INFLATION REPORT / III

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 13 August 2009 and contains the information available as of 24 July 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 again in 2009 Q2 and fluctuated below the lower boundary of the inflation-target tolerance band

(annual percentage changes)

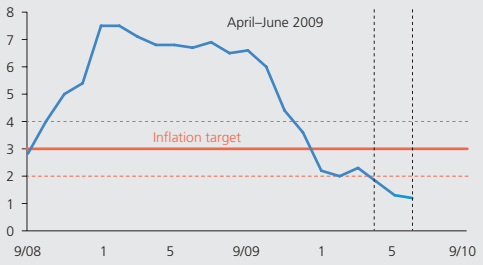


Table I.1 Key macroeconomic indicators

The Czech economic decline accelerated markedly in 2009 Q1

(annual percentage changes unless otherwise indicated)

	12/08	3/09	4/09	5/09	6/09
Consumer price inflation	3.6	2.3	1.8	1.3	1.2
Industrial producer price inflation	-0.2	-2.0	-2.5	-3.8	-4.4
Money supply growth (M2)	6.5	9.1	7.8	7.3	-
3M PRIBOR[a)] (in per cent)	3.9	2.5	2.5	2.3	2.2
CZK/EUR exchange rate[a)] (level)	26.11	27.23	26.76	26.74	26.55
CZK/USD exchange rate[a)] (level)	19.48	20.89	20.29	19.57	18.94
State budget balance since January [b)] (CZK bn)	-19.4	-2.4	-55.7	-71.4	-68.3
GDP growth at constant prices[c), d)]	-0.1	-3.4			-
Average nominal wage[c)]	8.1	3.1			-
Unemployment rate[e)] (in per cent)	6.0	7.7	7.9	7.9	8.0

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 continued falling in 2009 Q2 and fluctuated below the lower boundary of the tolerance band of the CNB's inflation target (see Chart I.1). The decline of the Czech economy deepened significantly in 2009 Q1. The Bank Board lowered monetary policy rates by 0.25 percentage point in May 2009. The current forecast expects the decline in economic activity to bottom out this year and the economy to grow slightly next year. 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 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 gradual rise from 2010 H2 onwards. At its meeting in August the Bank Board assessed the risks of the forecast as being slightly anti-inflationary overall and decided unanimously to lower monetary policy rates by 0.25 percentage point.

The monetary policy decision-making of the CNB Bank Board in 2009 Q2 was based on the inflation forecast published in the previous Inflation Report. At the monetary policy horizon, both headline inflation and monetary-policy relevant inflation were expected, according to the forecast, to be in the lower half of the tolerance band of the new 2% inflation target valid from 2010. Consistent with the baseline scenario of the forecast and its assumptions was a decline in market interest rates this year followed by a modest rise in 2010.

At its meeting in May, the Bank Board decided by a majority vote to lower monetary policy interest rates by 0.25 percentage point. With effect from 11 May, the two-week rate was thus set at 1.50%. The decrease in interest rates was consistent with the forecast and its risks, which the Bank Board assessed as being roughly balanced, albeit with a persisting high level of uncertainty. The Bank Board judged the main downside risk to inflation to be the potential deeper and longer-lasting recession abroad. The future path of the koruna exchange rate was seen by the board members as a possible substantial risk in both directions. At its June meeting, the Bank Board, in addition to the above-mentioned risks, mentioned a slowdown in domestic economic activity and food prices as a potential downside risk to inflation and the structure of domestic economic activity, higher oil prices and higher adjusted inflation excluding fuels as upside risks. Interest rates were left unchanged.

Money market interest rates were flat until the Bank Board's May monetary policy meeting. They reacted to the lowering of the 2-week repo rate by declining. PRIBOR rates were flat for the remainder of Q2 and in July.

The exchange rate of the koruna moved for the most part within a relatively narrow range in 2009 Q2. In late July, however, the koruna appreciated and stabilised at this level at the close of June and in the first two-thirds of the following month. The exchange rate appreciated further at the end of July. The koruna's rate against the dollar appreciated continuously, reflecting the depreciation of the dollar on global markets. In the absence of significant fundamental stimuli from the Czech economy, the koruna's exchange rate was affected primarily by improved financial market sentiment towards Central and Eastern European currencies.

A continuing decline in external demand linked to the global financial and economic crisis led to a further sharp weakening of domestic economic activity in 2009 Q1. The biggest contributor to the more than 3% year-on-year decline in domestic GDP was gross capital formation (additions to inventories in particular). By comparison, the negative growth contribution of foreign trade was roughly half as large.

Conversely, household and government expenditure on final consumption had a pro-growth effect. The latest available data on developments in industry, construction and retail trade indicate a continued decline of the Czech economy in 2009 Q2.

In conditions of falling output, the labour market situation continued to deteriorate. The annual growth in employment switched to a modest decline in Q1. However, it still lagged behind the fall in production, so labour productivity decreased year on year. The number of vacancies continued falling and the unemployment rate surged. Nominal wage growth slowed sharply, particularly in the business sector. The decline in real wage growth was less pronounced owing to a further fall in inflation. Data from the industry and construction sectors for April and May indicate continuing subdued wage growth and falling productivity in 2009 Q2.

Inflation declined significantly further in 2009. It was more than one percentage point lower in June than in March. The slowdown in annual consumer price inflation was due mainly to the fading lagged effects of changes to indirect taxes and slowing growth in regulated prices. The effect of market prices, i.e. adjusted inflation excluding fuels and food prices, was smaller. Actual inflation in 2009 Q2 was only slightly higher than forecasted in the previous Inflation Report, owing to higher-than-expected prices of fuels.

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, although this decline is nearing its bottom. However, the forecast still identifies inflationary cost pressures connected with the sharp depreciation of the exchange rate at the end of last year and the start of this year. These pressures are being offset only partly by the anti-inflationary domestic market environment.

Headline inflation will continue to fall in 2009 Q3 (see Chart I.2). It will remain low but positive for the rest of this year and at the start of 2010. At the monetary policy horizon, i.e. in 2010 H2, headline inflation will be in the lower half of the inflation-target tolerance band. It will reach the target at the end of 2010.

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. Owing to the transfer of selected services to the lower VAT rate, this inflation – which the CNB focuses on when deciding on interest rate settings – will be slightly above headline inflation at the end of 2009 and in the first three quarters of 2010.

The forecast assumes that the economic decline bottomed out in Q2 and the Czech economy is expected to show quarter-on-quarter growth as from 2009 Q3. However, the sharp fall in GDP observed at the start of the year will pass through to a year-on-year decline in GDP for the remainder of the year. The Czech economy is expected to decline by almost 4% for 2009 as a whole. In 2010, however, the forecast expects weak economic growth of less than 1%, in line with the recovery in external demand. A more pronounced economic recovery of over 2% will be seen in 2011 (see Chart I.3).

Consistent with the forecast is a decline in market interest rates this year followed by a modest rise from 2010 H2 onwards (see Chart I.4). The nominal exchange rate of the koruna is modestly appreciating over the forecast horizon (see Chart I.5). The appreciation pressures stem mainly from the positive interest rate differential, which will persist for about another year, and from a recovery in external demand.

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

(annual percentage changes)

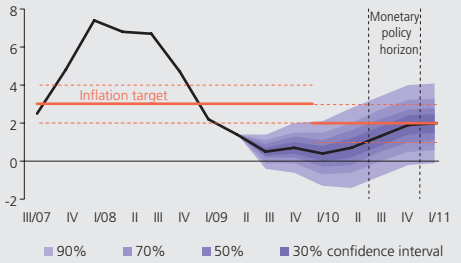


Chart I.3 The GDP growth forecast

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

(annual percentage changes; seasonally adjusted)

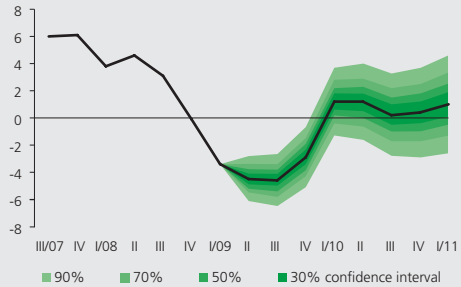


Chart I.4 The interest rate forecast

Consistent with the forecast is a decline in market interest rates this year followed by a gradual rise from 2010 H2 onwards

(3M PRIBOR, %)

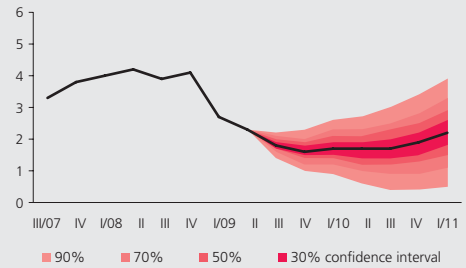
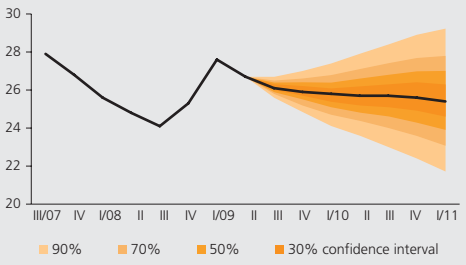


Chart I.5 The exchange rate forecast

The nominal exchange rate of the koruna is modestly appreciating over the forecast horizon

(CZK/EUR)



At its meeting in August the Bank Board assessed the risks of the forecast as being slightly anti-inflationary overall. According to the Bank Board, the currently stronger-than-forecasted exchange rate of the koruna is having an anti-inflationary effect, while, conversely, the currently higher-than-forecasted oil prices on the world market are having an inflationary effect. In line with the forecast, the Bank Board decided unanimously to lower monetary policy rates by 0.25 percentage point. The two-week repo rate is thus at 1.25% with effect from 7 August.

II.1 The external environment

The global economic crisis escalated in 2009 Q1 and the annual decline in GDP in the USA, the euro area and Germany accelerated. Inflation continued falling, entering negative figures in the USA and the euro area. The exchange rate of the dollar against the euro gradually weakened during Q2 and July 2009. The price of Brent crude oil fluctuated within a wide range of USD 50–70 a barrel during Q2 and July, but was 34% higher than in Q1 on average.

The annual decline in US GDP deepened to -2.5% in 2009 Q1 from -0.8% in the previous quarter, mainly as a result of a sharp decrease in investment of almost 15%. Household consumption also weakened year on year and government consumption growth was subdued. By contrast, the decline in exports was considerably lower than that in imports (-11.5% versus -17%), leading to an improvement in the trade balance. The trade deficit decreased by USD 95 billion in Q1 compared to the same period a year earlier. Industrial production fell by almost 12% and the unemployment rate rose by 3.1% year on year in Q1. The estimate for GDP growth in Q2 has not yet been published, but it can be derived from other data that the strong annual fall in economic activity is continuing. Industrial production shrank by 13.6% for Q2 as a whole. The unemployment rate reached 9.5% in June and its annual growth became even more pronounced. By contrast, the external balance improved again year on year, with the trade deficit falling by almost one half (USD 72 billion) overall year on year in April and May.

The annual decline in consumer prices in the USA increased further to -1.2% in June, mainly as a result of a significant fall in energy and transport prices. Core inflation also fell slightly (to 1.7%). The main cause of the decline in inflation is the global recession, which in the previous period pushed the prices of almost all commodities down. This led to a sharp decline in import prices. However, the price of Brent crude oil rose continuously from the beginning of May until mid-June, from USD 50 a barrel to USD 70 a barrel. It remained at that level, with some fluctuations, until the end of June. In early July the price fell sharply to below USD 60 a barrel (see Chart II.1). This fall came immediately after a data release indicating a decline in the USA labour market, which dampened the financial markets' relatively optimistic expectations about the real recovery in the USA. In late July, however, the price of oil rose again.

At its two meetings in April and June, the Fed left its key monetary policy rate at 0–0.25%. The FOMC indicated that it was likely to leave the rate at this level for an extended period owing to the overall economic downturn and low inflation pressures. In July, the FOMC Chairman Bernanke also stated that the Fed would not rush to abandon its unconventional monetary policy instruments (see Box 1 *Unconventional monetary policy of selected central banks*), although he did explain the exit strategy for this policy in order to assuage concerns of a long-term rise in inflation. The US dollar started depreciating fast in late April. During a single month it rose from USD 1.3/EUR to USD 1.4/EUR, where it has stayed with relatively small fluctuations since the start of June (see Chart II.2). The dollar's weaker value is a result of falling risk aversion among investors, who are moving into the stock and commodity markets and exiting less risky financial assets in the USA.

The euro area was hit full-force by the global economic crisis in 2009 Q1. The annual decline in economic activity accelerated sharply to -4.9% from -1.7% in 2008 Q4. Fixed investment shrank by more than 10%, and the deeper decline in exports than in imports (-16.3% versus -12.4%) continued. Household consumption also continued falling. Government consumption remained the only rising component of aggregate demand. The economic slump seems to have continued into Q2. In April and May, industrial production decreased by almost 19%, industrial orders

Chart II.1 Brent and Ural crude oil prices
The average price of Brent crude oil rose in 2009 Q2 and July compared to the previous quarter
(USD/barrel)

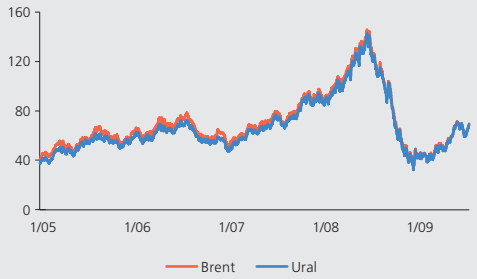


Chart II.2 The dollar-euro exchange rate
In 2009 Q2 and July the exchange rate of the dollar depreciated compared to the previous quarter and was less volatile

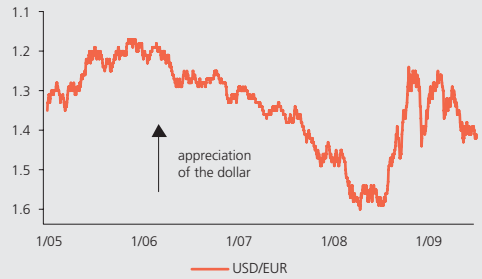
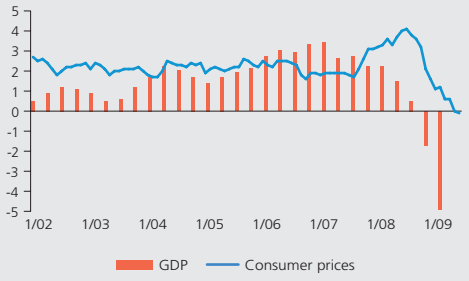


Chart II.3 GDP and inflation in the euro area

In the euro area, GDP declined dramatically in 2009 Q1 and inflation continued falling in 2009 Q2

(annual percentage changes)



by one-third and construction output by 6.5% year on year. The unemployment rate in May rose by more than 2 percentage points to 9.5% compared to the same period a year earlier.

Annual consumer price inflation in the euro area continued declining to -0.1% in June, mainly because of a sharp fall in energy and transport prices. Core inflation also fell to 1.2% in June. During Q2, the ECB lowered its key monetary policy rate in two steps (in April and May) by a total of 0.5 percentage point to a record 1%. At the end of June, the ECB additionally conducted its first refinancing operation and at the start of July started a purchase of covered bonds (see Box 1 *Unconventional monetary policy of selected central banks*). As a result of these measures, interest rates at the short end of the yield curve are well below the ECB's monetary policy rate. The monetary policy easing was enabled by the declining inflation, the medium-term inflation outlook and the overall macroeconomic situation, indicating weakening inflation pressures. The money supply situation is also signalling an absence of inflation pressures. Annual M3 growth declined from 6% in Q1 to 3.5% in June. This slowdown was driven significantly by a fall in growth of loans to the private sector from 4.6% in Q1 to 1.5% in June. According to market expectations, the ECB will have no reason to raise its key rate in the next several quarters and will leave it at the current level until at least mid-2010.

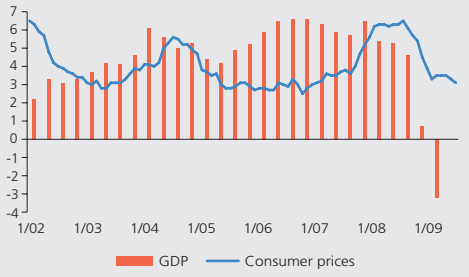
The economic crisis hit Germany's export-oriented economy particularly hard in 2009 Q1. GDP fell by 6.9% year on year, as against -1.8% in 2008 Q4. The biggest deteriorations were recorded by fixed investment, which shrank by 11.4%, and exports, which fell by 17.5%. Household consumption was unchanged year on year owing to a surprising rise in employment of 0.1% in Q1 and to only weak growth in unemployment, which rose by just 0.4 percentage point year on year in May. The data available for Q2 suggest a continued, albeit slower, annual economic decline. Industrial production fell by 2.6% month on month in April but rose by 3.7% in May, while its year-on-year fall decreased from -22% in April to -18% in May. The trade surplus for the first five months of this year was down by EUR 37 billion, i.e. almost half, from the same period a year earlier. Exports fell by 23% and imports by only 17%. Consumer prices were flat year on year in May. Inflation fell to zero owing mainly to decreases in energy, transport and food prices.

Slovakia recorded a further dramatic economic downswing in 2009 Q1. GDP fell by 6.2% year on year, after having risen by 2.4% in 2008 Q4. This fall was a result of a strong downturn in all components of aggregate demand. The main factor was a decrease in external demand, with a significant role also being paid by disruptions of gas supplies from Russia. A sharp economic decline can be expected in Q2 as well. Industrial production fell by almost one-quarter in April and May year on year. The automobile and electrical engineering industries were hardest hit. Industrial orders shrank by more than one-third. Unemployment rose by 1.4 percentage point year on year to 11.1% in May. As a result of the low domestic demand, annual inflation in Slovakia decreased further to 0.7%, primarily because of falling prices of manufactured goods and food. The decline in producer prices also deepened further in May, to -2.6%.

Chart II.4 GDP and inflation in the new EU Member States

In the "new" EU Member States, GDP growth slowed sharply year on year in 2009 Q1 and inflation kept declining in 2009 Q2

(annual percentage changes)



The global economic recession manifested itself in Hungary and Poland in 2009 Q1 as a further slowdown in economic activity. However, while annual growth in Poland is still positive, making this country the fastest growing EU country, the fall in GDP in Hungary accelerated. Both countries recorded rising inflation in Q2 as a result of year-on-year exchange rate depreciation.

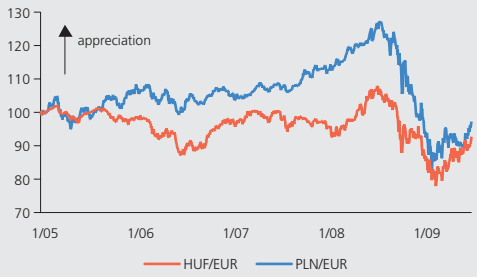
The annual rate of growth of Polish GDP fell to 1.9% in 2009 Q1 from 2.6% in the previous quarter as a result of slowing growth in all components of domestic demand. Acting against the slowdown in economic growth was an improvement in net exports as a result of a smaller decline in exports than in imports. This was aided significantly by an almost 20% depreciation of the Polish zloty. A further fall in economic growth can be expected in Q2. In April and May, industrial production shrank by almost 6% and industrial orders by 18% year on year, while retail turnover growth slowed. Unemployment increased by almost 1 percentage point year on year, reaching 8.1% in May. Annual HICP inflation rose modestly in Q2 compared to Q1, amounting to 4.2% in June. The Polish central bank cut its key monetary policy rate by 0.25 percentage point to 3.5% at the end of June. A more pronounced fall in rates, which would support the slowing economic growth, was prevented by relatively high inflation and concerns about a further depreciation of the Polish zloty.

Economic activity in Hungary decreased by 5.4% year on year in 2009 Q1, after having fallen by 2.2% in the previous quarter. This was due to a decrease in all components of domestic demand. Net exports, by contrast, acted against the economic downturn, since imports fell more rapidly than exports (-21.5% versus -18%). A continued economic decline can be expected in Q2. In April and May, industrial production fell by almost one quarter and industrial orders by 28%. The unemployment rate rose by 2.5 percentage points year on year in May. Inflation rose slightly compared to Q1, to 3.7% in June, as the effect of the depreciating exchange rate (the forint weakened by 14% year on year in Q2) outweighed the fall in demand and lower energy prices. The Hungarian central bank left its key monetary policy rate unchanged during Q2, lowering it by 1 percentage point only at the end of July.

CHART II.5 CENTRAL EUROPEAN CURRENCIES

The Polish zloty and the Hungarian forint strengthened slightly in 2009 Q2 and July

(average for January 2005 = 100)



BOX 1
Unconventional monetary policy of selected central banks

When conventional monetary policy instruments do not suffice to achieve the central bank's objectives, the central bank can apply unconventional monetary policy measures. The need to adopt such measures can arise in a situation where short-term nominal interest rates are approaching zero amid persisting deflationary pressures and the economy is showing no signs of recovery. The central bank thus has no way of using interest rate policy to further ease the monetary conditions. However, a need for unconventional measures may also arise amid non-zero rates if the interest or credit channel of the monetary policy transmission mechanism is disrupted.

In both the above cases, the central bank is unable to provide the desired stimulus to the real economy using its standard instruments. It is therefore legitimate to pursue unconventional monetary policy. The Bank of Japan (BoJ) did so from 2001 to 2006, and some other central banks, e.g. the Federal Reserve System (Fed), the Bank of England (BoE), the European Central Bank (ECB) and the Swiss National Bank (SNB), have started doing so recently.

Unconventional monetary policy in principle focuses on the costs and availability of external financing for banks, households and non-financial corporations. It therefore involves steering long-term real interest rates. This can be done by (i) affecting interest rate and inflation expectations as important indirect determinants of the long-term real interest rate; (ii) affecting financial asset markets with the aim of directly reducing the long-term nominal interest rate (e.g. by purchasing government bonds)

TABLE 1 (BOX)

Overview of operations of selected central banks primarily influencing the interbank market and smoothness of financing in foreign currencies

(source: central banks)

	Conditions of credit transactions between central bank and financial institutions			FX swaps
	Extension of eligible counterparties	Extension of eligible collateral	Extension of maturity	
Fed	x	x	x	x
BoE	x	x	x	x
ECB	x[a)]	x	x	x
SNB		x	x	x

a) in relation to EIB

TABLE 2 (BOX)

Overview of operations of selected central banks primarily influencing long-term interest rates and the exchange rate

(source: central banks)

	Outright purchase of financial assets			
	government bonds	covered bonds	other private assets	foreign currency
Fed	x		x	
BoE	x		x	
ECB		x		
SNB		x	x	x

or reducing the risk premium in the yields on certain financial assets. By purchasing government bonds with newly issued money, central banks increase the bank reserves (*quantitative effect*) and foster lower interest rates (*price effect*) in order to achieve the desired easing of the financial conditions. With such measures, the central bank simultaneously sends a signal to the economy that it will achieve price growth by issuing money (*expectations effect*).

The expected and real impacts of central banks' individual measures are also affected by the decisions on the financing of such operations. The situation where a central bank purchases government bonds and finances the purchase with newly issued money (resulting in growth in the central bank's balance sheet) is referred to as a *quantitative easing*.

In the case of a *qualitative easing*, the asset structure changes in such a way that a portion of the financial assets is sold and the funds raised are used to buy financial assets with different characteristics (usually lower liquidity and higher risk, e.g. private debt instruments). The central bank's balance sheet does not expand in such transactions. A change in the asset structure amid growth in the central bank's balance sheet is called a *credit easing*. The credit easing form is currently the most used, since central banks, in addition to applying the quantitative effect of issuing money, are trying to mitigate the problems with market functioning and monetary policy transmission in specific problem areas.

Table 1 (Box) and Table 2 (Box) outline the range of unconventional monetary policy measures undertaken by selected central banks. Table 1 (Box) summarises refinancing operations, which are focused mainly on easing the funding conditions of financial institutions associated with the limited functioning of the interbank market, and on supporting international financing. Table 2 (Box) describes the use of outright purchases of specific financial assets, i.e. structural changes on the asset side of central bank balance sheets. This table shows that the ECB and the SNB are focusing on purchases of covered bonds, whereas the Fed and the BoE are purchasing government bonds and other private assets. The SNB is the only one of these central banks to have also started intervening in the forex market, with the aim of preventing the Swiss franc from appreciating.

II.2 THE MONETARY CONDITIONS

Both the interest rate and exchange rate conditions continued to be affected by the global financial and economic crisis in 2009 Q2. Money market interest rates declined, whereas rates with longer maturities increased slightly. The exchange rate appreciated modestly.

II.2.1 Interest rates

Despite signs of stabilisation, the situation on the domestic financial market in 2009 Q2 continued to be affected by the global financial and economic crisis. The credit premium (the spread between PRIBOR rate and the 2W repo rate) decreased slightly and banks were no longer interested in making active use of liquidity-providing repo operations.[1] On the other hand, market liquidity remained limited and the bid-offer spread on the interbank market remained wider than usual.

Interest rates showed mixed developments depending on maturity. Money market interest rates declined owing to the reduction of the CNB's key interest rates by 0.25 percentage point at the May meeting. With effect from 11 May 2009, the 2W repo rate was set at 1.50%, the Lombard rate at 2.50% and the discount rate at 0.50% (see Chart II.6). Part of the market was also speculating on a further lowering of key interest rates at the Bank Board's June meeting. This was particularly apparent from FRA quotations. However, this expectation did not materialise and FRA rates increased slightly following the meeting. PRIBOR rates were broadly flat. Conversely, rates with maturities of over one year continued rise gradually owing to developments on foreign markets, where concerns about a massive inflow of new government bond issues were increasing. Linked with this was an upside risk to inflation in the longer run.

PRIBOR interest rates decreased by 0.8–1.5 percentage points overall depending on maturity compared to the start of the year (see Chart II.7). By contrast, IRS interest rates increased by up to 1.1 percentage point (with the exception of the 1Y maturity, which declined). FRA quotations at the end of July 2009 indicated that the market was expecting money market interest rates to be broadly flat in the near future.

The PRIBOR yield curve shifted downwards during Q2, but its slope remained positive. The spread between the 1Y PRIBOR and the 2W PRIBOR was 0.93 percentage point on average in June. During July, the money market yield curve remained unchanged. The IRS yield curve fell only at its shortest end during 2009 Q2; by contrast, the curve shifted upwards at most maturities. The average 5Y-1Y spread was 1.27 percentage points and the 10Y-1Y spread 1.71 percentage points in June.

The interest rate differentials on the money market (PRIBID/CZK-EURIBOR/EUR or LIBOR/USD) were affected by changes in the CNB's and ECB's key rates and by movements in money market rates. The interest rate differentials vis-à-vis euro and dollar rates still fluctuated in positive figures during Q2 (see Chart II.8).

Three auctions of variable interest rate bonds and seven auctions of fixed coupon bonds were held on the primary government bond market. The total volume of bonds issued was CZK 73.9 billion. There was lower interest in bonds with longer maturities amid expectations of growing budget deficits and higher interest rates. Secondary market liquidity remained low, with trades being executed primarily through brokers.

