



# Press conference of the CNB Bank Board

## 3rd Situation Report on Economic and Monetary Developments

5 May 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 members voted in favour of this decision, and two 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 broad stability of market interest rates in the near future and a gradual rise in rates starting in 2011 Q4.
- The risks to the forecast for monetary-policy relevant inflation are balanced.

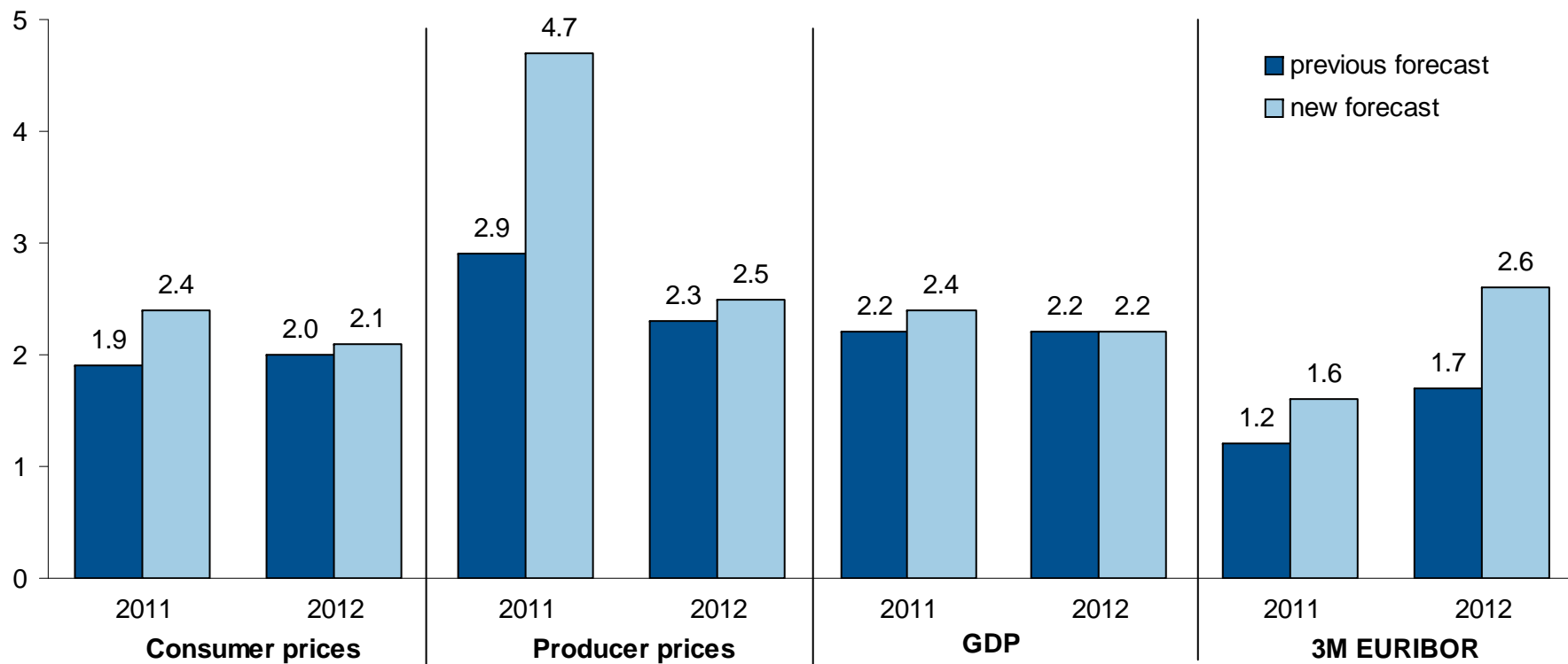


# The message of the forecast

- No inflation pressures from the domestic economy are apparent.
- Both headline and monetary-policy relevant inflation will be close to the inflation target over the entire forecast horizon.
- Economic growth will slow this year due to fiscal restriction, fading investment in inventories and slower growth in economic activity abroad. A more robust economic recovery is expected to reappear in 2012.
- The nominal exchange rate is gradually appreciating over the forecast horizon.
- Consistent with the forecast is broad stability of market interest rates in the near future and a gradual rise in rates starting in 2011 Q4.

