



Press conference of the CNB Bank Board

5th Situation Report on Economic and Monetary Developments

4 August 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

- Monetary-policy relevant inflation will be close to the inflation target over the entire forecast horizon. Headline inflation will be temporarily slightly above 3% due to a VAT increase.
- Consistent with the forecast is broad stability of market interest rates at the start of the forecast horizon and a gradual rise in rates starting in late 2011/early 2012. The rates do not react to the first-round effects of the VAT increase.
- The risks to the forecast are balanced.

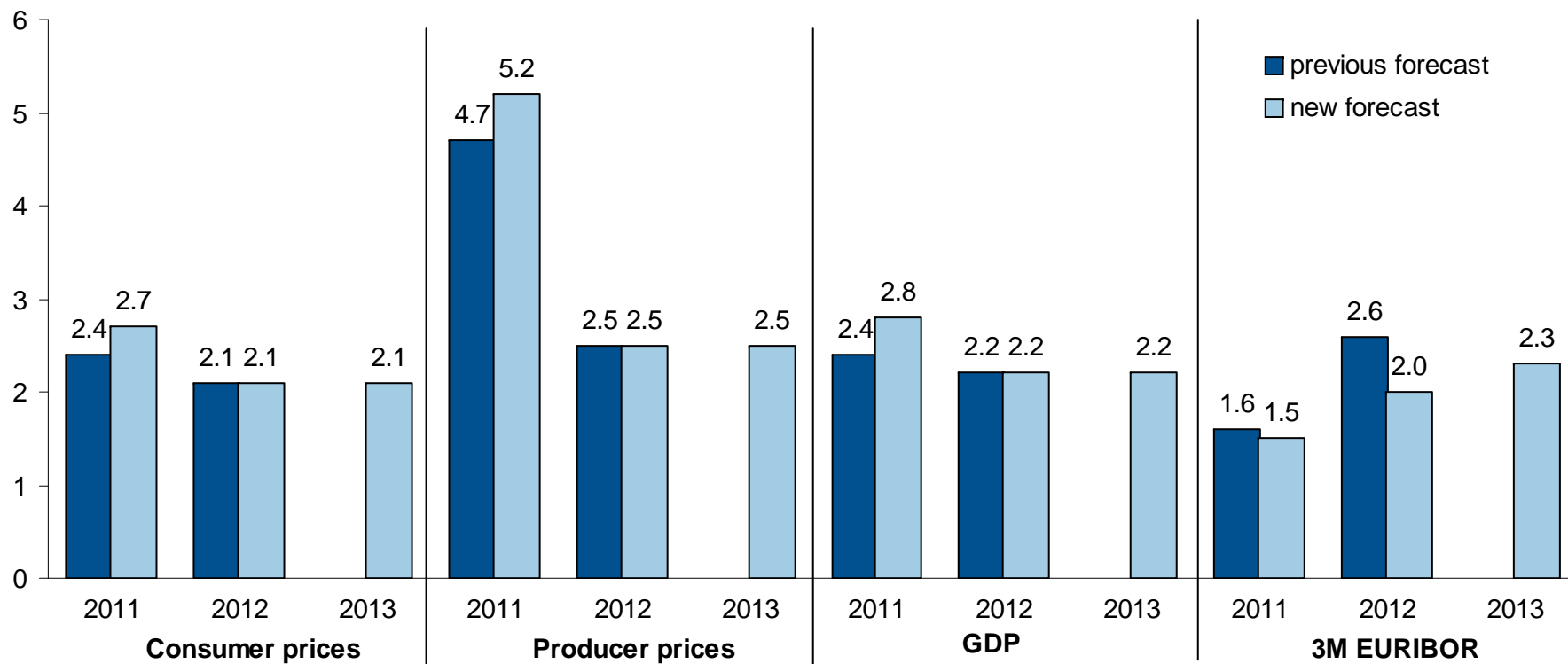


The message of the forecast

- Inflation pressures from the domestic economy are currently not significant, commodity prices and food prices are the main source of inflation.
- Headline inflation will be just above 3% in 2012 owing to the VAT increase, but will return to the target at the start of 2013.
- Monetary-policy relevant inflation will be close to the target over the entire forecast horizon (low second-round effects of the VAT changes are assumed).
- Economic growth in the Czech Republic will slow this year due to fiscal consolidation, slower growth in external demand and fading investment in inventories. Real economic activity will not show higher growth until 2013.
- The nominal exchange rate is gradually appreciating over the forecast horizon.
- Consistent with the forecast is broad stability of market interest rates at the start of the forecast horizon and a gradual rise in rates starting in late 2011/early 2012.

