Press conference of the CNB Bank Board

5th Situation Report on Economic and Monetary Developments

1 August 2013

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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 likelihood of launching foreign exchange interventions to ease monetary policy has increased further.

Reasons for the decision within the context of the forecast

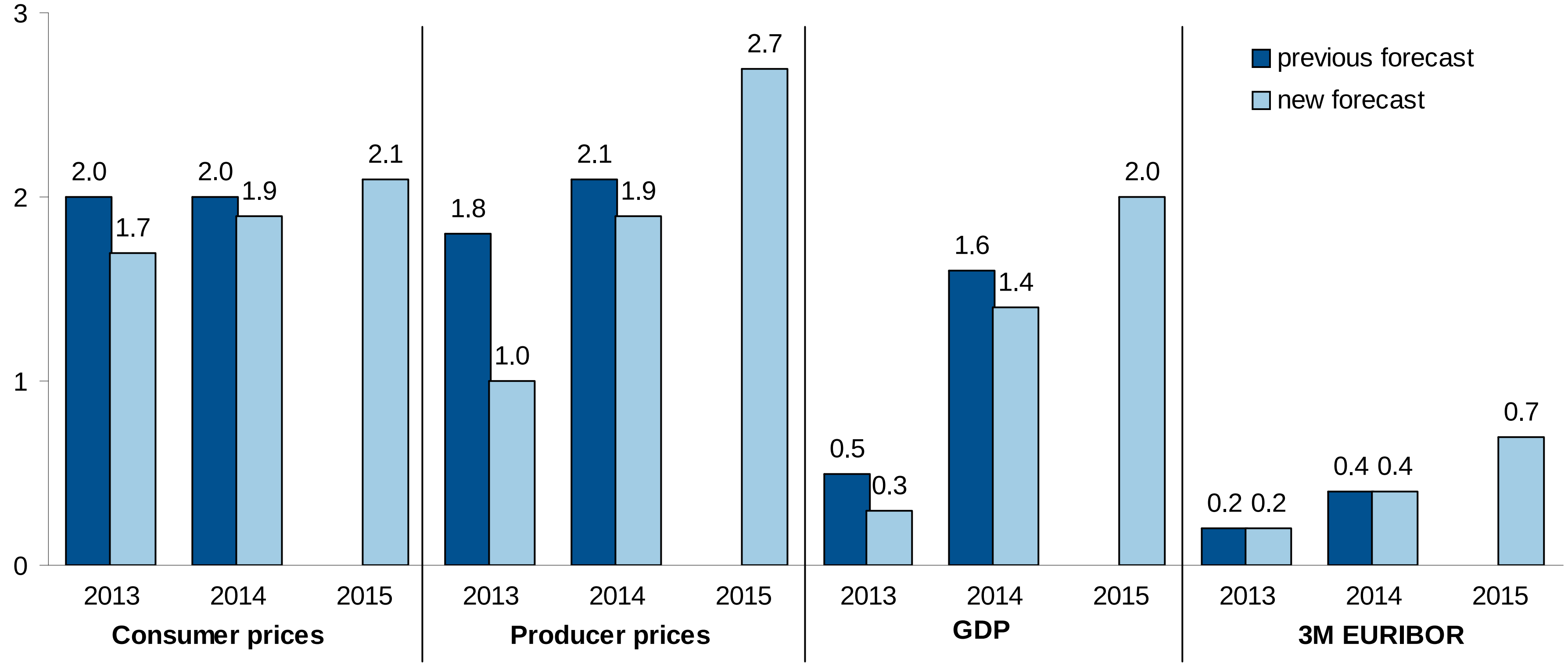
- Consistent with the forecast is a decline in market interest rates to zero, followed by a noticeable rise in rates only in 2015.
- Given the zero lower bound on monetary policy rates, this points to a need for easing monetary policy using other instruments.
- The new forecast does not predict an increase 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 skewed towards a need for easier monetary conditions.

