

Press Conference of the CNB Bank Board

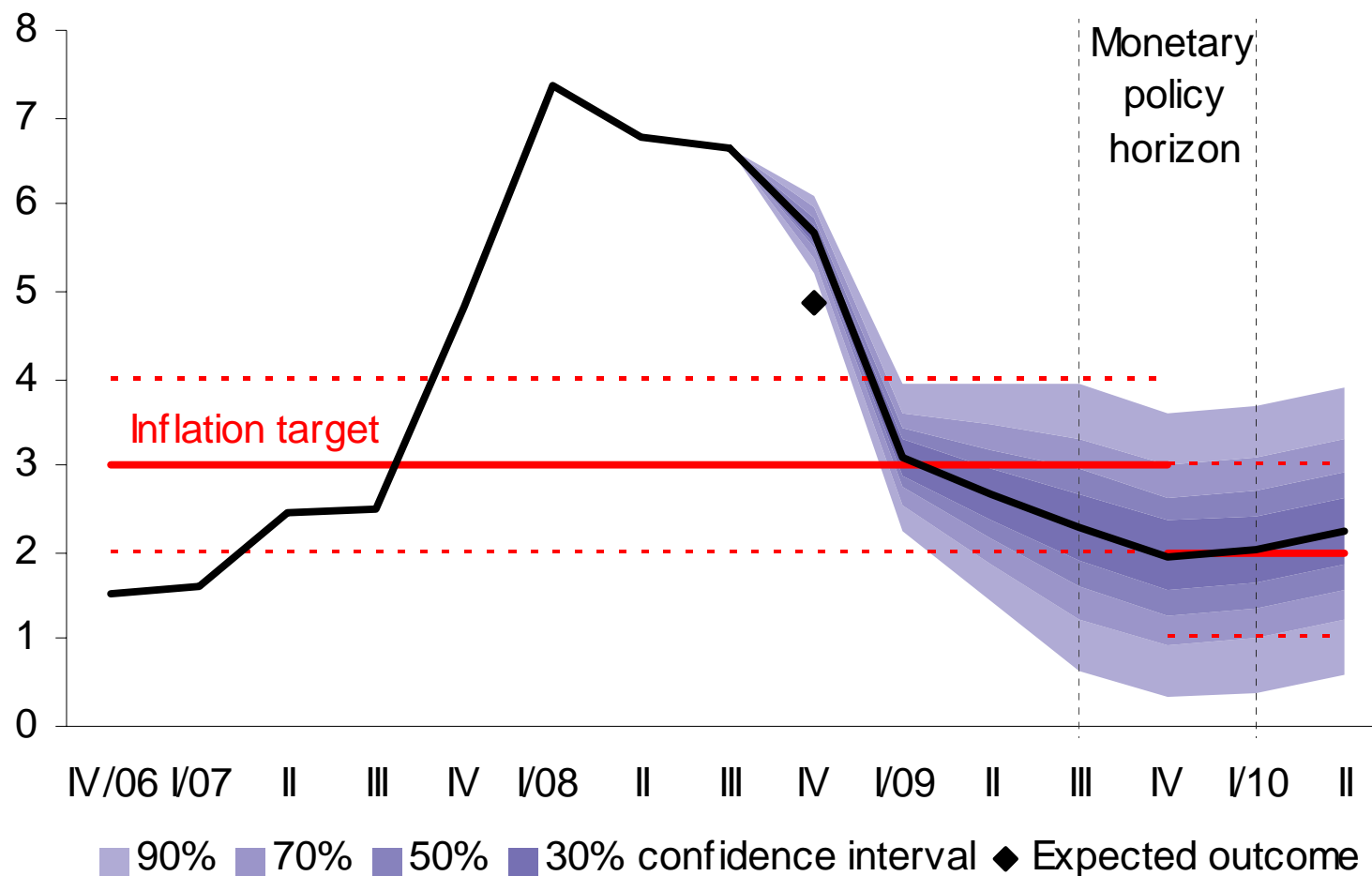
8th Situation Report on Economic and Monetary Developments

