Press conference of the CNB Bank Board

1st Situation Report on Economic and Monetary Developments

5 February 2015

CZECH NATIONAL BANK

The monetary policy decision and the stance of the CNB

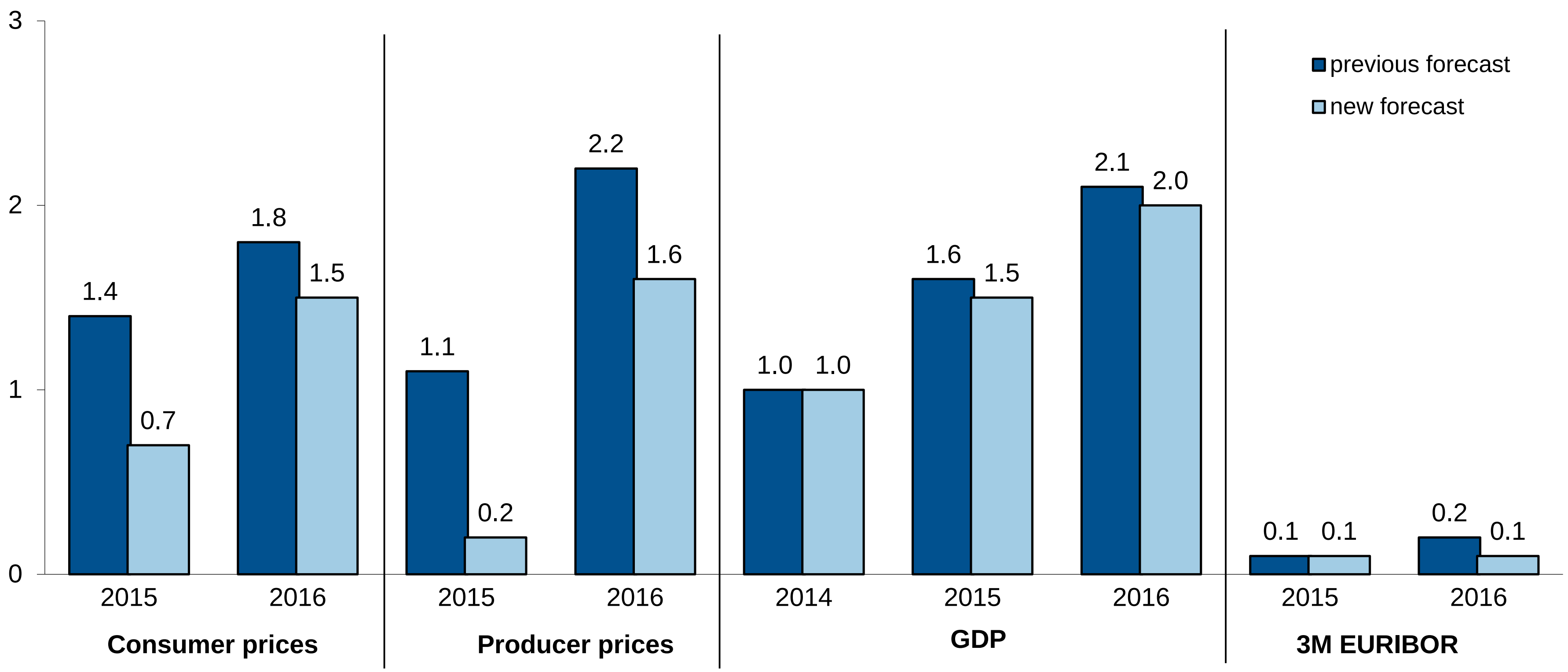
- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The Board also decided to continue using the exchange rate as an additional instrument for easing the monetary 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. 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 expects market interest rates to be flat at their current very low level and the koruna exchange rate to be used as a monetary policy instrument until the end of 2016.
- The subsequent return to conventional monetary policy will not imply appreciation of the exchange rate to the level recorded before the CNB started intervening.
- The forecast expects both headline and monetary policy-relevant inflation to be at zero or slightly negative levels in 2015 and then rise to the 2% target in 2016.
- The risks to the forecast are assessed as being balanced, although the degree of uncertainty has increased.
- In this situation the Bank Board stated that the CNB would not discontinue the use of the exchange rate as a monetary policy instrument before 2016 H2.
- The CNB is prepared to move the exchange rate commitment to a weaker level if there were to be a long-term increase in deflation pressures capable of causing a slump in domestic demand, renewed risks of deflation in the Czech economy and a systematic decrease in inflation expectations.

