



Press conference of the CNB Bank Board

2nd Situation Report on Economic and Monetary Developments

31 March 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.

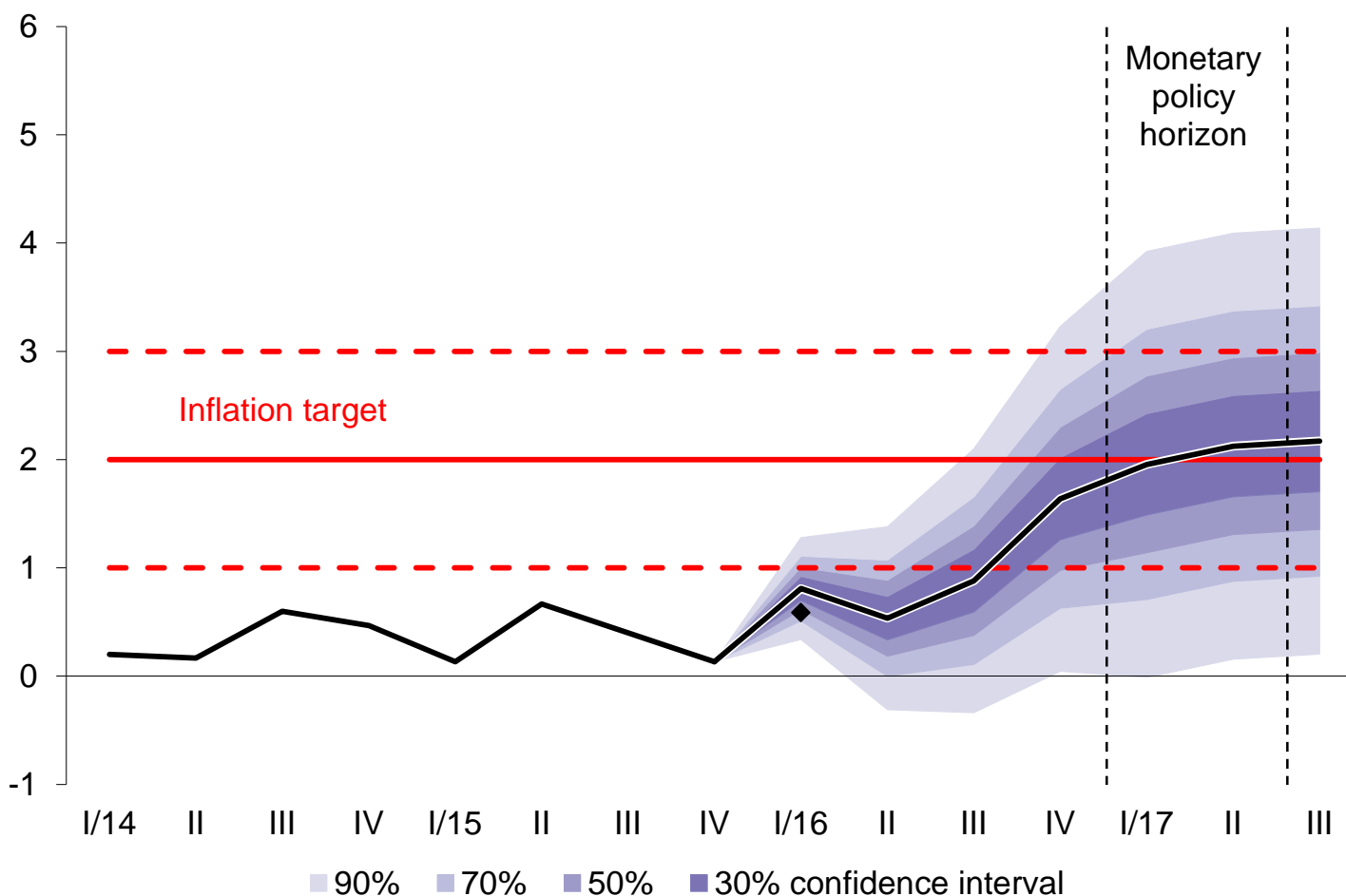
Reasons for the decision in the context of the current forecast (i)

- 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 current forecast, inflation will increase, hitting the 2% target at the monetary policy horizon and then moving slightly above it.
- According to the current 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 current forecast are assessed as being slightly anti-inflationary.