Chart II.6 The CNB's key rates
The CNB lowered its key interest rates in May 2009
(percentages)

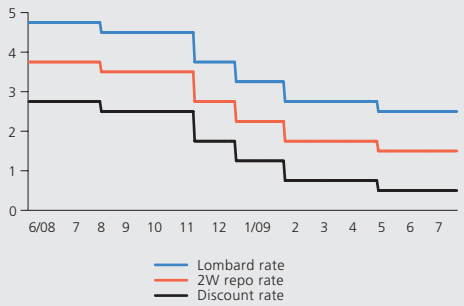


Chart II.7 Market interest rates
Money market interest rates fell
(percentages)

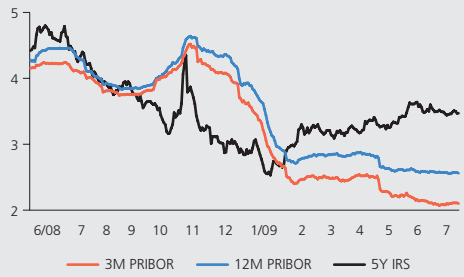
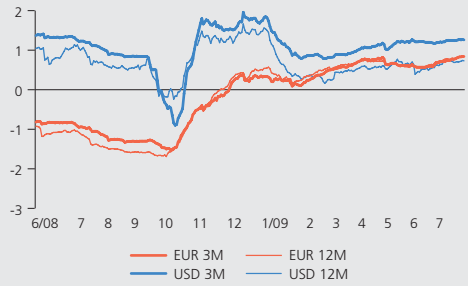


Chart II.8 Interest rate differentials
Interest rate differentials vis-à-vis the euro and the dollar were positive
(percentage points)



1 For more details see section II.2 of Inflation Report I/2009.

Chart II.9 Ex ante real rates
Ex ante real interest rates on new loans and time deposits were flat
(percentages)

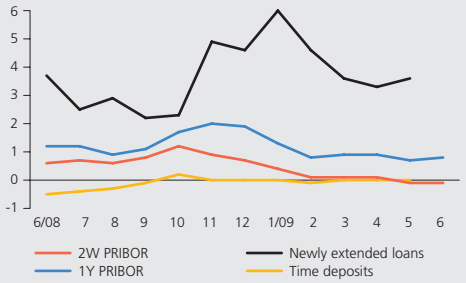


Chart II.10 CZK/EUR and CZK/USD exchange rates
The koruna appreciated against the euro and the dollar in 2009 Q2 and July

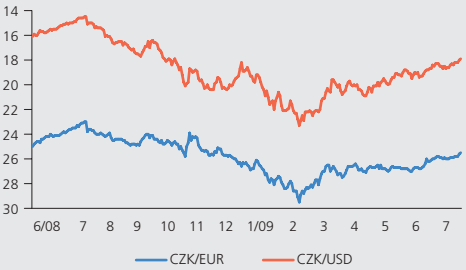
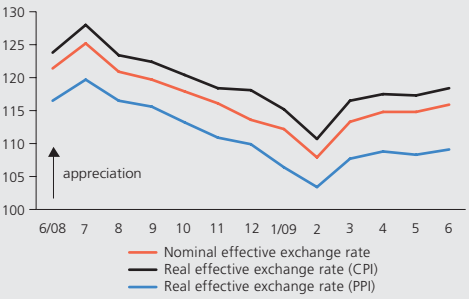


Chart II.11 Effective exchange rates of the koruna
The nominal and real effective exchange rates started to appreciate again in March 2009
(year 2005 = 100)



Nominal interest rates on new loans were 6.8% and rates on new time deposits 1.9% in May. Real interest rates[2] are affected not only by nominal rates, but also by movements in inflation expectations. Consumer price inflation expectations decreased slightly during 2009 Q2, whereas expected industrial producer price inflation increased modestly. Real rates on new loans were 3.6% in May, while real rates on time deposits were 0.0% (see Chart II.9).

II.2.2 The exchange rate

The average exchange rate of the koruna against the euro was CZK 26.5 in 2009 Q2 (see Chart II.10), which represents a year-on-year depreciation of 7.5%. In quarter-on-quarter terms, however, the koruna appreciated by 3.3%. The koruna's exchange rate was relatively stable for most of the quarter, moving within CZK 26.4–27.0 to the euro. In the second half of June, however, the koruna appreciated by approximately 60 hellers against the euro to around CZK 26.0. In July, the koruna initially showed a tendency to appreciate further. This tendency accelerated somewhat at the close of the month (to around CZK 25.5). Between mid-June and 29 July, the koruna appreciated against the euro by 5%.

The relative stability of the exchange rate of the koruna, especially compared to the previous 24 months, was due to lower activity by foreign short-term investors (limited disposable funds, perceived risk of investing in regional currencies), an absence of major fundamental stimuli from the Czech economy and ambiguous expectations regarding the interest rate differentials of the koruna vis-à-vis relevant currencies. The appreciation of the koruna in the second half of June was probably due to improved financial market sentiment towards the currencies of the region as a result, among other things, of measures adopted to stabilise public finances in Hungary (the koruna tracked the appreciation of the forint, and the Polish zloty also appreciated with a lag) and partly in Latvia. Thanks to these measures, both countries gained access to further tranches of IMF loans, and so the immediate concerns about a devaluation (or depreciation) of these currencies subsided. As in previous months, the exchange rate did not respond to information from the domestic economy, since none of the significant information differed substantially from market expectations. The appreciation of the koruna in the second half of July was probably due to purchases of koruna assets by foreign funds.

The koruna also depreciated year on year against the dollar in 2009 Q2. This depreciation was even more pronounced than that against the euro, owing to the appreciation of the dollar against most world currencies. In year-on-year terms the koruna depreciated against the dollar by 23.4% to CZK 19.6 in 2009 Q2. In quarter-on-quarter terms, however, it appreciated by 7.6%. One can see a clear appreciation tendency from around CZK 21.0 in late April to CZK 18.1 in late July. This reflects both the depreciation of the dollar on global markets at the close of April and in May, and the appreciation of the koruna against the euro since mid-June.

The relatively sharp depreciation of the nominal and real effective exchange rates, which had been going on for more than two quarters, ended in 2009 Q2 (see Chart II.11). The nominal effective exchange rate appreciated by 3.6% quarter on quarter, but was still 5.2% weaker in year on year terms. This weakening was due mainly to the koruna's depreciation against the euro and the dollar.

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 CPI-deflated real effective exchange rate weakened year on year to practically the same extent as the nominal exchange rate (by 5.1%). This indicates a similar consumer price trend in the Czech Republic as in its major trading partners. The year-on-year depreciation of the PPI-deflated real effective exchange rate was rather more pronounced than that of the nominal rate (5.8%) as a result of a rather larger year-on-year fall in producer prices in the Czech Republic than in other countries.

II.3 DEMAND AND OUTPUT

The year-on-year decline in GDP deepened slightly in 2009 Q1, to 3.4%.[3] *The biggest contributor to this decline was gross capital formation, in particular inventories. Foreign trade, which most of all reflected the sharp weakening of external demand due to the global financial and economic crisis, contributed to the GDP decline to a lesser extent. Transmission of the crisis into the domestic real economy was observed in most branches.*

II.3.1 Domestic demand

Domestic demand fell year on year in 2009 Q1. This decline was due mainly to an annual fall in additions to inventories. Fixed investment also declined in Q1. By contrast, household and government final consumption expenditure recorded faster year-on-year growth, but this was not enough to offset the adverse effects of inventories and fixed investment.

Consumer demand

Annual household consumer expenditure growth rose slightly in 2009 Q1. At 3%, it was 0.6 percentage point higher than in Q4. The pick-up in real annual growth in household consumption expenditure happened despite a sharp slowdown in nominal gross disposable income growth, which was only partially offset by a pronounced decrease in inflation.[4]

At 2.8%, annual growth in nominal gross disposable income in 2009 Q1 was roughly one-third the level recorded in 2008 Q4 (9%). This pronounced change was due mainly to a sharp slowdown in growth of the largest-volume component of household income – compensation of employees, primarily as a result of faster adjustment of wages to falling productivity than in previous quarters.[5] The continuing unfavourable demand situation was also reflected significantly in gross operating surplus income and mixed income, whose contribution to annual disposable income growth was negative (see Chart II.15). An even greater adverse effect was recorded for the very rapidly falling property income. The year-on-year growth in households' disposable income in 2009 Q1 was thus driven mainly by social benefit income, whose rate of growth rose to 7.3% amid rising unemployment. The growth in disposable income was also due significantly to falls in income tax payments and social contributions paid (of 6.6% and 6.7% year on year respectively), affected partly by adjustments to the rules for the provision thereof.

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

4 As measured by the household consumption deflator, according to which year-on-year growth in the price level fell by 2.6 percentage points to 1.2% compared to the previous quarter.

5 Wages and salaries account for 78% of compensation of employees. For details see section II.4 *The labour market*.

Chart II.12 Gross domestic product
The GDP decline deepened in 2009 Q1
(annual and quarterly percentage changes at constant prices; seasonally adjusted data)

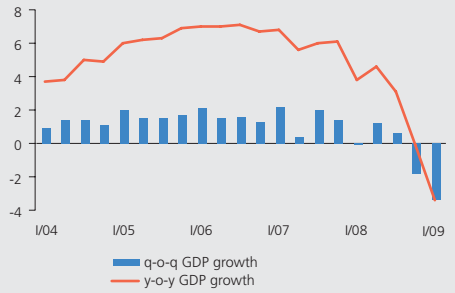


Chart II.13 Structure of GDP growth
The main contributors to the GDP decline were inventories and foreign trade
(contributions in percentage points; seasonally adjusted data)

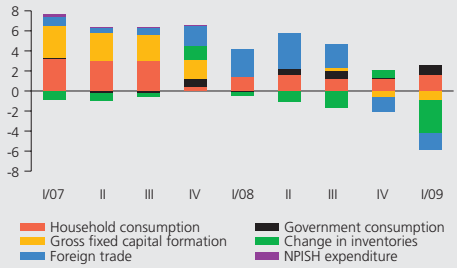


Chart II.14 Household consumption expenditure
Real household consumption expenditure growth increased in 2009 Q1
(annual percentage changes)

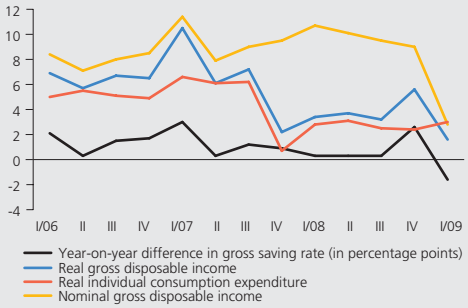
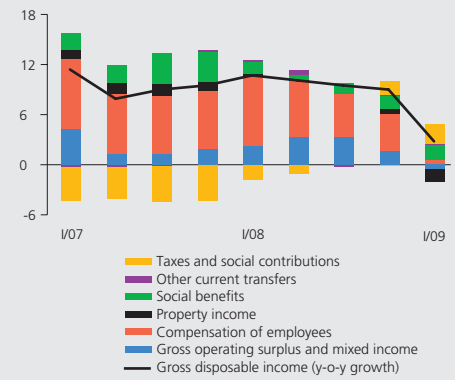


Chart II.15 Disposable income
Disposable income growth slowed sharply
(annual percentage changes; contributions in percentage points; current prices)



Households' consumption expenditure grew faster than their disposable income in Q1. In these circumstances, households used a larger proportion of their income than in the previous quarter to finance increased consumer expenditure. This was reflected in lower saving. As a result, their gross savings fell by CZK 6.1 billion year on year and the gross saving rate declined by 1.6 percentage points to 12.6% (see Chart II.14). Some households also financed their consumption expenditure from credit. However, its rate of growth moderated further owing to more prudent behaviour by both households and banks (see section II.6 *Monetary developments*).

Consumer confidence rose in 2009 Q1 and Q2, but remained low.[6] Its level corresponded to the growing unemployment and uncertain economic prospects. As regards the structure of household consumption expenditure, the most pronounced growth was recorded by durable goods, but this growth was probably linked mostly with past investment in dwellings by a narrow segment of households. Growth in purchases of non-durable goods picked up modestly, affected, among other things, by falling food prices. Expenditure on services declined year on year for the third consecutive quarter. This can be viewed as an indication of cutbacks in household consumption at a time of recession. Subdued growth can be expected in all categories of household consumer expenditure in the near future. This is evidenced by the latest May figures on declining retail sales and a slackening rate of growth of wage income in industry.

Government consumption rose by 5.2% year on year in real terms in 2009 Q1. Rising expenditure by health insurance companies on health care played a key role in this rise. By contrast, state budget expenditure, which usually has a decisive effect on government consumption, declined year on year at current prices. The increase in expenditure by health insurance companies, which does not come under the state budget, therefore had the dominant impact on overall government consumption growth in 2009 Q1.

Overall state budget expenditure at current prices was up by 16.4% in 2009 Q2. This increase was due to the fact that two advance payments (for Q2 and Q3) were made to local budgets for education, unlike in the previous year. Expenditure on pensions, unemployment benefits and debt service also recorded high growth in 2009 Q2.

Chart II.16 Consumer confidence

Consumer confidence rose in 2009 H1, but remained low

(2005 average = 100)

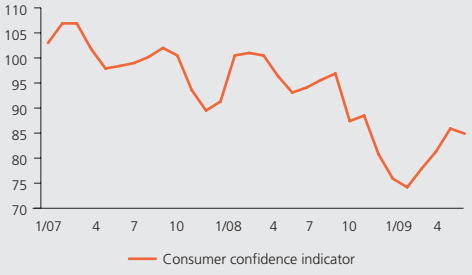
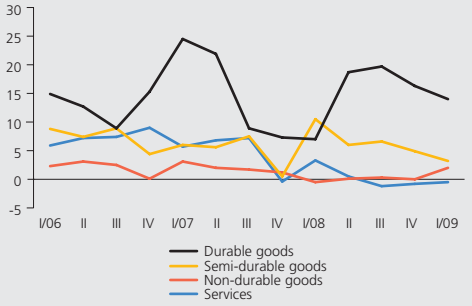


Chart II.17 Structure of consumption growth

Expenditure on durable goods rose slightly, but expenditure on services continued declining

(annual percentage changes)



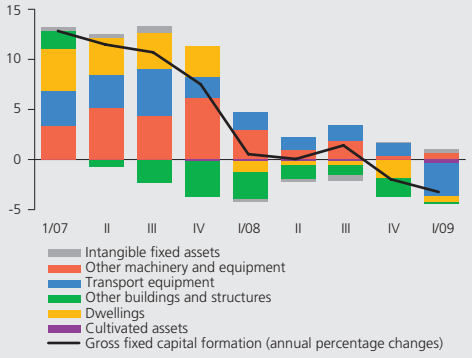
Investment

The downward trend in investment demand observed since mid-2008 continued into 2009 Q1 (see Chart II.18). The annual decline in gross fixed capital formation increased further compared to 2008 Q4, reaching 3.4%. The main causes of the falling demand for fixed investment remained the same as described in the previous Inflation Report. They included weakening domestic and external demand, worsening formation of corporate own funds, a more prudent approach of banks to lending, uncertainties associated with future developments and rising unemployment. The effects of these factors on investment decision-making were indicated by falling investment in structures and transport equipment and by noticeably weakening growth in investment in machinery and equipment.

Chart II.18 Fixed capital formation

The downward trend in investment demand continued into 2009 Q1

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



6 This indicator reached a nine-year low at the end of 2008.

Fixed investment declined in most sectors, with only government investment showing a slight increase in 2009 Q1.[7] In the non-financial corporations sector, which accounts for the largest volume of investment (see Table II.1), investment has been falling since 2008 H2. Its more than 4% annual decline in Q1 was chiefly due to lower investment in structures and transport equipment, whereas investment in machinery and equipment still showed modest growth. The results of the latest CNB survey suggest that the above factors affecting investment decision-making and the tight lending conditions will continue to have an adverse effect on fixed investment going forward.[8]

Household investment, which is mostly associated with housing, continued its annual fall observed since the start of 2008. Investment in dwellings decreased by 5.4% year on year in 2009 Q1 (see Chart II.19). As mentioned in previous Inflation Reports, the substantial change in the investment trend in 2008 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. Investment in housing was also significantly affected in 2008 and 2009 Q1 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 and the persisting decline in the number of housing starts, demand for investment in housing cannot be expected to recover in the near future.

Additions to inventories decreased significantly in real terms year on year in 2009 Q1. This was reflected in a record high negative contribution to GDP growth (see Chart II.13). This substantial change corresponds to the overall decline in economic activity, particularly in industry. Owing to low demand, however, a sizeable fall in inventories in other industries (trade, etc.) cannot be ruled out.

II.3.2 Net external demand

The transmission of the global financial and economic crisis to the real economy continued in 2009 Q1. It was most visible in a deeper decline in total trade turnover (see Chart II.21). Its annual decline was roughly three times larger in 2009 Q1 than in 2008 Q4, reaching 20%. Owing to weakening external demand, the decline in exports increased significantly (to -20.5% year on year) and was recorded in respect of almost all major trading partners. The year-on-year depreciation of the koruna could thus only moderate the impact of the external demand shock on the corporate sector. The decline in total imports was more modest than that in exports. Given the stable high import intensity of exports and the fall in overall domestic demand, however, the decline in total imports also deepened significantly (to -19.6%).

In these circumstances – as in the previous quarter – there was a year-on-year decrease in the net export surplus (see Chart II.20). The contribution of net exports to GDP growth was thus negative again in 2009 Q1 (see Chart II.13).

Table II.1 Fixed investment by sector
Most sectors recorded a real decline in investment
(source: CZSO, CNB calculation)

	II/08	III/08	IV/08	I/09
Annual percentage changes				
Non-financial corporations	1.4	-4.2	-2.3	-4.4
Households	-3.4	-1.9	-13.3	-4.3
General government	-2.3	22.8	9.6	0.6
Financial corporations	17.7	22.3	17.0	-6.1
Nonprofit institutions serving households	0.5	1.4	-8.0	-7.9
Share in total fixed investment in per cent				
Non-financial corporations	59.1	56.2	57.1	58.0
Households	20.0	20.4	18.8	18.6
General government	18.3	20.9	21.3	20.8
Financial corporations	2.0	1.9	2.1	2.0
Nonprofit institutions serving households	0.6	0.6	0.6	0.5

Chart II.19 Investment in dwellings
Investment in dwellings continued falling
(annual percentage changes)

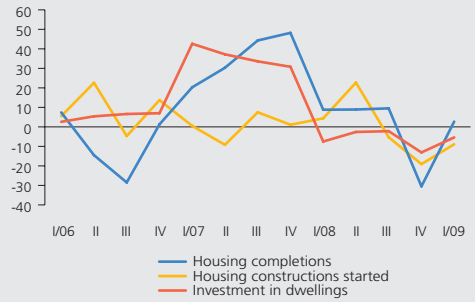


Chart II.20 Net external demand
Net exports decreased year on year in 2009 Q1
(CZK billions; constant 2000 prices; seasonally adjusted data)

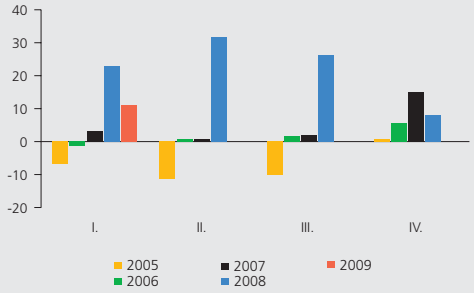
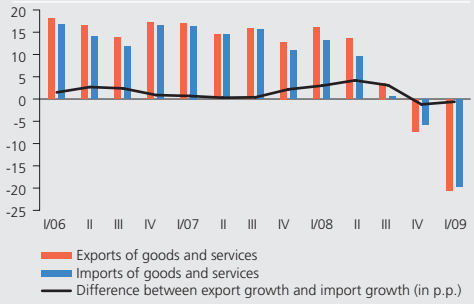


Chart II.21 Exports and imports
Total foreign trade turnover declined sharply in 2009 Q1
(annual percentage changes; percentage points; constant prices; seasonally adjusted data)



7 Weak growth in investment financed from public funds, channelled mostly into civil engineering work, only slightly offset lower demand for investment among households and non-financial corporations.

8 According to the latest CNB survey, uncertainty regarding future demand is a key limiting factor for investment in the next twelve months for 36% of respondents from manufacturing industry and 33% of respondents from construction. Shortages of own funds will curb future investment among 25% of respondents from manufacturing and 25% of respondents from construction.

The annual fall in the net export surplus in 2009 Q1 was attributable to the trade balance and the services balance in almost equal measure. The decline in the trade surplus was generated above all by a continuing rapid fall in goods exports (-21.7%) due to a sharp weakening of external demand, in particular for machinery products. For the first time in more than five years, there was also a marked fall in services exports in Q1, which had previously been rising and had been largely resilient to the economic crisis. On the other hand, the fall in the overall net export surplus was greatly slowed by a deep decline in goods imports, particularly imports for intermediate consumption associated with exports. Investment imports also recorded a sizeable fall, reflecting the marked downturn in investment activity.

The uncertainty surrounding external demand going forward was also reflected in the results of the CZSO surveys in industry during 2009 H1. According to these surveys, industrial businesses expressed most concern about external demand at the end of 2008 and in 2009 Q1. The latest June results, however, suggest a considerable decrease in their pessimism.

Chart II.22 Contributions of branches to GDP growth

Value added formation declined in the main branches in 2009 Q1

(contributions in percentage points to annual growth; constant 2000 prices; selected branches)

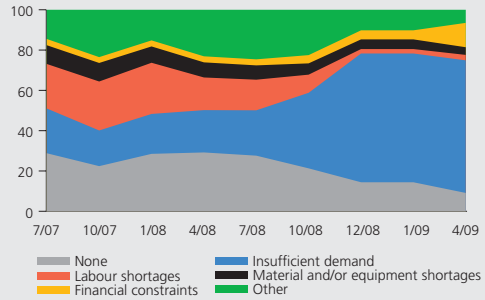
II.3.3 Output

The combined effect of a persisting world economic slowdown and generally falling domestic demand caused gross value added formation at basic prices to deteriorate further in 2009 Q1. The previous clear downward trend in growth changed into a year-on-year decline in Q1 (of 3.2%). The decline was even more pronounced in quarter-on-quarter comparison (4%). The direct and, above all, indirect impacts of the global financial crisis affected most branches of the economy, particularly in manufacturing (see Chart II.22). However, unusually strong growth in value added continued in agriculture, and the electricity, gas and water supply industry and the health care sector also showed significant increases in value added in Q1.

Chart II.23 Barriers to growth in industry

Insufficient demand was the main factor underlying the decline in production in industry

(percentages)

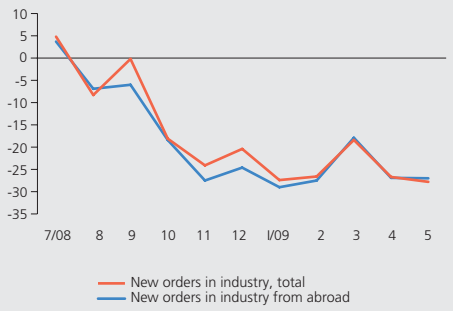


The biggest fall in value added was recorded in industry, where weak external demand was the dominant factor (see Chart II.23). Its adverse effect on value added in this branch was indicated by an almost 20% year-on-year fall in direct export sales, which account for about half of total sales in industry.[9] The pronounced decrease in export activity and production in industry was mostly due to manufacture of motor vehicles, manufacture of machinery and equipment, and manufacture of basic metals and fabricated metal products. However, the significant 19% real fall in industrial production was due not only to the above key branches, but also to corporations in related subcontractor networks. In these circumstances, utilisation of production capacity in the economy decreased (see Chart II.25) and the sizeable fall in the number of workers in individual branches continued (for details see section II.4 *The labour market*).

Chart II.24 New orders in industry

The decline in orders did not deepen further

(annual percentage changes in set of selected branches; current prices)



According to the latest available data for the first two months of 2009 Q2, the unfavourable trend in industry continued. The decline in industrial production, sales and new orders still exceeded 20%. New orders fell by 27.8% in May (and new orders from abroad by 27%), but the decline did not deepen further (see Chart II.24). This is in line with the latest data on economic developments in Germany, which suggest some signs of stabilisation of the situation in industry.

9 For details see section II.3.2 *Net external demand*. Direct export sales assessed at current prices.

The fundamental view of construction activity in 2009 Q1 remained broadly unchanged from the previous quarter. The continuing decline in building construction output (of 11.9%) was still strongly affected by more prudent investment decision-making of corporations and households and a more cautious approach of banks to lending given the uncertain demand outlook. Although rapid annual growth in civil engineering work continued at the same time, the declines in total production and value added in construction in Q1 persisted (down by 11.5% and 3.9% respectively). The latest available data for May indicate some moderation of the decline in construction output (to -1.2%),[10] which was also observable in building construction. Growth in civil engineering output picked up at the same time.

Value added in services and trade in 2009 Q1 indicated stronger transmission of the financial and economic crisis to these segments of the economy than in the previous quarter. Trade was most affected, with the marked slowdown in value added growth seen at the end of 2008 changing into a pronounced annual decline in 2009 Q1 (see Chart II.22). This sharp fall was probably due mainly to falling sales of motor vehicles. Value added in services fell mainly because of decreasing activity in the production sector.[11]

Business confidence in industry, construction, trade and services remained low in 2009 H1 (see Chart II.26). At the same time, changes were visible in the view of current and future economic developments in the individual industries. The confidence indicator in construction kept falling owing to the unfavourable demand outlook, but the pessimistic sentiment in industry moderated visibly, especially as regards the economic outlook for the next six months, future aggregate and external demand, and production activity.

II.3.4 Economic results of non-financial corporations[12]

According to the available data and CNB calculations, the adverse financial performance of the monitored segment of non-financial corporations with 50 employees or more continued into 2009 Q1.[13] The continuing decline in external demand in particular led to a further increase in the annual fall in sales and output (see Chart II.27). Intermediate consumption tracked output, although unlike in the previous quarter it fell faster than output. The deteriorating economic situation of corporations was also clearly reflected in personnel costs, whose previous growth was replaced by a year-on-year decline in 2009 Q1. In this situation, book value added fell more slowly than output. On the basis of the available data it can be estimated that the – still pronounced – year-on-year decline in gross operating surplus moderated in 2009 Q1 in the monitored set of corporations.

Chart II.25 Capacity utilisation
The freeing up of production capacity in industry continued
(percentages)

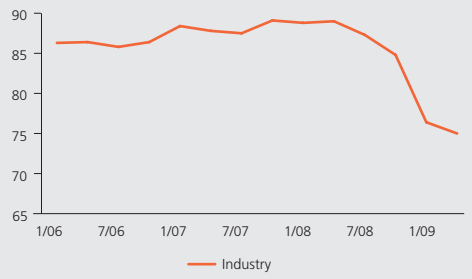


Chart II.26 Confidence indicators
Business confidence in industry is rising from very low values
(2005 average = 100)

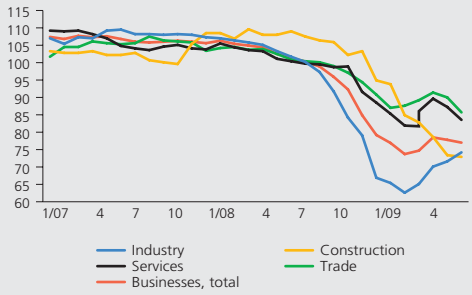
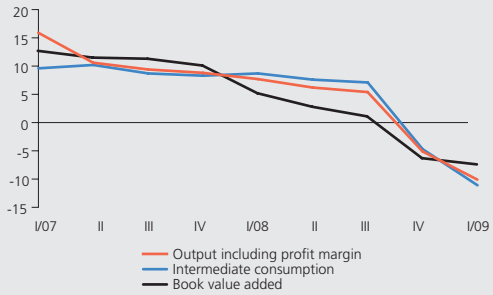


Chart II.27 Key financial indicators
Output and book value added continued to record year-on-year declines in 2009 Q1
(annual percentage changes)



10 Working-day adjusted.

11 This fact is indicated by sizeable falls in sales in transport and storage, architectural and engineering services, accounting and legal services, services in the area of advertising and market research, employment agencies, etc.

12 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 data are at current prices.

13 The segment of corporations with 50 employees or more consisted of almost 10,000 non-financial corporations at the end of 2009 Q1.

