



# Press conference of the CNB Bank Board

1st Situation Report on  
Economic and Monetary  
Developments

2 February 2017

# 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)

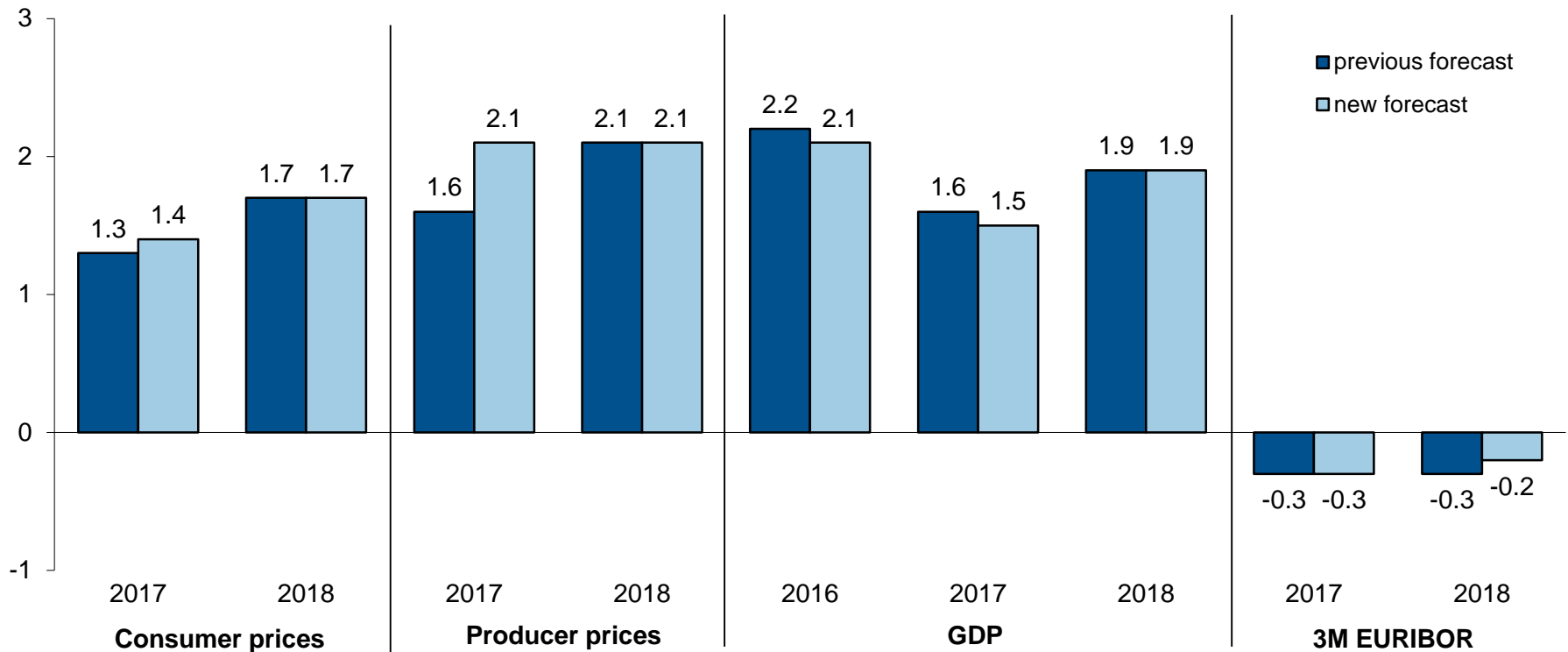
- The forecast assumes that market interest rates will be flat at their current very low level and the exchange rate will be used as a monetary policy instrument until mid-2017. Consistent with the forecast is an increase in market interest rates thereafter.
- Inflation rose sharply at the close of 2016 and returned to the CNB's 2% target. According to the forecast, inflation will increase further, reaching the upper half of the tolerance band around the target and returning to the target from above at the monetary policy horizon.
- According to the new forecast, the conditions for sustainable fulfilment of the 2% inflation target in the future, i.e. after the assumed return to the conventional monetary policy regime, will be met from around mid-2017 onwards.

