

Press Conference of the CNB Bank Board

8th Situation Report on Economic and Monetary Developments

16th December 2009

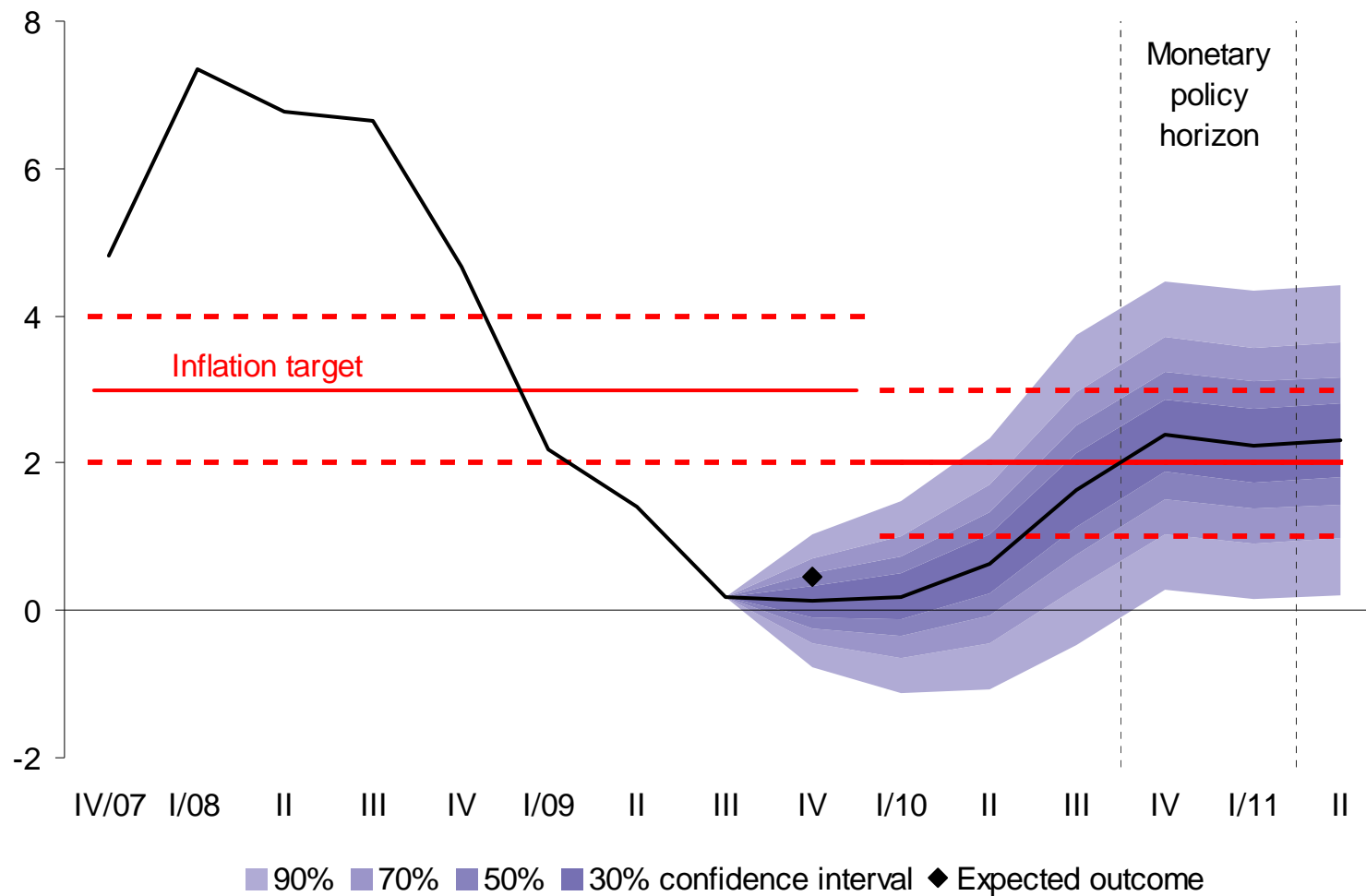
The monetary policy decision taken and the ratio of the votes cast

At the close of the meeting the Board decided by a majority vote to lower the CNB two-week repo rate by 0.25 percentage point to 1%, effective 17 December 2009. At the same time it decided to lower Lombard rate by the same amount to 2%. The discount rate was left unchanged at 0.25%. Four members voted in favour of this decision, and three members voted for leaving interest rates unchanged.

