

CNB's New Forecast

October 2006

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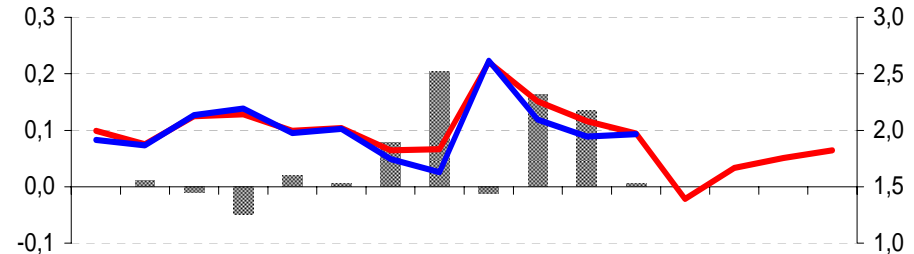
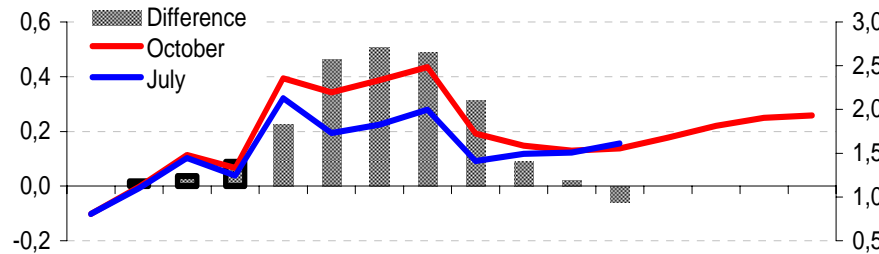
Meeting with analysts, Prague, 3 November 2006

Outline

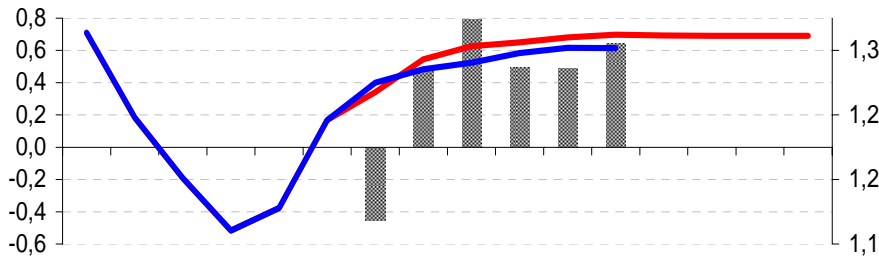
- External assumptions;
- Recent trends in inflation;
- Economic growth and the output gap;
- Fiscal policy;
- Regulated prices and energy prices;
- Exchange rate and imported inflation;
- Forecast of GDP and inflation.

External Assumptions (CF09)

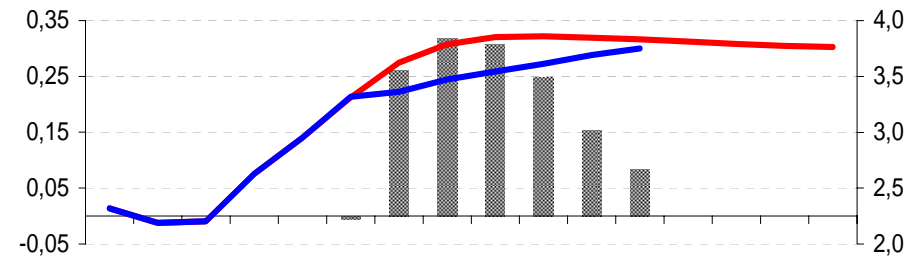
(difference in p.p.s) **Effective GDP of eurozone** (y/y in %), (difference in p.p.s) **Effective CPI of eurozone** (y/y in %)



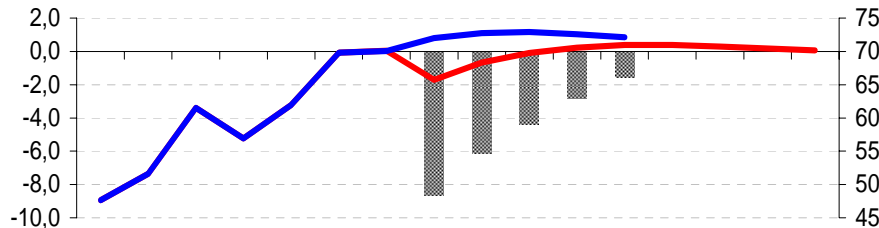
(difference in %) **Exchange rate** (USD/EUR)



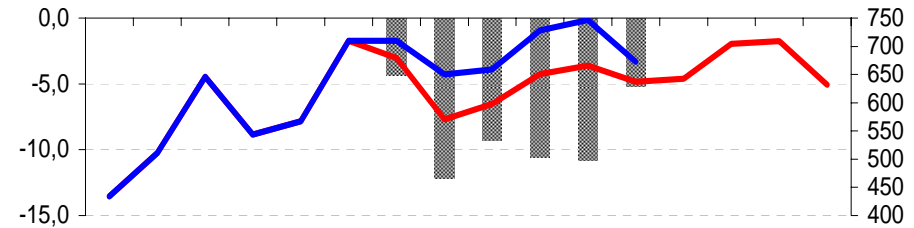
(difference in p.p.s) **1Y Euribor** (in %)



(difference in %) **Brent oil price** (USD/barrel)



