



Press conference of the CNB Bank Board

4th Situation Report on Economic and Monetary Developments

29 June 2017

The monetary policy decision and the stance of the CNB

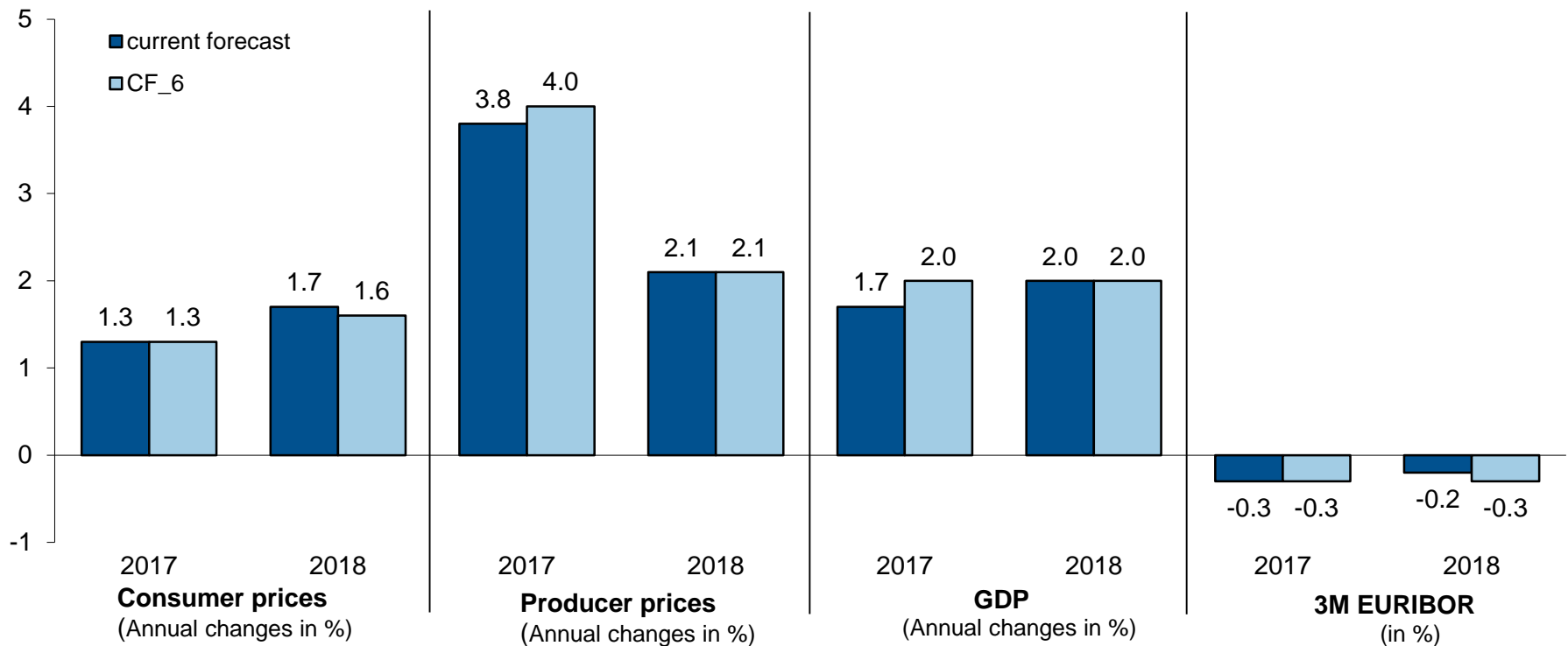
- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The exit from the exchange rate commitment in April was the first step towards a gradual return of the overall monetary conditions to normal.
- Interest rate increases will be conditional on the evolution of all key macroeconomic variables, including the exchange rate of the koruna.

Reasons for the decision

- According to the current forecast, inflation will stay in the upper half of the tolerance band around the target this year and decline towards the 2% target at the start of next year. At the monetary policy horizon, inflation will remain 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 Bank Board assessed the risks to the current forecast as being slightly inflationary.

