



Press conference of the CNB Bank Board

1st Situation Report on Economic and Monetary Developments

6 February 2013

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

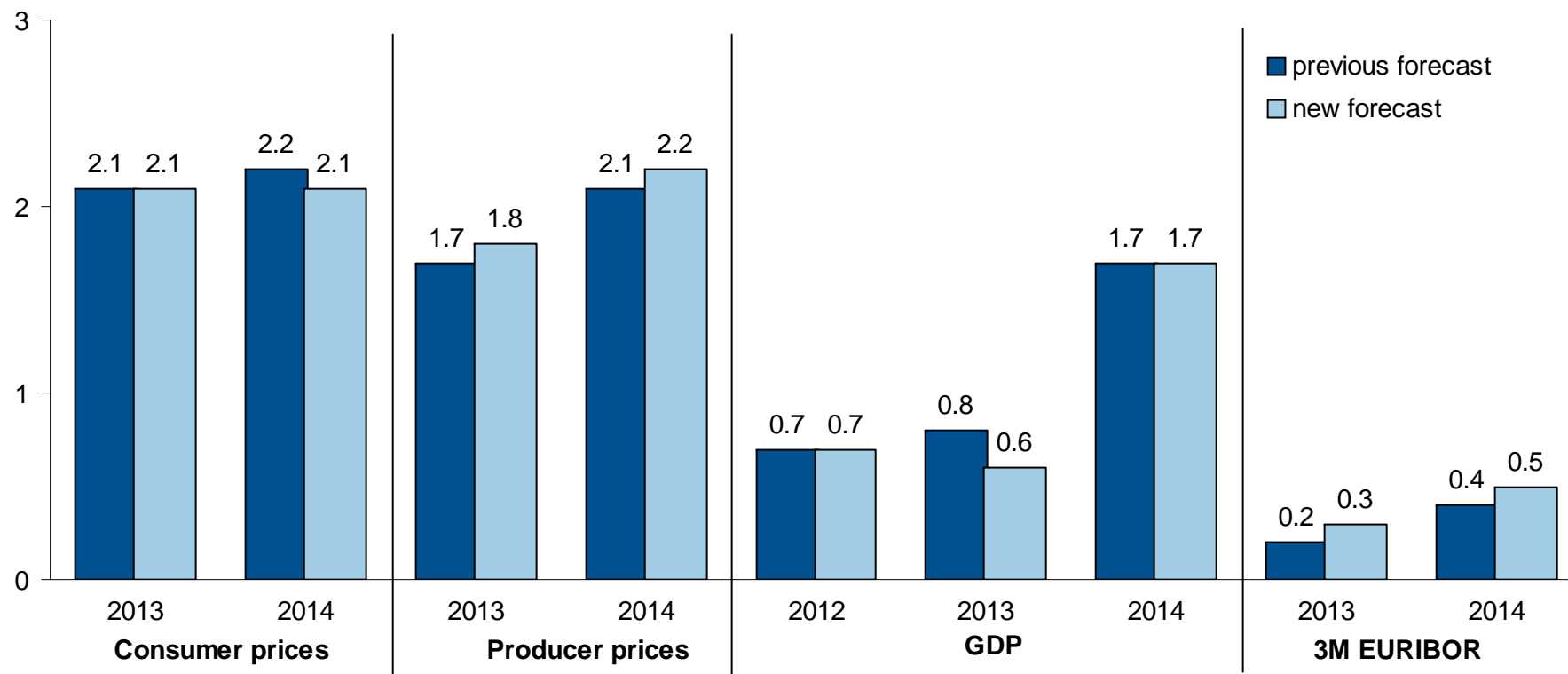
- Headline inflation will be close to the 2% target this year. In early 2014, after the effects of the increase in both VAT rates of 1 p.p. drop out, headline inflation will fall slightly below the target. Monetary-policy relevant inflation will be in the lower half of the tolerance band over the entire outlook.
- Consistent with the forecast is a slight decline in market interest rates, followed by a rise in rates as from mid-2014.
- The risks to the forecast are balanced.

