Press conference of the CNB Bank Board

1st Situation Report on Economic and Monetary Developments

3 February 2011

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

- At the close of the meeting the Bank Board decided by a majority vote to leave the two-week repo rate unchanged at 0.75%.

- Four board members voted in favour of this decision, and three members voted for increasing rates by 0.25 percentage point.

Reasons for the decision

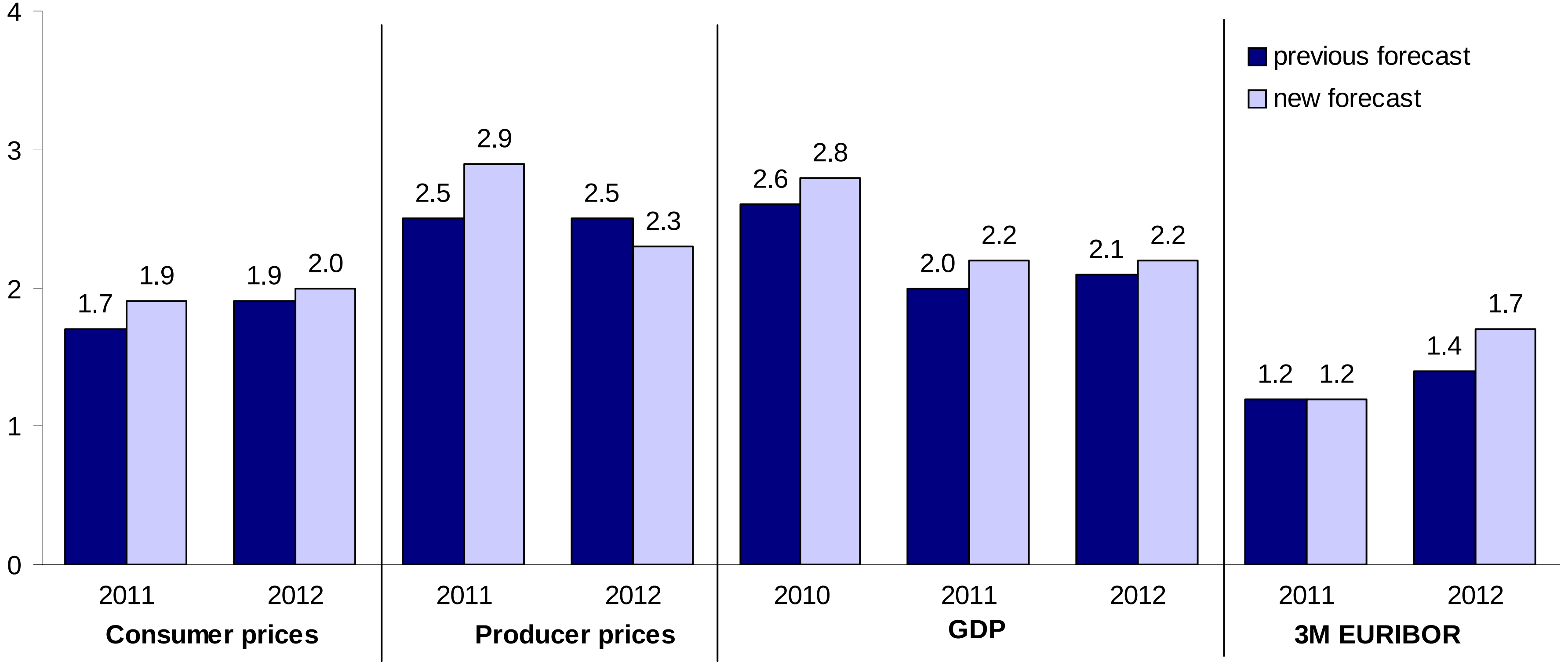
- Headline and monetary-policy relevant inflation will be close to the inflation target over the monetary policy horizon.
- Consistent with the forecast is stability of market interest rates close to their current levels initially, followed by a gradual rise in rates as from the end of 2011.
- Risks to the forecast are significant in both directions, associated with external developments, and balanced overall.

The message of the forecast

- Headline inflation is currently close to the inflation target and will remain at this level over the entire horizon.
- Monetary-policy relevant inflation will grow at the beginning of this year; thereafter it will be close to the target together with headline inflation.
- Economic growth will slow this year due to fiscal restriction, fading investment in solar power stations and re-stocking, and a slowdown in external demand. A more robust economic recovery will not appear until 2012.
- The nominal exchange rate is gradually appreciating over the forecast horizon.
- Consistent with the forecast is stability of market interest rates close to their current levels initially, followed by a gradual rise in rates as from the end of 2011.

