



Press conference of the CNB Bank Board

5th Situation Report on Economic and Monetary Developments

2 August 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 leave the two-week repo rate unchanged at 0.50%.
- Four members voted in favour of this decision, and two members voted for lowering rates by 0.25 percentage point.

Reasons for the decision

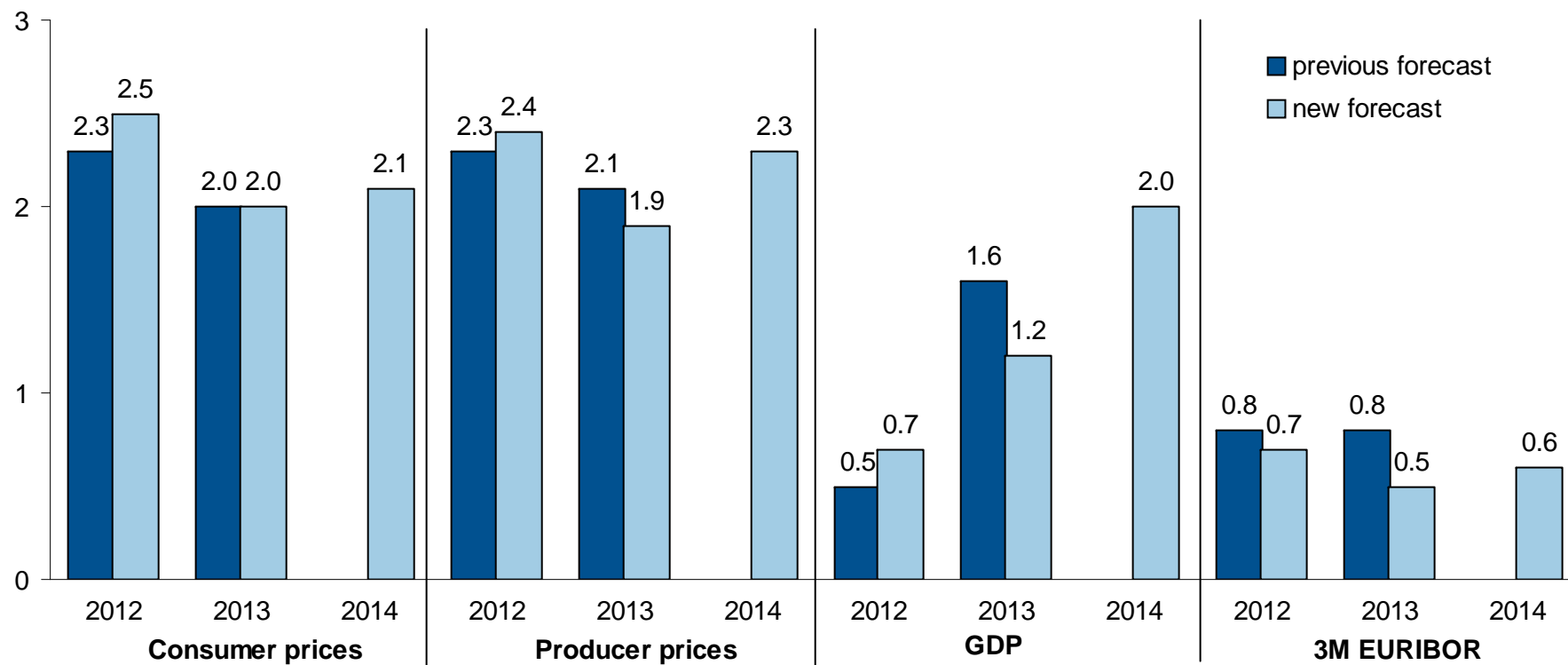
- At the monetary policy horizon, headline inflation will be slightly above the CNB's inflation target due to tax changes, monetary-policy relevant inflation will be in the lower half of the tolerance band.
- Consistent with the forecast is a decline in market interest rates in the next few quarters, followed by a rise in rates in 2014.
- The risks to the forecast are balanced.

The message of the forecast baseline scenario

- Tax changes, commodity prices and exchange rate depreciation are the sources of observed inflation. By contrast, the domestic economy is dampening inflation.
- Headline inflation will fall to the CNB's target in late 2012/early 2013, whereas monetary-policy relevant inflation will decline below the target.
- The Czech economy will fall by 0.9% this year as a result of a marked slowdown in external demand and subdued domestic demand against the background of fiscal consolidation. In 2013, GDP growth will reach 0.8%, as external demand will gradually recover but fiscal policy will be restrictive.
- The nominal exchange rate against the euro is very slowly appreciating.
- Consistent with the forecast is a decline in market interest rates in the next few quarters, followed by a rise in rates in 2014.

