2003

INFLATION REPORT APRIL/2003

CNB CZECH NATIONAL BANK

INFLATION REPORT APRIL/2003

CNB CZECH NATIONAL BANK

CONTENTS

CHARTS IN THE TEXT

ABBREVIATIONS USED

CCA	Czech Consolidation Agency
CNB	Czech National Bank
CPI	consumer price index
CSO	Czech Statistical Office
ČSOB	Československá obchodní banka
CZK	Czech koruna
ECB	European Central Bank
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
NUWC	nominal unit wage costs
O/N	overnight
PRIBID 1W	Prague Interbank Bid Rate, one-week
(1M, 1Y)	(one-month, one-year)
PRIBOR	Prague Interbank Offered Rate
repo rate	repurchase agreement rate
SITC	Standard International Trade Classification
T-bills	treasury bills
USD	US dollar

Boxes and annexes contained in past Inflation Reports

Price indices used for the evaluation of inflation	(Box)	April 1998
Analysis of the money supply trend	(Box)	July 1999
Revisions to the statistical data on GDP	(Box)	July 1999
Measuring the inflation expectations of the financial market	(Annex)	October 1999
Oil prices and their impact on inflation	(Box)	July 2000
The effect of oil price changes on the balance of trade	(Box)	October 2000
The methodological framework for evaluating wage developments relative to inflation	(Box)	January 2001
The CNB's monetary policy rates	(Box)	April 2001
The setting of the inflation target for 2002–2005	(Annex)	April 2001
Harmonisation of the reserve requirements with European Central Bank standards	(Annex)	April 2001
Escape clauses pertaining to the new inflation target	(Annex)	July 2001
Changes in economic growth forecasts in the eurozone, Germany, the USA and Japan for 2001 and 2002	(Annex)	October 2001
Strategy for dealing with the exchange rate effects of capital inflows from privatisation of state property and from other foreign exchange revenues of the state	(Annex)	January 2002
Assessment of fulfilment of the CNB's net inflation target in December 2001	(Annex)	January 2002
Prediction of external variables	(Box)	April 2002
Estimated capital flows in 2002 and 2003 and their effect on the exchange rate	(Box)	April 2002
The Balassa–Samuelson effect	(Annex)	April 2002
The CNB changes its type of inflation forecast	(Box)	July 2002
An assessment of the effect of the August floods on Czech economic growth	(Box)	October 2002
The financial conditions of the Czech Republic's accession to the EU	(Box)	January 2003
Implications of the unexpectedly slow growth in regulated prices	(Box)	January 2003
The Czech Republic and the euro – Draft accession strategy	(Annex)	January 2003
Fiscal consolidation and its effect on economic growth	(Annex)	January 2003
Price deregulation in the period of transformation of the Czech economy	(Box)	April 2003
Revisions to the March 2003 GDP figures	(Box)	April 20033

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 30 April 2003.

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
INFLATION FELL FURTHER IN 2003 Q1
(annual percentage figures unless otherwise indicated)

	12/02	1/03	2/03	3/03
Consumer price inflation	0.6	-0.4	-0.4	-0.4
Industrial producer price inflation	-0.7	-0.8	-0.7	-0.4
Money supply growth (M2)	3.2	3.3	3.7	n.a.
3M PRIBOR[1]	2.63	2.66	2.45	2.39
Nominal CZK/EUR exchange rate[2]	31.49	31.54	31.80	31.95
State budget balance since January incl. SFAOs,[2] CZK bn	-45.7	-10.4	-24.9	-31.8
GDP growth at constant prices[3]	1,5 [4]	-	-	-
Unemployment rate[2]	9.8	10.2	10.2	10.0

1) average for the month
2) end-of-month position
3) figure for the quarter ending with the given month
4) according to the CSO this is only a "tentative estimate"

CHART I.1
INFLATION REMAINED BELOW THE TARGET BAND IN 2003 Q1
(annual consumer price inflation; percentages)

Low inflation and subdued economic growth remained the main attributes of the Czech economy in 2003 Q1. Inflation fell to negative values and remained below the target band (see Chart I.1). Annual GDP growth slackened slightly in 2002 Q4. The downward trend in economic growth during the course of 2002 led to lower full-year GDP growth this year than in the two previous years. The widening gap between the demand for, and supply of, labour remained the dominant factor affecting unemployment and wages.

The stabilisation of annual consumer price inflation in 2002 Q4 at the low level of 0.5% turned into an absolute decline in prices in 2003 Q1. In annual terms, consumer prices fell by 0.4% in all three months of the quarter. The dominant underlying factor remains an annual decline in food prices, reflecting persisting overpressure on the agricultural commodities market both at home and abroad. The decline in Q1 was also largely attributable to import prices. The upturn in raw materials and commodities price growth on world markets – due among other things to the persisting year-on-year appreciation of the koruna-dollar exchange rate – had not yet been felt fully and led only to certain slackening of the annual decline in import prices. In Q1, consumer prices were strongly affected by a new phenomenon: an annual decline in regulated prices. The contribution of regulated prices is thus well below the level assumed when the inflation band was set.

The revised CSO estimate suggests a further moderate slowdown in annual GDP growth in Q4. The growth in Q4 was again attributable chiefly to domestic demand, and in particular household consumption. Unlike in the first half of the year, the contribution of government consumption and changes in inventories increased significantly. The contribution of net exports remained negative and continued increasing relative to the previous quarter. A similar assessment also holds true for the economic growth in 2002 as a whole, except that the contribution of changes in inventories was smaller. The economic growth in Q4 and throughout the year was negatively affected by the continuing weak economic growth being recorded by the Czech Republic's major trading partners and by the still strong exchange rate of the koruna. Both these factors chiefly affected exports and indirectly also investment.

The continuing widening of the gap between the demand for, and supply of, labour in 2003 Q1 led to a further rise in the unemployment rate in January and February to a record level of 10.2%. A very slight decline in the rate in March merely reflected the usual seasonality of this indicator. The situation on the labour market also affected wages. The growth rate of nominal and real wages in both the business and non-business sectors eased in 2002 Q4. However, the overall development in 2002 paints a rather different picture. Relative to the previous year, growth in nominal wages moderated but growth in real wages conversely picked up owing to the sizeable fall in inflation. The slowdown in nominal wage growth fed through into slackening growth in nominal unit wage costs in Q4 and in 2002 overall.

The monetary policy decision-making of the CNB Bank Board in 2003 Q1 was based on the inflation forecast discussed by the Board at its meeting on 30 January 2003 and published in the January Inflation Report. Given the monetary-policy transmission lag, the Board focused on hitting the inflation target in 2004 H1. The inflation forecast for this period was for a return of inflation towards the lower boundary of the target band. A slight decline in interest rates at the start of 2003 and stability thereafter were consistent with the starting assumptions of the forecast.

Based on this forecast and an assessment of additional risks and uncertainties, the Bank Board voted at its meeting at the end of January 2003 to reduce monetary policy interest rates by 0.25 percentage points. In the remaining months of Q1, the Bank Board made no further changes to interest rates. The risks pertaining to the inflation forecast remained balanced and were little changed from the previous period. The downside risks were again associated chiefly with the possibility of a slower economic recovery in Germany and a stronger koruna-dollar exchange rate by comparison with the forecast. The upside risks were dominated by the likely changes to direct taxes (which, however, were not included in the January forecast), a higher oil price and a weaker koruna-euro exchange rate by comparison with the forecast. At the same time, there persisted increased uncertainty regarding future economic development, oil prices and some other significant indicators.

Chapter IV provides a closer look at the macroeconomic forecast for the next six quarters published following the Bank Board meeting on 24 April 2003. In the time since the publication of the previous forecast in January 2003, a major revision was made among other things to the information on the extent and timing of the changes to indirect taxes which the government is planning for the coming quarter. The latest forecast has therefore done away with the previous technical assumption of zero changes in indirect taxes.

The macroeconomic forecast predicts a gradual pick-up in GDP growth during the course of 2003 from the low values recorded at the end of 2002, bolstered by an easing of the monetary conditions. In 2004, a temporary softening of domestic economic growth is expected, due mainly to the income effect of the changes to indirect taxes.

The inflation forecast predicts that the inflationary effects of the changes to indirect taxes will be transient in nature. Consequently, the transmission of the primary impacts of these changes into inflation and wage expectations will, according to the forecast, be very limited. During the course of 2003, the positive supply shock is expected to end and the other components of inflation are expected to gradually increase. Inflation will be strongly affected by the changes to indirect taxes in 2004 as well, whereas the other components of inflation are expected to be stable at the previous year's level. At the horizon of most effective transmission, according to the CNB forecast, inflation will be near the upper boundary of the inflation target, although it is likely to exceed this level for a short time. Subsequently, the CNB expects these extraordinary factors to unwind and inflation to return to the middle of the target band. Consistent with the macroeconomic forecast is broad stability of interest rates in the coming months and a modest rise thereafter.

CHART I.2

THE FORECAST SUGGESTS INFLATION WILL MOVE TO THE UPPER BOUNDARY OF THE TARGET BAND, OR JUST ABOVE IT, AT THE HORIZON OF MOST EFFECTIVE TRANSMISSION
(annual consumer price inflation; percentages)

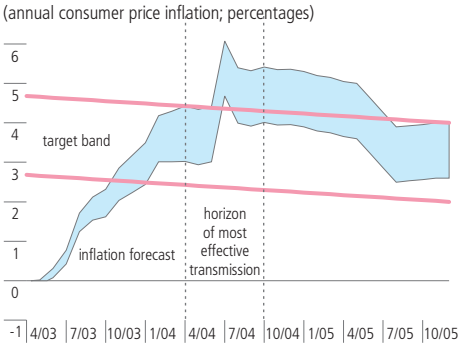
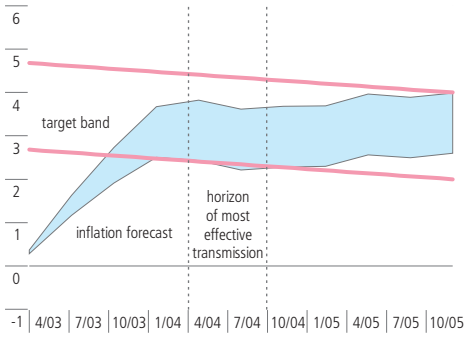


CHART I.3

EXCLUDING THE PRIMARY IMPACTS OF CHANGES TO INDIRECT TAXES, THE FORECAST LIES WITHIN THE INFLATION TARGET BAND
(annual consumer price inflation; percentages)



II. INFLATION DEVELOPMENTS

CHART II.1
CONSUMER PRICES RECORDED THEIR FIRST ANNUAL FALL SINCE 1990 IN 2003 Q1
(percentages)

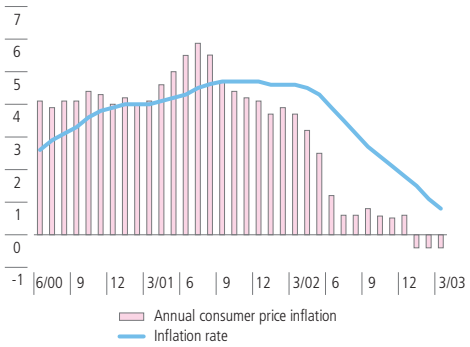
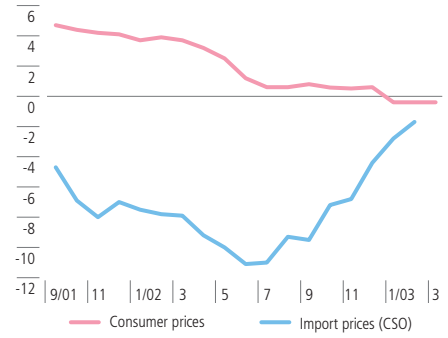


TABLE II.1
IN SEVERAL GROUPS THE PRICE DECLINE INTENSIFIED, CONTRIBUTING TO THE OVERALL FALL IN CONSUMER PRICES
(annual percentage changes)

	12/01	3/02	6/02	9/02	12/02	1/03	2/03	3/03
Food and non-alcoholic beverages	3.2	3.0	-4.1	-4.9	-5.4	-6.3	-6.0	-5.7
Alcoholic beverages and tobacco	2.9	1.2	1.9	2.1	1.6	1.7	1.8	2.0
Clothing and footwear	-1.2	-1.8	-2.2	-3.1	-4.0	-4.6	-4.8	-5.0
Housing, water, electricity, gas and other fuels	10.4	7.9	6.2	5.2	4.5	1.1	1.4	1.4
Furnishings, household equipment and routine maintenance of the house	0.3	0.2	0.0	-0.3	-0.6	-0.7	-0.7	-1.1
Health	4.1	4.8	5.2	4.3	4.1	4.1	4.1	4.3
Transport	-3.3	-1.3	-3.7	-2.5	0.7	1.7	2.1	2.4
Communications	4.1	3.9	3.0	5.3	2.4	1.8	-2.2	-2.2
Recreation and culture	5.1	4.9	1.3	0.2	0.0	1.0	1.0	0.6
Education	3.3	3.4	3.3	3.7	4.2	4.1	4.1	4.2
Hotels, cafés and restaurants	3.2	4.0	3.9	3.1	2.6	2.6	2.2	1.9
Miscellaneous goods and services	5.4	4.8	3.8	3.6	2.9	2.7	3.1	3.1
Consumer prices	4.1	3.7	1.2	0.8	0.6	-0.4	-0.4	-0.4

CHART II.2
THE MOSTLY FALLING IMPORT PRICES, SUPPORTED BY THE ANNUAL APPRECIATION OF THE KORUNA, FOSTERED THE FALL IN PRICES
(annual percentage changes)



The long-running disinflationary trend – ongoing since mid-2001 – culminated in a year-on-year decline in inflation in 2003 Q1. In January 2003, annual consumer price inflation was negative (at -0.4%) for the first time since 1990. The modest price decline continued into the subsequent two months. Chart II.1 shows the relatively fast fall in consumer price inflation in this period. Between July 2001, when it peaked at 5.9%, and the end of 2003 Q1, annual consumer price inflation fell by 6.3 percentage points. The inflation rate[1] declined correspondingly, falling by 1 percentage point in 2003 Q1 relative to the end of the previous quarter to stand at 0.8% in March.

Looking at the structure of the consumer basket (which forms the basis for the calculation of the consumer price index), it is clear that the negative consumer price inflation in the first three months of 2003 was due to the following four categories: food and non-alcoholic beverages; clothing and footwear; furnishings, household equipment and routine maintenance of the house; and communications. Consumer prices in the first three of these categories had already been falling in year-on-year comparison at the end of 2002, and in 2003 Q1 this fall gained pace. The further decline in consumer price inflation was also due to a sharper slowdown in inflation in the category of housing, water, electricity and fuels. However, the disinflationary trend was no longer across-the-board in nature, since a slight pick-up in inflation prevailed in the remaining categories in Q1 by comparison with the end of the previous quarter.

The aforementioned price developments in 2003 Q1 were due to several factors combined. The overall decline in inflation was caused in large measure by the completion of the process of "alignment" of most regulated prices with their market levels (in particular the elimination of "cross financing" – see the Box: *Price deregulation in the period of transformation of the Czech economy).* In past years, this had generated above-average annual inflation in regulated prices, which in turn had impacted heavily on headline consumer price inflation. Turning to market prices, inflation was chiefly determined by a combination of anti-inflationary factors on both the demand and supply side. Growth in domestic consumer demand remained buoyant, although its potential inflationary effect continued to be depressed by strong competition on the retail market and the mostly falling prices of imports of final products for the consumer market. As in previous quarters, the ongoing decline in import prices curbed any rise in the producer and consumer prices of competing domestic manufacturers. In some price segments, greater excess supply on the consumer market also had a more marked effect.

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.

The upturn in prices of imported raw materials and other commodities on world markets continued into 2003 Q1, although it failed to exert significant upward pressure on producer and consumer prices. Import prices continued to decline annually, since the inflationary effect of the rising prices of raw materials and other imported commodities was offset by a persisting annual appreciation of the koruna's exchange rate (koruna-dollar in particular).[2] Given these circumstances, the decline in import prices merely eased. In 2002 Q4, only oil import prices displayed renewed annual growth (due to faster growth in oil prices on world markets). This, the only significant inflationary factor in 2003 Q1 passed through into producer prices in oil-product-processing industries and ultimately into consumer prices of fuels.

As in the previous quarter, these factors chiefly affected market prices in the tradables category. However, in 2003 Q1 the external factors also affected regulated prices. The negative consumer price inflation outturns in Q1 were thus attributable to both market and regulated prices.

Regulated prices made the biggest contribution to the overall decline in consumer price inflation, since their annual growth fell by 4.1 percentage points relative to the end of Q4. For the first time since the start of the transformation period, regulated prices were below the level of the same period a year earlier during 2003 Q1 (by 0.8% in March). This striking change had several causes. One significant factor was a change made to the method of setting regulated prices at the start of 2002 (associated with the elimination of "cross financing"). Another was the previous long-running favourable trend in prices of imported energy-producing raw materials, which led to two decreases in natural gas prices for households in 2002. Although the gas price increased again in month-on-month comparison (by 4.2%) at the beginning of 2003 (effective 1 January 2003), the annual index was negative (-11.4%) owing to base effects. Regulated price inflation was also affected by a reduction of 4.7% in the electricity price for households on 1 January 2003 and by slower growth in other regulated prices following the usual January price adjustments.

The renewed growth in prices of energy-producing raw materials on world markets has not yet affected regulated prices and can be expected to pass through into the annual index of regulated prices with a lag. No other administrative changes above and beyond the framework of regulated prices were made in 2003 Q1, nor was annual inflation affected by any other past changes (the last changes having been made more than a year ago).

CHART II.3
THE FALL IN CONSUMER PRICES IN 2003 Q1 WAS DUE TO BOTH NET INFLATION AND REGULATED PRICES

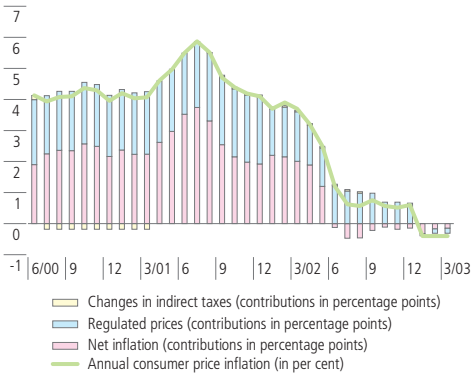
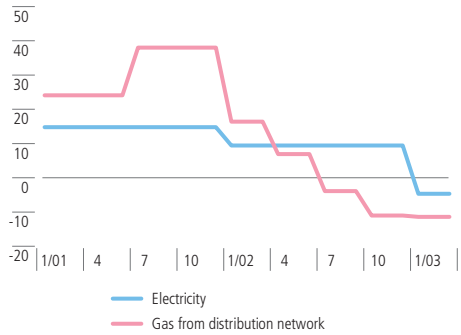


CHART II.4
REGULATED PRICES RECORDED THEIR FIRST ANNUAL FALL SINCE 1990 AT THE START OF THE YEAR
(percentages)

CHART II.5
GAS AND ELECTRICITY PRICES CONTRIBUTED SIGNIFICANTLY TO THE FALL IN REGULATED PRICES
(annual percentage changes)



2 In 2003 Q1, the average nominal appreciation of the koruna-dollar rate was 18.7% and that of the koruna-euro rate 0.3% in year-on-year comparison.

CHART II.6

THE FALL IN ANNUAL NET INFLATION WAS DUE LARGELY TO A CONTINUING DECLINE IN FOOD PRICES
(annual percentage changes)

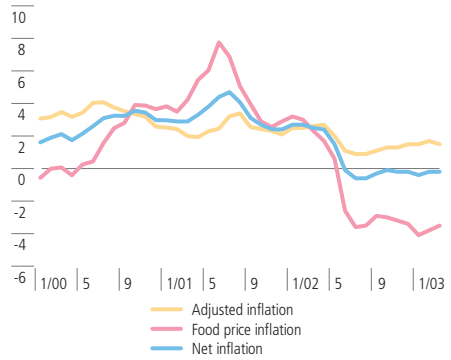


CHART II.7

PRICES OF FOOD PRODUCTS CONTINUED FALLING THROUGHOUT THE PRODUCTION, PROCESSING AND RETAIL CHAIN
(annual percentage changes)

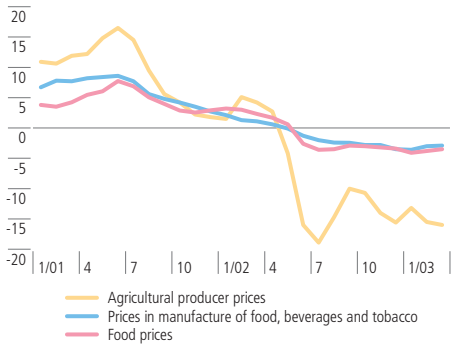
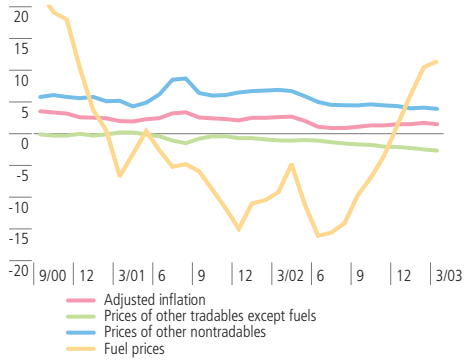


CHART II.8

THE DECLINE IN NON-FOOD TRADABLES PRICES ALSO INTENSIFIED IN 2003 Q1
(annual percentage changes)



Market prices, measured by net inflation,[3] have been showing slightly negative outturns (not exceeding 1%) since mid-2002 and recorded no major changes in Q1. In March, annual net inflation was -0.2%.

