Press conference of the CNB Bank Board

7th Situation Report on Economic and Monetary Developments

6 November 2014

CZECH NATIONAL BANK

The monetary policy decision and the stance of the CNB

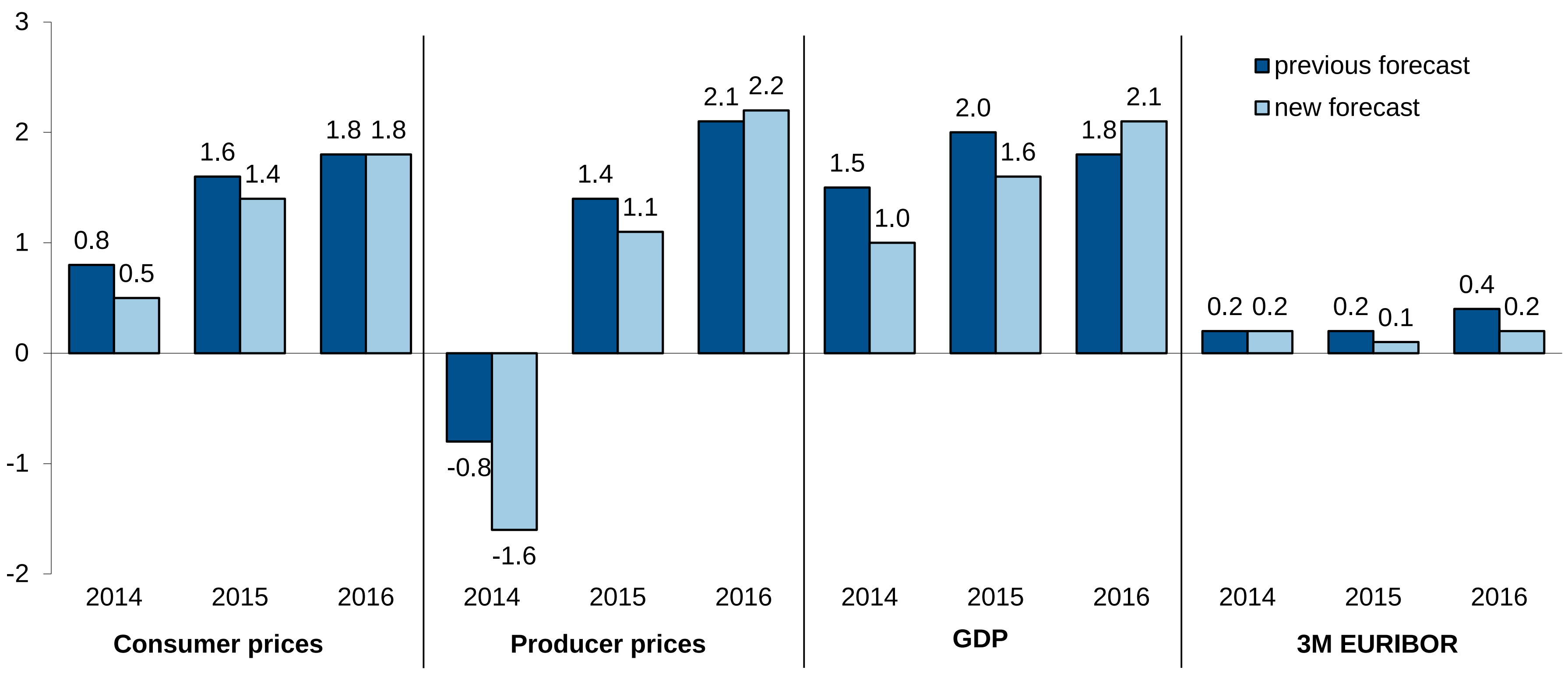
- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The Board also decided to continue using the exchange rate as an additional instrument for easing the monetary conditions and confirmed the CNB's commitment to intervene unlimitedly 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 if needed. 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 flat market interest rates at their current very low level and the use of the exchange rate as a monetary policy instrument until 2016 Q1.
- The subsequent return to conventional monetary policy will not imply appreciation of the exchange rate to the level recorded before the CNB started intervening.
- According to the forecast, inflation will continue rising gradually and exceed the 2% target at the start of 2016.
- The risks to the forecast are assessed as being balanced.
- In this situation, the Bank Board repeated that the CNB would not discontinue the use of the exchange rate as a monetary policy instrument before 2016.

