



Press conference of the CNB Bank Board

2nd Situation Report on Economic and Monetary Developments

24 March 2011



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

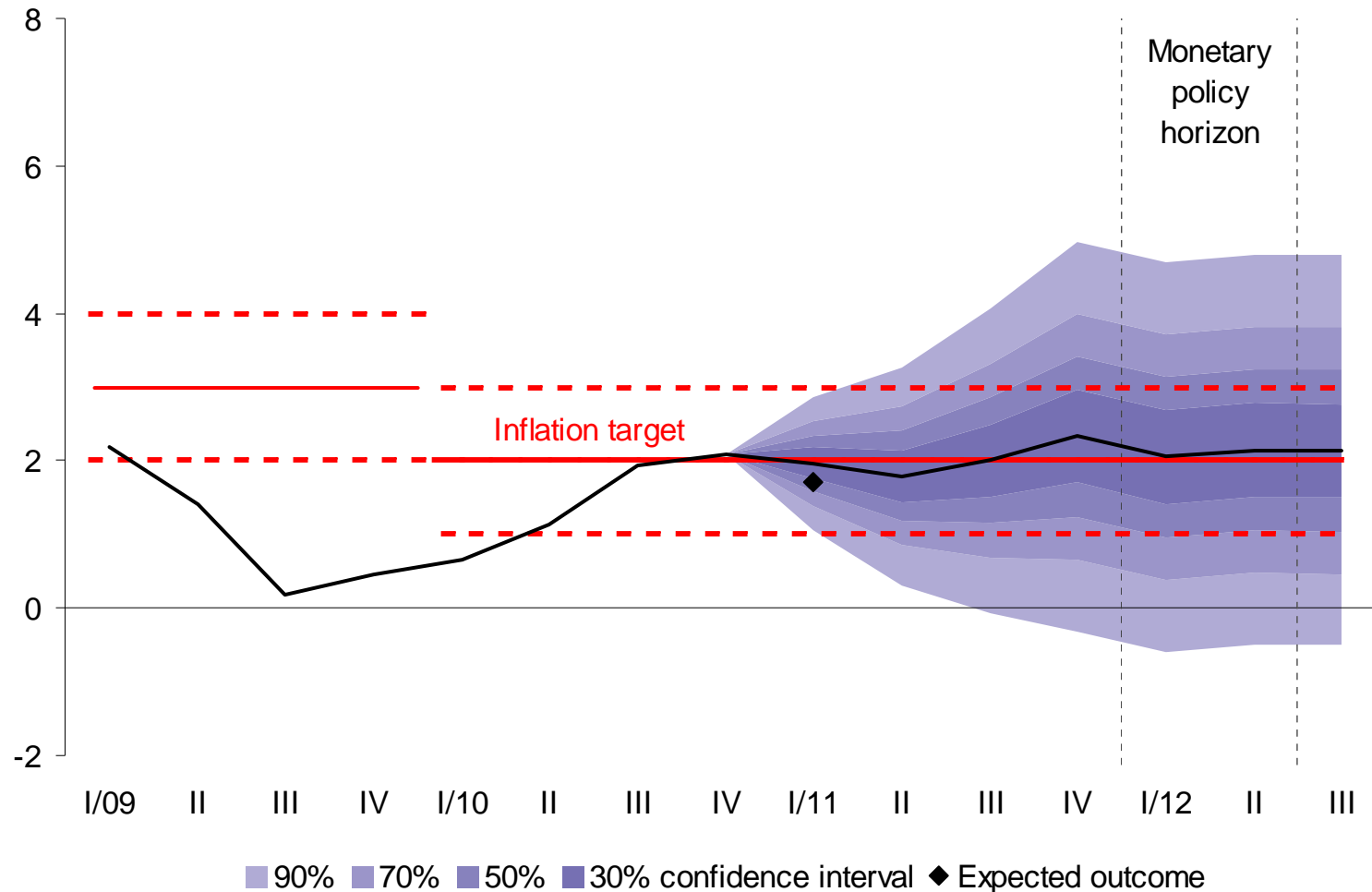
- At the close of the meeting the Bank Board decided by a majority vote to leave the two-week repo rate unchanged at 0.75%.
- Five board members voted in favour of this decision and one member voted for increasing interest rates by 0.25 percentage point.