Food prices[4] continued to display the most marked decline within both net inflation and the overall consumer price index. In 2003 Q1, the annual decline in food prices increased by a further 0.1 percentage point compared to the previous quarter, reaching -3.5%. Food prices are also one of the main reasons why annual net inflation has been below the level of the same period a year earlier since the second half of 2002. The marked annual decrease in food prices was caused by falling prices in the sub-category food and non-alcoholic beverages (by 5.7% in March). However, their positive impact on the overall consumer price index was partly offset by modest growth in the prices of alcoholic beverages and tobacco products (by 2% in March).

The causes of the continuing annual disinflation in the food segment – described in detail in the previous Inflation Report – remain the same. The main factor in early 2003 was again excess supply on the agricultural commodities market, not only in the Czech Republic, but also abroad. This affected prices in the agricultural-product processing and retailing chain, i.e. at the level of agricultural producers, the food industry and, ultimately, food prices on the retail market. Against a background of strong competition on the retail market, the persisting decline in agricultural commodity prices in some European countries – bolstered by the appreciation of the koruna's exchange rate – simultaneously curbed any rise in domestic prices in this area via import prices.

Prices of several non-food tradables included in adjusted inflation also fell.[5] In 2003 Q1, other tradables except fuels were the only category to record a continuous fall. Their annual decline again picked up relative to the previous quarter (to -2.7% in March). As with headline consumer price inflation, these were the lowest outturns recorded since the start of the transformation (see Chart II.8). They continued to be strongly affected by the combination of anti-inflationary factors on both the demand and supply side mentioned in the introduction to this section.

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 Adjusted inflation = prices of non-food items of the consumer basket excluding regulated prices and administrative measures, i.e. fuel prices, other tradables prices and other non-tradables prices

Turning to fuel prices, their long-running decline halted at the start of 2003. In November 2002 fuel prices had shown an annual decline of 3.5%, but December saw renewed growth (of 1.4%). This was due in particular to a considerable pick-up in oil prices on world markets, which led to a rise in import prices, and partly also to base effects. The renewed growth continued into 2003 Q1; in March, fuel prices recorded an 11.4% rise.

Prices of other nontradable (unregulated) goods, which, unlike tradables, are affected chiefly by domestic factors, displayed annual growth again in 2003 Q1. As Chart II.8 shows, the modest easing of this growth in Q1 was a continuation of the moderate downward trend in growth recorded since the beginning of 2002. In 2002 Q3 and Q4 the growth had been fluctuating around 4.5%, whereas in early 2003 it decreased to around 4% (3.9% in March).

The negative consumer price inflation in 2003 Q1 had not been foreseen in the CNB's 2001 forecast, which had taken account of the period of most effective transmission of monetary policy into prices (i.e. approximately six quarters in the case of the Czech economy). The actual outturn was well below this forecast: unlike the expected 3% rise, prices displayed a modest annual decline (due to deviations primarily in exogenous factors). All the main segments of the consumer basket contributed to this, especially food prices, which accounted for roughly half the difference between the forecast and the actual outturns for consumer price inflation. In the food category, this difference was caused mainly by deviations in agricultural producer prices, the koruna's exchange rate and, consequently, import prices. The stronger-than-expected appreciation of the koruna – caused predominantly by exogenous factors – also fostered a more marked decrease in adjusted inflation (fuels excluded). The departure of the inflation outturn from the forecast was also due in part to a much stronger disinflationary effect from the regulated prices segment. In particular, divergences of gas and electricity prices from the forecast, and the faster-than-assumed alignment of most regulated prices with their market levels, caused regulated prices to fall at the start of 2003 rather than to record lower growth as had been expected. The combined effect of these inflation-lowering factors was only partly offset by the unexpected upturn in fuel price inflation (linked to the pick-up in oil prices on world markets).

CHART II.9
RISING OIL PRICES LED TO RENEWED GROWTH IN FUEL PRICES IN DECEMBER 2002
(annual percentage changes)

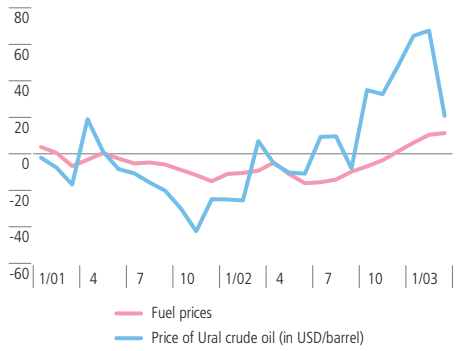


TABLE II.2
THE INFLATION OUTTURN IN 2003 Q1 WAS LOWER THAN FORECAST
(annual percentage changes; contributions in percentage points)

	OCTOBER 2001 FORECAST	MARCH 2003 OUTTURN	CONTRIB. TO TOTAL DIFFERENCE IN PERCENTAGE POINTS
Annual consumer price inflation	3.0	-0.4	-3.4
Breakdown into contributions:			
regulated prices	3.5	-0.8	-0.8
indirect taxes	0.0	0.0	0.0
food prices	2.8	-3.5	-1.8
fuel prices	0.0	11.4	0.3
adjusted inflation excluding fuels	3.3	1.1	-1.1

CHART II.10
THE DIFFERENCE BETWEEN THE INFLATION OUTTURN AND THE FORECAST WAS DUE TO DIVERGENCES PRIMARILY IN EXTERNAL FACTORS
(annual percentage changes)

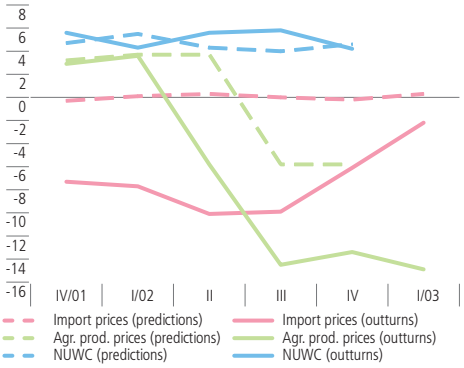
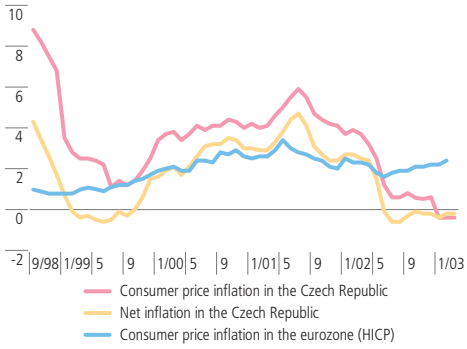


CHART II.11

CONSUMER PRICE INFLATION FELL IN THE CZECH REPUBLIC, BUT RECORDED MODEST GROWTH IN THE EUROZONE

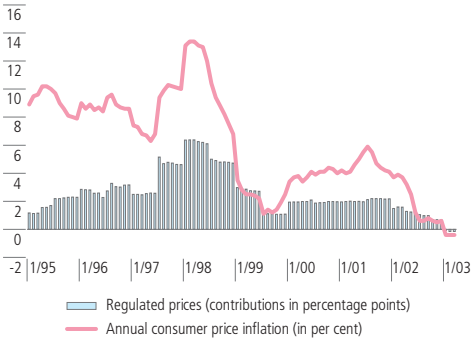
(annual percentage changes)



As regards international comparisons, consumer price inflation in the Czech Republic in 2003 Q1 shifted even further below the inflation level in the eurozone. According to the latest figures for February 2003, the annual Harmonised Index of Consumer Prices (HICP) in the eurozone edged up further at the start of 2003 (to 2.4%), whereas the HICP in the Czech Republic – following a previous very modest rise – began falling at the beginning of 2003 (by 0.6% in February). The Czech HICP developed in line with consumer price inflation as measured by the CSO and net inflation. As mentioned in previous Inflation Reports, this divergence between consumer price inflation in the Czech Republic and that in the eurozone was due to factors specific to the Czech economy. These chiefly concerned the food price segment and the persisting (although in 2003 Q1 noticeably weaker) appreciation of the koruna-euro exchange rate.

CHART (BOX)

CONTRIBUTIONS OF REGULATED PRICES TO ANNUAL CONSUMER PRICE INFLATION



Box:
Price deregulation in the period of transformation of the Czech economy

In the transition economies, including the Czech Republic, price liberalisation was not implemented in full measure in the first years of the transformation period. This was particularly the case with items for which relaxing the price formation process would have had large social impacts on the population. The liberalising of their prices to the market level was therefore spread over several years. Prices thus continued to be regulated by the state in a number of areas, chiefly housing, public transport, health and education. As the adjacent chart shows, the process of "aligning" prices to their market levels in these areas significantly affected consumer price inflation. For various reasons (government decisions, sizeable changes in prices of external inputs, etc.) this process proceeded irregularly. Nevertheless, from the longer-term point of view, a downward trend in the effect of changes to regulated prices on overall inflation is noticeable. In particular, the figures on the structure of inflation in 2003 Q1 beg the question of whether the process of price "alignment" is now complete (i.e. whether the prices of regulated items now correspond to actual costs and whether activities are profitable), or whether for some items there still persist big differences between their market and regulated prices.

Broadly speaking, one can say that by 2001–2002 the overwhelming majority of regulated prices had been aligned (thanks in part to the favourable development of market factors). However, this does not mean that regulated prices no longer exist as a category. They remain a significant component of the consumer basket, with a constant weight of almost 20% and containing 31 items (or groups of single-type items). However, by comparison with previous years, the number of items subject to price ceilings has dropped and the number of items whose prices are regulated on a cost-plus basis has increased.

In the case of some important regulated items, price-setting powers have been transferred from the government (Ministry of Finance) to special regulatory authorities. This institutional change was made as part of the elimination of "cross financing" at the beginning of 2002. Cross-financing was a phenomenon that went hand in hand with the setting of price ceilings for some items. A typical example was prices of electricity for households, which did not cover suppliers' costs. These businesses therefore had to cover part of their losses arising from the cheaper electricity they supplied to households out of their profits from the higher prices charged to other economic sectors. A similar practice was applied

in the case of natural gas supplied to households. Electricity and gas prices for households are currently set by the regulatory authorities, who adjust prices on the basis of analyses of the suppliers' actual costs. Their role is to protect the consumer wherever the seller enjoys a monopoly position. The government no longer draws up a price deregulation programme.

Under Act No. 526/1990 Coll., on Prices, two methods of price regulation are currently applied. The first of these relates to officially set prices, which comprise fixed prices and price ceilings. The second involves regulating prices on a cost-plus basis. In the past a third method of regulation – "time-regulated prices" – was used, although this was discontinued after the first year of price regulation in 1991. It is also necessary to mention that prices in any particular area (health, for instance) are not usually regulated by a single method – items with both price ceilings and cost-plus prices can be found.

In the category of cost-plus regulation, prices may only reflect the economically justified goods-acquisition, processing and circulation costs posted in the accounts, plus a reasonable profit, plus tax and customs duties. The competent regulator merely defines the costs that may not be considered economically justified. Only in exceptional cases (postal services) does the regulator still set price ceilings for particular services or rules for calculating individual cost items. Prices regulated on a cost-plus basis include water-supply and sewage-collection charges, bus and railway fares, and heat-supply prices for households. This method of price regulation is also used for postal, health and waste-collection services. It is also applied to co-operative housing built with the aid of financial, credit and other assistance provided to co-operative housing schemes.

The price-ceiling method currently applies to a relatively small number of items. These include certain drugs and most of the health services subject to price regulation (although as regards drugs, the calculation of inflation only includes the additional charge paid by the patient, and not the total price of the drug), as well as municipal public transport, taxi services (fares are set by local authorities) and telecommunications. The price-ceiling method is also the primary method for regulating electricity and gas prices. Regulated price inflation is also affected by national and local charges, even though these are not prices in nature.

Given the progress achieved with price deregulation, we can expect headline consumer price inflation to be affected by changes to regulated prices to a lesser extent in future than in the previous years of the transformation. However, changes in regulated prices resulting from shocks (such as the cost impact of a sharp rise in oil prices on world markets) may still have major impacts on inflation.

III. INFLATION FACTORS

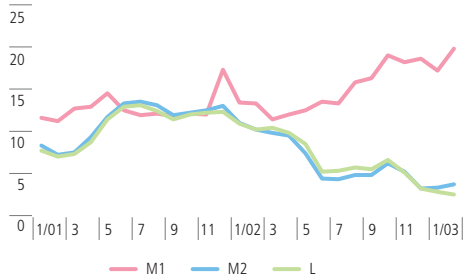
III.1. MONETARY DEVELOPMENTS

III.1.1. Monetary aggregates

Annual growth in M2 declined to a historical low in December 2002 and remained subdued in January and February 2003. A slight increase in money supply growth in February 2003 reflected a modest depreciation of the koruna, not an increased inflow of money into the economy. The money supply growth corresponded to the non-inflationary development of the economy in conditions of slackening economic growth. The broader monetary aggregate L continued to display a steady fall in annual growth, caused by a falling volume of T-bills in non-banks' portfolios. In contrast, M1 continued to show buoyant annual growth, with an upward tendency.

The low inflow of money into the economy in December 2002–February 2003 results from a relatively positive trend in net credit to the government (due primarily to the performance of the state budget), a slowdown in the inflow of capital from abroad, and a rise in the volume of uncleared items between commercial banks and their clients (known as the "float"). These factors eliminated the effect of growth in lending, which occurred principally in December 2002 and January 2003.

CHART III.1
ANNUAL GROWTH IN THE BROADER MONETARY AGGREGATES FLUCTUATED AT A LOW LEVEL
(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

Monetary aggregate M2

Annual M2 growth fell from 5.2% in November to 3.2% in December. After levelling out in January, it rose again in February to 3.7%. The rise in the money stock, which in the previous three months to November 2002 had amounted to CZK 24.3 billion, turned into a CZK 3 billion decline in December 2002–February 2003. The tendency towards low annual M2 growth is also visible in the annualised seasonally adjusted three-month growth.

TABLE III.1
THE ANNUALISED M2 GROWTH SUGGESTS A CONTINUING LOW INFLOW OF MONEY INTO THE ECONOMY
(percentages)

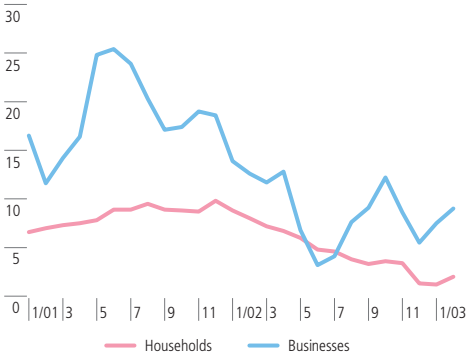
	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
November 2002	0.0	7.0	3.3	5.2
December 2002	-2.2	-3.6	2.8	3.2
January 2003	2.2	-0.2	7.0	3.3
February 2003	-0.3	-1.1	2.8	3.7

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

Sector structure of M2

The fall in the inflow of money into the economy chiefly concerned the household sector, where annual M2 growth in January 2003 fell to 1.2%. This was the lowest level recorded since monitoring of the sector structure of the money supply was launched at the beginning of 1999. Although the M2 growth in the household sector rebounded to 2.0% in February 2003, it remains below the average level of previous years. Owing to low interest rates on time deposits, the household money supply rose chiefly in the segments of currency in circulation and demand deposits. The volume of households' koruna time deposits has long been falling. In December 2002–February 2003 it fell by CZK 6.2 billion, despite continuing growth in building savings deposits (of CZK 19.7 billion). The volume of foreign currency deposits in the household sector (adjusted for exchange rate effects) was flat in this period.

CHART III.2
THE LOW INFLOW OF MONEY INTO THE ECONOMY WAS CHIEFLY VISIBLE IN ANNUAL M2 GROWTH IN THE HOUSEHOLD SECTOR
(percentages)



In the corporate sector, annual growth in the money supply gradually increased from 5.5% in December 2002 to 9.0% in February 2003. Just as in the household sector, the low interest rates are causing businesses to channel their funds primarily into demand deposits. Between December 2002 and February 2003, the rise in corporate deposits again related chiefly to demand deposits, although foreign currency deposits also saw an increase.

Monetary aggregate M1

Annual M1 growth continued along its volatile upward path in December 2002–February 2003, reaching 19.8% in February. This trend is due to the long-term effect of low interest rates on time deposits. Underlying the high annual M1 growth was growth in both demand deposits (by 24% in February) and currency in circulation (10.6%). The share of currency in circulation in the money supply meanwhile grew from 12.1% in November to 12.3% in February. The annualised seasonally adjusted six-month M1 growth suggests a gradual downward tendency, although it is likely to remain high.

TABLE III.2
THE ANNUALISED 6-MONTH M1 GROWTH SUGGESTS BUOYANT ANNUAL M1 GROWTH INTO THE FUTURE
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
November 2002	1.8	20.3	22.6	18.2
December 2002	3.4	30.8	25.7	18.6
January 2003	-2.9	8.7	17.7	17.2
February 2003	2.5	11.9	16.0	19.8

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

Monetary aggregate L

Annual L growth gradually fell in December 2002–February 2003 to a historical low of 2.5%. This is due to a continuing decline in the volume of T-bills held by non-banks. This decline started in June 2002, since when the T-bill volume has gradually decreased from CZK 67.8 billion to CZK 38.7 billion. Within this process, non-banks have been transferring their funds from short-term T-bills into more lucrative medium-term bonds. The annualised seasonally adjusted L growth for three and six months suggests a further downward tendency.

TABLE III.3
THE ANNUALISED SEASONALLY ADJUSTED L GROWTH CONFIRMS A DOWNWARD TENDENCY
(percentages)

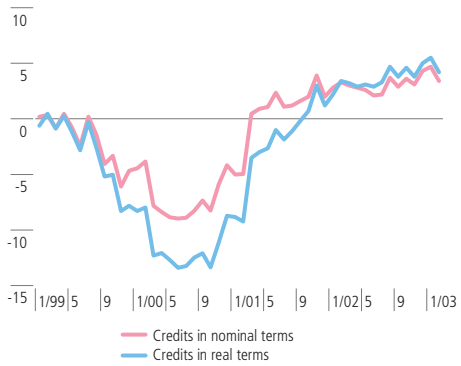
	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
November 2002	-0.4	3.9	1.8	5.1
December 2002	-2.1	-5.2	1.0	3.2
January 2003	1.6	-3.7	4.3	2.8
February 2003	-0.8	-5.2	-0.8	2.5

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

III.1.2. Credits granted to businesses and households

The growth rate of lending adjusted for non-monetary effects rose in December 2002–February 2003. The annual increase in credits reached 3.4% in nominal terms and 4.2% in real terms at the end of the period under review. Growth in lending was particularly apparent in the case of households. In contrast, credits to non-financial corporations fell (except in January 2003).

CHART III.3
LENDING RECORDED AN INCREASE



The annual growth rate of lending to households rose by 1.4 percentage points to 27.4% in the three months to February 2003. Households' demand for housing loans remained strong. This was fostered by the level of interest rates and in 2002 was consistent with the growth in housing starts and the rise in the number and estimated value of the building permits issued. Housing loans increased by CZK 7.6 billion, consumer credit by CZK 4.6 billion and other loans by CZK 1.3 billion in the period under review. The shares of these three credit categories in total household loans were unchanged in December 2002–February 2003 (for housing loans at 56.2%, for consumer credit at 34.7% and for other loans at 9.1%).

The annual decline in credits extended to non-financial corporations eased to -2.2% in December 2002–February 2003. Credits to foreign controlled non-financial corporations contributed to this trend. The credits in question tended to be short-term loans of an operational nature. In addition to their own funds, non-financial corporations therefore used bank loans to finance their economic activities in the period under review.

TABLE III.4
THE SEASONALLY ADJUSTED AND ANNUALISED CREDIT GROWTH INCREASED
(percentages)

	1 MONTH	ANNUALISED FOR		1 YEAR
		3 MONTHS	6 MONTHS	
November 2002	0.3	4.1	5.7	3.1
December 2002	0.7	4.6	5.0	4.3
January 2003	1.6	11.2	10.5	4.7
February 2003	-0.5	7.5	5.9	3.4

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

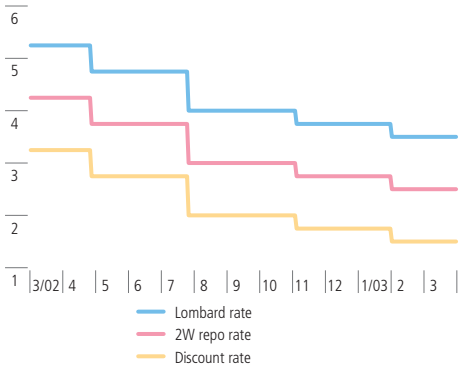
The aforementioned developments in lending in December 2002–February 2003 also affected the structure of credits by type. In the period under review, the share of operating credits increased by 0.6 percentage points to 40.2%, whereas investment credits were flat at 29.4%. Continuing rises were also recorded by mortgage loans (up by 0.5 percentage points to 9.5%), consumer credit (up by 0.7 percentage points to 7.5%) and building savings loans (up by 0.5 percentage points to 6.6%). Turning

to the credit time structure, medium-term and long-term credits rose in the three months to February.

III.2. INTEREST RATES

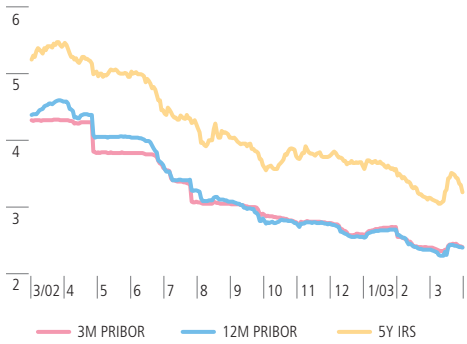
Interest rates during 2003 Q1 were affected by a further reduction in the CNB's key rates. The CNB lowered all its key rates by 0.25 percentage points with effect from 31 January 2003. The 2W repo rate was reduced to 2.50%, the Lombard rate to 3.50% and the discount rate to 1.50%. For part of the market the change came as a surprise, with interest rates gaining a new impulse for further reductions. This was supported by the publication of negative inflation figures and minutes from the meeting of the Bank Board at the beginning of February. The downward trend also continued following successful primary auctions of government bonds. Other factors include the reduction in the key rates of the ECB and other European central banks. The downward tendency for rates with longer maturity was supported by an analogous trend abroad in reaction to the uncertainty concerning potential military action (fall in share indices, rise in bond prices). In the middle of March, however, there was something of a correction to the previous fall. Interest rates began to rise at the beginning of military operations in Iraq. A few days later, they began to fall back slightly. At the end of March, rates were very close to their historical lows. Some market participants continued to believe that the CNB would reduce its key rates even further, especially if the ECB were to do likewise. Both spot rates and FRA rates indicated that this was highly probable.