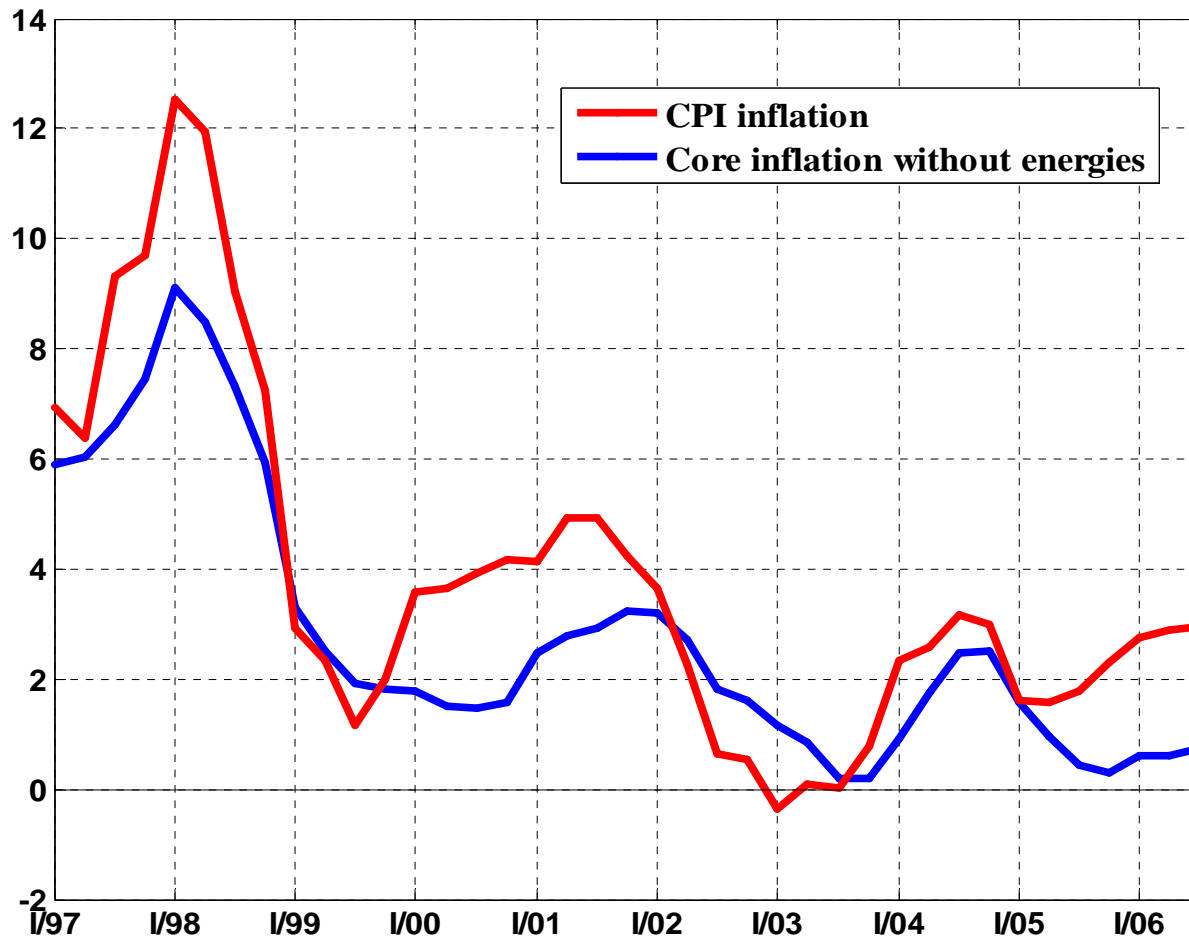
(difference in %) **Gasoline price** (USD/1000kg)



I/05 II/05 III/05 IV/05 I/06 II/06 III/06 IV/06 I/07 II/07 III/07 IV/07 I/08 II/08 III/08 IV/08

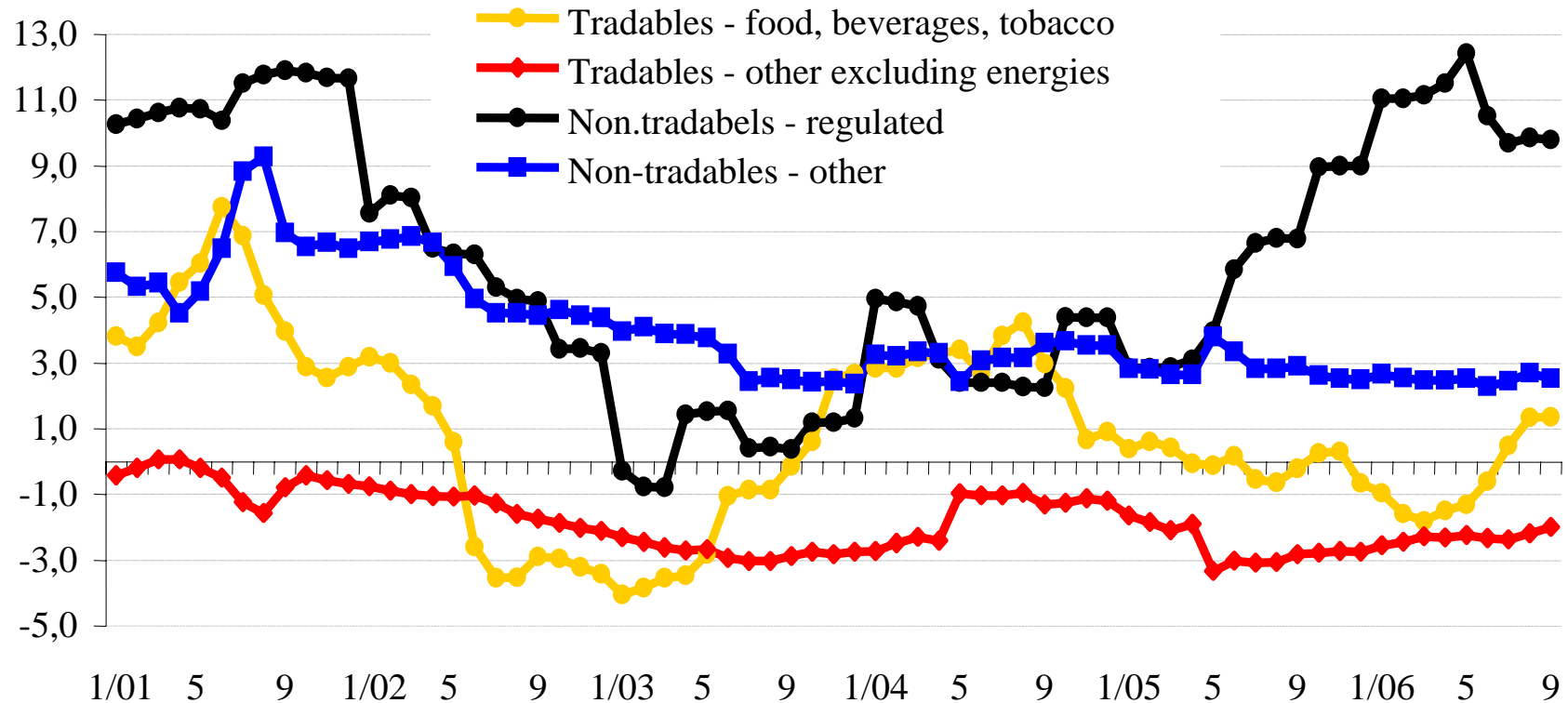
I/05 II/05 III/05 IV/05 I/06 II/06 III/06 IV/06 I/07 II/07 III/07 IV/07 I/08 II/08 III/08 IV/08

