

Press Conference of the CNB Bank Board

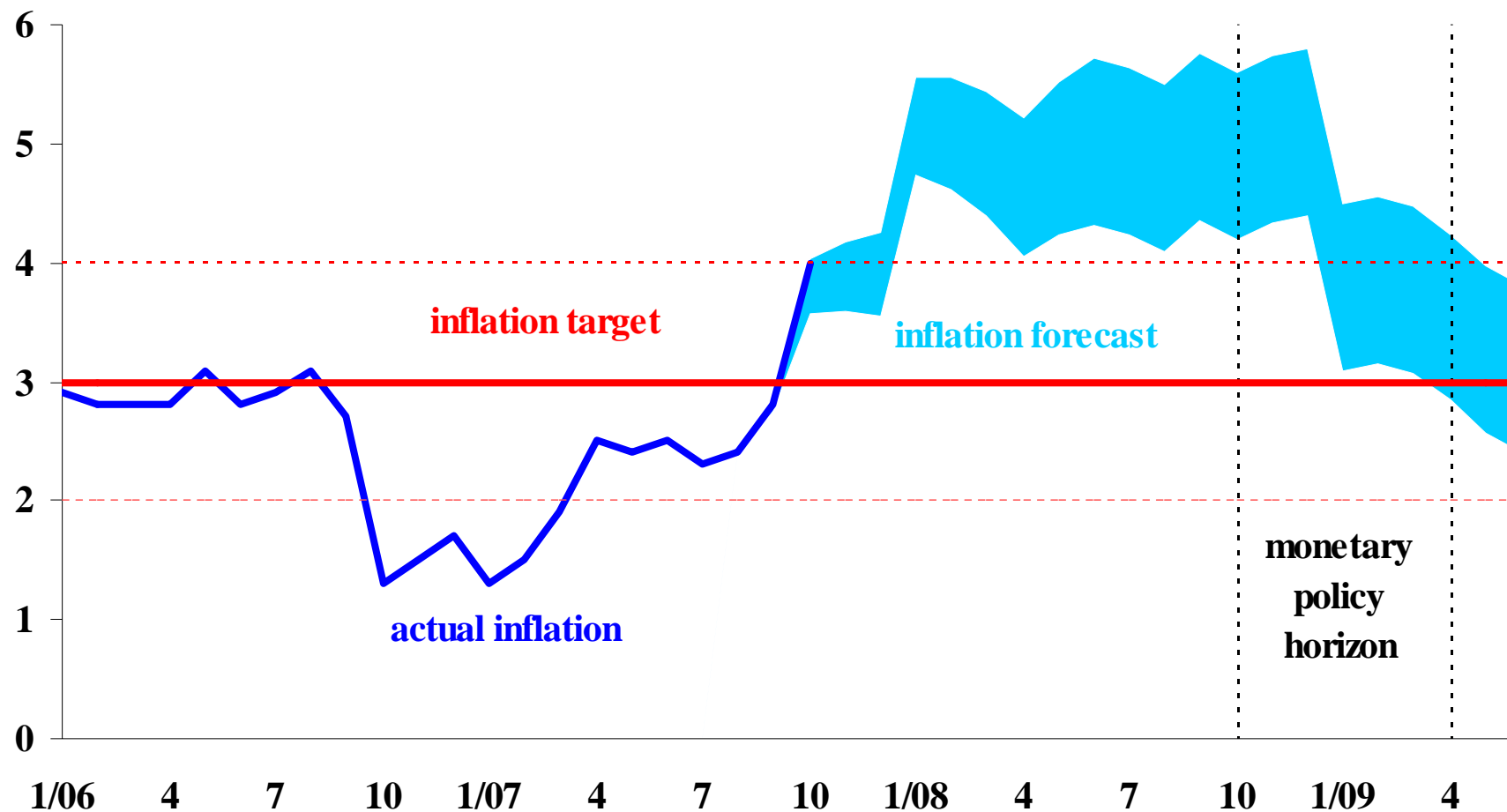
11th Situation Report on Economic and Monetary Developments

