



# Press conference of the CNB Bank Board

## 4th Situation Report on Economic and Monetary Developments

25 June 2015

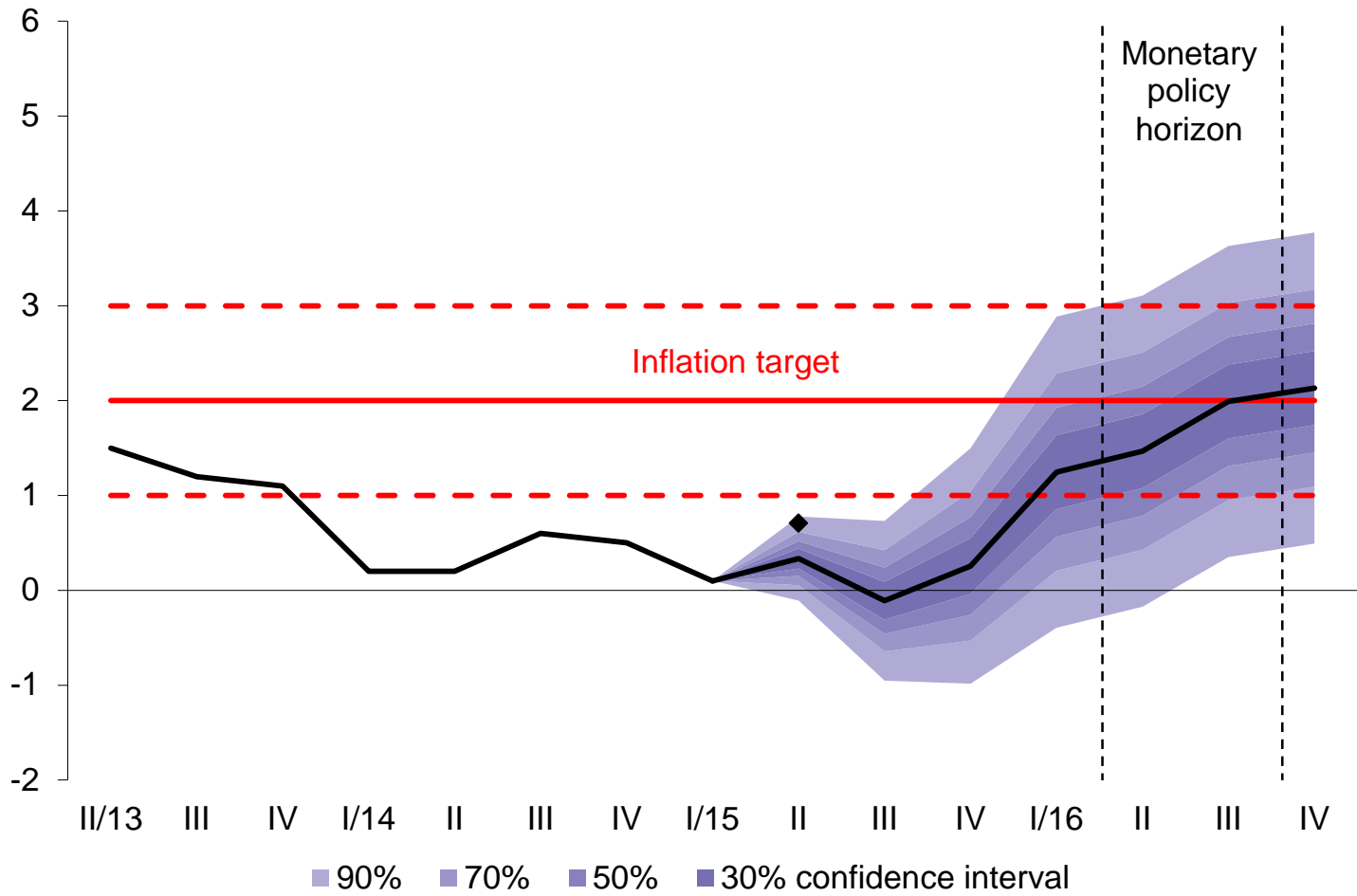
# The monetary policy decision and the stance of the CNB

- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The Board also decided to continue using the exchange rate as an additional instrument for easing the monetary conditions and confirmed the CNB's commitment to intervene unlimitedly on the FX market if needed to weaken the koruna so that the exchange rate of the koruna against the euro is kept close to CZK 27.
- The Board repeated that the exchange rate commitment is one-sided. This means that the CNB will prevent excessive appreciation of the koruna exchange rate below CZK 27/EUR. On the weaker side of the CZK 27/EUR level, the CNB is allowing the exchange rate to move according to supply and demand on the FX market.

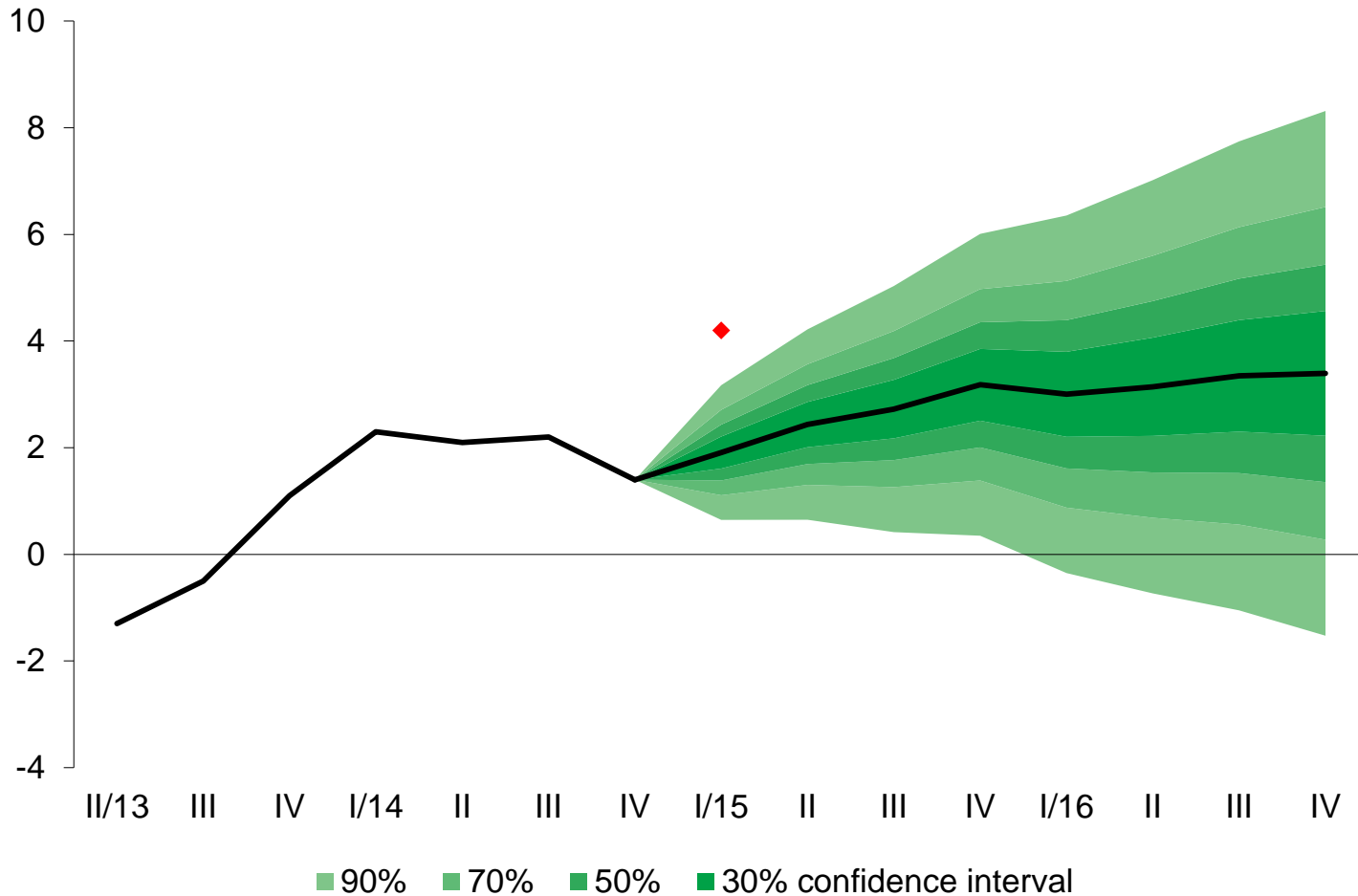
# Reasons for the decision in the context of the current forecast