Inflation



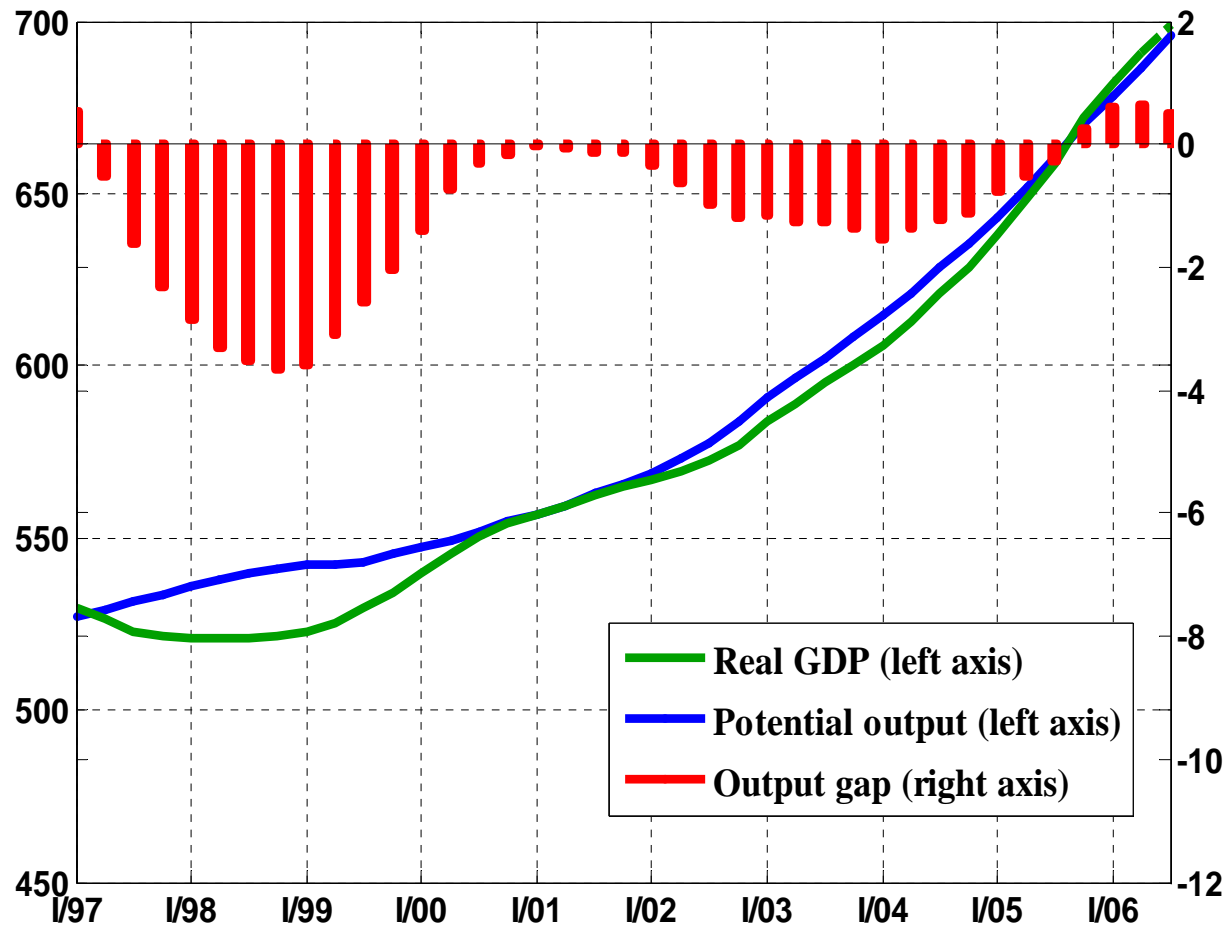
- In line with the July forecast;
- Headline inflation close to target;
- Core inflation only slightly increasing;
- Pressures from the real economy and inflation expectations offset by CZK's appreciation.

Structure of Inflation (without taxes)



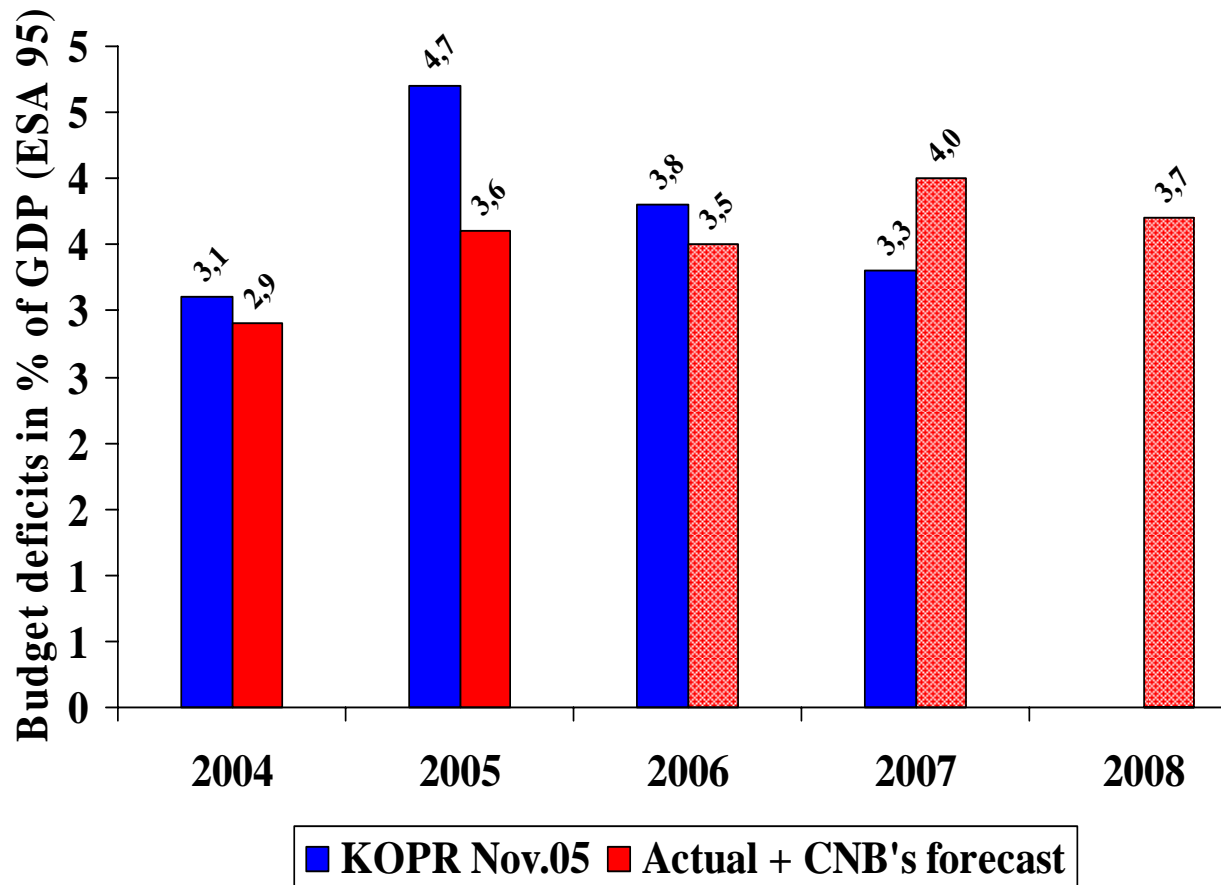
- Inflation still driven by regulated prices (energies, telecom.) – this will „drop out“ in October 2006;
- Food prices started to grow;
- Tradables: their y/y decline is gradually moderating.

