



Press conference of the CNB Bank Board

1st Situation Report on Economic and Monetary Developments

2 February 2012

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%.
- The six members present voted in favour of this decision. Vice-Governor Mojmír Hampl did not attend the meeting and did not take part in the vote.

Reasons for the decision

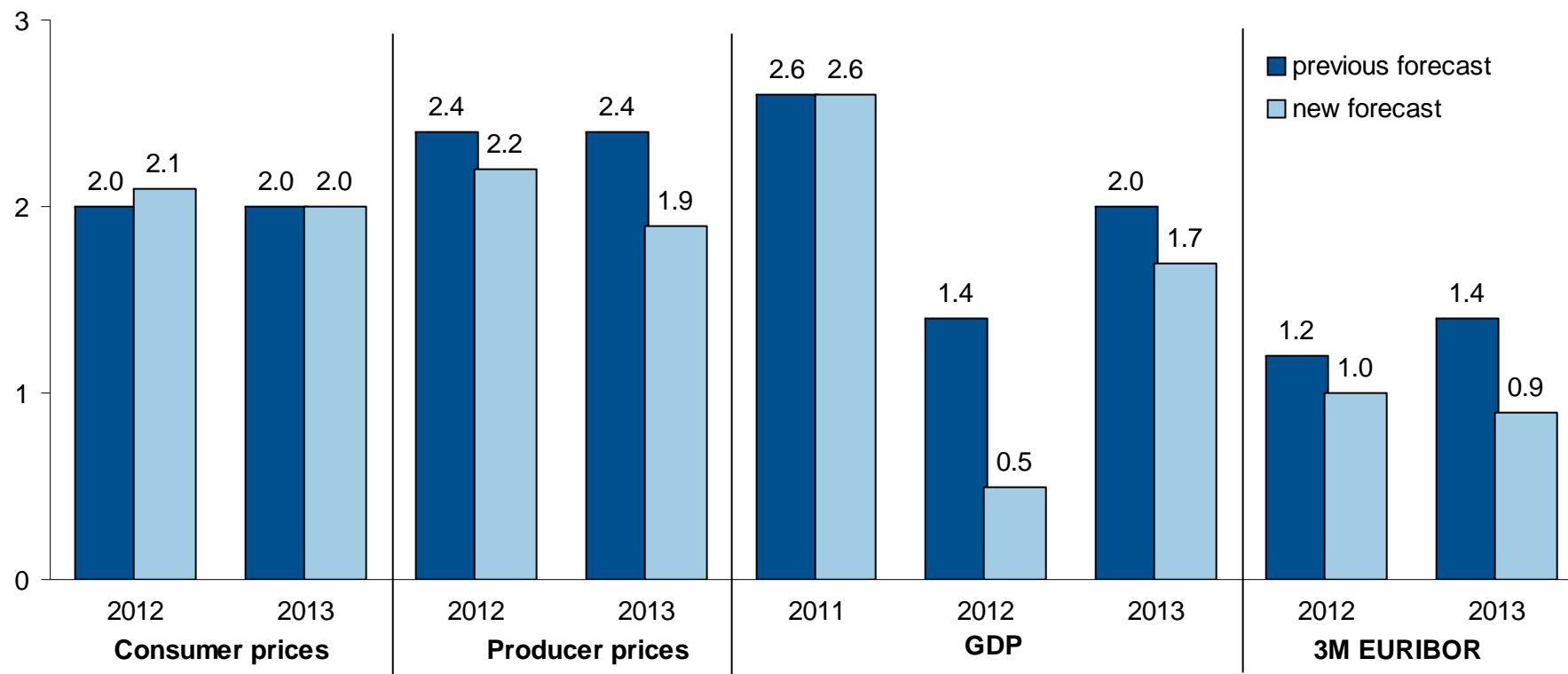
- Monetary-policy relevant inflation will be close to the target over the entire forecast horizon. Headline inflation will rise temporarily to just above 3% in 2012 owing to a VAT increase, but will fall back below the target at the start of 2013.
- Consistent with the forecast is stability of market interest rates in the near future and a modest decline thereafter.
- The risks to the forecast are balanced.