The message of the forecast

- Food prices continue to be the source of current inflation. The contribution of tax changes and administered prices has decreased. The domestic economy continues to dampen inflation significantly.
- Headline inflation will be below the CNB's 2% target this year, monetary-policy relevant inflation will be below the lower boundary of the tolerance band. At the monetary policy horizon, headline and monetary-policy will gradually approach the target again.
- This year, GDP will drop by 1.5% overall and a gradual recovery will be seen from 2013 Q2. Next year, GDP will grow by approximately 2% due to accelerating external demand amid an unwinding dampening effect of domestic fiscal consolidation. GDP growth will accelerate further in 2015.
- The exchange rate of the koruna against the euro has weakened and will appreciate only very slowly over the forecast horizon.
- Consistent with the forecast is a decline in market interest rates to zero, followed by a noticeable rise in rates only in 2015.

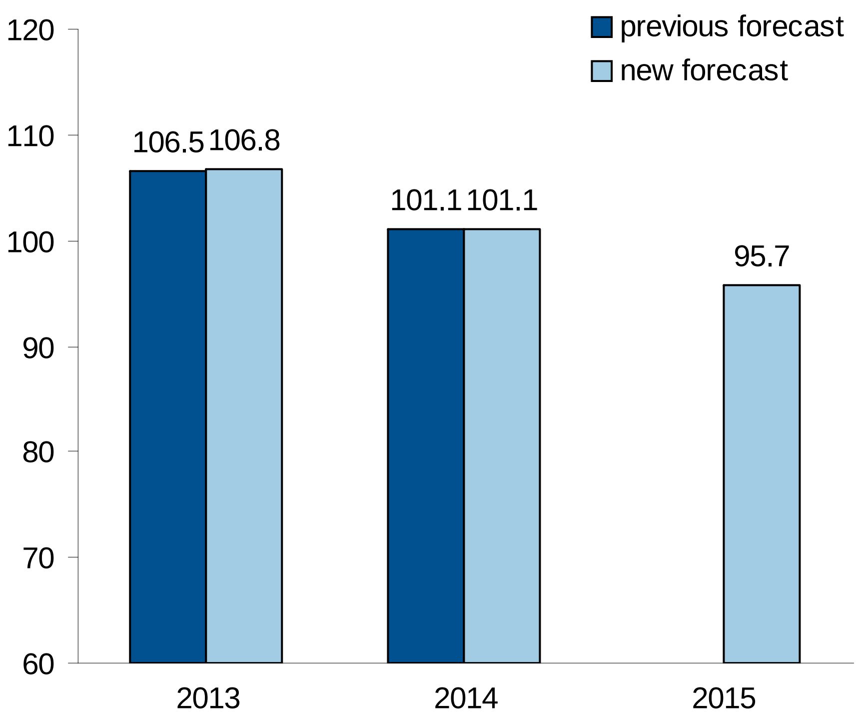
The external environment (i)

