

# Press Conference of the CNB Bank Board

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## 3rd Situation Report on Economic and Monetary Developments

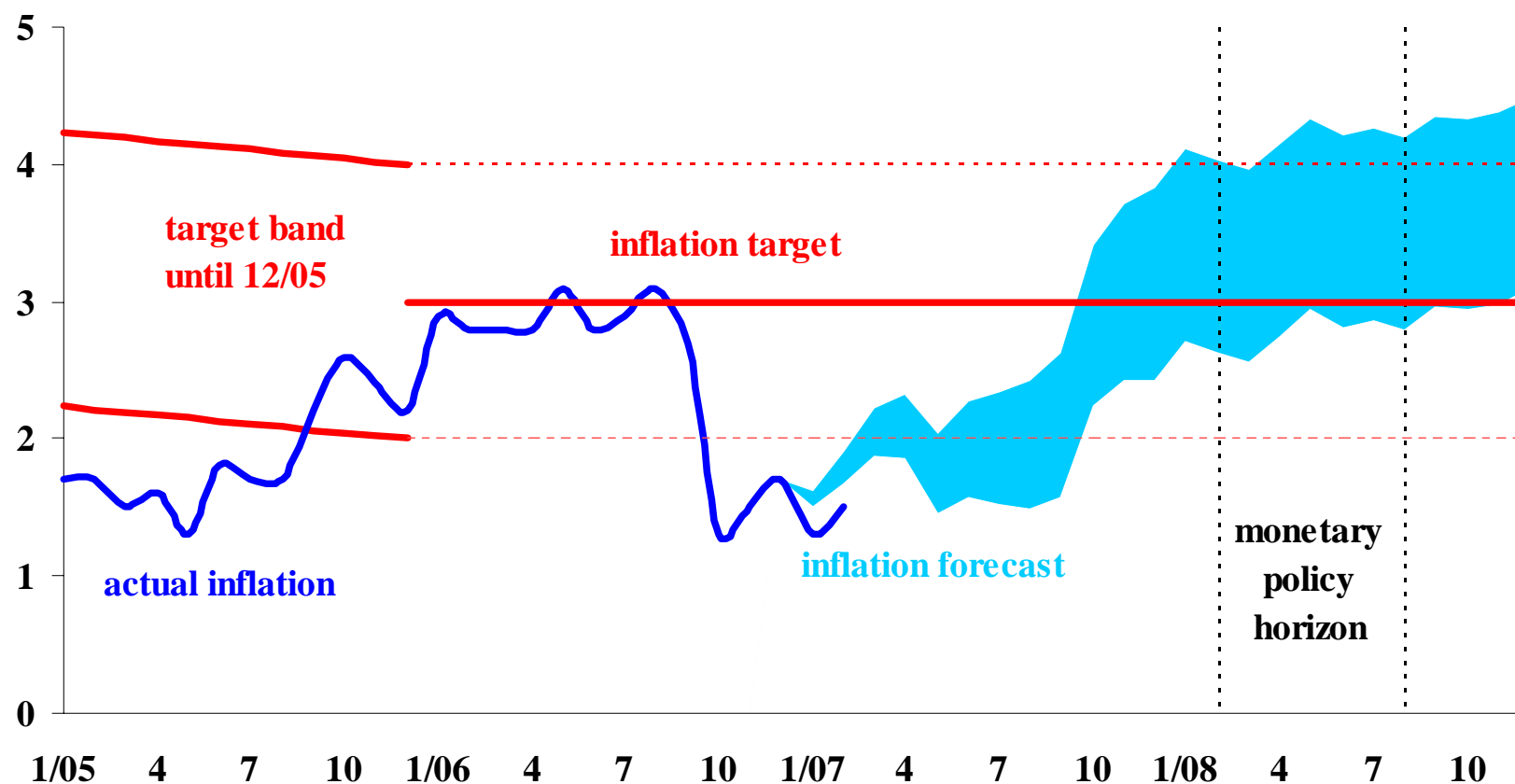
29 March 2007

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

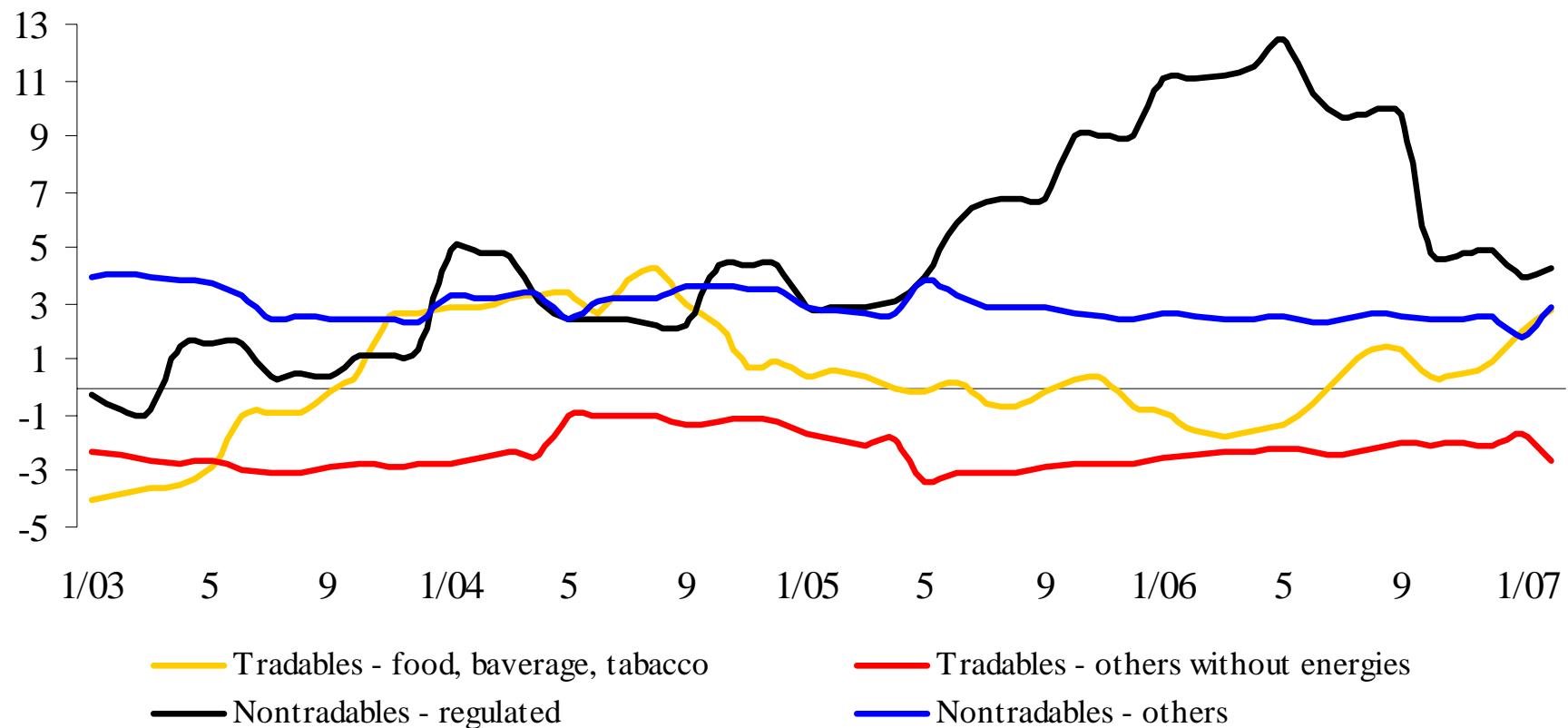
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*After discussing the situation report, the Board decided unanimously to leave the two-week repo rate unchanged at 2.50%.*

# *The January inflation forecast and actual inflation in February 2007*



## *A closer look at inflation*



## *The external environment*

### **Comparison between the January forecast assumptions and March 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 - Mar	1.8	1.7
Effective indicator of producer prices in the euro area (percentages)	forecast	2.3	2.3
	CF - Mar	2.2	1.9
Effective indicator of GDP in the euro area (percentages)	forecast	1.8	1.9
	CF - Mar	2.2	2.2
Price of Brent crude oil (USD/barrel)	forecast	64.7	67.7
	market - Mar	61.3	65.5
Price of petrol (USD/t)	forecast	594.1	645.7
	market - Mar	580.8	618.8
USD/EUR exchange rate (level)	forecast	1.32	1.30
	CF - Mar	1.31	1.31
1Y EURIBOR (percentages)	forecast	3.9	3.8
	market - Mar	4.1	4.0

## *Other new data since the Board's previous monetary meeting*

- Price indicators:
  - annual **industrial producer price inflation** in February (3.2 %)
  - annual **agricultural producer price inflation** in February (13.0 %)
- GDP:
  - annual GDP growth in 2006 Q4 (5.8 %) and in 2006 (6.1 %)
- Leading indicators of growth:
  - annual growth in **retail sales** in January (7.7 %)
  - annual growth in **industrial production** in January (9.8 %)
  - annual growth in **construction production** in January (29.2 %)
- External balance:
  - **trade balance** in January (CZK 11.0 billion)
- Labour market:
  - annual growth in **average nominal wage** in 2006 Q4 (6.2 %) and in 2006 (6.5 %)

# *Major uncertainties of the forecast*

## **The forecast risks are balanced.**

- Risks on the upside:
  - shift in outlook of external developments
  - weaker actual koruna exchange rate compared to the forecast
  - planned rise in reduced VAT rate (only secondary impact, primary impact among caveats)
- Risks on the downside:
  - lower February inflation
  - possible milder and/or delayed impact of increased excise duties on tobacco products on consumer prices
  - upcoming fiscal reforms