



Press conference of the CNB Bank Board

4th Situation Report on Economic and Monetary Developments

27 June 2013

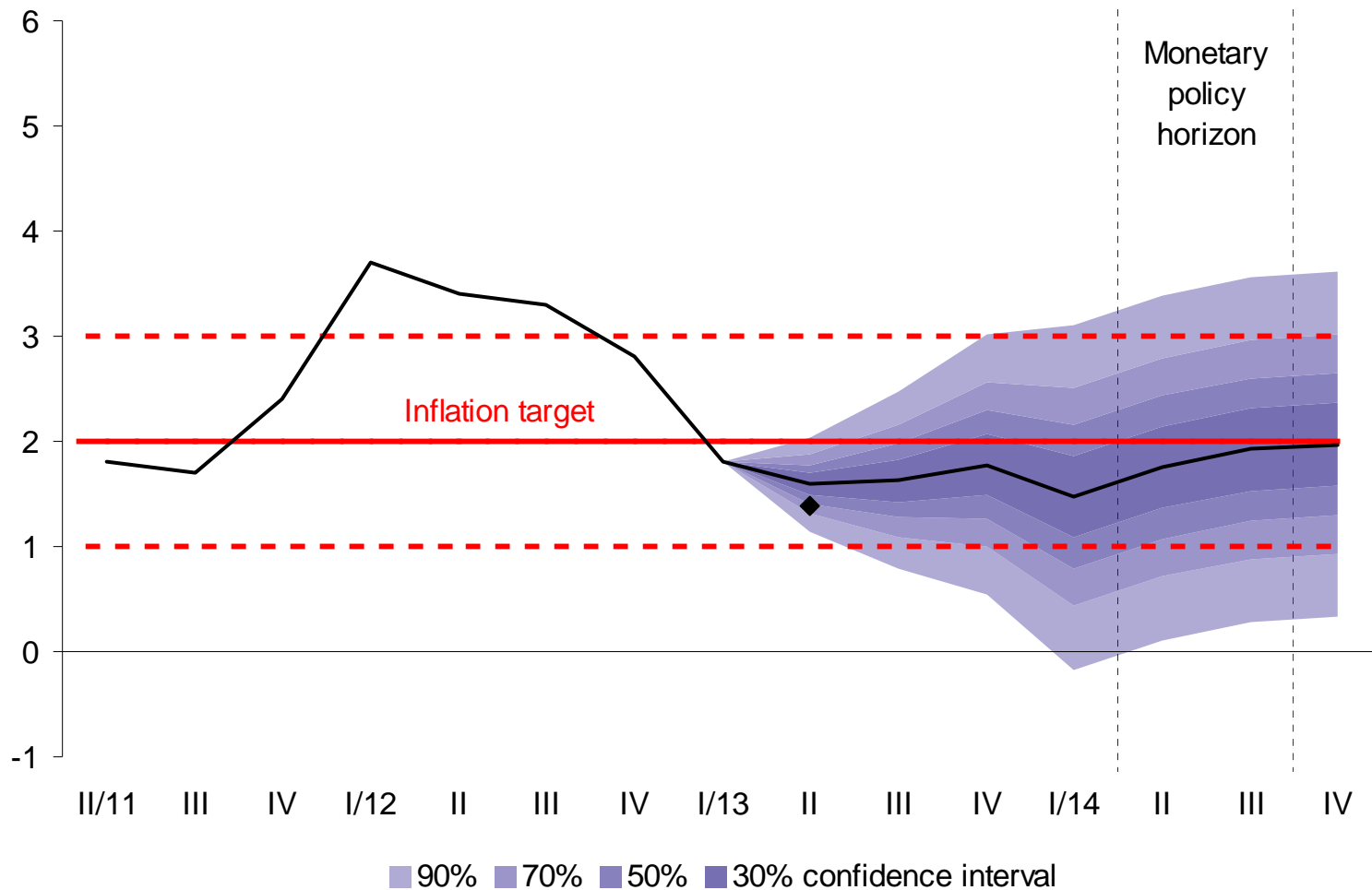
The monetary policy decision and the stance of the CNB

- At the close of the meeting the Board decided unanimously to leave the two-week repo rate unchanged at 0.05%.
- Interest rates will remain at current levels (i.e. at technical zero) over a longer horizon until inflation pressures increase significantly.
- The CNB is ready to use foreign exchange interventions if further monetary policy easing becomes necessary. The probability of launching interventions is increasing.

