

**FOR
AGENDA**

SM/09/8
Supplement 1

January 12, 2009

To: Members of the Executive Board

From: The Secretary

Subject: **Czech Republic—Staff Report for the 2008 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with the Czech Republic (SM/09/8, 1/12/09), which is tentatively scheduled for discussion on **Friday, January 30, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Czech Republic indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Thakur (ext. 34860) and Ms. Munoz (ext. 36653) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Central Bank forthwith; to the WTO Secretariat on Thursday, January 22, 2009; and to the European Bank for Reconstruction and Development, the European Commission, the European Investment Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

CZECH REPUBLIC

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by the European Department

January 9, 2009

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Appendix I. Czech Republic: Fund Relations
(As of November 30, 2008; unless specified otherwise)

I. **Membership Status:** Joined 1/01/1993; Article VIII

II. General Resources Account	<u>SDR Million</u>	<u>% Quota</u>
Quota	819.30	100.0
Fund holdings of currency	714.33	87.19
Reserve position in Fund	104.98	12.81

III. SDR Department:	<u>SDR Million</u>	<u>% Allocation</u>
Holdings	13.76	N/A

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-by	3/17/1993	3/16/1994	177.00	70.00

VI. **Projected Obligations to Fund:** None

VII. **Exchange Rate Arrangement:**

The currency of the Czech Republic is the Czech koruna, created on February 8, 1993 upon the dissolution of the currency union with the Slovak Republic, which had used the Czechoslovak koruna as its currency. From May 3, 1993 to May 27, 1997, the exchange rate was pegged to a basket of two currencies: the deutsche mark (65 percent) and the U.S. dollar (35 percent). On February 28, 1996, the Czech National Bank widened the exchange rate band from ± 0.5 percent to ± 7.5 percent around the central rate. On May 27, 1997, managed floating was introduced. In the *Annual Report on Exchange Arrangements and Exchange Restrictions*, the de facto exchange rate regime of the Czech Republic is classified as an independent float. Since 2002, the CNB has not engaged in direct interventions in the foreign exchange market. International reserves have been affected by the off-market purchases of large privatization receipts and EU transfers and the sales of the accumulated interest. On December 8, 2008, the exchange rate of the Czech koruna stood at CZK 19.895 per U.S. dollar.

The Czech Republic has accepted the obligations of Article VIII and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. The Czech Republic maintains exchange restrictions for security reasons, based on UN Security Council Resolutions and Council of the European Union Regulations, that have been notified to the Fund for approval under the procedures set forth in Executive Board Decision No. 144-(52/51).

VIII. Last Article IV Consultation:

The last Article IV consultation with the Czech Republic was concluded on January 23, 2008. The staff report and PIN were published on January 28, 2008.

IX. Technical Assistance: See attached table.

X. Implementation of HIPC Initiative: Not Applicable

XI. Safeguards Assessments: Not Applicable

Czech Republic: Technical Assistance, 1991–2005

Department	Timing	Purpose
FAD	Dec. 1991–Sept. 1993	Regular visits by FAD consultant on VAT administration
	March 1993	Public financial management
	September 1993	Follow-up visit on public financial management
	November 1993	Follow-up visit on public financial management
	January 1994	Follow-up visit on public financial management
	July 1994	Follow-up visit on public financial management
	May 1995	Follow-up visit by FAD consultant on VAT administration
	June 1995	Follow-up visit on public financial management
	June–July 1999	Follow-up visit by FAD consultant on VAT administration
		Medium-term fiscal framework
MCM	February 1992	Monetary management and research, foreign exchange operations, and banking supervision
	June 1992	Monetary research
	July 1992	Long-term resident expert assignment in the area of banking supervision (financed by EC-PHARE; supervised by the Fund)
	December 1992 and February 1993	Bond issuance and monetary management

	November 1993	Follow-up visit on bond issuance and monetary management and management of cash balances
	April 1994	Data management and monetary research
	January 1995	Foreign exchange laws (jointly with LEG) and external liberalization
	May 1995	Monetary operations
	May 1995	Banking system reform
	May 1996	Economic research
	April 1997	Banking legislation
	February–June 1999	Monetary research—inflation targeting
	June 1999	Integrated financial sector supervision (with WB)
RES	September 1999	Inflation targeting (financed by MFD)
	June–August 2000	Inflation targeting (financed by MFD)
	February–March 2005	Inflation targeting (financed by MFD)
STA	May 1993	Money and banking statistics
	February 1994	Balance of payments
	April 1994	Government finance
	November 1994	Money and banking statistics
	January–February 1999	Money and banking statistics
	May 2002	Monetary and financial statistics
	February 2003	Implementing GFSM 2001
	November 2006	GFSM 2001 Pilot Project

Appendix II: Statistical Issues

Data provision is adequate for surveillance. The Czech Republic subscribed to the Special Data Dissemination Standard in April 1998, and metadata and annual observance reports for 2006 and 2007 are posted on the Fund's Dissemination Standards Bulletin Board.