The message of the forecast baseline scenario

- Domestic factors (weak domestic demand and moderate wage growth) are currently curbing inflation. Food prices and the gradual pass-through of the depreciated exchange rate to prices are the main sources of inflation.
- Headline inflation will rise temporarily to just above 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 close to the target over the entire forecast horizon.
- The Czech economy will stagnate this year as a result of marked slowdown in external demand and continuing domestic fiscal consolidation. Next year, in connection with an external demand recovery, GDP growth will reach 1.9%.
- In the forecast, the nominal exchange rate is gradually appreciating from its currently weakened level.
- Consistent with the forecast is stability of market interest rates in the near future and a modest decline thereafter.

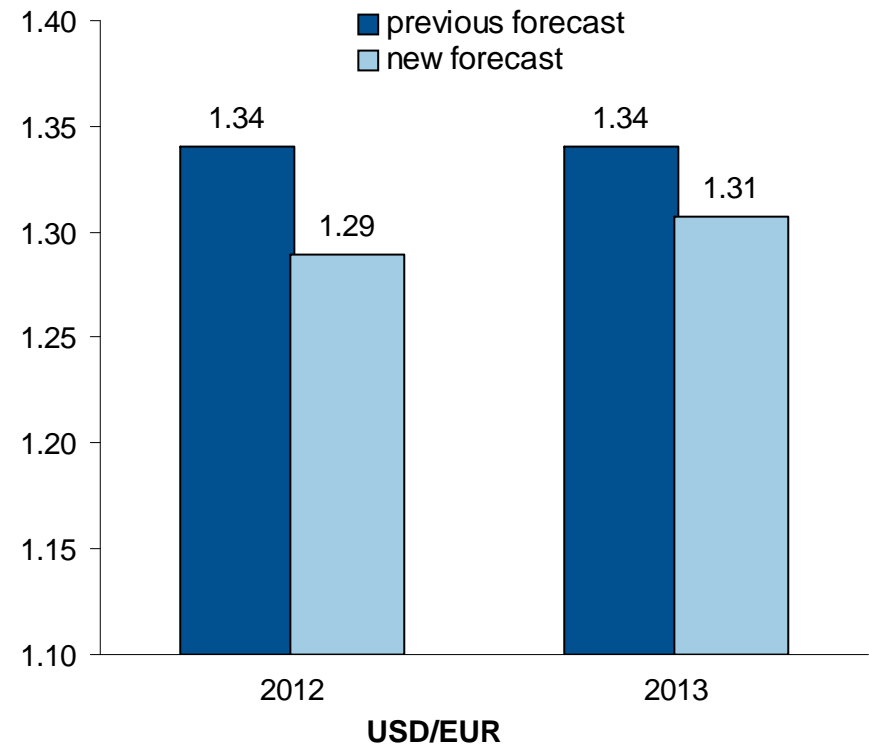
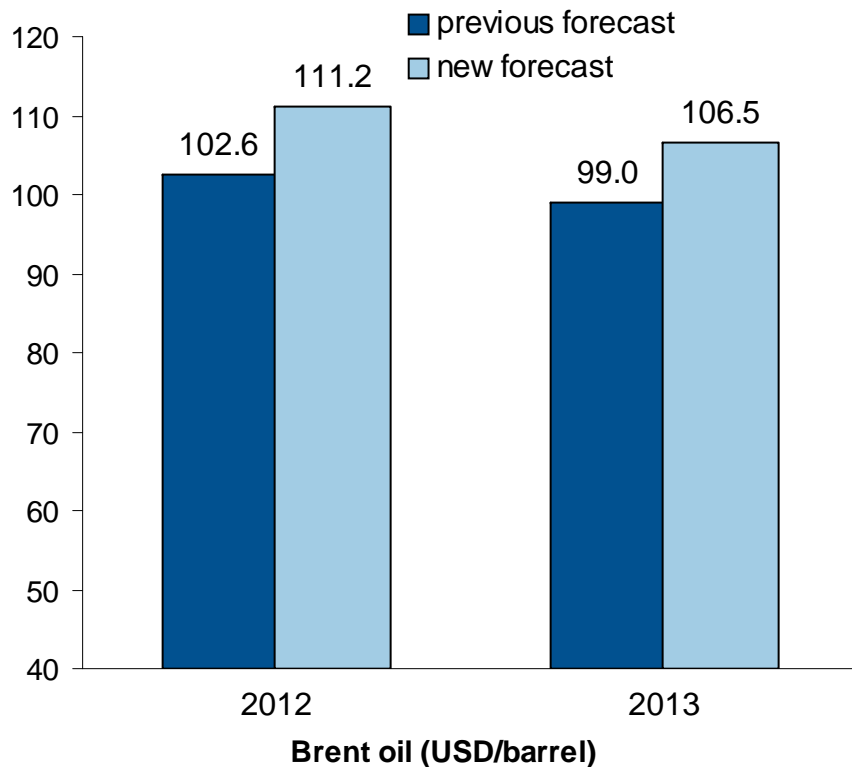
The external environment (i)