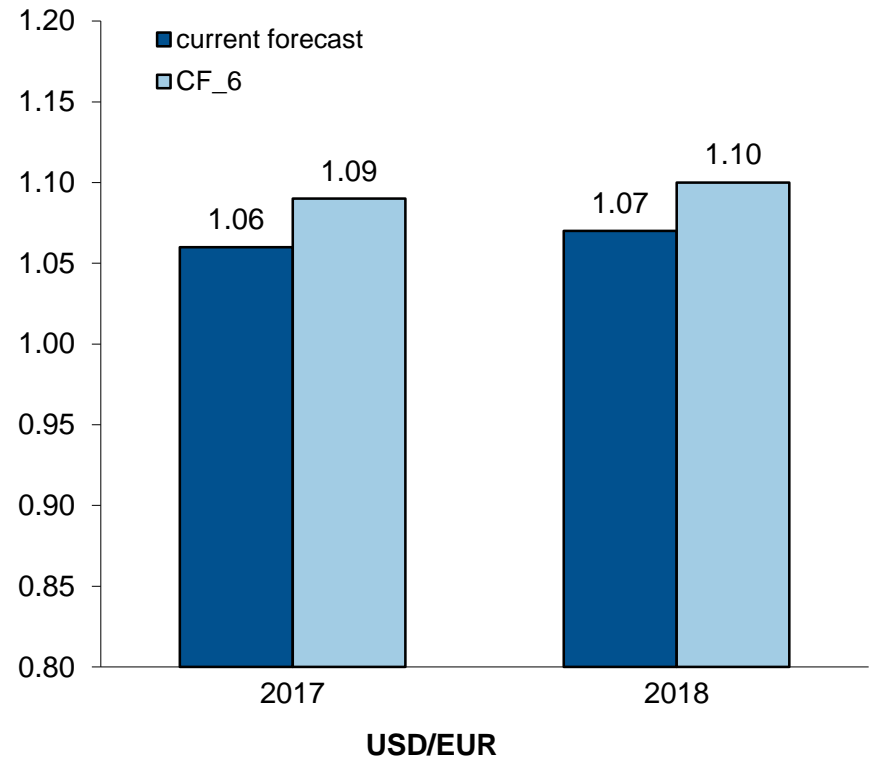
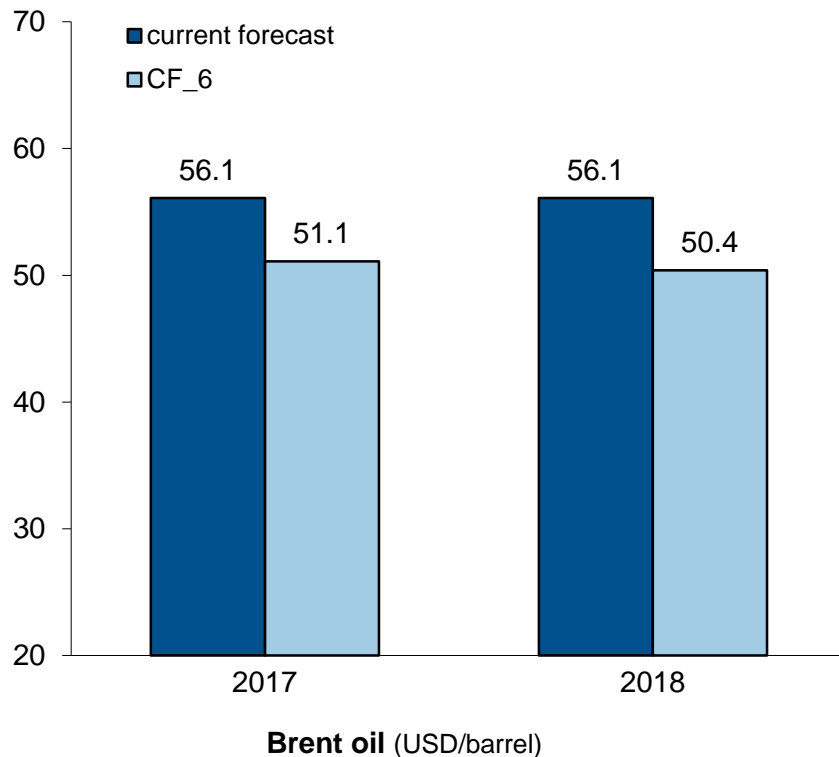
The external environment (i)