GDP – Actual and Potential



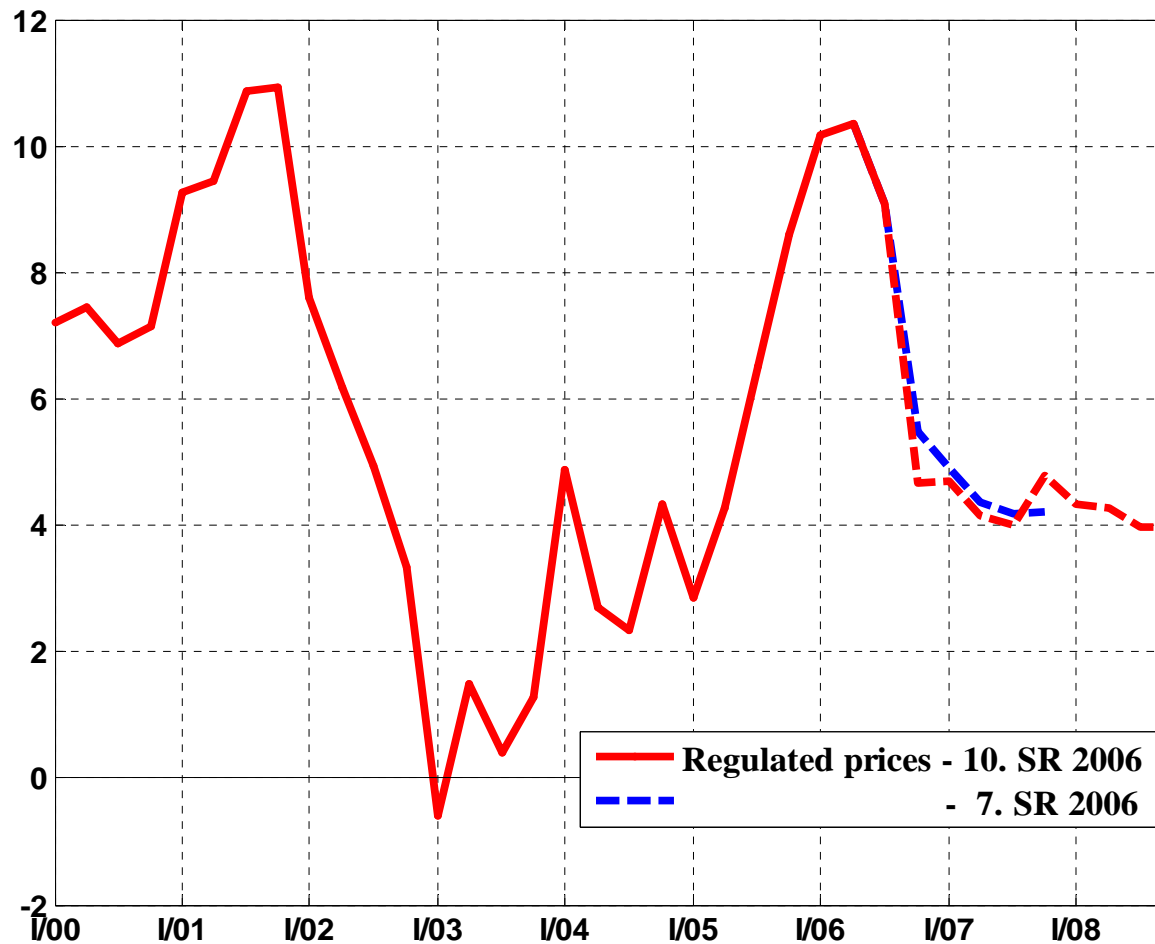
- The economy slightly above its non-inflationary potential (0.5 %);
- Growth pulled by domestic demand;
- Net exports' contribution declined to zero in Q2/06;
- Monetary conditions broadly neutral.

Fiscal Situation



- Deficit in 2005 revised to 3.6 %;
- Forecast of deficits raised accordingly;
- Fiscal impulse in 2006-07 slightly stronger than in July forecast;
- Relatively benign assumption for 2008 at the moment.

Regulated Prices

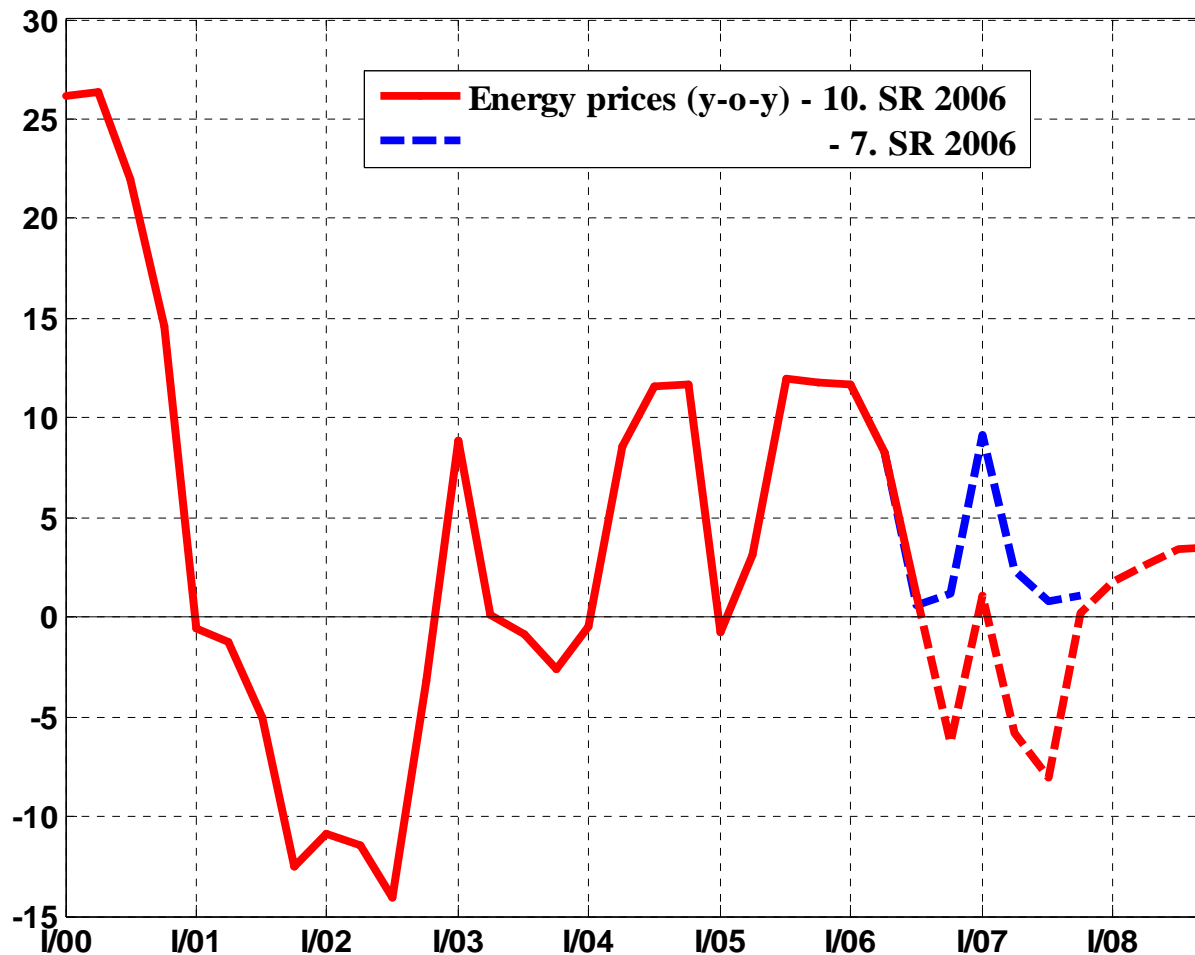


- Base effects will lead to a drop in the y/y growth rate;
- Cut in gas price in October 2005;
- Larger electricity price increase in January 2006;
- Together with taxes, contribution to inflation: 1.5 p.p.s at the end 2006, 2.2 p.p.s end-2007, 1.1 p.p.s end-2008.

