



# Press conference of the CNB Bank Board

## 4th Situation Report on Economic and Monetary Developments

26 June 2014

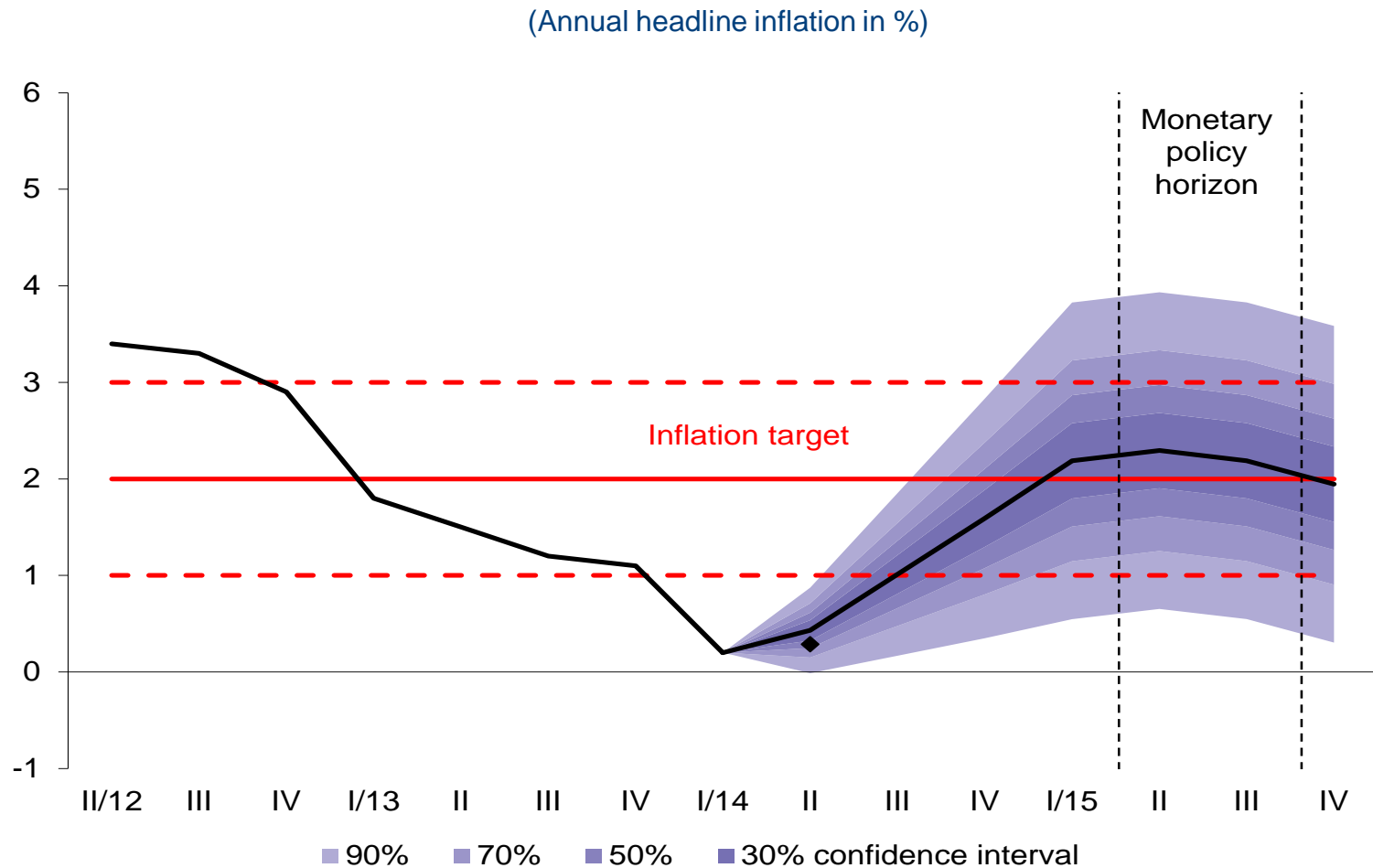
# The monetary policy decision and the stance of the CNB

- 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.