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

- A need to maintain expansionary monetary conditions to the current extent persists.
- The Bank Board states again that the CNB will not discontinue the use of the exchange rate as a monetary policy instrument before 2017 Q2.
- The Bank Board still considers it likely that the commitment will be discontinued around the middle of 2017.

# The external environment (i)

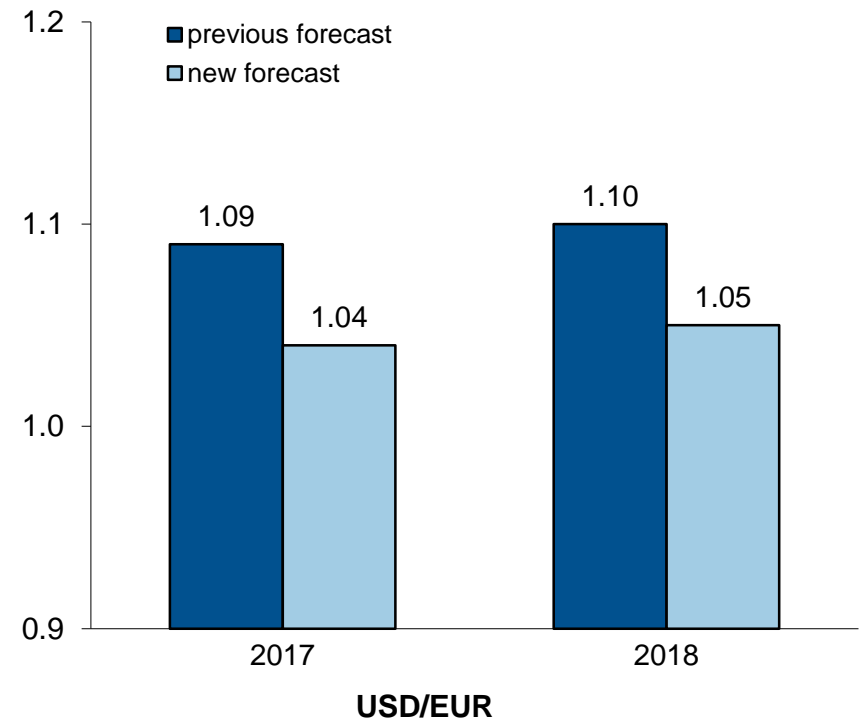
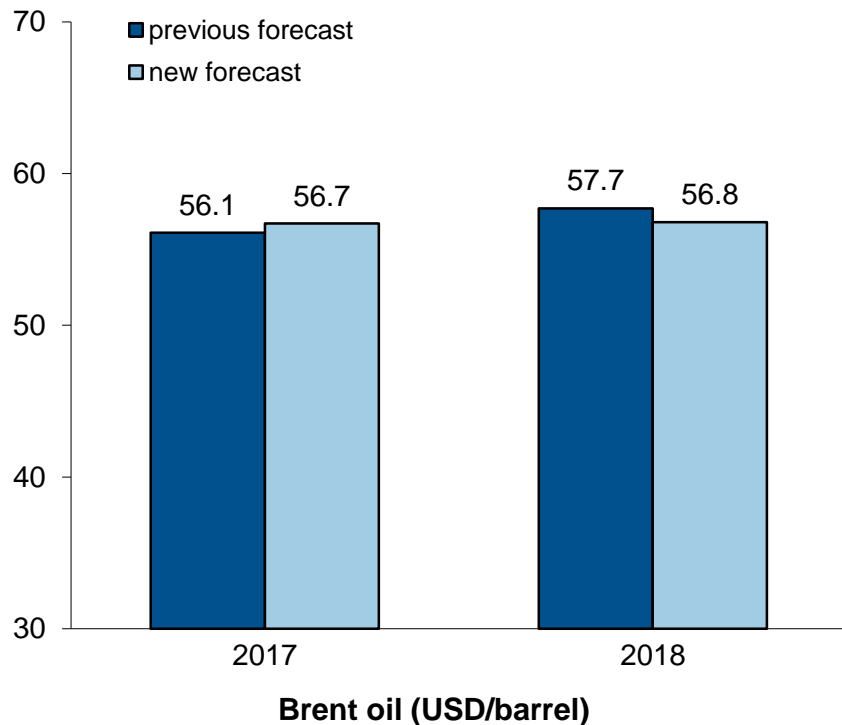
## Comparison between the assumptions of the new and previous forecasts for the effective euro area\*



