



Press conference of the CNB Bank Board

3rd Situation Report on Economic and Monetary Developments

May 6, 2010



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

- Six out of seven Bank Board members attended the meeting.
- At the close of the meeting the Bank Board decided by a majority vote to lower the two-week repo rate by 0.25 percentage point to 0.75 %. At the same time, it decided to cut the Lombard rate by the same amount, to 1.75 %. The discount rate remains unchanged at 0.25%.
- Four board members voted in favour of this decision, and two members voted for leaving interest rates unchanged.



Reasons for the decision

- Headline and monetary-policy relevant inflation will be slightly below the 2% target at the monetary policy horizon.
- Consistent with the forecast is initially a moderate decline in market interest rates followed by stability and gradual rise in rates since 2011.
- Risks to the forecast are balanced.

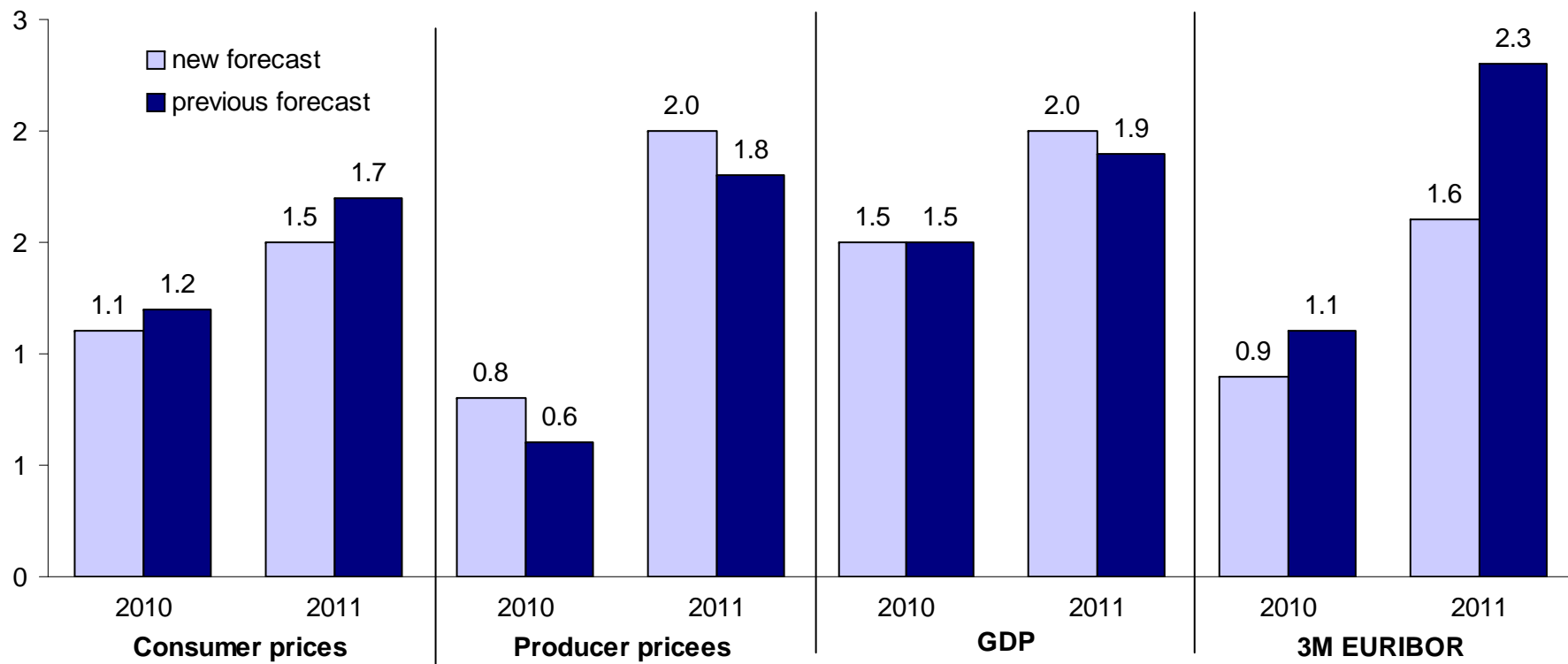