The external environment (i)

Comparison between the assumptions of the new and previous forecasts for the effective euro area



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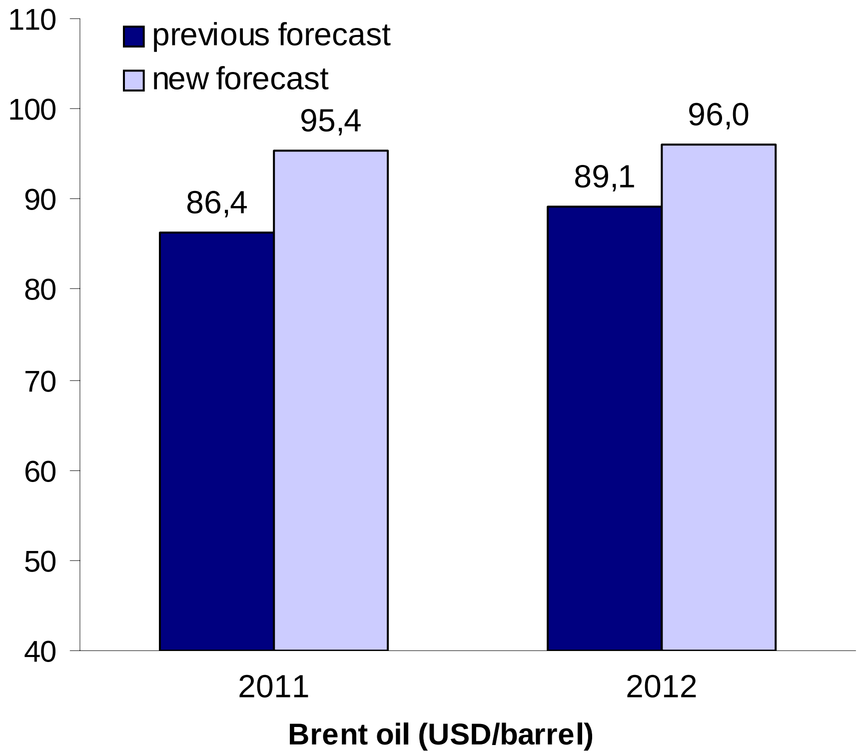
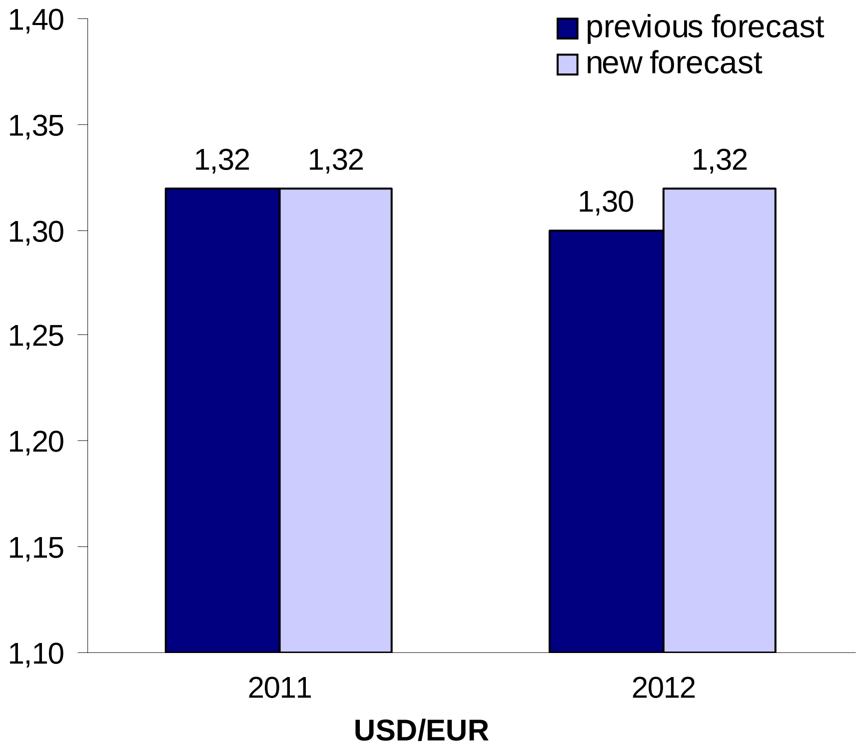
The external environment (ii)

