



# Press conference of the CNB Bank Board

## 8th Situation Report on Economic and Monetary Developments

17 December 2014

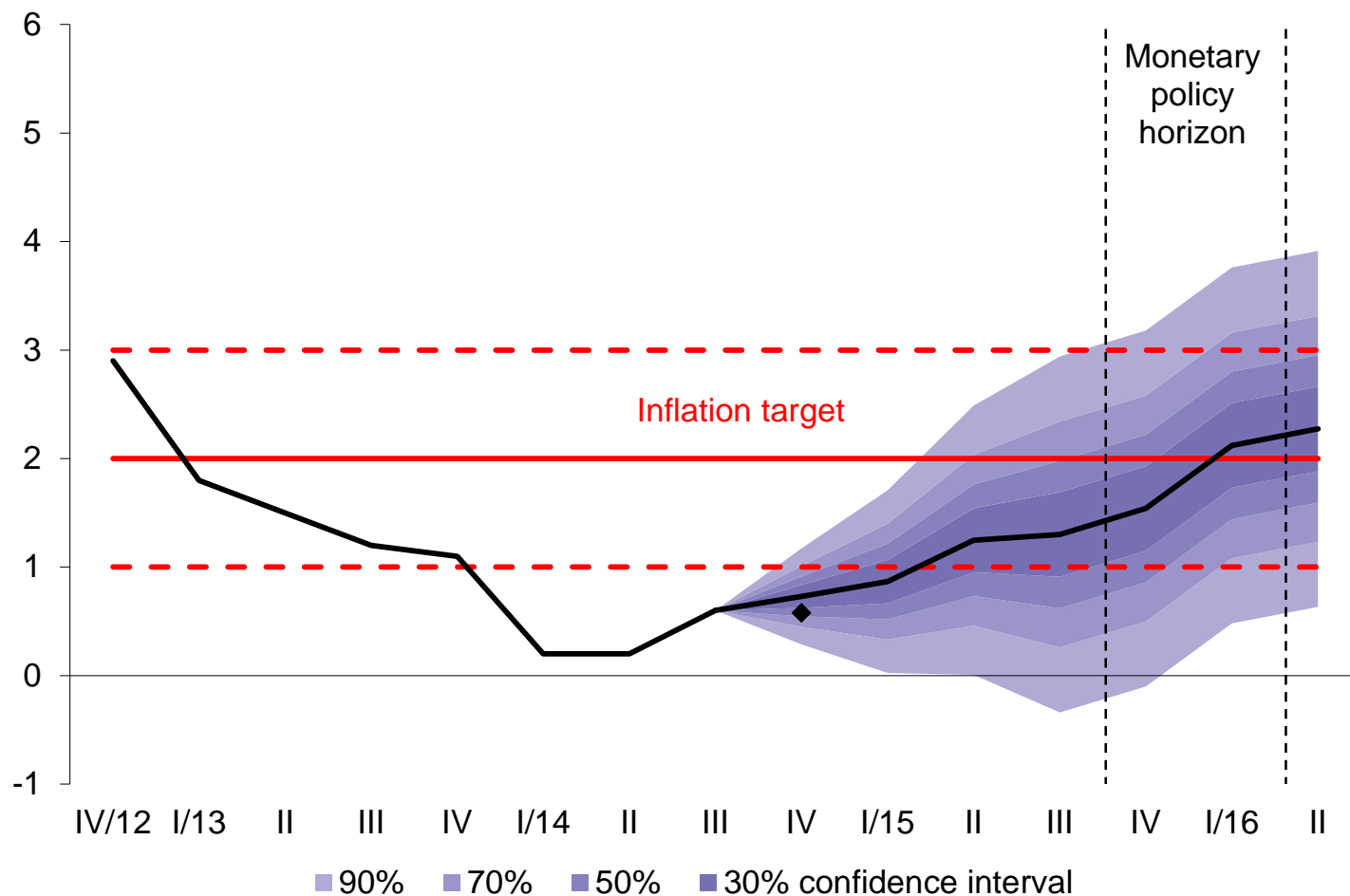
# The monetary policy decision and the stance of the CNB

- 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.