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

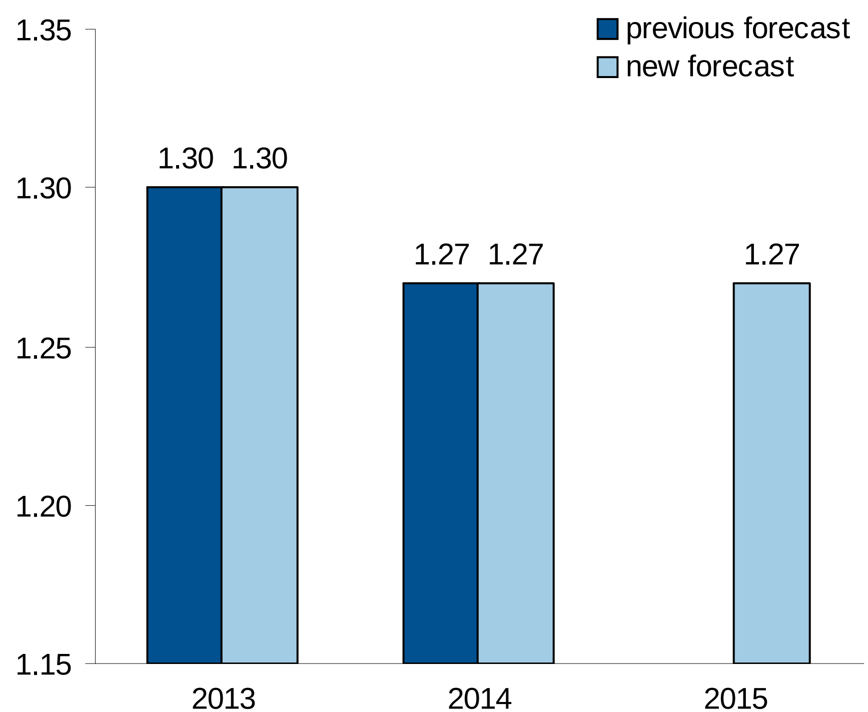


The external environment (ii)

Comparison between the assumptions of the new and previous forecasts



Brent oil (USD/barrel)