Administrative Measures (selected items and total impact)

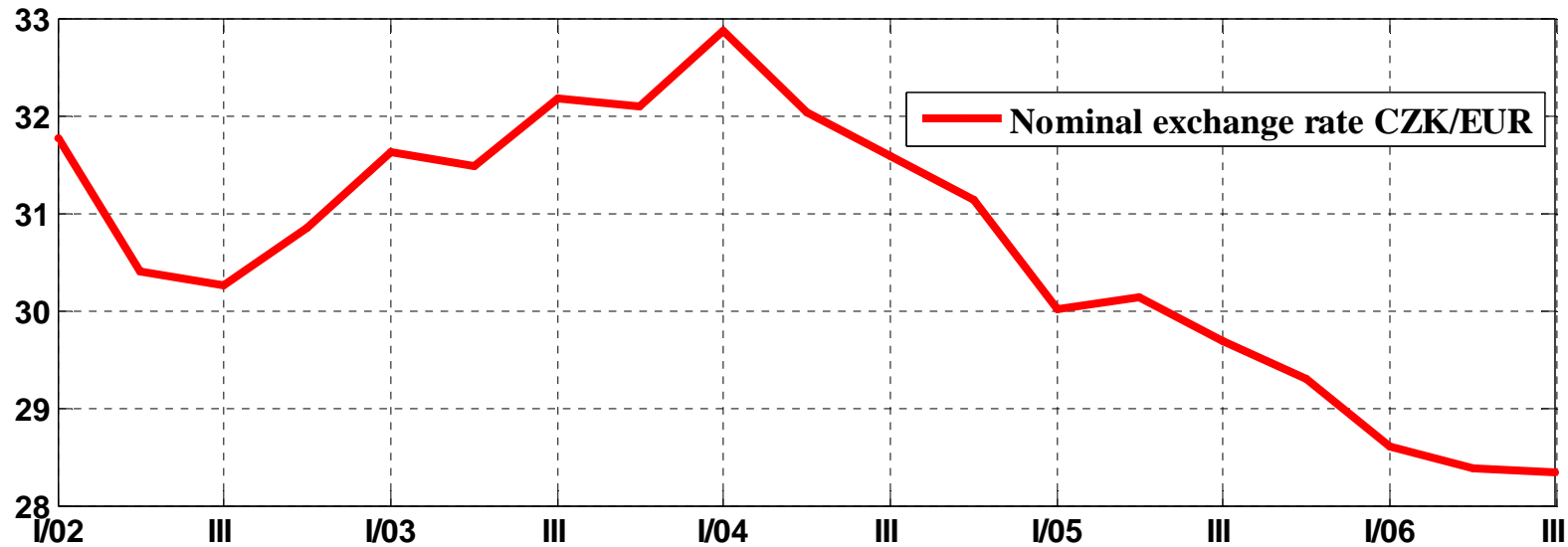
Year/date	Indirect taxes		Regulated prices		
	Item	Impact on CPI inflation	Item	Change in price	Impact on CPI inflation
2006-Total		0.39 p.p.		5.0%	1.09 p.p.
2007					
1Q 2007	Excise duties on tobacco products (delayed impact: 1Q+2Q+3Q)	1.13 p.p.	Electricity	8.5%	0.38 p.p.
			TV	20.0%	0.10 p.p.
			Regulated rents	19.2%	0.38 p.p.
			Heating	1.5%	0.06 p.p.
Total		1.13 p.p.		4.9%	1.09 p.p.
2008					
1Q 2008	Excise duties on tobacco products (delayed impact: 2Q+3Q)	0.15 p.p.	Electricity	7.0%	0.33 p.p.
2+3Q 2008			TV	12.5%	0.07 p.p.
			Regulated rents	15.0%	0.34 p.p.
			Heating	1.5%	0.06 p.p.
Total		0.15 p.p.		4.1%	0.93 p.p.

Energy Prices



- Forecast lowered due to falling market outlook for gasoline and oil prices;
- Risk skewed to the downside at the moment.

