



Press conference of the CNB Bank Board

7th Situation Report on Economic and Monetary Developments

5 November 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)

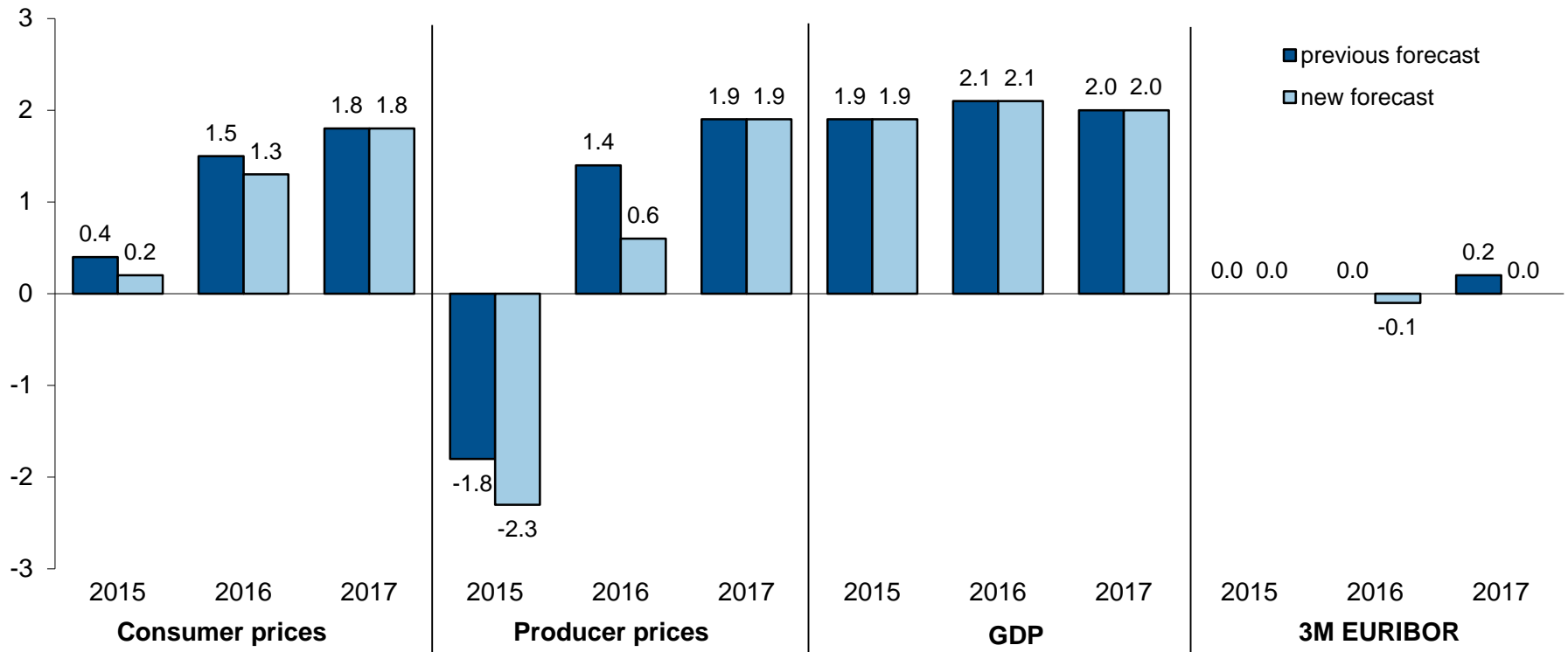
- The forecast assumes that market interest rates will be flat at their current very low level and the koruna exchange rate will be used as a monetary policy instrument until the end of 2016.
- Inflation is still well below the CNB's target of 2%. According to the forecast, inflation will increase and hit the 2% target at the monetary policy horizon. In 2017, it will be slightly above the target.
- According to the forecast, sustainable fulfilment of the target, which is a condition for a return to conventional monetary policy, will occur from early 2017.
- The risks to the forecast are assessed as being balanced.