TABLE II.2 ABSOLUTE DATA AND PERFORMANCE RATIOS
The material cost-output ratio fell in 2009 Q1 while the personnel cost-output ratio kept rising
(CZK billions; percentages; annual changes in percentage points and percentages)

	2009 Q1	2008 Q1	Annual percentage changes
Output incl. profit margin (CZK billions)[a]	1,150.5	1,279.5	-10.1
Personnel costs (CZK billions)[a]	193.0	198.3	-2.7
Intermediate consumption (CZK billions)	817.1	919.6	-11.1
Book value added (CZK billions)	333.4	359.9	-7.4
Sales (CZK billions)	1,482.7	1,631.1	-9.1
	percentages	percentages	Annual changes in p.p.
Ratio of personnel costs to value added[a]	57.9	55.1	2.8
Material cost-output ratio[a]	71.0	71.9	-0.9
Personnel cost-output ratio[a]	16.8	15.5	1.3
Ratio of book value added to output[a]	29.0	28.1	0.9

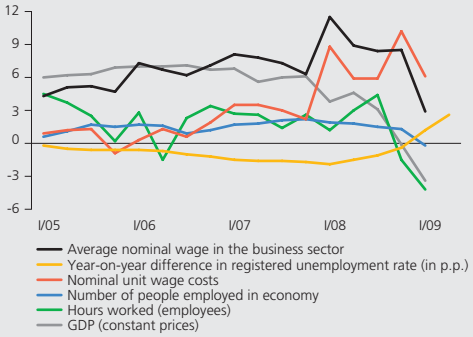
a) CNB calculation

Although the corporate sector saw a marked change in trend for personnel costs in Q1, from the previous rapid growth to an almost 3% decline, this change was still not sufficient from the point of view of profits. The decline in output was more pronounced and, as a result, the personnel cost-output ratio still increased by another 1.3 percentage point year on year in Q1. However, it moderated significantly compared to the previous quarter. The material cost-output ratio indicated a more marked weakening of cost pressures, mainly due to falling import prices of energy-producing materials. Following a slight increase in 2008 Q4, the material cost-output ratio decreased by 0.9 percentage point year on year in Q1. Prices of electricity and some imported inputs, however, continued rising fast, strongly affecting corporations' costs in some energy- and commodity-intensive branches.

In 2009 Q1, 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. However, the deterioration in the performance of these corporations was rather greater than that in the wider set of corporations.

Owing to changes made by the CZSO to the collection and publication of data on the balance sheets of non-financial corporations, the evaluation of the financial position of non-financial corporations since 2008 Q4 is based on data on the set of 2,000 corporations with the largest asset volumes. Overall, it can be derived from the data available so far for 2008 Q4 and 2009 Q1 that the key indicators of corporations (debt-to-capital ratio, solvency, liquidity) did not change significantly in 2009 Q1 compared to the previous quarter for the new set of corporations with the largest asset volumes. The overall financial position of non-financial corporations in 2008 and 2009 Q1 is described in more detail in Box 2 *Financing and financial investment of corporations and households* in section II.6 *Monetary developments.*

CHART II.28 LABOUR MARKET INDICATORS
The economic decline was accompanied by falling employment
(annual percentage changes; percentage points)



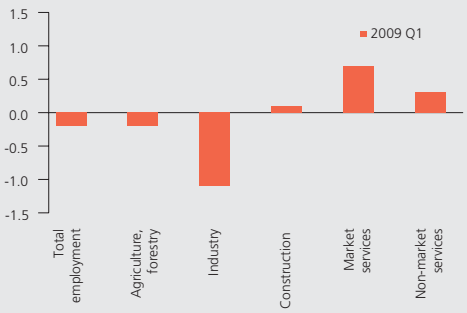
II.4 THE LABOUR MARKET

The economic decline was accompanied in 2009 Q1 by greater changes in employment than in previous quarters. Other labour market indicators also indicated more rapidly falling labour demand. Unemployment increased sharply and the numbers of vacancies and foreign workers recorded abrupt declines. Average wage growth in Q1 responded noticeably to the fall in demand and labour productivity and slowed considerably. This was reflected in a decrease in the growth rate of nominal unit wage costs. However, their growth was still high, as the fall in productivity growth was sharper than that in average wage growth.

II.4.1 Employment and unemployment

The gradual slowdown in employment growth during 2008 culminated in a moderate year-on-year decrease of 0.2% in 2009 Q1 (see Chart II.28). In quarter-on-quarter terms, the decrease in employment was more noticeable (1.5%). Continuing changes in labour demand were also evidenced by a deepening decline in the number of hours worked, especially in principal full-time employment (i.e. cuts in working hours by employers). It cannot be ruled out that the actual decrease in employment growth was again larger than suggested by LFS data in Q1, since the individual employment statistics are diverging.[14] The evolution of the aforementioned

CHART II.29 EMPLOYMENT BREAKDOWN BY BRANCHES
Employment fell most sharply in industry
(contributions in percentage points to annual growth; selected branches)



14 The national accounts statistics reported lower employment growth (-0.7%) than the LFS (-0.2%) in 2009 Q1. The discrepancy in the above statistics may be due to methodological differences. The LFS statistics, based on surveys in flats, capture employment of foreigners with difficulty (as 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.

employment indicators – especially the number of hours worked – suggests that the adjustment of companies to the falling domestic and external demand was more pronounced than in the previous quarter.

According to LFS figures, the impact of the sharp fall in demand on employment in 2009 Q1 was again strongest in the secondary sector, where the number of employees fell by 50,300 year on year. As in the previous quarter, manufacturing was affected most by the falling external demand (see Chart II.29). The number of employed people had declined by 8,900 year on year in 2008 Q4, and in 2009 Q1 this decline accelerated sharply to 61,300 people. A more significant annual decline in total employment in the economy continued to be prevented by extraordinarily high growth in employment in the tertiary sector (of 50,100 people).[15] People laid off in industry as a result of falling orders probably accounted for part of this growth.

At the same time, employment of foreign workers, who had helped to overcome labour shortages in some occupations during the boom, continued to decline rapidly. In 2008 H1 annual growth in the number of foreign workers had exceeded 30%, whereas in Q4 it fell below 22% and by May 2009 it was -5.9%.

The number of vacancies, which are a potential source of employment, confirmed a deteriorating labour market situation at a time of economic recession. The slope of the Beveridge curve shows that the sizeable decline in the number of vacancies was accompanied by a strong rise in the number of unemployed persons (see Chart II.30). These facts clearly indicate that the unemployment growth is mostly cyclical in nature.

In these circumstances, the general unemployment rate increased significantly in 2009 Q1, by 1.1 percentage points year on year to 5.8%. The registered unemployment rate[16] followed a similar pattern, rising by 1.2 percentage points year on year to 7.5% in 2009 Q1. According to the latest available data, the registered unemployment rate rose sharply again in 2009 Q2 (adjusted for seasonal effects by 2.7 percentage points year on year to 8.4%). The continuing upward trend in this unemployment indicator can be attributed to a marked decrease in employment in industry resulting from a continuing significant decline in output and orders in Q2.[17] By international comparison, however, the unemployment rate remained below the average rate in the EU countries despite the marked rise in 2009 H1 (see Chart II.32).

II.4.2 Wages and productivity

Average wages in 2009 Q1 signalled greater adjustment to the persisting adverse conditions on the demand side than in previous quarters. Annual growth in the average nominal wage in the economy slowed considerably from the previous quarter, falling by 5 percentage points to 3.1% (see Table II.3). At just 1%, average real wage growth was even lower due to the effect of inflation. This slowdown was due chiefly to wage developments in the business sector. However, wages in the non-business sector also rose at a slower pace than at the close of 2008.

Chart II.30 The Beveridge curve

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

(seasonally adjusted numbers in thousands)

Chart II.31 Labour force flows

The number of unemployed people increased year on year in 2009 Q1

(annual changes in thousands of persons)

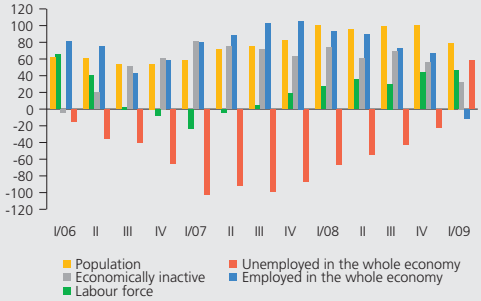


Chart II.32 The unemployment rate in the Czech Republic, the euro area and the EU-27

The unemployment rate in the Czech Republic was lower than in the EU countries despite having risen sharply in the last two quarters

(seasonally adjusted data in per cent; source: Eurostat)

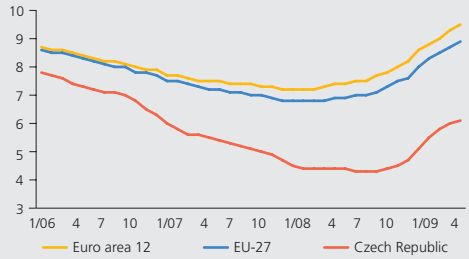


Table II.3 Wages, productivity, unit wage costs

Average wage growth slowed sharply in 2009 Q1

(annual percentage changes)

	I/08	II/08	III/08	IV/08	I/09
Average wage in monitored organisations					
nominal	10.0	7.9	7.5	8.1	3.1
real	2.4	1.0	0.8	3.2	1.0
Average wage in business sector					
nominal	11.5	8.9	8.4	8.5	2.9
real	3.8	2.0	1.7	3.6	0.8
Average wage in non-business sector					
nominal	3.2	3.2	3.5	6.5	4.3
real	-3.9	-3.4	-2.9	1.7	2.2
Whole-economy labour productivity	0.8	2.8	2.9	-0.9	-2.7
Nominal unit wage costs	8.8	5.9	5.9	10.2	6.1

15 This growth was spread across several service branches, in particular real estate, health care, retail trade, wholesale trade, and information and communication activities.

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

17 According to the CZSO's May statistics. For details see section II.3.3 *Output*.

Chart II.33 Wage developments in branches

Average wage growth accelerated in public services only

(annual percentage changes; selected branches)

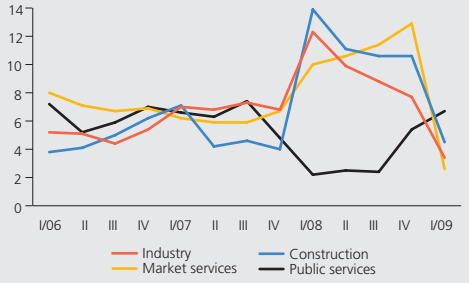


Chart II.34 Productivity developments in branches

Productivity decreased in most branches in 2009 Q1

(annual percentage changes; selected branches)

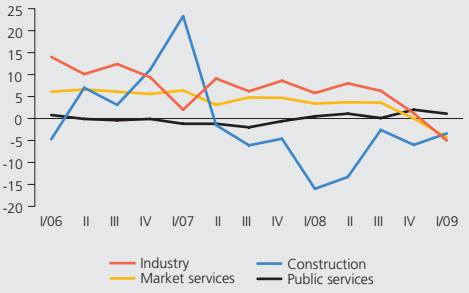
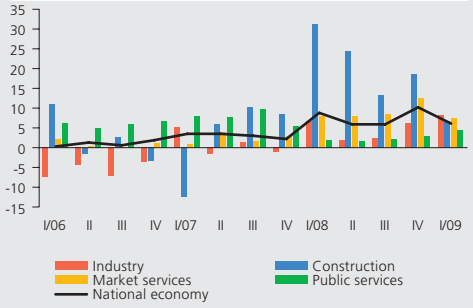


Chart II.35 Nominal unit wage costs

Nominal unit wage costs growth slowed noticeably but remained high

(annual percentage changes)



Annual growth in the average nominal wage in the business sector slowed by 5.6 percentage points to 2.9% in 2009 Q1. This significant change was due mainly to the marked decline in orders observed already in the previous quarter. The impact of the economic crisis passed through to average wages by various channels. Many companies adjusted working hours, most often by introducing a four-day working week, with employees being paid at least the wage compensation equivalent to 60% of their average wage as stipulated by law. This was visible above all in manufacturing, but wage growth also recorded a marked slowdown in market services (see Chart II.33).

In the non-business sector the annual slowdown in average nominal wage growth was less significant (to 4.3%), as wage developments in this sector depend on legislation and budget constraints. At 2.2%, real annual average wage growth in this sector was roughly one-half of the growth in the nominal wage. In absolute terms, the average wage levels in the business and non-business sectors almost evened out.

The marked slowdown in average wage growth accompanied by the decline in total employment in 2009 Q1 contributed significantly to weaker year-on-year growth in nominal unit wage costs, which are an indicator of potential inflation pressures in the wage area. At 6.1%, their annual growth was 4.1 percentage points lower than in 2008 Q4. However, nominal unit wage costs still rose rapidly, as slower but continuing wage growth was recorded in most monitored branches amid falling productivity (see Chart II.34).

The highest growth in nominal unit wage costs was recorded in industry (of 8.3%; see Chart II.35), where a sizeable decrease in export opportunities contributed significantly to an annual decline in productivity. Manufacturing was hit hardest by the economic recession and the decrease in export opportunities, with annual growth in nominal unit wage costs picking up to its highest level since the end of 2001 (9.7%). The sharp decline in orders and output in industry was accompanied by a marked slowdown in wage growth and a reduction in the number of employees, but the fall in demand was even larger.

Nominal unit wage costs thus confirmed the CNB's expectations expressed in the April Inflation Report that wages would not respond more strongly to the persisting low demand until 2009 Q1. The latest available CZSO data for May suggest that the downward trend in average wage growth and employment growth will probably continue into Q2.

II.5 THE BALANCE OF PAYMENTS

The balance of payments in 2009 Q1 was characterised by a persisting high surplus on the output balance[18] which, however, decreased in year-on-year terms owing to developments in the balance of services, and by a significant other investment deficit, due mainly to a net outflow of capital from financial institutions. The high income deficit in Q1 was due chiefly to earnings reinvested in the Czech Republic. Estimated reinvested earnings were also the biggest contributor to the continuing net inflow of direct investment.

18 The output balance is the sum of the balance of trade and the balance of services.

II.5.1 The current account

In 2009 Q1, the current account ended in a surplus of CZK 24.8 billion (see Table II.4). The surplus decreased by CZK 5.5 billion year on year, owing chiefly to a smaller services surplus, which was partly offset by larger current transfers surplus.

In 2009 Q1, the trade balance recorded a surplus of CZK 42.8 billion, almost the same figure as a year earlier (see Chart II.36). By contrast with the previous quarter, the continuing rapid decline in external demand was not accompanied by a marked deterioration in the overall surplus. However, foreign trade turnover fell almost by one-fifth year on year. The decrease in surplus was counteracted by price developments, linked mainly with strongly positive terms of trade for mineral fuels and manufactured goods classified by material. Another factor was a sharp decline in imports for intermediate consumption, due to an overall decrease in the output of export-oriented branches, above all manufacture of basic metals and machinery, which in turn reflected the fall in external demand. Higher exports of small cars, connected with car-scrapping incentives in some countries, especially Germany, also helped to moderate the decrease in exports and stabilise the overall balance. The foreign trade surplus continued to rise year on year during Q2, up by CZK 5.8 billion for April and May.

As regards the commodity structure, the trade balance continued to show very mixed trends in 2009 Q1. Annual growth in the overall surplus was supported mainly by a decline in the deficit on mineral fuels and a rise of roughly the same size in the surplus on manufactured goods classified by material. The most significant factor acting in the opposite direction, i.e. towards a reduction in the overall surplus, was a decline in the surplus on machinery. From the geographical perspective, the overall surplus was reduced by a lower trade surplus with EU countries, especially Romania. By contrast, the total trade deficit with non-EU countries decreased, mainly because of a drop in the trade deficit with Russia thanks to lower world energy prices.

The balance of services ended Q1 in a surplus of CZK 15.5 billion, down by almost CZK 7 billion year on year owing to a decline in credits. The deepening economic crisis abroad, which had already manifested itself significantly in 2008 H2 in lower receipts from, and surpluses on, travel and transport, also resulted in a change in trend for other services in 2009 Q1. Credits from other services also declined year on year and the surplus changed to a deficit. Hence, all three component balances contributed to the decrease in the overall surplus.

The income deficit reached CZK 39.4 billion, representing a modest year-on-year increase (see Chart II.37). The direct investment deficit, which contains the most important items of the overall balance (reinvested earnings and dividends paid to non-residents), recorded the same result. An increase in dividends on direct investment was the biggest contributor to the widening of the overall income deficit. Compensation of employees also ended in a slight deficit. However, it recorded a small year-on-year improvement owing to lower wage expenditure on foreign workers. This deficit was fully offset by moderate surpluses on portfolio investment and other investment.

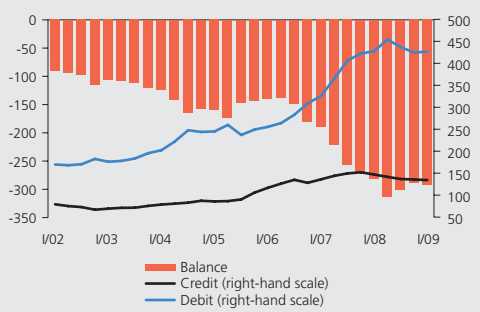
Current transfers recorded a surplus of CZK 5.9 billion, up by almost CZK 5 billion year on year due to a sharp increase in government credits. The determining factor was an increased government transfers surplus, which reached CZK 10.6 billion. Within government transfers, the balance of transfers between the Czech Republic and the EU budget recorded on the current account ended in a surplus of CZK 8.4 billion. By contrast, a widening of the private transfers deficit, albeit very small, had a dampening effect on the overall surplus.

Table II.4 The balance of payments
The current account surplus decreased in 2009 Q1
(CZK billions)

	I/06	I/07	I/08	I/09
A. CURRENT ACCOUNT	21.5	28.4	30.3	24.8
Trade balance	29.6	45.5	42.9	42.8
Balance of services	9.4	12.1	22.3	15.5
Income balance	-16.9	-25.7	-36.1	-39.4
Current transfers	-0.6	-3.5	1.1	5.9
B. CAPITAL ACCOUNT	2.4	2.6	7.0	15.6
C. FINANCIAL ACCOUNT	-8.2	-9.5	-15.9	-3.8
Direct investment	7.8	36.7	21.5	17.6
Portfolio investment	-8.1	-23.6	-13.0	3.0
Financial derivatives	-1.6	4.0	-3.9	-3.8
Other investment	-6.3	-26.6	-20.5	-20.6
D. ERRORS AND OMISSIONS	-15.1	-20.7	-1.9	-0.4
E. CHANGE IN RESERVES (- = increase)	-0.7	-0.8	-19.4	-36.2

Chart II.36 The trade balance
The annual moving total of the trade surplus was unchanged in 2009 Q1
(CZK billions)

Chart II.37 The income balance
The annual moving total of the income deficit increased slightly in 2009 Q1
(CZK billions)



II.5.2 The capital account

The capital account recorded a surplus of CZK 15.6 billion in 2009 Q1 (a year-on-year increase of CZK 8.6 billion). Its main component was government revenues from EU funds (CZK 15.0 billion), which more than doubled in year-on-year terms.

II.5.3 The financial account

The financial account ended 2009 Q1 in a deficit of CZK 3.8 billion. This represented a slight year-on-year improvement thanks to the evolution of portfolio investment. The deficit was primarily due to a net outflow of other investment, which, however, was largely offset by a persisting direct investment surplus.

The net inflow of direct investment reached CZK 17.6 billion. It declined by almost CZK 4 billion year on year due to faster growth in Czech direct investment abroad than foreign investment in the Czech Republic. Czech direct investment abroad rose by almost CZK 11 billion to over CZK 18 billion despite the deepening economic crisis. Its largest component was reinvested earnings. The inflow of foreign direct investment into the Czech Republic increased in year-on-year terms to CZK 36.0 billion as foreign parent companies ceased to draw loans from their Czech subsidiaries. Its largest component was also reinvested earnings (almost CZK 29 billion). Investment in equity capital was around one-quarter of this figure.

With regard to its branch structure, the foreign capital inflow was channelled primarily into manufacture of motor vehicles and financial intermediation. The outflow of capital was directed mainly into the electricity, gas and water supply industry and also into manufacture of motor vehicles (see Chart II.38). By territory, the biggest foreign capital inflows came from Germany and Austria. Capital outflows abroad went mainly to Turkey and the Netherlands.

Portfolio investment recorded a net inflow of CZK 3.0 billion in 2009 Q1 (see Chart II.39). In the same period a year earlier it had recorded a net outflow of CZK 13.0 billion. The change in portfolio investment flows was related mainly to lower interest of domestic investors in foreign securities. The decline in holdings of foreign securities by domestic investors (totalling CZK 11.5 billion) slightly outweighed sales of domestic securities by foreigners. However, the overall sales were associated solely with lower holdings of debt securities, with foreign investors reducing their holdings of domestic government bonds to a greater extent and domestic banks selling foreign bonds on a smaller scale. This was probably linked with the low level of interest rates and a need for liquidity. Notwithstanding the great uncertainty regarding future economic developments, purchases of foreign and in particular domestic shares were carried out to a small extent. The attractive prices of shares seem to have played a role.

Financial derivatives transactions recorded a net outflow, generating a CZK 3.9 billion decrease in the financial account surplus (almost the same as in 2008 Q1).

Other investment recorded a net capital outflow of CZK 20.6 billion in Q1. The size of the outflow was virtually unchanged in year-on-year comparison. The overall deficit was most affected by a net outflow from commercial banks of nearly CZK 14 billion. This was related mainly to repayments of short-term deposits and loans abroad. Other sectors also showed more moderate net outflows of capital. The outflow from the corporate sector was almost CZK 5 billion, due chiefly to repayments of trade credits. The net outflow of government sector capital was linked mainly with the repayment of earlier loans, for instance EIB loans for infrastructure development.

Chart II.38 Direct investment abroad

Direct investment abroad was directed mainly into electricity supply in 2009 Q1

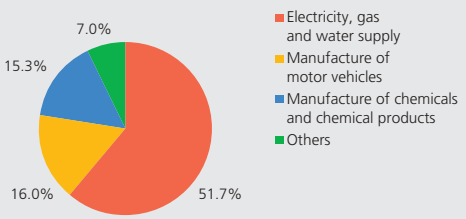


Chart II.39 Portfolio investment

Portfolio investment recorded a modest net inflow in 2009 Q1

(CZK billions)

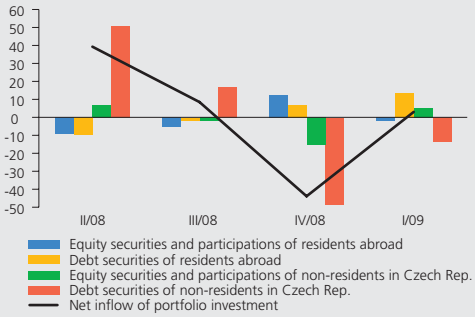
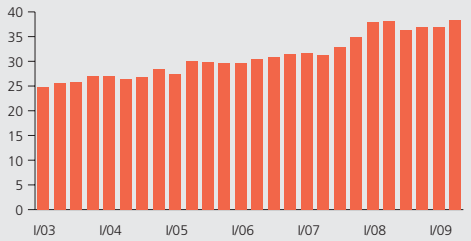


Chart II.40 The CNB's international reserves

The CNB's international reserves increased in dollar terms in 2009 Q2

(USD billions)



The CNB's international reserves fell by CZK 54.9 billion to CZK 703.5 billion in 2009 Q2. This fall was due in large part to valuation changes. In dollar terms, the reserves rose by USD 1.5 billion to USD 38.4 billion in the same period (see Chart II.40).

II.6 MONETARY DEVELOPMENTS

Money and credit growth slowed. Amid uncertainty regarding the economic decline and low interest rates, short-term liquid money grew fastest, deposits of non-financial corporations fell and growth in household deposits moderated. Annual growth in loans to corporations and households slowed further as a result of the decline in economic activity, worse access to loans and weakening property and labour markets. At the same time, the growth rate of non-performing loans picked up further. In May, client interest rates on new loans and deposits were mostly flat or falling slightly.

II.6.1 Money

Following a gradual increase in the first few months of 2009, annual M2 growth slowed to 7.3% in May (see Chart II.41). The annual growth rate of M2 adjusted for non-transaction effects fell to 6.6% in May. The growth rate of the money supply has been fluctuating around 8% recently, with some volatility being caused, among other things, by the exchange rate movements over the past year. The slower money supply growth was due to the economic downturn and reflected a further slowdown of growth in domestic loans to corporations and households, which was, however, partly offset by higher government debt. The slowdown in the growth of net external assets (representing the net external position of monetary financial institutions), recorded since the global financial and economic crisis deepened in September 2008 until April 2009, moderated. The net external position of MFIs was still strongly positive.

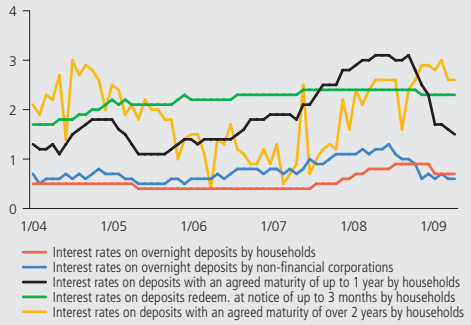
The slowdown in money supply growth in May was fostered by slower growth in the liquid money included in M1 resulting from a decline in the rate of growth of currency in circulation and overnight deposits (see Table II.5). The monthly flow[19] of currency in circulation was negative. For overnight deposits, by contrast, the flow was positive despite slowing growth. The higher demand of investors for liquid assets was influenced by increased uncertainty and partly by the declining opportunity costs of holding these assets relative to savings deposits with agreed maturity. Nevertheless, the decrease in deposits with agreed maturity moderated and growth in quasi money picked up pace in May as a consequence. The annual growth rate of household deposits declined, but these deposits were the biggest contributor to money supply growth, as their rate of increase remained relatively high, partly because of changes in the interest rates on some types of deposits. The deposits of non-financial corporations and non-monetary financial institutions fell, albeit less significantly than in the previous months in the case of corporations. This reflects greater use of liquid money by corporations at a time of shrinking inventories, lower expected production and restricted access to loans.

Chart II.41 M1 and M2
M2 growth slowed at the start of 2009 Q2
(annual percentage changes)

Table II.5 Monetary aggregate structure
Economic agents prefer liquid money assets
(quarterly averages and end-of-month stocks; annual percentage changes)

	IV/08	I/09	4/09	5/09	Share in M2, % 5/09
M1	7.4	8.9	9.6	8.3	57.4
Currency in circulation	13.9	12.3	10.4	9.5	13.4
Overnight deposits	5.4	7.9	9.4	8.0	44.0
M2-M1 (quasi money)	7.8	8.5	5.5	5.9	42.6
Deposits with agreed maturity	-5.5	-9.7	-12.5	-10.3	24.0
up to two years	7.7	4.6	-2.5	0.3	19.8
Deposits redeemable at notice	35.9	44.7	43.2	42.4	18.0
up to three months	49.9	56.8	50.7	48.3	15.2
Repurchase agreements	63.0	58.0	19.7	-20.3	0.9
M2	7.5	8.8	7.8	7.3	100.0

Chart II.42 Interest rates on deposits
Interest rates on deposits mostly fell slightly
(new business; percentages)



19 This flow represents the change in stocks due to financial transactions during the period under review.

Chart II.43 Loans to non-financial corporations and households

Loans to non-financial corporations slowed most sharply

(annual percentage changes)

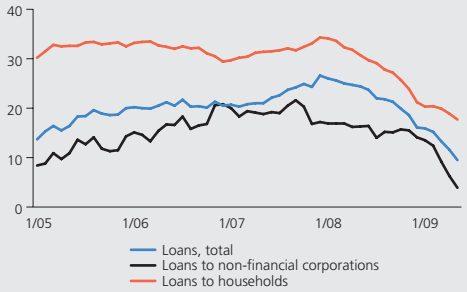


Chart II.44 Newly extended loans

New loans to non-financial corporations and households decreased

(annual percentage changes)

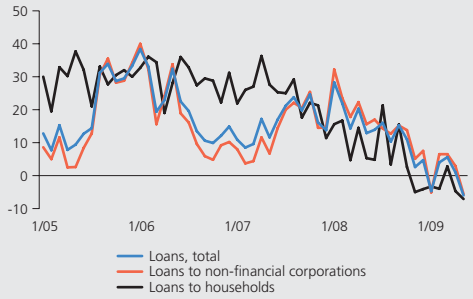


Table II.6 Loan structure

All types of loans either rose more slowly or fell

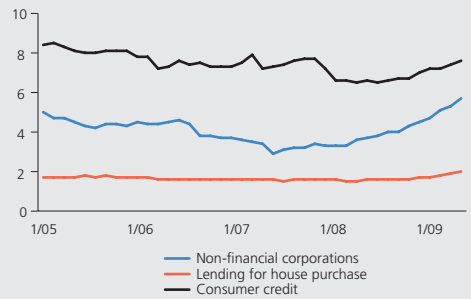
(quarterly averages and end-of-month stocks; annual percentage changes)

	IV/08	I/09	4/09	5/09	Share in total loans, % 5/09
Non-financial corporations	15.1	11.7	6.3	3.9	43.2
Loans up to 1 year	19.4	0.3	-8.7	-12.4	15.2
Loans over 1 year and up to 5 years	4.8	16.8	17.9	15.9	9.7
Loans over 5 years	16.7	20.9	16.6	15.4	18.2
Households	23.6	20.2	18.9	17.7	48.6
Consumer credit	23.4	20.8	19.0	17.5	9.4
Loans for house purchase	23.6	18.8	17.4	16.6	34.0
Other loans	23.4	28.9	28.6	25.5	5.2
Non-monetary financial institutions	7.9	3.9	1.7	-3.2	8.3
Total loans	18.1	14.8	11.6	9.5	100.0

Chart II.45 Non-performing loans

Non-performing loan ratios rose

(% of total loans in segment)



The movements in interest rates on new deposits were minimal as virtually all groups of banks attempted to keep hold of deposits. Marginal decreases were recorded for households (to 1.2%) and non-financial corporations (1.0%) in May. Rates on household time deposits with agreed maturity fell, while rates on deposits redeemable at notice were flat (see Chart II.42). Since September 2008, the interest rate on corporate deposits has declined slightly more sharply than the rate on household deposits.