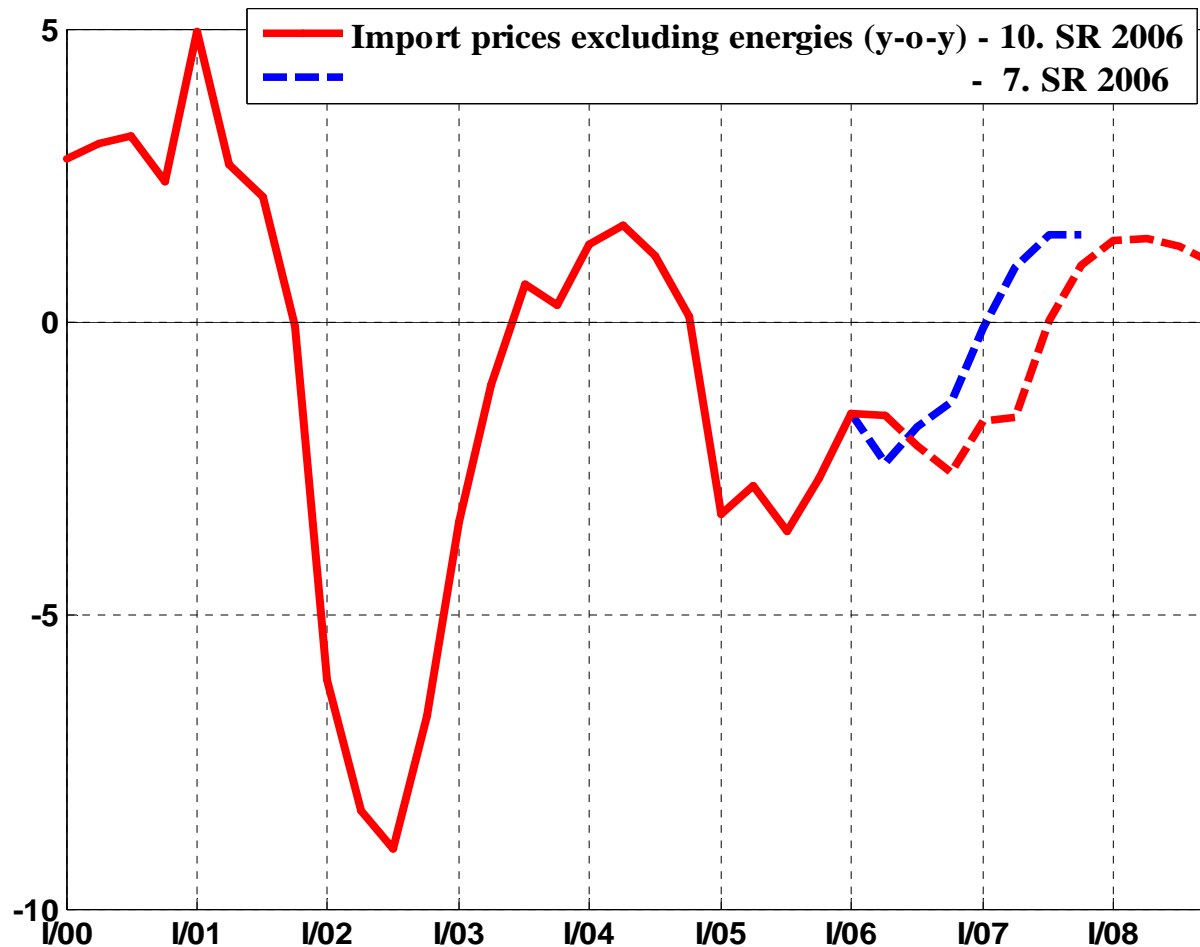
Exchange Rate



External forecasts of CZK/EUR

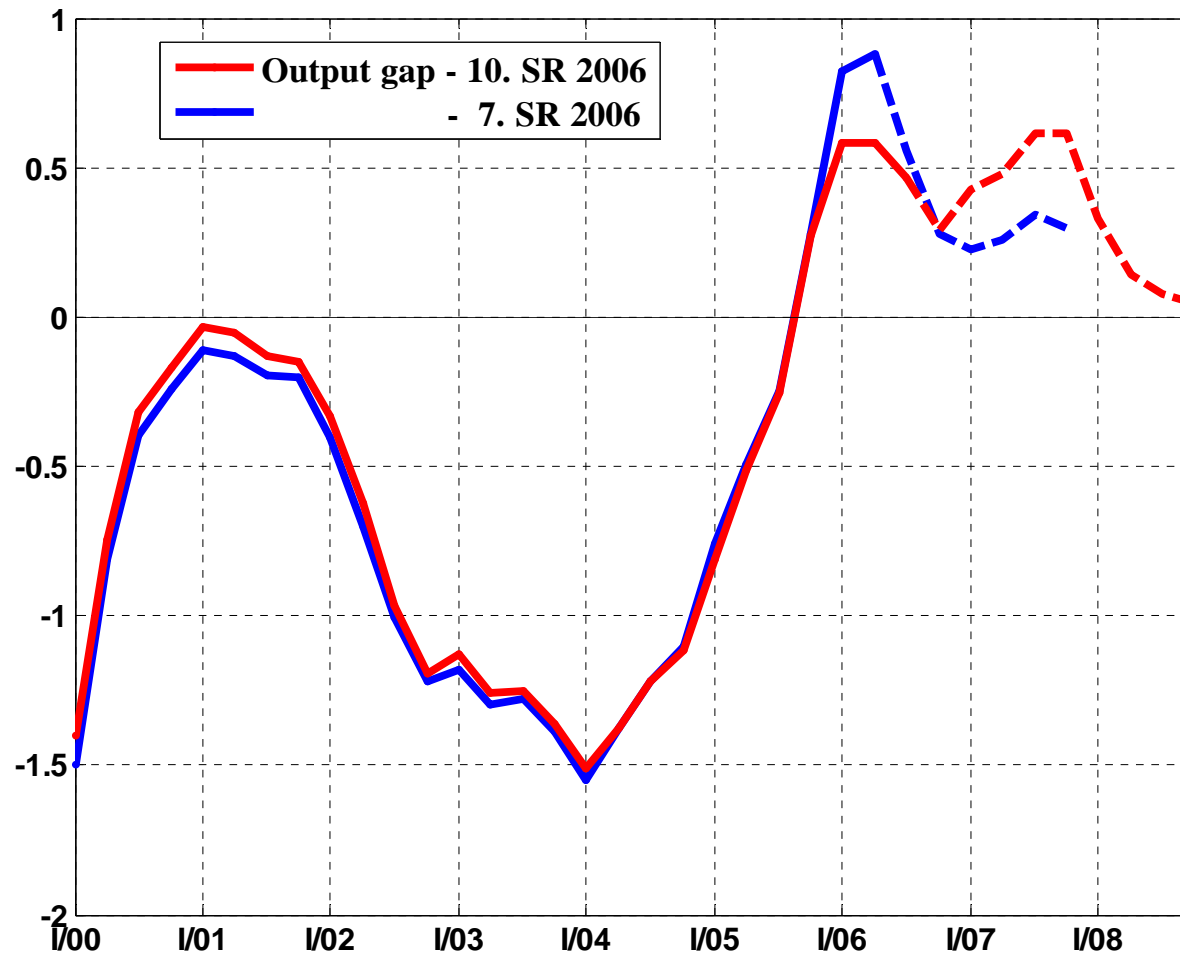
Date of forecast	Next quarter	1Y horizon	
	CF	Financial market	CF
10/05	29.7	28.8	29.2
1/06	29.1	28.3	28.8
4/06	28.7	27.9	28.2
7/06	28.5	27.7	28.0
10/06	28.2 (4Q06)	27.6	27.8

Import Prices excl. Energy



- Still expected to move from anti-inflationary to slightly pro-inflationary impact, but a little bit later than in July forecast.