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

- A need to maintain significantly expansionary monetary conditions persists. The likelihood that it will be necessary to discontinue the exchange rate commitment earlier than assumed in the forecast is decreasing over time.
- In this situation, the Bank Board discussed extending the duration of the exchange rate commitment. It agreed that its discontinuation would probably shift to around the end of 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.

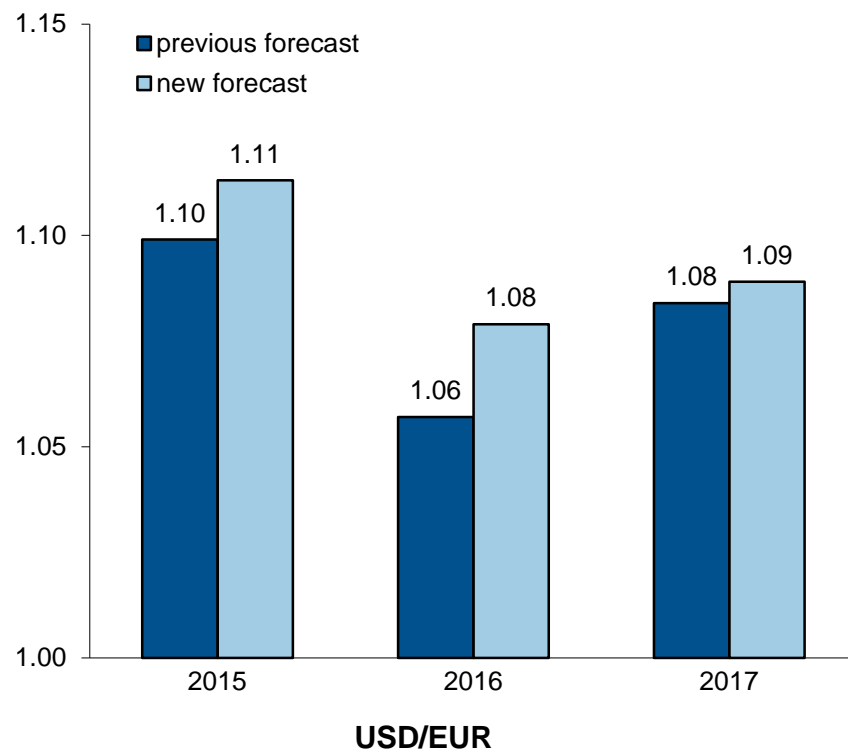
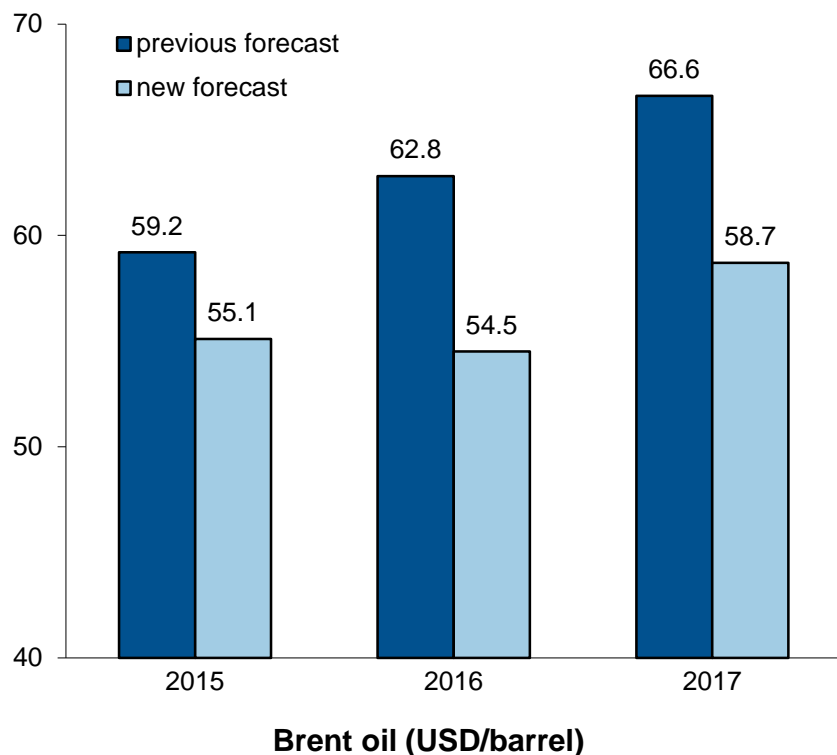
The external environment (i)