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

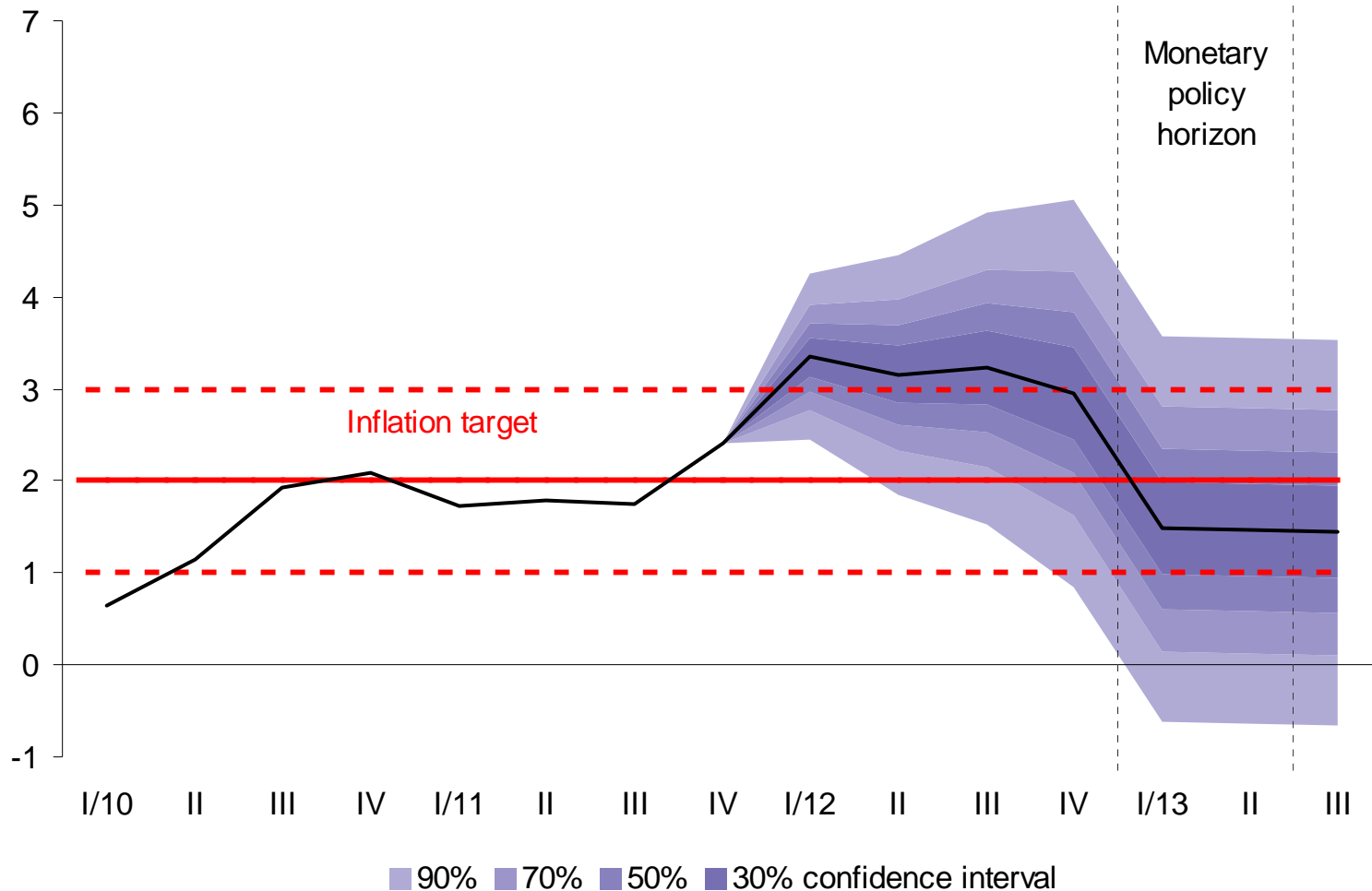


The external environment (ii)

