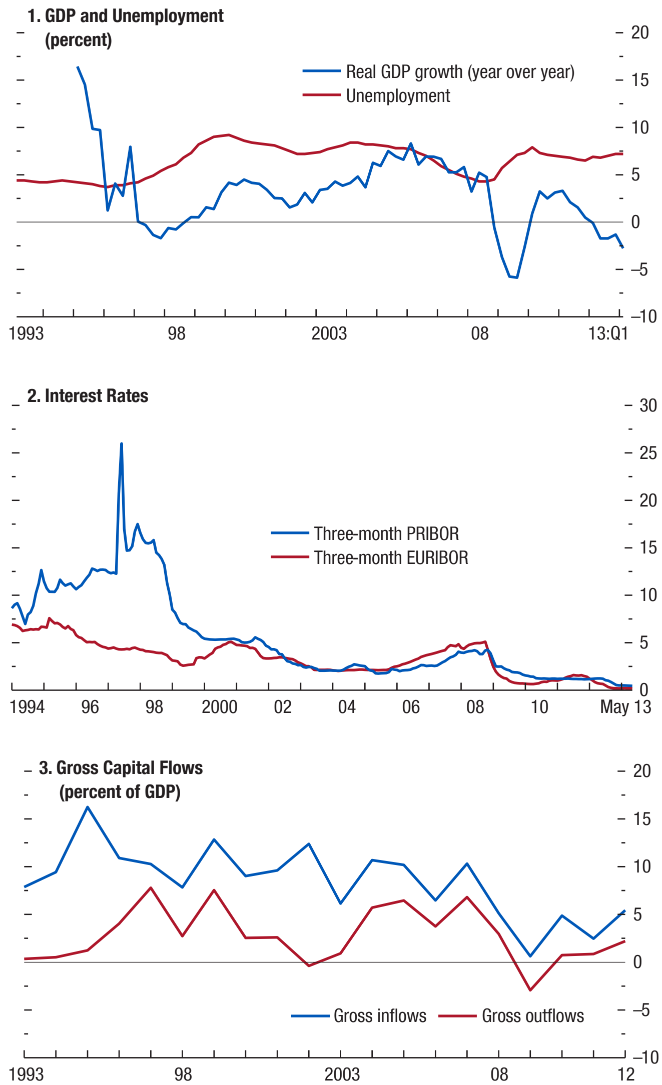
Figure 4.8. The Czech Republic

After a recession in 1997, the Czech Republic adopted a policy mix of inflation targeting, floating exchange rates, free capital flows, and credible fiscal policy. The interest rate differentials, which had previously been very high, declined to practically zero. Consequently, and in contrast with a number of other central and eastern European countries, there were few incentives for foreign currency borrowing, and most capital inflows were foreign direct investment. As a result, the Czech economy was much more resilient to capital inflow fluctuations. The drop in capital inflows associated with the global financial crisis was matched by a reduction in outflows, which lent stability to net flows.



Sources: Haver Analytics; IMF, *Balance of Payments Statistics;* IMF, *International Financial Statistics;* PRS Group, Inc., *International Country Risk Guide;* and IMF staff calculations.
Note: EURIBOR = euro interbank offered rate; PRIBOR = Prague interbank offered rate.