



Press conference of the CNB Bank Board

5th Situation Report on Economic and Monetary Developments

5 August 2010



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

- At the close of the meeting the Bank Board decided unanimously to leave the two-week repo rate unchanged at 0.75%.
- Five out of seven Bank Board members attended the meeting.



Reasons for the decision

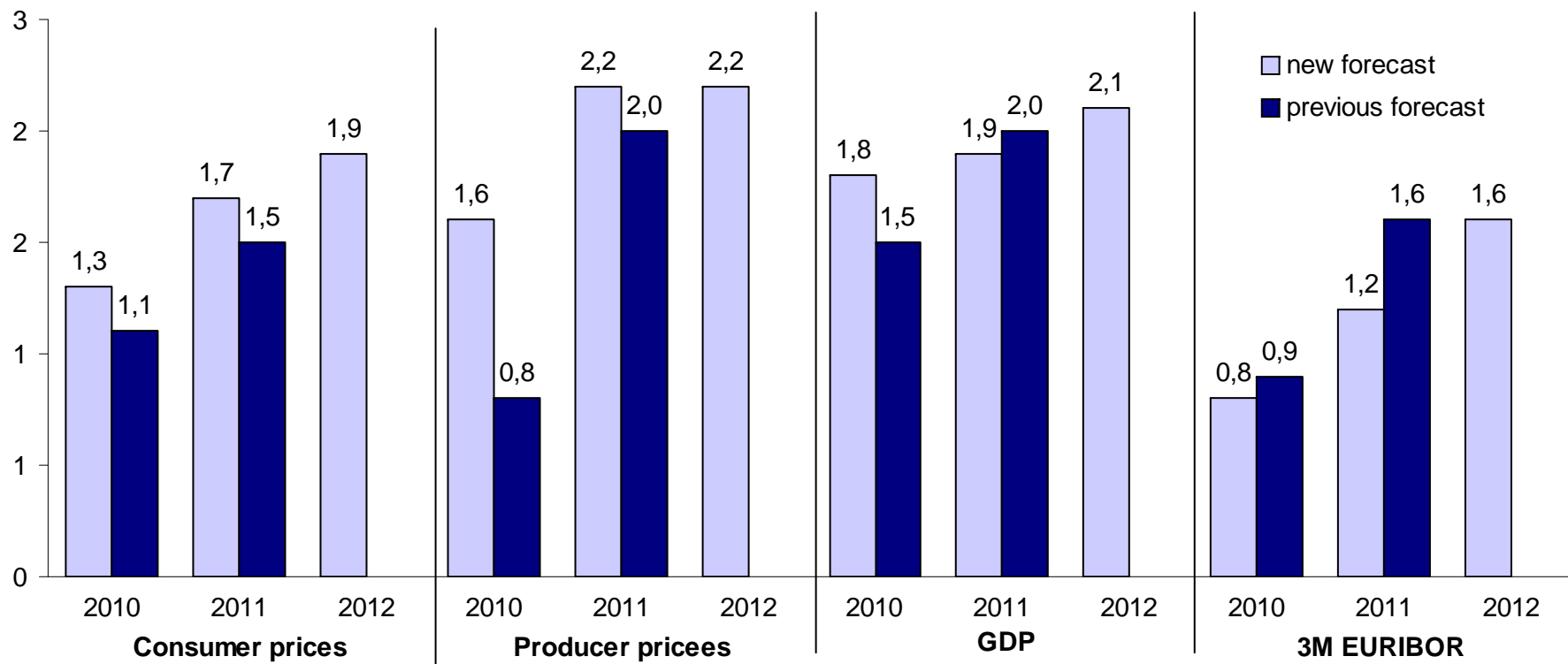
- Headline and monetary-policy relevant inflation will be at the 2% target over the monetary policy horizon.
- The economic outlook has not changed much.
- Consistent with the forecast is stability of market interest rates close to their current levels initially, followed by a gradual rise in rates as from 2011 H2.