Reasons for the decision

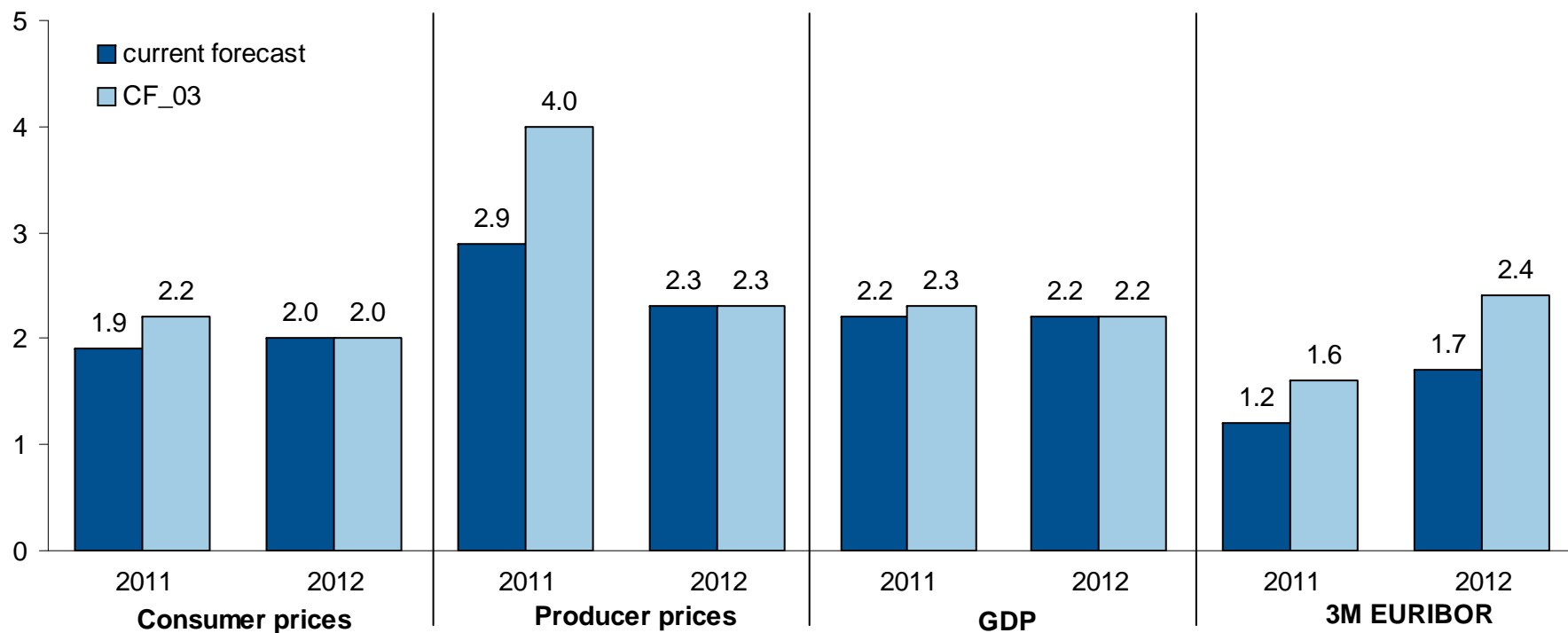
- According to the forecast, headline and monetary-policy relevant inflation will be close to the inflation target over the monetary policy horizon.
- Consistent with the forecast is stability of market interest rates close to their current levels initially, followed by a gradual rise in rates as from the end of 2011.
- Risks to the forecast are on the upside for headline inflation (due to VAT increase in 2012) and roughly balanced for monetary-policy relevant inflation.

