



Press conference of the CNB Bank Board

3rd Situation Report on
Economic and Monetary
Developments

4 May 2017

The monetary policy decision and the stance of the CNB

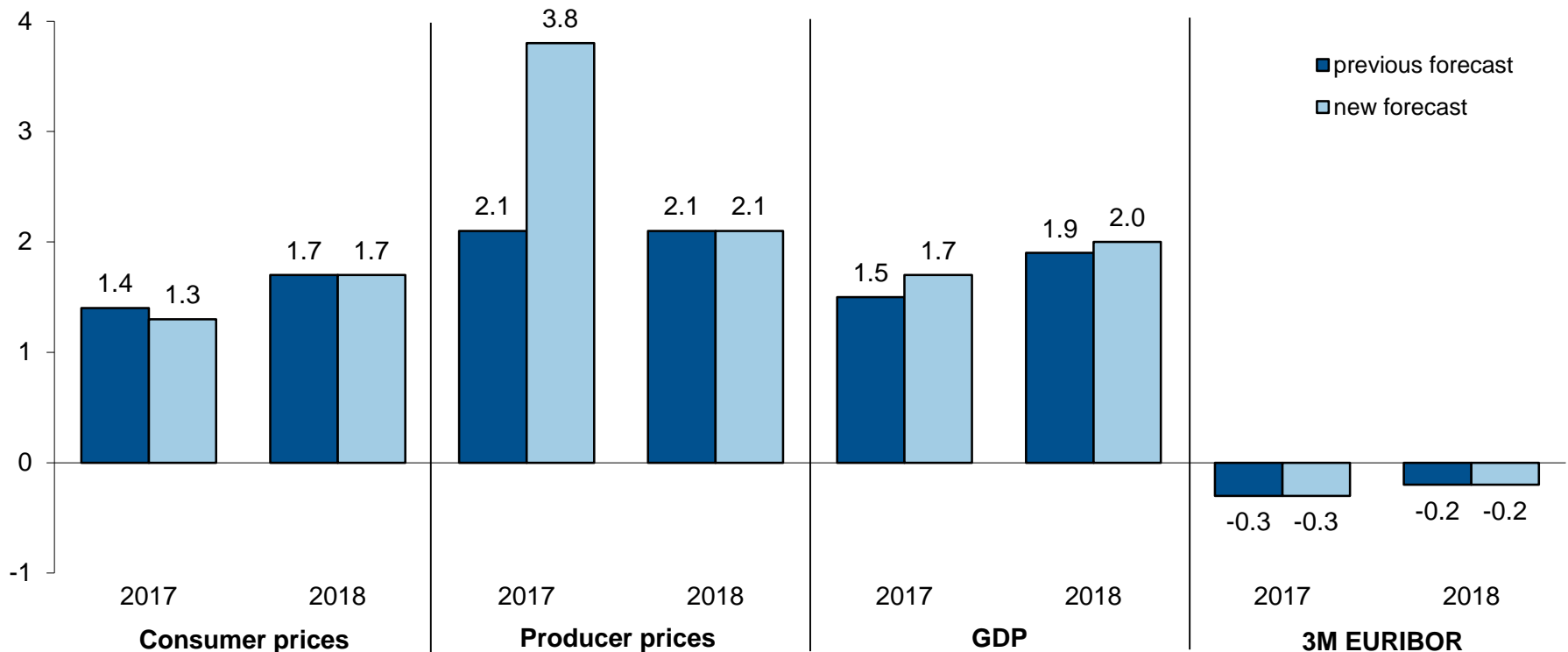
- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The exit from the exchange rate commitment was the first step towards a gradual return of the overall monetary conditions to normal.
- Subsequent interest rate increases will be conditional on the evolution of all key macroeconomic variables, including the exchange rate of the koruna.
- The CNB still stands ready to use its instruments to mitigate potential excessive exchange rate fluctuations if needed.

Reasons for the decision in the context of the new forecast

- Inflation will stay in the upper half of the tolerance band around the CNB's 2% target this year and return to the target early next year. At the monetary policy horizon, inflation will be very close to the target.
- Consistent with the forecast is an increase in domestic market interest rates in 2017 Q3 and later also in 2018.