USD/EUR

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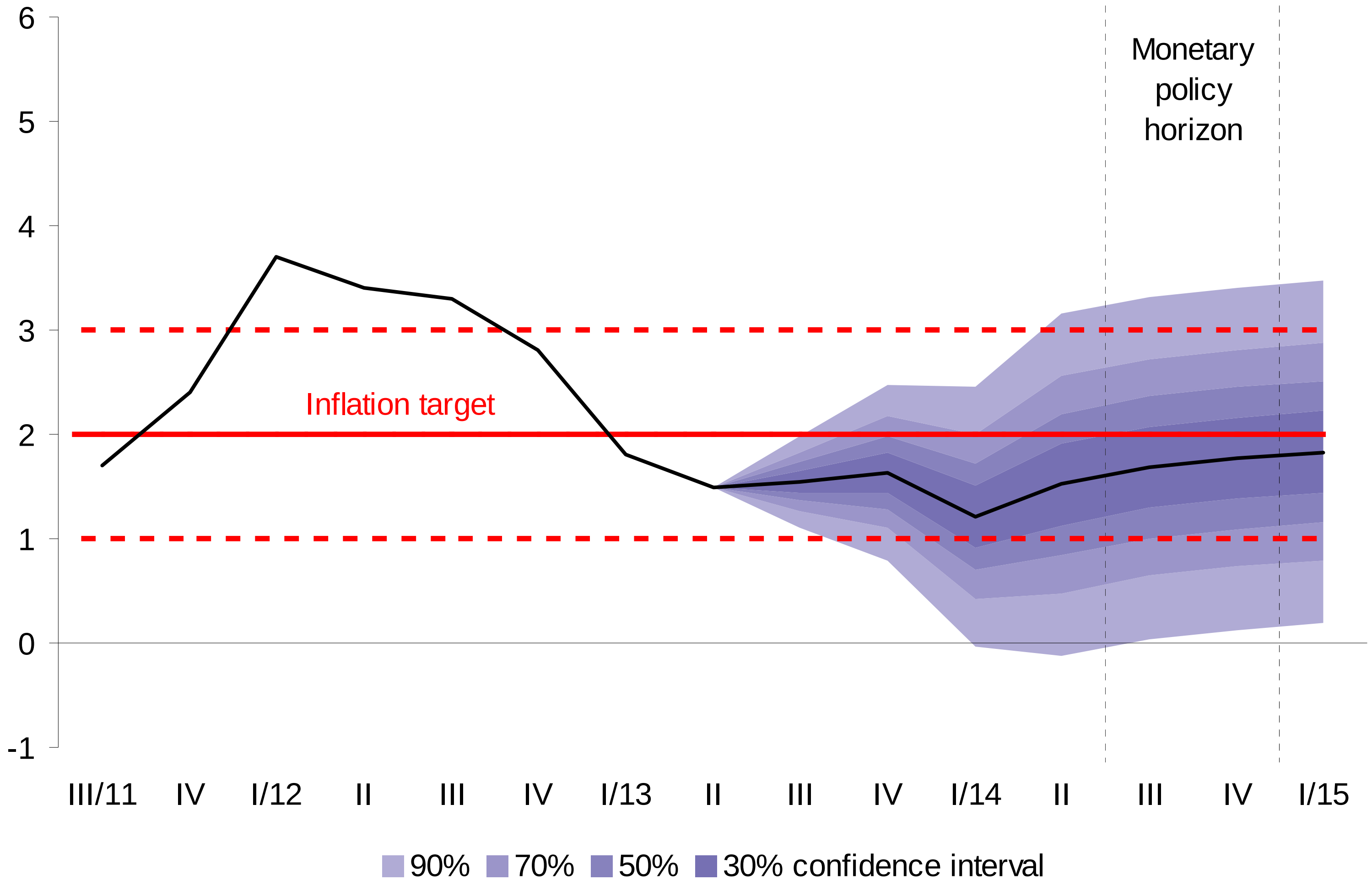
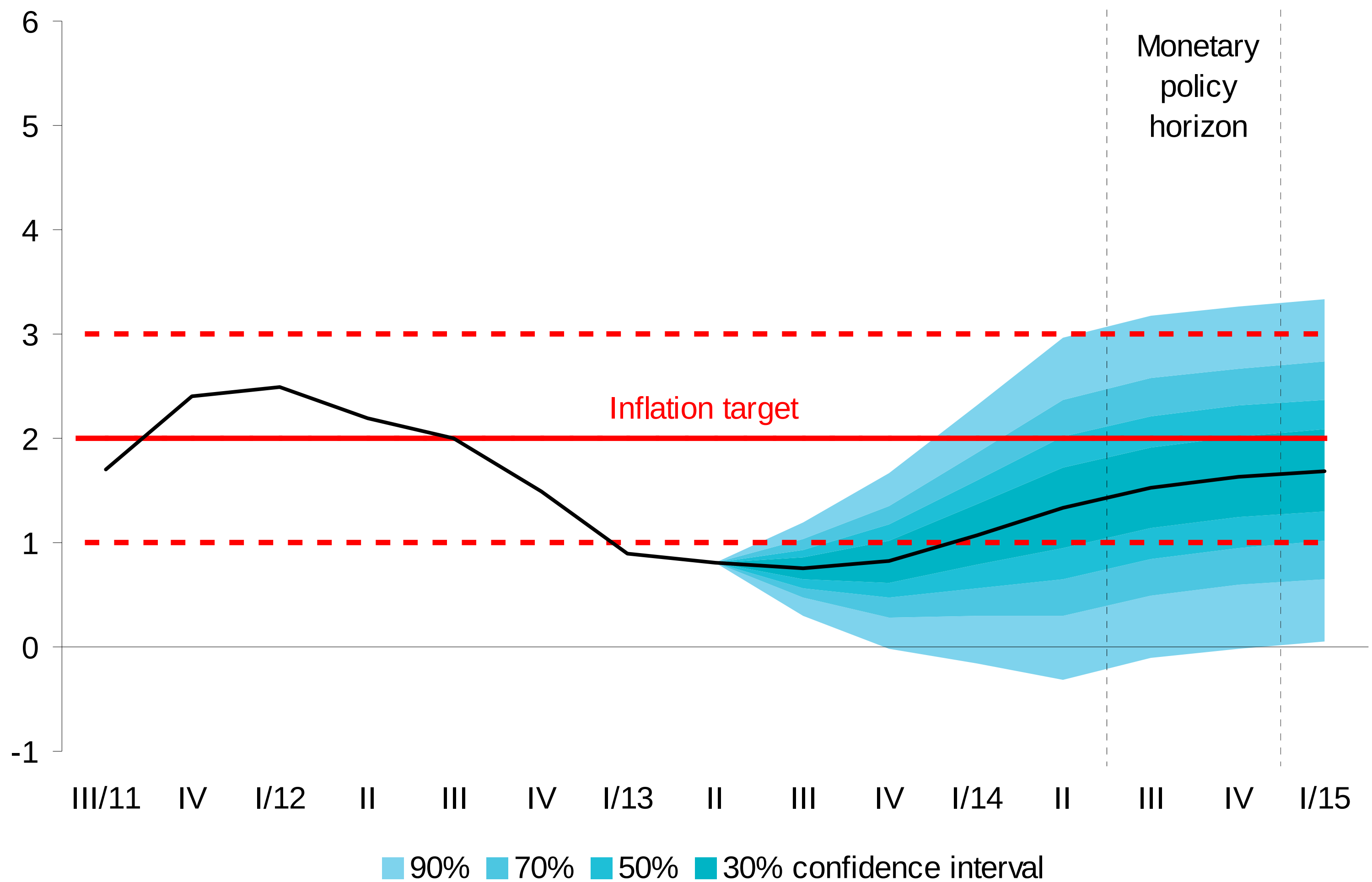
The forecast for headline inflation