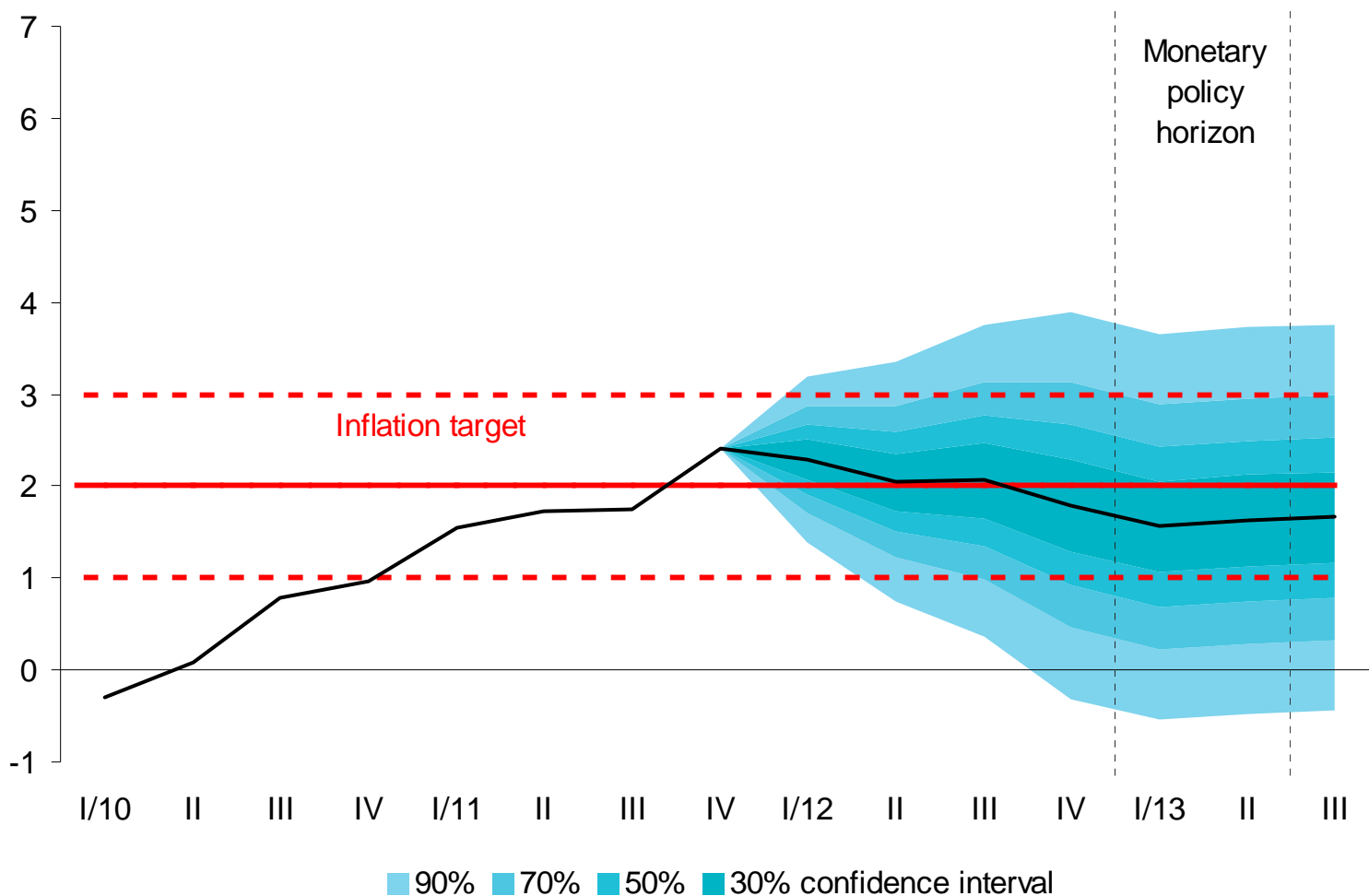
Comparison between the assumptions of the new and previous forecasts



