



Press conference of the CNB Bank Board

7th Situation Report on Economic and Monetary Developments

4 November 2010



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

- At the close of the meeting the Bank Board decided by a majority vote to leave the two-week repo rate unchanged at 0.75%.
- Five board members voted in favour of this decision and one member voted for increasing rates by 0.25 percentage point.
- Six out of seven board members attended the meeting.



Reasons for the decision

- Headline and monetary-policy relevant inflation will be close to the inflation target over the monetary policy horizon.
- Consistent with the forecast is stability of market interest rates close to their current levels initially, followed by a gradual rise in rates at the longer end of the forecast.
- Risks to the forecast are balanced.

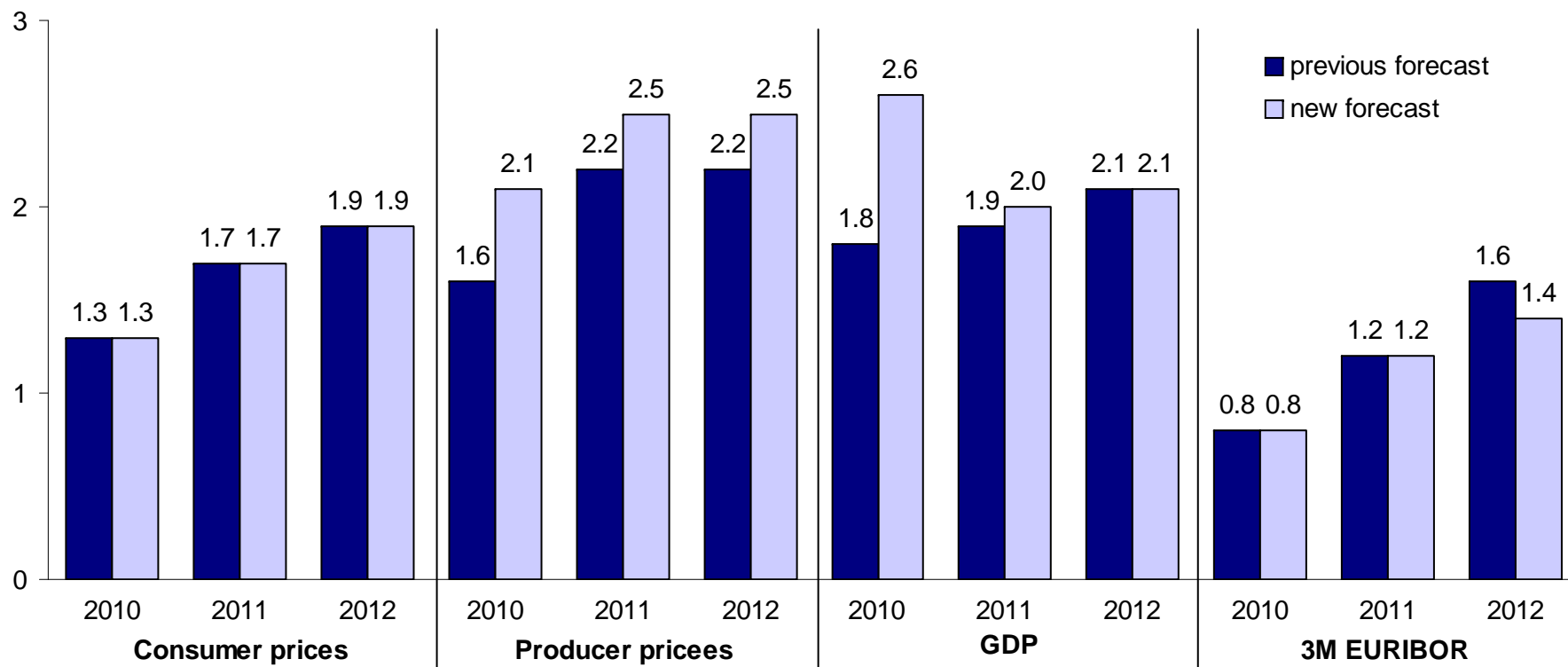


The message of the forecast

- Headline inflation is currently close to the inflation target and will remain at this level in the next two years.
- Monetary-policy relevant inflation will continuously grow over the forecast horizon and will be approaching the target in mid 2011.
- This year the economy has recovered from the recession, but the economic growth will slow down next year due mainly to fiscal restriction and reappearance of more robust economic recovery can be expected in 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 at the longer end of the forecast.

