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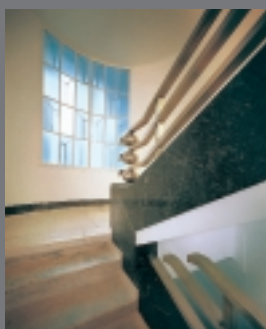


ANNUAL
REPORT
1999

CNB CZECH
NATIONAL
BANK

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GOVERNOR'S
FOREWORD

GOVERNOR'S
FOREWORD



JOSEF TOŠOVSKÝ
CNB Governor

The Czech Republic's economic results in 1999 reflected the gradual emergence of the domestic economy from recession. GDP continued to decline in Q1. The second part of the year saw a certain recovery, but this was still sluggish and fragile. The public responded sensitively to the rise in unemployment, the threat of failure of a number of big firms, the dire situation in credit unions and to the reports about economic crime. The assessments of international institutions, particularly the European Commission, persistently pointed out the slow progress being made with structural and institutional reform, justifiably regarding this as the main cause of the economic difficulties in the Czech Republic and a potential risk of insufficient competitiveness with regard to EU accession.

In this atmosphere, some indisputably positive results and signals went rather unnoticed. Long-term foreign capital started to flow significantly into the Czech Republic, signalling renewed confidence in the future of our state and helping to create new jobs. The growth in the unemployment rate slowed, although the situation in some regions remained serious. Major steps forward were taken in privatising the remaining banks part-owned by the state. The balance of payments was balanced. The Czech koruna maintained its reputation as a stable currency and also retained the confidence of the public. The aftermath of the 1997 currency crisis was overcome definitively and the koruna's exchange rate against the euro showed a tendency towards appreciation.

As regards the CNB's primary objective of price stability, it should be emphasised that the inflation rate was at its lowest level since the transformation period began. This is attributable in part to the previous unexpected and sharp fall in world prices of energy raw materials and food, and also to the economic stagnation and subdued domestic demand. This pushed price indices below the level expected by economic agents and below the short-term inflation targets. Nonetheless, the laying of the foundations for a low-inflationary environment in the Czech Republic can be viewed as the main success of the central bank's monetary policy. Market participants started to view low inflation as a stable and sustainable situation and adjusted their behaviour accordingly. The Czech Government and the European Commission adopted a document entitled "Joint Assessment of the Economic Policy Priorities of the Czech Republic" containing a commitment to achieve by 2005 an inflation level meeting the criterion for EMU membership. This has become the CNB's strategic target for the future period from which its operational monetary policy will be derived.

Along with the efforts to fulfil its primary objective, the CNB devoted great attention to measures aimed at fostering economic recovery and growth. It continued with its policy of lowering interest rates, which in real terms gradually reached their lowest levels on record. The minimum reserve requirements were also lowered considerably. However, the lack of favourable projects from domestic firms curtailed the use of the released funds for an expansion in lending, and domestic banks invested extensively abroad.

The CNB's own Financial Report again shows that most of the CNB's profit/loss arises during implementation of its monetary and exchange rate policies and should be assessed from this perspective by the public, too. A relatively large profit was achieved in 1999, even allowing for the sale of receivables from the National Bank of Slovakia to the Czech Government at a symbolic price.


JOSEF TOŠOVSKÝ
Governor

I. MANAGEMENT AND ORGANISATION

I. MANAGEMENT AND ORGANISATION



LUDEK NIEDERMAYER
CNB Chief Executive Director

PAVEL ŠTĚPÁNEK
CNB Chief Executive Director

MIROSLAV HRNČÍR
CNB Chief Executive Director

ZDENEK TŮMA
CNB Vice-Governor

PAVEL RACOCHA
CNB Chief Executive Director

JOSEF TOŠOVSKÝ
CNB Governor

OLDŘICH DĚDEK
CNB Vice-Governor

I.1 THE BANK BOARD

There were major personnel changes within the Bank Board in 1999. In February, the six-year terms of office of four members of the Bank Board ended, with Vice-Governor Pavel Kysilka, Vice-Governor Jan Vít, Chief Executive Director Ota Kaftan and Chief Executive Director Jiří Pospíšil all leaving the Board. The President of the Czech Republic appointed the following new members with effect from 13 February: Vice-Governor Oldřich Dědek, Vice-Governor Zdeněk Tůma, Chief Executive Director Pavel Racoča and Chief Executive Director Pavel Štěpánek.

The current composition of the Bank Board - the Czech National Bank's supreme managerial body - is as follows:

GOVERNOR:	<i>Josef Tošovský</i>
VICE-GOVERNOR:	<i>Oldřich Dědek</i>
VICE-GOVERNOR:	<i>Zdeněk Tůma</i>
CHIEF EXECUTIVE DIRECTOR:	<i>Miroslav Hrnčíř</i>
CHIEF EXECUTIVE DIRECTOR:	<i>Pavel Racoča</i>
CHIEF EXECUTIVE DIRECTOR:	<i>Luděk Niedermayer</i>
CHIEF EXECUTIVE DIRECTOR:	<i>Pavel Štěpánek</i>

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CNB GOVERNOR JOSEF TOŠOVSKÝ

Born on 28 September 1950 in Náchod. Josef Tošovský graduated from the Prague School of Economics, where he specialised in foreign trade. After completing his studies in 1973, he was employed at the State Bank of Czechoslovakia, where he progressed through a series of posts. He subsequently joined the London branch of Živnostenská banka, working first as an economist (1984-1985) and later as Deputy Director (1989). In December 1989, he was appointed President of the State Bank of Czechoslovakia, which under his leadership was transformed into an independent central bank. In the period of the Czechoslovak Federation he held the post of SBCS Governor, managed the division of the SBCS and led the new Czech National Bank during the creation of an independent currency. As the head of the Czech National Bank, he is one of the International Monetary Fund Governors. He holds the posts of Associate Professor, Member of the Scientific Board and Member of the Management Board at the Prague School of Economics. He is also a Member of the Management Board of Charles University. Since the very start of the transformation process he has given lectures at international conferences organised by academic institutions, international institutions, banks and investment companies in Europe, America and Asia. In 1993, he was named "Central Banker of the Year" in Washington on the occasion of the Annual IMF meeting. In 1994, he was voted "European Manager of the Year" by the European Business Press Foundation and was awarded the Karel Engliš Prize at Masaryk University in Brno. In 1996, he was named "European Banker of the Year" by leading European journalists. In December 1997, he was appointed Prime Minister of the Czech Republic in a caretaker capacity. He led the Government until the early elections in July 1998, after which he returned to his position as Governor of the Czech National Bank.

CNB VICE-GOVERNOR OLDŘICH DĚDEK

Born on 26 November 1953 in Chlumec nad Cidlinou. Oldřich Dědek graduated from the Prague School of Economics, where he specialised in agricultural economics. After completing his studies in 1978, he was employed by the Economic Institute of the Czechoslovak Academy of Sciences, where he worked as a researcher specialising in economic policy. In 1992, he joined the State Bank of Czechoslovakia as Deputy

Director of the Institute of Economics. In 1996, he was appointed an adviser to the CNB Governor. He was a member of the Scientific Council of the Faculty of Social Sciences at Charles University, where he also lectures on financial market issues, and is a member of the Executive Committee of the Czech Economic Society. He has participated in internships and study programmes in Great Britain (London School of Economics, University of Warwick) and the USA (International Monetary Fund, Federal Reserve Bank of Kansas City). He also publishes articles on monetary and economic policy issues in the daily press and in professional journals. As an adviser to the Prime Minister of the Czech Republic in the first half of 1998, he headed the team of authors who prepared the document "Economic Strategy of Joining the European Union: Starting Points and Directions". Since 13 February 1999, he has been a CNB Vice-Governor and a member of the CNB Bank Board.

CNB VICE-GOVERNOR ZDENĚK TŮMA

Born on 19 October 1960 in České Budějovice. Zdeněk Tůma graduated from the Prague School of Economics, Faculty of Trade. After completing his studies, he worked at the Prague School of Economics, and in 1986 he joined the Institute for Forecasting of the Czechoslovak Academy of Sciences as a postgraduate researcher. In 1990-1998, he lectured on macroeconomics at the Faculty of Social Sciences at Charles University, in 1993-1995 he was an adviser to the Minister of Industry and Trade, and from 1995 was the chief economist at Patria Finance. From 1 June 1998 until joining the CNB he held the post of Executive Director of the European Bank for Reconstruction and Development, representing the Czech Republic, Slovakia, Hungary and Croatia on the Board of Directors. He is a member of the Scientific Council of the Faculty of Social Sciences at Charles University, the President of the Czech Economic Society and Editor in Chief of the economic journal "Finance a úvěr" (Finance and Credit). He has participated in foreign study programmes in Great Britain (London School of Economics, University of Cambridge), the Netherlands (Timbergen Institute) and the USA (George Mason University). He publishes articles on monetary policy and macroeconomics in the daily press and in professional journals. Since 13 February 1999, he has been a CNB Vice-Governor and a member of the CNB Bank Board.

CNB CHIEF EXECUTIVE DIRECTOR MIROSLAV HRNČIŘ

Born on 21 July 1937 in Lohenice. Miroslav Hrnčíř graduated from the Prague School of Economics in 1960. At first, he worked at a foreign trade organisation then in 1963 he joined the Economic Institute of the Czechoslovak Academy of Sciences as a research scientist. In 1967 he defended his thesis and in 1989 he was awarded the degree of Doctor of Sciences. From 1991 he co-operated with the State Bank of Czechoslovakia, at first as an adviser and later as an executive banking expert in the SBCS Institute of Economics. In 1992 he went on an internship at Cambridge University. He has participated in several international projects in the area of macroeconomic policy and regulation in co-operation with the European Union. He has published numerous research reports and articles, particularly in the foreign professional press. In 1994 he was appointed an adviser to the CNB Governor. Since 27 February 1996, he has been a CNB Chief Executive Director and a member of the CNB Bank Board.

CNB CHIEF EXECUTIVE DIRECTOR PAVEL RACOCHA

Born on 23 March 1962 in Pilsen. Pavel Racoča graduated from the Prague School

of Economics, Faculty of Management, and from Columbia University in New York. In the second half of the 1980s, he worked in the housing co-operative system. In 1991, he joined the State Bank of Czechoslovakia, where he progressed through the posts of specialist, section head and deputy director in the area of banking supervision. He has participated in a number of internships in the USA, Germany, France, Japan and other countries directed at the issues of banking, risk management and banking supervision. In 1996-97, he worked as a consultant at the World Bank in New York in the area of financial sector development in emerging economies. From June 1998, he worked as a section head in the Banking Supervision Department at the CNB. He is a member of the working group for "Core Principles for Effective Banking Supervision" of the Basle Committee on Banking Supervision at the Bank for International Settlements. At present, he is Chairman of the Group of Banking Supervisors from Central and Eastern Europe. He is a member of the steering committee for the privatisation of banks, which is an advisory body to the Czech Ministry of Finance. He lectures at seminars and conferences on banking in the Czech Republic and abroad. Since 13 February 1999, he has been a CNB Chief Executive Director and a member of the CNB Bank Board.

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CNB CHIEF EXECUTIVE DIRECTOR LUDĚK NIEDERMAYER

Born on 13 March 1966 in Brno. Luděk Niedermayer graduated from UJEP Brno (now Masaryk University) in 1989 where he specialised in operational research and systems theory, and worked there for a short time researching the theory of structures. In 1991 he joined the State Bank of Czechoslovakia, working in asset and liability management, and participated in a course organised by the World Bank. In January 1996 he was appointed Executive Director of the CNB responsible for international reserves administration and money market operations. He has participated in numerous study trips and internships in well-known financial institutions in areas of the capital market (e.g. Swiss Bank Corporation, Salomon Brothers, Morgan Stanley); derivatives trading and risk management (e.g. Bankers Trust, New York Institute of Finance, J.P. Morgan); monetary policy and the central bank (e.g. FED N.Y., IMF, BIS, Bank of England); and in other areas. He also focuses on these issues as a participant in conferences, in lectures at special courses and in his publishing activity. Since 27 February 1996, he has been a CNB Chief Executive Director and a member of the CNB Bank Board.

CNB CHIEF EXECUTIVE DIRECTOR PAVEL ŠTĚPÁNEK

Born on 5 September 1956 in Prague. Pavel Štěpánek graduated from the Prague School of Economics, where he specialised in finance. After completing his studies in 1979, he stayed on there as an assistant lecturer. In 1981, he was employed as a specialist by the Ministry of Finance, where he held various posts in the Study-Research Centre, the Public Finance Section and the Financial Policy Department. In 1998, he was appointed Deputy Finance Minister responsible for financial policy, international relations, the capital market and bank privatisation. He was also engaged for a short time on the Supervisory Board of Poštovní banka. In 1993-1998, he was a member of the Presidium of the National Property Fund and in 1998 briefly an assistant to the General Director of Česká spořitelna. He has participated in IMF study programmes abroad, focusing on taxes and public finance. He lectures on financial policy at the Prague School of Economics and publishes articles in the daily press and in professional journals. Since 13 February 1999, he has been a CNB Chief Executive Director and a member of the CNB Bank Board.

1.2 ORGANISATION

In the organisational area, 1999 was the first full year of operation of the new organisational structure introduced in mid-1998. The restructuring measures were confirmed in practice to be correct and realistic, particularly with respect to improving flexibility and management efficiency. The bank's demanding tasks were fulfilled smoothly despite the almost 16% reduction in the workforce in 1998. Following the restructuring, the Bank Board approved a new staff policy.

The CNB's organisational structure consists of its headquarters in Prague and branches in Prague, České Budějovice, Plzeň, Ústí nad Labem, Hradec Králové, Brno and Ostrava. The CNB is further divided into organisational sections - groups, departments and divisions at headquarters and divisions in branches. The basic management element at headquarters is the department.

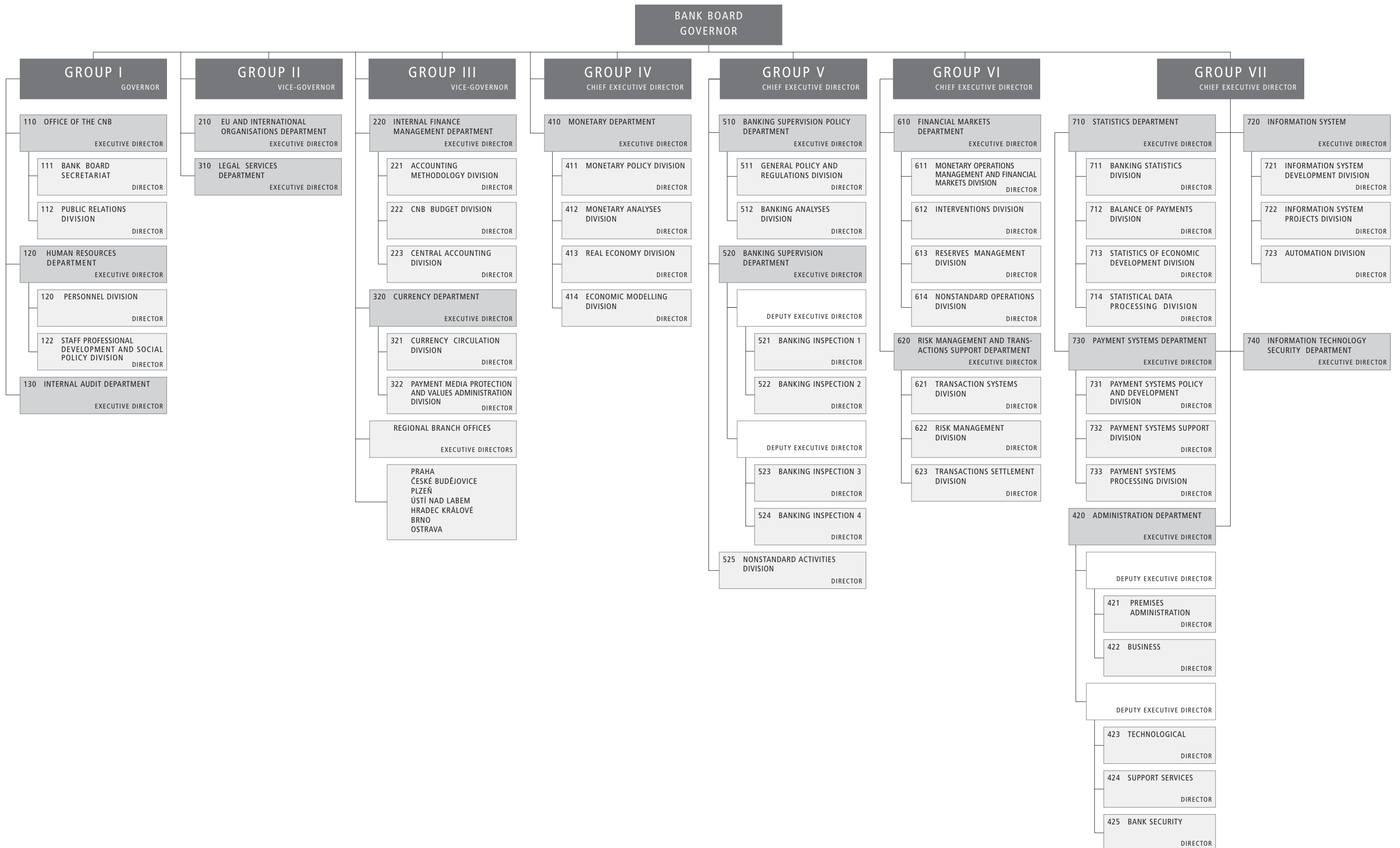
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In 1999, two partial changes were made to the Organisational Manual. The first change was connected with the appointment of new Bank Board members and with the need for a new division of powers between the Board members with respect to the management of individual groups and branches.

The second change to the Organisational Manual was made in November 1999. The aim was to adjust the CNB's organisation and management in the light of the Board members' evaluation of the comprehensive rationalisation implemented on 1 June 1998 and the suggestions of individual departments regarding clarification and rationalisation of their activities. The change also included tasks arising for the CNB from the legislation (particularly Act No. 148/1998 Coll. on the Protection of Official Secrets and on Amendments to Some Laws, and Act No. 106/1999 Coll. on Freedom of Information).

ORGANISATIONAL CHART

ORGANISATIONAL CHART



ORIENTATION AND RESPONSIBILITIES OF THE ORGANISATIONAL SECTIONS OF THE CNB'S HEADQUARTERS AND BRANCHES AS SET FORTH IN THE ORGANISATIONAL MANUAL

HEADQUARTERS

110 OFFICE OF THE CNB

Responsible for secretarial services for the Governor and the Bank Board and its individual members, including organisational and advisory activities; for CNB foreign and internal protocol; for informing CNB management about important events and information; and for the CNB's communications with the public, the media and its own employees.

120 HUMAN RESOURCES DEPARTMENT

Responsible for human resources management; for labour-legislation and wage administration, including income tax; for processing wages and keeping records in the wage area; for the professional and social development of employees; and for co-ordinating the preparation of the CNB's organisational structure and Organisational Manual and managing changes to them.

130 INTERNAL AUDIT DEPARTMENT

Responsible for internal auditing activity and for setting the principles for inspection activities at the CNB. Carries out internal auditing and inspections at the CNB.

210 EUROPEAN UNION AND INTERNATIONAL ORGANISATIONS DEPARTMENT

Responsible for overall co-ordination of CNB relations with the European Union and its institutions, including integration into European structures and relations with international economic and financial institutions and foreign banks; and for drafting conceptual plans for these relations.

220 INTERNAL FINANCE MANAGEMENT DEPARTMENT

Responsible for CNB accounting, the CNB budget, control activities, and for the CNB's financial relations with the state budget.

310 LEGAL SERVICES DEPARTMENT

Responsible for the area of legislation and law at the CNB; for compliance of CNB regulations with other legal regulations; and for the gradual harmonisation of CNB legislation with that of the European Union.

320 CURRENCY DEPARTMENT

Responsible for preparing the issuance of new banknotes and coins; for regulating cash in circulation; for managing the reserves of Czech money, gold, precious metals and commemorative silver coins; and for protecting Czech money against counterfeiting.

410 MONETARY DEPARTMENT

Responsible for drafting monetary policy proposals, comprehensive analyses and forecasts of monetary and economic developments and proposals for the co-ordination of monetary policy and government economic policy; for analysing the inflation trend and the relationship between aggregate supply and demand; and for analysing and forecasting macroeconomic phenomena using economic models.

420 ADMINISTRATION DEPARTMENT

Responsible for all administrative activities of the CNB, including security.

510 BANKING SUPERVISION POLICY DEPARTMENT

Responsible for setting the regulations for the development of the banking sector; for banking supervision procedures; and for comprehensive analyses of the Czech banking sector.

520 BANKING SUPERVISION DEPARTMENT

Responsible for comprehensive performance of banking supervision and for implementing banking supervision policy in the Czech Republic.

610 FINANCIAL MARKETS DEPARTMENT

Responsible for implementing monetary policy and regulating the monetary policy operational target; for CNB interventions on the money and foreign exchange markets; for managing CNB international reserves; for acting as agent of the Czech Government in administering government debt; and for providing and administering credits to banks and non-standard CNB clients.

620 RISK MANAGEMENT AND TRANSACTIONS SUPPORT DEPARTMENT

Responsible for managing CNB asset and liability risks; for developing and administering banking transaction information systems; and for comprehensive settlement of CNB transactions on domestic and foreign markets.

710 STATISTICS DEPARTMENT

Responsible for collection and accurate and comprehensive processing of monetary and banking statistical data; for compiling and administering the balance of payments; and for administering and developing statistical data systems.

720 INFORMATION SYSTEM DEPARTMENT

Responsible for developing information systems, information technology and communications at the CNB, excluding the specialised systems administered by the Payment Systems Department; and for collecting and processing statistical data for the banking information system, the dealing information system and the wireless telecommunication systems for non-data communication.

730 PAYMENT SYSTEMS DEPARTMENT

Responsible for managing the non-cash payment system; for developing and running the automated accounting and payment system at the CNB (ABO2) and the interbank settlement system (clearing); and for the conception, methodology and operation of the short-term bond market system (TKD).

740 INFORMATION TECHNOLOGY SECURITY DEPARTMENT

Responsible for the security and protection of information technology at the CNB and for investing in specialised equipment to enhance IT security.

CNB BRANCHES

Responsible for managing money reserves and maintaining the accounts of the state budget and other branch clients; for making payments; for performing the financial accounting of the branch; for carrying out foreign exchange inspections and compiling foreign exchange statistics in the region; for conducting business surveys; for labour-law and social administration; and for economic administrative activities at the branch.

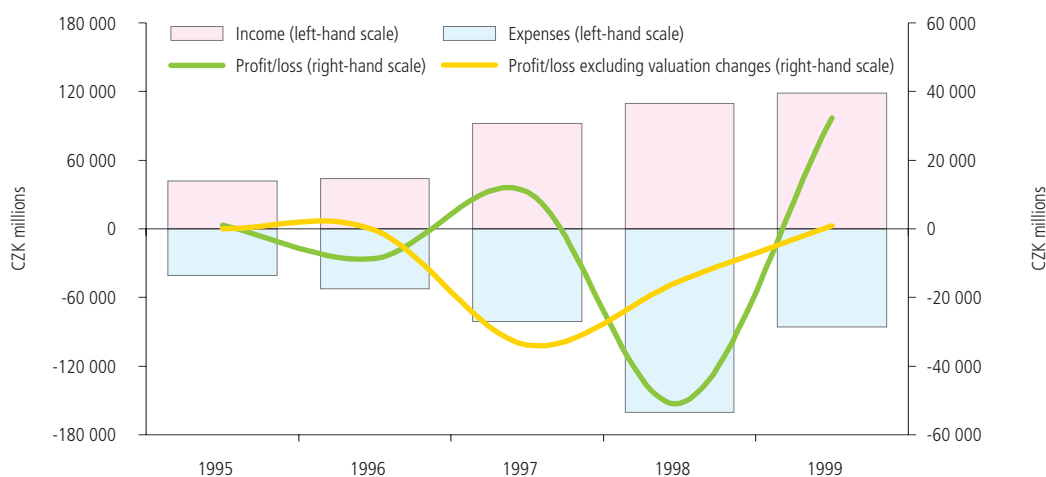
II. FINANCIAL REPORT

II. FINANCIAL REPORT



The Czech National Bank's financial accounts for 1999 ended in a profit of CZK 32,378 million, income being CZK 118,325 million and expenses CZK 85,947 million. The results were affected by the CNB's monetary policy measures and, in particular, by the exchange rate profits resulting from the rise in the koruna value of the CNB's international reserves. This increase in reserves was caused by depreciation of the koruna exchange rate.

