



Press conference of the CNB Bank Board

6th Situation Report on Economic and Monetary Developments

26 September 2013

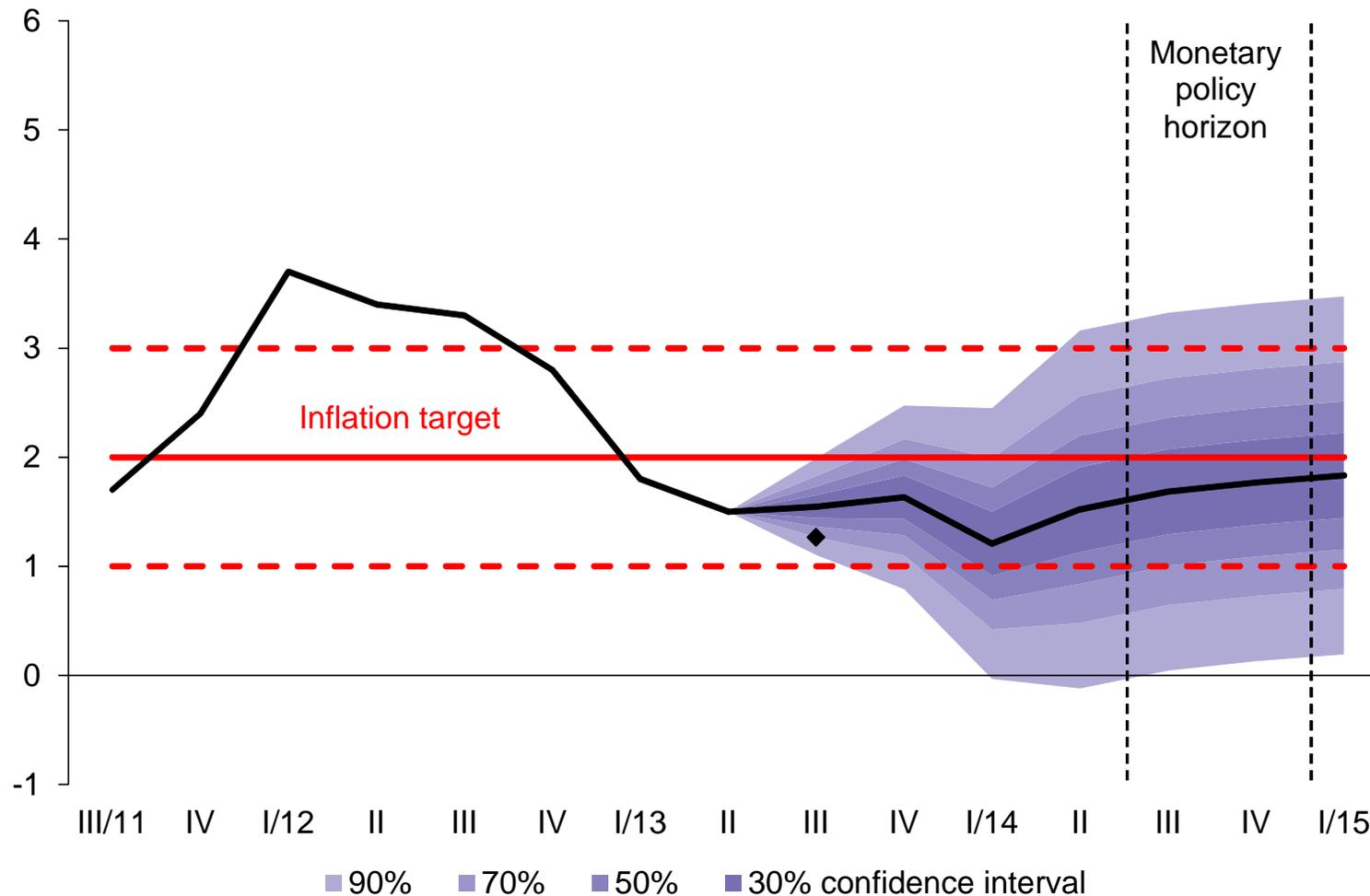
The monetary policy decision and the stance of the CNB

- 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 the exchange rate if further monetary policy easing becomes necessary. The probability of launching foreign exchange interventions has not changed and remains high.

