2004

INFLATION REPORT OCTOBER/2004

CNB CZECH NATIONAL BANK

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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
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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 2003
Credit to households	(Box)	July 2003
The withdrawal of 10- and 20-heller coins and its possible impact on prices	(Box)	July 2003
Indirect taxes and the inflation forecast	(Box)	July 2003
Changes to the methodology for surveying inflation expectations	(Box)	July 2003
ERM II and the exchange-rate convergence criterion	(Annex)	July 2003
Use of the output gap indicator at the CNB	(Box)	October 2003
Monetary policy in the CNB's macroeconomic forecast	(Box)	October 2003
The Czech Republic's euro-area accession strategy	(Annex)	October 2003
Short-run food price prediction methods	(Box)	January 2004
Monetary conditions	(Box)	April 2004
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The exchange rate in the CNB's forecasting system	(Box)	July 2004
The CNB has fully integrated into the European System of Central Banks	(Annex)	July 2004
Petrol prices and their impact on inflation in the Czech Republic	(Box)	October 2004
Indicators of households' financial situation	(Box)	October 2004
GDP data revision	(Box)	October 2004

ABBREVIATIONS USED

CNB	Czech National Bank
CPI	consumer price index
CZK	Czech koruna
CZSO	Czech Statistical Office
ECB	European Central Bank
EEA	European Economic Area
EIB	European Investment Bank
ERM	European Exchange Rate Mechanism
ESA	European System of Accounts
EU	European Union
EUR	euro
FDI	foreign direct investment
FRA	forward rate agreement
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IPI	industrial production index
IRS	interest rate swap
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
O/N	overnight
PPI	producer price index
PRIBID	Prague Interbank Bid Rate
PRIBOR	Prague Interbank Offered Rate
(1W, 1M, 1Y)	(one-week, one-month, one-year)
repo rate	repurchase agreement rate
USD	US dollar
VAT	value added tax

FOREWORD

In 1998, the Czech National Bank switched to direct inflation targeting. 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 publishing of regular 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 the current position of the economy in the business cycle and its future development. 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 4 November 2004. Unless stated otherwise, the sources of the data presented in this Inflation Report are the CZSO or the CNB. All the Inflation Reports published to date are available on the CNB website at http://www.cnb.cz/.

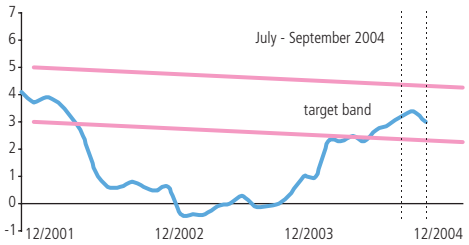
I. SUMMARY

Table I.1
ECONOMIC GROWTH EXCEEDED 4% IN Q2
(annual percentage changes unless otherwise indicated)

	6/04	7/04	8/04	9/04
Consumer price inflation	2.9	3.2	3.4	3.0
Industrial producer price inflation	6.2	7.3	8.1	8.0
Money supply growth (M2)	10.1	8.2	8.0	x
3M PRIBOR[a)]	2.3	2.5	2.6	2.7
Nominal CZK/EUR exchange rate[b)]	31.61	31.52	31.63	31.60
State budget balance since January incl. SFAOs[b)], CZK bn	-49.7	-48.8	-50.7	-40.5
GDP growth at constant prices[c)]	4.1			x
Unemployment rate[b)]	9.9	10.1	10.2	10.1

a) average for the month
b) end-of-month position
c) figure for the quarter ending with the given month

Chart I.1
INFLATION FLUCTUATED NEAR THE CENTRE OF THE TARGET BAND IN 2004 Q3
(annual consumer price inflation, percentages)



Annual consumer price inflation was close to the centre of the target band during 2004 Q3 (see Chart I.1). Czech economic growth picked up further in 2004 Q2, breaking through the four per cent level for the first time since 2000 Q4. Developments on the labour market, where the decline in employment slowed further in 2004 Q3, were favourable as well.

The slight rise in inflation observed since the spring months of 2004 continued into July and August, but in September inflation declined somewhat. The rise in inflation was fostered by the lagged effect of tax changes (excise duty on cigarettes) and, in contrast with the previous quarter, by food prices, which were significantly affected by growth in agricultural producer prices and base effects. The effect of the continuing fast growth in oil prices on world markets on domestic consumer prices was attenuated by a stronger exchange rate of the koruna against the dollar year on year and by other factors. Conversely, inflation fell slightly in September because of a decline in prices of some foods.

The gradual pick-up in Czech economic growth visible since the beginning of the previous year continued into 2004 Q2. The Czech economy grew more than half a percentage point faster year on year than in Q1, despite an upward revision to the Q1 figures. The growth continued to be driven by domestic demand. The growth contribution of the external sector remained negative, despite showing some improvement. Within domestic demand, accelerating fixed investment predominated, whereas the growth contribution of household consumption declined slightly and that of government consumption was negative, just as in the previous quarter.

In 2004 Q2, the slowing decline in employment reflected the higher economic growth. In keeping with this, the unemployment rate also stabilised in Q2 and Q3. Wage growth in the business sector eased considerably in Q2, thereby nearing the growth rate agreed in collective agreements. This trend was affected by an unwinding of extraordinary factors from the beginning of this year and, in the case of real wages, by the higher inflation as well.

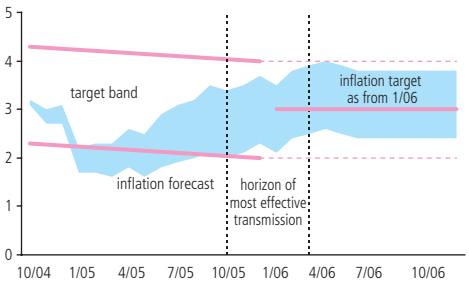
On the money market in Q3 there was a further gradual rise in interest rates, reflecting growth in monetary policy interest rates in particular. On the foreign exchange market in Q3, the koruna's exchange rate was relatively stable against both the euro and the dollar. The inflow of capital increased year on year in H1, thanks mainly to a turnaround in portfolio investment flows (a net inflow, as against an outflow in 2003 H1).

The monetary policy decision-making of the CNB Bank Board in 2004 Q3 was based on the inflation forecast discussed by the Board at its meeting on 29 July 2004 and published in the July Inflation Report. Given the monetary policy transmission lag, the Board focused on hitting the inflation target in July–December 2005. According to the forecast, inflation should be close to the centre of the target band. Consistent with the forecast was a rising interest rate trajectory, although this lay slightly lower compared to the April forecast.

At its July meeting, the Bank Board voted by a slim majority to leave monetary policy interest rates unchanged. At its meeting at the end of August, the Board decided to increase the rates by 0.25 percentage point with effect from 27 August. In the remaining month of Q3, the Board left monetary policy interest rates unchanged. The evolution of monetary policy interest rates in Q3 was consistent with the forecast. The associated risks were assessed in the first two months of this quarter as generally balanced and in the third month as deviating only modestly in the inflationary direction.

The Inflation Report concludes with the CNB's new forecast. The October forecast, like the July one, foresees a continuing pick-up in economic growth in 2004 H2 and 2005. As a result of a modest upward revision of the potential output growth rate and less expansive fiscal policy, the time of closure of the output gap has shifted to the end of 2005 H1. Economic activity should be driven mainly by growth in investment and exports. Despite an easing of the anti-inflationary effect of the closing output gap, the forecast is for a decline in inflation over the next few quarters. This temporary swing will be caused by a fall in food prices resulting from this year's favourable harvest. In 2005 H2 inflation will start rising again, and at the horizon of most effective transmission it will be very close to the centre of the target band and the point target valid from January 2006. Consistent with the October forecast and its assumptions is a moderate rise in interest rates in the longer run. An alternative scenario based on the persistence of oil prices at today's high levels was drawn up along with the baseline scenario of the forecast. Consistent with the alternative scenario is a slightly higher interest rate trajectory.

Chart I.2
THE INFLATION FORECAST IS VERY CLOSE TO THE CENTRE OF THE TARGET BAND AND THE POINT TARGET AT THE HORIZON OF MOST EFFECTIVE TRANSMISSION
(annual consumer price inflation; percentages)



II. INFLATION DEVELOPMENTS

Chart II.1
ANNUAL INFLATION INCREASED SOMEWHAT IN 2004 Q3
(percentages)

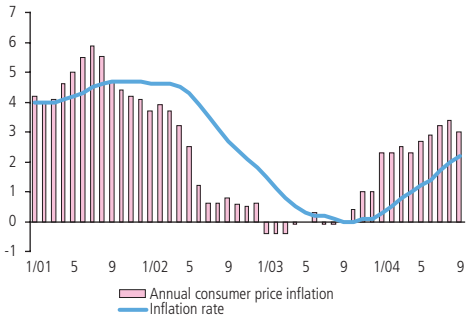
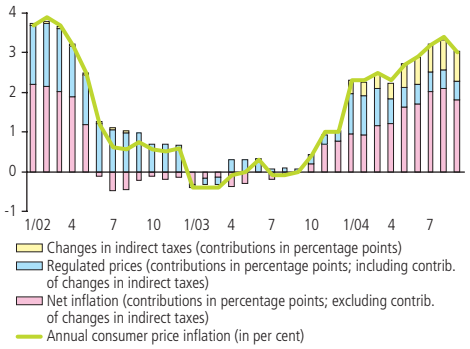


Table II.1
FOOD AND SERVICES PRICES CONTRIBUTED TO THE INCREASE IN INFLATION IN THE FIRST TWO MONTHS OF 2004 Q3
(annual percentage changes)

	3/04	4/04	5/04	6/04	7/04	8/04	9/04
Consumer prices	2.5	2.3	2.7	2.9	3.2	3.4	3.0
Food and non-alcoholic beverages	4.6	4.7	3.8	2.8	4.5	5.1	3.6
Alcoholic beverages and tobacco	0.9	1.6	3.1	3.9	4.2	4.4	4.1
Clothing and footwear	-4.4	-4.6	-4.4	-4.1	-4.3	-4.0	-3.9
Housing. water. electricity. gas and other fuels	4.2	2.9	2.4	2.5	2.6	2.6	2.8
Furnishings. household equipment and routine maintenance of the house	-2.0	-1.8	-2.1	-1.8	-1.9	-1.8	-1.8
Health	2.3	2.2	3.4	3.7	3.0	3.1	3.6
Transport	0.9	1.2	3.5	3.7	3.7	3.3	2.0
Communication	13.1	12.8	13.0	13.0	12.9	11.5	11.5
Recreation and culture	-0.8	-0.6	0.4	2.0	2.1	2.4	2.6
Education	0.9	0.9	1.3	1.1	1.1	1.1	6.2
Hotels and restaurants	2.7	2.8	6.8	7.2	7.1	7.1	7.7
Miscellaneous goods and services	3.6	3.5	4.6	5.0	5.2	4.9	4.6

Chart II.2
MARKET PRICES CONTRIBUTED MOST TO THE INFLATION IN 2004 Q3; THE CONTRIBUTION OF REGULATED PRICES WAS NOT SIGNIFICANT



II.1 PAST INFLATION DEVELOPMENTS

The gradual increase in inflation observed since the beginning of 2003 Q3 continued into 2004 Q3 in only July and August (to 3.4% year on year). In September, annual inflation fell for the first time in several months, to 3%. Compared to the end of the previous quarter it thus rose only modestly. The inflation rate[1] increased to 2.2% in September.

The modest pick-up in annual consumer price inflation in the first two months of 2004 Q3 was due chiefly to factors affecting food prices – a marked rise in agricultural producer prices and also base effects. The increase in inflation was also partly due to the lagged effect of the January 2004 changes to indirect taxes and to greater seasonal swings for some items in year-on-year comparison. These factors fostered higher inflation chiefly among consumer basket items in the services and food categories (see Table II.1). At the end of 2004 Q3, there was a slowdown in consumer price inflation, this being linked to a turnaround in agricultural producer price inflation.

Other inflationary factors – most notably the continuing surge in prices of imported inputs visible since mid-2003 – again had no major effect on consumer price inflation in 2004 Q3. Although the gradually strengthening growth in industrial producer prices suggested lagged pass-through of the rising prices of external inputs, this trend remained patchy in Q3, still affecting only the limited number of manufacturing industries whose production is dependent more directly and to a larger extent on imported inputs displaying very fast rising prices on world markets (most notably oil and metals). As in the previous quarter, producer prices in most other manufacturing industries grew modestly or declined year on year.

Besides the aforementioned structural features, the so far negligible pass-through of the surge in imported input prices into domestic prices was also due to the prevailing conditions on the demand side and on the retail market, as mentioned in previous Inflation Reports. The economy was by now showing buoyant growth, but remained below potential output. Competition on the retail market remained strong, bolstered by the entry of new retailers. Businesses responded to the tough competitive environment by implementing measures to cut their personnel costs relative to output, as evidenced by structural changes in employment and falling nominal unit wage costs. As in 2004 Q2, positive terms of trade created some room for exporters to offset the rise in prices of imported inputs.

These price-determining characteristics of the economic environment were reflected in market prices as measured by net inflation[2], as regulated price inflation was flat in 2004 Q3. A closer inspection of the structure of annual net inflation reveals that its modest rise in Q3 compared to the end of Q2 (to 2.3% in September) was due both to food prices and to prices of non-food commodities.[3]

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

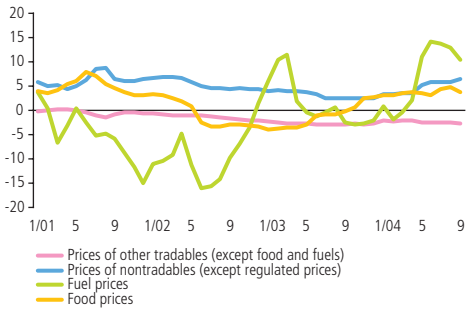
2 Net inflation = growth in the consumer price index net of regulated prices and adjusted for other administrative measures.

3 Measured by adjusted inflation. Adjusted inflation = prices of non-food items of the consumer basket excluding items with regulated prices and administrative interventions, i.e. fuel prices, prices of other tradable commodities and prices of other nontradable commodities.

Prices of non-food commodities continued to show very mixed developments. Prices of nontradable commodities, chiefly comprising services, showed a continuing upward annual growth trend in Q3 (to 6.4% in September). This trend was due mostly to rising prices in education, where prices recorded a larger seasonal increase connected with the start of the school year than a year earlier. Annual inflation also picked up pace in health, recreation and culture. Prices of tradable commodities – unlike unregulated prices – continued to decline year on year, in line with the industrial producer prices of higher value-added products and prices of consumer goods imports, which were still falling moderately year on year. The strengthening of the koruna-euro and koruna-dollar exchange rates probably contributed to the slight pick-up in the annual decline in prices of tradable commodities in 2004 Q3.

Within non-food commodities, however, fuel prices showed the fastest growth, owing to an exceptionally high increase in oil prices on world markets, although they did not contribute to the upturn in consumer price inflation in 2004 Q3. Their lower year-on-year rise by comparison with the growth rates of oil prices on world markets suggested that the impacts of world prices on domestic prices were in this case probably attenuated not only by the koruna-dollar exchange rate, but also by demand-side and other factors (for details see the box *Petrol prices and their impact on inflation in the Czech Republic*). Earlier changes to indirect taxes also contributed to the year-on-year increase in fuel prices, which reached quite high figures in Q3 (7.4% in September excluding the changes to indirect taxes, or 10.4% including the tax changes).

Chart II.3
WITHIN THE MARKET PRICES CATEGORY, PRICES OF FUELS AND NONTRADABLE NON-REGULATED COMMODITIES ROSE FASTEST IN 2004 Q3
(annual percentage changes, including indirect tax changes)



BOX
Petrol prices and their impact on inflation in the Czech Republic

The issue of world oil prices and domestic fuel prices and their effect on inflation was addressed in a box in the July 2000 Inflation Report. In the subsequent period (and particularly lately) pressures have been observable which are expected to result in rising fuel prices. Since around 2002 H1, oil prices have been gradually rising on world markets. This rise has picked up pace in recent months due to the geopolitical tension in the Middle East and as a result of the political instability in Venezuela and Nigeria. In recent weeks, prices of Brent North Sea crude oil have several times surpassed their previous daily highs and have repeatedly broken through the magic threshold of USD 50 a barrel as a result of new information on low oil reserves in the USA and the impacts of Hurricane Ivan in the Gulf of Mexico (with even higher values being achieved by prices of WTI crude oil, which the media tend to focus on because of its dominant significance for the American market). On 1 January 2004, moreover, excise duty on fuels was increased in the Czech Republic. Specifically, the duty on diesel fuel was increased by CZK 1/litre to CZK 11.84/litre. The effect of this taxation was multiplied (see Chart 1) by value added tax, which at that time was 22% (later lowered to 19%).

Despite the fuel price growth factors mentioned above, however, the prices of the highest-selling type of petrol, Natural 95, have not shown a significant upward trend over recent years (see Chart 2). There are several reasons for this. First, prices of Ural crude oil, which is an input to the vast majority of fuel production in the Czech Republic, are not derived from short-term highs, but from the average prices for past periods, which for the time being are still much lower than the short-term highs. The second reason is the koruna's appreciation against the dollar. This appreciation, observed since around 2002 H2, has counteracted the rising koruna prices of oil imported into the Czech Republic. The koruna prices of imported oil are thus at approximately the same level as in mid-2000.

Chart 1 (Box)
AT PRESENT EXCISE DUTY AND VAT ACCOUNT FOR ROUGHLY 60% OF THE RETAIL PRICE OF PETROL
(in CZK, September 2004 average)

Chart 2 (Box)
FUEL PRICE INFLATION IN THE CZECH REPUBLIC WAS, IN ADDITION TO RISING OIL PRICES, ATTRIBUTABLE TO THE APPRECIATING CZK/USD EXCHANGE RATE

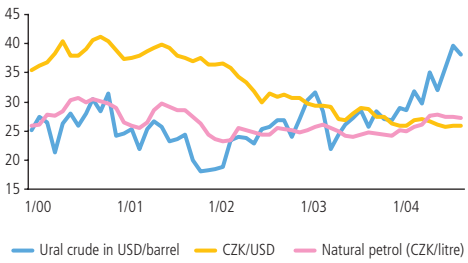


Chart 3 (Box)
THE CONTRIBUTION OF FUEL PRICE CHANGES TO TOTAL INFLATION CHANGED SIGN
(annual changes in percentage points)

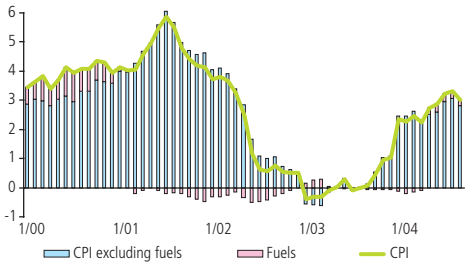


Chart II.4
THE GRADUAL RISE IN FOOD PRICES EASED AT THE END OF 2004 Q3
(annual percentage changes)

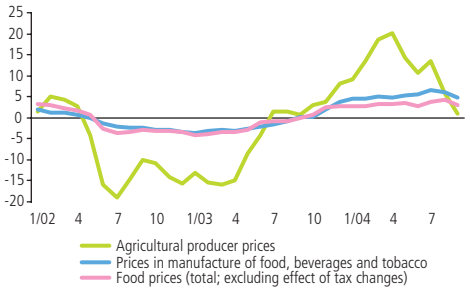


Chart II.5
INFLATION IN THE CZECH REPUBLIC WAS HIGHER THAN IN THE EU MEMBER STATES
(annual percentage changes)

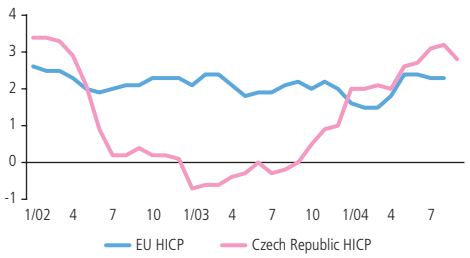


Table II.2
HEADLINE INFLATION IN SEPTEMBER 2004 WAS LOWER THAN PREDICTED IN THE APRIL 2003 FORECAST
(annual percentage changes,contributions in percentage points)

	April 2003 forecast	September 2004 outturn	Contribution to total difference in perc. points a)
Annual consumer price inflation	4.7	3.0	-1.7
Breakdown into contributions:			
regulated prices	4.9	2.3	-0.6
indirect taxes	1.27	0.76	-0.5
food prices, excluding changes to indirect taxes	3.2	3	-0.1
fuel prices, excluding changes to indirect taxes	-3.3	7.4	0.3
adjusted inflation excluding fuels, excluding changes to indirect taxes	3.3	1.6	-0.9

a) owing to rounding, the sum of the contributions need not be equal to the total difference

The third reason for the weak reaction of fuel prices to the rise in world oil prices is a sizeable reduction of margins in the production, distribution and sale of fuels on the domestic market over the past several years. Finally, it should be mentioned that the impacts of the changes in the koruna prices of oil on retail petrol prices have been significantly dampened by the principle whereby excise duty is defined not as a percentage surcharge on the vendor's price excluding taxes, but as an absolute amount per litre of petrol. This amount currently represents about one-third of the total price of petrol, hence its dampening effect is very pronounced. The CNB's analyses generally indicate that a 10% change in the koruna prices of imported oil translates into a roughly 0.2 percentage point change in domestic inflation.

Retail fuel prices have shown no clear trend over the past several years. As a result, their direct contribution to consumer price inflation has swung between positive and negative figures (see Chart 3). In 2004 Q3 specifically, this contribution in fact gradually fell, from almost 0.3 percentage point in July to 0.2 percentage point in September.

Food price inflation[4] showed a continuing upward trend in the first two months of 2004 Q3 (rising to 4.2% excluding the changes to indirect taxes), reflecting high growth in agricultural producer prices. The growth rate of food prices was also partly affected by the lagged effects of the January changes to excise duty on cigarettes[5] and by base effects. A fairly pronounced slackening of food price inflation in September (to 3%, see Chart II.4) was largely due to a change in price trend recorded for some agricultural products (fruit, vegetables and potatoes) in Q3.

Turning to international comparisons, annual consumer price inflation in the Czech Republic during the previous year had been below the level in the EU countries. In 2004 Q1, however, most EU countries, unlike the Czech Republic, recorded a decline in annual inflation. Consequently, the Harmonised Index of Consumer Prices (HICP) in the Czech Republic moved above that in the EU, remaining so right up to the end of 2004 Q3. The different inflation profile in the Czech Republic by comparison with the EU average was largely due to domestic factors (growth in regulated prices and indirect taxes). In August, the annual HICP was 3.2% in the Czech Republic (2.8% in September) and 2.3% in the EU countries.

II.2 FULFILMENT OF THE INFLATION TARGET

Actual inflation was within the CNB's target band in 2004 Q3 (see Chart I.1). This section of the Inflation Report briefly analyses the contribution of the CNB's monetary policy to this situation.

Changes to interest rates pass through into inflation most strongly with a lag of roughly 12 to 18 months. Accordingly, to assess the effect of monetary policy on the fulfilment of the inflation target in 2004 Q3, one needs to analyse retrospectively the forecasts – and the Bank Board's decisions based thereon – dating from around January 2003 to September 2003. For simplicity, the analysis of the accuracy of the CNB's forecasts is limited here to a comparison of the forecast drawn up in April 2003, i.e. approximately in the middle of the aforementioned period, with inflation in September 2004 (see Table II.2).