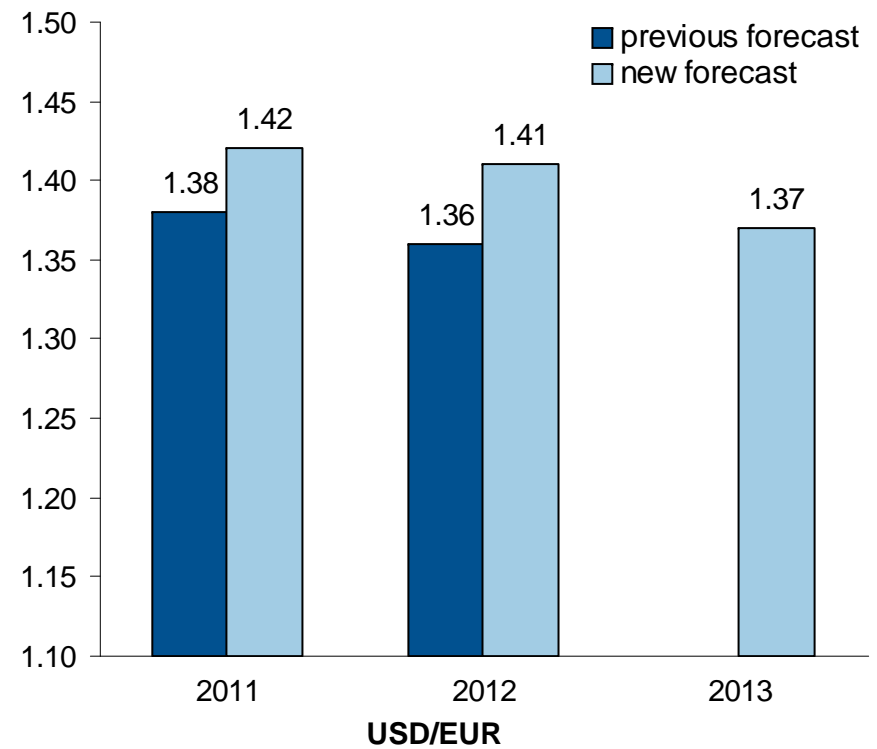
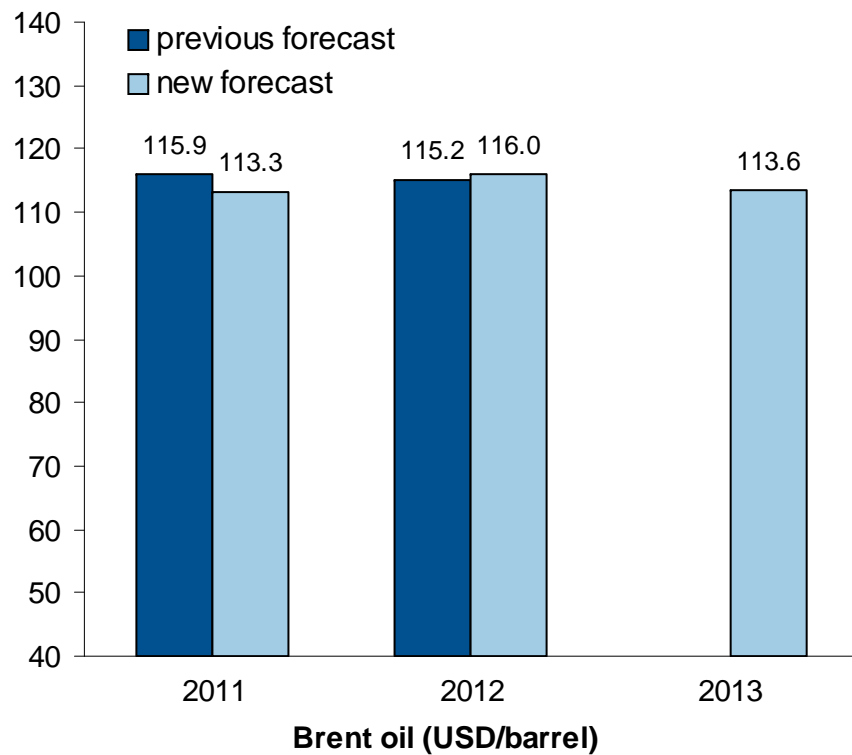
The external environment (i)