Reasons for the decision within the context of the forecast

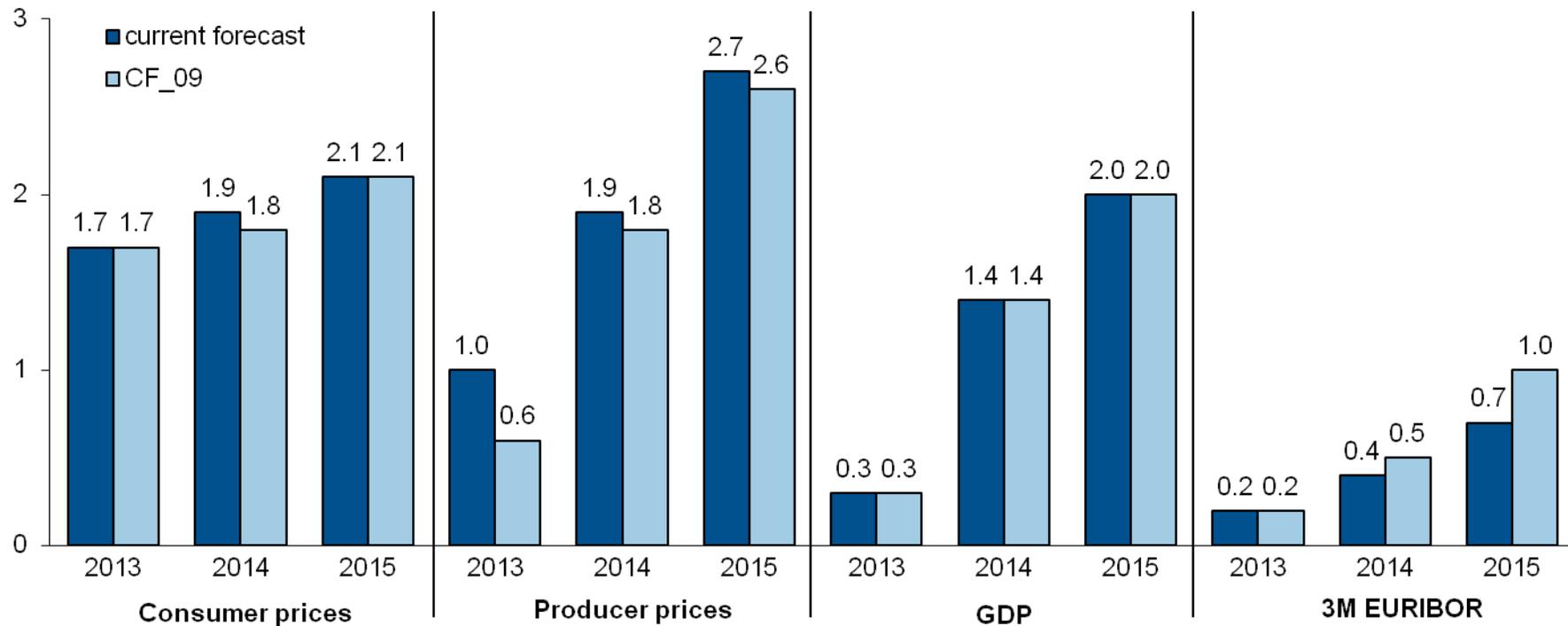
- Consistent with the forecast is a decline in market interest rates to zero, followed by a noticeable rise in rates only in 2015.
- Given the zero lower bound on monetary policy rates, this points to a need for easing monetary policy using other instruments.
- The current Inflation Report III/2013 forecast does not predict an increase in inflation pressures and no tangible risks of such an increase in inflation pressures can be identified either.
- The risks to the inflation forecast are slightly on the downside, tilted towards the need for slightly easier monetary conditions.