4 Food prices = prices of food and non-alcoholic beverages + prices of alcoholic beverages and tobacco.

5 Shrinking stocks of cigarettes with old stamps were gradually replaced by newly stamped and newly priced cigarettes.

The April 2003 forecast had indicated easy monetary policy, primarily via an easy exchange rate component of the monetary conditions.[6] The interest rate component was expected to have a roughly neutral effect. Owing to the easy monetary conditions, the output gap was expected to close gradually. This closing of the gap, together with the harmonisation changes to indirect taxes, was forecasted to lead to a quite fast rise in inflation to the upper boundary of the target band in September 2004 (see the April 2003 Inflation Report). The consumer price inflation outturn in September 2004 was lower (by 1.7 percentage points). A more detailed look at the September inflation structure reveals that by comparison with the forecast the contribution of the changes to indirect taxes was lower and regulated prices and adjusted inflation excluding fuels also grew more slowly. By contrast, fuel prices grew faster than forecasted in April. Food prices were in line with the April forecast.

The lower consumer price inflation than forecasted in April 2003 can be put down mainly to lower-than-expected changes in excise duties and regulated prices[7], unexpectedly disinflationary exogenous factors lying partly or completely outside the purview of the CNB's monetary policy (lower-than-forecasted external demand and inflation abroad and a more appreciated exchange rate of the euro against the dollar – see Table II.3) and imperfections in the forecasting system.

Table II.3
THE LOWER-THAN-FORECASTED INFLATION WAS PARTLY DUE TO THE ANTI-INFLATIONARY EFFECT OF EXTERNAL DEMAND

		II/2003	III/2003	IV/2003	I/2004	II/2004	III/2004
GDP in Germany	prediction	0.4	0.5	0.9	1.4	1.6	1.7
(annual perc. changes)	outturn	-0.3	-0.3	0.0	0.8	1.5	x
CPI in Germany	prediction	0.8	1.1	1.3	0.8	1.4	1.5
(annual perc. changes)	outturn	0.8	1.0	1.2	1.1	1.8	1.9
1Y EURIBOR	prediction	2.5	2.7	2.9	3.0	3.2	3.3
(percentages)	outturn	2.2	2.2	2.4	2.1	2.3	2.3
USD/EUR exchange rate	prediction	1.07	1.08	1.09	1.09	1.10	1.10
(levels)	outturn	1.14	1.12	1.19	1.25	1.20	1.22
Oil prices	prediction	24.9	23.7	23.1	22.6	22.1	22.0
(USD/barrel)	outturn	24.1	27.2	27.5	29.8	32.2	37.9

Consistent with the April forecast was broad stability of interest rates until the end of 2003 and a moderate rise in 2004. In reality, however, interest rates continued declining during 2003, with the Bank Board lowering monetary policy interest rates in two steps by a total of 0.5 percentage point in summer 2003. They did not start growing until 2004 Q3, doing so in response to the June and August increases in monetary policy rates. However, despite the lower-than-forecasted nominal interest rates, real interest rates were in line with the forecast in the course of 2003, owing to lower than forecasted consumer price inflation. By comparison with the April forecast, the exchange rate effect, despite a more depreciated nominal exchange rate of the koruna against the euro, was tighter due to the lowering of the estimated rate of equilibrium appreciation. Overall, the monetary conditions were tighter by comparison with the April forecast, but they remained easy in their effect on the economy.

The current assessment of the fulfilment of the April forecast is to a significant extent dependent on a change in the CNB's view on the functioning of the economy since the April forecast was prepared. Since April 2003, three changes have been made to the forecasting system. The first change consisted in lowering the expert view of the price rigidity of some items of the consumer basket. The second change reduced the rate of equilibrium appreciation of the koruna's exchange rate in 2003. The third change, closely related to the second change, rejected the April forecast's assumption of a lower effect of the exchange rate component of the monetary conditions on the output gap.

Had these changes been incorporated into the April forecast, their impact on the September inflation forecast would have been as follows. The first change would have acted towards lower inflation than forecasted in April, with the external disinflationary pressures feeding through into a larger decline in consumer prices. It makes sense to assess the impact of the remaining two changes only in aggregate, since the change in the view of the exchange rate's effect on the output gap was a result of the change

6 An explanation of this term can be found in the box *Monetary conditions* in the April 2004 Inflation Report.

7 The April forecast had assumed an increase in excise duties on tobacco products and spirits, a shifting of items between the lower and higher VAT rates, and growth in regulated gas prices and television and radio licence fees.

in the view of the rate of equilibrium appreciation of the exchange rate and an unchanged view regarding the development of the output gap. The second and third changes would thus have acted neutrally on the output gap, albeit towards higher inflation. Given the lower rate of equilibrium appreciation, the forecast would have implied a more depreciated exchange rate of the koruna and thus higher growth in import prices. Based on the CNB's present knowledge of the functioning of the Czech economy, the developments since the April forecast can be briefly interpreted in the following way.

Table II.4
THE OUTPUT GAP DEVELOPED APPROXIMATELY IN LINE WITH THE FORECAST

		II/2003	III/2003	IV/2003	I/2004	II/2004	III/2004
3M PRIBOR	prediction	2.6	2.6	2.7	2.8	3.1	3.3
(percentages)	outturn	2.4	2.1	2.1	2.1	2.2	2.6
CZK/EUR exchange rate	prediction	31.5	31.5	31.5	31.4	31.2	31.0
(levels)	outturn	31.5	32.2	32.1	32.9	32.0	31.6
GDP	prediction	2.2	3.2	3.6	3.3	2.9	2.1
(real, annual perc. changes)	outturn	3.0	3.3	3.3	3.5	4.1	x
Output gap	prediction	-2.0	-2.0	-2.0	-1.7	-1.4	-0.9
(percentages of GDP)	outturn*	-1.7	-1.9	-2.3	-1.4	-1.0	-0.9

* estimate based on the CNB's October 2004 forecast

Given the combination of tighter monetary conditions in the key period (January 2003 – October 2003), lower external demand and reassessment of the exchange rate's effect on the output gap, the April output gap forecast was roughly fulfilled. The gap remained open during 2003 and did not start closing until 2004 (see Table II.4). Although the assumptions regarding the internal demand pressures (as proxied by the output gap) were fulfilled, the inflation outturn in September was lower than forecasted. Underlying this were smaller changes to regulated prices and indirect taxes, disinflationary developments abroad, a more appreciated exchange rate of the euro against the dollar, and the aforementioned change in view of the price rigidity of some items of the consumer basket.

The inflation forecast is the primary source material for the Bank Board's decisions. Also of key importance is an assessment of the possible risks associated with this forecast by the board members. At the Board's meetings during 2003 Q1 (see the relevant minutes) the risks were perceived as symmetrical to slightly inflationary. In 2003 Q2 they were seen as markedly anti-inflationary and in 2003 Q3 as roughly symmetrical. The Bank Board's overall anti-inflationary perception of the risks contributed to easier monetary policy and thus to the fulfilment of the inflation target in 2004 Q3.

III. INFLATION FACTORS

III.1 MONETARY DEVELOPMENTS

III.1.1 Money

Annual M2 growth slowed to 7.4% in May–August 2004. A similar trend was recorded by the annual rate of growth of M2[8] calculated according to ECB methodology, which declined by 1.2 percentage points to 8.5% in May–August. However, the short-term growth rate, expressed by the annualised increase in money for the last six months, stayed at a higher level in line with the expected upturn in economic growth.

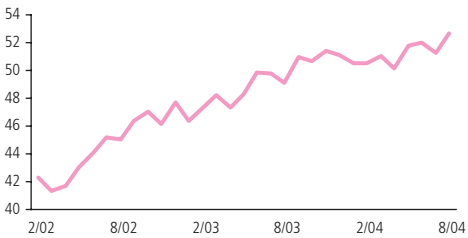
Within M2, the demand for highly liquid money, as expressed by the monetary aggregate M1, persisted in May–August 2004. After decreasing in June–July 2004, the annual rate of growth of M1 rose to 15.1% in August 2004. The share of M1 in M2 increased by 0.8 percentage point in the period under review to a two-year high of 52.6%. This reflected the easy real monetary conditions. In the case of overnight deposits of non-financial corporations, the increased demand for liquid money in August 2004 was in line with the investment recovery in 2004 Q1 and Q2. Annual growth in these deposits increased to 25.7% in August 2004. Conversely, for households it slackened in the period under review, reaching 12.9% in August 2004. The decline in the annual growth rate of currency in circulation was consistent with the lower rise in consumption expenditure in 2004 Q2.

Having previously risen this year, annual quasi money growth fell to zero in August 2004. This trend was affected by lower growth in deposits with agreed maturity, especially in the case of non-financial corporations. Growth in repos executed primarily between commercial banks and non-monetary financial institutions also slowed. Their high growth rate was affected by the low volumes of these transactions.

TABLE III.1
ANNUAL M2 GROWTH SLOWED, AMID PERSISTING DEMAND FOR LIQUID NARROW MONEY
(quarterly averages and end-of-month stocks, percentages)

	III/03	IV/03	I/04	II/04	7/04	8/04	Outstanding amount as a percentage of M2 8/04
M1	15.6	14.4	14.7	15.6	11.2	15.1	52.6
Currency in circulation	15.0	12.8	10.7	8.9	7.9	7.1	12.7
Overnight deposits	15.8	15.0	16.0	18.1	12.4	17.9	39.9
M2-M1 (quasi money)	-3.3	-2.9	0.1	3.1	4.7	0.0	47.4
Deposits with agreed maturity	12.1	0.0	2.0	4.7	5.1	-0.3	37.0
Dep. bills of exch. and other bonds	8.1	6.8	38.5	47.7	32.2	32.1	6.5
Deposits redeemable at notice	-33.7	-10.0	-5.0	-3.5	-2.0	-1.3	9.8
Repurchase agreements	-49.8	-36.5	-19.3	95.6	137.9	83.0	0.6
M2	5.3	5.2	7.0	9.2	8.0	7.4	100.0

CHART III.1
THE SHARE OF M1 IN M2 REACHED A TWO-YEAR HIGH
(percentages)



III.1.2 Credit

Growth in loans to corporations and households slackened by 1.3 percentage points to 11%[9] in May–August 2004 after having increased in the early part of this year. This fall manifested itself chiefly in households. Conversely, loans to non-financial corporations continued to recover. Their annual growth rose by 0.4 percentage point to 4.1% in May–August 2004. Investment loans with a maturity of over one year increased. Turning to the sector structure of loans to non-financial corporations, loans to foreign-controlled corporations recorded annual growth for the first time in August 2004 (of 2.2%). The rate of growth of loans to domestic corporations was 5.1% in August 2004.

In May–August 2004, the gradual recovery in loans to non-financial corporations continued to be supported by the narrow spread between the interest rate on loans to non-financial corporations and the 1Y PRIBOR. The interest rate spread represents the risk premium in any given phase of the business cycle. Its declining level since around mid-2003 is consistent with the improved financial condition of non-financial corporations and hence lower credit risk. However, expectations of economic and investment growth should foster a gradual widening of the spread. This trend might be counteracted by banks' willingness to accept a higher level of risk.

CHART III.2
THE ANNUAL GROWTH RATE OF LOANS STOPPED ACCELERATING
(percentages)

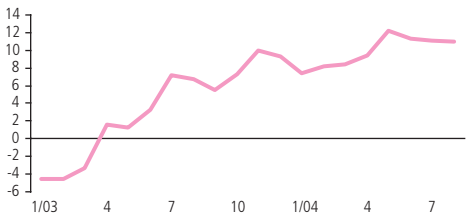


TABLE III.2
THE GRADUAL UPTURN IN LOANS TO NON-FINANCIAL CORPORATIONS CONTINUED
(percentages)

	III/03	IV/03	I/04	II/04	7/04	8/04
Loans to non-financial corporations	-4.5	-1.0	-1.0	3.0	3.6	4.1
Loans up to 1 year	-6.3	-4.4	2.4	1.1	-0.5	-2.6
Loans over 1 year and up to 5 years	-9.0	-1.4	-2.9	4.0	6.6	14.1
Loans over 5 years	1.3	3.9	-3.8	4.5	6.6	5.6

8 The annual rate of growth of M2 calculated according to ECB methodology from monthly financial transaction flows (i.e. differences between stocks of the monetary aggregate) adjusted for revaluations, exchange rate movements and other effects fell from 9.7% in May 2004 to 8.5% in August 2004. The annual growth rate for the month is the product of the 12 coefficients of the previous months. This growth rate is used for monetary analyses at the ECB in order to ensure better comparability across individual periods.

9 The annual growth rate of loans calculated according to ECB methodology fell from 13.9% in May 2004 to 13.1% in August 2004.

Chart III.3
THE SPREAD BETWEEN THE INTEREST RATE ON LOANS TO NON-FINANCIAL CORPORATIONS AND THE 1Y PRIBOR REMAINED AT A LOWER LEVEL AND SUPPORTED THE GROWTH IN LOANS
(percentage points)

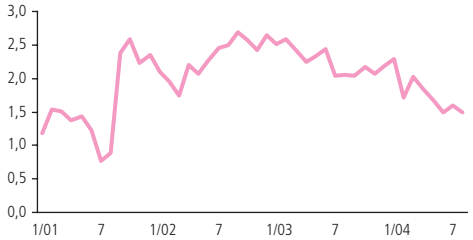


Chart III.4
THE ANNUAL RATE OF GROWTH OF HOUSING LOANS STABILISED
(percentages)

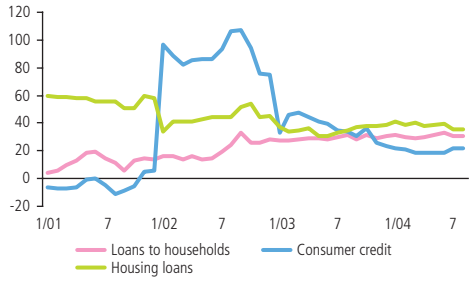
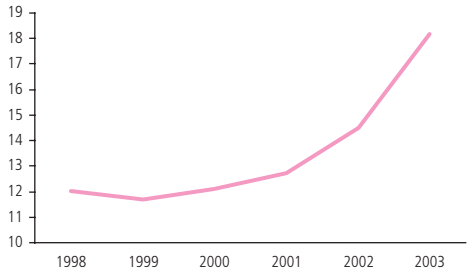


Chart 1 (Box)
THE RATIO OF HOUSEHOLD DEBT TO DISPOSABLE INCOME HAS INCREASED
(percentages)



The share of bank loans and other financial borrowings in the external funds of corporations rose from 28% in 2003 to 28.5% in 2004 Q1. This rise was reflected in growth in the share of external funds in the total liabilities of non-financial corporations, from 48% in 2003 to 48.5% in 2004 H1. Conversely, the share of equity in the total liabilities of corporations fell from 52% in 2003 to 51.5% in 2004 H1.

The annual rate of growth of loans to households eased by 1 percentage point to 30.6% in May–August 2004. The absolute growth in these loans, however, remained at the high level of CZK 18.4 billion in the period under review (with mortgages accounting for CZK 11.1 billion of this figure). The increase in the period since the beginning of the year was CZK 40 billion (of which mortgages accounted for CZK 26.6 billion), up slightly on the same period a year earlier. This reflected the easy real monetary conditions and an increased supply of loans from banks.

Annual growth in housing loans has stabilised this year and stood at 35.5% in August 2004. This manifested itself both in building society loans and in mortgages. The slowing annual rate of growth of housing loans may reflect, among other things, a stagnation of residential property prices following the Czech Republic's entry into the EU. The average interest rate on new housing loans rose by 0.1 percentage point to 5.2% in May–August 2004. However, it remains at a low level. New loans with an initial rate fixation of over one and up to five years recorded the largest interest rate increase (by 0.4 percentage point to 5.1%). The rate on loans with up to one-year initial rate fixation conversely fell by 0.6 percentage point to 4.7%. This decline chiefly reflected a better supply of mortgage loans from banks. The share of new housing loans in total new loans dropped by 4.7 percentage points in May–August 2004, to 29.3%.

By contrast, growth in consumer loans rose slightly in May–August 2004 to 21.6%. However, it was lower than in the same period a year earlier, in line with the lower consumption in 2004 Q1 and Q2. The growth in consumer loans in May–August 2004 manifested itself chiefly in a rise of 5 percentage points in the share of new bank overdrafts and similar facilities in new loans to households, to 56.6% in August 2004. The interest rate on new bank overdrafts meanwhile rose by 0.4 percentage point to 14.8% in August 2004. Overdrafts helped to finance households' consumption expenditure. Such loans tend to be requested by lower-income households as a result of sudden fluctuations in their current income.

BOX
Indicators of households' financial situation

Loans are households' most important financial liabilities and significantly affect their financial position. A deterioration in households' financial position can negatively affect consumption in the future. Indicators of households' financial situation are routinely used for such analyses. The key indicators include households' ratio of debt and interest expenses to gross disposable income and their ratio of debt to financial and non-financial assets.

The ratio of household debt[10] to gross disposable income has increased over the past three years, from 12.1% in 2000 to 18.2% in 2003. Housing loans have recorded particularly strong growth. An increase in this indicator accompanied by monetary

10 Household debt includes loans from monetary and non-monetary financial institutions.

fluctuations, i.e. higher-than-expected interest rate growth, a decline in disposable income or a rise in unemployment, could reduce households' ability to repay loans from current disposable income and hence reduce consumption in the period ahead.[11] By international comparison[12] the ratio of households' debt to disposable income in the Czech Republic is currently lower than in the EU (75%) and Hungary (28.2%).

Conversely, a lower ratio of interest expenses to disposable income might in the longer run reduce households' financial vulnerability and affect growth in future consumption. This usually constitutes a close linkage between households' debt burden and the consumption forecast. In the economic literature, the effect of monetary policy on the indebtedness ratio is closely connected with households' demand for residential properties and consumer durables, despite the generally weak linkage between monetary policy and the long-term real interest rate. In the past three years, the ratio of interest expenses to disposable income has stayed at the long-term average of 1.8%, thanks mainly to the low level of interest rates. In Hungary in 2003 this ratio was higher (3%–4%).[13]

The high rate of growth of loans has in the longer run resulted in growing financial liabilities and a deteriorating financial balance of households. Moreover, the growth in household indebtedness has not been accompanied by corresponding formation of financial assets in the form of savings. This is reflected in a rising ratio of household debt to financial assets, from 9.5% in 2000 to 13.8% in 2003 and 15% in June 2004. The analogous ratio in the EU was approximately 28.7% and that in Hungary 22.2%. The formation of financial assets, and in particular the liquid components thereof in the form of cash and bank deposits, is significant as regards repaying loans during periods of financial hardship and hence as regards ensuring smooth consumption financing going forward.

The ratio of households' debt to total wealth, comprising both financial and non-financial assets, has stayed at approximately 5%. This also reflects growth in prices of residential properties affecting the value of new loans and non-financial assets. As regards the implication for the consumption forecast, collateral value is of importance. Any reduction in this value could negatively affect the wealth and consumption of some households in the period ahead.

The indicators of households' financial situation indicate that the growing debt has been accompanied in the longer term by growing costs in the form of repayments of loan principal and low formation of liquid financial assets. This has passed through into a deterioration of households' liquidity situation, which could, given an increase in the fixed mortgage interest rate, have implications for the consumption of some households going forward. Nevertheless, expectations of economic growth accompanied by stable growth in disposable income and easy real monetary conditions should help to ensure the financial stability of households and the fulfilment of the consumption forecast.

Chart 2 (Box)
THE RATIO OF INTEREST EXPENSES TO DISPOSABLE INCOME REACHED ITS LONG-TERM AVERAGE IN 2004 Q2
(percentages)

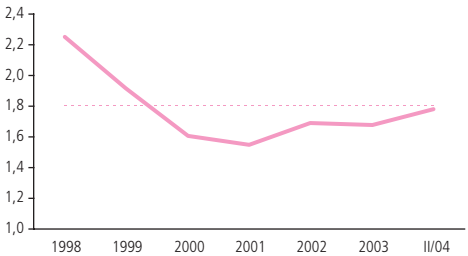


Chart 3 (Box)
THE HOUSEHOLD DEBT-FINANCIAL ASSETS RATIO INCREASED
(percentages)

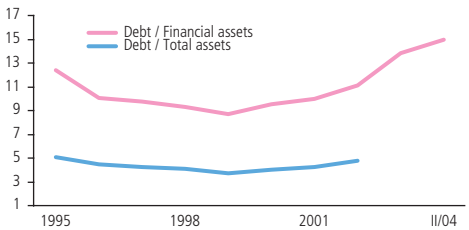
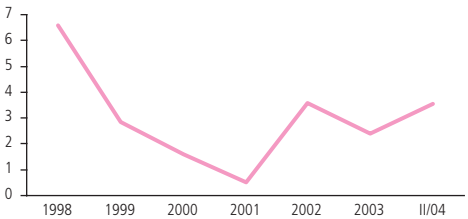


Chart 4 (Box)
THE FINANCIAL BALANCE OF HOUSEHOLDS HAS BEEN DETERIORATING OVER THE LONGER RUN
(net financial assets as a percentage of gross disposable income, percentages)



11 Also significant as regards consumption is the change in the debt/income ratio with regard to the age and income structure of households. The life cycle theory suggests that younger people with lower income will have larger debts in relation to future income and hence will be more vulnerable during sudden monetary fluctuations. Conversely, older households have a lower rate of growth of indebtedness and thanks to their financial reserves are considered less vulnerable.

12 The figures for the euro area average are for 2002 and those for Hungary, with its comparable economic level, are for 2003. The data are taken from the Hungarian central bank's *Report on Financial Stability* for 2003.

13 No analogous indicator is available for the EU average.

III.2 DEVELOPMENTS ON THE FINANCIAL MARKETS

III.2.1 Interest rates

Chart III.5
THE CNB RAISED KEY INTEREST RATES
(percentages)

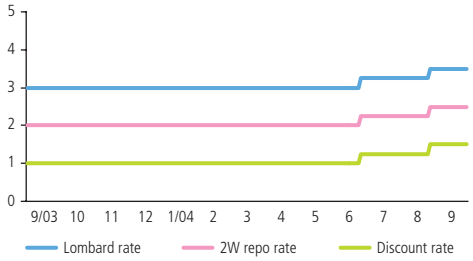


Chart III.6
A RISE IN INTEREST RATES WAS ONLY APPARENT AT SHORTER MATURITIES
(percentages)

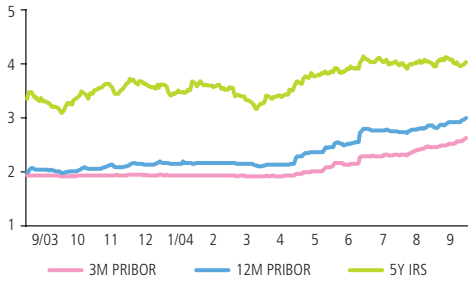
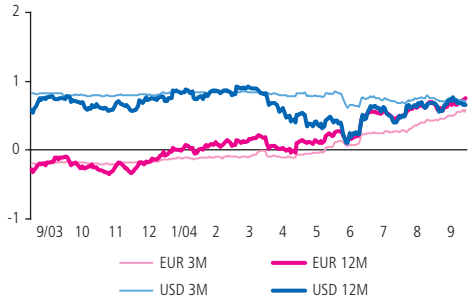


Chart III.7
THE INTEREST RATE DIFFERENTIAL VIS-À-VIS THE EURO INCREASED
(percentage points)



Interest rates varied in 2004 Q3 depending on maturity. Money market rates were greatly affected by changes to the CNB's key rates. A gradual increase in these rates had already been implied by the macroeconomic forecast at the end of April. The first tightening of monetary policy by the CNB took place at the end of June, this being followed by another in August; in each case the rates were raised by 0.25 percentage point. With effect from 27 August 2004, the 2W repo rate was increased to 2.5%, the Lombard rate to 3.5% and the discount rate to 1.5%. In addition to these changes the rates were affected by some other factors, in particular the publication of macroeconomic indicators. Most of these (for example data on GDP and industrial output) confirmed that the Czech economy was growing faster than expected by financial market participants. The high industrial producer price inflation was rather surprising as well. The market was also partly affected by uncertainty regarding the formation of the new government and the risk that the reforms already declared in the fiscal area would be put on hold. PRIBOR spot quotations and FRA forward quotations at the end of September indicated a continuing gradual rise in interest rates going forward. Rates with longer maturities were affected more by developments on foreign financial markets. The latter were worried about a potentially slower economic recovery due to rising prices of oil and other raw materials. Moreover, heightened geo-political risks were still present. For these reasons, medium-term and long-term rates were mostly flat.