The message of the forecast

- Headline inflation will quickly rise over the forecast and at the end of 2010 it will temporarily exceed the inflation target . After the unwinding of these impacts, headline inflation will slow slightly and will be close to the inflation target.
- Monetary-policy relevant inflation will continuously grow over the forecast and will be approaching the target in 2011 H2.
- The economy has recovered from the recession, but the recovery is only modest and more robust economic growth can be expected only in 2011-2012
- The nominal exchange rate is gradually appreciating over the forecast horizon.
- Consistent with the forecast is stability of market interest rates close to their current levels initially, followed by a gradual rise in rates as from 2011 H2.

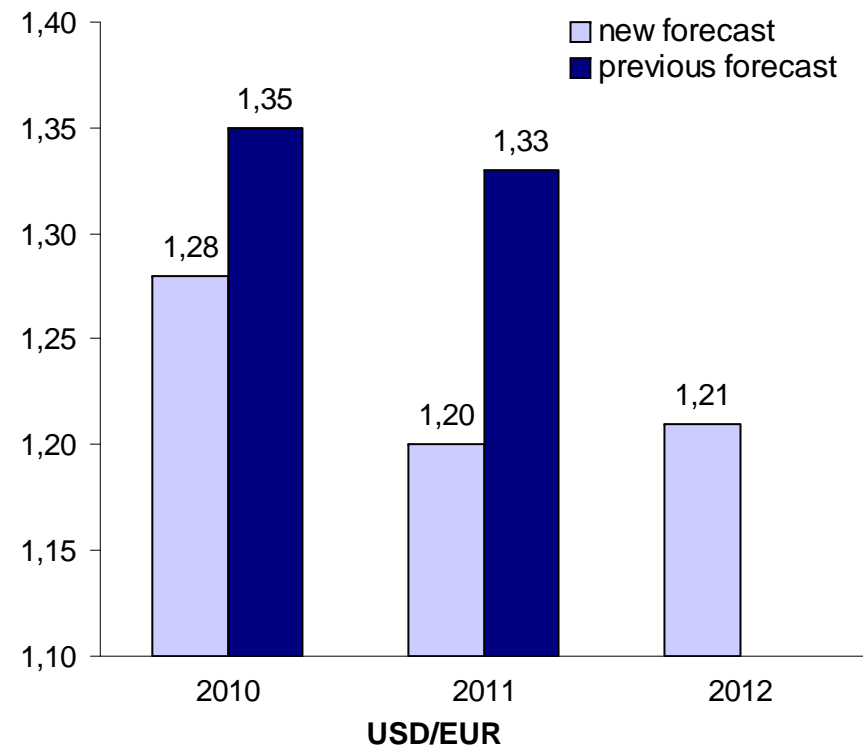
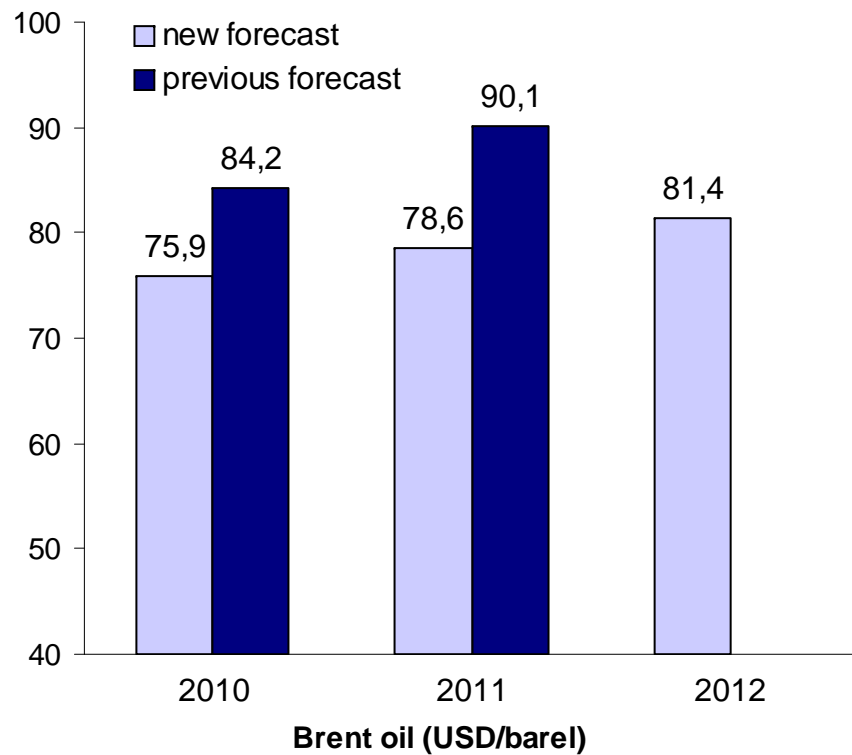
The external environment (i)