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



The falls in interest rates also affected the shape and level of the yield curves. In the first quarter of 2003, the PRIBOR yield curve gradually moved downwards to a lower yield level. Its mildly negative tendency showed almost no change. The average value of the 1W PRIBOR rate fell by 0.25 percentage points to 2.50% compared to December 2002 and the 1Y PRIBOR by 0.25 percentage points to 2.36%. The spread between the two rates in March was -0.14 percentage points (compared to 0.16 percentage points in December).

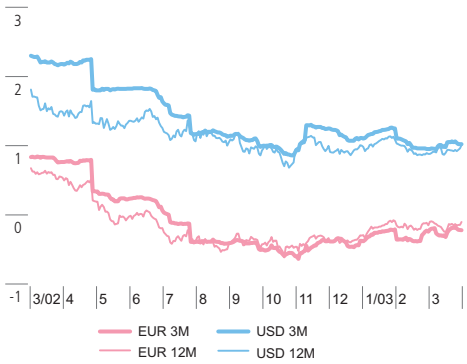
CHART III.5
MARKET INTEREST RATES FOR THE MOST PART FELL
(percentages)



The IRS yield curve also moved to a lower yield level, although to a larger extent by comparison with the money market, particularly in the central and longer part of the curve. As a result its positive slope decreased slightly. In March, the average 5Y-1Y spread was +0.89 percentage points, while the 10Y-1Y was +1.73 percentage points. IRS interest rates fell in all by 0.3–0.4 percentage points depending on maturity.

The interest rate differential (PRIBID/CZK-LIBOR/EUR, USD) was affected both by rate developments abroad and by interest rate movements on the domestic interbank market. In the eurozone, the repo rate was reduced by 0.25 percentage points to 2.50%. In the USA, key rates remained unchanged, with the O/N rate remaining fixed at 1.25%. Besides interest rates, the money markets were affected chiefly by the situation in Iraq. However, this factor's influence on domestic and foreign interest rates was almost equal and, as a result, it had only a limited affect on the interest rate differential. The differential vis-à-vis euro rates at the end of March recorded negative figures at all maturities (-0.1 to -0.2 percentage points). The differential vis-à-vis dollar rates was 1.0–1.1 percentage points.

CHART III.6
THE INTEREST RATE DIFFERENTIAL WAS BROADLY UNCHANGED
(percentage points)



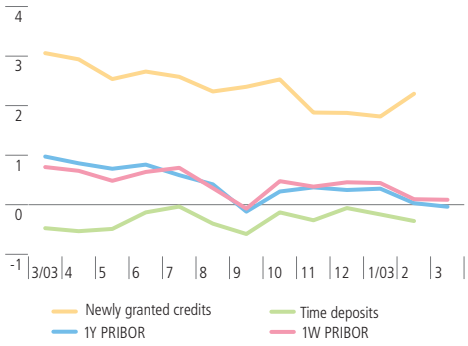
Three auctions were held on the primary government bond market, with original maturities of 3Y, 10Y and 5Y and a total volume of CZK 34 billion. Demand at the auctions exceeded the supply by two to three times, even though the amount auctioned was the highest on record. The average gross yields were 3.13%, 3.92%

and 2.89%. During the same period, the mortgage bond market saw securities issues amounting to CZK 4.2 billion. Issuing activity continued on the koruna eurobond primary market, where the outstanding volume at the end of March was CZK 108 billion.

Client interest rates on credits and deposits also responded to the changes in key rates and financial market rates. Their long-term downward trend has persisted for several years, with only short-term interruptions. In February, nominal interest rates on new credits were 3.9% and time deposit rates 2.1%. In both cases these were historical lows. The interest rate margin between the overall credit and deposit rates remained unchanged, amounting to 3.9 percentage points in February.

Real interest rates were affected not only by the fall in nominal rates, but also by developments in the price indices. The expected consumer price indices remain at a higher level than the expected industrial producer price indices, despite the gap having narrowed markedly in recent months. This fact is reflected in the real rates. Real rates on new credits were 2.2% in February, while real interest rates on time deposits were -0.3%.

CHART III.7
EX ANTE REAL INTEREST RATES SHOWED MIXED DEVELOPMENTS
(percentages)



III.2.1. The exchange rate

In 2003 Q1, the nominal rate of the koruna against the euro fluctuated between CZK 31.2 and CZK 32. The average exchange rate of the koruna during this period was CZK 31.63/EUR, approximately at the level of 2002 Q1 (a year-on-year change of 0.4 percentage points).

The koruna's depreciation in January to CZK 32/EUR (a 2% fall from the beginning of the month) was due chiefly to market fears concerning the weakness of the European economy and its negative effect on the Czech economy. The depreciation was corrected by news of the revised foreign trade balance (15 January). Nevertheless, events in Hungary exacerbated the short-term negative outlook for all currencies in Central Europe and this, together with the reduction in CNB rates by 25 basis points (30 March), again brought about a depreciation.

In February, the exchange rate was determined chiefly by foreign political developments. These were dominated by the uncertainty regarding the expected war in the Persian Gulf and the governmental crisis in Poland. These uncertainties were reflected in reduced levels of foreign investment in Central Europe, causing the koruna to fall by 1.4% in the second half of the month.

At the beginning of March, the koruna strengthened in response to the positive political news (vote of confidence in the government), although it fell back below CZK 31.60/EUR following worse-than-expected GDP growth figures (20 March). The end of the month was dominated by the developments in Iraq: during this period the koruna fell further despite some fluctuations.

Against the dollar the koruna followed the same course as the euro. It recorded its strongest position since 1999 on 11 March, when it stood at CZK 28.68/USD. The quarterly average rate of the koruna against the dollar appreciated by almost 19% year-on-year.

CHART III.8
THE EXCHANGE RATE OF THE KORUNA STABILISED

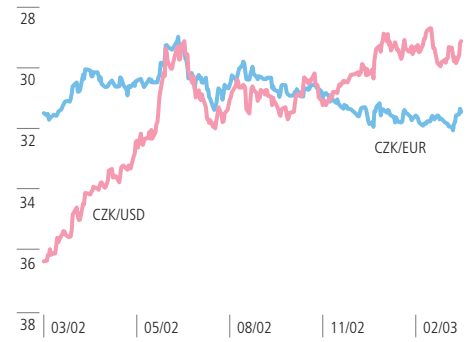
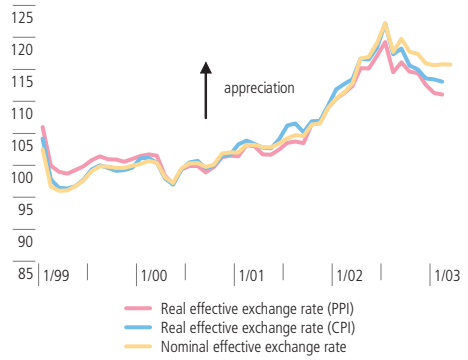


CHART III.9
THE EFFECTIVE EXCHANGE RATES WEAKENED
IN MONTH-ON-MONTH COMPARISON
(Year 2000 = 100)



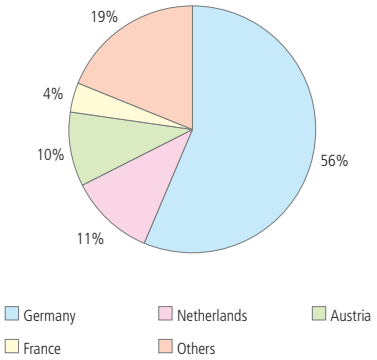
The nominal effective exchange rate index[6] did not record any marked change in March relative to January (rising by just 0.1%), although year-on-year it appreciated by 2.6%. The real effective exchange rate indices developed in line with the nominal effective rate.

III.2.2. Capital flows

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

	1999	2000	2001	2002
Financial account	106.6	148.0	172.9	340.3
Direct investment	215.7	190.8	208.3	269.3
- Czech abroad	-3.1	-1.7	-6.3	-6.8
- Foreign in Czech Republic	218.8	192.5	214.6	276.1
Portfolio investment	-48.3	-68.2	34.9	-46.7
- Czech abroad	-65.6	-86.6	4.4	-75.6
- Foreign in Czech Republic	17.3	18.4	30.5	28.9
Financial derivatives	0.0	-1.4	-3.2	-4.3
Other investment	-60.9	26.9	-67.1	122.0
1. Long-term investment	-25.2	-4.9	-3.0	17.6
- Credits granted abroad	-23.9	21.3	1.3	28.7
- Credits accepted from abroad	-1.3	-26.2	-4.3	-11.1
2. Short-term investment	-35.7	31.8	-64.1	104.4

CHART III.10
TERRITORIAL STRUCTURE OF FDI IN 2002



The financial account ended 2002 in a record surplus of CZK 340 billion, which is almost double the 2001 figure. The main factor behind the increase in capital inflow was the sale of an exceptionally high volume of property to non-residents, amounting to almost CZK 180 billion. The capital inflow was further strengthened by reinvestment of non-residents' earnings of approximately CZK 60 billion in the Czech Republic, inflow of foreign direct investment of around CZK 40 billion, a fall of approximately CZK 120 billion in short-term foreign assets in the banking sector and the government's de-blocking of Russian debt worth about CZK 20 billion. The net capital inflow was offset in part by an outflow of portfolio investment capital amounting to almoust CZK 50 billion. In large part, it involved the replacement of lower-yield short-term deposits in the banking sector with higher-yield foreign bonds.

The net inflow of direct investment amounted to CZK 269.3 billion and in comparison with 2001 increased by approximately 30%. The inflow of FDI was CZK 276.1 billion (its highest ever figure), although this was influenced by the exceptionally high level of property sales to non-residents. The sale of state property to non-residents amounted to CZK 125.7 billion, this figure being dominated by the sale of 97% of the shares of Transgas to the German company RWE for CZK 124.5 billion. Sales of private property came to CZK 51.2 billion, due in large part to the purchase by the majority shareholder, Austria's Erste bank, of approximately 40% of Česká spořitelna's shares divided among minority shareholders for CZK 18.8 billion. The inflow of FDI of CZK 39.2 billion was negatively affected by the ongoing economic recession in key investor countries. According to preliminary estimates, the reinvested earnings of companies owned by non-residents amounted to approximately CZK 60 billion. The biggest investors were Germany, the Netherlands and Austria. The investments were channelled chiefly into capacity-creating investment, manufacturing, banking and property. The outflow of direct investment abroad also rose by around 10% on a year earlier to CZK 6.8 billion.

The net outflow of portfolio investment amounted to CZK 46.7 billion, unlike in 2001, when an inflow of almost CZK 35 billion had been recorded. The outflow began in the second half of 2002 and peaked in the final quarter, when it reached CZK 53.5 billion. The change in financial flows was affected by movements in the bond area, most notably increased interest in foreign bonds on the part of residents. The volume of foreign bonds held by residents rose by CZK 67.8 billion in 2002, with Q4 alone seeing an increase of CZK 40.2 billion. Banks were primarily responsible for this outflow, increasing their foreign bond holdings by CZK 53.8 billion over the course of 2002. This was mainly due to a change in the structure of banks' foreign assets motivated by higher yields. After a lull lasting more than a year, residents showed renewed interest in foreign shares in 2002, although purchases remained relatively insignificant (CZK 7.8 billion). Non-residents increased their holdings of domestic bonds during the year by CZK 37.9 billion, despite a fall of CZK 12.6 billion in Q4 alone. Non-residents' holdings of domestic shares fell by CZK 9 billion during 2002, although there was a slight renewal of interest in Czech shares in the second half of the year.

In 2002, financial derivatives transactions led to a reduction of CZK 4.3 billion in the financial account surplus.

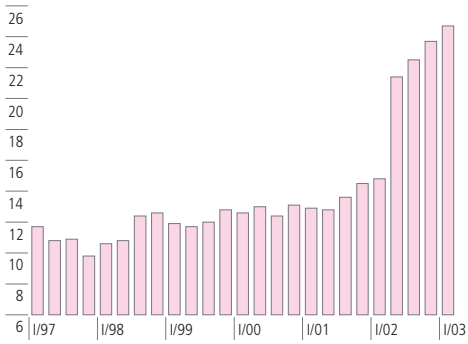
6 Weighted by shares in foreign trade, including that of Russia.

Other investment recorded a net capital inflow of CZK 122 billion. The most significant item was a fall of CZK 122.2 billion in the short-term assets of commercial banks abroad. The fall was largely due on the one hand to the decision by commercial banks to increase their rates of return on assets by changing their structure and on the other to CNB action to reduce the appreciation pressures on the koruna. The government sector recorded a net capital inflow of CZK 21.6 billion. This was due primarily to the de-blocking of long-term assets in Russia.

In the corporate sector there was a net capital outflow of CZK 15 billion. After adjustment for the technical factor of clearing operations from the de-blocking of the Russian debt, there was a small capital inflow of CZK 5 billion. Compared to the inflows in the previous two years (approximately CZK 25 billion), however, this represents a major slackening in debt capital inflow into the corporate sector, reflecting lower investment activity resulting from the slowdown in economic growth on key markets.

During 2003 Q1, international reserves were unaffected by CNB operations on the foreign exchange market, instead reflecting only valuation changes and interest income. The reserves rose during the first quarter by CZK 10.8 billion to CZK 725.4 billion. In dollar terms, they amounted to USD 24.7 billion (an increase of USD 1 billion compared to 31 December 2002, due chiefly to the dollar's weakening against the euro).

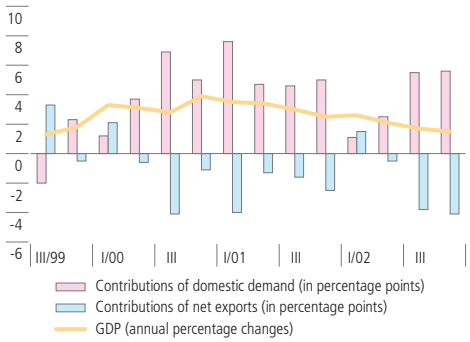
CHART III.11
THE INTERNATIONAL RESERVES ROSE IN 2003 Q1, THANKS MAINLY TO THE WEAKER DOLLAR
(USD billions)



III.3. DEMAND AND OUTPUT

The assessment of GDP in the fourth quarter of 2002 is based on revised data from the Czech Statistical Office published in March 2003.

CHART III.12
ACCORDING TO THE CSO'S LATEST ESTIMATES, ECONOMIC GROWTH SLOWED SOMEWHAT FURTHER IN 2002 Q4



Box:
Revisions to the March 2003 GDP figures

The comprehensive revisions include not only a more accurate estimate of some indicators from 2001 and the first three quarters of 2002, but also methodological changes. In particular, the following methodological and material modifications were made:

- for all the quarters of 2001, supplies of destructive equipment were moved from capital formation to government expenditure; this affected the structure of GDP but not its amount;
- in line with EU requirements, a change was agreed with the Ministry of Finance to the method used to calculate indirect taxes – from a cash basis to an accrual basis (the tax is determined on the basis of a tax regulation for the given year);
- in conjunction with the Ministry of Finance, the estimate of subsidies granted was revised;
- payments by domestic insurance companies and payments under their foreign reinsurance relating to the August floods were removed from the GDP estimates.

The revisions to the 2001 figures did not significantly alter the growth rate of domestic demand or GDP. The changes chiefly affected the structure of domestic demand, since they were primarily of a methodological nature. There were more marked changes in 2001 in the growth rate of government consumption (faster growth) and gross fixed

capital formation (slower growth). Net exports were also revised in such a way that their already negative results deteriorated further. For 2002, the revised estimate of GDP for the first three quarters changed the outlook for the development and structure of GDP. For fixed investments and household consumption the changes revised growth downwards. On the other hand, the inventories item saw the original figures scaled upwards. A correction in the balance of goods and services on the exports side caused a worsening in net exports. The revisions meant that the GDP growth rate for the first three quarters of 2002 fell by 0.4 percentage points compared to the original estimate.

According to the latest CSO estimates on the creation and use of gross domestic product, economic growth slackened slightly in Q4. At 1.5%, it was down 0.2% from the previous quarter. For 2002 as a whole it rose by 2%. On the demand side, the growth in Q4 was supported by increased expenditure on final consumption by households and the government. Spending also rose on gross capital formation, although thanks only to inventories, where the fall was lower than the previous year. Gross fixed capital formation declined slightly or stagnated at the previous year's level. The balance of trade worsened markedly in annual terms, chiefly in the services balance. Consequently, the negative contribution of net exports to GDP increased further. The rise in GDP in Q4 was – as in the previous two quarters – due solely to growing domestic demand. On the supply side of the economy, the services sector was the main cause of the economic growth in Q4. Industry failed to contribute to the rise in GDP owing to a stagnation in gross value added, although this did rise modestly in manufacturing.

TABLE III.6
THE ECONOMIC SITUATION OF THE CZECH REPUBLIC'S MAJOR TRADING PARTNERS WAS NOT YET PROVIDING ROOM FOR SIGNIFICANTLY STRONGER CZECH EXPORT GROWTH
(annual percentage changes; 2002 Q4, seasonally adjusted)

	EUROZONE	EU-15
Gross domestic product	1.3	1.4
Final consumption expenditure of households and non-profit institutions	1.0	1.5
Government final consumption expenditure	2.6	2.6
Gross fixed capital formation	-1.8	-1.7
Domestic demand	0.8	1.0
Exports of goods and services	4.1	3.7
Imports of goods and services	3.0	2.7

Source: Eurostat

The gradual slackening in economic growth in Q4 and throughout 2002 was largely down to the continuing weak economic growth being recorded by the Czech Republic's major trading partners, i.e. chiefly the countries of the EU and above all Germany. Domestic exporters saw their sales opportunities diminish as a result. This was evident in the marked slowdown in export growth in 2002 compared to 2001. The continuing year-on-year appreciation of the koruna also weakened the competitiveness of Czech exports and made imports cheaper, which in turn created a tougher competitive environment for Czech products on the domestic market. GDP growth during the second half of 2002 was also indirectly affected by the August floods, with a marked fall in receipts from travel.

The latest data on GDP in the countries of the EU/eurozone show that economic growth in 2002 Q4 recorded a modest upturn compared to the previous quarter. However, despite modest growth in foreign trade (including imports) in these countries, growth in Czech goods exports actually slowed during Q4. Domestic demand was one of the factors behind the modest economic growth in the EU countries, although investment demand, as in the Czech Republic, failed to match the levels of the previous year. Economic growth on the supply side of the economy displayed some similar features – the most rapid growth was recorded in wholesale and retail trade, transport and telecommunications services.

TABLE III.7
THE GROWTH IN DOMESTIC DEMAND AND GDP WAS CHIEFLY ATTRIBUTABLE TO CONSTANTLY RISING HOUSEHOLD CONSUMPTION
(annual percentage changes)

	2001	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2002
GROSS DOMESTIC PRODUCT	3.1	2.6	2.1	1.7	1.5	2.0
AGGREGATE DEMAND (domestic demand + exports)	8.0	2.2	3.1	3.8	3.2	3.1
AGGREGATE DOMESTIC DEMAND[1)]	5.1	1.0	2.4	5.1	4.9	3.4
FINAL DOMESTIC DEMAND[2)]	4.5	3.8	3.0	3.0	3.1	3.2
of which:						
Household consumption	3.8	4.1	4.3	3.6	3.8	3.9
Government consumption	5.3	5.5	3.9	6.0	7.1	5.7
Fixed capital formation	5.5	2.3	0.4	0.4	-0.1	0.6
Consumption of non-profit institutions	-4.8	8.3	7.9	5.4	6.2	6.8
IMPORTS OF GOODS AND SERVICES	13.6	1.8	4.3	6.1	4.9	4.3
EXPORTS OF GOODS AND SERVICES	11.9	3.7	4.0	2.3	1.2	2.8
NET EXPORTS OF GOODS AND SERVICES (balance in CZK billions)	-137.3	-25.5	-26.0	-45.4	-66.5	-163.5

1) including changes in inventories; 2) excluding changes in inventories

III.3.1. Domestic demand

Annual growth in aggregate domestic demand remained buoyant during 2002 Q4, at 4.9%. This was driven chiefly by growing household consumption, which accounts for around half of aggregate domestic demand. Brisk growth in government expenditure on final government consumption and stockbuilding also contributed to the increase in aggregate domestic demand. Only gross fixed capital formation fell short of the level of the same period a year earlier. Its contribution to aggregate domestic demand growth was thus slightly negative or zero.

Investment demand

The continuing decline in investment activity in the economy during the first three quarters of 2002 culminated in Q4 in a slight year-on-year fall of 0.1% in gross fixed capital formation. Investment growth faltered owing to consistently weak foreign demand (particularly in Germany), the negative impact of which in Q4 outweighed the positive impulse of the inflow of FDI capital. The rate of investment in Q4 approached 40% (39.1%) thanks to seasonal effects, although year-on-year it declined by 0.7 percentage points.

The fall in total investment in 2002 Q4 was caused by reduced investment demand on the part of non-financial corporations. In other sectors, Q4 saw year-on-year increases in investment, even though sustained growth in gross fixed capital formation had not been recorded for all these sectors in the previous three quarters of 2002. In total, investments in the non-financial corporations sector was 5.3% lower than a year earlier, with manufacturing registering an even greater decrease (-7%). Despite this, the sector continued to account for most of the total investment (68.2%).