Reasons for the decision within the context of the forecast

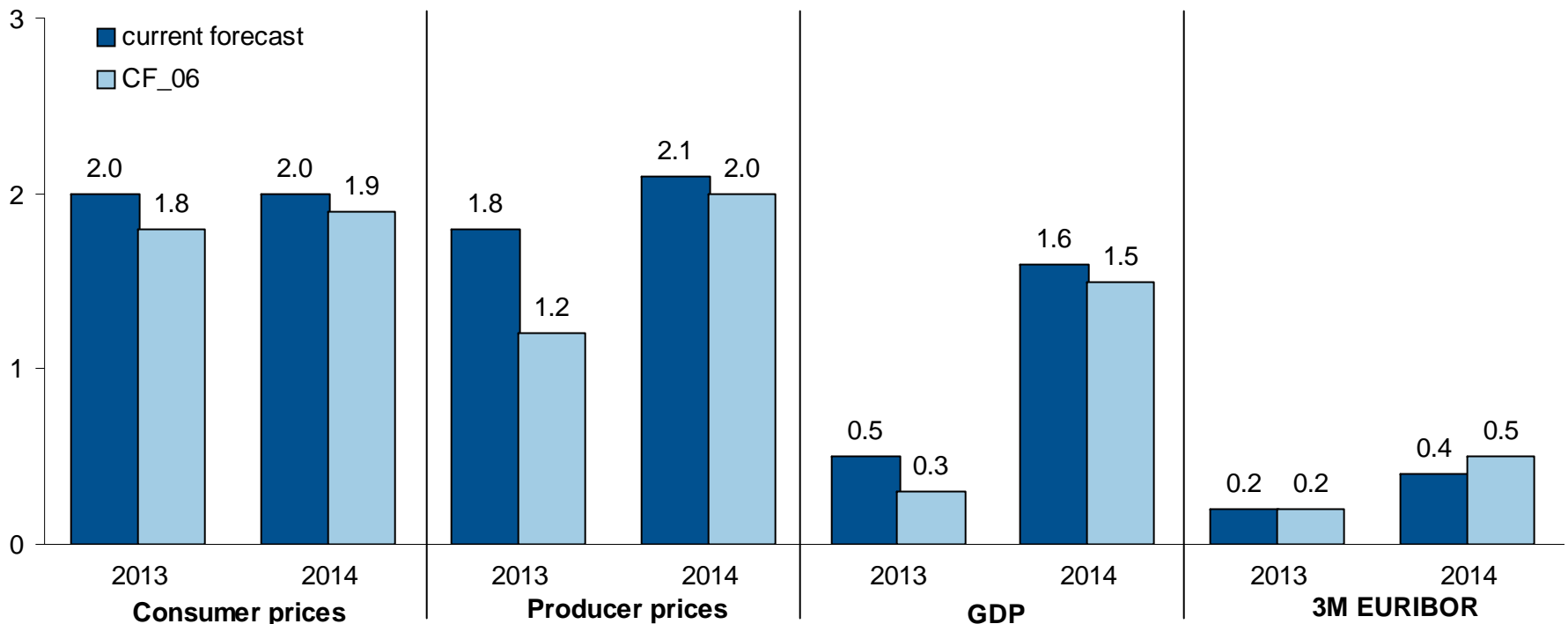
- Consistent with the forecast is a slight decline in market interest rates, followed by a rise in rates in 2014.
- The current Inflation Report II/2013 forecast does not predict an increase in inflation pressures and no tangible risks of such an increase in inflation pressures can be identified either.
- The overall risks to the inflation forecast are on the downside, respectively tilted towards the need for easier monetary conditions in comparison with the forecast.