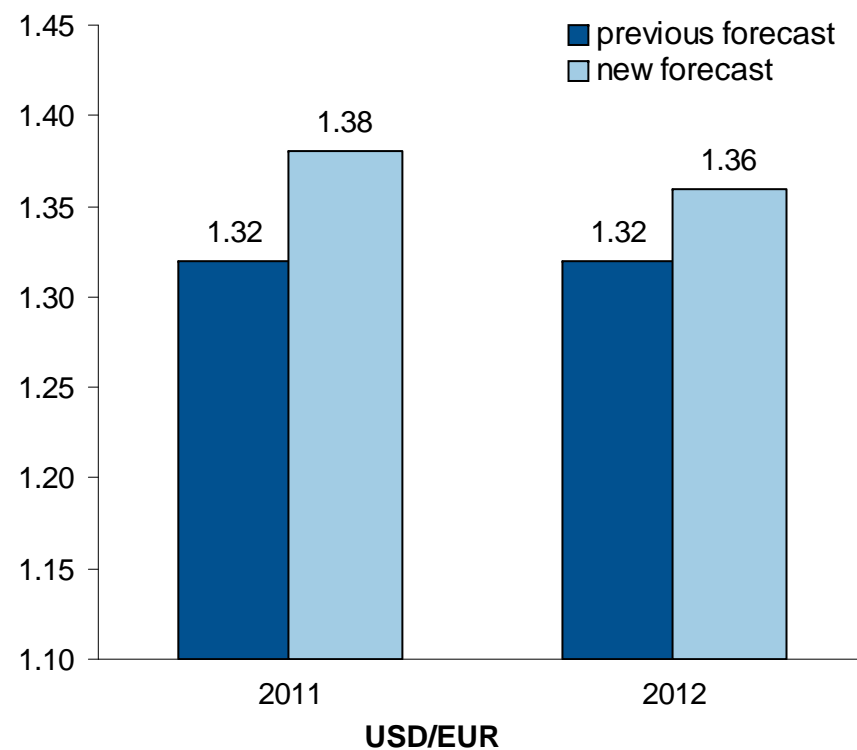
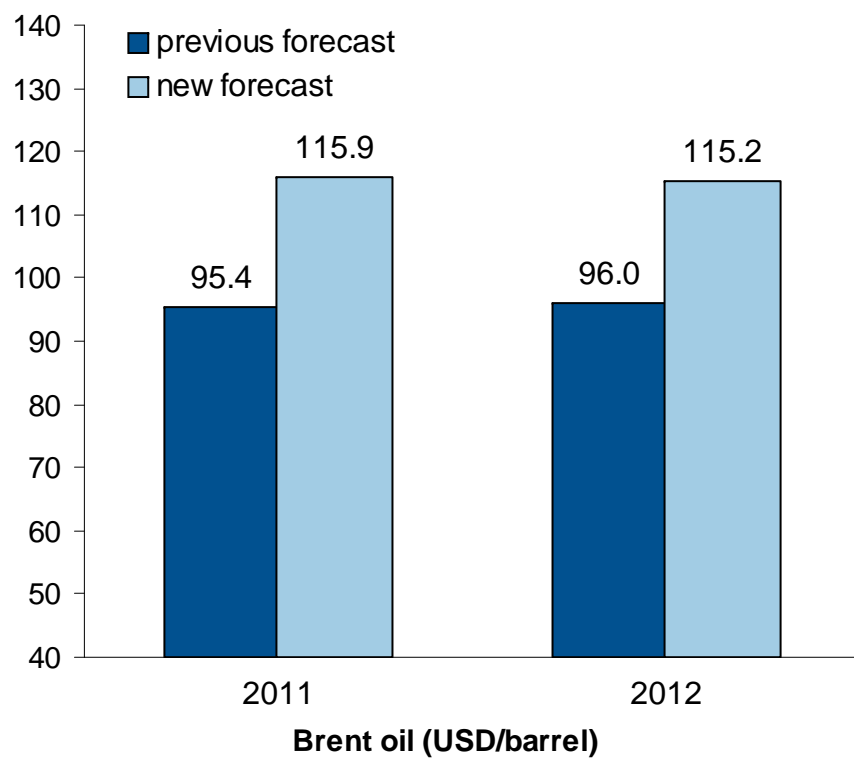
# The external environment (i)