The forecast for monetary-policy relevant inflation



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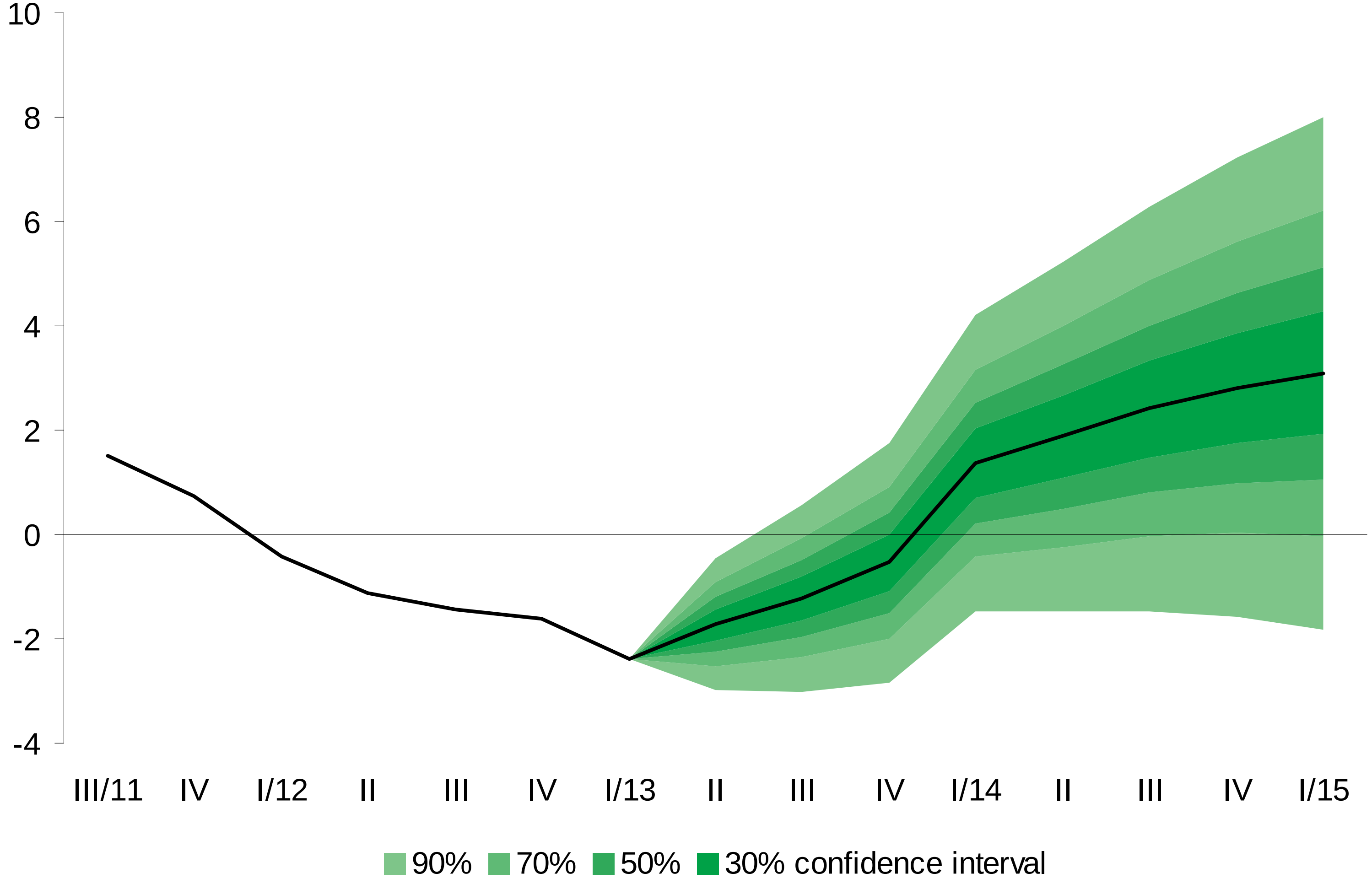
The forecast for GDP