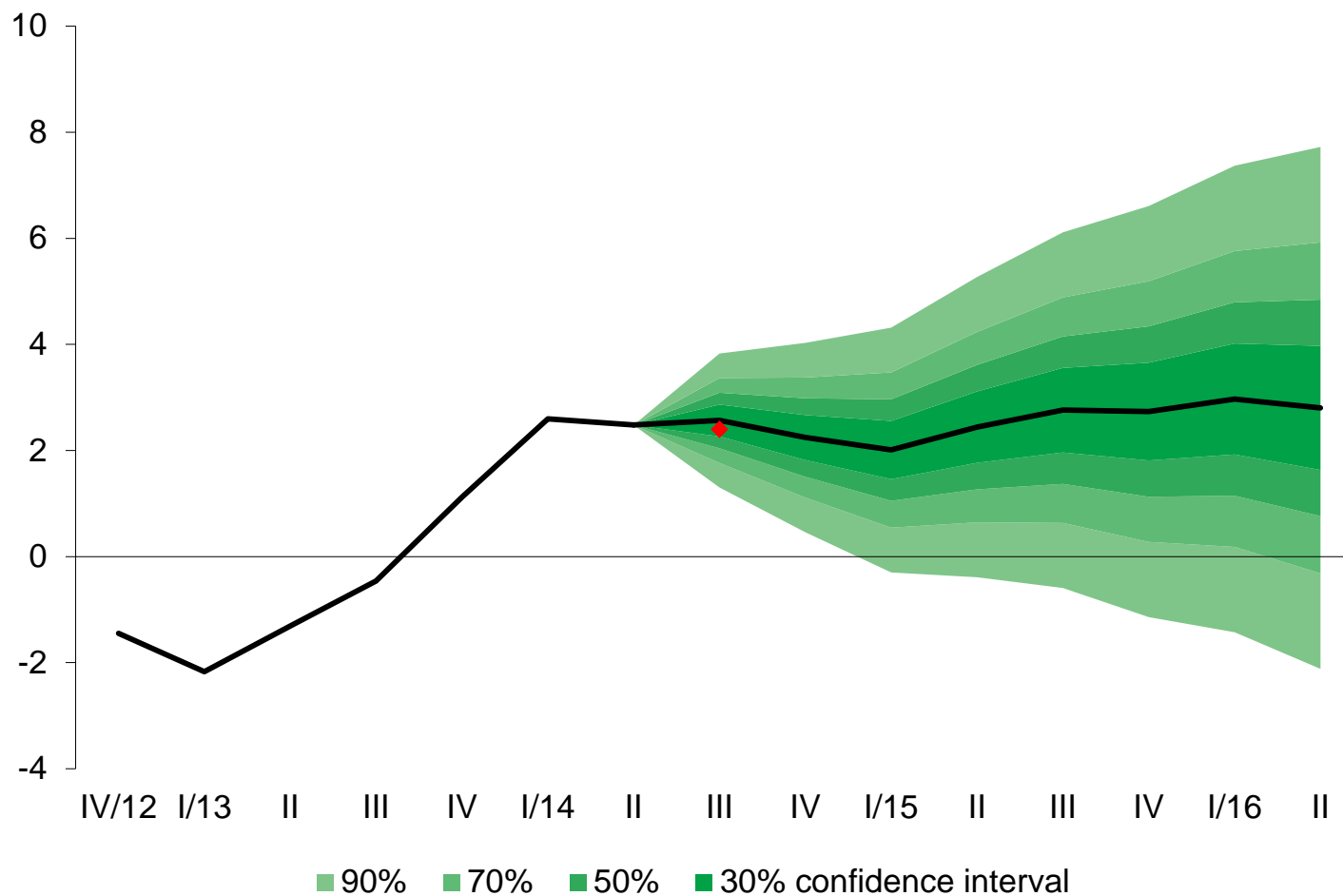
# Reasons for the decision

- The forecast assumes stable market interest rates at the current very low levels and the use of the exchange rate as a monetary policy instrument until 2016 Q1.
- 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 is in the meantime passing through to the price level and other nominal variables.
- The balance of risks to the current forecast is anti-inflationary.
- 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 deflationary pressures from abroad are currently associated largely with a positive supply shock, in particular a fall in energy commodity prices.
- Only if there were to be a long-term increase in deflation pressures capable of causing a slump in the domestic demand, renewed risks of deflation in the Czech economy and a systematic decrease in inflation expectations, would it be necessary to consider moving the exchange rate commitment to a weaker level.

