



Press conference of the CNB Bank Board

2nd Situation Report on Economic and Monetary Developments

28 March 2013

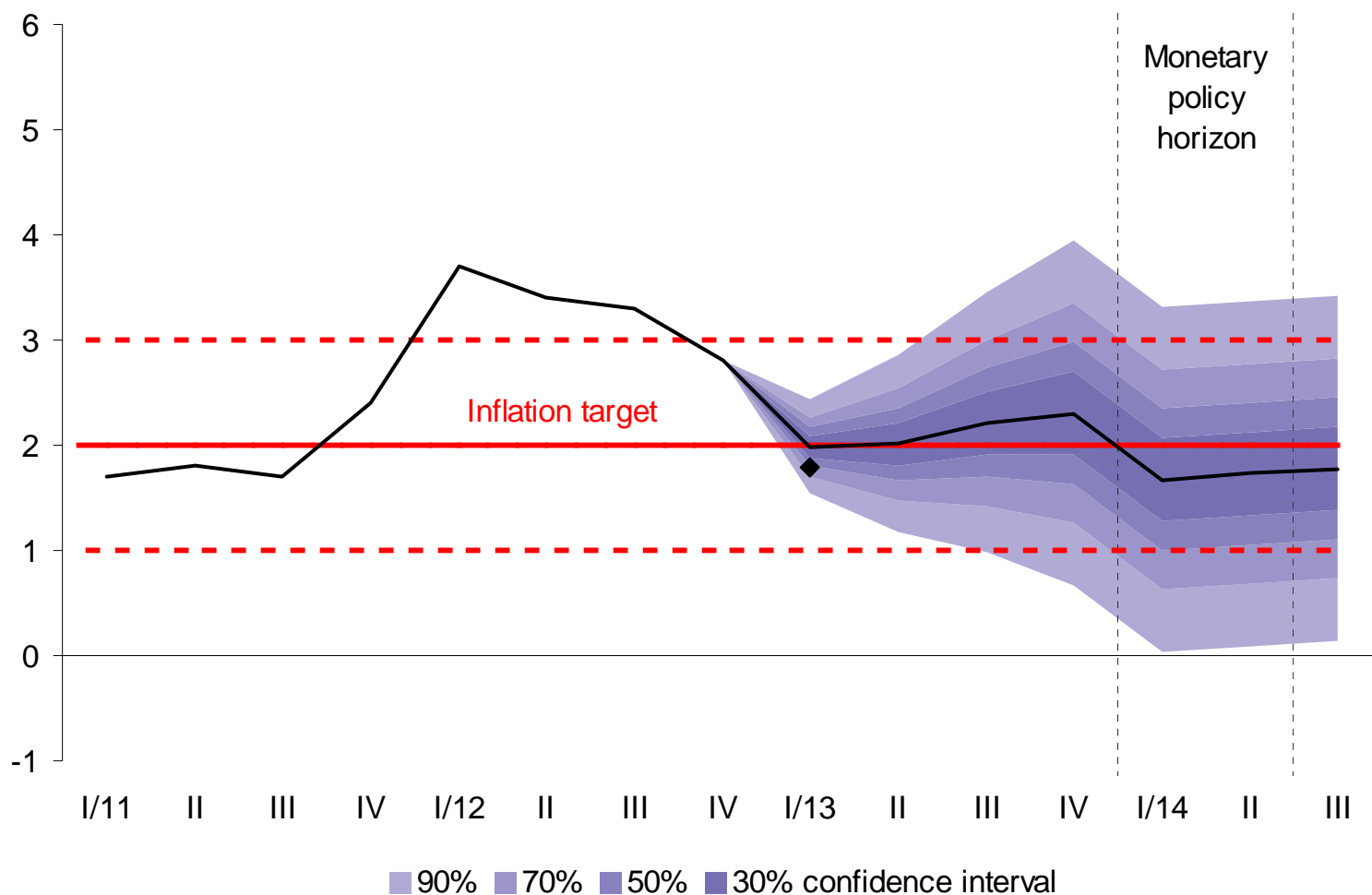
The monetary policy decision and the stance of the CNB

- At the close of the meeting the Board decided unanimously to leave the two-week repo rate unchanged at 0.05%.
- Interest rates will remain at current levels (i.e. at technical zero) over a longer horizon until inflation pressures increase significantly.
- In line with previous communication, the CNB is ready to use foreign exchange interventions if further monetary policy easing becomes necessary.