The message of the forecast

- Headline inflation will rise during 2010 and will exceed the CNB's target at the end of the year due to already realized indirect taxes changes. In 2011 inflation will decline slightly below the CNB's inflation target.
- Monetary-policy relevant inflation will initially be lower than headline inflation and will be approaching the target from below over the monetary policy horizon (2011 Q2 and Q3).
- GDP will grow over the entire forecast horizon, but the growth rate in 2010 will be hampered by a temporary decline in domestic consumption and slowdown in foreign demand. Both factors will unwind in 2011 and GDP growth will start to accelerate.
- Nominal exchange rate is gradually appreciating over the forecast horizon.
- Consistent with the forecast is initially a moderate decline in market interest rates followed by stability and a gradual rise in rates since 2011.

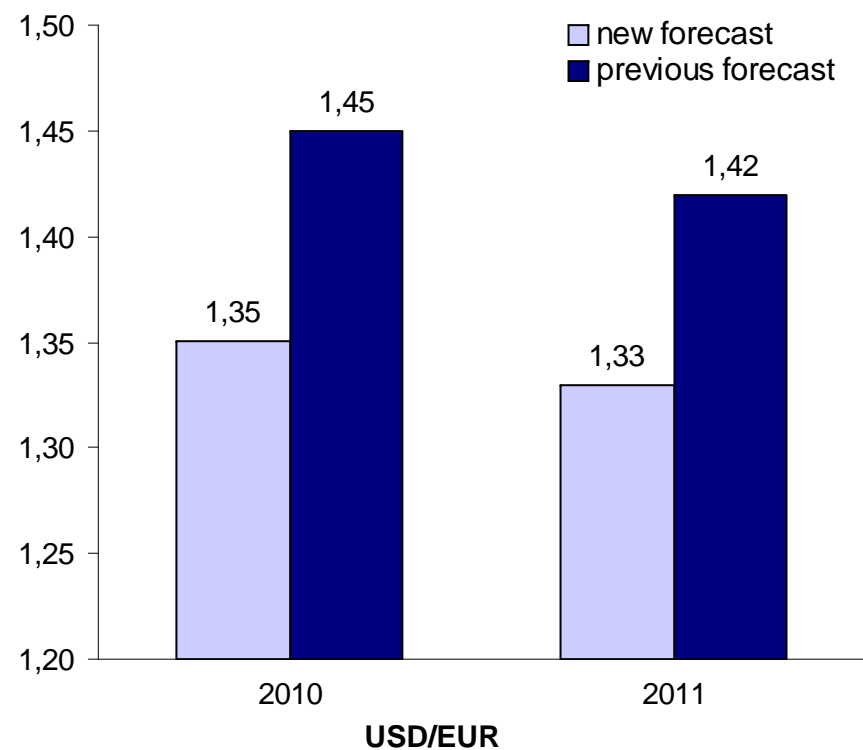
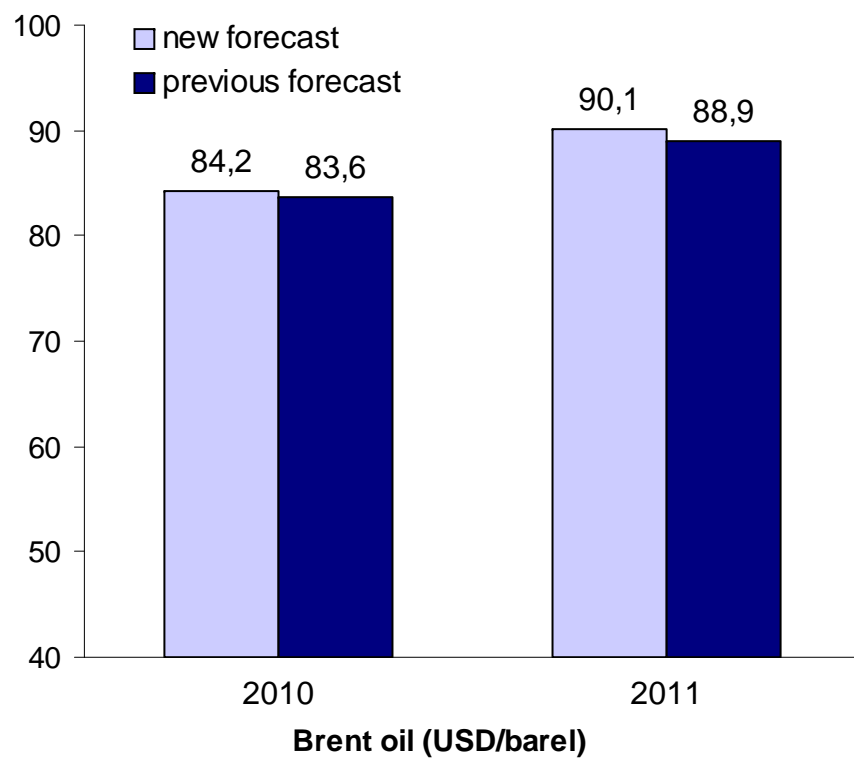
The external environment (i)

