



Press conference of the CNB Bank Board

1st Situation Report on Economic and Monetary Developments

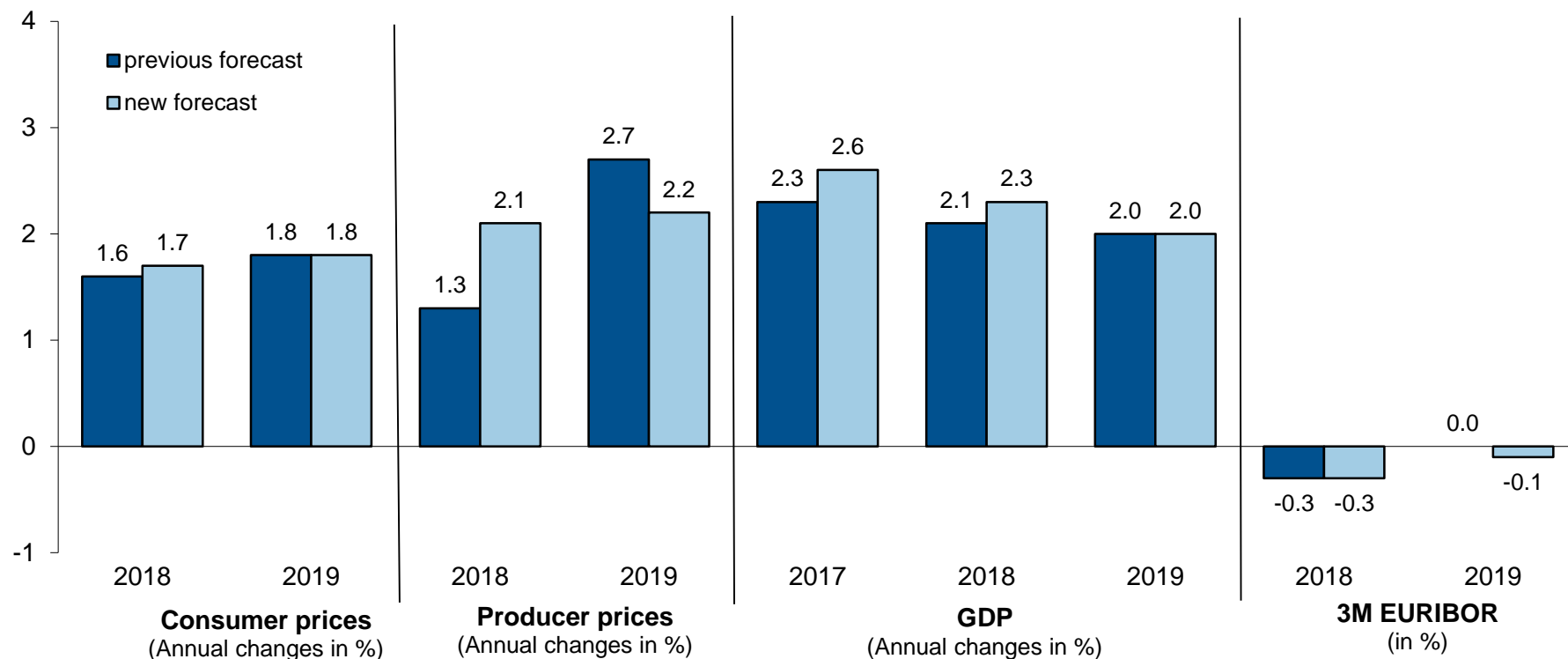
1 February 2018

The monetary policy decision

- At its meeting today, the CNB Bank Board unanimously increased the two-week repo rate by 25 basis points to 0.75%.
- At the same time, it increased the Lombard rate by 50 basis points to 1.50% and kept the discount rate unchanged at 0.05%.
- The decision adopted by the Bank Board is underpinned by the CNB's new macroeconomic forecast. Consistent with the forecast is a rise in domestic market interest rates this year and especially next year.

