

Meeting with Analysts

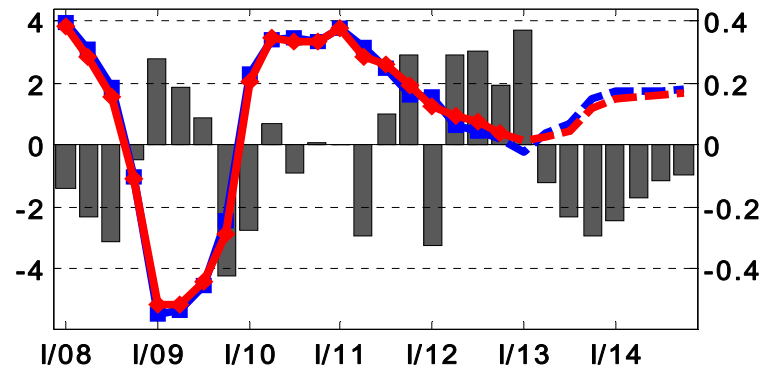
Tomáš Holub

Prague, 10 May, 2013

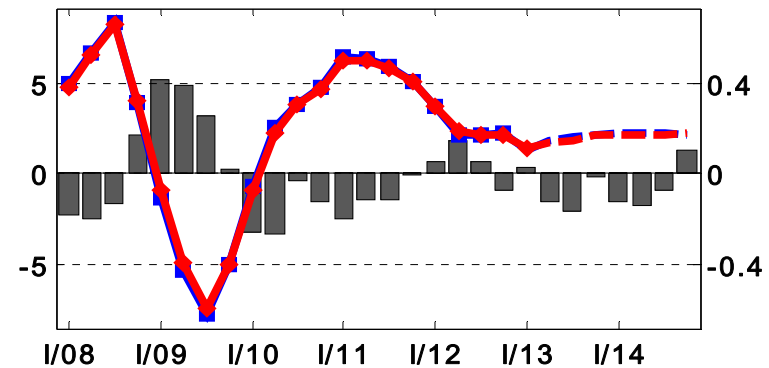
- After a bottom in 2013 Q1, the recovery of GDP in the effective euro area will be gradual. Prices are expected to grow only moderately and foreign interest rates will remain at low levels.
- Fiscal policy will remain restrictive in 2013, but will turn neutral in 2014.
- Headline inflation will be slightly below the CNB's 2% target this year, as well as 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.
- Overall inflationary pressures will pick up in the following quarters due to the effect of depreciated exchange rate on import prices and slowly receding anti-inflationary impact of the domestic economy.

- During 2013 H2, hints of economic growth recovery are expected, yet in aggregate Czech economy will decline by 0.5% this year. In 2014, the GDP growth will reach 1.8%.
- Nominal wage growth will remain moderate (but volatile due to the effects of tax optimisation) owing to the subdued economy.
- The nominal exchange rate CZK/EUR will appreciate very slowly from a weak initial level (CZK/EUR 25.7 in 2013 Q1).
- Consistent with the forecast is a slight decline in market interest rates, followed by a rise in rates in 2014.

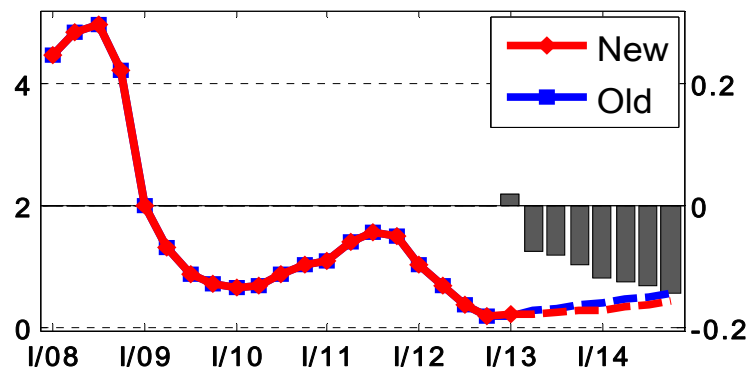
Growth Rate of GDP - Eurozone (y/y, in %)



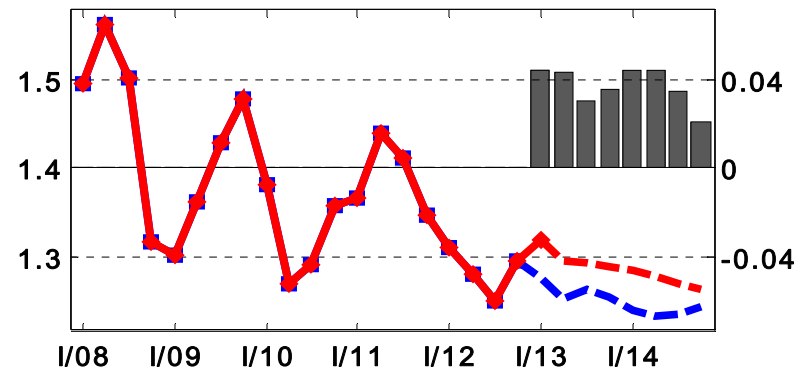
PPI Inflation - Eurozone (y/y, in %)



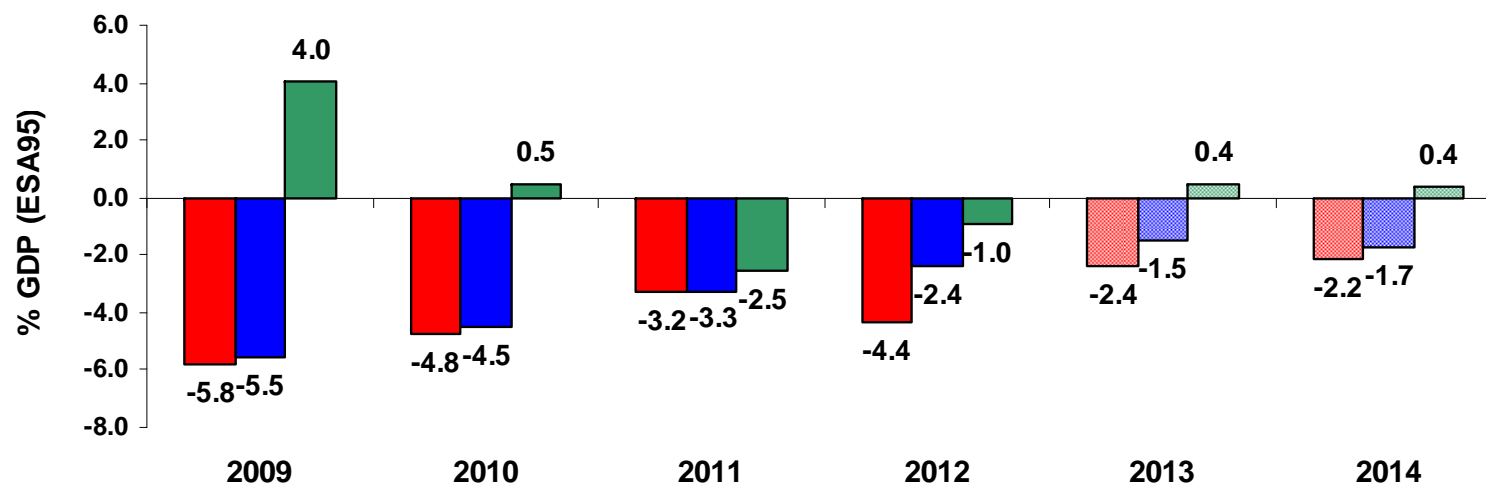
3M EURIBOR



USD/EUR



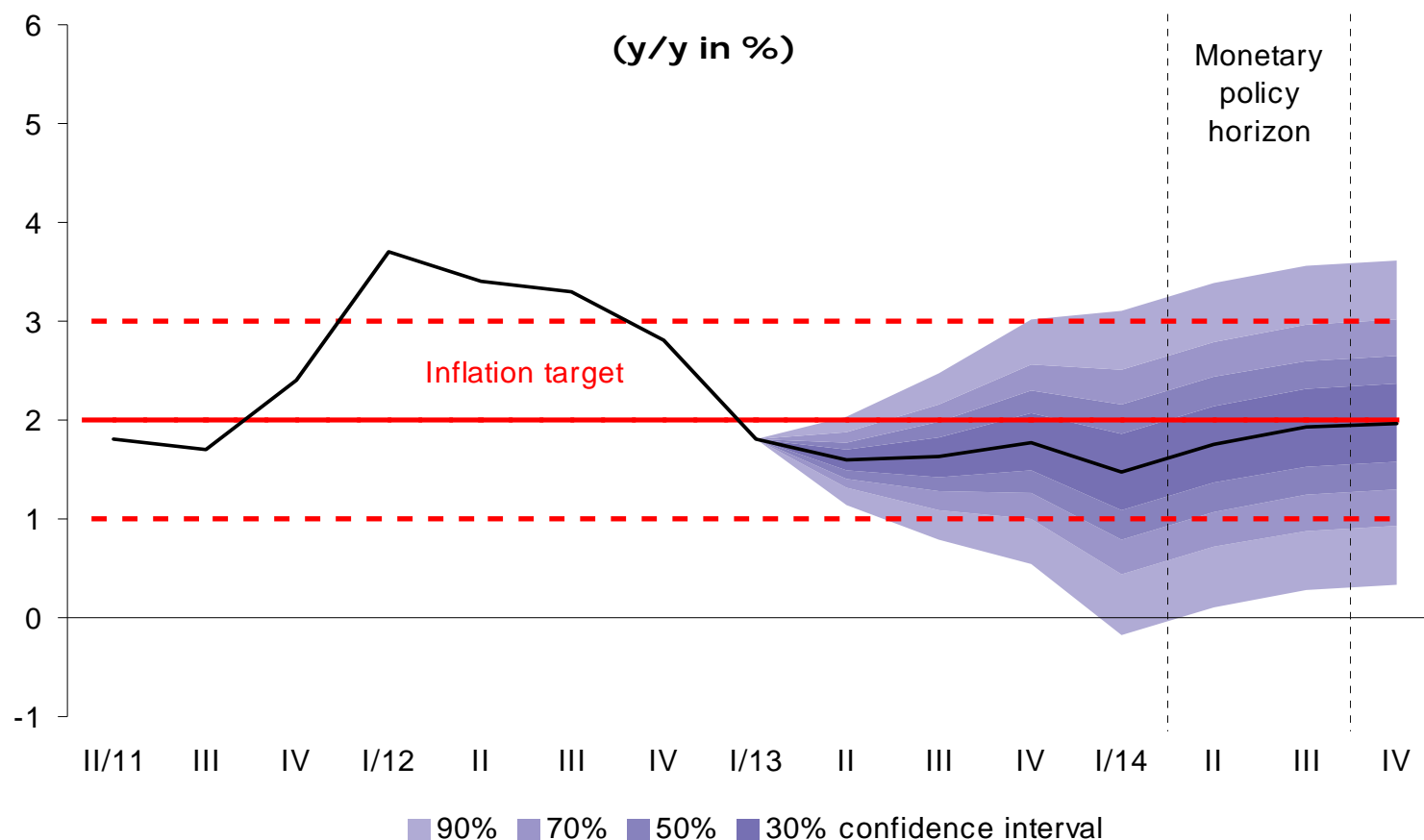
- The recovery of euro area GDP growth in 2013 will be only gradual.
- 3M EURIBOR will stay at very low levels on the whole forecast horizon.
- PPI growth in euro area is expected to be low and stable, oil prices will slightly decline, the euro will gradually depreciate against the USD.