CHART II.1 CNB PERFORMANCE 1995 - 1999



In 1999, as in previous years, the CNB effected repo operations to sterilise the free liquidity of commercial banks. Along with repo tenders, commercial banks also took advantage of a new type of operation - the deposit facility (introduced 1 December 1998). Commercial banks are allowed to automatically deposit their surplus liquidity at the end of the day with the CNB in the form of a deposit at the discount rate. The purpose of introducing such a measure was to reduce the volatility of short-term interest rates and to restrict their movement to the band between the Lombard rate and the discount rate. Interest expenses from repo operations and the deposit facility brought a net loss of CZK 14,371 million.

In 1999, an average of CZK 203,550 million was sterilised (the average daily volume of CNB bills in commercial banks' portfolios), which in comparison with 1998 is about a 55% increase. The rise in the free liquidity of banks was related to the inflow of foreign capital and the lowering of the minimum reserve requirement. Nevertheless, overall sterilisation costs from CNB-bill repo operations were lower than in 1998 owing to the decrease in interest rates. The limit two-week repo rate was gradually lowered from 9.5% p.a. at the beginning of the year to 5.25% p.a. as of 26 November 1999. In addition, the discount rate was lowered from 7.5% to 5% p.a. and the Lombard rate from 12.5% to 7.5% p.a.

The net income from international reserves was CZK 15,438 million, which is an increase of CZK 865 million against 1998. This was due largely to an increase in the volume of the CNB's international reserves (expressed in dollars, the CNB's reserves rose from USD 12.6 billion at end-1998 to USD 12.9 billion at end-1999).

During 1999, the koruna's exchange rate weakened by 3% against the euro and by 21% against the dollar. The depreciation was caused, among other things, by the CNB's interventions on the foreign exchange market. As a result of this nominal decline, the koruna value of the CNB's foreign exchange assets was higher at the end of the year than at the beginning of the year. This factor (i.e. the decline in the koruna's exchange rate) was one of the main reasons for the 1999 profit. Given the extent of the foreign exchange assets and the floating exchange rate regime, the impact of exchange rate fluctuations is a very volatile feature of the bank's performance. Given the current structure of CNB's balance sheet, where foreign exchange assets significantly exceed liabilities (the CNB has an open foreign exchange position), exchange rate movements will continue to strongly influence the CNB's profit and loss account in future years.

The matter of the CNB's receivables from the National Bank of Slovakia incurred during the division of federal property has been definitively resolved. With the CNB's prior agreement, the Czech Government approved in Decree No. 1253 of 22 November 1999 an agreement on the transfer of these receivables to the state for the price of one Czech koruna. The agreement became valid on the day it was signed by the two contracting parties and will take effect on the day the agreement between the Czech Republic and the Slovak Republic on final settlement of the separation of the assets of the Czech and Slovak Federal Republic comes into effect. For this reason, the CNB has included the receivables from the National Bank of Slovakia under illiquid receivables from banks and has created a provision for them equal to the difference between the nominal value and the price at which they will be transferred to the state. When this transfer takes place, the resulting loss will be fully covered by provisions at the moment the agreement between the CNB and the state comes into effect.

Nonetheless, income increased through the sale of the CNB's participating interest in Československá obchodní banka (net income of CZK 14,807 million).

The CNB's financial accounts were also strongly affected by the creation of reserves and provisions. The need for these was linked chiefly with the aforementioned receivables from the National Bank of Slovakia as well as with the assets assumed and guarantees issued under the banking sector consolidation programme.

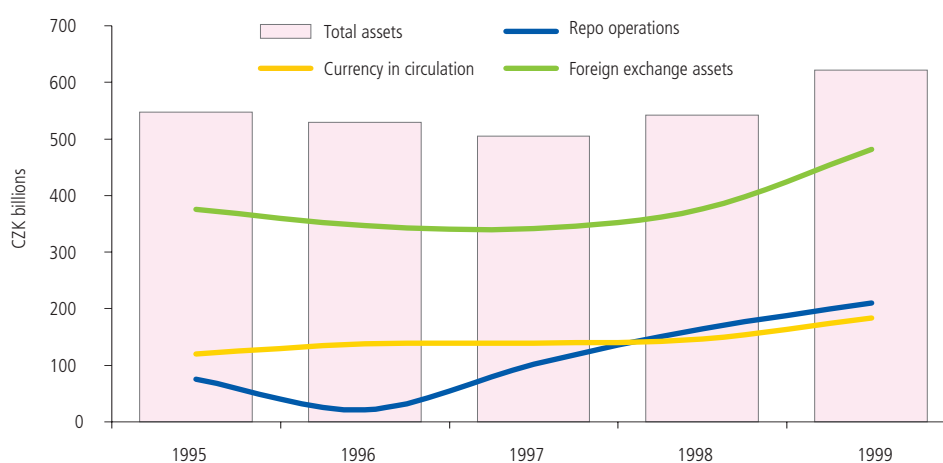
To cover the risk of losses being incurred from the consolidation of the banking sector, the Czech Government resolved to issue a guarantee of CZK 22,500 million. The guarantee was issued on 19 March 1997 for a period of ten years. The coverage from guarantees was tied to specific assets with a set maximum amount. In connection with the transfer of the receivables from the National Bank of Slovakia to the CNB, the conditions were changed so that the state guarantee would apply to the consolidation programme as a whole and not to losses from individual assets. This allowed part of the already created reserves and provisions to be dissolved into the bank's income.

In 1999, the overall effect of reserves and provisions was negative. In this connection, the CNB posted net expenses of CZK 10,907 million. Of the total volume of reserves and provisions of CZK 88,854 million, the consolidation programme accounted for CZK 58,924 million.

The profiles of the CNB's total assets and selected balance sheet items between 1995 and 1999 are illustrated in the chart below. In terms of total volume, foreign

exchange assets are the most important on the assets side. They are affected mainly by exchange rate influences, purchases and sales on the foreign exchange market, and by debt service payments. In contrast, currency in circulation and liabilities ensuing from repo operations are the most important items of the CNB's liabilities. Both these items rose in absolute terms between end-1995 and end-1999. Currency in circulation rose gradually by CZK 64 billion, whereas liabilities from repo operations saw faster growth (up by CZK 135 billion from end-1995, mainly because the CNB started to use the repo rate as one of its main monetary policy instruments).

CHART II.2 CNB TOTAL ASSETS AND SELECTED BALANCE-SHEET ITEMS

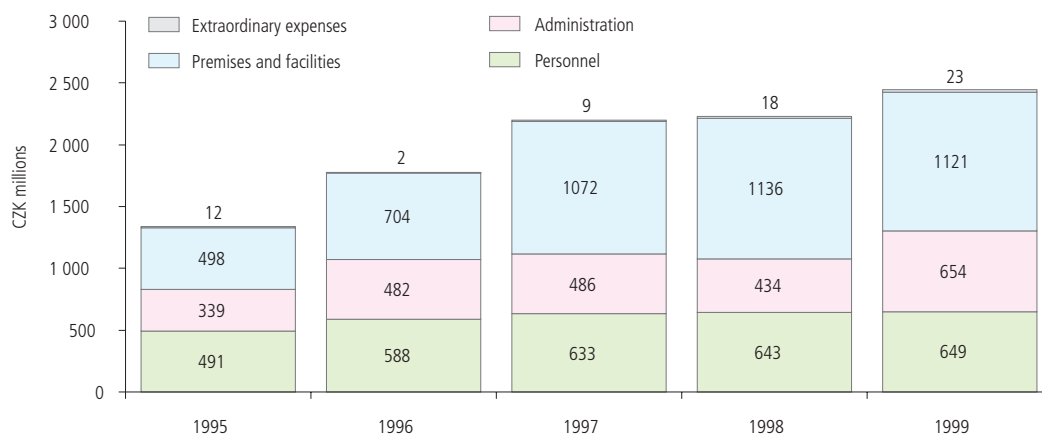


Commercial banks thus made ever greater use of CNB-bill repo tenders.

In the area of issuance and management of currency in circulation, the CNB spent CZK 357 million, which is CZK 55 million less than in 1998. The overwhelming majority of the expenses (CZK 351 million) consisted of costs relating to the supply of new banknotes and coins. Around CZK 6 million was paid out for management of currency in circulation through Komerční banka branches.

In the area of operations, the CNB made a net loss of CZK 2,406 million, which was CZK 227 million (10.4%) higher than a year earlier. In 1999, operating expenses represented 2.8% of total expenses and operating income 0.03% of total income. The increase in the loss was attributable chiefly to contracted services, which compared with previous years also included costs of CZK 240 million for financial and legal advisory services for the preparation of ČSOB's privatisation. Excluding this extraordinary item, the area of operations as a whole saw a similar trend to the previous year. By purpose, CZK 622 million was spent on employees (wages, social and health insurance), CZK 554 million on write-offs, CZK 372 million on the leasing of operational premises, CZK 124 million on value added tax (VAT paid at input shows up in expenses, since the CNB, given the volume of its financial activities, cannot deduct VAT) and CZK 77 million on computer maintenance and servicing. The operating expenses also include fuel and energy consumption, repairs and maintenance of property, contracted services (consulting, auditing, software support, etc.), telecommunication charges, utilities expenses, staff training costs, travel expenses, transport fees and consumption of low-value items, office supplies and printed forms. Extraordinary expenses in the area of operations amounted to CZK 23 million. Income in this area totalled CZK 41 million.

CHART II.3 OPERATING EXPENSES 1995 - 1999



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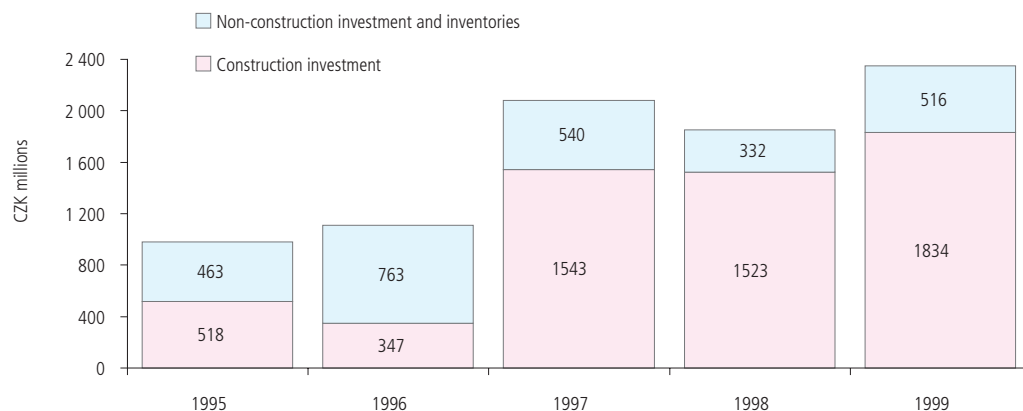
In 1999, procurement expenses (investment and inventories) amounted to CZK 2,350 million, which is 85% less than in 1998. However, a substantial volume of capital investment was seen in 1998 (excluding capital investment the volume was 27% higher). Of this amount, CZK 1,834 million went into construction investment and CZK 516 million into non-construction investment and inventories. There was no capital investment spending.

Most of the funds spent on construction investment were channelled into the reconstruction of the CNB's headquarters in Prague 1. In 1999, the reconstruction entered its final phase. Most of the construction work, including technical installations for all buildings, was completed. At the end of June 1999, the inspection process began and the buildings were gradually turned back over to the CNB. By the end of 1999, most areas of the reconstructed buildings had been inspected and approved. In addition to the reconstruction of the CNB's headquarters, minor repairs were made at the branches and other premises of the CNB.

As regards non-construction investment and inventories, most money was spent on computer hardware - CZK 145 million. A further CZK 110 million went into investment in projects and application software from suppliers. CZK 69 million was invested in local and long-distance data communication equipment, including data communication security, and CZK 60 million in software. In addition, CZK 52 million was invested in office furnishings and equipment and CZK 40 million was channelled into "other items" - mainly purchases of office supplies, maintenance materials, inventory forms, packing materials and other materials.

The following chart gives a comparison of investment and inventories from 1995 to 1999. The chart does not include special capital investment, as it concerns participating interests related to the consolidation of the banking sector.

CHART II.4 CONSTRUCTION INVESTMENT, NON-CONSTRUCTION INVESTMENT AND INVENTORIES 1995 - 1999



The chart shows that spending on construction and non-construction investment and on inventories has been similar in the past three years. The higher levels for these years are connected with the reconstruction of the CNB headquarters.

The CNB's profit for 1999 was used to cover the 1998 loss (to the maximum possible extent) and to replenish the social fund (in the amount agreed upon in the collective agreement for 2000). Although covering the 1998 losses has been given priority status in the distribution process, an accumulated loss of CZK 18,393 million will still remain uncovered in the balance sheet. This will be met out of future profits.

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

ASSETS

in CZK millions

Item no.	Item	Current accounting period			Previous accounting period
		Gross	Adjustments	Net	
1.	Gold	840	0	840	541
2.	Receivables from International Monetary Fund	39 405	0	39 405	26 320
3.	Receivables from abroad, including securities	506 965	28 741	478 224	402 412
3.1.	Deposits at foreign banks	75 751		75 751	16 427
3.2.	Credits granted to foreign banks	7 659		7 659	16 356
3.3.	Securities	397 703	2 931	394 772	343 471
3.4.	Other receivables from abroad	25 852	25 810	42	26 158
4.	Receivables from domestic banks	30 753	14	30 739	53 822
5.	Receivables from clients	45 285	5 336	39 949	29 113
6.	Domestic securities and interests	35 542	19 717	15 825	17 178
7.	Current result of state budget	0	0	0	0
8.	Other receivables from state budget	0	0	0	0
9.	Cash in CZK	1 063		1 063	869
10.	Fixed assets	11 360	2 746	8 614	6 860
10.1.	Tangible fixed assets	10 531	2 364	8 167	6 468
10.2.	Intangible fixed assets	829	382	447	392
11.	Other assets	8 960	1 444	7 516	4 942
11.1.	Deferred revenue and accrued expenses	686	0	686	575
11.2.	Others	8 274	1 444	6 830	4 367
	ASSETS TOTAL	680 173	57 998	622 175	542 057

22

LIABILITIES

in CZK millions

Item no.	Item	Current accounting period	Previous accounting period
1	Currency in circulation	183 939	146 060
2.	Liabilities to International Monetary Fund	39 405	26 320
3.	Liabilities abroad, including securities	30 545	11 383
3.1.	Loans taken from abroad	17 798	1 883
3.2.	Bond issues	12 331	9 069
3.3.	Other liabilities abroad	416	431
4.	Liabilities to domestic banks	275 884	275 927
4.1.	Bank monetary reserves	26 279	86 605
4.2.	Other liabilities abroad	249 605	189 322
5.	Deposits from clients	33 123	31 812
6.	Domestic securities issued	0	0
7.	Current result of state budget	0	0
8.	Other liabilities to state budget	27 069	28 370
9.	Reserves	33 602	54 370
10.	Share capital	1 400	1 400
11.	Funds	8 203	8 234
12.	Retained profits (accumulated losses)	-50 740	0
13.	Profit (loss) for accounting period	32 378	-50 740
14.	Other liabilities	7 367	8 921
14.1.	Deferred revenue and accrued expenses	1 075	1 061
14.2.	Others	6 292	7 860
	LIABILITIES TOTAL	622 175	542 057

OFF-BALANCE SHEET

in CZK millions

Item no.	Item	Current accounting period	Previous accounting period
1.	Contingent liabilities	37 631	79 423
1.1.	Accepted bills of exchange and endorsed bills	0	0
1.2.	Guarantees issued	37 631	79 423
1.3.	Obligations from collateral	0	0
2.	Other irrevocable liabilities	0	0
3.	Receivables from spot, term and option operations	42 639	75 006
4.	Liabilities from spot, term and option operations	42 496	77 379
5.	Guarantees received	22 500	52 100

The annex to the financial statements is available from the Office of the CNB, Na Příkopě 28, Praha 1

PROFIT AND LOSS ACCOUNT

in CZK millions

Item no.	Item	Current accounting period	Previous accounting period
1.	Interest income	33 361	57 450
1.1.	Interest from securities bearing fixed income	25 578	37 884
1.2.	Other	7 783	19 566
2.	Interest expenses	28 923	55 881
2.1.	Interest from securities bearing fixed income	10 522	27 462
2.2.	Other	18 401	28 419
3.	Income from securities with variable income	39	0
3.1.	Income from shares	39	0
3.2.	Income from shares in subsidiaries	0	0
4.	Income from fees and charges	542	513
5.	Expenses from fees and charges	49	52
6.	Profit (loss) from financial operations	25 666	-41 302
7.	Other income	16 217	68
7.1.	Income from money issue	21	20
7.2.	Other	16 196	48
8.	General operating expenses	2 295	2 073
8.1.	Personnel expenses	624	613
8.1.1.	Wages and salaries	454	441
8.1.2.	Social and health insurance	170	172
8.2.	Other operating expenses	1 671	1 460
9.	Charge for specific and general provisions for tangible and intangible assets	0	0
10.	Release of specific and general provisions for tangible and intangible assets	0	0
11.	Other expenses	3 949	436
11.1.	Expenses for issuing bank notes and coinage	351	296
11.2.	Other	3 598	140
12.	Charge for specific and general provisions for loans and guarantees	32 667	13 739
13.	Release of specific and general provisions for loans and guarantees	8 814	31 598
14.	Charge for specific and general provisions for investments and other financial investments	0	0
15.	Release of specific and general provisions for investments and other financial investments	0	0
16.	Charge for other specific and general provisions	1 440	27 053
17.	Release of other specific and general provisions	17 035	183
18.	Ordinary profit (loss) after taxation	0	0
19.	Extraordinary income	53	3
20.	Extraordinary expenses	26	18
21.	Extraordinary profit (loss) after taxation	0	0
22.	Profit (loss) for accounting period	32 378	-50 740

ZPRÁVA NEZÁVISLÝCH AUDITORŮ

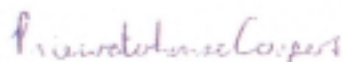
PRO BANKOVNÍ RADU ČESKÉ NÁRODNÍ BANKY

Provedli jsme audit přiložené rozvahy České národní banky (dále jen „ČNB“) k 31. prosinci 1999, souvisejícího výkazu zisků a ztrát a přílohy (dále jen „účetní závěrka“) za rok 1999. Za sestavení účetní závěrky a za vedení účetnictví odpovídá vedení ČNB. Naší úlohou je vyjádřit na základě auditu výrok o této účetní závěrce.

Audit jsme provedli v souladu s auditorskými směrnicemi Komory auditorů České republiky a Mezinárodními standardy auditu. Tyto normy požadují, aby byl audit naplánován a proveden tak, aby auditor získal přiměřenou jistotu, že účetní závěrka neobsahuje významné nesprávnosti. Audit zahrnuje výběrovým způsobem provedená ověření průkaznosti částek a informací uvedených v účetní závěrce. Audit rovněž zahrnuje posouzení použitých účetních zásad a významných odhadů učiněných vedením ČNB a zhodnocení celkové prezentace účetní závěrky. Jsme přesvědčeni, že provedený audit poskytuje přiměřený podklad pro vyjádření výroku.

Podle našeho názoru přiložená účetní závěrka ve všech významných ohledech věrně zobrazuje majetek, závazky a vlastní jmění ČNB k 31. prosinci 1999 a výsledek jejího hospodaření za rok 1999 v souladu se zákonem o účetnictví a ostatními příslušnými účetními předpisy České republiky.

27. března 2000



PricewaterhouseCoopers Audit, s.r.o.
oprávněná auditorská společnost
licence číslo 021



Ing. Zdeněk Mojžíšek
auditor
dekret číslo 1813

III. THE CNB IN THE PROCESS
OF PREPARATION
FOR THE CZECH REPUBLIC'S
INTEGRATION INTO THE EU
AND ITS RELATIONS
WITH INTERNATIONAL
INSTITUTIONS

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III.1 EU INTEGRATION

The main events of the integration process in 1999

In 1999, the CNB drafted, published and submitted to the Government for discussion a long-term Monetary Strategy. This vitally important document for the pre-accession process became one of the source materials for the Government's "Economic Strategy of Accession to the EU" and for the "Joint Assessment of the Economic Policy Priorities of the Czech Republic" agreed between the Government and the European Commission. The CNB document became an integral part of the government document.

The Czech Government approved the Economic Strategy of Accession at its session on 17 May 1999. This became the basis for the Joint Assessment. The latter document, which arose from the regular contacts between the Czech Republic and EU bodies, was discussed by the Government on 8 September 1999. The final wording was completed and agreed upon during technical consultations in Brussels on 13 September 1999. The document was officially signed on 9 November 1999 by Czech Deputy Prime Minister and Minister of Finance Pavel Mertlík and by European Commissioner Pedro Solbes Mira. CNB representatives participated in the preparatory work and the final discussions.

In October 1999, the European Commission published the "1999 Regular Report from the Commission on the Czech Republic's Progress towards Accession". The report assessed the Czech Republic's overall state of preparedness for EU membership, and not just the situation in the preceding year. Despite considerable progress at the beginning of the transformation process, the pace of legislative and institutional change in recent years has been too sluggish. As regards the banking area, the European Commission describes the well-known difficulties of the Czech banking sector. It considers the high volume of classified credits and the incomplete bank privatisation to be the biggest problems of the Czech banking sector at present.

As in previous years, regular sessions of the Europe Agreement bodies - the Association Committee (21 May 1999 in Brussels) and its Subcommittees - were held. CNB staff members participate in the sessions of two of these Subcommittees. The Subcommittee for Economic, Financial and Monetary Issues met in Prague on 15 April 1999. The Subcommittee for the Internal Market convened on 2-3 December 1999, also in Prague. A considerable part of these meetings was devoted to current developments in the Czech Republic in the areas under review and to the legislative and institutional preparations for accession.

Screening negotiations

The negotiations on the Czech Republic's accession to the European Union in the period under review mainly involved comparing the Czech and European legislation - "screening". The CNB participated in the screening of the chapters on free movement of services, free movement of capital and Economic and Monetary Union.

As part of the preparations for the screening negotiations, "screening lists" were drawn up containing an assessment of the harmonisation between the relevant Czech and European legislation. Following the screening negotiations, position documents were drafted by the CNB. After being approved by the Government, these were passed to the representatives of the European Commission.

From the screening negotiations in the area of banking and monetary policy, it emerges that the Czech Republic does not consider the EC regulations relating to these areas to be problematic as regards their adoption as of the accession date. The Czech Republic is ready to harmonise completely its legislation in these areas by the accession date at the latest (in the monetary policy area within the scope of application for countries temporarily exempted from introducing the euro).

The Accession Partnership, The National Programme

In support of the Czech Republic's accession to the EU, the two parties adopted numerous documents. Two documents are updated each year. The first of these, the Accession Partnership, contains the European Union's requirements for candidate countries. And the second, the National Programme for the Preparation of the Czech Republic for Membership of the EU, which is drawn up by the Czech side, sets the tasks for the short and medium term.

