

Press Conference of the CNB Bank Board

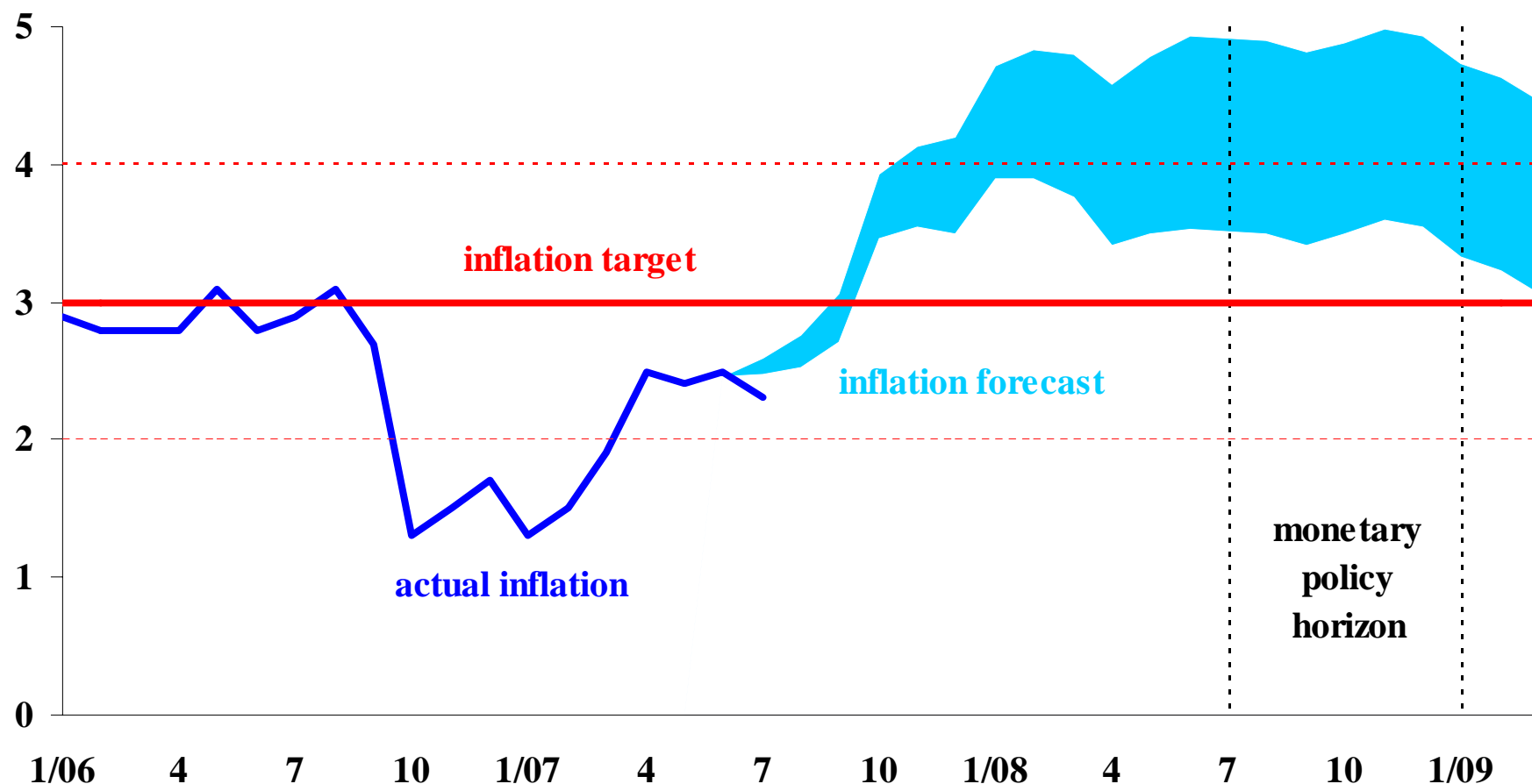
8th Situation Report on Economic and Monetary Developments

