



Press conference of the CNB Bank Board

5th Situation Report on Economic and Monetary Developments

6 August 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 the CNB will not allow the koruna to appreciate to levels it would no longer be possible to interpret as "close to CZK 27/EUR". The CNB prevents such appreciation by means of automatic and potentially unlimited interventions, i.e. by selling koruna and buying foreign currency. If the exchange rate departs from CZK 27/EUR on the weaker side, the CNB allows the koruna exchange rate to move according to supply and demand on the FX market.

Reasons for the decision in the context of the new forecast (i)

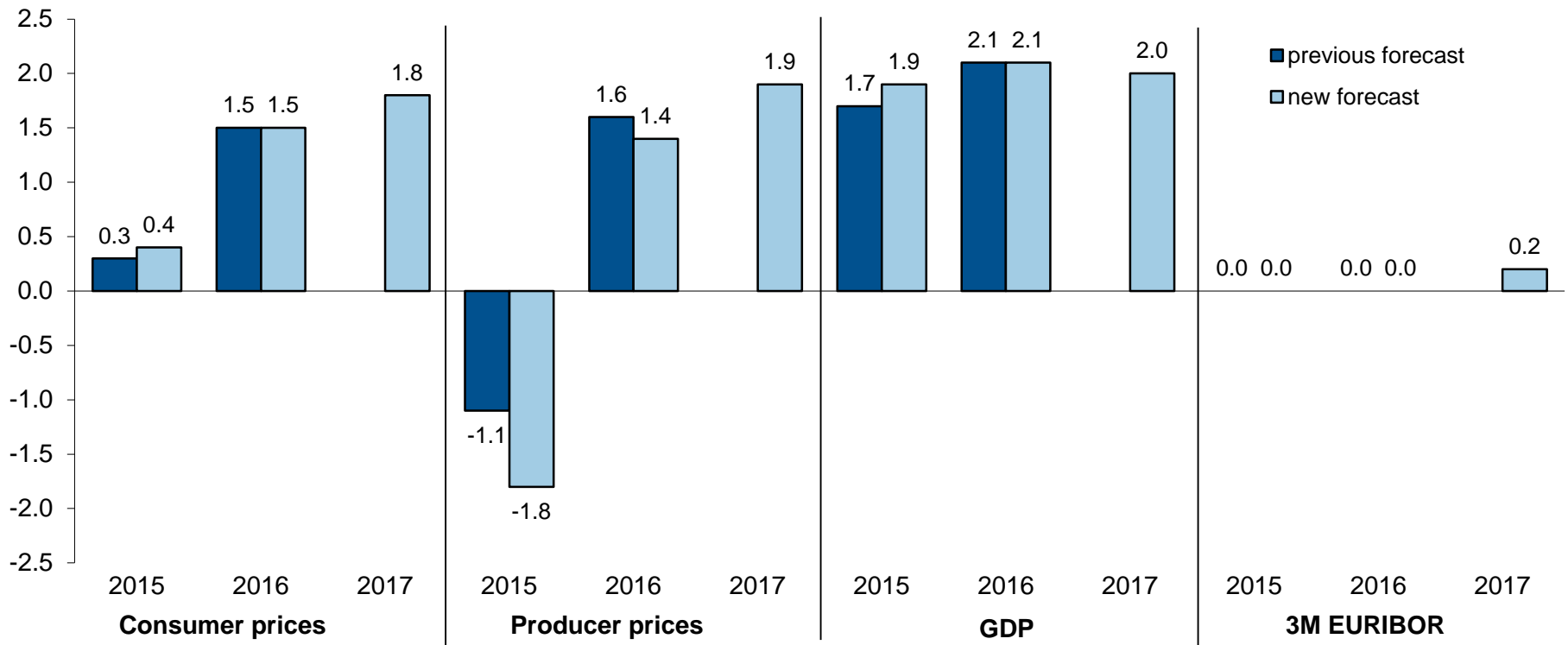
- The forecast assumes that market interest rates will be flat at their current very low level and the koruna exchange rate will be used as a monetary policy instrument until the end of 2016.
- Despite an expected increase, inflation will remain below the CNB's target at the monetary policy horizon. According to the forecast, sustainable fulfilment of this target, which is a condition for a return to conventional monetary policy, will not occur until early 2017.
- A need to maintain significantly expansionary monetary conditions therefore persists.
- In this respect, the recent koruna exchange rate appreciation is thus an unfavourable factor that is tightening the monetary conditions and hence postponing achievement of the inflation target.

