



# Press conference of the CNB Bank Board

## 7th Situation Report on Economic and Monetary Developments

3 November 2011



# 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 leave the two-week repo rate unchanged at 0.75%.
- Six members voted in favour of this decision, and one member voted for lowering rates by 0.25 percentage point.



## Reasons for the decision

- Monetary-policy relevant inflation will be slightly below the target over the entire forecast horizon. Headline inflation will rise temporarily to just below 3% in 2012 owing to a VAT increase, but will fall back below the target at the start of 2013.
- Consistent with the forecast is a slight decline in market interest rates at the start of the forecast and flat rates until late 2012/early 2013.
- The risks to the forecast are skewed towards stable interest rates in line with the “euro area stagnation” alternative scenario (see below).

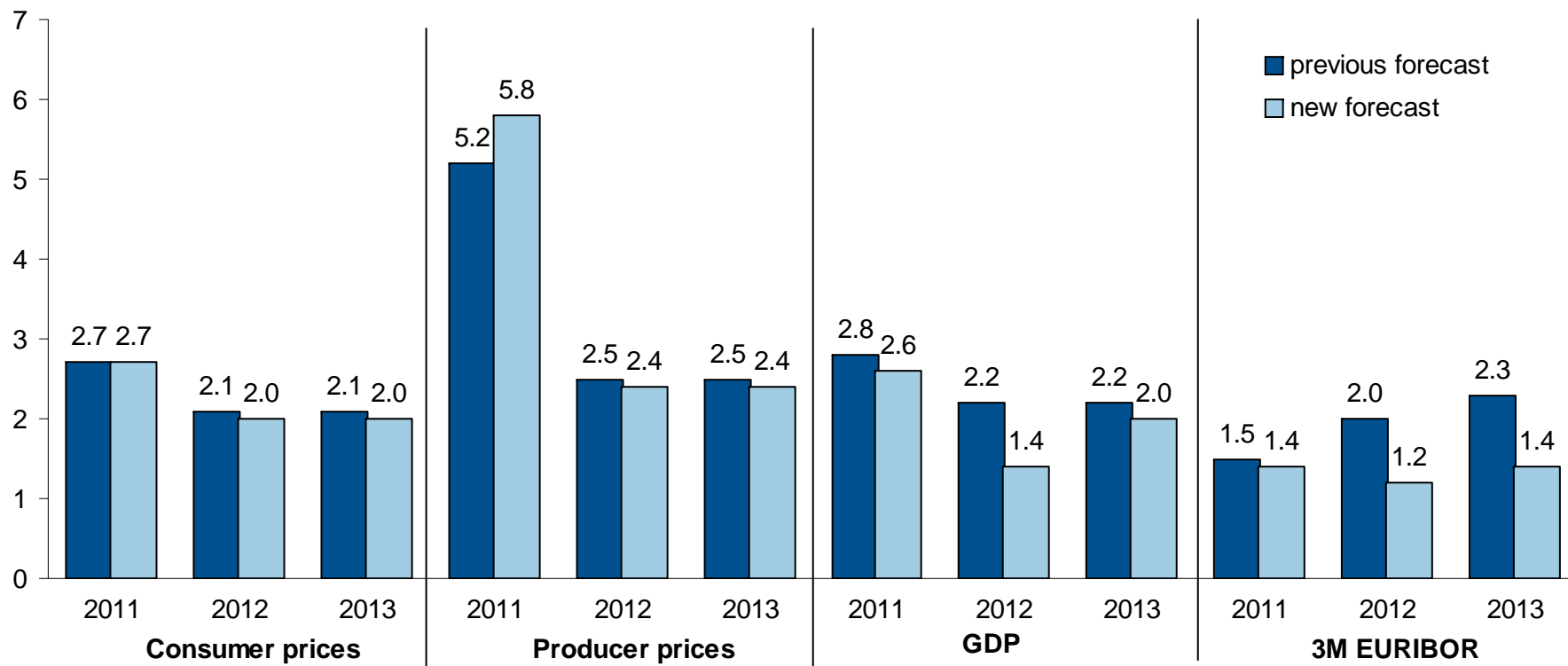


# The message of the forecast baseline scenario

- Inflation pressures from the domestic economy are currently not significant, commodity prices and food prices are still the main source of inflation.
- Headline inflation will rise temporarily to just below 3% in 2012 owing to a VAT increase, but will fall back below the target at the start of 2013.
- Monetary-policy relevant inflation will be slightly below the target over the entire forecast horizon.
- Economic growth in the Czech Republic will continue to slow this year. It will slow further (to 1.2%) next year as a result of euro area developments. Stronger economic growth will appear only from 2013.
- The nominal exchange rate is appreciating in the forecast as from the beginning of 2012.
- Consistent with the forecast is a slight decline in market interest rates at the start of the forecast and flat rates until late 2012/early 2013.

