



Press conference of the CNB Bank Board

3rd Situation Report on Economic and Monetary Developments

7 May 2014

The monetary policy decision and the stance of the CNB

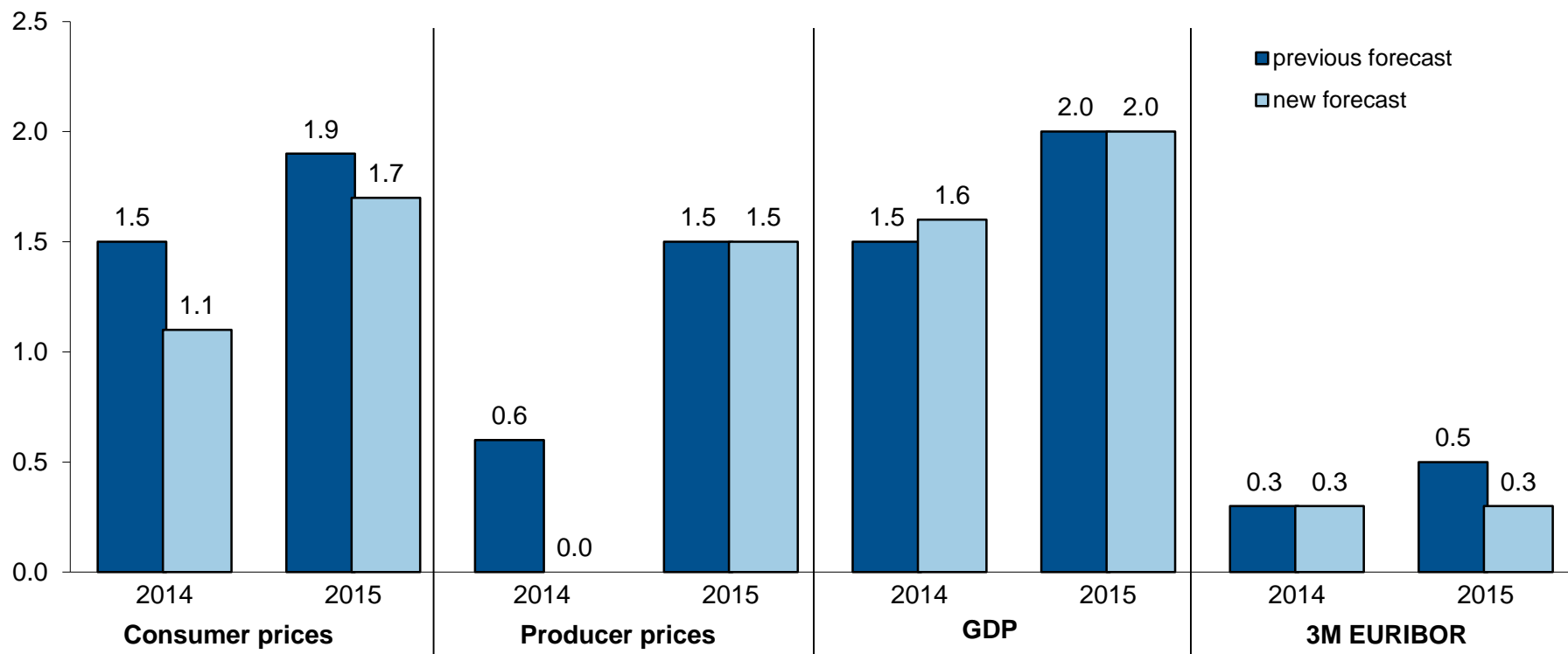
- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The Board also decided to continue using the exchange rate as an additional instrument for easing the monetary 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 the exchange rate commitment is one-sided. This means that the CNB will prevent excessive appreciation of the koruna exchange rate below CZK 27/EUR. 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 in the context of the new forecast

- 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.
- At the forecast horizon, the return to conventional monetary policy will not imply appreciation of the exchange rate to the level recorded before the CNB started intervening, as the weaker exchange rate of koruna will in the meantime pass through to the price level and other nominal variables.
- The risks to the forecast are slightly on the downside.
- In a debate of the new forecast, the Bank Board stated that the probability of a later exit from the exchange rate commitment was increasing.
- The same time the Bank Board concluded that domestic interest rates will not necessarily rise as fast as indicated by the forecast in 2015.