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

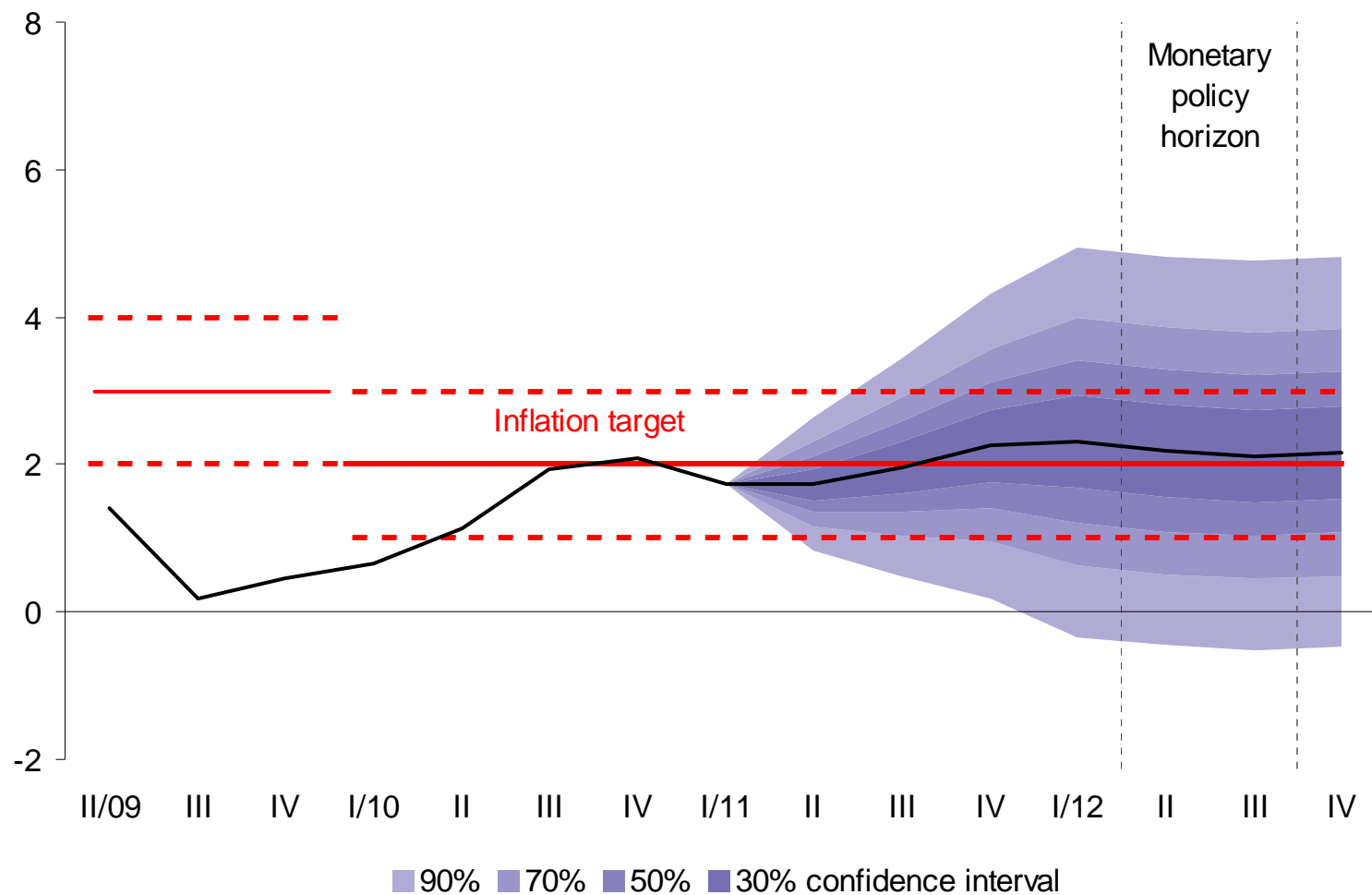


# The external environment (ii)

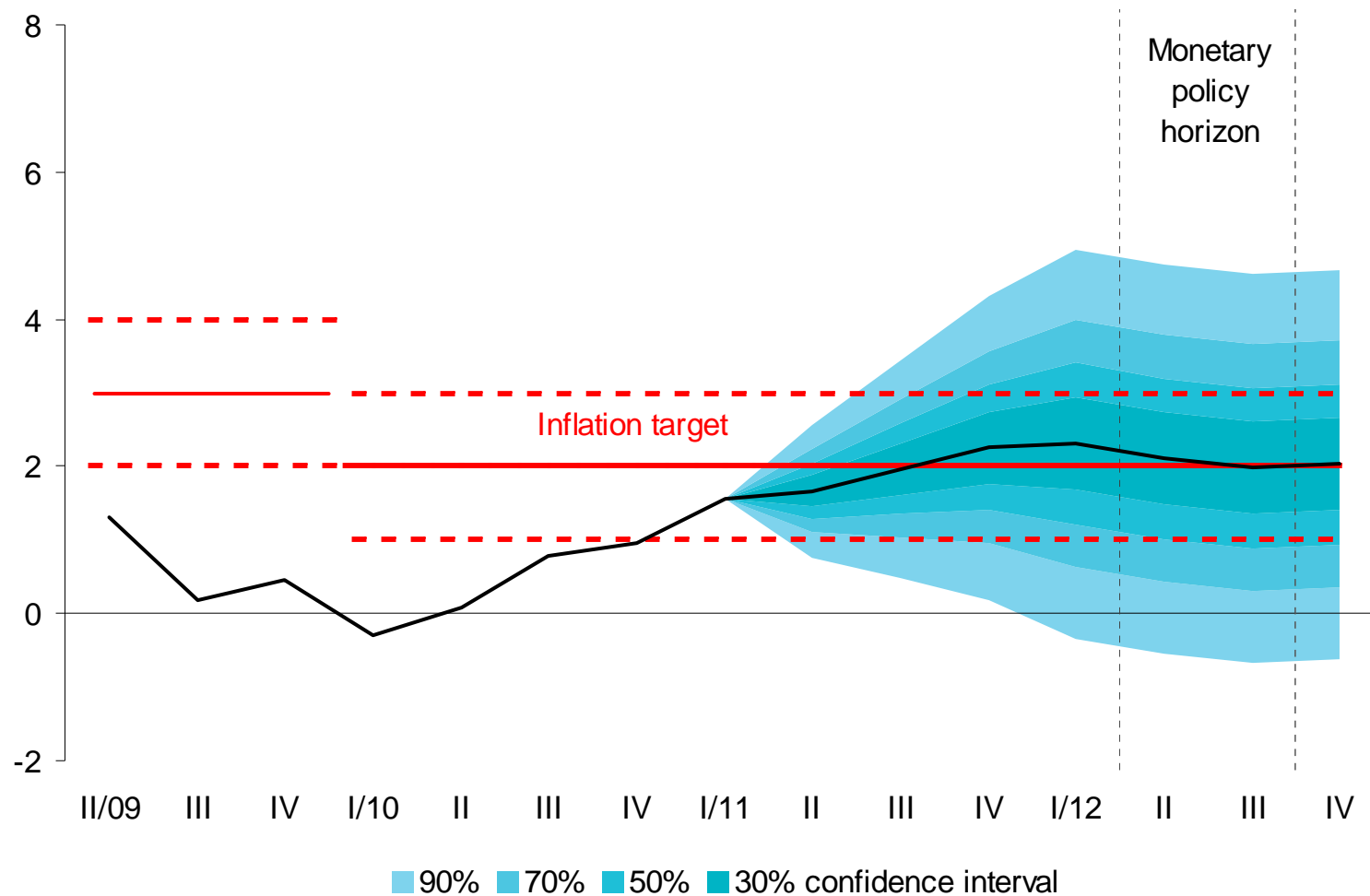
## Comparison between the assumptions of the new and previous forecasts