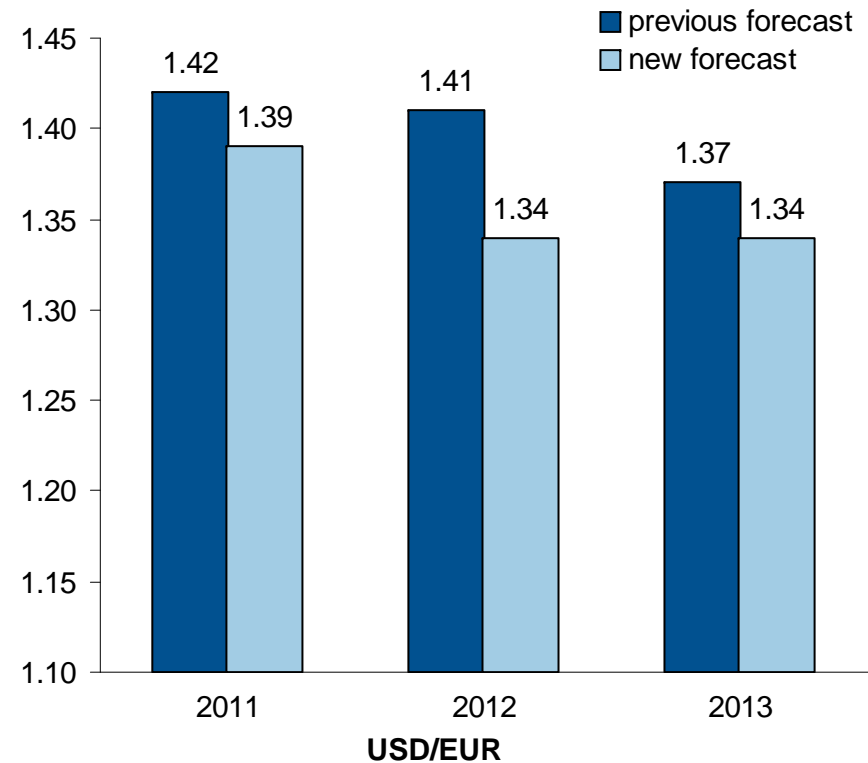
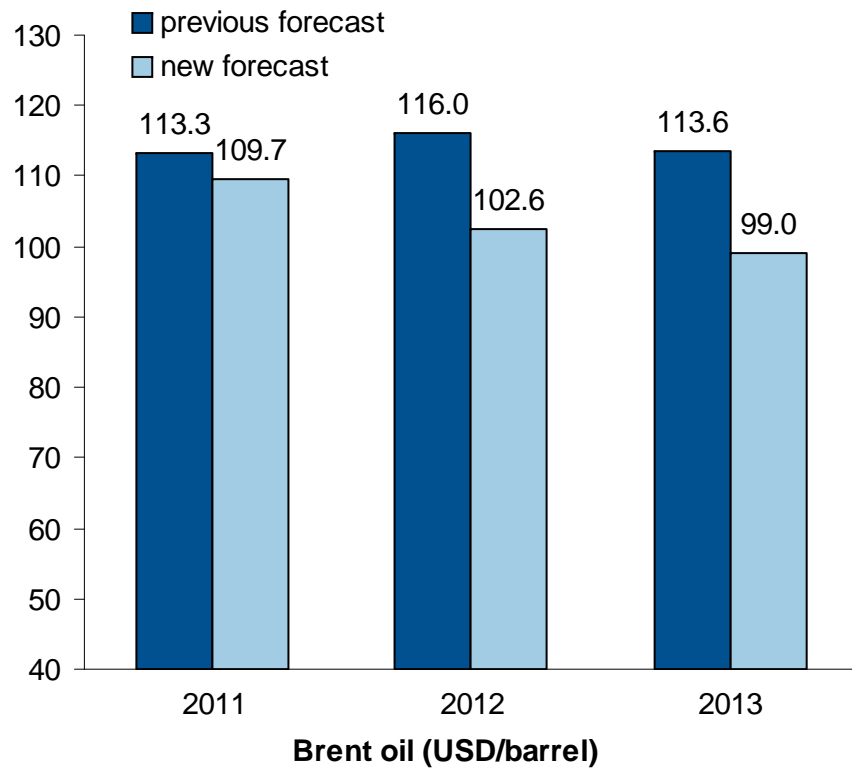
# The external environment (i)

