Press conference of the CNB Bank Board

2nd Situation Report on Economic and Monetary Developments

29 March 2012

CZECH NATIONAL BANK

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

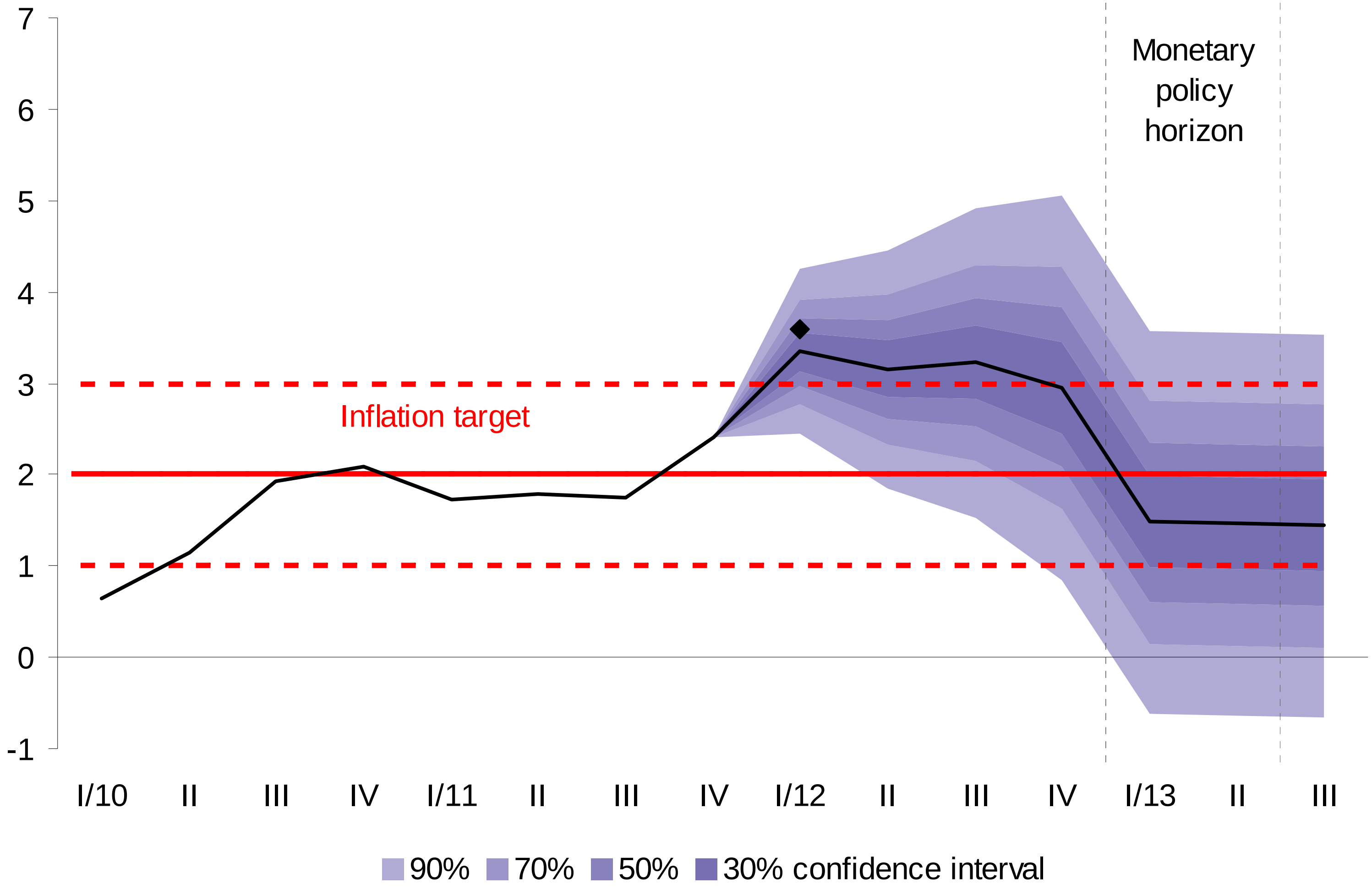
- At the close of the meeting the Board decided by a majority vote to leave the two-week repo rate unchanged at 0.75%.

- Six members voted in favour of this decision, and one member voted for increasing rates by 0.25 percentage point.