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

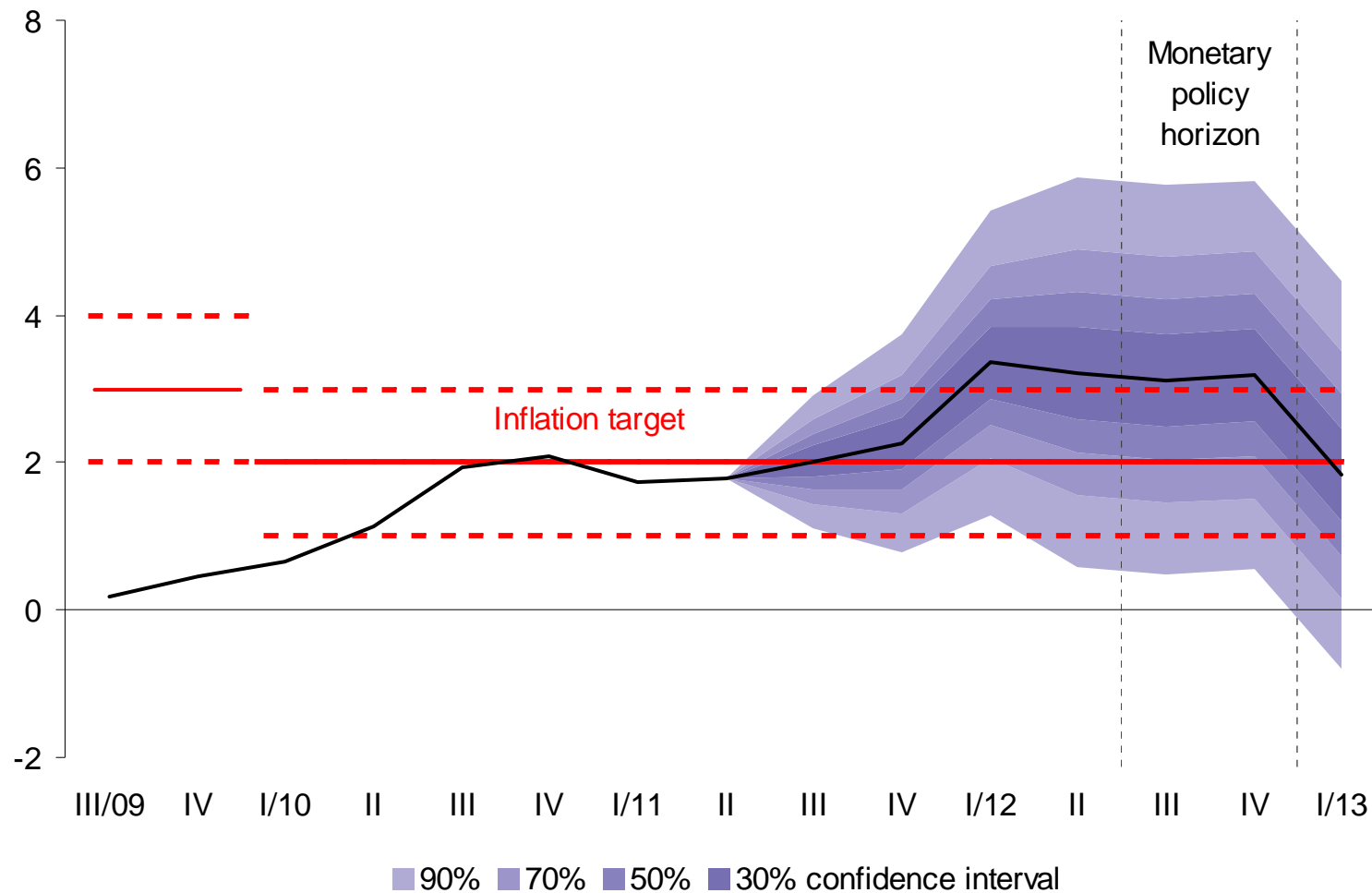


The external environment (ii)

