



# Press conference of the CNB Bank Board

## 8th Situation Report on Economic and Monetary Developments

16 December 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.

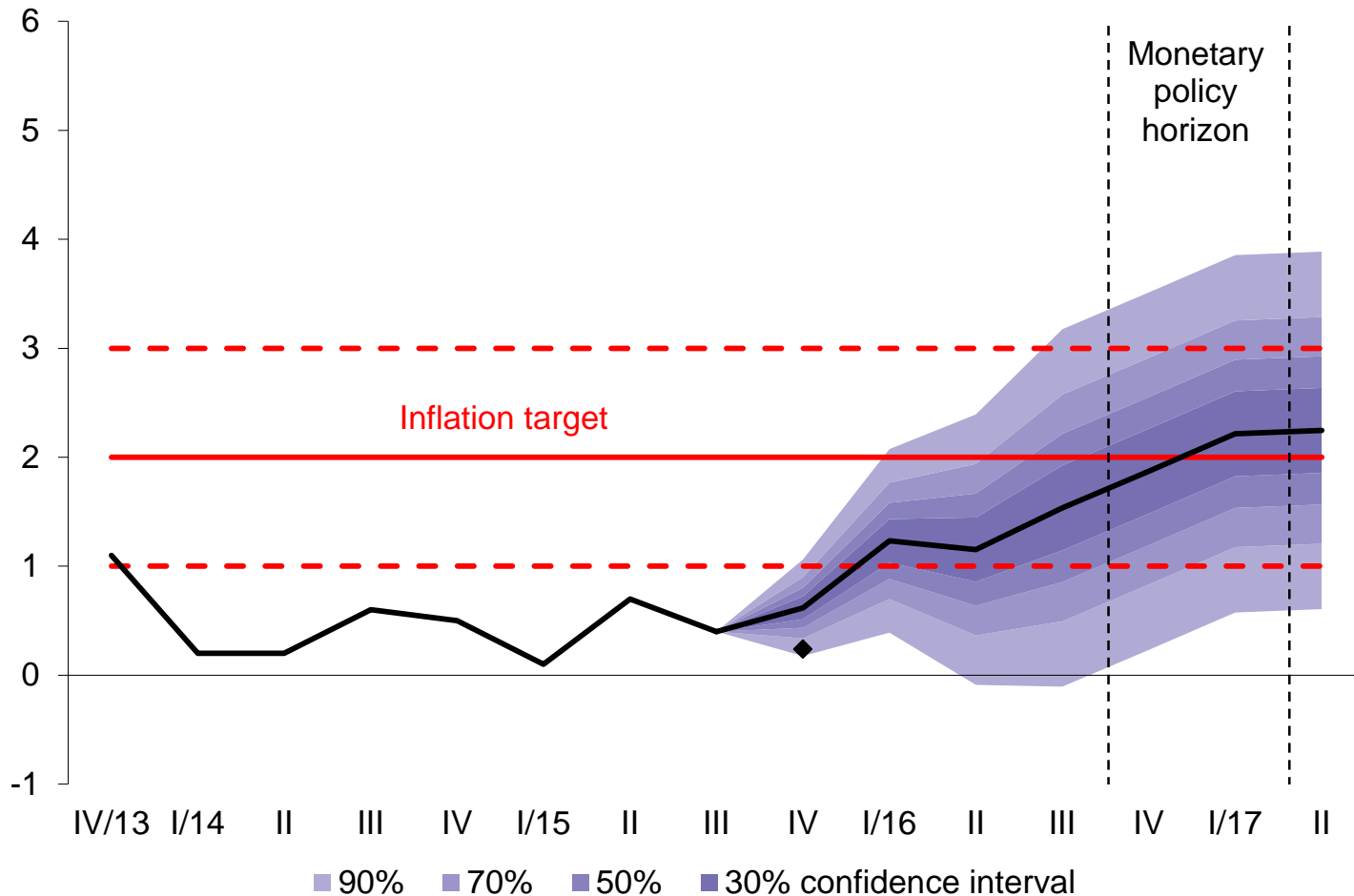
# Reasons for the decision in the context of the current forecast (i)

- 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 broadly balanced at the monetary policy horizon.

