

1st Situation Report on Economic and Monetary Developments

7 February 2008

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 point to 3.75%, effective 8 February 2008. At the same time it decided to increase the discount rate and Lombard rate by the same amount, to 2.75% and 4.75% respectively. Five members voted in favour of this decision, and two members voted for leaving interest rates unchanged.

Changes in the conduct and communication of monetary policy

- These changes are effective since the beginning of 2008.
- The main aim of these changes is to further increase the transparency, clarity and predictability of monetary policy.
- The particular changes:
 - disclosure of the forecast-consistent interest rate path in numerical form, as a fan chart;
 - publication of the votes cast by the board members on interest rate changes by name in the minutes
 - reduction in the number of the regular monetary policy meetings to eight meetings a year

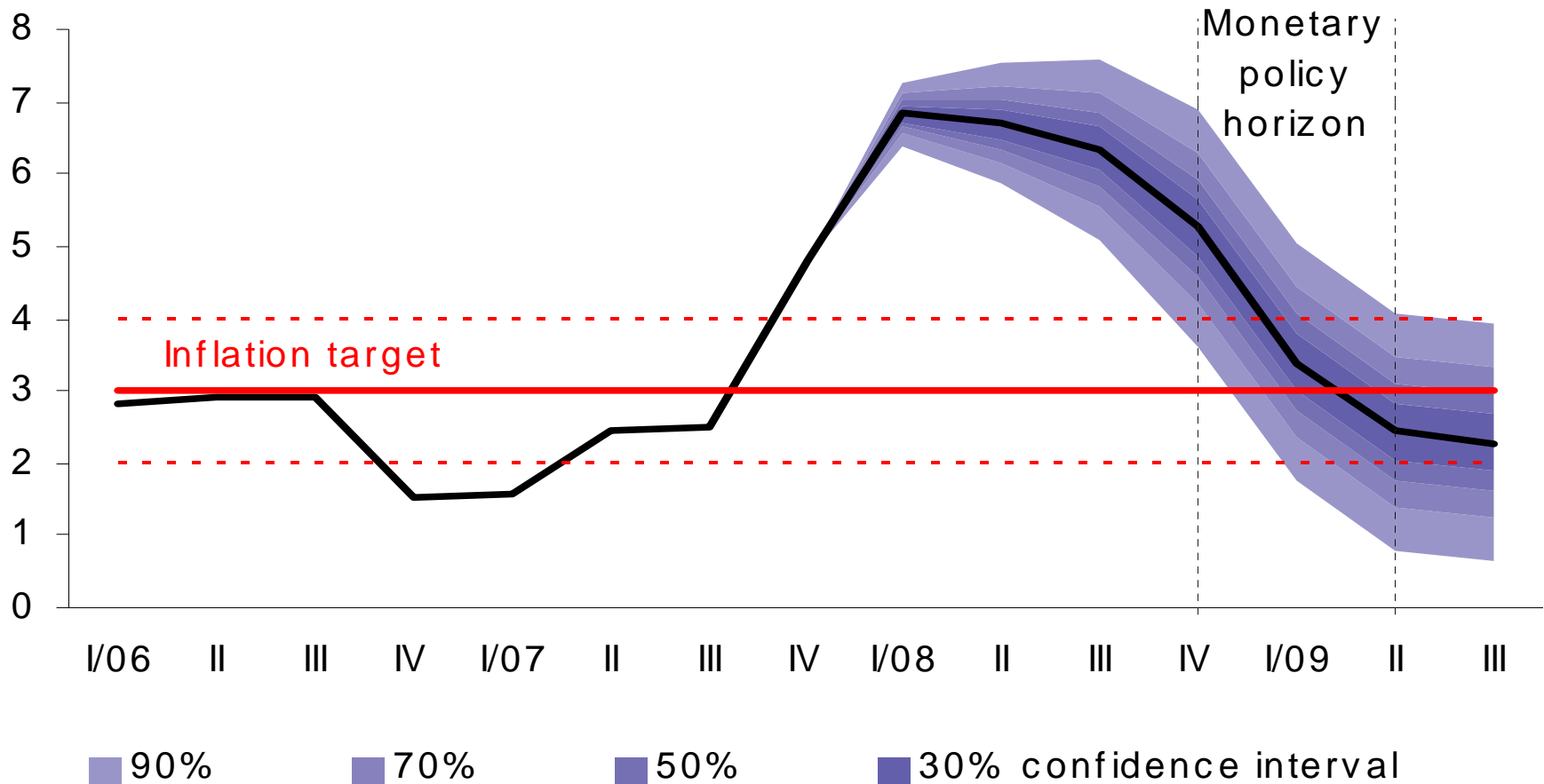
- fan charts used also for other variables' forecasts

