

Press Conference of the CNB Bank Board

3rd Situation Report on Economic and Monetary Developments

May 7, 2009

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 0.25 percentage point to 1.50 %, effective 11 May 2004. At the same time it decided to decrease the discount rate and Lombard rate by the same amount, to 0.50 % and 2.50 % respectively. Five members voted in favour of this decision, and two members voted for leaving interest rates unchanged.

Message of the forecast

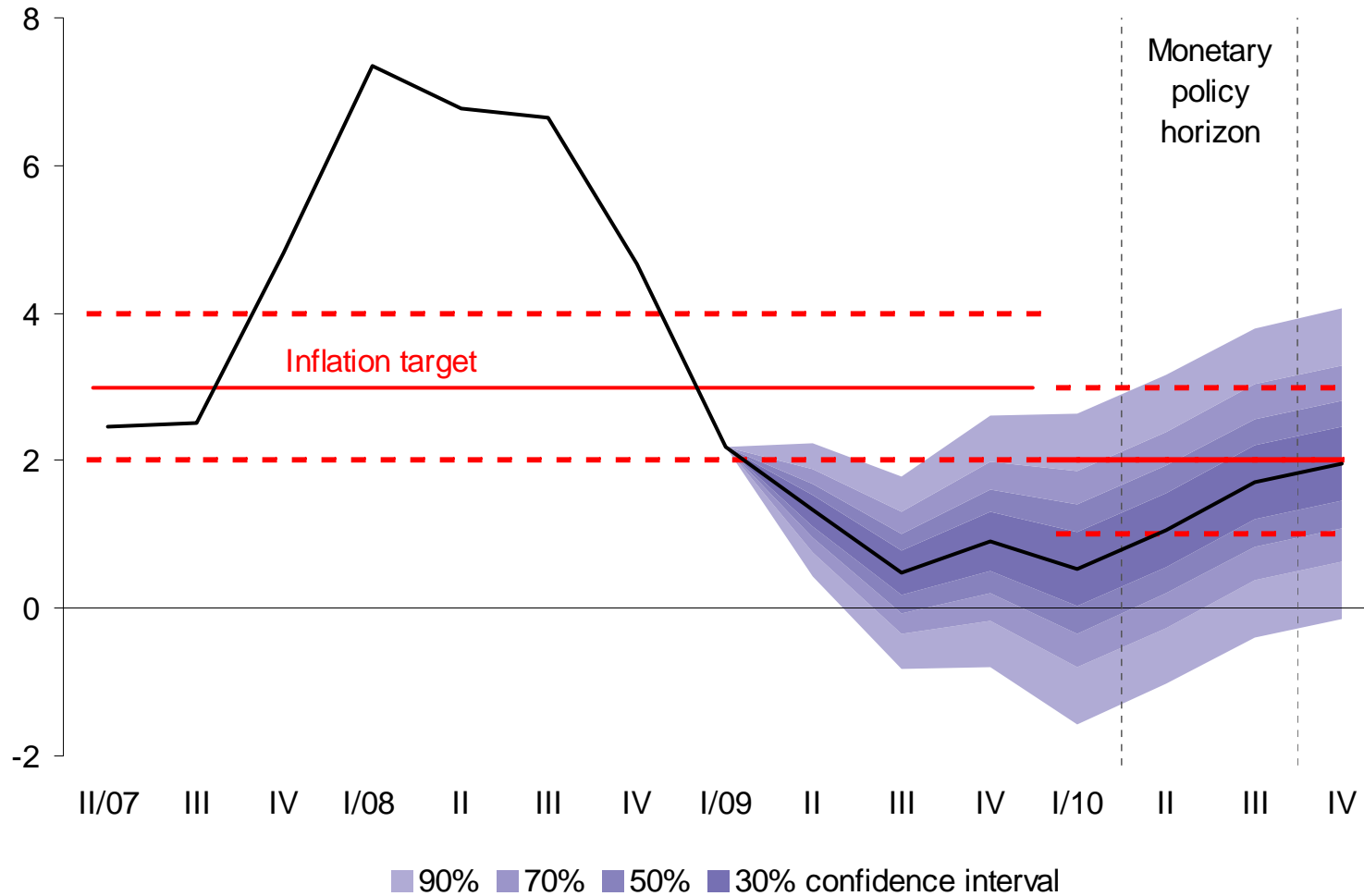
- Headline (and monetary-policy relevant) inflation will continue declining this year but will remain in positive figures. Next year inflation will again start rising and will approach the 2% inflation target at the end of 2010.
- The domestic economic activity will decline this year by 2,4% but the economy will return to modest growth in 2010.
- The nominal exchange rate will initially correct its losses from beginning of the year and afterwards will be broadly flat.
- Consistent with the forecast is a decline in market interest rates this year followed by a modest rise in 2010.

