Press Conference of the CNB Bank Board

7th Situation Report on Economic and Monetary Developments

November 5, 2009

CZECH CNB NATIONAL BANK

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 1.25 %. Four members voted in favour of this decision, and three members voted for decreasing rates by 0.25 percentage point.

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Reasons for the decision

- Inflation is close to the inflation target in the monetary-policy horizon.
- Consistent with the forecast is a decline in market interest rates this year followed by a gradual rise in 2010.
- But the risks are in total slightly on the up side (the exchange rate developments).
- The uncertainty regarding the developments of the long-term equilibrium trajectories prevails.

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Tone of the forecast

- Headline (and monetary-policy relevant) inflation will be very low in coming months. During 2010 headline inflation will rise gradually. At the end of 2010, it will slightly exceed the 2 per cent inflation target. The monetary-policy relevant inflation will be below headline inflation due to increases in indirect taxation.
- Bottoming-out of GDP will lead to its less pronounced y-o-y decline in 2009, 2H. In 2010 GDP will grow in y-o-y terms, but the growth will decelerate in the course of the year, reflecting renewed slowdown in the export demand, rising unemployment and restrictive fiscal policy.
- The nominal exchange rate of the koruna will be broadly stable over the forecast horizon.
- Consistent with the forecast is a decline in market interest rates this year followed by a gradual rise in 2010.

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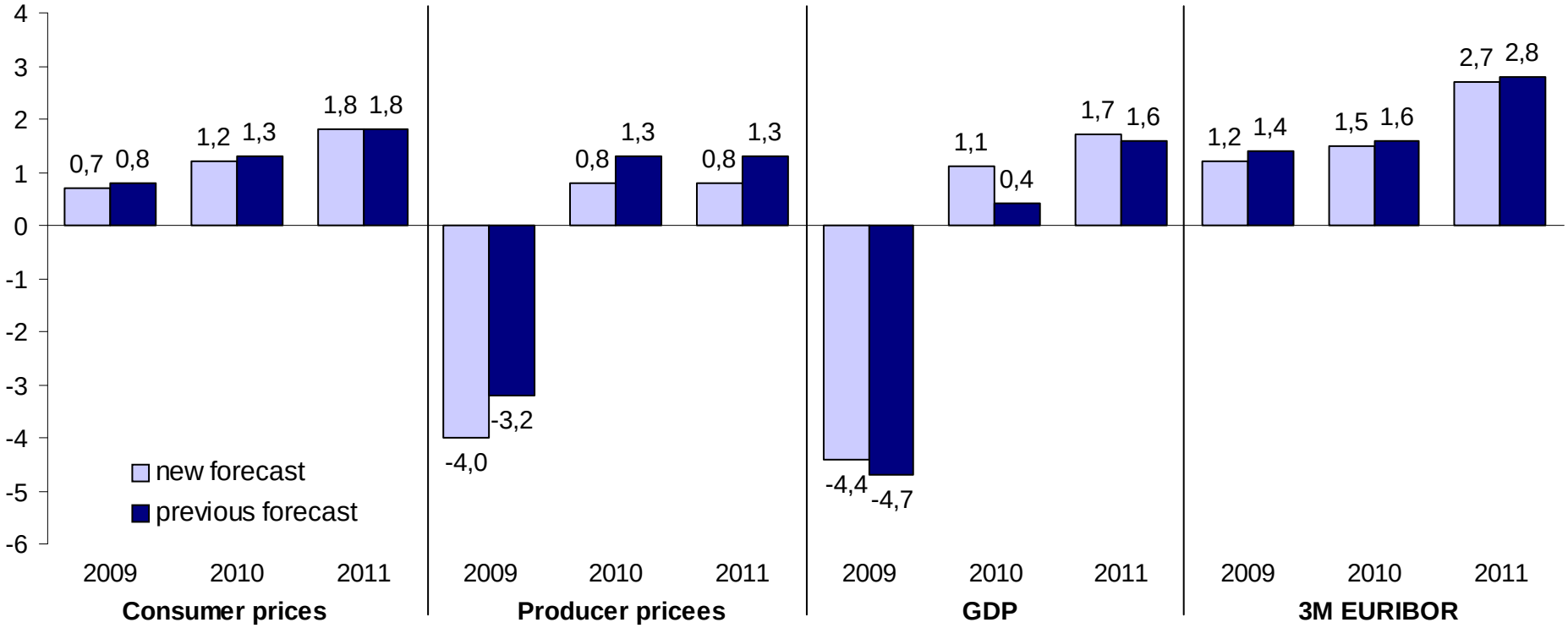
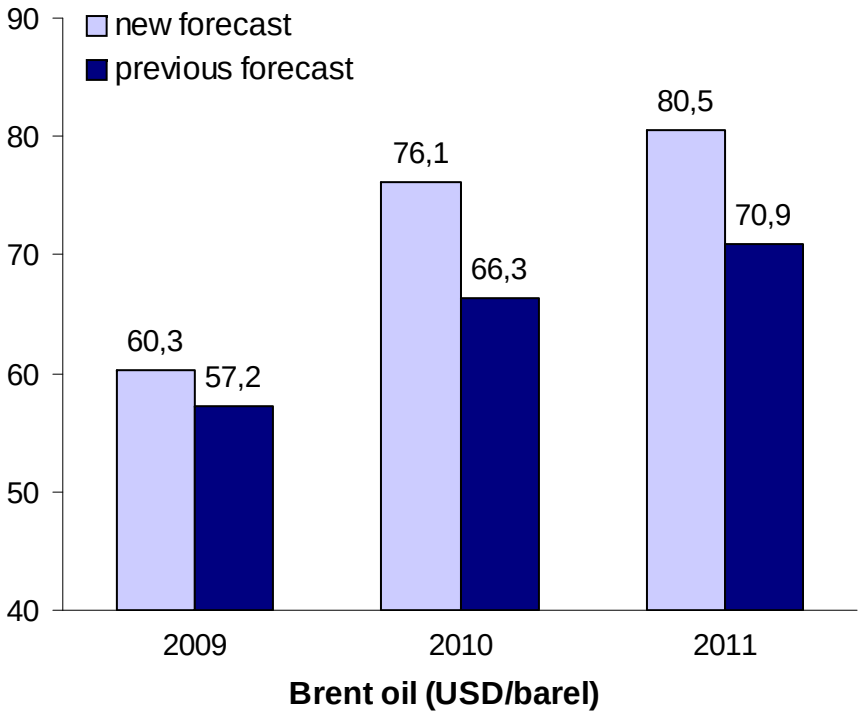
The external environment (i)

