INFLATION REPORT / II

2010

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 May 2010 and contains the information available as of 23 April 2010.

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.

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CHART I.1 FULFILMENT OF THE INFLATION TARGET

Inflation declined at the beginning of 2010 and was slightly below the lower boundary of the tolerance band around the new 2% inflation target valid since the beginning of 2010

(annual percentage changes)

TABLE I.1 KEY MACROECONOMIC INDICATORS

The unemployment rate is recording slowing growth

(annual percentage changes unless otherwise indicated)

	12/09	1/10	2/10	3/10
Consumer price inflation	1.0	0.7	0.6	0.7
Industrial producer price inflation	-0.8	-1.5	-2.0	-0.8
Money supply growth (M2)	4.3	2.4	2.8	-
3M PRIBOR[a] (in per cent)	1.6	1.6	1.5	1.4
CZK/EUR exchange rate[a] (level)	26.08	26.14	25.98	25.54
CZK/USD exchange rate[a] (level)	17.84	18.31	18.98	18.82
State budget balance since January[b] (CZK bn)	-192.4	13.1	-10.6	-45.9
GDP growth at constant prices[c, d]	-3.1			-
Average nominal wage[c]	5.2			-
Unemployment rate[e] (in per cent)	9.2	9.8	9.9	9.7

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

Inflation fell slightly in January 2010 and was broadly stable in the remaining months of Q1. It was slightly below the lower boundary of the tolerance band around the new inflation target of 2% in effect since the beginning of 2010. In 2009 Q4, the Czech economy continued growing in quarter-on-quarter terms and its year-on-year decline slowed further. The Bank Board left monetary policy interest rates unchanged in 2010 Q1. The current forecast expects economic activity to increase in the next two years, particularly in 2011, when GDP growth will accelerate. Inflation will gradually rise in the remainder of this year. Owing to tax changes already implemented, it will temporarily increase slightly above the inflation target at the end of the year. In 2011, inflation will be just below the inflation target. Consistent with the forecast is a modest decline in market interest rates initially, followed by stability and a gradual rise in rates as from 2011. At its meeting in May, the Bank Board assessed the risks of the forecast as being balanced and decided by a majority vote to lower the two-week repo rate and the Lombard rate by 0.25 percentage point to 0.75% and 1.75% respectively. The discount rate was left unchanged at 0.25%.

The monetary policy decision-making of the CNB Bank Board in 2010 Q1 was based on the inflation forecast published in the previous Inflation Report. At the monetary policy horizon, headline inflation was expected, according to this forecast, to be close to the 2% inflation target, and monetary policy-relevant inflation was expected to gradually approach this target from below. Consistent with the baseline scenario of the forecast and its assumptions were stable short-term interest rates in the first half of this year close to their level at the start of the year and a gradual rise in rates thereafter.

At its February meeting, the Bank Board decided unanimously to leave monetary policy interest rates unchanged. This decision was in line with the forecast and its risks, which the Board assessed as being balanced overall. The Bank Board also left interest rates unchanged in March, this time by a majority vote. However, the assessment of the risks to the forecast shifted to being moderately anti-inflationary. The main downside risk to inflation, i.e. acting towards lower rates, was a lower market outlook for interest rates in the euro area.

Money market interest rates declined slightly in 2010 Q1 and throughout most of April. The largest decrease (of 0.2 percentage point) was registered for rates with maturities of over six months. The decline in market interest rates was chiefly due to expectations of a later commencement of increases, or potentially a further decrease, in monetary policy rates. These expectations chiefly reflected a lower outlook for foreign rates and CNB communication.

The koruna's exchange rate was volatile in the first four months of this year. Towards the end of April, the koruna appreciated against the euro by more than 4% compared to the start of the year, and depreciated against the dollar by almost 3%. The exchange rate of the koruna was mostly affected by external factors, particularly the Greek crisis and its resolution by means of foreign financial assistance.

Continuing modest quarter-on-quarter GDP growth in 2009 Q4 indicated a gradual recovery of the Czech economy from the recession. In year-on-year terms GDP continued declining, but at a slower pace than in the previous quarter. This was mainly due to foreign trade, whose contribution to output growth was positive in Q4 amid renewed modest growth in exports. Government expenditure also continued to have a pro-growth effect. By contrast, households' contribution to GDP growth was negative for the second consecutive quarter according to revised CZSO data. However, the annual decline in output was largely a result of markedly falling gross capital formation, inventories in particular. The latest available data on industry, construction and retail trade in February indicate that the recovery of the Czech economy will be only moderate and gradual.

The existing labour market trends continued in 2009 Q4 and early 2010. The annual decline in employment deepened further and unemployment increased further, although the pace of these trends moderated. The number of unemployed persons per vacancy reached another all-time high. Average nominal wage growth rose further in Q4, largely because of a lower sickness rate, changes in the employment structure and a shift of part of bonus payments from this year to the previous year owing to increased ceilings for social and health insurance as from 2010. However, average wage growth increased only in the business sector, whereas in the non-business sector it slowed to the Q2 level. Nevertheless, the volume of wages and salaries in the economy continued falling year on year because of decreasing employment. This, together with a marked moderation in the GDP decline, led to weaker growth in the wage cost-output ratio.

Following a small decline in January, inflation stabilised at a low level in the subsequent months of 2010 Q1. Actual inflation was 0.2 percentage point lower on average in 2010 Q1 than forecasted in the previous Inflation Report. This was due to higher-than-forecasted negative adjusted inflation excluding fuels, which more than offset the effect of a slower decline in food prices and a faster rise in fuel prices.

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. Import prices are anti-inflationary as a result of the past exchange rate appreciation and low inflation abroad. However, this effect will fade quickly at the forecast horizon. The pressures from the domestic economy are slightly inflationary, but are of little significance and will not be apparent in the remainder of this year. They will become inflationary again in 2011, when they will strengthen gradually in connection with the pick-up in economic growth. From the future perspective, the overall macroeconomic conditions in 2010 Q1 are assessed as being slightly inflationary owing to the currently narrow margins, which will increase as the economy recovers.

Headline inflation will gradually rise this year. Owing to tax changes already implemented, it will temporarily increase slightly above the inflation target at the end of the year. At the monetary policy horizon, i.e. in 2011 Q2 and Q3, headline inflation will be just below the inflation target (see Chart I.2). In 2011, inflation will be affected above all by the fading effects of tax changes, a marked slowdown in fuel price growth and rising adjusted inflation excluding fuels.

Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, on which interest rate decision-making is based, will approach the target in 2011 against the background of a stronger recovery in economic activity. The effects of the tax changes will dissapear at the monetary policy horizon and monetary-policy relevant inflation will be the same as headline inflation.

The forecast assumes that the external demand recovery will be reflected in a return of domestic GDP to annual growth in 2010 and 2011. Higher growth this year will still be prevented by a decline in household consumption related to labour market developments and austerity measures. A temporary fall in GDP growth will also be fostered by a renewed temporary decline in external

CHART I.2 THE HEADLINE INFLATION FORECAST

Headline inflation is slightly below the CNB's inflation target at the monetary policy horizon

(annual percentage changes)

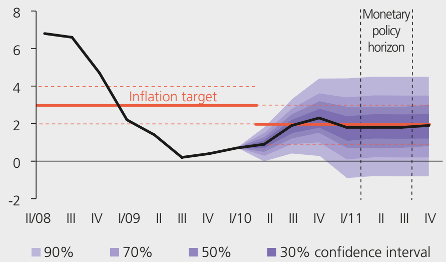


CHART I.3 THE GDP GROWTH FORECAST

Growth in economic activity will accelerate gradually in the course of 2011

(annual percentage changes; seasonally adjusted)

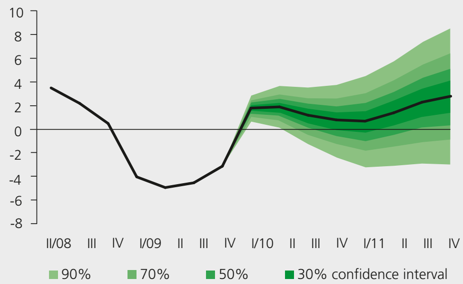


CHART I.4 THE INTEREST RATE FORECAST

Consistent with the forecast is a modest decline in market interest rates initially, followed by stability and a gradual rise in rates as from 2011

(3M PRIBOR, %)

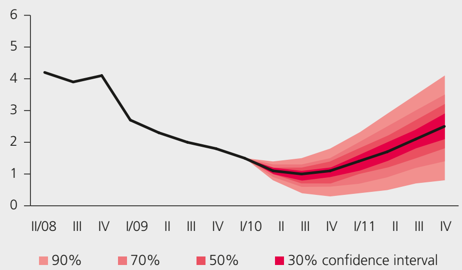
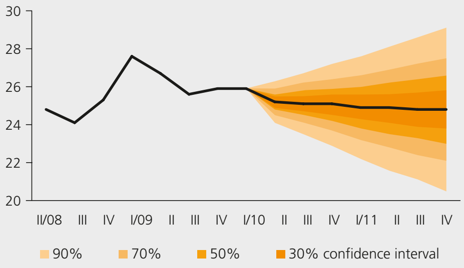


CHART I.5 THE EXCHANGE RATE FORECAST
The nominal exchange rate of the koruna is gradually appreciating over the forecast horizon
(CZK/EUR)



demand, which has an asymmetric W shape according to the assumptions of the forecast. Both these effects will fade in 2011 and GDP growth will start to accelerate in a more sustained way (see Chart I.3).

Consistent with the forecast is a modest decline in market interest rates initially, followed by stability and a gradual rise in rates as from 2011 (see Chart I.4). The nominal exchange rate of the koruna is gradually appreciating over the forecast horizon (see Chart I.5).

At its meeting in May, the Bank Board assessed the risks of the forecast as being balanced. The exchange rate was found to be an upside risk to inflation. Conversely, the Bank Board assessed the international economic outlook in relation to Czech exports as being a downside risk. In addition, uncertainty in both directions stems from current financial market developments in connection with the fiscal situation. In line with the forecast, the Bank Board decided by a majority vote to lower the two-week repo rate and the Lombard rate by 0.25 percentage point to 0.75% and 1.75% respectively. Four board members voted in favour of rate cuts, two members voted for leaving rates unchanged and one member was not present. The discount rate was left unchanged at 0.25%. The Bank Board decided to leave the discount rate unchanged because many legal rules use a multiple of the discount rate in sanction and similar provisions as a basis for calculating penalties, fines, sanction fees, etc. For this reason, the CNB deemed it justified to keep the sanction amounts above zero in such cases.

II.1 THE EXTERNAL ENVIRONMENT

The annual decline in GDP in the USA turned into modest growth in 2009 Q4, and US GDP rose quarter on quarter. In the euro area, the annual decline moderated and GDP was flat in quarter-on-quarter terms. At the start of 2010, annual inflation was affected chiefly by rising energy prices. The exchange rate of the dollar against the euro depreciated to USD 1.33 in April 2010. The price of Brent crude oil increased.

Quarter-on-quarter real GDP growth in the USA picked up in 2009 Q4, reaching 5.6% in full-year terms according to the current estimate (compared to 2.2% in the previous quarter). The increase in GDP growth was mainly due to a substantial increase in private investment and to stronger export growth combined with slower import growth. Household consumption growth slowed, but remained positive. By contrast, government consumption decreased. Overall, the US economy shrank by 2.4% in 2009.

Consumer prices in the USA rose by 2.3% year on year in March (see Chart II.1), the biggest growth being recorded for petrol prices. Producer prices increased by 4.4% year on year in February. Following a period of relatively low volatility between 20 February and the end of March, when the price of oil showed a slight upward trend, there was a surge in early April (see Chart II.2). Retail sales grew faster than expected in March, and the leading indicators are mostly optimistic. The unemployment rate was unchanged in the last three months, standing at 9.7% in March. The stabilisation of the unemployment rate can be assessed positively, although there is a risk of its staying at a high level for an extended period owing to the risks of insufficient GDP growth and to structural changes in the economy. The trade deficit widened slightly in February (due to higher growth in imports than in exports). The largest increases were recorded for exports of capital goods and imports of consumer goods and industrial inputs.

The federal budget deficit was USD 717.0 billion in the first half of the new fiscal year (October 2009 – March 2010), an improvement on the same period a year earlier (USD 781.4 billion). However, the deficit is expected to increase to a record USD 1.6 trillion (10.6% of GDP) for the entire fiscal year 2010, a rise of USD 143 billion on the previous year. At its regular meeting on 16 March, the Fed decided to leave its interest rate at 0–0.25%. It is not clear how long the period of record low rates will last. The depreciation of the euro against the dollar, which started in December 2009, continued into 2010 Q1. The euro thus lost much of the previous appreciation recorded between March and November 2009. Overall, the euro depreciated by 12% from USD 1.51/EUR (end-November 2009) to USD 1.33/EUR (early April 2010), mainly because of growing concerns about Greece's ability to repay its debt.

According to revised data, the annual contraction of the euro area economy moderated to 2.2% in 2009 Q4. In quarter-on-quarter terms, the economy was unchanged (see Chart II.4). Net exports and growth in inventories had a favourable effect, the contributions of household consumption and government expenditure were roughly zero, and the contribution of investment was negative. Leading indicators support expectations of a recovery this year. Inflation increased to 1.5% year on year in March. The unemployment rate exceeded the 10% level and retail sales showed an annual decline of 1.1% in February. The ECB left its rates at the 1% level at its regular meeting in April, stating that interest rates were appropriate in the current economic environment and that the discontinuation of unconventional monetary policy would be shifted further into the future. According to surveys, analysts do not

CHART II.1 GDP AND INFLATION IN THE USA
The annual decline in US GDP turned into moderate growth in 2009 Q4
(annual percentage changes)

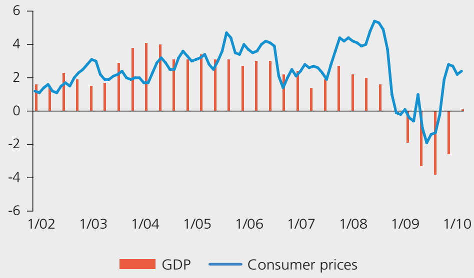


CHART II.2 BRENT AND URAL CRUDE OIL PRICES
The average price of Brent crude oil rose by 4% in 2010 Q1 and April compared to the previous quarter and in April it was fluctuating around USD 85 a barrel
(USD/barrel)

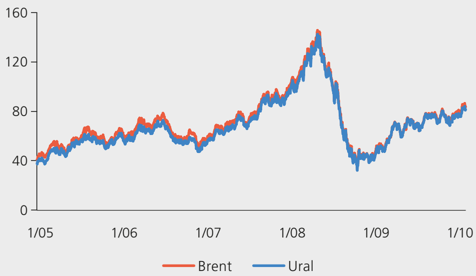


CHART II.3 THE DOLLAR-EURO EXCHANGE RATE
The average exchange rate of the dollar appreciated markedly in 2010 Q1 and April compared to the previous quarter

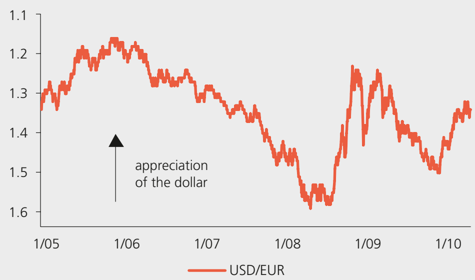


CHART II.4 GDP AND INFLATION IN THE EURO AREA
The annual decline in euro area GDP slowed further in 2009 Q4 and inflation rose in 2010 Q1
(annual percentage changes)

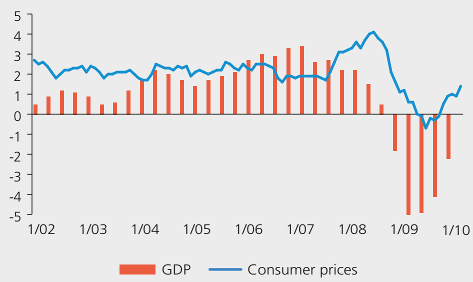


Chart II.5 GDP and inflation in Germany
The contraction in German GDP decreased further in 2009 Q4 and inflation rose at the end of 2010 Q1
(annual percentage changes)

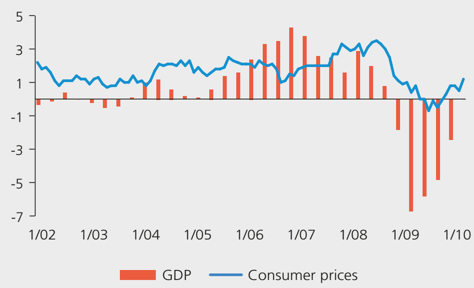


Chart II.6 GDP and inflation in Slovakia
The decline in economic activity in Slovakia slowed further in 2009 Q4 and annual inflation was around zero in 2010 Q1
(annual percentage changes)

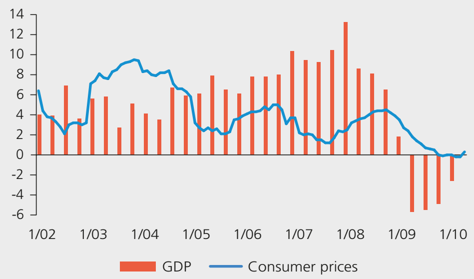
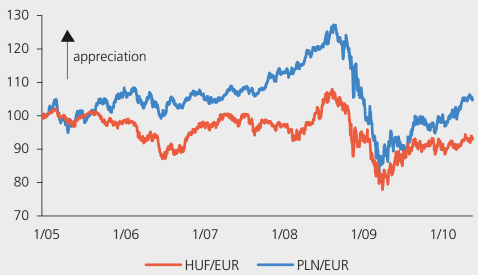


Chart II.7 Central European currencies
The Polish zloty and the Hungarian forint both appreciated on average in 2010 Q1 and April compared to the previous quarter
(average for January 2005 = 100)



expect a monetary policy tightening before 2011. The state budget deficit in the euro area increased to 6.3% of GDP in 2009 and government debt was up to 78.7% of GDP at the end of the year. In 2009, the highest government deficits were recorded by Ireland and Greece (-14.3% of GDP and -13.6% of GDP respectively).

Following a quarter-on-quarter stagnation of GDP in Germany in 2009 Q4 (see Chart II.5) there are concerns that GDP might decline in 2010 Q1. The GDP figures may partly reflect this year's severe winter, among other things. Retail sales fell slightly month on month in January and February, while industrial production was roughly flat. German exporters are benefiting from the depreciation of the euro. On the other hand, demand for imports (German exports) could decline in some parts of Europe. The unemployment rate in Germany fell from 8.7% in February to 8.5% in March. Consumer prices in Germany increased by 1.1% year on year in March. Inflation in March was thus at its highest level in the last year, chiefly due to transport prices and prices of alcoholic beverages and tobacco.

The annual decline in the Slovak economy moderated to 2.6% in Q4 (see Chart II.6). Compared to the previous quarter, however, the economy increased by 2%, which was the third quarter-on-quarter increase in a row. Also consistent with the favourable outlook was growth in industrial production of 20.6% year on year in February. By contrast, retail sales shrank by 2.9% year on year in February, the same as a month earlier. Annual inflation in Slovakia picked up to 0.3% in March from a historical low of -0.2 % in the previous two months.

In Hungary and Poland, the fading global economic crisis was reflected in economic activity in 2009 Q4. Poland saw a pick-up in annual economic growth, while Hungary recorded a decrease in its contraction.

Annual GDP growth in Poland increased significantly to 2.8% in 2009 Q4, thanks mainly to improved net exports, which also caused quarter-on-quarter GDP growth to rise to 1.2%. The rapid growth in industrial production continued into 2010 Q1, driven by external demand. Domestic demand weakened as a result of rising unemployment. This was reflected in a decline in retail turnover. Construction output decreased owing to a severe winter. Annual inflation decreased in Q1 owing to an appreciating zloty and weakening domestic demand. The NBP left its key monetary policy rate unchanged at 3.5% in Q1. The rate has been at this level since June 2009. The exchange rate of the zloty against the euro appreciated by 5% in Q1 and in April (see Chart II.7) to above PLN 3.9. The NBP intervened both verbally and in the foreign exchange markets against a further appreciation, which might endanger the competitiveness of Polish products. This was the first foreign exchange intervention since April 2000, when Poland introduced a free float.

The annual contraction in economic activity in Hungary eased by 1.5 percentage points to 5.3% in 2009 Q4, chiefly on account of rising net exports, which counteracted the continuing decline in consumption and investment. The quarter-on-quarter GDP contraction also decreased (to 0.4%), thanks to the improvement in net exports. In 2010 Q1, domestic demand continued falling and retail turnover and construction output decreased year on year. However, industrial production expanded thanks to a recovery in external demand. The unemployment rate remained at 11% in February, but was almost 2 percentage points higher than a year earlier. Inflation initially fluctuated just below 6% in 2010 Q1, owing chiefly to rising fuel and clothing prices, and fell to 5.7% in March. The MNB lowered its key rate by 1.50 percentage points to 5.25% in five steps in the course of Q1. This was due to the favourable outlook for inflation, the ongoing economic downturn and the appreciating forint (see Chart II.7).

BOX 1

ASSESSMENT OF THE ACCURACY OF THE OUTLOOKS FOR EFFECTIVE GDP AND CPI IN THE EURO AREA – COMPARISON OF FORECASTS

When preparing its outlooks for euro area effective[1] GDP and consumer price inflation (CPI), which are important assumptions for the CNB's macroeconomic forecast, the CNB draws on analysts' predictions brought together in the Consensus Forecasts (CF), a monthly survey published by the London-based company Consensus Economics, which regularly asks more than 700 economists and analysts for their forecasts. The resulting CF for each country and each indicator is the arithmetic mean of the individual forecasts of the analysts from the institutions surveyed.

As the quality of the CF is one of the key factors of fulfilment of the CNB's own forecasts, we focused on assessing the CF's predictive ability compared to the forecasts of international institutions. Specifically, the accuracy of the CF was compared with the forecasts of the European Commission, the IMF, and the OECD.

With regard to the extraordinary situation in 2009 caused by the totally unexpected factors underlying the financial and subsequently economic crisis, Charts 1 and 2 show the gradual evolution of forecasts of the CF and international institutions together with the subsequent actual data for 2009. Point 24 on the x-axis shows the month in which the forecast for 2009 was first published (i.e. January 2008). The forecast horizon gets shorter as one moves along the x-axis until it reaches December 2009 (point 1 on the x-axis). The y-axis shows the forecasted and subsequent actual values of the indicator.

At the forecast horizon, the forecasts for 2009 recorded the biggest ever downward revision in comparison with the forecasts for the previous years 1994–2008. In the case of the annual GDP growth forecast (see Chart 1), the difference between the first published CF forecast (1.9%) and last published CF forecast (-4.3%) for the given year was 6.2 percentage points. The international institutions were slightly more pessimistic in their growth estimates than the CF. In the case of the CPI (see Chart 2) the revision was less significant (1.4 percentage points) and was made later than that for GDP. This was because the CPI forecast for 2009 was initially revised upwards until July 2008 owing to rising oil prices in that period, and only afterwards were the CPI forecasts for 2009 revised sharply downwards.

The statistical accuracy of the forecasts was assessed by comparing the individual forecasts with the subsequent outturns for the period 1994–2009. We used the mean squared error (MSE), which measures the average

CHART 1 (BOX) EFFECTIVE GDP FORECASTS

The GDP forecasts for 2009 were revised markedly downwards

(effective euro area GDP forecasts for 2009 drawn up 24 months to 1 month in advance)

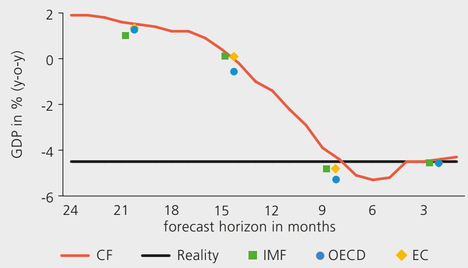
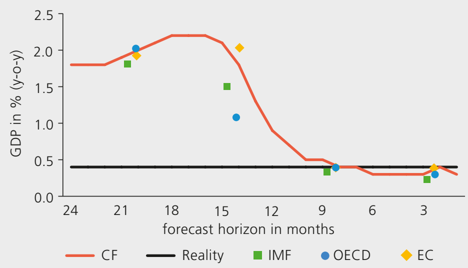


CHART 2 (BOX) EFFECTIVE CPI FORECASTS

The CPI forecasts were revised downwards after the high oil prices of 2008 went down

(effective euro area CPI forecasts for 2009 drawn up 24 months to 1 month in advance)



1 The effective euro area indicator is the indicator for 14 euro area countries weighted by Czech exports to those countries.

Table 1 (Box) Diebold-Mariano test
(test of the statistical significance of differences in the MSE indicator)

	1994–2009			
	Effective CPI		Effective GDP	
CF vs.	*t*	*t+1*	*t*	*t+1*
EC	-0.01	-0.01	0.00	-0.22***
IMF	-0.01	0.02	-0.01	0.02
OECD	-0.03	-0.07	0.03	0.31

Note: The values in the table represent the differences of the MSE between the CF and the alternative forecasts. Negative (positive) differences mean that the CF forecasts are more (less) accurate. Asterisks indicate rejection of the null hypothesis that the forecasts under comparison are equally accurate on average with the following significance: ***1%, **5%, *10%; EC and OECD CPI since 2002.
IMF is compared with CF (April, October). All other forecasts (EC, OECD) are compared with CF (May, November).
t forecast for the current year, *t+1* forecast for next year.

of the squares of errors of the forecast and hence more strongly "captures" larger deviations from the actual value. The statistical significance of the differences in the accuracy of the forecasts was evaluated using the Diebold-Mariano test (see Table 1).[2]

The analysis revealed that none of the international institutions' forecasts was statistically significantly better than the CF in the entire period of 1994–2009. From this perspective, the CF is – despite occasional significant errors – a comparable prediction source. In addition, the basic difference and practical advantage of the CF consists in the fact that the forecasts are published on a monthly basis, whereas the Commission, IMF and OECD publish their forecasts only twice a year. The CNB will thus continue to use the CF as a source for creating its outlooks for effective GDP and CPI in the euro area.

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 the first four months of 2010. Money market interest rates declined slightly, whereas the decrease in rates with longer maturities was more pronounced. The koruna appreciated against the euro.

II.2.1 Interest rates

Chart II.8 The CNB's key rates
The CNB left its key rates unchanged between January and April 2010
(percentages)

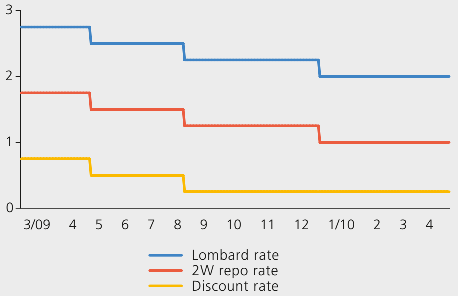
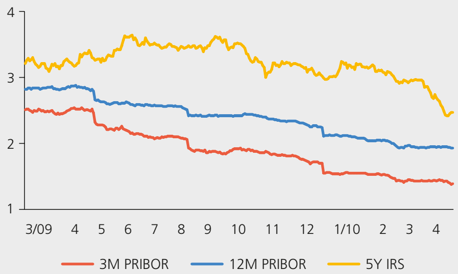


Chart II.9 Market interest rates
Financial market interest rates fell
(percentages)



The domestic financial market situation at the start of 2010 remained affected by the global financial and economic crisis. Market volatility decreased modestly, but the persisting uncertainty was still reflected in lower liquidity. Risk premia (the spread between PRIBOR rates and the 2W repo rate) continued to shrink very slowly and the bid-offer spread on the interbank market was flat at roughly 0.3 percentage point.

The CNB left its key rates unchanged in 2010 Q1. With effect from 17 December 2009, the discount rate was set at 0.25%, the 2W repo rate at 1.00% and the Lombard rate at 2.00% (see Chart II.8). Nevertheless, interest rates declined at all maturities. This was due to the publication of low inflation figures and some data from the real economy, which temporarily put something of a dampener on expectations regarding the pace of recovery of the domestic economy. The decline in rates was also fostered by the message of the press conference after the March Bank Board meeting and the subsequent comments made by some board members, who did not rule out a further easing of monetary policy. The market outlook for FRA and IRS rates decreased the most, while the fall for PRIBOR rates was less pronounced.

At the end of April, expectations that the CNB's rates would not fall further and that the next rate change would be an upward one predominated on the financial market. However, the expected rise in rates is gradually moving to a later date. Compared to the start of 2010, PRIBOR interest rates fell by up to 0.2 percentage point depending on maturity and IRS rates were down by as much as 0.6 percentage point (see Chart II.9).

2 DIEBOLD, F. X., MARIANO, R. S. (1995) Comparing Predictive Accuracy. *Journal of Business & Economic Statistics*, Vol. 13, No. 3, pp. 253–263.

The PRIBOR yield curve shifted downwards slightly during 2010 Q1, but its slope remained positive. The spread between the 1Y PRIBOR and the 2W PRIBOR was 0.8 percentage point on average in March 2010. The money market yield curve was unchanged during April. The IRS yield curve also shifted downwards during 2010 Q1, roughly equally at all maturities. The average 5Y–1Y spread was 1.3 percentage points and the 10Y–1Y spread 1.9 percentage points in March 2010.

Short-term interest rate differentials vis-à-vis the main world currencies (PRIBID/CZK – EURIBOR/EUR, or LIBOR/USD) were slowly falling, but remained positive. The main underlying factor was the decline in interest rates on the domestic money market; foreign rates were mostly flat (see Chart II.10).