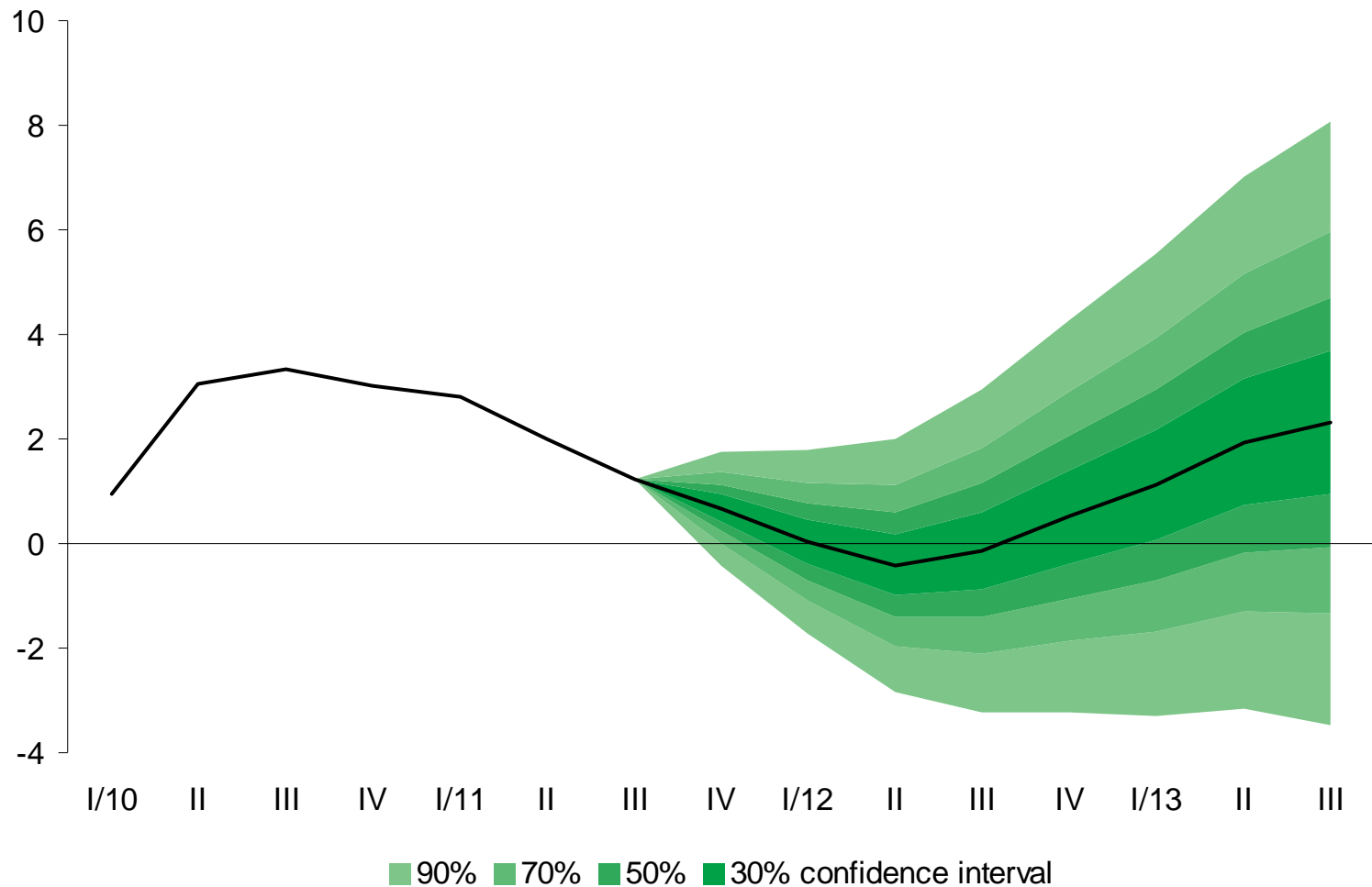
The forecast for headline inflation