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

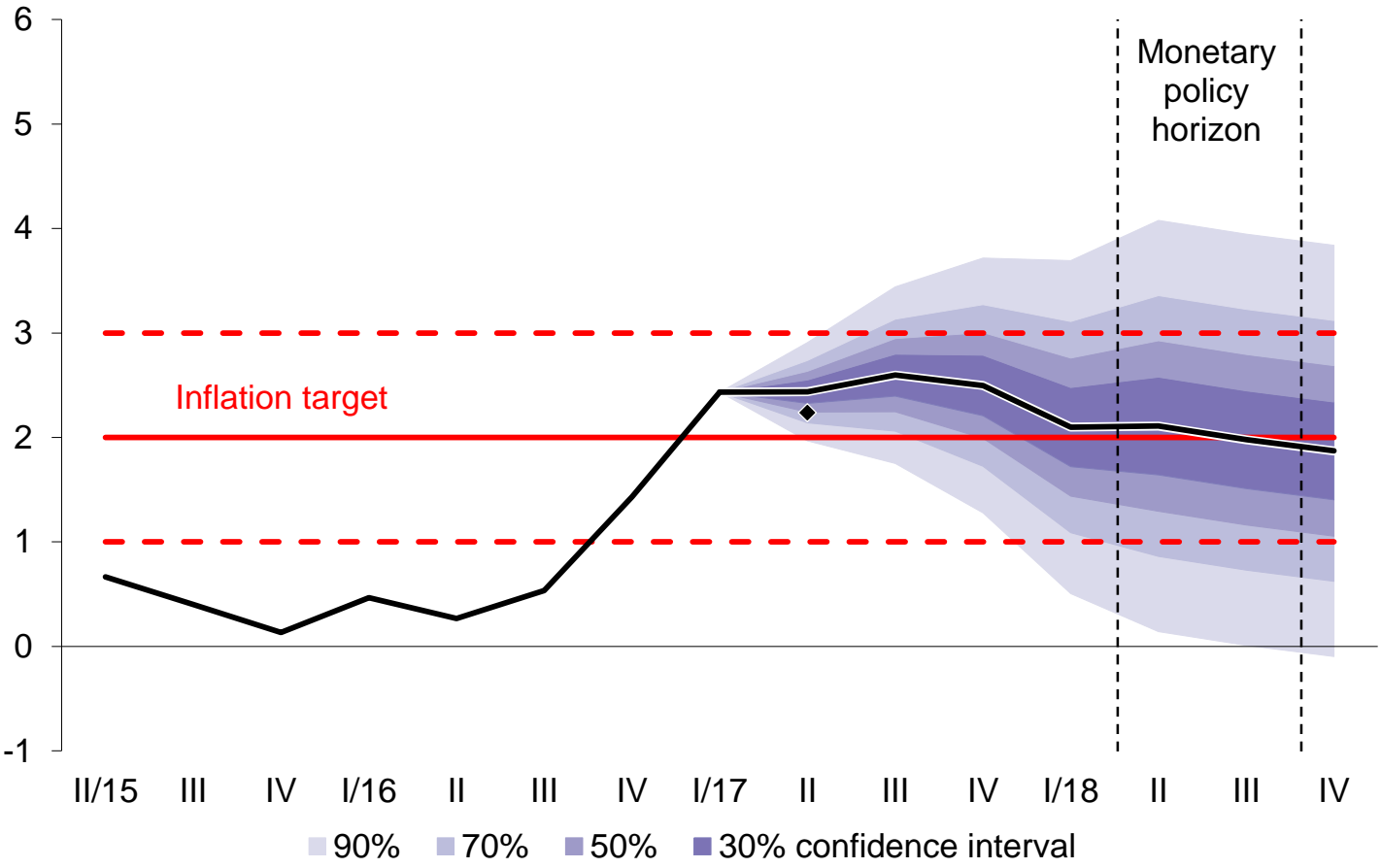


The external environment (ii)