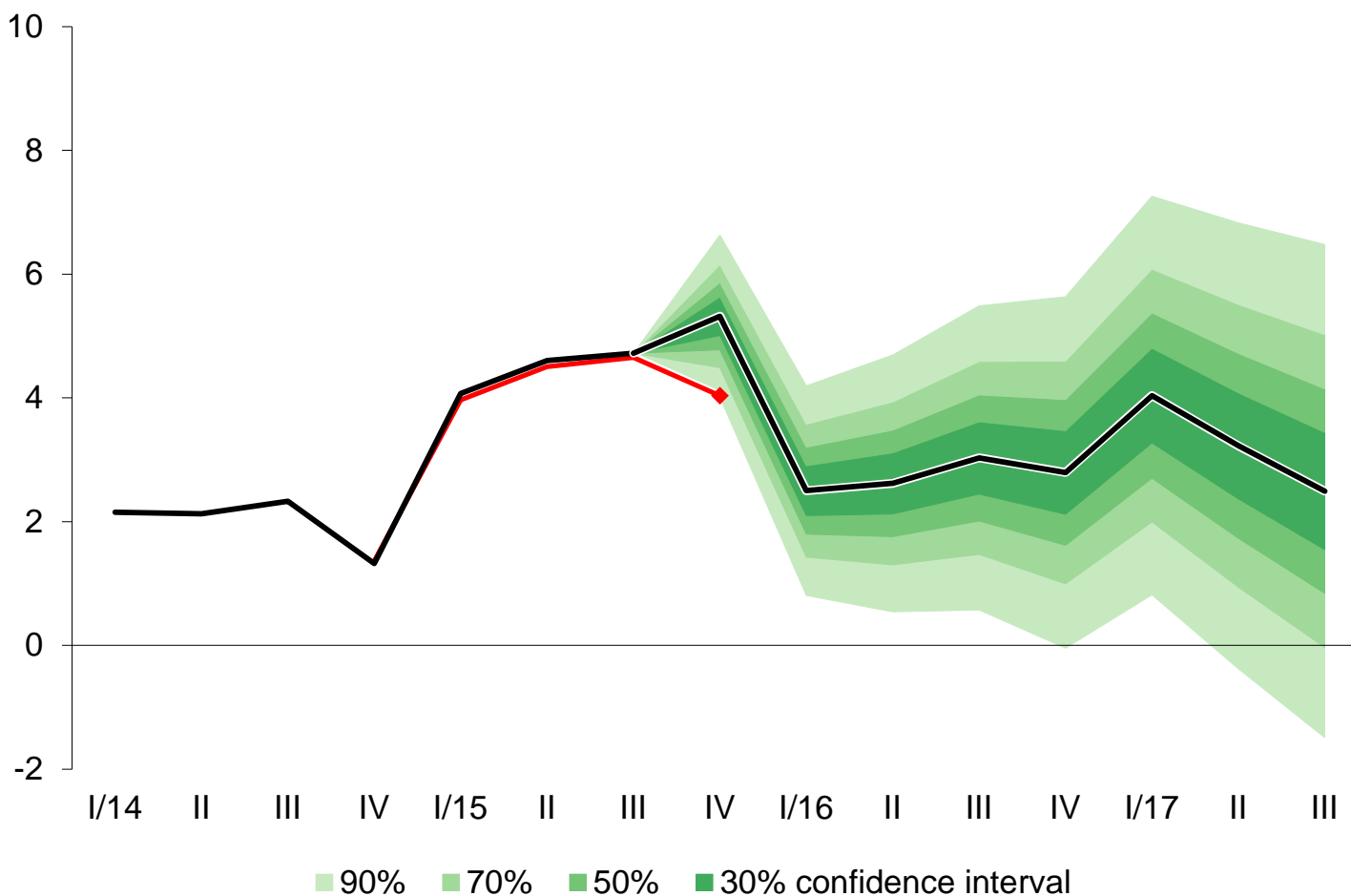
Reasons for the decision in the context of the current forecast (ii)

