	0.8	0.1	0.3
- food	276.8	4.0	7.2	7.8	6.3	4.3	3.3	3.2
- others	272.3	1.0	-1.5	-2.3	-2.3	-2.7	-3.1	-2.7
Nontradables	450.9	6.0	15.2	18.9	18.8	21.3	21.7	20.2
- others	271.2	4.7	11.5	14.0	14.8	18.1	18.7	16.1
- regulated	179.7	8.0	20.6	26.3	24.8	26.2	26.1	26.3

CNB calculation based on CSO data

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	2.7	1.6
7/02	2.8		
8/02	2.7		
9/02	3.1	1.9	1.3

Source: CNB statistical survey

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	1998	1999	2000	2001	2002
	12	12	12	12	8
Belgium	0.7	2.1	3.0	2.0	1.3
Denmark	1.1	3.1	2.3	2.1	2.4
Finland	0.8	2.2	2.9	2.3	1.8
France	0.3	1.4	1.7	1.4	1.8
Ireland	2.2	3.9	4.6	4.4	4.5
Italy	1.7	2.1	2.8	2.2	2.6
Luxembourg	0.4	2.3	4.3	0.9	2.0
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	3.9
Austria	0.5	1.7	1.8	1.8	2.1
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	1.0
European Union	1.0	1.7	2.3	1.9	1.9
Czech Republic	5.8	2.5	4.0	3.9	0.2

Source: Eurostat

MONETARY SURVEY

position at month-end in CZK billions

		1998	1999	2000	2001	2002
		12	12	12	12	8
Total assets		1241.4	1337.5	1412.3	1596.0	1622.3
Net foreign assets		425.3	570.4	673.1	800.6	894.7
- assets		761.4	940.2	998.8	1088.4	1143.2
- liabilities		336.1	369.8	325.7	287.8	248.5
Net domestic assets		816.1	767.1	739.2	795.4	727.6
Domestic credits		1079.8	1058.5	1068.8	1011.9	892.3
Net credit to the government sector		33.1	57.5	104.9	236.5	186.1
- net credit to government		42.4	67.7	103.8	246.2	209.9
- net credit to NPF		-9.3	-10.2	1.1	-9.7	-23.8
Client credits of commercial banks and CNB		1046.7	1001.0	963.9	775.4	706.2
CZK credits		847.0	824.6	819.7	661.2	612.2
- businesses		743.3	715.7	699.1	524.2	453.9
- households		103.7	108.9	120.6	137.0	158.3
Foreign currency credits		199.7	176.4	144.2	114.2	94.0
- businesses		196.2	173.0	141.9	111.9	92.7
- households		3.5	3.4	2.3	2.3	1.3
Other net items		-263.7	-291.4	-329.6	-216.5	-164.7
Liabilities						
M2	2)	1241.4	1337.5	1412.3	1596.0	1622.3
M1	1)	404.0	447.8	497.7	583.6	639.6
Currency in circulation		127.2	157.9	171.8	180.4	190.5
CZK demand deposits		276.8	289.9	325.9	403.2	449.1
- households		144.1	162.6	195.0	230.2	279.0
- businesses		129.4	124.4	128.0	169.2	167.1
- insurance companies		3.3	2.9	2.9	3.8	3.0
Quasi money		837.4	889.7	914.6	1012.4	982.7
CZK time deposits		672.5	653.1	645.0	742.2	760.4
- households		550.4	537.6	549.8	596.6	585.1
- businesses		90.0	78.9	78.9	120.8	146.1
- insurance companies		32.1	36.6	16.3	24.8	29.2
Deposit bills of exchange and other bonds	5)	26.5	91.3	114.0	112.8	82.8
Foreign currency deposits		138.4	145.3	155.6	157.4	139.5
- households		73.6	80.8	83.7	91.5	79.5
- businesses		64.8	64.5	71.9	65.9	60.0
Monetary aggregate L	3)	1285.5	1386.3	1463.5	1643.9	1683.6
Annual percentage changes						
M1		-3.6	10.8	11.1	17.3	15.8
M2		5.4	7.7	5.6	13.0	4.8
L		7.1	7.8	5.6	12.3	5.7
Client credits of commercial banks and CNB		-4.7	-4.4	-3.7	-19.6	-25.5
Client deposits with banks	4)	2.8	0.1	3.5	15.7	0.4