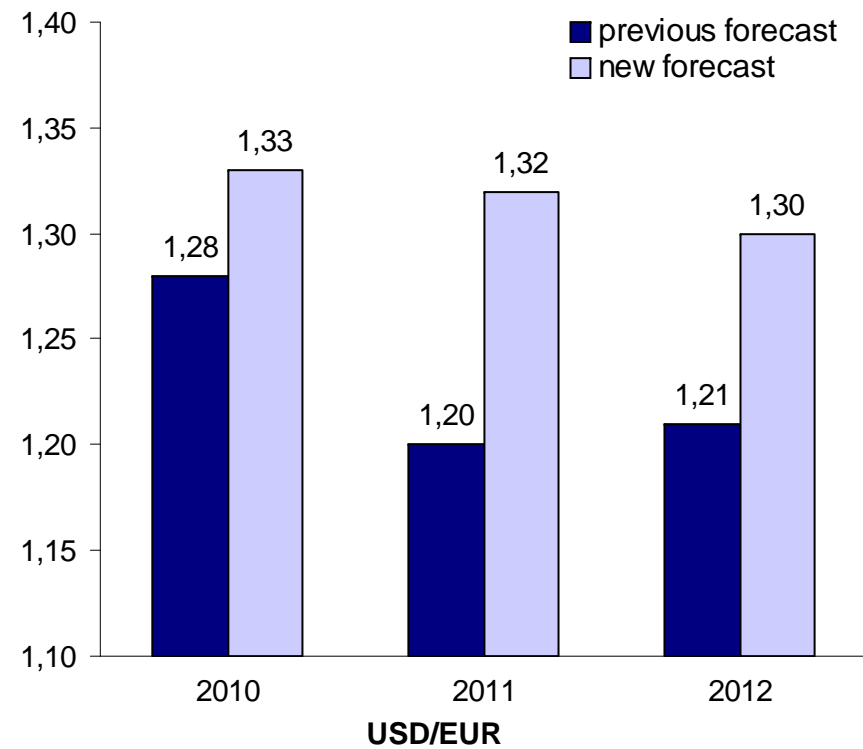
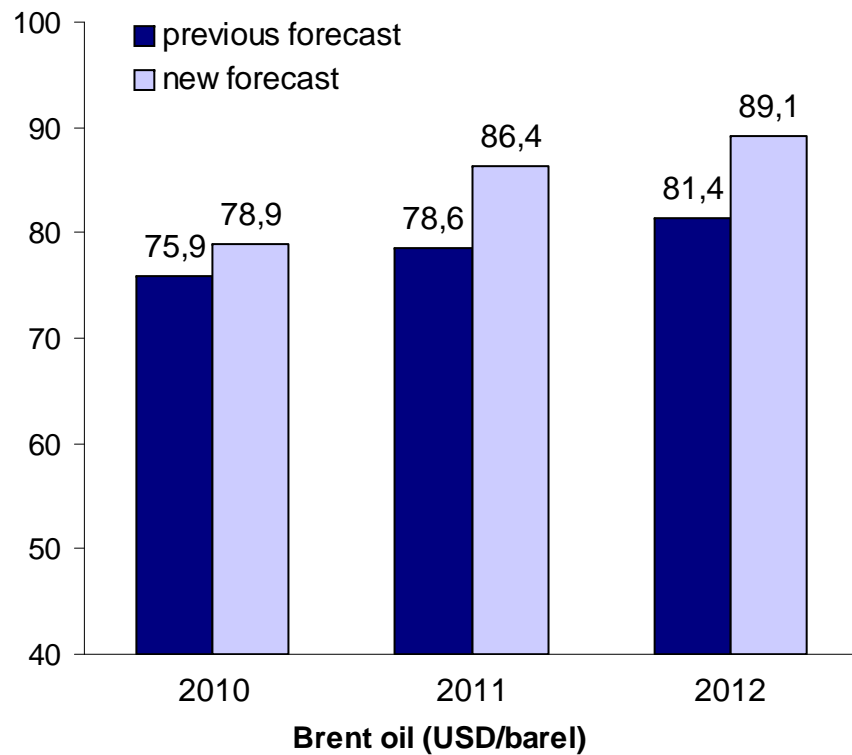
The external environment (i)

