



# Press conference of the CNB Bank Board

## 6th Situation Report on Economic and Monetary Developments

24 September 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.

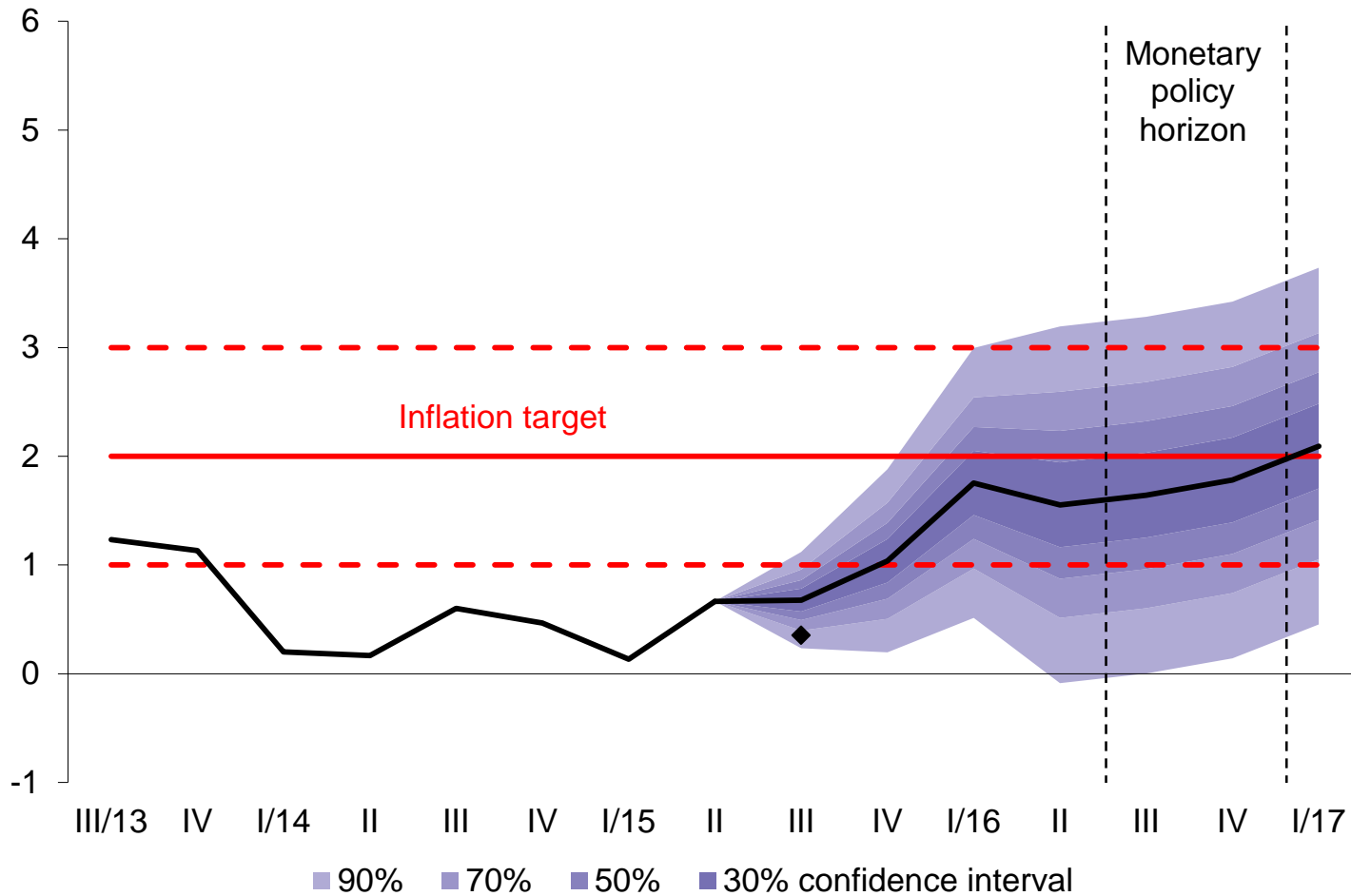
# Reasons for the decision in the context of the current forecast (i)

- 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 for most of next year. According to the forecast, sustainable fulfilment of the 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.
- The Bank Board assesses the risks to the current forecast over the next few quarters as being anti-inflationary. At the monetary policy horizon, these anti-inflationary risks are offset by better-than-forecasted data from the domestic economy.