# The forecast for headline inflation

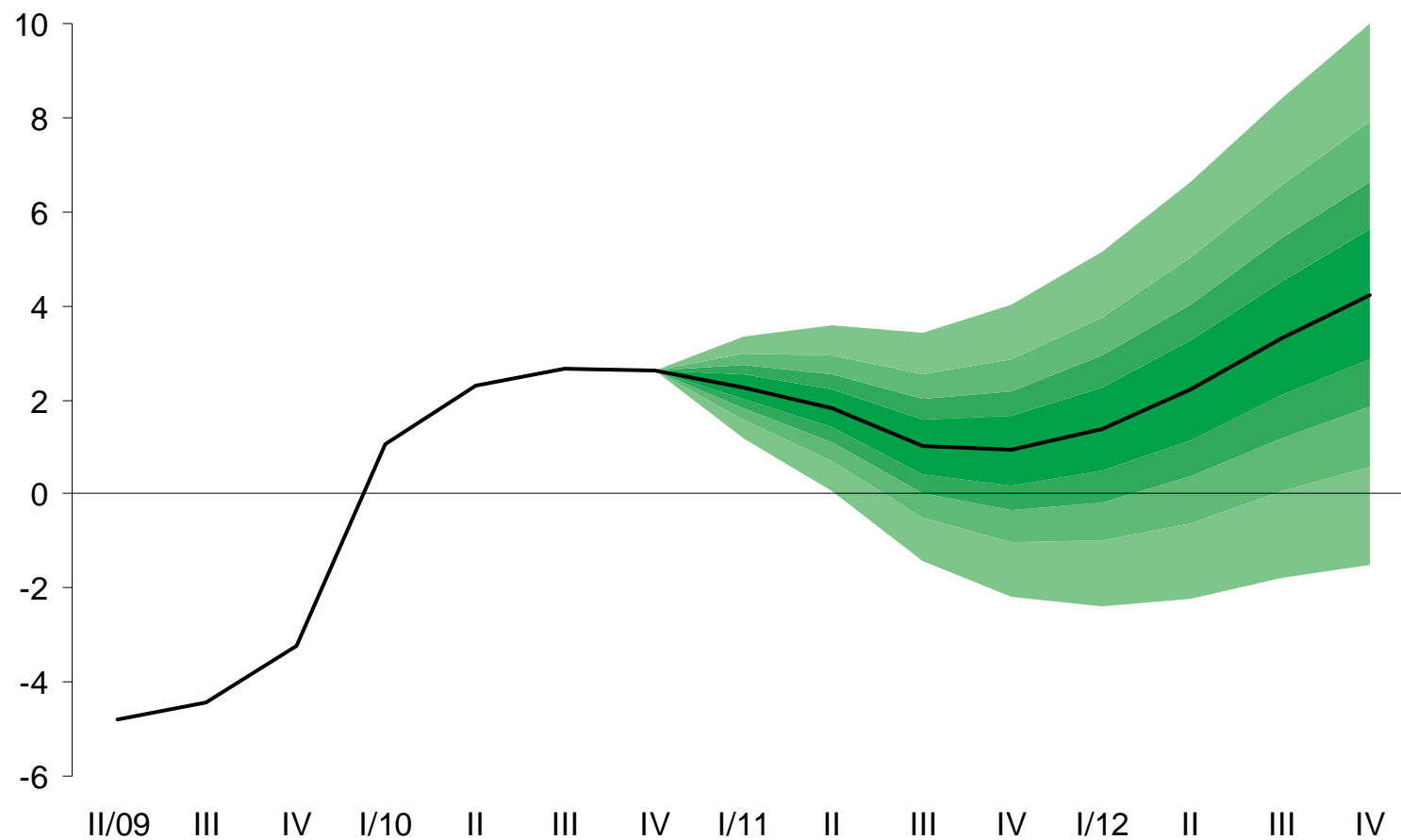


# The forecast for monetary-policy