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

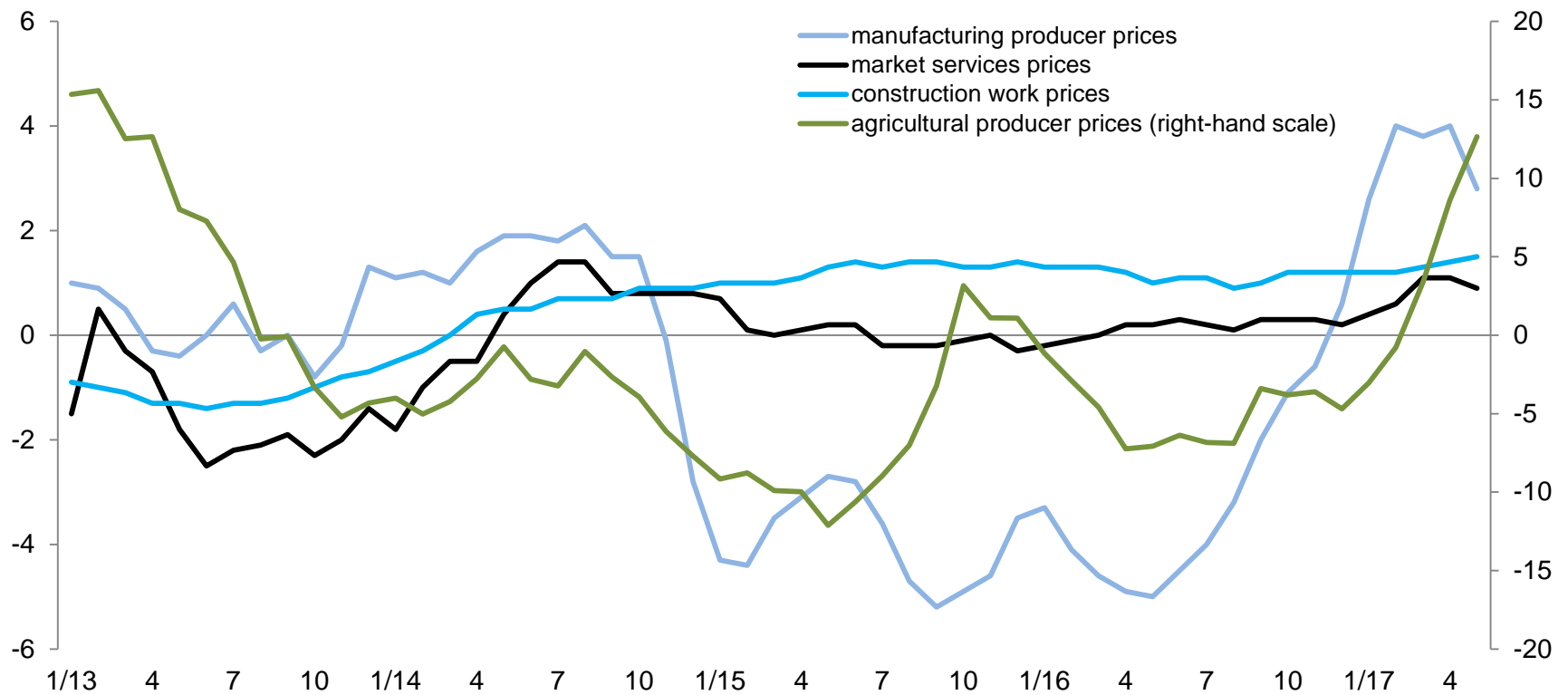


The inflation forecast