

Press Conference of the CNB Bank Board

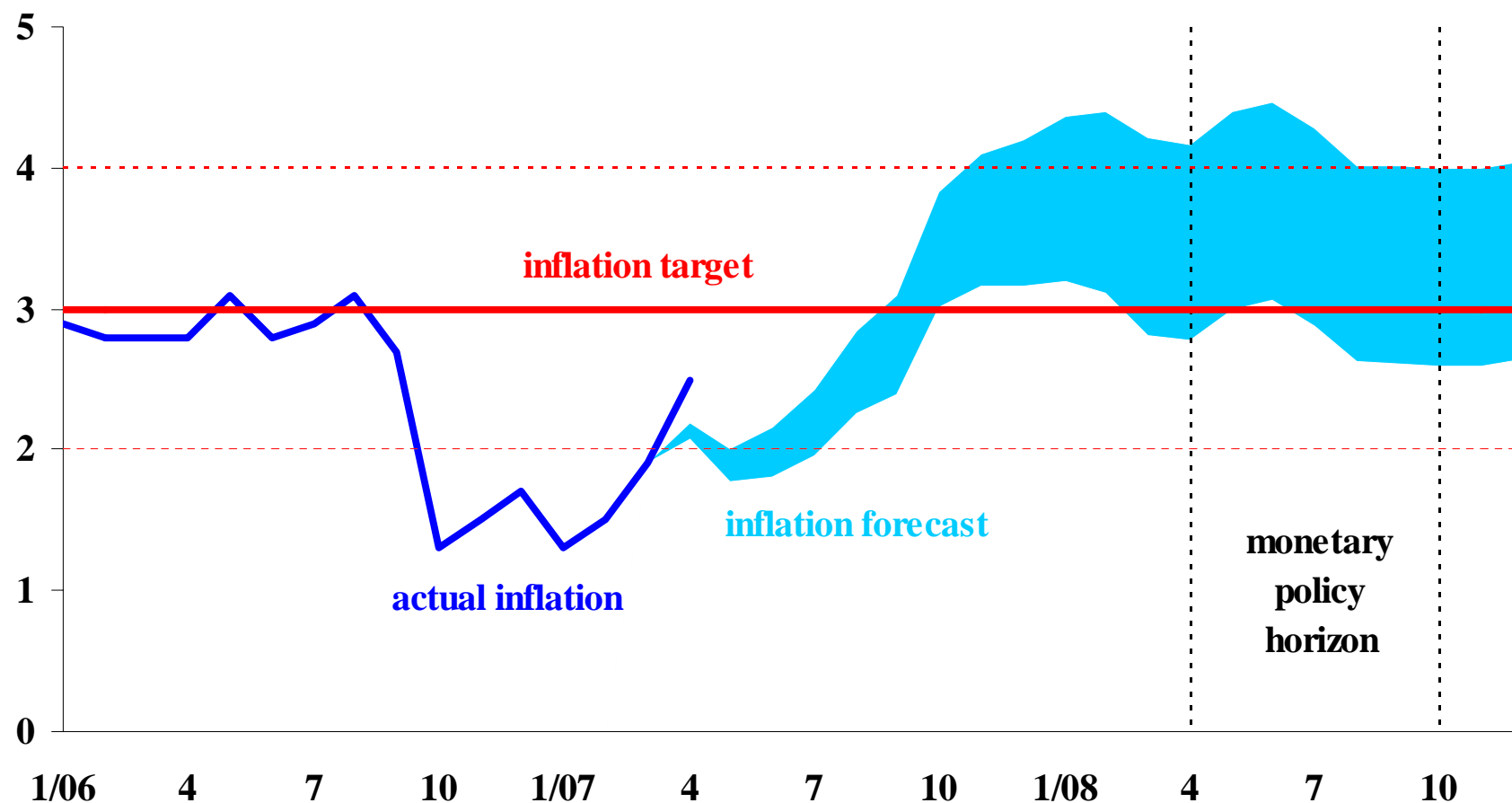
5th Situation Report on Economic and Monetary Developments

