

# Press Conference of the CNB Bank Board

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## 1st Situation Report on Economic and Monetary Developments

5 February 2009

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

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*At the close of the meeting the Board decided by a majority vote to decrease the CNB two-week repo rate by 0.50 percentage point to 1.75 %, effective 6 February 2009. At the same time it decided to decrease the discount rate and Lombard rate by the same amount, to 0.75 % and 2.75 % respectively. Four members voted in favour of this decision, one member voted for decreasing rates by 0.25 percentage point, and one member voted for decreasing rates by 0.75 percentage point.*

## *Message of the forecast*

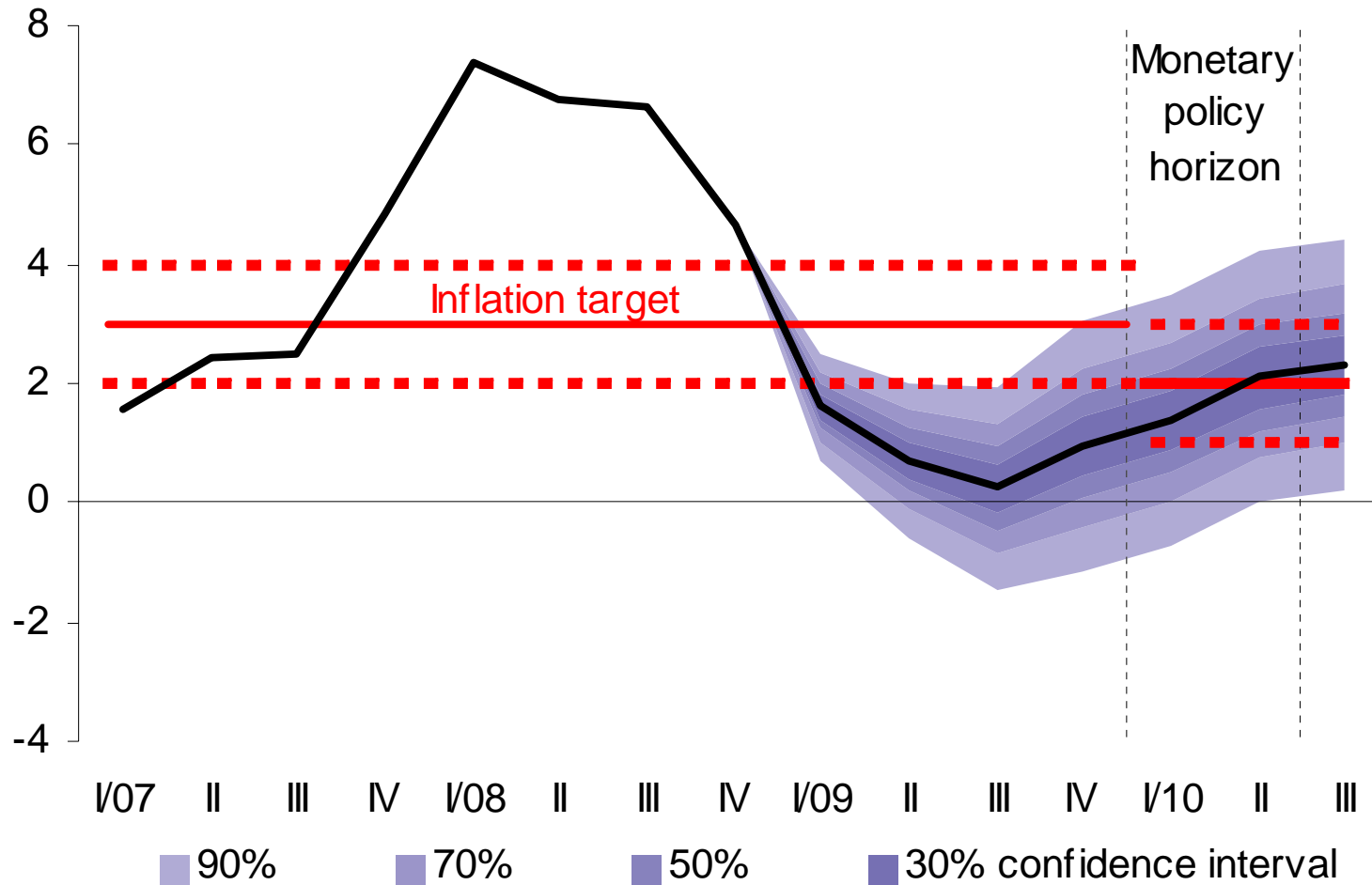
- Headline (and monetary-policy relevant) inflation will drop this year towards zero values but it will start rising at the end of the year and approach the 2% inflation target in the first half of 2010.
- The domestic economic growth will sharply decelerate, forecasted growth is zero or slightly negative this year and around 1% in the next year.
- The nominal exchange rate will initially correct its depreciation observed at the beginning of 2009 and will be broadly stable thereafter.
- Consistent with the forecast is a decline in market interest rates.