The message of the forecast baseline scenario

- Tax changes, food price growth and gradually fading import price growth are the sources of currently observed inflation. By contrast, the domestic economy is dampening inflation.
- Headline inflation will be close to the CNB's 2% target this year despite the increase in both VAT rates of 1 p.p. Monetary-policy relevant inflation will be in the lower half of the tolerance band around the target over the whole forecast horizon.
- This year, GDP will drop by 0.3% amid markedly restrictive domestic fiscal policy and only gradual recovery in external demand. In 2014, the economy will grow by about 2%.
- The koruna exchange rate to the euro will appreciate very slightly from current levels.
- Consistent with the forecast is a slight decline in market interest rates, followed by a rise in rates as from mid-2014.

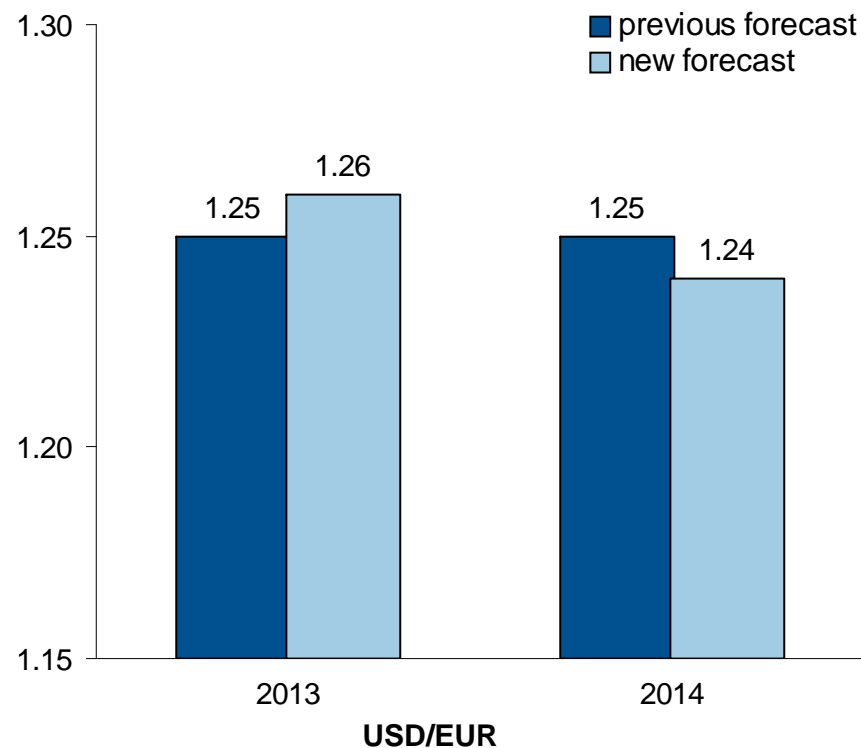
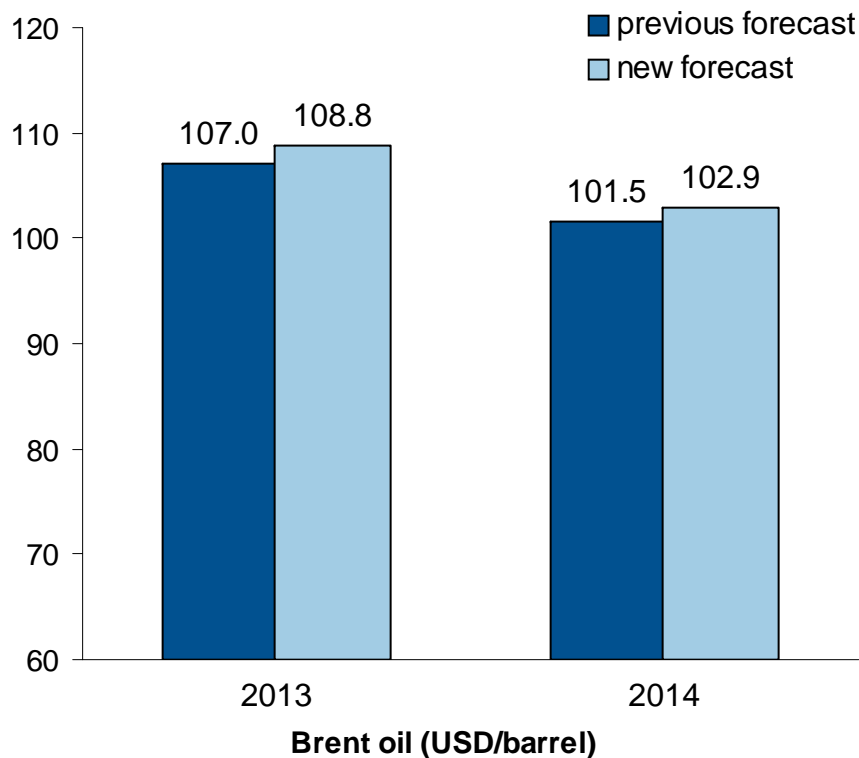
The external environment (i)