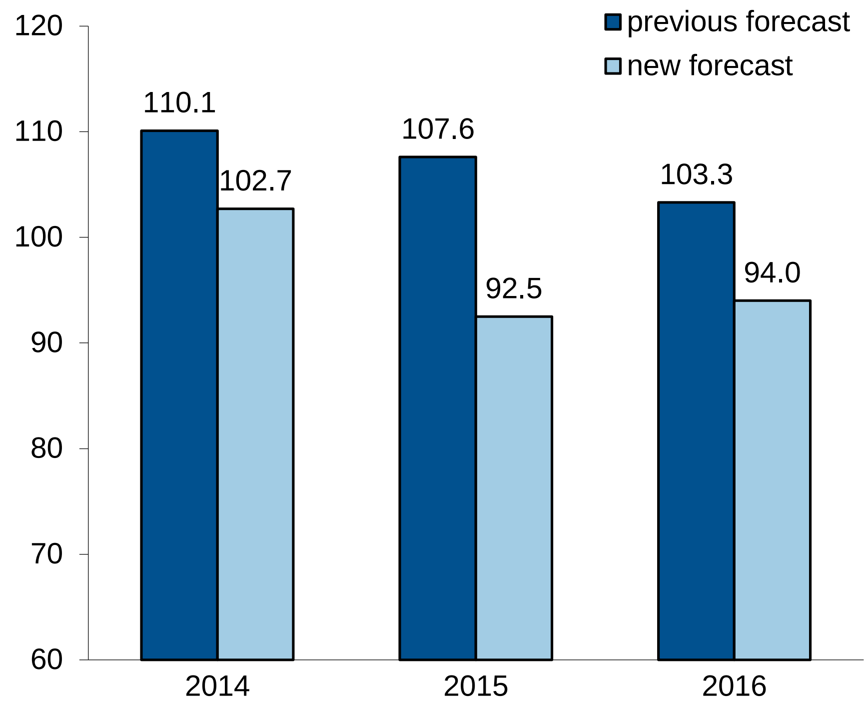
The external environment (i)

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

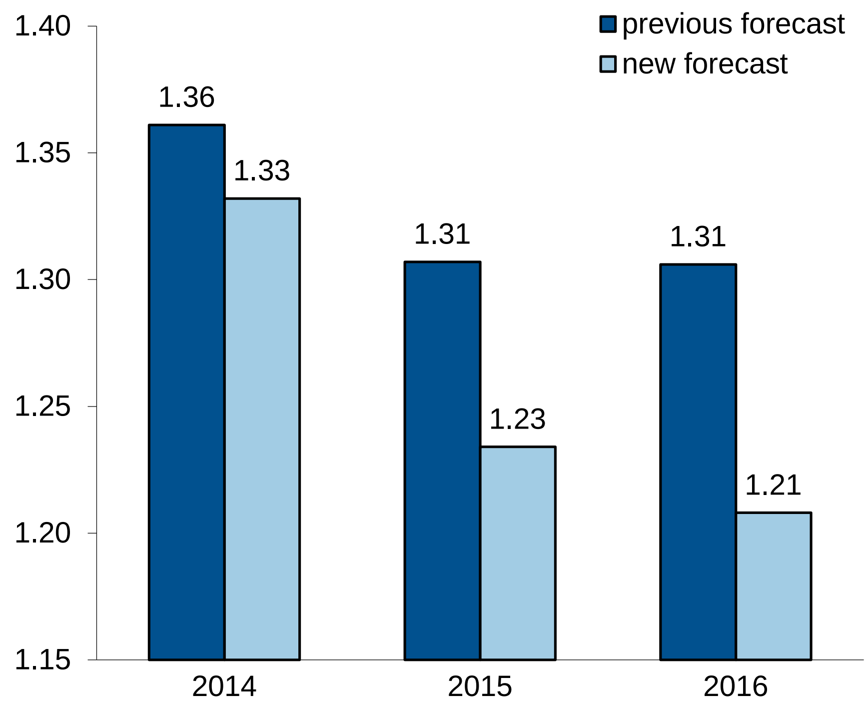


The external environment (ii)