■ Public budget deficit ■ Structural deficit (EC) ■ Real government consumption (y-o-y %)

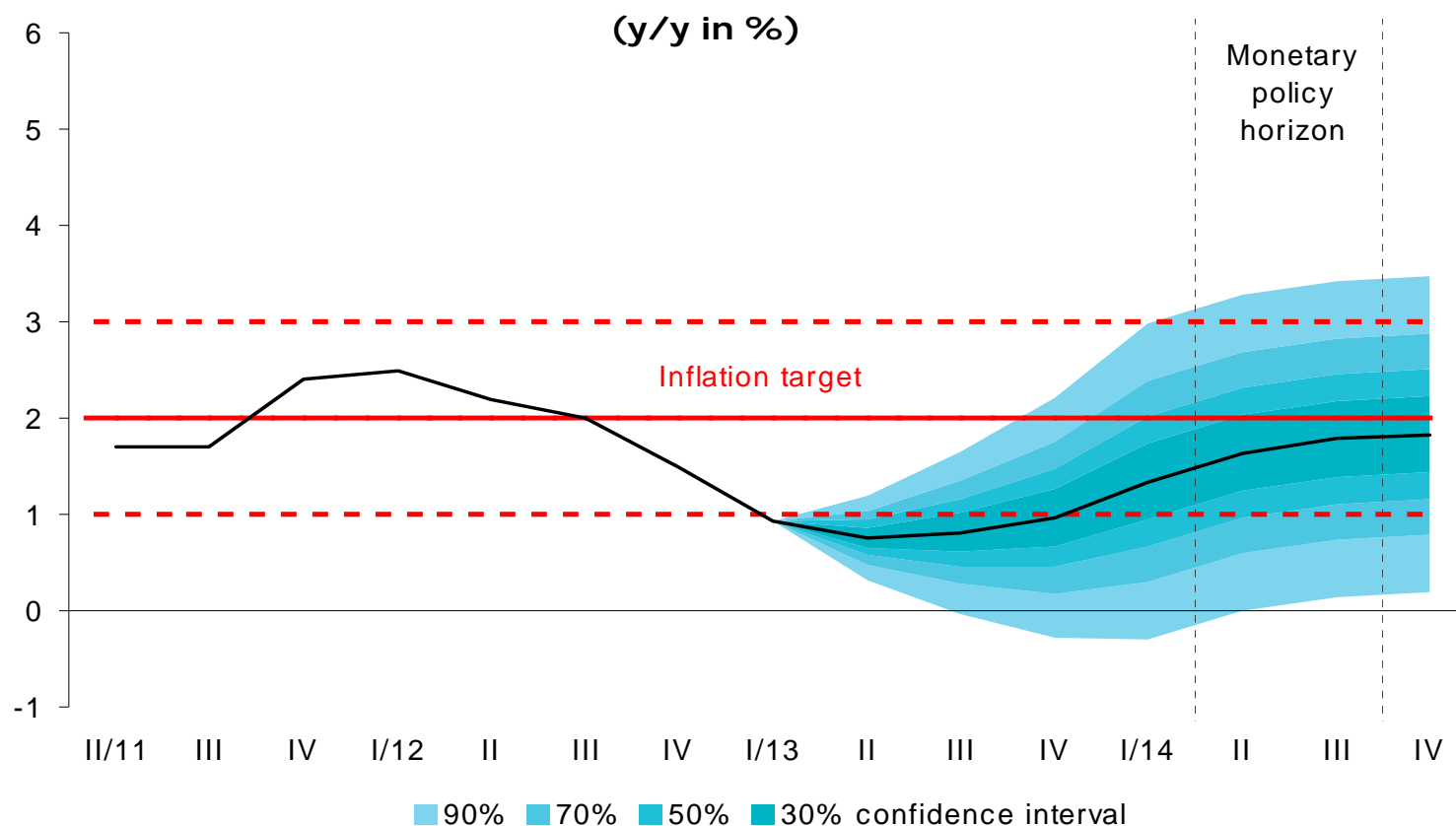
- Fiscal policy was more restrictive in 2012 than previously assumed, but the restriction in 2013 will be less pronounced (and in 2014, fiscal policy is expected to have a neutral impact on growth).
- The structural deficit will fall below 2% of GDP, government consumption will grow only slightly in real terms.

Headline Inflation Forecast



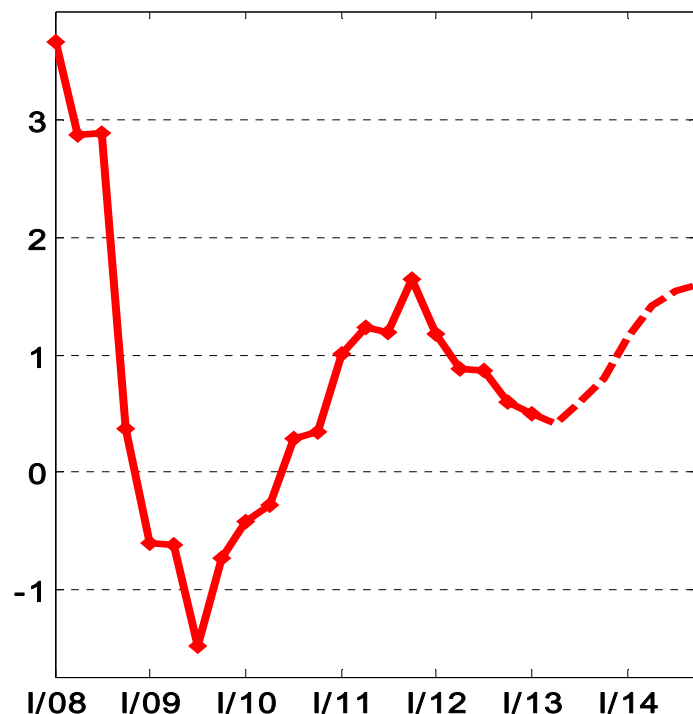
- Headline inflation will be slightly below the CNB's 2% target this year despite an increase in indirect taxes.
- As this tax effect fades away in January 2014, inflation will decline further, and then gradually return to the target.

MP-Relevant Inflation Forecast

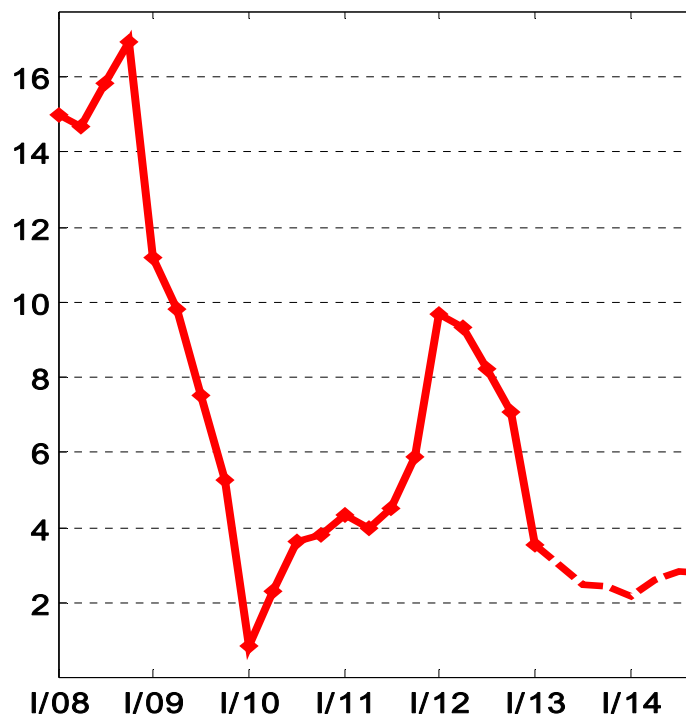


- Monetary-policy relevant inflation will be close to the lower boundary of the tolerance band this year.
- On the monetary policy horizon, it will be slowly moving back to the target.

Net Inflation (y/y, in %)

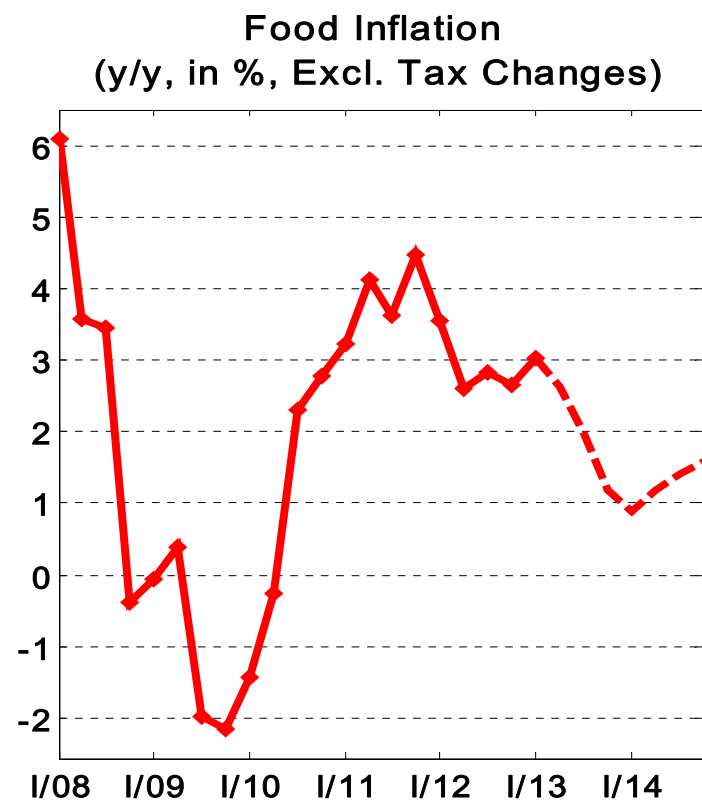
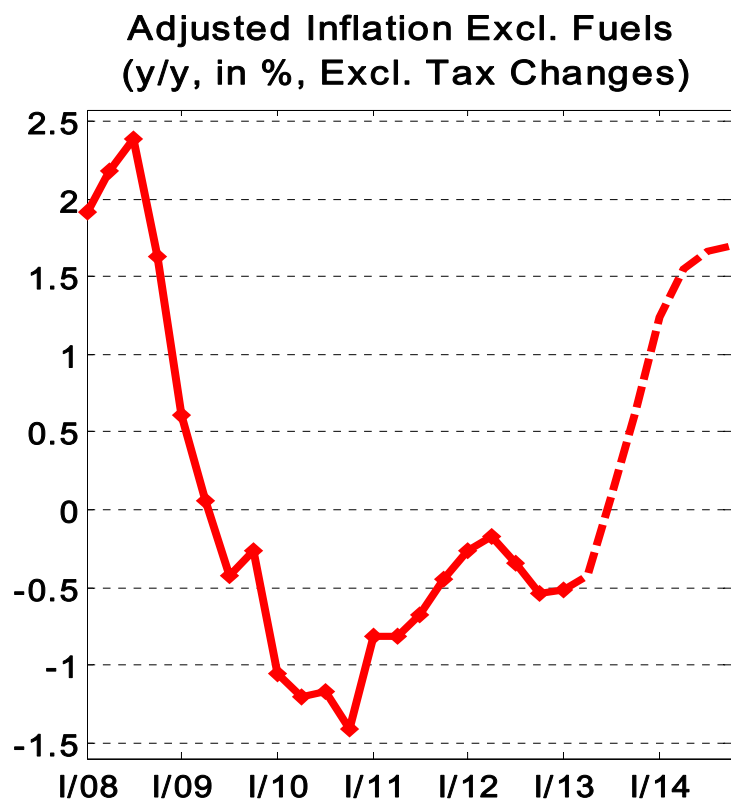


Growth of Administered Prices (y/y, in %)



- Net inflation will start increasing gradually due to rising "core" inflation (vs. decelerating food price growth and declining fuel prices).
- Growth of administered prices (including effects of tax changes) has slowed down significantly, and a further deceleration is expected this year (declining gas prices, slower growth of heating prices, etc.).