Comparison between assumptions of the new and previous forecasts for the effective euro area

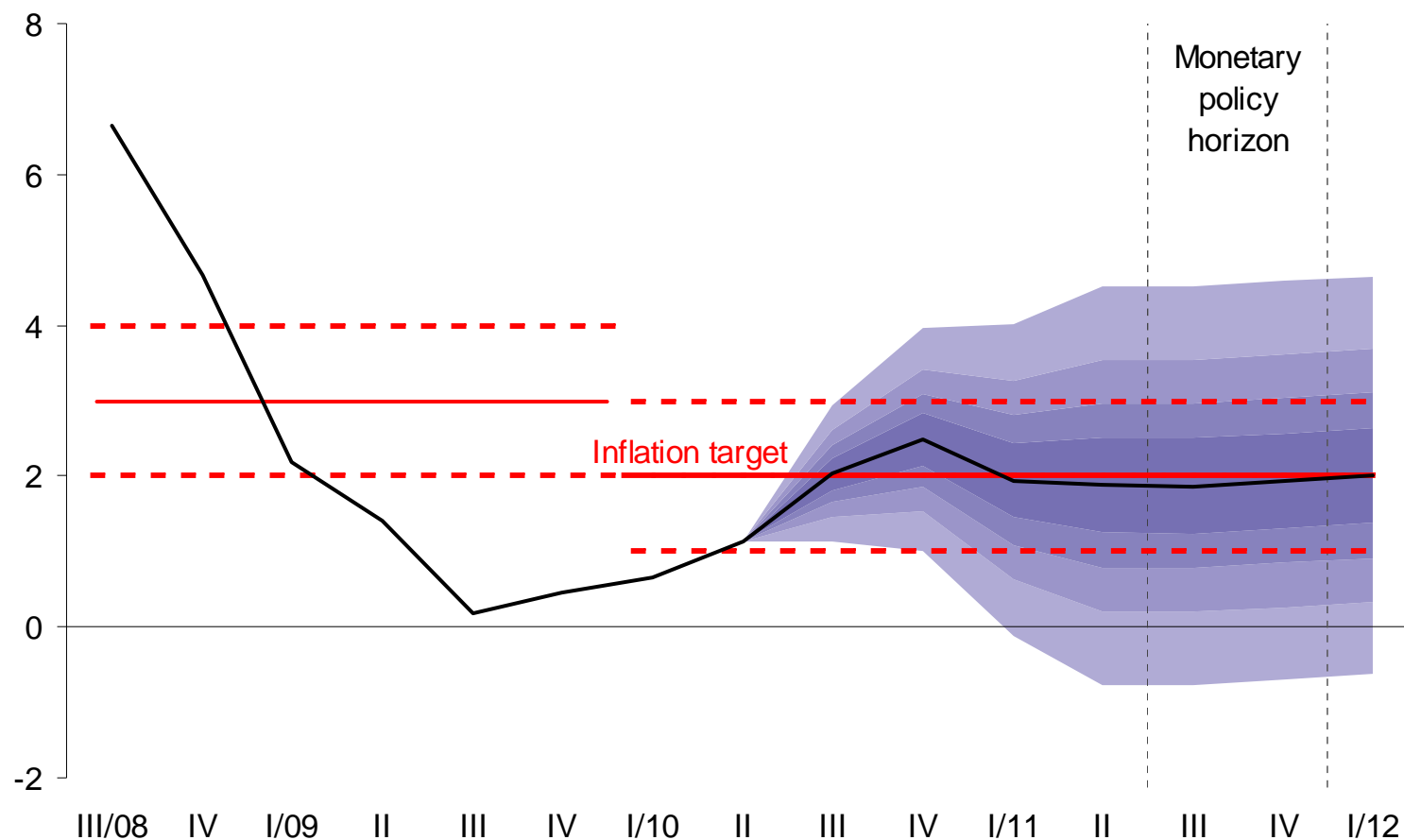


The external environment (ii)