relevant inflation

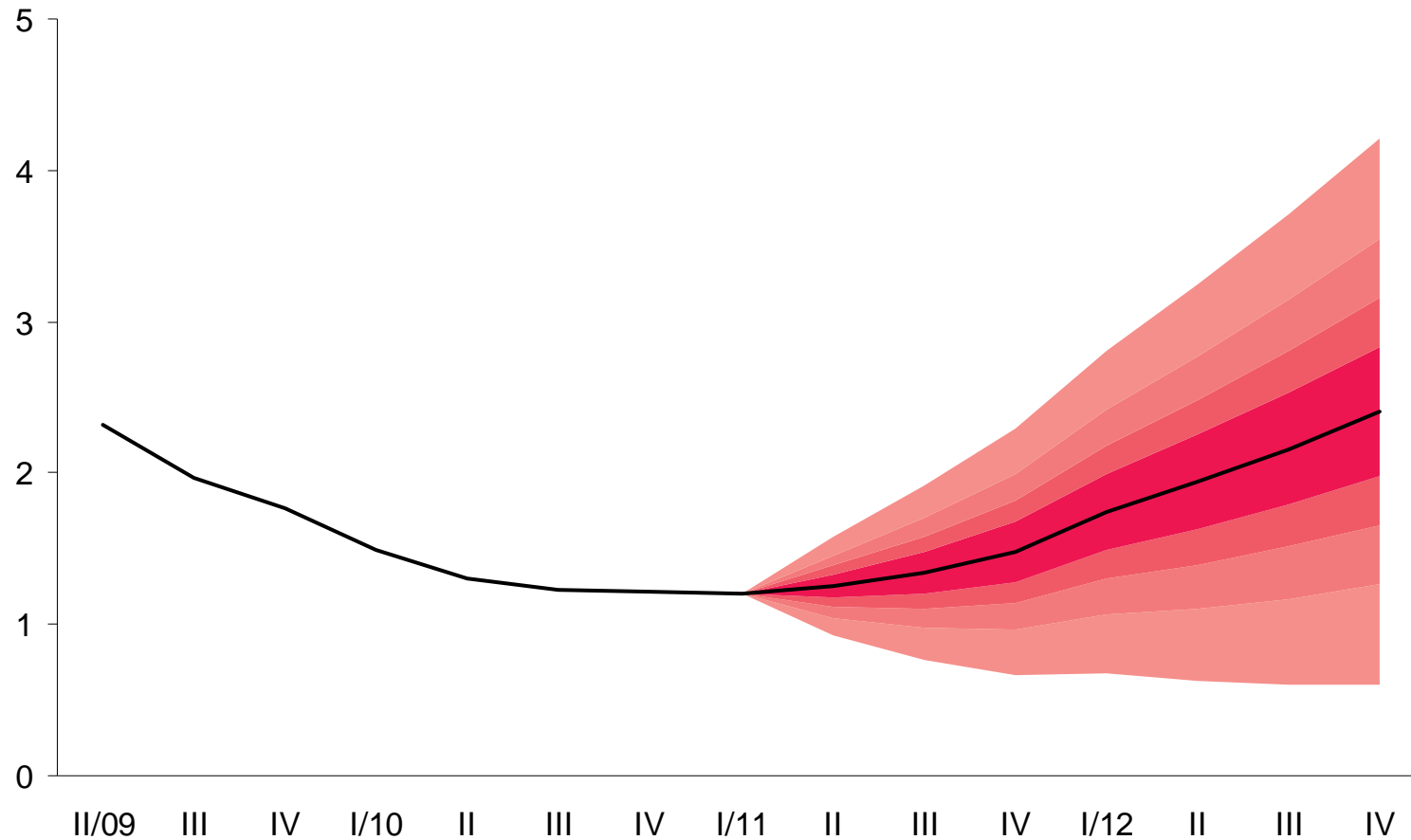




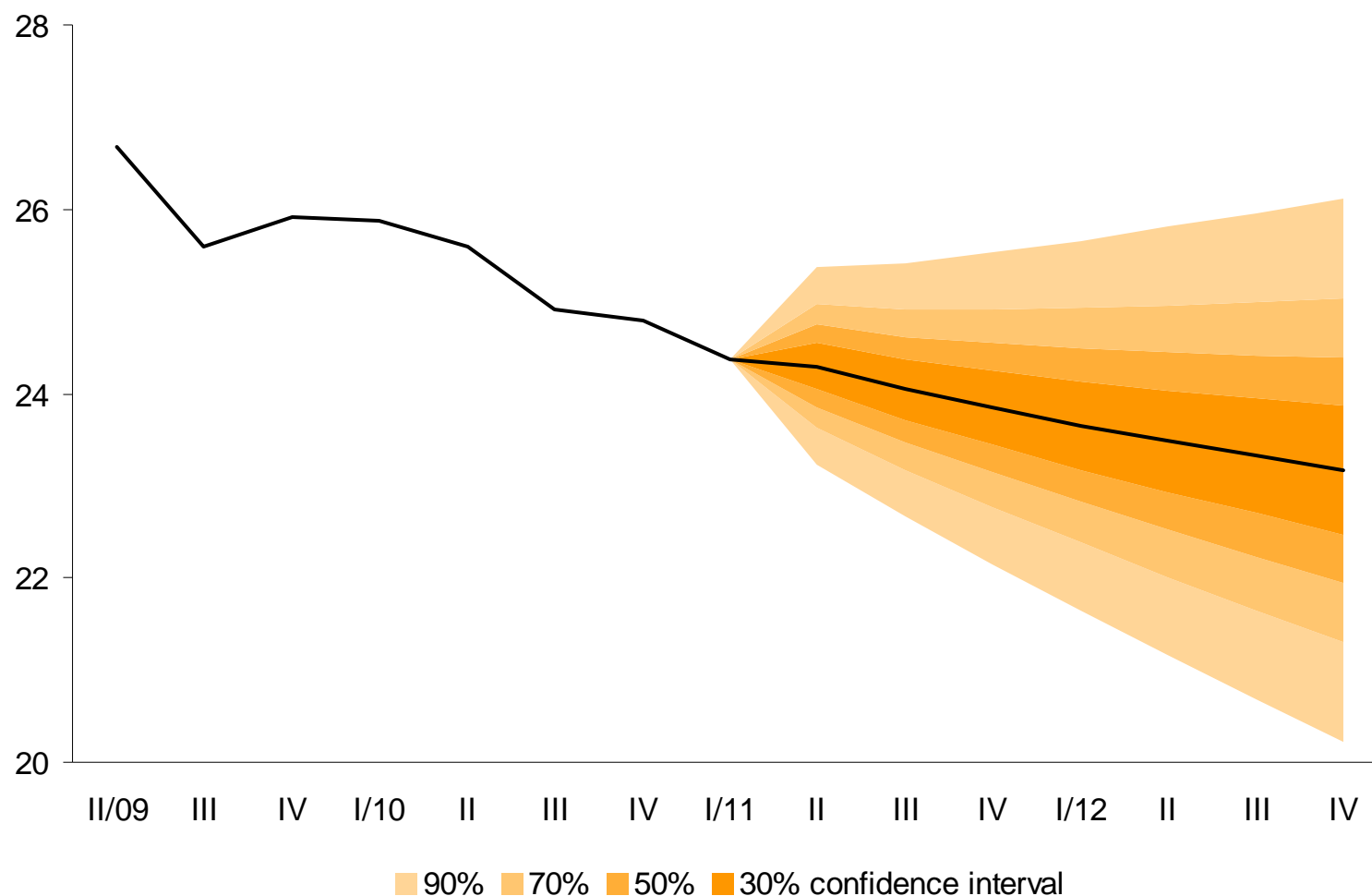
