

Press Conference of the CNB Bank Board

5th Situation Report on Economic and Monetary Developments

August 6, 2009

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

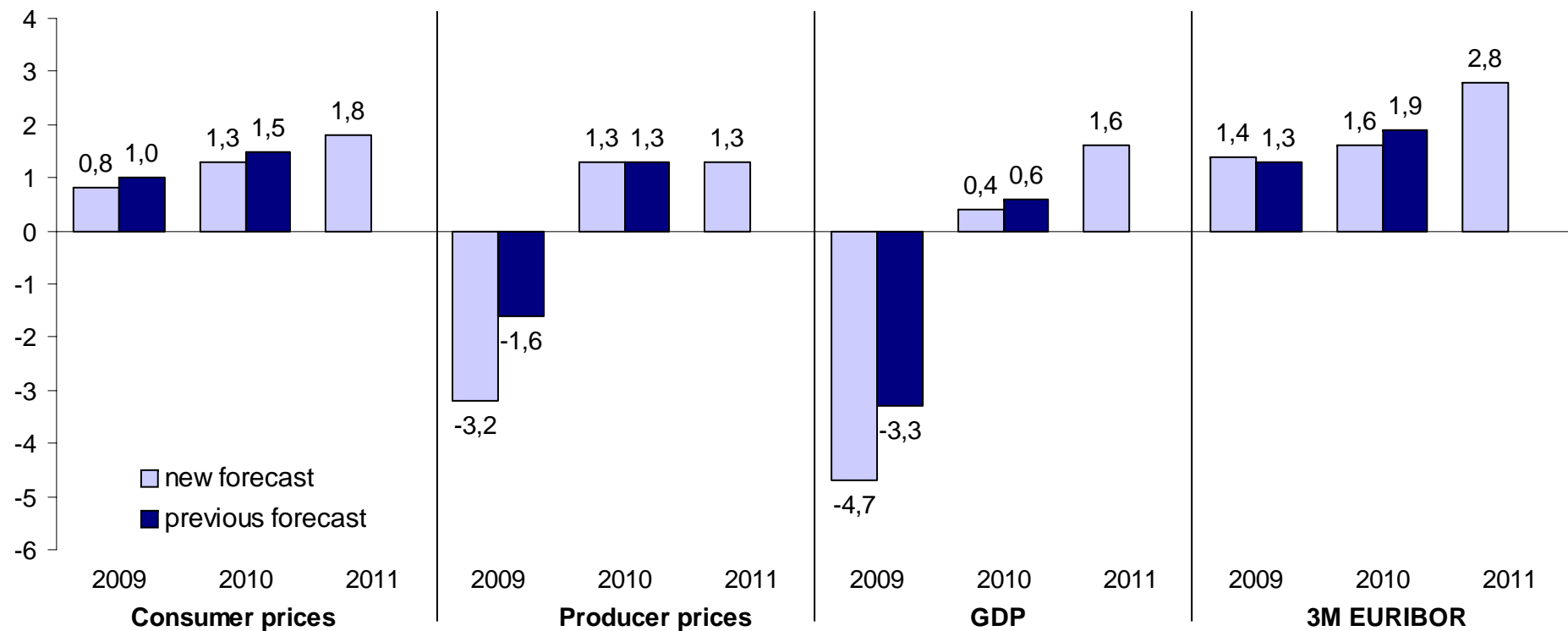
At the close of the meeting the Board decided unanimously to decrease the CNB two-week repo rate by 0.25 percentage point to 1.25 %, effective 7 August 2009. At the same time it decided to decrease the discount rate and Lombard rate by the same amount, to 0.25 % and 2.25 % respectively.

Message of the forecast

- Headline (and monetary-policy relevant) inflation will continue to fall this year. It will remain low but positive for the rest of this year and at the start of 2010. Next year inflation will start rising and will get to the 2% inflation target at the end of 2010.
- The economic decline bottomed out in Q2 and the quarter-on-quarter growth is expected as from 2009 Q3. However, the sharp fall in GDP at the beginning of the year will pass through into a year-on-year decline in GDP for the remainder of the year.
- The nominal exchange rate of the koruna is modestly appreciating over the forecast horizon.
- Consistent with the forecast is a decline in market interest rates this year followed by a modest rise from 2010 H2 onwards.