## *The external environment*

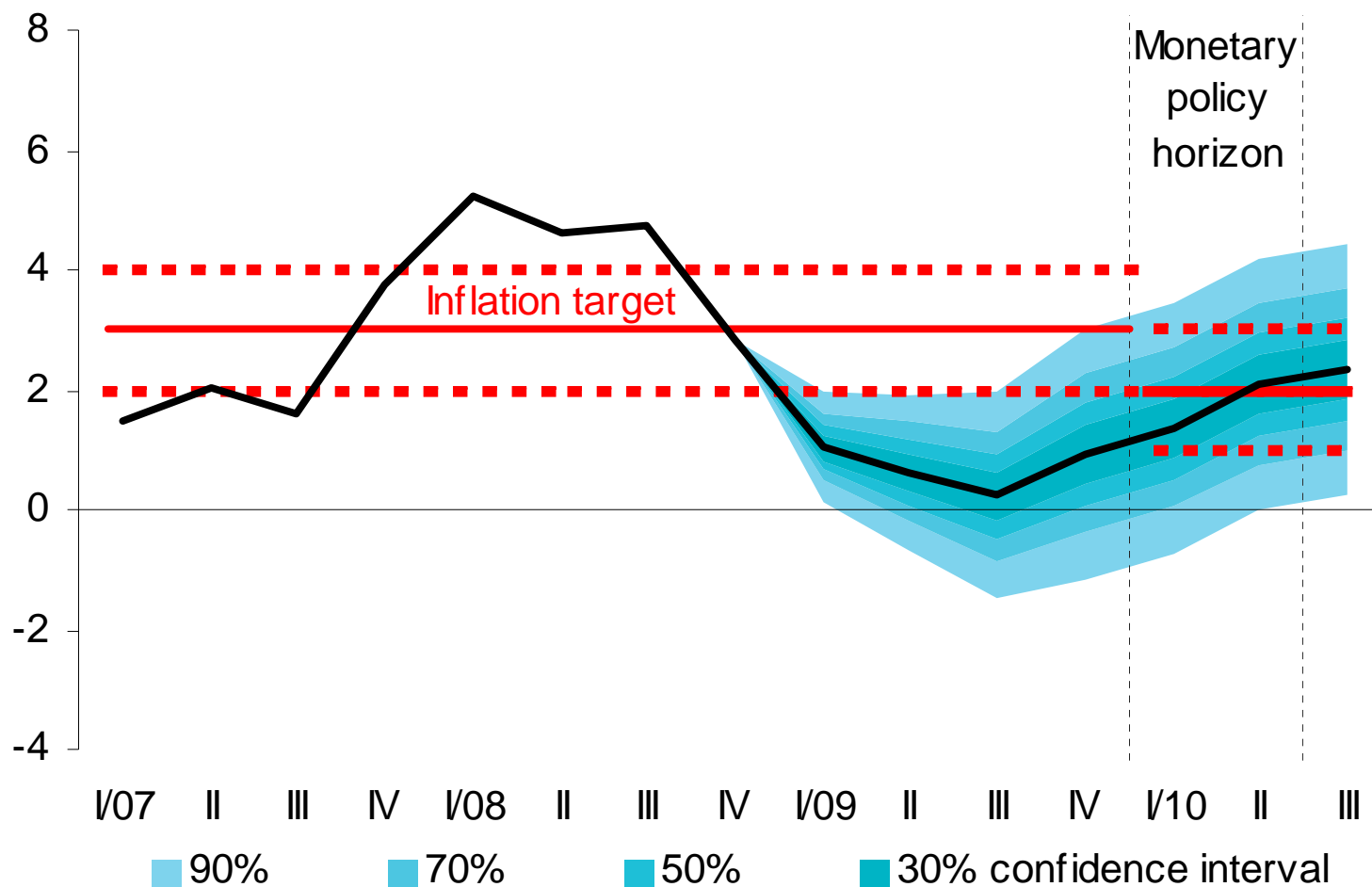
### **Comparison between the actual and previous forecast assumptions**