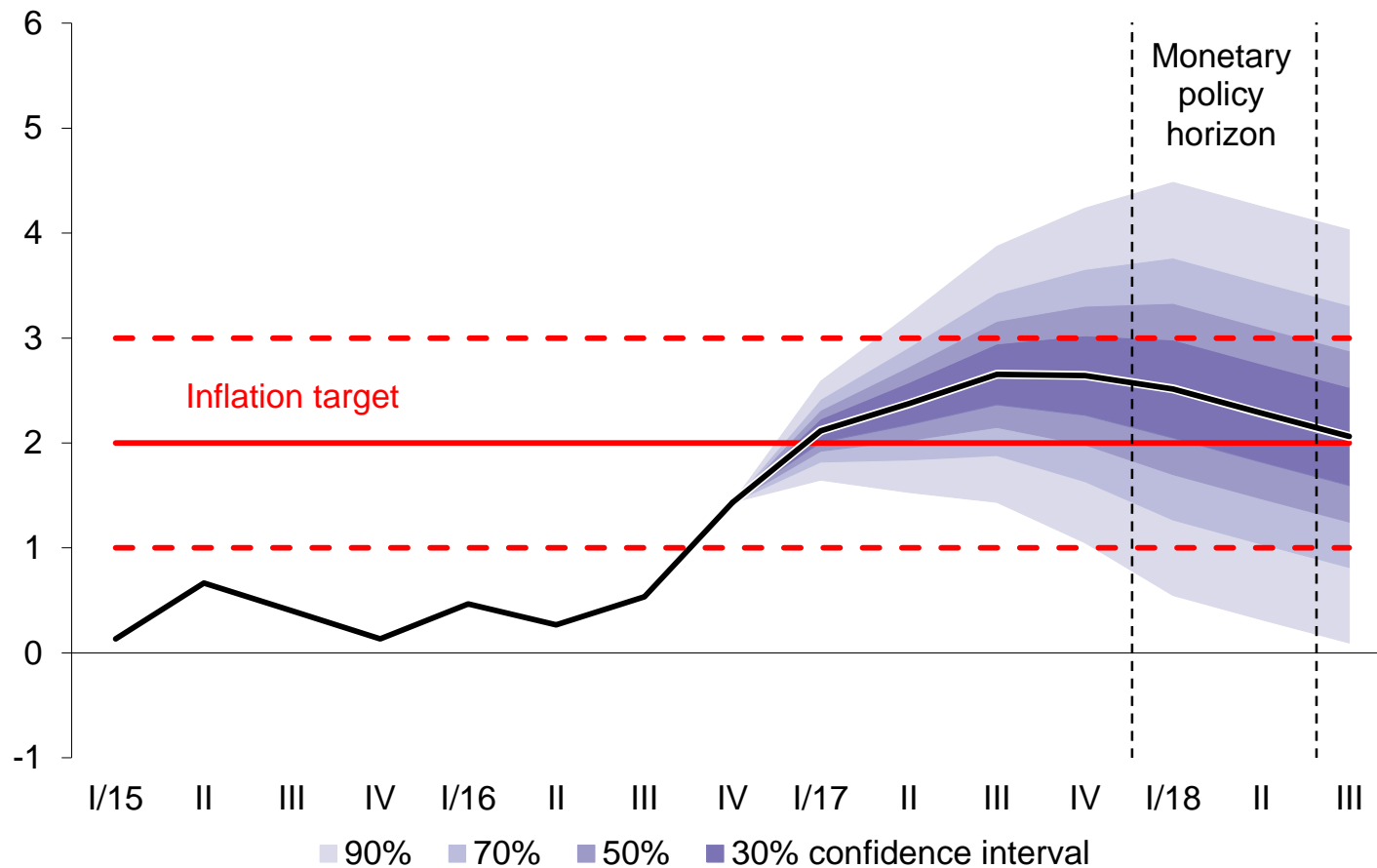
\* Effective euro area means that individual countries of the euro area are weighted by their share in Czech exports

