

1997
ANUAL REPORT

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THE CZECH NATIONAL BANK BOARD

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Introduction

The past year has been the most difficult period for the Czech economy since the start of transformation in 1991. The continuation of serious imperfections in corporate stability and corporate governance, the protection of legal and contractual rights of economic entities and the stalled reform efforts, as well as recent expansive financial development, resulted in serious macroeconomic imbalance. This in turn generated an even greater decline in economic growth and, along with political instability and financial crisis contagion from abroad, caused turbulence on the foreign exchange market. As a result, central authorities were urged to correct fiscal policies and to restore the pace of reform efforts.

In this situation, the Czech National Bank abandoned the fixed exchange rate regime which had served as an effective nominal anchor in the economy for many years.

The sudden, positive reversal of the trend toward deepening macroeconomic imbalance that followed surprised many observers. This reversal was not only the result of economic policy measures, but also a series of favourable internal and external factors.

Financial restriction, however efficient or successful it might have been, was just a passive adjustment of domestic demand to the structural defects in the economy. Progress in removing supply barriers is one task that must continue to be dealt with in the future.

After abandoning the fixed exchange rate, the Czech National Bank changed its strategy at the end of last year and switched from monetary to direct inflation targeting. At the same time, it announced its medium-term and short-term inflation targets.

This change to an anti-inflation strategy is aimed at keeping the Czech National Bank's legal objective intact, i.e. ensuring the stability of the currency, even under new economic conditions. Transparency, openness and credibility which are inseparably linked to the CNB's disinflation obligation and its fulfilment are feasible means to achieve this objective.

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A.1

REPORT ON MONETARY POLICY AND MONETARY DEVELOPMENT

SUMMARY

In past years, the imbalance in the Czech economy had expanded, particularly in the external sector. In 1997, this longer-term trend was replaced by gradual improvement. The problem of rapidly growing demand in the economy, which was not accompanied by adequate growth in domestic supply and was levelled off by increasing imports, was apparent as early as 1994 and substantially accelerated in 1996. However, in 1997, this development experienced a turn.

In Q1, trends from previous years still continued. Domestic demand's lead over domestic supply resulted in a deepening of the current account deficit, which accounted for 8.6% of GDP in Q1. Nevertheless, the koruna appreciated at the beginning of the year within the existing fluctuation band due to short-term capital inflow, particularly Eurobond koruna issues. The strengthening of the koruna gained momentum in February (+5.5% above central parity).

The May publication of statistical data on economic development, widening of the trade deficit and a decline in exports resulted in a change in the foreign investor ratings of the Czech economy and the adequacy of the koruna exchange rate level. This was mirrored in a gradual correction of the exchange rate within the existing fluctuation band. The negative monetary expectations also affected domestic entity decision-making which led both to a rapid increase in balances on foreign currency accounts (particularly in April and May) and to increased demand for imported goods.

The April government measures^{1/} involving primarily state budget expenditure cuts were found insufficient by investors. In addition, investor behaviour at that time was affected by the financial crisis in Southeast and East Asia. In mid-May, the crisis of foreign investor, domestic bank, business and household confidence in maintaining the koruna exchange rate within the existing fluctuation band gained momentum. The koruna came under pressure from investors resulting in the heavy sale of koruna assets and the purchase of foreign exchange assets. In the conditions of a liberalised economy and substantial international market influence on the koruna exchange rate, it was necessary to take precautions against higher depreciation of the currency and inadequate development of fundamentals. Therefore, the CNB started to directly intervene on the foreign exchange market and adopted further monetary measures which limited the extent of the refinancing of commercial banks and restricted foreign entity access to the domestic money market.

When the first attack on the koruna faded away, the CNB, after agreement with the government, cancelled the existing fluctuation band, the koruna's link to the two currency basket (USD/DEM) on May 27 and introduced the floating regime orienting the koruna to the DEM. The koruna exchange rate decreased and following certain deviations in both directions, it stabilised in Q3 at a level roughly 10% lower than original central parity. The calming of the situation on the foreign exchange and money markets facilitated a gradual interest rate reduction and easing of the extraordinary monetary measures. The restrictive nature of monetary policy remained unchanged. Real interest rates fluctuated at roughly the same level as prior to the May events.

The restrictive monetary policy contributed to a substantial decrease in the growth of koruna credits provided to the business sector. In essence, starting in May, their amount stagnated or slightly fell. The restrictiveness of monetary policy was also documented by money supply growth in the second half which fluctuated around 8.5% year-on-year.

^{1/} Economic policy corrections and other transformation measures adopted by the Czech government on April 16, 1997

The government backed the stabilisation process by adopting government measures^{2/} in June. These measures embodied further cuts in government expenses (overall to CZK 42 bn, including the cuts in April), a restriction on wage increases in budgetary organisations, initial steps towards legislation improvement, capital market oversight, etc.

Changes in economic policies (tightening of budgetary, income and monetary policies, and the koruna concurrently weakening), along with the recovery of demand in Western Europe, led to a gradual restoration of macroeconomic equilibrium. The most significant results were a gradual decline in the share of the current account deficit in GDP (to 6.1%), bringing the share of capital gross creation in GDP gradually closer to the share of gross domestic savings in GDP and an improvement in the relationship between the real wage and labour productivity growth rates. A smaller gap between the creation and use of GDP was a result of the decline in all the basic segments of domestic demand and of the relatively fast growth in external demand with a corresponding response from domestic producers.

Export growth strengthened in virtually all of the commodity groups. Its relatively high dynamics (in real terms, up by 14.3% against 2.5% in 1996) was a result of the effect of several factors: growing demand in Western Europe, the beginning of production from earlier implemented investments, particularly from businesses with foreign ownership interest, weakening of the koruna exchange rate (especially for commodities with a lower degree of processing), a decline in domestic demand and, partially, the restored demand for investments in former eastern block countries. A rapid export increase occurring concurrently with a slowdown in import growth (in real terms, by 2.9 points against 1996, as a result of the measures curbing domestic demand and koruna depreciation) led to an absolute decline in the trade deficit and the current account deficit following longer-term growth in the external imbalance.

Growing domestic producer export activities were the main factor of gross domestic product growth; industrial production in pro-export branches grew the fastest. However, in general, the economic growth rate in 1997 slowed to 1% (against 3.9% in 1996) due to problems related to incomplete restructuring of the manufacturing sector (including ownership relationships and the problem of effective corporate governance connected with it), the July floods and partially also a decline in domestic demand.

The restructuring process varied in individual branches. This along with the economic conditions in 1997 affecting the performance of the manufacturing sector, led to growing differentiation in gross domestic product generation by individual branches. Restructuring of the economy and pressure to reduce expenses manifested themselves also in the decline of employment and an overall increase in the unemployment rate which in December 1997 amounted to 5.2%, against 3.5% at the close of 1996.

The influence of domestic demand on inflationary development was outstripped by changes in regulated prices and koruna depreciation. Inflation was predominantly affected by the changes in regulated prices, and in addition, its growth was fostered by koruna weakening. The year-on-year consumer price index amounted to 10% at the end of the year. Higher inflationary pressure was mirrored in a higher increase in industrial producer prices (by 1.3 points to 5.7%).

In the area of monetary policy, the introduction of the koruna floating exchange rate resulted in the loss of the nominal anchor in the form of the koruna fixed exchange rate, and thus its positive influence on the main target of CNB monetary policy - reducing inflation. This necessitated a change in monetary policy strategy, and

2/ The Principles of the Czech Government Budget Stabilisation Programme (June 1997)

therefore, since 1998, the strategy of direct inflation targeting has been adopted. The need for this change was also indicated by Q4 development, which had been affected by repeated deepening of the financial crisis in Southeast Asia and tension in the domestic political arena; these events were reflected in pressure on the koruna exchange rate, once again inducing uncertainty about future economic and monetary developments.

In general, 1997 can be characterised as a year in which the macroeconomic imbalance, which had led to external deficit growth, stopped expanding. The conditions for this situation were laid down by the change in economic policy. The external imbalance started decreasing, and labour productivity and average real wage were approaching the same level. The continuation of this process and in turn, the restoration of economic growth on a long-term basis will require cautious fiscal and wage policies, strengthening of the institutional framework and continued progress in restructuring.

I. DEVELOPMENT OF THE CZECH ECONOMY

Growth in domestic demand gradually weakened during the first three quarters of 1997; in Q4, the year-on-year decline was low. In absolute terms, overall domestic demand was slightly below the 1996 level. This fall was mostly attributable to a decline in gross fixed capital creation and, in the second half, also in public consumption. In contrast, household consumption increased in annual terms, although it registered a moderate absolute decline in the second half. At the same time, external demand substantially increased. Economic growth in 1997 continued to decelerate (GDP growth rate of 1%) due to continuing problems, following from incomplete restructuring of the manufacturing sector including corporate governance, the effects of the July floods and to a certain extent also due to a decrease in domestic demand. Only industrial production growth was relatively favourable, generated by significant export growth from Q2. In the second half, the relationship between labour productivity and real average wage improved due to the declining growth rate of nominal wages and to a certain increase in labour productivity (accompanied by an unemployment rise). The financial performance of businesses slightly deteriorated. The unemployment rate constantly grew (5.2%)^{3/}, and the situation on the labour market worsened. Inflation moderately accelerated compared to the preceding year, mostly generated by rising regulated prices; at the same time, net inflation declined due to slower food price growth.

I. 1. Demand

Domestic demand in 1997 was characterised by a gradual decline in all its basic components. The most marked decline was registered for investment demand (ca. 55% of the overall decline) and public demand which experienced an absolute decline in year-on-year terms; household consumption, which increased in the first half of the year, was falling in absolute terms in the second half. The overall year-on-year decrease of domestic demand by 0.4% (against 8.5% growth in 1996) mostly resulted from restrictive monetary policy and state budget cuts aimed at moderating the imbalance between domestic supply and demand (this imbalance was the main reason for the external imbalance of the Czech economy and, to a certain extent, also an internal inflationary factor).

Domestic demand fell year-on-year

The influence of the individual segments of domestic demand was in this situation more significantly affected by decelerating real income growth (including wage incomes, particularly in the public sector), the level of interest rates reducing the availability of koruna credits, lower government expenditures, mainly for its own consumption, and investment activities of the public sector. These developments were also fostered by koruna depreciation, a slowing of foreign capital inflow and the slightly deteriorating economic performance of businesses, as well as the expectations of both domestic and foreign investors.

At the same time, strengthening growth on foreign markets, the weakening of the koruna and some results of the investment boom from past years which promoted an increase in potential output were favourably reflected in a renewal of the growth rate of real exports of goods and services^{4/} (up by 10.2% against 5.4% in 1996) which thus became a dominant impetus of economic growth in 1997. External demand growth favourably affected aggregate demand which increased by 3.3% in year-on-year terms.

External demand growth strengthened

A fall in domestic demand and the reduction in the external imbalance to follow was a gradual process during 1997, which can be divided into two stages. While in the

Domestic demand weakened more substantially in the second half of the year

^{3/} The unemployment rate recorded as of the end of 1997.

^{4/} According to GDP methodology

first months of the year, the external imbalance strengthened despite a slight decline in domestic demand (due to a more marked fall in GDP creation), in Q2, the trend changed to a certain extent, mainly as a result of a year-on-year decline in fixed capital creation; this also helped *reduce external deficit growth during the first six months of the year*. A more marked break in demand trends and also in the external imbalance occurred in the second half of the year, when the external imbalance decreased in absolute terms evidently due to a fall in demand. In addition to the three basic components of domestic demand, stock development (which will be explained later) and external demand recovery had also contributed to this development.

Changes in macroeconomic indicators compared to the same period of 1996 ^{4/}

Indicator	1st half	2nd half
Domestic demand increase (CZK in bn, constant prices)	15.7	-20.7
Consumption increase (CZK in bn, constant prices)	14.8	-7.1
Capital creation increase (CZK in bn, constant prices)4.5	-21.7	
GDP increase (CZK in bn, constant prices)	5.2	7.2
Change in balance of exports and imports (CZK in bn, constant prices)	10.5	-27.9
GDP year-on-year change in %, constant prices (1997)	0.9	1.1
Domestic demand, year-on-year change in %, constant prices (1997)	2.4	-2.8
Share of net exports in GDP in %, constant prices (1997)	-9.8	-7.5
Exchange rate CZK/DEM	17.6	18.9
1Y PRIBOR in %	13.6	15.7

The share of the trade deficit in GDP was significantly reduced

The dependence of domestic demand on foreign resources was thereby considerably reduced; the trade deficit as a percentage of GDP, which reached a maximum of 11.7% in the second half of 1996, fell to ca. 7.5% in the second half of 1997 and was 2.3 points lower than in the first half of 1997.

External demand was a dominant factor of growth in 1997, while all components of domestic demand registered an overall decline, as demonstrated in the following chart.

Increasing external demand was decisive for GDP growth

Household consumption grew as well, though at a lower pace than in the preceding year (by 5.4 points to 1.6%). However, when evaluating household consumption trends, it is more important to consider the developments during the year, which indicate a turn in the existing trend: from the second half of this year, the upward trend was replaced by an absolute decline.

Household consumption growth was replaced by an absolute decline in the second half

This decrease in household consumption was largely influenced by decelerating growth of **nominal wages and incomes** (the existing close tie between incomes and consumption) due to restrictions in the public sector and to pressures on wage restraint in the business sector (changes in ownership relations, the deteriorating performance

Dropping household incomes affected household consumption

of some businesses, etc.). The stagnation of household consumption was also affected by unemployment growth and by the July floods. The decreasing growth rates of nominal wages and incomes, together with the acceleration of price growth in the second half of the year, further narrowed the space for real consumption growth.

Public consumption fell in absolute terms

A substantial reduction in **public consumption** resulted from austerity measures following from corrections of government budgetary intentions adopted in April and July; this downward trend was noticeable as early as Q2.

Investment reduction was the result of many factors

The development of **gross fixed capital creation** (4.9% decline) was influenced by various factors. A reduction in government investment accounted for about 50% of this decline. The deteriorating financial position of businesses during the past three years was also reflected in investment development. The ratio of gains and implemented investments in non-financial businesses and corporations continued to decline (accounting for about 60% of overall implemented investments); another sign of deterioration was a decrease in business deposits in 1997 against 1996. A gradual decrease in internal resources was accompanied by worse availability of credits due to interest rate growth.

Depreciation of the koruna led to a rise in the prices of investment imports which also reduced the amount of space for real investment growth. The introduction of the floating exchange rate (and partly also expectations of further depreciation) resulted in deteriorating terms for using foreign credits. The insufficiently transparent capital market and unfavourable investor expectations were reflected in a reduction of foreign capital inflow. Demand for investment also fell on the part of the financial sector as a result of its considerable saturation and the worsening financial situation of this sector. The completion of large investment projects (desulphurisation equipment for thermal power plants, Škoda Mladá Boleslav, Telecom investments, etc.) was not followed by any newly initiated projects of a similar extent.

Stock developments were affected by expectations at the turn of 1996 and 1997

According to CNB estimates, **changes in stocks** in 1996 and 1997 were generated by the expectations of a change in the koruna's exchange rate resulting in speculative purchases of stocks by domestic investors as early as the end of 1996. In contrast, the year 1997 was characterised by drawing on stocks, which also helped reduce domestic demand. A certain rise in stocks occurred only in Q4 (particularly December) due to the fact that domestic businesses purchased imported goods in advance. Overall stock development contributed to a certain extent to relatively good results in the balance of payments in 1997.

I. 2. Production

The economic growth rate decreased

During 1997, economic growth continued to decelerate, and the real **GDP** growth rate was 1%. The decline on the supply side was a result of the ongoing problems following from the incomplete restructuring of the production sector including ownership relations (inefficient corporate governance, etc.) and the consequences of the July floods.

The achieved rate of economic growth indicates that the investment boom which took place in the last years of transformation has not been reflected in increased GDP growth. At the same time, the developments in 1997 had, in some cases, illustrated the positive impact of earlier investments on economic performance growth. This was particularly obvious for investments which helped accelerate exports in 1997.

GDP creation differed in the individual industries

Developments in the individual **industries of the economy** were quite varied which was a sign of the different sensitivity levels of these industries to a decline in demand as well as their different adaptability to more demanding economic conditions

including competitiveness on foreign markets. Value added creation in current prices grew in most industries, but the data in constant prices (according to CNB estimates) mostly signalled a decline; growth was fostered only by some industries, particularly, according to weight, the manufacturing industry and communications.

Growth of national economy labour productivity was relatively favourable mainly due to declining employment. Its growth was accompanied by substantial industrial differentiation, which, however, resulted from substantial differences in the growth rates of value added between industries. The lead of **average real wage over labour productivity** was quite significant in Q1 and Q2, decreasing in Q3, and in Q4, productivity took the lead. This development resulted from a combination of wage restrictions and some growth in labour productivity due to decreasing employment.

In Q4, productivity growth outpaced real average wage

Improvement in the relationship between real wage and labour productivity in 1997 against 1996 was also reflected in the better competitiveness of firms, i.e. in a moderate decline in **unit wage costs**. This decline was predominantly generated by a slowdown in wage income growth, which was, nevertheless, still relatively high.

Unit wage costs slightly fell

Compared to the preceding year, the growth of **industrial production** dropped (to 4.5%), but was still relatively high (weak growth in the first half was replaced by relatively strong growth in the second half). This growth was, however, accompanied by substantial branch differentiation.

Industrial production increased by 4.5%

The export-oriented branches expanded (electrical and optical appliances and transportation means), while those unable to face foreign competition even on the domestic market experienced stagnation or even a decrease (the textile and clothing industry and the leather industry). During the year, development in both of the groups of industries continued in different directions. Substantial growth was also registered in coke production and oil refining which belong to the industries that are largely responsible for the relatively satisfactory growth in industry as a whole.

Due to a range of unfavourable factors, **construction** output dropped by 3.9% compared to the preceding year. This fall was brought about by weaker demand in virtually all sectors, and particularly in public investment.

Construction output substantially receded

Following stagnation in 1996, **gross agricultural production** fell by 5.9%. One of the major developments in 1997 was the substantial decline in livestock production (by 8.4%). Crop production, with commodity differentiation, fell by 2.9%.

Agriculture also registered a decline in production

Real retail sales growth was slow

The fall in *overall sales in the trade industry*^{5/} was quite significant, 10.2 points against 1996, i.e. to 1.9%. This was mainly attributable to *retail sales*^{6/}, whose growth rate dropped by 8.7 points against the preceding year. Sales and repairs of motor vehicles registered slower growth, and sales in catering and accommodation services decreased. This decrease can primarily be attributed to lower growth rates of real wage incomes, social incomes and also increasing unemployment and rises in other household expenditures (insurance premiums, high interest payments on mortgage loans). Another reason for the decline in potential household demand in 1997 was also increasing interest in using disposable funds in other forms (real estate, etc.).

Value added in *transport* dropped mostly due to an overall weakening of economic activity. In contrast, *communications* registered considerable growth, resulting largely from radical expansion of both the fixed and mobile telephone networks. Real output of *other market services* as well as of the services sector stagnated also due to weak economic activity.

The financial performance of non-financial organisations deteriorated

The unfavourable financial performance of non-financial organisations and corporations in 1997 came to a halt at the end of the year. The gross profit for 1997 as a whole rose by 5.9% compared with 1996. Overall cost growth exceeded that of revenues, particularly due to higher growth of intermediate consumption. This was partly affected by extraordinary expenditures caused by the floods. The number of loss-making organisations dropped by less than 5% compared to 1996, and the proportion of such organisations in the overall number of organisations remained virtually unchanged at approx. 39%. Qualitative financial indicators deteriorated against 1996; the profitability of costs slightly fell by 0.05 points, and material costs increased by 0.5 points.

I. 3. Privatisation

State property privatisation did not make much progress

In the privatisation process, no substantial changes occurred in 1997. The privatisation of smaller entities continued, and conditions were created in strategic companies for future privatisation. The number of strategic companies during 1997 dropped by 14, either because of losing strategic importance or because of completed privatisation. A total of 42 strategic companies are still registered in the NPF (including four major banks).

Most attention was given to the privatisation of the banking sector. In the CR, 60 banks were operating at the end of 1997 (including ten banks without licences), of which, four banks were under conservatorship. State stakes determined for privatisation remained virtually at the same level. A major part of the assets was still concentrated in the four largest banks with substantial state participation, i.e. Komerční banka, a.s. (state participation of 48.74%), Česká spořitelna, a.s. (45%), Investiční a Poštovní banka, a.s. (31.49%) and ČSOB, a.s. (19.59%). Negotiations on the privatisation of these stakes and thereby the actual denationalisation of these commercial banks did not make much progress during 1997, with the exception of IPB, a.s. where intensive negotiations took place with Nomura company in the second half of the year.

From the start of the privatisation process, the NPF has accepted 6,356 privatisation projects with equity capital of privatised entities amounting to CZK 928.5 bn, and privatisation of 5,877 entities was completed with equity of CZK 904.4 bn; in 1997,

5/ i.e. including repairs of consumer goods, sales and repairs of motor vehicles and sales of fuels.

6/ Retail sales represent ca. 70% of overall sales in the trade and catering industry.

privatisation of 583 entities was completed. As of the end of the year, 479 projects with equity capital of CZK 24.1 bn were still in progress. The state represented by the NPF had in its portfolio 610 companies with equity capital of CZK 358.8 bn. The NPF's share was 53.4%, i.e. CZK 193 bn.

I. 4. The Labour Market

According to a CNB estimate, **employment^{7/}** dropped by 0.9% as of the end of 1997. Besides reflecting government austerity measures in organisations financed from the state budget (ca. 16% of overall employment), employment development also reflects the financial problems of businesses, resulting in an effort to reduce wage costs. Employment developments varied for each industry.

Employment in the national economy decreased

The unemployment rate constantly increased during the year, with the exception of a seasonal decrease in February and March. Unemployment development was largely affected by the overall slowdown in economic growth and also by the continuation of restructuring and efforts to reduce production costs which led to reducing the number of jobs. A certain negative role in some parts of the districts (microregions) was also played by inadequate transportation services which prevented businessmen and firms from investment and worsened the availability of jobs. Unemployment growth in the regions of North Moravia, South Moravia and also partly in North Bohemia was affected by the July floods.

The unemployment rate constantly grew during the year

As of the end of 1997, the unemployment rate was 5.2%, and labour offices registered 268,900 unemployed persons. This was the highest number to date, and compared to the end of 1996, it meant an increase of 82,600 persons and 1.7 points for the unemployment rate. The seasonal adjustment of the unemployment rate effected by the CSO shows a continuing upward trend in the unemployment rate, but the pace of growth is moderately declining.

^{7/} i.e. average numbers

The situation on the labour market worsened, regional and skills differences deepened

The constant growth in unemployment resulted in deterioration of the situation on the labour market. Compared to the preceding year, the number of *vacancies* dropped by ca. 21,600 which was reflected in a growing number of persons per vacancy from 2.2 persons at the end of 1996 to 4.3 persons at the end of 1997.

The deteriorating ratio between supply and demand for labour was also reflected in the deepening difference of this ratio from the point of view of *skills structure*. Persons with basic education or apprenticeship skills have consistently had difficulties finding jobs, but during the year, this problem affected also graduates with degrees in economics or the humanities. With respect to labour demand, the demand for skilled craftsmen still dominated.

1. 5. Prices

Inflation slightly increased

In December 1997, year-on-year *CPI inflation*^{8/} reached 10% and the annual *inflation rate*, 8.5%^{9/}. Inflation was 1.4 points higher than last year due to more rapid growth in regulated prices (their share in inflation was 1.4 points higher than 1996). At the same time, *net inflation*^{10/} fell by 0.3 points in year-on-year terms. This was a result of several factors, especially favourable food price development. In contrast, adjusted inflation^{11/} slightly increased due to koruna depreciation, cost factors and, in the first half of the year, to the significant lead of domestic supply over domestic demand (a positive change in the domestic supply and demand relationship occurred only in Q3). Net inflation (year-on-year growth) culminated in September, and then experienced a downward trend.

8/ i.e. consumer price increase from the year beginning.

9/ i.e. average year-on-year monthly CPI growth.

10/ Net inflation = adjusted inflation + food prices, i.e. inflation calculated from an incomplete consumer basket, adjusted for items with regulated prices and prices affected by other administrative measures. Items changed due to tax adjustments remain part of the consumer basket, but the effect of tax adjustments is eliminated.

11/ Adjusted inflation is calculated from an incomplete consumer basket adjusted for items with regulated prices and food prices.

Price Structure

	Constant weight in consumer basket in % 1997	1996		1997	
		Actuals in %	Share in total inflation in points	Actuals in %	Share in total inflation in points
Inflation rate (annual moving average)	8.8	8.8	8.5	8.5	
Year-on-year CPI growth - total	100.0	8.6	8.6	10.0	10.0
Regulated prices	18.4	13.8	3.2	22.7	4.6
Food	32.7	7.9	2.6	5.6	1.8
Adjusted inflation	48.9	6.5	2.8	7.6	3.6

During 1997, nontradable price growth exceeded that of tradables (16.8% and 6.3% respectively year-on-year in December 1997). Faster growth in the prices of nontradables compared to 1996 was to a large extent affected by the development of regulated prices as the gap between the price growth of tradables excluding foodstuffs (7%) and unregulated nontradables (8.9%) lessened in 1997; in 1996, the difference in the price growth rates of these two groups still amounted to 3.2 points. This approximation of prices was generated by a halt in the growth of unregulated nontradables due to the decreasing growth of wages and demand (8.9% in both 1996 and 1997), which offset the more moderate growth in tradables excluding foodstuffs due to koruna depreciation (from 5.7% to 7%). Month-on-month "core" inflation^{12/} calculated by the CSO thereby indicated a gradual decline at the end of 1997.

*Nontradable price growth
outpaced tradables*

Net inflation was significantly affected by three main factors. The first was the development of the koruna's exchange rate toward the DEM which was reflected in the growth of the individual segments of net inflation, particularly adjusted inflation, and, to a lesser extent, in food prices. According to CNB estimates, the exchange rate changes accounted for ca. 2 points of the change in net inflation.

*Net inflation was largely
affected by exchange rate
changes*

Cost factors also influenced inflation: prices were constantly under pressure from the still high, though decreasing wage growth (which together with a year-on-year decline in GDP was reflected in continuously high growth in unit wage costs) and material costs (influenced also by koruna depreciation). These facts resulted in year-on-year growth in industrial producer prices (1.3 points against 1996). According to a CNB estimate, this accounted for more than 2 points of net inflation growth).

12/ An overall increase in consumer prices against the preceding month, adjusted for a seasonal effect and the effect of regulated prices.

This growth was also generated, mainly in the middle of the year, by *demand impulses*. Real incomes had a major effect on household demand, and together with low GDP growth, put demand in the lead. In the second half, however, real incomes registered a radical fall. Household demand dropped in absolute terms, and its pressure on price growth lessened.

Developments in the individual segments of price movement^{13/}

Regulated prices substantially increased

Regulated prices increased in 1997 in several phases (in January, April and July). Although the proportion of regulated prices in the total consumer basket was 22.8% (adjusted weight of December 1997), the proportion in overall inflation was 46.2%.

Food price developments were favourable

Food price development in 1997 was much more favourable than in 1996, mainly in the first half of the year. The acceleration in the second half was generated first of all by growing meat and meat product prices (ensuing from increased agricultural producer prices) and from August, by koruna depreciation. Despite this, the overall price increase in 1997 was 2.3 points lower (to 5.6%) than 1996.

Adjusted inflation growth accelerated in the second half

Adjusted inflation grew quite slowly in the first half of the year. Its acceleration in the second half was generated by koruna depreciation which was most apparent in the development of the prices of imported goods.

Domestic production prices compensated for the prices of comparable imported products, whose prices directly reflected koruna depreciation. This fact is demonstrated by price trends for products with prevalent domestic production in the last months of the year.

Divergent growth in domestic producer prices

Following the decline in growth rates in 1996 (by 2.8 points to 4.4%), industrial producer price growth in 1997 increased again (to 5.7%); this was primarily connected with depreciation of the koruna. Construction work prices maintained relatively high growth rates in 1997 (11.9%); the 0.7 p.p. increase against 1996 was mostly due to the rising prices of building materials. In 1997, only agricultural producer prices registered substantially slower growth (by 4.3 p.p. against 1996, to 2.5%).

13/ Total CPI = regulated prices + food prices + adjusted inflation

II. BALANCE OF PAYMENTS

There was a significant change in the balance of payments during 1997: against 1996, longer-term growth (since 1994) was replaced by an absolute decline in the trade balance deficit, exports exceeding imports. This turn was closely connected to the monetary and fiscal policy changes aimed at dampening excessive domestic demand growth (being satisfied especially through imports) and the May koruna depreciation. An increase in machinery deliveries from newly established capacities especially of businesses with foreign ownership interest was a decisive factor for the dynamic growth of exports. The capital and financial accounts were significantly affected by the May and November turbulence on the interbank foreign exchange market as an investor response to the macroeconomic development at the year beginning and the November destabilisation of the political situation; both time periods were also influenced by the Asian financial crisis. Under these circumstances, a strong outflow of especially short-term capital occurred, having an impact on the entire decline in the capital account surplus. The overall balance of payments ended in a deficit which was covered by a decline of CZK 56 bn in CNB foreign exchange reserves.

II. 1. The Current Account

In 1997, the current account deficit's longer-term growth tendency was no longer influenced by external, and especially internal factors; the deficit of CZK 100.1 bn at the end of 1997 was 16.4 bn lower than a year ago. A fall in the absolute amount of the deficit also meant an improvement in relative indicators: while in 1996, the current account deficit share fluctuated around 7.6% of GDP, in 1997, its share dropped to 6.1%. The current account deficit improvement was, in principle, connected to an absolute decline in the trade balance deficit, since the balance of services and current transfers continued to be in surplus, but only at a moderately higher level than a year ago. The balance of incomes deficit slightly rose against 1996 by CZK 1 bn due to higher interest payments on previously accepted foreign credits and dividend payments.

The current account deficit experienced a turn

Current Account (CZK in bn)

	1993	1994	1995	1996	1997
Balance of trade	-15.3	-39.7	-97.6	-159.5	-145.6
Balance of services	29.5	14.0	48.9	52.2	54.9
Balance of incomes	-3.4	-0.5	-2.8	-19.6	-20.6
Current transfers	2.5	3.6	15.2	10.4	11.2
Total current account	13.3	-22.6	-36.3	-116.5	-100.1

Despite a more significant increase in imports at the close of 1997, the entire trade balance deficit in absolute terms dropped against a year ago by CZK 13.9 bn (USD 438 mil.)^{14/} to CZK 145.6 bn (according to IMF methodology for the balance of payments compilation), which meant a decline of the trade balance deficit share in GDP by 1.6 points to 8.8%. Higher imports at the end of the year did not imply another change in the trend, but mostly concerned stocking up in advance due to expectations of further changes in the koruna exchange rate in connection with the political situation in the final months of the year. Investment imports for energy increased more considerably at the close of the year.

The current account deficit decline was influenced by more favourable trade balance development

^{14/} Converted by the average exchange rate of 1997

The trade balance deficit declined, exports increased and the import growth rate decreased

Generally more favourable trade results were achieved particularly due to increased exports by domestic firms (growing export volumes since May). Starting in May, year-on-year monthly export growth started to exceed growth in imports, having positive effects on the overall development of the trade balance deficit. This tendency, gradually asserting itself (except for the mentioned December development affected by stocking up in advance), resulted at the end of the year in an overall increase of 20.2% in exports over the previous year, imports rising by 13.7%. The mentioned import and export tendencies in nominal terms were confirmed by the development in physical terms: the export growth rate increased over 1996 by 11.8 points to 14.3%, while the import growth rate dropped by 2.9 points to 8.2%.

Substantial export growth was the result of several factors

Strengthening of exports, which was more considerable compared to a year ago, was connected to the concurrent effect of favourable internal and external factors. Economic recovery in Western European countries created more favourable external conditions for outlet possibilities on foreign markets. On the other hand, rapidly growing exports were attributable especially to the restructuring of production and investments in some export businesses (particularly with foreign ownership interest), which created preconditions for an increase in machinery product exports. Export of products with higher value added was at the same time also supported by koruna depreciation. This substantially affected the export of products with lower value added which until May (in the group of the so-called market products) had a downward tendency; however, its share of the total export increase was not significant. The export increase was also fostered by increasing co-operation among associated businesses.

The tendency towards weakening import growth during 1997 was not explicitly associated with only those factors reducing the demand for imports. The influence of pro-growth factors was also noticeable here, manifesting itself in the increase of imports for production consumption.