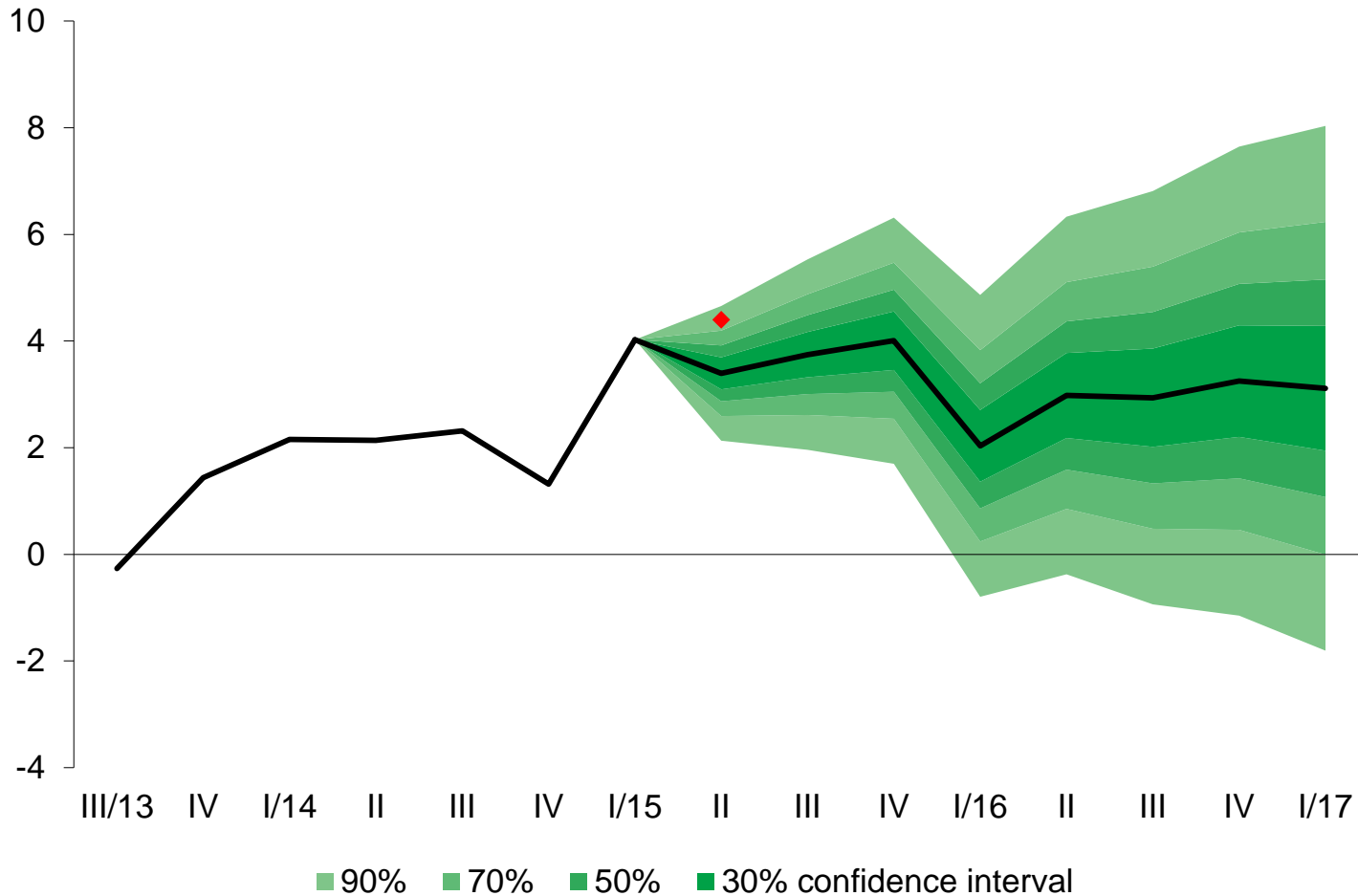
# Reasons for the decision in the context of the current forecast (ii)

- In this situation, the Bank Board stated again 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, among other things because the weaker exchange rate of the koruna is in the meantime passing through to domestic prices and other nominal variables.