The inflation forecast and expected outcome in 2013 Q3



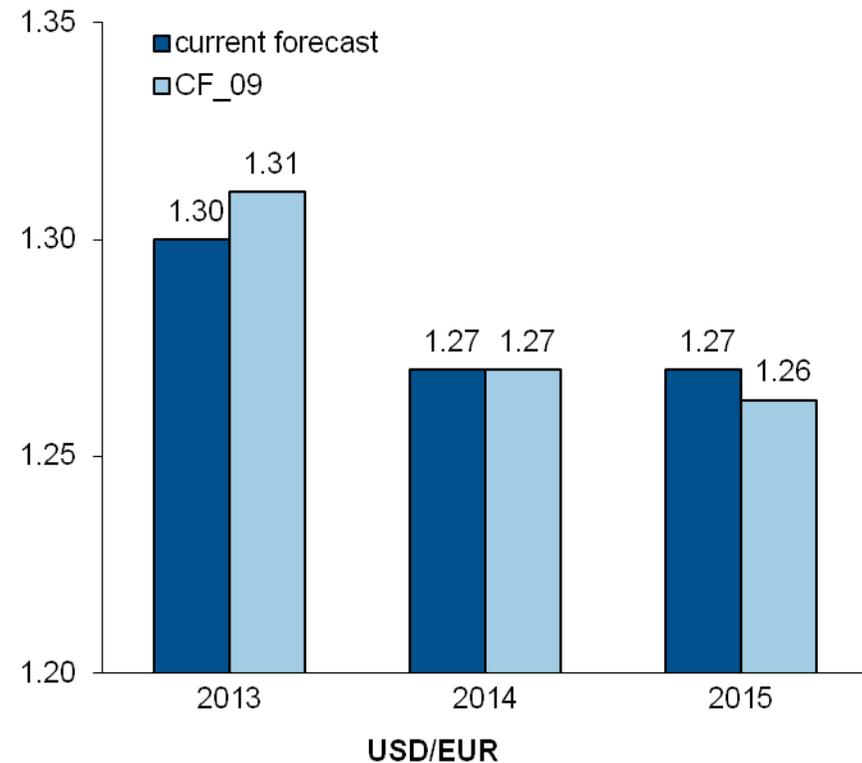
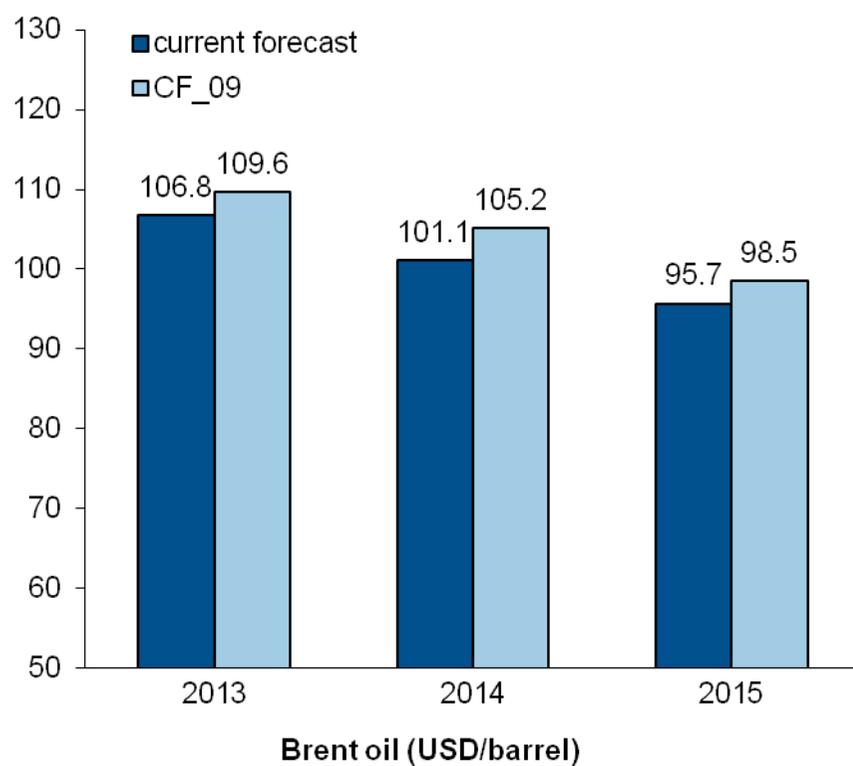
The external environment (i)

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



The external environment (ii)