Reasons for the decision

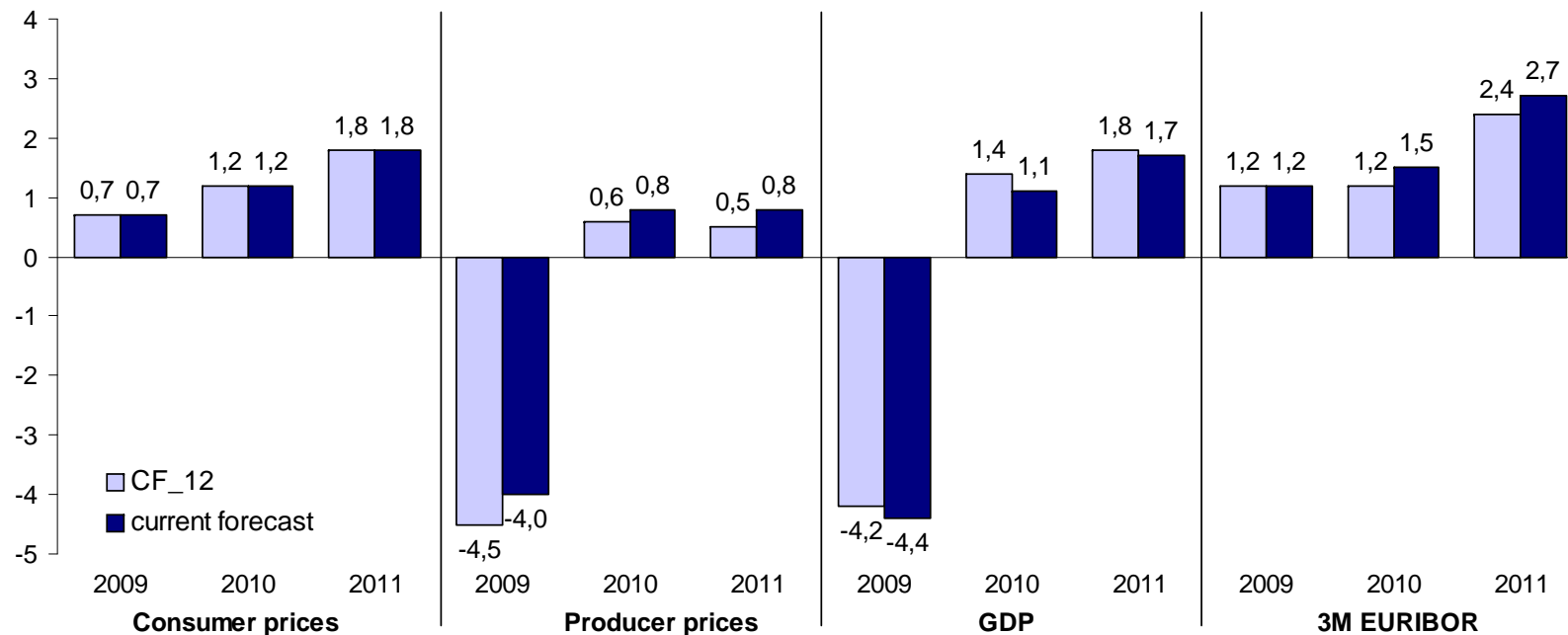
- Inflation is close to the inflation target in the monetary-policy horizon.
- Consistent with the forecast is a decline in market interest rates this year followed by a gradual rise in 2010.
- New information is generally in line with forecast though some risks that are slightly on the up side appeared (higher inflation and somewhat weaker koruna exchange rate).
- Despite slightly pro-inflationary risks the bank board decided in line with the forecast to cut the interest rates.