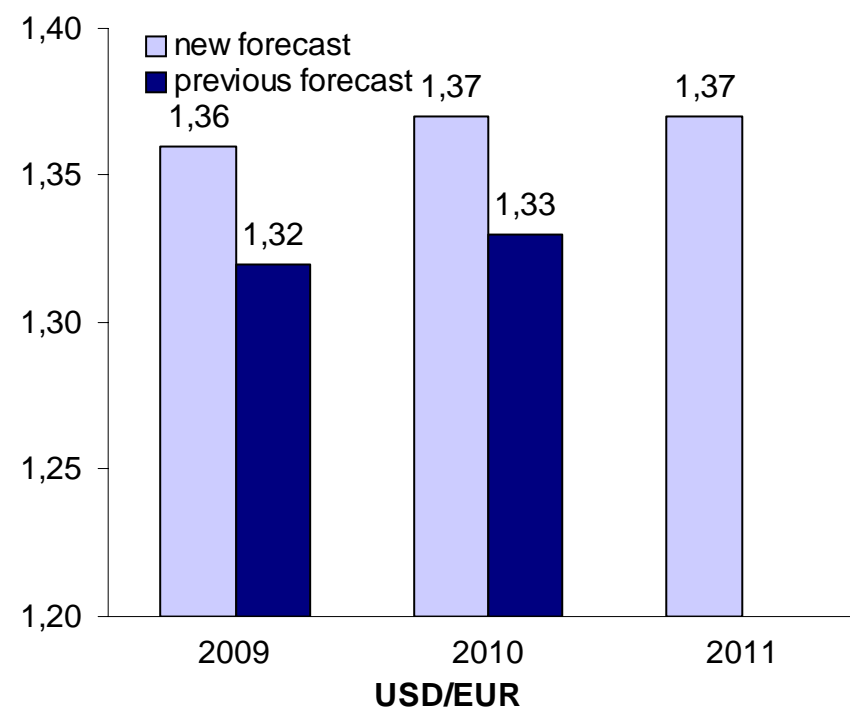
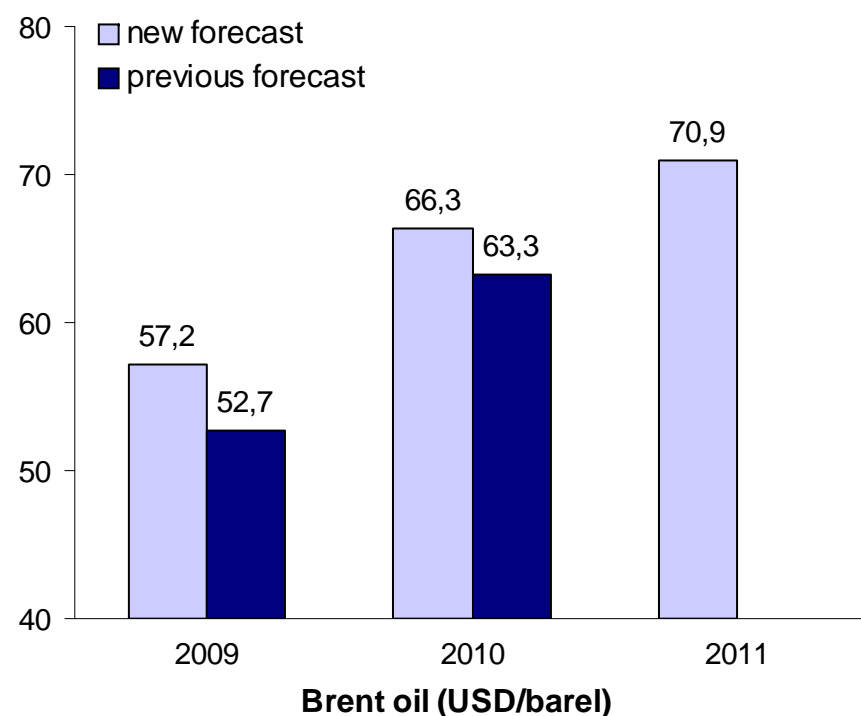
The external environment (i)

