



Press conference of the CNB Bank Board

8th Situation Report on Economic and Monetary Developments

17 December 2013

The monetary policy decision and the stance of the CNB

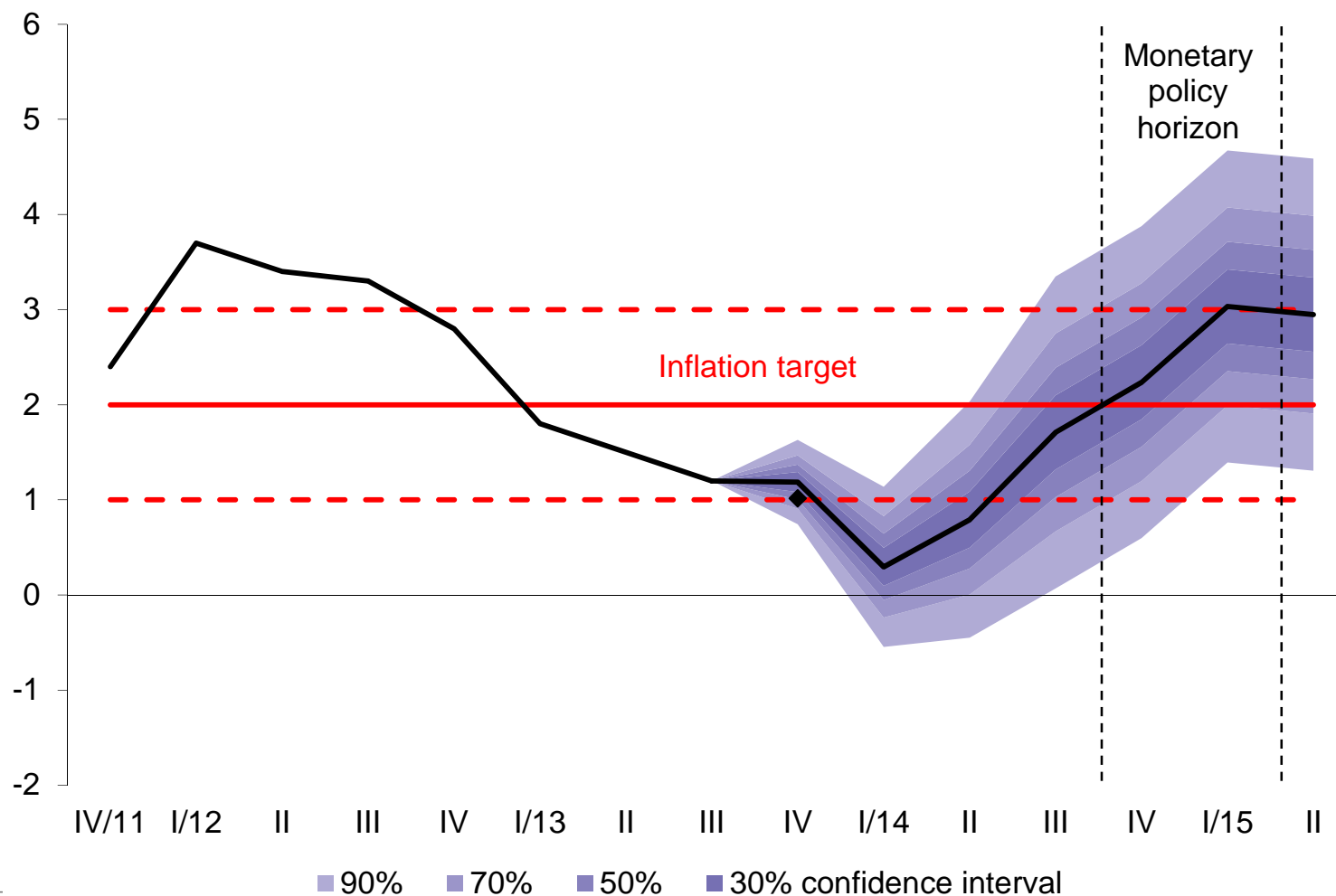
- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The Board also decided to continue using the exchange rate as an additional instrument for easing the monetary conditions and confirmed the CNB's commitment to intervene on the FX market 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 it regards the commitment as one-sided. This means that the CNB will prevent excessive appreciation of the koruna exchange rate below CZK 27/EUR by using FX interventions, i.e. by selling koruna and buying foreign currency. On the weaker side of the CZK 27/EUR level, the CNB is allowing the exchange rate to float according to supply and demand on the FX market.
- More information on the CNB's exchange rate commitment can be found on the CNB website (http://www.cnb.cz/en/faq/the_exchange_rate_commitment.html)