# The inflation forecast and expected outcome in 2014 Q4

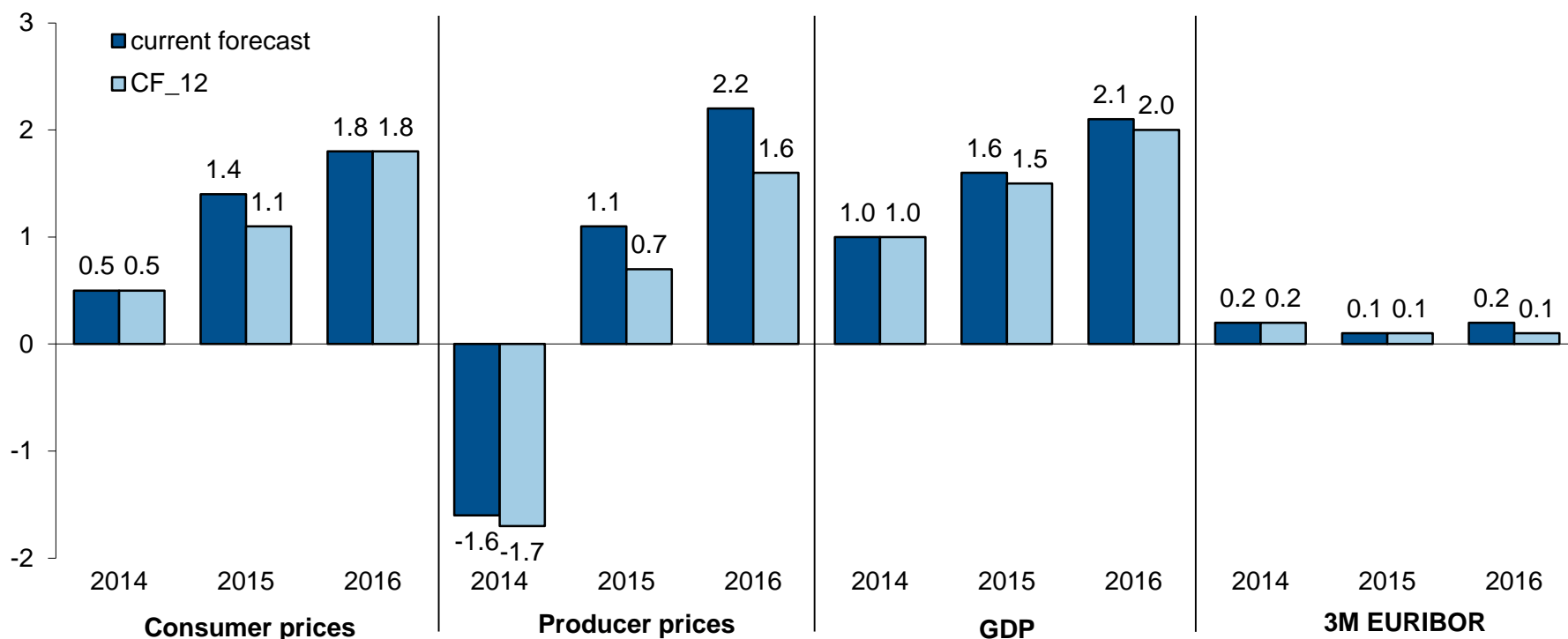


# The GDP forecast and outcome