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

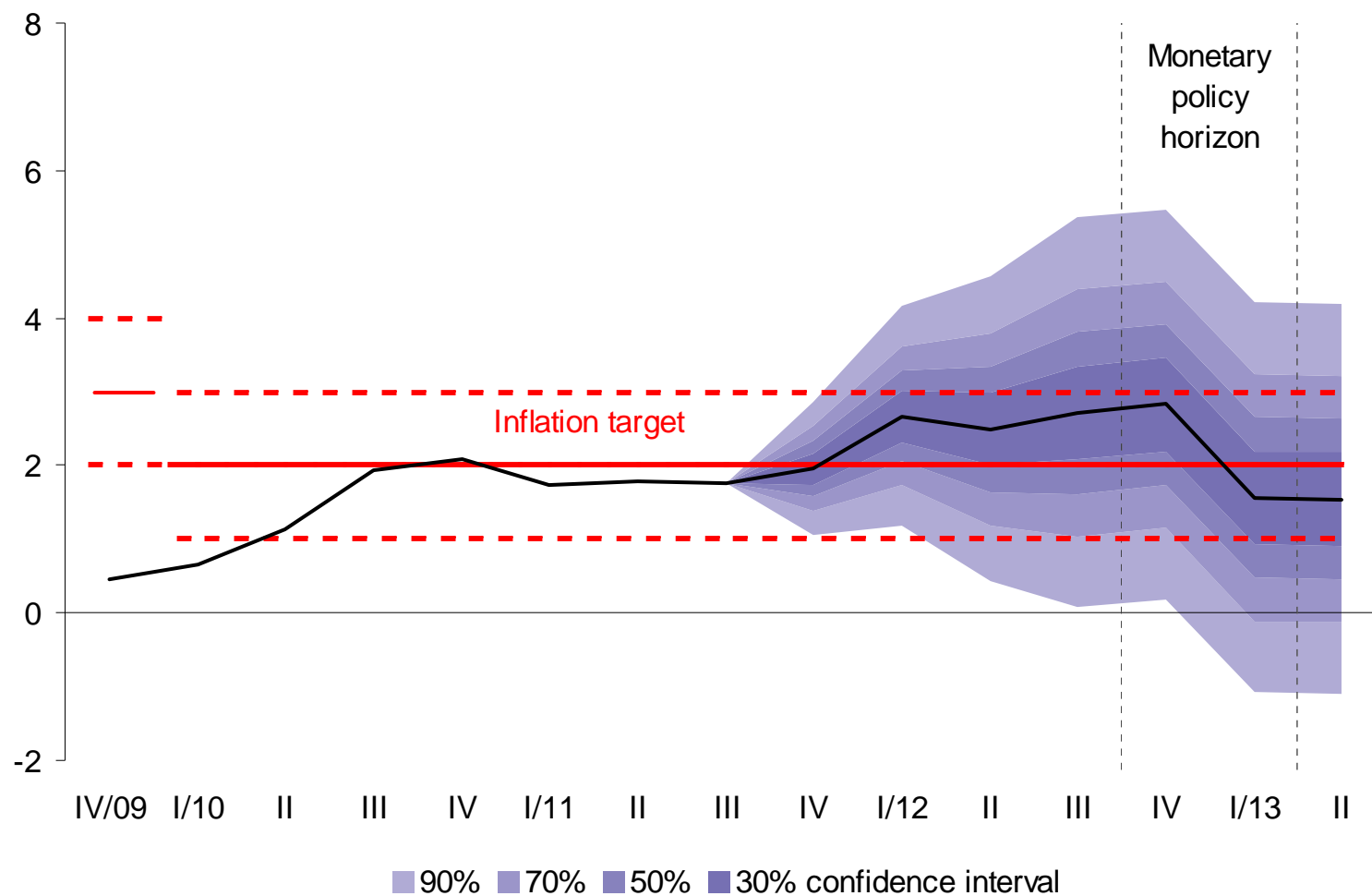


# The external environment (ii)

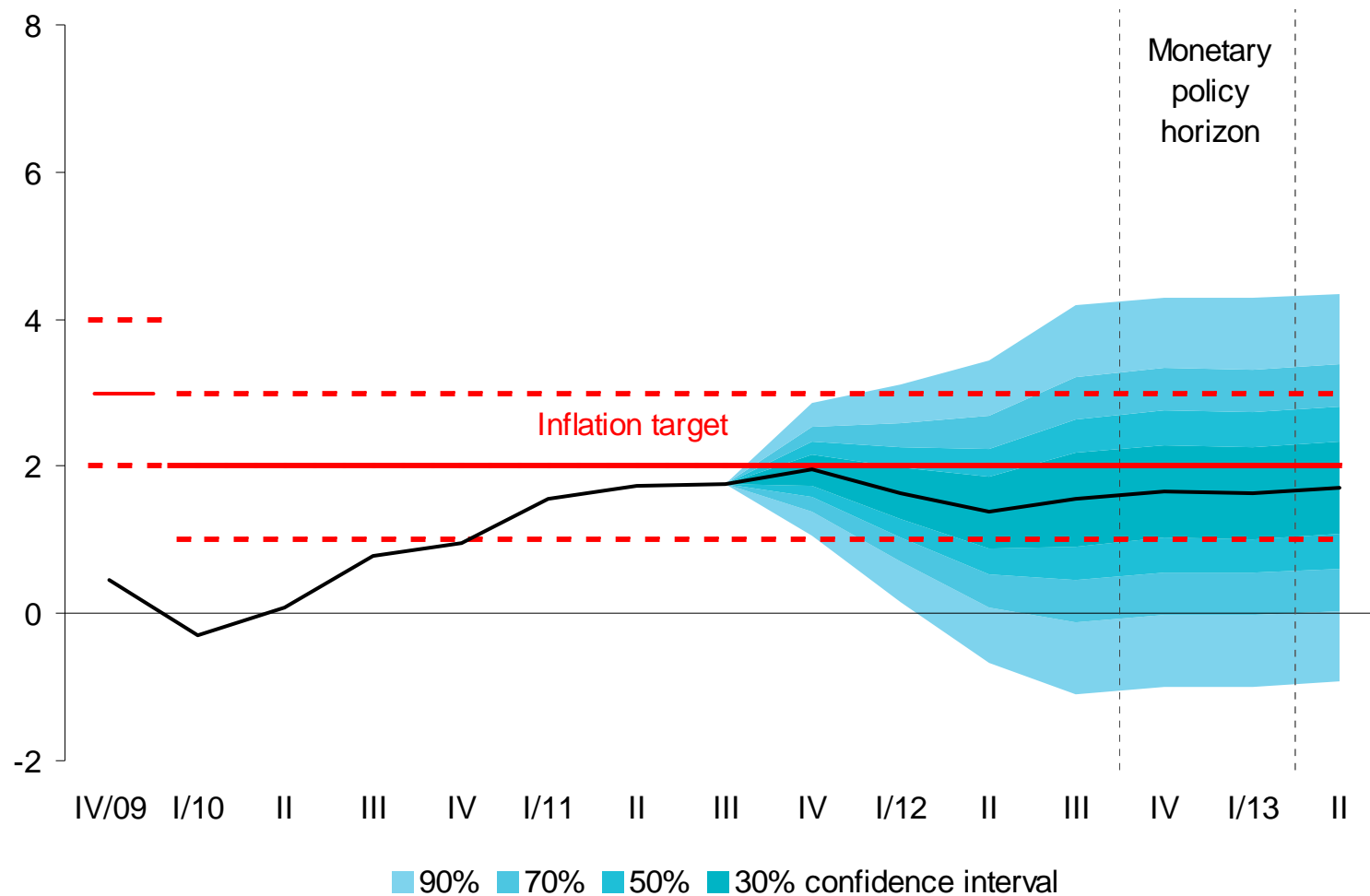
## Comparison between the assumptions of the new and previous forecasts