Reasons for the decision in the context of the new forecast (ii)

- In this situation, the Bank Board emphasised that the CNB would not discontinue the use of the exchange rate as a monetary policy instrument before 2016 H2.
- The koruna exchange rate will therefore be at CZK 27/EUR or weaker at least until mid-2016.
- The subsequent return to conventional monetary policy will not imply appreciation of the exchange rate at the forecast horizon to the slightly overvalued level recorded before the CNB started intervening.

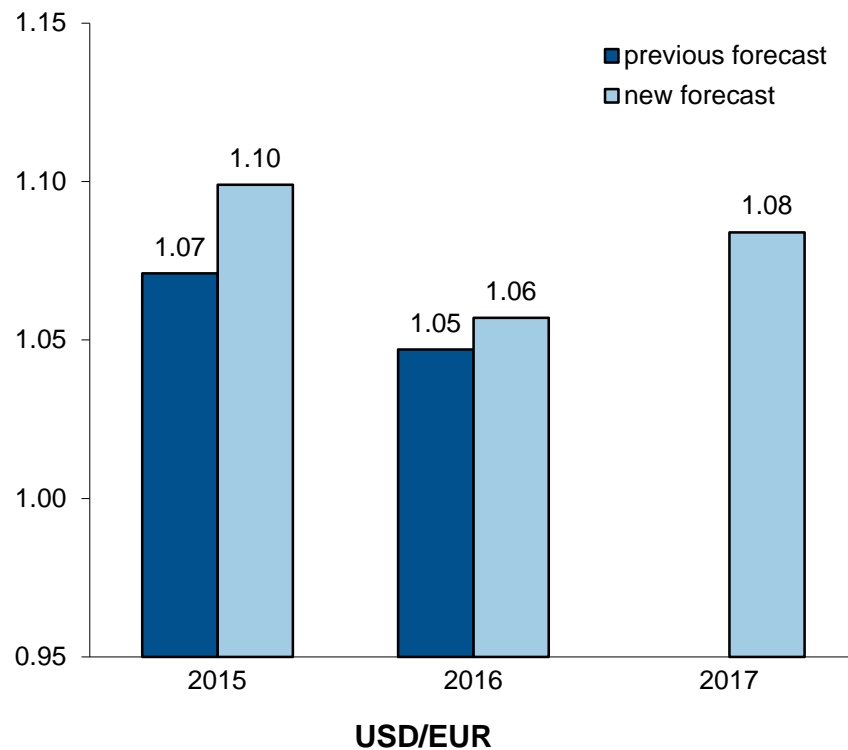
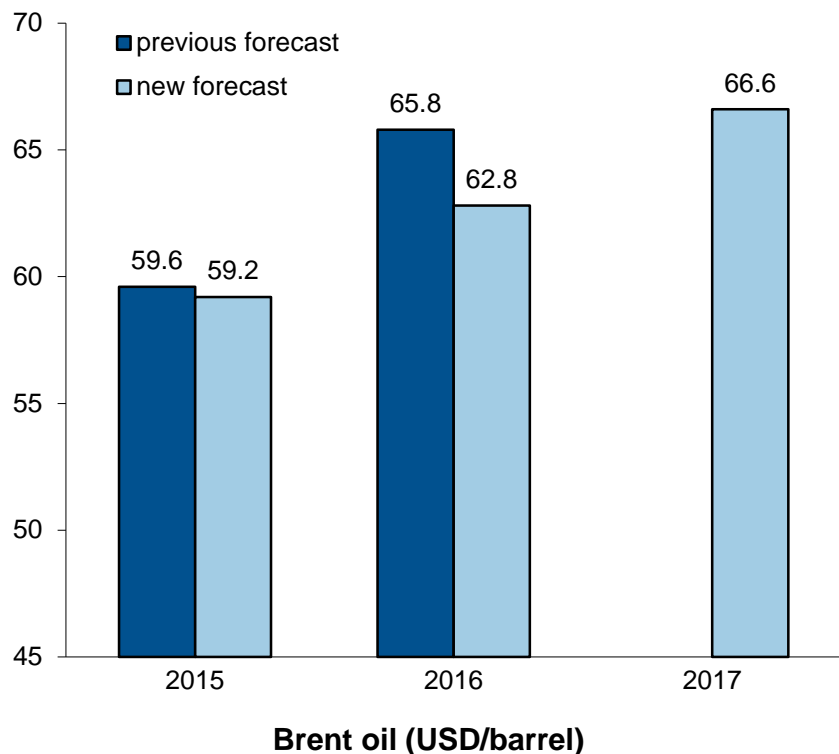
The external environment (i)