- The forecast assumes market interest rates to be flat at their current very low level and the koruna exchange rate to be used as a monetary policy instrument until the end of 2016.
- The subsequent return to conventional monetary policy will not imply appreciation of the exchange rate to the level recorded before the CNB started intervening.
- The risks to the inflation forecast at the monetary-policy horizon are balanced.
- In this situation the Bank Board repeated that the CNB would not discontinue the use of the exchange rate as a monetary policy instrument before 2016 H2.
- The CNB remains ready to move the exchange rate commitment if there were to be a long-term increase in deflation pressures capable, among other things, of causing a slump in domestic demand, or a systematic decrease in inflation expectations.
- However, the probability of such developments has decreased since the Bank Board's previous monetary policy meeting.
- Nevertheless, the assumption that inflation will merely approach the target from below at the monetary policy horizon remains in place even in the light of new data.

# The inflation forecast and expected outcome in 2015 Q2

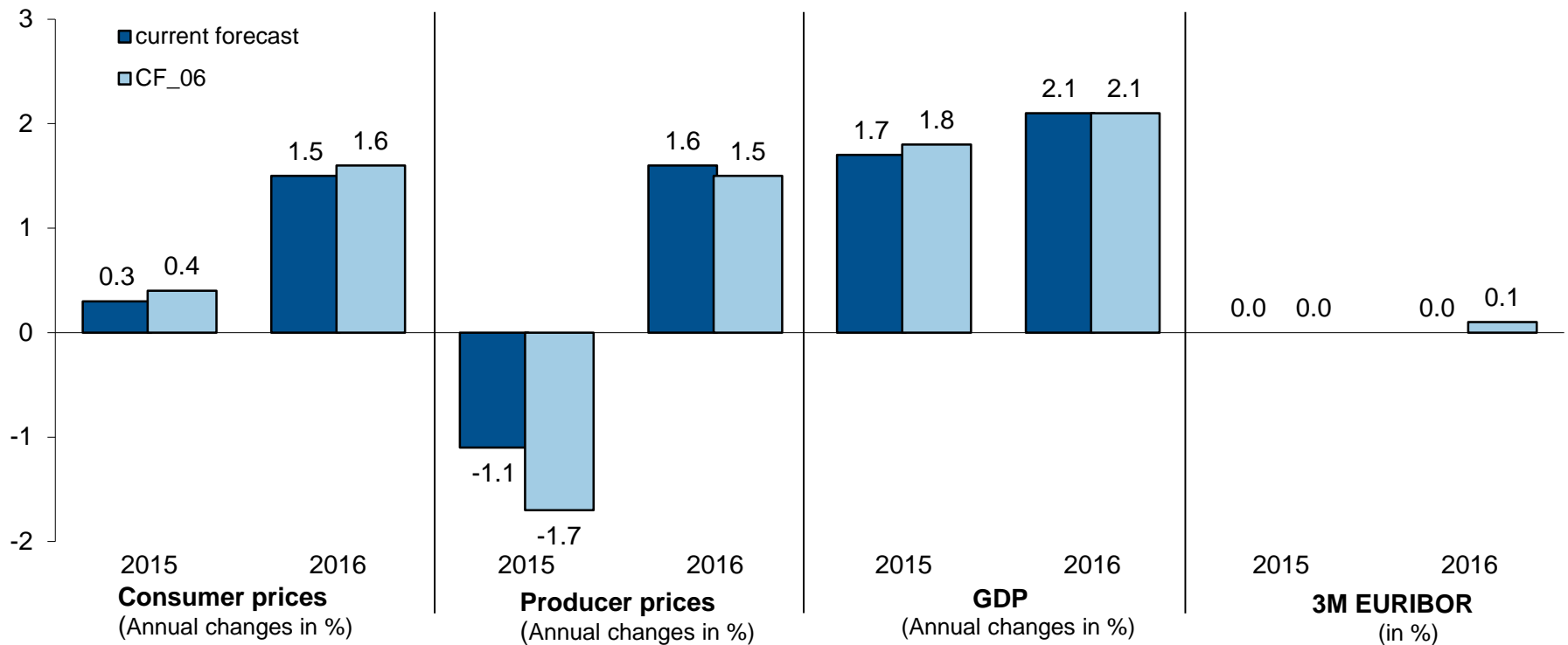


# The GDP forecast and outcome in 2015 Q1



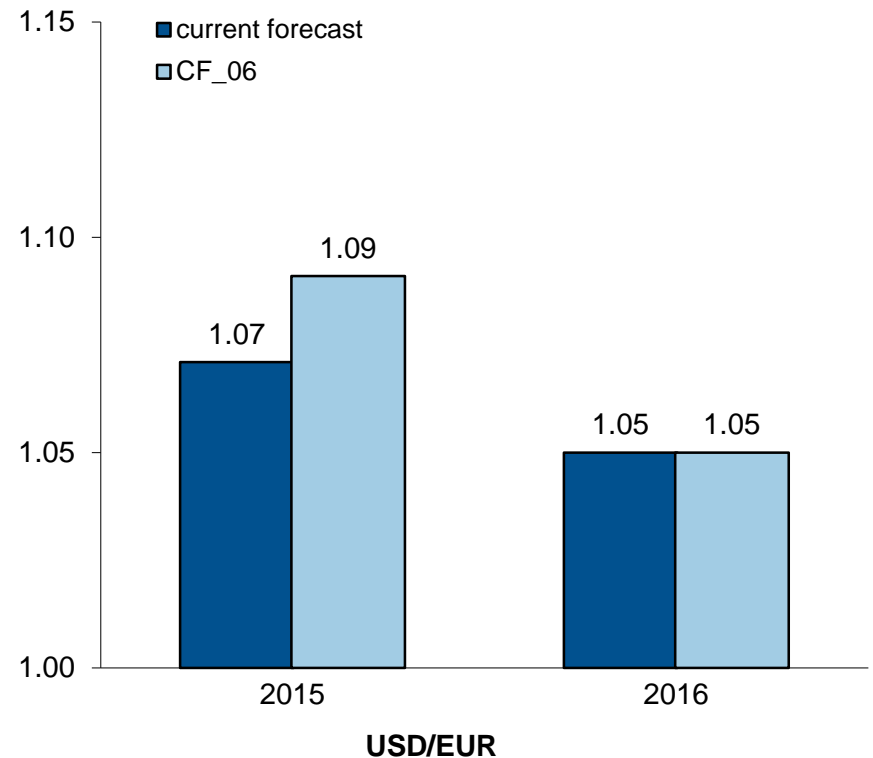
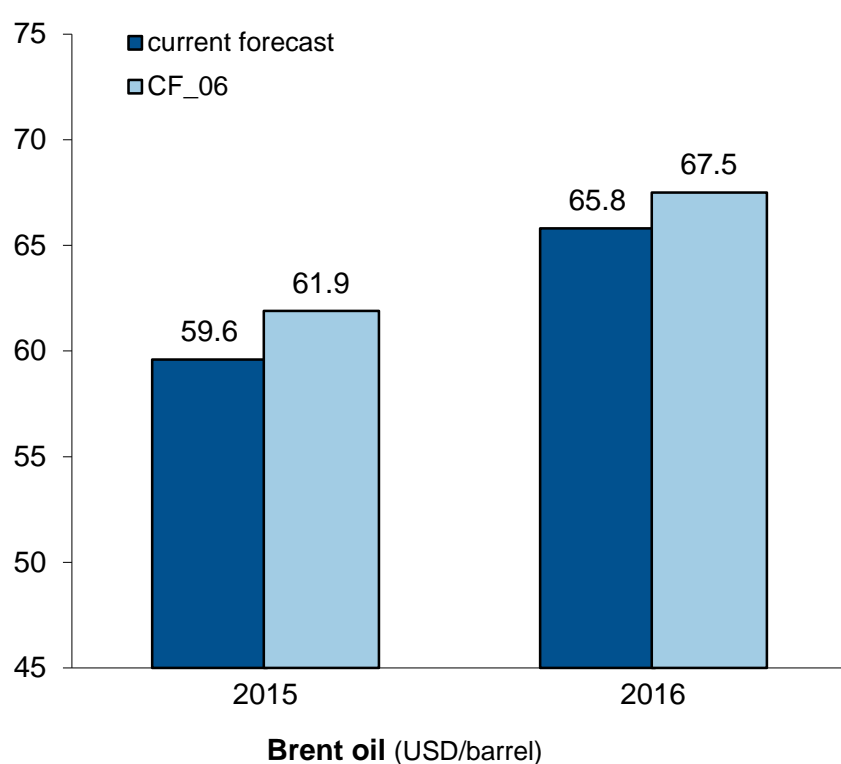
# The external environment (i)