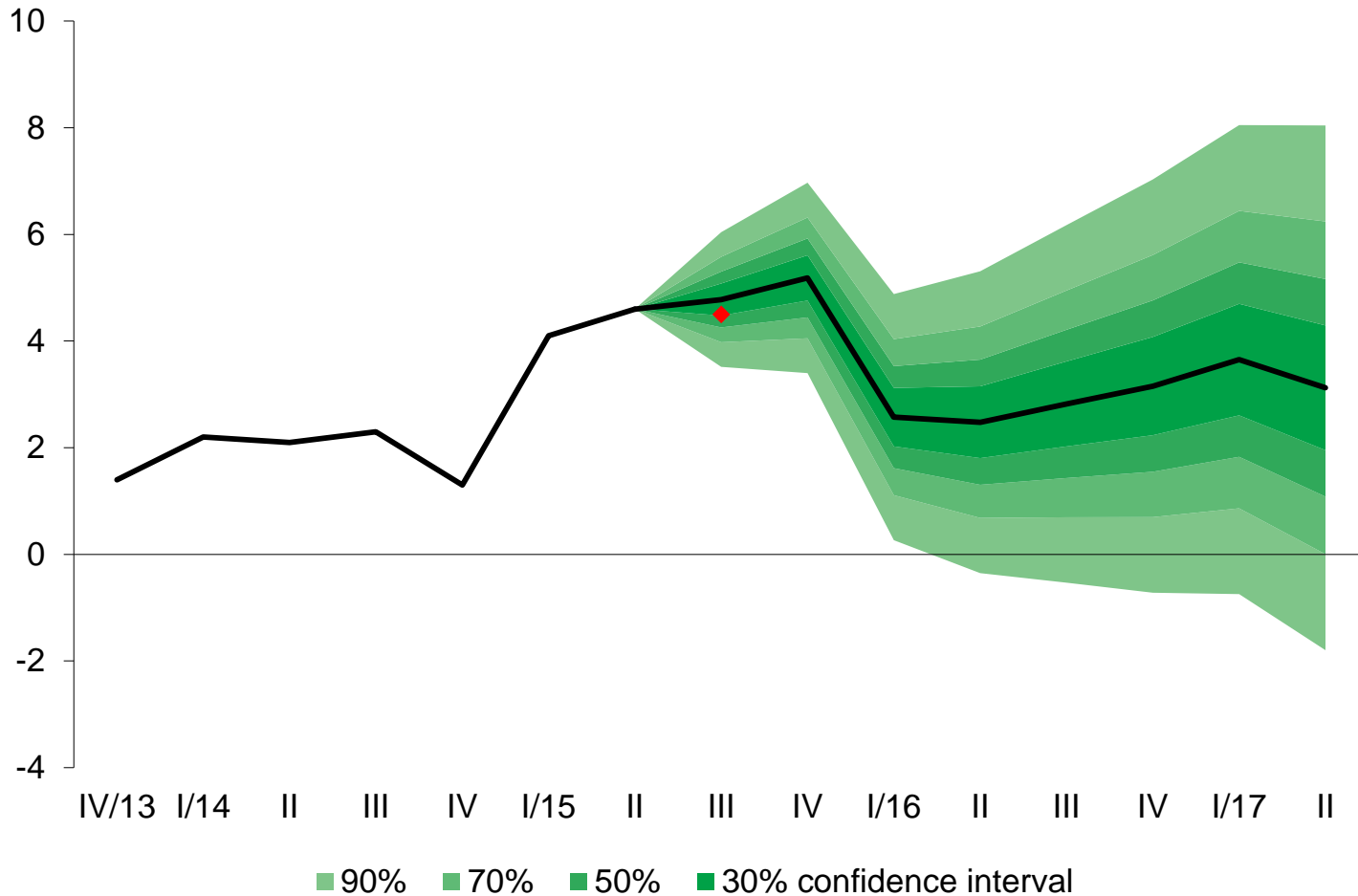
# Reasons for the decision in the context of the current forecast (ii)