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

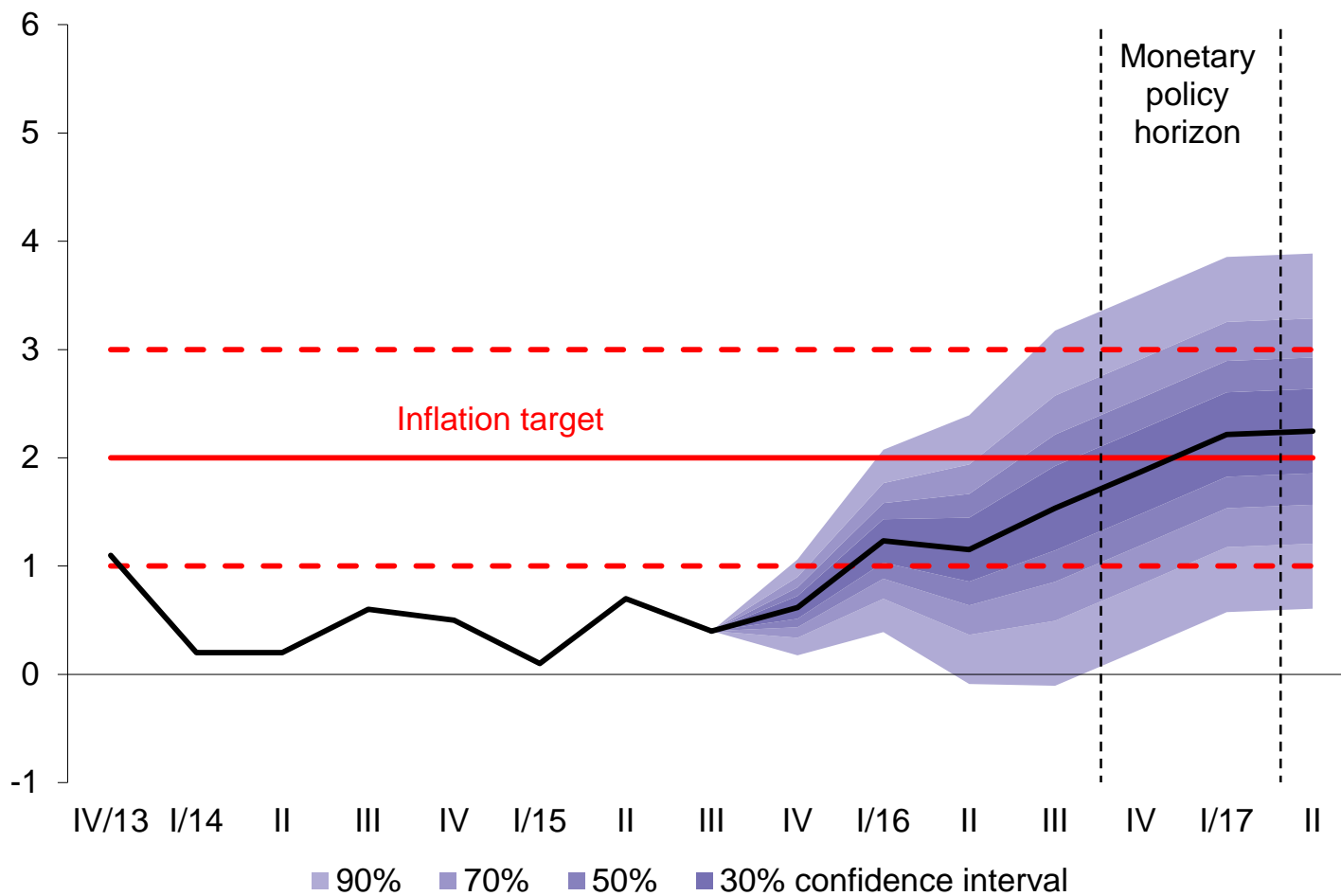


The external environment (ii)

