



# Press conference of the CNB Bank Board

## 2nd Situation Report on Economic and Monetary Developments

30 March 2017

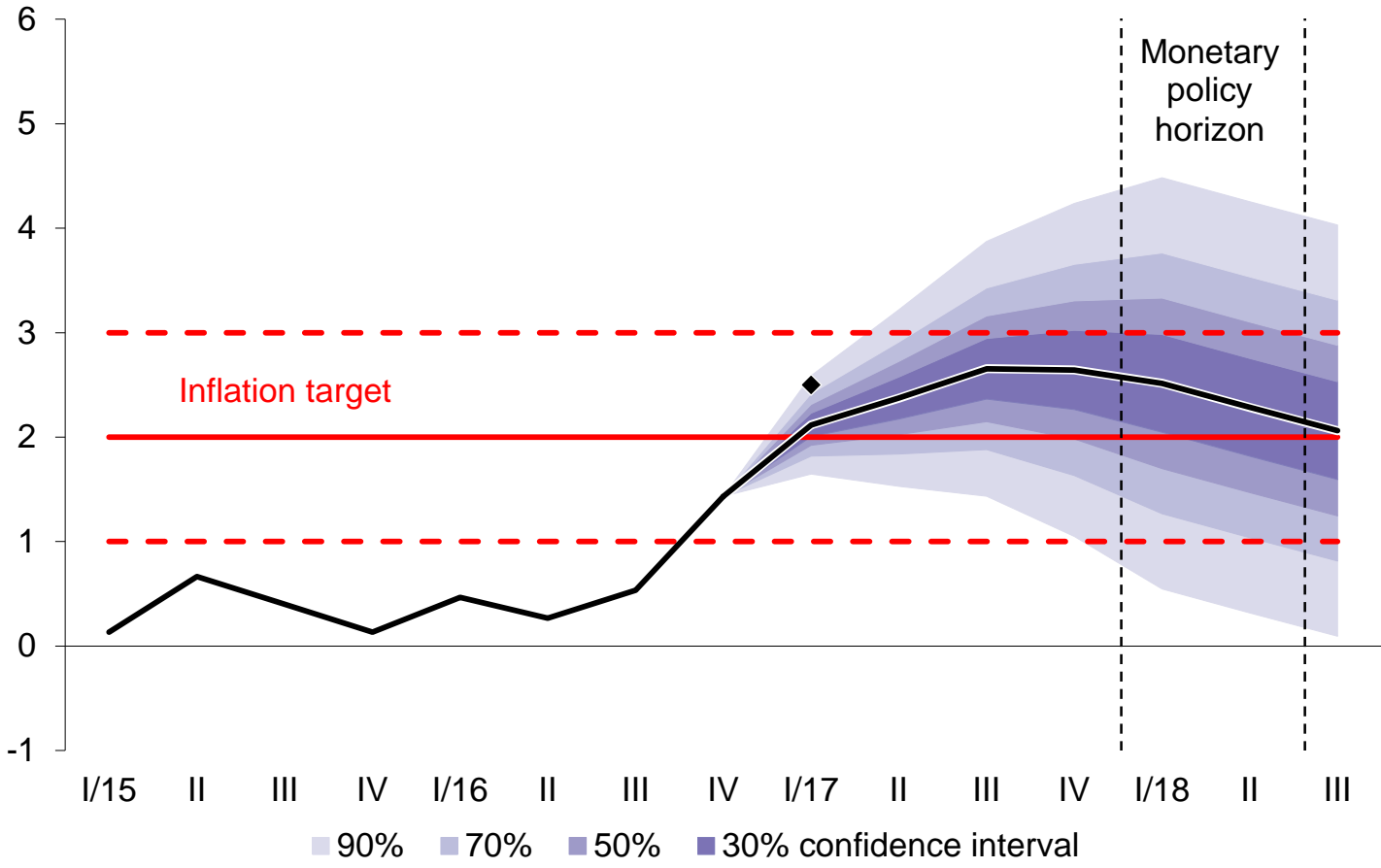
# The monetary policy decision and the stance of the CNB