The external environment

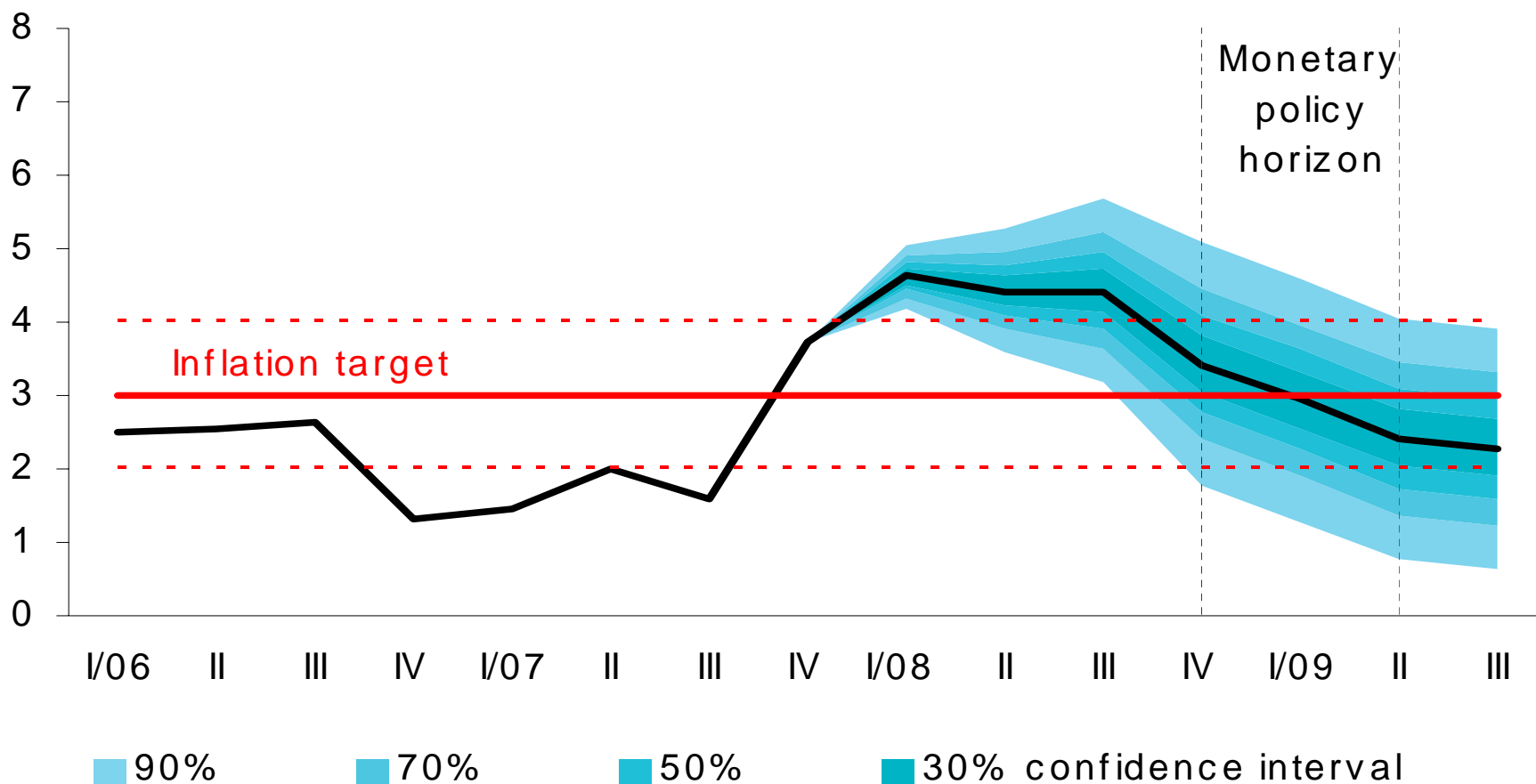
Comparison between the actual and October forecast assumptions