Comparison between the actual and previous forecast assumptions

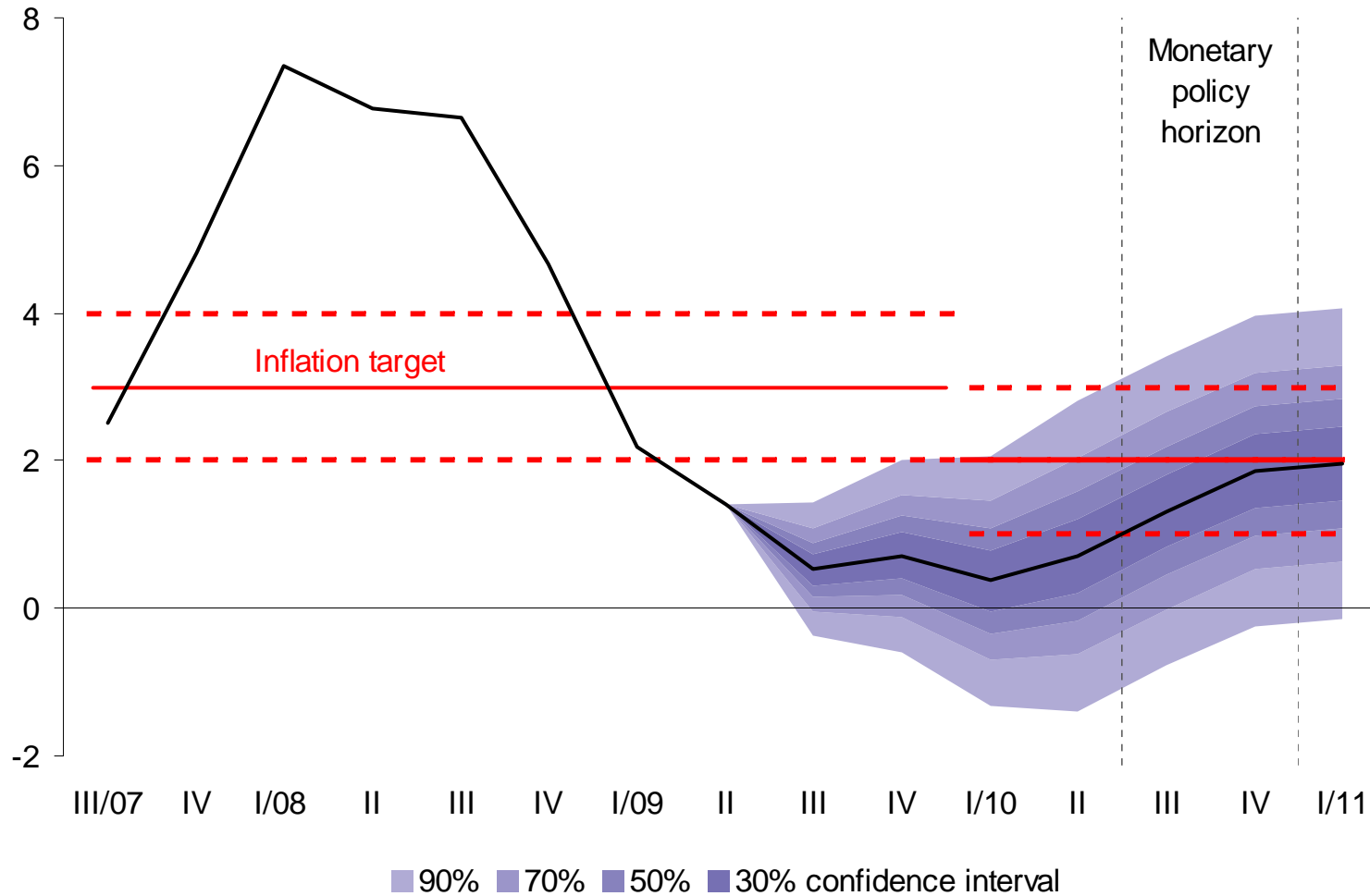


The external environment (ii)