The external environment (i)

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



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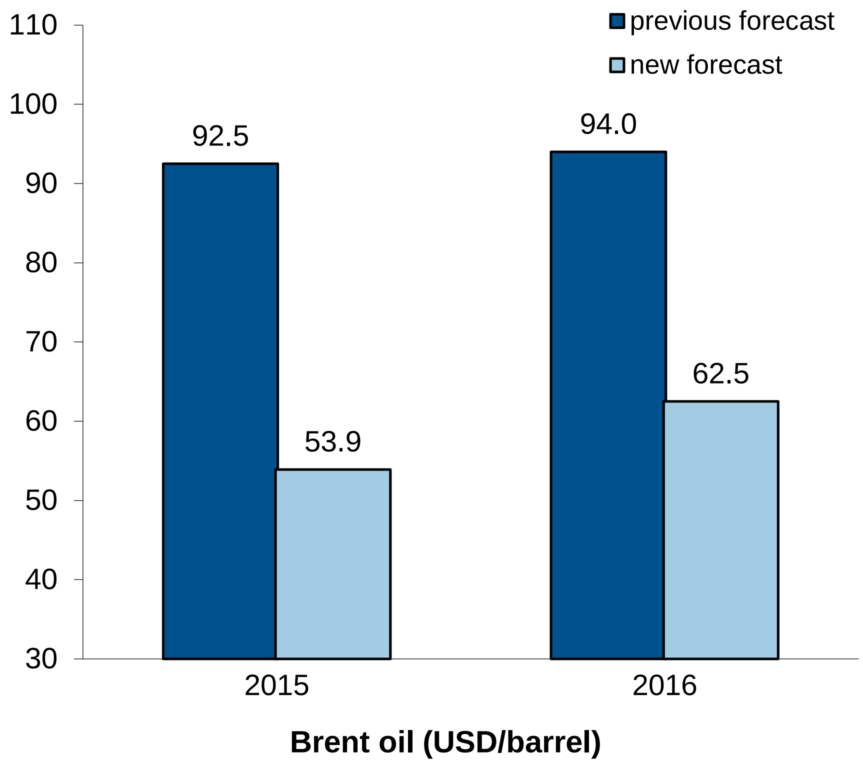
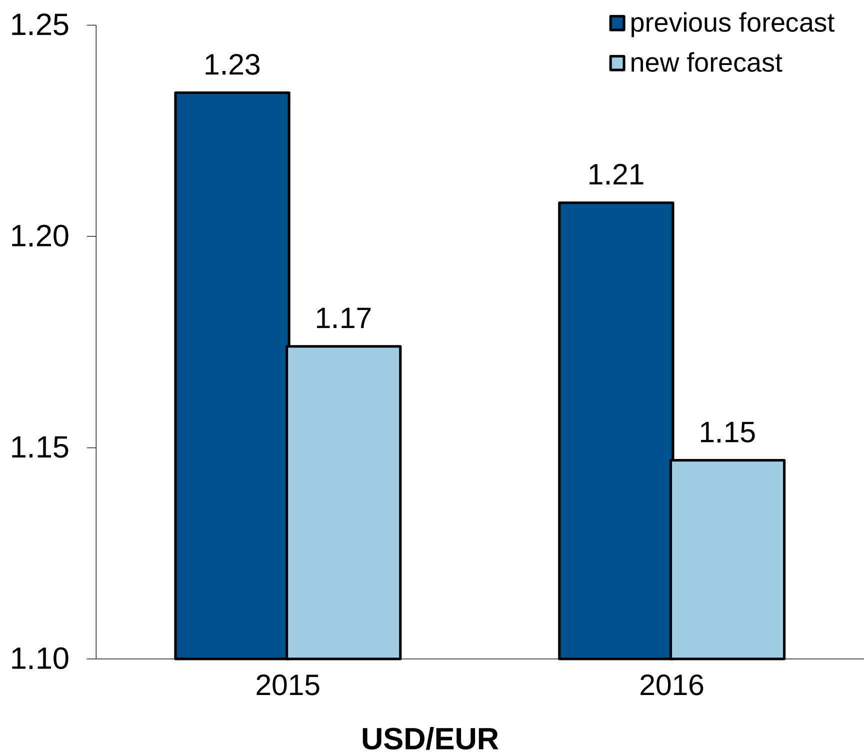
The external environment (ii)