# The inflation forecast and expected outcome in 2015 Q3

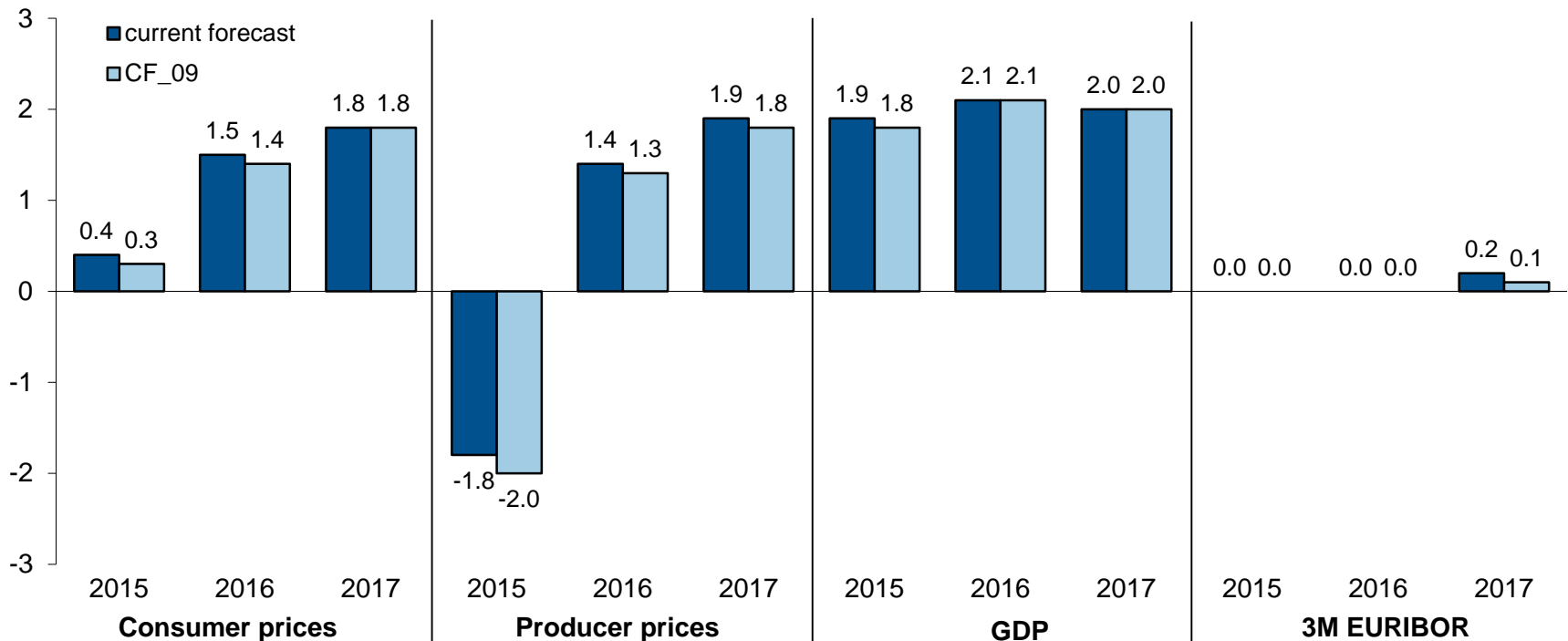


# The GDP forecast and outcome in 2015 Q2



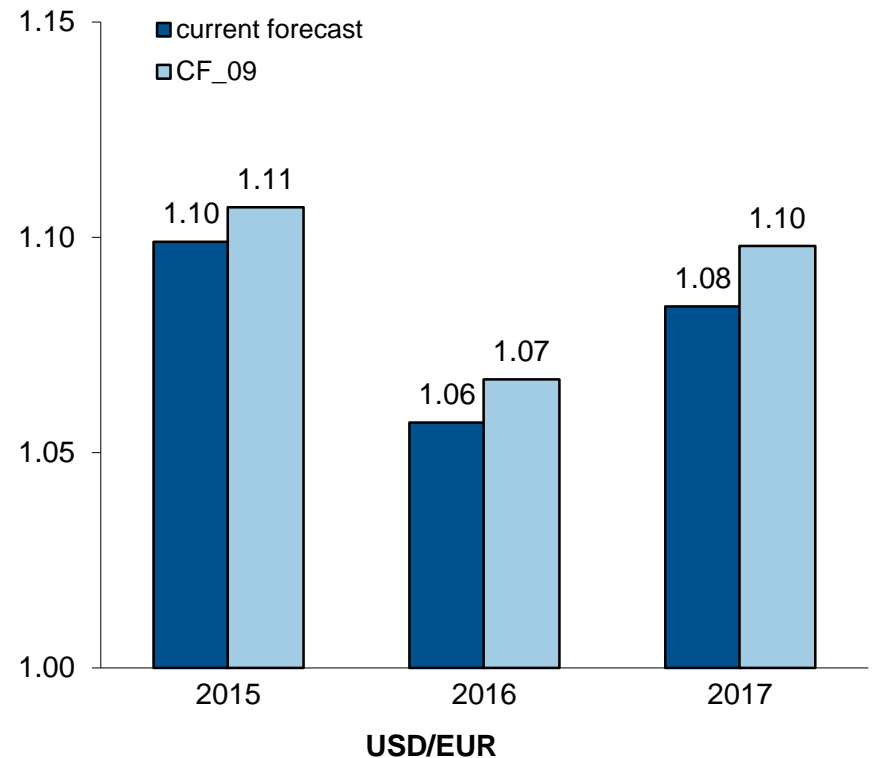
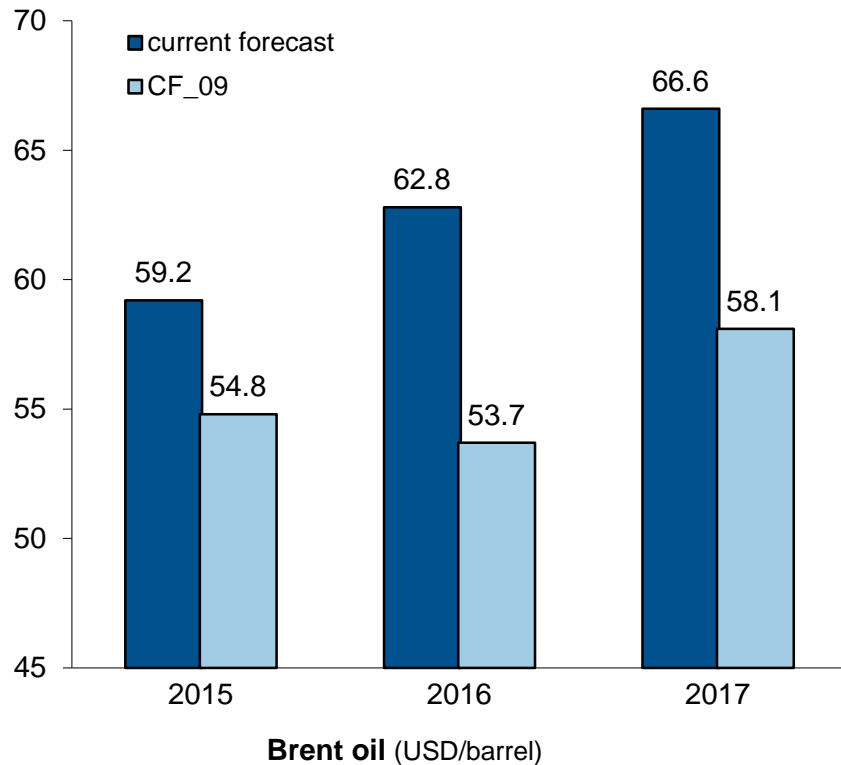
# The external environment (i)

Comparison between the current forecast assumptions and the September outlook based on Consensus Forecasts survey and market expectations for the effective euro area



