



Press conference of the CNB Bank Board

8th Situation Report on Economic and Monetary Developments

21 December 2011

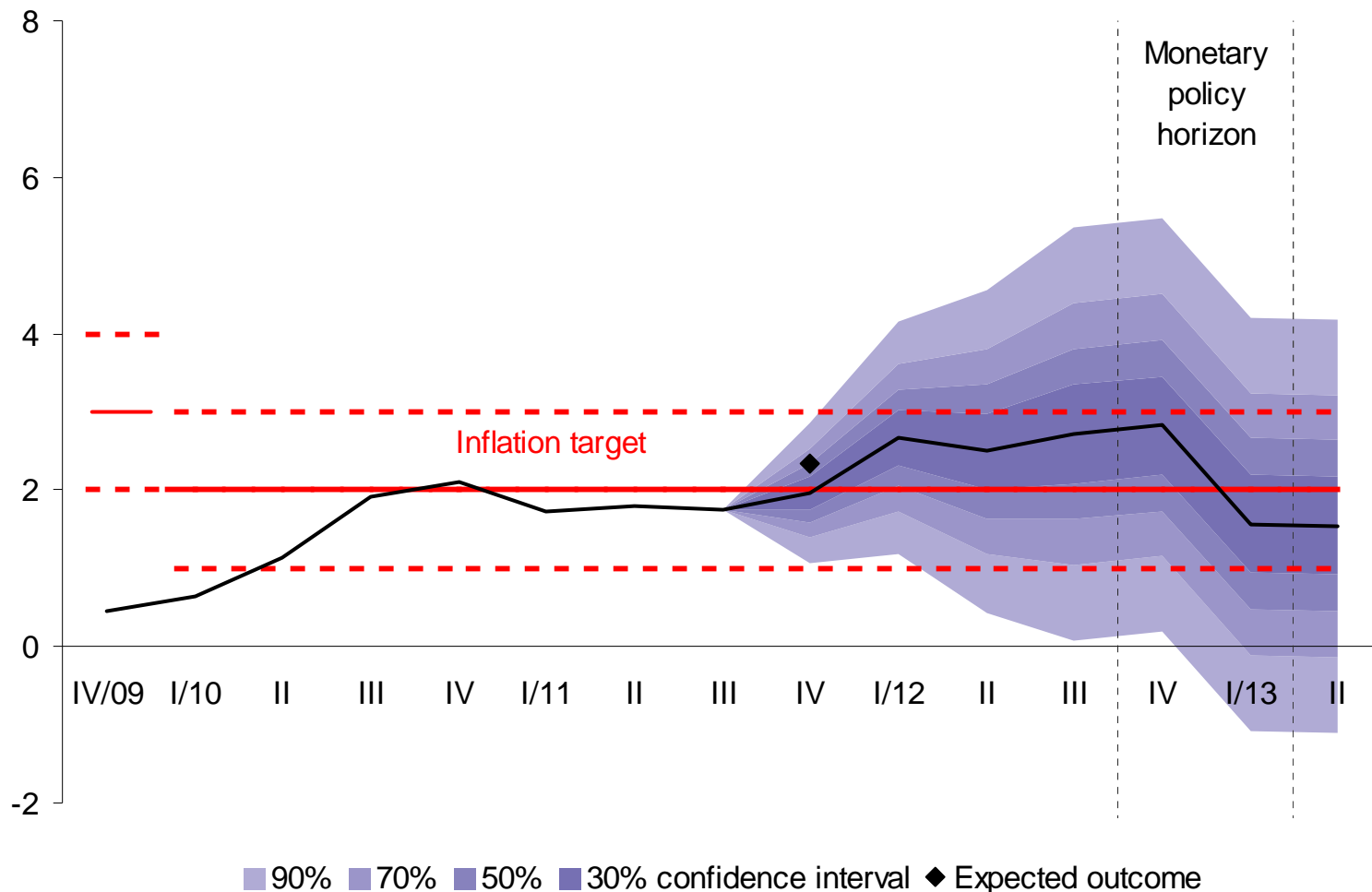
The monetary policy decision taken and the ratio of the votes cast

- At the close of the meeting the Board decided unanimously to leave the two-week repo rate unchanged at 0.75%.