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	8
Non-adjusted credits					
Total credits, CZK and foreign currency					
absolute volumes in CZK billions	1046.7	1001.0	963.9	775.4	706.2
annual percentage changes	-4.7	-4.4	-3.7	-19.6	-25.5
CZK credits					
absolute volumes in CZK billions	847.0	824.6	819.7	661.2	612.2
annual percentage changes	-6.0	-2.6	-0.6	-19.3	-25.2
Foreign currency credits					
absolute volumes in CZK billions	199.7	176.4	144.2	114.2	94.0
annual percentage changes	1.0	-11.7	-18.3	-20.8	-27.7
Adjusted credits 1)					
Total credits, CZK and foreign currency					
absolute volumes in CZK billions	1017.5	969.9	929.5	947.9	968.6
annual percentage changes	0.7	-4.7	-4.2	2.0	3.7
CZK credits					
absolute volumes in CZK billions	808.7	797.8	787.7	826.6	861.0
annual percentage changes	-1.7	-1.3	-1.3	4.9	7.2
Foreign currency credits					
absolute volumes in CZK billions	208.8	172.1	141.8	121.3	107.6
annual percentage changes	11.1	-17.6	-17.6	-14.5	-17.5

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	8
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	33.7
Medium-term	22.8	24.2	22.2	26.0	31.7
Long-term	35.1	36.8	41.2	36.5	34.6
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	77.4
Households	10.2	11.2	12.8	18.0	22.6
Type structure 1)					
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0
Operating	54.1	52.0	49.3	42.6	40.6
Investment (incl. general housing construction)	31.0	31.1	30.8	35.2	29.4
Mortgage	2.2	2.8	4.1	6.7	8.8
Consumer	1.7	2.9	3.3	3.6	6.2
For privatisation	1.4	2.3	2.0	0.4	0.2
For temporary fund shortage	8.3	7.4	9.1	9.8	8.1
For securities purchase	1.3	1.5	1.4	1.7	0.6
Building savings loans					5.9
Others					0.2

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

INTEREST RATES ON INTERBANK DEPOSITS

percentages

	1998	1999	2000	2001	2002
	12	12	12	12	9
1. AVERAGE PRIBOR 1)					
- 1 day	10.84	5.21	5.23	4.63	3.02
- 7 day	10.56	5.32	5.29	4.79	3.02
- 14 day	10.54	5.40	5.29	4.78	3.02
- 1 month	10.46	5.59	5.32	4.77	3.01
- 2 month	10.27	5.58	5.36	4.72	3.00
- 3 month	10.08	5.58	5.42	4.69	2.99
- 6 month	9.56	5.64	5.60	4.62	2.96
- 9 month	9.38	5.72	5.78	4.61	2.96
- 12 month	9.31	5.84	5.90	4.62	2.96
2. AVERAGE PRIBID 1)					
- 1 day	10.48	5.05	5.11	4.53	2.92
- 7 day	10.30	5.16	5.18	4.69	2.92
- 14 day	10.27	5.23	5.19	4.69	2.92
- 1 month	10.18	5.42	5.22	4.68	2.92
- 2 month	9.99	5.40	5.26	4.62	2.90
- 3 month	9.79	5.41	5.31	4.59	2.89
- 6 month	9.26	5.46	5.49	4.52	2.86
- 9 month	9.08	5.54	5.67	4.52	2.86
- 12 month	9.02	5.67	5.79	4.52	2.86

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

FRA RATES

percentages; monthly averages

	1998	1999	2000	2001	2002
	12	12	12	12	9
3 * 6	9.02	5.57	5.68	4.49	2.86
3 * 9	8.99	5.70	5.85	4.53	2.87
6 * 9	8.79	5.75	5.93	4.53	2.86
6 * 12	8.79	5.94	6.10	4.52	2.90
9 * 12	8.62	6.04	6.19	4.54	2.93
12 * 24	9.03	.	.	.	
9*12 - 3*6 spread	-0.40	0.47	0.51	0.05	0.07
6*12 - 3*9 spread	0.20	0.24	0.25	-0.02	0.03