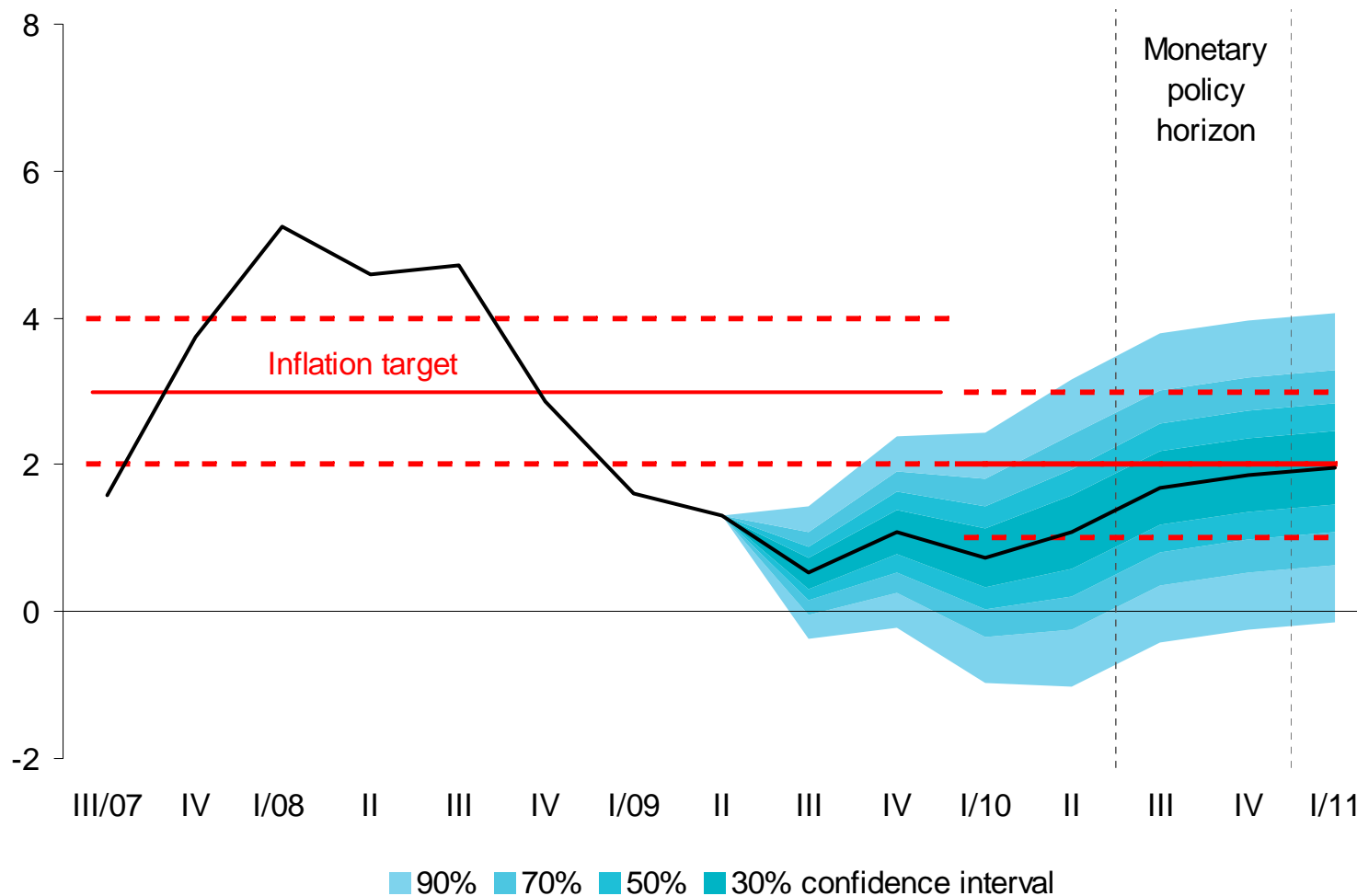
Comparison between the actual and previous forecast assumptions