The investment structure for large and medium-sized non-financial corporations broken down by their forms of ownership also revealed that investments by public corporations recorded the sharpest falls during Q4 (of 47.7% year-on-year at current prices). Investments by foreign-controlled companies and private non-financial corporations were also below the level of the previous year, although the falls there were not so steep (-15% and -14.5% respectively). In manufacturing, more than half of the investment[7] (55.8%) was channelled into the manufacture of transport equipment, food and food products, basic metals and fabricated metal products, and electrical and optical equipment. The structural breakdown of gross fixed capital formation by sector, however, revealed that the fall in investment by non-financial corporations was not across-the-board in nature. In some service segments (wholesale and retail trade, business services, and research and development) investment rose throughout 2002.

Household investment demand continued to rise during 2002. During Q4, the year-on-year growth in investment accelerated to 15.2%. The growing investment tendency among households was to a large extent fostered by favourable conditions for mortgage loans and other specific factors that made property investment more attractive to households (most notably expectations regarding the future development of demand on the real estate market). The fourth quarter also saw a fairly rapid rise in investment by the government sector, including non-profit institutions (by 9.5%). However, the sharpest rise in investment – coming on the back of a year-on-year fall – was recorded by financial institutions (73.9%). This increase, however, did not affect the overall figure, as their proportion of total investment is very low (1.6%).

Consumer demand

According to the most recent CSO figures, the buoyant growth in households' consumer spending continued into 2002 Q4. This was the fourth consecutive year that this item increased. By comparison with the previous quarter, household consumer spending rose by only 3.8% year-on-year. For 2002 as a whole the increase was 3.9%. As in previous quarters, the real consumer spending of households was influenced not only by the growth rate of disposable income, but also by the rate of inflation and by expectations regarding the future course of the economy and financial situation of households.

CHART III.13
INVESTMENT FELL IN YEAR-ON-YEAR TERMS, BUT THE RATE OF INVESTMENT REMAINED HIGH

CHART III.14
INVESTMENT BY NON-FINANCIAL CORPORATIONS PREDOMINATED
(2002 Q4; percentages)

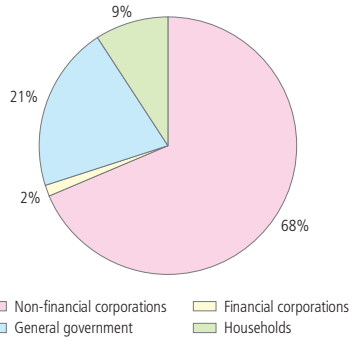
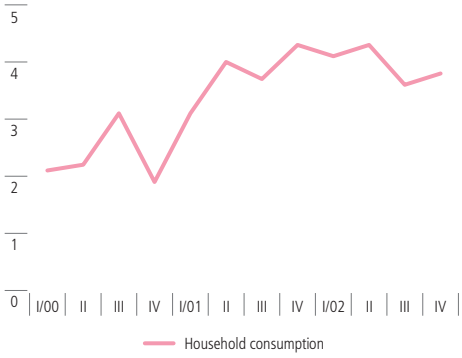


CHART III.15
HOUSEHOLD CONSUMPTION ROSE FOR THE 16TH CONSECUTIVE QUARTER
(annual percentage changes)

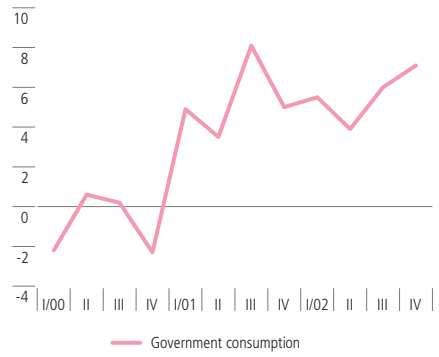


7 This means investment in both tangible and intangible goods. The figures on the investment structure are calculated at current prices.

Annual growth in the gross nominal disposable income of households during 2002 Q4 picked up somewhat compared to the previous quarter (to 3.2% year-on-year). The increase was largely due to wages and salaries, which form almost half of households' current income. Fast-growing social benefits (5.3%) and very rapid rises in income from other current transfers (chiefly non-life insurance payments) also contributed to the increase in household income in Q4. Only property income (interest and distributed company earnings) fell during Q4. As in the previous quarter, households' overall disposable nominal incomes rose more rapidly (3.2%) than their nominal expenditure on individual consumption (2.5%). Given this situation, households' propensity to save, measured by the gross savings rate, rose only slightly, to 6.1% in both month-on-month and year-on-year comparison. The savings rate was at this level throughout 2002.

The rapidly falling inflation[8] during 2002 fostered growth in real household spending on final consumption. In particular, it helped keep the growth in households' consumption expenditure at around 4% amid the aforementioned rise in nominal income. It was clear that the low inflation was stimulating households to make advantageous purchases. The increase in real private consumption was also supported in part by lending extended to households by financial and non-financial institutions. In 2002 Q4, net household credit (including leasing and hire-purchase) rose by CZK 15.3 billion compared to the previous quarter. This represents approximately 5% of household expenditure on individual consumption. In year-on-year comparison, however, there was a fall in net credit growth. The continuing, albeit lower, annual growth in credit testifies to households' willingness to borrow and to fairly upbeat perceptions of the state of the economy.

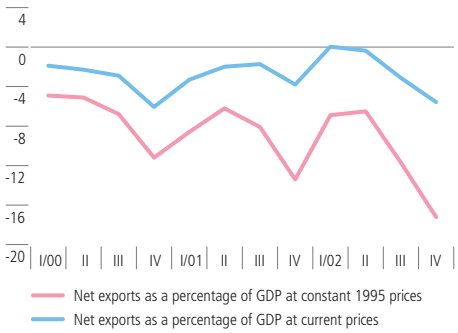
CHART III.16
ANNUAL GROWTH IN GOVERNMENT FINAL CONSUMPTION EXPENDITURE PICKED UP FURTHER IN 2002 Q4
(annual percentage changes)



Government demand

Final government consumption rose by 7.1% year-on-year in Q4 and by 5.7% in 2002 as a whole. The increase was in line with the budget plans for 2002. None of the main items exceeded the modified budget, which included sharp increases in expenditure on non-investment purchases and related expenditure. The modification chiefly applied to compensation of employees, which rose by 8.6%. Purchases of materials exceeded the 2001 figure by approximately 1.7%, mainly as a result of the August floods (health and rescue materials). The drawing on non-investment transfers to subsidised and similar organisations linked with the reform of public administration (transfers of competencies and funds from chapters to the regions) was accompanied by a raft of changes, and consequently its rate of increase did not amount to that of the previous year. Subsidies to civic associations, churches and church organisations, which represent the major part of non-investment subsidies to non-profit and similar organisations, were roughly at the level of the previous year. Neither were any significant changes recorded in non-investment transfers to central public budgets (transfers to social security and health insurance funds and transfers to state funds).

CHART III.17
THE NEGATIVE SHARE OF NET EXPORTS IN GDP DETERIORATED IN 2002 Q4
(percentages)



III.3.2. Net external demand

Net exports of goods and services (at constant 1995 prices) continued to develop unfavourably in Q4. For the third consecutive quarter, they made a negative contribution to economic growth, and more so than in the previous quarter (see

8 Measured by the household consumption deflator. In 2002 Q4, for instance, consumer prices measured by the household consumption deflator fell by 1.3% year-on-year. This fall was probably linked to the year-on-year appreciation of the koruna, which caused a fall in prices of imported goods.

Chart III.12). Just as in the previous quarter, the marked deterioration in net exports (of CZK 15.1 billion year-on-year to CZK 66.5 billion) was chiefly attributable to a worsening in the balance of services. The trade deficit deteriorated only slightly. The share of negative net exports in gross domestic product rose significantly (by 3.8 percentage points year-on-year).

The continuing negative development of the services balance was caused largely by further deteriorations on other services and travel. The latter worsened considerably in Q3 following the August floods, which caused a marked fall in travel receipts. The surplus on travel fell by CZK 11.3 billion year-on-year in Q3 (at current prices). This negative trend eased in Q4 and the surplus fell by just CZK 4.6 billion. The increasing deficit on other services was largely the result of falling receipts due to low external demand, as well as an increase in expenditure due to rising domestic demand for other services.

Unlike exports of services, exports of goods continued to grow (by 4.9%), albeit more slowly than in the previous quarter. The low external demand and the ongoing appreciation of the koruna took their toll here, as confirmed by the generally slower growth in goods exports throughout 2002 than in 2001. The growth rate of imports of goods also fell in Q4 (to 4.4%). However, goods export growth outpaced import growth throughout 2002.

At current prices, exports fell by 1.5% during Q4 in response to the stronger year-on-year appreciation of the koruna. But their structural development[9] did not suggest any marked changes compared to the previous period. As in Q3, the fall in exports to advanced market economies (-1.7%) was lower than the fall in exports to transition economies (-3%). Exports to major trading partners – Germany and Slovakia – fell more sharply (by 6.3% and 5.9% respectively). Total exports remained dominated by the advanced market economies (see Chart III.19). The commodity structure clearly showed a continuation of the upward trend in the share of higher-value-added products. Mechanical and electrical engineering commodities continued to dominate total exports, their share increasing by 0.5 percentage points to 56.7%. Food, raw materials and semi-manufactures fell by 0.9 percentage points to 12.2%.

As with exports, imports at current prices continued to be negatively affected by the koruna's appreciation (-2.2%). Their fall was largely due to a decline of 5.6% in investment imports. Imports for intermediate consumption, however, registered a reduced fall compared to the previous three quarters (-1.4%). Only imports for final consumption showed a modest rise in Q4 (0.5%).

III.4. THE LABOUR MARKET

The main labour market indicators for 2002 Q4 and the beginning of 2003 confirmed the trends of the preceding period. The gap between the demand for, and supply of, labour continued to widen. Against a background of weak external demand, ongoing restructuring and rationalisation of production activities on the supply side of the economy, unemployment recorded an increase. This was evidenced by a falling number of vacancies, an increasing number of unemployed people after seasonal adjustment, and by a rising unemployment rate. The weakening labour demand fostered a slowdown in average nominal wage growth. Q4 also saw a slackening in the growth rate of average real wages. That wages were gradually adjusting to

CHART III.18
THE UNFAVOURABLE EXPORT TREND IN 2002 Q4 WAS CHIEFLY DUE TO FALLING EXPORTS OF SERVICES
(annual percentage changes; constant prices)

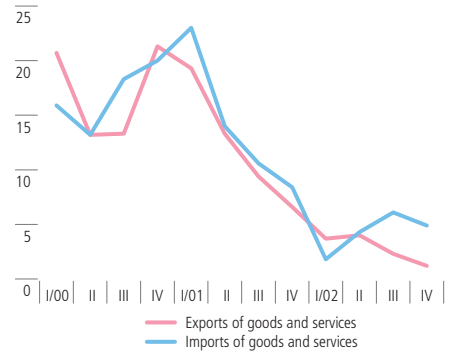


CHART III.19
GOODS EXPORTS WENT MAINLY TO ADVANCED MARKET ECONOMIES
(2002 Q4; percentages)

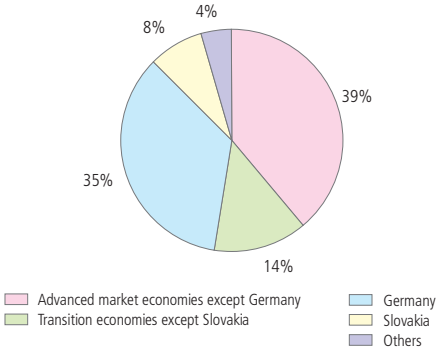
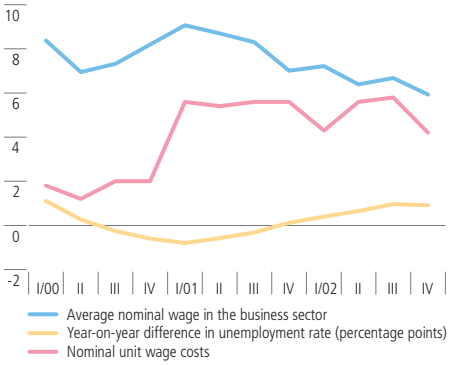


CHART III.20
THE SITUATION ON THE LABOUR MARKET STEADILY DETERIORATED DURING 2002
(annual percentage changes and percentage point changes)



9 The figures on the structure of imports and exports given below are at current prices.

the production indicators was indicated by a marked slowdown in nominal unit wage costs in Q4. However, their year-on-year growth at the macroeconomic level was still relatively high, chiefly because of a sharp increase in wages in the non-business sector owing to a change in wage scales in 2002. In the business sector, the personnel cost-output ratios showed mixed developments. In industry, nominal unit wage costs fell for the second consecutive quarter.

CHART III.21
THE DECLINE IN THE NUMBER OF EMPLOYEES WAS OFFSET BY A RISING NUMBER OF ENTREPRENEURS
(annual percentage changes)

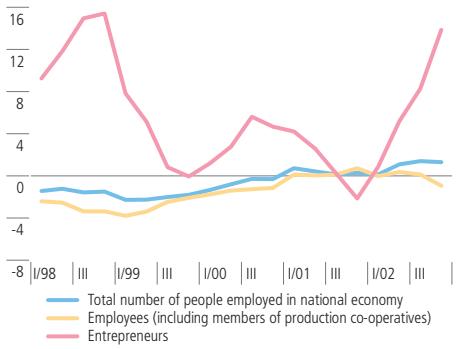


CHART III.22
THE DECLINING NUMBER OF VACANCIES CAUSED AN INCREASE IN UNEMPLOYMENT
(seasonally adjusted figures in thousands)

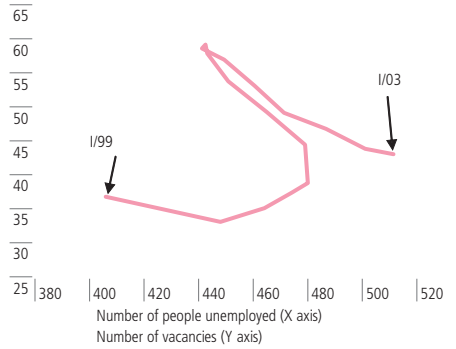
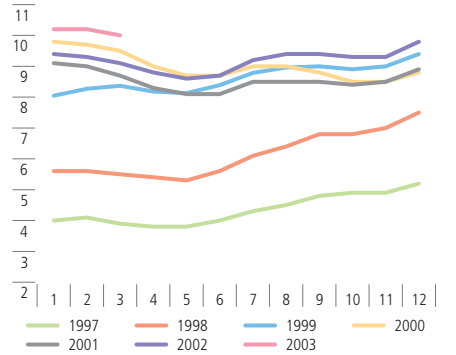


CHART III.23
THE UNEMPLOYMENT RATE INCREASED FURTHER AT THE START OF 2003
(percentages; MLSA figures)



III.4.1. Employment and unemployment

The gradual increases in employment recorded in the first three quarters of 2002 came to an end in Q4. According to Labour Force Survey (LFS) figures, the number of people employed in the national economy was 1.3% higher than a year earlier in Q4 (compared to 1.4% in Q3). In absolute terms this meant an increase of 60,200 persons. As in the previous quarter, the structural development of overall employment in Q4 indicated a fairly strong year-on-year increase in employment in the entrepreneurs category (13%). This was particularly evident in service sectors such as wholesale and retail trade, real estate, business services, and research and development. A marked increase was also visible in the construction sector. Conversely, in the employees category,[10] which makes up 83% of total employment, the previous growth was replaced in Q4 by an annual fall of almost 1%. These structural changes show that corporations were reacting to a larger extent to the reduction of external demand in particular in the previous period, and that workers who had been made redundant were seeking work as independent entrepreneurs.

The deteriorating situation on the labour market in the employees category was confirmed by business surveys. According to preliminary CSO figures, the number of employees in the corporate sector fell by 1.9% year-on-year. Employment in the business sector continued to fall more sharply (by 2.2%). As in Q3, the fall in the non-business sector was less marked (0.5%). Falls in employment levels were common to almost every sector,[11] the only exceptions being certain service sectors such as wholesale and retail trade, hotels and restaurants, health, and veterinary and social services.

The falling unemployment in the employees category reflected the continuing slowdown in economic growth resulting from the weak external demand and the negative impacts of the appreciation of the koruna. Other factors were the ongoing restructuring of the economy and rationalisation of production activities. It is likely that the appreciation of the koruna and the subsequent loss in competitiveness for domestic producers played a major role in stimulating the rationalisation process in production during 2002. Throughout the year, the supply of vacancies lagged behind the levels of the same period of the previous year. In Q4 this problem deteriorated further. In January 2002 there had been 1,800 fewer vacancies than a year earlier, whereas at the end of March 2003 the figure had risen to approximately 8,000. The relationship between the number of job seekers and the number of vacancies also worsened. In March 2003, there were approximately 12.8 job applicants per vacancy, an increase of 3 applicants on a year earlier. The regional, professional and skills gaps between the supply of and demand for labour persisted.

10 Including members of production co-operatives.
11 Employment fell most strongly in mining and quarrying (8.3% year-on-year), construction (5.8%), financial intermediation and insurance (4.4%) and manufacturing (3.9%)

The declining supply of vacancies resulted in higher unemployment. The number of registered unemployed people rose; at the end of March their number was around 56,500 higher than in the same period of 2001. The seasonally adjusted unemployment rate showed the same trend. At the beginning of 2003, the unemployment rate exceeded the 10% barrier for the first time since 1990. According to the latest figures for March, it was 0.9 percentage points higher than a year earlier, at 10%. Unemployment differed sharply by region, with the worst-affected regions remaining northern Bohemia and northern Moravia. As of March, 23 districts recorded an unemployment rate of more than 12%.

Short-term unemployment (up to one year) also rose. According to MLSA figures, the short-term unemployment rate rose by 0.3 percentage points to 6.2% in 2002 Q4. The long-term unemployment rate also rose. MLSA figures show that it reached its highest figure yet, 3.6%. More detailed analyses of the labour market make it clear that the gradual increase was due not only to factors relating to the restructuring of the economy, but also to the low mobility of the labour force in the Czech Republic.

CHART III.24
SHORT-TERM UNEMPLOYMENT INCREASED
(quarter-on-quarter percentage changes; LFS and MLSA figures)

III.4.2. Wages and productivity

The declining labour demand fostered a further slackening in the growth of average nominal wages. This trend was particularly evident in the business sector, with wholesale and retail trade and financial intermediation and insurance proving the only exceptions. It was clear that the rising unemployment was strengthening the employers' hand in wage bargaining. Average nominal wage growth also slowed in the non-business sector, although it continued to register high figures (10.4% year-on-year in Q4) following the March revision of wage scales.

Average real wages also began to adjust in 2002 Q4 to the reduced labour demand. After the strong increases of Q2 and Q3, annual wage growth in monitored organisations slowed to 6.3% in Q4. It should be pointed out that the buoyant annual growth in real wages since 2002 Q2 was bolstered to a large extent by sharply falling inflation. The impact of the marked decrease in inflation on average real wages in 2002 is confirmed by their aggregate development: although annual growth in the average nominal wage softened by 1.2 percentage points compared to 2001, the growth in real wages strengthened thanks to the faster decline in inflation.

TABLE III.8
AVERAGE NOMINAL AND REAL WAGE GROWTH SLOWED IN 2002 Q4
(annual percentage changes)

	2001 Q3	2001 Q4	2001	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2002
Average wage in monitored organisations (nominal)	8.7	7.5	8.5	7.0	7.4	7.4	6.8	7.3
Average wage in monitored organisations (real)	3.1	3.1	3.6	3.2	5.0	6.7	6.3	5.4
Average wage in business sector (nominal)	8.3	7.0	8.2	7.2	6.4	6.7	5.9	6.7
Average wage in business sector (real)	2.8	2.6	3.3	3.3	4.0	6.0	5.3	4.8
Average wage in non-business sector (nominal)	10.9	9.5	10.0	6.5	11.7	11.3	10.4	10.0
Average wage in non-business sector (real)	5.3	5.0	5.1	2.6	9.2	10.6	9.8	8.0
Whole-economy labour productivity	2.7	2.3	2.6	2.4	1.3	0.6	0.3	1.1
Nominal unit wage costs	5.6	5.6	5.5	4.3	5.6	5.8	4.2	5.1

Source: CSO; CNB calculation

Whole-economy labour productivity in Q4 confirmed a continuing slowdown in year-on-year growth, which indeed had been a feature of the whole of 2002 (see Table III.8). This trend may be seen as the result of a lagged reaction by the business sector to the downturn in economic activity with regard to employment, which in turn reflects uncertainty (in their expectations) of an improvement in demand. The key factor for inflation, however, is the relationship between wage growth and productivity growth. Nominal unit wage costs in Q4 slowed sharply compared to the previous two quarters of 2002, reflecting a fall in the personnel cost-output ratio at the macroeconomic level. The improvement in nominal unit wage costs was fostered chiefly by the aforementioned slowdown in average nominal wage growth due to the deteriorating situation on the labour market. This led to a marked softening in the annual growth in the volume of wages and salaries in the national economy (from 7.6% in Q3 to 5.8% in Q4). Despite this, the 4.2% annual growth in nominal unit wage costs was comparatively high, mainly as a result of rapidly rising wages in the non-business sector. The higher growth rate was also attributable to parts of the business sector, for example construction.