in 2014 Q3



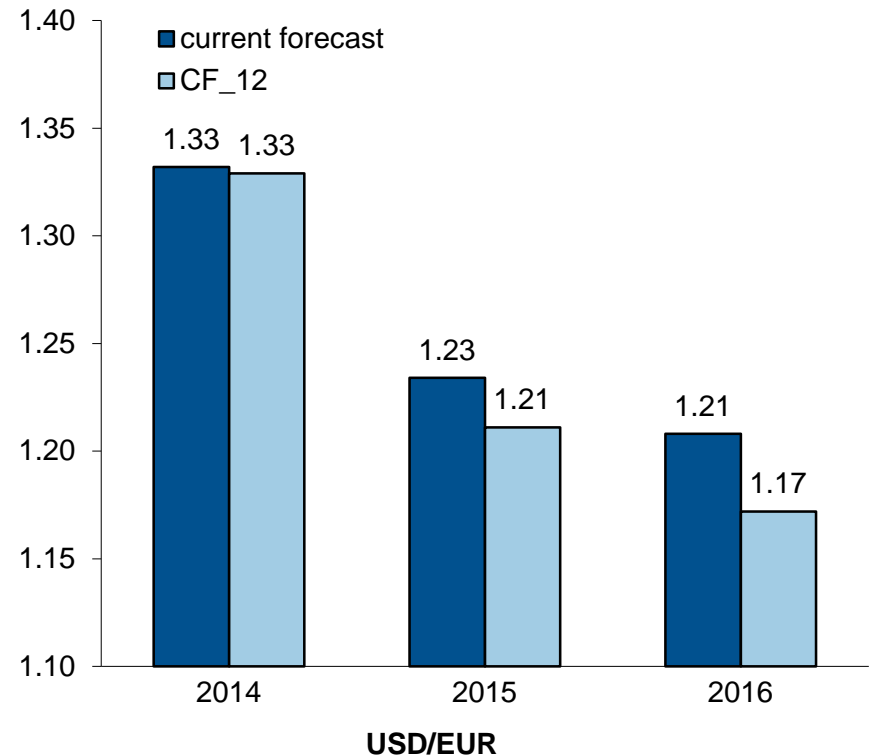
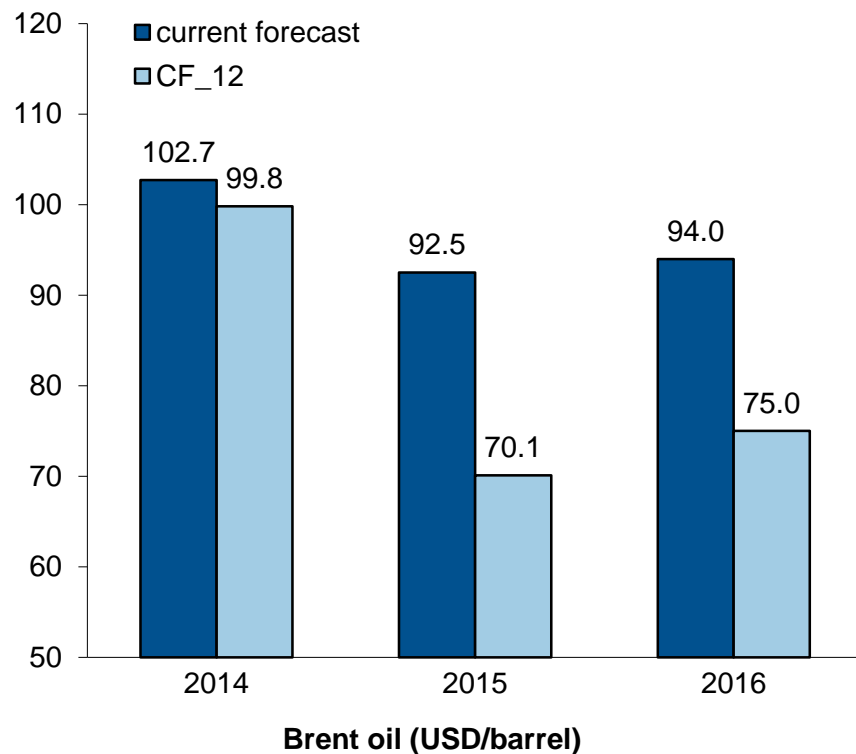
# The external environment (i)