- 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

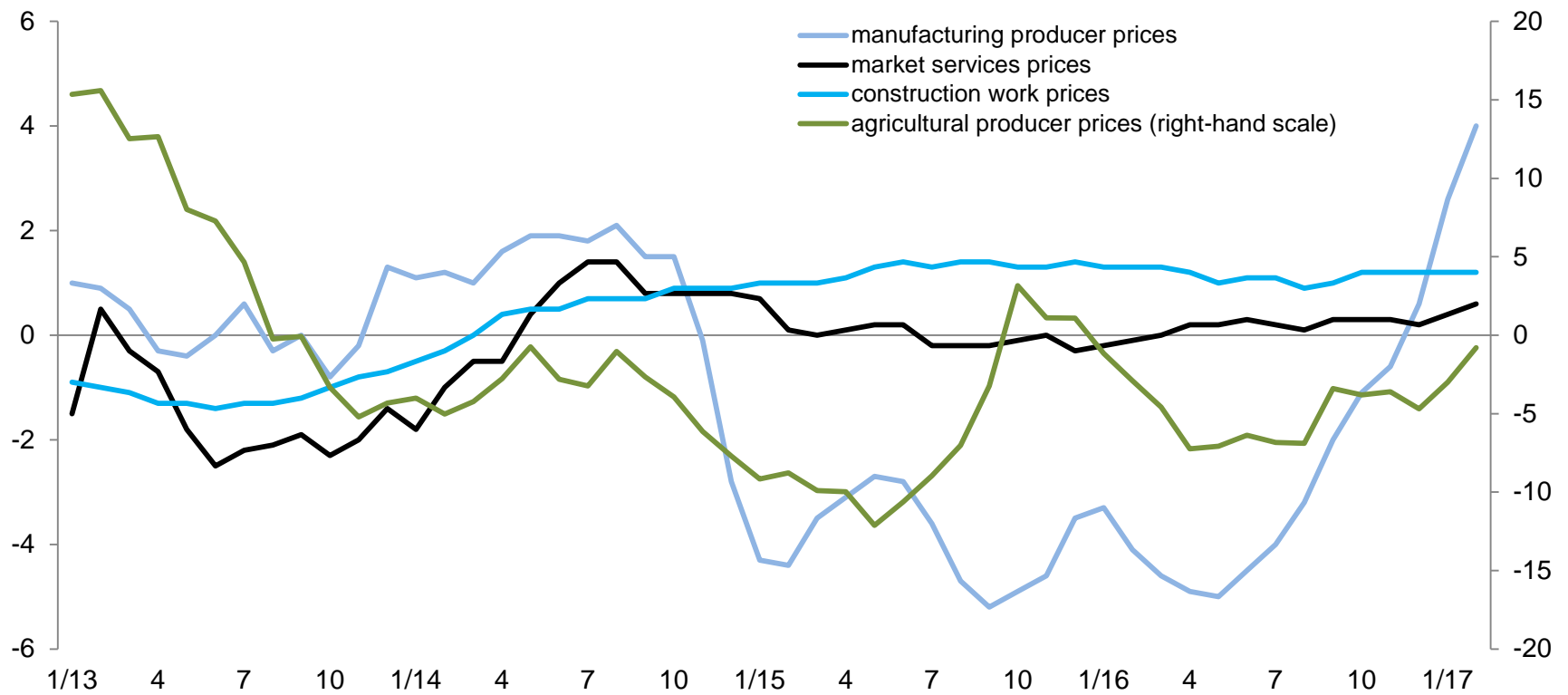
- At its meeting today, the Bank Board assessed the newly available information obtained since the existing CNB forecast was prepared.
- With the end of the “hard commitment” approaching, the Bank Board assessed the new information from the perspective of sustainable fulfilment of the 2% inflation target in the future.
- Sustainable fulfilment of the inflation target following the return to the conventional monetary policy regime is crucial for the timing of the exit from the exchange rate commitment.

