



Press conference of the CNB Bank Board

4th Situation Report on Economic and Monetary Developments

28 June 2012



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

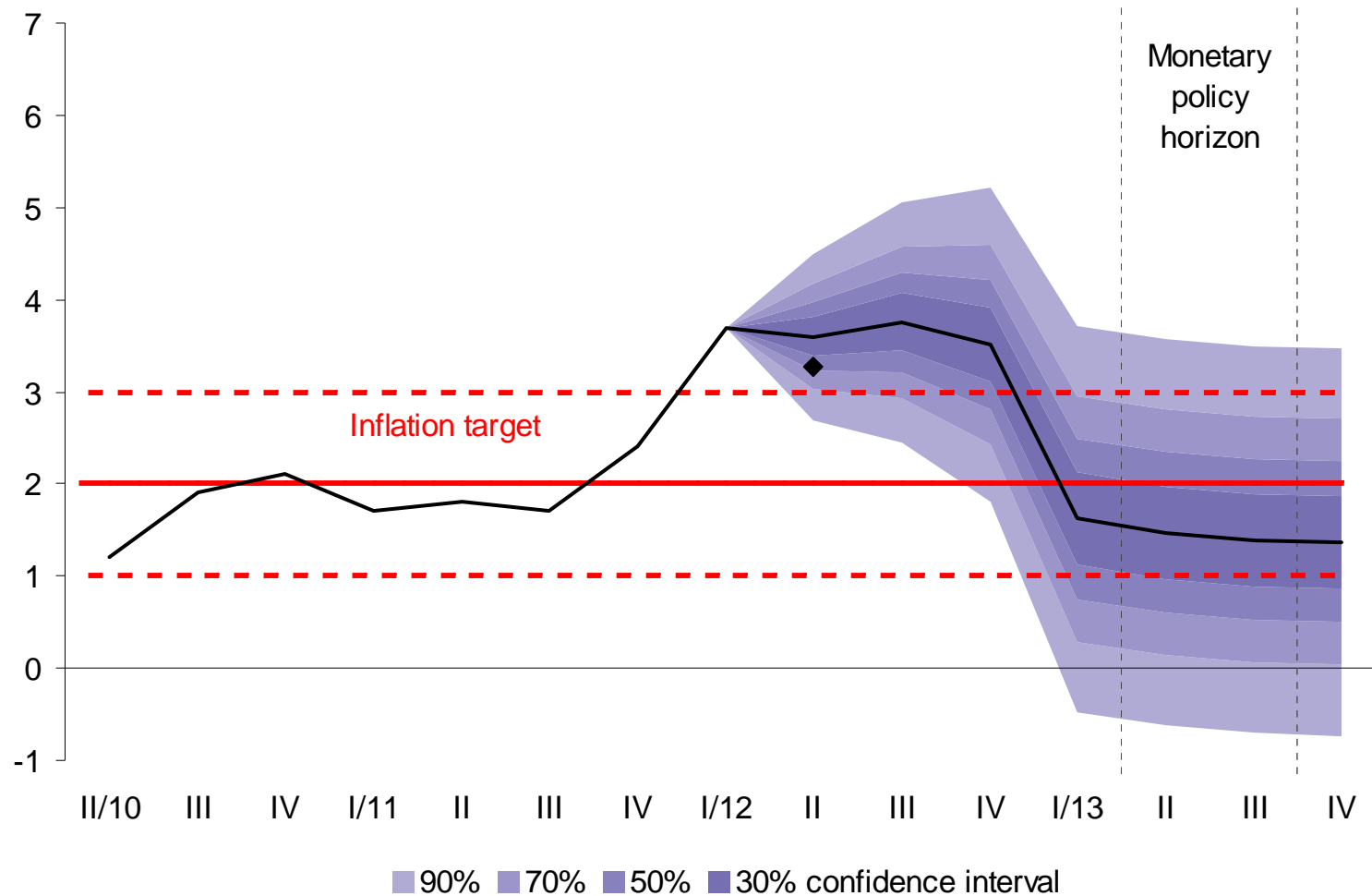
- At the close of the meeting the Board decided by a majority vote to lower the CNB two-week repo rate by 0.25 percentage point to 0.50%, effective 29 June 2012. At the same time it decided to lower the Lombard rate by the same amount to 1.50%. The discount rate remains unchanged at 0.25%.
- Four members voted in favour of this decision, and three members voted for leaving interest rates unchanged.