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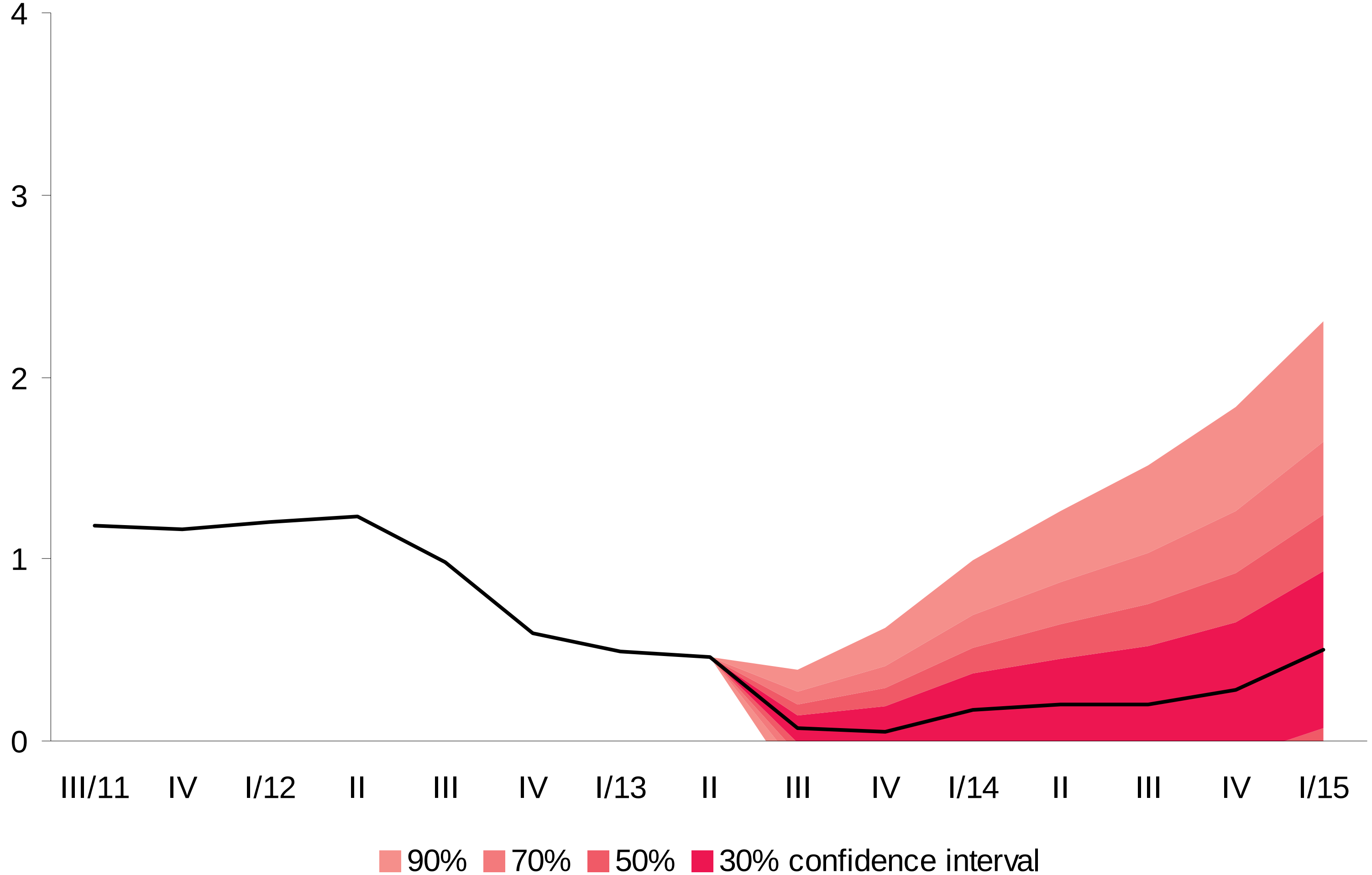
The forecast for interest rates (3M PRIBOR)