and expected outcome in 2017 Q2

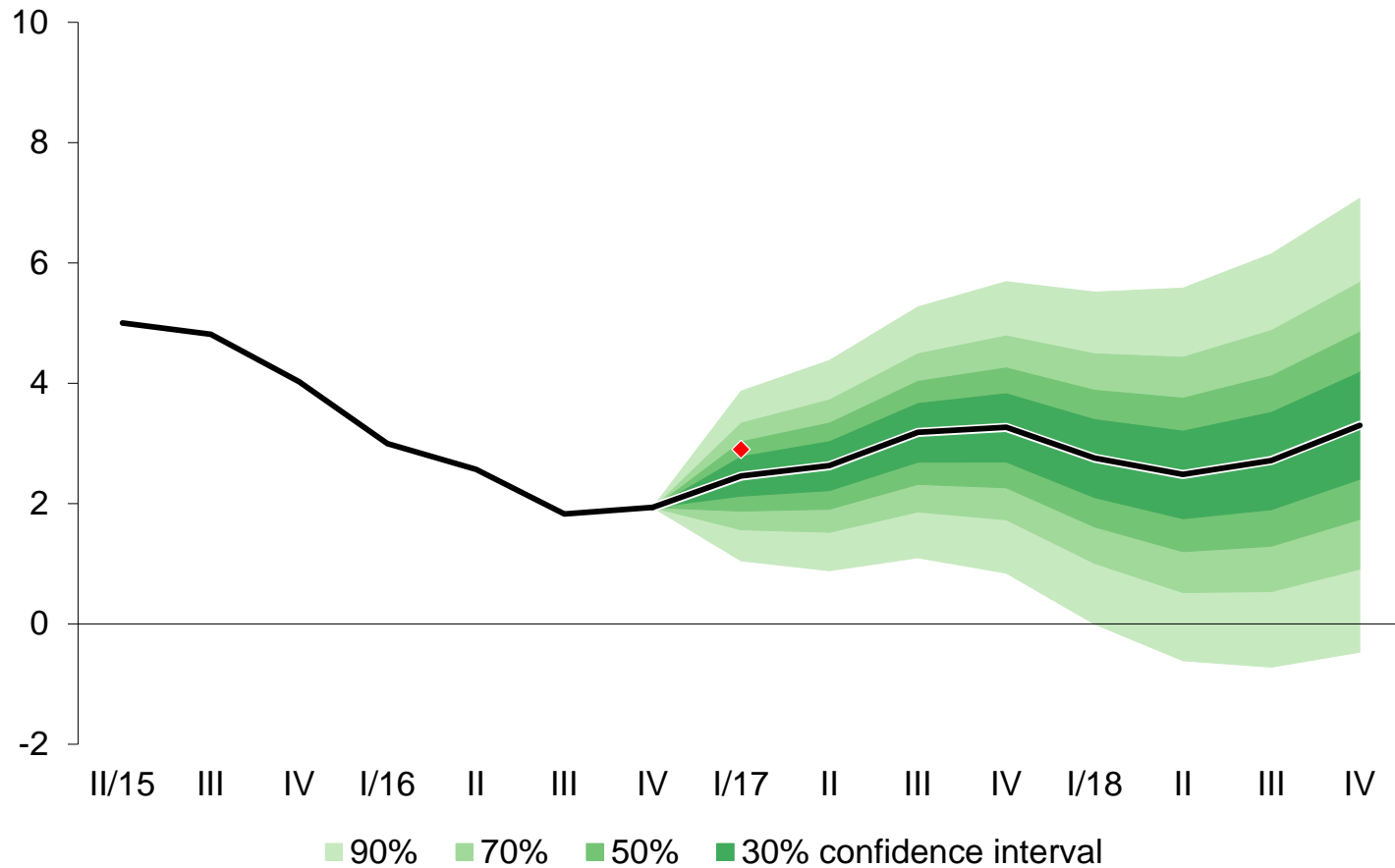


Producer prices

(Annual changes in %)