Reasons for the decision

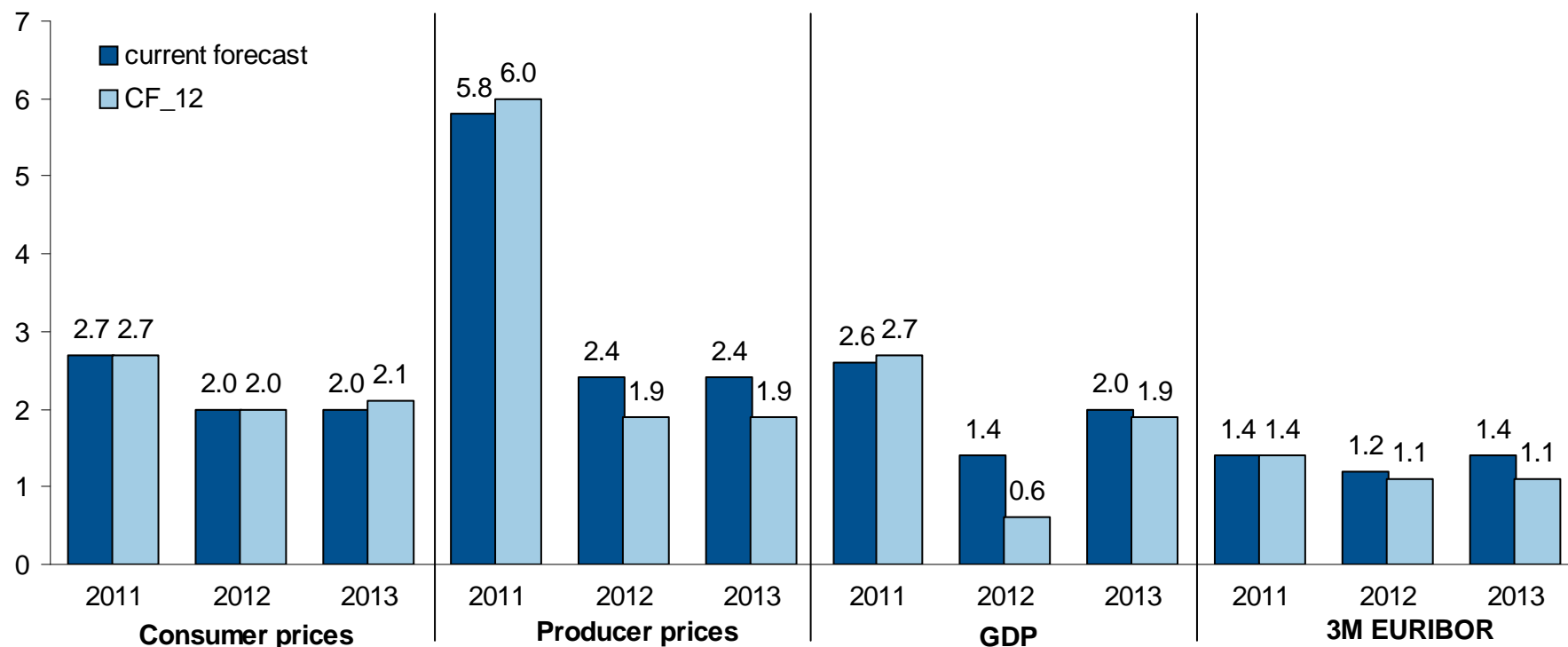
- According to the existing forecast, monetary-policy relevant inflation will be slightly below the target in 2012 and 2013. Headline inflation will rise temporarily to just below 3% in 2012 owing to a VAT increase, but will fall back below the target at the start of 2013.
- Consistent with the forecast 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 for inflation and interest rates are slightly on the upside compared to the baseline scenario of the existing forecast.
- The risks to the forecast for GDP and the exchange rate are tilted towards the alternative scenario as foreign developments have moved towards the materialisation of this alternative.