Comparison between assumptions of the new and previous forecasts





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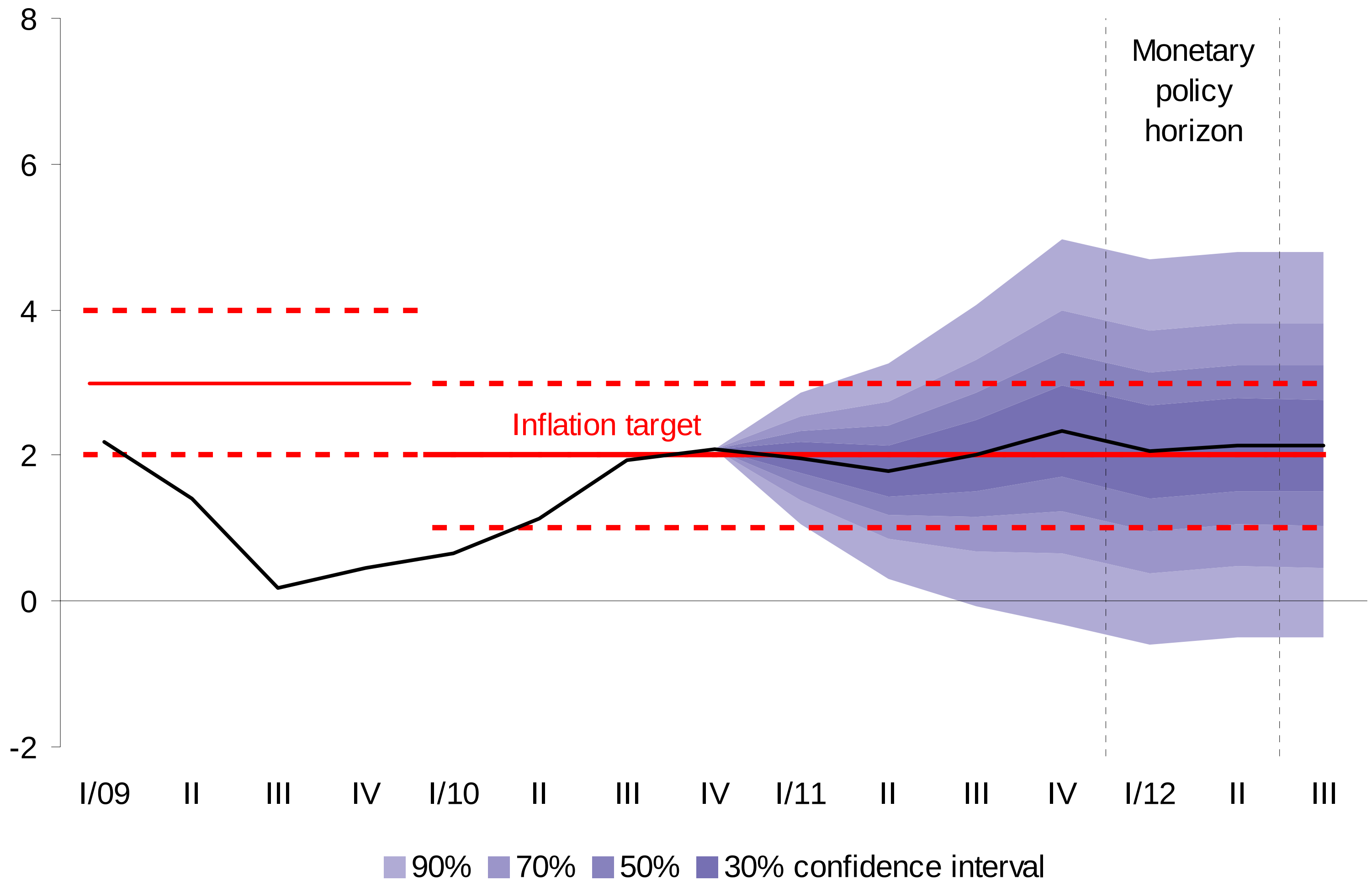
The forecast for headline inflation



