



Press conference of the CNB Bank Board

1st Situation Report on Economic and Monetary Developments

6 February 2014

The monetary policy decision and the stance of the CNB

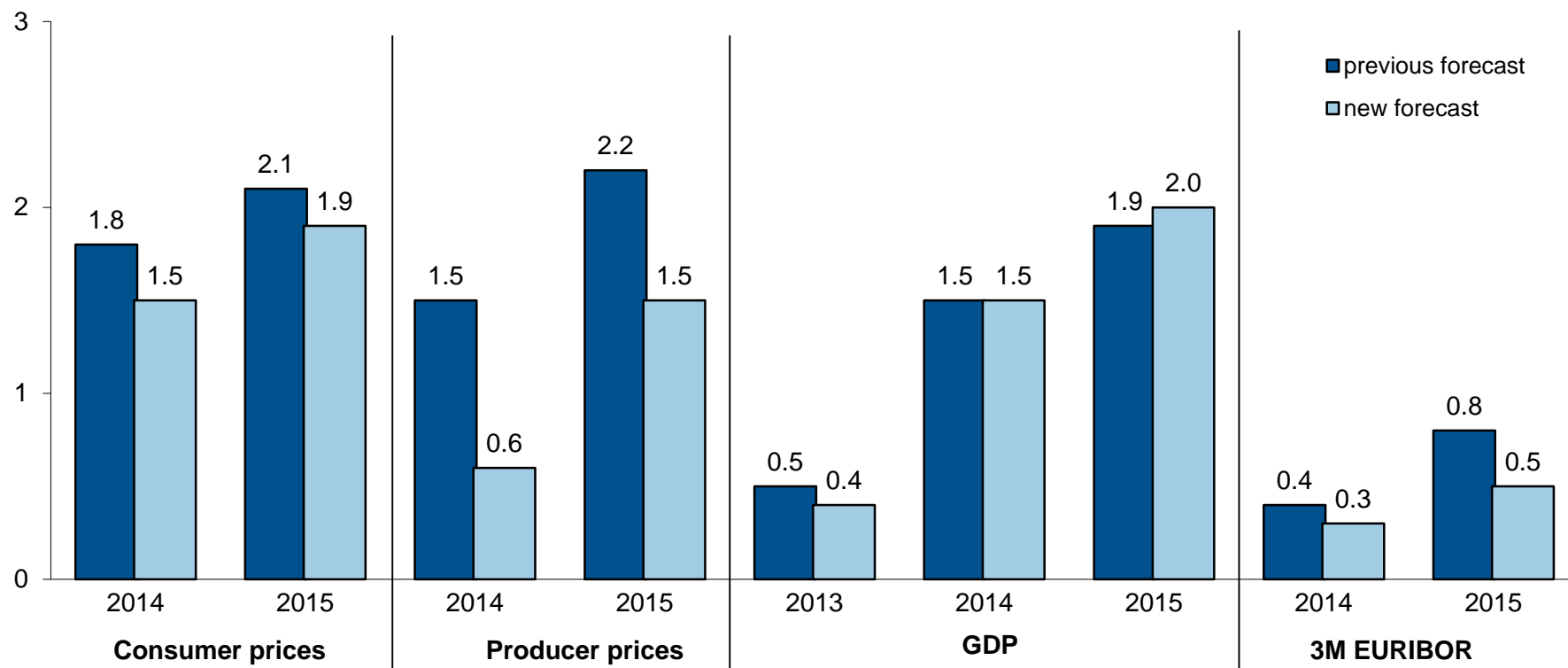
- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The Board also decided to continue using the exchange rate as an additional instrument for easing the monetary conditions and confirmed the CNB's commitment to intervene on the FX market 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 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 move according to supply and demand on the FX market.

Reasons for the decision

- The forecast assumes that market interest rates will be flat at their current very low level and the exchange rate will stay close to CZK 27/EUR until the start of next year.
- The exchange rate weakening significantly contributed to averting the threat of deflation and will accelerate the return of inflation to the target, which will occur in late 2014, and support the recovery in the economy and the labour market.
- The risks to the forecast are balanced.
- The Board continues to view the level of the exchange rate commitment at CZK 27/EUR as appropriate.
- Maintaining the exchange rate close to this level at least until the beginning of 2015 delivers the necessary easing of the monetary conditions.