Eight auctions of fixed coupon bonds were held on the primary government bond market. The total volume of bonds issued was CZK 49.1 billion. The shortest-term bond yields on the secondary market were generally decreasing compared to the start of the year, in line with money market rates. By contrast, yields on bonds with longer maturities started to grow slightly amid concerns about the sharp rise in the supply of government bonds, thereby increasing the slope of the yield curve. This was probably due also to shortening portfolio duration resulting from an expected increase in CNB interest rates in the near future. This led to increased interest in short-term government bonds in this period, while interest in instruments with longer maturities fell. As from March, however, yields on long-term bonds started to fall as well, as the market no longer expected a monetary policy tightening in the relatively short term. External factors, the domestic low-inflation environment, the appreciation of the koruna and a planned foreign currency issue of a Czech eurobond also fostered lower yields (see Chart II.11).

The increased riskiness of clients resulting from the evolution of the real economy continued to hinder full transmission of the CNB's key rate cuts to client rates. Nominal interest rates on new loans were 7.1% and rates on new time deposits 1.6% in February. Real rates[3] on new loans decreased, reaching 5.5% in February, while real rates on time deposits were -0.7% (see Chart II.12).

II.2.2 The exchange rate

The average exchange rate of the koruna against the euro was CZK 25.9 in 2010 Q1, which represents a year-on-year appreciation of 6.3%. In quarter-on-quarter terms, the koruna was roughly stable (see Chart II.13). At the start of the quarter, the exchange rate of the koruna merely fluctuated, without showing any signs of a trend. Then, from 10 February onwards, the koruna started gradually appreciating. The koruna firmed from about CZK 26 to CZK 25.4 to the euro at the end of 2010 Q1 and strengthened further in the first half of April, reaching CZK 25. Then it depreciated slightly to about CZK 25.4 to the euro.

3 Ex ante real interest rates are affected not only by nominal rates, but also by movements in inflation expectations. 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. Consumer price inflation expectations decreased during 2010 Q1, whereas expected industrial producer price inflation increased.

CHART II.10 INTEREST RATE DIFFERENTIALS

Interest rate differentials vis-à-vis the euro and the dollar decreased slightly

(percentage points)

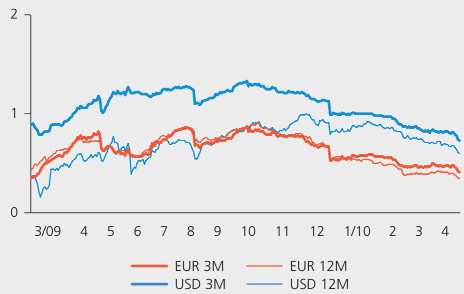


CHART II.11 GOVERNMENT BOND YIELD CURVE

The yield curve moved downwards

(percentages)

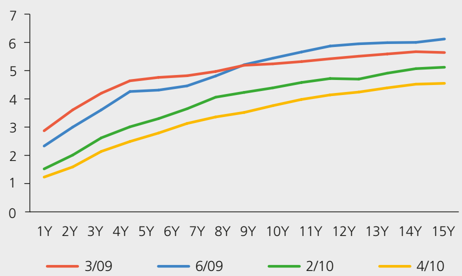


CHART II.12 EX ANTE REAL RATES

Ex ante real interest rates on new loans decreased

(percentages)

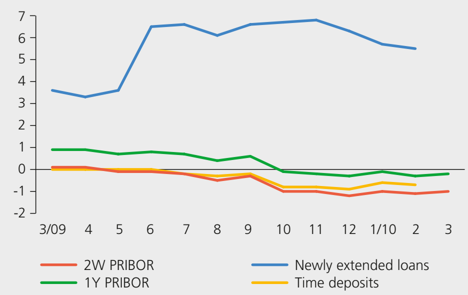
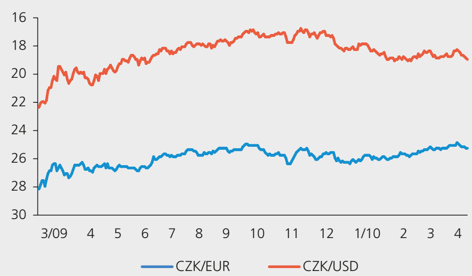


CHART II.13 CZK/EUR AND CZK/USD EXCHANGE RATES

The koruna appreciated year on year against both the euro and the dollar in 2010 Q1

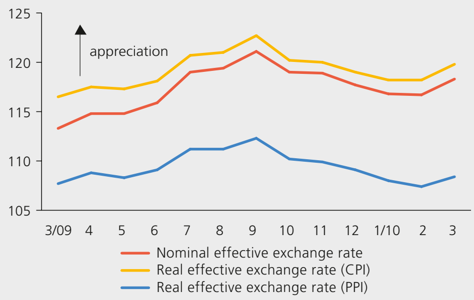


The koruna's appreciation was stimulated by a decline in short-term euro rates at the beginning of February compounded by growing financial market uncertainty regarding the euro area measures to save Greece. This led to the euro depreciating against most internationally traded currencies. The euro temporarily stabilised after the details of the rescue plan for Greece were announced, but the koruna – together with other currencies in the region – started to benefit from short-term investors' favourable view of the region. The slight correction of the koruna in mid-April was due to increased risk aversion (generated by the uncertainty about the fiscal stability of some euro area countries, especially Greece), from which the dollar benefited in particular. The effect of domestic fundamentals on the exchange rate was mostly not apparent, although the falling outlook for domestic interest rates may also have had a depreciation effect on the koruna recently.

CHART II.14 EFFECTIVE EXCHANGE RATES OF THE KORUNA

The nominal and real effective exchange rates both appreciated year on year in 2010 Q1

(year 2005 = 100)



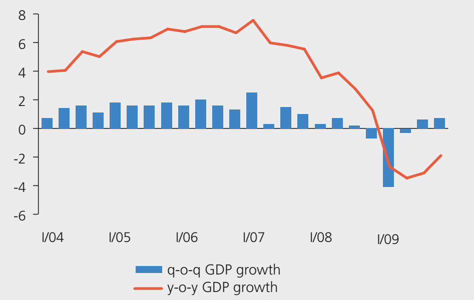
In 2010 Q1, the koruna appreciated strongly against the dollar in year-on-year comparison, but depreciated in quarter-on-quarter terms. The annual appreciation was 11.8% and the quarterly depreciation 6.7%. During the quarter, the koruna initially firmed from CZK 18.4 to CZK 18 to the dollar, but then weakened to CZK 19.2 in early February as a result of the dollar's appreciation on global markets. For the rest of the quarter it fluctuated between CZK 18.4 and CZK 19.2.

The nominal effective exchange rate depreciated by 1.1% quarter on quarter in 2010 Q1. However, in year-on-year terms it was 5.6% stronger (see Chart II.14). This was due mainly to the koruna's annual appreciation against the euro and dollar. The CPI-deflated real effective exchange rate strengthened by 4.1% year on year, reflecting slightly lower inflation in the Czech Republic than in its major trading partners. The year-on-year appreciation of the PPI-deflated real effective exchange rate was much weaker than that of the nominal rate (just 1.6%), indicating a sizeable difference between the evolution of industrial producer price inflation in the Czech Republic (a modest annual fall) and in other countries on average (considerable growth).

CHART II.15 GROSS DOMESTIC PRODUCT

The year-on-year decline in output moderated in 2009 Q4

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



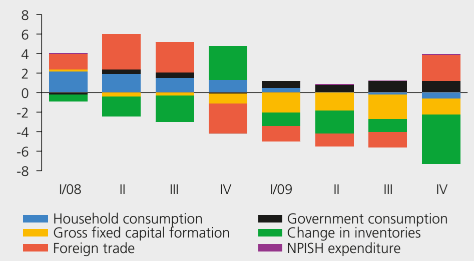
II.3 DEMAND AND OUTPUT

The year-on-year decline in GDP moderated by 1.4 percentage points in 2009 Q4, to 3.1%.[4] In quarter-on-quarter terms, GDP growth accelerated slightly, reaching 0.7%. This change was mostly due to foreign trade. Net exports increased considerably year on year following a year of decline. The strong decline in gross capital formation continued, however. The already insignificant annual growth in final consumption expenditure – due solely, moreover, to growth in government consumption – slowed further.

CHART II.16 STRUCTURE OF GDP GROWTH

Foreign trade made the largest positive contribution to the evolution of GDP

(contributions in percentage points)



II.3.1 Domestic demand

The year-on-year decline in domestic demand deepened markedly in 2009 Q4. This decline was again mostly due to a marked year-on-year fall in additions to inventories, which strengthened significantly (see Chart II.16). Fixed investment also continued falling, but unlike in the case of inventories the decline slowed appreciably. The decrease in household consumption deepened slightly, while government expenditure continued rising at roughly the same pace as in the previous quarter.

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

Final consumption

Amid declining income and rising unemployment, household consumption behaviour was subdued in 2009 Q4. The annual decline in consumption expenditure deepened further. At 1.2%, it was 0.7 percentage point deeper than in 2009 Q3 (see Chart II.17). In Q4, this decline was observed in all the monitored categories of household expenditure on consumer items (see Chart II.19) and reflected, among other things, a data revision by the CZSO (see Box 2).

The continuing deepening of the annual decline in real household consumption was closely linked with the evolution of nominal gross disposable income. Chart II.18 shows that the rapid slowdown in its annual growth, visible since the start of 2009, changed into an annual decline in Q3. In Q4, this decline reached 1%. It was due to most of the components of household disposable income, in particular sharply falling gross operating surplus and property income. The contribution of decreasing compensation of employees was also significant. As in previous quarters, the falling household income from these sources clearly reflected the impact of the persisting weak demand on corporations' earnings, which exerted sharp downward pressure on wage costs. The decrease in income was again partly offset by social benefit income, which rose very quickly during 2009 (by 6.1%, or CZK 7.6 billion, year on year in 2009 Q4) amid rising unemployment. The fall in social contributions paid and tax payments continued at the same time.

The rising social benefits and falling wages thus mainly reflected the business cycle in 2009. The decline in social contributions and taxes on the household current expenditure side was additionally affected by previous legislative changes.

At the same time, the saving rate suggested that households were offsetting the impact of declining income on consumption expenditure by lower saving from disposable income to a much lesser extent than in the previous three quarters. As Chart II.17 shows, the year-on-year decline in the saving rate was insignificant at the end of 2009. Weakening consumer credit growth, due to more prudent behaviour of households and banks at a time of recession, acted in the same direction (see section II.6 *Monetary developments*). In these circumstances, household consumption in 2009 Q4 was determined chiefly by falling disposable income.

The latest (February) data on falling retail sales and the outlook for the labour market suggest that household consumption will continue to decrease in the near future. Consistent with this estimate are the latest available data on consumer confidence, which despite gradually increasing is still low and uneven.[5]

General government expenditure on final consumption rose by 5.2% year on year in real terms in 2009 Q4 (and by 5.7% at current prices) and by 4.4% in 2009 as a whole (and by 6.4% at current prices). This was largely due to rising expenditure by health insurance companies on health care. State budget expenditure, which accounts for the bulk of general government expenditure, also recorded pronounced growth in 2009 Q4 and in 2009 as a whole (of 17.7% and 7.7% respectively at current prices).[6]

5 For details see Box 3 *Business and consumer sentiment in the current phase of the economic cycle according to CZSO and CNB indicators.*

6 The dynamic growth in state budget expenditure (at current prices) continued into 2010 Q1; total expenditure was up by 7.7% year on year. In addition to a sizeable increase in expenditure on unemployment benefits (up by 37.2% year on year), this was due to rising expenditure on public health insurance (up by 9.9%). By contrast, debt service expenditure saw a considerable annual decrease (of more than 45.0%).

CHART II.17 HOUSEHOLD CONSUMPTION EXPENDITURE

The real decline in household consumption expenditure deepened in 2009 Q4

(annual percentage changes)

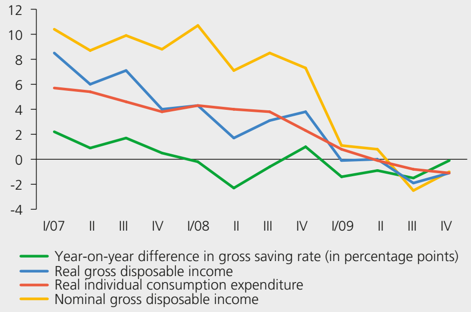


CHART II.18 DISPOSABLE INCOME

Most of the monitored household income items declined

(annual percentage changes; contributions in percentage points; current prices)

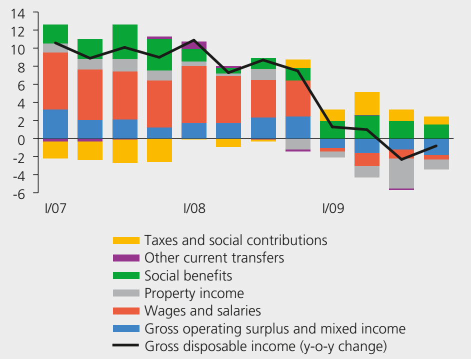


CHART II.19 STRUCTURE OF CONSUMPTION

Household expenditure fell in all monitored categories at the end of 2009

(annual changes in CZK billions; constant 2000 prices)

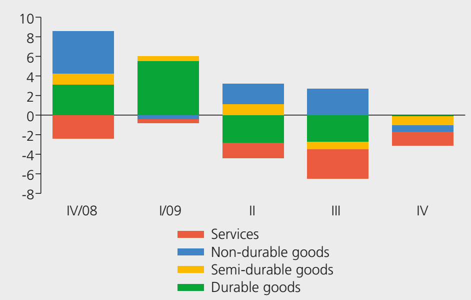


CHART II.20 FIXED CAPITAL FORMATION

The decline in fixed investment did not deepen any further in 2009 Q4

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

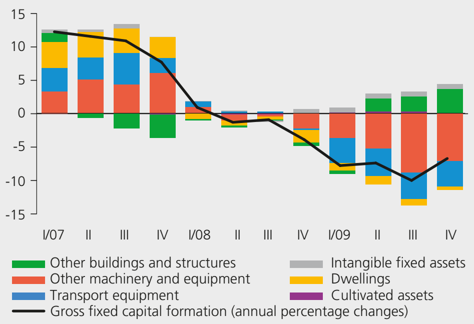


TABLE II.1 FIXED INVESTMENT BY SECTOR

The real decline in investment continued in most sectors

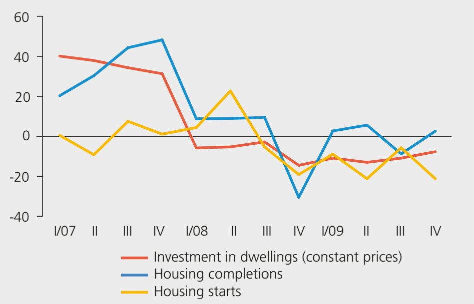
(source: CZSO, CNB calculation)

	I/09	II/09	III/09	IV/09
Annual percentage changes				
Non-financial corporations	-6.2	-9.7	-13.1	-15.8
Households	-12.6	-13.7	-12.4	-8.5
General government	-7.2	6.6	0.5	18.9
Financial corporations	-32.8	-33.2	-34.8	-31.6
Non-profit institutions serving households	2.5	2.2	-1.8	3.9
Share in total fixed investment in per cent				
Non-financial corporations	58.5	56.0	53.2	50.6
Households	18.8	19.5	21.3	19.6
General government	20.8	22.6	23.6	27.7
Financial corporations	1.3	1.3	1.3	1.4
Non-profit institutions serving households	0.6	0.6	0.6	0.6

CHART II.21 INVESTMENT IN DWELLINGS

The decline in investment in dwellings slowed in 2009 Q4 but remained sizeable

(annual percentage changes)



Investment

A continuing decline in fixed investment in 2009 Q4 confirmed a persisting slowdown in investment activity in the economy. However, the annual decline did not deepen any further. On the contrary, it moderated by 3.4 percentage points compared to the previous quarter, to 7% (see Chart II.20). The weak investment demand at the end of 2009 was again due mainly to uncertainties surrounding future domestic and external demand and a more prudent approach of banks to lending. Low formation of corporate own funds amid only slowly recovering demand also had a significant effect on investment decision-making.

The effects of these factors were most apparent in the non-financial corporations sector, (-15.8% year on year), which accounts for the largest volume of investment (see Table II.1). Their impact was most pronounced on investment in the category of machinery and equipment and transport equipment, whose annual decline remained in double figures in Q4. The results of the latest CNB survey suggest that the above factors affecting investment decision-making will continue to have an adverse effect on fixed investment by non-financial corporations going forward.[7]

Investment by the household sector also continued to decline in year-on-year terms. It was still affected chiefly by investment in dwellings, where the annual decline slowed further but was still high (-7.7%; see Chart II.21). The main reasons for the continuing low household demand for investment in dwellings were the same as in previous quarters, namely uncertainty among households about future prospects on the labour market and their ability to repay loans. Banks' increased prudence in providing new mortgage loans and households' expectations of a decline in residential property prices during the recession also contributed to the continuing fall in investment in dwellings. The significantly falling numbers of housing starts, the number and approximate value of building permits for residential buildings and the uncertain labour market prospects are not signalling any major recovery in household investment in dwellings in the near future.

The pronounced fall in investment by non-financial corporations, households and also financial institutions in 2009 Q4 was only partly offset by faster growth in general government investment, which was closely linked with the development of infrastructure.[8] This investment probably made the biggest contribution to the pick-up in growth in investment in structures in Q4.

The real annual decline in additions to inventories deepened strongly in 2009 Q4 compared to the previous quarter, and their negative contribution to GDP growth was very significant (see Chart II.16). This decline was due to the still weak domestic demand and the uncertain outlook for domestic demand.

7 According to the latest CNB survey, uncertainty regarding future demand will limit investment expenditure among 65% of respondents and shortages of own funds among 49% of respondents in the manufacturing sector in the next 12 months. The uncertain demand will curb investment expenditure among 78% of respondents in construction and 74% of respondents in trade.

8 For details see section II.3.3 *Output*

II.3.2 Net external demand

The foreign trade figures in 2009 Q4 indicated that the impacts of the financial and economic crisis on the real economy were gradually fading (see Chart II.22). The moderation of the year-on-year decline in foreign trade turnover in the previous two quarters culminated in modest growth of 0.5% in Q4.

This growth was due mainly to a significant change in the annual growth rate of total exports compared to 2009 Q3 (of 6.6 percentage points), which fostered a renewal of its annual growth (to 2.5%) in Q4. External demand, reflecting the gradual recovery in output in the Czech Republic's main trading partner countries, can be seen as the primary cause of the gradual renewal of corporate export activity. The increase in exports was partly due to a low base by comparison with last year, when exports had decreased for the first time following a long period of rapid growth owing to the crisis abroad (see Chart II.23). Total imports, which, given the high import intensity of exports, usually follow the path of exports, recorded a significantly slower annual decline in Q4 (to -1.5%). Unlike in the previous four quarters, the growth rate of exports was again higher than that of imports (see Chart II.22).

In these circumstances, net exports recorded a surplus of CZK 19.4 billion[9] and increased considerably in year-on-year terms following a year of decline (by CZK 30 billion; see Chart II.24). Their contribution to annual GDP growth was thus positive in 2009 Q4 following previous negative values (see Chart II.16).

The net export surplus was a result of a growing trade surplus. The renewed growth in goods exports (of 1.3%) was due to a continuing moderation of the decline in external demand as well as to base effects. The decline in goods imports slowed at the same time owing to a slower decrease in imports for intermediate consumption, associated chiefly with export production, and also in investment imports.

As in previous quarters, services exports and above all services imports increased rapidly despite the economic crisis. As in the previous quarters, the annual rise in the real services deficit was due mainly to very strong imports of services provided within multinational corporations.

BOX 2

REVISIONS TO THE EXPENDITURE COMPONENTS OF GDP

Upon the release of the national accounts data for 2009 Q4 the CZSO also revised the figures for GDP and its expenditure components for 2009 Q1–Q3. Although overall annual GDP growth for this period was not changed significantly, larger revisions can be seen in the individual expenditure components of GDP (see Table 1).

Within the expenditure components, gross capital formation underwent the largest revision. Total investment growth was revised upwards and its contribution to GDP growth changed by 1–2 percentage points (see Chart 1). This shift was due chiefly to additions to inventories;

9 At 2000 prices, seasonally adjusted.

CHART II.22 EXPORTS AND IMPORTS I

Total foreign trade turnover saw renewed growth in 2009 Q4

(annual percentage changes; percentage points; constant prices; seasonally adjusted data)

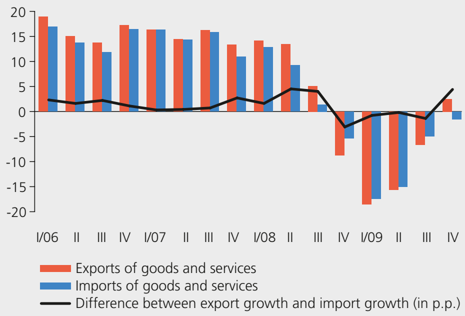


CHART II.23 EXPORTS AND IMPORTS II

Exports recorded renewed growth but their volume was roughly the same as in mid-2007

(CZK billions; constant 2000 prices; seasonally adjusted data)

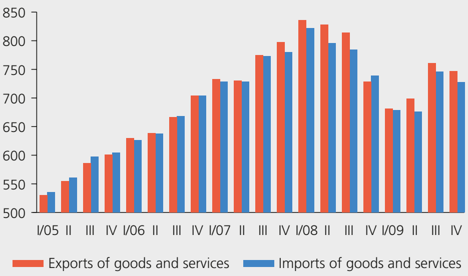


CHART II.24 NET EXTERNAL DEMAND

The previous decline in net exports was replaced by annual growth in 2009 Q4

(CZK billions; constant 2000 prices; seasonally adjusted data)

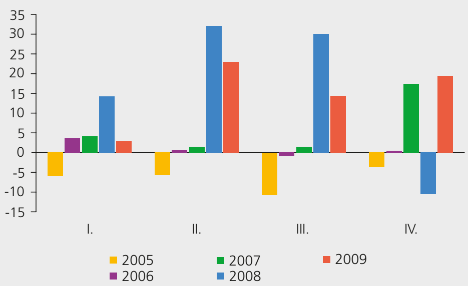


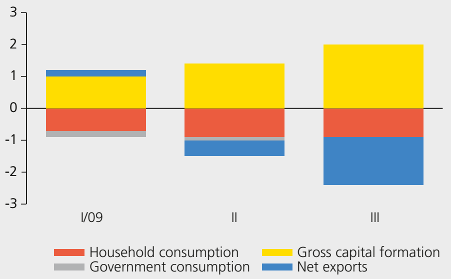
TABLE 1 (BOX) REVISIONS OF GDP COMPONENTS

Gross capital formation was increased the most

(differences in contributions to annual real GDP growth in percentage points unless otherwise indicated)

	2009 1Q Difference (p.p.)	2009 2Q Difference (p.p.)	2009 3Q Difference (p.p.)
GDP	0.2	-0.2	-0.4
Household consumption	-1.5	-1.9	-1.8
Government consumption	-1.1	-0.5	0.1
Gross capital formation	4.1	5.9	8.2
Exports of goods and services	0.1	0.0	0.4
Imports of goods and services	-0.2	0.7	2.6
Net exports of goods and services (CZK billions)	1.7	-5.7	-16.7

Chart 1 (Box) Revision of GDP components
Household consumption and net exports were decreased
(differences in contributions to year-on-year growth of real GDP in percentage points)



by contrast, fixed investment was lowered. The CZSO did not give reasons for the revision of the historical data on gross investment or comment on it in any detail. However, inventories were probably to a large extent a "balancing" item for the opposite changes in items described below.

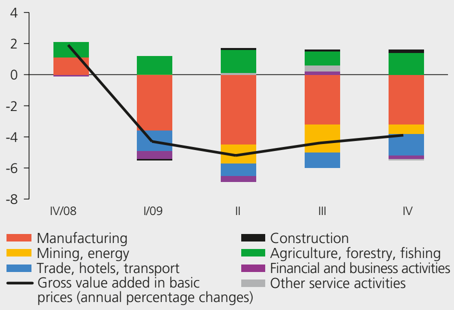
Household consumption was also revised. Its contribution to annual GDP growth in the aforementioned period was reduced by approximately 0.7–0.9 percentage point. The CZSO announced a methodological change relating to the measurement of these data in the national accounts. The data on consumption were previously estimated primarily on the basis of the Household Budget Survey (HBS), a survey of the consumption behaviour of Czech households. According to the CZSO, certain discrepancies had been observed recently between the statistics on consumption of retail goods obtained from the HBS and the data on retail sales. During the recession, retail sales had recorded a larger decline than that indicated by the HBS. The CZSO therefore decided to increase the weight of the retail sales statistics in the estimate of household consumption and revised the historical time series of household consumption downwards for the whole of 2009.

A revision having a significant impact on the contribution to GDP growth was also made for imports, which were revised upwards on average. The effect of the revision was most visible in the contribution of net exports to GDP growth in Q2 and Q3. This contribution declined by roughly 0.5 and 1.5 percentage points respectively. The CZSO explained the revision to imports mainly in terms of a methodological change to the measurement of services imports.

This change was related mainly to growth in expenditures under other services, primarily as a result of an increase in branding, i.e. trade operations of multinational corporations connected with increasing the value of goods imported into the Czech Republic and subsequently re-exported. This item basically takes into account price differences in foreign trade turnover stemming from intra-company cross-border operations of multinational corporations.

The CZSO also published revised data on government consumption (whose growth was revised downwards on average). However, this did not cause any major change to the contribution of government consumption to GDP growth.

Chart II.25 Contributions of branches to GDP growth
The decline in gross value added slowed, but in manufacturing it remained the same as in the previous quarter
(contributions in percentage points; annual percentage changes; selected branches)



II.3.3 Output

The year-on-year decline in gross value added at basic prices moderated by 0.5 percentage point to 3.9% in 2009 Q4 (see Chart II.25). In quarter-on-quarter terms, though, value added rose for the second consecutive quarter (by around 1%). A majority of the monitored branches, especially industry and construction, contributed to this rise. By contrast, a decrease in value added was recorded in some services.

In year-on-year comparison, however, branches with falling value added were still predominant. As in the previous quarters of 2009, manufacturing, which had been hit hardest by the drop in external demand caused by the financial and economic crisis, contributed most to the overall decline in value added. As Chart II.25 shows, its contribution did not decrease further in Q4, but remained at the previous quarter's level. However, a renewal of growth in real exports of goods (to 2.5%) indicates that external demand is now probably slowly recovering. A moderating decline, or recovery, in industrial production growth in many branches also suggests that the demand side situation is gradually improving. However, a marked decrease in production was recorded in the production of capital goods (machinery and equipment), which is traditionally heavily export-oriented.

The negative contribution of the electricity, gas and water supply industry to the decrease in total value added moderated significantly in Q4 amid a slowdown in the decline of 21.4 percentage points compared to Q3, to 8.8%. This industry was now recording sharp quarter-on-quarter growth in value added.

The latest available data for February suggest a continuing improvement in sales opportunities in industry in the near future. This is indicated by a further acceleration in February of annual growth in new industrial orders (to 7.8%) and faster annual growth of the industrial production index (to 7%; see Chart II.26). In industry, almost one-half of branches showed annual production growth in February and growth in orders was recorded in the majority of monitored branches. However, when assessing these indicators, account should be taken of the previous year's very low base. As Chart 27 shows, the volume of industrial production in February was still roughly at the level of 2006 H1. Although the intensity of production capacity utilisation in manufacturing went on increasing, it was still considerably lower than in the lead-up to the crisis (see Chart II.28).

In construction, value added continued to grow in both quarter-on-quarter and year-on-year terms in 2009 Q4 (by 1.3% and 2.6% respectively). As in previous quarters, the generally favourable evolution of construction output was a result of a combination of falling building construction output (-0.6% year on year) and rising civil engineering output (+9.9% year on year), financed primarily from public resources. The continuing decline in building construction output was still largely due to more prudent investment decision-making of corporations and households given the uncertain demand outlook.

According to the latest available data, construction output decreased by an extraordinary 20.4% in January[10] and the decline in February was only slightly smaller (19.7%). Building construction was the biggest contributor to the unusually sharp decline in January and February, which was probably due largely to adverse weather conditions and a fall in new orders.

The impact of the economic crisis on value added in services and trade was more moderate than that in industry. The aggregate contribution of these branches to the decrease in value added in Q4 was -1.7 percentage points (see Chart II.25). Trade, repair of motor vehicles and market services were the main contributors to the decline in value added. Within these branches, the automotive segment experienced the largest fall in demand and sales. According to the latest sales data, the declines recorded previously in this segment are now moderating. By contrast, a number of branches recorded relatively significant upswings in annual value added growth in 2009 Q4, e.g. restaurants, hotels, financial intermediation and insurance, transport and telecommunications.