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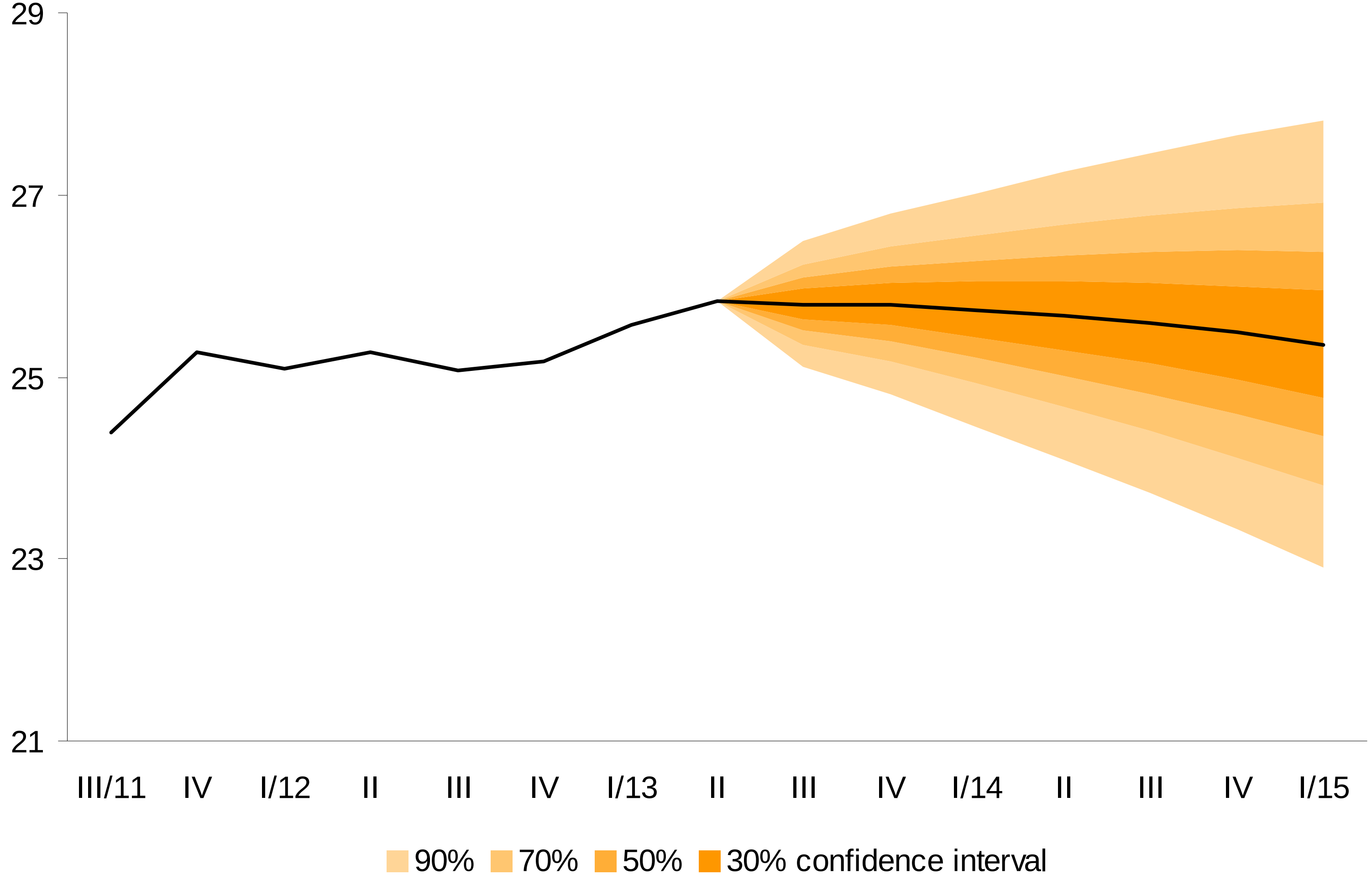
The forecast for the CZK/EUR exchange rate (quarterly averages)