# The forecast for GDP



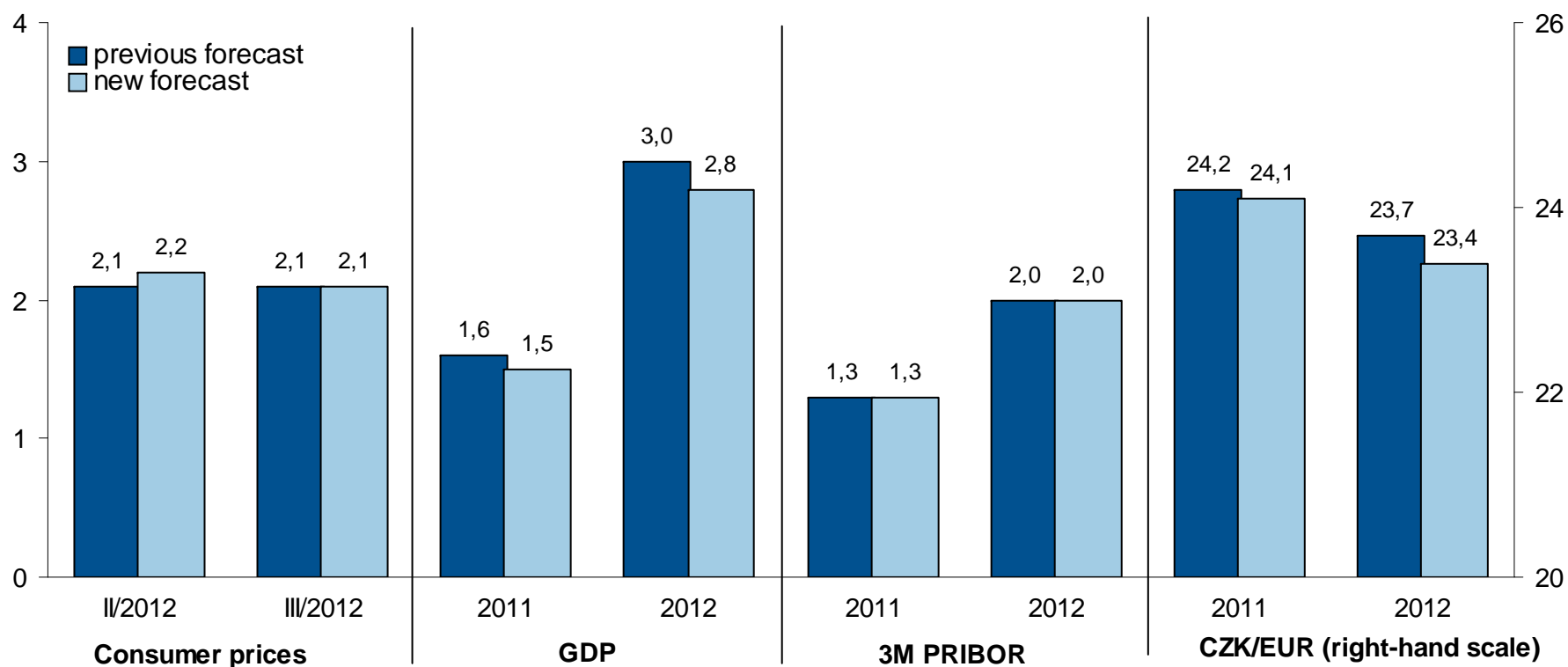
# The forecast for interest rates (3M PRIBOR)