Output Gap



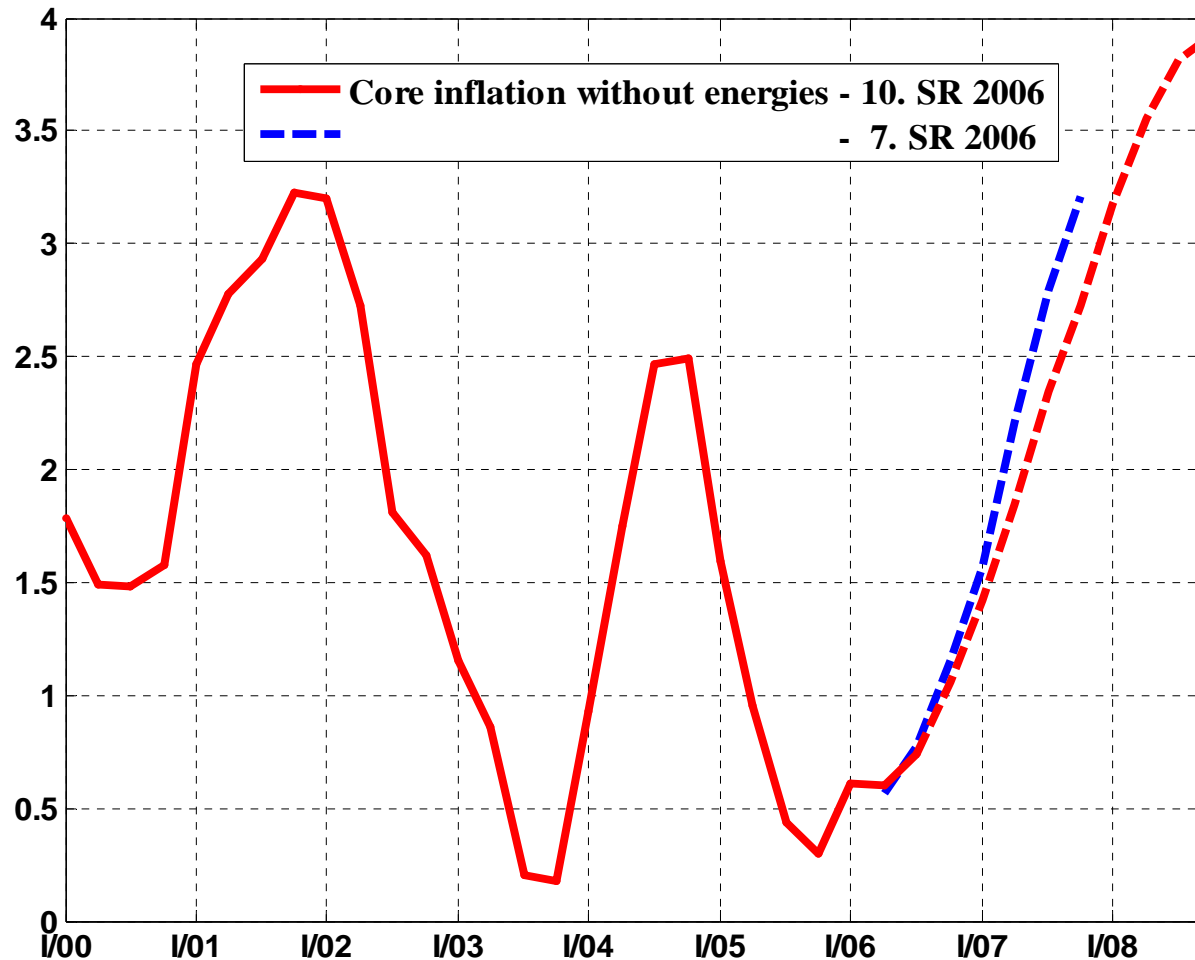
- Initial output gap almost the same as in July forecast;
- 2007: fiscal impulse and gradually loosening real monetary conditions vs. sluggish foreign demand;
- 2008: public budgets already not supporting demand growth.

GDP Growth Forecast

y/y change	2006	2007	2008
Gross domestic product	6.1	5.6	4.9
Household consumption	4.1	4.4	3.8
Government consumption	1.0	-0.7	0.2
Fixed investment	6.4	5.4	4.9
Exports	12.4	10.0	11.5
Imports	11.8	9.4	10.7

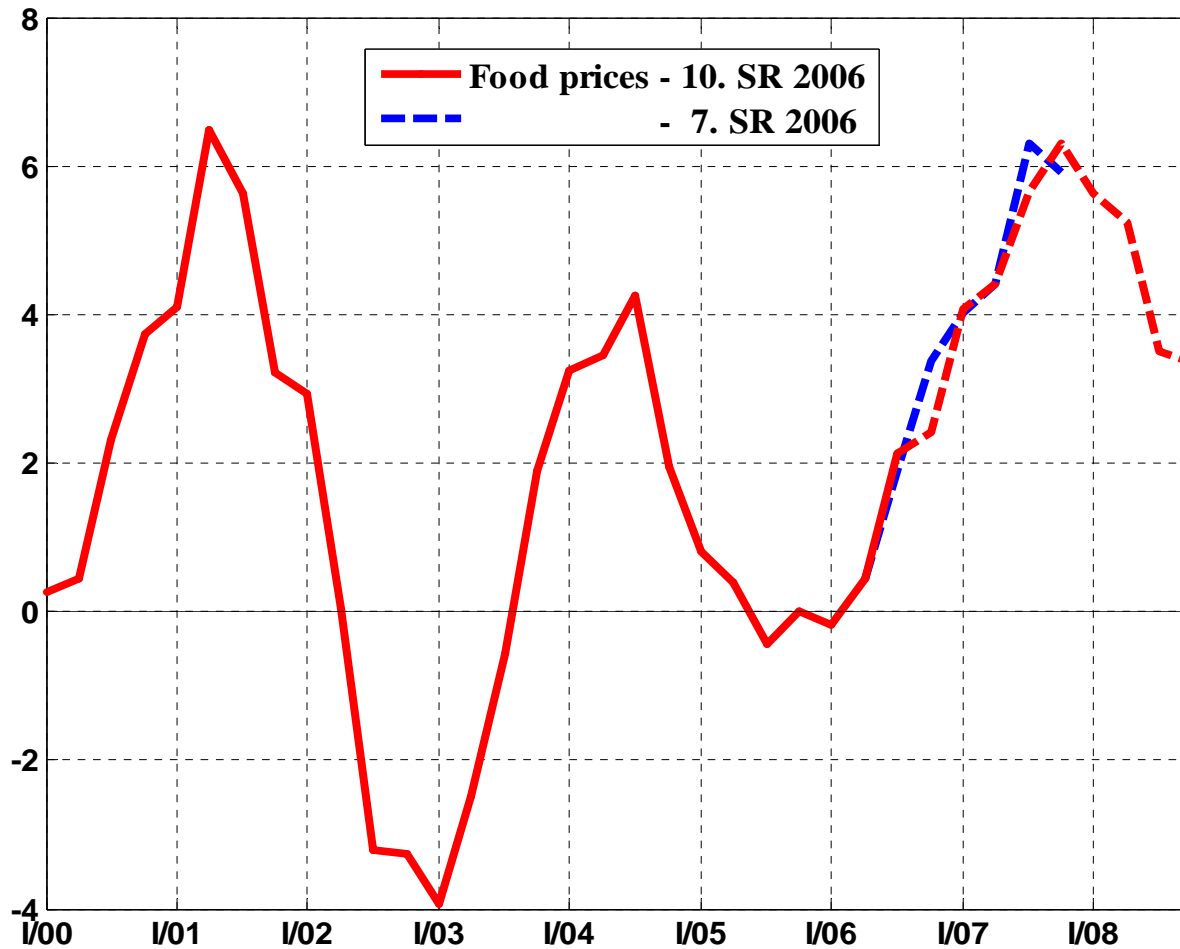
- GDP growth will be high, but slowing down in 2006-08;
- Forecast revised down for 2006, but raised for 2007;
- Consumption growth will be faster than in July forecast;
- Fixed investments growth and net exports' contribution will be slightly weaker than in July forecast.

