

Press Conference of the CNB Bank Board

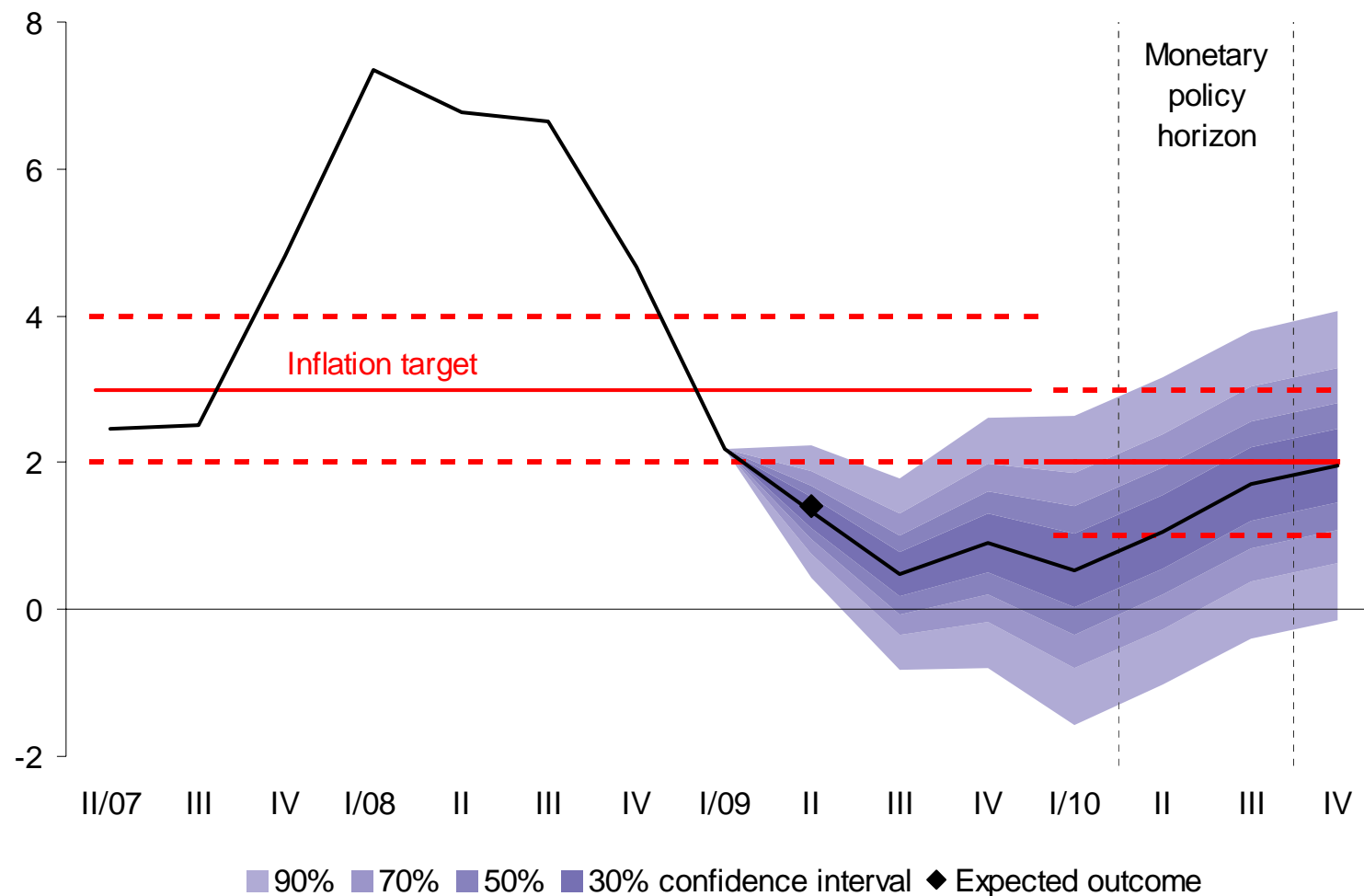
4th Situation Report on Economic and Monetary Developments