The external environment (i)

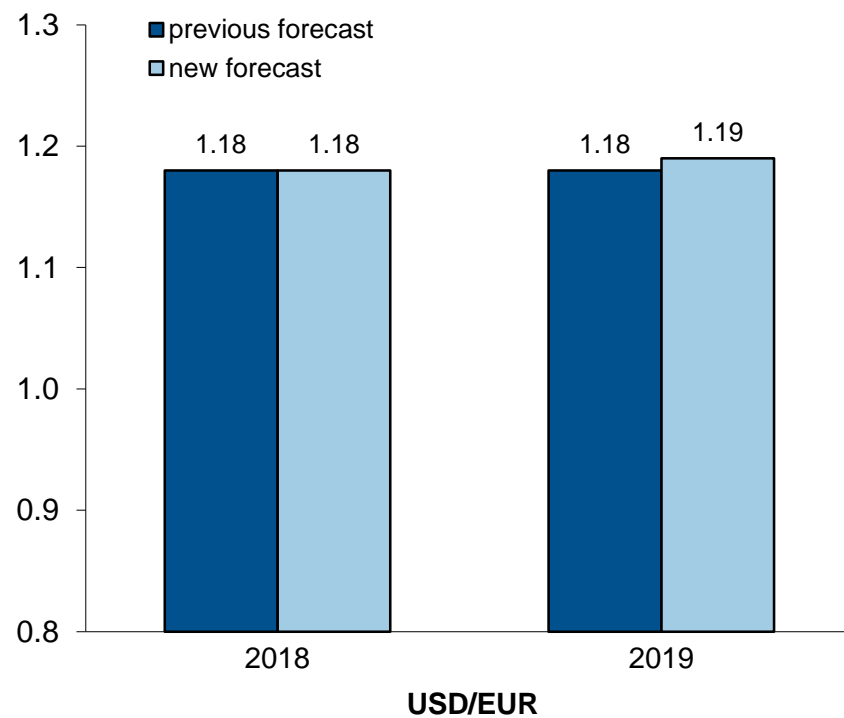
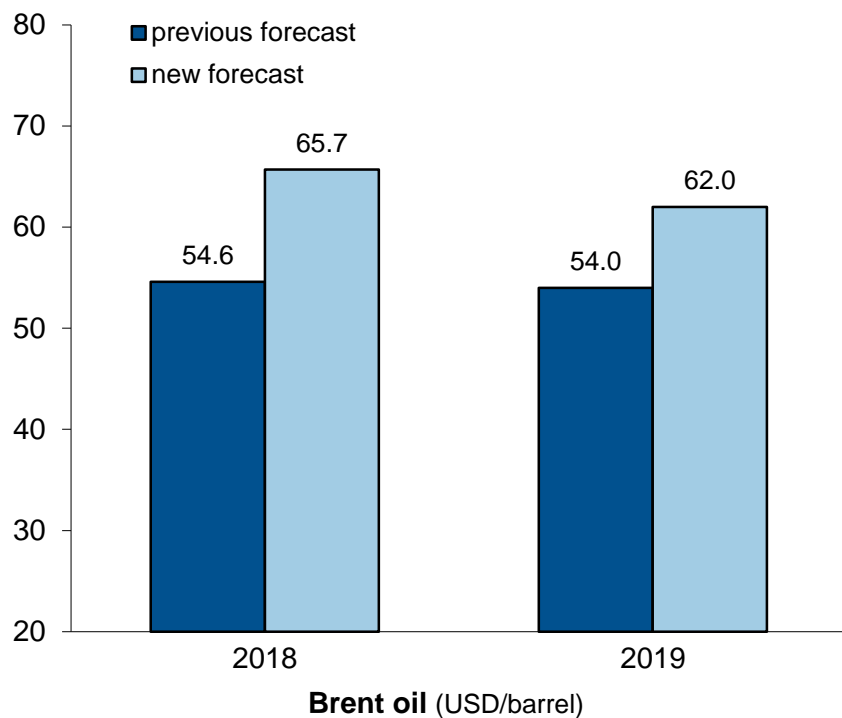
Comparison between the assumptions of the new and previous forecasts for the effective euro area*