# The external environment (ii)

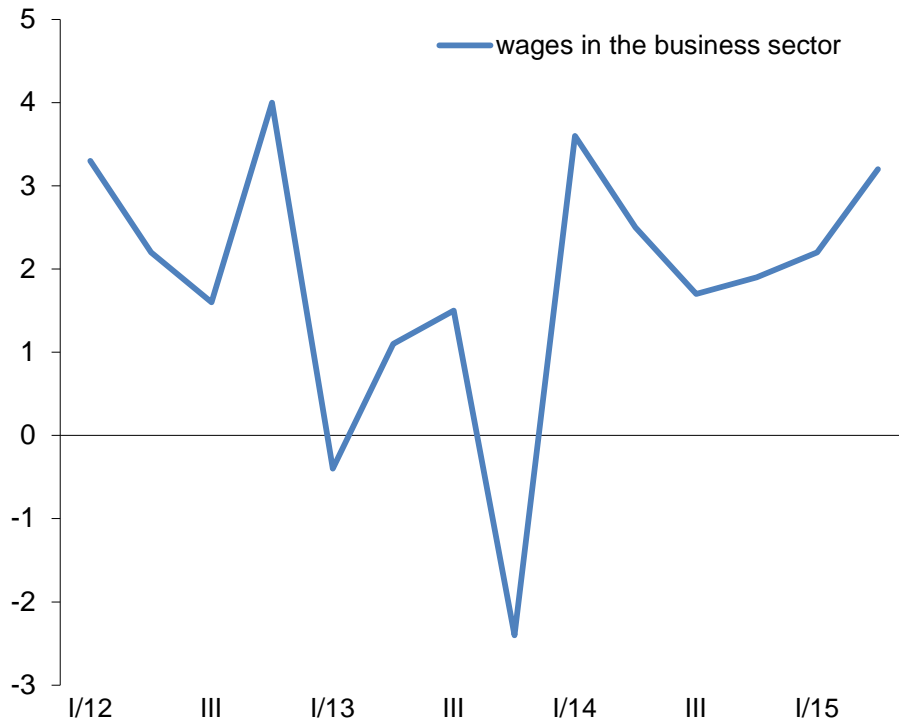
Comparison between the current forecast assumptions and the September outlook based on Consensus Forecasts survey and market expectations



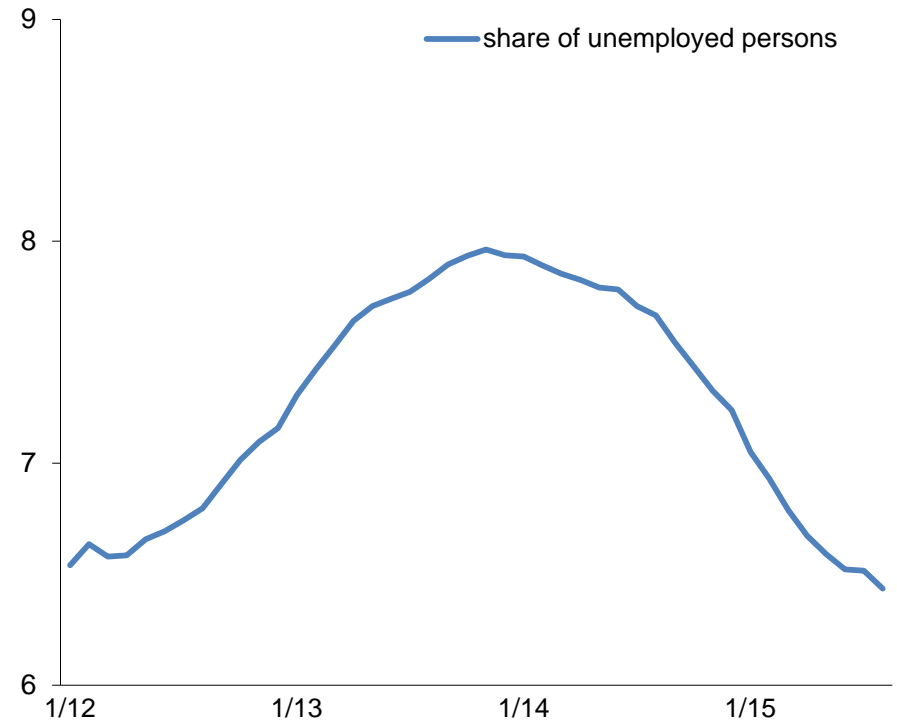


# The labour market

(Annual changes in %)