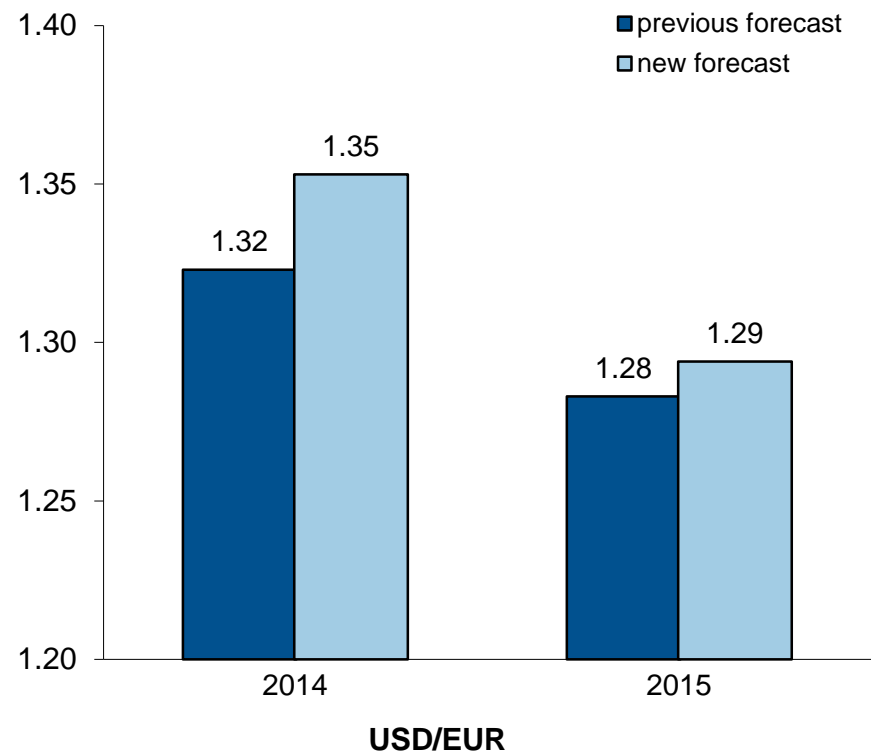
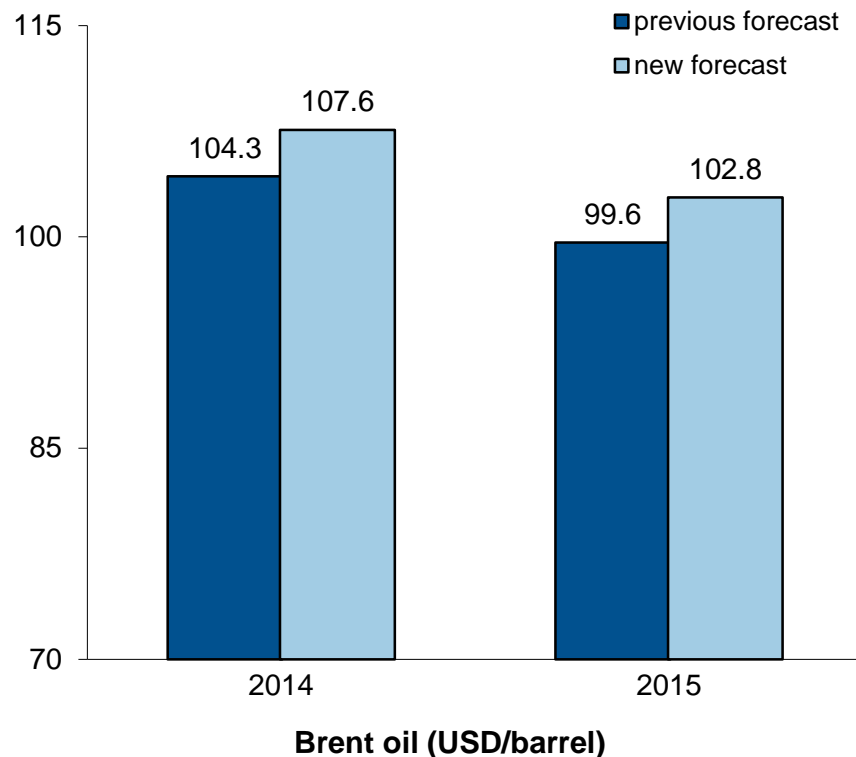
The external environment (i)