# The external environment (ii)

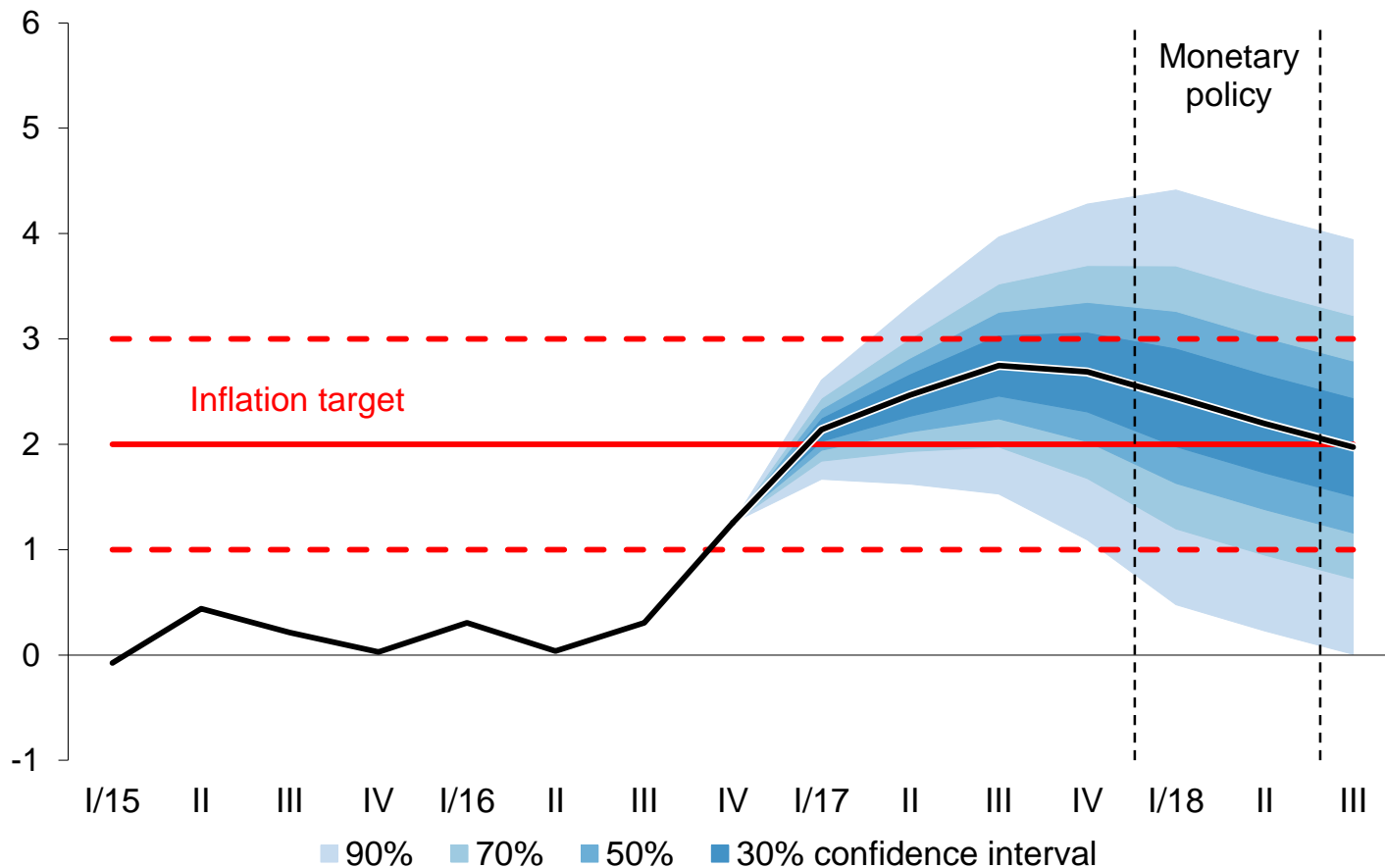
## Comparison between the assumptions of the new and previous forecasts



