



Press conference of the CNB Bank Board

1st Situation Report on Economic and Monetary Developments

4 February 2016

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 the CNB will not allow the koruna to appreciate to levels it would no longer be possible to interpret as "close to CZK 27/EUR". The CNB prevents such appreciation by means of automatic and potentially unlimited interventions, i.e. by selling koruna and buying foreign currency. If the exchange rate departs from CZK 27/EUR on the weaker side, the CNB allows the koruna exchange rate to move according to supply and demand on the FX market.

Reasons for the decision in the context of the current forecast (i)

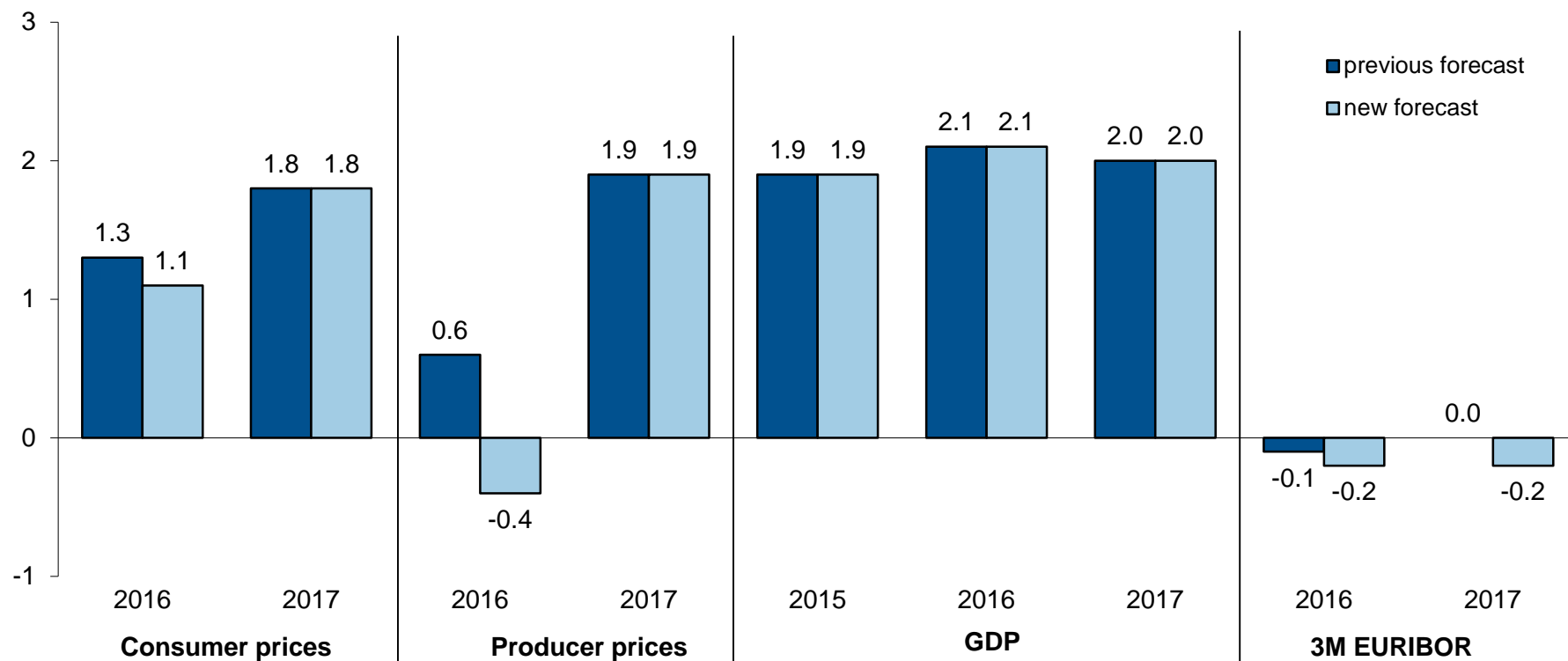
- The forecast assumes that market interest rates will be flat at their current very low level and the exchange rate will be used as a monetary policy instrument until the end of 2016. Consistent with the forecast is an increase in market interest rates in 2017.
- Inflation is still well below the CNB's target of 2%. According to the forecast, inflation will increase, hitting the 2% target at the monetary policy horizon and then moving slightly above it.
- According to the forecast, sustainable fulfilment of the target, which is a condition for a return to conventional monetary policy, will occur in the first half of 2017.
- The risks to the forecast are assessed as being broadly balanced.

