



Press conference of the CNB Bank Board

3rd Situation Report on Economic and Monetary Developments

2 May 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.
- 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

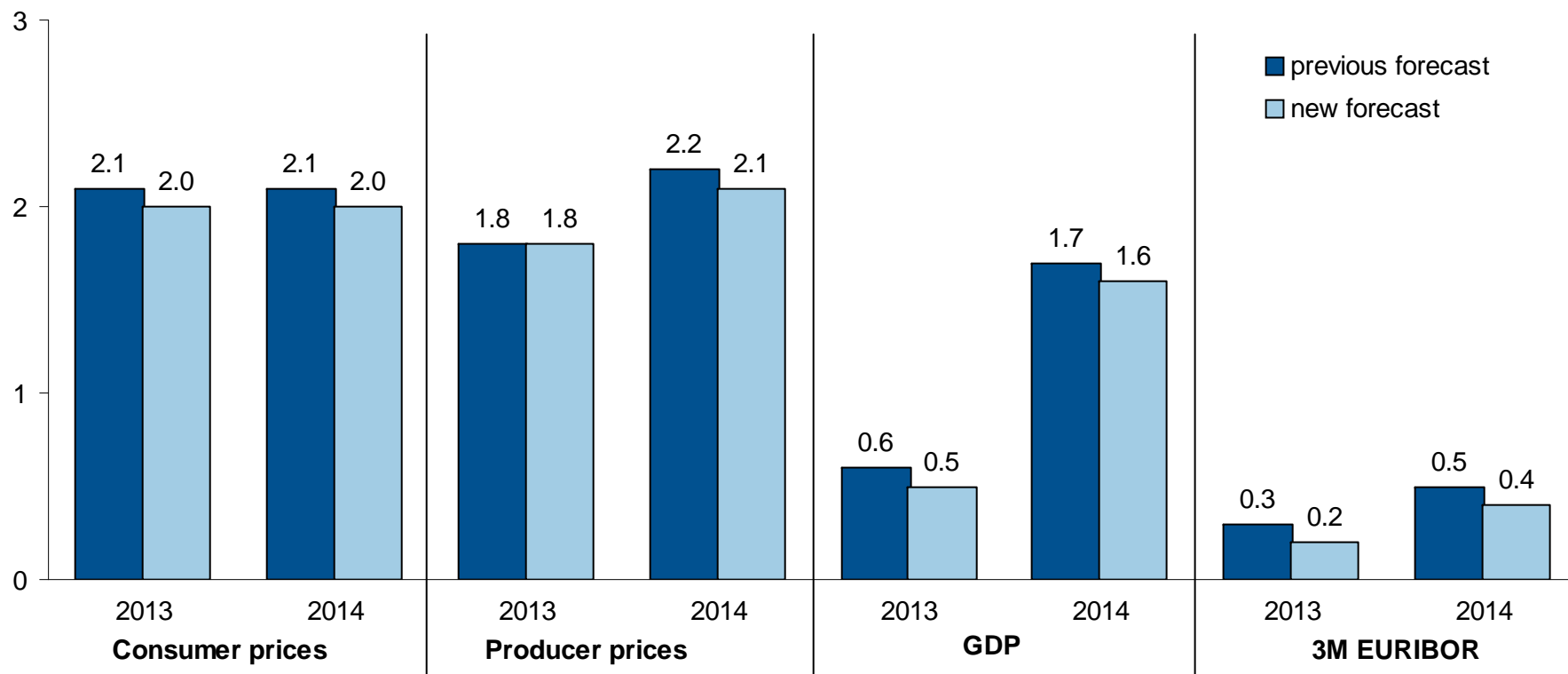
- Consistent with the forecast is a slight decline in market interest rates, followed by a rise in rates in 2014.
- The new forecast does not predict an increase in inflation pressures and no tangible risks of such an increase in inflation pressures can be identified either.
- The risks to the new forecast are on the downside.