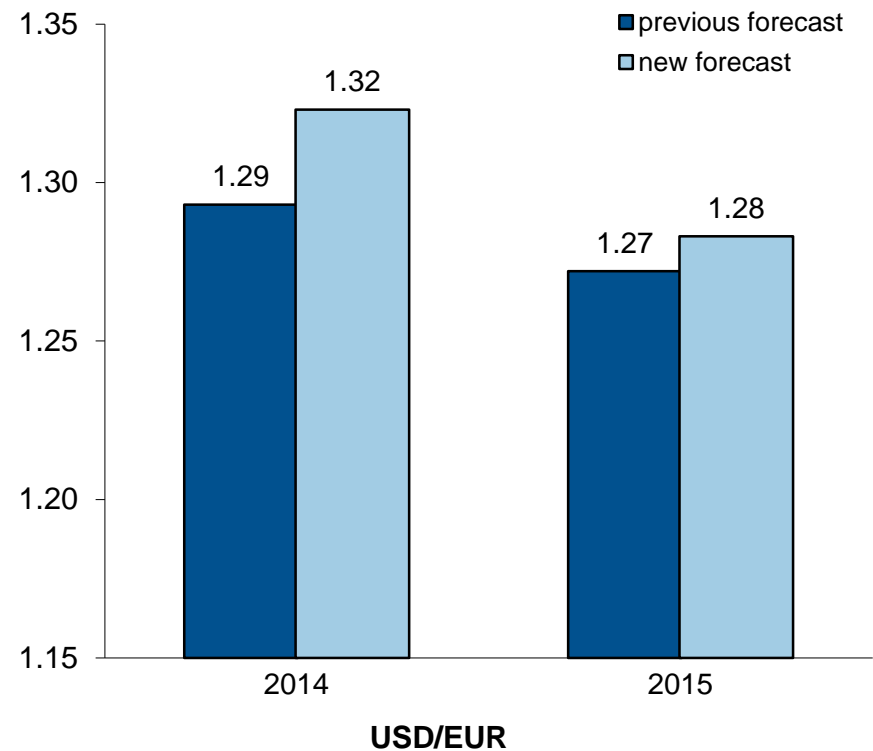
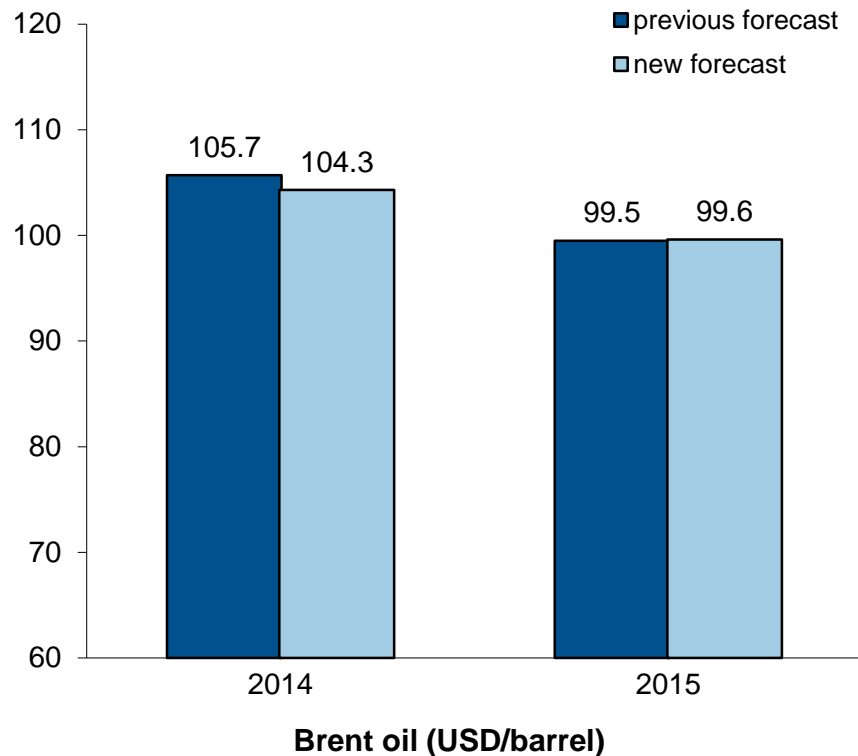
The external environment (i)