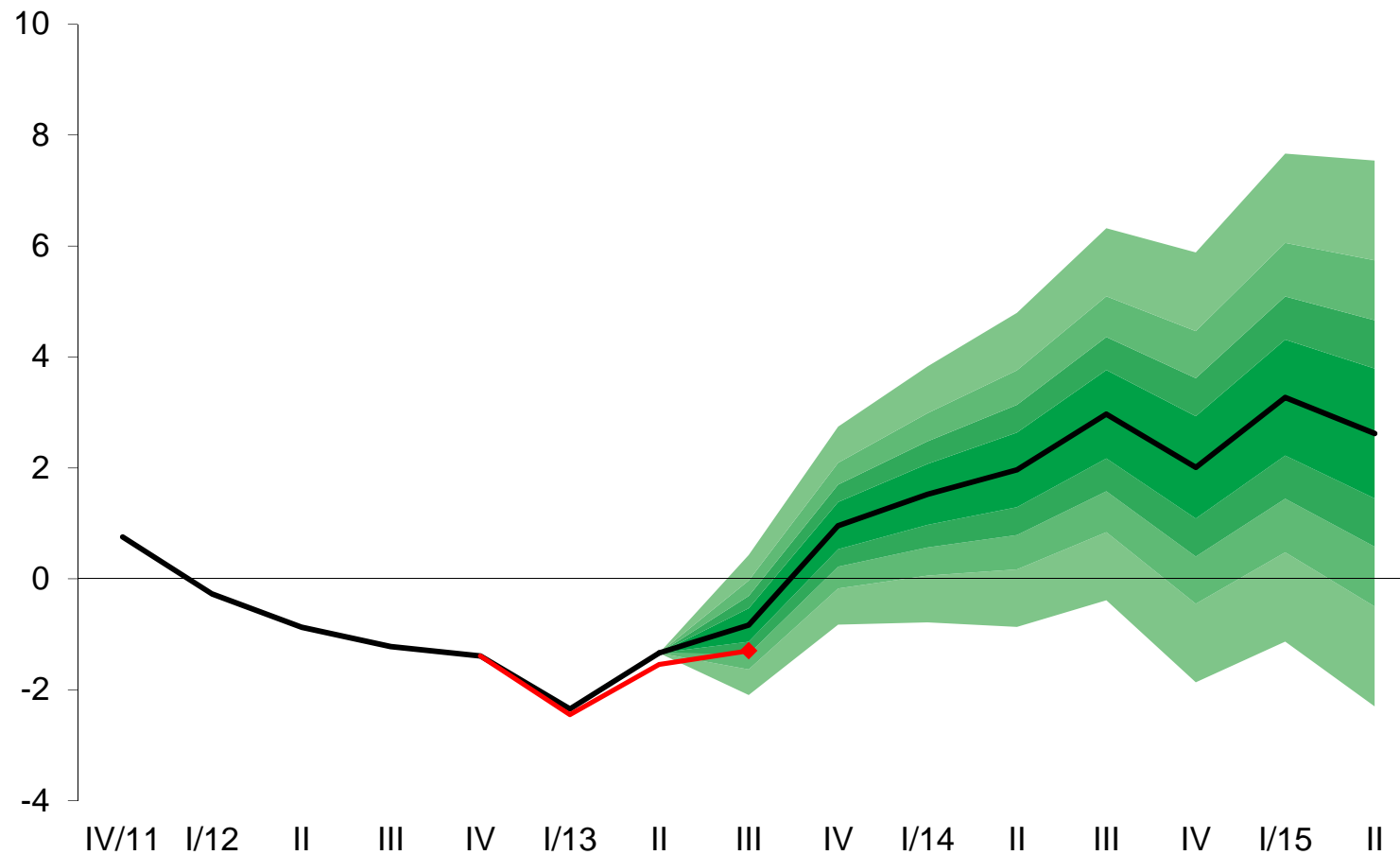
Reasons for the decision

- Consistent with the baseline scenario of the forecast was a significant decline in market interest rates well below zero, which could not occur in practice.
- Following the November decision of the Bank Board, the outlook assuming the use of the exchange rate as an additional monetary policy instrument became the most likely scenario of future economic developments.
- This alternative scenario showed that a sustained weakening of the exchange rate close to CZK 27/EUR is needed to eliminate the threat of longer-term deflation and accelerate the return of inflation towards the target amid zero interest rates. The CNB's exchange rate commitment is consistent with this.
- The CNB continues to regard the level of the exchange rate commitment close to CZK 27/EUR as an appropriate choice. Newly available information confirms the message that the CNB will keep the exchange rate close to CZK 27/EUR at least until early 2015.

