Press Conference of the CNB Bank Board
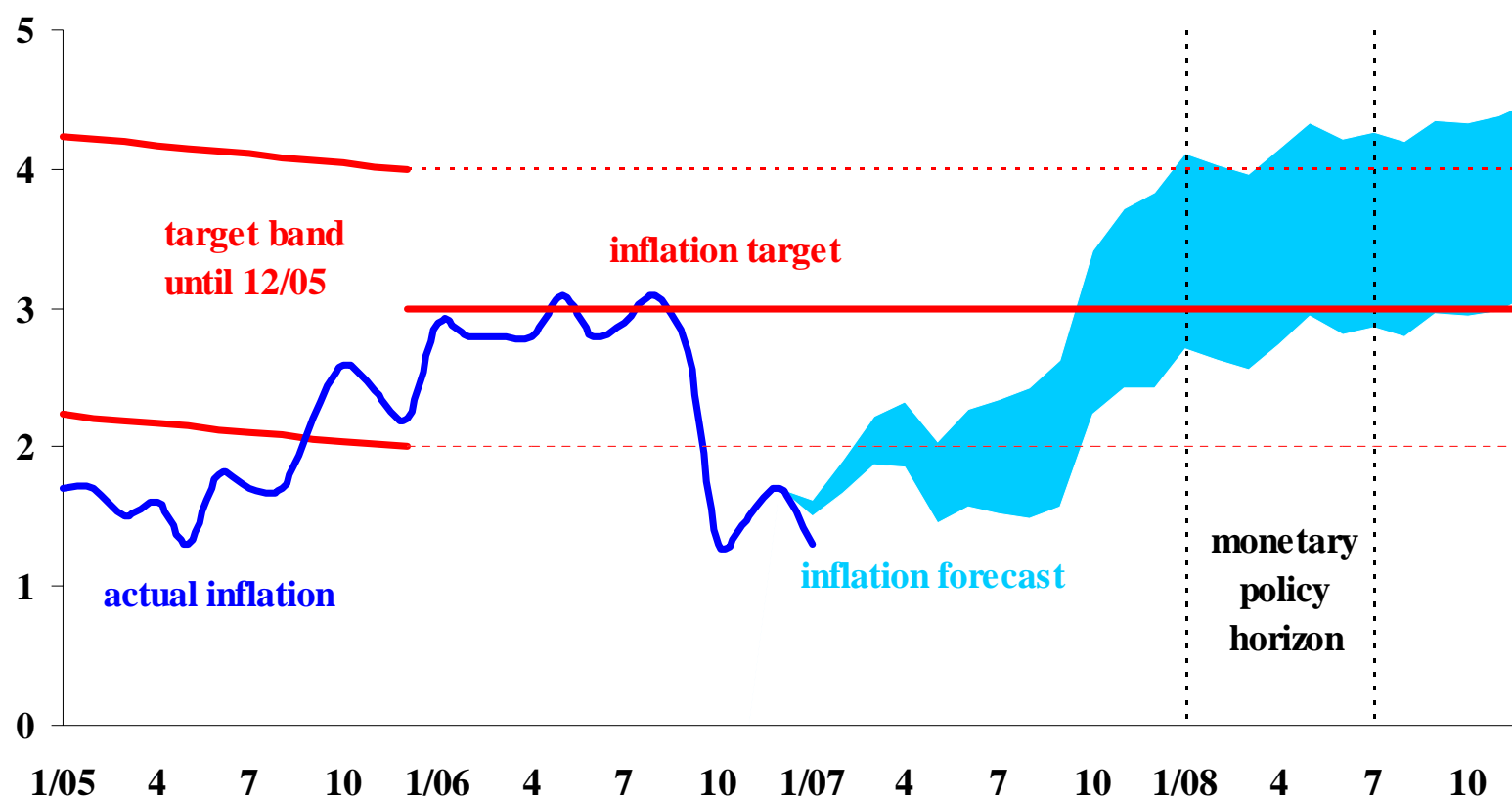
2nd Situation Report on Economic and Monetary Developments
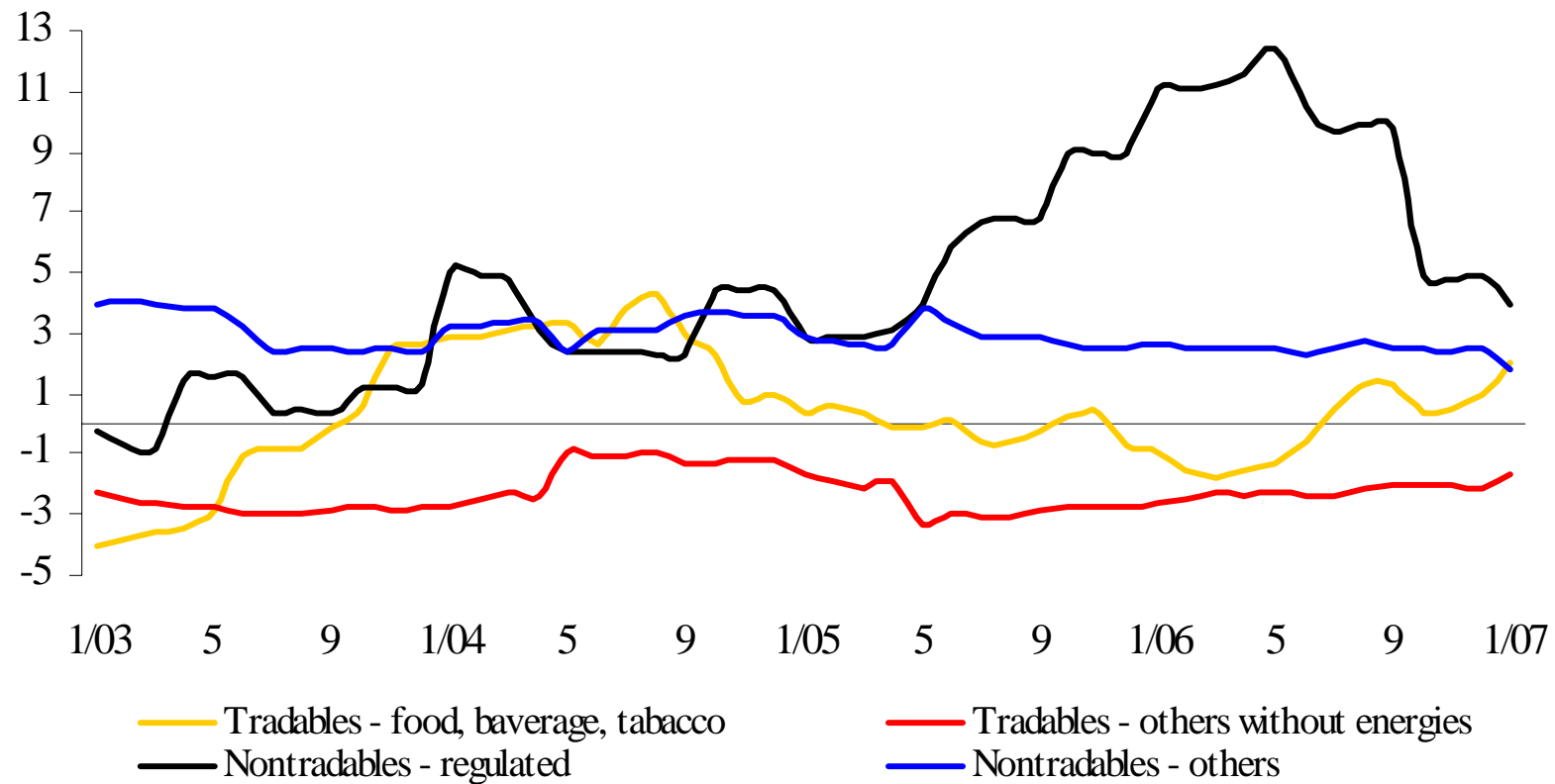
1 March 2007