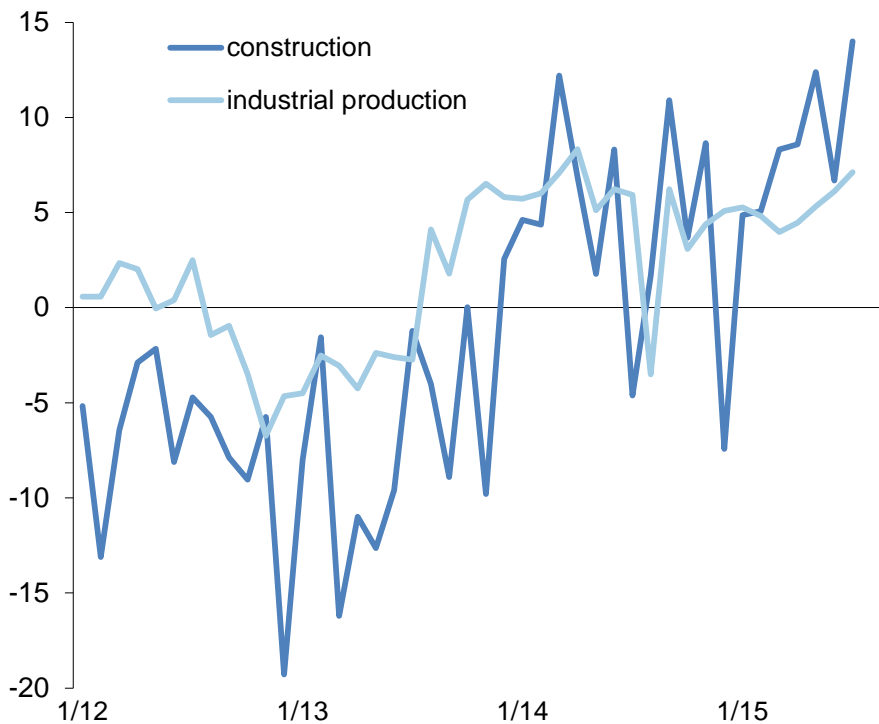


(in %, seasonally adjusted)