		2008	2009
Effective indicator of consumer prices in the euro area (percentages)	10.SR 2007	1.7	1.8
	1.SR 2008	2,2	1.8
Effective indicator of producer prices in the euro area (percentages)	10.SR 2007	2.1	2.0
	1.SR 2008	2.4	1.8
Effective indicator of GDP in the euro area (percentages)	10.SR 2007	2.3	2.0
	1.SR 2008	2.0	2.0
Price of Brent crude oil (USD/barrel)	10.SR 2007	73.2	71.6
	1.SR 2008	92.1	88.7
Price of petrol (USD/t)	10.SR 2007	675.5	685.0
	1.SR 2008	822.6	826.4
USD/EUR exchange rate (level)	10.SR 2007	1.4	1.3
	1.SR 2008	1.5	1.4
1Y EURIBOR (percentages)	10.SR 2007	4.1	4.4
	1.SR 2008	3.9	4.0

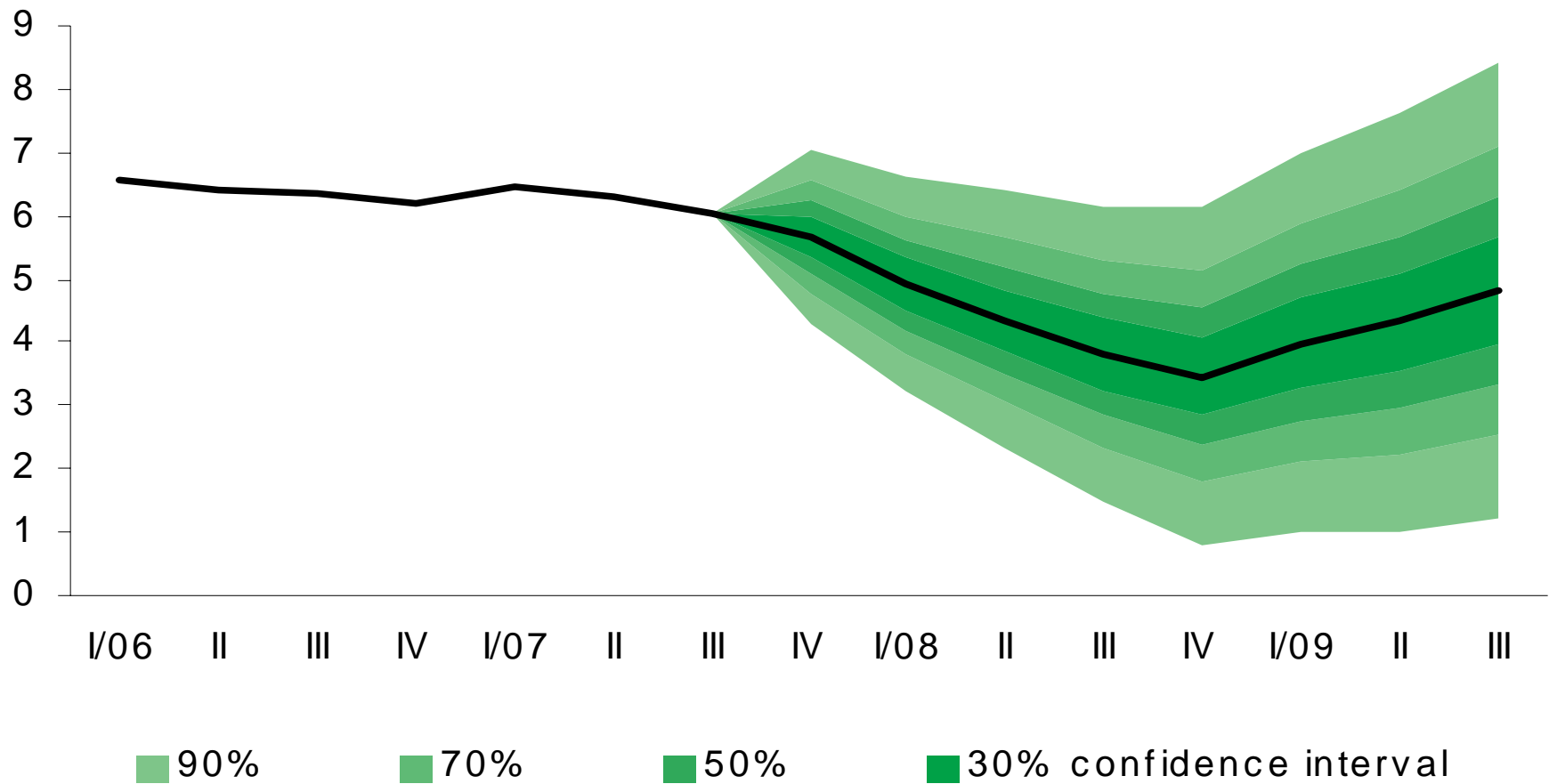
The forecast for headline inflation



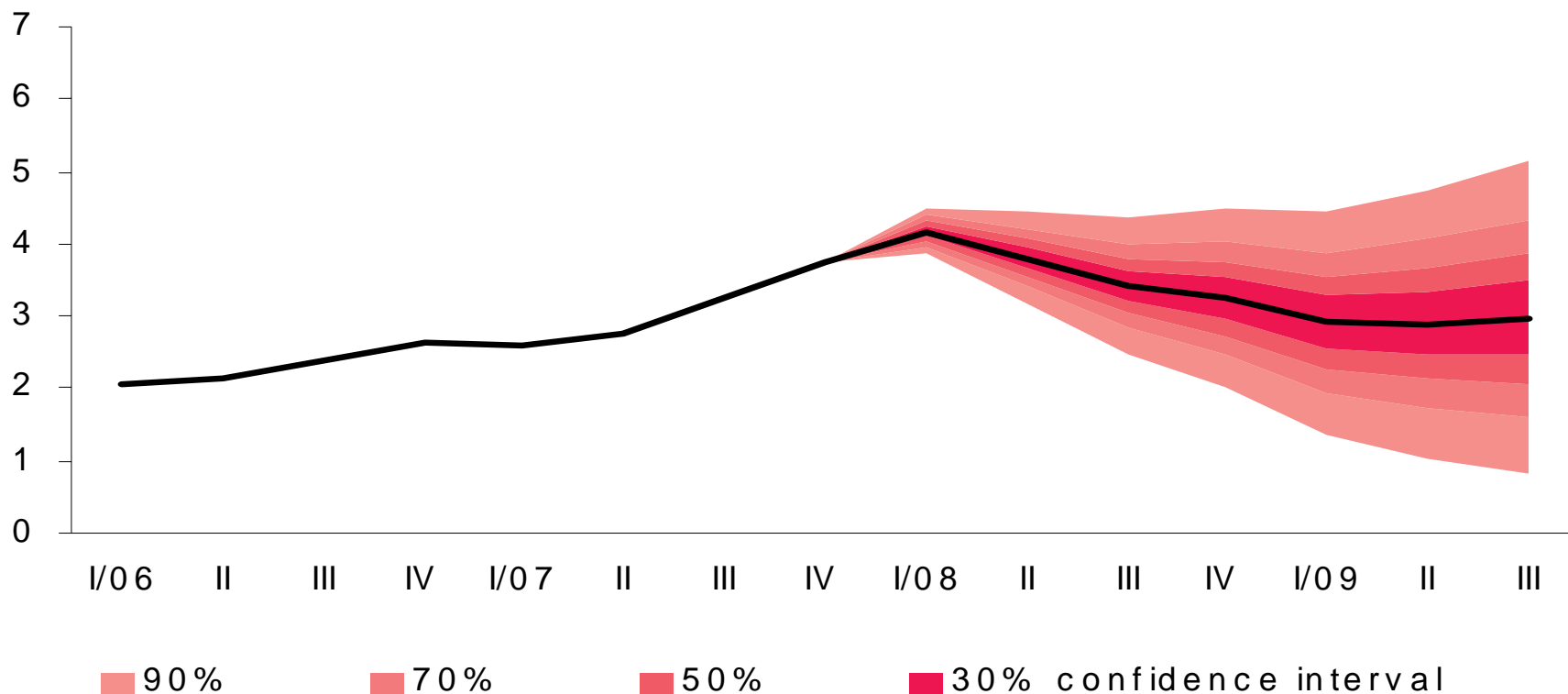
The forecast for monetary-policy relevant inflation



The forecast for GDP



The forecast for interest rates (3M PRIBOR)



Consistent with the macroeconomic forecast and its assumptions is a modest rise in nominal interest rates initially, followed by a decline still in 2008. In 2009, nominal interest rates are expected to be broadly flat.