Reasons for the decision within the context of the forecast

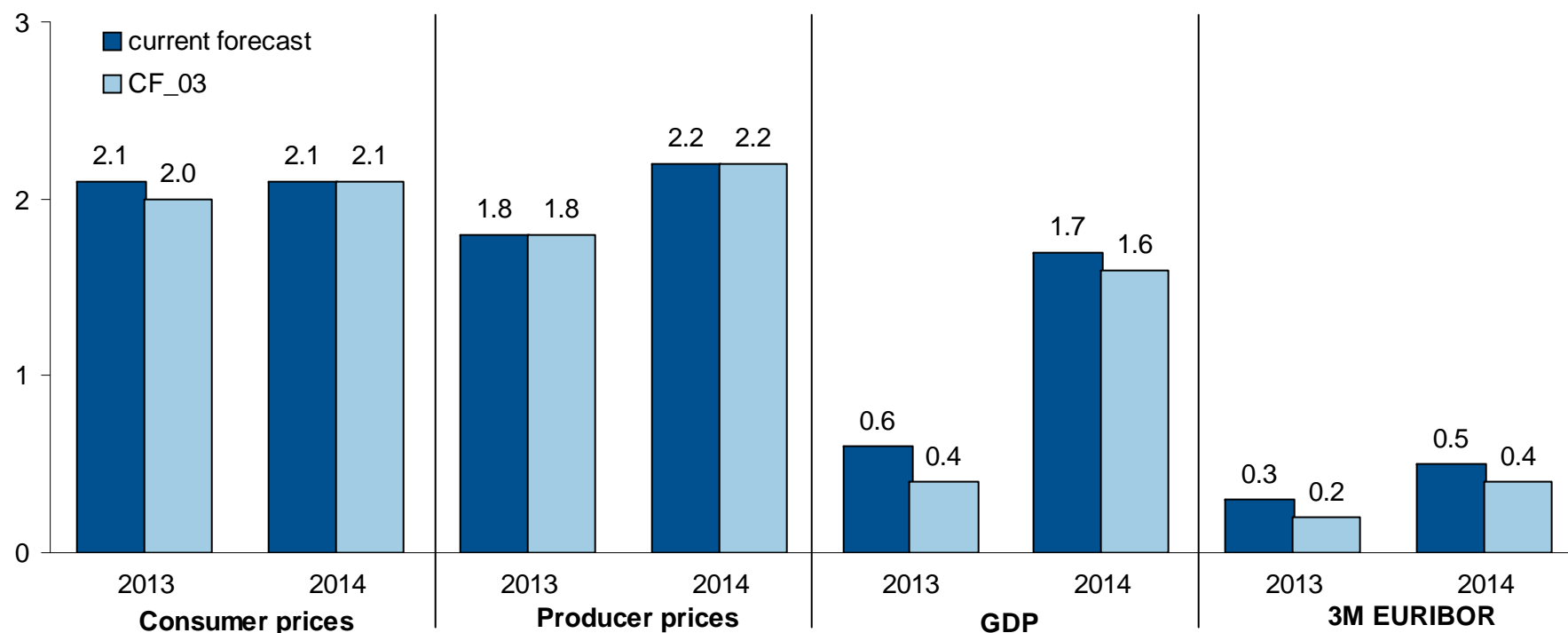
- Consistent with the forecast is a slight decline in market interest rates, followed by a rise in rates as from mid-2014.
- The current Inflation Report I/2013 forecast does not predict an increase in inflation pressures and no tangible risks of such an increase in inflation pressures can be identified at present.