The inflation forecast and expected outcome in 2009 Q4



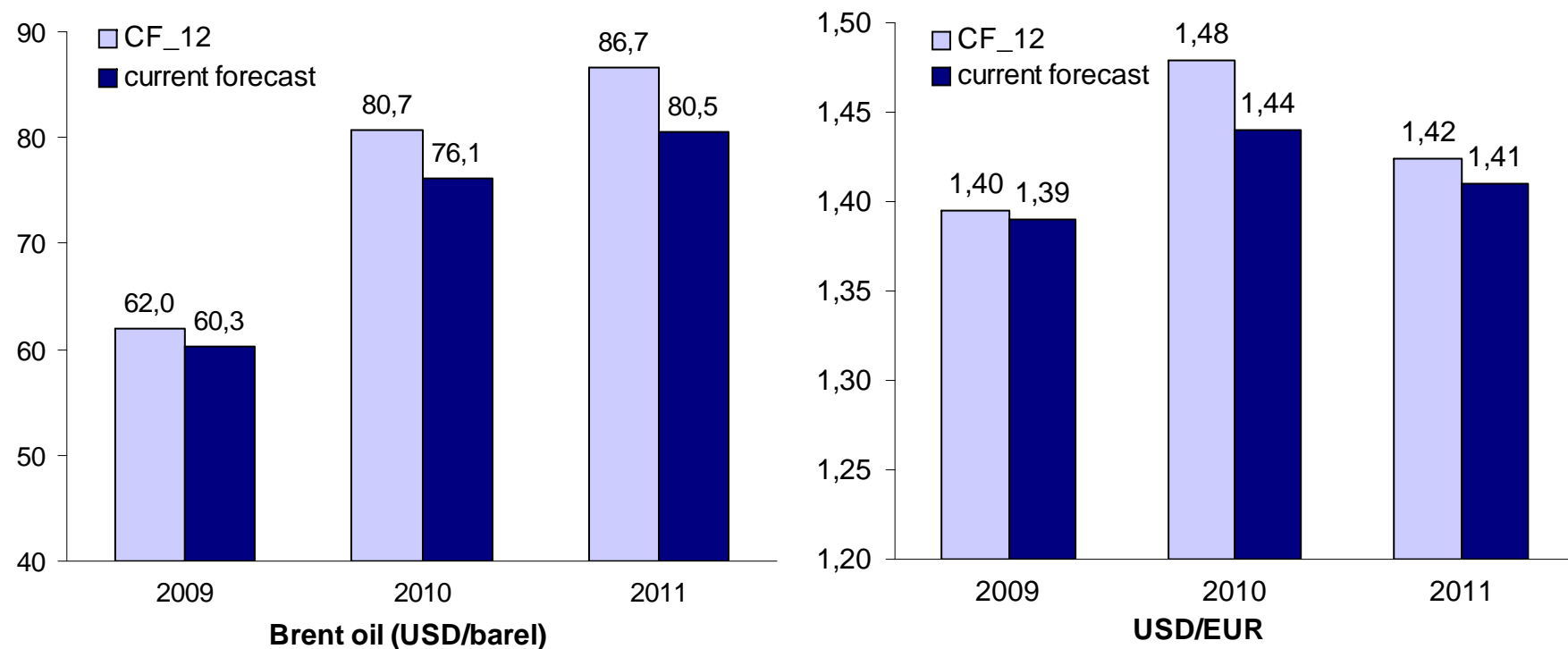
The external environment (i)

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



The external environment (ii)