Comparison between the new and previous forecasts

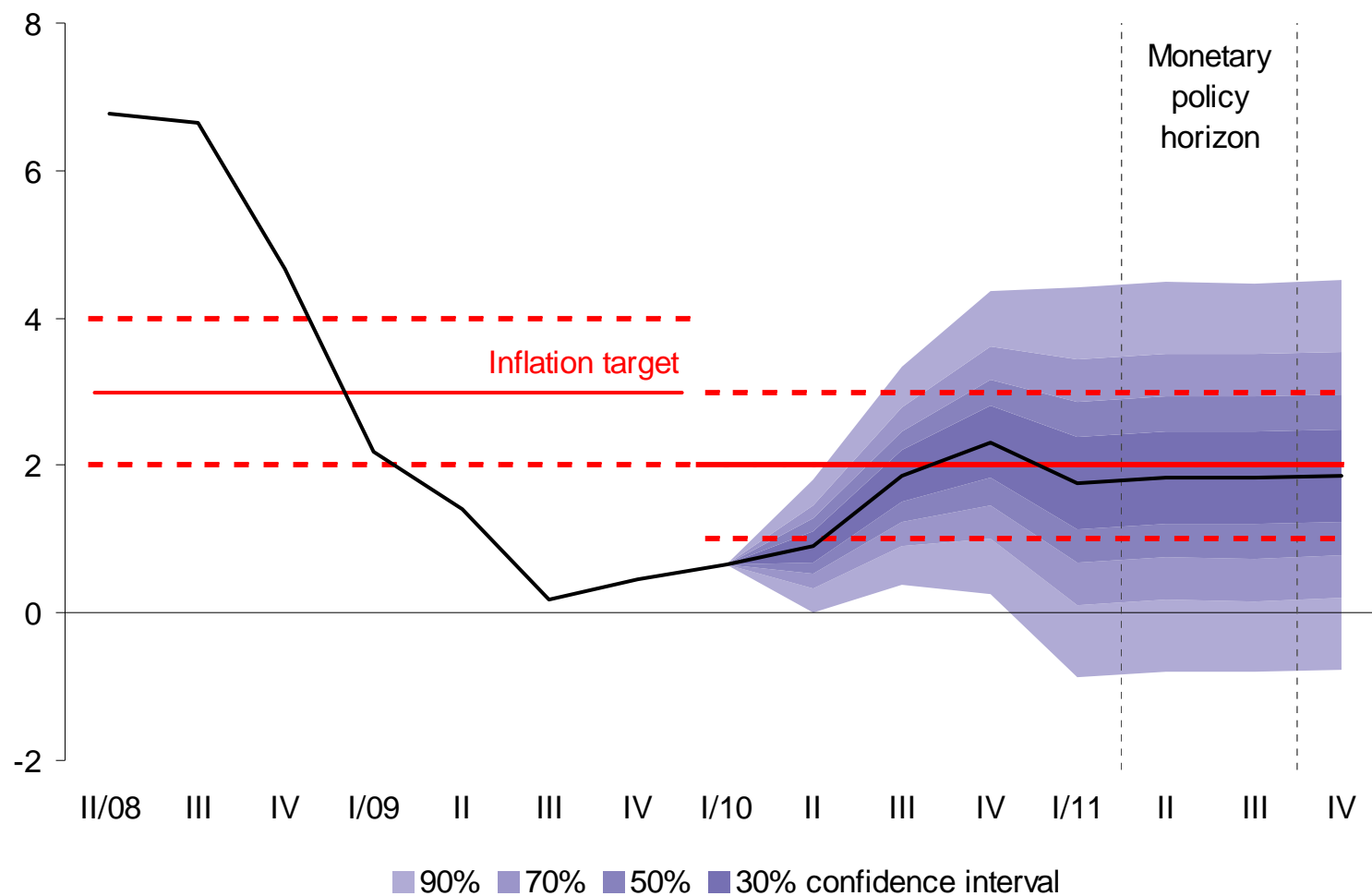