The alternative scenario of the inflation forecast and expected outcome in 2013 Q4

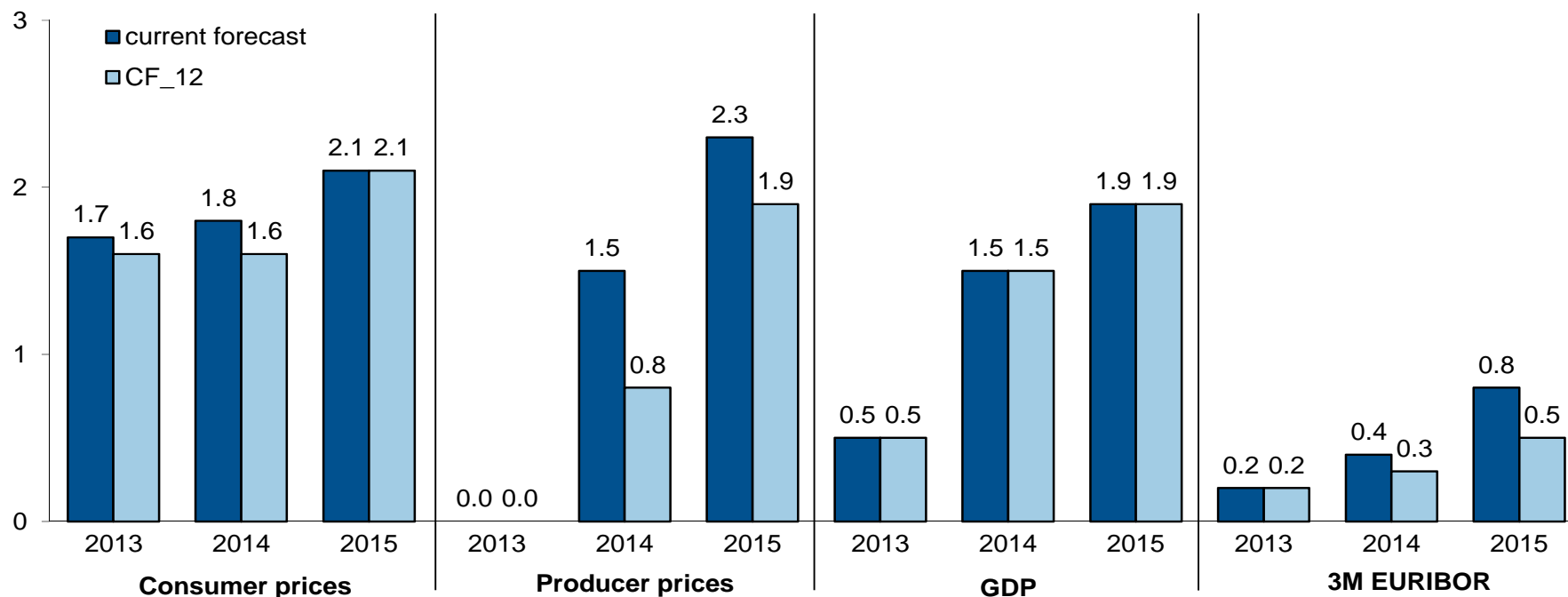


The alternative scenario of