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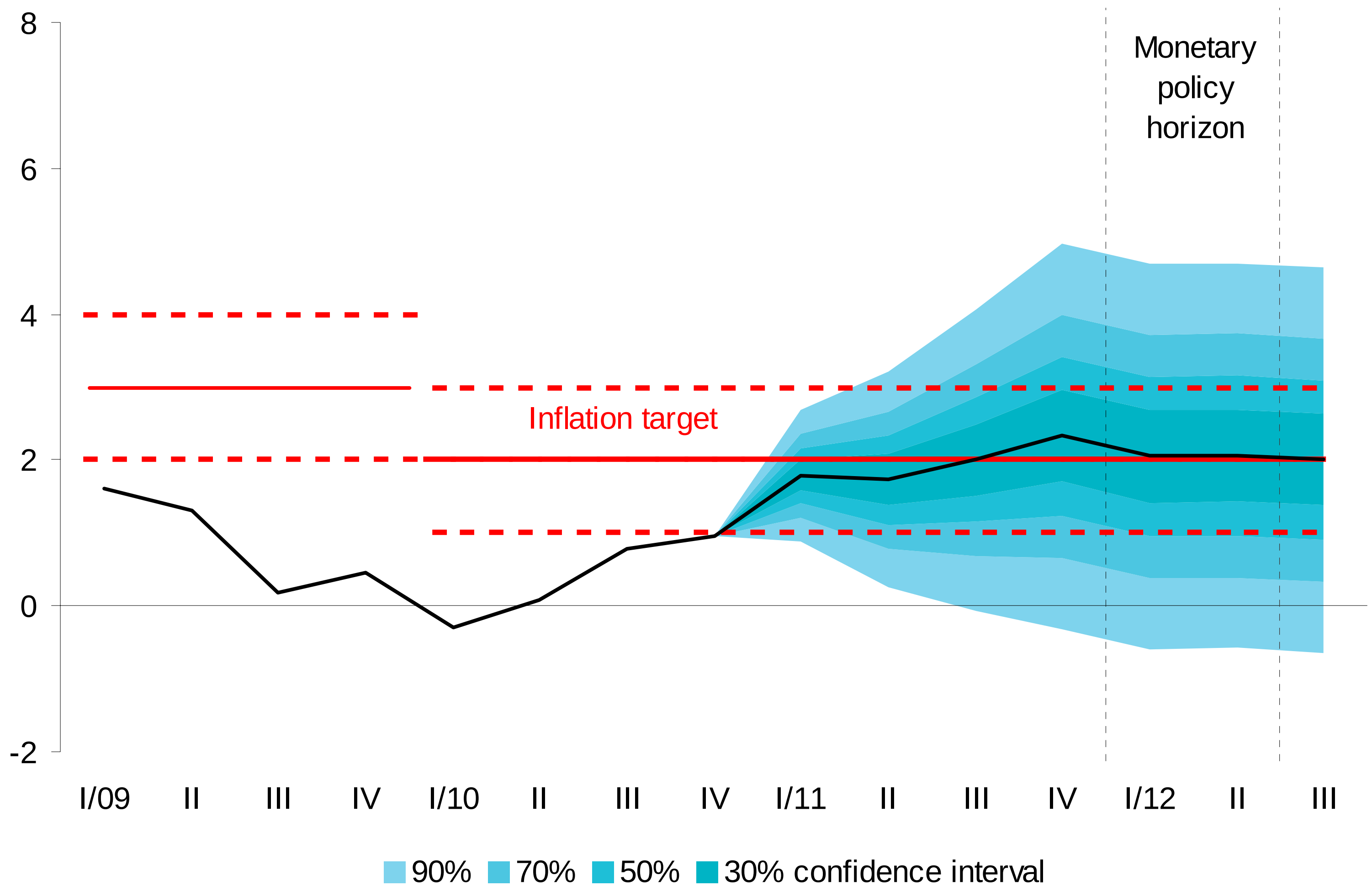
The forecast for monetary-policy relevant inflation