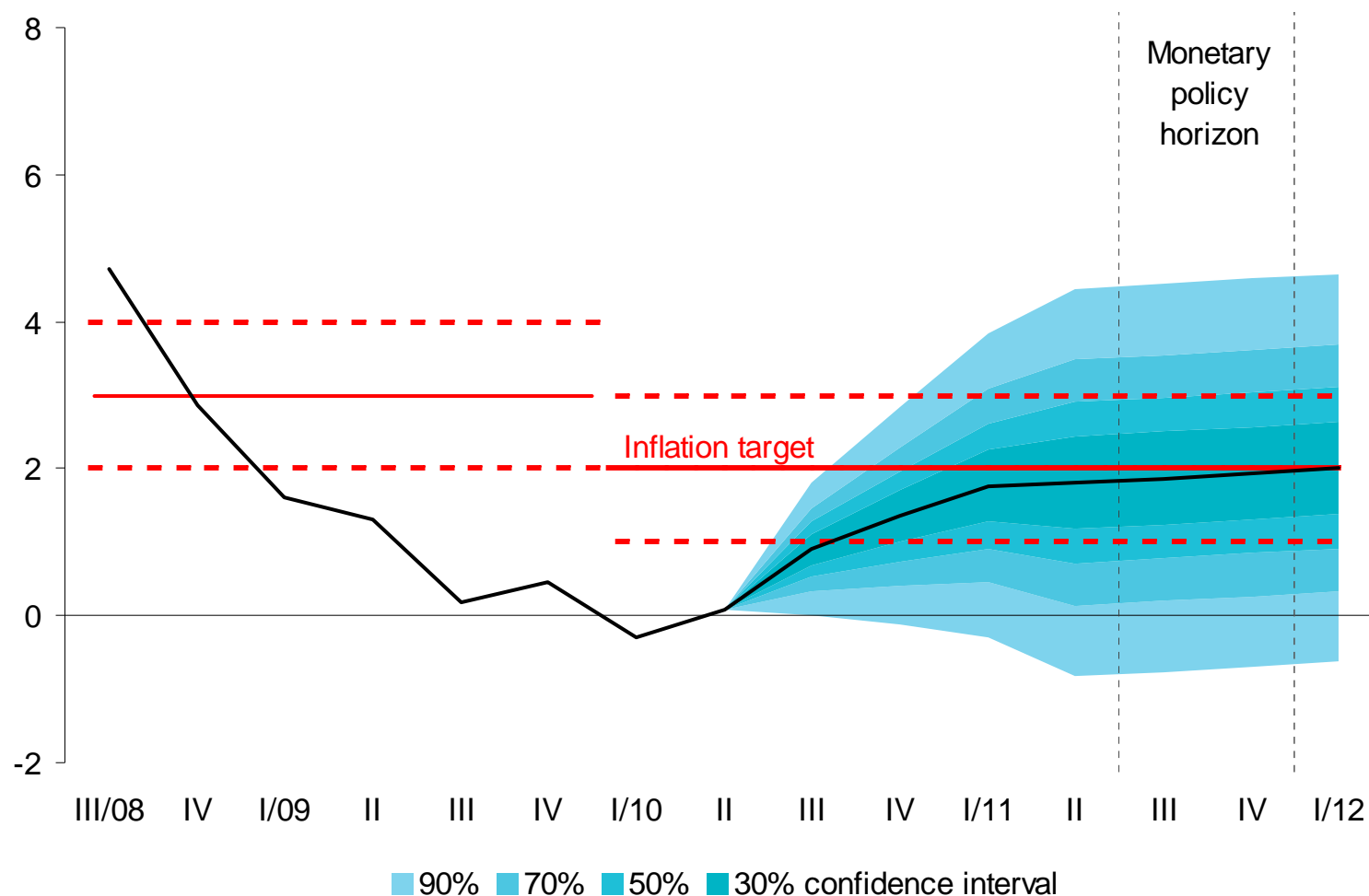
Comparison between assumptions of the new and previous forecasts