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

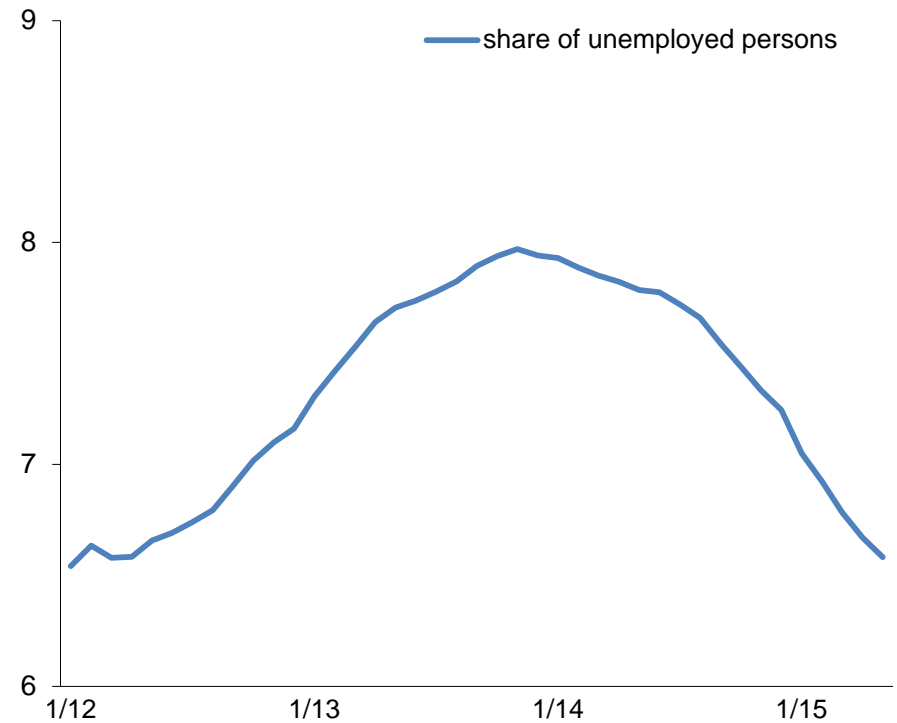


# The labour market

(Annual changes in %)