CHART III.25
GROWTH IN NOMINAL UNIT WAGE COSTS SLOWED, BUT VARIED FROM SECTOR TO SECTOR
(annual percentage changes)

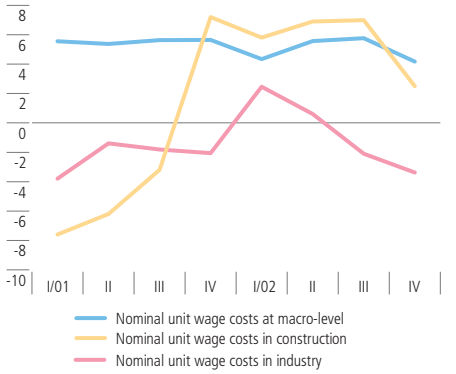


CHART III.26
THE RISING PRODUCTIVITY GROWTH IN INDUSTRY HAD A FAVOURABLE EFFECT ON THE PERSONNEL COST-OUTPUT RATIO
(annual percentage changes)

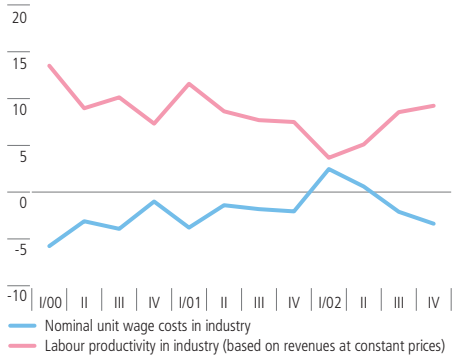


CHART III.27
PRODUCER PRICES CONTINUED TO CREATE CONDITIONS FOR LOW/NEGATIVE CONSUMER PRICE INFLATION
(annual percentage changes)

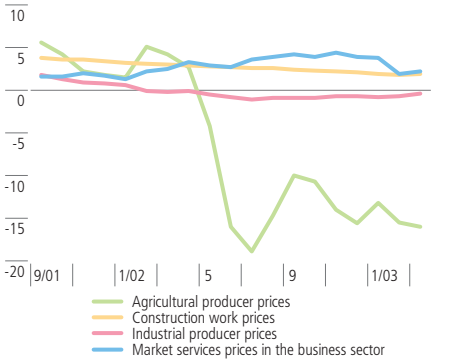
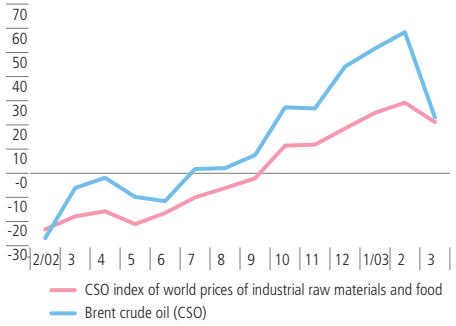


CHART III.28
IN 2003 Q1, PRICES OF INDUSTRIAL RAW MATERIALS AND FOOD, AND IN PARTICULAR OIL, RECORDED A CONTINUING MARKED RENEWAL OF GROWTH ON WORLD MARKETS
(annual percentage changes)



Conversely, in industry (which covers around 40% of the employees in the monitored organisations) the relationship between wage and productivity growth was again positive in Q4. Labour productivity growth was significantly higher than average real wage growth (9.3% and 4.9% respectively). The faster growth in labour productivity was achieved in industry through new investment (including the introduction of new technology) and gradual rationalisation of production activities, which led to more efficient management of production and inputs. These factors brought about a fall in the personnel cost-output ratio (see Chart III.26).

The buoyant growth in nominal unit wage costs at the macroeconomic level did not lead to higher inflation. Producer and consumer prices either fell or recorded only modest rises. This was due to the mostly falling import prices and the strongly competitive environment on the retail market, which prevented the demand/wage-cost pressures from passing through into prices.

III.5. OTHER COSTS AND PRICES

The development of other costs and prices in 2003 Q1 confirmed the trends of the previous quarter. World markets saw a further sharp increase in oil prices and a renewed rise in prices of natural gas. Growth in prices of other raw materials and commodities remained stable at the beginning of 2003, although the majority of commodities continued to record relatively high figures. Import prices, however, continued to record a modest year-on-year decline, as the inflationary effect of rising input prices was offset by the ongoing appreciation of the koruna. The fall in import prices softened only slightly. In the case of oil prices, however, koruna import prices rose again in 2002 Q4 and hence contributed to a stronger price increase in oil-product-processing sectors. Producer prices in other manufacturing sectors continued to fluctuate just below their levels of a year earlier. Agricultural producer prices – and consequently food-industry producer prices – again recorded the largest decline. In construction and market services, where domestic factors still dominate, the rate of increase in prices slowed. Overall, producer prices in Q1 2003 again provided the conditions for continued low consumer price inflation, or indeed a fall in prices. Only the faster rise in producer prices in oil-processing industries resulted in a pick-up in fuel price inflation.

III.5.1. Import prices

World prices of imported commodities, measured by the CSO index of world prices of industrial raw materials and food,[12] confirmed the renewed growth that had begun in 2002 Q4. The shift away from year-on-year decline during the first three quarters of 2002 and to a rise in the CSO index in Q4 (to 21.2% in March) was due chiefly to the pick-up in energy-producing raw materials prices on world markets. Oil prices in particular rose very rapidly. However, the acceleration in the annual growth in oil prices had been evident since July 2002, when a 1.8% rise was recorded after a long period of annual decline. In December 2002 the dollar price of Brent crude oil rose by 44.2% year-on-year, and in the first two months of 2003 the growth increased to 58.5%. In March 2003, this fell back to 23.2%.

12 This index is calculated by the CSO on the basis of prices in foreign currencies.

Natural gas prices, which usually react to oil prices with a certain lag, began to rise again at the beginning of 2003. The latest figures show that gas prices in March 2003 rose by 25.9% year-on-year, whereas in January 2002 they had fallen by 28.4%. There was no pick-up in the prices of metals, food and other imported raw materials in 2003 Q1, while prices of numerous commodities registered a slowing rate of growth. Price developments for imported raw materials however differed markedly according to category. For example, the annual price increase in textile raw materials in March 2003 exceeded 20%, while prices of metals rose by only 0.9%.

The continuing pick-up in prices of energy-producing raw materials, together with consistently buoyant increases for other categories of imported commodities, consequently affected import prices in koruna terms. Import prices were similarly affected by the rising inflation being recorded by the Czech Republic's major trading partners, who export part of their production to the Czech Republic (in Germany, for example, producer prices had fallen by 1% in August 2002, whereas in February 2003 they recorded 1.9% annual growth). The overall effect of these factors, however, failed even at the beginning of 2003 to result in renewed growth in import prices, as their pro-growth impact was still being offset by the continuing, albeit weakening, annual appreciation of the koruna. Under these circumstances, the annual decline in import prices at the beginning of 2003 merely slowed (from -4.4% in December 2002 to -1.7% in February).

Most categories in the SITC import price index recorded reduced annual declines in import prices. In the mineral fuels, lubricants and related materials category, there was a renewed year-on-year rise in import prices at the end of 2002 (to 4.6% in December and on to 15.4% in February) on the back of the sharp pick-up in oil price growth on world markets. Import prices of animal and vegetable oils also rose, although more slowly than at the end of 2002.

CHART III.29
THE YEAR-ON-YEAR DECLINE IN IMPORT PRICES SLOWED FURTHER IN 2003 Q1
(percentages)

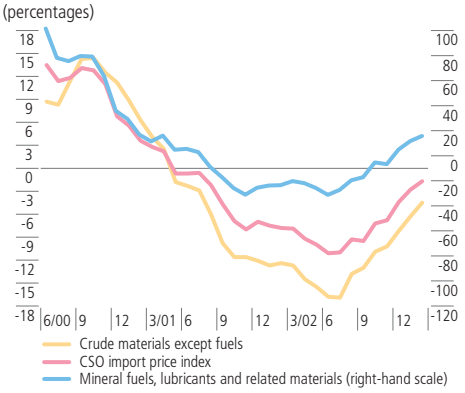


TABLE III.9
SLOWING DECLINES IN IMPORT PRICES WERE RECORDED IN MORE THAN HALF OF THE CATEGORIES OF THE IMPORT PRICE INDEX
(annual percentage changes)

	6/02	7	8	9	10	11	12	1/03	2
Imports, total	-11.1	-11.0	-9.3	-9.5	-7.2	-6.8	-4.4	-2.8	-1.7
Food and live animals	-2.4	-4.0	-4.9	-5.2	-4.8	-5.1	-4.4	-4.7	-6.1
Beverages and tobacco	-8.0	-10.3	-9.8	-10.0	-8.6	-7.7	-5.2	-4.1	-4.8
Crude materials except fuels	-16.8	-16.9	-13.8	-13.0	-10.9	-10.2	-8.2	-6.3	-4.5
Mineral fuels and lubricants	-31.1	-27.2	-19.6	-17.2	-5.5	-6.8	4.6	11.3	15.4
Animal and vegetable oils	1.8	1.1	5.4	4.8	2.9	5.4	10.3	7.9	6.2
Chemicals and related products	-10.0	-9.7	-8.8	-9.0	-8.5	-7.4	-5.5	-3.2	-1.9
Manufactured goods	-10.3	-10.6	-9.0	-9.9	-8.2	-6.9	-4.8	-3.3	-2.1
Machinery and transport equipment	-8.5	-9.2	-8.5	-9.0	-7.4	-7.2	-6.0	-5.3	-4.3
Misc. manufactured articles	-3.5	-4.0	-3.8	-5.1	-4.4	-4.1	-3.1	-2.8	-3.0

Source: CSO

III.5.2. Producer prices

Industrial producer prices

The modest annual decline in industrial producer prices continued into 2003 Q1 against a background of falling import prices and strong domestic and foreign competition. As in the previous quarter the decline fluctuated below 1% (-0.4% in March). The accelerating rise in prices of imported energy-producing raw materials impacted more strongly on producer prices in oil-product-processing industries.

Overall, however, producer prices in manufacturing recorded annual falls in 2003 Q1, albeit at a lower intensity than in the previous quarter. Compared to December 2002 their annual decline dropped by 1 percentage point to -0.3% in March. Prices showed very mixed trends within the sector, however. As in previous periods, oil price changes had the most marked effect on producer prices in the manufacture of coke and refined petroleum products. Inflation in this category surged from 2.1% in December 2002 to 20.6% in March 2003. The chemical industry also recorded renewed price growth (from -1.3% in December 2002 to 5.3% in March). Prices in other branches of manufacturing showed no significant changes of trend at the beginning of 2003 – producer prices continued to decline at the same rate (by 1.5% in December and by 1.5% again in March). In these sectors the sharpest falls in producer prices continued to be recorded by the food industry (2.9% in March), whereas for sophisticated industrial products prices showed only slight falls or even weak annual growth.

CHART III.30
IN 2003 Q1, INDUSTRIAL PRODUCER PRICES CONTINUED TO SHOW A MODEST ANNUAL DECLINE OVERALL
(annual percentage changes)

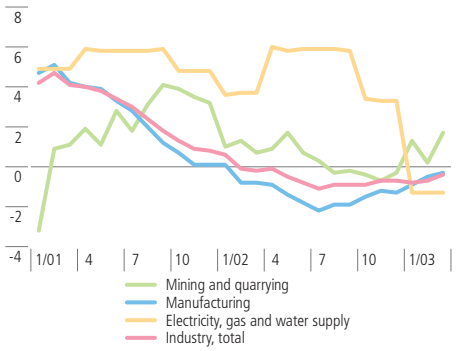


CHART III.31
THE RISING OIL PRICES HAD THE STRONGEST EFFECT ON PRODUCER PRICES IN OIL-PRODUCT-PROCESSING INDUSTRIES
(annual percentage changes)

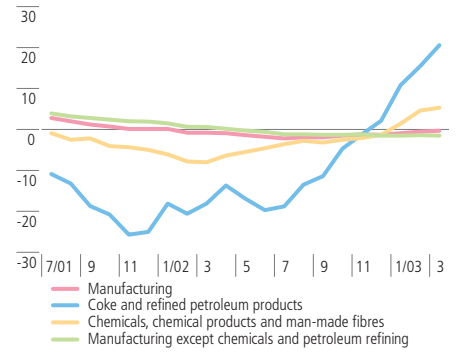


CHART III.32
THE DECLINE/VERY SLIGHT GROWTH IN INDUSTRIAL PRODUCER PRICES WAS ALSO CONFIRMED BY PRICES IN THE MAIN INDUSTRIAL CATEGORIES
(annual percentage changes)

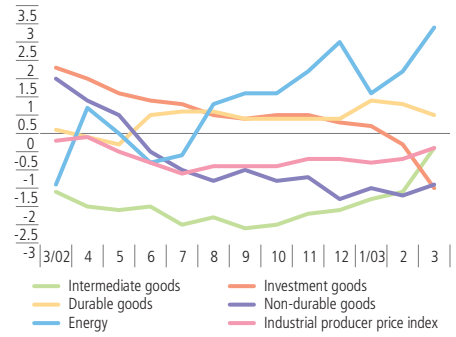
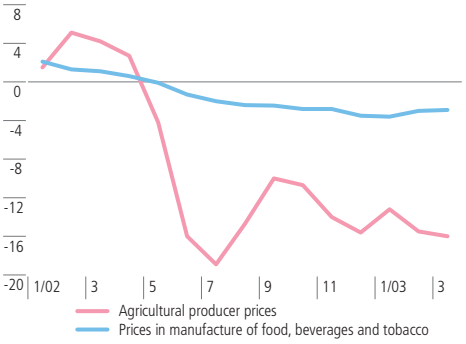


CHART III.33
PRICES OF AGRICULTURAL PRODUCERS AND IN RELATED MANUFACTURING BRANCHES RECORDED A YEAR-ON-YEAR DECLINE FOR THE THIRD CONSECUTIVE QUARTER
(percentages)



Outside manufacturing, industrial producer prices moved broadly in line with the general inflation profile in industry, unlike in previous periods. Producer prices in mining and quarrying recorded only a slight increase in 2003 Q1 (of 1.7% year-on-year in March). Prices in the electricity, gas and water supply industry in Q1 were below those of the same period in 2002 (a fall of 1.3% in March) owing to the sharp falls in electricity prices.

The general decline in industrial producer prices in the first three months of 2003 is indicated from another angle by their structural breakdown by main industrial category. Only energy prices and prices of durable goods recorded modest price increases.

Agricultural producer prices

In 2003 Q1 agricultural producer prices again recorded a marked year-on-year fall. Although still volatile, their annual rate of decline remained above 10% for the third consecutive quarter. Chart III.33 clearly shows a deeper annual decline in agricultural producer prices in December 2002 (to -15.6%), followed by an easing to -13.2% in January 2003 and a return in March to the level recorded at the end of 2002.

Despite the persisting across-the-board nature of the annual decline in agricultural producer prices, certain structural changes emerged at the beginning of 2003 by comparison with the previous quarter. The decline in prices of the most important livestock products slowed markedly from -17.5% in December to -11.2% in March, whereas the fall in prices of crop products recorded a further large increase (from -12.6% in December to -23.3% in March).

The continuing sharp decline in agricultural producer prices, which has been evident since mid-2002, is attributable to a variety of factors. These remain essentially unchanged from those mentioned in previous Inflation Reports. As regards external factors, the sizeable decline in agricultural producer prices in a number of European countries undoubtedly affected domestic agricultural producer prices. The impact was compounded by the continued (albeit weakening) appreciation of the koruna. As a result, foreign sales opportunities for domestic agricultural producers suffered and there was a risk of greater import arbitrage. Domestic producers' competitiveness was also hampered by the lower level of regulation on the domestic agricultural market than in the EU countries. This generated surpluses of crop and livestock production on the domestic market, which in turn helped to keep prices of agricultural products well below the level of the same period of 2002.

The situation on the agricultural market in the Czech Republic is made clearer by a comparison of agricultural producer prices in the Czech Republic and Germany. The broadly similar price trajectories in these two nations confirm that agricultural producer prices were being affected by the same fundamental factors (reduced sales opportunities abroad, etc.). The considerably greater annual price falls in the Czech Republic in recent quarters, however, indicate the presence of other disinflationary factors specific to the Czech Republic. These include the aforementioned appreciation of the koruna and lower level of regulation on the domestic agricultural market than in the EU countries.

Construction work prices

Construction work prices did not diverge during 2003 Q1 from the long-running gradual downward trend in annual growth they have been displaying since 2001. The annual growth rate of construction work prices again decreased somewhat – to 1.9% in March according to the latest figures. The fact that prices continued to rise in this price segment – unlike the vast majority of other producer price categories – was due above all to domestic factors. However, the rate of increase has now reached quite low figures. The steady decline during 2002 and at the beginning of 2003 probably reflected the long-term 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 inflation in the business sector also fell back in 2003 Q1, having previously registered moderately rising growth and outturns of around 4%. The decline to 2.2% in March compared to 2002 Q4 was facilitated by the majority of the service categories in this price index. Compared to the end of 2002, the sharpest falls in growth were recorded in national goods transport (to -0.1% in March), communications and other services (sewerage collection). Prices of other business services also rose more slowly (by 3% in March), having recorded a modest upturn to almost 5% in 2002.

CHART III.34
GERMAN AGRICULTURAL PRODUCER PRICES RECORDED A SIMILAR TREND AS IN THE CZECH REPUBLIC
(annual percentage changes)

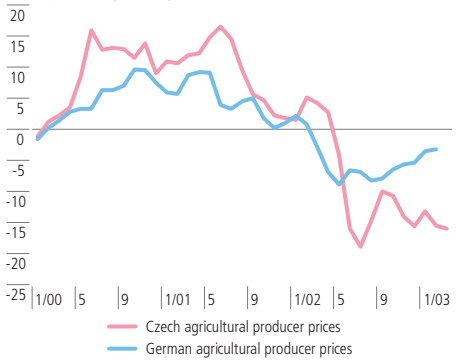


CHART III.35
THE LONG-RUNNING DOWNWARD TREND IN CONSTRUCTION WORK PRICE INFLATION CONTINUED INTO 2003 Q1
(annual percentage changes)

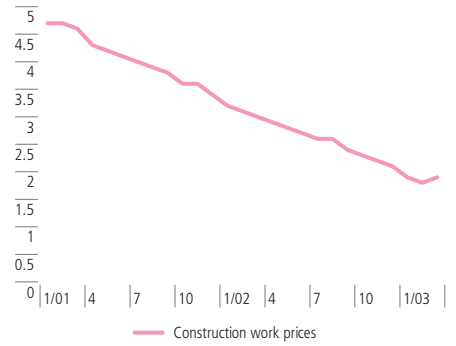


CHART III.36
GROWTH IN MARKET SERVICES PRICES IN THE BUSINESS SECTOR FELL SHARPLY IN 2003 Q1
(annual percentage changes)

IV. THE INFLATION FORECAST AND ITS ASSUMPTIONS

IV.1. External assumptions of the inflation forecast

The overall message of the macroeconomic forecast is greatly affected by assumptions regarding the external environment. Prices of energy-producing raw materials, foreign producer price indices and the business cycle of the Czech Republic's major trading partners play a substantial role in this respect. As usual, the assumptions regarding the evolution of these variables are taken from the publication Consensus Forecasts, which brings together the forecasts of a number of foreign analytical teams.

There are no changes in the prices of energy-producing raw materials compared to the last macroeconomic forecast. In 2003 Q4, the price of Ural crude oil is still expected to be around USD 25 a barrel. The forecast for the rest of the year is for a gradual fall in the price of oil to below USD 23 a barrel in Q4. The oil price is then expected to stabilise at this level for the whole of 2004. Natural gas prices have undergone a modest revision upwards for the entire forecast period.

The forecast for economic growth abroad has again been downscaled compared to the previous macroeconomic forecast. GDP growth in Germany has thus been decreased to 0.5% for 2003. Economic growth for 2004 has also been revised downwards, from 1.9% to 1.7%.

The price forecasts for Germany only partially reflect the decrease in GDP growth (in line with the Consensus Forecasts figures). Industrial producer price inflation has been revised upwards from 0.8% to 1.3% for 2003, probably because of developments in recent months. The forecast for annual consumer price inflation remains unchanged at 1.2%. For 2004, growth in the price indices is expected to decline in line with the revised forecast for economic activity. Industrial producer prices in Germany in 2004 should thus rise by 1% and consumer prices by 1.2%.

IV.2. Internal assumptions of the inflation forecast

The macroeconomic forecast is affected not only by assumptions regarding the external environment, but also by assumptions regarding the internal environment. These relate to 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 forecast for the public budget deficit, excluding privatisation proceeds and subsidies to transformation institutions, has been scaled back compared to the last macroeconomic forecast and is expected to reach around 5% of GDP. The current macroeconomic forecast expects the public budget deficit to be around 6% of GDP in 2004. Reform of public finances is still expected to get under way this year, although it will not be as far-reaching as was assumed in January 2003. The assumptions regarding the effect of public finances remain one of the key risks to the economic outlook.

Equilibrium macroeconomic variables are another essential component of the forecast. Potential output is expected to rise by around 3%. The equilibrium real appreciation of the exchange rate should decline from around 5% p.a. at present to around 3% p.a. at the end of 2005. One-year equilibrium real interest rates should remain stable above 1%.

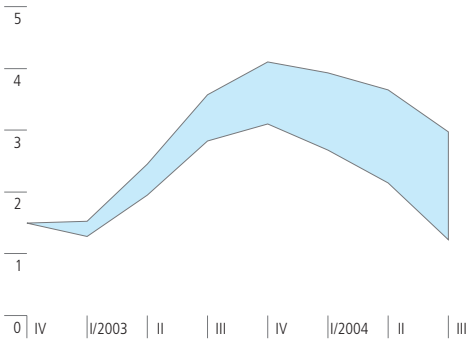
In line with the January 2003 macroeconomic forecast, the output gap has widened somewhat further and now just exceeds the January figure of -2%. The easing of monetary conditions went beyond the expectations of the previous macroeconomic forecast. Exchange rate developments were the main factor behind the rapid easing of the monetary conditions. The interest-rate component of the monetary conditions, however, remained consistent with the assumptions of the previous macroeconomic forecast, and the current setting of the interest-rate component of the real monetary conditions is thus considered neutral.

A key factor in the macroeconomic forecast is the assumed path of the exchange rate. The rate is expected to remain stable in 2003 broadly at the Q1 level. In 2004, a gradual modest appreciation is forecast as a result of an assumed fall in the risk premium and the development of foreign direct investment. The koruna-dollar rate is calculated from assumptions regarding the koruna-euro rate and from the foreign consensus forecast for the euro-dollar rate, which foresees a modest appreciation of the euro against the dollar.