10 Seasonally and working-day adjusted.

CHART II.26 DEVELOPMENTS IN INDUSTRY

The evolution of orders at the start of 2010 suggests a continuing recovery in industrial production

(annual percentage changes)

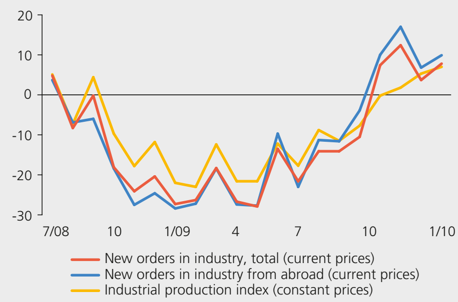


CHART II.27 INDUSTRIAL PRODUCTION

Despite the ongoing recovery, industrial production was still well below the pre-crisis level

(basic index; year 2005 = 100)

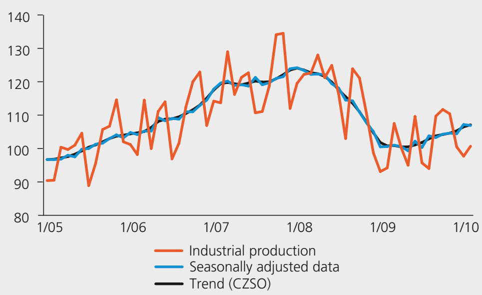


CHART II.28 CAPACITY UTILISATION

Production capacity utilisation in manufaturing is rising gradually but remains much lower than before the crisis

(full capacity utilisation = 100)

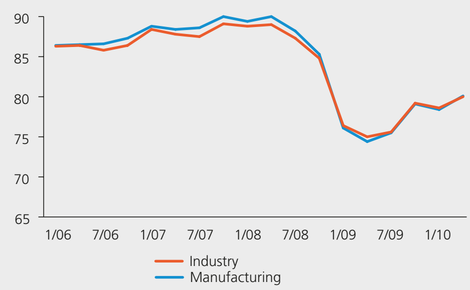


CHART II.29 BARRIERS TO GROWTH IN INDUSTRY

The effect of demand as a barrier to growth started to decline slowly

(percentages)

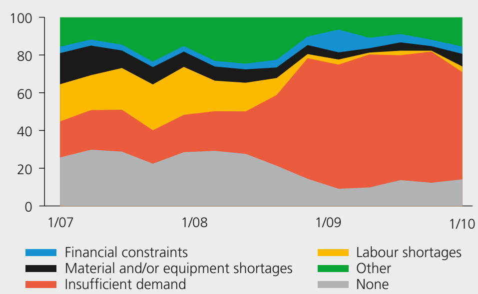


Chart 1 (Box) Expectations in industry

Expectations in industry appear to be a good leading indicator of production

(basic indices [year 2005 = 100] and annual percentage changes, HP filtered)

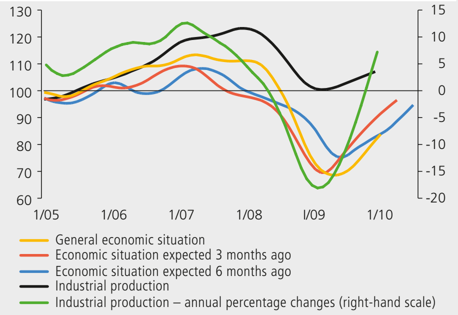


Chart 2 (Box) CNB survey

CNB surveys point to a rapid impact of the crisis on sentiment in industry and construction

(survey indices; negative expectations 0–99 points, positive expectations 101–200 points)

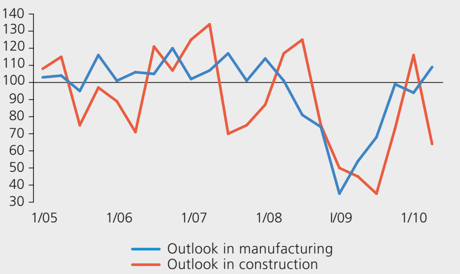


Chart 3 (Box) Expectations in construction

The decline was expected well ahead

(basic indices [year 2005 = 100] and annual percentage changes, HP filtered)

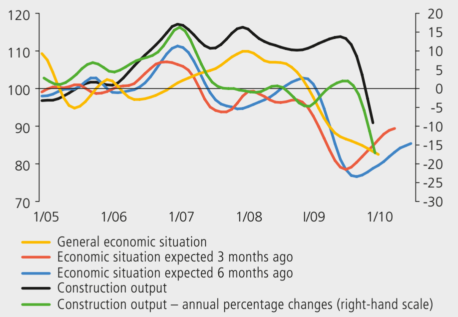
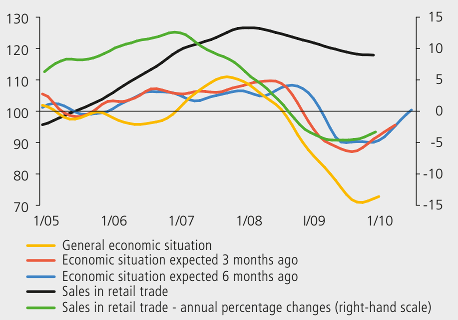


Chart 4 (Box) Expectations in retail trade

Expectations in retail trade are improving

(basic indices [year 2005 = 100] and annual percentage changes, HP filtered)



BOX 3

BUSINESS AND CONSUMER SENTIMENT IN THE CURRENT PHASE OF THE ECONOMIC CYCLE ACCORDING TO CZSO AND CNB INDICATORS

In the current phase of the business cycle, characterised by a gradual recovery of the Czech economy from a deep recession, information from the business and household sectors on how they perceive their current economic situation and particularly on what their expectations are regarding its future development is growing in importance. This box sets out to determine, on the basis of indicators derived from a confidence survey, whether agents in the main sectors of the economy are expecting economic activity to recover in the near future. Another aim is to determine how the household sector, which is currently facing rising unemployment and falling income, views its future economic situation.

Business and consumer sentiment was measured using the results of the business sector confidence survey conducted by the CZSO and the CNB and by the results of the CZSO consumer confidence survey. In the interests of comparability of the results of these two surveys in the business sector, we assessed the similar indicators "economic situation" (CZSO) and "general business situation" (CNB), for which business expectations are identically determined for three months ahead.

In the first step we focused on the accuracy of the estimate of when the crisis started and when it reached its bottom. This provided us with information on the accuracy of businesses' estimates at various time horizons. All sectors were hit hard by the financial and economic crisis, but the paths of their expectations compared with actual developments indicated that their ability to estimate future trends particularly in demand and consequently in their economic situation varied across sectors. Our analysis revealed that the onset of the crisis was reflected first of all in expectations in industry. This is shown by Chart 1, which illustrates expectations regarding the economic situation expressed by businesses in the outlook for three and six months ahead along with the actual evolution of industrial production. The expectations for the next three months were more or less fulfilled, while those for the next six months were less accurate. The results of the latest CNB survey (see Chart 2) show that expectations in the manufacturing sector were hit hard in late 2008 and early 2009.

The confidence and production indicators were relatively volatile in construction compared to industry (see Chart 3). Although a sizeable fall in construction output was not recorded until the start of 2010, pessimism was visible in the expectations well in advance. The results of the survey conducted by the CNB in construction provide the same evidence. By contrast, greater optimism was apparent in retail trade, even though sales were already weakening (see Chart 4). The situation in services was similar (see Chart 5). The optimistic expectations in services persisted for longer than was consistent with the actual economic situation. Households responded to the sharp change in the economic situation with a sharp deterioration in their expectations regarding unemployment and the overall economic situation in the next twelve months (see Chart 6).

Overall, all sectors have reached the bottom of economic agents' sentiment, albeit in different quarters of 2009. Expectations regarding the economic situation for the next three or six months in all sectors are showing increasing positive expectations regarding the future economic situation. In industry, which was hit hardest by the crisis, businesses most accurately estimated the reaching of the bottom and the onset of the economic recovery three months ahead. According to the March survey, these positive expectations continue to rise, indicating a continuing recovery in industrial production in 2010 Q2 and Q3. Other sub-indicators of the aggregate CZSO business confidence indicator – particularly expected domestic and external demand and the outlook for production activity – are heading in the same direction. An improving outlook is also being indicated by the results of the CNB survey of the general business situation of manufacturing businesses, according to which the expectations for 2010 Q2 were in the band where positive answers prevail.

In construction too, where the current economic situation is deteriorating owing to falling production, the CZSO survey indicates an improvement in the outlook for the remainder of 2010. However, the results of the CNB survey are still not indicating any such change. According to the CZSO survey, the economic outlook for this year is also improving in trade and services. Only in the household sector, whose expectations have also increased since mid-2009, is the economic outlook – unlike in trade – generally flat at the beginning of this year, owing to persisting high unemployment.

Overall, the survey indicators in the sectors of non-financial businesses and households indicate that economic agents expect the gradual recovery of the Czech economy to continue during 2010.

CHART 5 (BOX) EXPECTATIONS IN SERVICES

Optimism is also on the rise in services

(basic indices [year 2005 = 100] and annual percentage changes, HP filtered)

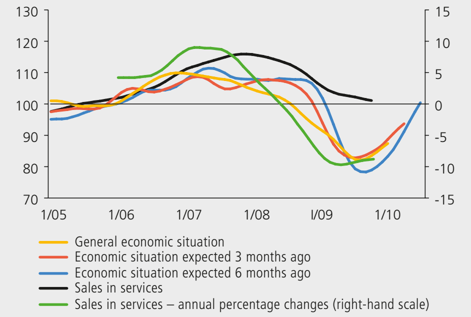
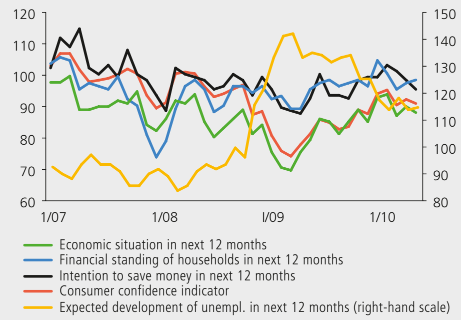


CHART 6 (BOX) CONSUMERS' EXPECTATIONS

Consumer confidence is broadly flat at the start of 2010

(basic indices, year 2005 = 100)



II.3.4 Economic results of non-financial corporations[11]

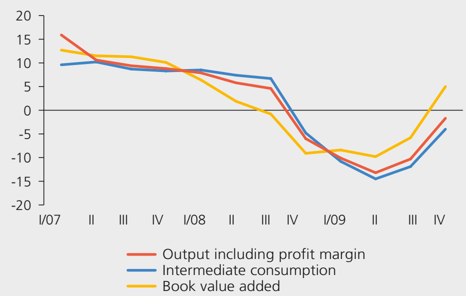
According to the available data and CNB calculations, book value added in the monitored segment of non-financial corporations with 50 employees or more[12] returned to annual growth in 2009 Q4 following a decline lasting for more than a year. At the same time, it can be estimated that gross operating surplus also increased in year-on-year terms. These results were achieved amid a continuing moderation of the annual decrease in sales and output (see Chart II.30).

A marked decline in the material cost-output ratio (of 1.7 percentage points in Q4; see Table II.2) contributed to the renewal of value added growth in Q4 amid falling output. Intermediate consumption continued to decline faster than output. The material cost-output ratio thus confirmed a continued weakening of the cost pressures stemming from falling import prices in most of the categories included in the CZSO's import price index.

CHART II.30 KEY FINANCIAL INDICATORS

Book value added recorded renewed growth in 2009 Q4

(annual percentage changes)



11 The assessment in this section (except in the last paragraph) is based on the 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.

12 The segment of corporations with 50 employees or more consisted of almost 10,000 non-financial corporations at the end of 2009 Q4.

TABLE II.2 ABSOLUTE DATA AND PERFORMANCE RATIOS

The material and personnel cost-output ratios fell year on year in 2009 Q4

(CZK billions; percentages; annual changes in percentage points and percentages)

	2009 Q4	2008 Q4	Annual percentage changes
Output incl. profit margin (CZK billions)[a]	1,285.7	1,308.4	-1.7
Personnel costs (CZK billions)[a]	202.3	222.9	-9.2
Intermediate consumption (CZK billions)	934.3	973.6	-4.0
Book value added (CZK billions)	351.4	334.8	5.0
Sales (CZK billions)	1,688.2	1,717.1	-1.7
	percentage	percentage	Annual changes in p.p.
Ratio of personnel costs to value added[a]	57.6	66.6	-9.0
Material cost-output ratio[a]	72.7	74.4	-1.7
Personnel cost-output ratio[a]	15.7	17.0	-1.3
Ratio of book value added to output[a]	27.3	25.6	1.7

a) CNB calculation

In addition, the decline in personnel costs was noticeably stronger than the decline in output, fostering an annual decrease in the personnel cost-output ratio in Q4 (of 1.3 percentage points) following an extended period of growth. The main cause of this can be seen in unemployment, whose annual fall slowed but remained relatively sizeable. The annual decline in personnel costs thus accelerated despite a rising average wage.

The financial indicators of selected non-financial corporations with the largest asset volumes[13] suggest that the volume of assets and equity increased slightly in 2009 Q4. Gross debt and the gross debt-to-equity ratio again recorded slight falls. The liquidity of this sector (the ratio of short-term financial assets to short-term liabilities) improved considerably compared to the previous quarter. Solvency (the ratio of financial assets to financial liabilities) also improved slightly, rising above 100%. The data on the economic results of the monitored corporations show that return on equity was 3.2% at the end of 2009 Q4. However, this figure cannot be compared with any data for previous years.

II.4 THE LABOUR MARKET

As expected, 2009 Q4 saw a further deepening of the decline in employment and an increase in the unemployment rate. The number of unemployed persons per vacancy reached an all-time high. Annual average wage growth picked up noticeably in 2009 H2 after declining sharply at the beginning of the year as a result of falling demand. This pick-up was due largely to a lower sickness rate and a changing employment structure and in Q4 also to a time shift in the payment of bonuses as a result of legislative changes. Nevertheless, annual growth in nominal unit wage costs eased as the volume of wages and salaries continued to decrease amid lower employment and the decline in output moderated noticeably.

CHART II.31 LABOUR MARKET INDICATORS

The economic decline was still accompanied by falling employment

(annual percentage changes; percentage points)

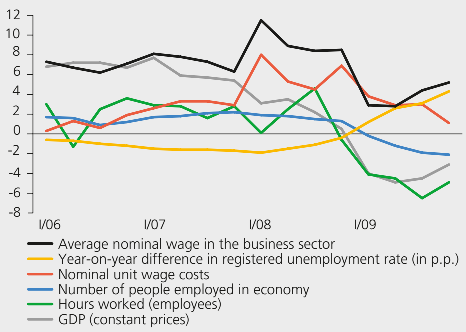
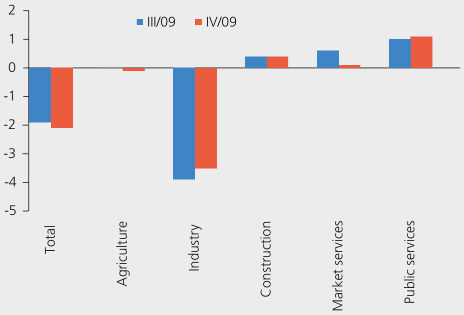


CHART II.32 EMPLOYMENT BREAKDOWN BY BRANCHES

The decline in employment in industry moderated

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



II.4.1 Employment and unemployment

Amid still low economic activity, the annual decline in employment deepened further in 2009 Q4 (to -2.1%; see Chart II.31). However, the dynamics of this trend moderated further. This was due to a declining number of employees[14] (down by 2.9% year on year), whose effect on total employment was partly offset by a concurrent rise in the number of entrepreneurs. As in previous quarters, this suggested that employees turn to independent business activity if they lose their job.

Although the decline in employment deepened further, it continued to lag behind the decline in output. However, the decline in productivity started to slow thanks to the gradual economic recovery (see Table II.3). As mentioned in previous Inflation Reports, the seemingly insufficiently flexible reaction of corporations to the cyclical decline in output can partly be viewed as a rational defence against costly dismissals and loss of skilled employees. Corporations have dealt with this problem by introducing many projects leading to

13 Owing to changes made by the CZSO to the publication of data on the balance-sheet assets and liabilities of non-financial corporations, the evaluation of the financial position of non-financial corporations since 2009 is based on data on the set of around 2,000 corporations with the largest asset volumes. As data for 2008 are not available, it is not possible to make a year-on-year comparison.

14 Including members of production cooperatives.

reductions in working hours, primarily by reducing overtime work, shortening the working week and adjusting flexible working hours. The implementation of such measures clearly helped to avoid a more pronounced decline in employment. Their impact on total hours worked is shown in Chart II.31.

The drop in demand affected output and consequently employment and unemployment in the individual sectors of the national economy with varying intensity. So far the secondary sector, especially industry, has been hit hardest by the sales crisis and the subsequent fall in employment. According to CZSO statistics, however, the fall in employment did not deepen any further in 2009 Q4 (the annual decrease in the number of employees was 158,800, i.e. 18,000 less than in the previous quarter). By contrast, the effect of the recession on employment in the services sector is beginning to intensify as expected. The numbers of employees in this sector continued to rise in 2009 Q4, but to a much smaller extent than in the previous quarter.[15] As Chart II.32 shows, this gradual trend is becoming visible in market services. As in the previous quarter, its impact on employment was partly offset by an increase in the number of employees in public services (especially in health and social care, public administration and defence).

The continuing fall in employment amid low demand was reflected in a further rise in unemployment. According to the Beveridge curve, the number of unemployed persons rose in Q4 amid an only very modest decrease in the number of vacancies (see Chart II.33). The number of unemployed persons per vacancy reached an all-time high. In these circumstances, the general unemployment rate (LFS) increased by 2.9 percentage points year on year to 7.3% in 2009 Q4. The registered unemployment rate[16] recorded an even larger change, rising by 3.2 percentage points year on year to 9.0% in the same period. In 2010 Q1 this unemployment rate rose further to 10.1%, but its annual growth slowed.

CHART II.33 THE BEVERIDGE CURVE

The fall in the number of vacancies more or less halted and the rise in the number of people unemployed moderated

(seasonally adjusted numbers in thousands)

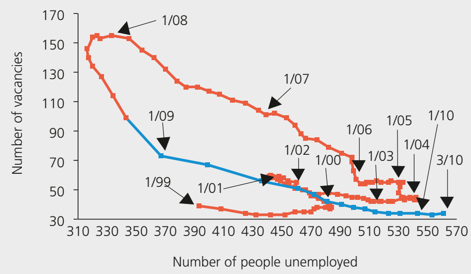
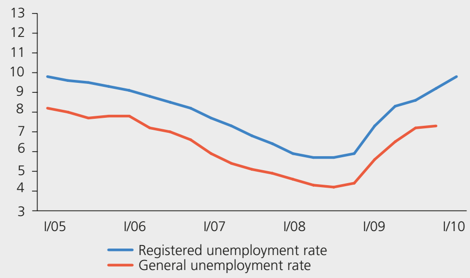


CHART II.34 THE UNEMPLOYMENT RATE

The registered unemployment rate continued to rise in 2010 Q1

(percentages; seasonally adjusted data; source: MLSA, CZSO, CNB calculation)



II.4.2 Wages and productivity

After a large adjustment of the average nominal wage in the national economy to the generally falling demand in 2009 H1, its growth accelerated again in the second half of the year (see Table II.3). In 2009 Q4 alone, its annual growth strengthened by 0.5 percentage point to 5.2%. At 4.8%, average real wage growth was only slightly lower owing to subdued inflation. In Q4, a further considerable upturn in growth in average wages was recorded only in the business sector. In the non-business sector average wage growth slowed roughly to the level observed in 2009 H1.

The high average wage growth was due to structural factors, especially dismissals of employees with lower wages, a lower sickness rate and earlier payment of bonuses as a result of increased ceilings for social and health insurance as from 2010. The lower sickness rate was probably due to the introduction of a three-day non-eligibility period for sickness benefits and the replacement of sick leave with holiday leave in conditions of recession and fear of loss of employment. These circumstances contributed to a year-on-year rise in the average wage in Q4 amounting to a sizeable 6.8% in

TABLE II.3 WAGES, PRODUCTIVITY, UNIT WAGE COSTS

Nominal unit wage cost growth slowed considerably in 2009 Q4

(annual percentage changes)

	I/09	II/09	III/09	IV/09
Average wage in monitored organisations				
nominal	3.1	3.1	4.7	5.2
real	1.0	1.7	4.6	4.8
Average wage in business sector				
nominal	2.9	2.8	4.4	5.2
real	0.8	1.4	4.3	4.8
Average wage in non-business sector				
nominal	4.3	4.5	5.6	4.5
real	2.2	3.1	5.5	4.1
Whole-economy labour productivity	-3.9	-4.3	-3.2	-0.9
Nominal unit wage costs	3.8	2.9	3.0	1.1

15 The total annual increase in the number of employees in this sector was 23,800 lower than in 2009 Q3, reaching 58,900. Employment decreased fastest year on year in administration and other supporting activities (-22,900 people) and financial intermediation and insurance (-8,400 people).

16 Not adjusted for unavailable job applicants.

Chart II.35 Whole economy productivity developments

The decline in productivity moderated

(contributions in percentage points; annual percentage changes)

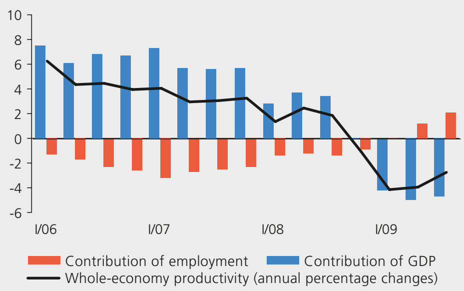


Chart II.36 Productivity developments in branches

The decline in productivity in industry moderates substantially

(annual percentage changes; selected branches)

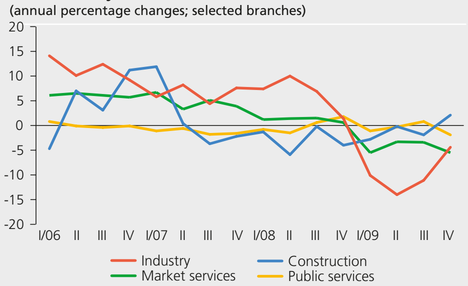
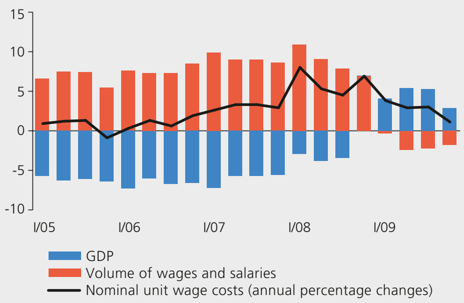


Chart II.37 Nominal unit wage costs

Nominal unit wage cost growth slowed as a result of a moderation of the decline in GDP

(contributions in percentage points; annual percentage changes)



manufacturing and 5.5% in construction amid persisting low demand and falling productivity. Average wage growth in services was very mixed: the highest increase was recorded in real estate activities (10.7% year on year), while some services branches recorded a decline. Nevertheless, the total volume of wages and salaries in the economy decreased in year-on-year terms (by 1.8%) amid falling employment.[17]

The effect of these factors was most apparent in the business sector, where the average wage rose by 5.2% year on year in Q4. Average wage growth in the non-business sector was slower (4.5%).[18] The relatively rapid growth in the average wage here was due chiefly to wage increases in health and social care and education (of 10.1% and 7.4% respectively).

The decline in whole-economy labour productivity is moderating fast as a result of the deepening decline in employment and improving sales conditions. Whole-economy labour productivity fell by 0.9% year on year in 2009 Q4, 2.3 percentage points less than in Q3 (see Chart II.35). The largest decline in labour productivity was recorded in market services (-5.5%); the decline in industry was 1 percentage point lower.

Although average wage growth accelerated further, it was not reflected in a deteriorating wage cost-output ratio. On the contrary, annual growth in nominal unit wage costs, which are an indicator of potential inflation pressures in the wage area, slowed considerably in 2009 Q4 (to 1.1%; see Chart II.37). Total wages and salaries continued to decline in year-on-year terms owing to the further drop in employment, and the annual decrease in real GDP slowed noticeably as a result of a partial improvement in sales conditions.

The slowdown in the wage cost-output ratio was the largest in industry (to 5% year on year). However, nominal unit wage cost growth in this sector continue to be significantly affected by a sizeable decline in value added in the electricity, gas and water supply industry, which was accompanied by double-digit growth in wages and salaries. Nominal unit wage cost growth also slowed in construction, owing to renewed productivity growth. In market services, however, annual growth in nominal unit wage costs rose by comparison with the previous quarter amid a noticeable deterioration in productivity, but fell far short of the levels recorded at the beginning of 2009.

17 The fall in the registered number of employees converted into full-time equivalents (which amounted to 6.8%) was larger than according to the LFS and the national accounts. To a large extent, this difference was probably due to an expansion of the grey economy. In a recession, more employees probably work without permission. They are then reported as employees in the LFS but not included in the registered number of employees reported by corporations. The average wage growth implied by the volume of wages from the national accounts (-1.8% in 2009 Q4) and employment according to the national accounts (-2.8%) was 1%, which means that it differs from the reported average wage by more than 4 percentage points. If the registered number of employees is used, the implied average wage growth differs from the reported data only slightly (by 0.2 percentage point).

18 Annual growth in the average wage in the whole economy was the same as that for its main component, the business sector, even though the non-business sector reported lower growth. This seemingly illogical situation was caused by large changes in the structure of employment.

II.5 THE BALANCE OF PAYMENTS

In 2009, the balance of payments was characterised by a high income deficit and particularly by a sizeable net inflow of portfolio investment due to issues of government and corporate bonds on foreign markets. The output surplus[19] grew in this period thanks to the trade balance. The deficit on other investment was due primarily to a net outflow of short-term capital in the MFI sector.

II.5.1 The current account

In 2009, the current account ended in a deficit of CZK 37 billion (see Table II.4), or 1.0% of GDP. In year-on-year terms, the deficit increased by CZK 14.1 billion, owing chiefly to an increase in the income deficit. A rise in the trade surplus acted in the opposite direction.

In 2009, the trade balance recorded a surplus of CZK 180.6 billion, up by almost CZK 78 billion on a year earlier (see Chart II.38). The increase in the trade surplus was due mostly to price developments, linked mainly with strongly positive terms of trade for mineral fuels. Roughly one-fifth of the increase in the surplus was also due to developments in real terms as a result of a gradual recovery in external demand and base effects in Q4. Nonetheless, the decline in external demand was reflected in a decrease in foreign trade turnover, which fell by almost 16% year on year at current prices in 2009. A deep annual decline in imports for investment and intermediate consumption resulting from the fall in domestic economic activity, particularly in export-oriented engineering sectors, and linked also with a decline in investment in inventories, acted against a decrease in the real surplus. Exports of cars, connected with car-scrapping incentives in some countries, also helped to moderate the fall in goods exports and stabilise the overall balance. The trade surplus continued to rise year on year during 2010 Q1, up by more than CZK 15 billion for January and February.

As regards the commodity structure, the trade balance continued to show very mixed trends in 2009. Annual growth in the overall surplus was supported mainly by a decline in the deficit on mineral fuels. This was counteracted mainly by a decline in the surplus on machinery. From the geographical perspective, the annual growth in the trade surplus was due chiefly to a lower trade deficit with non-EU countries, especially Russia because of lower oil and natural gas prices. Strong growth in the trade surplus was achieved with Germany, while the trade surpluses with most EU countries fell year on year. The growth in the trade surplus with EU Member States was therefore relatively modest overall.

The balance of services ended 2009 in a surplus of CZK 27 billion, down by almost CZK 39 billion year on year. The decrease in the overall balance was due mostly to a widening of the deficit on other services, stemming above all from rapid growth in business services debits.[20] The surplus on transport also declined somewhat owing to a drop in credits. By contrast, the surplus on travel increased very slightly.

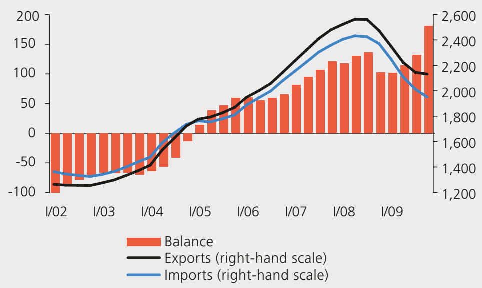
TABLE II.4 THE BALANCE OF PAYMENTS

The current account deficit moderately increased in 2009
(CZK billions)

	2006	2007	2008	2009
A. CURRENT ACCOUNT	-77.2	-113.1	-22.9	-37.0
Trade balance	65.1	120.6	102.7	180.6
Balance of services	45.1	49.7	65.9	27.0
Income balance	-166.9	-255.7	-174.3	-230.9
Current transfers	-20.4	-27.7	-17.2	-13.7
B. CAPITAL ACCOUNT	8.5	19.6	30.4	41.0
C. FINANCIAL ACCOUNT	92.4	125.8	59.0	95.1
Direct investment	90.3	179.1	36.3	26.4
Portfolio investment	-26.9	-57.2	-9.1	113.8
Financial derivatives	-6.2	1.3	-14.0	-7.7
Other investment	35.3	2.7	45.9	-37.4
D. ERRORS AND OMISSIONS	-21.6	-16.6	-26.4	-38.4
E. CHANGE IN RESERVES	-2.1	-15.7	-40.1	-60.6

CHART II.38 THE TRADE BALANCE

The annual moving total of the trade surplus increased significantly in 2009 Q4
(CZK billions)



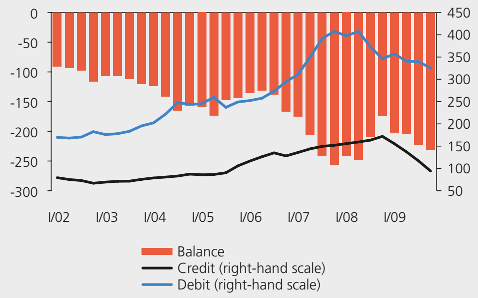
19 The output balance is the sum of the trade balance and the balance of services.