Comparison between the assumptions of the new and previous forecasts





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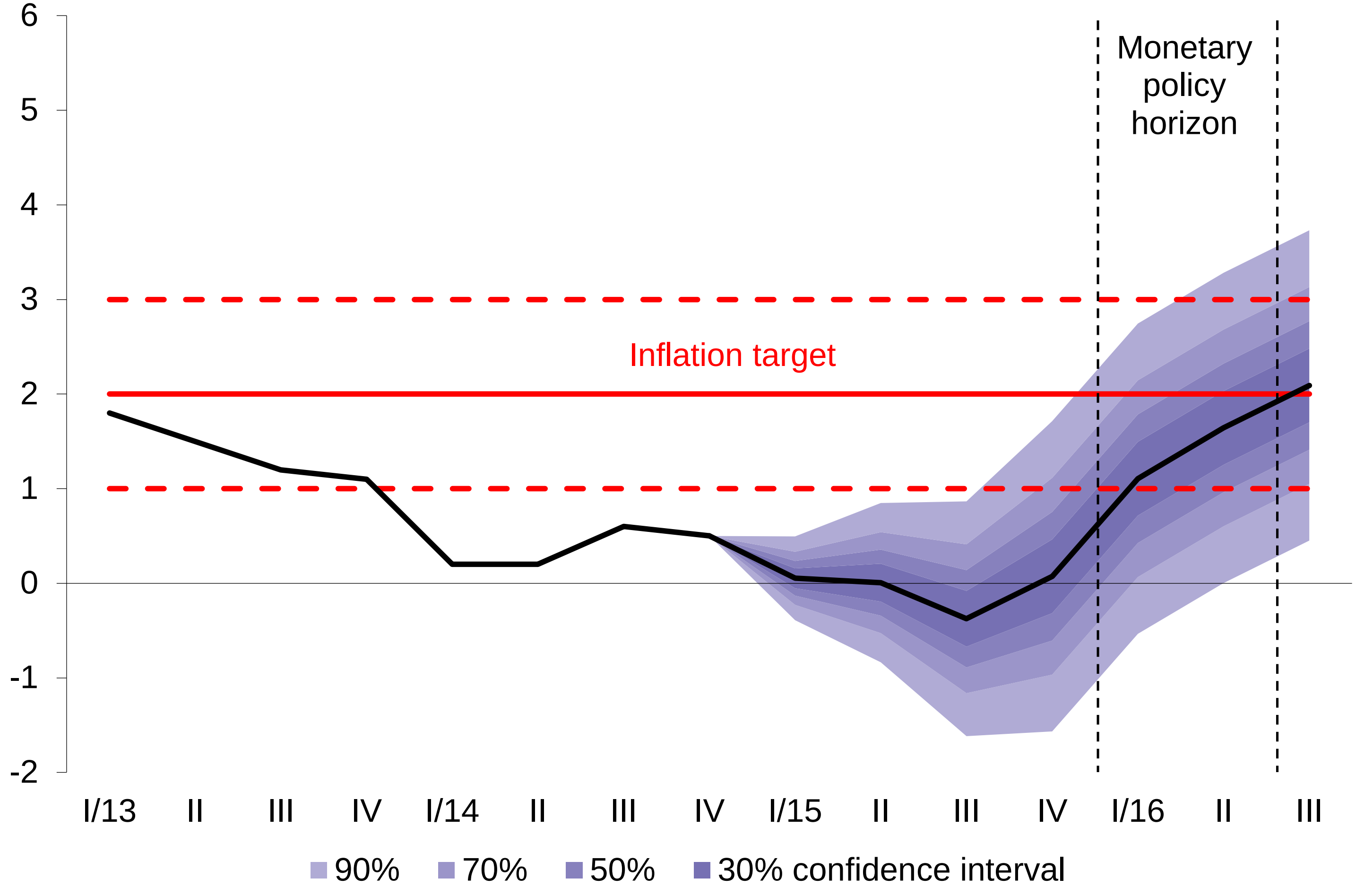
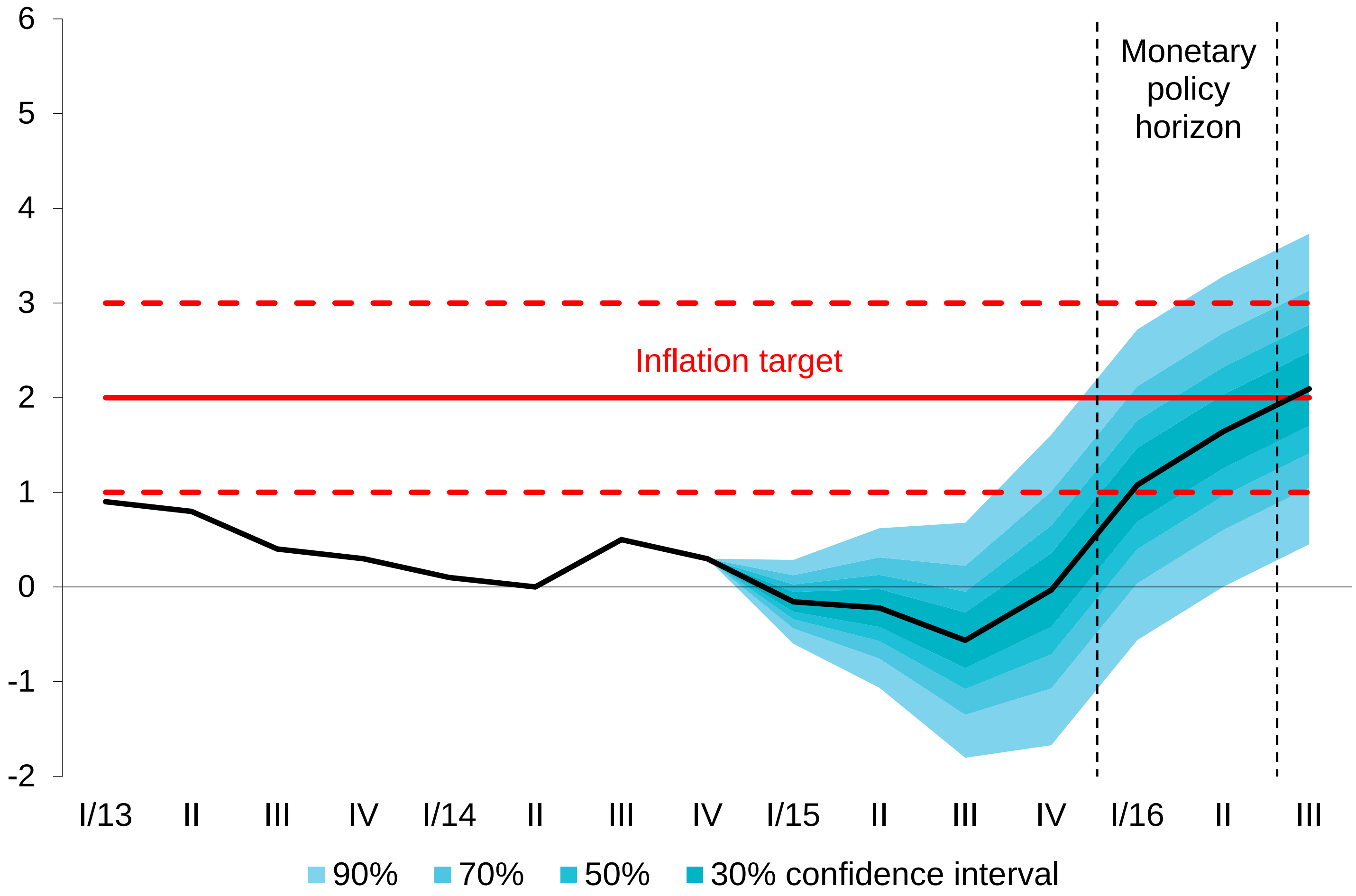