25 June 2009

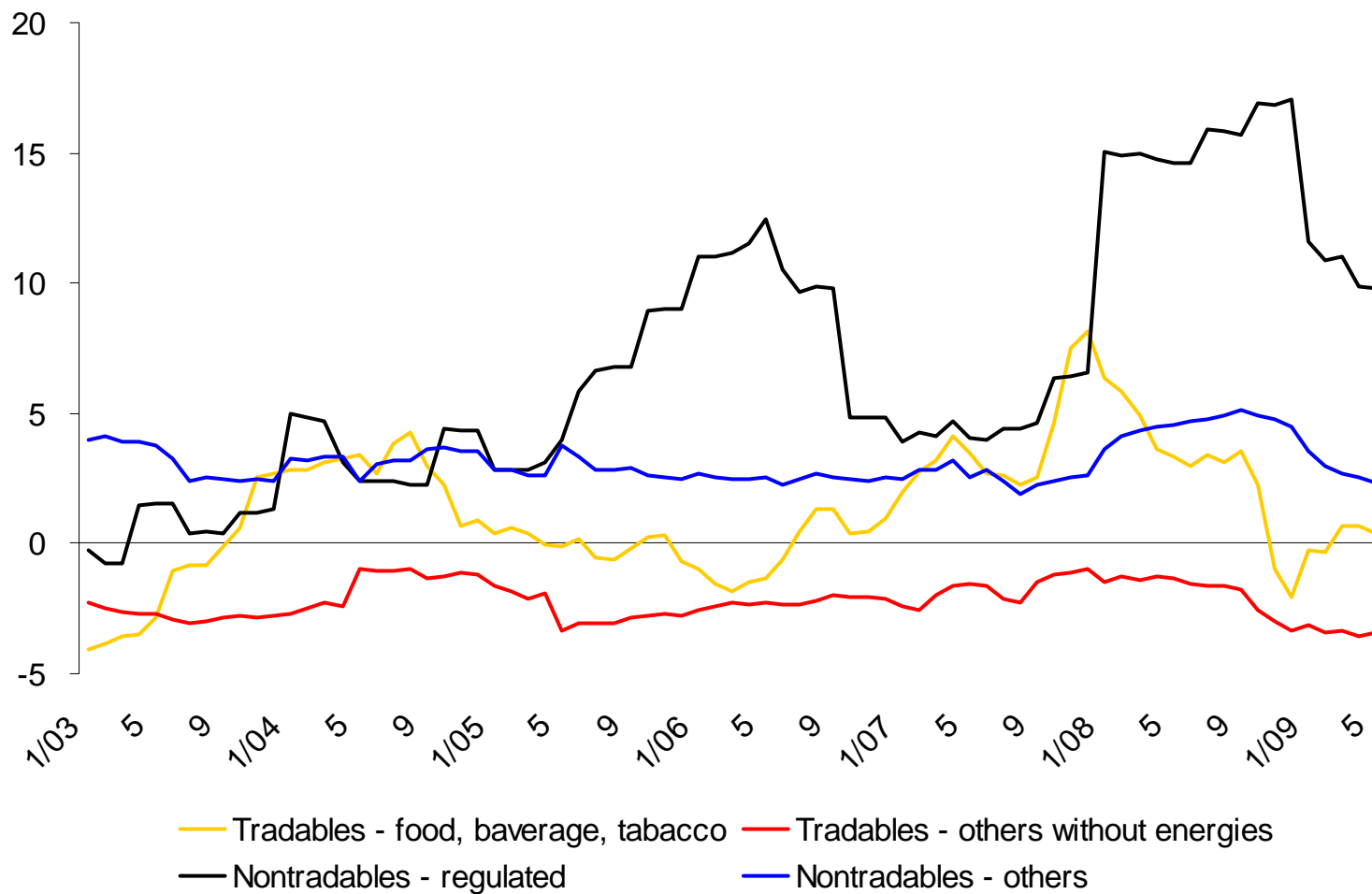
The monetary policy decision taken and the ratio of the votes cast

At the close of the meeting the Board decided by a majority vote to leave the two-week repo rate unchanged at 1.50 %. Four members voted in favour of this decision, and one member voted for decreasing rates by 0.25 percentage point.