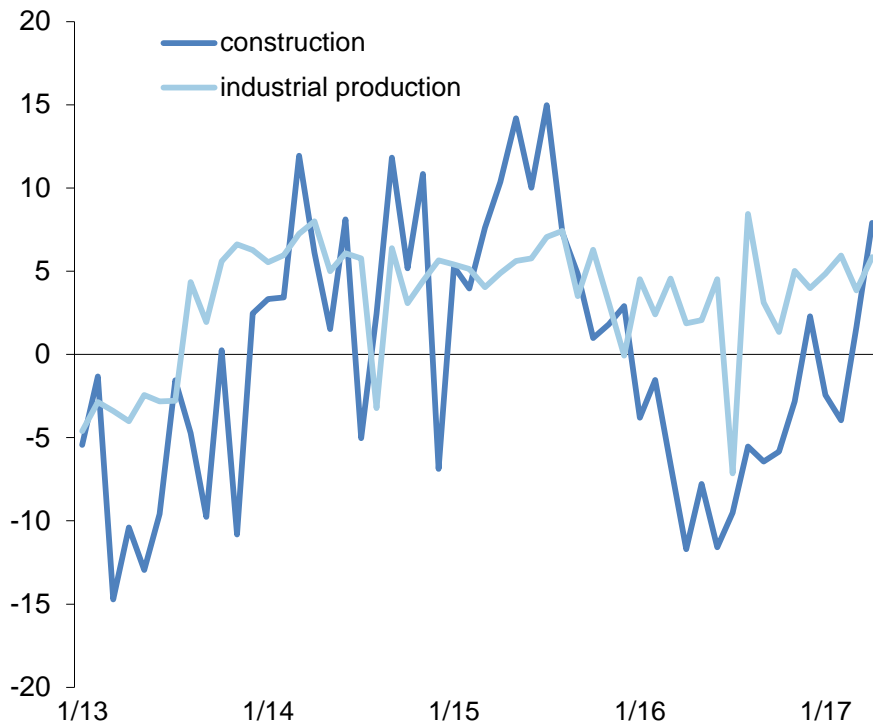


The GDP forecast and outcome in 2017 Q1

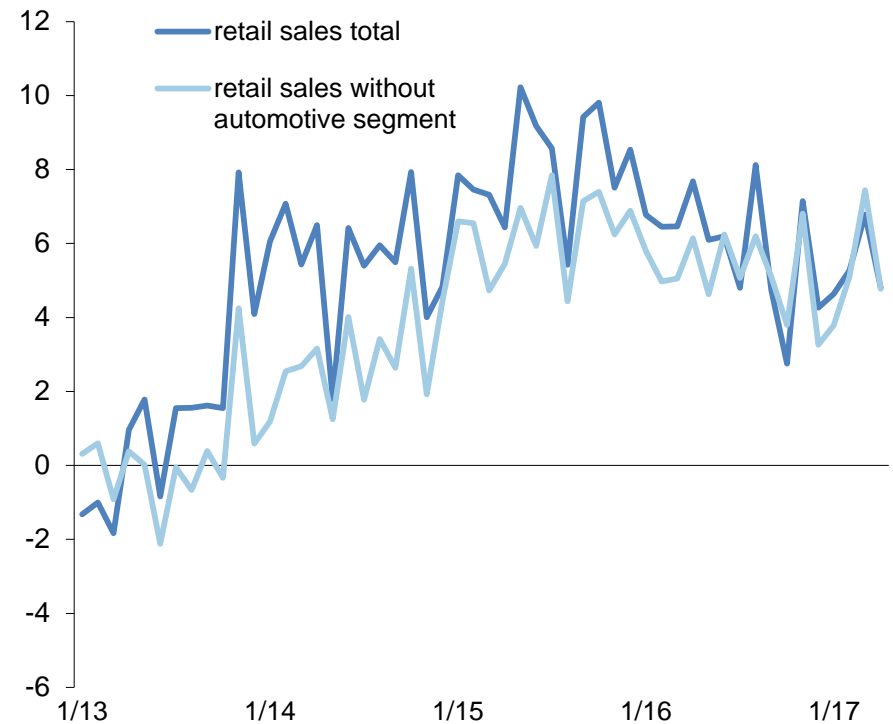


Industry, construction and retail sales

(Annual changes in %, s.a.)