20 This involved branding, i.e. trade operations of multinational corporations connected with increasing the value of goods imported into the Czech Republic and subsequently re-exported.

CHART II.39 THE INCOME BALANCE

The annual moving total of the income deficit increased slightly in 2009 Q4

(CZK billions)



The income deficit reached CZK 230.9 billion, representing a year-on-year deterioration of almost CZK 57 billion (see Chart II.39). Direct investment income on the debit side, especially dividends paid to non-residents, remained the most important component. The widening of the overall deficit was mostly due to an increase in the deficit on direct investment income to almost CZK 222 billion. A decline in reinvested earnings on the credit side of the balance, pointing to lower investment profitability abroad, made the largest contribution. Compensation of employees also recorded a deficit, which narrowed as a result of a drop in wage expenditure on foreign workers in the Czech Republic. However, this deficit was almost fully offset by a surplus on other investment income, comprising interest on deposits and income on CNB reserves. Portfolio investment also ended in a slight deficit.

Current transfers recorded a deficit of CZK 13.7 billion, down by CZK 3.5 billion year on year due to a faster drop in debits than in credits. The determining factor was the private transfers deficit, which reached CZK 25 billion. However, almost one-half of it was offset by a rapidly rising surplus on government transfers. 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 6.3 billion.

II.5.2 The capital account

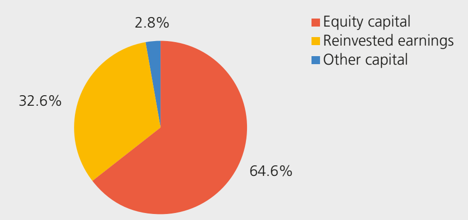
The capital account recorded a surplus of CZK 41 billion, an increase of almost CZK 11 billion on a year earlier. Its main component was net government revenues from EU funds, which rose to almost CZK 36 billion. The remainder of the capital account surplus was linked with a surplus on trading in emission allowances.

II.5.3 The financial account

The financial account ended 2009 in a surplus of CZK 95.1 billion. This represented an increase of more than CZK 36 billion in year-on-year terms thanks to the evolution of portfolio investment. The largest component of the overall surplus was a portfolio investment surplus, one-third of which was, however, offset by a net outflow of other investment.

CHART II.40 DIRECT INVESTMENT ABROAD

Direct investment abroad was directed mainly into equity capital in 2009



The net inflow of direct investment remained relatively low in 2009. It reached CZK 26.4 billion, representing a year-on-year decrease of almost CZK 10 billion. The decrease in the overall surplus was due to a faster decline in foreign investment in the Czech Republic than Czech investment abroad. The inflow of investment into the Czech Republic decreased to CZK 52 billion as a result of domestic subsidiaries repaying loans from foreign parent companies and foreign parent companies drawing loans from their Czech subsidiaries. Its largest component was again reinvested earnings (CZK 75.5 billion). Investment in equity capital was around one-third of this figure. Direct investment by Czech entities abroad also decreased as a result of an annual decline in estimated reinvested earnings. The outflow of such investment fell to CZK 25.5 billion. Investment in equity capital was its largest component (see Chart II.40).

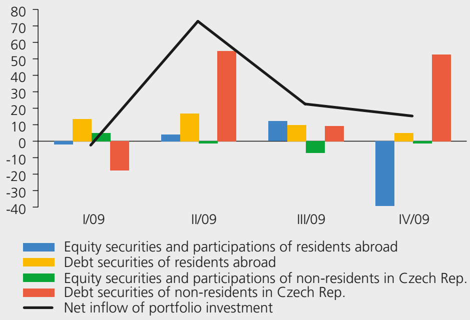
With regard to its branch structure, the foreign capital inflow was channelled primarily into real estate and business services, followed by trade and repair. The outflow of capital went mainly into the electricity, gas and water supply industry and mining and quarrying. By territory, the biggest foreign capital inflows came from the United States and Austria. Capital outflows abroad went mainly to Romania and Turkey.

Portfolio investment recorded a large net inflow of CZK 113.8 billion in 2009 (see Chart II.41), following a moderate net outflow a year earlier. The year-on-year change in its balance was CZK 123 billion. As in the previous year, issues of government and corporate bonds on foreign markets were the main operations, reaching CZK 81.1 billion. As regards trade in other domestic securities, purchases were predominant as a result of investment by non-residents in Czech bonds. The annual change in the portfolio investment balance was associated chiefly with renewed interest in Czech bonds on the part of foreign investors. However, it was also partly linked with a change in flows on the credit side connected with an increase in sales of foreign bonds by domestic investors. The resulting fall in holdings of foreign securities was partly offset by purchases of foreign shares at the close of the year. This probably reflected the low level of interest rates abroad and a need for liquidity.

CHART II.41 PORTFOLIO INVESTMENT

Portfolio investment recorded a net inflow in 2009 Q4

(CZK billions)



Financial derivatives recorded a net outflow, which decreased by almost one-half, generating a CZK 7.7 billion decrease in the financial account surplus.

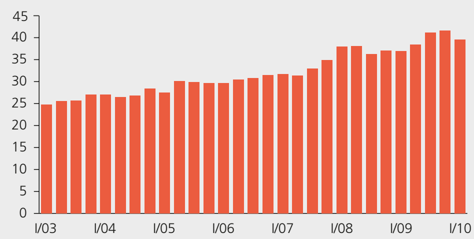
Other investment recorded a net capital outflow of CZK 37.4 billion in 2009 (compared to a net inflow of almost CZK 46 billion in 2008). The overall balance and its year-on-year change were most affected by a net outflow of capital of CZK 30.5 billion in the commercial bank sector. It was related to a net outflow of short-term capital due to repayments of short-term deposits and loans received from abroad. A net outflow of capital (of CZK 19.5 billion) was also recorded by the corporate sector, due mainly to an increase in export credits provided and deposits on accounts abroad. By contrast, a net inflow of government sector capital, linked mainly with EIB loans for infrastructure development, helped to reduce the overall deficit.

The CNB's international reserves totalled CZK 746.2 billion at the end of 2010 Q1, down by CZK 18.1 billion quarter on quarter. The reserves were again affected chiefly by valuation changes. In dollar terms, the reserves declined by USD 2.1 billion to USD 39.5 billion in the same period (see Chart II.42).

CHART II.42 THE CNB'S INTERNATIONAL RESERVES

The CNB's international reserves decreased in dollar terms in 2010 Q1

(USD billions)



II.6 MONETARY DEVELOPMENTS

The growth rates of money and credit remain at low levels. In January and February, the rate of growth of household deposits continued to decrease, while deposits of non-financial corporations resumed slight growth as a result of the gradual recovery in economic activity. The gradually slowing decline in loans to non-financial corporations over the past few months may indicate incipient stabilisation of this segment of the credit market. However, there is persisting uncertainty regarding the strength of the recovery of economic activity and the related loan demand. Growth in loans to households slowed further. This was fostered both by loans for house purchase and by consumer credit. The ratios of non-performing loans to total loans increased in all segments of the credit market. With the exception of the rate on consumer credit, client interest rates were mostly flat or falling slightly.

CHART II.43 M1 AND M2

M2 growth slowed further

(annual percentage changes)

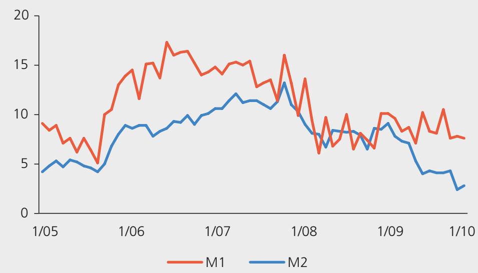


Table II.5 Monetary aggregate structure

M1 growth was still higher than M2 growth

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

	III/09	IV/09	1/10	2/10	Share in M2 % 2/10
M1	8.5	8.7	7.8	7.6	60.4
Currency in circulation	6.8	-3.4	-2.5	-2.6	13.0
Overnight deposits	9.0	12.6	11.0	10.7	47.5
M2-M1 (quasi money)	-0.9	-2.2	-4.7	-3.8	39.6
Deposits with agreed maturity	-17.8	-12.8	-10.4	-7.6	21.3
up to two years	-14.1	-16.9	-21.2	-20.4	15.3
Deposits redeemable at notice	34.0	16.5	5.0	3.2	17.7
up to three months	32.9	10.3	-2.7	-6.7	13.9
Repurchase agreements	-26.9	-35.4	-43.3	-37.7	0.6
M2	4.6	4.1	2.4	2.8	100.0

Chart II.44 Interest rates on deposits

Interest rates on deposits were flat, except for the rate on deposits with agreed maturity of up to one year, which fell further

(new business; percentages)

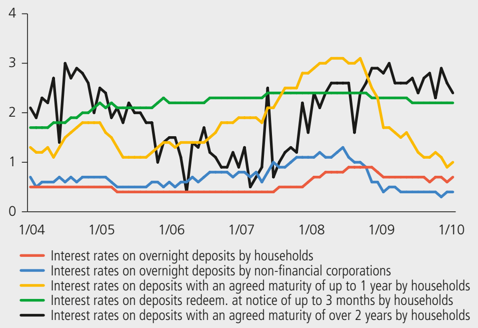


Chart II.45 Loans to non-financial corporations and households

The decline in loans to non-financial corporations did not deepen

(credit stocks; annual percentage changes)

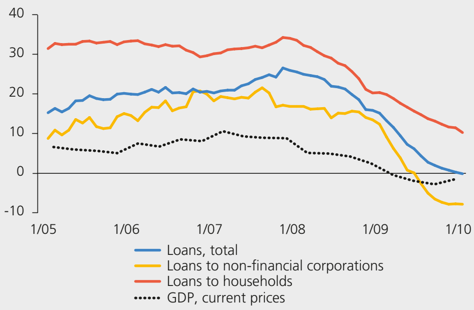


Table II.6 Loan structure

Growth in loans to households slowed further

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

	III/09	IV/09	1/10	2/10	Share in total loans, % 2/10
Non-financial corporations	-2.6	-7.2	-7.7	-7.8	41.1
Loans up to 1 year	-20.0	-24.6	-15.3	-16.0	13.5
Loans over 1 year and up to 5 years	5.7	-0.8	-11.9	-11.6	8.8
Loans over 5 years	12.7	7.9	1.4	1.5	18.8
Households	14.7	12.4	11.5	10.3	52.1
Consumer credit	14.4	11.4	9.3	8.7	9.8
Loans for house purchase	13.9	11.8	11.1	10.6	36.6
Other loans	21.4	18.6	18.3	10.7	5.7
Non-monetary financial institutions	-11.7	-12.3	-18.9	-18.0	6.8
Total loans	4.4	1.4	0.3	-0.1	100.0

II.6.1 Money

The annual growth rate of M2 slowed further in 2010 Q1, reaching 2.8% in February (see Chart II.43). The growth in M1 remained higher than that in M2, reflecting a decline in money market interest rates and the related narrowing of spreads between rates on short-term time deposits (in particular deposits with an agreed maturity of up to one year) and those on overnight deposits. Within M2, the decline in short-term deposits was partly offset by growth in long-term time deposits, affected by recent interest rates on long-term deposits. Currency recorded a further annual decline, which reflected the fading of its previous rise at the time when the crisis was escalating (see Table II.5).

The current phase of the business cycle had different effects on deposits of corporations and households. While annual growth in household deposits slowed to 5.6% in February 2010 as a result of the persisting unfavourable labour market situation, deposits of non-financial corporations rose by 0.4% year on year in February, following a moderation of their decline over the past few months. In particular, there was an increase in overnight deposits of corporations. This suggests signs of a gradual improvement in corporations' cash flow in the initial recovery phase. The economic results of non-financial corporations support this view. Deposits of non-monetary financial institutions fell by 5%.

The average interest rate on new deposits stayed at 1% in the period under review. The rate on new deposits of households was 1.1% and that on new deposits of non-financial corporations was 0.5%. In the case of households, however, there was a decline in the interest rate on new deposits with an agreed maturity of up to one year, while long-term time deposits with an agreed maturity of over two years were remunerated at the highest rate (see Chart II.44).

II.6.2 Credit

The growth rate of loans to corporations and households has been close to zero in recent months and stood at -0.1% in February. The annual growth rate of loans adjusted for non-transaction effects was 1.2%. However, the current data are starting to show possible signs of incipient stabilisation in some segments of the credit market amid an improving outlook for real economic activity and a gradual easing of the credit conditions for some types of loans.

Loans to non-financial corporations decreased by 7.8% year on year in February (see Chart II.45). Although their decline is no longer deepening, there is still uncertainty regarding the strength of the economic recovery and the related rise in demand for loans amid increased prudence of banks. Moreover, at the start of the growth phase of the cycle, some corporations may make greater use of internal funds obtained as a result of improvements in their profitability. The differences between the individual loan types and sectors were relatively large. The decline in short-term loans was lower than in mid-2009, while medium-term loans continued to deepen their decline and the growth rate of long-term loans was decreasing. A decline in loans continued in manufacturing and in trade and transport. By contrast, the decline in loans to the construction industry and developers moderated. Owing to uncertainty regarding the strength of the economic recovery and the related weak investment activity, the rate of growth is not expected to switch to positive territory until the end of 2010. However, compared to euro area corporations, there is greater room for a future increase in demand for external funding (the total debt of corporations, as expressed by the ratio of total loans and debt securities to GDP, was 46.4% in the Czech Republic in 2009 Q4, roughly half of the euro area level).

Annual growth in loans to households slowed further and was 10.3% in February. Loans for house purchase and consumer credit contributed to this slowdown (see Table II.6). The seasonally adjusted monthly flow of loans remained in subdued positive values, declining somewhat in February. The decline in interest rates on some types of loans for house purchase in the first months of 2010 has so far failed to generate a recovery. The still low demand for housing and hence for loans for house purchase is being affected by expectations of a further rise in unemployment. Supply prices of flats are declining, but their fall moderated in 2010 Q1. Still subdued demand for loans for house purchase can be expected in the remainder of 2010. These loans are expected to recover more strongly later on, after the economic cycle has turned.[21]

The ratio of non-performing loans increased further, reaching 6% in February (see Chart II.46). This increase was recorded in all segments of the credit market. However, the high rate of growth of non-performing loans did not increase any further in the case of non-financial corporations.

Most client interest rates were flat or falling slightly in the first months of 2010, reflecting money and financial market interest rates. The main exceptions were rates on consumer credit to households, which are gradually rising. Client interest rates in the Czech Republic are roughly at pre-crisis levels, with monetary policy rates and market rates reaching historical lows.

The interest rate on loans to non-financial corporations declined slightly in February, to 4%, while that on loans to sole proprietors decreased to 6.4% (see Chart II.47). Short-term rates on both types of loans have been declining in recent months, most intensively in the case of large loans. The interest rate on new loans for house purchase dropped fairly significantly in January and edged down further to 5.3% in February (see Chart II.48). Declines were recorded mainly for rates with fixations of between one and five years.[22] The interest rate on consumer credit rose to 14.7% in February 2010. The spreads of client and market interest rates were mostly flat or falling slightly, with the exception of that for consumer credit, which increased. However, the said spreads were still higher than the historical values, mainly because of rising unemployment in the household sector and still weak economic activity in the non-financial corporations sector.

CHART II.46 NON-PERFORMING LOANS

Non-performing loan ratios rose in all segments of the credit market

(% of total loans in segment)

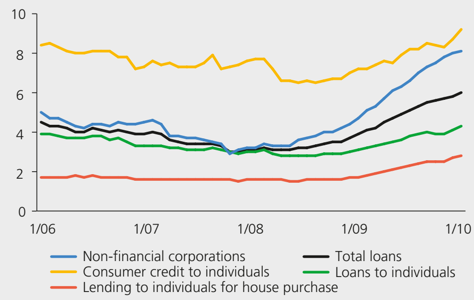


CHART II.47 INTEREST RATES ON LOANS TO CORPORATIONS

Interest rates on loans to non-financial corporations and entrepreneurs fell marginally

(new business; percentages)

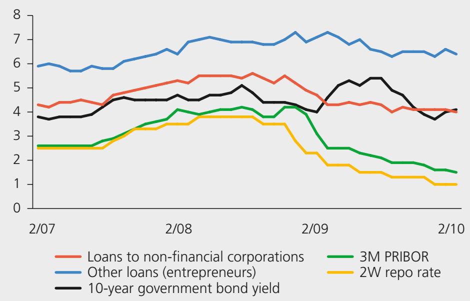
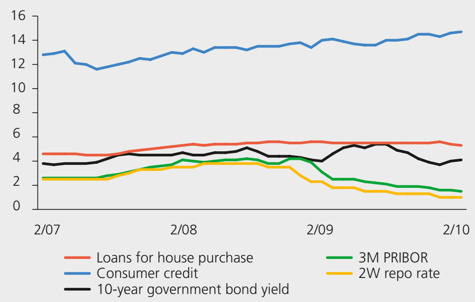


CHART II.48 INTEREST RATES ON LOANS TO HOUSEHOLDS

The interest rate on loans for house purchase declined at the start of 2010

(new business; percentages)



21 Nevertheless, according to Hypoindex, the volume of new mortgage loans increased in March 2010 compared to the previous month. This, however, may have been partly due to seasonal effects (as such loans continued to decline in year-on-year terms).

22 According to Hypoindex, however, the average interest rate on mortgage loans increased slightly in March 2010. This increase was observed for five-year fixations, while rates with other fixations – in particular one-year fixation – were still declining.

CHART II.49 IMPORT PRICES AND PRODUCER PRICES

Import prices and producer prices were mostly falling amid continuing low demand

(annual percentage changes)

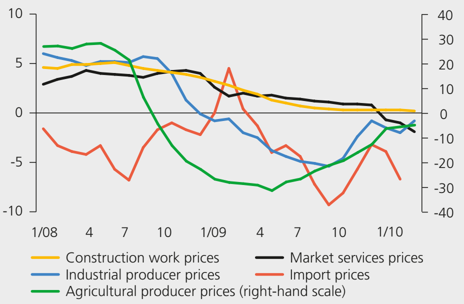


CHART II.50 IMPORT PRICES

The decline in import prices deepened again

(annual percentage changes; contributions in percentage points)

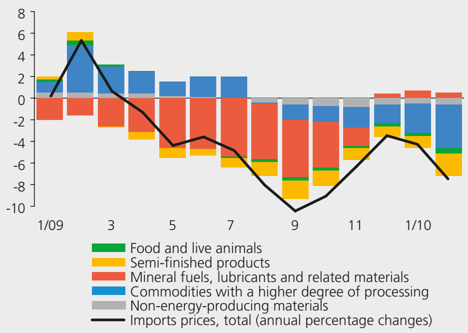


TABLE II.7 STRUCTURE OF THE IMPORT PRICE INDEX

Prices fell year on year in most import categories

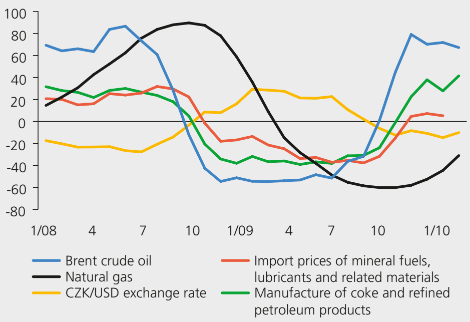
(annual percentage changes)

	11/09	12/09	1/10	2/10
IMPORTS, TOTAL	-5.7	-3.2	-3.9	-6.7
of which:				
food and live animals	-4.9	-6.2	-6.3	-7.4
beverages and tobacco	-0.7	-3.1	-4.5	-8.5
crude materials inedible. except fuels	-24.3	-18.4	-16.8	-19.8
mineral fuels and related products	-15.1	4.6	7.2	5.2
animal and vegetable oils	-9.7	-11.7	-13.2	-17.5
chemicals and related products	-5.9	-4.5	-3.7	-5.9
manufactured goods classified chiefly by material	-5.1	-4.6	-5.0	-7.0
machinery and transport equipment	-2.6	-2.3	-4.5	-8.1
miscellaneous manufactured articles	-2.0	-2.7	-4.8	-8.4

CHART II.51 MINERAL FUELS

Renewed growth in import prices of mineral fuels continued at the start of 2010

(annual percentage changes)



II.7 IMPORT PRICES AND PRODUCER PRICES

In conditions of still low global demand, import prices in most categories included in the import price index continued to decline year on year. Only growth in import prices of energy-producing materials picked up pace as a result of a sharp upswing in oil prices on world markets. This was quickly reflected in producer prices in the primary oil processing sector and the chemical industry. Overall, however, industrial producer prices continued to show an annual decline, although this was insignificant at the end of Q1; prices fell in most monitored branches. The annual decline in agricultural producer prices continued to moderate substantially. Construction work price inflation was close to zero due to low demand, while prices in market services recorded an annual decline in Q1.

II.7.1 Import prices

Import prices continued to decline in the first two months of 2010, a trend observed since April 2009. As Chart II.50 shows, their annual decline deepened again, reaching 6.7% in February.

This substantial change is due mainly to import prices of commodities with high degree of processing, whose contribution to the total annual decrease in import prices strengthened considerably in January and February 2010, and was the most pronounced (see Chart II.50). This change was due primarily to import prices of machinery and transport equipment and miscellaneous manufactured articles. Their annual decline had been below 3% in December 2009, but exceeded 8% according to the latest data for February. The further decrease in these import categories, which are very sensitive to the koruna-euro exchange rate, was due not only to renewed annual appreciation of the exchange rate, but also to a decline in prices of these products abroad as a result of still low demand.

Prices in most other import categories included in the CZSO's import price index also saw a considerably deeper decline in January and February. The contribution of prices of imported semi-manufactures, whose annual decline deepened to 7% in February, was relatively significant (see Chart II.50). The decline in import prices of food was even more pronounced, but their share in the total decline in import prices was less marked. Import prices of chemical products continued to record an annual decline, although they usually follow changes in prices of oil products immediately. But the biggest decline (of almost 20%) was recorded by prices of non-energy-producing materials.

Only import prices of mineral fuels continued to record annual growth at the start of 2010, reaching 5.2% in February. The reversal in import prices of these materials at the end of 2009 was linked with renewed annual growth in oil prices on world markets, which exceeded 70% at the end of 2009 and in January and February 2010. Until September 2009, oil prices had been declining annually by more than 30% (see Chart II.51). World prices of natural gas, following oil prices with a lag, were still falling annually in early 2010, albeit more slowly than in previous quarters (-44.5% in February). The annual appreciation of the koruna-dollar exchange rate only partly offset the impact of prices of energy-producing materials on domestic prices (see Chart II.51).

Overall, import prices, which are an important factor of domestic inflation, signalled a mostly anti-inflationary effect on domestic prices in the first two months of 2010. The declining import prices in most import categories, reflecting the still low world economic activity and the annual appreciation of the koruna exchange rate, were still creating conditions for a decline in producers' costs, producer prices and prices on the consumer market amid continuing weak domestic demand. Only import prices of energy-producing materials continued to record annual growth, induced by a renewed sharp rise in oil prices on world markets linked with the expected global economic recovery. Their growth was a source of cost pressures on producer price inflation, especially at the early stages of the production chain (primary processing of oil products).

II.7.2 Producer prices

Industrial producer prices

Industrial producer prices continued to record an annual decline in 2010 Q1 (see Chart II.52). However, the decline was subdued throughout the quarter, not exceeding 2%; in March it stood at 0.8%. This was partly due to a recovery in oil prices on world markets, which fed through strongly to prices of producers at the early stages of the production chain.

In conditions of persisting low global and domestic demand and falling prices of most imported inputs, industrial producer prices declined in more than two-thirds of the monitored branches. The overall annual decline was again due most of all to the manufacture of basic metals and fabricated metal products, whose contribution in March was 1.5 percentage points. Another significant contributor was the food industry, where, however, the annual decline in producer prices slowed somewhat (to 3.6%), in line with a weaker decline in domestic agricultural producer prices. By contrast, the manufacture of transport equipment saw a sharp increase in its price decline in Q1, which is an unusual phenomenon in this industry (to -6.3%; see Chart II.54). The effect of low demand for investment products was also visible in prices in the manufacture of machinery and equipment. Producer prices in this industry declined by 1.5% year on year in Q1, the first fall since 1998.

A significant change from the perspective of longer-term tendencies was also recorded in prices in the electricity, gas and steam supply industry, where producer prices have been falling in annual terms since the start of 2010 (by 1.7% in March), whereas they rose by more than 10% last year. The decline in producer prices in this industry was due mainly to lower demand for electricity in the European market as a result of the still low economic activity both at home and in Europe.

By contrast, oil prices on global markets continued to show rapid annual growth. Their sharp upswing was reflected in prices of primary-oil-processing businesses, leading to a pronounced pick-up in growth in prices in the manufacture of coke and refined petroleum products of almost 20 percentage points compared to the end of 2009 Q4, to 41.5% in March 2010 (see Chart II.51). Subsequently, inflation also rose significantly in the chemical industry, where production is heavily dependent on oil products.

Overall, the view of industrial producer prices is broadly unchanged since the last Inflation Report. In most other branches of manufacturing, falling producer prices continued to indicate a strong influence of the persisting low domestic demand, and their effect was anti-inflationary overall. Only the very

CHART II.52 INDUSTRIAL PRODUCER PRICES
The overall decline in industrial producer prices was only modest in 2010 Q1
(annual percentage changes; contributions in percentage points)

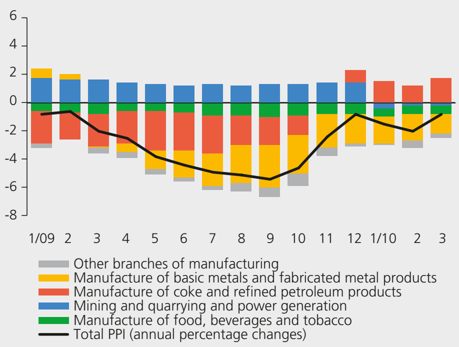


CHART II.53 MANUFACTURING
Producer prices fell in most manufacturing branches
(annual percentage changes; selected branches)

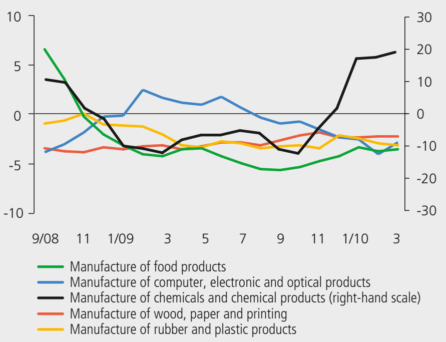
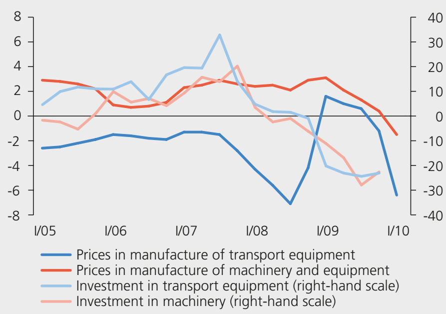


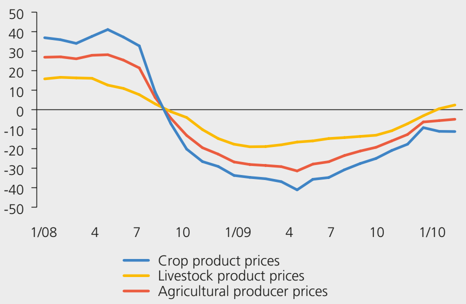
CHART II.54 PRODUCER PRICES AND DEMAND
Low investment demand contributed significantly to the decline in prices of producers of machinery and transport equipment
(annual percentage changes)



high and rising producer price inflation in primary oil processing, triggered by the sharp upswing in annual growth in world oil prices, can be considered a potential source of cost pressures in related branches of the economy; its clear impact on producer prices was visible in the chemical industry in 2010 Q1. Unlike in previous quarters, however, electricity prices were no longer a source of rising corporate costs.

Agricultural producer prices

CHART II.55 AGRICULTURAL PRODUCER PRICES
The decline in agricultural producer prices moderated significantly further in 2010 Q1
(annual percentage changes)

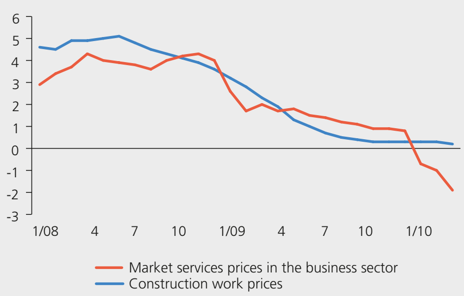


In 2010 Q1, agricultural producer prices saw a continuing gradual moderation of their deep annual decline which peaked in May 2009. The decline eased to less than 10% in Q1 and was just 4.9% in March alone. As Chart II.55 shows, this path was observed for both crop and livestock product prices. The annual decline in livestock product prices moderated more markedly and in February turned into a slight annual increase (of 2.4% in March). Crop product prices also declined more slowly in 2010 Q1 than in the previous quarter. In March they decreased by 11.2%.