The tasks of the National Programme for 1999 were updated in the first half of 1999. During 1999, the European Commission drafted and submitted to the Czech side for comments the following two documents: "Accession Partnership - Priorities and Intermediate Objectives" and "Programming by Priority". The first document sets out the Commission's ideas concerning the priorities of the National Programme for 2000 and the second contains the outlook for Phare support.

On the basis of these documents and the tasks from previous National Programmes, priorities were drawn up for both areas where the CNB contributes to the National Programme - monetary policy (including statistics) and banking (including the payment system). These priorities are updated on a continuous basis in response to the Commission's regular assessments and to other requirements ensuing from the negotiations between the Czech Republic and the EU.

Relations with the European Central Bank

During 1999, there was an intensifying of relations between the Czech National Bank and the European Central Bank. The stimulus for these closer ties was the visit of the ECB Executive Council member, Tommaso Padoa-Schioppa, who came to Prague in June 1999 at the invitation of the CNB Governor.

In November 1999, the first meeting took place between the most senior ECB representatives of the central banks of the eleven Eurosystem countries and the most senior officials of the central banks of the twelve candidate countries. The purpose of this meeting, held in Helsinki, was to provide a comprehensive overview of the issues affecting central banks in the integration process, to identify the most important and difficult areas, and to broaden the co-operation between the Eurosystem and the candidate countries' central banks.

Particular emphasis was placed on the importance of aligning central bank legislation with the *acquis communautaire*, and in particular of anchoring the central banks' independence in their statutes and of harmonising legislation in the monetary, banking and financial market areas. The CNB is devoting great attention to developing its relations with the ECB, since this institution will become its main partner after the Czech Republic's accession to the EU.

Measures implemented and prepared within the CNB's areas of competence

After the completion of the screening negotiations, which specified in more detail the current tasks and time frames in the area of legislative alignment, the schedule of measures within the CNB's competence ensuing from the Czech Republic's accession negotiations was updated. Also taken into account were the CNB's contributions to the Government's plan of legislative work and the Bank Board decisions regarding the amendments to the Act on Banks and the Act on the CNB. The adjusted schedule was discussed with the relevant organisational sections of the bank. During 2000, these tasks will be further specified in the light of the progress of the accession negotiations.

Phare

Under the Phare programme, the Czech banking sector drew funds from two budgets in 1999:

- the 1997 budget - EUR 0.5 million (approximately CZK 19 million)

In 1999, the CNB's Project Implementation Unit, in co-operation with the Banking Association's Commission for European Integration and the Banking Institute, arranged and monitored an extensive training programme for commercial banks and their clients entitled "Preparation of the banking and financial sectors in the Czech Republic for accession to the European Union".

- the 1998 budget - EUR 0.75 million (approximately CZK 28 million)

On the basis of the Accession Partnership and the National Programme, the European Commission agreed to provide the CNB with funding of EUR 0.5 million for technical assistance in the form of "twinning" in the banking supervision area.

The main aim of twinning is to prepare the institution of the candidate country - in this case the CNB's banking supervision department - for functioning within the EU in procedural and executive terms. On the basis of an agreement signed on 19 November 1999 by all the parties involved, this project will be implemented by experts from the German Ministry of Finance and the National Bank of Greece over a nineteen-month period with a planned completion date of 31 May 2001.

III.2 RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS

The International Monetary Fund

In February 1999, under the Eleventh General Review of Quotas, the Czech Republic's member's quota in the IMF was increased by 38.96% to SDR 819.3 million. The approval process for an additional one-off allocation of SDRs also continued during the year, with the Czech Republic being set a sum of SDR 240.2 million.

In April, the regular Article IV Consultation took place. The IMF's representatives stated that the immediate priority was to support the economic recovery. In this connection they welcomed the easing of monetary and fiscal policies. During their October Staff Visit, the Fund's representatives were encouraged by signs of recovery resulting from the above measures. Nevertheless, they stressed the need for structural reforms, the completion of which is a prerequisite for sustainable growth. With inflation expected to remain subdued, the IMF pointed to the possibility of a further easing of monetary policy.

In connection with the joint activities of the IMF and the World Bank, the negotiations on the Czech Republic's contribution to the PRGF-HIPC Trust (Poverty Reduction and Growth Facility-Heavily Indebted Poor Countries) continued during the year. The Czech Republic will participate in this project with an interest-free loan of SDR 5.7 million with 20-year maturity (approved by the Government on 5 January 2000).

The technical assistance from the IMF was focused on the inflation targeting area, where numerous seminars and negotiations were conducted. At the end it was agreed to issue a joint publication entitled "Inflation Targeting in Transition Economies - the Case of the Czech Republic".

Recognition of the continuing professionalisation of CNB staff was reflected in an IMF request for CNB experts to take part in IMF missions to third countries.

In the course of the year, preparations continued for the IMF/WBG Annual Meetings in Prague in September 2000. Representatives of the two Bretton Woods institutions have stated that the current state of the preparations guarantees the success of this major event.

The World Bank

In 1999, the Czech Republic's co-operation with the World Bank was focused on the technical assistance area linked with drawing on grants, in particular a grant of USD 70,000 provided to the Czech Republic for tackling the Y2K issue. At the World Bank's proposal, the CNB participated in drafting and discussing a study entitled "Czech Republic: Toward EU Accession". At the same time, work started on the preparation of a further study, a Public Expenditure Review, whose objective will be to evaluate the effectiveness of fiscal expenditure.

The European Bank for Reconstruction and Development

During 1999, the EBRD signed contracts to finance five projects in the Czech Republic worth a total of EUR 205.2 million. The most important of these were its EUR 125 million equity investment to facilitate the privatisation of CSOB and its provision of a EUR 42.5 million loan for a waste-water treatment plant in Brno. The remaining projects were in the areas of electricity supply, municipal infrastructure and insurance.

The bank also provided technical assistance, chiefly in the legislative area (development of the Securities Commission's activities in the area of supervision and regulation of the capital market). By the end of 1999, the EBRD had approved contracts to finance 27 projects in the Czech Republic, with a total financial participation of EUR 642 million.

BIS

The Governor of the CNB participates in the regular working meetings of central bank governors organised by BIS. At these meetings, issues relating to global economic and monetary developments are discussed. The close co-operation between the CNB and the BIS continued, particularly within the Basle Committee on Banking Supervision and in the area of co-ordination of foreign technical assistance. In connection with the efforts to curtail the CNB's independence, the BIS Monetary and Economic Committee commenced work at the end of 1999 on a study dealing with selected aspects of central bank independence.

OECD

The co-operation between the Czech Republic and OECD bodies and committees is playing a major role in connection with the ongoing preparations and negotiations for EU accession. Fulfilling accession commitments and promises to the OECD is viewed by EU member states as creating good prerequisites for completing the overall preparations for EU membership.

In 1999, the CNB's working contacts with the OECD intensified in many areas. In March, the OECD's Deputy Secretary-General Joanna Shelton visited Prague on the occasion of the European Banking and Financial Forum. And in June, the OECD Secretary-General Donald J. Johnston was in Prague on a working visit. The OECD Secretariat's analytical team undertook two missions to the Czech Republic, in April and in September, connected with the preparation of the latest Czech economic survey for 1999/2000. This survey was subsequently discussed at the Economic and Development Review Committee (EDRC) on 2 December 1999, and presented to the public at a press conference on 3 February 2000 in Prague.

At the July session of the Committee on Financial Markets, the Czech delegation submitted a third written progress report on developments in the banking sector and the Czech capital market and on legislative changes either adopted or under preparation. The document was drafted and presented jointly by the CNB and the Czech Ministry of Finance and received a positive response.

In compliance with the conclusions ensuing from the negotiations on the Czech Republic's position on the Codes of Liberalisation in June 1998, the Czech Republic submitted a Progress Report to the CMIT and CIME Committees at the end of 1999 on the issues which had been left open after negotiating the position in 1998. This chiefly entailed confirming the entry into force of the measures adopted under the programme for liberalisation of the foreign exchange regime and of the amendments ("large" and "small") to the Act on Banks, and explaining the situation in the audit, insurance and banking sector privatisation areas.

Foreign technical assistance provided by the Czech National Bank

In 1999, the Czech National Bank continued to provide technical assistance to Central and Eastern European countries. This was covered from a specific fund into which CZK 500,000 was allocated for 1999. The fund is managed by the CNB's European Union and International Organisations Department as co-ordinator of the foreign technical assistance provided by the CNB. The technical assistance took the form of a seminar on "Capital Adequacy Incorporating Market Risks" for banking supervisors from Central and Eastern Europe; a seminar on "Bank Rating and Early

Warning Systems” organised by the CNB in co-operation with the World Bank; and consultations with representatives of Central and Eastern European central banks in the areas of the foreign exchange market and foreign exchange operations (National Bank of the Republic of Macedonia) and payment systems and information technology (Bank of Lithuania).

IV. MONETARY POLICY
AND MONETARY
DEVELOPMENTS

IV. MONETARY POLICY AND MONETARY DEVELOPMENTS



IV.1 SUMMARY

The macroeconomic developments in 1999 indicated further substantial progress in achieving internal and external economic balance. This helped create a favourable environment for an end to the economic recession and for a shift to gradual economic recovery.

The strengthening of internal balance was fostered by a further fall in inflation. This brought about a convergence of the inflation expectations of individual groups of economic agents - businesses, households, trade unions and economic policy-makers. The external imbalance of the Czech economy moderated further in 1999. Compared with 1998, the current account deficit narrowed by 15% and its percentage of GDP dropped by 0.4 percentage points to 2%.

1999 saw a reversal in economic growth. For the year as a whole, GDP fell by 0.2%. From 1999 Q2 onwards, however, it showed modest year-on-year growth. The renewed economic growth was mostly due to higher household spending on final consumption. This was stimulated by the pricing and business policies of large retail chains and the wider possibilities for debt financing. There was also a contribution from the external sector, where exports grew faster than imports. The gradually increasing rate of export growth was primarily the result of expanding production collaborations with foreign companies and the implementation of new pro-export investments. It was also fostered by increased orientation of domestic producers towards foreign markets because of the ongoing low level of domestic demand. On the other hand, however, the increasing production collaborations led to a rise in imports.

The CNB conducted monetary policy for the second year under a regime of inflation targeting. In line with the concept of inflation targeting, its monetary policy measures were based on inflation forecasts and on a comprehensive evaluation of macroeconomic and monetary developments. The measures adopted in 1999 reflected the favourable trend for inflation and the effort to support the pick-up in the economy. The CNB gradually lowered its key interest rates during 1999. It also reduced the minimum reserve requirement with the aim of gradually harmonising its monetary policy instruments with the ECB and of boosting the competitiveness of the domestic banking sector.

Both CPI and net inflation in 1999 were lower than expected. This was due to several unpredictable factors which lie outside the reach of monetary policy and which are therefore considered "exceptions" within the inflation targeting regime. The fact that the actual net inflation outturn in December 1999 remained well below the target was largely due to an absolute fall in food prices.

The macroeconomic trends in 1999 created a stable framework for ongoing economic recovery. The extent to which the economic growth and stability are maintained in future will depend on a number of factors, in particular the speed of restructuring at the microeconomic level and the resolving of legislative and systemic problems combined with a fine-tuning of the market environment. Promising signs for the future are the massive current inflow of foreign direct investment into the Czech economy, the gradual restructuring of the corporate sector and the privatisation of the banking sector, which should have a positive effect on the supply side. This trend towards greater efficiency and productivity is a guarantee for mitigating the potential internal inflationary pressures in the Czech economy.

IV.2 THE CZECH ECONOMY

Demand and output

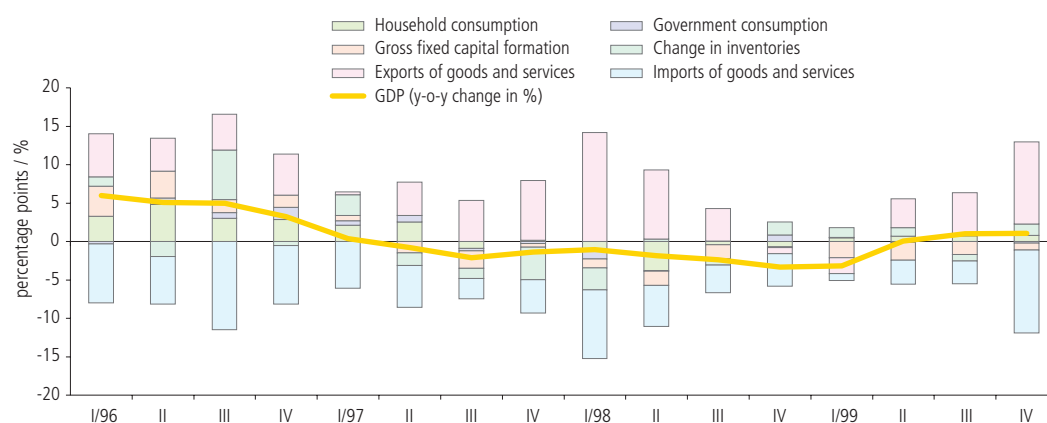
In 1999 Q2, the year-on-year GDP decline visible since 1997 H1 was replaced by a moderate pick-up. However, for 1999 as a whole, GDP^{1/} was still 0.2% lower than a year earlier. With respect to demand, the shift towards a modest economic recovery resulted from increasing household expenditures on final consumption and from relatively favourable external demand. Domestic demand for 1999 as a whole still saw a decline, but in Q4 it was up by 1% thanks to rising consumer demand. The full-year domestic demand contraction was largely due to the ongoing fall in investment demand (down 5.5% on a year earlier) and to a very moderate decline in government demand.

1/ The data below on GDP in "Demand and output" are in constant 1995 prices.

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CHART IV.1 CONTRIBUTION OF DOMESTIC DEMAND COMPONENTS AND NET EXPORTS TO GDP

(constant 1995 prices)



Net external demand

2/ Net exports (net external demand) = exports of goods and services - imports of goods and services in constant 1995 prices

With exports growing faster than imports, the contribution of net exports^{2/} to the year-on-year change in GDP was positive for 1999 as a whole, although lower than in 1998. In absolute terms, net exports decreased by 2% compared with a year earlier to CZK 95.6 billion and their share of GDP fell by 0.1 percentage points to 6.8%.

Consumer demand

The rise in consumer demand during 1999 represented a reversal in trend. Following a decline in 1998 (of 2.9% year-on-year), spending on final consumption increased by 1.4% in 1999. The gradual pick-up in consumer demand occurred in a situation where the real disposable incomes of households^{3/} were falling and where households were compensating for their lower overall income level with a lower propensity to save and increased demand for consumer loans, particularly from non-banks. The increased household consumption was channelled into spending on durables and food purchases. The pick-up in demand for consumer goods^{4/} indicated an ongoing process of recovery for these items after the long-running recession; the

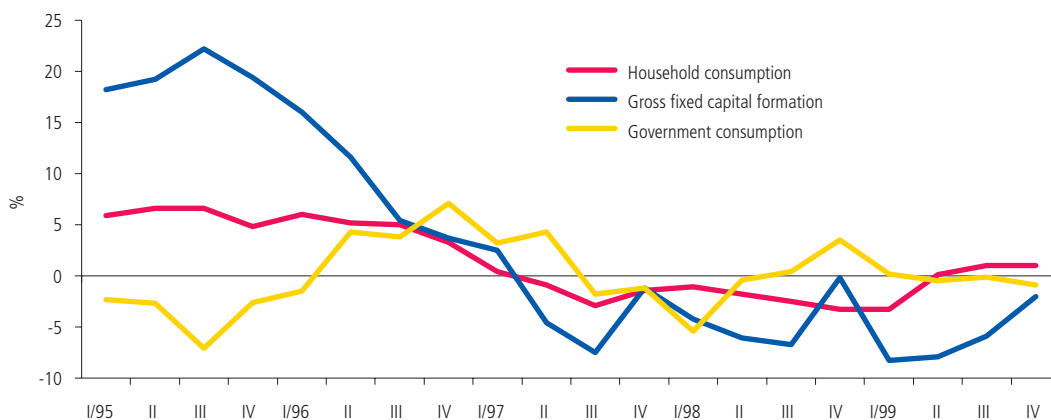
3/ According to the CSO national accounts statistics

4/ Increases were registered particularly for purchases of cars and fuel.

higher spending on food was strongly influenced by the business and pricing policies of retail chains.

CHART IV.2 COMPONENTS OF DOMESTIC DEMAND

(y-o-y growth, constant 1995 prices)



Government demand

In 1999, government consumption was 0.1% lower than a year earlier. Owing to this very modest change, its effect on GDP growth was minimal, indicating rather that public consumption remained flat. The minor drop compared with 1998 was caused by lower budget expenditure on debt servicing - thanks to falling interest rates on the domestic financial market - and by other savings. These savings were partly offset by higher contributions to subsidised organisations and transfers to social and health insurance funds.

Investment demand

Gross fixed capital formation in 1999 still signalled no upturn in investment demand in the economy. Investment demand fell for the third consecutive year and in 1999 the decline accelerated (to -5.5% year-on-year). This was due to numerous factors, in particular the ongoing structural changes in investment allocation, the incomplete process of privatisation in the corporate sector (which also affected businesses' access to loans for investment projects), and the uncertainty about the rate of future economic growth. On the other hand, an analysis of implemented investment projects signalled some positive trends. These chiefly include changes in the structure of investment (construction investment saw a sizeable decline, whereas investment in machinery and equipment increased slightly); an expansion in investment by large and medium-sized firms in the non-financial businesses sector (especially those under foreign control) with a predominantly export orientation; and a rising share of investment in engineering and electrical engineering production.

Production

The largest contributions to GDP growth in 1999 came from the sectors of trade, transport and financial services^{5/} and to a certain extent also from business services.

5/ Expressed as imputed interest

6/ Industry accounts for 37% of GDP in basic prices.

This reflected the continuing structural changes on the supply side in favour of the services sector. The year-on-year decline in gross value added in industry^{6/} in 1999 indicated that the restructuring process in the economy was far from complete. The continuing difficult situation of many businesses was caused by the various factors analysed in detail in previous CNB reports (incomplete privatisation affecting corporate governance, etc.). In addition to these long-term internal effects, the creation of gross value added in industry in 1999 was affected by unfavourable external factors, notably the rising prices of energy raw materials on world markets. The problems with creation of gross value added also continued in construction, which was the sector hardest hit by the previous recession, and by the ongoing structural changes in investment demand (the rising weight of investment in machinery and equipment to the detriment of construction).

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On the other hand, the rising sales of many businesses, particularly on foreign markets, signified that these businesses were able to sell their products on both foreign and domestic markets despite the low overall level of domestic demand. The rise in their output was in most cases underpinned by restructuring during the recession and also by the implementation of new investment projects (especially in foreign-owned firms).

The labour market

Wages and financial incomes

Year-on-year growth in average nominal wages was fairly robust throughout 1999, although weaker than in 1998. With inflation falling faster, average real wages, unlike in the previous year,^{7/} showed a year-on-year increase in 1999 (Table IV.1) in both the non-business^{8/} and business sectors. The real wage growth was not accompanied by a corresponding rise in labour productivity. The faster growth in wages than in productivity primarily reflected the standard of management and level of efficiency in the aforementioned segments of the business sector where privatisation and restructuring processes had yet to be completed. The divergent inflation expectations of trade unions in wage bargaining for 1999 also played a role.

7/ Between 1997 Q4 and 1998 Q3, average real wages fell in year-on-year terms. The growth resumed in 1998 Q4.

8/ In the non-business sector, the wage growth was due to administrative wage tariff changes.

	96 Q1	96 Q2	96 Q3	96 Q4	1996	97 Q1	97 Q2	97 Q3	97 Q4	1997	98 Q1	98 Q2	98 Q3	98 Q4	1998	99 Q1	99 Q2	99 Q3	99 Q4	1999
Average wage in CR (nominal)	17.4	21.0	16.5	17.1	18.0	14.0	13.3	12.8	8.4	11.9	10.9	7.0	9.2	10.1	9.4	8.6	8.0	8.7	7.9	8.2
Average wage in CR (real)	7.9	11.5	6.6	7.8	8.4	6.3	6.3	2.6	-1.5	3.1	-2.1	-5.0	-0.3	2.4	-1.4	5.4	5.5	7.4	5.8	6.0
Whole-economy labour productivity	4.0	4.0	3.1	3.2	3.6	0.6	-0.6	-1.0	0.0	-0.3	0.4	-0.1	-0.4	-1.1	-0.3	-0.2	3.0	3.9	3.3	2.5
Real unit wage costs	4.0	5.4	1.6	3.5	3.6	0.3	2.9	3.0	-0.5	1.4	0.4	-3.5	-0.9	-0.4	-1.2	2.0	0.0	1.9	-0.7	0.8
Nominal unit wage costs	11.7	15.6	10.3	12.5	12.5	9.7	9.4	10.8	5.6	8.7	8.8	7.1	9.2	10.8	8.9	7.4	2.9	2.0	0.7	3.1
GDP deflator	7.4	9.7	8.6	8.8	8.6	9.3	6.3	7.5	6.1	7.2	8.4	10.9	10.2	11.2	10.2	5.3	2.8	0.1	1.5	2.4

Source: CSO, CNB calculation

The widening gap between wage growth and labour productivity growth in 1999, leading to higher wage costs per unit of GDP, generated new potential wage-inflationary pressures in the economy. Real unit wage costs, which are an indicator of cost-inflationary pressures, thus increased again in 1999 (by 0.8% year-on-year) following a decline in 1998. Thanks to the continuing low level of domestic demand, however, the divergence between wage and labour productivity growth did not feed through into industrial producer prices or consumer prices. The potential demand-pull inflationary effects of the unbalanced wage developments were offset by a year-on-year drop in nominal earnings from gross miscellaneous income and from property income. Total nominal household incomes thus grew more slowly than

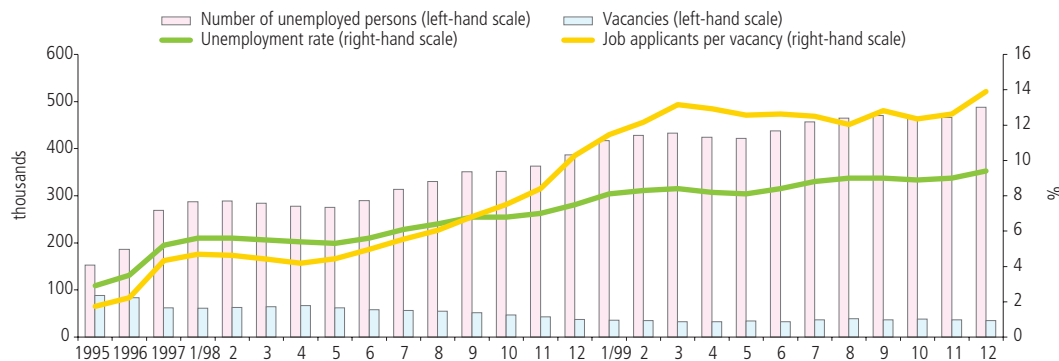
nominal wage incomes. As a result, 1999 saw a decline in disposable household incomes as a share of nominal GDP.

Employment and unemployment

On the labour market, the gap between supply and demand for labour widened further in 1999. This showed up not only in overall excess supply of labour, but also structurally, i.e. in the skills, branch and, in particular, regional dimensions. The result was a fall in aggregate employment and a rise in the unemployment rate, accompanied by an increasing number of job applicants per vacancy.

Compared with previous years, the rate of decline in 1999 was the highest. The absolute fall in employment affected all sectors of the national economy - primary, secondary and tertiary. Throughout the year the unemployment rate was higher than a year earlier. However, as regards year-on-year change, an easing of the growth pressures was visible from Q2 onwards. At the end of 1999, the unemployment rate reached 9.4%, although the month-on-month increase of 0.4 percentage points compared with November was partly due to seasonal factors.