- A need to maintain expansionary monetary conditions at least to the current extent persists.
- The Bank Board states again that the CNB will not discontinue the use of the exchange rate as a monetary policy instrument before 2017.
- In view of the slightly anti-inflationary balance of risks to the current forecast, the Bank Board considers it likely that the commitment will be discontinued nearer to mid-2017.
- At the same time, the Bank Board repeated that any exchange rate appreciation following the discontinuation of the exchange rate commitment would be dampened, among other things, by hedging of exchange rate risk by exporters during the existence of the commitment, by the closing of koruna positions by financial investors and by possible CNB interventions to mitigate exchange rate volatility.
- The Bank Board again discussed the possibility of using negative interest rates.

The inflation forecast and expected outcome in 2016 Q1

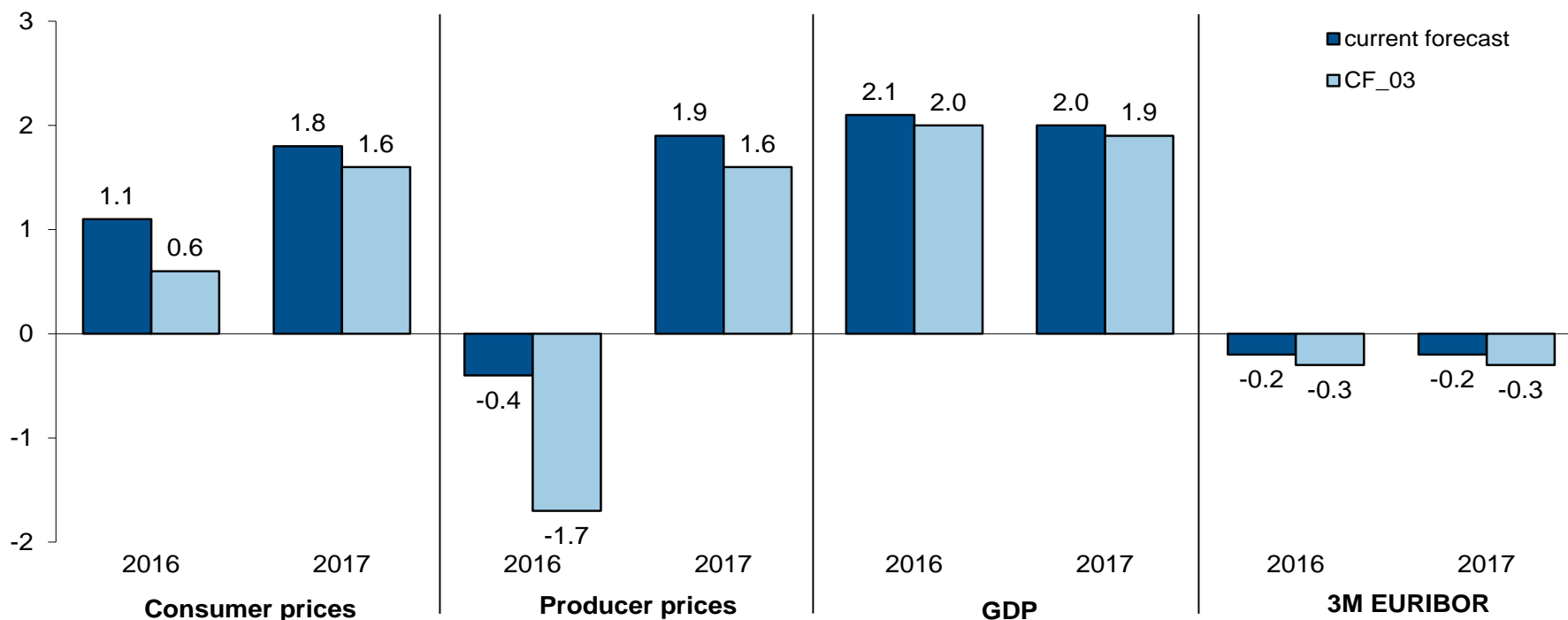


The GDP forecast and outcome in 2015 Q4



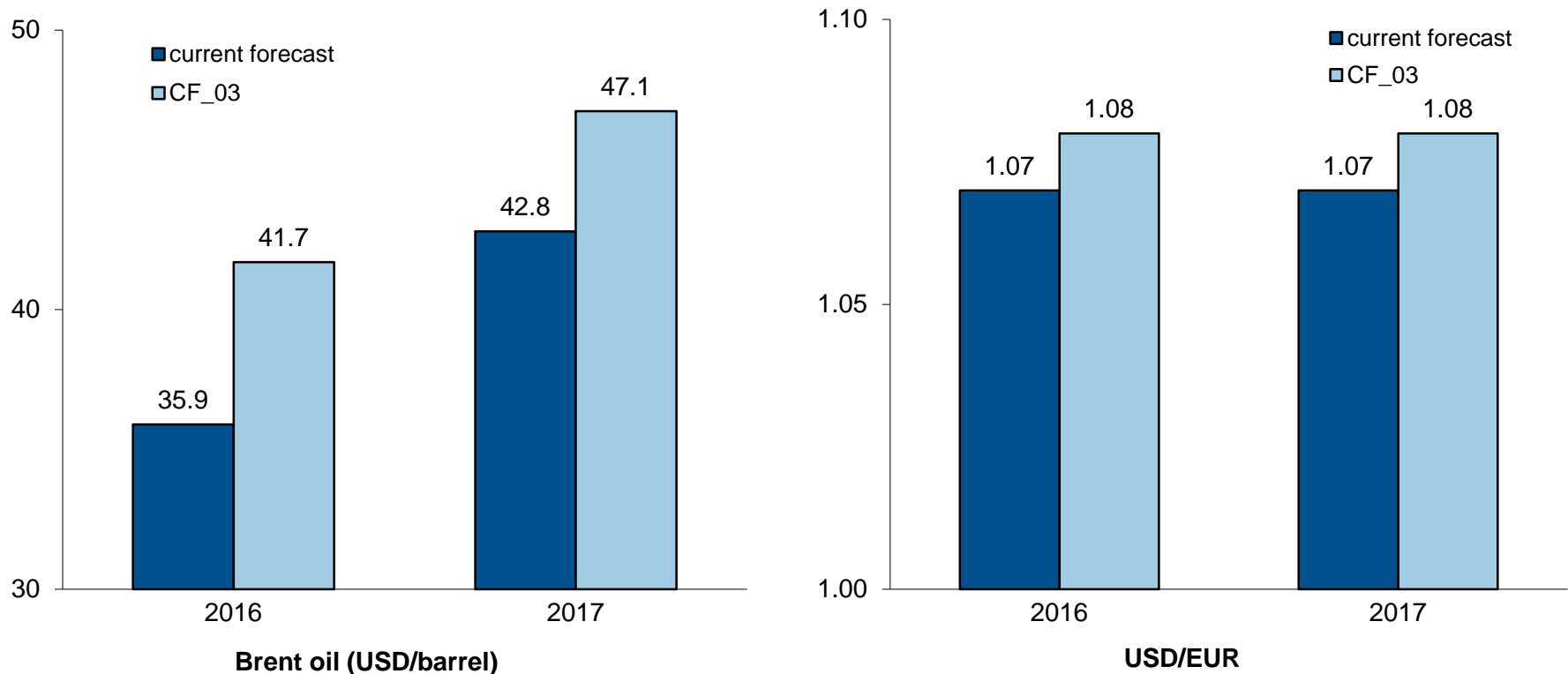
The external environment (i)