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

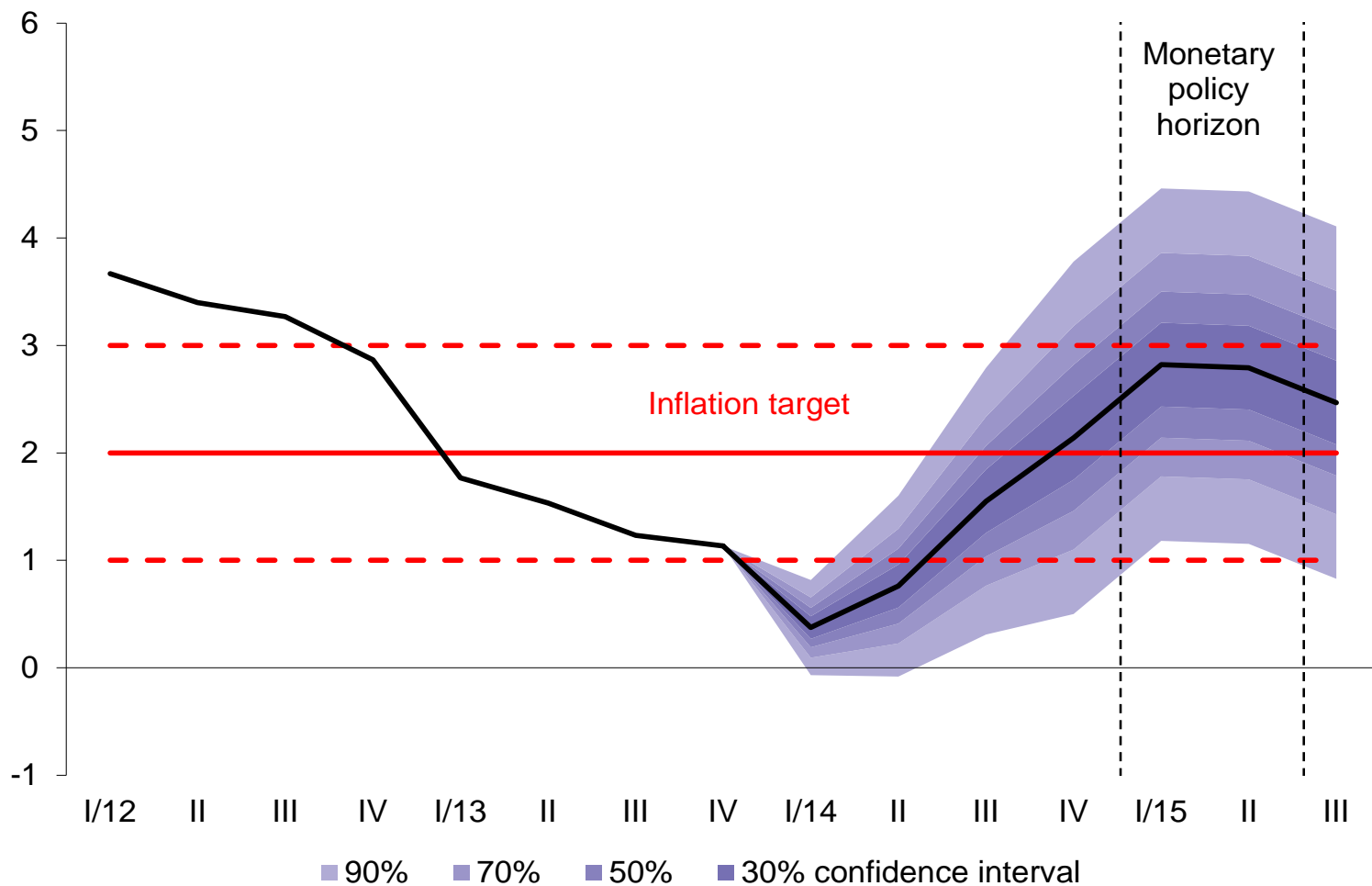


The external environment (ii)