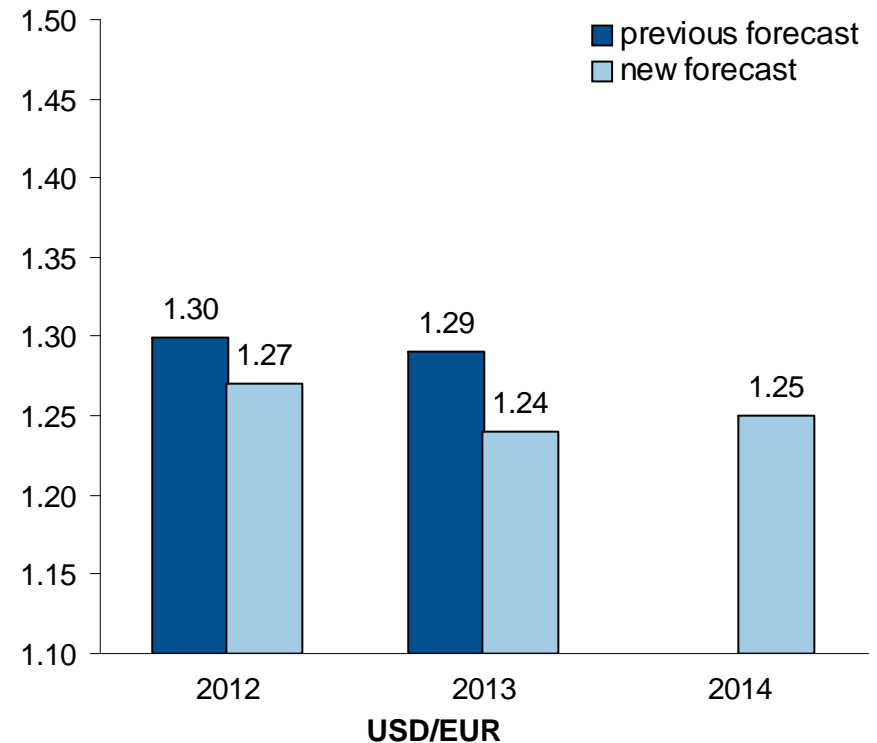
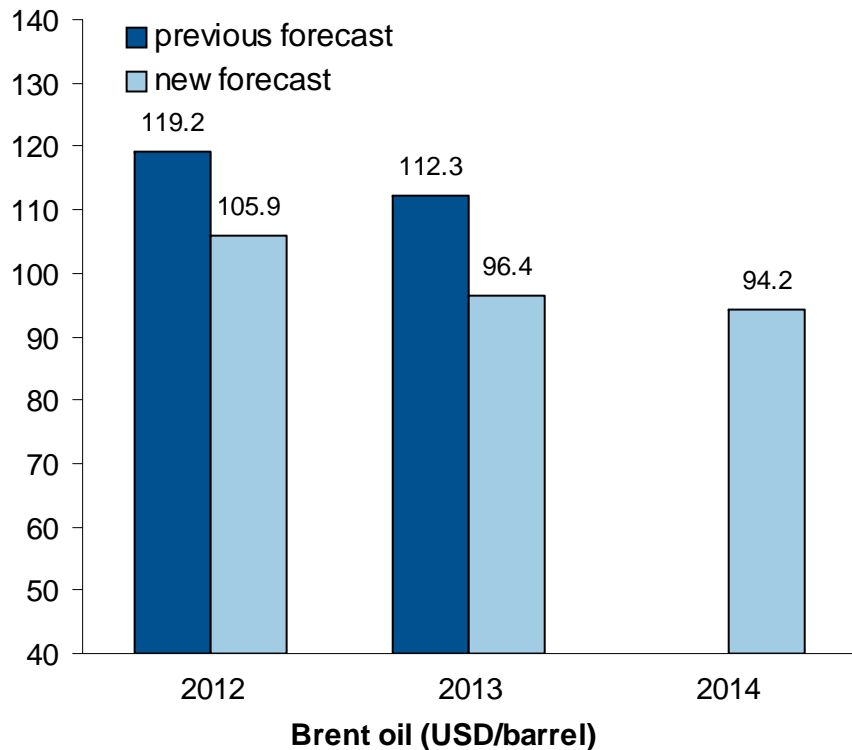
The external environment (i)