# The inflation forecast and expected outcome in 2017 Q1

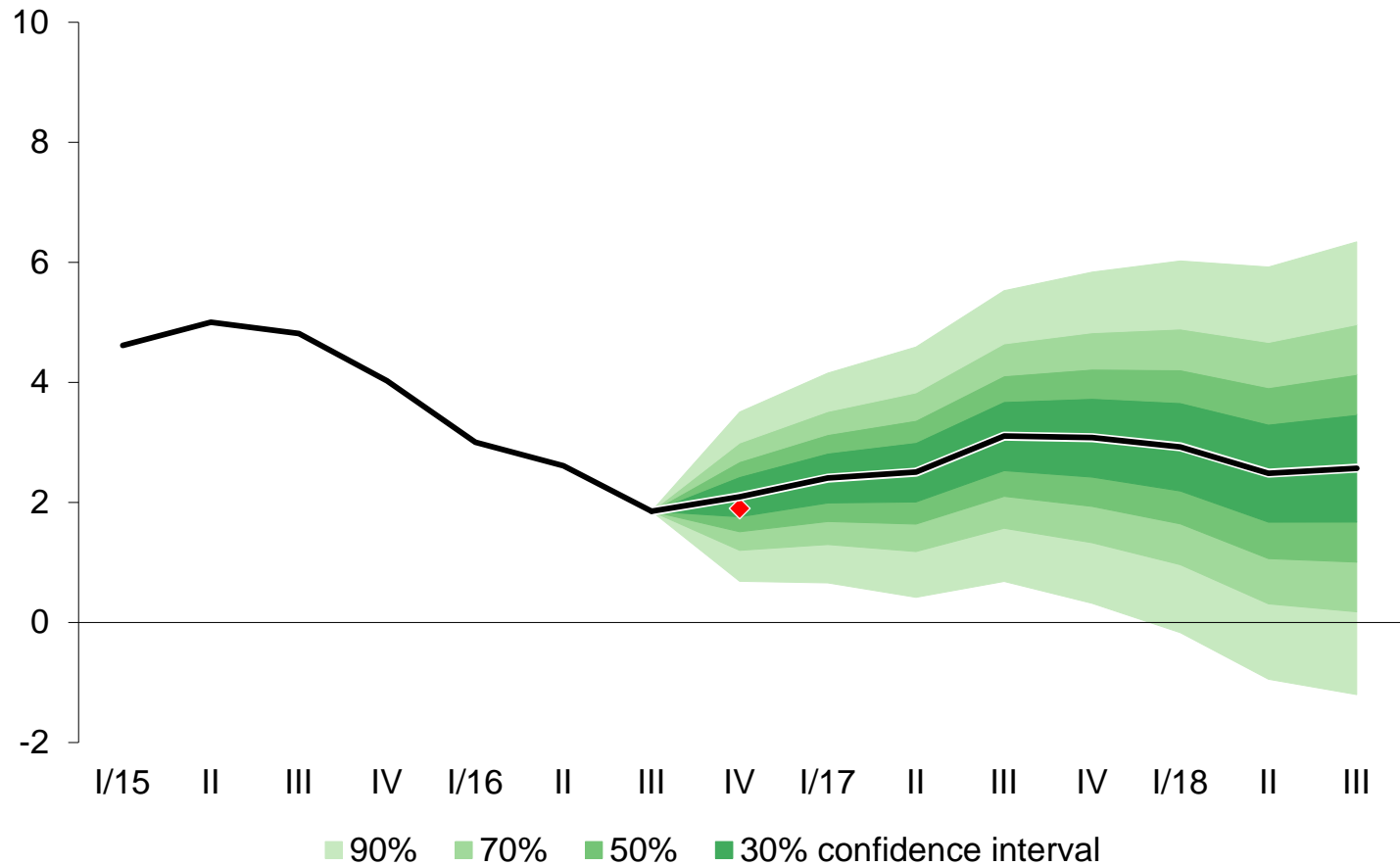


# Producer prices

(Annual changes in %)