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



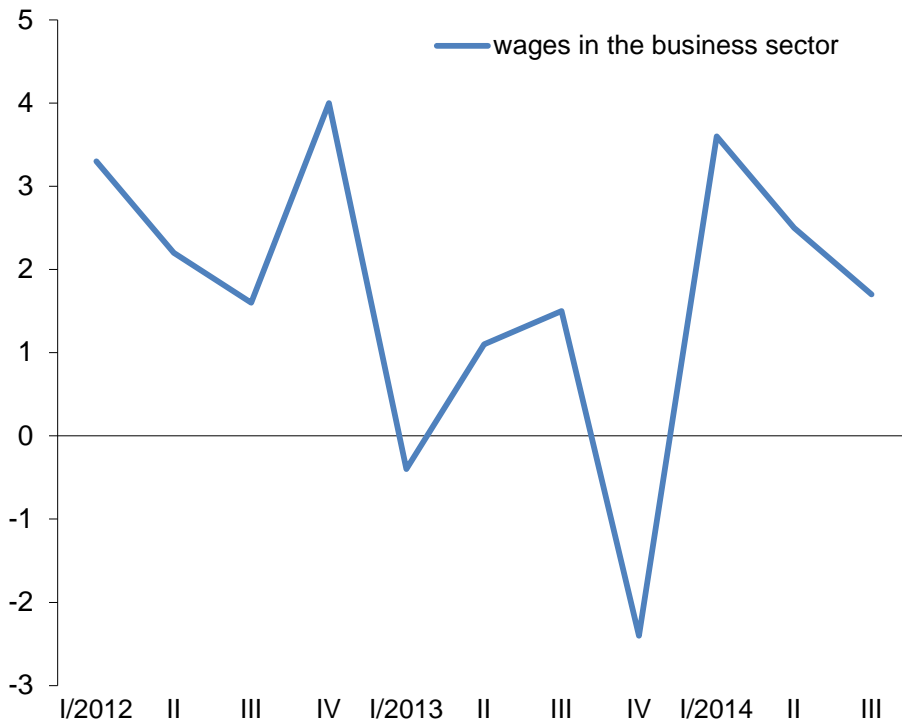
# The external environment (ii)

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

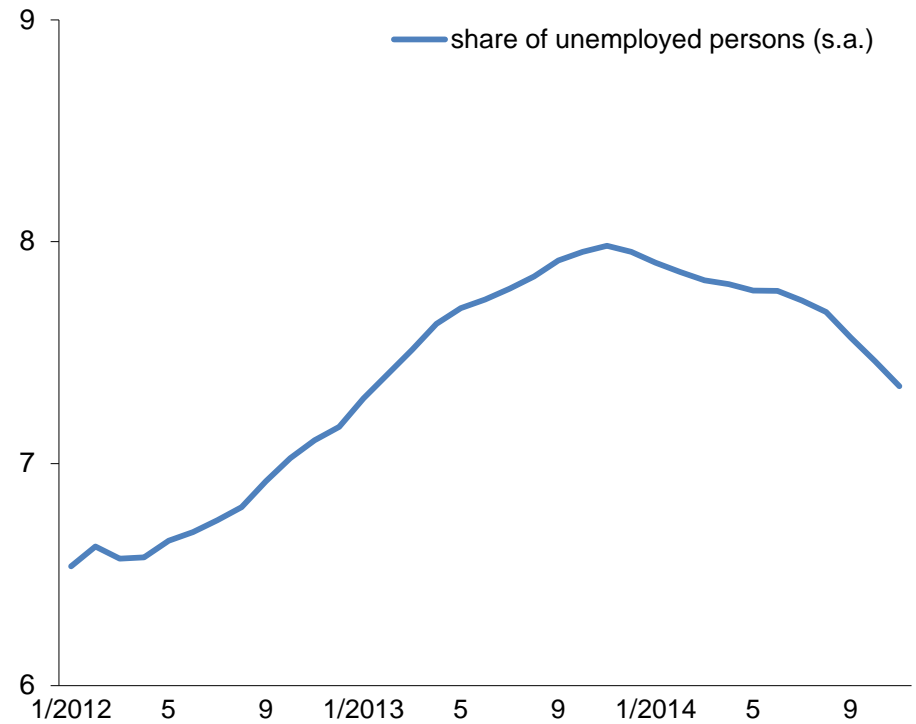


# The labour market

(Annual changes in %)