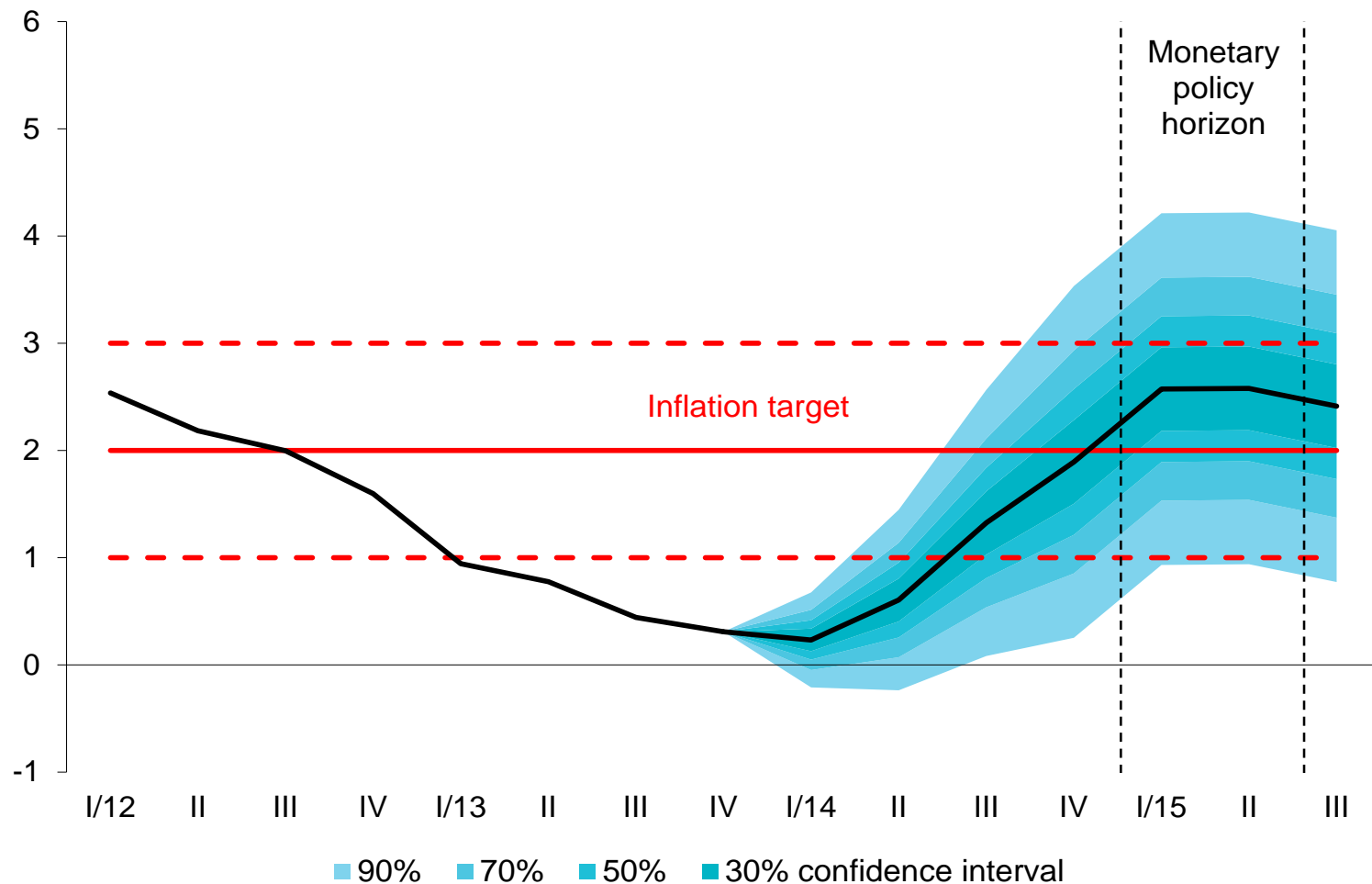
Comparison between the assumptions of the new and previous forecasts