While the growth of consumer and investment imports fell, imports for intermediate consumption continued to increase

The **territorial structure** of imports and exports did not experience any principal changes in 1997. Relations towards advanced market economies, especially European Union countries, continued to dominate in the flow of goods. Exports to European Union countries grew the fastest (by 24.3%) followed by exports to transition European economies, especially to Russia (by 25%) and Poland (by 25.8%). An increase of 5.1% in exports to developing countries meant, in physical terms, more or less stagnation. At the close of the year, exports to EU countries accounted for 60.2% of the total exports and the share of exports to transition economies rose to almost 30%.

The territorial structure of foreign trade did not experience any principal changes

II. 2. The Capital Account

The capital account including transfers of capital character^{15/} which were previously recorded in the item of unrequited transfers, ended in a slight surplus of CZK 0.3 bn at the close of 1997. Receipts from capital transfers and transfers of non-produced non-financial tangible assets and intangible rights were higher than expenditures.

The capital account ended in surplus

Capital Account (CZK in bn)

	1993	1994	1995	1996	1997
Capital account	-16.2	0.0	0.2	0.0	0.3

Note: The amount of CZK -16.2 bn stated in 1993 represents a transfer of shares from the first wave of voucher privatisation

15/ See table VIII/C+D of Statistical Annex - Monetary Sphere section

II. 3. The Financial Account

Foreign capital inflow in 1997 significantly fell

The substantial fall in capital inflow which took place in 1997, was associated, in particular, with the May exchange rate turbulence, when foreign investor strategy changed on the basis of assessing the macroeconomic development of the Czech economy and comparing it to the development of Southeast Asian emerging economies with the same macroeconomic tendencies. This led not only to a considerable outflow of short-term investments, but also to a lower inflow of long-term investments. Political destabilisation in November had similar consequences; this period had also been affected by the Asian financial crisis manifesting itself in short-term capital outflow. Movements of short-term and long-term investments considerably influenced financial flows and were the main cause of the overall decline in the financial account surplus from CZK 116.6 bn in 1996 to CZK 34.3 bn in 1997.

Financial Account (CZK in bn)

	1993	1994	1995	1996	1997
Financial account	88.2	97.0	218.3	116.6	34.3
- direct investments	16.4	21.5	67.0	37.7	40.5
- portfolio investments	46.7	24.6	36.2	19.7	34.4
- other long-term investments	23.5	31.9	89.3	84.4	12.9
- other short-term investments	1.6	19.0	25.8	-25.2	-53.5

Foreign direct investments slightly exceeded the 1996 results

An inflow of resources in the form of **foreign direct investments** to the CR (CZK 41.3 bn) was not significantly affected by the above influences with regard to the preference of longer-term decision-making criteria (economic and political) from the foreign investor side. Direct investments were channelled especially to energy (the share in the increase amounts to 27.6%), finance and insurance (22.9%) and consumer goods and tobacco (13%). The largest amount of direct investments came this year from Germany (30.1%), Great Britain (15.1%), the Netherlands (10.3%) and France (7.8%). From the start of 1990 to the end of 1997, total foreign direct investments in the Czech economy amounted to CZK 234 bn (USD 6.8 bn).

Net inflow of long-term investments declined

Inflow of **other long-term investments** (CZK 12.9 bn) was lower. Compared to the previous year, the net inflow of longer-term investments was substantially lower since part of the long-term banking deposits was not renewed and bank drawing on foreign financial credits was lower. In terms of volume, the most significant source of long-term foreign investment inflow continues to be drawing on financial credits by Czech firms directly from abroad.

Portfolio investment inflow strengthened

A certain weakening of **portfolio investment** inflow in 1996 was again followed by the strengthening of investments (CZK 34.4 bn, i.e. USD 1.1 bn) in 1997. An outflow of investments in the first months of the year was in the remaining part of the year replaced by growth. This development was associated particularly with the share price decline (affected by expectations of devaluation and exchange rate turbulence in May and November) and a domestic interest rate increase. Due to these factors, foreign investor interest in the lucrative purchase of shares and long-term and short-term bonds increased, which was reflected in the net inflow of investments in the mentioned instruments. The issue of bonds denominated in foreign currencies and traded on foreign markets was another inflow of investments.

In total, foreign portfolio investments **denominated** in koruna amounted, at the end of 1997, to CZK 132.6 bn (USD 3.8 bn). Shares and share certificates generated CZK 104.9 bn of this volume, long-term bonds, CZK 14.5 bn and short-term bonds,

CZK 13.2 bn. Foreign investments ~~denominated~~ in foreign currencies represented, as of the same date, CZK 36.4 bn (USD 1 bn). Most of the koruna investments came from investors from Great Britain (28.3%), the USA (13.6%), the Slovak Republic (13.5%) and Austria (13.2%). The largest investments were injected into banking and finance, including the state debt (27.9%), transportation (17.5%) and energy (15.2%).

Czech portfolio investments abroad recorded a net outflow of resources to abroad, since purchases of foreign securities exceeded their sales (by CZK 6 bn). These investments amounted to CZK 35.7 bn (USD 1 bn) at the close of the year.

The outflow of other short-term investments of CZK 53.5 bn to abroad was attributable especially to turbulence on the forex market. A significant outflow of short-term investments took place particularly through the banking sector whose short-term assets vis-a-vis non-residents rose CZK 122 bn. This substantial increase was generated by an increase in koruna credits provided to non-residents (CZK 45 bn) and an increase in foreign exchange deposits by residents (CZK 50 bn) which were held by domestic banks on their nostro accounts abroad.

Short-term investment outflow rose

II. 4. Foreign Exchange Reserves

The current account deficit was only partially covered by the financial account surplus, which was reflected in the balance of payments deficit and the decline in CNB foreign exchange reserves. Reserves fell by CZK 56 bn in 1997 (after excluding foreign exchange differences). At the end of the year, foreign exchange reserves amounted to CZK 338.5 bn (USD 9.8 bn) and were sufficient to cover the 3.6 month import of goods and services.

CNB foreign exchange reserves declined

Gross indebtedness amounted to CZK 748.7 bn (USD 21.6 bn) at the end of the year, its increase from the beginning of the year representing CZK 169.8 bn (USD 8.4 bn); exchange rate differences contributed to this increase by CZK 41 bn. In general, long-term commitments (67.3%) prevailed over short-term (32.7%) in gross indebtedness. Against the end of 1996, the share of long-term indebtedness rose by 4.2 points, mainly due to an increase in short-term credits drawn by businesses abroad. The largest amount of short-term commitments is owed by commercial banks (70%) and businesses (27%). On the contrary, businesses generate 60% and banks 32% of indebtedness on a long-term basis. The share of gross indebtedness in GDP rose 7.6 points to 45.4%, against a year ago; an increase in this ratio indicator was also attributable to koruna depreciation.

Gross indebtedness increased

III. THE PUBLIC SECTOR

The main targets of the financial and budgetary policies of the government for 1997 were focused particularly on the support of a stable macroeconomic environment through achieving surpluses in public budgets (the state budget being balanced) and restricting public consumption, reducing redistribution processes through public budgets^{16/} and limiting wage increases in budgetary organisations. However, during the first half of the year, in contrast to these intentions, the tendency towards a growing state budget deficit strengthened, which reflected, against expectations, a lower increase in revenues, GDP growth rate declining. In order to correct this development, the Czech government adopted measures^{17/} to ensure a balanced state budget for 1997 through strict expenditure restriction (ca. CZK 42 bn) and to establish preconditions for cutting public consumption in 1998. In addition, government financial performance was complicated by the July floods, consequences of which were partly covered from extrabudgetary resources. The state budget deficit run at the end of the year was, to a certain extent, attributable to lower revenues because of the July floods and led to higher government indebtedness to banks. In deficit performance, expenditure restrictions were of a structural character, according to the April and June measures.

The State Budget

Budgetary intentions adjusted in the course of the year

Actual budgetary performance development in 1997 proceeded particularly under the influence of declining economic growth (and thus also of declining revenues) and the July floods. In April^{17/}, as a follow up to the hitherto deficit budgetary performance and the need for macroeconomic stabilisation, the government implemented the first adjustment of the state budget for 1997, indicating, in essence, a restriction of expenditures. The subsequent adjustment of budgetary intentions effected in June^{17/} aimed at supporting koruna exchange rate stabilisation, meant after the May turbulence further budgetary expenditure cuts for 1997. In total, the budgetary expenditures for 1997 were cut by CZK 42 bn by the April and June adjustments in order to dampen excessive demand in the economy. A commitment to slow wage increases in budgetary organisations and to decrease direct imports for state needs was one of the government's economical measures. Investment expenditures of the budgetary sphere were, against budgetary intentions, reduced by approx. 25%. Another adjustment implemented in August included falls in revenues following the July floods and the need to ensure part of the resources to finance the needs arising from the flood consequences.

The state budget deficit stood at CZK 15.7 bn

At the close of the year, the state budget performance ended in a deficit of CZK 15.7 bn (0.9% of GDP). On the revenue side, this deficit was generated mainly by failing to meet budgetary revenues due to the July floods (a lower fulfilment of revenues from social security insurance from the flood-stricken areas than expected) and drawing higher funds (more than CZK 5 bn) for pensions in comparison with pension account revenues. In addition, the budget's expenditure side was burdened by an extraordinary transaction of transferring the state budget funds for the settlement of Konsolidáční banka's losses (approx. CZK 5 bn).

Fulfilment of Revenues and Expenditures of the Adjusted State Budget 1997 (CZK in bn)

The state budget deficit was a result of lower revenues and higher expenditures than expected

	Adjusted budget	Situation	Fulfilment in %	Index 1997/1996
Total revenues	510.4	509.0	99.7	105.4
Total expenditures	510.4	524.7	102.8	108.3
Balance	0.0	-15.7	x	x

16/ i.e. a reduction in the share of public budget expenditures in GDP by 1 percentage point

17/ Economic policy corrections and other transformation measures adopted by the Czech government on April 16, 1997, the Principles of the Czech Government Budget Stabilisation Programme (June 1997)

Structural development of the *budget revenue side* testifies to the fact that implemented adjustments in the budgetary intentions were done with sufficient accuracy. A more significant decline in year-on-year income tax growth is attributable especially to the permitted reduction in direct tax advances for businesses from the flood-stricken areas. The failure to fulfil the budgetary intentions in revenues from social security insurance is also due to the floods.

Sharper falls in revenues from social security

In 1997, budget revenues were not more significantly affected by system changes, since the tax system did not principally change. Changes effected in 1997 did not substantially affect the payers' tax burden and were of a rather technical nature (adjustments in tax thresholds, tax base structure, etc.).

In this situation, the so-called tax quota^{18/}, against 1996, moderately decreased by 0.4 points to 24.9%.

Tax share of GDP amounted to 24.9%

Selected revenue items, CZK in bn	Adjusted budget	Situation	Fulfilment in %	Index 1997/1996
Total revenues	510.4	509.0	99.7	105.4
of which:				
VAT	117.2	117.6	100.3	107.6
Consumer tax	64.0	64.2	100.3	104.9
Income tax	75.1	74.8	99.6	95.6
Social insurance contributions	196.7	191.0	97.1	109.6

Selected expenditure items, CZK in bn	Adjusted budget	Situation	Fulfilment in %	Index 1997/1996
Total expenditures	510.4	524.7	102.8	108.3
of which:				
current expenditures	461.2	474.1	102.8	110.9
of which:				
public consumption	186.4	194.5	104.3	107.6
transfers to households	206.3	206.0	99.9	113.8
non-investment subsidies to businesses	25.2	31.8	126.2	116.5
subsidies to local budgets	18.0	18.0	100.0	107.1
government credits	3.7	3.6	97.9	87.8
capital expenditures	49.2	50.6	102.8	88.6
of which:				
investment expenditures ROP(x)	43.4	45.0	103.7	85.7
investment transfers to businesses	5.8	5.6	96.6	121.7

x) Budgetary and subsidised organisations

From the basic structural breakdown of the state budget *expenditure side* above, it is apparent that the restriction of expenditures, in the sense of the mentioned government measures, affected particularly investment expenditures of budgetary and subsidised organisations, whose year-on-year index stood at 85.7% at the end of 1997. Due to the decline in investment expenditures, the year-on-year increase in total budgetary expenditures dropped, against 1996, by 3.6 points (to 8.3%). The growth rate of current expenditures was roughly at the same level as a year ago (10.9%), while a lower increase in some of the expenditure items due to the restriction on expenditures (e.g. public consumption by 2.8 points) was offset by a more rapid rise in other expenditures (e.g. transfers to households).

Expenditure restriction in compliance with government measures was implemented

18/ i.e. the share of tax revenues in GDP

When assessing the overall development in budget expenditures, the settlement of Konsolidací banka's loss of CZK 5 bn which was not included in the budgetary intentions, should be taken into consideration. In addition, expenditures, in contrast to expectations, were increased by the settlement of the deficit on the so-called pension account (also approx. CZK 5 bn).

From the facts stated above, it is apparent that the real fulfilment of intentions on the budget expenditure side was also affected by extraordinary circumstances. This was also reflected in higher subsidies to businesses as a follow up to the aid to businesses affected by the floods. However, the expenditure restriction was implemented in compliance with the intentions of the government measures, and had, with respect to the overall deficit performance of the state budget, a structural impact on specific segments of demand in the economy, especially investment demand and government demand^{19/}.

Financial Performance of Municipal Budgets

The performance of municipal budgets ended in deficit

The financial performance of municipal budgets, similar to that of the state budget, worsened in the course of the year. This fact is indicated by the worsening of the so-called *net deposit position*^{20/} of local authorities with the banking sector, which, against the end of 1996, worsened by CZK 0.6 bn to CZK 11 bn. One of the reasons for the worsening of the financial situation was the *current budget* performance which at the close of the year ran a deficit of CZK 4.8 bn. However, the deficit was lower than expected due to the implementation of the April and June restrictive government measures; these measures included also government sanctions consisting in cutting subsidies to current performance if indebtedness grew faster than expected. However, the actual development in the public debt of municipalities had a tendency towards slowing growth; while in 1995 and 1996 an increase in the public debt of municipalities accounted for almost 42%, in 1997 it was only 21.4%.

The National Property Fund

NPF performance was in deficit

NPF revenues failed to meet the expected level despite their gradual increase throughout the year. NPF financial performance ended in a deficit of approx. CZK 2.8 bn, especially due to the transfer of funds from "small privatisation" to the flood account in the state financial assets. The balance of performance with the funds from "large privatisation" was roughly in equilibrium.

Flood Damage Financing

CZK 10.9 bn was spent to cover the July flood damages

The July floods, which generated damages of approx. CZK 60 bn, also necessitated the participation of the public sector in financing the damages generated by this natural disaster. Of the disposable resources of CZK 11.5 bn earmarked by the government, CZK 10.9 bn had been utilised by the end of the year. Extrabudgetary funds acquired through the flood bond issue (CZK 3.6 bn) and NPF subsidies of CZK 5 bn generated the main resources; apart from that, also smaller amounts were transferred from the Land Fund, the State Environmental Fund and the state budget. The largest volume of funds was deposited on the flood account of the state financial assets, from which these purpose-oriented funds were transferred to municipal budgets.

19/ i.e. the government's internal consumption

20/ Net municipal budget's position = the difference between municipal budget's total deposits and credits

Public Sector Financing

The unfavourable tendencies in the financial performance of the individual segments of the public sector worsened. The increased need for credit resources was met through the banking, domestic and foreign sectors (more precisely, by the purchase of state securities by these sectors).

The necessary resources were, to a substantial extent, acquired through drawing credits from the banking sector. Throughout 1997, net credit of the consolidated government from banks rose CZK 9.4 bn and including the NPF, it rose CZK 12.2 bn, against the end of 1996. This growth was attributable particularly to the state budget deficit performance (- CZK 10.7 bn) and an extraordinary transaction consisting in the settlement of the Konsolidáční banka's loss (CZK 5 bn) from state budget expenditures. Municipal authorities, whose net position with banks worsened by CZK 0.6 bn, also moderately contributed to growth in net government credit from banks. Only the net position of state funds with banks was more favourable up by CZK 4.3 bn.

Net government credit, including the NPF, from banks rose CZK 12.2 bn during 1997

Change in Net Public Sector Position to Banking Sector (CZK in bn)

	1996	1997
1. Central government	-2.0	11.8
2. State funds	-1.5	-4.3
3. Health insurance companies	0.7	1.3
4. Net central government credit (1 + 2 + 3)	-2.8	8.8
5. Local authorities	5.9	0.6
6. Net consolidated government credit (4 + 5)	3.1	9.4
7. National Property Fund	-0.6	2.8
8. Net consolidated general government credit (6 + 7)	2.5	12.2

Note : + increase in indebtedness, - decline in indebtedness

Other credit resources, drawn from non-banking subjects were used in particular for the repayment of the government's debt service (in essence, they were payments of debt principal). The domestic non-banking sector contributed to the financing of increased government credit needs by the purchase of state securities of CZK 10.2 bn, and foreign investors by the purchase of state securities worth CZK 7.6 bn.

Government indebtedness also increased to non-banking subjects

The overall need for more credit resources was mirrored also in the overall increase of **general government gross indebtedness**^{21/} which against the previous year jumped from CZK 217.6 bn to CZK 225.4 bn (the adverse effect of the growing deficit of the central budget was partially compensated for by a decline in the NPF's indebtedness). The share of the general government gross debt fell by 0.6 points to 13.7%, against a year ago.

General government gross indebtedness rose in absolute terms

21/ i.e. gross indebtedness including the central government, municipalities, state funds, health insurance companies and NPF

IV. MONETARY POLICY AND MONETARY DEVELOPMENT

The restrictive character of CNB monetary policy was determined by economic and monetary developments in 1997, especially by the external disequilibrium reaching relatively high figures and the existence of potential internal inflationary factors. The CNB policy was focused on dampening excessive domestic demand (as a source of growing imports) and on defending the koruna during the May crisis of foreign and domestic investor confidence in maintaining the koruna exchange rate. These economic and monetary developments (particularly in the second half of the year) indicated that the monetary restrictive measures, along with the change in the exchange rate regime (to floating) and the adoption of government corrections in economic policy, contributed to the dampening of longer-term tendencies of imbalance. Of particular significance was a reduction in the imbalance between domestic supply and demand and a decline in net inflation against the previous year. The restrictive monetary development was mirrored in a more significant decrease in money supply growth (M2) from the second half of 1996.

Monetary policy was focused on dampening excessive domestic demand growth for a longer period

CNB monetary policy and monetary development were significantly affected by a further heightening of the unbalanced tendencies in the economy at the beginning of the year, manifesting themselves in another increase in the external disequilibrium. These tendencies, in the context of similar developments in some of the emerging markets, led, in the end, to a crisis of foreign and domestic investor confidence in maintaining the koruna exchange rate.

The growing external deficit, resulting from demand growing faster than supply, was noticeable from mid-1994. However, analyses based on the overall trends of this disequilibrium and the causes of its development on the supply and demand sides of the economy indicated that the strengthening of these tendencies poses a real risk to the future development of the internal and external purchasing power of the koruna. The CNB, aware of the monetary risks should the imbalance in the economy continue, responded to this fact by a restrictive policy aimed at dampening excessive domestic demand growth. Accelerating domestic demand growth was in previous years strengthened from different sources with varied intensity, thus forcing the CNB to operatively respond to the latest development also by extraordinary forms of monetary measures^{22/}.

Though economic development, as early as in the first months of 1997, indicated a tendency towards moderating domestic demand growth (by 1.6 points, against Q4 1996), it was clear that possibilities for the central bank to address the imbalance in the economy are limited, and therefore more intensive co-operation of the other segments of economic policy acting on the supply and demand sides is necessary.

Development necessitated the co-operation of other economic policy segments

The continuous tendency towards a deficit in the state budget, which started in mid-1996, and was closely connected to a further decline in economic growth, curbed the CNB's efforts to dampen domestic demand. Though higher interest rates did contribute to the dampening of domestic demand, they concurrently led to the strengthening of the koruna exchange rate due to heightened interest in koruna investments with the growing interest rate differential. The nominal strengthening of the exchange rate speeded up the real appreciation of the koruna, thus hindering domestic product competition on foreign markets. This situation necessitated a change in the mix of monetary and fiscal policies which would lead to the tightening of conditions in the economy, particularly through restricting state budget expenditures without having any adverse impact on export production competitiveness.

22/ For example, CNB bill issue, sterilisation of a foreign partner deposit in SPT Telecom by depositing it with the CNB

The government, through its April economic policy correction^{23/}, accepted the demand to restrict government expenditures, slow wage increases in the state-owned institutions and other requirements with respect to cultivating a market environment and supporting economic growth. The CNB responded to the acceptance of the import deposit system aimed at limiting import growth by decreasing the minimum reserve requirements^{24/}. This change was not very significant, however, by adopting this measure, the CNB signalled its willingness to gradually ease monetary restriction if the government more intensively engages itself in solving the economic problems.

In April, the government adopted measures to correct economic policy

However, with regard to continuing trade balance deficit growth, the May publishing of new adverse data by the CSO on economic development (decline in industrial production, construction), worsening relations among the government coalition parties and a general identification of weak spots in some newly developing markets, measures adopted by the government were considered insufficient by investors. The koruna thus subsequently came under pressure from domestic and foreign investors, as did the currencies of some Southeast Asian countries a short while before (the so-called emerging markets), resulting in the intensive sale of korunas, and the purchase of foreign exchange assets.

The CNB responded to this situation through *interventions on the foreign exchange market*, since the experience from similar situations on international financial markets had shown that in an economy which is significantly liberalised, there is a real risk of higher currency depreciation than would correspond to real future development in macroeconomic fundamentals.

The CNB responded to the May exchange rate development by adopting stabilisation measures

At the same time, *interest rates* were substantially *increased* and measures were adopted restricting non-resident access to koruna credits.

The May interest rate increase included all CNB base rates. The Lombard rate was increased from 14 to 50%, and in addition, a quantity restriction was applied in granting this credit; from 22 May to 13 Jun., drawing on this credit was completely stopped. Intervention repo rates were gradually increased to as high as 75%, their maximum being on 23 May. Non-resident access to the money market was temporarily terminated (22 May - 17 Jun.). The discount rate was increased from 10.5 to 13%.

Since the pressure on the exchange rate continued, the CNB cancelled the existing exchange rate regime, after averting the strongest pressure on the koruna exchange rate in agreement with the government. Effective May 27, a new system was introduced, based on the floating regime and orienting the koruna to the DEM. Subsequently, the koruna depreciated by approx. 10% against central parity and, in Q3, development more or less signalled its stabilisation. By the adoption in June of further restrictive measures including further cuts in budgetary expenditures (by approx. CZK 20 bn) and a slowdown in wage increases in budgetary organisations, the government supported the koruna exchange rate stabilisation. The weakened exchange rate in Q4 was, in particular, a reflection of the political situation and the lowering of the CR rating.

The exchange rate regime changed at the close of May

The gradual calming of the situation created preconditions for easing extraordinary monetary measures. During Q3, interest rates stabilised at a level roughly 2 - 2.5% higher than prior to the May events. This new level of nominal interest rates, taking into consideration expectations of forthcoming inflation following koruna depreciation, should ensure, in essence, the maintenance of the real interest rate's previous level. With these interest rates, the dampening of demand for koruna credits continued, contributing significantly to the maintenance of money supply development (M2) within the set range.

23/ Economic policy correction and other transformation measures adopted by the Czech government on April 16, 1997

24/ In fact, this involved a change in the mix of monetary and fiscal policies, since this instrument corresponds by its macroeconomic virtue to the MRR category; expected volume of deposited import deposits was roughly the same as that of MRR lowering

Monetary measures and other policies contributed to the weakening of the unbalanced tendencies

A more substantial decline in domestic demand growth, a decline in the trade balance deficit and labour productivity growth outstripping the real wage increase already in the second half of the year signalled the effectiveness of the measures adopted to dampen the unbalanced tendencies in the economy. Net inflation development also improved in comparison to last year. It was clear that more favourable trends were attributable to the measures in the monetary, fiscal and wage policies on the demand side.

The CNB formulated a new strategy of monetary targeting for the forthcoming period

Ensuring a stable macroeconomic environment will continue to be in the forefront of CNB interests. Due to the loss of the nominal anchor, the fixed exchange rate of the koruna - some obstacles in the hitherto monetary policy strategy based on monetary targeting - the CNB Bank Board decided to change the monetary policy schema to inflation targeting. This way of formulating monetary policy should provide the economy with a nominal anchor in the form of a clearly set inflation target announced to the public, inject an element of certainty into the economy and thus also favourably affect inflation expectations of subjects in the economy, having a positive impact on prices and wages. The inflation target was formulated in the form of so-called net inflation.

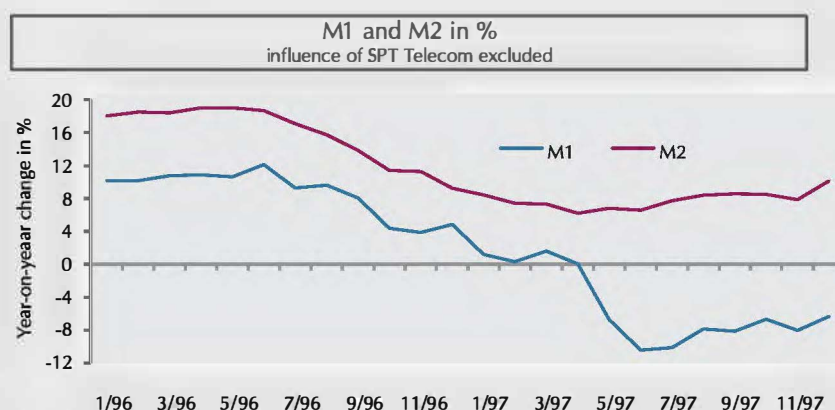
Net inflation is similar to core inflation which has been published by the CSO. However, movement in core inflation, in contrast to net inflation, is related to a complete consumer basket and is seasonally adjusted. On the contrary, net inflation movement is related to the range of items which defines the consumer basket. The items with regulated prices and those affected by other administrative measures are excluded from the consumer basket. The items whose prices are changing due to tax adjustments remain part of the consumer basket, however, the influence of tax adjustments is eliminated. According to this definition, net inflation represents ca. 82% of the total consumer price index and covers 663 price items of the total 754.

The inflation target in the form of net inflation was set in the medium-term horizon for the year 2000 in the interval of 4.5%, ± 1 percentage point. Within the framework of this medium-term horizon, also a short-term "intermediate" target was quantified for the end of 1998 (6%, ± 0.5 percentage points). This strategy is based on the fact that inflation responds to the implementation of monetary policy measures with a lag of up to two years.

Development of Monetary Aggregates

M2 development matched monetary policy intentions

Throughout 1997, money supply development (as measured by the monetary aggregate M2^{25/}) had remained in harmony with the monetary policy intentions for this year. M2 growth did not deviate from the set corridor (7 - 11%) and, on the contrary, moved predominantly within the lower half.



25/ M2=M1 + time and savings deposits + foreign currency deposits; M1= currency in circulation + demand deposits

The downward tendency of M2 which started in the second half of 1996, continued until mid-1997. However, its decline proceeded with a lower intensity, so that at the close of the first half, year-on-year M2 growth stood at 6.6%. The renewed tendency towards faster growth in the second half of the year was not striking, and M2 development headed towards the middle of the corridor, and exceeding the midpoint (10.1%) in the final month of the year. In addition to the applied monetary policy which significantly contributed to this situation, this development was also affected by autonomous factors. This was also documented by more significant changes than expected in some of the sources of money supply growth (particularly government indebtedness to banks, other net items) for the reasons stated below.

M2 growth was generated mainly by domestic credit issue^{26/}. The impact of foreign creation of money on M2 growth was not significant, as was the case in 1996, due to the persistent trade balance and current account deficits. At the same time, capital flows were weakened.

In contrast to previous years, when the weakening of M2 growth in Q1 was, more or less, of a seasonal character^{27/}, a more significant decline in M2 in 1997 was associated in particular with influences which were included in the so-called other net items (an increase in unsettled items among clients, etc.).

Factors affecting M2 development during 1997

At the same time, koruna credit growth weakened. This was caused by higher interest rates and other factors on the credit supply side, higher bank prudence in providing credits, an accumulation of problems in the small-bank subsector reducing the possibilities of acquiring resources, and thus the volume of their asset transactions.

M2 development was the result of monetary and autonomous factors

M2 growth rate declined in Q2, while credit issue within the framework of the business sector in April and in May was renewed, and government indebtedness to banks arising from the growing need for credit resources to finance rising deficits of the state and municipal budgets (in Q2 of CZK 12.9 bn) increased more significantly. However, June development proceeded under the influence of the May monetary measures responding to the latest exchange rate development. Tighter measures reducing money market liquidity and leading to a substantial rise in interest rates on this market were reflected promptly in client interest rates. This resulted in the absolute decline of client koruna credits in June (of CZK 4.2 bn over May), and a subsequent absolute month-on-month decrease in the money supply.

The moderately accelerating M2 growth in the second half of the year was associated with higher foreign creation of money and a change in some of the other net items. On the contrary, koruna credits granted to the business sector in the second half of the year, with the interest rate continuing to be higher, meant an absolute decline. The effect of restrictive measures on credit issue development was partially reduced by foreign currency credits being granted by domestic banks which used cheaper resources from abroad. The impact of government indebtedness to banks on M2 development was uneven. A significant fall in government indebtedness to banks in Q3, (due to government debt restructuring towards non-banking subjects) was in Q4 replaced by a rise in connection with the growing state budget deficit; however, it did not outstrip the level achieved in the middle of the year.

Monetary and economic developments in 1997, particularly devaluation expectations, the May exchange rate development and the subsequent monetary measures, also affected demand of non-banking subjects for specific money components (M2).

The May exchange rate development and subsequent monetary measures affected demand for specific M2 components

26/ Domestic credits = credits to the business sector and households + net government credit + net NPF credit granted by domestic banks

27/ The seasonal character was in this period connected to the decline of public sector indebtedness to banks due to the payments of the remaining taxes for the previous year

The change in the behaviour of non-banking subjects was most significantly mirrored in the development of foreign currency deposits. The growing tendency of these deposits was noticeable in the household sector from the second half of the previous year, in close connection to real koruna exchange rate development (facilitating advantageous foreign exchange purchases) and at the same time to ongoing discussions on future koruna exchange rate development with an increasing trade balance deficit. This trend was renewed at the end of Q1 1997, considerably accelerating in April and May under the influence of a weakening koruna exchange rate; these shifts were effected from liquid koruna resources deposited on demand deposits or held in the form of currency in circulation. Following the May maximum increase of CZK 28 bn (after the adjustment for exchange rate influences), the situation gradually stabilised due to the adopted tighter monetary measures. While in the first half of the year, foreign exchange deposits rose CZK 45.7 bn^{28/}, in the second half, with some month-on-month deviations, they went up by only CZK 7.1 bn^{28/}. This led to a slight weakening of the foreign currency deposit share in the M2 structure.

Money Supply Structure in %

	12/96	3/97	5/97	6/97	9/97	12/97
Currency in circulation	10.6	10.7	10.2	10.0	10.1	9.8
Demand deposits	31.8	28.6	26.1	25.0	25.6	26.7
Time deposits	49.9	52.3	52.2	53.4	52.9	52.1
Foreign currency deposits	7.7	8.4	11.5	11.6	11.4	11.4
Total M2	100.0	100.0	100.0	100.0	100.0	100.0

The May monetary measures curtailing the availability of resources on the money market, led banks, in the interest of maintaining their own liquidity, to substantially increase interest rates on short-term time deposits up to the level of 30%. This change evoked in June a massive shift of free funds of non-banking subjects to *short-term koruna time deposits* (especially for 1 - 2 weeks). However, in Q3, the situation again stabilised, growth in short-term deposits weakened and at the same time, a moderate increase in liquid money was renewed (demand deposits in particular).

M2 continued to grow faster than M1

Despite some stabilisation in the second half of the year, extraordinary circumstances leading to more significant structural shifts within M2 contributed to further strengthening of the longer-term trend of M2 growing faster than liquid money measured by the monetary aggregate M1. Faster growth in quasi money (i.e. koruna time deposits and foreign currency deposits) was generated by a considerable increase in foreign currency and koruna deposits and through strengthening short-term time and savings deposits, as well as long-term deposits.