31 May 2007

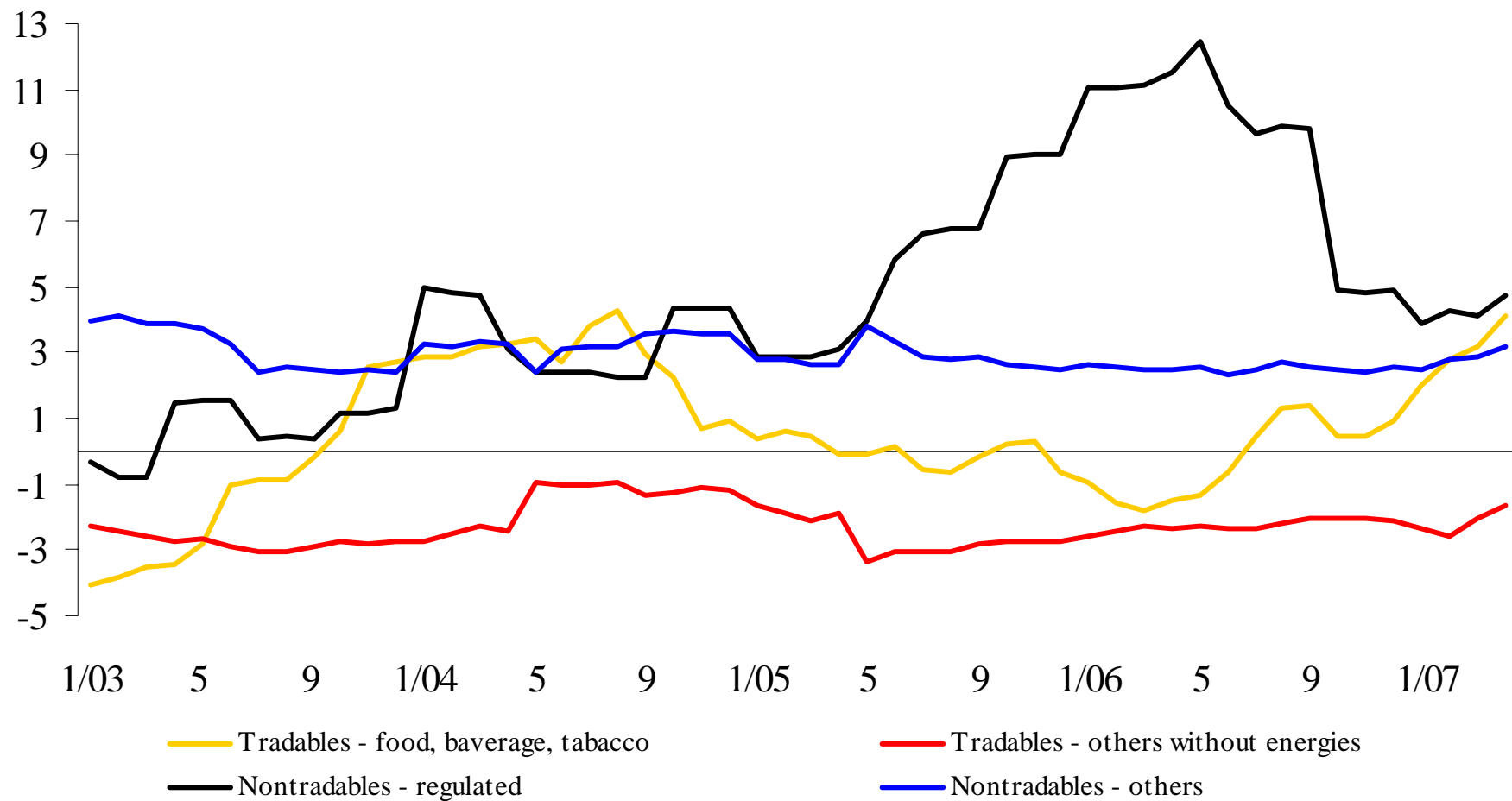
The monetary policy decision taken and the ratio of the votes cast

At the close of the meeting the Board decided to increase the CNB two-week repo rate by 0.25 percentage points to 2.75 %, effective 1 June 2007. At the same time it decided to increase the discount rate and Lombard rate by the same amount, to 1.75 % and 3.75 % respectively. Three members voted in favour of this decision, and three members voted for leaving rates unchanged. In compliance with the Bank Board's Rules of Procedure the chairman casts the decisive vote for a tie-vote situation.

The April inflation forecast and actual inflation in April 2007



A closer look at inflation



The external environment

Comparison between the April forecast assumptions and May outlook based on Consensus Forecasts survey and market expectations

		2007	2008
Effective indicator of consumer prices in the euro area (percentages)	forecast	1.8	1.7
	CF - May	1.8	1.7
Effective indicator of producer prices in the euro area (percentages)	forecast	2.2	1.9
	CF - May	2.1	2.1
Effective indicator of GDP in the euro area (percentages)	forecast	2.2	2.2
	CF - May	2.5	2.3
Price of Brent crude oil (USD/barrel)	forecast	61.6	65.5
	market - May	65.3	70.1
Price of petrol (USD/t)	forecast	586.2	621.1
	market - May	659.4	661.7
USD/EUR exchange rate (level)	forecast	1.32	1.31
	CF - May	1.34	1.34
1Y EURIBOR (percentages)	forecast	4.1	4.0
	market - May	4.3	4.4

Other new data since the Board's previous monetary meeting

- Price indicators:
 - annual **industrial producer price inflation** in April (3.7 %)
 - annual **agricultural producer price inflation** in April (12.5 %)
- Indicators of growth:
 - annual growth in **retail sales** in March (10.5 %)
 - annual growth in **industrial production** in March (12.7 %)
 - annual growth in **construction production** in March (26.4 %)
- External balance:
 - **trade balance** in March (CZK 12.4 billion)

Major uncertainties of the forecast

The forecast risks are moderately on the upside.

- higher inflation in April
- higher expected inflationary pressures resulting from the real economy
- economic activity and interest rate developments in the euro area
- slightly weaker CZK/EUR exchange rate