II.6.2 Credit

Growth in MFI loans to corporations and households continued to slow, reaching 9.5% in May 2009 (see Chart II.43). Growth in loans to non-financial corporations is currently falling the fastest, whereas in 2008 loans to households had shown the quickest slowdown. The slowdown reflects on the one hand the falling demand in the economy and on the other hand the restricted access of some economic agents to loans. The slump on the labour and property markets, accompanied by a more cautious approach of both borrowers and banks, is also playing a role. As a result, risk premia are rising for some loan types and the credit conditions are getting generally tighter, in the form of stricter requirements for collateral, information etc. New loans to non-financial corporations and households declined by 6% year on year in May (see Chart II.44). The decline in the volume of new loans pertains more to large banks than to small banks.

Loans to non-financial corporations rose by 3.9% year on year in May (see Table II.6). Loans to domestic corporations declined for the first time in six years, doing so by 0.4% owing chiefly to high risk, while loans to foreign-owned corporations rose by 15.9%. New loans to corporations decreased by 5.6%. The decrease relates mostly to short-term loans, as medium-term and long-term loans remain positive and relatively high. This reflects a reduced financing need for working capital, due to lower orders, and restricted access to loans. The outstanding amounts of loans have been declining in most key branches since the start of the year. The rate of growth of loans can be expected to fall further in 2009 H2 as a result of the downturn in economic activity and the observed tightening of the credit conditions.

Loans to households rose by 17.7% year on year in May. Their growth slowed, with loans for house purchase and consumer credit contributing to the slowdown. New loans to households were down by 7.1%. The slower growth in loans for house purchase was related to adverse labour market developments and lower willingness of households to borrow, interacting with property market developments and supply prices of flats. The consumer confidence indicator suggests that the rate of growth of consumer credit is likely to remain low. The slowdown in consumer credit this year is contributing to a stabilisation of household consumption growth at a lower level.

The downturn in economic activity is causing an increase in the inability of corporations and households to repay their loans. Annual growth in non-performing loans is in double figures. The non-performing loan ratios reached 5.7% for non-financial corporations, 7.6% for consumer credit and 2% for loans for house purchase (see Chart II.45). The 12M default rate is rising for both corporations and households. Virtually all the major economic branches have been affected. Corporations are facing lower profitability and households are being hit by the adverse labour market developments.

The average interest rate on new client loans rose in May, owing to an increase in the rate on current account overdrafts of households to 6.8%. However, client interest rates showed mixed developments and rates on other loan types were mostly flat or falling slightly. However, the declines in market rates were greater than those for most client rates, leading to a widening of the spreads between these rates.

At 4.3% in May, the interest rate on new loans to non-financial corporations was flat or only slightly falling for the third consecutive month, owing to declines in rates on all loans with short fixations and on small loans with long fixations (see Chart II.46). The interest rate on new loans for house purchase was flat at 5.5% and the rate on consumer credit decreased only slightly to 13.6% (see Chart II.47).

In addition to money and credit, the economic downturn is affecting the overall financial positions of non-financial corporations and households (for details see Box 2 *Financing and financial investment of corporations and households*).

CHART II.46 INTEREST RATES ON LOANS TO NON-FINANCIAL CORPORATIONS

Interest rates on loans to non-financial corporations mostly fell

(new business; percentages)

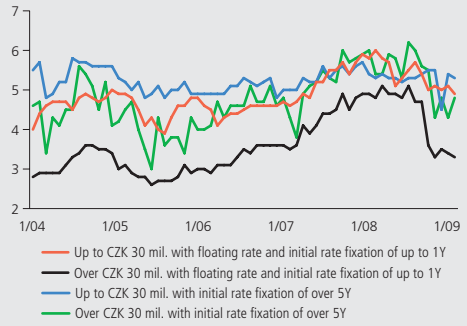
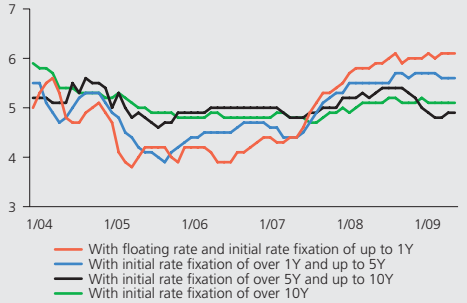


CHART II.47 INTEREST RATES ON LENDING FOR HOUSE PURCHASE

Interest rates on lending for house purchase were flat

(new business; percentages)



BOX 2
Financing and financial investment of corporations and households

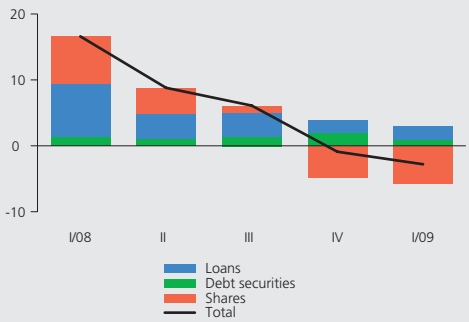
The adverse economic situation is also manifesting itself in a slowdown in financial investment and overall financing of non-financial corporations and households. Although this trend was apparent throughout 2008, it has been most evident since 2008 Q4, when the first-ever annual decrease in GDP was also recorded. Financial investment by non-financial corporations fell by 3% in 2009 Q1 (excluding other accounts receivable).[20] All types of financial investment contributed to this decrease. Financing of corporations (including loans and debt securities and equities issued) also declined in 2009 Q1, by 2.8%. This was caused by a negative contribution of shares (investment in equity capital), due to lower corporate profitability. The contribution of loans was flat at low positive levels in 2009 Q1, while the contribution of equities issued was negative and that of debt securities was slightly positive owing to the financing of some branches using financial derivatives (see Chart 1 Box).

The ratio of non-financial corporations' debt (including loans and debt securities) to GDP started to decrease in 2009 Q1 thanks to a decline in debt financing, reaching 48.6%. At 43.4% of GDP, the ratio of loans to debt was the highest. The interest burden on non-financial corporations relative to gross operating surplus fell to 6%, owing among other things to falling interest rates on some types of loans. Corporations' indebtedness in the Czech Republic is lower than in the euro area, where it stands at about 80% of GDP. This is an advantage in an adverse economic situation. Whereas the growth rate of loans to corporations granted by domestic banks and non-banks decreased, growth in loans from foreign banks picked up pace in Q1 after declining over the last few years, as a result of growth in both short-term and long-term financial loans. In line with the adverse foreign trade developments, trade credits rose only slightly and the growth rate of intercompany debt within foreign direct investment increased.

CHART 1 (BOX) FINANCING OF NON-FINANCIAL CORPORATIONS

Financing of non-financial corporations declined

(contributions in percentage points and annual percentage changes)

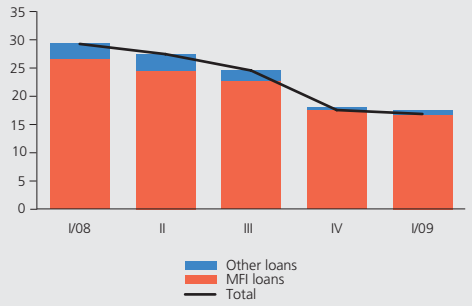


20 The time series of other accounts receivable and payable within total financial assets and liabilities of non-financial corporations and households were revised as from 2008 Q4. As year-on-year comparisons are not available, they were not included in the assessment of the financing and financial investment of these economic sectors.

Chart 2 (Box) Financing of households

Household financing growth slowed

(contributions in percentage points and annual percentage changes)

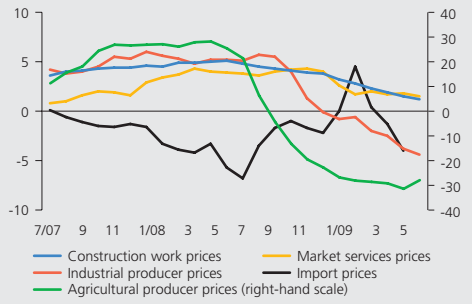


Growth in financial investment of households slowed to 8.3% owing to lower investment in debt securities and shares and insurance technical reserves. By contrast, the contribution of currency and household deposits, which was by far the largest, increased further, reflecting banks' efforts to attract deposits and increased cautiousness of households. This increase may have also been influenced by transfers of money from mutual funds. The annual growth rate of financing of households dropped significantly to 16.8% compared to the previous year, mainly as a result of a lower contribution by bank loans (see Chart 2 Box). Total household debt rose to 28.2% of GDP and 51.5% of gross disposable income. The interest burden on households was 1.3%. These indicators are also lower than in the euro area, where they are 61%, 93% and 3.5% respectively. However, it can be assumed that some types of households will be vulnerable should their nominal income fall. This can already be seen in difficulties with loan repayments.

Chart II.48 Import prices and producer prices

Import prices started falling again in April and producer prices rose more slowly or fell

(annual percentage changes)



II.7 IMPORT PRICES AND PRODUCER PRICES

A sharp annual decline in prices of oil and natural gas on world markets, reflecting a downswing in global economic activity due to the financial crisis, fostered a deeper decline in import prices of energy-producing materials in 2009 Q2. Prices of imported semi-manufactures also had an anti-inflationary effect. Growth in import prices of non-energy-producing materials and higher-value-added products slowed. Amid falling demand, weakening external cost pressures and declining agricultural producer prices, industrial producer prices showed a continuing annual decline in Q2. Agricultural producer prices continued to drop significantly. Inflation in construction and market services weakened considerably.

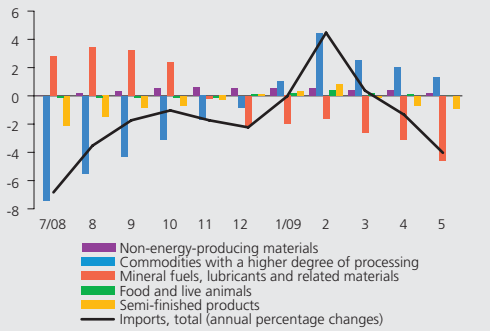
II.7.1 Import prices

Following a short-lived significant increase in 2009 Q1, import prices switched back to an annual decline at the start of Q2. This decline amounted to 4% according to the latest figures for May.

Chart II.49 Import prices

All import categories saw slower growth or deeper declines

(annual percentage changes; contributions in percentage points)



Prices of imported mineral fuels contributed the most to the overall decline in import prices (see Chart II.49). Their annual decrease deepened substantially in the first two months of 2009 Q2 to a sizeable 33.7% in May (see Chart II.50). This decline in prices of imported energy-producing materials was due to world prices of natural gas, which followed the path of oil prices with a longer-than-usual lag. As shown in Chart II.50, the sharp fall in oil prices on world markets observed during 2008 H2 started affecting world prices of natural gas only at the start of 2009. Natural gas prices recorded an annual decline of 32.7% in May, while the decline in oil prices was more pronounced at 53.2%. In these circumstances, the marked depreciation of the koruna-dollar exchange rate[21] only partly corrected the impact of falling world prices of energy-producing materials on import prices, which thus continued to decline. Import prices of semi-manufactures, which account for about one-fifth of the import price index, have also tended to decline strongly since March.

21 The annual depreciation of the koruna-dollar exchange rate reached 21.4% in May.

However, import prices of commodities with a higher degree of processing continued to rise in the same period, owing to a combination of strong annual depreciation of the koruna-euro exchange rate and only slightly declining/increasing prices of these commodities abroad. Although their growth rate has declined considerably since February as a result of a more moderate depreciation of the koruna exchange rate, growth in their import prices remained high in the category of miscellaneous manufactured articles in May (5.1% year on year), whereas the previous year their prices had been falling until November. The high sensitivity of import prices of higher-value-added commodities to the koruna exchange rate is illustrated in Chart II.51.

Import prices of food also continued to show annual growth in April and May. However, its rate has slowed considerably since March (to 0.5% in May); in addition to a more moderate annual depreciation of the koruna, this was due to a decline in agricultural and food commodities on world markets. Slower annual growth was also observed for import prices of non-energy-producing materials, but their growth remained fast in May (6.5%) amid a still pronounced annual depreciation of the koruna exchange rate (in particular the koruna-dollar rate).

Import prices thus showed very mixed developments in the first two months of 2009 Q2 (see Table II.7). Declining world – and subsequently import – prices of energy-producing materials, reflecting the weak global demand resulting from the significant slowdown in world economic activity, created conditions for a decline in producers' input costs, especially at the early stages of the production chain (primary processing of oil products). Falling prices of imported semi-manufactures acted in the same direction. However, prices of non-energy-producing materials continued to rise apace, despite slowing somewhat. Some imported commodities with a higher degree of processing showed similar developments. Import prices in these two categories suggested that the annual depreciation of the koruna-dollar and koruna-euro exchange rates remained a source of potential upward pressures on both producer prices and consumer prices, albeit to a lesser extent than in the previous quarter.

II.7.2 Producer prices

Industrial producer prices

Amid weakening external and domestic demand and falling prices of key commodities on world markets, the decline in industrial producer prices deepened further in 2009 Q2 (see Chart II.52). Compared to March, their annual decline more than doubled in June, reaching 4.4%, the lowest figure recorded since this index started to be monitored in 1991.

This decline was mostly due to producer prices in the manufacture of coke and refined petroleum products, where was a clear link with the continuing sharp annual decline in world prices of oil and natural gas (see Chart II.53). Their annual decline continued to exceed 35% in Q2 (36.7% in June). Owing to falling global demand, the price decline in the manufacture of basic metals and fabricated metal products also deepened significantly to 13.9% in June, the deepest annual decline since 1998. A considerable annual decline in prices was also recorded in mining and quarrying (7.6%).[22] However, the contribution of this sector to the decline in industrial producer prices was more or less negligible given its low weight in

22 This is the deepest annual decline observed since 2000. In this category, price declines were recorded in May for coal and lignite (down by 3.5%) and crude oil and natural gas (down by 44.9%).

Chart II.50 Mineral fuels
Import prices of energy-producing materials fell sharply despite the weakening koruna-dollar exchange rate
(annual percentage changes)

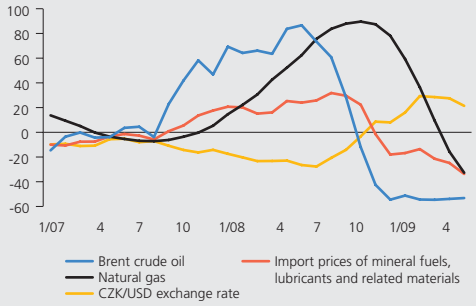


Chart II.51 Selected import categories
Import prices of higher-value-added commodities reacted particularly sensitively to the koruna exchange rate
(annual percentage changes)

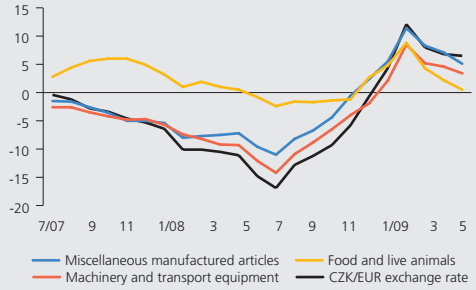


Table II.7 Structure of the import price index
The numbers of import categories with rising and falling prices were roughly equal
(annual percentage changes)

	2/09	3/09	4/09	5/09
IMPORTS, TOTAL	4.5	0.4	-1.3	-4.0
of which:				
food and live animals	8.8	4.3	2.2	0.5
beverages and tobacco	2.3	0.0	-1.8	-4.6
crude materials inedible, except fuels	20.0	15.9	13.5	6.5
mineral fuels and related products	-13.6	-21.4	-24.8	-33.7
animal and vegetable oils	15.9	8.0	6.0	3.9
chemicals and related products	0.7	-1.9	-2.4	-3.1
manufactured goods classified chiefly by material	3.5	-0.5	-3.2	-4.4
machinery and transport equipment	8.5	5.2	4.6	3.4
miscellaneous manufactured articles	11.4	8.3	7.1	5.1

Chart II.52 Industrial producer prices
Industrial producer prices continued falling year on year amid declining demand
(annual percentage changes; contributions in percentage points)

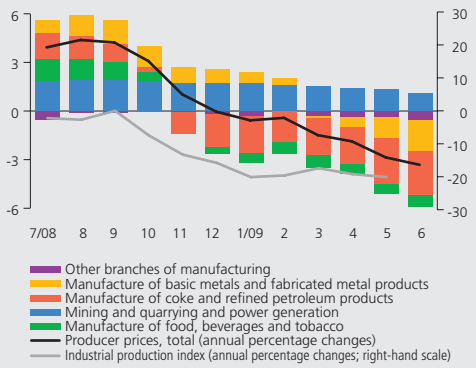


Chart II.53 Prices in the oil-processing industry

Producer prices in the oil-processing industry fell in line with world oil prices

(annual percentage changes)

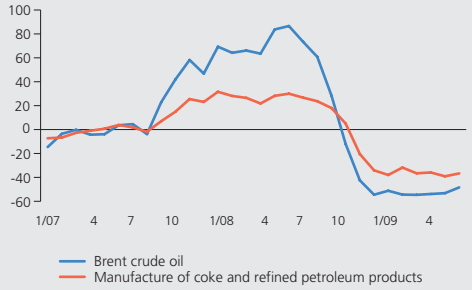


Chart II.54 Prices in selected branches

Most branches of industry saw slower price growth or falling prices in 2009 Q2

(annual percentage changes)

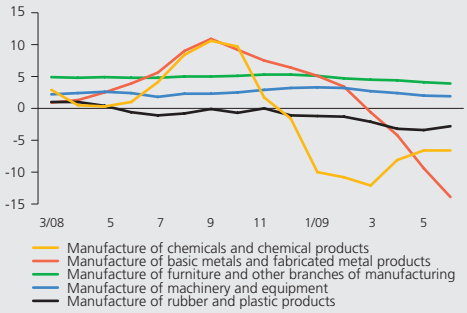
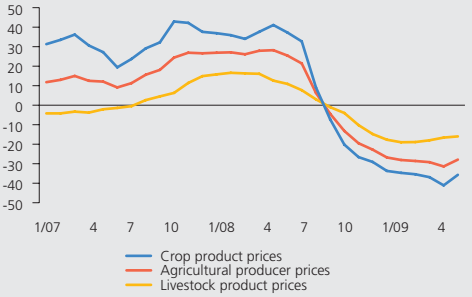


Chart II.55 Agricultural producer prices

The decline in agricultural producer prices again reached high values in 2009 Q2

(annual percentage changes)



the industrial producer price index. The continuing annual price decline in the food industry was based on the previous fall in world and domestic prices of agricultural and food commodities; however, it did not deepen further in Q2. By contrast, producer prices in the electricity, gas and steam supply industry continued to show fast annual growth, reaching double figures in 2009, too (11% in June).

Prices in the other branches of industry showed very mixed developments. However, the effect of the declining demand was indicated by falling prices or slower price growth in the majority of branches (see Chart II.54). In industries producing higher-value-added products, especially those that make heavy use of imported inputs, the slowing annual depreciation of the koruna exchange rate also had a marked effect. In May, for example, price growth was already very low in the transport equipment category (up by 0.3%) and was also less than 1% in the manufacture of computers, electronics and optical equipment. In June, growth in prices of transport equipment picked up again, but this increase was probably due to prices in the category of parts, components and accessories, as prices of motor vehicles continued to decline.[23]

The fundamental view of industrial producer prices remains unchanged from the April Inflation Report. These prices again moved largely in the anti-inflationary direction in Q2. The main factor behind this trend remained the sharp downswing in global economic activity due to the financial and economic crisis, which led to a decline or slowdown in growth in world prices of some key commodities. 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, manufacturing branches that make heavy use of imported higher-value-added inputs[24] saw slower inflation compared to the previous quarter. This was fostered largely by a combination of slower annual depreciation of the koruna exchange rate and falling demand. However, electricity prices continued rising rapidly in year-on-year terms, significantly affecting the costs of corporations with electricity-intensive production.

Agricultural producer prices

Agricultural producer prices continued to record a significant annual decline in 2009 Q2. This decline deepened to 31.4% in May but partially moderated to 27.9% in June. Prices of both crop products and livestock products contributed to this trend (see Chart II.55).

The substantial annual decline in agricultural producer prices at the end of 2008 and in 2009 H1 was due mainly to a sharp slowdown in global demand for food in 2008 H2 and an above-average global harvest in 2008. Moreover, growth in food stocks was greater than expected. These characteristics were consistent with developments in the Czech Republic, where, according to CZSO estimates, the 2008 harvest was the second largest since 1990. As a result, the annual decline in prices of crop commodities has gradually been deepening since the second half of 2008, reaching 41.1% in May. It moderated to 35.7% in June.

23 According to the latest data from May, prices of components increased by 4.1%, while prices of motor vehicles declined by 11.7%.

24 In the case of products where foreign prices showed only a slight decline or recorded price growth.

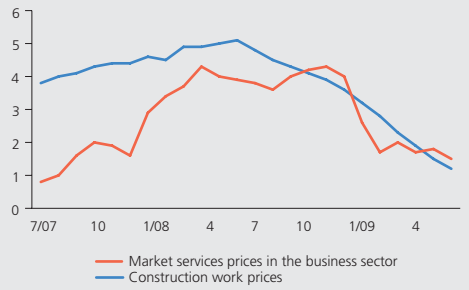
A sharp annual decline in livestock product prices also continued in 2009 Q2, although it slowed by 2.9 percentage points compared to March to 16% in June. This decline was also due to low demand on world markets as a result of the downswing in global economic growth since 2008 H2.

Other producer prices

Weakening demand was also visible in construction and market services prices (see Chart II.56). Annual market services price inflation in the business sector in Q2 fell by a further 0.5 percentage point to 1.5% in June. This was mainly due to a deepening decline in prices of telecommunication services and freight transport. Prices of market services showed mostly only slight growth or an annual decline; only prices of engineering and architectural services and programming and consultancy continued to grow fast.

The continuing downward trend in construction work price inflation observed since mid-2008 was even more pronounced than in the case of market services. Construction work price inflation fell by 1.1 percentage points compared to March to 1.5% in June. An even greater change was recorded for prices of materials and products consumed in construction, which declined by 5.5% year on year in June, having risen by 2.3% in March.

Chart II.56 Other price categories
Growth in prices of construction work and market services slowed noticeably
(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 regulated prices. Monetary-policy relevant inflation was already the same as headline inflation in June. In Q2, headline inflation and monetary-policy relevant inflation were below the lower boundary of the tolerance band around the CNB's inflation target.

II.8.1 Current inflation

Annual inflation[25] continued to fall sharply in 2009 Q2 (see Chart II.57). At 1.2%, it was 1.1 percentage points lower than in March 2009. The unwinding of the effects of changes to indirect taxes and slower growth in regulated prices contributed most to the decrease in inflation in Q2 (see Chart II.58). Adjusted inflation excluding fuels and prices in the consolidated food category also contributed to a lesser extent. The developments in these price categories were dampened by subdued consumer demand, as confirmed by the data on retail trade turnover in Q2. This effect offset the inflationary effect of the previous depreciation of the exchange rate.

Thanks to the further overall fall in 2009 Q2, inflation fell below the lower boundary of the tolerance band set by the CNB around its target of 3%. Monetary-policy relevant inflation was also below this boundary. It remained unchanged in June from May and was the same as headline inflation, as the first-round effects of previous changes to indirect taxes have now dropped out fully from headline inflation.

Chart II.57 Inflation
Annual inflation continued falling sharply in 2009 Q2
(annual percentage changes)

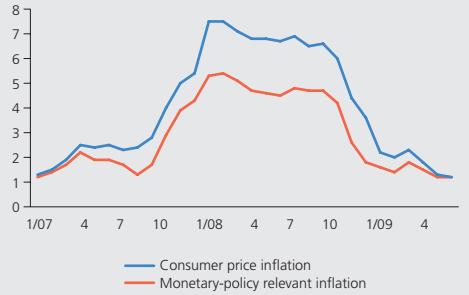
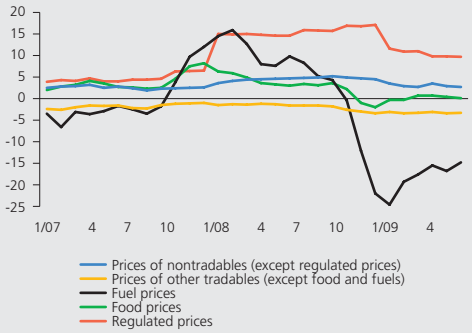


Chart II.58 Inflation components
Regulated price inflation and food price inflation slowed
(annual percentage changes; excluding indirect tax changes)



25 Measured by annual growth in consumer prices.

Chart II.59 Structure of inflation

Consumer price inflation was driven by regulated prices in 2009 Q2

(annual percentage changes; contributions in percentage points)

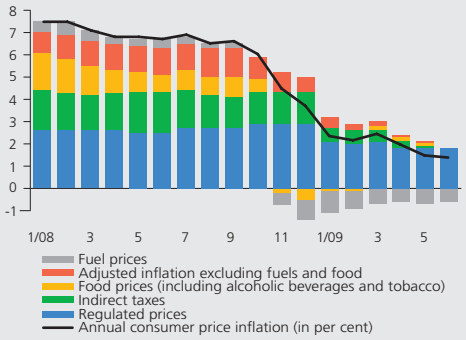


Chart II.60 Food prices

Annual food price inflation fell almost to zero

(annual percentage changes)

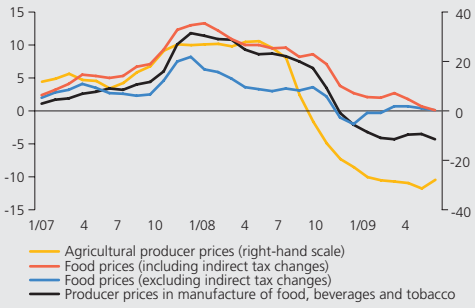
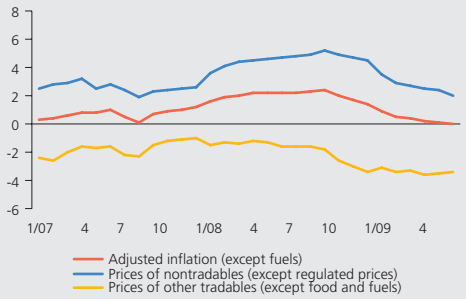


Chart II.61 Adjusted inflation excluding fuels

Adjusted inflation excluding fuels was zero in June

(annual percentage changes)



Consumer price inflation was driven solely by regulated prices in 2009 Q2 (see Chart II.59). However, annual regulated price inflation slowed further in Q2, amounting to 9.7% in June. The still high current inflation mainly reflected fast growth in prices of energy and regulated rents. The highest growth was recorded by regulated rents (27.1% in June) as a result of strengthened deregulation aimed at achieving market rent levels. Annual growth in prices of electricity, heat for households and natural gas was high, too.[26] Natural gas prices usually respond to changes in world prices of natural gas with a lag. The most recent change reduced prices of natural gas for households by 3% with effect from 1 April 2009. Overall, regulated prices accounted for 0.3 percentage point of the decline in annual inflation with (see Chart II.59). Changes to indirect taxes within unregulated prices contributed even more significantly to the decline in inflation, reflecting the unwinding of the lagged impact of the rise in excise duties on cigarettes on inflation.[27]

Market prices, as measured by net inflation, showed a continuing annual decline in 2009 Q2. This decline deepened further to 0.8%. The decline was due to food prices and adjusted inflation excluding fuels, which gradually fell almost to zero in Q2. Fuel prices continued to decline at a double-digit rate (14.8%), although this fall slowed compared to the previous quarter. They thus reflected the trend in oil prices on world markets, which was partly offset by a pronounced annual depreciation of the koruna-dollar exchange rate.[28]

Annual growth in food prices[29] in 2009 Q2 decreased to 0.1% in June. This represented a decline of 0.6 percentage point compared to March (see Chart II.60). This was due mainly to sharply falling agricultural producer prices, which subsequently fed through to producer prices in the food industry and prices on the consumer market. A deepening price decline was observed for bread and dairy products, which fell in price by as much as 10% year on year. Prices of oils, fats, fruit and vegetables also showed substantial decreases. Annual growth in meat prices also slowed significantly, to just 0.2% in June. By contrast, the annual depreciation of the koruna acted in the inflationary direction in Q2, partly offsetting the above anti-inflationary effects through import prices of some traditional imported commodities (mainly coffee, rice and tea).