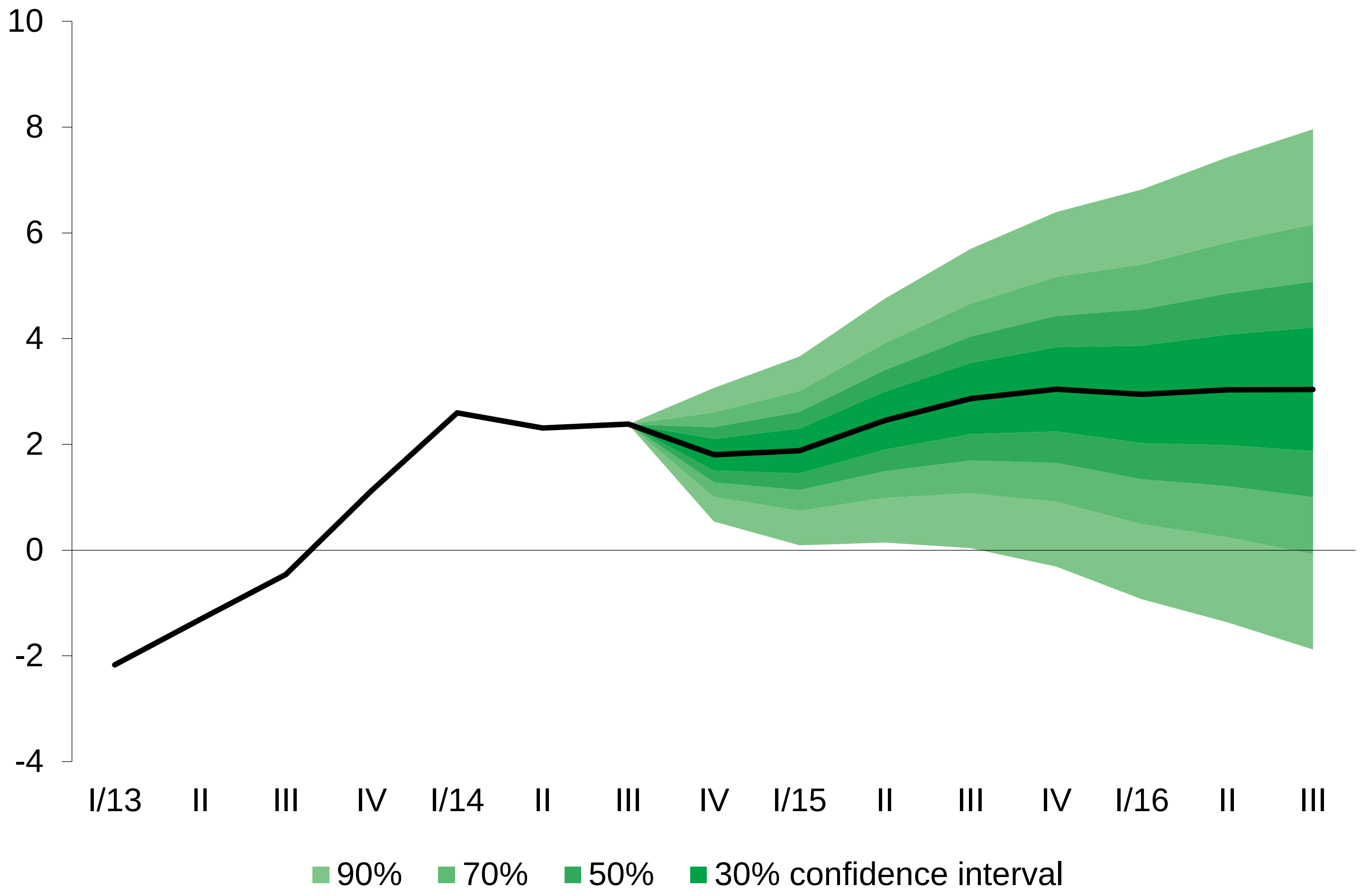
The forecast for headline inflation