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

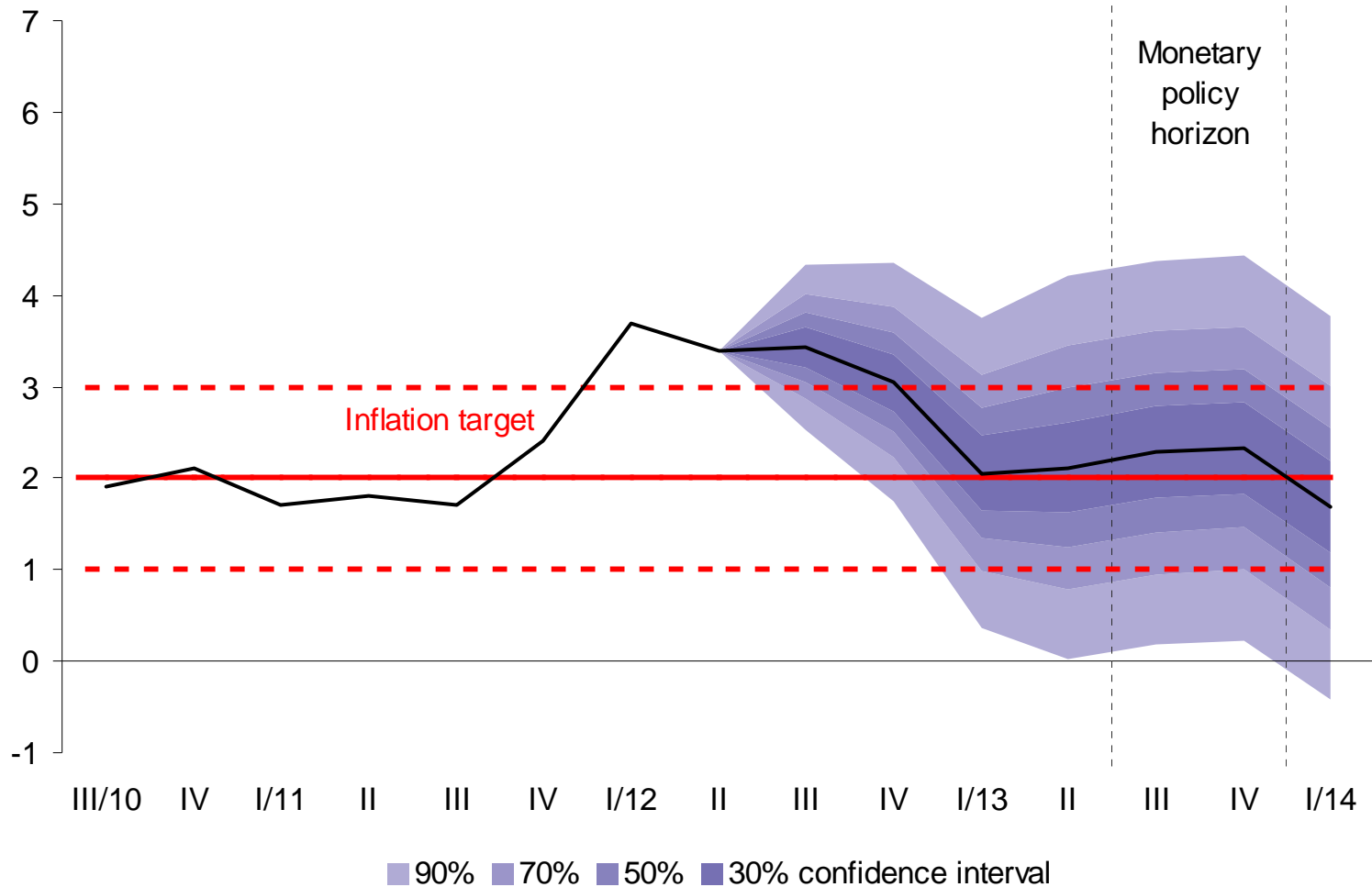


The external environment (ii)

