INFLATION REPORT / II

2009

CNB CZECH NATIONAL BANK

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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 quarterly Inflation Reports.

The forecast for inflation at the "monetary policy horizon" (about 12–18 months ahead) is of greatest relevance to the decision-making on the current interest rate settings. Section II of the Inflation Report describes economic and monetary developments in the previous quarter, which represent the starting conditions for the forecast for the Czech economy. Section III describes the forecast for the Czech economy as drawn up by the CNB's Monetary and Statistics Department.

The inflation forecast and the assumptions underlying it are published with the aim of making monetary policy as transparent, comprehensible, predictable and therefore credible as possible. The Czech National Bank is convinced that credible 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.

The forecast is the key, but not the only, input to the Bank Board's decision-making. At its meetings during the quarter, the Bank Board discusses the current forecast and the balance of risks and uncertainties surrounding it. The arrival of new information since the forecast was drawn up and the possibility of asymmetric assessment of the risks of the forecast and divergent views of some board members on the development of the external environment or the linkages between the various indicators within the Czech economy mean that the Bank Board's final decision need not correspond to the message of the forecast. Information on the Bank Board's discussions at the past two meetings and on the reasons for its monetary policy measures in that period is given in the minutes of the Bank Board meetings at the end of this Inflation Report.

This Inflation Report was approved by the CNB Bank Board on 14 May 2009 and contains the information available as of 24 April 2009.

Unless stated otherwise, the sources of the data contained 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/. Underlying data for the tables and charts in the text of this Inflation Report are published at the same internet address.

Chart I.1 Fulfilment of the inflation target
Inflation declined significantly in 2009 Q1 and fluctuated close to the lower boundary of the inflation-target tolerance band
(annual percentage changes)

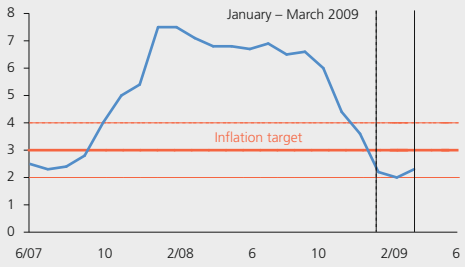


Table I.1 Key macroeconomic indicators
Czech economic growth slowed sharply in 2008 Q4 and unemployment rose substantially at the beginning of 2009
(annual percentage changes unless otherwise indicated)

	12/08	1/09	2/09	3/09
Consumer price inflation	3.6	2.2	2.0	2.3
Industrial producer price inflation	-0.2	-0.8	-0.6	-2.0
Money supply growth (M2)	6.5	8.6	8.5	-
3M PRIBOR[a)] (in per cent)	3.9	3.1	2.5	2.5
CZK/EUR exchange rate[a)] (level)	26.11	27.17	28.46	27.23
CZK/USD exchange rate[a)] (level)	19.48	20.54	22.26	20.89
State budget balance since January[b)] (CZK bn)	-19.4	0.5	5.4	-2.4
GDP growth at constant prices[c), d)]	0.7			-
Average nominal wage[c)]	8.3			-
Unemployment rate[e)] (in per cent)	6.0	6.8	7.4	7.7

a) average level for the month
b) including SFAOs, end-of-month position
c) figure for the quarter ending with the given month
d) seasonally adjusted
e) registered unemployment (MLSA); end-of-month position

Inflation declined significantly in 2009 Q1 and hovered in the lower half of the inflation-target tolerance band, close to its lower boundary (see Chart I.1). Economic growth slowed sharply in 2008 Q4 as a result of the deepening global economic crisis. The Bank Board lowered monetary policy rates by 0.50 percentage point at the beginning of February 2009. The current forecast expects an annual decline in economic activity in 2009 due to the global financial and economic crisis. In 2010, economic activity should rise gradually again. Inflation will be at low levels below the inflation-target tolerance band for the remainder of 2009. In the course of 2010, inflation will start rising, reaching the CNB's 2% inflation target at the end of the year. Consistent with the forecast is a decline in market interest rates this year followed by a modest rise in 2010. At its meeting in May, the Bank Board assessed the risks of the forecast as balanced amid still high rate of uncertainty and decided by a majority of the votes cast to lower the monetary policy rates by 0.25 percentage points.

The monetary policy decision-making of the CNB Bank Board in 2009 Q1 was based on the inflation forecast published in the previous Inflation Report. At the monetary policy horizon, both headline and monetary-policy relevant inflation was expected, according to the forecast, to hit the CNB's 2% inflation target valid from 2010 after temporarily declining almost to zero during 2009. Consistent with the baseline scenario of the macroeconomic forecast and its assumptions was a decline in market interest rates.

At its meeting in February, the Bank Board decided by a majority vote to lower monetary policy interest rates by 0.50 percentage point with effect from 6 February. The board members agreed that an interest rate cut was the appropriate response to the current situation, but differed in their opinion on the size of the reduction. The decrease in interest rates was consistent with the forecast and its risks. The Bank Board assessed these risks as being anti-inflationary overall in the context of the external environment. By contrast, the Board expected the weaker exchange rate of the koruna to have inflationary effects. At its March meeting, in addition to these risks the Bank Board mentioned the generally easier monetary conditions and the February inflation developments as possible inflationary risks and left interest rates unchanged.

The markets had been expecting interest rates to be lowered at the Bank Board's February monetary policy meeting, so money market interest rates had already started falling gradually in January. The decline at maturities of one month and over was roughly twice the size of the subsequent lowering of monetary policy rates. This was due to the pass-through of previous reductions in monetary policy rates, to which market rates responded only gradually. Market rates at all maturities were relatively stable in the remainder of the first quarter.

The exchange rate of the koruna depreciated by roughly 10% against the dollar and by 9% against the euro on average in 2009 Q1 compared to the previous quarter, despite a persisting positive interest rate differential. The koruna depreciated from the start of the year until roughly mid-February, when this trend was halted by verbal intervention by the CNB. In roughly mid-March the koruna regained its positions from the start of the year and maintained them in the period that followed. The high degree of exchange rate volatility in the absence of any major rate-determining factors suggests that sentiment was changing markedly in the market.

Economic activity is weakening significantly as a result of falling external demand. Annual GDP growth fell sharply in 2008 Q4. The slowdown mainly reflected a negative growth contribution of foreign trade. The GDP growth was supported by household consumption and, to a lesser extent, by additions to

inventories. In quarter-on-quarter terms, GDP decreased for the first time since 1998 Q3. The data on developments in industry, construction and retail trade indicate a continuing fall in economic activity at the beginning of this year.

In conditions of a pronounced decline in economic growth, the labour market situation started to worsen in 2008 Q4. Annual employment growth slowed further and the number of vacancies fell. This affected the unemployment rate, whose year-on-year decline moderated and was replaced in 2009 Q1 by a sharp increase. Wage growth in the business sector slowed only slightly at the end of last year despite the deteriorating labour market conditions. A rise in wage growth in the non-business sector led to a slight increase in overall wage growth. The sizeable decrease in inflation generated an upswing in real wage growth. However, data from the industry and construction sectors for the first two months this year indicate a sharp fall in wage growth.

Inflation continued to fall apace in 2009 Q1. Overall, this meant its level was roughly half that in the previous quarter. The pronounced slowdown in annual consumer price inflation was due in large part to the fading effects of changes to indirect taxes and a large rise in regulated prices at the beginning of last year. The effect of the price categories affected by the slump in the Czech and global economies was far smaller. Food prices and, to a lesser extent, fuel prices and regulated prices contributed to the fact that actual inflation in 2009 Q1 was more than 0.5 percentage point higher than forecasted in the previous Inflation Report.

Section III of this Inflation Report describes the CNB's latest forecast, which takes into account new information obtained since the previous forecast was drawn up. The Czech economy is in the downward phase of the business cycle and the decline is faster than predicted by the previous forecast. However, the forecast still identifies inflationary cost pressures. The strong depreciation of the exchange rate spilled over to growth in import prices, which started to be inflationary and outweighed the anti-inflationary effect of the fading domestic cost pressures.

Headline inflation will continue to fall this year to low, but still positive values (see Chart I.2). In 2010, it will start rising again, reaching the 2% inflation target at the end of the year. At the monetary policy horizon, i.e. in 2010 Q2 and Q3, headline inflation will be in the lower half of the new inflation-target tolerance band.

Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, will be temporarily affected from the second half of 2009 by the transfer of selected services to the lower VAT rate. It will thus be roughly 0.4 percentage point higher than headline inflation for four quarters. In 2010 H2, monetary-policy relevant inflation is forecasted to be the same as headline inflation.

The forecast expects a relatively sharp slowdown in economic activity, manifesting itself in a decline in GDP of 2.4% in 2009 (see Chart I.3). This will be due chiefly to a decline in external demand for Czech exports resulting from the global financial and economic crisis. In 2010, in line with a modest expected recovery of external demand, the forecast expects the economy to gradually return to growth, which should exceed 1% on average.

Consistent with the macroeconomic forecast and its assumptions is a decline in market interest rates this year followed by a modest rise in 2010 (see Chart I.4). The koruna-euro exchange rate will initially continue to correct the depreciation observed in the first two months of the year and should be broadly flat in the remainder of the forecast period (see Chart I.5).

Chart I.2 The headline inflation forecast

At the monetary policy horizon, the headline inflation forecast is in the lower half of the inflation-target tolerance band and is rising towards the target

(annual percentage changes)

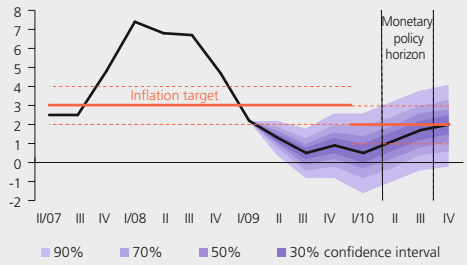


Chart I.3 The GDP growth forecast

After a decline in economic activity this year a moderate recovery will take place in 2010

(annual percentage changes; seasonally adjusted)

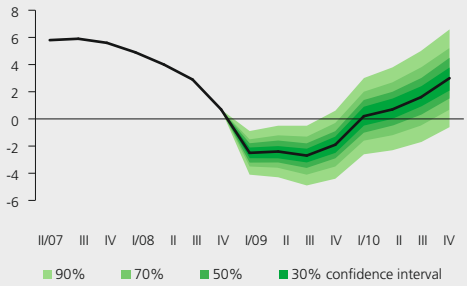


Chart I.4 The interest rate forecast

Consistent with the forecast is a decline in market interest rates this year followed by a modest rise in 2010

(3M PRIBOR, %)

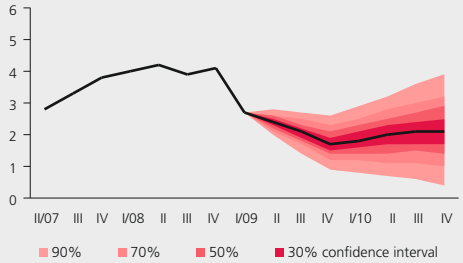
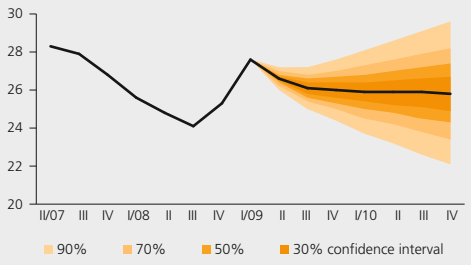


Chart I.5 The exchange rate forecast

The nominal exchange rate will initially appreciate slightly and will then be broadly stable

(CZK/EUR)



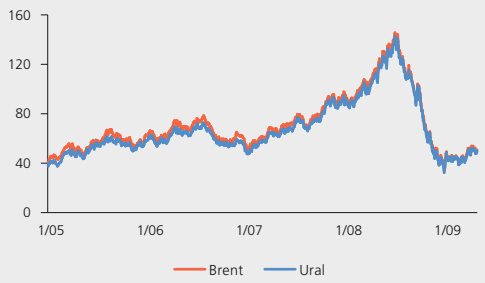
At its meeting in May the Bank Board assessed the risks of the forecast as balanced, however, it stated the persisting high degree of uncertainty. According to the Bank Board, smaller-than-expected fall in nominal wage growth can have an inflationary effect, while, conversely, deeper and longer-lasting downturn of the economy activity abroad can have an anti-inflationary effect. In line with the forecast, the Bank Board decided by a majority of the votes cast to cut the monetary interest rates by 0.25 percentage point. Five members voted in favour of this decision, and two members voted for leaving rates unchanged.

II.1 The external environment

The economic crisis, which started in the summer of 2007 with turmoil in the financial markets, has deepened since the second half of 2008 and has hit the whole world. GDP declined year on year in the USA and in the euro area in 2008 Q4. The exchange rate of the dollar fluctuated over a wide range in 2009 Q1 and in April, but its average value was almost unchanged from the previous quarter. The price of Brent crude oil stabilised after a previous sharp fall.

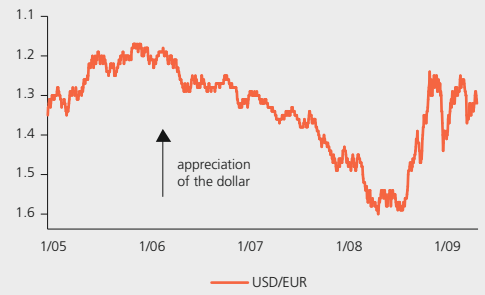
The economic crisis caused a year-on-year decline of 0.8% in US GDP in 2008 Q4, whereas in the previous quarter it had increased by 0.7%. Household consumption and in particular fixed investment declined year on year, the decline being partly offset by higher government consumption and a fall in imports, which exceeded the decline in exports. The goods and services deficit thus decreased by USD 33 billion. The statistical data on GDP growth in 2009 Q1 are not yet available, but a further acceleration of its fall can be expected. Industrial production fell by 11.4% in this period year on year and retail trade turnover declined by 10% in the first two months. The unemployment rate rose by 3.1 percentage point year on year on average in Q1, reaching 8.5% in March compared to 5.1% a year earlier. At least 650,000 people lost their jobs each month in this period. By contrast, the goods and services deficit fell to USD 26 billion in February from USD 36 billion in January (seasonally adjusted) thanks mainly to a pronounced improvement in the trade balance. The sum of the goods and services deficits for January and February 2009 is roughly half that in the same period a year earlier, and the monthly deficits have been falling for seventh consecutive month.

Chart II.1 Brent and Ural crude oil prices
The price of Brent crude oil rose slightly in 2009 Q1 and April compared to the end of 2008
(USD/barrel)



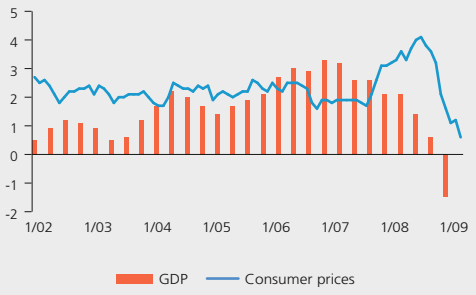
Annual consumer price inflation in the USA returned to a decline in March (of 0.4%), after recording a modest rise of 0.1% in February due to a temporary rise in energy prices. The March decline was a result of the overall economic slowdown and of lower prices of commodities, particularly energy. The price of Brent crude oil fell by 15% on average in 2009 Q1 and in April compared to the previous quarter. It stabilised in this period, moving within a relatively narrow range of USD 39–54 a barrel (see Chart II.1). The Fed, which lowered its key rate to 0–0.25% in December 2008, announced at the FOMC meeting in March that it would leave this rate at this level for an extended period. At the same time, the Fed also announced the official launch of a quantitative easing, involving the purchase of mortgage institutions' bonds and long-term government bonds. The Fed currently considers deflation to be a greater threat than inflation. In February, the US Congress approved a fiscal stimulus of almost USD 800 billion. In March, Secretary of the Treasury Timothy Geithner unveiled his plan to remove toxic assets from US banks' balance sheets. This plan combines public and private funds and determines the market price of these assets. Owing to the liquidation of risky foreign positions and the repatriation of capital to the USA, the dollar started to appreciate slightly against the euro at the end of 2008, firming from USD 1.41/EUR to USD 1.25/EUR (see Chart II.2). Signs of improving financial stability led to a decline in risk aversion and to a depreciation of the dollar to USD 1.37/EUR at the beginning of March. From then onwards, the dollar's exchange rate stayed within the range of USD 1.36–1.32/EUR with a slightly upward tendency.

Chart II.2 The dollar-euro exchange rate
The exchange rate of the dollar showed increased volatility in 2009 Q1 and April



In the euro area, GDP fell by 1.5% year on year in 2008 Q4, in contrast to the growth of 0.6% recorded in the previous quarter (see Chart II.3), owing to a strong decline in fixed investment and consumption and to decreasing exports, which fell more rapidly than imports. The current account deficit worsened by EUR 25 billion year on year. The rate of GDP growth for 2008 as a whole fell to 0.8% from 2.6% in 2007 as a result of the economic crisis. The downswing in economic activity was accompanied by a deterioration in public finances. The sum

Chart II.3 GDP and inflation in the euro area
In the euro area, GDP declined in 2008 Q4 and inflation continued falling in 2009 Q1
(annual percentage changes)

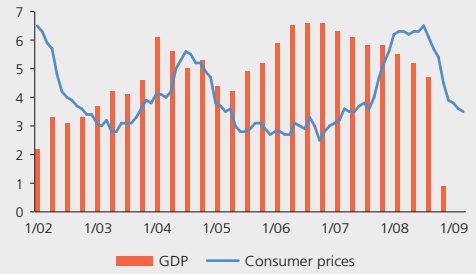


of the public budget deficits in the euro area rose by 1.3 percentage point to 1.9% of euro area GDP last year compared to 2007. The fall in GDP can be expected to accelerate in 2009 Q1, as industrial production decreased by more than 17%, retail turnover by 3% and industrial orders by 34% year on year in January and February. Unemployment continued to increase both month on month and year on year in February.

Inflation in the euro area fell to 0.6% in March from 1.2% in February, thanks to declining commodity and services prices. Industrial producer prices fell by almost 2% year on year in February, owing to a fall in energy prices. The ECB has cut its key rate three times this year, in total by 1.25 percentage point, to 1.25%. The General Council has moved to ease monetary policy because it expects inflation pressures, which have weakened markedly, to remain weak in the medium term as a result of continuing weak demand around the world and in the euro area. Inflation expectations are also anchored below 2% in line with the ECB's target. This view is supported by an analysis of monetary aggregates. M3 growth slowed further, falling to 5.9% in February as against 11.2% in 2008 Q1 and 8.1% in 2008 Q4.

GDP in Germany switched from growth of 0.8% in 2008 Q3 to a decline of 1.6% in Q4. This decline was due mainly to worsening net exports and also to decreasing household consumption and fixed investment. A negative effect of the external sector on GDP growth can also be expected in 2009 Q1. The current account worsened in January and February. The decline in external demand caused a sharp fall in orders of 39% in all industrial sectors in February and January and led to a sizeable decline in industrial production of 19%. The government is trying to offset this fall at least partly, among other things by increasing the budget for car trade-in contributions (the so called car-scrapping incentive) from EUR 1.5 billion to EUR 5 billion. Unemployment has not increased very much yet, rising by only 0.4 percentage point compared to November last year to 7.4% in February 2009, and declining by 0.2 percentage point year on year. Corporations are addressing the difficult situation by cutting working hours rather than by laying off workers. Annual inflation in Germany fell sharply in March, by 0.6 percentage point to 0.4%.

Chart II.4 GDP and inflation in the new EU Member States
In the "new" EU Member States, GDP growth slowed sharply in 2008 Q4 and inflation declined in 2009 Q1
(annual percentage changes)

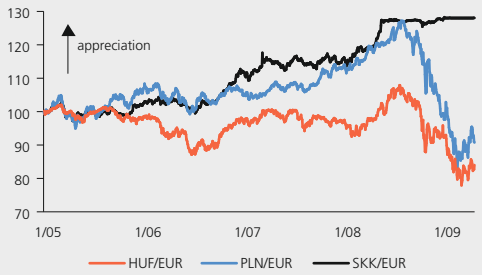


The Central European region was also hit by the economic crisis. Economic growth slackened in all the countries of the region (see Chart II.4). Poland, thanks to the size of its internal market, maintained solid dynamics of economic activity and became the fastest growing economy in the region. GDP in Hungary declined year on year. The Hungarian forint and the Polish zloty depreciated, remaining very volatile (see Chart II.5).

Annual GDP growth in Poland dropped by 1.8 percentage point in 2008 Q4 compared to the previous period, to 3.1%. The rate of growth of household and government consumption did not decrease, but investment growth slowed. A fall in exports amid modest import growth resulted in a deterioration in net exports. The 2009 Q1 figures indicate a further downswing in economic growth. The decline in external demand led to a fall in exports of 27% in January–February, resulting in a decrease of 13% in industrial production in Q1. Retail turnover growth slowed year on year in January and February, while industrial orders were down by 18%. The unemployment rate has been rising since November 2008 and reached 7.4% in February. Inflation went up by 0.4 percentage point in March, to 4%, as a result of a rise in food prices and some administrative prices. Industrial producer price inflation also increased in February. The NBP raised its key rate three times in 2009 Q1, by a total of 1.25 percentage points to 3.75%.

Thanks to EU and IMF assistance, Hungary averted the direct threat of financial crisis in October 2008, but its economy remains in a very difficult situation. GDP in Hungary decreased by 1.3% year-on-year in 2008 Q4 as a result of a decline in all domestic demand components. In addition, a further deepening of the decline in economic activity can be expected in Q1 this year. Exports, previously the main engine of the economy, showed a decline of more than 30% in January and February. This reflected a fall in industrial orders of 34% and led to a decline in industrial production of 23%. Retail turnover and construction output also fell, and unemployment increased both month on month and year on year. Despite the strong downswing in economic activity and falling inflation, the MNB cut its key rate only once during 2009 Q1 and April – by 0.5 percentage point to 9.5% in January. A more pronounced monetary policy easing was rendered impossible by the forint, which has been depreciating since January this year. At the beginning of March, its exchange rate broke through HUF 116/EUR for a short while.

Chart II.5 Central European currencies
The Hungarian forint and the Polish zloty weakened and showed increased volatility in 2009 Q1 and April
(average for January 2005 = 100)



Annual GDP growth in Slovakia slowed by 4.8 percentage points to 2.4% in 2008 Q4 compared to Q3. While household consumption continued to rise strongly, fixed investment and government consumption growth slowed and net exports deteriorated. In Slovakia's export-oriented economy, the economic crisis led to a 30% fall in industrial production and a 38% drop in industrial orders in January and February 2009. These results suggest a further slowdown in economic growth in 2009 Q1, or even a switch to a decline. The unemployment rate showed a year-on-year decline of 0.4 percentage point in February, but the rate has been increasing every month since November, reaching 9.8% in February. Inflation in Slovakia fell by a further 0.6 percentage point to 1.8% in March compared to February. Food prices and industrial producer prices slowed, while energy prices were flat.

II.2 THE MONETARY CONDITIONS

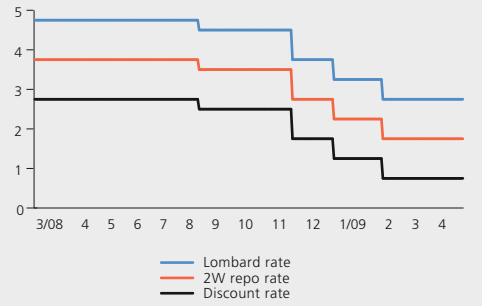
Both the interest rate and exchange rate components of the monetary conditions continued to be affected by the global financial crisis in 2009 Q1. Money market interest rates declined, whereas rates with longer maturities increased slightly. The exchange rate was highly volatile.

II.2.1 Interest rates

The situation on the domestic financial market in 2009 Q1 continued to be affected by the financial crisis, but did stabilise partly. Market liquidity remained limited and the bid-offer spread on the interbank market remained wide. On the other hand, the credit premium decreased and there was also less interest in the liquidity-providing repo operations[1] introduced by the CNB to support liquidity in the interbank market.

Interest rates showed mixed developments depending on maturity. At the beginning of the year, money market rates continued to decline on concerns of a substantial slowdown in economic growth and expectations of a further decrease in the CNB's key rates. The CNB made these expectations a reality at its February meeting,

Chart II.6 The CNB's key rates
The CNB decreased its key interest rates
(percentages)



1 On 15 October 2008, the CNB commenced liquidity-providing repo operations with 2-week maturity. Banks' bids are fully satisfied at a fixed rate equal to the 2W repo rate + 0.1 percentage point. In addition to T-bills and CNB bills, the eligible collateral for these operations includes government bonds, enabling the CNB to ease the tensions on the secondary government bond market. On 26 November 2008, the CNB also introduced liquidity-providing repo operations with 3-month maturity at an interest rate equal to the 2W repo rate + 0.3 percentage point.

Chart II.7 Market interest rates
Money market interest rates fell
(percentages)

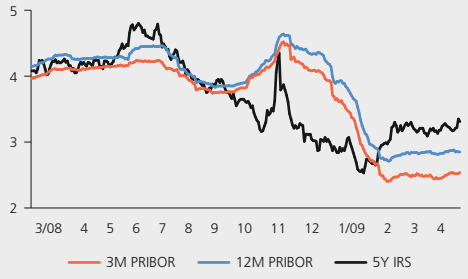


Chart II.8 Interest rate differentials
Interest rate differentials were positive
(percentage points)

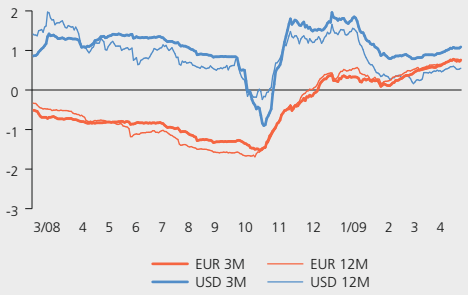


Chart II.9 Ex ante real rates
Ex ante real interest rates on new loans increased
(percentages)

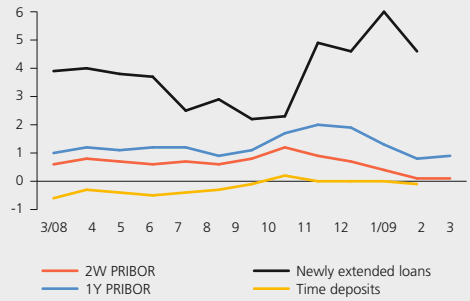
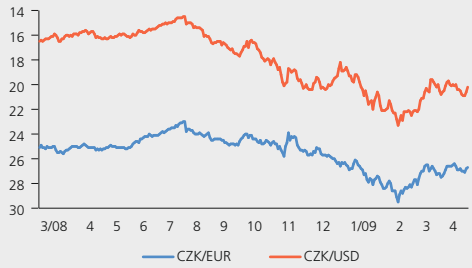


Chart II.10 CZK/EUR and CZK/USD exchange rates
The koruna was highly volatile against the euro and the dollar in 2009 Q1 and April



when it lowered its key interest rates by 0.50 percentage point (see Chart II.6). With effect from 6 February 2009, the 2W repo rate was set at 1.75%, the Lombard rate at 2.75% and the discount rate at 0.75%. Money market interest rates were then broadly flat. By contrast, interest rates with longer maturities showed an upward trend, despite persisting increased volatility. These rates are being affected by concerns about a massive inflow of new government bond issues and by an expected rise in inflation in the longer run.

PRIBOR interest rates fell by 0.5–1.1 percentage points overall depending on maturity compared to the start of 2009 (see Chart II.7). By contrast, IRS interest rates increased by up to 0.9 percentage point (with the exception of the 1Y maturity, which declined slightly). FRA quotations at the end of April 2009 indicated that most financial market participants were expecting the CNB's key interest rates to be flat.

In 2009 Q1, the PRIBOR yield curve gradually shifted to a lower yield level and its slope became less positive. The spread between the 1Y PRIBOR and the 2W PRIBOR was 0.86 percentage point in March. During April, the money market yield curve remained unchanged. The IRS yield curve fell only at its shortest end; by contrast, the curve shifted upwards at most maturities. The average 5Y-1Y spread was 0.59 percentage point and the 10Y-1Y spread 1.06 percentage points in March.

The interest rate differentials on the money market (PRIBID/CZK-EURIBOR/EUR or LIBOR/USD) were affected by changes in key rates and by movements in money market rates. The ECB cut its refinancing rate in three steps by 1.25 percentage points to 1.25%. The Fed left its targeted O/N federal funds rate at 0%–0.25%. The interest rate differentials vis-à-vis euro and dollar rates fluctuated in positive figures during Q1 (see Chart II.8).

Four auctions were held on the primary government bond market in the period under review, with a variable interest rate and 3Y and 8Y maturities. In addition, four auctions of fixed coupon bonds were held, as there was renewed interest in these securities. The total volume of bonds issued was CZK 75.3 billion. Secondary market liquidity remained low, with trades being executed primarily through brokers.

Nominal interest rates on new loans were 6.4% and rates on new time deposits 1.9% in February. Real interest rates[2] are affected not only by the level of nominal rates, but also by movements in inflation expectations. Consumer price inflation expectations decreased slightly during 2009 Q1, whereas expected industrial producer price inflation increased. Real rates on new loans were 4.6% in February, while real rates on time deposits were -0.1% (see Chart II.9).

II.2.2 The exchange rate

The average exchange rate of the koruna against the euro was CZK 27.6 in 2009 Q1 (see Chart II.10), which represents a year-on-year depreciation of 8.0%. The quarter-on-quarter depreciation was 8.9%. January and the first half of February saw a continued sharp correction of the previous (approximately one-year-long) strong appreciation of the koruna which began at the end of July 2008.

2 Ex ante real interest rates: nominal interest rates on loans are deflated by the industrial producer price inflation forecasted by the CNB; nominal interest rates on deposits and PRIBOR rates are deflated by the consumer price inflation expected by financial market analysts.

The koruna reached its lowest level (CZK 29.6) in mid-February. It then started to appreciate rapidly, firming to around CZK 26.6 in mid-March. Thereafter, it fluctuated between CZK 26.4 and CZK 27.6 (remaining quite volatile).

The koruna's exchange rate was most affected in the period under review by foreign short-term investors' behaviour. The outflow of capital – motivated primarily by concerns about future developments in the region (often referred to in the world media as the biggest victim of the crisis) – continued until mid-February. Another likely factor was the liquidity needs of some investors during the crisis. The flow of short-term capital turned around after the CNB's management issued communications (supported by the opinions of other institutions) about the significant differences between the individual countries of the region and the sound foundations of the Czech economy. The koruna appreciated by more than 10% in under a month (until mid-March). After that it stabilised somewhat owing to a decline in short-term capital activity linked partly with uncertainty among short-term investors regarding the future course of the koruna. The effect of domestic factors on the koruna's exchange rate was very limited in the period under review. The interest rate differential of the koruna vis-à-vis the euro (which switched from negative to positive) also did not affect the koruna's exchange rate as much as in the past. This might have been due, among other things, to the smaller amount of short-term capital present in the market at the end of the period under review.

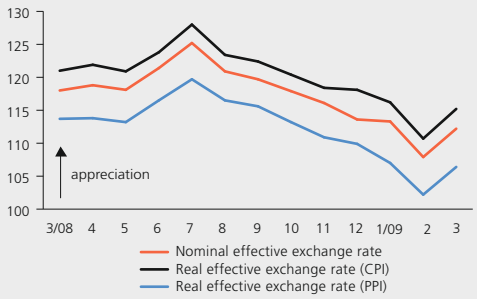
The koruna also depreciated against the dollar in 2009 Q1. This depreciation was even more pronounced than that against the euro, owing to the appreciation of the dollar against most world currencies. The koruna depreciated against the dollar by 24.2% year on year to CZK 21.2 in 2008 Q4. In quarter-on-quarter terms, it depreciated by 10.2%. In the first half of April, the koruna was slightly stronger against the dollar by comparison with the 2009 Q1 average.

The correction of both the nominal and real effective exchange rates of the koruna, which had started in August 2008, continued into 2009 Q1 and accelerated further compared to the previous quarter (see Chart II.11). The nominal effective exchange rate weakened by 5.8% year on year, whereas in 2008 Q4 it had appreciated by 4.5%. This was due mainly to the koruna's depreciation against the euro and the dollar. The CPI-deflated real effective exchange rate also depreciated by 5.8% year on year. The year-on-year depreciation of the PPI-deflated real effective exchange rate was more pronounced than that of the nominal rate (7.2%) as a result of a modest fall in producer prices in the Czech Republic while prices abroad rose very slightly.

Chart II.11 Effective exchange rates of the koruna

The nominal and real effective exchange rates reached their weakest values in February 2009

(year 2005 = 100)



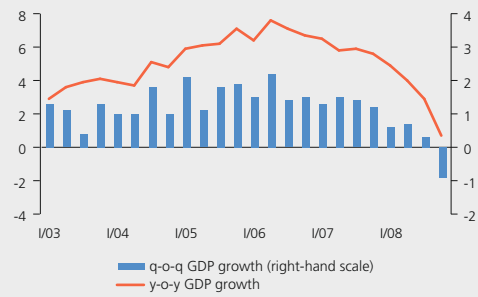
II.3 DEMAND AND OUTPUT

Economic growth slowed considerably further year on year in 2008 Q4, to 0.7%.[3] *The largest contributor to GDP growth was private consumption expenditure, whose rate of growth rose slightly. Gross capital formation contributed to a lesser extent. The slump in external demand due to the global financial and economic crisis was reflected markedly in foreign trade in Q4, and net exports declined year on year. The transmission of the global crisis into the domestic real economy was visible in most branches in Q4.*

Chart II.12 Gross domestic product

Economic growth slowed in 2008 Q4

(annual and quarterly percentage changes at constant prices; seasonally adjusted data)



3 The assessment of the evolution of GDP expenditure and GDP sources is based on seasonally adjusted data from the CZSO's national accounts.

Chart II.13 Structure of GDP growth
The main driver of economic growth was household consumption expenditure
(contributions in percentage points; seasonally adjusted data)

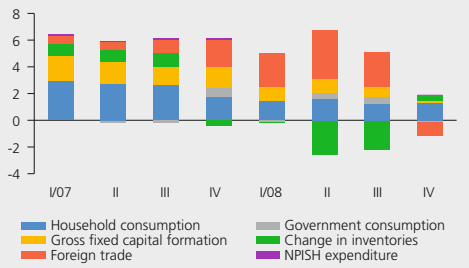


Chart II.14 Household consumption expenditure
Household consumption growth rose slightly in 2008 Q4
(annual percentage changes)

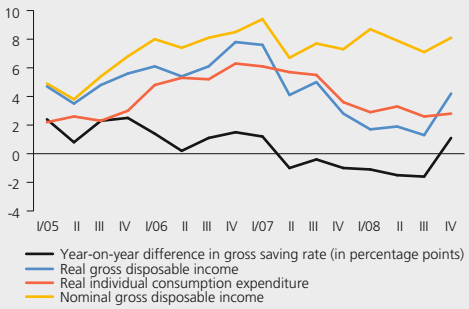


Chart II.15 Consumer confidence
Consumer confidence continued to drop sharply in 2008 Q4
(2005 average = 100)

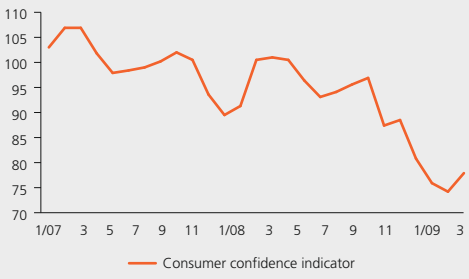
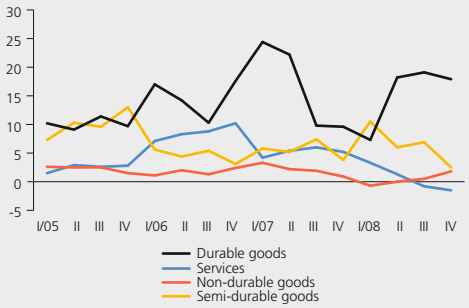


Chart II.16 Structure of consumption growth
Households are reducing their expenditure on services
(annual percentage changes; constant 2000 prices)



II.3.1 Domestic demand

Year-on-year domestic demand growth rose slightly in 2008 Q4. The rise was due to household consumption expenditure and additions to inventories. Fixed investment was more or less flat in year-on-year terms. Government expenditure fell year on year in Q4.