The PRIBOR yield curve gradually shifted to a higher level, doing so at approximately the same pace at all maturities. Its positive slope hence remained almost unchanged. The spread between the 1Y PRIBOR and the 2W PRIBOR was 0.6 percentage point in September. The IRS yield curve also moved to a higher level, although only at its short end. At the medium and longer ends of the curve the movements were minimal. The average 5Y-1Y spread was 1.15 percentage points and the 10Y-1Y spread 1.7 percentage points in September.

The interest rate differential (PRIBID/CZK-LIBOR/EUR,USD) was affected by interest rate developments both abroad and on the domestic interbank market. Key rates in the two most important economies developed differently. The repo rate in the euro area remained at 2.0%, while the O/N rate in the USA was raised in three steps to 1.75%. Money market rates in the individual countries reflected these adjustments. The interest rate differential vis-à-vis dollar rates remained almost unchanged, while that vis-à-vis euro rates widened.

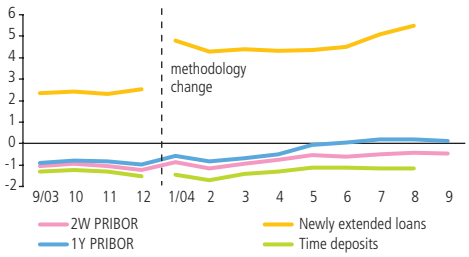
Six auctions were held on the primary government bond market, with original maturities ranging from 3Y to 15Y and a total volume of CZK 30.1 billion. All auctions met with sufficient interest. In one auction, however, the Ministry of Finance decreased the original supply, citing a high demanded yield. Standard & Poor's downgraded the Czech Republic's long-term koruna sovereign credit rating from A+ to A owing to the nation's worsening public finance position. This is likely to make financing the national debt even more expensive. Moody's and Fitch left their ratings unchanged for the time being, despite doubts regarding the willingness to adopt austerity measures in the fiscal area.

On the mortgage bond market, securities amounting to CZK 0.9 billion were issued. Issuing activity also continued on the primary koruna eurobond market, where the outstanding volume at the end of September 2004 was CZK 146.8 billion.

The gradual rise in interest rates on the financial markets also fed through into client interest rates.[14] Nominal rates on new loans increased to 6.0% and rates on new time deposits to 1.6%.

Real interest rates[15] were affected not only by the level of nominal rates, but also by movements in price indices. Expected consumer price indices are traditionally higher than expected industrial producer price indices. This fact is reflected in the levels of the individual real interest rates. Real rates on new loans were 5.5% in August, while real rates on time deposits were -1.1%.

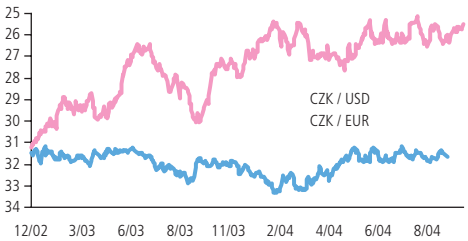
CHART III.8
EX ANTE REAL INTEREST RATES TENDED TO RISE
(percentages)



III.2.2 The exchange rate

The average exchange rate of the koruna against the euro in 2004 Q3 was CZK 31.59/EUR, which represents a year-on-year appreciation of almost 2%. This was the first time the koruna had firmed against the euro year on year in six quarters. This reversal in trend was generated above all by the koruna's appreciation during Q2 and initiated by the publication of the April inflation forecast with a relatively strong rise in interest rates. The year-on-year appreciation of the koruna was also due to an increased supply of foreign exchange on the market resulting from a change in the portfolio investment trend and, to a lesser extent, from renewed borrowing by the business sector. In addition, the exchange rate expectations were positively affected by a year-on-year fall in the trade deficit.

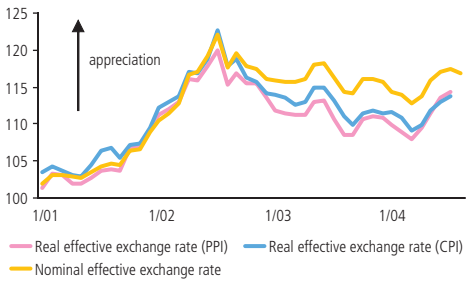
CHART III.9
THE KORUNA'S EXCHANGE RATE AGAINST THE EURO WAS STABLE IN 2004 Q3



The koruna-euro exchange rate was quite stable in Q3. As a rule, the deviations did not exceed 1%. The first half of July, when the exchange rate was affected for a time by political factors, was something of an exception. The modest fluctuations in the koruna-euro rate during the quarter were due chiefly to trade balance figures and information on growing transfers of non-residents' foreign direct investment earnings.

The average exchange rate of the koruna against the dollar in 2004 Q3 was CZK 25.86/USD, a year-on-year appreciation of almost 10%. This strengthening against the dollar was due primarily to the dollar's depreciation on world markets in 2003 H2 and to a lesser extent to the koruna's appreciation during 2004 Q2. The koruna-dollar exchange rate was stable in Q3 thanks both to the dollar's stability on world markets and to the relatively stable koruna. The koruna was rather more volatile against the dollar than against the euro.

CHART III.10
THE NOMINAL EFFECTIVE EXCHANGE RATE SLIGHTLY APPRECIATED YEAR ON YEAR IN 2004 Q3
(Year 2000 = 100)



The nominal effective exchange rate of the koruna appreciated by almost 2% year on year in Q3 owing to the koruna's appreciation against the euro and particularly against the dollar. The modest year-on-year depreciation of the real effective exchange rate (deflated by both the CPI and the PPI) continued in January–July. This tendency primarily reflected lower inflation in the Czech Republic than abroad.

14 Client interest rates underwent a change in methodology at the beginning of 2004. Newly drawn credits were replaced by newly extended loans, the reference date for which is the date of conclusion of the loan agreement. This better reflects the demand for loans at any given interest rate. This approach is in line with ECB methodology.

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

Table III.3
THE FINANCIAL ACCOUNT SURPLUS FELL FURTHER YEAR ON YEAR IN 2004 H1
(CZK billions)

	2001 H1	2002 H1	2003 H1	2004 H1
Financial account	83.6	235.6	53.7	42.0
Direct investment	112.3	194.8	53.3	58.1
- Czech abroad	-2.9	-2.8	-0.1	-1.8
- Foreign in Czech Republic	115.2	197.6	53.4	59.9
Portfolio investment	18.8	10.7	-41.0	64.1
- Czech abroad	-5.2	-19.3	-54.4	-18.1
- Foreign in Czech Republic	24.0	30.0	13.4	82.2
Financial derivatives	1.2	-4.1	2.9	3.9
Other investment	-48.7	34.2	38.5	-84.1
1. Long-term investment	-8.9	22.6	11.3	10.9
- Credit granted abroad	-1.8	21.9	15.0	2.0
- Credit accepted from abroad	-7.1	0.7	-3.7	8.9
2. Short-term investment	-39.8	11.6	27.2	-95.0

Chart III.11
GEOGRAPHICAL STRUCTURE OF FDI IN 2004 H1

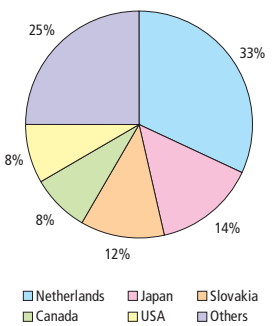


Chart III.12
THE NET INFLOW OF PORTFOLIO INVESTMENT GRADUALLY INCREASED

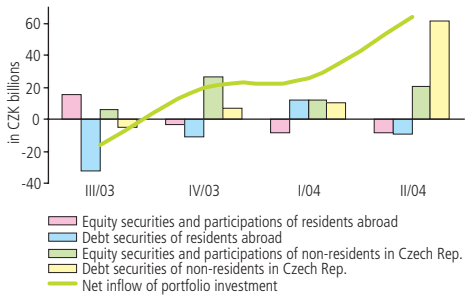
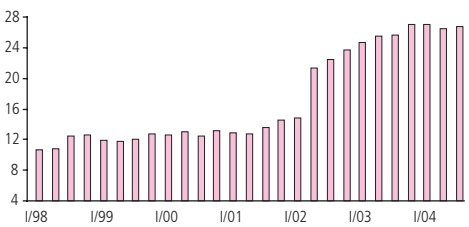


Chart III.13
THE INTERNATIONAL RESERVES WERE UNCHANGED IN DOLLAR TERMS IN 2004 Q3
(USD billions)



III.2.3 Capital flows

The financial account recorded a surplus of CZK 42.0 billion in 2004 H1, a fall of around one-fifth compared to the same period of 2003. The inflow of capital was mostly due to foreign portfolio investment, in particular investment in government bonds. Only in 1993 had portfolio investment previously been the largest component of the capital inflow. Foreign direct investment still played an important role. To a lesser extent, renewed borrowing by the business sector also contributed. The year-on-year narrowing of the financial account surplus was generated above all by extraordinarily high capital outflows through the banking sector, exceeding CZK 100 billion. These predominantly involved short-term koruna loans to non-residents and a reduction in foreign exchange liabilities of domestic banks abroad.

The net inflow of foreign investment amounted to CZK 58.1 billion, up by about 10% compared to the same period of 2003. This annual increase was due exclusively to a rise in reinvested earnings. The inflow of foreign capital was roughly the same as last year. FDI inflow (including reinvested earnings) amounted to CZK 59.9 billion. The capital inflow from abroad (CZK 21.6 billion) was channelled primarily into industry (about 40%), real estate (about 25%) and trade (about 25%). The biggest investors were the Netherlands, Japan, Slovakia, Canada and the USA. The outflow of direct investment abroad remained negligible at CZK 1.8 billion, despite rising year on year.

The net inflow of portfolio investment in the first half of 2004 was CZK 64.1 billion, contrasting with the outflow of over CZK 40 billion recorded in the same period of 2003. This highest-ever portfolio investment surplus resulted from a sizeable fall in residents' interest in investing abroad, a rise in non-residents' interest in domestic shares and, in particular, from the first government bond issue on foreign markets. Portfolio investment by residents on foreign markets reached CZK 18.1 billion, representing an annual reduction in outflow to about one-third. Interest in shares and bonds was roughly equal. The inflow of portfolio investment from abroad amounted to a record CZK 82.2 billion, more than six times the inflow in the same period of 2003. Interest in bonds substantially exceeded that in shares, but the entire annual growth in investment in bonds was due exclusively to a government bond issue worth EUR 1.5 billion on foreign markets. Non-residents' holdings of domestic shares increased by CZK 20.7 billion in 2004 H1, the largest inflow of capital into shares since 1998.

Financial derivatives transactions generated a CZK 3.9 billion rise in the financial account surplus.

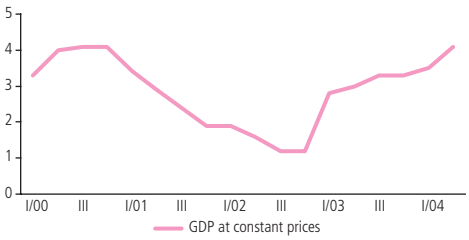
In the area of other investment there was a net outflow of CZK 84.1 billion, generated exclusively by bank transactions. The net outflow of capital through the banking sector amounted to CZK 108.0 billion (of which short-term capital outflow was CZK 109.5 billion). About two-thirds of the short-term capital outflow was attributable to a decline in foreign exchange liabilities of the banking sector and about one-third to a rise in short-term koruna assets vis-à-vis non-residents. The rise in koruna assets may have been associated with the government bond issue abroad and with the financing of domestic share purchases by non-residents. The government sector recorded a net inflow of other capital of CZK 5.3 billion, associated mainly with the de-blocking of long-term assets in Russia and the drawdown of an EIB loan for the construction of the Plzeň (Pilsen) bypass. The business sector saw a net capital inflow of CZK 16.1 billion. The renewed net inflow of other capital into the corporate sector is mainly associated with a rise in businesses' short-term import liabilities and also with a long-term loan drawn by power company ČEZ for planned foreign acquisitions.

In 2004 Q3, international reserves were affected only by valuation changes. On the basis of a decision made by the Bank Board in April, the CNB continued to sell off the income on these reserves (about CZK 5.8 billion). The reserves decreased by CZK 9.4 billion to CZK 682.5 billion in 2004 Q3. In dollar terms, they remained almost unchanged (at USD 26.8 billion).

III.3 DEMAND AND OUTPUT

According to the CZSO's latest revised estimates, the trend of gradually accelerating economic growth in the Czech Republic, visible since the start of 2003, continued into 2004 Q2. At 4.1%, annual GDP growth was 0.6 percentage points higher than in 2004 Q1. Actual economic output further approached the potential output level; according to the CNB's estimates the output gap was only slightly negative.[16]

CHART III.14
THE GRADUAL PICK-UP IN ECONOMIC GROWTH CONTINUED INTO 2004 Q2
(annual percentage changes)



BOX
GDP data revision

The assessment of gross domestic product (GDP) in 2004 Q1 and Q2 in this and the previous Inflation Report is based on newly adjusted time series of the GDP component indicators. The revised quarterly national accounts figures have been calculated using a new methodology meeting the requirements of the European System of Accounts (ESA 95). The overall revision of the national accounts data at both constant and current prices for the period 1990–2003 should be completed in 2005.

The revision involves a number of methodological changes modifying the previously published GDP data. These changes include a revision of the estimate of GDP formation, the inclusion of public sector fixed capital consumption under services (i.e. government consumption), a change in the imputed rentals methodology, a revision of the estimate of wages and salaries in kind, a revision of the calculation of insurance services and a revision of the estimate of household consumption. Also of great importance was a change to a new method of converting data from current prices to constant prices. In contrast to the former "base" method, i.e. the conversion of time series to the prices of a base year, a new method is now applied whereby the indicators are first converted to average prices of the previous year and only then into base year prices using chained year-on-year implicit deflators ("chain indices"). With this method, however, the aggregated variables no longer equal the sum of their individual components. In the case of GDP this means that total GDP at constant prices does not equal the sum of its expenditure components. The new method should better express the changes ongoing in the structure of the Czech economy. Chart 1 (Box), showing this indicator's development under both the former and new methodology, gives an idea of how the ESA methodology affects the past GDP profile at constant prices.

The comparison of year-on-year GDP growth under the former and new methodologies shows that the introduction of the ESA methodology has generated no fundamental changes in the past GDP profile. Table 1 (Box) provides a better picture of the effect of the methodological changes on GDP on the demand side specifically in 2003. The overview of real GDP in 2003 under the former and new

CHART 1 (BOX)
THE VIEW REGARDING THE COURSE OF THE CYCLE WAS ESSENTIALLY UNCHANGED BY THE REVISION TO THE GDP DATA
(annual percentage changes, constant prices)

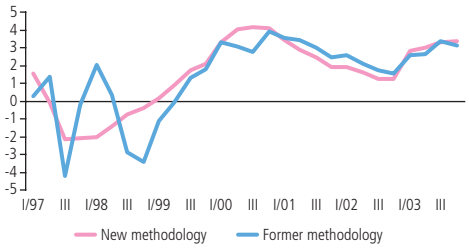


TABLE 1 (BOX)
THE ESTIMATE OF HOUSEHOLD CONSUMPTION GROWTH WAS REDUCED BY THE REVISION, WHEREAS THE OPPOSITE APPLIED TO INVESTMENT AND GOVERNMENT CONSUMPTION
(annual percentage changes, percentage points)

	Former methodology	New methodology	Difference in perc. points
GDP at purchasers' prices	2.9	3.1	0.2
Final consumption expenditure	4.1	4.1	0.0
Households	5.5	4.9	-0.6
Government	0.0	2.2	2.2
Non-profit institutions serving households	2.4	3.2	0.8
Gross capital formation	4.1	5.7	1.6
Gross fixed capital formation	3.7	7.4	3.7
Changes in inventories	x	x	x
External balance of goods and services	x	x	x
Exports	6.7	5.7	-1.0
Imports	7.6	7.9	0.3

16 For details see the box *Use of the output gap indicator at the CNB* in the October 2003 Inflation Report,.

methodologies shows that the biggest changes occurred in the categories of gross fixed capital formation and government final consumption expenditure. Overall, changes in structure prevailed; the revision of 0.2 percentage point to the total GDP growth rate in 2003 was insignificant.

The main factors underlying the further pick-up in Czech economic growth were a continuing external demand recovery – creating more favourable conditions for Czech exports – and an easing of the exchange rate component of the monetary conditions. The rising exports and improving external demand prospects in turn had a favourable effect on investment decision-making. FDI inflow and some other factors (expectations of tax changes etc.) fostered an increase in total investment. In 2004 Q2, rapidly growing investment demand was again the fastest-growing component on the domestic demand side. By contrast, household consumption growth slowed, but its contribution to GDP growth remained significant. Neither government expenditure on final consumption nor the external sector supported GDP growth in Q2. The substantial acceleration of export growth amid higher domestic demand and a high import propensity in the Czech Republic was accompanied by rapid growth in imports. The net contribution of foreign trade transactions thus remained negative in 2004 Q2.[17]

Table III.4
THE CONTINUING ECONOMIC GROWTH RECOVERY ABROAD CREATED BETTER CONDITIONS FOR CZECH EXPORTS
(annual percentage changes; seasonally adjusted; source: Eurostat)

	Euro area		EU-15	
	I/04	II/04	I/04	II/04
Gross domestic product	1.4	2.0	1.7	2.3
Final consumption expenditure of households and non-profit institutions	1.0	1.2	1.4	1.6
Government final consumption expenditure	1.7	1.8	2.1	2.1
Gross fixed capital formation	0.7	1.0	1.4	2.1
Domestic demand	1.1	1.6	1.6	2.1
Exports of goods and services	3.8	7.8	3.2	7.3
Imports of goods and services	3.4	6.9	3.0	6.9

The favourable Czech export trend was underpinned mainly by the continuing economic recovery recorded by the Czech Republic's major trading partners – the EU/euro area countries and some transition economies (see Table III.4). GDP growth was quite strong in some Central European countries that are trading partners of the Czech Republic – 5.4% in Slovakia, 6.1% in Poland and 4.1% in Hungary in 2004 Q2.

III.3.1 Domestic demand

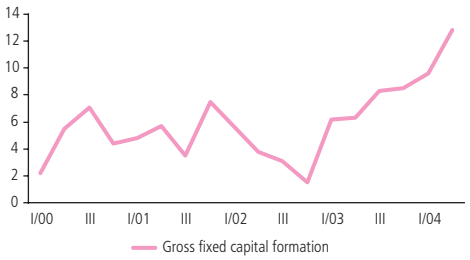
Domestic demand remained the primary factor of economic growth in 2004 Q2. Annual final domestic demand growth (excluding changes in inventories) rose to 5.4%. This was due to rapidly increasing investment demand, whose year-on-year growth further accelerated in Q2 to 12.8%. The contribution of household consumption decreased slightly in 2004 Q2, but was still an important component of final domestic demand growth (accounting for about one half). As in the early part of the year, government final consumption expenditure showed an annual decline. Aggregate domestic demand growth increased considerably (to 6% year on year) amid larger additions to inventories.

Table III.5
THE GDP GROWTH IN 2004 Q2 WAS SUPPORTED BY INVESTMENT AND CONSUMER DEMAND
(annual percentage changes, CZK billions)

	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
Gross domestic product	2.8	3.0	3.3	3.3	3.1	4.1
Aggregate demand (domestic demand and export)	4.4	5.0	5.7	5.9	5.3	13.4
Total domestic demand a)	3.9	5.3	4.2	5.0	4.6	6.0
Final domestic demand b)	5.0	5.2	5.3	4.8	5.1	5.4
of which:						
Household consumption	5.1	5.2	5.6	3.8	4.9	3.4
Government consumption	2.9	3.7	0.2	2.0	2.2	-1.1
Non-profit institutions serving households	5.5	3.3	2.5	1.6	3.2	17.4
Gross fixed capital formation	6.2	6.3	8.3	8.5	7.4	12.8
Imports of goods and services	7.8	5.5	7.4	8.7	9.5	24.7
Exports of goods and services	5.1	4.6	7.9	7.1	6.2	23.3
Net exports of goods and services (balance, CZK billions)	-33.5	-48.2	-56.5	-77.1	-215.3	-64.8

a) including changes in inventories; b) excluding changes in inventories

Chart III.15
THE UPWARD YEAR-ON-YEAR TREND IN INVESTMENT GROWTH CONTINUED INTO 2004 Q2
(percentages)



Investment demand

The strong investment demand recovery observed throughout 2003 continued into the first two quarters of 2004. According to the CZSO's preliminary figures, real gross fixed capital formation growth further accelerated in 2004 Q2 to 12.8%. According to revised time series from the start of 1995 the growth rate of investment demand thus reached a historical high. Since revised data on the structural developments in investment have not yet been published, the evaluation of trends in this area is based on partial indicators.

As regards sectors, investment by the household sector again seemed to grow relatively quickly. The continuing increase in households' investment activity was suggested above

17 Conversely, at current prices, owing to positive terms of trade, export growth exceeded import growth, which led in turn to an annual narrowing of the trade deficit.

all by a sizeable rise in housing completions (up by 25.7% year on year, the highest figure since 2002 Q2). The persisting recovery in investment activity in this sector was also confirmed by a substantial rise in housing starts. The hypothesis of a continuing favourable trend for household investment is also supported by the mortgage loan statistics, which show that annual growth in mortgages stabilised at a relatively high level in 2004 H1 (for details see section III.1 *Monetary developments*). Investment demand in this sector was probably still being strongly stimulated by expectations of changes in VAT on housing construction work in 2007, reflected in an increasing supply of new housing on the part of construction firms. Another factor stimulating the demand for housing investment was the still relatively low mortgage rates.

Relatively strong investment growth seems to have been achieved in the government sector, since the annual growth in state budget capital expenditure reached extraordinary values in 2004 H1 (45.5%). According to partial indicators, investment grew more slowly in the sector of non-financial organisations and corporations, which account for almost two-thirds of total investment. The assumption regarding this growth was supported by stronger growth in investment loans and increasing domestic production of capital goods and investment imports in Q2. The fastest growing investments were again those by foreign-controlled companies. This was reflected in buoyant investment growth in manufacturing.

Consumer demand

As expected, the rise in final consumption expenditure of households slowed by 0.6 percentage point in 2004 Q2 compared to Q1, to 3.4%. It was apparent from the structure of the sources of financing that the lower growth rate of consumption expenditure of households was primarily a reaction to slower growth in their wages and total incomes in 2004 Q2.