Reasons for the decision

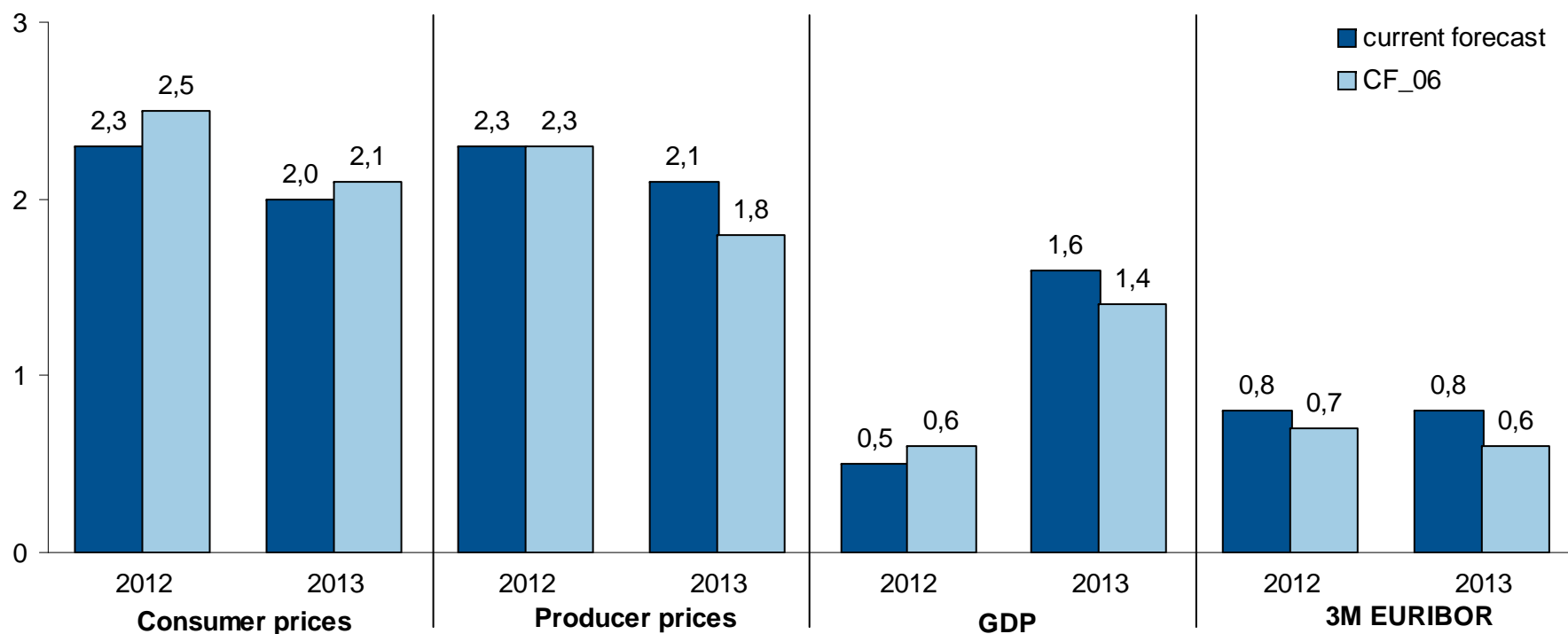
- Headline inflation will be close to its current elevated level as a result of a VAT increase. Monetary-policy relevant inflation will be significantly lower than headline inflation throughout 2012 owing to the tax change. Both headline and monetary-policy relevant inflation will fall slightly below the target in 2013.
- Consistent with the forecast is a decline in market interest rates in the remainder of this year followed by a rise in rates as from 2013 H2.
- The risks to the forecast are for higher headline inflation and lower monetary-policy relevant inflation, amid a lower outlook for interest rates in line with the fiscal alternative scenario.