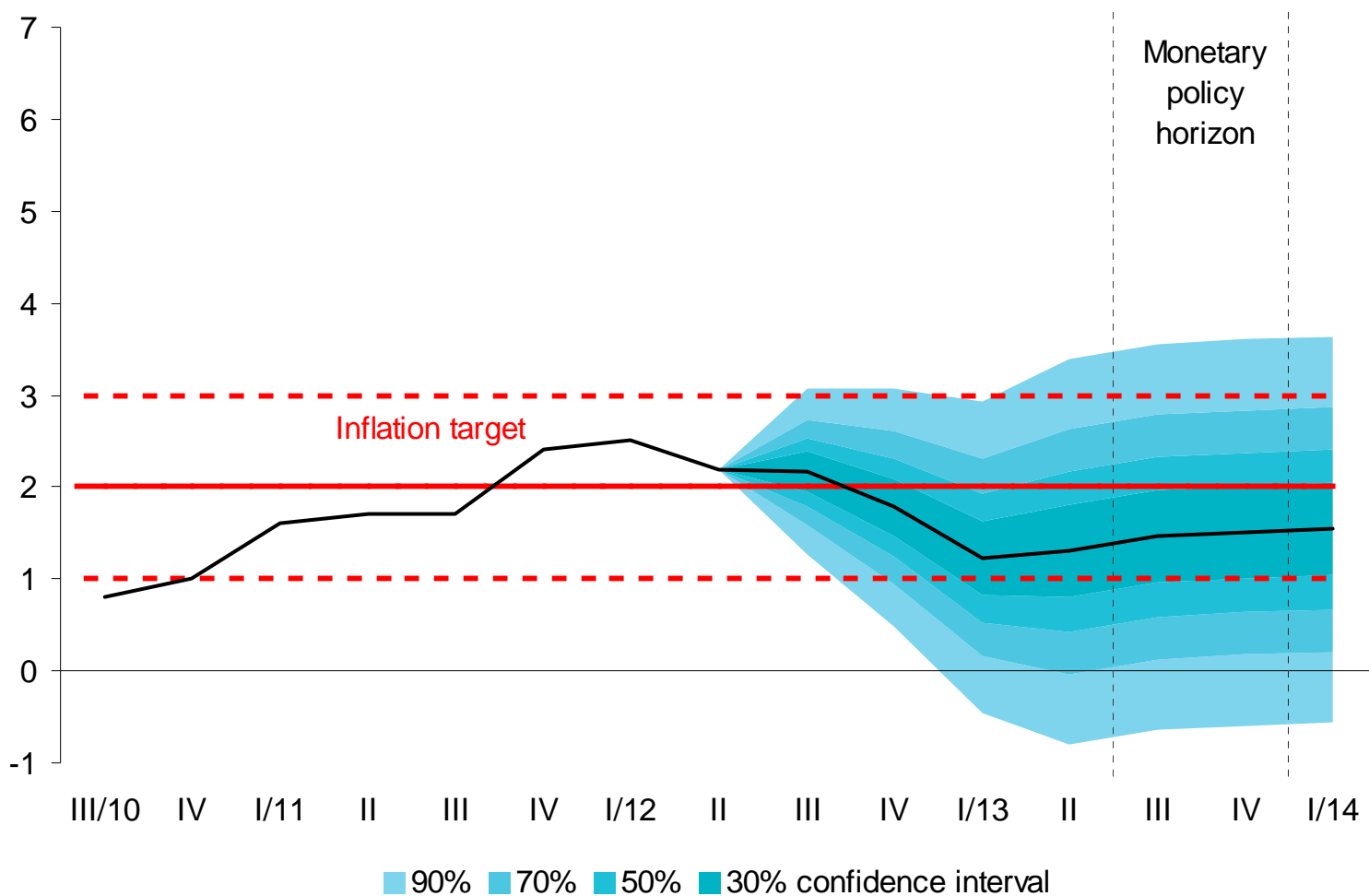
Comparison between the assumptions of the new and previous forecasts