- A need to maintain significantly expansionary monetary conditions persists.
- The Bank Board's repeated statements that it will not discontinue the use of the exchange rate as a monetary policy instrument before the second half of 2016 remain valid.
- At the same time, the Bank Board stated again that the likely timing of the discontinuation of the exchange rate commitment is 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 inflation forecast and expected outcome in 2015 Q4

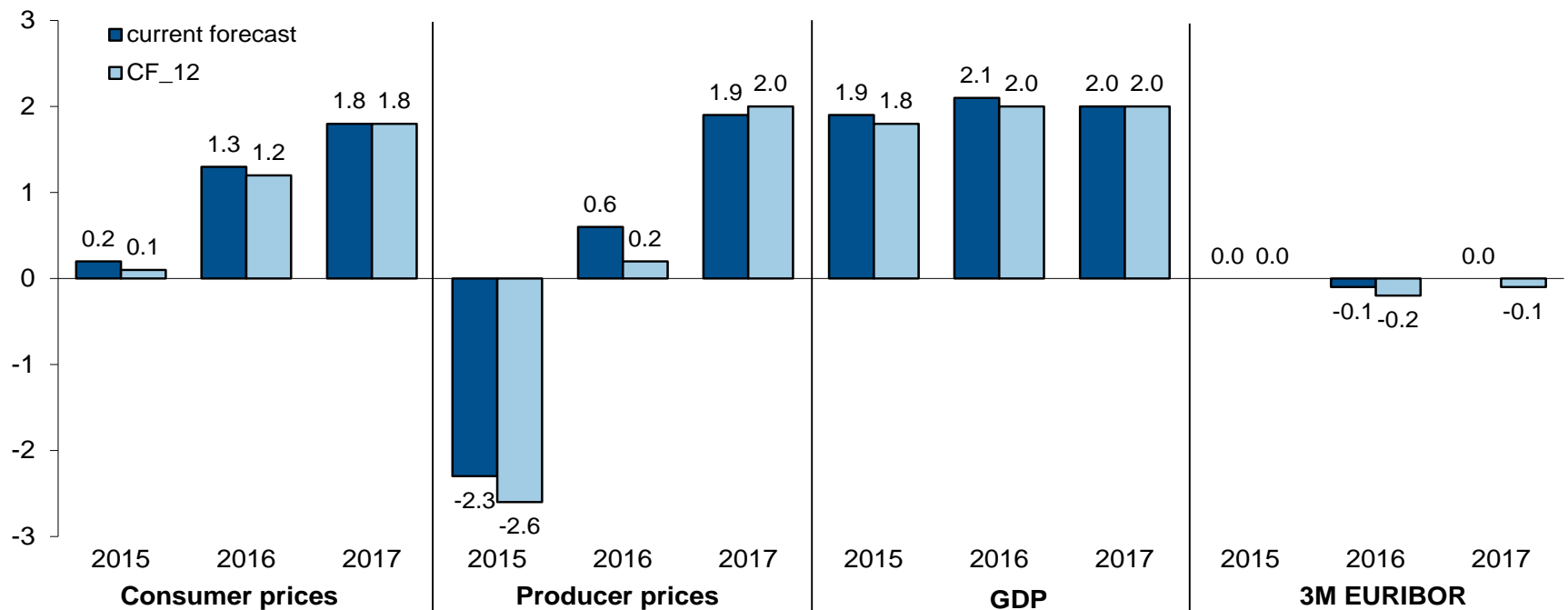


# The GDP forecast and outcome in 2015 Q3



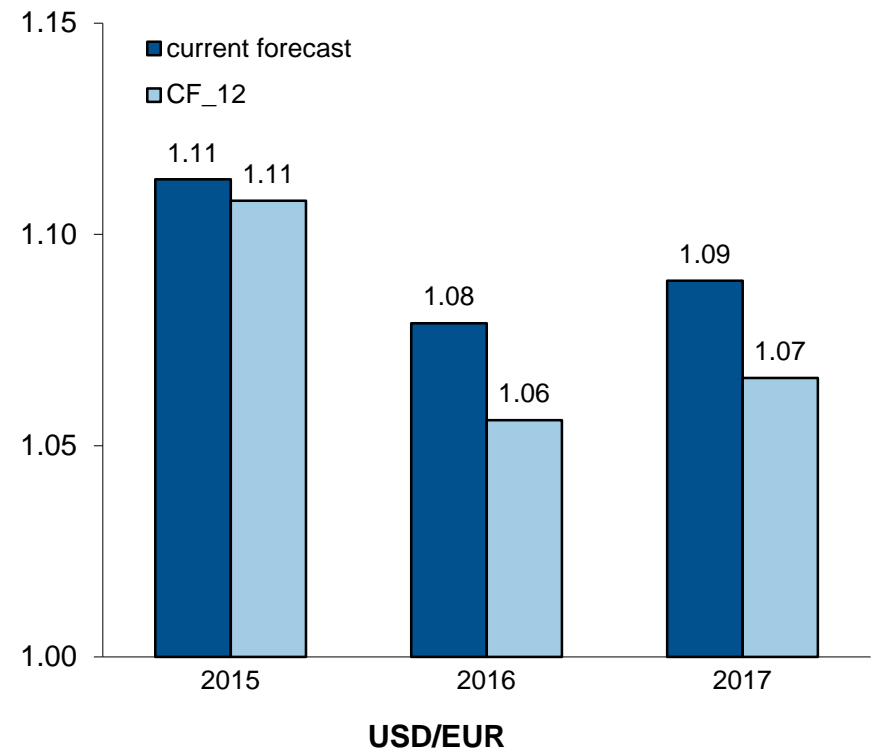
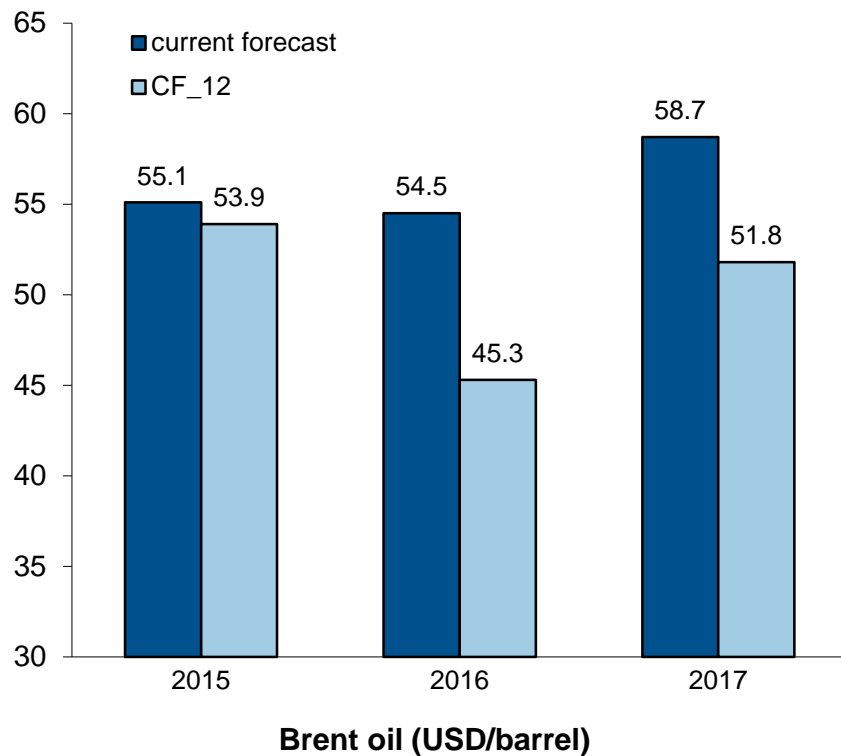
# The external environment (i)

