



Press conference of the CNB Bank Board

2nd Situation Report on Economic and Monetary Developments

March 25, 2010



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

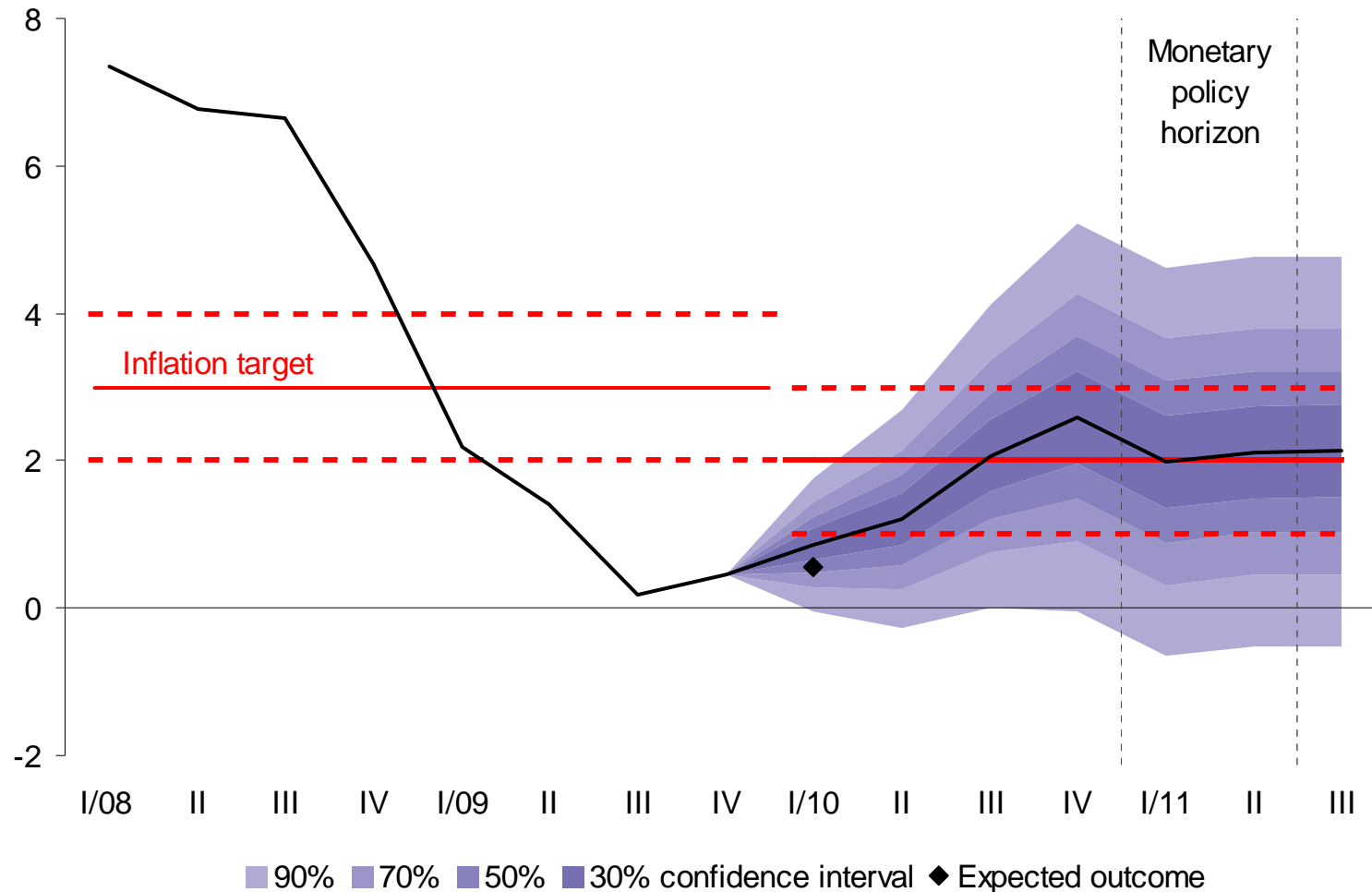
- At the close of the meeting the Board decided by a majority vote to leave the two-week repo rate unchanged at 1%.
- Four members voted in favour of this decision, and two members voted for lowering rates by 0.25 percentage point.