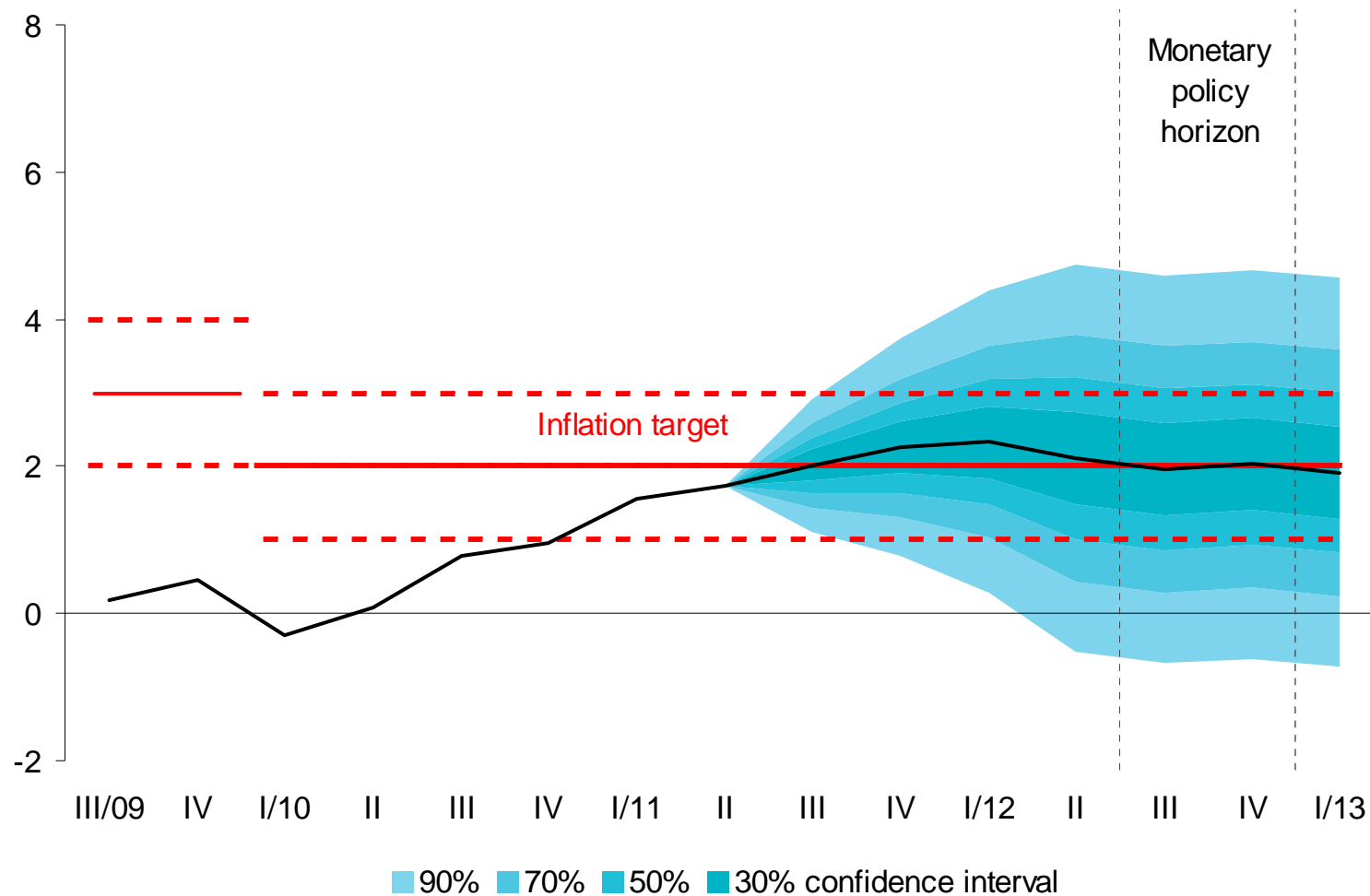
Comparison between the assumptions of the new and previous forecasts