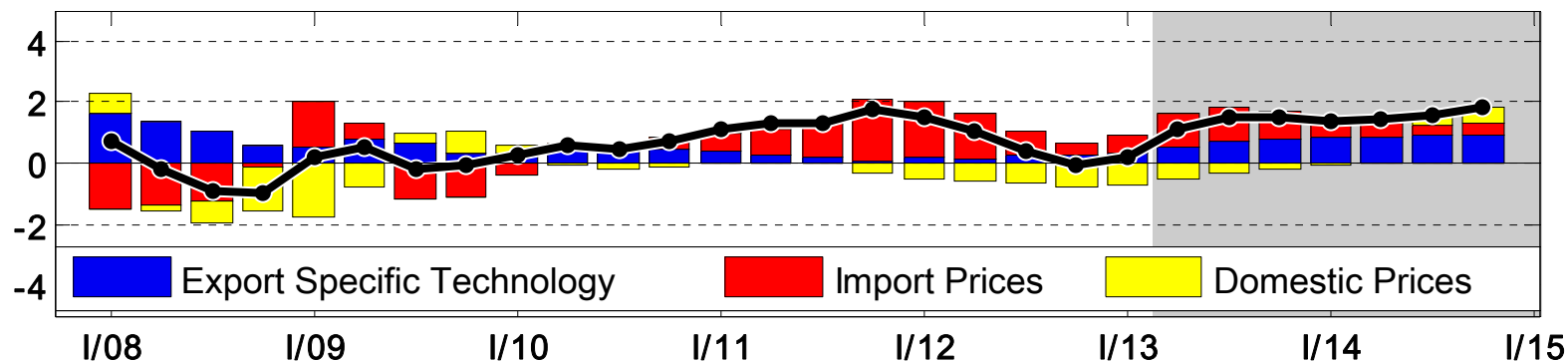
Adjusted Inflation Excluding Fuels; Food Prices



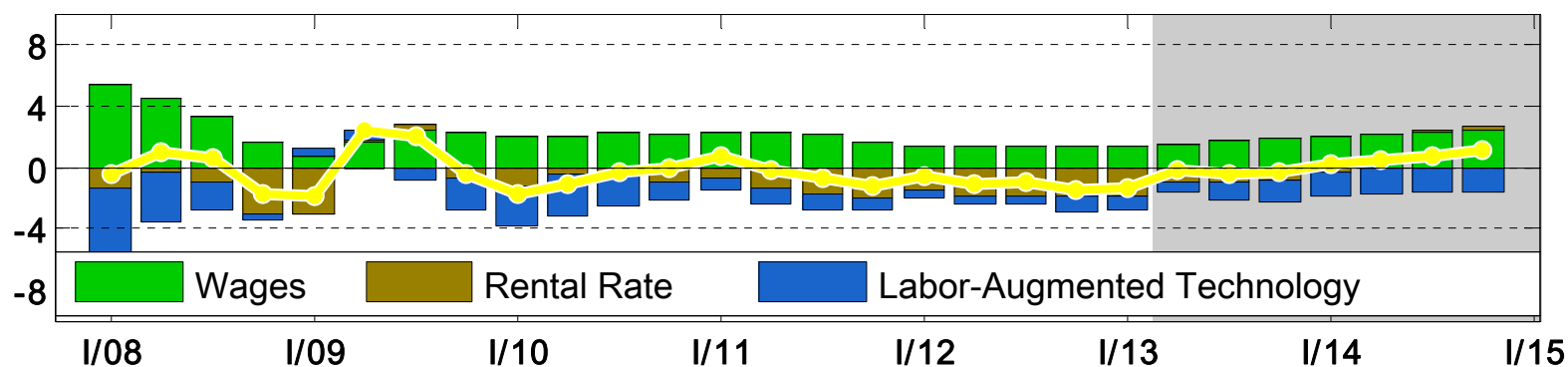
- "Core" inflation will turn positive in 2013 Q3 and after that it will increase further due to growing import prices and gradually evaporating anti-inflationary pressures from the domestic economy.
- Food price growth will slow down, fuel prices will be declining this year.

Domestic Costs vs. Import Prices

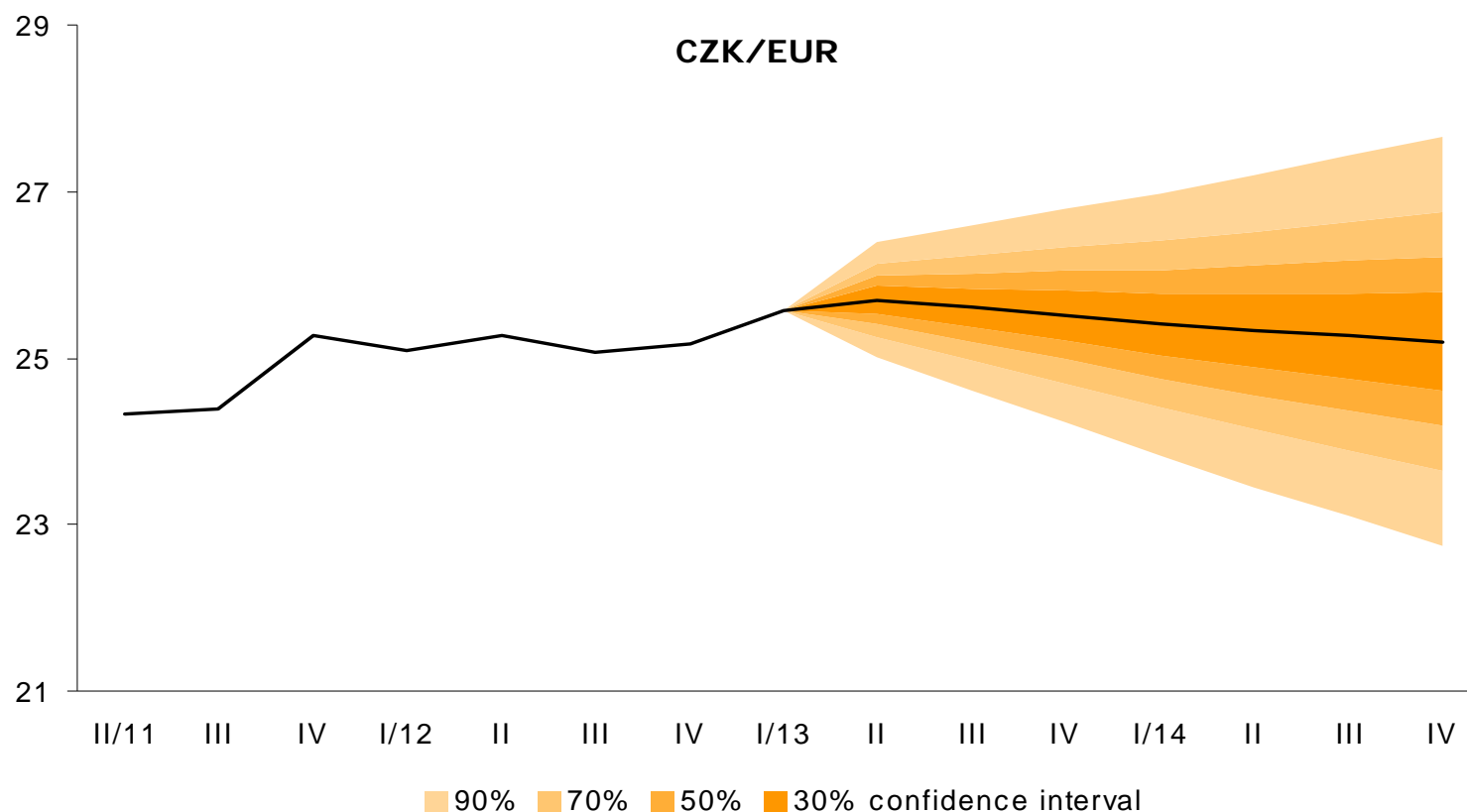
Nominal Marginal Cost in Consumption Sector (q/q, in %, ann.)



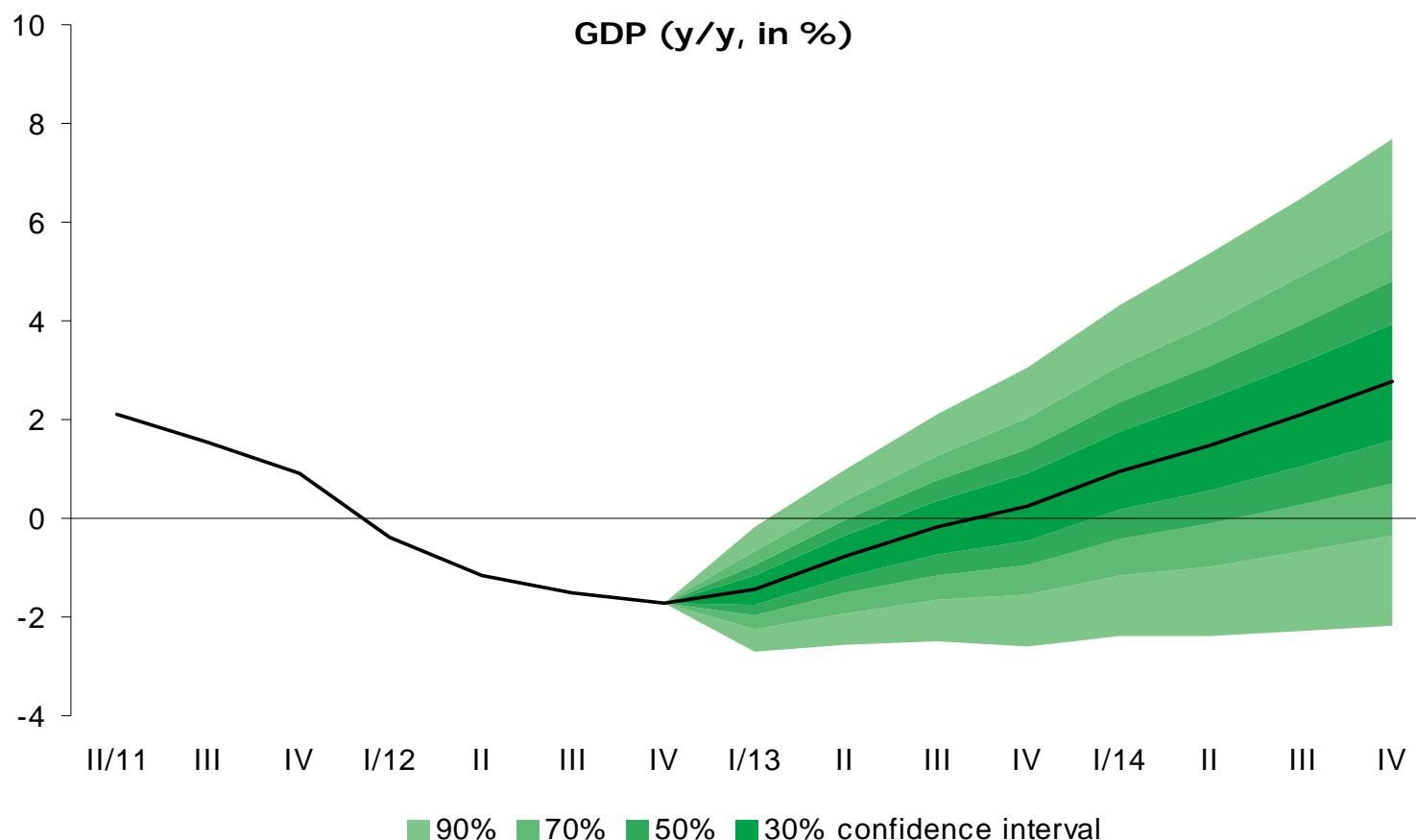
Nominal Marginal Cost in Intermediate Sector (q/q, in %, ann.)



- The inflationary impact of import prices will increase in the near-term due to the exchange rate depreciation in 2013 H1.
- Anti-inflationary impact of the domestic economy will be fading away very gradually due to still subdued economic activity and wage growth.



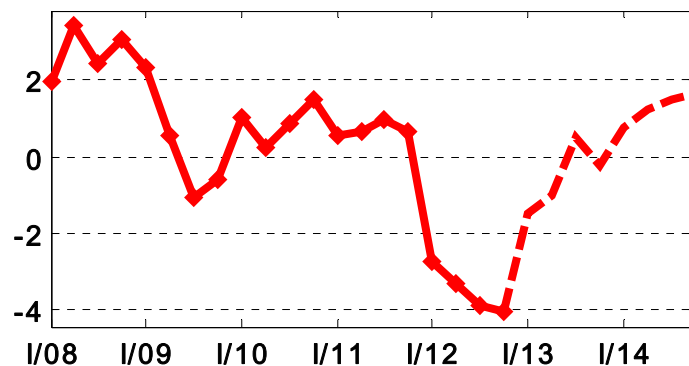
- Near-term forecast for 2013 Q2 is CZK/EUR 25.70, reflecting the subdued economic activity and CNB's communication on possible FX interventions.
- The forecast predicts only very slow future appreciation, implied by low euro-area interest rates and an improvement in nominal net exports especially in 2014 (reviving foreign demand).