30 August 2007

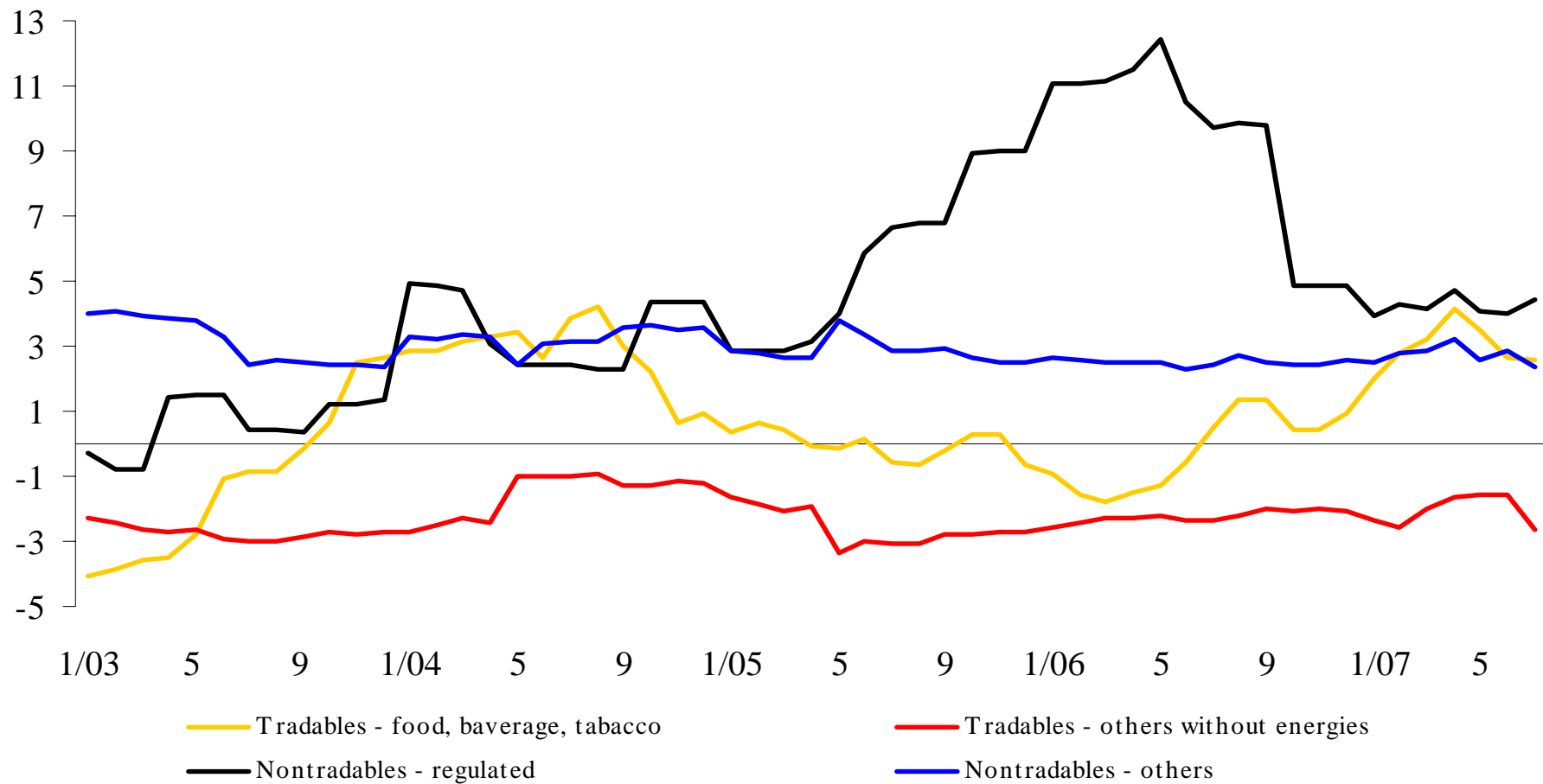
The monetary policy decision taken and the ratio of the votes cast

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 3.25%, effective 31 August 2007. At the same time it decided to increase the discount rate and Lombard rate by the same amount, to 2.25% and 4.25% respectively. Four members voted in favour of this decision, and three members voted for leaving rates unchanged.

The July inflation forecast and actual inflation in July 2007



A closer look at inflation



The external environment

Comparison between the July forecast assumptions and August outlook based on Consensus Forecasts survey and market expectations

		2007	2008
Effective indicator of consumer prices in the euro area (percentages)	forecast	1.9	1.8
	CF - August	1.9	1.8
Effective indicator of producer prices in the euro area (percentages)	forecast	2.2	2.1
	CF - August	2.3	2.1
Effective indicator of GDP in the euro area (percentages)	forecast	2.7	2.3
	CF - August	2.7	2.4
Price of Brent crude oil (USD/barrel)	forecast	66.9	72.3
	market - August	68.3	70.3
Price of petrol (USD/t)	forecast	656.6	674.5
	market - August	665.2	663.1
USD/EUR exchange rate (level)	forecast	1.34	1.34
	CF - August	1.35	1.35
1Y EURIBOR (percentages)	forecast	4.4	4.7
	market - August	4.4	4.5

Other new data since the Board's previous monetary meeting

- Price indicators:
 - annual **industrial producer price inflation** in July (4.1 %)
 - annual **agricultural producer price inflation** in July (11.3 %)
- Leading indicators of growth:
 - annual growth in **retail sales** in June (7.2 %)
 - annual growth in **industrial production** in June (6.9 %)
 - annual growth in **construction production** in June (-4.4 %)
- External balance:
 - **trade balance** in June (CZK 9.3 billion)
- Labour market:
 - annual growth in **average nominal wage** in 2007 Q2 (7.4 %; in business sector 7.8 %)

Major uncertainties of the forecast

The risks of headline inflation forecast are on the upside, risks of monetary-policy relevant inflation forecast are on the contrary slightly on the downside.

Major risks and uncertainties:

- impact of excise duties and VAT changes on inflation expectations
- new information about domestic price developments since the forecast elaboration
- stronger koruna exchange rate compared to the July forecast
- external developments