Comparison between the assumptions of the new and previous forecasts



Brent oil (USD/barrel)



USD/EUR

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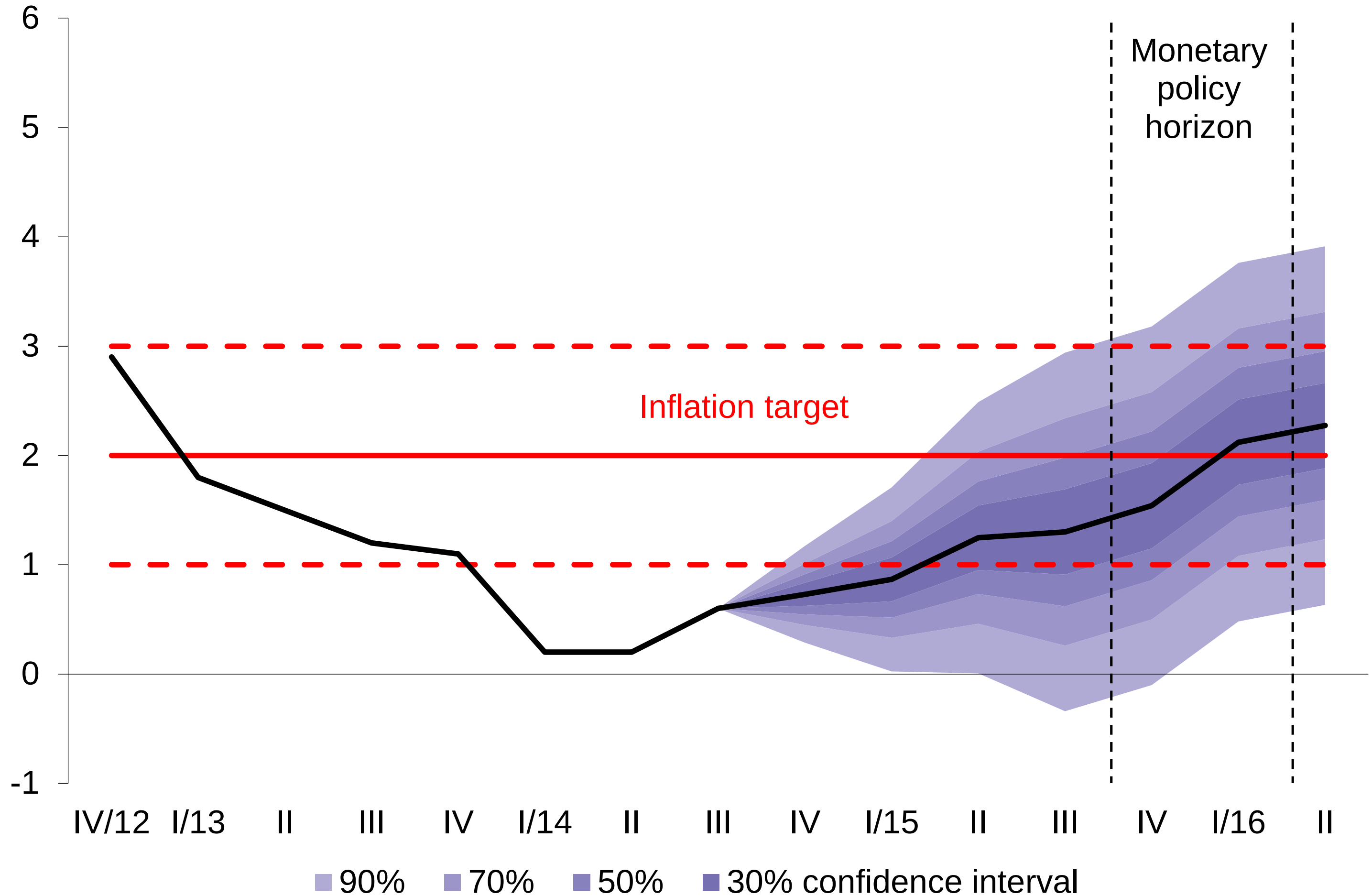
The forecast for headline inflation