Reasons for the decision

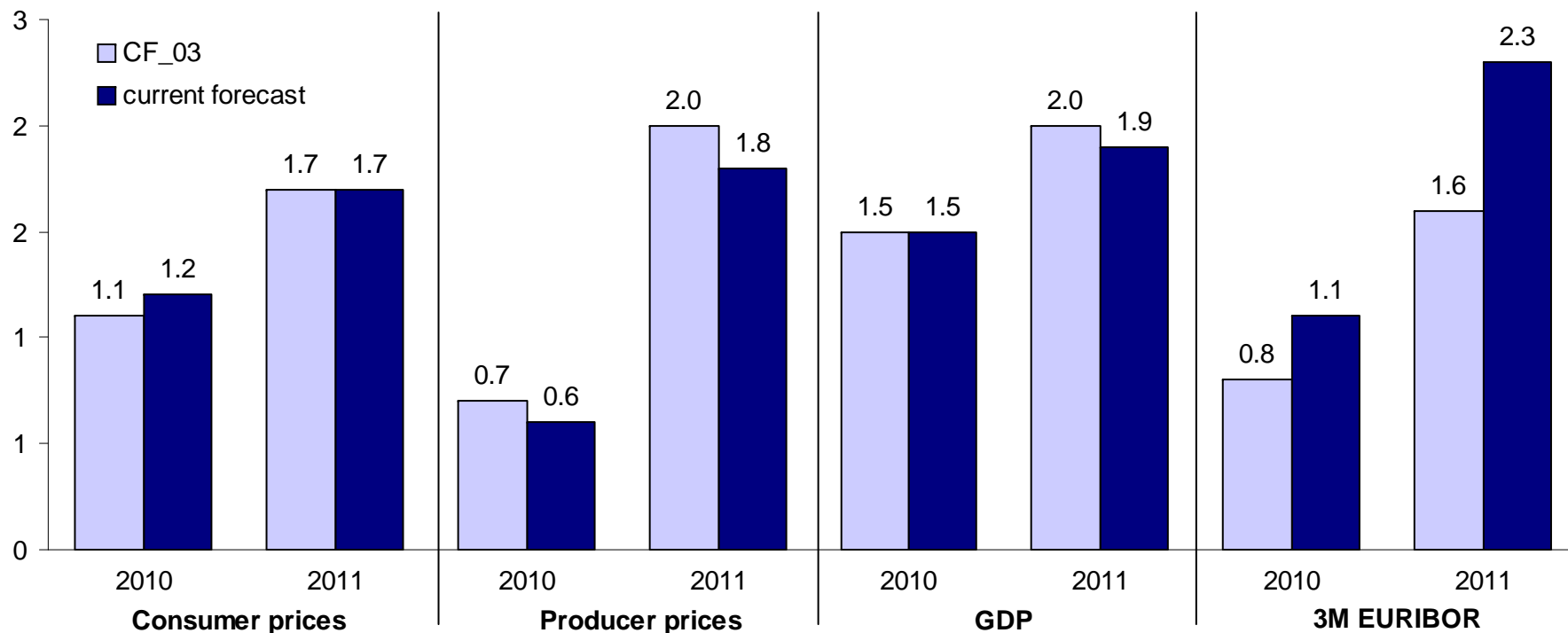
- Headline and monetary-policy relevant inflation will be close to the 2% target at the monetary policy horizon.
- Consistent with the forecast is stability of short-term interest rates close to current levels in 2010 H1 and a gradual rise in rates thereafter.
- New information from Czech economy is generally in line with the forecast.
- Risks to the forecast are slightly on the downside.