# The forecast for headline inflation

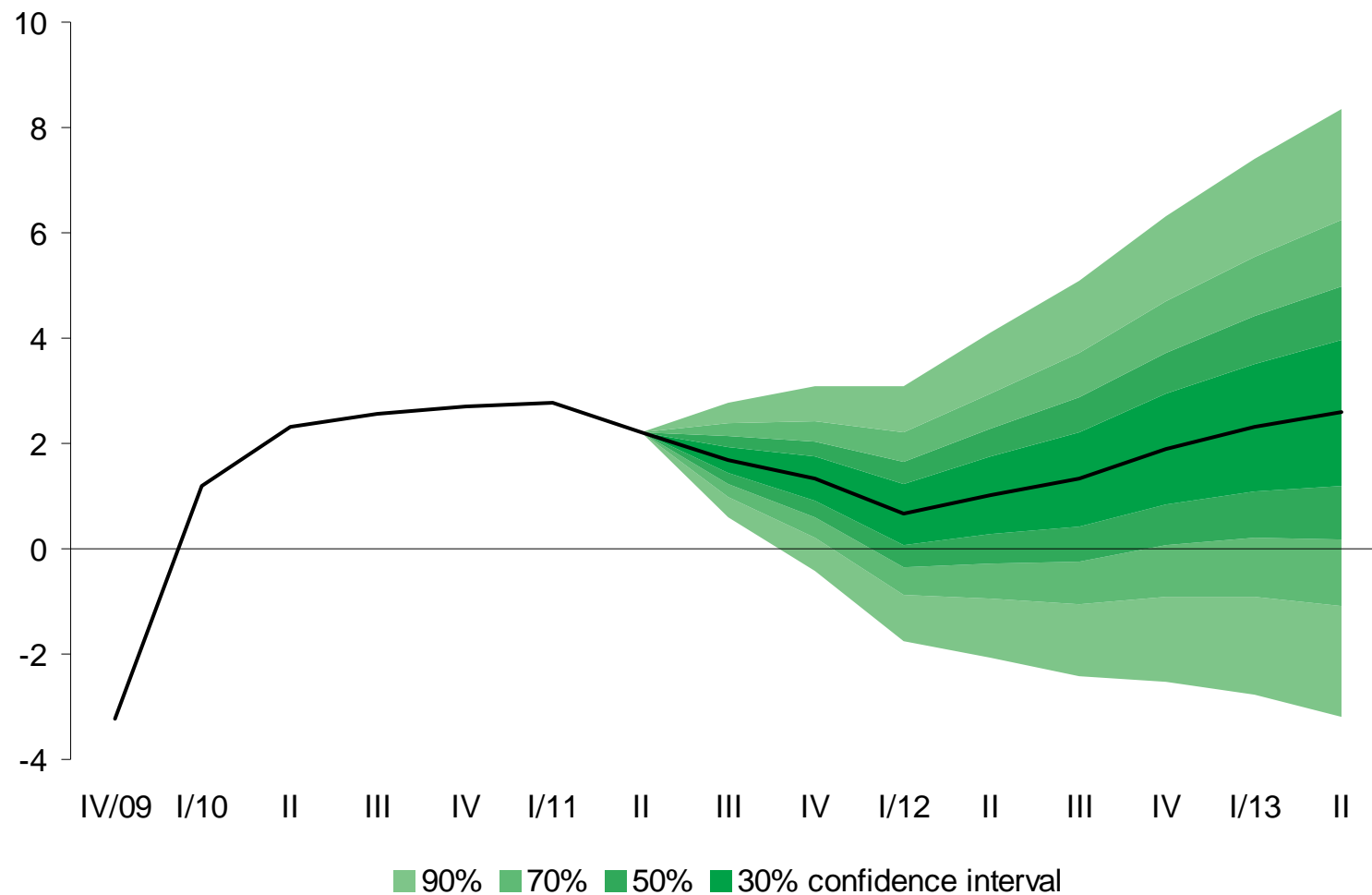


# The forecast for monetary-policy relevant inflation

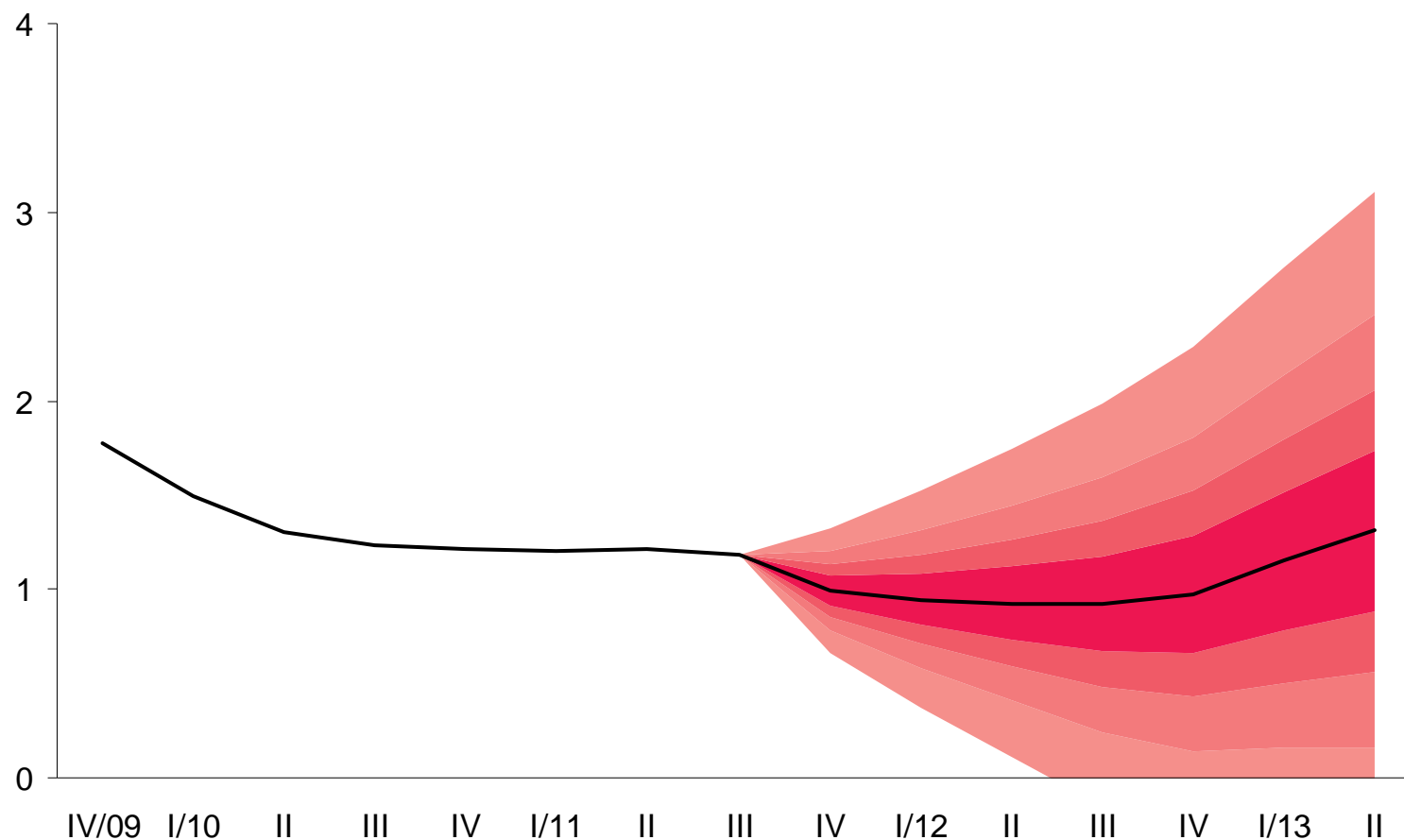