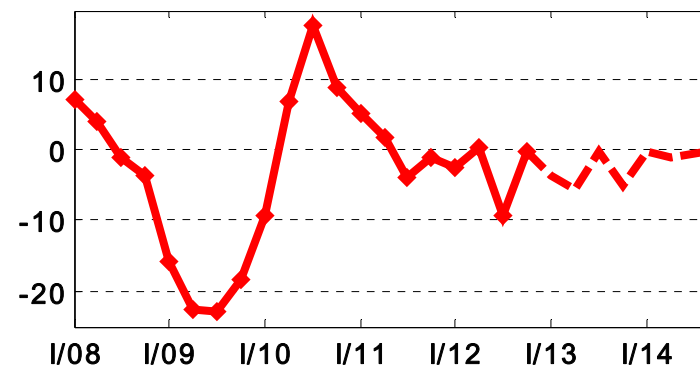
- GDP growth forecast: -0.5% in 2013 and 1.8% in 2014.
- In 2013, restrictive fiscal policy will curb economic growth (impact estimated at -0.6 p.p.), whilst the foreign demand will recover only gradually. In 2014, these curbing factors will disappear.

Forecast of Aggregate Demand

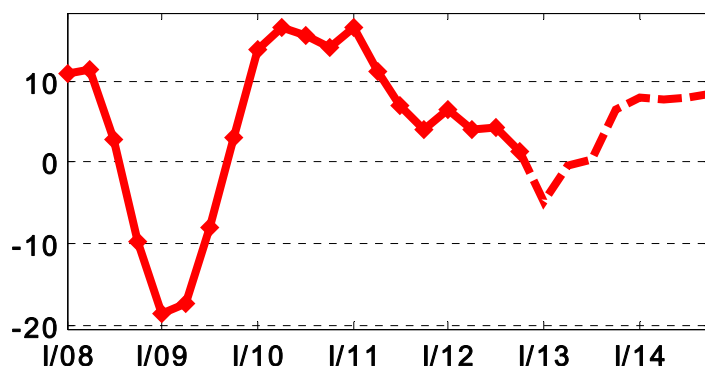
Household Consumption Growth (y/y, in %)



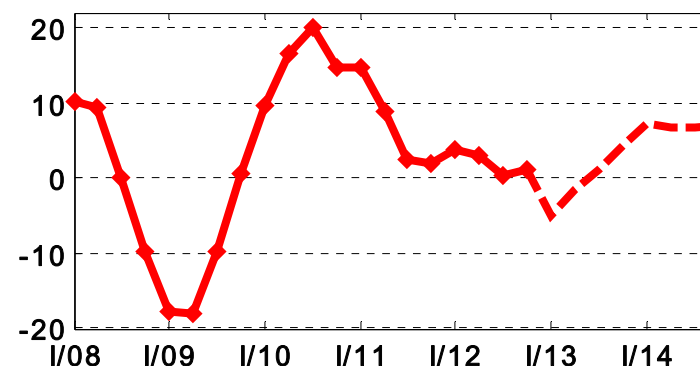
Investments Growth (y/y, in %)



Exports Growth (y/y, in %)



Imports Growth (y/y, in %)

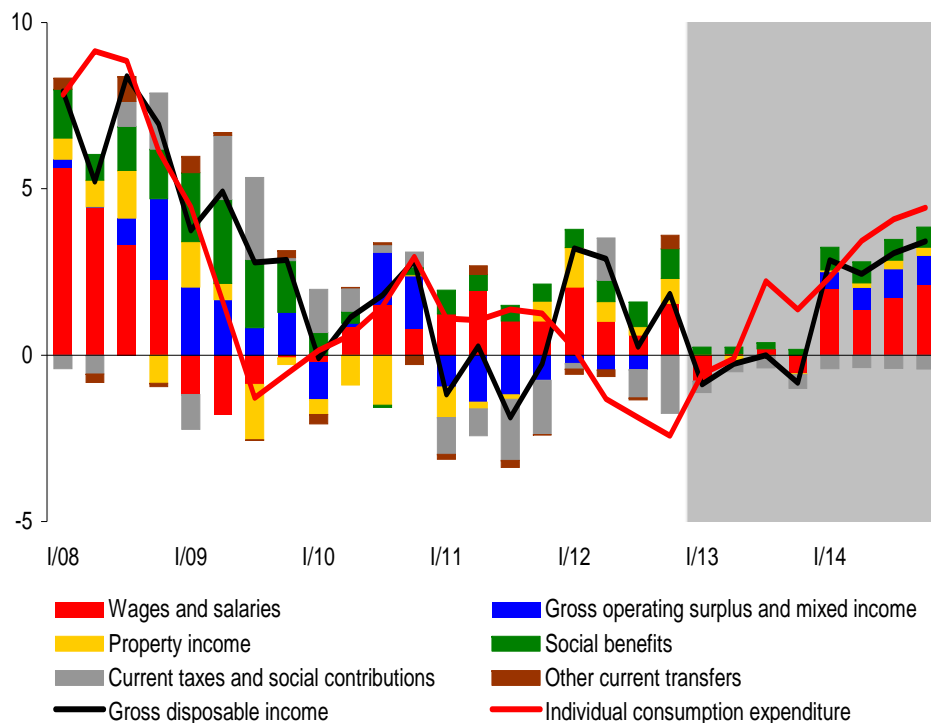


- Decline in household consumption and investment will continue (but moderate) this year, consumption growth will turn positive in 2014.
- The positive contribution of net exports (but smaller than in 2012) will continue in both years.

Household Consumption and Savings

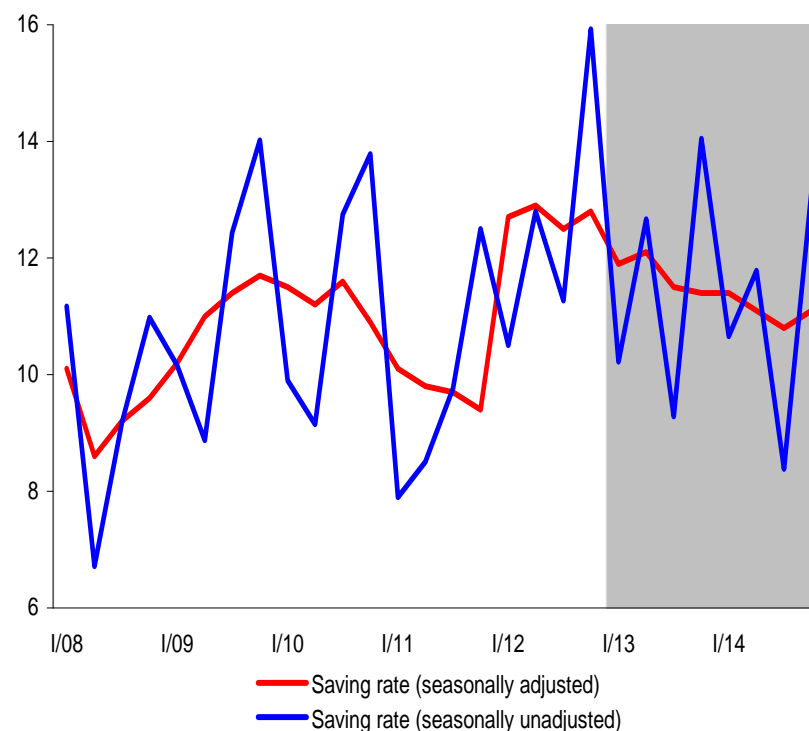
Nominal consumption and disposable income

(annual percentage changes; contributions in percentage points)



Household saving rate

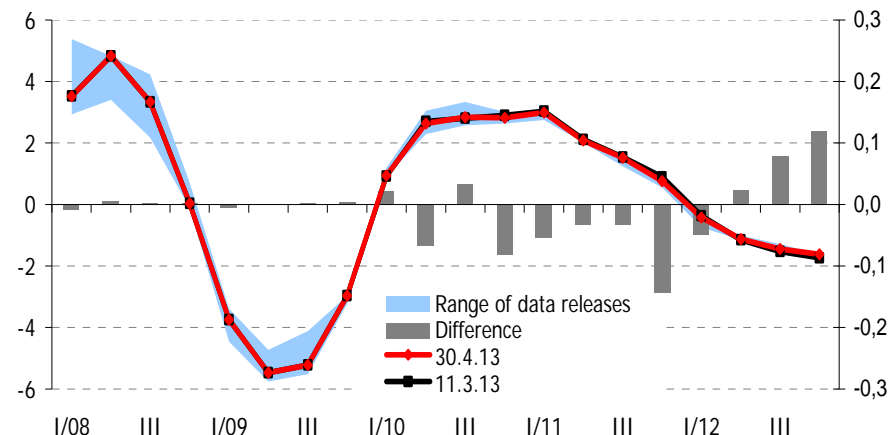
(percentages)



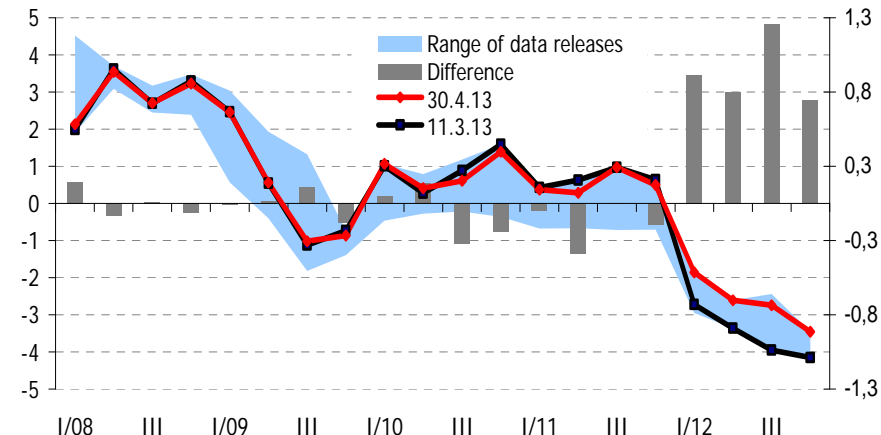
- Nominal disposable income will be declining this year, but nominal consumption will start increasing slightly due to the assumed decline of households saving rate from the elevated level observed in 2012.

National Accounts Revision

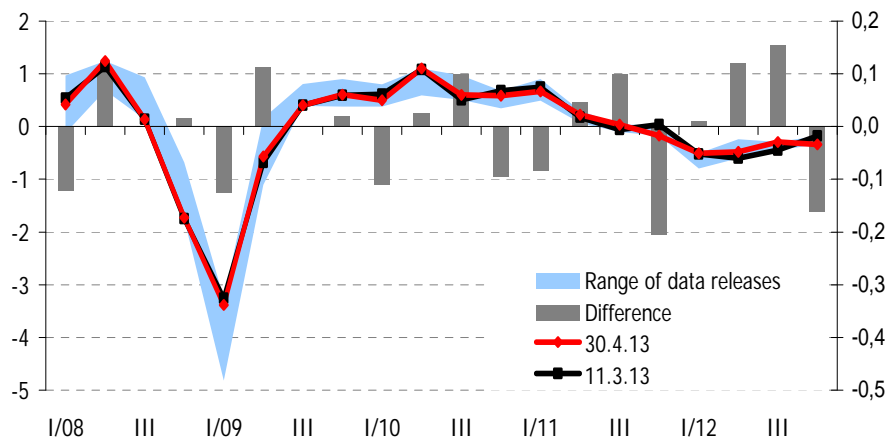
GDP (s.a., y/y in %)



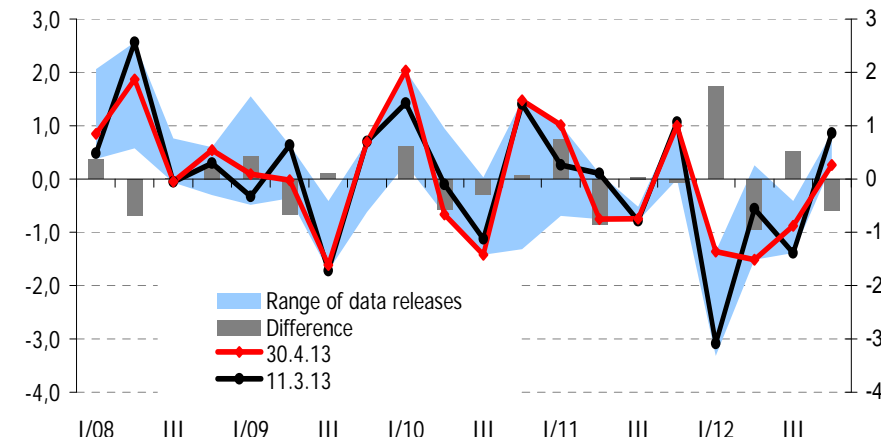
Household consumption (s.a., y/y in %)