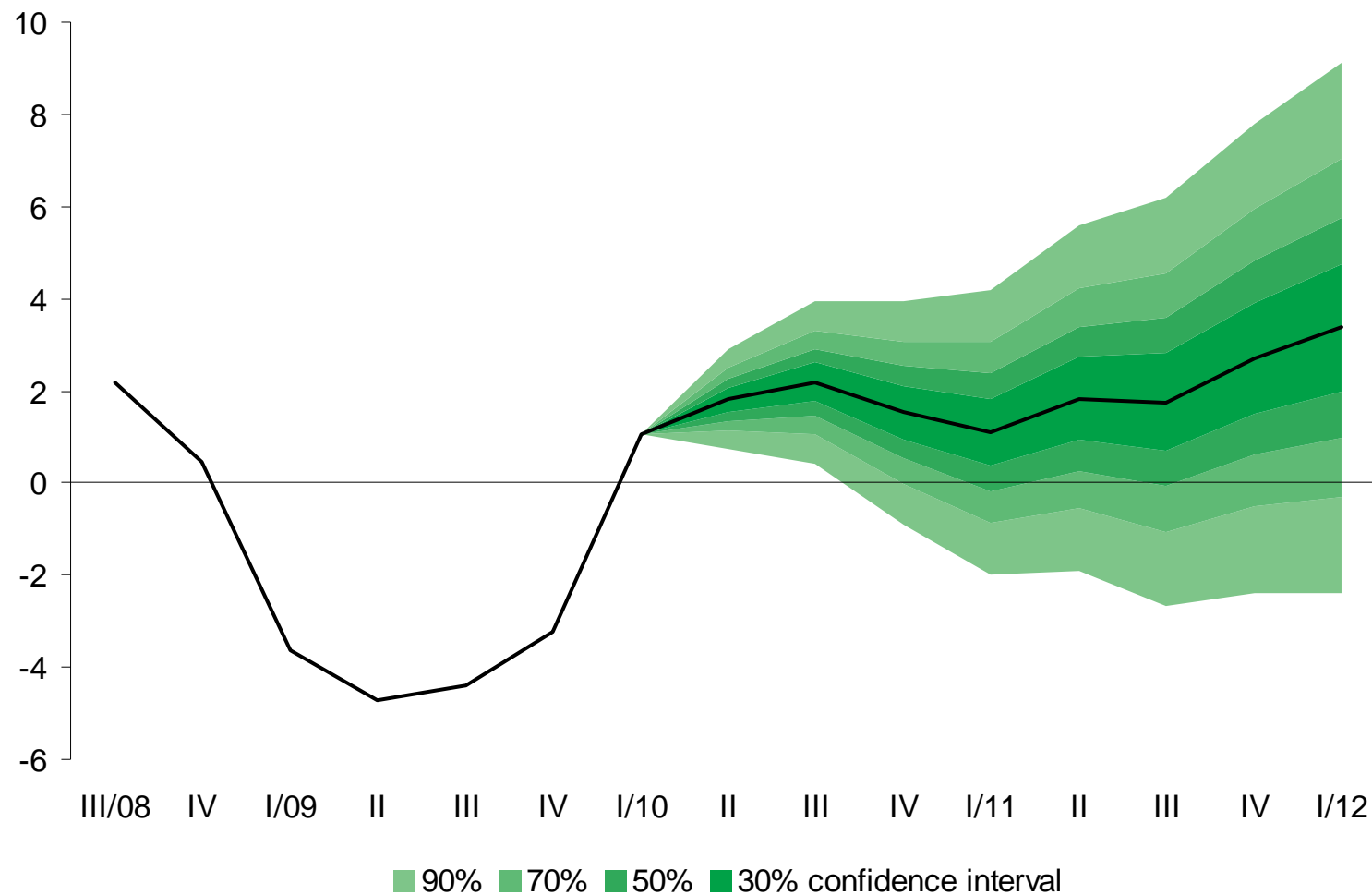
The forecast for headline inflation