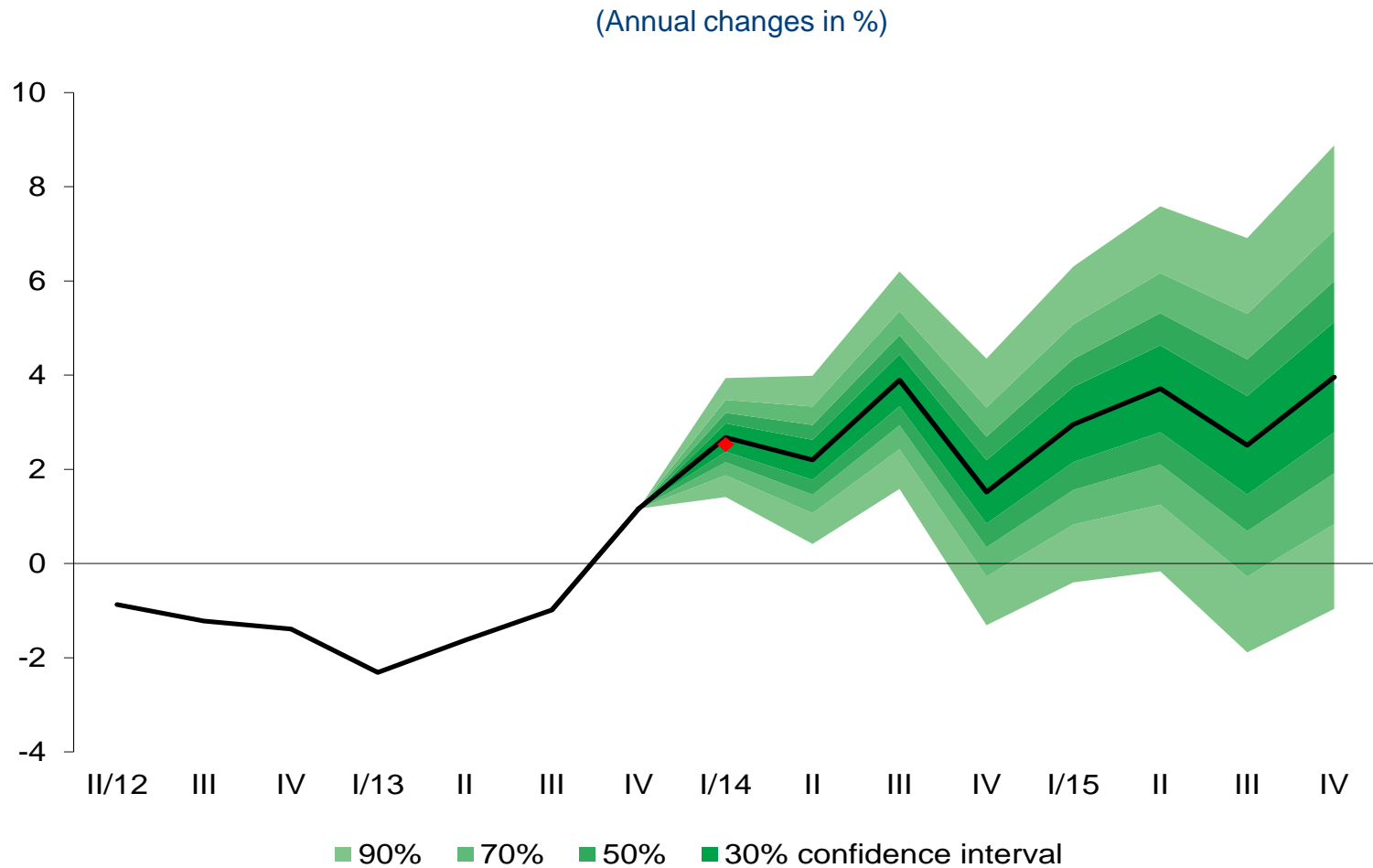
# Reasons for the decision

- 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 the koruna is in the meantime passing through to the price level and other nominal variables.
- The risks to the forecast are slightly on the downside.
- This further increases the need for a later exit from the use of the exchange rate as a monetary policy instrument than assumed by the existing forecast.
- The Bank Board stated that the CNB would not discontinue the use of the exchange rate as a monetary policy instrument earlier than in 2015 Q2, and it did not rule out a further shift of the exit from this regime.