IRS RATES

percentages; monthly averages

	1998	1999	2000	2001	2002
	12	12	12	12	9
1Y	9.52	5.92	5.94	4.64	2.96
2Y	9.13	6.54	6.40	4.72	3.15
3Y	9.06	6.95	6.72	4.89	3.41
4Y	8.99	7.16	6.96	5.05	3.65
5Y	8.93	7.26	7.15	5.19	3.88
6Y	8.73	7.29	7.29	5.32	4.08
7Y	8.71	7.28	7.38	5.43	4.25
8Y	8.67	7.27	7.42	5.52	4.39
9Y	8.63	7.27	7.43	5.60	4.50
10Y	8.61	7.27	7.43	5.66	4.59
15Y	.	.	.	5.85	4.83
5Y - 1Y spread	-0.60	1.34	1.21	0.56	0.92
10Y - 1Y spread	-0.92	1.35	1.49	1.02	1.63

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	2.5	2.7	3.8	1.7	4.6	4.8	5.9
7/02	3.6	3.4	4.5	2.8	3.0	2.8	3.9	2.2	4.7	4.6	5.7
8/02	3.0	3.1	4.4	2.3	2.4	2.5	3.8	1.7	4.0	4.1	5.4
9/02	3.0	3.0			2.2	2.1			4.0	3.9	

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	1.1	1.2	2.3	0.2	2.1	2.3	3.4	1.3
7/02	0.7	0.6	1.7	0.0								
8/02	0.3	0.4	1.7	-0.4								
9/02	-0.1	-0.1										

Note: real rates = nominal rates deflated by inflation expected by selected economic sectors according to the CNB statistical survey

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

COMMERCIAL BANK INTEREST RATES

percentages

	1998	1999	2000	2001	2002
	12	12	12	12	9
Newly drawn credits					
in CZK	10.8	6.7	6.8	5.9	4.5
- short-term	11.6	6.7	6.5	5.6	4.1
- medium-term	7.4	5.1	8.0	7.5	5.9
- long-term	11.7	10.2	8.1	7.1	6.9
in foreign currency	5.4	6.1	6.4	4.8	4.3
- short-term	5.3	6.2	6.2	4.5	4.3
- medium-term	5.9	5.3	6.4	4.9	4.5
- long-term	5.6	6.0	7.2	5.5	4.7
Credits					
in CZK	10.5	7.7	6.9	7.0	6.0
- short-term	10.6	7.4	6.6	6.2	5.0
- medium-term	10.7	8.3	7.8	7.7	6.5
- long-term	10.3	7.6	6.8	7.4	6.3
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	2.0
- demand	1.9	1.6	1.5	1.4	1.2
- time	8.7	4.7	3.9	3.3	2.5
- short-term	9.2	4.8	4.0	3.4	2.3
- medium-term	10.9	5.6	3.9	3.1	2.5
- long-term	4.2	3.6	3.5	3.2	3.3
in foreign currency	2.3	2.7	3.2	1.5	1.4
- demand	1.1	0.9	1.1	0.6	0.7
- time	3.2	4.0	4.6	2.1	2.1
- short-term	3.1	3.9	4.6	2.1	2.1
- medium-term	3.3	4.2	4.2	2.5	3.7
- long-term	3.5	4.7	5.1	3.5	2.2

BALANCE OF PAYMENTS 1)