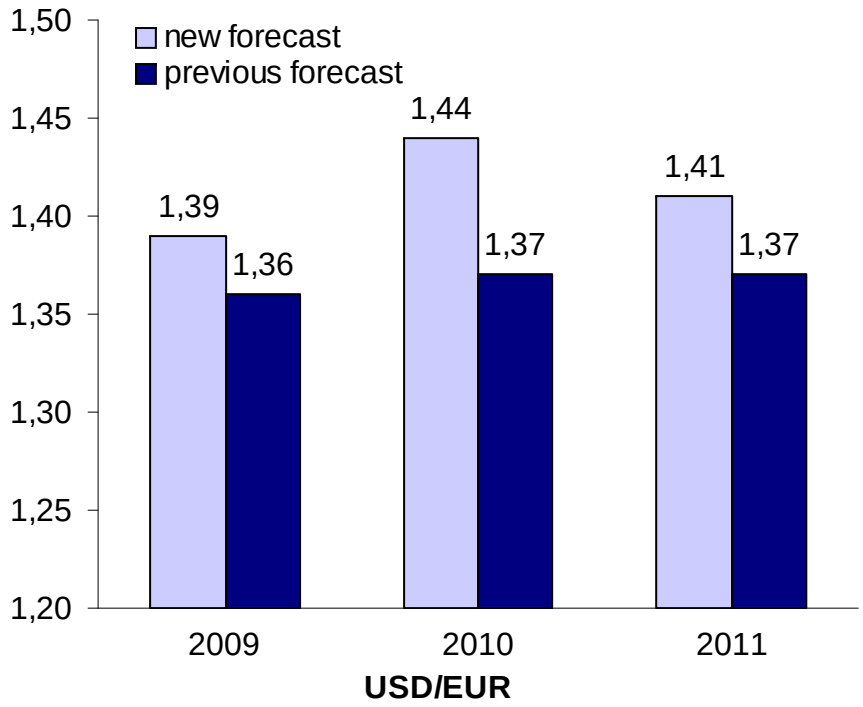
Comparison between the actual and previous forecast assumptions (data for effective Euro area)