The external environment (ii)

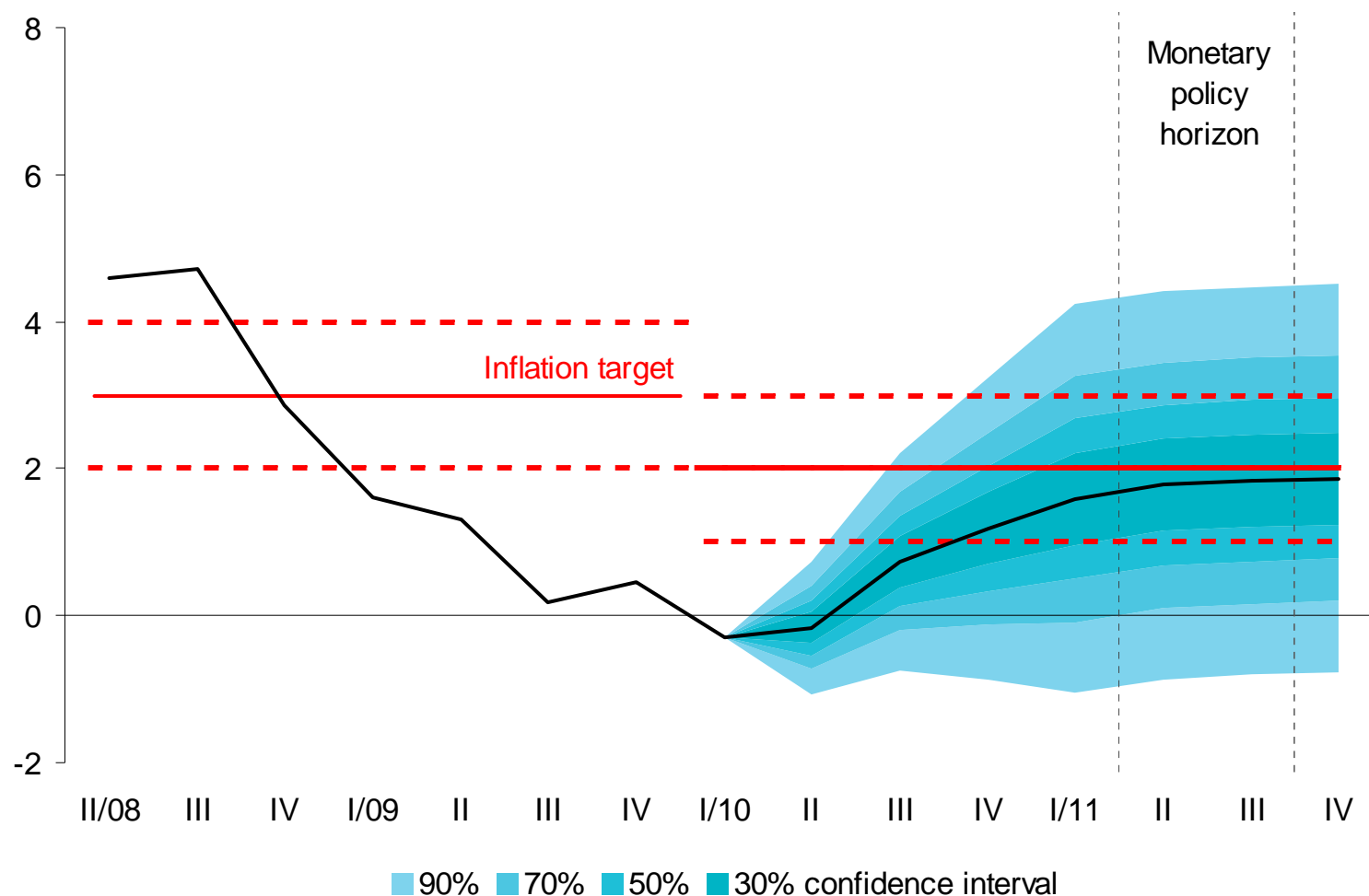
Comparison between the new and previous forecasts