A fairly sizeable decline in growth of nominal income from wages and salaries in 2004 Q2 was recorded in both the business and non-business sectors. Their annual growth decreased by 3 percentage points from Q1, to 3.8%. The impact of this change on total household income was quite considerable, since wages and salaries are the main component of household income. Property income also showed lower growth and other transfers continued to fall in year-on-year terms. These effects were only partly offset by a rise in social benefits[18] resulting from the payment of "social compensation" in connection with the VAT changes. Thus, following a very modest increase of 1.3% in 2004 Q1, social benefits jumped by almost 10% (i.e. CZK 7.7 billion) in Q2.

Overall, annual growth in households' gross disposable income decreased to 5% in Q2. Amid 1.7% inflation[19], its real annual growth was even lower (3.3%), while households' real consumption expenditure in Q2 grew at almost the same rate. This suggested more moderate consumption behaviour by households following the unwinding of the extraordinary effects of 2003[20], when households' consumption expenditure growth exceeded that of disposable income throughout the year and gross

Chart III.16
ANNUAL HOUSEHOLD CONSUMPTION GROWTH SLOWED IN 2004 Q2
(percentages)

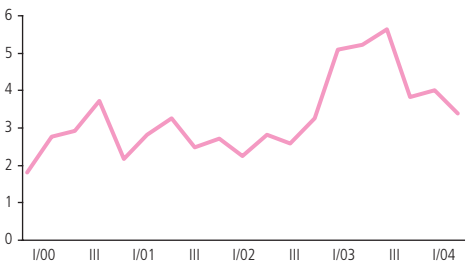
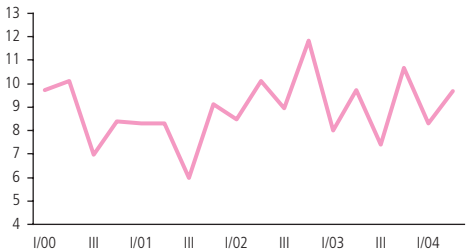


Chart III.17
THE GROSS SAVINGS RATE OF HOUSEHOLDS IN 2004 Q2 WAS FLAT IN YEAR-ON-YEAR COMPARISON
(percentages)



18 i.e. social benefits other than social transfers in kind

19 Measured by the household consumption deflator.

20 Households' higher propensity to consume in 2003 was greatly affected by the very low inflation and other factors – for details see the January 2004 Inflation Report.

Chart III.18
THE ANNUAL DECLINE IN GOVERNMENT FINAL CONSUMPTION EXPENDITURE EASED IN 2004 Q2
(percentages)

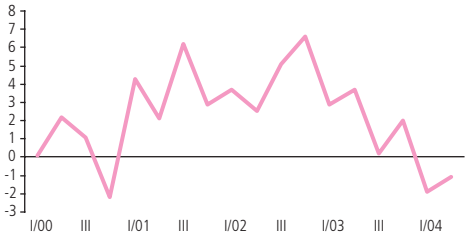


Chart III.19
TOTAL EXPORT AND IMPORT GROWTH ACCELERATED SHARPLY IN 2004 Q2
(annual percentage changes, constant prices)

Chart III.20
GOODS EXPORTS CONTINUED TO GO MOSTLY TO GERMANY AND OTHER EU COUNTRIES
(percentages, 2004 Q2)

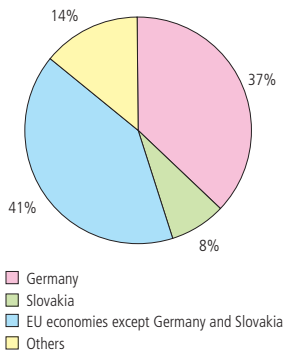
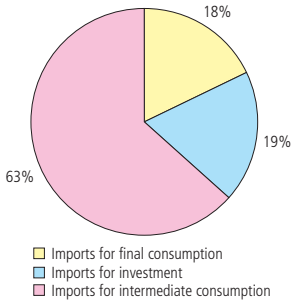


Chart III.21
IMPORTS FOR INTERMEDIATE CONSUMPTION MAINTAINED THEIR LARGEST SHARE IN THE IMPORT STRUCTURE
(percentages, 2004 Q2)



savings recorded a year-on-year decline. The stabilisation of households' consumption behaviour in 2004 H1 was confirmed not only by resumed annual growth in gross savings, but also by a year-on-year stagnation of consumer credit growth by comparison with the end of 2004 Q1.

Government demand

Government final consumption expenditure decreased year on year in 2004 Q2. Compared to Q1, however, the decline moderated slightly to -1.1%. At current prices, government demand rose by about 2.3%.

The quarterly government demand assessment is based on data on the state budget performance. However, these data capture developments in the government sector as a whole in only a partial manner. The government consumption in 2004 Q2 is thought to reflect chiefly a decline in public employee wage expenditure (of almost 5% at current prices), due mainly to a reduction of the "thirteenth paycheque" from the previously planned level to 10% of basic pay. The decline was also fostered by lower expenditure on non-investment purchases for subsidised organisations compared to the previous year.

III.3.2 Net external demand

The continuing recovery of economic growth abroad helped to substantially improve the conditions for Czech exports. Nonetheless, net exports of goods and services at 1995 prices under new methodology in 2004 Q2 were just as unfavourable as in the previous quarters, mainly because the sizeable pick-up in export growth was accompanied by an almost equal upturn in import growth. In 2004 Q1 the annual growth rates of exports and imports had fluctuated around 10%, whereas in Q2 they shifted to levels roughly 14 percentage points higher.[21] This meant that import growth still exceeded export growth, the difference between the two merely decreasing slightly.[22] As a result, negative net exports increased year on year for the ninth consecutive quarter (by CZK 16.6 billion to CZK -64.8 billion).

As in 2004 Q1, the year-on-year deterioration in net exports was largely due to a widening of the trade deficit (by CZK 15.8 billion). The services deficit increased only slightly. The widening of the trade deficit primarily reflected continuing faster aggregate domestic demand growth and a related increase in goods imports. However, the high rate of growth of goods imports (26.2%) stemmed chiefly from imports for intermediate consumption linked with the stronger external demand recovery. Imports for intermediate consumption at current prices grew by 32.6%, taking their share of total goods imports to 63.3%. The continuing investment demand recovery helped to increase investment imports by 16.7%. Imports for final consumption grew faster (by 26.8%).

The sizeable pick-up in export growth was mainly due to the continuing external demand recovery recorded by the Czech Republic's major trading partners. Exports were also stimulated by the launching of new export-oriented production facilities and partly also by the Czech Republic's accession to the EU and the ensuing completion of liberalisation of trade with EU Member States. The growth in exports was also fostered by the continuing, although by now only moderate, depreciation of the koruna's

21 In 2004 Q1 total exports at constant prices had increased by 8.6% year on year and imports by 11.2%, whereas in 2004 Q2 exports rose by 23.3% and imports by 24.7%.

22 At current prices, however, export growth (28.3 %) outpaced import growth (26.7%) amid positive terms of trade.

weighted exchange rate. These factors were reflected in a sizeable year-on-year rise in goods exports to EU countries (of 28.4% at current prices). Exports to Germany grew even faster (by 29.6%). The growth rate of exports to Slovakia was very high as well (24.5%). As for the commodity structure of goods exports, the share of mechanical and electrical engineering commodities exceeded 60%, whereas the proportions of food, raw materials and semi-manufactures decreased.

III.3.3 Gross domestic product

According to the CZSO's estimates, the GDP developments on the supply side were again mixed, but branches with increasing value added prevailed. The evolution of gross value added was particularly favourable in industry, where there was annual real growth of 8.1%. The 4.1% GDP growth was also due in large part to construction, trade and transport. By contrast, in agriculture and some mostly non-market services (provided mostly by general government institutions) gross value added in 2004 Q2 fell short of that in the same period in 2003.

The faster growth in output and gross value added in industry was associated with continuing intensive structural changes, the opening of new production facilities by foreign investors (especially for vehicle component production), the ongoing world economic recovery and rising domestic investment demand. A rise in orders in the electrical engineering industry and a continuing boom on the iron and steel market were particularly important. Output in 2004 Q2 was also partly influenced by a higher number of working days (two days more than in 2003 Q2).

These factors had a particularly favourable impact on the manufacture of basic metals and fabricated metal products, where production rose by 27.6% in real terms in Q2. Very fast increases were also recorded in the production (IPI) of electrical and optical equipment and transport equipment. These and some other branches also contributed significantly to substantial year-on-year growth in real direct export sales (18.8% year on year), which accounted for almost one-half of total sales in industry. Exports were again secured mostly by foreign-controlled corporations, with almost three-quarters of their production being for export. By contrast, the effect of rising domestic investment demand was indicated by the structure of industrial production by use – production of investment products showed the fastest growth in Q2 (almost 20% year on year).

III.3.4 Performance of non-financial organisations and corporations [23]

The gradually strengthening economic growth, accompanied by the continuing external demand recovery, had a favourable effect on the financial results of large non-financial corporations in 2004 Q2. As in 2004 Q1, corporations' output grew at a rapid rate (over 10%), outpacing the rise in their expenses. The result was large annual growth in large corporations' pre-tax net operating surplus (i.e. pre-tax profit on core business) of 37.7% in 2004 Q2 and 32% in H1 as a whole. Net operating surplus in large industrial corporations grew particularly quickly, exceeding 40% in Q2.

These results were achieved amid generally favourable profitability indicators (profit-expenses ratio and profit-equity ratio). The overall and structural developments recorded for the material cost-output ratio and personnel cost-output ratio at the same time

Chart III.22
THE ROBUST ANNUAL GROWTH IN EXPORTS OF INDUSTRIAL PRODUCTS CONTINUED INTO 2004 Q2
(percentages; constant prices)

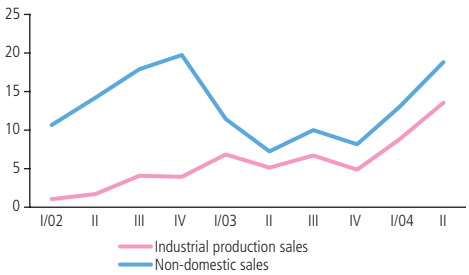


Chart III.23
EXPORTS OF INDUSTRIAL PRODUCTION WERE AGAIN CHIEFLY DUE TO FOREIGN-CONTROLLED COMPANIES
(shares in total industrial sales - domestic and external - at constant prices; 2004 Q2)

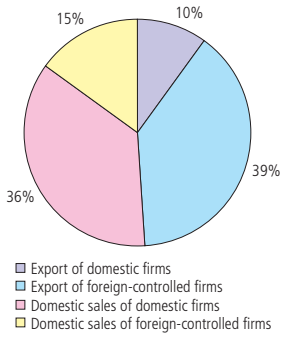


Table III.6
THE STRONG PROFIT GROWTH CONTINUED INTO 2004 Q2
(annual percentage changes)

	2004 Q2	
	Corporations, total	Industry
Income, total	11.6	14.5
Output, total	15.3	16.4
Expenses, total	11.0	14.3
of which: cost of sales	15.9	16.6
personnel costs [a]	6.3	5.0
depreciation	2.7	3.5
Book value added	13.6	16.6
Pre-tax profit	19.7	17.1
Net operating surplus	37.7	46.0

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

23 Assessment based on figures for non-financial organisations and corporations with 100 employees or more, all branches (hereinafter "large companies" which account for nearly 70% of total gross value added in the sector of non-financial corporations).

Table III.7
THE INCREASED MATERIAL COST-OUTPUT RATIO WAS PARTLY OFFSET BY A LOWER PERSONNEL COST-OUTPUT RATIO
(percentages; percentage points; CZK thousands)

	2004 Q2		Change in perc. points against 2003 Q2	
	Corporations, total	Industry	Corporations, total	Industry
Profit-expenses ratio	7.72	8.69	0.58	0.26
Profit-equity ratio	4.53	4.82	0.59	0.47
Profit-sales ratio	7.86	8.75	0.17	-0.06
Material cost-output ratio	73.81	74.56	4.25	1.21
Personnel cost-output ratio	15.29	11.75	-0.48	-1.10
Ratio of wage costs to value added	48.66	43.38	-3.14	-4.83
	CZK thousands per month		annual percentage changes	
Book value added per employee	52.83	58.34	13.78	18.19

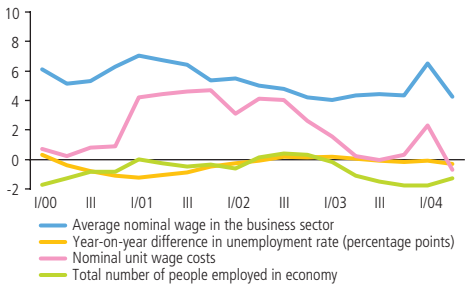
indicated that producers partly offset their increasing material costs by cutting wages per unit product. It was apparent that the increasing material cost-output ratio was associated with the continuing rise in prices of imported inputs. Only in some cases did market conditions or market position allow producers to react to the surge in input prices by raising the prices of their products. One example was basic metals and fabricated metal products, where sizeable annual growth in prices of imported metals was accompanied by a larger increase in producer prices and by very favourable financial results.

The continuing positive financial results translated into a reduction in the number of unprofitable corporations and corporations with negative equity. As regards ownership structure, output and value added continued to grow fastest in foreign-controlled corporations.

In aggregate, the financial performance of large non-financial corporations suggested a strengthening of their financial stability. This, coupled with the positive outlook for external demand, created favourable conditions for investment growth.

III.4 THE LABOUR MARKET

Chart III.24
THE DEVELOPMENTS ON THE LABOUR MARKET INDICATED A NARROWING OF THE GAP BETWEEN LABOUR SUPPLY AND DEMAND
(annual percentage changes and percentage point changes)



The developments on the labour market in 2004 Q2 and Q3 indicated a narrowing of the gap between the demand for, and supply of, labour. This process was fuelled mainly by gradual growth in the performance of the economy and continuing inflow of foreign direct investment. These factors fostered a slowdown in the decline of employment and a moderation of the annual growth of the registered unemployment rate. However, the problem of structural unemployment in terms of region and skills persisted and was reflected in long-term unemployment. Growth in average wages fell considerably in both the business and non-business sectors. Whole-economy labour productivity continued to rise quite sharply. The interaction of wage and productivity variables thus did not create upward risks for inflation – the annual growth of nominal unit labour costs fell slightly below zero. The decrease in the personnel cost-output ratio was confirmed above all by developments in nominal unit labour costs in industry and construction.

III.4.1 Employment and unemployment

Chart III.25
THE ANNUAL DECLINE IN EMPLOYMENT EASED IN 2004 Q2
(annual percentage changes)

A gradual weakening of negative trends on the labour market in 2004 H1 was suggested by most of the employment and unemployment indicators. The annual drop in employment (according to the LFS) did not deepen further at the beginning of 2004 and eased noticeably in Q2 (by 0.6 percentage point to -0.8%). Chart III.25 shows, however, that this favourable change was recorded only in the category of employees; the unfavourable trend persisting since 2003 continued among entrepreneurs.[24] The number of vacancies recorded a year-on-year increase in Q2. However, this was only modest and did not make a significant contribution towards reducing the unemployment rate.

The moderation of the disequilibrium on the labour market was fostered primarily by the gradually strengthening economic recovery in a climate of reviving external demand. Employment was also favourably affected by an increase in the supply of labour related to the realisation of foreign direct investment. At the same time, however, the labour market was still being affected by counteracting factors. These included above all the

24 i.e. entrepreneurs with employees, entrepreneurs without employees, and co-operating family members.

continuing rationalisation and restructuring of production activities amid strong competition. The deepening decline in the number of entrepreneurs was partly brought about by amendments to the tax legislation effective from the beginning of 2004. Labour market developments were also significantly affected by structural unemployment, reflecting skills and regional gaps between the supply of, and demand for, labour.

The aforementioned factors differed in their impact on employment in individual sectors. By comparison with the preceding quarter, the steepest drop in the annual employment decline in 2004 Q2 was recorded in manufacturing (-2.4%). Overall, there were still more sectors with decreasing employment. Employment rose modestly in some services sectors only.

The slowing decline in employment contributed significantly to a further easing of unemployment growth. The registered rate of unemployment remained relatively high, but its annual growth slowed in Q2 and Q3 (see Chart III.24). According to the latest data for September 2004, the unemployment rate at the end of Q3 was flat at 10.1% year on year. The newly published unemployment rate under EU harmonised methodology was lower, reaching 9.1% in September.[25] However, the unemployment structure indicated a persisting problem with long-term unemployment, connected mainly with structural unemployment. The latest LFS data for 2004 Q2 show that the number of the long-term unemployed (one year or more) increased to 217,600, exceeding one-half of all unemployed persons.

III.4.2 Wages and productivity

After a considerable upswing at the beginning of 2004, average nominal and real wage growth recorded a marked slowdown in 2004 Q2. The annual growth rate of nominal wages in the monitored organisations was 4.3%, the lowest figure in 10 years. Real average wage growth was even more sluggish (1.7%). Both the business and non-business sectors contributed to these developments.

Several factors lay behind the significant weakening of the annual growth of average nominal wages in the business sector by almost 3 percentage points (to 5.9%) compared to the previous quarter. Above all, the extraordinary factors that influenced wages at the beginning of 2004 (the payment of bonuses, an increase of one in the number of working days, the leap year effect, the absence of an influenza epidemic, etc.) unwound. Wages were also affected by persisting excess demand for labour. This brought wages nearer to the wage growth rate agreed in collective agreements for 2004.[26] Under these circumstances the wage growth rate in the business sector slowed to approximately last year's level. In the non-business sector, average wages even recorded an annual decline of 0.6% in Q2, the first such fall in more than five years. However, the causes of this considerable shift were different than in the business sector. At the beginning of 2004 there was a marked rise in wages in this sector, related to wage adjustments made in January 2004[27], whereas in Q2 wages dropped considerably owing to a reduction of the "thirteenth paycheque" to 10% of basic pay.

Chart III.26
THE RISE IN VACANCIES WAS NOT SIGNIFICANT AS YET IN YEAR-ON-YEAR COMPARISON
(seasonally adjusted numbers in thousands)

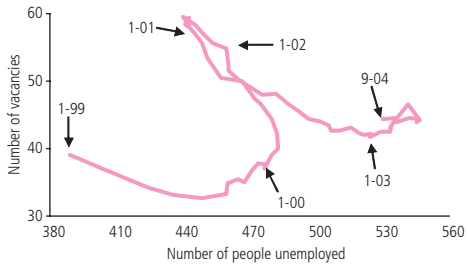


Chart III.27
THE UNEMPLOYMENT RATE WAS FLAT IN YEAR-ON-YEAR COMPARISON AT THE END OF 2004 Q3
(percentages; source: MLSA)

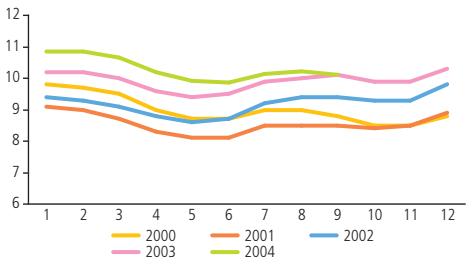
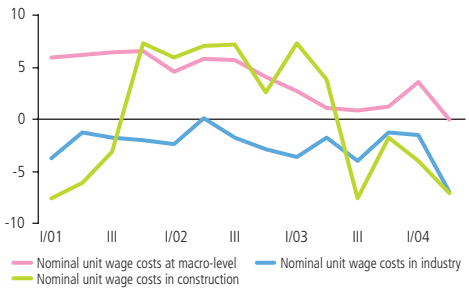


Table III.8
AVERAGE ANNUAL NOMINAL AND REAL WAGE GROWTH RECORDED A MARKED SLOWDOWN IN 2004 Q2
(annual percentage changes)

	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2003	2004 Q1	2004 Q2
Average wage in monitored organisations							
nominal	7.2	6.8	6.3	6.9	6.8	8.8	4.3
real	7.6	6.7	6.4	6.1	6.7	6.3	1.7
Average wage in business sector							
nominal	5.6	6.0	6.1	6.0	6.0	8.6	5.9
real	6.0	5.9	6.2	5.1	5.9	6.1	3.2
Average wage in non-business sector							
nominal	13.9	9.2	7.5	9.7	9.8	9.7	-0.6
real	14.4	9.1	7.6	8.8	9.7	7.2	-3.1
Whole-economy labour productivity	2.7	3.8	4.3	4.5	3.8	4.4	4.4
Nominal unit wage costs	2.6	1.0	0.7	1.1	1.3	3.4	-0.1

Chart III.28
THE PERSONNEL COST-OUTPUT RATIO AT THE MACRO-LEVEL FELL SHARPLY IN 2004 Q2
(annual percentage changes)



25 The difference between the numbers of unemployed persons under the two methodologies is due to the fact that under the new (Eurostat) methodology, only those applicants who can start a job immediately after receiving an offer are regarded as unemployed. This means that persons in custody, persons serving a prison term or persons on maternity leave etc. are excluded. Applicants from EEA countries are newly included. Under the new methodology the labour force includes foreigners.

26 The wage growth recommended by the Czech and Moravian Confederation of Trade Unions for 2004 was 6%.

27 A pay adjustment connected with the implementation of broadened wage scales.

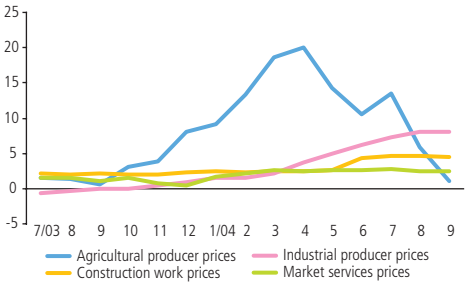
The interaction of wage and productivity variables, which is a determining factor for the potential build-up of inflationary pressures, signalled a marked improvement in 2004 Q2 by comparison with the preceding quarter. This was caused both by the evolution of wages themselves and by the continuing improvement in the performance of the economy.

The relatively fast growth in whole-economy productivity, which has been above 4% since mid-2003, was supported by the gradually strengthening growth of the economy. Falling unemployment (especially in the course of 2003) also contributed to the favourable trend. In Q2 alone, annual growth in whole-economy labour productivity reached 4.4%. Given a concurrent significant drop in the growth in the volume of wages and salaries in the economy (due to slower average wage growth), annual nominal unit labour cost growth fell slightly below zero in Q2. This trend was apparent in industry and construction. In these sectors, the considerable lead of labour productivity over growth in the average real wage resulted in a further fall in labour costs and an increase in producers' competitiveness on domestic and foreign markets. The decrease in nominal unit labour costs in both these sectors reached about 7% year on year.

III.5 OTHER COSTS AND PRODUCER PRICES

Other costs showed mixed developments in 2004 Q3, but on the whole they continued to indicate a build-up of inflationary cost pressures in the economy. The main source of these was the ongoing recovery in import price growth, which fed through into industrial producer prices with a lag. The further marked acceleration of industrial producer price inflation was related primarily to sharply rising prices of some imported fuels, raw materials and semi-manufactures (especially oil and metals). In most manufacturing sectors, however, producer prices continued to show modest growth or an annual decline. Growth in producer prices in the food industry recorded another marked increase in the first two months of Q3, but eased in September in connection with a significant slowdown in agricultural producer price inflation. Growth in prices of market services for the business sector remained slight. By contrast, construction work prices surged year on year at the end of 2004 Q2, and this trend continued into 2004 Q3.