in CZK millions

	1998	1999	2000	2001	2002 2)
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q2
A. Current account	**-40 492.0**	**-50 596.4**	**-104 877.1**	**-99 833.7**	**-18 587.1**
Balance of trade 3)	-84 002.8	-65 830.8	-120 825.0	-116 685.0	-11 746.0
exports	834 227.0	908 756.0	1 121 099.0	1 269 634.0	318 975.0
imports	918 229.8	974 586.8	1 241 924.0	1 386 319.0	330 721.0
Services	61 935.7	41 501.3	54 559.8	57 984.9	8 797.3
credit	246 703.2	243 851.0	264 806.2	269 689.6	57 513.3
transport	44 829.3	53 520.3	53 734.3	57 492.3	15 495.9
travel	124 902.0	109 142.0	115 071.0	118 133.0	25 268.0
others	76 971.9	81 188.7	96 000.9	94 064.3	16 749.4
debit	184 767.5	202 349.7	210 246.4	211 704.7	48 716.0
transport	22 794.0	27 071.4	27 543.0	30 570.5	7 188.8
travel	61 121.0	51 760.0	49 370.0	52 802.0	12 974.0
others	100 852.5	123 518.3	133 333.4	128 332.2	28 553.2
Income	-35 078.0	-46 673.6	-52 978.4	-58 904.3	-19 114.7
credit	55 042.4	64 298.3	75 439.1	82 482.6	17 854.5
debit	90 120.4	110 971.9	128 417.5	141 386.9	36 969.2
Current transfers	16 653.1	20 406.7	14 366.5	17 770.7	3 476.3
credit	34 558.9	45 394.4	36 594.6	36 404.9	7 933.1
debit	17 905.8	24 987.7	22 228.1	18 634.2	4 456.8
B. Capital account	**65.8**	**-73.2**	**-198.2**	**-330.7**	**25.4**
credit	454.6	637.3	223.4	90.4	59.0
debit	388.8	710.5	421.6	421.1	33.6
Total A + B	*-40 426.2*	*-50 669.6*	*-105 075.3*	*-100 164.4*	*-18 561.7*
C. Financial account	**94 324.5**	**106 564.4**	**148 046.6**	**153 310.4**	**177 034.3**
Direct investment	115 866.3	215 703.9	190 767.4	183 343.8	161 661.7
abroad	-4 102.2	-3 107.6	-1 653.7	-3 657.5	-2 115.6
equity capital and reinvested earnings	-2 538.8	-2 585.3	-1 245.9	-3 508.6	-1 897.6
other capital	-1 563.4	-522.3	-407.8	-148.9	-218.0
in the Czech Republic	119 968.5	218 811.5	192 421.1	187 001.3	163 777.3
equity capital and reinvested earnings	87 762.8	192 615.5	171 777.2	183 839.8	163 415.7
other capital	32 205.7	26 196.0	20 643.9	3 161.5	361.6
Portfolio investment	34 508.2	-48 268.9	-68 172.9	34 857.3	7 894.0
assets	-755.1	-65 608.0	-86 631.8	4 405.6	-559.7
equity securities	3 855.7	-48 965.2	-44 181.0	9 447.8	-1 988.8
debt securities	-4 610.8	-16 642.8	-42 450.8	-5 042.2	1 429.1
liabilities	35 263.3	17 339.1	18 458.9	30 451.7	8 453.7
equity securities	34 846.2	4 394.2	23 810.9	23 203.6	-12 253.1
debt securities	417.1	12 944.9	-5 352.0	7 248.1	20 706.8
Financial derivatives	0.0	0.0	-1 402.8	-3 220.3	-3 989.8
assets			-4 501.6	-9 407.6	-12 873.7
liabilities			3 098.8	6 187.3	8 883.9
Other investment	-56 050.0	-60 870.6	26 854.9	-61 670.4	11 468.4
assets	-46 628.7	-91 273.9	35 832.1	-48 850.5	-142.2
long-term	-24 280.2	-23 884.0	21 322.2	1 349.8	6 287.1
CNB					
commercial banks	-26 952.8	-25 858.5	14 362.2	-4 125.8	6 790.4
government	630.3	977.5	2 937.0	6 928.9	712.0
other sectors	2 042.3	997.0	4 023.0	-1 453.3	-1 215.3
short-term	-22 348.5	-67 389.9	14 509.9	-50 200.3	-6 429.3
commercial banks	-21 641.6	-63 804.7	22 001.9	-45 523.2	-3 423.2
government				-87.1	-491.1
other sectors	-706.9	-3 585.2	-7 492.0	-4 590.0	-2 515.0
liabilities	-9 421.3	30 403.3	-8 977.2	-12 819.9	11 610.6
long-term	-39 840.7	-1 286.1	-26 212.5	1 921.7	-1 610.3
CNB	-216.4	-2 083.5	-22.8	-22.0	
commercial banks	-14 399.2	-7 109.5	-31 523.7	-7 222.2	-4 317.7
government	-11 765.4	-6 384.3	-1 837.6	-5 000.8	-25.9
other sectors	-13 459.7	14 291.2	7 171.6	14 166.7	2 733.3
short-term	30 419.4	31 689.4	17 235.3	-14 741.6	13 220.9
CNB	-6.0	84.9	-17.0	59.7	-118.5
commercial banks	24 445.9	36 615.6	-3 812.5	-35 688.6	4 183.9
government	-216.5	-103.2			
other sectors	6 196.0	-4 907.9	21 064.8	20 887.3	9 155.5
Total A + B + C	*53 898.3*	*55 894.8*	*42 971.3*	*53 146.0*	*158 472.6*
D. Net errors and omissions, valuation changes	**8 716.7**	**1 241.9**	**-11 378.5**	**14 007.0**	**2 022.4**
Total A + B + C + D	*62 615.0*	*57 136.7*	*31 592.8*	*67 153.0*	*160 495.0*
E. Change in reserves (- increase)	**-62 615.0**	**-57 136.7**	**-31 592.8**	**-67 153.0**	**-160 495.0**