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

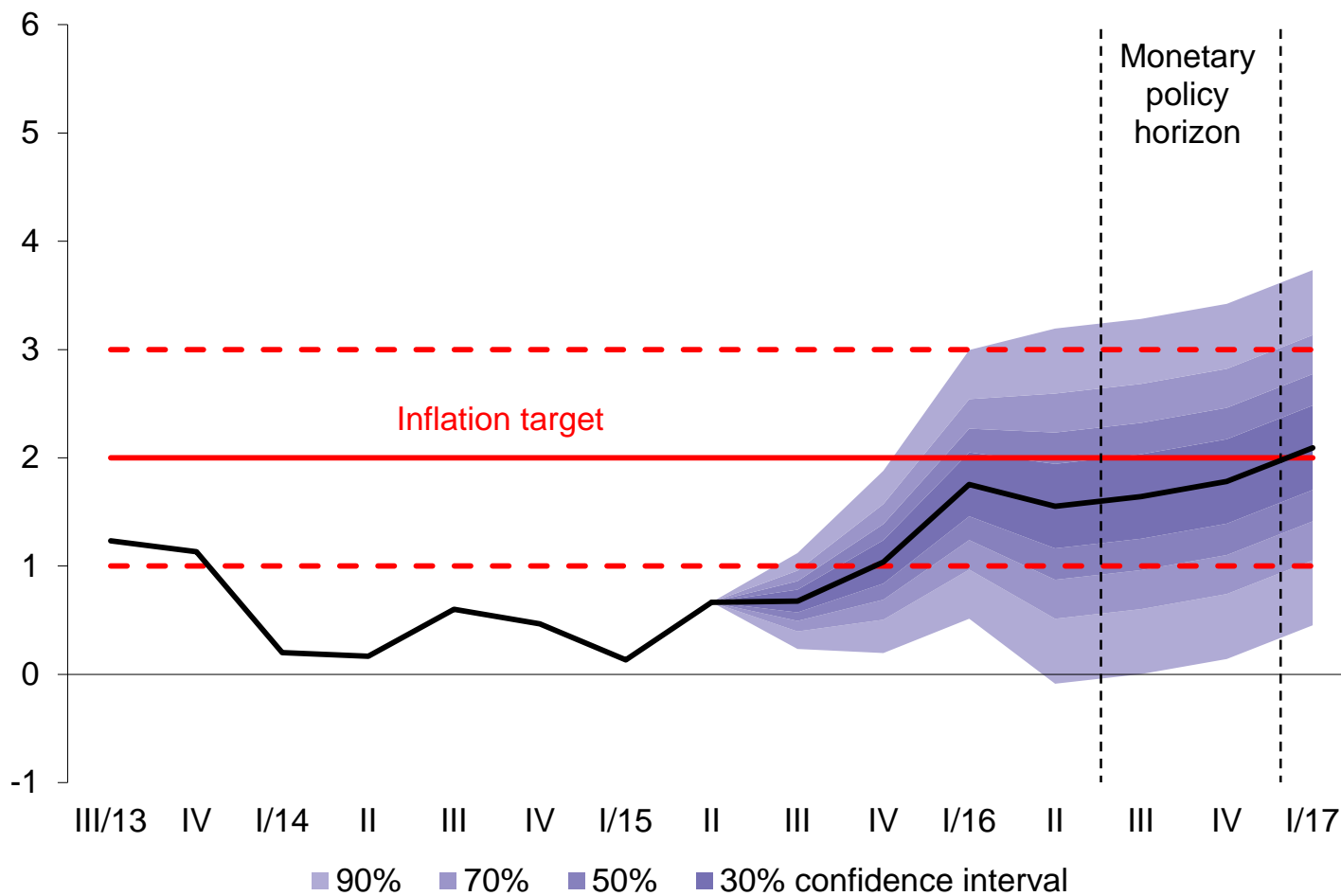


The external environment (ii)