Reasons for the decision

- According to the current forecast, monetary-policy relevant inflation will be close to the target over the entire forecast horizon. In line with the forecast, 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 inflation forecast and expected outcome in 2012 Q1



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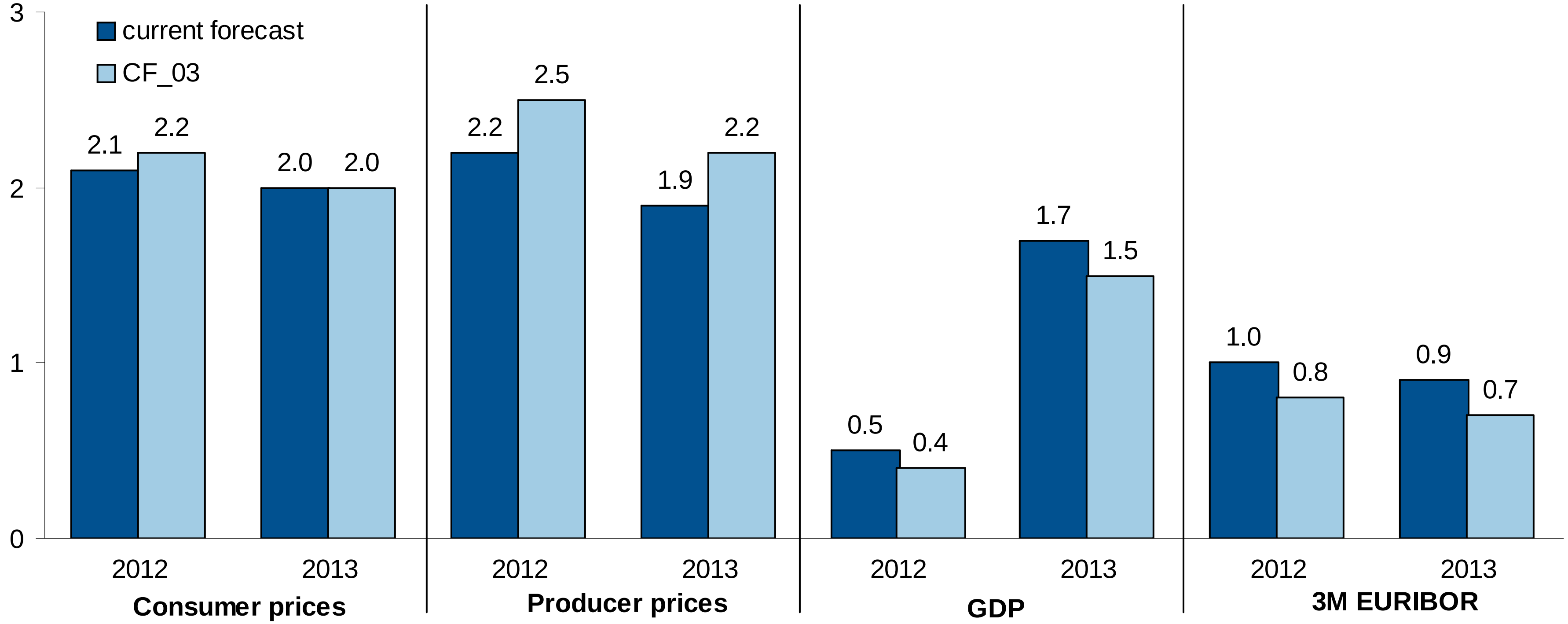
The external environment (i)