Consumer demand

Annual household consumer expenditure growth rose slightly in 2008 Q4. At 2.8%, it was 0.2 percentage point higher than in Q3. However, from the perspective of previous years it remained subdued, falling well short of the values recorded in the phase of high economic growth (see Chart II.14).

The slight increase in household consumption expenditure in Q4 was supported by a rise in nominal gross disposable income growth and by a fall in inflation. The combination of these two effects resulted in a marked year-on-year rise in real gross disposable income growth of 2.9 percentage points to 4.2%.[4] This rise was driven not by households' current nominal income but by a pronounced decrease in their current expenditure. In particular, there was a year-on-year fall in social contributions and income taxes connected probably with the maximum assessment base for health insurance and social security contributions introduced in 2008. Also significant was a year-on-year decrease in other current household expenditure[5], particularly interest paid. Overall, therefore, current household expenditure declined noticeably (by 2.1% year on year) in Q4 after an extended period of growth. By contrast, annual growth in current household income gradually slowed during 2008 to just 4.5%[6] in Q4. In particular, wages and salaries – the largest-volume component of households' current income – increased more slowly (for details see section II.4 *The labour market*). Other household incomes showed mixed developments. In particular, growth in social benefits increased further.

Households did not fully use the year-on-year growth in their gross disposable income for consumption in 2008 Q4. As Chart II.14 shows, households set aside part of the rise in their disposable income in the form of savings. This was reflected in a pronounced year-on-year increase in gross savings and a rise in the saving rate of 1.1 percentage points to 9.4%. From the perspective of previous quarters, the increased formation of money reserves in Q4 can be viewed partially as an indication of more prudent behaviour by households in a situation of rising unemployment and uncertain economic prospects. This opinion is supported by a continuing fast decline in consumer confidence, which reached a nine-year low in December (see Chart II.15). Some households also continued to finance their consumption expenditure from credit. However, its rate of growth moderated further owing to more prudent behaviour by both households and banks (for details see section II.6 *Monetary developments*).

As regards the structure of household consumption expenditure, the most pronounced growth continued to be recorded by durable goods, owing to past investment in dwellings (see Chart II.16). However, expenditure on services has

4 One-third of the year-on-year increase in real gross disposable income growth was due to faster growth in nominal gross income and two-thirds was due to lower consumer price inflation as measured by the household consumption deflator.
5 Current household expenditure = interest paid, rent, current income tax, property tax etc., social contributions and other current transfers (insurance etc.).
6 Current household income had risen by 7.8% year on year in 2008 Q1.

been declining since 2008 H2. Subdued growth can be expected in all categories over the coming quarters. This is evidenced not only by the still low level of consumer confidence, but also by the latest data on declining retail sales in January and February.

Government consumption declined by 0.5% year on year in real terms in 2008 Q4. In nominal terms it rose by 4.1% (the corresponding government expenditure deflator was 4.6%). Government consumption reflects the performance of the state budget, which represents the most important part of the government sector. Total state budget expenditure at current prices declined year on year both in Q4 and in 2008 as a whole (by 0.8% in the latter case).[7] The decline in government consumption was counteracted by a rise in public sector wage expenditure (of 4.3% in Q4 and of 1.6% for the whole of 2008 at current prices).

In 2009 Q1, overall state budget expenditure at current prices was down by 3.4%. The decrease was chiefly due – by comparison with the previous year – to the transfer of a quarterly advance payment intended for local budgets for education from March to April.

Investment demand

The downward trend in investment demand growth observed since 2007 Q2 strengthened markedly in 2008 Q4. Chart II.17 shows that the year-on-year rate of growth of gross fixed capital formation was very low at the end of the year, reaching only 0.3%. Quarter-on-quarter declines in Q3 and Q4 also testified to a pronounced downswing in investment activity in the economy. The main factors behind the slackening growth in fixed investment were weakening domestic and external demand, worsening formation of corporate own funds, tighter lending conditions, unfavourable economic growth prospects in the Czech Republic's major trading partner countries and the worsening labour market situation. The effects of these factors on investment decision-making were indicated mainly by an overall decline in investment in dwellings and buildings in 2008.[8]

The growth rate of investment in the non-financial corporations sector, which accounts for the largest volumes of investment,[9] slowed in 2008 (to 3.4% in Q4). The curbing of investment activity was most apparent in construction investment, which was already declining year on year in most monitored branches in Q4.[10] However, investment in transport equipment continued to grow relatively fast, although such growth was recorded by less than one-third of the monitored branches of industry and services. Given the persisting adverse factors affecting investment decision-making and the tight lending conditions, the downward tendency in growth in fixed investment by non-financial corporations can be expected to continue.[11]

Chart II.17 Fixed capital formation

Growth in investment demand slowed noticeably in 2008 Q4

(annual percentage changes; contributions in percentage points; constant 2000 prices)

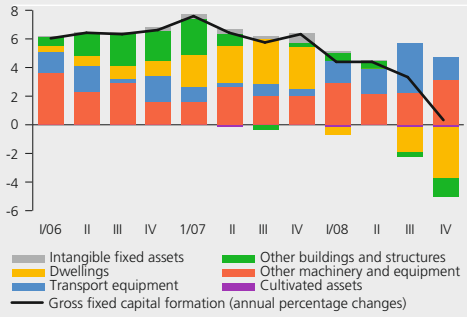


Table II.1 Fixed investment by sector

Most sectors recorded slackening investment activity

	I/08	II/08	III/08	IV/08
Annual percentage changes				
Non-financial corporations	8.8	7.9	1.5	3.4
Households	-3.5	1.5	-6.0	-17.9
General government	-0.2	-2.4	21.4	12.3
Financial corporations	15.7	22.1	3.2	-20.7
Nonprofit institutions serving households	-1.3	-1.8	-6.7	-6.9
Share in total fixed investment in per cent				
Non-financial corporations	60.2	60.1	57.3	59.7
Households	18.2	20.0	20.1	17.9
General government	20.0	18.2	21.3	21.1
Financial corporations	1.3	1.3	1.0	1.0
Nonprofit institutions serving households	0.3	0.4	0.3	0.3

7 At the state budget level (not for national accounts purposes) this result was due mainly to a methodological change concerning reserve funds. In 2004–2007, state organisational units (SOUs) transferred unused state budget funds to reserve funds. This, according to the methodology in force, was shown as budget expenditure. In 2008, unused budgetary funds were only recorded as individual SOU claims on these funds in future years, without any impact on the expenditure side of the budget.

8 Continuing fast growth in investment financed from public funds, channelled mostly into civil engineering work, only partly offset lower demand for investment among households and non-financial corporations in 2008 Q3 and Q4.

9 The non-financial sector accounts for almost 60% of total investment.

10 According to statistics on the performance of non-financial corporations with 50 employees or more.

11 According to the latest CNB survey, uncertainty is a key investment expenditure factor in the next twelve months for 41% of respondents from manufacturing industry, while shortages of funds will curb future investment among 28% of respondents in this branch.

Chart II.18 Investment in dwellings
Investment in dwellings fell sharply
(annual percentage changes)

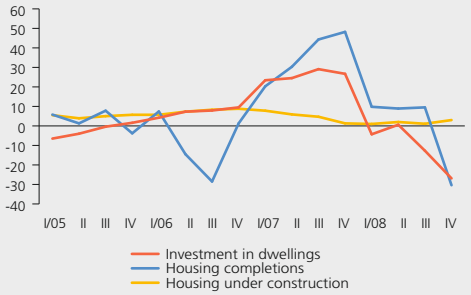


Chart II.19 Net external demand
Net exports deteriorated year on year in 2008 Q4
(CZK billions; constant 2000 prices; seasonally adjusted data)

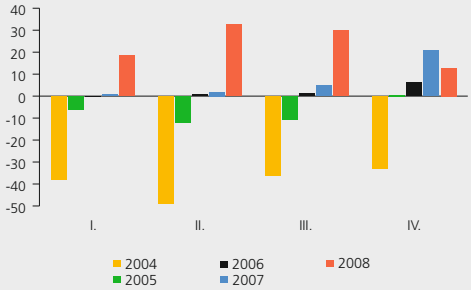


Chart II.20 Exports and imports
Total foreign trade turnover declined in 2008 Q4
(annual percentage changes; percentage points; constant prices; seasonally adjusted data)

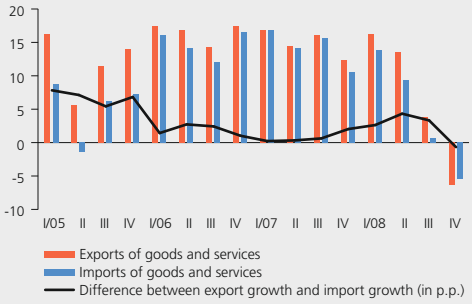
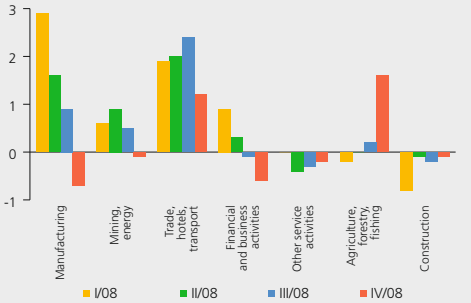


Chart II.21 Contributions of branches to GDP growth
Gross value added formation weakened noticeably in most branches in 2008 Q4
(contributions in percentage points to annual growth; constant 2000 prices; selected branches)



Household investment, which is most affected by investment in dwellings, recorded the most striking change. Following robust annual growth exceeding 20% in 2007, household investment in dwellings was mostly falling in 2008, and in 2008 Q4 the decline deepened sharply to 26.9%. This sizeable decline was due mainly to base effects, since housing demand had been strongly stimulated in 2007 by an expected increase in VAT on construction work as from 1 January 2008. However, investment in dwellings was also significantly affected in 2008 by a more prudent approach of banks to mortgage lending and more cautious decision-making by households amid uncertain prospects for economic growth and unemployment, and by expectations of a price decline in the market for new residential property. Given these facts, it is likely that the rate of growth of investment in dwellings will stay negative in the remainder of 2009.

Additions to inventories in 2008 Q4 rose in real terms year on year and their contribution to GDP growth was positive (see Chart II.13).

II.3.2 Net external demand

The continuing deterioration in the external conditions due to the financial crisis and its transmission to the real economy resulted in a sharp change in foreign trade turnover in 2008 Q4. Its slowing growth in previous quarters turned into the first year-on-year decline in almost ten years (of 5.8%). Exports fell by 6.3% year on year owing to the substantial weakening of external demand. This meant an extraordinary fall in growth of 10 percentage points compared to the previous quarter. As Chart II.20 shows, the decline in total imports was more moderate than that in exports (5.4% year on year). This was probably linked with the continuing moderate growth in aggregate domestic demand.

Against this background, net exports of goods and services[12] recorded a striking change. Although net exports recorded a surplus of CZK 12.8 billion, this surplus shrank considerably after seventeen quarters of year-on-year growth. Unlike in previous quarters, the contribution of net exports to GDP growth was thus negative, as shown in Chart II.13.

The change in net exports in Q4 resulted from a sharp decrease in the trade surplus. The primary factor was a very rapid year-on-year decline in goods exports (of 8.4%), due mainly to a marked downturn in external demand for machinery production, particularly cars. Given the high import intensity of exports, goods imports decreased simultaneously (by 6.2%). Lower demand was recorded particularly for imports for intermediate consumption and investment purposes. On the other hand, continuing year-on-year growth in the services surplus fostered an improvement in net exports, although this only partially offset the adverse impact of goods trade. The balance of services was affected mainly by persisting fast growth in exports of other services.

II.3.3 Output

In 2008 Q4, the combined effect of slowing world economic growth and slackening domestic demand growth due to the global financial and economic crisis manifested itself in an unexpectedly marked slowdown in gross value added growth at basic prices. Compared to 2008 Q3, its annual growth decreased by 2.3 percentage

12 At 2000 prices, seasonally adjusted.

points to 1.1%. The structure of value added and output at the same time indicated that both the direct and indirect effects of the crisis had hit most sectors by the end of 2008. Only agriculture showed an unusually strong rise in value added, which significantly helped to maintain overall GDP growth in Q4.

The biggest fall in gross value added formation occurred in industry, where the unfavourable effect of weakening external demand dominated. Owing to this factor, the relatively solid 2.7%[13] growth in the industrial production index recorded in 2008 Q3 was replaced by a marked decline of 13.2% in Q4. This turnaround was across the board in nature, since industrial production decreased year on year in Q4 in all industries except manufacture of coke and refined petroleum products.[14] The decline in industrial production was mostly due to manufacture of transport equipment, manufacture of basic metals and fabricated metal products and manufacture of electrical and optical equipment, whose production is largely exported.

The above trends continued at the start of 2009. The latest available data for February show that industrial production fell by 20.3% year on year and that the sharp annual decrease in new orders continued.[15] Under these circumstances, there was rapid growth in spare production capacity in the economy, which, according to the latest (January) results of the CZSO survey stood at almost one quarter of all capacity in industry. Gross value added in industry can thus be expected to continue declining in 2009 Q1.

Activity in construction also continued to weaken in Q4. This was mostly due to the aforementioned changes in investment decision-making of both corporations and households, which were reflected above all in falling construction investment. Although the continuing decrease in building construction work was accompanied by a rising volume of civil engineering work financed from public resources, the decline in both output and gross value added in construction continued in Q4 (down by 2.6% and 1.7% respectively). According to the latest available data, the decline in construction output deepened strongly in February 2009 (to 13.2% year on year), suggesting a worsening of the value added situation in 2009 Q1.

The evolution of value added in services in Q4 also indicated that the transmission of the global crisis was stronger than in the previous quarter. Most industries were now recording declining real sales and value added, mainly in connection with falling activity in the production sector.[16] Overall, however, the effect of the weakening demand on the above variables in services was lower than that in industry (see Chart II.21). Annual value added growth in trade also slowed markedly, but was still in double figures (12.2% in Q4).

These developments are consistent with the results of a CZSO survey, according to which business confidence in industry, construction, trade and services continued declining in 2008 Q4. However, the results of the latest CZSO survey, conducted in March 2009, indicate that confidence has stopped declining in some branches. This was expressed by the respondents in their demand outlooks and their views of the economic situation over the next six months (see Chart II.24). This slight improvement may be associated with the implementation of measures to support production in the car industry in neighbouring countries, whose impacts were felt in Czech industry.

Chart II.22 Indicators of developments in industry

The downward trend in orders in industry accelerated sharply in 2008 Q4

(annual percentage changes; constant prices)

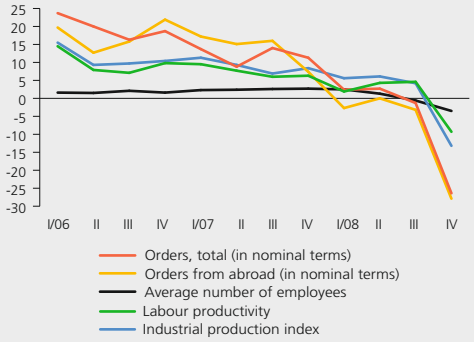


Chart II.23 Barriers to growth in industry

The importance of insufficient demand as a barrier to growth in industry increased apace

(percentages)

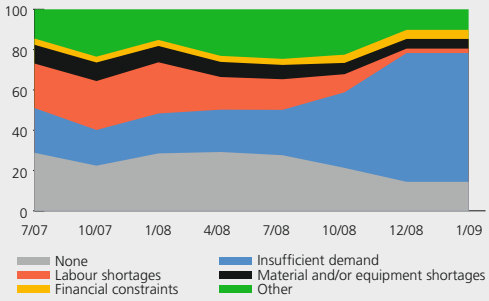
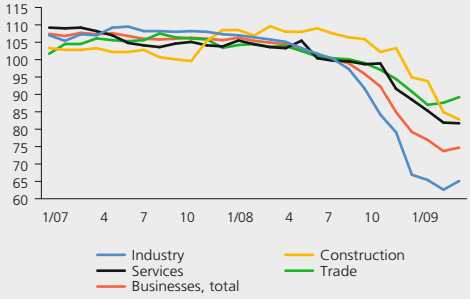


Chart II.24 Confidence indicators

Business confidence remains low

(2005 average = 100)



13 The data on production in industry and construction in this section are seasonally adjusted.

14 However, the annual growth in this industry was strongly affected by base effects (the shutdown of a plant).

15 New orders dropped by 24.7% year on year in February 2009 (with new orders from abroad falling by 23.5%).

16 Sales in the computer area were alone in showing modest annual growth in 2008 Q4 (of 1.2%).

Chart II.25 Key financial indicators
Output and book value added recorded year-on-year declines in 2008 Q4
(annual percentage changes)

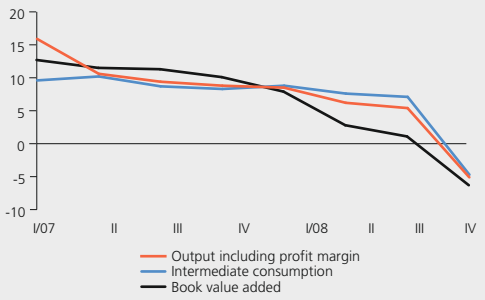


Table II.2 Absolute data and performance ratios
The personnel cost-output ratio increased again in 2008 Q4
(CZK billions; percentages; annual changes in percentages and percentage points)

	2008 Q4	2007 Q4	Annual percentage changes
Output incl. profit margin (CZK billions) a)	1,320.2	1,391.5	-5.1
Personnel costs (CZK billions)a)	222.9	207.2	7.6
Intermediate consumption (CZK billions)	974.9	1,023.2	-4.7
Book value added (CZK billions)	345.2	368.3	-6.3
Sales (CZK billions)	1,740.5	1,854.5	-6.1
	percentages	percentages	Annual changes in p.p.
Ratio of personnel costs to value added	64.6	56.3	8.3
Material cost-output ratio a)	73.8	73.5	0.3
Personnel cost-output ratio a)	16.9	14.9	2.0
Ratio of book value added to output a)	26.2	26.5	-0.3

a) CNB calculation

II.3.4 Economic results of non-financial corporations[17]

According to the available data and CNB calculations, 2008 Q4 saw a noticeable deterioration in the performance of non-financial corporations (see Chart II.25). This significant change was chiefly due to a noticeable weakening of external demand. The deterioration in results was also due to personnel costs, whose rate of growth was still relatively high amid falling output. Intermediate consumption followed the output path, but its decline was slightly slower. On the basis of the available data it can be estimated that the gross operating surplus recorded a strong year-on-year decline in Q4. In 2008 as a whole, the year-on-year growth in both sales and output was just over 3% and value added increased by only 0.8%. Taking into account the double-figure growth in personnel costs, it can be estimated that 2008 saw a significant decrease in the gross operating surplus.

The gap between personnel costs and output in the corporate sector widened considerably in 2008 Q4, since the sharp decline in demand was not yet accompanied by corresponding changes in employment (see section II.4 *The labour market*). The growth in personnel costs slowed (from 10.2% in Q3 to 7.6% in Q4), but this change was far from sufficient from the profit point of view given the falling output. As a result, there was a year-on-year increase (of 2 percentage points) in the personnel cost-output ratio (see Table II.2). By contrast, the material cost-output ratio signalled a noticeable weakening of other cost pressures, mainly due to falling world prices of energy sources. In Q4, the material cost-output ratio recorded just a slight annual increase (of 0.3%). Electricity prices continued rising rapidly, however, affecting the costs of corporations with electricity-intensive production.

In 2008 Q4, the financial results of the set of large corporations (with 250 employees or more) showed similar characteristics to those of the wider segment of corporations including smaller firms. Only the deterioration in performance was rather more moderate than in smaller corporations.

Amid year-on-year growth in assets and liabilities (of 7.2%) and equity (of 6.1%), the annual growth in the gross debt[18] of large corporations rose to 17.6% at the end of 2008 Q4. As regards the liabilities structure, short-term debt showed the biggest growth (of 30%).[19] Long-term liabilities rose by 8.6%. The gross debt-to-equity ratio (27.3%) remained below the risk threshold. The liquidity[20] of the corporations under review fell sharply year on year (by 23.3 percentage points), but was higher than in the previous quarter (148.1%). The solvency[21] of the monitored set of corporations improved slightly to 104.5%. The asset turnover ratio (sales to total assets) decreased as a result of falling sales, and the financial leverage indicator (total assets to equity) increased owing to rising debt. Overall, the ratio indicators showed a further minor year-on-year deterioration in 2008 Q4 compared to previous quarters, but remained outside the range of major risks.

17 The assessment in this section (except in the last paragraph) is based on a set of corporations with 50 employees or more and draws partly on calculations based on partial data published by the CZSO. The last paragraph assesses a set of corporations with 250 employees or more. The data are at current prices.

18 Loans received, bonds issued, derivatives on the liabilities side.

19 Excluding derivatives it increased by only 6.7%.

20 The ratio of short-term financial assets to short-term liabilities.

21 The ratio of financial assets to financial liabilities.

II.4 THE LABOUR MARKET

The rapidly weakening economic growth was accompanied by only a gradual decrease in total employment growth in 2008 Q4. However, numerous labour market indicators are signalling significant shifts in employment and unemployment in early 2009. The number of vacancies is falling quickly, the seasonally adjusted inflation rate has started rising noticeably and the number of foreign workers started falling at the end of the last year. In 2008 Q4, wage growth had yet to reflect more noticeably the rapid decrease in demand and productivity dynamics. This gave rise to an upswing in growth in the wage cost-output ratio as measured by nominal unit wage costs. In early 2009, however, wage growth is showing a marked slowdown.

II.4.1 Employment and unemployment

The slowdown in annual employment growth continued for the fourth consecutive quarter in 2008 Q4 (see Chart II.26). Its annual growth slackened by another 0.2 percentage point compared to Q3, to 1.3%. The gradual change in the employment trend during the year 2008 was linked with adjustment to the slowing growth in domestic and external demand. The LFS employment data show, however, that employers responded to the sizeable fall in demand with only partial changes in employment. A declining number of hours worked also suggested that some employers responded to the rapidly falling demand by cutting the number of working hours. It cannot be ruled out, however, that the actual decrease in employment growth was larger than suggested by the above data, since the individual employment statistics have been diverging recently.[22]

According to the LFS, the impact of the sharp fall in demand on employment in 2008 Q4 was recorded primarily in the secondary sector. As shown in Chart II.27, annual employment growth in industry practically disappeared. Manufacturing was affected most by the falling external demand. A year-on-year decrease (of 8,900 persons) in the number of persons employed in this sector was recorded in Q4, whereas Q3 had seen a considerable increase in employment (of 42,700 persons). A more significant annual decline in total employment in the economy in Q4 was prevented by extraordinarily high growth in employment in the tertiary sector, particularly in wholesale and retail trade and real estate, renting and business activities.[23]

The number of vacancies, which are a potential source of increasing employment, also indicated a changing labour market situation at the onset of the economic recession. The slope of the Beveridge curve shows that the sizeable decline in the number of vacancies was accompanied by a rising number of unemployed persons; their number went up particularly in 2009 Q1. These facts indicated that the unemployment trend is mostly cyclical in nature.

The rapid decline in labour demand was also reflected noticeably in the employment of foreign workers, who had helped to overcome labour shortages in some occupations during the boom. The marked slowdown in annual growth in the number of foreign workers at the close of 2008 and in the first few months of 2009 indicates that demand for their labour is rapidly falling owing to the emerging recession. In 2008 H1,

Chart II.26 Labour market indicators
The rapidly weakening economic growth was accompanied by slower changes in employment
(annual percentage changes; percentage points)

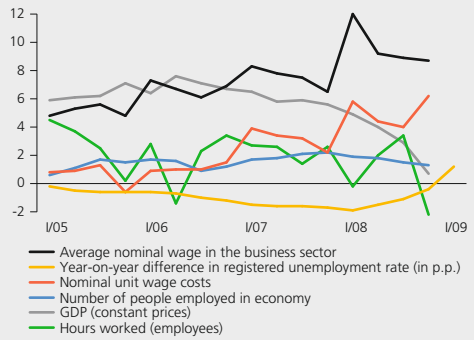


Chart II.27 Employment breakdown by branches
Employment growth moderated most strongly in industry
(contributions in percentage points to annual growth; selected branches)

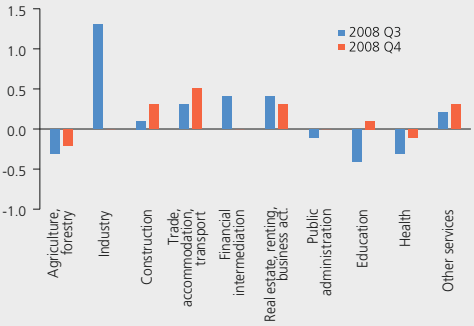
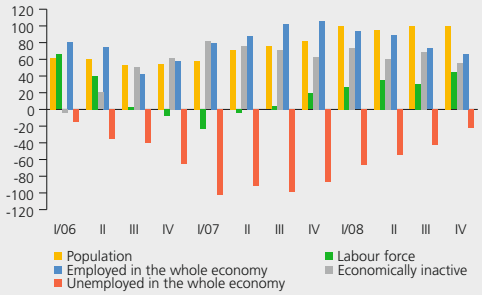


Chart II.28 Labour force flows
The annual decline in the number of unemployed people moderated noticeably in 2008 Q4
(annual changes in thousands of persons)



22 The national accounts statistics reported lower employment growth (0.2%) than the LFS (1.3%) in 2008 Q4. The relatively large difference in the above statistics may be due to methodological differences. The LFS statistics, based on surveys in flats, captures employment of foreigners with difficulty (most of them live in lodging houses). At times of recession, foreigners are usually laid off first, so the decrease in employment may not have been captured properly by the LFS data.

23 In both branches, employment increased primarily in the employee category in 2008 Q4.

Chart II.29 The Beveridge curve

The rapid fall in the number of vacancies was reflected in unemployment

(seasonally adjusted numbers in thousands)

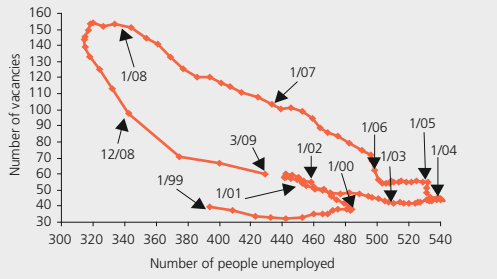


Chart II.30 The unemployment rate in the Czech Republic, the euro area and the EU-27

The unemployment rate in the Czech Republic started rising with a lag but with greater intensity than in the EU countries

(percentages; source: CZSO)

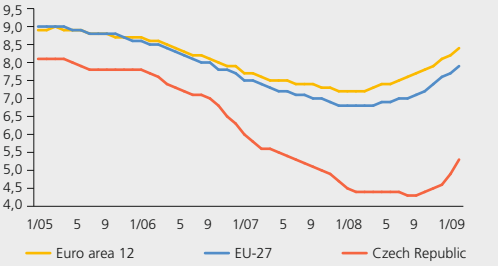


Table II.3 Wages, productivity, unit wage costs

Average wage growth picked up slightly in 2008 Q4

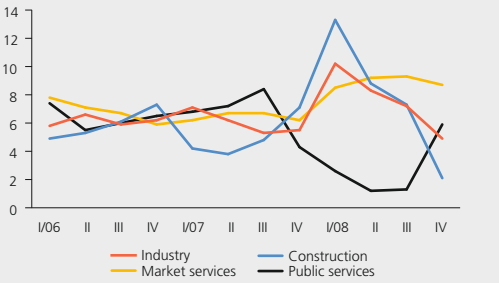
(annual percentage changes)

	IV/07	I/08	II/08	III/08	IV/08
Average wage in monitored organisations					
nominal	6.6	10.2	8.0	7.8	8.3
real	1.7	2.6	1.1	1.1	3.4
Average wage in business sector					
nominal	6.5	12.0	9.2	8.9	8.7
real	1.6	4.3	2.2	2.2	3.8
Average wage in non-business sector					
nominal	7.1	3.3	3.1	3.7	6.8
real	2.2	-3.8	-3.5	-2.7	2.0
Whole-economy labour productivity	3.5	2.3	2.8	3.0	0.1
Nominal unit wage costs	2.2	5.8	4.4	4.0	6.2

Chart II.31 Wage developments in branches

Average wage growth accelerated only in public services in 2008 Q4

(annual percentage changes; selected branches)



annual growth in the number of foreign workers had still exceeded 30%, but in Q4 it fell below 22% and by February 2009 it was only 6.7%. In quarter-on-quarter terms, the number of foreign workers has been falling since November 2008.

The falling rate of growth of employment in 2008 Q4 (see Chart II.28) was reflected in a moderation of the annual decline in the general unemployment rate to 0.5 percentage point. The general unemployment rate thus stood at 4.4%. The registered unemployment rate followed a similar pattern, falling by 0.5 percentage point year on year to 5.8% in Q4.[24] In quarter-on-quarter comparison, however, both unemployment rates recorded modest annual growth (of 0.1 percentage point) adjusted for seasonal effects.

According to the latest available data, the registered unemployment rate rose sharply in 2009 Q1 (to 7.5% year on year); adjusted for seasonal effects, the increase was 1.4 percentage points compared to the previous quarter. According to the latest CZSO statistics pertaining to January 2009, employment is falling noticeably above all in industry, owing to marked declines in production and orders. This information is in line with the results of a confidence survey in industry, according to which the respondents' confidence is very low. By international comparison it is apparent that the transmission of the global financial and economic crisis to the real economy in the labour market area occurred with a lag compared to the euro area and EU-27 countries, but its effect on unemployment in early 2009 was all the more apparent. According to the CZSO, the increases in the number of unemployed people in January and February 2009 were the highest in the history of the measurement of this indicator in the Czech Republic.

II.4.2 Wages and productivity

Following two quarters of gradual moderation, annual growth in the average nominal wage in the economy picked up slightly in 2008 Q4, reaching 8.3%. This pick-up was due to wage developments in the non-business sector, as average wage growth in the business sector eased further.[25] Average real wage growth increased perceptibly, reaching 3.4%, mainly as a result of falling inflation. In 2008 as a whole, the average nominal wage in the monitored organisations increased by 8.5%. However, owing to high inflation for most of the year, its real growth was much lower, reaching 2.1%, the lowest level in ten years.

Following a significant one-off deviation in early 2008, average nominal wage growth in the business sector slowed in the remainder of the year (to 8.7% year on year in Q4; see Table II.3). The still high average wage growth was partly due to base effects.[26] It was also a consequence of slower adjustment of wages and employment to the rapidly deteriorating demand side situation. This was indicated by the high lead of average wage growth over productivity growth in all monitored branches of the business sector in Q4 (see Chart II.31 and Chart II.32).

In the non-business sector, the generally subdued average wage growth in the first three quarters of 2008 was replaced by a sizeable annual increase in Q4 (of 3.1 percentage points to 6.8% compared to the previous quarter). This increase was mostly due to a rise in public administration and defence and mandatory social security (of 8.1%), accompanied by a modest increase in the number of employees.

24 The total registered unemployment rate, i.e. including unavailable applicants.

25 According to MLSA (AEIS) data, annual growth in average hourly earnings in the business sector increased (to 5.6%) amid a decline in the number of hours worked.

26 As a result of the introduction of a new tax system, the payment of some bonuses had been transferred to 2008 Q1.

Under these circumstances, annual growth in nominal unit wage costs, which are an indicator of potential inflation pressures in the wage area, rose in 2008 Q4 to a seven-year high (of 6.2%; see Chart II.33). This marked rise was chiefly due to a rapid slowdown in GDP formation. Growth in wages and salaries also slackened in Q4, but to a much lesser extent.

The highest growth in nominal unit wage costs was recorded in industry (of 7.3%), where a sizeable decrease in export opportunities contributed significantly to an annual decline in productivity. Until Q3, productivity growth had been high and nominal unit wage costs had been mostly falling year on year or showing only modest growth. The sharp decrease in orders and output in industry was accompanied by a decline in the number of employees, but this trend was still subdued in Q4 in relation to the uncertainties regarding future demand.

We expect larger changes in wage growth in 2009 Q1 in response to the persisting low demand. This assumption is supported by the latest available CZSO data from January and February, which indicates a noticeable slowdown in annual average wage growth in industry and construction compared to the previous quarter (to 0.4% and 2.4% in industry and construction respectively in February).[27]

II.5 THE BALANCE OF PAYMENTS

The balance of payments in 2008 was characterised by a very high income deficit, which deepened further mainly as a result of a decline in income on portfolio investment abroad, and a persisting high direct investment surplus. At the same time, the surplus on the output balance[28] continued rising. In 2008, however, it was driven solely by an improving services balance. Foreign trade was strongly affected by a sharp decline in external demand from Q4 onwards. The net portfolio investment outflow was due mainly to a decrease in non-residents' holdings of koruna bonds. The surplus on other investment reflected above all an increase in the short-term liabilities of domestic commercial banks.

II.5.1 The current account

In 2008, the current account ended in a deficit of CZK 113.9 billion (see Table II.4), or 3.1% of GDP. In year-on-year terms, the deficit increased only marginally. The year-on-year deterioration of the income balance and the trade balance was almost offset by more favourable developments in services and current transfers.

In 2008, the trade balance recorded a surplus of CZK 103.2 billion, down by CZK 17.4 billion on a year earlier (see Chart II.34). Roughly one-third of the unfavourable evolution of prices, reflected in a negative year-on-year change in the terms of trade, was offset by a higher surplus in real terms. In the first three quarters of 2008, the effect of favourable supply-side changes resulting from foreign investment inflows had still been significant in dampening the weakening of external demand. However, a sharp turnabout in foreign trade occurred in Q4, when the trade balance ended in a deficit for the first time in fifteen quarters (amid a year-on-year deterioration in the trade balance of almost CZK 34 billion and a decline in turnover of 11%). The abrupt change in trend was linked with a sharp decrease in external demand, especially in selected engineering sectors

27 The wage and employment data are for corporations with 50 employees or more.
28 The output balance is the sum of the balance of trade and the balance of services.

