

Press Conference of the CNB Bank Board

7th Situation Report on Economic and Monetary Developments

26 July 2007

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

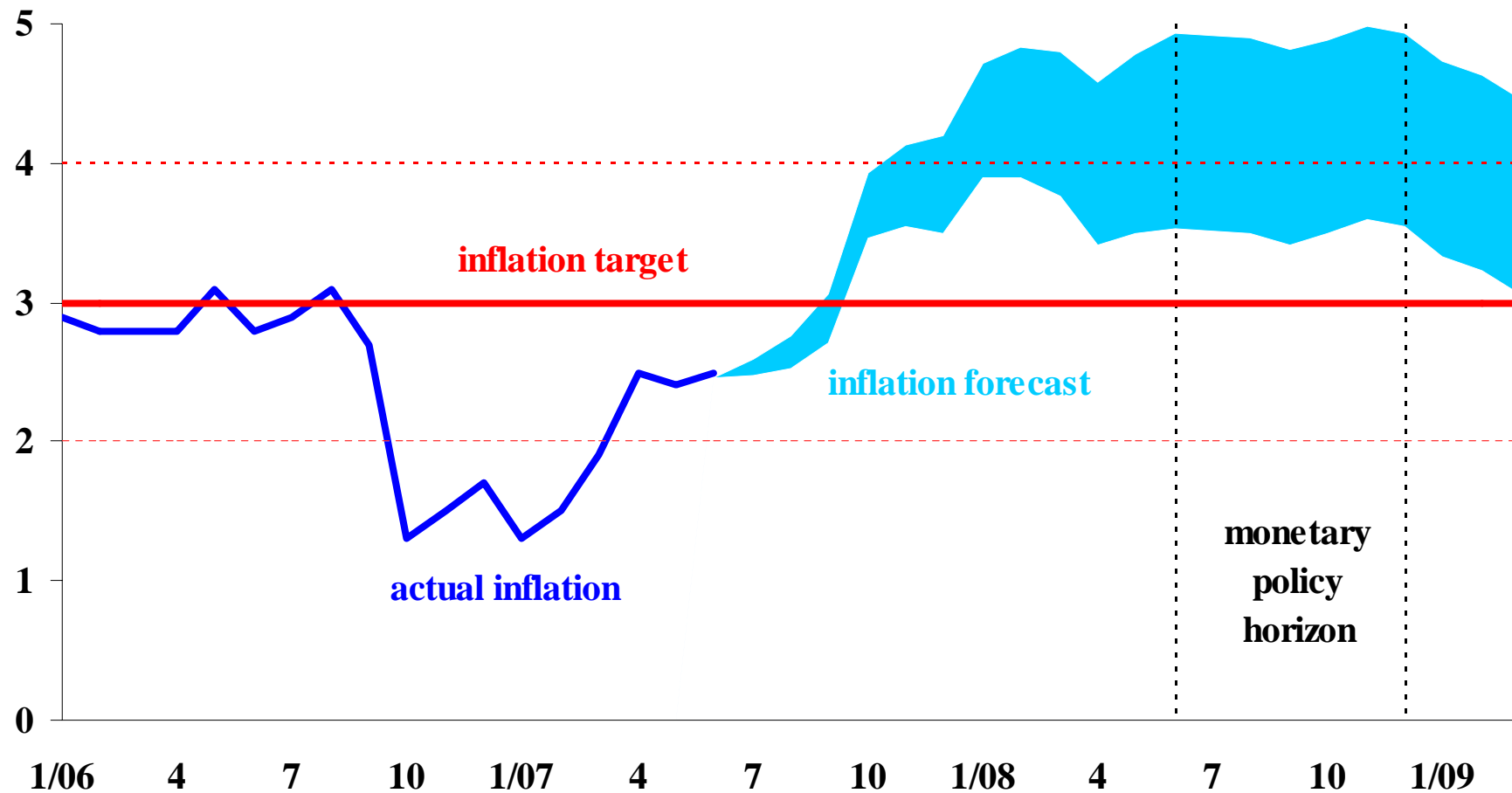
At the close of the meeting the Board decided by a majority vote to increase the CNB two-week repo rate by 0.25 percentage points to 3.0 %, effective 27 July 2007. At the same time it decided to increase the discount rate and Lombard rate by the same amount, to 2.0 % and 4.0 % respectively. Six members voted in favour of this decision, and one member voted for increasing the rates by 0.5 percentage points.