Reasons for the decision in the context of the current forecast (ii)

- A need to maintain expansionary monetary conditions at least to the current extent persists.
- In view of the above, discontinuation of the exchange rate commitment earlier than assumed by the forecast, i.e. at the start of 2017, can now be ruled out.
- The Bank Board therefore states that the CNB will not discontinue the use of the exchange rate as a monetary policy instrument before 2017. The Bank Board considers it likely that the commitment will be discontinued in the first half of 2017.

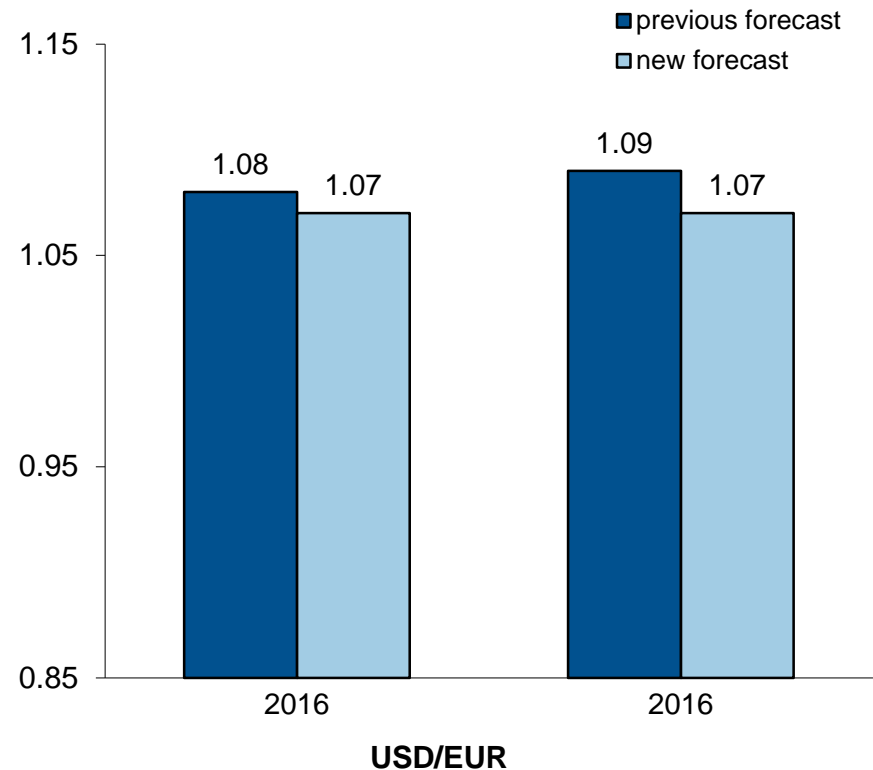
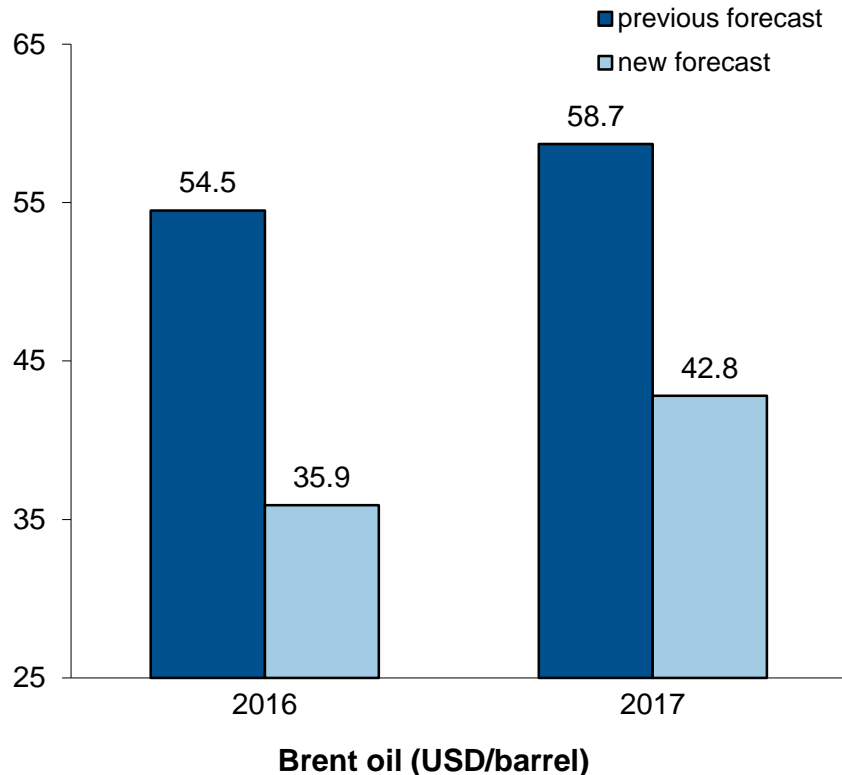
The external environment (i)