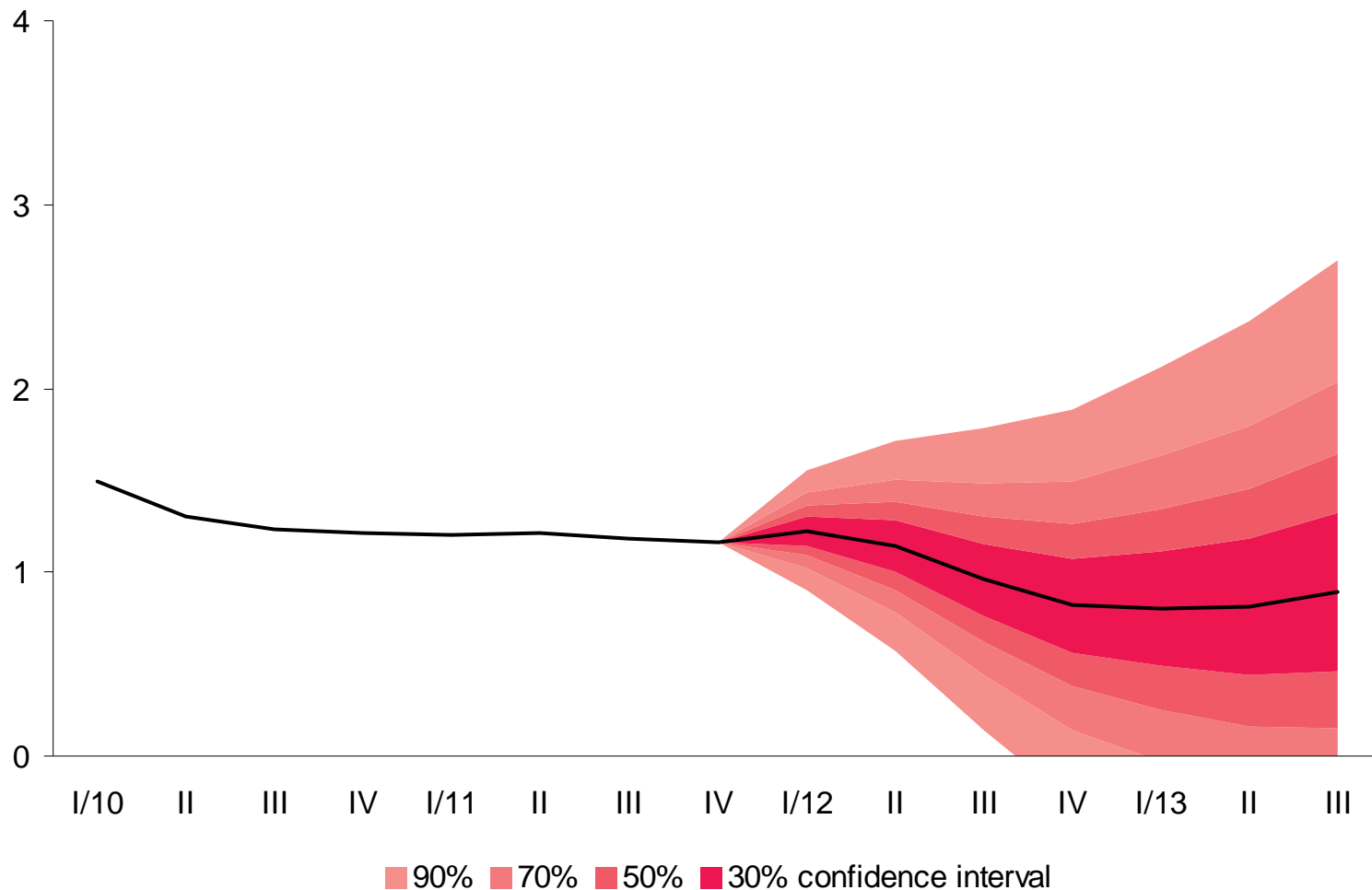
The forecast for monetary-policy relevant inflation