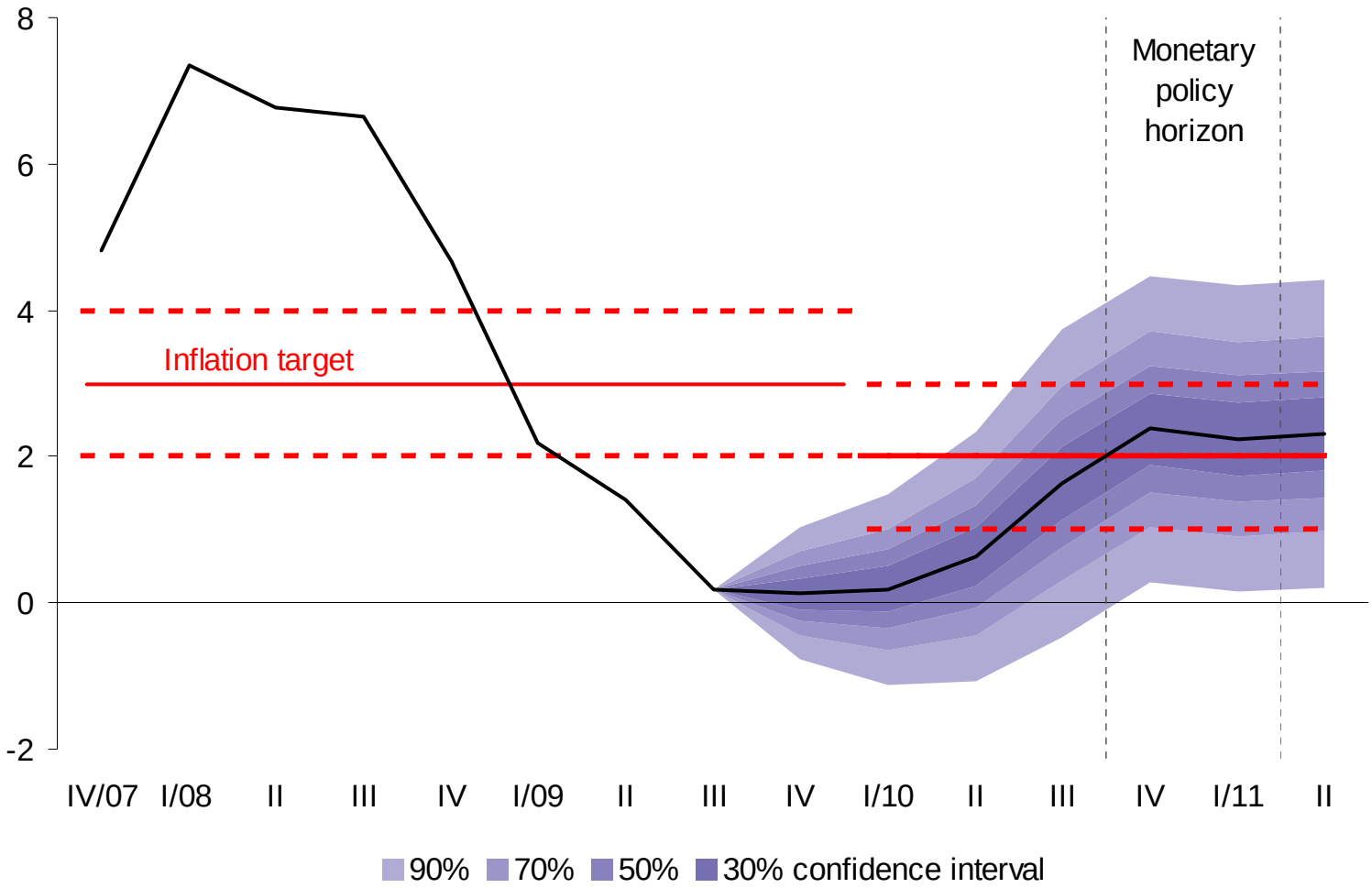
The external environment (ii)