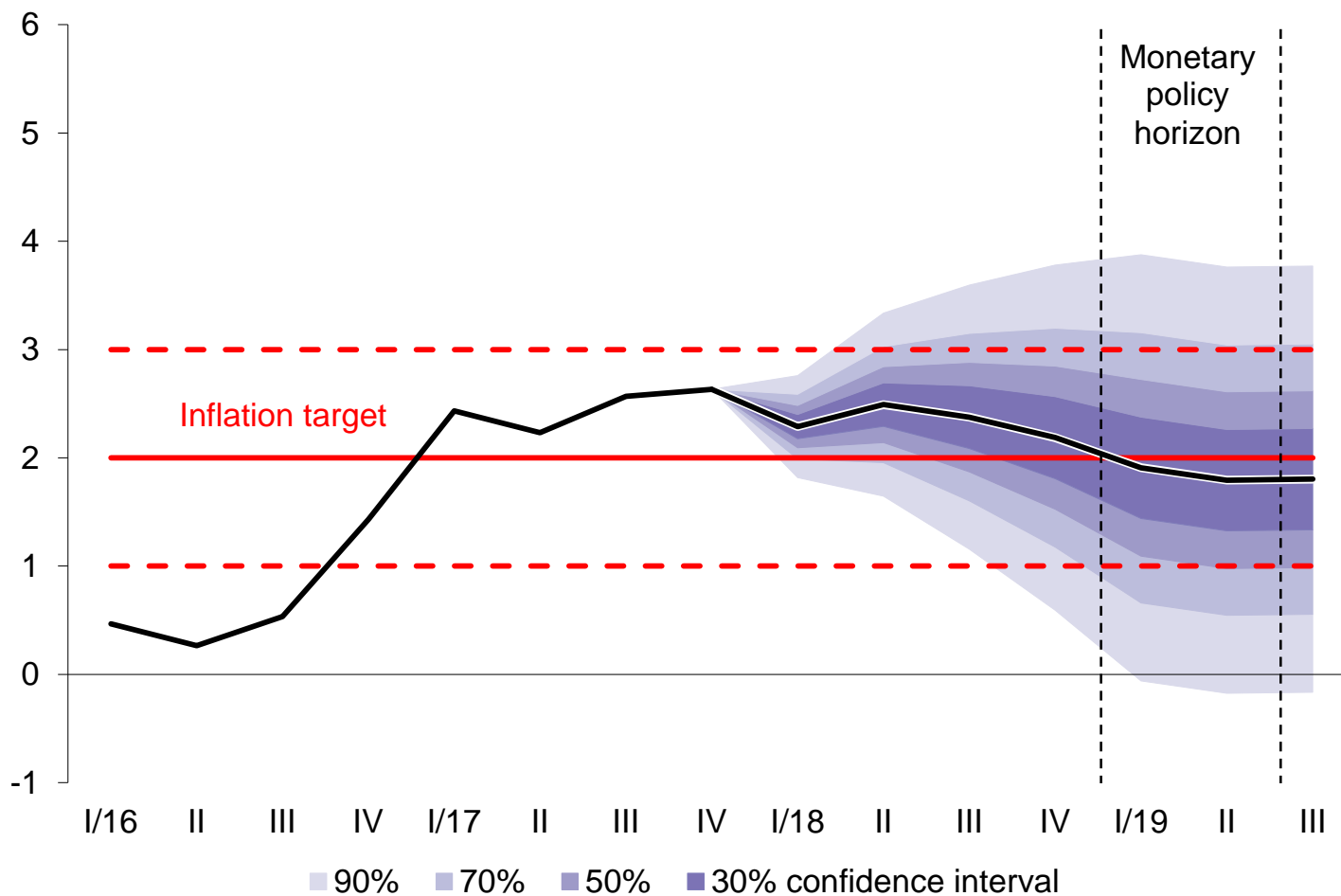
* Effective euro area means that the weights used in the calculations correspond to the share of individual euro area countries in total Czech exports into the euro area

The external environment (ii)