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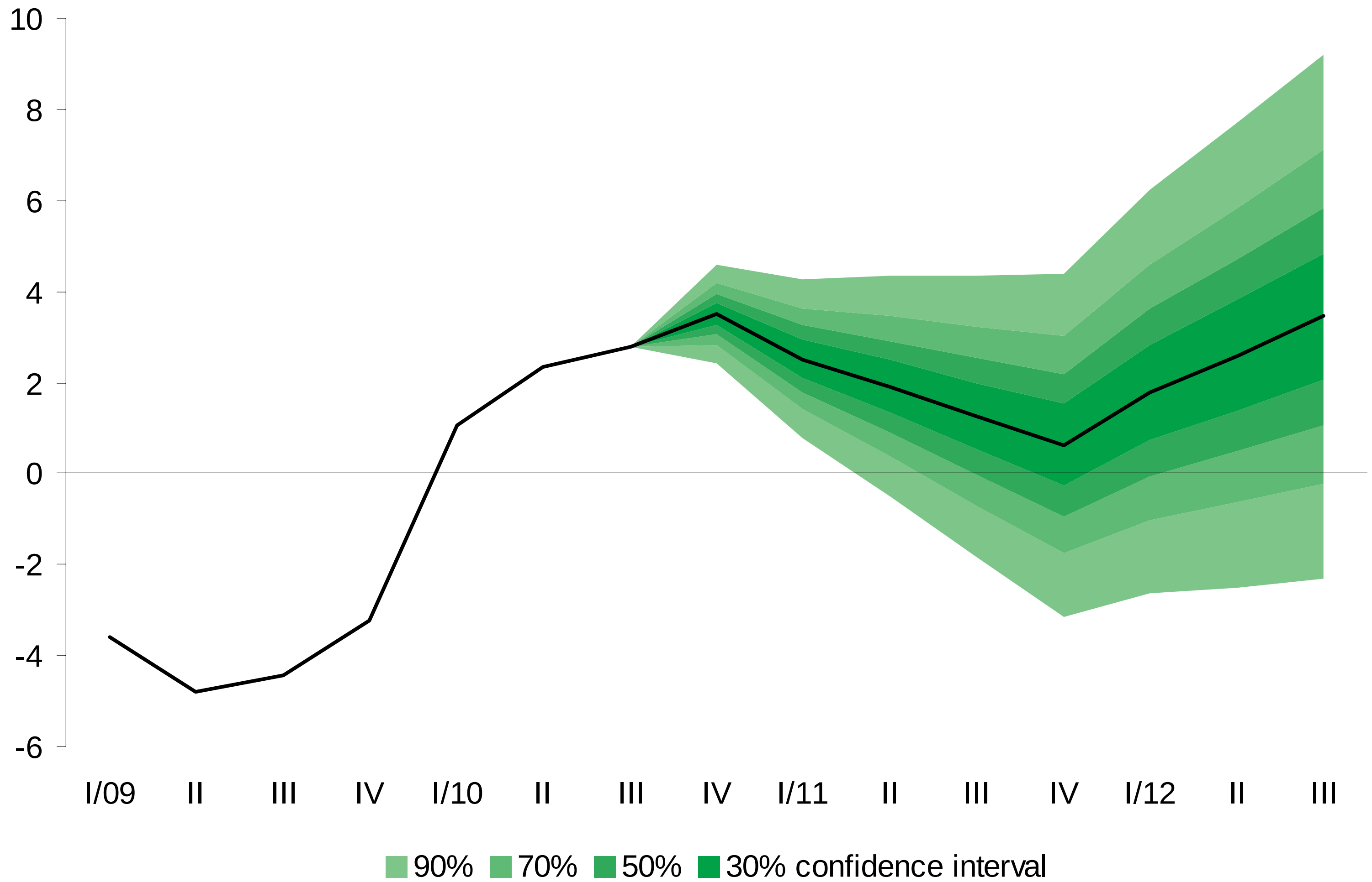
The forecast for GDP



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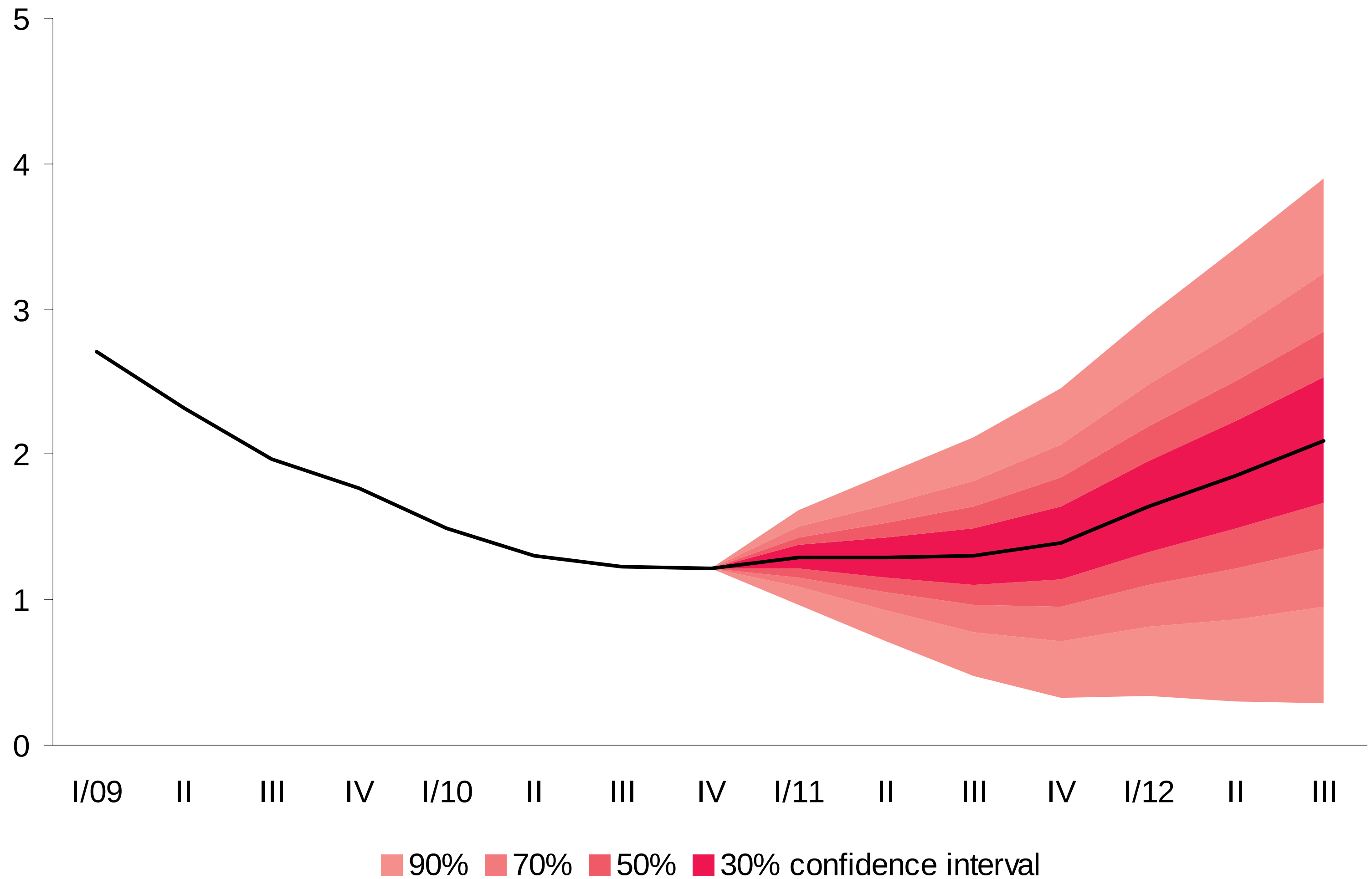
The forecast for interest rates (3M PRIBOR)