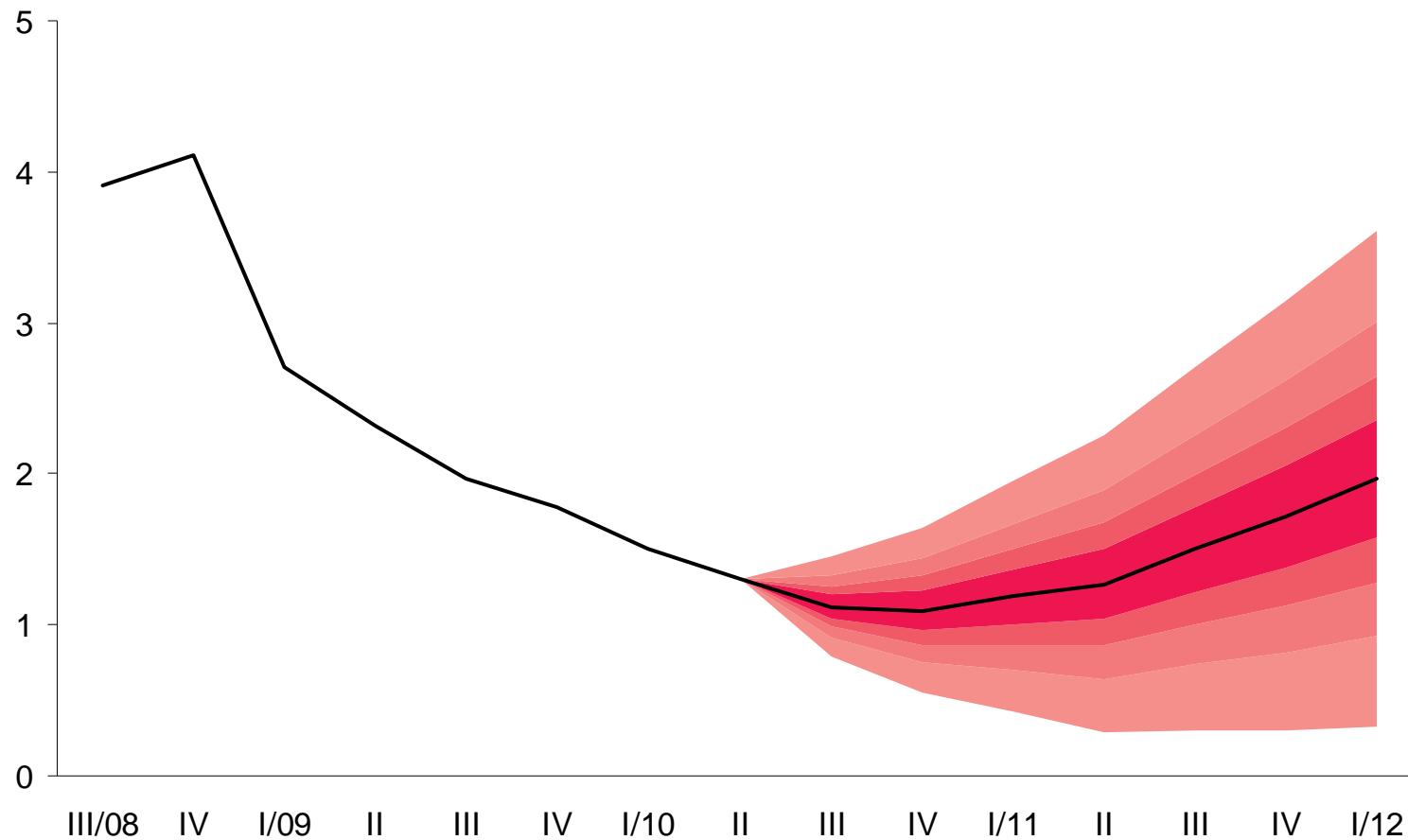
The forecast for monetary-policy relevant inflation