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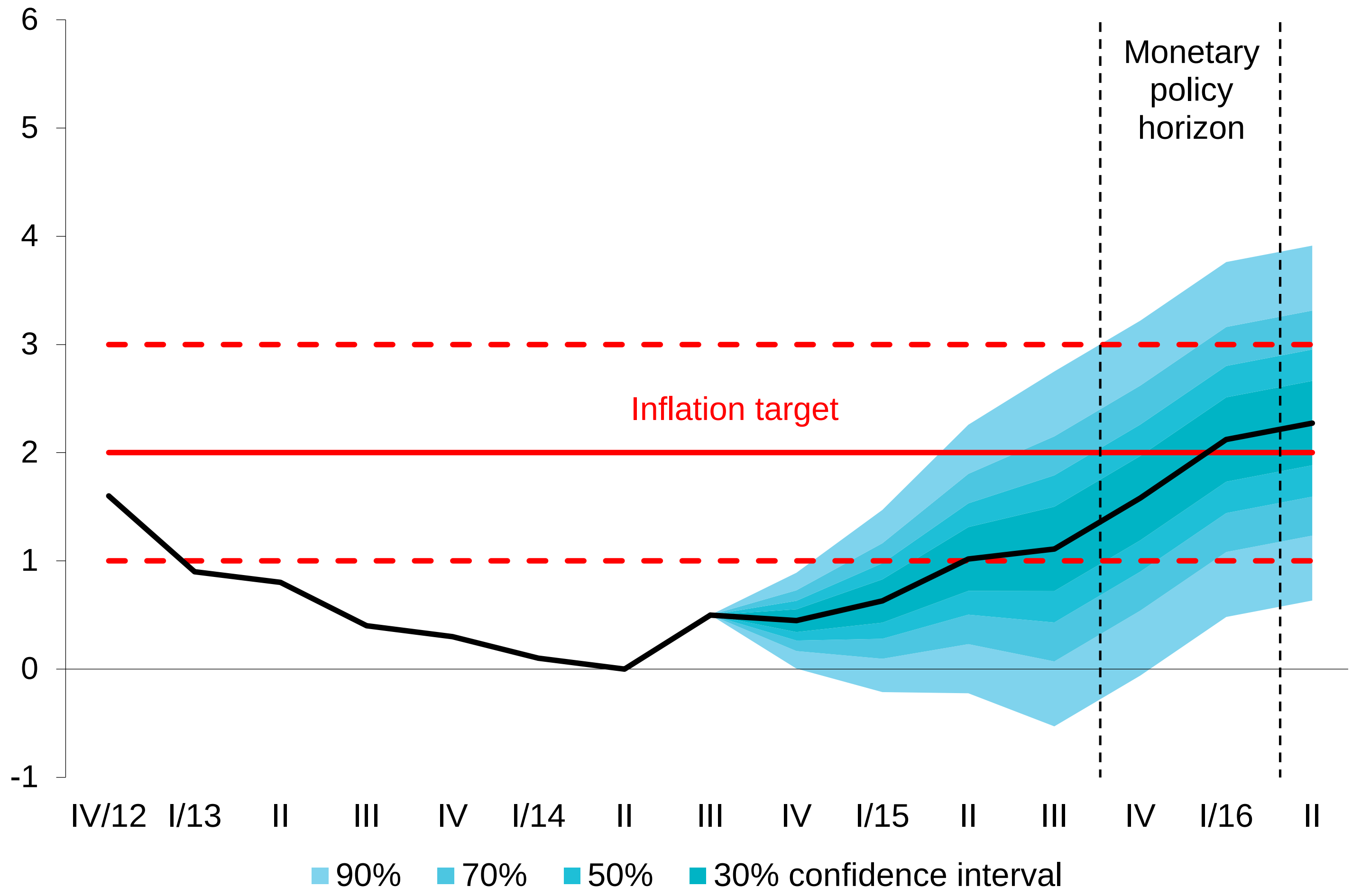
The forecast for monetary-policy relevant inflation