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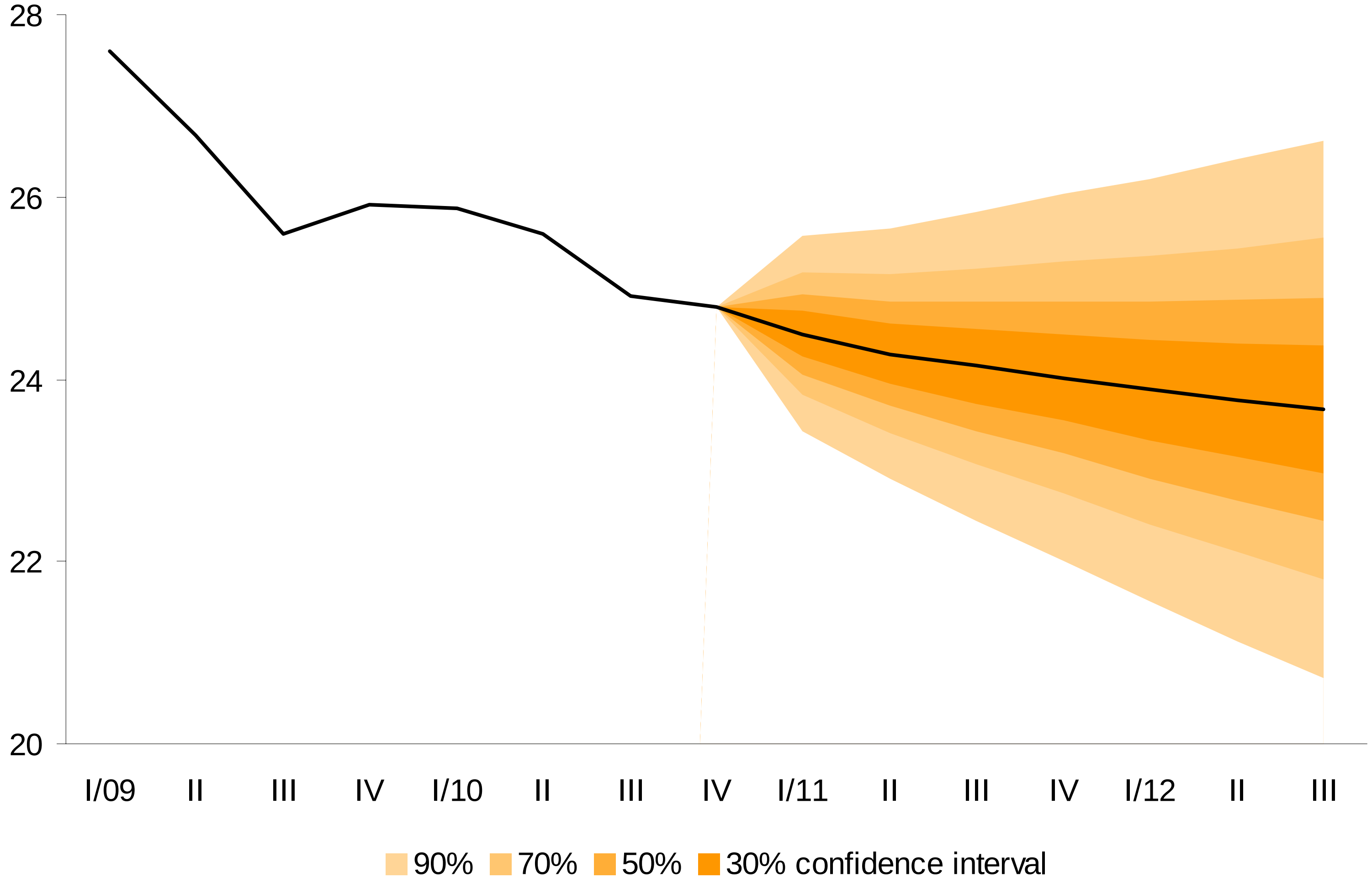
The forecast for the CZK/EUR exchange rate (quarterly averages)