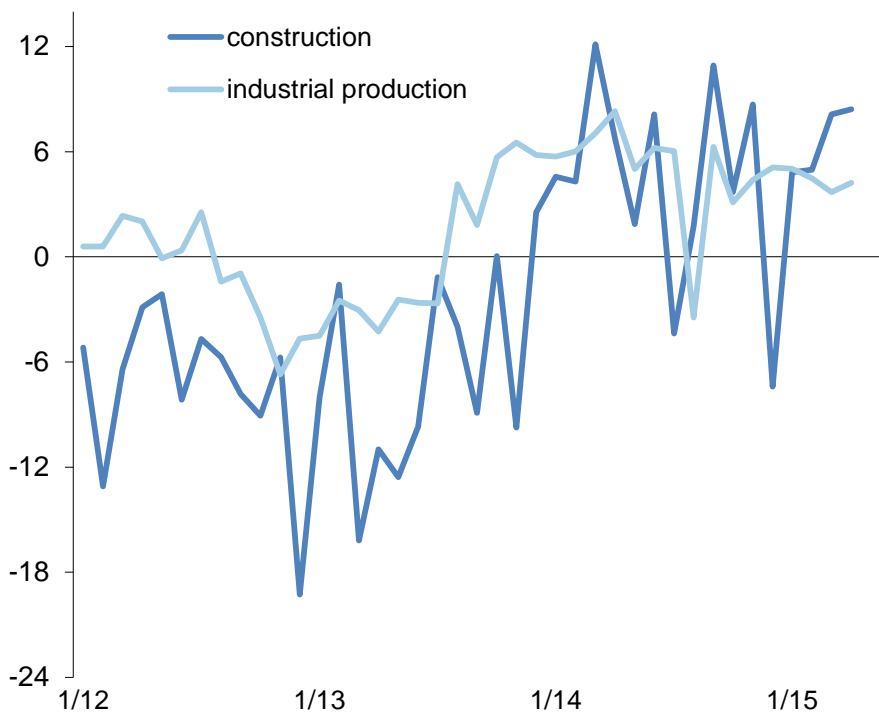
(in %, seasonally adjusted)