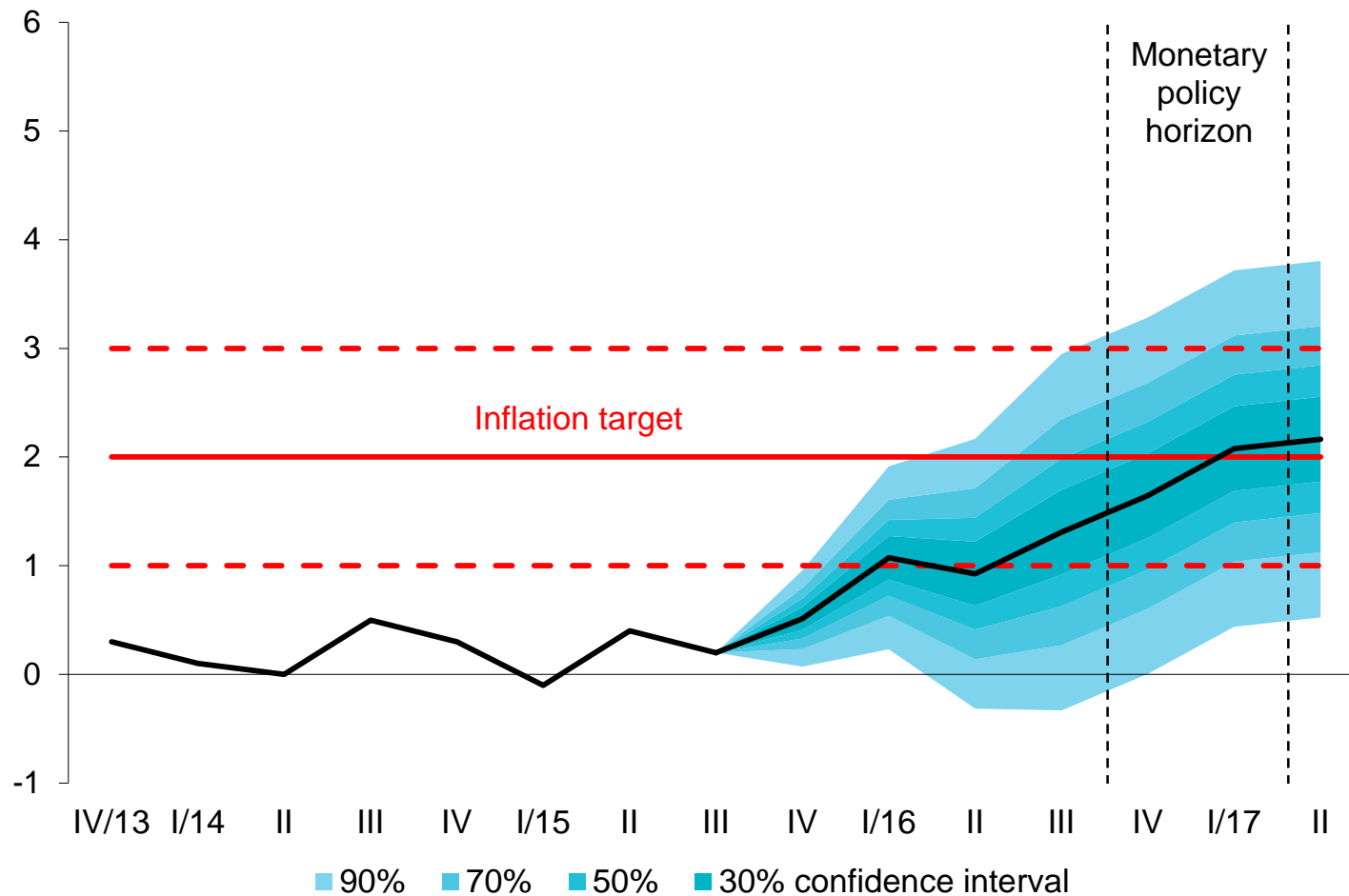
Comparison between the assumptions of the new and previous forecasts