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

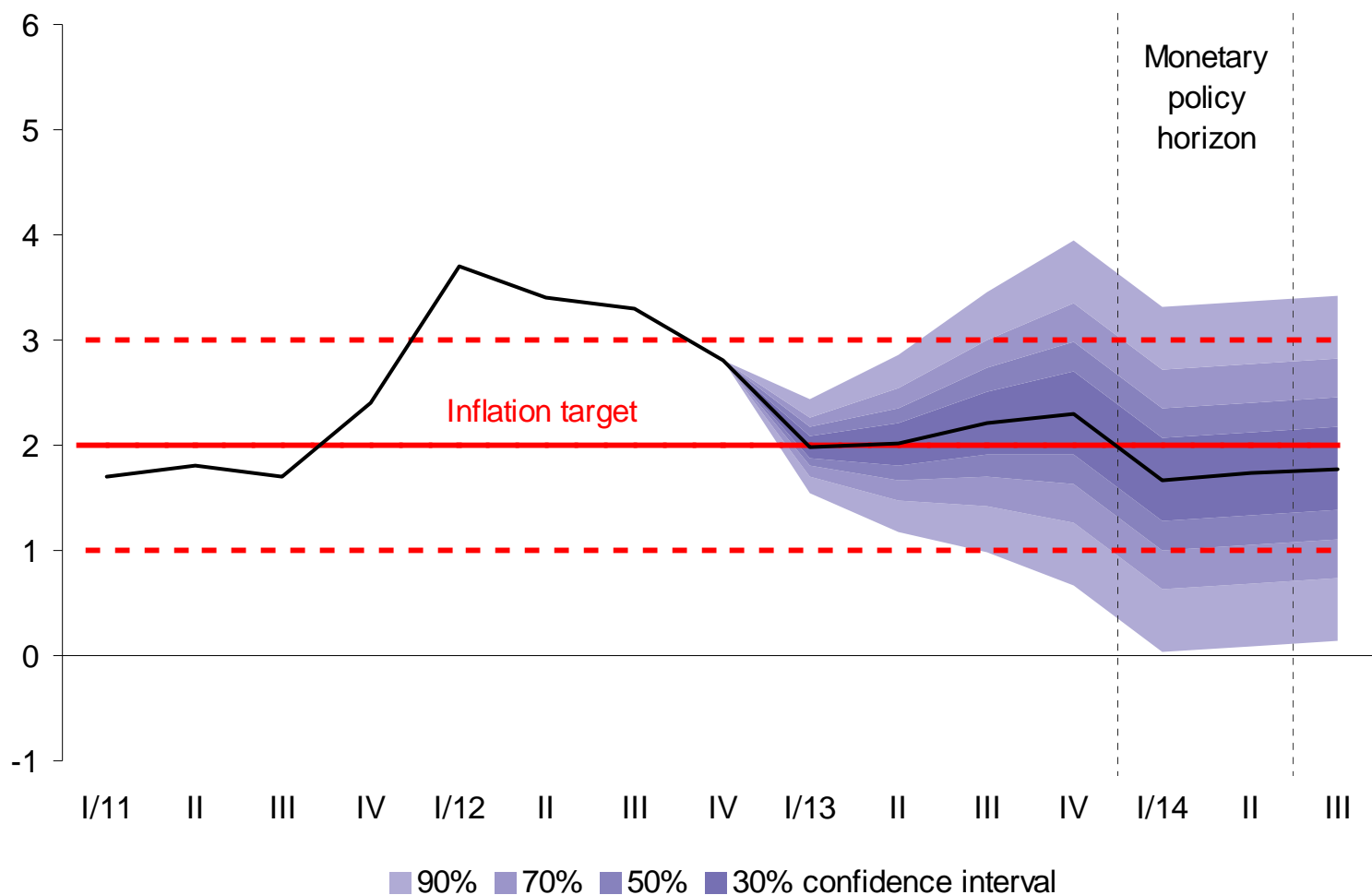


The external environment (ii)