As mentioned in the previous Inflation Report, the slow change in the agricultural product price trend in the Czech Republic observed since 2009 H2 was linked mainly with an upswing in growth in prices on world markets. World prices were affected above all by an expected increase in demand for food products connected with the expected economic recovery worldwide, despite still growing global stocks of crop products.

Other producer prices

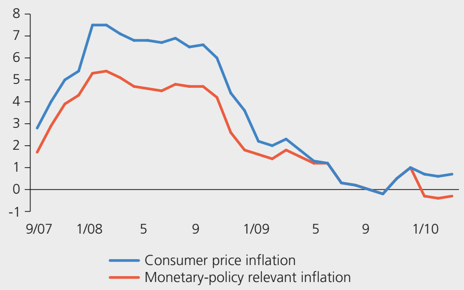
CHART II.56 OTHER PRICE CATEGORIES
In 2010 Q1, growth in construction work prices was subdued and prices of market services declined
(annual percentage changes)



In Q1, prices of construction work and market services suggested a strengthening effect of weak domestic demand on price decision-making. As Chart II.56 shows, annual construction work price inflation was close to zero, reaching 0.2% in March. Prices of materials and products consumed in construction continued to show an annual decline, but it moderated to 2.2% in March.

The changes in prices of market services in the business sector were larger than those in construction work prices. The previous gradual slowdown in annual growth switched to an annual decline in January. In March, this decline reached almost 2% (see Chart II.56). By Q1, prices were falling in almost half of services branches. The largest change was recorded in advertising and market research, where the previous annual price growth of more than 9% in December was replaced by a decline of almost the same strength in March. Prices in insurance and administrative and other services showed a similar trend, although their decline was slower.

CHART II.57 INFLATION
Annual inflation decreased at the beginning of 2010
(annual percentage changes)



II.8 INFLATION

The slowdown in annual consumer price inflation at the start of 2010 was a result of slower growth in regulated prices and a further deepening of the decline in adjusted inflation excluding fuels, reflecting in particular the strong anti-inflationary effect of import prices and low demand. Annual headline inflation was 0.7% in March, remaining below the lower boundary of the tolerance band around the CNB's 2% target. Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, was negative at -0.3% in March.

II.8.1 Current inflation

Annual inflation[23] declined at the start of 2010. At 0.7%, it was 0.3 percentage points lower than in December 2009 (see Chart II.57). The decline in inflation in Q1 was due most of all to regulated prices and adjusted inflation excluding fuels. This effect was partly offset by a slower annual decline in food prices and the impacts of changes to indirect taxes.

A rise in indirect taxes implemented with effect from 1 January 2010 as part of measures to reduce the state budget deficit was reflected in both regulated and unregulated prices. Both VAT rates were raised by 1 percentage point and excise duties on fuels, beer, spirits and cigarettes were increased. These tax changes have been affecting inflation since the start of 2010. Only in the case of cigarettes will the impacts of the rise in taxes be lagged, owing to stocks being sold off at the lower tax rate.

According to the CNB's calculations, the effect of these tax changes on inflation was fairly sizeable, as Chart II.59 shows.[24] According to our estimates, the tax increases passed through fully to regulated prices, fuel prices and prices of non-tradable other items in Q1. They probably did not pass through fully to food prices. Prices of non-food tradable items excluding fuels recorded an overall decline in Q1, despite the higher VAT. The following text assesses the evolution of the main components of inflation excluding the effect of the changes to indirect changes.

The annual decline in market prices, as measured by net inflation, moderated further in 2010 Q1, reaching -0.4% in March. Market prices continued to be significantly affected by the subdued domestic economy. The decline in market prices was also fostered by the anti-inflationary effect of mostly falling prices of imported production inputs for businesses and final products for the consumer market, bolstered by the annual appreciation of the koruna's exchange rate. Fuel prices, driven by rapid growth in oil prices on world market, bucked this trend.

Within market prices, adjusted inflation excluding fuels contributed most to the decrease in inflation in 2010 Q1. Its annual decline deepened from -0.2% in December 2009 to -1.2% in March. As in the previous quarter, it was most affected by prices of non-food tradable commodities excluding fuels, whose annual decline deepened significantly to 4.2% in March (see Chart II.60). This was due mainly to a further decrease in consumer prices of transport equipment, whose import and producer prices recorded a substantial decline at the start of 2010 as a result of persisting low demand.

Annual growth in prices of non-tradable unregulated commodities, consisting mainly of services, dropped to a record low level of 0.9% in Q1. This trend was visible in all categories of these services and thus followed the path of gradually declining household expenditure on services amid slowing growth or a decline in household income, rising unemployment and uncertain economic growth prospects (see section II.3.1 *Domestic demand*).

CHART II.58 INFLATION COMPONENTS

Regulated prices and adjusted inflation excluding fuels contributed to the decrease in inflation

(annual percentage changes; excluding indirect tax changes)

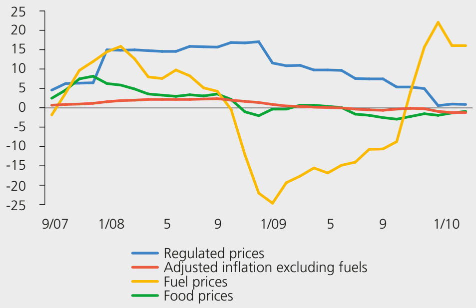


CHART II.59 STRUCTURE OF INFLATION

Fuel prices and indirect taxes were the main contributors to inflation

(annual percentage changes; contributions in percentage points)

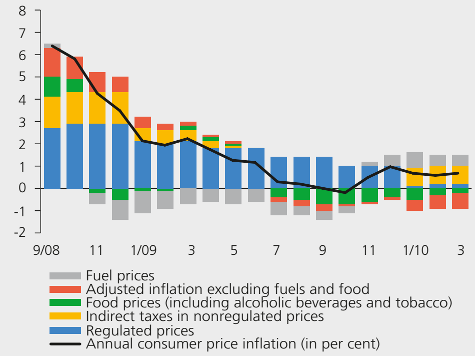
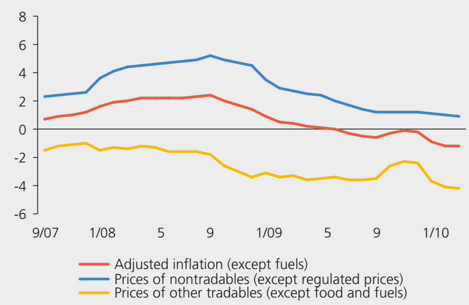


CHART II.60 ADJUSTED INFLATION EXCLUDING FUELS

Annual adjusted inflation excluding fuels declined further

(annual percentage changes)



23 Measured by annual growth in consumer prices.

24 The impact of indirect taxes on regulated prices is included in the item "regulated prices". According to our calculations, the aggregate first-round impact of the January tax changes on inflation was 0.95 percentage point, of which 0.11 percentage point was due to regulated prices and 0.84 percentage point to unregulated prices (i.e. net inflation).

Chart II.61 Food prices

Food prices declined more modestly in 2010 Q1 than in the previous quarter

(annual percentage changes)

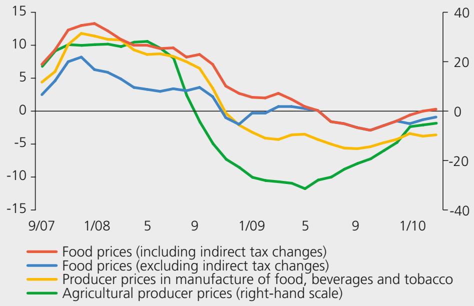


Chart II.62 Consumer basket prices

Prices in the transport category were the biggest contributors to annual inflation

(March 2010; contributions in percentage points, including changes to indirect taxes)

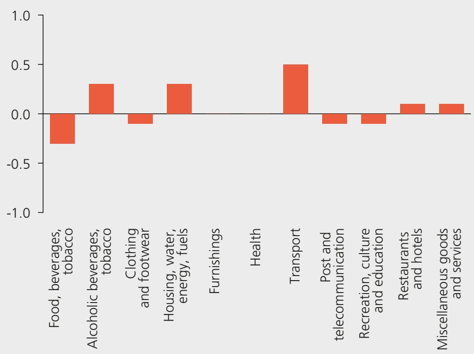
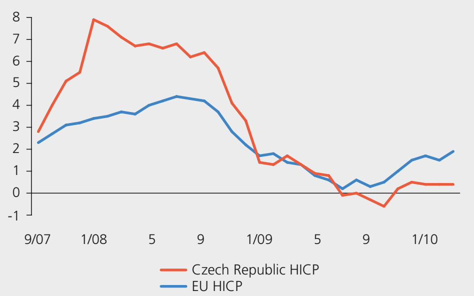


Chart II.63 The HICP in the Czech Republic and the EU

Inflation in the Czech Republic was below the EU average in 2010 Q1

(annual percentage changes)



Food prices continued to record an annual decline in Q1, although the decline slowed further as expected (to -0.9% in March; see Chart II.61). This reflected the ongoing weakening of the annual decline in agricultural producer prices (for details see *Agricultural producer prices*). Nevertheless, analyses of inflation in this area show that sellers are not fully reflecting these gradual changes in agricultural producer prices in consumer prices of food. This is leading to declines in their margins.[25] The main reason can be seen in the flat or slightly falling demand for food as suggested by the latest available CZSO data on the structure of household consumption expenditure and retail trade turnover.

Fuel prices were again the fastest growing component of inflation in 2010 Q1. Their renewed growth corresponded to the evolution of world oil prices and petrol prices on European stock exchanges as expressed in koruna (i.e. including the effect of the dollar-koruna exchange rate). Fuel prices grew by 16.1% year on year in March; despite the very uneven trend this growth was only slightly different from the figure recorded at the end of 2009 Q4.

Annual growth in regulated prices, which slowed sharply in 2010 Q1 (from 5% in December 2009 to 0.9% in March), mainly reflected the lagged impact of the decline in world electricity prices. Electricity prices decreased (by 2.7% in March) following a long period of high growth. Also significant was a substantial decline in the rate of growth of regulated rents compared to the previous quarter (of 18.4 percentage points to 9.2%). The annual decline in natural gas prices also deepened in Q1, while annual growth in water supply and sewerage collection charges and prices of some items in the health category moderated. The current annual growth in regulated prices thus mainly reflected rising regulated rents and heat prices. The impact of regulated prices on headline inflation was marginal in Q1, as Chart II.59 shows.

Turning to the major categories of the consumer basket, prices in the transport category rose the fastest in 2010 Q1 (by 4.3%), owing to rising fuel prices; their share in headline inflation was also the highest in March (see Chart II.62). The contribution of prices in the housing category, which had dominated in 2009, decreased substantially in Q1, mainly because of the annual decline in energy prices and lower growth in regulated rents. Prices in the alcoholic beverages and tobacco category, where the effect of the increases in indirect taxes was visible, also contributed significantly to annual inflation.

By international comparison, consumer prices as measured by the HICP grew more slowly in the Czech Republic in 2010 Q1 than on average in the EU countries (see Chart II.63). According to Eurostat, HICP growth in the Czech Republic was 0.4% throughout Q1, whereas it gradually went up on average in the EU countries (to 1.9% in March).

25 The margins of processors and sellers of food increased markedly in previous quarters, since their prices did not respond fully to the marked annual decline in agricultural producer prices.

BOX 4

THE JANUARY 2010 CONSUMER BASKET UPDATE

In the past, the CZSO usually introduced a new consumer basket once every five to seven years. Starting in 2007, the consumer basket will change every five years owing to EU harmonisation. Consumer basket items are selected and their weights determined on the basis of surveys of the expenditure items of the national accounts statistics and the household budget statistics. Usually only partial changes are made to a consumer basket while it is in effect, for example when an item ceases to exist or when a new item needs to be included in the basket. In such cases, eliminated items are replaced by other items of a similar nature and their weight is kept the same. These changes are usually made at the start of the year and their effect on headline inflation is negligible.

In addition, starting with the January 2010 data, the weights of the consumer basket were updated extensively for the first time, without any changes being made to the basket itself (see Table 1). Aside from some minor changes, only the weighting scheme of the representatives was revised, not the list of representatives. The CZSO was inspired to make this change by methods used abroad. The reason for this change was that the inflation calculated using the previous weights is, from the CZSO's point of view, significantly different from the inflation that would have been calculated using the new weights. In future, a new consumer basket can be expected to be introduced every five years and the weights will be updated as described above three years after the new basket takes effect. Only the data since January 2010 have been calculated using this updated consumer basket. Those data have been linked to the data calculated until the end of 2009 using the previous consumer basket (a process known as chaining).

The table shows the revisions made to the constant weights, which change only when the consumer basket is updated, and the recalculated weights as of the end of 2009. The inflation aggregation principle (using the Laspeyres formula; see, for example, the methodological manual on the CZSO's website) implies that items with above-average price growth contribute increasingly to headline inflation, while items with below-average growth (or even declines) in prices contribute decreasingly. These price-dependent changes in the shares of individual items in the overall basket are described by the recalculated weights. It happens in practice that several years later the recalculated weights no longer correspond to the true situation. This is one of the reasons for updating the consumer basket. When the basket is changed or the weights are completely updated, the recalculated weights "re-converge" to the actual values, i.e. to the newly determined constant weights.

It is relevant to compare the recalculated weight in December 2009 with the constant weight valid from January 2010. The weight of regulated prices has been reduced significantly. Within regulated prices, the weight of regulated rents has been reduced considerably. This is a significant contributor to the growth in regulated prices in 2010. Consequently, if we hypothetically retain the forecasted increases in the components of regulated prices for 2010, we obtain a lower forecast for overall growth in regulated prices and also a lower impact on headline inflation.

TABLE 1 (BOX) CHANGE IN CONSUMER BASKET WEIGHTS

The weight of adjusted inflation excluding fuels increased the most, while the weight of regulated prices declined

(percentages)

	Constant share up to 12/2009	Recalculated share in 12/2009	Constant share from 1/2010
HEADLINE INFLATION	100.00	100.00	100.00
of which:			
Regulated prices	16.40	20.11	17.15
Net inflation	83.60	79.89	82.85
Prices of food. beverages. tobacco	24.44	25.36	25.63
Adjusted inflation excluding fuels	55.12	51.00	53.52
Fuel prices	4.04	3.54	3.70
Tradables excluding food and fuel	22.90	18.77	21.98
Nontradables excl. regulated prices	32.22	32.23	31.55

An increase in the weight of food prices and adjusted inflation excluding fuels, which are currently negative, also has a currently anti-inflationary effect, hence an increase in their weight results in a greater negative impact on headline inflation if the forecast remains otherwise unchanged.

Our analyses show that if the January forecast for price growth in the individual components of net inflation and the individual regulated prices is retained, the update of the consumer basket weights in January 2010 resulted in a decline in the annual rise in headline inflation during 2010 of 0.1–0.3 percentage point.

II.8.2 Fulfilment of the inflation target

Headline inflation was below the lower boundary of the tolerance band around the CNB's inflation target in 2010 Q1 (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 2010 Q1 is roughly from July 2008 to March 2009. For the sake of clarity, the analysis of the accuracy of the forecasts is limited here to a comparison of the Inflation Report IV/2008 forecast with subsequent inflation.

This forecast expected headline inflation to remain above the upper boundary of the inflation-target tolerance band at the end of 2008. At the beginning of 2009, inflation was expected to fall rapidly to the upper boundary of the tolerance band thanks to the unwinding of one-off inflation effects that occurred in late 2007 and early 2008 and a decline in inflation pressures from the domestic economy combined with the previous appreciation of the koruna's exchange rate. The forecast predicted that in late 2009 and early 2010 headline inflation would be at the new 2% inflation target valid from 1 January 2010 (see Chart II.64).

Headline inflation in reality was somewhat lower than forecasted throughout the period. From 2009 Q2 onwards, inflation was even below the lower boundary of the tolerance band around the inflation target. The deviation was mostly due to adjusted inflation excluding fuels, which was affected by the anti-inflationary effect of declining import prices and the downturn in economic activity. Regulated prices and food prices also grew more slowly than forecasted. The only deviation in the inflationary direction was the first-round effects of changes to indirect taxes, which the forecast could not have captured since they were decided on in 2009 H2 (see Table II.8).

In an environment of global financial and economic crisis, external economic factors contributed significantly to the fall in domestic inflation in the period under review. External demand, inflation, interest rates and oil prices dropped at the end of 2008. All these variables were thus lower than forecasted and therefore acted strongly in the anti-inflationary direction (see Table II.9).

CHART II.64 FORECAST VERSUS ACTUAL INFLATION
Inflation was below the IR IV/2008 forecast throughout the period
(annual percentage changes)

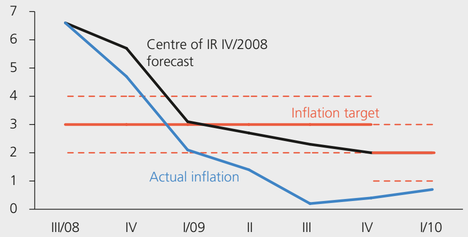


TABLE II.8 FULFILMENT OF THE INFLATION FORECAST
Adjusted inflation excluding fuels contributed the most to the lower inflation
(annual percentage changes; contributions in percentage points)

	IR IV/2008 forecast	2010 Q1 outturn	Contribution to total difference
CONSUMER PRICES	2.0	0.6	-1.4
Breakdown into contributions:			
regulated prices	4.7	0.8	-0.7
first-round impacts of changes to indirect taxes	0.0	0.8	0.8
food prices[a)]	0.0	-1.4	-0.4
fuel prices[a)]	5.7	18.1	0.4
adjusted inflation excl. fuels[a)]	1.8	-1.1	-1.5

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 sharply lower economic growth, interest rates and inflation
(annual percentage changes unless otherwise indicated)

		IV/08	I/09	II/09	III/09	IV/09	I/10
GDP in euro area[a), b), c)]	p	0.7	-0.2	0.1	0.8	1.2	1.3
	o	-0.8	-5.7	-5.3	-4.2	-2.1	-
PPI in euro area[b), c)]	p	5.9	4.7	2.7	2.1	3.0	3.2
	o	4.3	-0.7	-4.8	-7.6	-5.3	-1.6
3M EONIA swap	p	3.8	3.0	2.9	2.7	2.8	3.2
(percentages)	o	2.7	1.1	0.7	0.4	0.4	0.4
USD/EUR exchange rate	p	1.37	1.37	1.36	1.35	1.33	1.32
(levels)	o	1.32	1.30	1.36	1.43	1.48	1.38
Brent crude oil price	p	84.1	82.3	85.1	87.0	88.3	89.5
(USD/barrel)	o	56.2	45.0	59.3	68.3	75.0	76.8

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

Real interest rates and the exchange rate also differed quite significantly from the expectations of the forecast in the key period. Real interest rates were tighter over the entire period owing to two factors. First of all, the risk premium on the interbank market increased at the end of 2008. Added to this was a greater-than-expected decline in inflation. Not even the drastic lowering of the CNB's key interest rates, which started in August 2008 and was gradually reflected in money market rates, offset the effect of the sharply falling inflation. The exchange rate was weaker than forecasted over the entire period, having an anti-inflationary effect and dampening to a certain extent the impacts of the world crisis on the Czech economy (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 of falling inflation path materialised, but the decline was considerably faster and more significant than forecasted. The decline in inflation was due mainly to an unexpected fall in import prices and the downturn in global demand. Domestic real economic activity was substantially weaker than forecasted in the period under review, due mainly to the fall in external demand resulting from the financial and economic crisis. This was also reflected in lower nominal wage growth. As a result of the overall economic trend, monetary policy rates and, with some lag, also market interest rates declined more than forecasted in Inflation Report IV/2008 (see Table II.10).

In addition to the forecast, an assessment of the risks associated with this forecast is of importance for the Bank Board's decisions on monetary policy rates. At its meetings between July 2008 and March 2009 (see the relevant minutes), the Bank Board assessed the risks as being largely on the downside. The Bank Board's decisions led to tighter-than-forecasted monetary conditions until the end of 2008. This was due mainly to a higher interest rate level. Although the Bank Board took into account the increase in the 3M PRIBOR – 2W repo rate spread when deciding on the repo rate setting, the actual 3M PRIBOR was higher at the end of 2008 than implied by the forecasts. Headline inflation was below the lower boundary of the tolerance band around the inflation target from May 2009 onwards. From this perspective, based on current knowledge, it seems that monetary policy should have been easier. However, the size and strength of the unprecedentedly adverse external developments, which significantly affected the decline in inflation to negative values in the short term and led to an increase in the risk premium, were difficult to anticipate.

TABLE II.10 FULFILMENT OF THE FORECAST FOR KEY VARIABLES

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

		IV/08	I/09	II/09	III/09	IV/09	I/10
3M PRIBOR	p	3.3	3.0	2.5	2.4	2.7	3.2
(percentages)	o	4.1	2.7	2.3	2.0	1.8	1.5
CZK/EUR exchange rate	p	24.8	24.1	23.9	23.7	23.6	23.4
(levels)	o	25.3	27.6	26.7	25.6	25.9	25.9
Real GDP [a]	p	3.3	3.1	2.8	2.6	3.0	3.1
(annual perc. changes)	o	0.5	-4.0	-4.9	-4.5	-3.1	-
Nominal wages [b]	p	8.5	7.1	7.5	7.0	6.2	6.1
(annual perc. changes)	o	8.5	2.9	2.8	4.4	5.2	-

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

III.1 SUMMARY OF THE STARTING CONDITIONS

Headline inflation decreased at the start of 2010, remaining below the lower boundary of the tolerance band around the inflation target. The year-on-year contraction in real economic activity moderated in 2009 Q4, while in quarter-on-quarter terms real GDP continued to rise. Employment continues to decline and registered unemployment is increasing, but average nominal wages continue to increase rapidly as a result of extraordinary factors. Import prices are anti-inflationary as a result of the past exchange rate appreciation and low inflation abroad. The inflation pressures from the domestic economy are of little significance. A gradual recovery in the currently narrow profit margins will act towards higher inflation.

Headline inflation declined at the start of 2010 and was thus below the lower boundary of the tolerance band around the 2% inflation target valid since the beginning of 2010. Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, was slightly negative. Compared to the previous forecast, actual inflation was slightly lower. The deviation was due to lower-than-expected adjusted inflation excluding fuels, while slightly higher food and fuel prices acted towards higher inflation. The lower-than-forecasted inflation was partly due to a change made to the weights in the consumer basket.

Real GDP rose quarter on quarter in 2009 Q4 and its year-on-year decline moderated to -3.1%. The year-on-year decline was due mainly to a fall in gross capital formation as a result of a decrease in fixed investment and, in particular, inventories. A decline was also recorded by household consumption, which was additionally revised downwards for the whole of 2009. In 2010 Q1, the current forecast expects annual GDP growth to turn positive, to 1.8%.

The labour market is reacting to the fall in economic activity with the usual lag. There was a continuing annual decline in employment and a further rise in registered unemployment in 2009 Q4 and at the start of 2010. The relatively fast annual growth in the average nominal wage in the business sector rose further in 2009 Q4, largely because of changes in the employment structure, a lower sickness rate and a shift of part of bonus payments from this year to the previous year owing to increased ceilings for social and health insurance as from 2010.

We currently assess the import cost pressures as being anti-inflationary, as a result of the past exchange rate appreciation and low inflation abroad. Domestic inflation pressures are of little significance. From the future perspective, the overall macroeconomic conditions in 2010 Q1 are assessed as being slightly inflationary. Producers’ profit margins were narrow in 2008–2009; their future return to the long-term level will thus support the return of inflation to the target at the forecast horizon.

III.2 THE FORECAST

Headline inflation will gradually rise this year. Owing to tax changes already implemented, it will temporarily increase slightly above the inflation target at the end of the year. In 2011, inflation will be just below the target. Monetary-policy relevant inflation will approach the target in the first half of next year against the background of a stronger economic recovery. GDP is rising in year-on-year terms over the entire forecast horizon, but higher growth this year will be prevented by a temporary cooling of domestic consumption *and external demand. The nominal exchange rate is predicted to appreciate slightly. Consistent with the forecast is a modest decline in market interest rates initially, followed by stability and a gradual rise in rates as from 2011.*

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 April Consensus Forecasts data and the market outlooks effective on the survey date. Effective developments in the euro area are used to proxy for developments in the Czech Republic's major trading partner economies. The CNB forecast uses the outlook for prices of Brent crude oil as an indicator of prices of energy-producing materials. In addition, the outlook for petrol prices on the ARA markets is used in forecasting fuel prices.

According to the assumptions of the forecast, effective GDP in the euro area will rise by 1.5% this year and by 2% in 2011. Consumer prices in the effective euro area will increase by 1.1% in 2010 and by 1.5% in 2011. Effective producer price inflation will reach 0.8% and 2% respectively (see Table III.1). Compared to the previous forecast, the outlook for external consumer prices has been shifted slightly downwards and the outlook for producer prices slightly upwards amid a virtually unchanged full-year outlook for growth in external economic activity.

The expected evolution of three-month EURIBOR rates indicates a gradual increase in rates from their current level of 0.7% to 1.8% at the end of 2011. The outlook for rates has thus decreased significantly compared to the previous forecast. The dollar is expected to appreciate to almost USD 1.3 to the euro. Its outlook has been revised towards a stronger dollar. The price of Brent crude oil is expected to rise gradually to around USD 90 a barrel. The outlook for oil prices is virtually unchanged, as is the outlook for petrol prices.

A sharp slowdown in annual growth in domestic regulated prices in 2010 Q1 will be followed by a gradual pick-up in growth in the remainder of the year. The contribution of regulated prices to headline inflation is expected to be roughly 0.5 percentage point in 2010 and 2011.

The assumptions of the forecast also include the outlook for the first-round effects of indirect tax changes, which are subject to escape clauses. This year's inflation will be increased by effects stemming from measures implemented to reduce the state budget deficit. The first-round effects of the tax changes in 2010 are estimated at 1.1 percentage points, but the expected actual impact on headline inflation is somewhat smaller.

The general government deficit is expected to reach 5.5% of GDP in 2010. The decrease in the deficit compared to the previous year will be due mainly to a package of fiscal austerity measures. In 2011, however, some of these measures will no longer be effective, and if no other fiscal measures are adopted the deficit will increase slightly to 5.9% of GDP. The 3% reference value of the Maastricht convergence criterion for the public finance deficit will thus be

TABLE III.1 EXPECTED EXTERNAL DEVELOPMENTS

The forecast assumes an asymmetrical W-shaped recovery in external demand
(quarterly averages)

	II/10	III/10	IV/10	I/11	II/11	III/11	IV/11
Brent crude oil prices (USD/barrel)	84.8	87.0	88.3	89.2	89.9	90.5	90.8
GDP in euro area[a)]	1.9	1.3	0.8	1.3	1.8	2.2	2.5
Producer prices in euro area[a)]	0.6	1.9	2.1	2.0	1.9	2.0	2.0
Consumer prices in euro area[a)]	1.1	1.3	1.3	1.4	1.4	1.5	1.7
USD/EUR exchange rate	1.34	1.34	1.34	1.33	1.33	1.33	1.33
3M EURIBOR (in per cent)	0.7	0.9	1.2	1.3	1.5	1.7	1.8

a) effective indicator; annual percentage changes

CHART III.1 THE HEADLINE INFLATION FORECAST

Headline inflation is slightly below the CNB's inflation target at the monetary policy horizon
(annual percentage changes)

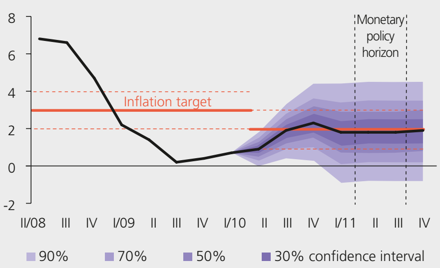


CHART III.2 THE MONETARY-POLICY RELEVANT INFLATION FORECAST

Monetary-policy relevant inflation will approach the CNB's target from below over the monetary policy horizon
(annual percentage changes)

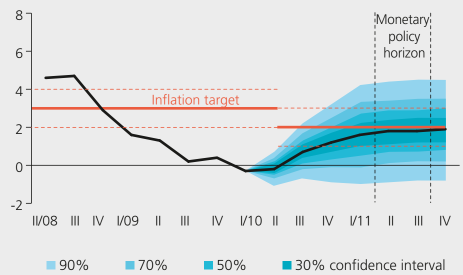


TABLE III.2 FORECAST OF KEY INFLATION COMPONENTS

Net inflation will gradually rise

(annual percentage changes; quarterly averages)

	II/10	III/10	IV/10	I/11	II/11	III/11	IV/11
CONSUMER PRICES	0.9	1.9	2.3	1.8	1.8	1.8	1.9
Regulated prices[a)]	1.9	2.6	2.9	3.0	2.6	2.8	2.9
First-round impacts of indirect tax changes on consumer prices[b)]	1.1	1.1	1.1	0.2	0.1	0.0	0.0
Net inflation[c)]	-0.4	0.5	0.8	1.4	1.6	1.7	1.8
Prices of food. beverages. tobacco[c)]	-0.2	2.1	2.5	2.0	1.7	1.3	1.3
Adjusted inflation excl. fuels[c)]	-1.2	-0.8	-0.6	0.7	1.3	1.7	1.9
Fuel prices[c)]	9.4	7.4	9.8	6.6	4.4	3.0	2.4
Monetary-policy relevant inflation[d)]	-0.2	0.7	1.2	1.6	1.8	1.8	1.9

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 modest decline in market interest rates initially, followed by stability and a gradual rise in rates as from 2011

(3M PRIBOR, %)

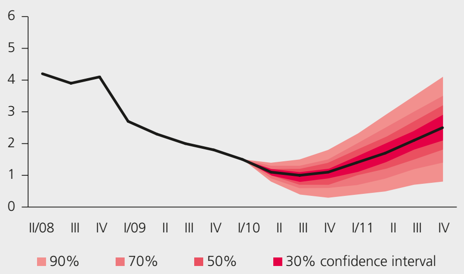


CHART III.4 THE EXCHANGE RATE FORECAST

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

(CZK/EUR)

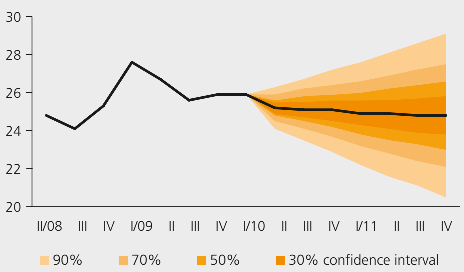
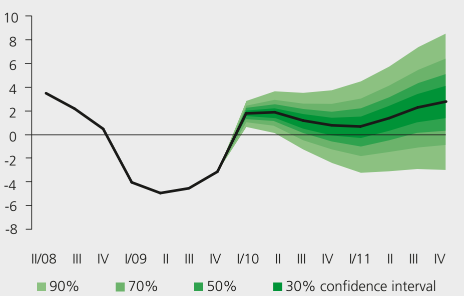


CHART III.5 THE GDP GROWTH FORECAST

Growth in economic activity will accelerate gradually in the course of 2011

(annual percentage changes; seasonally adjusted)



significantly exceeded both this year and the next. The structural deficit will be about 5% of GDP in both years. The effect of cyclical developments on public budgets balance will continue to be negative owing to only a gradual recovery in economic activity.