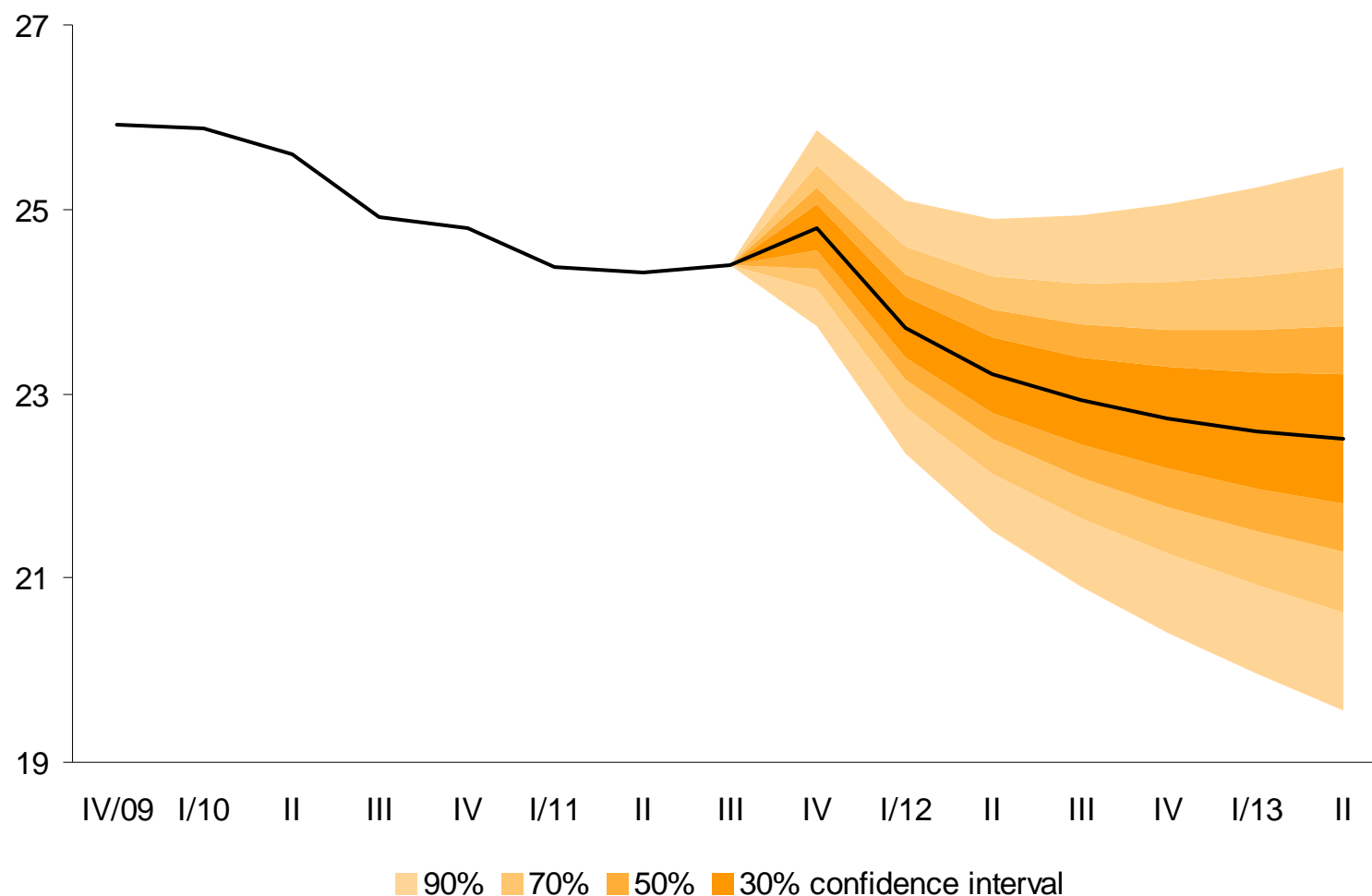
# The forecast for GDP



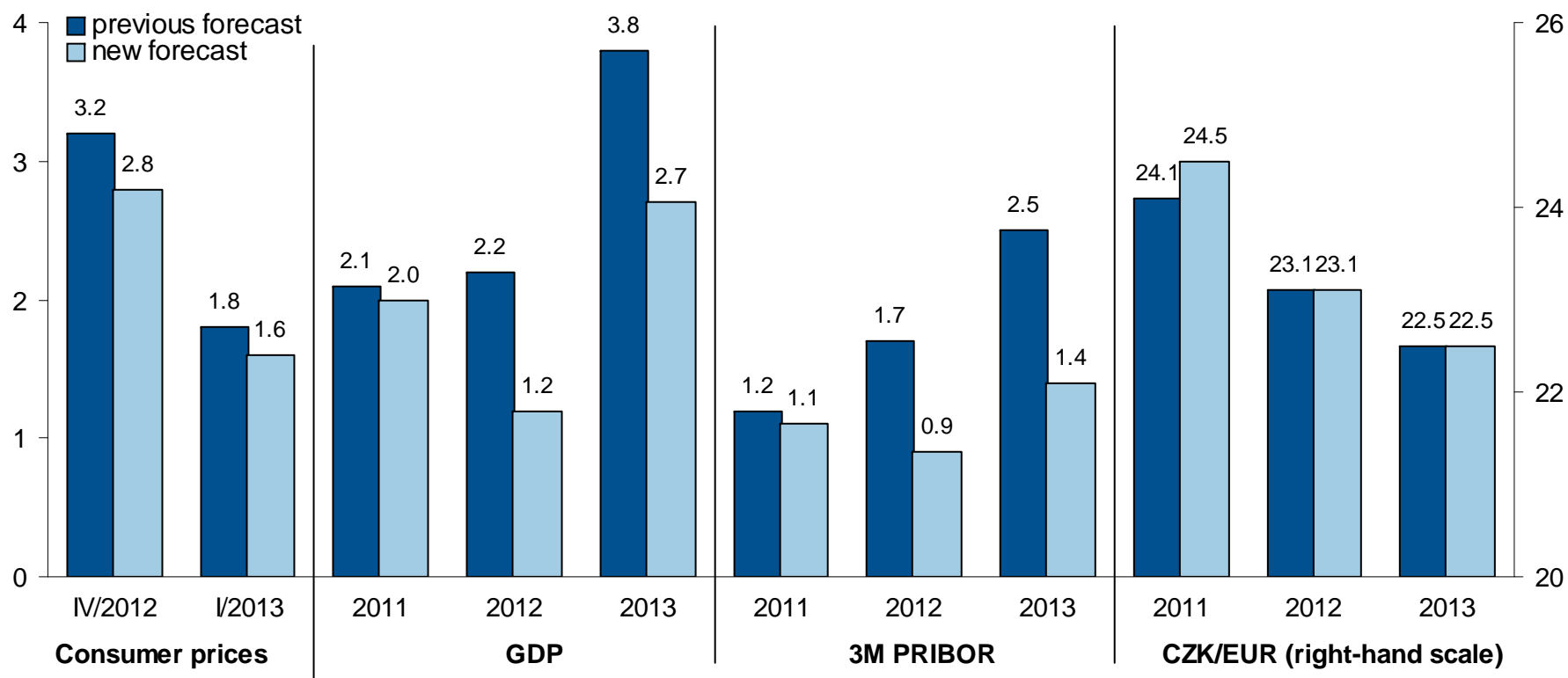
# The forecast for interest rates (3M PRIBOR)