The external environment

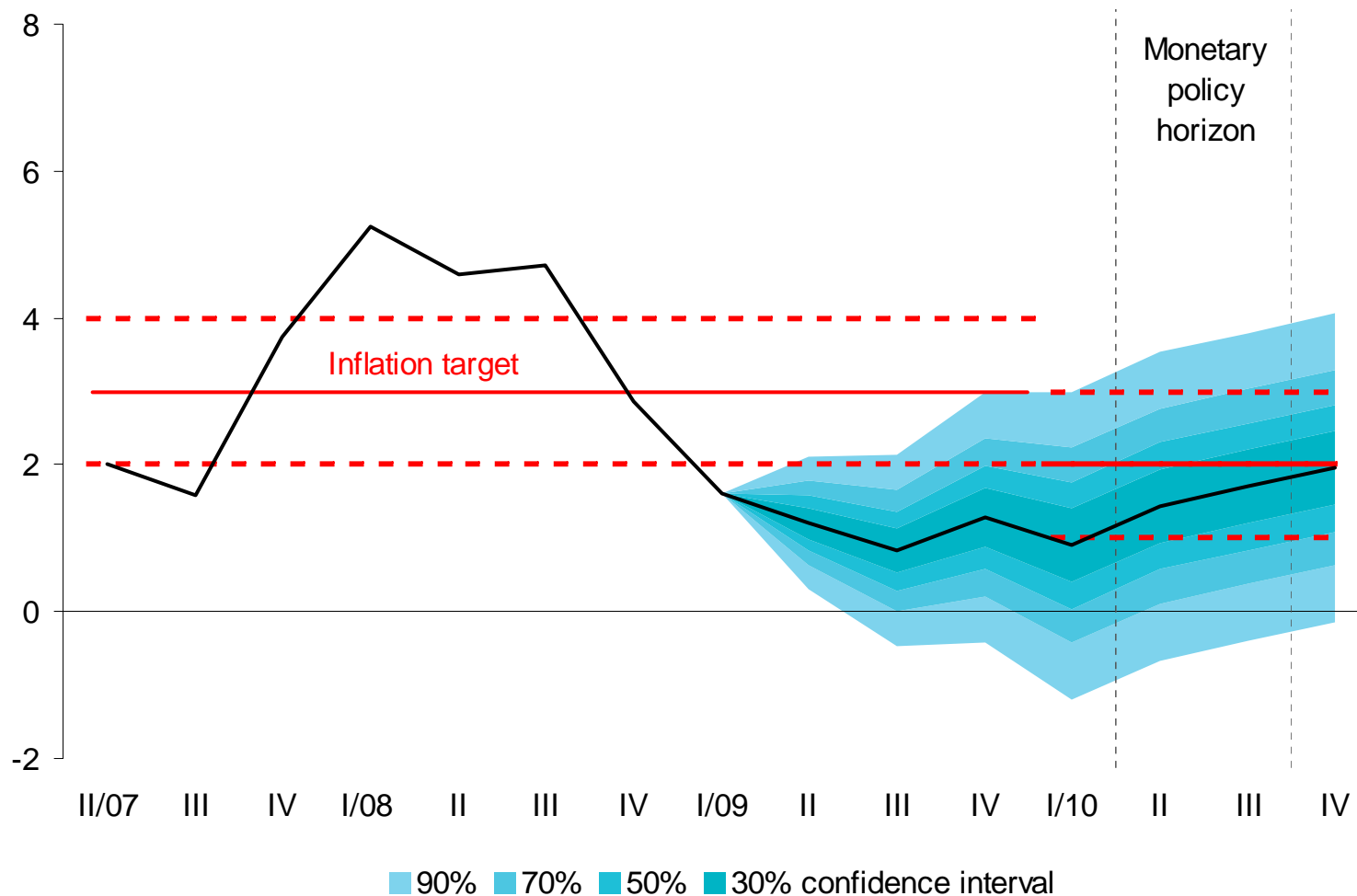
Comparison between the actual and previous forecast assumptions