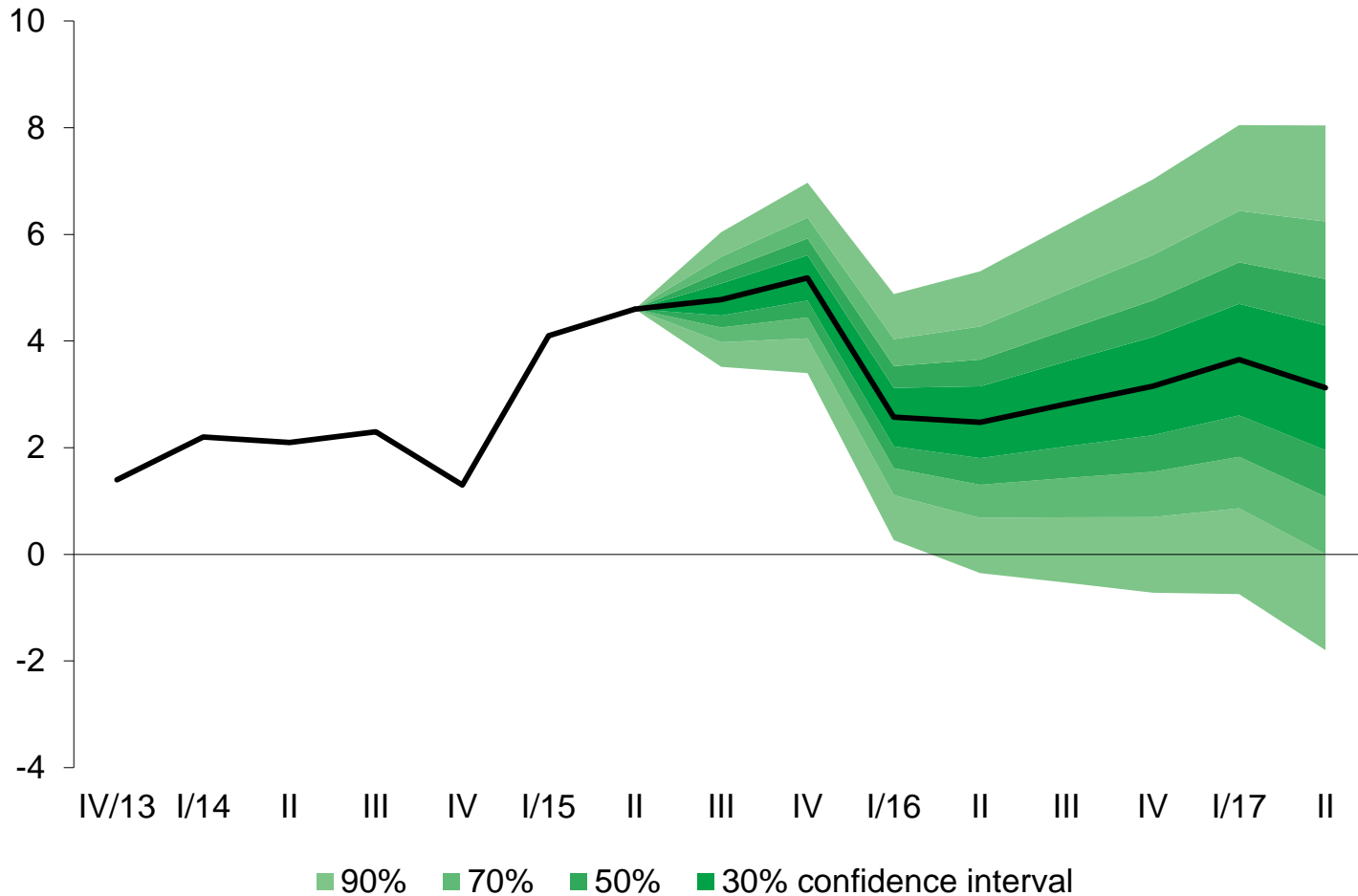
The forecast for headline inflation