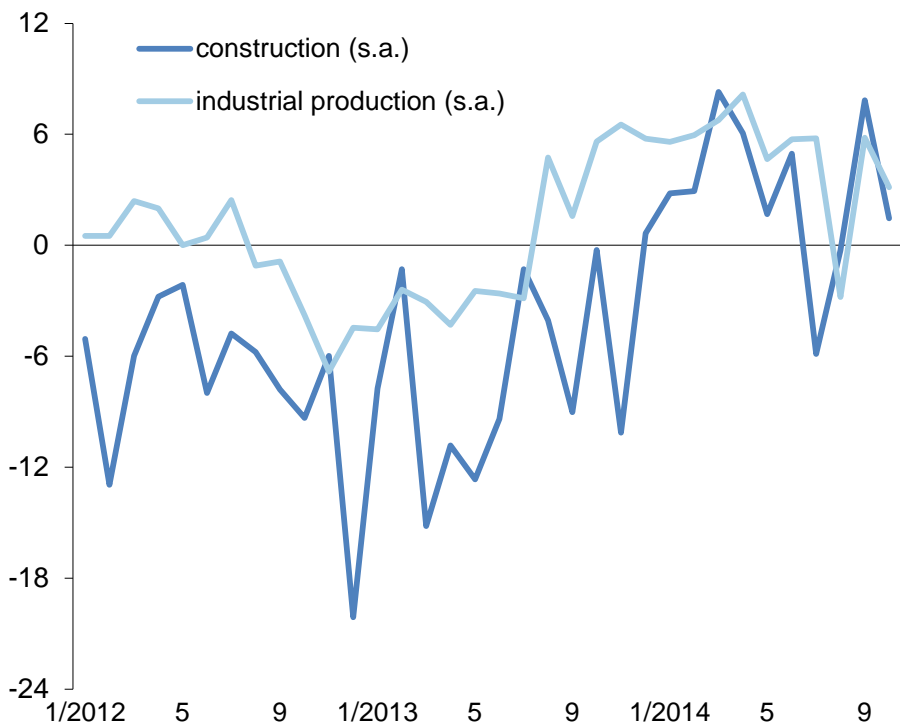
(in %, seasonally adjusted)



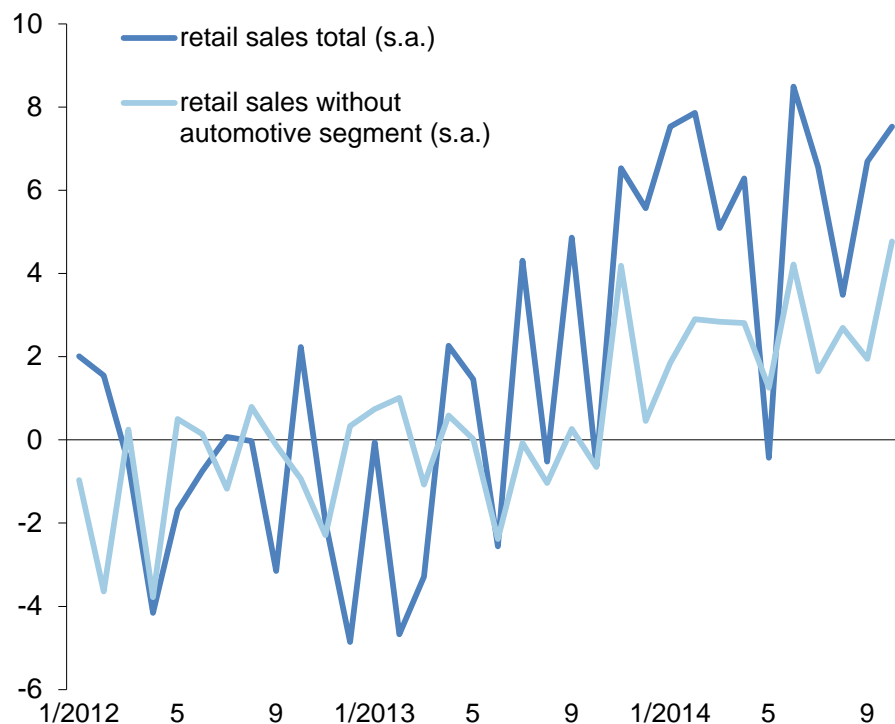


# Industry, construction, retail sales

(Annual changes in %, s.a.)