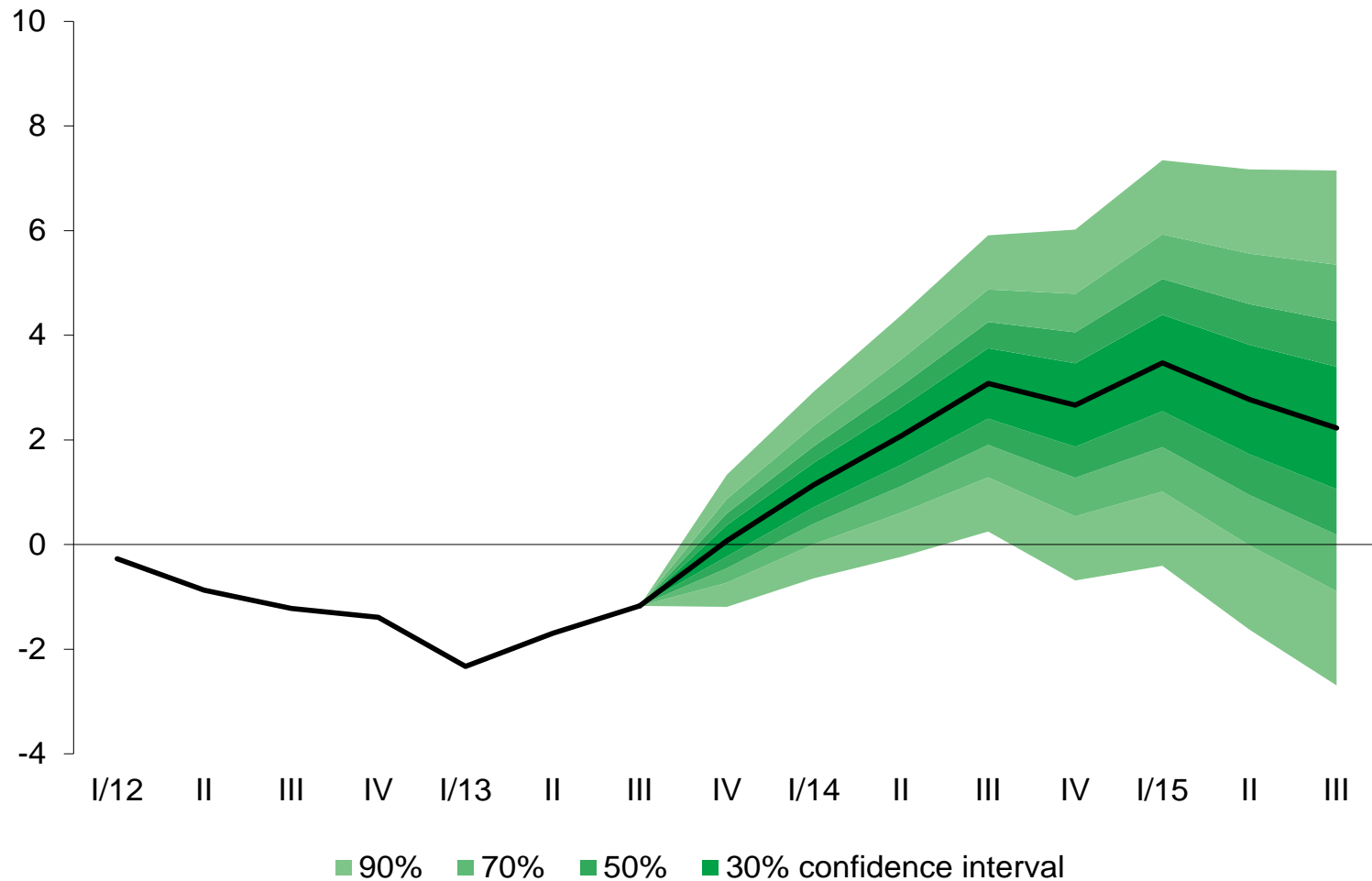
The forecast for headline inflation