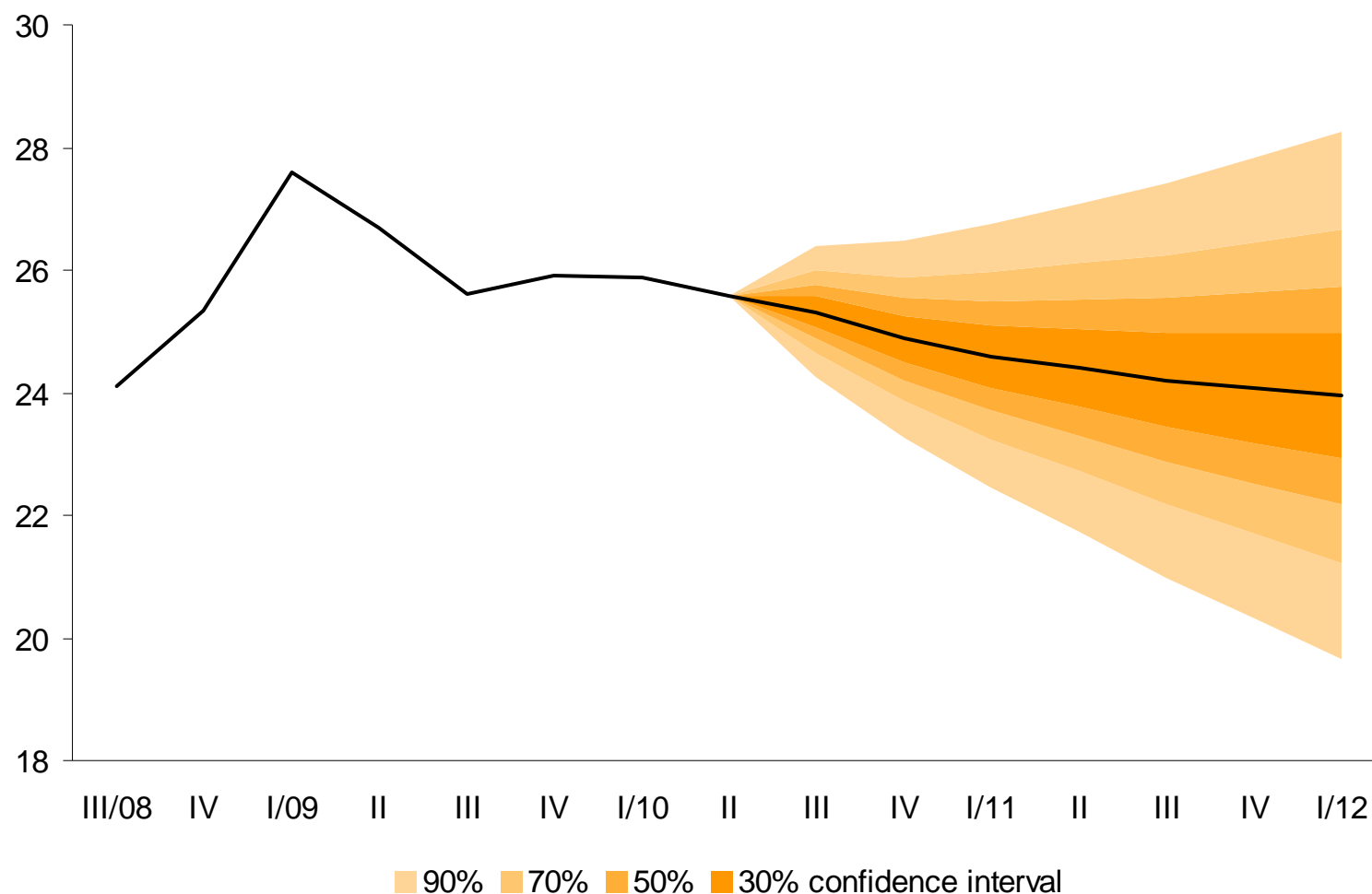
The forecast for GDP



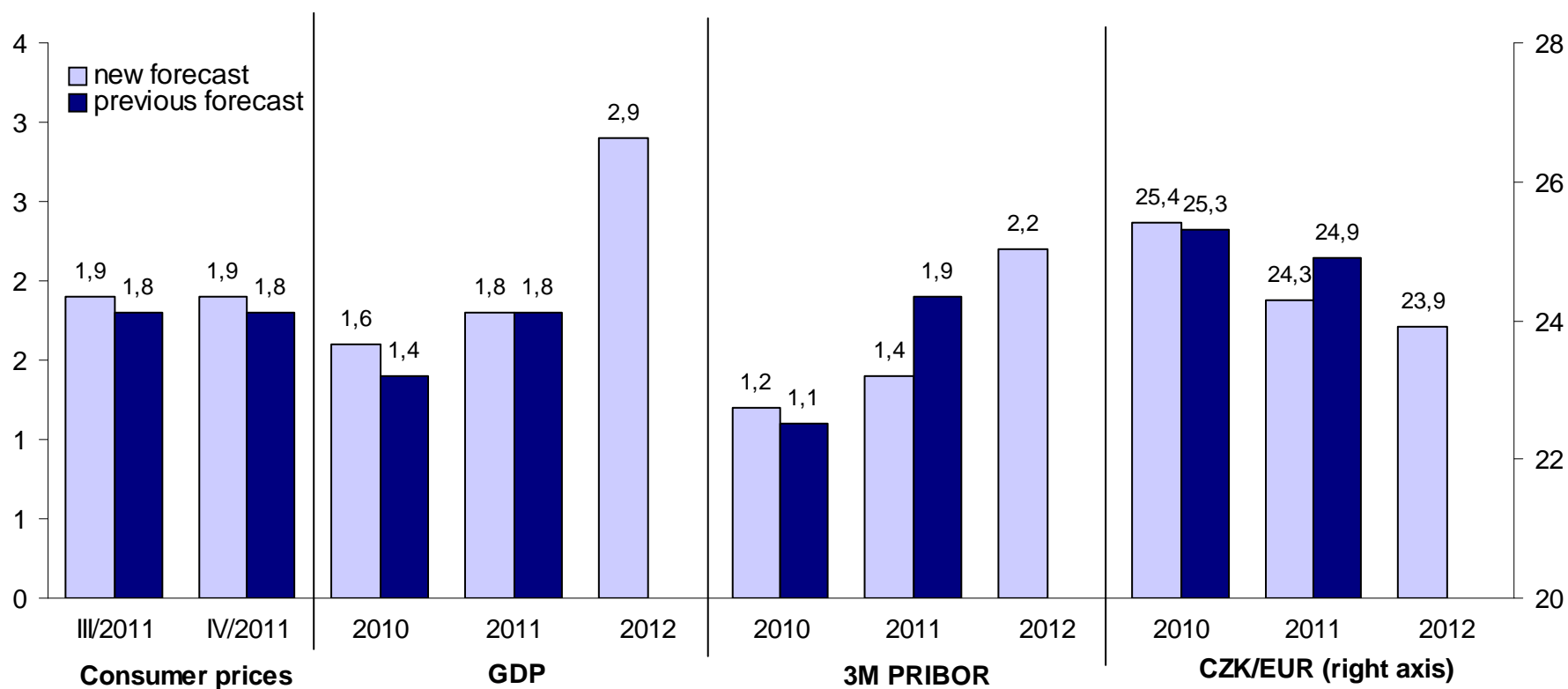
The forecast for interest rates (3M PRIBOR)



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



Comparison with the previous forecast





Major risks to the forecast

Forecast risks are slightly on the downside.

- **Downside risks:**
 - current exchange rate developments
 - planned fiscal consolidation
- **Upside risk:**
 - commodity prices developments



Thank you for your attention

More information about the
forecast can be found at

http://www.cnb.cz/en/monetary_policy/forecast/

and in Inflation Report III/2010,
to be published 13 August
2010.