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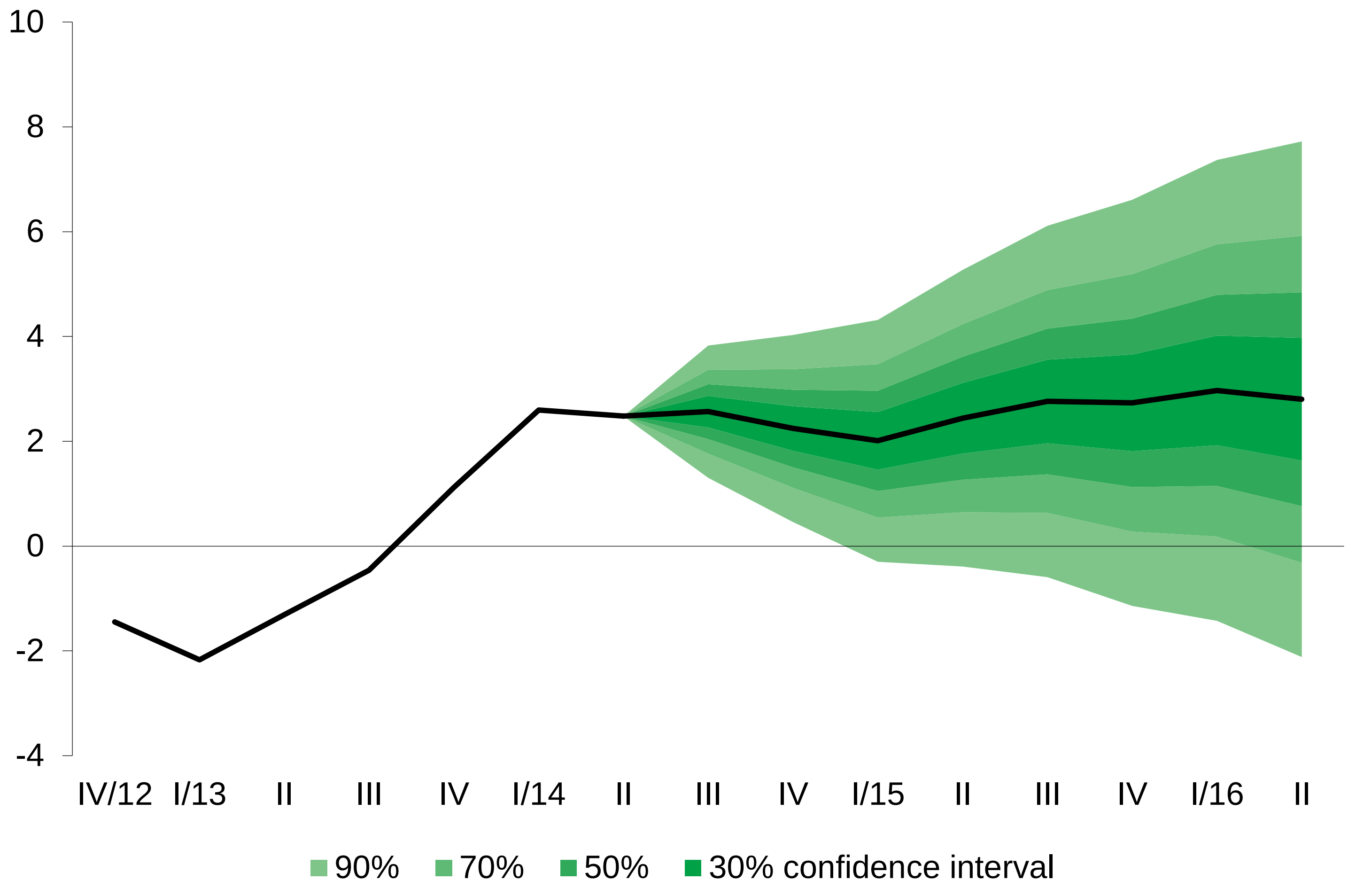