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



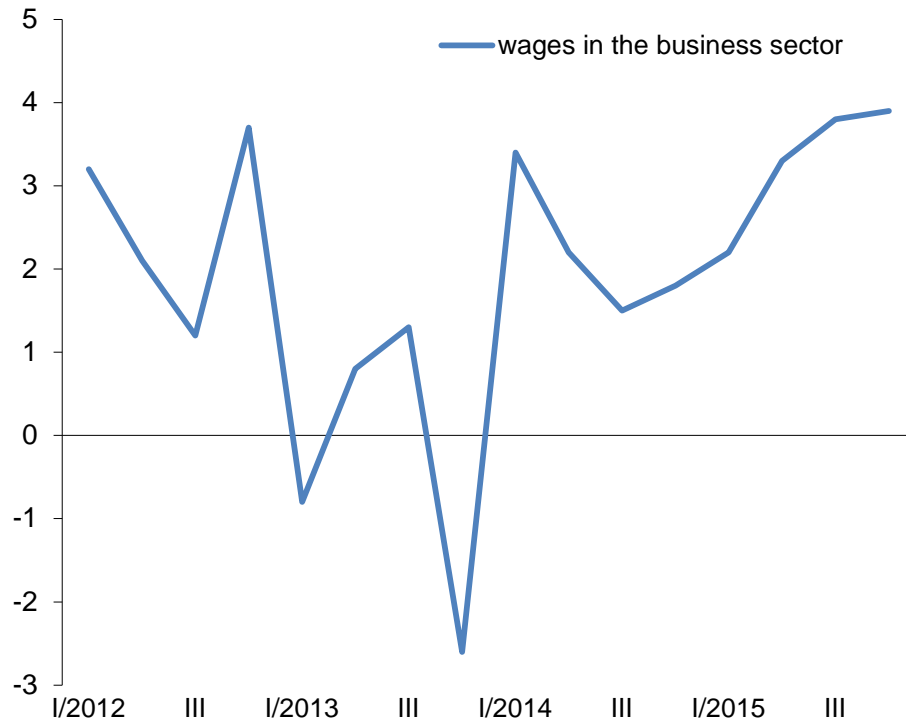
The external environment (ii)

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

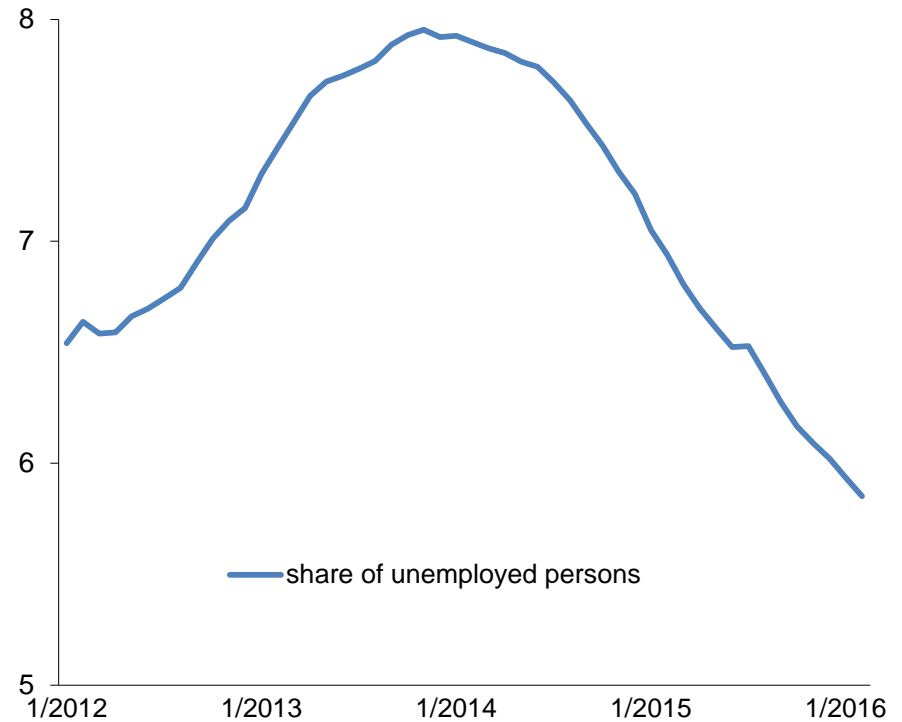


The labour market

(Annual changes in %)

