6th Situation Report on Economic and Monetary Developments

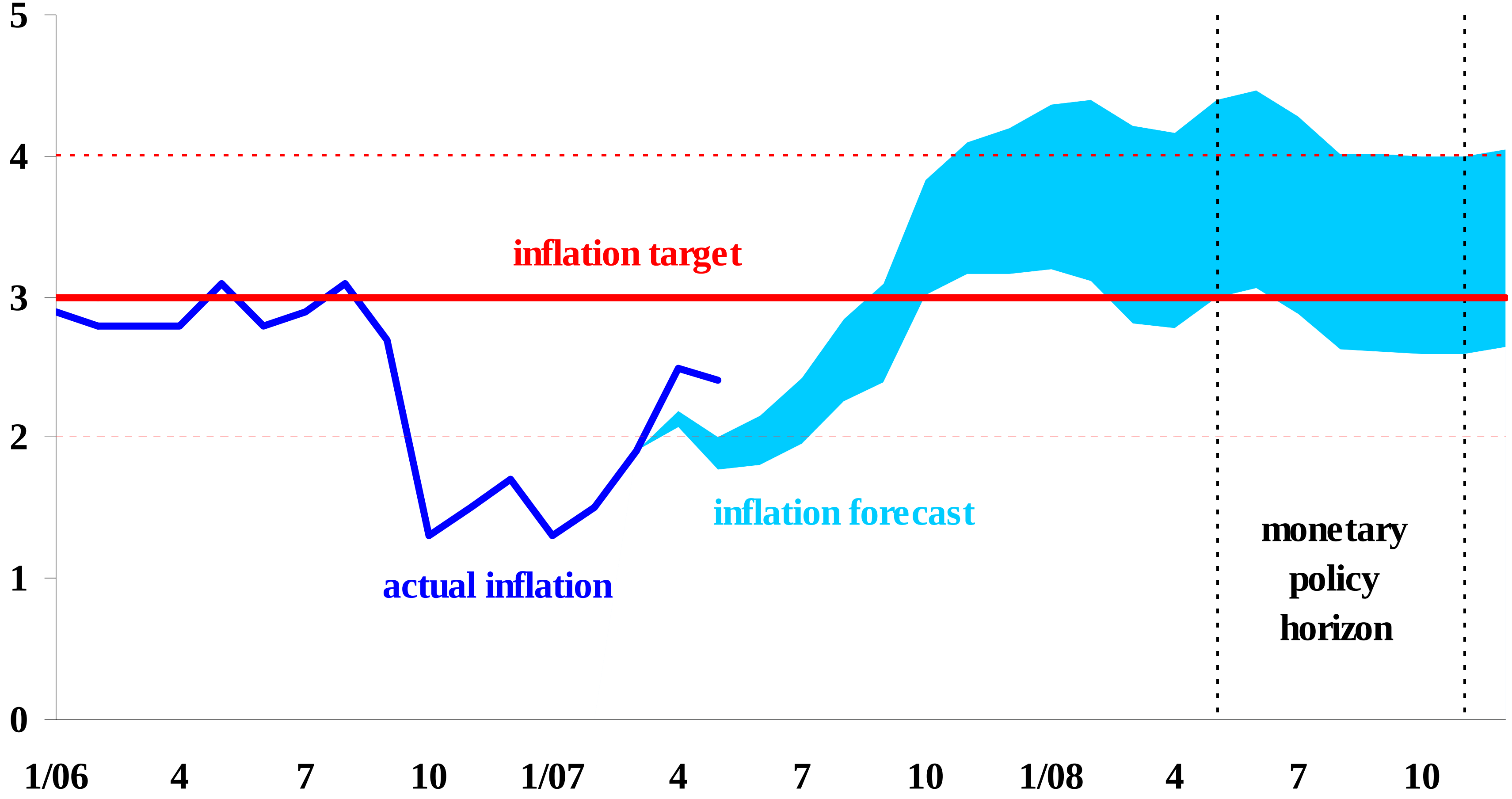
28 June 2007

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 by a majority vote to leave the CNB two-week repo rate unchanged at 2.75%. Four members voted in favour of this decision, and one member voted for increasing rates by 0.25 of a percentage point.