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



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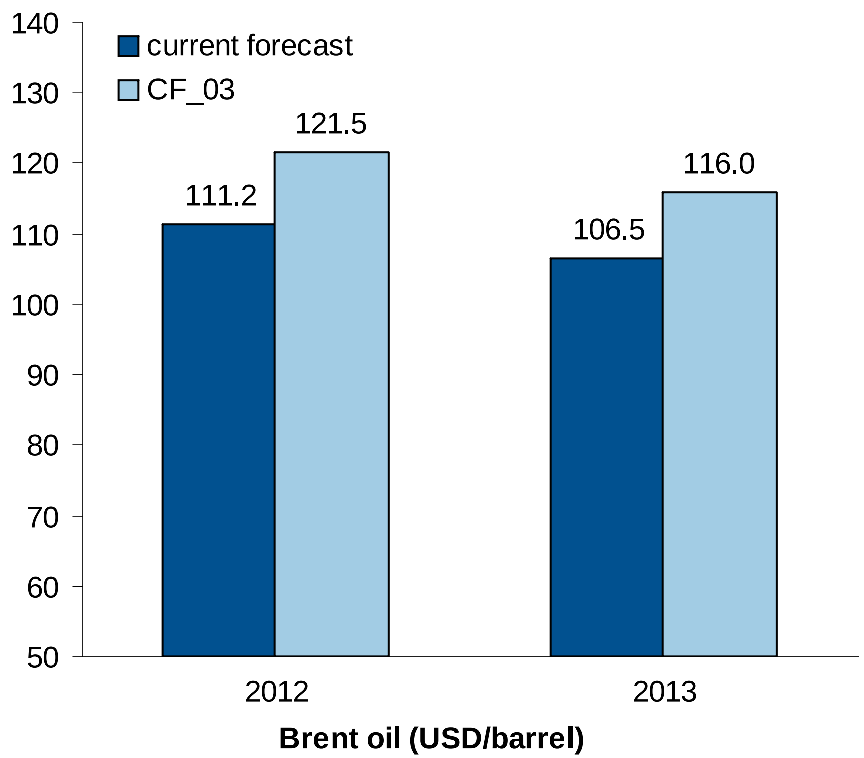
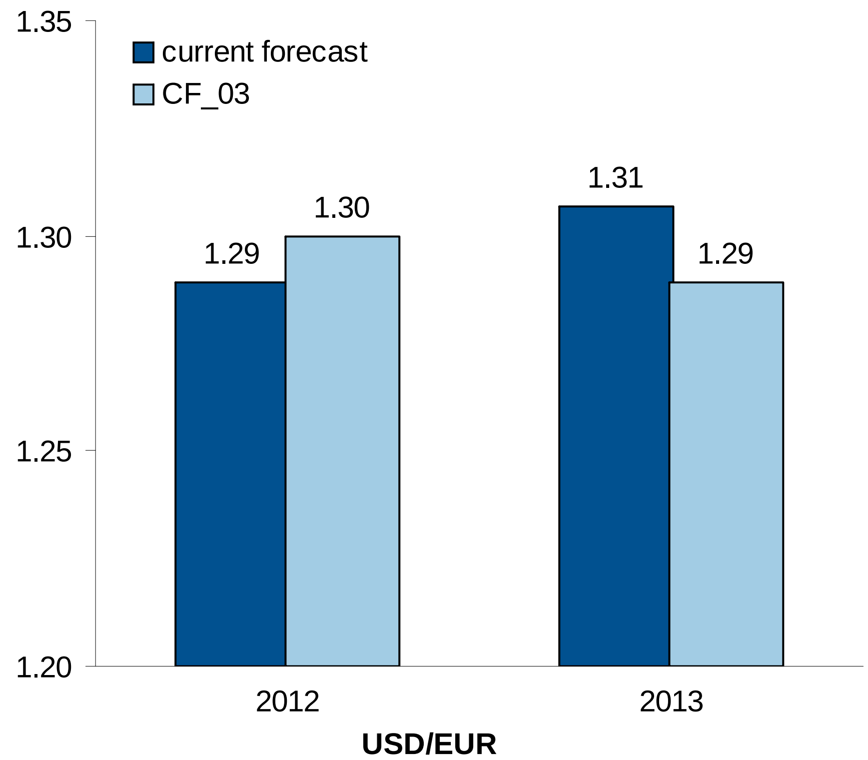
The external environment (ii)