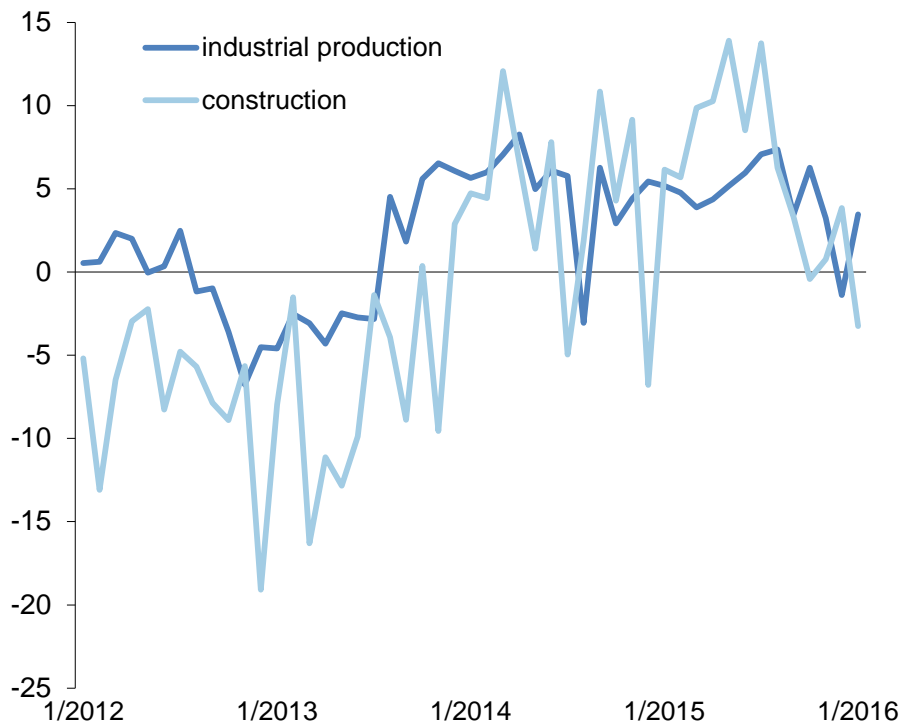


(in %, seasonally adjusted)

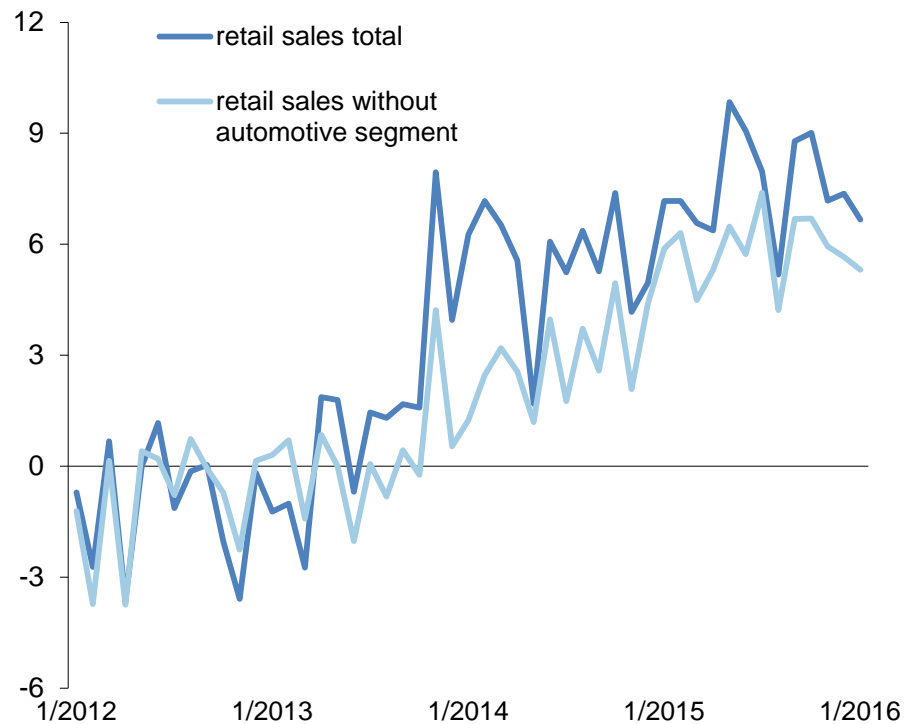


Industry, construction, retail sales

(Annual changes in %, s.a.)

