Joint Agreement Between the Czech Government and the Czech National Bank

Being aware of their joint responsibility for the exchange rate, the Government of the Czech Republic and the Czech National Bank have agreed on the following set of measures aimed at preventing public sector operations from having undesirable effects on the foreign exchange market and subsequently on the macroeconomic stability of the Czech Republic:

<u>Inflow of funds from the EU</u>

1. The CNB and the Government agree that currency conversions of financial flows between the Czech Republic and EU authorities will continue to be effected as far as possible off the foreign exchange market. Both parties will communicate the procedure agreed below in an appropriate manner and inform foreign exchange market participants that revenues from EU funds will not affect the exchange rate.
2. The CNB will continue to conduct currency conversions of these funds on the basis of client orders to the debit of its international reserves, i.e. without affecting the exchange rate.
3. The Government will ensure that no bodies within its field of competence conduct conversions of fund inflows from the EU on the market or conduct any hedging or speculative operations affecting the foreign exchange market.
4. Both the Government and the CNB will jointly influence other public sector institutions in such a way that these institutions, too, do not affect the exchange rate in an undesirable way.
5. The management of allocations to programmes within the competence of individual managing authorities will continue to be conducted in accordance with the *Methodology for Financial Flows and Control of Programmes Co-financed from the Structural Funds, the Cohesion Fund and the European Fishing Fund for the 2007–2013 Programming Period*, which ensures that these authorities respond appropriately to exchange rate developments (when selecting projects, managing authorities have to take into account the remainder of the allocation for the programme so as to ensure that the commitment for the 2013 allocation is exceeded by a maximum of 5% at the end of the programming period).

6. The CNB will continue to negotiate with the National Fund of the Czech Ministry of Finance (and where appropriate with other government institutions) regarding the conditions of its services in respect of maintaining accounts at the CNB and performing currency conversions, in order to support the Ministry as far as possible as regards its needs in realising fund inflows from the EU. The main prerequisite is that changes to these conditions must not be unilaterally disadvantageous to the CNB and must pass on no significant additional risks to the CNB above and beyond the risks to which it is already exposed in currency conversions to the debit of its international reserves.

Privatisation revenues

7. No conversions of the Government's privatisation revenues will be conducted on the foreign exchange market. The Government and the CNB will communicate this fact in an appropriate manner so that it is known to foreign exchange market participants and the general public in advance.

8. Privatisations will be performed primarily in euro and the Government will not convert privatisation revenues into koruna. These revenues will be either deposited on a foreign currency account with the CNB or managed in foreign currencies as a reserve for the pension reform. The foreign currency account with the CNB will be remunerated at a rate derived from market yields of the 3M EURIBOR – 1/8. The Ministry of Finance may use the funds on the foreign currency account for routine foreign currency payments when meeting its international commitments.

9. In the event of a short-term need for koruna liquidity, such liquidity will be provided in the case of privatisation revenues via foreign exchange swaps. The foreign exchange swaps may be extended (rolled) for any period of time, ideally until the adoption of the euro in the Czech Republic.

Issuance of government bonds denominated in foreign currency

10. If the Czech Ministry of Finance issues bonds denominated in foreign currency in the coming years, these will be hedged against exchange rate risk in such a way as not to affect the exchange rate.