III.2.2 The message of the forecast

Headline annual inflation will continue to rise. Owing to tax changes already implemented, it will temporarily increase slightly above the inflation target at the end of 2010. At the monetary policy horizon, i.e. in 2011 Q2 and Q3, headline inflation will be just below the inflation target (see Chart III.1).

Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, will approach the inflation target in 2011 against the background of a stronger recovery in economic activity (see Chart III.2). The effects of the tax changes will disappear at the monetary policy horizon and monetary-policy relevant inflation will be the same as headline inflation.

Following the recent marked slowdown in growth in regulated prices, their contribution to headline inflation will start rising again from 2010 Q2 onwards. The effects of changes to indirect taxes will also contribute to the increase in headline inflation until the end of this year. By contrast, adjusted inflation excluding fuels will contribute negatively to inflation this year. Its contribution will turn positive during 2011 owing to a stronger economic recovery and an unwinding of the anti-inflationary effect of import prices. The narrow profit margins of domestic producers will gradually widen. Food prices will continue to fall in Q2 but will start rising again thereafter. Their contribution to inflation will remain positive next year. Owing to the expected moderate growth in oil and petrol prices, fuel prices will continue to rise in year-on-year terms, but their positive contribution to inflation will decrease (see Table III.2).

Consistent with the forecast is a modest decline in market interest rates initially, followed by stability and a gradual rise in rates as from 2011 (see Chart III.3). 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 calming of the financial market situation. The nominal exchange rate of the koruna is gradually appreciating over the forecast horizon (see Chart III.4).

The recovery in economic activity will be reflected in a return of GDP to annual growth in 2011 and 2011. Higher growth this year will still be prevented by a decline in household consumption related to labour market developments and austerity measures. A temporary fall in GDP growth will also be fostered by a renewed decline in external demand, which has an asymmetric W shape according to the assumptions of the forecast. Both these effects will fade in 2011 and GDP growth will start to accelerate steadily, reaching 1.8% on average (see Chart III.5).

The labour market developments described below and the impacts of fiscal austerity measures on real gross disposable income will be the main factors fostering a decline in household consumption in 2010. In 2011, the recovery of the economy and on the labour market together with the unwinding of some austerity measures will enable a gradual rise in gross disposable income and a related rebound in consumption. The forecast expects a real decline in household consumption of 1.5% in 2010 and a return to moderate growth in 2011. Real government consumption will rise by 3.2% in 2010 and 1.9% in 2011 (see Table III.3).

Gross capital formation will start edging up following the decline recorded last year. The recovery will be driven mainly by higher additions to inventories as a result of rising demand and production. Fixed investment will remain subdued owing to still low capacity utilisation. It should record modest positive growth in 2011. According to the forecast, gross capital formation will grow by 0.3% in 2010 and 0.9% in 2011.

Exports will rise sharply in year-on-year terms until the end of 2010 H1, but thereafter their growth will be temporarily dampened by a renewed downturn in external demand. The forecast expects average real export growth of roughly 8% in 2010 and 6% in 2011. Imports will be affected chiefly by the evolution of import-intensive exports and falling household consumption. The contribution of low investment growth to import growth will be only limited. The forecast expects average import growth of around 6% in 2010 and 5% in 2011. The contribution of net exports to GDP will thus be positive, and especially in 2010 it will be the main source of the recovery.

The lagged impact of the economic downturn will continue to manifest itself on the labour market for some time. Employment will bottom out around mid-2011 and the unemployment rate under ILO methodology will remain above 8% for the entire 2011. Wage growth in the business sector will be increased this year by changes in the structure of employment and a lower sickness rate. However, these effects will fade gradually and wage growth will slow as the year progresses, reflecting the adverse situation on the labour market. Wage growth will start to rise again next year owing to the expected economic recovery. Average nominal wage growth will be similar in the individual years, reaching almost 4%. Wage growth in the non-business sector will be low this year as a result of austerity measures and will rise slightly to around 1% in 2011.

TABLE III.3 FORECAST OF KEY GDP COMPONENTS

Following a sharp drop in 2009, gross capital formation will rise weakly in subsequent years

(annual percentage changes; seasonally adjusted)

	2009	2010	2011
GROSS DOMESTIC PRODUCT	-4.1	1.4	1.8
Household consumption	-0.2	-1.5	0.3
Government consumption	4.4	3.2	1.9
Gross capital formation	-17.9	0.3	0.9
Imports of goods and services	-9.9	6.3	4.7
Exports of goods and services	-9.9	7.8	5.8
Net exports of goods and services (in CZK bn; at constant prices)	59.4	106.6	146.0

TABLE III.4 FORECAST OF SELECTED VARIABLES

Unemployment will rise further and employment will decline

(annual percentage changes)

	2009	2010	2011
Real gross disposable income of households	-0.8	-1.9	1.2
Total employment	-1.4	-0.8	0.0
Unemployment rate (in per cent)[a)]	6.7	8.1	8.5
Labour productivity	-3.1	2.2	1.9
Average nominal wage	4.0	3.0	3.2
Average nominal wage in business sector	3.8	3.7	3.7
Current account deficit (ratio to GDP in per cent)	-1.0	-1.1	-1.3
M2	6.2	3.1	3.5

a) ILO methodology

III.3 FORECASTS BY OTHER ENTITIES

The financial market analysts expect GDP to return to growth in 2010. They also expect an appreciation of the koruna exchange rate and an increase in the CNB's key rates at the one-year horizon. Inflation is expected to be roughly at the level of the CNB's inflation target at the one-year horizon.

In 2010 Q1, inflation expected by financial market analysts[26] at the one-year horizon declined to the 2% inflation target valid from January 2010. Business managers also expected inflation to be at this target level (see Table III.5). The analysts did not change their forecast in the April survey. Inflation expectations were roughly flat in both sets of respondents at the three-year horizon, remaining above the CNB's inflation target.

The financial market analysts expect GDP to increase slightly in 2010 (see Table III.6), but the unemployment rate to rise further and wage growth to be slower than in 2009. Compared to the value in the second half of April 2010, the analysts expect a stronger exchange rate of the koruna at the one-year horizon. All the analysts were expecting the CNB's key rates to remain unchanged at the May CNB Bank Board meeting, but expect them to increase at the one-year horizon compared to the current level.

TABLE III.5 INFLATION EXPECTATIONS

Inflation expectations at the one-year horizon are broadly in line with the CNB's target

(annual percentage changes in consumer price index)

	12/09	1/10	2/10	3/10	4/10
Financial market, 1Y horizon	2.5	2.2	2.3	2.1	2.1
Financial market. 3Y horizon	2.6	2.6	2.7	2.5	2.5
Corporations, 1Y horizon	1.8			2.0	
Corporations, 3Y horizon	2.6			2.5	

TABLE III.6 OTHER EXPECTED INDICATORS

The financial market expects GDP to grow moderately in 2010

(at 1Y unless otherwise indicated)

	12/09	1/10	2/10	3/10	4/10
Real GDP in 2009[a)]	1.6	1.7	1.7	1.5	1.7
Real GDP in 2010[a)]		2.8	2.8	2.6	2.5
Nominal wages in 2009[a)]	2.1	2.4	2.5	2.3	2.3
Nominal wages in 2010[a)]		4.3	4.3	4.2	4.2
CZK/EUR exchange rate[b)]	24.9	24.9	25.0	24.7	24.6
2W repo rate[c)]	1.8	1.8	1.7	1.7	1.7
1Y PRIBOR[c)]	2.6	2.7	2.8	2.8	2.6

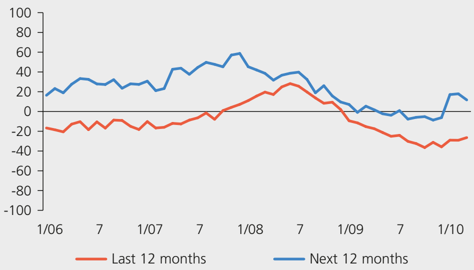
a) year-on-year changes in per cent
b) level
c) in per cent

26 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.

CHART III.6 PERCEIVED AND EXPECTED INFLATION

The inflation expectations of households for the next year are low

(source: European Commission Business and Consumer Survey)



Compared to the current CNB forecast, the financial market analysts expect slightly higher figures for real GDP growth and inflation at the one-year horizon in 2010. The exchange rate was slightly stronger in the analysts' predictions than in the CNB forecast at the one-year horizon. At the one-year horizon, the analysts' expectations regarding the 2W repo rate were slightly higher than the level implied by the 3M PRIBOR rate path consistent with the CNB forecast, assuming a gradual decline in the credit premium on the interbank market (see section III.2).

The indicator of inflation perceived by households remained negative at the start of 2010 (see Chart III.6).[27] This means that households on average felt that prices tended not to rise over the last 12 months. The indicator of expected inflation was briefly negative in 2009 H2, but returned to positive territory at the start of 2010. This suggests that the number of respondents who expect prices to rise more rapidly over the next 12 months is only slightly higher than the number of those who expect prices to stay the same or increase more slowly than in the past.

27 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 MARCH 2010

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

The meeting opened with a presentation of the second situation report assessing the new information and its effect on the fulfilment of the risks of the February macroeconomic forecast. The new situation report assessed the risks in relation to the forecast overall as being moderately anti-inflationary. The main downside risk to inflation was a change in the external outlook, in particular an assumed later and slower rise in market interest rates in the euro area. As for the domestic economy, the quarter-on-quarter upswing in GDP growth assumed in the forecast had materialised in 2009 Q4. In year-on-year terms, GDP had continued falling, doing so faster than the forecast had assumed. Turning to the structure of GDP, quite a sizeable downward revision had been made to household consumption, although this had been partly offset by upward revisions to other components of demand. Consumer price inflation in February had been 0.3 percentage points lower than forecasted. The deviation of inflation from the forecast had been driven mainly by a deeper decline in adjusted inflation excluding fuels.

In the discussion that followed the presentation of the situation report, the Board agreed that in addition to high uncertainty regarding future trends, monetary policy decision-making was encumbered with uncertainty concerning the interpretation of the statistics on past trends. The historical statistical indicators may have been deflected by the extreme growth shocks and might be less reliable than under normal circumstances. In this context, the revision of the consumer basket made at the start of 2010 was discussed. This had also been reflected in (lower-than-forecasted) inflation in February. It was mentioned that the weights of food and tradable commodities in the consumer basket had increased at the expense of nontradables and services, and that this was counter-intuitive for a converging economy. It was argued that the change in weights might have been linked with the one-off supply shocks to world food prices in 2008 and that the strong exchange rate and the contraction in tourism that year might have also played a role.

Another major uncertainty also discussed by the Board was the evolution of wages and related nominal unit wage costs. In this regard, there was a discrepancy in growth in wage-cost pressures between the different series (National Accounts versus the Labour Force Survey). The arguments made in the discussions of the last two situation reports were repeated, namely that the high wage growth in late 2009 might have been linked with a lower sickness rate and with mostly low-wage employees having been laid off during the crisis. Tax optimisation was forwarded as an explanation of the high wage growth: payment of some bonuses for 2009 may have been brought forward to 2009 in response to the raising of social and health insurance ceilings. Overall, the Board agreed that wage growth seemed to be a two-sided risk.

In connection with the revision of the GDP structure, most of the board members expressed their belief that the revision was in line with their expectations and that the February forecast's assumption of a W-shaped economic recovery was thus unchanged. The Board agreed that the recovery in the Czech Republic would be driven primarily by exports. In this context, the Board discussed the external economy, and in particular the deferral of the rate-raising cycle in the euro area and its potential implications for the exchange rate of the Czech koruna. Some of the board members expressed their concern about whether an excessive appreciation of the koruna might endanger the aforementioned economic recovery scenario through lower export growth than assumed in the forecast. By contrast, some of the board members expressed the concern that if no will to stabilise the fiscal situation was shown at the transmission horizon, this might foster depreciation of the koruna or limit its appreciation. In the fiscal context, mention was made of Ricardian equivalence concerning the upward effect of fiscal deficits on the savings rate, which would lead in the anti-inflationary direction.

In relation to the outlook for slower growth in foreign short-term rates, the opinion was expressed that foreign medium-term and long-term rates might be of greater significance for the Czech economy going forward. Here, differentiation might occur across the euro area, depending, among other things, on the member states' fiscal situations. In the discussion of external developments, some of the board members mentioned the outlook for prices of oil and other commodities, which might be indicating that a recovery is already starting in some parts of the world. It was said that this was the only major upside risk to inflation.

The Board also spent quite some time discussing the effectiveness of monetary policy during the crisis. In this context, the forecast assumption regarding the rate of decline of the still high risk premium between monetary policy rates and 3M PRIBOR interbank rates was repeatedly discussed. Some of the board members expressed their doubts about this assumption. Also mentioned was the issue of whether the potential monetary policy rate movement might be weakened by an opposite movement of this premium. In addition, the strength and speed of the transmission of short-term market rates to client rates on loans to the private sector, which might also be weakened, was discussed. The high uncertainty associated with the estimates of this transmission was also mentioned. In the context of the possible weakening of the transmission of monetary policy rates and related risks, some of the board members expressed a preference for monetary policy stability.

The Board also discussed how the prevailing downside risks to inflation were affecting the domestic interest rate outlook. Most of the board members agreed that the assumptions of the February forecast were essentially materialising and that despite the existence of anti-inflationary risks interest rates were close to bottoming out. Their assumed future growth would be later and slower compared to the current forecast. However, some of the board members expressed the view that the aforementioned anti-inflationary risks were so significant that a downward movement of interest rates could be imagined if they were to materialise.

At the close of the meeting the Board decided by a majority vote to leave the two-week repo rate unchanged at 1%. Four members voted in favour of this decision: Governor Tůma, Vice-Governor Hampl, Chief Executive Director Řežábek and Chief Executive Director Zamrazilová. Two members voted for lowering rates by 0.25 percentage point: Vice-Governor Singer and Chief Executive Director Tomšík.

MINUTES OF THE BANK BOARD MEETING ON 6 MAY 2010

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)

The meeting opened with a presentation of the third situation report containing the new macroeconomic forecast. In 2010 Q1, headline inflation had remained low and had been below the lower boundary of the tolerance band around the inflation target. Monetary-policy relevant inflation, i.e. inflation adjusted for the first-round effects of changes to indirect taxes, had turned slightly negative in Q1. The year-on-year contraction in real GDP had moderated further in 2009 Q4, while in quarter-on-quarter terms economic activity had continued to rise. Employment had kept declining and unemployment was increasing. Average nominal wage growth had gone up owing to some extraordinary factors. Import prices had been anti-inflationary as a result of the past exchange rate appreciation and low inflation abroad. The inflation pressures from the domestic economy were of little significance.

The new May forecast predicted that headline inflation would gradually rise this year. Owing to tax changes already implemented, it would increase slightly above the inflation target of 2% at the end of the year. In 2011, inflation would be just below the target. Monetary-policy relevant inflation would approach the target from below. Economic activity would rise, but higher growth this year would be prevented by a temporary cooling of domestic consumption and external demand. According the forecast, the nominal exchange rate would appreciate slightly. Consistent with the forecast was a modest decline in market interest rates initially, followed by stability and a gradual rise in rates as from 2011.

In the discussion that followed the presentation of the situation report, the prevailing view was that the overall macroeconomic environment was anti-inflationary and that the appropriate response would be to lower rates. The Board agreed that monetary policy decision-making was encumbered with greater uncertainty owing to the debt problems in certain countries. It was also said that this uncertainty was increasing the inflation risks on both sides and that greater uncertainty could also be an argument for stable rates.

A key assumption for growth of domestic economic activity is the external demand outlook. The prevailing view in the discussion was that there were anti-inflationary risks of lower economic growth abroad owing to the fiscal situation in certain indebted euro area countries. It was said that this might jeopardise fulfilment of the inflation target at the forecast horizon. It was also said that the emerging economic recovery abroad might be hindered by lower bank lending activity, because the planned regulatory measures were increasing uncertainty in the financial sector, which had not yet fully recovered from the consequences of the financial and economic crisis.

In the context of the external outlook it was said that the forecasted rise in market interest rates abroad was getting more distant. Compared to the previous forecast the outlook for market interest rates abroad was substantially lower and their expected growth was slower. Lower rates were one of the main arguments for a lower outlook for domestic market rates.

In the discussion of the risks of the inflation forecast it was mentioned that adjusted inflation excluding fuels had been very low in 2010 Q1. Monetary-policy relevant inflation would therefore approach the inflation target from below more slowly at the forecast horizon. The currently weaker exchange rate was identified as an upside risk to inflation by some of the board members. A rapid weakening of the exchange rate could be a risk to inflation, and a reduction of monetary policy rates might further contribute to that risk. However, the prevailing view was that the current depreciation was only transitory and that fulfilment of the inflation target at the forecast horizon was not at risk. The risk of higher inflation due to higher oil prices – fostered by a stronger dollar – was also mentioned in the discussion. However, it was also said that lower external demand in the euro area would suppress growth in oil prices via lower demand for energy-producing commodities and also that the risk of pass-through of higher prices of oil and other commodities to domestic inflation was not significant.

It was said that the still large difference between market interest rates and monetary policy rates should also be a reason for lowering rates. The forecast was predicting a gradual decrease in the risk premium. Concern was expressed that the risk premium might start increasing again owing to the fiscal situation in certain euro area countries. A higher risk premium might constrain the financial sector's lending activity and thus reduce the expected growth in external demand.

At the close of the meeting the Board decided by a majority vote to lower the CNB two-week repo rate by 0.25 percentage point to 0.75%, effective 7 May 2010. At the same time it decided to lower the Lombard rate by the same amount, to 1.75%. The discount rate was left unchanged at 0.25%. Four members voted in favour of this decision: Governor Tůma, Vice-Governor Hampl, Vice-Governor Singer and Chief Executive Director Tomšík. Two members voted for leaving interest rates unchanged: Chief Executive Director Holman and Chief Executive Director Řežábek.

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ARA	Amsterdam–Rotterdam–Antwerp
BCPP	Prague Stock Exchange
CF	Consensus Forecasts
CHF	Swiss franc
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
EU	European Union
EUR	euro
Euribor	Euro Interbank Offered Rate
FDI	foreign direct investment
Fed	US central bank
FRA	forward rate agreement
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
HP filter	Hodrick-Prescott filter
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
MNB	Hungarian National Bank
MSE	mean squared error
NBP	National Bank of Poland
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
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
TAF	Term Auction Facility
TALF	Term Asset-Backed Securities Loan Facility
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
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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 international reserves.

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

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

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

Disinflation: A decline in inflation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 1

KEY MACROECONOMIC INDICATORS

		years										
		2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
DEMAND AND SUPPLY												
Gross domestic product												
GDP	CZK bn, constant p., seas. adjusted	2,244.9	2,286.0	2,368.4	2,470.8	2,628.5	2,812.2	2,984.6	3,053.3	2,927.5	**2,968.9**	**3,022.5**
GDP	%, y-o-y, real terms, seas. adjusted	2.4	1.8	3.6	4.3	6.4	7.0	6.1	2.3	-4.1	**1.4**	**1.8**
Household consumption	%, y-o-y, real terms, seas. adjusted	2.4	2.2	5.9	2.8	2.6	5.2	4.8	3.5	-0.2	**-1.5**	**0.3**
Government consumption	%, y-o-y, real terms, seas. adjusted	3.6	6.7	7.1	-3.5	2.9	1.2	0.7	1.0	4.4	**3.2**	**1.9**
Gross capital formation	%, y-o-y, real terms, seas. adjusted	6.6	4.5	-1.4	8.4	-0.6	10.2	9.3	-3.1	-17.9	**0.3**	**0.9**
Exports of goods and services	%, y-o-y, real terms, seas. adjusted	11.2	2.0	7.2	20.3	11.8	16.2	15.0	5.7	-9.9	**7.8**	**5.8**
Imports of goods and services	%, y-o-y, real terms, seas. adjusted	12.7	4.9	8.0	17.5	5.2	14.7	14.2	4.3	-9.9	**6.3**	**4.7**
Net exports	CZK bn, constant p., seas. adjusted	-97.1	-146.4	-170.7	-152.5	-26.1	3.6	24.5	65.8	59.4	**106.6**	**146.0**
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	-13.5	-	-
Construction output	%, y-o-y, real terms	10.4	3.0	9.3	8.8	5.2	6.0	7.1	0.0	-1.0	-	-
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	-4.4	-	-
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	1.0	-	-
Consumer Price Index	%, y-o-y, average	4.7	1.8	0.1	2.8	1.9	2.5	2.8	6.4	1.1	**1.4**	**1.8**
Regulated prices (17.15%)*	%, y-o-y, average	11.1	5.7	0.6	3.5	5.7	9.3	4.8	15.6	8.4	**2.1**	**2.8**
Net inflation (82.85%)*	%, y-o-y, average	3.3	0.8	0.0	1.8	0.7	0.4	1.7	2.4	-0.9	**0.1**	**1.6**
Food prices (including alcoholic beverages and tobacco) (25.63%)*	%, y-o-y, average	4.6	-0.9	-1.2	2.8	0.0	-0.2	3.8	3.0	-0.9	**0.8**	**1.6**
Adjusted inflation excluding fuels (53.52%)*	%, y-o-y, average	3.0	2.4	0.6	1.2	0.7	0.6	0.7	2.0	0.0	**-0.9**	**1.4**
Fuel prices (3.70%)*	%, y-o-y, average	-4.9	-9.3	1.5	4.5	7.8	3.7	-0.3	4.3	-11.1	**11.2**	**4.1**
Monetary-policy inflation (excluding tax changes)	%, y-o-y, average	4.7	1.8	0.1	2.0	1.8	2.3	2.2	4.4	0.9	**0.4**	**1.8**
GDP deflator	%, y-o-y, seas. adjusted	4.9	2.8	0.9	4.5	-0.3	1.1	3.4	1.8	2.7	**-2.1**	**2.7**
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	-3.1	**0.3**	**1.8**
Agricultural prices	%, y-o-y, average	9.6	-7.5	-4.5	9.6	-9.8	1.3	16.4	10.8	-24.3	**3.1**	**3.1**
Construction work prices	%, y-o-y, average	4.0	2.7	2.2	3.7	3.0	2.9	3.9	4.5	1.3	-	-
Brent crude oil	%, y-o-y, average	-14.1	2.2	15.5	32.7	42.3	20.0	11.1	34.5	-36.7	**36.1**	**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	4.0	**3.0**	**3.2**
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	3.0	**1.6**	**1.4**
Number of employees	%, y-o-y	0.3	-0.8	-2.0	-0.2	2.2	1.2	1.9	1.7	-2.1	**-0.9**	**-0.1**
Nominal unit wage costs	%, y-o-y	6.2	4.6	2.3	1.8	0.6	1.0	3.0	6.1	2.7	**-1.5**	**0.9**
Nominal unit wage costs in industry	%, y-o-y	11.0	0.5	3.4	-4.5	-4.0	-5.6	0.9	0.3	8.0	-	-
Aggregate labour productivity	%, y-o-y	2.5	1.9	3.6	4.1	5.2	4.8	3.4	1.2	-3.1	**2.2**	**1.9**
ILO general unemployment rate	%, average	.	.	7.8	8.3	7.9	7.1	5.3	4.4	6.7	**8.1**	**8.5**
Registered unemployment rate	%, average	.	.	.	10.0	9.5	8.6	7.0	5.8	8.3	**10.0**	**10.2**
PUBLIC FINANCE												
Public finance deficit (ESA95)	CZK bn, current p.	-131.8	-166.8	-170.0	-82.7	-106.6	-84.5	-23.2	-98.6	-213.7	**-196.9**	**-223.4**
Public finance deficit / GDP**	%, nominal terms	-5.6	-6.8	-6.6	-2.9	-3.6	-2.6	-0.7	-2.7	-5.9	**-5.5**	**-5.9**
Public debt (ESA95)	CZK bn, current p.	584.7	695.0	768.3	847.8	885.4	948.3	1,023.8	1,104.9	1,282.3	**1,425.3**	**1,636.7**
Public debt / GDP**	%, nominal terms	24.9	28.2	29.8	30.1	29.7	29.4	29.0	30.0	35.4	**39.6**	**43.4**
EXTERNAL RELATIONS												
Current account												
Trade balance	CZK bn, current p.	-116.7	-71.3	-69.8	-13.4	59.4	65.1	120.6	102.7	180.6	**175.0**	**190.0**
Trade balance / GDP	%, nominal terms	-5.0	-2.9	-2.7	-0.5	2.0	2.0	3.4	2.8	5.0	**4.9**	**5.0**
Balance of services	CZK bn, current p.	58.0	21.9	13.2	16.6	36.9	45.1	49.7	65.9	27.0	**25.0**	**25.0**
Current account	CZK bn, current p.	-124.5	-136.4	-160.6	-147.5	-39.8	-77.2	-113.1	-22.9	-37.0	**-40.0**	**-50.0**
Current account / GDP	%, nominal terms	-5.3	-5.5	-6.2	-5.2	-1.3	-2.4	-3.2	-0.6	-1.0	**-1.1**	**-1.3**
Foreign direct investment												
Direct investment	CZK bn, current p.	208.3	270.9	53.5	101.8	279.6	90.3	179.1	36.3	26.5	**55.0**	**75.0**
Exchange rates												
CZK/USD	average	38.0	32.7	28.2	25.7	24.0	22.6	20.3	17.1	19.1	**18.7**	**18.7**
CZK/EUR	average	34.1	30.8	31.8	31.9	29.8	28.3	27.8	25.0	26.5	**25.3**	**24.9**
CZK/EUR	%, y-o-y, real (CPI euro area), avg.	-	-	-	0.0	-6.3	-5.1	-2.2	-12.5	5.6	**-4.3**	**-1.5**
CZK/EUR	%, y-o-y, real (PPI euro area), avg.	-	-	-	-3.1	-5.6	-1.3	-3.9	-8.9	4.4	**-3.8**	**-1.7**
Foreign trade prices												
Prices of exports of goods	%, y-o-y, average	0.4	-6.6	0.8	3.6	-1.5	-1.2	1.4	-4.6	0.2	**-1.8**	**0.5**
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	-3.5	**0.8**	**1.0**
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	6.2	**3.1**	**3.5**
2W repo rate	%, end-of-period	4.75	2.75	2.00	2.50	2.00	2.50	3.50	2.25	1.00	-	-
3M PRIBOR	%, average	5.2	3.5	2.3	2.3	2.0	2.3	3.1	4.0	2.2	**1.1**	**1.9**