The message of the forecast

- Tax changes and growth in administered prices are again the sources of current inflation. By contrast, the domestic economy is dampening inflation.
- Headline inflation will be slightly below the CNB's 2% target this year and next year. Monetary-policy relevant inflation will be close to the lower boundary of the tolerance band this year and then return slowly to the target.
- This year, GDP will drop by 0.5% amid ongoing fiscal consolidation and an only gradual recovery in external demand. In 2014, the economy will grow by 1.8%.
- The exchange rate of the koruna against the euro will appreciate very slowly from a weak initial level.
- Consistent with the forecast is a slight decline in market interest rates, followed by a rise in rates in 2014.

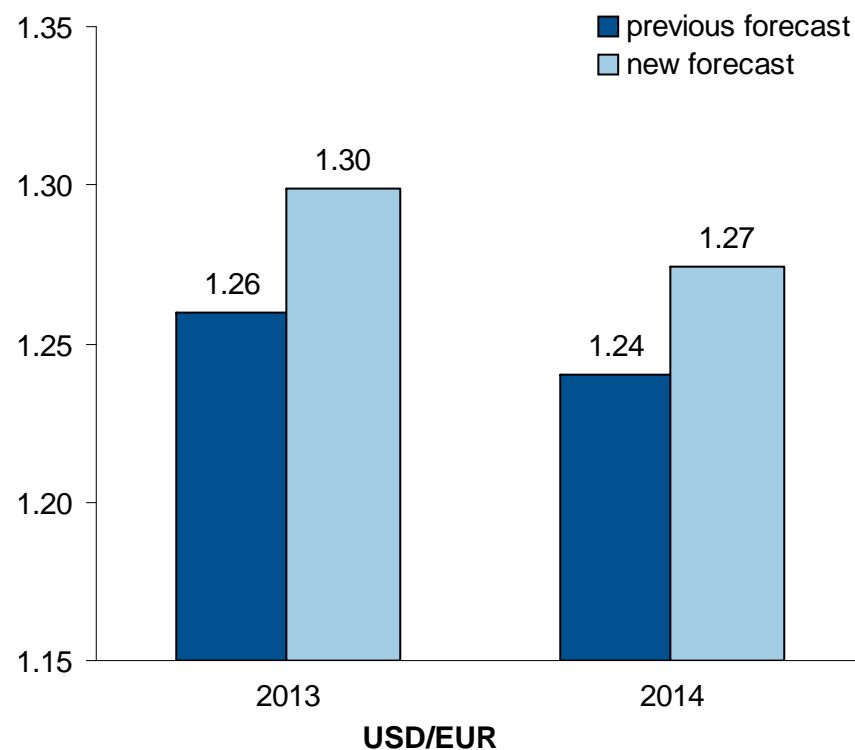
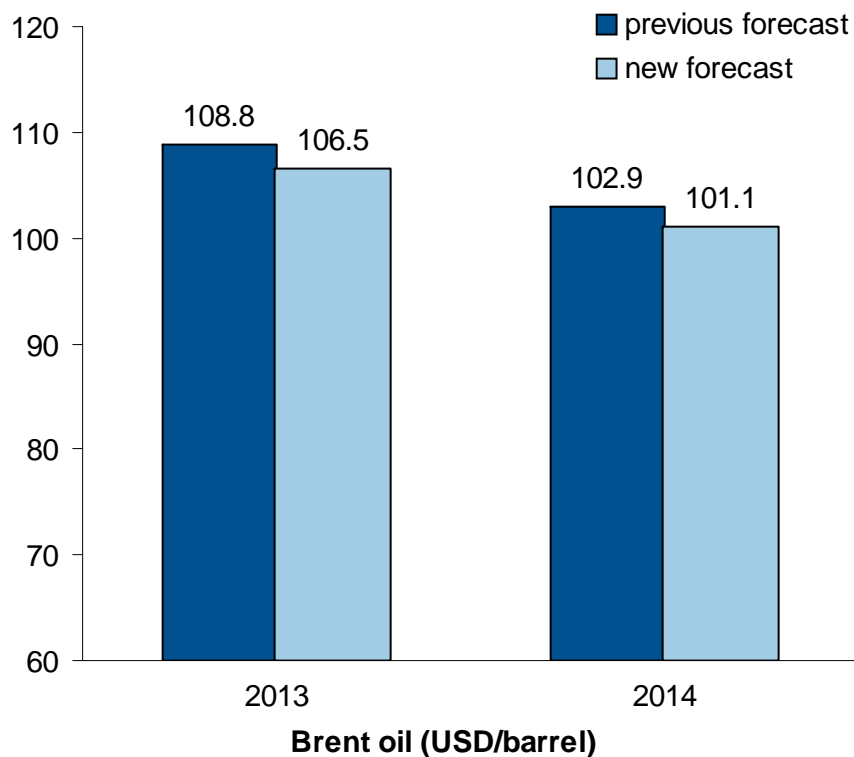
The external environment (i)