# The forecast for headline inflation

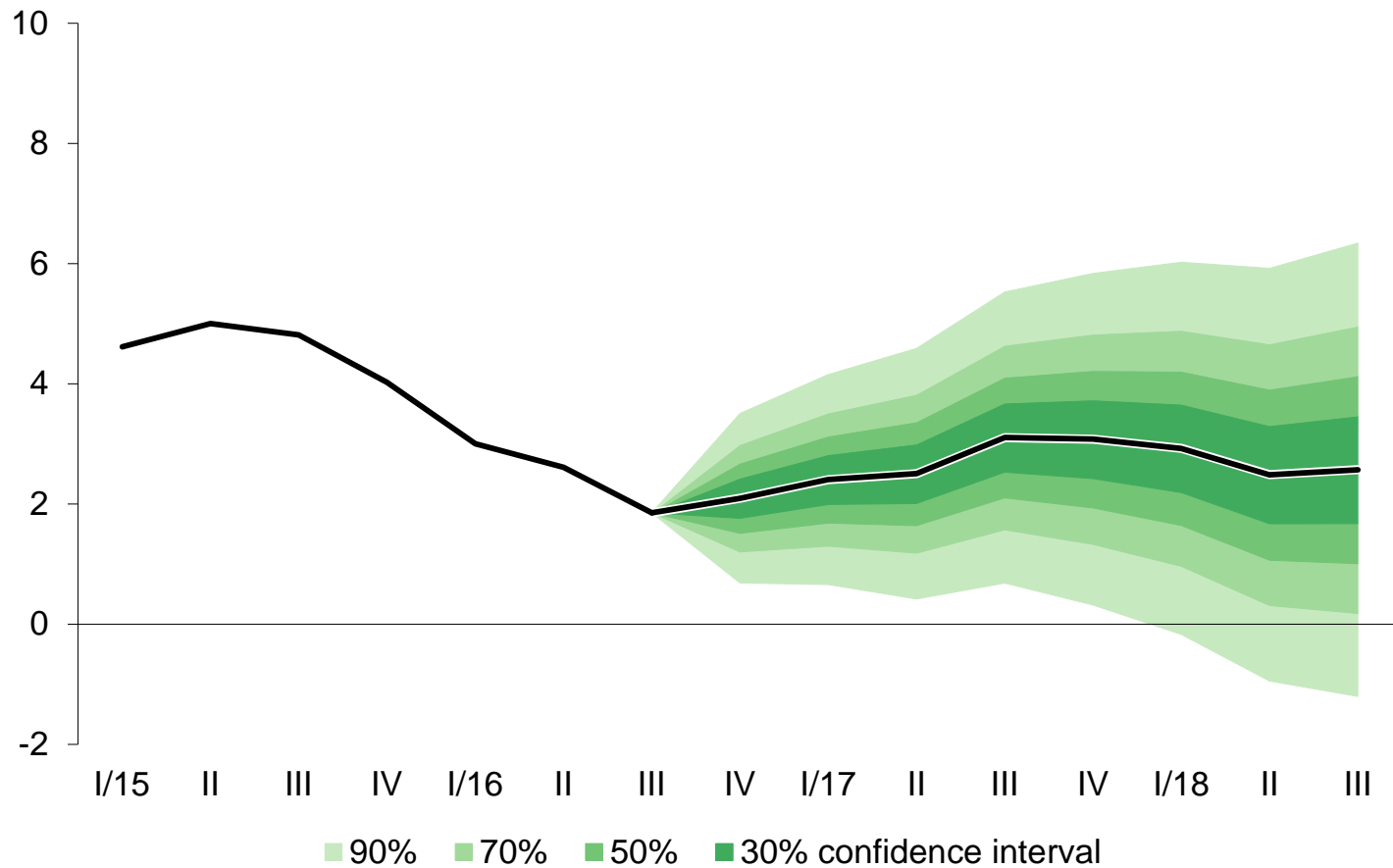


# The forecast for monetary policy-relevant inflation

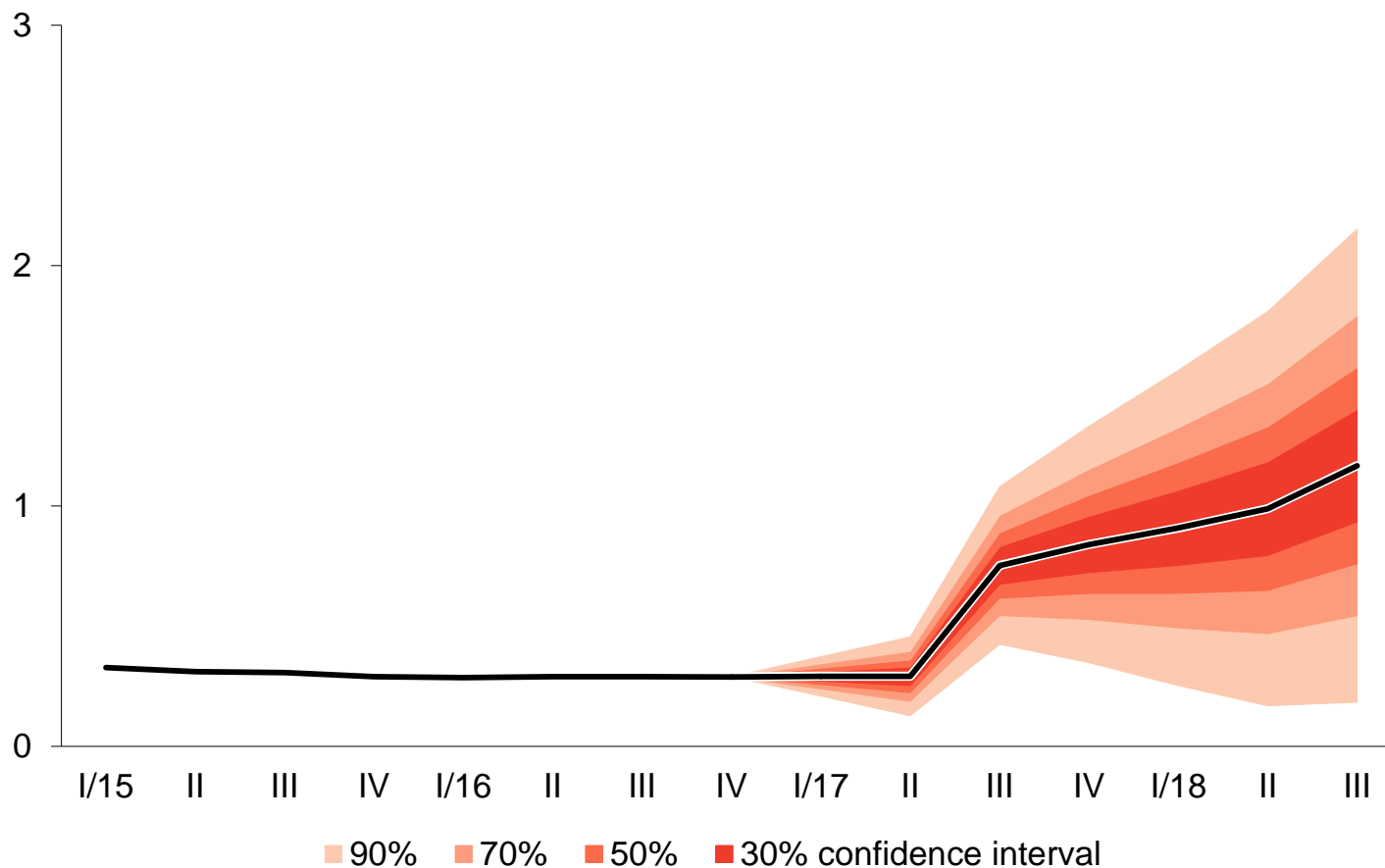




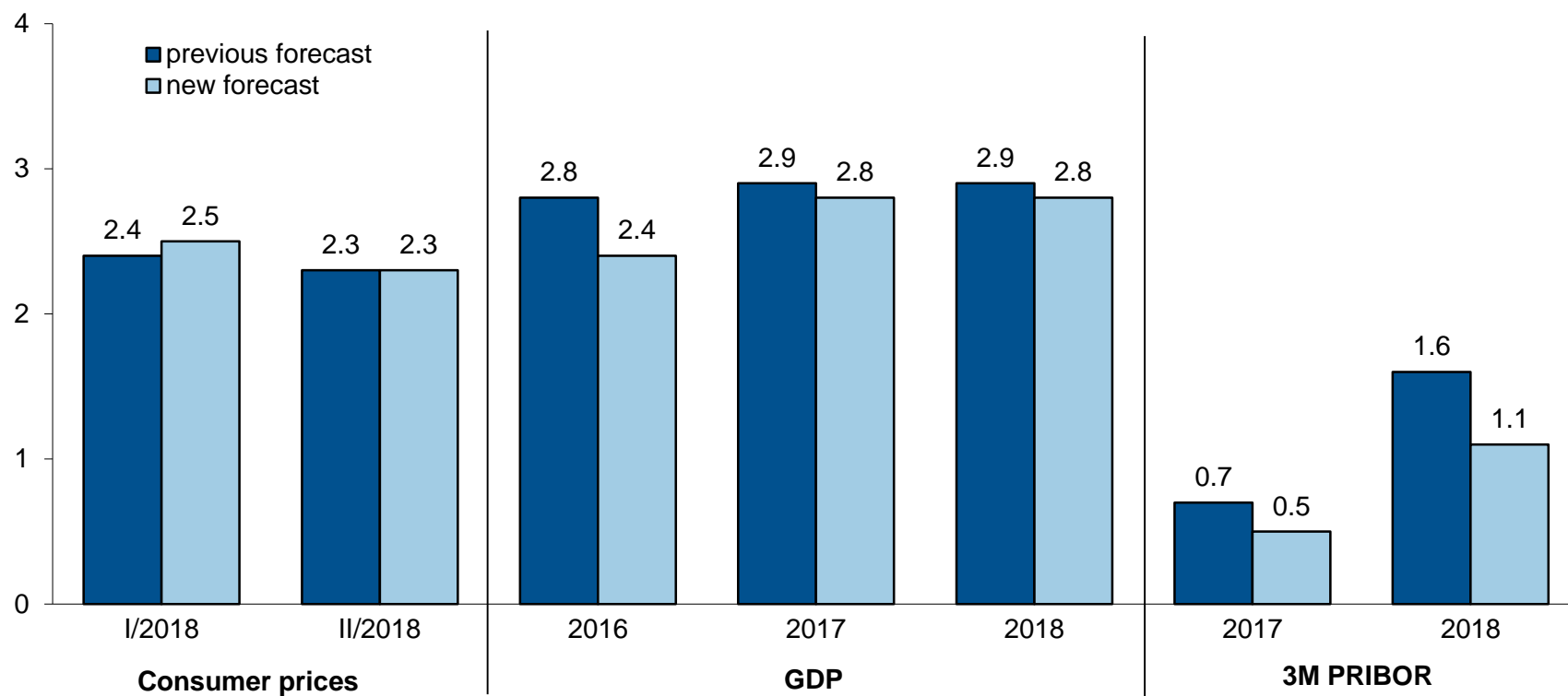
# The forecast for GDP



# 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.**

The evolution of the koruna exchange rate following the exit from the exchange rate commitment is a bidirectional uncertainty.

# Summary

- The Bank Board decided to leave interest rates unchanged and to continue using the exchange rate as an additional instrument for easing the monetary conditions.
- According to the new forecast, the conditions for sustainable fulfilment of the 2% inflation target in the future, i.e. after the assumed return to the conventional monetary policy regime, will be met from around mid-2017 onwards. The Bank Board assessed the risks to the forecast as being balanced.
- The CNB will not discontinue the use of the exchange rate as a monetary policy instrument before 2017 Q2.
- The Bank Board still considers it likely that the exchange rate commitment will be discontinued around the middle of 2017.

# Thank you for your attention

More information about the forecast can be found at

[http://www.cnb.cz/en/monetary\\_policy/forecast/](http://www.cnb.cz/en/monetary_policy/forecast/)

and in Inflation Report I/2017. The summary of the Report (together with the table of key macroeconomic indicators) will be published on 3 February 2017. The whole Report will be published on 10 February 2017.