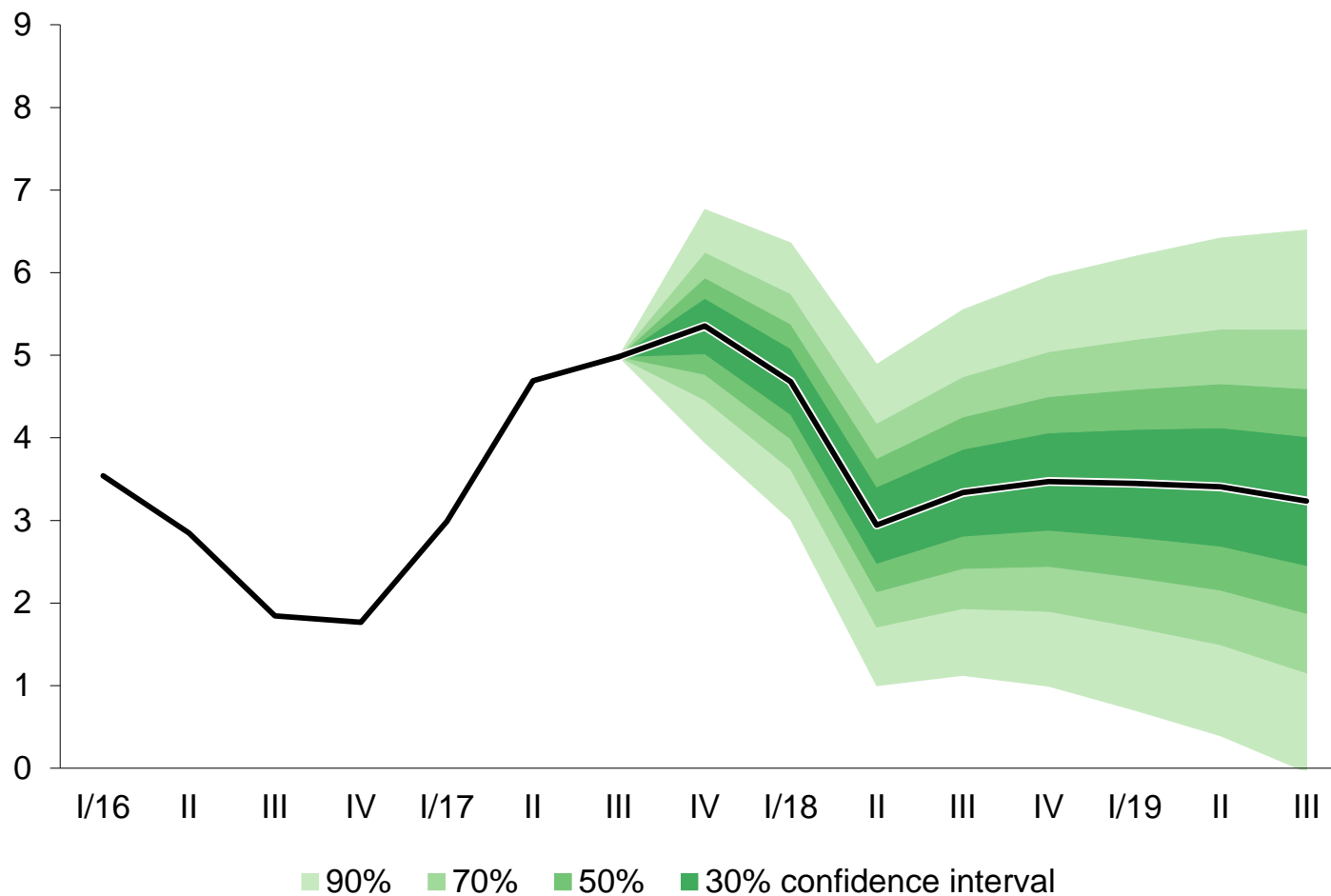
Comparison between the assumptions of the new and previous forecasts