Comparison between the actual and previous forecast assumptions

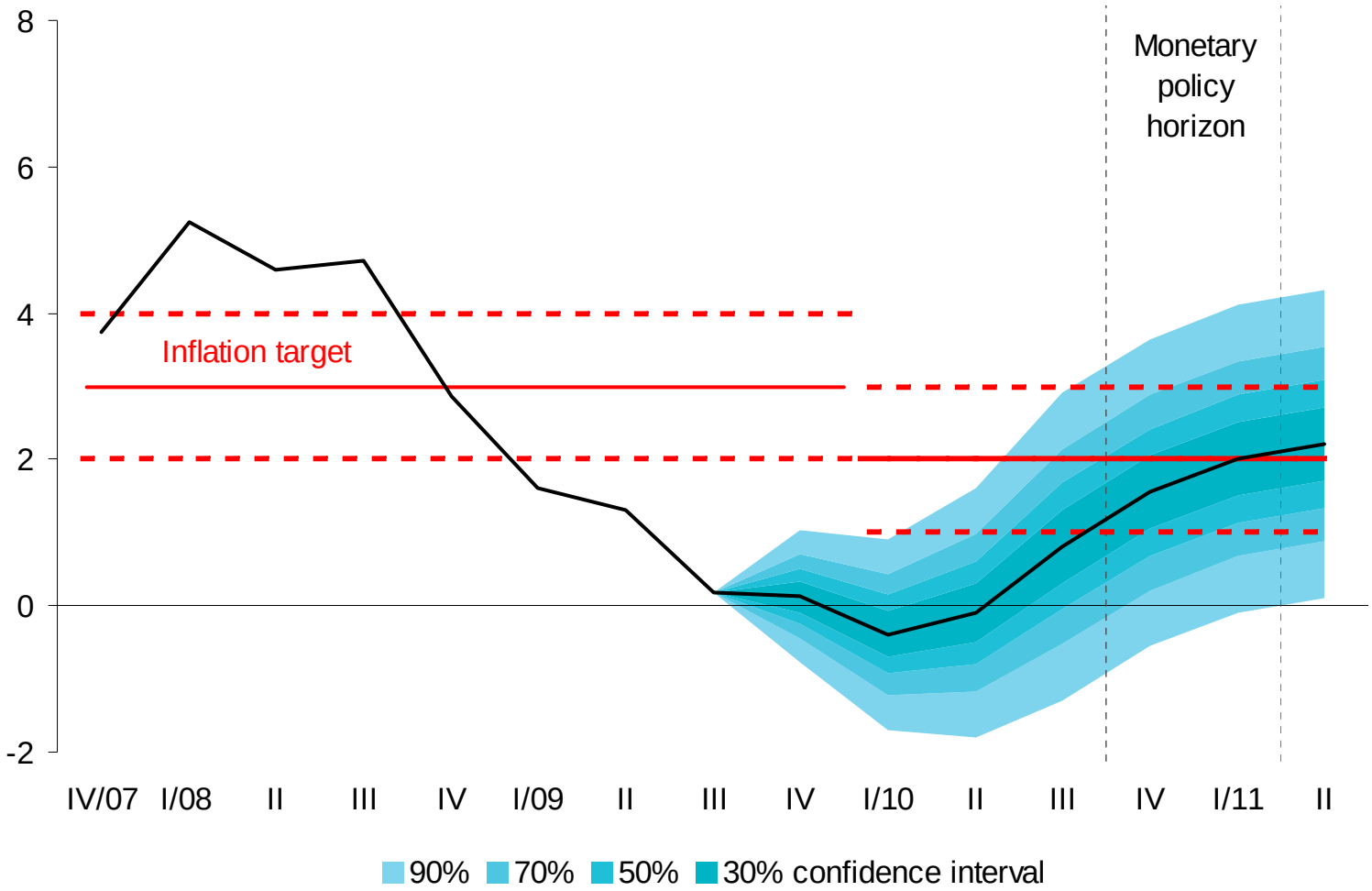