Domestic credits generated the main source of money supply growth

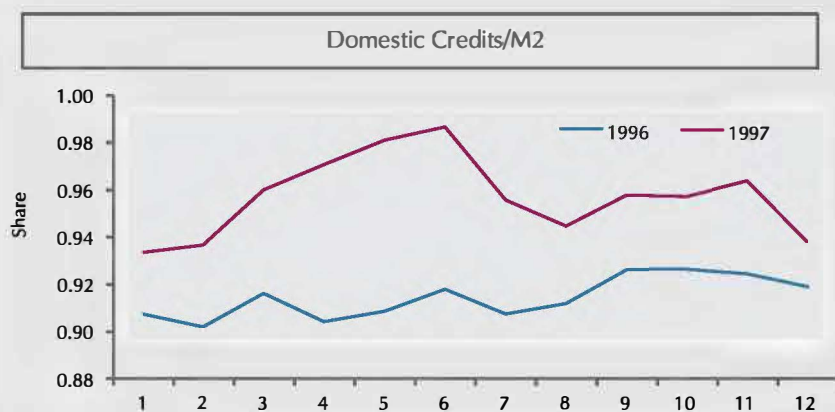
Domestic credit issue was decisive for money supply growth in 1997. An absolute increase in domestic credits of CZK 108 bn meant a decline in the growth rate against 1996, in nominal terms by 0.3 points to 10.5%, and in real terms, by 1.6 points to 4.5%^{29/}. The uneven development throughout the year was affected both by frequent changes in government indebtedness to banks and changes in the business sector demand for credits.

The demand for cheaper foreign currency credits continued in the business sector

With accelerated growth in government indebtedness to the banking sector, the declining trend of domestic credits was generated by a slowdown in the growth of koruna credits to the business sector (by 6.5 points to 1.6%, against 1996,) due to the adopted monetary measures and the other factors mentioned above. A decline in

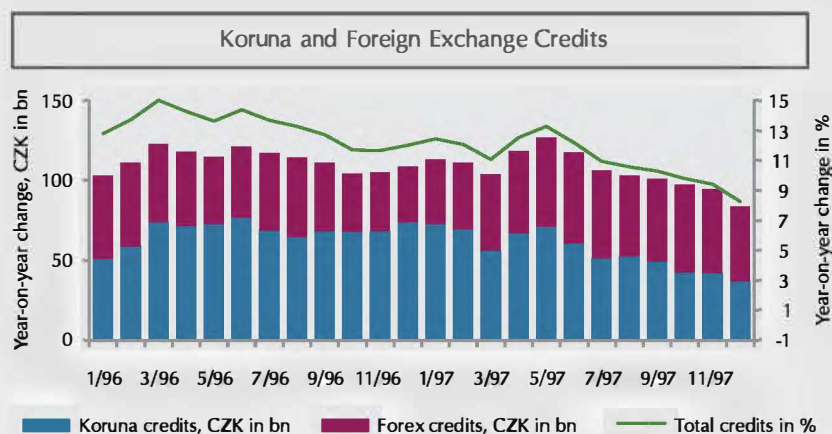
28/ Including exchange rate influences

29/ Adjusted for the increase in industrial producer prices



interest in more expensive koruna credits (especially in the second half of the year), was partly compensated for by higher drawing on foreign currency credits with lower interest rates from domestic banks; however, drawing on these credits also dropped in the second half.

These credits were advantageous especially for export firms which, by drawing foreign currency credits, did not expose themselves to exchange rate risk (credits are repaid from foreign exchange collections for exports). More than four-fifths of the increase in business credits was drawn in foreign currency. The overall growth rate of business credits dropped by 2.1 points to 8.7%.



Household credits which, in absolute terms, represent a less significant item, experienced dynamic growth. The acceleration of their growth (by 20.6 points to 27.6%), against a year ago, was connected to new forms of credit provided for the support of housing, especially mortgage credits.

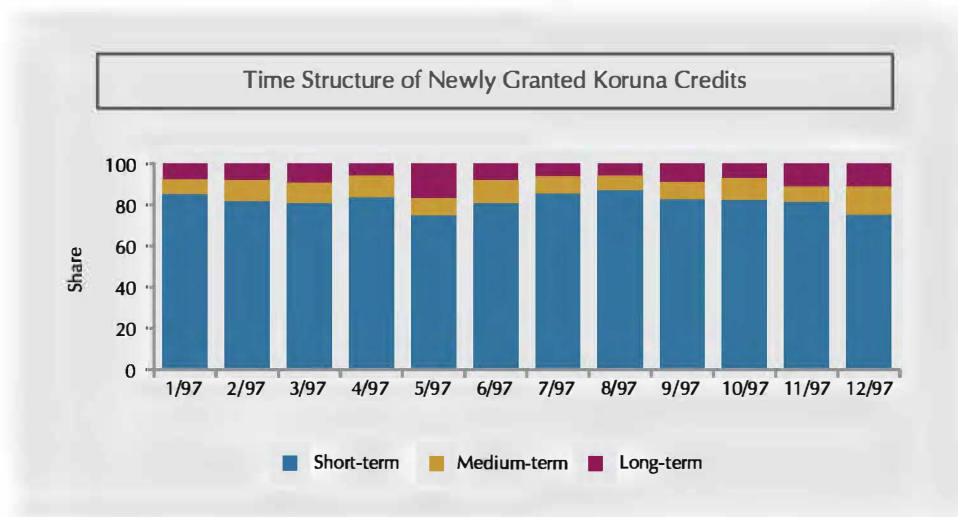
The increase in household credits persisted

Under the given circumstances, no principal shifts in the **time structure** of client credits^{30/} took place in 1997. Short-term credits continued to dominate, while the share of medium-term and long-term credits was significantly lower. This structure was a result of a wider scale of factors acting on both the supply and demand sides on

Short-term credits still dominated in business credits

30/ i.e. credits granted to businesses and households in koruna and foreign currencies by domestic banks

a longer-term basis: time structures of commercial bank resources, the quality of submitted projects, commercial bank policies including also the issue of long-term project riskiness, the business sphere financial situation and its ability to demonstrate the stability of financial performance on a longer-term horizon, and thus also the ability to repay provided credits, expectations of future development, etc.



The demand for long-term credits temporarily rose only in the period of significant changes in interest rates shortly following the May events (affected by a significant increase in interest rates on short and medium-term credits, while interest rates on long-term credits slightly fell). A reverse movement of interest rates in June led again to the strengthening of the share of short-term credits.

The purpose-oriented credit structure did not change in principle, operational credits continued to dominate

The allocation of credits by purpose did not significantly change. In business credits, operational credits continued to dominate over investment credits. The explanation is the same as for the time structure of credits, since short-term credits are provided, in particular, as operational credits.

Investment credits responded to the situation connected to the May exchange rate development at the end of Q2. This situation, though, was temporary, and starting in Q3, they began to rise again. Operational credits also continued to increase in this period due to the close connection to financing the current commercial and manufacturing activities of firms.

V. FINANCIAL MARKETS

In 1997, all the segments of the financial market were affected by several factors. At the beginning of the year, when koruna Eurobonds were issued, the koruna exchange rate strengthened, interest rates on longer maturities on the money market declined and share and bond prices on the capital market increased. However, in mid-May exchange rate turbulence occurred, which, despite CNB interventions on the foreign exchange and money markets, resulted in a change in the exchange rate regime. The pegging of the koruna to the currency basket with a fluctuation band was replaced by the floating system. This was followed by gradual stabilisation, money market interest rates falling from the high level in May. Other more significant changes took place on the financial markets at the close of the year due to the Southeast Asian financial market crisis and the crisis in the domestic political arena.

V. 1. The Money Market

Money market development in 1997 can be divided into several phases according to the intensity and direction in which the main factors mentioned above affected this market. Development on this market was predominantly influenced by the May exchange rate turbulence which resulted in a substantial increase in interest rates.

The interbank deposit market is the most developed and liquid segment of the money market. This is documented both by the turnovers achieved and by the significant influence of PRIBOR rates on other money market segments (the short-term bond market, derivatives market). Apart from that, they are closely linked to the credit and deposit primary rates and to the development of the koruna exchange rate.

The interbank deposit market is the most important money market segment

At the year beginning, money market development was influenced particularly by the growing volume of koruna Eurobond issues. The establishment of the Eurokoruna market was connected to the introduction of koruna convertibility and its acceptance as a settlement currency on an international scale (October 1995). Relatively rapid market development was caused by foreign investor interest in the purchase of koruna denominated assets, which was attributable to the absolute level of interest rates in the CR compared to foreign rates, and a relatively stable koruna exchange rate.

The inflow of liquidity from issued koruna Eurobonds affected, at the turn of January and February, particularly the longer end of the PRIBOR interest rate yield curve (ca. from the maturity of 3M). In connection with maturity, PRIBOR interest rates declined by 0.5 - 1.2 points, stressing thus the negative slope of the yield curve. At the beginning of the year, this interest rate decline was also underlined by expectations of inflation decline in the forthcoming period by banks and by a lower demand for credits by the business sphere. Strengthening of the koruna and a decline in domestic bond yields and interest rate derivatives were secondary effects of this development. When the effect of the issued Eurobond influence faded away, interest rates were partially adjusted (growth at the long end), and the yield curve gradually levelled off.

The yield curve's long end was affected by koruna Eurobond issues

Another significant factor which influenced money market development (especially in April) was a CNB decision (10 Apr.) to lower the MRR by 2 points (effective 8 May). In connection with this decision, it was generally expected that the CNB would decrease interest rates on the money market. However, the CNB interest rate policy did not confirm these expectations, which disappeared at the end of April.

The CNB acted at the short end of the yield curve through its operations in the form of repo tenders with standard 1W and 2W maturities to withdraw liquidity. The announced limit rates for both tenders were 12.4%. The spread between the yield

The CNB acted through its operations on the yield curve's short end

curve's short and long ends (1Y - 1W) changed only due to interest rate movement at the long end; in January 0.73 points, in February 1.09 points, in March 0.66 points, in April 0.69 points. The spread between the offer and bid rates in this period fluctuated within 0.2 - 0.3 points along the entire yield curve's length, indicating thus a stable situation on the money market.

In mid-May, interest rates sharply increased

However, this situation changed in mid-May when the koruna sharply weakened. There were several reasons for this: increasing unfavourable information from the area of real economy, a more complicated political situation, a partial exit of institutional investors from some of the developing markets and economic subject speculations by creating short positions. Market development during this period was influenced by central bank measures aimed at stabilising the koruna exchange rate. The CNB significantly reduced market liquidity to curb speculative purchases of koruna and their subsequent sale for foreign currency through increasing its key interest rates^{31/} and effecting a number of transactions with non-standard maturities to withdraw liquidity. Later, the CNB appealed to domestic banks to stop koruna lending to non-residents, thus, in fact, separating the domestic and foreign interbank markets and closing bank access to the Lombard credit.

These measures were reflected in a rapid interest rate hike, low market liquidity and overall nervousness in view of future development. Short-term rates rose to as high as 90% (1W PRIBOR), while longer-term rates fluctuated between 20 - 30%. The negative slope of the yield curve became more prominent. At the same time, spreads for offer and bid quotations widened, and were wider for shorter maturities (for 1W rates up to 50.3 points, 3M up to 18.3 points and 1Y up to 9.1 points).

Interest rates started to gradually decline in June

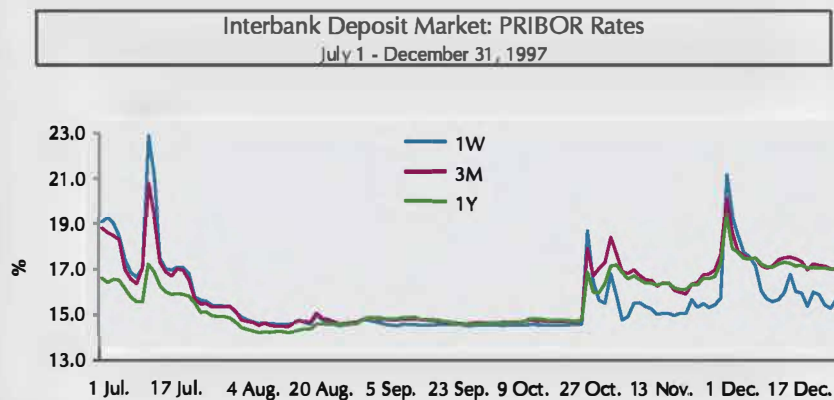
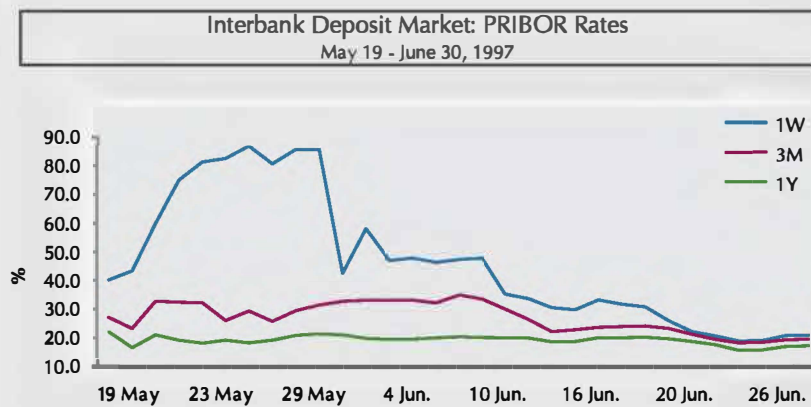
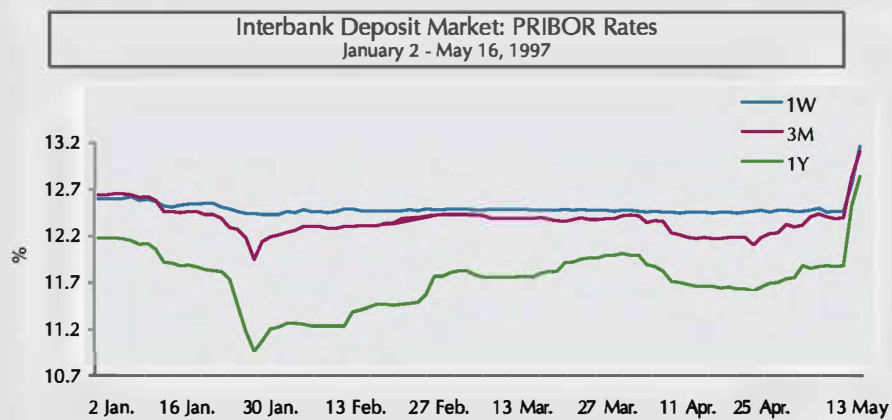
After cancelling the fluctuation band for koruna exchange rate movement, the situation partially stabilised. The interest rate level gradually declined, however uncertainty on the market persisted and was confirmed by the continuation of relatively wide spreads. Apart from the uncertainty about the future of the koruna, a faster interest rate decline was also curbed by a high state demand for credit resources; the state deficit performance at that time stood at its yearly maximum. Banks expected the state needs and maintained the offer rates at approximately 4% above the announced repo rates. Despite that, the CNB gradually lowered its basic rates (limit repo rates) and non-resident access to the domestic market was opened. Bank access to the Lombard credit was renewed as well, whose rate fell to 23% at the end of June. The announced repo rates (1W and 2W) were decreased in several phases to a final 14.5% on 4 Aug. with regard to the situation on the foreign exchange market and the banking system's overall liquidity.

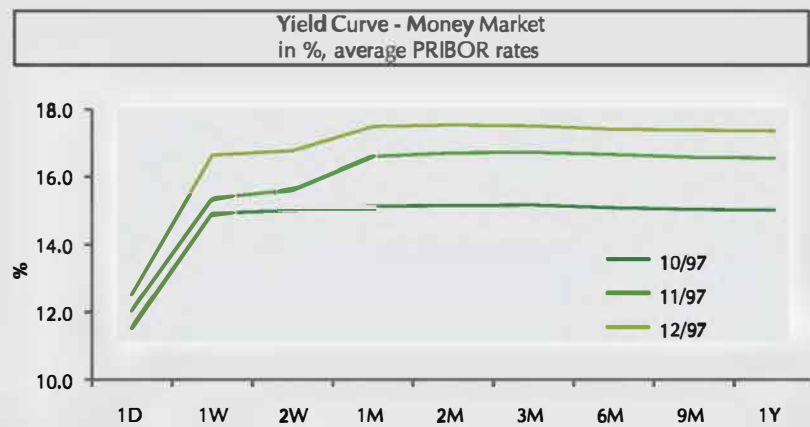
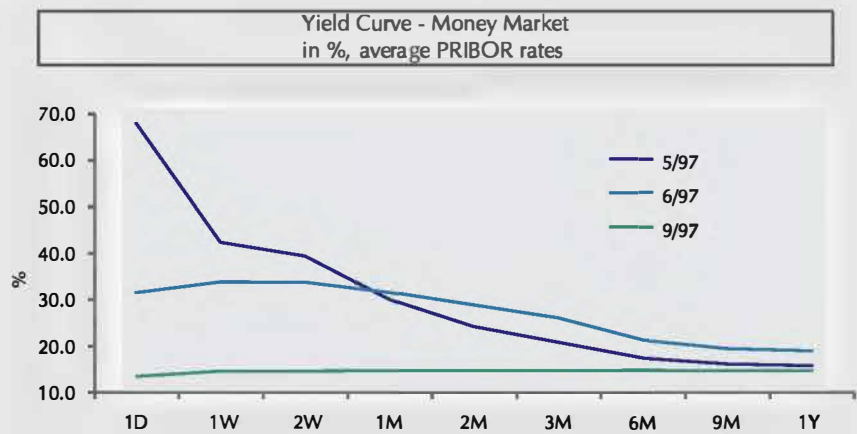
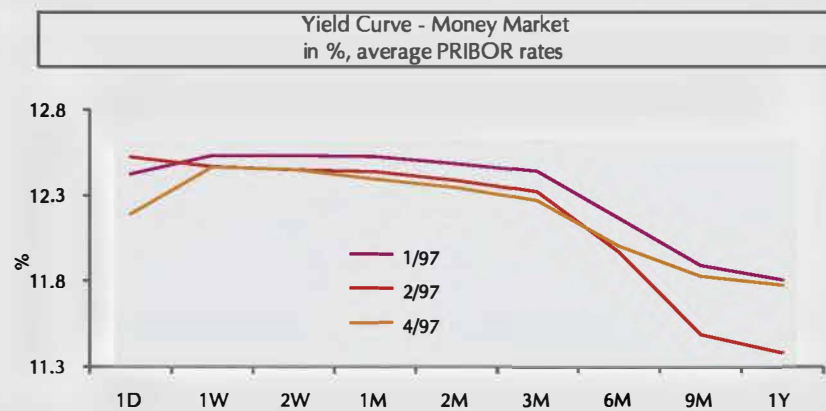
The decline in rates had come to an end at the beginning of August. The interest rate yield curve stabilised at ca. 2 points below the level from the period prior to exchange rate turbulence, at the turn of August and September changing its negative character into slightly positive. This stabilised situation was demonstrated, in addition to the interest rate decline, also by lower spreads in offer and bid quotations (0.4 - 0.5 points). Nevertheless, the market continued to be sensitive to information from the real economy or possibly other information (cancellation of import deposits).

Crises on financial markets and the unstable political situation were other factors contributing to interest rate development

The relatively stabilised situation had been interrupted by two events which once again brought nervousness to the money market. At the end of October, a new crisis erupted in Southeast Asia, which was immediately reflected in the markets all over the world, including the Czech financial market. Interest rates on the interbank deposit market reached a level of 20%, spreads widened and liquidity dropped. The CNB responded to this situation by increasing the 2W repo rate to 14.8%. In several days, the pressure on financial markets weakened, bolstered also by CNB interventions on the forex and money markets. This resulted in a further change of the yield curve, which resumed its upward movement, thus stressing its positive trend.

31/ The repo rate was increased to as high as 75%, the Lombard rate to 50%, discount rate to 13%.





At the close of November, the domestic political situation resulted in the resignation of the government. At the same time, the IBCA agency downgraded the CR rating by 1 degree and Standard and Poor's downgraded the ratings of three Czech banks. Restlessness on foreign markets continued. Therefore, as of 1 Dec. 1997, the CNB increased the repo rates in order to prevent the expected decline of the koruna following the announcement of the government's resignation. Interbank deposit market interest rates exceeded 20%, and banks maintained a certain disposable volume of free resources, or lent them for a short period only. The yield curve's upward slope continued. The CNB gradually lowered the repo rates to 15% on 1W maturities (11 Dec.) and 14.75% on 2W maturities (17 Dec.). The PRIBOR rates dropped proportionally.

Starting in September, the CNB extended repo operation maturities to up to one year. However, in practice, only 3M repo tenders were implemented. During the year, the CNB started to address the issue of the growing volume of liquidity which had to be sterilised. The CNB used its standard instruments for sterilisation, 1W and 2W repo tenders and CNB bill issues. However, from the beginning of the year, interest in CNB bills gradually declined, the bills became difficult to sell and their share of total sterilisation fell at the expense of repo operations. The daily volume of repo operations significantly rose, and was only concentrated in a short time period. The CNB, at first, abandoned 1W tenders (August) with the aim of dividing volumes at least more equally in the horizon of two weeks minimally, nevertheless, daily volumes became very high and difficult to handle technically. Therefore, in September, a new monetary instrument, the 3M repo tender, was introduced; concurrently with its introduction, primary issues of CNB bills were terminated and only technical issues continued to ensure the sufficient volume of bills necessary to effect repo operations. 3M repo tenders were announced regularly once a week (always on Tuesday, being settled on Thursday), and the limit rate was derived from the latest market situation, thus providing evidence that this instrument did not serve as a CNB instrument for affecting rates. In practice, 3M tenders were not very credible, and therefore, not very effective.

CNB bill primary issues were replaced by repo tenders with longer maturities

The short-term bond market is another segment of the money market. In 1997, banks in particular (ca. 60%) contributed to the growing volume of transactions on this market (an increase of 11.4%). These transactions were more significantly affected by the application of a 25% withholding tax on T-bills which, in contrast to CNB bills and NPF bills, were not subject to this tax, and were also affected by the termination of CNB bill primary issues. The last CNB bill auction took place on 10 Jul., and quotations of these bills on the secondary market were subsequently stopped.

The short-term bond market is not very liquid

Taxation on T-bill yields meant that both taxed and non-taxed T-bills were traded simultaneously (issues from 1996) for a certain period. The above measure, in terms of T-bill yield taxation, boosted the demand for these securities, since it facilitated tax arbitrage with non-residents.

Starting at the beginning of 1997, all short-term bond yields began to fall. Despite this fall of ca. 1%, the demand for T-bills continued due to high foreign investor interest; lower yields from CNB bills led to a substantial decline in the demand for these securities. During the exchange rate turbulence, yields rose on a short-term basis to above 30%; however, with the situation calming down, they dropped similarly as on the interbank deposit market. At the end of September, the T-bill yield curve stopped being announced, since it lost its informative character due to low liquidity and the complicated taxation method.

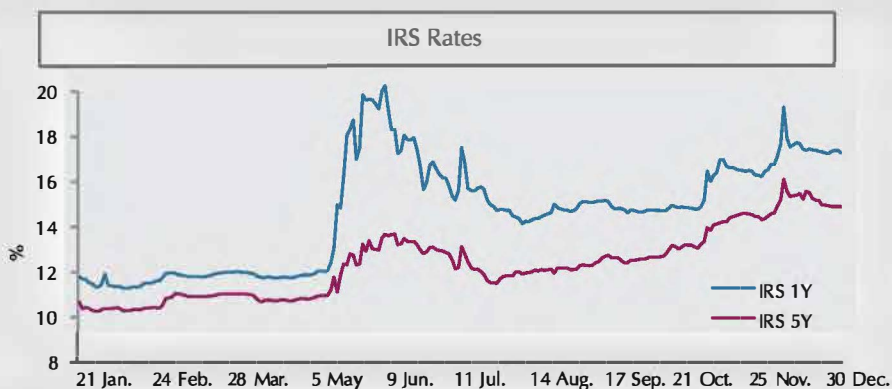
The derivatives market is a part of the money market which is becoming more and more significant. Development in this segment, especially in the swap market, was tightly connected to the growing volume of koruna Eurobonds. The FRA^{32/} and IRS^{33/},

Derivatives market development is attributable to koruna Eurobond issues

32/ FRA = forward rate agreement

33/ IRS = interest rate swap

particularly with short-term maturity, were the most liquid derivatives. FRAs are among the most traded interest rate derivatives on our market, their high liquidity being generated by the volume of transactions with non-residents. At the year beginning, it was apparent from derivative interest rate development that the market expected an interest rate decline as a response to korona Eurobond issues. After some adjustments (as with PRIBOR rates), following the announcement of decreasing minimum reserve requirements, derivative rates further declined. During the exchange rate turbulence, derivative interest rates did not go up as much as PRIBOR rates, thereby signalling that the market expected only a short-term crisis. Nevertheless, nervousness could be felt even here, being documented by wide spreads, or even by suspended quotations on some days.

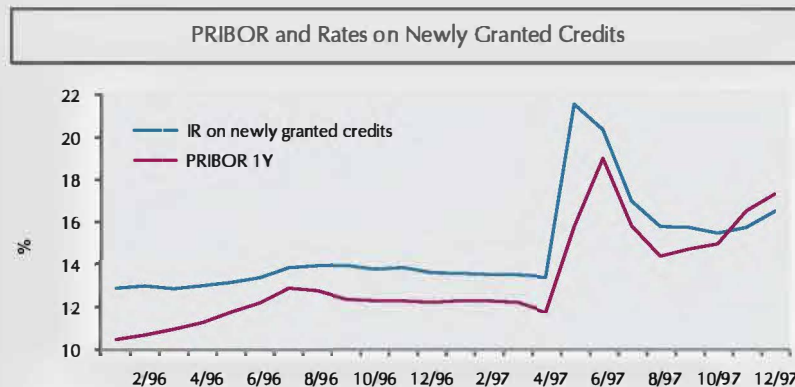


Client interest rates responded to money market interest rate movement

Client interest rates mirrored money market interest rates. Particularly, a connection between money market interest rates on the yield curve's long end and rates on short-term newly granted credits with ca. a month lag, has been established. This fact is also confirmed by the reference rates announced by banks. At the year beginning, rates on *newly granted credits* were still falling, however, due to the situation on the money market, they edged up to 21.6% in May. At the same time, the structure of granted credits changed; a share of short-term credits, whose interest rates experienced the strongest upsurge, temporarily decreased, later exceeding again 80%. Interest rates were decreasing until October, however, at the close of the year, they increased in response to further interest rate movement on the money market. In December, interest rates on newly granted credits amounted to 16.5%, of which, short-term interest rates to 16.5%, medium-term to 17% and long-term to 16%.

Interest rates on total deposits saw an increase particularly in short-term interest rates on time deposits, amounting in May to 15.6%, i.e. by ca. 6 points more than in December 1996. During the intense interest rate upsurge, in the second half of May,

some banks offered 1W rates of up to 30% (during limited liquidity on the money market). Most banks set the demand deposit rates as flexible with a direct connection to PRIBOR rates and IRS CZKxCZK quotations. At the close of the year, time deposit interest rates stood at 10.9%, of which, short-term deposit rates at 11.6%, medium-term deposit rates at 12.2% and long-term deposit rates at 5.2%.



The interest rate margin between credits and deposits increased on a short-term basis, only in May (5.9%), however until September, it dropped to 5.2%. At the year end, the margin again rose to a final 5.8%, the same amount as in December 1996.

V. 2. The Interbank Foreign Exchange Market

In the course of 1997, uneven development in transactions and in the exchange rate of the koruna on the interbank foreign exchange market was affected, similar to other financial market segments, by various economic and political factors mentioned already in the introductory part of this chapter.

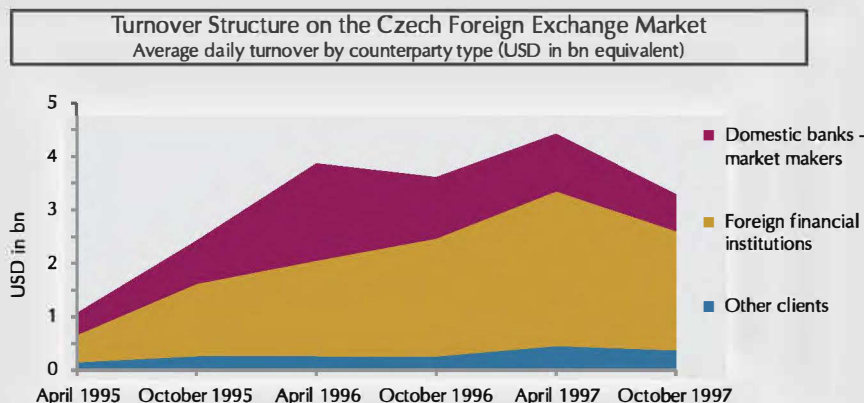
In Q1, growth in the volume of transactions on the interbank foreign exchange market continued to be closely connected to further koruna Eurobond issues which in Q1 amounted to CZK 47 bn; this strengthened, in particular, the role of foreign investors in affecting supply and demand, and thus the koruna exchange rate. The exchange rate moved within the appreciation area of the band gaining momentum on February 11, when its maximum deviation from central parity was 5.5%. In the structure of transactions, in addition to a significant increase in interest rate swaps, currency options also appeared. The CNB statement on the inadequacy of koruna appreciation vis-a-vis development in economic indicators contributed to a certain weakening of the koruna exchange rate.

In Q1, the volume of transactions on the forex market increased, the koruna exchange rate strengthened

Steady growth in the external imbalance, the deepening of political uncertainty in Q2, a slowdown in economic growth in Q1, the adoption of government measures considered by investors as insufficient, expectations of an interest rate increase on an international scale and a change in the opinion on emerging economies (with matching trends in economic development) put pressure on the koruna. This situation gained momentum in the second half of May. The development in transactions prior to and following the May exchange rate turbulence is documented by the chart^{34/} below which shows an increase in average daily turnovers prior to May.

An increase in the external imbalance and the short-term destabilising factors gave rise to an exchange rate crisis

34/ The chart is based on the data from inspections carried out twice a year.



During the period of attacks on the Czech koruna, the CNB entered the forex market after a pause of roughly a year. Through short-term interventions on this market, the CNB wanted to prevent inadequate currency depreciation. The CNB responded to the existing situation by adopting restrictive measures curbing access to koruna resources.

The koruna's link to the currency basket was replaced by the floating system

Despite the foreign exchange and interest rate interventions by the CNB, it was impossible to maintain the koruna exchange rate within the set fluctuation band on a long-term basis, and therefore, after averting the strongest pressure on the koruna, the CNB, in agreement with the government, introduced the floating system orienting the CZK to the DEM (i.e. cancellation of the currency basket) effective May 27. The introduction of this new exchange rate mechanism led to the termination of CNB trading in the fixing system, which was, in fact, no longer used.

Following the cancellation of the fluctuation band, the koruna was seeking a new exchange rate level vis-a-vis the DEM. In Q3, despite some deviations, the exchange rate could be considered as stabilised. However, the koruna exchange rate was very sensitive to the publishing of economic results and the political situation. In this period, koruna stabilisation was also supported by improving trade balance results.

A decline in prices on world stock markets and the exchange rates of some currencies on 28 Oct. did not affect the Czech koruna

A considerable decline in prices on world stock markets (of 10% and more), a subsequent "return to quality" of American and other government bonds and the reassessment of the strategy of some global investors to the detriment of the developing market currencies did not affect the Czech koruna (nor the Czech stock



market), since there was a state holiday in the CR, during which world markets calmed down and found a new balanced level (though lower).

Increasing political instability in the final quarter of the year resulting on November 30 in the resignation of the government, a lower CR rating and deepening of the financial market crisis in Southeast Asia caused the koruna to depreciate even further at the turn of November and December. The CNB also intervened in supporting the koruna in Q4. In the second half of December, due to the closing of bank positions and following the appointment of the new premier, the situation on the international forex market calmed down, and the koruna strengthened.

Resignation of the government at the end of November led to koruna depreciation

V.3. The Capital Market

Capital market development in 1997 was characterised by a series of current factors, especially factors having longer-term effects on overall volumes, prices and also the structures of transactions on this market.

Factors of capital market development

According to a Ministry of Finance analysis, the most serious longer-term problems of the functioning of the capital market were the lack of price, information and ownership transparency on the market, issues connected to the functioning of investment funds and collective investing. Implementation of the April government measures aimed at improving the capital market situation and its attractiveness for domestic and foreign investors, has not yet been completed. The real results of the measures focused on capital market standardisation and transparency, even though the positive changes during 1997 (a stricter fulfilment of PSE member obligations, publishing the average reference prices of selected bonds) strongly lagged behind declared efforts for their implementation. The Czech Parliament had not approved the appropriate draft acts by the end of 1997 (The Act on the Securities Commission, Amendment to the Act on Investment Companies and Investment Funds).

On the other hand, it was apparent that capital market development is considerably substantiated also by the sufficient volume of sound liquid securities, particularly shares. This was one of the reasons for strengthening bond trading at the expense of share trading. The issue of the share of price-making markets (trades where price is a result of aggregate supply and demand) in total trading also remains a problem of capital market functioning. Though the share of public markets strengthened (from 43.9% in 1996 to 70.3 % in 1997), the share of price-making markets dealing in shares in all securities transactions continues to be very low (5.2%).