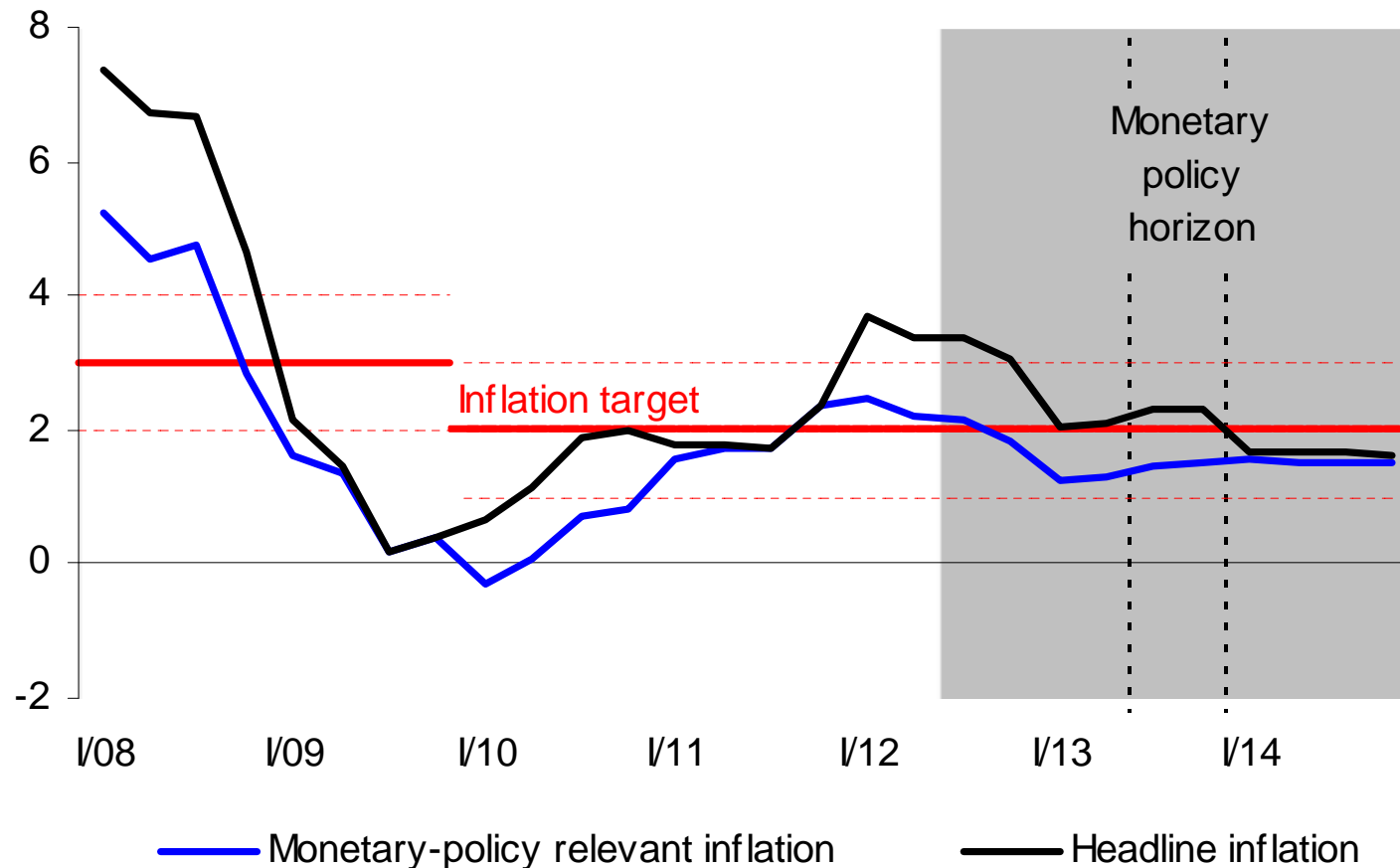
The forecast for headline inflation



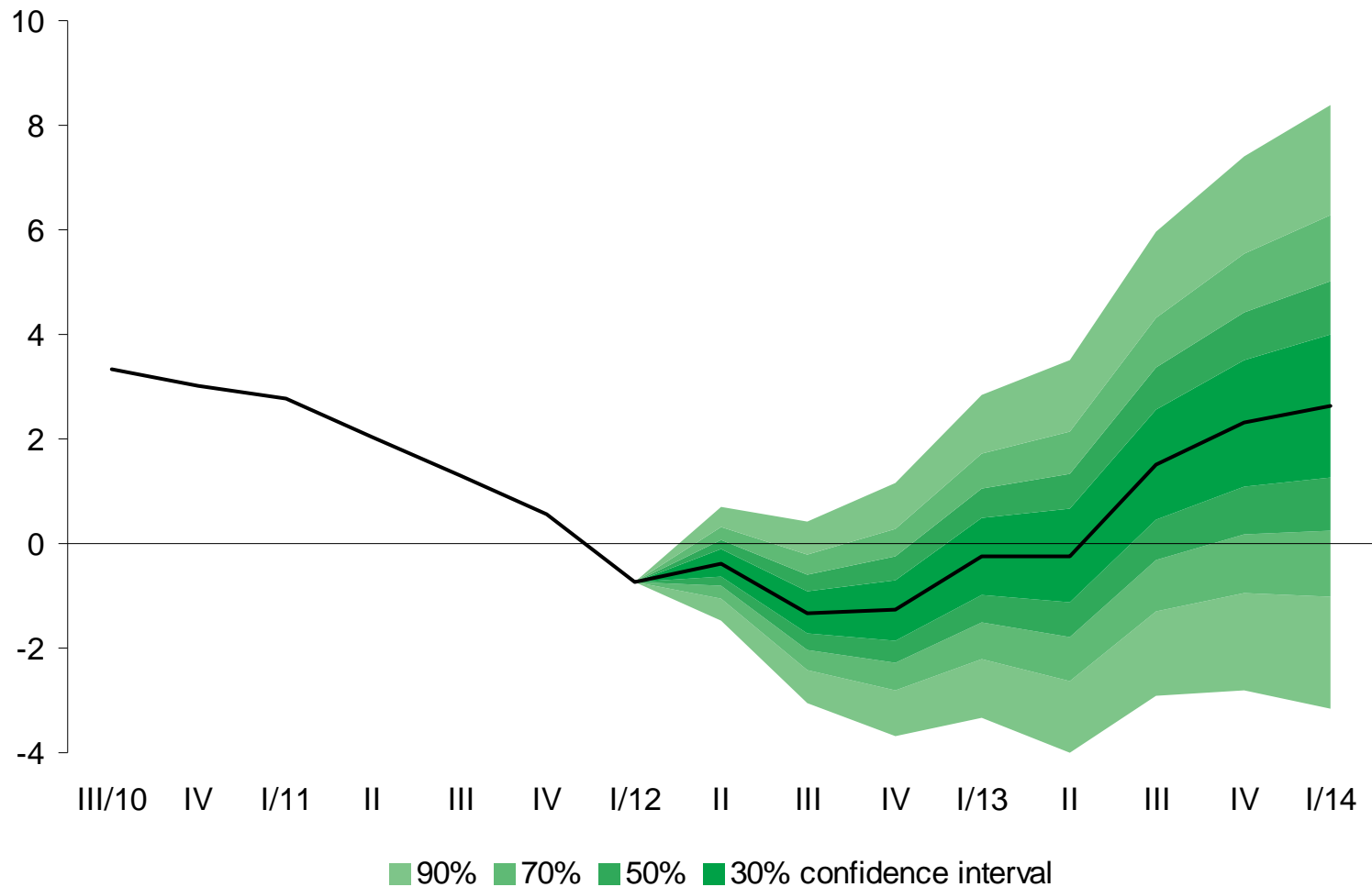