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

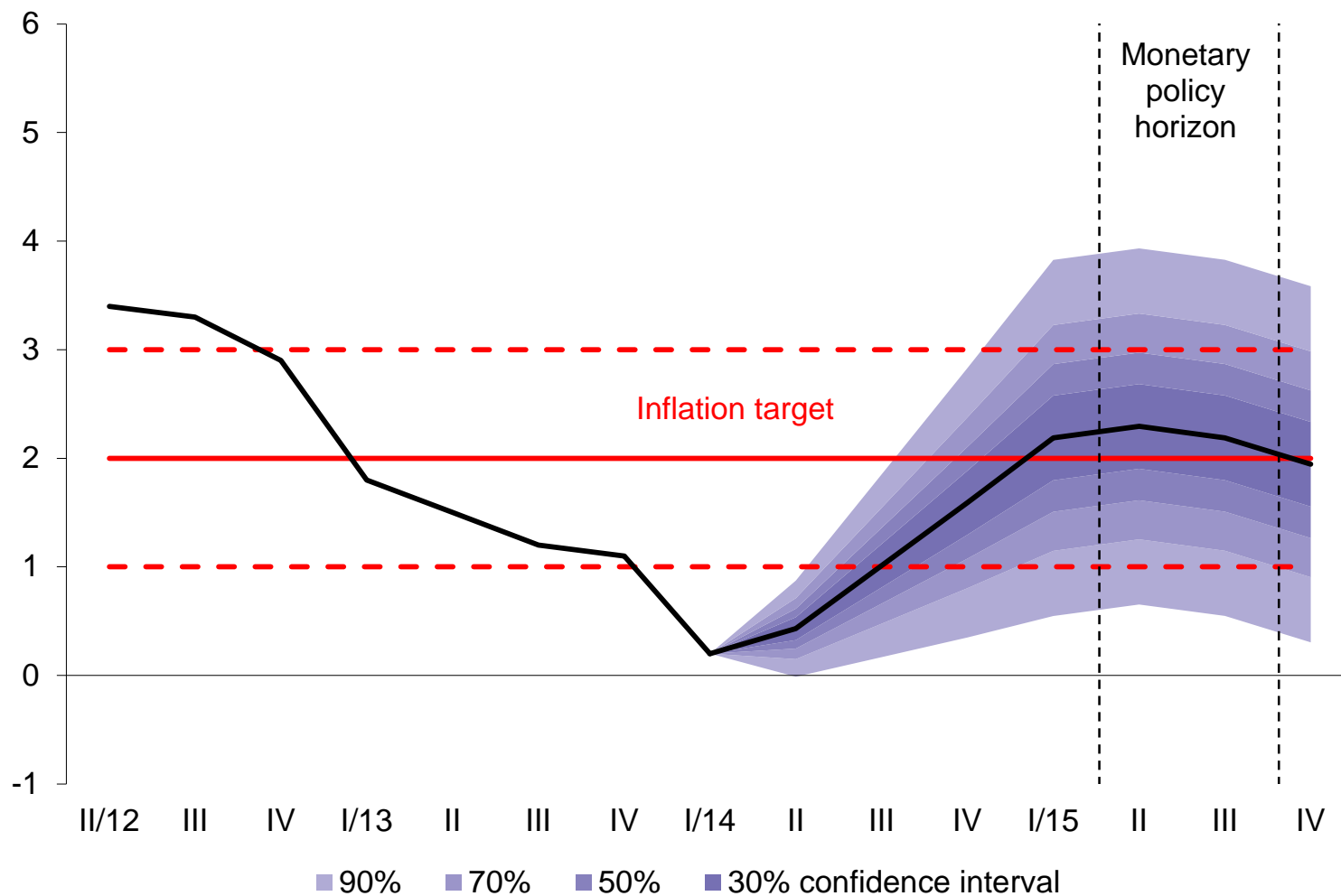


The external environment (ii)

