



# Press conference of the CNB Bank Board

## 6th Situation Report on Economic and Monetary Developments

27 September 2012



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

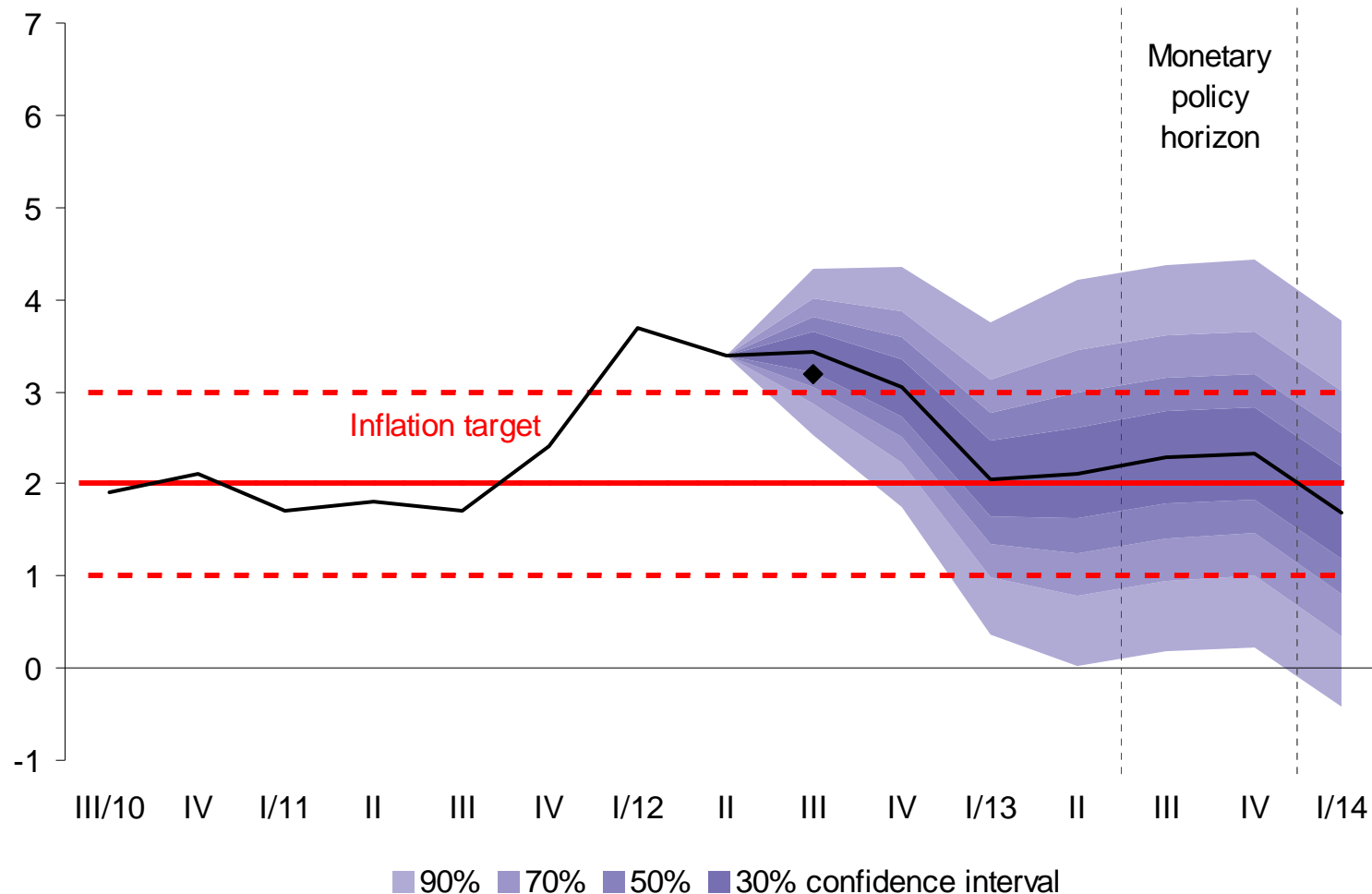
- At the close of the meeting the Board decided to lower the two-week repo rate by 0.25 percentage point to 0.25%.
- At the same time it decided to cut the Lombard rate by 0.75 percentage point to 0.75% and reduce the discount rate by 0.15 percentage point to 0.10%.
- The new interest rate levels take effect on 1 October 2012.
- Five members voted in favour of this decision, and two members voted for leaving interest rates unchanged.