CHART II.32 PRODUCTIVITY DEVELOPMENTS IN BRANCHES
Productivity decreased in most of the monitored branches in 2008 Q4
(annual percentage changes)

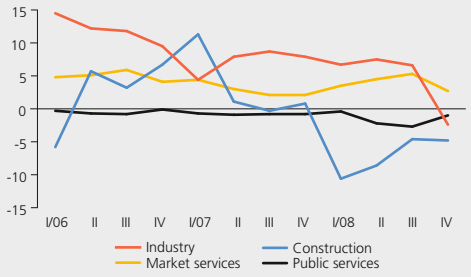


CHART II.33 NOMINAL UNIT WAGE COSTS
Nominal unit wage cost growth rose to a seven-year high in 2008 Q4
(annual percentage changes)

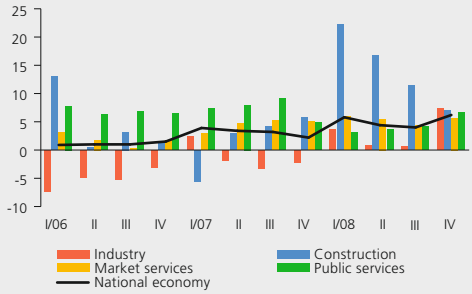


TABLE II.4 THE BALANCE OF PAYMENTS
The current account deficit increased slightly in 2008
(CZK billions)

	2005	2006	2007	2008
A. CURRENT ACCOUNT	-39.8	-82.2	-111.3	-113.9
Trade balance	59.4	65.1	120.6	103.2
Balance of services	36.9	46.4	56.6	82.0
Income balance	-143.4	-180.9	-270.2	-288.8
Current transfers	7.3	-12.9	-18.3	-10.2
B. CAPITAL ACCOUNT	4.7	8.5	19.6	31.0
C. FINANCIAL ACCOUNT	154.8	92.4	125.8	151.2
Direct investment	279.6	90.3	179.1	150.4
Portfolio investment	-81.2	-26.9	-57.2	-9.1
Financial derivatives	-2.8	-6.2	1.3	-14.0
Other investment	-40.8	35.3	2.7	23.9
D. ERRORS AND OMISSIONS	-26.8	-16.6	-18.4	-28.2
E. CHANGE IN RESERVES (- = increase)	-92.9	-2.1	-15.7	-40.1

CHART II.34 THE TRADE BALANCE
The annual moving total of the trade surplus decreased in 2008 Q4
(CZK billions)

(mainly manufacture of cars), due to the deepening global economic crisis. This trend continued into 2009 Q1, with the trade surplus decreasing by almost CZK 17 billion year on year in January and February.

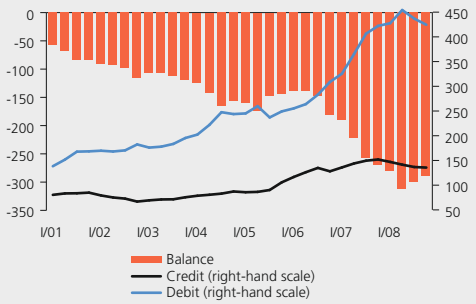
As regards the commodity structure, the trade balance continued to show very mixed trends in 2008. The decrease in the overall surplus was due mainly to a widening of the deficit on mineral fuels. By contrast, the surplus on machinery recorded the largest improvement. From the geographical perspective, year-on-year growth in the trade surplus was again visible in trade with EU countries, in particular Germany and the Netherlands. The total trade deficit with non-EU countries widened further, chiefly because of an increase in the trade deficits with Russia and China.

The balance of services ended 2008 in a surplus of CZK 82.0 billion, up by CZK 25.4 billion on a year earlier. It increased in all four quarters despite the onset of the economic crisis. This was aided chiefly by a decline in the deficit on other services (exceeding CZK 31 billion) as a result of very fast growth in credits. The surplus on transport services also increased slightly. By contrast, the surplus on travel decreased owing to slowing external demand and strong annual appreciation of the koruna.

Chart II.35 The income balance

The annual moving total of the income deficit decreased in 2008 Q4

(CZK billions)



The income deficit reached CZK 288.8 billion, representing a year-on-year deterioration of almost CZK 19 billion (see Chart II.35), due chiefly to a decrease in credits. Direct investment income on the debit side, especially dividends paid to non-residents, remained the most important component. The direct investment deficit, however, declined by almost CZK 19 billion (to CZK 262.7 billion) in year-on-year comparison, owing to a decrease in profit generated in the Czech Republic. However, the remaining three component balances contributed to the widening of the income deficit. The surplus on portfolio investment income turned into a deficit as a result of a decrease in credits, owing mainly to faster interest rate cuts abroad than in the Czech Republic. The surplus on other investment income also declined slightly. The deficit on compensation of employees widened as well, owing to growing expenditure on foreigners working in the Czech Republic.

Current transfers ended in a total deficit of CZK 10.2 billion, chiefly as a result of developments in H2. However, this represented a year-on-year improvement of CZK 8.1 billion, due to both private and government transfers. The determining factor of the current transfers deficit was a private transfers deficit of CZK 17.7 billion. However, its adverse impact was partly offset by a surplus on government transfers.

II.5.2 The capital account

The capital account recorded a surplus of CZK 31.0 billion in 2008 (a year-on-year increase of CZK 11.5 billion). Its main component was again a positive net position in income from EU funds (of CZK 24.2 billion), which showed further annual growth. However, a positive balance of trading in emission allowances, carried out at the close of the year, was the most important factor underlying the increase in the overall surplus.

II.5.3 The financial account

The financial account ended 2008 in a surplus of CZK 151.2 billion, or 4.1% of GDP, representing a year-on-year increase due to portfolio and other investment. By contrast, the evolution of direct investment and financial derivatives moderated the overall surplus.

Direct investment recorded a surplus of CZK 150.4 billion, representing a year-on-year decrease of CZK 28.6 billion. The decrease was due to a lower inflow of FDI into the Czech Republic (CZK 182.8 billion). It was related mainly to a decrease in reinvested earnings and lower investment in other capital, linked with lower net borrowing by domestic companies from their foreign parent companies. However, reinvested earnings remained the largest component of the inflow (CZK 125.0 billion). Investment in equity capital was around 40% of this figure. With regard to industries, the equity capital inflow was channelled primarily into financial intermediation and manufacture of radio, communication and television equipment (see Chart II.36). By territory, the biggest investor countries were Austria and the Netherlands. Czech direct investment abroad decreased only modestly, reaching CZK 32.4 billion. Its largest component was also reinvested earnings.

Portfolio investment recorded a net outflow of CZK 9.1 billion in 2008 (see Chart II.37), having recorded a net outflow exceeding CZK 57 billion a year earlier. A rapid decrease in domestic investors' demand for foreign securities, whose purchases fell to CZK 4.5 billion owing mainly to developments in Q4, was the largest contributor to the decrease in the overall deficit. It was associated exclusively with purchases of foreign shares, which, however, fell by five-sixths as a result of growing expectations of unfavourable economic developments abroad. Simultaneous sales of foreign bonds primarily reflected the rapid decline in foreign interest rates. An outflow of capital of CZK 4.7 billion was recorded on the liabilities side despite issuance of bonds on foreign markets by the government (EUR 2 billion) and other entities. This was due to a decline in holdings of domestic debt and equity securities by foreign investors, particularly in Q4, probably motivated by an effort to obtain liquidity, which is more difficult to access during a deepening crisis, and by cooling sentiment towards the region.

Financial derivatives transactions recorded a net outflow, generating a CZK 14.0 billion decrease in the financial account surplus.

Other investment recorded a net capital inflow of CZK 23.9 billion in 2008 (compared to only CZK 2.7 billion in 2007). The overall surplus was affected most by a net inflow of commercial banks' capital of CZK 31.5 billion. This was associated exclusively with a net inflow of short-term capital, mainly as a result of an increase in short-term deposits and loans drawn by domestic entities abroad. The government sector also recorded a net inflow, connected mainly with long-term EIB loans for infrastructure development. Conversely, a net outflow of capital in the corporate sector (of CZK 16.1 billion), stemming from rapid growth in export credits provided and deposits abroad, fostered a moderation of the overall deficit.

The CNB's international reserves rose by CZK 42.1 billion to CZK 757.9 billion in 2009 Q1. The evolution of the reserves in Q1 was affected mostly by valuation changes. In dollar terms, the reserves declined by USD 0.1 billion to USD 36.9 billion at the end of Q1 (see Chart II.38).

Chart II.36 Foreign direct investment

One-third of investment in equity capital in the Czech Republic was directed into financial intermediation in 2008

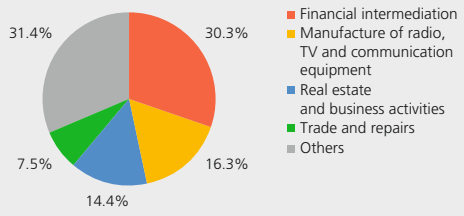


Chart II.37 Portfolio investment

Portfolio investment recorded a net outflow in 2008 Q4

(CZK billions)

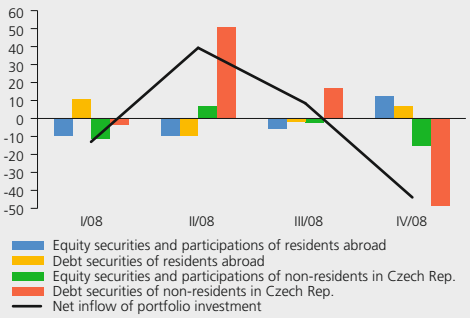
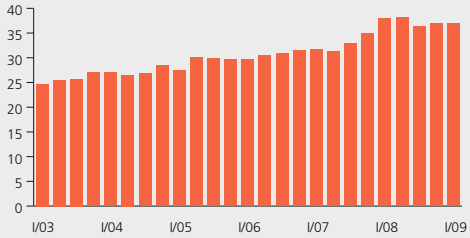


Chart II.38 The CNB's international reserves

The CNB's international reserves stayed nearly unchanged in dollar terms in 2009 Q1

(USD billions)



II.6 MONETARY DEVELOPMENTS

The money and credit developments reflected the economic downturn and the global crisis. Growth in highly liquid money accelerated and deposits of non-financial corporations decreased. The growth rate of loans to corporations and households declined and there was an increase in non-performing corporate loans and consumer credit. Client interest rates on new loans and deposits mostly decreased, albeit with varying intensities across the individual loan types.

Chart II.39 M1 and M2
M2 growth fluctuated around 8%
(annual percentage changes)

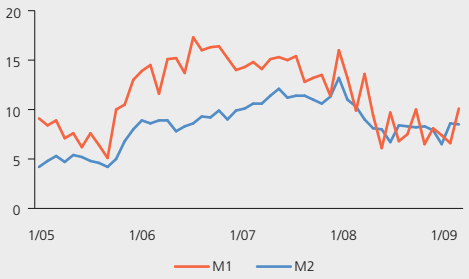


Table II.5 Monetary aggregate structure
The growth rate of highly liquid money increased
(quarterly averages and end-of-month stocks; annual percentage changes)

	III/08	IV/08	1/09	2/09	Share in M2, % 2/09
M1	8.1	7.4	6.6	10.1	57.8
Currency in circulation	4.6	13.9	13.0	12.4	13.7
Overnight deposits	9.2	5.4	4.8	9.3	44.1
M2-M1 (quasi money)	8.6	7.8	11.4	6.5	42.2
Deposits with agreed maturity	-0.4	-5.5	-6.0	-12.1	23.6
Deposits redeemable at notice	27.1	35.9	45.5	44.9	17.6
Repurchase agreements	107.4	63.0	75.2	51.8	1.0
M2	8.3	7.5	8.6	8.5	100.0

Chart II.40 Interest rates on deposits
Interest rates on some deposits fell
(new business; percentages)

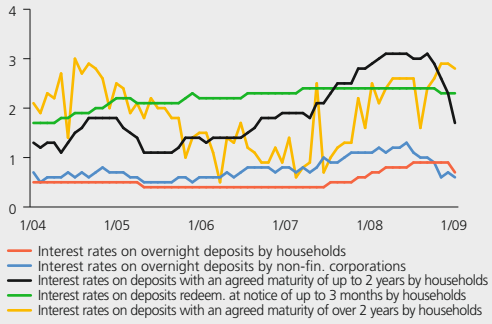


Table II.6 Loan structure
Year-on-year growth in the stock of loans eased further
(quarterly averages and end-of-month stocks; annual percentage changes)

	III/08	IV/08	1/09	2/09	Share in total loans in % 2/09
Non-financial corporations	14.8	15.1	13.5	12.3	44.5
Loans up to 1 year	28.7	19.4	3.6	0.6	16.1
Loans over 1 year and up to 5 years	-4.8	4.8	17.6	17.6	9.9
Loans over 5 years	13.4	16.7	21.4	21.7	18.5
Households	28.0	23.6	20.3	20.4	47.2
Consumer credit	25.3	23.4	21.5	20.6	9.0
Loans for house purchase	29.1	23.6	19.3	18.7	33.0
Other loans	25.8	23.4	24.8	31.9	5.2
Non-monetary financial institutions	28.5	7.9	7.0	4.1	8.3
Total loans	21.7	18.1	15.9	15.2	100.0

II.6.1 Money

Annual M2 growth slowed in 2008 Q4, then rose roughly to the Q3 level in January and stood at 8.5% in February (see Chart II.39). The current pace of money supply growth is thus still much slower than in the same period a year earlier. The slowdown in money supply growth was due mainly to the domestic economic downturn and was counteracted by the weakening of the exchange rate at the start of 2009, which increased the value of deposits in foreign currency. The slower M2 growth reflected a decrease in the annual rate of growth of loans to corporations and households, which was partly offset, however, by higher net indebtedness of the government. The asset transactions, and to a lesser extent also the liability transactions, of banks abroad have been declining since the end of 2008, leading to a year-on-year decline in net external assets.

Growth in the liquid money included in M1 fell in January but rebounded in February as a result of faster growth in overnight deposits (see Table II.5). Their increased volatility since September 2008 reflects rising demand of investors for liquid money due to high risk aversion on the one hand and low interest rates on these deposits on the other. The annual rate of growth of currency in circulation remained high. Following an increase in January, growth in quasi money slowed in February owing to a decline in deposits with agreed maturities of up to two years and a moderate decrease in the high rate of growth of deposits redeemable at notice. The slowdown in M2 over the past year has been due mainly to deposits of non-financial corporations and in February also deposits of non-monetary financial institutions. The downward trend in corporate deposits reflected declining cash flow and more limited access to loans. By contrast, household deposits rose further, creating a sufficient liquidity buffer for banks at a time of increased tension on the interbank market.

Interest rates on short-tem time deposits of households and non-financial corporations mostly fell in February (see Chart II.40). Rates on long-term time deposits were broadly flat. The opportunity costs of holding liquid money, measured by the spreads between the rates on deposits with an agreed maturity of up to one year and the rates on overnight deposits, recorded a decline. However, they remained stable for deposits redeemable at notice. This reflected banks' efforts to make selected time deposits more attractive amid still limited liquidity on the interbank market.

II.6.2 Credit

Growth in MFI loans to corporations and households is slowing. It reached 15.2% in February 2009 (see Table II.6). A negative monthly flow of loans was recorded for the second time since the deepening of the financial and economic crisis. Annual growth in new loans to corporations almost came to a halt and new loans to households recorded a year-on-year decrease (see Chart II.41). This reflected the economic downturn and the recent rise in unemployment on the demand side and the more cautious approach of banks on the supply side. It cannot be ruled out that the latter will gain importance in the period ahead, leading to a tightening of the credit conditions as a result of borrowers' worse risk profiles. The unfavourable external demand situation resulted in a further increase in non-performing loans to non-financial corporations. Non-performing consumer credit also increased.

Annual growth in loans to non-financial corporations continued to slow. Loans to domestic corporations grew at a slower pace, whereas the growth rate of loans to foreign-owned corporations increased. The rate of growth of short-term loans for financing corporations' operating needs declined again. Growth in medium-term

and long-term loans picked up pace, although this was mainly due to methodological factors. In February, new loans to non-financial corporations rose only in the case of large loans. By contrast, a slowdown in overdrafts and a decline in small loans attested to limited credit financing of corporations' operating needs. The rate of growth of bank loans will probably decline further in the near future owing to the downturn in economic activity and the tightening credit conditions. In 2008 Q4, the slowing loan growth was also reflected in a decrease in the rate of growth of total corporate debt (comprising loans and debt securities) to 14.2%. The ratio of corporations' debt to GDP rose by 1 percentage point to 48.9% in 2008 Q4. By contrast, the interest burden on corporations declined, representing 7.9% of gross operating surplus. Corporations' indebtedness in the Czech Republic is lower than in the euro area, which is an advantage in an adverse economic situation.

Growth in loans to households also slowed (see Chart II.42). The decline in the growth rate of housing loans is related mainly to tightening credit conditions, weakening housing and labour markets and greater cautiousness of households. Deteriorating consumer confidence is having a negative impact on demand for consumer credit. Similar trends can also be expected in the rest of 2009. Relative to GDP, total household debt rose to 27.5% in 2008 Q4 and its ratio to gross disposable income increased to 52.3%. The bulk of the debt was denominated in domestic currency. The ratio of households' interest expenses (excluding fees) to gross disposable income stood at 1.6%. These indicators are also lower than in the euro area. However, the adverse economic situation may affect loan repayments, especially in the case of low-income households. Some signs of problems with repaying consumer credit are already visible. The share of non-performing consumer credit to total consumer credit increased by 0.6 percentage point to 7.2% between October 2008 and February 2009.

In February 2009, the average interest rate on new client loans fell by 0.4 percentage point compared to January, to 6.4%, owing to a decline in money market interest rates and a previous decrease in long-term financial market rates. Since the deepening of the financial and economic crisis, i.e. since September 2008, this interest rate has shown a downward trend and, with some fluctuations, has decreased by a total of 0.5 percentage point. However, client interest rates showed mixed developments for the individual loan types. The interest rate on new loans to non-financial corporations declined by 0.5 percentage point to 4.3% in February, due mainly to changes in interest rates on large loans exceeding CZK 30 million (see Chart II.43). After having been roughly flat since September, the interest rate on new housing loans edged down to 5.5% in February, while the rate on new consumer credit increased slightly to 14.1% (see Chart II.44). The spreads between these rates and the relevant financial market rates increased most of all for new housing loans with short rate fixations, some consumer loans and small loans to non-financial corporations. Overall, the credit conditions have tightened in the last few months especially for households, whereas non-price factors – in the form of higher guarantees and financial data requirements – have been more important for non-financial corporations.

BOX 1
Transmission of financial market interest rates to retail interest rates

The effectivness of monetary policy transmission to the economy depends on how the interest rate conditions for credit financing of non-financial corporations and households are affected by financial market interest rates. The analysis of efficient transmission is also significant at present owing to certain signs of its potential weakening at a time of increased uncertainty

Chart II.41 Newly extended loans
New loans to households decreased
(annual percentage changes)

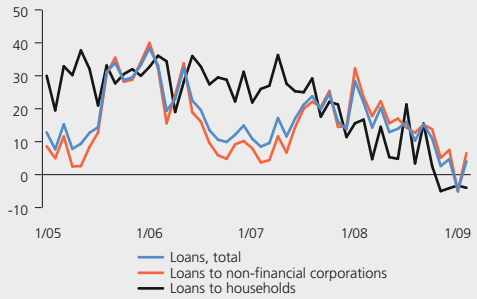


Chart II.42 Loans to households
Loans for house purchase rose more slowly than consumer credit for the first time in six years
(annual percentage changes)

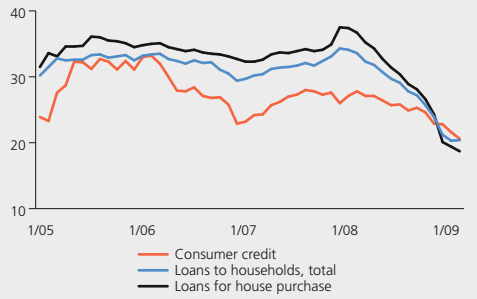


Chart II.43 Interest rates on loans to non-financial corporations
The interest rate on large loans to non-financial corporations fell
(new business; percentages)

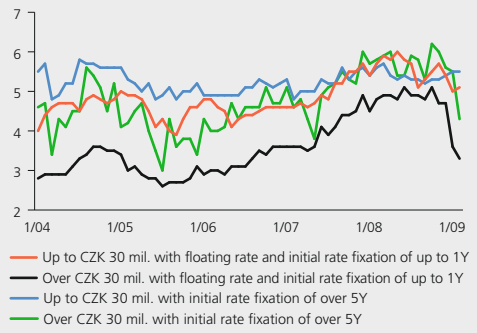
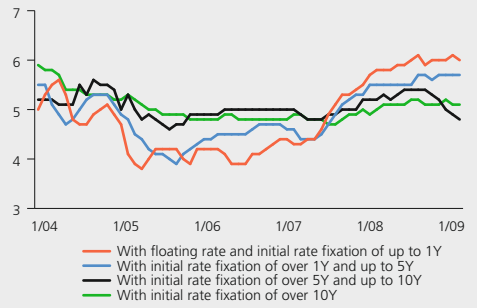


Chart II.44 Interest rates on lending for house purchase
The interest rate on lending for house purchase decreased mainly for fixations of between five and ten years
(new business; percentages)



in the financial markets. The analysis used interest rates on new loans and deposits of non-financial corporations and households for individual banks from January 2004 to December 2008. This made it possible to assess the direct link between financial market interest rates and client rates while taking into account the heterogeneity of banks. The median of retail interest rates was used.

Interest rates on new loans continue to show the strongest correlation with money market rates. The interest rate on loans to non-financial corporations with a rate fixation of up to one year is most closely linked with the 1M PRIBOR for small loans and the FRA rate for large loans. Interest rates on loans with a rate fixation of more than one year are most closely linked with the 1Y PRIBOR for small loans and the 3M PRIBOR for large loans. As regards housing loans, the correlation analysis indicated the strongest link with the gross yield on the 10Y government bond and with the 1M PRIBOR. The most important rates for deposits with an agreed maturity of up to two years and over two years are the 1M PRIBOR and the 3M PRIBOR respectively.

The character of the transmission was estimated using the error-correction model

$$\Delta br_{it} = \alpha_1 + \alpha_2 \Delta mr_t + \beta_1 (br_{it-1} - \beta_2 mr_{t-1} - \mu) + \varepsilon_{it}$$

where br is the client interest rate, mr is the financial market interest rate with the closest link to the given client interest rate, coefficient β_1 represents the speed of return to equilibrium, β_2 represents long-term transmission, μ is a constant in the equilibrium relationship and coefficient α_2 indicates short-term transmission.

The transmission of money market interest rates to interest rates on loans to non-financial corporations was relatively strong in the period under review (see Table 1 Box). Complete long-term transmission for small loans to corporations and incomplete transmission for large loans to these clients was found. This may indicate lower competition and presence of relationship lending between banks and clients in case of large loans. In the case of short-term transmission, loans with floating rates and rates fixed for up to one year follow money market interest rates; 70% of the transmission for small loans and 90% for large loans takes place within one month. Rates fixed for periods longer than one year do not respond within one month. The adjustment of interest rates on corporate loans to changes in money market rates ranges between one month and two months. The transmission for interest rates on housing loans is incomplete. The existence of a mechanism of return to the long-term equilibrium is apparent. The transmission is more spread over time, and these rates on average do not react to changes in financial market rates within one month. Both short-term and long-term transmission is significant in the case of deposits with an agreed maturity of up to two years, but only long-term transmission is complete. Only long-term transmission is significant for deposits with an agreed maturity of over two years, but it is incomplete.

The results of the analysis carried on for a shorter period from 2006 to 2008, in which the observations since the deepening of the global financial crisis had a larger weight, were similar. However, the average standard deviation of interest rates on housing loans and corporate loans granted by selected banks started to rise in mid-2008 (see Table 2 Box). That seems to indicate that banks are differentiating between clients to a larger extent as a result of a deterioration in borrowers' risk profiles and strengthened bank prudence.

Table 1 (Box)
Estimates of the pass-through of financial market interest rates to retail bank interest rates
(regression coefficients; standard errors in parentheses)

	Short-term pass-throuhg α_2	Long-term pass-throuhg β_2	Speed of adjustment β_1
Interest rate on loans			
Non-financial corporations (loans up to CZK 30 mil.)			
Floating rate and initial rate fixation of up to one year	0.70(0.15)**	0.94(0.06)***	- 0.50(0.11)***
Initial rate fixation of over one year	0.52(0.44)	0.95(0.09)***	- 0.49(0.20)***
Non-financial corporations (loans over CZK 30 mil.)			
Floating rate and initial rate fixation of up to one year	0.90(0.30)***	0.81(0.03)***	- 0.53(0.10)***
Initial rate fixation of over one year	0.90(2.20)	0.78(0.08)***	- 0.77(0.27)***
Lending for house purchase	- 0.13(0.23)	0.62(0.03)***	- 0.34(0.11)***
Interest rate on deposits			
With agreed maturity of up to two years	0.70(0.09)***	0.93(0.02)***	- 0.61(0.09)***
With agreed maturity of over two years	0.68(0.63)	0.47(0.06)***	- 0.28(0.14)*

Note: *** , ** and * denote significance at 1%, 5% and 10% level.

Table 2 (Box)
Standard deviation of interest rates on loans of selected banks

	II/08	III/08	IV/08	10/08	11/08	12/08
House purchase	0.68	0.78	0.95	0.88	0.92	1.04
Non-financial corporations						
up to CZK 30 mil. with rate fixation of up to 1Y	1.79	2.08	2.24	2.17	2.28	2.28
up to CZK 30 mil. with rate fixation of over 1Y	2.52	2.49	2.54	2.46	2.59	2.58
over CZK 30 mil. with rate fixation of up to 1Y	1.26	1.10	1.28	1.10	1.03	1.70

II.7 IMPORT PRICES AND PRODUCER PRICES

The marked depreciation of the koruna contributed significantly to renewed growth in import prices following a prolonged period of year-on-year decline. By February, prices were rising in most import categories. Only mineral fuels showed a persisting strong annual price decline. Annual growth in import prices of products with a higher degree of processing recorded the most significant increase, but prices of some production inputs also rose considerably. However, the renewed import price growth has not had any broad impact on producer prices so far. The annual decline in industrial producer prices deepened in Q1, chiefly because of rapidly waning demand and sharply falling oil prices and agricultural producer prices. The effect of falling demand was also reflected in slowing growth in prices of construction and market services.

II.7.1 Import prices

The beginning of 2009 saw renewed import price growth (of 4.5% year on year) following 18 months of year-on-year decline. This was due mainly to the year-on-year depreciation of the koruna observed since November 2008. As Chart II.46 shows, import prices were affected most by import prices of products with a higher degree of processing, whose price developments abroad are usually moderate. However, even in other import price categories the year-on-year exchange rate depreciation contributed to a shift from import price declines to import price growth (see Table II.7).

The change in the import price trend was particularly noticeable for imported machinery and transport equipment and miscellaneous manufactured articles. Prices of imported machinery and transport equipment were still decreasing in year-on-year terms in December, but rose by 8.5% in February. The rate of growth of import prices of miscellaneous manufactured articles was even higher in the same month (11.4%). The end of 2008 also saw renewed annual growth in import prices of food and semi-finished products, although their contribution to the total annual increase in import prices was much lower than that of products with a higher degree of processing. Import prices of food rose by 8.8% year on year in February, the highest rate of increase since November 2007, when food prices on world markets grew following a global decline in stocks of food commodities. Prices of imported food thus increased at a relatively quick pace in January and February even though prices of agricultural and food commodities on world markets recorded a certain decline.

The strong annual rate of growth of import prices of non-energy-producing materials declined by comparison with November 2008. However, it remained high at around 20%. Amid the significant cooling of world economic activity and weakening global demand, the annual depreciation of the koruna against the euro and the dollar thus helped to maintain rapid growth in import prices of these materials.

Mineral fuels were the only import category in which prices recorded marked annual declines, owing to the sharp fall in world prices of oil observed throughout 2008 H2. The annual decrease in import prices of mineral fuels was still in double figures (13.6% in February). It was also supported by world prices of natural gas, which followed the dynamics of oil prices with a longer-than-usual lag (see Chart II.48). Although the annual growth in world prices of natural gas was still high at around 20% in February, it was down by roughly 60 percentage points from the peaks recorded in 2008 Q3. This slowdown was partly offset by the annual depreciation of the koruna-dollar exchange rate.

Chart II.45 Import prices and producer prices
The beginning of 2009 saw renewed import price growth, but producer prices rose more slowly or fell
(annual percentage changes)

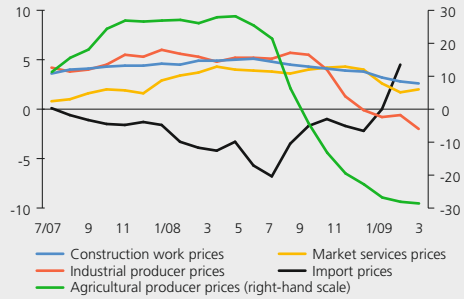


Chart II.46 Import prices
Prices of products with a higher degree of processing contributed the most to the rise in import prices
(annual percentage changes; contributions in percentage points)

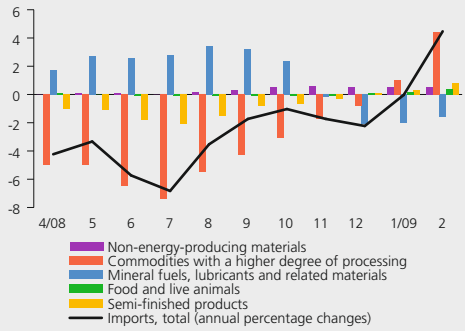


Table II.7 Structure of the import price index
Prices rose in most import categories
(annual percentage changes)

	11/08	12/08	1/09	2/09
IMPORTS. TOTAL	-1.7	-2.2	0.0	4.5
of which:				
food and live animals	-1.2	2.7	4.8	8.8
beverages and tobacco	-3.9	-2.8	-0.3	2.3
crude materials inedible, except fuels	24.6	18.6	17.5	20.0
mineral fuels and related products	-1.5	-18.0	-16.8	-13.6
animal and vegetable oils	6.6	8.3	10.6	15.9
chemicals and related products	-2.0	-2.2	-3.0	0.7
manufactured goods classified chiefly by material	-1.5	0.5	1.2	3.5
machinery and transport equipment	-4.0	-1.9	2.1	8.5
miscellaneous manufactured articles	-0.6	2.4	5.5	11.4

Chart II.47 Selected import categories
The annual depreciation of the koruna exchange rate contributed to renewed price growth in the major import categories
(annual percentage changes)

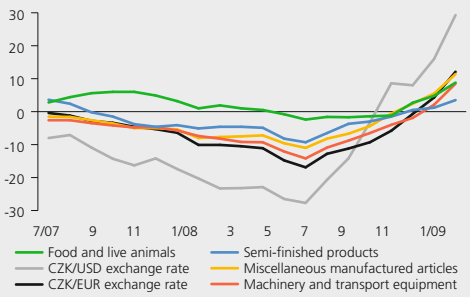


Chart II.48 Mineral fuels

Import prices of mineral fuels continued falling year on year

(annual percentage changes)

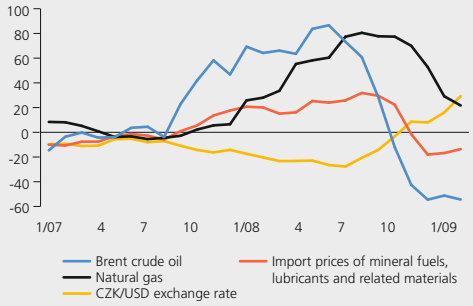


Chart II.49 Industrial producer prices

The decline in industrial producer prices was driven by the oil-processing and food industries

(annual percentage changes; contributions in percentage points)

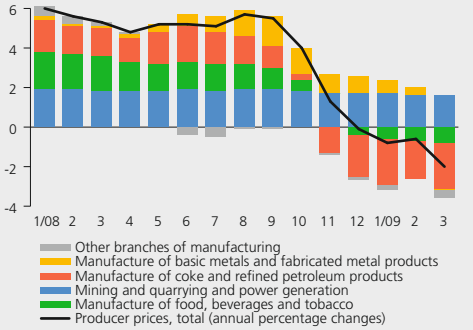


Chart II.50 Prices in selected branches I

Some major branches saw renewed or deepening price declines

(annual percentage changes; selected branches)

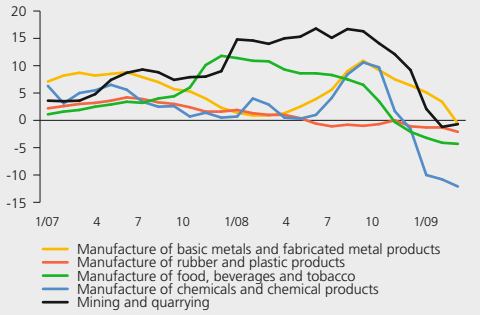
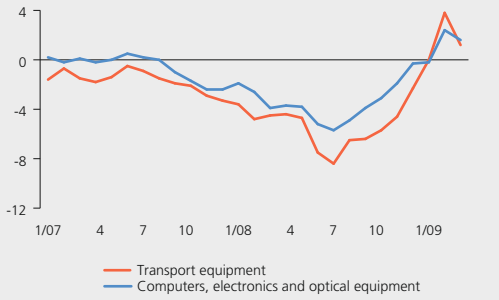


Chart II.51 Prices in selected branches II

Some sectors recorded renewed price growth as a result of the depreciating koruna

(annual percentage changes; selected branches)



The marked upswing in import price inflation observed since the end of 2008 in connection with the weakening of the koruna against the dollar and the euro meant the emergence of potential cost pressures not only on producer prices but also directly on consumer prices. This assumption is based mainly on the now relatively strong growth in prices of products with higher value added and the mostly rising prices of imported raw material inputs, semi-finished products and food. Only the sharply falling prices of imported mineral fuels acted towards a decline in producers' input costs, especially at the early stages of the production chain (primary processing of oil products).

II.7.2 Producer prices

Industrial producer prices

In 2009 Q1, the annual decline in industrial producer prices deepened to -2%, the lowest figure recorded since this index started to be monitored in 1991. The decline was mostly due to prices in the manufacture of coke and refined petroleum products and in the food industry (see Chart II.49). According to the latest available figures for March, producer prices in the oil processing and food industries recorded annual declines of 36.6% and 4.3% respectively.

A decline in prices of basic metals and fabricated metal products also had an anti-inflationary effect.[29] A switch from price growth to decline or a deeper annual decline was also observed in other major branches of manufacturing, for example manufacture of chemicals, chemical products and man-made fibres (-12.1% in March). A significant change in price trend was also recorded in mining and quarrying, where the previous rapid growth declined sharply and switched to an annual decline in February (from 9.2% in December 2008 to -0.7% in March).

The price decline in these sectors was partly offset by renewed price growth in the transport equipment manufacturing industry and also partly by rising prices in the manufacture of computers, electronics and optical equipment, where prices had been mostly falling since mid-2002. The upswing in prices in these sectors was mainly due to the year-on-year depreciation of the koruna's exchange rate, which affected the domestic prices of these higher-value-added products via import prices. Significant annual price growth continued into Q1 only in the electricity, gas and water supply industry (11.4% in March). The traditional buoyant price growth in the collection, purification and distribution of water also rose (by 2.6 percentage points to 6.9% in March compared to December 2008).

Industrial producer prices moved largely in the anti-inflationary direction in 2009 Q1. The main factors behind this trend included the sharp downswing in global economic activity due to the financial and economic crisis and a significant decline or slowdown in growth of prices of some key commodities (in particular oil, natural gas and agricultural commodities). The combination of these factors created conditions for a decline in the material input costs of numerous producers, while the weakening demand strengthened the downward pressures on industrial production prices. At the same time, however, the depreciation of the koruna acted towards higher prices of imported production inputs. In Q1 this was clearly apparent only in manufacturing branches that make heavy use of imported higher-value-added inputs (i.e. products for which foreign prices decreased only slightly or showed price growth).

29 Prices in this sector recorded an annual decline for the first time since May 2006.

Agricultural producer prices

The annual decline in agricultural producer prices observed since 2008 Q3 continued to deepen at the start of 2009 (see Chart II.52 and Chart II.53). This was due to prices of both crop products and livestock products. The overall annual decline in agricultural producer prices was a sizeable 28.6% in March 2009, up by 5.8 percentage points compared to December 2008.

The substantial annual decline in agricultural producer prices in the Czech Republic in late 2008 and early 2009 was mainly due to slower global demand for food in 2008 H2 and an above-average global harvest in 2008, which led to an increase in the previously falling stocks of some commodities. According to CZSO estimates, the domestic harvest was also the second largest since 1990. The price level of major crop commodities thus declined sharply after last year's harvest. This decline halted in 2009 Q1 (see Chart II.53). In year-on-year comparison, this price decline deepened to -35.4% in March.