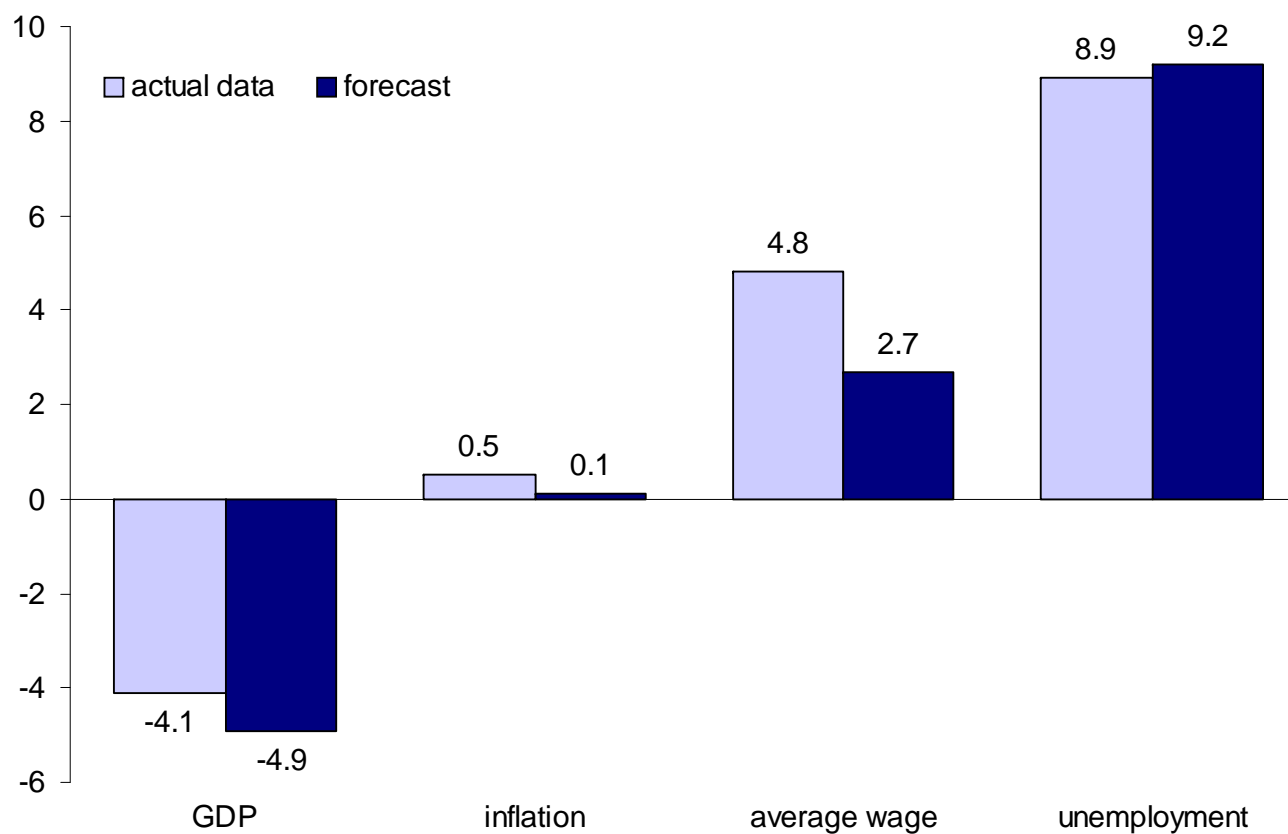
Comparison between the current forecast assumptions and December outlook based on Consensus Forecasts survey and market expectations



Other new data since the Board's previous monetary meeting

- GDP annual decline slowed in 2009, Q3 (-4.1 % y-o-y) and q-o-q growth accelerated (0.8 %);
- New information on October annual developments of industrial production (-7.2 %), construction (0.1 %) and retail trade (-3.1%) indicate a persisting y-o-y decline in economic activity in Q4;
- Trade balance in October (CZK +17.5 bil.) markedly improved in y-o-y terms, partly due to a sharp drop in import prices (-8.1 % y-o-y). Both exports (-11.2 %) and imports (-21.1 %) are further markedly declining;
- Developments on the labour market correspond to falling economic activity. Employment further declined (-1.9 % annually) and registered unemployment continued to grow moderately in November (8.9 %). Annual growth in nominal wages that increased in Q3 (4.8 %) after its rapid slowdown in H1, 2009 (3.0 % and 3.1 %) is an exception;
- November drop in industrial producer prices (-2.4 %) and agricultural producer prices (-16 %) manifest persisting anti-inflationary effects of commodities' and food prices.

Comparison of actual data with the CNB forecast



Major risks of the forecast

Risks are moderately on the upside.

Major risk on the down side:

- outlook for the external developments, especially interest rates

Major risks on the up side:

- higher November inflation and its outlook for the near future
- slightly weaker koruna exchange rate