The inflation forecast and expected outcome in 2013 Q2



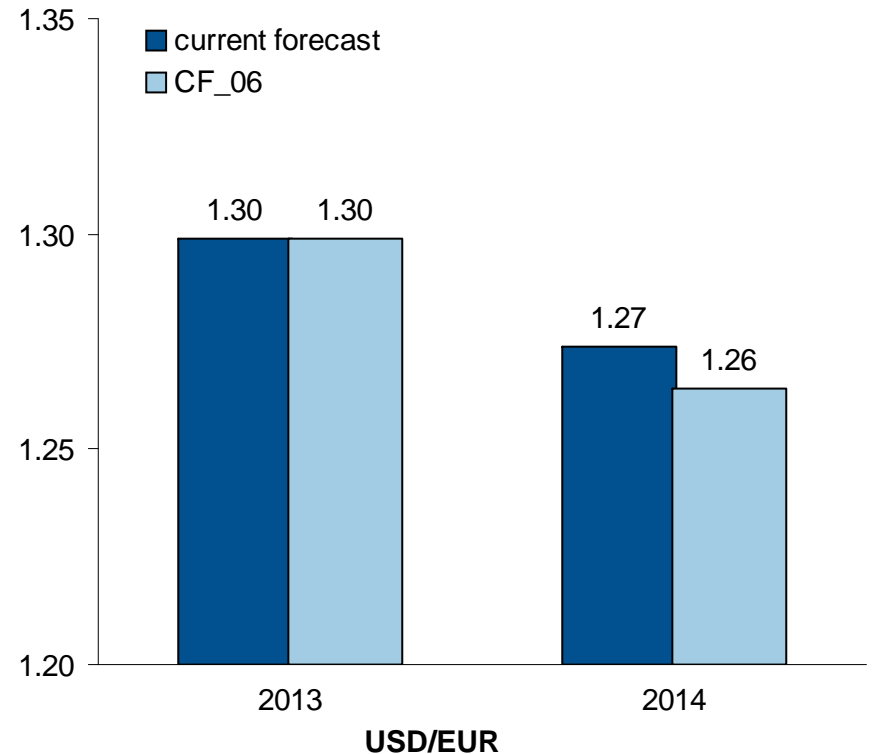
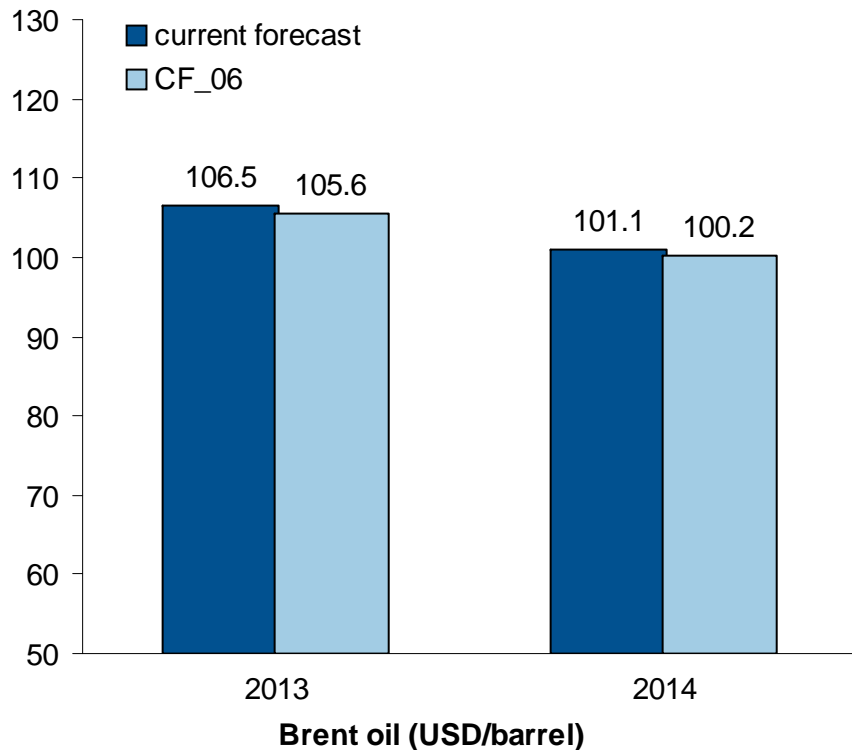
The external environment (i)

Comparison between the current forecast assumptions and the June outlook based on Consensus Forecasts survey and market expectations for the effective euro area



The external environment (ii)