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

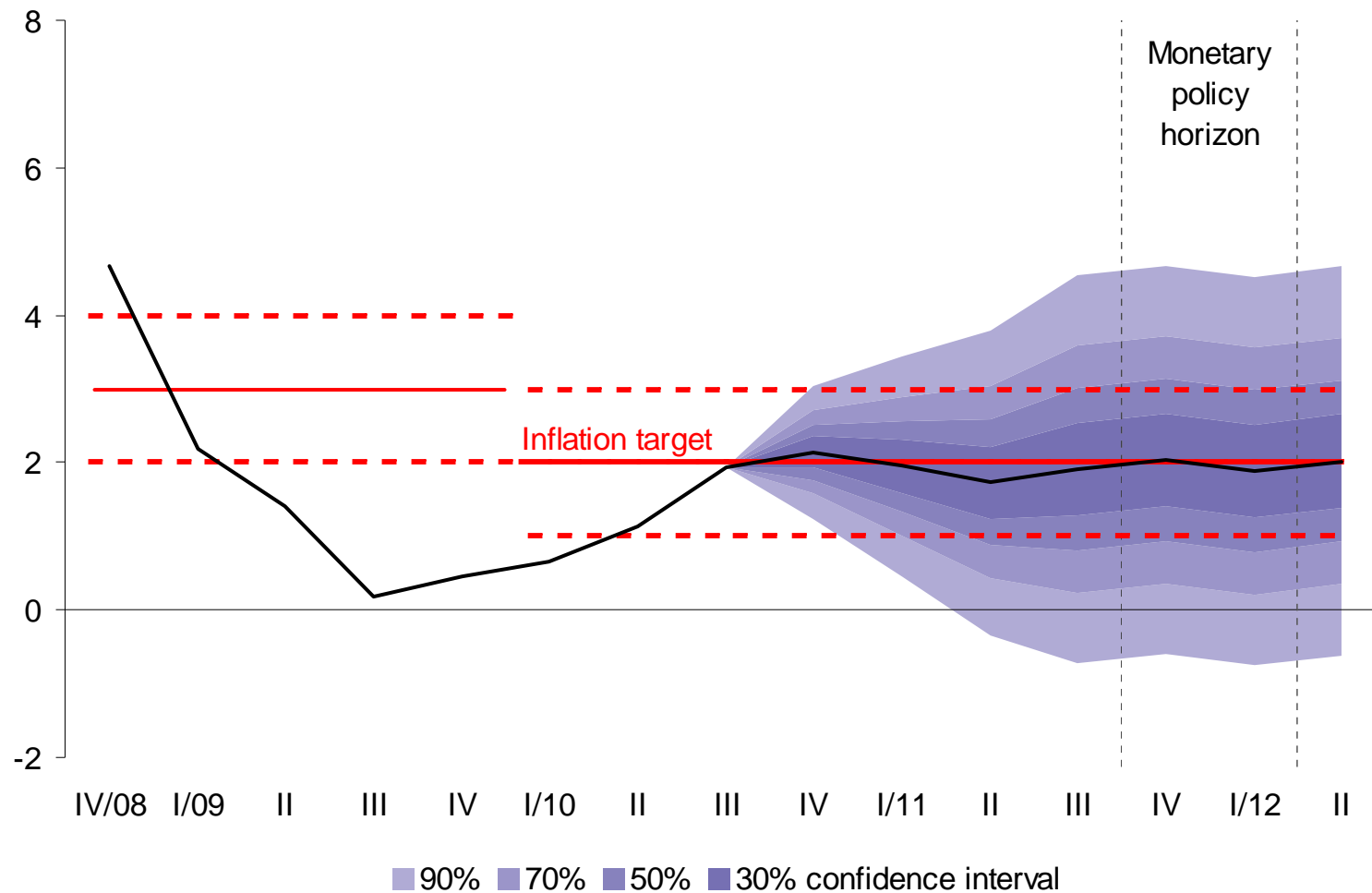


The external environment (ii)