Data on core surveillance variables are available to the Fund regularly and with minimal lags (reporting to STA is less current, especially for foreign trade and the national accounts). Exchange rates and interest rates, set by the Czech National Bank (CNB), are reported daily with no lag. Gross and net international reserves are reported on a monthly basis with a one-week lag, as well as on a 10-day basis (with the CNB's balance sheet) with a one-week lag. Consumer prices, reserve money, broad money, borrowing and lending interest rates, central government fiscal accounts, and foreign trade are reported monthly with a lag of between one and four weeks. Final monetary survey data are available with a lag of about one month. GDP and balance of payments data are made available on a quarterly basis with a lag of two to three months. Since 2003, the main components of the balance of payments are also available monthly. Annual data published in the *Government Finance Statistics Yearbook* cover all operations of the general government, including the extrabudgetary funds excluded from the monthly data. These annual data are available on a timely basis. Monthly fiscal data published in *International Financial Statistics (IFS)* cover state budget accounts and are available with a two- to three-month lag.

While data quality is generally high, some deficiencies remain in certain areas, and the authorities are taking measures to improve data accuracy.

- National accounts data are subject to certain weaknesses. Value added in the small-scale private sector is likely to be underestimated, as the mechanisms for data collection on this sector are not yet fully developed and a significant proportion of unrecorded activity stems from tax evasion. Discrepancies between GDP estimates based on the production method and the expenditure method are large and are subsumed under change in stocks. Quarterly estimates of national accounts are derived from quarterly reports of enterprises and surveys. The estimates are subject to bias because of nonresponse (while annual reporting of bookkeeping accounts is mandatory for enterprises, quarterly reporting is not) and lumping of several expenditure categories in particular quarters by respondents. Large swings in individual components of spending and the overall GDP from quarter to quarter bring into question the reliability of the quarterly data and hamper business cycle analysis.
- Recently, revisions to procedures for processing export data have brought external trade statistics close to the practice in the EU. However, a continued weakness of foreign trade statistics is the unavailability of fixed base price indices for exports and imports; these indices are currently presented on the basis of the same month of the previous year.

- Monetary survey data provided to the European Department are generally adequate for policy purposes. However, large variations in the interbank clearing account float, especially at the end of the year, require caution in interpreting monetary developments. The CNB has made a major effort to identify the causes of these variations and adjust the data. In 2002, to meet EU statistical conventions, the CNB implemented the European Central Bank's (ECB) framework for collecting, compiling, and reporting monetary data. The data published in *IFS* are based on monetary accounts derived from the ECB's framework. The same set of accounts also forms the basis for monetary statistics published in the CNB's bulletins and on the website, which are thereby effectively harmonized with the monetary statistics published in *IFS*, although the presentation in *IFS* differs somewhat from the CNB's.
- Annual fiscal data on ESA-95 basis has been prepared by the Czech Statistical Office. Quarterly data for non-financial accounts have also been compiled and quarterly financial accounts are being prepared. The Ministry of Finance uses the ESA-95 methodology for the Convergence Program targets. The ESA-95 methodology differs from the national (fiscal targeting methodology) in terms of the coverage of the institutions (for example, the Czech Consolidation Agency is included in the central government under ESA definition) and inclusion of financial transactions and other accrual items (for example, called guarantees). The Ministry of Finance participated in the Fund's pilot project to transition to the statistical methodologies outlined in *Government Finance Statistics Manual, 2001*.

Czech Republic: Table of Common Indicators Required for Surveillance
As of October 27, 2008

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	9/30/08	9/30/08	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Sep. 2008	10/10/08	D	M	M
Reserve/Base Money	8/01/08	9/15/08	10 days	10 days	10 days
Broad Money	Aug. 2008	10/21/08	M	M	M
Central Bank Balance Sheet	8/01/08	9/15/08	10 days	10 days	10 days
Consolidated Balance Sheet of the Banking System	Aug. 2008	10/21/08	M	M	M
Interest Rates ²	9/30/08	9/30/08	D	D	D
Consumer Price Index	Sep. 2008	10/16/08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Dec. 2007	Jan. 2008	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	July 2008	Sep. 2008	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	July 2008	Sep. 2008	A	A	A
External Current Account Balance	2008 Q2	Sep. 2008	Q	Q	Q
Exports and Imports of Goods and Services	June 2008	Sep. 2008	M	M	M
GDP/GNP	2008 Q2	Sep. 2008	Q	Q	Q
Gross External Debt	2008 Q2	Sep. 2008	Q	Q	Q
International Investment Position ⁶	2008Q2	Sep 2008	Q	Q	Q

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Data for the state budget are available with monthly frequency and timeliness, while data on extra budgetary funds are available only on an annual basis.

⁵Including currency and maturity composition.

⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).