# The inflation forecast and expected outcome in 2014 Q2

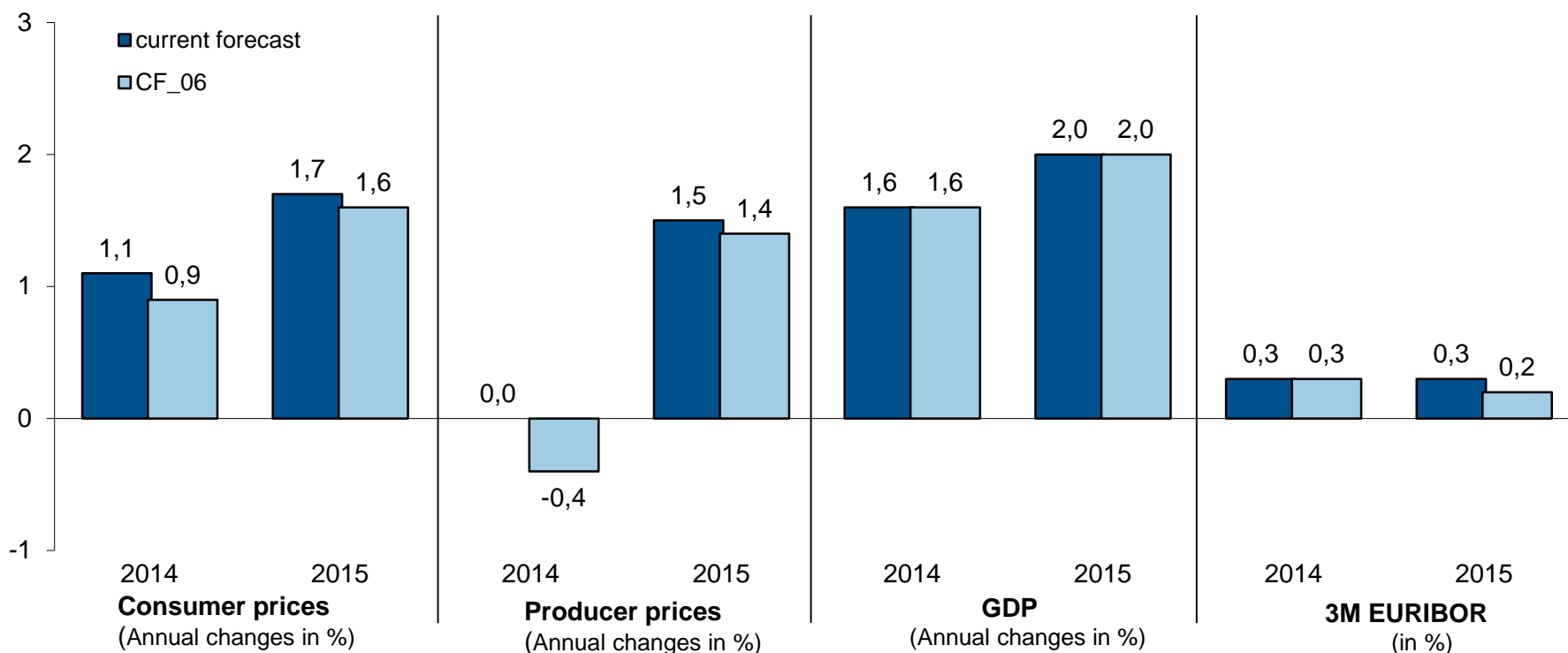


# The GDP forecast and outcome