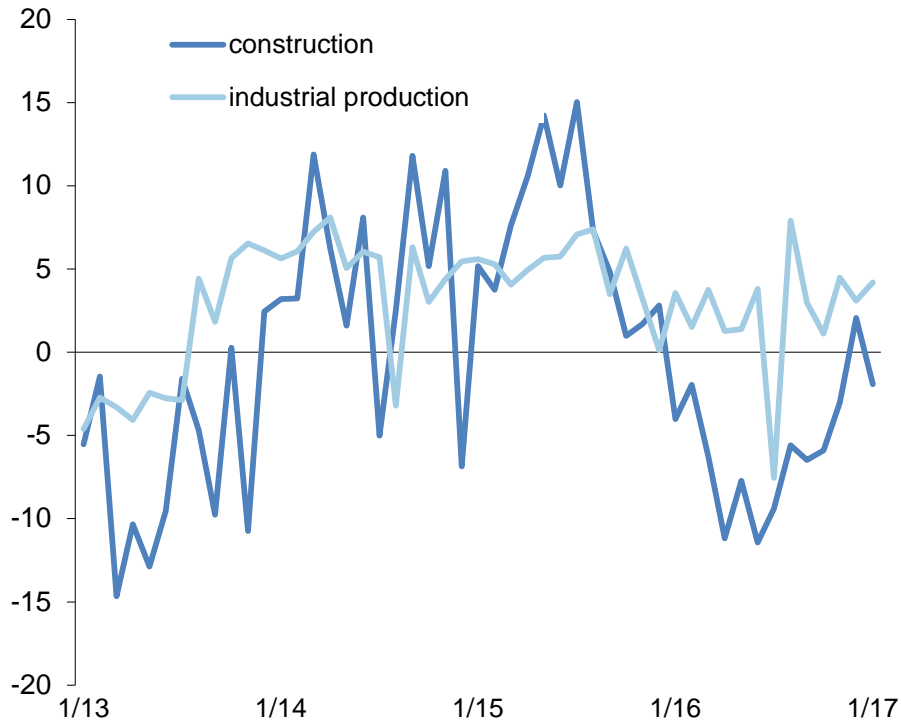


# The GDP forecast and outcome in 2016 Q4

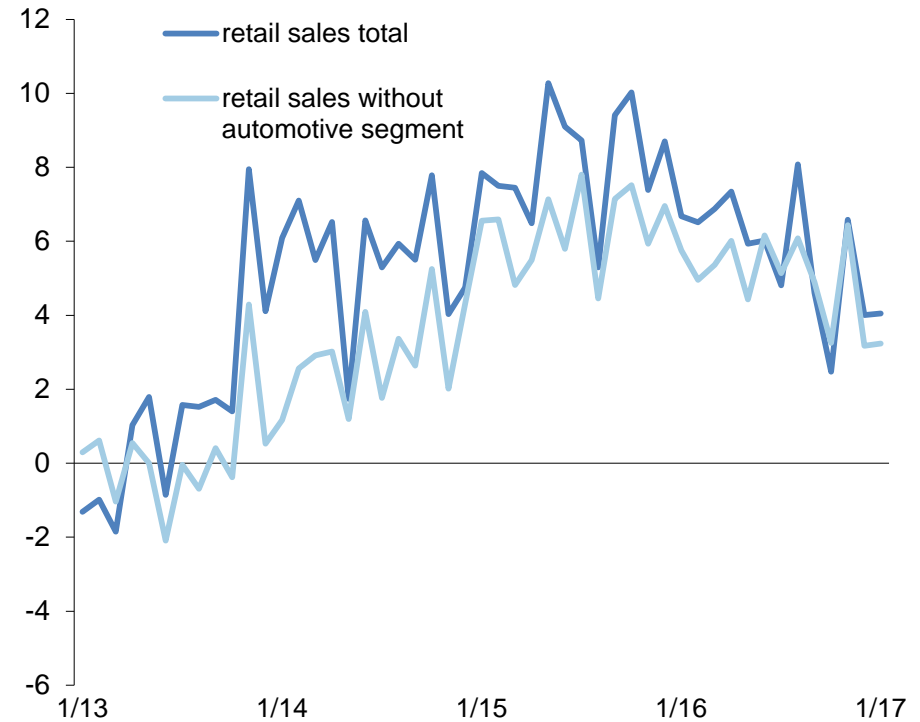


# Industry, construction and