CHART IV.3 UNEMPLOYMENT CHARACTERISTICS (1995 - 1999)

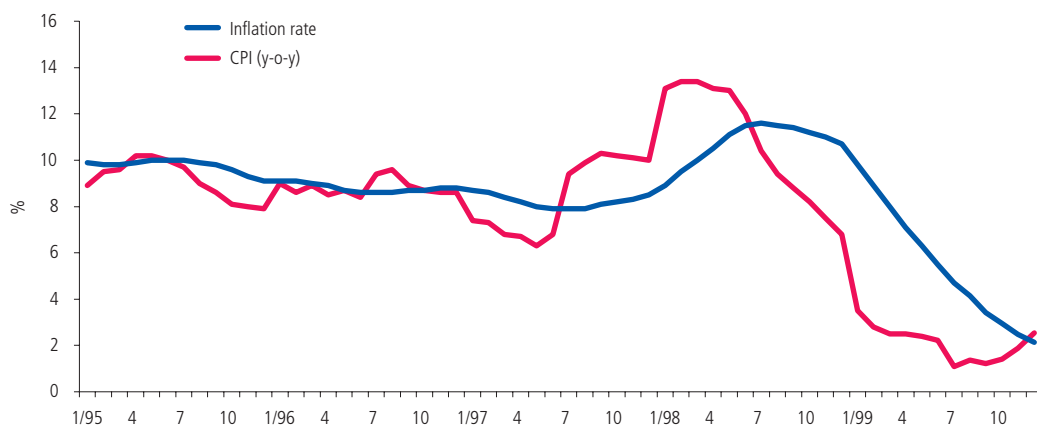


Prices

The long-term process of gradual slowdown in CPI inflation visible since 1998 Q2 halted in 1999 Q3 and there was a renewed upward trend in the remainder of the year. The rise was only moderate, however, and overall CPI inflation moved at lower levels in 1999 than a year earlier. In July, year-on-year CPI inflation reached its lowest level since the start of the transformation (1.1%). The average inflation rate^{9/} showed a downward trend throughout the year.

^{9/} The inflation rate expressed as the increase in the average CPI (basis index) for the last 12 months against the average for the previous 12 months.

CHART IV.4 CPI AND INFLATION RATE 1995 - 1999



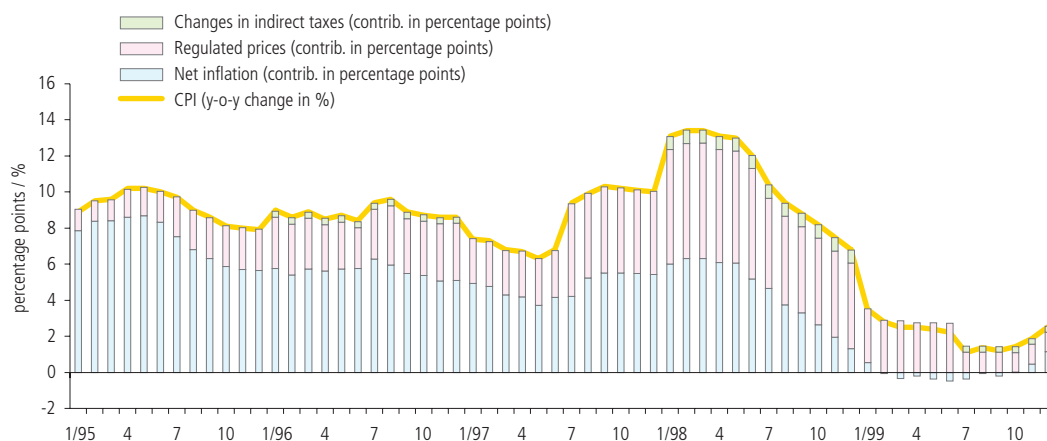
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10/ Net inflation is defined as the CPI adjusted for regulated prices and for the effect of other administrative measures, (e.g. increases in indirect taxes and abolition of subsidies). Within net inflation, prices of food and non-food items, i.e. adjusted inflation, are separately monitored and analysed. Adjusted inflation comprises the prices of the non-food items of the consumer basket excluding regulated price items and administrative influences.

11/ Compared with 1998, the year-on-year rise in regulated prices slowed by 16.2 percentage points to 4.2% in 1999.

The further moderation in year-on-year CPI inflation in January-July 1999 (of 5.7 percentage points compared with December 1998) was attributable to both its main components - net inflation^{10/} and regulated prices.^{11/} The stable, or slightly fluctuating CPI during Q3 and the more marked upward trend in Q4 resulted from changes in net inflation, as regulated prices saw no substantial change in 1999 H2. As in previous years, the rise in consumer prices was due in part to higher indirect taxes in 1999, although the extent of these tax adjustments and consequently their impact on prices was smaller than in 1998.

CHART IV.5 STRUCTURE OF CPI INFLATION (Y-O-Y)



The gradual slowdown in the net inflation decline during 1999 and the rise in net inflation in Q4 were largely due to cost factors. Despite the recovery in consumer demand, domestic demand remained subdued. The increasing influence of cost factors led in 1999 to a reversal in trend for the two main segments of net inflation

- food prices and adjusted inflation. Adjusted inflation was affected primarily by changes in fuel prices, which owing to the rising oil prices on world markets showed a broadly upward trend during 1999. The change in trend for food prices, showing up as a gradual moderation of their year-on-year decline in 1999 H2, was linked with the rising prices of some agricultural primary products.

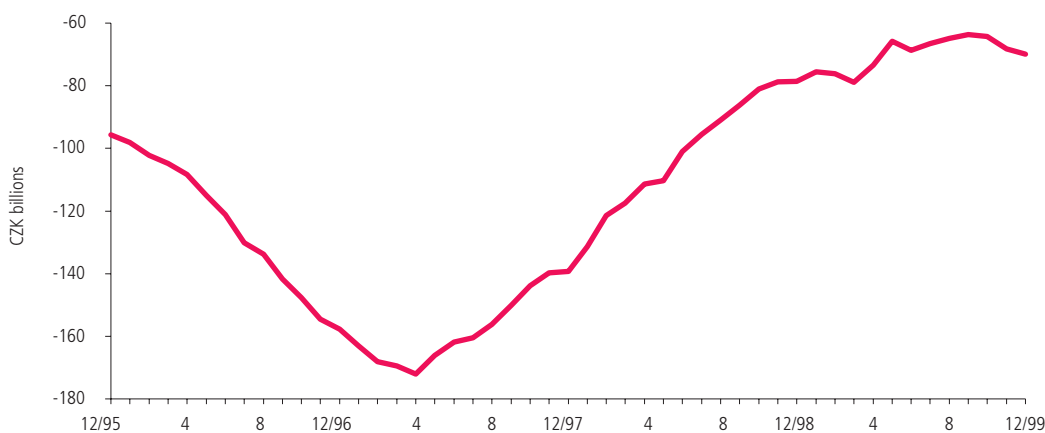
IV.3 THE BALANCE OF PAYMENTS

The current account

The positive tendencies seen in the current account^{12/} in 1998 continued into 1999. This was evidenced not only by a 15% year-on-year reduction in the deficit (to CZK 36.6 billion), but also by changes in the commodity and territorial structure of the trade balance. The narrowing of the current account deficit was attributable chiefly to a decline in the trade deficit, with the balance of income and unrequited transfers contributing to a lesser extent. Their positive contributions were offset to a certain extent by a contraction in the surplus on services. The narrowing of the current account deficit and the concurrent moderation of the economic decline gave a 0.4 percentage point fall in the current account deficit as a share of GDP compared with 1998 to 2%.

12/ The data are given in current prices according to the IMF methodology for balance of payments compilation.

CHART IV.6 TRADE BALANCE (12-MONTH MOVING AGGREGATE)



In 1999, a relatively large reduction was achieved in the trade deficit (of 13.5% on a year earlier to CZK 71.3 billion). Export growth outpaced import growth by 2 percentage points. In the course of the year, both exports and imports showed a buoyant growth trend.^{13/} Exports were 9.2% higher than a year earlier and imports 7.2% higher. The rise in exports was associated mainly with an expansion in production collaborations with foreign companies,^{14/} the launch of new pro-export capacities (especially in engineering and electrical engineering production), increased orientation of producers towards foreign markets because of the subdued domestic demand, and rising external demand in developed market economies. The growth in exports was also fostered by the significant year-on-year depreciation of the koruna's exchange rate in H2.

13/ In 1999 Q1, imports and exports both fell in year-on-year terms, whereas in 1999 Q4 they rose by 22.8% and 23.7% respectively.

14/ The development of production collaborations with foreign companies is linked primarily with the activities of foreign-owned businesses; however, collaboration in the area of inward processing is also expanding rapidly.

The export structure confirmed a continuation of some positive tendencies, characterised chiefly by a growing share of exports of engineering and electrical engineering products in total exports (50.7%). Exports to developed market economies again predominated in 1999, rising by 17.3%, while exports to transition economies saw a decline of 10%. The growth in imports during 1999 was largely due to the increasing integration of the Czech economy into international production collaborations and the rise in energy raw materials prices. However, imports for personal consumption showed the fastest growth.

The financial account

As in 1998, the financial account in 1999 was strongly affected by inflow of foreign direct investment. At CZK 169.9 billion, this was roughly twice the 1998 level and the highest in the Czech Republic's history. The FDI inflow was significantly offset by outflow of capital in the form of portfolio and other investment. Overall, the financial account showed a surplus of CZK 85.9 billion for 1999, which was slightly lower than in 1998.

The outflow of portfolio investment was largely the result of increased purchases of foreign securities by domestic commercial banks and a considerable fall in non-resident interest in domestic equity securities. The outflow in the area of other investment was caused by a rise in short-term and, in particular, long-term commercial bank assets. The growth in long-term assets resulted chiefly from an increase in the volume of credits extended abroad by domestic commercial banks in both foreign currency and korunas. The outflow of debt capital was bolstered by repayments of credits abroad by banks. These influences were only partially offset by the increased inflow of funds from abroad resulting from higher borrowing abroad by the corporate sector.

The CNB's international reserves increased in 1999 to CZK 416.4 billion (USD 12.8 billion). This growth was generated chiefly by the CNB's foreign exchange interventions in 1999 Q4 and by interest income from the reserves.

IV.4 PUBLIC FINANCES

Fiscal policy in 1999 was focused on creating conditions for renewed long-term economic growth and on preparing the Czech Republic for accession to the EU. For the first time since the establishment of the independent Czech Republic, a deficit state budget was drawn up for 1999, with expenditures exceeding revenues by CZK 31 billion. For public budgets, a deficit of CZK 48.7 billion (2.5% of GDP) was envisaged for 1999.

During 1999 the public budgets performed more favourably than expected, showing a deficit of CZK 10.7 billion. All the main components of public finances - the state budget, local budgets and the National Property Fund - contributed to bringing the deficit down. The narrowing of the deficit was also attributable to the deferring of the settlement of Konsolidační banka's loss to 2000.

The public debt of the Czech Republic^{15/} rose by approximately CZK 45 billion overall in 1999 to CZK 297.8 billion. Its ratio to GDP rose to 16.2 %, but remained far below the Maastricht criterion of 60%. The rise in public debt was linked not only to the state budget deficit, but also to an increase in local authority debt and to bond issues for funding activities related to the aftermath of the Kosovo crisis.

15/ Public debt = state debt (central government debt) + debt of local budgets, state funds, health insurance companies and the NPF.

IV.5 MONETARY DEVELOPMENTS

Monetary aggregates

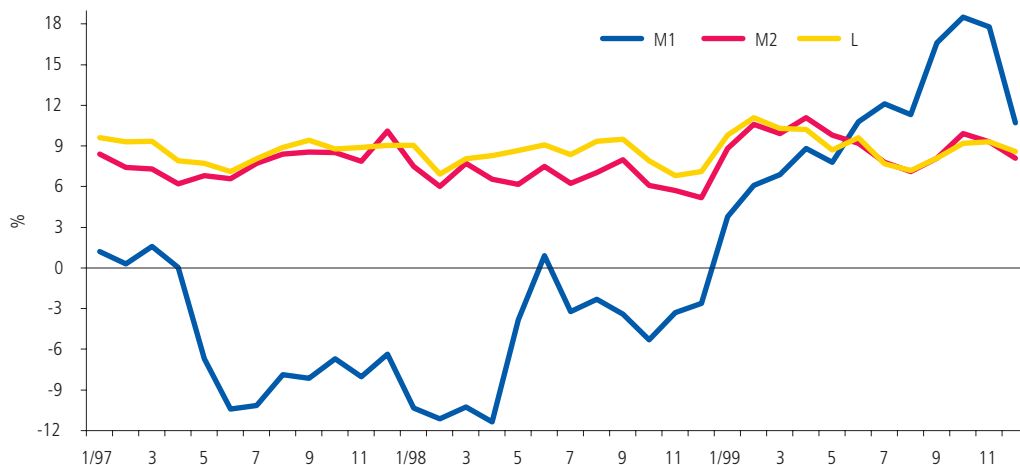
In comparison with 1998, the growth rate of monetary aggregates^{16/} picked up during 1999. M1 saw particularly high year-on-year increases (Chart IV.7). Average nominal money supply growth for the 12 months was 2.5 percentage points higher than in 1998 at 9.1%.

16/ Monetary aggregate definitions: M1 = currency in circulation + demand deposits; M2 = M1 + quasi money; L = M2 + T-bills + CNB bills in portfolios of domestic non-banks

The pick-up in monetary aggregate growth in 1999 was chiefly attributable to the upturn in inflow of capital from abroad and to the increased koruna lending to non-residents. A part of these credits was used in the Czech economy. As in 1998, domestic lending^{17/} had no significant effect on the pick-up in monetary aggregate growth. Its overall year-on-year fall of 1.3% resulted chiefly from a further decline in lending to the corporate sector.

17/ Including government sector credit

CHART IV.7 MONETARY AGGREGATES M1, M2 AND L



The significant pick-up in year-on-year M1 growth during 1999 primarily reflected the fall in interest rates on time deposits, which reduced their attractiveness as regards yields. Particularly extraordinary was the 24.1% increase in the volume of currency in circulation (compared with 6.6% in 1998). In addition to the interest rate effect, this reflected other factors, the most important of which were the upturn in household consumption and, at the close of the year, the Y2K effect.

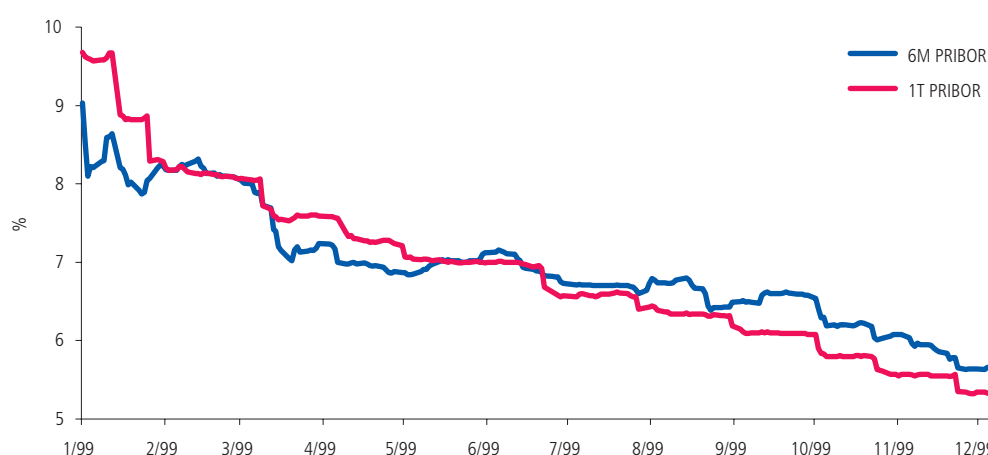
A significant change occurred in the money supply sector structure, characterised by faster year-on-year growth in corporate sector deposits and a slowdown in household deposit growth.

IV.6 FINANCIAL MARKETS

The money market

Short-term interest rates on the money market declined steadily throughout 1999. This trend was associated chiefly with the CNB's lowering of key rates and with market expectations regarding the future interest rate level. Unlike in previous years, the market was not affected by any negative external or internal factors having a lasting effect on the interest rate level.

GRAF IV.8 1W AND 6M PRIBOR RATES



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The changes in the CNB's key rates fed through variously into PRIBOR rates depending on their maturities. Rates at the yield curve's short end saw the biggest decline, while rates with longer maturities fell more moderately. The yield curve thus shifted downwards and its slope changed at the mid-year point from negative to positive. This indicated market expectations that the further decline in inflation, and thus also in interest rates, would not be so substantial.

The interest rate derivatives market (FRA rates) and the short-term bond market developed in line with PRIBOR rates. All auctions saw demand overhang, so the resulting gross yields were below the announced limit yields.

The interest rate differential reflected both the downward trend on the domestic interbank market and the increase in interest rates in the USA and the eurozone in 1999 H2. At the beginning of the year the interest rate differential against the euro had been moving around 5 percentage points, whereas at the year-end it stood at 1.7-2 percentage points depending on maturity. The differential against the dollar fell to negative values at the close of the year.

Client interest rates also responded to the gradual decline in money market rates. Interest rates on newly granted credits fell by 3.7 percentage points during 1999 to 8.1%.^{18/} Rates on time deposits saw a similar trend, dropping by 4 percentage points to 4.7%.

^{18/} Adjusted for non-standard operations

The capital market

Long-term rates (IRS rates, yields on the bond market), like money market rates, for the most part declined throughout 1999 owing to the expectations of a favourable inflation rate and the further CNB interest rate cuts. Nevertheless, the decline was not so considerable as for short-term rates. IRS rates declined by a total of 3.6 percentage points at 1Y maturities and 1.7 percentage points at 5Y maturities. The IRS yield curve slopes were positive more or less throughout the year, except for some periods when the curve was flat from the mid-part. This was connected with the Czech Republic's expected membership of the EU in the medium term and the related convergence of longer-term rates.

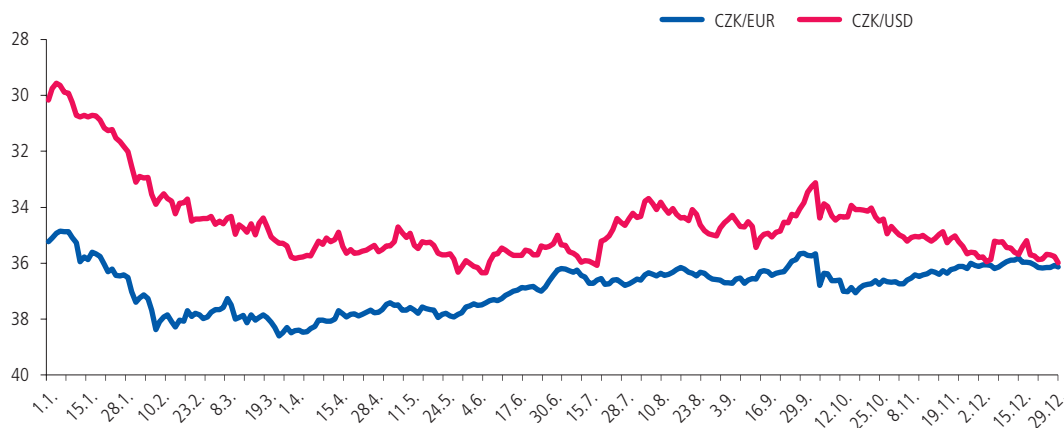
The bond market experienced a similar trend in terms of both yield levels and yield curve slopes (for government taxed bonds and corporate bonds). All auctions of government bonds on the primary market saw considerable investor interest, with demand always exceeding supply. This was due chiefly to the shortage of safe liquid bonds on the Czech market.

The stock market developed in several discrete phases. The decline at the beginning of the year was replaced by growth in trading due to increased foreign investor interest, mainly in connection with the progress made with the privatisation of the largest Czech banks and selected businesses and partly also with the gradual lowering of interest rates. At the end of the year, the stock market, as in other emerging markets, fell out of favour with foreign investors because of concerns about the Y2K compliance of its computer systems. In year-on-year comparison, all the monitored share indices gained. The individual sector indices showed mixed trends.

The foreign exchange market

The koruna's nominal exchange rate against the euro weakened rapidly in 1999 Q1 then showed a steady appreciation during the remainder of the year. The main factors underlying the depreciation at the start of the year were the previous unfavourable indicators of Czech economic activity, the impacts of the turbulence on international financial markets (the Brazilian currency crisis) and the lowering of the CNB's key rates. The subsequent gradual appreciation of the koruna against the euro reflected the inflow of foreign investment connected with the privatisation plans of the Czech Government and also the depreciation of the euro itself. In Q4, the koruna's exchange rate was affected by the CNB's interventions to prevent an excessive koruna appreciation. In addition to the above factors, the koruna's rate against the dollar in 1999 was affected by the dollar's strong appreciation trend against the euro.

CHART IV.9 CZK/EUR AND CZK/USD NOMINAL EXCHANGE RATES IN 1999



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The koruna's real exchange rate was determined chiefly by the nominal exchange rate. Owing to the low inflation outturns both in the Czech Republic and in EU countries, inflation had little effect on the real rate. After depreciating at the beginning of the year, the real exchange rate appreciated in the remaining part of the year.

IV.7 MONETARY POLICY

In 1999, the CNB conducted monetary policy for the second year under a regime of inflation targeting. The switch to a new monetary policy strategy did not imply any change in the CNB's primary objective - price stability - but only in the manner of achieving it. In line with the concept of inflation targeting, the CNB's monetary policy measures were based on inflation forecasts and their risks and on a comprehensive evaluation of macroeconomic and monetary developments.

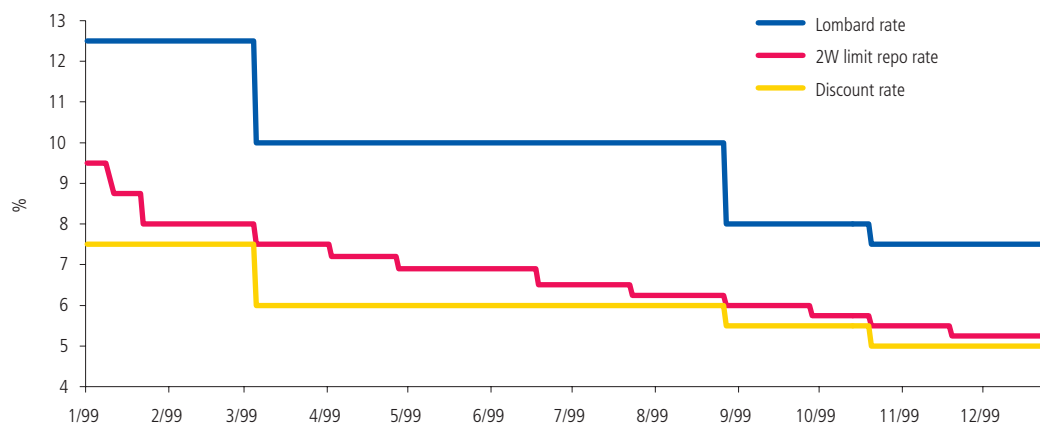
The main feature of the monetary measures in 1999 was the CNB's gradual lowering of its key interest rates, reflecting above all the expected favourable inflation profile and the economy's only gradual emergence from recession. The CNB's key rate - the limit rate for two-week repo operations^{19/} - was lowered in eleven steps during 1999 by 4.25 percentage points to 5.25%. The extent of the adjustments gradually reduced during the year in connection with the latest inflation forecasts and the narrowing of the interest rate differential vis-à-vis industrial nations.

Given the generally favourable inflation trend, the CNB lowered the repo rate three times in the course of 1999 Q1. But the reduction in rates in this period (of 2 percentage points to 7.5%) was more moderate than in 1998 Q4,^{20/} largely because of the potential inflation risks signalled by the flow of information from collective wage bargaining. The gradual narrowing of the interest rate differential between the Czech Republic and industrial nations and its potential effect on the koruna's exchange rate were also a significant criterion in the decision-making process. The last change in the repo rate in this quarter was accompanied by cuts in the other key CNB rates - the discount and Lombard rates (of 1.5 percentage points to 6% and of 2.5 percentage points to 10% respectively), which form the corridor for repo rate movements.