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

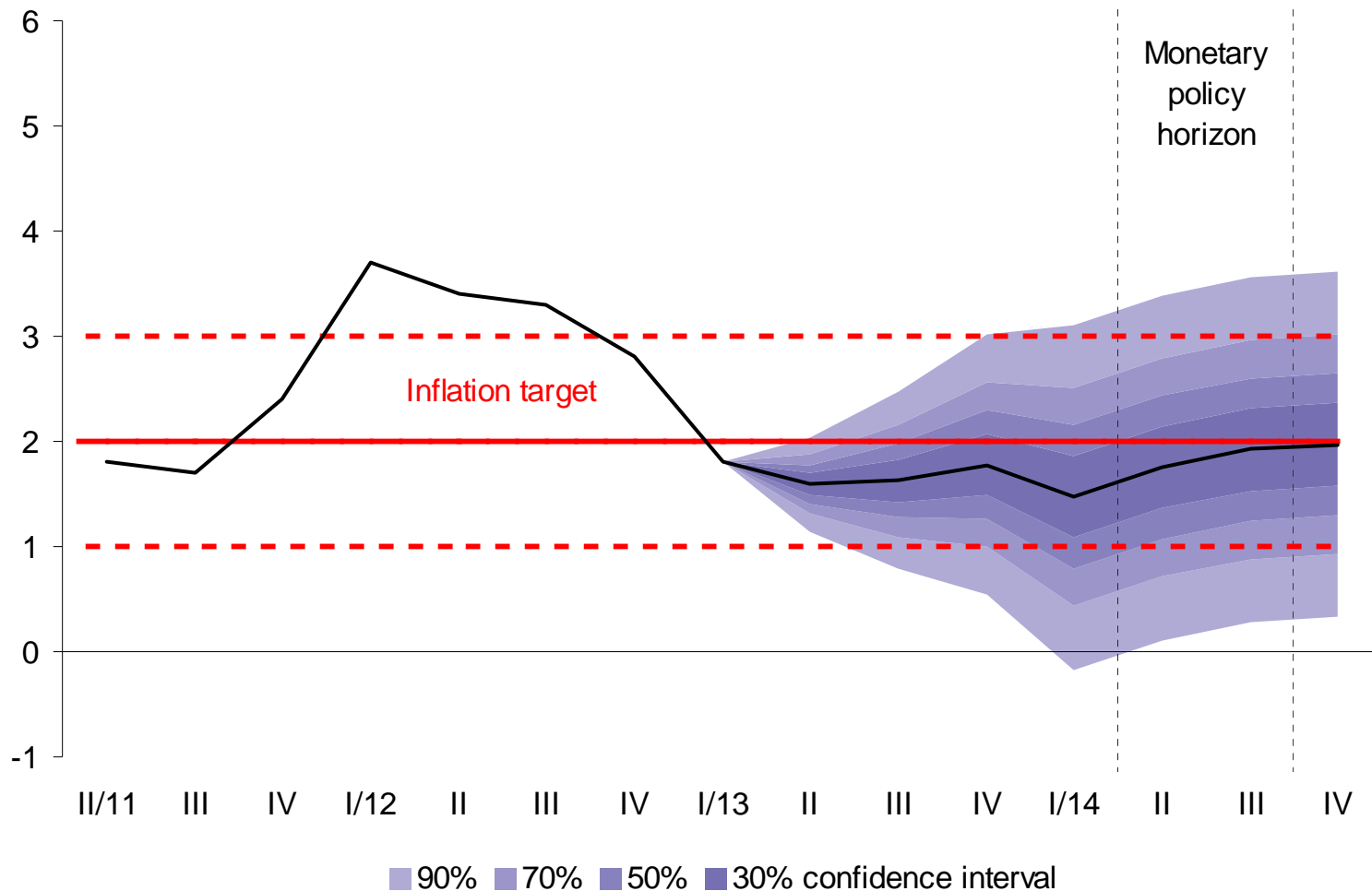


The external environment (ii)