GDP (s.a., q/q in %)

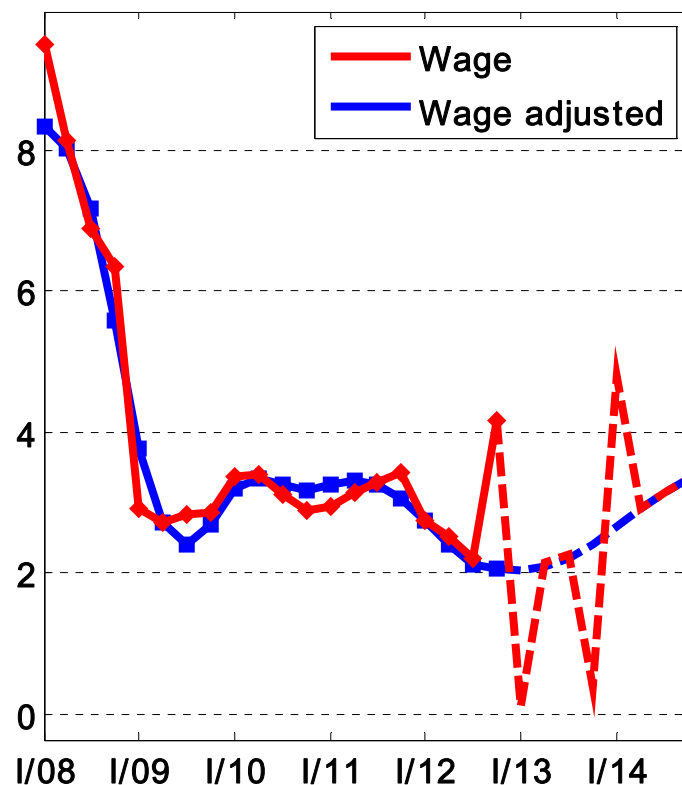


Household consumption (s.a., q/q in %)

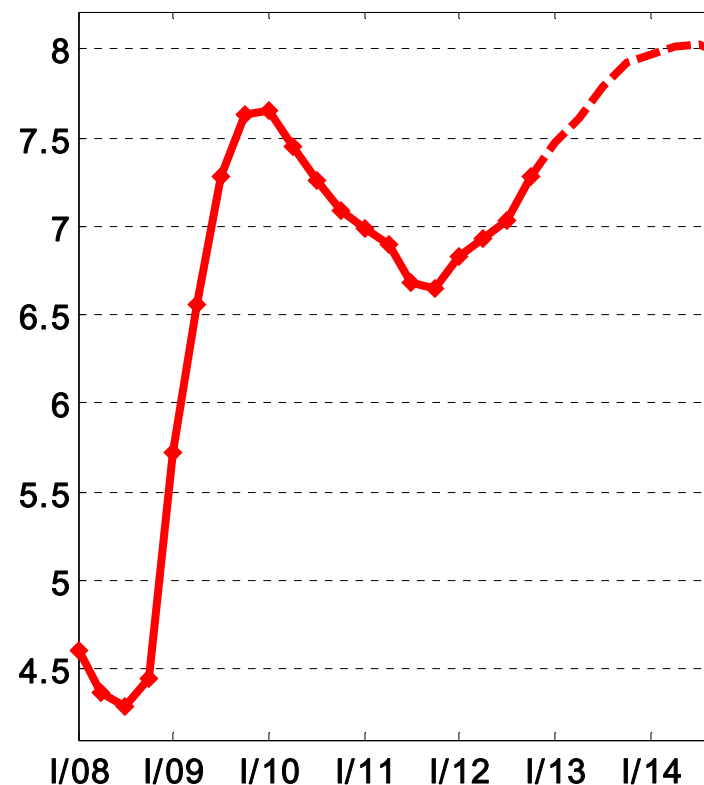


- Household consumption revised up in 2012, but overall GDP almost unchanged due to lower investment and government consumption.

Nominal wage growth in business sector
(y/y, in %, s.a.)



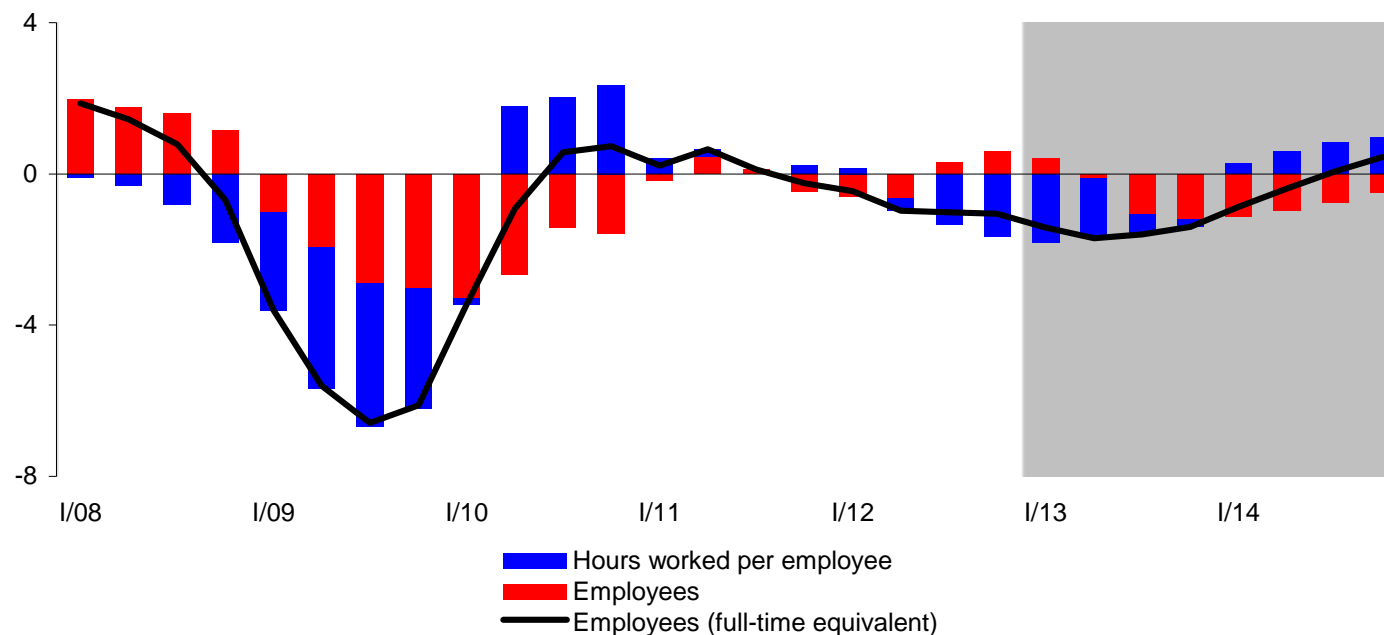
General unemployment rate (ILO)
(in %, s.a.)



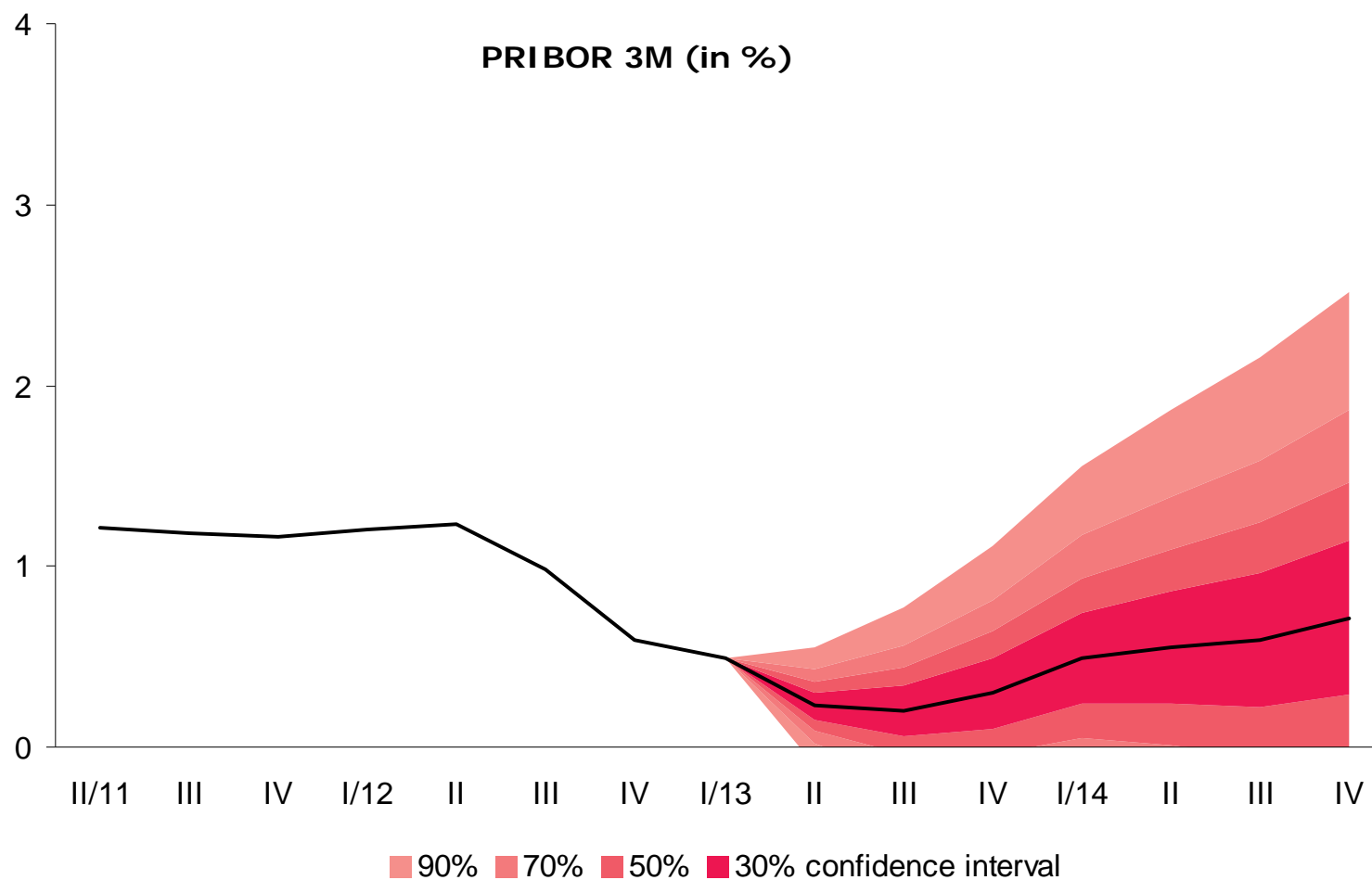
- Wage growth will be slow this year, but volatile due to the effects of tax optimisation. It will be gradually increasing in 2014.
- The unemployment rate (ILO) will continue to rise toward 8% (but 2013 Q1 was below forecast).

Number of employees (full-time equivalent)

(annual percentage changes; contributions in percentage points)



- Employment measured in full-time equivalents will continue to fall until mid-2014.
- The speed-up in employment growth in 2013 Q1 (data released after the Board meeting) is not in line with the forecast.

