



Press conference of the CNB Bank Board

8th Situation Report on Economic and Monetary Developments

19 December 2012

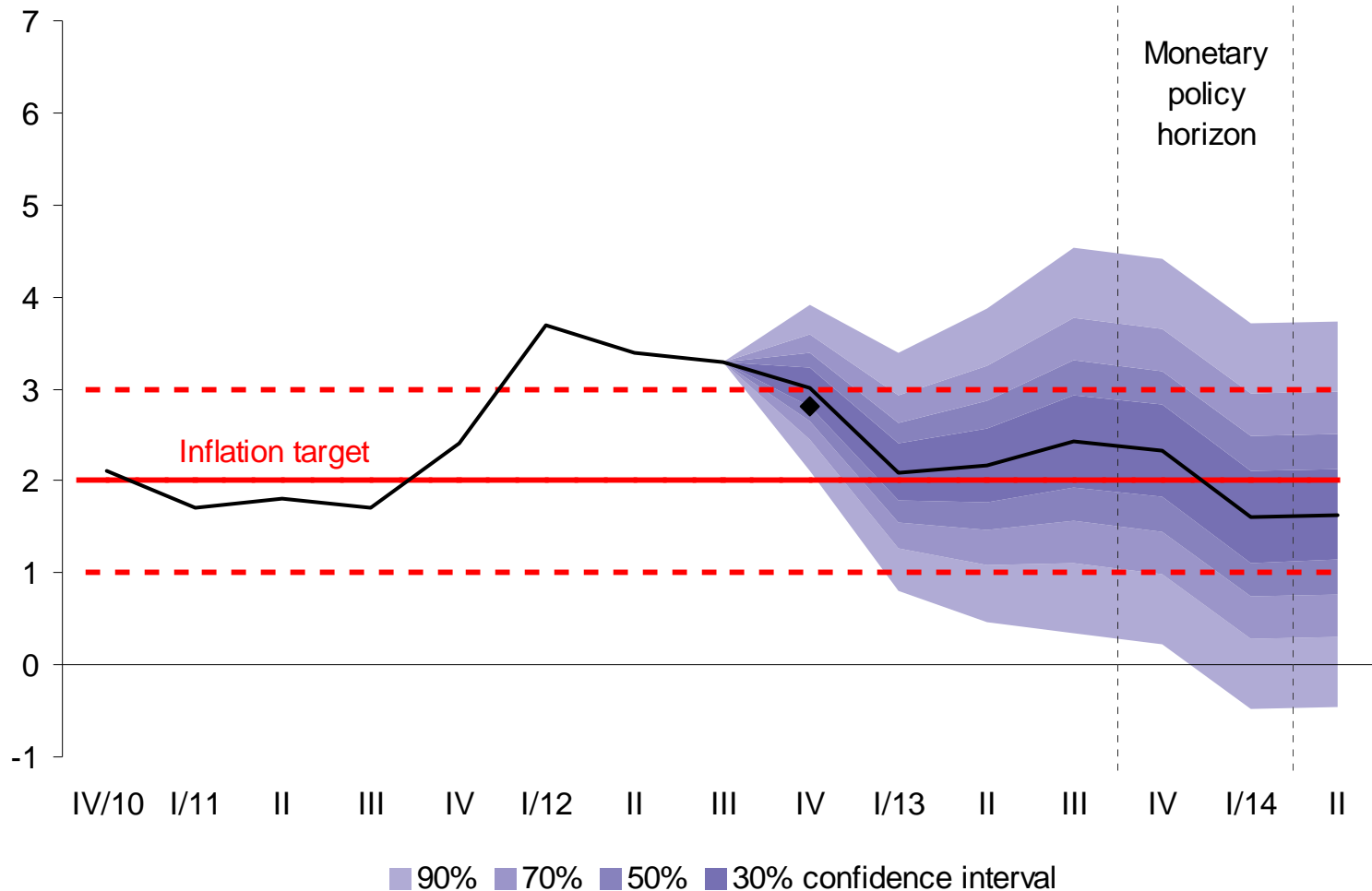
The monetary policy decision taken and the ratio of the votes cast

- At the close of the meeting the Board decided unanimously to leave the two-week repo rate unchanged at 0.05%.