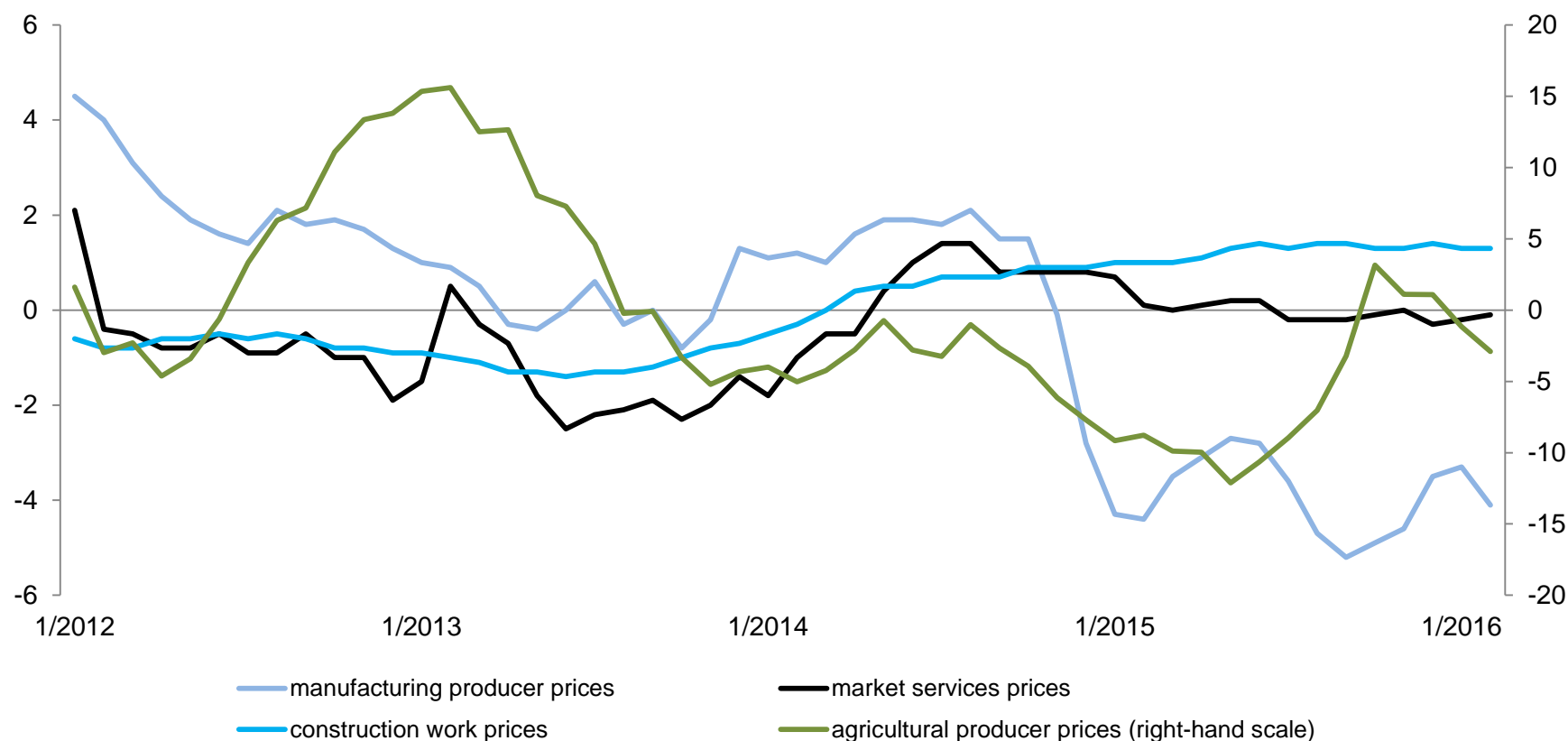


(Annual changes in %, s.a.)