retail sales

(Annual changes in %, s.a.)

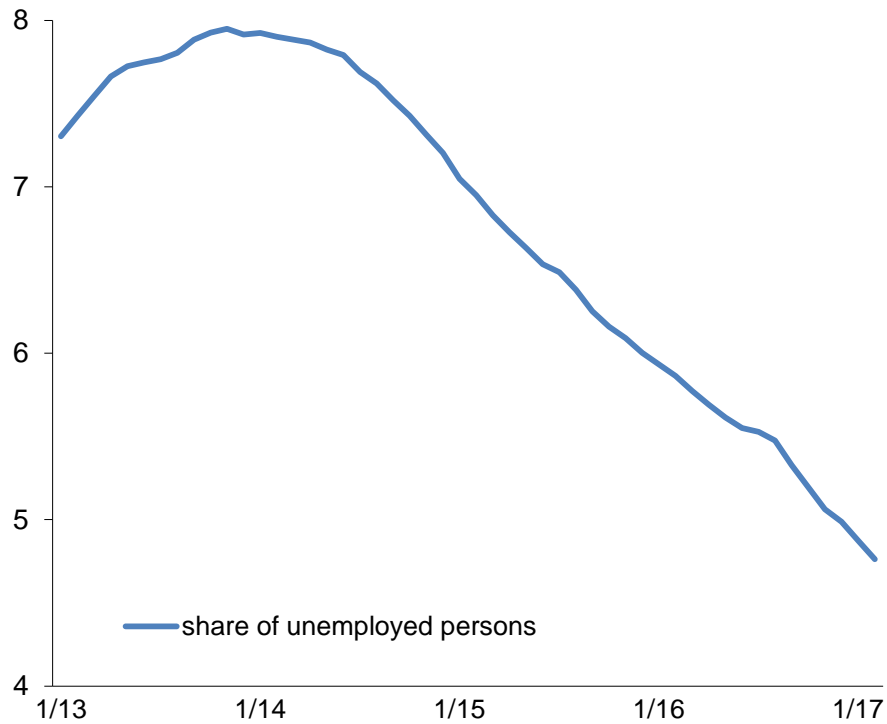


(Annual changes in %, s.a.)



# Labour market

(in %, seasonally adjusted)