IV.3. THE MESSAGE OF THE FORECAST

The macroeconomic forecast for 2003 Q1 is for the subdued GDP growth recorded in recent periods to continue. In Q2, however, the easing of the monetary conditions should start to take effect and there will be a gradual pick-up in annual GDP growth to more than 3.5% in Q4. According to the forecast, GDP growth for the whole of 2003 should thus reach 2.3%–2.9%. Although household consumption growth during this period will fall steadily (in response to a slowdown in real wage growth), economic growth will be bolstered by an improvement in net exports accompanied by increased investment growth. The modest reduction in forecast GDP growth compared to the previous macroeconomic forecast (2.2%–3.5%) is due to a reassessment of government expenditure in 2003. In this respect, the growth rates of government consumption and government investment have both been revised.

CHART IV.1
GDP GROWTH WILL PEAK AT THE END OF 2003
(percentages)



In 2004, the macroeconomic forecast is for annual GDP growth to stagnate at 1.7%–3.3%. Despite the lagged effect of the easing of the exchange-rate component of the monetary conditions in 2003, this stagnation can be attributed to a decline in household consumption growth and a year-on-year fall in government consumption. The gradual slowdown in annual household consumption growth, where a large difference between the January and current forecast can also be identified, is due to a decline in the growth rate of real household income stemming from the changes to indirect taxes now under preparation. The changes in indirect taxes will affect real household income via an increase in the price level. Given the difficult situation on the labour market, the macroeconomic forecast foresees this one-off price shock being only very slightly offset by growth in nominal wages. The expected launch of the reform of public finances will result in a fall in government consumption.

The inflation outlook for 2003 has been revised since the last macroeconomic forecast. This revision was due largely to the fact that the January forecast used a technical assumption of zero changes in indirect taxes (because of the uncertainty regarding the extent and timing of the then still unapproved changes), whereas the current forecast incorporates an assumption regarding the change to indirect taxes. The forecast assumes that the majority of agents in the Czech economy understand the transient nature of the inflationary effects of the changes to indirect taxes and that consequently the transmission of the primary impacts of these changes into inflation and wage expectations will be very limited. Turning to other factors, the

CHART IV.2
THE FORECAST SUGGESTS INFLATION WILL MOVE TO THE UPPER BOUNDARY OF THE TARGET BAND, OR JUST ABOVE IT, AT THE HORIZON OF MOST EFFECTIVE TRANSMISSION
(annual consumer price inflation; percentages)

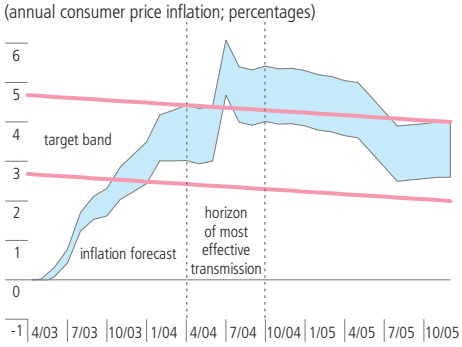


CHART IV.3
EXCLUDING THE PRIMARY IMPACTS OF CHANGES TO INDIRECT TAXES, THE FORECAST LIES WITHIN THE INFLATION TARGET BAND
(annual consumer price inflation; percentages)

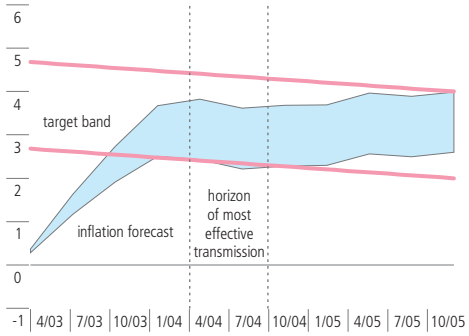


TABLE IV.1
THE INFLATION EXPECTATIONS OF ECONOMIC AGENTS DECREASED AT THE 12-MONTH HORIZON
(percentages)

	CONSUMER PRICE INDEX			1Y PRIBOR
	FINANCIAL MARKET	BUSINESSES	HOUSEHOLDS	FINANCIAL MARKET
12/01	3.9	3.9	4.6	5.1
3/02	3.5	3.6	3.9	4.9
6/02	3.1	2.7	1.6	4.6
9/02	3.1	1.9	1.3	3.7
10/02	2.5			3.5
11/02	2.4			3.3
12/02	2.3	2.3	2.6	3.1
1/03	2.5			3.1
2/03	2.4			3.2
3/03	2.5	2.1	4.0	2.9

expected increase in food prices has a significant effect on the gradual upturn in inflation. As agricultural producer prices return to their long-term trajectory, their current decline should be replaced by moderate growth. The negative output gap will continue to act in the opposite direction, despite narrowing gradually.

The inflation in 2004 will be chiefly influenced by changes to indirect taxes. But effects due to the economy approaching its potential output level will also be apparent, all this in a situation where other exogenous factors are expected to remain relatively stable. The macroeconomic forecast assumes that the combination of these factors will result in a short-lived rise in inflation in the second half of 2004. In the period of most effective monetary-policy transmission, therefore, inflation will be near the upper boundary of the inflation target. Specifically, the CNB expects inflation to be 2.4%–4.3% in April 2004 (in four quarters) and 3.9%–5.3% in October 2004 (in six quarters).

To sum up, the macroeconomic forecast predicts a gradual pick-up in economic growth in 2003. In 2004, however, growth is expected to remain around its 2003 level as a result of developments in household and government consumption and in spite of an easing of the monetary conditions in 2003 and 2004. The inflation path will be determined by the positive impact of cost factors and changes to indirect taxes in an environment of a slowly narrowing negative output gap. Consistent with this forecast is broad stability of interest rates in the coming months and a modest rise thereafter.

With regard to capturing the changes to indirect taxes, the forecast was compiled so as to take account of the primary and secondary effects of these changes. The forecast-consistent path of short-term interest rates does not respond to the primary effects, but does anticipate the secondary effects. Chart IV.3 gives a clearer picture of the primary impacts of the changes to indirect rates. The chart shows how the forecast would look if these impacts were not to occur.

IV.4. EXPECTATIONS OF ECONOMIC AGENTS

The inflation outturns and interest rates expected by financial market participants were little changed. This reflected the persisting low-inflation environment and the fact that no upturn in inflation is foreseen in the near future. The forecast inflation figures are based chiefly on stable food prices and low external demand. On the other hand, deregulated items (gas, rents) and tax changes could have an inflationary impact.

The predicted interest rates and the shape of the money market yield curve suggested expectations of a modest reduction of the repo rate in the near future. Looking further ahead, however, the market expects the interest rate level to increase again somewhat. The interest rate profile consistent with the aforementioned CNB forecast is slightly higher than that expected by the analysts.

Minutes of the CNB Bank Board Meetings

Minutes of the Bank Board Meeting on 30 January 2003

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)

The Board opened the meeting with a presentation of the large January situational report containing the new forecast on inflation and other macroeconomic variables.

During the last quarter of 2002, year-on-year CPI inflation was slightly lower than the October prediction. Low inflation was achieved through a combination of exogenous and endogenous factors. Import prices, agricultural producer prices and the absence of demand pressures, brought on by a worsening output gap, had a substantial impact. According to the forecast's baseline scenario, the inflation outlook did not change significantly against the October prediction. After the disinflationary effect of exogenous factors die out and in the context of the gradually closing output gap, inflation should fluctuate near the lower boundary of the inflation target during the first half of 2004.

The January forecast, which took into account the newly available information and the revised GDP data, brought about a reassessment of the economic growth perspective. The bottom of the economic cycle was reached in 2002.Growth would start to accelerate slightly in 2003 and 2004. In contrast to October, the economic growth forecast was adjusted upward for 2003 and downward for 2004. The role of investment and net export was reassessed. These factors would contribute to faster economic growth in the new forecast as opposed to the October forecast, in which the dominant source of growth was household and government consumption. In 2003, the effects of domestic growth factors – particularly looser monetary conditions – would be further constrained by less-than-favourable global developments. In spite of moderate economic growth acceleration, demand inflation pressures in the economy would not strengthen owing to the negative output gap closing at a gradual pace only.

The forecast's baseline scenario was associated with a number of uncertainties. The effects of public finance reform would enter into the timeframe of monetary transmission. It was now very difficult for the central bank to estimate where the future fiscal reforms would be headed, including the impact of these reforms. This uncertainty would likely lead to considerations on leaving rates higher than the level corresponding to the forecast's baseline scenario. The possible combination of looser monetary conditions and a higher fiscal impulse was one of the pro-inflationary risks of the baseline scenario. Therefore, one of the alternative scenarios of the model simulation dealt with an estimate of the effects of looser monetary conditions on economic development. Uncertainty was also associated with international developments. The risk of escalation of the international situation, along with any related swings in oil prices and global financial markets, was also accounted for in the model simulation according to one of the alternative scenarios.

The January forecast, which reflected the available information at the time of its creation, was consistent with the slight decline in interest rates at the beginning of 2003 and the subsequent stabilisation of these rates.

In the discussion to follow, the Board focused its attention on the revision of GDP data and its effects on the forecast. The Board agreed that January's backward revision of data affected the interpretation of economic development. It was expressed that the new GDP data modified the interpretation for past economic development, because there was a change in the structure of growth sources. This change in interpretation of past developments could have implications for the forecast of economic development. The relative increase in the role of investment and net export as sources of economic growth in the past could, for example, have an impact on the output gap for the period of monetary transmission. It was also mentioned that, rather than changing the interpretation, the revision of data eliminated some of the inconsistencies. Low GDP growth in the past was not consistent with certain indicators, such as higher tax collection or a higher volume of sales. The revision of data indicated that the economy was resistant to external shocks such as slowed global growth and the accelerated appreciation of the koruna. The Board considered this resistance to be a positive development.

After considering the impact of data revision on formation of the economic development forecast, the Board then discussed how a lack of knowledge of the correct GDP data had an effect on monetary decision-making. It was said that, regardless of the revision of data, the monetary policy instruments were still adequately set in relation to the continuing disinflationary process. The assumption of a negative output gap was not doubted, and the reduction in rates allowed the tightening of the foreign exchange component of monetary conditions to be compensated. It was expressed that monetary policy rates would have been lower if the correct data had been known, because one of the codetermining factors of the process of reducing rates was a constraint in the form of a growing external imbalance. With knowledge that the economy was not in danger of crossing the safety limit for the current account deficit, due to higher household consumption, the monetary policy response could have concentrated on inflation returning to the targeted band at a quicker pace. However, another view expressed that the revised data, placing the Czech economy in more favourable light, could be interpreted as a reason for not cutting monetary rates in view of the already low level for real rates.

The Board then focused on the risks related to the forecast's baseline scenario. Members agreed that there was no evidence in the economy of excessive demand inflation pressures now or even during the period of monetary transmission. Following the logic of inflation targeting, a rate reduction would be an adequate reaction to the presented forecast. For the following four quarters, the inflation forecast was below the inflation target and was consistent with a moderate decline in rates at the beginning of 2003. It was said that the central bank's strategy should allow the inflation target to be reached with the lowest possible rates.

There was also consensus among board members that the uncertainty behind the approach of fiscal reform relating to its scope, speed and choice of instruments on the income and expense side of the budget significantly complicated decision-making on the adequate setting of monetary rates. If the reform were carried out at a slower pace than the forecast's baseline scenario suggested, in line with government objectives, then there could be looser monetary conditions along with a higher fiscal impulse. The high uncertainty associated with the fiscal outlook and also with other risks for the forecast's baseline scenario – primarily related to geopolitical factors – was repeatedly indicated as a reason for leaving rates unchanged.

Board members also discussed the risk in the upcoming period of wages being set incorrectly to the internal conditions of the Czech economy, particularly low inflation and higher unemployment, as well as to external conditions that were still characterised by weak foreign demand and more stringent competition on export markets. Generation of inappropriate wage expectations from the public sector was indicated as a significant pro-inflationary risk.

Another argument for leaving rates unchanged was put forward. One of the main reasons inflation had been moving back to the targeted band at a slower pace was that the speed of price deregulation was much lower than was anticipated by the scenario used to set the inflation target. Attention was also drawn to the risk of additional rate cuts for generating savings and indebted households. The possibility of leaving rates unchanged was warranted in the discussion by already looser monetary conditions through the exchange rate and also by the fact that some board members placed the majority of the forecast risks on the inflation side.

Following the discussion of the January situational report, the CNB decided by a majority vote to reduce the CNB two-week repo rate by 0.25 percentage points to 2.5%, effective 31 January 2003. Four members voted in favour of this decision, and three members voted for leaving interest rates unchanged. The discount and Lombard rates were reduced by the same 0.25 pp to 1.5% and 3.5%, respectively.

Minutes of the Bank Board Meeting on 27 February 2003

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)

The Board opened the meeting with a presentation of the February situational report on economic and monetary development. According to the report, actual price development had recently been slower than predicted by the CNB's forecast. It was stated that year-on-year consumer price growth in the Czech Republic was now at an historical low. However, information on possible developments in regulated prices and indirect taxes and on the current koruna exchange rate vis-à-vis the euro indicated that future price growth would tend to increase moderately against the January forecast. The inflation effects of rising oil prices, this time 10% to 15% above previous expectations, were partially corrected by the weakening dollar. The latest information on the labour market, supply and demand, the external balance and public finance corresponded, in principle, to the forecast's assumptions. Prospects for foreign demand recovery, however, had shifted once again to a later period.

Besides assessing current developments, the situational report also focused on overall economic performance for 2002. Year-on-year M2 growth at the end of the year continued to slow down and finished December at 3.2%. The only visible increase was in household lending, which rose year-on-year by CZK 40 billion. Interest rates affected the structure of deposits. In the household sector, time deposits dropped by CZK 29 billion. In contrast, deposits in building savings rose by CZK 47 billion. Koruna sight deposits and cash (M1) increased by 18.6% for the year. Deposits in foreign currencies slightly declined.

The 2002 results confirmed the ability of the supply side of the economy to cope with adverse conditions (weak foreign demand, the strong koruna exchange rate, floods, etc.). This mainly concerned industry, with a 4.8% year-on-year rise in production growth. Household consumption dynamics slowed to 2.7% despite an increase in consumer lending. Retail sales were also clearly weakened by a drop in the number of tourists. One of the most favourable results of 2002 was the substantial decline in the trade deficit – from CZK 117 billion in 2001 to CZK 74.5 billion. Still a serious problem for the Czech economy was the public budget deficit at ca 5% of GDP (adjusted for transactions that used resources not created by the economy at that time – e.g. privatisation revenues) and the deficit's expected future trend.

In the discussion to follow, board members agreed that there was no new information of a substantial nature warranting a change in interest rates. The risks relevant for monetary decision-making were distributed symmetrically. The Board assessed the preliminary information on the state of wage negotiations in the business sector as relatively favourable.

The current negative year-on-year CPI was primarily affected by exogenous factors that monetary policy could not influence directly. In particular, this concerned import prices and administrative price measures, the most substantial of which was postponement of regulated price corrections. The momentary deviation in inflation was, therefore, a natural development and was not even reflected in the decline in inflation expectations identified by the CNB´s surveys. Nevertheless, it must be said that inflation volatility triggered by the combined effects of exogenous factors was great and did not reflect monetary conditions. The current mix of anti-inflationary shocks could be exchanged once again for factors of the opposite nature.

The Board also discussed the relationship of interest rate developments in the Czech Republic to the decision-making process of the European Central Bank. It was mentioned as a reminder that the CNB's monetary decision-making was more flexible, and therefore, anticipated in advance the ECB's measures. It may also be assumed that foreign entities had already incorporated the assumption of ECB rate cuts into interest rates at the long end of the yield curve. In this context, it was expressed that breaking through the barriers of ECB rates affected the movement of portfolio capital, increased the effectiveness of foreign exchange intervention and significantly aided in stimulating consumer lending.

At the close of the meeting, the Board decided unanimously to leave the CNB two-week repo rate unchanged at 2.5%.

Minutes of the Bank Board Meeting on 27 March 2003

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 (Czech Minister of Finance)

The Board opened the meeting with a presentation of the March small situational report, assessing whether the newly available information was consistent with the assumptions of the January forecast.

Year-on-year consumer price growth in February 2003 was slightly below the level of the January forecast. The decline in food prices and regulated prices contributed to this development, while "adjusted" inflation slightly exceeded expectations. Agricultural producer prices ended significantly below the forecast and affected prices in the food industry as well. So far, this factor more than compensated for the rapid rise in oil product prices and caused industrial producer prices to fall below the forecast. The changes in indirect taxes, though not yet approved, were the largest risk for inflation development in the range of monetary transmission.

The price of oil was a significant risk factor in view of external economic developments. The associated uncertainty had increased greatly in connection with recent geopolitical developments. Pessimism concerning world economic recovery was still on the rise.

The exchange rate vis-à-vis the euro showed moderate weakening against the assumptions of the January prediction. The money aggregates showed relatively slow growth. However, harmonised data according to ECB methodology, which assumed a closer link to demand developments, registered higher dynamics. Lending rose year-on-year by about 5%.

The published GDP data for Q4 2002 corresponded to the CNB's forecast. Growth was supported by domestic demand. Household consumption dynamics were comparable to 2001. Government consumption rose at a very rapid pace. However, the change in statistical methods – not easily distinguished from material changes – could have an effect on the published figures. Fixed capital investment was more or less flat, and net export deteriorated significantly.

This was also consistent with the data on the balance of payments. The trade balance showed improvements in 2002, which nevertheless, were concentrated more in the first half of the year. During the second half of the year, the trade deficit was flat on the whole. Moreover, prices, in particular, contributed to this development, while the trade deficit in real terms had already risen. In 2002, the balance of services was the most negatively affected item on the current account. This primarily involved a reduction in the tourist industry's surplus and, to some degree, deterioration in the category of other services as well. The balance of incomes also worsened, the reinvestment of profits playing the largest role. The financial account remained in surplus, however in the last quarter of 2002 itself, it was no longer sufficient for covering the current account deficit.

Following the presentation of the situational report, the Board turned to a discussion of the risks related to the current inflation forecast and how they would affect interest rate decisions. There was consensus among board members that the actual risks had not changed significantly against the previous months. The level of uncertainty, nevertheless, had risen in relation to foreign developments as well as to certain domestic factors.

It was stressed that the expected changes in indirect taxes were the largest risk from the quantitative point of view. The likelihood of implementing these changes was high, because they primarily involved tax harmonisation. As a result, inflation could end up temporarily above the upper boundary of the targeted band. Some board members, on the other hand, pointed out that the impact of indirect tax changes fell under an escape clause as far as reaching the inflation target was concerned. In this respect, it was reminded that the existing forecast, showing inflation gradually moving back towards the target, was based on cost factors that may not necessarily occur or that could be outweighed by the anti-inflationary effect of the negative output gap. Contrary to this, however, it was said that the expected rise in inflation was simply the result of strong disinflationary impulses dying out. Actual negative year-on-year inflation was not associated with the standard features of a deflationary economy and was only short term in nature.

A considerable amount of time was devoted to interpreting the GDP figures. One view expressed that, from the standpoint of monetary policy decision-making, the figures did not introduce any new information potentially leading to further rate cuts. The data, in fact, corresponded to the forecast. However, some board members pointed to the risks of GDP growth. With the exception of government consumption, the sources of demand showed weakening tendencies, and it was difficult to find arguments in favour of growth acceleration this year. The forecast for private consumption could be reassessed downward, and the negative income effect of expected tax changes could add to this development. Global economic recovery was still put on hold. The demand factors of inflation were, therefore, difficult to identify. In comparison with the past, the risk related to excessive wage growth also appeared to be lower. Inflation expectations, after a long time, now seemed to have settled at a lower level, even on the labour market. Behaviour in the area of wages was, therefore, changing.

One issue still remained somewhat open: the Czech economy had achieved rather low levels of growth compared to neighbouring transitional economies, despite relatively loose monetary policy. One explanation could be that the economy was very sensitive to the strong exchange rate last year. Another explanation could be associated with the existence of rigidities on the supply side, especially the low level of flexibility on the labour market.

At the close of the meeting, the Board decided unanimously to leave the CNB two-week repo rate unchanged at 2.50%.