		2009	2010
Effective indicator of consumer prices in the euro area (percentages)	3.SR 2009	1.0	1.6
	1.SR 2009	1.0	1.6
Effective indicator of producer prices in the euro area (percentages)	3.SR 2009	-1.6	1.3
	1.SR 2009	0.9	1.9
Effective indicator of GDP in the euro area (percentages)	3.SR 2009	-3.3	0.7
	1.SR 2009	-1.5	0.8
Price of Brent crude oil (USD/barrel)	3.SR 2009	52.7	63.3
	1.SR 2009	51.4	61.8
USD/EUR exchange rate (level)	3.SR 2009	1.32	1.33
	1.SR 2009	1.33	1.33
3M EURIBOR (percentages)	3.SR 2009	1.3	1.9
	1.SR 2009	1,8	2,5

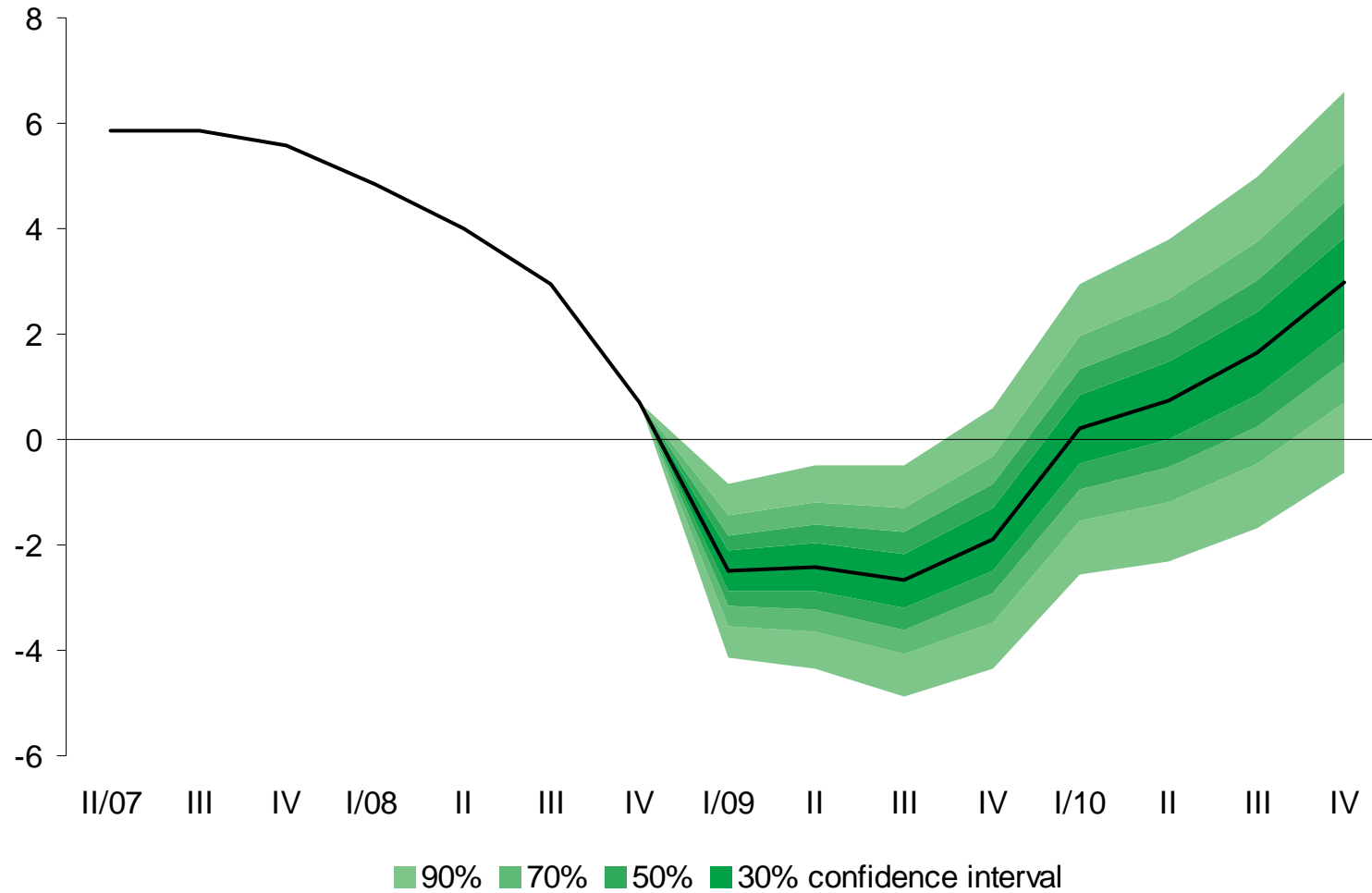
The forecast for headline inflation



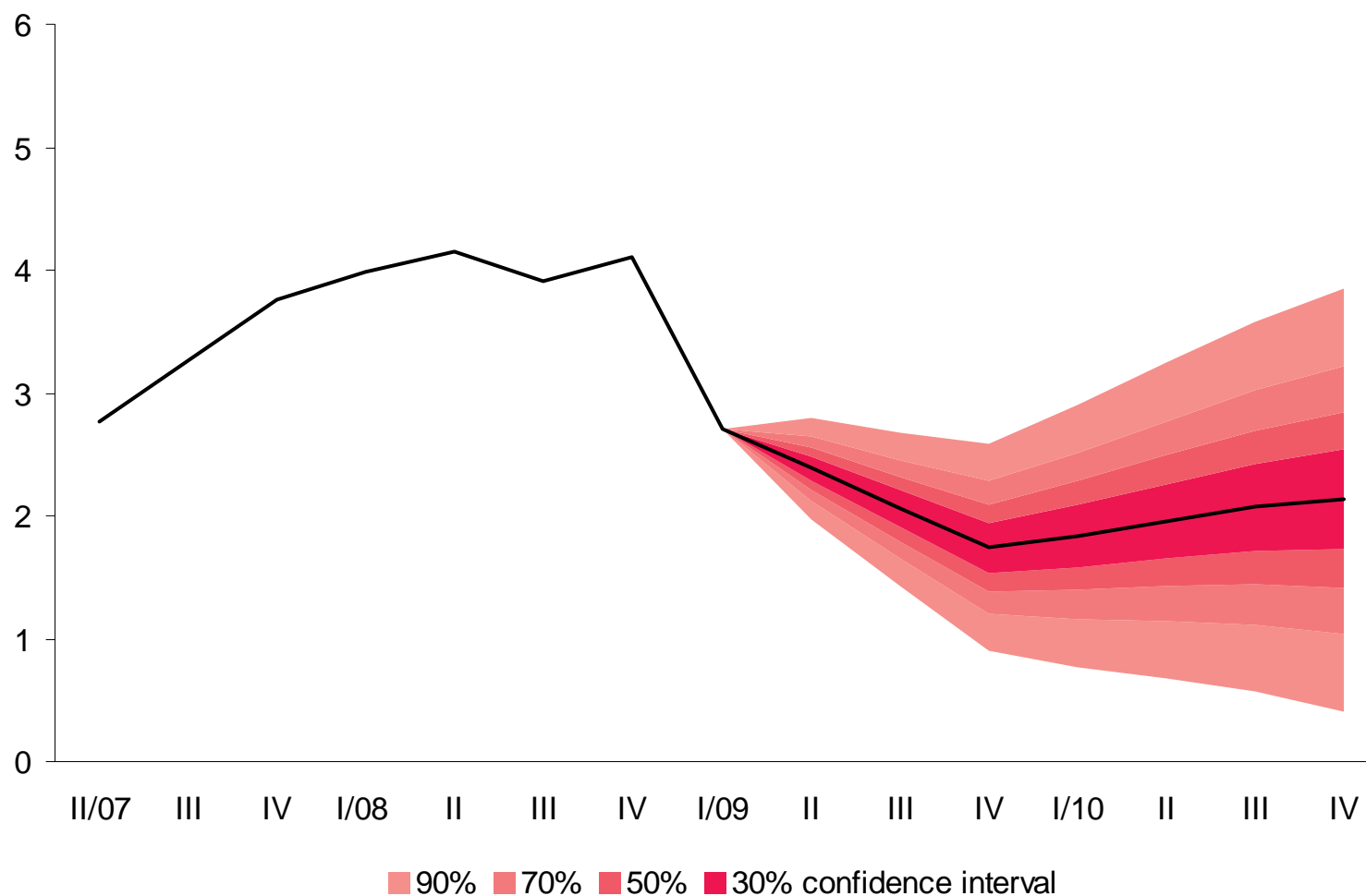
The forecast for monetary-policy relevant inflation