19/ The "repo rate"

20/ Between October and December 1998, the repo rate had been cut four times, by a total of 4 percentage points (from 13.5% to 9.5%) compared with the previous quarter.

CHART IV.10 KEY CNB INTEREST RATES



The room for further reductions in key interest rates in 1999 Q2 continued to shrink, even though the favourable inflation trend persisted. The repo rate was lowered by only 1 percentage point in Q2 to 6.5%, again in three steps. Economic considerations aside, the first change in the repo rate was caused by the need to respond to the ECB's lowering of its key interest rate to forestall the likely appreciation pressures on the koruna's exchange rate. In its subsequent decisions the CNB focused on hitting the medium-term inflation target for 2000, taking into consideration the expected lags in the effect of monetary policy on macroeconomic and price developments.

The halt in the disinflationary process in the course of 1999 Q3, which was due to both internal and external factors (notably the continuing increase in energy raw materials prices), signalled a gradually changing macroeconomic environment for conducting monetary policy. Under the given circumstances, the CNB lowered the repo rate twice, by 0.5 percentage points overall to 6%. The discount and Lombard rates were lowered as well (by 0.5 percentage points to 5.5% and by 2 percentage points to 8% respectively).

The results of analyses conducted at the beginning of 1999 Q4, including new information on the latest economic and monetary developments, led to a moderate downward revision of the conditional inflation forecast. The new conditional forecast suggested that year-on-year net inflation in 2000 would be at the lower limit of the inflation target or slightly below it. This created room for a further lowering of the repo rate, although the extent of this change was ever more limited by the interest rate differential and the uncertainties about some important components of inflation, especially raw materials prices. During October and November, the repo rate was lowered in three steps by 0.75 percentage points to 5.25%. The discount and Lombard rates were both reduced by 0.5 percentage points, to 5% and 7.5% respectively. By maintaining the same gap between the discount and the Lombard rates, the CNB signalled that it did not expect higher volatility on the money market than in the previous period. In December, no further changes were made in key interest rates. This decision primarily reflected the increase in inflation in November 1999 as well as expectations of possible stronger inflationary stimuli from the external environment.

The CNB's monetary measures in 1999 also included a lowering of the minimum reserve requirement. This was effected in two steps, from 7.5% to 5% effective 28 January and to 2% effective 7 October, i.e. to the current level in the Eurosystem. These cuts were aimed at further harmonising the CNB's instruments with those of the ECB and at boosting the competitiveness of the domestic banking sector.

Table 1

MACROECONOMIC AGGREGATES

in CZK billions, year-on-year change in %, 1995 prices						
	1994	1995	1996	1997	1998	1999
	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4	Q1 - 4
GROSS DOMESTIC PRODUCT						
- in CZK billions	1303.6	1381.1	1447.7	1432.8	1401.3	1397.9
- in %	2.2	5.9	4.8	-1.0	-2.2	-0.2
FINAL CONSUMPTION						
- in CZK billions	949.9	976.8	1035.1	1051.4	1028.5	1037.2
- in %	4.8	2.8	6.0	1.6	-2.2	0.8
of which:						
Households						
- in CZK billions	654.2	692.1	740.1	753.6	731.4	741.3
- in %	5.6	5.8	6.9	1.8	-2.9	1.4
Government						
- in CZK billions	287.2	275.1	284.8	287.1	284.4	284.2
- in %	3.1	-4.2	3.5	0.8	-0.9	-0.1
Non-profit institutions						
- in CZK billions	8.5	9.6	10.2	10.7	12.7	11.7
- in %	.	12.9	6.3	4.9	18.7	-7.9
GROSS CAPITAL FORMATION - TOTAL						
- in CZK billions	384.2	470.0	525.4	494.5	470.4	456.3
- in %	18.5	22.3	11.8	-5.9	-4.9	-3.0
of which:						
Fixed capital						
- in CZK billions	369.2	442.4	478.5	464.7	446.4	421.7
- in %	9.1	19.8	8.2	-2.9	-3.9	-5.5
Inventories and reserves						
- in CZK billions	15.0	27.6	46.9	29.8	24.0	34.6
TRADE BALANCE						
- in CZK billions	-30.5	-65.7	-112.8	-113.1	-97.6	-95.6
of which:						
Exports of goods and services						
- in CZK billions	635.0	740.8	809.2	875.0	968.9	1032.7
- in %	1.7	16.7	9.2	8.1	10.7	6.6
Imports of goods and services						
- in CZK billions	665.5	806.5	922.0	988.1	1066.5	1128.3
- in %	14.7	21.2	14.3	7.2	7.9	5.8
DOMESTIC DEMAND (excl. change in inventories)						
- in CZK billions	1319.1	1419.2	1513.6	1516.1	1474.9	1458.9
- in %	5.9	7.6	6.7	0.2	-2.7	-1.1
AGGREGATE DEMAND (excl. change in inventories)						
- in CZK billions	1954.1	2160.0	2322.8	2391.1	2443.8	2491.6
- in %	4.5	10.5	7.5	2.9	2.2	2.0
GROSS DOMESTIC PRODUCT IN CURRENT PRICES						
- in CZK billions	1182.8	1381.1	1572.3	1668.8	1798.3	1836.3
- in %	15.9	16.8	13.8	6.1	7.8	2.1
PRICE DEFLATOR						
- in %	13.4	10.2	8.6	7.2	10.2	2.4

Source: CSO

Table 2

PRICES												
	1994		1995		1996		1997		1998		1999	
	12	average	12	average	12	average	12	average	12	average	12	average
change in %												
CONSUMER PRICES												
a) previous month = 100	0.4	0.8	0.5	0.6	0.5	0.7	0.5	0.8	-0.2	0.5	0.5	0.2
b) same period of last year = 100	9.7	10.0	7.9	9.1	8.6	8.8	10.0	8.5	6.8	10.7	2.5	2.1
c) average of 1994 = 100	.	0.0	12.5	9.1	22.2	18.8	34.4	28.8	43.5	42.6	47.2	45.6
d) December 1993 = 100	9.7	5.2	18.4	14.8	28.6	25.0	41.5	35.5	51.0	50.0	54.9	53.2
e) moving average	10.0	x	9.1	x	8.8	x	8.5	x	10.7	x	2.1	x
INDUSTRIAL PRODUCER PRICES												
a) previous month = 100	0.3	0.5	-0.2	0.6	0.0	0.4	0.2	0.5	-0.4	0.2	0.6	0.3
b) same period of last year = 100	5.6	5.3	7.2	7.6	4.4	4.8	5.7	4.9	2.2	4.9	3.4	1.0
c) average of 1994 = 100	2.0	0.0	9.4	7.6	14.1	12.7	20.6	18.2	23.3	24.0	27.5	25.2
d) December 1993 = 100	6.9	4.8	14.6	12.7	19.6	18.1	26.4	23.9	29.2	29.9	33.6	31.2
e) moving average	5.3	x	7.6	x	4.8	x	4.9	x	4.9	x	1.0	x
CONSTRUCTION WORK PRICES												
a) previous month = 100	0.1	0.8	0.1	1.0	0.5	0.9	0.7	0.9	0.2	0.6	0.1	0.3
b) same period of last year = 100	9.7	13.9	12.3	10.6	11.2	11.3	11.9	11.3	7.0	9.4	3.5	4.8
c) average of 1994 = 100	2.9	0.0	15.2	10.6	28.0	23.1	43.3	36.8	53.3	49.7	58.7	56.9
d) December 1993 = 100	11.0	7.9	24.6	19.6	38.5	33.1	55.0	48.1	65.9	62.0	71.7	69.8
e) moving average	13.9	x	10.6	x	11.3	x	11.3	x	9.4	x	4.8	x
AGRICULTURAL PRODUCER PRICES												
b) same period of last year = 100	10.1	4.7	6.1	7.6	6.8	8.3	2.5	2.9	-9.5	2.3	0.6	-11.7
e) moving average	4.7	x	7.6	x	8.3	x	2.9	x	2.3	x	-11.7	x
of which:												
crop products												
b) same period of last year = 100	-4.0	-4.4	15.6	7.1	12.8	16.7	-4.3	3.3	-10.9	-5.4	-7.6	-15.0
e) moving average	-4.4	x	7.1	x	16.7	x	3.3	x	-5.4	x	-15.0	x
livestock products												
b) same period of last year = 100	15.8	11.5	2.8	8.1	4.4	5.1	2.8	2.1	-8.1	5.9	5.0	-10.5
e) moving average	11.5	x	8.1	x	5.1	x	2.1	x	5.9	x	-10.5	x
MARKET SERVICES PRICES												
a) previous month = 100	.	.	.	.	-0.3	0.4	1.8	0.8	-4.2	-0.4	-0.7	-0.9
b) same period of last year = 100	.	.	.	.	5.5	6.2	11.2	9.2	-4.9	6.0	-10.8	-14.3
c) average of 1994 = 100	.	.	.	.	17.9	16.3	31.2	26.8	24.8	34.5	11.3	15.3
d) December 1993 = 100	.	.	.	.	19.6	17.9	33.0	28.5	26.5	36.5	12.9	16.9
e) moving average	.	.	.	.	6.2	x	9.2	x	6.0	x	-14.3	x

- a) average = average monthly growth rate in the year
b,c,d) average = average since the start of the year
e) average of indices for last 12 months against average for previous 12 months

Source: CSO

Table 3

NET INFLATION												
	change in %											
	1995											
	1	2	3	4	5	6	7	8	9	10	11	12
a) previous month = 100	1.2	1.0	0.3	0.7	0.5	0.8	-0.6	-0.1	0.9	0.7	0.8	0.7
b) same period of previous year = 100	10.2	10.9	10.9	11.2	11.3	10.8	9.8	8.8	8.2	7.5	7.3	7.3
c) December of previous year = 100	1.2	2.3	2.6	3.3	3.8	4.7	4.0	4.0	4.9	5.7	6.6	7.3
	1996											
a) previous month = 100	1.4	0.6	0.7	0.6	0.6	0.8	0.1	-0.4	0.3	0.6	0.5	0.7
b) same period of previous year = 100	7.4	7.0	7.4	7.3	7.4	7.4	8.2	7.8	7.1	7.0	6.6	6.6
c) December of previous year = 100	1.4	2.0	2.7	3.3	4.0	4.8	4.9	4.5	4.8	5.4	5.9	6.6
	1997											
a) previous month = 100	0.8	0.3	0.1	0.5	0.1	1.4	0.2	0.8	0.6	0.6	0.5	0.6
b) same period of previous year = 100	6.1	5.9	5.3	5.2	4.6	5.2	5.3	6.6	6.9	6.9	6.9	6.8
c) December of previous year = 100	0.8	1.2	1.3	1.8	1.9	3.3	3.5	4.4	5.1	5.7	6.2	6.8
	1998											
a) previous month = 100	1.5	0.7	0.1	0.2	0.1	0.4	-0.2	-0.3	0.1	-0.3	-0.3	-0.3
b) same period of previous year = 100	7.5	7.9	7.9	7.6	7.6	6.5	6.1	4.9	4.3	3.4	2.6	1.7
c) December of previous year = 100	1.5	2.2	2.3	2.5	2.6	3.0	2.8	2.5	2.6	2.4	2.0	1.7
	1999											
a) previous month = 100	0.5	-0.1	-0.2	0.4	-0.1	0.2	0.0	0.1	-0.1	0.0	0.3	0.6
b) same period of previous year = 100	0.7	-0.1	-0.4	-0.3	-0.5	-0.6	-0.5	-0.1	-0.3	0.0	0.6	1.5
c) December of previous year = 100	0.5	0.4	0.2	0.5	0.4	0.6	0.6	0.7	0.6	0.6	0.9	1.5

Source: CSO

Table 4

BALANCE OF PAYMENTS 1)

in CZK millions

	1993	1994	1995	1996	1997	1998	1999 2)
A. CURRENT ACCOUNT	13 286.7	-22 643.2	-36 331.3	-116 510.6	-101 856.2	-43 101.0	-36 615.0
Balance of trade 3)	-15 313.0	-39 750.9	-97 598.6	-159 538.6	-144 025.9	-82 394.8	-71 281.8
- exports	414 833.0	458 436.6	569 549.1	588 791.5	722 501.0	850 308.0	928 865.0
- imports	430 146.0	498 187.5	667 147.7	748 330.1	866 526.9	932 702.8	1 000 146.8
Services	29 465.2	14 052.8	48 881.2	52 198.9	55 935.0	57 854.7	42 544.3
Credit	137 691.2	148 404.0	178 270.4	222 030.4	227 193.6	241 801.2	239 622.6
- transport	36 186.6	35 757.9	38 757.4	36 209.6	41 661.6	44 829.3	53 433.9
- travel	45 437.4	64 170.3	76 301.3	110 620.0	115 700.0	120 000.0	105 000.0
- others	56 067.2	48 475.8	63 211.7	75 200.8	69 832.0	76 971.9	81 188.7
Debit	108 226.0	134 351.2	129 389.2	169 831.5	171 258.6	183 946.5	197 078.3
- transport	21 402.1	24 542.4	21 208.9	18 983.3	19 973.6	22 794.0	27 560.0
- travel	15 368.3	45 605.6	43 330.3	80 170.0	75 500.0	60 300.0	51 000.0
- others	71 455.6	64 203.2	64 850.0	70 678.2	75 785.0	100 852.5	118 518.3
Income	-3 424.7	-580.8	-2 804.0	-19 611.0	-25 102.4	-31 708.0	-25 564.1
Credit	15 952.0	22 713.2	31 696.1	31 765.9	44 696.0	49 056.6	57 135.6
Debit	19 376.7	23 294.0	34 500.1	51 376.9	69 798.4	80 764.6	82 699.7
Current transfers	2 559.2	3 635.7	15 190.1	10 440.1	11 337.1	13 147.1	17 686.6
Credit	7 024.5	8 523.3	17 631.6	16 752.7	27 402.5	25 387.9	36 784.3
Debit	4 465.3	4 887.6	2 441.5	6 312.6	16 065.4	12 240.8	19 097.7
B. CAPITAL ACCOUNT	-16 175.0	-	179.1	15.6	315.9	65.8	-73.2
Credit	5 976.0	-	307.8	28.1	493.0	454.6	637.3
Debit	22 151.0	-	128.7	12.5	177.1	388.8	710.5
Total A + B	-2 888.3	-22 643.2	-36 152.2	-116 495.0	-101 540.3	-43 035.2	-36 688.2
C. FINANCIAL ACCOUNT	88 184.7	97 019.7	218 288.5	113 582.5	34 319.1	94 324.5	85 929.1
Direct investment	16 421.8	21 551.1	67 021.2	34 624.8	40 451.4	85 224.0	169 936.5
- abroad	-2 628.6	-3 443.3	-971.6	-4 150.0	-800.0	-2 538.8	-6 807.4
- in the Czech Republic	19 050.4	24 994.4	67 992.8	38 774.8	41 251.4	87 762.8	176 743.9
Portfolio investment	46 658.5	24 595.9	36 144.4	19 692.5	34 438.9	34 508.2	-48 268.9
Assets	-6 686.9	-1 327.1	-8 565.6	-1 291.1	-6 006.8	-755.1	-65 608.0
- equity securities	-6 686.9	-1 327.1	-8 565.6	-1 291.1	19.9	3 855.7	-18 047.8
- debt securities	-	-	-	-	-6 026.7	-4 610.8	-47 560.2
Liabilities	53 345.4	25 923.0	44 710.0	20 983.6	40 445.7	35 263.3	17 339.1
- equity securities	32 569.8	14 369.8	32 761.7	16 340.9	13 783.7	34 846.2	4 394.2
- debt securities	20 775.6	11 553.2	11 948.3	4 642.7	26 662.0	417.1	12 944.9
Other investment	25 104.4	50 872.7	115 122.9	59 265.2	-40 571.2	-25 407.7	-35 738.5
Assets	-83 911.4	-69 582.4	-66 050.8	-64 646.8	-142 725.1	-48 192.1	-91 796.2
Long-term	13 340.8	12 046.4	1 384.4	-10 769.8	-11 117.6	-24 853.5	-23 339.5
- CNB	-	-	-	-	-	-	-
- commercial banks	-1 431.5	-31.7	-3 353.6	-14 168.2	-11 907.4	-26 952.8	-25 585.5
- government	8 323.3	8 175.1	3 335.0	1 286.4	519.8	630.3	977.5
- other sectors	6 449.0	3 903.0	1 403.0	2 112.0	270.0	1 469.0	1541.5
Short-term	-97 252.2	-81 628.8	-67 435.2	-53 877.0	-131 607.5	-23 338.6	-68 456.7
- CNB	-	-	-	-	-	-	-
- commercial banks	2 163.0	-4 289.4	-2 446.2	-48 976.0	-122 038.5	-21 641.6	-63 804.7
- government	-97 397.2	-76 040.4	-60 179.4	-	-	-	-
- other sectors	-2 018.0	-1 299.0	-4 809.6	-4 901.0	-9 569.0	-1 697.0	-4 652.0
Liabilities	109 015.8	120 455.1	181 173.7	123 912.0	102 153.9	22 784.4	56 057.7
Long-term	10 131.9	19 865.1	87 965.8	95 193.1	24 047.6	-4 485.0	12 369.3
- CNB	1 297.3	-31 712.7	997.8	-	-368.0	-216.4	-2 083.5
- commercial banks	-2 116.6	11 189.6	60 359.6	46 733.5	-14 875.5	-14 399.2	-7 651.1
- government	-3 421.5	-5 249.5	-12 047.3	-7 132.6	-11 581.9	-11 765.4	-6 384.3
- other sectors	14 372.7	45 637.7	38 655.7	55 592.2	50 873.0	21 896.0	28 488.2
Short-term	98 883.9	100 590.0	93 207.9	28 718.9	78 106.3	27 269.4	43 688.4
- CNB	1 670.5	-1 634.7	77.1	-59.6	-9.9	-6.0	84.9
- commercial banks	2 481.8	14 016.0	27 636.1	30 574.9	67 383.7	24 445.9	36 615.6
- government (liability vis-à-vis Slovakia)	91 895.5	86 555.8	56 262.2	-899.6	-69.5	-216.5	-103.2
- other sectors	2 836.1	1 652.9	9 232.5	-896.8	10 802.0	3 046.0	7 091.1
Total A + B + C	85 296.4	74 376.5	182 136.3	-2 912.5	-67 221.2	51 289.3	49 240.9
D. NET ERRORS AND OMISSIONS, VALUATION CHANGES	3 019.8	-6 121.9	15 779.4	-19 562.6	11 181.2	11 325.7	7 895.8
Total A + B + C + D	88 316.2	68 254.6	197 915.7	-22 475.1	-56 040.0	62 615.0	57 136.7
E. CHANGE IN RESERVES (- increase)	-88 316.2	-68 254.6	-197 915.7	22 475.1	56 040.0	-62 615.0	-57 136.7

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

2) Preliminary data

3) Based on data published by the CSO - in accordance with customs statistics methodology effective 1 Jan. 1996; 1993 and 1994 data were taken from the CSO publication "Czech Foreign Trade 1993-1995", Dec. 1997

Table 5

MONETARY SURVEY

position at month-end in CZK billions

	1993	1994	1995	1996	1997	1998	1999	
	12	12	12	12	12	12	12	
Total assets	720.4	870.4	1039.6	1120.5	1217.6	1280.8	1384.9	
Net foreign assets	115.7	194.4	311.4	281.9	338.5	425.3	570.4	
- assets	213.6	275.8	493.2	538.0	670.7	761.4	940.2	
- liabilities	97.9	81.4	181.8	256.1	332.2	336.1	369.8	
Net domestic assets	604.7	676.0	728.2	838.6	879.1	855.5	814.5	
Domestic credits	713.9	817.5	929.5	1029.7	1137.7	1109.9	1095.8	
Net credit to the government sector	18.4	5.1	10.1	12.6	24.8	36.1	63.4	
- net credit to government	35.1	23.1	25.4	28.5	37.9	45.4	73.6	
- net credit to NPF	-16.7	-18.0	-15.3	-15.9	-13.1	-9.3	-10.2	
Client credits of commercial banks and CNB	695.5	812.4	919.4	1017.1	1112.9	1073.8	1032.4	
CZK credits	669.6	768.9	822.3	888.6	912.6	860.0	838.5	
- businesses	576.8	661.1	720.5	785.1	808.2	756.3	729.6	
- households	92.8	107.8	101.8	103.5	104.4	103.7	108.9	
Foreign currency credits	25.9	43.5	97.1	128.5	200.3	213.8	193.9	
- businesses	.	.	.	.	194.3	210.3	190.5	
- households	.	.	.	.	6.0	3.5	3.4	
Other net items	-109.2	-141.5	-201.3	-191.1	-258.6	-254.4	-281.3	
Liabilities								
M2	2)	720.4	870.4	1039.6	1120.5	1217.6	1280.8	1384.9
M1	1)	359.9	421.8	453.3	475.3	445.1	433.4	479.8
Currency in circulation		59.8	84.0	104.3	118.9	119.3	127.2	157.9
CZK demand deposits		300.1	337.8	349.0	356.4	325.8	306.2	321.9
- households		109.3	131.5	148.8	155.7	153.2	144.0	162.6
- businesses		185.1	201.1	195.6	195.6	168.2	158.9	156.4
- insurance companies		5.7	5.2	4.6	5.1	4.4	3.3	2.9
Quasi money		360.5	448.6	586.3	645.2	772.5	847.4	905.1
CZK time deposits		303.1	387.8	498.8	559.5	634.0	674.7	657.1
- households		206.8	244.7	306.5	366.0	474.4	550.8	537.5
- businesses		60.0	102.9	150.2	172.7	133.9	91.8	83.0
- insurance companies		36.3	40.2	42.1	20.8	25.7	32.1	36.6
Certificates of deposit, deposit bills of exchange and other bonds	6)	.	.	.	.	.	30.2	100.1
Foreign currency deposits		57.4	60.8	87.5	85.7	138.5	142.5	147.9
- households		45.7	42.2	35.8	40.1	68.8	73.6	80.8
- businesses		11.7	18.6	51.7	45.6	69.7	68.9	67.1
Monetary aggregate L	3)	704.6	845.5	1019.0	1138.9	1241.8	1329.9	1443.9
Year-on-year changes in %								
M1		17.5	17.2	7.5	4.9	-6.4	-2.6	10.7
M2	5)	19.8	19.9	19.8	9.2	10.1	5.2	8.1
L		19.8	20.0	20.5	11.8	9.0	7.1	8.6
Client credits of commercial banks and CNB		19.1	16.8	13.2	10.6	9.4	-3.5	-3.9
Client deposits with banks	4)	21.8	19.1	21.8	7.1	9.7	2.3	0.3

1) M1 = Currency in circulation + CZK demand deposits

2) M2 = M1 + quasi money

3) L = M2 + T-bills and CNB bills in the portfolios of domestic non-bank entities

4) CZK deposits + foreign currency deposits

5) Adjusted for float in 1993 and 1994, short-term operations of several banks in 1994 and for SPT Telecom deposit with CNB in 1995 and 1996

6) Because of changes in statistical reporting, deposit bills of exchange, CDs and other bonds are excluded from CZK deposits from January 1998 onwards

Table 6

COMMERCIAL BANK INTEREST RATES

	in %						
	1993	1994	1995	1996	1997	1998	1999
	12	12	12	12	12	12	12
Newly drawn credits							
in CZK	14.6	13.7	13.1	13.6	16.5	11.9	6.7
- short-term	14.0	13.3	12.9	13.6	16.5	11.7	6.7
- medium-term	16.7	14.8	14.2	14.3	17.0	13.4	5.1
- long-term	14.5	14.2	13.3	12.5	16.0	11.7	10.2
in foreign currency	-	-	-	-	5.9	5.4	6.1
- short-term	-	-	-	-	5.9	5.3	6.2
- medium-term	-	-	-	-	5.6	5.9	5.3
- long-term	-	-	-	-	6.1	5.6	6.0
Credits							
in CZK	14.0	12.8	12.7	12.5	13.9	10.5	7.7
- short-term	15.4	12.7	12.5	12.4	14.1	10.6	7.4
- medium-term	15.6	14.5	14.2	13.5	14.6	10.7	8.3
- long-term	10.6	11.2	11.5	11.8	13.0	10.3	7.6
in foreign currency	-	-	-	-	6.1	6.4	6.6
- short-term	-	-	-	-	5.6	6.9	7.7
- medium-term	-	-	-	-	5.9	5.6	5.4
- long-term	-	-	-	-	6.7	6.0	5.9
Deposits							
in CZK	6.8	6.9	6.9	6.7	8.0	6.7	3.7
- demand	2.4	2.6	2.8	2.5	2.1	1.9	1.6
- time	10.7	10.6	10.0	9.2	10.9	8.7	4.7
- short-term	9.6	9.6	9.7	9.3	11.6	9.2	4.8
- medium-term	11.4	11.5	10.7	9.8	12.2	10.9	5.6
- long-term	13.0	11.3	8.8	6.2	5.2	4.2	3.6
in foreign currency	-	-	-	-	2.7	2.3	2.7
- demand	-	-	-	-	1.1	1.1	0.9
- time	-	-	-	-	3.7	3.2	4.0
- short-term	-	-	-	-	3.4	3.1	3.9
- medium-term	-	-	-	-	5.0	3.3	4.2
- long-term	-	-	-	-	5.5	3.5	4.7

V. THE BANKING
SECTOR
AND BANKING
SUPERVISION

V. THE BANKING SECTOR AND BANKING SUPERVISION



A whole range of factors affected the banking sector's conduct and results in 1999, the most important of which being the domestic economy, which failed to show any substantial recovery last year. This was accompanied by a stagnation in lending. In large banks, intensive preparations took place for privatisation, which was partially implemented. The progress in the legislative area aimed at strengthening the position of creditors vis-à-vis debtors had yet to show up positively in the results of banks.