The external environment

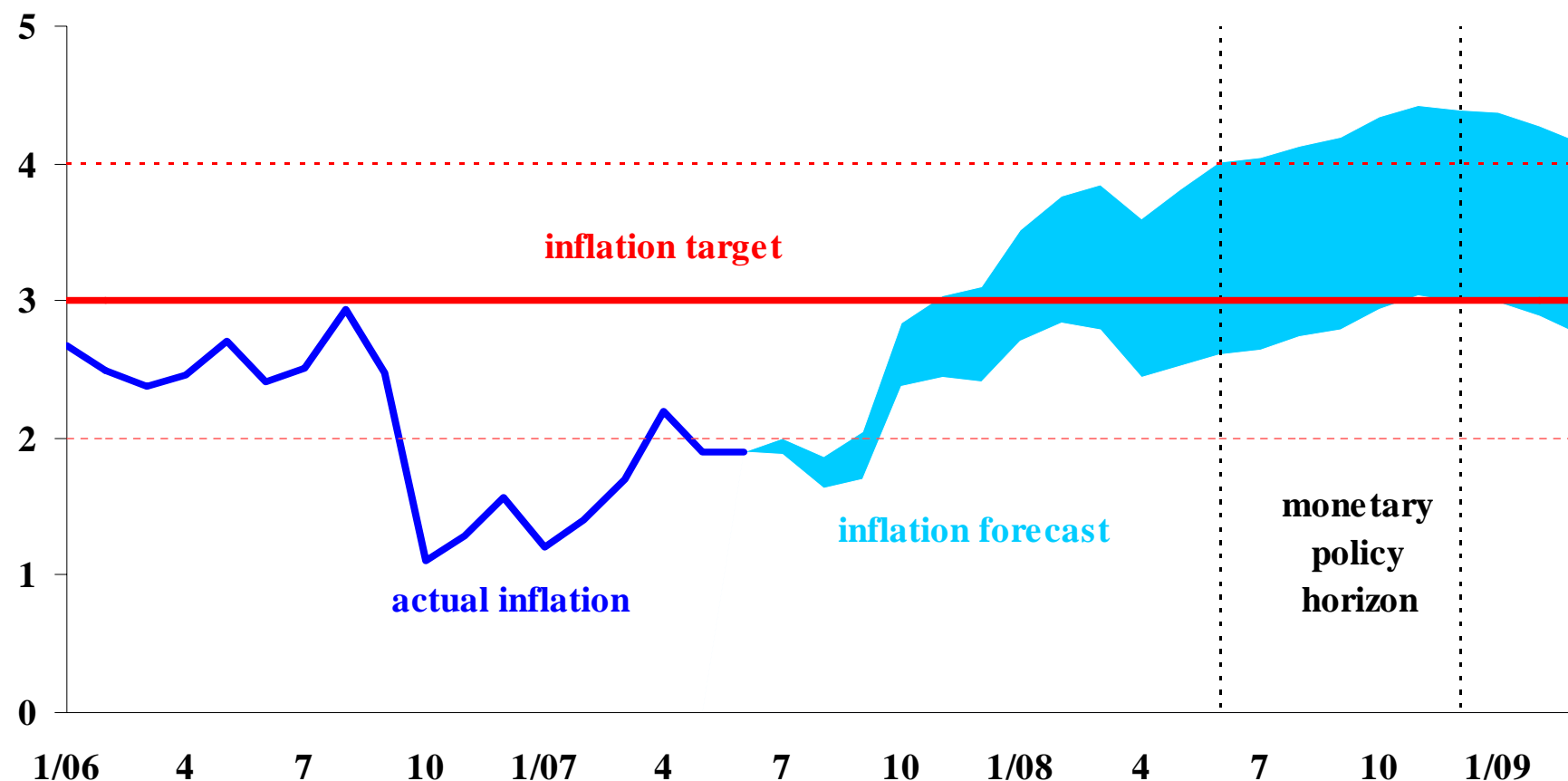
Comparison between the July and April forecast assumptions

		2007	2008
Effective indicator of consumer prices in the euro area (percentages)	April	1.8	1.7
	July	1.9	1.8
Effective indicator of producer prices in the euro area (percentages)	April	2.2	1.9
	July	2.2	2.1
Effective indicator of GDP in the euro area (percentages)	April	2.2	2.2
	July	2.7	2.3
Price of Brent crude oil (USD/barrel)	April	61.6	65.5
	July	66.9	72.3
Price of petrol (USD/t)	April	586.2	621.1
	July	656.6	674.5
USD/EUR exchange rate (level)	April	1.32	1.31
	July	1.34	1.34
1Y EURIBOR (percentages)	April	4.1	4.0
	July	4.4	4.7

The July inflation forecast



The inflation forecast excluding the first-round effect of indirect taxes



Comparison with the April forecast

- Compared to the April forecast the rate of growth is higher in 2007 and 2008.
- The real economy will generate higher inflationary pressures mainly in 2007 by comparison to the April forecast.
- Compared to the April forecast, inflation is higher especially in 2008. At the monetary policy horizon (2H 2008) inflation lies slightly above the upper margin of the tolerance band of the inflation target.
- Inflation adjusted for the first-round effects of indirect taxes (i.e. monetary-policy relevant inflation) is also higher than in April and lies in the upper half of the tolerance band of the inflation target.

The July forecast

Forecast for headline inflation in:

June 2008 (+4 quarters)	3.5 – 4.9 %
December 2008 (+6 quarters)	3.5 – 4.9 %

Forecast for inflation excluding the first-round effects of changes in indirect taxes in:

June 2008 (+4 quarters)	2.6 – 4.0 %
December 2008 (+6 quarters)	3.0 – 4.4 %

Forecast for GDP growth in:

2007	5.5 - 6.7 %
2008	4.1 - 6.7 %

Major uncertainties of the forecast

The forecast risks are roughly balanced.

Major risks and uncertainties:

- new data from the domestic economy since the forecast elaboration
- shift in outlook of external developments
- possible lower increase in inflation expectations (an alternative scenario)
- CZK/EUR exchange rate
- fiscal reform