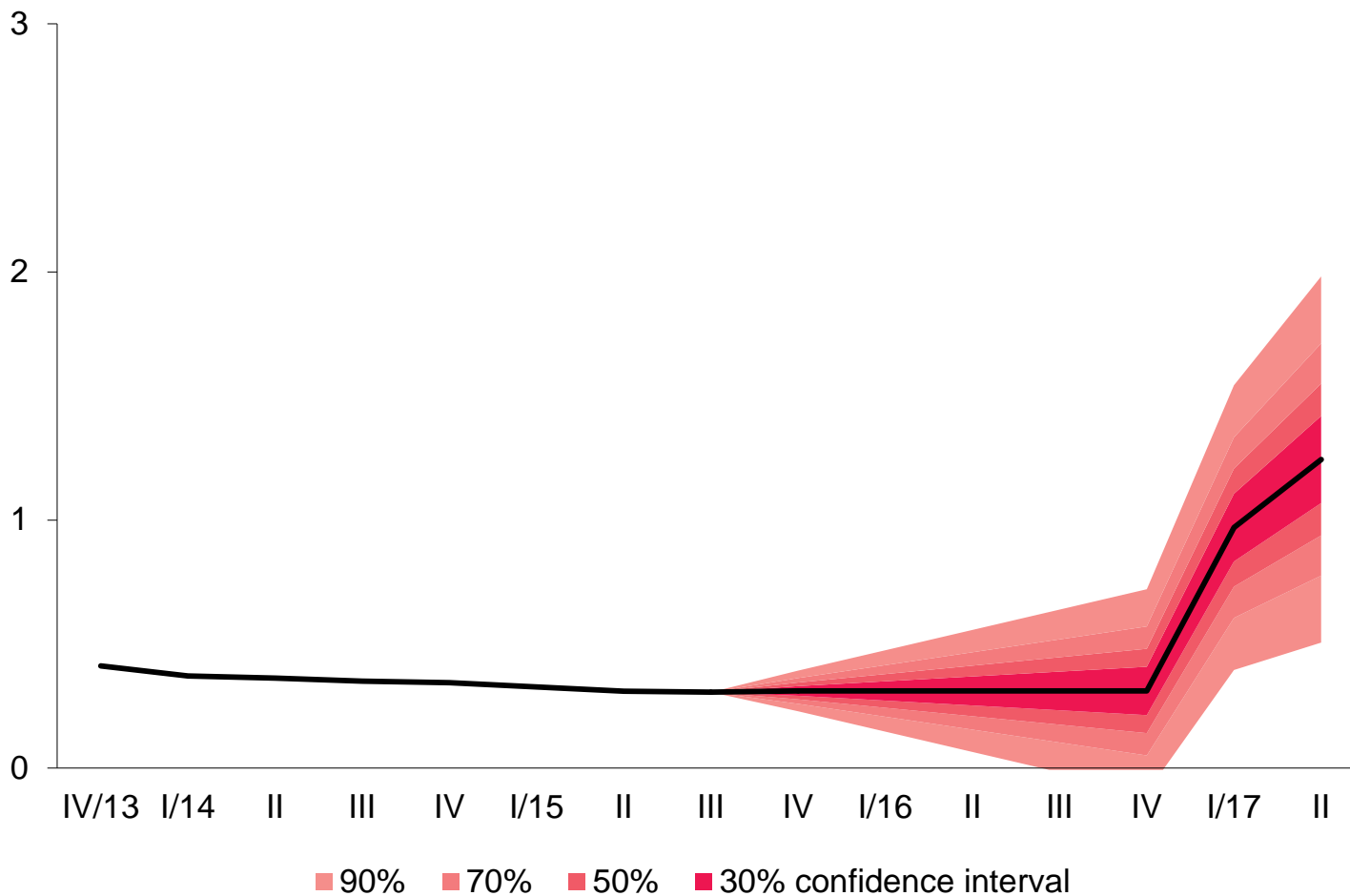
The forecast for monetary policy-relevant inflation



