

Press Conference of the CNB Bank Board

10th Situation Report on Economic and Monetary Developments

25 October 2007

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

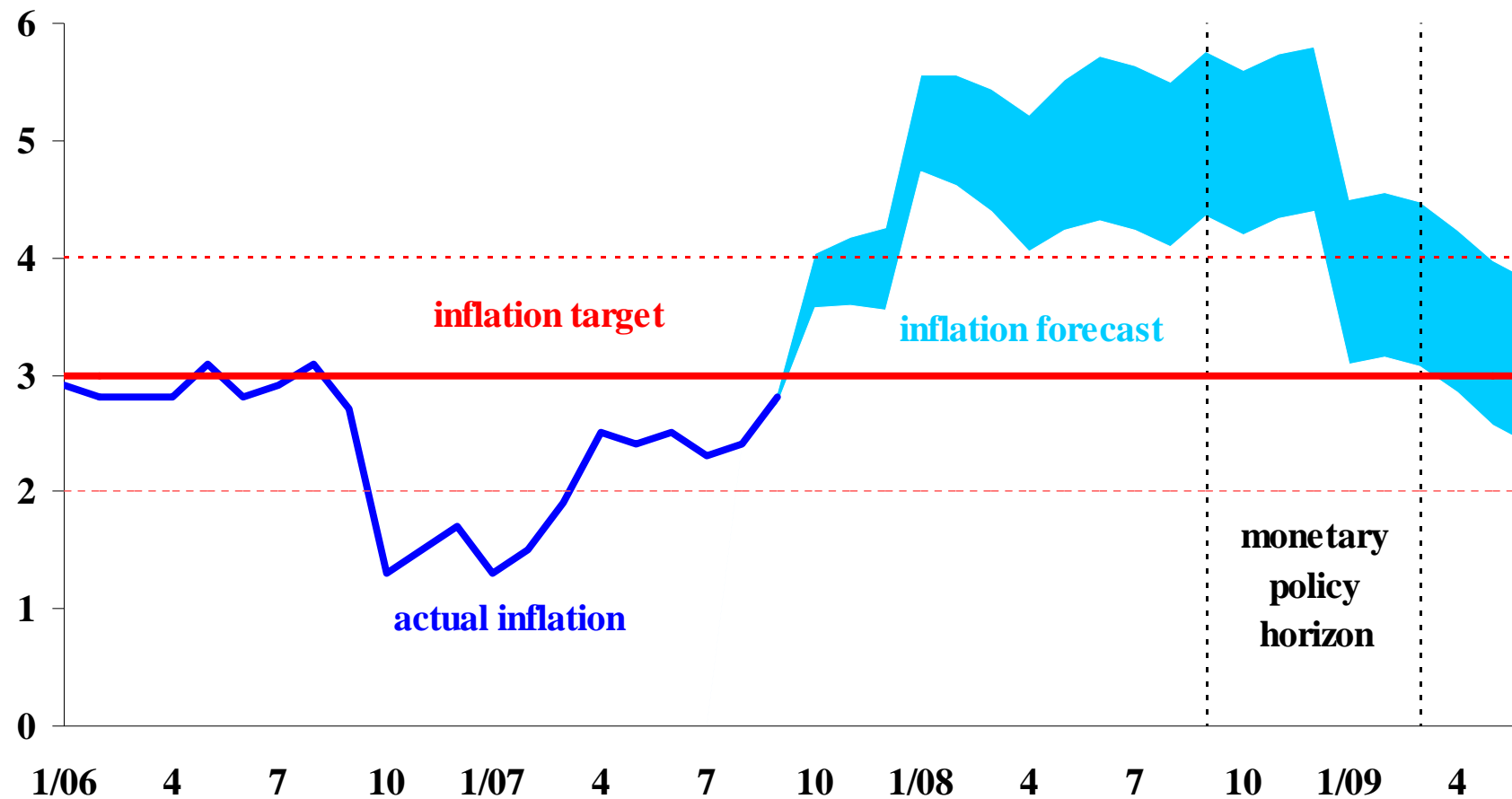
After discussing the situation report, the Board decided by a majority vote to leave the CNB two-week repo rate unchanged at 3.25%. Five members voted in favour of this decision and two members voted for increasing rates by 0.25 of a percentage point.