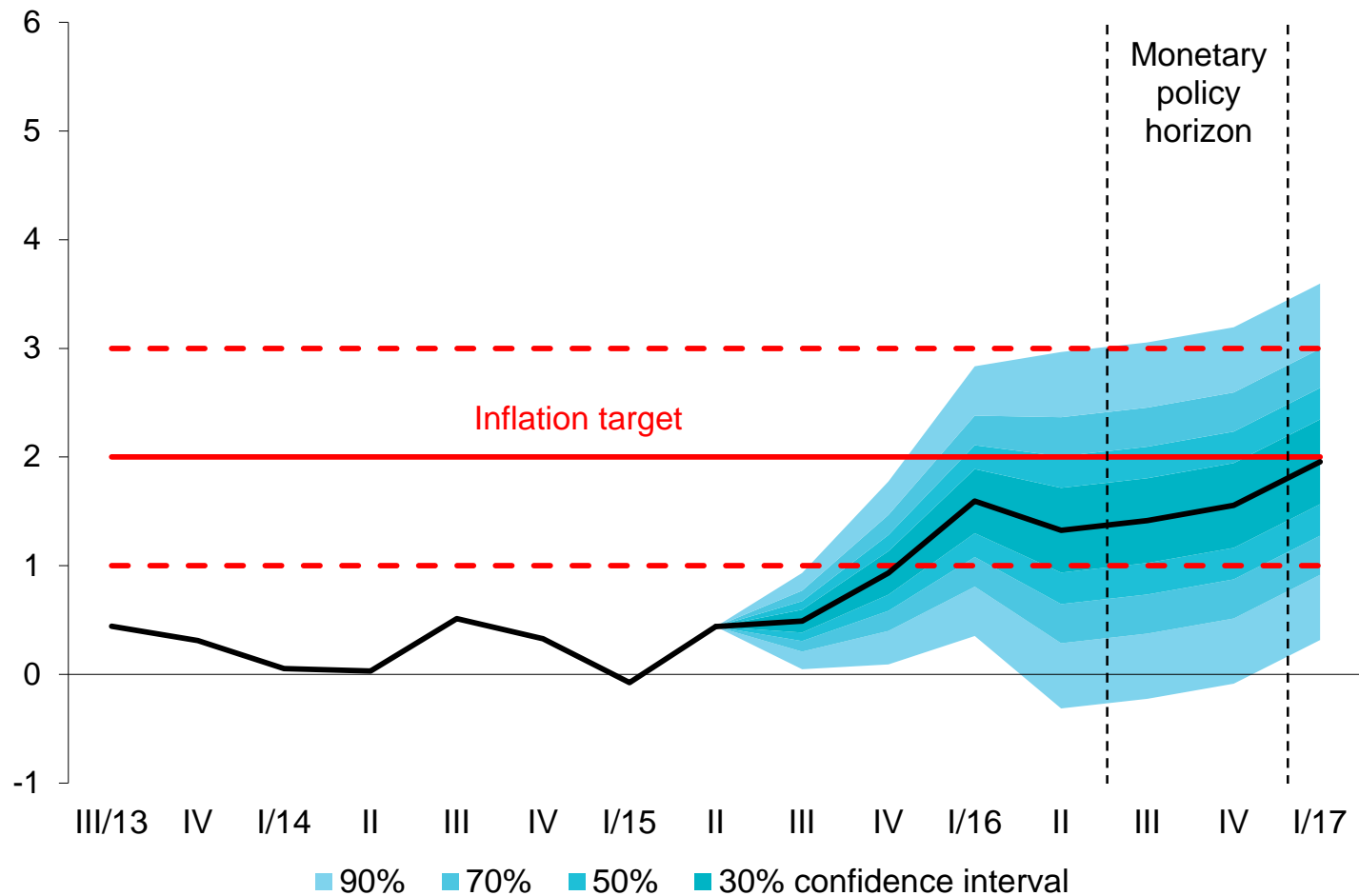
Comparison between the assumptions of the new and previous forecasts