the GDP forecast and outcome in 2013 Q3



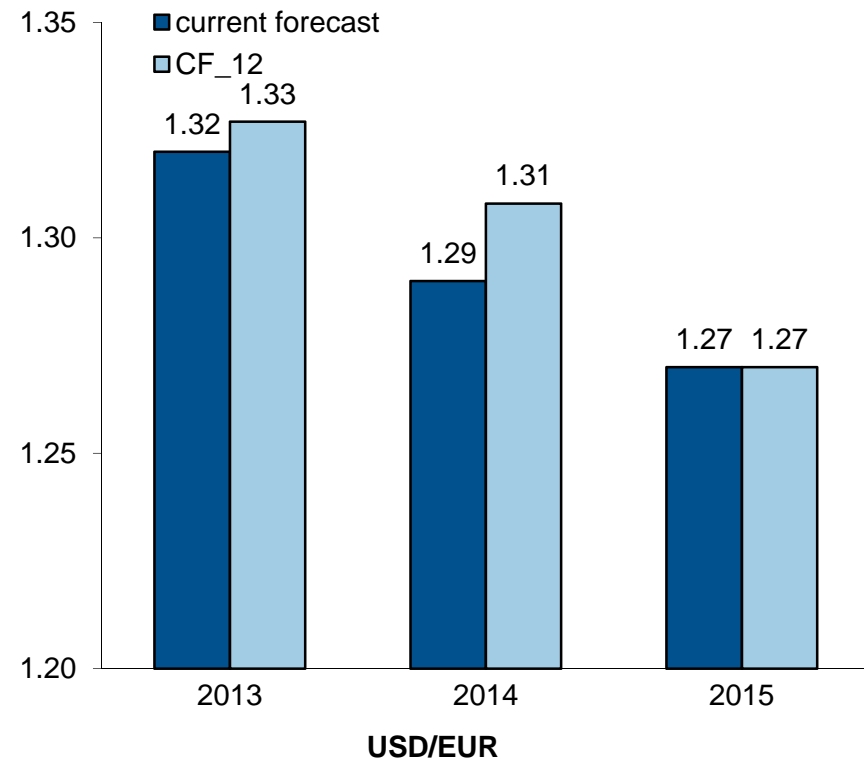
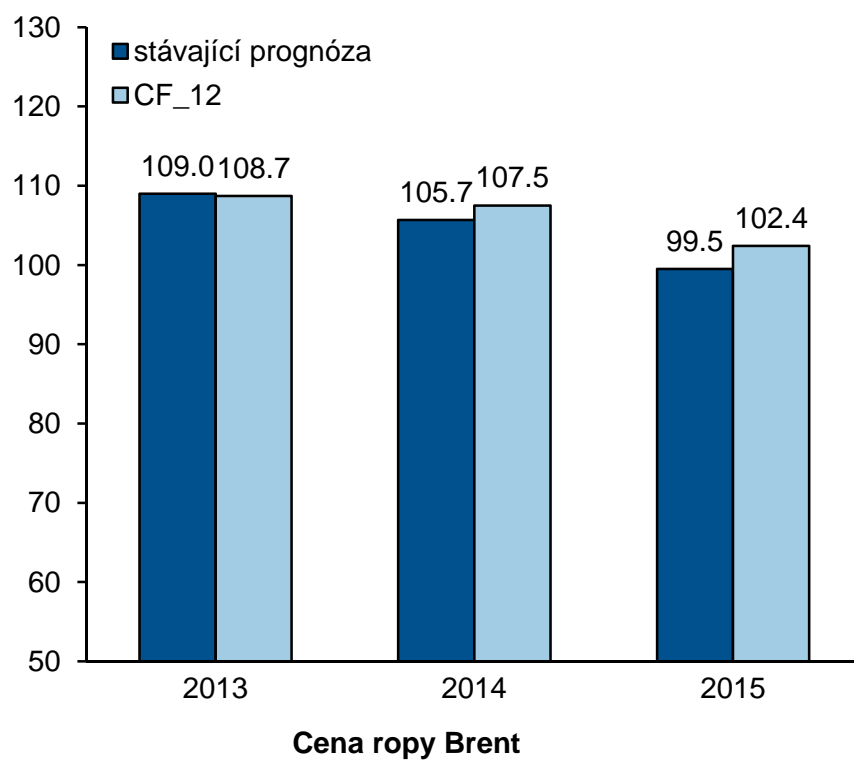
The external environment (i)