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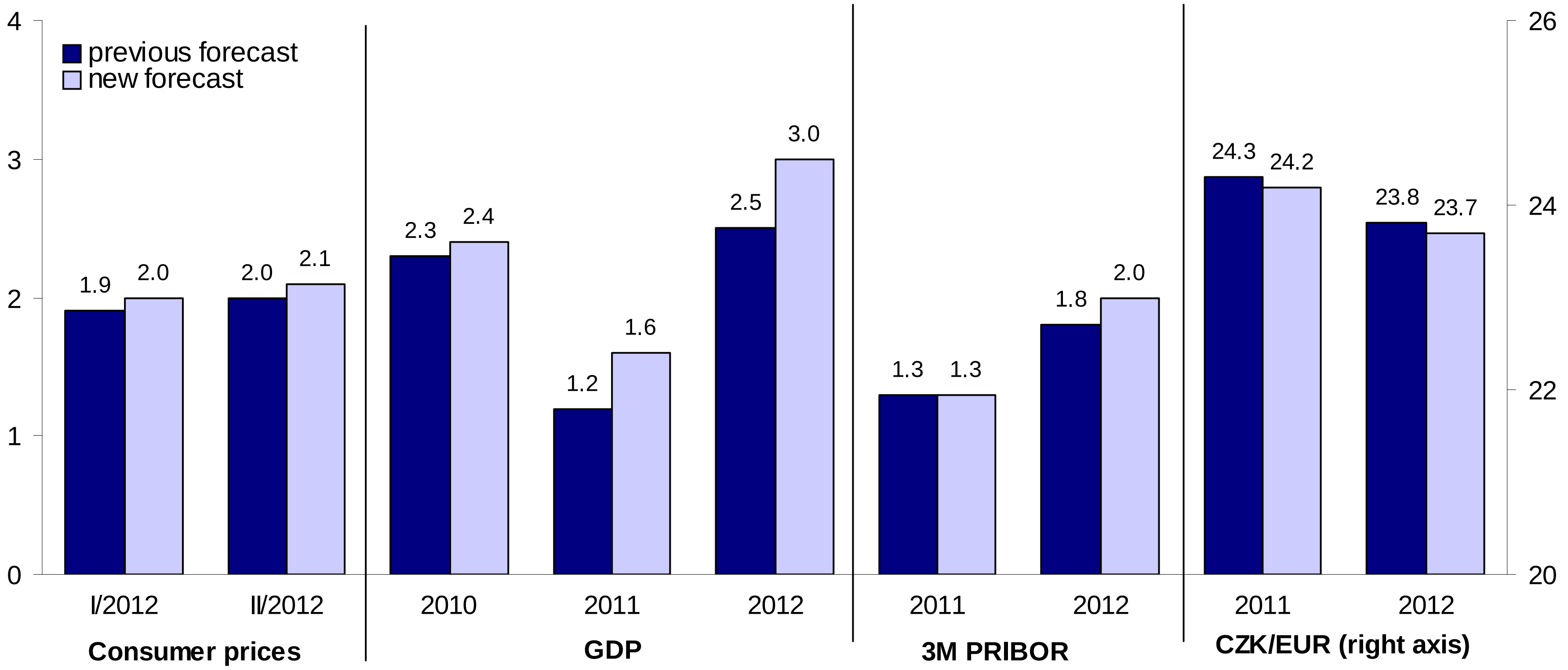
Comparison with the previous forecast



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Major risks to the forecast

Forecast risks are significant in both directions and are balanced overall.