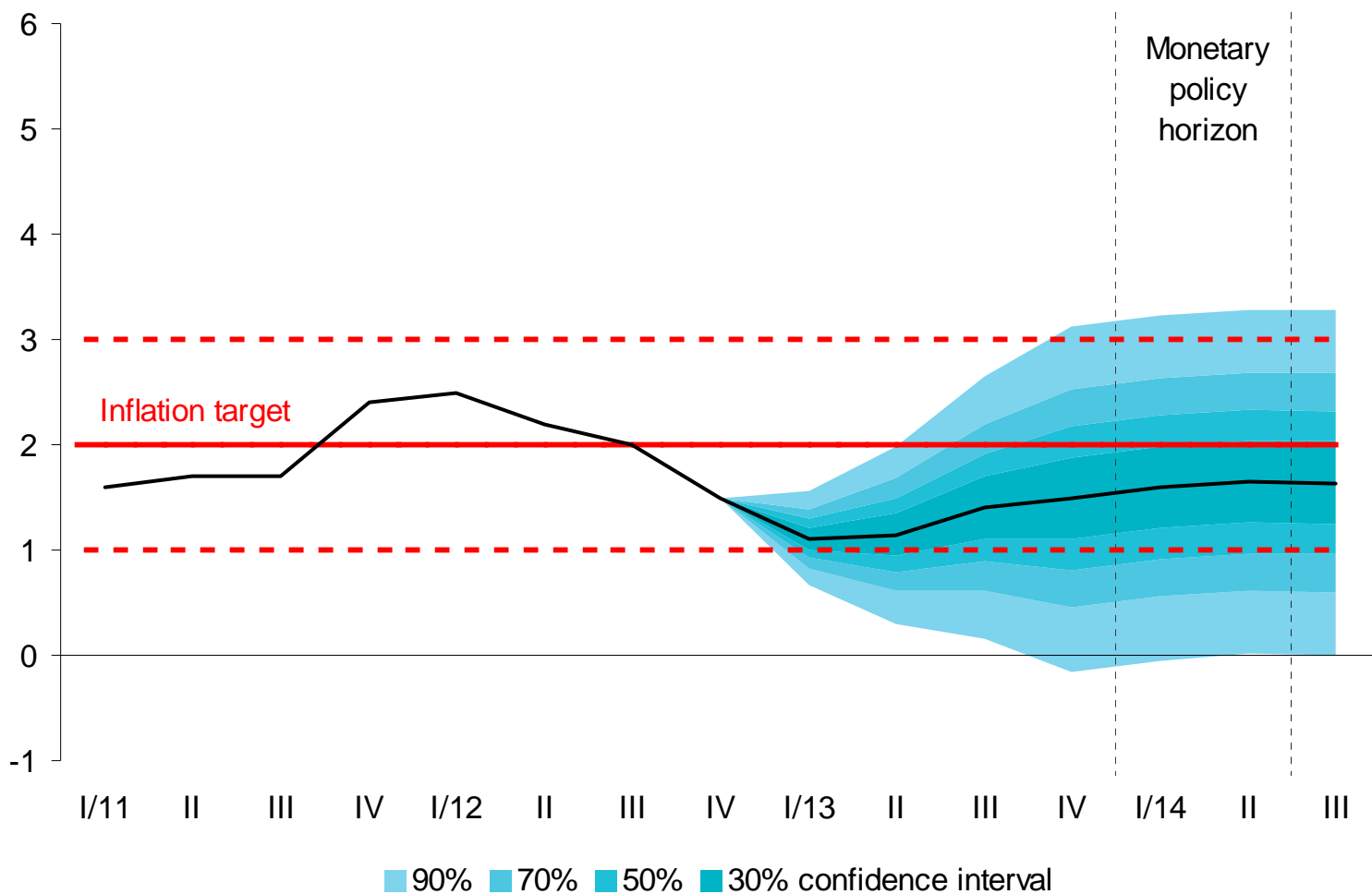
Comparison between the assumptions of the new and previous forecasts