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



# The external environment (ii)

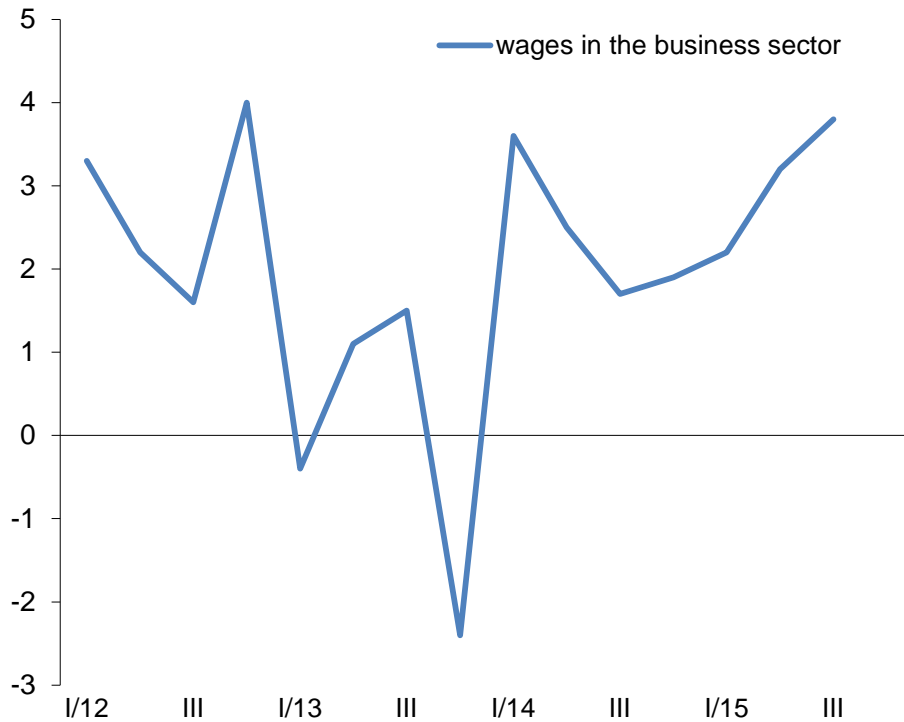
Comparison between the current forecast assumptions and the December outlook based on Consensus Forecasts survey and market expectations



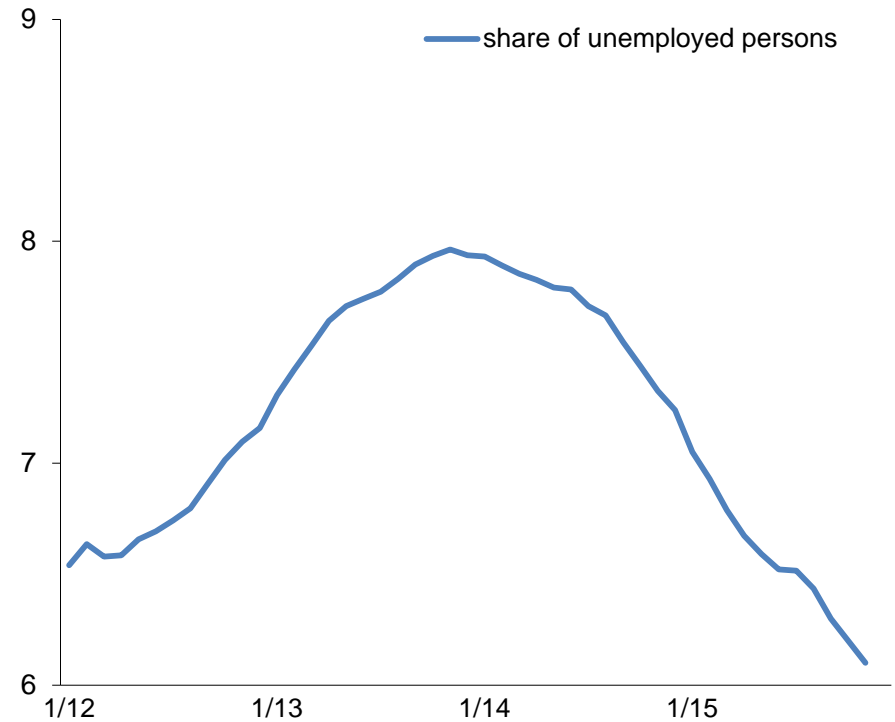


# The labour market

(Annual changes in %)