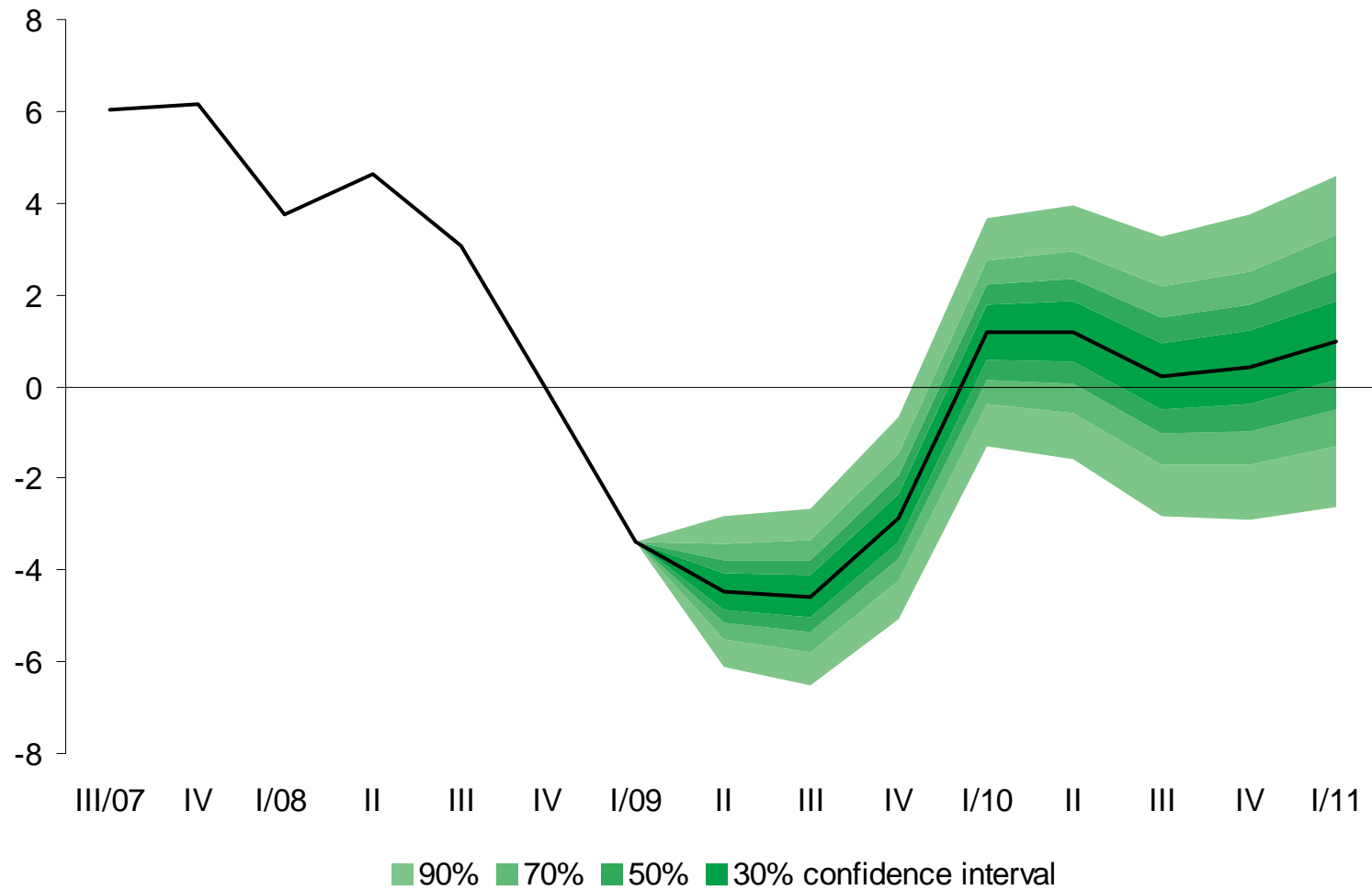
The forecast for headline inflation