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



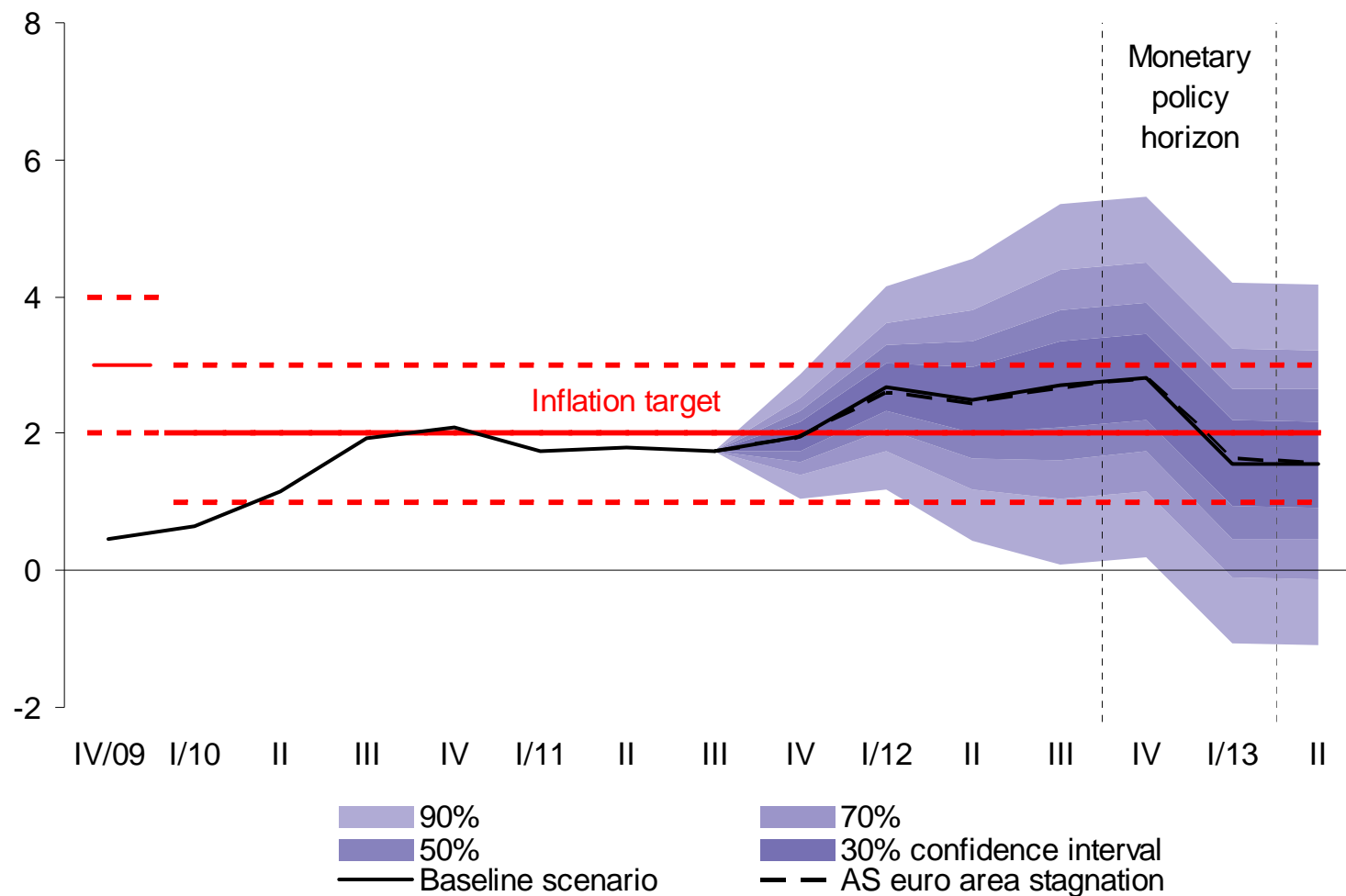
# Comparison with the previous forecast



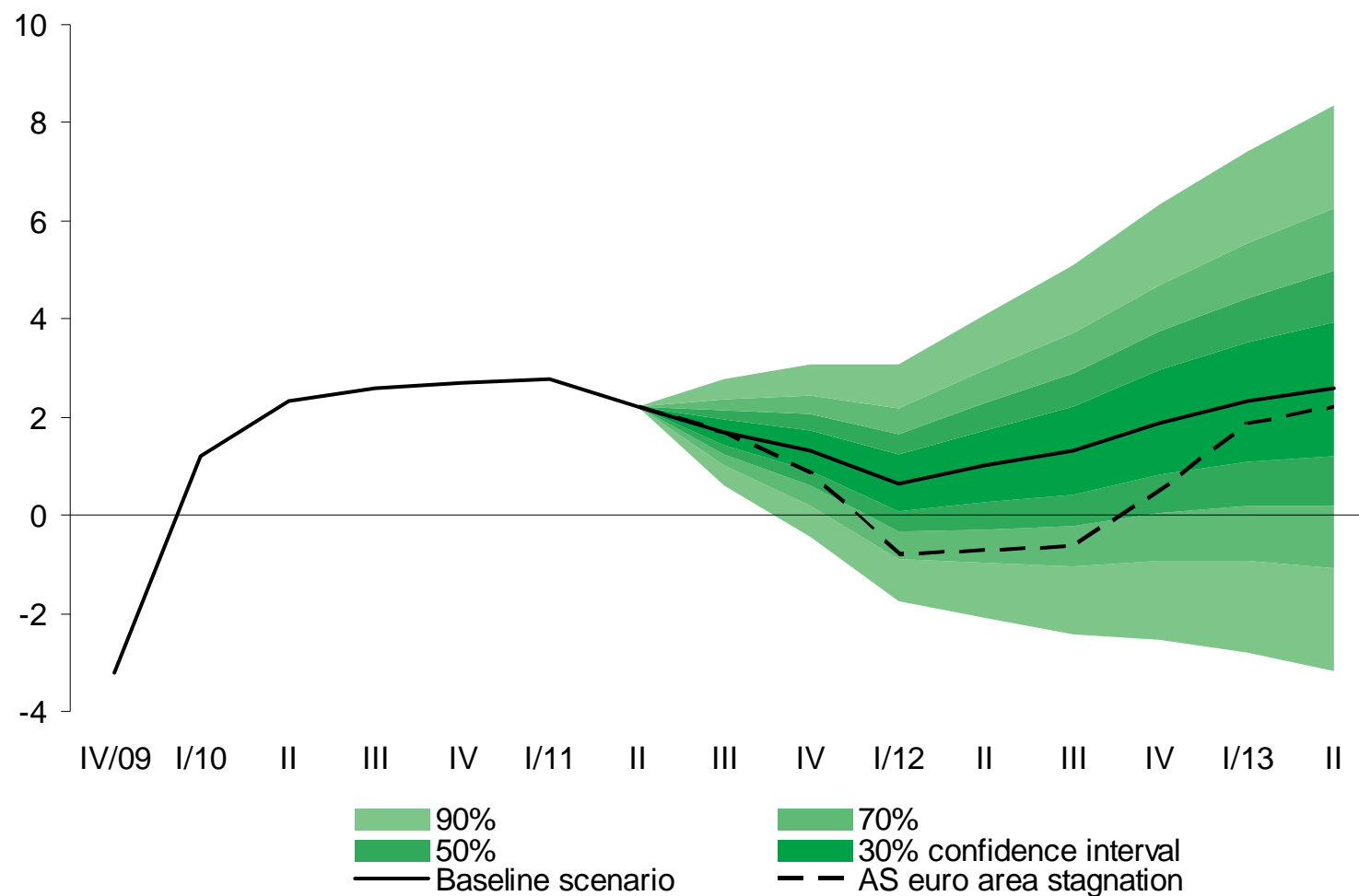
# Alternative scenario of euro area stagnation