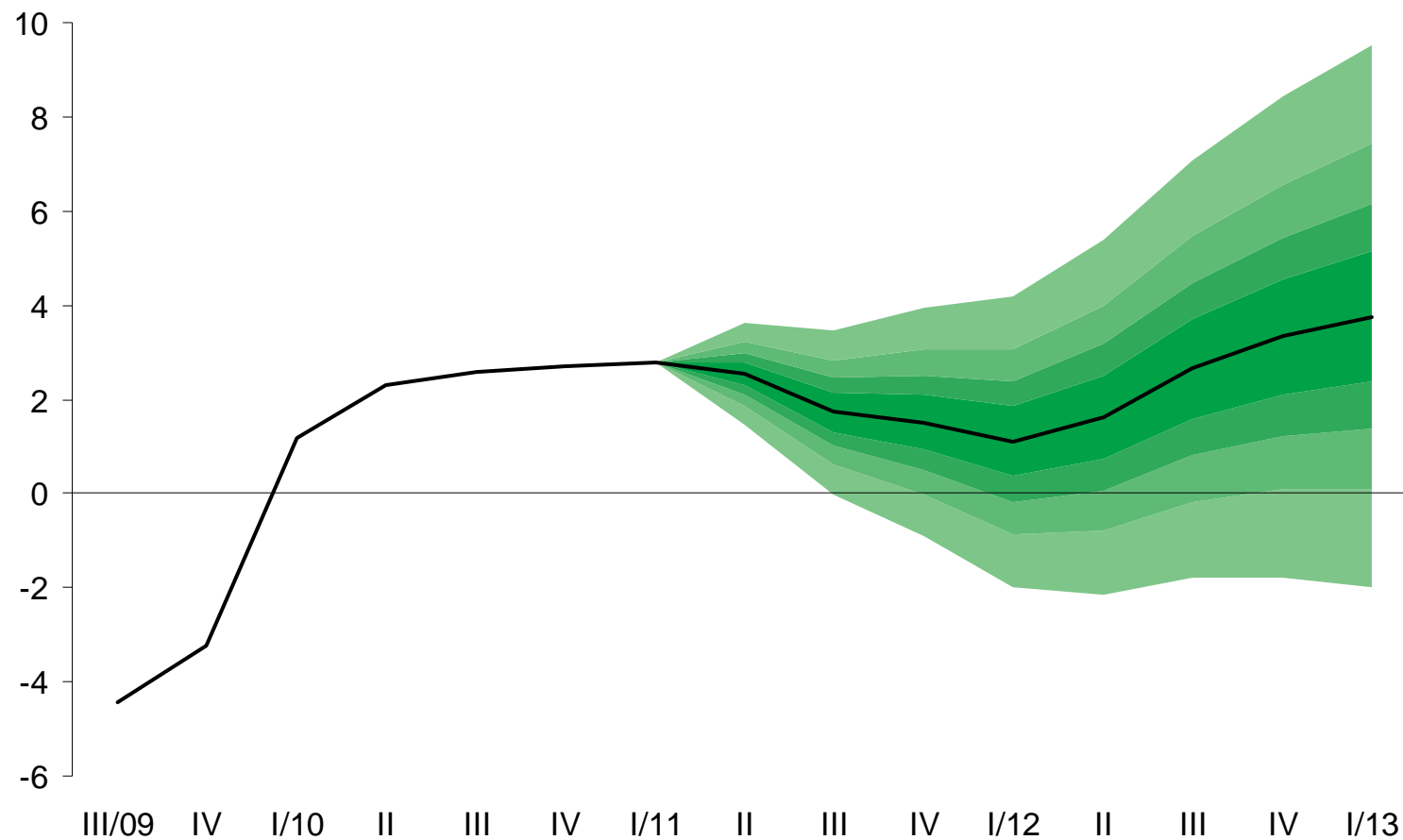
The forecast for headline inflation