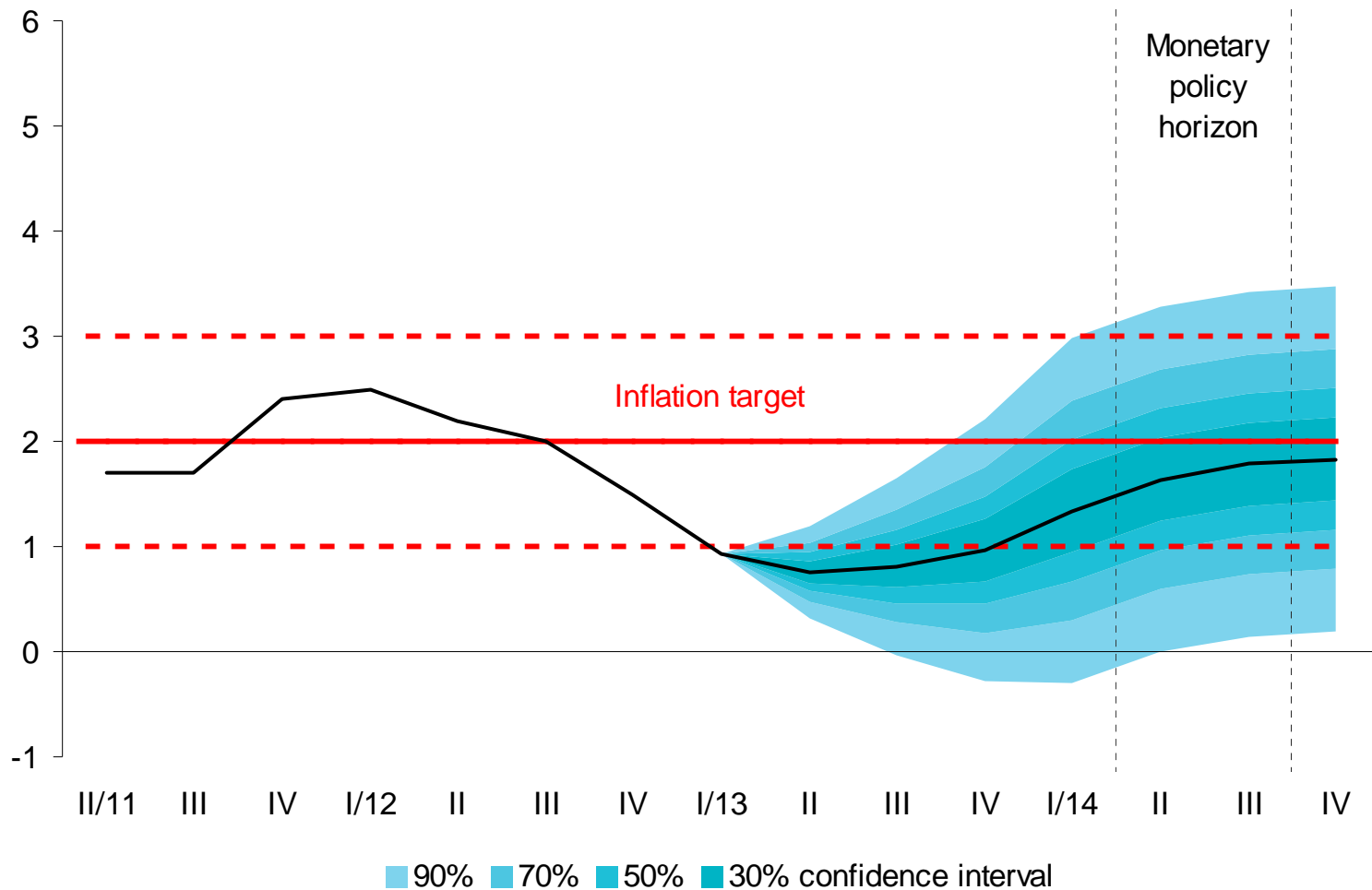
Comparison between the assumptions of the new and previous forecasts