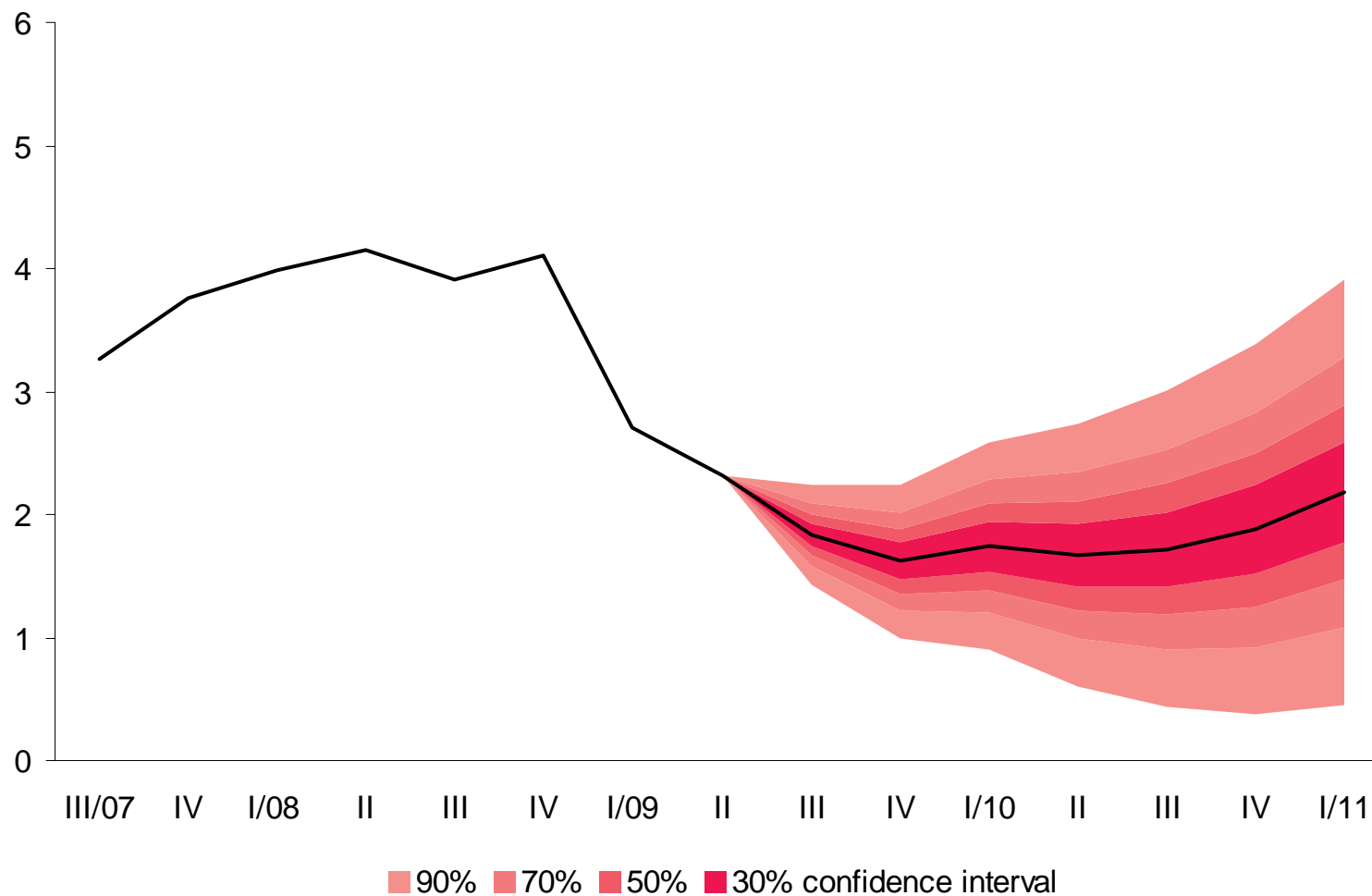
The forecast for monetary-policy relevant inflation