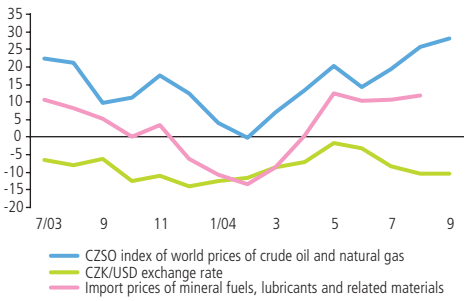
Chart III.29
ANNUAL INDUSTRIAL PRODUCER PRICE INFLATION ROSE FURTHER IN 2004 Q3, WHILE AGRICULTURAL PRODUCER PRICES GREW MORE SLOWLY
(percentages)



III.5.1 Import prices

Import prices are an important inflation factor in the Czech Republic, primarily due to the economy's high openness and, consequently, high import propensity. The continuing recovery in import prices in 2004 Q2 and the first two months of 2004 Q3 was still related to prices of raw materials and semi-manufactures on world markets. By contrast, the exchange rate of the koruna continued to dampen the impacts of foreign price growth on domestic prices. In general, annual growth in import prices has not changed much since the last Inflation Report. According to the latest data for August, it was 2.2%.

Chart III.30
THE IMPACTS OF THE FAST-RISING WORLD PRICES OF ENERGY-PRODUCING MATERIALS ON IMPORT PRICES CONTINUED TO BE CORRECTED BY THE KORUNA-DOLLAR EXCHANGE RATE
(annual percentage changes)



Growth of raw materials and food prices continued to pick up pace in 2004 Q3. The annual increase in the CZSO's index of world prices of food and raw materials, amounting to as much as 28.1% in September, was mainly due to a surge in annual growth in the prices of energy-producing raw materials (especially oil and – to a lesser extent – natural gas).[28] The relatively high growth in the prices of raw materials was aided by persisting high annual growth in metal prices (of around 30%). Counter to this

28 The weight of these commodities in the CZSO's index of world prices of raw materials is crucial; the constant weights are 37.29% for oil and 32.1% for natural gas.

ran the prices of other monitored raw materials and food, whose previously modest annual growth fell overall during 2004 Q3 (to -2.2% in September).

The buoyant growth in the world prices of raw materials and food was still not fully reflected in import prices. As in previous quarters, its impact was partly softened by the koruna-dollar nominal exchange rate, which again recorded annual appreciation at the end of Q2 and during Q3. This effect was particularly noticeable in prices of imported energy-producing raw materials, which are paid for in US dollars. The moderate appreciation of the koruna-euro exchange rate in 2004 Q3 also helped reduce the impact of growing foreign prices on import prices.

As in the preceding quarters, the still differential evolution of foreign prices and the koruna's exchange rate passed through with mixed intensity into individual import categories of the CZSO's import price index. According to the latest figures for August 2004, categories with growing prices predominated, while only the import prices of commodities with higher value added recorded further annual declines. As Table III.9 shows, import price growth was strongest in the category of raw materials and mineral fuels, which recorded growth rates of over 10% for the fourth consecutive month. Prices rose relatively fast (by more than 4%) in some other import categories as well. By comparison with the previous Inflation Report, however, there were no significant changes in the import price index structure, so the overall annual value of the index was little changed from May.

Table III.9
THE OVERALL AND STRUCTURAL EVOLUTION OF IMPORT PRICES RECORDED NO MAJOR CHANGES IN JULY AND AUGUST 2004 AGAINST THE END OF 2004 Q2
(annual percentage changes)

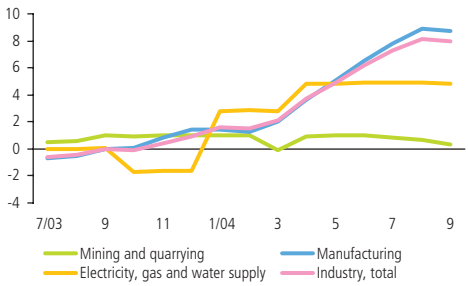
	3/04	4/04	5/04	6/04	7/04	8/04
Imports, total	0.6	1.6	2.7	2.4	2.5	2.2
Food and live animals	2.9	3.9	5.0	3.7	4.2	1.8
Beverages and tobacco	4.7	4.4	7.9	7.9	6.2	5.4
Crude materials except fuels	7.7	7.9	13.4	14.5	13.2	11.6
Mineral fuels and related products	-8.6	0.5	12.5	10.5	10.7	11.9
Animal and vegetable oils	2.8	2.6	3.9	3.9	6.3	4.5
Chemicals and related products	2.0	1.8	1.0	0.8	2.0	2.4
Manufactured goods classified by material	4.4	4.4	4.3	4.5	5.0	4.7
Machinery and transport equipment	-0.1	-0.2	-0.2	-0.7	-1.5	-2.1
Miscellaneous manufactured articles	0.2	-0.4	-0.7	-0.4	-0.1	-0.4

III.5.2 Producer prices

Industrial producer prices

As expected, industrial producer prices continued to accelerate in 2004 Q3. According to the latest data for September, industrial producer prices rose by 8% year on year, which is the highest figure in ten years. As in 2004 H1, the gradual pick-up in price growth in this sector was related to the price growth recovery ongoing in the overwhelming majority of import categories, especially raw materials and semi-manufactures. Also important was the rapid growth in the prices of food industry inputs.

Chart III.31
THE UPWARD TREND IN ANNUAL INDUSTRIAL PRODUCER PRICE INFLATION CONTINUED INTO 2004 Q3
(percentages)



Producer prices in oil-product-processing industries and producer prices in other sectors where input costs grew markedly owing to the high growth in metal prices on world markets contributed almost equally to the further pick-up in industrial producer price inflation in 2004 Q3. This influence was particularly visible in basic metals and fabricated metal products, where the gradual pick-up in price growth resulted in a year-on-year rise in prices of 28.3% in September. The rising oil price growth rate fostered a further rise in producer prices of coke and refined petroleum products, which reached extraordinary figures in 2004 Q3 (43.1% year on year in September). The high oil prices fed through with a lag into prices in the chemical and pharmaceutical industry.[29]

In the food industry, where inflation was affected at the end of 2003 and the beginning of 2004 by high input prices, the upward trend in year-on-year price growth continued until August (to 6%). The September figures indicated a change in trend, since the slowdown in producer price inflation in the food industry (to 4.9%) was connected

29 Annual producer price inflation in this sector rose from 4% in June to 12.6% in September.

Chart III.32
OIL- AND METAL-PROCESSING INDUSTRIES CONTRIBUTED MOST TO THE ANNUAL RISE IN INDUSTRIAL PRODUCER PRICES
(annual percentage changes, contributions in percentage points)

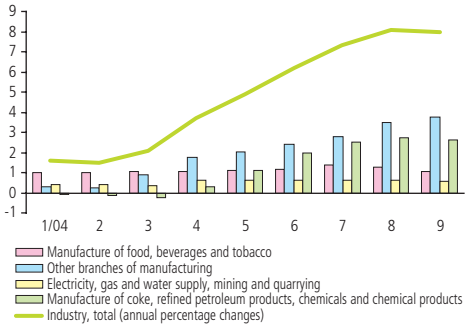
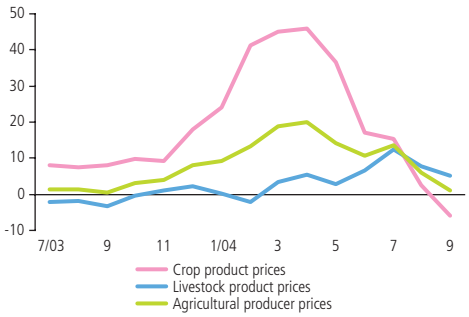


Chart III.33
THE SLOWDOWN IN ANNUAL GROWTH IN AGRICULTURAL PRODUCER PRICES IN 2004 Q3 WAS DUE MAINLY TO CROP PRODUCTS
(percentages)



with a marked weakening of agricultural producer price inflation during 2004 Q3. The contribution of prices in other industrial sectors[30] to overall price growth was almost unchanged from 2004 H1. Faster price growth was recorded above all in the electricity, gas and water supply industry, while prices in mining and quarrying rose only modestly.

Although industrial producer price inflation in Q2 and Q3 was the highest in ten years, the growth was not across the board in nature. It remained very mixed, with faster growth concentrated in just a few sectors with a relatively high share of input raw materials in the price of the final product. In sectors with a higher share of sophisticated products, the cost-push inflationary pressures resulting from the increase in external input prices have not so far affected producer prices very much. Some sectors even experienced increasing disinflationary tendencies during 2004 Q3.[31] Companies partly offset the adverse effects of the rising prices of imported inputs by reducing wage cost-output ratios. The still favourable terms of trade worked in the same direction.

Agricultural producer prices

Agricultural producer price inflation continued to slow, reaching a 2004 low in September (1% year on year) after a one-off deviation in July. The primary reason for this was a gradual decrease in the koruna prices of the majority of crop products due to the extraordinarily favourable harvest this year. A better-than-average harvest was achieved in particular for the most important item by weight – cereals. The increased supply of crop commodities on the agricultural market led in turn to a marked change in year-on-year growth in crop product prices. In June producer prices were still rising very fast (by 17%), whereas in September they recorded a year-on-year drop (of 5.9%).[32]

The prices of the higher-weight livestock products, however, continued to record year-on-year growth (to 5.1% in September) amid moderate excess supply on the domestic market. The lower supply of certain commodities on the domestic market was a consequence of two concurrent factors – a drop in production in 2004[33] and extended possibilities of exporting some commodities at higher prices after the Czech Republic's accession to the EU, which were utilised.

The impact of the considerable weakening of agricultural producer price inflation in 2004 Q3 on related price groups was already apparent at the end of that quarter. The slackening growth of producer prices in manufacturing and consumer prices of food suggested that the cost pressures on inflation in the segment of food products could be expected to unwind rapidly.

Other producer prices

At the end of 2004 Q2 the gradual strengthening of construction work price inflation switched to sharper annual growth, and in 2004 Q3 this growth accelerated further (to 4.5% in September).[34] This development was linked with rising demand for construction work and increasing prices of materials and products consumed in the construction

30 i.e. non-manufacturing sectors.

31 Manufacture of machinery and transport equipment, manufacture of electrical and optical equipment.

32 Year-on-year growth in crop product prices peaked in April 2004 at 45.9%.

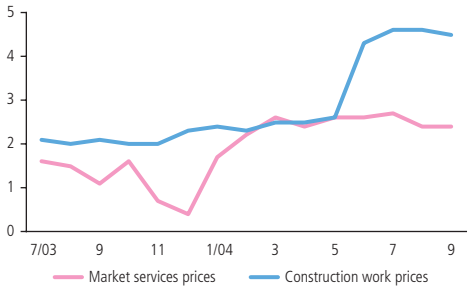
33 In August 2004, meat production in the Czech Republic declined by 6% year on year.

34 Excluding the effect of changes to indirect taxes.

industry (by 8.4% year on year in September). The main factor underlying the relatively fast growth in the prices of construction materials was probably a rise in metal prices on world markets, which passed through into the prices of steel and copper products used in construction (structures etc.). Rapidly rising oil prices also contributed to this year's higher construction work price inflation, and not only via fuel prices, but also through prices of other products made from oil.

By contrast, growth in prices of market services for the business sector in 2004 Q3 was broadly flat at the end-Q1 level (2.4% year on year in September). Within market services, the fastest growth was recorded in the categories of sewage collection charges, business services, real estate and rental activities, and financial intermediation. Prices in the other components of this price index rose only modestly or, in the case of communication services, continued to decline year on year. Overall, market services price inflation remained subdued in 2004 Q3 and did not pose a significant risk to consumer price inflation.

Chart III.34
ANNUAL CONSTRUCTION WORK PRICE INFLATION ROSE IN 2004 Q3
(percentages)



IV. THE MACROECONOMIC FORECAST AND ITS ASSUMPTIONS

IV.1 EXTERNAL ASSUMPTIONS OF THE FORECAST

Table IV.1
THE PRICE OF URAL CRUDE OIL WILL FALL STEADILY

	I/04	II/04	III/04	IV/04	I/05	II/05	III/05	IV/05
Ural crude oil prices (USD/barrel)	29.8	32.2	37.9	34.8	33.2	31.9	31.3	31.3
Natural gas prices (by import structure, USD/1000m³)	122.6	128.3	138.4	151.3	156.7	158.60	158.5	157.9
GDP in Germany (annual, in per cent)	0.8	1.5	2.5	2.4	2.2	2.0	1.0	1.2
Producer price inflation in Germany (annual, in per cent)	0.1	1.4	1.9	1.8	2.1	1.5	1.1	1.4
Consumer price inflation in Germany (annual, in per cent)	1.1	1.8	1.9	1.6	1.5	1.2	1.3	1.6
Nominal USD/EUR exchange rate	1.249	1.204	1.221	1.230	1.232	1.234	1.237	1.232
1Y EURIBOR	2.1	2.3	2.3	2.4	2.5	2.6	2.8	2.9

Assumptions made about the external environment are one of the conditions for the construction of the forecast. For this purpose, the CNB has as usual drawn on the publication Consensus Forecast, which brings together the forecasts of a whole range of foreign analytical teams. According to the latest information available in this publication, the impact of the external environment on the Czech economy can still be regarded as generally favourable.

The CNB's forecasting system uses data on the German economy to proxy for foreign developments. Although the expectations regarding the growth of the German economy in 2004 Q2 were not entirely fulfilled, there is a slight upward shift in the estimate for the whole year to 1.8% from the 1.7% forecasted in July. At the same time, the estimates for consumer price inflation and producer price inflation have been raised. Consumer prices are now expected to rise by 1.6% in 2004, while industrial producer prices should increase by 1.3%. In 2005, German GDP growth is forecasted to reach 1.6%, while consumer price inflation should drop modestly to 1.4% and industrial producer prices are expected to show continuing relatively high growth of around 1.5%.

During 2004 Q3, the price of oil deviated upwards by roughly 20% from the assumption used in the July forecast. The Consensus Forecast has also been gradually revised. The current forecast therefore assumes a Ural crude oil price of almost USD 35 a barrel in 2004 Q4, then a gradual decline to USD 31 a barrel during 2005.

IV.2 INTERNAL ASSUMPTIONS OF THE FORECAST

In addition to assumptions regarding the external environment, assumptions about the domestic economy are an important input for the forecast. These include the expected impact of fiscal policy on the economy, which is derived from data on the evolution of the public budget deficit, excluding net lending and subsidies to transformation institutions. By comparison with the July forecast, the estimate of the public budget deficit has been reduced from 4.6% to 4.3% of GDP in 2004 and from 4.2% to 3.5% of GDP in 2005. This shift chiefly reflects higher forecasted tax revenues. If these budget deficit estimates are fulfilled, the fiscal policy will have a slightly positive effect on economic growth in 2004 and a slightly negative effect in 2005.

Assumptions regarding the equilibrium values of key macroeconomic variables are also important for the message of the forecast. The equilibrium values together with current values of the variables allow us to specify the starting conditions of the forecast, i.e. the current position of the economy in the business cycle and the current setting of the monetary conditions. The evolution of the equilibrium values then provides a framework for the fundamental orientation of the forecast. The variables that frame the forecast in this way include equilibrium real interest rates, the equilibrium real exchange rate and potential output.

Since the preparation of the July forecast, no information leading to a reassessment of the evolution of equilibrium real interest rates and the equilibrium real exchange rate has come to light. As in April and July, the one-year real equilibrium interest rate is set at 1.5% and the equilibrium real exchange rate is expected to strengthen at a rate of slightly less than 3% at present, falling gradually to 2% at the end of 2006. Nevertheless, the estimate for the growth rate of potential output (i.e. the non-accelerating inflation rate of output) has been revised upwards slightly to just over 3%.

In addition to these equilibrium values, information about past and present developments in economic activity, inflation, the exchange rate and interest rates are used to determine the starting conditions of the forecast. Together with fundamental knowledge of the transmission mechanism, all this information leads to the following estimate of the starting conditions.

The information published on economic activity in 2004 H1 confirmed the upturn in economic activity foreseen in the April and July forecasts. Economic growth is being driven mainly by investment and exports, while household consumption growth is gradually slowing. This slowdown reflects the evolution of households' real disposable income and the neutral setting of the interest rate component of the monetary conditions in 2003 H2. The buoyant investment growth was fostered by an improved outlook for exports related to the recovery in foreign demand and the easy effect of both the real exchange rate and real interest rates. The view that fast investment growth was sustained in Q3 is supported by the data on monetary aggregates.

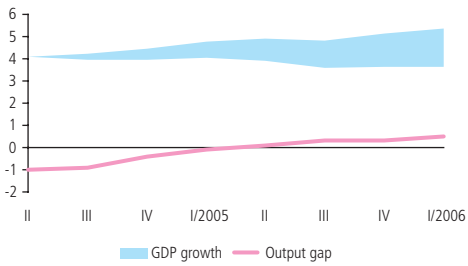
Although the observed evolution of inflation was almost the same as predicted in the July forecast, it occurred amid inflationary external cost factors. The position of the economy in the business cycle thus continued to act in a disinflationary direction. The faster-than-expected GDP growth combined with the fulfilled expectation regarding the rise in inflation and the unchanged assumptions regarding the transmission mechanism led to a modest rise in the growth rate of potential output. The concurrent rise in GDP growth and potential output growth has not changed the assessment of the speed at which the output gap has been closing recently. The analyses generate an estimated output gap for 2004 Q3 of just under -1%.

Based on the interrelationship between the monetary conditions and the output gap, as expressed by the view of the transmission mechanism, the current setting of the monetary conditions is assessed as easy in both the interest rate component and the exchange rate component. While the easing of the exchange rate component has been gradually downscaled since the beginning of the year owing to the nominal appreciation of the exchange rate, the interest rate component has conversely been eased owing to the acceleration of inflation and higher inflation expectations. This easing has occurred despite faster growth in nominal long-term interest rates than forecasted in July.

IV.3 THE MESSAGE OF THE FORECAST

The present forecast confirms the message of the two previous forecasts regarding a turnaround in economic activity in 2004 H1 and high economic growth rates in the rest of 2004 and in 2005. It foresees GDP growth of around 4% until the end of 2004 and a further moderate acceleration to approximately 4.5% during 2005. Slightly tighter monetary conditions, less expansionary fiscal policy and a slight upward revision of the potential output growth rate by comparison with the July forecast shift the expected time of closure of the output gap to the end of 2005 H1. A turnaround in employment – manifesting itself in a gradual rise in employment – is expected to occur simultaneously with the closure of the output gap during 2005.

Chart IV.1
THE OUTPUT GAP WILL CLOSE IN 2005 H1
(annual percentage growth)



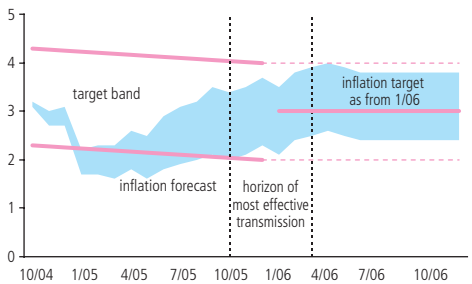
The higher level of economic activity reflects not only the easy monetary conditions, but also the ongoing recovery abroad. The Czech Republic's accession to the European Union, which to a certain extent influenced exports and imports, also played a role. The monetary conditions are regarded as easy in both components. The continuing easy monetary conditions will help to sustain both the robust growth in household consumption and the double-digit investment growth.

After its slight decline in 2004 H1, household consumption growth is expected to rise to around 4% year on year at the end of 2004 and increase further during 2005. This estimate is based on the easy interest rate component of the monetary conditions as well as on growth in households' disposable income. A modest slowdown in real wage growth will be offset by a halt in the decline in employment. The increase in the real volume of wages will therefore suffice to finance the growing consumption.

Despite the moderate increase in the household consumption growth rate, household consumption will not replace investment as the primary driving force behind economic growth. Investment growth of around 15% is expected at the end of 2004 followed by a modest decline to 10% during 2005. The forecast expects favourable developments on foreign markets and the easy effect of interest rates and the real exchange rate to be the leading impulses for investment activity, as companies' investment activity is to a large extent related to the evolution of their export activities. Growth in exports, reflecting the recovery abroad and the easy real exchange rate, is expected to continue. Given the relatively high import intensity of investment and of exports themselves, however, the fast growth rates of exports and investment will not be accompanied by an improvement in net exports at constant prices. From the point of view of current prices, on the other hand, the foreign trade trend will be consistent with a gradual reduction in the trade deficit. Running counter to this, however, will be a concurrent deterioration in the income balance. The forecast therefore expects the current account deficit to remain roughly at CZK 150 billion in 2004 and 2005.

The forecast is for gradual moderate appreciation of the nominal exchange rate over the entire prediction horizon. Given the broadly neutral effect of the interest rate differential, the moderate appreciation of the exchange rate is caused by a gradual decline in the risk premium resulting from the convergence of the Czech economy towards the advanced economies. As regards import prices, however, the appreciation will be offset by rising inflation abroad and a rise in some commodity prices. Import price inflation will thus remain slightly above zero not only in the remainder of 2004, but also in 2005.

Chart IV.2
THE INFLATION FORECAST IS VERY CLOSE TO THE CENTRE OF THE TARGET BAND AND THE POINT TARGET AT THE HORIZON OF MOST EFFECTIVE TRANSMISSION
(annual consumer price inflation; percentages)



The expected inflation path is affected by the combined demand pressures resulting from real economic activity, imported inflation and other exogenous factors. Although the expected demand pressures connected with the future closure of the negative output gap are close to the expectations of the July forecast and the estimate for future imported inflation has moved upwards, the inflation forecast has been downscaled slightly. This shift applies above all to the one-year horizon. At the horizon of most effective transmission, the forecast remains very close to the centre of the target band and the point target valid from January 2006.

The main reason for the revision of the forecast is a changed view of the course of food prices in the coming months. The revision is based primarily on recent developments in agricultural producer prices. These started to decline faster than expected in the July forecast as a result of the very favourable harvest.

By comparison with the July forecast, the inflation expected for the end of 2004 has dropped modestly from 3.2% to 2.9%. As in July, the forecast predicts inflation of 3% at the end of 2005, by which time demand will have taken over as the primary driving force behind inflation. There is, however, a small change in the inflation structure – the estimated contribution of regulated prices has increased and that of tax changes has dropped because of a shift in their timing. The outlook for adjusted inflation excluding fuels remains unchanged.

The expected rise in excise duties on cigarettes had already been incorporated into the July forecast. The current forecast merely shifts the first step in this process to 1 April 2005. The second step is still planned for 1 January 2006. The assumption that these changes will have fairly limited secondary effects has not changed either.

Consistent with the October forecast and its assumptions is a moderate rise in interest rates in the longer run. However, real interest rates will change only gradually, because the increase in nominal interest rates is forecasted to proceed at almost the same pace at which inflation expectations will rise in the context of rising inflation. Like previous forecasts, this forecast assumes that monetary policy will not respond to the primary effects of the changes to indirect taxes included in the forecast, but will anticipate the secondary effects.

There are many risks connected with the above-described baseline scenario of economic development. The future development of oil prices was perceived as one of the most significant risks. Therefore, along with the baseline scenario of the forecast an alternative scenario was drawn up assuming the persistence of oil prices at the current high levels. This would result in a 0.3 percentage point slackening of German economy, an increase of approximately 0.2 percentage point in German inflation and a moderate rise in euro interest rates. This change in external assumptions leads by comparison with the baseline scenario to higher domestic inflation and interest rates, together with slower closing of the output gap.