Along with longer-term factors, investor behaviour was also affected by the latest economic and political developments in the CR, particularly by changes in exchange rate development, interest rate movement on the interbank market, trade balance development and other monetary and economic development indicators, relations in the government coalition, and last but not least, the financial market crisis in Southeast Asia. The result of all the above factors led to a moderate increase in overall capital market trades against 1996.

Securities Trade Structure in 1997

	Shares		Sharecertificates		Bonds		Securities		Securities	
	Volume CZK in bn	Share in %	Volume CZK in bn	Share in %	Volume CZK in bn	Share in %	Volume CZK in bn	Share in %	Number mln units	Share in %
PSE	2419	48.3	4.4	19.1	433.2	63.1	679.5	56.1	3532	34.2
RMS/STEM	116.2	23.5	11.4	49.6	29.0	4.2	156.6	13.1	373.6	36.2
SC	1412	28.2	7.2	31.3	214.3	3.27	372.7	30.8	305.1	29.6
TOTAL 1997	5011	100.0	23.0	100.0	686.5	100.0	1210.8	100.0	10319	100.0
TOTAL 1996	7009		14.7		407.7		1123.6		1152.8	

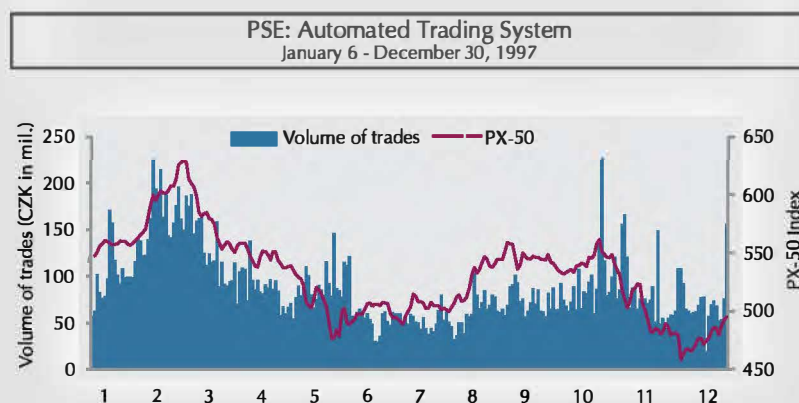
Stock Market Development

The stock market responded to economic and political developments

Price and trade developments on the stock market indicated relatively strong investor sensitivity to events in both the economy and politics, which is documented by the uneven curve of their development in 1997 in the chart below.

Following relatively strong growth at the beginning of the year, the main PX-50 Index gradually declined, with smaller deviations, reaching its minimum shortly prior to the cancellation of the koruna fluctuation band. This decline was a response to little confidence in the adopted government measures, the latest economic development and the situation in the government coalition. This downward trend was strengthened by devaluation expectations prior to koruna depreciation; in mid-May, stock exchange indices dropped to their lowest level since February 1996.

The June renewal of price increases was fostered by introducing a new exchange rate regime on May 27, koruna devaluation (which investors connected to the forthcoming rise in exporter profits) and by the expression of confidence in the government. This growth tendency continued also in July and August, being replaced in September by stagnation. In Q4, the PX-50 Index was affected by the financial market crisis in Southeast Asia and the collapse of the government. Generally, the not very favourable results in stock exchange trading were attributable also to poor performance results of some of the leading stock companies.



Stock market trading volume declined over 1996

In general, the volume of share trading in 1997 was down 2% against a year ago. Under this development, the main stock exchange PX-50 Index weakened in general by 8.2%, the global PX Glob Index by 8.6% and the RM-System PK-30 Index by 3.4%. Also, most of the branch indices weakened, including banking. Only 5 out of the 19 branch indices recorded growth (particularly the former investment funds). Prices of some of the most liquid issues dropped to a historical minimum. Market capitalisation of shares and share certificates decreased from CZK 539.2 bn to CZK 486 bn, due especially to a reduction in issues traded on the PSE.

The volume of the initial capital increase through the issue of new shares testified to a rather small group of business subjects who can use this way of acquiring necessary resources. In 1997, these shares were issued by 24 companies, totalling CZK 6.2 bn. An analogous situation was with new bond issues totalling CZK 67.2 bn.

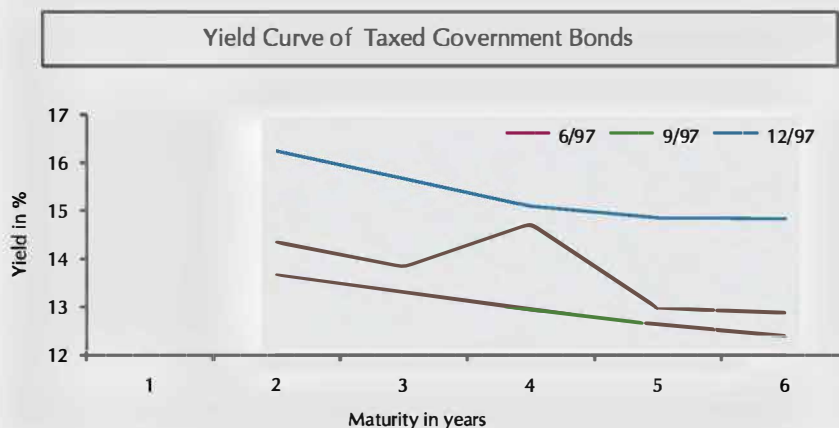
Bond Market Development

The government and corporate bond market was influenced by the same factors as the money and forex markets. In connection with the money market interest rate decline associated with the koruna Eurobond issues, prices of **government bonds** rose at the beginning of the year. In addition to the mentioned shift in investor interest from the stock market to the bond market, this price increase was generated by the growing supply of new liquid issues (e.g. SPT Telecom, Konsolidační banka). Despite the temporary corrections at the end of February, with a slight drop in money market interest rates, and with regard to the speculations on their further decrease, this price increase continued until mid-May.

Government bond prices reflected the movement of money market interest rates

The weakening of the koruna in mid-May and an increase in interest rates led to a fall in government bond prices, which also continued in June. In this period, the yield curve took on a significantly negative tendency, since the price decline was reflected, in particular, in bonds with shorter-term maturities. Uncertainty on the government bond market, caused, inter alia, by the amendment under preparation to the act on income tax adjusting bond taxation, was reflected in the high volatility of prices, wide spreads and limited quotations.

The decline in money and swap market prices and from the beginning of July, a relatively stable koruna exchange rate, created preconditions for further price growth. Nevertheless, nervousness on the market could still be felt, and price volatility was relatively high. The yield curve stabilised as late as in September, however, keeping its negative slope (the spread between the short and long ends was ca. 1 percentage point). At the close of the year, the negative yield curve moved upwards by 1.5 - 2 percentage points along its whole length, the spread between the short and long ends thus remaining ca. 1 point.



The corporate bond market experienced similar development. However, price deviations in the period of exchange rate turbulence were more significant than those of government bonds, and at the same time, on a higher yield level (ca. 1-2 points above the yield curve of taxed government bonds). The spread between the short and long ends was also wider. At the end of the year, the corporate bond yield curve resumed its upward trend in connection with an increase in money market interest rates. Its negative character became more visible, the spread between the short and long ends being 3 percentage points.

The corporate bond yield curve moved above the level of the government bond yield curve

Development in Prague Stock Exchange, RM-System and Securities Centre Trading

In PSE trading, bond trading predominated

A significant increase in *Prague Stock Exchange* trading was generated by an increase of almost threefold in bond trading, while the volume of share trading was slightly dropping for the first time in the recent history of stock exchange trading (in koruna terms by 2.1 %, in physical terms by 3.5%). Also, market capitalisation of bonds on the PSE rose, from CZK 136.9 bn in 1996 to CZK 172 bn in 1997.

A faster increase in bond trading and a fall in share trading meant a radical change in the structure of stock exchange trading. Until 1996, share trading had a decisive share in overall trading, but in 1997, its share dropped to 35.6%, while the share of bonds edged up. This structural shift was accelerated during the May exchange rate turbulence, when share trading significantly slumped. The new structure of capital market trading is now getting closer to the situation on world capital markets where share trading volumes are, in comparison with the volume of traded bonds, roughly ten-fold lower. However, this structure on the Czech capital market is not a result of the achieved level of market development, but of the above mentioned current situation on both of these markets.

PSE Trading in Particular Quarters of 1997 (CZK in bn)

Period	Shares	Share certificates	Bonds	Securities
Q I	75.3	2.1	87.5	184.9
Q II	54.4	0.7	129.0	184.0
Q III	57.8	0.5	104.8	183.1
Q IV	54.5	1.0	111.9	167.5
1997	242.0	4.3	433.2	679.5

The predominant part of trading, 96.4%, was generated by *outright trades*, while only 3.2% of trades took place on the *central market*. Against the previous year, the share of outright trades increased, and the *central market* share continues to decline. However, the volume of outright trades was affected, to a certain extent, by transactions which were not of the usual business transaction character (a change in portfolios of various investors, etc.). *Block trades* which were introduced especially for the purpose of selling shares from the National Property Fund portfolio, became useless (0.3%) since the sale of the mentioned shares virtually stopped.

The number of liquid share issues continued to fall

A decisive volume of trade was effected through the most prestigious stock exchange market - the *main market* (83.1%); the *secondary market* generated 3.1 % of the overall PSE trades and the *free market*, 13.8%. The number of traded issues signalled a shortage of attractive issues for trading.

The decline in price-making trades continued regardless of the stock exchange measures and the increase in fees

The problem of the *central market* as a market where prices are a result of aggregate supply and demand (hereinafter "price-making market") is one of the biggest problems of the stock exchange. Its share of trading had a downward tendency also in 1997, though the measures towards strengthening trading on price-making markets, in accordance with the April government measures, were implemented. It turned out that moderate adjustments in fees for stock exchange trading and the prohibition of trading in main and secondary market securities outside organised markets for stock exchange members are insufficient and that solving this urgent capital market problem will necessitate effecting some of the measures which have been suggested for a long time (e.g. establishing a fast, and for users, comfortable settlement system, tightening regulatory mechanisms).

Share of the Central Market in Trades (%)

	Bonds	Shares	Share certificates	Total
1993	41.3	17.1	100.0	22.3
1994	2.4	36.5	89.1	25.8
1995	0.2	17.1	55.5	11.3
1996	0.1	11.1	43.6	7.3
1st half 1997	0.0	9.0	37.2	3.6
2nd half 1997	0.0	7.7	47.6	2.8
1997	0.0	8.4	41.0	3.2

In the interest of increasing the efficiency of this market, the PSE is preparing a number of new measures. The SPAD system is being prepared, which will require the function of market maker and should increase the liquidity of the most important issues. In addition, derivative trades are being prepared as well as the New Market Project for small and medium-size businesses. This project will provide the issuers with the possibility of financing through new share issues with the existence of the so-called patron, which should function as a market maker for issues. The completion of the legislative process which enables the establishment of the Securities Commission (approved by the Czech Parliament in 1998) is another favourable signal.

Further PSE measures to improve the situation on this market

Increased trading was also recorded on the RM-System. As on the PSE, bond trading grew the fastest, followed by share certificate trading; share trading growth was the lowest. Though share trading continued to be the most important on this market, its relative share of total trades dropped from 94.9% to 74.5%. At the same time, the share of bonds rose from 2.7% in 1996, to 18.3%.

Trading volume on the RM-System rose more significantly compared to 1996

Similar to the PSE, the problem of price-making trades continues to exist on this market as well, the share of outright and block trades (95.2%) being the most important and the volume of trading through running auctions (4.8%) being lower.

The Securities Centre saw a significant decline in charged transfers due to adjustments in fees for transfers. Nevertheless, the shift of some of the transfers from the SC into outright trades on public markets should not be overestimated, since with respect to price transparency, they do not differ very much.

Only the SC recorded a significant decline in trading over 1996

Charged Transfers in Particular Quarters (CZK in bn)^{35/}

Period	Shares	Share certificates	Bonds	Securities
Q I	51.4	4.1	75.6	131.1
Q II	46.8	2.0	101.1	149.9
Q III	29.1	0.6	43.4	73.2
Q IV	13.8	0.6	4.2	18.6
1997	141.1	7.3	224.3	372.8

35/ The volume of charged share transfers is reduced by CZK 19.8 bn due to the transfer of Masina Kroměříž shares, whose prices were set incorrectly (CZK 3 mil. per share)

A.2

STATISTICAL ANNEX

MONETARY SPHERE

I. MAIN MONETARY AND ECONOMIC INDICATORS

			1992	1993	1994	1995	1996	1997			
								I ♀	I-II ♀	I-III ♀	I-IV ♀
A. MONETARY AGGREGATES											
Money supply M2	%	1) 2) 3)	20,7	19,8	19,9	19,8	9,2	7,3	6,6	8,6	10,1
Client credits	%	1) 4)	17,1	20,0	17,2	13,1	11,3	9,9	12,5	10,6	10,2
Client deposits	%	1) 4)	26,0	22,3	17,8	18,8	6,1	6,3	7,2	8,9	10,9
Average interest rates on credits and deposits of clients											
on credits	%	8)	13,51	14,08	13,11	12,80	12,54	11,98	13,03	13,12	13,22
on deposits	%	8)	7,17	7,02	7,06	6,96	6,79	6,65	7,56	7,68	7,72
margin	%	8)	6,34	7,06	6,05	5,84	5,75	5,33	5,47	5,44	5,50
Average interbank interest rate on deposits (PRIBOR)											
7 day	%	5)	10,53	5,90	12,28	11,17	12,61	12,48	35,26	145,9	16,64
3 month	%	5)	13,82	8,00	12,65	10,93	12,67	12,40	25,98	17,24	17,50
6 month	%	5)	14,64	9,21	12,65	10,89	12,55	12,16	21,24	14,77	17,40
B. FOREIGN EXCHANGE PAYMENT RELATIONS											
Balance of payments											
current account	US\$ in mil.		..	455,8	-786,8	-1369,1	-4292,2	-1068,7	-1903,4	-2554,1	-3155,8
capital and financial account	US\$ in mil.		..	2470,0	3371,1	8232,7	4297,3	781,9	539,4	1579,2	1092,1
CNB foreign exchange reserves	US\$ in mil.	6)	842,5	3871,8	6243,4	14022,9	12435,4	11717,8	10763,7	10935,6	9773,8
External debt in convertible currencies	US\$ in mil.	6)	7082,4	8495,8	10694,2	16548,8	20844,6	20390,1	21173,8	21002,9	21352,4
Exchange rate											
CZK/USD	1) 8)		28,29	29,16	28,78	26,55	27,14	28,27	29,68	31,11	31,71
CZK/DEM	1) 8)		18,12	17,64	17,75	18,52	18,06	17,09	17,62	18,00	18,28
C. STATE BUDGET											
revenues	CZK in bn		251,4	358,0	390,5	440,0	482,8	106,8	241,5	367,7	500,0
expenditures	CZK in bn		253,1	356,9	380,1	432,8	484,4	115,3	256,3	377,9	524,7
balance	CZK in bn		-1,7	1,1	10,4	7,2	-1,6	-8,5	-14,8	-10,2	-15,7

			1992	1993	1994	1995	1996	1997			
								I Q	I-II Q	I-III Q	I-IV Q
D. MACROECONOMIC RELATIONS											
Gross domestic product	CZK in bn	%	..	..	1148,6	1121,6	1268,4	284,8	603,0	928,4	1281,8
	%	100	..	..	..	6,4	3,8	1,2	0,8	0,5	1,0
Consumption	CZK in bn	%	..	..	827,0	861,8	915,4	210,8	444,8	672,7	921,2
	%	100	..	..	..	4,2	6,2	3,1	3,0	1,1	0,6
* households	CZK in bn	%	..	..	564,0	603,1	645,5	147,8	317,4	482,0	656,1
	%	100	..	..	..	6,8	7,0	4,0	4,8	2,4	1,6
* government	CZK in bn	%	..	..	255,5	250,3	260,6	60,8	123,0	183,5	255,0
	%	100	..	..	..	-2,0	4,1	0,8	1,7	-2,3	-2,1
* non-profit institutions	CZK in bn	%	..	..	7,5	8,4	9,3	2,1	4,4	7,2	10,1
	%	100	..	..	..	12,0	10,7	10,5	4,8	5,8	8,6
Gross capital creation - total	CZK in bn	%	..	..	346,1	426,1	481,5	107,2	217,5	337,7	470,7
	%	100	..	..	..	23,1	13,0	8,6	1,3	-2,1	-2,2
* fixed	CZK in bn	%	..	..	338,8	411,2	446,8	82,8	181,1	283,8	425,1
	%	100	..	..	..	21,0	8,7	-0,6	-5,0	-6,7	-4,8
* stock and reserves	CZK in bn	%	..	..	6,2	14,8	34,7	24,4	36,4	53,8	45,6
E. OUTPUT											
industry	%	100 111 112	-7,9	-5,3	2,1	8,7	6,4	-3,5	0,6	2,1	4,5
construction	%	100 111 131	19,7	-7,5	7,5	8,5	4,8	-5,2	-1,2	-3,4	-3,8
F. AGGREGATE DEMAND											
Total retail, catering and accommodation sales											
current prices	%	100	..	..	..	14,8	20,2	7,6	8,3	6,5	7,4
constant prices	%	100 131	..	..	..	6,5	12,1	2,5	3,5	1,4	1,8
Household money incomes and expenditures											
Nominal											
* incomes:	%	100	17,7	27,6	18,0	18,4	13,3	12,6	13,1	12,8	12,1
* expenditures:	%	100	20,3	25,3	17,8	16,0	15,4	8,8	11,7	10,4	10,3
Real											
* incomes:	%	100	5,8	5,6	8,2	8,5	4,1	5,1	5,8	4,6	3,3
* expenditures:	%	100	8,3	3,7	7,1	6,3	6,1	2,5	4,5	2,3	1,7
Average wages											
Nominal											
Total	%	100	22,5	25,3	18,5	17,5	18,0	13,7	13,3	13,1	11,8
* industry	%	100	18,6	23,8	15,7	17,0	17,4	13,5	13,8	13,5	13,5
* construction	%	100	22,4	28,6	14,6	14,8	15,3	11,2	8,8	8,7	8,5
Real											
Total	%	100	10,3	3,7	7,7	7,7	8,5	6,2	6,0	4,8	3,1
* industry	%	100	7,4	2,5	4,8	7,2	7,8	6,0	6,5	5,2	4,6
* construction	%	100	8,8	6,5	3,8	5,2	6,0	3,8	2,7	1,7	0,8

			1992	1993	1994	1995	1996	1997			
								I Q	I-II Q	I-III Q	I-IV Q
G. PRICES											
Consumer prices	%	101	11,1	20,8	10,0	9,1	8,8	7,1	6,8	7,9	8,5
Industrial producer prices	%	101	9,9	13,1	5,3	7,6	4,8	4,3	4,3	4,7	4,8
Construction work prices	%	101	11,6	25,8	13,8	11,0	11,3	10,7	10,9	11,1	11,3
Agriculture producer prices	%	101	7,7	8,4	4,7	7,6	8,3	3,8	2,0	3,6	2,9
H. UNEMPLOYMENT											
number of unemployed persons	thousands	61	134,8	185,2	166,5	153,0	186,3	199,6	202,6	247,6	268,9
unemployment rate	%	61 141	2,6	3,5	3,2	2,9	3,5	3,8	4,0	4,8	5,2
I. FOREIGN TRADE											
Total trade balance											
exports	CZK in bn			421,6	466,4	574,7	594,6	147,8	324,5	508,1	714,7
imports	CZK in bn			426,1	501,5	670,4	752,3	185,8	398,8	611,7	855,5
balance	CZK in bn			-4,5	-35,1	-95,7	-157,7	-38,0	-74,3	-103,6	-140,8
Total year-on-year increases											
exports	%	101			10,6	23,2	3,5	0,3	10,2	15,6	20,2
imports	%	101			17,7	33,7	12,2	6,7	10,0	11,6	13,7

1) Increase to the previous year same period

2) M2 = currency in circulation, demand deposits, time deposits, foreign currency deposits, residents

3) Residents

4) Residents and non-residents

5) Average monthly rate: of the period end

6) Actual as of the period end

7) Exchange rate midpoint

8) Average in given period

9) Constant prices 1994

10) Increase to the previous year same period (average in given period)

11) Including small businesses and natural entities having business licence

12) Constant prices up to 1996 goods production, from 1997 industrial production index

13) Constant prices (average of 1994 = 100)

14) Percentage of labour force

II. MONETARY SURVEY

CZK in bn

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
TOTAL ASSETS	598,6	720,4	870,4	1039,6	1120,5	1107,8	1135,2	1153,5	1163,2	1169,0	1217,6
A. NET FOREIGN ASSETS	35,5	89,6	194,4	311,4	287,9	283,3	292,9	311,1	331,1	340,2	335,5
- assets	102,7	187,5	275,8	493,2	538,0	544,5	602,1	607,9	638,6	665,3	673,6
- liabilities	67,2	97,9	81,4	181,8	250,1	261,2	309,2	296,8	307,5	325,1	338,1
B. NET DOMESTIC ASSETS	563,1	630,8	676,0	728,2	838,6	824,5	842,3	842,4	832,1	828,8	882,1
1. Domestic credits	603,6	713,9	817,5	929,5	1029,7	1057,7	1119,7	1107,1	1113,4	1126,5	1137,7
a) Net credit to government 1)	33,1	35,1	23,1	25,4	28,5	34,4	47,3	31,2	26,7	24,8	37,9
b) Net credit to National Property Fund	-24,5	-16,7	-18,0	-15,3	-15,9	-13,3	-16,5	-13,2	-13,6	-14,2	-13,1
c) Credits of commercial banks and the CNB	595,0	695,5	812,4	919,4	1017,1	1036,6	1088,9	1089,1	1100,3	1115,9	1122,9
ca) credits in CZK	578,5	669,6	768,9	822,3	888,6	889,3	915,3	906,2	908,0	914,5	912,6
- enterprises	532,0	623,1	722,5	786,8	850,6	850,4	874,3	863,1	864,2	870,0	864,1
- households	46,5	46,5	46,4	35,5	38,0	38,9	41,0	43,1	43,8	44,5	48,5
cb) foreign exchange credits 2)	16,5	25,9	43,5	97,1	128,5	147,3	173,6	182,9	192,3	201,4	200,3
2. Other net items	-40,5	-83,1	-141,5	-201,3	-191,1	-239,2	-277,4	-264,7	-281,3	-297,7	-255,6
MONEY SUPPLY	598,6	720,4	870,4	1039,6	1120,5	1107,8	1135,2	1153,5	1163,2	1169,0	1217,6
A. MONEY	306,3	359,9	421,8	453,3	475,3	432,1	397,3	412,1	420,6	424,4	445,1
1. Currency in circulation	58,9	59,8	84,0	104,3	118,9	117,4	113,9	117,2	118,9	122,1	119,3
2. Demand deposits	247,4	300,1	337,8	349,0	356,4	314,7	283,4	294,9	301,7	302,3	325,8
a) Enterprises	173,8	209,2	232,2	226,6	229,8	179,4	164,6	173,9	179,8	180,4	204,1
b) Households	71,0	85,2	100,4	117,8	127,5	130,9	115,4	118,2	117,8	119,1	117,3
c) Insurance companies	2,6	5,7	5,2	4,6	5,1	4,4	3,4	2,8	4,1	2,8	4,4
B. QUASI MONEY	292,3	360,5	448,6	586,3	645,2	669,7	737,9	741,4	742,6	744,6	772,5
1. Time deposits	236,4	303,1	387,8	498,8	559,5	576,5	606,5	610,2	608,1	616,9	634,0
a) Enterprises	29,8	61,0	105,2	153,6	175,9	145,5	144,4	150,4	147,3	151,2	138,2
b) Households	168,9	205,8	242,4	303,1	362,8	410,8	434,5	438,1	441,0	446,0	470,1
c) Insurance companies	37,7	36,3	40,2	42,1	20,8	20,2	27,6	21,7	19,8	19,7	25,7
2. Foreign currency deposits 2)	55,9	57,4	60,8	87,5	85,7	93,2	131,4	131,2	134,5	127,7	138,5
a) Enterprises	18,0	11,7	18,6	51,7	45,6	51,6	71,7	69,0	70,1	61,5	71,6
b) Households	37,9	45,7	42,2	35,8	40,1	41,6	59,7	62,2	64,4	66,2	66,9
Adjusted M2 x)	588,1	704,6	845,1	1012,3	1105,8	1088,4	1123,2	1144,5	1155,7	1169,0	1217,6
For information											
Increase to the same month of the previous year											
1. Monetary aggregate M0 3)											
- CZK in bn	3,6	0,9	24,2	20,3	14,6	13,9	1,0	1,3	2,9	3,4	0,4
- %	6,5	1,5	40,5	24,2	14,0	13,4	0,9	1,1	2,5	2,9	0,3
2. Monetary aggregate M1 4)											
- CZK in bn	50,3	53,6	61,9	31,5	22,0	6,8	-46,3	-36,6	-30,2	-37,1	-30,2
- %	19,6	17,5	17,2	7,5	4,9	1,6	-10,4	-8,2	-6,7	-8,0	-6,4
3. Monetary aggregate M2 5)											
- CZK in bn	100,8	116,5	140,5	167,2	93,5	74,1	69,3	90,2	90,6	85,3	111,8
- %	20,7	19,8	19,9	19,8	9,2	7,3	6,6	8,6	8,5	7,9	10,1

x) Adjusted for float and short-term operations of some banks and for SPT Telecom deposit with CNB

1) Including WB, WB Japan, EC and G24 loans

2) Residents

3) Currency in circulation

4) Currency in circulation, demand deposits

5) Currency in circulation, demand deposits, time deposits, residents' foreign currency deposits

III. CREDITS TO CLIENTS

A. TOTAL CREDITS 1)

CZK in billion of period balance

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
1. TOTAL CREDITS BY RECIPIENT	584,7	701,5	822,2	930,3	1035,4	1052,8	1111,3	1111,4	1123,2	1142,5	1141,5
A) CZK CREDITS	567,8	672,9	776,5	826,0	895,6	895,6	924,5	914,7	916,7	925,6	923,6
a) Residents	567,6	669,7	773,8	823,1	889,8	890,6	916,7	908,4	910,2	916,6	914,6
of which:											
non financial organisations	473,6	521,2	595,3	645,4	739,9	721,3	735,6	728,0	732,5	733,8	728,8
financial sector	0,4	5,4	14,5	23,7	28,3	56,3	63,1	61,9	60,5	62,6	61,6
insurance companies	1,9	0,3	0,3	0,3	5,5	2,0	1,7	0,2	0,1	0,3	0,3
public organisations 4)	1,3	1,8	5,5	3,5	4,0	4,9	12,0	10,0	10,2	10,6	13,8
non profit organisations	0,5	22,0	27,8	27,1	1,4	1,5	1,2	1,5	2,3	1,5	1,5
small businesses	26,2	46,3	61,4	66,3	65,5	62,8	58,5	56,6	54,1	56,6	55,9
households	46,5	46,5	46,4	35,5	38,0	38,9	41,0	43,1	43,8	44,4	48,5
others 2)	17,2	26,2	22,6	21,3	7,2	2,9	3,6	7,1	6,7	6,8	4,2
b) Non residents	0,2	3,2	2,7	2,9	5,8	5,0	7,8	6,3	6,5	9,0	9,0
B) FOREIGN EXCHANGE CREDITS 3)	16,9	28,6	45,7	104,3	139,8	157,2	186,8	196,7	206,5	216,9	217,9
2. TOTAL CZK CREDITS	567,8	672,9	776,5	826,0	895,6	895,6	924,5	914,7	916,7	925,6	923,6
BY SECTOR											
a) Residents	567,6	669,7	773,8	823,1	889,8	890,6	916,7	908,4	910,2	916,6	914,6
of which:											
a) State sector 4)	276,4	223,8	212,3	167,9	151,8	144,2	144,8	134,5	138,7	139,0	143,0
b) Private sector (co-operatives included)	212,4	353,1	450,4	551,1	637,1	639,5	666,8	663,8	662,8	666,1	655,9
c) Under foreign control	15,0	20,1	42,1	47,3	55,7	65,1	60,5	59,9	58,2	60,3	62,9
d) Households	46,5	46,5	46,4	35,5	38,0	38,9	41,0	43,1	43,8	44,4	48,5
e) Others	17,2	26,2	22,6	21,3	7,2	2,9	3,6	7,1	6,7	6,8	4,3
b) Non residents	0,2	3,2	2,7	2,9	5,8	5,0	7,8	6,3	6,5	9,0	9,0
3. TOTAL CZK CREDITS	567,8	672,9	776,5	826,0	895,6	895,6	924,5	914,7	916,7	925,6	923,6
BY INDUSTRY 5)											
of which:											
a) Agriculture, hunting and fishing	27,3	26,4	25,7	30,9	32,5	30,7	26,3	30,7	30,3	31,0	30,0
b) Forestry and logging	2,6	0,9	1,4	1,3	2,5	2,6	2,4	1,8	1,9	1,9	1,8
c) Mining and quarrying	11,1	11,8	10,9	10,6	10,2	13,2	19,0	15,1	14,3	14,8	13,3
d) Manufacturing industries	186,5	198,1	238,6	253,5	282,7	273,0	268,5	250,2	253,8	263,0	254,2
food industry	25,8	30,0	37,4	42,7	48,7	49,7	48,9	47,4	47,2	49,7	50,5
textile, clothing and leather products	14,3	15,7	18,6	19,2	22,0	21,1	21,0	18,9	18,1	18,8	18,2
wood processing, paper											
and printing					20,2	19,6	19,4	17,8	16,7	17,3	16,6
coking, oil processing											
nuclear fuel production					3,0	2,8	3,4	1,9	1,8	3,7	3,3
chemical and pharmaceutical					24,1	21,3	21,3	21,1	25,3	22,5	22,8
rubber and plastics					6,4	7,0	7,1	7,0	7,3	7,9	7,7
glass, porcelain and construction materials					12,9	13,7	12,8	11,8	12,0	12,1	12,0
metals and metallurgy					35,4	41,2	38,8	36,2	36,0	36,5	36,4
machines and equipment					34,1	39,1	38,9	34,3	33,9	38,7	32,9
electrical engines and appliances	17,0	15,1	17,4	18,3	15,9	14,8	14,6	14,7	15,9	15,3	14,8
means of transport production					22,4	29,4	30,3	27,6	27,6	28,6	27,8
others					37,6	13,3	12,0	11,5	12,0	11,9	11,2
e) Production and distribution of electricity, gas and water	17,2	18,9	15,9	19,5	29,3	29,6	32,7	35,4	33,5	32,3	34,1
f) Construction	16,6	22,9	26,9	29,3	30,5	32,7	32,7	33,0	33,1	33,9	31,2
g) Trade, sales, catering, accommodation	125,5	153,8	198,3	213,7	216,5	207,7	213,5	211,6	205,0	214,2	209,6
h) Transport, storage, tourism, communications	14,8	14,8	22,5	21,0	22,1	22,5	24,3	23,4	29,3	24,4	27,5
i) Others 6)	168,3	225,3	236,3	246,2	269,3	283,6	305,1	313,5	315,5	310,1	321,9