Core Inflation



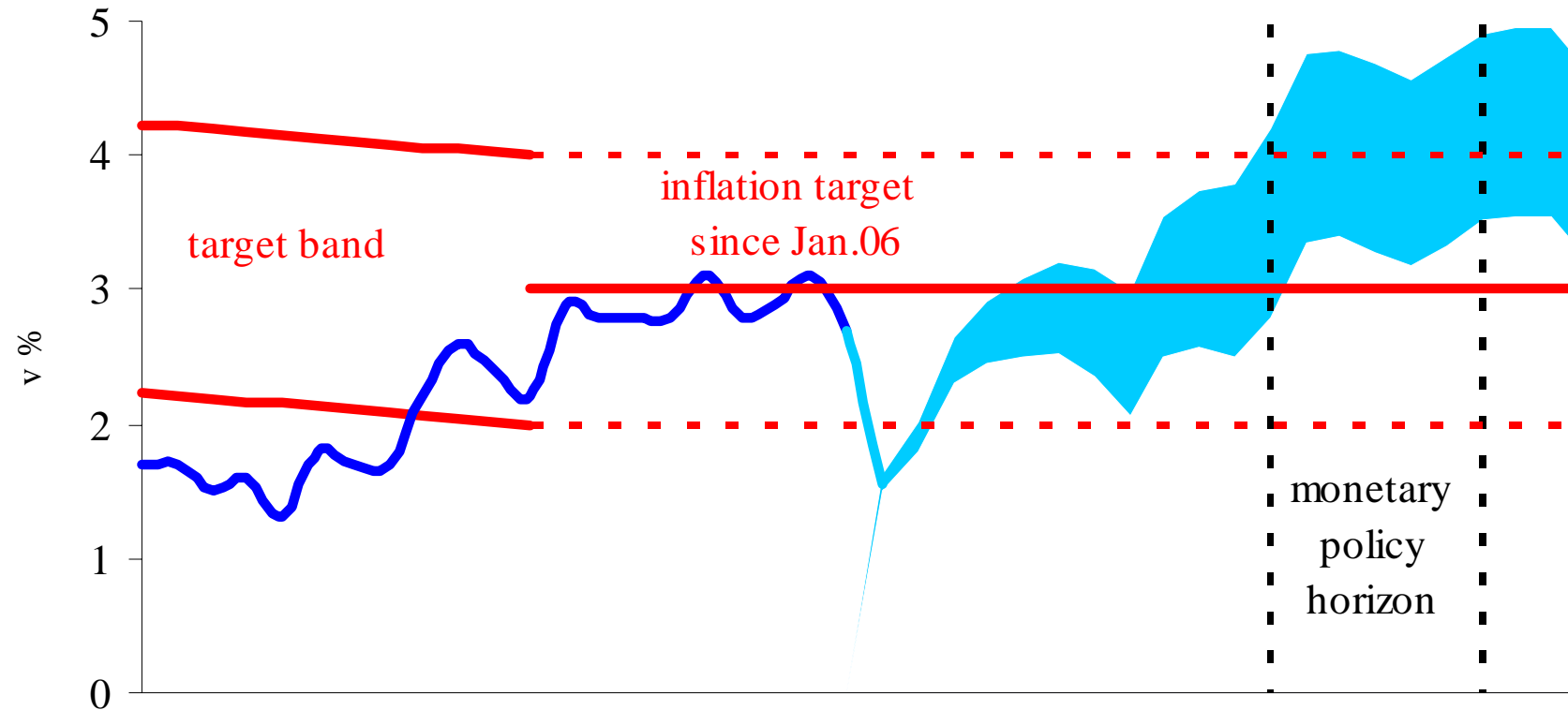
- Lower in the near term due to slightly stronger CZK in Q3/06 and lower forecast of import prices ex energy;
- But acceleration still expected (import prices ex energy, inflation expectations, output gap, long-run price convergence).

Food Prices (including taxes)



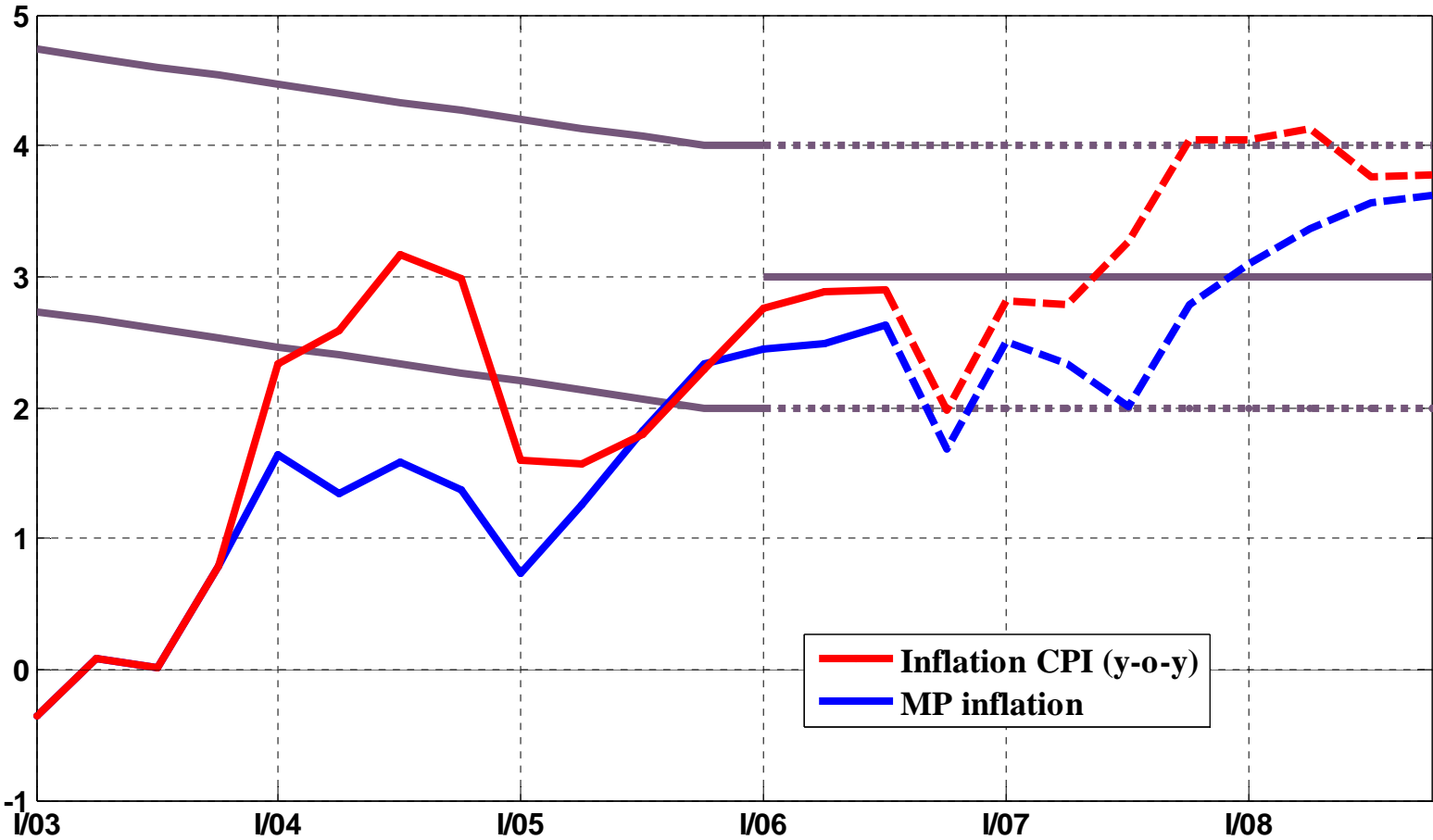
- Outlook quite similar to July forecast;
- Modified profile of tax influences and other factors offset each other.

Overall Inflation



- Consistent with the forecast and its assumptions is a gradual rise in interest rates.

Inflation Net of Tax Changes





Thank you
for your attention.