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



# Comparison with the previous forecast





# Major risks to the forecast

*The risks to the forecast for monetary-policy relevant inflation are balanced.*

## Upside risks:

- less anti-inflationary domestic economic environment

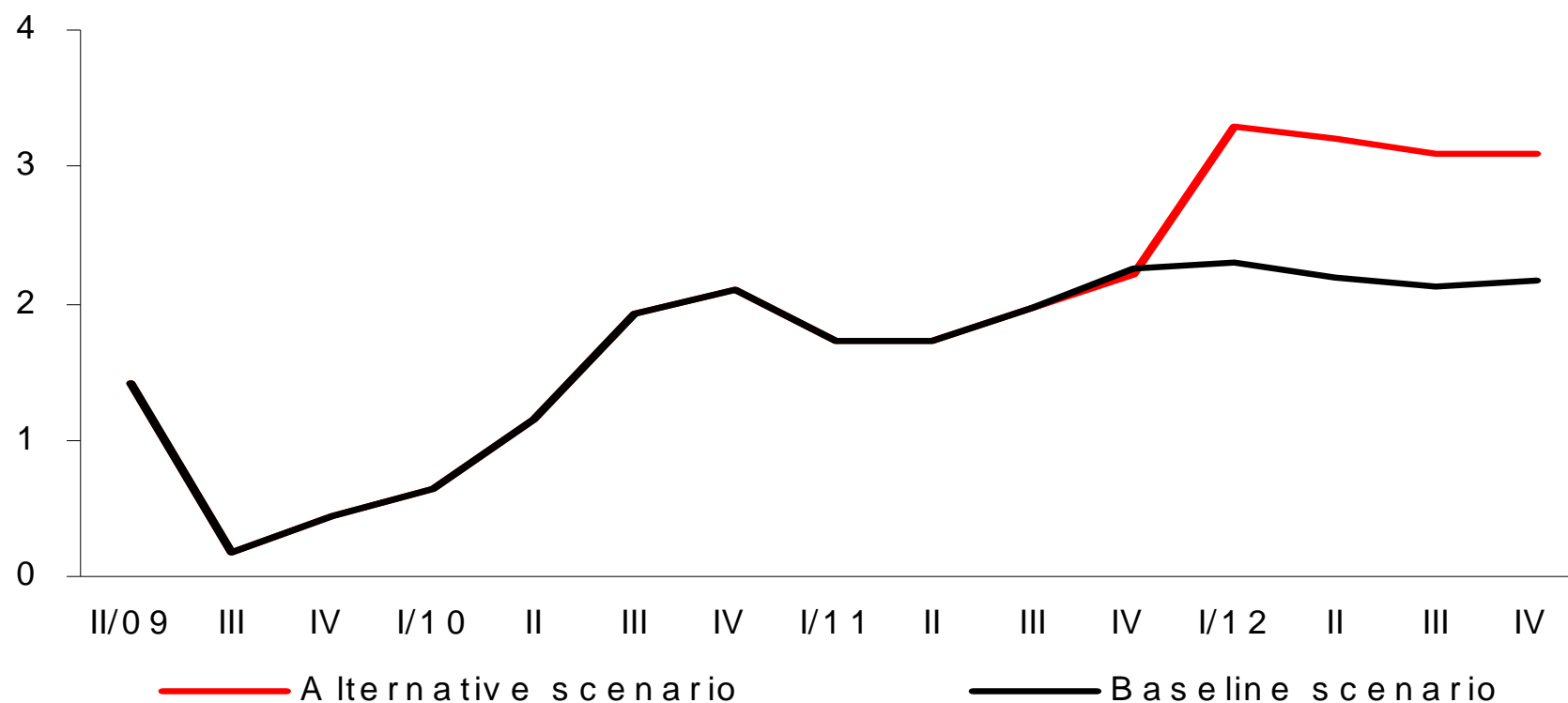
## Downside risks:

- debt crisis in some euro area countries

## Alternative scenario of the forecast

- The alternative scenario captures the effects of a planned change in the reduced VAT rate (from 10% to 14% with effect from 1 January 2012).
- The first-round effect on inflation amounts to roughly 1.1 p.p.; the largest part is due to food prices (0.6 p.p.), while the rest is due to administered prices (0.3 p.p.) and adjusted inflation excluding fuels (0.2 p.p.).
- Monetary policy of the CNB does not respond to the first-round effects of indirect tax changes. The second-round effects are assumed to be small.
- In 2012, GDP is roughly 0.4 p.p. lower on average compared to the baseline scenario. Lower economic activity is reflected in slightly lower monetary-policy relevant inflation and consequently in marginally lower interest rates. The exchange rate forecast does not differ noticeably from the baseline scenario.

# Headline inflation in the alternative scenario 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/](http://www.cnb.cz/en/monetary_policy/forecast/)

and in Inflation Report II/2011,  
to be published 13 May 2011.