	CZK in billion of period balance										
	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
4. TIME STRUCTURE OF CZK CREDITS IN TOTAL	567,3	672,9	776,5	826,0	895,6	895,6	924,5	914,7	916,7	925,6	923,6
of which:											
a) Short term	217,2	277,0	315,9	346,0	387,9	385,3	396,8	384,5	382,3	390,5	376,4
b) Medium term	155,0	194,1	233,6	240,3	232,0	233,0	244,0	237,3	241,9	238,8	246,9
c) Long term	195,6	201,8	227,0	239,7	275,7	277,3	283,7	292,9	292,5	296,3	300,3
For information:											
1. Increase of credits to the same month of previous year - total											
CZK in bn	22	116,3	120,7	103,1	105,1	95,0	123,4	106,9	109,3	117,9	106,1
%	3,9	20,0	17,2	13,1	11,3	9,9	12,5	10,6	10,3	11,5	10,2
of which:											
a) CZK credits											
CZK in bn	72,4	105,1	103,6	49,5	69,6	47,7	43,6	33,8	29,1	32,7	28,0
%	14,6	18,5	15,4	6,4	8,4	5,6	5,5	3,8	3,3	3,7	3,1
a) Credits in foreign currency											
CZK in bn	..	11,7	17,1	53,6	35,5	47,3	74,3	73,1	80,7	85,2	73,1
%	..	69,2	59,3	123,2	34,0	43,0	66,7	59,1	64,1	64,7	55,9
2. CZK credits by sector (share in %)											
CZK credits in total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
a) Residents	100,0	99,5	99,6	99,6	99,4	99,4	99,2	99,3	99,3	99,0	99,0
of which:											
a) State sector	43,7	33,2	27,3	20,3	17,0	16,1	15,7	14,7	15,1	15,0	15,5
b) Private sector (co-operatives included)	37,4	52,5	53,0	66,7	71,2	71,4	72,2	72,6	72,3	71,9	71,0
c) Under foreign control	2,7	3,0	5,4	5,7	6,2	7,3	6,5	6,5	6,4	6,5	6,3
d) Households	3,2	6,9	6,0	4,3	4,2	4,3	4,4	4,7	4,3	4,3	5,2
e) Others	3,0	3,9	2,9	2,6	0,3	0,3	0,4	0,3	0,7	0,3	0,5
b) Non residents	0,0	0,5	0,4	0,4	0,6	0,6	0,3	0,7	0,7	1,0	1,0
3. CZK credits by industry (share in %)											
CZK credits in total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:											
a) Agriculture, hunting and fishing	4,3	3,9	3,3	3,7	3,6	3,4	2,9	3,3	3,3	3,4	3,2
b) Forestry and logging	0,5	0,1	0,2	0,2	0,3	0,3	0,3	0,2	0,2	0,2	0,2
c) Mining and quarrying	1,9	1,3	1,4	1,3	1,1	1,5	2,1	1,6	1,6	1,6	1,4
d) Manufacturing industry	32,9	29,4	30,7	30,7	31,5	30,5	29,0	27,4	27,7	28,4	27,5
e) Production and distribution of electricity, gas and water	3,0	2,3	2,1	2,4	3,3	3,3	3,5	3,9	3,6	3,5	3,7
f) Construction	2,9	3,4	3,5	3,5	3,4	3,6	3,5	3,6	3,6	3,7	3,4
g) Trade, sales, catering, accommodation	22,1	22,9	25,5	25,9	24,2	23,2	23,1	23,1	22,4	23,1	22,7
h) Transport, storage, tourism, communications	2,2	2,2	2,9	2,5	2,5	2,5	2,6	2,6	3,2	2,6	3,0
i) Others	29,6	33,5	30,4	29,8	30,1	31,7	33,0	34,3	34,4	33,5	34,9
4. Time structure of CZK credits (share in %)											
CZK credits in total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:											
a) Short term	38,3	41,2	40,7	41,9	43,3	43,0	42,9	42,0	41,7	42,2	40,3
b) Medium term	27,3	28,3	30,1	29,1	25,9	26,0	26,4	26,0	26,4	25,8	26,7
c) Long term	34,4	30,0	29,2	29,0	30,8	31,0	30,7	32,0	31,9	32,0	32,5

B. NEWLY GRANTED CREDITS

CZK in bn

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
1. TOTAL CZK CREDITS											
BY RECIPIENT 2)		49,2	59,9	77,1	92,9	65,3	77,5	71,3	71,0	73,6	91,1
of which:											
a) State enterprises		10,5	12,4	11,0	10,1	3,9	6,6	7,5	7,7	11,4	10,3
b) Private businesses and co-operatives		24,8	30,9	56,4	67,3	49,3	52,3	51,7	50,6	45,8	56,4
c) Businesses under foreign control		6,6	14,7	7,2	11,6	10,1	14,3	9,4	9,8	11,3	14,9
d) Households		0,3	0,3	1,2	2,9	1,2	1,9	1,9	2,1	2,1	4,3
e) Foreign countries (non residents)		0,1		0,6	0,0	0,4	1,5	0,4	0,3	2,3	4,5
f) Others: 3)		6,9	1,6	0,7	1,0	0,4	0,9	0,4	0,5	0,2	0,7
2. TOTAL CREDITS											
BY TIME		49,2	59,9	77,1	92,9	65,3	77,5	71,3	71,0	73,6	91,1
of which:											
a) Short term		36,0	43,8	57,2	73,3	52,9	62,8	59,1	58,6	60,1	63,6
b) Medium term		9,2	10,1	10,2	10,3	6,5	8,6	5,9	7,4	5,4	12,6
c) Long term		4,0	6,0	9,7	9,3	5,9	6,1	6,3	5,0	8,1	9,9
For information:											
1. Cumulative increase in new credits from Year beginning											
CZK in bn		407,0	503,3	700,8	713,7	176,0	393,7	604,5	675,5	749,1	840,2
2. Time structure of new credits (share in %)											
Total new credits		100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:											
a) Short term		73,2	73,1	74,2	78,9	81,0	81,0	82,9	82,6	81,7	75,3
b) Medium term		18,7	16,9	13,2	11,1	10,0	11,1	8,3	10,4	7,3	13,9
c) Long term		8,1	10,0	12,6	10,0	9,0	7,9	8,8	7,0	11,0	10,8

1) Balance of granted and paid up credits

2) Non specified credits and credits granted to recipients without Organisation Identification Number

3) Residents and non residents in convertible and non convertible currencies including CNS

4) Credit granted by the CNS to the National Property Fund included

5) Since 1 July 1996, number of monitored industries was enlarged

6) Activities in the real estate area; leasing of machines and instruments without staff; leasing of consumer goods;

data processing and connected activities; research and development; other trade services; public administration;

defence; compulsory social insurance; education;

health care; veterinary activities; social activities; sewage removal; social organisations' activities;

recreational, cultural and sporting activities; other services; private households with employed persons; extraterritorial organisations and

associations; other organisations whose branch classification number is unknown to the financial institution; finance; insurance

7) Up to the end of 1994, new credits granted by the Czech Savings Bank (Česká spořitelna) excluded

8) Non specified credits and credits to recipients without Organisation Identification Number

IV. CLIENT DEPOSITS

CZK in bn, end of period balance

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
1. DEPOSITS BY SUBJECT TOTAL	583,6	713,8	841,0	998,9	1060,0	1055,3	1098,2	1111,4	1120,5	1124,4	1175,9
A) CZK DEPOSITS	518,8	648,4	771,3	899,8	960,7	935,9	938,4	950,4	956,0	966,0	1006,2
a) Residents	517,9	646,7	768,6	892,1	952,1	925,8	927,5	940,6	946,1	955,5	994,1
of which:											
- non-financial organisations	138,9	158,3	207,5	231,4	282,5	213,0	199,3	212,6	209,0	214,0	219,3
- finance	0,9	8,8	10,4	19,4	23,4	22,0	19,5	19,2	19,6	18,4	26,9
- insurance	40,3	42,0	45,5	46,7	25,8	24,6	31,0	24,5	23,9	22,5	30,0
- public organisations 1)	50,2	76,5	77,8	81,4	78,7	72,9	76,3	71,1	71,9	71,0	71,7
- non-profit organisations	5,7	6,7	7,9	10,1	11,2	10,8	11,2	12,1	12,9	12,7	12,4
- small entrepreneurs	20,9	25,1	33,4	34,5	37,4	36,8	36,7	39,4	43,0	44,9	40,2
- households	239,3	291,0	342,8	420,9	484,4	541,8	549,9	556,3	558,8	565,1	587,4
- others	21,9	38,3	43,3	47,7	8,7	3,9	3,6	5,4	7,0	6,9	6,2
b) Non-residents	0,8	1,7	2,7	7,7	8,6	10,1	10,9	9,8	9,9	10,5	12,1
B) FOREIGN EXCHANGE DEPOSITS 2)	64,8	65,4	69,7	99,1	99,3	119,4	159,8	161,0	164,5	158,4	169,7
2. CZK DEPOSITS BY SECTOR											
TOTAL	518,8	648,4	771,3	899,8	960,7	935,9	938,4	950,4	956,0	966,0	1006,2
a) Residents	518,0	646,7	768,6	892,1	952,1	925,8	927,5	940,6	946,1	955,5	994,1
of which:											
a) State sector 1)	161,6	152,5	163,9	163,4	164,6	131,7	119,7	119,7	117,7	117,7	120,2
b) Private sector (co-operatives included)	84,5	150,1	191,7	230,6	259,8	221,5	220,2	227,4	228,4	227,5	236,9
c) Businesses under foreign control	10,7	14,8	26,9	29,5	34,6	26,9	34,1	31,8	34,2	38,3	43,4
d) Households	239,3	291,0	342,8	420,9	484,4	541,8	549,9	556,3	558,8	565,1	587,4
e) Others	21,9	38,3	43,3	47,7	8,7	3,9	3,6	5,4	7,0	6,9	6,2
b) Non-residents	0,8	1,7	2,7	7,7	8,6	10,1	10,9	9,8	9,9	10,5	12,1
3. CZK DEPOSITS BY INDUSTRY											
TOTAL 3)	518,8	648,4	771,3	899,8	960,7	935,9	938,4	950,4	956,0	966,0	1006,2
of which:											
a) Agriculture, hunting and fishing	6,7	7,9	9,5	10,0	13,6	10,3	6,2	7,3	7,0	6,8	6,9
b) Forestry and logging	1,6	1,3	2,2	3,5	5,3	3,1	1,8	2,5	2,5	2,5	2,7
c) Mining and quarrying	3,4	4,4	8,2	9,6	13,5	10,4	10,2	9,9	9,7	9,5	7,4
d) Manufacturing industry	37,4	45,4	58,4	64,1	96,4	59,0	40,1	48,3	47,6	50,2	53,2
- foodstuffs	5,6	5,5	6,6	8,8	11,8	8,3	5,4	5,5	5,8	5,7	5,9
- textile, clothing and leather products	2,7	2,8	5,3	4,5	7,0	3,8	2,3	2,4	2,5	2,7	2,7
- wood processing, paper and printing					9,3	5,5	4,2	4,4	4,3	4,9	5,0
- coking, oil processing, nuclear fuel production					1,1	0,5	0,1	1,3	0,8	1,4	1,5
- chemical and pharmaceutical					7,7	5,0	2,5	3,2	4,6	4,5	4,6
- rubber and plastics					5,3	2,4	1,3	1,6	1,5	1,7	1,6
- glass, porcelain and construction materials					5,8	3,5	2,4	2,9	3,1	3,1	3,0
- metals and metallurgy					13,3	8,3	5,1	7,1	7,1	7,2	6,6
- machines and equipment					10,2	7,3	6,2	6,2	6,0	5,9	6,1
- electrical engines and appliances	3,5	4,3	5,2	7,2	9,5	6,5	4,9	7,5	6,1	6,4	7,4
- means of transport production					6,5	3,5	3,1	3,0	2,3	2,7	4,7
- others					8,9	4,4	2,6	3,2	3,5	4,0	4,1
e) Production and distribution of electricity, gas and water	6,4	11,4	13,8	14,7	15,1	10,4	10,5	15,2	13,4	13,5	12,2
f) Construction	12,3	14,2	18,3	21,1	26,2	18,1	16,7	18,0	17,6	18,2	19,4
g) Trade, sales, catering, accommodation	33,5	39,9	58,9	68,1	70,3	52,7	57,7	56,3	55,3	58,3	61,0
h) Transport, storage, tourism, communications	9,3	10,2	17,5	23,4	20,0	15,1	15,1	15,1	15,9	15,5	15,0
i) Others	408,2	513,7	584,5	685,3	700,3	756,8	780,1	777,8	787,0	791,5	828,4

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
4. CZK DEPOSITS BY TIME											
TOTAL 4)	518,8	648,4	771,3	899,8	960,7	935,8	938,4	950,4	956,0	966,0	1006,2
of which:											
a) Short-term	373,1	467,4	555,6	648,5	727,9	719,6	734,0	744,6	747,2	756,8	784,8
b) Medium-term	106,2	136,1	174,0	201,0	173,6	157,8	139,4	135,3	136,3	134,4	139,9
c) Long-term	39,5	44,9	41,7	50,3	59,2	58,4	65,0	70,5	72,5	74,7	81,5
For information:											
1. Increase of deposits for the same month of previous year											
- CZK in bn	...	130,2	127,2	157,9	61,1	62,4	73,8	90,4	90,6	82,7	115,9
- %	...	22,3	17,8	18,8	6,1	6,3	7,2	8,9	8,8	7,9	10,9
of which:											
a) CZK deposits											
- CZK in bn	105,2	129,6	122,9	128,5	60,9	38,2	15,0	26,8	23,6	23,4	45,5
- %	25,4	25,0	19,0	16,7	6,8	4,3	1,6	2,9	2,5	2,5	4,7
b) Foreign currency deposits											
- CZK in bn	...	0,6	4,3	29,4	0,2	24,2	58,8	63,5	67,0	59,3	70,4
- %	...	0,9	6,6	42,2	0,2	25,4	58,2	65,2	68,7	59,8	70,9
2. Sector structure of CZK deposits (share in %)											
CZK deposits in total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
a) Residents	99,8	99,7	99,6	99,1	99,1	98,9	98,8	99,0	99,0	98,8	98,8
of which:											
a) State sector	31,1	23,5	21,2	18,1	17,1	14,1	12,7	12,7	12,3	12,2	11,9
b) Private sector (co-operatives included)	16,3	23,1	24,9	25,6	27,1	23,6	23,5	23,8	23,8	23,6	23,6
c) Businesses under foreign control	2,1	2,3	3,5	3,3	3,6	2,9	3,6	3,3	3,6	3,9	4,3
d) Households	46,1	44,8	44,4	46,8	50,4	57,9	58,6	58,5	58,5	58,5	58,4
e) Others	4,2	5,9	5,6	5,3	0,9	0,4	0,4	0,6	0,7	0,7	0,6
b) Non-residents	0,2	0,3	0,4	0,9	0,9	1,1	1,2	1,0	1,0	1,1	1,2
3. Industrial structure of CZK credits (share in %)											
Total CZK credits	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:											
a) Agriculture, hunting and fishing	1,3	1,2	1,2	1,1	1,4	1,1	0,7	0,8	0,7	0,7	0,7
b) Forestry and logging	0,3	0,2	0,3	0,4	0,6	0,3	0,2	0,3	0,3	0,3	0,3
c) Mining and quarrying	0,6	0,7	1,0	1,1	1,4	1,1	1,1	1,0	1,0	1,0	0,7
d) Manufacturing industry	7,2	7,0	7,6	7,1	10,0	6,3	4,3	5,1	5,0	5,2	5,3
e) Production and distribution of electricity, gas and water	1,2	1,8	1,8	1,6	1,6	1,1	1,1	1,6	1,4	1,4	1,2
f) Construction	2,4	2,2	2,4	2,3	2,7	1,8	1,8	1,8	1,8	1,8	1,9
g) Trade, sales, catering, accommodation	6,5	6,1	7,6	7,6	7,3	5,6	6,1	5,9	5,8	6,0	6,1
h) Transport, storage, tourism, communications	1,8	1,6	2,3	2,6	2,1	1,6	1,6	1,6	1,7	1,6	1,5
i) Others	78,7	79,2	75,8	76,2	72,9	81,0	83,1	81,8	82,3	81,9	82,3
4. Time structure of CZK deposits (share in %)											
Total CZK deposits	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:											
a) Short-term	71,9	72,1	72,0	72,0	75,8	76,9	78,2	78,4	78,2	78,4	78,0
b) Medium-term	20,5	21,0	22,6	22,4	18,1	16,9	14,9	14,2	14,3	13,9	13,9
c) Long-term	7,6	6,9	5,4	5,6	6,1	6,2	6,9	7,4	7,5	7,7	8,1

1) Deposits of the National Property Fund included

2) Resident and non-resident convertible and non-convertible currency deposits including CNB

3) Since 1 July 1996, number of monitored industries has increased.

4) Short-term deposits to 1 year, medium-term deposits from 1 to 4 years, long-term deposits over 4 years

V. COMMERCIAL BANK INTEREST RATES

(%)

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
1. AVERAGE RATES ON CREDITS											
IN TOTAL											
A) BY SECTOR IN TOTAL	13,3	14,1	12,8	12,7	12,5	11,9	14,6	12,9	13,2	13,3	13,9
of which:											
- state sector	13,2	14,6	12,2	12,2	11,7	10,8	13,4	12,3	12,5	12,5	12,8
- private sector (co-operatives included)	13,6	14,6	13,5	13,3	13,1	12,5	15,1	13,3	13,6	13,8	14,5
- businesses under foreign control	...	15,4	12,6	12,3	12,7	12,2	15,7	13,6	13,1	13,4	14,4
- households	6,7	7,2	8,1	6,5	7,7	7,9	9,1	9,0	9,0	9,1	9,3
B) BY TIME	13,3	14,1	12,8	12,7	12,5	11,9	14,6	12,9	13,2	13,3	13,9
IN TOTAL											
of which:											
- short-term	15,0	15,6	12,7	12,5	12,4	11,8	14,3	12,6	13,0	13,2	14,1
- medium-term	15,4	15,9	14,5	14,2	13,5	12,7	15,3	13,6	14,0	14,1	14,6
- long-term	10,4	10,4	11,2	11,5	11,8	11,5	14,2	12,8	12,7	12,8	13,0
2. AVERAGE RATES ON NEWLY GRANTED CREDITS											
A) BY SECTOR IN TOTAL	...	14,6	13,7	13,1	13,6	13,6	20,4	15,8	15,5	15,8	16,5
of which:											
- state sector	...	16,1	13,2	12,7	13,5	13,8	18,7	16,0	16,1	14,6	17,6
- private sector (co-operatives included)	...	16,1	14,6	13,4	13,8	13,8	19,7	16,0	15,6	16,3	17,0
- businesses under foreign control	...	10,4	12,1	11,9	13,2	12,8	23,9	15,1	14,9	15,6	17,0
- households	...	15,4	14,4	14,1	11,5	12,6	12,9	12,5	12,2	11,7	12,4
- foreign countries	...	15,7	15,9	14,1	13,0	13,1	29,6	14,8	18,8	15,6	10,1
B) BY TIME	...	14,6	13,7	13,1	13,6	13,6	20,4	15,8	15,5	15,8	16,5
IN TOTAL											
including:											
- short-term	...	14,0	13,3	12,9	13,6	13,5	21,1	15,7	15,5	15,6	16,5
- medium-term	...	16,7	14,8	14,2	14,3	14,4	17,4	16,0	15,4	16,4	17,0
- long-term	...	14,5	14,2	13,3	12,5	13,5	16,9	16,2	15,6	16,8	16,0
3. AVERAGE RATES ON DEPOSITS											
IN TOTAL											
A) BY SECTOR IN TOTAL	6,3	7,0	6,9	6,9	6,7	6,7	8,9	7,7	7,6	7,8	8,0
of which:											
- state sector	6,5	7,9	6,3	5,9	6,8	6,9	9,3	7,7	7,4	8,0	7,9
- private sector (co-operatives included)	2,4	4,8	5,9	6,1	5,4	5,4	8,7	6,8	6,2	6,5	6,1
- businesses under foreign control	...	5,4	3,6	5,1	5,0	5,0	8,0	7,1	6,4	7,2	7,0
- households	7,6	7,9	8,3	8,0	7,3	7,3	8,9	8,2	8,3	8,4	9,0
B) BY TIME	6,3	7,0	6,9	6,9	6,7	6,7	8,9	7,7	7,6	7,8	8,0
IN TOTAL											
including:											
- demand	2,0	2,3	2,6	2,8	2,5	2,4	2,3	2,1	2,1	2,1	2,1
- time	10,5	11,0	10,6	10,0	9,2	9,1	11,8	10,4	10,2	10,5	10,9
- short-term	7,9	9,6	9,6	9,7	9,3	9,3	13,0	11,0	10,8	11,2	11,6
- medium-term	11,9	11,8	11,5	10,7	9,8	9,8	11,3	11,0	10,9	11,1	12,2
- long-term	14,0	13,7	11,3	8,8	6,2	5,7	5,3	5,4	5,4	5,4	5,2
For information:											
Commercial bank interest rate margin (%)	7,0	7,1	5,9	5,8	5,8	5,2	5,7	5,2	5,6	5,5	5,9

VI. CNB INTEREST RATES

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
1. DISCOUNT RATE	9,50	8,00	8,50	9,50	10,50	10,50	13,00	13,00	13,00	13,00	13,00
2. LOMBARD RATE	14,00	11,50	11,50	12,50	14,00	14,00	23,00	23,00	23,00	23,00	23,00

(%)

VII. INTEREST RATES ON INTERBANK DEPOSITS

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
1. AVERAGE INTEREST RATE PRIOR 1)											
- 1 day	8,03	5,47	10,75	10,83	12,46	12,45	31,56	13,48	11,55	12,05	12,55
- 7 day	10,53	5,90	12,28	11,17	12,61	12,48	35,26	14,59	14,92	15,37	16,64
- 14 day	11,16	6,14	12,38	11,20	12,61	12,47	33,81	14,62	15,00	15,61	16,77
- 1 month	12,73	6,68	12,55	11,01	12,63	12,45	31,54	14,71	15,14	16,60	17,49
- 2 month		7,34	12,61	10,97	12,62	12,44	28,75	14,74	15,15	16,71	17,54
- 3 month	13,82	8,00	12,65	10,93	12,67	12,40	25,98	14,74	15,16	16,73	17,50
- 6 month	14,64	9,21	12,65	10,89	12,55	12,16	21,24	14,77	15,09	16,66	17,40
- 9 month		10,69	12,65	10,89	12,24	11,87	19,44	14,76	15,04	16,58	17,39
- 12 month	11,89	11,36	12,66	10,98	12,23	11,82	19,07	14,76	15,01	16,55	17,36
2. AVERAGE INTEREST RATE PRIOR 1)											
- 1 day	6,67	4,51	10,01	10,52	12,22	12,21	23,59	12,99	10,50	10,15	10,25
- 7 day	9,14	4,92	11,48	10,82	12,35	12,24	24,59	14,23	14,13	14,19	15,37
- 14 day	9,78	5,16	11,55	10,84	12,36	12,23	23,06	14,26	14,26	14,51	15,45
- 1 month	11,33	8,18	11,72	10,63	12,33	12,21	21,27	14,36	14,47	15,37	16,26
- 2 month		6,34	11,76	10,59	12,34	12,19	18,74	14,38	14,46	15,45	16,33
- 3 month	12,39	7,00	11,80	10,53	12,39	12,13	17,63	14,38	14,47	15,50	16,35
- 6 month	13,24	8,21	11,81	10,48	12,26	11,89	15,40	14,39	14,46	15,41	16,31
- 9 month		9,56	11,82	10,47	11,96	11,59	14,06	14,39	14,44	15,34	16,27
- 12 month	13,52	10,89	11,83	10,48	11,94	11,55	13,84	14,38	14,43	14,37	16,23
3. AVERAGE INTEREST RATE											
ON INTERBANK DEPOSITS - TOTAL	12,56	12,25	10,20	9,77	11,38	11,77	14,41	13,34	11,97	13,66	12,96
of which:											
a) Demand	3,08	1,83	1,60	2,14	2,27	1,06	6,38	2,56	2,18	2,27	2,35
b) Time	13,35	12,85	11,30	10,87	11,77	11,99	14,89	13,47	12,18	13,84	13,23
- short-term	12,50	11,23	10,89	10,73	11,85	12,09	15,22	13,63	12,19	13,98	13,31
- medium-term	13,82	14,90	12,66	11,27	11,33	11,73	11,82	12,52	12,52	13,02	12,89
- long-term	15,00	11,79	10,48	10,27	9,87	9,62	11,36	9,59	9,59	9,58	9,58

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

VIII. BALANCE OF PAYMENTS

A. CZK in mil. 1)

	1993	1994	1995	1996	1997 2)
A. CURRENT ACCOUNT	13246,7	22643,2	36331,3	116510,6	100106,3
Balance of trade 3)	15313,0	39750,9	37594,6	159534,6	145545,9
Exports	414833,0	458436,6	569549,1	548791,5	714680,0
Imports	430146,0	498187,5	667147,7	742330,1	860265,9
Balance of services	29465,2	14052,8	42881,2	52194,9	54936,0
Revenues	137691,2	143404,0	178270,4	222030,4	226768,0
Transport	36186,6	35757,9	38757,4	36209,6	41236,0
Travel	45437,4	64170,3	76301,3	110620,0	115700,0
Others	56067,2	42475,8	63211,7	75200,8	69832,0
Expenditures	108226,0	134351,2	129389,2	169831,5	171832,0
Transport	21402,1	24542,4	21204,9	18983,3	20547,0
Travel	15368,3	45605,6	43330,3	80170,0	75500,0
Others	71455,6	64203,2	64854,0	70678,2	75785,0
Balance of incomes	3424,7	520,8	2804,0	19611,0	20626,4
Credit	15952,0	22713,2	31696,1	31765,9	48176,0
Debit	19376,7	23294,0	34500,1	51376,9	68802,4
Current transfers	2559,2	3635,7	15190,1	10440,1	11170,0
Revenues	7024,5	8523,3	17631,6	16752,7	27552,2
Expenditures	4465,3	4887,6	2441,5	6312,6	16382,2
B. CAPITAL ACCOUNT	16175,0	0,0	173,1	15,6	324,0
Revenues	5976,0		307,8	28,1	501,2
Expenditures	22151,0		124,7	12,5	177,2
Total A + B	28421,3	22643,2	36152,2	116495,0	99742,3
C. FINANCIAL ACCOUNT	28184,7	37019,7	21824,5	116632,5	34319,1
Direct investments	16421,8	21551,1	67021,2	37674,8	40451,4
Abroad	2628,6	3443,3	971,6	1100,0	200,0
in Czech Republic	19050,4	24394,4	67392,8	38774,8	41251,4
Portfolio investments	46658,5	24585,9	36144,4	19692,5	34438,9
Assets	6686,9	1327,1	8565,6	1291,1	6006,8
Property securities and interest	6686,9	1327,1	8565,6	1291,1	19,9
Debt securities					6026,7
Liabilities	53345,4	25923,0	44710,0	20983,6	40445,7
Property securities and interest	32569,8	14368,8	32761,7	16340,9	13783,7
Debt securities	20775,6	11553,2	11948,3	4642,7	26662,0
Other investments	25104,4	50272,7	115122,9	59265,2	40571,2
Assets	83911,4	69582,4	66050,8	64646,8	142725,1
Long term	13340,8	12046,4	1384,4	10769,8	11117,6
CNS					
Commercial banks	1431,5	31,7	3353,6	14168,2	11907,4
Government	8323,3	8175,1	3335,0	1286,4	519,8
Other sectors	6449,0	3903,0	1403,0	2112,0	270,0
Short term	37252,2	8162,8	67435,2	53877,0	131607,5
CNS					
Commercial banks	2163,0	4289,4	2446,2	48976,0	122038,5
Government	37397,2	76040,4	60179,4		
Other sectors	2018,0	1299,0	4209,6	4901,0	9569,0
Liabilities	109015,8	120455,1	181173,7	123912,0	102153,9
Long term	10131,9	19865,1	87365,8	95193,1	24047,6
CNS	1297,3	31712,7	997,8		368,0
Commercial banks	2116,6	11189,6	60359,6	46733,5	14875,5
Government	3421,5	5249,5	12047,3	7132,6	11541,9
Other sectors	14372,7	45637,7	38655,7	55592,2	50873,0
Short term	98883,9	100590,0	93207,9	28718,9	78106,3
CNS	1670,5	1634,7	77,1	59,6	9,9
Commercial banks	2481,8	14016,0	27636,1	30574,9	67383,7
Government (liability vis a vis Slovakia)	31895,5	86555,8	56262,2	899,6	69,5
Other sectors	2836,1	1652,9	9232,5	896,8	10802,0
Total A+B+C	85296,4	74376,5	182136,3	137,5	65463,2
D. BALANCE OF ERRORS AND OMISSIONS AND EXCHANGE RATE DIFFERENCES	3019,8	6121,9	15773,4	22612,6	9423,2
Total A+B+C+D	88316,2	80504,6	197915,7	22475,1	56040,0
E. CHANGE IN FOREIGN EXCHANGE RESERVES (- increase)	88316,2	80504,6	197915,7	22475,1	56040,0

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

2) Preliminary data

3) Based on CSO published data according to customs statistics methodology effective 1 Jan. 1996;

the data for 1993 and 1994 data were taken from the CSO publication "Czech Foreign Trade 1993-1995", Dec. 1997

	1993	1994	1995	1996	1997 2)
A. CURRENT ACCOUNT	455,8	726,8	1369,1	4292,2	3155,8
Balance of trade 3)	525,3	1381,2	3677,9	5877,3	4589,6
exports	14229,0	15929,0	21462,5	21690,6	22530,2
imports	14754,3	17310,2	25140,4	27567,9	27119,8
Balance of services	1010,8	428,3	1242,0	1923,0	1731,9
Revenues	4722,9	5156,5	6717,3	8171,4	7148,8
transport	1241,2	1242,5	1460,5	1333,9	1300,0
travel	1558,5	2229,7	2875,2	4075,2	3647,4
others	1923,2	1684,3	2382,1	2770,3	2201,4
Expenditures	3712,1	4668,2	4875,8	6256,4	5416,9
transport	734,1	852,8	739,3	699,3	647,7
travel	527,1	1584,6	1632,8	2953,4	2380,1
others	2450,9	2230,8	2443,7	2603,7	2389,1
Balance of incomes	117,5	20,2	105,6	722,5	650,2
credit	547,2	789,1	1194,5	1170,2	1518,8
debit	664,7	809,3	1300,1	1492,7	2169,0
Current transfers	87,8	126,3	572,4	384,6	352,1
revenues	241,0	296,1	664,4	617,2	868,6
expenditures	153,2	169,8	92,0	232,6	516,5
B. CAPITAL ACCOUNT	554,8	0,0	6,8	0,6	10,2
revenues	205,0		11,6	1,0	15,8
expenditures	759,8		4,8	0,4	5,6
Total A + B	99,0	726,8	1362,3	4291,6	3145,6
C. FINANCIAL ACCOUNT	3024,8	3371,1	8225,9	4296,7	1081,9
Direct investments	563,3	748,9	2525,6	1387,9	1275,2
abroad	90,2	119,6	36,6	40,5	25,2
in Czech Republic	653,5	868,5	2562,2	1428,4	1300,4
Portfolio investments	1600,4	854,6	1362,0	725,5	1085,7
Assets	229,4	46,1	322,8	47,5	18,4
property securities and interests	229,4	46,1	322,8	47,5	0,6
debt securities					190,0
Liabilities	1829,8	900,7	1684,8	773,0	1275,1
property securities and interests	1117,2	499,3	1234,6	602,0	434,5
debt securities	712,6	401,4	450,2	171,0	840,6
Other investments	861,1	1767,6	4338,3	2183,3	1279,0
Assets	2878,2	2417,7	2489,0	2381,5	4499,4
Long term	457,6	418,6	52,2	396,7	350,5
CNS					
commercial banks	49,1	1,1	126,4	521,9	375,4
government	285,5	284,1	125,7	47,4	16,4
other sectors	221,2	135,6	52,9	77,8	8,5
Short term	3335,8	2836,3	2541,2	1984,8	4148,9
CNS					
commercial banks	74,2	149,1	92,2	1804,2	3847,2
government	3340,8	2642,1	2267,8		
other sectors	69,2	45,1	181,2	180,6	301,7
Liabilities	3739,3	4185,3	6827,3	4564,8	3220,4
Long term	347,5	690,2	3314,9	3506,8	758,1
CNS	44,5	1101,9	37,6		11,6
commercial banks	72,6	388,8	2274,6	1721,6	468,9
government	117,4	182,4	454,0	262,8	365,1
other sectors	493,0	1585,7	1456,7	2048,0	1603,7
Short term	3391,8	3495,1	3512,4	1058,0	2462,3
CNS	57,3	56,8	2,9	2,2	0,3
commercial banks	85,1	487,0	1041,4	1126,3	2124,3
government (liability vis a vis Slovakia)	3152,1	3007,5	2120,2	33,1	2,2
other sectors	97,3	57,4	347,9	33,0	340,5
Total A+B+C	2925,8	2544,3	6263,6	5,1	2063,7
D. BALANCE OF ERRORS AND OMISSIONS AND EXCHANGE RATE DIFFERENCES	103,5	212,7	594,5	833,1	297,0
Total A+B+C+D	3029,3	2371,6	7458,1	828,0	1766,7
E. CHANGE IN FOREIGN EXCHANGE RESERVES (- increase)	3029,3	2371,6	7458,1	828,0	1766,7

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

2) Preliminary data

3) Based on CSO published data according to customs statistics methodology effective 1 Jan. 1996;

1993 and 1994 data were taken from the CSO publication "Czech Foreign Trade 1993-1995", Dec. 1997

C. Methodological Note

With the intention of unifying the reporting of data on balance of payments vis-a-vis foreign countries (the IMF, OECD, Eurostat, etc.) and in the Czech Republic, the structure of items was adjusted in order to comply with the IMF recommendations stipulated in the Balance of Payments Manual (5th edition, 1993).