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

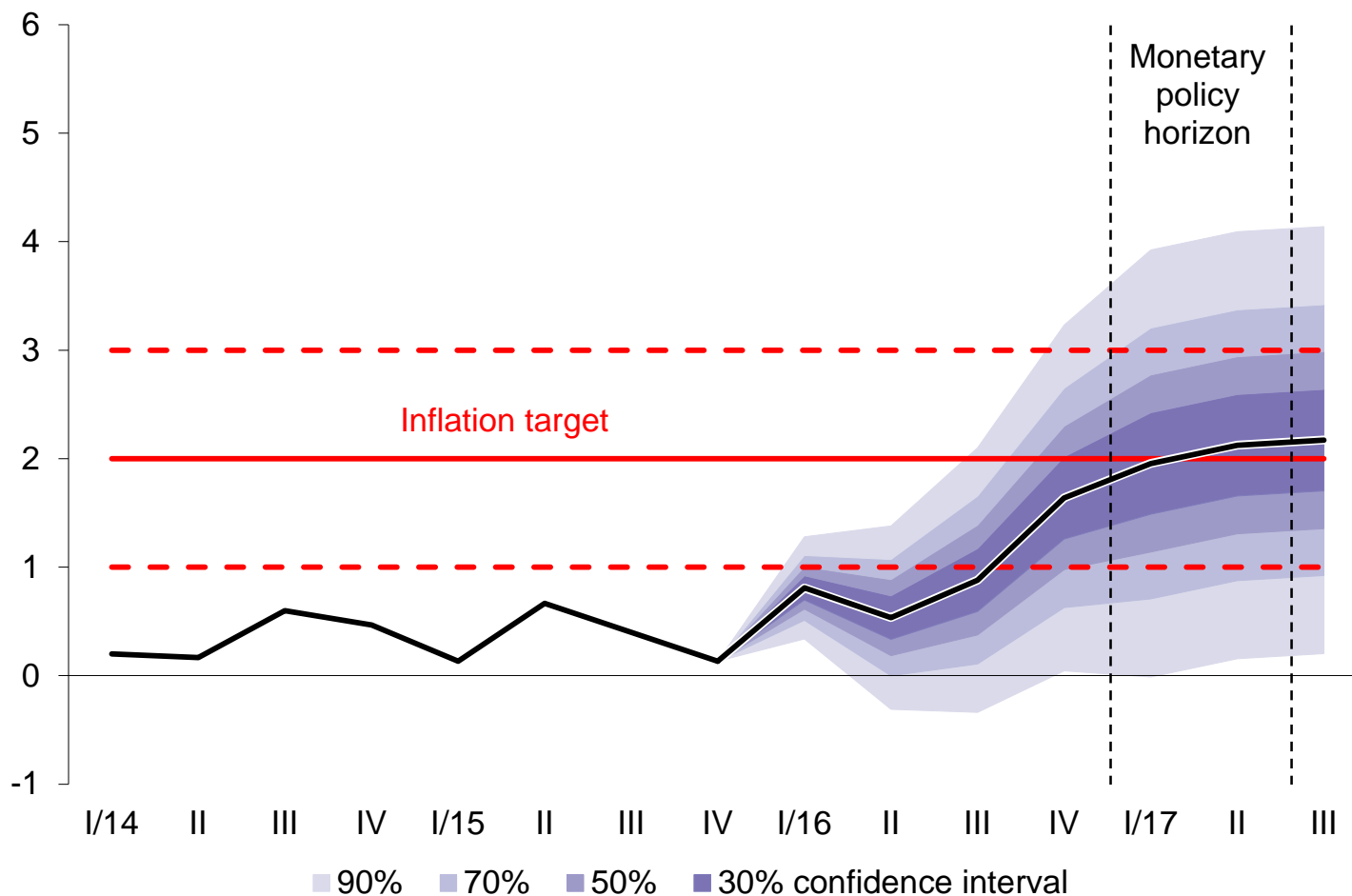


The external environment (ii)