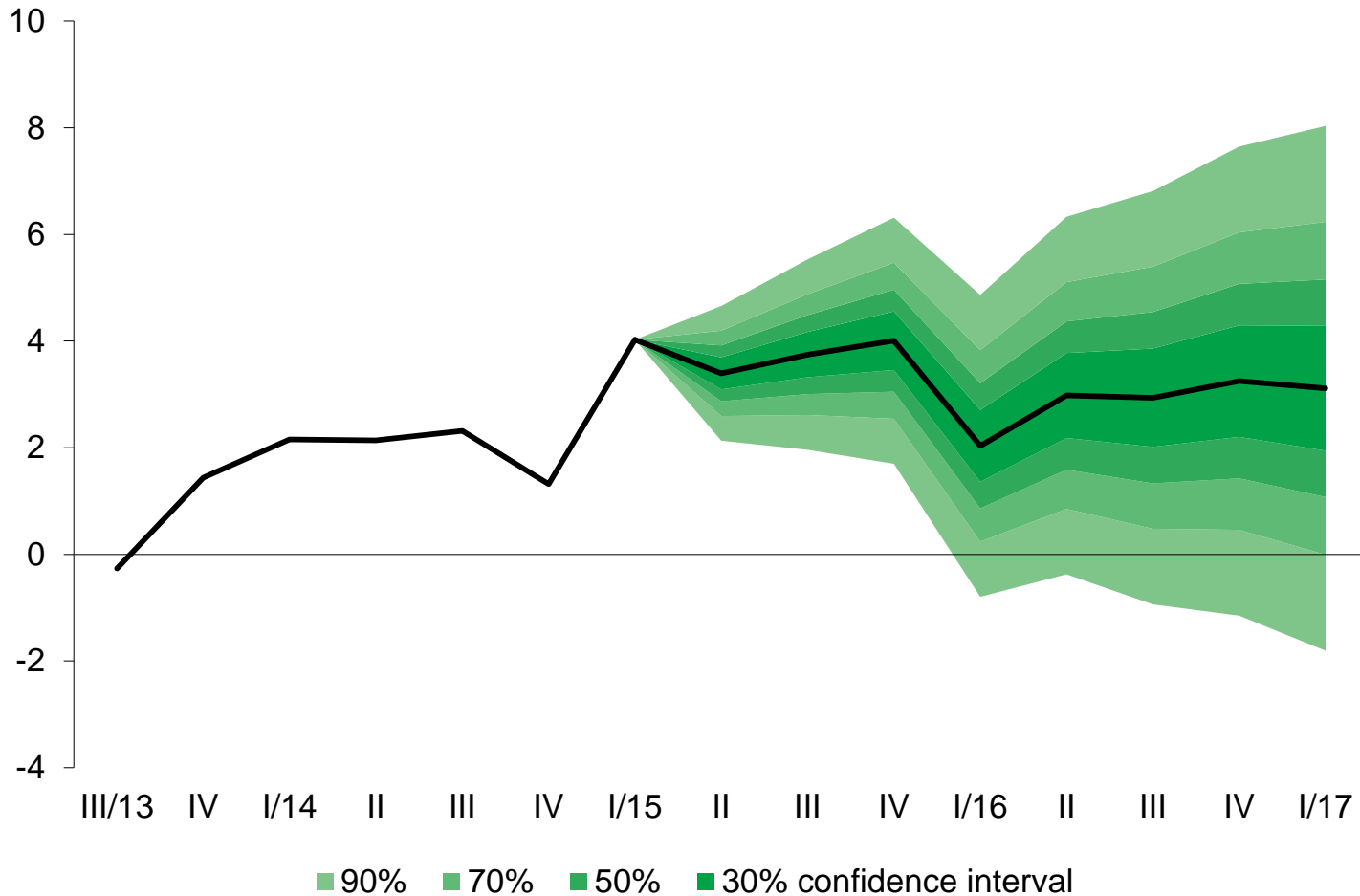
The forecast for headline inflation