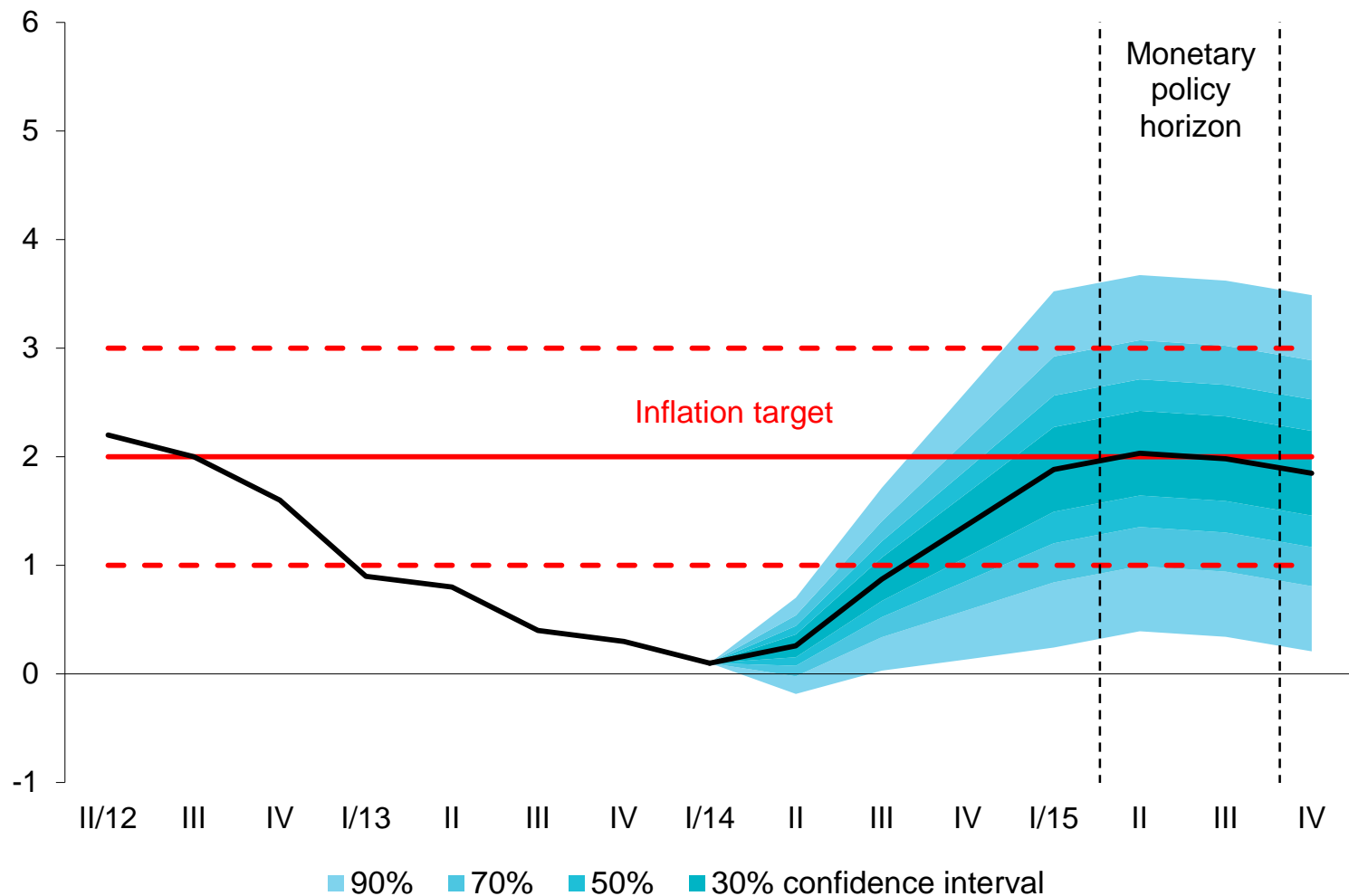
Comparison between the assumptions of the new and previous forecasts