in 2014 Q1



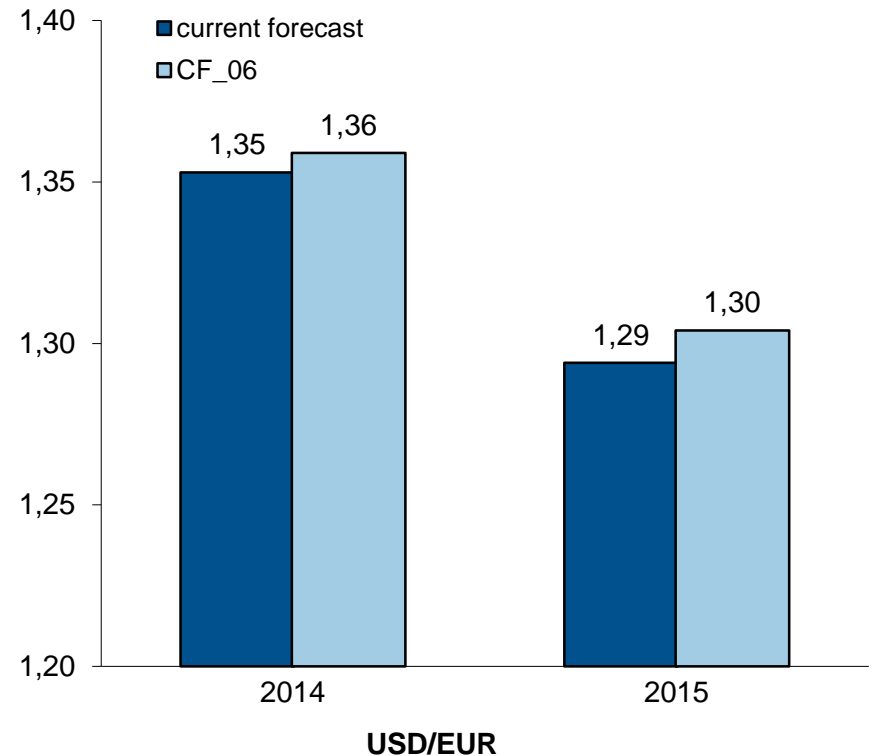
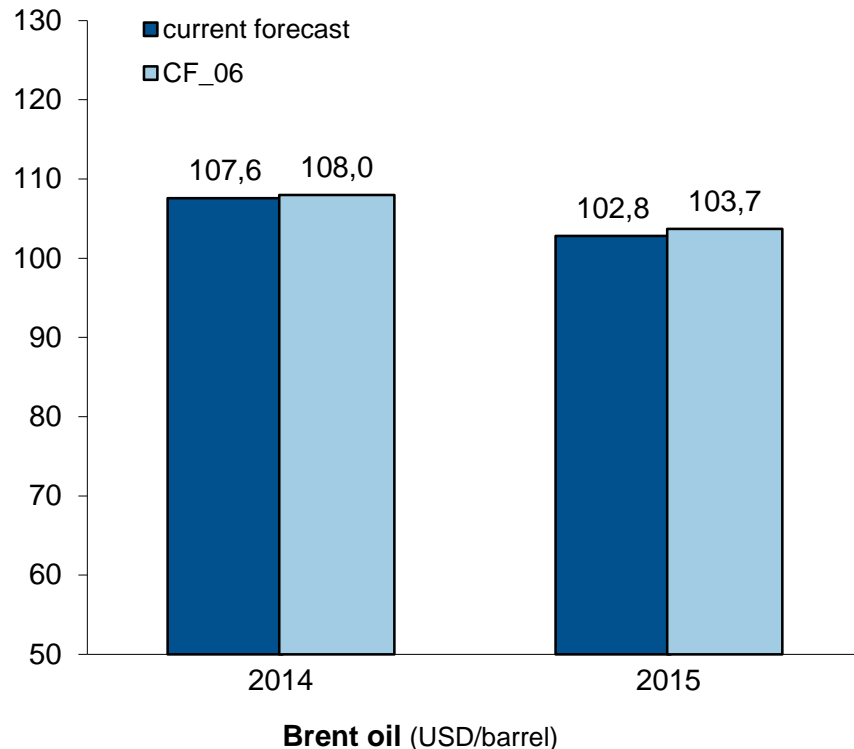
# The external environment (i)