The inflation forecast and expected outcome in 2013 Q1



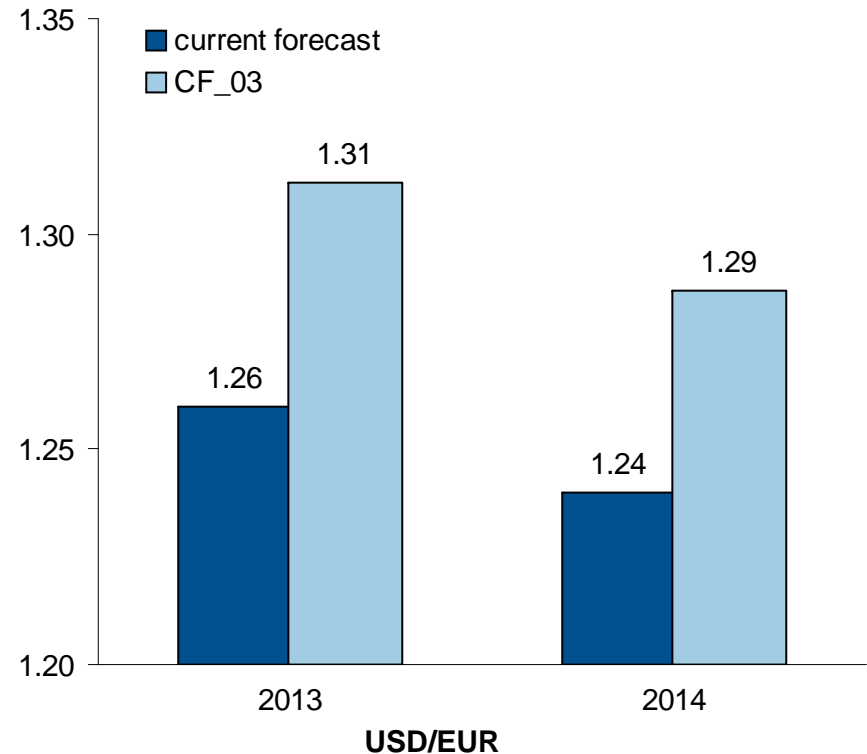
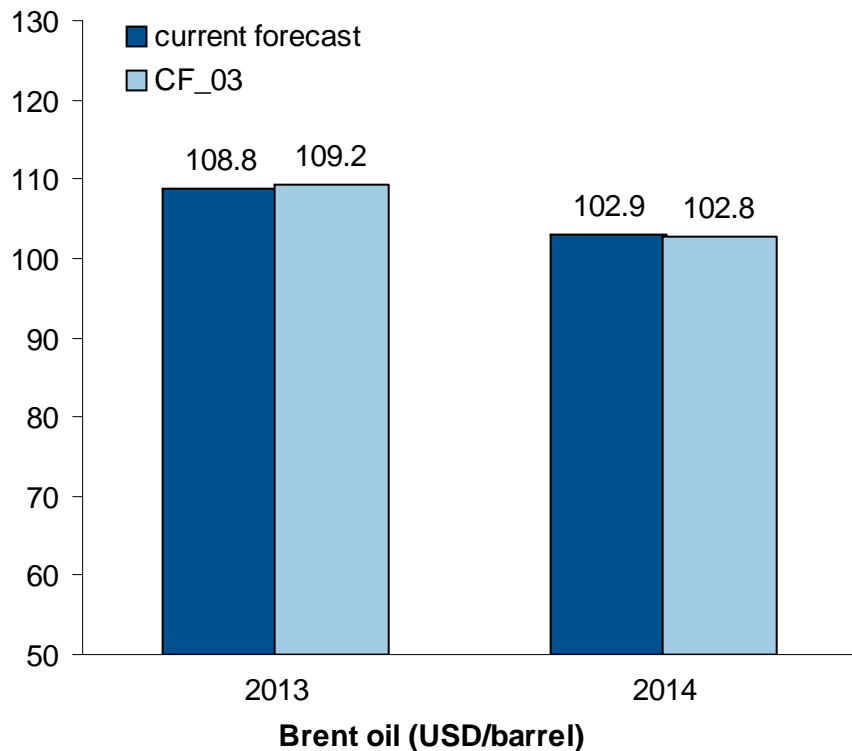
The external environment (i)

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



The external environment (ii)