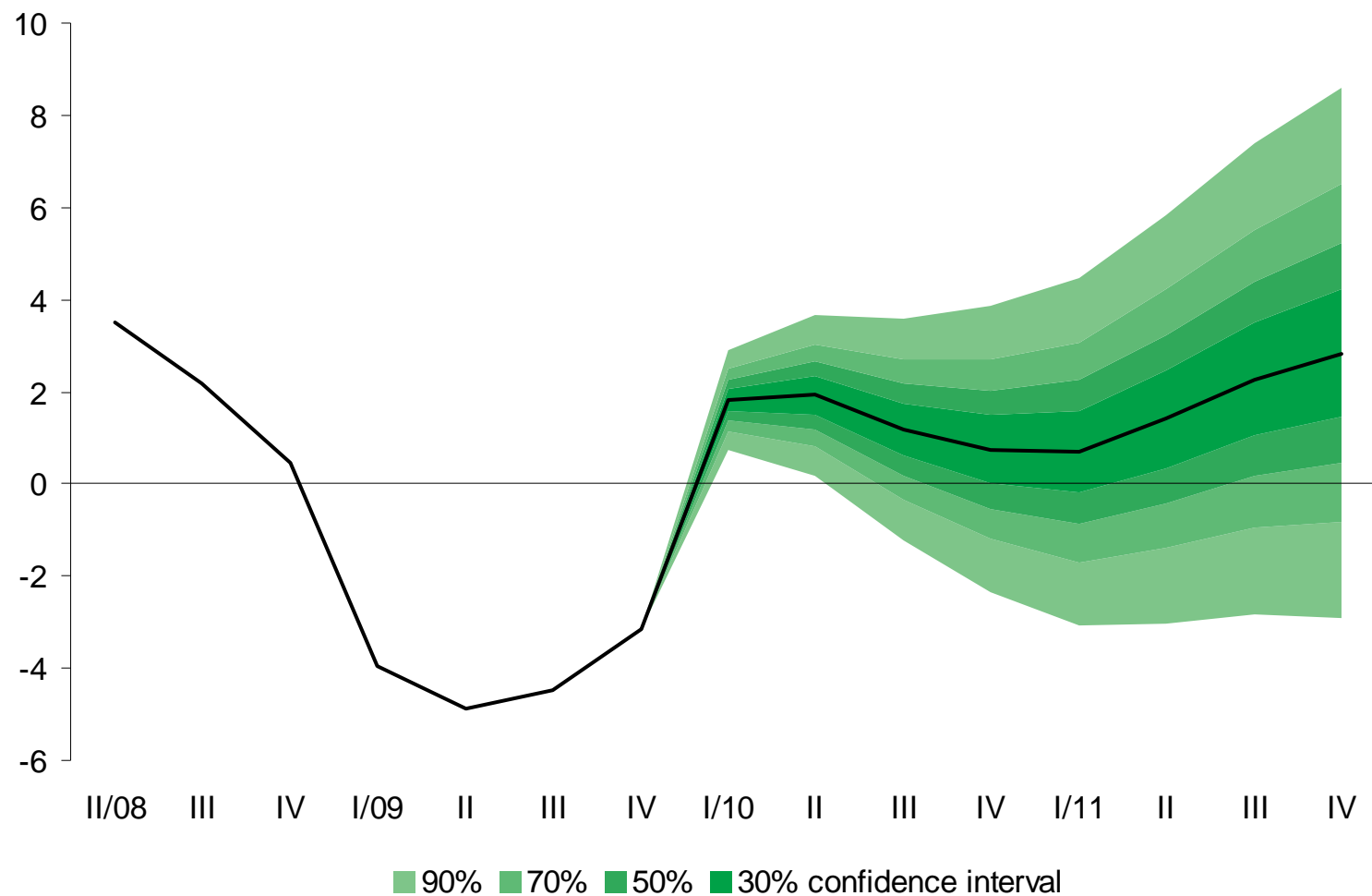
The forecast for headline inflation