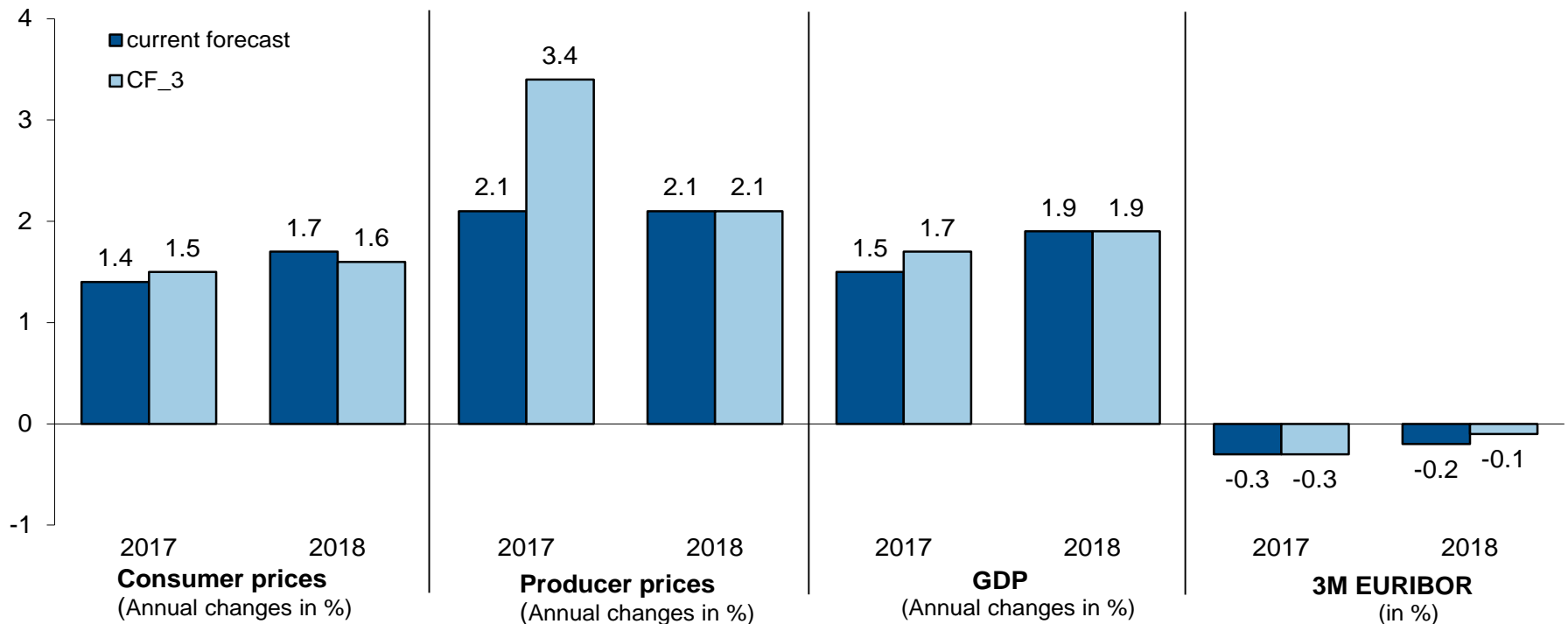
(Annual changes in %)