The forecast for monetary-policy relevant inflation



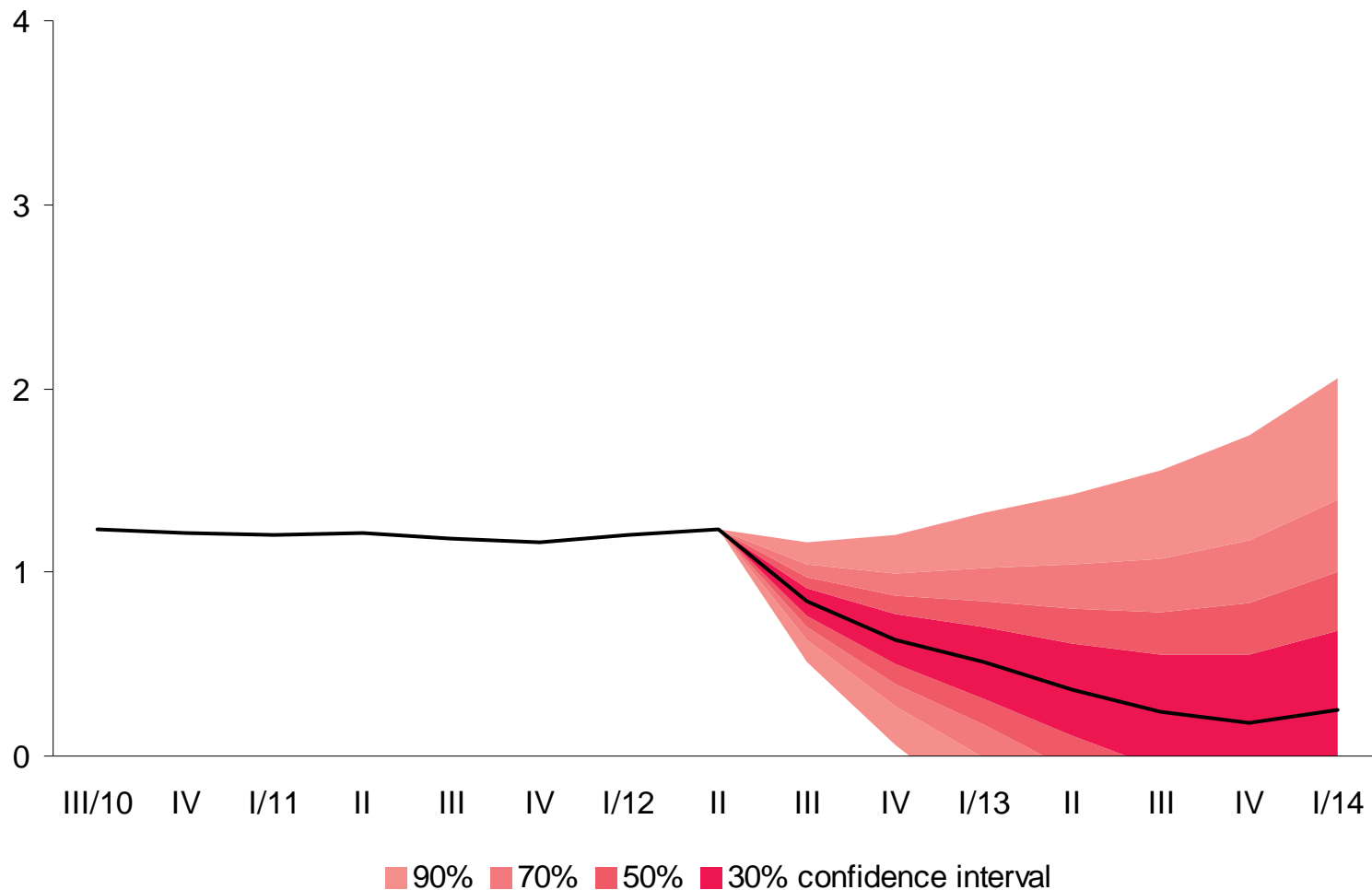
Headline and monetary-policy relevant inflation