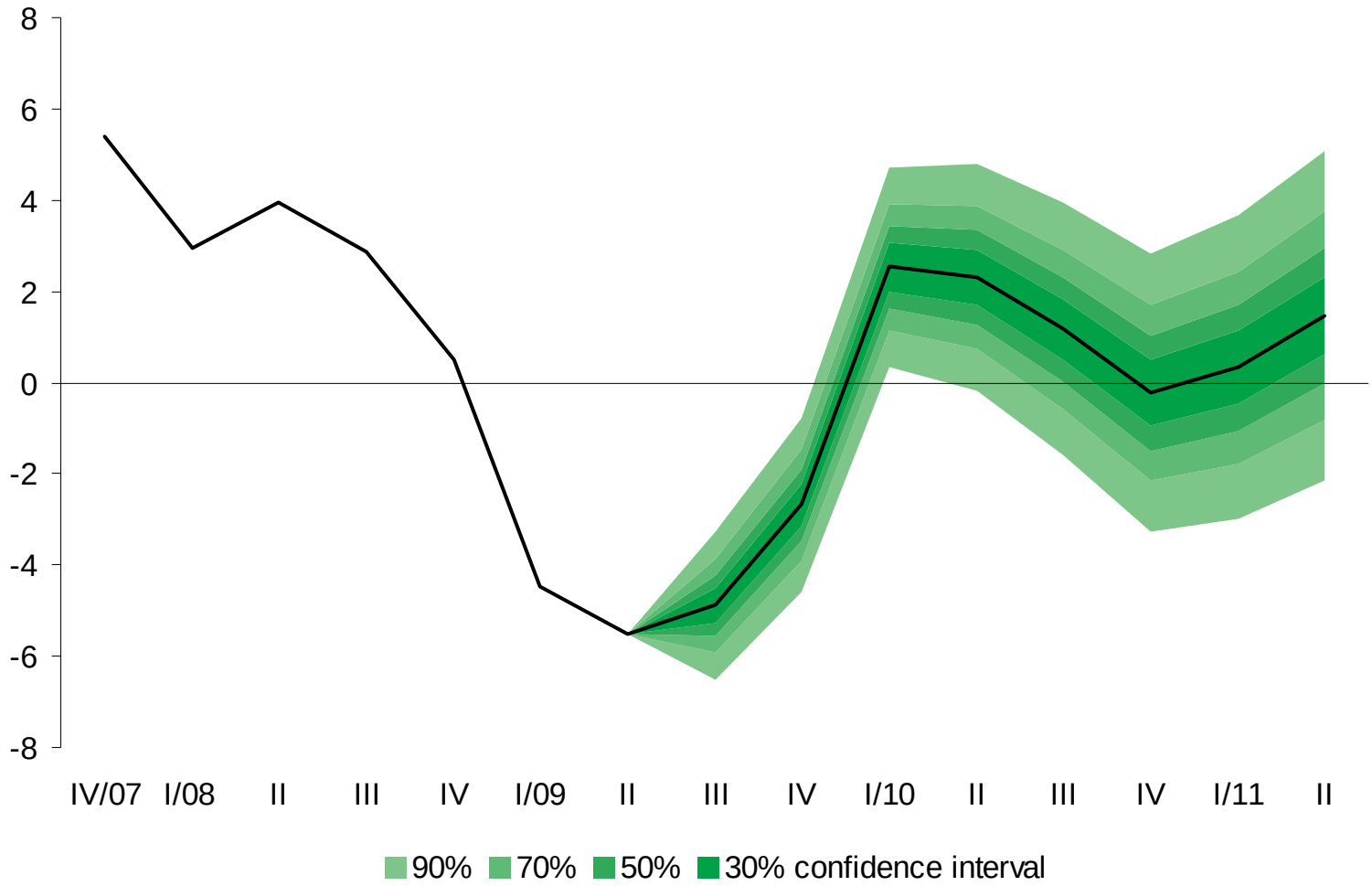
The forecast for headline inflation