The inflation forecast and expected outcome in 2010, Q1



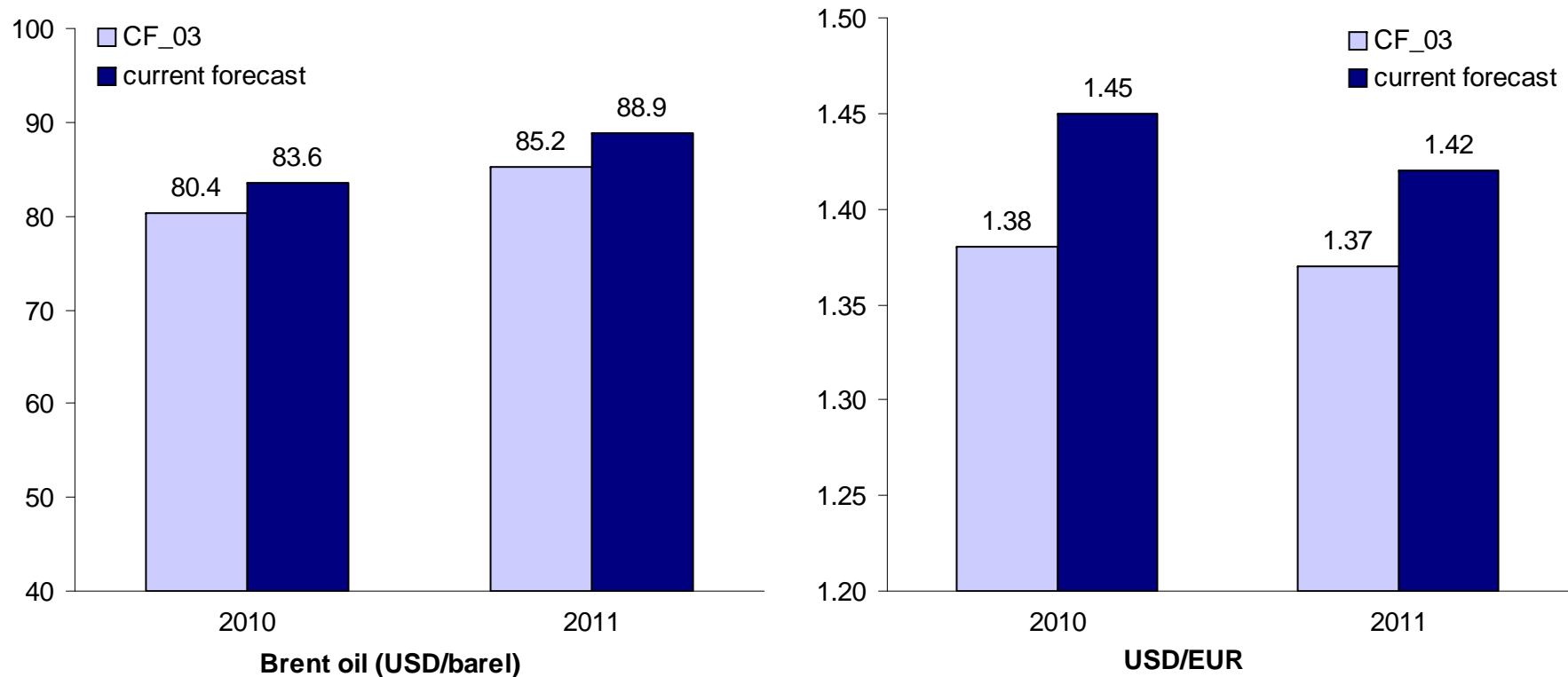
The external environment (i)

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



The external environment (ii)