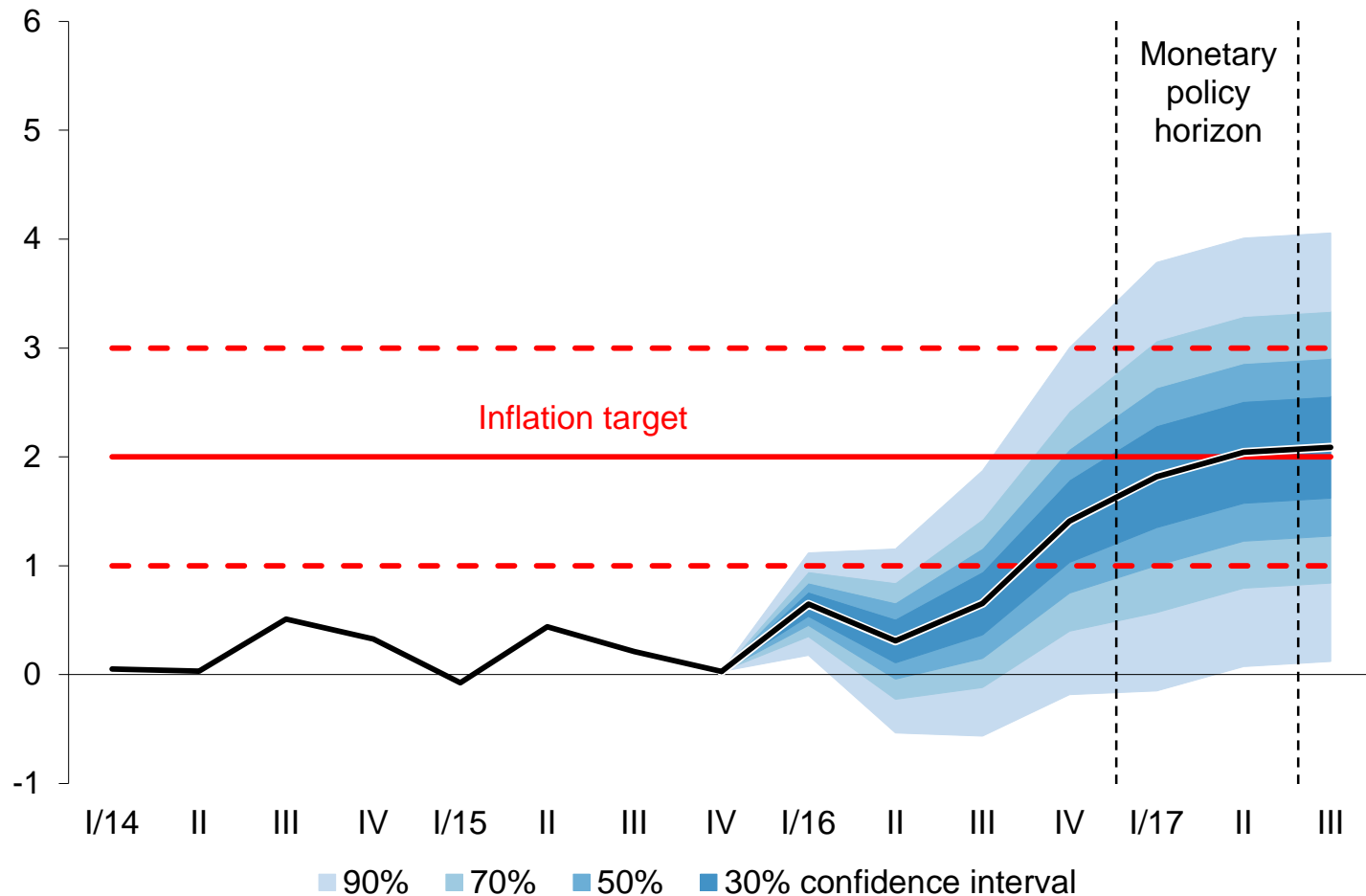
Comparison between the assumptions of the new and previous forecasts