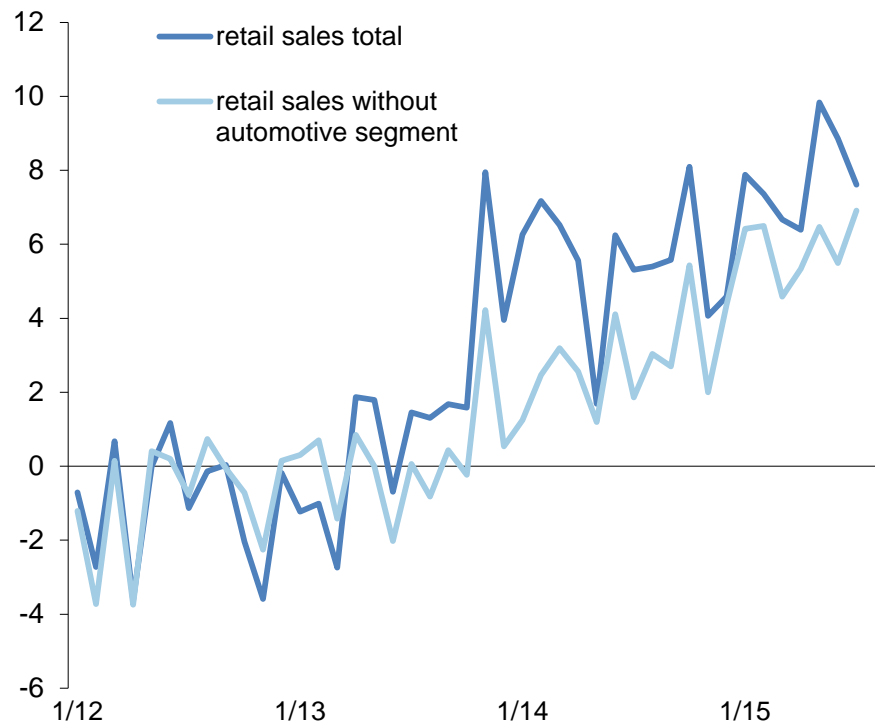


# Industry, construction, retail sales

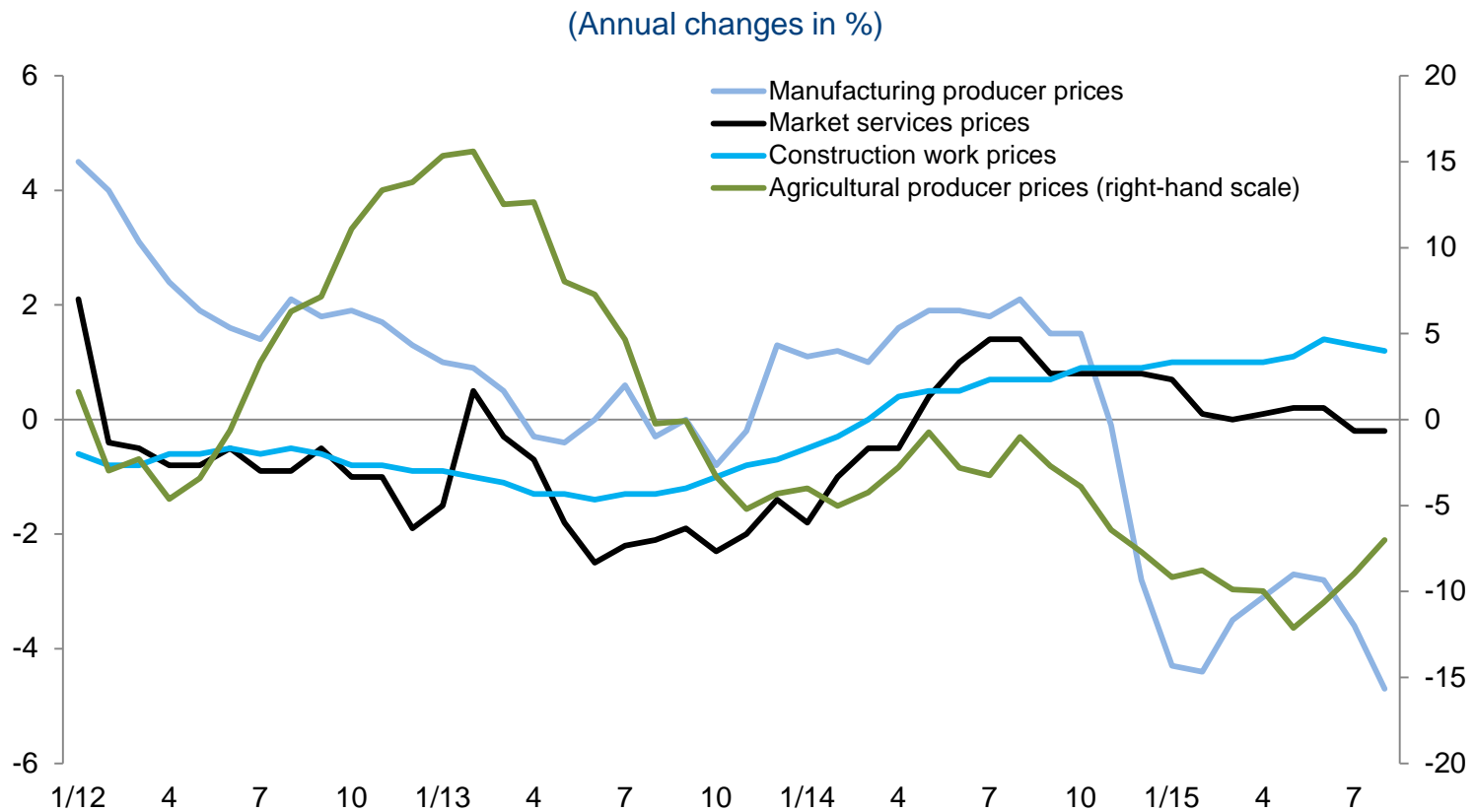
(Annual changes in %, s.a.)