Forecast in numbers

Forecast for headline inflation in:

2008, Q4 (+4 quarters)	5.3 %
2009, Q2 (+6 quarters)	2.4 %

Forecast for monetary-policy relevant inflation in:

2008, Q4 (+4 quarters)	3.4 %
2009, Q2 (+6 quarters)	2.4 %

Forecast for GDP growth in:

2007	6.1 %
2008	4.1 %
2009	4.6 %

Forecast for nominal interest rates (3M PRIBOR) in:

2008, Q4 (+4 quarters)	3.2 %
2009, Q2 (+6 quarters)	2.9 %

Comparison with the October forecast

- Spill over of shocks among individual price segments has been reduced in the core projection model. Also, share of forward-looking inflation expectations and monetary policy flexibility have been increased.
- Compared to the October forecast, the rate of economic growth is lower in 2008 and 2009.
- The effect of the real economy will be anti-inflationary since 2008, Q2. In comparison to the October forecast the inflationary pressures from real economy are lower over the forecasted horizon.
- Compared to the October forecast, the forecast for headline inflation is much higher in 2008, but lower from the start of 2009.
- Monetary-policy relevant inflation is also higher compared to the October forecast for most of 2008, however at the monetary policy horizon it drops below the October forecast.
- Forecast-consistent interest rate path is almost unchanged for the current quarter compared to the October forecast, but lower in longer-term outlook.

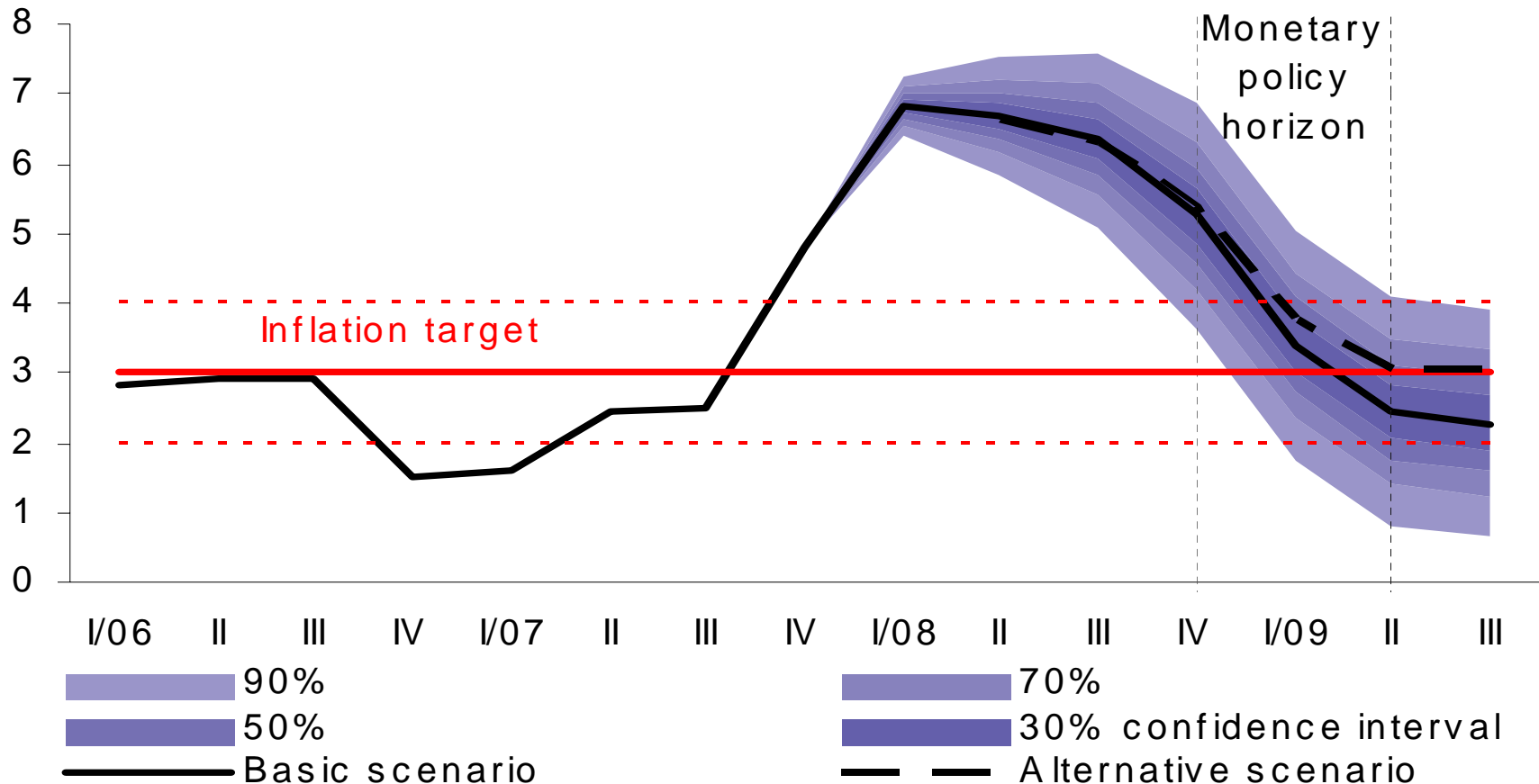
Major uncertainties of the forecast

Uncertainties are larger than usual, risks are on both sides.