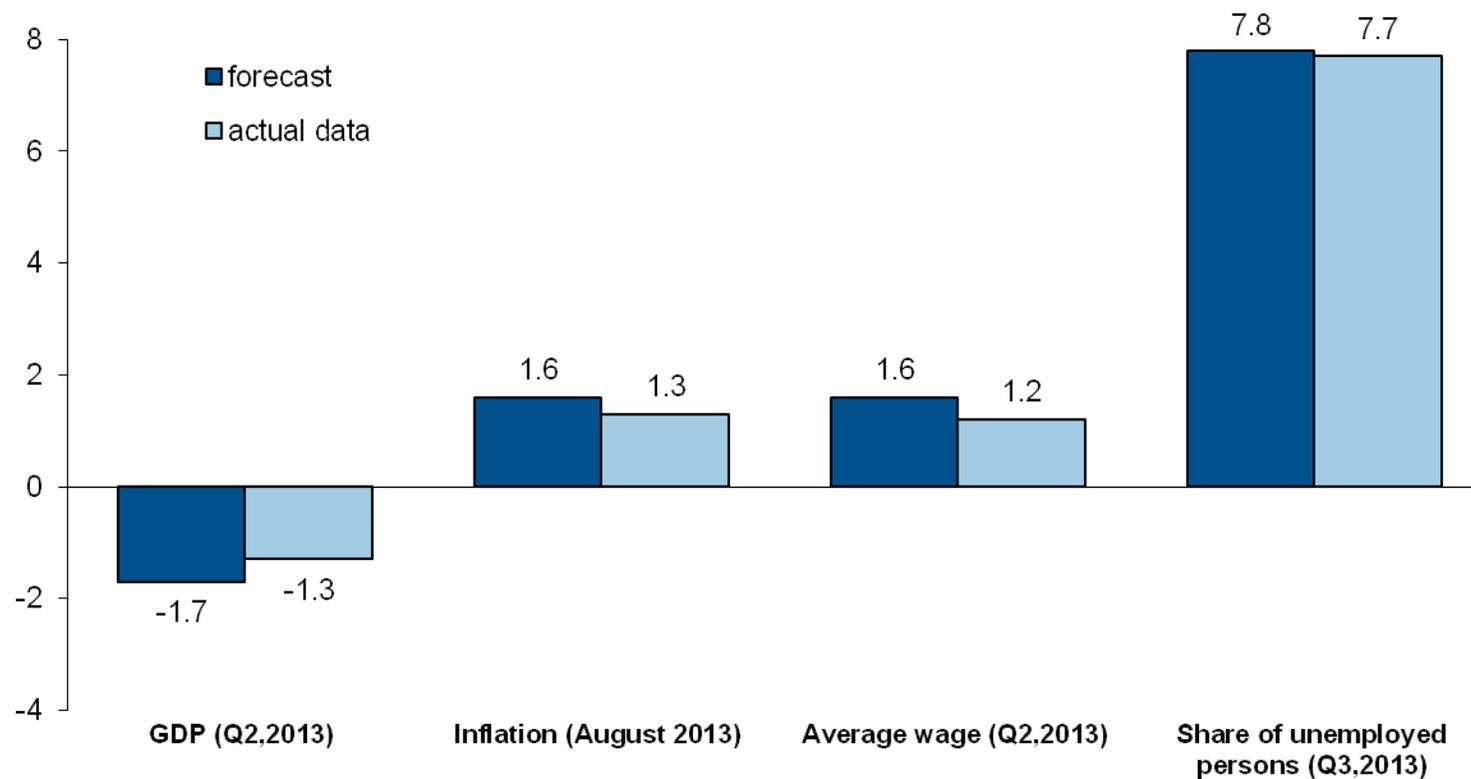
Comparison between the current forecast assumptions and the September outlook based on Consensus Forecasts survey and market expectations



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

- The Czech economy declined by 1.3% in y-o-y terms in 2013 Q2 but grew by 0.6% in q-o-q terms, seasonally adjusted. Both figures are 0.4 p.p. above the forecast.
- The labour market broadly stagnated in 2013 Q2:
 - Total employment grew. The general unemployment rate dropped modestly (q-o-q, s.a.). The share of unemployed persons has been slightly increasing (s.a.).
 - The average nominal wage grew by just 1.2% y-o-y, with faster growth in the non-business sector than in the business sector.
- No cost-push inflation pressures are apparent and the outlook for administered prices is shifting downwards.

Comparison of actual data with the CNB forecast



Note: in percentages, for share of unemployed persons comparison of s.a. outcomes in July and August with forecast for 2013 Q3

Risks to the forecast

The risks to the forecast are tilted towards a need for slightly easier monetary conditions.

Risks in this direction:

- lower domestic inflation and administered price outlook
- lower wage growth



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 4 October 2013 at

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