2nd Situation Report on Economic and Monetary Developments

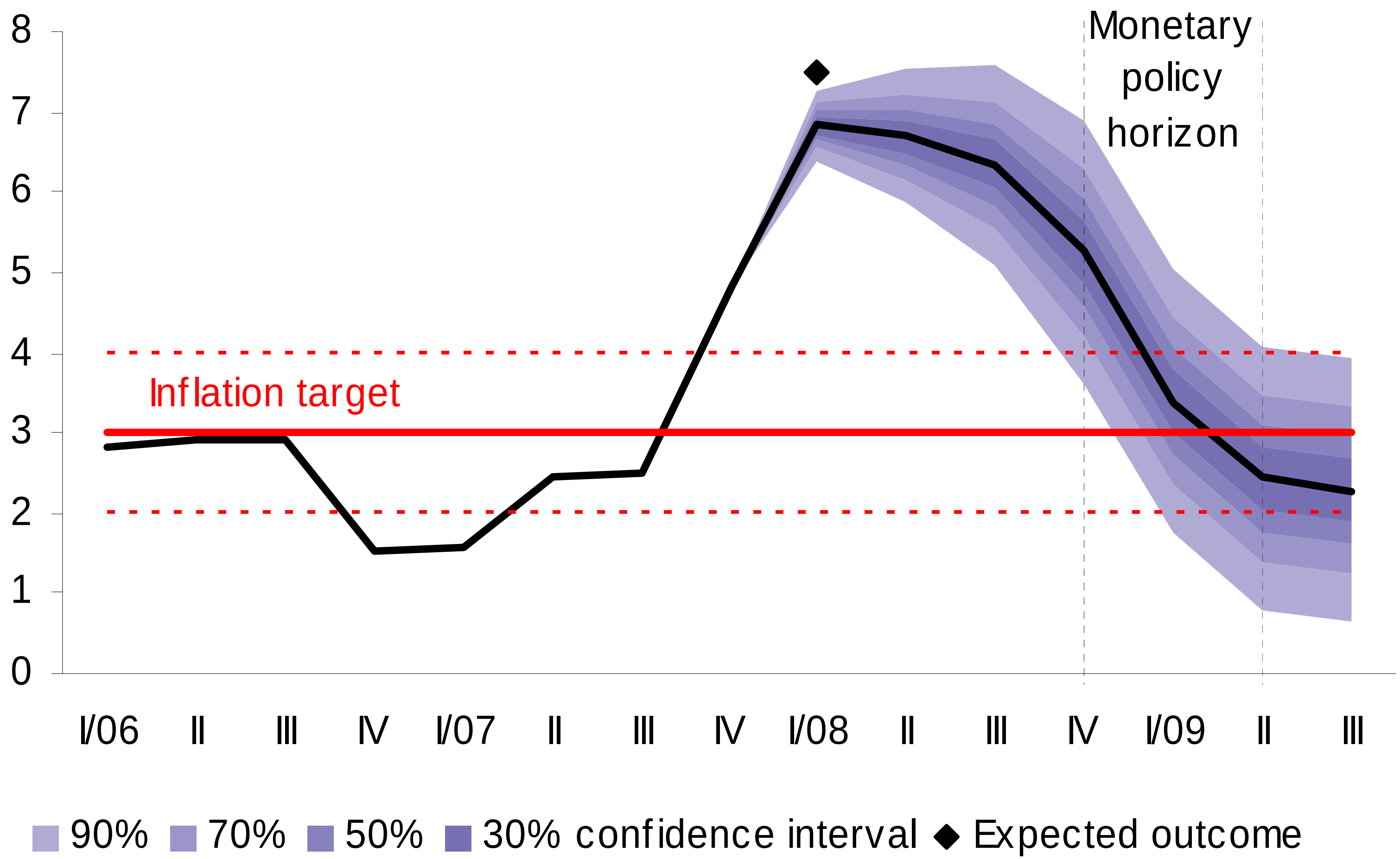
26 March 2008

CZECH CNB NATIONAL BANK

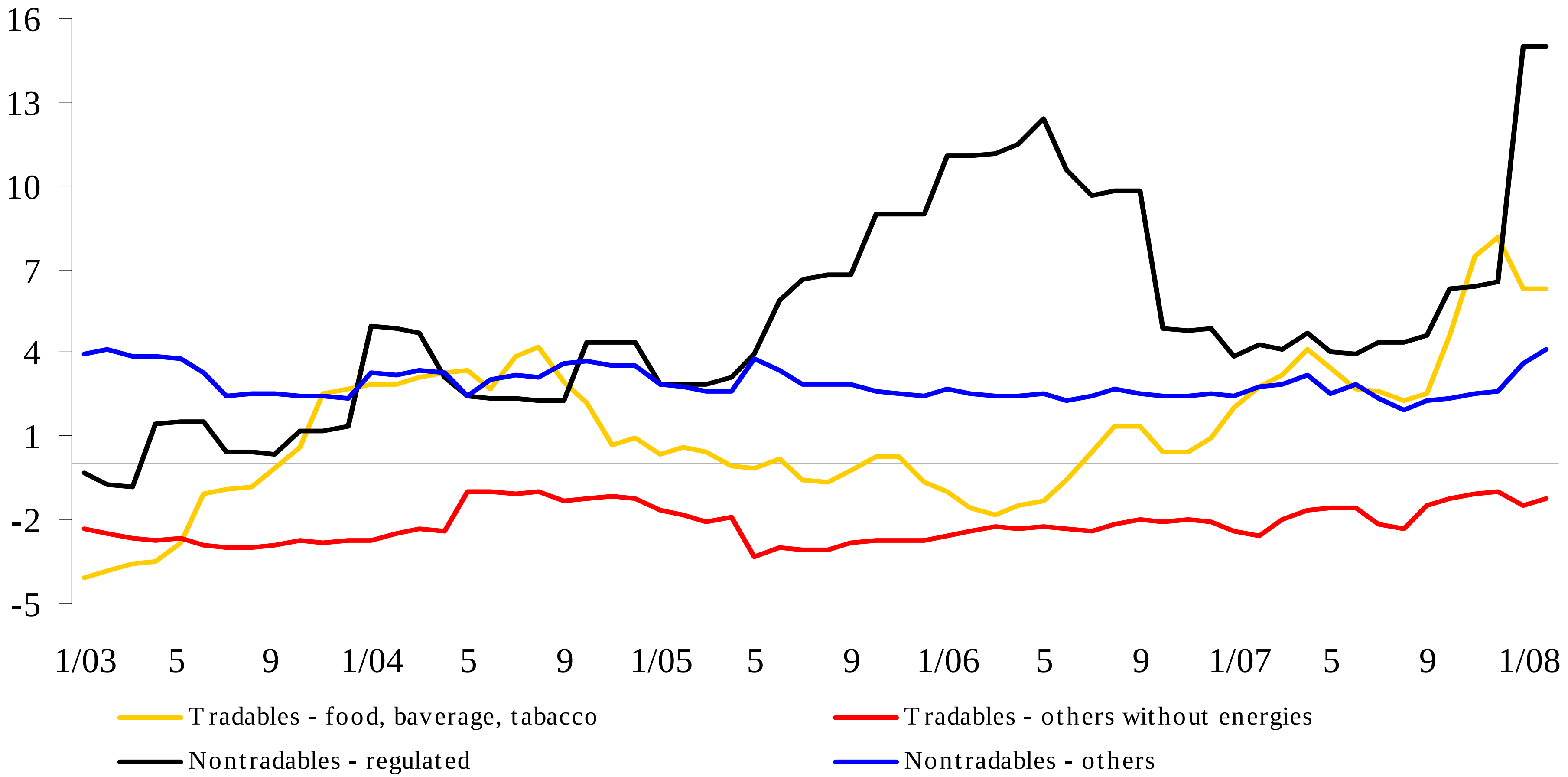
The monetary policy decision taken and the ratio of the votes cast

At the close of the meeting the Board decided by a majority vote to leave the two-week repo rate unchanged at 3.75%. Six members voted in favour of this decision, and one member voted for increasing rates by 0.25 percentage point

The inflation forecast and expected outcome in 2008 Q1



A closer look at inflation



The external environment

Comparison between the current forecast assumptions and March outlook based on Consensus Forecasts survey and market expectations

		2008	2009
Effective indicator of consumer prices in the euro area (percentages)	forecast CF - March	2,2 2,5	1.8 1.9
Effective indicator of producer prices in the euro area (percentages)	forecast CF - March	2.4 3.0	1.8 2.0
Effective indicator of GDP in the euro area (percentages)	forecast CF - March	2.0 1.8	2.0 1.9
Price of Brent crude oil (USD/barrel)	forecast market - March	92.1 100.2	88.7 98.4
Price of petrol (USD/t)	forecast market - March	822.6 874.3	826.4 912.2
USD/EUR exchange rate (level)	forecast CF - March	1.46 1.48	1.38 1.41
1Y EURIBOR (percentages)	forecast market - March	3.9 3.6	4.0 3.7

Other new data since the Board's previous monetary meeting

- *Price indicators:*

  - annual **industrial producer price inflation** in February (5.6 %)

  - annual **agricultural producer price inflation** in February (27.1 %)

- *GDP:*

  - annual **GDP growth** in 2007 Q4 (6.6 %) and in 2007 (6.5 %)

- *Leading indicators of growth:*

  - annual growth in **retail sales** in January (5.1 %)

  - annual growth in **industrial production** in January (9.3 %)

  - annual growth in **construction production** in January (1.0 %)

- *Labour market:*

  - annual growth in **average nominal wage** in 2007 Q4 (6,8 %) and in 2007 (7,3 %)

- *External balance:*

  - **trade balance** in January (CZK 12.2 billion)

- *Import prices:*

  - annual **import price inflation** in January (-1.6 %)

Major uncertainties of the forecast

Upside risks:

- higher inflation in January and February
- risk of higher spillovers of cost shocks into other price segments and inflation expectations

Downside risks:

- stronger koruna exchange rate
- economic slowdown and lower outlook for rates in eurozone

CNB