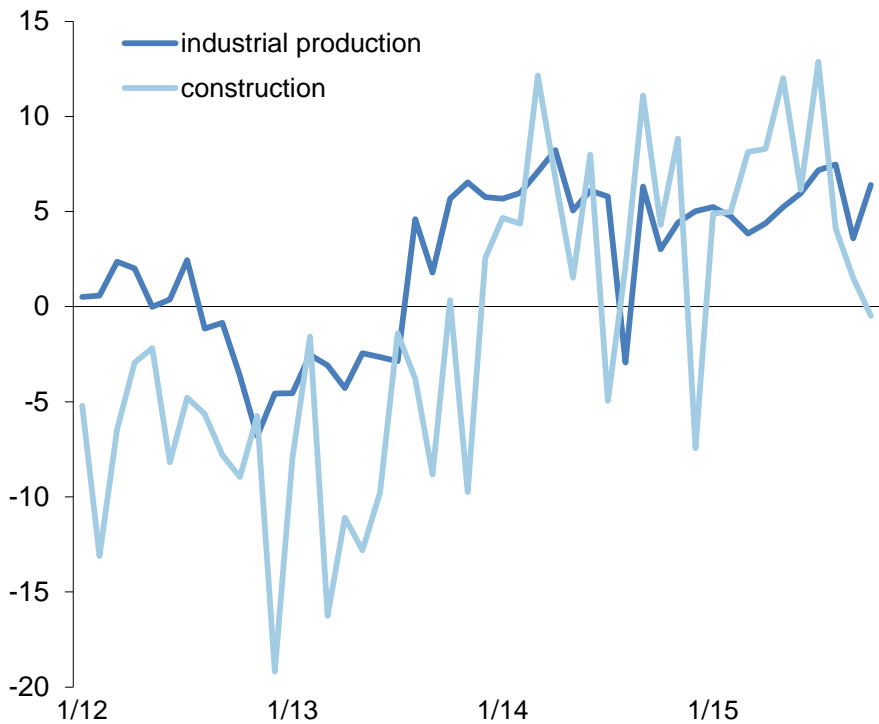


(in %, seasonally adjusted)