29 November 2007

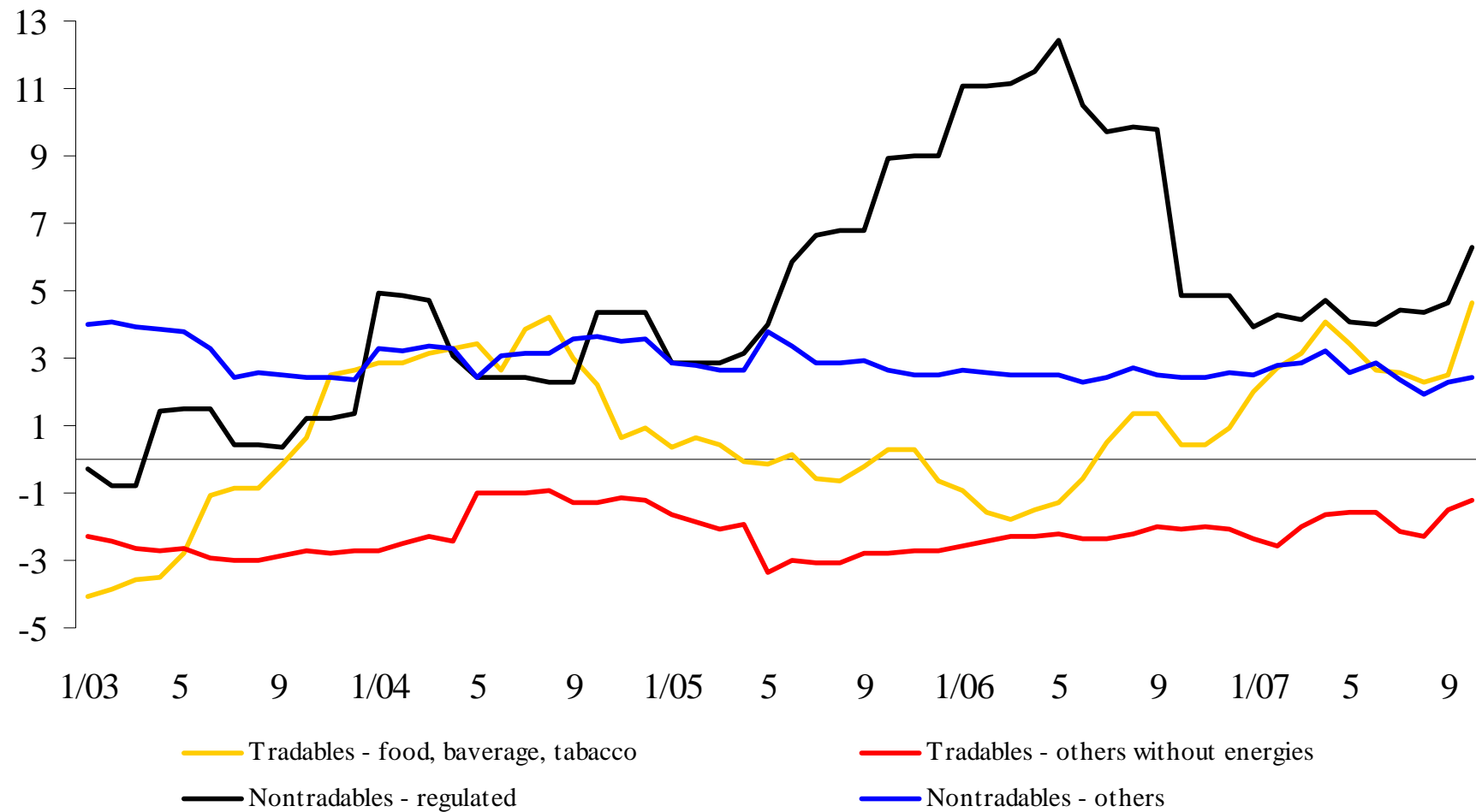
The monetary policy decision taken and the ratio of the votes cast

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 3.50 %, effective 30 November 2007. At the same time it decided to increase the discount rate and Lombard rate by the same amount, to 2.50 % and 4.50 % respectively. Five members voted in favour of this decision, and two members voted for leaving rates unchanged.

The October inflation forecast and actual inflation in October 2007



A closer look at inflation



The external environment

Comparison between the October forecast assumptions and November outlook based on Consensus Forecasts survey and market expectations

		2007	2008	2009
Effective indicator of consumer prices in the euro area (percentages)	forecast	1.9	1.7	1.8
	CF - November	2.0	1.9	1.8
Effective indicator of producer prices in the euro area (percentages)	forecast	2.3	2.1	2.0
	CF - November	2.3	2.1	2.1
Effective indicator of GDP in the euro area (percentages)	forecast	2.6	2.3	2.0
	CF - November	2.6	2.1	2.0
Price of Brent crude oil (USD/barrel)	forecast	69.2	73.2	71.6
	market - November	71.8	88.9	83.9
Price of petrol (USD/t)	forecast	667.0	675.5	694.0
	market - November	693.5	812.0	798.6
USD/EUR exchange rate (level)	forecast	1.35	1.36	1.33
	CF - November	1.37	1.43	1.38
1Y EURIBOR (percentages)	forecast	4.3	4.1	4.4
	market - November	4.4	4.1	4.3

Other new data since the Board's previous monetary meeting

- Price indicators:
 - annual **industrial producer price inflation** in October (4.4 %)
 - annual **agricultural producer price inflation** in October (24.4 %)
- Leading indicators of growth:
 - annual growth in **retail sales** in September (4.3 %)
 - annual growth in **industrial production** in September (1.2 %)
 - annual growth in **construction production** in September (-1.8 %)
- External balance:
 - **trade balance** in September (CZK 14.4 billion)
- Labour market:
 - annual growth in **average nominal wage** in 2007 Q3 (7.6 %)

Major uncertainties of the forecast

The risks of forecast are modestly on the downside

Major risks and uncertainties:

- new information on higher than expected price development
- second-round impacts of cost shocks (changes in indirect taxes, growth of regulated prices and food prices)
- stronger koruna exchange rate
- lower expected economic growth in euro-area and higher inflation in euro-area
- lower inflationary pressures from the real economy