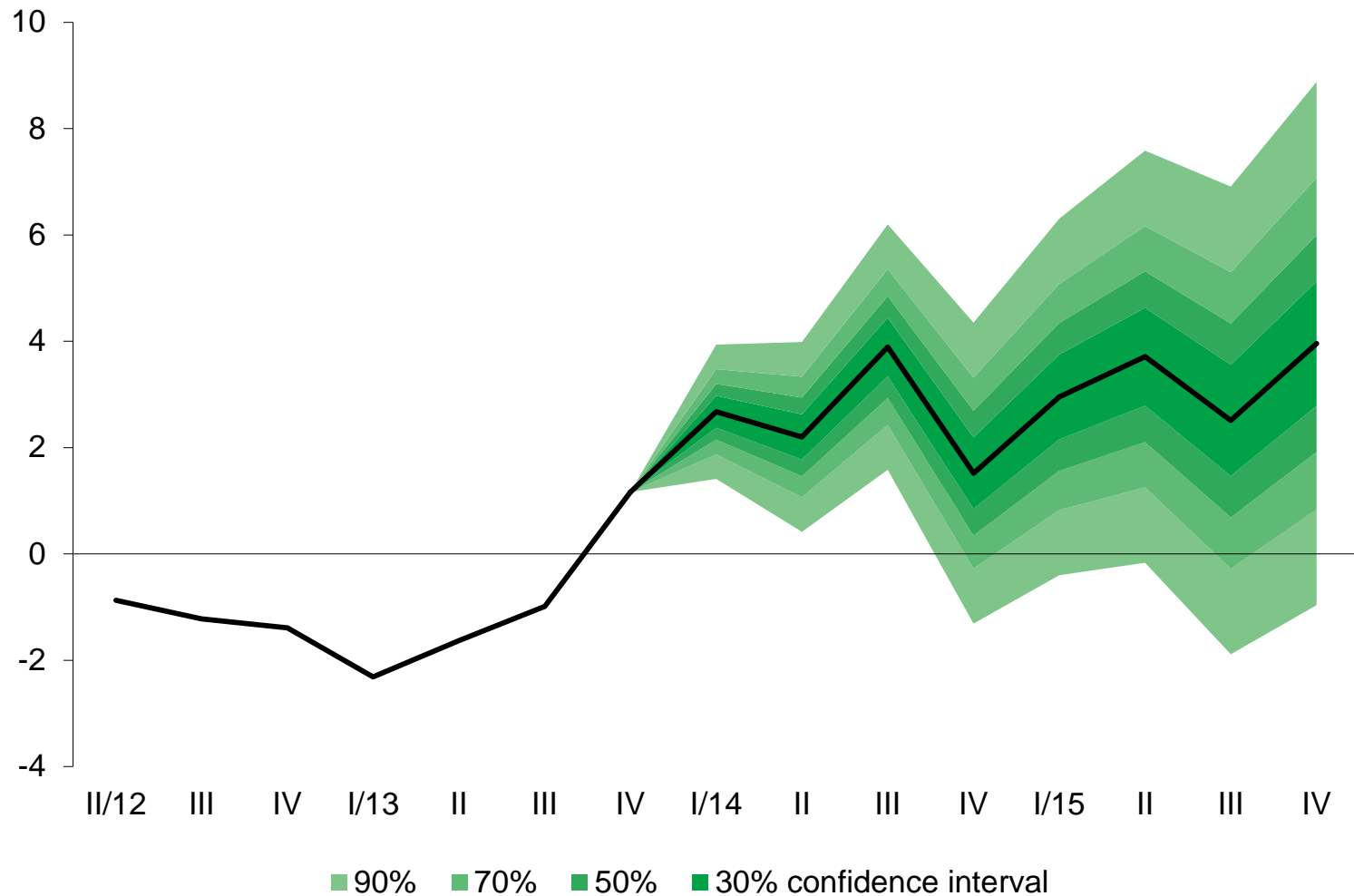
The forecast for headline inflation