IV.4 EXPECTATIONS OF ECONOMIC AGENTS

The inflation outturns expected by financial market participants increased slightly. The analysts expected inflation to rise somewhat in the immediate future, peaking at the turn of Q3 and Q4. A slight drop is expected thereafter. The main inflationary factors included growth in the prices of oil and metals on world markets and increased prices of gas and electricity. On the other hand, thanks to strong competition only limited transmission of the high industrial producer price inflation into consumer prices can be expected. The exchange rate of the koruna should also counteract inflation. The inflation expectations of corporations have not changed. As for households, their expectations decreased quite sharply but are traditionally more volatile.

The CNB also monitors inflation expectations at the three-year horizon. The expected figures are subject to smaller fluctuations. The inflation expectations of the financial market and corporations are in line with the CNB's target of 3%, while the expectations of households are lower.

Expected interest rates increased in the period under review. Most financial market participants were predicting a further rise in the CNB's key rates – by around 0.9 percentage point overall at the one-year horizon. The expectations of a rise in the CNB's interest rates at the longer horizon were broadly in line with the direction of interest rate path that is consistent with the CNB forecast described above.

Table IV.2
THE INFLATION EXPECTATIONS OF ECONOMIC AGENTS WERE CONSISTENT WITH THE CNB'S TARGET
(percentages)

	12/03	6/04	7/04	8/04	9/04
Consumer price index					
1Y horizon:					
Financial market	3.3	2.7	2.8	2.8	3.0
Corporations	2.9	3.1			3.1
Households	4.2	4.9			1.7
3Y horizon:					
Financial market	2.8	2.7	2.6	2.7	2.9
Corporations	2.8	3.0			2.7
Households	4.6	5.0			2.0
1Y PRIBOR					
1Y horizon:					
Financial market	3.1	3.5	3.6	3.7	3.8

MINUTES OF THE CNB BANK BOARD MEETINGS

MINUTES OF THE BOARD MEETING ON 29 JULY 2004

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 July situational report containing the new forecast for inflation and other macroeconomic variables.

The inflation forecast over the short term was adjusted slightly downwards against April. During the period of the most effective transmission, the inflation forecast was aimed towards the midpoint of the inflation target, similar as in April. Lower inflation dynamics were triggered by a slowdown in food price growth, reduced leakage of cost inflation pressures over to consumer prices, and by lower demand pressures, which were conveyed in the forecast through a rise in the initial negative value of the output gap. The forecast of inflation, adjusted for the primary impact of tax corrections, was aimed slightly below the target's midpoint during the period of the most effective monetary transmission. The economic growth forecast over the short run was adjusted slightly downwards against April. In the period of the most effective transmission, the forecast was adjusted slightly upwards. The economy had reached a turning point, and during the forecast's range, it would end up in an economic recovery phase. Investments began to spark recovery. Economic growth was stimulated by eased monetary policy conditions, the impact of which accumulated over time. The forecast worked with the assumption of gradual recovery for the European economy, which would bring with it increased demand for Czech exports. The forecast was built on the assumption that the effect of fiscal policy would be neutral.

The interest rate trajectory, consistent with the July forecast and its assumptions, was growing. It was, nevertheless, positioned slightly lower than in the April forecast.

Following the presentation of the situational report, the Board turned to a discussion of the new forecast and the uncertainties associated with it. The Board agreed that the interpretation of the current economic situation in the July forecast was similar to that in the April forecast, however, the July forecast more accurately expressed expected economic development. The Board's assessment that anti-inflationary risks in the April forecast were substantial proved to be an accurate reading of the situation.

The Board discussed the economic interpretation of the new forecast. As was repeatedly stated, the available information confirmed that a turning point had, in fact, been reached. During the period of the most effective monetary transmission, there would be economic growth recovery, and inflation would slightly accelerate. Economic growth was now pulled by investments. In a phase of economic growth recovery, cost pressures could leak over to inflation at a faster pace than at the present time. The financial indicators showed the possibility of moderate inflation pressures. June's hike in rates was consistent with this interpretation. In addition, one view expressed that the current development corresponded more to a phase of stable, low-inflation growth where inflationary pressures would not reoccur. The inflation impulses were temporary in nature, caused primarily by tax administration measures and exogenous shocks. In this respect, it was also said that the Czech economy was growing at a slower rate than the other countries in the Central European region and that the monetary stimulus should be reduced in an adequate manner.

The Board also focused on the issue of cyclical and structural inflation factors. In a model forecast, monetary policy reacted predominantly to cyclical inflation factors. It was said that inflation would be formed by cyclical factors in an economic recovery phase, and monetary policy should react to these factors sufficiently in advance. It was also said that the Czech economy was still going through a stage of substantial structural changes and that the impact of these changes was not sufficiently accounted for in the model. They should, therefore, be treated in the same way as forecast risks. A potential bias in measuring inflation that could occur as a result of underestimating the qualitative changes of consumer goods was given as an example. It was mentioned that this bias could be greater for the Czech economy than for developed economies and that the neutral monetary policy rates could be lower in such a situation.

The Board addressed the issue of equilibrium interest rates. The methodology used to estimate neutral rates should not only include an estimate of GDP growth potential and a definition of price stability. It should also include factors accounting for the Czech economy's convergence process, which were reflected in the definition of the inflation target as well. In addition, it was expressed that the Czech economy was very open, and therefore, it was not possible to discuss equilibrium rates separately from the discussion concerning the exchange rate component of real monetary conditions. It was mentioned that the existing level of interest rates in the Czech economy reflected, among other things, the fact that the domestic currency had gone through an overvaluation phase in the past and that it had been advantageous in that phase to compensate for the effects of a strong currency by easing the interest rate component of monetary conditions.

At the close of the meeting, the Board decided to leave the CNB two-week repo rate unchanged at 2.25%. Four board members voted in favour of this decision, and three members voted for increasing the rates by 0.25 of a percentage point.

MINUTES OF THE BOARD MEETING ON 26 AUGUST 2004

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 August situational report assessing the new information and risks associated with the July macroeconomic forecast.

Year-on-year consumer price growth registered 3.2% in July, which was fully in line with the forecast of the 7th situational report. In the actual price growth structure, there was, however, a slight inconsistency with the forecast. The contribution of regulated prices and fuels was lower than the forecast. On the contrary, food price growth worked in the opposite direction. The adjusted inflation estimate – from the monetary policy point of view of an important price indicator – corresponded to reality. Industrial production in June continued its two-digit growth, which also applied to Q2 this year for construction production as well. Retail sales development, the value for the consumer climate index and year-on-year household lending dynamics were, in principle, consistent with the consumption forecast in the 7th situational report. Industrial and construction wage growth confirmed the expected slowdown in wages for the corporate sector in Q2 2004. Labour productivity in both sectors showed high year-on-year growth from the beginning of 2004 and thereby exceeded wage growth. The registered unemployment rate was developing as expected. Besides the improving economic performance of the corporate sector, lower unemployment growth was affected by a lower number of graduates entering the labour market. As far as cost factors were concerned, crude oil price growth was re-evaluated upwards in August by 20% against the forecast assumption.

Following the presentation of the 8th situational report, board members discussed the risks associated with the July forecast, not only in connection with inflation but also in view of other key macroeconomic values entering in the prediction. The Board agreed that the new data confirmed the forecast's positioning from the last monetary meeting, and there was no reason for reassessing the current view of economic development, including an appropriate monetary policy reaction.

New data, especially dynamic industry and construction growth accompanied by high productivity growth, were in line with the GDP prediction in the July situational report. It was said, however, that poorer-than-forecasted net exports were possible. Signals of the improving situation on the labour market, faster-than-expected money supply growth and dynamic credit growth were also consistent with accelerating economic growth.

The Board then concentrated on analysing the new price data. It was said that inflation on the one hand, was in line with the CNB's forecast, on the other hand, fuel prices had not yet been fully reflected in CPI inflation. Accelerated food price growth continued to indicate stabilisation of the link between agricultural producer prices and food prices. There was also an opinion that uncertainty related to the expected increase in rents and television fees, considering their weight in the consumer basket, complicated somewhat quantification of the CNB's optimal reaction to these administrative changes. With respect to the continued privatisation of the housing stock the importance of regulated rent should decrease.

The Board then assessed the balance of inflation risks for the July inflation forecast in the light of newly available data. There was agreement that this balance had been evened out on both sides. Dynamic fuel price growth on world markets formed a pro-inflationary cost stimulus in the short-term horizon, which could affect inflation expectations during wage negotiations at the end of this year. If high fuel prices had a longer-term duration, a dampening effect of this cost factor on world economic growth and subsequently on external demand for Czech exports and domestic demand could be expected. The difficult quantification of the cyclical position of the economy was pointed out as an additional source of uncertainty in comparison with its capacity utilisation level. Considering the impact of some temporary effects on prices – of which the recent change in indirect taxes and opening of the domestic market to wider competition on the single European market were the most important – the quantification of the output gap was especially difficult. In this respect, one view expressed that there was an anti-inflationary risk connected with possible underestimation of productivity rises as well as growth of potential product.

Board members then devoted a substantial amount of time to assessing the budgetary policy impact on future economic development. During the discussion, there was consensus that for sustainable future fiscal development it was desirable for any additional public budget income – achieved either by higher fiscal economy yields or by additional privatisation income – to be used to lower the deficit, and not to increase budget expenditures. In the light of coordinating macroeconomic policies, the rise in expenditures would be completely inadequate in this stage of the economic cycle.

Following the discussion of the 8th situational report, the Board decided by a majority vote to increase the CNB two-week repo rate by 0.25 percentage points to 2.5%. In the same manner, the board members decided to increase the discount and Lombard rates by 1.5% and 3.5%, respectively. Six members voted in favour of this decision, and one member voted for leaving interest rates unchanged.

MINUTES OF THE BOARD MEETING ON 30 SEPTEMBER 2004

Present at the meeting:

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

The Board discussed the 9th situational report for September 2004 analysing the newly available statistical data and assessing the risks associated with the July macroeconomic forecast.

Year-on-year CPI inflation reached 3.4% in August this year, whilst the CNB expected 3.2%. This small forecast deviation was caused by slightly faster net inflation growth of 2.6% compared to the predicted 2.4%, with slightly slower-than-expected regulated price inflation. Adjusted inflation development (net inflation excluding fuel), an important price indicator from the monetary policy point of view, was in line with the forecast. Faster fuel price growth against the CNB's assumptions was the result of higher world oil prices than was considered in the July macroeconomic forecast reference scenario. Year-on-year August food prices increased faster, and their month-on-month decline compared to July was lower in comparison with the CNB's assumptions. Food prices developments were the result of their high seasonal fluctuations in summer months, and there was no reason for these deviations to be over-emphasised. Industrial producer prices showed faster growth than the CNB expected, especially under the influence of rising prices for energy raw materials, metals and metal intermediates. Agricultural producer prices were to a great extent in line with the July macroeconomic forecast.

The year-on-year GDP growth for Q2 reached 4.1%, and thereby slightly exceeded the CNB forecast assumptions. Also in the economic growth structure, there were deviations from the forecast, especially in favour of higher-than-expected dynamics of fixed investment and real exports, and at the same time, with a stronger-than-expected slowdown in real consumption growth. The year-on-year value-added indicator for industry increased 8.1% in Q2, and a value-added increase was also noted in trade, transportation and construction. In the same period, there was significant improvement in labour productivity as well as in corporate sector financial indicators. The overall year-on-year employment decreased 0.8%. The registered unemployment rate reached 10.2% by the end of August (according to the original methodology of the Ministry of Labour and Social Affairs). In August, the number of unemployed increased by less than four thousand month-on-month, mainly due to the inflow of school-leavers and graduates who registered as unemployed. The development of unemployment was consistent with the CNB's assumptions. Average nominal wage growth in the corporate sector reached 5.9% year-on-year in Q2, and in the public sector, average nominal wage decreased 0.6%. Wage developments were slightly more moderate against the CNB's assumptions.

Following the presentation of the 9th situation report, the Board discussed the risks associated with the July forecast. The board members agreed that the monetary conditions did not significantly deviate from the forecast. New economic development data confirmed in principle the assumptions of the July macroeconomic forecast, and the current interest rate level was consistent with the forecast. From the short-term point of view, the balance of risks was slightly pro-inflationary, whereas in the long-term, which was more relevant to monetary policy, the uncertainty of development of pro-inflationary as well as anti-inflationary factors would rise.

In a discussion about the pro-inflationary risks, there was the issue of stronger economic growth not only on the macro level, but also in relation to the exceptionally high growth of exports and industrial production. In connection with this, it was said that, on the one hand, the acceleration of domestic economic growth meant a pro-inflationary risk. On the other hand, only additional figures would confirm whether the economy was able to keep up with these developments without accelerating inflation, especially due to a favourable economic growth structure along with the predominance of investment, improved supply-side performance of the economy as well as competition growth. Affirmation of this scenario could lead to reassessment of the economy's potential.

The Board also included world oil price growth among the short-term pro-inflationary risks and discussed whether oil prices would show up over the long run mainly in price growth or in a global weakening of the world economic performance. A considerable amount of attention would still be devoted to oil price development as well as the trend by which it should influence the world as well as the Czech economy.

At the moment, the risks of future inflation acceleration could arise from faster domestic growth, external cost factors (oil, metals), and foreign demand. Domestic demand had more of a moderating effect on inflation dynamics. In this respect, the board members discussed the issue of to what extent such development was sustainable with regards to existing cost pressures (growth of industrial producer prices), and to what extent the transfer of cost pressures to consumer prices and demand inflation would be realistic.

Wage development was also amongst pro-inflationary risks, particularly in relation to the already known data on planned wage growth in some parts of the public sector, and a possible influence of these wage pressures on the overall wage level next year. In this respect, the Board would monitor future development, especially the position of trade unions during the start of wage negotiations for the following year. The continuing employment decline could be considered a short-term anti-inflationary factor. The structural problems of the labour market, however, had created long-term pro-inflationary pressure according to the board members, because of limiting the potential GDP growth. Removal of labour market rigidities should thus enable higher potential GDP growth. This would make space for faster non-inflationary growth of the economy, and as a result, also sustaining more relaxed monetary policy.

During the discussion on anti-inflationary factors, slower growth of domestic consumption, retail sales and flat growth of construction production were mentioned in particular, together with signs of improvement in the potential of the economy as well as a favourable economic growth structure. However, some board members emphasised that growth of the potential was limited by the already mentioned structural problems of the labour market, as well as the uneven structure of industrial production growth. In construction production, a continuing slowdown should not be ruled out due to the influence of pre-billing during the first four months of the year.

Following the discussion of the 9th situational report, the Board decided unanimously to leave the CNB two-week repo rate unchanged at 2.50%.

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INFLATION DEVELOPMENT

annual percentage changes

	1	2	3	4	5	6	7	8	9	10	11	12
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	-0.1	0.0	0.3	-0.1	-0.1	0.0	0.4	1.0	1.0
Regulated prices	-0.3	-0.8	-0.8	1.4	1.5	1.5	0.4	0.4	0.4	1.2	1.2	1.3
(contribution to consumer price inflation)	*-0.07*	*-0.15*	*-0.16*	*0.29*	*0.31*	*0.32*	*0.08*	*0.09*	*0.08*	*0.24*	*0.24*	*0.27*
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	-0.4	-0.2	-0.2	-0.5	-0.4	0.0	-0.2	-0.1	0.0	0.3	0.9	1.0
(contribution to consumer price inflation)	*-0.32*	*-0.17*	*-0.15*	*-0.38*	*-0.30*	*-0.01*	*-0.19*	*-0.10*	*-0.01*	*0.20*	*0.70*	*0.77*
of which: prices of food, beverages and tobacco	-4.1	-3.8	-3.5	-3.5	-2.8	-1.0	-0.9	-0.9	-0.1	0.6	2.5	2.7
(contribution to consumer price inflation)	*-1.06*	*-1.06*	*-0.97*	*-0.94*	*-0.76*	*-0.28*	*-0.22*	*-0.22*	*-0.04*	*0.16*	*0.66*	*0.70*
adjusted inflation	1.5	1.7	1.5	1.1	0.9	0.5	0.1	0.2	0.0	0.1	0.1	0.1
(contribution to consumer price inflation)	*0.74*	*0.89*	*0.82*	*0.56*	*0.46*	*0.27*	*0.04*	*0.12*	*0.02*	*0.04*	*0.04*	*0.06*
Inflation rate (annual moving average)	1.5	1.1	0.8	0.5	0.3	0.2	0.2	0.1	0.0	0.0	0.1	0.1
2004												
Consumer prices	2.3	2.3	2.5	2.3	2.7	2.9	3.2	3.4	3.0			
Regulated prices	5.0	4.9	4.7	3.1	2.4	2.4	2.4	2.3	2.3			
(contribution to consumer price inflation)	*1.01*	*0.99*	*0.96*	*0.63*	*0.49*	*0.49*	*0.49*	*0.47*	*0.46*			
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.35*	*0.35*	*0.35*	*0.39*	*0.61*	*0.68*	*0.72*	*0.73*	*0.76*			
Net inflation	1.2	1.2	1.4	1.5	2.0	2.1	2.5	2.6	2.3			
(contribution to consumer price inflation)	*0.96*	*0.92*	*1.15*	*1.21*	*1.63*	*1.71*	*2.02*	*2.11*	*1.81*			
of which: prices of food, beverages and tobacco	2.8	2.8	3.2	3.3	3.4	2.7	3.8	4.2	3.0			
(contribution to consumer price inflation)	*0.75*	*0.75*	*0.83*	*0.86*	*0.89*	*0.71*	*1.00*	*1.10*	*0.78*			
adjusted inflation	0.4	0.3	0.6	0.6	1.4	1.9	1.9	1.9	1.9			
(contribution to consumer price inflation)	*0.21*	*0.17*	*0.32*	*0.35*	*0.74*	*1.00*	*1.02*	*1.02*	*1.03*			
Inflation rate (annual moving average)	0.3	0.5	0.8	1.0	1.2	1.4	1.7	2.0	2.2			

CNB calculation based on CZSO data

INFLATION DEVELOPMENT

monthly percentage changes

	1	2	3	4	5	6	7	8	9	10	11	12
	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	0.2	0.0	0.0	0.1	-0.2	-0.5	0.1	0.5	0.2
Regulated prices	0.1	0.3	0.2	1.1	-0.1	0.0	0.0	0.0	0.1	-0.4	0.0	0.0
(contribution to consumer price inflation)	*0.03*	*0.06*	*0.03*	*0.23*	*-0.01*	*0.01*	*0.00*	*0.00*	*0.01*	*-0.09*	*0.00*	*0.00*
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	0.7	0.2	-0.2	0.0	0.0	0.1	0.0	-0.1	-0.6	0.3	0.5	0.3
(contribution to consumer price inflation)	*0.55*	*0.14*	*-0.13*	*-0.03*	*-0.04*	*0.05*	*0.03*	*-0.11*	*-0.49*	*0.22*	*0.39*	*0.20*
of which: prices of food, beverages and tobacco	0.8	-0.2	-0.2	0.1	0.4	0.6	-1.7	-1.0	0.6	0.7	1.6	0.8
(contribution to consumer price inflation)	*0.22*	*-0.05*	*-0.05*	*0.04*	*0.10*	*0.16*	*-0.44*	*-0.25*	*0.16*	*0.18*	*0.42*	*0.22*
adjusted inflation	0.6	0.3	-0.1	-0.1	-0.3	-0.2	0.9	0.3	-1.2	0.1	-0.1	0.0
(contribution to consumer price inflation)	*0.33*	*0.18*	*-0.07*	*-0.06*	*-0.14*	*-0.11*	*0.47*	*0.15*	*-0.65*	*0.03*	*-0.03*	*-0.02*
	2004											
Consumer prices	1.8	0.2	0.1	0.0	0.4	0.2	0.4	0.0	-0.8			
Regulated prices	3.7	0.2	0.0	-0.5	-0.7	0.0	0.0	-0.1	0.0			
(contribution to consumer price inflation)	*0.76*	*0.04*	*0.01*	*-0.10*	*-0.15*	*0.00*	*0.00*	*-0.03*	*0.01*			
Influence of indirect tax growth on unregulated prices												
(contribution to consumer price inflation)	*0.35*	*0.00*	*0.00*	*0.04*	*0.23*	*0.07*	*0.04*	*0.01*	*0.03*			
Net inflation	0.9	0.1	0.1	0.0	0.5	0.1	0.4	0.0	-1.0			
(contribution to consumer price inflation)	*0.74*	*0.09*	*0.10*	*0.03*	*0.37*	*0.12*	*0.33*	*-0.01*	*-0.78*			
of which: prices of food, beverages and tobacco	1.0	-0.2	0.1	0.3	0.5	-0.1	-0.6	-0.6	-0.6			
(contribution to consumer price inflation)	*0.26*	*-0.05*	*0.02*	*0.07*	*0.14*	*-0.03*	*-0.15*	*-0.15*	*-0.16*			
adjusted inflation	0.9	0.3	0.1	-0.1	0.4	0.3	0.9	0.3	-1.2			
(contribution to consumer price inflation)	*0.48*	*0.14*	*0.08*	*-0.04*	*0.23*	*0.14*	*0.48*	*0.14*	*-0.63*			

CNB calculation based on CZSO data

CONSUMER PRICES

percentage changes; December 1999 = 100

Group	Constant 1999 weights in per mille	Months												Average since start of year
		1	2	3	4	5	6	7	8	9	10	11	12	
Total - 2000	1000.0	1.8	2.0	2.0	1.9	2.1	2.7	3.3	3.5	3.5	3.8	3.9	4.1	2.9
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	9.9	9.9	9.9	10.0	9.8	9.3	9.4	9.9	10.1	9.8
Food and non-alcoholic beverages	197.6	3.1	2.8	2.5	2.7	3.2	4.2	1.7	0.3	1.1	2.2	4.4	5.7	2.8
Alcoholic beverages and tobacco	79.2	7.6	7.7	7.7	7.7	7.9	7.6	7.7	7.7	7.9	7.7	8.0	7.8	7.8
Clothing and footwear	56.9	-9.1	-10.0	-10.4	-10.1	-10.1	-10.4	-11.5	-12.6	-12.4	-12.1	-11.9	-11.9	-11.0
Housing, water, electricity, gas and other fuels	236.4	24.9	25.3	25.4	26.5	26.6	26.6	26.9	27.0	27.0	26.6	26.6	26.6	26.3
Furnishings, household equipment and routine maintenance of the house	67.9	-1.1	-1.2	-1.4	-1.6	-1.8	-2.1	-2.3	-2.6	-2.7	-2.8	-3.0	-3.0	-2.1
Health	14.3	13.7	14.2	14.8	15.4	16.3	16.4	17.4	17.5	17.5	16.9	16.3	16.4	16.1
Transport	101.4	4.7	5.2	5.8	5.5	4.5	3.8	3.5	3.8	4.3	4.0	3.7	3.6	4.4
Communications	22.5	7.9	8.9	8.8	9.0	7.5	7.4	7.4	7.4	7.3	7.3	7.3	7.2	7.8
Recreation and culture	95.5	8.5	9.6	8.5	7.7	7.1	7.0	12.5	14.3	6.1	6.3	6.2	6.1	8.3
Education	4.5	11.3	11.4	11.5	11.5	11.5	11.6	11.6	11.6	11.0	12.0	12.0	12.0	11.6
Hotels, cafés and restaurants	74.2	9.2	9.4	9.4	9.5	9.6	9.6	9.9	10.0	10.3	10.5	10.7	10.8	9.9
Miscellaneous goods and services	49.5	14.0	14.6	14.7	14.7	14.6	14.6	14.5	14.7	14.9	15.4	15.3	15.2	14.8
Total - 2004	1000.0	12.1	12.3	12.4	12.4	12.9	13.1	13.5	13.5	12.6				12.8
Food and non-alcoholic beverages	197.6	7.4	7.1	7.2	7.5	7.1	7.1	6.3	5.4	4.7				6.6
Alcoholic beverages and tobacco	79.2	8.5	8.6	8.7	9.4	11.2	11.8	12.2	12.4	12.3				10.6
Clothing and footwear	56.9	-13.5	-14.3	-14.3	-14.2	-14.1	-14.1	-15.3	-16.1	-15.8				-14.6
Housing, water, electricity, gas and other fuels	236.4	30.1	30.5	30.7	30.2	29.7	29.8	30.2	30.3	30.5				30.2
Furnishings, household equipment and routine maintenance of the house	67.9	-3.1	-3.3	-3.4	-3.4	-3.9	-3.9	-4.2	-4.4	-4.5				-3.8
Health	14.3	16.5	17.0	17.4	17.9	20.3	20.7	20.9	21.2	21.7				19.3
Transport	101.4	5.8	5.8	6.8	6.8	8.2	7.6	7.3	7.2	6.4				6.9
Communications	22.5	24.2	23.1	23.0	22.9	21.5	21.4	21.3	19.7	19.6				21.9
Recreation and culture	95.5	7.4	8.7	7.6	7.0	7.5	9.1	14.9	17.0	8.9				9.8
Education	4.5	12.2	12.6	12.5	12.5	12.9	12.8	12.8	12.8	17.9				13.2
Hotels, cafés and restaurants	74.2	11.8	12.0	12.4	12.6	17.1	17.5	17.7	17.8	18.8				15.3
Miscellaneous goods and services	49.5	17.4	18.3	18.8	18.7	19.9	20.3	20.4	20.3	20.2				19.4