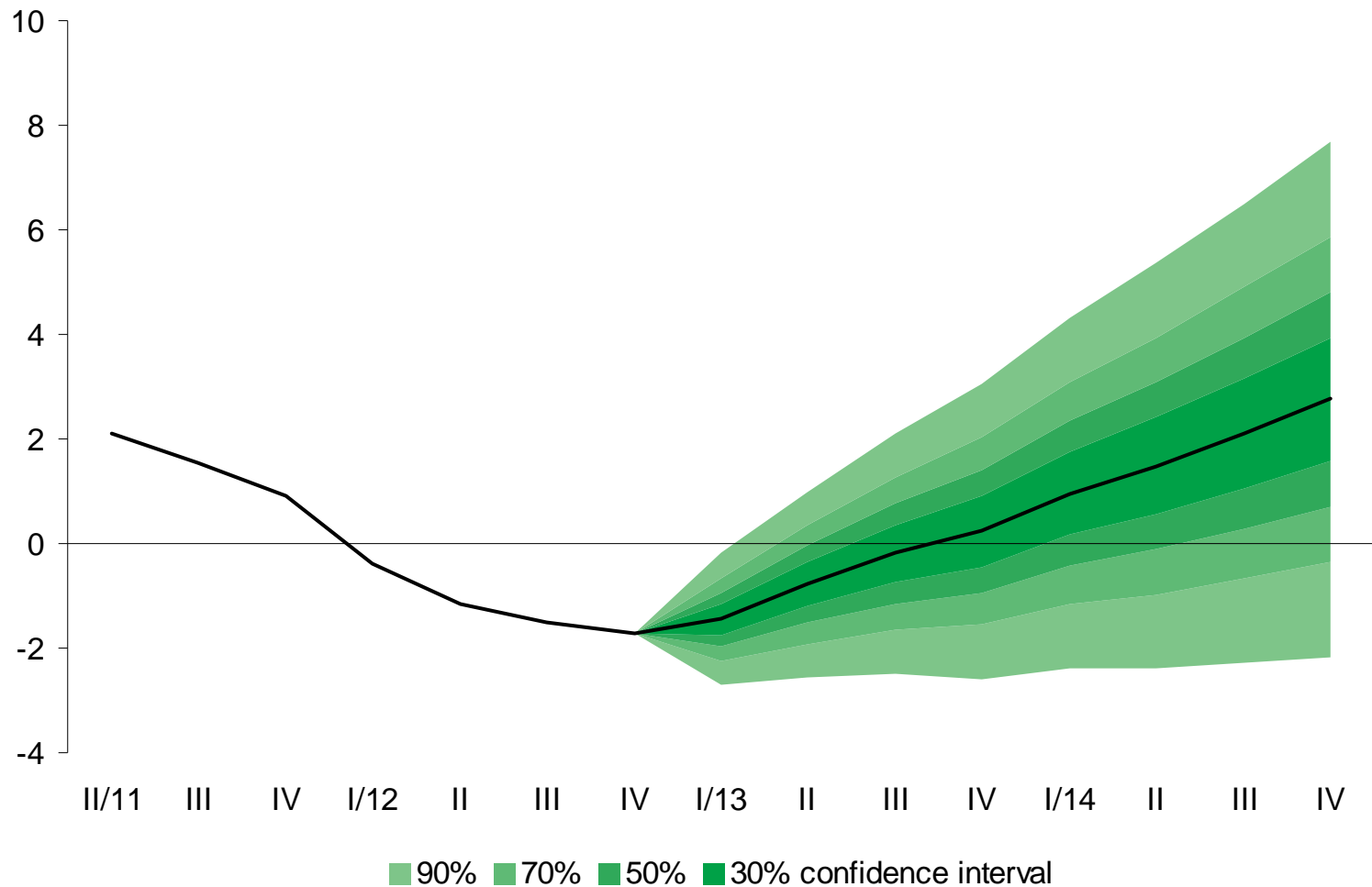
The forecast for headline inflation