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





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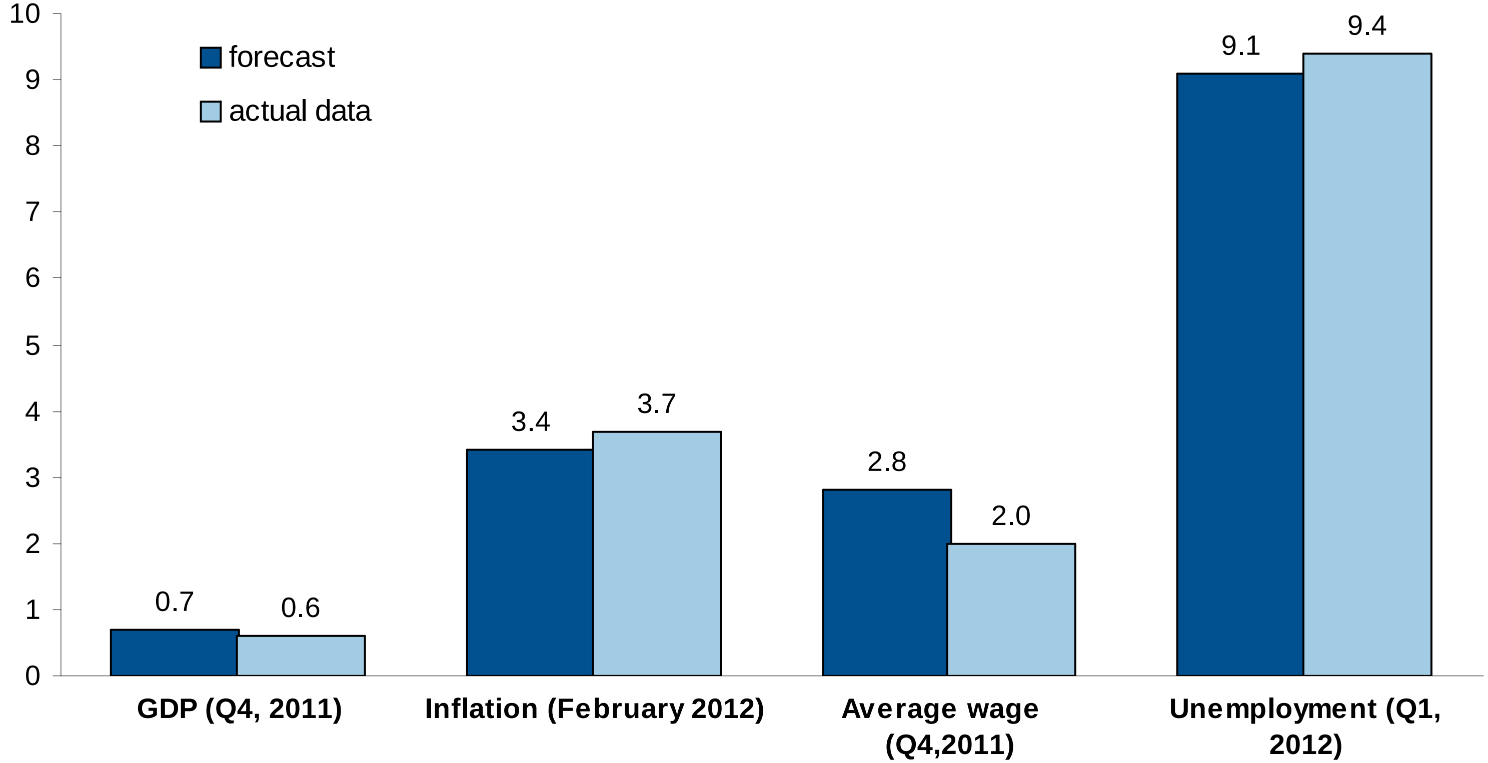
Developments in the domestic economy since the Board's previous monetary meeting

- Growth of the Czech economy continued to slow in 2011 Q4 (to 0.6% y-o-y, a decline of 0.1% q-o-q, s.a.). In line with the forecast, the y-o-y growth was driven solely by net exports. For the whole year GDP grew by 1.7%.
- The January industrial production figures (annual growth of 0.6%, a m-o-m decline of 0.6 %, s.a.) indicate continuing stagnation of economic activity.
- Total employment dropped in y-o-y terms in 2011 Q4 (by 0.1%). The ILO unemployment rate slightly declined in q-o-q terms (to 6.6%, s.a.). The seasonally adjusted registered unemployment rate increased negligibly in January and February 2012.
- Y-o-y average nominal wage growth in the business sector decelerated in 2011 Q4 (to 2.1%), while it accelerated in the public sector (to 1.6%).
- Y-o-y growth in industrial producer prices slowed in February, whereas agricultural producer prices declined y-o-y.

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 balanced

Major risk on the upside:

- higher observed inflation and its short-term outlook due mainly to food and fuel prices

Major risks on the downside:

- stronger koruna exchange rate
- lower foreign interest rate outlook

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 April 2012 at

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