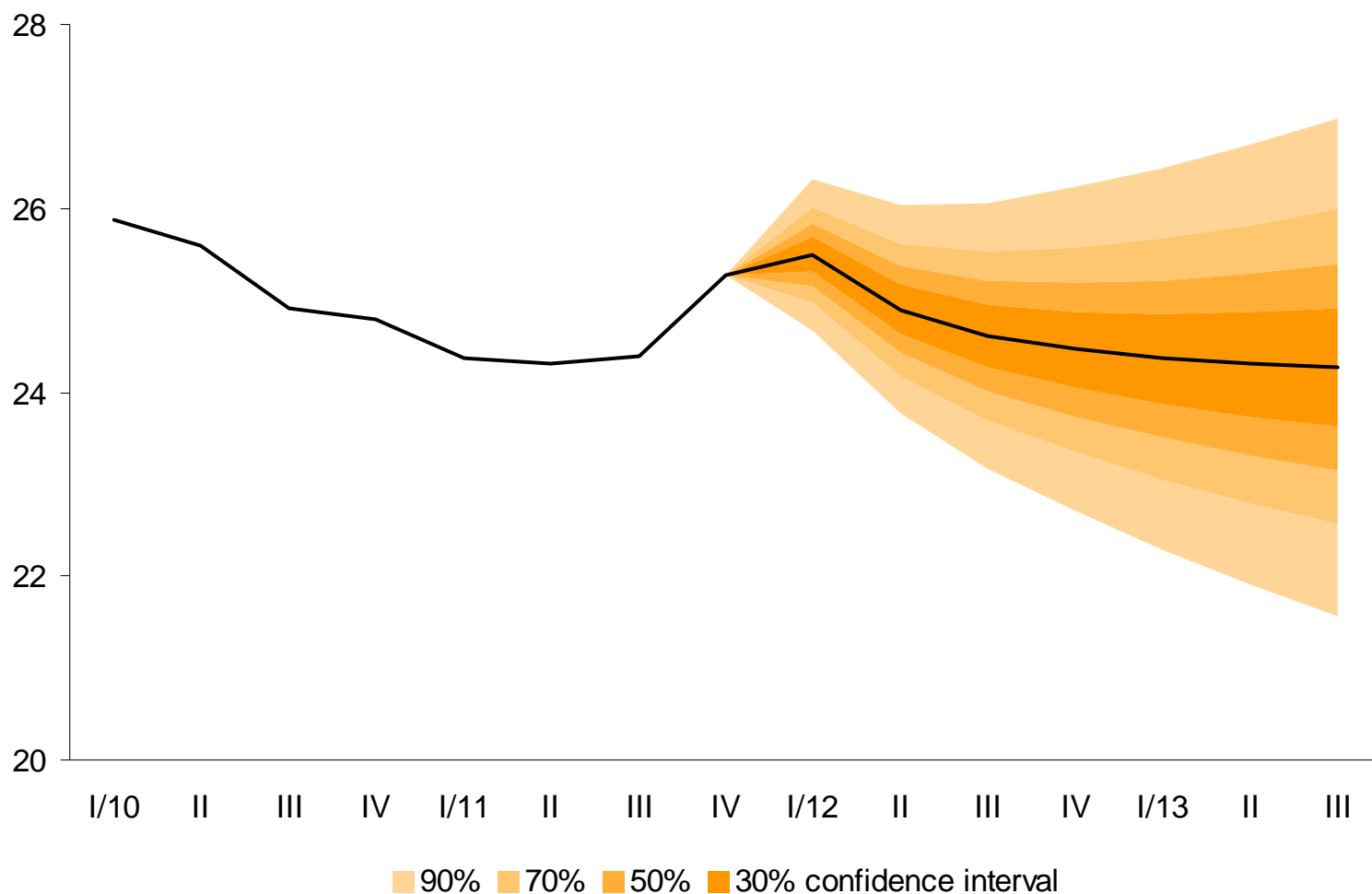
The forecast for GDP



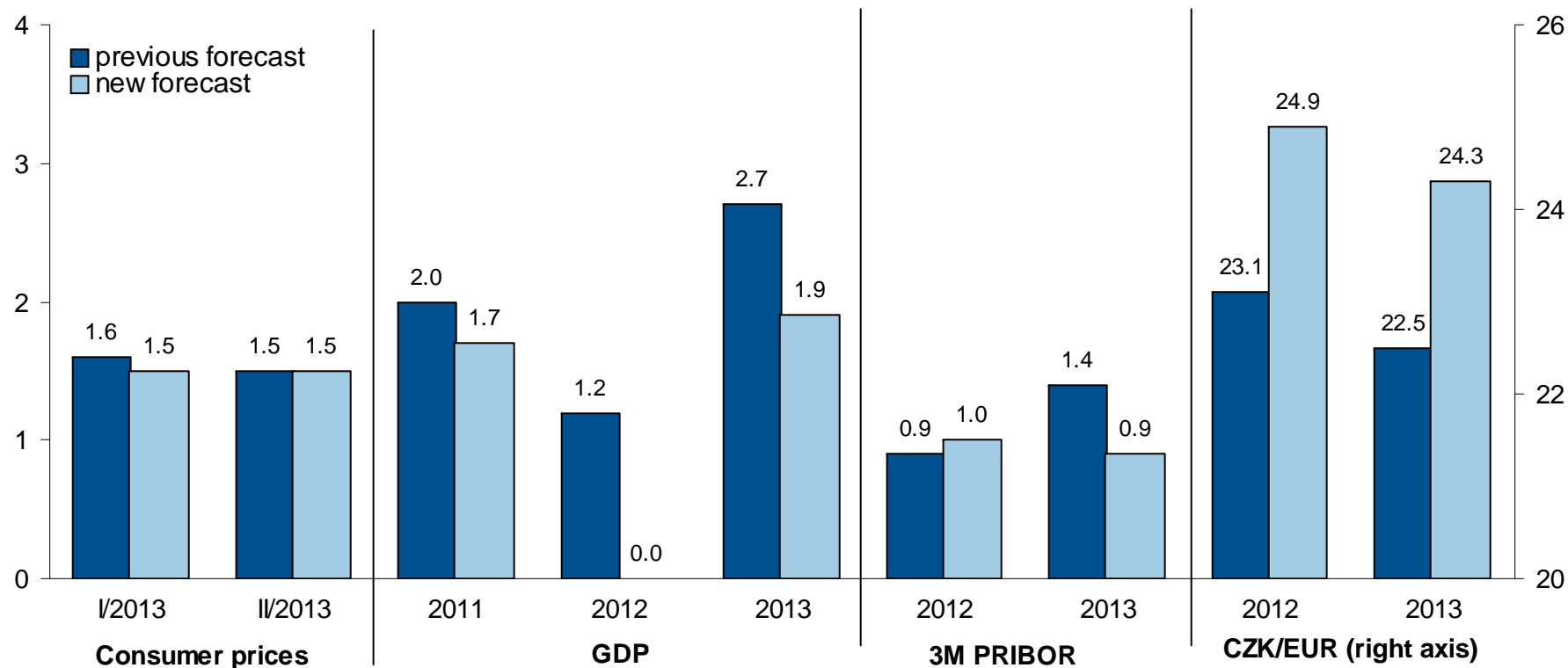
The forecast for interest rates (3M PRIBOR)



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 risks:

- additional fiscal consolidation measures

Upside risks:

- faster growth in food prices

Two-sided risks:

- economic developments abroad
- 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 I/2012,
to be published 10 February 2012.