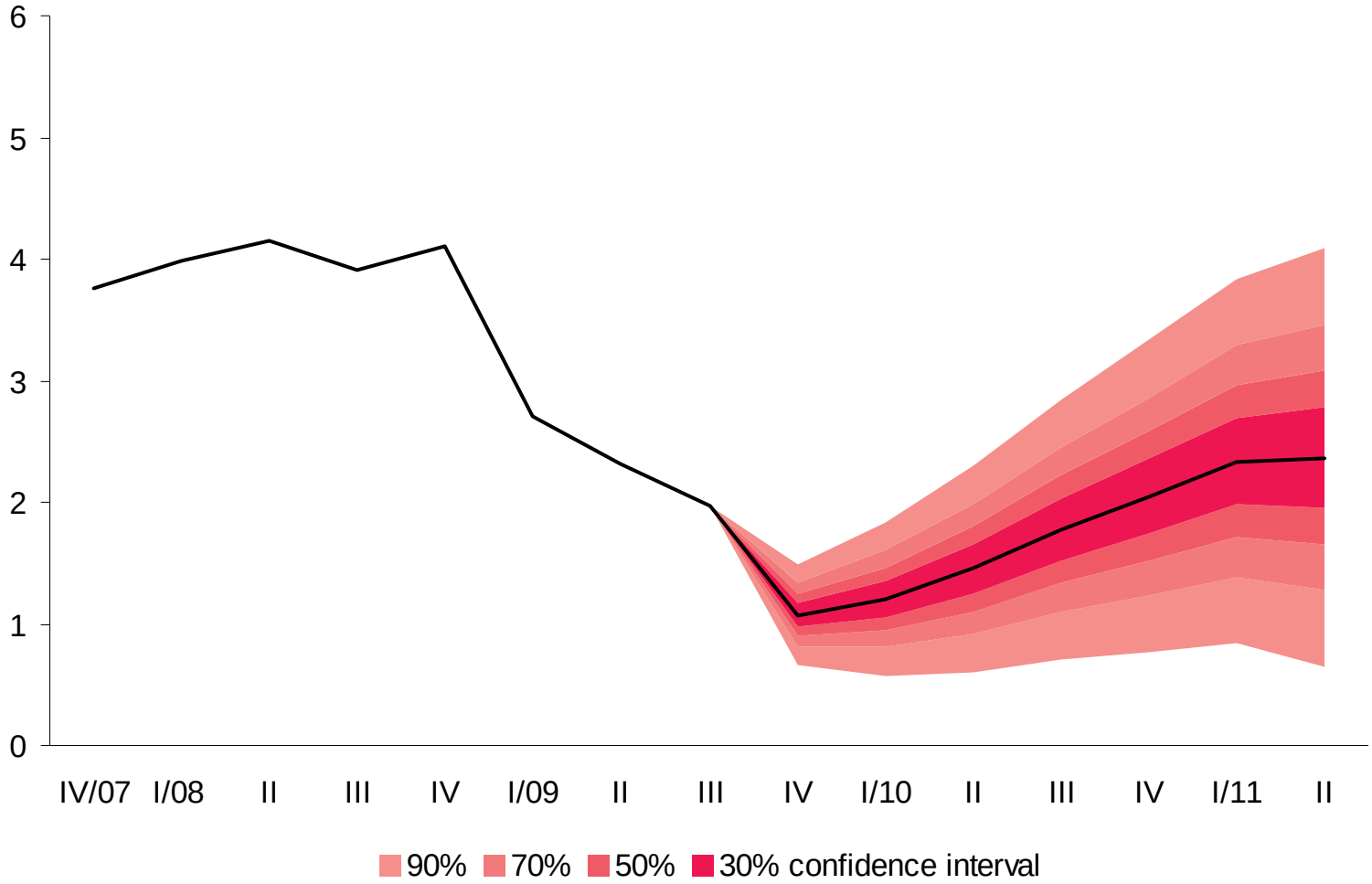
The forecast for monetary-policy relevant inflation