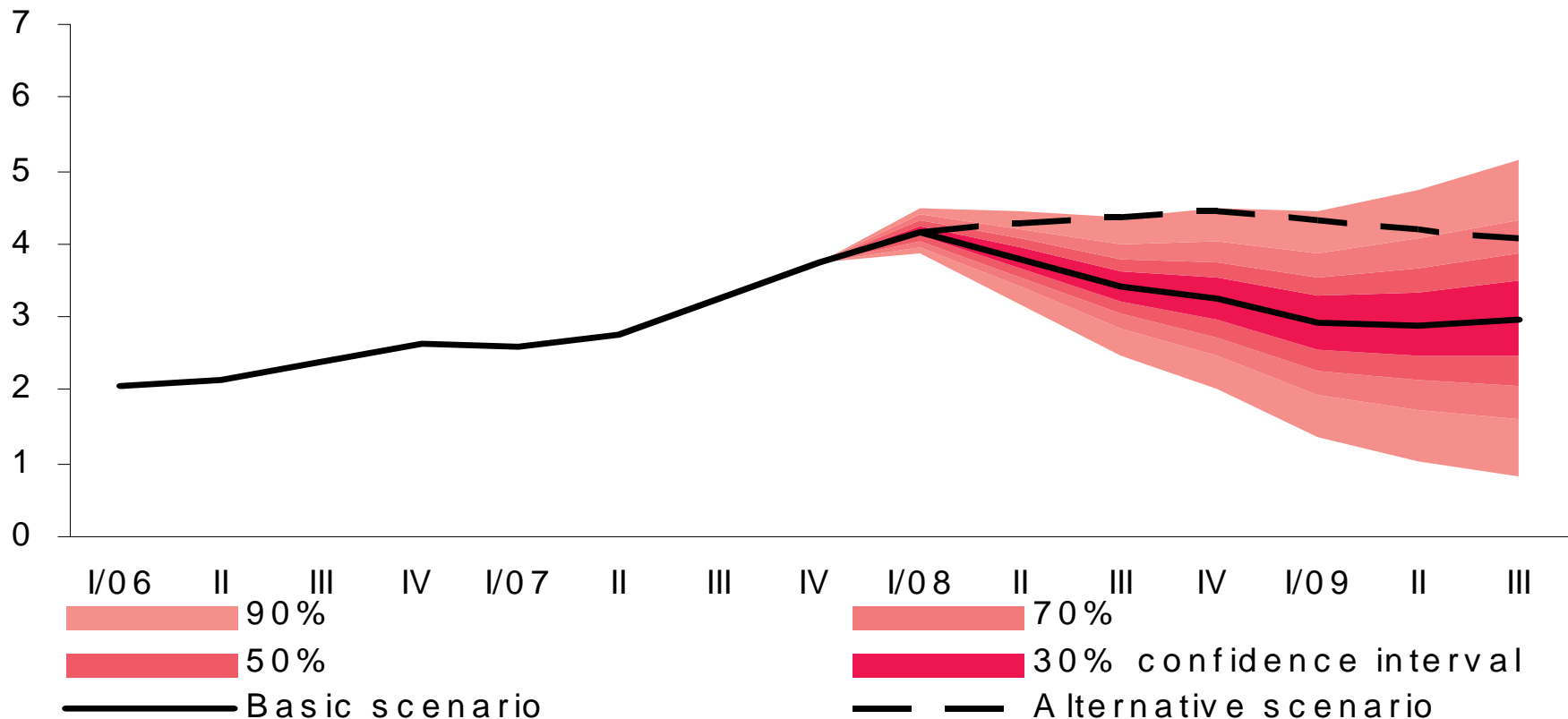
Major risks and uncertainties:

- effects of cost-push shocks on prices in other segments and inflation expectations (alternative forecast scenario prepared)
- koruna exchange rate developments
- how fast will high food prices growth fade away
- economic developments in U.S. and main trading partners countries

The alternative forecast for headline inflation



The alternative forecast for interest rates (3M PRIBOR)



Consistent with the alternative inflation forecast is a gradual rise in interest rates during 2008 followed by a slow decline, in response to the higher inflation outlook.