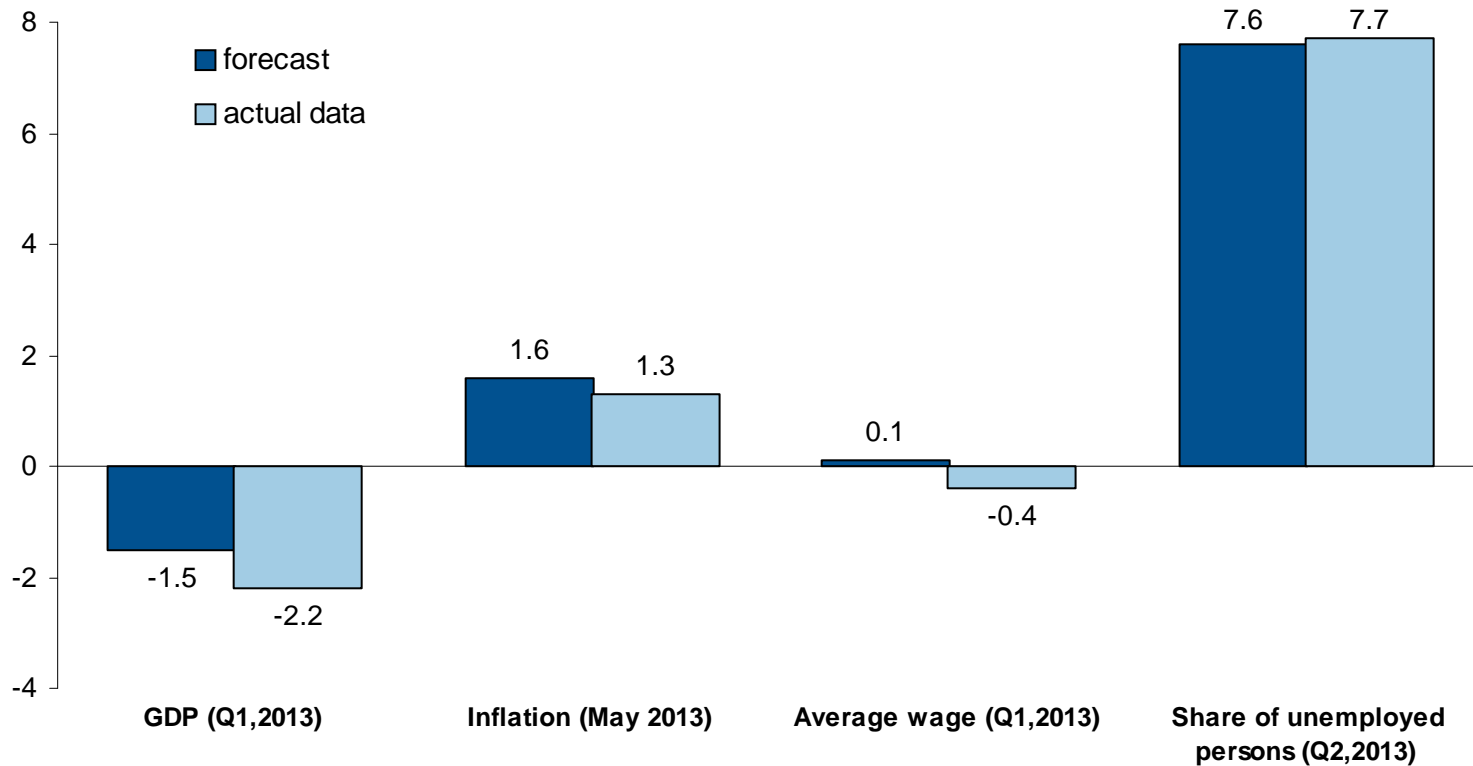
Comparison between the current forecast assumptions and the June outlook based on Consensus Forecasts survey and market expectations



Developments in the domestic economy since the Board's previous monetary meeting

- The economy declined both in y-o-y and q-o-q terms in 2013 Q1, s.a., more markedly than expected.
- Developments in industrial production, construction output and retail sales excluding the automotive segment in April continue to indicate subdued economic activity. On the contrary, there are some signs of economic recovery (growth in exports and export orders, developments of some GDP components, and a further increase in consumer confidence).
- Labour market broadly stagnated in 2013 Q1:
 - Total employment saw a surprising y-o-y growth. The unemployment rate (s.a.) stagnated. The number of unemployed persons rose. The latter two indicators have exhibited only marginal changes so far during Q2.
 - Y-o-y growth in the average nominal wage in the business sector was negative in 2013 Q1, which was influenced by tax optimization. Wages in the non-business sector stagnated.
- Cost-push pressures (though weakening) are apparent from agricultural producer prices only.

Comparison of actual data with the CNB forecast



Note: in percentages, for share of unemployed persons comparison of s.a. outcomes in April and May with forecast for the Q2, 2013

Risks to the forecast

The risks to the forecast are tilted towards the need for easier monetary conditions in comparison with the forecast.

Risk in the above-mentioned direction:

- lower domestic inflation



Thank you for your attention

Minutes of the today's meeting and the Graph of Risks to the Inflation Projection (GRIP) will be released on 8 July 2013 at

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