The inflation forecast and expected outcome in 2011 Q1



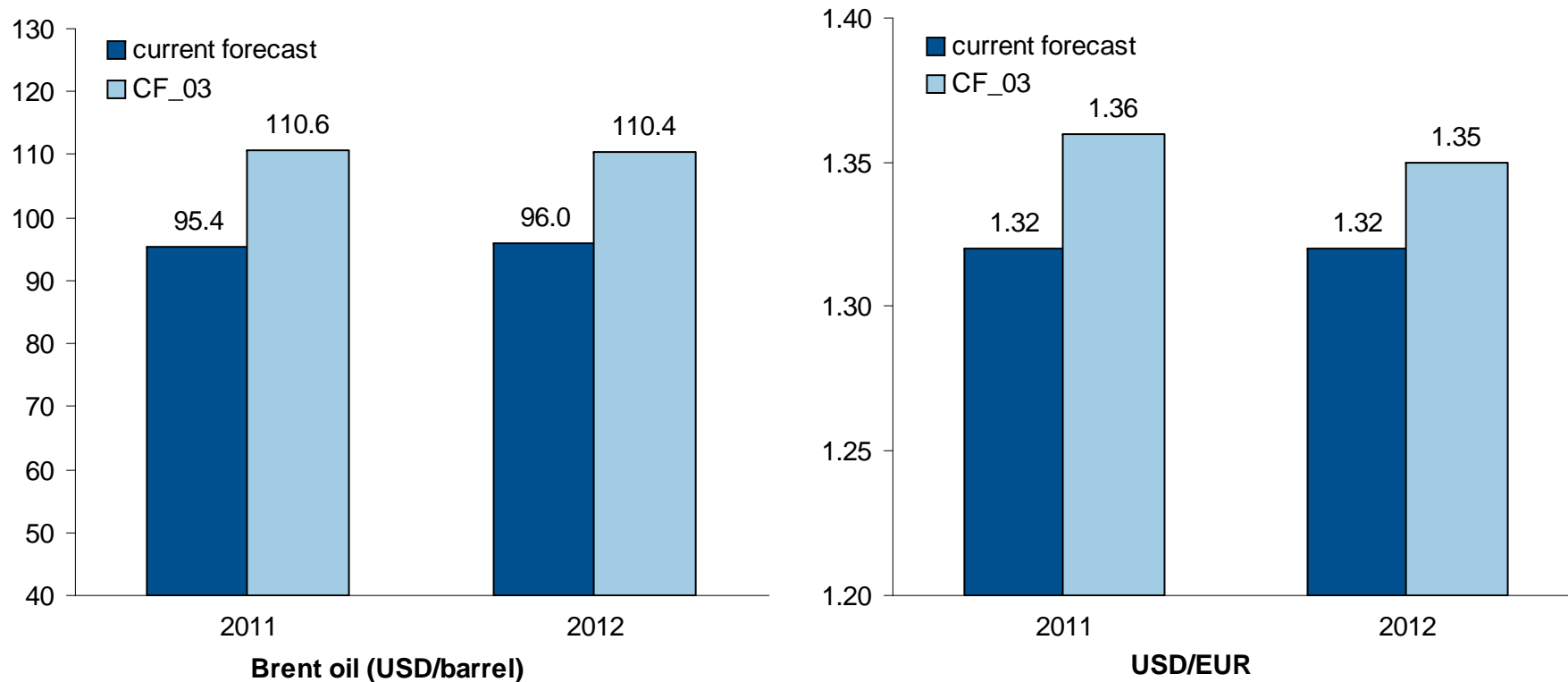
The external environment (i)