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.	30 Jun. 1)
ASSETS	1 087 507.3	1 347 954.9	1 448 400.7	1 536 670.9	1 461 403.1
Direct investment abroad	24 003.5	25 114.9	27 899.3	30 174.0	29 095.0
- equity capital	21 901.2	22 415.9	24 797.5	27 075.0	26 420.0
- other capital	2 102.3	2 699.0	3 101.8	3 099.0	2 675.0
Portfolio investment	35 872.4	104 345.3	180 431.3	185 138.6	200 344.5
- equity securities	13 415.5	66 318.2	92 222.9	68 675.5	76 577.5
- debt securities	22 456.9	38 027.1	88 208.4	116 463.1	123 767.0
Financial derivatives 2)			6 347.2	15 754.8	27 968.7
Other investment	650 948.4	757 065.5	736 903.7	781 145.7	574 755.6
Long-term	287 328.8	323 131.1	315 625.5	310 133.9	187 027.8
- CNB 3)	26 122.4		329.1	307.3	269.2
- commercial banks	64 041.6	89 900.1	75 537.9	79 663.7	69 370.4
- government 4)	176 213.4	210 221.3	220 777.8	210 694.9	101 828.2
- other sectors	20 951.4	23 009.7	18 980.7	19 468.0	15 560.0
Short-term	363 619.6	433 934.4	421 278.2	471 011.8	387 727.8
- CNB 5)	0.1		52.9	51.2	49.2
- commercial banks	272 219.5	336 117.2	314 115.3	359 638.5	265 939.9
of which: gold and foreign exchange 6) 7)	175 753.2	218 995.8	228 961.7	257 138.5	188 004.7
- government				87.1	1 033.7
- other sectors	91 400.0	97 817.2	107 110.0	111 235.0	120 705.0
CNB reserves 8)	376 683.0	461 429.2	496 819.2	524 457.8	629 239.3
- gold 6)	369.1	677.0	4 640.4	4 469.9	4 285.2
- SDR			7.7	31.0	59.0
- reserve position in the IMF			116.0	5 478.3	4 667.6
- foreign exchange	376 313.9	460 752.2	491 001.2	514 188.0	578 021.5
- other reserve assets			1 053.9	290.6	42 206.0
LIABILITIES	1 204 984.0	1 458 893.3	1 640 270.0	1 784 507.6	1 808 834.1
Direct investment in the Czech Republic	429 167.8	631 505.3	818 411.6	970 450.9	1 054 115.1
- equity capital	364 816.5	538 379.3	702 217.8	857 595.9	950 535.1
- other capital	64 351.3	93 126.0	116 193.8	112 855.0	103 580.0
Portfolio investment	166 128.1	165 579.2	164 592.0	180 346.2	203 295.7
- equity securities	113 247.2	98 011.8	115 670.6	128 740.1	129 574.2
- debt securities	52 880.9	67 567.4	48 921.4	51 606.1	73 721.5
Financial derivatives 2)			5 307.9	11 495.2	19 647.8
Other investment	609 688.1	661 808.8	651 958.5	622 215.3	531 775.5
Long-term	358 510.5	379 172.2	352 323.4	339 013.2	300 831.2
- CNB	1 883.3	197.1	180.4	133.4	115.6
- commercial banks	124 286.3	118 368.9	84 607.4	73 688.6	62 619.5
- government	23 814.8	20 852.9	19 699.2	9 476.2	7 526.1
- other sectors	208 526.1	239 753.3	247 836.4	255 715.0	230 570.0
Short-term	251 177.6	282 636.6	299 635.1	283 202.1	230 944.3
- CNB	39.5	25.8	8.8	68.5	18.1
- commercial banks	193 373.0	229 988.7	226 176.2	190 487.6	158 286.2
- government	103.2				
- other sectors	57 661.9	52 622.1	73 450.1	92 646.0	72 640.0
NET INVESTMENT POSITION	-117 476.7	-110 938.4	-191 869.3	-247 836.7	-347 431.0