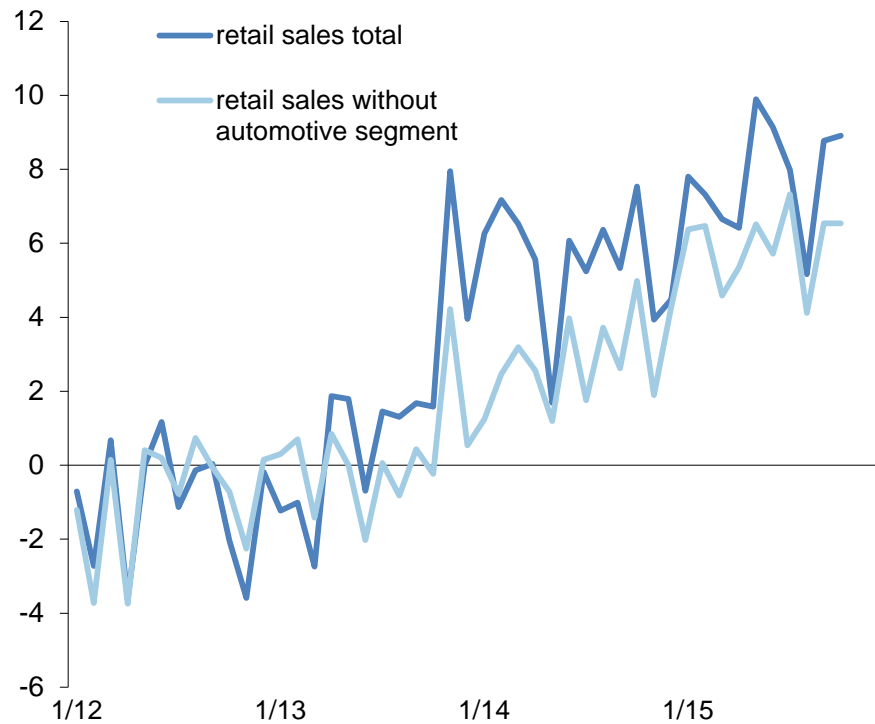


# Industry, construction, retail sales

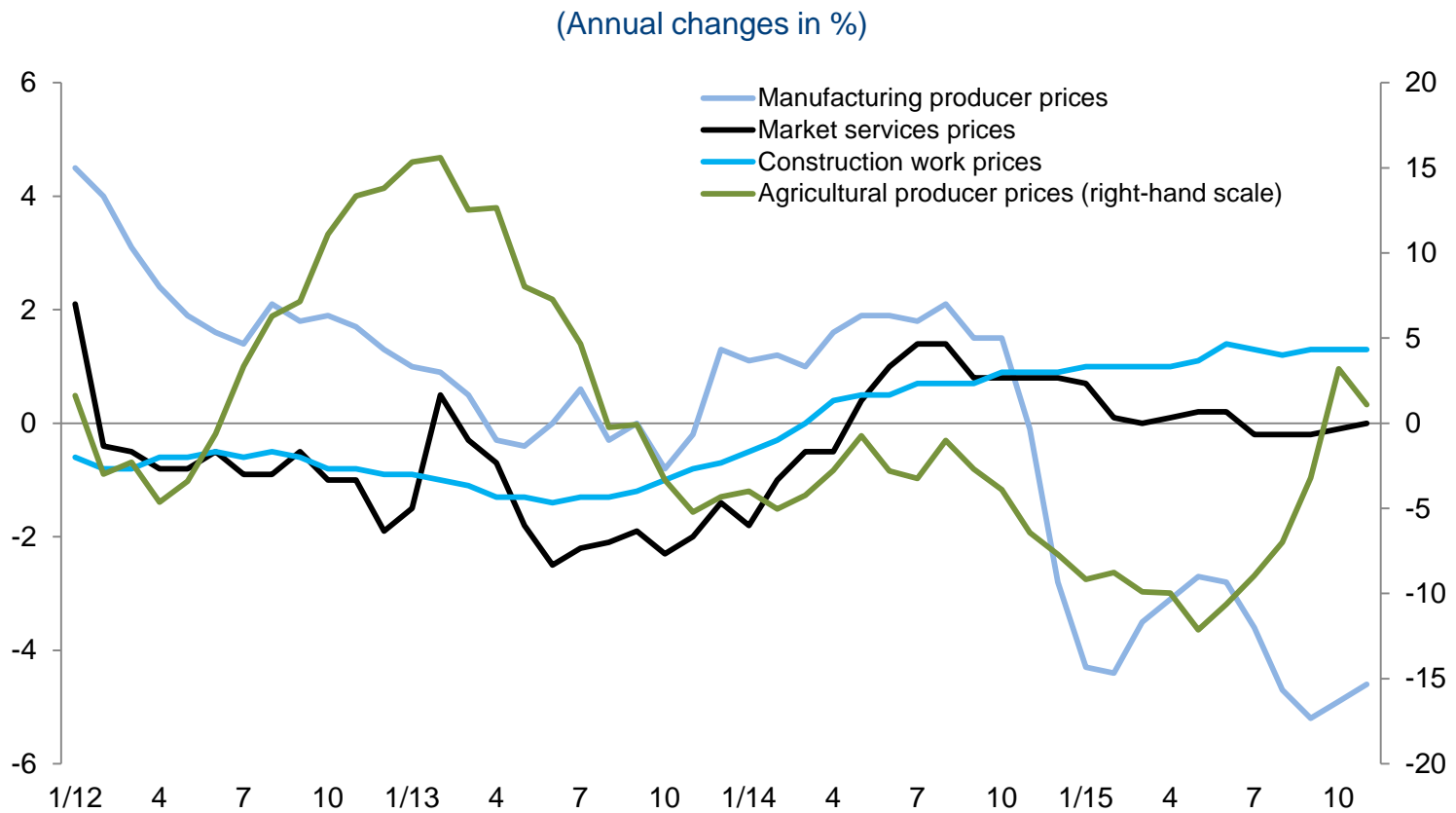
(Annual changes in %, s.a.)