- The motivation for the alternative scenario are concerns that the outlooks for foreign economic activity and for foreign interest rates may be mutually inconsistent. The alternative scenario simulates such foreign developments that would correspond to the market outlook for euro interest rates.
- In this scenario, GDP growth in the euro area slows to almost zero in 2012. This transmits immediately to the domestic economy and adversely influences GDP.
- Appreciation of the koruna is markedly slower than in the baseline scenario.
- Weaker exchange rate is associated with higher levels of 3M PRIBOR compared to the baseline scenario.
- Inflation remains broadly at the same levels as in the baseline scenario.

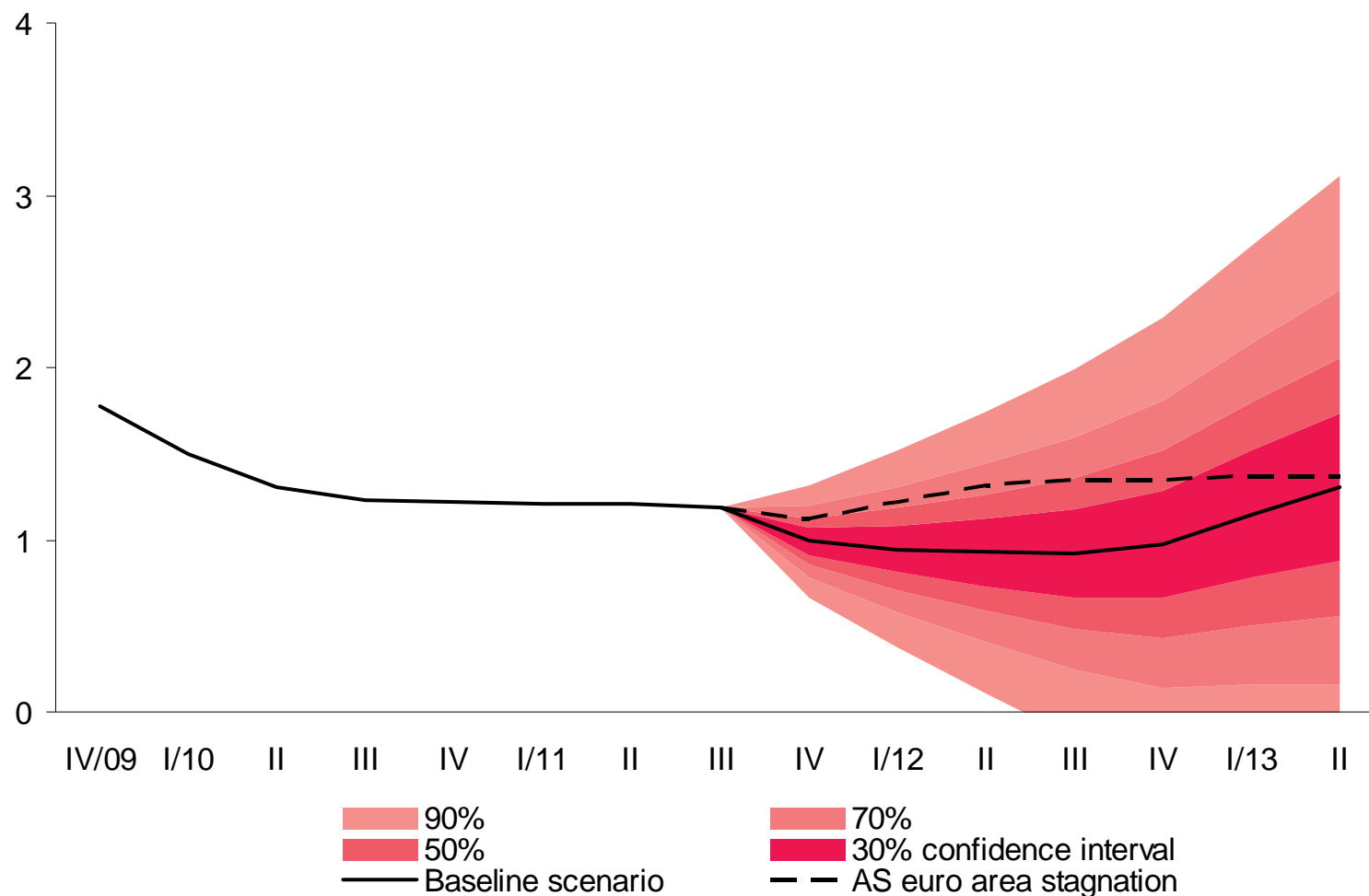
# Alternative scenario of euro area stagnation: headline inflation