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)

EXTERNAL DEBT

in CZK millions

	1998	1999	2000	2001	2002
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	30 Jun. 1)
DEBT IN CONVERTIBLE CURRENCIES	717 923.6	813 576.5	808 122.8	786 676.4	709 077.0
of which:					
Long-term	446 484.3	497 872.1	464 323.8	461 217.5	439 967.9
By debtor					
- CNB	10 952.2	12 527.6	180.4	133.4	115.6
- commercial banks	133 376.5	128 703.3	95 737.1	88 401.4	84 610.7
- government	32 953.5	32 303.5	29 753.5	30 839.2	42 581.5
- other sectors	269 202.1	324 337.7	338 652.8	341 843.5	312 660.1
By creditor					
- foreign banks	248 712.0	257 410.0	228 709.6	235 115.5	211 815.0
- government institutions	4 409.6	4 239.2	3 405.7	2 373.6	1 915.1
- multilateral institutions	49 036.3	58 202.2	67 521.2	70 879.0	62 336.4
- suppliers and direct investors	72 624.6	93 831.4	99 560.2	95 664.0	84 970.0
- other investors	71 701.8	84 189.3	65 127.1	57 185.4	78 931.4
Short-term	271 439.3	315 704.4	343 799.0	325 458.9	269 109.1
By debtor					
- CNB	39.5	25.8	8.8	68.5	18.1
- commercial banks	193 373.0	230 000.5	226 246.1	192 438.4	158 879.0
- government	22.0	7.0	2 115.0	465.0	792.0
- other sectors	78 004.8	85 671.1	115 429.1	132 487.0	109 420.0
By creditor					
- foreign banks	175 604.1	201 808.8	203 333.8	195 166.4	143 135.3
- suppliers and direct investors	67 446.7	81 794.6	106 988.6	93 127.0	86 920.0
- other investors	28 388.5	32 101.0	33 476.6	37 165.5	39 053.8
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	709 077.0
of which:					
- long-term	455 377.8	506 797.8	473 274.7	461 217.5	439 967.9
- short-term	271 542.5	315 704.4	343 799.0	325 458.9	269 109.1

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	6-9
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES					
- annual/quarterly averages					
1 EUR	.	36.88	35.61	34.08	30.25
1 USD	32.27	34.60	38.59	38.04	30.75
100 SKK	91.61	83.64	83.64	78.68	69.09
	12	12	12	12	9
- monthly averages					
1 EUR	.	36.05	34.82	32.59	30.19
1 USD	30.06	35.63	38.94	36.48	30.79
100 SKK	83.04	84.70	80.07	75.61	70.35
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	30 Sep.
- last day of the month					
1 EUR	.	36.13	35.09	31.98	30.30
1 USD	29.86	35.98	37.81	36.26	30.73
100 SKK	80.97	85.08	79.70	74.81	72.45

B. NOMINAL EFFECTIVE RATE

	1998	1999	2000	2001	2002
					9
CZK nominal effective exchange rate (percentages) (2000=100)					
weights - foreign trade turnover	96.0	98.5	100.0	104.3	119.7
weights - foreign trade turnover SITC 5-8	98.9	98.6	100.0	104.4	119.2

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
					8
CZK real effective exchange rate (percentages) (2000=100)					
a) industrial producer prices					
weights - foreign trade turnover	99.6	100.6	100.0	103.9	114.5
weights - foreign trade turnover SITC 5-8	99.9	99.6	100.0	104.5	115.1
b) consumer prices					
weights - foreign trade turnover	99.1	98.8	100.0	105.2	117.2
weights - foreign trade turnover SITC 5-8	99.4	98.2	100.0	105.8	117.9