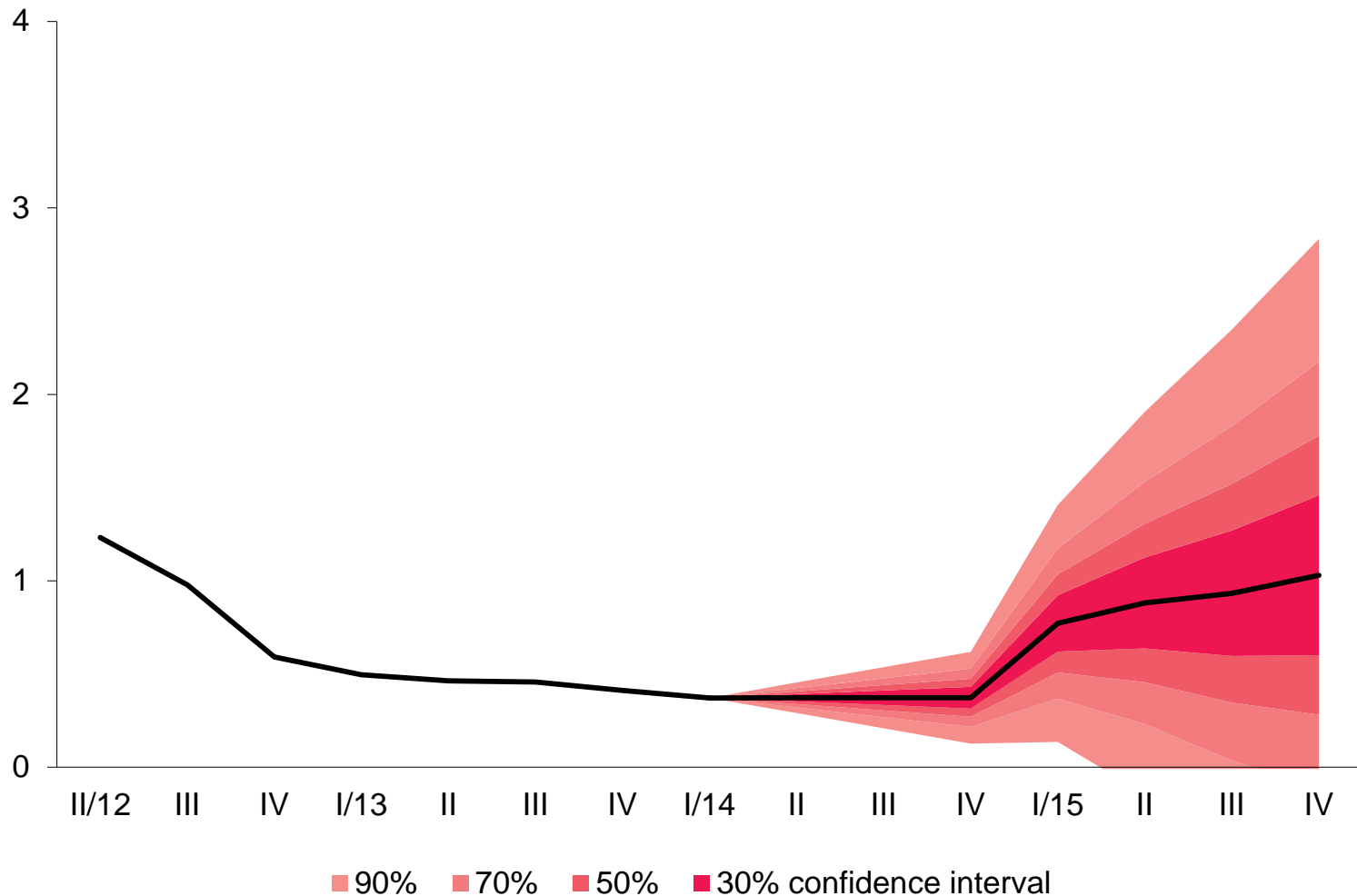
The forecast for monetary-policy relevant inflation