A continued decline in adjusted inflation excluding fuels culminated in a zero annual figure at the end of 2009 Q2 (see Chart II.61). This was mainly due to slower growth in prices of other nontradable commodities, consisting mainly of services (from 2.7% in March to 2% in June). The continuing downward trend in inflation in this category was consistent with weakening demand. This is also evidenced by a slight decline in households' consumption expenditure on services since 2008 H2, reflecting more thrifty behaviour amid rising unemployment, slackening wage growth and uncertain economic growth prospects (see section II.3 *Demand and output*).

26 Prices of electricity, natural gas and heat increased by 11.6%, 17.1% and 7.4% respectively year on year in June.

27 i.e. the changes to indirect taxes implemented in 2008.

28 See section II.7.1 *Import prices*.

29 Consolidated category of food prices excluding tax changes.

Prices of other tradables[30] continued to record an annual decline in 2009 Q2 (of 3.4% in June), although the koruna-euro and koruna-dollar exchange rates continued to depreciate, considerably affecting import prices of miscellaneous manufactured articles and higher-value-added final products. This can be explained by weakening demand, as suggested by the annually declining sales of non-food goods excluding fuels in the first two months of Q2.

The fundamental view of consumer prices broken down by the major categories of the consumer basket remained unchanged in 2009 Q2 compared to the previous quarter. Prices in the housing category (see Chart II.62) – mainly reflecting rapid increases in prices of regulated items (particularly regulated rents, electricity, heat and gas) – remained the biggest contributor to inflation. By contrast, the impacts of weakening demand and falling fuel prices 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 Q2, but this difference shrank further compared to the end of Q1. According to Eurostat's latest estimate, annual HICP inflation was 0.6% in the EU countries and 0.8% in the Czech Republic in June. The significant decline in the difference between these price indices in 2009 H1 was due mainly to the subsiding effect on annual inflation of the reform measures adopted in the Czech Republic at the start of 2008.

II.8.2 Fulfilment of the inflation target

Headline inflation was below the lower boundary of the tolerance band of the CNB's inflation target in 2009 Q2 (see Chart II.64). This section of the Inflation Report briefly analyses the contribution of the CNB's monetary policy to this situation.

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 Q2 is thus roughly from October 2007 to June 2008. For the sake of clarity, the analysis of the accuracy of the forecasts is limited here to a comparison of the Inflation Report I/2008 forecast with subsequent inflation.

This forecast expected headline inflation to be well above the upper boundary of the inflation-target tolerance band throughout 2008. In addition to significant contributions from growth in food prices, regulated prices and fuel prices, this was due mainly to a rise in the lower VAT rate as from 1 January 2008 and the harmonisation of consumer and environmental taxes with EU rules. The contribution of the first-round effects of changes to indirect taxes to inflation was expected to be around 2 percentage points throughout 2008. The inflationary effect of the domestic real economy observed at the start of 2008 was expected to quickly turn anti-inflationary and remain so during 2009. Adjusted inflation excluding fuels was thus expected to decline gradually. The effects of higher food prices and administrative measures were expected to subside at the start of 2009, when inflation was forecasted to return to the upper half of the tolerance band and then to decline further (see Chart II.64).

Chart II.62 Consumer basket prices

Prices in the housing category were the biggest contributor to annual inflation

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

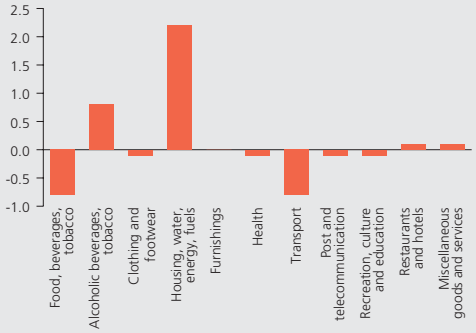


Chart II.63 The HICP in the Czech Republic and the EU

The difference in inflation between the Czech Republic and the EU average was negligible in 2009 Q2

(annual percentage changes)

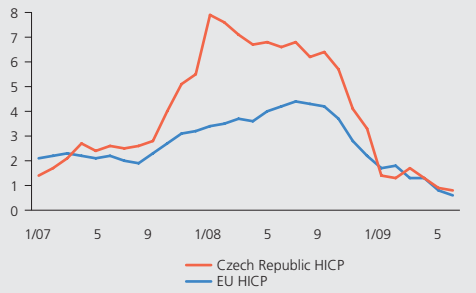
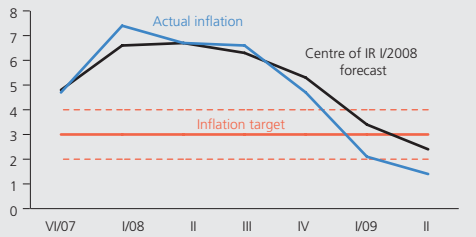


Chart II.64 Forecast versus actual inflation

Inflation in 2009 Q2 was below the IR I/2008 forecast

(annual percentage changes)



30 Excluding food and fuels.

Table II.8 Fulfilment of the inflation forecast

Prices of food and fuels contributed significantly to the lower-than-forecasted inflation

(annual percentage changes; contributions in percentage points)

	IR I/2008 forecast	2009 Q2 outturn	Contribution to total difference
CONSUMER PRICES	2.4	1.4	-1.0
Breakdown into contributions:			
regulated prices	5.1	9.8	0.8
first-round impacts of changes to indirect taxes	0.0	0.1	0.1
food prices[a)]	3.6	0.4	-0.8
fuel prices[a)]	9.2	-15.7	-1.0
adjusted inflation excl. fuels[a)]	0.3	0.1	-0.1

a) 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 lower economic growth and inflation in 2009 H1

(annual percentage changes unless otherwise indicated)

		I/08	II/08	III/08	IV/08	I/09	II/09
GDP in euro area[a), b), c)]	p	1.8	2.0	2.0	2.0	2.0	2.0
	o	3.9	3.4	2.2	-0.5	-5.6	-
PPI in euro area[b), c)]	p	3.0	2.6	2.3	1.6	1.6	1.8
	o	4.4	6.3	8.3	4.5	0.2	-3.4
1Y EURIBOR	p	4.3	3.9	3.8	3.7	3.9	4.1
(percentages)	o	4.5	5.1	5.4	4.4	2.2	1.7
USD/EUR exchange rate	p	1.47	1.47	1.46	1.43	1.10	1.39
(levels)	o	1.50	1.56	1.50	1.32	1.30	1.36
Brent crude oil price	p	94.5	92.1	91.3	90.5	89.7	89.0
(USD/barrel)	o	96.5	122.2	115.9	56.2	45.0	59.3

p - prediction, o - outturn
a) at constant prices
b) seasonally adjusted
c) effective indicator as defined in the IR I/2008 forecast

Table II.10 Fulfilment of the forecast for key variables

The forecast had not predicted such a sharp slowdown in real economic activity

		I/08	II/08	III/08	IV/08	I/09	II/09
3M PRIBOR	p	4.2	3.8	3.4	3.2	2.9	2.9
(percentages)	o	4.0	4.2	3.9	4.1	2.7	2.3
CZK/EUR exchange rate	p	26.3	26.1	25.9	25.8	25.8	25.6
(levels)	o	25.6	24.8	24.1	25.3	27.6	26.7
Real GDP[a)]	p	4.9	4.3	3.7	3.4	3.9	4.3
(annual perc. changes)	o	3.8	4.6	3.1	-0.1	-3.4	-
Nominal wages[a), b)]	p	8.2	8.6	9.0	8.9	9.2	9.2
(annual perc. changes)	o	12.0	9.2	8.9	8.7	2.9	-

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

Headline inflation in reality was higher at the start of 2008 than had been forecasted. However, a rapid decline in late 2008 and early 2009 meant that in 2009 Q2 it was well below the forecasted level. The deviation was due mainly to food and fuel prices, which reflected a substantial decline in world commodity prices. By contrast, regulated prices increased more rapidly, on account of higher deregulation of rents and faster growth in heat prices (see Table II.8).

The effect of the external environment on domestic inflation was considerable and changing over time in the period under review. External demand, inflation, interest rates and oil prices were higher during 2008 than forecasted. By contrast, late 2008 and early 2009 saw a sharp fall in all these variables. They thus acted in the anti-inflationary direction in this period (see Table II.9).

The monetary conditions in the key period differed partially from the expectations of the forecast. Nominal interest rates were above the forecast on average in 2008 (due to an increase in the risk premium on the interbank market). However, higher-than-expected inflation at the start of 2008 led to an easier effect of real rates. The effect of real rates gradually tightened in the period that followed. The exchange rate was substantially stronger than forecasted during 2008, but was weaker in 2009 H1 (see Table II.10).

Based on the CNB's current knowledge of the workings of the Czech economy and its current knowledge of the actual economic situation, the developments since the forecast under review was drawn up can be summed up in the following way. The assumption that the sizeable price growth at the start of 2008 related to one-off factors was temporary materialised, but the price growth was initially higher than forecasted. The decline in the high inflation was also fostered by an unexpected fall in world prices of oil and food at the end of 2008. Real economic activity was weaker than forecasted in the period under review. In addition to lower initial economic growth and a considerably stronger exchange rate, this was due to a fall in external demand resulting from the financial and economic crisis. This was also reflected in a rapid decline in nominal wage growth in 2009 H1 (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 most of its meetings between October 2007 and June 2008 (see the relevant minutes) the Bank Board assessed the risks of the forecasts as heading in both directions and did not indicate a clear balance of risks. The Bank Board's decisions led on average to slightly tighter monetary policy settings than those corresponding to the recommendations of the forecasts. In the context of the one-off increase in inflation at the end of 2007 and the start of 2008 (and its gradual unwinding from the annual price growth), the strong uncertainties regarding the extent and impacts of the unfolding financial crisis, and the significant revision of the interest rate path in Inflation Report I/2008, the monetary policy settings in the relevant period can be assessed as having been broadly appropriate. Most importantly, the said cost shocks did not affect inflation expectations, which remained anchored close to the inflation target.

III.1 SUMMARY OF THE STARTING CONDITIONS

Headline inflation continued falling in 2009 Q2 and fluctuated below the lower boundary of the inflation-target tolerance band. Real GDP shrank in 2009 Q1. This was accompanied by falling employment, rapidly rising unemployment and a sharp slowdown in wage growth. The current economic situation can thus be assessed as an economic slump which is nearing its bottom. The forecast assesses the current inflation pressures as being inflationary owing to the exchange rate depreciation at the end of last year and at the start of this year. This is being offset only partly by the anti-inflationary pressures from the domestic economy.

Inflation declined further in 2009 Q2 and moved below the lower boundary of the tolerance band of the CNB's inflation target. Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, developed similarly. The prediction of the previous forecast that inflation would continue declining thus materialised, although the decline was rather more modest than forecasted. This was due mainly to a smaller year-on-year decline in fuel prices as a result of higher oil and petrol prices on world markets. Annual inflation consists mainly of growth in regulated prices, whose contribution to inflation was 1.8 percentage points in June. Food prices adjusted for changes to indirect taxes also rose moderately in year-on-year terms, despite a significant decline in agricultural producer prices and world food prices. Adjusted inflation excluding fuels was roughly zero year on year, owing to falling prices of tradable items amid slowing growth in nontradables prices. Fuel prices continued falling sharply year on year, although the decline was smaller than at the start of the year. The contribution of indirect tax changes (the lagged impacts of the rise in excise duty on tobacco products in 2008) was small in April and May and disappeared entirely in June.

Economic activity fell at the start of 2009. Together with the publication of the Q1 data, the CZSO revised the GDP growth figures for previous years. The new figures indicate a sharper economic downturn compared to the previous forecast, owing chiefly to a decline in gross capital formation (additions to inventories in particular). The GDP fall in Q1 was also due significantly to foreign trade, as exports and imports both recorded a marked year-on-year decline. The adverse economic trend was moderated by still rising household and government consumption. The forecast assumes a further deepening of the year-on-year decline in GDP to 4.5% in 2009 Q2. This will be due primarily to a further increase in the negative contribution of net exports, slowing household consumption growth and a continuing – although somewhat more moderate compared to Q1 – decline in gross capital formation.

The labour market situation is reflecting the adverse trend in economic activity with the usual lag. Employment, including that of foreigner nationals, is starting to decrease. The seasonally adjusted registered unemployment rate continued rising sharply in Q2 amid a continuing fall in the number of vacancies. There was a corresponding sharp slowdown in nominal wage growth in the business sector to 2.9% year on year in 2009 Q1. The slowdown in wage growth in the business sector, occurring via lower bonuses and a shorter working week in many corporations, should continue into the second quarter of this year. In the non-business sector, wages will maintain relatively high annual growth of roughly 5%.

Based on the above developments and other information, the current inflation pressures are assessed as being inflationary, albeit less so than in the previous forecast. This is due to the sharp depreciation of the koruna in late 2008 and early 2009, which, despite the koruna's subsequent correction to stronger values, is still passing through to domestic consumer price inflation with a lag. However, its impact is being softened by falling prices abroad and by shrinking margins of importers. In line with the sharply falling economic activity and slowing wage growth, domestic economic developments are anti-inflationary and are partly offsetting the inflationary effect of import prices.

III.2 THE FORECAST

Headline inflation will continue to fall in 2009 Q3. It will remain low but positive for the rest of this year and at the start of 2010. Inflation will start rising again next year and will reach the 2% inflation target at the end of 2010. The economic decline bottomed out in Q2 and the Czech economy is expected to show quarter-on-quarter growth as from 2009 Q3. However, the sharp fall in GDP observed at the start of the year will pass through to a year-on-year decline in GDP for the remainder of this year. The Czech economy is expected to decline by almost 4% in 2009, but should return to moderate growth in 2010. The nominal exchange rate of the koruna is modestly appreciating over the forecast horizon. Consistent with the forecast is a decline in market interest rates this year followed by a gradual rise from 2010 H2 onwards.

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 future 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 July Consensus Forecasts data and the market outlooks effective on the survey date. Effective developments in the euro area including Slovakia are used to proxy for developments in the Czech Republic's major trading partner economies. The CNB's 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.

The economic developments expected this year have undergone a further sizeable revision on the basis of the adverse data on the euro area economies in 2009 Q1. Effective euro area GDP is expected to decline by 4.7% this year. This, however, is smaller than the year-on-year decline recorded in Q1, implying an assumption of quite a fast recovery in the remainder of this year. However, only slight growth of 0.4% is still expected for 2010. A further increase to 1.6% is forecasted for

Table III.1 Expected external developments

The forecast assumes a significant decrease in external demand in 2009
(quarterly averages)

	III/09	IV/09	I/10	II/10	III/10	IV/10	I/11
Brent crude oil prices (USD/barrel)	62.6	61.9	64.0	65.8	67.1	68.3	69.4
GDP in euro area[a)]	-4.7	-3.2	0.9	0.3	0.1	0.3	0.9
Producer prices in euro area[a)]	-6.0	-3.7	-0.7	1.3	2.2	2.3	1.9
Consumer prices in euro area[a)]	0.3	0.5	1.0	1.3	1.5	1.6	1.8
USD/EUR exchange rate	1.40	1.37	1.37	1.37	1.37	1.37	1.37
3M EURIBOR (in per cent)	1.0	1.0	1.1	1.2	1.6	2.4	2.6

a) effective indicator; annual percentage changes

2011. This outlook for economic activity is also consistent with a lower outlook for external inflation. Growth of only 0.8% in the effective indicator of consumer prices in the euro area is expected in 2009, followed by an increase to 1.3% in 2010 and 1.8% in 2011. The outlook for producer prices saw a significant revision; they are expected to decline by 3.2%. Growth of 1.3% in the effective indicator of producer prices is expected in both 2010 and 2011.

World central banks, including the ECB, are continuing to combat the ongoing crisis by easing monetary policy. Many central banks have already hit the zero interest rate bound and are introducing non-standard measures.[31] This group includes the ECB, which, despite maintaining its monetary policy rates at 1%, i.e. still above the zero lower bound, is injecting large volumes of additional liquidity into the economy through purchases of covered bonds.[32] These measures have led to a decline in three-month euro rates unburdened by the credit premium to below the ECB's monetary policy rate. However, along with a gradual rise in inflation and a recovery of GDP, these risk-free interest rates are expected to rebound to around 3% by the end of 2011. Given the forecasted assumption of a gradual decline in the credit premium to low levels this year and the next, EURIBOR rates are gradually nearing the risk-free interest rates at the forecast horizon. The expected average three-month EURIBOR foreign interest rate is 1.4% this year, 1.6% in 2010 and 2.8% in 2011. The expected dollar-euro exchange rate path has been revised towards a weaker dollar. The dollar is thus expected to be stable at around USD 1.37/EUR in 2009–2011. The outlook for oil prices has been moved upwards. Over the forecast horizon, the price of Brent crude oil should gradually rise from USD 62 a barrel in 2009 H2 to USD 72 a barrel at the end of 2011. The outlook for petrol prices has been increased even more significantly.

The forecast assumes that domestic regulated prices will contribute significantly to headline inflation. Regulated prices are projected to increase by around 5% at the end of this year, representing a contribution of roughly one percentage point. Owing to an expected decrease in natural gas and electricity prices in January 2010, the contribution of regulated prices to headline inflation should decrease at the start of 2010. At the end of 2010, regulated prices should show growth of roughly 2%, rising to 3% at the end of 2011. Over the forecast horizon, regulated prices are increasing mainly because of rising regulated rents.

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 dropped out of annual consumer price inflation in the second quarter of this year. Starting in 2009 Q4, inflation will be affected by the first-round effects of the transfer of selected services to the lower VAT rate, which forms part of the government's anti-crisis measures. The estimated start of effect of this measure has been moved to October 2009 owing to a slower approval process. Its estimated first-round effects on inflation remained unchanged at -0.37 percentage point.[33]

31 The US 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.

32 Covered bonds are debt securities backed by mortgages or public sector loans. They are usually issued by commercial banks, for example to finance mortgages.

33 The forecast assumes an incomplete pass-through of this VAT reduction to services prices. The overall immediate impact on inflation will thus be around -0.2 percentage point.

Owing to the deteriorating macroeconomic outlook, the estimated government sector deficit in 2009 and 2010 has been further increased. A sizeable fall in tax revenues (in particular for direct taxes and social security payments) and higher expenditure linked with payments of social benefits (especially unemployment benefits), combined with the impacts of the anti-crisis measures and lower social insurance and corporate income tax rates, will result in a public finance deficit of 5.1% of GDP in 2009, deepening to 6.4% of GDP in 2010. The deficit is expected to improve slightly to 5.9% in 2011. The 3% reference value of the Maastricht convergence criteria for the public finance deficit will thus be significantly exceeded over the entire forecast horizon. The structural deficit will deepen to more than 5% of GDP in 2009 and will remain at this level in the following two years (see Box 3 *The impact of the recession on public finances in the Czech Republic*).

Chart 1 (Box) The impact of the recession on public finances in the Czech Republic

Comparison of cyclical components of public finances 2005–2011

(as measured by output gap approach and ESCB approach; in % of GDP; source: internal CNB prediction)

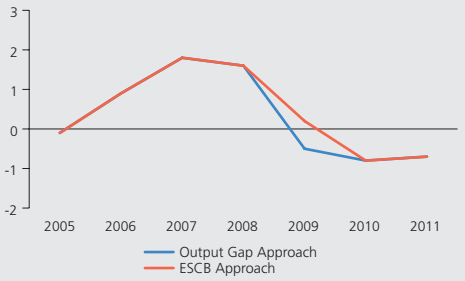
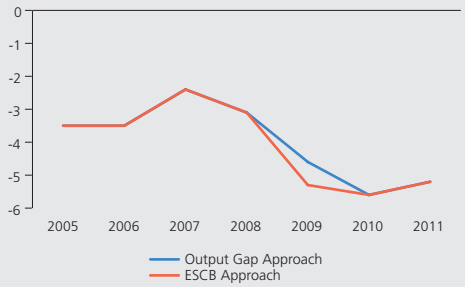


Chart 2 (Box) The impact of the recession on public finances in the Czech Republic

Comparison of cyclically adjusted public finance balance 2005–2011

(as measured by output gap approach and ESCB approach; in % of GDP; source: internal CNB prediction)



BOX 3
The impact of the recession on public finances in the Czech Republic

Czech public finances have come under significant pressure as a consequence of the ongoing economic crisis. Public budgets have not been affected by bail-out operations in the banking sector, as domestic financial institutions did not get involved in toxic asset operations. However, several anti-crisis budget measures have been adopted in order to mitigate the impacts of the economic crisis. These measures are largely focused on bolstering aggregate supply (a reduction in employers' social security contributions, accelerated depreciation, etc.) and – together with measures adopted previously as part of a public finance reform – will ultimately lead to a decline in budget revenues (i.e. to wider public finance deficits). The global financial and economic crisis has also led to a rise in risk premia on financial markets, including in the Czech Republic. This has resulted in an increase in budget expenditure on interest paid on government bonds. Moreover, during economic downturns, public finances are also significantly affected by the action of built-in stabilisers, which automatically reduce tax revenues and simultaneously increase certain budget expenditures. While the figures for actively planned anti-crisis measures are known in advance, the magnitude of the impact of the decline in economic activity on public finances needs to be quantified *ex post* using the cyclical component of the budget balance.

Numerous international institutions (European Commission, OECD, IMF) use a traditional approach to determining the cyclical component based on identifying the gap between actual and potential output (the output gap) and then measuring the sensitivity of public finances to the change in the output gap identified. However, the ECB has introduced a different method for the calculation of the cyclical component at the European System of Central Banks (ESCB). This is because public budget items are in fact linked to specific components of GDP (e.g. consumption) rather than to GDP as a whole. The ECB therefore uses a methodology in which key budget items affected by the economic cycle are always related to specific indicators of economic activity and the labour market known as bases. The cyclical component of public budgets in a given year is then determined as the difference between the sum of the partial cyclical components of four key tax revenues (personal income tax, corporate income tax, indirect taxes and social security contributions) and one expenditure item sensitive to the economic cycle (unemployment benefits).

The ESCB's method has the undeniable analytical advantage that it reflects the actual determinants of public finances and enables further analysis of those determinants. By contrast, the method based on estimating the output gap is able to capture the change in the evolution of the economy in the form of a cyclical component usually faster than the approach used by the ESCB banks, since its calculation is based directly on the change in output not in labour market variables, which respond to fluctuations in economic activity with a lag. The results of the two methods naturally differ over time and from each other. Bear in mind that both methods are by their very nature mere approximations of two unobserved components of the budget balance (the cyclical component and the cyclically adjusted balance) and their main objective is to determine the position and the underlying trend in their development.

As part of its regular reporting to the ECB, the Czech National Bank calculates the impact of the economic cycle on public finances using the ESCB approach. For its own use, the CNB also calculates the cyclical component of the public budget balance using the output gap approach. To compare the two methodologies, Charts 1 and 2 show their results calculated on the basis of the CNB's macroeconomic forecast contained in this Inflation Report. The results of both approaches point to a deterioration in the cyclically adjusted deficit in the coming years. The output gap approach more strongly reflects the economic decline this year (see the negative cyclical component of the budget balance in 2009).

III.2.2 The message of the forecast

Headline inflation will continue to fall in 2009 Q3. It will remain low but positive for the rest of this year and at the start of 2010. Inflation will start rising again next year and will reach the 2% inflation target at the end of 2010. At the monetary policy horizon, i.e. in 2010 H2, 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). Owing to the transfer of selected services to the lower VAT rate, this inflation – which the CNB focuses on when deciding on interest rate settings – will be slightly above headline inflation at the end of 2009 and in the first three quarters of 2010.

The currently high contribution of regulated prices to headline inflation will reach a low of just 0.2 percentage point, but will then increase to roughly double this level at the end of 2010. The first-round effects of changes to indirect taxes will exert downward pressure on headline inflation until 2010 Q3. The other components of inflation are affected by inflationary pressures stemming from the domestic economy as well as from imported inflation. The inflationary pressures, deriving initially from import prices and later from the domestic economy, which will start to recover gradually, will lead to a slowdown in the decline in inflation in these components and subsequently to a gradual increase. Adjusted inflation excluding fuels will turn negative in 2009 Q3 but will start to increase thereafter as a result of the lagged effect of the recently fast rising nominal unit labour costs. Food prices will record a year-on-year decline until 2010 Q1 due to a sharp fall in agricultural producer prices and world food prices. Food prices will return to roughly 2% growth in the remainder of 2010. The year-on-year decline in fuel prices will slow sharply this year. Fuel prices will rise in 2010 (see Table III.2).