# The external environment (i)

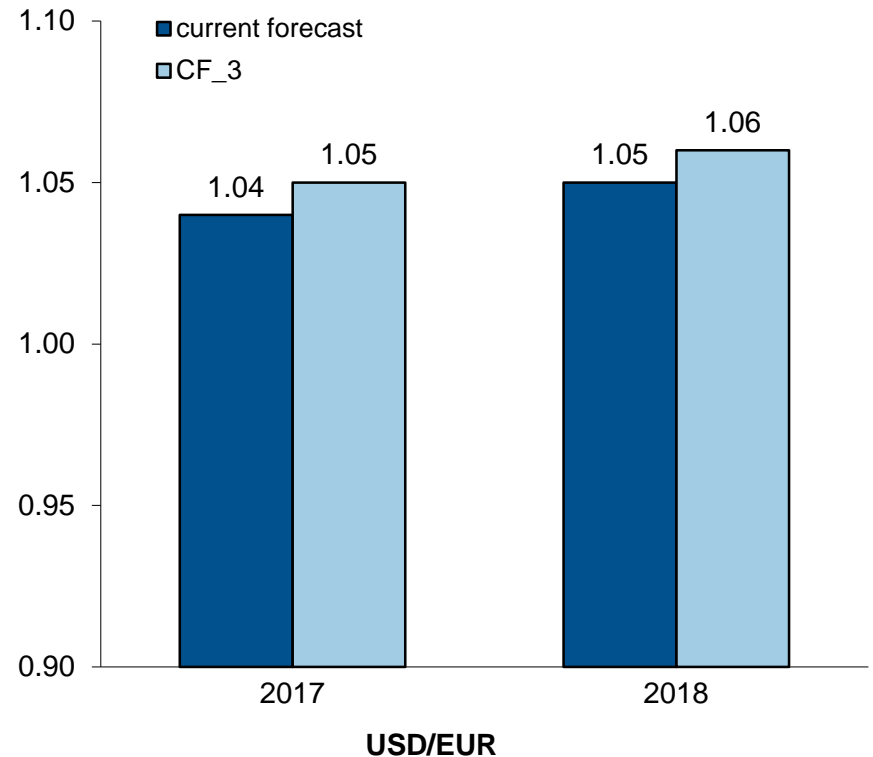
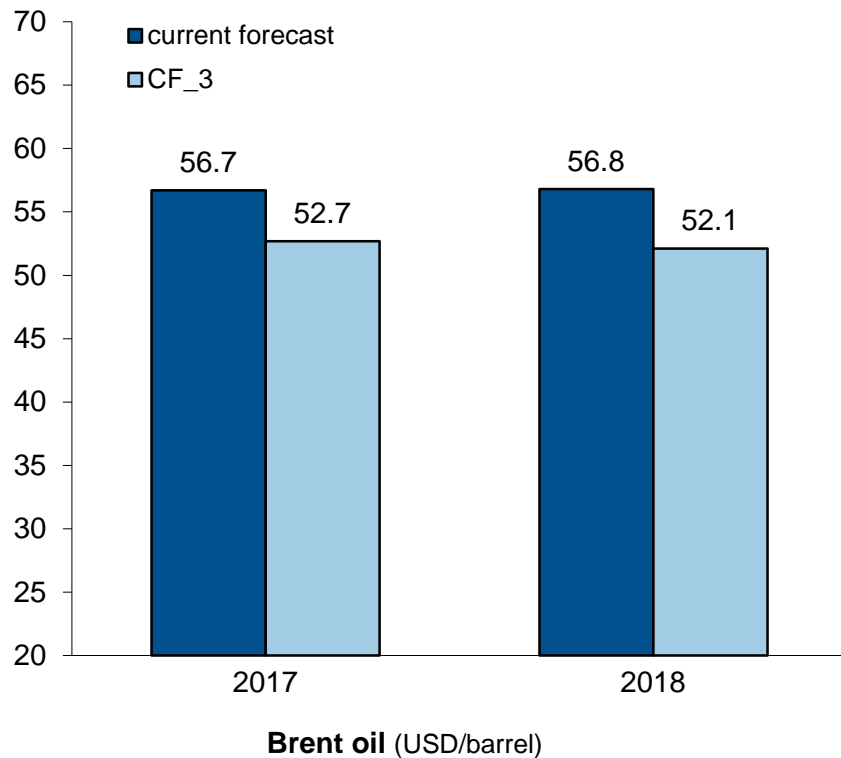
Comparison between the current forecast assumptions and the March outlook based on Consensus Forecasts survey and market expectations for the effective euro area\*



