



# Press conference of the CNB Bank Board

## 5th Situation Report on Economic and Monetary Developments

4 August 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)

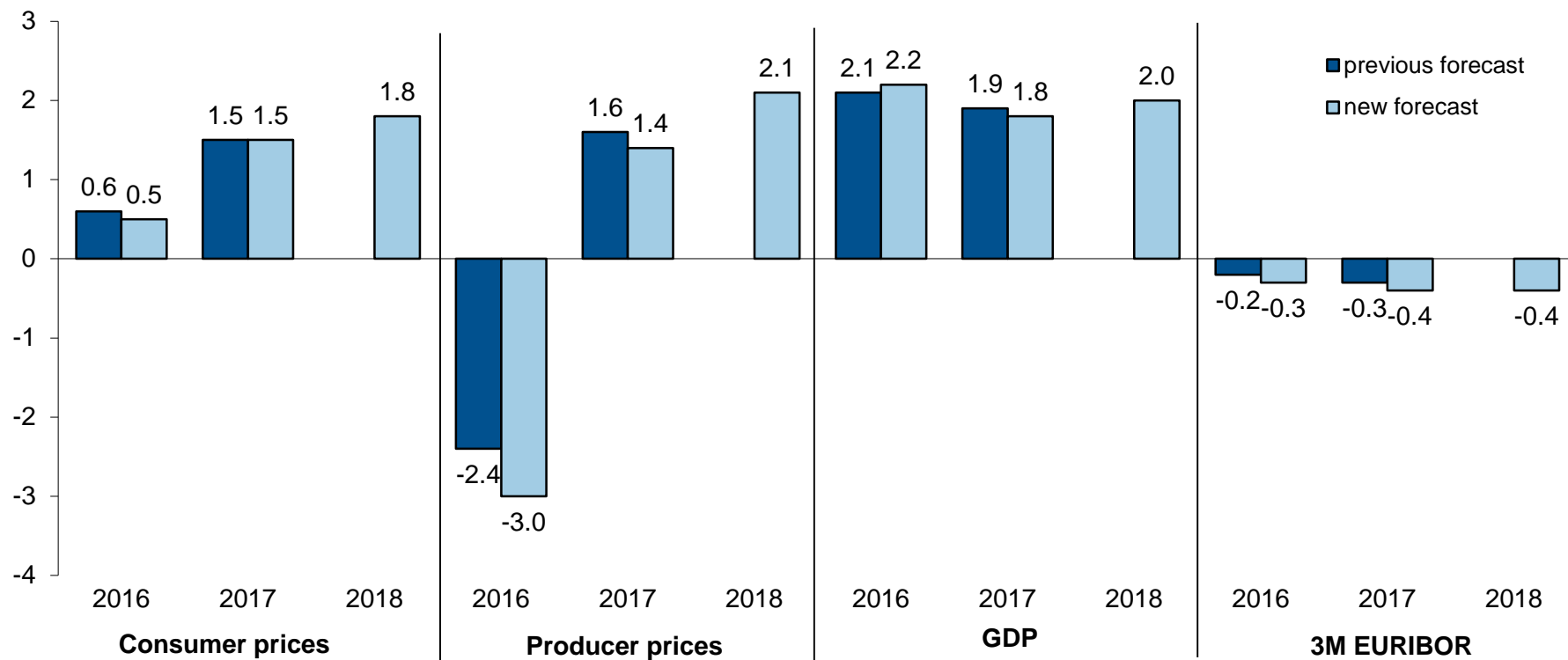
- The forecast assumes that market interest rates will be flat at their current very low level and the exchange rate will be used as a monetary policy instrument until mid-2017. Consistent with the forecast is an increase in market interest rates thereafter.
- Inflation is still well below the CNB's target of 2%. According to the forecast, inflation will start rising in the near future, slightly exceeding the 2% target at the monetary policy horizon and then returning to it from above.
- According to the forecast, sustainable fulfilment of the target, which is a condition for a return to conventional monetary policy, will occur in mid-2017.
- The risks to the forecast are assessed as being 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.
- The Bank Board states again that the CNB will not discontinue the use of the exchange rate as a monetary policy instrument before 2017. The Bank Board still considers it likely that the commitment will be discontinued in mid-2017.
- Domestic inflation is still being affected by anti-inflationary cost effects from abroad. Monetary policy looks past the first-round effects of such factors and focuses on any adverse second-round effects.
- In this context, the CNB still stands ready to shift the exchange rate commitment to a weaker level if there were to be a systematic decrease in inflation expectations manifesting itself in nominal variables, especially wages.