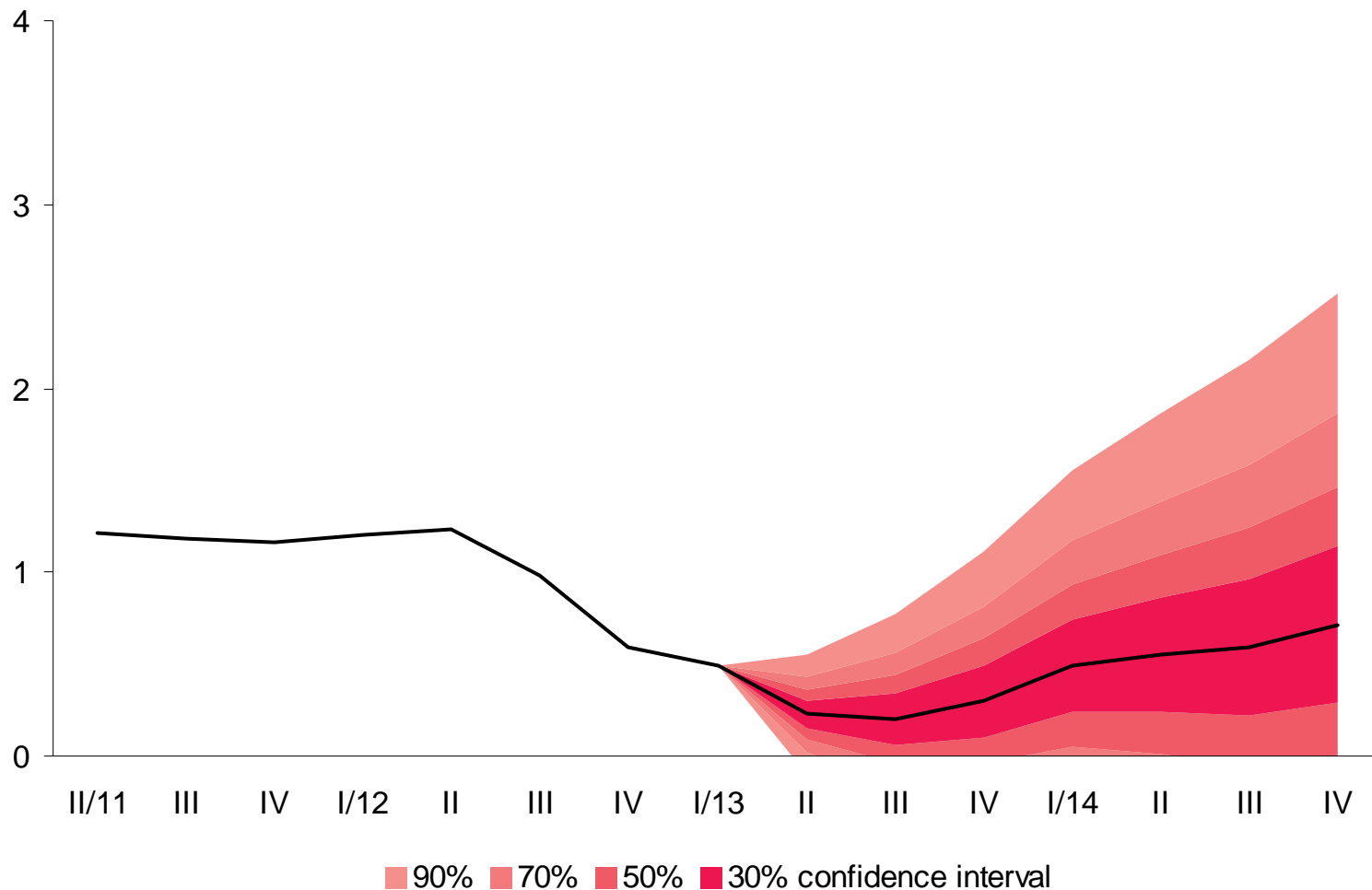
The forecast for monetary-policy relevant inflation