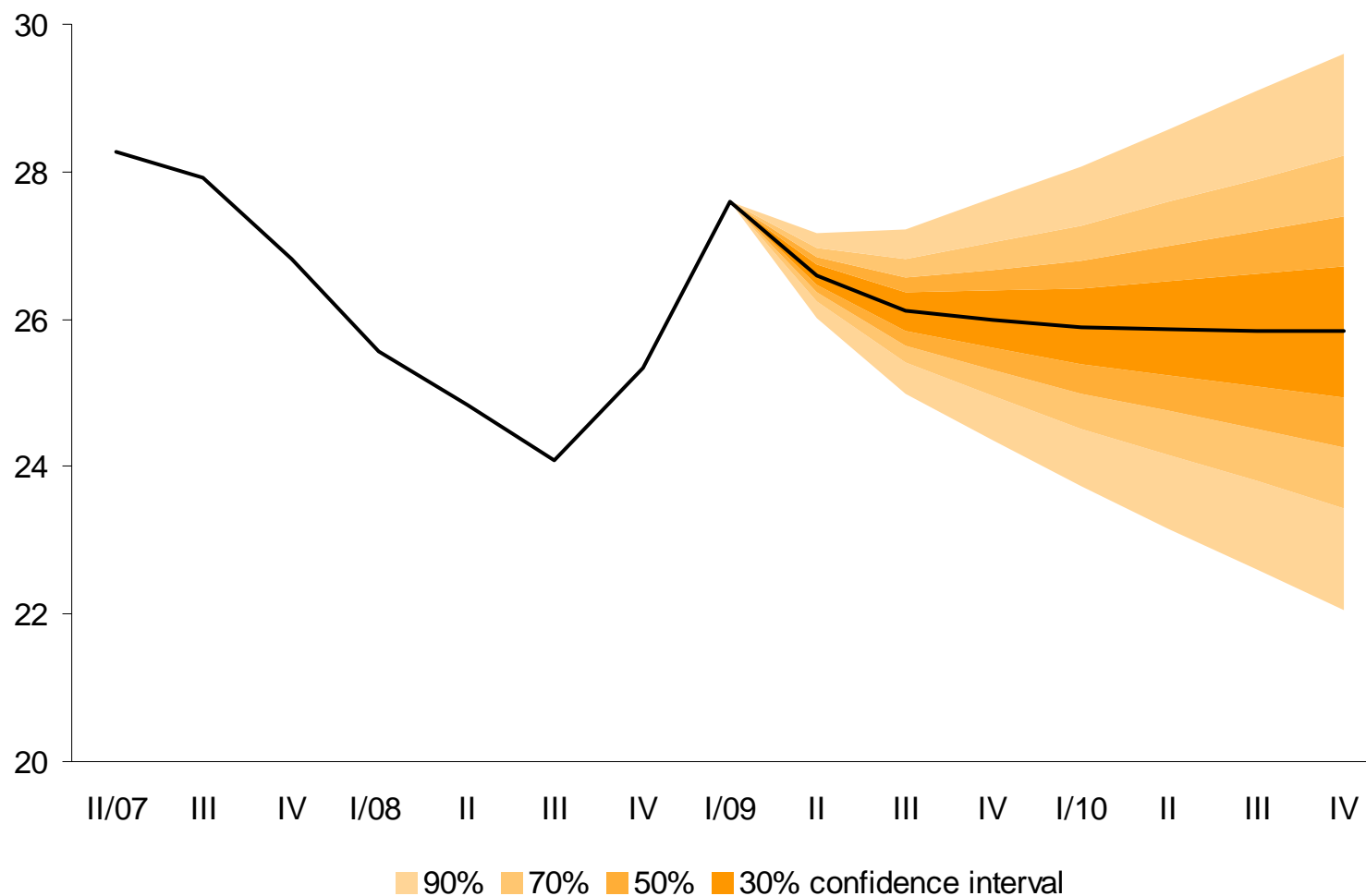
The forecast for GDP



The forecast for interest rates (3M PRIBOR)



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



Forecast in numbers

Headline inflation in:

2010, Q2	1.1 %
2010, Q3	1.7 %

Monetary-policy relevant inflation in:

2010, Q2	1.4 %
2010, Q3	1.7 %

GDP growth in:

2009	-2.4 %
2010	1.4 %

Nominal interest rates (3M PRIBOR) in:

2010, Q2	2.0 %
2010, Q3	2.1 %

Exchange rates (CZK/EUR) in:

2009	26.6 CZK/EUR
2010	25.9 CZK/EUR

Comparison with the previous forecast

- Compared to the previous forecast, the economic recession in 2009 is markedly deeper due to foreign economic developments, whereas in 2010 the economic growth is slightly stronger.
- Compared to the previous projection, the forecast for both headline and monetary-policy relevant inflation is higher in 2009 but, on the contrary, lower in 2010.
- Compared to the previous forecast, the interest rate path lies lower over the forecasted horizon.
- The CZK/EUR exchange rate outlook is weaker than in the previous forecast.

Major risks of the forecast

*Forecast risks are balanced,
a high degree of uncertainty persists*

Inflation risks on the down side:

- deeper and longer-lasting depression in economies abroad

Inflation risks on the up side:

- smaller drop in growth of nominal wages in domestic economy