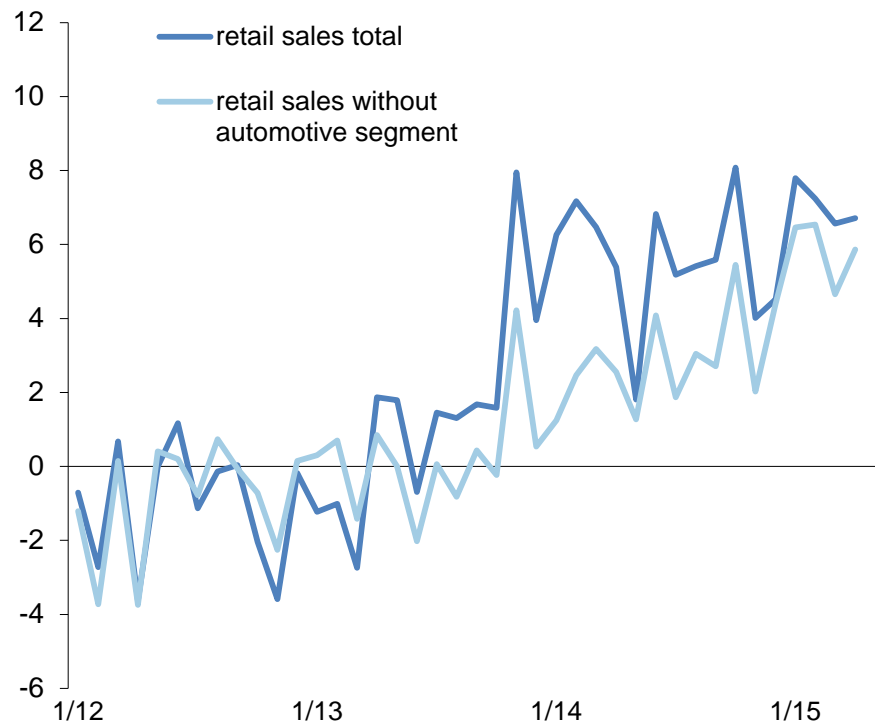


# Industry, construction, retail sales

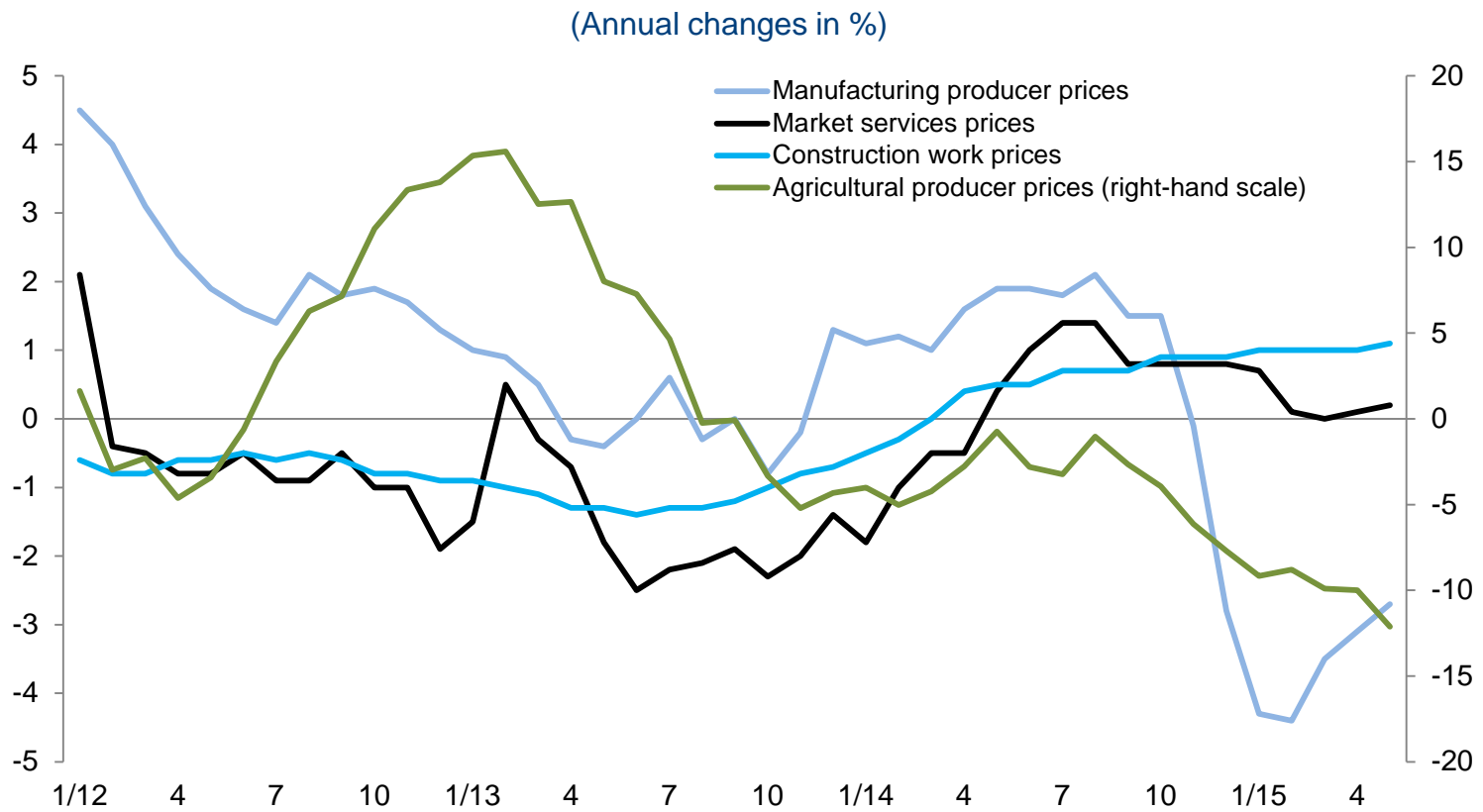
(Annual changes in %, s.a.)



