

Presentation Report for Government Meeting

This document proposes how to continue with the cooperation between the Czech Government and the Czech National Bank in dealing with the exchange rate effects of foreign exchange revenues of the state. Both parties signed up to this cooperation back in 2000 in a document entitled *Economic Policy Strategies in a Period of Capital Inflow* and later deepened it further by adopting a *Strategy for Dealing with the Exchange Rate Effects of Capital Inflows from Privatisation of State Property and Other Foreign Exchange Revenues of the State* in January 2002.

The cooperation in this area reflects the joint responsibility of the Government and the CNB for the exchange rate, as declared by both parties. This cooperation is aimed at ensuring that public sector operations do not create significant shocks disrupting the foreign exchange market and subsequently also the macroeconomic stability of the Czech Republic.

The proposed procedure builds on the tried and tested mechanisms of the 2002 Strategy. It includes in particular communicating exchange rate issues in a coordinated fashion, leaving the Government's privatisation revenues for as long as possible without converting them into koruna, conducting any conversions to the debit of the CNB's international reserves in a form that does not excessively encumber the CNB's performance, and financing government debt in a manner that does not directly affect the exchange rate. However, the proposal also reacts to some new facts that could not have been reflected in the 2002 Strategy, most notably the changing nature of the fiscal challenges, the postponement of euro adoption, and the existing and expected inflow of funds from the EU into the Czech Republic.