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

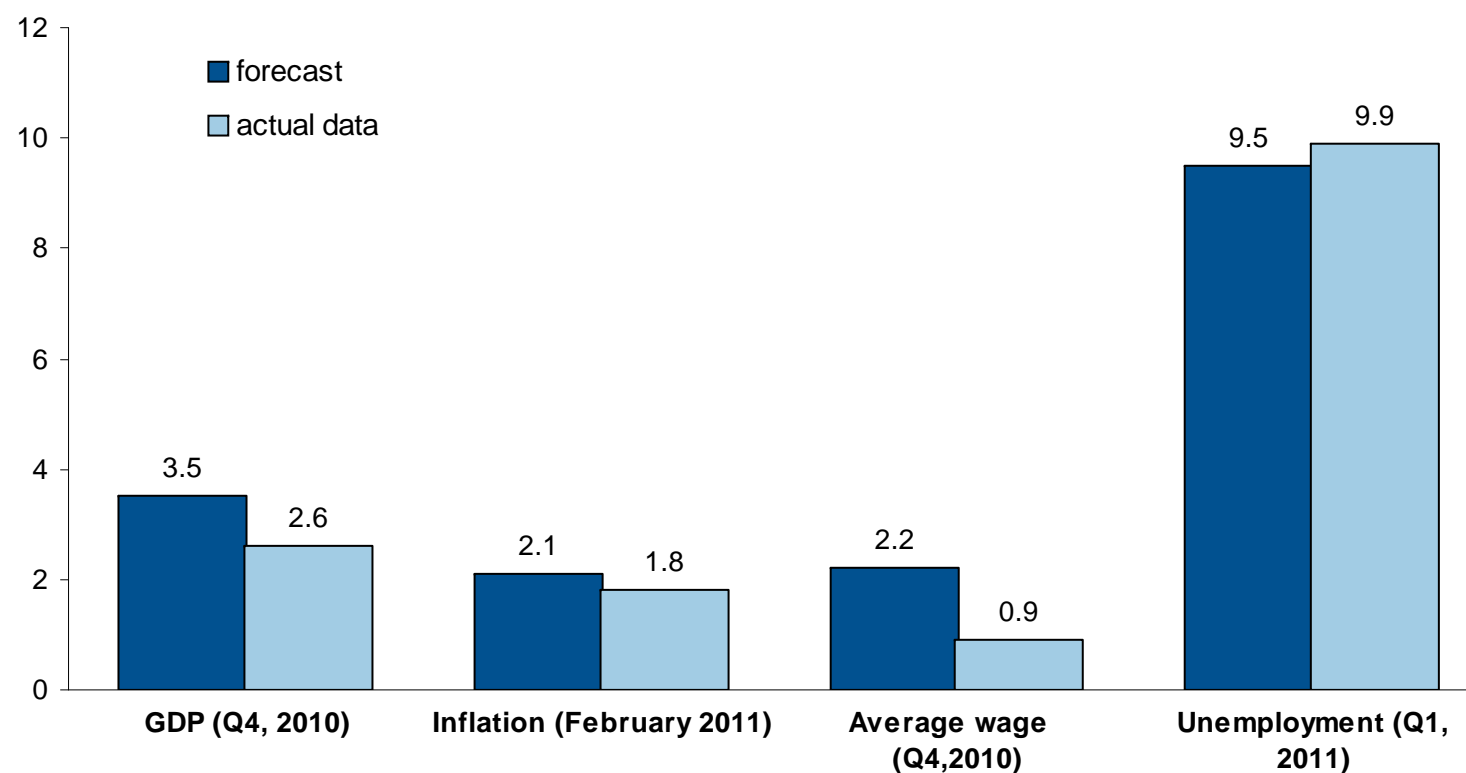




Developments in the domestic economy since the Board's previous monetary meeting

- The Czech economy grew both in y-o-y and q-o-q terms in 2010 Q4 (2.6% and 0.3% respectively, s.a.). Its growth was driven mainly by investment in inventories and to a lesser extent by net exports;
- January industrial production indicates a continuing recovery (16.9% y-o-y; 3.4% in m-o-m, s.a. terms);
- The situation on the labour market has stabilized. Total employment declined in Q4 (-0.2% y-o-y), ILO unemployment fell slightly (7.0%). In January and February 2011, seasonally adjusted registered unemployment partially corrected its increase in December 2012;
- Nominal wage growth slowed sharply in 2010 Q4 (0.9%) ;
- In February, growth in industrial producer prices (5.4%) and agricultural producer prices (29.7%) was in line with growing global commodity prices.

Comparison of actual data with the CNB forecast



Note: for unemployment, a comparison of February data with the forecast for the whole quarter



Major risks to the forecast

Risks to the forecast are on the upside for headline inflation and roughly balanced for monetary-policy relevant inflation.

Major risks on the upside:

- higher world commodity prices and foreign interest rate outlook
- VAT increase in 2012 and impact on inflation expectations

Major risks on the downside:

- weaker inflationary pressures from domestic economy
- slightly stronger koruna exchange rate



Thank you for your attention

Minutes of the today's
meeting will be released on
1 April 2011 at

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