The April inflation forecast and actual inflation in May 2007



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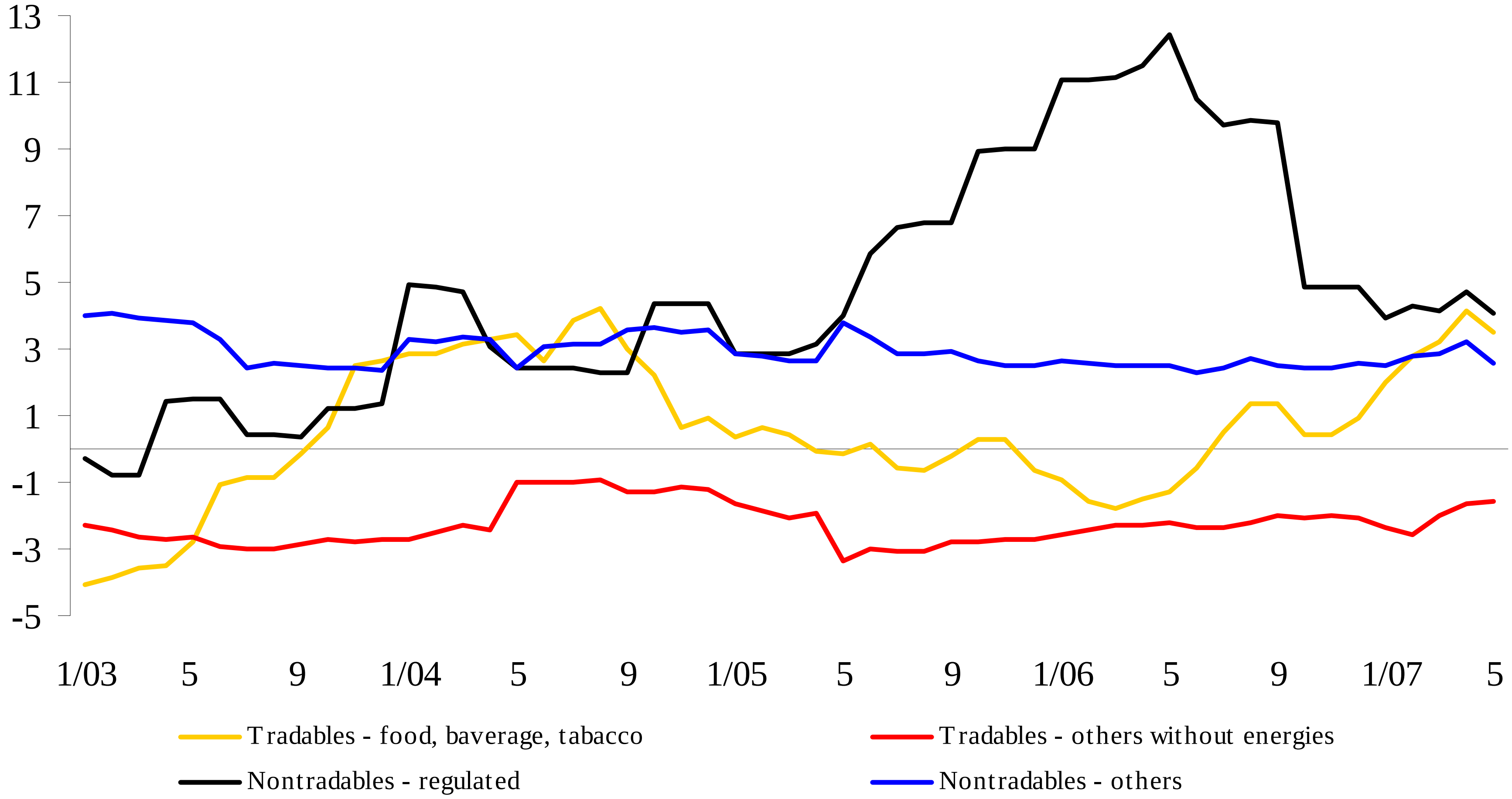
A closer look at inflation



The external environment

Comparison between the April forecast assumptions and June 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 - June	1.9	1.7
Effective indicator of producer prices in the euro area (percentages)	forecast	2.2	1.9
	CF - June	2.2	2.1
Effective indicator of GDP in the euro area (percentages)	forecast	2.2	2.2
	CF - June	2.7	2.3
Price of Brent crude oil (USD/barrel)	forecast	61.6	65.5
	market - June	66.7	72.3
Price of petrol (USD/t)	forecast	586.2	621.1
	market - June	656.3	673.7
USD/EUR exchange rate (level)	forecast	1.32	1.31
	CF - June	1.34	1.34
1Y EURIBOR (percentages)	forecast	4.1	4.0
	market - June	4.4	4.7

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Other new data since the Board's previous monetary meeting

- *Price indicators:*
  - annual **industrial producer price inflation** in May (4.1 %)
  - annual **agricultural producer price inflation** in May (12.1 %)
- *GDP:*
  - annual **GDP** growth in 2007 Q1 (6.1 %)
- *Leading indicators of growth:*
  - annual growth in **retail sales** in April (8.1 %)
  - annual growth in **industrial production** in April (14.0 %)
  - annual growth in **construction production** in April (17.6 %)
- *External balance:*
  - **trade balance** in April (CZK 3.0 billion)
- *Labour market:*
  - annual growth in **average nominal wage** in 2007 Q1 (7.8 %; in business sector 8.3 %)

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Major uncertainties of the forecast

The forecast risks are on the upside.

- higher actual and expected inflationary pressures resulting from the real economy, mainly from the labour market
- economic activity and interest rate developments in the euro area
- higher inflation in May
- weaker CZK/EUR exchange rate