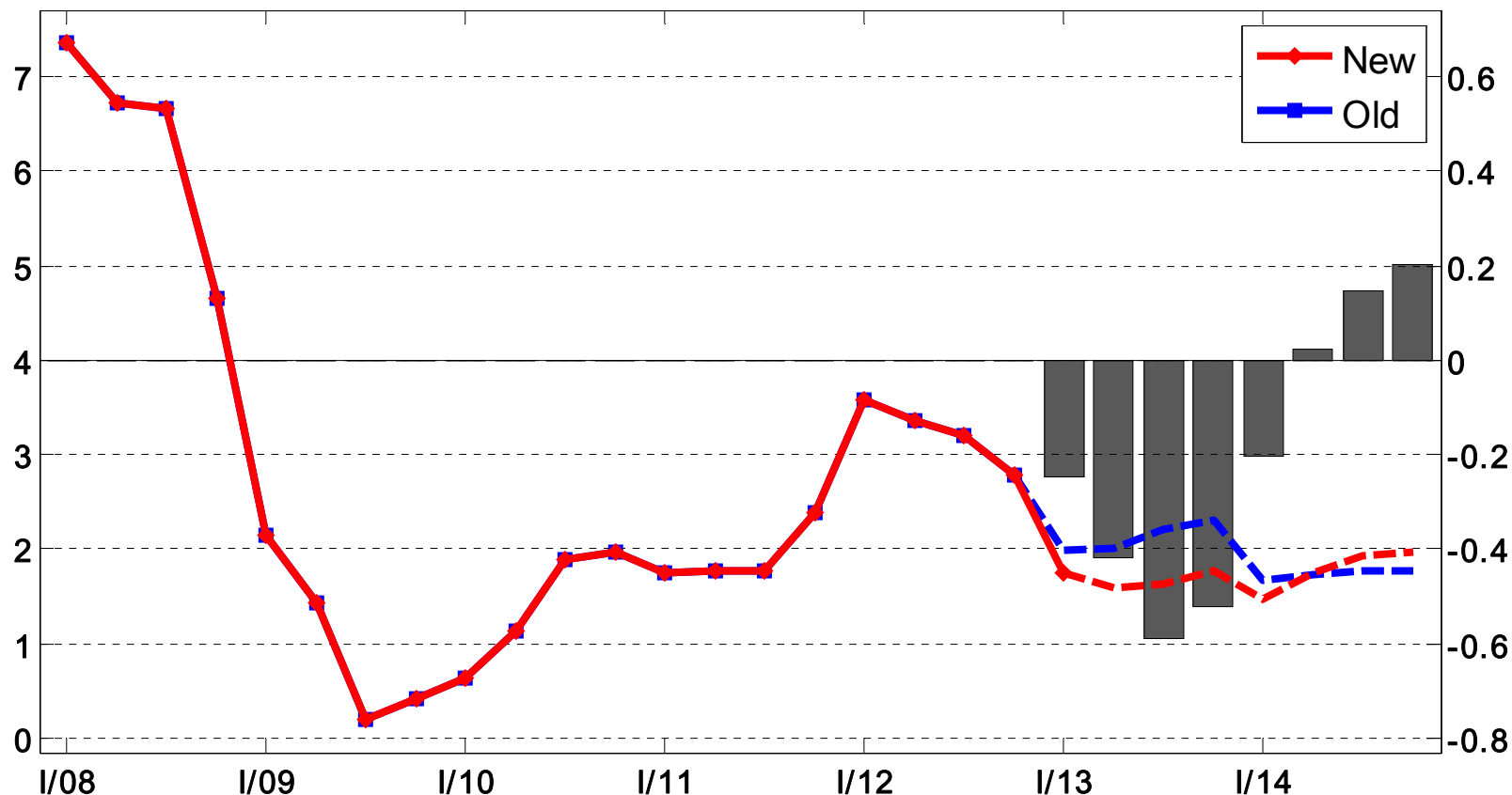


- Consistent with the forecast is a slight decline in market interest rates, followed by a rise in rates in 2014.

- The forecast for headline and monetary-policy relevant inflation was decreased for this year, and only marginally increased for 2014.
- Lower forecasts of both administered prices and net inflation.
- The forecasts of food prices is reduced, core inflation outlook is revised slightly upwards in 2014.
- The exchange rate forecast is weaker on the whole horizon.
- The GDP forecast has been slightly lowered for both years.
- Nominal wage growth has changed mainly due to tax optimisation.
- The path of market interest rate is somewhat lower in 2013, and on average marginally higher in 2014.

Comparison with Previous Inflation Forecast (i)

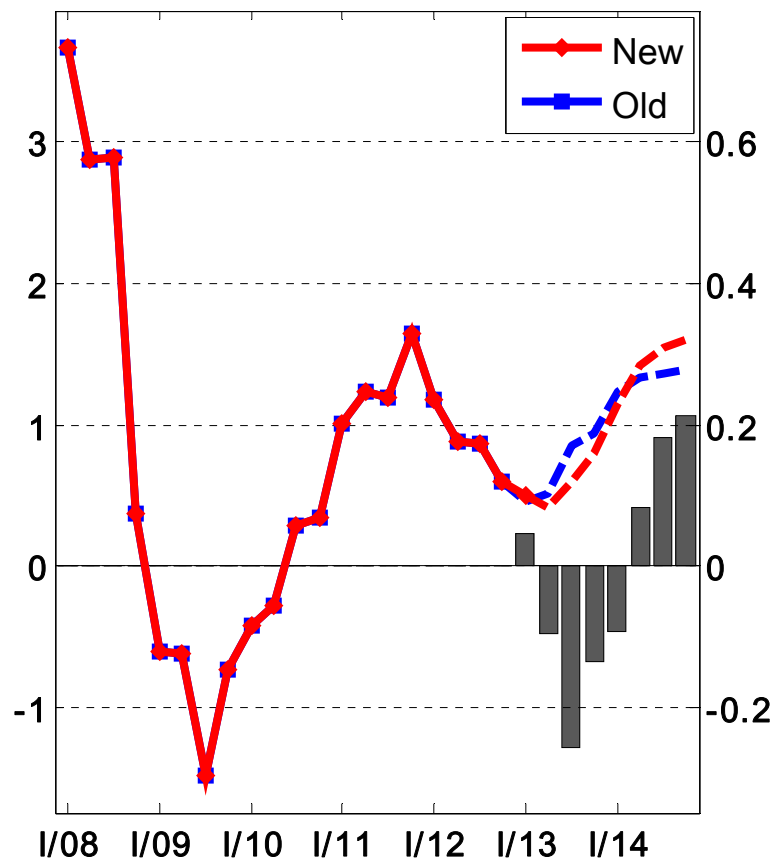
CPI Inflation (y/y, in %)



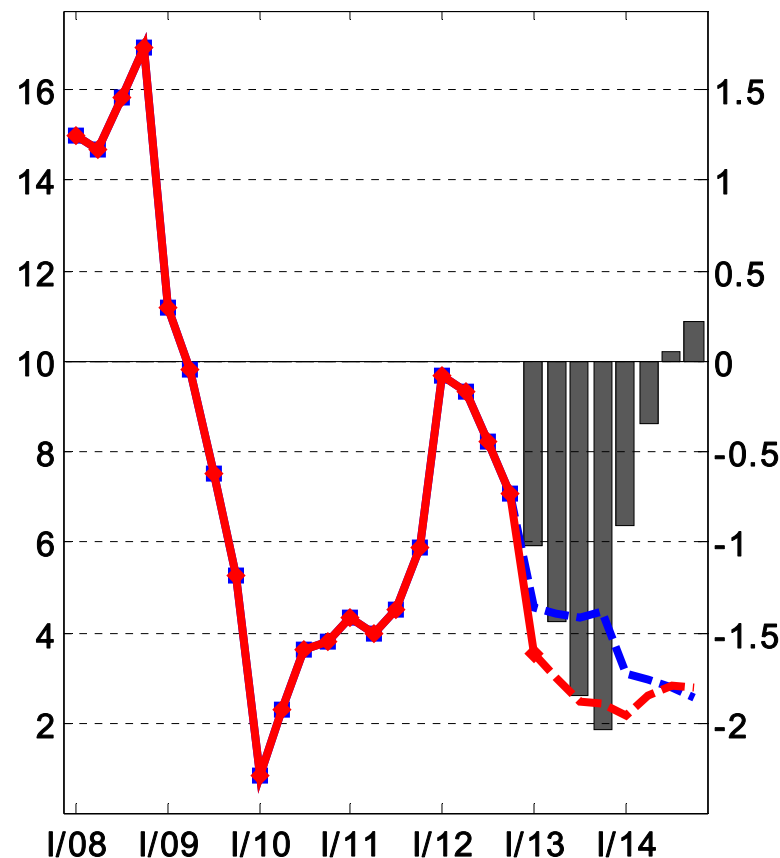
- The forecast of headline (as well as MP-relevant) inflation revised downwards in 2013, and marginally upwards in 2014.

Comparison with Previous Inflation Forecast (ii)

Net Inflation (y/y, in %)

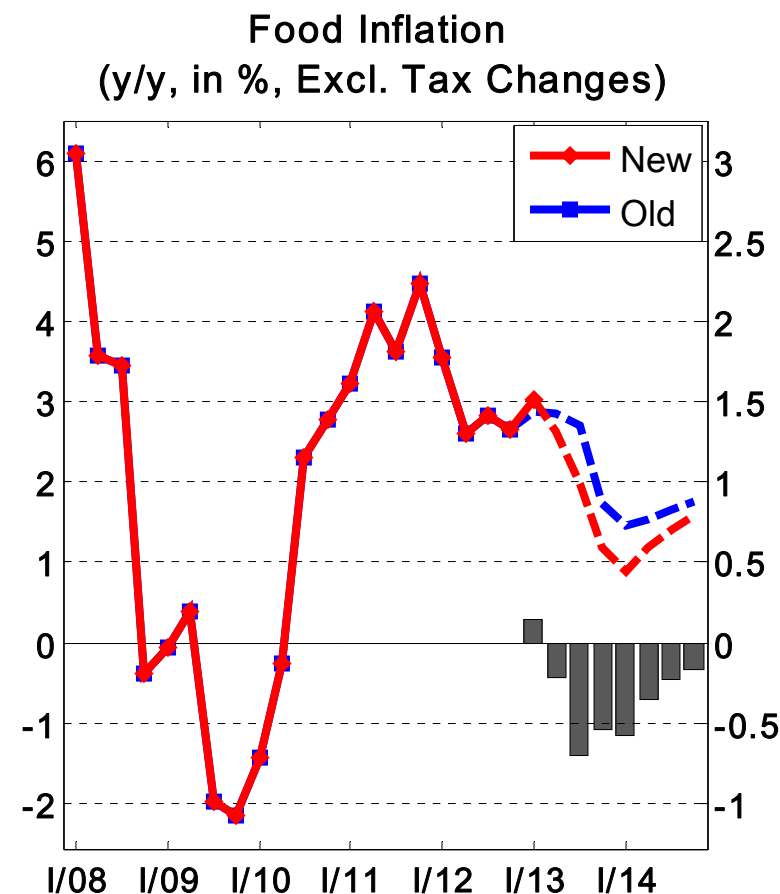
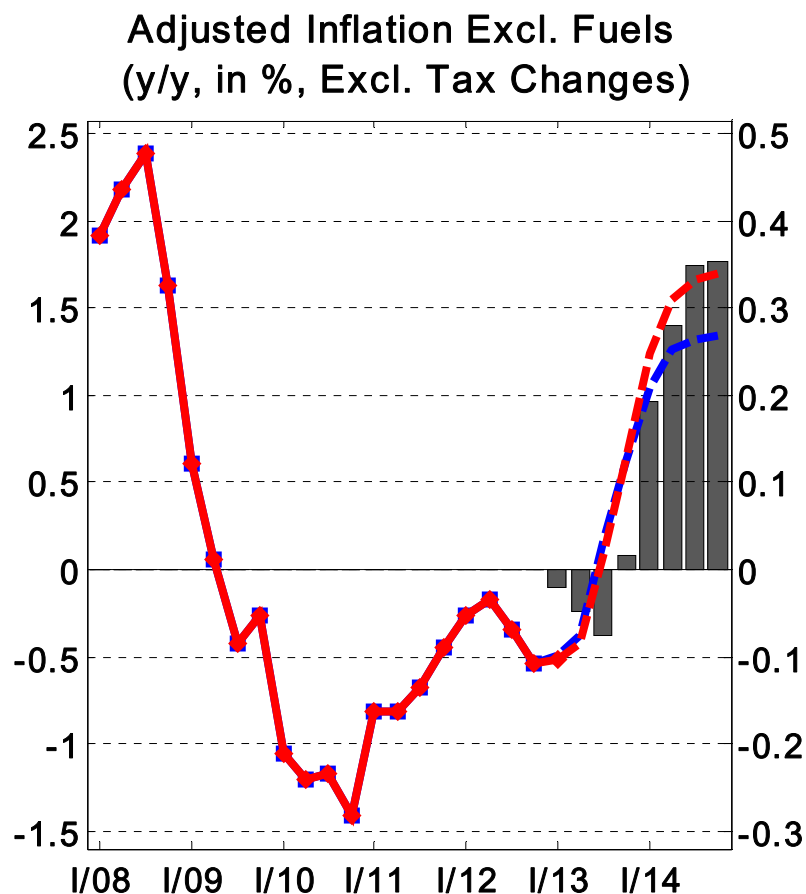


Growth of Administered Prices (y/y, in %)