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

(annual percentage changes)

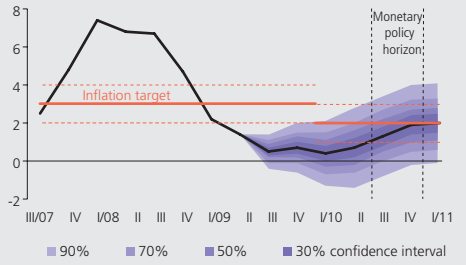


Chart III.2 The monetary-policy relevant inflation forecast

Monetary-policy relevant inflation will develop similarly to headline inflation

(annual percentage changes)

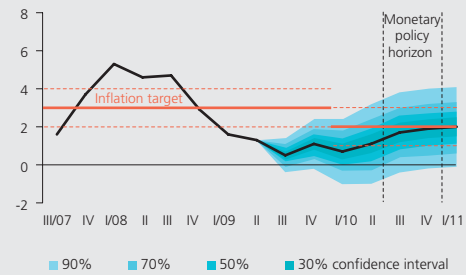


Table III.2 Forecast of key inflation components

Market prices will start rising again in 2010

(annual percentage changes; quarterly averages)

	III/09	IV/09	I/10	II/10	III/10	IV/10	I/11
CONSUMER PRICES	0.5	0.8	0.5	0.8	1.3	1.9	2.0
Regulated prices[a)]	7.4	5.3	0.9	0.7	1.6	2.0	2.0
First-round impacts of indirect tax changes on consumer prices[b)]	0.0	-0.4	-0.4	-0.4	-0.4	0.0	0.0
Net inflation[c)]	-1.1	0.0	0.9	1.2	1.8	1.9	1.9
Prices of food, beverages, tobacco[c)]	-1.0	-0.8	-0.9	0.3	1.7	1.8	2.4
Adjusted inflation excl. fuels[c)]	-0.1	0.2	1.0	1.3	1.7	1.7	1.5
Fuel prices[c)]	-13.5	2.8	14.5	6.5	3.9	4.7	3.7
Monetary-policy relevant inflation[d)]	0.5	1.2	0.8	1.2	1.7	1.9	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 gradual rise from 2010 H2 onwards

(3M PRIBOR, %)

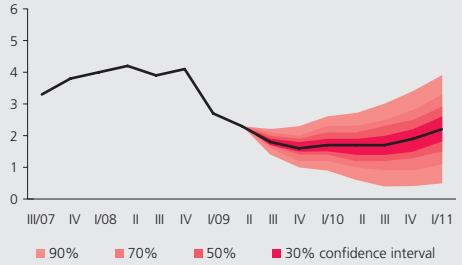


Chart III.4 The exchange rate forecast

The nominal exchange rate of the koruna is modestly appreciating over the forecast horizon

(CZK/EUR)

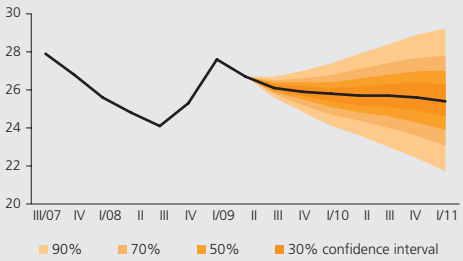
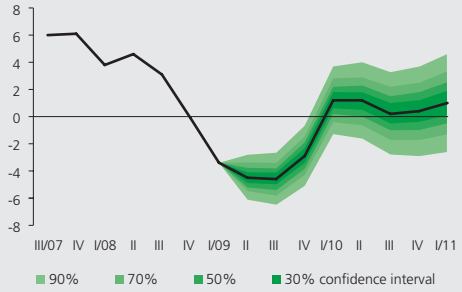


Chart III.5 The GDP growth forecast

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

(annual percentage changes; seasonally adjusted)



Consistent with the forecast is a decline in market interest rates this year followed by a gradual rise from 2010 H2 onwards (see Chart III.3). The outlook for external variables, especially interest rates, is the most significant contributor to the decline in interest rates. Another factor acting towards lower interest rates is nominal wage growth. As domestic interest rates decline, the positive interest rate differential will close and turn negative in late 2010. Domestic market interest rates will continue to be influenced by the credit premium, although the latter will gradually fall in line with the assumptions regarding the external credit premium.

The nominal exchange rate of the koruna is modestly appreciating over the forecast horizon (see Chart III.4). The appreciation pressures stem mainly from the positive interest rate differential and a recovery in external demand, which will lead to a lower perceived risk of investing in the Czech koruna among foreign investors (although rising public finance deficits will have the opposite effect on risk perceptions). However, the exchange rate will continue appreciating even after a negative interest rate differential opens up at the end of 2010, since the economy will then be in a recovery phase and there will be a return to the long-term equilibrium path of a gradually appreciating exchange rate.

The forecast assumes that the economic decline bottomed out in Q2 and the Czech economy is expected to show quarter-on-quarter growth as from 2009 Q3. However, the sharp fall in GDP observed at the start of the year will pass through to a year-on-year decline in GDP for the remainder of the year. The Czech economy is expected to decline by almost 4% for 2009 as a whole. In 2010, however, the forecast expects weak economic growth of less than 1%, in line with the recovery in external demand. A more pronounced economic recovery of over 2% will be seen in 2011 (see Chart III.5).

Household consumption growth will slow in the remainder of 2009 and turn negative in 2010. The slower rate of growth of household consumption is due to slower growth, or an annual decline as from 2009 Q2, in real disposable income as a result of lower wage growth and declining employment. Consumer spending will start rising again in 2011, along with a pick-up in wage growth and a halt in unemployment growth.

The deep year-on-year fall in gross capital formation will continue until the end of this year. The decline in investment this year is linked with the adverse external demand situation, which is primarily affecting the investment activity of export-oriented branches, and with more restricted access of firms to external investment financing. By contrast, the decrease in investment is being offset by low domestic interest rates. The annual decline in real investment will moderate next year thanks to a recovery in external demand and the government's anti-crisis measures. Investment will record positive growth in 2011.

The global financial and economic crisis is manifesting itself in a sharp fall in foreign trade (see Table III.3). Nevertheless, the expected gradual recovery in external demand, supported in the remainder of this year by car-scrapping incentives in some euro area countries[34], combined with the stabilising effect of the exchange rate depreciation will result in a gradual recovery of exports and imports. Owing to the sharp fall in trade in the first half of this year, exports

34 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 the following year, by contrast, the car-scrapping incentives abroad will reduce domestic economic growth.

and imports will decline by almost one-fifth. Both exports and imports will remain slightly negative in 2010, inter alia owing to the unwinding of the positive effect of the car-scrapping incentives and an only weak growth recovery in the euro area. The forecast expects growth in both exports and imports of more than 5% in 2011. The contribution of net exports to real GDP growth will be negative to the tune of 0.4 percentage point in 2009. In 2010, it will be positive at 1 percentage point thanks to a greater decline in imports than exports, and in 2011 it will decline to 0.3 percentage point.

Government consumption growth will remain at 1% this year and rise to around 2% in the following two years. The pro-growth fiscal measures appear in the forecast mainly in terms of higher corporate investment and higher 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, i.e. the same as in the previous forecast.

The labour market will continue to copy the real economy with the usual lag (see Table III.4). Overall employment will decline rapidly during 2009, falling by 2.1% in full-year terms. The decline in employment will start to moderate gradually in 2010 thanks to the expected economic recovery and will return to positive figures in 2011 H2. The seasonally adjusted general unemployment rate should continue to rise rapidly, peaking at around 10% in late 2010/early 2011. Wages will continue to be strongly affected this year by lower bonuses, a shorter working week as some firms cut production, and slow growth in core wages. Wage growth will pick up in subsequent years as the domestic economy recovers. Average nominal wage growth in the economy will be 2% both this year and the next. It will increase to more than 5% in 2011. The cyclical wage developments are being dampened by wages in the non-business sector, which will rise considerably faster this year but grow more slowly in subsequent years.

Table III.3 Forecast of key GDP components

The decline in exports, imports and overall investment will substantially moderate in 2010

(annual percentage changes; seasonally adjusted)

	2009	2010	2011
GROSS DOMESTIC PRODUCT	-3.8	0.7	2.2
Household consumption	1.0	-0.8	0.5
Government consumption	1.0	2.1	1.9
Gross capital formation	-16.7	-1.4	5.2
Imports of goods and services	-18.5	-3.2	5.4
Exports of goods and services	-17.4	-1.3	5.3
Net exports of goods and services (in CZK bn; at constant prices)	106.6	154.1	160.7

Table III.4 Forecast of selected variables

The labour market will continue to be strongly affected by the economic recession

(annual percentage changes)

	2009	2010	2011
Real gross disposable income of households	-0.6	-0.1	3.3
Total employment	-2.1	-2.0	0.1
Unemployment rate (in per cent)[a]	7.1	9.4	10.1
Labour productivity	-1.7	2.8	2.0
Average nominal wage	1.9	2.2	5.4
Average nominal wage in business sector	1.3	2.5	6.1
Current account deficit (ratio to GDP in per cent)	-1.7	-1.6	.
M2	5.5	-0.9	2.0

a) ILO methodology

III.3 FORECASTS BY OTHER ENTITIES

In recent months, financial market analysts' predictions have been significantly affected by the deteriorating estimates for the economic decline abroad. According to the latest July survey, the analysts expected a decline in GDP in 2009 and a moderate appreciation of the koruna's exchange rate and a slight increase in CNB key rates at the one-year horizon. Inflation is expected to be slightly below the CNB's inflation target at the one-year horizon. At the three-year horizon the expectations remain above the CNB's inflation target.

Inflation expected both by financial market analysts and by business managers[35] was 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.

Table III.5 Inflation expectations

Inflation expectations were broadly unchanged

(annual percentage changes in consumer price index)

	3/09	4/09	5/09	6/09	7/09
Financial market, 1Y horizon	1.9	1.9	1.9	1.8	1.9
Financial market, 3Y horizon	2.5	2.4	2.5	2.5	2.6
Corporations, 1Y horizon	1.9			1.8	
Corporations, 3Y horizon	2.5			2.5	

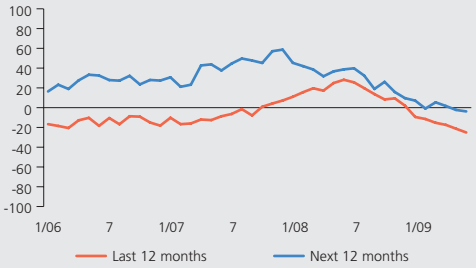
35 The CNB monitors the expectations of financial market analysts regarding key macroeconomic indicators and the inflation expectations of business managers by means of statistical surveys. Tables III.5 and III.6 show the average values from these surveys.

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

	3/09	4/09	5/09	6/09	7/09
Real GDP in 2009[a)]	-1.8	-2.2	-2.4	-3.4	-3.4
Real GDP in 2010[a)]	1.4	1.2	1.5	1.4	1.3
Nominal wages in 2009[a)]	2.9	2.7	2.6	2.1	2.3
Nominal wages in 2010[a)]	3.9	3.8	3.6	3.3	3.3
CZK/EUR exchange rate[b)]	25.6	25.5	25.1	25.5	25.3
2W repo rate[c)]	1.8	1.8	1.8	1.7	1.7
1Y PRIBOR[c)]	2.5	2.6	2.6	2.6	2.7

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

Chart III.6 Perceived and expected inflation
The inflation expectations of households for next year decreased in 2009 Q2
(source: European Commission Business and Consumer Survey)



The financial market analysts have gradually been reducing their GDP growth estimate for 2009 owing to the worse economic outlook abroad (see Table III.6). The decline in the real economy is expected to lead to a higher unemployment rate and lower wage growth. Compared to the value at the end of July 2009, the analysts expect a slightly stronger exchange rate of the koruna at the one-year horizon. The analysts' expectations regarding the CNB Bank Board's August 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 foresees a slight increase at the one-year horizon compared to their current level.

Compared to the current CNB forecast, the financial market analysts expect a rather more moderate decline in real GDP in 2009 amid higher nominal wage growth and quite significantly higher inflation at the one-year horizon. By contrast, the exchange rate is slightly stronger in the analysts' predictions than in the CNB forecast. At the one-year horizon, the analysts' expectations regarding the 2W repo rate are slightly higher than the level implied by the 3M PRIBOR rate path consistent with the CNB forecast described in section III.2, assuming a gradual decline in the credit premium for rates on the interbank market.

The indicator of inflation perceived by households has been negative since the start of 2009 (see Chart III.6).[36] This means that households on average felt that prices tended not to rise over the last 12 months. The indicator of expected inflation fluctuated around zero, turning slightly negative in May and June. 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 lower than the number of those who expect prices not to rise.

36 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).

MINUTES OF THE BOARD MEETING ON 25 JUNE 2009

Present at the meeting:
Z. Tůma (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 fourth situation report assessing the newly available information and its impact on the fulfilment of the risks to the inflation forecast from the third situation report. The situation report assessed the overall balance of risks as being inflation neutral. Annual inflation in May had been just 0.1 percentage point higher than the forecast. This deviation had been due to a slight rise in adjusted inflation excluding fuels and to growth in fuel prices, with lower growth in food prices acting in the opposite direction. In response to the sharp economic downswing abroad, domestic GDP had fallen in 2009 Q1 by 0.9 percentage point more than forecasted. The situation report identified an inflationary risk in the GDP structure in the form of falling investment and higher-than-expected growth in household consumption. By contrast, the external outlook was anti-inflationary.

After the presentation of the situation report, the Board discussed the new information and the risks to the May forecast. The Board agreed that the risks to the inflation forecast were balanced. A deeper-than-forecasted fall in domestic and external economic activity and food prices represented a downside risk to inflation. The main upside risks were the structure of domestic economic activity, higher oil prices and higher adjusted inflation excluding fuels.

Great uncertainty was associated with the outlook for external economic activity, which remained unfavourable. The Board agreed that the potential easing of the negative trends and faster rebound in external growth being signalled by some business cycle indicators was highly uncertain. Concern was expressed that the external and domestic recession would continue. As an argument for leaving monetary policy rates unchanged it was said that the exchange rate of the koruna was significantly weaker year on year. This represented a sufficient stimulus for the domestic economy to overcome the current recession as compared to fixed exchange rate economies.

The Board went on to discuss the inflation risks associated with domestic economic activity going forward. The lower economic growth could be expected to have an anti-inflationary effect in the longer run owing to cost adjustment in the economy. The unexpectedly high growth in household consumption was a direct inflationary factor in the GDP structure. However, the evolution of household consumption was subject to uncertainty, as more detailed figures on the structure of households' disposable income had still to be published.

In the debate about inflation and its components, it was said that inflation was developing in line with the forecast. The monetary policy priority was to hit the inflation target at the forecast horizon, and that was not currently in any danger. It was also said that no major inflation pressures were apparent in the near future. It was said in the discussion that the lower-than-forecasted growth in food prices posed no significant downside risk to inflation, because food prices were low and the transmission of agricultural producer prices to food prices was not immediate. It was said that monetary policy should not react to short-term fluctuations in food and oil prices. In the discussion of the components of inflation it was said repeatedly that the slight upswing in adjusted inflation excluding fuels might have been due to the weaker exchange rate at the start of this year. Higher core inflation was also being recorded in the euro area. This might pose an inflationary risk to the domestic economy owing to its close links with the euro area economy.

The Board discussed the transmission from monetary policy rates to market rates. It was said that market interest rates were not converging towards the CNB's monetary policy rates. It was also said that the persisting high risk premium in the interbank market confirmed that the interest rate transmission channel was currently not very effective. A rate reduction could lead to depreciation of the exchange rate and a return to higher exchange rate volatility. It was also said in the discussion that the persisting high risk premium was tightening the monetary conditions and was therefore an argument for lowering rates. It was said repeatedly that even if short-term market interest rates were to fall in response to a CNB rate cut, the impact of the lower rates on long-term client rates was ambiguous. In terms of the effects on the economy, the level of long-term rates was more relevant than that of short-term rates.

In the discussion of the effectiveness of interest rate transmission, it was said that other central banks, for instance those in the USA and the euro area, had sharply lowered interest rates partly because of problems with financial stability in their economies. Short-term market rates were low as a result of monetary policy actions, but long-term rates had remained stable or had even risen somewhat. Financial stability was not an issue for the Czech economy, hence there was no need to bring interest rates down to zero. It was said repeatedly that low interest rates might pose a risk to financial stability in the future. It was said in the discussion that the money supply indicators were suggesting a potential risk to inflation in the longer run. The opinion was also expressed that given low interest rates, demand for loans might rise significantly once the recession subsides, causing inflation to go up.

At the close of the meeting the Board decided by a majority vote to leave the two-week repo rate unchanged at 1.50%. Four members voted in favour of this decision: Governor Tůma, Chief Executive Director Holman, Chief Executive Director Tomšík and Chief Executive Director Zamrazilová. Chief Executive Director Řežábek voted for lowering rates by 0.25 percentage point.

MINUTES OF THE BOARD MEETING ON 6 AUGUST 2009

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 fifth situation report containing the new macroeconomic forecast. The domestic economy was being strongly affected by the adverse external situation. Inflation had continued falling in 2009 Q2, going below the lower boundary of the inflation-target tolerance band. Economic activity had declined. According to new figures this decline was larger by comparison with the information available at the time the previous forecast had been drawn up. The economic downturn was feeding through with a lag into the labour market in the form of rising unemployment and slowing wage growth. The anti-inflationary effect of the economic decline was being partly offset by a weakening exchange rate.

According to the new forecast, inflation would continue falling in 2009 Q3. Thereafter, it would converge slowly from low positive values towards the inflation target, which it would reach at the end of 2010. The economic decline had bottomed out in 2009 Q2, according to the new forecast. In Q3, the Czech economy would start to show positive quarter-on-quarter growth rates. The full-year decline was currently estimated at almost 4%, which was more than the previous forecast had indicated. The new forecast was predicting a return to modest growth in 2010. The exchange rate of the koruna would be modestly appreciating over the forecast horizon. Consistent with the forecast was a decline in market interest rates this year followed by a gradual rise from 2010 H2 onwards.

After the presentation of the situation report, the Board began its discussion. It was said repeatedly that a reduction in rates was consistent with the new forecast. The Board agreed that by comparison with the previous forecast the risks were smaller and could be viewed as being broadly anti-inflationary. The opinions were also expressed that the risks were more symmetrically distributed compared to the previous meeting and that the external forecast risks could now be found on both the upside and the downside.

The Board discussed the risks of the forecast. The main downside risks to inflation included unused production capacity, the deteriorating labour market situation, the possibility of a slower-than-expected decrease in the credit premium, and also the recent appreciation of the exchange rate. The upside risks considered included the lagged effect of the previous depreciation of the exchange rate, rising unit wage costs, and the possibility of a correction in food and commodity prices, which can be highly volatile.

In this context, the Board discussed some issues related to monetary policy transmission. It was considered whether it was realistic to assume that the depreciation of the currency would be reflected in domestic prices with a longer lag or whether it was more likely that the weak exchange rate had merely moderated the fall in tradables prices. It was said repeatedly that an important assumption of the forecast was that of gradual convergence of short-term market rates towards monetary policy rates. It was said that this assumption might be limited by an only slowly falling risk premium. On the other hand, the effect of fiscal policy on long-term rates was already observable. It was also said that a reduction in monetary policy rates was desirable notwithstanding the hampered monetary policy transmission.

The Board went on to examine the growth outlook for the Czech economy. The growth sources that would lead to renewed GDP growth were discussed. The Board agreed that there were numerous uncertainties surrounding the growth forecast and that a key factor would be the speed and intensity of the external recovery. It was said that in the logic of the new forecast the recovery should be driven over the forecast horizon by investment, a hypothesis which would be confirmed only if a more robust recovery were to occur abroad. It was said several times that the forecasted recovery was very modest. Consequently, the domestic economy would reach its 2008 level only gradually, hence no major demand-pull inflation pressures could be expected over the forecast horizon. The role of consumption was identified as another important factor of the recovery. It was said repeatedly that the new data on higher-than-expected consumption growth pointed to a stabilising role of consumption and suggested that households were compensating for falling wages by means of transfers and savings. However, the opinions were also expressed that the rising unemployment and the lagged impacts of the fall in GDP on the labour market might negatively affect consumption in the quarters ahead.

Given the large influence of external developments on the new forecast, the Board also discussed the global situation. It was said several times that the external forecasts predicting a relatively rapid rebound might be overly optimistic. The factors mentioned as possibly leading to a less optimistic outlook included the existence of spare production capacity, for which new uses would need to be found, the potential impacts of fiscal restrictions in countries ending their expansionary response to the crisis, and the potential restrictive impacts of the termination of use of unconventional monetary policy instruments by some central banks. In this context, it was discussed whether the exit from quantitative easing might have a bearing on prices of oil and other commodities. It was said that these prices might fall and that this possibility presented a downside risk to inflation with regard to the forecast. On the other hand, the opinion was expressed that the external recovery might also come sooner than predicted in the new forecast. In this context, it was also said that given the causes of the current crisis, which had included excessively easy monetary policy on the part of some foreign central banks, the monetary policy approach might change in the future, leading in the longer run to higher foreign rates.

At the close of the meeting the Board decided unanimously to lower the CNB two-week repo rate by 0.25 percentage point to 1.25%, effective 7 August 2009. At the same time it decided to lower the discount rate and Lombard rate by the same amount, to 0.25% and 2.25% respectively. Governor Tůma, Vice-Governor Hampl, Vice-Governor Singer, Chief Executive Director Holman, Chief Executive Director Řežábek, Chief Executive Director Tomšík and Chief Executive Director Zamrazilová voted in favour of this decision.

TABLES IN THE TEXT

AEIS	Average Earnings Information System
ARA	Amsterdam–Rotterdam–Antwerp
BCPP	Prague Stock Exchange
BoE	Bank of England
BoJ	Bank of Japan
CF	Consensus Forecasts
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
EIB	European Investment Bank
ERM II	Exchange Rate Mechanism
ESA 95	European System of National Accounts
ESCB	European System of Central Banks
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
MLSA	Ministry of Labour and Social Affairs
NCG	net credit to government
NDAs	net domestic assets
NEAs	net external assets
NPISHs	non-profit institutions serving households
OECD	Organisation for Economic Cooperation and Development
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
SNB	Swiss National Bank
USD	US dollar
VAT	value added tax

Price indices used for the evaluation of inflation	(Box)	April 1998
Analysis of the money supply trend	(Box)	July 1999
Revisions to the statistical data on GDP	(Box)	July 1999
Measuring the inflation expectations of the financial market	(Annex)	October 1999
Oil prices and their impact on inflation	(Box)	July 2000
The effect of oil price changes on the balance of trade	(Box)	October 2000
The methodological framework for evaluating wage developments relative to inflation	(Box)	January 2001
The CNB's monetary policy rates	(Box)	April 2001
The setting of the inflation target for 2002–2005	(Annex)	April 2001
Harmonisation of the reserve requirements with European Central Bank standards	(Annex)	April 2001
Escape clauses pertaining to the new inflation target	(Annex)	July 2001
Changes in economic growth forecasts in the eurozone, Germany, the USA and Japan for 2001 and 2002	(Annex)	October 2001
Strategy for dealing with the exchange rate effects of capital inflows from privatisation of state property and from other foreign exchange revenues of the state	(Annex)	January 2002
Assessment of fulfilment of the CNB's net inflation target in December 2001	(Annex)	January 2002
Prediction of external variables	(Box)	April 2002
Estimated capital flows in 2002 and 2003 and their effect on the exchange rate	(Box)	April 2002
The Balassa–Samuelson effect	(Annex)	April 2002
The CNB changes its type of inflation forecast	(Box)	July 2002
An assessment of the effect of the August floods on Czech economic growth	(Box)	October 2002
The financial conditions of the Czech Republic's accession to the EU	(Box)	January 2003
Implications of the unexpectedly slow growth in regulated prices	(Box)	January 2003
The Czech Republic and the euro – Draft accession strategy	(Annex)	January 2003
Fiscal consolidation and its effect on economic growth	(Annex)	January 2003
Price deregulation in the period of transformation of the Czech economy	(Box)	April 2003
Revisions to the March 2003 GDP figures	(Box)	April 2003
Credit to households	(Box)	July 2003
The withdrawal of 10- and 20-heller coins and its possible impact on prices	(Box)	July 2003
Indirect taxes and the inflation forecast	(Box)	July 2003
Changes to the methodology for surveying inflation expectations	(Box)	July 2003
ERM II and the exchange-rate convergence criterion	(Annex)	July 2003
Use of the output gap indicator at the CNB	(Box)	October 2003
Monetary policy in the CNB's macroeconomic forecast	(Box)	October 2003
The Czech Republic's euro-area accession strategy	(Annex)	October 2003
Short-run food price prediction methods	(Box)	January 2004
Monetary conditions	(Box)	April 2004
The CNB's inflation target from January 2006	(Annex)	April 2004
The CNB has fully integrated into the European System of Central Banks	(Annex)	July 2004
The exchange rate in the CNB's forecasting system	(Box)	July 2004
Indicators of households' financial situation	(Box)	October 2004
GDP data revision	(Box)	October 2004
Petrol prices and their impact on inflation in the Czech Republic	(Box)	October 2004
Assessment of the fulfilment of the Maastricht convergence criteria and the degree of alignment of the Czech economy with the euro area	(Annex)	January 2005
The structure of lending	(Box)	January 2005
Uncertainty regarding the evolution of public finances in 2005 and 2006	(Box)	January 2005
Inflation expectations in the CNB's modelling system	(Box)	January 2005
The transmission of external cost shocks into domestic prices in 2003–2005	(Box)	April 2005
The effect of the exchange rate on inflation	(Box)	April 2005
The Czech National Bank's position on the revision of the Stability and Growth Pact	(Annex)	April 2005
The effect of EU accession on prices and inflation expectations	(Box)	July 2005
Foreign trade in the first year after the Czech Republic's accession to the EU	(Box)	July 2005
Financial flows between the Czech Republic and the European Union	(Box)	July 2005
The effect of world energy prices on consumer prices	(Box)	October 2005
The performance of large non-financial corporations 1998–2004	(Box)	October 2005

Potential output in the CNB's forecasting system	(Box)	October 2005
Fiscal policy in the CNB's modelling system	(Box)	January 2006
Assessment of the fulfilment of the Maastricht Convergence criteria and the degree of economic alignment of the Czech Republic with the euro area	(Annex)	January 2006
Implications of household debt for consumption	(Box)	April 2006
Effective indicators of external developments	(Box)	July 2006
Oil and petrol prices in the CNB forecast	(Box)	July 2006
The role of monetary aggregates in the CNB's forecasts	(Box)	October 2006
Assessment of the fulfilment of the Maastricht convergence criteria and the degree of economic alignment of the Czech Republic with the euro area	(Annex)	October 2006
Employment of foreign nationals	(Box)	January 2007
The extension of the core prediction model to include the effect of real wages	(Box)	January 2007
The new consumer basket as from January 2007	(Box)	April 2007
Financing of non-financial corporations	(Box)	April 2007
The application of escape clauses to indirect tax changes	(Box)	April 2007
The CNB's new inflation target and changes in monetary policy communication	(Annex)	April 2007
The relationship between interest rates and the structure of new loans for house purchase	(Box)	July 2007
The CNB's new approach to the monitoring of inflation expectations of households in the Czech Republic	(Box)	July 2007
The causes, course and impacts of the current turmoil in global financial markets	(Box)	October 2007
Household debt by income group in 2006 and its impact on consumption	(Box)	October 2007
The causes of the sharp growth in world prices of cereals	(Box)	October 2007
Fiscal measures and their impact on the economy in 2008	(Box)	October 2007
The Czech Republic's updated euro-area accession strategy	(Annex)	October 2007
Changes in the conduct and communication of monetary policy	(Box)	I/2008
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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.

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 pressures: Approximated in the CNB's modelling system by the real marginal cost gap in the consumer goods sector. Overall inflation pressures are divided into domestic pressures (in the intermediate goods sector) and imported pressures (in the import price sector).

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.