INFLATION DEVELOPMENT

annual percentage changes

	1999											
	1	2	3	4	5	6	7	8	9	10	11	12
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	0.6	0.5	0.6
Regulated prices	7.6	8.1	8.0	6.5	6.3	6.3	5.3	5.0	4.9	3.4	3.4	3.3
(contribution to consumer price inflation)	*1.49*	*1.60*	*1.59*	*1.28*	*1.24*	*1.22*	*1.05*	*0.98*	*0.98*	*0.69*	*0.69*	*0.66*
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*	*0.00*	*0.00*	*0.00*
Net inflation	2.7	2.7	2.5	2.4	1.5	-0.1	-0.6	-0.6	-0.3	-0.1	-0.2	-0.2
(contribution to consumer price inflation)	*2.20*	*2.15*	*2.01*	*1.89*	*1.20*	*-0.12*	*-0.47*	*-0.46*	*-0.22*	*-0.11*	*-0.18*	*-0.15*
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	-3.0	-3.2	-3.4
(contribution to consumer price inflation)	*0.88*	*0.82*	*0.65*	*0.47*	*0.16*	*-0.72*	*-0.97*	*-0.96*	*-0.79*	*-0.80*	*-0.87*	*-0.93*
adjusted inflation	2.5	2.5	2.6	2.7	2.0	1.1	0.9	0.9	1.1	1.3	1.3	1.5
(contribution to consumer price inflation)	*1.32*	*1.33*	*1.37*	*1.43*	*1.04*	*0.60*	*0.50*	*0.50*	*0.56*	*0.69*	*0.69*	*0.79*
Inflation rate (annual moving average)	4.6	4.6	4.6	4.5	4.3	3.9	3.5	3.1	2.7	2.4	2.1	1.8
	2003											
Consumer prices	-0.4	-0.4	-0.4									
Regulated prices	-0.3	-0.8	-0.8									
(contribution to consumer price inflation)	*-0.07*	*-0.15*	*-0.16*									
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*									
Net inflation	-0.4	-0.2	-0.2									
(contribution to consumer price inflation)	*-0.32*	*-0.17*	*-0.15*									
of which: prices of food, beverages and tobacco	-4.1	-3.8	-3.5									
(contribution to consumer price inflation)	*-1.06*	*-1.06*	*-0.97*									
adjusted inflation	1.5	1.7	1.5									
(contribution to consumer price inflation)	*0.74*	*0.89*	*0.82*									
Inflation rate (annual moving average)	1.5	1.1	0.8									

CNB calculation based on CSO data

INFLATION DEVELOPMENT

monthly percentage changes

	1999											
	1	2	3	4	5	6	7	8	9	10	11	12
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	-0.3	-0.2	0.2
Regulated prices	3.7	0.8	0.2	-1.1	-0.1	0.0	1.1	0.0	0.1	-1.3	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*	*-0.26*	*0.00*	*-0.02*
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	0.9	0.0	-0.2	0.2	-0.1	-0.3	0.3	-0.2	-0.7	0.0	-0.1	0.2
(contribution to consumer price inflation)	*0.74*	*-0.03*	*-0.14*	*0.20*	*-0.11*	*-0.24*	*0.20*	*-0.19*	*-0.58*	*0.01*	*-0.11*	*0.13*
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	0.0	-0.3	0.7
(contribution to consumer price inflation)	*0.41*	*-0.11*	*-0.14*	*0.01*	*-0.08*	*-0.32*	*-0.50*	*-0.25*	*-0.03*	*-0.01*	*-0.08*	*0.18*
adjusted inflation	0.6	0.2	0.0	0.3	-0.1	0.2	1.3	0.1	-1.0	0.0	-0.1	-0.1
(contribution to consumer price inflation)	*0.33*	*0.08*	*0.00*	*0.18*	*-0.04*	*0.08*	*0.70*	*0.07*	*-0.56*	*0.02*	*-0.03*	*-0.05*
	2003											
Consumer prices	0.6	0.2	-0.1									
Regulated prices	0.1	0.3	0.2									
(contribution to consumer price inflation)	*0.03*	*0.06*	*0.03*									
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*									
Net inflation	0.7	0.2	-0.2									
(contribution to consumer price inflation)	*0.55*	*0.14*	*-0.13*									
of which: prices of food, beverages and tobacco	0.8	-0.2	-0.2									
(contribution to consumer price inflation)	*0.22*	*-0.05*	*-0.05*									
adjusted inflation	0.6	0.3	-0.1									
(contribution to consumer price inflation)	*0.33*	*0.18*	*-0.07*									

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 - 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	9.0	8.8	9.0	9.7
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	1.4	1.0	2.1	5.1
Alcoholic beverages and tobacco	79.2	5.8	5.8	5.6	6.8	7.0	7.0	7.1	7.3	7.4	7.5	7.4	7.1	6.8
Clothing and footwear	56.9	-4.7	-5.5	-5.7	-5.7	-5.7	-5.8	-6.4	-7.4	-7.4	-7.4	-7.4	-7.7	-6.4
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	24.2	24.3	24.3	23.9
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	-0.8	-0.9	-1.0	-0.6
Health	14.3	9.2	9.7	10.1	10.2	10.9	11.2	12.9	13.1	13.3	13.0	12.8	12.8	11.6
Transport	101.4	3.0	3.0	3.3	5.5	5.1	4.7	4.1	3.9	5.1	4.9	4.6	4.1	4.3
Communications	22.5	6.0	11.4	11.3	11.3	9.9	9.9	11.1	11.0	11.6	9.4	9.3	8.2	10.0
Recreation and culture	95.5	7.4	8.5	7.9	7.2	7.0	8.4	13.8	15.2	7.3	7.2	7.0	7.2	8.7
Education	4.5	6.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0	10.7	11.3	11.3	11.3	8.4
Hotels, cafés and restaurants	74.2	6.4	7.0	7.4	7.9	8.0	8.2	8.4	8.4	8.5	8.6	8.6	8.7	8.0
Miscellaneous goods and services	49.5	11.0	11.2	11.3	11.6	11.6	11.5	11.5	11.4	11.7	11.9	12.0	11.9	11.6
Total - 2003	1000.0	9.6	9.8	9.7										9.7
Food and non-alcoholic beverages	197.6	3.1	2.8	2.5										2.8
Alcoholic beverages and tobacco	79.2	7.6	7.7	7.7										7.7
Clothing and footwear	56.9	-9.1	-10.0	-10.4										-9.8
Housing, water, electricity, gas and other fuels	236.4	24.9	25.3	25.4										25.2
Furnishings, household equipment and routine maintenance of the house	67.9	-1.1	-1.2	-1.4										-1.2
Health	14.3	13.7	14.2	14.8										14.2
Transport	101.4	4.7	5.2	5.8										5.2
Communications	22.5	7.9	8.9	8.8										8.5
Recreation and culture	95.5	8.5	9.6	8.5										8.9
Education	4.5	11.3	11.4	11.5										11.4
Hotels, cafés and restaurants	74.2	9.2	9.4	9.4										9.3
Miscellaneous goods and services	49.5	14.0	14.6	14.7										14.4

Source: CSO

CONSUMER PRICES - TRADABLES AND NONTRADABLES

percentage changes; December 1999 = 100

Group	Constant 1999 weights in per mille	2000	2001	2002				2003
		12	12	3	6	9	12	3
1. Food and non-alcoholic beverages	197.6	4.6	7.9	8.7	6.0	1.5	2.1	2.5
- tradables	197.6	4.6	7.9	8.7	6.0	1.5	2.1	2.5
2. Alcoholic beverages and tobacco	79.2	2.4	5.4	5.6	7.0	7.4	7.1	7.7
- tradables	79.2	2.4	5.4	5.6	7.0	7.4	7.1	7.7
3. Clothing and footwear	56.9	-2.7	-3.9	-5.7	-5.8	-7.4	-7.7	-10.4
- nontradables	1.4	6.1	13.0	15.7	16.9	17.6	18.3	19.2
- tradables	55.5	-2.9	-4.3	-6.2	-6.4	-8.0	-8.4	-11.2
4. Housing, water, electricity, gas and other fuels	236.4	7.8	19.0	23.7	22.6	25.0	24.3	25.4
- nontradables	226.1	8.1	19.7	24.6	23.5	26.0	25.2	26.3
- tradables	10.3	2.3	2.7	4.0	1.9	4.0	4.0	5.3
5. Furnishings, household equipment and routine maintenance of the house	67.9	-0.7	-0.4	-0.3	-0.4	-0.7	-1.0	-1.4
- nontradables	2.9	4.3	7.5	8.8	9.3	9.8	9.9	10.8
- tradables	65.0	-0.9	-0.8	-0.7	-0.8	-1.2	-1.5	-1.9
6. Health	14.3	4.1	8.4	10.1	11.2	13.3	12.8	14.8
- nontradables	11.0	4.9	10.1	12.1	13.4	16.0	15.4	17.9
- tradables	3.3	1.5	2.7	3.7	4.0	4.6	4.4	4.9
7. Transport	101.4	6.9	3.4	3.3	4.7	5.1	4.1	5.8
- nontradables	27.4	6.2	11.7	15.5	16.0	16.0	16.0	17.2
- tradables	74.0	7.2	0.3	-1.2	0.5	1.1	-0.3	1.6
8. Communications	22.5	1.5	5.7	11.3	9.9	11.6	8.2	8.8
- nontradables	21.0	2.7	8.5	14.8	13.5	15.6	12.4	13.2
- tradables	1.5	-16.4	-34.7	-39.3	-41.3	-45.6	-52.1	-54.6
9. Recreation and culture	95.5	2.0	7.2	7.9	8.4	7.3	7.2	8.5
- nontradables	60.4	4.4	14.3	15.7	17.5	16.5	16.2	18.8
- tradables	35.1	-2.2	-5.0	-5.5	-7.3	-8.6	-8.3	-9.2
10. Education	4.5	3.4	6.8	7.0	7.0	10.7	11.3	11.5
- nontradables	4.5	3.4	6.8	7.0	7.0	10.7	11.3	11.5
11. Hotels, cafés and restaurants	74.2	2.6	5.9	7.4	8.2	8.5	8.7	9.4
- nontradables	74.2	2.6	5.9	7.4	8.2	8.5	8.7	9.4
12. Miscellaneous goods and services	49.5	3.1	8.7	11.3	11.5	11.7	11.9	14.7
- nontradables	22.0	5.7	17.5	23.5	24.2	25.2	25.8	32.9
- tradables	27.5	1.1	1.7	1.6	1.4	0.9	0.8	0.2
Household consumer prices, total	1000.0	4.1	8.4	10.0	9.6	9.2	9.0	9.7
Tradables	549.1	2.5	2.9	2.8	2.0	0.3	0.2	0.3
- food	276.8	4.0	7.2	7.8	6.3	3.2	3.5	4.0
- others	272.3	1.0	-1.5	-2.3	-2.3	-2.7	-3.2	-3.5
Nontradables	450.9	6.0	15.2	18.9	18.8	20.2	19.7	21.2
- others	271.2	4.7	11.5	14.0	14.8	16.1	16.4	18.5
- regulated	179.7	8.0	20.6	26.3	24.8	26.3	24.6	25.3

CNB calculation based on CSO data

INFLATION EXPECTATIONS OF SELECTED ECONOMIC SECTORS FOR 12 MONTHS AHEAD

annual percentage changes

	CPI		
	Financial market	Businesses	Households
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
10/02	2.5		
11/02	2.4		
12/02	2.3	2.3	2.6
1/03	2.5		
2/03	2.4		
3/03	2.5	2.1	4.0

Source: CNB statistical survey

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	1999	2000	2001	2002	2003
	12	12	12	12	2
Belgium	2.1	3.0	2.0	1.3	1.6
Denmark	3.1	2.3	2.1	2.6	2.9
Finland	2.2	2.9	2.3	1.7	2.1
France	1.4	1.7	1.4	2.2	2.5
Ireland	3.9	4.6	4.4	4.6	5.1
Italy	2.1	2.8	2.2	3.0	2.6
Luxembourg	2.3	4.3	0.9	2.8	3.2
Germany	1.4	2.4	1.3	1.1	1.2
Netherlands	1.9	2.9	5.1	3.5	3.2
Portugal	1.7	3.8	3.9	4.0	4.1
Austria	1.7	1.8	1.8	1.7	1.8
Greece	2.3	3.7	3.5	3.5	4.2
Spain	2.8	4.0	2.5	4.0	3.8
Sweden	1.2	1.3	3.2	1.7	3.3
United Kingdom	1.2	0.9	1.0	1.7	1.6
European Union	1.7	2.3	1.9	2.2	2.3
Czech Republic	2.5	4.0	3.9	0.1	-0.6

Source: Eurostat

MONETARY SURVEY

position at month-end in CZK billions

		1999	2000	2001	2002	2003
		12	12	12	12	2
Total assets		1337.5	1412.3	1596.0	1647.3	1643.6
Net foreign assets		570.4	673.1	800.6	912.9	918.8
- assets		940.2	998.8	1088.4	1187.7	1143.4
- liabilities		369.8	325.7	287.8	274.8	224.6
Net domestic assets		767.1	739.2	795.4	734.4	724.8
Domestic credits		1058.5	1068.8	1011.9	911.1	914.0
Net credit to the government sector		57.5	104.9	236.5	189.9	189.5
- net credit to government		67.7	103.8	246.2	207.4	206.1
- net credit to NPF		-10.2	1.1	-9.7	-17.5	-16.6
Client credits of commercial banks and CNB		1001.0	963.9	775.4	721.2	724.5
CZK credits		824.6	819.7	661.2	620.0	631.0
- businesses		715.7	699.1	524.2	442.5	448.0
- households		108.9	120.6	137.0	177.5	183.0
Foreign currency credits		176.4	144.2	114.2	101.2	93.5
- businesses		173.0	141.9	111.9	99.9	92.3
- households		3.4	2.3	2.3	1.3	1.2
Other net items		-291.4	-329.6	-216.5	-176.7	-189.2
Liabilities						
M2	2)	1337.5	1412.3	1596.0	1647.3	1643.6
M1	1)	447.8	497.7	583.6	692.3	688.9
Currency in circulation		157.9	171.8	180.4	197.8	201.7
CZK demand deposits		289.9	325.9	403.2	494.5	487.2
- households		162.6	195.0	230.2	270.9	295.9
- businesses		124.4	128.0	169.2	221.1	188.8
- insurance companies		2.9	2.9	3.8	2.5	2.5
Quasi money		889.7	914.6	1012.4	955.0	954.7
CZK time deposits		653.1	645.0	742.2	729.6	729.2
- households		537.6	549.8	596.6	568.0	567.9
- businesses		78.9	78.9	120.8	125.7	137.0
- insurance companies		36.6	16.3	24.8	35.9	24.3
Deposit bills of exchange and other bonds	5)	91.3	114.0	112.8	79.6	81.2
Foreign currency deposits		145.3	155.6	157.4	145.8	144.3
- households		80.8	83.7	91.5	79.4	78.8
- businesses		64.5	71.9	65.9	66.4	65.5
Monetary aggregate L	3)	1386.3	1463.5	1643.9	1696.0	1682.3
Annual percentage changes						
M1		10.8	11.1	17.3	18.6	19.8
M2		7.7	5.6	13.0	3.2	3.7
L		7.8	5.6	12.3	3.2	2.5
Client credits of commercial banks and CNB		-4.4	-3.7	-19.6	-7.0	-4.8
Client deposits with banks	4)	0.1	3.5	15.7	5.2	4.3

1) M1 = Currency in circulation + CZK demand deposits

2) M2 = M1 + quasi money

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

4) CZK deposits + foreign currency deposits

5) In 1998 - 2000 including certificates of deposit

CREDIT SUPPLY

	1999	2000	2001	2002	2003
	12	12	12	12	2
Non-adjusted credits					
Total credits, CZK and foreign currency					
absolute volumes in CZK billions	1001.0	963.9	775.4	721.2	724.5
annual percentage changes	-4.4	-3.7	-19.6	-7.0	-4.8
CZK credits					
absolute volumes in CZK billions	824.6	819.7	661.2	620.0	631.0
annual percentage changes	-2.6	-0.6	-19.3	-6.2	-3.7
Foreign currency credits					
absolute volumes in CZK billions	176.4	144.2	114.2	101.2	93.5
annual percentage changes	-11.7	-18.3	-20.8	-11.4	-11.5
Adjusted credits 1)					
Total credits, CZK and foreign currency					
absolute volumes in CZK billions	969.9	929.5	947.9	988.7	992.7
annual percentage changes	-4.7	-4.2	2.0	4.3	3.4
CZK credits					
absolute volumes in CZK billions	797.8	787.7	826.6	875.0	886.9
annual percentage changes	-1.3	-1.3	4.9	5.9	4.7
Foreign currency credits					
absolute volumes in CZK billions	172.1	141.8	121.3	113.7	105.8
annual percentage changes	-17.6	-17.6	-14.5	-6.3	-6.3

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

	1999	2000	2001	2002	2003
	12	12	12	12	2
Time structure					
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0
Short-term	39.0	36.6	37.5	34.3	31.7
Medium-term	24.2	22.2	26.0	30.9	31.8
Long-term	36.8	41.2	36.5	34.8	36.5
Sector structure					
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0
Businesses	88.8	87.2	82.0	75.2	74.6
Households	11.2	12.8	18.0	24.8	25.4
Type structure 1)					
Total CZK and foreign currency credits	100.0	100.0	100.0	100.0	100.0
Operating	52.0	49.3	42.6	40.9	40.2
Investment (incl. general housing construction)	31.1	30.8	35.2	29.5	29.4
Mortgage	2.8	4.1	6.7	9.6	9.9
Consumer	2.9	3.3	3.6	7.3	7.5
For privatisation	2.3	2.0	0.4	0.2	0.2
For temporary fund shortage	7.4	9.1	9.8	5.5	5.6
For securities purchase	1.5	1.4	1.7	0.4	0.4
Building savings loans				6.4	6.6
Others				0.2	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

	1999	2000	2001	2002	2003
	12	12	12	12	3
1. AVERAGE PRIBOR 1)					
- 1 day	5.21	5.23	4.63	2.75	2.50
- 7 day	5.32	5.29	4.79	2.76	2.50
- 14 day	5.40	5.29	4.78	2.76	2.50
- 1 month	5.59	5.32	4.77	2.73	2.49
- 2 month	5.58	5.36	4.72	2.67	2.42
- 3 month	5.58	5.42	4.69	2.63	2.39
- 6 month	5.64	5.60	4.62	2.60	2.36
- 9 month	5.72	5.78	4.61	2.60	2.36
- 12 month	5.84	5.90	4.62	2.60	2.36
2. AVERAGE PRIBID 1)					
- 1 day	5.05	5.11	4.53	2.65	2.40
- 7 day	5.16	5.18	4.69	2.67	2.40
- 14 day	5.23	5.19	4.69	2.67	2.40
- 1 month	5.42	5.22	4.68	2.64	2.39
- 2 month	5.40	5.26	4.62	2.57	2.32
- 3 month	5.41	5.31	4.59	2.54	2.29
- 6 month	5.46	5.49	4.52	2.51	2.26
- 9 month	5.54	5.67	4.52	2.51	2.26
- 12 month	5.67	5.79	4.52	2.51	2.26

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

FRA RATES

percentages; monthly averages

	1999	2000	2001	2002	2003
	12	12	12	12	3
3 * 6	5.57	5.68	4.49	2.52	2.30
3 * 9	5.70	5.85	4.53	2.54	2.30
6 * 9	5.75	5.93	4.53	2.52	2.30
6 * 12	5.94	6.10	4.52	2.58	2.31
9 * 12	6.04	6.19	4.54	2.61	2.32
12 * 24	.	.	.		
9*12 - 3*6 spread	0.47	0.51	0.05	0.10	0.03
6*12 - 3*9 spread	0.24	0.25	-0.02	0.04	0.01

IRS RATES

percentages; monthly averages

	1999	2000	2001	2002	2003
	12	12	12	12	3
1Y	5.92	5.94	4.64	2.63	2.36
2Y	6.54	6.40	4.72	2.85	2.53
3Y	6.95	6.72	4.89	3.18	2.78
4Y	7.16	6.96	5.05	3.46	3.02
5Y	7.26	7.15	5.19	3.70	3.26
6Y	7.29	7.29	5.32	3.91	3.47
7Y	7.28	7.38	5.43	4.08	3.66
8Y	7.27	7.42	5.52	4.23	3.83
9Y	7.27	7.43	5.60	4.36	3.97
10Y	7.27	7.43	5.66	4.47	4.10
15Y	.	.	5.85	4.77	4.46
5Y - 1Y spread	1.34	1.21	0.56	1.07	0.89
10Y - 1Y spread	1.35	1.49	1.02	1.84	1.73

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
1/99	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	1.1	-0.8	4.4	4.5	5.2
3/02	4.3	4.5	5.3	3.0	0.6	0.8	1.6	-0.7	4.5	4.7	5.5
4/02	4.2	4.4	5.1	2.9	1.0	1.1	1.8	-0.2	4.3	4.5	5.2
5/02	3.8	4.1	4.9	2.8	1.3	1.5	2.3	0.3	4.3	4.6	5.4
6/02	3.8	3.9	5.0	2.9	2.6	2.7	3.8	1.7	4.6	4.8	5.9
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	4.5	2.5	2.2	2.1	3.7	1.7	4.0	3.9	5.5
10/02	3.0	2.8	4.6	2.3	2.4	2.2	4.0	1.7	3.9	3.7	5.5
11/02	2.8	2.8	4.2	2.1	2.3	2.2	3.7	1.6	3.5	3.5	4.9
12/02	2.8	2.6	4.2	2.2	2.2	2.0	3.6	1.6	3.5	3.3	4.9
1/03	2.7	2.6	4.1	2.1	3.2	3.0	4.5	2.5	3.6	3.5	5.0
2/03	2.5	2.4	3.9	2.1	2.9	2.8	4.3	2.5	3.2	3.2	4.6
3/03	2.5	2.4			2.9	2.8			2.9	2.8	

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

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

REAL INTEREST RATES (ex ante approach)

percentages

	Real rates expected by financial markets				Real rates expected by businesses				Real rates expected by households			
	PRIBOR		client rates		PRIBOR		client rates		PRIBOR		client rates	
	1W	1Y	new credits	time deposits	1W	1Y	new credits	time deposits	1W	1Y	new credits	time deposits
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	1.5	-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	1.5	-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	1.4	-0.6	1.1	1.0	2.6	0.6	1.7	1.6	3.2	1.2
10/02	0.5	0.3	2.0	-0.2								
11/02	0.4	0.3	1.8	-0.3								
12/02	0.5	0.3	1.9	-0.1	0.5	0.3	1.9	-0.1	0.2	0.0	1.6	-0.4
1/03	0.2	0.1	1.6	-0.4								
2/03	0.1	0.0	1.4	-0.3								
3/03	0.0	-0.1			0.4	0.3			-1.4	-1.6		

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

	1999	2000	2001	2002	2003
	12	12	12	12	2
Newly drawn credits					
in CZK	6.7	6.8	5.9	4.2	3.9
- short-term	6.7	6.5	5.6	3.8	3.6
- medium-term	5.1	8.0	7.5	5.4	4.9
- long-term	10.2	8.1	7.1	5.8	6.2
Credits					
in CZK	7.7	6.9	7.0	5.8	5.6
- short-term	7.4	6.6	6.2	4.7	4.4
- medium-term	8.3	7.8	7.7	6.2	6.0
- long-term	7.6	6.8	7.4	6.2	6.1
Deposits					
in CZK	3.7	3.0	2.6	1.8	1.6
- demand	1.6	1.5	1.4	1.1	1.0
- time	4.7	3.9	3.3	2.2	2.1
- short-term	4.8	4.0	3.4	2.0	1.8
- medium-term	5.6	3.9	3.1	2.1	1.7
- long-term	3.6	3.5	3.2	3.1	3.2