Reasons for the decision

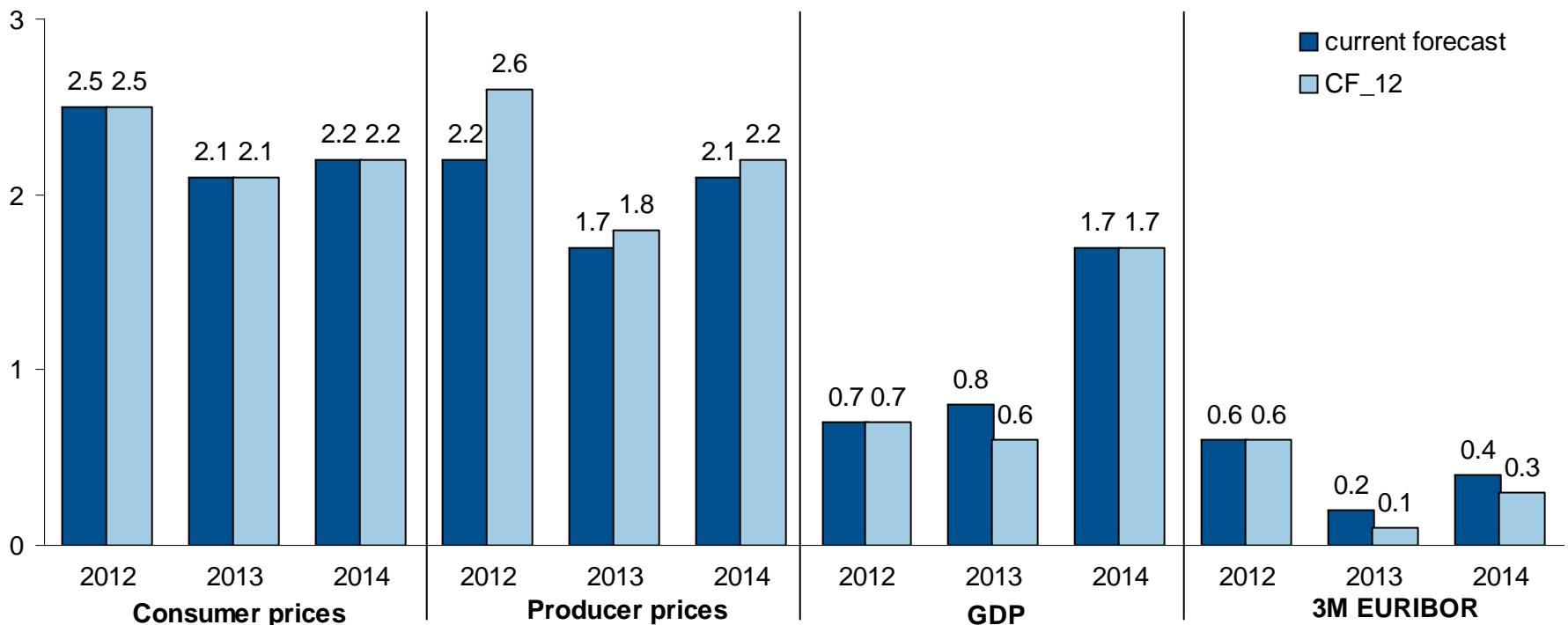
- Next year, headline inflation will be slightly above the CNB's inflation target owing to tax changes, whereas monetary-policy relevant inflation will be in the lower half of the tolerance band over the whole forecast horizon including the monetary policy horizon.
- Consistent with the forecast is a decline in market interest rates, followed by a rise in rates in 2014.
- The overall risks to the inflation forecast are slightly on the downside.