The external environment (i)

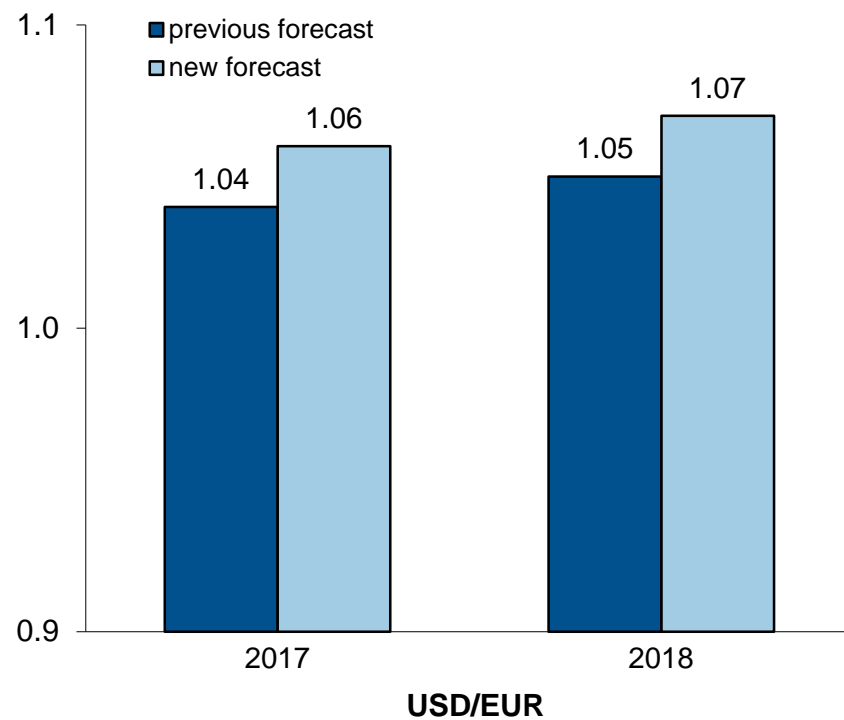
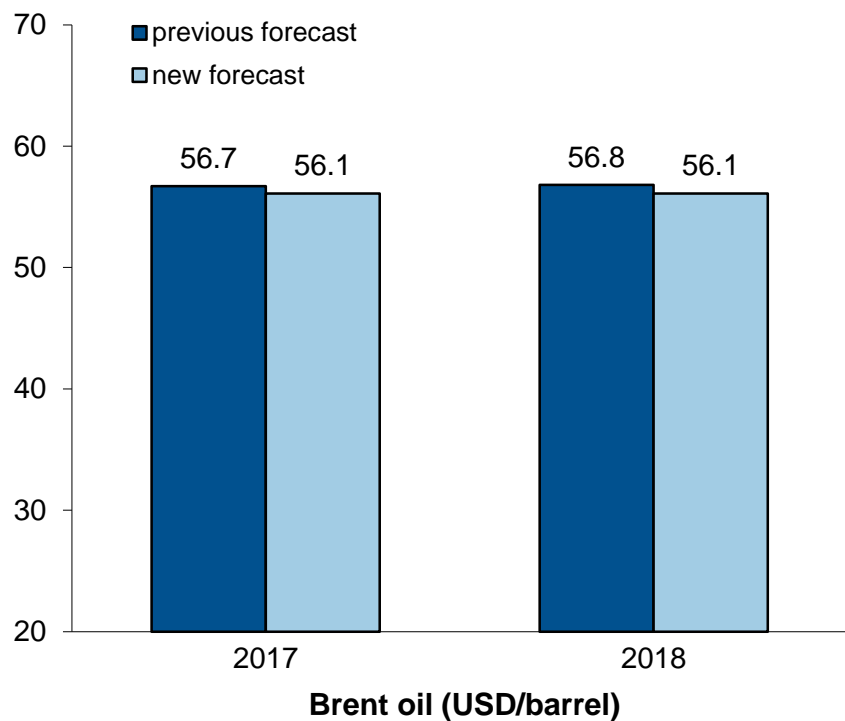
Comparison between the assumptions of the new and previous forecasts for the effective euro area*