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										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
DEMAND AND SUPPLY												
Gross domestic product												
GDP	CZK bn, constant p., seas. adjusted	2,244.5	2,286.0	2,368.3	2,471.4	2,628.8	2,811.8	2,984.3	3,068.3	**2,950.6**	**2,972.2**	**3,036.3**
GDP	%, y-o-y, real terms, seas. adjusted	2.4	1.8	3.6	4.4	6.4	7.0	6.1	2.8	**-3.8**	**0.7**	**2.2**
Household consumption	%, y-o-y, real terms, seas. adjusted	2.3	2.2	6.0	2.9	2.6	5.1	4.8	2.7	**1.0**	**-0.8**	**0.5**
Government consumption	%, y-o-y, real terms, seas. adjusted	3.6	6.7	7.1	-3.5	2.9	1.2	0.7	1.7	**1.0**	**2.1**	**1.9**
Gross capital formation	%, y-o-y, real terms, seas. adjusted	6.6	4.6	-1.4	9.0	-0.9	9.6	9.4	-2.1	**-16.7**	**-1.4**	**5.2**
Exports of goods and services	%, y-o-y, real terms, seas. adjusted	11.1	1.9	7.2	20.0	11.9	16.4	15.0	6.2	**-17.4**	**-1.3**	**5.3**
Imports of goods and services	%, y-o-y, real terms, seas. adjusted	12.7	4.9	8.0	17.4	5.2	14.7	14.2	4.2	**-18.5**	**-3.2**	**5.4**
Net exports	CZK bn, constant p., seas. adjusted	-95.6	-145.9	-170.0	-155.7	-27.5	6.8	27.8	88.8	**106.6**	**154.1**	**160.7**
Coincidence indicators												
Industrial production	%, y-o-y, real terms	7.4	4.1	1.6	10.4	3.9	8.3	10.6	-1.8	-	-	-
Construction output	%, y-o-y, real terms	10.4	3.0	9.3	8.8	5.2	6.0	7.1	0.0	-	-	-
Receipts in retail sales	%, y-o-y, real terms	8.5	1.7	7.3	3.9	8.1	10.9	10.0	2.8	-	-	-
PRICES												
Main price indicators												
Inflation rate	%, end-of-period	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	4.1	0.6	1.0	2.8	2.2	1.7	5.4	3.6	**0.8**	**1.9**	**2.0**
Regulated prices (16.40%)*	%, y-o-y, end-of-period	11.7	3.3	1.3	4.4	9.0	4.9	6.5	17.1	**5.3**	**2.0**	**3.0**
Net inflation (83.60%)*	%, y-o-y, end-of-period	2.4	-0.2	1.0	1.5	0.4	0.7	3.8	-0.9	**0.0**	**1.9**	**1.9**
Food prices (including alcoholic beverages and tobacco) (24.44%)*	%, y-o-y, end-of-period	2.9	-3.4	2.7	0.9	-0.7	0.9	8.2	-2.0	**-0.8**	**1.8**	**2.6**
Adjusted inflation excluding fuels (55.12%)*	%, y-o-y, end-of-period	3.3	1.6	0.2	1.6	0.5	0.8	1.2	1.4	**0.2**	**1.7**	**1.5**
Fuel prices (4.04%)*	%, y-o-y, end-of-period	-15.0	1.4	-2.0	5.9	9.8	-3.4	12.0	-22.0	**2.8**	**4.7**	**2.8**
Monetary-policy inflation (excluding tax changes)	%, y-o-y, end-of-period	4.2	0.6	0.8	1.9	2.2	1.6	4.3	1.8	**1.2**	**1.9**	**2.0**
GDP deflator	%, y-o-y, seas. adjusted	4.9	2.8	0.9	4.5	-0.3	1.1	3.4	1.6	**2.1**	**1.5**	**0.7**
Partial price indicators												
Producer prices	%,y-o-y, average	3.0	-0.5	-0.3	5.6	3.1	1.4	4.1	4.5	**-2.8**	**-0.1**	**1.1**
Agricultural prices	%,y-o-y, average	9.6	-7.5	-4.5	9.6	-9.8	1.3	16.4	10.8	**-20.5**	**3.7**	-
Construction work prices	%,y-o-y, average	4.0	2.7	2.2	3.7	3.0	2.9	3.9	4.5	-	-	-
Brent crude oil	%, y-o-y, average	-12.7	4.9	17.6	33.6	43.2	21.4	12.3	40.6	**-33.6**	**18.7**	**7.0**
LABOUR MARKET												
Average monthly wages in monitored organisations	%, y-o-y, nominal terms	8.8	8.0	5.8	6.3	5.0	6.6	7.2	8.3	**1.9**	**2.2**	**5.4**
Average monthly wages in monitored organisations	%, y-o-y, real terms	3.9	6.1	5.7	3.4	3.0	4.0	4.3	1.9	**0.7**	**1.1**	**3.3**
Number of employees	%, y-o-y											
Nominal unit wage costs	%, y-o-y	0.3	-0.8	-2.0	-0.2	2.2	1.2	1.9	1.7	**-2.8**	**-1.9**	**0.4**
Nominal unit wage costs in industry	%, y-o-y	6.2	4.6	2.3	1.8	0.6	1.1	3.2	7.4	**3.1**	**-0.4**	**3.6**
Aggregate labour productivity	%, y-o-y	11.0	0.5	3.4	-4.5	-4.0	-5.6	0.9	4.1	-	-	-
ILO general unemployment rate	%, average	2.5	1.9	3.6	4.1	5.2	4.8	3.2	1.6	**-1.7**	**2.8**	**2.0**
Registered unemployment rate	%, average	-	-	7.8	8.3	7.9	7.1	5.3	4.4	**7.1**	**9.4**	**10.1**
		-	-	-	10.0	9.5	8.6	7.0	5.8	**8.6**	**10.9**	**11.6**
PUBLIC FINANCE												
Public finance deficit (ESA95)	CZK bn, current p.	-135.0	-166.8	-170.0	-82.7	-106.6	-84.5	-20.8	-52.1	**-185.4**	**-238.0**	**-224.3**
Public finance deficit / GDP**	%, nominal terms	-5.7	-6.8	-6.6	-2.9	-3.6	-2.6	-0.6	-1.4	**-5.1**	**-6.4**	**-5.9**
Public debt (ESA95)	CZK bn, current p.	591.5	702.3	775.0	855.1	888.6	951.5	1,020.7	1,105.8	**1,264.1**	**1,493.5**	**1,745.6**
Public debt / GDP**	%, nominal terms	25.1	28.5	30.1	30.4	29.8	29.6	28.9	29.8	**34.8**	**40.2**	**45.7**
EXTERNAL RELATIONS												
Current account												
Trade balance	CZK bn, current p.	-116.7	-71.3	-69.8	-13.4	59.4	65.1	120.6	103.2	**114.8**	**100.0**	-
Trade balance / GDP	%, nominal terms	-5.0	-2.9	-2.7	-0.5	2.0	2.0	3.4	2.8	**3.2**	**2.7**	-
Balance of services	CZK bn, current p.	58.0	21.9	13.2	16.6	36.9	46.4	56.6	82.0	**60.5**	**60.0**	-
Current account	CZK bn, current p.	-124.5	-136.4	-160.6	-147.5	-39.8	-82.2	-111.3	-113.9	**-60.2**	**-60.0**	-
Current account / GDP	%, nominal terms	-5.3	-5.5	-6.2	-5.2	-1.3	-2.6	-3.1	-3.1	**-1.7**	**-1.6**	-
Foreign direct investment												
Direct investment	CZK bn, current p.	208.3	270.9	53.5	101.8	279.6	90.3	179.1	150.4	**75.0**	**85.0**	-
Exchange rates												
CZK/USD	average	38.0	32.7	28.2	25.7	24.0	22.6	20.3	17.1	**19.7**	**18.7**	**18.5**
CZK/EUR	average	34.1	30.8	31.8	31.9	29.8	28.3	27.8	25.0	**26.6**	**25.7**	**25.3**
CZK/EUR	%, y-o-y, real (CPI euro area), avg.	-	-	-	-0.7	-6.7	-5.1	-2.2	-12.5	**6.1**	**-3.3**	**-1.6**
CZK/EUR	%, y-o-y, real (PPI euro area), avg.	-	-	-	-3.2	-5.5	-1.3	-3.9	-8.8	**6.2**	**-2.0**	**-1.4**
Foreign trade prices												
Prices of exports of goods	%, y-o-y, average	0.4	-6.6	0.8	3.7	-1.5	-1.2	1.4	-4.6	**1.0**	**-1.8**	**0.3**
Prices of imports of goods	%, y-o-y, average	-1.5	-8.5	-0.3	1.6	-0.5	0.3	-1.0	-3.3	**-3.0**	**-1.8**	**0.2**
MONEY AND INTEREST RATES												
M2	%, y-o-y, average	11.1	7.0	4.1	7.7	5.3	8.9	11.2	8.4	**5.5**	**-0.9**	**2.0**
2W repo rate	%, end-of-period	4.75	2.75	2.00	2.50	2.00	2.50	3.50	2.25	-	-	-
3M PRIBOR	%, average	5.2	3.5	2.3	2.3	2.0	2.3	3.1	4.0	**2.1**	**1.7**	**2.3**

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

2007				2008				2009				2010				2011			
QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV
733.6	736.7	751.8	762.2	761.3	770.7	775.0	761.3	735.5	736.2	739.4	739.5	744.0	744.8	741.0	742.4	751.4	758.3	760.4	766.3
6.8	5.6	6.0	6.1	3.8	4.6	3.1	-0.1	-3.4	-4.5	-4.6	-2.9	1.2	1.2	0.2	0.4	1.0	1.8	2.6	3.2
6.6	6.1	6.2	0.7	2.8	3.1	2.5	2.4	3.0	0.7	0.4	0.0	-1.8	-0.8	-0.5	-0.3	0.0	0.3	0.7	1.2
0.6	-0.7	-1.1	4.0	-0.3	2.9	3.8	0.5	5.2	1.1	0.1	-2.3	-0.4	2.0	2.5	4.3	2.5	2.0	1.5	1.8
9.1	8.0	9.2	11.5	-1.1	-3.9	-4.3	1.0	-16.2	-12.9	-18.2	-19.3	-1.9	-3.8	-1.1	1.3	3.4	5.0	6.0	6.5
16.9	14.5	15.9	12.8	16.0	13.6	3.6	-7.3	-20.5	-22.3	-16.8	-9.0	-2.1	0.5	-1.8	-1.7	1.4	4.3	7.1	8.4
16.4	14.4	15.7	10.8	13.2	9.5	0.6	-5.8	-19.6	-21.4	-18.4	-13.9	-6.8	-2.9	-2.3	-0.7	2.1	4.6	6.8	7.9
2.0	1.7	3.6	20.5	22.9	31.8	26.2	7.9	11.2	17.7	34.3	43.4	41.7	39.5	36.7	36.2	37.6	39.3	41.2	42.5
13.7	10.8	9.5	8.8	2.1	3.9	0.8	-13.2	-19.0	-	-	-	-	-	-	-	-	-	-	-
28.0	8.2	-0.5	3.4	0.7	-2.3	6.4	-4.2	-11.4	-	-	-	-	-	-	-	-	-	-	-
12.2	10.4	8.7	9.2	5.4	4.8	4.6	-2.6	-4.2	-	-	-	-	-	-	-	-	-	-	-
2.2	2.1	2.0	2.8	4.3	5.4	6.4	6.3	5.0	3.7	-	-	-	-	-	-	-	-	-	-
1.9	2.5	2.8	5.4	7.1	6.7	6.6	3.6	2.3	1.2	0.5	0.8	0.5	0.8	1.3	1.9	2.0	2.0	2.1	2.0
4.1	4.0	4.6	6.5	15.0	14.7	15.7	17.1	11.0	9.7	7.3	5.3	0.9	0.7	1.6	2.0	1.9	2.7	3.0	3.0
1.3	1.5	1.2	3.8	3.5	2.9	2.9	-0.9	-0.4	-0.8	-1.1	0.0	0.9	1.2	1.8	1.9	1.9	1.9	1.9	1.9
3.2	2.7	2.5	8.2	4.9	3.0	3.6	-2.0	0.7	0.1	-1.2	-0.8	-0.9	0.3	1.7	1.8	2.4	2.6	2.6	2.6
0.6	1.0	0.7	1.2	2.1	2.3	2.4	1.4	0.4	0.0	-0.1	0.2	1.0	1.3	1.7	1.7	1.5	1.5	1.4	1.5
-3.1	-1.7	-1.8	12.0	12.7	9.8	4.3	-22.0	-17.6	-14.8	-13.3	2.8	14.5	6.5	3.9	4.7	3.7	3.1	2.9	2.8
1.7	1.9	1.7	4.3	5.1	4.6	4.7	1.8	1.8	1.2	0.5	1.2	0.8	1.2	1.7	1.9	2.0	2.0	2.1	2.0
3.0	3.4	2.9	4.2	2.4	1.3	0.8	1.8	4.0	2.5	2.1	0.0	-0.8	1.8	2.6	2.5	1.6	0.8	0.3	0.2
3.2	4.2	3.9	5.0	5.6	5.1	5.5	1.7	-1.1	-3.6	-4.8	-1.9	-1.4	0.0	0.4	0.4	1.5	1.3	1.0	0.8
13.3	11.2	15.0	26.0	26.7	27.2	7.7	-18.5	-27.8	-29.5	-19.9	-5.0	2.5	4.8	4.5	3.2	-	-	-	-
3.6	3.8	4.0	4.4	4.7	5.0	4.5	3.9	2.8	1.5	-	-	-	-	-	-	-	-	-	-
-6.1	-1.5	7.8	49.0	66.5	77.9	54.2	-36.3	-53.4	-51.8	-46.2	17.0	42.4	12.8	9.5	10.3	8.5	7.3	6.4	5.9
7.8	7.5	7.3	6.5	10.0	7.9	7.5	8.1	3.1	2.9	1.4	0.3	0.4	1.8	3.1	3.7	4.7	5.3	5.7	5.9
6.2	5.0	4.7	1.6	2.4	1.0	0.8	3.2	1.0	1.5	0.7	-0.5	0.0	1.0	1.7	1.8	2.6	3.2	3.6	3.8
1.3	1.8	2.1	2.4	2.1	1.9	1.7	1.2	-0.9	-2.8	-3.8	-3.7	-3.2	-2.2	-1.4	-0.8	-0.1	0.2	0.6	0.9
3.5	3.5	3.0	2.2	8.8	5.9	5.9	10.2	6.1	4.7	2.2	-0.6	-3.9	-1.6	1.4	2.5	3.5	3.6	3.6	3.5
5.3	-1.6	1.5	-1.1	6.6	2.0	2.4	6.1	8.3	-	-	-	-	-	-	-	-	-	-	-
3.2	2.8	3.4	4.0	0.8	2.8	2.9	-0.9	-2.7	-2.5	-1.7	0.3	4.6	3.6	1.8	1.4	1.6	1.8	2.3	2.4
6.0	5.3	5.1	4.8	4.7	4.2	4.3	4.4	5.8	6.6	7.6	8.2	9.1	8.9	9.6	9.9	10.5	9.8	10.0	10.0
8.2	7.0	6.7	6.3	6.3	5.5	5.6	5.8	7.5	8.1	9.2	9.6	10.8	10.4	11.0	11.4	12.1	11.3	11.5	11.4
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
45.5	27.3	20.8	27.0	42.9	39.6	27.5	-6.8	42.8	42.0	24.0	6.0	29.0	29.0	26.0	16.0	-	-	-	-
5.5	3.1	2.3	2.9	4.9	4.2	2.9	-0.7	4.9	4.6	2.6	0.7	3.3	3.1	2.8	1.7	-	-	-	-
12.1	17.7	16.0	10.8	22.3	22.1	19.5	18.1	15.5	17.0	15.0	13.0	15.0	17.0	15.0	13.0	-	-	-	-
28.4	-49.8	-50.8	-39.1	30.3	-55.9	-30.1	-58.2	24.8	-13.0	-36.0	-36.0	11.0	-23.0	-28.0	-20.0	-	-	-	-
3.4	-5.6	-5.7	-4.2	3.5	-5.9	-3.2	-6.2	2.8	-1.4	-3.9	-4.0	1.2	-2.4	-3.0	-2.1	-	-	-	-
36.7	38.5	42.2	61.7	21.5	53.2	41.4	34.3	17.6	-	-	-	-	-	-	-	-	-	-	-
21.4	21.0	20.3	18.5	17.1	15.9	16.1	19.3	21.2	19.6	18.9	18.9	18.8	18.8	18.7	18.7	18.6	18.5	18.4	18.3
28.0	28.3	27.9	26.8	25.5	24.8	24.1	25.4	27.6	26.7	26.1	25.9	25.8	25.7	25.7	25.6	25.4	25.4	25.3	25.1
-1.4	-0.7	-1.6	-5.9	-12.2	-14.7	-15.9	-7.2	7.4	7.0	8.1	1.8	-6.7	-3.5	-1.7	-1.2	-1.1	-1.6	-1.7	-1.9
-2.2	-2.4	-3.6	-6.0	-9.9	-11.1	-11.4	-2.8	9.6	7.9	7.1	0.4	-6.1	-2.5	0.0	0.7	-0.8	-1.3	-1.7	-1.9
1.9	2.8	1.9	-1.2	-4.3	-6.2	-6.5	-1.2	5.2	1.5	-0.1	-2.6	-6.5	-1.9	0.4	0.7	0.7	0.4	0.1	-0.1
-1.7	-0.4	-0.5	-1.5	-3.0	-4.4	-4.0	-1.6	1.6	-2.6	-5.4	-5.7	-6.4	-2.3	0.4	1.0	0.8	0.3	0.0	-0.3
10.5	11.6	11.2	11.7	10.1	7.6	8.3	7.5	8.8	7.4	5.4	0.3	-1.8	-2.4	-0.2	0.8	1.2	1.7	2.2	2.8
2.50	2.75	3.25	3.50	3.75	3.75	3.50	2.25	1.75	1.50	-	-	-	-	-	-	-	-	-	-
2.6	2.8	3.3	3.8	4.0	4.2	3.9	4.1	2.7	2.3	1.8	1.6	1.7	1.7	1.7	1.9	2.2	2.2	2.3	2.4

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	1.8	1.3	1.2	**0.5**	**0.5**	**5.0**			
Regulated prices	11.6	10.9	11.0	9.8	9.8	9.7	**7.4**	**7.4**	**7.3**			
(contribution to consumer price inflation)	*2.14*	*2.02*	*2.05*	*1.83*	*1.82*	*1.80*	***1.39***	***1.38***	***1.38***			
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*	***0.00***	***0.00***	***0.00***			
Net inflation	-0.7	-0.7	-0.4	-0.5	-0.7	-0.8	**-1.1**	**-1.0**	**-1.1**			
(contribution to consumer price inflation)	*-0.56*	*-0.57*	*-0.33*	*-0.34*	*-0.52*	*-0.62*	***-0.86***	***-0.85***	***-0.88***			
Prices of food, beverages and tobacco	-0.3	-0.3	0.7	0.7	0.4	0.1	**-1.0**	**-0.9**	**-1.2**			
(contribution to consumer price inflation)	*-0.06*	*-0.07*	*0.18*	*0.18*	*0.10*	*0.03*	***-0.26***	***-0.24***	***-0.31***			
Adjusted inflation excluding fuels	0.9	0.5	0.4	0.2	0.1	0.0	**-0.1**	**-0.1**	**-0.1**			
(contribution to consumer price inflation)	*0.49*	*0.25*	*0.18*	*0.09*	*0.06*	*-0.02*	***-0.04***	***-0.07***	***-0.04***			
Fuel prices	-24.6	-19.3	-17.6	-15.5	-16.8	-14.8	**-13.8**	**-13.3**	**-13.3**			
(contribution to consumer price inflation)	*-0.98*	*-0.75*	*-0.69*	*-0.61*	*-0.68*	*-0.62*	***-0.57***	***-0.53***	***-0.53***			
Monetary-policy relevant inflation	1.6	1.4	1.8	1.5	1.2	1.2	**0.5**	**0.5**	**0.5**			
Inflation rate (annual moving average)	*5.9*	*5.4*	*5.0*	*4.6*	*4.1*	*3.7*	***3.2***	***2.7***	***2.2***			

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	0.0	0.0	**-0.1**	**-0.1**	**-0.2**			
Regulated prices	6.1	-0.2	0.2	-0.6	0.1	0.0	**-0.6**	**0.0**	**0.1**			
(contribution to consumer price inflation)	*1.19*	*-0.03*	*0.04*	*-0.12*	*0.02*	*0.00*	***-0.12***	***0.00***	***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*	***0.00***	***0.00***	***0.00***			
Net inflation	0.4	0.2	0.1	0.1	0.0	0.1	**0.0**	**-0.1**	**-0.3**			
(contribution to consumer price inflation)	*0.36*	*0.15*	*0.10*	*0.04*	*-0.04*	*0.04*	***0.00***	***-0.11***	***-0.24***			
Prices of food, beverages and tobacco	1.3	-0.3	0.2	-0.3	-0.5	-0.5	**-1.0**	**-0.3**	**0.3**			
(contribution to consumer price inflation)	*0.34*	*-0.08*	*0.04*	*-0.07*	*-0.14*	*-0.13*	***-0.24***	***-0.09***	***0.08***			
Adjusted inflation excluding fuels	0.2	0.1	0.0	0.1	0.0	0.0	**0.4**	**0.1**	**-0.5**			
(contribution to consumer price inflation)	*0.12*	*0.06*	*-0.02*	*0.03*	*0.02*	*-0.02*	***0.22***	***0.07***	***-0.26***			
Fuel prices	-3.3	5.6	2.4	2.5	2.3	5.8	**0.6**	**-2.7**	**-1.7**			
(contribution to consumer price inflation)	*-0.10*	*0.17*	*0.08*	*0.08*	*0.08*	*0.19*	***0.02***	***-0.09***	***-0.06***			
Monetary-policy relevant inflation	*1.5*	*0.1*	*0.2*	*-0.1*	*0.0*	*0.0*	***-0.1***	***-0.1***	***-0.2***			

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	1000.0	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	13.7	13.7	13.7							13.7
Food and non-alcoholic beverages	162.6	13.8	13.4	13.2	12.6	11.4	10.6							12.5
Alcoholic beverages and tobacco	81.7	29.4	29.1	30.0	30.2	30.7	30.5							30.0
Clothing and footwear	52.4	-9.5	-10.3	-9.6	-9.0	-9.1	-9.4							-9.5
Housing, water, electricity, gas and other fuels	248.3	30.0	30.1	30.3	30.1	30.2	30.2							30.2
Furnishings, household equipment and routine maintenance of the house	58.1	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2							-1.2
Health	17.9	43.4	40.2	40.6	35.6	36.7	36.8							38.9
Transport	114.1	-5.9	-4.2	-3.6	-2.5	-1.8	0.1							-3.0
Communications	38.7	0.4	0.9	0.6	0.4	0.2	0.0							0.4
Recreation and culture	98.6	1.5	2.1	1.4	1.0	1.2	1.3							1.4
Education	6.2	11.3	11.3	11.3	11.3	11.3	11.2							11.3
Hotels, cafés and restaurants	58.4	14.7	14.8	15.1	15.3	15.5	15.6							15.2
Miscellaneous goods and services	63.0	10.1	10.7	10.8	11.0	10.9	10.6							10.7

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	-15.5	-16.8	-14.8						
Other tradables excluding food and fuel prices	-3.1	-3.4	-3.3	-3.6	-3.5	-3.4						
Prices of nontradables excluding regulated prices	*3.5*	*2.9*	*2.7*	*2.5*	*2.4*	*2.0*						
Prices of non-food commodities excluding regulated prices	-0.9	-0.9	-0.9	-0.9	-1.1	-1.2						
Prices of tradables - food	*2.1*	*2.0*	*2.7*	*1.8*	*0.7*	*0.1*						
Prices of nontradables - regulated prices	11.6	10.9	11.0	9.8	9.8	9.7						

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
4/09	1.9	2.4	-	-
5/09	1.9	2.5	-	-
6/09	1.8	2.5	1.8	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	6
European Union (27 countries)	2.1	2.5	2.3	2.2	3.2	2.2	0.6
European Union (25 countries)	1.9	2.4	2.1	2.2	3.1	2.0	0.5
Belgium	1.7	1.9	2.8	2.1	3.1	2.7	-1.0
Bulgaria	5.6	4.0	7.4	6.1	11.6	7.2	2.6
Czech Republic	0.9	2.5	1.9	1.5	5.5	3.3	0.8
Denmark	1.2	0.9	2.2	1.7	2.4	2.4	0.9
Germany	1.0	2.3	2.1	1.4	3.1	1.1	0.0
Estonia	1.2	4.8	3.6	5.1	9.7	7.5	-0.5
Ireland	3.0	2.4	1.9	3.0	3.2	1.3	-2.2
Greece	3.1	3.1	3.5	3.2	3.9	2.2	0.7
Spain	2.7	3.3	3.7	2.7	4.3	1.5	-1.0
France	2.4	2.3	1.8	1.7	2.8	1.2	
Italy	2.5	2.4	2.1	2.1	2.8	2.4	0.6
Cyprus	2.2	3.9	1.4	1.5	3.7	1.8	0.1
Latvia	3.5	7.4	7.1	6.8	14.0	10.4	3.1
Lithuania	-1.3	2.8	3.0	4.5	8.2	8.5	3.9
Luxembourg	2.4	3.5	3.4	2.3	4.3	0.7	-1.0
Hungary	5.6	5.5	3.3	6.6	7.4	3.4	3.7
Malta	2.4	1.9	3.4	0.8	3.1	5.0	2.8
Netherlands	1.6	1.2	2.0	1.7	1.6	1.7	1.4
Austria	1.3	2.5	1.6	1.6	3.5	1.5	-0.3
Poland	1.6	4.4	0.8	1.4	4.2	3.3	4.2
Portugal	2.3	2.6	2.5	2.5	2.7	0.8	-1.6
Romania	14.1	9.3	8.7	4.9	6.7	6.4	5.9
Slovenia	4.7	3.3	2.4	3.0	5.7	1.8	0.2
Slovakia	9.4	5.8	3.9	3.7	2.5	3.5	0.7
Finland	1.2	0.1	1.1	1.2	1.9	3.4	1.6
Sweden	1.8	0.9	1.3	1.4	2.5	2.1	1.6
United Kingdom	1.3	1.7	1.9	3.0	2.1	3.1	1.8

Source: Eurostat

Table 7

MONETARY SURVEY							positions at month-ends in CZK billions
	2003	2004	2005	2006	2007	2008	2009
	12	12	12	12	12	12	5
Total assets	1,766.1	1,844.1	1,992.1	2,188.7	2,478.3	2,639.1	2,677.8
Net external assets (NEAs)	821.5	863.3	1,076.4	972.6	970.4	974.8	1,036.3
NEAs of CNB	687.5	634.1	724.7	659.1	633.5	719.9	735.7
NEAs of OMFIs	134.0	229.3	351.7	313.5	336.9	254.9	300.6
Net domestic assets	944.5	980.8	915.8	1,216.0	1,508.0	1,664.3	1,641.6
Domestic loans	1,145.6	1,147.0	1,166.6	1,422.4	1,700.4	1,912.8	1,912.5
Net credit to government (NCG) (including securities)	354.0	257.5	99.1	136.3	72.2	22.9	13.4
NCG to central government (including securities)	408.7	312.4	163.0	206.9	146.1	154.3	177.1
NCG to other government (including securities)	-54.8	-54.9	-64.0	-70.6	-73.9	-131.4	-163.7
Loans to corporations and households (excluding securities)	791.6	889.4	1,067.5	1,286.1	1,628.2	1,889.8	1,899.1
Loans to corporations (excluding securities)	554.1	574.2	649.7	745.5	901.9	1,009.6	976.5
Loans to households (excluding securities)	237.5	315.2	417.8	540.6	726.3	880.2	922.6
Other net items (including securities and capital)	-201.1	-166.2	-250.8	-206.4	-192.4	-248.5	-271.0
Holdings of securities	16.6	18.8	14.4	14.0	26.6	15.6	13.3
Issued securities	-51.6	-74.9	-119.1	-121.8	-159.9	-138.6	-129.6
Liabilities							
Monetary aggregate M2	1,766.1	1,844.1	1,992.1	2,188.7	2,478.3	2,639.1	2,677.8
Monetary aggregate M1	902.8	962.3	1,087.3	1,239.8	1,438.7	1,545.1	1,538.2
Currency in circulation	221.4	236.8	263.8	295.3	324.1	365.5	358.8
Overnight deposits	681.4	725.6	823.5	944.5	1,114.6	1,179.5	1,179.5
Overnight deposits - households	372.1	410.8	456.6	529.3	601.2	708.9	770.6
Overnight deposits - corporations	309.3	314.7	367.0	415.3	513.4	470.7	408.8
M2-M1 (quasi money)	863.3	881.8	904.8	948.9	1,039.7	1,094.0	1,139.6
Deposits with agreed maturity	666.4	675.3	671.4	674.9	709.8	614.1	642.6
Deposits with agreed maturity - households	439.8	458.6	445.1	433.6	429.0	327.4	348.9
Deposits with agreed maturity - corporations	226.6	216.7	226.3	241.3	280.8	286.7	293.8
Deposits redeemable at notice	185.6	198.8	224.1	265.6	315.5	458.0	478.3
Deposits redeemable at notice - households	182.3	194.6	220.6	260.8	311.2	450.0	459.3
Deposits redeemable at notice - corporations	3.2	4.2	3.6	4.8	4.3	8.1	19.0
Repurchase agreements	11.3	7.6	9.3	8.4	14.4	21.9	18.6
Annual percentage changes							
M1	14.6	6.6	13.0	14.0	16.0	7.4	8.3
M2	6.9	4.4	8.0	9.9	13.2	6.5	7.3
Loans to corporations and households	9.3	12.4	20.0	20.5	26.6	16.1	9.5
M2-M1 (deposits)	-0.1	2.1	2.6	4.9	9.6	5.2	5.9
Annual percentage growth rates							
M1	15.5	8.3	13.1	14.7	16.6	7.4	7.9
M2	8.1	5.8	8.1	10.6	13.8	6.4	6.6
Loans to corporations and households	11.8	15.3	20.8	21.6	27.3	16.0	8.9
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 6
1. Average PRIBOR [1)]							
- 1 day	1.98	2.49	2.00	2.48	3.40	2.32	1.55
- 7 day	2.02	2.51	2.04	2.51	3.58	2.79	1.64
- 14 day	2.03	2.51	2.04	2.51	3.63	2.89	1.67
- 1 month	2.04	2.53	2.05	2.52	3.98	3.61	1.86
- 2 month	2.06	2.55	2.10	2.54	4.02	3.76	2.01
- 3 month	2.08	2.57	2.17	2.56	4.05	3.89	2.17
- 6 month	2.13	2.67	2.33	2.67	4.09	4.01	2.36
- 9 month	2.22	2.76	2.44	2.79	4.15	4.09	2.48
- 12 month	2.30	2.85	2.53	2.89	4.20	4.16	2.60
2. Average PRIBID [1)]							
- 1 day	1.88	2.39	1.90	2.38	3.30	2.09	1.29
- 7 day	1.92	2.41	1.94	2.41	3.48	2.48	1.36
- 14 day	1.93	2.41	1.94	2.41	3.53	2.55	1.37
- 1 month	1.94	2.43	1.95	2.42	3.88	3.23	1.54
- 2 month	1.96	2.45	2.00	2.44	3.92	3.39	1.68
- 3 month	1.98	2.47	2.07	2.46	3.95	3.52	1.83
- 6 month	2.03	2.57	2.23	2.57	3.99	3.65	2.01
- 9 month	2.12	2.66	2.34	2.69	4.05	3.72	2.12
- 12 month	2.20	2.75	2.43	2.79	4.10	3.79	2.23