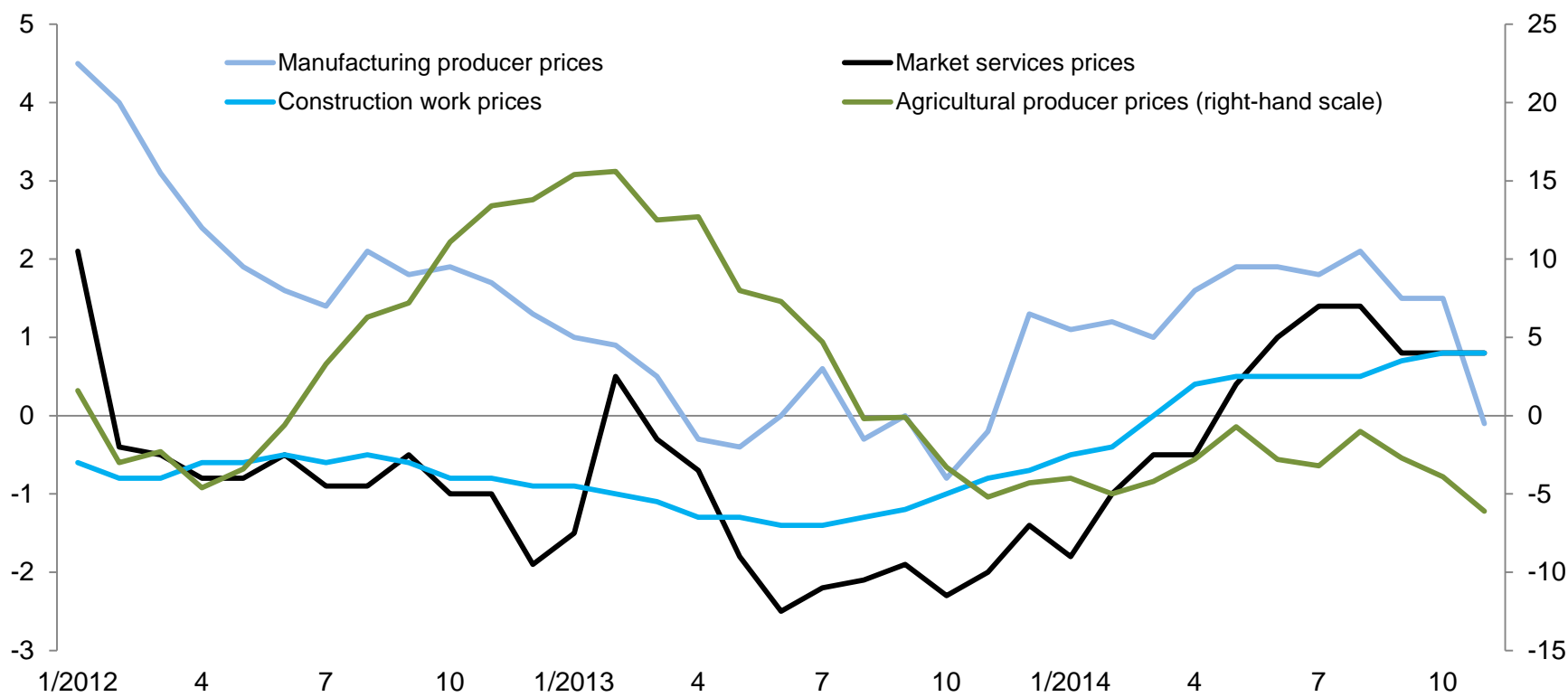


(Annual changes in %, s.a.)