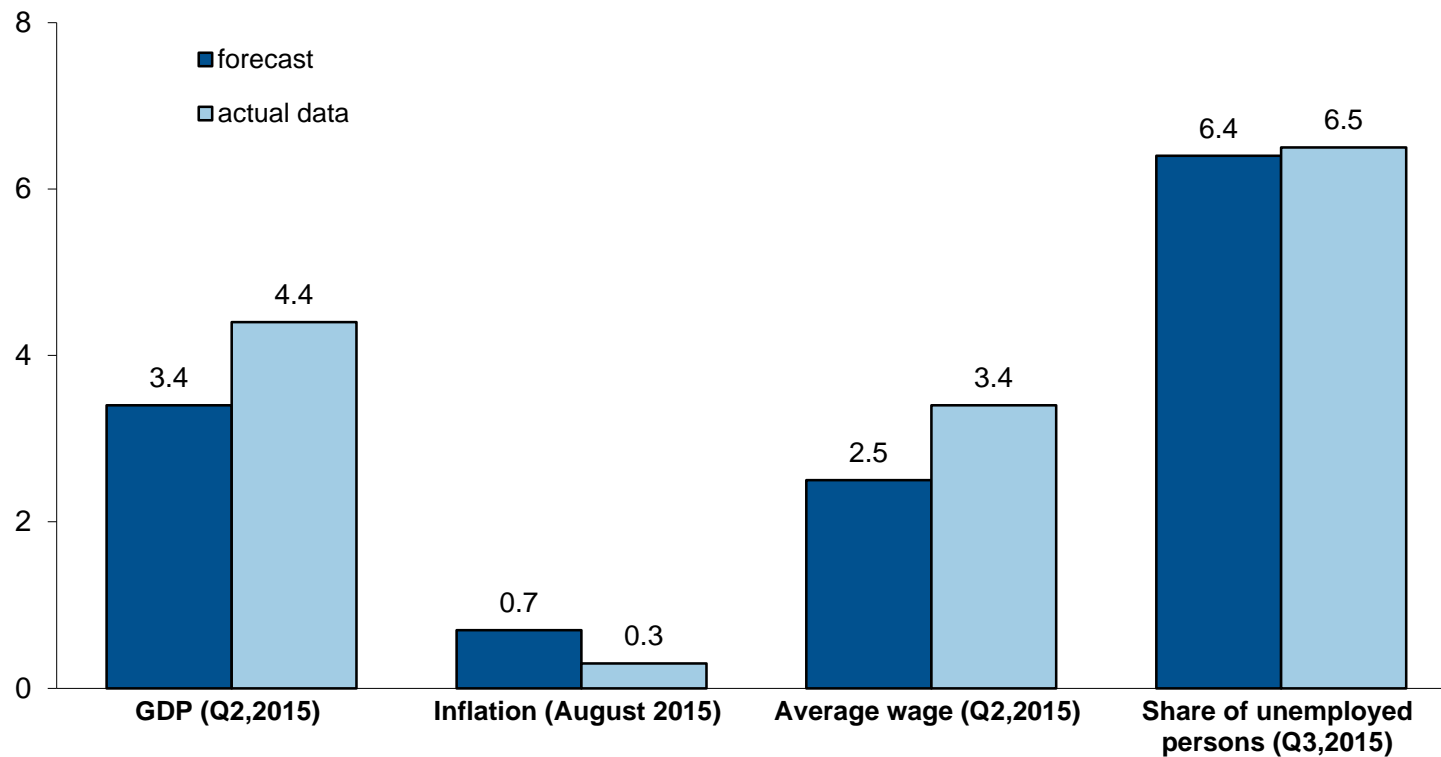
(Annual changes in %, s.a.)



# 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 July and August with the forecast for 2015 Q3

# Risks to the forecast

The risks to the current forecast over the next few quarters are anti-inflationary

## *On the downside:*

- food and fuel prices and administered energy prices (due to the decline in world commodity prices)
- expectations of more subdued inflation in the global economy

## *On the upside:*

- faster GDP growth
- stronger wage dynamics



# Thank you for your attention

Minutes of the today's meeting will be released on 2 October 2015 at

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