* 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
737.1	739.5	750.2	757.9	760.0	765.3	766.6	761.4	729.9	727.9	732.1	737.5	**743.2**	**741.9**	**740.7**	**743.0**	**748.4**	**752.3**	**757.6**	**764.2**
7.7	5.9	5.7	5.4	3.1	3.5	2.2	0.5	-4.0	-4.9	-4.5	-3.1	**1.8**	**1.9**	**1.2**	**0.8**	**0.7**	**1.4**	**2.3**	**2.8**
5.8	5.4	4.8	3.4	4.5	3.7	3.0	2.6	0.8	0.0	-0.5	-1.2	**-1.8**	**-2.0**	**-1.5**	**-0.9**	**-0.1**	**0.3**	**0.5**	**0.6**
0.7	-0.6	-1.1	3.8	-0.8	2.3	2.9	-0.4	3.4	3.4	5.5	5.2	**5.4**	**4.3**	**1.7**	**1.4**	**1.5**	**1.8**	**2.1**	**2.2**
15.5	10.0	10.1	2.2	-1.8	-8.8	-10.5	9.4	-13.1	-17.6	-15.5	-24.5	**-6.0**	**5.6**	**2.0**	**0.2**	**0.6**	**0.8**	**1.0**	**1.1**
16.3	14.4	16.2	13.3	14.1	13.4	5.1	-8.7	-18.5	-15.6	-6.6	2.5	**13.8**	**11.2**	**2.2**	**5.0**	**2.7**	**4.7**	**7.1**	**8.8**
16.3	14.3	15.8	10.9	12.8	9.2	1.4	-5.3	-17.4	-15.0	-4.9	-1.5	**10.3**	**10.9**	**0.7**	**4.2**	**2.5**	**4.0**	**5.6**	**6.7**
4.1	1.5	1.5	17.4	14.2	32.1	30.0	-10.5	2.8	22.9	14.4	19.4	**27.0**	**27.3**	**25.8**	**26.4**	**29.3**	**33.7**	**39.0**	**44.1**
13.7	10.8	9.5	8.8	2.1	3.9	0.8	-13.2	-19.1	-18.5	-12.8	-2.3	-	-	-	-	-	-	-	-
28.0	8.2	-0.5	3.4	0.7	-2.3	6.4	-4.2	-11.4	1.0	0.1	2.7	-	-	-	-	-	-	-	-
12.2	10.4	8.7	9.2	5.4	4.8	4.6	-2.6	-3.9	-5.0	-5.0	-3.8	-	-	-	-	-	-	-	-
2.2	2.1	2.0	2.8	4.3	5.4	6.4	6.3	5.0	3.7	2.1	1.0	0.7	-	-	-	-	-	-	-
1.6	2.5	2.5	4.8	7.4	6.8	6.6	4.7	2.2	1.4	0.2	0.4	0.7	**0.9**	**1.9**	**2.3**	**1.8**	**1.8**	**1.8**	**1.9**
4.1	4.2	4.5	6.4	15.0	14.7	15.8	16.9	11.2	9.8	7.5	5.2	0.8	**1.9**	**2.6**	**2.9**	**3.0**	**2.6**	**2.8**	**2.9**
0.9	1.6	1.0	3.1	3.6	2.9	2.9	0.4	-0.6	-0.6	-1.5	-0.7	-0.5	**-0.4**	**0.5**	**0.8**	**1.4**	**1.6**	**1.7**	**1.8**
2.6	3.4	2.5	6.8	5.7	3.3	3.4	-0.3	0.0	0.4	-2.0	-2.2	-1.4	**-0.2**	**2.1**	**2.5**	**2.0**	**1.7**	**1.3**	**1.3**
0.4	0.9	0.4	1.0	1.8	2.2	2.3	1.7	0.6	0.1	-0.5	-0.2	-1.1	**-1.2**	**-0.8**	**-0.6**	**0.7**	**1.3**	**1.7**	**1.9**
-4.4	-2.7	-2.6	8.5	14.4	8.5	5.9	-11.5	-20.5	-15.7	-11.8	3.7	18.1	**9.4**	**7.4**	**9.8**	**6.6**	**4.4**	**3.0**	**2.4**
1.4	2.0	1.6	3.7	5.3	4.6	4.7	2.9	1.6	1.3	0.2	0.4	-0.3	**-0.2**	**0.7**	**1.2**	**1.6**	**1.8**	**1.8**	**1.9**
3.2	3.7	3.4	3.3	2.3	1.4	1.1	2.6	3.7	3.4	2.3	1.4	**-2.5**	**-3.1**	**-1.4**	**-1.2**	**1.5**	**3.5**	**3.1**	**2.7**
3.2	4.2	3.9	5.0	5.6	5.1	5.5	1.7	-1.1	-3.6	-5.2	-2.6	-1.4	**0.1**	**0.9**	**1.6**	**1.8**	**1.9**	**1.8**	**1.7**
13.3	11.2	15.0	26.0	26.7	27.2	7.7	-18.5	-27.8	-29.5	-23.8	-16.0	-5.6	**-1.5**	**6.4**	**12.9**	**7.6**	**3.8**	**0.7**	**0.4**
3.6	3.8	4.0	4.4	4.7	5.0	4.5	3.9	2.8	1.4	0.5	0.3	0.3	-	-	-	-	-	-	-
-6.3	-1.5	6.7	48.9	66.1	77.8	54.7	-36.7	-53.3	-51.5	-41.1	33.3	70.5	**43.1**	**27.5**	**17.7**	**16.2**	**6.0**	**4.0**	**2.9**
7.8	7.5	7.3	6.5	10.0	7.9	7.5	8.1	3.1	3.1	4.7	5.2	**3.5**	**3.6**	**2.8**	**2.3**	**2.7**	**3.1**	**3.4**	**3.7**
6.2	5.0	4.7	1.6	2.4	1.0	0.8	3.2	1.0	1.7	4.6	4.8	**2.9**	**2.6**	**0.9**	**-0.1**	**0.9**	**1.2**	**1.5**	**1.8**
1.3	1.8	2.1	2.4	2.1	1.9	1.7	1.2	-0.9	-1.8	-2.8	-2.9	**-1.5**	**-1.1**	**-0.5**	**-0.5**	**-0.4**	**-0.2**	**0.0**	**0.4**
2.6	3.3	3.3	2.9	8.0	5.3	4.5	6.9	3.8	2.9	3.0	1.1	**-2.8**	**-2.0**	**-0.9**	**-0.5**	**0.6**	**0.9**	**0.8**	**1.1**
1.6	-0.8	3.2	-0.2	3.3	-1.4	-1.1	1.1	7.2	10.1	9.5	5.0	.	.	.	.	.	.	.	.
4.1	3.0	3.1	3.3	1.4	2.5	1.9	-1.0	-3.9	-4.3	-3.2	-0.9	**3.4**	**3.0**	**1.5**	**1.2**	**0.9**	**1.6**	**2.3**	**2.7**
6.0	5.3	5.1	4.8	4.7	4.2	4.3	4.4	5.8	6.3	7.3	7.2	**7.8**	**7.9**	**8.4**	**8.4**	**8.6**	**8.3**	**8.7**	**8.5**
8.2	7.0	6.7	6.3	6.3	5.5	5.6	5.8	7.5	8.1	8.7	9.0	10.1	**9.5**	**10.1**	**10.1**	**10.5**	**9.9**	**10.3**	**10.0**
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
45.5	27.3	20.8	27.0	42.9	39.3	27.0	-6.6	41.7	52.4	44.2	42.2	**56.0**	**51.0**	**38.0**	**30.0**	**58.0**	**55.0**	**42.0**	**35.0**
5.5	3.1	2.3	2.9	4.9	4.2	2.9	-0.7	4.8	5.7	4.9	4.6	**6.5**	**5.6**	**4.2**	**3.3**	**6.5**	**5.8**	**4.4**	**3.6**
10.5	16.0	14.1	9.1	19.2	19.1	15.0	12.6	14.7	9.4	2.7	0.2	**5.0**	**8.0**	**7.0**	**5.0**	**5.0**	**8.0**	**7.0**	**5.0**
28.3	-50.1	-51.3	-40.0	53.3	-31.1	-7.3	-37.8	25.0	-30.7	-23.7	-7.5	**33.0**	**-33.0**	**-25.0**	**-15.0**	**25.0**	**-29.0**	**-30.0**	**-16.0**
3.4	-5.6	-5.7	-4.4	6.1	-3.3	-0.8	-4.0	2.9	-3.3	-2.6	-0.8	**3.8**	**-3.6**	**-2.8**	**-1.6**	**2.8**	**-3.1**	**-3.1**	**-1.6**
36.7	38.5	42.2	61.7	-23.6	32.8	16.4	10.7	14.7	-0.3	-17.9	30.0	-	-	-	-	-	-	-	-
21.4	21.0	20.3	18.5	17.1	15.9	16.1	19.3	21.2	19.6	17.9	17.5	18.7	**18.7**	**18.8**	**18.7**	**18.7**	**18.7**	**18.7**	**18.7**
28.0	28.3	27.9	26.8	25.5	24.8	24.1	25.4	27.6	26.7	25.6	25.9	25.9	**25.2**	**25.1**	**25.1**	**24.9**	**24.9**	**24.8**	**24.8**
-1.2	-0.4	-1.4	-5.7	-12.2	-14.7	-15.9	-7.2	7.4	6.7	6.1	2.2	-6.1	**-5.4**	**-2.0**	**-3.6**	**-3.6**	**-1.0**	**-0.7**	**-0.5**
-2.7	-2.9	-3.9	-6.2	-9.9	-11.1	-11.4	-3.0	8.6	6.1	3.4	-0.6	-6.4	**-5.0**	**-0.9**	**-2.8**	**-3.6**	**-1.3**	**-1.1**	**-0.7**
1.9	2.8	1.9	-1.2	-4.3	-6.2	-6.5	-1.2	5.2	1.3	-2.2	-3.5	**-6.5**	**-2.7**	**1.4**	**0.6**	**-0.3**	**0.7**	**0.7**	**0.8**
-1.7	-0.4	-0.5	-1.5	-3.0	-4.4	-4.0	-1.6	1.6	-2.9	-7.0	-5.7	**-4.5**	**-0.2**	**4.4**	**3.3**	**1.3**	**1.2**	**0.8**	**0.7**
10.5	11.6	11.2	11.7	10.1	7.6	8.3	7.6	8.8	7.5	4.6	4.1	**2.6**	**2.5**	**4.2**	**3.2**	**2.9**	**3.0**	**3.6**	**4.5**
2.50	2.75	3.25	3.50	3.75	3.75	3.50	2.25	1.75	1.50	1.25	1.00	1.00	.	.	.	.	.	.	.
2.6	2.8	3.3	3.8	4.0	4.2	3.9	4.1	2.7	2.3	2.0	1.8	1.5	**1.1**	**1.0**	**1.1**	**1.4**	**1.7**	**2.1**	**2.5**

Table 2a

INFLATION DEVELOPMENT — annual percentage changes

2007	1	2	3	4	5	6	7	8	9	10	11	12
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												
Consumer prices	2.2	2.0	2.3	1.8	1.3	1.2	0.3	0.2	0.0	-0.2	0.5	1.0
Regulated prices	11.6	10.9	11.0	9.8	9.8	9.7	7.6	7.5	7.5	5.4	5.4	5.0
(contribution to consumer price inflation)	2.14	2.02	2.05	1.83	1.82	1.80	1.42	1.41	1.40	1.03	1.03	0.96
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	0.00	0.00	0.00
Net inflation	-0.7	-0.7	-0.4	-0.5	-0.7	-0.8	-1.4	-1.4	-1.7	-1.5	-0.6	0.0
(contribution to consumer price inflation)	-0.56	-0.57	-0.33	-0.34	-0.52	-0.62	-1.16	-1.17	-1.36	-1.21	-0.48	0.02
Prices of food, beverages and tobacco	-0.3	-0.3	0.7	0.7	0.4	0.1	-1.6	-1.9	-2.5	-2.9	-2.2	-1.5
(contribution to consumer price inflation)	-0.06	-0.07	0.18	0.18	0.10	0.03	-0.41	-0.48	-0.65	-0.74	-0.57	-0.38
Adjusted inflation excluding fuels	0.9	0.5	0.4	0.2	0.1	0.0	-0.3	-0.5	-0.6	-0.3	-0.1	-0.2
(contribution to consumer price inflation)	0.49	0.25	0.18	0.09	0.06	-0.02	-0.18	-0.26	-0.30	-0.14	-0.06	-0.09
Fuel prices	-24.6	-19.3	-17.6	-15.5	-16.8	-14.8	-14.0	-10.7	-10.6	-8.7	4.2	15.7
(contribution to consumer price inflation)	-0.98	-0.75	-0.69	-0.61	-0.68	-0.62	-0.58	-0.43	-0.42	-0.33	0.15	0.48
Monetary-policy relevant inflation	1.6	1.4	1.8	1.5	1.2	1.2	0.3	0.2	0.0	-0.2	0.5	1.0
Inflation rate (annual moving average)	5.9	5.4	5.0	4.6	4.1	3.7	3.1	2.6	2.1	1.6	1.3	1.0
2010					**forecast**							
Consumer prices	0.7	0.6	0.7	**0.9**	**0.9**	**0.9**						
Regulated prices	0.6	1.0	0.9	**1.9**	**1.8**	**1.8**						
(contribution to consumer price inflation)	0.10	0.18	0.16	**0.33**	**0.31**	**0.31**						
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	0.95	0.95	0.95	**0.99**	**1.07**	**1.11**						
Net inflation	-0.4	-0.5	-0.4	**-0.4**	**-0.4**	**-0.5**						
(contribution to consumer price inflation)	-0.32	-0.45	-0.37	**-0.32**	**-0.35**	**-0.44**						
Prices of food, beverages and tobacco	-1.9	-1.3	-0.9	**-0.5**	**-0.2**	**0.2**						
(contribution to consumer price inflation)	-0.49	-0.33	-0.24	**-0.13**	**-0.04**	**0.06**						
Adjusted inflation excluding fuels	-0.9	-1.2	-1.2	**-1.2**	**-1.2**	**-1.2**						
(contribution to consumer price inflation)	-0.48	-0.62	-0.65	**-0.63**	**-0.67**	**-0.66**						
Fuel prices	22.1	16.1	16.1	**13.3**	**10.7**	**4.3**						
(contribution to consumer price inflation)	0.68	0.52	0.54	**0.46**	**0.38**	**0.16**						
Monetary-policy relevant inflation	-0.3	-0.4	-0.3	**-0.1**	**-0.1**	**-0.2**						
Inflation rate (annual moving average)	0.9	0.8	0.7	**0.6**	**0.6**	**0.5**						

CNB calculation based on CZSO data

Table 2b

INFLATION DEVELOPMENT — monthly percentage changes

2007	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
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												
Consumer prices	1.5	0.1	0.2	-0.1	0.0	0.0	-0.4	-0.2	-0.4	-0.2	0.2	0.2
Regulated prices	6.1	-0.2	0.2	-0.6	0.1	0.0	-0.5	0.0	0.1	-0.3	0.0	0.0
(contribution to consumer price inflation)	*1.19*	*-0.03*	*0.04*	*-0.12*	*0.02*	*0.00*	*-0.09*	*0.00*	*0.02*	*-0.05*	*-0.01*	*0.00*
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*	*0.00*	*0.00*	*0.00*
Net inflation	0.4	0.2	0.1	0.1	0.0	0.1	-0.3	-0.2	-0.5	-0.1	0.2	0.1
(contribution to consumer price inflation)	*0.36*	*0.15*	*0.10*	*0.04*	*-0.04*	*0.04*	*-0.30*	*-0.14*	*-0.40*	*-0.10*	*0.19*	*0.12*
Prices of food, beverages and tobacco	1.3	-0.3	0.2	-0.3	-0.5	-0.5	-1.6	-0.7	-0.1	-0.1	0.3	0.8
(contribution to consumer price inflation)	*0.34*	*-0.08*	*0.04*	*-0.07*	*-0.14*	*-0.13*	*-0.40*	*-0.18*	*-0.01*	*-0.04*	*0.09*	*0.21*
Adjusted inflation excluding fuels	0.2	0.1	0.0	0.1	0.0	0.0	0.2	0.1	-0.6	0.0	-0.1	-0.1
(contribution to consumer price inflation)	*0.12*	*0.06*	*-0.02*	*0.03*	*0.02*	*-0.02*	*0.09*	*0.03*	*-0.33*	*0.02*	*-0.03*	*-0.07*
Fuel prices	-3.3	5.6	2.4	2.5	2.3	5.8	0.4	0.5	-1.6	-2.6	3.7	-0.6
(contribution to consumer price inflation)	*-0.10*	*0.17*	*0.08*	*0.08*	*0.08*	*0.19*	*0.01*	*0.02*	*-0.06*	*-0.09*	*0.13*	*-0.02*
Monetary-policy relevant inflation	1.5	0.1	0.2	-0.1	0.0	0.0	-0.4	-0.2	-0.4	-0.2	0.2	0.2
2010					**forecast**							
Consumer prices	1.2	0.0	0.3	**0.2**	**0.0**	**0.0**						
Regulated prices	1.7	0.3	0.1	**0.4**	**0.0**	**0.0**						
(contribution to consumer price inflation)	*0.29*	*0.05*	*0.02*	***0.07***	***0.00***	***0.00***						
First-round impacts of changes to indirect taxes on consumer prices (contribution to consumer price inflation)	*0.95*	*0.00*	*0.00*	***0.04***	***0.08***	***0.04***						
Net inflation	0.0	0.0	0.2	**0.1**	**-0.1**	**-0.1**						
(contribution to consumer price inflation)	*0.04*	*0.02*	*0.19*	***0.09***	***-0.06***	***-0.05***						
Prices of food, beverages and tobacco	0.9	0.3	0.5	**0.1**	**-0.2**	**-0.1**						
(contribution to consumer price inflation)	*0.23*	*0.07*	*0.13*	***0.04***	***-0.05***	***-0.03***						
Adjusted inflation excluding fuels	-0.5	-0.1	-0.1	**0.1**	**0.0**	**0.0**						
(contribution to consumer price inflation)	*-0.27*	*-0.07*	*-0.04*	***0.05***	***-0.01***	***-0.01***						
Fuel prices	2.1	0.4	2.5	**0.0**	**-0.1**	**-0.3**						
(contribution to consumer price inflation)	*0.08*	*0.02*	*0.10*	***0.00***	***0.00***	***-0.01***						
Monetary-policy relevant inflation	0.2	0.0	0.3	**0.2**	**-0.1**	**0.0**						

CNB calculation based on CZSO data

Table 3

CONSUMER PRICES percentage changes; average for 2005 = 100

Group	Months												Average since start of year
	1	2	3	4	5	6	7	8	9	10	11	12	
Total - 2006													
Food and non-alcoholic beverages	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
Alcoholic beverages and tobacco	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
Clothing and footwear	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
Housing, water, electricity, gas and other fuels	-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
Furnishings, household equipment and routine	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
maintenance of the house	-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	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	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	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	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	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	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	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													
Food and non-alcoholic beverages	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
Alcoholic beverages and tobacco	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
Clothing and footwear	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
Housing, water, electricity, gas and other fuels	-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
Furnishings, household equipment and routine	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
maintenance of the house	-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	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	-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	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	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	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	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	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													
Food and non-alcoholic beverages	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
Alcoholic beverages and tobacco	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
Clothing and footwear	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
Housing, water, electricity, gas and other fuels	-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
Furnishings, household equipment and routine	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
maintenance of the house	-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	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	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	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	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	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	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	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													
Food and non-alcoholic beverages	13.5	13.6	13.8	13.7	13.7	13.7	13.3	13.1	12.7	12.5	12.7	12.9	13.3
Alcoholic beverages and tobacco	13.8	13.4	13.2	12.6	11.4	10.6	7.9	6.7	6.3	5.9	6.4	8.1	9.7
Clothing and footwear	29.4	29.1	30.0	30.2	30.7	30.5	30.4	30.3	30.9	31.2	31.4	30.9	30.4
Housing, water, electricity, gas and other fuels	-9.5	-10.3	-9.6	-9.0	-9.1	-9.4	-12.0	-12.8	-11.4	-9.8	-8.9	-9.1	-10.1
Furnishings, household equipment and routine	30.0	30.1	30.3	30.1	30.2	30.2	29.8	29.9	29.9	29.6	29.6	29.6	29.9
maintenance of the house	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	-1.7	-1.8	-2.0	-2.1	-2.0	-2.0	-1.6
Health	43.4	40.2	40.6	35.6	36.7	36.8	36.8	36.9	37.4	37.6	37.5	37.6	38.1
Transport	-5.9	-4.2	-3.6	-2.5	-1.8	0.1	0.2	0.2	-0.5	-1.2	-0.3	-1.0	-1.7
Communications	0.4	0.9	0.6	0.4	0.2	0.0	-1.8	-1.8	-2.0	-2.2	-2.5	-3.0	-0.9
Recreation and culture	1.5	2.1	1.4	1.0	1.2	1.3	4.1	4.7	0.6	0.0	-0.5	-0.3	1.4
Education	11.3	11.3	11.3	11.3	11.3	11.2	11.2	11.2	12.8	12.8	12.8	12.8	11.8
Hotels, cafés and restaurants	14.7	14.8	15.1	15.3	15.5	15.6	15.7	15.7	16.0	16.0	16.0	16.0	15.5
Miscellaneous goods and services	10.1	10.7	10.8	11.0	10.9	10.6	11.4	11.6	11.3	11.3	11.4	11.1	11.0
Total - 2010													
Food and non-alcoholic beverages	14.3	14.3	14.6										14.4
Alcoholic beverages and tobacco	10.2	10.6	11.5										10.8
Clothing and footwear	34.4	34.6	34.4										34.5
Housing, water, electricity, gas and other fuels	-12.2	-12.8	-12.1										-12.4
Furnishings, household equipment and routine	31.3	31.5	31.6										31.5
maintenance of the house	-1.7	-1.8	-1.9										-1.8
Health	41.1	41.8	42.2										41.7
Transport	0.4	-0.3	0.5										0.2
Communications	-2.2	-2.3	-2.3										-2.3
Recreation and culture	0.4	1.0	0.1										0.5
Education	12.8	12.9	12.9										12.9
Hotels, cafés and restaurants	17.5	17.5	17.9										17.6
Miscellaneous goods and services	11.9	11.9	11.9										11.9

Source: CZSO

Table 4

CONSUMER PRICES - TRADABLES AND NONTRADABLES annual percentage changes

2003	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
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	-14.0	-10.7	-10.6	-8.7	4.2	15.7
Other tradables excluding food and fuel prices	-3.1	-3.4	-3.3	-3.6	-3.5	-3.4	-3.6	-3.6	-3.5	-2.6	-2.3	-2.4
Prices of nontradables excluding regulated prices	3.5	2.9	2.7	2.5	2.4	2.0	1.7	1.4	1.2	1.2	1.2	1.2
Prices of non-food commodities excluding regulated prices	-0.9	-0.9	-0.9	-0.9	-1.1	-1.2	-1.4	-1.2	-1.3	-0.9	0.2	0.7
Prices of tradables - food	2.1	2.0	2.7	1.8	0.7	0.1	-1.6	-1.9	-2.5	-2.9	-2.2	-1.5
Prices of nontradables - regulated prices	11.6	10.9	11.0	9.8	9.8	9.7	7.6	7.5	7.5	5.4	5.4	5.0
2010												
Fuel prices	28.0	21.7	21.7									
Other tradables excluding food and fuel prices	-2.8	-3.3	-3.4									
Prices of nontradables excluding regulated prices	1.6	1.5	1.4									
Prices of non-food commodities excluding regulated prices	1.3	0.7	0.7									
Prices of tradables - food	-0.6	0.0	0.3									
Prices of nontradables - regulated prices	0.6	1.0	0.9									

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
1/05	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
7/09	1.9	2.6	-	-
8/09	2.0	2.7	-	-
9/09	1.8	2.5	1.7	2.5
10/09	2.5	2.5	-	-
11/09	2.5	2.5	-	-
12/09	2.5	2.6	1.8	2.6
1/10	2.2	2.6	-	-
2/10	2.3	2.7	-	-
3/10	2.1	2.5	2.0	2.5

Source: CNB statistical survey

Table 6

HARMONISED INDEX OF CONSUMER PRICES

annual percentage changes

	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 12	2010 3
European Union (27 countries)	2.1	2.5	2.3	2.2	3.2	2.2	1.5	1.9
European Union (25 countries)	1.9	2.4	2.1	2.2	3.1	2.0	1.5	1.8
Belgium	1.7	1.9	2.8	2.1	3.1	2.7	0.3	1.9
Bulgaria	5.6	4.0	7.4	6.1	11.6	7.2	1.6	2.4
Czech Republic	0.9	2.5	1.9	1.5	5.5	3.3	0.5	0.4
Denmark	1.2	0.9	2.2	1.7	2.4	2.4	1.2	2.1
Germany	1.0	2.3	2.1	1.4	3.1	1.1	0.8	1.2
Estonia	1.2	4.8	3.6	5.1	9.7	7.5	-1.9	1.4
Ireland	3.0	2.4	1.9	3.0	3.2	1.3	-2.6	-2.4
Greece	3.1	3.1	3.5	3.2	3.9	2.2	2.6	3.9
Spain	2.7	3.3	3.7	2.7	4.3	1.5	0.9	1.5
France	2.4	2.3	1.8	1.7	2.8	1.2	1.0	1.7
Italy	2.5	2.4	2.1	2.1	2.8	2.4	1.1	1.4
Cyprus	2.2	3.9	1.4	1.5	3.7	1.8	1.6	2.3
Latvia	3.5	7.4	7.1	6.8	14.0	10.4	-1.4	-4.0
Lithuania	-1.3	2.8	3.0	4.5	8.2	8.5	1.2	-0.4
Luxembourg	2.4	3.5	3.4	2.3	4.3	0.7	2.5	3.2
Hungary	5.6	5.5	3.3	6.6	7.4	3.4	5.4	5.7
Malta	2.4	1.9	3.4	0.8	3.1	5.0	-0.4	0.6
Netherlands	1.6	1.2	2.0	1.7	1.6	1.7	0.7	0.7
Austria	1.3	2.5	1.6	1.6	3.5	1.5	1.1	1.8
Poland	1.6	4.4	0.8	1.4	4.2	3.3	3.8	2.9
Portugal	2.3	2.6	2.5	2.5	2.7	0.8	-0.1	0.6
Romania	14.1	9.3	8.7	4.9	6.7	6.4	4.7	4.2
Slovenia	4.7	3.3	2.4	3.0	5.7	1.8	2.1	1.8
Slovakia	9.4	5.8	3.9	3.7	2.5	3.5	0.0	0.3
Finland	1.2	0.1	1.1	1.2	1.9	3.4	1.8	1.5
Sweden	1.8	0.9	1.3	1.4	2.5	2.1	2.8	2.5
United Kingdom	1.3	1.7	1.9	3.0	2.1	3.1	2.9	

Source: Eurostat

Table 7

MONETARY SURVEY positions at month-ends in CZK billions

	2004 12	2005 12	2006 12	2007 12	2008 12	2009 12	2010 2
Assets	1,844.1	1,992.1	2,188.7	2,478.3	2,641.1	2,753.5	2,725.5
Net external assets (NEAs)	863.3	1,076.4	972.6	970.4	975.1	1,003.8	1,023.6
NEAs of CNB	634.1	724.7	659.1	633.5	719.9	769.7	775.1
NEAs of OMFIs	229.3	351.7	313.5	336.9	255.2	234.1	248.5
Net domestic assets	980.8	915.8	1,216.0	1,508.0	1,666.1	1,749.7	1,701.9
Domestic loans	1,147.0	1,166.6	1,422.4	1,700.4	1,912.7	2,071.4	2,060.0
Net credit to government (NCG) (including securities)	257.5	99.1	136.3	72.2	22.9	166.4	163.3
NCG to central government (including securities)	312.4	163.0	206.9	146.1	154.3	259.5	278.3
NCG to other government (including securities)	-54.9	-64.0	-70.6	-73.9	-131.4	-93.1	-115.0
Loans to corporations and households (excluding securities)	889.4	1,067.5	1,286.1	1,628.2	1,889.8	1,905.1	1,896.7
Loans to corporations (excluding securities)	574.2	649.7	745.5	901.9	1,009.6	921.7	908.3
Loans to households (excluding securities)	315.2	417.8	540.6	726.3	880.2	983.3	988.4
Other net items (including securities and capital)	-166.2	-250.8	-206.4	-192.4	-246.7	-321.7	-358.0
Holdings of securities	18.8	14.4	14.0	26.6	15.6	13.4	13.0
Issued securities	-74.9	-119.1	-121.8	-159.9	-138.6	-133.3	-136.0
Liabilities							
Monetary aggregate M2	1,844.1	1,992.1	2,188.7	2,478.3	2,641.1	2,753.5	2,725.5
Monetary aggregate M1	962.3	1,087.3	1,239.8	1,438.7	1,545.3	1,662.3	1,647.5
Currency in circulation	236.8	263.8	295.3	324.1	365.5	353.6	354.2
Overnight deposits	725.6	823.5	944.5	1,114.6	1,179.7	1,308.7	1,293.3
Overnight deposits - households	410.8	456.6	529.3	601.2	708.9	804.2	833.0
Overnight deposits - corporations	314.7	367.0	415.3	513.4	470.8	504.5	460.3
M2-M1 (quasi money)	881.8	904.8	948.9	1,039.7	1,095.9	1,091.3	1,078.0
Deposits with agreed maturity	675.3	671.4	674.9	709.8	615.9	594.2	579.2
Deposits with agreed maturity - households	458.6	445.1	433.6	429.0	328.7	350.2	354.2
Deposits with agreed maturity - corporations	216.7	226.3	241.3	280.8	287.2	243.9	225.0
Deposits redeemable at notice	198.8	224.1	265.6	315.5	458.0	482.7	482.1
Deposits redeemable at notice - households	194.6	220.6	260.8	311.2	450.0	458.7	454.2
Deposits redeemable at notice - corporations	4.2	3.6	4.8	4.3	8.1	24.0	28.0
Repurchase agreements	7.6	9.3	8.4	14.4	21.9	14.4	16.7
Annual percentage changes							
M1	6.6	13.0	14.0	16.0	7.4	7.6	7.6
M2	4.4	8.0	9.9	13.2	6.6	4.3	2.8
Loans to corporations and households	12.4	20.0	20.5	26.6	16.1	0.8	-0.1
M2-M1 (deposits)	2.1	2.6	4.9	9.6	5.4	-0.4	-3.8
Annual percentage growth rates							
M1	8.3	13.1	14.7	16.6	7.4	7.9	8.5
M2	5.8	8.1	10.6	13.8	6.5	4.5	3.6
Loans to corporations and households	15.3	20.8	21.6	27.3	16.0	1.5	1.2
M2-M1 (deposits)	3.3	2.6	5.7	10.2	5.2	-0.2	-3.1