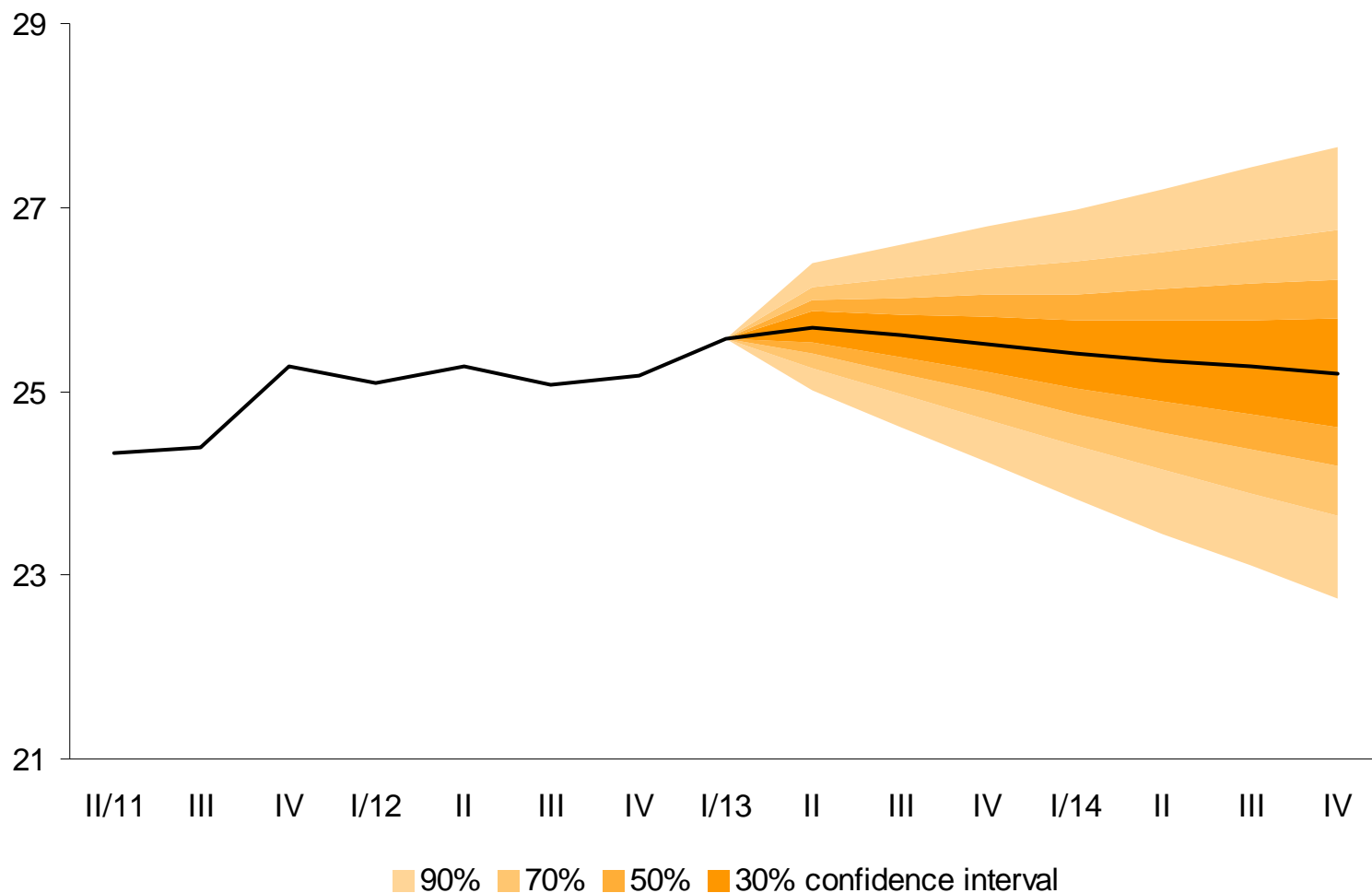
The forecast for GDP



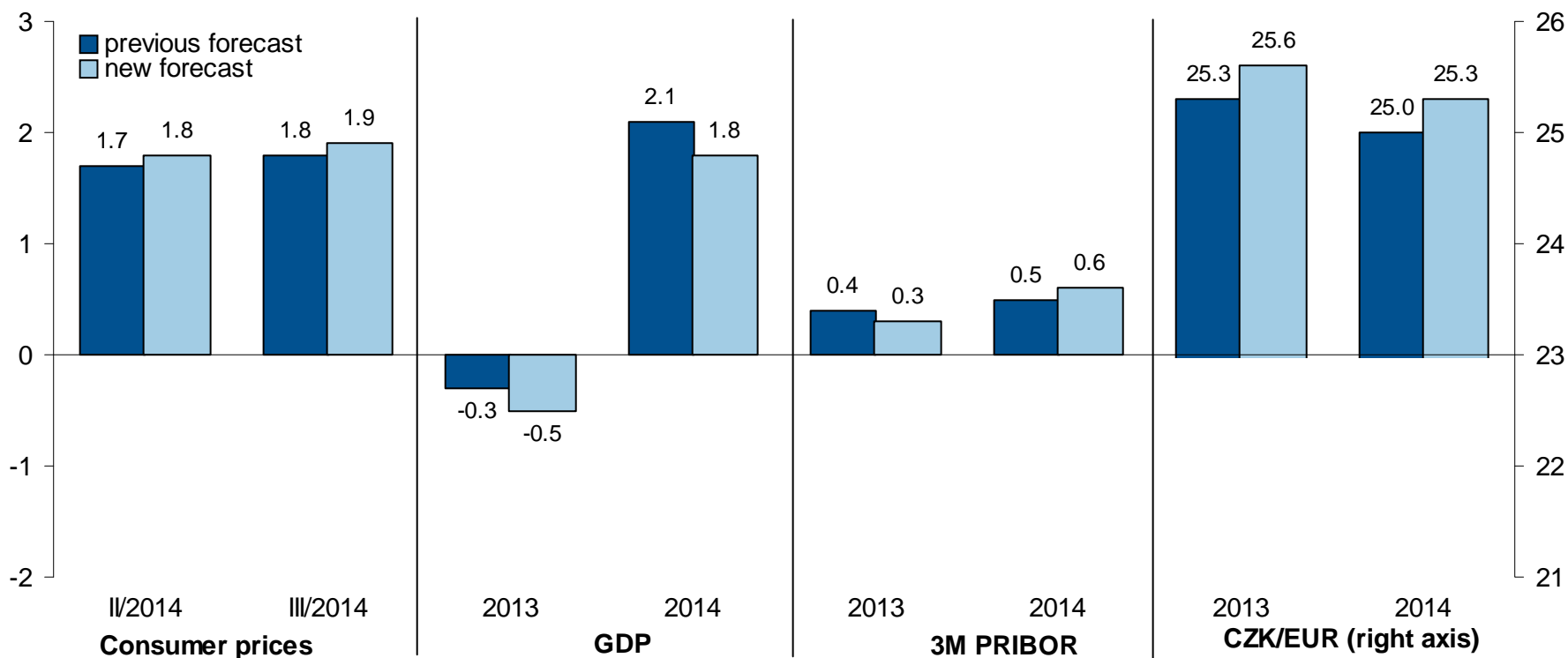
The forecast for interest rates (3M PRIBOR)



The forecast for the CZK/EUR exchange rate (quarterly averages)



Comparison with the previous forecast



Risks to the forecast

The risks to the forecast are on the downside.

Risks on the downside:

- outlook for foreign variables – EURIBOR, oil prices
- domestic economic developments
- increased competition in some oligopolistic industries



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 II/2013,
to be published 10 May 2013.