At the start of 2009, livestock product prices also recorded a deepening of the annual price decline observed since the end of 2008 Q3 (to -18.9% in March). This was also due to weakening demand on world markets as a result of the downswing in global economic growth recorded in 2008 H2.

Chart II.52 Agricultural producer prices

The decline in agricultural producer prices increased sharply in 2009 Q1

(annual percentage changes)

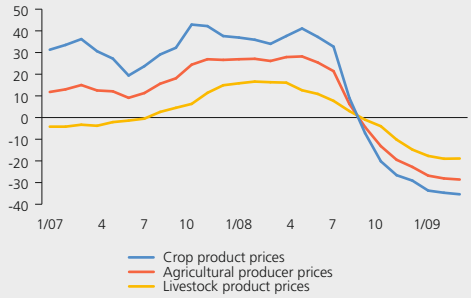
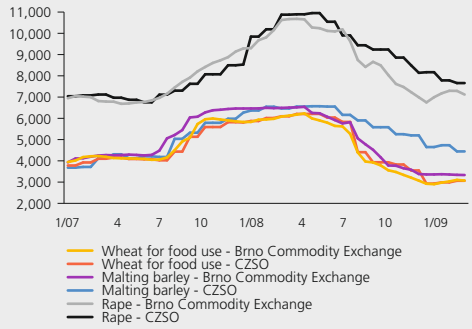


Chart II.53 Commodity prices

Prices of the main crop commodities continued to fall

(CZK/ton; selected commodities)



Other producer prices

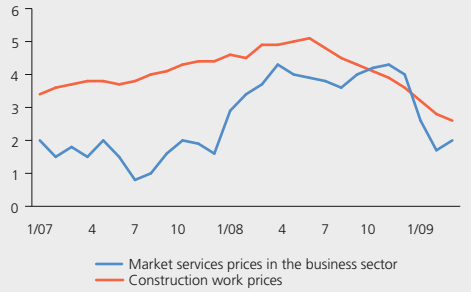
Weakening demand was clearly visible in market services prices and in construction in 2009 Q1. Annual market services price inflation in the business sector fell to one-half of the end-2008 level (2% in March). This was mainly due to prices of architectural and engineering services and prices of freight transport, where the previous annual growth switched to a decline. Price growth also fell sharply in post and courier services. By contrast, prices of advertising services and real estate services grew faster in year-on-year terms in Q1.

The visible downward trend in annual construction work price inflation observed since mid-2008 picked up pace in 2009 Q1. According to the latest figures for March, construction work prices recorded an annual increase of 2.6%, down by 1 percentage point from December 2008. Prices of materials and products consumed in construction have been decreasing since February 2009 (by 2.3% in March). This is the first downswing to have occurred since July 2006.

Chart II.54 Other price categories

Growth in prices of construction work and services in the business sector slowed

(annual percentage changes)



II.8 INFLATION

The slowing annual consumer price inflation at the start of 2009 Q1 was due mainly to the unwinding of the effects of changes to indirect taxes and a marked decline in growth of regulated prices. In 2009 Q1, headline inflation was in the lower half, or close to the lower boundary, of the CNB's inflation-target tolerance band, while monetary-policy relevant inflation was already below its lower boundary.

Chart II.55 Inflation
Annual inflation fell sharply at the start of 2009
(annual percentage changes)

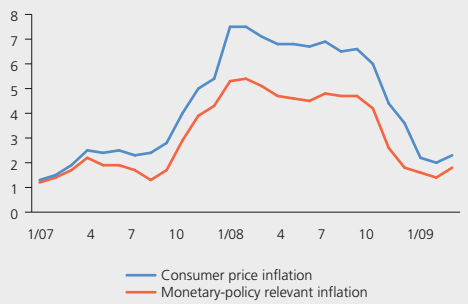


Chart II.56 Inflation components
Regulated price inflation and nontradables price inflation slowed
(annual percentage changes; excluding indirect tax changes)

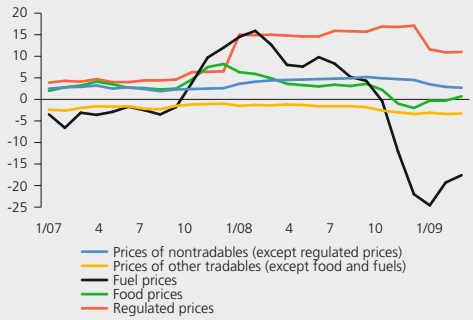


Chart II.57 Structure of inflation
Consumer price inflation was again driven by regulated prices
(annual percentage changes; contributions in percentage points)

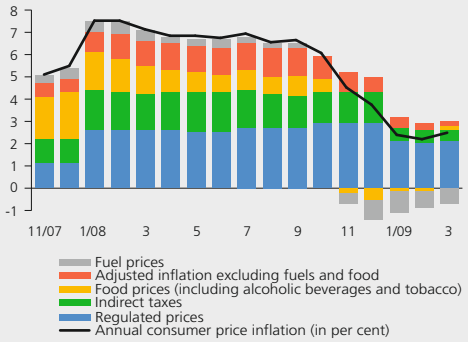
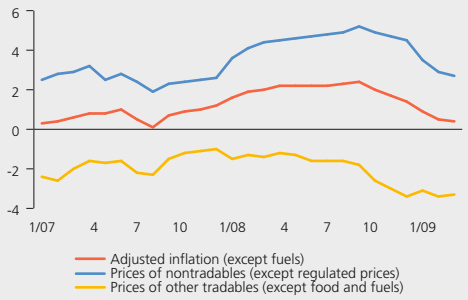


Chart II.58 Adjusted inflation excluding fuels
Adjusted inflation excluding fuels declined further in 2009 Q1
(annual percentage changes)



II.8.1 Current inflation

Annual inflation[30] continued to fall sharply in 2009 Q1 (see Chart II.55). At 2.3% in March, it was 1.3 percentage points lower than in December 2008. Regulated prices and the unwinding of the effects of changes to indirect taxes contributed most to the decrease in inflation. Adjusted inflation excluding fuels also fell significantly, while prices in the consolidated food category started to rise again in March following four months of decline. Thanks to the overall fall in 2009 Q1, inflation was in the lower half of the tolerance band set by the CNB around its target of 3%. Monetary-policy relevant inflation, which was also lower than annual headline inflation in Q1 (1.8% in March), has been below the lower boundary of the inflation target tolerance band since the end of 2008.

The continuing decline in inflation was due to various factors of both external and domestic origin. The significant decrease was due mainly to the unwinding of the effects of numerous reform measures implemented at the start of 2008. The external factors mainly included a continuing sharp annual decline in world oil prices, which passed through to market prices of fuels with a short lag. Inflation was also kept in check by subdued consumer demand due to households' uncertainty regarding future employment. Real consumer demand growth was also visibly lower in 2008 Q4 than in 2007 and probably recorded a decline at the start of 2009 according to the latest partial retail market indicators. The depreciation of the koruna's exchange rate was reflected in consumer prices to only a limited extent.

Consumer price inflation continued to be driven primarily by regulated prices in 2009 Q1 (see Chart II.57). Compared to 2008, annual consumer price inflation moderated considerably, reaching 11% in March. This decline was partly due to base effects, as some reform measures were implemented with effect from 1 January 2008 and energy prices were increased at the start of 2008. Despite that, regulated prices still grew at a double-digit rate, due mainly to January rises in regulated rents (of 22.8%), energy prices (of 11.6%) and heat prices (of 3.2%). The contribution of changes to indirect taxes in unregulated prices to annual inflation[31] also declined significantly in Q1. This contribution was due solely to the weakening lagged effect of the rise in excise duties on cigarettes.

Market prices, as measured by net inflation, showed a continuing annual decline in 2009 Q1 (of 0.4% in March). This was due to declining or moderately increasing consumer prices in all the monitored categories of net inflation. In Q1, the largest declines were recorded by fuel prices, which were strongly affected by the persisting deep annual decline in oil prices on world markets. Although their impact on domestic prices was strongly corrected by a strengthening depreciation of the koruna-dollar exchange rate, the annual fall in fuel prices was still steep in March (17.6%).

Annual adjusted inflation excluding fuels declined further in 2009 Q1 to very low levels (0.4% in March; see Chart II.58). The decline in Q1 was due to a significant slowdown in annual growth in prices of other non-tradable commodities, consisting mainly of services (from 4.5% in December 2008 to 2.7% in March 2009). In past years, when revising their prices, service providers tended to increase prices at the start of the new year, whereas this year service prices tended to moderate or remain flat. This new phenomenon confirms the findings of an analysis of prices in 2008 Q4, according to which service providers started to respond to the changing demand-side situation in their prices. This is evidenced by a slight decline in

30 Measured by annual growth in consumer prices.
31 I.e. the changes to indirect taxes implemented in 2008.

households' consumption expenditure on services in 2008 H2, reflecting more prudent or thrifty behaviour amid rising unemployment and uncertain economic growth prospects (see section II.3 *Supply and demand*).

On the other hand, the long-running annual decline in prices of other tradable commodities remained broadly the same in 2009 Q1 as in December 2008, although the koruna-euro and koruna-dollar exchange rates have been depreciating rapidly over the past few months. It is likely that the decline in prices of other tradable commodities in Q1 was maintained because of forward buying of imported goods at a time of a strongly appreciating koruna and subdued consumer demand. The strong impact of demand on producers' and sellers' price decisions was confirmed by continuing reductions in prices of some major goods, led by efforts to boost sales amid rapidly weakening demand (in particular for cars). The assumption of continuing unfavourable domestic demand for cars and other consumer products is supported by the latest CZSO figures for February revealing an annual real decline in retail sales in all the monitored categories.

Within market prices, annual growth in food prices picked up slightly in 2009 Q1 (to 0.7% in March).[32] This slight growth in March, replacing a previous decline, was largely due to base effects.[33] The generally modestly falling/rising food prices during 2009 Q1 were due mainly to the long-running anti-inflationary effect of domestic agricultural producer prices, in particular a pronounced decline in prices of bread and dairy products. By contrast, the depreciation of the koruna acted in the inflationary direction in Q1, partly offsetting the above anti-inflationary effects through import prices of some traditional imported commodities (coffee, tea, partly rice).

Looking at consumer prices broken down by the major categories of the consumer basket, prices in the housing category – mainly reflecting increases in prices of regulated items (particularly regulated rents, electricity and heat) – and the lagged impacts of the rise in excise duty on tobacco remained the biggest contributors to inflation. By contrast, the impacts of weakening demand and falling fuel prices and, specifically in health care, the fading effects of the reform measures adopted at the start of 2008 were felt in other categories.

Consumer prices, as measured by the HICP, continued to rise faster than the EU average at the end of 2009 Q1, but this difference shrank substantially compared to 2008. According to Eurostat's latest estimate, annual HICP inflation was 1.3% in the EU countries and 1.7% in the Czech Republic in March (and in January and February Czech inflation actually dropped below the EU level). The main cause of this change was the subsiding effect of the reform measures adopted at the start of 2008 on consumer prices in the Czech Republic.

II.8.2 Fulfilment of the inflation target

Headline inflation was in the lower half of the CNB's inflation-target tolerance band in 2009 Q1 (see Chart II.62). Monetary-policy relevant inflation was below the lower boundary of the tolerance band. This section of the Inflation Report briefly analyses the contribution of the CNB's monetary policy to this situation.

32 Food prices excluding tax changes.

33 Part of the price movement that usually occurs at the start of the year had already occurred at the end of 2007 simultaneously with sellers' advance response to planned tax changes effective from 1 January 2008 (a rise in the lower VAT rate from 5% to 9%).

Chart II.59 Food prices

Food price inflation was strongly affected by falling agricultural producer prices

(annual percentage changes)

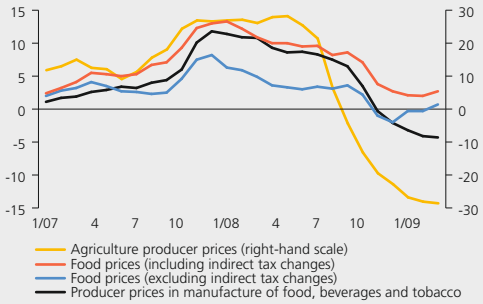


Chart II.60 Consumer basket prices

Prices in the housing category and tobacco prices were the biggest contributors to annual inflation

(March 2009; contributions in percentage points, including changes to indirect taxes)

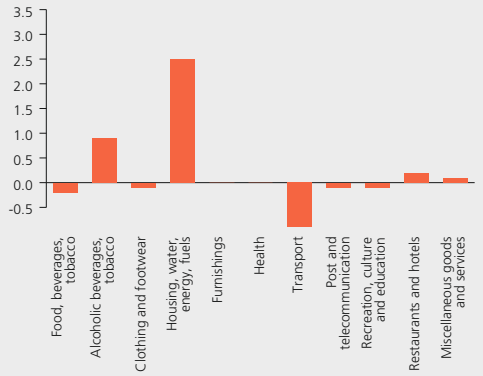


Chart II.61 The HICP in the Czech Republic and the EU

Inflation in the Czech Republic and in the EU converged noticeably

(annual percentage changes)

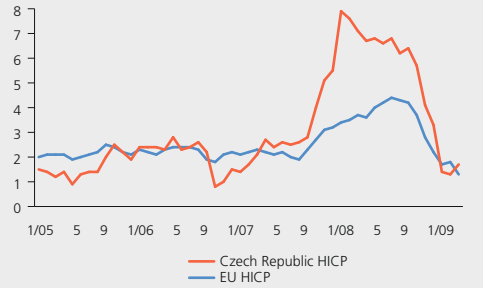


Chart II.62 Forecast versus actual inflation

Inflation in 2009 Q1 was below the October 2007 forecast

(annual percentage changes)

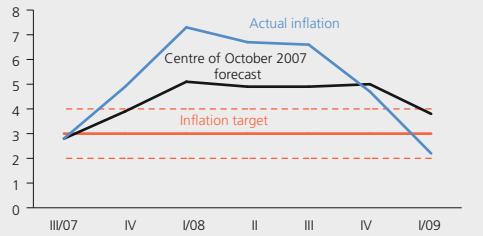


Table II.8 Fulfilment of the inflation forecast

Prices of non-regulated consumer basket items grew significantly less in 2009 Q1 than forecasted

(annual percentage changes; contributions in percentage points)

	October 2007 forecast	2009 Q1 outturn	Contribution to total difference [a]
CONSUMER PRICES	3.8	2.2	-1.6
Breakdown into contributions:			
regulated prices	4.7	11.2	1.2
first-round impacts of changes to indirect taxes	0.6	0.6	0.0
food prices[b]	4.0	0.0	-1.0
fuel prices[b]	4.0	-20.5	-1.0
adjusted inflation excl. fuels[b]	2.3	0.6	-0.9

a) owing to rounding, the sum of the contributions need not be equal to the total difference.
b) excluding the first-round impacts of changes to indirect taxes

Table II.9 Fulfilment of the external assumptions

External economic developments influenced the domestic economy towards higher inflation and as from 2008 H2 significantly lower economic growth compared to the October 2007 forecast

(annual percentage changes unless otherwise indicated)

		IV/07	I/08	II/08	III/08	IV/08	I/09
GDP in euro area[a), b), c)]	p	2.3	2.2	2.4	2.5	2.4	2.2
	o	2.0	2.6	2.2	1.3	-1.3	-
PPI in euro area[b), c)]	p	2.3	2.4	2.1	1.9	1.8	1.9
	o	3.3	4.7	6.6	8.5	4.6	2.0
3M EURIBOR	p	4.5	4.4	4.4	4.4	4.4	4.4
(percentages)	o	4.7	4.5	4.9	5.0	4.2	2.2
USD/EUR exchange rate	p	1.38	1.38	1.37	1.36	1.35	1.34
(levels)	o	1.45	1.50	1.56	1.50	1.32	1.30
Brent crude oil price	p	75.1	74.2	73.3	72.8	72.4	72.0
(USD/barrel)	o	88.8	96.5	122.2	115.9	56.2	45.0

p - prediction, o - outturn
a) at constant prices
b) seasonally adjusted
c) effective indicator as defined in the October 2007 forecast

Table II.10 Fulfilment of the forecast for key variables

The exchange rate was considerably stronger in 2008 than forecasted

		IV/07	I/08	II/08	III/08	IV/08	I/09
3M PRIBOR	p	3.7	4.1	4.3	4.5	4.6	4.6
(percentages)	o	3.8	4.0	4.2	3.9	4.1	2.8
CZK/EUR exchange rate	p	27.6	27.5	27.4	27.3	27.3	27.2
(levels)	o	26.8	25.6	24.8	24.1	25.3	27.8
Real GDP[a)]	p	6.2	5.6	5.2	4.8	4.4	5.0
(annual perc. changes)	o	5.6	4.9	4.0	2.9	0.7	-
Nominal wages[a), b)]	p	8.1	8.1	8.4	8.5	8.7	9.0
(annual perc. changes)	o	6.6	10.2	8.0	7.8	8.3	-

p - prediction, o - outturn
a) seasonally adjusted
b) in the business sector

In order to assess the effect of monetary policy on the fulfilment of the inflation target one needs to analyse retrospectively the forecasts and the Bank Board's decisions based thereon in the relevant period. As monetary policy is focused on hitting the inflation target at the 12–18 month horizon, the key period for the fulfilment of the inflation target in 2009 Q1 is thus roughly from July 2007 to March 2008. For the sake of clarity, the analysis of the accuracy of the forecasts is limited here to a comparison of the forecast drawn up in October 2007 with subsequent inflation.

According to the October 2007 forecast, headline inflation was expected to rise significantly above the upper boundary of the tolerance band for the inflation target in 2008 Q1, owing mainly to a rise in the lower VAT rate as from 1 January 2008, the harmonisation of excise duties and environmental taxes with EU rules and an increase in regulated price inflation. The contribution of the first-round effects of changes to indirect taxes to inflation was expected to be around 2 percentage points throughout 2008. Other components of inflation were also projected to pick up slightly. The inflationary effect of the domestic real economy was expected to peak in late 2007 and early 2008 and subsequently turn gradually anti-inflationary. After the subsiding of the effects of administrative measures, inflation was forecasted to return to the upper half of the tolerance band at the start of 2009 (see Chart II.62).

Headline inflation in reality was considerably higher than expected in the first four quarters after the forecast had been drawn up. However, a rapid decline in late 2008 and early 2009 meant that in 2009 Q1 it was well below the level forecasted in October 2007. All items except regulated prices rose at a considerably lower rate in Q1 than expected, while regulated prices showed much faster growth (see Table II.8).

The effect of the external environment on domestic inflation was characterised by higher-than-expected external inflation and considerable volatility in oil prices. The exchange rate of the dollar against the euro was weaker on average and had an anti-inflationary effect. The forecast did not expect the sharp fall in external demand and interest rates observed in 2008 H2 (see Table II.9).

The monetary conditions in the key period were quite significantly different from the expectations of the forecast. While nominal rates were broadly in line with the forecast in 2007 Q4 and 2008 Q1, higher-than-expected inflation led to an easier effect of real rates. By contrast, the exchange rate was substantially stronger than forecasted as from 2007 Q4 (see Table II.10).

Revisions to the quarterly data on economic growth, made in connection with the publication of the annual national accounts for 2007, also had an effect on the fulfilment of the forecast. The quarterly GDP growth estimates in 2007 were revised downwards compared to the data used in the forecast.

Based on the CNB's current knowledge of the functioning of the Czech economy and its current knowledge of actual economic developments, the developments since the October 2007 forecast was drawn up can be summed up in the following way. The developments in late 2007 and early 2008 reflected high growth in world prices of energy-producing materials and food. In addition to the expected adjustments, regulated prices were affected by the introduction of fees in health care and a higher-than-expected rise in regulated rents. Nevertheless, the assumption that the sizeable price growth related to these factors was temporary in nature materialised. The same went for the first-round effects of changes to indirect taxes, the size of which was in line with the forecast. The decline of the relatively high inflation was also fostered by a fall in world prices of oil and food at the end

of 2008, although the forecast did not envisage the magnitude of this fall. Real economic activity grew rather more slowly at the end of 2007 and in 2008 H1 compared to the October forecast. This was due (from the current perspective) to lower initial economic growth and a considerably tighter exchange rate. In recent quarters, domestic economic growth has declined considerably owing to the real impacts of the financial and economic crisis, in particular a fall in external demand. Nominal wage growth was somewhat lower than expected, except for a one-off increase in 2008 Q1 (see Table II.10).

In addition to the message of the forecast, an assessment of the risks associated with this forecast is of importance for the Bank Board's decisions on monetary policy rates. At its meetings between July 2007 and March 2008 (see the relevant minutes) the Bank Board assessed the risks of the forecasts as heading in both directions. The Bank Board's decision led on average to slightly easier monetary policy settings than those corresponding to the recommendations of the forecasts. In the context of the volatile cost factors and inflation evident since the second half of 2007, the monetary policy settings in the relevant period can be assessed as having been broadly appropriate and supporting the long-term anchoring of inflation expectations in a situation of significant shocks.

III.1 SUMMARY OF THE STARTING CONDITIONS

Headline inflation decreased further in 2009 Q1 and neared the lower boundary of the inflation-target tolerance band. Annual real GDP growth slowed quickly in the course of last year and, as assumed in the forecast, was negative at the start of this year. This was accompanied by falling growth in employment and nominal wages and, by contrast, a marked increase in unemployment. The current economic situation can thus be assessed as a downward phase of the business cycle, but the decline is faster than assumed by the previous forecast owing to the deepening global economic crisis. Nonetheless, we assess the current inflation pressures as being inflationary owing to the sharp exchange rate depreciation at the end of last year and at the start of this year, which was only partly offset by a decrease in domestic cost pressures.

Inflation fell further in early 2009, hovering close to the lower boundary of the tolerance band of the inflation target in Q1. Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, was below 2%. The prediction of the previous forecast that inflation would continue declining in early 2009 thus materialised, although the decline was more modest than forecasted. This was due to a lower-than-expected slowdown in food price growth and a less pronounced fall in fuel prices. Annual inflation continues to be driven mainly by increases in regulated prices and changes to indirect taxes, whose total contribution to inflation was 2.5 percentage points in March. Food prices adjusted for changes to indirect taxes were flat year on year in Q1, despite a significant decline in agricultural producer prices and world food prices. In line with the continuing decline in world oil prices, the year-on-year decline in fuel prices deepened to roughly 20%. Adjusted inflation excluding fuels slowed further, especially in the case of non-tradable items.

The annual growth of the Czech economy slowed sharply in 2008 Q4. Together with the Q4 data, the CZSO revised the GDP growth figures for previous quarters. The current figures indicate an earlier start of the downward phase of the business cycle, namely as from mid-2007. The declining GDP growth in Q4 was mainly due to a negative contribution of net exports to GDP growth, recorded for the first time in a long time. In connection with a pick-up in the deflator, government consumption dampened economic growth. By contrast, the contribution of household consumption remained stable and that of gross capital formation increased thanks to growth in inventories. In 2009 Q1, GDP is forecasted to show an annual decrease of 2.5%. This decrease will be due primarily to a further deepening of the negative contribution of net exports and a decline in gross capital formation.

The labour market situation corresponds to the downward phase of the business cycle and is reflecting the evolution of economic activity with a lag. Employment growth is slowing and the employment of foreign nationals has been decreasing in recent months. The seasonally adjusted registered unemployment rate rose sharply in Q1 amid a continuing fall in the number of vacancies. In line with the sharp downswing in economic growth and labour demand, the forecast assumes a quarter-on-quarter decline in nominal wages in the business sector[34], leading to a marked decrease in their annual growth. In the non-business sector, wages will maintain relatively high annual growth of roughly 6%.

34 The fall in wages is probably a result of lower bonuses or a shorter working week as corporations try to reduce the impact on employment.

Import prices continued falling year on year in 2008 Q4 as a result of the exchange rate appreciation in the first half of the year. However, the sharp weakening of the exchange rate at the close of 2008 and at the start of 2009 will lead to annual growth in import prices in 2009 despite declines in external inflation and world energy prices. At the same time, export prices in foreign currency are decreasing owing to the koruna's depreciation, bolstering the price competitiveness of domestic exporters.

Based on the above developments and other information, the current inflation pressures are assessed as being inflationary. This is due to the sharp depreciation of the koruna in late 2008 and early 2009, which is starting to pass through gradually to domestic consumer price inflation via rising import prices. In line with the rapidly slowing economic activity and falling wage growth, domestic cost pressures are starting to become modestly anti-inflationary and partly offset the inflationary effect of import prices.

III.2 THE FORECAST

Inflation will continue to fall this year but will remain positive. In 2010, it will start rising again and approach the 2% inflation target, which it will reach at the end of 2010. The forecast is for a sharp downturn in economic activity owing to the global financial and economic crisis. The economy is expected to shrink by 2.4% this year, but it should gradually return to growth in 2010. The nominal exchange rate will initially correct its depreciation observed at the beginning of 2009 and will be broadly stable thereafter. Consistent with the forecast is a decline in market interest rates this year followed by a modest rise in 2010.

III.2.1 Assumptions of the forecast

The forecast is based on the starting conditions summarised in section III.1 and on assumptions regarding the external economic environment, regulated prices, indirect tax changes and public budgets.

Expectations regarding the external environment are one of the key assumptions of the forecast. For this purpose, the CNB has as usual drawn on the publication Consensus Forecasts, which brings together the forecasts of a range of foreign analytical teams, and on market outlooks. The current forecast is based on the April Consensus Forecasts data and the market outlooks effective on the survey date. Effective developments in the euro area are used to proxy for developments in the Czech Republic's major trading partner economies. In connection with Slovakia's entry into the euro area on 1 January 2009, the calculation of the effective external indicators has been changed – for details see Box 2 *Proxying external developments after Slovakia's entry to the euro area*. The CNB forecast uses the outlook for prices of Brent crude oil as an indicator of energy prices. In addition, the outlook for petrol prices on the ARA markets is used in forecasting fuel prices.

BOX 2
Proxying external developments after Slovakia's entry to the euro area

In connection with Slovakia's entry to the euro area, a new definition of the effective external indicators is used in the assumptions of the forecast regarding the external environment starting with the II/2009 Inflation Report. The base for the calculation of the effective GDP, CPI and PPI indicators

Table 1 (Box)
Changes in weights for the construction of effective indicators - eight largest trade partners
(in per cent)

Country	Initial weight	New weight
Germany	61	47
Slovakia	0	14
France	7	8
Austria	10	7
Italy	8	7
The Netherlands	5	6
Belgium	4	4
Spain	3	3

Chart 1 (Box)
Effective CPI growth
(annual percentage changes)

Chart 2 (Box)
Effective real GDP growth
(annual percentage changes)

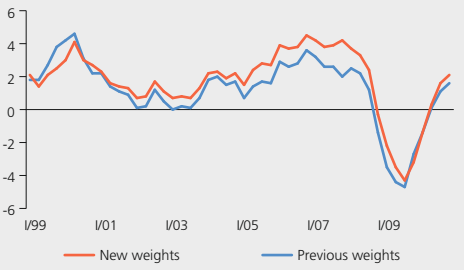


Table III.1 Expected external developments
The forecast assumes a significant decrease in external demand this year
(quarterly averages)

	II/09	III/09	IV/09	I/10	II/10	III/10	IV/09
Brent crude oil prices (USD/barrel)	52.1	55.3	58.2	60.6	62.7	64.3	65.6
GDP in euro area[a)]	-3.5	-4.3	-3.2	-1.4	0.3	1.6	2.1
Producer prices in euro area[a)]	-1.8	-4.0	-1.7	0.3	1.3	1.7	1.7
Consumer prices in euro area[a)]	1.0	0.5	0.9	1.4	1.5	1.6	1.7
USD/EUR exchange rate	1.33	1.31	1.32	1.32	1.33	1.33	1.33
3M EURIBOR (in per cent)	1.2	1.0	1.0	1.2	1.5	1.8	3.0

a) effective indicator; annual percentage changes

has been extended to include Slovakia, Slovenia and Cyprus. Luxembourg and Malta are not taken into account in the calculation of the effective indicators, as they are not monitored in the Consensus Forecasts surveys and their impact on the indicators is negligible given their weights in Czech foreign trade.

The new weighting scheme (Table 1 Box) is based on the average volume of Czech exports in 2008 (the previous weighting scheme used foreign trade turnover in 2005). Economic growth in Slovakia thus has a 14% weight in the current depiction of the external environment. Germany's weight has decreased to 47%. The forecasts for inflation (CPI, PPI) and real GDP growth for the individual countries continue to be taken from the monthly Consensus Forecasts (CF) published by Consensus Economics Inc.

A comparison of the previous and new indicators of inflation and GDP growth (including the current forecast) is shown in Chart 1 Box and Chart 2 Box. The new effective indicators of CPI and GDP growth are higher on average than the previously used indicator. The effective indicator of PPI growth is virtually unchanged since its CF forecast is available only for Germany, Italy and the euro area as a whole, hence the effective indicators cannot take into account all the countries in the weighting scheme.

The deepening financial and economic crisis led to a further substantial deterioration of the economic growth outlook in the euro area countries this year. Effective euro area GDP is expected to decrease by 3.3% this year and rise by 0.6% in 2010 (see Table III.1).[35] The sharp slowdown in economic growth combined with falling prices of oil, other raw materials and agricultural commodities will exert downward pressure on external inflation this year. Growth of 1% in the effective indicator of consumer prices in the euro area is expected in 2009, followed by an increase to 1.5% in 2010. The outlook for producer prices saw a significant revision; producer prices are expected to decline by 1.6 % this year and increase by 1.3% in 2010.

World central banks, including the ECB, are combating the ongoing crisis and the related sharp economic slowdown by rapidly easing monetary policy. Many central banks have already hit the zero bound of interest rates and are introducing non-standard measures.[36] The expected path of euro interest rates declined further. According to market outlooks, three-month euro rates adjusted for the credit premium are expected to decrease this year to levels close to 0.7% and subsequently to increase to around 3% towards the end of next year as inflation rises and GDP recovers. Given the forecasted assumption of a gradual decline in the credit premium to low levels this year, this implies somewhat higher average EURIBOR rates in 2009 as compared to the aforementioned adjusted interest rates. The expected average three-month EURIBOR foreign interest rate is 1.3% this year and 1.9% in 2010. The expected dollar-euro exchange rate path is little changed from the previous forecast. The dollar is thus expected to be flat at just above USD 1.3/EUR in 2009 and 2010. The outlook for oil prices is virtually unchanged.

35 In the calculation of the effective euro area GDP indicator, the forecast for GDP growth in Slovakia, which is usually based on the EECF (Eastern European Consensus Forecast) was adjusted – in the current situation of sharp shifts in predictions – using the outlook for the Slovak economy in the National Bank of Slovakia's forecast.

36 The Fed has started implementing a credit easing and the Bank of England a quantitative easing, while the Swiss National Bank has begun intervening in the foreign exchange market and the Bank of Japan has started purchasing government and corporate debt securities.

Over the forecast horizon, the price of Brent crude oil should gradually rise from USD 52 a barrel in Q2 of this year to USD 66 a barrel at the end of 2010. However, the outlook for petrol prices has been increased slightly for this year.

The forecast assumes that domestic regulated prices will contribute significantly less to headline inflation in the coming two years compared to the previous year, when regulated prices rose by more than 17%. Regulated prices are thus projected to increase by around 3% at the end of 2009 and 2010. Regulated rents will increase in both years. The forecast assumes that regulated prices of electricity will increase this year and decline in 2010. Natural gas prices for households are expected to decline in both years.

The assumptions of the forecast also include the outlook for the first-round effects of indirect tax changes, which are subject to escape clauses. The first-round effects of the 2008 increase in excise duty on tobacco products will drop out of annual consumer price inflation in the second quarter of this year. The reclassification of selected services to the lower VAT rate, which forms part of the government's anti-crisis measures, has been incorporated into the forecast. This measure is expected to take effect in July this year and its first-round effects on inflation are estimated at -0.37 percentage point.[37]

Owing to the deteriorating macroeconomic outlook and the incorporation of anti-crisis fiscal measures into the forecast[38], the estimated government sector deficit in 2009 and 2010 has been significantly increased. The shortfall in tax revenues and revenues from social security contributions and the increase in unemployment benefit payments combined with the impacts of the anti-crisis measures will result in a public finance deficit of 4.3% of GDP in 2009, deepening to 5.4% of GDP in 2010. The 3% reference value of the Maastricht convergence criteria for the public finance deficit will thus be significantly exceeded in both years. The rise in the overall deficit will be accompanied by an increase in the structural deficit.

III.2.2 The message of the forecast

Headline inflation will continue to fall this year but will remain positive. Next year it will start rising again, reaching the 2% inflation target at the end of 2010. At the monetary policy horizon, i.e. in 2010 Q2 and Q3, headline inflation will be in the lower half of the inflation-target tolerance band (see Chart III.1).

Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, will follow a similar path to headline inflation (see Chart III.2). It will remain below headline inflation in 2009 Q2 as a result of a past change in excise duty on cigarettes. However, it will move above headline inflation in the second half of the year as a result of the transfer of selected services to the lower VAT rate. From 2010 Q3, monetary-policy relevant inflation will be the same as headline inflation.

Chart III.1 The headline inflation forecast

At the monetary policy horizon, the headline inflation forecast is in the lower half of the inflation-target tolerance band and is rising towards the target

(annual percentage changes)

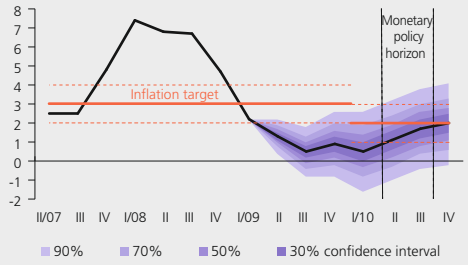
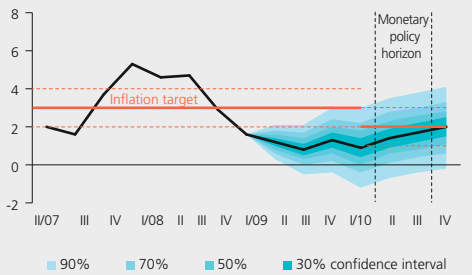


Chart III.2 The monetary-policy relevant inflation forecast

Monetary-policy relevant inflation will develop similarly to headline inflation

(annual percentage changes)



37 The forecast does not assume a full pass-through of this VAT reduction to services prices. The overall impact on inflation will thus be around -0.2 percentage point.

38 These are either measures that are highly likely to be approved, or have already been approved, by the Chamber of Deputies (the lower house of the Czech Parliament) or executive measures falling within the competence of the government: the transfer of selected services to the lower VAT rate, the extension of VAT deductions for cars, the acceleration of depreciation of investments in the first and second depreciation classes, a reduction in employees' social security contributions, cuts in operational expenditure in individual budget chapters, an increase in funds for investment, the strengthening of subsidies (energy-saving projects etc.), an increase in personal income tax relief for a child, an increase and extension of unemployment benefits, an increase in child allowances and the introduction of car-scrapping incentives.