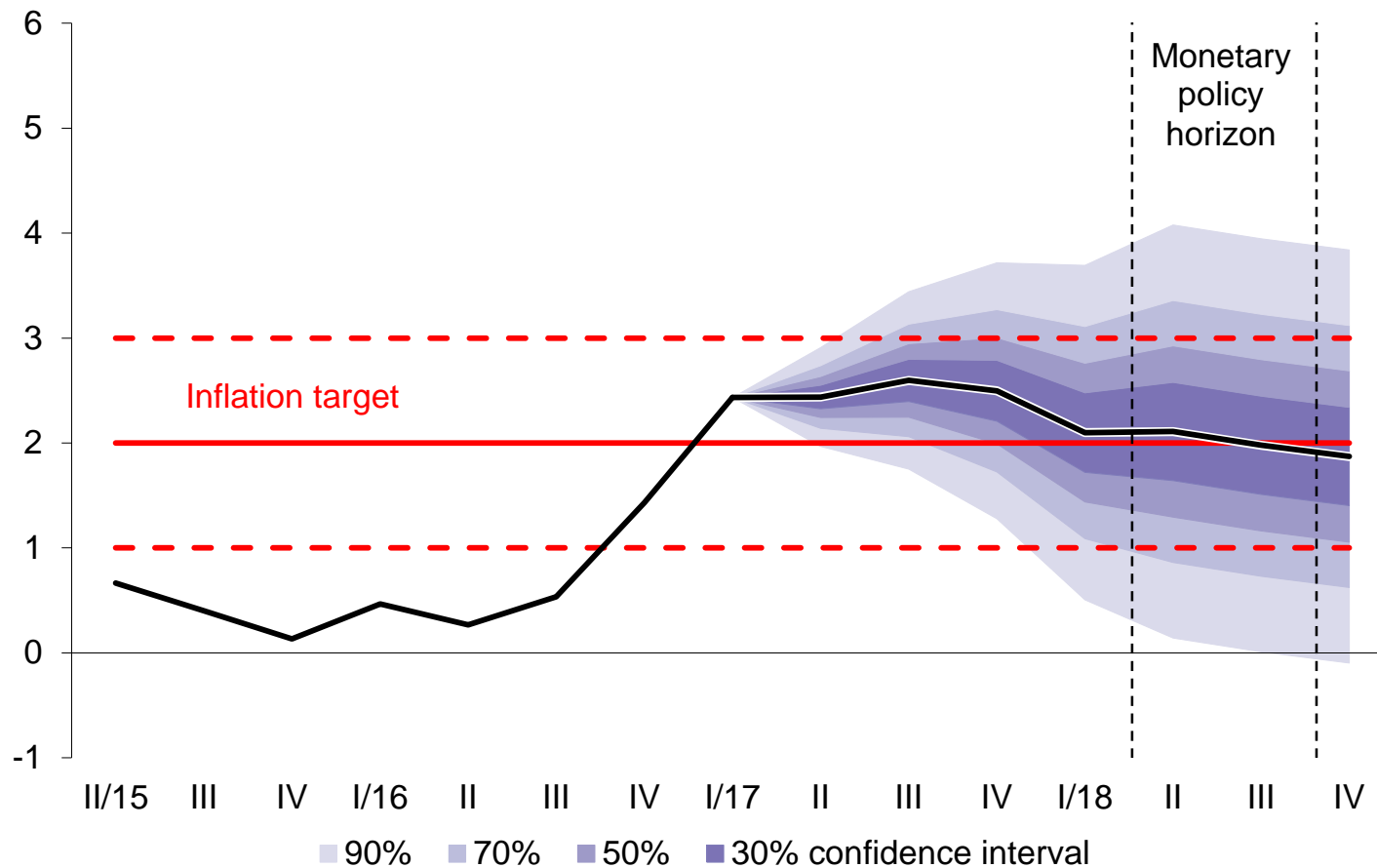
* Effective euro area means that individual countries of the euro area are weighted by their share in Czech exports