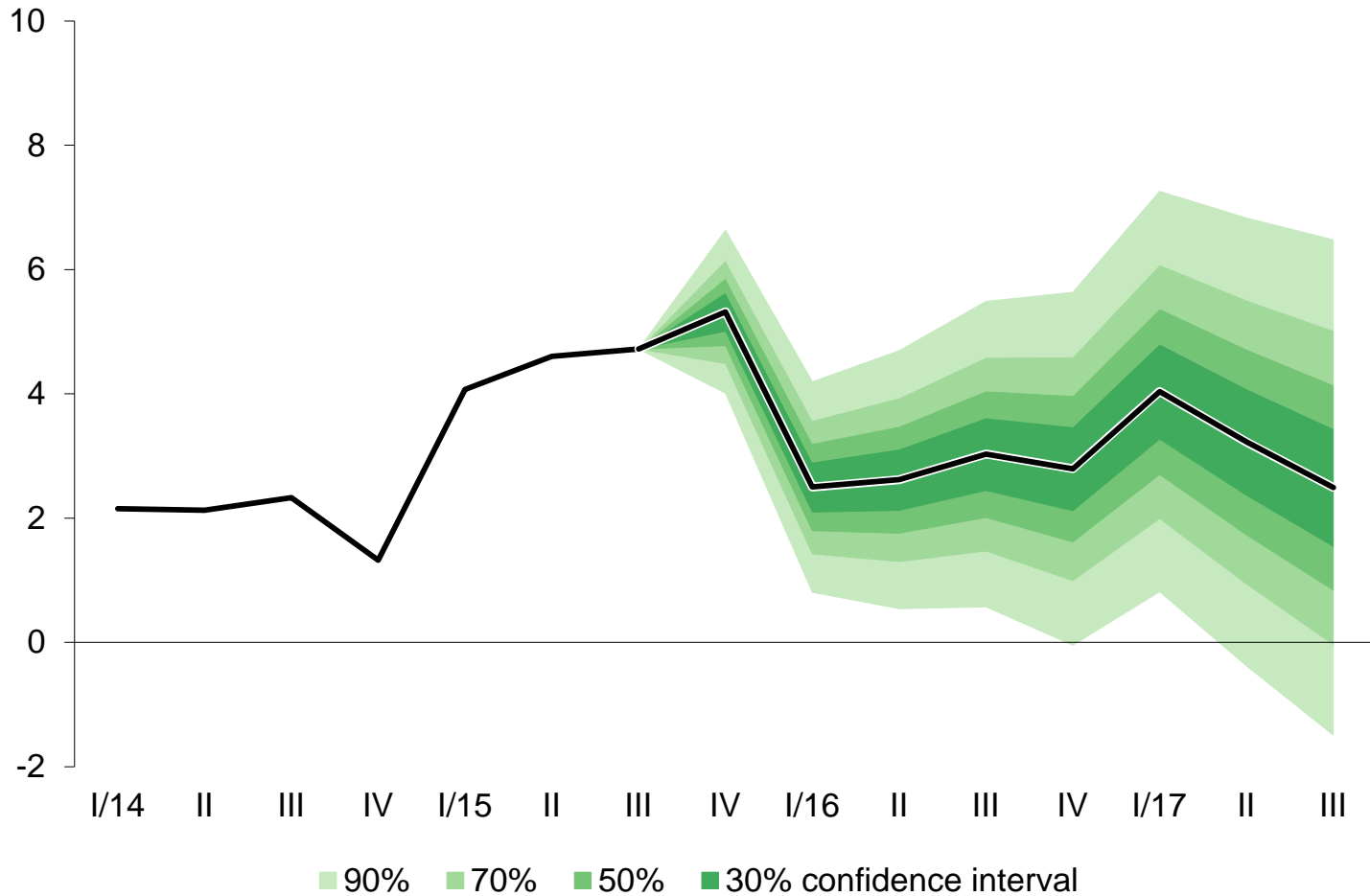
The forecast for headline inflation