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

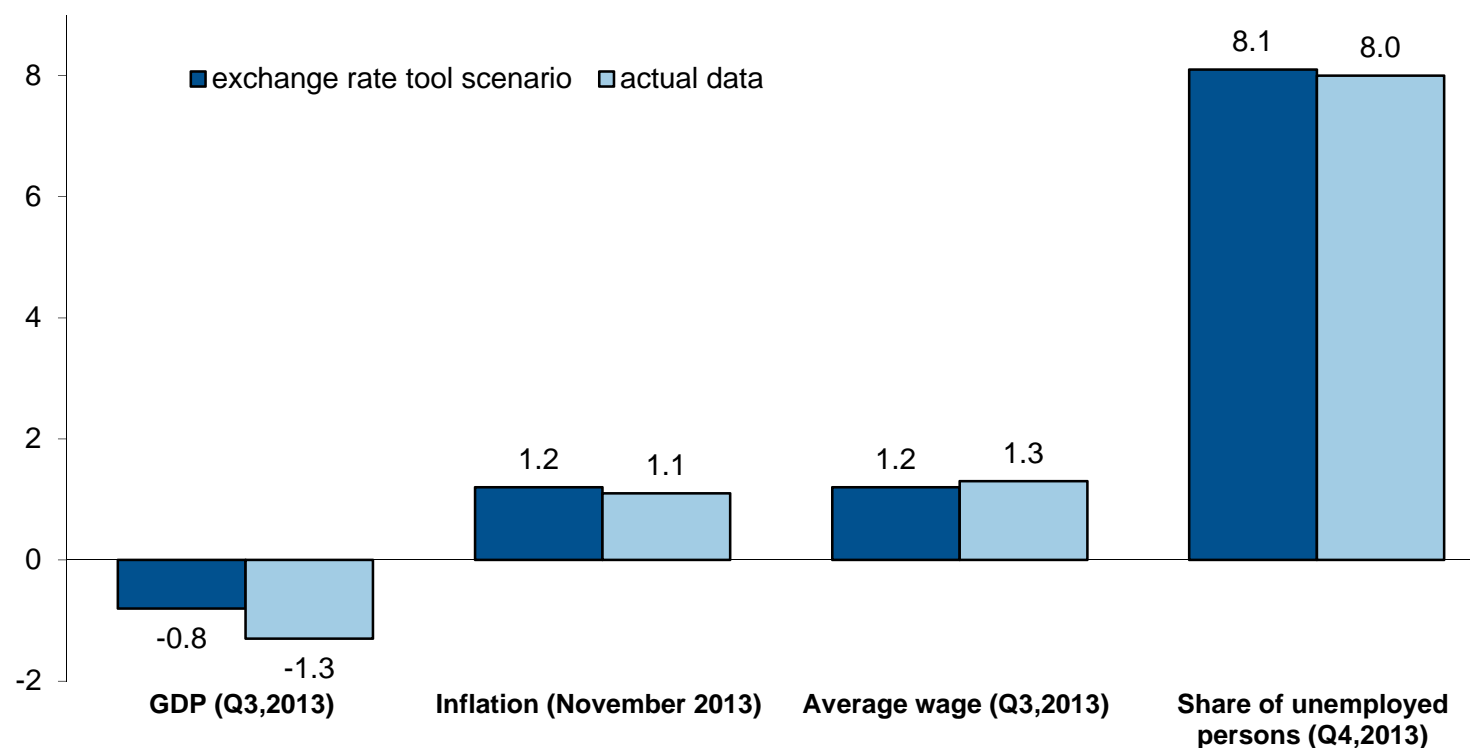


Developments in the domestic economy since the Board's previous monetary meeting

- In 2013 Q3, the Czech economy declined by 1.3% in y-o-y terms and by 0.1% in q-o-q terms, seasonally adjusted. Both figures are worse than forecasted. The October data suggest a recovery in some industrial branches amid a continuing downturn in construction and retail sales.
- In line with CNB expectations, the labour market remains weak:

Total employment recorded slower y-o-y growth and switched to a decline in q-o-q terms. The general unemployment rate (s.a.) stagnated in both y-o-y and q-o-q terms. The share of unemployed persons (s.a.) keeps growing. The average nominal wage grew by just 1.3% y-o-y.
- The decline in agricultural producer prices deepened in November, as did the decline in import prices in October. In line with expectations, industrial producer price inflation accelerated slightly in November.

Comparison of actual data with the alternative scenario of the CNB forecast



Notes: in percentages, for share of unemployed persons comparison of s.a. outcomes in October and November with alternative scenario of forecast for 2013 Q4.



Thank you for your attention

Minutes of the today's meeting will be
released on 27 December 2013 at

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