Source: CZSO

CONSUMER PRICES - TRADABLES AND NONTRADABLES

percentage changes; December 1999 = 100

Group	Constant 1999 weights in per mille	2000	2001	2002	2003		2004		
		12	12	12	9	12	3	6	9
1. Food and non-alcoholic beverages	197.6	4.6	7.9	2.1	1.1	5.7	7.2	7.1	4.7
- tradables	197.6	4.6	7.9	2.1	1.1	5.7	7.2	7.1	4.7
2. Alcoholic beverages and tobacco	79.2	2.4	5.4	7.1	7.9	7.8	8.7	11.8	12.3
- tradables	79.2	2.4	5.4	7.1	7.9	7.8	8.7	11.8	12.3
3. Clothing and footwear	56.9	-2.7	-3.9	-7.7	-12.4	-11.9	-14.3	-14.1	-15.8
- nontradables	1.4	6.1	13.0	18.3	20.9	21.1	25.6	34.4	34.9
- tradables	55.5	-2.9	-4.3	-8.4	-13.2	-12.7	-15.3	-15.3	-17.1
4. Housing, water, electricity, gas and other fuels	236.4	7.8	19.0	24.3	27.0	26.6	30.7	29.8	30.5
- nontradables	226.1	8.1	19.7	25.2	28.0	27.5	31.6	30.8	31.4
- tradables	10.3	2.3	2.7	4.0	4.5	5.9	10.9	8.5	11.3
5. Furnishings, household equipment and routine maintenance of the house	67.9	-0.7	-0.4	-1.0	-2.7	-3.0	-3.4	-3.9	-4.5
- nontradables	2.9	4.3	7.5	9.9	11.8	12.3	14.0	16.2	16.2
- tradables	65.0	-0.9	-0.8	-1.5	-3.4	-3.7	-4.2	-4.8	-5.4
6. Health	14.3	4.1	8.4	12.8	17.5	16.4	17.4	20.7	21.7
- nontradables	11.0	4.9	10.1	15.4	21.2	19.9	21.1	25.3	26.7
- tradables	3.3	1.5	2.7	4.4	5.4	5.1	5.3	5.7	5.5
7. Transport	101.4	6.9	3.4	4.1	4.3	3.6	6.8	7.6	6.4
- nontradables	27.4	6.2	11.7	16.0	18.1	18.4	22.2	22.7	22.9
- tradables	74.0	7.2	0.3	-0.3	-0.8	-1.9	1.1	2.0	0.3
8. Communications	22.5	1.5	5.7	8.2	7.3	7.2	23.0	21.4	19.6
- nontradables	21.0	2.7	8.5	12.4	12.0	12.1	17.8	16.6	14.9
- tradables	1.5	-16.4	-34.7	-52.1	-59.8	-62.3	96.8	89.8	86.7
9. Recreation and culture	95.5	2.0	7.2	7.2	6.1	6.1	7.6	9.1	8.9
- nontradables	60.4	4.4	14.3	16.2	16.6	16.7	19.0	22.4	22.7
- tradables	35.1	-2.2	-5.0	-8.3	-12.1	-12.1	-12.0	-13.7	-14.8
10. Education	4.5	3.4	6.8	11.3	11.0	12.0	12.5	12.8	17.9
- nontradables	4.5	3.4	6.8	11.3	11.0	12.0	12.5	12.8	17.9
11. Hotels, cafés and restaurants	74.2	2.6	5.9	8.7	10.3	10.8	12.4	17.5	18.8
- nontradables	74.2	2.6	5.9	8.7	10.3	10.8	12.4	17.5	18.8
12. Miscellaneous goods and services	49.5	3.1	8.7	11.9	14.9	15.2	18.8	20.3	20.2
- nontradables	22.0	5.7	17.5	25.8	34.8	36.4	43.7	47.7	48.1
- tradables	27.5	1.1	1.7	0.8	-1.0	-1.7	-1.1	-1.5	-2.0
Household consumer prices, total	1000.0	4.1	8.4	9.0	9.3	10.1	12.4	13.1	12.6
Tradables	549.1	2.5	2.9	0.2	-1.2	0.3	1.6	1.9	0.6
- food	276.8	4.0	7.2	3.5	3.0	6.3	7.6	8.4	6.9
- others	272.3	1.0	-1.5	-3.2	-5.5	-5.8	-4.5	-4.8	-5.8
Nontradables	450.9	6.0	15.2	19.7	22.1	22.0	25.5	26.7	27.3
- others	271.2	4.7	11.5	16.4	19.0	19.4	22.7	25.7	26.7
- regulated	179.7	8.0	20.6	24.6	26.8	26.0	29.8	28.3	28.2

CNB calculation based on CZSO data

INFLATION EXPECTATIONS OF SELECTED ECONOMIC SECTORS FOR 12 MONTHS AHEAD

annual percentage changes

	CPI		
	Financial market	Businesses	Households
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	4.7	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	2.4	1.3
10/02	2.5		
11/02	2.4		
12/02	2.3	2.3	2.3
1/03	2.5		
2/03	2.4		
3/03	2.5	2.1	4.3
4/03	2.6		
5/03	3.7		
6/03	3.2	2.6	1.7
7/03	3.3		
8/03	3.2		
9/03	3.1	2.6	3.1
10/03	3.0		
11/03	3.1		
12/03	3.3	2.9	4.2
1/04	2.9		
2/04	3.2		
3/04	3.0	3.3	4.9
4/04	2.8		
5/04	2.6		
6/04	2.7	3.1	4.9
7/04	2.8		
8/04	2.8		
9/04	3.0	3.1	1.7

Source: CNB statistical survey

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	2000	2001	2002	2003	2004
	12	12	12	12	9
Belgium	3.0	2.0	1.3	1.7	1.8
Denmark	2.3	2.1	2.6	1.2	0.9
Finland	2.9	2.3	1.7	1.2	0.2
France	1.7	1.4	2.2	2.4	2.2
Ireland	4.6	4.4	4.6	2.9	2.4
Italy	2.8	2.2	3.0	2.5	2.1
Luxembourg	4.3	0.9	2.8	2.4	3.1
Germany	2.1	1.4	1.1	1.1	1.9
Netherlands	2.9	5.1	3.2	1.6	1.1
Portugal	3.8	3.9	4.0	2.3	2.1
Austria	1.8	1.8	1.7	1.3	1.9
Greece	3.7	3.5	3.5	3.1	2.9
Spain	4.0	2.5	4.0	2.7	3.2
Sweden	1.3	3.2	1.7	1.8	1.2
United Kingdom	0.9	1.0	1.7	1.3	1.1
European Union	2.2	1.9	2.2	1.8	1.9
Czech Republic	4.0	3.9	0.1	1.0	2.8

Source: Eurostat

MONETARY SURVEY

position at month-end in CZK billions

	2000	2001	2002	2003	2004
	12	12	12	12	8
Total assets	1412.3	1596.0	1651.8	1766.1	1834.4
Net external assets (NEAs)	673.1	800.6	926.1	821.5	958.5
NEAs of CNB			715.6	687.5	693.8
NEAs of OMFIs			210.5	134.0	264.7
Net domestic assets	739.2	795.4	725.8	944.5	875.9
Domestic loans	1068.8	1011.9	940.0	1145.6	1104.2
Net credit to government (NCG) (including securities)			215.8	354.0	262.5
NCG to central government (including securities)			260.4	408.7	333.5
NCG to other government (including securities)			-44.6	-54.8	-71.0
Loans to corporations and households (excluding securities)	963.9	775.4	724.2	791.6	841.8
Loans to corporations (excluding securities)	841.0	636.1	542.7	554.1	564.3
Loans to households (excluding securities)	122.9	139.3	181.5	237.5	277.5
Other net items (including securities and capital)	-329.6	-216.5	-214.3	-201.1	-228.3
Capital and reserves			-462.8	-398.7	-384.0
Holdings of securities			18.5	16.6	25.7
Issued securities			-48.6	-51.6	-77.5
Others			278.5	232.6	207.4
Liabilities					
Monetary aggregate M2	1412.3	1596.0	1651.8	1766.1	1834.4
Monetary aggregate M1	497.7	583.6	787.7	902.8	965.7
Currency in circulation	171.8	180.4	197.8	221.4	233.8
Overnight deposits			589.9	681.4	731.8
Overnight deposits - households			315.6	372.1	420.4
Overnight deposits - corporations			274.3	309.3	311.4
M2-M1 (quasi money)	914.6	1012.4	864.1	863.3	868.7
Deposits with agreed maturity			651.2	666.4	678.6
Deposits with agreed maturity - households			448.6	439.8	457.3
Deposits with agreed maturity - corporations			202.5	226.6	221.2
Deposits redeemable at notice			194.3	185.6	179.4
Deposits redeemable at notice - households			190.7	182.3	176.1
Deposits redeemable at notice - corporations			3.6	3.2	3.2
Repurchase agreements			18.6	11.3	10.8
Annual percentage changes					
M1	11.1	17.3	35.0	14.6	15.1
M2	5.6	13.0	3.5	6.9	7.4
Loans to corporations and households	-3.7	-19.6	-6.6	9.3	11.0
M2-M1 (deposits)	2.8	10.7	-14.6	-0.1	0.0
Annual percentage growth rates					
M1				15.5	16.6
M2				8.1	8.5
Loans to corporations and households				11.8	13.5
M2-M1 (deposits)				1.2	0.8

INTEREST RATES ON INTERBANK DEPOSITS

percentages

	2000	2001	2002	2003	2004
	12	12	12	12	9
1. AVERAGE PRIBOR 1)					
- 1 day	5.23	4.63	2.75	1.98	2.39
- 7 day	5.29	4.79	2.76	2.02	2.51
- 14 day	5.29	4.78	2.76	2.03	2.53
- 1 month	5.32	4.77	2.73	2.04	2.56
- 2 month	5.36	4.72	2.67	2.06	2.64
- 3 month	5.42	4.69	2.63	2.08	2.72
- 6 month	5.60	4.62	2.60	2.13	2.88
- 9 month	5.78	4.61	2.60	2.22	3.01
- 12 month	5.90	4.62	2.60	2.30	3.13
2. AVERAGE PRIBID 1)					
- 1 day	5.11	4.53	2.65	1.88	2.29
- 7 day	5.18	4.69	2.67	1.92	2.41
- 14 day	5.19	4.69	2.67	1.93	2.43
- 1 month	5.22	4.68	2.64	1.94	4.46
- 2 month	5.26	4.62	2.57	1.96	2.54
- 3 month	5.31	4.59	2.54	1.98	2.62
- 6 month	5.49	4.52	2.51	2.03	2.79
- 9 month	5.67	4.52	2.51	2.12	2.91
- 12 month	5.79	4.52	2.51	2.20	3.03

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

FRA RATES

percentages; monthly averages

	2000	2001	2002	2003	2004
	12	12	12	12	9
3 * 6	5.68	4.49	2.52	2.23	3.04
3 * 9	5.85	4.53	2.54	2.36	3.18
6 * 9	5.93	4.53	2.52	2.47	3.30
6 * 12	6.10	4.52	2.58	2.64	3.43
9 * 12	6.19	4.54	2.61	2.77	3.53
12 * 24	.	.			
9*12 - 3*6 spread	0.51	0.05	0.10	0.55	0.49
6*12 - 3*9 spread	0.25	-0.02	0.04	0.28	0.25

IRS RATES

percentages; monthly averages

	2000	2001	2002	2003	2004
	12	12	12	12	9
1Y	5.94	4.64	2.63	2.41	3.23
2Y	6.40	4.72	2.85	2.98	3.62
3Y	6.72	4.89	3.18	3.38	3.95
4Y	6.96	5.05	3.46	3.69	4.18
5Y	7.15	5.19	3.70	3.93	4.37
6Y	7.29	5.32	3.91	4.13	4.53
7Y	7.38	5.43	4.08	4.29	4.66
8Y	7.42	5.52	4.23	4.43	4.77
9Y	7.43	5.60	4.36	4.54	4.86
10Y	7.43	5.66	4.47	4.64	4.93
15Y	.	5.85	4.77	4.97	5.14
20Y	.	.	.	5.11	5.27
5Y - 1Y spread	1.21	0.56	1.07	1.52	1.15
10Y - 1Y spread	1.49	1.02	1.84	2.23	1.70

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
	2W	1Y	new credits	time deposits	2W	1Y	new credits	time deposits	2W	1Y	credits
1/00	5.3	5.9	7.3	4.6	1.9	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	1.1	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	1.6	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	1.0	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	5.0	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	5.2	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	3.5	3.4	4.5	2.8	2.9	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	2.1	2.0	3.6	1.6	3.5	3.3	4.9
1/03	2.7	2.6	4.1	2.2	3.2	3.0	4.5	2.6	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	3.9	2.0	2.9	2.8	4.3	2.5	2.9	2.8	4.3
4/03	2.5	2.4	3.9	2.0	2.6	2.5	4.0	2.1	3.2	3.2	4.7
5/03	2.5	2.4	4.0	2.0	2.5	2.4	4.0	2.0	3.3	3.3	4.8
6/03	2.5	2.3	3.8	1.9	2.2	2.0	3.5	1.6	3.4	3.2	4.8
7/03	2.3	2.2	3.5	1.7	2.4	2.3	3.6	1.8	2.9	2.9	4.2
8/03	2.0	2.1	3.3	1.8	2.1	2.2	3.4	1.9	2.4	2.5	3.7
9/03	2.0	2.2	3.6	1.7	2.0	2.2	3.6	1.7	2.0	2.2	3.6
10/03	2.0	2.2	3.7	1.7	1.6	1.8	3.3	1.3	2.1	2.3	3.8
11/03	2.0	2.2	3.5	1.8	1.0	1.2	2.5	0.7	1.6	1.8	3.1
12/03	2.0	2.3	3.7	1.7	1.0	1.3	2.6	0.7	1.1	1.4	2.7
1/04	2.0	2.3	5.5	1.4	-0.3	0.0	3.1	-0.9	0.4	0.7	3.9
2/04	2.0	2.3	5.0	1.4	-0.3	0.0	2.7	-0.9	0.5	0.8	3.5
3/04	2.0	2.3	5.1	1.6	-0.5	-0.2	2.6	-0.9	-0.1	0.2	3.0
4/04	2.0	2.3	5.4	1.5	-0.3	0.0	3.0	-0.8	-1.6	-1.4	1.6
5/04	2.0	2.5	5.4	1.5	-0.7	-0.2	2.6	-1.2	-2.7	-2.3	0.5
6/04	2.1	2.8	5.3	1.5	-0.8	-0.1	2.4	-1.3	-3.9	-3.2	-0.8
7/04	2.3	3.0	5.6	1.6	-0.9	-0.2	2.3	-1.5	-4.7	-4.0	-1.6
8/04	2.3	3.0	6.0	1.6	-1.0	-0.4	2.5	-1.7	-5.3	-4.7	-1.9
9/04	2.5	3.1			-0.5	0.1			-5.1	-4.5	

Note: real rates = nominal rates deflated by annual index (CPI/PPI) in given month
Starting from January 2004, the methodology for new credits and time deposits was changed. Newly drawn credits were replaced by newly granted credits.

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	
	2W	1Y	new credits	time deposits	2W	1Y	new credits	time deposits	2W	1Y	new credits	time deposits
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	1.1	1.3	2.8	0.2								
5/00	1.1	1.4	2.8	0.2								
6/00	0.9	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	0.8	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	0.8	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	-0.3
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	2.2	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	0.5	0.3	1.9	-0.1
1/03	0.2	0.1	1.6	-0.3								
2/03	0.1	0.0	1.4	-0.3								
3/03	0.0	-0.1	1.3	-0.4	0.4	0.3	1.7	-0.1	-1.7	-1.9	-0.4	-2.2
4/03	-0.1	-0.2	1.3	-0.6								
5/03	-1.2	-1.2	0.3	-1.6								
6/03	-0.7	-0.9	0.6	-1.2	-0.1	-0.3	1.2	-0.6	0.8	0.6	2.1	0.2
7/03	-1.0	-1.0	0.2	-1.5								
8/03	-1.1	-1.1	0.1	-1.4								
9/03	-1.0	-0.9	0.5	-1.3	-0.6	-0.4	1.0	-0.8	-1.0	-0.9	0.5	-1.3
10/03	-0.9	-0.8	0.6	-1.2								
11/03	-1.0	-0.8	0.4	-1.3								
12/03	-1.2	-1.0	0.4	-1.5	-0.8	-0.6	0.7	-1.1	-2.1	-1.8	-0.5	-2.4
1/04	-0.9	-0.6	2.5	-1.4								
2/04	-1.1	-0.8	1.8	-1.7								
3/04	-1.0	-0.7	2.1	-1.4	-1.2	-1.0	1.8	-1.7	-2.7	-2.5	0.2	-3.2
4/04	-0.8	-0.5	2.5	-1.3								
5/04	-0.6	-0.1	2.7	-1.1								
6/04	-0.6	0.1	2.6	-1.1	-1.0	-0.3	2.2	-1.5	-2.7	-2.0	0.4	-3.2
7/04	-0.5	0.2	2.7	-1.2								
8/04	-0.4	0.2	3.1	-1.1								
9/04	-0.5	0.1			-0.6	0.0			0.8	1.4		

Note: real rates = nominal rates deflated by inflation expected by selected economic sectors according to the CNB statistical survey
Starting from January 2004, the methodology for new credits and time deposits was changed. Newly drawn credits were replaced by newly granted credits.

KORUNA INTEREST RATES (stock of business)

percentages

	2000	2001	2002	2003	2004
	12	12	12	12	8
Koruna interest rates on loans provided by banks to residents:					
Households and non-profit institutions serving households (S.14+S.15) - total		8.74	8.77	8.24	8.07
- maturity up to 1 year		8.20	10.35	11.21	12.73
- maturity over 1 year and up to 5 years		10.55	10.80	10.17	12.06
- maturity over 5 years		8.02	7.35	6.65	6.45
- for consumption - total			13.83	13.83	15.05
- maturity up to 1 year			13.05	14.26	15.65
- maturity over 1 year and up to 5 years			14.48	13.86	15.28
- maturity over 5 years			12.55	13.21	13.37
- for house purchase - total			7.11	6.31	6.11
- maturity up to 1 year			7.67	6.24	4.75
- maturity over 1 year and up to 5 years			7.90	7.05	6.80
- maturity over 5 years			6.88	6.09	6.05
- other - total			6.99	7.80	7.37
- maturity up to 1 year			6.64	8.49	8.49
- maturity over 1 year and up to 5 years			6.34	8.02	7.54
- maturity over 5 years			7.61	7.02	6.69
Non-financial corporations (S.11) - total		6.84	5.19	4.53	4.63
- maturity up to 1 year		6.32	4.34	4.08	4.26
- maturity over 1 year and up to 5 years		6.93	5.47	4.64	4.48
- maturity over 5 years		7.52	6.34	5.14	5.27
Koruna interest rates on deposits accepted by banks from residents:					
Households and non-profit institutions serving households (S.14+S.15) - total		2.63	1.72	1.30	1.35
- overnight		1.42	0.94	0.50	0.50
- with agreed maturity - total		3.11	2.26	2.02	2.12
- with agreed maturity up to 2 years			1.68	0.96	1.23
- with agreed maturity over 2 years			3.04	2.90	2.78
- redeemable at notice - total			1.81	1.26	1.44
- redeemable at notice up to 3 months			1.93	1.67	1.87
- redeemable at notice over 3 months			1.73	0.98	1.10
- repurchase agreements					
Non-financial corporations (S.11) - total		1.96	1.25	0.85	1.22
- overnight		1.00	0.94	0.64	0.73
- with agreed maturity - total		3.62	2.16	1.50	1.97
- with agreed maturity up to 2 years			2.15	1.49	1.94
- with agreed maturity over 2 years			3.47	3.04	3.13
- redeemable at notice - total			1.64	1.17	1.48
- redeemable at notice up to 3 months			1.60	1.14	1.41
- redeemable at notice over 3 months			2.26	1.32	1.92
- repurchase agreements			2.42	0.75	2.33