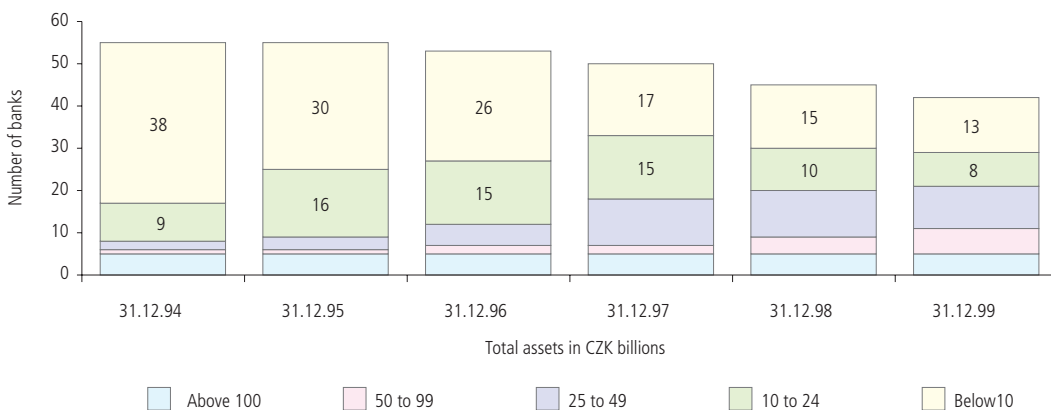
The CNB's banking supervisory authority participated both in the privatisation process and in the preparation of the legislative changes concerning bank business. The harmonisation of laws, procedures and supervisory practices with international standards is considered one of the banking supervision priorities. The primary objective of all supervisory activities is to foster a stable banking sector in the Czech Republic.

V.1 THE BANKING SECTOR

As of 31 December 1999 there were 42 banks and foreign bank branches operating in the Czech Republic. During 1999, Universal banka and Moravia banka had their licences revoked after failing to meet the prudential regulations and because of their poor financial condition. Foresbank decided to terminate its activities after transferring the major part of its activities to Union banka. In July 1999, the privatisation of Československá obchodní banka was completed with the sale of the controlling interest to KBC Bank of Belgium. The privatisation of Česká spořitelna was prepared, and was finished at the start of 2000 with the sale of the state interest to Erste Bank Sparkassen of Austria. As of 31 December 1999, four banks with a state controlling interest were operating in the Czech Republic, along with ten banks with predominantly Czech capital (four of which had exclusively Czech capital), seven banks with predominantly foreign capital, eleven subsidiaries of foreign banks and ten foreign bank branches.

CHART V.1 BANKS BY TOTAL ASSETS

(banks with valid licences in the year in question)



The group of five large banks still accounts for the lion's share of banking sector activities: 65.1% as of 31 December 1999. However, compared with previous years this share is gradually decreasing, mostly in favour of the group of foreign banks and foreign bank branches, which at end-1999 managed 27.2% of the total assets of the banking sector, up 9.2 points on end-1995. The group of medium-sized banks is

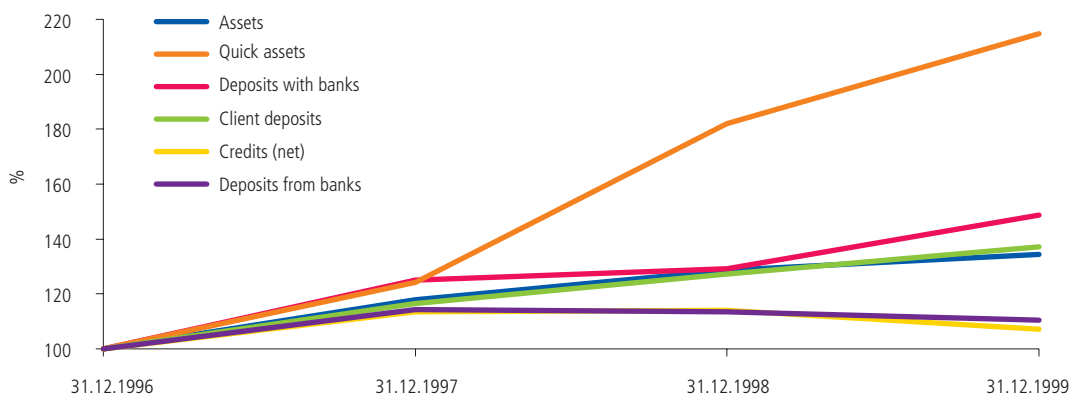
constantly expanding. Compared with end-1996, the number of banks managing total assets of CZK 50-99 billion was up by four to six and the number of banks with total assets of CZK 25-49 billion up by five to ten.

The ongoing privatisation of the state's interests in large banks has been gradually changing the ownership structure of the banking sector with respect to the share of foreign capital, which stood at 48.4% as of 31 December 1999, 9.6 points higher than at end-1998. This share will continue to rise thanks to the privatisation of Česká spořitelna and Komerční banka.

The main trend in the banking sector in 1999 was the prudential approach of banks towards lending, on account of the high degree of credit risk ensuing from the unfavourable state of the economy. The overall volume of gross credits as of 31 December 1999 was CZK 1,085.6 billion, 3.2% lower than a year earlier. Client deposits, which are the banking sector's main source of funds, increased by 7.8% in the same period to CZK 1,314.4 billion. Free funds not used for lending were either allocated into quick assets, primarily T-bills and CNB-bills, or deposited with other banks. The total volume of quick assets stood at CZK 615.7 billion as of end-1999, 17.7% higher than a year earlier. Quick assets account for 24.3% of total assets. There was a further rise in off-balance-sheet activities, especially derivatives operations, the volume of which was 17.8% higher in 1999 than a year earlier. These operations represented 68.4% of total assets, 29.6 points higher than in 1997.

CHART V.2 GROWTH RATES OF SELECTED BANKING ACTIVITIES

(basis indices as of 31 December 1996)



Despite the limited lending activity, the quality of the banking sector's loan portfolio continued to deteriorate in 1999, showing up in a further rise in classified credits. These increased by 11% against end-1998, reaching CZK 290.5 billion as of 31 December 1999 and accounting for 32.1% of overall lending. To cover their losses arising from poor-quality assets, the banks have been setting aside provisions and reserves. These amounted to CZK 103.8 billion as of 31 December 1999, covering roughly 70% of the potential loan portfolio losses. The remainder was covered by collateral.

Despite a certain decline, the banking sector's main source of profit was interest income. This reached CZK 50.2 billion for 1999 as a whole, representing about

55.6% of overall profit from banking activities. Compared with a year earlier, however, both interest income and banking activity profit dropped, largely as a result of a substantial fall in interest rates, which led to a 0.8 point reduction in the net interest margin to 2.7% in 1999. Banks continued to cut their operating expenses. For 1999, these amounted to CZK 51.1 billion, 6.2% higher than in 1998 (in 1998 they had risen by 13.1%). The banks made further cutbacks in their branch networks and workforces; the total number of employees in the sector fell by 2,700 against end-1998 to 48,955. Net profit, however, was affected by the extensive provisioning demands to cover losses incurred from banking activities. This resulted in the banking sector posting an overall loss of CZK 5.5 billion.

To ensure stability, the banks focused in 1999 on strengthening their capital so as to be able to absorb the potential losses arising from banking business. Total equity capital increased by CZK 13.1 billion during 1999 to CZK 87.9 billion. The capital increases took place primarily in the group of large banks and were linked with the preparations for their privatisation. The overall volume of capital, which besides equity capital includes other own funds such as mandatory reserve funds, agio funds and subordinated debt, totalled CZK 133.9 billion as of 31 December 1999, 5.5% higher than a year earlier. This increase, combined with a 7% reduction in risk-weighted assets in the same period, led to a 1.6 point rise in capital adequacy to 13.7%.

V.2 BANKING SUPERVISION

In 1999, supervisory activities were focused on fulfilling the main principles of the medium-term "Conception for the further development of banking supervision" approved by the CNB Bank Board in 1998.

Methodological activity

In 1999, a further step was taken towards harmonising the regulatory framework for prudential banking business with that applied in EU countries. Two CNB Provisions (regulations) were approved reflecting the direction in which all international regulations for banks are gradually heading - from simple gross risk measurement towards more exact risk measurement and comprehensive risk management.

A Provision on Capital Adequacy Incorporating Credit and Market Risks, meeting EU directive No. 93/6, was issued in July 1999 and enters into force on 1 April 2000. This Provision defines a new approach to the risks arising from that part of a bank's portfolio which is held for the purpose of short-term profit and for active trading. The aim is to ensure that a bank's capital is sufficient to cover not only credit risk, but also market risks, i.e. interest rate, equity, exchange rate, commodity and credit exposure risks, by setting general and specific capital requirements for individual types of risks. The Provision has also introduced a new element into the regulatory system allowing banks to apply their own models for calculating the size of the risks from which the capital requirements are derived.

A Provision Stipulating Terms and Conditions for Performing Supervision on a Consolidated Basis took effect in July 1999. Its purpose is to ensure a comprehensive approach to evaluating the financial strength of banking groups, i.e. groups of financial institutions headed by banks. It is expected that in future supervision on a consolidated basis will be expanded to include financial holdings and mixed-activity

financial groups. The Provision stipulates the rules for establishing consolidated entities, the methods for consolidating financial statements, capital adequacy and credit exposure limits for groups, etc.

The effort to achieve maximum harmonisation with the European legislation extends to the preparation of an amendment to the Act on Banks. This amendment includes important aspects of banking supervision regulation and conduct. In particular, it creates a general framework for supervision on a consolidated basis, enabling effective co-operation with foreign partner supervisors, including on-site inspections in foreign banks and foreign bank branches by the home supervisor. The amendment also includes full formal alignment of the criteria for bank licensing and for the acquisition of holdings in existing banks; incorporation of the single banking licence principle; a strengthening of the role of internal auditing in banks and of external auditors' obligations towards the CNB; a modification to the assessment of banks' senior management; harmonisation of rules for information sharing between the CNB and other relevant entities; and an expansion of the deposit insurance system.

An important part of the CNB's supervisory activities is the effort to bring accounting procedures into line with international standards and practice. The Czech National Bank has co-operated closely with the Ministry of Finance in preparing an amendment to the chart of accounts for banks, which takes effect on 1 January 2000, and a new Act on Accounting, which is expected to enter into force on 1 January 2001. These will ensure that the Czech accounting regulations comply with international accounting standards.

Practical conduct of banking supervision

In practice, the CNB supervisory authority focused primarily on strengthening its inspection activities directly in banks and on standardising the procedures for off-site surveillance, on-site supervision, licensing and remedial measures against banks.

Surveillance activities are based on an annual schedule for inspections and informative visits to banks. In 1999, there were 5 in-depth inspections and 26 informative visits. In addition, 75 other informative visits took place as part of the banking sector's Y2K preparations. In 1999, banking supervisors also focused on checking observance of the new 1998 Provision stipulating the information duties of banks and foreign bank branches towards the public in the form of regular quarterly disclosure of selected data. At the start of 1999 and again in May, the supervisors made partial inspections in 154 offices in 29 banks concentrating exclusively on ascertaining whether these data were complete, up-to-date and publicly available.

The CNB supervisory authority issued 17 administrative decisions in 1999, chiefly concerning the granting of bank licences and the acquisition of holdings in banks. It also issued around 90 other decisions outside the framework of administrative proceedings in cases where such a decision is required by the Act on Banks or by CNB regulations, e.g.

- approval of auditors for individual banks,
- verification of shareholder structure prior to general meetings,
- inclusion of subordinated debt in a bank's capital,
- approval of the structure of consolidated entities.

In 44 cases, the supervisory authority expressed its opinion on persons nominated for senior management positions in banks. Standard remedial measures were applied in

11 banks. Fundamental measures consisting in licence revocation were applied in three cases.

International co-operation

In 1999, Czech banking supervisors forged closer ties with international organisations and supervisors from other countries. The CNB's supervisors participate in several regulatory working groups operating within the Basle Committee on Banking Supervision at the Bank for International Settlements. As part of the preparations for the Czech Republic's integration into European structures, the CNB supervisory authority took part in the screening of the degree of compliance of the Czech legal and regulatory framework with EU banking directives. In 1999, a "twinning" project started aimed at harmonising the methods and procedures applied in the Czech Republic with EU practices through close co-operation with selected experts.

Co-operation with supervisors from other countries is also steadily developing, especially with supervisors whose banks have branches or subsidiaries in the Czech Republic. In 1999, a co-operation agreement was signed with the National Bank of Slovakia and an informal agreement was concluded with the German Federal Banking Supervisory Office. Negotiations on regular co-operation have been commenced with the banking supervisors of Austria, the Netherlands, the United Kingdom, France, Belgium and the USA. The CNB supervisory authority currently chairs the regional Group of Banking Supervisors from Central and Eastern Europe, which debates topical issues linked with banking regulation and supervision.

One of the principles for the further development of banking supervision is effective communication with the banking sector and the Banking Association. Co-operation with the Banking Association takes the form of sharing information on main areas of activity, commenting on regulatory measures and standards, and discussing new draft recommendations of the Basle Committee. Collaboration with the Securities Commission and the Ministry of Finance is also expanding following the signing of the co-operation agreement in 1998.

The Year 2000 issue

In 1999, great attention was paid to the Year 2000 issue. In the interests of ensuring the banking sector's smooth transition into the year 2000, the CNB supervisory authority as early as 1998 defined - in the form of CNB Provisions and official information - the individual aspects of this problem and set the duties which individual banks were progressively obliged to meet. This primarily involved testing their systems, drafting contingency plans and publicly announcing their Year 2000 compliance. The Czech National Bank established a special Year 2000 team, which held regular monthly meetings attended not only by staff from various CNB departments, but also by representatives of the Banking Association, the Securities Commission and the National Co-ordination Centre (ÚSIS).

In 1999, banking supervisors concentrated on actively monitoring the progress made in this respect in individual banks using questionnaires and informative visits on site. The results were discussed with the banks at meetings organised jointly with the Banking Association. Checks were also carried out of the official announcements of Year 2000 compliance, which banks had to publish by 30 June 1999. The public was

thus well informed at the start of July 1999 about the advanced level of Y2K preparedness of the banking sector.

The CNB established co-operation with the home country supervisors of banks operating in the Czech Republic to gain information on their approach to this issue and to set the role of a "lead supervisor" for foreign bank branches operating in the Czech Republic and for Czech banks operating abroad.

The final step was to verify the actual transition to the year 2000 using a questionnaire monitoring potential problems in banks' operations. The results showed that no bank or foreign bank branch faced any threat to its operations during the critical period.

I. BANKING SECTOR ASSETS AND LIABILITIES

(for banks with valid banking licences as of 31 December 1999, branches abroad included)

	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	1999			
				31 Mar.	30 Jun.	30 Sep.	31 Dec.
Assets in CZK millions							
Cash	25 076	26 685	27 016	27 280	27 920	27 145	36 907
Deposits and credits with CNB	134 973	190 733	269 934	284 850	276 647	268 574	274 204
of which required reserves	106 739	86 279	86 827	62 204	51 645	68 189	28 019
Deposits and credits with banks	385 476	482 003	497 628	494 367	519 111	574 225	572 957
of which: current accounts	19 286	18 725	18 112	19 162	22 676	13 830	23 210
time deposits	275 284	390 837	392 062	390 674	411 803	447 194	407 410
credits granted	90 907	72 441	87 453	84 531	84 632	113 201	142 337
T-bills	49 299	38 613	53 394	39 195	56 192	48 474	80 556
CNB bills	61 026	91 957	161 710	201 002	200 536	186 168	201 900
Credits granted	879 902	998 451	1 003 635	1 031 935	1 025 664	988 850	943 909
of which: to clients	862 823	977 840	975 866	1 000 537	994 988	958 043	910 742
to state and local authorities	17 080	20 612	27 769	31 398	30 676	30 807	33 167
Trading securities	167 054	97 509	96 362	88 696	88 333	83 827	75 715
of which: bonds	133 303	84 231	86 521	78 714	77 733	75 718	68 354
equity securities	30 615	9 621	4 184	5 164	6 449	4 289	2 927
Long-term financial investments	19 349	91 058	92 760	93 585	95 893	93 908	122 221
Tangible and intangible assets	57 683	61 888	62 999	62 127	62 479	62 606	63 145
Other assets	106 314	143 416	158 798	190 365	126 664	149 193	162 264
Total assets	1 886 153	2 222 313	2 424 235	2 513 401	2 479 439	2 482 972	2 533 778
Liabilities in CZK millions							
<i>Funds from CNB</i>	<i>66 717</i>	<i>73 856</i>	<i>52 843</i>	<i>50 988</i>	<i>49 844</i>	<i>35 067</i>	<i>33 764</i>
Deposits and credits from banks	445 087	508 760	504 615	499 991	476 964	468 408	492 029
of which: current accounts	16 249	19 551	12 198	15 942	17 423	12 145	10 017
time deposits	317 291	366 593	342 206	319 285	307 137	303 066	303 576
credits received	111 547	122 616	150 212	164 764	152 404	153 197	178 436
Deposits received	957 409	1 114 915	1 219 014	1 234 757	1 260 934	1 294 428	1 314 417
of which: from clients	903 689	1 062 325	1 161 974	1 178 939	1 199 728	1 211 504	1 256 585
from state and local authorities	49 233	51 204	55 062	53 804	59 107	80 331	54 590
deposit certificates	4 487	1 386	1 978	2 014	2 099	2 594	3 242
Bond issues	62 940	92 724	92 588	99 800	99 166	102 019	98 495
Reserves	35 708	40 014	41 275	39 316	36 255	46 675	45 351
Reserve funds	63 651	72 328	73 938	75 065	66 935	67 232	67 111
Capital funds	18 659	19 369	33 967	34 478	12 893	12 723	12 958
Equity capital	56 568	63 819	74 855	75 443	76 814	84 914	87 934
Retained profits	1 853	1 332	2 110	10 653	4 236	3 050	3 078
Current year profit	14 445	11 185	9 655	3 802	6 335	8 410	10 827
Other liabilities	163 117	224 011	319 375	389 107	389 063	360 047	367 813
Total liabilities	1 886 153	2 222 313	2 424 235	2 513 401	2 479 439	2 482 972	2 533 778
Off-balance-sheet assets in CZK millions							
Total off-balance-sheet assets	583 530	1 196 100	1 895 191	2 278 975	2 187 495	2 128 072	2 059 161
of which: receivables from futures, forwards and swaps	307 694	830 983	1 385 198	1 630 039	1 526 999	1 430 575	1 645 207
receivables from option operations	46 619	30 932	84 508	131 515	140 365	135 524	85 578

II. BANKING SECTOR INCOME AND EXPENSES

(for banks with valid licences as of 31 December 1999, branches abroad included and Konsolidační banka excluded)

	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	1999			
				31 Mar.	30 Jun.	30 Sep.	31 Dec.
	In absolute terms (CZK millions)						
Interest income	130 860	171 194	209 318	43 628	83 954	119 820	151 954
Interest expenses	90 518	121 510	151 219	30 733	58 580	81 910	101 776
Interest profit	40 342	49 684	58 099	12 895	25 373	37 909	50 178
Income from fees and charges	12 087	13 273	14 562	3 766	7 850	11 991	16 817
Expenses from fees and charges	1 408	1 594	1 451	379	776	1 597	2 636
Profit from fees and charges	10 679	11 679	13 111	3 386	7 074	10 394	14 181
Interest profit including fees and charges	51 021	61 363	71 210	16 281	32 447	48 304	64 359
Income from securities	11 179	12 110	9 274	2 544	3 315	6 569	11 662
Income from foreign exchange operations	6 187	12 733	12 955	2 875	5 452	8 811	11 962
Other income from banking operations	1 170	1 207	3 420	27	1 134	1 765	2 304
Profit from banking activity	69 557	87 412	96 860	21 728	42 348	65 448	90 286
General operating expenses	37 092	42 519	48 094	10 836	23 456	35 295	51 107
Creation of reserves and provisions (net)	1 887	29 726	14 673	-284	2 112	18 025	-3 491
Other operating income (expenses)	-19 045	-18 146	-42 218	-10 142	-17 286	-16 379	-49 726
Gross operating profit	11 533	-2 979	-8 125	1 033	-506	-4 251	-7 070
Extraordinary income (expenses)	244	702	2 958	201	689	1 069	2 713
Pre-tax gross profit	11 777	-2 277	-5 167	1 235	183	-3 182	-4 357
Taxes	442	1 080	3 069	175	464	1 026	1 119
Net profit	11 335	-3 356	-8 236	1 059	-281	-4 208	-5 476
	In relative terms (%) ¹⁾						
Profit from banking activity/assets	4.21	4.54	4.49	4.29	3.91	3.96	4.01
Gross profit/assets	0.71	(0.12)	(0.23)	0.24	0.02	(0.19)	(0.19)
Net profit/assets	0.69	(0.17)	(0.36)	0.21	(0.03)	(0.25)	(0.24)
Net profit/core capital	12.21	(3.53)	(8.26)	4.29	(0.56)	(5.43)	(5.14)
Total interest income/interest earning assets	10.85	11.86	11.71	10.31	9.05	8.46	8.11
Total interest expenses/interest bearing liabilities	7.02	8.09	8.19	7.05	6.08	5.58	5.40
Interest rate spread	3.84	3.77	3.52	3.25	2.96	2.88	2.71
Net interest margin	2.78	2.94	3.42	3.21	2.92	2.85	2.76
Number of banking locations	2 654	2 043	2 204	2 251	2 247	2 019	2 006
Number of employees in banking sector	53 328	51 170	51 650	50 681	50 791	50 103	48 955
	Per employee (CZK thousands)						
total assets	33 121	40 692	43 926	46 411	45 753	46 210	47 759
profit from banking activity	1 304	1 708	1 875	1 715	1 668	1 742	1 844
net profit	213	-66	-159	84	-11	-112	-112
operating expenses	696	831	931	855	924	939	1 044

1) Data annualised for individual quarters of 1999

III. SELECTED INDICATORS OF PRUDENTIAL OPERATION OF THE BANKING SECTOR

(for banks with valid licences as of 31 December 1999, branches abroad included and Konsolidační banka excluded)

	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	1999			
				31 Mar.	30 Jun.	30 Sep.	31 Dec.
Capital adequacy ¹⁾							
Core capital in CZK millions	92 809	95 127	99 693	98 876	100 951	103 319	106 511
Total capital in CZK millions	100 124	105 233	127 022	127 369	127 401	129 594	133 947
Total assets in CZK millions ²⁾	1 732 267	2 055 102	2 170 325	2 228 501	2 194 895	2 173 797	2 185 731
Risk-weighted assets in CZK millions	1 005 882	1 111 619	1 053 256	1 068 149	1 056 615	1 042 617	979 767
Share of risk-weighted assets in total assets in %	58.07	54.09	48.53	47.93	48.14	47.96	44.83
Capital adequacy in %	9.95	9.47	12.06	11.92	12.06	12.43	13.67
Credit portfolio quality ³⁾							
Classified credits in CZK millions	245 998	266 390	261 641	291 475	309 898	308 371	290 511
in % of total credit volume	28.21	26.95	26.67	28.89	30.58	31.45	32.09
Classified credits adjusted for collateral in CZK millions	120 036	142 654	146 036	168 728	182 794	181 745	170 054
in % of total credit volume	13.76	14.43	14.89	16.72	18.04	18.54	18.78
Weighted classification in CZK millions	158 074	172 682	160 625	169 858	177 785	177 809	152 463
in % of total credit volume	18.12	17.47	16.37	16.83	17.55	18.14	16.84
Weighted classification adjusted for collateral in CZK millions	80 946	94 257	90 570	100 992	108 575	109 852	98 698
in % of total credit volume	9.28	9.54	9.23	10.01	10.71	11.20	10.90
Reserves and provisions in CZK millions	84 209	105 287	110 126	112 727	116 490	129 847	103 758
Surplus (+) or shortfall (-) of reserves, provisions and collateral in CZK millions	3 264	11 031	19 557	11 735	7 915	19 995	5 060
in % of total credit volume	0.37	1.12	1.99	1.16	0.78	2.04	0.56
Liquidity							
Quick assets in CZK millions ⁴⁾	284 733	353 930	518 636	556 029	567 720	534 937	611 149
in % of total asset volume	16.12	17.00	22.86	23.64	24.43	23.10	26.14
in % of total primary funds volume	29.94	31.90	42.68	45.24	45.24	41.50	46.66
Cumulative net balance sheet position up to 1 month in % of total assets ⁵⁾	-0.87	0.14	-1.67	-0.30	-0.55	-1.22	-2.78
Cumulative net balance sheet position up to 3 months in % of total assets ⁵⁾	-0.31	0.55	-1.40	-0.13	-0.09	-0.80	-2.45

1) foreign bank branches excluded

2) credit equivalent of off-balance-sheet assets included

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

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

5) after deducting 80% of demand deposits

Note: All figures are for banks with valid banking licences as of 31 December 1999. The data for 1999 are unaudited. Data published later may therefore differ.