BALANCE OF PAYMENTS 1)

in CZK millions

	1999	2000	2001	2002 2)
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
A. Current account	**-50 596.4**	**-104 877.1**	**-124 478.3**	**-121 385.6**
Balance of trade 3)	-65 830.8	-120 825.0	-116 685.0	-74 455.0
exports	908 756.0	1 121 099.0	1 269 634.0	1 251 884.0
imports	974 586.8	1 241 924.0	1 386 319.0	1 326 339.0
Services	41 501.3	54 559.8	57 984.9	21 850.8
credit	243 851.0	264 806.2	269 689.6	231 131.1
transport	53 520.3	53 734.3	57 492.3	56 560.5
travel	109 142.0	115 071.0	118 133.0	96 289.2
others	81 188.7	96 000.9	94 064.3	78 281.4
debit	202 349.7	210 246.4	211 704.7	209 280.3
transport	27 071.4	27 543.0	30 570.5	29 332.8
travel	51 760.0	49 370.0	52 802.0	51 549.3
others	123 518.3	133 333.4	128 332.2	128 398.2
Income	-46 673.6	-52 978.4	-83 548.9	-97 490.5
credit	64 298.3	75 439.1	84 892.3	69 251.4
debit	110 971.9	128 417.5	168 441.2	166 741.9
Current transfers	20 406.7	14 366.5	17 770.7	28 709.1
credit	45 394.4	36 594.6	36 404.9	46 709.0
debit	24 987.7	22 228.1	18 634.2	17 999.9
B. Capital account	**-73.2**	**-198.2**	**-330.7**	**-119.4**
credit	637.3	223.4	90.4	221.0
debit	710.5	421.6	421.1	340.4
Total A + B	*-50 669.6*	*-105 075.3*	*-124 809.0*	*-121 505.0*
C. Financial account	**106 564.4**	**148 046.6**	**172 849.9**	**340 292.6**
Direct investment	215 703.9	190 767.4	208 296.1	269 294.5
abroad	-3 107.6	-1 653.7	-6 289.2	-6 840.6
equity capital and reinvested earnings	-2 585.3	-1 245.9	-5 848.5	-6 417.2
other capital	-522.3	-407.8	-440.7	-423.4
in the Czech Republic	218 811.5	192 421.1	214 585.3	276 135.1
equity capital and reinvested earnings	192 615.5	171 777.2	185 981.4	273 952.9
other capital	26 196.0	20 643.9	28 603.9	2 182.2
Portfolio investment	-48 268.9	-68 172.9	34 857.3	-46 748.7
assets	-65 608.0	-86 631.8	4 405.6	-75 602.1
equity securities	-48 965.2	-44 181.0	9 447.8	-7 807.9
debt securities	-16 642.8	-42 450.8	-5 042.2	-67 794.2
liabilities	17 339.1	18 458.9	30 451.7	28 853.4
equity securities	4 394.2	23 810.9	23 203.6	-9 035.7
debt securities	12 944.9	-5 352.0	7 248.1	37 889.1
Financial derivatives	0.0	-1 402.8	-3 220.3	-4 281.7
assets		-4 501.6	-9 407.6	-15 458.4
liabilities		3 098.8	6 187.3	11 176.7
Other investment	-60 870.6	26 854.9	-67 083.2	122 028.5
assets	-91 273.9	35 832.1	-46 144.5	133 121.8
long-term	-23 884.0	21 322.2	1 325.8	28 711.4
CNB				
commercial banks	-25 858.5	14 362.2	-4 125.8	5 271.7
government	977.5	2 937.0	6 928.9	25 333.6
other sectors	997.0	4 023.0	-1 477.3	-1 893.9
short-term	-67 389.9	14 509.9	-47 470.3	104 410.4
commercial banks	-63 804.7	22 001.9	-45 523.2	122 163.8
government			-87.1	-2 237.4
other sectors	-3 585.2	-7 492.0	-1 860.0	-15 516.0
liabilities	30 403.3	-8 977.2	-20 938.7	-11 093.3
long-term	-1 286.1	-26 212.5	-4 262.6	-869.7
CNB	-2 083.5	-22.8	-22.0	-20.2
commercial banks	-7 109.5	-31 523.7	-7 222.2	-8 059.2
government	-6 384.3	-1 837.6	-5 000.8	-1 517.2
other sectors	14 291.2	7 171.6	7 982.4	8 726.9
short-term	31 689.4	17 235.3	-16 676.1	-10 223.6
CNB	84.9	-17.0	59.7	-24.3
commercial banks	36 615.6	-3 812.5	-35 688.6	-3 871.2
government	-103.2			
other sectors	-4 907.9	21 064.8	18 952.8	-6 328.1
Total A + B + C	*55 894.8*	*42 971.3*	*48 040.9*	*218 787.6*
D. Net errors and omissions, valuation changes	**1 241.9**	**-11 378.5**	**19 112.1**	**-1 842.6**
Total A + B + C + D	*57 136.7*	*31 592.8*	*67 153.0*	*216 945.0*
E. Change in reserves (- increase)	**-57 136.7**	**-31 592.8**	**-67 153.0**	**-216 945.0**

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

	1999	2000	2001	2002
	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
ASSETS	1 347 954.9	1 448 400.7	1 544 963.0	1 580 600.8
Direct investment abroad	25 114.9	27 899.3	41 176.1	45 075.0
- equity capital	22 415.9	24 797.5	37 633.6	41 280.0
- other capital	2 699.0	3 101.8	3 542.5	3 795.0
Portfolio investment	104 345.3	180 431.3	185 138.6	274 344.7
- equity securities	66 318.2	92 222.9	68 675.5	86 464.7
- debt securities	38 027.1	88 208.4	116 463.1	187 880.0
Financial derivatives 2)		6 347.2	15 754.8	31 213.2
Other investment	757 065.5	736 903.7	778 435.7	515 356.2
Long-term	323 131.1	315 625.5	310 133.9	179 639.6
- CNB 3)		329.1	307.3	280.9
- commercial banks	89 900.1	75 537.9	79 663.7	67 966.9
- government 4)	210 221.3	220 777.8	210 694.9	97 156.8
- other sectors	23 009.7	18 980.7	19 468.0	14 235.0
Short-term	433 934.4	421 278.2	468 301.8	335 716.6
- CNB 5)		52.9	51.2	376.7
- commercial banks	336 117.2	314 115.3	359 638.5	213 815.4
of which: gold and foreign exchange 6) 7)	218 995.8	228 961.7	257 138.5	163 032.9
- government			87.1	2 324.5
- other sectors	97 817.2	107 110.0	108 525.0	119 200.0
CNB reserves 8)	461 429.2	496 819.2	524 457.8	714 611.7
- gold 6)	677.0	4 640.4	4 469.9	4 653.8
- SDR		7.7	31.0	137.1
- reserve position in the IMF		116.0	5 478.3	7 081.5
- foreign exchange	460 752.2	491 001.2	514 188.0	686 516.1
- other reserve assets		1 053.9	290.6	16 223.2
LIABILITIES	1 458 893.3	1 640 270.0	1 789 030.7	1 961 252.0
Direct investment in the Czech Republic	631 505.3	818 411.6	982 335.0	1 158 923.4
- equity capital	538 379.3	702 217.8	837 537.3	1 018 353.4
- other capital	93 126.0	116 193.8	144 797.7	140 570.0
Portfolio investment	165 579.2	164 592.0	180 346.2	201 120.0
- equity securities	98 011.8	115 670.6	128 740.1	128 097.7
- debt securities	67 567.4	48 921.4	51 606.1	73 022.3
Financial derivatives 2)		5 307.9	11 495.2	22 671.9
Other investment	661 808.8	651 958.5	614 854.3	578 536.7
Long-term	379 172.2	352 323.4	332 593.2	319 061.3
- CNB	197.1	180.4	133.4	114.5
- commercial banks	118 368.9	84 607.4	73 688.6	63 541.0
- government	20 852.9	19 699.2	9 476.2	9 475.8
- other sectors	239 753.3	247 836.4	249 295.0	245 930.0
Short-term	282 636.6	299 635.1	282 261.1	259 475.4
- CNB	25.8	8.8	68.5	44.2
- commercial banks	229 988.7	226 176.2	190 487.6	176 196.2
- government				
- other sectors	52 622.1	73 450.1	91 705.0	83 235.0
NET INVESTMENT POSITION	-110 938.4	-191 869.3	-244 067.7	-380 651.2

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

	1999	2000	2001	2002
	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
DEBT IN CONVERTIBLE CURRENCIES	813 576.5	808 122.8	811 258.1	792 129.0
of which:				
Long-term	497 872.1	464 323.8	465 687.8	470 599.4
By debtor				
- CNB	12 527.6	180.4	133.4	114.5
- commercial banks	128 703.3	95 737.1	88 401.4	80 063.7
- government	32 303.5	29 753.5	30 839.2	47 701.3
- other sectors	324 337.7	338 652.8	346 313.8	342 719.9
By creditor				
- foreign banks	257 410.0	228 709.6	229 305.5	223 329.8
- government institutions	4 239.2	3 405.7	2 373.6	1 747.2
- multilateral institutions	58 202.2	67 521.2	70 879.0	69 894.7
- suppliers and direct investors	93 831.4	99 560.2	105 944.3	97 855.0
- other investors	84 189.3	65 127.1	57 185.4	77 772.7
Short-term	315 704.4	343 799.0	345 570.3	321 529.6
By debtor				
- CNB	25.8	8.8	68.5	44.2
- commercial banks	230 000.5	226 246.1	192 438.4	177 474.4
- government	7.0	2 115.0	465.0	761.0
- other sectors	85 671.1	115 429.1	152 598.4	143 250.0
By creditor				
- foreign banks	201 808.8	203 333.8	192 126.4	166 140.7
- suppliers and direct investors	81 794.6	106 988.6	116 278.4	121 375.0
- other investors	32 101.0	33 476.6	37 165.5	34 013.9
DEBT IN NON-CONVERTIBLE CURRENCIES	8 925.7	8 950.9	0.0	0.0
of which:				
- long-term	8 925.7	8 950.9		
- short-term				
TOTAL EXTERNAL DEBT	822 502.2	817 073.7	811 258.1	792 129.0
of which:				
- long-term	506 797.8	473 274.7	465 687.8	470 599.4
- short-term	315 704.4	343 799.0	345 570.3	321 529.6

1) Preliminary data

EXCHANGE RATES

A. NOMINAL RATE

in CZK; foreign exchange market rates

	1999	2000	2001	2002	2003
	1-12	1-12	1-12	1-12	1-3
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES					
- annual/quarterly averages					
1 EUR	36.88	35.61	34.08	30.81	31.63
1 USD	34.60	38.59	38.04	32.74	29.48
100 SKK	83.64	83.64	78.68	72.22	75.70
	12	12	12	12	3
- monthly averages					
1 EUR	36.05	34.82	32.59	31.19	31.76
1 USD	35.63	38.94	36.48	30.65	29.39
100 SKK	84.70	80.07	75.61	74.67	76.09
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Mar.
- last day of the month					
1 EUR	36.13	35.09	31.98	31.60	31.95
1 USD	35.98	37.81	36.26	30.14	29.32
100 SKK	85.08	79.70	74.81	75.18	77.39

B. NOMINAL EFFECTIVE RATE

	1999	2000	2001	2002	2003
					3
CZK nominal effective exchange rate (percentages)					
(2000=100)					
weights - foreign trade turnover	98.5	100.0	104.3	116.4	115.7
weights - foreign trade turnover SITC 5-8	98.6	100.0	104.4	116.1	114.9

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

	1999	2000	2001	2002	2003
					2
CZK real effective exchange rate (percentages)					
(2000=100)					
a) industrial producer prices					
weights - foreign trade turnover	100.6	100.0	104.0	114.5	111.1
weights - foreign trade turnover SITC 5-8	99.5	100.0	104.6	115.2	111.6
b) consumer prices					
weights - foreign trade turnover	98.8	100.0	105.3	116.0	113.1
weights - foreign trade turnover SITC 5-8	98.2	100.0	105.9	116.9	113.7

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

PUBLIC FINANCES

in CZK billions

	1999	2000	2001	2002	2003
	1-12	1-12	1-12	1-12	1-3
STATE BUDGET					
TOTAL REVENUE	567.3	586.2	626.2	705.0	158.4
Tax revenue	540.1	559.5	598.3	627.4	149.9
Taxes on income, profits and capital gains	86.4	87.0	147.4	159.0	38.9
Domestic taxes on goods and services	211.4	216.8	187.0	186.9	41.0
- value-added taxes	138.3	145.9	121.3	118.1	25.5
- excises	73.1	70.9	65.7	68.9	15.5
Taxes on international trade and transactions	12.1	13.6	10.0	9.8	2.2
Taxes on property	6.8	6.0	6.4	7.9	1.9
Social and health security contributions and payroll taxes	210.9	222.2	242.3	258.5	64.7
Non-tax and capital incomes and received subsidies	27.2	26.7	27.9	77.7	8.4
TOTAL EXPENDITURE	596.9	632.3	693.9	750.8	190.2
Current expenditure	537.9	571.4	642.5	697.3	181.2
Capital expenditure	59.0	60.9	51.4	53.5	9.0
Public budgets (balance in IMF GFS methodology)	-11.1	-62.0	-52.3	-22.5	
state budget	-29.6	-46.1	-67.7	-45.7	-31.8
local budget	18.5	-2.5	-11.2	-2.3	
state financial assets	-5.2	-5.7	.	.	
state funds	-0.6	2.6	11.2	5.9	
Land Fund	-0.3	-0.5	-0.1	-1.1	
National Property Fund	2.9	-11.5	13.2	28.2	
health insurance companies	2.5	2.1	1.4	0.6	
others	0.7	-0.4	0.9	-8.1	

CAPITAL MARKET

A. STOCK MARKET INDICES

last day of the month in points

	1999	2000	2001	2002	2003
	12	12	12	12	3
BCPP					
PX 50	489.7	478.5	394.6	460.7	492.8
PX-D	1296.7	1366.0	1065.6	1166.4	1246.3
PX-GLOB	587.9	570.6	492.9	576.8	618.5
RM-SYSTÉM					
PK-30	713.2	724.8	593.0	672.5	747.6

B. TRADE VOLUMES

in CZK millions

	1999	2000	2001	2002	2003
	12	12	12	12	3
BCPP					
Monthly trade volumes	99 604.0	73 240.5	142 803.6	109 264.8	152 387.3
of which:					
a) shares	13 974.5	11 113.9	12 819.3	17 089.3	14 763.4
b) units	394.2	61.3	4.3	0.0	0.0
c) bonds	85 235.3	62 065.3	129 980.0	92 175.5	137 623.9
RM-SYSTÉM					
Monthly trade volumes	22 014.7	4 861.7	2 162.5	4 412.1	185.3
of which:					
a) shares	20 642.3	4 190.1	1 841.0	298.4	153.2
b) units	176.8	25.9	212.2	1.0	1.9
c) bonds	1 195.6	645.7	109.3	4 112.7	30.2

CNB MONETARY POLICY INSTRUMENTS

	2W repo rate (%)	Discount rate (%)	Lombard rate (%)	Minimum reserve requirement for primary deposits (%)	
				Banks	Building societies and ČMZRB
	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		
1 November	2.75	1.75	3.75		
	2003				
31 January	**2.50**	**1.50**	**3.50**		

MACROECONOMIC AGGREGATES

in CZK millions; annual percentage changes; constant 1995 prices

	1999	2000	2001	2002
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
GROSS DOMESTIC PRODUCT				
- in CZK millions	1 421 043	1 467 285	1 512 626	1 542 221
- percentages	0.5	3.3	3.1	2.0
FINAL CONSUMPTION				
- in CZK millions	1 042 354	1 058 969	1 102 058	1 150 738
- percentages	1.9	1.6	4.1	4.4
of which:				
Households				
- in CZK millions	765 638	783 454	813 026	845 111
- percentages	1.9	2.3	3.8	3.9
Government				
- in CZK millions	266 199	263 628	277 719	293 540
- percentages	2.3	-1.0	5.3	5.7
Non-profit institutions				
- in CZK millions	10 517	11 887	11 313	12 087
- percentages	-11.4	13.0	-4.8	6.8
GROSS CAPITAL FORMATION				
- in CZK millions	467 412	511 229	547 829	554 934
- percentages	-2.9	9.4	7.2	1.3
of which:				
Fixed capital				
- in CZK millions	463 128	487 874	514 934	518 193
- percentages	-1.0	5.3	5.5	0.6
Changes in inventories				
- in CZK millions	3 880	22 990	32 513	36 351
Acquisitions less disposals of valuables				
- in CZK millions	404	365	382	390
- percentages	-19.5	-9.7	4.7	2.1
TRADE BALANCE				
- in CZK millions	-88 723	-102 913	-137 261	-163 451
of which:				
Exports of goods				
- in CZK millions	809 783	971 784	1 109 242	1 174 839
- percentages	8.4	20.0	14.1	5.9
Exports of services				
- in CZK millions	211 548	223 676	228 169	199 596
- percentages	-1.8	5.7	2.0	-12.5
Imports of goods				
- in CZK millions	920 348	1 106 476	1 275 437	1 329 758
- percentages	5.1	20.2	15.3	4.3
Imports of services				
- in CZK millions	189 706	191 897	199 235	208 128
- percentages	7.2	1.2	3.8	4.5
FINAL DOMESTIC DEMAND				
- in CZK millions	1 505 482	1 546 843	1 616 992	1 668 931
- percentages	1.0	2.7	4.5	3.2
AGGREGATE DOMESTIC DEMAND				
- in CZK millions	1 509 766	1 570 198	1 649 887	1 705 672
- percentages	0.3	4.0	5.1	3.4
GROSS DOMESTIC PRODUCT AT CURRENT PRICES				
- in CZK millions	1 902 293	1 984 833	2 175 238	2 275 609
- percentages	3.4	4.3	9.6	4.6

Source: CSO

LABOUR MARKET

A. NATIONAL ACCOUNTS FOR THE HOUSEHOLD SECTOR

annual percentage changes

	1999	2000	2001	2002
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
Current income	3.9	4.8	5.6	5.2
of which:				
- gross operating surplus and mixed income	5.2	3.0	6.6	1.4
- compensation of employees	3.8	4.9	7.1	6.4
- property income	-15.8	-7.0	-0.4	-8.9
- social benefits other than social transfers in kind	8.6	9.6	5.9	7.5
- other current transfers	20.5	10.2	-10.7	15.6
Current expenditure	5.3	4.8	6.6	8.1
of which:				
- property income	-11.9	-8.4	1.9	12.5
- current taxes on income, wealth, etc.	2.5	3.8	4.7	13.9
- social contributions	4.9	5.9	8.9	5.9
- other current transfers	20.3	5.6	-0.2	9.1
Gross disposable income	3.3	4.8	5.1	3.9
Change in net equity of households in pension funds reserves	-20.0	24.6	47.2	5.8
Individual consumption expenditure	5.7	5.3	7.6	3.8
Gross saving	-18.7	0.6	-20.7	4.9
Gross savings rate	8.33	8.00	6.04	6.10
(gross saving/gross disposable income - ratio in per cent)				

B. AVERAGE WAGES

annual percentage changes

	1999	2000	2001	2002
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
Overall nominal wage	8.2	6.6	8.5	7.3
Business sector	7.1	7.8	8.2	6.7
Non-business sector	13.1	2.8	10.0	10.0
Overall real wage	6.0	2.6	3.6	5.4
Business sector	4.9	3.8	3.3	4.8
Non-business sector	10.8	-1.1	5.1	8.1

C. UNEMPLOYMENT

end of period

	1999	2000	2001	2002
	12	12	12	12
Registered job applicants (thousands)	487.6	457.4	461.9	514.4
Unemployment rate (percentages)	9.4	8.8	8.9	9.8

Source: CSO

PRODUCER PRICES

percentage changes

	1999	2000	2001	2002	2003
					3
INDUSTRIAL PRODUCER PRICES					
a) previous month = 100	0.3	0.4	0.1	-0.1	0.3
b) same period of last year = 100	1.0	4.9	2.9	-0.5	-0.4
c) average for 2000 = 100	.	0.0	2.8	2.3	2.6
d) December 1999 = 100	.	3.4	6.3	5.8	6.1
CONSTRUCTION WORK PRICES					
a) previous month = 100	0.3	0.4	0.3	0.2	0.3
b) same period of last year = 100	4.8	4.0	4.1	2.7	1.9
c) average for 2000 = 100	.	0.0	4.1	6.9	8.3
d) December 1999 = 100	.	2.3	6.5	9.3	10.8
AGRICULTURAL PRODUCER PRICES					
b) same period of last year = 100	-11.7	9.2	8.4	-9.5	-16.0
of which:					
crop products					
b) same period of last year = 100	-15.0	12.6	9.3	-4.6	-23.3
livestock products					
b) same period of last year = 100	-10.5	8.0	8.0	-12.1	-11.1
MARKET SERVICES PRICES (excluding interest rates)					
a) previous month = 100	0.3	0.4	0.1	0.3	0.5
b) same period of last year = 100	4.1	3.4	3.9	3.2	2.2
c) average for 2000 = 100	.	0.0	4.0	7.3	9.1
d) December 1999 = 100	.	0.6	4.6	8.0	9.8

Source: CSO

RATIOS OF KEY INDICATORS TO GDP

percentage ratios

	1999	2000	2001	2002
State budget balance	-1.6	-2.3	-3.1	-2.0
Public budgets balance	-0.6	-3.1	-2.4	-1.0
Public debt	15.1	17.7	23.8	24.7
Debt in convertible currencies	42.8	40.7	37.3	34.8
Trade balance 1)	-3.4	-6.1	-5.4	-3.3
Current account balance	-2.7	-5.3	-5.7	5.3
M2	70.3	71.2	73.4	72.4

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

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