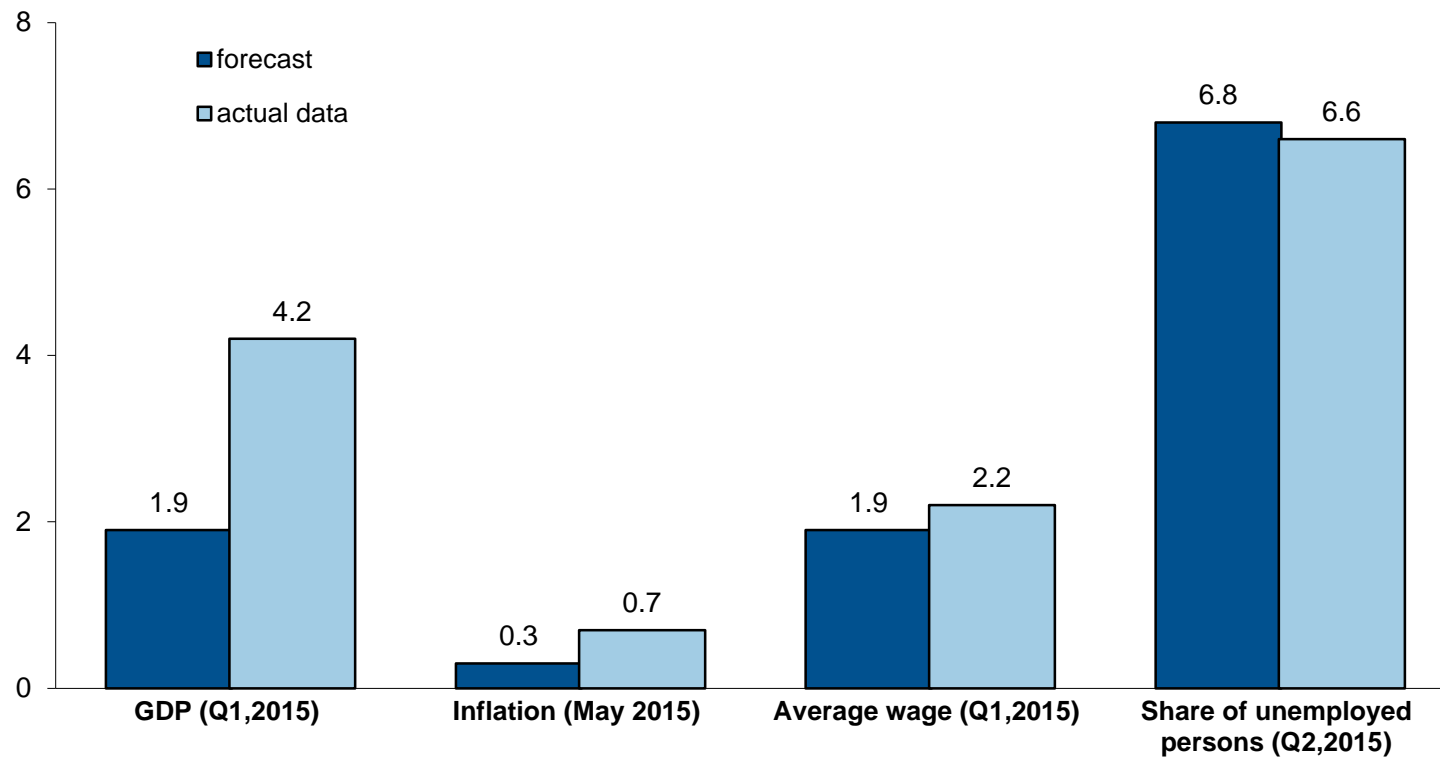
(Annual changes in %, s.a.)



# Producer prices



# Comparison of actual data with the CNB forecast



Notes: Annual changes in %, for the share of unemployed persons in %, comparison of s.a. outcomes in April and May with the forecast for 2015 Q2

# Risks to the forecast

The risks to the current inflation forecast at the monetary policy horizon are balanced

*On the upside:*

- positive data from the domestic economy

*On the downside:*

- appreciation of the CZK/EUR exchange rate



# Thank you for your attention

Minutes of the today's meeting will be released on 3 July 2015 at

[http://www.cnb.cz/en/monetary\\_policy/bank\\_board\\_minutes/](http://www.cnb.cz/en/monetary_policy/bank_board_minutes/)