# Reasons for the decision

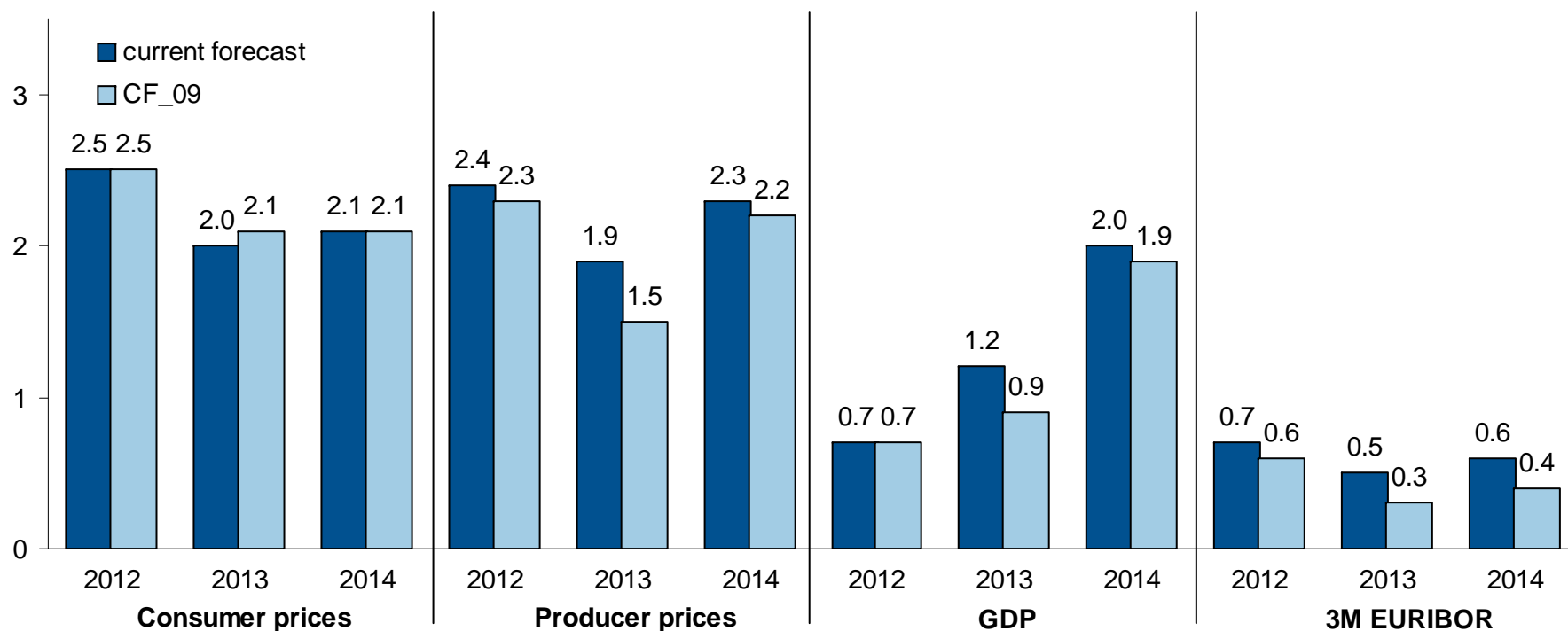
- At the monetary policy horizon, headline inflation will be slightly above the CNB's inflation target due to tax changes, monetary-policy relevant inflation will be in the lower half of the tolerance band.
- Consistent with the forecast is a decline in market interest rates in the next few quarters,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