The inflation forecast and expected outcome in 2012 Q4



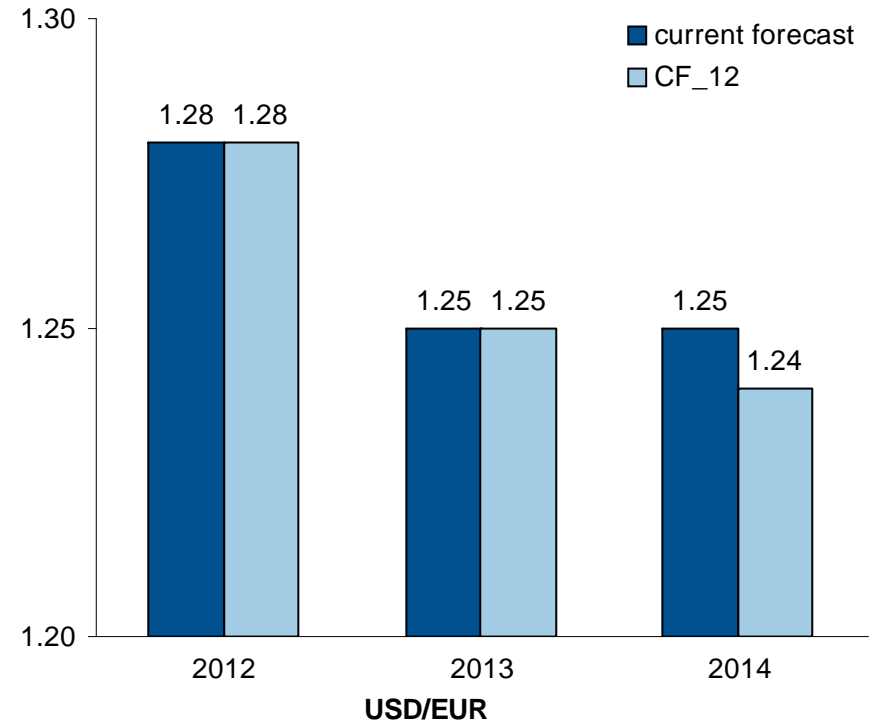
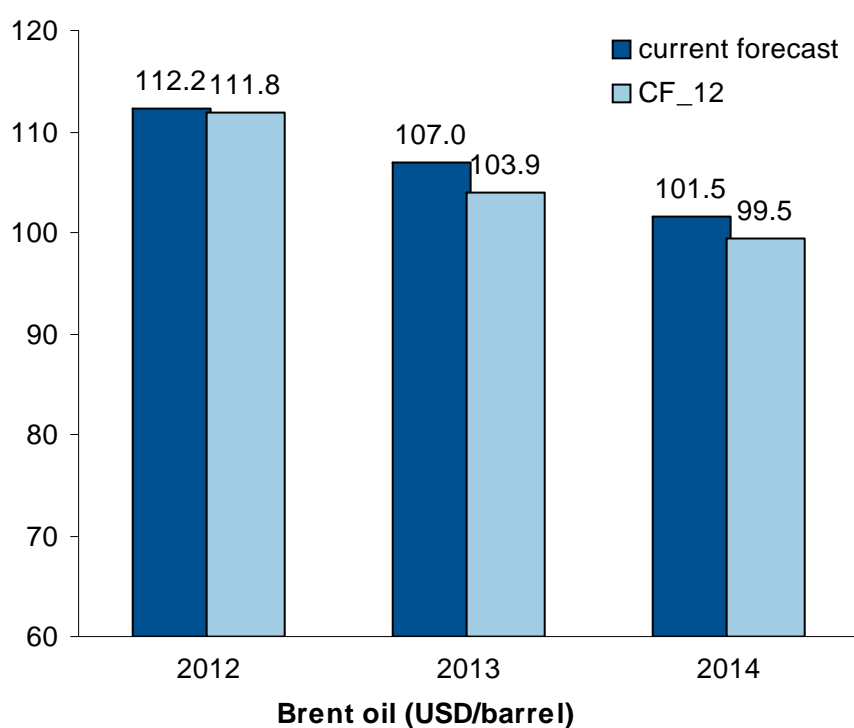
The external environment (i)

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



The external environment (ii)