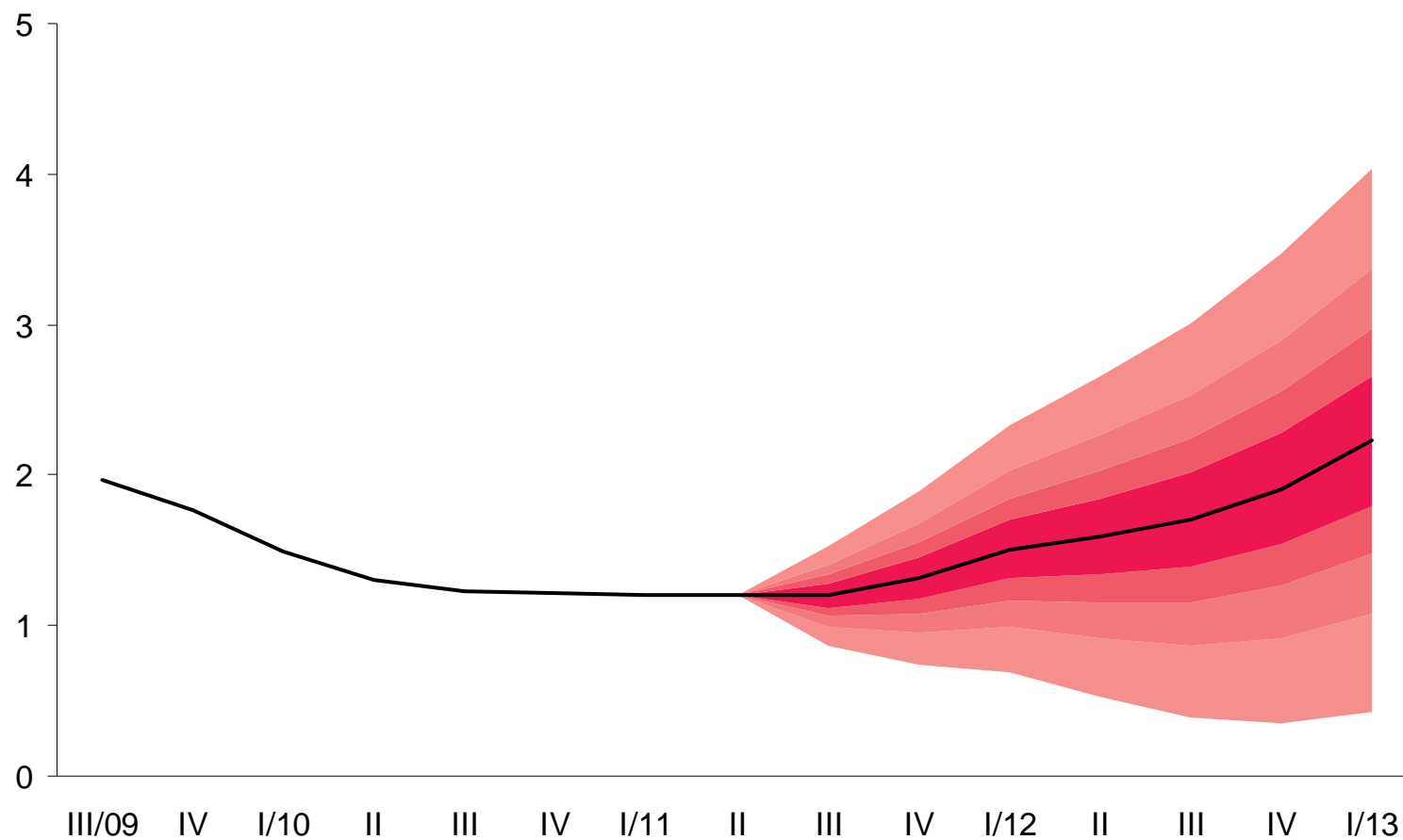
The forecast for monetary-policy relevant inflation



