



Regulatory framework and approach

- Czech National Bank regulates exchange rate policy and is responsible for implementing monetary policy (<http://www.cnb.cz>).
- The major monetary policy tool of the CNB are the 2W liquidity-absorbing open-market operations. The repo is competitive and the CNB accepts bids up to the level of the policy rate and to the level of the expected liquidity surplus. The CNB has an interest rate corridor that regulates volatility in money market rates. Fine-tuning instruments are used ad hoc, mainly to smooth "unexpected liquidity fluctuations" in the market. In addition, depository institutions are subject to a 2% minimum reserve requirement.
- FX interventions are purchases or sales of foreign currencies against the Czech koruna on the foreign exchange market by the CNB. They are aimed at dampening foreign exchange market volatility and/or easing/tightening monetary policy. FX interventions are not a regularly used instrument in the inflation targeting regime. The standard instrument is interest rates.

CZK products

FX spot

Avg. ticket size:	EUR 10mn
Bid/ask spread:	CZK 0.01
Avg. daily volume:	EUR 0.5-0.7bn
Ref. source:	ECB fixing <ECB37>
Trading hours:	8:30-16:30 London

FX forward/swap

Avg. ticket size:	USD 10mn (FX forwards); USD 100mn (FX swaps up to 3M), USD 30mn (swaps up to 1Y)
Liquid Tenors:	<1Y
Avg. daily volume:	USD 4.2bn (FX forwards + FX swaps)
Bid/ask spread:	CZK 0.01-0.07

FX options

Avg. ticket size:	EUR 10mn
Liquid tenors:	<1Y
Avg. daily volume:	USD 100mn
Bid/ask spread:	1.0 vol

IRS + FRA

Avg. ticket size:	USD 10-20k DV01
Liquid tenors:	IRS 1Y-10Y and FRAs out to 9X12
Avg. daily volume:	USD 50-150k DV01 across the curve
Bid/ask spread:	2-3bps
Fixing:	3M PRIBOR for 1Y IRS; 6M PRIBOR for IRS 2Y+
Ref source:	Reuters Page <PRIBOR=>

Government T-bills and bonds

Regulatory:	Bonds are bearer securities and are held in the Prague Securities Centre; investors need to arrange access through their custodian. There are no restrictions on non-resident investors. Interest is taxed at 15% but this can be reduced or eliminated with double-taxation treaties.
Liquidity:	3Y-10Y
Avg. ticket size:	USD 1-3mn
Bid/ask spread:	5bp
Avg. daily volume:	USD 10-50mn