BALANCE OF PAYMENTS 1)

in CZK millions

	2000	2001	2002	2003	2004 2)
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q2
A. Current account	**-104 877.1**	**-124 478.3**	**-136 378.1**	**-157 217.9**	**-40 968.0**
Balance of trade 3)	-120 825.0	-116 685.0	-71 323.0	-69 392.0	-11 307.0
exports	1 121 099.0	1 269 634.0	1 254 394.0	1 371 810.0	442 025.0
imports	1 241 924.0	1 386 319.0	1 325 717.0	1 441 202.0	453 332.0
Services	54 559.8	57 984.9	21 850.8	13 236.7	6 262.7
credit	264 806.2	269 689.6	231 131.1	219 151.1	64 275.4
transport	53 734.3	57 492.3	56 560.5	60 556.3	18 918.1
travel	115 071.0	118 133.0	96 289.2	100 310.1	25 914.1
others	96 000.9	94 064.3	78 281.4	58 284.7	19 443.2
debit	210 246.4	211 704.7	209 280.3	205 914.4	58 012.7
transport	27 543.0	30 570.5	29 332.8	33 725.7	9 496.5
travel	49 370.0	52 802.0	51 549.3	54 419.2	13 676.8
others	133 333.4	128 332.2	128 398.2	117 769.5	34 839.4
Income	-52 978.4	-83 548.9	-115 615.0	-116 644.7	-38 704.9
credit	75 439.1	84 892.3	66 790.1	74 410.3	20 595.7
debit	128 417.5	168 441.2	182 405.1	191 055.0	59 300.6
Current transfers	14 366.5	17 770.7	28 709.1	15 582.1	2 781.2
credit	36 594.6	36 404.9	46 709.0	46 773.7	12 097.5
debit	22 228.1	18 634.2	17 999.9	31 191.6	9 316.3
B. Capital account	**-198.2**	**-330.7**	**-119.4**	**-82.2**	**507.8**
credit	223.4	90.4	221.0	198.2	648.3
debit	421.6	421.1	340.4	280.4	140.5
Total A + B	*-105 075.3*	*-124 809.0*	*-136 497.5*	*-157 300.1*	*-40 460.2*
C. Financial account	**148 046.6**	**172 849.9**	**347 827.4**	**163 854.2**	**38 468.3**
Direct investment	190 767.4	208 296.1	270 930.2	66 353.0	28 057.2
abroad	-1 653.7	-6 289.2	-6 759.3	-6 546.5	-361.5
equity capital and reinvested earnings	-1 245.9	-5 848.5	-5 376.8	-324.1	-208.8
other capital	-407.8	-440.7	-1 382.5	-6 222.4	-152.7
in the Czech Republic	192 421.1	214 585.3	277 689.5	72 899.5	28 418.7
equity capital and reinvested earnings	171 777.2	185 981.4	270 061.0	66 811.9	29 084.0
other capital	20 643.9	28 603.9	7 628.5	6 087.6	-665.3
Portfolio investment	-68 172.9	34 857.3	-46 748.7	-37 715.0	38 452.0
assets	-86 631.8	4 405.6	-75 602.1	-85 888.6	-21 654.4
equity securities	-44 181.0	9 447.8	-7 807.9	5 630.5	-665.5
debt securities	-42 450.8	-5 042.2	-67 794.2	-91 519.1	-20 988.9
liabilities	18 458.9	30 451.7	28 853.4	48 173.6	60 106.4
equity securities	23 810.9	23 203.6	-9 035.7	30 133.5	8 567.1
debt securities	-5 352.0	7 248.1	37 889.1	18 040.1	51 539.3
Financial derivatives	-1 402.8	-3 220.3	-4 281.7	3 860.1	4 256.8
assets	-4 501.6	-9 407.6	-15 458.4	7 083.7	4 739.1
liabilities	3 098.8	6 187.3	11 176.7	-3 223.6	-482.3
Other investment	26 854.9	-67 083.2	127 927.6	131 356.1	-32 297.7
assets	35 832.1	-46 144.5	133 121.8	67 045.4	-48 505.5
long-term	21 322.2	1 325.8	28 711.4	1 115.4	-499.3
CNB					-179.7
commercial banks	14 362.2	-4 125.8	5 271.7	-999.9	-696.0
government	2 937.0	6 928.9	25 333.6	5 688.4	1 208.1
other sectors	4 023.0	-1 477.3	-1 893.9	-3 573.1	-831.7
short-term	14 509.9	-47 470.3	104 410.4	65 930.0	-48 006.2
commercial banks	22 001.9	-45 523.2	122 163.8	44 971.2	-60 394.5
government		-87.1	-2 237.4	2 193.8	1 413.3
other sectors	-7 492.0	-1 860.0	-15 516.0	18 765.0	10 975.0
liabilities	-8 977.2	-20 938.7	-5 194.2	64 310.7	16 207.8
long-term	-26 212.5	-4 262.6	2 853.8	21 349.6	6 834.3
CNB	-22.8	-22.0	-20.2	-20.4	
commercial banks	-31 523.7	-7 222.2	-8 059.2	-1 663.8	-1 483.9
government	-1 837.6	-5 000.8	-1 517.2	10 304.7	818.3
other sectors	7 171.6	7 982.4	12 450.4	12 729.1	7 499.9
short-term	17 235.3	-16 676.1	-8 048.0	42 961.1	9 373.5
CNB	-17.0	59.7	-24.3	-21.4	2 645.4
commercial banks	-3 812.5	-35 688.6	-3 871.2	37 899.4	-4 027.1
government					
other sectors	21 064.8	18 952.8	-4 152.5	5 083.1	10 755.2
Total A + B + C	*42 971.3*	*48 040.9*	*211 329.9*	*6 554.1*	*-1 991.9*
D. Net errors and omissions, valuation changes	**-11 378.5**	**19 112.1**	**5 615.1**	**6 349.3**	**790.1**
Total A + B + C + D	*31 592.8*	*67 153.0*	*216 945.0*	*12 903.4*	*-1 201.8*
E. Change in reserves (- increase)	**-31 592.8**	**-67 153.0**	**-216 945.0**	**-12 903.4**	**1 201.8**

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

	2000	2001	2002	2003	2004
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	30 Jun. 1)
ASSETS	1 448 400.7	1 544 963.0	1 579 922.9	1 527 647.8	1 583 669.7
Direct investment abroad	27 899.3	41 176.1	44 397.1	49 040.0	51 020.0
- equity capital	24 797.5	37 633.6	39 472.1	38 005.0	39 850.0
- other capital	3 101.8	3 542.5	4 925.0	11 035.0	11 170.0
Portfolio investment	180 431.3	185 138.6	274 344.7	343 854.4	352 233.2
- equity securities	92 222.9	68 675.5	86 464.7	47 337.7	55 937.8
- debt securities	88 208.4	116 463.1	187 880.0	296 516.7	296 295.4
Financial derivatives	6 347.2	15 754.8	31 213.2	24 129.5	20 154.6
Other investment	736 903.7	778 435.7	515 356.2	419 109.0	468 392.6
Long-term	315 625.5	310 133.9	179 639.6	157 598.6	156 617.8
- CNB	329.1	307.3	280.9	468.4	653.5
- commercial banks	75 537.9	79 663.7	67 966.9	66 121.3	64 087.0
- government	220 777.8	210 694.9	97 156.8	79 483.9	78 327.3
- other sectors	18 980.7	19 468.0	14 235.0	11 525.0	13 550.0
Short-term	421 278.2	468 301.8	335 716.6	261 510.4	311 774.8
- CNB	52.9	51.2	376.7	98.8	76.2
- commercial banks	314 115.3	359 638.5	213 815.4	161 140.9	200 089.8
of which: gold and foreign exchange	228 961.7	257 138.6	163 032.9	115 875.5	112 781.2
- government		87.1	2 324.5	130.7	28.8
- other sectors	107 110.0	108 525.0	119 200.0	100 140.0	111 580.0
CNB reserves	496 819.2	524 457.8	714 611.7	691 514.9	691 869.3
- gold	4 640.4	4 469.9	4 653.8	4 784.3	4 571.4
- SDR	7.7	31.0	137.1	238.7	40.3
- reserve position in the IMF	116.0	5 478.3	7 081.5	11 949.9	11 865.8
- foreign exchange	491 001.2	514 188.0	686 516.1	674 451.8	675 314.9
- other reserve assets	1 053.9	290.6	16 223.2	90.2	76.9
LIABILITIES	1 640 270.0	1 789 030.7	1 977 177.7	2 143 363.3	2 259 249.0
Direct investment in the Czech Republic	818 411.6	982 335.0	1 165 529.1	1 219 263.4	1 277 365.2
- equity capital	702 217.8	837 537.3	1 013 102.9	1 063 633.4	1 121 505.2
- other capital	116 193.8	144 797.7	152 426.2	155 630.0	155 860.0
Portfolio investment	164 592.0	180 346.2	201 120.0	248 782.8	342 935.9
- equity securities	115 670.6	128 740.1	128 097.7	165 951.0	204 958.0
- debt securities	48 921.4	51 606.1	73 022.3	82 831.8	137 977.9
Financial derivatives	5 307.9	11 495.2	22 671.9	19 448.3	19 418.7
Other investment	651 958.5	614 854.3	587 856.7	655 868.8	619 529.2
Long-term	352 323.4	332 593.2	326 321.3	355 276.9	362 793.1
- CNB	180.4	133.4	114.5	96.1	83.7
- commercial banks	84 607.4	73 688.6	63 541.0	61 454.0	61 893.9
- government	19 699.2	9 476.2	9 475.8	22 456.0	25 184.1
- other sectors	247 836.4	249 295.0	253 190.0	271 270.8	275 631.4
Short-term	299 635.1	282 261.1	261 535.4	300 591.9	256 736.1
- CNB	8.8	68.5	44.2	22.8	2 659.6
- commercial banks	226 176.2	190 487.6	176 196.2	208 534.1	137 701.5
- government					
- other sectors	73 450.1	91 705.0	85 295.0	92 035.0	116 375.0
NET INVESTMENT POSITION	-191 869.3	-244 067.7	-397 254.8	-615 715.5	-675 579.3

1) Preliminary data

EXTERNAL DEBT

in CZK millions

	2000	2001	2002	2003	2004
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	30 Jun. 1)
DEBT IN CONVERTIBLE CURRENCIES	808 122.8	811 258.1	813 305.2	894 330.6	913 367.1
of which:					
Long-term	464 323.8	465 687.8	498 833.8	538 585.7	598 916.0
By debtor					
- CNB	180.4	133.4	114.5	96.1	83.7
- commercial banks	95 737.1	88 401.4	80 063.7	76 674.1	82 522.3
- government	29 753.5	30 839.2	47 701.3	69 029.9	117 813.3
- other sectors	338 652.8	346 313.8	370 954.3	392 785.6	398 496.7
By creditor					
- foreign banks	228 709.6	229 305.5	230 589.8	246 533.0	255 674.5
- government institutions	3 405.7	2 373.6	1 747.2		
- multilateral institutions	67 521.2	70 879.0	69 894.7	83 779.6	83 353.9
- suppliers and direct investors	99 560.2	105 944.3	118 829.4	116 880.0	115 680.0
- other investors	65 127.1	57 185.4	77 772.7	91 393.1	144 207.6
Short-term	343 799.0	345 570.3	314 471.4	355 744.9	314 451.1
By debtor					
- CNB	8.8	68.5	44.2	22.8	2 659.6
- commercial banks	226 246.1	192 438.4	177 474.4	210 017.1	138 692.8
- government	2 115.0	465.0	761.0	710.0	3 004.8
- other sectors	115 429.1	152 598.4	136 191.8	144 995.0	170 093.9
By creditor					
- foreign banks	203 333.8	192 126.4	168 200.7	219 391.2	149 558.8
- multilateral institutions					2 615.5
- suppliers and direct investors	106 988.6	116 278.4	112 256.8	101 210.0	123 795.0
- other investors	33 476.6	37 165.5	34 013.9	35 143.7	38 481.8
DEBT IN NON-CONVERTIBLE CURRENCIES	8 950.9				
of which:					
- long-term	8 950.9				
- short-term					
TOTAL EXTERNAL DEBT	817 073.7	811 258.1	813 305.2	894 330.6	913 367.1
of which:					
- long-term	473 274.7	465 687.8	498 833.8	538 585.7	598 916.0
- short-term	343 799.0	345 570.3	314 471.4	355 744.9	314 451.1
Total long-term debt	473 274.7	465 687.8	498 833.8	538 585.7	598 916.0
of which:					
- IMF loans					
- liabilities of government sector and guaranteed by government, and liabilities of entities majority owned by state	245 389.0	203 102.3	207 325.2	222 120.9	258 031.7
- liabilities of entities with majority private capital	227 885.7	262 585.5	291 508.6	316 464.8	340 884.3

1) Preliminary data

EXCHANGE RATES

A. NOMINAL RATE

in CZK; foreign exchange market rates

	2000	2001	2002	2003	2004
	1-12	1-12	1-12	1-12	6-9
CZK EXCHANGE RATE AGAINST SELECTED CURRENCIES					
- annual/quarterly averages					
1 EUR	35.61	34.08	30.81	31.84	31.59
1 USD	38.59	38.04	32.74	28.23	25.86
100 SKK	83.64	78.68	72.22	76.75	78.92
	12	12	12	12	9
- monthly averages					
1 EUR	34.82	32.59	31.19	32.31	31.60
1 USD	38.94	36.48	30.65	26.32	25.88
100 SKK	80.07	75.61	74.67	78.57	78.90
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	30 Sep.
- last day of the month					
1 EUR	35.09	31.98	31.60	32.41	31.66
1 USD	37.81	36.26	30.14	25.65	25.51
100 SKK	79.70	74.81	75.18	78.71	79.04

B. NOMINAL EFFECTIVE RATE

	2000	2001	2002	2003	2004
					9
CZK nominal effective exchange rate (percentages) (2000=100)					
weights - foreign trade turnover	100.0	104.3	116.5	116.0	117.1
weights - foreign trade turnover SITC 5-8	100.0	104.4	116.1	115.6	116.3

Drawing on CZSO 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

	2000	2001	2002	2003	2004
					8
CZK real effective exchange rate (percentages) (2000=100)					
a) industrial producer prices					
weights - foreign trade turnover	100.0	104.0	114.9	111.2	114.8
weights - foreign trade turnover SITC 5-8	100.0	104.6	115.6	112.0	116.4
b) consumer prices					
weights - foreign trade turnover	100.0	105.5	116.7	112.6	113.5
weights - foreign trade turnover SITC 5-8	100.0	106.2	117.5	113.4	114.7

Source: CZSO - 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

	2000	2001	2002	2003	2004
	1-12	1-12	1-12	1-12	1-9
STATE BUDGET					
TOTAL REVENUE	586.2	626.2	705.0	699.7	559.3
Tax revenue	559.5	598.3	627.4	667.5	520.8
Taxes on income, profits and capital gains	87.0	147.4	159.0	172.9	137.0
Domestic taxes on goods and services	216.8	187.0	186.9	198.4	154.0
- value-added taxes	145.9	121.3	118.1	125.6	94.4
- excises	70.9	65.7	68.9	72.9	59.7
Taxes on international trade and transactions	13.6	10.0	9.8	10.2	4.6
Taxes on property	6.0	6.4	7.9	8.8	7.7
Social and health security contributions and payroll taxes	222.2	242.3	258.5	272.4	214.3
Non-tax and capital incomes and received subsidies	26.7	27.9	77.7	32.2	38.5
TOTAL EXPENDITURE	632.3	693.9	750.8	808.7	599.8
Current expenditure	571.4	642.5	697.3	745.4	571.7
Capital expenditure	60.9	51.4	53.5	63.3	28.2
Public budgets (balance in IMF GFS methodology)	-62.0	-52.3	-11.8	-130.2	
state budget	-46.1	-67.7	-45.7	-109.1	-40.5
local budget	-2.5	-11.2	-4.3	-2.9	
state financial assets	-5.7	.	.	.	
state funds	2.6	11.2	12.3	7.1	
Land Fund	-0.5	-0.1	-0.5	-0.7	
National Property Fund	-11.5	13.2	28.4	-27.0	
health insurance companies	2.1	1.4	-1.2	0.1	
others	-0.4	0.9	-0.8	2.3	

CAPITAL MARKET

A. STOCK MARKET INDICES

last day of the month in points

	2000	2001	2002	2003	2004
	12	12	12	12	9
BCPP					
PX 50	478.5	394.6	460.7	659.1	875.4
PX-D	1366.0	1065.6	1166.4	1642.7	2176.6
PX-GLOB	570.6	492.9	576.8	816.9	1064.5
RM-SYSTÉM					
PK-30	724.8	593.0	672.5	947.5	1225.7

B. TRADE VOLUMES

in CZK millions

	2000	2001	2002	2003	2004
	12	12	12	12	9
BCPP					
Monthly trade volumes	73 240.5	142 803.6	109 264.8	98 640.0	86 165.2
of which:					
a) shares	11 113.9	12 819.3	17 089.3	28 296.0	37 679.2
b) units	61.3	4.3	0.0	0.0	0.0
c) bonds	62 065.3	129 980.0	92 175.5	70 344.0	48 486.0
RM-SYSTÉM					
Monthly trade volumes	4 861.7	2 162.5	4 412.1	1 103.0	1 000.9
of which:					
a) shares	4 190.1	1 841.0	298.4	1 082.5	979.2
b) units	25.9	212.2	1.0	3.7	1.1
c) bonds	645.7	109.3	4 112.7	16.8	20.6

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		
26 June	2.25	1.25	3.25		
1 August	2.00	1.00	3.00		
	2004				
25 June	2.25	1.25	3.25		
27 August	**2.50**	**1.50**	**3.50**		

MACROECONOMIC AGGREGATES

in CZK millions; annual percentage changes; constant 1995 prices

	2000	2001	2002	2003	2004
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q2
GROSS DOMESTIC PRODUCT					
- in CZK millions	1 576 298	1 617 894	1 641 996	1 693 113	450 980
- percentages	3.9	2.6	1.5	3.1	4.1
FINAL CONSUMPTION					
- in CZK millions	1 180 533	1 215 691	1 255 828	1 307 373	331 794
- percentages	2.1	3.0	3.3	4.1	2.1
of which:					
Households					
- in CZK millions	828 009	851 305	874 649	917 763	236 729
- percentages	2.9	2.8	2.7	4.9	3.4
Government					
- in CZK millions	342 498	355 593	371 673	379 798	92 204
- percentages	0.2	3.8	4.5	2.2	-1.1
Non-profit institutions					
- in CZK millions	10 026	8 793	9 506	9 812	2 861
- percentages	-0.2	-12.3	8.1	3.2	17.4
GROSS CAPITAL FORMATION					
- in CZK millions	502 489	534 349	552 819	584 346	177 817
- percentages	9.2	6.3	3.5	5.7	13.9
of which:					
Fixed capital					
- in CZK millions	481 636	507 629	524 964	563 602	161 606
- percentages	4.9	5.4	3.4	7.4	12.8
Changes in inventories					
- in CZK millions	20 688	26 627	27 731	20 631	16 183
Acquisitions less disposals of valuables					
- in CZK millions	165	93	124	113	28
- percentages	143.5	-43.8	33.0	-8.3	-3.7
TRADE BALANCE					
- in CZK millions	-116 268	-144 089	-179 430	-215 257	-64 774
of which:					
Exports of goods					
- in CZK millions	969 070	1 109 034	1 175 324	1 267 947	392 581
- percentages	19.6	14.4	6.0	7.9	24.1
Exports of services					
- in CZK millions	195 044	192 798	162 181	152 471	44 395
- percentages	4.8	-1.2	-15.9	-6.0	17.0
Imports of goods					
- in CZK millions	1 085 433	1 244 593	1 302 315	1 425 269	442 989
- percentages	20.0	14.7	4.6	9.4	26.2
Imports of services					
- in CZK millions	194 949	201 328	214 620	210 406	58 761
- percentages	-1.6	3.3	6.6	-2.0	14.1
FINAL DOMESTIC DEMAND					
- in CZK millions	1 662 169	1 723 320	1 780 792	1 870 975	493 400
- percentages	2.9	3.7	3.3	5.1	5.4
AGGREGATE DOMESTIC DEMAND					
- in CZK millions	1 683 022	1 750 040	1 808 647	1 891 719	509 611
- percentages	4.1	4.0	3.3	4.6	6.0
GROSS DOMESTIC PRODUCT AT CURRENT PRICES					
- in CZK millions	2 150 058	2 315 255	2 414 669	2 532 388	702 836
- percentages	5.3	7.7	4.3	4.9	8.2

Source: CZSO

LABOUR MARKET

A. NATIONAL ACCOUNTS FOR THE HOUSEHOLD SECTOR

annual percentage changes

	2000	2001	2002	2003	2004
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q2
Current income	5.0	5.7	6.4	4.3	5.6
of which:					
- gross operating surplus and mixed income	7.2	8.3	2.4	4.0	8.6
- compensation of employees	3.8	6.8	8.5	5.8	3.8
- property income	-11.5	0.8	-0.9	-13.5	8.9
- social benefits other than social transfers in kind	9.6	4.6	8.0	3.4	9.4
- other current transfers	13.7	-9.0	4.1	8.0	-4.0
Current expenditure	7.2	6.6	8.4	7.0	6.8
of which:					
- property income	-5.7	1.7	15.1	2.0	21.6
- current taxes on income, wealth, etc.	7.1	5.9	8.2	9.4	7.0
- social contributions	8.2	6.8	8.9	6.5	6.3
- other current transfers	6.9	8.5	4.7	7.2	4.5
Gross disposable income	4.1	5.3	5.6	3.1	5.0
Change in net equity of households in pension funds reserves	24.6	23.9	22.6	16.1	10.6
Individual consumption expenditure	6.0	6.4	3.5	4.2	5.1
Gross saving	-11.7	-4.7	31.8	-6.3	4.8
Gross savings rate	8.77	7.93	9.90	9.00	9.70
(gross saving/gross disposable income - ratio in per cent)					

B. AVERAGE WAGES

annual percentage changes

	2000	2001	2002	2003	2004
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q2
Whole-economy nominal wage	5.9	8.1	7.0	6.4	4.2
Business sector	6.9	7.7	6.3	5.5	5.4
Non-business sector	2.6	9.6	9.8	9.8	-0.6
Whole-economy real wage	1.9	3.2	5.1	6.3	1.6
Business sector	2.9	2.9	4.4	5.4	2.7
Non-business sector	-1.3	4.7	7.9	9.7	-3.1

Note: including data for the Ministry of Defence and the Ministry of the Interior and an estimate for intelligence services not included in the survey.

C. UNEMPLOYMENT

end of period

	2000	2001	2002	2003	2004
	12	12	12	12	9
Registered job applicants (thousands)	457.4	461.9	514.4	542.4	530.2
Unemployment rate (percentages)	8.8	8.9	9.8	10.3	10.1

Source: CZSO

PRODUCER PRICES

percentage changes

	2000	2001	2002	2003	2004
					9
INDUSTRIAL PRODUCER PRICES					
a) previous month = 100	0.4	0.1	-0.1	0.1	0.3
b) same period of last year = 100	4.9	2.9	-0.5	-0.3	8.0
c) average for 2000 = 100	0.0	2.8	2.3	1.9	9.8
d) December 1999 = 100	3.4	6.3	5.8	5.4	13.5
CONSTRUCTION WORK PRICES					
a) previous month = 100	0.4	0.3	0.2	0.2	0.1
b) same period of last year = 100	4.0	4.1	2.7	2.2	4.5
c) average for 2000 = 100	0.0	4.1	6.9	9.2	14.6
d) December 1999 = 100	2.3	6.5	9.3	11.7	17.2
AGRICULTURAL PRODUCER PRICES					
b) same period of last year = 100	9.2	8.4	-9.5	-2.9	1.0
of which:					
crop products					
b) same period of last year = 100	12.6	9.3	-4.6	-1.0	-5.9
livestock products					
b) same period of last year = 100	8.0	8.0	-12.1	-4.0	5.0
MARKET SERVICES PRICES (excluding interest rates)					
a) previous month = 100	0.4	0.1	0.3	0.0	0.4
b) same period of last year = 100	3.4	3.9	3.2	1.6	2.4
c) average for 2000 = 100	0.0	4.0	7.3	9.0	11.7
d) December 1999 = 100	0.6	4.6	8.0	9.7	12.4

Source: CZSO

RATIOS OF KEY INDICATORS TO GDP

percentage ratios

	2000	2001	2002	2003
State budget balance	-2.1	-2.9	-1.9	-4.3
Public budgets balance	-2.9	-2.3	-0.5	-5.1
Public debt	16.1	18.0	18.9	22.4
Debt in convertible currencies	37.6	35.0	33.7	35.3
Trade balance 1)	-5.6	-5.0	-3.0	-2.7
Current account balance	-4.9	-5.4	-5.6	-6.2
M2	65.7	68.9	68.4	69.7

Note: ratio = indicator/GDP at current prices
1) Source: CZSO

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