The forecast for headline inflation



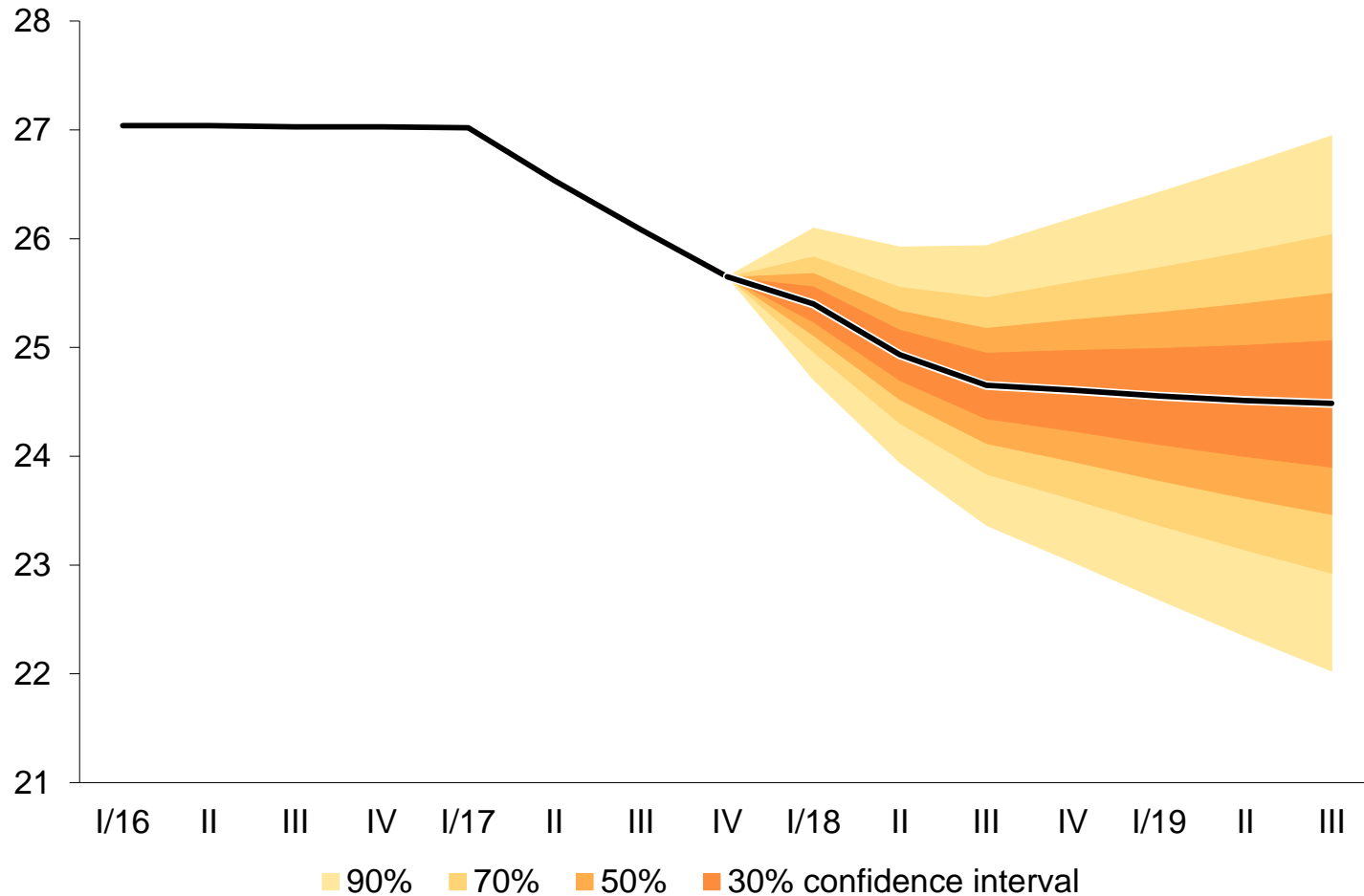
The forecast for GDP



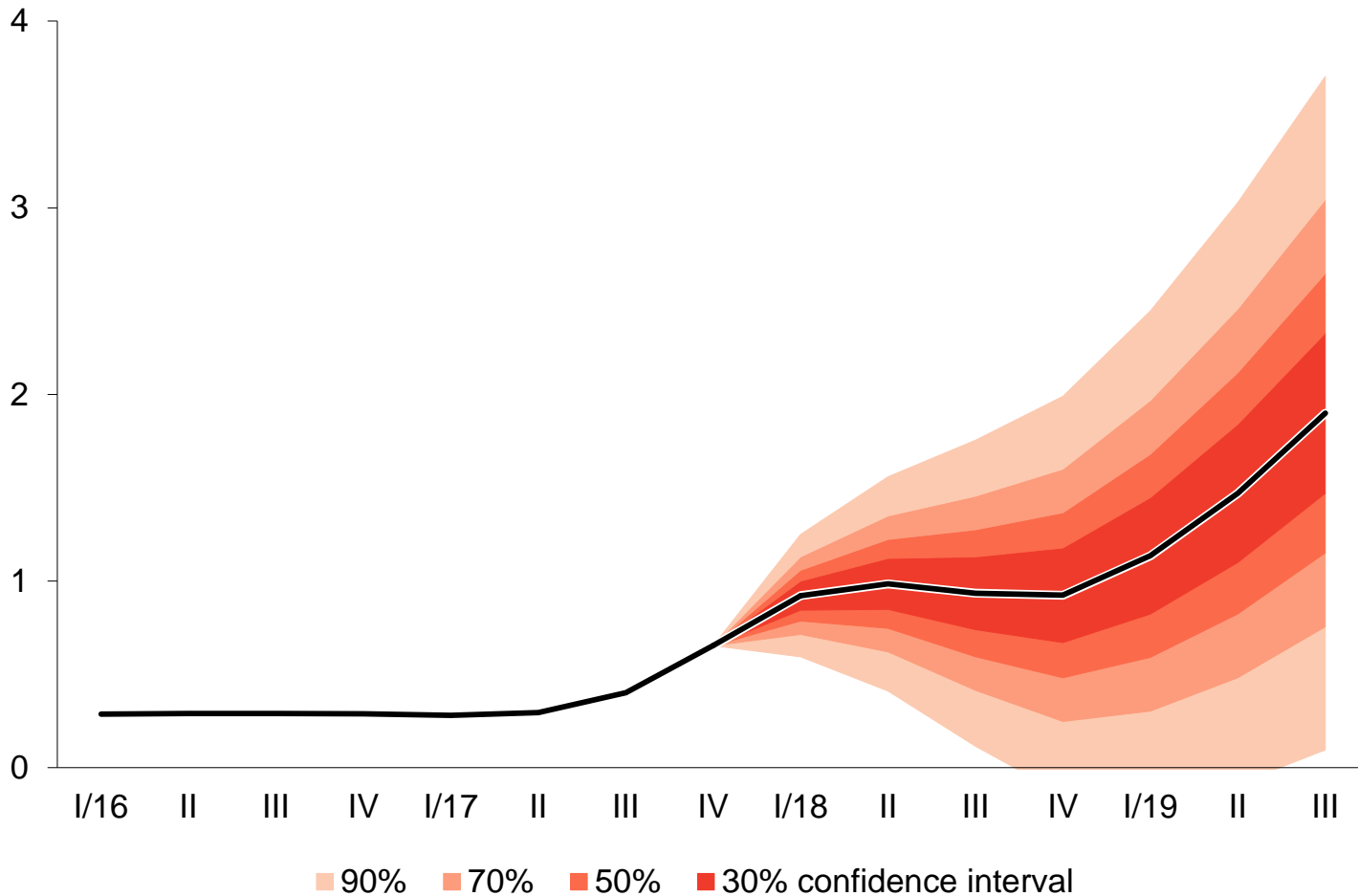
Return to the publication of a numerical exchange rate forecast

- The exchange rate forecast does not constitute any commitment by the CNB, nor can it be interpreted as the preferred or desired exchange rate level.
- Like the forecasts for all other variables, the exchange rate forecast is conditional on the assumptions of the forecast, including the outlooks for developments abroad.
- Unexpected shocks may cause the actual exchange rate to deviate in either direction from the forecast, sometimes significantly.
- Although the exchange rate forecast may not materialise, it gives market entities a guide to the future monetary policy stance. A deviation of the actual exchange rate from the forecasted path points to a need to change the outlook for the interest rate component of the monetary conditions.