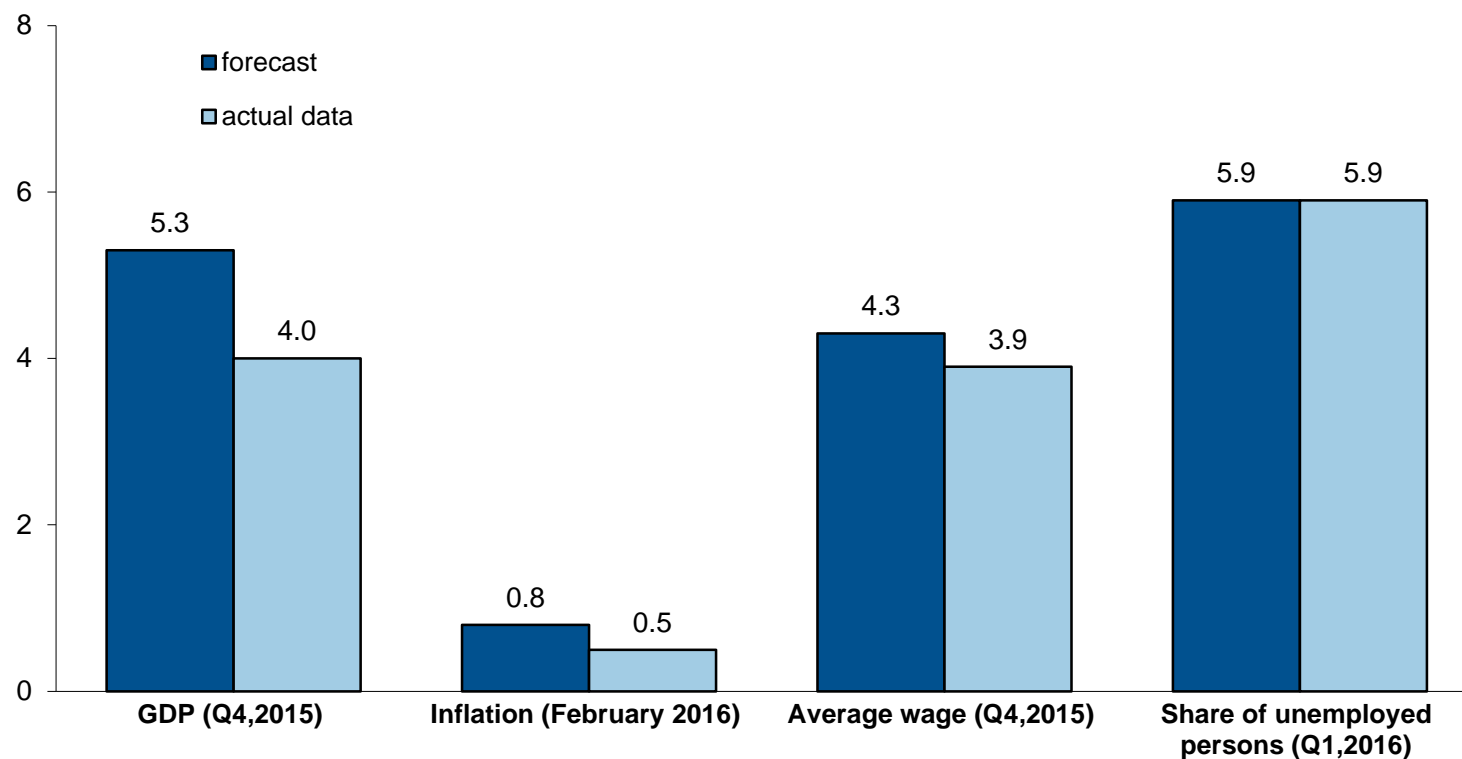


Producer prices

(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 January and February with the forecast for 2016 Q1

Risks to the current forecast

The Bank Board assessed the risks to the current forecast as being slightly anti-inflationary.

Risks on the downside:

- lower observed domestic and foreign inflation
- slower wage growth
- short-term outlook for food prices

Risk on the upside:

- higher outlook for oil prices



Thank you for your attention

Minutes of the today's meeting will be released on 8 April 2016 at

http://www.cnb.cz/en/monetary_policy/bank_board_minutes/