The external environment (ii)

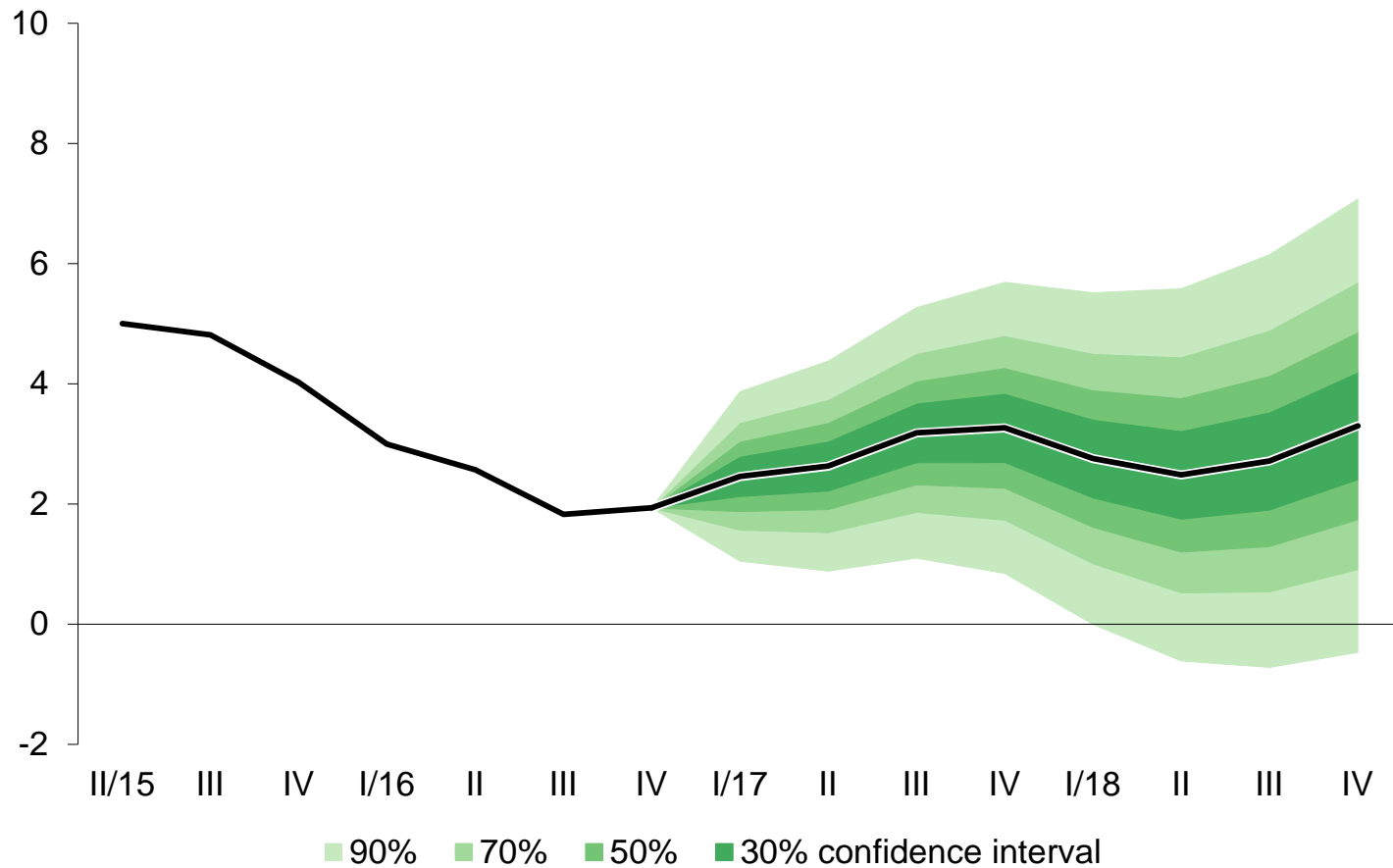
Comparison between the assumptions of the new and previous forecasts