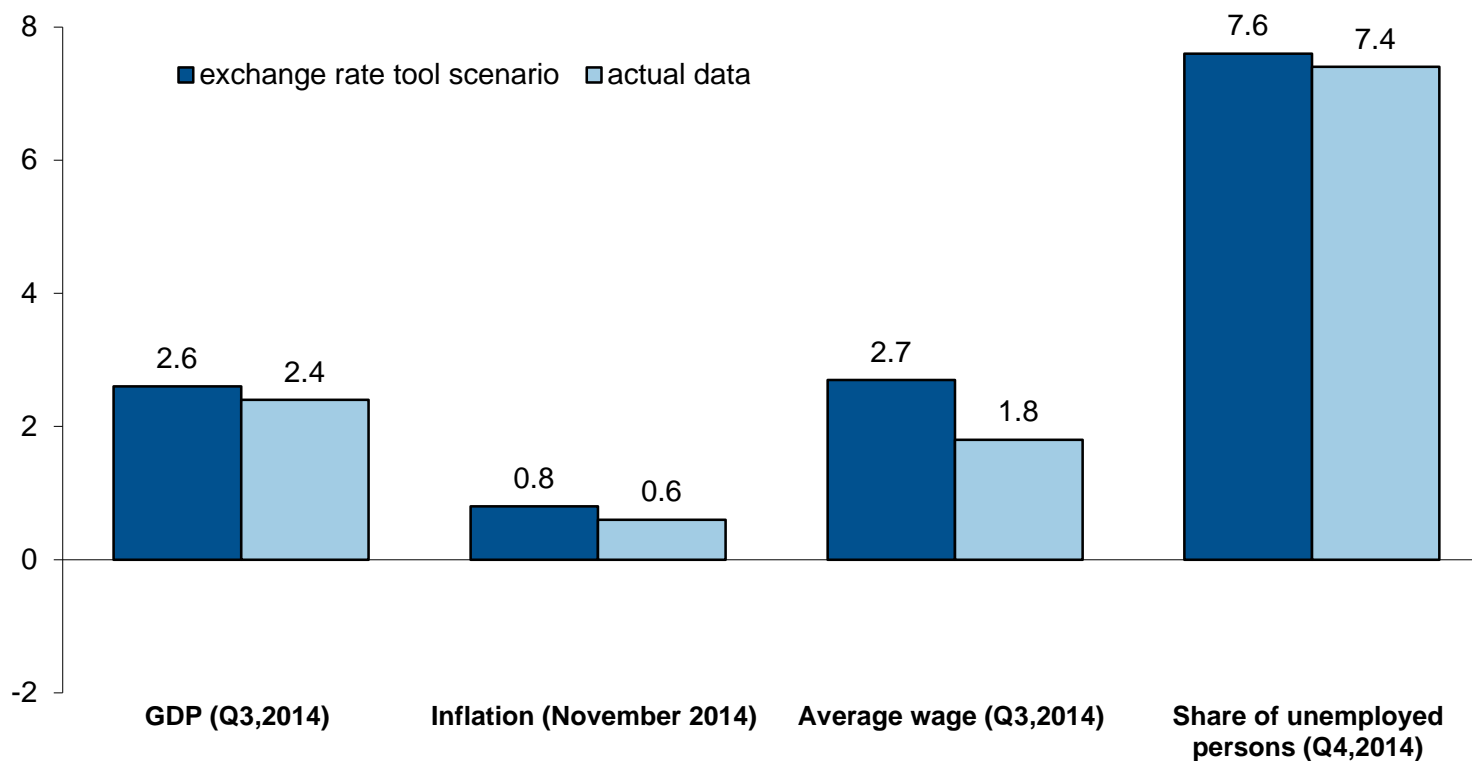


# Producer prices

(Annual changes in %)



# Comparison of actual data with the CNB forecast



Notes: Annual changes in %, for the share of unemployed persons in %, comparison of s.a. outcomes in October and November with the forecast for 2014 Q4

# Risks to the forecast

The balance of risks to the current forecast  
is anti-inflationary

*Risks in this direction:*

- *lower economic growth and inflation in the euro area*
- *markedly lower prices of energy commodities*
- *slower domestic wage growth*



# Thank you for your attention

Minutes of the today's meeting will be released on 29 December 2014 at

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