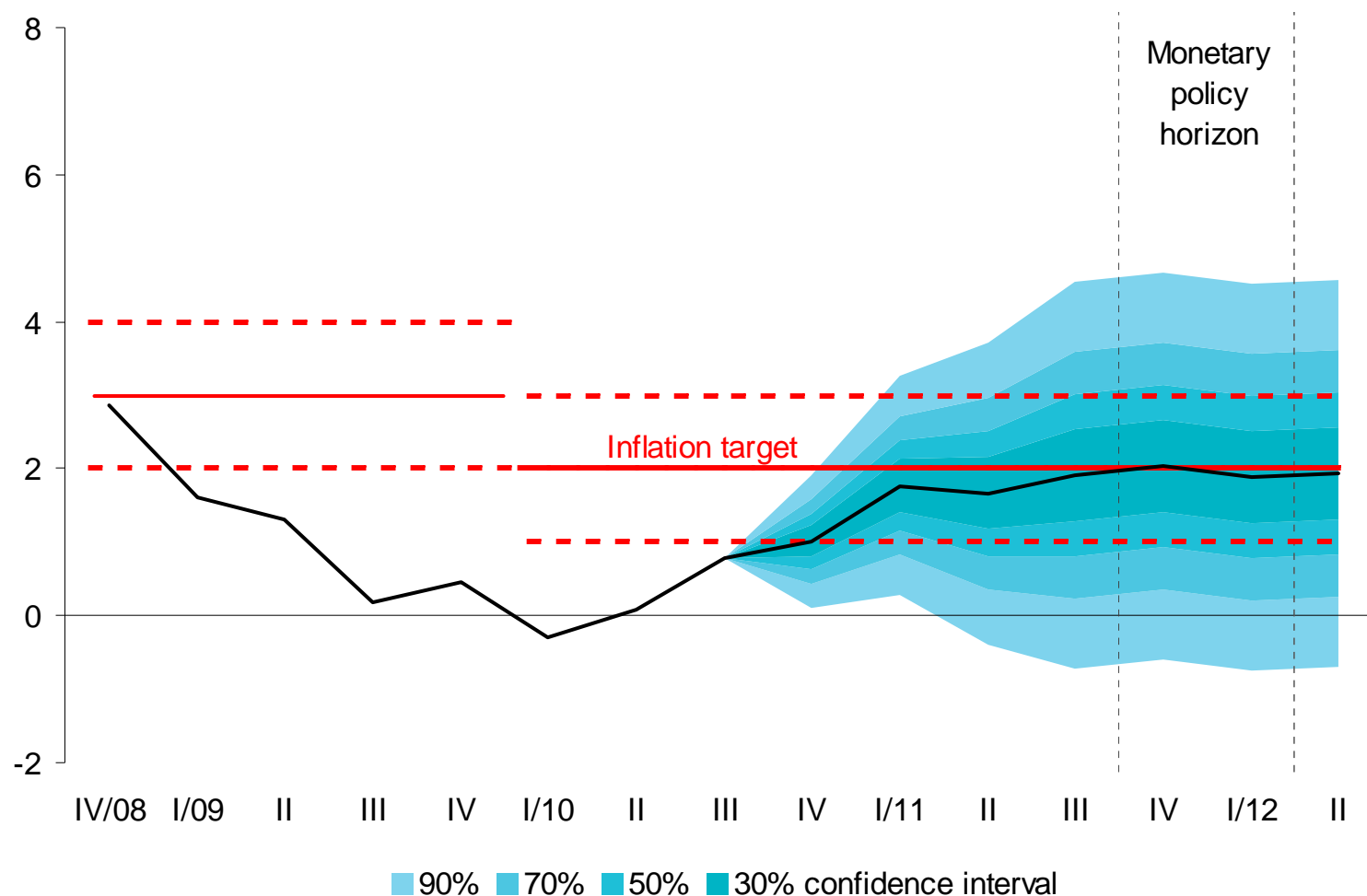
Comparison between assumptions of the new and previous forecasts