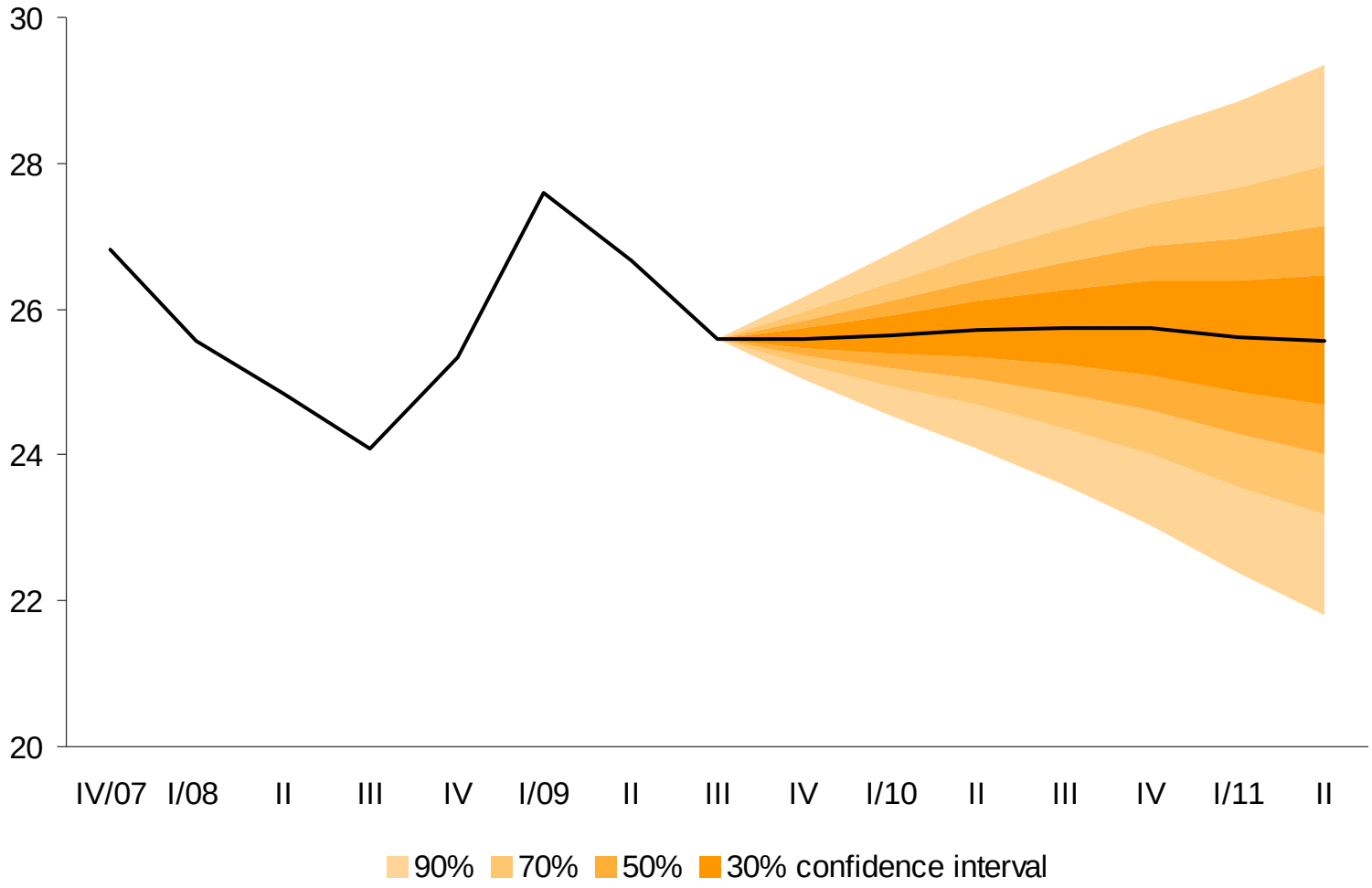
The forecast for GDP



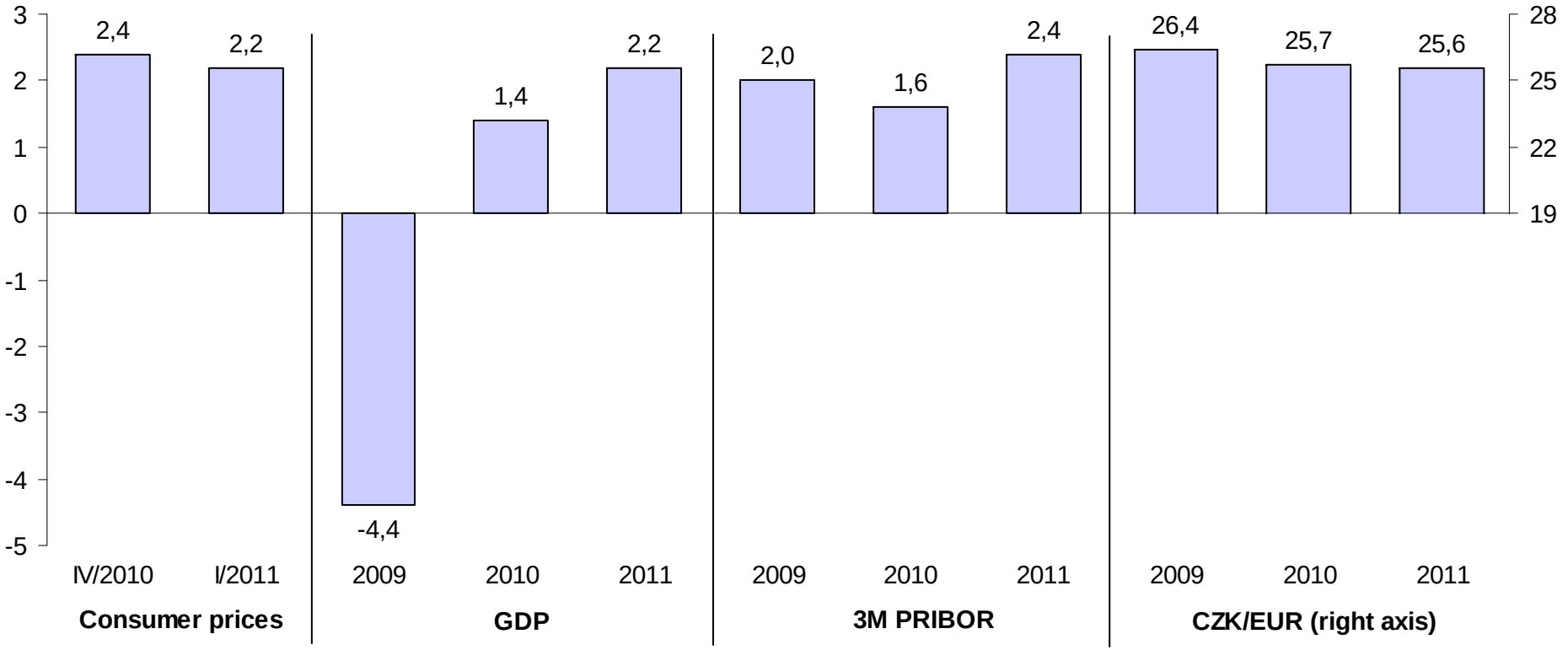
The forecast for interest rates (3M PRIBOR)