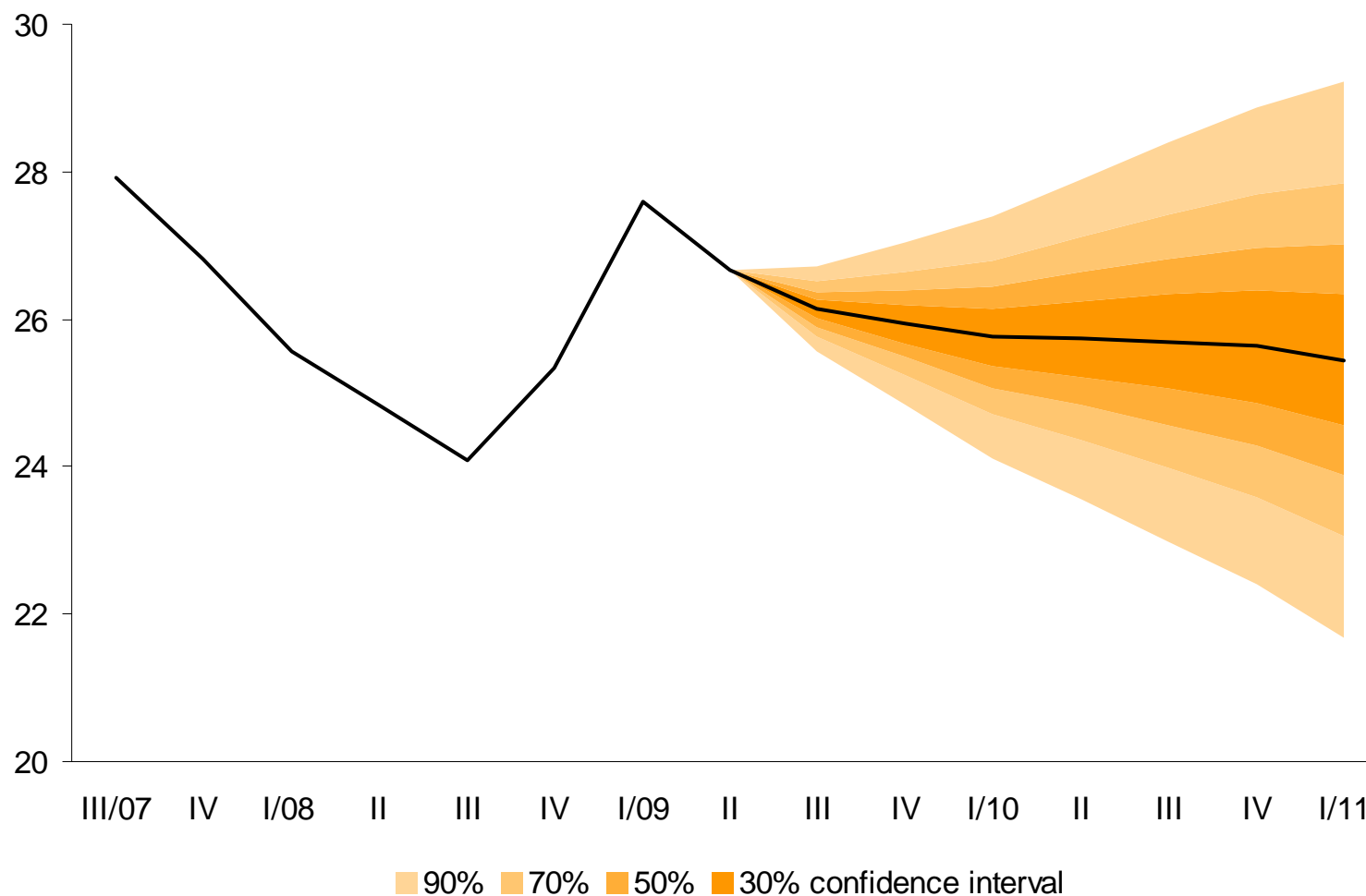
The forecast for GDP



The forecast for interest rates (3M PRIBOR)



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



Forecast in numbers

Headline inflation in:

2010, Q3 1.3 %

2010, Q4 1.9 %

Monetary-policy relevant inflation in:

2010, Q3 1.7 %

2010, Q4 1.9 %

GDP growth in:

2009 -3.8 %

2010 0.7 %

2011 2.2 %

Nominal interest rates (3M PRIBOR) in:

2010, Q3 1.7 %

2010, Q4 1.9 %

Exchange rates (CZK/EUR) in:

2009 26.6 CZK/EUR

2010 25.7 CZK/EUR

2011 25.3 CZK/EUR

Comparison with the previous forecast

- Compared to the previous forecast, the economic recession in 2009 is markedly deeper.
- The forecast for both headline and monetary-policy relevant inflation in 2009 and 2010 is somewhat lower than in the previous forecast.
- The interest rate path lies slightly below the level of the previous forecast in both 2009 and 2010.
- The CZK/EUR exchange rate outlook is equal to the previous forecast in 2009, whereas in 2010 is somewhat stronger.

Major risks of the forecast

Forecast risks are overall slightly on the down side.

Inflation risk on the down side:

- currently stronger koruna exchange rate

Inflation risk on the up side:

- currently higher oil prices