# The inflation forecast and expected outcome in 2012 Q3



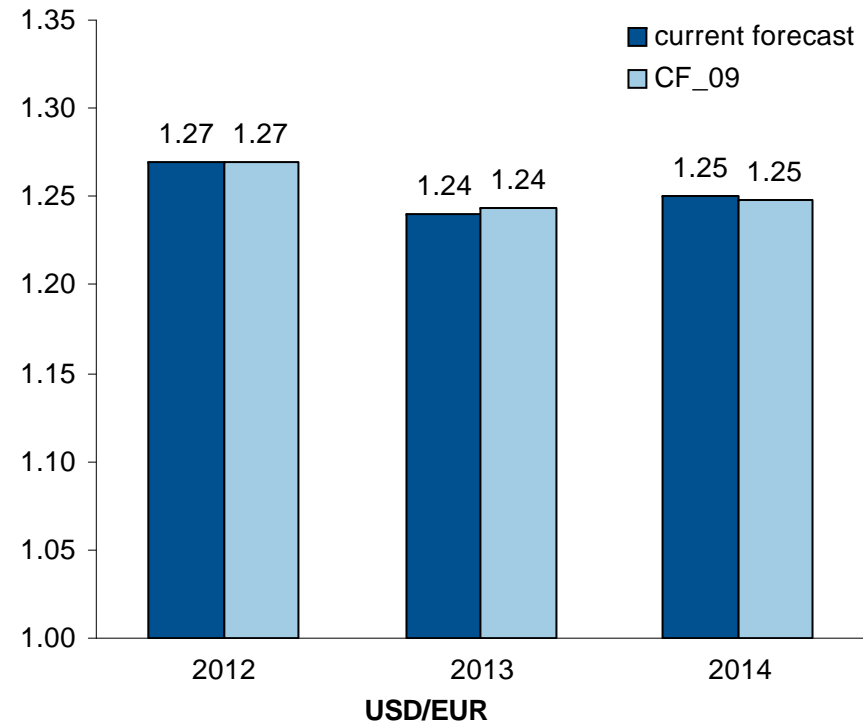
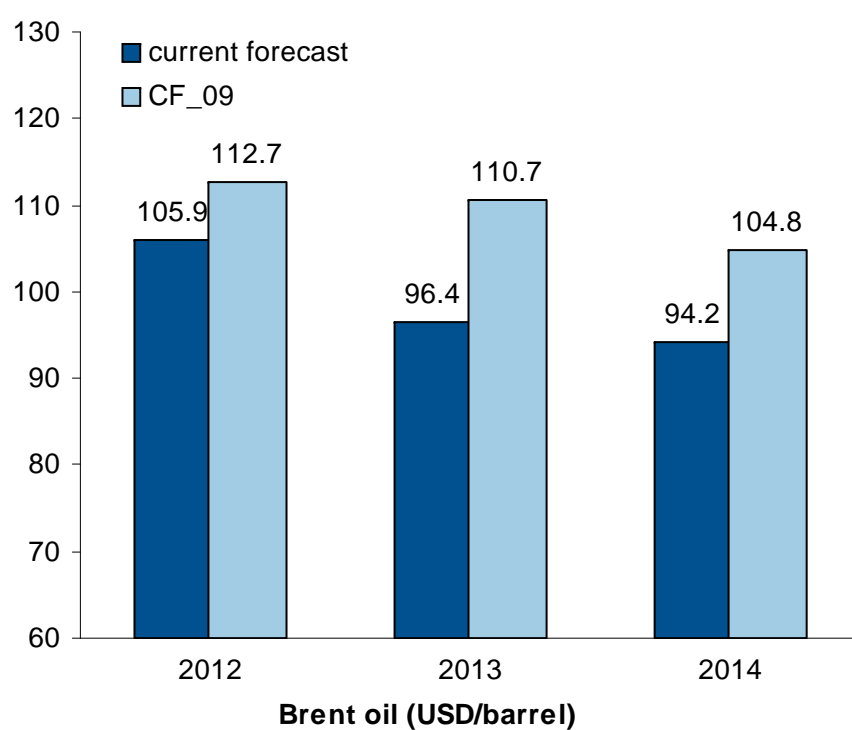
# The external environment (i)