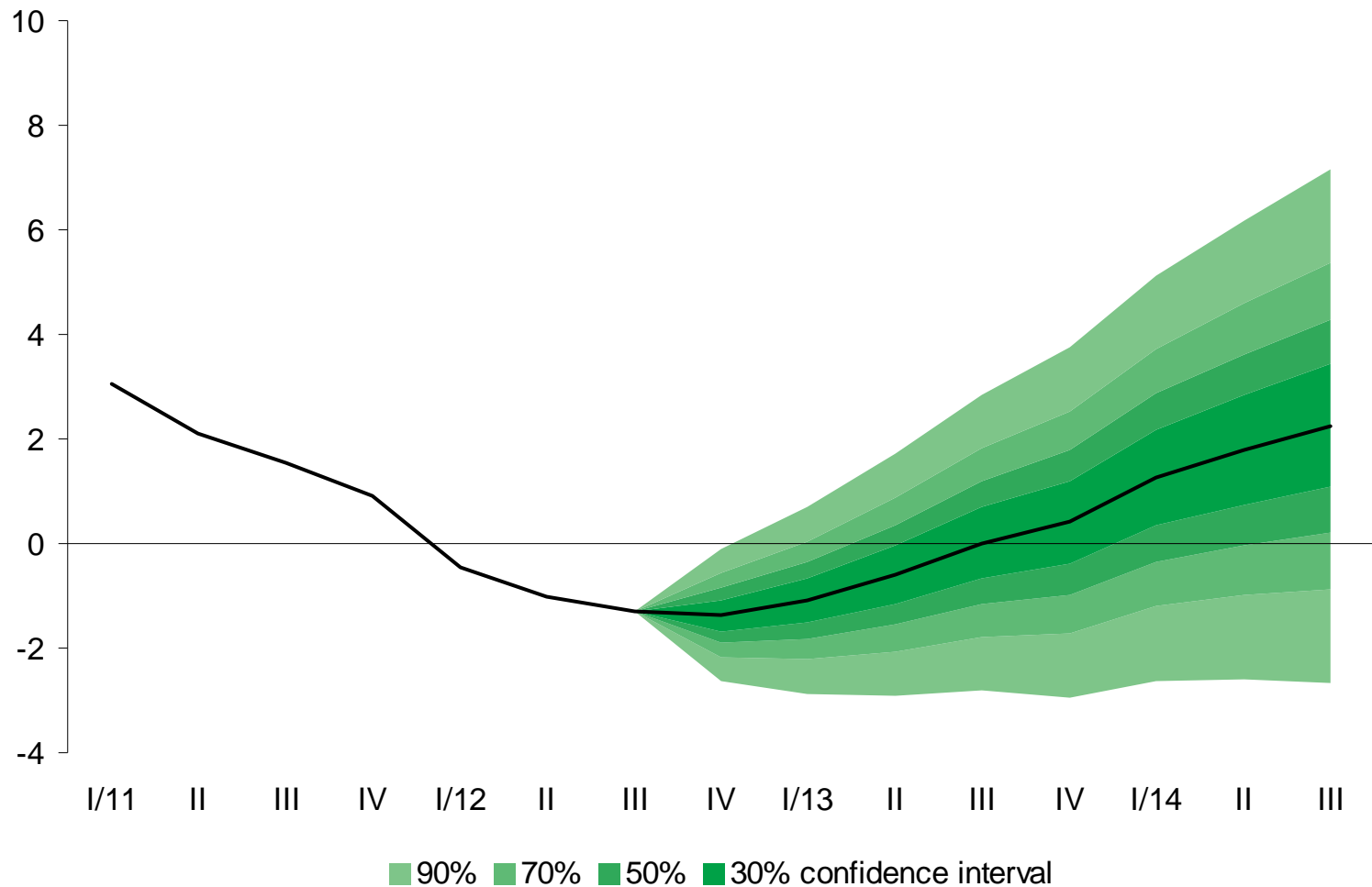
The forecast for headline inflation