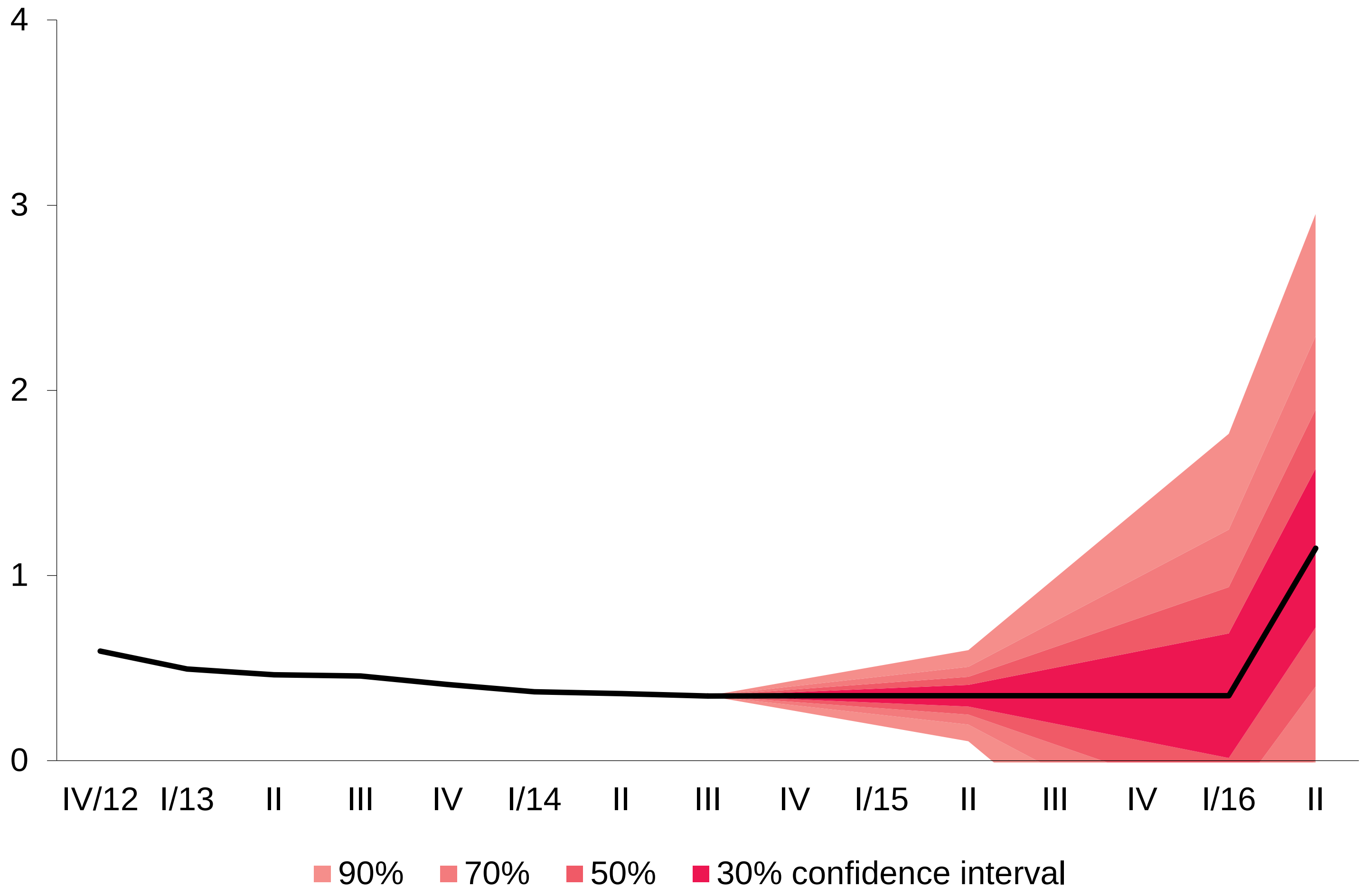
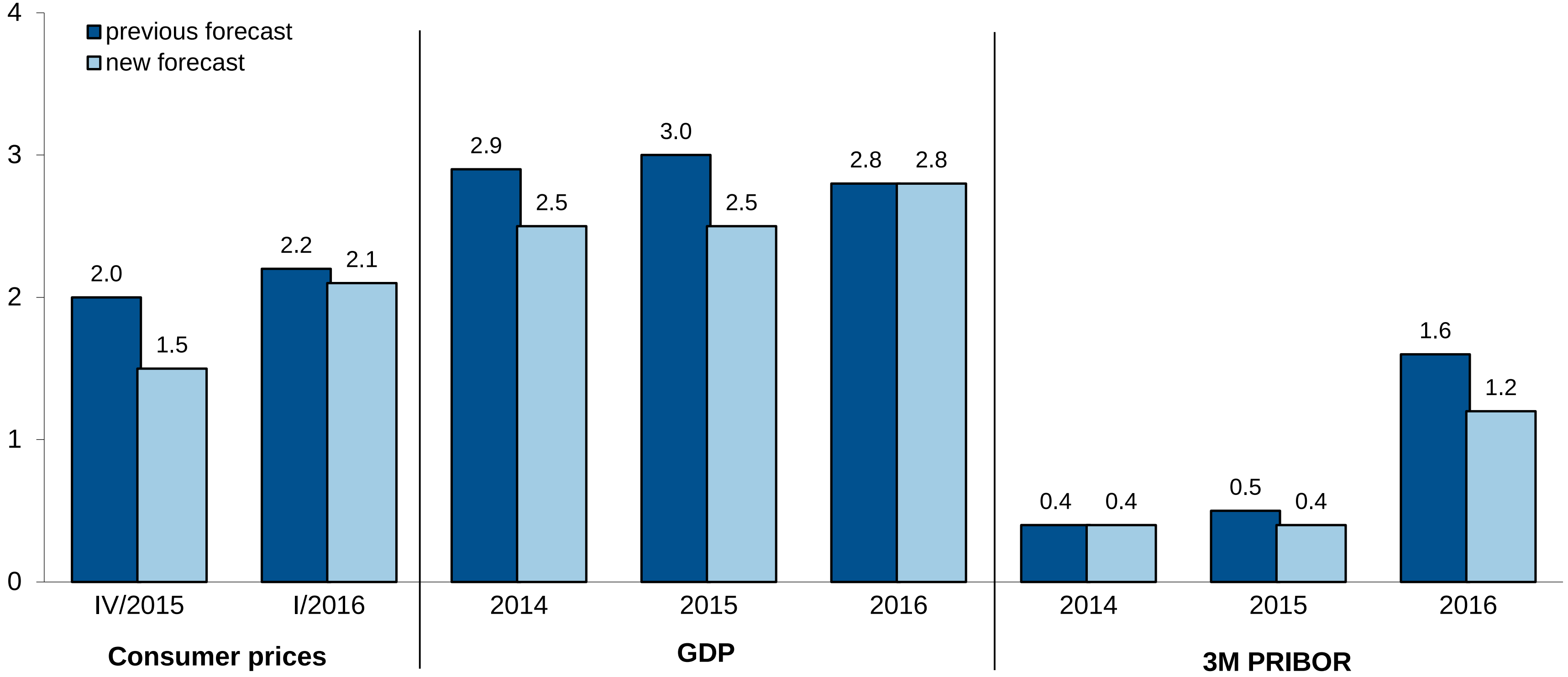
The forecast for GDP