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 6
3 * 6	2.23	2.74	2.46	2.71	4.15	3.12	2.16
3 * 9	2.36	2.81	2.57	2.83	4.16	2.98	2.26
6 * 9	2.47	2.85	2.66	2.92	4.15	2.75	2.25
6 * 12	2.64	2.92	2.74	3.02	4.17	2.71	2.35
9 * 12	2.77	2.97	2.79	3.08	4.16	2.58	2.40
9*12 - 3*6 spread	0.55	0.24	0.33	0.37	0.02	-0.55	0.24
6*12 - 3*9 spread	0.28	0.12	0.17	0.19	0.02	-0.27	0.09

percentages; monthly averages

C. IRS RATES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 6
1Y	2.41	2.82	2.56	2.86	4.19	3.14	2.29
2Y	2.98	3.06	2.82	3.09	4.20	2.82	2.70
3Y	3.38	3.27	3.00	3.21	4.22	2.84	3.09
4Y	3.69	3.45	3.13	3.31	4.26	2.90	3.37
5Y	3.93	3.62	3.25	3.40	4.30	2.96	3.54
6Y	4.13	3.77	3.33	3.46	4.34	3.01	3.65
7Y	4.29	3.89	3.40	3.52	4.38	3.07	3.73
8Y	4.43	4.00	3.46	3.58	4.42	3.15	3.83
9Y	4.54	4.09	3.52	3.63	4.47	3.24	3.93
10Y	4.64	4.17	3.58	3.68	4.52	3.34	4.03
15Y	4.97	4.40	3.78	3.83	4.71	3.54	4.35
20Y	5.11	4.54	3.88	3.89	4.76	3.43	4.41
5Y - 1Y spread	1.52	0.80	0.69	0.54	0.11	-0.18	1.26
10Y - 1Y spread	2.23	1.35	1.02	0.82	0.33	0.20	1.74

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	6.4	1.9	-0.3	0.5	4.1	-0.4	4.1	4.9	8.6
4/09	2.0	2.8	6.5	1.9	0.2	1.0	4.7	0.1	4.6	5.5	9.3
5/09	1.8	2.7	6.8	1.9	0.5	1.3	5.4	0.5	5.8	6.7	11.0
6/09	1.7	2.6	-	-	0.5	1.4	-	-	6.3	7.3	-

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

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	4.5	0.0	0.1	0.9	4.5	0.0
4/09	0.1	0.9	4.6	0.0	-	-	-	-
5/09	-0.1	0.7	4.8	0.0	-	-	-	-
6/09	-0.1	0.8	-	-	-0.2	0.7	-	-

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

Table 11

KORUNA INTEREST RATES (stock of business)							percentages
	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 5
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	7.01
- maturity up to 1 year	11.21	12.82	12.96	13.75	13.96	14.89	16.15
- maturity over 1 year and up to 5 years	10.17	12.40	11.43	11.35	12.46	13.05	13.04
- maturity over 5 years	6.65	6.39	5.96	5.84	5.79	6.18	6.25
for consumption - total	13.83	14.89	13.88	13.59	13.32	13.64	14.01
- maturity up to 1 year	14.26	15.48	16.22	17.31	17.34	18.04	19.96
- maturity over 1 year and up to 5 years	13.86	15.17	14.94	14.67	15.13	15.32	15.40
- maturity over 5 years	13.21	13.45	11.85	11.93	11.65	12.15	12.37
for house purchase - total	6.31	5.93	5.24	4.91	4.89	5.17	5.21
- maturity up to 1 year	6.24	4.48	4.29	5.39	6.56	7.37	7.11
- maturity over 1 year and up to 5 years	7.05	6.57	6.22	6.15	6.19	6.15	6.09
- maturity over 5 years	6.09	5.89	5.19	4.88	4.86	5.16	5.20
other - total	7.80	7.50	7.09	6.87	6.98	7.01	6.71
- maturity up to 1 year	8.49	8.96	9.09	9.52	10.35	10.75	10.65
- maturity over 1 year and up to 5 years	8.02	7.63	7.17	7.74	8.56	9.04	8.53
- maturity over 5 years	7.02	6.58	5.79	5.51	5.70	5.94	5.79
Non-financial corporations (S.11) - total	4.53	4.75	4.20	4.45	5.52	5.40	4.64
- maturity up to 1 year	4.08	4.35	3.84	4.23	5.37	5.06	4.43
- maturity over 1 year and up to 5 years	4.64	4.68	4.18	4.38	5.60	5.67	4.67
- maturity over 5 years	5.14	5.39	4.72	4.74	5.63	5.61	4.81
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	1.41
overnight	0.50	0.52	0.40	0.41	0.55	0.91	0.70
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	2.05
- with agreed maturity over 2 years	2.90	2.69	2.50	2.31	2.08	2.26	2.17
redeemable at notice - total	1.26	1.63	1.71	1.97	2.14	2.17	2.11
- redeemable at notice up to 3 months	1.67	2.14	2.27	2.34	2.42	2.33	2.31
- redeemable at notice over 3 months	0.98	1.12	0.81	1.00	1.08	1.02	1.01
Non-financial corporations (S.11) - total	0.85	1.21	0.91	1.18	1.67	1.21	1.02
overnight	0.64	0.68	0.52	0.72	1.06	0.62	0.58
with agreed maturity - total	1.50	2.08	1.64	2.09	3.01	2.29	1.61
- with agreed maturity up to 2 years	1.49	2.05	1.61	2.08	3.02	2.29	1.60
- with agreed maturity over 2 years	3.04	3.12	2.47	2.28	2.62	1.99	1.75
redeemable at notice - total	1.17	1.60	1.14	1.64	1.89	2.54	1.98
- redeemable at notice up to 3 months	1.14	1.49	1.07	1.53	1.79	2.52	1.97
- redeemable at notice over 3 months	1.32	2.26	1.64	2.21	2.93	3.11	2.71

Table 12

BALANCE OF PAYMENTS [1]						in CZK millions
	2004	2005	2006	2007	2008	2009 [2]
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1
A. Current account	-147,455.7	-39,826.1	-82,245.4	-111,277.2	-113,858.4	24,761.8
Balance of trade	-13,384.0	59,369.5	65,094.0	120,616.9	103,232.1	42,791.9
exports	1,722,657.4	1,868,585.8	2,144,573.4	2,479,233.8	2,465,400.4	523,889.2
imports	1,736,041.4	1,809,216.3	2,079,479.4	2,358,616.9	2,362,168.3	481,097.3
Services	16,564.4	36,937.1	46,403.8	56,626.1	81,992.7	15,481.3
credit	247,084.8	282,411.4	314,032.3	346,583.3	377,343.7	82,081.9
transport	69,859.0	76,701.5	85,700.7	101,840.5	105,484.8	23,339.6
travel	107,231.8	112,234.4	124,744.2	134,058.3	130,738.2	28,550.3
others	69,994.0	93,475.5	103,587.4	110,684.5	141,120.7	30,192.0
debit	230,520.4	245,474.3	267,628.5	289,957.2	295,351.0	66,600.6
transport	47,571.4	56,254.1	62,140.7	73,128.4	75,288.8	17,219.2
travel	58,398.0	57,777.6	62,174.3	73,450.3	77,518.2	17,964.6
others	124,551.0	131,442.6	143,313.5	143,378.5	142,544.0	31,416.8
Income	-156,637.9	-143,427.6	-180,853.8	-270,174.7	-288,842.3	-39,431.9
credit	87,206.1	105,728.7	127,975.4	151,986.0	135,611.2	32,616.1
debit	243,844.0	249,156.3	308,829.2	422,160.7	424,453.5	72,048.0
Current transfers	6,001.8	7,294.9	-12,889.4	-18,345.5	-10,240.9	5,920.5
credit	53,050.6	76,655.5	56,193.1	69,517.1	75,240.5	29,310.8
debit	47,048.8	69,360.6	69,082.5	87,862.6	85,481.4	23,390.3
B. Capital account	-14,186.5	4,689.3	8,454.6	19,568.8	31,027.0	15,579.8
credit	5,608.2	5,525.2	14,269.6	21,273.7	46,410.3	15,870.4
debit	19,794.7	835.9	5,815.0	1,704.9	15,383.3	290.6
Total A + B	*-161,642.2*	*-35,136.8*	*-73,790.8*	*-91,708.4*	*-82,831.4*	*40,341.6*
C. Financial account	177,312.0	154,767.4	92,417.9	125,803.9	151,187.3	-3,754.3
Direct investment	101,776.3	279,630.5	90,261.7	179,064.0	150,438.2	17,570.2
abroad	-26,067.3	449.0	-33,169.6	-32,879.7	-32,358.3	-18,448.0
equity capital and reinvested earnings	-20,260.0	-4,262.8	-33,886.7	-26,412.3	-30,476.9	-12,294.3
other capital	-5,807.3	4,711.8	717.1	-6,467.4	-1,881.4	-6,153.7
in the Czech Republic	127,843.6	279,181.5	123,431.3	211,943.7	182,796.5	36,018.2
equity capital and reinvested earnings	121,482.9	262,471.8	129,598.6	191,531.6	175,677.9	36,201.2
other capital	6,360.7	16,709.7	-6,167.3	20,412.1	7,118.6	-183.0
Portfolio investment	53,032.5	-81,243.8	-26,882.5	-57,232.1	-9,145.4	3,042.8
assets	-70,245.2	-82,095.7	-68,383.5	-98,653.0	-4,456.4	11,467.9
equity securities	-36,457.1	-35,342.4	-43,559.2	-65,643.8	-11,103.5	-2,040.3
debt securities	-33,788.1	-46,753.3	-24,824.3	-33,009.2	6,647.1	13,508.2
liabilities	123,277.7	851.9	41,501.0	41,420.9	-4,689.0	-8,425.1
equity securities	19,558.6	-36,408.9	5,758.0	-5,855.7	-21,302.1	5,147.4
debt securities	103,719.1	37,260.8	35,743.0	47,276.6	16,613.1	-13,572.5
Financial derivatives	-3,208.0	-2,798.6	-6,236.9	1,296.3	-14,000.7	-3,778.4
assets	-15,565.8	-2,860.9	-10,850.5	-15,700.1	36,031.4	13,592.6
liabilities	12,357.8	62.3	4,613.6	16,996.4	-50,032.1	-17,371.0
Other investment	25,711.2	-40,820.7	35,275.6	2,675.7	23,895.2	-20,588.9
assets	-30,507.4	-114,430.6	-31,054.7	-142,189.4	-84,328.2	30,238.7
long-term	20,434.2	-16,338.0	-6,119.2	-45,988.9	-67,660.0	7,640.7
CNB	-184.9	-176.3	-	2.3	-	-6.4
commercial banks	505.0	-24,641.7	-10,715.8	-45,243.7	-69,282.9	8,091.6
government	22,790.7	14,056.5	4,983.6	-691.7	322.8	-412.2
other sectors	-2,676.6	-5,576.5	-387.0	-55.8	1,300.1	-32.3
short-term	-50,941.6	-98,092.6	-24,935.5	-96,200.5	-16,668.2	22,598.0
commercial banks	-34,248.5	-87,137.0	24,866.4	-88,410.9	27,572.0	20,800.4
government	92.9	9.4	-	-	-	-
other sectors	-16,786.0	-10,965.0	-49,801.9	-7,789.6	-44,240.2	1,797.6
liabilities	56,218.6	73,609.9	66,330.3	144,865.1	108,223.4	-50,827.6
long-term	36,550.9	49,022.1	68,702.1	30,158.0	34,981.4	-9,536.1
CNB	-20.5	-19.1	-18.1	-18.1	-8.6	-
commercial banks	-1,410.8	311.1	12,733.4	28,675.1	18,126.1	-8,637.0
government	10,296.1	20,809.1	9,847.3	2,899.1	7,856.3	-1,233.0
other sectors	27,686.1	27,921.0	46,139.5	-1,398.1	9,007.6	333.9
short-term	19,667.7	24,587.8	-2,371.8	114,707.1	73,242.0	-41,291.5
CNB	843.7	5,060.1	-4,147.6	-552.8	320.0	-299.8
commercial banks	-15,344.5	14,808.8	2,250.5	89,157.0	55,108.6	-34,145.3
government	-	-	-	-	-	-
other sectors	34,168.5	4,718.9	-474.7	26,102.9	17,813.4	-6,846.4
Total A + B + C	*15,669.8*	*119,630.6*	*18,627.1*	*34,095.5*	*68,355.9*	*36,587.3*
D. Net errors and omissions, valuation changes	-8,887.6	-26,779.0	-16,552.7	-18,429.0	-28,244.6	-412.7
Total A + B + C + D	*6,782.2*	*92,851.6*	*2,074.4*	*15,666.5*	*40,111.3*	*36,174.6*
E. Change in reserves (- increase)	-6,782.2	-92,851.6	-2,074.4	-15,666.5	-40,111.3	-36,174.6

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

	2004 31 Dec.	2005 31 Dec.	2006 31 Dec.	2007 31 Dec.	2008 31 Dec.	2009 [1)] 31 Mar.
Assets	1,549,334.9	1,875,403.8	1,888,248.1	2,118,640.9	2,288,379.8	2,327,427.4
Direct investment abroad	84,087.4	88,772.7	104,743.3	154,700.9	191,775.0	213,650.0
- equity capital	70,664.0	80,061.1	96,748.8	140,239.0	174,825.0	190,165.0
- other capital	13,423.4	8,711.6	7,994.5	14,461.9	16,950.0	23,485.0
Portfolio investment	372,237.6	467,808.5	532,163.4	618,625.4	505,136.7	474,979.2
- equity securities	76,121.3	146,957.6	202,322.0	256,779.1	189,701.2	181,170.0
- debt securities	296,116.3	320,850.9	329,841.4	361,846.3	315,435.5	293,809.2
Financial derivatives	39,695.3	42,556.2	53,406.7	69,525.0	129,950.1	154,893.5
Other investment	417,071.9	549,564.4	541,297.0	644,773.4	745,713.6	725,580.4
long-term	118,432.7	136,314.1	128,334.6	162,633.3	238,066.4	232,705.0
- CNB	600.0	3,184.5	2,993.8	2,848.9	3,174.8	3,280.0
- commercial banks	58,137.8	83,231.1	87,666.2	126,415.4	200,680.0	193,545.6
- government	48,574.9	38,408.5	29,894.6	27,359.0	31,471.6	33,029.4
- other sectors	11,120.0	11,490.0	7,780.0	6,010.0	2,740.0	2,850.0
short-term	298,639.2	413,250.3	412,962.4	482,140.1	507,647.2	492,875.4
- CNB	71.7	71.1	131.3	102.1	84.1	98.5
- commercial banks	184,588.0	273,879.1	233,831.1	310,538.0	295,963.1	279,276.9
of which: gold and foreign exchange	128,119.8	198,042.8	166,588.9	200,780.8	204,178.9	184,343.4
- government	9.5	0.1	-	-	-	-
- other sectors	113,970.0	139,300.0	179,000.0	171,500.0	211,600.0	213,500.0
CNB reserves	636,242.7	726,702.0	656,637.7	631,016.2	715,804.4	758,324.3
- gold	4,253.9	5,526.8	5,690.9	6,431.6	6,933.8	8,092.0
- SDR	118.0	289.8	346.0	363.3	402.4	428.2
- reserve position in the IMF	9,137.5	4,447.7	2,324.6	1,521.6	3,128.0	3,196.8
- foreign exchange	610,659.1	716,315.2	648,192.1	618,048.0	695,695.7	733,636.8
- other reserve assets	12,074.2	122.5	84.1	4,651.7	9,644.5	12,970.5
Liabilities	2,374,328.4	2,710,646.3	2,969,225.5	3,533,858.3	3,891,749.8	3,903,829.3
Direct investment in the Czech Republic	1,280,594.8	1,491,564.0	1,666,760.7	2,032,111.2	2,212,577.2	2,251,743.4
- equity capital	1,121,842.3	1,316,101.8	1,497,465.8	1,842,404.2	2,011,862.2	2,048,063.4
- other capital	158,752.5	175,462.2	169,294.9	189,707.0	200,715.0	203,680.0
Portfolio investment	381,019.4	437,806.0	487,994.5	556,342.4	508,094.6	486,929.1
- equity securities	208,872.1	220,495.8	241,594.8	262,518.8	179,775.0	169,504.5
- debt securities	172,147.3	217,310.2	246,399.7	293,823.6	328,319.6	317,424.6
Financial derivatives	31,806.1	31,868.4	36,482.0	54,222.9	144,154.4	176,026.9
Other investment	680,908.1	749,407.9	777,988.3	891,181.8	1,026,923.6	989,129.9
long-term	373,456.4	417,645.7	464,073.2	478,698.3	530,501.0	526,532.8
- CNB	70.2	47.8	27.2	8.8	-	-
- commercial banks	52,020.8	51,639.8	62,263.6	87,448.9	120,767.8	113,105.6
- government	32,065.4	52,322.1	61,686.4	65,875.1	73,497.7	72,271.7
- other sectors	289,300.0	313,636.0	340,096.0	325,365.5	336,235.5	341,155.5
short-term	307,451.7	331,762.2	313,915.1	412,483.5	496,422.6	462,597.1
- CNB	866.5	5,926.5	1,779.0	1,226.2	1,546.4	1,450.5
- commercial banks	185,025.2	201,315.7	193,816.1	272,187.3	332,976.2	302,541.6
- government	-	-	-	-	-	-
- other sectors	121,560.0	124,520.0	118,320.0	139,070.0	161,900.0	158,605.0
Net investment position	-824,993.5	-835,242.5	-1,080,977.4	-1,415,217.4	-1,603,370.0	-1,576,401.9

1) Preliminary data

Table 14

EXTERNAL DEBT

in CZK millions

	2004 31 Dec.	2005 31 Dec.	2006 31 Dec.	2007 31 Dec.	2008 31 Dec.	2009 [1] 31 Mar.
Debt in convertible currencies	1,011,807.9	1,142,180.3	1,193,682.9	1,374,712.4	1,555,958.2	1,510,234.5
of which:						
Long-term	667,327.6	783,533.1	872,113.2	966,893.1	1,056,814.4	1,040,307.5
by debtor						
- CNB	70.2	47.8	27.2	8.8	-	-
- commercial banks	64,346.5	65,418.9	76,426.6	107,852.8	147,006.1	141,265.8
- government	147,729.1	221,003.4	247,019.8	268,669.9	292,278.5	274,833.5
- other sectors	455,181.8	497,063.0	548,639.6	590,361.6	617,529.8	624,208.2
by creditor						
- foreign banks	269,081.3	276,594.3	324,908.9	340,251.2	373,577.8	377,121.3
- government institutions	-	9,636.0	9,555.5	8,686.0	7,249.6	5,748.1
- multilateral institutions	84,862.4	105,187.7	107,043.6	100,897.3	121,655.0	121,469.5
- suppliers and direct investors	143,301.2	170,586.6	179,903.7	220,419.0	219,010.0	219,200.0
- other investors	170,082.7	221,528.5	250,701.5	296,639.6	335,322.0	316,768.6
Short-term	344,480.3	358,647.2	321,569.7	407,819.3	499,143.8	469,927.0
by debtor						
- CNB	866.5	5,926.5	1,779.0	1,226.2	1,546.4	1,450.5
- commercial banks	188,495.9	202,616.9	196,529.5	274,189.3	335,538.1	303,975.7
- government	3,334.6	1,102.4	350.0	5,722.8	2,763.4	5,917.9
- other sectors	151,783.3	149,001.4	122,911.2	126,681.0	159,295.9	158,582.9
by creditor						
- foreign banks	202,372.6	197,820.7	187,186.7	243,132.5	322,095.5	287,308.8
- multilateral institutions	861.3	5,918.8	1,768.2	1,220.3	1,540.8	1,446.3
- suppliers and direct investors	98,611.3	102,235.6	78,391.2	72,188.0	83,045.0	80,540.0
- other investors	42,635.1	52,672.1	54,223.6	91,278.5	92,462.5	100,631.9
Debt in non-convertible currencies	-	-	-	-	-	-
of which:						
- long-term	-	-	-	-	-	-
- short-term	-	-	-	-	-	-
Total external debt	1,011,807.9	1,142,180.3	1,193,682.9	1,374,712.4	1,555,958.2	1,510,234.5
of which:						
- long-term	667,327.6	783,533.1	872,113.2	966,893.1	1,056,814.4	1,040,307.5
- short-term	344,480.3	358,647.2	321,569.7	407,819.3	499,143.8	469,927.0
Total long-term debt	667,327.6	783,533.1	872,113.2	966,893.1	1,056,814.4	1,040,307.5
of which:						
- IMF loans	-	-	-	-	-	-
- liabilities of government sector and guaranteed by government, and liabilities of entities majority owned by state	272,202.1	322,498.4	342,241.9	376,867.5	428,681.9	415,033.2
- liabilities of entities with majority private capital	395,125.5	461,034.7	529,871.3	590,025.6	628,132.5	625,274.3

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	4 – 6
CZK exchange rate against selected currencies							
- annual/quarterly averages							
1 EUR	31.84	31.90	29.78	28.34	27.76	24.94	26.68
1 USD	28.23	25.70	23.95	22.61	20.31	17.04	19.59
	12	**12**	**12**	**12**	**12**	**12**	**6**
- monthly averages							
1 EUR	32.31	30.65	28.98	27.78	26.30	26.11	26.55
1 USD	26.32	22.87	24.44	21.02	18.04	19.48	18.94
	31 Dec.	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Jun.**
- last day of the month							
1 EUR	32.41	30.47	29.01	27.50	26.62	26.93	25.89
1 USD	25.65	22.37	24.59	20.88	18.08	19.35	18.32

B. NOMINAL EFFECTIVE RATE	2003	2004	2005	2006	2007	2008	2009
							6
CZK nominal effective exchange rate (percentages)							
(2005=100)							
weights - foreign trade turnover	93.44	94.07	100.00	105.09	107.78	120.33	115.88
weights - foreign trade turnover SITC 5-8	93.37	93.96	100.00	105.21	107.93	120.50	115.30

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
							6
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	109.05
weights - foreign trade turnover SITC 5-8	92.12	95.20	100.00	102.49	105.41	115.50	109.57
b) consumer prices							
weights - foreign trade turnover	94.44	94.97	100.00	104.73	107.75	123.04	118.38
weights - foreign trade turnover SITC 5-8	93.90	94.60	100.00	105.06	108.29	123.98	118.95

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	6
BCPP							
PX	659.1	1,032.0	1,473.0	1,588.9	1,815.1	858.2	898.2
PX-GLOB	816.9	1,232.7	1,811.3	1,987.4	2,268.4	1,096.4	1,157.6

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	-	-
11 May	1.50	0.50	2.50	-	-

Table 17

MACROECONOMIC AGGREGATES						in CZK millions; annual percentage changes; constant 2000 prices
	2004 Q1 - 4	2005 Q1 - 4	2006 Q1 - 4	2007 Q1 - 4	2008 Q1 - 4	2009 Q1
Gross domestic product						
- in CZK millions	2,474,006	2,630,273	2,809,338	2,981,579	3,069,708	704,112
- percentages	4.5	6.3	6.8	6.1	3.0	-3.3
Final consumption						
- in CZK millions	1,834,457	1,882,570	1,956,408	2,027,938	2,076,121	500,006
- percentages	0.9	2.6	3.9	3.7	2.4	3.6
of which:						
Households						
- in CZK millions	1,294,377	1,327,217	1,394,195	1,461,718	1,501,562	361,426
- percentages	2.9	2.5	5.0	4.8	2.7	3.0
Government						
- in CZK millions	526,656	541,825	548,208	551,902	561,387	135,314
- percentages	-3.5	2.9	1.2	0.7	1.7	5.3
Non-profit institutions						
- in CZK millions	14,579	14,629	16,443	18,545	18,269	4,462
- percentages	9.1	0.3	12.4	12.8	-1.5	-1.0
Gross capital formation						
- in CZK millions	773,916	767,420	841,412	920,201	899,435	181,382
- percentages	9.1	-0.8	9.6	9.4	-2.3	-13.9
of which:						
Fixed capital						
- in CZK millions	716,285	729,043	772,820	856,246	855,506	188,097
- percentages	3.9	1.8	6.0	10.8	-0.1	-3.4
Changes in inventories						
- in CZK millions	54,706	35,654	65,891	60,718	40,654	-7,491
Acquisitions less disposals of valuables						
- in CZK millions	2,925	2,723	2,701	3,237	3,275	776
- percentages	-39.6	-6.9	-0.8	19.8	1.2	-5.8
Foreign trade						
of which:						
Exports of goods						
- in CZK millions	1,820,657	2,032,500	2,368,967	2,744,170	2,899,564	584,839
- percentages	23.0	11.6	16.6	15.8	5.7	-22.0
Exports of services						
- in CZK millions	226,614	251,989	278,675	305,096	348,689	71,743
- percentages	6.5	11.2	10.6	9.5	14.3	-12.9
Imports of goods						
- in CZK millions	1,928,984	2,033,055	2,332,772	2,683,119	2,795,200	559,156
- percentages	18.8	5.4	14.7	15.0	4.2	-21.6
Imports of services						
- in CZK millions	263,438	268,334	297,136	322,186	347,368	74,713
- percentages	11.7	1.9	10.7	8.4	7.8	-4.8
Final domestic demand						
- in CZK millions	2,550,742	2,611,613	2,729,228	2,884,184	2,931,627	688,103
- percentages	1.8	2.4	4.5	5.7	1.6	1.6
Aggregate domestic demand						
- in CZK millions	2,608,373	2,649,990	2,797,820	2,948,139	2,975,556	681,388
- percentages	3.2	1.6	5.6	5.4	0.9	-1.7
Gross domestic product at current prices						
- in CZK millions	2,814,762	2,983,862	3,222,369	3,535,460	3,696,389	878,011
- percentages	9.2	6.0	8.0	9.7	4.6	0.4

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