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

PUBLIC FINANCES

in CZK billions

	1998	1999	2000	2001	2002
	1-12	1-12	1-12	1-12	1-9
STATE BUDGET					
TOTAL REVENUE	537.4	567.3	586.2	626.2	521.9
Tax revenue	509.6	540.1	559.5	598.3	459.2
Taxes on income, profits and capital gains	87.4	86.4	87.0	147.4	120.7
Domestic taxes on goods and services	187.2	211.4	216.8	187.0	132.8
- value-added taxes	119.4	138.3	145.9	121.3	82.7
- excises	67.8	73.1	70.9	65.7	50.1
Taxes on international trade and transactions	13.6	12.1	13.6	10.0	7.1
Taxes on property	6.3	6.8	6.0	6.4	5.4
Social and health security contributions and payroll taxes	203.9	210.9	222.2	242.3	189.4
Non-tax and capital incomes and received subsidies	27.8	27.2	26.7	27.9	62.7
TOTAL EXPENDITURE	566.7	596.9	632.3	693.9	543.4
Current expenditure	516.2	537.9	571.4	642.5	514.2
Capital expenditure	50.5	59.0	60.9	51.4	29.2
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	-21.4
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	

CAPITAL MARKET

A. STOCK MARKET INDICES

last day of the month in points

	1998	1999	2000	2001	2002
	12	12	12	12	9
BCPP					
PX 50	394.2	489.7	478.5	394.6	442.0
PX-D	.	1296.7	1366.0	1065.6	1126.6
PX-GLOB	478.3	587.9	570.6	492.9	548.8
RM-SYSTÉM					
PK-30	564.5	713.2	724.8	593.0	663.4

B. TRADE VOLUMES

in CZK millions

	1998	1999	2000	2001	2002
	12	12	12	12	9
BCPP					
Monthly trade volumes	92 553.0	99 604.0	73 240.5	142 803.6	152 527.2
of which:					
a) shares	18 873.1	13 974.5	11 113.9	12 819.3	10 452.8
b) units	224.3	394.2	61.3	4.3	0.0
c) bonds	73 455.6	85 235.3	62 065.3	129 980.0	142 074.4
RM-SYSTÉM					
Monthly trade volumes	20 836.9	22 014.7	4 861.7	2 162.5	665.4
of which:					
a) shares	16 573.5	20 642.3	4 190.1	1 841.0	187.2
b) units	570.3	176.8	25.9	212.2	22.3
c) bonds	3 693.1	1 195.6	645.7	109.3	455.9

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		
26 July	**3.00**	**2.00**	**4.00**		

MACROECONOMIC AGGREGATES

in CZK millions; annual percentage changes; constant 1995 prices

	1998	1999	2000	2001	2002
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q2
GROSS DOMESTIC PRODUCT					
- in CZK millions	1 414 422	1 421 043	1 467 285	1 515 076	400 455
- 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	278 780
- percentages		1.9	1.6	3.0	3.9
of which:					
Households					
- in CZK millions	751 235	765 638	783 454	813 726	208 210
- percentages		1.9	2.3	3.9	3.6
Government					
- in CZK millions	260 293	266 199	263 628	264 500	67 476
- percentages		2.3	-1.0	0.3	4.6
Non-profit institutions					
- in CZK millions	11 875	10 517	11 887	12 586	3 094
- percentages		-11.4	13.0	5.9	5.7
GROSS CAPITAL FORMATION					
- in CZK millions	481 383	467 412	511 229	556 941	145 755
- percentages		-2.9	9.4	8.9	-0.5
of which:					
Fixed capital					
- in CZK millions	467 862	463 128	487 874	523 243	135 071
- percentages		-1.0	5.3	7.2	3.5
Changes in inventories					
- in CZK millions	13 019	3 880	22 990	33 316	10 588
Acquisitions less disposals of valuables					
- in CZK millions	502	404	365	382	96
- percentages		-19.5	-9.7	4.7	2.1
TRADE BALANCE					
- in CZK millions	-90 364	-88 723	-102 913	-132 677	-24 080
of which:					
Exports of goods					
- in CZK millions	747 211	809 783	971 784	1 113 902	300 259
- percentages		8.4	20.0	14.6	6.9
Exports of services					
- in CZK millions	215 396	211 548	223 676	228 658	51 110
- percentages		-1.8	5.7	2.2	-9.1
Imports of goods					
- in CZK millions	875 929	920 348	1 106 476	1 276 002	328 050
- percentages		5.1	20.2	15.3	4.9
Imports of services					
- in CZK millions	177 042	189 706	191 897	199 235	47 399
- percentages		7.2	1.2	3.8	-2.6
FINAL DOMESTIC DEMAND					
- in CZK millions	1 491 265	1 505 482	1 546 843	1 614 055	413 851
- percentages		1.0	2.7	4.3	3.8
AGGREGATE DOMESTIC DEMAND					
- in CZK millions	1 504 786	1 509 766	1 570 198	1 647 753	424 535
- percentages		0.3	4.0	4.9	2.3
GROSS DOMESTIC PRODUCT AT CURRENT PRICES					
- in CZK millions	1 839 088	1 902 293	1 984 833	2 157 828	573 656
- percentages		3.4	4.3	8.7	4.8