# Alternative scenario of euro area stagnation: GDP

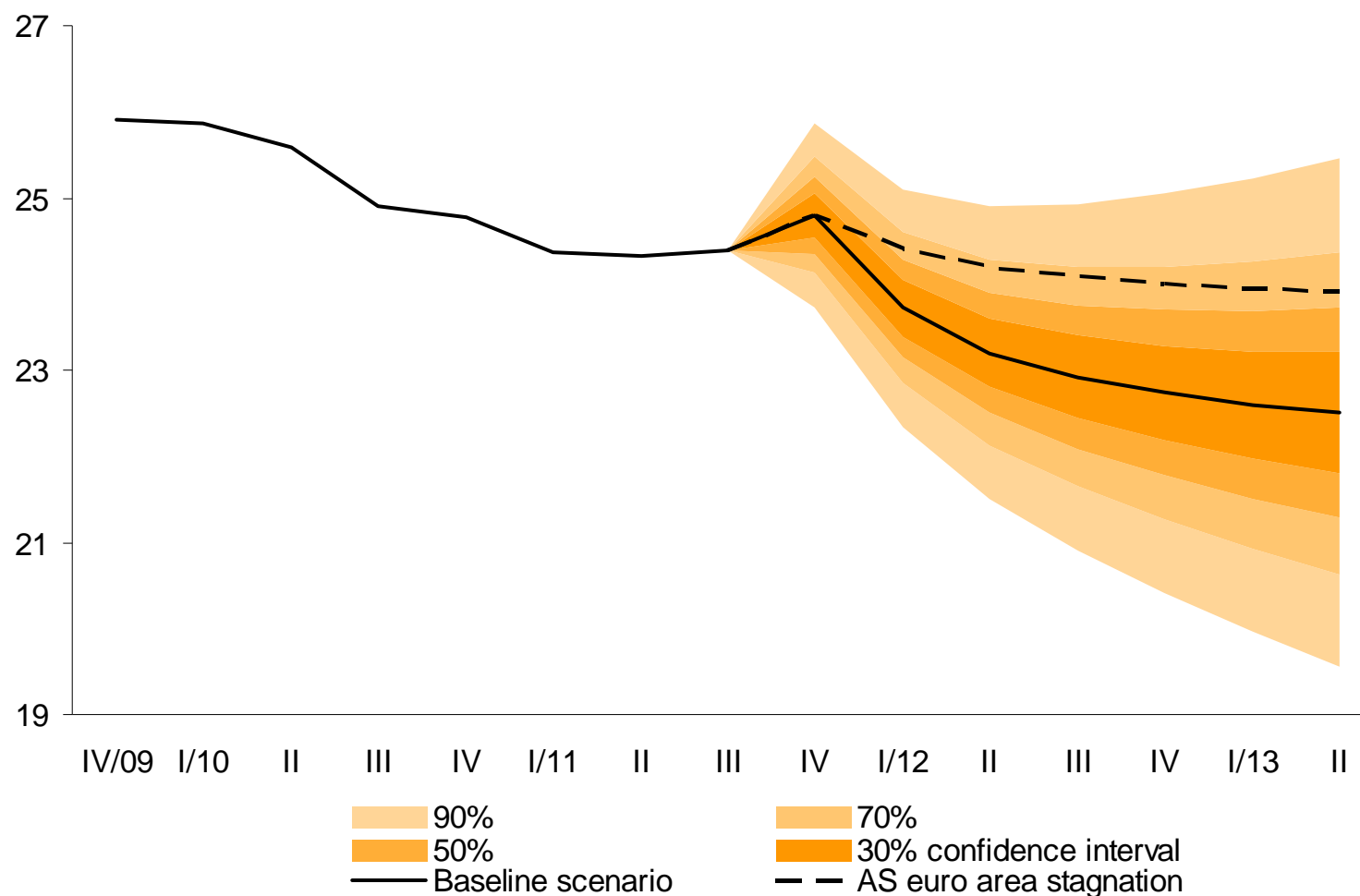


# Alternative scenario of euro area stagnation: 3M PRIBOR

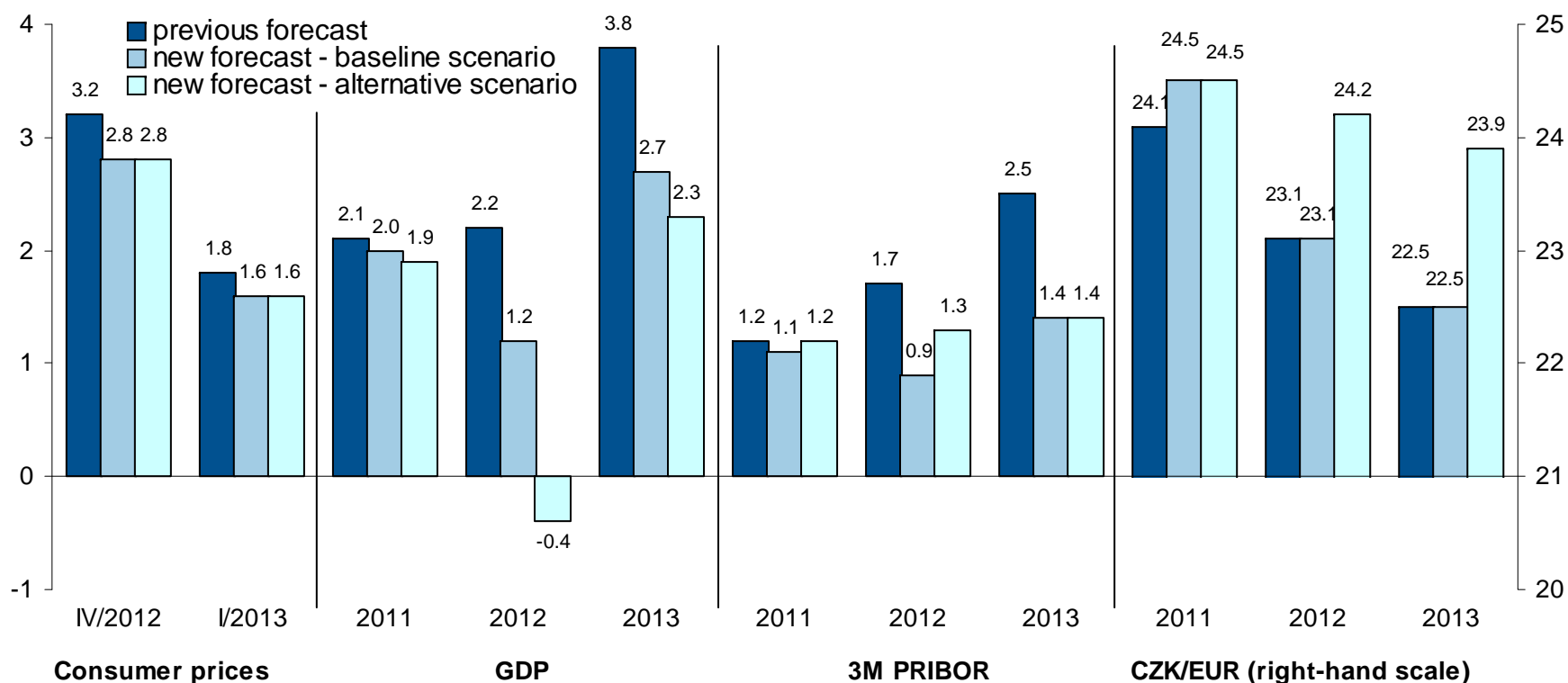




# Alternative scenario of euro area stagnation: CZK/EUR (quarterly averages)



# Comparison of the alternative scenario with the baseline scenario and with the previous forecast





# Major risks to the forecast

*The risks to the forecast are skewed towards stable interest rates in line with the alternative scenario.*

## Downside risks:

- slower wage growth
- substantial deterioration in expected foreign economic growth and further decline in outlook for world commodity prices and 3M EURIBOR

## Upside risks:

- materialization of the “euro area stagnation” alternative scenario, leading to fundamentally weaker koruna exchange rate and lower GDP
- weaker koruna exchange rate due to market sentiment



# 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 IV/2011,  
to be published 11 November 2011.