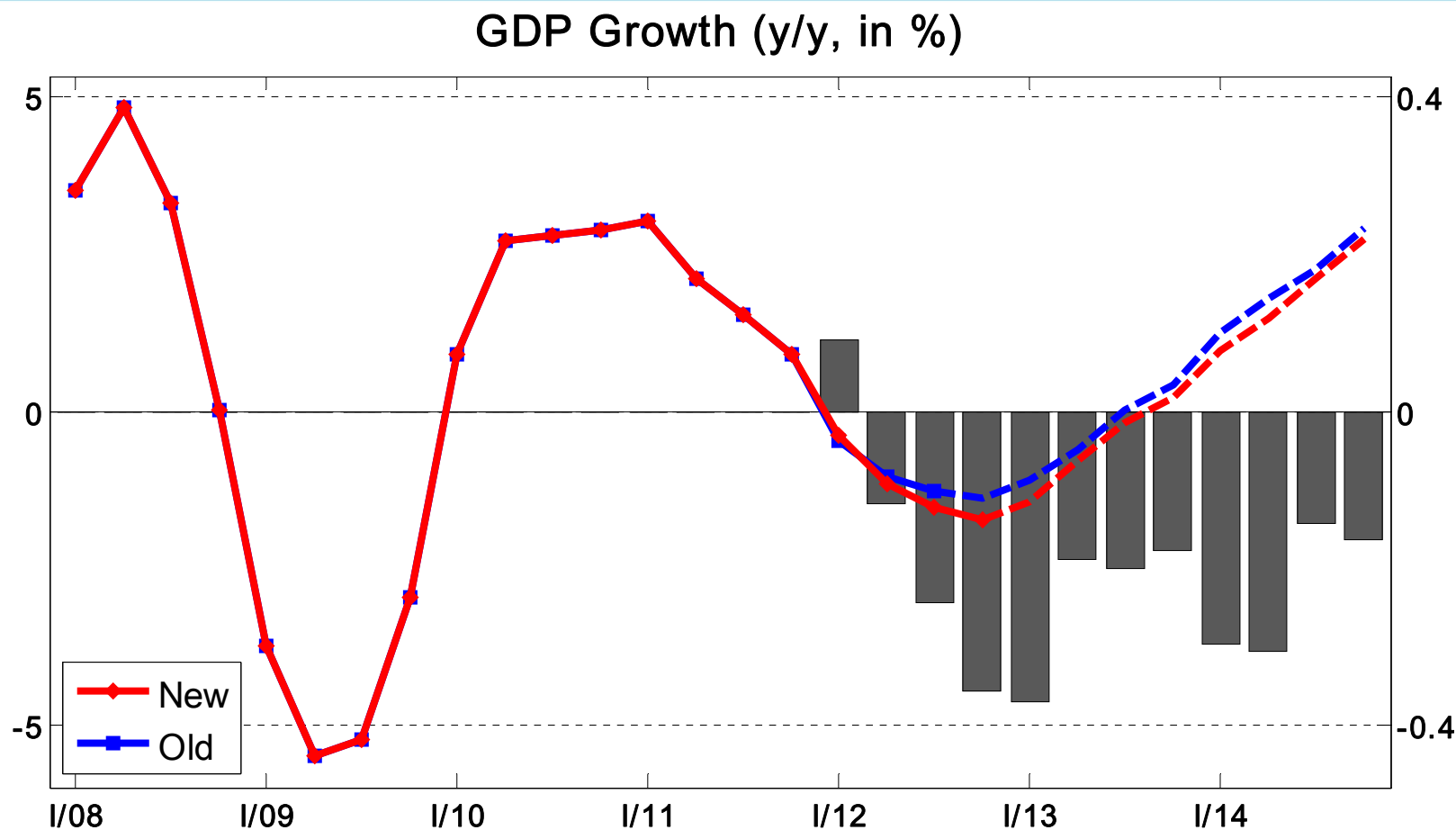
- Both net inflation and administered price growth forecast are lowered in 2013, net inflation is slightly higher from 2014 Q2.
- Administered prices: lower forecast for energy prices (mainly gas) and finished rent deregulation (reclassified to core inflation).

Comparison with Previous Inflation Forecast (iii)



- The slightly higher forecast of adjusted inflation without fuels reflects less restrictive fiscal policy and the statistical shift of deregulated rents.
- Food prices' forecast is lower due to developments of both global and domestic agricultural commodity prices.

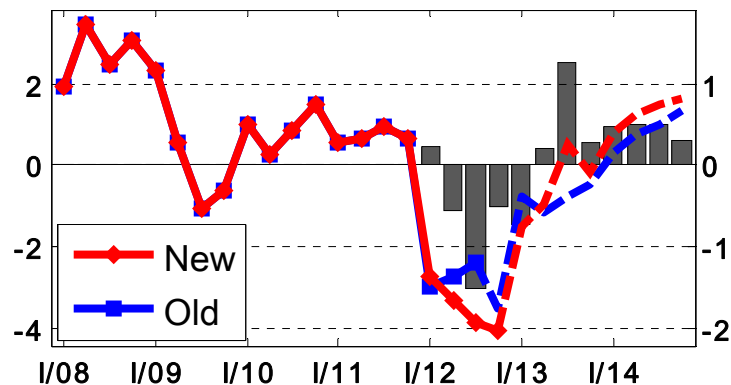
Comparison with Previous GDP Forecast (i)



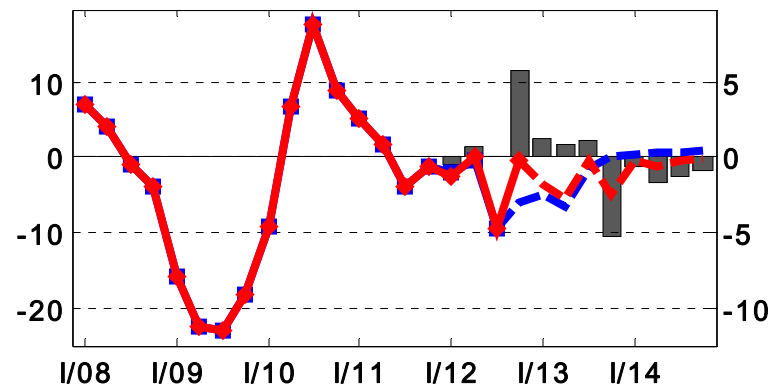
- The GDP forecast is slightly lower on the whole horizon due to lower starting level, more gradual foreign recovery and weaker investment activity in 2014 (vs. slightly less restrictive fiscal policy in both years).

Comparison with Previous GDP Forecast (ii)

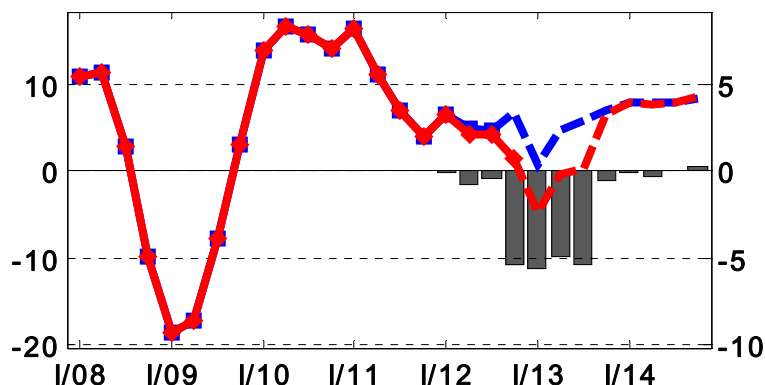
Household Consumption Growth (y/y, in %)



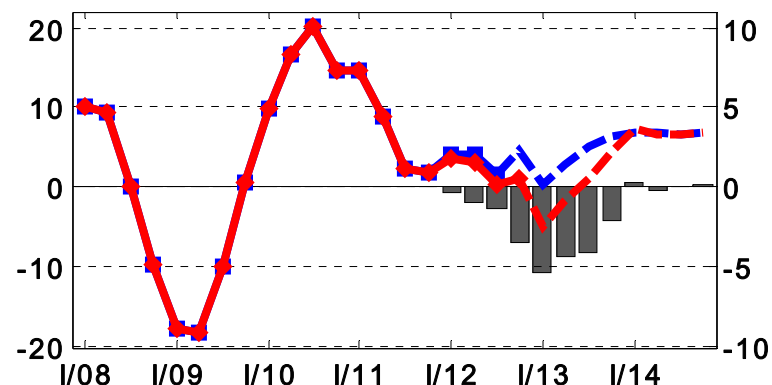
Investments Growth (y/y, in %)



Exports Growth (y/y, in %)



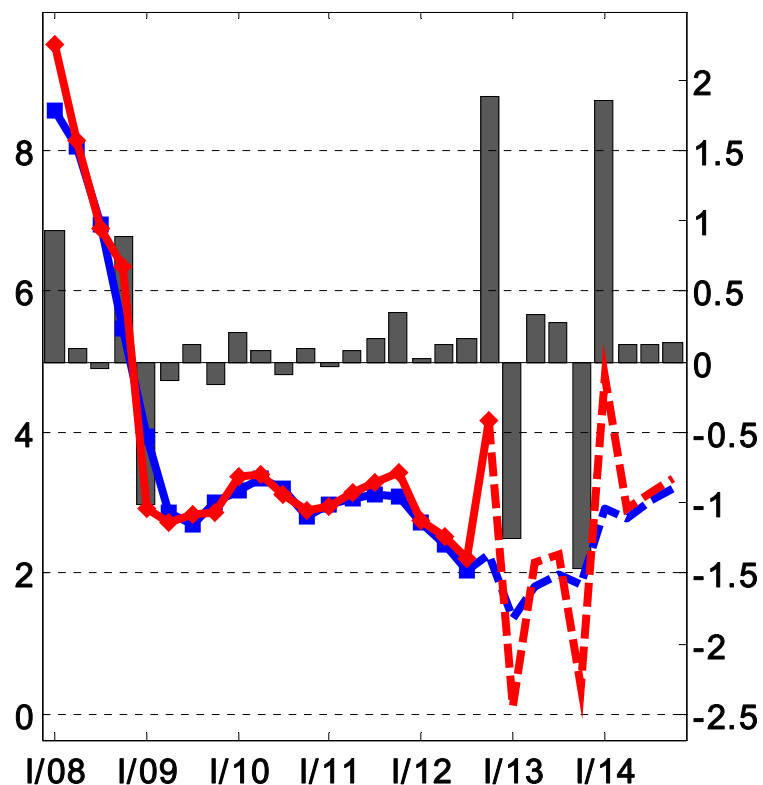
Imports Growth (y/y, in %)



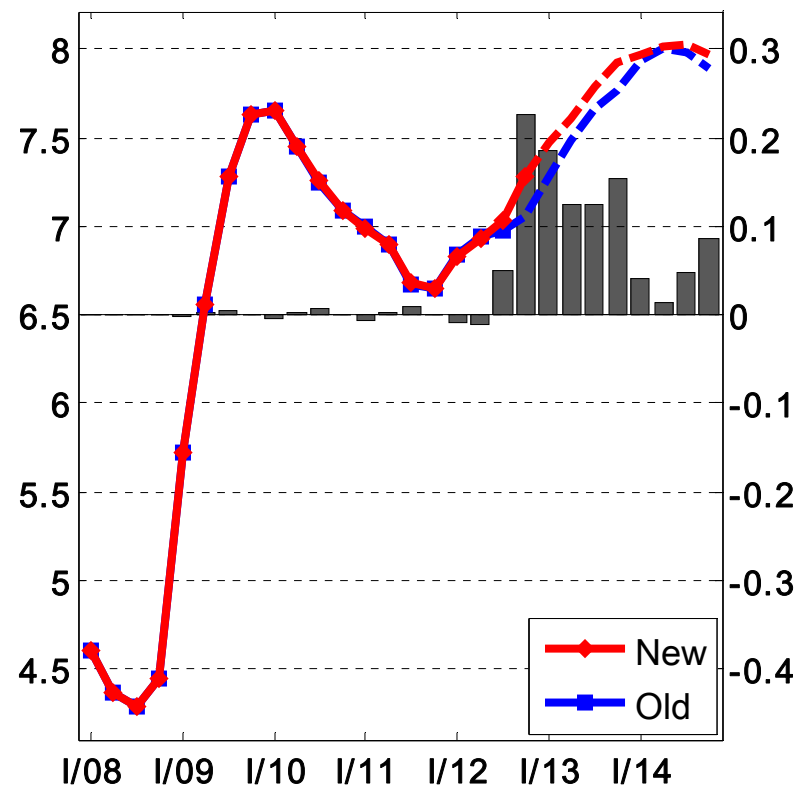
- Household consumption revised slightly up due to less restrictive fiscal policy, but net exports will be less positive in both years and investment will remain more subdued in 2014.