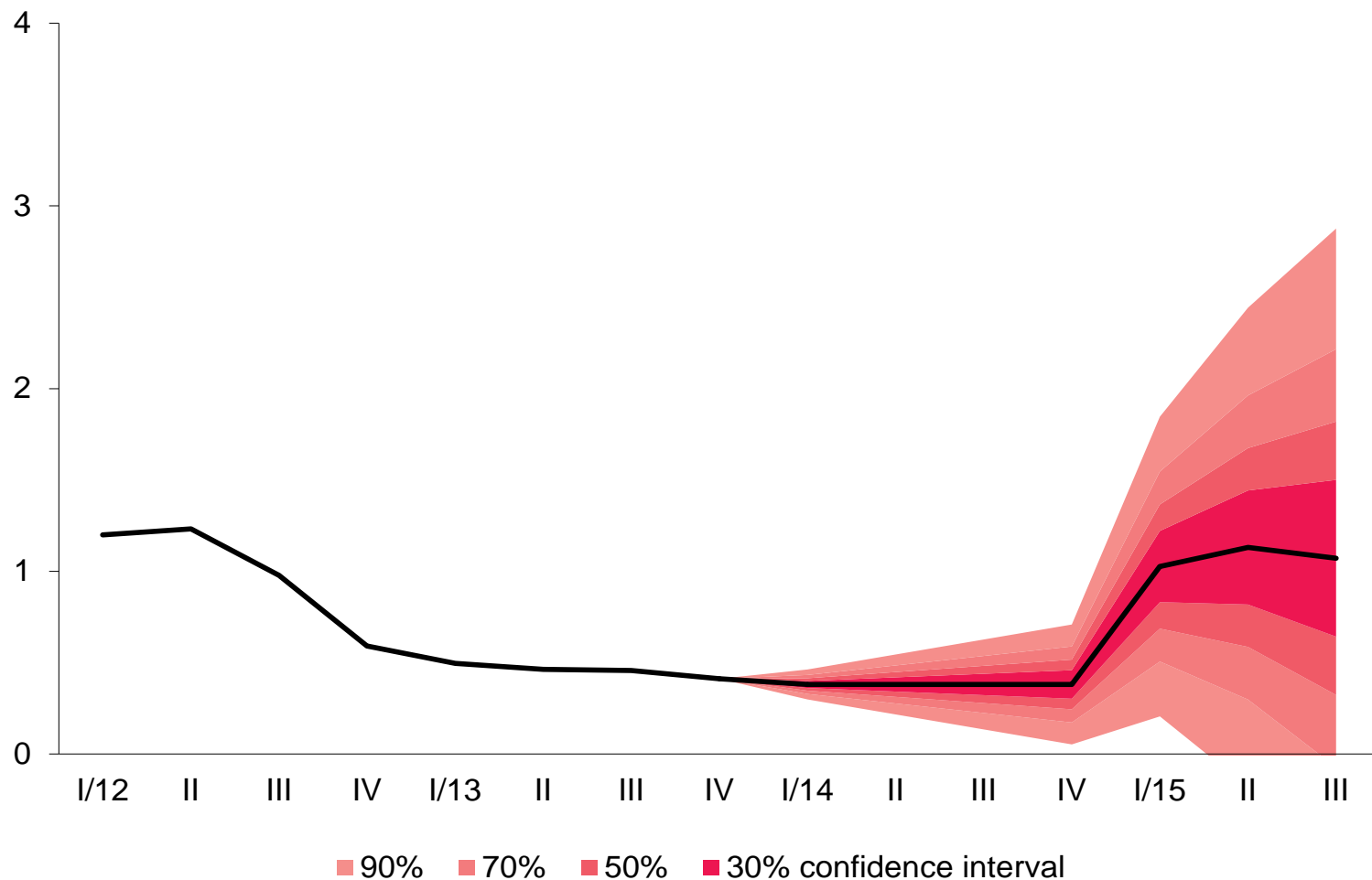
The forecast for monetary-policy relevant inflation



