



Czech Republic

The Czech koruna (crown) replaced the Czechoslovak koruna at par on 8th February 1993. The koruna has been free floating since Jan 1997, when the managed float regime was abolished. Prior to January 1997, the koruna was managed against a basket of USD and DEM with intervention bands of +/-7.5% around central parity. The foreign exchange regime was fully liberalized in 1999.

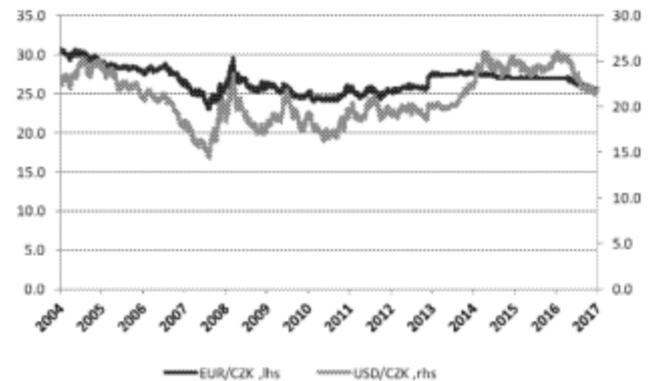
The koruna is fully deliverable and convertible. Spot is liquid in both USD/CZK and EUR/CZK but EUR/CZK is the dominant cross with around 85% of transaction volume. EUR/CZK has also taken-over from USD/CZK as the most important cross in the FX forward and options market.

Czech Republic joined the EU in 2004 and therefore has a commitment to join the Euro at an unspecified future date. In order to enter the Eurozone, it must first meet all Maastricht criteria.

The primary objective of the Ceska Narodni Banka (CNB) is to maintain price stability, as defined by a target of 2% +/-1%. Policy decisions are made by the seven-member Board which meets eight times per year.

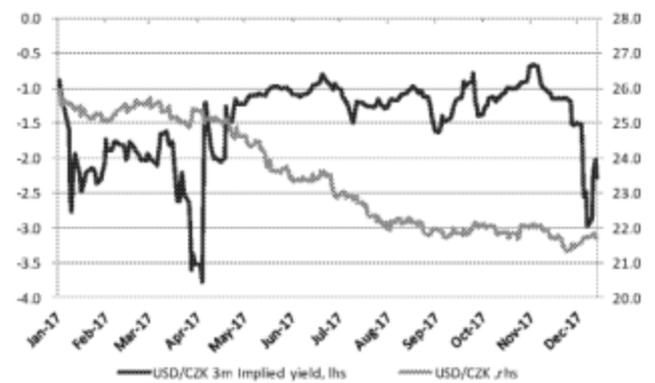
On 7 November 2013 the CNB Bank Board adopted a one-sided exchange rate commitment set at CZK 27 to the euro. The commitment lasted until 6 Apr 2017 when the Board decided to end the commitment at an extraordinary monetary policy meeting. The discontinuation of the exchange rate commitment means that the koruna exchange rate now moves according to supply and demand on the foreign exchange market.

USD/CZK and EUR/CZK exchange rates



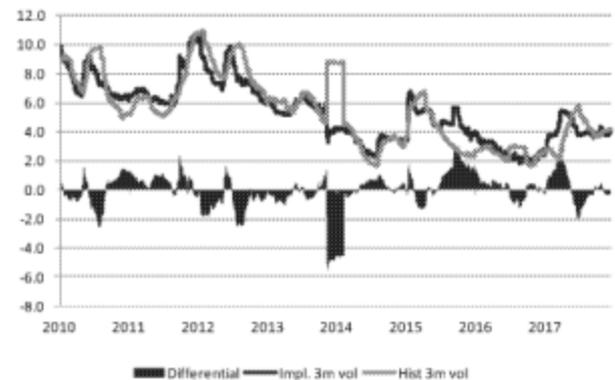
Source: Deutsche Bank, Bloomberg Finance LP

USD/CZK and 3M implied yields



Source: Deutsche Bank

EUR/CZK implied and historical volatility



Source: Deutsche Bank, Bloomberg Finance LP