The **current account** structure does not, in principle, differ from the balances of payments published earlier. The unrequited transfer item, which is a part of the current account, continues to include current transfers (inheritance and donations, alimony, subsidies to foreign organisations and institutions from private funds, etc.) as well as government transfers (pensions, subsidies to international organisations from the state budget, assistance from abroad, etc.). Contrary to the previous methodology, capital transfers have been separated.

These transfers of capital nature are now consistently separated from the current account. They create a **capital account** with new content. This account includes, in addition to capital transfers connected with the migration of inhabitants, the mitigation of debts and ownership rights to fundamental funds, also transfers of non-productive non-financial tangible assets (land - for representative offices, natural resources) and intangible rights (patents, copyrights, etc.).

The **financial account** is the new name for the former capital account. The structure of its items is widened in such a way as to provide more detailed information on capital flows. Within the framework of portfolio investments, equities and debt equities are stated separately. Other investments are broken down both by time and basic sectors (the CNB, commercial banks, government and other sectors).

Now, the summary table of the balance of payments corresponds, in principle, to the analytical table published by the IMF both in balance of payments year books and in international financial statistics (IFS).

D. Balance of payments structure

a) - original	b) - according to the 5th edition of the Balance of Payments Structure Manual (IMF 1993)
<p>Current account</p> <ul style="list-style-type: none"> Balance of trade <ul style="list-style-type: none"> exports imports Balance of services <ul style="list-style-type: none"> revenues <ul style="list-style-type: none"> transport travel other services expenditures <ul style="list-style-type: none"> transport travel other services Balance of revenues <ul style="list-style-type: none"> credit debit Unrequited transfers: <ul style="list-style-type: none"> revenues expenditures 	<p>A. Current account</p> <ul style="list-style-type: none"> Balance of trade <ul style="list-style-type: none"> exports imports Balance of services <ul style="list-style-type: none"> revenues <ul style="list-style-type: none"> transport tourism other services expenditures <ul style="list-style-type: none"> transport tourism other services Balance of revenues <ul style="list-style-type: none"> credit debit Current transfers <ul style="list-style-type: none"> revenues expenditures <p>B. Capital accounts</p> <ul style="list-style-type: none"> revenues expenditures <p>Total A + B</p>
<p>Capital account</p> <ul style="list-style-type: none"> Direct investments <ul style="list-style-type: none"> abroad in Czech Republic Portfolio investments <ul style="list-style-type: none"> assets liabilities Other investments <ul style="list-style-type: none"> Long term <ul style="list-style-type: none"> assets liabilities Short term 	<p>C. Financial account</p> <ul style="list-style-type: none"> Direct investments <ul style="list-style-type: none"> abroad in Czech Republic: Portfolio investments <ul style="list-style-type: none"> assets <ul style="list-style-type: none"> property securities and interests debt securities liabilities <ul style="list-style-type: none"> property securities and interests debt securities Other investments <ul style="list-style-type: none"> assets <ul style="list-style-type: none"> long term <ul style="list-style-type: none"> CNS commercial banks government other sectors: short term <ul style="list-style-type: none"> CNS commercial banks government other sectors: liabilities <ul style="list-style-type: none"> long term <ul style="list-style-type: none"> CNS commercial banks government other sectors: short term <ul style="list-style-type: none"> CNS commercial banks government other sectors: <p>Total A + B + C</p>
Balance of errors and omissions, foreign exchange differences	D. Balance of errors and omissions, foreign exchange differences
	Total A + B + C + D
Change in foreign exchange reserves (increase)	E. Change in foreign exchange reserves (-increase)

IX. INVESTMENT POSITION VIS-A-VIS FOREIGN COUNTRIES

A. CZK in mil.

	1992	1993	1994	1995	1996	1997
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
ASSETS	406103,0	536388,7	572874,1	780693,0	832925,3	1025106,4
Direct investments abroad	2634,0	5432,9	8426,9	9190,1	10544,7	13300,0
initial capital	2634,0	5432,9	8426,9	9190,1	10544,7	13300,0
other capital						
Portfolio investments:	226,0	3258,0	12138,0	20076,9	37511,2	35738,9
property securities and interests	226,0	7911,1	9370,5	18422,0	20450,3	14442,0
debt securities		346,9	2767,5	1654,9	17060,9	21296,9
Other investments	378895,6	406717,6	377187,3	378388,3	444985,4	637542,8
Long term	232823,7	249198,8	229026,4	214430,3	234849,6	293651,8
CNB	23102,5	24572,5	24573,3	26172,3	26122,8	26122,4
commercial banks	365,9	1852,3	1763,0	5116,6	25181,3	37088,8
government	167429,3	186968,0	174784,1	157950,4	160949,7	203922,8
other sectors	41926,0	35806,0	27906,0	25191,0	22595,8	26517,8
Short term	146071,9	157518,8	148160,9	163958,0	210135,8	343891,0
CNB	4,7	4,7	4,7	4,7	4,7	0,1
commercial banks	82456,2	83133,2	80320,2	87176,3	128481,1	250670,9
of which: gold and foreign currency	79040,1	70727,5	71232,8	76126,9	95432,8	172301,6
government		5501,9				
other sectors	63611,0	68879,0	67336,0	76777,0	81650,0	93220,0
CNB reserves	24347,4	115980,2	175121,9	373037,7	339884,0	338524,7
gold	2488,2	2466,4	2309,3	2234,6	2290,3	1521,9
SDR	852,5	247,3		4,7		
foreign currency	21006,7	113266,5	172812,6	370798,4	337593,7	337002,8
LIABILITIES	269842,8	385205,3	469305,5	685146,2	864759,4	1087812,1
Direct investments to Czech republic	45444,3	64506,7	89501,1	157570,6	192987,3	234238,7
initial capital	45444,3	64506,7	89501,1	157570,6	192987,3	234238,7
other capital						
Portfolio investments	4812,9	58583,9	81617,5	124933,6	144807,4	169032,7
property securities and interests	75,0	32985,2	37335,6	70280,4	92867,8	104862,3
debt securities	4737,9	25598,7	44281,9	54653,2	51939,6	64170,4
Other investments	219585,6	262114,7	298186,9	402642,0	526964,7	684540,7
Long term	158430,0	192426,3	207289,7	279388,9	374814,7	452997,6
CNB	31109,9	33697,4	1605,7	2491,5	2272,7	2188,3
commercial banks	14491,1	16175,5	26040,1	90299,3	143454,2	143120,2
government	70771,0	82295,1	76533,9	53200,2	44003,7	38001,1
other sectors	42058,0	60258,3	103020,0	133397,9	185084,1	269688,0
Short term	61155,6	69688,4	90897,2	123253,1	152150,0	231543,1
CNB	8,2	4581,0	37,9	115,0	55,3	45,5
commercial banks	19527,4	22249,3	41339,9	69502,9	101543,5	168927,1
government	0,0	0,0	5013,4	1104,1	314,8	287,5
other sectors	41620,0	42858,1	44506,0	52531,1	50236,4	62283,0
BALANCE OF INVESTMENT POSITION	136260,2	151183,4	103568,6	95546,8	31834,1	62705,7

1) Preliminary data

2) In connection with the introduction of CZK convertibility (1 Oct 1995), CZK assets and liabilities vis a vis non residents are included in the bank position; (non resident CZK deposits are included in commercial banks short term liabilities as of 31 Dec. 1994)

3) During January 1993, part of the receivables in convertible and non convertible currencies was transferred from the CSOB position to the Ministry of Finance; in column 1 Jan 1993 these amounts are included in the Government position; receivable vis a vis CIS in debt as of 1 Jan 1993 is expressed by the balance of accounts in TRF and USD, while in later periods accounts are kept via turnover

4) Including foreign exchange shares in international non financial organisations (The World Bank, EBRD, IBEC, IIB)

5) Gold worth USD 42,22 per Troy ounce

6) Foreign exchange convertible currencies

B. USD in mil.

		1993	1993	1994	1995	1996	1997
		1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
ASSETS		14052,5	17906,4	20424,0	29347,2	30474,4	29596,6
Direct investments abroad		91,1	181,3	300,4	345,5	335,8	344,0
initial capital		91,1	181,3	300,4	345,5	335,8	344,0
other capital							
Portfolio investments		7,9	275,7	432,7	754,7	1372,4	1031,9
property securities and interests		7,9	264,1	334,0	692,5	748,2	417,0
debt securities			11,6	98,7	62,2	624,2	614,9
Other investments		13111,0	13577,6	13447,5	14224,1	16230,8	13406,9
Long term		3056,5	3319,1	3165,2	3060,7	3592,6	3478,2
CNS		799,4	320,3	376,1	933,8	955,8	754,2
commercial banks	2)	12,7	61,8	62,9	192,3	921,3	1070,8
government	3) 4)	5793,6	6241,6	6231,4	5937,6	5833,7	5887,6
other sectors		1450,8	1195,4	994,8	947,0	326,8	765,6
Short term		5054,5	5258,5	5282,3	6163,4	7633,2	9928,7
CNS		0,2	0,2	0,2	0,2	0,2	0,0
commercial banks	2)	2853,2	2775,2	2331,4	3277,1	4700,7	7237,3
of which: gold and foreign exchange currency	5) 6)	2735,0	2361,1	2539,6	2861,7	3491,6	4974,6
government			183,7				
other sectors		2201,1	2299,4	2400,7	2336,1	2987,3	2691,4
CNS reserves		842,5	3871,8	6243,4	14022,9	12435,4	9773,8
gold	5)	86,1	82,3	82,3	34,0	33,8	43,9
SDR		29,5	8,3		0,2		
foreign exchange currency		726,9	3781,2	6161,1	13938,7	12351,6	9729,9
LIABILITIES		9337,4	12359,5	16731,7	25755,4	31639,1	31407,0
Direct investments to Czech republic		1572,5	2153,4	3190,9	5923,2	7060,9	6762,9
initial capital		1572,5	2153,4	3190,9	5923,2	7060,9	6762,9
other capital							
Portfolio investments		166,5	1955,8	2909,8	4696,3	5298,0	4830,3
property securities and interests		2,6	1101,2	1331,1	2641,9	3397,7	3027,6
debt securities		163,9	354,6	1578,7	2054,4	1900,3	1852,7
Other investments		7598,4	8750,3	10631,0	15135,9	19230,2	19763,8
Long term		5432,2	6423,8	7390,4	10502,6	13713,5	13078,8
CNS		1076,5	1124,9	60,5	93,7	33,2	63,2
commercial banks	2)	501,4	540,0	928,4	3394,5	5248,6	4132,1
government	3)	2448,9	2747,3	2728,6	1999,8	1610,0	1097,1
other sectors		1455,4	2011,6	3672,9	5014,6	6771,7	7786,4
Short term		2116,2	2326,5	3240,6	4633,3	5566,7	6685,0
CNS		0,3	152,9	1,3	4,3	2,0	1,3
commercial banks	2)	675,7	742,8	1473,9	2612,7	3715,2	4877,2
government				178,7	41,5	11,5	8,3
other sectors		1440,2	1430,8	1586,7	1974,3	1838,0	1798,2
SALANCE OF INVESTMENT POSITION		4715,1	5046,9	3692,3	3591,8	1164,7	1810,4

1) Preliminary data

2) In connection with the introduction of CZK convertibility (1 Oct 1995), CZK assets and liabilities vis a vis non residents are included in the bank position. (Non resident CZK deposits are included in commercial bank short term liabilities as of 31 Dec. 1994)

3) During January 1993, part of the receivables in convertible and non convertible currencies was transferred from the CSO's position to the Ministry of Finance; in column 1 Jan. 1993 these amounts are included in the Government position; receivable vis a vis CFI in data as of 1 Jan. 1993 is expressed by the balance of accounts in XTR and USD, while in later periods accounts are kept via turnover

4) Including foreign exchange shares in international non financial organisations (The World Bank, EBRD, ISFC, IIB)

5) Gold worth USD 42,22 per Troy ounce

6) Foreign exchange convertible currencies

X. GROSS EXTERNAL DEBT

A. CZK in mil.

	1993 1 Jan.	1993 31 Dec.	1994 31 Dec.	1995 31 Dec.	1996 31 Dec.	1997 31 Dec. 1)
A. INDEBTEDNESS IN CONVERTIBLE CURRENCIES	204674,7	254433,1	299960,7	440229,3	569723,6	739563,0
of which:						
1. Long term	152695,1	194525,0	213944,5	306034,4	405143,6	495058,5
a) by debtor						
CHB	35399,8	53336,1	22845,3	22263,0	11173,4	11548,4
commercial banks 2)	14491,1	16175,5	27620,1	95433,3	150730,1	153503,7
government	61147,2	59477,1	61763,4	52101,7	46738,6	42377,1
other sectors	41657,0	60036,3	106715,7	136231,4	196446,5	232129,3
b) by creditor						
foreign banks	62121,2	32849,3	124224,3	213310,9	300910,4	373453,1
government institutions	6635,9	7346,8	7432,1	7039,1	6631,8	7269,4
multilateral institutions	50127,1	52391,7	19339,7	13937,2	17645,5	13394,1
suppliers and direc. investors	29023,0	25838,0	32601,0	24567,0	27116,0	33738,0
other investors	4737,9	25593,7	34746,9	37130,2	52339,9	66703,9
2. Short term	51979,6	59963,1	81016,2	134194,9	164580,0	244504,5
a) by debtor						
CHB	7,9	4581,0	37,9	115,0	55,3	45,5
commercial banks 2)	17819,7	21117,0	32610,3	71911,8	106352,6	170147,0
government			9535,0	15114,0	2786,0	8164,0
other sectors	34152,0	34265,1	33333,0	47054,1	54336,1	66148,0
b) by creditor						
foreign banks	11402,7	22256,0	23467,5	53374,2	35424,0	144331,3
suppliers and direc. investors	33069,0	29664,0	34132,0	41936,4	45914,0	55413,0
other investors	7507,9	3043,1	13416,7	33334,3	33242,0	44210,2
B. INDEBTEDNESS IN NON CONVERTIBLE CURRENCIES 3)	19648,8	33225,3	42503,1	17065,9¹⁾	9130,7	9148,1
of which:						
a) long term	10472,3	23500,0	23092,1	10484,7	8865,9	8860,6
b) short term	9176,0	9725,3	19416,0	6581,2	314,8	237,5
TOTAL INDEBTEDNESS VIS A VIS FOREIGN COUNTRIES (A+B)	224323,5	287713,4	342463,8	457295,2	578904,3	748711,1
of which:						
a) long term	163167,9	213025,0	242036,6	316519,1	414009,5	503919,1
b) short term	61155,6	69688,4	100432,2	140776,1	164894,8	244792,0

1) Preliminary data

2) As of 31 Dec. 1995 short term and as of 31 Dec. 1996 also long term CZK liabilities vis a vis non residents are included in commercial bank liabilities in convertible currencies, while in data as of 31 Dec. 1994 means in non resident CZK accounts are included in short term liabilities in non convertible currencies and vis a vis the Slovak Republic.

(methodological change connected to the introduction of CZK convertibility from 1 Oct. 1995)

3) Indebtedness vis a vis the Slovak Republic in 1993 to 1995 in non convertible currencies, from 1996 the unsettled balance of mutual accounts after cancelling clearing is given in non convertible currencies; other liabilities vis a vis the Slovak Republic are included in convertible currencies in compliance with the Ministry of Finance Provision No 232/70490/95 of 22 Dec. 1995.

B. USD in mil.

	1993	1993	1994	1995	1996	1997
	1 Jan.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec. 1)
A. INDEBTEDNESS IN CONVERTIBLE CURRENCIES	7082,4	8495,8	10694,2	16548,8	20844,6	21352,4
of which:						
1. Long-term	5283,7	6494,0	7805,9	11504,2	14823,1	14293,2
a) by debtor						
- CNB	1224,9	1964,1	814,5	837,1	409,0	333,4
- commercial banks 2)	501,4	540,0	984,7	3587,5	5516,6	4576,2
- government	2115,9	1985,6	2202,0	1958,5	1710,1	1237,9
- other sectors	1441,5	2004,3	3804,7	5121,1	7187,4	8145,7
b) by creditor						
- foreign banks	2149,6	2765,9	4428,9	8206,6	11009,5	10782,2
- government institutions	231,4	245,3	266,7	264,6	242,6	209,9
- multilateral institutions	1734,5	1765,6	709,2	713,8	645,6	401,1
- suppliers and direct investors	1004,3	862,6	1162,3	923,5	992,1	974,1
- other investors	163,9	854,6	1238,8	1395,7	1933,3	1925,9
2. Short-term	1798,7	2001,8	2888,3	5044,6	6021,5	7059,2
a) by debtor						
- CNB	0,3	152,9	1,3	4,3	2,0	1,3
- commercial banks 2)	616,6	705,0	1162,6	2703,3	3900,5	4912,4
- government			339,9	568,1	101,9	235,7
- other sectors	1181,8	1143,9	1384,5	1768,9	2008,1	1909,8
b) by creditor						
- foreign banks	394,6	743,0	1014,9	2213,2	3125,4	4182,9
- suppliers and direct investors	1144,3	990,3	1216,9	1578,4	1679,9	1599,9
- other investors	259,8	268,5	656,5	1253,0	1216,2	1276,4
B. INDEBTEDNESS IN NON-CONVERTIBLE CURRENCIES 3)	679,9	1109,1	1515,5	641,5	335,9	264,1
of which:						
a) long-term	362,4	784,4	823,3	394,1	324,4	255,8
b) short-term	317,5	324,7	692,2	247,4	11,5	8,3
TOTAL INDEBTEDNESS VIS-A-VIS FOREIGN COUNTRIES (A+B)	7762,3	9604,9	12209,7	17190,3	21180,5	21616,5
of which:						
a) long-term	5646,1	7278,4	8629,2	11898,3	15147,5	14549,0
b) short-term	2116,2	2326,5	3580,5	5292,0	6033,0	7067,5

1) Preliminary data

2) As of 31 Dec. 1995 short-term and as of 31 Dec. 1996 also long-term CZK liabilities vis-a-vis non-residents are included in commercial bank liabilities in convertible currencies, while in data as of 31 Dec. 1994 means in non-resident CZK accounts are included in short-term liabilities in non-convertible currencies and vis-a-vis the Slovak Republic.

(methodological change connected to the introduction of CZK convertibility from 1 Oct. 1995)

3) Indebtedness vis-a-vis the Slovak Republic: in 1993 to 1995 in non-convertible currencies, from 1996 the unsettled balance of mutual accounts after cancelling clearing is given in non-convertible currencies; other liabilities vis-a-vis the Slovak Republic are included in convertible currencies in compliance with the Ministry of Finance Provision No 282/70.490/95 of 22 Dec. 1995.

XI. EXCHANGE RATE

A. NOMINAL RATE

CZK, average rate midpoint

	1992	1993	1994	1995	1996	1997						
	1-12	1-12	1-12	1-12	1-12	3	6	9	10	11	12	1-12
EXCHANGE RATE OF CZK												
VIS-A-VIS SELECTED CURRENCIES												
1. Convertible currencies:												
1 GBP	49,89	43,78	44,03	41,89	42,33	46,92	53,19	53,82	53,56	55,91	57,72	51,95
1 FRF	5,35	5,15	5,19	5,32	5,31	5,10	5,56	5,59	5,62	5,72	5,84	5,43
1000 ITL	23,05	18,56	17,85	16,30	17,59	17,23	19,11	19,24	19,10	19,54	19,84	18,61
100 JPY	22,34	26,32	28,15	28,34	24,99	23,84	28,31	27,86	27,19	26,56	26,87	26,29
1 CAD	23,41	22,61	21,09	19,34	19,90	21,31	23,38	24,25	23,79	23,48	24,37	22,91
1 NLG	16,09	15,70	15,82	16,53	16,11	15,30	16,69	16,68	16,60	17,14	17,35	16,25
1 ATS	2,57	2,51	2,52	2,63	2,57	2,45	2,67	2,67	2,66	2,72	2,78	2,60
1 DEM	18,12	17,64	17,75	18,52	18,06	17,21	18,77	18,78	18,70	19,15	19,55	18,28
1 CHF	20,14	19,74	21,06	22,45	22,02	19,92	22,50	22,82	22,61	23,56	24,16	21,85
1 USD	28,29	29,16	28,78	26,55	27,14	29,20	32,37	33,63	32,92	33,14	34,73	31,71
100 SKK x)	...	...	...	89,49	88,57	87,93	96,72	97,66	97,69	98,85	100,58	94,18

x) Introduction of external convertibility, setting of official exchange rate

B. REAL RATE

CZK, average rate midpoint

	1992	1993	1994	1995	1996	1997						
	1-12	1-12	1-12	1-12	1-12	3	6	9	10	11	12	1-12
1. Weighted exchange rate x)	20,24	21,20	21,61	21,33	21,24	21,41	18,77	18,78	18,70	19,15	19,55	19,99
2. Index of real exchange rate of USD and DEM (in %, December 1989=100) x)												
a) vis-a-vis consumer prices												
- USA	86,30	98,13	106,72	122,76	126,87	120,56	110,13	112,06	114,78	114,31	109,51	115,55
- Germany	77,41	92,33	98,01	100,61	110,71	119,61	110,64	117,17	118,20	115,72	113,26	116,60
b) vis-a-vis industrial producer prices												
- USA	96,07	103,69	108,87	124,56	124,30	118,36	108,23	105,59	108,00	109,21	105,02	111,75
- Germany	83,81	97,41	101,25	102,56	110,76	119,31	108,49	109,39	110,71	108,36	106,21	114,24
3. Index of weighted real exchange rate x)												
(in %, December 1989=100)												
a) vis-a-vis consumer prices	81,62	95,12	102,03	110,38	118,30	120,56	110,80	115,11	117,02	115,51	111,82	116,49
b) vis-a-vis industrial producer prices	89,22	100,39	104,92	112,33	117,46	119,57	108,73	107,82	109,79	108,94	105,70	112,69

x) Weighted exchange rate = nominal exchange rate weighted by the existing CZK currency basket

x) Nominal exchange rate adjusted for the inflationary differential (i.e. the ratio of price levels between the CR, USA and Germany)

x) CZK weighted exchange rate, 65% DEM and 35% USD adjusted throughout the entire period by the weighted inflationary differential with the ratio of 65% of the price level between the CR and Germany and 35% of the price levels between the CR and the USA.

XII. STATE BUDGET

CZK in bn, end of period balance

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
1. TOTAL REVENUES	257,4	358,0	390,5	440,0	482,8	706,8	247,5	367,7	478,7	457,3	509,0
of which:											
a) Value added tax	..	70,4	85,8	94,8	709,3	27,9	52,7	87,7	97,6	705,6	777,6
b) Consumer taxes	..	37,7	46,4	56,7	67,2	73,7	29,3	46,3	52,4	58,2	64,2
c) Income tax	..	77,9	70,2	72,7	78,3	76,2	39,2	54,5	67,0	65,6	74,8
d) Customs duties	..	75,2	77,4	77,7	79,7	3,4	7,4	70,8	72,7	73,4	74,9
2. TOTAL EXPENDITURES	253,7	356,9	380,7	432,8	484,4	775,3	256,3	377,9	422,0	463,5	524,7
of which:											
a) Non-investment expenditures to budgetary organisations	..	779,2	743,5	772,3	207,5	37,4	96,2	779,8	753,9	770,0	794,5
b) Non-investment subsidies to businesses	..	29,3	27,0	24,3	27,3	7,9	75,3	79,4	23,2	24,7	37,8
c) Transfers to households	..	776,6	776,9	757,3	754,3	57,2	700,9	757,5	770,2	787,0	206,0
d) Investment expenditures to budgetary organisations	..	26,9	29,6	57,0	52,4	6,4	20,4	30,5	34,7	37,8	45,0
3. BALANCE	-7,7	7,7	70,4	7,2	-7,6	-6,5	-74,8	-70,2	-3,9	-6,2	-75,7
<u>For information:</u>											
1. Net credit to Government from banking sector	33,7	35,7	23,7	25,4	28,5	34,4	47,3	37,2	26,7	24,8	37,9
2. Budget balance in % of GDP	-0,2	0,7	0,9	0,5	-0,7	..	..	..	..	..	-7,0

XIII. CAPITAL MARKET

A. STOCK EXCHANGE

CZK in mil. number

	1993	1994	1995	1996	1997			
	1-12	1-12	1-12	1-12	10	11	12	1-12
A. VOLUME OF TRADE								
1. Total volume of trade	9020	62026	195407	393200	58478	45668	63249	679537
of which:								
a) Automated system	2009	16026	21985	28772	2294	1455	1368	22081
b) Direct trades and block trades	7011	46000	173422	364428	56184	44213	61881	657456
2. Traded issues (number of securities - average)	140	376	630	622	242	240	209	385
B. TRADE STRUCTURE								
1. Total volume of trade	9020	62026	195407	393200	58478	45668	63249	679537
of which:								
a) Main market (until 1 Sept. 1995 quoted market)								
bonds	3534	43353	136690	262665	49385	39123	50887	564527
shares and share certificates	1267	15501	57975	112896	27221	26193	38735	366581
b) Free market (until 1 Sept. 1995 unquoted market)								
bonds	5486	18673	58503	92112	7393	5680	10673	93781
shares and share certificates	624	3931	11789	28584	5223	4885	9147	64521
c) Secondary market			214	38423	1700	865	1689	21229
bonds				1785	150	270	106	2134
shares and share certificates			214	36638	1550	595	1583	19095

B. RM - SYSTEM

CZK in mil. number

	1993	1994	1995	1996	1997			
	1-12	1-12	1-12	1-12	10	11	12	1-12
1. Total volume of trade and transfers	2904	4411	27291	100690	20036	30012	36870	158690
of which:								
a) Periodic auction	2904	2278						
b) Running auction	0	2133	5825	9498	898	654	547	7585
c) Direct and block trades	0	0	19376	90930	19173	29349	36290	150982
d) Transfers with price declared	0	0	2090	262	15	9	33	123
2. Traded issues (number of security issues - average)	664	672	600	836	668	655	536	624

C. CNB - 120 INDEX

monthly averages

	1993	1994	1995	1996	1997			
	1-12	1-12	1-12	1-12	10	11	12	1-12
CNB 120 INDEX x1	1000	993	698	792	758	702	670	755
of which:								
food processing industry	1000	983	858	1155	1018	880	846	1051
construction and building								
material industry	1000	1571	982	1026	658	626	555	753
engineering and electrical engineering	1000	845	739	958	1019	923	830	1011
energy	1000	1187	863	926	1003	931	946	921
trade and services	1000	857	634	557	240	226	233	257
finance	1000	783	878	1133	1013	919	855	1040
of which:								
monetary system	1000	832	837	1197	757	668	594	893

*) Up to February 28, 1995, the index base was 16 Dec. 1993 = 1000, since March 1, 1995, the index base has been 1 Apr. 1995 = 1000

XIV. CNB MONETARY POLICY INSTRUMENTS

	As of 1 Jan. 1997	Change during the period			
1. DISCOUNT RATE	10.5%	27 May	13.0%		
2. LOAN RATE	14.0%	16 May	50%		
		27 Jun.	23%		
3. REPO RATE					
a) 1 week	12.40%	16 May	12.40%	8 Jul.	16.50%
		19 May	45.00%	9 Jul.	16.20%
		23 May	75.00%	15 Jul.	16.00%
		2 Jun.	45.00%	22 Jul.	15.70%
		6 Jun.	39.00%	23 Jul.	15.20%
		11 Jun.	31.00%	28 Jul.	14.90%
		13 Jun.	29.00%	4 Aug.	14.50%
		18 Jun.	25.00%	7 Dec.	19.00%
		20 Jun.	22.00%	2 Dec.	18.50%
		23 Jun.	20.00%	3 Dec.	17.75%
		24 Jun.	18.50%	4 Dec.	17.00%
		30 Jun.	18.20%	9 Dec.	15.50%
		7 Jul.	17.90%	17 Dec.	15.00%
		7 Jul.	17.00%		
b) 2 week	12.40%	4 Jun.	39.00%	23 Jul.	15.40%
		11 Jun.	29.00%	24 Jul.	15.20%
		18 Jun.	25.00%	28 Jul.	14.90%
		20 Jun.	22.00%	7 Aug.	14.70%
		23 Jun.	20.00%	4 Aug.	14.50%
		24 Jun.	18.50%	31 Oct.	14.80%
		30 Jun.	18.20%	7 Dec.	18.50%
		7 Jul.	17.90%	2 Dec.	18.00%
		7 Jul.	17.00%	3 Dec.	17.50%
		8 Jul.	16.50%	4 Dec.	16.75%
		9 Jul.	16.20%	9 Dec.	15.50%
		16 Jul.	16.00%	10 Dec.	15.00%
		22 Jul.	15.70%	17 Dec.	14.75%
4. MINIMUM RESERVES REQUIREMENT	11.5 % of primary deposits of banks 4 % of primary deposits of building societies and CMZRB	8 May	9.5%		
5. FOREIGN EXCHANGE RATE VIS-A-VIS CONVERTIBLE CURRENCIES					
a) currency basket	65 % DEM, 35 % USD	27 May	Cancellation of link to currency basket and fluctuation band for exchange rate oscillations; replaced with managed floating system with link to DEM		
b) fluctuation band	+ - 7.5 %				
6. TRADING ON FOREIGN EXCHANGE FIXING					
a) exchange rate	exchange rate midpoint + - 0.25 %	30 Jun.	Regulation for trading on CNB fixing cancelled		
b) currencies	USD, DEM				
c) requirements of banks	max. 2 per currency				
d) minimum amount of orders	USD 3 mil., DEM 5 mil.				
e) settlement	American auction system				

REAL ECONOMICS

I. MACROECONOMIC AGGREGATES

CZK in bn, increase in % to the same period of the previous year, constant prices of 1994

	1994	1995	1996		1997		
	t-tV %	t-tV %	t-tV %	t %	t-t %	t-tt %	t-tV %
1. GROSS DOMESTIC PRODUCT							
- CZK in bn	1148,6	1221,6	1269,4	284,8	603,0	929,4	1281,8
- %	...	6,4	3,9	1,2	0,9	0,5	1,0
2. FINAL CONSUMPTION - TOTAL							
- CZK in bn	827,0	861,8	915,4	210,8	444,8	672,7	921,2
- %	...	4,2	6,2	3,1	3,0	1,1	0,6
of which:							
a) Households	564,0	603,1	645,5	147,8	317,4	482,0	656,1
- CZK in bn	...	6,9	7,0	4,0	4,9	2,4	1,6
- %
b) Government	255,5	250,3	260,6	60,9	123,0	183,5	255,0
- CZK in bn	...	-2,0	4,1	0,8	-1,7	-2,3	-2,1
- %
c) Non-profit institutions	7,5	8,4	9,3	2,1	4,4	7,2	10,1
- CZK in bn	...	12,0	10,7	10,5	4,8	5,9	8,6
- %
3. CREATION OF GROSS CAPITAL - TOTAL							
- CZK in bn	346,1	426,1	481,5	107,2	217,5	337,7	470,7
- %	...	23,1	13,0	9,6	1,3	-2,1	-2,2
of which:							
a) Fixed capital	339,9	411,2	446,8	82,8	181,1	283,8	425,1
- CZK in bn	...	21,0	8,7	-0,6	-5,0	-6,7	-4,9
- %
b) Stocks and reserves	6,2	14,9	34,7	24,4	36,4	53,9	45,6
- CZK in bn	...	...	...	...	...	...	...
4. FOREIGN TRADE BALANCE							
- CZK in bn	-24,5	-66,3	-127,5	-33,2	-59,3	-81,0	-110,1
of which:							
a) Exports	608,0	705,6	743,9	114,5	383,8	592,1	819,9
- CZK in bn	...	16,1	5,4	1,3	6,7	8,3	10,2
- %
b) Imports	632,5	771,9	871,4	207,7	443,1	673,1	930,0
- CZK in bn	...	22,0	12,9	7,5	8,5	6,4	6,7
- %
For information:							
1. DOMESTIC ACTUAL DEMAND							
- CZK in bn	1166,9	1273,0	1362,2	293,6	625,9	956,5	1346,3
- %	...	9,1	7,0	2,1	0,5	-1,4	-1,2
2. AGGREGATE ACTUAL DEMAND							
- CZK in bn	1174,9	1278,6	1306,1	468,1	1009,7	1548,6	2166,2
- %	...	11,5	6,4	1,8	2,8	2,1	2,9
3. GROSS DOMESTIC PRODUCT IN CURRENT PRICES							
- CZK in bn	1148,6	1348,7	1532,6	350,8	757,3	1179,5	1649,5
- %	...	17,4	13,6	7,6	7,0	6,9	7,6
- %
4. PRICE DEFLECTOR							
- %	...	10,4	9,4	6,3	6,0	6,4	6,6