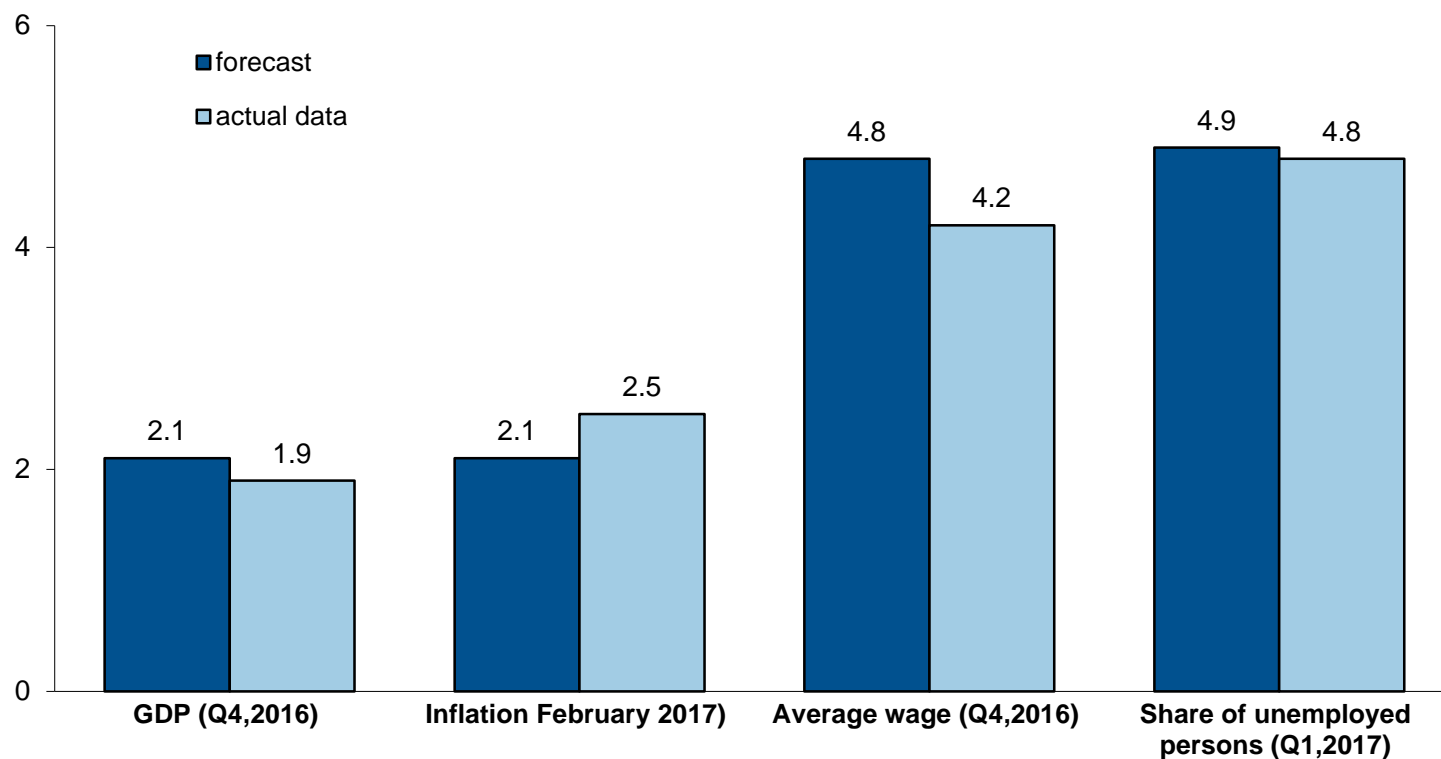
\* Effective euro area means that the weights used in the calculations correspond to the share of individual euro area countries in total Czech exports into the euro area

# The external environment (ii)

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



# Comparison of actual domestic data with the CNB forecast



Notes: Annual changes in %, the share of unemployed persons in % (comparison of s.a. outcomes in January and February with the forecast for 2017 Q1)

# Risks to the current forecast

The Bank Board assessed the risks to the current inflation forecast for the rest of this year as being inflationary. However, the newly available information provides a mixed picture at the monetary policy horizon.

- The evolution of the koruna exchange rate, which may fluctuate in either direction in the short term, is still the main uncertainty for the period following the exit from the exchange rate commitment.
- The CNB will stand ready to use its instruments to mitigate potential excessive exchange rate fluctuations following the exit from the commitment.



# Thank you for your attention

Minutes of the today's meeting will be released  
on 7 April 2017 at

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