17 December 2008

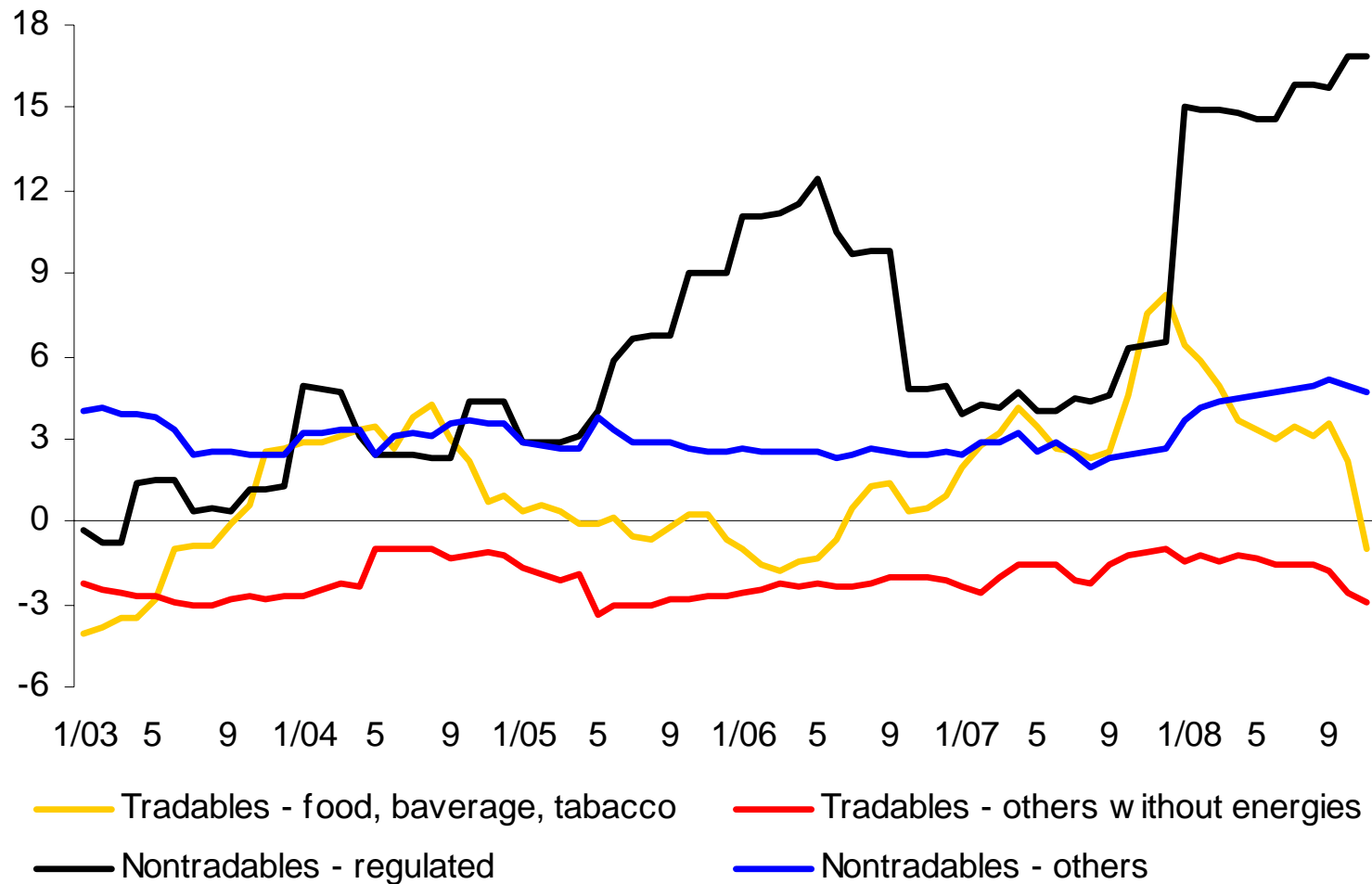
The monetary policy decision taken and the ratio of the votes cast

At the close of the meeting the Board decided by a majority vote to decrease the CNB two-week repo rate by 0.5 percentage point to 2.25%, effective 18 December 2008. At the same time it decided to decrease the discount rate and Lombard rate by the same amount, to 1.25% and 3.25% respectively. Four members voted in favour of this decision, one member voted for decreasing interest rates by 0.75 percentage point and one member voted for decreasing interest rates by 1 percentage point

The inflation forecast and expected outcome in 2008 Q4



A closer look at inflation



The external environment

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

		2008	2009	2010
Effective indicator of consumer prices in the euro area (percentages)	CF- December forecast	3.0 3.1	1.4 2.2	1.9 2.0
Effective indicator of producer prices in the euro area (percentages)	CF- December forecast	6.3 6.2	1.9 3.1	1.9 3.1
Effective indicator of GDP in the euro area (percentages)	CF- December forecast	1.4 1.5	-0.9 0.5	1.2 1.4
Price of Brent crude oil (USD/barrel)	market - December forecast	99.0 104.7	52.6 85.7	63.7 90.8
USD/EUR exchange rate (level)	CF- December forecast	1.47 1.48	1.25 1.35	1.27 1.31
EONIA 3M swap (percentages)	market - December forecast	3,8 4.1	1,9 2.9	2,5 3.3

Other new data since the Board's previous monetary meeting

- Price indicators:
 - annual **industrial producer price inflation** in November (1.2 %)
 - annual **agricultural producer price inflation** in November (-19.5 %)
- GDP:
 - annual **GDP growth** in 2008 Q3 (4.2 %)
- Leading indicators of growth:
 - annual growth in **retail sales** in September (5.9 %)
 - annual growth in **industrial production** in October (-7.6 %)
 - annual growth in **construction production** in October (-1.1 %)
- Labour market:
 - annual growth in **average nominal wage** in 2008 Q3 (7.9 %)
 - increase in registered **rate of unemployment** in November (5,3 %)
- External balance:
 - **trade balance** in October (CZK -4.0 billion)
- Import prices:
 - annual **import price inflation** in October (-1.0 %)

Major uncertainties of the forecast

Risk to the forecast are on the downside

Major risks and uncertainties:

- weaker exchange rate
- economic crisis abroad and decline of world commodity prices
- disinflationary domestic prices development
- weaker domestic economic growth
- development of the clients' interests rates and rates on the interbank market
- economic development significantly has deviated from the forecast