The inflation forecast and expected outcome in 2011 Q4



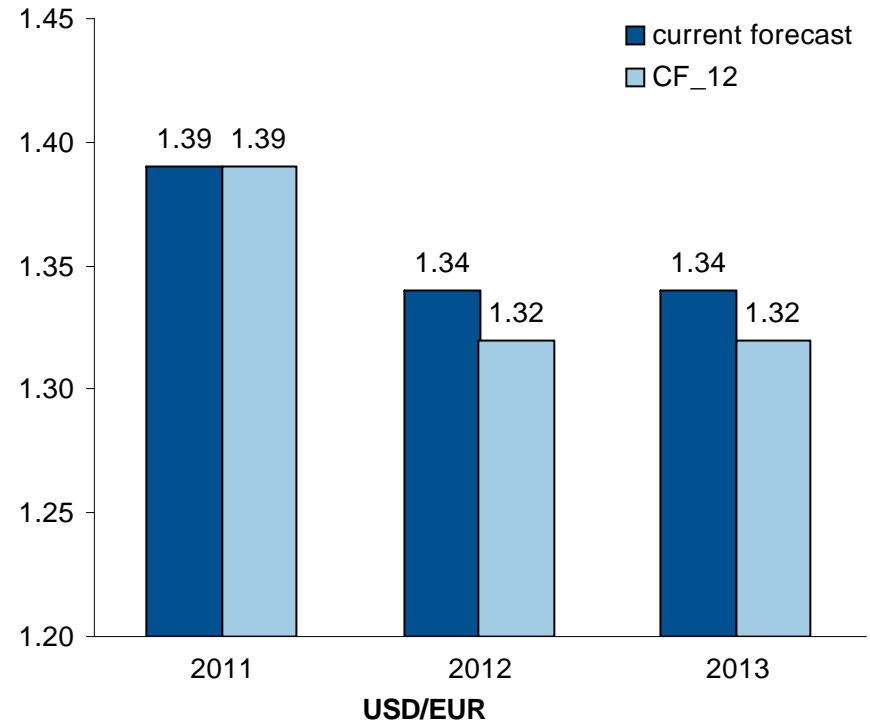
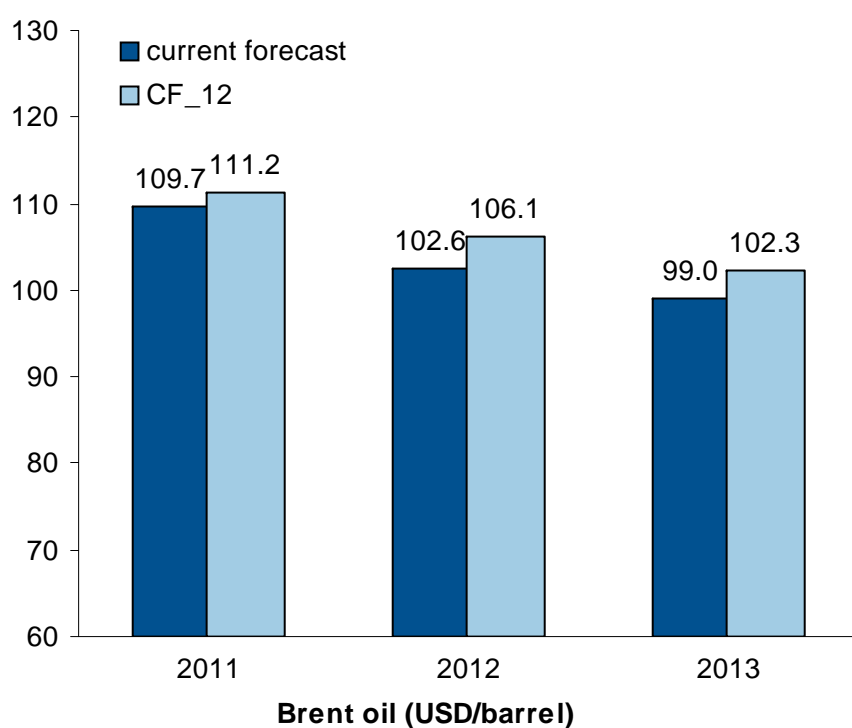
The external environment (i)

Comparison between the current forecast assumptions and the December outlook based on Consensus Forecasts survey and market expectations for the effective euro area



The external environment (ii)