Changes in Labour Market Forecast

Nominal wage growth in business sector
(y/y, in %, s.a.)



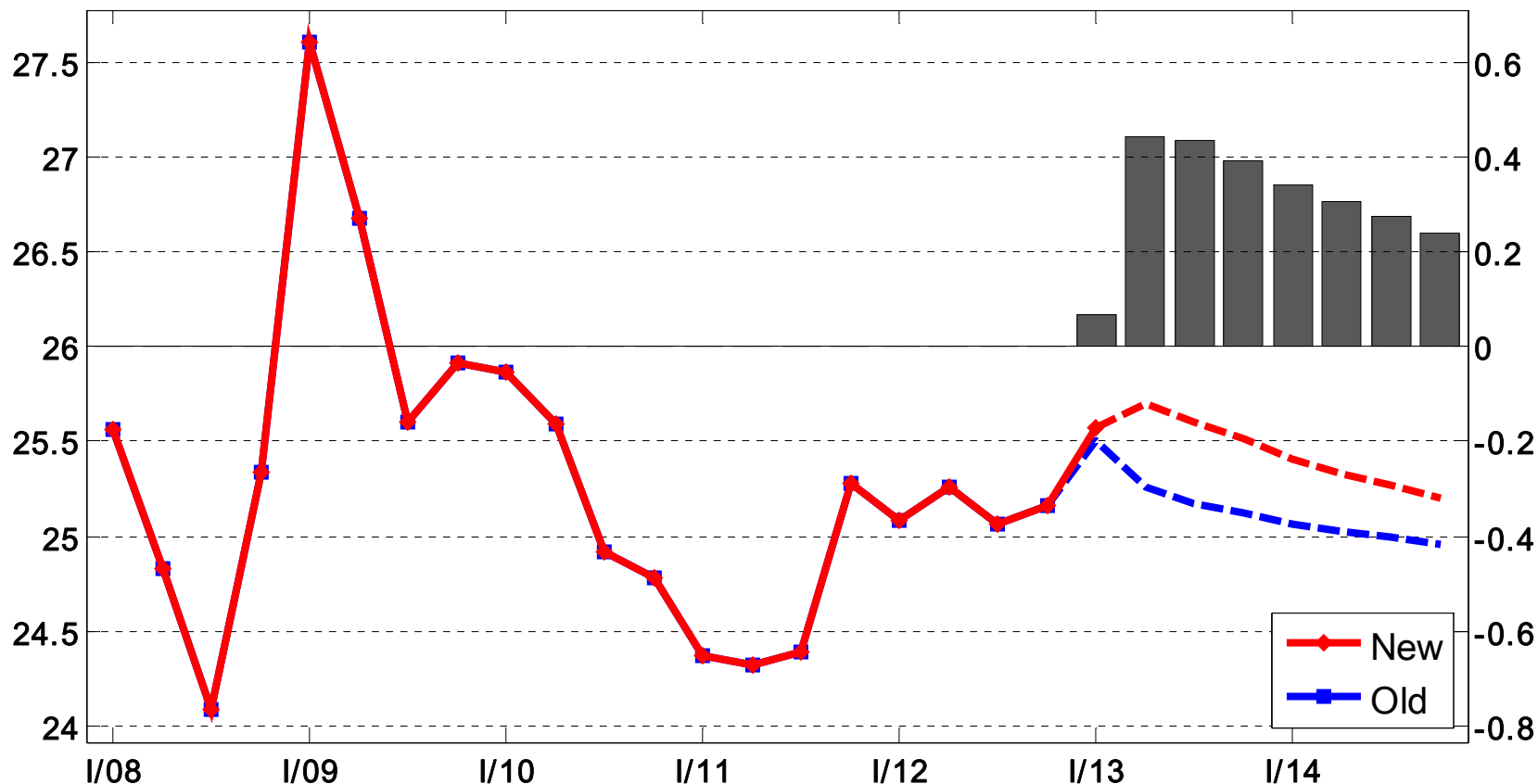
General unemployment rate (ILO)
(in %, s.a.)



- Tax optimisation leads to much more volatile wage growth forecast; excluding this one-off factor, the forecast is negligibly higher.
- Marginally higher unemployment rate forecast.

Changes in Exchange Rate Forecast

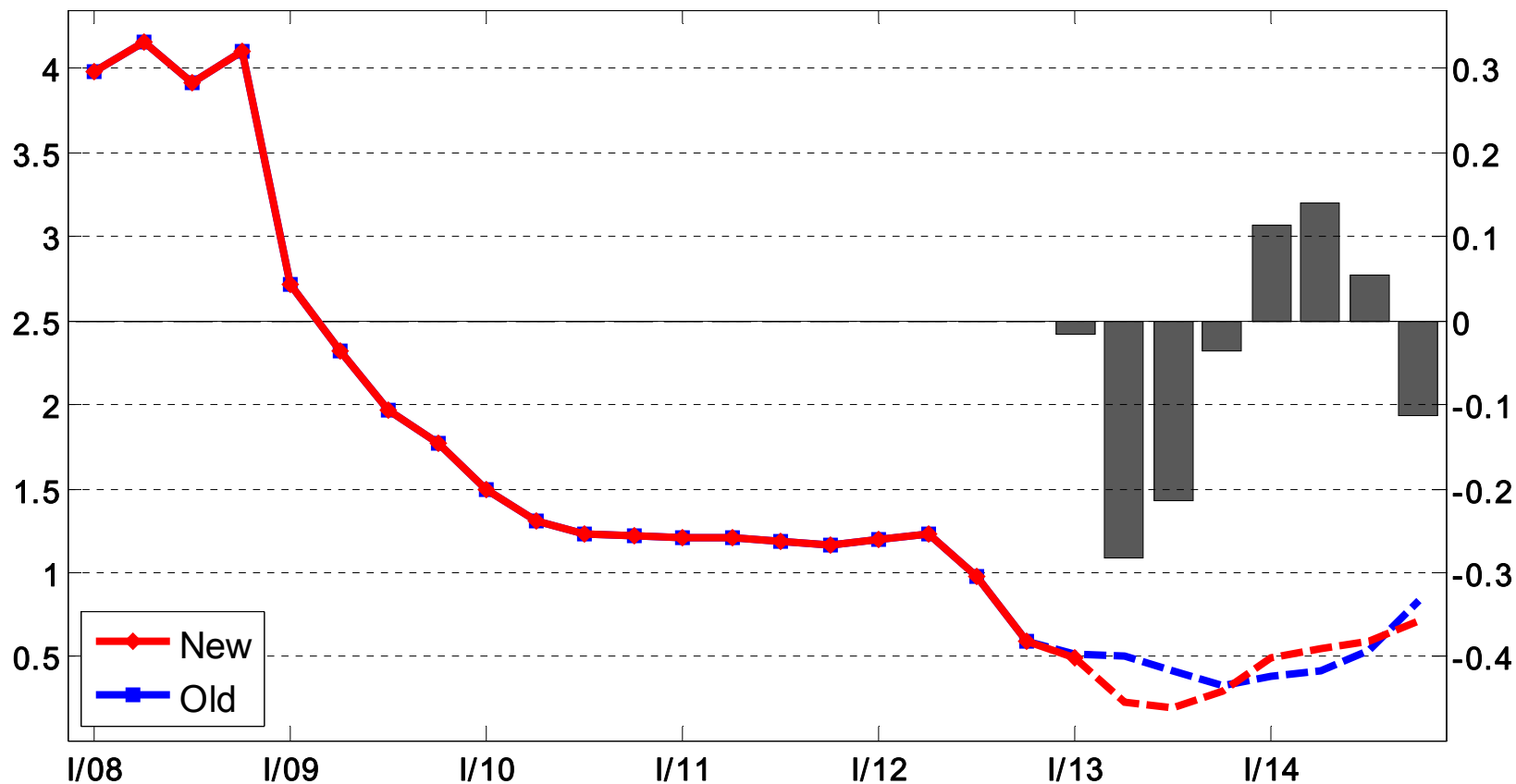
CZK/EUR



- Weaker near-term outlook for exchange rate reflects the subdued economic activity and CNB's communication of possible FX interventions.
- The exchange rate remains weaker on the whole forecast horizon (less positive net exports vs. lower outlook of EURIBOR).

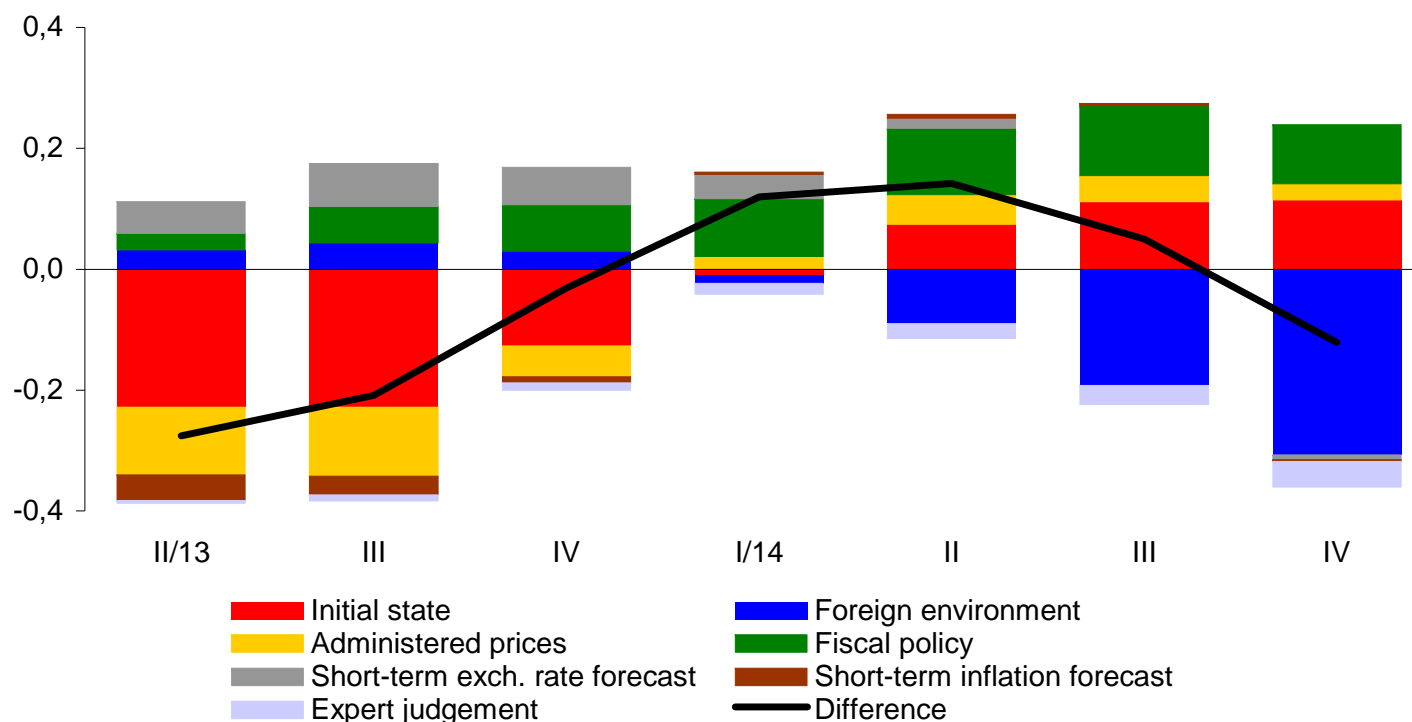
Changes in Interest Rate Forecast

3M PRIBOR (% , p.a.)



- Interest rate outlook somewhat lower for 2013; in 2014 it is on average marginally higher.

Decomposition of changes in the interest rate forecast
(3M PRIBOR; percentage points)



- Downward effect of more anti-inflationary developments of domestic economy ("initial state"), administered prices, near-term inflation forecast and later on of external outlook (lower EURIBOR).
- Upward effect of depreciated exchange rate and less restrictive fiscal.

Thank you for your attention!

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