		2009	2010
Effective indicator of consumer prices in the euro area (percentages)	1.SR 2009	1.0	1.6
	7.SR 2008	2.2	2.0
Effective indicator of producer prices in the euro area (percentages)	1.SR 2009	0.9	1.9
	7.SR 2008	3.1	3.1
Effective indicator of GDP in the euro area (percentages)	1.SR 2009	-1.5	0.8
	7.SR 2008	0.5	1.4
Price of Brent crude oil (USD/barrel)	1.SR 2009	51.4	61.8
	7.SR 2008	85.7	90.8
USD/EUR exchange rate (level)	1.SR 2009	1.33	1.33
	7.SR 2008	1.35	1.31
3M EURIBOR (percentages)	1.SR 2009	1.8	2.5
	7.SR 2008	2.9	3.3

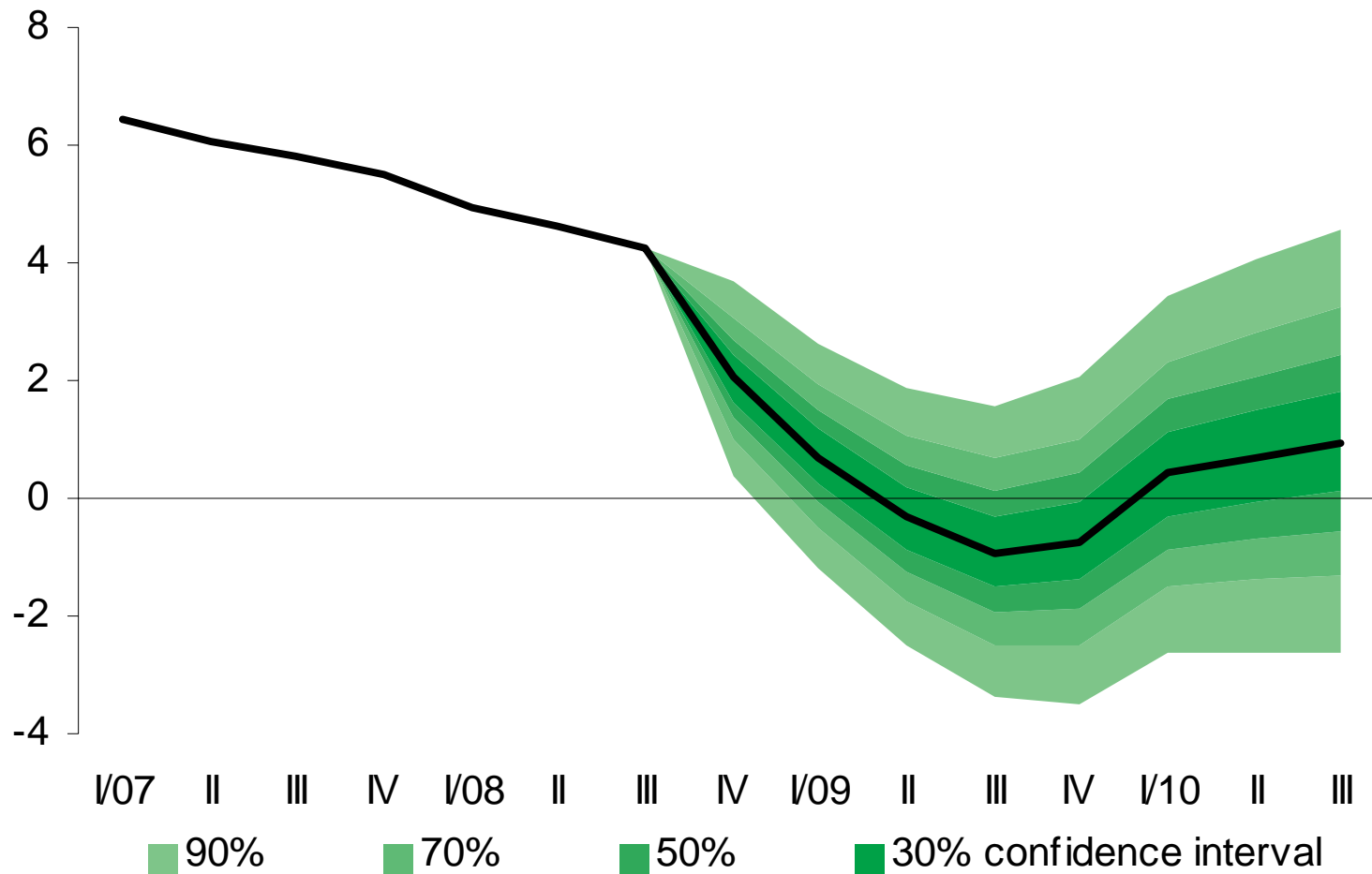
# *The forecast for headline inflation*



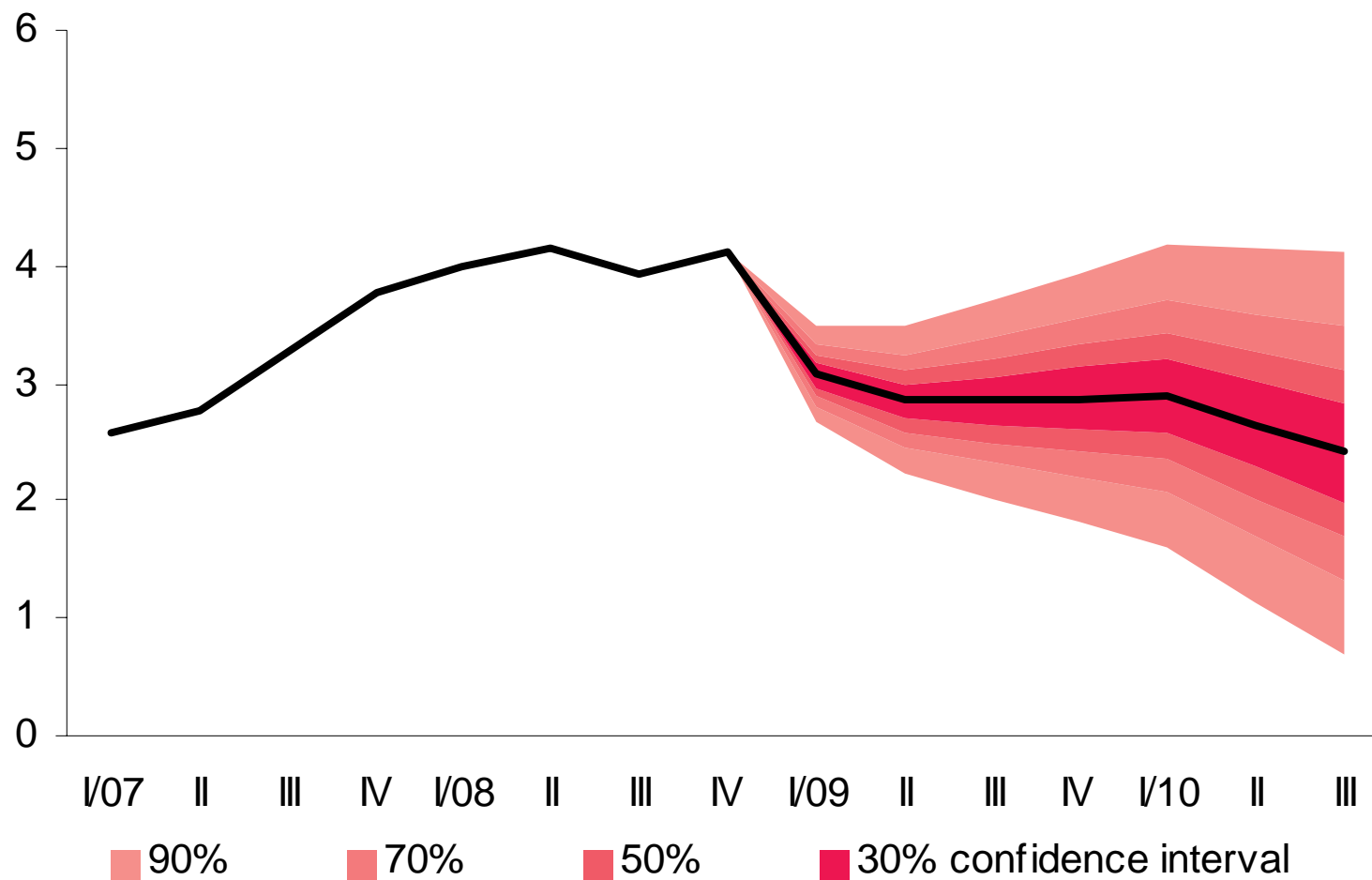
# *The forecast for monetary-policy relevant inflation*