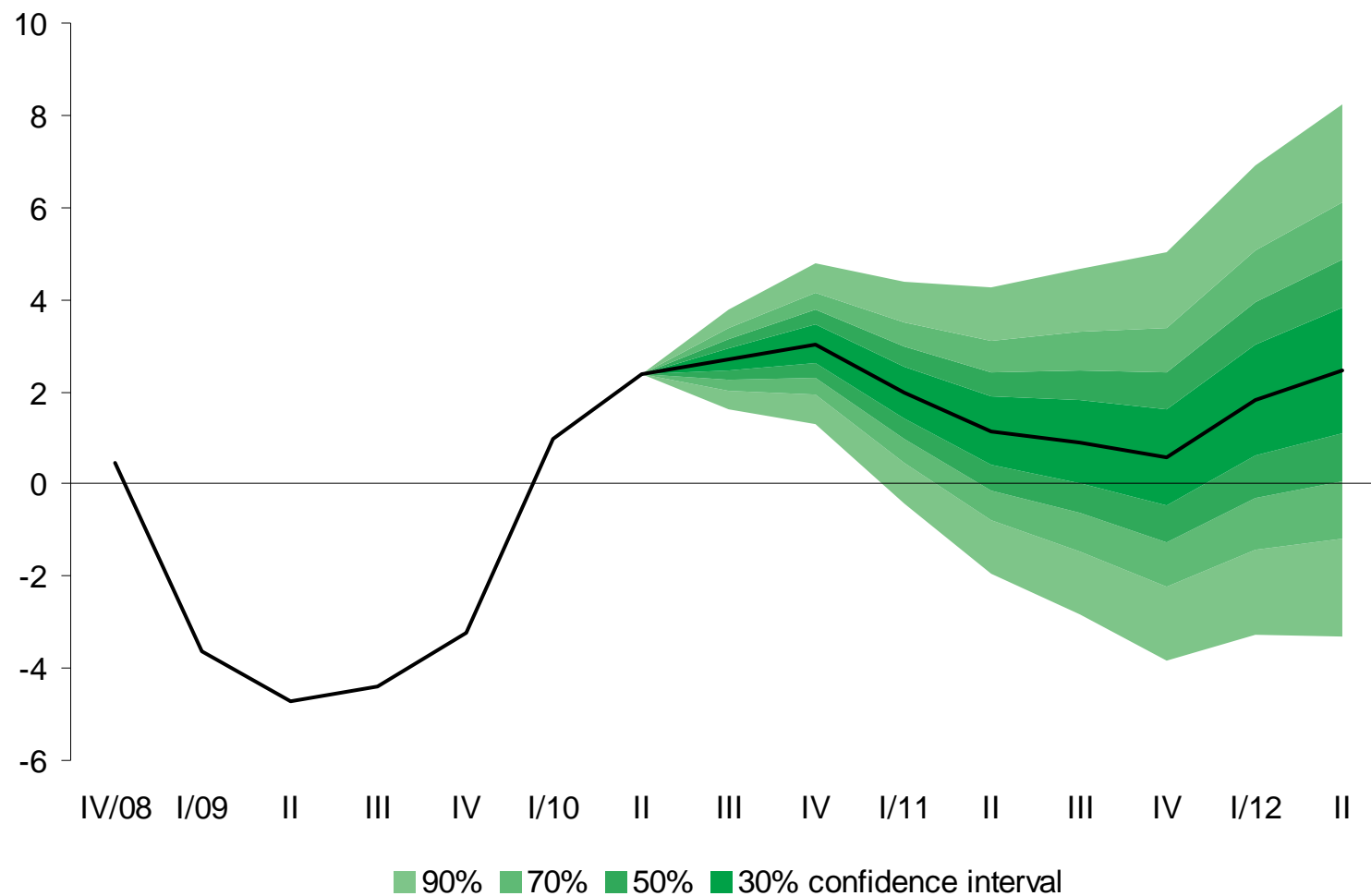
The forecast for headline inflation