VI. CURRENCY,
BANKNOTES AND COINS,
GOLD RESERVES
MANAGEMENT

VI. CURRENCY,
BANKNOTES AND COINS,
GOLD RESERVES
MANAGEMENT



The Czech National Bank has the exclusive right to issue banknotes and coins, including commemorative coins. The CNB is responsible for preparing the issuance of new banknotes and coins, for controlling the circulation of currency, for managing the reserves of Czech money, gold, precious metals and commemorative silver coins, and for protecting Czech banknotes and coins against counterfeiting.

Currency in circulation

In 1999, the value of currency in circulation amounted to CZK 184 billion, almost 26% higher than in 1998. This increase was mostly attributable to cash stockpiling by the public and banks due to the risks connected with the transition to the year 2000. However, the number of banknotes and coins in circulation rose by only 12%, since a substantial change occurred in the currency structure in favour of banknotes with higher denominations. This can be considered a very positive change. The charts below show the currency structure as of 31 December 1999 and a comparison of the volume of currency in circulation between 1998 and 1999.

CHART VI.1 STRUCTURE OF CURRENCY IN CIRCULATION

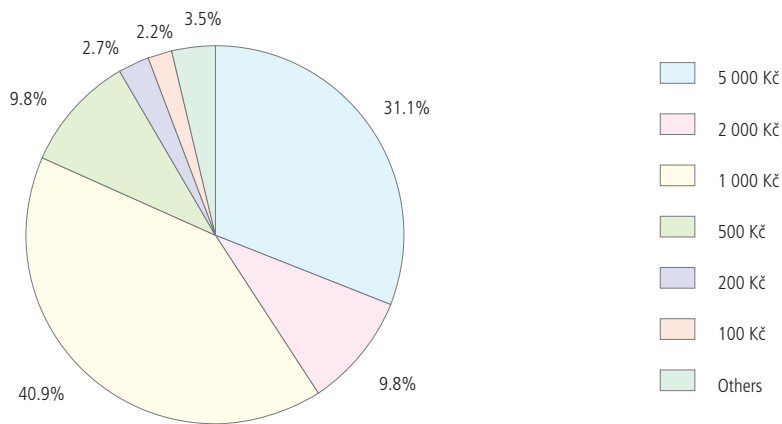


CHART VI.2 STRUCTURE OF BANKNOTES IN CIRCULATION (NUMBER OF NOTES)

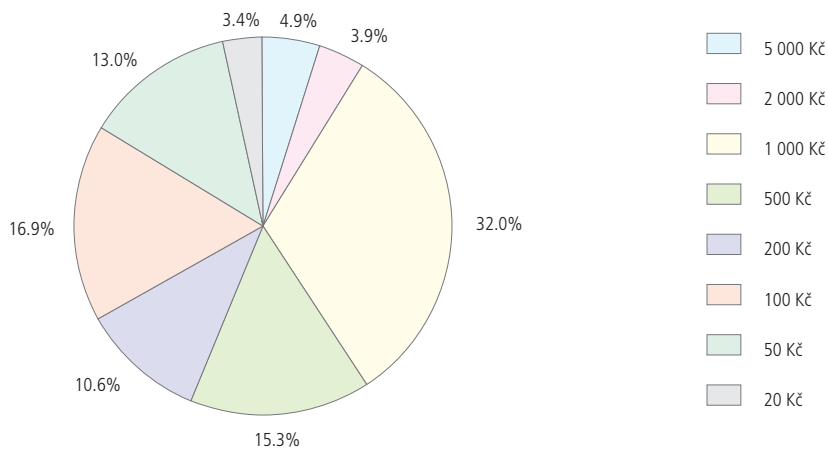
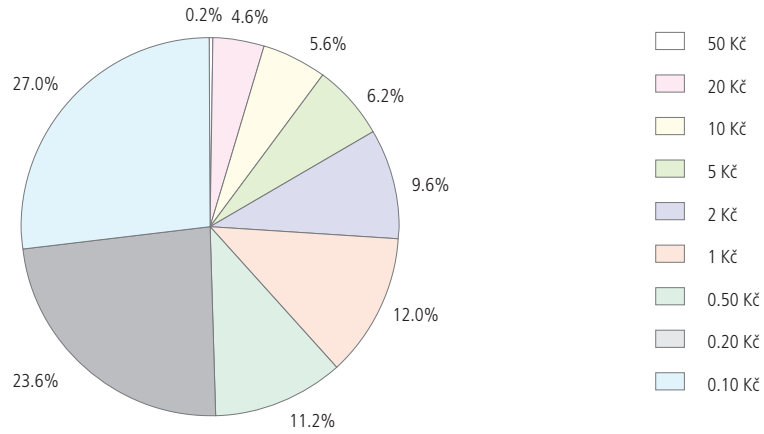
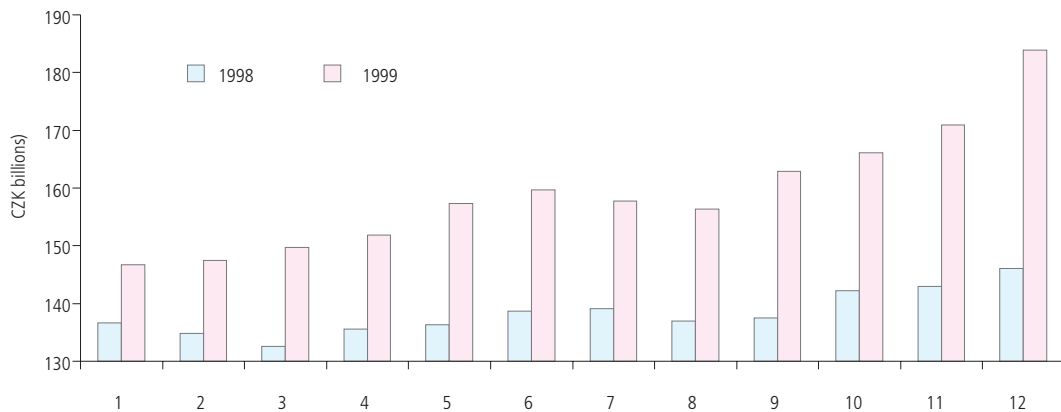


CHART VI.3 STRUCTURE OF COINS IN CIRCULATION (NUMBER OF COINS)**CHART VI.4** AMOUNT OF CURRENCY IN CIRCULATION IN 1998 AND 1999

(as of month-end)



Issuing activity and improvements in banknote protection

In 1999, the Czech National Bank put into circulation three new banknote versions:

- 200 Kč, 1998 version, on 6 January;
- 5000 Kč, 1999 version, on 8 September;
- 2000 Kč, 1999 version, on 1 December.

All three new versions have increased protection against counterfeiting compared with previous versions. They are printed on paper with visible orange protective fibres and have an improved front-to-back register in the form of letters "ČR". The 1999 version of the 5000 Kč note now has a graphic symbol for machine processing on the reverse side in the form of a linden leaf. Also changed was the optically variable ink on the hexagonal area with the negatively pictured lion's head. On the new version, the colour normally visible on the face side of the area is gold and when the note is tipped against the light it changes from gold to green. The change of colour is much more pronounced and visible than for the 1993 version.

The paper used for the two higher denominations moreover has an iridescent strip. When the banknote is tipped against the light, the silver strip takes on a golden hue with a metallic reflection. In addition to the regular protective elements on all banknotes, all three highest-denomination banknotes (1000 Kč, 2000 Kč, 5000 Kč) now have optically variable ink and an iridescent strip. These elements are very important, because they are difficult to imitate and are very easily identifiable by the public.

The following commemorative coins were issued in 1999: four silver 200 Kč coins, one silver 2000 Kč coin with a gold inlay, and a set of gold "Charles IV" coins. As in previous years, the set of gold coins was issued in March, in proof quality only with a polished field and a matt relief. On 23 March, a silver 200 Kč coin was put into circulation to mark the 50th anniversary of the foundation of NATO. The edge of the normal quality coin bears an inscription mentioning the Czech Republic's NATO membership; for the proof quality coin, there is the usual edge inscription with the name of the issuer, metal fineness and weight of the coin. The three remaining 200 Kč coins were also put into circulation in both qualities. These mark:

- the 200th anniversary of the foundation of the Academy of Art and Sculpture (1 September);
- the 100th anniversary of the foundation of the Brno University of Technology (16 September); and
- the 100th anniversary of the birth of the writer Ondřej Sekora (22 September).

The issuing of the 2000 Kč coin was one of the CNB's millennium-related activities. The Year 2000 coin, 40 mm in diameter, was struck from the finest silver. The 16-mm-diameter gold inlay on its face side is made of gold of fineness 999.9. The inlay bears a hologram in the form of a stylised national emblem of the Czech Republic. The Czech Republic is one of the first countries to use holograms on coins.

Counterfeits

In 1999, a total of 13,153 counterfeit and altered banknotes and coins and 29 imitations were seized in the Czech Republic. The table below provides a survey of counterfeit and altered money, showing whether it was seized in circulation or by the Czech police.

COUNTERFEIT CURRENCY	FROM CIRCULATION	BY THE POLICE	TOTAL
CZK	2 478	3 149	5 627
USD	1 906	2 730	4 636
DEM	230	70	300
ITL	437	18	455
OTHER	133	80	213
COINS	76	0	76
ALTERED CZK	1 633	0	1 633
ALTERED FOREIGN	203	10	213
TOTAL	7 096	6 057	13 153

The value of seized counterfeit and altered money was CZK 41,804,315.

Management of gold and other precious metal reserves

Upon the establishment of the Czech Republic on 1 January 1993, there were 74.5 tonnes of gold in the CNB's reserves. In recent years, the strategic objective of the CNB, like other central banks, has been to gradually sell off its gold reserves on international markets. This is because of the decreasing importance of gold in the international reserves management policies of central banks and its constantly declining price. At end-1998, there had been only 18.1 tonnes of gold in the CNB's reserves, including 4.1 tonnes earmarked for the National Bank of Slovakia. This remained virtually unchanged during 1999.

In 1999, intensive preparations were under way concerning the handover from the CNB to the National Bank of Slovakia of the remainder of the gold (of fine weight 4,124,623,254 grams) from the reserves of the former State Bank of Czechoslovakia. A draft specification of the gold to be transferred was prepared and was approved by the Slovak side, and the manner of handover and transportation was preliminarily agreed.

VII. CNB OPEN
MARKET
OPERATIONS

VII. CNB OPEN MARKET OPERATIONS



The CNB operates on the financial market in order to conduct monetary policy in accordance with Act No. 6/1993. The following chapter describes the monetary policy decision-making process within the CNB, the instruments it uses and the market segments on which it operates.

Decision making

The CNB Bank Board has the authority to set three key interest rates: the discount rate ("floor"), the Lombard rate ("ceiling") and the main monetary policy rate - the two-week repo rate.

The Open Market Operations Committee meets every Monday and is attended by members of the Bank Board and by staff from the Financial Markets Department, the Risk Management Department and the Monetary Department. The following topics are discussed: the current situation in the domestic and foreign financial markets, the real economy (inflation, unemployment, GDP, foreign trade, etc.) and the monetary situation (M2, balance of payments, etc.).

The CNB's operations for a particular day are set at regular daily meetings which start at 9.05 a.m. and are chaired by the Bank Board member responsible for financial markets. The following topics are discussed:

- the results of the previous open market operations
- the liquidity position of the banking sector and expected changes at the biggest banks (based on early morning telephone calls with 10-15 banks),
- the forecast for the day,
- the situation on the money, derivatives and bond markets,
- the situation on the foreign exchange market.

A reserves supply/demand forecast is compiled daily in the morning for the day and for the next four days in order to determine the direction, volume and maturity of the CNB's operations on the money market for the day.

The reserve supply forecast is composed of:

a) autonomous liquidity factors:

- external sector figures (changes in international reserves resulting from purchases/sales of foreign exchange by the CNB, e.g. due to interventions),
- the government sector (revenues vs. expenditure of the state budget; changes in state financial assets and liabilities and in other items of the government's position with the central bank),
- intended T-bill and CNB-bill operations on the secondary market for the purposes of liquidity management on the Ministry of Finance accounts,
- settlements of primary auctions and of maturing issues of government securities,
- currency in circulation (regular monthly pattern),
- other net assets;

b) monetary policy liquidity factors:

- maturity of automatic facilities (Lombard repo, overnight deposit facility), and
- maturity of repos (particularly the regular two-week and three-month tenders).

The reserve demand forecast is composed of:

- the reserve requirement + excess reserves corresponding to the desirable level of short-term interest rates on the interbank money market,

- a calculation of the difference between the real amount of reserves for the elapsed period (from the beginning of the current reserve requirement cycle) and the average target demand for reserves for the remaining number of days till the end of the two-week reserve requirement cycle.

The volume of the CNB's open market operations equals the expected supply of reserves less the expected demand for reserves.

CNB instruments

Since December 1998, the CNB has fully harmonised all its open markets instruments with those of the ECB. The CNB uses the following four types of instruments plus the minimum reserve requirement.

Main instruments - the two-week repo rate and the three-month repo rate. The two-week limit repo rate is the main policy rate announced by the CNB. The three-month repo rate is taken from the market. Unlike the ECB, which supplies liquidity, the CNB usually withdraws systemic excess liquidity.

The CNB uses electronic media (Reuters, Bridge, Bloomberg and the Internet) to announce both the repo tenders and their results. Two-week repo tenders are announced daily and settled with same-day value. Three-month repo tenders are announced weekly on Tuesdays and settled with spot value.

Automatic facilities - a marginal overnight lending facility and a marginal overnight borrowing facility. The marginal lending rate (the Lombard rate) and the marginal borrowing rate (the discount rate) form the corridor for the two-week repo rate and short-term money market rates.

Under the end-of-day automatic lending facility, the CNB lends to banks on their request any amount of Czech koruna overnight on a collateralised basis. The deadline for a telephone/Reuters dealing request is 25 minutes before the end of the clearing day.

Under the deposit facility, banks may deposit overnight funds with the CNB on a collateralised basis. The deadline for a telephone/Reuters dealing request is 15 minutes before the end of the clearing day.

Fine-tuning operations - individual money market (deposit, repo), foreign exchange market and securities market operations at the CNB's discretion, at market rates and conditions.

Fine-tuning operations are used to smooth intraday volatility and/or to react quickly to non-preadvised flows, mainly coming from the government area. The Government is the most important client of the CNB, and flows resulting from tax, pension and certain salary payments may influence the financial flows going through government accounts with the CNB.

Structural operations - the CNB issues its own bills which are used as collateral for certain transactions, mainly because of the lack of other types of collateral. CNB bills can be used as eligible collateral for open market operations (both repo and the end-of-day facility) and to secure intraday credit to facilitate payments through the CNB's clearing system.

The intraday credit facility is available to all banks. The CNB charges no interest intraday. End-of-day spillover into the marginal overnight lending facility is possible at no penalty charge. The only acceptable collateral is where delivery-versus-payment is guaranteed and where information on collateral status is available in real time (currently bills settled in the TKD system owned and operated by the CNB).

The final CNB instrument is the minimum reserve requirement. At end-1999, the reserve requirement was 2% of primary deposits, non-remunerated, and averaging was permitted. The maintenance period was 14 days, ending every other Wednesday.

Financial markets

The interbank money market

The main instruments are (in order of volume traded): swaps, unsecured interbank deposits and, to a much lesser extent, repos and reverse repos. Daily liquidity is estimated at around CZK 50 billion (EUR 1.4 billion). The typical traded volume is CZK 100 million (EUR 2.8 billion). The money market curve goes to one year. The calculation agent collects daily quotes from the reference banks, calculates the PRIBOR, displays them on the numerous pages and screens of electronic data vendors, provides them to newspapers and stores them in a database.

The government bond market

The CNB organises regular auctions of book-entry T-bills as agent of the Ministry of Finance. The auctions are organised through a group of primary dealers participating in an auction. The issuance calendar is publicly available, e.g. on the Ministry of Finance website. At end-1999, the outstanding volume of T-bills was CZK 169 billion. The typical issue size is CZK 5 billion. On occasions, there are cash-management bills issued whereby issue dates and size may vary. T-bills are settled in the TKD system.

The CNB issues its own book-entry bills which are used as collateral for certain transactions, mainly because of the lack of other types of collateral. CNB bills can be used as eligible collateral for open market operations (both repo and the end-of-day refinancing facility) as well as to secure intraday credit to facilitate payments through the clearing system. At end-1999, the outstanding volume of CNB bills was CZK 400 billion. The typical issue size is CZK 200 billion. CNB bills are settled in the TKD system.

The CNB organises regular monthly auctions of government bonds (T-notes - two-year and five-year) as agent of the Ministry of Finance. The auction is organised through a group of primary dealers participating in an auction. The issuance calendar is publicly available, e.g. on the Ministry of Finance website. At end-1999, the outstanding volume of government bonds was CZK 77 billion. The typical issue size is CZK 5 billion. These bonds are settled at the Securities Centre (SC).

Other securities

Equities, corporate and municipal bonds and mortgage bonds are traded on the Prague Stock Exchange and, to a limited amount, over the counter and offshore. Both for shares and bonds, secondary market liquidity is good only for a very small number of issuers that disclose enough information to investors (typically telecommunications

companies, energy distribution companies, banks, several industrial companies, altogether not more than 10). All these securities are settled at the SC.

The foreign exchange market

The main instruments (in order of volume traded) are foreign exchange swaps, forwards, spots and, to a much lesser extent, foreign exchange options. The dominant currency pair is EUR/CZK for spots and USD/CZK for forwards and swaps. Daily liquidity is estimated at CZK 100 billion (EUR 3 billion). The typical traded volume in 1999 was EUR 3-5 million, with bid-offer spreads around 0.3%.

The CNB daily published 16 foreign exchange market rates and the calculated rates of 11 eurozone legacy currencies. These rates are used for non-commercial purposes, for example accounting and valuation.

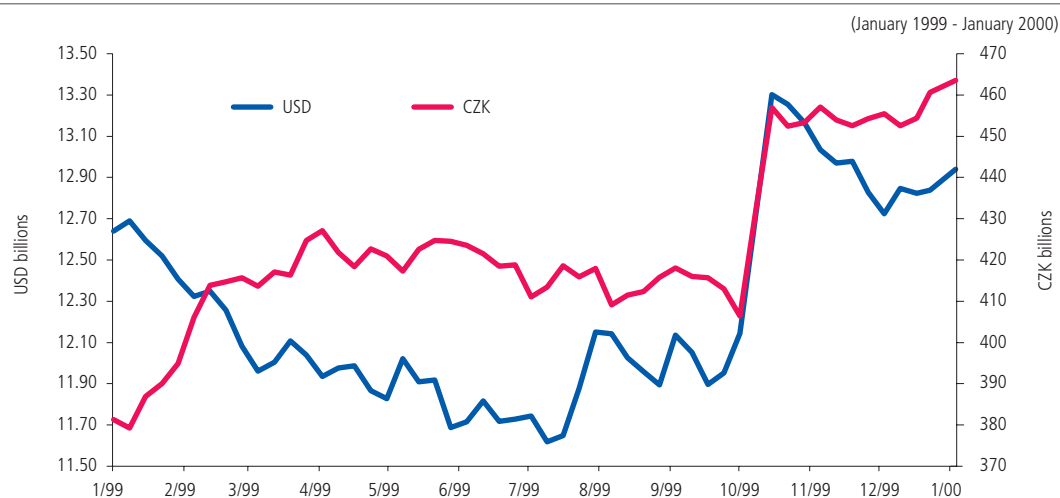
Derivatives

OTC derivatives - forwards, FRAs, IRSs and options - based on foreign exchange and money market products were available and rather liquid, and were quoted and traded both onshore and offshore. The typical traded volume in FRAs was CZK 300-500 million. The most liquid derivative market segment was the swap market, with maturities extending beyond ten years. No derivatives (futures or options) were traded on the Prague Stock Exchange. Several offshore stock exchanges (Vienna, Frankfurt) list basket options based on Czech equities. Some Czech shares were traded offshore in the form of Global/American Depository Receipts (GDRs/ADRs). Bond stripping is not yet allowed. Securities lending is not developed.

Management of the CNB's international reserves

The size of the international reserves managed by the Czech National Bank in 1999 was relatively stable in dollar terms. At the start of the year, the reserves stood at USD 12.6 billion; at the year-end they had increased to USD 12.9 billion. They were at their lowest level (USD 11.6 billion) in July 1999 and at their highest (USD 13.3 billion) in October 1999. The main factors affecting the size of the reserves in 1999 were the relative movements of foreign currency exchange rates (chiefly USD/EUR), external flows (exchange rate interventions, debt servicing) and, to a lesser extent, income from international reserves management. In koruna terms, the pattern was rather different; from CZK 381.3 billion at the beginning of the year, they had risen to CZK 464.6 billion at the close of the year (the highest value in 1999). The lowest value (CZK 377.3 billion) was reached in January 1999. As the charts show, the size of the reserves in koruna terms was affected most of all by the koruna's exchange rate against the euro and the dollar.