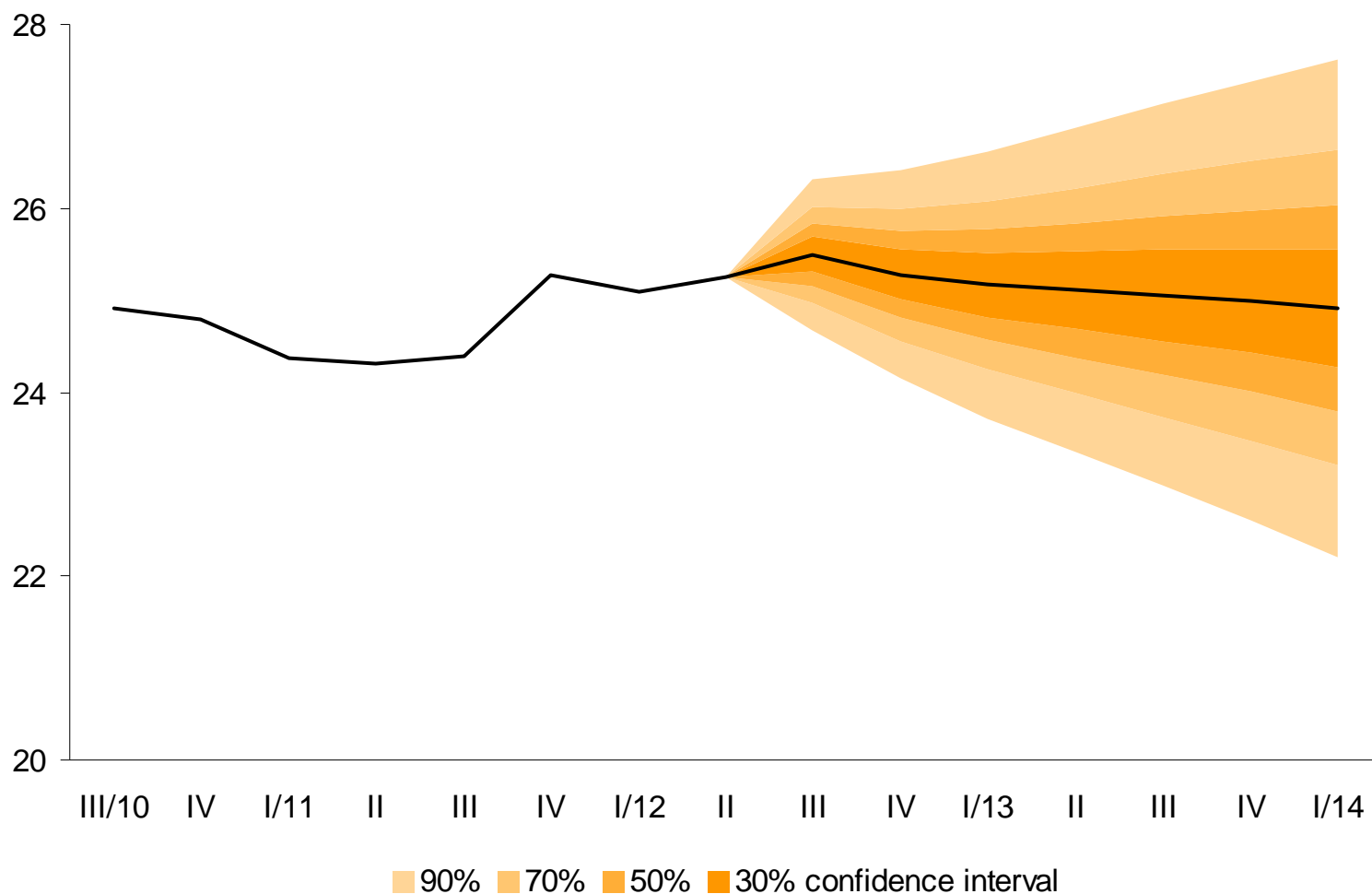
The forecast for GDP



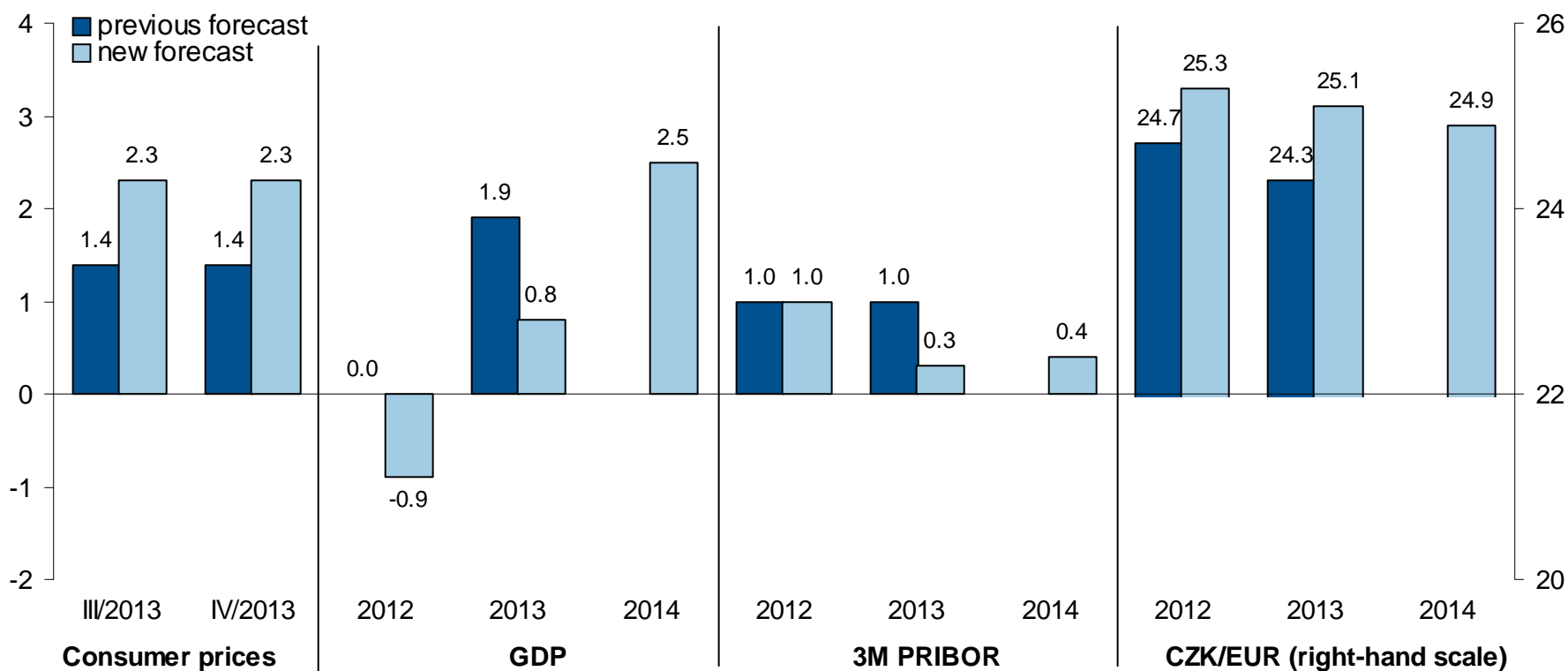
The forecast for interest rates (3M PRIBOR)



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 risk:

- adoption of additional fiscal measures in 2014 (beyond those already incorporated in the forecast)

Upside risks:

- higher world prices of energy and agricultural commodities



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 III/2012,
to be published 10 August 2012.