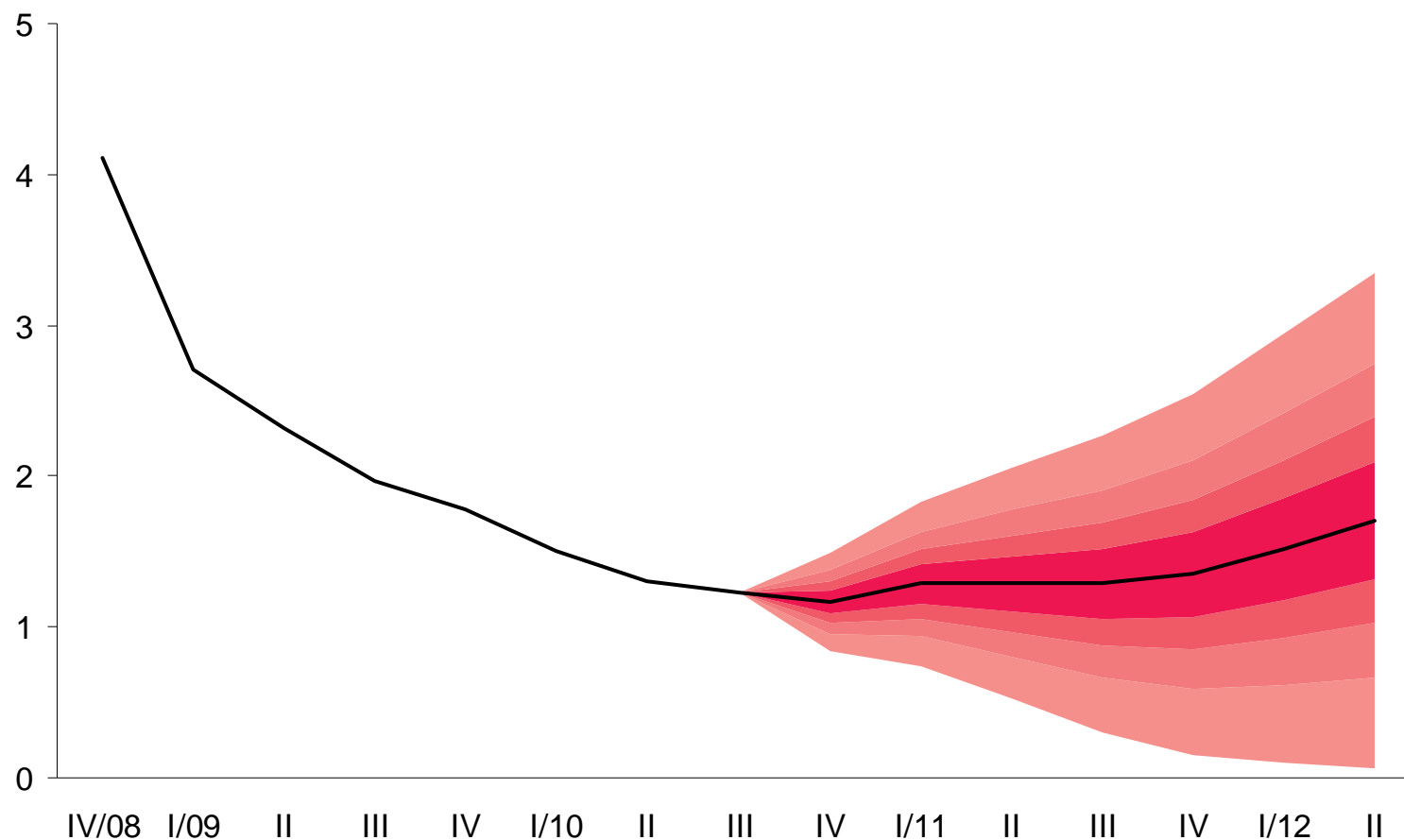
The forecast for monetary-policy relevant inflation