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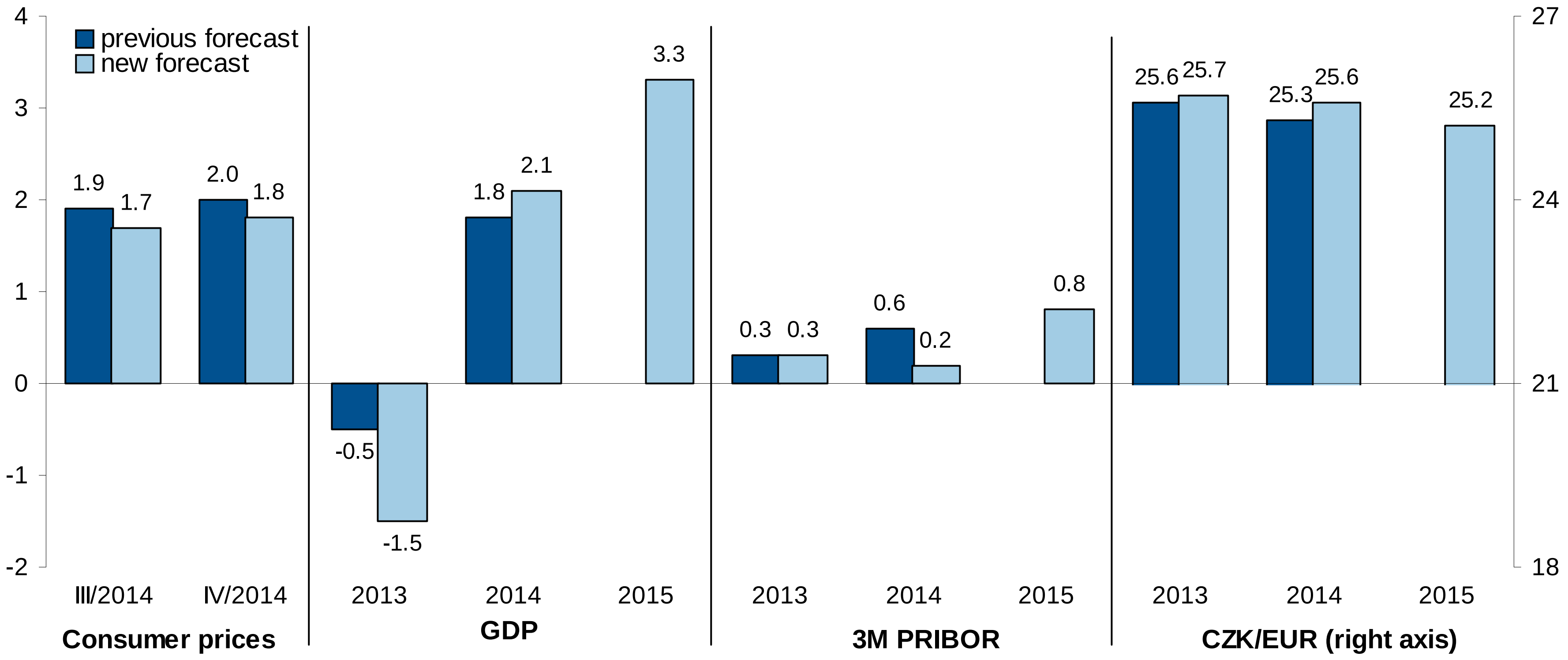
Comparison with the previous forecast



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Risks to the forecast

The risks to the forecast are skewed towards a need for easier monetary conditions.

Risks in this direction:

- energy prices
- a risk of unfulfilled expectations of an economic recovery in the euro area

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 III/2013, to be published 9 August 2013.