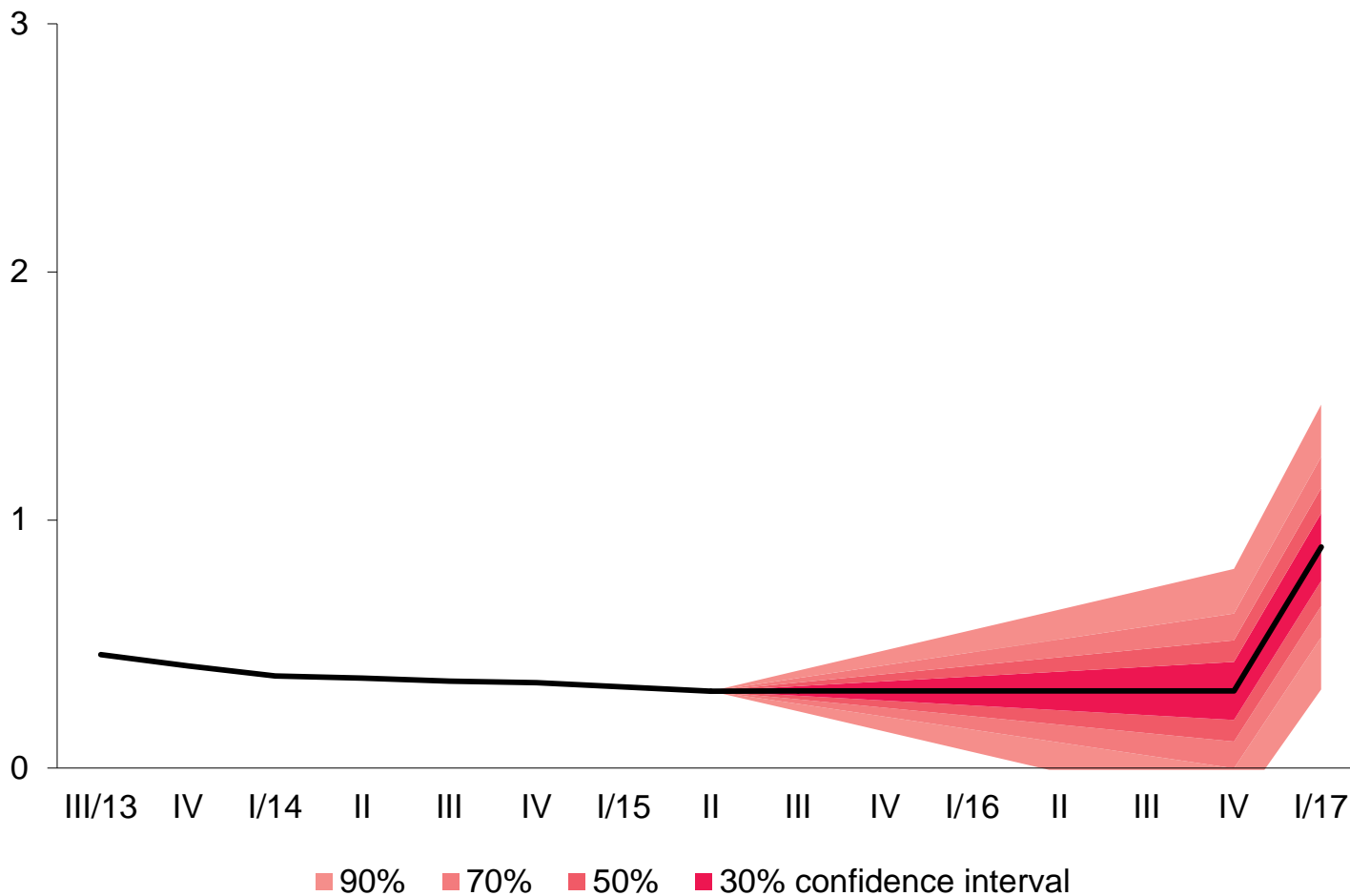
The forecast for monetary policy-relevant inflation