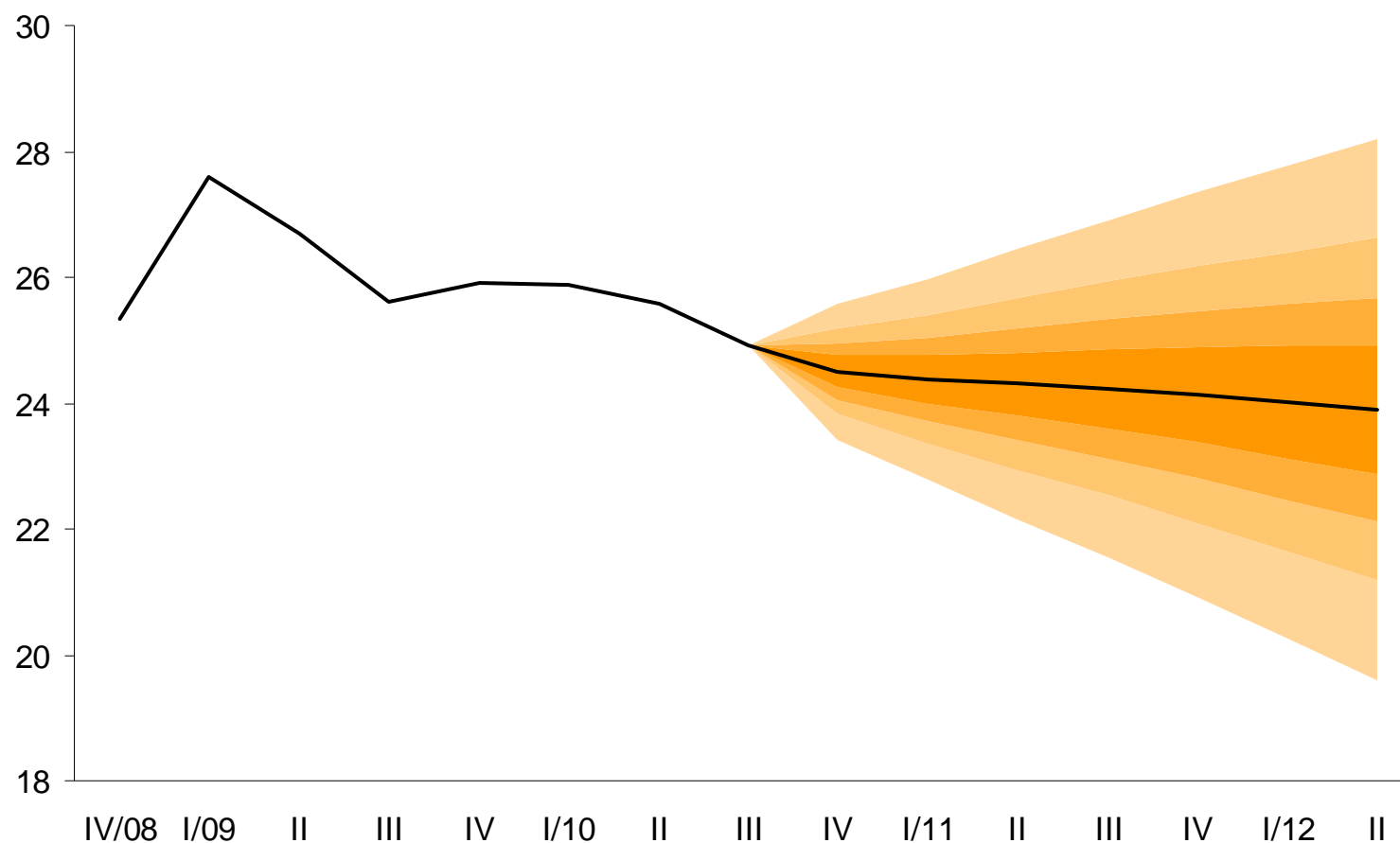
The forecast for GDP



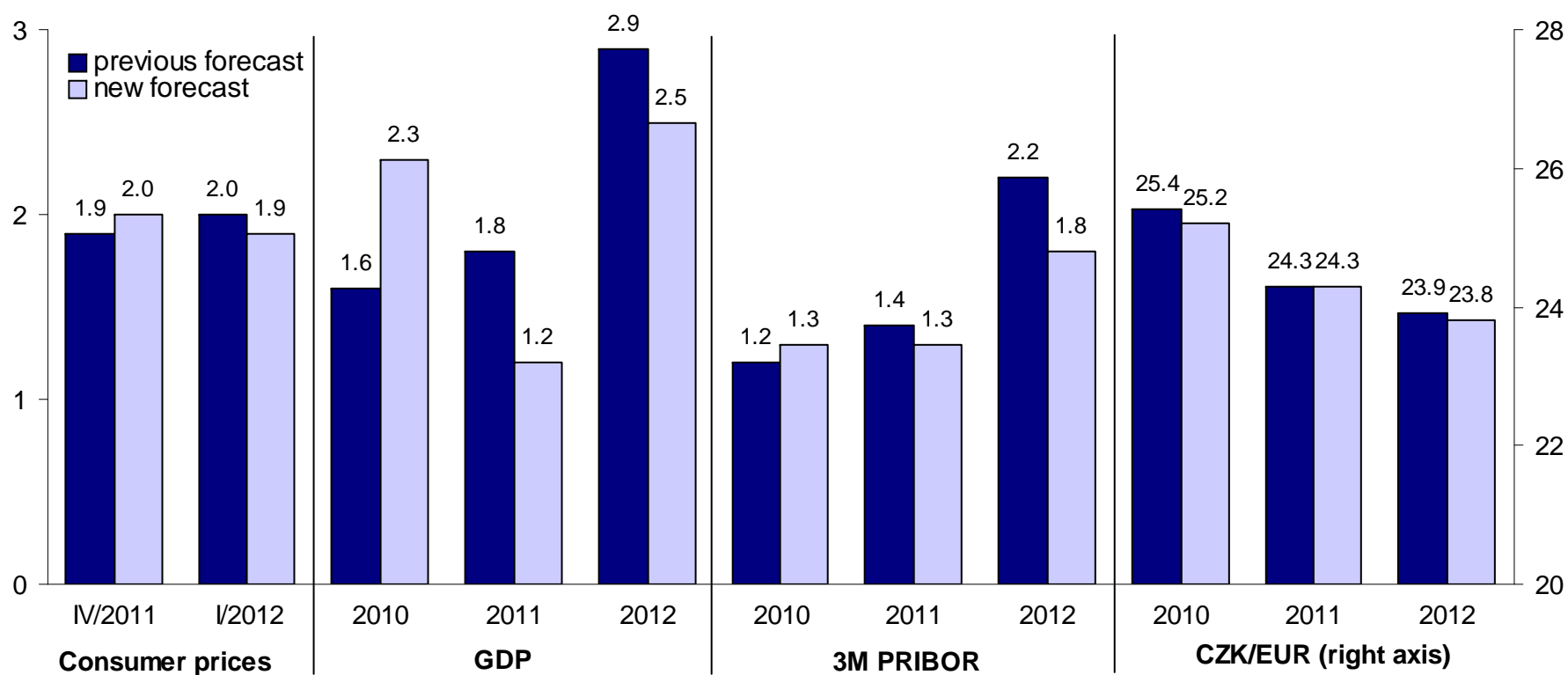
The forecast for interest rates (3M PRIBOR)



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



Comparison with the previous forecast





Major risks to the forecast

Forecast risks are balanced.

Mild risk on the up side:

- higher world commodity and domestic agricultural producer prices

Mild risk on the down side:

- higher-than-expected anti-inflationary effects of fiscal consolidation in the world



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 IV/2010, to
be published 12 November 2010.