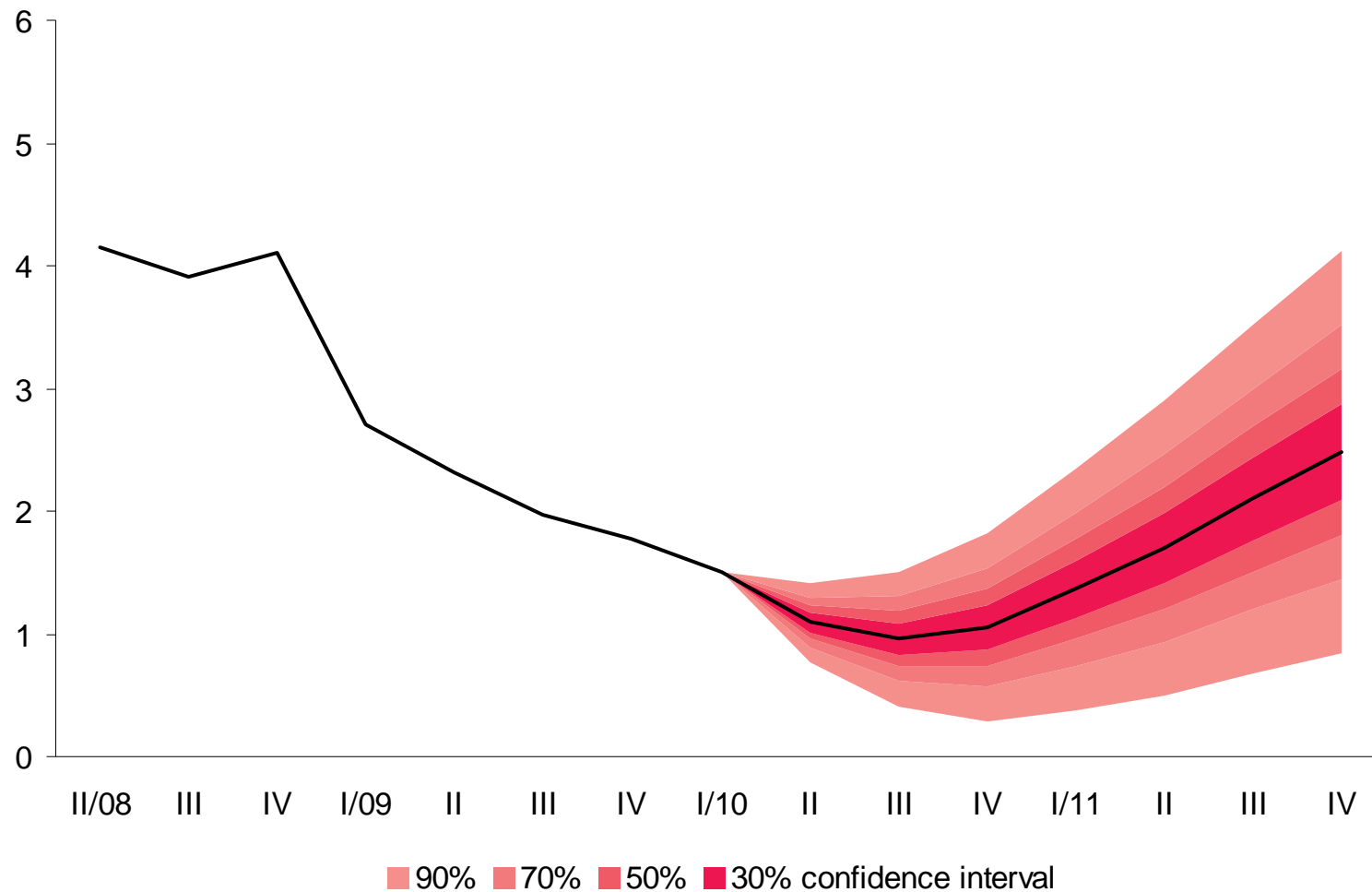
The forecast for monetary-policy relevant inflation