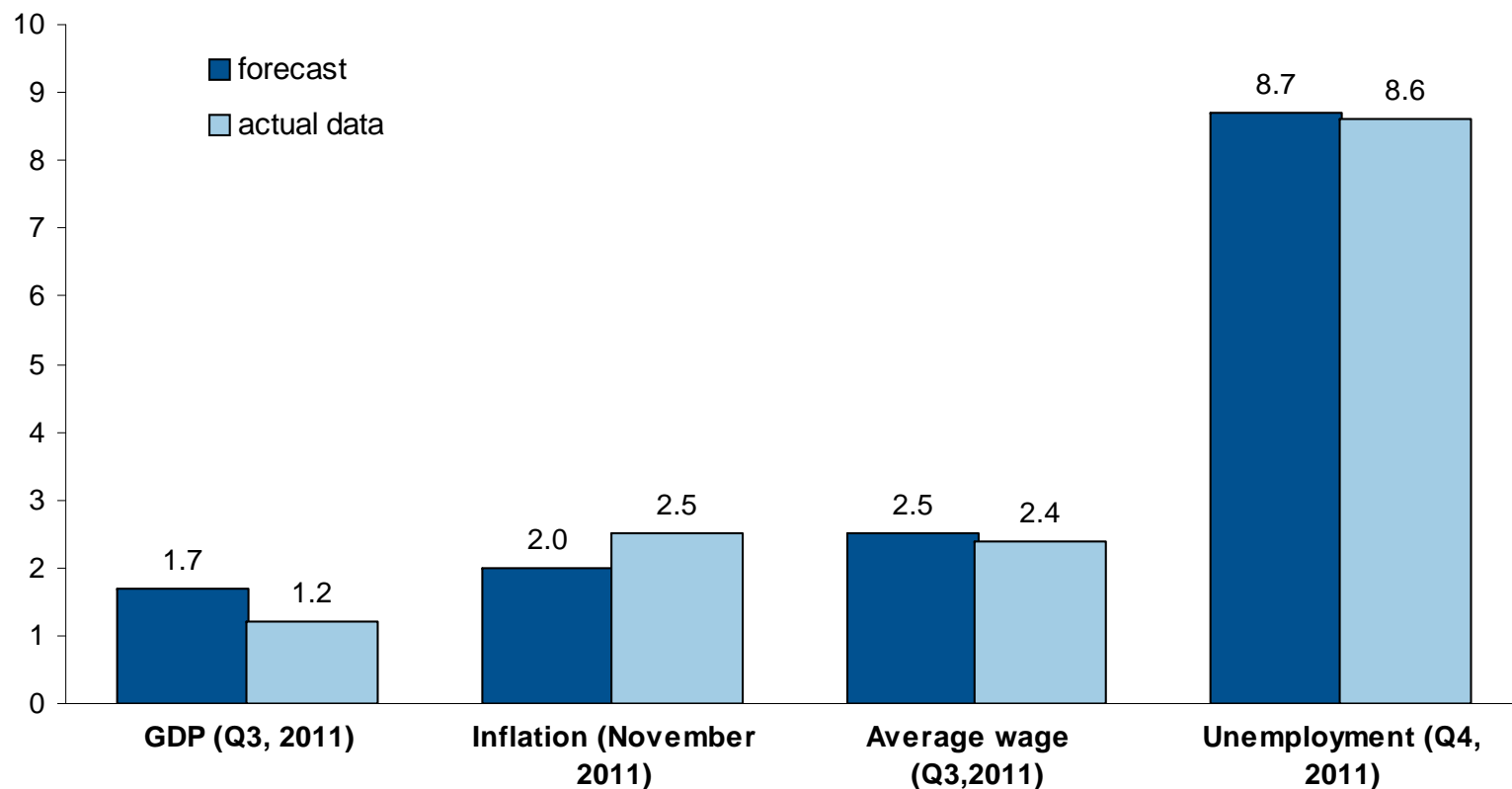
Comparison between the current forecast assumptions and the December outlook based on Consensus Forecasts survey and market expectations



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

- Growth of the Czech economy continued to slow in 2011 Q3 (to 1.2% y-o-y, in q-o-q terms GDP fell by 0.1%, s.a.). In line with the forecast, the y-o-y growth was driven solely by net exports.
- October industrial production (1.7% y-o-y; 0.1% m-o-m, s.a.) indicates slowing economic growth.
- Total employment increased in y-o-y terms in 2011 Q3 (by 0.3%). The seasonally adjusted ILO unemployment rate fell in q-o-q terms (to 6.6%, s.a.). The decline in the seasonally adjusted registered unemployment rate came to a halt in Q4.
- Y-o-y average nominal wage growth in the business sector decelerated slightly in 2011 Q3 (to 2.7%); in the public sector it accelerated to 1.1%.
- Y-o-y growth in industrial producer prices remained broadly flat at relatively high levels (5.6%) in November, reflecting only gradually fading effects of the recent surge in global commodity prices.

Comparison of actual data with the CNB forecast



Note: in percentages, for unemployment comparison of expected outcome with forecast for the respective quarter

Major risks to the forecast

The risks to the forecast are slightly on the upside.

Major risks on the upside:

- weaker koruna exchange rate
- higher observed inflation and its near-term outlook

Major risk on the downside:

- current and future inflationary pressures from the domestic economy

The risks towards lower GDP and weaker koruna exchange rate (as in the alternative scenario) are intensifying.



Thank you for your attention

Minutes of the today's meeting and the Graph of Risks to the Inflation Projection (GRIP) will be released on 6 January 2012 at

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