II. OUTPUT

	CZK in bn, increase in % to the same period of the previous year								
	1992	1993	1994	1995	1996	1997			
	I-IV Q	I-IV Q	I-IV Q	I-IV Q	I-IV Q	I Q	I-II Q	III Q	I-IV Q
A. INDUSTRY									
1. TOTAL PRODUCTION OF GOODS 3)	-7,9	-5,3	2,7	8,7	6,4	...	...	...	...
2. TOTAL INDUSTRIAL PRODUCTION 2)	...	...	...	...	7,8	-3,5	0,6	2,7	4,5
B. CONSTRUCTION									
1. TOTAL CONSTRUCTION OUTPUT 4)	79,7	-7,5	7,5	8,5	4,8	-5,2	-7,2	-3,4	-3,9
of which:									
a) Businesses with 25 or more employees	2,5	-70,7	6,0	8,4	4,2	-5,9	-7,4	-3,5	-4,7
- state	-9,0	-26,2	-5,5	-4,6	-8,8	-0,2	5,7	3,9	77,4
- private	69,7	8,6	6,2	70,0	0,9	-2,7	0,7	-3,3	-3,7
- co-operative	...	...	...	-75,7	-7,9	-70,8	26,6	-0,9	-7,0
- other	...	...	...	7,2	74,5	...	...	...	...
b) Businesses with less than 25 employees 3)	722,7	7,5	74,7	9,7	8,7	-7,7	0,0	-2,4	-2,9
C. AGRICULTURE									
1. TOTAL GROSS PRODUCTION 5)									
- CZK in bn	85,0	83,7	78,7	82,0	80,9	...	...	...	76,7
- %	-72,7	-2,3	-6,0	5,0	-7,4	...	...	...	-5,9
of which:									
a) Crop production									
- CZK in bn	35,8	37,4	34,7	35,7	36,4	...	...	...	35,3
- %	-76,9	4,6	-7,2	2,9	2,7	...	...	...	-2,9
b) Livestock production									
- CZK in bn	49,3	45,7	43,4	46,3	44,5	...	...	...	40,8
- %	-8,2	-7,3	-4,9	6,7	-4,0	...	...	...	-8,4
2. SALES IN AGRICULTURE BY SELECTED PRODUCTS (%) 4)									
a) Cattle for slaughter	...	...	...	...	-0,4	-4,5	7,5	5,8	5,7
b) Pigs for slaughter	...	...	...	...	2,5	4,3	7,3	5,7	4,7
c) Milk	...	...	...	...	0,4	-3,6	-3,2	-3,8	-3,2

1) Constant prices as of 1 Jan. 1989, from 1997 not monitored

2) Since 1996, the index of industrial production based on statistics of production of selected products

3) Natural entities registered and not registered in the company register included

4) Constant prices

5) Constant prices of 1989

III. AGGREGATE DEMAND

CZK in bn, increase in % to the same period of the previous year

	1992	1993	1994	1995	1996	1997			
	I-IV	I-IV	I-IV	I-IV	I-IV	I	I-II	I-III	I-IV
A. TOTAL RETAIL SALES 1)									
- current prices	8	8	8	14,8	20,2	7,6	8,3	6,5	7,4
- constant prices 2)	8	8	8	6,5	12,1	2,5	3,5	1,4	1,9
B. HOUSEHOLD MONEY INCOMES AND EXPENDITURES x)									
1. NOMINAL INCOMES AND EXPENDITURES									
a) Total nominal incomes	17,7	27,6	19,0	18,4	13,3	12,6	13,1	12,9	12,1
of which:									
- wages	8,7	25,7	19,0	18,1	16,8	11,1	10,2	9,6	8,2
- social	32,8	11,8	14,0	14,7	16,2	13,8	11,9	12,7	13,2
- other	24,6	43,2	21,3	20,6	5,5	14,8	20,0	19,2	18,7
b) Nominal expenditures - total	20,3	25,3	17,8	16,0	15,4	9,8	11,7	10,4	10,3
of which:									
- expenditures on goods and services	18,3	25,7	16,4	14,8	16,1	10,4	12,1	10,2	10,0
- other expenditures	26,5	24,1	17,2	17,3	15,4	7,4	8,9	11,6	14,1
- taxes, social security contributions ³⁾			26,1	21,2					
- taxes					16,8	6,0	10,5	10,3	9,8
- social security contributions					8,1	11,4	12,2	10,9	10,5
2. REAL INCOMES AND EXPENDITURES									
a) Real incomes	5,9	5,6	8,2	8,5	4,1	5,1	5,8	4,6	3,3
b) Real expenditures	8,3	3,7	7,1	6,3	6,1	2,5	4,5	2,3	1,7
C. AVERAGE WAGES									
1. NOMINAL WAGES IN TOTAL	22,5	25,3	18,5	17,5	18,0	13,7	13,3	13,1	11,9
of which:									
a) Business sector		24,8	16,4	17,7	17,1	14,1	13,8	13,6	13,6
of which:									
- industry	19,6	23,8	15,7	17,0	17,4	13,5	13,8	13,5	13,5
- construction	22,4	28,6	14,6	14,8	15,3	11,2	9,8	9,7	9,5
- agriculture	14,2	20,1	13,4	16,7	13,8	11,0	10,6	9,6	8,5
- transport, storage, communications	16,2	24,0	17,8	21,6	18,8	14,9	14,9	15,1	15,0
- trade, car repair	25,0	20,6	17,3	18,5	16,1	12,1	11,8	11,9	10,6
b) Budgetary and subsidised sector		25,8	19,5	17,3	20,6	12,2	11,6	11,2	5,8
of which:									
- school system	22,5	23,4	20,2	17,3	20,9	9,2	9,6	9,6	6,2
- health care and social security	19,4	25,4	17,4	15,8	20,5	15,1	12,9	11,8	6,2
- public administration	29,4	31,1	20,7	16,3	18,9	10,1	9,8	9,0	2,8

x) Since 1996, change of methodology

1) Retail sales including repairs of consumer goods, sales and repairs of motor vehicles and sales of fuels

2) Constant prices (average of 1994 = 100)

3) In 1992, 1993 included in other expenditures

	CZK in bn, increase in % to the same period of the previous year								
	1992	1993	1994	1995	1996	1997			
	I-IV Q	I-IV Q	I-IV Q	I-IV Q	I-IV Q	I Q	I-II Q	I-III Q	I-IV Q
2. TOTAL REAL WAGES	10,3	3,7	7,7	7,7	8,5	6,2	6,0	4,8	3,1
of which:									
a) Business sector	10,3	3,3	5,8	7,9	7,6	6,5	6,5	5,3	4,7
of which:									
industry	7,4	2,5	4,8	7,2	7,9	6,0	6,5	5,2	4,6
construction	9,8	6,5	3,8	5,2	6,0	3,8	2,7	1,7	0,9
agriculture	2,5	0,6	2,7	7,0	4,7	3,6	3,5	1,6	0,0
transport, storage, communications	4,3	2,6	6,7	11,5	9,2	7,3	7,5	6,7	6,0
trade, car repair	12,2	0,2	6,3	8,6	6,7	4,7	4,6	3,7	1,9
b) Budgetary and subsidised sector	10,3	4,1	8,6	7,5	10,8	4,8	4,4	3,1	2,5
of which:									
school system	10,0	2,1	8,9	7,5	11,1	2,0	2,5	1,6	3,2
health care and social security	7,2	3,8	6,3	6,1	10,8	7,5	5,6	3,6	2,1
public administration	16,2	8,5	9,3	6,6	9,3	2,8	2,7	1,0	5,3
D. SHARE OF FINANCIAL ASSETS AND LIABILITIES CHANGE IN DISPOSABLE INCOMES 4)	10,3	10,3	10,3	7,9	8,2	6,7	8,5	7,9	9,2
E. FINANCIAL PERFORMANCE OF BUSINESSES)									
1. PROFIT									
CZK in bn	10,3	39,1	77,8	130,7	53,7	21,9	41,8	55,1	56,7
2. PROFITABILITY (%)									
of total costs	10,3	1,8	3,7	4,3	2,2	3,8	3,4	2,9	2,1
3. LIABILITIES AND INDEBTEDNESS									
a) Liabilities over due (CZK in bn)	10,3	137,7	119,3	121,9	121,4	135,1	139,6	137,0	143,5
b) Primary insolvency (CZK in bn)	10,3	36,2	36,6	34,4	35,0	38,7	43,5	47,2	50,0

4) Financial assets are CZK and foreign exchange deposits, cash and securities, change in additional pension and life insurance reserves; financial liabilities are CZK and foreign exchange loans

5) Non financial corporations and businesses (domestic joint stock companies, joint stock companies with foreign participation, state enterprises controlled by central, regional and municipal authorities, international businesses and associations, co-operatives) with 25 or more employees. Since 1994, in industry, trade and catering with 100 or more employees

€K in bn, increase in % to the same period of the previous year

	1992	1993	1994	1995	1996	1997
	1-IV	1-IV	1-IV	1-IV	1-IV	1-IV
	1994 average = 100					
F. INVESTMENT AND HOUSING						
1. TOTAL TANGIBLE INVESTMENT						
- CZK in bn 6)	265,0	283,9	330,2	430,2	477,5	459,8
- % 7)	...	7,1	16,3	30,3	11,0	-3,7
of which:						
a) Structure of investments						
- construction						
€K in bn	143,3	132,4	135,2	184,7	178,2	175,4
%	...	7,6	2,1	36,6	-3,5	-1,6
- machines and equipment						
€K in bn	111,4	131,1	159,2	218,2	250,8	220,7
%	...	17,7	21,4	37,1	14,9	-12,0
- other investments						
€K in bn	10,3	20,4	35,9	27,3	48,4	63,7
%	...	97,9	75,8	-24,0	77,6	31,5
b) Volume of investments by sector						
- non-financial institutions						
€K in bn	171,3	176,1	206,3	263,0	310,1	320,3
%	...	2,9	17,1	27,5	17,9	3,3
- financial institutions						
€K in bn	19,0	29,6	34,2	49,5	58,0	18,5
%	...	56,3	15,4	44,9	17,1	-68,2
- public institutions						
€K in bn	51,9	56,0	66,2	88,9	77,9	77,9
%	...	8,0	18,2	34,2	-12,3	0,0
- households						
€K in bn	22,9	22,1	23,5	28,8	31,5	43,1
%	...	-3,5	6,5	22,5	9,3	37,0
2. HOUSING CONSTRUCTION						
a) Completed housing						
- number in thousands	36,4	31,5	18,2	12,7	14,0	15,9
- %	-12,8	-13,4	-42,4	-30,3	10,9	13,3
b) Housing undertaken						
- number in thousands	8,4	7,5	11,0	16,5	21,5	31,4
- %	-22,7	-11,6	47,1	50,9	...	46,0
c) Housing undertaken in the previous period						
- number in thousands	97,8	72,4	62,1	66,2	73,5	88,4
- %	-23,8	-26,0	-14,2	6,5	...	20,3

6) Constant prices of 1994

7) Year-on-year increase

	1992	1993	1994	1995	1996	1997			
	I-IV Q	I-IV Q	I-IV Q	I-IV Q	I-IV Q	I Q	I-II Q	I-III Q	I-IV Q
For information									
Average nominal wage (CZK)									
Economy in total	4644	5817	6896	8171	9676	9392	10208	10296	10695
of which:									
a) Business sector		5921	6964	8296	9764	9659	10282	10431	10902
of which:									
- industry	4816	5962	6904	8154	9594	9652	10243	10346	10780
- construction	5106	6566	7657	8898	10302	9856	10524	10860	11264
- agriculture	4043	5061	5840	6883	7808	7494	7912	8191	8519
- transport, storage, communications	4602	5742	6804	8238	9853	10062	10775	10903	11313
- trade, car repair	4165	5120	6313	7196	8500	9333	9896	10119	10497
b) Public sector		5576	6677	7818	9434	8463	9956	9828	9983
of which:									
- education	4206	5245	6325	7387	8993	7769	9302	9249	9423
- health care and social security	4387	5514	6476	7387	9068	8513	9740	9577	9626
- public administration	5324	6852	8320	9620	11451	9928	11818	11590	11782

IV. PRICES

	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
A. INFLATION RATE 1)	11,1	20,8	10,0	9,1	8,8	8,4	7,9	8,1	8,2	8,3	8,5
B. CONSUMER PRICES											
a) Previous month = 100	0,6	0,8	0,4	0,3	0,5	0,1	1,2	0,6	0,4	0,4	0,5
b) Same period of last year = 100	12,7	18,2	9,7	7,9	8,6	6,8	1,8	10,3	10,2	10,7	10,0
C. INDUSTRIAL PRODUCER PRICES											
a) Previous month = 100	0,4	-0,1	0,3	-0,2	0,0	0,2	0,5	0,4	0,4	0,2	0,2
b) Same period of last year = 100	9,3	11,4	5,6	7,2	4,4	4,3	4,5	5,8	5,6	5,5	5,7
D. PRICES IN CONSTRUCTION 2)											
a) Previous month = 100	0,3	1,1	0,0	0,1	0,5	1,1	0,8	0,7	0,8	0,8	0,7
b) Same period of last year = 100	12,1	27,4	9,7	12,3	11,2	11,1	11,3	11,4	11,5	11,7	11,9
E. AGRICULTURAL PRODUCER PRICES											
a) Same period of last year = 100	10,0	4,3	10,1	6,1	6,8	1,9	0,9	3,8	1,3	0,0	2,5
of which:											
Crop production											
a) Same period of last year = 100	16,4	16,3	-4,0	15,6	12,8	1,0	12,0	1,8	-2,1	-4,4	-1,1
Livestock products											
a) Same period of last year = 100	7,8	2,8	15,8	2,8	-4,4	1,9	-0,2	5,2	3,8	2,7	5,0
F. MARKET SERVICES PRICES											
a) Previous month = 100	-0,1	0,1	0,0	0,1	-0,3	0,6	-4,5	-0,3	0,2	1,2	0,3
b) Same period of last year = 100	10,1	10,1	11,1	9,1	5,5	3,8	14,8	7,4	7,5	8,9	9,6

1) Moving average of consumer price indices over the last 12 months to the previous 12 months

2) Estimates

V. UNEMPLOYMENT

	Thousands, %, end of period balance										
	1992	1993	1994	1995	1996	1997					
	12	12	12	12	12	3	6	9	10	11	12
1. NUMBER OF UNEMPLOYED PERSONS (thousands)	134,1	185,2	166,5	153,0	186,3	199,6	202,6	247,0	249,5	254,1	268,9
2. NUMBER OF NEW JOB APPLICANTS (thousands)	28,1	31,8	27,3	23,2	29,2	29,3	40,1	60,7	45,4	40,1	40,1
3. NUMBER OF VACANCIES (thousands)	79,4	53,9	76,0	100,0	84,0	87,1	81,6	73,2	68,4	64,4	62,3
4. UNEMPLOYMENT RATE (%)	2,6	3,5	3,2	2,9	3,5	3,9	4,0	4,8	4,7	4,9	5,2

VI. FOREIGN TRADE

CZK, US\$ in bn

	1993	1994	1995	1996	1997			
	I-IV Q	I-IV Q	I-IV Q	I-IV Q	I Q	I-II Q	I-III Q	I-IV Q
A. TOTAL TRADE BALANCE 1)								
1. EXPORTS								
- CZK in bn	421,6	466,4	574,7	594,6	148,3	325,5	509,7	714,7
- US\$ in bn	14,4	16,2	21,6	21,9	5,2	10,9	16,4	22,5
2. IMPORTS								
- CZK in bn	426,1	501,5	670,4	752,3	185,8	398,6	610,6	855,5
- US\$ in bn	14,6	17,4	25,2	27,7	6,6	13,4	19,6	27,0
3. BALANCE								
- CZK in bn	-4,5	-35,1	-95,7	-157,7	-37,5	-73,1	-100,9	-140,8
- US\$ in bn	-0,2	-1,2	-3,6	-5,8	-1,4	-2,5	-3,2	-4,5
For information:								
1. Increase to previous year								
a) Exports								
- CZK in bn	37,8	44,8	108,3	19,9	0,4	29,9	68,5	120,1
- %	9,0	10,6	23,2	3,5	0,3	10,2	15,6	20,2
b) Imports								
- CZK in bn	60,4	75,4	168,9	81,9	11,7	36,1	63,8	103,2
- %	14,2	17,7	33,7	12,2	6,7	10,0	11,6	13,7
2. Territorial structure of exports and imports (share in %)								
a) Exports	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:								
- advanced market economies	57,6	64,5	66,0	63,6	65,4	65,6	65,6	65,5
EU	52,7	59,1	60,9	58,2	60,0	60,3	60,3	60,2
EFTA	1,4	1,7	1,7	1,6	1,8	1,7	1,7	1,7
- developing countries	7,8	6,6	5,4	5,6	4,6	4,9	4,9	4,9
- transition economies	32,6	28,2	28,0	30,3	29,7	29,2	29,2	29,3
CEFTA	25,4	21,3	21,4	22,8	22,9	22,4	21,8	21,6
- Slovak Republic	19,7	14,6	13,9	14,2	14,4	13,8	13,2	12,8
- countries with state trade system	2,0	0,7	0,6	0,5	0,3	0,3	0,3	0,3

1) Trade balance adjusted according to the methodology of customs statistics effective from 1 Jan. 1996

	1993	1994	1995	1996	1997			
	I-IV Q	I-IV Q	I-IV Q	I-IV Q	I Q	I-II Q	I-III Q	I-IV Q
b) Imports	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:								
- advanced market economies	64,2	67,8	69,3	70,4	69,8	70,7	71,0	70,9
EU	56,2	59,6	61,1	62,4	61,2	61,7	62,2	62,1
EFTA	2,5	2,4	2,2	2,0	1,8	1,9	2,1	2,1
- developing countries	4,5	4,7	4,4	5,1	5,3	5,1	4,9	5,0
- transition economies	30,7	26,8	25,5	23,4	23,4	22,8	22,7	22,6
CEFTA	20,1	17,8	16,3	14,6	14,6	14,2	14,2	14,2
- Slovak Republic	15,9	13,3	11,8	9,6	8,8	8,5	8,5	8,4
- countries with state trade system	0,6	0,7	0,8	1,1	1,5	1,4	1,4	1,5
3. Goods structure of exports and imports								
(share of total in %)								
a) Exports	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:								
- food	5,9	4,6	4,8	4,0	3,8	3,6	3,6	3,5
- raw materials	5,6	6,0	5,2	4,9	4,1	4,6	4,2	4,1
- fuel	5,5	4,9	4,3	4,5	3,5	3,6	3,7	3,8
- market goods	29,9	30,4	32,2	28,8	27,3	27,2	27,3	27,0
- machines and equipment	29,1	28,7	30,4	32,7	36,0	37,2	37,3	37,9
b) Imports	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:								
- food	5,7	6,1	5,5	5,7	6,3	5,7	5,4	5,2
- raw materials	5,0	4,7	4,5	3,7	3,9	3,8	3,7	3,8
- fuel	9,5	8,6	7,8	8,7	9,8	9,0	8,8	8,7
- market goods	16,6	18,4	20,3	19,3	18,6	19,1	19,5	19,5
- machines and equipment	38,1	36,2	37,1	38,1	36,9	37,9	38,0	38,1

Source: CSO

B.1

REPORT ON THE BANKING SECTOR AND BANKING SUPERVISION ACTIVITIES

The banking supervision's regulatory basis

In 1997, the Czech banking sector was significantly affected by negative internal and external factors in the economy and the regulation of banking sector activities. The safe and trouble-free functioning of the banking sector is a basic precondition for economic growth, and therefore, efforts towards consolidating and stabilising the banking sector were important elements used by banking supervision in influencing bank activities.

At present, the establishment of a comprehensive regulatory basis fully respecting the rules applied in EU countries is one of the main targets of banking supervision in the Czech Republic. The basic complex of measures governing prudential bank behaviour was established as early as 1992. Later, these measures were improved and supplemented by other measures in response to rapid banking development in the Czech Republic. The compatibility and compliance of rules is a necessary step especially for the Czech Republic's entry into the European Union.

In 1997, a total of eight Czech National Bank measures of bank prudential behaviour were in effect concerning credit risk, liquidity risk and some components of market risk. In the course of 1997, four measures were amended related to claim classification, securities trading, restrictions and terms for some types of credits and investment in ownership interests and the report on bank performance. Through these amendments, banking supervision responded to the fast development of the banking sector and the new experiences acquired within the framework of regular supervision activities with respect to the possible influencing and limiting risks of banks.

In 1997, two amendments to Act No. 21/1992 of the Coll. of Laws, On Banks, in the wording of subsequent regulations, which embodied government correction measures in the interests of restoring economic stability were prepared.

The "small" amendment to the Act On Banks

New provisions accepted within the framework of the so-called small amendment to the Act On Banks which entered into effect on February 6, 1998, govern the following areas in particular:

interconnection of banks with the corporate sector

- a bank is not allowed to exercise control over another legal entity that is not a bank pursuant to this act, a financial institution or an enterprise of auxiliary banking services.
- a bank's qualified interest in a legal entity that is not a bank pursuant to this act, a financial institution or an enterprise of auxiliary banking services, must not exceed:
 - a) in one legal entity 15% of a bank's capital,
 - b) as a sum of all legal entities, a total of 60% of a bank's capital

These limitations do not hold true for bank qualified interests of the bank in a legal entity resulting from a claim against such a legal entity, provided that the bank holds the qualified interest for a maximum of one year from the date of acquiring it, and for qualified interests of the bank in virtue of its participation in the issuing of securities and the rendering of connected services, provided that the bank holds the qualified interest for a maximum of six months from the date of acquiring it.

- a member of the statutory body, the Supervisory Board or a bank employee is not permitted to be concurrently a member of the statutory body or the Supervisory Board of another legal entity which is an entrepreneur. This does not hold true in those cases when this legal entity is an entity over which the bank has control, including foreign legal entities and in the cases when this legal entity is a business of auxiliary banking services or the Prague Stock Exchange. This does not hold true for members of the statutory body or the

Supervisory Board even in the cases when another legal entity is an entity which has control over this bank, including foreign legal entities.

- trading in securities and trading in rights connected to securities or derived from securities pursuant to a special Act, on its own account or from its own property may be carried out by the bank only under the conditions most beneficial for the bank, especially for the best price that could be attained under professional guidance.

separation of investment and commercial banking

- the bank is obliged to prevent
 - a) the utilisation of information acquired in connection with its credit transactions and, vice versa, when carrying out its investment transactions
 - b) the utilisation of information acquired in connection with its investment transactions on the account of a client and vice versa, when carrying out investment transactions on one's own account, provided that publicly available information is not the case.
- for the purpose of discharging these duties, the bank is obliged to implement measures in its organisational, management and control systems that ensure the separation of credit and investment transactions.

other areas

- the so-called test of economic need that could be applied in granting the licence to operate as a bank or foreign bank branch office,
- a maximum amount for compensation of deposits within the framework of the deposit insurance system was increased from CZK 100 thous. to CZK 300 thous., a relative limit of 80% of the insured deposit remained unchanged.

During 1997, another amendment to the Act On Banks was also prepared which at present, is being discussed in the Lower House of Parliament of the Czech Republic. This amendment is focused, on the following:

The "large" amendment to the Act On Banks

- tightening of terms for granting a banking licence,
- broadening of the banks' obligation to inform the public,
- adjustment in acquiring a share in a bank in connection with the amount of the share being acquired; at the same time, the same treatment of domestic and foreign investors is stipulated,
- the possibility of suspending voting rights for shareholders who are negatively affecting the bank,
- tightening of remedial measures for banks, especially with respect to the obligatory procedures of the Czech National Bank if the capital adequacy limit is not fulfilled,
- further improvement of the deposit insurance system, its extension also to legal entities and specification of the group of persons who are not entitled to compensation, i.e. especially persons with a special relationship to a bank, etc.

At the same time, intensive activities were commenced on the preparation of a completely new act on banks, in compliance with European Union requirements. The preparation of the new act on banks was also grounded on the better transparency of this act as a follow-up to the large number of amendments accepted to make the current act more precise.

*Harmony with banking
supervision international
standards*

In order to achieve comprehensive banking supervision, it is necessary to bring it into harmony with banking supervision core principles as defined in the "Core Principles for Effective Banking Supervision" prepared in 1996 by a group of experts from the banking supervision of both advanced and developing countries under the guidance of the Basle Committee on Banking Supervision and the Bank for International Settlements. In 1997, a detailed analysis of the current regulations was conducted, and now, the extent to which these principles were fulfilled in practice during banking supervision performance is being assessed. Though most of these principles have been fulfilled, some shortcomings have surfaced especially in the area of systems for measurement, monitoring and control of market risks, supervision on a consolidated basis, etc. The preparation of regulatory measures for these areas has commenced.

*Banking supervision
restructuring*

Recent banking supervision development, and in particular, development in the past two years, has been a learning experience for banking supervision, leading to the necessity of taking the following steps: continuing in the improvement of banking supervision performance, creating legislation for the areas of banking supervision performance which up to now have not been governed or have been inadequately governed, standardising all procedures in each banking supervision area, reinforcing the staff of banking supervision departments, re-evaluating the relationship vis-a-vis external auditors and focusing inspection activities on evaluation of the dynamic aspects of bank financial positions, i.e. the steady inspection and analysis of systems for managing risky bank areas. A World Bank expert who visited the Czech National Bank for the purpose of assessing the organisational structure and instruments of the Czech National Bank's banking supervision proposed the same recommendation.

These facts led to a significant restructuring of the Czech National Bank's banking supervision, effective from December 1, 1997.

At present, banking supervision consists of the following three departments:

- the Banking Supervision Policy Department which is composed of two sections and focuses on banking supervision methodology (prudential rules, internal procedures for all banking supervision activities), the relationship vis-a-vis foreign countries, banking sector analysis and information support for banking supervision performance.
- two identical Banking Supervision Departments which are divided into two divisions and focus on off-site and on-site banking examinations, including the governing of corresponding administrative proceedings in the area of licences, remedial measures and consent given to banks by the Czech National Bank in advance. On-site examination is executed by independent controlling teams, each of them being included in the banking inspection division.
- the independent Substandard Transactions Division which deals with problems of banks after their banking licences have been revoked, initial examination of uncommon operations at banks and methodological co-operation with authorities active in criminal proceedings.

*Banking supervision
strategy*

At the turn of 1997 and 1998, a new conception for banking supervision development was developed for the forthcoming period. Contributing to the establishment of a stable and competitive banking sector that would be the result of the dynamic equilibrium between the regulation and supervision of banks, market discipline and quality management of individual banks, is the strategic medium-term target of banking supervision. The prerequisites for the achievement of this target are a high level of compatibility of the regulatory framework, methods and procedures with EU prudential principles and a balanced system for regulation and supervision of banks, which includes the application of strict criteria for bank entry and exit in the banking sector, an appropriate connection between off-site examination and on-site

examination by using external auditors as an important information source, effective communication between banking supervision and the banking sector through the Banking Association, and also directly between individual banks, etc.

Consolidation of the small bank subsector during 1996 led to a principal change in its structure. Banks which, according to the auditor's statement and an analysis of banking supervision, were insolvent, had been excluded from the banking sector. However, the consolidation process was accompanied by a decline in public confidence in the banking sector and the threat to small banks of a gradual deposit outflow which weak banks, with respect to capital, would not be able to face. To prevent the risk of a liquidity crisis in the small bank subsector and the possibility of overall destabilisation of the banking sector, the Czech government adopted in its provision of October 16, 1996, as a system solution, a programme for strengthening banking sector stability which was designed for the 13 small banks existing at that time.^{36/}

The stabilisation programme for small banks continues

Six banks showed interest in participating in the stabilisation programme (Banka Haná, Pragobanka, Universal banka, Moravia banka, Foresbank, Expandia banka). They submitted their specific stabilisation programmes and gradually during 1997, entered this programme, including the commencement of the sale of poor-quality receivables to Česká finanční. At the same time, most of the banks increased their initial capital in order to meet the stabilisation programme parameters, especially in the area of capital adequacy and sufficient profitability, even prior to programme approval. Subsequently, following this step, they were also enabled to increase, in a set ratio, the volume of receivables repurchased by Česká finanční. The banks included in the stabilisation programme are subject to increased inspection by the Czech National Bank.

At the end of 1997, fifty banks were operating in the Czech banking sector. No new entity was granted a banking licence during 1997; the number of banks with a licence dropped by four as a result of revoking the licences of three banks (Ekoagrobanka, Bank Skala, Evrobanka) which were taken over by Union banka, and of the bankruptcy of Realitbanka. Conservatorship continued in four banks: COOP banka, Podnikatelská banka, Velkomoravská banka and Agrobanka.

The number of banks in the sector decreased

One of the two banks granted a licence in 1996, the Midland Bank branch, started operations in May 1997; the second bank, West Deutsche Landesbank, had its licence revoked, because it had not commenced operations. The Österreichische Volksbanken branch changed its legal form and from January 1, 1997, became the subsidiary, Volksbank Praha.

*Number of banks by group
(banks that have started activities for clients)*

	01.01.90	31.12.90	31.12.91	31.12.92	31.12.93	31.12.94	31.12.95	31.12.96	31.12.97
Total banks	5	9	24	37	52	55	54	53	50
of which:									
large banks	5	5	6	6	6	6	6	5	5
small banks	x	4	14	19	22	21	18	12	9
foreign banks	x	x	4	8	11	12	12	13	14
foreign bank branches	x	x	x	3	7	8	10	9	9
specialised banks	x	x	x	1	5	7	8	9	9
banks under conservatorship	x	x	x	x	1	1	0	5	4
Banks without licence	x	x	x	x	x	1	4	6	10

36/ This program consists in the repurchase of poor-quality assets from banks at nominal value by the purpose-based organisation Česká finanční s.r.o., up to a precisely set amount of their initial capital, based on the assumption that the funds will be returned. Banks are obliged to draw a bank guarantee for the recovery of these receivables, and after the passage of a seven-year stabilisation program to reimburse to Česká finanční that part of the receivables which they do not manage to recover in the course of the stabilisation program's existence. For this purpose, banks create reserves every year amounting minimally to 1/7 of the value of the sold receivables. The expected volume of the repurchase of the receivables of CZK 13.7 bn by Česká finanční amounted to 110% of the initial capital of the 13 small banks as of August 31, 1996. In January 1998, this amount was increased by a further CZK 5 bn.

The major banks' share of total assets continued to decline

The banking sector structure is quite diversified with respect to the number of banks, but from the point of view of banking activities, major banks still dominate as they manage about 66% of the banking sector's assets. The increased activity of foreign banks and foreign bank branches has led to gradual growth in their share in the total assets of the whole sector (from 18.8% as of 31 Dec. 1996 to 22.3% as of 31 Dec. 1997). Consequently, the share of major banks is gradually decreasing. From other bank groups, building societies have intensively expanded their activities, particularly in primary deposit collection; however, despite a gradual increase, their proportion in the sector's activities is still very low.

Foreign bank activities continued

The development of foreign bank and foreign bank branch activities is evident mainly in the lending area (17.7% of the overall volume of credits as of 31 Dec. 1997, i.e. 3.4 points more than at the end of 1996), but to a lesser extent in the volume of primary deposit collection (12.3% of the total volume of primary deposits, i.e. also 3.4 points more than at the end of 1996). These banks are especially active on the interbank market.

Share of Individual Bank Groups in the Total Assets
(banks with valid licences as of 31 Dec. 1997)

	31 Dec. 94	31 Dec. 95	31 Dec. 96	31 Dec. 97
Total banking sector	100.00	100.00	100.00	100.00
of which:				
large banks	77.18	71.72	65.87	65.67
small banks	4.44	4.92	5.21	4.72
foreign banks incl. branches	11.67	16.46	18.84	22.28
specialised banks	14.7	2.11	3.09	4.29
banks under conservatorship	5.24	4.78	4.00	3.04

Banking sector total assets increased by 16.1%, to CZK 2,333.3 bn compared to the end of the preceding year, which means that its growth rate was roughly about 6 points higher than in 1996 (which is partly attributable to koruna depreciation in 1997). The overall increase in total assets was mostly attributable to foreign banks (up by 37% for 1997) and foreign bank branches (38%).

Changes in the structure of assets and liabilities

With respect of the most important items of the balance sheet, i.e. the volume of credits and partly also primary deposits, the difference in dynamics compared to 1996 is not significant. The volume of gross credits (i.e. not adjusted for provisions) as of 31 Dec. 1997 was CZK 1,148.0 bn, 13.3% more than at the end of 1996, which means that the growth rate was only 0.4 points higher than that of 1996. During all of 1997, growth in credits was lower than growth in total assets. The volume of primary deposits rose by 14.2% against the end of 1996 to CZK 1,150.8 bn, and this growth was about 4 points higher than in 1996. Among other banking sector activities, the growth rate of securities trading continues to fall (an increase of 8.6% in 1997 against 17.3% in 1996); in contrast, bank activity on the interbank market is expanding, due also to interest rate developments.