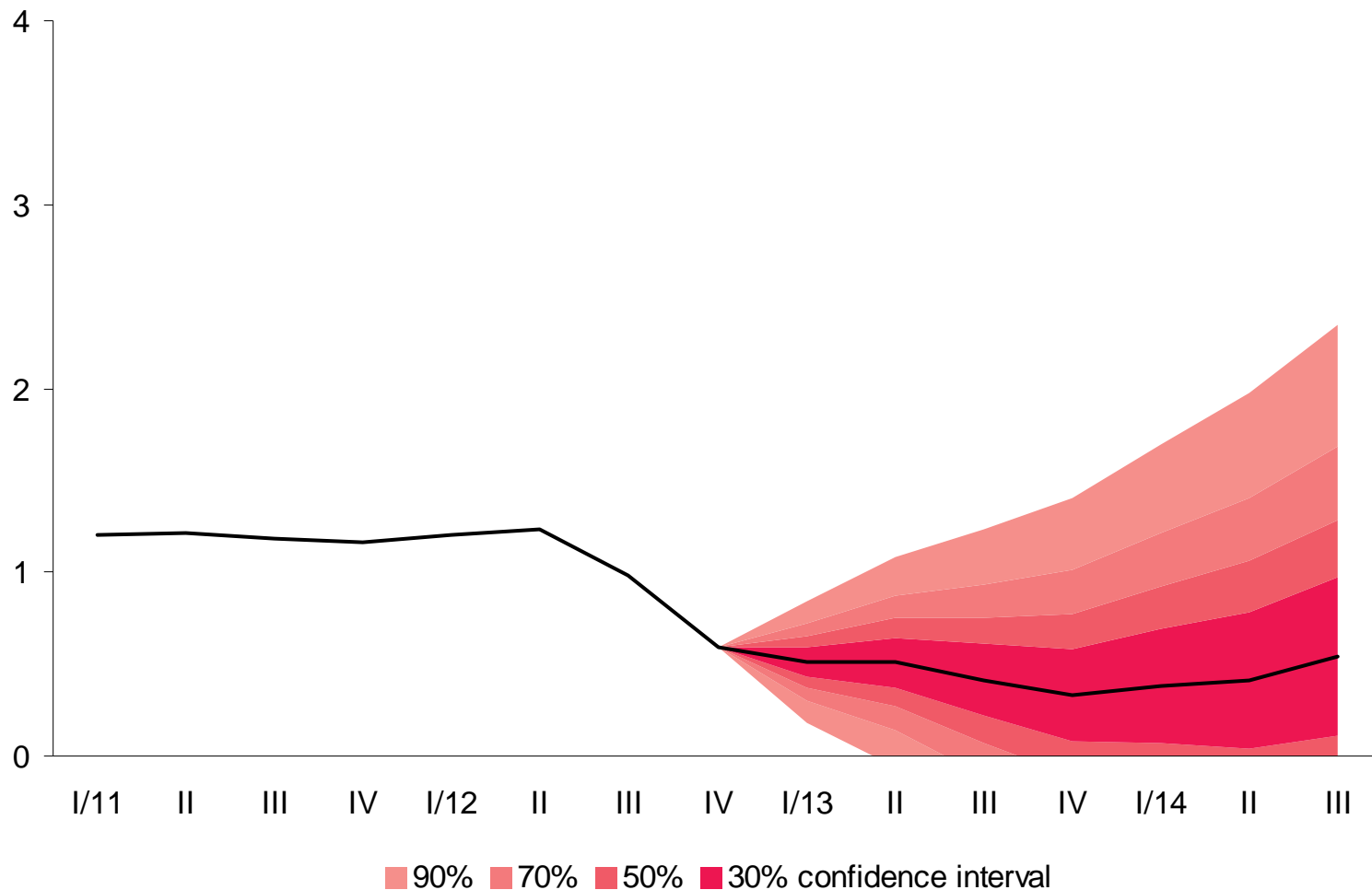
The forecast for monetary-policy relevant inflation