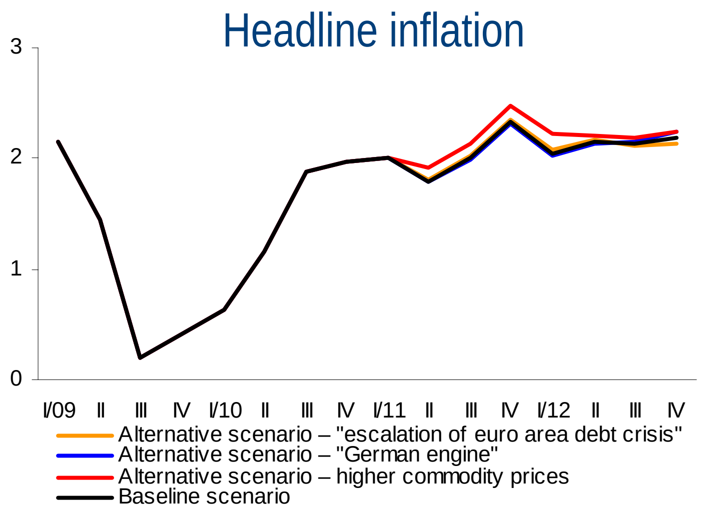
Risks on the upside:

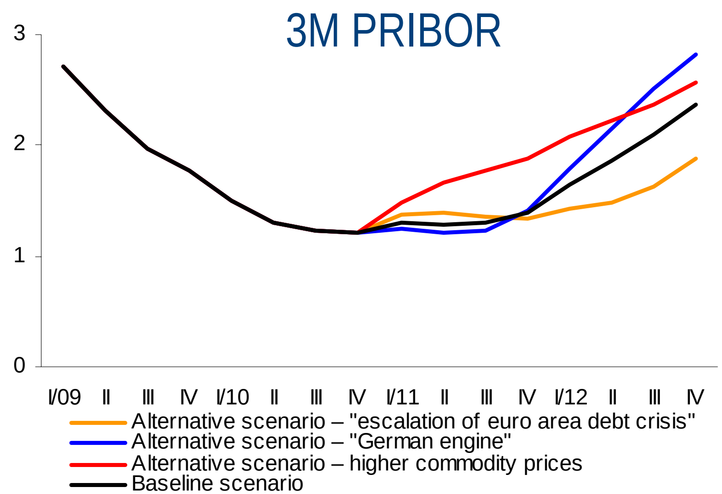
- higher commodity prices (alternative scenario)

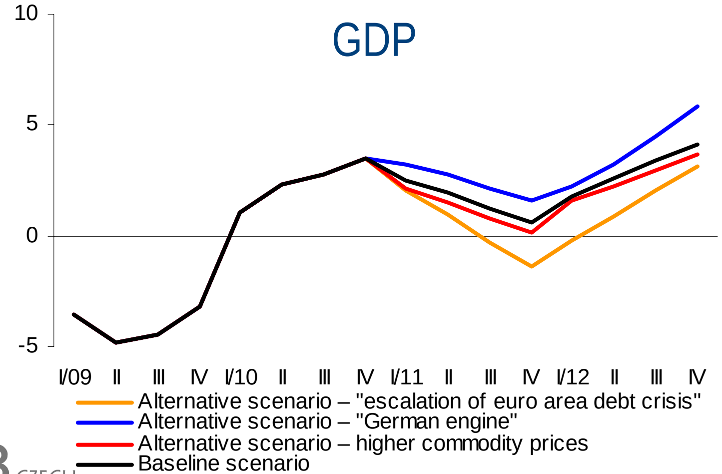
Risks on the downside:

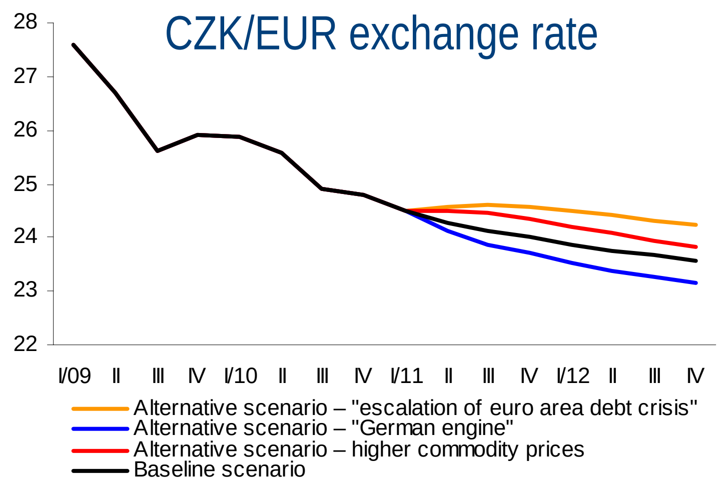
- recent appreciation of the koruna exchange rate

Alternative scenarios of the forecast









Thank you for your attention

More information about the
forecast can be found at

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

and in Inflation Report I/2011,
to be published 11 February 2011.