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

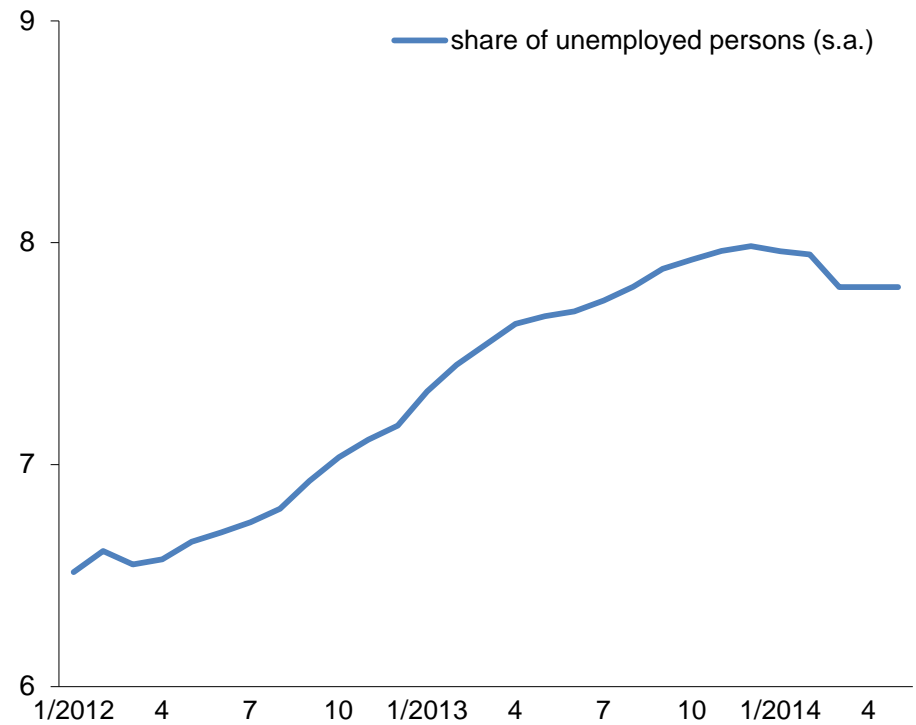


# The labour market

(Annual changes in %)