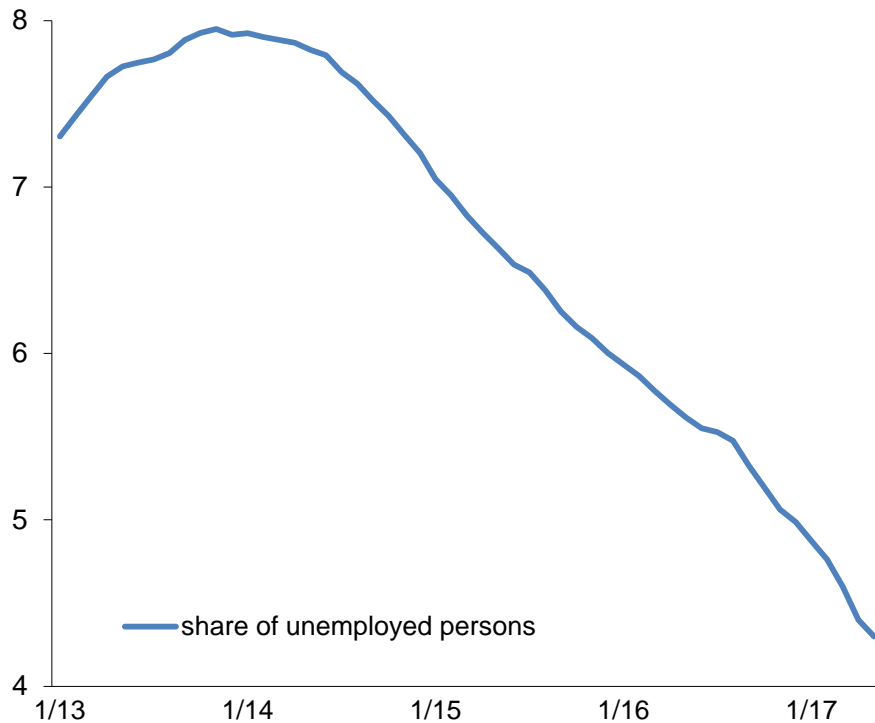


(Annual changes in %, s.a.)