The inflation forecast and expected outcome in 2012 Q2



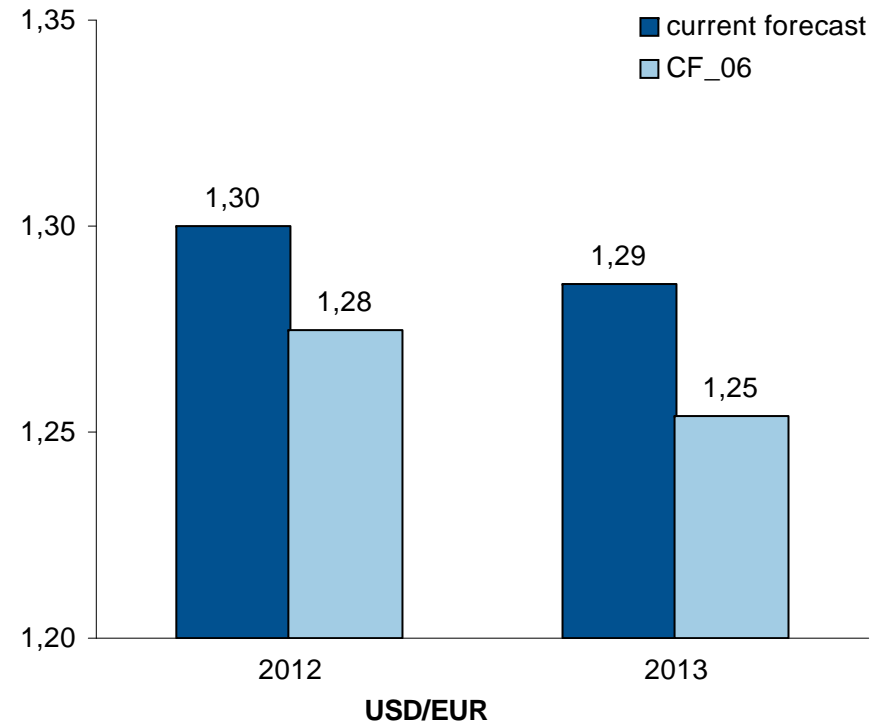
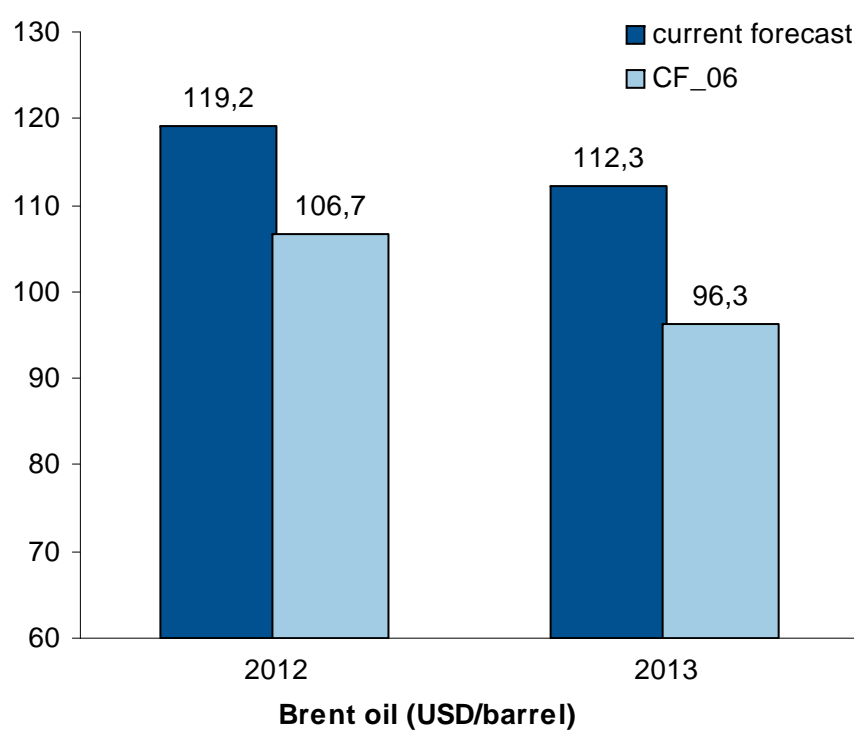
The external environment (i)