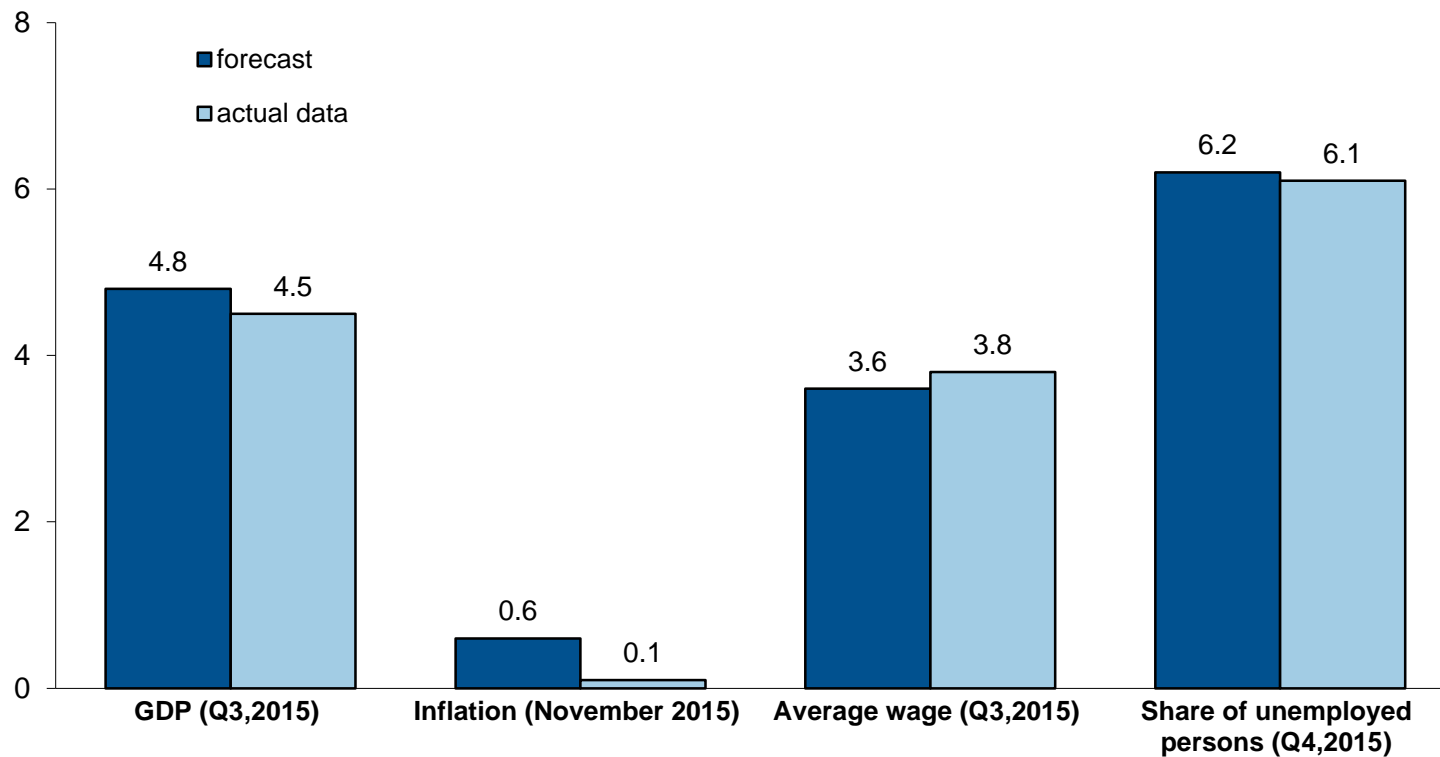
(Annual changes in %, s.a.)



# 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 October and November with the forecast for 2015 Q4

# Risks to the forecast

The risks to the forecast are broadly balanced at the monetary policy horizon.

## *Risks on the downside:*

- lower domestic food prices
- continued deflation abroad including a further decline in oil prices

## *Risks on the upside:*

- faster-than-expected wage growth
- non-materialisation of the forecasted decline in administered prices of natural gas and electricity for households next year



# Thank you for your attention

Minutes of the today's meeting will be released on 28 December 2015 at

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