The inflation forecast and expected outcome in 2009 Q2



A closer look at inflation



The external environment

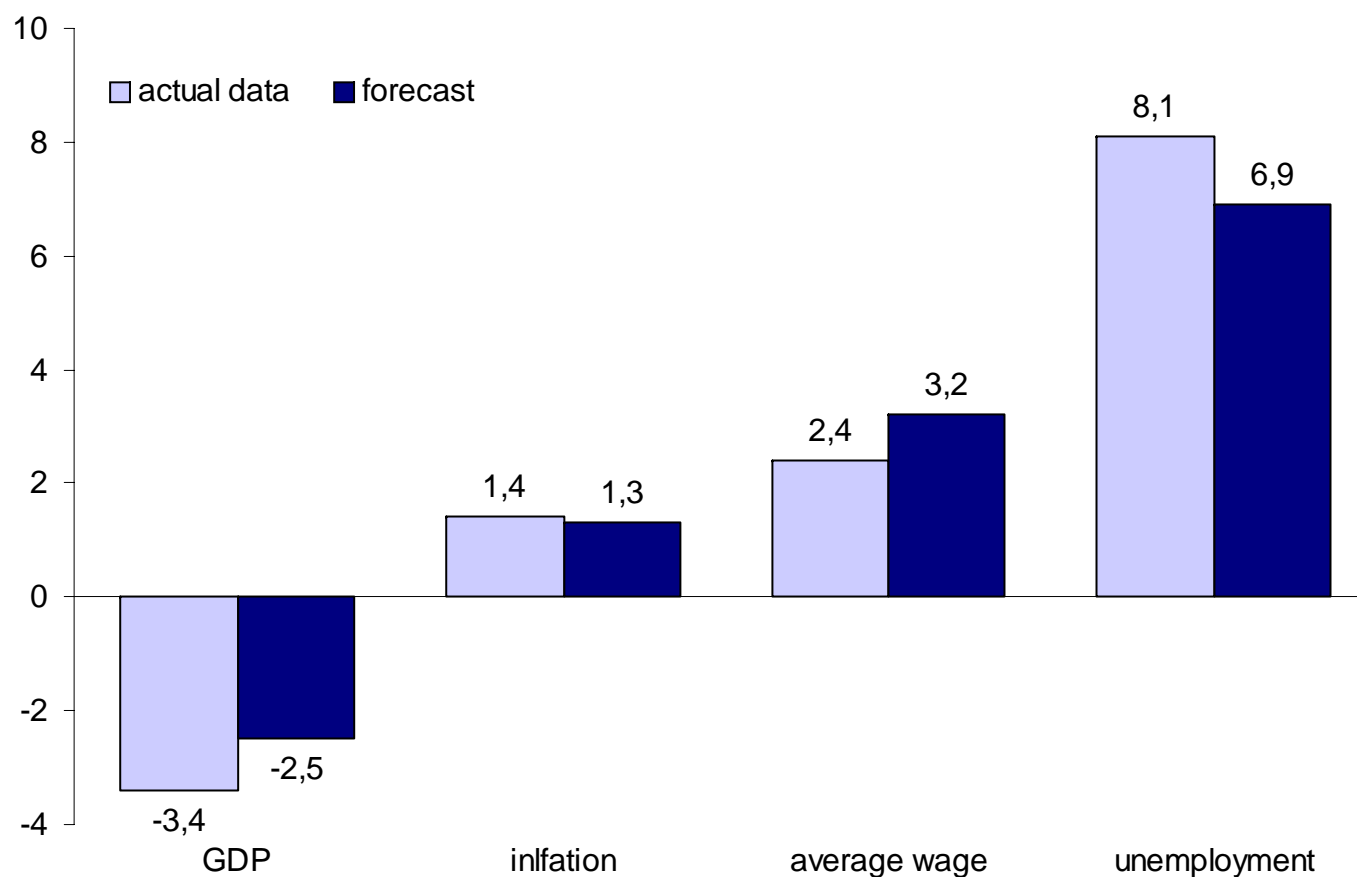
Comparison between the current forecast assumptions and June outlook based on Consensus Forecasts survey and market expectations

		2009	2010
Effective indicator of consumer prices in the euro area (percentages)	CF- June forecast	0.8 1.0	1.3 1.6
Effective indicator of producer prices in the euro area (percentages)	CF- June forecast	-2.8 -1.6	1.2 1.3
Effective indicator of GDP in the euro area (percentages)	CF- June forecast	-4.3 -3.3	0.4 0.7
Price of Brent crude oil (USD/barrel)	market - June forecast	60.2 52.7	75.1 63.3
USD/EUR exchange rate (level)	CF- June forecast	1.34 1.32	1.36 1.33
3M EURIBOR (percentages)	market - June forecast	1.4 1.3	2.1 1.9

Domestic developments since the Board's previous monetary meeting

- GDP annual decline deepened in 2009, Q1 (-3.4 % y-o-y);
- New information on April annual developments of industrial production (-22,1 %), construction (2,1 %) and retail trade (-2,0 %) indicate a persisting decline in economic activity in Q2;
- Trade balance in April (CZK +12 bil.) improved annually, partly due to decreasing import prices (-1,3 % y-o-y). Both exports (-22,8 %) and imports (-26 %) are markedly declining;
- Developments on the labour market in 2009, Q1 corresponds to falling economic activity – annual growth in nominal wages slowed sharply (2,4 %) and until recently growing employment rate turned into a slight annual decline (-0,2 %). Registered unemployment in May maintained its April level (8,1 %), however continued to grow fast after being seasonally adjusted;
- Annual drop in industrial producer prices (-3,8 %) and agricultural producer prices (-31,4 %) confirm anti-inflationary effects of commodities' prices.

Comparison of actual data with the CNB forecast



Major risks of the forecast

Risks are balanced.

Major risks on the down side:

- worse-than-expected downturn in economic activity in Q1/2009 both in the Czech Republic and abroad incl. future outlook
- deeper than expected fall in food prices

Major risks on the up side:

- composition of domestic economic activity (falling investment while higher than expected consumption growth)
- higher oil prices
- developments of core inflation