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

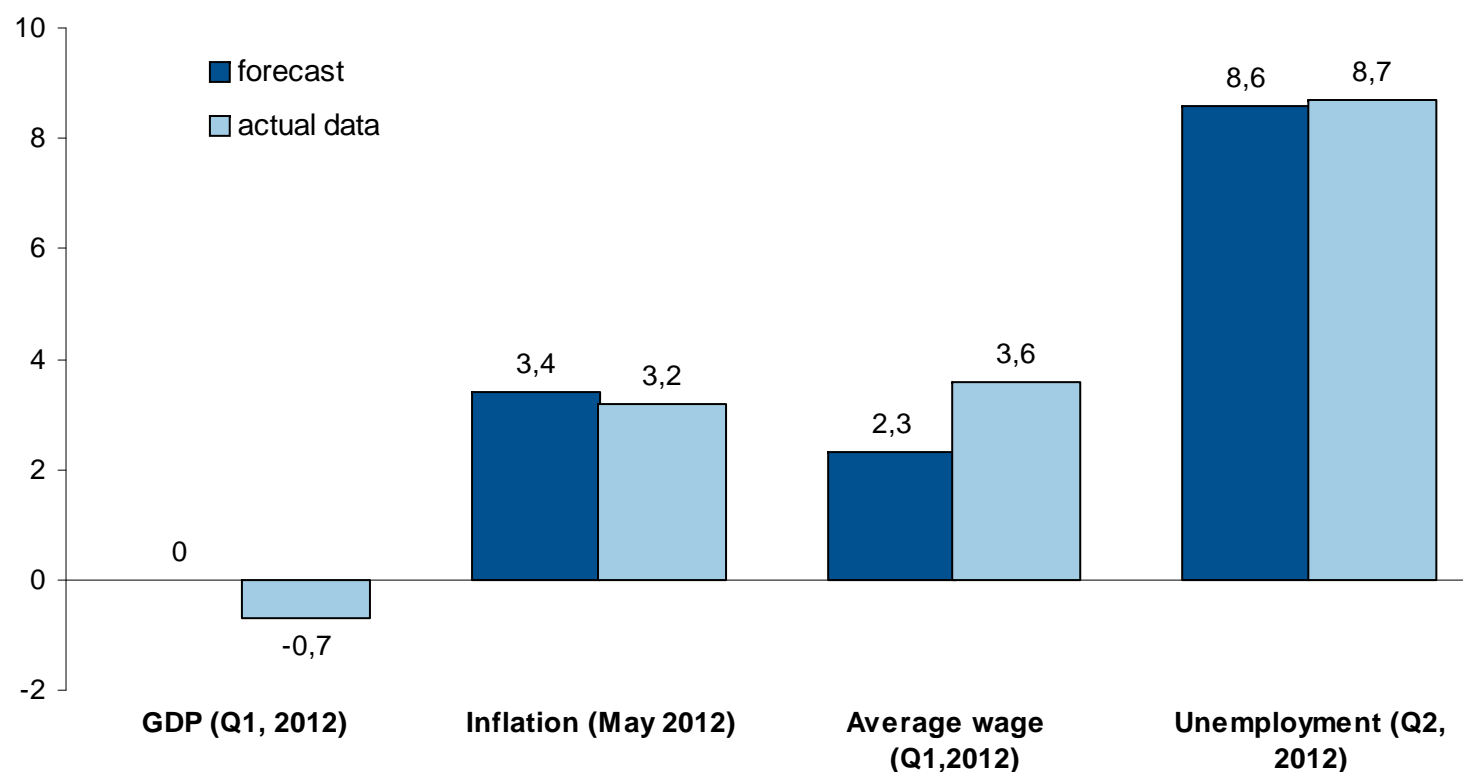




Developments in the domestic economy since the Board's previous monetary meeting

- The Czech economy declined noticeably both in y-o-y and q-o-q terms in 2012 Q1, s.a., with net exports remaining the only significant contributor to economic activity.
- Developments in industrial production, construction output and retail sales in April indicate persistent weakness in economic activity.
- The labour market reacts to the onset of the economic slump with the usual time lag, so its recovery has stopped:
 - Overall employment saw only negligible y-o-y growth in 2012 Q1, the s.a. general unemployment rate moderately increased in q-o-q terms, whereas the s.a. registered unemployment rate has been broadly flat in 2012 Q2 so far.
 - Due mainly to extraordinary factors, annual growth in the average nominal wage markedly accelerated in 2012 Q1.
- The impact of external cost-push pressures on domestic inflation is fading.

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 skewed towards the alternative scenario.

Major risks on the downside:

- Ongoing fiscal consolidation (downside risk for monetary-policy relevant inflation)
- Developments abroad (lower outlook for interest rates and oil price)
- Weaker domestic economic activity
- Domestic price developments and their lower near-term outlook

Major risk on the upside:

- Weaker koruna exchange rate



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 9 July 2012 at

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