CHART VII.1 INTERNATIONAL RESERVES

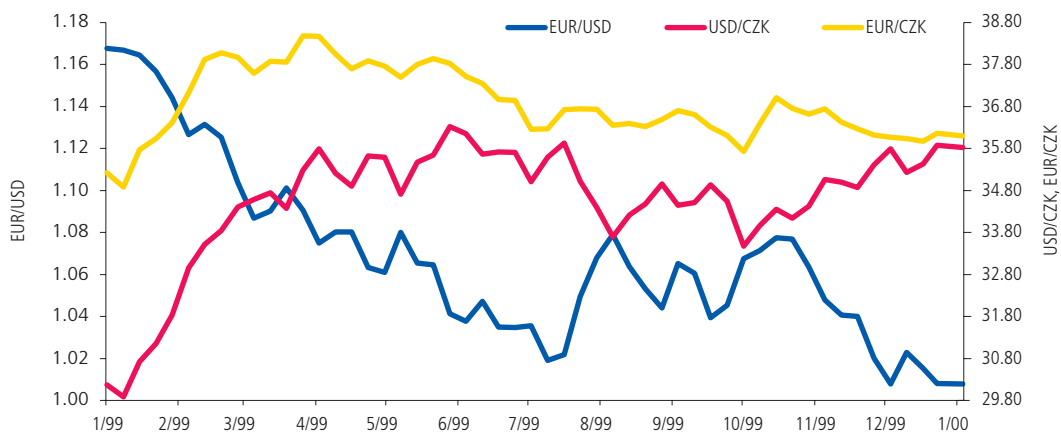


The international reserves are invested in high-quality assets (government or agency bonds, receivables from the best banks, etc.). The maximum investment maturity is 10 years for government bonds and 3-6 months for banking assets. In 1999, a small amount of the reserves (approximately 1%) was entrusted to institutional asset management companies in order to compare the CNB's own reserves management with that of an external independent manager. The return on assets managed internally was better than that on the externally managed assets in 1999.

The currency structure of the international reserves remained unchanged throughout 1999, i.e. 68.4% euros and 31.6% dollars. In each currency (euro and dollar), the reserves are managed separately. Their rate of return is measured separately in both relative and absolute terms. The relative rate of return on international reserves is measured against a benchmark portfolio, the structure of which reflects the CNB's reserve management requirements in terms of safety, liquidity and rate of return. The CNB's benchmark portfolios were created using external resources and historical data analysis. The rate of return on the individual euro and dollar portfolios, less external flows, seems to be the most suitable for measuring the absolute return on the international reserves. For aggregation, these returns are weighted by the relative size of the portfolios. In 1999, the return was 2.42% for the euro portfolio and 4.27% for the dollar portfolio. The weighted return on total international reserves in 1999 was 3.00%.

CHART VII.2 EUR/USD, USD/CZK AND EUR/CZK EXCHANGE RATES

(January 1999 - January 2000)



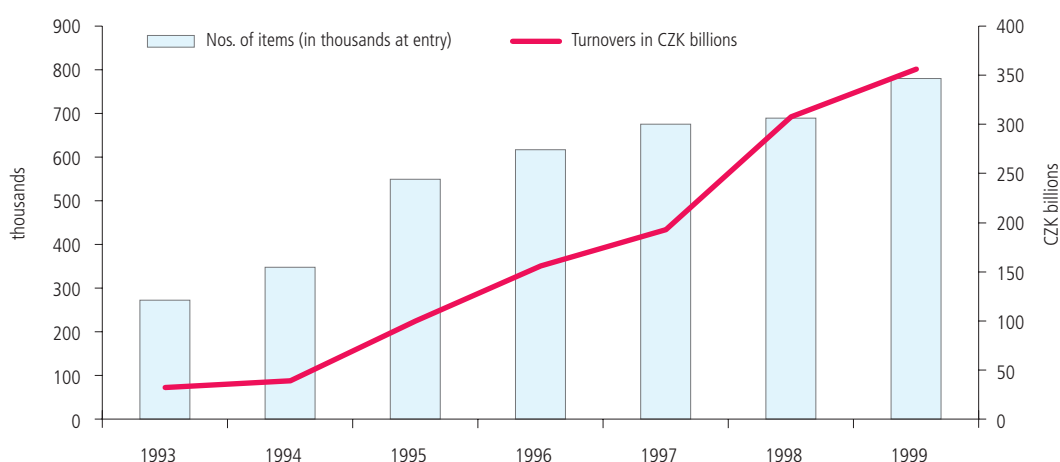
VIII. THE PAYMENT SYSTEM

VIII. THE PAYMENT SYSTEM



In 1999, as in the whole of the last decade, the non-cash payment system in the Czech Republic underwent a host of fundamental changes. The most important in this area at the start of the 1990s were the establishment of the commercial banking sector and the rapid development of automation. The central bank created an interbank payment system (often called the clearing system) ensuring equal conditions for all banks when settling both their own transactions and those of their clients. The main task of this system was - and still is - to carry out interbank transfers and to check their financial cover.

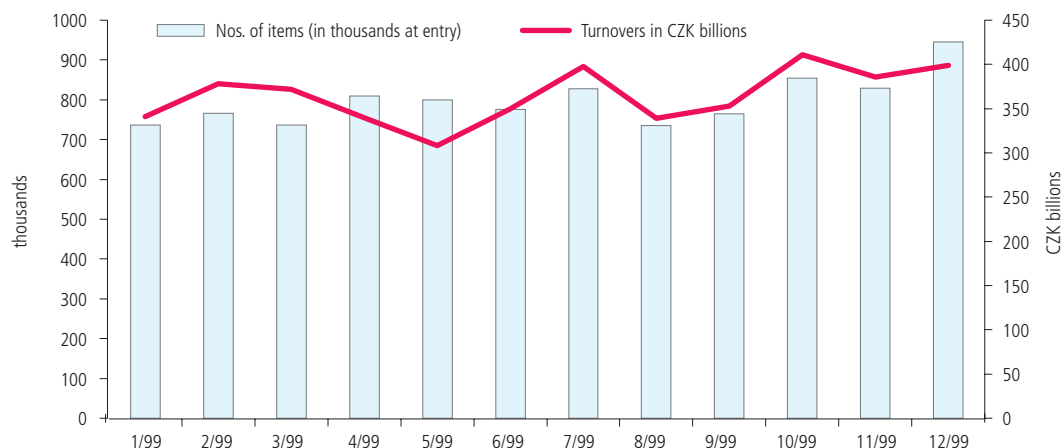
CHART VIII.1 INTERBANK PAYMENT STATISTICS 1993 - 1999



In 1999, the Czech National Bank put into operation the Clearing Centre Information System (ISCC). This system provides individual banks with real-time information about the balances on their interbank payment accounts and other data through secure dynamic and static Internet pages. For example, it gives detailed information on "priority items" - settled, rejected and "suspended" transactions (i.e. transactions suspended by the interbank payment system during the day because of momentary lack of funds; as soon as liquidity is supplied, they are immediately settled).

Thanks to this technology, individual banks are informed not only about their own activities within the system, but also about the operation of the system as a whole. At present, the system processes a daily average of over 800,000 transactions worth more than CZK 360 billion. The daily maximum as regards the number of items was achieved in May 1999, with 1,816,000 items processed. With respect to turnover, the maximum was recorded in October 1999, with more than CZK 648 billion transferred in a single day.

CHART VIII.2 INTERBANK PAYMENT STATISTICS 1999



The minimum reserves that banks are required to hold with the CNB were formerly used as a source of necessary liquidity to cover interbank transfers. The reserve requirement has gradually been reduced in recent years, reaching 2% of the volume of primary deposits in October 1999. In this connection, the CNB has introduced a new service: a collateralised intraday credit facility. Each bank can transfer part of its securities to its own special account and against this transfer the CNB extends short-term intraday credit to it. If this short-term credit is not repaid, the outstanding part is converted to an overnight credit; in addition, the following day the bank cannot handle those of its securities which served as collateral and were not repaid on time.

Short-term bonds with maturities of up to one year were chosen as eligible collateral. The CNB is responsible by law for operating the short-term bond register and the system supporting trading in such securities in the Czech Republic (the TKD system). This system works in real time and now also operates on line. Settlement of transactions is carried out gross on a continuous basis. Finality is reached at the moment of transfer of financial cover. Delivery versus payment is possible thanks to the link between the TKD system and the interbank payment system.

The number of transactions in the TKD system is not very high, on average about 100 a day. However, their volume is quite significant at more than CZK 60 billion a day.

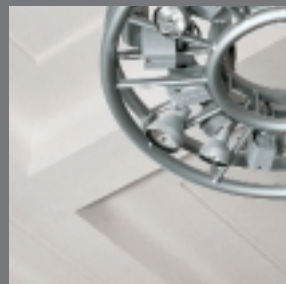
In addition to the above systems, the CNB of course operates its own accounting and payment system, the ABO (Automated Banking Operations) system. Through this system, the CNB not only carries on its own activities (maintaining accounts for commercial banks, its own accounts and accounts of its employees), but also provides a wide range of services for the state budget - thousands of accounts connected to the budget are also part of this system. Thanks in particular to the latter area, the ABO system plays an irreplaceable role. For example, wages in the public sector, pensions, social benefits and state investment payments are settled through ABO. Conversely, all tax payments come into the state budget via this system. The ABO system daily processes tens to hundreds of thousands of transactions worth hundreds of billions of koruna.

At present, the CNB is making fundamental changes to the system. The aim of this project is to step up the security of the system and to bring the accounting, which is currently carried out in only one batch per day, as close as possible to real time. In 1999, a new module was completed, tested and implemented (allowing accounting transactions to be inputted). This was one more step on the path towards meeting this aim.

A major task which the CNB, like many other institutions, had to deal with and which had a major effect on payment system automation was the preparation of all the aforementioned systems for the transition to the year 2000. The CNB started to tackle this problem at the beginning of 1998 in connection with the fundamental changes to the ABO system. In preparing for the year change, the CNB co-operated not only with the suppliers of the technology, but also with major international institutions. In order to verify the Y2K compliance of individual systems, a whole range of measures were taken, including a series of real tests of compliance with the active participation of individual financial and capital market entities. Another important measure was the CNB Board's decision to suspend operation of the interbank payment system, the TKD system and the ABO system on 31 December 1999 and 3 January 2000. In the area of interbank payments, this decision was enacted in CNB Decree No. 248/99 Coll. Thanks to the above measures, the CNB's systems experienced no problems with the transition to the year 2000.

IX. RECONSTRUCTION
OF THE CNB'S
HEADQUARTERS

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HEADQUARTERS



The aims of the investment project to reconstruct the CNB's headquarters in Prague 1 have been to prepare the bank for complete integration into the EU system, to build a money operations facility conforming with current needs, to ensure standard functioning and to repair the dilapidated buildings. The project has involved an overall reconstruction of and additions to the CNB buildings at 24, 26 and 28 Na Příkopě Street (the "bank building") and a general reconstruction of the adjoining building at 29-30 Senovážné Square, Prague 1 (the former Commodity Exchange).

The bank building, designed by František Roith, was built for Živnostenská banka between 1935 and 1942 on the site of the original Živnostenská banka building (built in 1900) and neighbouring hotels. The Roith building has been proposed for inclusion in the National Directory of Historical Monuments. It has been the home of the State Bank of Czechoslovakia and, latterly, the Czech National Bank since 1950.

The Commodity Exchange was built between 1893 and 1895. The architects, Bedřich Ohmann and Rudolf Krighammer, made extensive use of the Czech Neo-Renaissance style. An extension, designed by Bohumil Hypšman, was added in 1928-1929. After the exchange was closed in 1948, ownership was transferred to the State Bank of Czechoslovakia. In 1959, Czechoslovak Television set up its studios in the building. The Czech National Bank purchased the 100-year-old and severely dilapidated building in 1994. The Commodity Exchange is listed in the National Directory of Historical Monuments under registration no. 1826.

Reasons for the reconstruction

No substantial repairs had been made to the bank building in its entire existence. The comprehensive reconstruction needed had been put off since the 1980s and replaced with partial repairs. At the start of the 1990s, the reconstruction was again postponed to allow other more urgent and serious tasks to be dealt with (e.g. the splitting of the bank, building of branches, etc.). However, it became no longer possible to continue rectifying the structural and technological defects, state of disrepair and operational shortcomings of the building with partial repairs. For example, because of inadequate waterproofing, water was having to be constantly pumped out of the CNB's main vault. The risks ensuing from the state of the building for the smooth running of the central bank and of the banking system and economy as a whole had become far greater than the costs of comprehensive reconstruction. The building no longer met the requirements of a state central bank, nor did it meet the current operational, safety, hygiene and technological requirements for a bank building. The Commodity Exchange was taken over in 1994 in a completely dilapidated state. A comprehensive reconstruction was the only option for saving this historical monument.

The overall state of the headquarters building and the necessary extent of the construction and technological work made it impossible to carry out a gradual floor-by-floor reconstruction. The whole project had to be planned so that the operation of essential bank departments was not interrupted or restricted for a single hour. It was decided that the construction work must not interfere with the operations and security of the Czech National Bank and that the reconstruction must be carried out with maximum efficiency, at reasonable cost and to an optimum time schedule.

Preparation and progress of the reconstruction

Preparations for the reconstruction project began in 1992. The initial plans were drawn up by the UNISON production co-operative. The documentation for planning

permission, which took effect in November 1994, was prepared by A.D.O. There then followed a public tender (in which more than 30 firms took part) to select the general designer, which was won by HELIKA in August 1995. During 1995-1996, the construction design was updated and the general designer drew up the documents needed for the building permit. The building permit took effect in September 1996. This was followed by a two-round tender to choose the main contractor. In December 1996, Pozemní stavby Zlín-Group was declared the winner of this tender.

As part of the process to select the main contractor, the general designer prepared a technical and systems analysis based on pilot surveys and the building permit documentation. According to this, the reconstruction work was to have taken 20 months, with total relocation of the CNB's operations in the meantime. The contract for the reconstruction work was signed in January 1997. Advance work commenced during the first quarter of 1997 (the construction work proper started on 1 June 1997). Completion was scheduled for January 1999 with the official handover of the certificate of completion of the project. This was to have been followed by a period of test operation lasting at least 6 months and ending in September 1999.

However, further examinations, which could only be made after the buildings were fully vacated and all covered structures revealed, showed that the buildings required much more substantial reconstruction. The progress of the reconstruction work was also affected by additional CNB requirements arising from new legislation and from the development of special technology. These included the need to build a "demilitarised zone" (hardware and software protection of information systems and data communications at the CNB); the application of the Official Secrets Act to the security of buildings; changes in the intended use of some areas; and activities not directly connected with the CNB's core activities (the Banking Museum, the Congress Centre, etc.). The reconstruction was also affected by a number of extraordinary events, for example a fire in the Commodity Exchange in 1998. There were also less serious problems relating to a lack of space for the construction site, transport difficulties, other construction work going on in the area at the same time, the strict requirements of conservationists, etc. All this prolonged the reconstruction and increased the planned costs.

The extent and complexity of the reconstruction necessitated its division into seven units for inspection and approval. The first official certificate of completion was issued for the Commodity Exchange building and for the rental premises in the passage of the bank building. The final certificate - for the Banking Museum and some other areas of the bank building - took effect on 31 January 2000. At present, activation and integration of the control system for the buildings' technical facilities is under way and general tests are being carried out. Some technical equipment has started test operation. Staff, operations and equipment started to return to the reconstructed buildings at the end of 1999; this process should be completed during the second quarter of 2000.

Costs, financing and statistics

The reconstruction costs were planned at CZK 3.394 billion. The budget was based on a study of the condition of the buildings at the level of the project submitted for the building permit. The reconstruction costs currently amount to CZK 4.845 billion (CZK 2.420 billion in construction project costs; CZK 1.154 billion in costs for operational units; CZK 0.249 billion in costs for other units; and CZK 1.022 billion in other costs, i.e. site equipment and occupation, the main contractor's additional

completion charge, documentation, drawings, reviews, tests, manuals and operating rules, engineering activity, security services, insurance, budget reserves and other costs associated with the construction and not included in the above items). The extent and complexity of the reconstruction is also evidenced by the fact that the main contractor issued more than 1,050 modification certificates either at its own initiative or at the initiative of the CNB or general designer. These affected the costs and course of the reconstruction.

Of the total costs of CZK 4.845 billion, CZK 4.788 billion (excluding VAT) had been paid to the main contractor as of 31 March 2000 in the form of advances or tax payments based on preliminary tax documents, i.e. 98.8% of the contract price.

CHART IX.1 THE FINANCING OF THE CNB RECONSTRUCTION



In terms of both volume and use of special technologies, the reconstruction of the CNB's headquarters is one of the largest construction projects in the Czech Republic. It was divided into 10 construction projects, 44 operational units (technical equipment and special technology) and 10 other units (interior furnishings). The construction can be summarised with the following statistics:

- Area covered: 9,600 m² (bank building 7,700 m²; Commodity Exchange 1,900 m²);
- Volume enclosed: 316,000 m³ (bank building 258,000 m³; Commodity Exchange 58,000 m³);
- Special activities (clearing, dealing, computer centre) - before the reconstruction: 1,000 m²; after the reconstruction: 2,700 m²;
- Number of offices - before the reconstruction: 603; after the reconstruction: 516
- Area of repaired surfaces - plastered: 195,000 m²; painted: 202,000 m²; tiled floors: 45,000 m²; tiled walls: 12,000 m²;
- Number of windows, displays, doors and partition walls (repaired or new): 13,400;
- Number of light fittings: 12,000; number of electrical sockets: 8,900
- Length of distribution and circuitry systems - water system: 32 km; sewerage system: 15 km; data cables: 673 km; optical cables: 71 km;
- Number of lifts: 31

The present use of the CNB's buildings

From the point of view of architecture and construction, both buildings - the bank building and the Commodity Exchange - have been restored to their original condition. The whole reconstruction was strictly and systematically overseen by conservationists with respect to both the quality of work and the materials used. The "representativeness" of the buildings has been preserved, only the technical equipment is of a higher standard. The interior furnishings are of the normal standard for administrative buildings, i.e. of a lower standard than in commercial banks.

The complete reconstruction of the buildings testifies to the fine workmanship of Czech builders and craftsmen, and is a symbol of care for historical monuments. This is also confirmed by the positive response from the professional public. Prague city centre has gained another building representing Czech society as culturally advanced and respectful of traditions and values.

The CNB's operations are gradually moving back to the reconstructed bank building. The CNB is well prepared for the new conditions within the European Union. The bank hall will be used for client relations, particularly with organisations linked to the state budget. The public will be able to visit a unique permanent exhibition of legal tender.

All areas of the Commodity Exchange serve not only the CNB's needs but also those of the professional and general public (the Special Library, reading rooms, lecture halls, classrooms). The Congress Centre is a major asset. This can be rearranged internally as required to accommodate catering, interpreting, projection and other technical services.

X. CALENDAR OF EVENTS

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CALENDAR OF EVENTS 1999

1 JANUARY	The CNB sets the first CZK/EUR rate (CZK 35.226/EUR)
15 JANUARY	The Chamber of Deputies passes the state budget for 1999 with a planned deficit of CZK 31 billion. The CNB Bank Board lowers the two-week repo rate from 9.5% to 8.75% effective 18 January 1999
29 JANUARY	The CNB Bank Board lowers the two-week repo rate from 8.75% to 8.0%
4 FEBRUARY	Universal banka has its licence definitively revoked
11 FEBRUARY	President Havel appoints four new CNB Bank Board members with effect from 13 February. Oldřich Dědek, Zdeněk Tůma, Pavel Racoča and Pavel Štěpánek replace Jan Vít, Pavel Kysilka, Jiří Pospíšil and Ota Kaftan
1 MARCH	The NPF Presidium approves a capital increase of CZK 7.6 billion at Česká spořitelna to safeguard its stability
11 MARCH	The CNB Bank Board lowers all its key rates with effect from 12 March: the two-week repo rate by 0.5 percentage points to 7.5%, the discount rate by 1.5 percentage points to 6.0% and the Lombard rate by 2.5 percentage points to 10.0%
31 MARCH	The Government decides to establish a Revitalisation Agency (Revitalizační a.s.) within Konsolidační banka to implement its revitalisation programme
9 APRIL	The CNB Bank Board lowers the two-week repo rate by 0.3 percentage points to 7.2%
3 MAY	The CNB Bank Board lowers the two-week repo rate by 0.3 percentage points to 6.9% effective 4 May
10 MAY	The Government approves a strengthening of the state's stake in Komerční banka via a CZK 9.5 billion capital increase
17 MAY	The Government approves the updated version of the National Programme for the Preparation of the Czech Republic for Membership of the EU
20 MAY	The CNB Bank Board lowers the minimum reserve requirement from 5% to 2% effective 7 October 1999
21 MAY	The Chamber of Deputies approves a tax amendment lowering legal entity income tax from 35% to 31% and natural person income tax from 39% to 32% with effect from 1 January 2000
31 MAY	The Government decides to sell off its 66% stake in ČSOB to KBC Bank of Belgium for CZK 40.047 billion
3 JUNE	The Czech Republic hands over to the European Commission the National Programme for the Preparation of the Czech Republic for Membership of the EU
24 JUNE	The CNB Bank Board decides to lower the two-week repo rate from 6.9% to 6.5% effective 25 June

<i>2 JULY</i>	<i>The Chamber of Deputies approves the Czech Republic's final account for 1998 with a state budget deficit of over CZK 29 billion</i>
<i>20 JULY</i>	<i>At the request of Premier Zeman, President Havel recalls Minister of Finance Ivo Svoboda from office. His successor is Vice-Premier for the Economy Pavel Mertlík</i>
<i>29 JULY</i>	<i>The CNB Bank Board lowers the two-week repo rate from 6.5% to 6.25% effective 30 July</i>
<i>2 SEPTEMBER</i>	<i>The CNB Bank Board lowers the two-week repo rate from 6.25% to 6%, the Lombard rate from 10% to 8% and the discount rate from 6% to 5.5% effective 3 September</i>
<i>3 SEPTEMBER</i>	<i>The CNB Bank Board expels Moravia Banka from the stabilisation programme, which it joined in 1997. At the same time, the Board commences administrative proceedings to revoke its banking licence</i>
<i>23 SEPTEMBER</i>	<i>The CNB Bank Board decides to revoke the banking licence of Moravia Banka</i>
<i>4 OCTOBER</i>	<i>The CNB Bank Board decides to lower the two-week repo rate by 0.25 percentage points to 5.75% effective 5 October</i>
<i>18 OCTOBER</i>	<i>KoB signs an agreement with the Lazard-Latona consortium, the winner of the tender to select the administrator for the Revitalisation Agency</i>
<i>26 OCTOBER</i>	<i>The CNB Bank Board decides to lower the repo rate by 0.25 percentage points to 5.5% effective 27 October. At the same time it lowers the discount rate from 5.5% to 5.0% and the Lombard rate from 8% to 7.5%</i>
<i>4 NOVEMBER</i>	<i>The CNB Bank Board decides definitively to revoke the banking licence of Moravia Banka with effect from 9 November 1999</i>
<i>8 NOVEMBER</i>	<i>The Government decides to aid the privatisation of Česká spořitelna by selling its loss and doubtful loans to Konsolidační banka</i>
<i>25 NOVEMBER</i>	<i>The CNB Bank Board decides to lower the two-week repo rate from 5.5% to 5.25% effective 26 November</i>

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