TABLE III.2 FORECAST OF KEY INFLATION COMPONENTS

Adjusted inflation excluding fuels will recover at the forecast horizon

(annual percentage changes; quarterly averages)

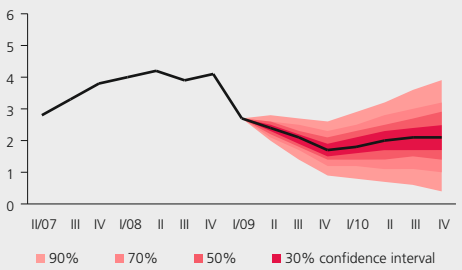
	II/09	III/09	IV/09	I/10	II/10	III/10	IV/10
CONSUMER PRICES	1.3	0.5	0.9	0.5	1.1	1.7	2.0
Regulated prices[a)]	9.8	8.3	3.4	-1.3	-0.7	-0.3	2.8
First-round impacts of indirect tax changes on consumer prices[b)]	0.1	-0.4	-0.4	-0.4	-0.4	0.0	0.0
Net inflation[c)]	-0.8	-0.8	0.4	1.4	1.9	2.0	2.0
Prices of food, beverages, tobacco[c)]	0.9	-0.8	-0.7	-0.4	0.5	2.1	2.4
Adjusted inflation excl. fuels[c)]	-0.1	0.4	0.9	1.6	2.0	1.8	1.6
Fuel prices[c)]	-20.3	-14.8	3.9	15.4	11.9	6.4	5.9
Monetary-policy relevant inflation[d)]	1.2	0.9	1.3	0.9	1.4	1.7	2.0

a) including changes to indirect taxes
b) contributions in percentage points
c) excluding changes to indirect taxes
d) headline inflation excluding first-round impacts of changes to indirect taxes

CHART III.3 THE INTEREST RATE FORECAST

Consistent with the forecast is a decline in market interest rates this year followed by a modest rise in 2010

(3M PRIBOR, %)



The currently high contribution of regulated prices to headline inflation growth will gradually decrease during 2009. In the first three quarters of 2010, this contribution should be negative. The contribution of the first-round effects of indirect tax changes to inflation will remain slightly positive in Q2 but will exert downward pressure on headline inflation from 2009 Q3 to mid-2010. The other components of inflation will initially reflect the anti-inflationary pressures stemming from the domestic economy, but the impact of import prices will gradually prevail and prices will start to edge up (see Table III.2). Adjusted inflation excluding fuels will decline further in 2009 Q2 but will start to increase thereafter as a result of the lagged effect of the exchange rate depreciation. Food prices excluding tax changes will record a slight year-on-year decrease in 2009 H2 owing to the previous fall in world agricultural producer prices and food prices. However, they will gradually return to growth in 2010. The decline in fuel prices will slow gradually as a result of an expected moderate rise in the price of oil. Fuel prices will record renewed annual growth at the end of 2009.

Consistent with the forecast is a decline in market interest rates this year followed by a modest rise in 2010 (see Chart III.3). The outlook for external variables, especially interest rates and inflation, is the most significant contributor to the decline in interest rates. Another important factor acting towards lower interest rates is low nominal wage growth at the forecast horizon. Despite the decrease in domestic rates the positive interest rate differential will continue to widen in Q2. However, this differential will begin to narrow in the second half of the year. Domestic market interest rates will continue to be influenced by the credit premium, although the latter will fall this year in line with the assumptions regarding the external credit premium. Box 3 presents the behaviour of the central bank in the g3 model and is currently the last in the series of boxes devoted to the properties and structure of this new CNB's modelling tool, the first part of which was published in the Inflation Report II/2008.

BOX 3
Monetary policy in the g3 model

The central bank reaction function is represented in the g3 model by the relationship between the nominal interest rate and expected inflation. Its equation is based on a modified Taylor rule. Formally, the central bank reaction function is expressed as

$$i_t = \rho i_{t-1} + (1 - \rho)(\tilde{i}_t + \psi\pi_{t+4}) + \varepsilon_t ,$$

where i_t is the monetary policy nominal interest rate, ρ is the interest rate smoothing parameter, $\tilde{i}_t$ is the equilibrium monetary policy nominal interest rate, which is the sum of the equilibrium real interest rate and model-consistent inflation expectations, ψ is the weight of the deviation of inflation from the target, π_{t+4} is the expected deviation of inflation from the inflation target, and ε_t is the monetary policy shock. The parameters of the rule were calibrated to ensure that monetary policy has a stabilising effect. Given the forward-looking nature of the reaction function, this functional form cannot be estimated by means of single-equation econometric methods based on historical data.

The reaction function determines the interest rates with regard to the deviation of expected monetary-policy relevant inflation from the inflation target at the monetary policy horizon, which is set to four quarters in the g3 model. The estimate for inflation at the monetary policy horizon reflects all macroeconomic variables entering the model.

The nominal exchange rate of the koruna against the euro, which depreciated markedly at the turn of this year, will correct its losses in Q2 and Q3 due to the widening of the positive interest rate differential. The koruna's exchange rate should be broadly flat in the remainder of 2009 and in 2010, with the depreciation pressures stemming mainly from the declining external demand being initially dampened by a widening of the interest rate differential into positive values and the subsequent recovery in external demand being counteracted by a renewed narrowing of the interest rate differential (see Chart III.4).

The forecast expects a sharp slowdown in economic activity (see Chart III.5). After recording roughly 3% growth in 2008, the Czech economy will shrink by 2.4% in 2009 owing to the global financial and economic crisis. In 2010, in line with a recovery of external demand, the forecast expects the economy to grow by more than 1%.

Private household consumption growth will slow sharply and turn negative in 2009, reaching a trough at the end of the year. This downswing will be due to slowing real disposable income growth as a result of lower wage growth and lower employment, together with pessimistic expectations of households. In 2010, consumer spending will start to recover very gradually, thanks among other things to the anti-crisis measures.

The quarter-on-quarter decline in real gross capital formation will continue until the beginning of next year, linked with a weakening of external demand, an increase in the costs of investment financing and low investment returns. The unfavourable evolution of investment this year is also indicated by the latest available data on stagnating imports for investment and intermediate consumption. Despite a strong quarterly fall in total investment, the average annual decline in 2009 is only moderate due to base effects relating to 2008 Q2. The growth rate of gross capital formation will pick up in 2010, in connection with a recovery in external demand and the government's anti-crisis measures.

Real exports will be hit hardest by the world crisis (see Table III.3). The effect of unfavourable trends abroad on domestic exports will be partly offset by rising price competitiveness of Czech exporters thanks to a weaker exchange rate of the koruna and the introduction of car-scrapping incentives in some euro area countries.[39] Even so, real exports will decrease by almost 10% this year. As Western Europe gradually recovers, export growth will turn positive again, to 1% in 2010. The outlook for imports is determined by the forecasts for exports, household consumption and gross capital formation. The decline in imports stemming from the fall in exports will be dampened this year by steadier gross capital formation and private consumption. Imports will thus fall by roughly 7.5% in 2009 and remain flat in 2010. The contribution of net exports to real GDP growth will fall sharply to -2.2 percentage points in 2009 and rebound to 0.7 percentage point in 2010.

Government consumption will be the only component of domestic demand to maintain growth this year. However, government consumption accounts for only a small part of demand and its contribution to growth will thus be low. At the forecast horizon, the anti-crisis fiscal measures will create room for higher corporate investment and give rise to stronger private consumption. On the other hand, the forecast expects the rise in the borrowing requirement to lead to an increase in the country's risk premium. The overall effect of the anti-crisis fiscal measures on GDP growth is forecasted to reach 0.3 percentage point in 2009 and 0.5 percentage point in 2010.

Chart III.4 The exchange rate forecast

The nominal exchange rate will initially slightly appreciate and will then be broadly stable

(CZK/EUR)

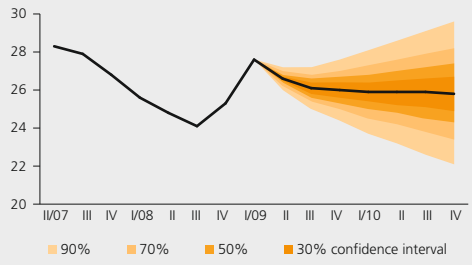


Chart III.5 The GDP growth forecast

After a decline in economic activity this year a moderate recovery will take place in 2010

(annual percentage changes; seasonally adjusted)

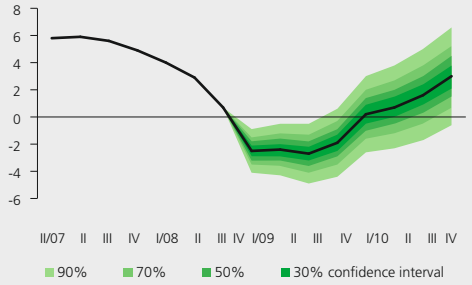


Table III.3 Forecast of key GDP components

Exports will see the greatest decline this year

(annual percentage changes; seasonally adjusted)

	2009	2010
GROSS DOMESTIC PRODUCT	-2.4	1.4
Household consumption	-0.4	0.3
Government consumption	1.8	1.5
Gross capital formation	-0.8	1.1
Imports of goods and services	-7.4	0.0
Exports of goods and services	-9.8	0.9
Net exports of goods and services (in CZK bn; at constant prices)	10.5	37.6

39 Given the high share of car production in domestic industrial production, an additional effect on domestic economic growth equivalent to 0.6% of GDP this year is added to the effect of the car-scrapping incentives already accounted for in the external GDP outlook according to Consensus Forecasts. In subsequent years, by contrast, the car-scrapping incentives abroad will reduce domestic economic growth.

Table III.4 Forecast of selected variables
The labour market will be strongly affected by the economic recession
(annual percentage changes)

	2009	2010
Real gross disposable income of households	1.5	0.9
Total employment	-0.9	-2.3
Unemployment rate (in per cent)[a]	6.1	8.4
Labour productivity	-1.4	3.7
Average nominal wage	2.3	2.9
Average nominal wage in business sector	1.4	3.0
Current account deficit (ratio to GDP in per cent)	-2.3	-1.9
M2	6.7	-1.2

a) ILO methodology

Table III.5 Inflation expectations
Inflation expectations declined
(annual percentage changes in consumer price index)

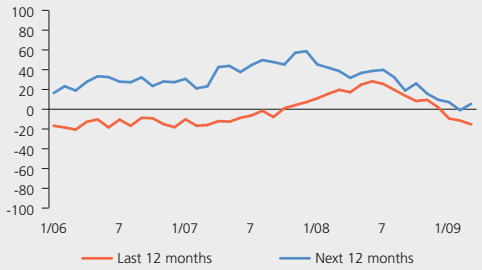
	3/08	1/09	2/09	3/09	4/09
Financial market, 1Y horizon	3.2	2.1	2.0	1.9	1.9
Financial market, 3Y horizon	2.6	2.4	2.4	2.5	2.4
Corporations, 1Y horizon	4.9			1.9	
Corporations, 3Y horizon	3.7			2.5	

Table III.6 Other expected indicators
The financial market was expecting GDP to fall
(at 1Y unless otherwise indicated)

	3/08	1/09	2/09	3/09	4/09
Real GDP in 2009[a]	4.7	0.5	-0.9	-1.8	-2.2
Real GDP in 2010[a]		2.5	1.8	1.4	1.2
Nominal wages in 2009[a]	7.8	4.0	3.4	2.9	2.7
Nominal wages in 2010[a]		4.5	4.2	3.9	3.8
CZK/EUR exchange rate[b]	25.5	25.3	25.7	25.6	25.5
2W repo rate[c]	3.8	1.6	1.5	1.8	1.8
1Y PRIBOR[c]	4.0	2.5	2.4	2.5	2.6

a) year-on-year changes in per cent
b) level
c) in per cent

Chart III.6 Perceived and expected inflation
Inflation expected by households decreased in 2009 Q1



Source: European Commission Business and Consumer Survey

On the labour market, the economic slowdown will be accompanied by a sharp fall in nominal wage growth, a decline in employment and an increase in unemployment (see Table III.4). The downward pressures on wage growth will stem mainly from previous high labour costs in relation to labour productivity and also from a considerable slowdown in real economic activity. Wages will be greatly affected by lower bonuses as well as by a shorter working week as some firms cut production. In 2010, however, wage growth will rise again owing to the recovery in the domestic economy. The average nominal wage in the economy will thus grow at roughly 2% this year and almost 3% in 2010. The non-business sector will record faster wage growth than the business sector this year.

III.3 FORECASTS BY OTHER ENTITIES

In recent months, financial market analysts' predictions have been significantly affected by the global financial crisis and the related economic downturn. The analysts expected a decline in GDP in 2009 and an appreciation of the koruna's exchange rate and stable CNB key rates at the one-year horizon. Inflation is expected to stay slightly below the CNB's inflation target at the one-year horizon.

Inflation expected both by financial market analysts and by business managers[40] declined slightly below the 2% inflation target valid from January 2010 at the one-year horizon (see Table III.5). The analysts' predictions reflected the expected anti-inflationary real economy, a rise in unemployment and lower wage growth. Inflation expectations remained above the CNB's inflation target in both sets of respondents at the three-year horizon.

The outlook for some other monitored macroeconomic variables was also revised (see Table III.6). Financial market analysts have gradually been reducing their GDP growth estimates for 2009 and 2010 owing to the worse economic outlook abroad. The decline in the real economy is expected to lead to a higher unemployment rate and lower wage growth. Compared to the end of April 2009, the analysts expect a stronger and less volatile exchange rate of the koruna at the one-year horizon. The analysts' expectations regarding the CNB Bank Board's May meeting were roughly balanced between key rates staying unchanged and being reduced by 0.25 percentage point. The outlook for the CNB's key rates is stable at the one-year horizon.

Compared to the current CNB forecast, the financial market analysts expect roughly the same decline in GDP amid slightly higher nominal wage growth. This is also reflected in higher inflation expected by the analysts at the one-year horizon. By contrast, the exchange rate is slightly stronger in the analysts' predictions than in the CNB forecast. Over the entire horizon, the analysts' expectations regarding the 2W repo rate are roughly at the level implied by the 3M PRIBOR rate path consistent with the CNB forecast described in section III.2.

The indicator of inflation perceived by households turned negative (see Chart III.6).[41] This means that households on average felt that prices tended not to rise over the last 12 months. The indicator of expected inflation also decreased, but it remained slightly positive. This suggests that the number of respondents who expect prices to stay the same or increase more rapidly over the next 12 months than in the past is only slightly higher than the number of those who expect prices not to rise.

40 The CNB monitors the expectations of financial market analysts regarding key macroeconomic indicators and the inflation expectations of business managers by means of statistical surveys. Tables III.5 and III.6 show the average values from these surveys.

41 The CNB draws on the qualitative assessment of past and future inflation by households collected as part of the European Commission Business and Consumer Survey (see Box 2 in the July 2007 Inflation Report).

BOX 4
Analysts' forecasts in financial market inflation expectations questionnaires: A look back at the past ten years

The CNB launched its survey of financial market inflation expectations in May 1999. This box describes the CNB's ten-year experience of gathering and assessing financial market analysts' expectations regarding key macroeconomic indicators.

The CNB requests forecasts for the following indicators:

- the annual change in the consumer price index at the one-year and three-year horizons;
- the values of the 2W repo rate, 1Y PRIBOR, 5Y IRS and 10Y IRS at the one-month and one-year horizons;
- the koruna-euro exchange rate at the one-month and one-year horizons;
- annual real GDP growth in the current year and the following year;
- annual nominal wage growth in the current year and the following year.

The period of 1999–2009 was characterised by relatively volatile monitored variables. The ongoing financial and economic crisis has also partly affected the survey results in recent months. Over the whole period under review, the forecasts for some variables fluctuated within relatively wide uncertainty bands, defined as the ranges between the maximum and minimum values, but the actual values of the individual indicators were often even more volatile than the forecasts. This is visible, for instance, in inflation. Its forecasted values were overestimated on average at both the one-year and three-year forecast horizons, but the analysts showed estimation errors in both the positive and negative directions. As regards monetary policy, it is important that changes in inflation expectations at the one-year horizon remain almost totally unreflected in changes in inflation expectations at the three-year horizon. Longer-term inflation expectations have stayed below 3% since the end of 2002 and have been converging gradually to the CNB's new inflation target of 2% valid from the start of 2010. Despite the ongoing financial and economic crisis, the CNB's new inflation target can be interpreted as credible.

The interest rate forecasts are quite significantly affected by current developments and are optically similar for all the monitored maturities. The forecasts at the shorter horizon logically fluctuate within narrower uncertainty bands. The average expected rates for the entire period under review at the one-month horizon are almost identical to the actual values, while the forecasted values at the one-year horizon are overestimated on average.

The exchange rate forecasts also changed in relation to the current situation. The forecasted values of the exchange rate were weaker on average than the actual ones at both monitored horizons. The appreciation of the koruna was thus even faster than the analysts expected.

Real GDP growth seems to be the most difficult-to-forecast indicator. The GDP forecasts were systematically underestimated, with the actual values fluctuating outside the ranges of the analysts' forecasts in almost all the years under review. Moreover, the dispersion of the estimates tended to grow over time. An analysis of the published data reveals that the underestimations of GDP forecasts were most affected by CZSO revisions of the data, as they reflected statistical changes that could not have been predicted. By contrast, nominal wage growth can be forecasted very well. However, shorter time series are available for nominal wage growth forecasts.

Chart 1 (Box) Intervals of expected inflation
Actual inflation was more volatile than expected inflation
(in %, 1Y horizon)

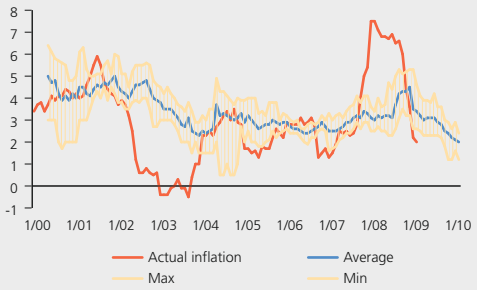


Chart 2 (Box) Intervals of expected 2W repo rate
The repo rate predictions were influenced by the current situation
(in %, 1Y horizon)

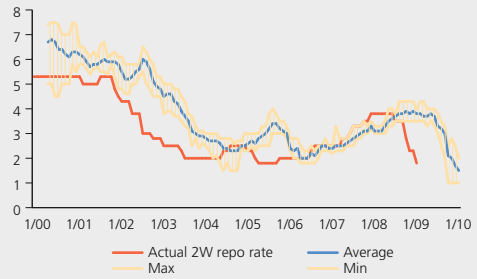
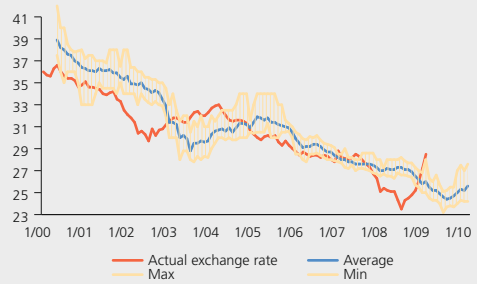


Chart 3 (Box) Intervals of expected CZK/EUR exchange rate
The analysts mostly underestimated the appreciation of the koruna
(level, 1Y horizon)



MINUTES OF THE BOARD MEETING ON 26 MARCH 2009

Present at the meeting:
Z. Tůma (Governor), M. Hampl (Vice-Governor), M. Singer (Vice-Governor), R. Holman (Chief Executive Director), V. Tomšík (Chief Executive Director), E. Zamrazilová (Chief Executive Director).

The meeting opened with a presentation of the second situation report assessing the newly available information and its impact on the risks to the fulfilment of the inflation forecast from the first situation report.

The main inflationary factor was a smaller-than-expected fall in annual inflation, which in February had been 0.5 percentage points above the forecast. This deviation had been due to food prices and fuel prices in roughly equal measure. Another upside risk to the forecast was easier monetary conditions owing to a weaker exchange rate and to lower market interest rates. The main downside factor was a change in the external outlook, with a further deepening of the economic decline in the euro area, lower world inflation and lower foreign interest rates expected. Domestic GDP growth had responded to the sharp downswing in foreign economic activity, having come in 1.3 percentage points below the prediction in 2008 Q4.

After the presentation of the situation report, the Board discussed the new information and the risks to the February forecast. The Board agreed that the uncertainty associated with future developments was very high. Some of the board members argued that this uncertainty was acting in both directions. It was said that the key factor for the Board's decision-making was the ratio of the relative weight of demand disinflation to the cost-push inflation factors. It was also said that in the present uncertain situation the model results had less relevance, hence the deviation of actual inflation from the prediction also had less significance than under standard conditions.

A large part of the aforementioned uncertainty was associated with external developments. Doubts were expressed about whether the forecast for renewed economic growth in the USA at the turn of 2009 and 2010 was realistic. The Board also discussed the risk of a further potential deterioration in the external outlook. In the context of an expected reduction of interest rates in the euro area, it was said that this reduction might lead to an appreciation of the koruna exchange rate to the levels predicted by the forecast, which, in turn, might weaken the domestic upside risks to inflation. In this context, however, the opinion was expressed that the expected lowering of interest rates by the ECB would be a response to an economic deterioration in the euro area, which, via a fall in Czech exports, a current account deterioration and a rise in the risk premium, might conversely generate depreciation pressures, constituting an upside risk to inflation. Turning to the downside risks, the effect of world energy prices was also mentioned. It was also said that by comparison with many other economies, the Czech situation was more favourable, as the symmetry of the inflation risks allowed the CNB to concentrate on targeting inflation in the longer run.

In the context of the structure of the fall in GDP growth in 2008 Q4, the sharp decline in the contribution of net exports was discussed in particular. Some of the board members expressed their conviction that the depreciation of the exchange rate in the second half of 2008 might make Czech exporters more competitive and thus partly soften the impacts of the downswing in external economic activity. In addition, the negative error of the prediction for growth in government final consumption expenditure was mentioned. Although at first glance this might suggest a rather surprising fiscal restriction, it had been caused merely by an error in the estimate of the government consumption deflator. The structure of the growth in fixed investment was also discussed. Here, in addition to a decrease in the contribution of investment in buildings and structures, there had been a rather illogical positive contribution of investment in transport equipment. The contribution of these two demand components to the total economic growth, however, had been relatively small.

Considerable attention was also given to developments in the labour market, where the number of vacancies was continuing to fall and unemployment was on the rise. Based on the current shape of the Beveridge curve, a hypothesis of a possible structural deterioration in the labour market was put forward. The board members also discussed the potential impacts of the fall in labour productivity in industry and construction and the related sharp rise in nominal unit wage costs. In this context, the upside risk of these costs on inflation was mentioned, but the prevailing view overall was that this rise was only temporary in nature. Nominal unit wage costs would decline again via a slowdown in wage growth and via further lay-offs, both of which would have an anti-inflationary effect. Many other uncertainties and distortions were also associated with developments in the labour market. In particular, the Board discussed the possible distortion of the average wage statistics due to reductions in working hours, the distortion of wage growth associated with tax optimisation at the end of 2007, the mismatch between average wage growth and hourly wage growth, and the surprising rise in employment in the tertiary sector.

Some of the board members discussed the transmission of the fall in monetary policy rates to client loan rates, as rates on new loans to non-financial corporations were decreasing, rates on loans for housing purposes were flat and rates on consumer credit were rising. The prevailing view was that the liquidity situation had improved since the autumn and that the response of client interest rates was logically consistent with the client risk profile structure. The comparatively high growth in the money supply, driven mainly by growth in currency in circulation, was also mentioned as a partial upside inflation factor.

At the close of the meeting the Board decided unanimously to leave the two-week repo rate unchanged at 1.75%. Governor Tůma, Vice-Governor Hampl, Vice-Governor Singer, Chief Executive Director Holman, Chief Executive Director Tomšík and Chief Executive Director Zamrazilová voted in favour of this decision.

MINUTES OF THE BOARD MEETING ON 7 MAY 2009

Present at the meeting:
Present at the meeting: Z. Tůma (Governor), M. Hampl (Vice-Governor), M. Singer (Vice-Governor), R. Holman (Chief Executive Director), P. Řežábek (Chief Executive Director), V. Tomšík (Chief Executive Director), E. Zamrazilová (Chief Executive Director)

The meeting opened with a presentation of the third situation report containing the new macroeconomic forecast. In the first quarter of this year, inflation had fallen below the inflation target and towards the lower boundary of the tolerance band. GDP had decreased, nominal wage growth was slowing and unemployment was rising sharply. Owing to the deepening global economic crisis, the economic situation had been less favourable in this period than assumed by the previous forecast. The rapid depreciation of the exchange rate in late 2008 and early 2009 was generating inflationary pressures which were being partly offset by the anti-inflationary domestic market environment.

According to the new forecast, inflation would continue falling this year but would start to edge up again next year and reach the 2% target at the end of 2010. It was estimated that domestic economic activity would fall by 2.4% this year but that the economy would show modest growth next year. According the forecast, the exchange rate of the koruna would probably in the second quarter correct its depreciation observed at the beginning of this year and would then be broadly stable. Consistent with the forecast was a decline in interest rates this year followed by a modest rise in 2010.

After the presentation of the situation report, the Board discussed the new forecast and the risks associated with it. The board members agreed that the risks of the forecast were broadly balanced but that a high level of uncertainty persisted. The main downside risk to inflation was judged to be the potential deeper and longer-lasting recession abroad. The future path of the koruna exchange rate was seen as a possible substantial risk in both directions.

In the discussion of the outlook for economic activity, it was emphasised that according to the forecast the largest part of the adverse shock had already hit the economy and that the situation should gradually start to change for the better. However, doubts were repeatedly expressed about whether the turnaround was already happening and, if so, whether it was sustainable. Attention was drawn in the debate to the effect measures such as car-scrapping incentives, i.e. to the fact that the signs of improvement were coming from areas in which one-off support measures were being implemented, measures whose effects would probably be only short-lived. The risk that the external situation might be worse than assumed by the forecast was therefore mentioned. Moreover, domestic private consumption might weaken further owing to unfavourable expectations, a rising saving rate and falling employment.

The next subject of debate was the financial condition of corporations. Concerns were raised that the current situation might be significantly worse than shown by the most recently reported data for 2008 Q4 and that many more firms would be loss-making this year. Another adverse phenomenon was rising insolvency, which was also afflicting some export markets to a significant extent. Against this, however, it was said repeatedly that the situation was not entirely bad and that many firms were still managing to cut costs, win orders and generate profits.

There was broad agreement that the forecast correctly identified weak wage-cost pressures, which were acting in the anti-inflationary direction. However, the magnitude of this effect was discussed. The observed rapid growth in unit wage costs might indicate that the labour market might be less anti-inflationary than assumed by the baseline scenario of the forecast. However, it was added that these higher unit costs might reflect adjustment by firms to the reduced output level and might be only temporary. It was said repeatedly that the deteriorating financial condition of corporations and rising rate of unemployment would depress wage growth.

The Board agreed that the future path of the koruna exchange rate constituted a significant risk for the forecast on both sides. The opinion was expressed that given the expected rapid rise in public budget deficits there could be some loss of investor confidence and that a rate reduction might trigger a further wave of depreciation of the koruna. Against this, however, it was said that the relevance of this argument was reduced by the symmetrical worsening of the external fiscal situation, as the deficits would be large in most countries. The opinion was also expressed that the inflationary consequences of a weakening of the koruna might now be subdued, as the available data suggested that the impacts of a weaker exchange rate on domestic prices were less intense in the present situation of weak demand. It was also said in the discussion that the excessive appreciation that might occur if the interest rate differential widened was also a relevant risk.

The Board discussed in depth the current situation in financial intermediation. The opinion was expressed that some improvement had occurred since the autumn, when the markets had been frozen. Market rates were responding better to monetary policy and banks were now restructuring their balance sheets and starting to lend again. Against this, however, it was said that the situation differed from bank to bank. The larger banks were now tending to lend more, but the credit volumes issued via smaller banks were still falling. In addition, interest rates on client loans where in some cases rising, and this was tightening the monetary conditions.

In this context, the pass-through from monetary policy rates to market rates was discussed. The forecast was assuming gradual convergence of the relevant money market rates towards CNB rates and thus an autonomous easing of the interest rate conditions. The Board agreed, however, that this gap was by no means guaranteed to narrow. This was seen as significant downside risk to inflation and an argument for lowering rates. In this context, the opinion was also expressed that the expected need to fund the rising public finance deficit might lead to an increase in rates of medium and long maturities.

The prevailing view was that if normal conditions had not yet been restored on the financial market, there were grounds for monetary policy to play a more active role to compensate for the non-functional parts of the financial sector. It was also said, however, that the current repo rate level was not hindering economic growth and that a further reduction in rates might not be helpful. On the contrary, excessively low rates, especially if they were in place for an extended period, might disrupt financial stability in the longer term.

As regards inflation expectations, it was said that a decrease could be expected. For the first time ever, headline inflation – which is what the public follows – would be lower than monetary-policy relevant inflation. This might be joined by an expected sharp fall in prices of electricity and other consumer basket items that can significantly affect inflation expectations. Anchored inflation expectations were an argument for lower monetary policy rates. At the forecast horizon inflation was converging to the inflation target from below and was not expected to reach it until the end of 2010.

At the close of the meeting the Board decided by a majority vote to lower the CNB two-week repo rate by 0.25 percentage point to 1.50%, effective 11 May 2009. At the same time it decided to lower the discount rate and Lombard rate by the same amount, to 0.50% and 2.50% respectively. Five members voted in favour of this decision: Governor Tůma, Vice-Governor Hampl, Vice-Governor Singer, Chief Executive Director Tomšík and Chief Executive Director Řežábek. Two members voted for leaving the rates unchanged: Chief Executive Director Holman and Chief Executive Director Zamrazilová.

AEIS	Average Earnings Information System
ARA	Amsterdam–Rotterdam–Antwerp
BCPP	Prague Stock Exchange
ČMZRB	Czech-Moravian Guarantee and Development Bank
CNB	Czech National Bank
CPI	consumer price index
CZK	Czech koruna
CZSO	Czech Statistical Office
ECB	European Central Bank
ECOFIN	Council of EU ministers
EECF	Eastern European Consensus Forecast
EIB	European Investment Bank
EMI	European Monetary Institute
EMS	European Monetary System
ERM II	Exchange Rate Mechanism
ESA 95	European System of National Accounts
EU	European Union
EUR	euro
Euribor	Euro Interbank Offered Rate
FDI	foreign direct investment
Fed	US central bank
FOMC	Federal Open Market Committee
FRA	forward rate agreement
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
HUF	Hungarian forint
ILO	International Labour Organization
IMF	International Monetary Fund
IRS	interest rate swap
LFS	Labour Force Survey
Libor	London Interbank Offered Rate
M1, M2	monetary aggregates
MNB	Hungarian National Bank
MLSA	Ministry of Labour and Social Affairs
NBP	National Bank of Poland
NBS	National Bank of Slovakia
NCG	net credit to government
NDAs	net domestic assets
NEAs	net external assets
NPISHs	non-profit institutions serving households
OMFIs	other monetary financial institutions
O/N	overnight
PLN	Polish zloty
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
SFAOs	state financial assets operations
SITC	Standard International Trade Classification
SKK	Slovak koruna
USD	US dollar
VAT	value added tax

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This glossary explains some terms frequently used in the Inflation Report. A more detailed glossary can be found on the CNB website (www.cnb.cz/en/general/glossary/index.html).

Adjusted inflation excluding fuels: The increase in prices of non-food items of the consumer basket excluding items with regulated prices, indirect tax changes and fuels.

Balance of payments: Records economic transactions with other countries (i.e. between residents and non-residents) over a particular period. The basic structure of the balance of payments includes the current account, the capital and financial accounts and the change in CNB international reserves.

Consensus Forecasts: A regular monthly publication issued by Consensus Economics bringing together the forecasts of hundreds of prominent economists and analytical teams regarding future world developments. The CNB uses these predictions in its macroeconomic forecast when forming assumptions regarding the future development of the external environment.

Current account: Records exports and imports of goods and services, income from capital, investment and labour and unrequited transfers.

Discount rate: A monetary policy rate which as a rule represents the floor for short-term money market interest rates. The CNB applies it to the excess liquidity which banks deposit with the CNB overnight under the deposit facility.

Disinflation: A decline in inflation

Effective euro area indicators: Proxy for the effect of economic activity (effective GDP) and inflation (effective producer prices and consumer prices) in the euro area on the Czech economy. The weights used in the calculation are the shares of the individual euro area economies in the foreign trade turnover of the Czech Republic.

Effective exchange rate: Shows the appreciation (index > 100) or depreciation (index < 100) of the national currency against a basket of selected currencies for a certain time period relative to a base period. The weights applied in the basket are the shares of major trading partners in foreign trade turnover.

Escape clause: Excuses the central bank from its obligation to hit the inflation target. In the flexible inflation targeting regime, it is applied in the event of large shock changes in exogenous factors (particularly supply-side shocks, e.g. indirect tax changes) that are completely or largely outside the purview of central bank monetary policy.

Euro area: The territory of all Member States of the European Union that have adopted the euro as a single currency pursuant to the Treaty Establishing the European Community.

Financial account: Records transactions connected with the creation, liquidation and change in ownership of the financial assets and liabilities of the government, the banking and corporate sectors and other entities vis-à-vis the rest of the world. It consist of direct investment, portfolio investment, other investment and financial derivatives transactions.

Fiscal impulse: Captures the effect of domestic fiscal policy on economic demand.

Food prices: In CNB documents, the term food prices refers to the consolidated category of prices of food and non-alcoholic beverages and prices of alcoholic beverages and tobacco.

Gross domestic product (GDP): The key indicator of economic development. It represents the sum of the value added by all economic sectors. In terms of use it consists of expenditure on final consumption (consumption of households, the government and non-profit institutions), gross capital formation (fixed investment and changes in inventories) and foreign trade (net exports of goods and services).

Inflation: Commonly, inflation is considered to be recurring growth of most prices in the economy. It means a decrease in the real value (i.e. purchasing power) of a given currency relative to the goods and services which consumers buy – if there is inflation in the economy, consumers need ever more currency units of the given country to buy the same basket of goods and services. In practice, inflation is measured by the increment of the consumer price index.

Inflation rate: The increase in the average (basic) consumer price index for the last 12 months relative to the average for the previous 12 months.

Inflation target: The level of consumer price inflation that the CNB endeavours to achieve, set publicly and well in advance.

Lombard rate: A monetary policy interest rate which provides a ceiling for short-term interest rates on the money market. The CNB applies it to the liquidity which it provides to banks overnight under the lending facility.

Monetary aggregates: Represent the amount of money in the economy covered in the monetary survey. According to the national definition, they are calculated from the monetary liabilities of resident monetary financial institutions to other resident sectors in the Czech Republic (households, non-financial corporations and financial institutions excluding the general government). Monetary aggregates differ according to the degree of liquidity of the individual components. The narrow monetary aggregate M1 comprises currency in circulation and overnight deposits. The broad monetary aggregate M2 comprises M1 plus deposits with agreed maturity, deposits redeemable at notice and repurchase agreements.

Monetary conditions: Represent the combined effect of interest rates (the interest rate component of the monetary conditions) and the exchange rate (the exchange rate component) on the economy. These are the key variables through which monetary policy can affect economic activity and, through it, inflation. In a period of easy monetary conditions monetary policy has been set in such a way as to support economic growth. If, conversely, monetary policy suppresses growth, we speak of a period of tight monetary conditions. Finally, in the case of neutral monetary policy settings, the monetary conditions are also termed neutral. The components of the monetary conditions do not necessarily affect the economy in the same direction.

Monetary policy horizon: The time horizon which monetary policy-makers focus on when making decisions and which takes into account the monetary policy transmission lag. This horizon is about 12–18 months ahead.

Monetary policy interest rates: Short-term interest rates associated with monetary policy-making. They comprise the two-week repo rate, the discount rate and the Lombard rate.

Monetary-policy relevant inflation: Inflation to which monetary policy reacts. It is defined as headline inflation adjusted for first-round effects of changes to indirect taxes.

Money market: The part of the financial markets which is used to obtain short-term loans and where debt instruments maturing in less than one year are traded. T-bills are typical securities traded on this market. Within this market the CNB carries out its repo operations.

Net inflation: Consumer price inflation net of regulated prices and adjusted for the first-round effects of changes to indirect taxes. Net inflation consists of food price inflation, fuel price inflation and adjusted inflation excluding fuels. Until the end of 2001, the CNB's inflation targets were set in terms of net inflation. Since 2002, the CNB has targeted headline inflation, using net inflation for analytical purposes only.