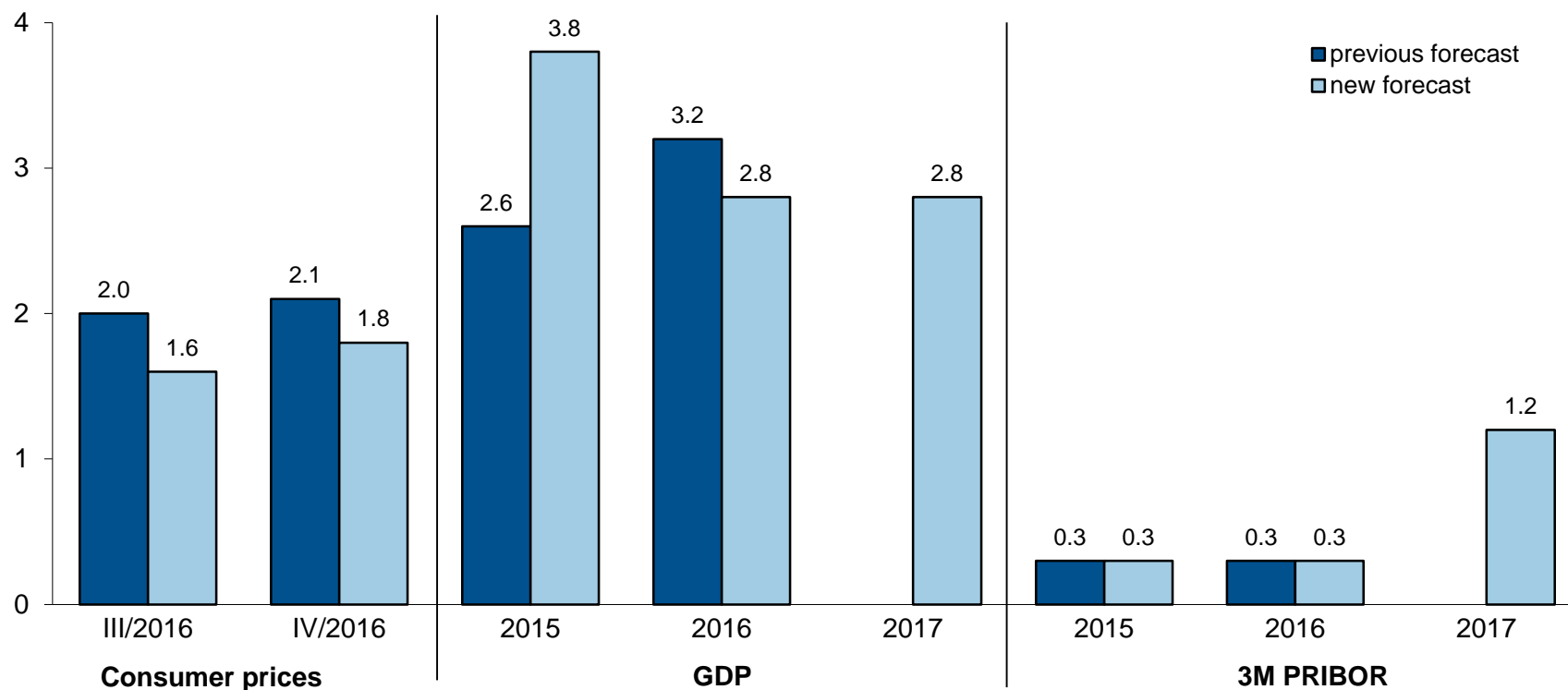
The forecast for GDP



The forecast for interest rates (3M PRIBOR)



Comparison with the previous forecast



Risks to the forecast

The Bank Board assessed the risks to the forecast as being broadly balanced.

A modest downside risk may arise from the decline in oil prices, which recently decreased to USD 50 a barrel.

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/2015. The Summary of the Report (together with the Table of key macroeconomic indicators) will be published on 7 August. The whole Report will be published on 14 August 2015.