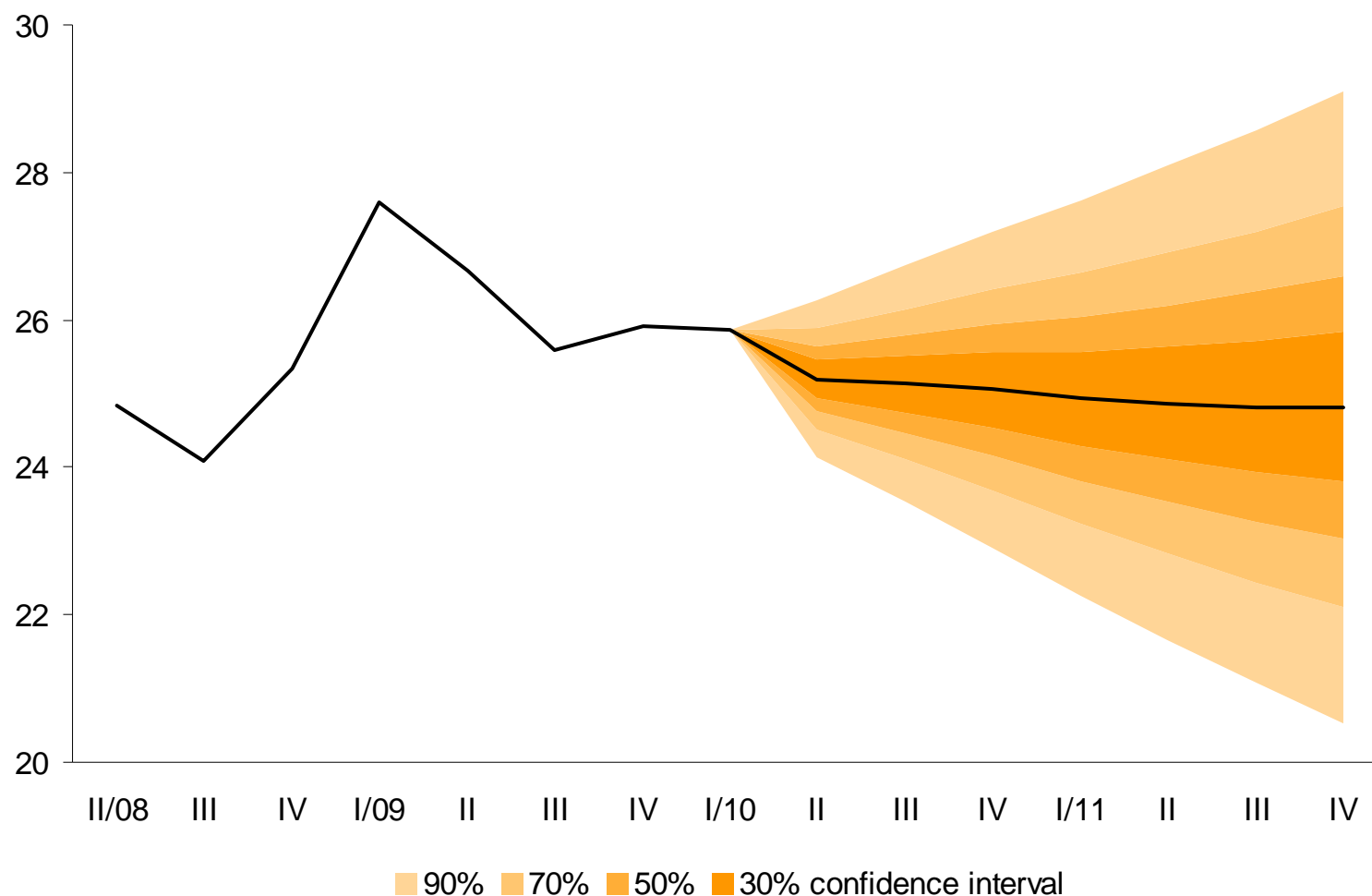
The forecast for GDP



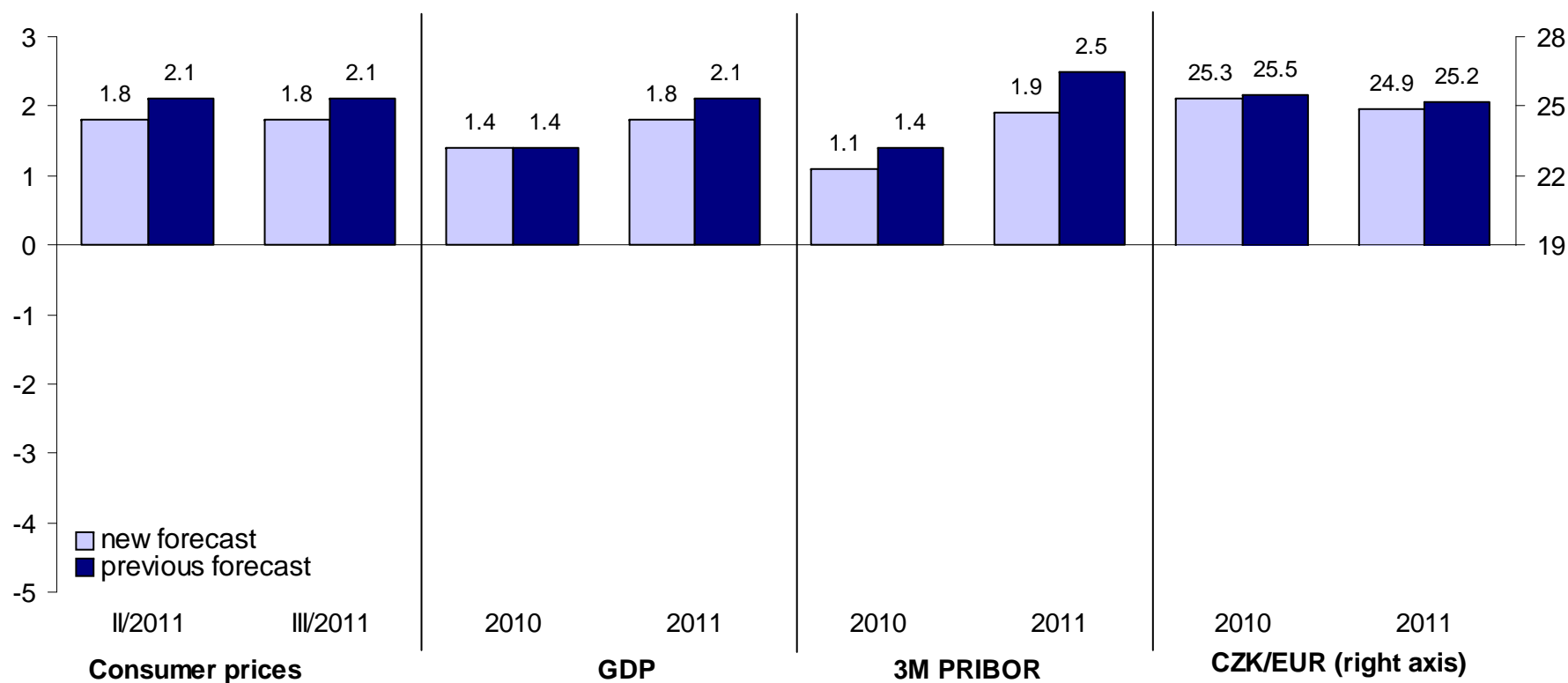
The forecast for interest rates (3M PRIBOR)



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



Comparison with the previous forecast





Major risks to the forecast

Forecast risks are seen as balanced.

- Upside risk relates to exchange rate developments
- Downside risk stems from the global economic outlook with respect to Czech exports.
- Uncertainty going in both directions exists regarding current financial market developments in connection with the fiscal situation.



Thank you for your attention

More information about the
forecast can be found at
[http://www.cnb.cz/en/monetary
_policy/forecast/](http://www.cnb.cz/en/monetary_policy/forecast/)

and in Inflation Report II/2010,
to be published 14th May,
2010.