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 12	2010 3
1. Average PRIBOR [1]								
- 1 day	1.98	2.49	2.00	2.48	3.40	2.32	1.01	1.02
- 7 day	2.02	2.51	2.04	2.51	3.58	2.79	1.28	1.11
- 14 day	2.03	2.51	2.04	2.51	3.63	2.89	1.32	1.13
- 1 month	2.04	2.53	2.05	2.52	3.98	3.61	1.44	1.22
- 2 month	2.06	2.55	2.10	2.54	4.02	3.76	1.54	1.32
- 3 month	2.08	2.57	2.17	2.56	4.05	3.89	1.64	1.43
- 6 month	2.13	2.67	2.33	2.67	4.09	4.01	1.90	1.68
- 9 month	2.22	2.76	2.44	2.79	4.15	4.09	2.07	1.82
- 12 month	2.30	2.85	2.53	2.89	4.20	4.16	2.20	1.94
2. Average PRIBID [1]								
- 1 day	1.88	2.39	1.90	2.38	3.30	2.09	0.75	0.76
- 7 day	1.92	2.41	1.94	2.41	3.48	2.48	1.00	0.84
- 14 day	1.93	2.41	1.94	2.41	3.53	2.55	1.02	0.85
- 1 month	1.94	2.43	1.95	2.42	3.88	3.23	1.14	0.93
- 2 month	1.96	2.45	2.00	2.44	3.92	3.39	1.24	1.01
- 3 month	1.98	2.47	2.07	2.46	3.95	3.52	1.33	1.11
- 6 month	2.03	2.57	2.23	2.57	3.99	3.65	1.58	1.35
- 9 month	2.12	2.66	2.34	2.69	4.05	3.72	1.73	1.49
- 12 month	2.20	2.75	2.43	2.79	4.10	3.79	1.87	1.61

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 12	2010 3
3 * 6	2.23	2.74	2.46	2.71	4.15	3.12	1.64	1.44
3 * 9	2.36	2.81	2.57	2.83	4.16	2.98	1.80	1.68
6 * 9	2.47	2.85	2.66	2.92	4.15	2.75	1.76	1.60
6 * 12	2.64	2.92	2.74	3.02	4.17	2.71	1.90	1.87
9 * 12	2.77	2.97	2.79	3.08	4.16	2.58	1.94	1.82
9*12 - 3*6 spread	0.55	0.24	0.33	0.37	0.02	-0.55	0.30	0.38
6*12 - 3*9 spread	0.28	0.12	0.17	0.19	0.02	-0.27	0.10	0.18

percentages; monthly averages

C. IRS RATES	2003 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 12	2010 3
1Y	2.41	2.82	2.56	2.86	4.19	3.14	1.77	1.58
2Y	2.98	3.06	2.82	3.09	4.20	2.82	2.32	2.15
3Y	3.38	3.27	3.00	3.21	4.22	2.84	2.68	2.53
4Y	3.69	3.45	3.13	3.31	4.26	2.90	2.92	2.78
5Y	3.93	3.62	3.25	3.40	4.30	2.96	3.04	2.93
6Y	4.13	3.77	3.33	3.46	4.34	3.01	3.14	3.05
7Y	4.29	3.89	3.40	3.52	4.38	3.07	3.23	3.15
8Y	4.43	4.00	3.46	3.58	4.42	3.15	3.33	3.26
9Y	4.54	4.09	3.52	3.63	4.47	3.24	3.43	3.36
10Y	4.64	4.17	3.58	3.68	4.52	3.34	3.52	3.46
15Y	4.97	4.40	3.78	3.83	4.71	3.54	3.85	3.81
20Y	5.11	4.54	3.88	3.89	4.76	3.43	3.93	3.90
5Y - 1Y spread	1.52	0.80	0.69	0.54	0.11	-0.18	1.28	1.35
10Y - 1Y spread	2.23	1.35	1.02	0.82	0.33	0.20	1.75	1.88

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	time	2W	1Y	new	time	2W	1Y	client
			loans	deposits			loans	deposits			loans
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	6.7	1.8	0.5	1.4	5.4	0.6	6.3	7.3	11.6
7/09	1.7	2.6	6.9	1.7	1.4	2.3	6.6	1.4	6.9	7.9	12.4
8/09	1.5	2.4	6.6	1.7	1.3	2.2	6.4	1.5	7.0	7.9	12.3
9/09	1.5	2.4	6.8	1.6	1.5	2.4	6.8	1.6	7.3	8.3	12.8
10/09	1.5	2.4	6.8	1.6	1.7	2.6	7.0	1.8	6.3	7.3	12.0
11/09	1.4	2.3	6.9	1.7	0.9	1.8	6.3	1.2	3.9	4.8	9.5
12/09	1.3	2.2	6.9	1.6	0.3	1.2	5.8	0.6	2.1	3.0	7.8
1/10	1.2	2.1	7.3	1.6	0.5	1.4	6.5	0.9	2.7	3.7	8.9
2/10	1.1	2.0	7.1	1.6	0.5	1.4	6.4	1.0	3.2	4.1	9.3
3/10	1.1	1.9	-	-	0.4	1.2	-	-	1.9	2.8	-

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
1/05	-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	4.8	0.0	-0.2	0.7	4.8	0.0
7/09	-0.2	0.7	4.9	-0.2	-	-	-	-
8/09	-0.5	0.4	4.5	-0.3	-	-	-	-
9/09	-0.3	0.6	4.9	-0.2	-0.3	0.7	4.9	-0.1
10/09	-1.0	-0.1	4.2	-0.8	-	-	-	-
11/09	-1.0	-0.2	4.3	-0.8	-	-	-	-
12/09	-1.2	-0.3	4.3	-0.9	-0.5	0.4	5.0	-0.2
1/10	-1.0	-0.1	5.0	-0.6	-	-	-	-
2/10	-1.1	-0.3	4.7	-0.7	-	-	-	-
3/10	-1.0	-0.2	-2.1	-2.1	-0.8	0.0	-	-

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 12	2010 2
Koruna interest rates on loans provided by banks to residents:								
Households and non-profit institutions								
serving households (S.14+S.15) - total	8.24	7.96	7.20	6.80	6.63	6.95	6.69	7.00
- maturity up to 1 year	11.21	12.82	12.96	13.75	13.96	14.89	16.05	15.99
- maturity over 1 year and up to 5 years	10.17	12.40	11.43	11.35	12.46	13.05	12.60	12.99
- maturity over 5 years	6.65	6.39	5.96	5.84	5.79	6.18	6.28	6.30
for consumption - total	13.83	14.89	13.88	13.59	13.32	13.64	13.84	14.14
- maturity up to 1 year	14.26	15.48	16.22	17.31	17.34	18.04	19.53	19.37
- maturity over 1 year and up to 5 years	13.86	15.17	14.94	14.67	15.13	15.32	14.75	15.30
- maturity over 5 years	13.21	13.45	11.85	11.93	11.65	12.15	12.38	12.73
for house purchase - total	6.31	5.93	5.24	4.91	4.89	5.17	5.25	5.26
- maturity up to 1 year	6.24	4.48	4.29	5.39	6.56	7.37	6.94	6.89
- maturity over 1 year and up to 5 years	7.05	6.57	6.22	6.15	6.19	6.15	5.85	5.92
- maturity over 5 years	6.09	5.89	5.19	4.88	4.86	5.16	5.24	5.25
other - total	7.80	7.50	7.09	6.87	6.98	7.01	6.50	6.46
- maturity up to 1 year	8.49	8.96	9.09	9.52	10.35	10.75	10.32	10.49
- maturity over 1 year and up to 5 years	8.02	7.63	7.17	7.74	8.56	9.04	8.09	8.21
- maturity over 5 years	7.02	6.58	5.79	5.51	5.70	5.94	5.69	5.66
Non-financial corporations (S.11) - total	4.53	4.75	4.20	4.45	5.52	5.40	4.26	4.19
- maturity up to 1 year	4.08	4.35	3.84	4.23	5.37	5.06	4.06	3.93
- maturity over 1 year and up to 5 years	4.64	4.68	4.18	4.38	5.60	5.67	4.27	4.29
- maturity over 5 years	5.14	5.39	4.72	4.74	5.63	5.61	4.39	4.34
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	1.31	1.30
overnight	0.50	0.52	0.40	0.41	0.55	0.91	0.66	0.66
with agreed maturity - total	2.02	2.13	1.92	1.96	2.11	2.24	1.98	1.98
- with agreed maturity up to 2 years	0.96	1.37	1.03	1.49	2.14	2.24	1.88	1.79
- with agreed maturity over 2 years	2.90	2.69	2.50	2.31	2.08	2.26	2.11	2.19
redeemable at notice - total	1.26	1.63	1.71	1.97	2.14	2.17	1.96	1.98
- redeemable at notice up to 3 months	1.67	2.14	2.27	2.34	2.42	2.33	2.23	2.22
- redeemable at notice over 3 months	0.98	1.12	0.81	1.00	1.08	1.02	0.83	1.17
Non-financial corporations (S.11) - total	0.85	1.21	0.91	1.18	1.67	1.21	0.57	0.62
overnight	0.64	0.68	0.52	0.72	1.06	0.62	0.32	0.38
with agreed maturity - total	1.50	2.08	1.64	2.09	3.01	2.29	1.01	1.02
- with agreed maturity up to 2 years	1.49	2.05	1.61	2.08	3.02	2.29	0.97	0.97
- with agreed maturity over 2 years	3.04	3.12	2.47	2.28	2.62	1.99	2.88	2.70
redeemable at notice - total	1.17	1.60	1.14	1.64	1.89	2.54	1.58	1.51
- redeemable at notice up to 3 months	1.14	1.49	1.07	1.53	1.79	2.52	1.56	1.49
- redeemable at notice over 3 months	1.32	2.26	1.64	2.21	2.93	3.11	2.34	2.43

Table 12

BALANCE OF PAYMENTS [1]						in CZK millions
	2004 Q1–4	**2005 Q1–4**	**2006 Q1–4**	**2007 Q1–4**	**2008 Q1–4**	**2009[2] Q1–4**
A. Current account	-147,455.7	-39,826.1	-77,193.8	-113,077.2	-22,891.8	-37,019.3
Balance of trade	-13,384.0	59,369.5	65,094.0	120,616.9	102,722.4	180,553.8
exports	1,722,657.4	1,868,585.8	2,144,573.4	2,479,233.8	2,473,735.5	2,131,338.7
imports	1,736,041.4	1,809,216.3	2,079,479.4	2,358,616.9	2,371,013.1	1,950,784.9
Services	16,564.4	36,937.1	45,088.4	49,707.1	65,858.7	26,986.3
credit	247,084.8	282,411.4	314,032.3	341,534.3	370,308.5	385,296.4
transport	69,859.0	76,701.5	85,700.7	101,840.5	105,987.3	103,359.4
travel	107,231.8	112,234.4	124,744.2	129,009.3	122,032.3	122,469.9
others	69,994.0	93,475.5	103,587.4	110,684.5	142,288.9	159,467.1
debit	230,520.4	245,474.3	268,943.9	291,827.2	304,449.8	358,310.1
transport	47,571.4	56,254.1	62,140.7	73,128.4	75,663.1	75,961.6
travel	58,398.0	57,777.6	62,174.3	73,486.3	77,487.1	77,160.1
others	124,551.0	131,442.6	144,628.9	145,212.5	151,299.6	205,188.4
Income	-156,637.9	-143,427.6	-166,942.8	-255,652.7	-174,275.5	-230,892.4
credit	87,206.1	105,728.7	127,975.4	151,986.0	171,852.2	94,102.0
debit	243,844.0	249,156.3	294,918.2	407,638.7	346,127.7	324,994.4
Current transfers	6,001.8	7,294.9	-20,433.4	-27,748.5	-17,197.4	-13,667.0
credit	53,050.6	76,655.5	50,197.1	63,337.1	67,474.9	65,605.3
debit	47,048.8	69,360.6	70,630.5	91,085.6	84,672.3	79,272.3
B. Capital account	-14,186.5	4,689.3	8,454.6	19,568.8	30,378.8	40,954.9
credit	5,608.2	5,525.2	14,269.6	21,273.7	45,525.9	73,326.8
debit	19,794.7	835.9	5,815.0	1,704.9	15,147.1	32,371.9
Total A + B	*-161,642.2*	*-35,136.8*	*-68,739.2*	*-93,508.4*	*7,487.0*	*3,935.6*
C. Financial account	177,312.0	154,767.4	92,417.9	125,803.9	59,049.7	95,126.3
Direct investment	101,776.3	279,630.5	90,261.7	179,064.0	36,326.9	26,409.4
abroad	-26,067.3	449.0	-33,169.6	-32,879.7	-73,802.7	-25,541.4
equity capital and reinvested earnings	-20,260.0	-4,262.8	-33,886.7	-26,412.3	-75,107.7	-24,823.0
other capital	-5,807.3	4,711.8	717.1	-6,467.4	1,305.0	-718.4
in the Czech Republic	127,843.6	279,181.5	123,431.3	211,943.7	110,129.6	51,950.8
equity capital and reinvested earnings	121,482.9	262,471.8	129,598.6	191,531.6	60,869.8	101,363.9
other capital	6,360.7	16,709.7	-6,167.3	20,412.1	49,259.8	-49,413.1
Portfolio investment	53,032.5	-81,243.8	-26,882.5	-57,232.1	-9,145.4	113,837.4
assets	-70,245.2	-82,095.7	-68,383.5	-98,653.0	-4,456.4	19,719.2
equity securities	-36,457.1	-35,342.4	-43,559.2	-65,643.8	-11,103.5	-25,417.9
debt securities	-33,788.1	-46,753.3	-24,824.3	-33,009.2	6,647.1	45,137.1
liabilities	123,277.7	851.9	41,501.0	41,420.9	-4,689.0	94,118.2
equity securities	19,558.6	-36,408.9	5,758.0	-5,855.7	-21,302.1	-4,843.6
debt securities	103,719.1	37,260.8	35,743.0	47,276.6	16,613.1	98,961.8
Financial derivatives	-3,208.0	-2,798.6	-6,236.9	1,296.3	-14,000.7	-7,734.2
assets	-15,565.8	-2,860.9	-10,850.5	-15,700.1	36,031.4	48,589.8
liabilities	12,357.8	62.3	4,613.6	16,996.4	-50,032.1	-56,324.0
Other investment	25,711.2	-40,820.7	35,275.6	2,675.7	45,868.9	-37,386.3
assets	-30,507.4	-114,430.6	-31,054.7	-142,189.4	-74,238.8	22,196.8
long-term	20,434.2	-16,338.0	-6,119.2	-45,988.9	-68,843.2	27,575.5
CNB	-184.9	-176.3	-	2.3	-	-6.7
commercial banks	505.0	-24,641.7	-10,715.8	-45,243.7	-69,278.8	27,570.7
government	22,790.7	14,056.5	4,983.6	-691.7	322.8	28.8
other sectors	-2,676.6	-5,576.5	-387.0	-55.8	112.8	-17.3
short-term	-50,941.6	-98,092.6	-24,935.5	-96,200.5	-5,395.6	-5,378.7
commercial banks	-34,248.5	-87,137.0	24,866.4	-88,410.9	23,611.6	15,598.8
government	92.9	9.4	-	-	-	-
other sectors	-16,786.0	-10,965.0	-49,801.9	-7,789.6	-29,007.2	-20,977.5
liabilities	56,218.6	73,609.9	66,330.3	144,865.1	120,107.7	-59,583.1
long-term	36,550.9	49,022.1	68,702.1	30,158.0	39,495.7	-2,937.9
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	-14,755.9
government	10,296.1	20,809.1	9,847.3	2,899.1	7,617.4	10,887.9
other sectors	27,686.1	27,921.0	46,139.5	-1,398.1	13,760.8	930.1
short-term	19,667.7	24,587.8	-2,371.8	114,707.1	80,612.0	-56,645.2
CNB	843.7	5,060.1	-4,147.6	-552.8	559.9	1,693.5
commercial banks	-15,344.5	14,808.8	2,250.5	89,157.0	54,965.9	-58,901.3
government	-	-	-	-	-	-
other sectors	34,168.5	4,718.9	-474.7	26,102.9	25,086.2	562.6
Total A + B + C	*15,669.8*	*119,630.6*	*23,678.7*	*32,295.5*	*66,536.7*	*99,061.9*
D. Net errors and omissions, valuation changes	-8,887.6	-26,779.0	-21,604.3	-16,629.0	-26,425.4	-38,415.4
Total A + B + C + D	*6,782.2*	*92,851.6*	*2,074.4*	*15,666.5*	*40,111.3*	*60,646.5*
E. Change in reserves (- increase)	-6,782.2	-92,851.6	-2,074.4	-15,666.5	-40,111.3	-60,646.5

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 Dec.
Assets	1,549,334.9	1,875,403.8	1,888,248.1	2,118,640.9	2,374,739.0	2,356,584.9
Direct investment abroad	84,087.4	88,772.7	104,743.3	154,700.9	242,428.4	263,540.0
- equity capital	70,664.0	80,061.1	96,748.8	140,239.0	229,271.5	250,030.0
- other capital	13,423.4	8,711.6	7,994.5	14,461.9	13,156.9	13,510.0
Portfolio investment	372,237.6	467,808.5	532,163.4	618,625.4	505,136.7	491,998.4
- equity securities	76,121.3	146,957.6	202,322.0	256,779.1	189,701.2	222,001.2
- debt securities	296,116.3	320,850.9	329,841.4	361,846.3	315,435.5	269,997.2
Financial derivatives	39,695.3	42,556.2	53,406.7	69,525.0	158,377.7	117,878.2
Other investment	417,071.9	549,564.4	541,297.0	644,773.4	752,751.9	718,856.2
long-term	118,432.7	136,314.1	128,334.6	162,633.3	239,462.3	207,816.3
- CNB	600.0	3,184.5	2,993.8	2,848.9	3,174.8	3,206.2
- commercial banks	58,137.8	83,231.1	87,666.2	126,415.4	200,675.9	170,660.1
- government	48,574.9	38,408.5	29,894.6	27,359.0	31,471.6	30,760.0
- other sectors	11,120.0	11,490.0	7,780.0	6,010.0	4,140.0	3,190.0
short-term	298,639.2	413,250.3	412,962.4	482,140.1	513,289.6	511,039.9
- CNB	71.7	71.1	131.3	102.1	84.1	103.1
- commercial banks	184,588.0	273,879.1	233,831.1	310,538.0	295,545.5	275,946.8
of which: gold and foreign exchange	128,119.8	198,042.8	166,588.9	200,780.8	203,665.7	185,852.0
- government	9.5	0.1	-	-	-	-
- other sectors	113,970.0	139,300.0	179,000.0	171,500.0	217,660.0	234,990.0
CNB reserves	636,242.7	726,702.0	656,637.7	631,016.2	716,044.3	764,312.1
- gold	4,253.9	5,526.8	5,690.9	6,431.6	6,933.8	8,347.1
- SDR	118.0	289.8	346.0	363.3	402.4	22,876.7
- reserve position in the IMF	9,137.5	4,447.7	2,324.6	1,521.6	3,128.0	4,433.8
- foreign exchange	610,659.1	716,315.2	648,192.1	618,048.0	695,935.6	693,136.9
- other reserve assets	12,074.2	122.5	84.1	4,651.7	9,644.5	35,517.6
Liabilities	2,374,328.4	2,710,646.3	2,969,225.5	3,533,858.3	3,897,645.9	3,965,586.3
Direct investment in the Czech Republic	1,280,594.8	1,491,564.0	1,666,760.7	2,032,111.2	2,189,454.9	2,239,332.1
- equity capital	1,121,842.3	1,316,101.8	1,497,465.8	1,842,404.2	1,950,488.2	2,052,852.1
- other capital	158,752.5	175,462.2	169,294.9	189,707.0	238,966.7	186,480.0
Portfolio investment	381,019.4	437,806.0	487,994.5	556,342.4	508,094.6	653,436.0
- equity securities	208,872.1	220,495.8	241,594.8	262,518.8	179,775.0	209,590.7
- debt securities	172,147.3	217,310.2	246,399.7	293,823.6	328,319.6	443,845.3
Financial derivatives	31,806.1	31,868.4	36,482.0	54,222.9	159,956.7	113,412.7
Other investment	680,908.1	749,407.9	777,988.3	891,181.8	1,040,139.7	959,405.5
long-term	373,456.4	417,645.7	464,073.2	478,698.3	536,049.9	520,961.2
- 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	103,883.4
- government	32,065.4	52,322.1	61,686.4	65,875.1	73,886.6	84,762.3
- other sectors	289,300.0	313,636.0	340,096.0	325,365.5	341,395.5	332,315.5
short-term	307,451.7	331,762.2	313,915.1	412,483.5	504,089.8	438,444.3
- CNB	866.5	5,926.5	1,779.0	1,226.2	1,786.3	3,749.7
- commercial banks	185,025.2	201,315.7	193,816.1	272,187.3	332,833.5	267,004.6
- government	-	-	-	-	-	-
- other sectors	121,560.0	124,520.0	118,320.0	139,070.0	169,470.0	167,690.0
Net investment position	-824,993.5	-835,242.5	-1,080,977.4	-1,415,217.4	-1,522,906.9	-1,609,001.4

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 Dec.
Debt in convertible currencies	1,011,807.9	1,142,180.3	1,193,682.9	1,374,712.4	1,607,426.0	1,589,730.8
of which:						
Long-term	667,327.6	783,533.1	872,113.2	966,893.1	1,102,771.6	1,173,183.7
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	142,857.8
- government	147,729.1	221,003.4	247,019.8	268,669.9	292,667.4	359,289.0
- other sectors	455,181.8	497,063.0	548,639.6	590,361.6	663,098.1	671,036.9
by creditor						
- foreign banks	269,081.3	276,594.3	324,908.9	340,251.2	378,703.5	365,018.4
- 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	122,068.2	133,680.4
- suppliers and direct investors	143,301.2	170,586.6	179,903.7	220,419.0	259,428.3	225,700.0
- other investors	170,082.7	221,528.5	250,701.5	296,639.6	335,322.0	443,036.8
Short-term	344,480.3	358,647.2	321,569.7	407,819.3	504,654.4	416,547.1
by debtor						
- CNB	866.5	5,926.5	1,779.0	1,226.2	1,786.3	3,749.7
- commercial banks	188,495.9	202,616.9	196,529.5	274,189.3	335,395.4	267,502.5
- government	3,334.6	1,102.4	350.0	5,722.8	2,763.4	4,789.2
- other sectors	151,783.3	149,001.4	122,911.2	126,681.0	164,709.3	140,505.7
by creditor						
- foreign banks	202,372.6	197,820.7	187,186.7	243,132.5	323,764.5	265,805.8
- multilateral institutions	861.3	5,918.8	1,768.2	1,220.3	1,540.8	2,875.5
- suppliers and direct investors	98,611.3	102,235.6	78,391.2	72,188.0	86,928.4	70,425.0
- other investors	42,635.1	52,672.1	54,223.6	91,278.5	92,420.7	77,440.8
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	1,607,426.0	1,589,730.8
of which:						
- long-term	667,327.6	783,533.1	872,113.2	966,893.1	1,102,771.6	1,173,183.7
- short-term	344,480.3	358,647.2	321,569.7	407,819.3	504,654.4	416,547.1
Total long-term debt	667,327.6	783,533.1	872,113.2	966,893.1	1,102,771.6	1,173,183.7
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	429,070.9	535,674.2
- liabilities of entities with majority private capital	395,125.5	461,034.7	529,871.3	590,025.6	673,700.7	637,509.5

1) Preliminary data

Table 15

FOREIGN EXCHANGE AND CAPITAL MARKETS

in CZK; foreign exchange market rates

A. NOMINAL RATE	2003 1–12	2004 1–12	2005 1–12	2006 1–12	2007 1–12	2008 1–12	2009 1–12	2010 1–3
CZK exchange rate against selected currencies								
- annual/quarterly averages								
1 EUR	31.84	31.90	29.78	28.34	27.76	24.94	26.45	25.87
1 USD	28.23	25.70	23.95	22.61	20.31	17.04	19.06	18.71
	12	**12**	**12**	**12**	**12**	**12**	**12**	**3**
- monthly averages								
1 EUR	32.31	30.65	28.98	27.78	26.30	26.11	26.08	25.54
1 USD	26.32	22.87	24.44	21.02	18.04	19.48	17.84	18.82
	31 Dec.	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Mar.**
- last day of the month								
1 EUR	32.41	30.47	29.01	27.50	26.62	26.93	26.47	25.45
1 USD	25.65	22.37	24.59	20.88	18.08	19.35	18.37	18.87

B. NOMINAL EFFECTIVE RATE	2003	2004	2005	2006	2007	2008	2009	2010 3
CZK nominal effective exchange rate (percentages)								
(2005=100)								
weights - foreign trade turnover	93.44	94.07	100.00	105.09	107.78	120.33	116.05	118.28
weights - foreign trade turnover SITC 5-8	93.37	93.96	100.00	105.21	107.93	120.50	115.46	117.99

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	2010 3
CZK real effective exchange rate (percentages)								
(2005=100)								
a) industrial producer prices								
weights - foreign trade turnover	92.57	95.50	100.00	102.22	104.97	114.82	108.98	108.35
weights - foreign trade turnover SITC 5-8	92.12	95.20	100.00	102.49	105.41	115.50	109.41	109.11
b) consumer prices								
weights - foreign trade turnover	94.44	94.97	100.00	104.73	107.75	123.04	118.21	119.77
weights - foreign trade turnover SITC 5-8	93.90	94.60	100.00	105.06	108.29	123.98	118.70	120.68

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 12	2004 12	2005 12	2006 12	2007 12	2008 12	2009 12	2010 3
BCPP								
PX	659.1	1,032.0	1,473.0	1,588.9	1,815.1	858.2	1,117.3	1,196.8
PX-GLOB	816.9	1,232.7	1,811.3	1,987.4	2,268.4	1,096.4	1,401.4	1,495.2

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 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					
6 February	1.75	0.75	2.75	-	-
11 May	1.50	0.50	2.50	-	-
7 August	1.25	0.25	2.25	-	-
17 December	1.00	0.25	2.00	-	-

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 Q1–4
Gross domestic product						
- in CZK millions	2,474,006	2,630,273	2,809,338	2,981,579	3,055,035	2,925,300
- percentages	4.5	6.3	6.8	6.1	2.5	-4.2
Final consumption						
- in CZK millions	1,834,457	1,882,570	1,956,408	2,027,938	2,084,993	2,109,055
- percentages	0.9	2.6	3.9	3.7	2.8	1.2
of which:						
Households						
- in CZK millions	1,294,377	1,327,217	1,394,195	1,461,718	1,513,913	1,509,215
- percentages	2.9	2.5	5.0	4.8	3.6	-0.3
Government						
- in CZK millions	526,656	541,825	548,208	551,902	557,239	581,640
- percentages	-3.5	2.9	1.2	0.7	1.0	4.4
Non-profit institutions						
- in CZK millions	14,579	14,629	16,443	18,545	19,530	21,123
- percentages	9.1	0.3	12.4	12.8	5.3	8.2
Gross capital formation						
- in CZK millions	773,916	767,420	841,412	920,201	894,961	732,649
- percentages	9.1	-0.8	9.6	9.4	-2.7	-18.1
of which:						
Fixed capital						
- in CZK millions	716,285	729,043	772,820	856,246	843,694	773,649
- percentages	3.9	1.8	6.0	10.8	-1.5	-8.3
Changes in inventories						
- in CZK millions	54,706	35,654	65,891	60,718	48,055	-43,908
Acquisitions less disposals of valuables						
- in CZK millions	2,925	2,723	2,701	3,237	3,212	3,074
- percentages	-39.6	-6.9	-0.8	19.8	-0.8	-4.3
Foreign trade						
of which:						
Exports of goods						
- in CZK millions	1,820,657	2,032,500	2,368,967	2,744,170	2,899,855	2,514,496
- percentages	23.0	11.6	16.6	15.8	5.7	-13.3
Exports of services						
- in CZK millions	226,614	251,989	278,675	305,096	330,299	362,715
- percentages	6.5	11.2	10.6	9.5	8.3	9.8
Imports of goods						
- in CZK millions	1,928,984	2,033,055	2,332,772	2,683,119	2,792,090	2,379,435
- percentages	18.8	5.4	14.7	15.0	4.1	-14.8
Imports of services						
- in CZK millions	263,438	268,334	297,136	322,186	352,939	439,552
- percentages	11.7	1.9	10.7	8.4	9.5	24.5
Final domestic demand						
- in CZK millions	2,550,742	2,611,613	2,729,228	2,884,184	2,928,687	2,882,538
- percentages	1.8	2.4	4.5	5.7	1.5	-1.6
Aggregate domestic demand						
- in CZK millions	2,608,373	2,649,990	2,797,820	2,948,139	2,979,954	2,841,704
- percentages	3.2	1.6	5.6	5.4	1.1	-4.6
Gross domestic product at current prices						
- in CZK millions	2,814,762	2,983,862	3,222,369	3,535,460	3,688,994	3,627,188
- percentages	9.2	6.0	8.0	9.7	4.3	-1.7

Source: CZSO

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