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	Q2
Current income	.	3.9	4.8	6.7	5.8
of which:					
- gross operating surplus and mixed income	.	5.2	3.0	10.2	4.3
- compensation of employees	.	3.8	4.9	7.1	6.9
- property income	.	-15.8	-7.0	2.6	-14.0
- social benefits other than social transfers in kind	.	8.6	9.6	6.0	8.1
- other current transfers	.	20.5	10.2	-4.7	11.7
Current expenditure	.	5.3	4.8	7.1	7.6
of which:					
- property income	.	-11.9	-8.4	1.9	24.8
- current taxes on income, wealth, etc.	.	2.5	3.8	4.7	12.3
- social contributions	.	4.9	5.9	9.8	6.4
- other current transfers	.	20.3	5.6	-0.2	2.1
Gross disposable income	.	3.3	4.8	6.5	5.0
Change in net equity of households in pension funds reserves	.	-20.0	24.6	47.2	13.3
Individual consumption expenditure	.	5.7	5.3	7.7	4.3
Gross saving	.	-18.7	0.6	-4.4	15.4
Gross savings rate	.	8.33	8.00	7.19	8.60
(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	Q2
Overall nominal wage	9.4	8.2	6.6	8.5	7.4
Business sector	11.0	7.1	7.8	8.2	6.4
Non-business sector	3.9	13.1	2.8	10.0	11.7
Overall real wage	-1.2	6.0	2.6	3.6	5.0
Business sector	0.3	4.9	3.8	3.3	4.0
Non-business sector	-6.1	10.8	-1.1	5.1	9.2

C. UNEMPLOYMENT

end of period

	1998	1999	2000	2001	2002
	12	12	12	12	9
Registered job applicants (thousands)	386.9	487.6	457.4	461.9	492.9
Unemployment rate (percentages)	7.5	9.4	8.8	8.9	9.4

Source: CSO

PRODUCER PRICES

percentage changes

	1998	1999	2000	2001	2002
					9
INDUSTRIAL PRODUCER PRICES					
a) previous month = 100	0.2	0.3	0.4	0.1	0.0
b) same period of last year = 100	4.9	1.0	4.9	2.9	-0.9
c) average for 2000 = 100	.	.	0.0	2.8	1.6
d) December 1999 = 100	.	.	3.4	6.3	5.1
CONSTRUCTION WORK PRICES					
a) previous month = 100	0.6	0.3	0.4	0.3	0.1
b) same period of last year = 100	9.4	4.8	4.0	4.1	2.4
c) average for 2000 = 100	.	.	0.0	4.1	7.3
d) December 1999 = 100	.	.	2.3	6.5	9.8
AGRICULTURAL PRODUCER PRICES					
b) same period of last year = 100	2.3	-11.7	9.2	8.4	-10.0
of which:					
crop products					
b) same period of last year = 100	-5.4	-15.0	12.6	9.3	-8.5
livestock products					
b) same period of last year = 100	5.7	-10.5	8.0	8.0	-10.8
MARKET SERVICES PRICES (excluding interest rates)					
a) previous month = 100	0.6	0.3	0.4	0.1	0.7
b) same period of last year = 100	8.8	4.1	3.4	3.9	4.2
c) average for 2000 = 100	.	.	0.0	4.0	8.0
d) December 1999 = 100	.	.	0.6	4.6	8.6

Source: CSO

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

Issued by:

CZECH NATIONAL BANK
NA PŘÍKOPĚ 28
115 03 PRAHA 1
CZECH REPUBLIC

Contact:

COMMUNICATIONS DIVISION
TEL.: ++420 22441 3494
FAX: ++420 22441 2179
HTTP://WWW.CNB.CZ

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