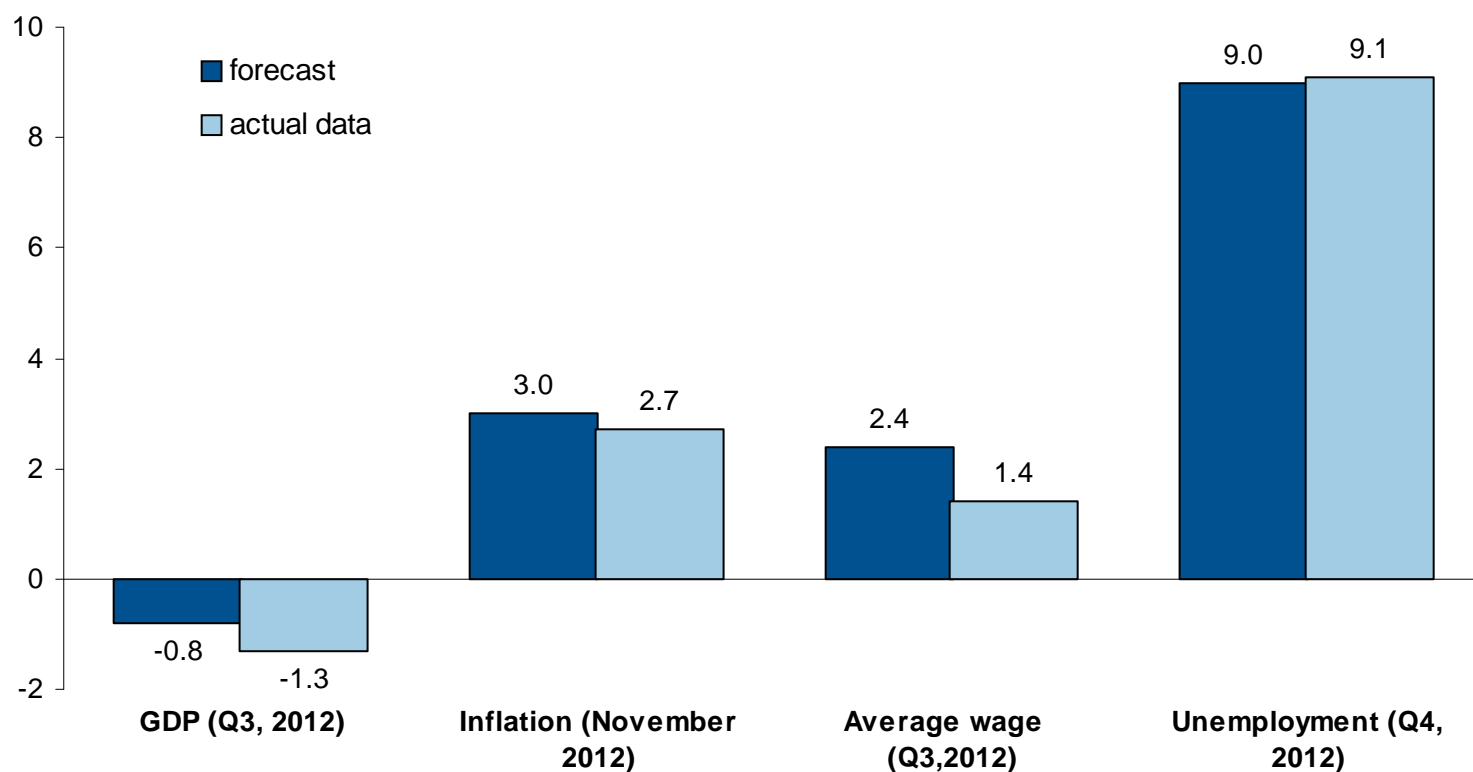
Comparison between the current forecast assumptions and the December outlook based on Consensus Forecasts survey and market expectations



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 Q3, s.a., with net exports being the only positive contributor.
- Developments in industrial production, construction output and retail sales in October continue to indicate subdued economic activity.
- The labour market exhibits signs of slump:
 - Total employment saw y-o-y growth in 2012 Q3, but it declined when converted to full-time employment.
 - Unemployment continued to rise in terms of both the s.a. general unemployment rate in Q3 and the s.a. registered unemployment rate in October and November.
 - Y-o-y growth in the average nominal wage again decelerated markedly in 2012 Q3.
- The inflationary effects of external cost-push factors weakened somewhat due to slightly lower 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 inflation forecast are slightly on the downside.

Risks on the downside:

- weaker domestic economic activity and slower wage growth
- domestic price developments
- developments abroad

Risks on the upside:

- currently higher agricultural commodity prices

The koruna exchange rate partially offsets anti-inflationary domestic developments.



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 31 December 2012 at

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