CZECH **CNB** NATIONAL BANK

The monetary policy decision taken and the ratio of the votes cast

At the close of the meeting, the Board decided to leave the CNB two-week repo rate unchanged at 2.50 %. All seven board members present voted in favour of this decision.

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The January inflation forecast and actual inflation in January 2007

A closer look at inflation

Legend:
- Tradables - food, baverage, tabacco
- Tradables - others without energies
- Nontradables - regulated
- Nontradables - others

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The external environment

Comparison between the January forecast assumptions and February outlook based on Consensus Forecasts survey and market expectations

		2007	2008
Effective indicator of consumer prices in the euro area (percentages)	forecast	2.1	1.7
	CF - Feb	1.9	1.7
Effective indicator of producer prices in the euro area (percentages)	forecast	2.3	2.3
	CF - Feb	2.3	1.9
Effective indicator of GDP in the euro area (percentages)	forecast	1.8	1.9
	CF - Feb	1.9	2.1
Price of Brent crude oil (USD/barrel)	forecast	64.7	67.7
	market - Feb	58.7	62.8
Price of petrol (USD/t)	forecast	594.1	645.7
	market - Feb	545.3	594.0
USD/EUR exchange rate (level)	forecast	1.32	1.30
	CF - Feb	1.31	1.31
1Y EURIBOR (percentages)	forecast	3.9	3.8
	market - Feb	4.1	4.1

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Other new data since the Board's previous monetary meeting

- *Price indicators:*
  - annual **industrial producer price inflation** in January (2.8 %)
  - annual **agricultural producer price inflation** in January (11.8 %)

- *Leading indicators of growth:*
  - annual growth in **retail sales** in December (4.4 %)
  - annual growth in **industrial production** in December (3.0 %)
  - annual growth in **construction production** in December (15.4 %)

- *External balance:*
  - **trade balance** in December (CZK -3.2 billion)

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Major uncertainties of the forecast

The forecast risks are balanced.

- shift in outlook of external developments slightly on the upside

- weaker actual koruna exchange rate compared to the forecast

- lower January inflation acts in the opposite direction

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