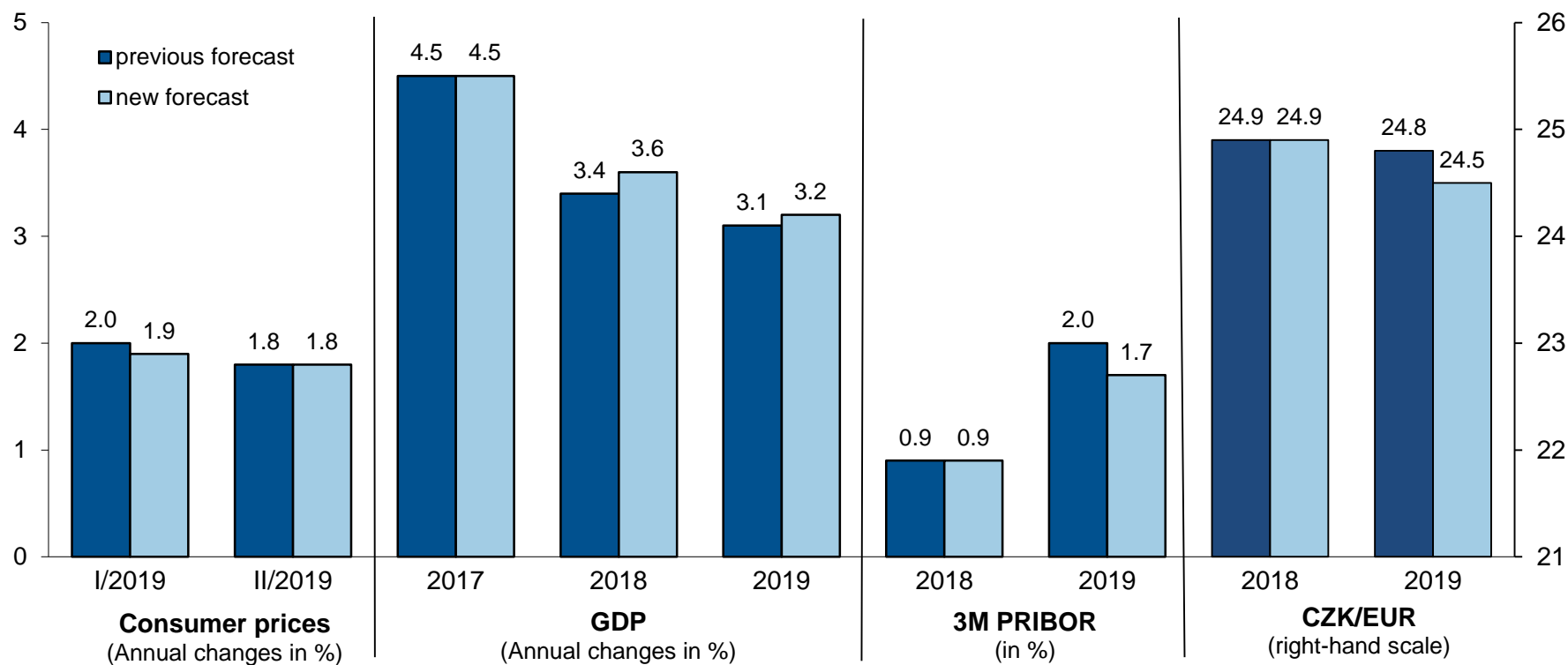
The forecast for the exchange rate (CZK/EUR)



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 at the monetary policy horizon as being **balanced**.

Bidirectional uncertainties:

- strength of domestic inflation pressures
- exchange rate developments

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 I/2018. The summary of the Report (together with boxes and the table of key macroeconomic indicators) will be published on 2 February 2018.

The whole Report will be published on 9 February 2018.