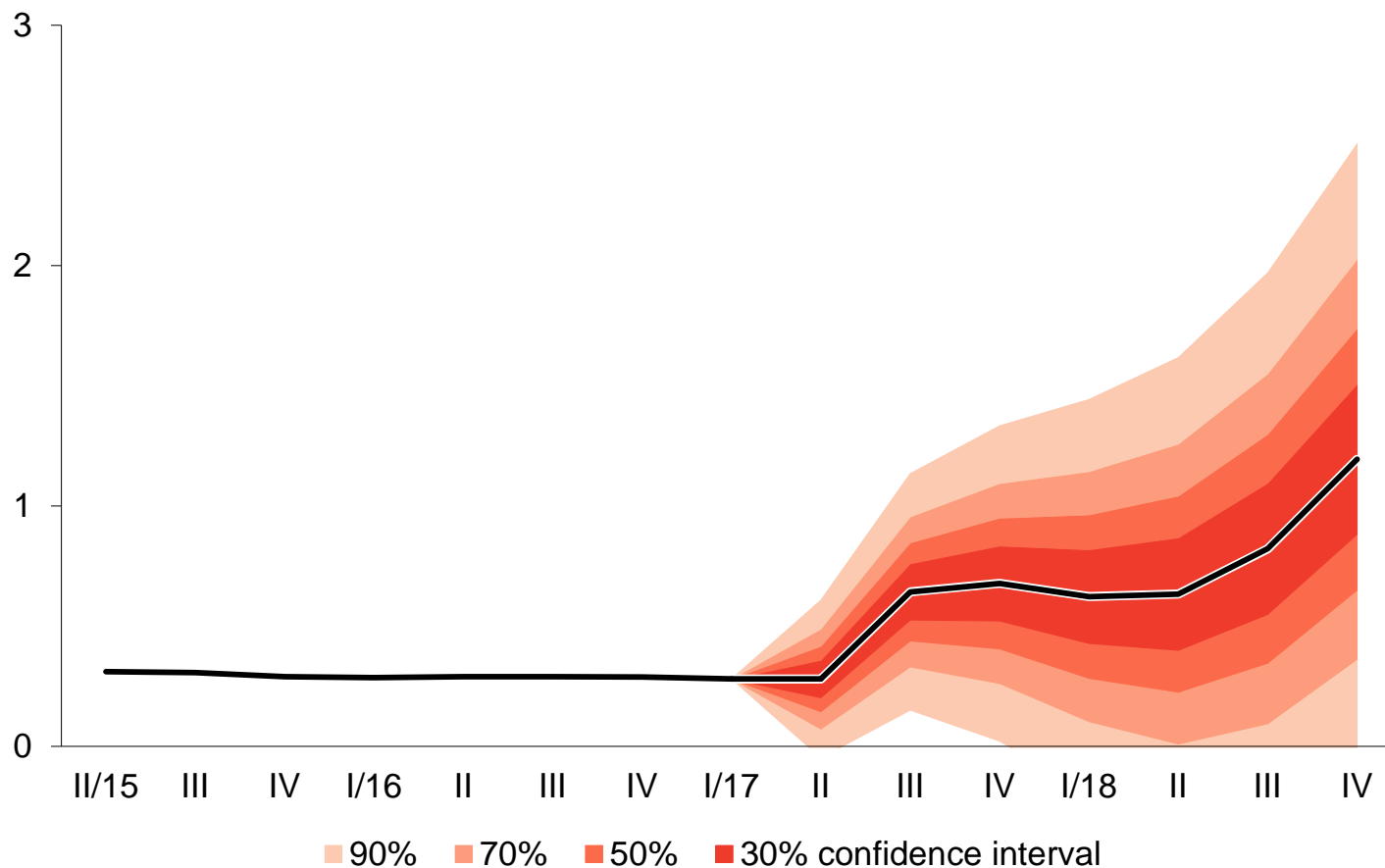
The forecast for headline inflation



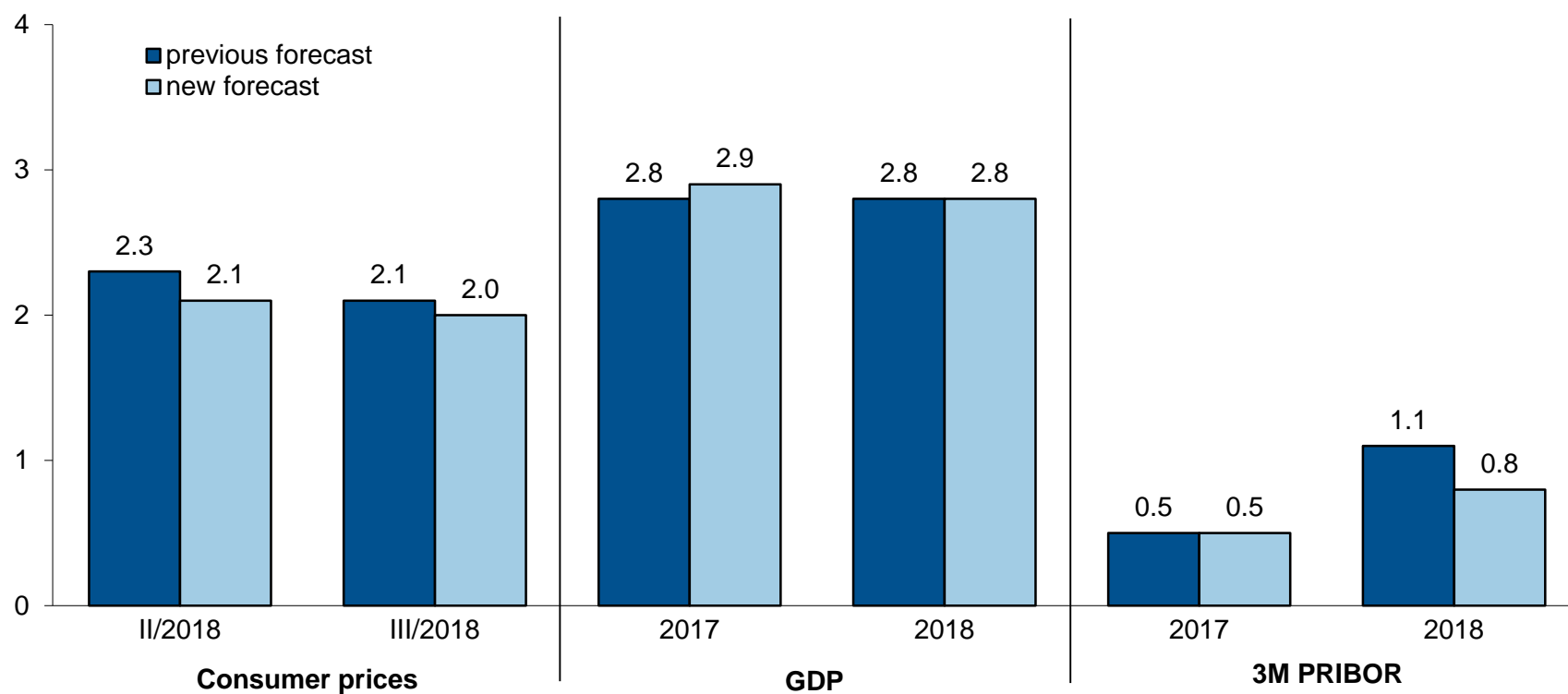
The forecast for GDP



The forecast for interest rates (3M PRIBOR)



Comparison with the previous forecast



The Bank Board assessed the risks to the inflation forecast as being slightly inflationary.

- The path of the exchange rate is still the main uncertainty of the forecast.
 - possible fluctuations of the exchange rate in either direction
 - market “overboughtness”
- Further uncertainties:
 - nature and persistence of the current inflation pressures
 - domestic and foreign political risks

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 II/2017. The summary of the Report (together with the table of key macroeconomic indicators) will be published on 5 May 2017. The whole Report will be published on 12 May 2017.