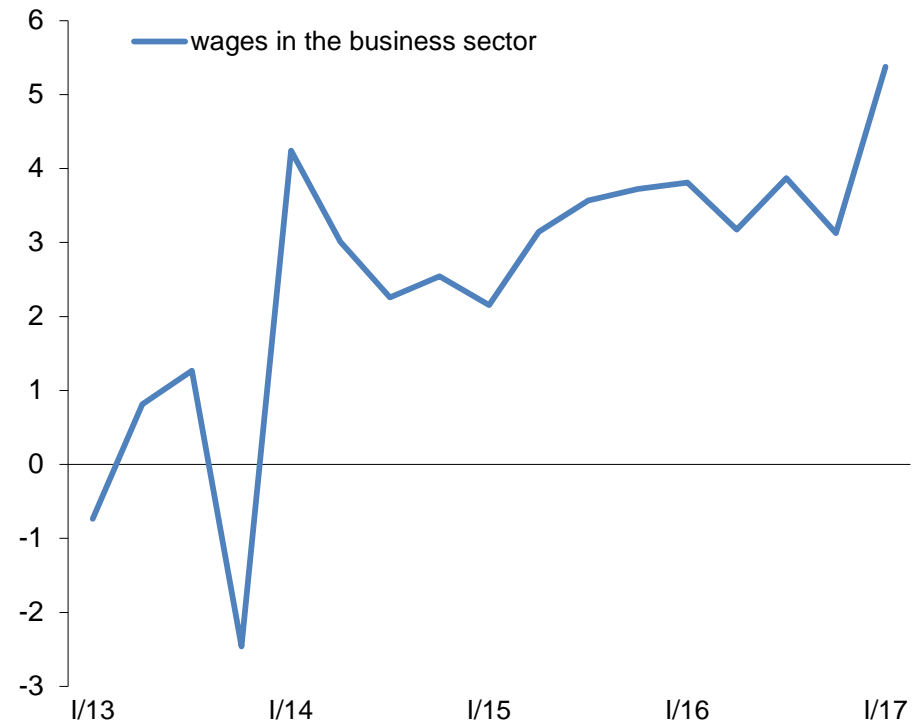


Labour market

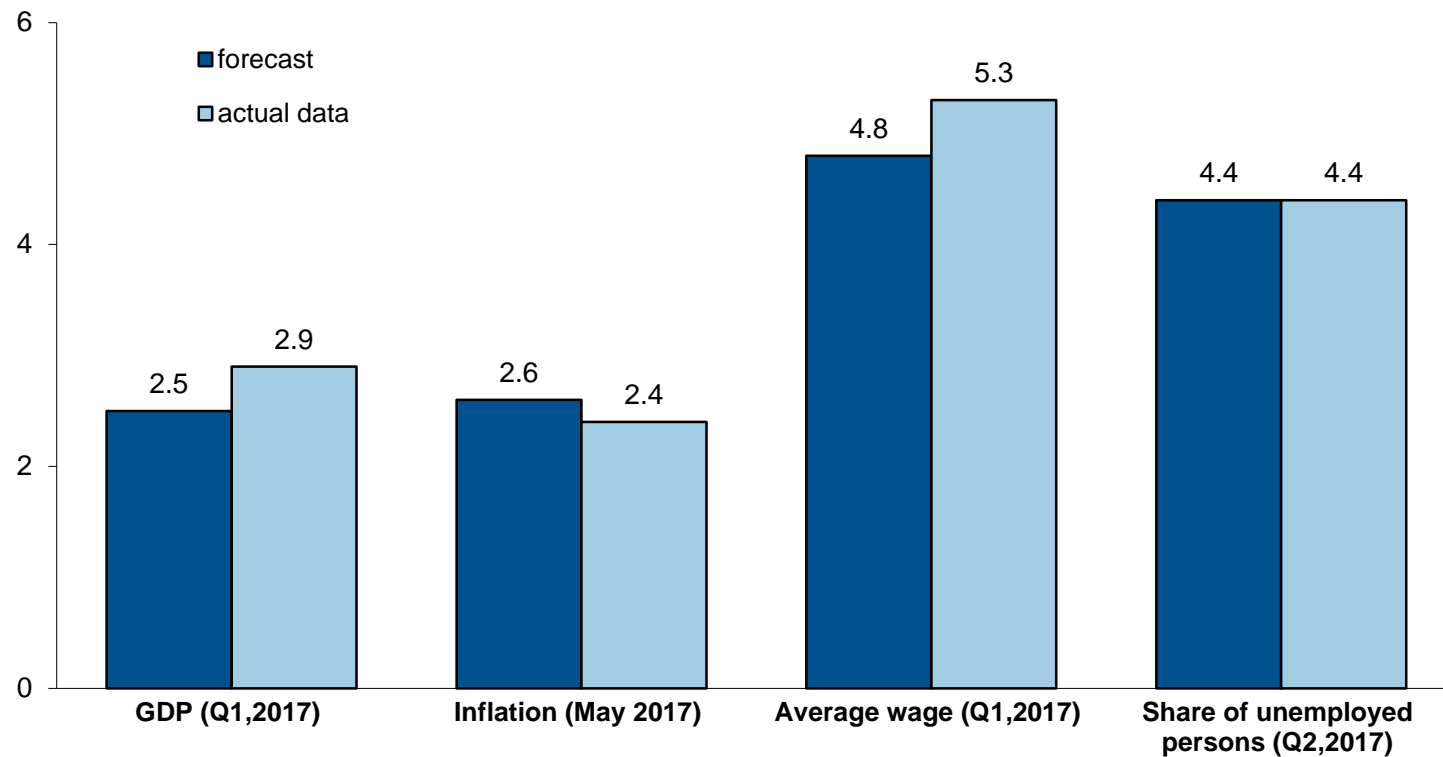
(in %, seasonally adjusted)



(Annual changes in %)



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 April and May with the forecast for 2017 Q2)

Risks to the current forecast

The Bank Board assessed the risks to the current inflation forecast at the monetary policy horizon as being **slightly inflationary**.

Risks on the upside :

- faster growth in domestic economic activity and wages
- possible impact of the closing of koruna positions by financial investors on the exchange rate in the quarters ahead

Risk on the downside:

- lower price of oil

In view of the message of the current forecast and the balance of its risks, it is likely that the CNB will increase interest rates in line with the prediction.



Thank you for your attention

Minutes of the today's meeting will be released
on 11 July 2017 at

http://www.cnb.cz/en/monetary_policy/bank_board_minutes/