The forecast for monetary policy-relevant inflation



The forecast for GDP



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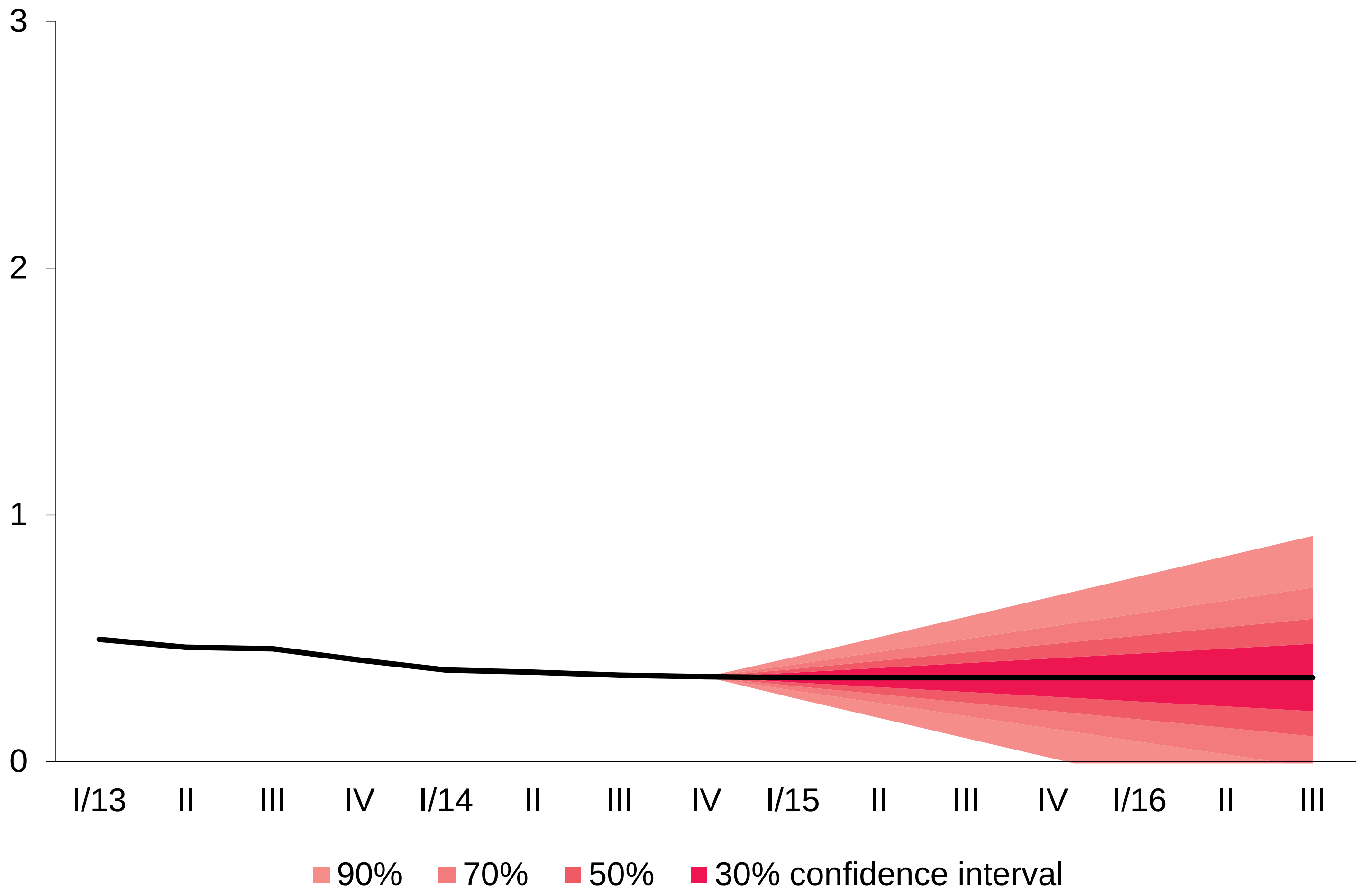
The forecast for interest rates (3M PRIBOR)