Main Indicators of the Banking Sector
(for banks with licence valid as of 31 Dec. 1997)

	31. Dec. 1995	31. Dec. 1996	31. Dec. 1997
Total assets, CZK in bn	1 814.9	2 008.9	2 333.1
Credits, CZK in bn (net)	831.2	928.3	1 047.7
Quick assets, CZK in bn ¹⁾	355.3	303.5	377.3
Securities in bank portfolios, CZK in bn ²⁾	169.5	193.4	197.7
Client deposits, CZK in bn	916.5	1 007.6	1 150.8
Bank deposits, CZK in bn	379.6	465.1	495.7

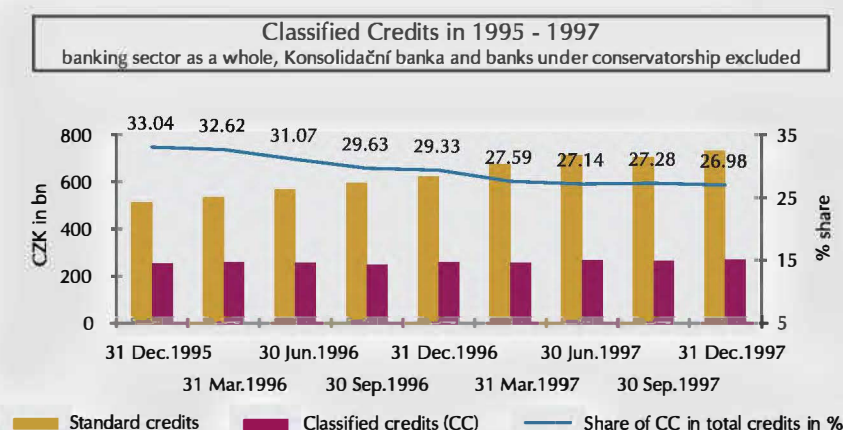
1) cash values, deposits and credits with the CNB, current accounts with banks, CNB bills and T bills
2) securities in trade and investment portfolios, CNB bills and T bills excluded

The proportion of quick assets in bank portfolios was affected by exchange rate turbulence in the middle of the year. Following a more substantial decline in the volume of quick assets in May and partly also in June 1997, banks renewed or further increased their original levels. By the end of 1997, quick assets totalled CZK 377.3 bn, 16.2% of the total asset volume, which is 1.1 points more than at the end of 1996.

Different growth rates of individual indicators led to changes in the total asset structure: on the asset side, the share of credits and securities is gradually decreasing, while the share of quick assets and bank deposits is increasing; on the liability side, the share of primary deposits is falling.

The volume of classified credits (excluding Konsolidační banka and banks under conservatorship) rose 4.8% in 1997. This increase was significantly lower than that of standard credits whose volume grew by 15.1% against the end of 1996. Compared to 1996 (taking into account write-offs of loss credits and purchases of receivables within the stabilisation programmes), credit growth in 1997 was 4.6 points slower. More rapid growth in standard loans led to a gradual decrease of the proportion of classified credits in the overall credit portfolio.

The growth rate of classified credits was lower than in 1996



The continuing high proportion of classified credits in bank portfolios is, to a large extent, connected to the low level of credit write-offs against created provisions and reserves. Their volume as of 31 Dec. 1997 was CZK 95.2 bn, 8.2% more than at the end of 1996. These reserves and provisions cover about 55% of the potential losses from the credit portfolio. The remaining part is covered by high-quality collateral.

Despite a decreasing proportion of securities in bank portfolios, this area represents other possible risks following from uneven development on capital markets. For this reason, from July 1, 1997, a new CNB regulation requires consistent creation of provisions to cover the difference between the purchasing price and market price of all securities in bank portfolios. The volume of provisions created for securities (excluding Konsolidační banka and banks under conservatorship) more than doubled against the end of 1996, reaching CZK 9.9 bn as of 31 Dec. 1997.

The volume of coverage of potential losses from the securities portfolio increased

Virtually all of the banks have gradually met the new prudential requirements for covering the risk of the securities portfolios and, at the end of 1997, created provisions fully covered the difference between the market price and purchasing price of securities in trading and investment portfolios.

*Banking sector capital
continued to increase*

On the one hand, the amount of capital in the banking sector (excluding Konsolidační banka and banks under conservatorship) has improved in connection with increasing the initial capital of banks, up by 16.9% against 1996 end to CZK 65.3 bn, particularly due to new share issues by small and foreign banks; on the other hand, the overall volume of internal bank resources has decreased due to real losses from the performance of some banks which were forced to create provisions to cover potential risks from credit portfolios and securities portfolios at the expense of a loss. Against the end of 1996, the overall volume of bank capital increased by 16.3% as of 31 Dec. 1997 to CZK 121.2 bn. Capital adequacy as of the same date was 10.6%, 2.6 points above the minimal 8% limit recommended by international standards.

*The efficiency of banking
sector activities rose*

The emphasis on increasing the efficiency of banking activities by means of closing inefficient bank units, decreasing or maintaining the number of employees and higher efficiency in operating costs was a positive trend in 1997. Compared to 1996, the number of bank units dropped by 679 to 2,472, the number of employees by 4.4% to 57,082. Operating costs totalled CZK 46.8 bn, 13.4% more than 1996 and accounted for 2.15% of total assets, which is the same level as in 1996.

Note: None of the above data have been audited.

B.2

STATISTICAL ANNEX - BANKING SECTOR

I. DEVELOPMENT OF BANKING SECTOR ASSETS AND LIABILITIES

For banks with valid banking licence as of 31 Dec. 1997 including bank branches

CZK in mil., end of period balance

	1994	1995	1996	1997			
	31 Dec.	31 Dec.	31 Dec.	31 Mar.	30 Jun.	30 Sep.	30 Dec.
ASSETS	1449297	1814866	2008938	2068312	2158304	2244933	2333074
Cash	21310	23731	27976	25766	29596	27340	29714
Deposits and credits with CNB	68101	163190	141866	172359	153400	208181	198540
of which: minimum reserve requirements	50740	74842	113518	119880	89080	104955	91322
Deposits and credits with banks	298519	314775	389657	372474	422292	411629	482580
of which: current accounts	14710	12499	20879	14905	25786	13728	19892
time deposits	158174	172588	277021	291884	328909	330866	388292
credits granted	125635	129688	91756	65685	67598	67035	74395
T-bills	27001	33976	49935	55471	68554	52145	40363
CNB bills	46559	121863	62830	62216	44606	83286	93284
Credits granted	766940	831192	928251	979000	1026808	1017876	1047699
of which: to clients	763103	826328	923282	973358	1014297	1006379	1031970
to state and municipal authorities	3837	4864	4969	5642	12511	11497	15729
Tradable securities	87078	146960	171886	166552	144816	144608	103094
of which: bonds	72927	122149	132388	133396	117186	117796	84944
equity securities	12918	23191	37321	29675	24324	23371	14320
Ownership interests of banks (investment)	16618	22497	21548	38096	54159	59045	94594
Tangible and intangible assets	46477	56535	64639	64041	66189	67217	66732
Other assets	70696	100147	150348	132337	147883	173606	176473
LIABILITIES	1449297	1814866	2008938	2068312	2158304	2244933	2333074
Resources from CNB	77105	73775	71403	71918	82781	88902	97071
Deposits and credits from banks	271167	379607	465115	473896	498298	486904	495708
of which: current accounts	11684	14968	16776	10479	21041	11787	19704
time deposits	162351	240064	330974	347379	363163	359770	351882
credits received	97132	124576	117365	116038	114095	115347	124121
Deposits received	801376	916506	1007637	1018711	1057909	1087075	1150752
of which: from clients	721842	851611	962219	971473	1005003	1036277	1112050
state and municipal authorities	55068	44549	39928	42383	43942	42695	36955
deposit certificates	24466	20346	5491	4855	8964	8104	1748
Bond issues	27133	48850	62940	75014	89238	97324	92724
Reserves	74820	42394	39345	39733	36665	38220	40623
Reserve funds	41003	57430	63697	63529	72363	72089	72316
Capital funds	13651	15308	20389	20648	20605	19708	20829
Initial capital	53521	60589	66832	69683	70019	70519	75884
Retained earnings	847	1850	1853	16474	1950	1793	1325
Current year profit	7239	12135	14445	3975	9361	12367	11093
Other liabilities	81434	206422	195282	214732	219116	270033	274748
For information:							
Assets excluding Konsolidáční banka and banks under conservatorship	1262901	1604791	1808779	1865231	1952838	2043243	2122052

II. DEVELOPMENT AND STRUCTURE OF BANKING SECTOR REVENUES AND COSTS

For banks with valid banking licence as of 31 Dec. 1997,
including bank branches abroad, excluding Konsolidační banka and banks under conservatorship

	1994	1995	1996	1997			
	31 Dec.	31 Dec.	31 Dec.	31 Mar.	30 Jun.	30 Sep.	31 Dec.
CZK in mil., in absolute terms							
Interes: earned	105620	115649	134439	35355	80447	127214	172348
Interes: paid	67255	74919	94276	26164	60147	93398	126556
Interes: yield	42365	40730	40163	9191	20300	33817	45792
Fees and commission earned	9210	9884	12531	2797	6621	9758	13526
Fees and commission paid	759	1052	1436	274	702	1107	1644
Fees and commission profit	8451	8832	11095	2524	5918	8651	11882
Interest yield including fee and commission profit	50816	49562	51258	11714	26218	42468	57674
Securities revenues	4002	5761	11727	3751	6808	9156	13927
Foreign exchange operations revenues	5289	7031	6315	1651	4946	7494	12885
Other banking operations revenues	338	1569	1340	677	1018	1537	1428
Banking activity profit	60445	63923	70640	17794	38991	60654	85913
General operation costs	24885	31594	38261	8942	19772	30647	43780
Reserve and provision creation (net)	22245	14441	6184	4391	8430	11062	15663
Other operation revenues (costs)	-3388	-6947	-19364	-1369	-3638	-10534	-19165
Gross operation profit	9927	10941	6832	3092	7151	8411	7305
Extraordinary revenues (costs)	-173	476	226	-142	-4	129	499
Pretax gross profit	9754	11418	7058	2950	7147	8540	7805
Taxes	3342	1680	445	231	566	1228	797
Net profit	6412	9738	6613	2719	6581	7312	7008
in %, in relative terms 1)							
Banking activity profit/assets	5,33	4,64	4,17	3,88	4,14	4,14	4,36
Gross profit/assets	0,86	0,83	0,42	0,64	0,76	0,58	0,40
Net profit/assets	0,56	0,71	0,39	0,59	0,70	0,50	0,36
Net profit/core capital	17,72	21,48	12,30	18,91	22,55	16,48	11,69
Total interes: revenues/interes: earning assets	12,32	11,31	10,83	10,56	11,54	11,78	11,81
Total interest cost/interes: bearing liabilities	7,34	6,90	7,05	7,25	8,07	8,15	8,24
Interes: rate spread	4,99	4,41	3,78	3,31	3,47	3,63	3,57
Net interes: margin	4,92	4,00	3,00	2,60	2,81	2,98	2,93
Number of bank positions	2840	2722	2763	2617	2458	2180	2169
Number of employees in banking sector	51074	52985	55311	54245	53836	53274	53188
Per employee	CZK in thousands						
total assets	24727	30288	32702	34385	36274	38353	39897
profit from banking activity	1183	1206	1277	1312	1449	1518	1615
net profit	126	184	120	200	244	183	132
operation costs	487	596	692	659	735	767	823

1) In individual quarters of 1997, data adjusted to a yearly basis

III. SELECTED INDICATORS OF PRUDENTIAL OPERATION OF THE BANKING SECTOR

For banks with valid banking licence as of 31 Dec. 1997 including bank branches abroad,
excluding Konsolidáční banka and banks under conservatorship

	1995	1996	1997			
	31 Dec.	31 Dec.	31 Mar.	30 Jun.	30 Sep.	31 Dec.
Capital adequacy 1)						
Core capital, CZK in mil.	24162	36617	37371	103537	102566	110139
Total capital, CZK in mil.	32555	104250	105222	112740	114412	121214
Total assets 2), CZK in mil.	1602079	1720576	1816292	1893952	2002627	2104123
Risk weighted assets, CZK in mil.	910550	1042140	1074437	1134514	1139401	1142113
Risk weighted asset share in total assets in %	56,84	58,53	59,14	59,90	56,89	54,56
Capital adequacy in %	10,16	10,00	9,85	9,94	10,04	10,56
Credit portfolio quality 3)						
Classified credits, CZK in mil.	252162	257223	256942	265439	264021	270092
in % of total credit volume	33,04	29,33	27,59	27,14	27,22	26,92
Weighted classification, CZK in mil.	154661	165447	162706	176015	172653	174329
in % of total credit volume	20,26	18,22	18,12	18,00	17,23	17,42
Classified credits adjusted for collateral, CZK in mil.	129205	129417	129247	140223	132416	145620
in % of total credit volume	17,01	14,72	13,94	14,41	14,30	14,55
Weighted classification adjusted for collateral, CZK in mil.	22440	27119	20499	95314	91724	95434
in % of total credit volume	11,59	9,91	9,72	9,75	9,47	9,53
Reserves and provisions created, CZK in mil.	26297	27996	22470	93191	93561	95121
Reserve and provisions surplus (+) or shortage (-), CZK in mil.	-2143	277	-2029	-2123	1237	-253
in % of total credit volume	-0,22	0,10	-0,22	-0,22	0,19	-0,03
Liquidity						
Quick assets, CZK in mil. 4)	332022	290370	311616	294700	371192	363900
in % of total asset volume	20,69	16,85	16,71	15,69	18,17	17,15
in % of total primary resource volume	39,06	30,22	32,15	29,05	35,51	32,73
Cumulative net balance sheet position 5)						
up to 1 month to total assets in %	-1,02	-4,46	-2,77	-4,10	-4,36	-2,36
up to 3 months to total assets in %	0,29	-2,66	-1,09	-3,63	-2,15	-1,34

1) excluding foreign bank branches

2) including credit equivalent of off-balance sheet assets

3) classified credits granted to clients, administrative authorities and banks

4) cash, deposits with CHB, current accounts with other banks, T-bills and other bills

5) after deducting 20% of demand deposits

C.

CNB PERFORMANCE

The Czech National Bank's performance in 1997 ran a surplus of CZK 10,744,567,000, with revenues amounting to CZK 91,920,611,000 and expenses, CZK 81,176,044,000.

The most important event affecting CNB performance in 1997 was the weakening of the koruna (particularly the May jump) and an increase in interest rates on the koruna market which accompanied this weakening.

Monetary policy was tightened due to the unstable situation on the financial markets and, as a result, the anticipated decrease in the volume of sterilisation expenses (i.e. expenses on operations connected with reducing the excessive money supply in the economy) did not take place; in contrast, these expenses increased. This increase was further multiplied by the need to sterilise the funds released as a result of a reduction in the MRR rate by 2 percentage points.

An important factor largely affecting the overall economic performance was the mandatory creation of reserves and provisions following from the CNB's participation in the implementation of the banking sector consolidation programme.

Based on a CNB Board decision, the surplus of CZK 10,744,567,000 was distributed as follows:

1. Coverage of the loss from 1996 in full, i.e. CZK 8,653,842,000
2. Allocations to the bank's funds worth CZK 2,090,725,000

D.

CNB BALANCE SHEET, PROFIT AND LOSS ACCOUNT, AUDITOR'S REPORT

Assets (CZK million)

Item no.	Item	Line no.	Current accounting period			Previous accounting period
			Gross amount	Adjustment	Net amount	
a	b	c	1	2	3	4
1	Surplus	1	3 921,79		3 921,79	3 941,68
2	Receivables from IMF	2	24 962,55	0,00	24 962,55	23 674,68
	a) in foreign currency	3	0,01		0,01	0,14
	b) in CZK	4	24 962,54		24 962,54	23 674,54
3	Receivables from abroad	5	364 351,13	155,68	364 195,45	368 963,11
	a) in foreign currency	6	364 351,13	155,68	364 195,45	368 963,11
	from this: deposits with foreign banks	7	60 391,97		60 391,97	82 396,82
	loans provided to foreign banks	8	60 148,38		60 148,38	73 800,68
	securities	9	217 651,57	155,68	217 495,89	186 606,82
	other receivables from abroad	10	26 159,21		26 159,21	26 158,79
	b) in CZK	11				
4	Receivables from domestic banks	12	99 131,56	20 764,04	78 367,52	80 471,41
	a) receivables from refinancing	13	7 766,58		7 766,58	5 839,26
	b) other receivables from domestic banks	14	91 364,98	20 764,04	70 600,94	74 632,15
5	Receivables from clients	15	19 645,65	666,68	18 978,97	3 903,91
6	Domestic securities and investments	16	150 142,39		150 142,39	63 782,67
	in this: investments and other fin. investments	17	3 844,88		3 844,88	1366,30
7	Current result of state budget	18				
8	Other receivables from state budget	19				294,28
9	Cash on hand	20	2 035,03		2 035,03	14 86,54
10	Other assets:	21	14 275,81	1 796,15	12 479,66	13 281,11
	a) tangible assets	22	6 912,55	1 613,34	5 299,21	3 914,57
	b) intangible assets	23	524,12	179,64	344,48	221,83
	c) prepaid expenses, accrued revenues	24	4 741,45		4 741,45	4 579,06
	d) others	25	2 097,69	3,17	2 094,52	4 565,65
	Total assets	26	678 465,91	23 382,55	655 083,36	559 799,39

Liabilities (CZK million)

Item no.	Item	Line no.	Current accounting period	Previous accounting period
a	b	c	5	6
1	Currency in circulation	27	139.145,56	137.854,31
2	Payable to IMF	28	24.962,54	23.674,54
	a) in foreign currency	29		
	b) in CZK	30	24.962,54	23.674,54
3	Payable to abroad including securities	31	24.112,52	17.922,18
	a) in foreign currency	32	23.639,44	17.506,23
	from this: received foreign loans	33	14.339,33	8.598,65
	bonds issued	34	9.360,05	8.905,68
	other foreign payables in foreign currency	35	0,00	1,90
	b) in CZK	36	413,08	415,95
4	Liabilities to domestic banks	37	205.119,12	142.450,29
	a) bank monetary reserve	38	89.829,51	113.107,61
	b) other payable	39	115.289,61	29.342,68
5	Clients' deposits	40	40.828,26	55.543,77
6	Domestic securities issued	41	150.000,00	113.531,00
7	Current result of state budget	42		
8	Other payable to state budget	43	26.825,21	39.335,23
9	Reserves	44	27.501,38	19.160,36
10	Equity	45	1.400,00	1.400,00
11	Funds	46	6.185,65	6.222,25
12	Retained earnings or accumulated losses from previous years	47	-8.653,84	-8.653,84
13	Profit or loss for accounting period	48	10.744,57	
14	Other liabilities	49	6.912,39	11.359,30
	a) accrued expenses and deferred revenue	50	1.096,74	5.034,45
	b) others	51	5.815,65	6.324,85
	incl. settlement accounts of local authorities	52	3.896,71	3.754,64
15	Total liabilities	53	655.083,36	559.799,39

Off-balance sheet as at 31 December 1997

(CZKmillion)

Item no.	Item	Line no.	Accounting period	
			Current	Previous
a	b	c	7	8
1	Total contingent future liabilities	54	75.960,65	75.280,99
	a) accepted bills of exchange and endorsed bills	55	790,22	740,88
	b) obligations from guarantees	56	75.170,43	74.540,91
	c) obligations from pledges	57		
2	Other irrevocable liabilities	58		
3	Receivables from spot, forward and option transactions	59	64.708,87	9.624,62
4	Payables from spot, forward and option transactions	60	66.084,62	11.234,99
5	Accepted guarantees from the government of Czech republic	61	22.500,00	22.500,00

Profit and loss account

as at 31.12.2007 (CZK: million)

Item no.	Item	Line no.	Accounting period	
			1997	1996
a	b	c	1	2
1.	Interest income and similar yields	1	40,908,81	34,668,27
1.1	Interest on fixed-yield securities	2	27,309,49	3,395,20
1.2	Other	3	13,599,32	31,273,07
2.	Interest expenses and similar expenses	4	34,065,42	31,045,49
2.1	Interest expenses for fixed-yield securities	5	0,00	0,00
2.2	Other	6	34,065,42	31,045,49
3.	Earnings on variable-yield securities	7	36,55	177,94
3.1	Earnings on shares and other variable-yield securities	8	36,55	29,09
3.2	Earnings on investments with significant interest	9	0,00	0,00
3.3	Earnings on investments with majority interest	10	0,00	148,85
3.4	Earnings on investments in affiliate entities	11	0,00	0,00
4.	Revenue from charges and commissions	12	551,78	513,13
5.	Expenses for paid charges and commissions	13	100,65	37,75
6.	Profit (loss) on financial transactions	14	39,610,73	-8,869,38
7.	Other revenues	15	95,31	63,06
7.1	Revenues from issues of bank notes	16	19,43	23,65
7.2	Other	17	75,88	39,41
8.	Overall operating expenses	18	1,962,98	1,518,10
8.1	Personnel costs	19	608,32	565,79
8.1.1	Wages and salaries	20	443,67	473,54
8.1.2	Social security	21	124,77	77,85
8.1.3	Health insurance	22	40,60	37,80
8.2	Other operating expenses	23	1,354,66	952,97
9.	Charge to specific and general provisions for tangible and intangible assets	24	0,00	0,00
9.1	Charge to general provisions for tangible assets	25		
9.2	Charge to specific provisions for tangible assets	26		
9.3	Charge to specific provisions for intangible assets	27		
10.	Release of specific and general provisions for tangible and intangible assets	28	0,00	0,00
10.1	Release of general provisions for tangible assets	29		
10.2	Release of specific provisions for tangible assets	30		
10.3	Release of specific provisions for intangible assets	31		
11.	Other expenses	32	5,766,56	892,49
11.1	Expenses for issuing bank notes and coinage	33	366,28	284,78
11.2	Other	34	5,400,28	607,71
12.	Charge to specific and general provisions for loans and guarantees	35	20,864,44	394,83
13.	Release of specific and general provisions for loans and guarantees	36	922,68	2,651,90
14.	Charge to specific and general provisions for investments and other financial investments	37	0,00	0,00
15.	Release of specific and general provisions for investments and other financial investments	38	0,00	0,00
16.	Charge to other specific and general provisions	39	8,626,30	4,459,27
17.	Release of other specific and general provisions	40	0,00	519,53
18.	Income tax on ordinary activities	41		
19.	Profit (loss) on ordinary activities after tax	42	0,00	0,00
20.	Extraordinary revenues	43	14,24	21,46
21.	Extraordinary expenses	44	9,18	51,82
22.	Income tax on extraordinary activities	45	0,00	0,00
23.	Profit (loss) on extraordinary activities after tax	46	0,00	0,00
24.	Profit (loss) for accounting period	47	10,744,57	-8,653,84

AUDITOR'S REPORT
to the Bank Council of ČNB

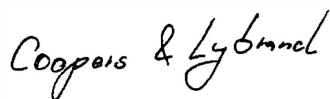
We have audited the enclosed financial statements of Česká národní banka, for the year ended 31 December 1997. The Directors of the Bank are responsible for the preparation of the financial statements and for maintaining accounting which is complete, supportable and correct. Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit performed in accordance with the ČNR Act no. 524/1992 Coll., on Auditors and the Chamber of Auditors of the Czech Republic and the auditing guidelines issued by the Chamber of Auditors of the Czech Republic.

The auditing guidelines require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit includes an examination of the evidence supporting the financial statements. Our audit also includes assessing whether the accounting policies used and significant estimates made by management are fair and suitable, as well as evaluating the overall presentation of the financial statements. Our audit procedures were carried out on a test basis and with regard to the principle of materiality. We believe that our audit provides a reasonable basis for expressing our opinion.

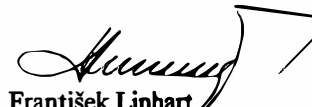
In our opinion, the financial statements present fairly, in all material aspects, the assets, liabilities, equity and financial position of Česká národní banka as at 31 December 1997 and the financial results for the year then ended in accordance with valid acts and relevant accounting legislation.

Without qualifying our opinion, we would like to draw to your attention article 8f of the Notes to the Financial Statements. At 31 December 1997, bank assets include CZK 26,122 million of receivables from Národní banka Slovenska resulting from the separation of the assets and liabilities of the former Státní banka československá and from the losses resulting from the split of the federal currency. The ultimate collection of this receivable depends on the result of on-going negotiations between both parties. At present, it is not possible to evaluate the outcome.

In Prague March 10th, 1998



Coopers & Lybrand Praha, s. r. o.
Licence no. 21
ZMR68136.SAM



František Linhart
Auditor, licence no. 150

E.

CALENDAR OF IMPORTANT EVENTS IN 1997

7 January	President Václav Havel accepts the resignation of Minister of Justice Jan Kalvoda from 17 December 1997.
8 January	President Václav Havel appoints Vlasta Parkanová Minister of Justice.
14 March	The CNB Board agrees to divide the licence of Agrobanka, a.s. into two parts.
31 March	The CNB revokes the banking licence of the bank Skala, a.s.
16 April	The Government approves "The Correction of Economic Policy and Other Transformation Measures" - the so-called package of economic measures I, including state budget cuts of CZK 25.5 bn, the introduction of import deposits, the lowering of the wage growth rate in the public sector to 7.3% and the tightening of rules on the capital market.
18 April	The CNB revokes the banking licence of Realitbanka, a.s.
30 April	The Minister of Local Development, Jaromír Schneider, resigns from his post; the President accepts his resignation on 2 May 1997.
8 May	The CNB Board decides to lower the minimum reserve requirement rate from 11.5% to 9.5%.
12 May	President Václav Havel appoints Tomáš Kvapil Minister of Local Development.
16 May	The CNB Board increases the Lombard rate from 14% to 50% effective immediately.
22 May	The CNB suspends drawing on Lombard credits and concurrently closes non-residents' access to trading on the domestic money market (and restores access on 17 June).
26 May	The CNB Board decides on a change in the exchange rate regime (abandoning the fluctuation band and introducing managed floating with the DEM becoming the reference currency). At the same time, the CNB increases the discount rate from 10.5% to 13%.
28 May	The Government coalition declares "The Stabilisation and Remedial Programme", the so-called package of economic measures II, acknowledging serious mistakes in economic policy and declaring a series of austerity measures. At the same time, it suggests several personnel changes in the Government.
29 May	The Minister of Industry and Trade, Vladimír Dlouhý, Minister of Finance, Ivan Kožárník, and Minister of the Interior, Jan Ruml, resign from their posts. The President accepts the first two resignations and does not accept that of Jan Ruml.

31 May	The CNB revokes the banking licence of Ekogrobanka, a.s.
2 June	Effective 3 June 1997, President Václav Havel appoints Ivan Pilip Minister of Finance (terminating his post as Minister of Education, Sport and Physical Training), Karel Kühnl Minister of Industry and Trade and Jiří Grůša Minister of Education, Sport and Physical Training.
12 June	The CNB authorises HYPO BANK CZ, a.s. to issue mortgage certificates.
18 June	The Government approves budget cuts of CZK 16.9 bn and other measures which should result in saving an additional CZK 3 bn.
27 June	The CNB Board lowers the Lombard rate from 50% to 23%.
30 June	The CNB revokes the banking licence of Evrobanka, a.s.
1 July	The Lower House of Parliament passes the act on budget rules, increasing the limit for the Government on issuing T-bills and accepting credits to cover the immediate discrepancy between state revenues and expenditures to 6% of the overall budget volume. The Senate passes this act on 9 July 1997.
23 July	The Government approves the sale of the state's stake in IPB to the Japanese bank Nomura International.
20 August	The Government abolishes import deposits and approves the general document on the privatisation of state-owned commercial banks in the future.
19 September	The CNB provides a banking licence to Societe Generale, branch office Praha. As of 1 January 1998, this bank takes over all rights and commitments of Societe Generale, a.s. which terminates its activities as of 31 December 1997.
10 October	The Czech Premier, Václav Klaus, and Slovak Premier, Vladimír Mečiar, meet at Piešťany and discuss some controversial issues connected to the division of federal property.
23 October	The Minister of Foreign Affairs, Josef Zieleniec, resigns from his post, and the President accepts the resignation on 23 October 1997.
30 October	The Minister of the Interior, Jan Ruml, resigns from his post and the President accepts the resignation on 7 November 1997.
1 November	The CNB Board abolishes the CNB measures stipulating koruna and foreign currency limits for bank credit positions towards nonresidents.
5 November	The Government officially applies for the Czech Republic's entry into NATO.
7 November	Effective 8 November 1997, President Václav Havel appoints Jaroslav Šedivý Minister of Foreign Affairs, Stanislav Volák Minister of Labour and Social Affairs and Jindřich Vodička Minister of the Interior (terminating his post as Minister of Labour and Social Affairs).

19 November	The Government approves a proposal of the Minister of Finance to commence the sale of residual state ownership interests in KB, ČSOB and ČS.
24 November	BCA downgrades the Czech Republic's rating by 1 point from A- to BBB+.
27 November	Based on selection procedures, General Electric International Holding becomes the partner for the sound part of Agrobanka, a.s.
30 November	Premier Václav Klaus resigns. President Václav Havel accepts, in compliance with the Constitution, the resignation of the whole Czech Government and authorises its members to fulfil their duties until a new Government is appointed.
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12 December	The Lower House of Parliament passes a balanced state budget for 1998 amounting to CZK 536.5 bn; the Government approved the state budget draft on 25 September 1997.
16 December	President Václav Havel recalls CNB Governor Josef Tošovský from his post and authorises him to form a new Government. Vice-Governor Pavel Kysilka becomes acting Governor.
17 December	President Václav Havel appoints Josef Tošovský Premier of the Czech Republic.
22 December	The CNB introduces inflation targeting, aiming its monetary policy at lowering the so-called net inflation to $4.5 \pm 1\%$ by the end of the year 2000; by the end of 1998, net inflation should reach $6 \pm 0.5\%$.
30 December	Premier Josef Tošovský announces his proposal for the structure of the new Government. President Václav Havel appoints the new Government on 2 January 1998.
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F.

LIST OF RESPONDENTS

For several years, an important source of information for CNB analytical work in the area of real economics is the knowledge and experience of chief representatives of the following firms and organisations. The CNB would like to take this opportunity to express its thanks for their responsive, co-operative approach.

Chemopetrol, a.s.
436 70 Litvínov

ŠKODA a.s.
Tylova 57
316 00 Plzeň

České dráhy, s.o.
Nábřeží L. Svobody 12
110 15 Praha 1

TATRA, a.s.
Štefánikova 1163
742 21 Kopřivnice

Zemědělské obchodní družstvo Loštice
Hradecká 107
789 83 Loštice

Oděvní podnik s.r.o. Prostějov
Za nádražím 2
797 04 Prostějov

Stavby silnic a železnic, a.s.
Národní 10
113 19 Praha 1

MITAS, a.s.
Švehlova 1900
106 25 Praha 10

**Zemědělská obchodní společnost
Šestajovice - Jirny, a.s.**
Zámecká 345
250 90 Jirny

Družstvo pro zemědělskou výrobu Nova
257 51 Bystřice

VEBA - textilní závody, a.s.
Přádelnická 89
550 17 Broumov

ARMABETON, a.s.
Antala Staška 30
140 02 Praha 4

AssiDomän Sepap, a.s.
Litoměřická 272
411 08 Štětí

VÍTKOVICE, a.s.
Ruská 101
706 02 Ostrava - Vítkovice

OKD, a.s.
Prokešovo náměstí 6
728 30 Ostrava - Moravská Ostrava

Továrny mlýnských strojů, akciová společnost
Průmyslová 387
532 34 Pardubice

ETA a.s.
Poličská 444
539 16 Hlinsko v Čechách

CRYSTALEX, a.s. Nový Bor
B. Egermanna 634
473 13 Nový Bor

Cement Hranice, akciová společnost
753 39 Hranice

OLMA, a.s.
Pavelkova 18
772 11 Olomouc

PVT, a.s.
Kovanecká 2124/30
190 00 Praha 9

PRIOR Česká republika, a.s.
Lannova 22
371 57 České Budějovice

Karlovarský porcelán THUN, a.s.
Závozu míru 70
360 17 Karlovy Vary

AUDIP, s.r.o.
Lublaňská 19
120 00 Praha 2

Passerinvest group
Jemnická 1
140 00 Praha 4

Auto Palace Praha, k.s.
Na Chodovci 2457/1
141 00 Praha 4

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