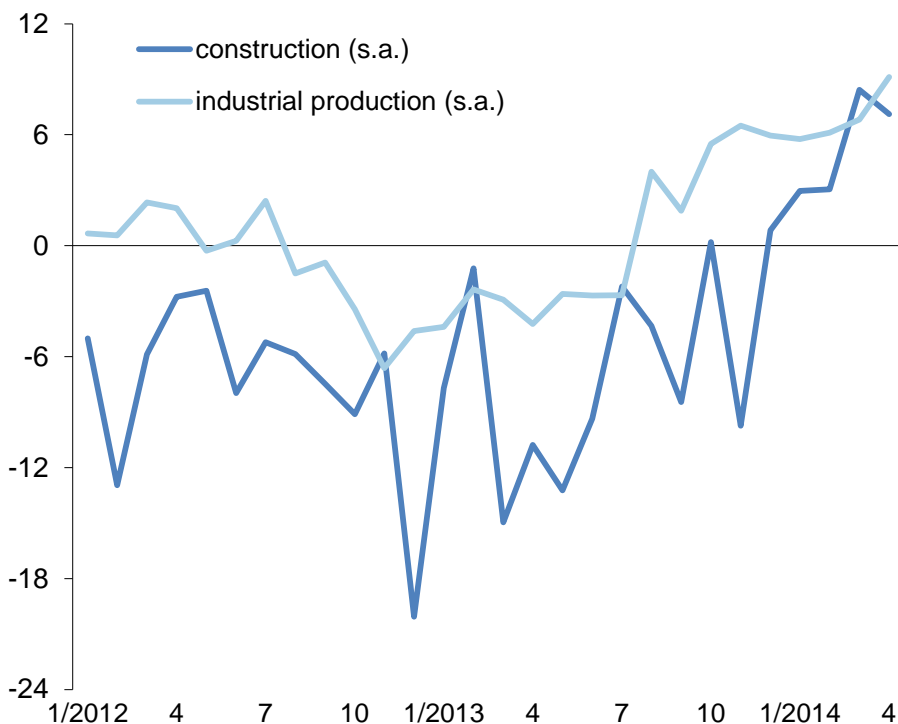
(in %, seasonally adjusted)



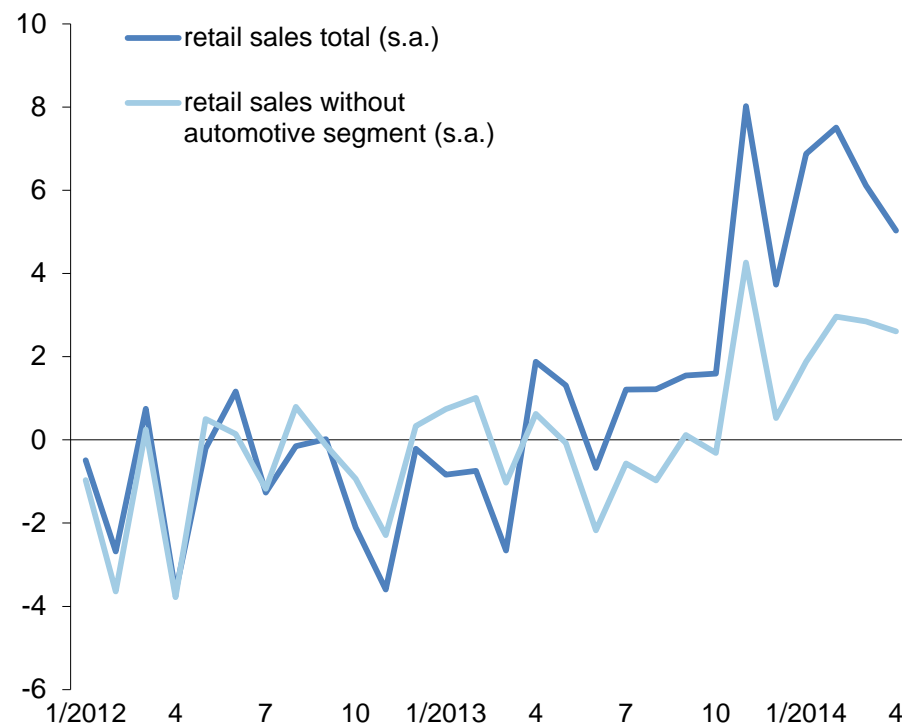


# Industry, construction, retail sales

(Annual changes in %, s.a.)