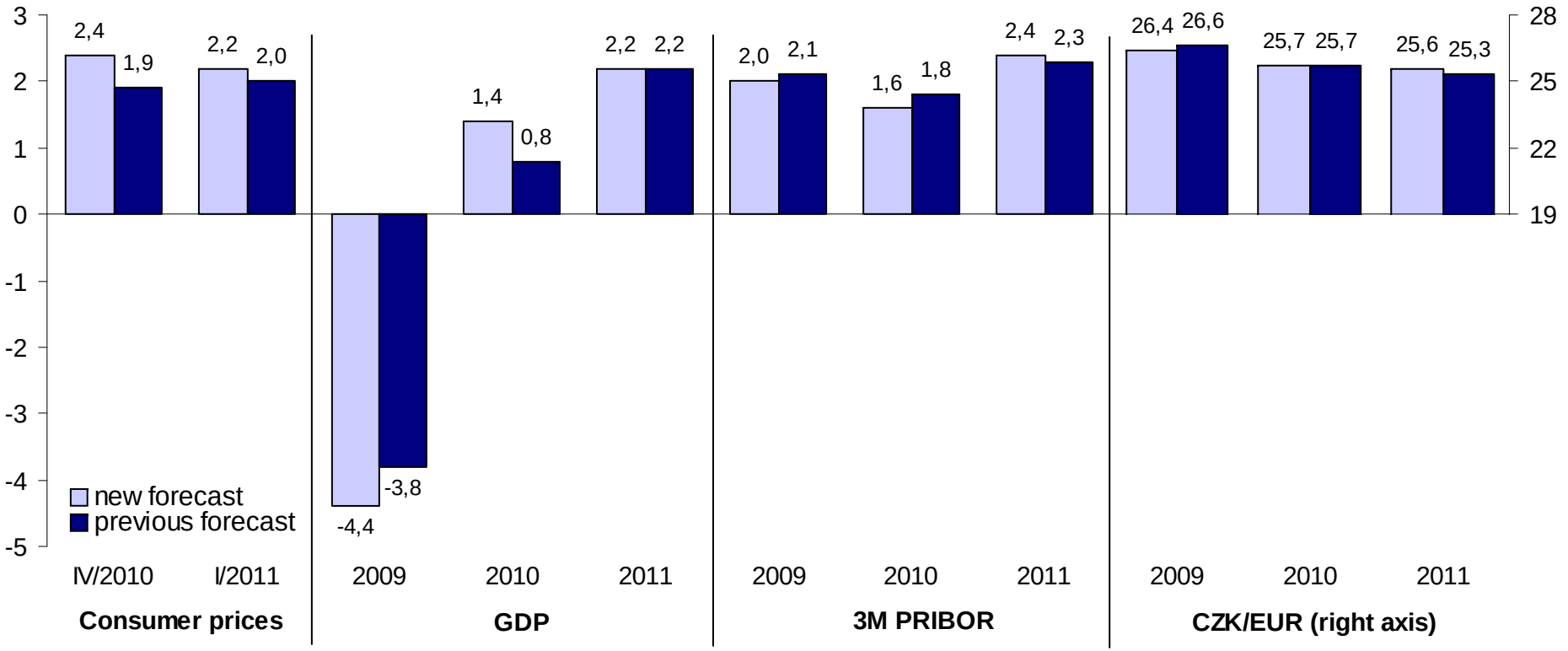
The forecast for exchange rate (CZK/EUR, quarterly averages)



Forecast in numbers



Comparison with the previous forecast



Major risks of the forecast

Forecast risks are overall slightly on the up side.

Major risk on the up side:

- recent exchange rate developments

Major risk on the down side:

- possibly lower future growth in nominal wages

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