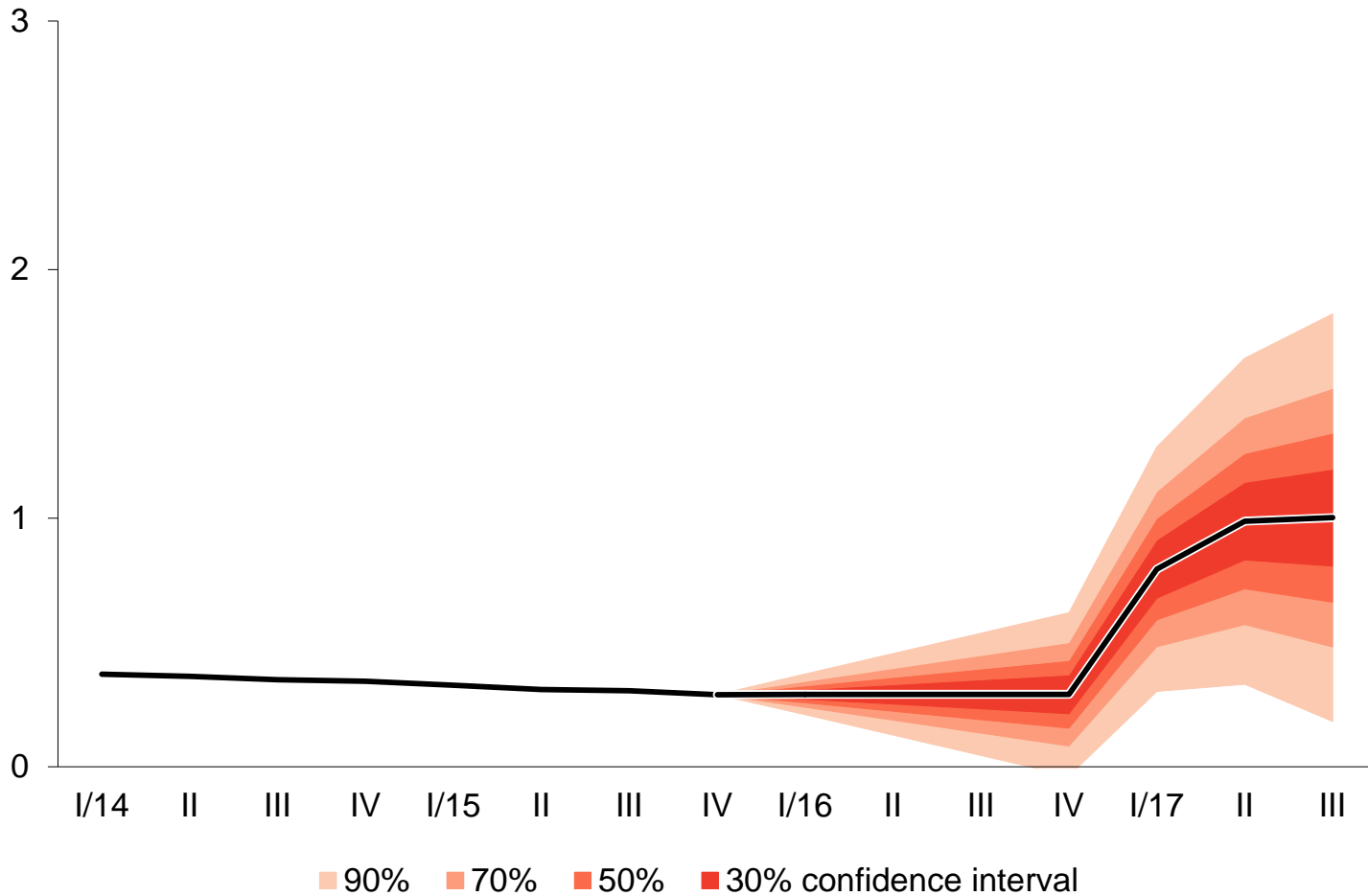
The forecast for monetary policy-relevant inflation



