Czech Republic: Core Statistical Indicators
(As of June 12, 2000)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Central Govern-ment Balance	GDP
Date of latest observation	6/12/00	5/31/00	5/31/00	5/31/00	4/00	6/12/00	5/00	4/00	00 Q1	5/00	Q4 2000
Date received	6/12/00	6/17/00	6/6/00	6/6/00	5/31/00	6/12/00	6/8/00	5/23/00	6/5/00	6/1/00	3/22/00
Frequency of data	Daily	Daily	10 days	10 days	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly
Frequency of reporting	Daily	Monthly	10 days	10 days	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly
Source of update	Reuters	CNB 1/	CNB	CNB	CNB	CNB	CSO 2/	CSO	CNB	MOF 3/	CSO
Mode of reporting	Electronic	Electronic	Mail/ Electronic	Mail/ Electronic	Mail/ Electronic	Electronic	Electronic	Electronic	Electronic	Electronic	Electronic
Confidentiality	No	No	No	No	No	No	No	No	No	No	No
Frequency of publication	Daily	Monthly	10 days	10 days	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly

1/ CNB = Czech National Bank.
2/ CSO = Czech Statistical Office.
3/ MOF = Ministry of Finance.

Statement by the IMF Staff Representative
July 26, 2000

1. This statement contains information which has become available since the staff report (SM/00/159) was issued. This information does not modify the thrust of the staff appraisal.

2. **Recent data continue to signal a solidifying economic recovery.** Real GDP expanded by 4.4 percent year-on-year in the first quarter of 2000 (up from 1 percent in the last quarter of 1999), although this partly reflected special factors including the leap-year effect and the low level of activity in the base period. Adjusting for additional working days, real GDP growth is estimated to have been a more moderate 2.9 percent. While all major demand components contributed to growth, the external sector made the largest contribution (nearly two-thirds) as export volumes surged ahead of imports. Private consumption grew modestly and, in contrast to previous quarters, fixed capital formation also expanded. Industrial production increased by 4.8 percent (year-on-year) in the first five months of 2000, with the fastest growth among large firms and companies with foreign strategic investors. However, activity in other sectors, including agriculture and construction, is subdued. The unemployment rate was unchanged in June from the previous month at 8.7 percent, but was slightly lower on a seasonally adjusted basis. Retail sales grew 8.4 percent and 6.1 percent (both year-on-year), in May and the first five months of this year, respectively.

3. **Rising oil prices boosted inflation and expanded the trade deficit during the first half of the year**. Sharply higher oil prices pushed inflation at the consumer level to 4.1 percent in the 12 months to June from 3.7 percent in May, while net inflation (excluding regulated prices and changes in indirect taxes) jumped half a percentage point to 2.6 percent. Also on the back of sharply higher oil prices, and notwithstanding strong growth in export volumes, the trade deficit rose substantially in May, bringing the cumulative trade deficit for the first five months of 2000 to CZK 31.6 billion (1.6 percent of annual GDP). The external current account deficit increased to 0.7 percent of annual GDP in the first quarter of 2000.

4. On the monetary policy area, the CNB has indicated that the recent activity and inflation data as well as the continued strength of the koruna vis-á-vis the euro have not significantly changed its short-term outlook for the Czech economy. It has thus kept its key two-week repo rate unchanged at 5.25 percent, and its most recent monetary policy meeting at the end of June noted that the exchange rate was "at a tolerable level." However, more recently, a senior official of the CNB made a public comment that the strengthening of the koruna vis-á-vis the euro was disturbing, and did not rule out intervention in the foreign exchange market.

5. On fiscal policy, the 2000 state budget remains on track, with less risk of overperformance than at the time of the mission. Good VAT revenue growth has balanced shortfalls elsewhere, but there are signs that VAT collections have begun to moderate. In addition, the strength of the U.S. dollar and payments for drought relief are expected to raise overall spending by about ¼ percent of GDP in 2000.

6. **Plans for the 2001 state budget are firming and include measures that would bring about a durable—albeit modest—improvement in public finances.** Cabinet approved two measures that, if agreed by parliament, would permanently improve the fiscal outlook. First, several items currently taxed at the 5 percent VAT rate would be transferred to the standard 22 percent category, which would yield an additional CZK 6.5 billion (⅓ percent of GDP) in revenues in 2001 and help align the tax system with EU requirements.[1] Second, lifetime pension benefits for early retirees are to be reduced below the level of benefits for those who retire at the normal retirement age, while benefits for late retirees will be raised. Although this reform would save only a small amount in the short run, it signals the authorities' willingness to begin to reform pension finances. Also in the area of pension reform, a proposal passed its first reading in parliament, which sets aside CZK 200 billion (10 percent of GDP) in privatization revenues to cover the shortfall in contributions to the existing PAYG system that would arise from setting up a system of private pension funds. However, this was opposed by the government, which plans to allocate CZK 40 billion to bolster the state-run PAYG system. A parliamentary commission to study pension reform was created in early July and is expected to present its recommendations by end-2001.

7. **Regarding the financial difficulties in Investiční a Poštovní banka (IPB), the rapid sale to a Belgian strategic investor—which was done without a competitive tender—has drawn fire from the opposition.** In a nearly unanimous vote, the lower house of parliament decided to form a special commission to investigate the events at IPB from the time of its establishment in the early 1990s until its sale in June 2000. The commission has been given one year to complete its report. According to estimates presented in a joint government-CNB report on the events at IPB, the impact on the Czech economy of an outright failure of the bank, as opposed to the chosen method of forced administration, would have been a drop in GDP of 2–4 percent.

8. **The lower house of parliament approved a number of amendments to the CNB Act on July 14.** Major changes include: (i) shifting the CNB's policy objective from currency stability to price stability; (ii) subjecting the CNB's operating budget (but not the budget to cover activities related to achieving its primary objective) to parliamentary approval; (iii) giving the government an exclusive power to nominate the CNB governor, vice-governors, and board members (whereas their appointment is made by the president as before); (iv) calling on the CNB to consult with the government when setting inflation targets and the exchange rate regime; and (v) aligning salaries of CNB employees with those of civil

---

[1] However, other items, including telecommunications, construction and energy for heating, which are currently taxed at the preferential rate, are required by the EU to be taxed at the higher rate.

servants. Proposals that would have required the CNB to consult with the cabinet on significant monetary policy decisions and permitted parliament to reject the CNB's monetary report were voted down, which reduced the concern expressed in the staff report to a certain extent. However, some of the approved amendments could potentially constrain the CNB's operational independence. The bill must be sent to the Senate and then the president for final approval.