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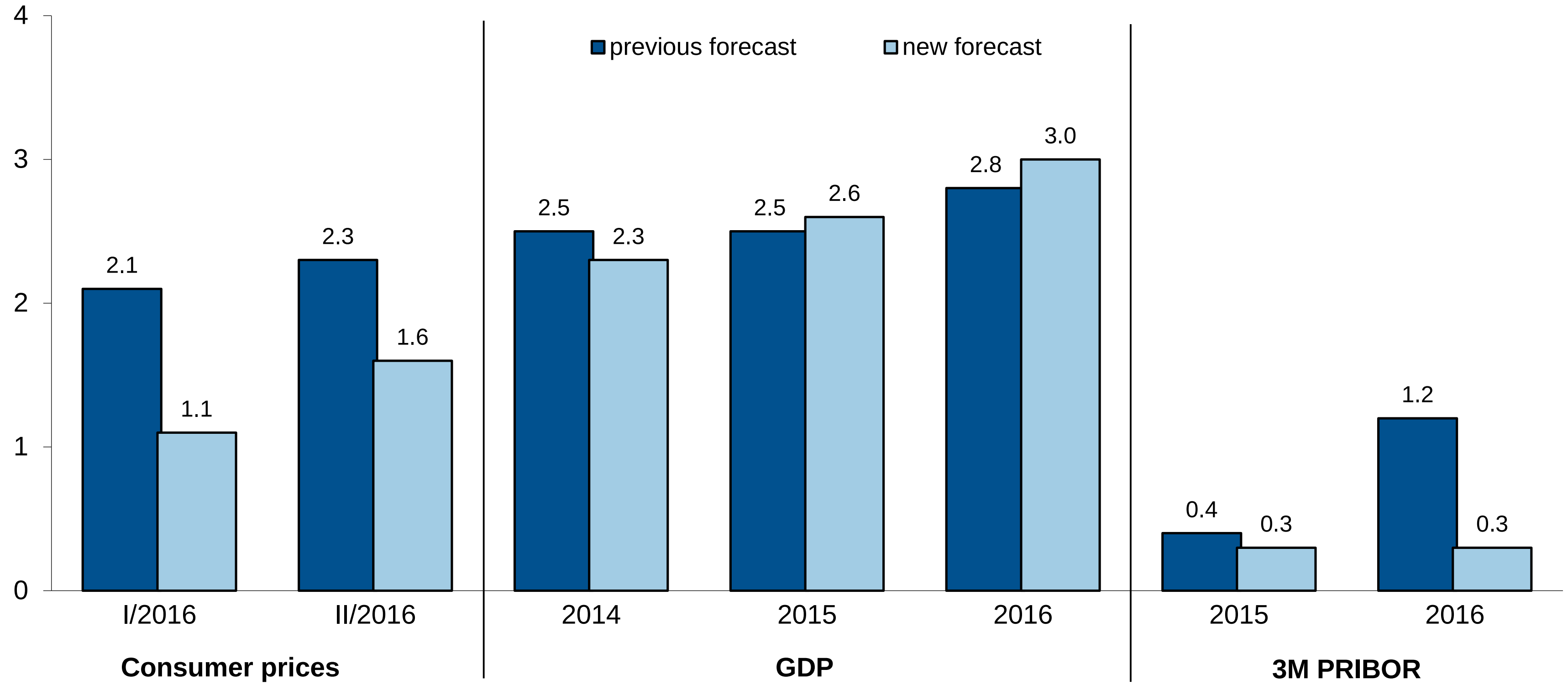
Comparison with the previous forecast



Risks to the forecast

The risks to the forecast are balanced

Increased uncertainty is connected in particular with:

- the impacts of ECB measures on the economic and inflation outlook in the euro area
- future domestic wage developments in a low-inflation environment and amid a positive cost-push shock resulting from the sharp decline in oil prices

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/2015. The Summary of the Report (together with the Table of key macroeconomic indicators) will be published on 6 February. The whole Report will be published on 13 February 2015.

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