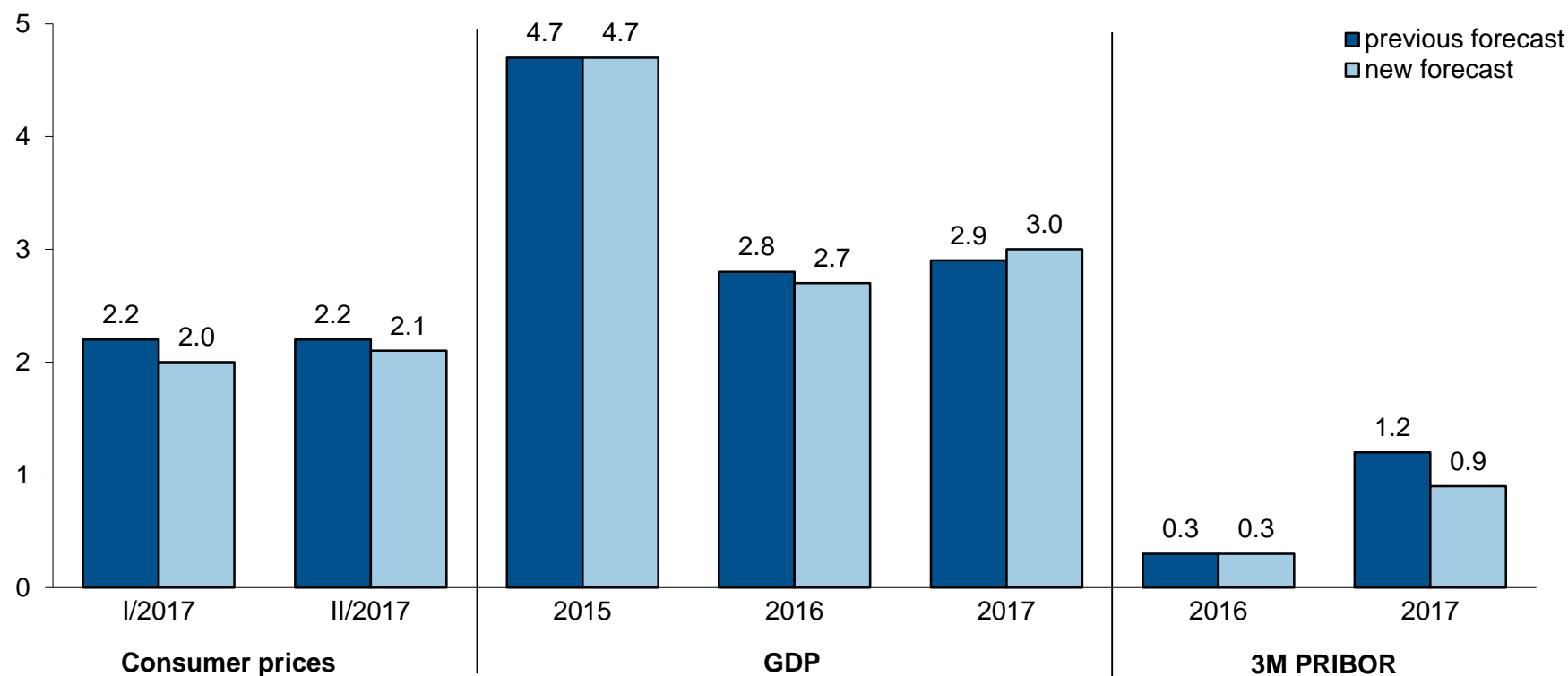
The forecast for GDP



The forecast for interest rates (3M PRIBOR)



Comparison with the previous forecast





Risks to the forecast

The Bank Board assessed the risks to the forecast
as being broadly balanced.

Oil prices are a significant source of uncertainty in both directions.



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/2016. The
Summary of the Report (together
with the Table of key macroeconomic
indicators) will be published on
5 February. The whole Report will be
published on 12 February 2016.