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

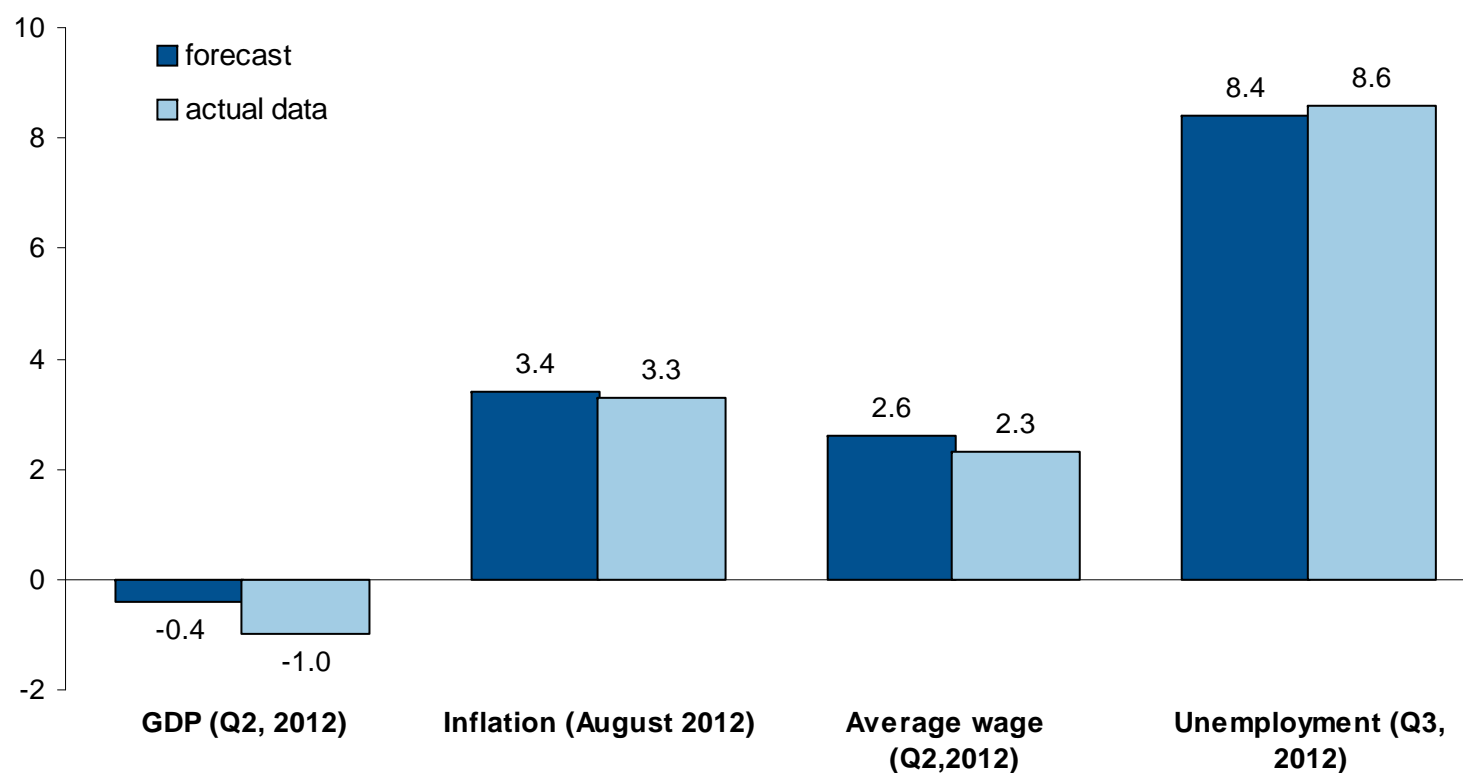




## Developments in the domestic economy since the Board's previous monetary meeting

- The Czech economy declined both in y-o-y and q-o-q terms in 2012 Q2, s.a., with net exports remaining the only contributor to economic activity.
- Developments in industrial production, construction output and retail sales in July indicate persistent weakness in economic activity.
- The labour market stagnation continues:
  - Total employment saw only slight y-o-y growth in 2012 Q2, the s.a. general unemployment rate increased moderately compared to the previous quarter, and the s.a. registered unemployment rate has risen negligibly in 2012 Q3 so far.
  - Y-o-y growth in the average nominal wage decelerated markedly in 2012 Q2.
- The inflationary effects of external cost-push factors strengthened somewhat due to higher oil 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 overall risks to the forecast are on the downside.

*Risks on the downside:*

- stronger koruna exchange rate
- weaker domestic economic activity and slower wage growth
- domestic price developments

*Risk on the upside:*

- higher world prices of energy and agricultural commodities



# 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 5 October 2012 at

[http://www.cnb.cz/en/monetary\\_policy/bank\\_board\\_minutes/](http://www.cnb.cz/en/monetary_policy/bank_board_minutes/)