Nominal unit labour costs: The labour costs needed to produce a unit of output. Nominal unit labour costs are calculated as the ratio of the nominal volume of wages and salaries to GDP at constant prices.

Real marginal cost gap: Approximation of inflation pressures from the real economy. Marginal costs consist of the costs arising from the increasing volume of production (the "output gap") and wage costs (the "real wage gap"). A positive real marginal cost gap implies an inflationary effect of the real economy and a negative gap implies an anti-inflationary effect.

Regulated prices: A sub-category of the consumer basket consisting of items with price ceilings (set at either central or local level), prices regulated on a cost-plus basis (items whose prices may only reflect economically justified costs and a reasonable profit) and administratively fixed fees. The selection of these items is based on the Price Bulletin of the Czech Ministry of Finance.

Repo rate: The CNB's key monetary policy rate, paid on commercial banks' excess liquidity as withdrawn by the CNB in two-week repo tenders.

Unemployment rate: The ratio of the number of unemployed persons to the total labour force. We distinguish between the general unemployment rate, as determined by the CZSO according to International Labour Organisation methodology, and the registered unemployment rate, as determined by the Ministry of Labour and Social Affairs.

Table 1

KEY MACROECONOMIC INDICATORS												
		years										
		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
DEMAND AND SUPPLY												
Gross domestic product												
GDP	CZK bn, constant p., seas. adjusted	2,192.0	2,244.8	2,286.2	2,368.5	2,472.5	2,628.9	2,811.6	2,978.9	3,071.5	**2,998.6**	**3,040.3**
GDP	%, y-o-y, real terms, seas. adjusted	3.9	2.4	1.8	3.6	4.4	6.3	6.9	6.0	3.1	**-2.4**	**1.4**
Household consumption	%, y-o-y, real terms, seas. adjusted	1.4	2.3	2.2	6.0	2.9	2.5	5.4	5.2	2.9	**-0.4**	**0.3**
Government consumption	%, y-o-y, real terms, seas. adjusted	0.7	3.6	6.7	7.1	-3.5	2.9	-0.7	0.4	0.9	**1.8**	**1.5**
Gross capital formation	%, y-o-y, real terms, seas. adjusted	10.6	6.6	4.6	-1.5	9.1	-0.9	10.3	8.5	-1.3	**-0.8**	**1.1**
Exports of goods and services	%, y-o-y, real terms, seas. adjusted	18.2	10.9	1.9	7.2	20.1	11.7	16.5	14.9	6.5	**-9.8**	**0.9**
Imports of goods and services	%, y-o-y, real terms, seas. adjusted	17.4	12.6	4.9	8.0	17.5	5.1	14.7	14.2	4.4	**-7.4**	**0.0**
Net exports	CZK bn, constant p., seas. adjusted	-64.5	-95.7	-146.2	-170.3	-155.7	-28.4	8.0	28.1	93.9	**10.5**	**37.6**
Coincidence indicators												
Industrial production	%, y-o-y, real terms	-	6.7	1.9	5.5	9.6	6.7	11.2	8.2	0.4	-	-
Construction output	%, y-o-y, real terms	5.3	9.6	2.5	8.9	9.7	4.2	6.6	6.7	0.6	-	-
Receipts in retail sales	%, y-o-y, real terms	4.3	4.5	3.0	4.9	2.5	4.0	6.5	7.5	0.5	-	-
PRICES												
Main price indicators												
Inflation rate	%, end-of-period	3.9	4.7	1.8	0.1	2.8	1.9	2.5	2.8	6.3	-	-
Consumer Price Index	%, y-o-y, end-of-period	4.0	4.1	0.6	1.0	2.8	2.2	1.7	5.4	3.6	**0.9**	**2.0**
Regulated prices (16.40%)*	%, y-o-y, end-of-period	7.3	11.7	3.3	1.3	4.4	9.0	4.9	6.5	17.1	**3.4**	**2.8**
Net inflation (83.60%)*	%, y-o-y, end-of-period	3.0	2.4	-0.2	1.0	1.5	0.4	0.7	3.8	-0.9	**0.4**	**2.0**
Food prices (including alcoholic beverages and tobacco) (24.44%)*	%, y-o-y, end-of-period	3.7	2.9	-3.4	2.7	0.9	-0.7	0.9	8.2	-2.0	**-0.7**	**2.4**
Adjusted inflation excluding fuels (55.12%)*	%, y-o-y, end-of-period	1.9	3.3	1.6	0.2	1.6	0.5	0.8	1.2	1.4	**0.9**	**1.6**
Fuel prices (4.04%)*	%, y-o-y, end-of-period	10.3	-15.0	1.4	-2.0	5.9	9.8	-3.4	12.0	-22.0	**3.9**	**5.9**
Monetary-policy inflation (excluding tax changes)	%, y-o-y, end-of-period	4.4	4.2	0.6	0.8	1.9	2.2	1.6	4.3	1.8	**1.3**	**2.0**
GDP deflator	%, y-o-y, seas. adjusted	1.5	4.9	2.8	0.9	4.5	-0.3	0.9	3.6	1.7	**0.3**	**0.5**
Partial price indicators												
Producer prices	%,y-o-y, average	5.1	3.0	-0.5	-0.3	5.6	3.1	1.4	4.1	4.5	**-2.4**	**0.9**
Agricultural prices	%,y-o-y, average	8.6	9.6	-7.5	-4.5	9.6	-9.8	1.3	16.4	5.3	**-16.3**	**4.3**
Construction work prices	%,y-o-y, average	4.1	4.0	2.7	2.2	3.7	3.0	2.9	3.9	4.5	-	-
Brent crude oil	%, y-o-y, average	71.1	-12.7	4.9	17.6	33.6	43.2	21.4	12.3	40.6	**-37.9**	**20.9**
LABOUR MARKET												
Average monthly wages in monitored organisations	%, y-o-y, nominal terms	6.4	8.7	7.3	6.6	6.6	5.3	6.5	7.3	8.6	**2.3**	**2.9**
Average monthly wages in monitored organisations	%, y-o-y, real terms	2.4	3.8	5.4	6.5	3.7	3.3	3.8	4.4	2.1	**1.1**	**1.5**
Number of employees	%, y-o-y											
Nominal unit wage costs	%, y-o-y	-1.4	0.3	-0.8	-2.0	-0.2	2.2	1.2	1.9	1.7	**-0.9**	**-2.3**
Nominal unit wage costs in industry	%, y-o-y	1.4	6.2	4.6	2.3	1.8	0.6	1.1	3.1	5.1	**3.8**	**-0.8**
Aggregate labour productivity	%, y-o-y	-5.4	11.0	0.5	3.4	-4.5	-4.0	-5.2	-1.3	2.8	-	-
ILO general unemployment rate	%, average	3.6	2.5	1.9	3.6	4.1	5.2	5.1	3.2	2.0	**-1.4**	**3.7**
Registered unemployment rate	%, average	-	-	-	7.8	8.3	7.9	7.1	5.3	4.4	**6.1**	**8.4**
		-	-	-	-	10.0	9.5	8.6	7.0	5.8	**7.6**	**9.9**
PUBLIC FINANCE												
Public finance deficit (ESA95)	CZK bn, current p.	-81.5	-135.0	-166.8	-170.0	-82.7	-106.6	-84.5	-20.8	-52.1	**-156.3**	**-200.8**
Public finance deficit / GDP**	%, nominal terms	-3.7	-5.7	-6.8	-6.6	-2.9	-3.6	-2.6	-0.6	-1.4	**-4.3**	**-5.4**
Public debt (ESA95)	CZK bn, current p.	405.4	591.5	702.3	775.0	855.1	888.6	951.5	1,020.7	1,105.8	**1,222.5**	**1,441.0**
Public debt / GDP**	%, nominal terms	18.5	25.1	28.5	30.1	30.4	29.8	29.6	28.9	29.8	**33.6**	**38.9**
EXTERNAL RELATIONS												
Current account												
Trade balance	CZK bn, current p.	-120.8	-116.7	-71.3	-69.8	-13.4	59.4	65.1	120.6	103.2	**70.0**	**80.0**
Trade balance / GDP	%, nominal terms	-5.5	-5.0	-2.9	-2.7	-0.5	2.0	2.0	3.4	2.8	**1.9**	**2.2**
Balance of services	CZK bn, current p.	54.6	58.0	21.9	13.2	16.6	36.9	46.4	56.6	82.0	**60.0**	**65.0**
Current account	CZK bn, current p.	-104.9	-124.5	-136.4	-160.6	-147.5	-39.8	-82.2	-111.3	-113.9	**-75.0**	**-60.0**
Current account / GDP	%, nominal terms	-4.8	-5.3	-5.5	-6.2	-5.2	-1.3	-2.6	-3.2	-3.1	**-2.1**	**-1.6**
Foreign direct investment												
Direct investment	CZK bn, current p.	190.8	208.3	270.9	53.5	101.8	279.6	90.3	179.1	150.4	**75.0**	**95.0**
Exchange rates												
CZK/USD	average	38.7	38.0	32.7	28.2	25.7	24.0	22.6	20.3	17.1	**20.3**	**19.5**
CZK/EUR	average	35.6	34.1	30.8	31.8	31.9	29.8	28.3	27.8	25.0	**26.6**	**25.9**
CZK/EUR	%, y-o-y, real (CPI euro area), avg.	-	-	-	-	-0.7	-6.7	-5.6	-2.2	-12.5	**6.3**	**-2.0**
CZK/EUR	%, y-o-y, real (PPI euro area), avg.	-	-	-	-	-3.2	-5.5	-1.2	-3.9	-8.8	**7.5**	**-2.3**
Foreign trade prices												
Prices of exports of goods	%, y-o-y, average	6.3	0.4	-6.6	0.8	3.7	-1.5	-1.2	1.4	-4.6	**4.6**	**0.6**
Prices of imports of goods	%, y-o-y, average	11.9	-1.5	-8.5	-0.3	1.6	-0.5	0.3	-1.0	-3.3	**2.3**	**1.9**
MONEY AND INTEREST RATES												
M2	%, y-o-y, average	6.4	11.1	7.0	4.1	7.7	5.3	8.9	11.2	8.4	**6.7**	**-1.2**
2W repo rate	%, end-of-period	5.25	4.75	2.75	2.00	2.50	2.00	2.50	3.50	2.25	-	-
3M PRIBOR	%, average	5.4	5.2	3.5	2.3	2.3	2.0	2.3	3.1	4.0	**2.2**	**2.0**

* in brackets are constant weights in actual consumer basket
** CNB calculation
– data are not available / forecasted / released
data in bold = CNB forecast

2006				2007				2008				2009				2010			
QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV
684.3	699.2	708.6	719.4	729.0	740.0	750.3	759.6	764.4	769.7	772.3	765.0	**745.4**	**751.0**	**751.6**	**750.6**	**746.9**	**756.6**	**763.9**	**773.0**
6.4	7.6	7.1	6.7	6.5	5.8	5.9	5.6	4.9	4.0	2.9	0.7	**-2.5**	**-2.4**	**-2.7**	**-1.9**	**0.2**	**0.7**	**1.6**	**3.0**
4.8	5.3	5.2	6.3	6.1	5.7	5.5	3.6	2.9	3.3	2.6	2.8	**1.2**	**-0.5**	**-0.9**	**-1.5**	**-0.5**	**0.0**	**0.5**	**1.0**
2.0	-2.0	-2.9	0.3	0.2	-1.0	-1.0	3.3	-0.6	2.1	2.5	-0.5	**1.4**	**2.1**	**2.1**	**1.5**	**1.5**	**1.2**	**1.4**	**1.8**
8.4	12.1	12.3	8.6	10.6	9.7	9.1	4.6	4.0	-5.9	-5.2	2.4	**-1.9**	**2.3**	**-0.3**	**-2.9**	**-1.6**	**0.3**	**2.1**	**3.6**
17.4	16.9	14.3	17.5	16.9	14.4	16.1	12.4	16.2	13.5	3.8	-6.3	**-12.5**	**-11.7**	**-10.4**	**-3.8**	**-3.1**	**-1.4**	**1.8**	**6.6**
16.1	14.2	12.0	16.6	16.8	14.2	15.6	10.5	13.8	9.4	0.6	-5.4	**-10.5**	**-8.3**	**-7.5**	**-2.9**	**-4.0**	**-1.9**	**1.1**	**4.9**
-0.1	0.7	1.2	6.3	0.6	1.9	5.0	20.6	18.6	32.6	29.8	12.8	**-0.9**	**1.5**	**4.1**	**5.8**	**5.2**	**5.0**	**9.3**	**18.1**
15.5	9.3	9.7	10.4	11.3	9.3	6.9	8.4	5.6	6.1	4.2	-13.2	-	-	-	-	-	-	-	-
0.5	6.2	7.4	9.5	28.8	3.5	-0.3	5.3	4.0	-1.8	4.8	-3.4	-	-	-	-	-	-	-	-
6.9	6.2	6.2	6.6	9.7	7.8	6.5	6.5	2.3	2.4	2.1	-4.1	-	-	-	-	-	-	-	-
2.2	2.5	2.8	2.5	2.2	2.1	2.0	2.8	4.3	5.4	6.4	6.3	5.0	-	-	-	-	-	-	-
2.8	2.8	2.7	1.7	1.9	2.5	2.8	5.4	7.1	6.7	6.6	3.6	2.3	**1.3**	**0.5**	**0.9**	**0.5**	**1.1**	**1.7**	**2.0**
11.2	10.5	9.8	4.9	4.1	4.0	4.6	6.5	15.0	14.7	15.7	17.1	11.0	**9.8**	**8.3**	**3.4**	**-1.3**	**-0.7**	**-0.3**	**2.8**
0.1	0.3	0.5	0.7	1.3	1.5	1.2	3.8	3.5	2.9	2.9	-0.9	-0.4	**-0.8**	**-0.8**	**0.4**	**1.4**	**1.9**	**2.0**	**2.0**
-1.8	-0.6	1.4	0.9	3.2	2.7	2.5	8.2	4.9	3.0	3.6	-2.0	0.7	**0.9**	**-0.8**	**-0.7**	**-0.4**	**0.5**	**2.1**	**2.4**
0.6	0.4	0.6	0.7	0.6	1.0	0.7	1.2	2.1	2.3	2.4	1.4	0.4	**-0.1**	**0.4**	**0.9**	**1.6**	**2.0**	**1.8**	**1.6**
10.9	8.3	-7.5	-3.4	-3.1	-1.7	-1.8	12.0	12.7	9.8	4.3	-22.0	-17.6	**-20.3**	**-14.8**	**3.9**	**15.4**	**11.9**	**6.4**	**5.9**
2.5	2.5	2.6	1.3	1.7	1.9	1.7	4.3	5.1	4.6	4.7	1.8	1.8	**1.2**	**0.9**	**1.3**	**0.9**	**1.4**	**1.7**	**2.0**
-0.3	0.6	1.6	1.7	3.6	3.9	3.5	3.5	2.6	1.5	0.9	1.9	**3.5**	**-0.1**	**-0.7**	**-1.2**	**-3.1**	**1.0**	**2.4**	**1.8**
0.1	1.1	2.4	2.0	3.2	4.2	3.9	5.0	5.6	5.1	5.5	1.6	-1.1	**-3.7**	**-4.2**	**-0.7**	**-0.1**	**1.6**	**1.4**	**0.8**
-1.5	4.6	2.7	2.6	13.3	11.2	15.0	26.0	26.7	27.2	7.7	-18.5	-27.8	**-25.2**	**-13.6**	**1.3**	**7.4**	**3.6**	**3.2**	**3.1**
2.4	2.7	3.2	3.3	3.6	3.8	4.0	4.4	4.7	5.0	4.5	3.9	2.9	-	-	-	-	-	-	-
30.8	35.6	14.3	5.0	-6.1	-1.5	7.8	49.0	66.5	77.9	54.2	-35.7	-53.4	**-57.0**	**-51.3**	**10.0**	**34.9**	**19.7**	**16.2**	**12.7**
7.0	6.6	5.9	6.3	7.8	7.4	7.5	6.6	10.2	8.0	7.8	8.3	**3.2**	**3.2**	**1.8**	**1.1**	**1.5**	**2.4**	**3.6**	**4.0**
4.1	3.6	2.9	4.7	6.2	4.9	4.9	1.7	2.6	1.1	1.1	3.4	**1.1**	**1.9**	**1.3**	**0.2**	**1.0**	**1.3**	**1.8**	**2.0**
2.2	1.6	0.3	0.7	1.3	1.8	2.1	2.3	2.1	1.9	1.7	1.2	**-0.1**	**-0.5**	**-1.2**	**-1.8**	**-2.5**	**-2.5**	**-2.2**	**-1.9**
0.9	1.0	1.0	1.5	3.9	3.4	3.2	2.2	5.8	4.4	4.0	6.2	**4.9**	**5.2**	**4.3**	**0.8**	**-1.2**	**-0.9**	**-0.4**	**-0.9**
-7.4	-4.9	-5.3	-3.1	2.4	-1.8	-3.3	-2.3	3.7	0.8	0.6	7.3	.	.	.	.	.	.	.	.
6.0	5.4	4.7	4.3	2.9	3.2	3.2	3.5	2.3	2.8	3.0	0.1	**-1.7**	**-1.9**	**-2.4**	**0.3**	**2.8**	**3.4**	**3.8**	**4.9**
8.0	7.1	7.0	6.5	6.0	5.3	5.1	4.8	4.7	4.2	4.3	4.4	**5.9**	**5.6**	**6.2**	**6.8**	**8.1**	**8.3**	**8.5**	**8.8**
9.6	8.5	8.3	8.0	8.2	7.0	6.7	6.3	6.3	5.5	5.6	5.8	7.5	**6.9**	**7.6**	**8.3**	**9.9**	**9.5**	**9.8**	**10.2**
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29.6	13.9	9.0	12.7	45.5	27.3	20.8	27.0	42.9	39.6	27.5	-6.8	**24.0**	**22.0**	**17.0**	**7.0**	**22.0**	**22.0**	**20.0**	**16.0**
4.0	1.7	1.1	1.5	5.6	3.0	2.3	2.9	4.9	4.2	2.9	-0.7	**2.7**	**2.4**	**1.9**	**0.8**	**2.5**	**2.3**	**2.1**	**1.7**
9.4	14.0	14.0	8.9	12.1	17.7	16.0	10.8	22.3	22.1	19.5	18.1	**19.0**	**16.0**	**13.0**	**12.0**	**21.0**	**17.0**	**14.0**	**13.0**
21.5	-31.5	-28.4	-43.8	28.4	-49.8	-50.8	-39.1	30.3	-55.9	-30.1	-58.2	**15.0**	**-27.0**	**-39.0**	**-24.0**	**15.0**	**-26.0**	**-35.0**	**-14.0**
2.9	-3.9	-3.5	-5.2	3.5	-5.6	-5.7	-4.2	3.5	-5.9	-3.2	-6.2	**1.7**	**-2.9**	**-4.3**	**-2.6**	**1.7**	**-2.8**	**-3.7**	**-1.5**
7.8	25.6	31.7	25.2	36.7	38.5	42.2	61.7	21.5	53.2	41.4	34.3	-	-	-	-	-	-	-	-
23.8	22.6	22.2	21.7	21.4	21.0	20.3	18.5	17.1	15.9	16.1	19.3	21.2	**20.2**	**19.9**	**19.7**	**19.6**	**19.5**	**19.5**	**19.4**
28.6	28.4	28.3	28.0	28.0	28.3	27.9	26.8	25.5	24.8	24.1	25.4	27.6	**26.6**	**26.1**	**26.0**	**25.9**	**25.9**	**25.9**	**25.8**
-5.7	-6.7	-5.8	-4.4	-1.4	-0.7	-1.6	-5.9	-12.2	-14.7	-15.9	-7.2	7.5	**6.8**	**8.3**	**2.9**	**-5.1**	**-1.9**	**-0.5**	**-0.6**
0.3	-1.3	-1.7	-2.3	-2.2	-2.4	-3.6	-6.0	-9.9	-11.1	-11.4	-2.8	10.6	**9.3**	**8.5**	**1.5**	**-5.8**	**-3.0**	**-0.6**	**0.3**
-1.9	-2.3	-0.5	0.0	1.9	2.8	1.9	-1.2	-4.3	-6.2	-6.5	-1.2	**6.2**	**5.5**	**5.0**	**1.6**	**-1.0**	**0.0**	**1.0**	**2.3**
1.6	0.6	0.2	-1.4	-1.7	-0.4	-0.5	-1.5	-3.0	-4.4	-4.0	-1.6	**2.7**	**2.1**	**1.8**	**2.6**	**1.2**	**2.0**	**2.4**	**2.1**
8.8	8.3	9.0	9.6	10.5	11.6	11.2	11.7	10.1	7.6	8.3	7.5	**8.7**	**9.5**	**6.7**	**2.1**	**0.1**	**-2.8**	**-1.5**	**-0.7**
2.00	2.00	2.50	2.50	2.50	2.75	3.25	3.50	3.75	3.75	3.50	2.25	1.75	-	-	-	-	-	-	-
2.1	2.1	2.4	2.6	2.6	2.8	3.3	3.8	4.0	4.2	3.9	4.1	2.7	**2.4**	**2.1**	**1.7**	**1.8**	**2.0**	**2.1**	**2.1**

Table 2a

INFLATION DEVELOPMENT												annual percentage changes
2006	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Consumer prices	2.9	2.8	2.8	2.8	3.1	2.8	2.9	3.1	2.7	1.3	1.5	1.7
Regulated prices	11.0	11.0	11.2	11.5	12.4	10.5	9.7	9.8	9.8	4.9	4.8	4.9
(contribution to consumer price inflation)	*2.27*	*2.28*	*2.30*	*2.37*	*2.55*	*2.19*	*2.02*	*2.06*	*2.05*	*1.08*	*1.07*	*1.08*
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*0.21*	*0.34*	*0.39*	*0.39*	*0.39*	*0.39*	*0.39*	*0.21*	*0.21*	*0.21*	*0.21*	*0.16*
Net inflation	0.5	0.3	0.1	0.1	0.3	0.3	0.7	1.1	0.5	0.1	0.2	0.7
(contribution to consumer price inflation)	*0.40*	*0.23*	*0.08*	*0.09*	*0.22*	*0.24*	*0.55*	*0.88*	*0.43*	*0.06*	*0.17*	*0.54*
Prices of food, beverages and tobacco	-1.0	-1.6	-1.8	-1.5	-1.3	-0.6	0.5	1.3	1.4	0.4	0.4	0.9
(contribution to consumer price inflation)	*-0.25*	*-0.41*	*-0.47*	*-0.39*	*-0.34*	*-0.15*	*0.13*	*0.34*	*0.35*	*0.12*	*0.12*	*0.25*
Adjusted inflation excluding fuels	0.6	0.5	0.5	0.5	0.5	0.3	0.5	0.7	0.7	0.6	0.6	0.8
(contribution to consumer price inflation)	*0.32*	*0.28*	*0.26*	*0.27*	*0.26*	*0.14*	*0.25*	*0.35*	*0.33*	*0.31*	*0.32*	*0.39*
Fuel prices	12.5	13.9	10.9	7.3	10.4	8.3	5.7	6.0	-7.5	-10.8	-8.4	-3.4
(contribution to consumer price inflation)	*0.32*	*0.36*	*0.29*	*0.21*	*0.30*	*0.24*	*0.17*	*0.18*	*-0.25*	*-0.36*	*-0.27*	*-0.10*
Monetary-policy relevant inflation	2.7	2.5	2.4	2.5	2.7	2.4	2.5	2.9	2.5	1.1	1.3	1.6
Inflation rate (annual moving average)	2.0	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.7	2.6	2.5
2007												
Consumer prices	1.3	1.5	1.9	2.5	2.4	2.5	2.3	2.4	2.8	4.0	5.0	5.4
Regulated prices	3.9	4.3	4.1	4.7	4.0	4.0	4.4	4.4	4.6	6.3	6.4	6.5
(contribution to consumer price inflation)	*0.66*	*0.72*	*0.70*	*0.80*	*0.69*	*0.68*	*0.75*	*0.74*	*0.79*	*1.07*	*1.08*	*1.11*
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*0.10*	*0.11*	*0.21*	*0.33*	*0.45*	*0.55*	*0.64*	*1.07*	*1.09*	*1.09*	*1.09*	*1.09*
Net inflation	0.7	0.8	1.3	1.7	1.6	1.5	1.1	0.7	1.2	2.2	3.4	3.8
(contribution to consumer price inflation)	*0.53*	*0.62*	*1.00*	*1.29*	*1.19*	*1.17*	*0.80*	*0.49*	*0.92*	*1.81*	*2.84*	*3.19*
Prices of food, beverages and tobacco	2.0	2.7	3.2	4.1	3.5	2.7	2.6	2.3	2.5	4.6	7.5	8.2
(contribution to consumer price inflation)	*0.48*	*0.67*	*0.78*	*1.01*	*0.85*	*0.67*	*0.64*	*0.56*	*0.63*	*1.17*	*1.90*	*2.09*
Adjusted inflation excluding fuels	*0.3*	*0.4*	*0.6*	*0.8*	*0.8*	*1.0*	*0.5*	*0.1*	*0.7*	*0.9*	*1.0*	*1.2*
(contribution to consumer price inflation)	*0.19*	*0.20*	*0.34*	*0.43*	*0.46*	*0.57*	*0.27*	*0.08*	*0.37*	*0.49*	*0.56*	*0.64*
Fuel prices	*-3.5*	*-6.6*	*-3.1*	*-3.6*	*-2.9*	*-1.7*	*-2.5*	*-3.5*	*-1.8*	*3.8*	*9.7*	*12.0*
(contribution to consumer price inflation)	*-0.14*	*-0.26*	*-0.12*	*-0.15*	*-0.12*	*-0.07*	*-0.11*	*-0.15*	*-0.07*	*0.15*	*0.38*	*0.46*
Monetary-policy relevant inflation	*1.2*	*1.4*	*1.7*	*2.2*	*1.9*	*1.9*	*1.7*	*1.3*	*1.7*	*2.9*	*3.9*	*4.3*
Inflation rate (annual moving average)	2.4	2.3	2.2	2.2	2.1	2.1	2.1	2.0	2.0	2.2	2.5	2.8
2008												
Consumer prices	7.5	7.5	7.1	6.8	6.8	6.7	6.9	6.5	6.6	6.0	4.4	3.6
Regulated prices	15.0	14.9	15.0	14.8	14.6	14.6	15.9	15.8	15.7	16.9	16.8	17.1
(contribution to consumer price inflation)	*2.60*	*2.59*	*2.59*	*2.56*	*2.53*	*2.52*	*2.74*	*2.72*	*2.72*	*2.93*	*2.89*	*2.93*
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*2.21*	*2.07*	*2.03*	*2.12*	*2.22*	*2.19*	*2.09*	*1.85*	*1.83*	*1.82*	*1.82*	*1.82*
Net inflation	3.6	3.8	3.4	2.9	2.9	2.9	2.9	2.7	2.9	2.0	0.2	-0.9
(contribution to consumer price inflation)	*3.06*	*3.18*	*2.87*	*2.46*	*2.39*	*2.38*	*2.45*	*2.27*	*2.41*	*1.63*	*0.16*	*-0.71*
Prices of food, beverages and tobacco	6.3	5.9	4.9	3.6	3.3	3.0	3.4	3.1	3.6	2.2	-1.0	-2.0
(contribution to consumer price inflation)	*1.66*	*1.53*	*1.28*	*0.96*	*0.89*	*0.80*	*0.90*	*0.81*	*0.94*	*0.60*	*-0.23*	*-0.53*
Adjusted inflation excluding fuels	*1.6*	*1.9*	*2.0*	*2.2*	*2.2*	*2.2*	*2.2*	*2.3*	*2.4*	*2.0*	*1.7*	*1.4*
(contribution to consumer price inflation)	*0.86*	*1.07*	*1.11*	*1.19*	*1.19*	*1.19*	*1.21*	*1.25*	*1.29*	*1.04*	*0.89*	*0.72*
Fuel prices	*14.5*	*15.9*	*12.7*	*8.0*	*7.6*	*9.8*	*8.3*	*5.2*	*4.3*	*-0.4*	*-12.1*	*-22.0*
(contribution to consumer price inflation)	*0.54*	*0.58*	*0.47*	*0.31*	*0.31*	*0.40*	*0.34*	*0.21*	*0.17*	*-0.02*	*-0.49*	*-0.90*
Monetary-policy relevant inflation	*5.3*	*5.4*	*5.1*	*4.7*	*4.6*	*4.5*	*4.8*	*4.7*	*4.7*	*4.2*	*2.6*	*1.8*
Inflation rate (annual moving average)	3.4	3.9	4.3	4.7	5.0	5.4	5.8	6.1	6.4	6.6	6.5	6.3
2009					**forecast**							
Consumer prices	2.2	2.0	2.3	**1.7**	**1.2**	**1.0**						
Regulated prices	11.6	10.9	11.0	**10.0**	**9.7**	**9.7**						
(contribution to consumer price inflation)	*2.14*	*2.02*	*2.05*	***1.85***	***1.80***	***1.80***						
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*0.60*	*0.60*	*0.50*	***0.28***	***0.07***	***0.00***						
Net inflation	-0.7	-0.7	-0.4	**-0.5**	**-0.8**	**-1.0**						
(contribution to consumer price inflation)	*-0.56*	*-0.57*	*-0.33*	***-0.39***	***-0.65***	***-0.81***						
Prices of food, beverages and tobacco	-0.3	-0.3	0.7	**1.0**	**1.0**	**0.8**						
(contribution to consumer price inflation)	*-0.06*	*-0.07*	*0.18*	***0.27***	***0.25***	***0.21***						
Adjusted inflation excluding fuels	0.9	0.5	0.4	**0.0**	**-0.1**	**-0.1**						
(contribution to consumer price inflation)	*0.49*	*0.25*	*0.18*	***0.02***	***-0.06***	***-0.05***						
Fuel prices	-24.6	-19.3	-17.6	**-17.3**	**-20.6**	**-23.1**						
(contribution to consumer price inflation)	*-0.98*	*-0.75*	*-0.69*	***-0.68***	***-0.84***	***-0.97***						
Monetary-policy relevant inflation	1.6	1.4	1.8	**1.5**	**1.2**	**1.0**						
Inflation rate (annual moving average)	*5.9*	*5.4*	*5.0*	***4.6***	***4.2***	***3.7***						

CNB calculation based on CZSO data

Table 2b

INFLATION DEVELOPMENT												monthly percentage changes
2006	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Consumer prices	1.4	0.1	-0.1	0.1	0.5	0.3	0.4	0.2	-0.7	-0.5	-0.1	0.2
Regulated prices	4.1	0.2	0.2	0.1	0.9	0.1	0.0	0.2	0.0	-0.9	0.0	0.0
(contribution to consumer price inflation)	*0.89*	*0.04*	*0.03*	*0.02*	*0.21*	*0.02*	*0.00*	*0.04*	*-0.01*	*-0.21*	*-0.01*	*0.01*
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*0.16*	*0.13*	*0.05*	*0.00*	*0.00*	*0.00*	*0.00*	*-0.18*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	0.4	-0.1	-0.3	0.2	0.4	0.3	0.6	0.4	-0.9	-0.4	-0.1	0.2
(contribution to consumer price inflation)	*0.33*	*-0.05*	*-0.21*	*0.12*	*0.28*	*0.20*	*0.47*	*0.31*	*-0.69*	*-0.31*	*-0.09*	*0.16*
Prices of food, beverages and tobacco	0.2	-0.6	-0.3	0.1	0.7	0.9	-0.2	0.2	-0.1	-0.5	0.1	0.6
(contribution to consumer price inflation)	*0.04*	*-0.15*	*-0.08*	*0.02*	*0.17*	*0.23*	*-0.05*	*0.05*	*-0.03*	*-0.13*	*0.03*	*0.15*
Adjusted inflation excluding fuels	0.7	0.2	-0.2	-0.1	0.0	-0.1	1.0	0.5	-1.2	0.0	-0.1	0.1
(contribution to consumer price inflation)	*0.35*	*0.08*	*-0.11*	*-0.03*	*0.01*	*-0.03*	*0.48*	*0.24*	*-0.57*	*-0.02*	*-0.04*	*0.04*
Fuel prices	-2.0	0.5	-0.5	4.8	3.6	0.0	1.6	0.7	-2.6	-5.5	-2.7	-1.2
(contribution to consumer price inflation)	*-0.06*	*0.02*	*-0.01*	*0.14*	*0.11*	*0.00*	*0.05*	*0.02*	*-0.08*	*-0.17*	*-0.08*	*-0.03*
Monetary-policy relevant inflation	1.2	0.0	-0.2	0.1	0.5	0.3	0.4	0.3	-0.7	-0.5	-0.1	0.2
2007												
Consumer prices	1.0	0.3	0.3	0.7	0.4	0.3	0.4	0.3	-0.3	0.6	0.9	0.5
Regulated prices	3.2	0.6	0.0	0.6	0.3	0.1	0.4	0.1	0.2	0.7	0.0	0.2
(contribution to consumer price inflation)	*0.54*	*0.10*	*0.01*	*0.11*	*0.05*	*0.01*	*0.07*	*0.02*	*0.03*	*0.12*	*0.01*	*0.03*
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*0.10*	*0.14*	*0.15*	*0.12*	*0.12*	*0.10*	*0.10*	*0.25*	*0.02*	*0.01*	*0.00*	*0.00*
Net inflation	0.4	0.1	0.2	0.6	0.3	0.2	0.2	0.0	-0.4	0.6	1.1	0.6
(contribution to consumer price inflation)	*0.36*	*0.05*	*0.15*	*0.46*	*0.22*	*0.16*	*0.18*	*0.03*	*-0.35*	*0.49*	*0.87*	*0.47*
Prices of food, beverages and tobacco	1.2	0.2	0.1	1.0	0.0	0.1	-0.3	-0.1	0.1	1.5	2.9	1.2
(contribution to consumer price inflation)	*0.30*	*0.04*	*0.02*	*0.24*	*0.01*	*0.03*	*-0.07*	*-0.03*	*0.03*	*0.39*	*0.73*	*0.31*
Adjusted inflation excluding fuels	0.3	0.2	0.0	0.1	0.1	0.1	0.4	0.1	-0.6	0.2	0.0	0.2
(contribution to consumer price inflation)	*0.14*	*0.11*	*0.01*	*0.05*	*0.04*	*0.07*	*0.22*	*0.07*	*-0.34*	*0.10*	*0.02*	*0.13*
Fuel prices	-2.1	-2.6	3.3	4.3	4.3	1.3	0.8	-0.3	-0.9	-0.1	2.9	0.8
(contribution to consumer price inflation)	*-0.08*	*-0.10*	*0.12*	*0.16*	*0.17*	*0.05*	*0.03*	*-0.01*	*-0.03*	*0.00*	*0.11*	*0.03*
Monetary-policy relevant inflation	*0.9*	*0.1*	*0.2*	*0.6*	*0.3*	*0.2*	*0.3*	*0.1*	*-0.3*	*0.6*	*0.9*	*0.5*
2008												
Consumer prices	3.0	0.3	-0.1	0.4	0.5	0.2	0.5	-0.1	-0.2	0.0	-0.5	-0.3
Regulated prices	11.4	0.5	0.1	0.5	0.1	0.0	1.5	0.1	0.1	1.7	0.0	0.4
(contribution to consumer price inflation)	*1.95*	*0.09*	*0.01*	*0.09*	*0.03*	*0.01*	*0.28*	*0.01*	*0.02*	*0.32*	*0.00*	*0.07*
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*1.22*	*0.00*	*0.10*	*0.22*	*0.21*	*0.07*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net inflation	0.3	0.2	-0.2	0.1	0.2	0.2	0.3	-0.2	-0.3	-0.3	-0.7	-0.5
(contribution to consumer price inflation)	*0.22*	*0.17*	*-0.14*	*0.06*	*0.14*	*0.15*	*0.25*	*-0.13*	*-0.21*	*-0.26*	*-0.54*	*-0.38*
Prices of food, beverages and tobacco	-0.5	-0.3	-0.8	-0.3	-0.2	-0.2	0.1	-0.4	0.6	0.2	-0.3	0.1
(contribution to consumer price inflation)	*-0.13*	*-0.07*	*-0.21*	*-0.07*	*-0.06*	*-0.06*	*0.04*	*-0.11*	*0.15*	*0.06*	*-0.09*	*0.02*
Adjusted inflation excluding fuels	0.6	0.6	0.1	0.2	0.1	0.1	0.5	0.2	-0.6	-0.3	-0.2	-0.1
(contribution to consumer price inflation)	*0.34*	*0.30*	*0.05*	*0.13*	*0.05*	*0.07*	*0.24*	*0.11*	*-0.29*	*-0.14*	*-0.11*	*-0.04*
Fuel prices	0.1	-1.4	0.4	0.0	3.9	3.3	-0.6	-3.1	-1.7	-4.6	-9.2	-10.5
(contribution to consumer price inflation)	*0.00*	*-0.06*	*0.01*	*0.00*	*0.15*	*0.13*	*-0.03*	*-0.13*	*-0.07*	*-0.18*	*-0.35*	*-0.36*
Monetary-policy relevant inflation	*1.8*	*0.3*	*-0.2*	*0.1*	*0.2*	*0.2*	*0.5*	*-0.1*	*-0.2*	*0.0*	*-0.5*	*-0.3*
2009					**forecast**							
Consumer prices	1.5	0.1	0.2	***-0.1***	***-0.1***	***0.0***						
Regulated prices	6.1	-0.2	0.2	**-0.5**	**-0.1**	**0.1**						
(contribution to consumer price inflation)	*1.19*	*-0.03*	*0.04*	***-0.09***	***-0.02***	***0.02***						
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*0.00*	*0.00*	*0.00*	***0.00***	***0.00***	***0.00***						
Net inflation	0.4	0.2	0.1	**0.0**	**-0.2**	**0.0**						
(contribution to consumer price inflation)	*0.36*	*0.15*	*0.10*	***0.00***	***-0.12***	***-0.02***						
Prices of food, beverages and tobacco	1.3	-0.3	0.2	**0.1**	**-0.3**	**-0.3**						
(contribution to consumer price inflation)	*0.34*	*-0.08*	*0.04*	***0.02***	***-0.08***	***-0.09***						
Adjusted inflation excluding fuels	0.2	0.1	0.0	**-0.1**	**-0.1**	**0.1**						
(contribution to consumer price inflation)	*0.12*	*0.06*	*-0.02*	***-0.03***	***-0.03***	***0.07***						
Fuel prices	-3.3	5.6	2.4	**0.4**	**-0.3**	**0.1**						
(contribution to consumer price inflation)	*-0.10*	*0.17*	*0.08*	***0.01***	***-0.01***	***0.00***						
Monetary-policy relevant inflation	*1.5*	*0.1*	*0.2*	***-0.1***	***-0.1***	***0.0***						