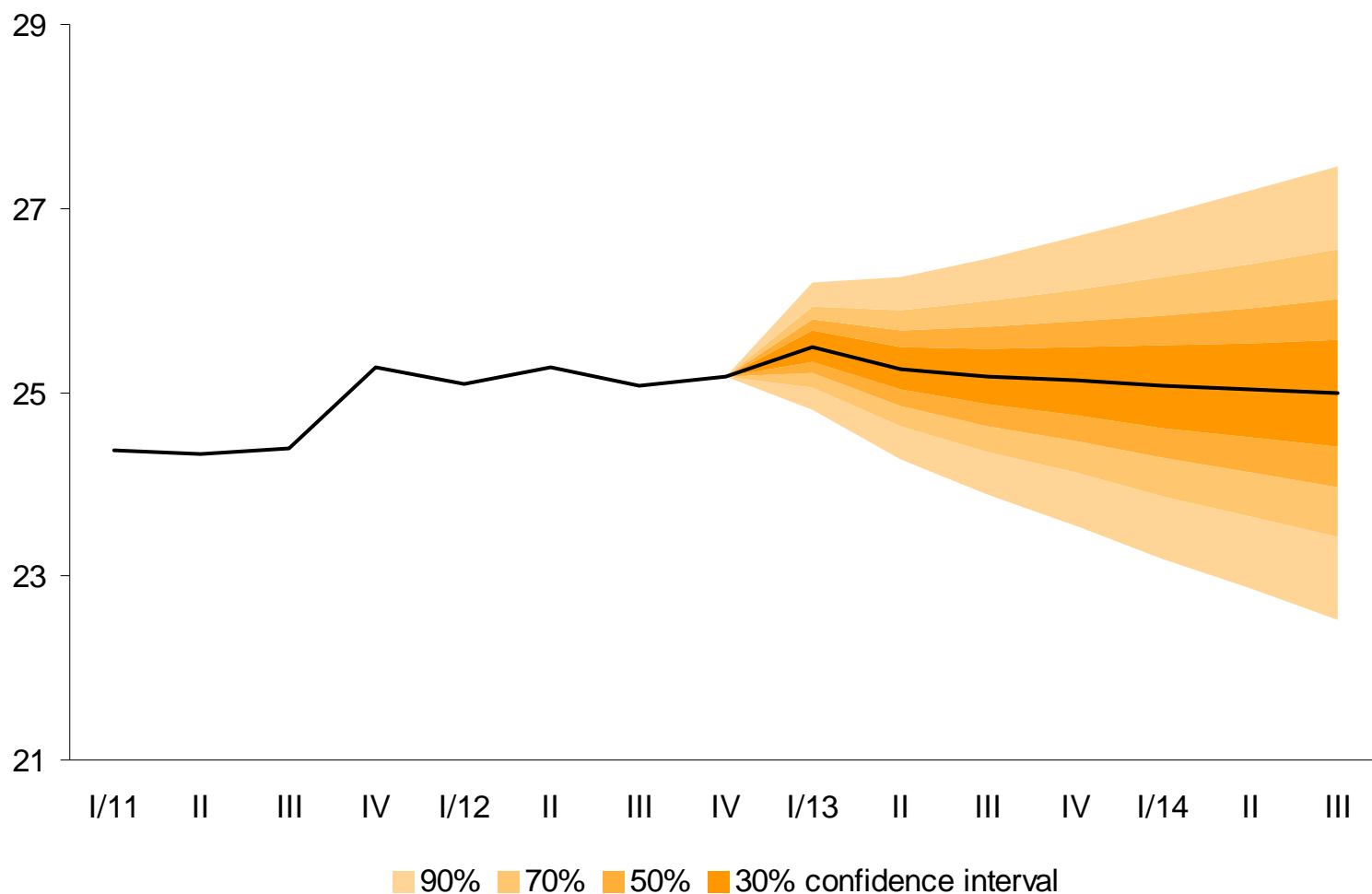
The forecast for GDP



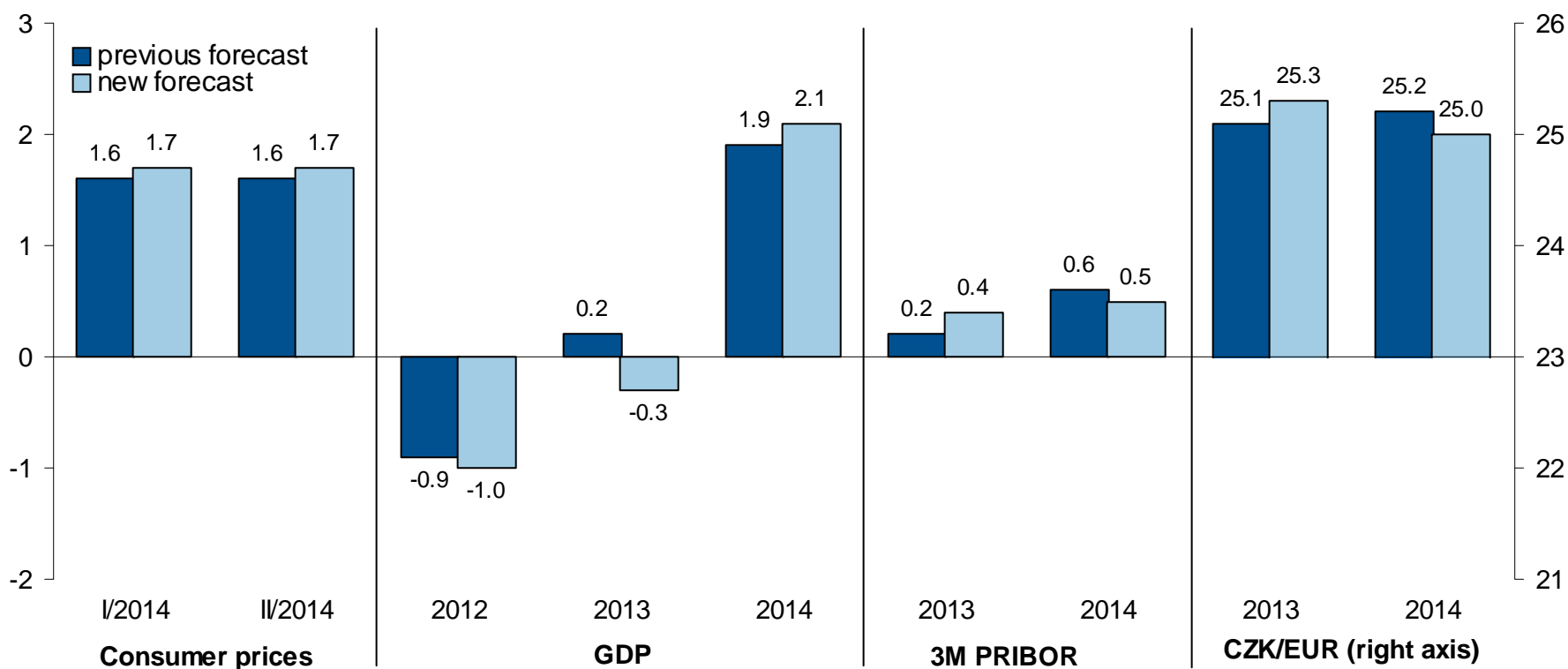
The forecast for interest rates (3M PRIBOR)



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

Uncertainty prevails about the extent and impacts of fiscal consolidation and about the consumption and saving behaviour of households.



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 I/2013,
to be published 15 February 2013.