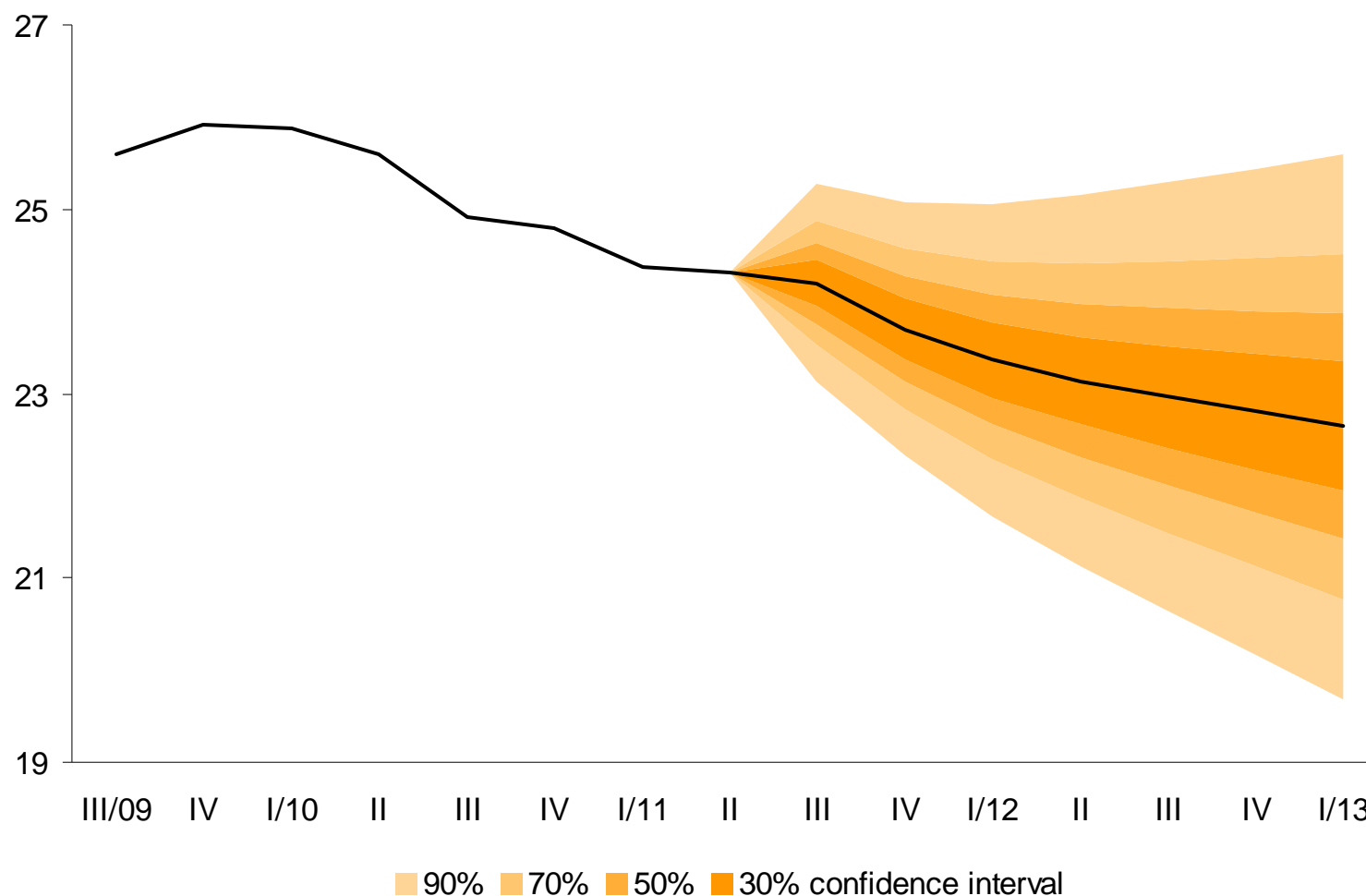
The forecast for GDP



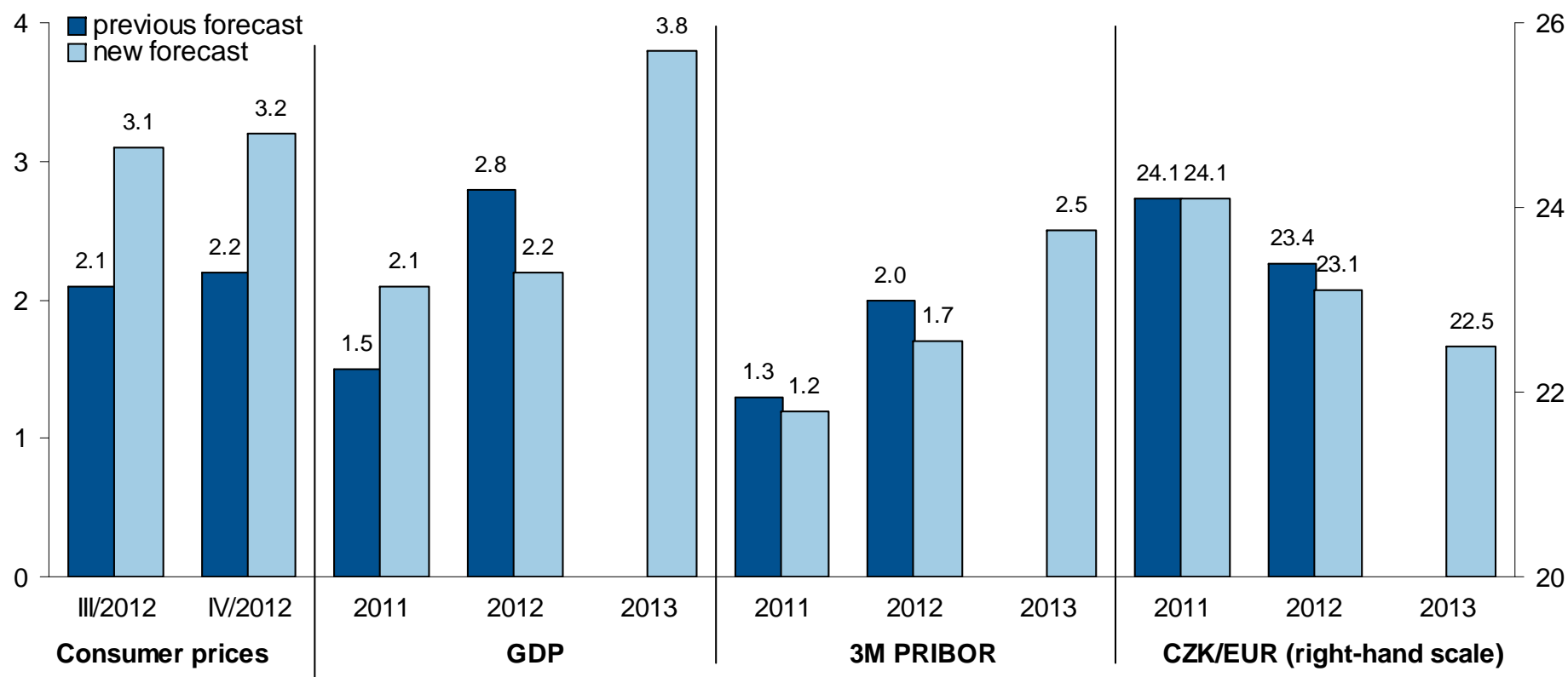
The forecast for interest rates (3M PRIBOR)



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 are balanced.

Downside risk:

- lower foreign interest rates

Upside risk:

- weaker koruna exchange rate



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 III/2011,
to be published 12 August 2011.