CNB calculation based on CZSO data

Table 3

CONSUMER PRICES

percentage changes; average for 2005 = 100

Group	Constant 2005 weights in per mille	Months 1	2	3	4	5	6	7	8	9	10	11	12	Average since start of year
Total - 2005	1,000.0	-0.9	-0.7	-0.8	-0.7	-0.5	0.1	0.3	0.3	0.1	0.9	0.7	0.6	0.0
Food and non-alcoholic beverages	162.6	0.8	0.8	0.7	0.5	1.2	1.4	-0.4	-1.3	-1.5	-1.0	-0.8	-0.4	0.0
Alcoholic beverages and tobacco	81.7	0.1	0.3	0.2	-0.2	-0.2	0.0	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1	0.0
Clothing and footwear	52.4	2.4	1.2	1.0	1.3	1.3	1.1	-0.6	-2.0	-1.9	-1.3	-1.1	-1.4	0.0
Housing, water, electricity, gas and other fuels	248.3	-1.0	-0.9	-0.7	-0.9	-0.9	-0.8	-0.4	-0.3	-0.2	2.0	2.0	2.0	0.0
Furnishings, household equipment and routine maintenance of the house	58.1	0.8	0.6	0.5	0.3	0.2	0.0	-0.2	-0.3	-0.5	-0.5	-0.6	-0.7	0.0
Health	17.9	-2.5	-2.0	-1.6	-1.1	0.3	1.1	1.1	1.3	1.8	0.9	0.6	0.6	0.0
Transport	114.1	-4.0	-4.2	-3.8	-1.3	-1.2	-0.4	1.1	1.2	4.9	4.4	2.6	0.5	0.0
Communications	38.7	-7.6	-8.2	-8.2	-8.3	-8.4	5.9	6.2	6.2	5.6	5.6	5.4	5.4	0.0
Recreation and culture	98.6	-1.3	0.1	-1.1	-2.1	-1.7	-1.1	4.1	6.1	-1.1	-0.1	-0.6	-0.7	0.0
Education	6.2	-1.9	-1.2	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	2.1	2.7	2.7	2.7	0.0
Hotels, cafés and restaurants	58.4	-1.1	-0.6	-0.4	-0.2	-0.2	-0.2	-0.4	-0.4	0.6	0.9	0.9	0.9	0.0
Miscellaneous goods and services	63.0	-0.4	0.1	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.0
Total - 2006	1,000.0	2.0	2.1	2.0	2.1	2.6	2.8	3.3	3.5	2.8	2.2	2.2	2.3	2.5
Food and non-alcoholic beverages	162.6	0.4	0.2	0.0	0.2	0.9	2.3	2.0	1.2	1.0	0.3	0.4	1.5	0.9
Alcoholic beverages and tobacco	81.7	0.9	1.1	1.1	0.9	1.3	1.1	1.2	1.2	1.2	1.3	1.5	0.8	1.1
Clothing and footwear	52.4	-3.7	-4.8	-5.1	-4.9	-5.1	-5.6	-7.6	-8.0	-7.6	-6.8	-6.4	-5.9	-6.0
Housing, water, electricity, gas and other fuels	248.3	5.8	6.1	6.1	6.3	6.4	6.5	6.6	6.6	6.6	6.0	6.0	6.0	6.3
Furnishings, household equipment and routine maintenance of the house	58.1	-0.9	-0.9	-1.1	-1.1	-1.2	-1.4	-1.6	-1.6	-1.6	-1.6	-1.4	-1.4	-1.3
Health	17.9	1.7	2.0	2.8	3.1	4.2	4.9	4.9	7.2	7.5	6.9	6.3	6.3	4.8
Transport	114.1	0.2	0.4	0.2	1.7	2.9	2.8	3.6	3.8	2.8	1.0	0.0	-0.2	1.6
Communications	38.7	6.0	4.0	4.0	1.7	7.3	7.3	8.1	8.7	8.5	8.7	8.5	8.5	6.8
Recreation and culture	98.6	0.7	1.8	0.7	0.1	0.4	0.3	5.5	8.1	1.0	0.2	-0.5	-0.3	1.5
Education	6.2	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6	5.2	5.2	5.2	5.2	3.5
Hotels, cafés and restaurants	58.4	1.6	1.9	2.0	2.2	2.4	2.5	2.7	2.9	3.1	3.2	3.3	3.5	2.6
Miscellaneous goods and services	63.0	0.9	1.4	1.6	1.8	1.8	1.8	2.1	2.1	2.1	2.2	2.2	2.2	1.9
Total - 2007	1,000.0	3.3	3.6	3.9	4.6	5.0	5.3	5.8	6.1	5.8	6.4	7.4	7.9	5.4
Food and non-alcoholic beverages	162.6	3.1	3.2	3.3	5.0	4.8	5.0	4.5	4.1	4.2	6.6	10.9	12.9	5.6
Alcoholic beverages and tobacco	81.7	2.6	4.6	6.5	7.7	9.7	10.9	12.2	15.8	16.2	16.5	17.4	17.5	11.5
Clothing and footwear	52.4	-7.3	-7.3	-6.8	-5.7	-5.5	-5.6	-7.6	-8.3	-7.5	-6.5	-6.2	-5.9	-6.7
Housing, water, electricity, gas and other fuels	248.3	8.2	8.5	8.6	9.0	9.3	9.5	9.9	10.2	10.6	11.3	11.5	11.7	9.9
Furnishings, household equipment and routine maintenance of the house	58.1	-1.5	-1.6	-1.6	-1.4	-1.3	-1.4	-1.4	-1.5	-1.5	-1.5	-1.4	-1.3	-1.4
Health	17.9	6.6	6.7	6.7	9.7	10.1	9.9	9.3	9.2	9.0	8.7	8.7	8.9	8.6
Transport	114.1	-0.8	-1.6	-0.4	0.9	2.3	2.9	3.2	3.2	2.7	2.8	3.9	4.5	2.0
Communications	38.7	8.1	8.0	7.9	7.7	7.6	7.5	7.5	6.3	5.4	5.3	5.1	4.9	6.8
Recreation and culture	98.6	1.5	2.3	1.4	0.9	0.8	1.1	4.2	5.2	0.7	0.4	-0.5	-0.2	1.5
Education	6.2	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.3	7.2	7.3	7.3	7.3	6.0
Hotels, cafés and restaurants	58.4	4.0	4.2	4.4	4.7	5.0	5.3	5.6	5.7	6.1	6.3	7.0	7.8	5.5
Miscellaneous goods and services	63.0	2.9	3.6	4.0	4.1	4.1	4.0	4.1	4.0	4.0	4.1	4.3	4.2	4.0
Total - 2008	1,000.0	11.1	11.4	11.3	11.7	12.2	12.4	13.0	12.9	12.7	12.7	12.1	11.8	12.1
Food and non-alcoholic beverages	162.6	15.5	14.9	14.5	15.1	15.9	15.9	15.4	13.6	12.9	12.9	11.9	12.0	14.2
Alcoholic beverages and tobacco	81.7	18.8	19.0	18.3	19.1	19.5	19.7	21.2	23.3	26.7	27.5	28.3	28.4	22.5
Clothing and footwear	52.4	-8.8	-9.1	-8.2	-7.0	-6.8	-6.9	-8.6	-9.4	-8.2	-6.8	-6.4	-6.5	-7.7
Housing, water, electricity, gas and other fuels	248.3	17.5	18.7	19.1	19.8	20.1	20.3	21.8	22.1	22.3	23.9	24.0	24.2	21.2
Furnishings, household equipment and routine maintenance of the house	58.1	-1.2	-1.3	-1.1	-0.8	-0.7	-0.6	-0.6	-0.7	-1.1	-1.3	-1.3	-1.1	-1.0
Health	17.9	42.4	42.2	41.3	41.1	42.0	42.2	43.4	43.7	44.0	43.9	43.7	43.3	42.8
Transport	114.1	6.0	5.5	5.7	5.7	7.1	8.0	7.6	6.3	5.4	2.1	-1.9	-5.2	4.4
Communications	38.7	5.2	5.0	5.0	5.0	4.8	4.7	4.3	4.2	3.0	2.4	1.7	1.1	3.9
Recreation and culture	98.6	2.2	3.2	2.3	1.8	1.5	2.0	4.9	5.7	1.8	1.4	0.6	0.6	2.3
Education	6.2	7.5	7.7	7.7	7.7	7.7	7.8	7.8	7.9	11.1	11.1	11.1	11.1	8.9
Hotels, cafés and restaurants	58.4	10.5	11.5	11.8	12.3	12.7	13.1	13.5	13.5	14.1	14.3	14.3	14.3	13.0
Miscellaneous goods and services	63.0	8.3	8.5	8.6	8.8	8.8	8.9	8.9	9.4	9.3	9.2	9.3	9.1	8.9
Total - 2009	1,000.0	13.5	13.6	13.8										13.6
Food and non-alcoholic beverages	162.6	13.8	13.4	13.2										13.5
Alcoholic beverages and tobacco	81.7	29.4	29.1	30.0										29.5
Clothing and footwear	52.4	-9.5	-10.3	-9.6										-9.8
Housing, water, electricity, gas and other fuels	248.3	30.0	30.1	30.3										30.1
Furnishings, household equipment and routine maintenance of the house	58.1	-1.1	-1.2	-1.2										-1.2
Health	17.9	43.4	40.2	40.6										41.4
Transport	114.1	-5.9	-4.2	-3.6										-4.6
Communications	38.7	0.4	0.9	0.6										0.6
Recreation and culture	98.6	1.5	2.1	1.4										1.7
Education	6.2	11.3	11.3	11.3										11.3
Hotels, cafés and restaurants	58.4	14.7	14.8	15.1										14.9
Miscellaneous goods and services	63.0	10.1	10.7	10.8										10.5

Source: CZSO

Table 4

CONSUMER PRICES - TRADABLES AND NONTRADABLES annual percentage changes

	1	2	3	4	5	6	7	8	9	10	11	12
2003												
Fuel prices	6.1	10.5	11.4	1.9	-0.5	-1.1	-0.6	0.7	-2.5	-2.9	-2.7	-2.0
Other tradables excluding food and fuel prices	-2.3	-2.5	-2.6	-2.7	-2.7	-2.9	-3.0	-3.0	-2.9	-2.7	-2.8	-2.7
Prices of nontradables excluding regulated prices	*4.0*	*4.1*	*3.9*	*3.9*	*3.8*	*3.3*	*2.4*	*2.5*	*2.5*	*2.4*	*2.5*	*2.4*
Prices of non-food commodities excluding regulated prices	1.5	1.7	1.6	1.1	0.9	0.5	0.1	0.2	0.1	0.1	0.1	0.1
Prices of tradables - food	*-4.1*	*-3.8*	*-3.6*	*-3.5*	*-2.8*	*-1.1*	*-0.8*	*-0.8*	*-0.2*	*0.6*	*2.5*	*2.7*
Prices of nontradables - 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
2004												
Fuel prices	1.0	-1.9	-0.3	2.0	11.0	14.2	13.7	12.8	10.5	14.4	13.7	8.9
Other tradables excluding food and fuel prices	-2.6	-2.4	-2.2	-2.3	-2.6	-2.6	-2.6	-2.6	-2.9	-2.9	-2.7	-2.8
Prices of nontradables excluding regulated prices	*3.3*	*3.3*	*3.4*	*3.4*	*5.2*	*5.9*	*5.9*	*5.9*	*6.4*	*6.4*	*6.3*	*6.3*
Prices of non-food commodities excluding regulated prices	0.9	0.8	1.1	1.1	2.5	2.9	3.0	2.9	3.0	3.2	3.1	2.9
Prices of tradables - food	*3.2*	*3.2*	*3.5*	*3.8*	*3.6*	*3.1*	*4.4*	*4.9*	*3.7*	*3.0*	*1.4*	*1.6*
Prices of nontradables - regulated prices	5.0	4.9	4.7	3.1	2.4	2.4	2.4	2.3	2.3	4.4	4.4	4.4
2005												
Fuel prices	-0.4	-0.6	-1.2	6.1	1.1	2.7	8.2	8.3	21.6	16.1	11.4	9.8
Other tradables excluding food and fuel prices	-3.4	-3.6	-3.8	-3.7	-3.4	-3.1	-2.6	-2.6	-2.4	-2.3	-2.3	-2.3
Prices of nontradables excluding regulated prices	*5.2*	*5.2*	*5.0*	*5.0*	*3.5*	*3.1*	*2.6*	*2.6*	*2.6*	*2.4*	*2.3*	*2.2*
Prices of non-food commodities excluding regulated prices	1.6	1.6	1.4	1.8	0.8	0.8	0.8	0.9	1.7	1.3	1.0	0.8
Prices of tradables - food	*0.8*	*1.0*	*0.8*	*0.2*	*0.4*	*0.4*	*-0.4*	*-0.5*	*-0.2*	*0.3*	*0.3*	*-0.5*
Prices of nontradables - regulated prices	2.9	2.9	2.9	3.1	4.0	5.8	6.6	6.8	6.8	9.0	9.0	9.0
2006												
Fuel prices	12.5	13.9	10.9	7.3	10.4	8.3	5.7	6.0	-7.5	-10.8	-8.4	-3.4
Other tradables excluding food and fuel prices	-2.1	-2.1	-2.1	-2.1	-2.1	-2.9	-2.7	-2.6	-2.4	-2.4	-2.3	-2.1
Prices of nontradables excluding regulated prices	*2.6*	*2.5*	*2.4*	*2.4*	*2.5*	*2.2*	*2.4*	*2.6*	*2.5*	*2.4*	*2.4*	*2.5*
Prices of non-food commodities excluding regulated prices	1.2	1.2	1.0	0.9	1.0	0.7	0.8	1.0	0.1	-0.1	0.1	0.5
Prices of tradables - food	*-0.1*	*-0.2*	*-0.3*	*0.1*	*0.3*	*1.0*	*2.1*	*2.2*	*2.2*	*1.3*	*1.3*	*1.6*
Prices of nontradables - regulated prices	11.0	11.0	11.2	11.5	12.4	10.5	9.7	9.8	9.8	4.9	4.8	4.9
2007												
Fuel prices	-3.5	-6.6	-3.1	-3.6	-2.9	-1.7	-2.5	-3.5	-1.8	3.8	9.7	12.0
Other tradables excluding food and fuel prices	-2.4	-2.6	-2.0	-1.6	-1.7	-1.6	-2.2	-2.3	-1.5	-1.2	-1.1	-1.0
Prices of nontradables excluding regulated prices	*2.5*	*2.8*	*2.9*	*3.2*	*2.6*	*2.8*	*2.4*	*1.9*	*2.3*	*2.4*	*2.5*	*2.6*
Prices of non-food commodities excluding regulated prices	0.1	-0.1	0.4	0.6	0.7	1.0	0.4	0.0	0.6	1.1	1.6	1.9
Prices of tradables - food	*2.4*	*3.2*	*4.1*	*5.5*	*5.3*	*5.0*	*5.3*	*6.7*	*7.1*	*9.3*	*12.3*	*13.0*
Prices of nontradables - regulated prices	3.9	4.3	4.1	4.7	4.0	4.0	4.4	4.4	4.6	6.3	6.4	6.5
2008												
Fuel prices	14.5	15.9	12.7	8.0	7.6	9.8	8.3	5.2	4.3	-0.4	-12.1	-22.0
Other tradables excluding food and fuel prices	-1.3	-1.3	-1.4	-1.1	-1.1	-1.4	-1.4	-1.4	-1.6	-2.4	-2.8	-3.2
Prices of nontradables excluding regulated prices	*4.1*	*4.6*	*4.9*	*5.0*	*5.1*	*5.2*	*5.3*	*5.4*	*5.7*	*5.5*	*5.3*	*5.0*
Prices of non-food commodities excluding regulated prices	2.8	3.2	3.1	3.0	3.0	3.1	3.0	2.9	2.9	2.2	1.1	0.0
Prices of tradables - food	*13.3*	*12.2*	*10.9*	*10.0*	*10.0*	*9.5*	*9.6*	*8.2*	*8.6*	*7.1*	*3.8*	*2.7*
Prices of nontradables - regulated prices	15.0	14.9	15.0	14.8	14.6	14.6	15.9	15.8	15.7	16.9	16.8	17.1
2009												
Fuel prices	-24.6	-19.3	-17.6									
Other tradables excluding food and fuel prices	-3.1	-3.4	-3.3									
Prices of nontradables excluding regulated prices	*3.5*	*2.9*	*2.7*									
Prices of non-food commodities excluding regulated prices	-0.9	-0.9	-0.9									
Prices of tradables - food	*2.1*	*2.0*	*2.7*									
Prices of nontradables - regulated prices	11.6	10.9	11.0									

CNB calculation based on CZSO data

Table 5

INFLATION EXPECTATIONS OF SELECTED ECONOMIC SECTORS percentage changes

	CPI			
	Financial market		Businesses	
	1Y horizon	3Y horizon	1Y horizon	3Y horizon
1/04	2.9	2.9	-	-
2/04	3.2	2.8	-	-
3/04	3.0	2.8	3.3	3.1
4/04	2.8	2.9	-	-
5/04	2.6	2.9	-	-
6/04	2.7	2.7	3.1	3.0
7/04	2.8	2.6	-	-
8/04	2.8	2.7	-	-
9/04	3.0	2.9	3.1	2.7
10/04	2.8	2.9	-	-
11/04	2.8	2.7	-	-
12/04	2.8	2.8	3.2	2.7
1/05	2.8	2.7	-	-
2/05	2.6	2.7	-	-
3/05	2.6	2.6	2.7	2.8
4/05	2.5	2.5	-	-
5/05	2.4	2.4	-	-
6/05	2.3	2.5	2.7	3.1
7/05	2.4	2.5	-	-
8/05	2.5	2.6	-	-
9/05	2.5	2.5	2.8	2.8
10/05	2.7	2.5	-	-
11/05	2.8	2.6	-	-
12/05	2.6	2.5	2.8	2.9
1/06	2.5	2.4	-	-
2/06	2.5	2.4	-	-
3/06	2.5	2.4	2.7	2.9
4/06	2.6	2.4	-	-
5/06	2.6	2.4	-	-
6/06	2.8	2.4	2.9	3.1
7/06	2.9	2.6	-	-
8/06	3.1	2.7	-	-
9/06	3.2	2.7	3.0	3.2
10/06	3.1	2.7	-	-
11/06	3.4	2.7	-	-
12/06	3.3	2.7	3.0	2.9
1/07	3.1	2.6	-	-
2/07	3.0	2.6	-	-
3/07	3.2	2.5	3.0	3.1
4/07	3.1	2.5	-	-
5/07	3.2	2.5	-	-
6/07	3.2	2.5	3.0	2.9
7/07	3.1	2.5	-	-
8/07	3.6	2.5	-	-
9/07	4.2	2.5	3.6	3.4
10/07	4.3	2.5	-	-
11/07	4.3	2.6	-	-
12/07	4.5	2.7	4.9	3.8
1/08	3.7	2.8	-	-
2/08	3.4	2.6	-	-
3/08	3.2	2.6	4.9	3.7
4/08	3.0	2.6	-	-
5/08	3.1	2.6	-	-
6/08	3.2	2.7	4.9	4.0
7/08	3.1	2.6	-	-
8/08	3.0	2.6	-	-
9/08	2.8	2.6	4.1	3.8
10/08	2.5	2.5	-	-
11/08	2.4	2.5	-	-
12/08	2.2	2.5	2.9	3.0
1/09	2.1	2.4	-	-
2/09	2.0	2.4	-	-
3/09	1.9	2.5	1.9	2.5

Source: CNB statistical survey

Table 6

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	2003	2004	2005	2006	2007	2008	2009
	12	12	12	12	12	12	3
European Union (27 countries)	2.1	2.5	2.3	2.2	3.2	2.2	1.3
European Union (25 countries)	1.9	2.4	2.1	2.2	3.1	2.0	1.2
Belgium	1.7	1.9	2.8	2.1	3.1	2.7	0.6
Bulgaria	5.6	4.0	7.4	6.1	11.6	7.2	4.0
Czech Republic	0.9	2.5	1.9	1.5	5.5	3.3	1.7
Denmark	1.2	0.9	2.2	1.7	2.4	2.4	1.6
Germany	1.0	2.3	2.1	1.4	3.1	1.1	0.4
Estonia	1.2	4.8	3.6	5.1	9.7	7.5	2.5
Ireland	3.0	2.4	1.9	3.0	3.2	1.3	-0.7
Greece	3.1	3.1	3.5	3.2	3.9	2.2	1.5
Spain	2.7	3.3	3.7	2.7	4.3	1.5	-0.1
France	2.4	2.3	1.8	1.7	2.8	1.2	0.4
Italy	2.5	2.4	2.1	2.1	2.8	2.4	1.1
Cyprus	2.2	3.9	1.4	1.5	3.7	1.8	0.9
Latvia	3.5	7.4	7.1	6.8	14.0	10.4	7.9
Lithuania	-1.3	2.8	3.0	4.5	8.2	8.5	7.4
Luxembourg	2.4	3.5	3.4	2.3	4.3	0.7	-0.3
Hungary	5.6	5.5	3.3	6.6	7.4	3.4	2.8
Malta	2.4	1.9	3.4	0.8	3.1	5.0	3.9
Netherlands	1.6	1.2	2.0	1.7	1.6	1.7	1.8
Austria	1.3	2.5	1.6	1.6	3.5	1.5	0.7
Poland	1.6	4.4	0.8	1.4	4.2	3.3	4.0
Portugal	2.3	2.6	2.5	2.5	2.7	0.8	-0.6
Romania	14.1	9.3	8.7	4.9	6.7	6.4	6.7
Slovenia	4.7	3.3	2.4	3.0	5.7	1.8	1.6
Slovakia	9.4	5.8	3.9	3.7	2.5	3.5	1.8
Finland	1.2	0.1	1.1	1.2	1.9	3.4	2.0
Sweden	1.8	0.9	1.3	1.4	2.5	2.1	1.9
United Kingdom	1.3	1.7	1.9	3.0	2.1	3.1	

Source: Eurostat

Table 7

MONETARY SURVEY

positions at month-ends in CZK billions

	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 2
Total assets	1,766.1	1,844.1	1,992.1	2,188.7	2,478.3	2,639.1	2,649.7
Net external assets (NEAs)	821.5	863.3	1,076.4	972.6	970.4	983.7	1,048.3
NEAs of CNB	687.5	634.1	724.7	659.1	633.5	719.9	796.1
NEAs of OMFIs	134.0	229.3	351.7	313.5	336.9	263.8	252.2
Net domestic assets	944.5	980.8	915.8	1,216.0	1,508.0	1,655.4	1,601.3
Domestic loans	1,145.6	1,147.0	1,166.6	1,422.4	1,700.4	1,917.4	1,912.9
Net credit to government (NCG) (including securities)	354.0	257.5	99.1	136.3	72.2	27.5	14.6
NCG to central government (including securities)	408.7	312.4	163.0	206.9	146.1	158.6	176.7
NCG to other government (including securities)	-54.8	-54.9	-64.0	-70.6	-73.9	-131.0	-162.1
Loans to corporations and households (excluding securities)	791.6	889.4	1,067.5	1,286.1	1,628.2	1,889.8	1,898.2
Loans to corporations (excluding securities)	554.1	574.2	649.7	745.5	901.9	1,009.6	1,002.1
Loans to households (excluding securities)	237.5	315.2	417.8	540.6	726.3	880.2	896.2
Other net items (including securities and capital)	-201.1	-166.2	-250.8	-206.4	-192.4	-262.0	-311.5
Holdings of securities	16.6	18.8	14.4	14.0	26.6	15.7	14.9
Issued securities	-51.6	-74.9	-119.1	-121.8	-159.9	-141.9	-116.3
Liabilities							
Monetary aggregate M2	1,766.1	1,844.1	1,992.1	2,188.7	2,478.3	2,639.1	2,649.7
Monetary aggregate M1	902.8	962.3	1,087.3	1,239.8	1,438.7	1,545.1	1,531.8
Currency in circulation	221.4	236.8	263.8	295.3	324.1	365.6	363.7
Overnight deposits	681.4	725.6	823.5	944.5	1,114.6	1,179.5	1,168.1
Overnight deposits - households	372.1	410.8	456.6	529.3	601.2	708.9	744.7
Overnight deposits - corporations	309.3	314.7	367.0	415.3	513.4	470.7	423.3
M2-M1 (quasi money)	863.3	881.8	904.8	948.9	1,039.7	1,094.0	1,117.9
Deposits with agreed maturity	666.4	675.3	671.4	674.9	709.8	614.1	624.5
Deposits with agreed maturity - households	439.8	458.6	445.1	433.6	429.0	327.4	343.1
Deposits with agreed maturity - corporations	226.6	216.7	226.3	241.3	280.8	286.7	281.4
Deposits redeemable at notice	185.6	198.8	224.1	265.6	315.5	458.0	466.6
Deposits redeemable at notice - households	182.3	194.6	220.6	260.8	311.2	450.0	452.0
Deposits redeemable at notice - corporations	3.2	4.2	3.6	4.8	4.3	8.1	14.5
Repurchase agreements	11.3	7.6	9.3	8.4	14.4	21.9	26.8
Annual percentage changes							
M1	14.6	6.6	13.0	14.0	16.0	7.4	10.1
M2	6.9	4.4	8.0	9.9	13.2	6.5	8.5
Loans to corporations and households	9.3	12.4	20.0	20.5	26.6	16.1	15.2
M2-M1 (deposits)	-0.1	2.1	2.6	4.9	9.6	5.2	6.5
Annual percentage growth rates							
M1	15.5	8.3	13.1	14.7	16.6	7.4	9.0
M2	8.1	5.8	8.1	10.6	13.8	6.4	7.3
Loans to corporations and households	11.8	15.3	20.8	21.6	27.3	16.0	14.0
M2-M1 (deposits)	1.2	3.3	2.6	5.7	10.2	5.0	5.0

Table 8

MARKET INTEREST RATES

percentages; monthly averages

A. INTEREST RATES ON INTERBANK DEPOSITS	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 3
1. Average PRIBOR [1)]							
- 1 day	1.98	2.49	2.00	2.48	3.40	2.32	1.74
- 7 day	2.02	2.51	2.04	2.51	3.58	2.79	1.93
- 14 day	2.03	2.51	2.04	2.51	3.63	2.89	1.97
- 1 month	2.04	2.53	2.05	2.52	3.98	3.61	2.27
- 2 month	2.06	2.55	2.10	2.54	4.02	3.76	2.40
- 3 month	2.08	2.57	2.17	2.56	4.05	3.89	2.49
- 6 month	2.13	2.67	2.33	2.67	4.09	4.01	2.63
- 9 month	2.22	2.76	2.44	2.79	4.15	4.09	2.74
- 12 month	2.30	2.85	2.53	2.89	4.20	4.16	2.84
2. Average PRIBID [1)]							
- 1 day	1.88	2.39	1.90	2.38	3.30	2.09	1.48
- 7 day	1.92	2.41	1.94	2.41	3.48	2.48	1.63
- 14 day	1.93	2.41	1.94	2.41	3.53	2.55	1.66
- 1 month	1.94	2.43	1.95	2.42	3.88	3.23	1.87
- 2 month	1.96	2.45	2.00	2.44	3.92	3.39	2.03
- 3 month	1.98	2.47	2.07	2.46	3.95	3.52	2.12
- 6 month	2.03	2.57	2.23	2.57	3.99	3.65	2.24
- 9 month	2.12	2.66	2.34	2.69	4.05	3.72	2.35
- 12 month	2.20	2.75	2.43	2.79	4.10	3.79	2.46

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

percentages; monthly averages

B. FRA RATES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 3
3 * 6	2.23	2.74	2.46	2.71	4.15	3.12	2.61
3 * 9	2.36	2.81	2.57	2.83	4.16	2.98	2.62
6 * 9	2.47	2.85	2.66	2.92	4.15	2.75	2.64
6 * 12	2.64	2.92	2.74	3.02	4.17	2.71	2.69
9 * 12	2.77	2.97	2.79	3.08	4.16	2.58	2.72
9*12 - 3*6 spread	0.55	0.24	0.33	0.37	0.02	-0.55	0.10
6*12 - 3*9 spread	0.28	0.12	0.17	0.19	0.02	-0.27	0.07

percentages; monthly averages

C. IRS RATES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 3
1Y	2.41	2.82	2.56	2.86	4.19	3.14	2.68
2Y	2.98	3.06	2.82	3.09	4.20	2.82	2.78
3Y	3.38	3.27	3.00	3.21	4.22	2.84	2.98
4Y	3.69	3.45	3.13	3.31	4.26	2.90	3.12
5Y	3.93	3.62	3.25	3.40	4.30	2.96	3.20
6Y	4.13	3.77	3.33	3.46	4.34	3.01	3.26
7Y	4.29	3.89	3.40	3.52	4.38	3.07	3.32
8Y	4.43	4.00	3.46	3.58	4.42	3.15	3.40
9Y	4.54	4.09	3.52	3.63	4.47	3.24	3.49
10Y	4.64	4.17	3.58	3.68	4.52	3.34	3.58
15Y	4.97	4.40	3.78	3.83	4.71	3.54	3.86
20Y	5.11	4.54	3.88	3.89	4.76	3.43	3.82
5Y - 1Y spread	1.52	0.80	0.69	0.54	0.11	-0.18	0.52
10Y - 1Y spread	2.23	1.35	1.02	0.82	0.33	0.20	0.90