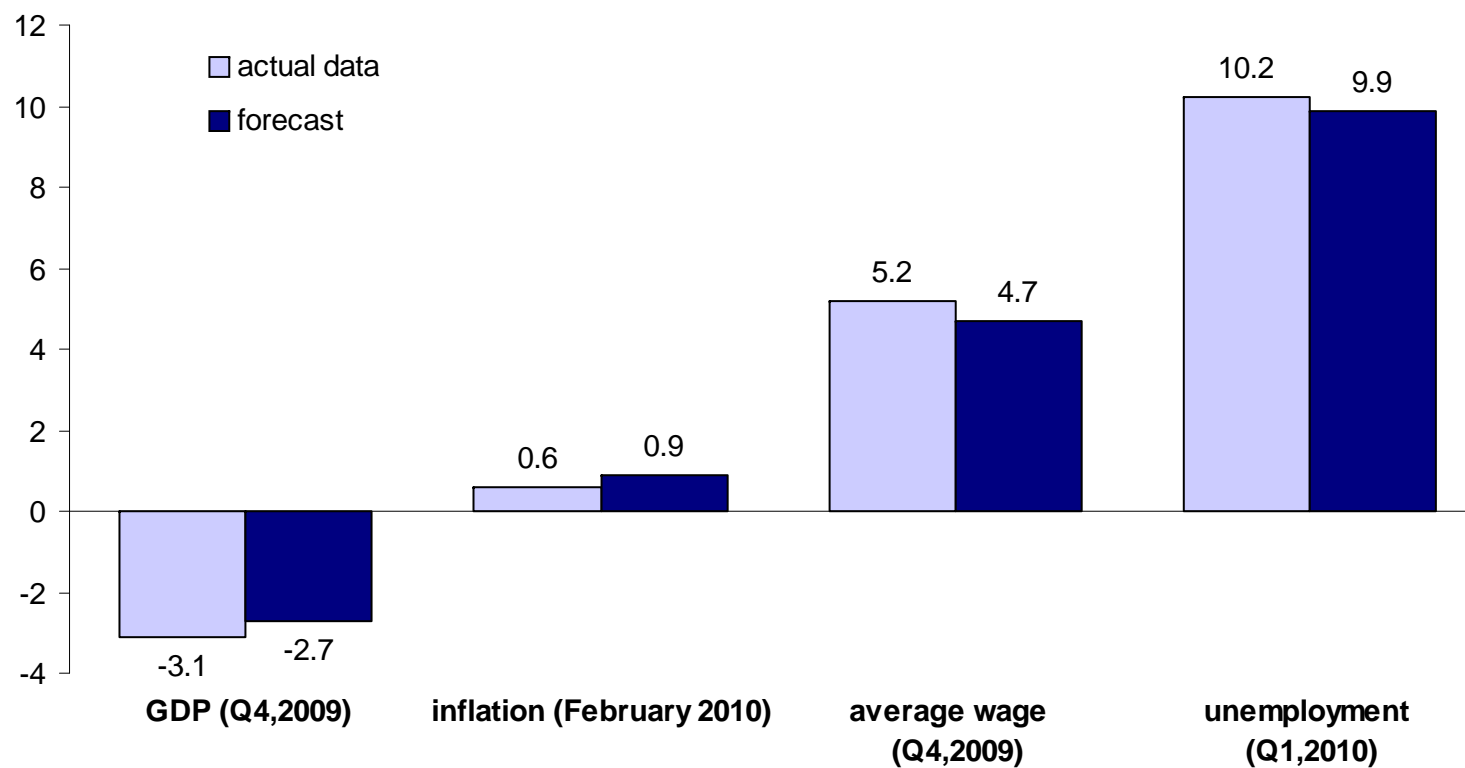
Comparison between the current forecast assumptions and March outlook based on Consensus Forecasts survey and market expectations



Other new data since the Board's previous monetary meeting

- GDP annual decline slowed in 2009, Q4 (-3.1 % y-o-y) and q-o-q growth accelerated (0.7 %) in line with the forecast;
- January improvement in annual developments of industrial production (5.3 %) indicates that economic activity could already grow y-o-y in 2010, Q1, but decline of retail trade (-5 %) is in line with expected weak consumption;
- Trade balance in January (CZK +13.1 bil.) markedly improved in y-o-y terms. Despite drop in export (-5.5 % y-o-y) and import prices (-3.9 % y-o-y), both exports and imports started to grow y-o-y in nominal terms (9.1 % and 3,5 % respectively);
- Labour market reacts to the economic slump in 2009 with delay as expected. Decline of employment deepened (-2.1 % y-o-y in 2009, Q4) and registered unemployment continues growing (10.2 % in February). Nominal wages accelerated (to 5.2 % y-o-y in 2009, Q4) but only „seemingly“;
- February drop in industrial producer prices (-2 %) and agricultural producer prices (-5.6 %) manifest persisting anti-inflationary effects of commodities' and food prices.

Comparison of actual data with the CNB forecast





Major risks of the forecast

Forecast risks are slightly on the downside.

Major risks on the downside:

- outlook for the foreign interest rates
- observed inflation and its short-term outlook

Major risk on the upside:

- no marked asymmetric risks in this direction have been identified

Risk to both sides:

- nominal wages development



Thank you for your attention

Minutes from today's
meeting will be released on
April 2, 2010 at

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