The forecast for interest rates (3M PRIBOR)



Comparison with the previous forecast



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Risks to the forecast

The risks to the forecast are balanced

One year of the exchange rate commitment

The key macroeconomic indicators have been developing much more favourably this year than they were before November 2013. The Czech economy has stepped back from the edge of deflation. GDP is growing noticeably, and this is having a favourable effect on the labour market and household and business confidence.

Key economic data thus suggest that the exchange rate weakening has served its purpose.

	Available before 7 November 2013		Available before 31 October 2014	
Gross domestic product (y-o-y in %, s.a.)	II/13	-1.3	II/14	2.5
Consumer price index (y-o-y in %)	9/13	1.0	9/14	0.7
Monetary-policy relevant inflation (y-o-y in %)	9/13	0.2	9/14	0.6
General unemployment rate (in %, s.a.)	9/13	7.1	9/14	5.9
Average nominal wage in business sector (in CZK, s.a.)	II/13	25 199	II/14	25 542
Average nominal wage (y-o-y in %)	II/13	1.2	II/14	2.3
Number of vacancies	9/13	39 040	9/14	56 600
Composite confidence indicator (index)	10/13	88.9	10/14	94.1

In the light of new data on developments abroad, the threat of long-term deflation was even greater than the analyses available a year ago suggested.

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 IV/2014. The Summary of the Report (together with the Table of key macroeconomic indicators) will be published on 7 November. The whole Report will be published on 14 November 2014.

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