Table 9

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
	2W	1Y	new loans	time deposits	2W	1Y	new loans	time deposits	2W	1Y	client loans
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	1.5	-0.5	-0.2	2.6	-1.0	-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	1.6	-0.8	-0.1	2.4	-1.3	-3.9	-3.2	-0.8
7/04	2.3	3.0	5.7	1.7	-0.9	-0.2	2.4	-1.5	-4.7	-4.0	-1.5
8/04	2.3	3.0	6.0	1.7	-1.0	-0.4	2.5	-1.7	-5.3	-4.7	-1.9
9/04	2.5	3.1	5.9	1.8	-0.5	0.1	2.9	-1.2	-5.1	-4.5	-1.9
10/04	2.5	3.0	6.0	1.8	-1.0	-0.4	2.4	-1.6	-5.6	-5.1	-2.4
11/04	2.5	2.9	6.1	1.8	-0.4	0.0	3.1	-1.1	-5.3	-4.9	-2.0
12/04	2.5	2.8	6.1	1.9	-0.3	0.0	3.2	-0.9	-4.8	-4.5	-1.5
1/05	2.5	2.7	6.2	1.8	0.8	1.0	4.4	0.1	-4.4	-4.2	-1.0
2/05	2.3	2.2	6.0	1.7	0.6	0.5	4.2	0.0	-4.5	-4.5	-1.1
3/05	2.2	2.1	5.6	1.7	0.7	0.6	4.1	0.2	-3.9	-4.0	-0.7
4/05	2.0	2.1	5.9	1.6	0.4	0.4	4.2	0.0	-3.4	-3.4	0.2
5/05	1.8	1.8	5.7	1.4	0.5	0.5	4.3	0.1	-2.1	-2.1	1.6
6/05	1.8	1.8	5.3	1.4	0.0	0.0	3.4	-0.4	-0.9	-0.9	2.5
7/05	1.8	1.8	5.3	1.4	0.1	0.1	3.6	-0.3	-0.2	-0.2	3.3
8/05	1.8	1.9	5.3	1.4	0.1	0.2	3.5	-0.3	0.7	0.8	4.1
9/05	1.8	1.9	5.1	1.5	-0.4	-0.3	2.8	-0.7	0.8	0.9	4.1
10/05	1.8	2.2	5.6	1.5	-0.8	-0.4	2.9	-1.1	1.5	1.9	5.3
11/05	2.0	2.6	5.4	1.7	-0.4	0.2	2.9	-0.7	2.0	2.6	5.4
12/05	2.0	2.5	5.5	1.7	-0.2	0.3	3.2	-0.5	2.3	2.8	5.8
1/06	2.0	2.4	5.5	1.7	-0.8	-0.5	2.6	-1.2	1.7	2.1	5.2
2/06	2.0	2.2	5.5	1.7	-0.8	-0.6	2.6	-1.1	1.7	1.9	5.2
3/06	2.0	2.3	5.5	1.7	-0.8	-0.5	2.6	-1.1	1.7	2.0	5.2
4/06	2.0	2.4	5.6	1.7	-0.8	-0.4	2.7	-1.0	1.5	1.9	5.1
5/06	2.0	2.4	5.6	1.7	-1.0	-0.6	2.4	-1.3	0.5	0.9	4.0
6/06	2.0	2.6	5.5	1.7	-0.8	-0.2	2.6	-1.0	0.2	0.7	3.6
7/06	2.0	2.8	5.7	1.7	-0.9	-0.1	2.7	-1.2	-0.1	0.7	3.5
8/06	2.3	2.7	5.8	1.9	-0.8	-0.3	2.7	-1.2	-0.4	0.0	3.1
9/06	2.2	2.9	5.8	1.9	-0.4	0.2	3.0	-0.8	-0.2	0.5	3.3
10/06	2.5	3.1	6.1	2.0	1.2	1.8	4.7	0.7	0.6	1.2	4.1
11/06	2.5	3.0	6.0	2.0	1.0	1.5	4.4	0.5	0.5	1.0	3.9
12/06	2.5	2.9	5.9	2.0	0.8	1.2	4.1	0.3	-0.1	0.3	3.2
1/07	2.5	2.9	6.1	2.1	1.2	1.5	4.8	0.7	-0.3	0.1	3.3
2/07	2.5	2.8	6.1	2.1	1.0	1.3	4.5	0.6	-0.7	-0.4	2.8
3/07	2.5	2.8	6.1	2.1	0.6	0.9	4.1	0.2	-1.0	-0.8	2.4
4/07	2.5	2.9	6.1	2.1	0.0	0.4	3.5	-0.4	-1.1	-0.8	2.3
5/07	2.5	3.2	6.0	2.0	0.1	0.7	3.5	-0.4	-1.6	-0.9	1.8
6/07	2.8	3.4	6.1	2.2	0.3	0.9	3.5	-0.3	-1.7	-1.2	1.4
7/07	2.8	3.6	6.3	2.2	0.5	1.3	3.9	-0.1	-1.2	-0.5	2.1
8/07	3.0	3.7	6.5	2.3	0.6	1.3	4.0	-0.1	-0.7	0.0	2.7
9/07	3.3	3.8	6.5	2.4	0.5	1.0	3.6	-0.4	-0.7	-0.2	2.4
10/07	3.3	3.8	6.7	2.5	-0.7	-0.2	2.5	-1.5	-1.1	-0.5	2.2
11/07	3.3	4.0	6.8	2.5	-1.6	-1.0	1.7	-2.4	-2.0	-1.3	1.4
12/07	3.6	4.2	6.9	2.6	-1.7	-1.1	1.4	-2.7	-1.6	-1.0	1.5
1/08	3.6	4.2	6.8	2.6	-3.7	-3.1	-0.6	-4.6	-2.3	-1.7	0.8
2/08	3.8	4.1	7.2	2.6	-3.5	-3.2	-0.3	-4.6	-1.7	-1.4	1.5
3/08	3.8	4.2	7.2	2.6	-3.1	-2.7	0.1	-4.2	-1.4	-1.0	1.8
4/08	3.8	4.3	7.2	2.7	-2.8	-2.4	0.4	-3.8	-0.9	-0.4	2.4
5/08	3.8	4.3	7.2	2.7	-2.8	-2.4	0.3	-3.9	-1.3	-0.9	1.9
6/08	3.8	4.4	6.9	2.6	-2.7	-2.2	0.2	-3.8	-1.5	-0.9	1.5
7/08	3.8	4.3	7.2	2.7	-2.9	-2.4	0.3	-3.9	-1.4	-0.9	1.9
8/08	3.6	3.9	7.1	2.7	-2.7	-2.4	0.6	-3.6	-2.0	-1.7	1.4
9/08	3.6	3.9	6.9	2.7	-2.8	-2.5	0.2	-3.7	-1.8	-1.5	1.3
10/08	3.8	4.3	7.2	2.7	-2.1	-1.6	1.1	-3.1	-0.1	0.4	3.2
11/08	3.3	4.5	7.1	2.4	-1.1	0.1	2.6	-1.9	2.1	3.2	5.8
12/08	2.9	4.2	6.8	2.2	-0.7	0.5	3.1	-1.3	3.1	4.4	7.0
1/09	2.5	3.5	6.8	2.1	0.3	1.2	4.5	-0.1	3.3	4.3	7.7
2/09	2.1	2.8	6.4	1.9	0.1	0.8	4.3	-0.1	2.7	3.4	7.0
3/09	2.0	2.8	-	-	-0.3	0.5	-	-	4.1	4.9	-

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

Table 10

REAL INTEREST RATES (ex ante approach)

percentages

	Real rates expected by financial markets				Real rates expected by businesses			
	PRIBOR		client rates		PRIBOR		client rates	
	2W	1Y	new loans	time deposits	2W	1Y	new loans	time deposits
1/04	-0.9	-0.6	2.5	-1.4	-	-	-	-
2/04	-1.2	-0.8	1.8	-1.7	-	-	-	-
3/04	-1.0	-0.7	2.1	-1.5	-1.2	-1.0	1.8	-1.8
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
7/04	-0.5	0.2	2.8	-1.1	-	-	-	-
8/04	-0.5	0.2	3.1	-1.1	-	-	-	-
9/04	-0.5	0.1	2.9	-1.2	-0.6	0.0	2.8	-1.3
10/04	-0.3	0.2	3.1	-1.0	-	-	-	-
11/04	-0.3	0.1	3.2	-1.0	-	-	-	-
12/04	-0.3	0.0	3.2	-0.9	-0.7	-0.3	2.8	-1.3
1/05	-0.3	-0.1	3.3	-0.9	-	-	-	-
2/05	-0.3	-0.3	3.3	-0.8	-	-	-	-
3/05	-0.4	-0.5	2.9	-0.9	-0.5	-0.6	2.8	-1.0
4/05	-0.5	-0.4	3.3	-0.9	-	-	-	-
5/05	-0.6	-0.6	3.2	-0.9	-	-	-	-
6/05	-0.5	-0.5	2.9	-0.8	-0.9	-0.9	2.5	-1.2
7/05	-0.6	-0.6	2.9	-0.9	-	-	-	-
8/05	-0.7	-0.6	2.7	-1.0	-	-	-	-
9/05	-0.7	-0.6	2.5	-1.0	-1.0	-0.9	2.2	-1.3
10/05	-0.9	-0.5	2.8	-1.1	-	-	-	-
11/05	-0.7	-0.2	2.5	-1.1	-	-	-	-
12/05	-0.5	-0.1	2.8	-0.9	-0.8	-0.3	2.6	-1.1
1/06	-0.5	-0.1	3.0	-0.8	-	-	-	-
2/06	-0.5	-0.3	2.9	-0.8	-	-	-	-
3/06	-0.5	-0.2	2.9	-0.8	-0.7	-0.4	2.7	-1.0
4/06	-0.6	-0.2	2.9	-0.9	-	-	-	-
5/06	-0.6	-0.2	2.9	-0.9	-	-	-	-
6/06	-0.8	-0.2	2.6	-1.0	-0.8	-0.3	2.5	-1.1
7/06	-0.9	-0.1	2.7	-1.2	-	-	-	-
8/06	-0.8	-0.3	2.7	-1.2	-	-	-	-
9/06	-0.9	-0.3	2.5	-1.3	-0.8	-0.1	2.7	-1.1
10/06	-0.6	0.0	2.9	-1.1	-	-	-	-
11/06	-0.9	-0.4	2.5	-1.3	-	-	-	-
12/06	-0.8	-0.4	2.5	-1.2	-0.5	-0.1	2.8	-0.9
1/07	-0.6	-0.2	3.0	-1.0	-	-	-	-
2/07	-0.5	-0.2	3.0	-0.9	-	-	-	-
3/07	-0.7	-0.4	2.8	-1.1	-0.4	-0.1	3.0	-0.8
4/07	-0.6	-0.2	2.9	-1.0	-	-	-	-
5/07	-0.7	0.0	2.7	-1.1	-	-	-	-
6/07	-0.4	0.2	2.8	-1.0	-0.3	0.3	3.0	-0.8
7/07	-0.3	0.5	3.1	-0.9	-	-	-	-
8/07	-0.6	0.1	2.8	-1.2	-	-	-	-
9/07	-0.9	-0.4	2.2	-1.7	-0.3	0.2	2.8	-1.2
10/07	-1.0	-0.4	2.3	-1.7	-	-	-	-
11/07	-0.9	-0.3	2.4	-1.8	-	-	-	-
12/07	-0.8	-0.3	2.3	-1.8	-1.2	-0.6	2.0	-2.2
1/08	-0.1	0.4	3.0	-1.1	-	-	-	-
2/08	0.3	0.7	3.6	-0.8	-	-	-	-
3/08	0.6	1.0	3.9	-0.6	-1.0	-0.6	2.2	-2.1
4/08	0.8	1.2	4.1	-0.3	-	-	-	-
5/08	0.7	1.1	3.9	-0.4	-	-	-	-
6/08	0.6	1.2	3.6	-0.5	-1.0	-0.4	2.0	-2.1
7/08	0.7	1.2	4.0	-0.4	-	-	-	-
8/08	0.6	0.9	4.0	-0.3	-	-	-	-
9/08	0.8	1.1	3.9	-0.1	-0.5	-0.2	2.6	-1.4
10/08	1.2	1.7	4.6	0.2	-	-	-	-
11/08	0.9	2.0	4.6	0.0	-	-	-	-
12/08	0.7	1.9	4.5	0.0	0.0	1.3	3.8	-0.6
1/09	0.4	1.3	4.6	0.0	-	-	-	-
2/09	0.1	0.8	4.3	-0.1	-	-	-	-
3/09	0.1	0.9	-	-	0.1	0.9	-	-

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 loans and time deposits was changed. Newly drawn credits were replaced by newly extended loans.

Table 11

KORUNA INTEREST RATES (stock of business) percentages

	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 3
Koruna interest rates on loans provided by banks to residents:							
Households and non-profit institutions serving households (S.14+S.15) - total	8.24	7.96	7.20	6.80	6.63	6.95	6.92
- maturity up to 1 year	11.21	12.82	12.96	13.75	13.96	14.89	14.77
- maturity over 1 year and up to 5 years	10.17	12.40	11.43	11.35	12.46	13.05	12.92
- maturity over 5 years	6.65	6.39	5.96	5.84	5.79	6.18	6.19
for consumption - total	13.83	14.89	13.88	13.59	13.32	13.64	13.62
- maturity up to 1 year	14.26	15.48	16.22	17.31	17.34	18.04	17.88
- maturity over 1 year and up to 5 years	13.86	15.17	14.94	14.67	15.13	15.32	15.23
- maturity over 5 years	13.21	13.45	11.85	11.93	11.65	12.15	12.23
for house purchase - total	6.31	5.93	5.24	4.91	4.89	5.17	5.19
- maturity up to 1 year	6.24	4.48	4.29	5.39	6.56	7.37	7.21
- maturity over 1 year and up to 5 years	7.05	6.57	6.22	6.15	6.19	6.15	6.18
- maturity over 5 years	6.09	5.89	5.19	4.88	4.86	5.16	5.17
other - total	7.80	7.50	7.09	6.87	6.98	7.01	6.77
- maturity up to 1 year	8.49	8.96	9.09	9.52	10.35	10.75	10.62
- maturity over 1 year and up to 5 years	8.02	7.63	7.17	7.74	8.56	9.04	8.58
- maturity over 5 years	7.02	6.58	5.79	5.51	5.70	5.94	5.83
Non-financial corporations (S.11) - total	4.53	4.75	4.20	4.45	5.52	5.40	4.94
- maturity up to 1 year	4.08	4.35	3.84	4.23	5.37	5.06	4.51
- maturity over 1 year and up to 5 years	4.64	4.68	4.18	4.38	5.60	5.67	5.09
- maturity over 5 years	5.14	5.39	4.72	4.74	5.63	5.61	5.26
Koruna interest rates on deposits accepted by banks from residents:							
Households and non-profit institutions serving households (S.14+S.15) - total	1.30	1.41	1.25	1.28	1.41	1.59	1.46
overnight	0.50	0.52	0.40	0.41	0.55	0.91	0.74
with agreed maturity - total	2.02	2.13	1.92	1.96	2.11	2.24	2.09
- with agreed maturity up to 2 years	0.96	1.37	1.03	1.49	2.14	2.24	1.99
- with agreed maturity over 2 years	2.90	2.69	2.50	2.31	2.08	2.26	2.29
redeemable at notice - total	1.26	1.63	1.71	1.97	2.14	2.17	2.15
- redeemable at notice up to 3 months	1.67	2.14	2.27	2.34	2.42	2.33	2.33
- redeemable at notice over 3 months	0.98	1.12	0.81	1.00	1.08	1.02	0.95
Non-financial corporations (S.11) - total	0.85	1.21	0.91	1.18	1.67	1.21	1.06
overnight	0.64	0.68	0.52	0.72	1.06	0.62	0.57
with agreed maturity - total	1.50	2.08	1.64	2.09	3.01	2.29	1.78
- with agreed maturity up to 2 years	1.49	2.05	1.61	2.08	3.02	2.29	1.78
- with agreed maturity over 2 years	3.04	3.12	2.47	2.28	2.62	1.99	1.92
redeemable at notice - total	1.17	1.60	1.14	1.64	1.89	2.54	2.09
- redeemable at notice up to 3 months	1.14	1.49	1.07	1.53	1.79	2.52	2.07
- redeemable at notice over 3 months	1.32	2.26	1.64	2.21	2.93	3.11	2.95

Table 12

BALANCE OF PAYMENTS [1]						in CZK millions
	2003	2004	2005	2006	2007	2008 [2]
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
A. Current account	-160,614.6	-147,455.7	-39,826.1	-82,245.4	-111,277.2	-113,858.4
Balance of trade	-69,793.0	-13,384.0	59,369.5	65,094.0	120,616.9	103,232.1
exports	1,370,930.0	1,722,657.4	1,868,585.8	2,144,573.4	2,479,233.8	2,465,400.4
imports	1,440,723.0	1,736,041.4	1,809,216.3	2,079,479.4	2,358,616.9	2,362,168.3
Services	13,236.7	16,564.4	36,937.1	46,403.8	56,626.1	81,992.7
credit	219,151.1	247,084.8	282,411.4	314,032.3	346,583.3	377,343.7
transport	60,556.3	69,859.0	76,701.5	85,700.7	101,840.5	105,484.8
travel	100,310.1	107,231.8	112,234.4	124,744.2	134,058.3	130,738.2
others	58,284.7	69,994.0	93,475.5	103,587.4	110,684.5	141,120.7
debit	205,914.4	230,520.4	245,474.3	267,628.5	289,957.2	295,351.0
transport	33,725.7	47,571.4	56,254.1	62,140.7	73,128.4	75,288.8
travel	54,419.2	58,398.0	57,777.6	62,174.3	73,450.3	77,518.2
others	117,769.5	124,551.0	131,442.6	143,313.5	143,378.5	142,544.0
Income	-119,858.4	-156,637.9	-143,427.6	-180,853.8	-270,174.7	-288,842.3
credit	75,508.3	87,206.1	105,728.7	127,975.4	151,986.0	135,611.2
debit	195,366.7	243,844.0	249,156.3	308,829.2	422,160.7	424,453.5
Current transfers	15,800.1	6,001.8	7,294.9	-12,889.4	-18,345.5	-10,240.9
credit	46,976.7	53,050.6	76,655.5	56,193.1	69,517.1	75,240.5
debit	31,176.6	47,048.8	69,360.6	69,082.5	87,862.6	85,481.4
B. Capital account	-82.2	-14,186.5	4,689.3	8,454.6	19,568.8	31,027.0
credit	198.2	5,608.2	5,525.2	14,269.6	21,273.7	46,410.3
debit	280.4	19,794.7	835.9	5,815.0	1,704.9	15,383.3
Total A + B	*-160,696.8*	*-161,642.2*	*-35,136.8*	*-73,790.8*	*-91,708.4*	*-82,831.4*
C. Financial account	157,093.5	177,312.0	154,767.4	92,417.9	125,803.9	151,187.3
Direct investment	53,500.3	101,776.3	279,630.5	90,261.7	179,064.0	150,438.2
abroad	-5,815.7	-26,067.3	449.0	-33,169.6	-32,879.7	-32,358.3
equity capital and reinvested earnings	-3,124.6	-20,260.0	-4,262.8	-33,886.7	-26,412.3	-30,476.9
other capital	-2,691.1	-5,807.3	4,711.8	717.1	-6,467.4	-1,881.4
in the Czech Republic	59,316.0	127,843.6	279,181.5	123,431.3	211,943.7	182,796.5
equity capital and reinvested earnings	59,350.4	121,482.9	262,471.8	129,598.6	191,531.6	175,677.9
other capital	-34.4	6,360.7	16,709.7	-6,167.3	20,412.1	7,118.6
Portfolio investment	-35,719.1	53,032.5	-81,243.8	-26,882.5	-57,232.1	-9,145.4
assets	-83,892.7	-70,245.2	-82,095.7	-68,383.5	-98,653.0	-4,456.4
equity securities	5,630.5	-36,457.1	-35,342.4	-43,559.2	-65,643.8	-11,103.5
debt securities	-89,523.2	-33,788.1	-46,753.3	-24,824.3	-33,009.2	6,647.1
liabilities	48,173.6	123,277.7	851.9	41,501.0	41,420.9	-4,689.0
equity securities	30,133.5	19,558.6	-36,408.9	5,758.0	-5,855.7	-21,302.1
debt securities	18,040.1	103,719.1	37,260.8	35,743.0	47,276.6	16,613.1
Financial derivatives	3,860.1	-3,208.0	-2,798.6	-6,236.9	1,296.3	-14,000.7
assets	7,083.7	-15,565.8	-2,860.9	-10,850.5	-15,700.1	36,031.4
liabilities	-3,223.6	12,357.8	62.3	4,613.6	16,996.4	-50,032.1
Other investment	135,452.2	25,711.2	-40,820.7	35,275.6	2,675.7	23,895.2
assets	67,071.3	-30,507.4	-114,430.6	-31,054.7	-142,189.4	-84,328.2
long-term	1,141.3	20,434.2	-16,338.0	-6,119.2	-45,988.9	-67,660.0
CNB	-	-184.9	-176.3	-	2.3	-
commercial banks	-999.9	505.0	-24,641.7	-10,715.8	-45,243.7	-69,282.9
government	5,714.3	22,790.7	14,056.5	4,983.6	-691.7	322.8
other sectors	-3,573.1	-2,676.6	-5,576.5	-387.0	-55.8	1,300.1
short-term	65,930.0	-50,941.6	-98,092.6	-24,935.5	-96,200.5	-16,668.2
commercial banks	44,971.2	-34,248.5	-87,137.0	24,866.4	-88,410.9	27,572.0
government	2,193.8	92.9	9.4	-	-	-
other sectors	18,765.0	-16,786.0	-10,965.0	-49,801.9	-7,789.6	-44,240.2
liabilities	68,380.9	56,218.6	73,609.9	66,330.3	144,865.1	108,223.4
long-term	26,361.6	36,550.9	49,022.1	68,702.1	30,158.0	34,981.4
CNB	-20.4	-20.5	-19.1	-18.1	-18.1	-8.6
commercial banks	-5,038.0	-1,410.8	311.1	12,733.4	28,675.1	18,126.1
government	10,304.7	10,296.1	20,809.1	9,847.3	2,899.1	7,856.3
other sectors	21,115.3	27,686.1	27,921.0	46,139.5	-1,398.1	9,007.6
short-term	42,019.3	19,667.7	24,587.8	-2,371.8	114,707.1	73,242.0
CNB	-21.4	843.7	5,060.1	-4,147.6	-552.8	320.0
commercial banks	37,899.4	-15,344.5	14,808.8	2,250.5	89,157.0	55,108.6
government	-	-	-	-	-	-
other sectors	4,141.3	34,168.5	4,718.9	-474.7	26,102.9	17,813.4
Total A + B + C	*-3,603.3*	*15,669.8*	*119,630.6*	*18,627.1*	*34,095.5*	*68,355.9*
D. Net errors and omissions, valuation changes	16,506.7	-8,887.6	-26,779.0	-16,552.7	-18,429.0	-28,244.6
Total A + B + C + D	*12,903.4*	*6,782.2*	*92,851.6*	*2,074.4*	*15,666.5*	*40,111.3*
E. Change in reserves (- increase)	-12,903.4	-6,782.2	-92,851.6	-2,074.4	-15,666.5	-40,111.3

1) Balance of payments structure based on the Balance of Payments Manual (5th edition), IMF 1993
2) Preliminary data

Table 13

INTERNATIONAL INVESTMENT POSITION

in CZK millions

	2003 31 Dec.	2004 31 Dec.	2005 31 Dec.	2006 31 Dec.	2007 31 Dec.	2008 [1] 31 Dec.
Assets	1,537,284.6	1,549,334.9	1,875,403.8	1,888,248.1	2,118,640.9	2,288,379.8
Direct investment abroad	58,581.5	84,087.4	88,772.7	104,743.3	154,700.9	191,775.0
- equity capital	50,965.5	70,664.0	80,061.1	96,748.8	140,239.0	174,825.0
- other capital	7,616.0	13,423.4	8,711.6	7,994.5	14,461.9	16,950.0
Portfolio investment	343,968.7	372,237.6	467,808.5	532,163.4	618,625.4	505,136.7
- equity securities	47,337.7	76,121.3	146,957.6	202,322.0	256,779.1	189,701.2
- debt securities	296,631.0	296,116.3	320,850.9	329,841.4	361,846.3	315,435.5
Financial derivatives	24,129.5	39,695.3	42,556.2	53,406.7	69,525.0	129,950.1
Other investment	419,090.0	417,071.9	549,564.4	541,297.0	644,773.4	745,713.6
long-term	157,598.6	118,432.7	136,314.1	128,334.6	162,633.3	238,066.4
- CNB	468.4	600.0	3,184.5	2,993.8	2,848.9	3,174.8
- commercial banks	66,121.3	58,137.8	83,231.1	87,666.2	126,415.4	200,680.0
- government	79,483.9	48,574.9	38,408.5	29,894.6	27,359.0	31,471.6
- other sectors	11,525.0	11,120.0	11,490.0	7,780.0	6,010.0	2,740.0
short-term	261,491.4	298,639.2	413,250.3	412,962.4	482,140.1	507,647.2
- CNB	98.8	71.7	71.1	131.3	102.1	84.1
- commercial banks	161,150.2	184,588.0	273,879.1	233,831.1	310,538.0	295,963.1
of which: gold and foreign exchange	115,884.8	128,119.8	198,042.8	166,588.9	200,780.8	204,178.9
- government	102.4	9.5	0.1	-	-	-
- other sectors	100,140.0	113,970.0	139,300.0	179,000.0	171,500.0	211,600.0
CNB reserves	691,514.9	636,242.7	726,702.0	656,637.7	631,016.2	715,804.4
- gold	4,784.3	4,253.9	5,526.8	5,690.9	6,431.6	6,933.8
- SDR	238.7	118.0	289.8	346.0	363.3	402.4
- reserve position in the IMF	11,949.9	9,137.5	4,447.7	2,324.6	1,521.6	3,128.0
- foreign exchange	674,451.8	610,659.1	716,315.2	648,192.1	618,048.0	695,695.7
- other reserve assets	90.2	12,074.2	122.5	84.1	4,651.7	9,644.5
Liabilities	2,064,768.3	2,374,328.4	2,710,646.3	2,969,225.5	3,533,858.3	3,891,749.8
Direct investment in the Czech Republic	1,161,783.6	1,280,594.8	1,491,564.0	1,666,760.7	2,032,111.2	2,212,577.2
- equity capital	1,009,391.8	1,121,842.3	1,316,101.8	1,497,465.8	1,842,404.2	2,011,862.2
- other capital	152,391.8	158,752.5	175,462.2	169,294.9	189,707.0	200,715.0
Portfolio investment	223,620.4	381,019.4	437,806.0	487,994.5	556,342.4	508,094.6
- equity securities	140,788.6	208,872.1	220,495.8	241,594.8	262,518.8	179,775.0
- debt securities	82,831.8	172,147.3	217,310.2	246,399.7	293,823.6	328,319.6
Financial derivatives	19,448.3	31,806.1	31,868.4	36,482.0	54,222.9	144,154.4
Other investment	659,916.0	680,908.1	749,407.9	777,988.3	891,181.8	1,026,923.6
long-term	360,279.2	373,456.4	417,645.7	464,073.2	478,698.3	530,501.0
- CNB	96.1	70.2	47.8	27.2	8.8	-
- commercial banks	58,056.3	52,020.8	51,639.8	62,263.6	87,448.9	120,767.8
- government	22,456.0	32,065.4	52,322.1	61,686.4	65,875.1	73,497.7
- other sectors	279,670.8	289,300.0	313,636.0	340,096.0	325,365.5	336,235.5
short-term	299,636.8	307,451.7	331,762.2	313,915.1	412,483.5	496,422.6
- CNB	22.8	866.5	5,926.5	1,779.0	1,226.2	1,546.4
- commercial banks	208,534.0	185,025.2	201,315.7	193,816.1	272,187.3	332,976.2
- government	-	-	-	-	-	-
- other sectors	91,080.0	121,560.0	124,520.0	118,320.0	139,070.0	161,900.0
Net investment position	-527,483.7	-824,993.5	-835,242.5	-1,080,977.4	-1,415,217.4	-1,603,370.0

1) Preliminary data

Table 14

EXTERNAL DEBT

in CZK millions

	2003 31 Dec.	2004 31 Dec.	2005 31 Dec.	2006 31 Dec.	2007 31 Dec.	2008 [1] 31 Dec.
Debt in convertible currencies	895,139.6	1,011,807.9	1,142,180.3	1,193,682.9	1,374,712.4	1,555,958.2
of which:						
Long-term	535,995.9	667,327.6	783,533.1	872,113.2	966,893.1	1,056,814.4
by debtor						
- CNB	96.1	70.2	47.8	27.2	8.8	-
- commercial banks	73,276.4	64,346.5	65,418.9	76,426.6	107,852.8	147,006.1
- government	69,029.9	147,729.1	221,003.4	247,019.8	268,669.9	292,278.5
- other sectors	393,593.5	455,181.8	497,063.0	548,639.6	590,361.6	617,529.8
by creditor						
- foreign banks	251,535.3	269,081.3	276,594.3	324,908.9	340,251.2	373,577.8
- government institutions	-	-	9,636.0	9,555.5	8,686.0	7,249.6
- multilateral institutions	83,779.6	84,862.4	105,187.7	107,043.6	100,897.3	121,655.0
- suppliers and direct investors	109,287.9	143,301.2	170,586.6	179,903.7	220,419.0	219,010.0
- other investors	91,393.1	170,082.7	221,528.5	250,701.5	296,639.6	335,322.0
Short-term	359,143.7	344,480.3	358,647.2	321,569.7	407,819.3	499,143.8
by debtor						
- CNB	22.8	866.5	5,926.5	1,779.0	1,226.2	1,546.4
- commercial banks	210,017.0	188,495.9	202,616.9	196,529.5	274,189.3	335,538.1
- government	710.0	3,334.6	1,102.4	350.0	5,722.8	2,763.4
- other sectors	148,393.9	151,783.3	149,001.4	122,911.2	126,681.0	159,295.9
by creditor						
- foreign banks	218,436.1	202,372.6	197,820.7	187,186.7	243,132.5	322,095.5
- multilateral institutions	-	861.3	5,918.8	1,768.2	1,220.3	1,540.8
- suppliers and direct investors	105,563.9	98,611.3	102,235.6	78,391.2	72,188.0	83,045.0
- other investors	35,143.7	42,635.1	52,672.1	54,223.6	91,278.5	92,462.5
Debt in non-convertible currencies	-	-	-	-	-	-
of which:						
- long-term	-	-	-	-	-	-
- short-term	-	-	-	-	-	-
Total external debt	895,139.6	1,011,807.9	1,142,180.3	1,193,682.9	1,374,712.4	1,555,958.2
of which:						
- long-term	535,995.9	667,327.6	783,533.1	872,113.2	966,893.1	1,056,814.4
- short-term	359,143.7	344,480.3	358,647.2	321,569.7	407,819.3	499,143.8
Total long-term debt	535,995.9	667,327.6	783,533.1	872,113.2	966,893.1	1,056,814.4
of which:						
- IMF loans	-	-	-	-	-	-
- liabilities of government sector and guaranteed by government, and liabilities of entities majority owned by state	222,120.9	272,202.1	322,498.4	342,241.9	376,867.5	428,681.9
- liabilities of entities with majority private capital	313,875.0	395,125.5	461,034.7	529,871.3	590,025.6	628,132.5

1) Preliminary data

Table 15

FOREIGN EXCHANGE AND CAPITAL MARKETS

in CZK; foreign exchange market rates

A. NOMINAL RATE	2003	2004	2005	2006	2007	2008	2009
	1 – 12	1 – 12	1 – 12	1 – 12	1 – 12	1 – 12	1 – 3
CZK exchange rate against selected currencies							
- annual/quarterly averages							
1 EUR	31.84	31.90	29.78	28.34	27.76	24.94	27.60
1 USD	28.23	25.70	23.95	22.61	20.31	17.04	21.21
	12	**12**	**12**	**12**	**12**	**12**	**3**
- monthly averages							
1 EUR	32.31	30.65	28.98	27.78	26.30	26.11	27.23
1 USD	26.32	22.87	24.44	21.02	18.04	19.48	20.89
	31 Dec.	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Mar.**
- last day of the month							
1 EUR	32.41	30.47	29.01	27.50	26.62	26.93	27.38
1 USD	25.65	22.37	24.59	20.88	18.08	19.35	20.57

B. NOMINAL EFFECTIVE RATE	2003	2004	2005	2006	2007	2008	2009
							3
CZK nominal effective exchange rate (percentages)							
(2005=100)							
weights - foreign trade turnover	93.44	94.07	100.00	105.09	107.78	120.33	113.29
weights - foreign trade turnover SITC 5-8	93.37	93.96	100.00	105.21	107.93	120.50	112.57

Drawing on CZSO statistics on the geographical and commodity structure of foreign trade for 2005, 26 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	2003	2004	2005	2006	2007	2008	2009
							3
CZK real effective exchange rate (percentages)							
(2005=100)							
a) industrial producer prices							
weights - foreign trade turnover	92.57	95.50	100.00	102.22	104.97	114.82	107.03
weights - foreign trade turnover SITC 5-8	92.12	95.20	100.00	102.49	105.41	115.50	107.22
b) consumer prices							
weights - foreign trade turnover	94.44	94.97	100.00	104.73	107.75	123.04	116.23
weights - foreign trade turnover SITC 5-8	93.90	94.60	100.00	105.06	108.29	123.98	116.45

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

last days of months in points

D. STOCK MARKET INDICES	2003	2004	2005	2006	2007	2008	2009
	12	12	12	12	12	12	3
BCPP							
PX	659.1	1,032.0	1,473.0	1,588.9	1,815.1	858.2	749.7
PX-GLOB	816.9	1,232.7	1,811.3	1,987.4	2,268.4	1,096.4	960.9

On 20 March 2006, the Prague Stock Exchange's PX 50 and PX-D indices were replaced by a single index called the PX. Calculation of both the original indices was terminated on Friday, 17 March 2006. The new main PX index carries on from the PX 50 and takes over its history.

Table 16

CNB MONETARY POLICY INSTRUMENTS

rate valid from relevant date

	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	-	-	-	5.00	-
29 January	8.00	-	-	-	-
12 March	7.50	6.00	10.00	-	-
9 April	7.20	-	-	-	-
4 May	6.90	-	-	-	-
25 June	6.50	-	-	-	-
30 July	6.25	-	-	-	-
3 September	6.00	5.50	8.00	-	-
5 October	5.75	-	-	-	-
7 October	-	-	-	2.00	2.00
27 October	5.50	5.00	7.50	-	-
26 November	5.25	-	-	-	-
2000					
			No changes made.		
2001					
23 February	5.00	4.00	6.00	-	-
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	-	-
2005					
28 January	2.25	1.25	3.25	-	-
1 April	2.00	1.00	3.00	-	-
29 April	1.75	0.75	2.75	-	-
31 October	2.00	1.00	3.00	-	-
2006					
28 July	2.25	1.25	3.25	-	-
29 September	2.50	1.50	3.50	-	-
2007					
1 June	2.75	1.75	3.75	-	-
27 July	3.00	2.00	4.00	-	-
31 August	3.25	2.25	4.25	-	-
30 November	3.50	2.50	4.50	-	-
2008					
8 February	3.75	2.75	4.75	-	-
8 August	3.50	2.50	4.50	-	-
7 November	2.75	1.75	3.75	-	-
18 December	2.25	1.25	3.25	-	-
2009					
2 February	1.75	0.75	2.75	-	-

Table 17

MACROECONOMIC AGGREGATES

in CZK millions; annual percentage changes; constant 2000 prices

	2003 Q1 - 4	2004 Q1 - 4	2005 Q1 - 4	2006 Q1 - 4	2007 Q1 - 4	2008 Q1 - 4
Gross domestic product						
- in CZK millions	2,367,818	2,474,006	2,630,273	2,808,784	2,975,921	3,071,605
- percentages	3.6	4.5	6.3	6.8	6.0	3.2
Final consumption						
- in CZK millions	1,817,625	1,834,457	1,882,570	1,949,121	2,023,370	2,068,629
- percentages	6.3	0.9	2.6	3.5	3.8	2.2
of which:						
Households						
- in CZK millions	1,258,158	1,294,377	1,327,217	1,398,284	1,471,246	1,514,340
- percentages	6.0	2.9	2.5	5.4	5.2	2.9
Government						
- in CZK millions	545,999	526,656	541,825	538,094	540,037	544,645
- percentages	7.1	-3.5	2.9	-0.7	0.4	0.9
Non-profit institutions						
- in CZK millions	13,362	14,579	14,629	16,195	18,042	17,416
- percentages	6.2	9.1	0.3	10.7	11.4	-3.5
Gross capital formation						
- in CZK millions	709,600	773,916	767,420	847,801	919,395	906,617
- percentages	-1.4	9.1	-0.8	10.5	8.4	-1.4
of which:						
Fixed capital						
- in CZK millions	689,117	716,285	729,043	776,498	828,316	853,840
- percentages	0.4	3.9	1.8	6.5	6.7	3.1
Changes in inventories						
- in CZK millions	15,642	54,706	35,654	68,587	88,179	49,845
Acquisitions less disposals of valuables						
- in CZK millions	4,841	2,925	2,723	2,716	2,900	2,932
- percentages	40.8	-39.6	-6.9	-0.2	6.7	1.1
Foreign trade						
of which:						
Exports of goods						
- in CZK millions	1,479,795	1,820,657	2,032,500	2,369,984	2,742,708	2,899,756
- percentages	9.3	23.0	11.6	16.6	15.7	5.7
Exports of services						
- in CZK millions	212,807	226,614	251,989	278,317	305,037	351,177
- percentages	-4.2	6.5	11.2	10.4	9.6	15.1
Imports of goods						
- in CZK millions	1,623,393	1,928,984	2,033,055	2,333,268	2,683,031	2,796,178
- percentages	9.0	18.8	5.4	14.8	15.0	4.2
Imports of services						
- in CZK millions	235,915	263,438	268,334	295,936	320,412	345,605
- percentages	1.8	11.7	1.9	10.3	8.3	7.9
Final domestic demand						
- in CZK millions	2,506,742	2,550,742	2,611,613	2,725,619	2,851,686	2,922,469
- percentages	4.6	1.8	2.4	4.4	4.6	2.5
Aggregate domestic demand						
- in CZK millions	2,527,225	2,608,373	2,649,990	2,796,922	2,942,765	2,975,246
- percentages	4.0	3.2	1.6	5.5	5.2	1.1
Gross domestic product at current prices						
- in CZK millions	2,577,110	2,814,762	2,983,862	3,215,642	3,530,249	3,705,868
- percentages	4.6	9.2	6.0	7.8	9.8	5.0

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