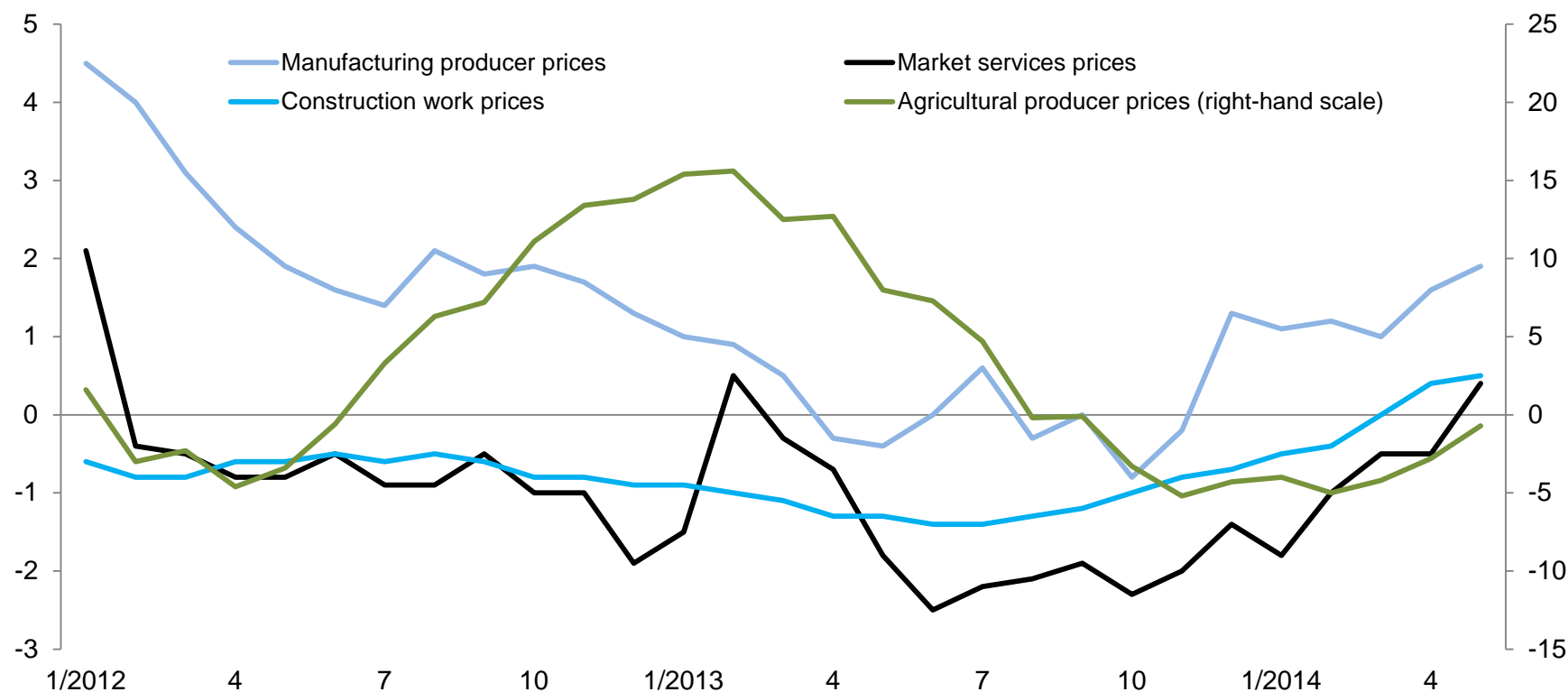


(Annual changes in %, s.a.)