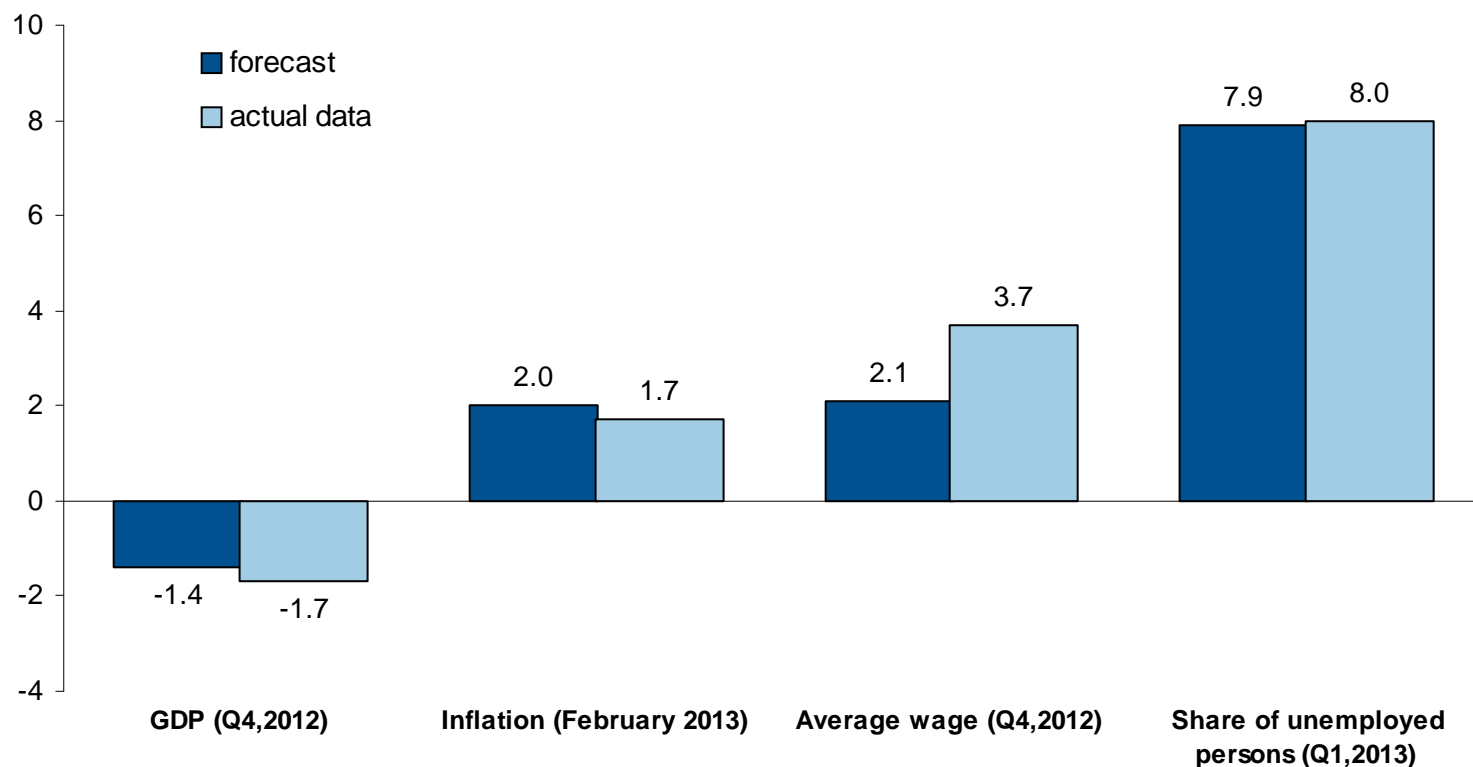
Comparison between the current forecast assumptions and the March outlook based on Consensus Forecasts survey and market expectations



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 Q4, s.a., more markedly than forecasted. GDP shrunk by 1.2% in 2012.
- Developments in industrial production, construction output and retail sales in January continue to indicate subdued economic activity.
- The labour market exhibits signs of weakness:
 - Total employment saw y-o-y growth in 2012 Q4 but continued to decline when converted into full-time equivalents. Unemployment (s.a.) rose in terms of both the general unemployment rate in 2012 Q4 and the share of unemployed persons in January and February 2013.
 - Y-o-y growth in the average nominal wage markedly accelerated in 2012 Q4, which was, however, affected by tax optimisation.
- Cost-push pressures are apparent from agricultural producer prices only.

Comparison of actual data with the CNB forecast



Note: in percentages, for share of unemployed persons comparison of outcomes in January and February with forecast for the Q1, 2013



Risks to the forecast

The risks to the forecast are tilted towards slightly easier monetary conditions

Risks in the above-mentioned direction:

- domestic economic activity
- domestic inflation
- developments abroad



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 April 2013 at

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