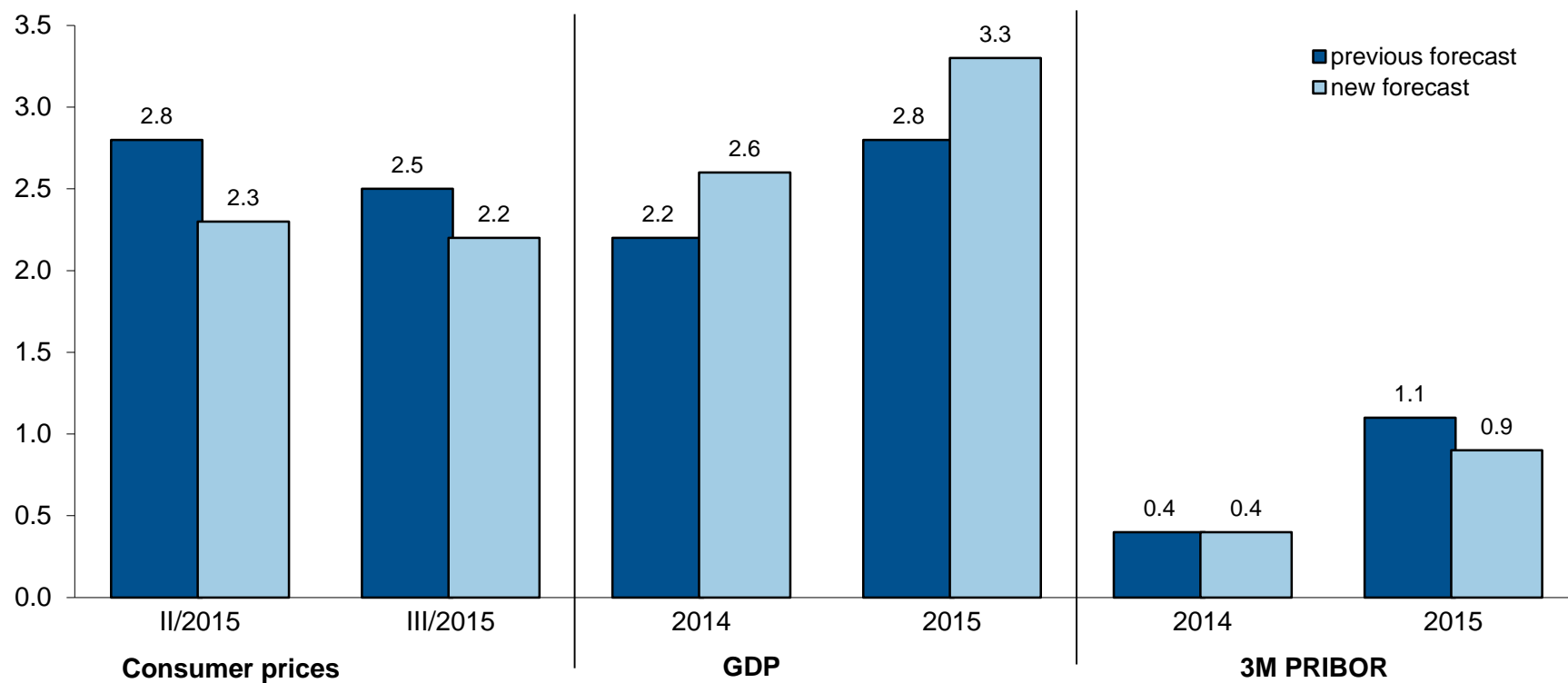
The forecast for GDP



The forecast for interest rates (3M PRIBOR)



Comparison with the previous forecast



Risks to the forecast

The risks to the forecast are slightly on the downside.

Risks on the downside:

- lower outlook for interest rates and prices in the euro area
- lower-than-expected wage growth

Risks on the upside:

- developments in world prices of agricultural commodities



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/2014. The Summary of the Report (together with the Table of key macroeconomic indicators) will be published already on 12 May (the whole Report will be published on 16 May 2014).