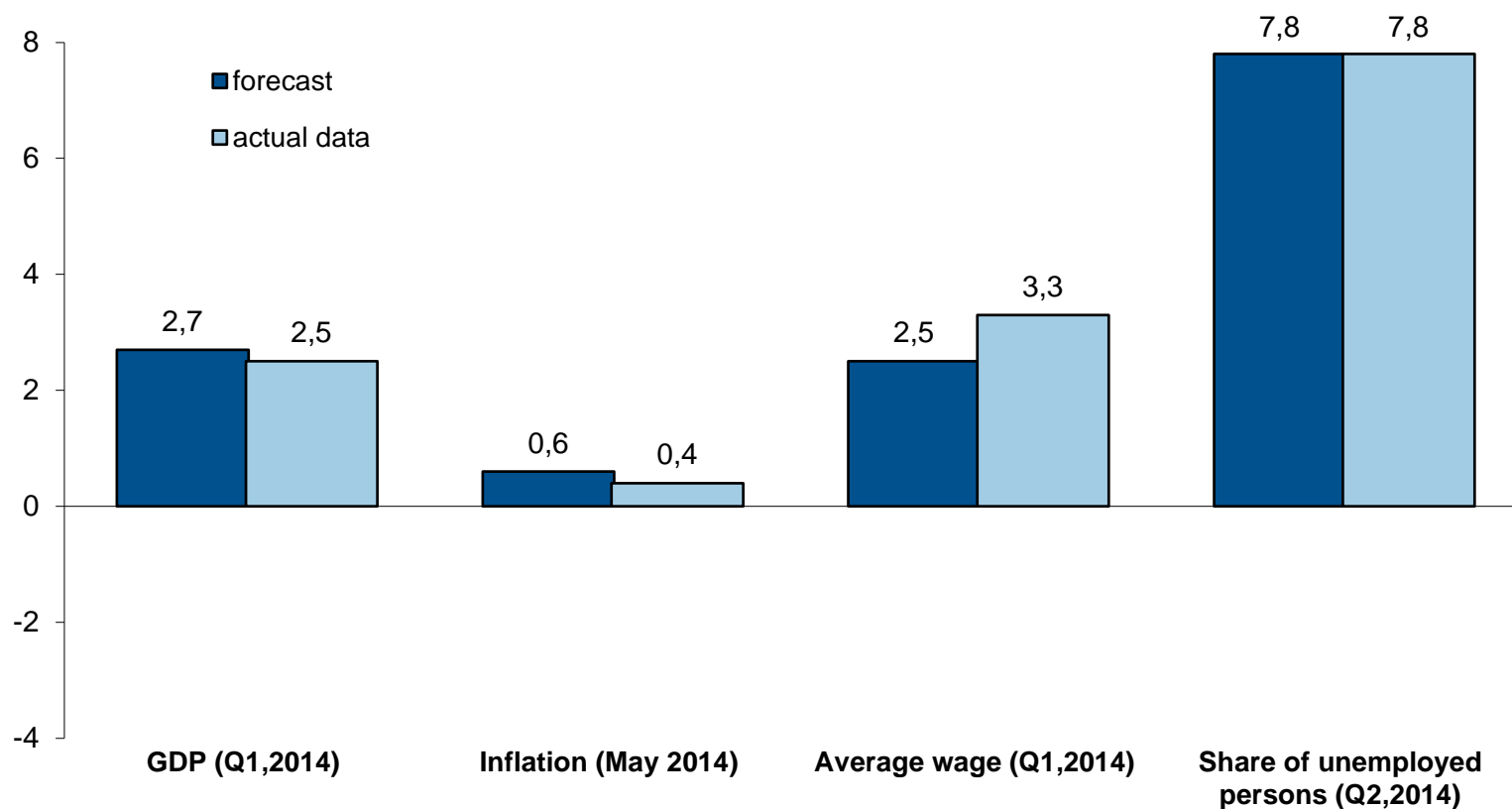


# Producer prices

(Annual changes in %)



# Comparison of actual data with the CNB forecast



Notes: Annual changes in %, share of unemployed persons in %, comparison of s.a. outcomes in April and May with forecast for 2014 Q2

# Risks to the forecast

The risks to the forecast are slightly on the downside

## *Risks in this direction:*

- significantly more subdued inflation abroad
- lower observed food price inflation and its short-term outlook
- lower outlook for administered prices
- slightly less expansionary fiscal policy in 2015

## *Risk in the opposite direction:*

- somewhat faster unwinding of the anti-inflationary effect of the domestic economy and the labour market



# Thank you for your attention

Minutes of the today's meeting will be  
released on 4 July 2014 at

[http://www.cnb.cz/en/monetary\\_policy/bank\\_board\\_minutes/](http://www.cnb.cz/en/monetary_policy/bank_board_minutes/)