The external environment

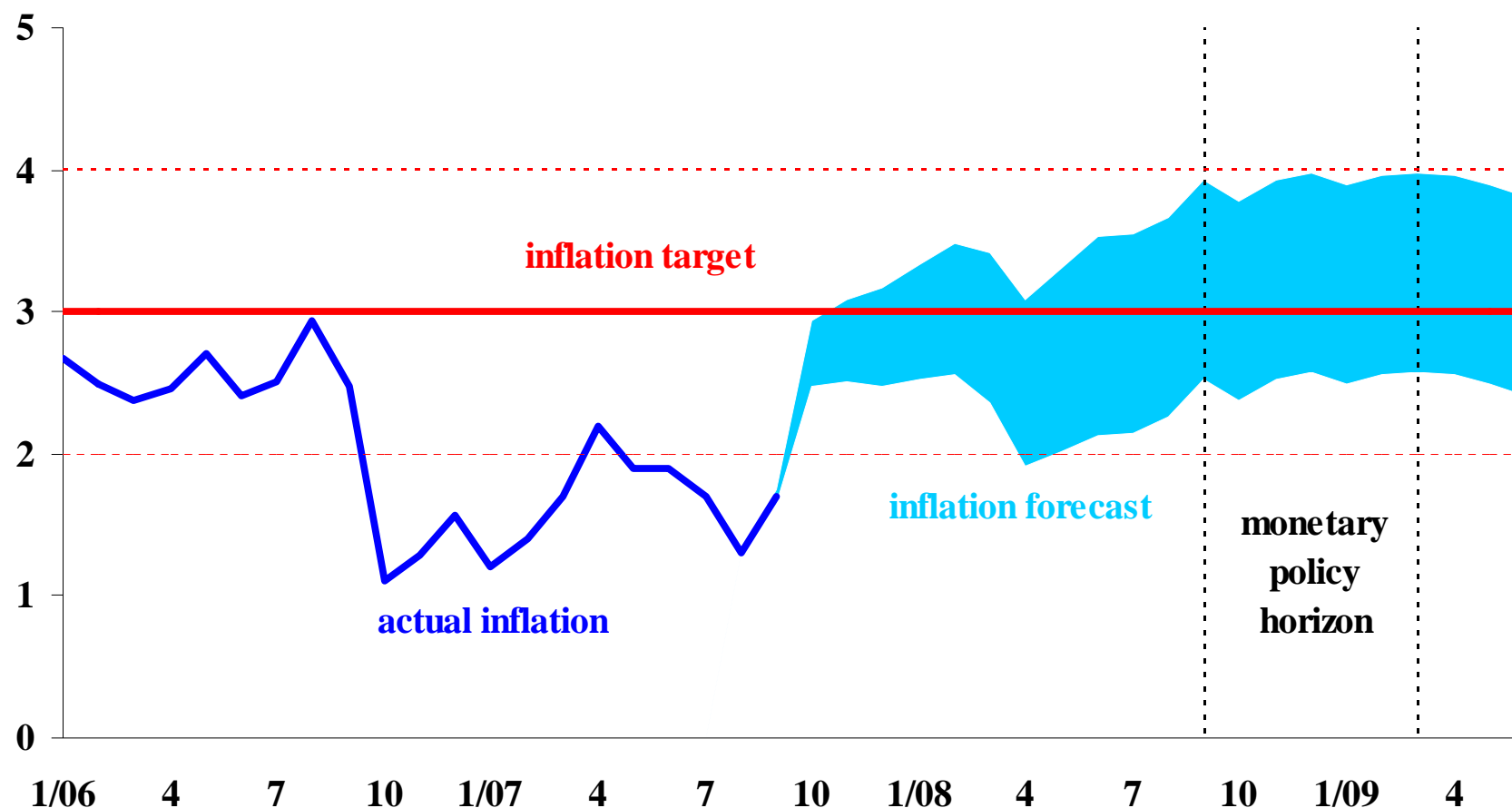
Comparison between the October and July forecast assumptions

		2007	2008
Effective indicator of consumer prices in the euro area (percentages)	July	1.9	1.8
	October	1.9	1.7
Effective indicator of producer prices in the euro area (percentages)	July	2.2	2.1
	October	2.3	2.1
Effective indicator of GDP in the euro area (percentages)	July	2.7	2.3
	October	2.6	2.3
Price of Brent crude oil (USD/barrel)	July	66.9	72.3
	October	69.2	73.2
Price of petrol (USD/t)	July	656.6	674.5
	October	667.0	675.5
USD/EUR exchange rate (level)	July	1.34	1.34
	October	1.35	1.36
1Y EURIBOR (percentages)	July	4.4	4.7
	October	4.3	4.1

The October inflation forecast



The forecast for monetary-policy relevant inflation



Comparison with the July forecast

- Compared to the July forecast, the rate of growth is lower in 2008. In 2009, growth will accelerate slightly compared to 2008.
- Unlike in the July forecast, the effect of the real economy will be slightly anti-inflationary in 2008. At the end of 2009, however, it will be modestly inflationary again.
- Compared to the July forecast, inflation is substantially higher in 2008 due to one-off factors – primarily increases in administered prices and tax rates. At the monetary policy horizon (2008 4Q – 2009 Q1), inflation lies initially above the upper boundary of the tolerance band for the inflation target, falling into the upper part of the band thereafter.
- Monetary-policy relevant inflation (i.e. inflation adjusted for the first-round effects of changes in indirect taxes) is, on the contrary, below the July forecast and slightly above the inflation target.

The October forecast

Forecast for headline inflation in:

September 2008 (+4 quarters)	4.4 - 5.8%
March 2009 (+6 quarters)	3.1 - 4.5%

Forecast for monetary-policy relevant inflation in:

September 2008 (+4 quarters)	2.5 - 3.9%
March 2009 (+6 quarters)	2.6 - 4.0%

Forecast for GDP growth in:

2007	5.8 - 6.6%
2008	3.9 - 6.1%
2009	4.1. - 7.1%

Major uncertainties of the forecast

The forecast risks are balanced.

Major risks and uncertainties:

- second-round impacts of tax changes
- faster growth in food prices
- stronger CZK/EUR exchange rate
- slower economic growth abroad (relative to existing projections)