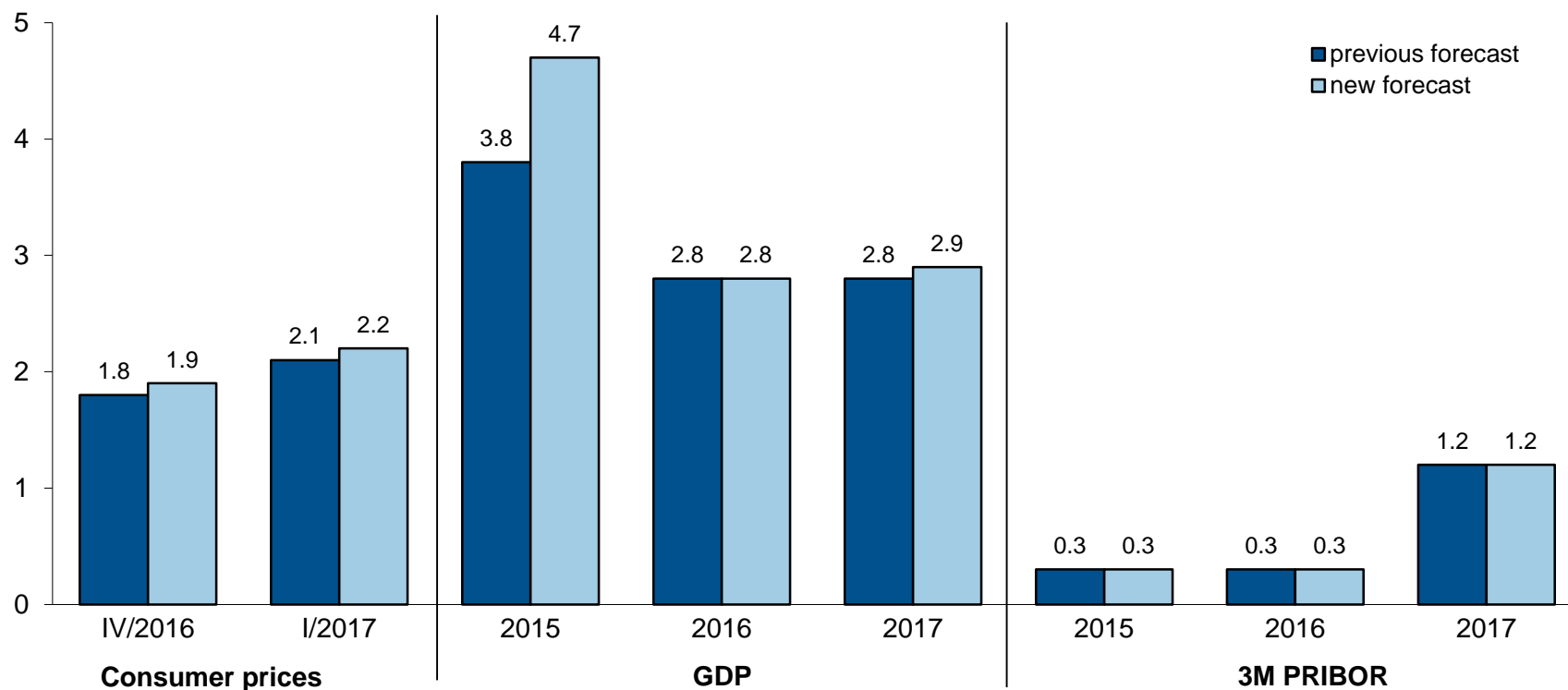
The forecast for GDP



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 balanced.

Risks on the downside:

- a slowdown in emerging economies
- continued subdued producer price inflation in the euro area

Risk on the upside:

- non-materialisation of the assumed decline in natural gas prices

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 IV/2015. The Summary of the Report (together with the Table of key macroeconomic indicators) will be published on 6 November. The whole Report will be published on 13 November 2015.