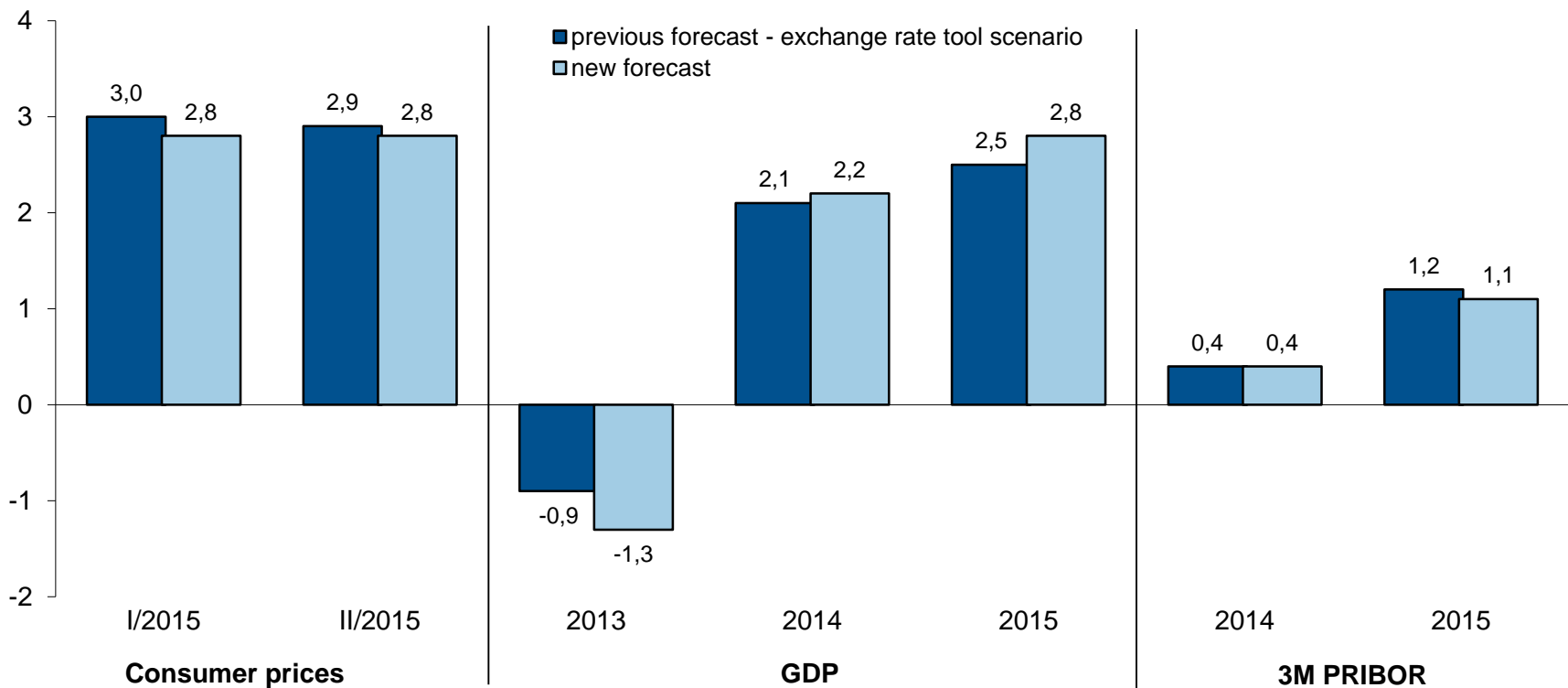
The forecast for GDP



The forecast for interest rates (3M PRIBOR)



Comparison with the previous forecast (exchange rate tool scenario)





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/2014,
to be published 14 February 2014.