## *The forecast for GDP*



## *The forecast for interest rates (3M PRIBOR)*

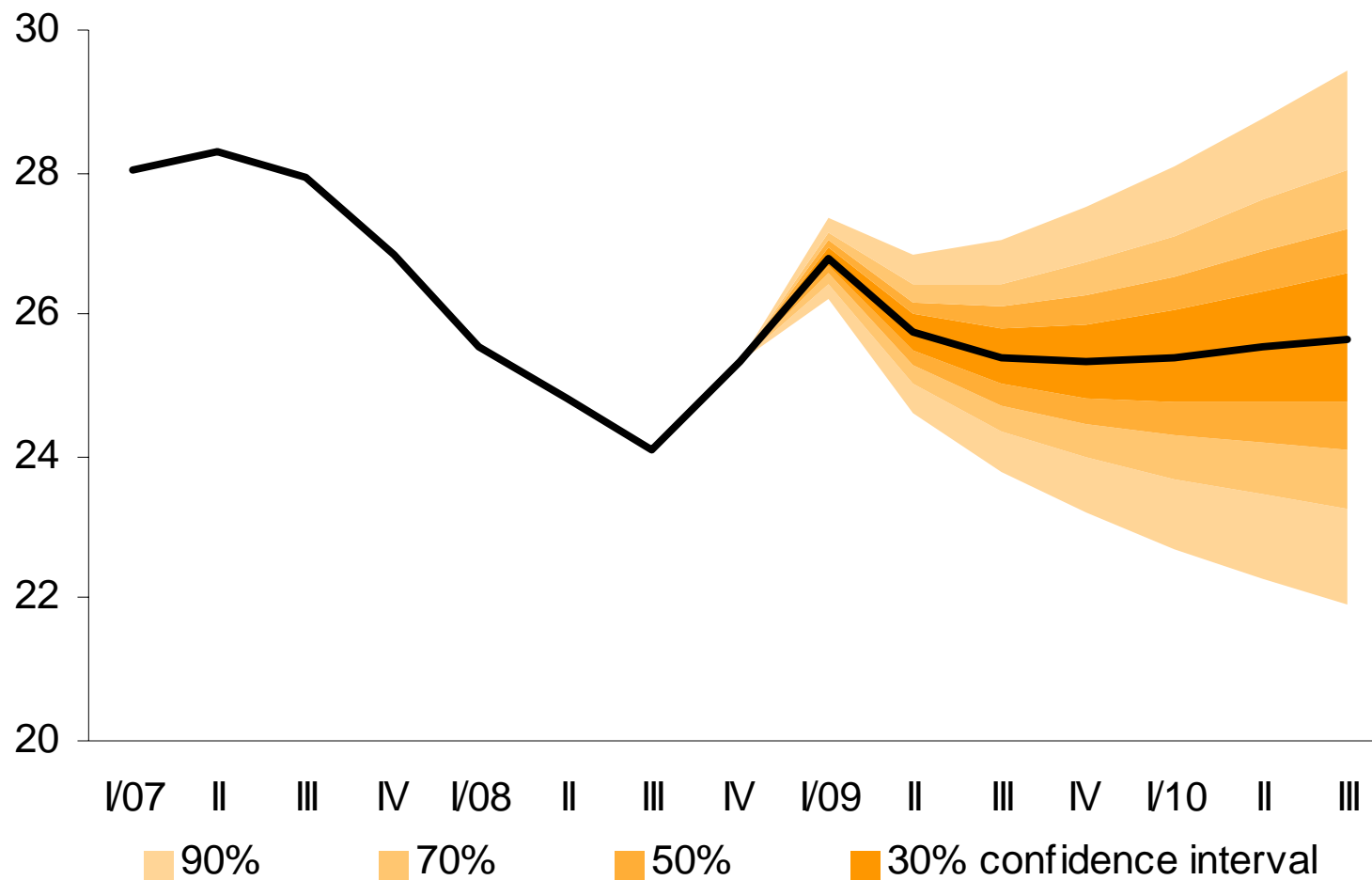




## *Exchange rate forecast disclosure*

- In autumn 2008 the Bank Board decided that the CNB will publish its forecast for the koruna-euro nominal exchange rate in numerical form starting from the 1st Situation Report 2009.
- The main aim of this change is to further increase the transparency, clarity and predictability of monetary policy.
- Identically to the forecast for other key variables, the exchange rate forecast is published as a fan chart.
- The published trajectory is conditional on the assumptions of the forecast and on information available at the time it was prepared.
- It can not be considered a commitment or preferred trajectory from the CNB's point of view.

## *The forecast for exchange rate (CZK/EUR, quarterly averages)*



## *Forecast in numbers*

### **Headline inflation in:**

2010, Q1	1.4 %
2010, Q2	2.1 %

### **Monetary-policy relevant inflation in:**

2010, Q1	1.4 %
2010, Q2	2.1 %

### **GDP growth in:**

2008	3.9 %
2009	-0.3 %
2010	0.9 %

### **Nominal interest rates (3M PRIBOR) in:**

2010, Q1	2.9 %
2010, Q2	2.6 %

### **Exchange rates (CZK/EUR) in:**

2009	25.8 CZK/EUR
2010	25.6 CZK/EUR

## *Comparison with the previous forecast*

- Compared to the previous forecast, the economic growth is markedly lower due to foreign economic developments.
- Forecast of exports, investment and household consumption is revised downwards accordingly.
- Compared to the previous forecast, the forecast for both headline and monetary-policy relevant inflation is markedly lower in 2009 whereas in 2010 is roughly the same.
- Compared to the previous forecast, the interest rate path lies slightly higher in 2009 but, on the contrary, lower in 2010.
- The CZK/EUR exchange rate forecast is substantially weaker than in the previous forecast.

## *Major uncertainties of the forecast*

***Risks are pronounced.***

### **Major risks and uncertainties:**

- deeper and longer-lasting decline in economic activity abroad
- depreciated exchange rate