# The external environment (i)

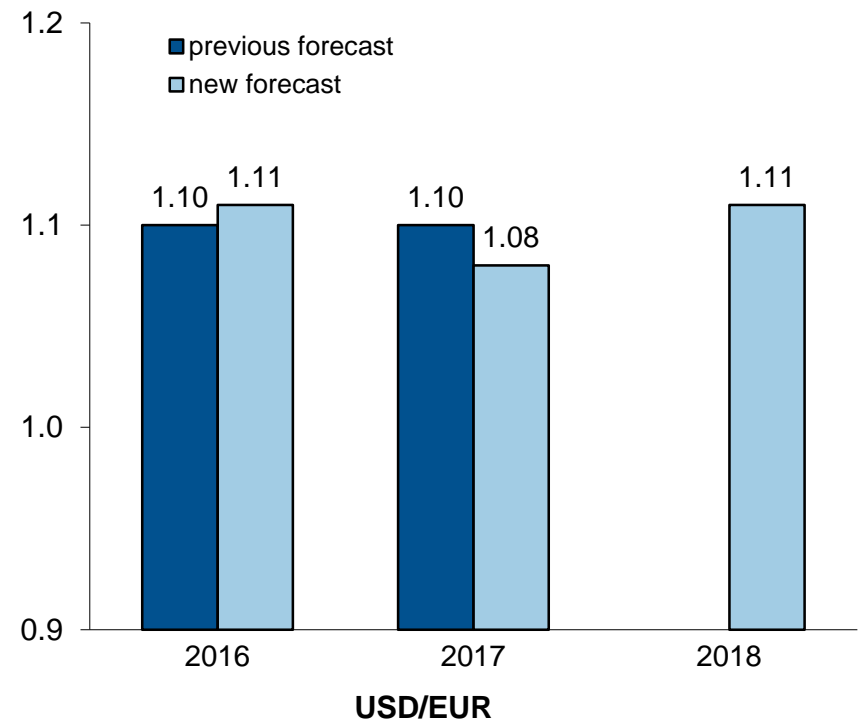
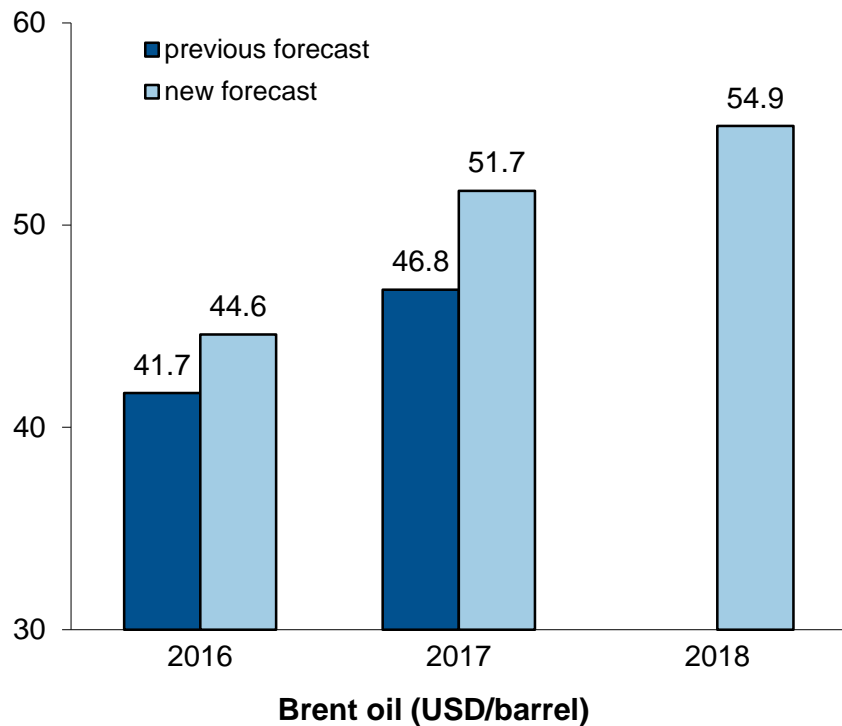
## Comparison between the assumptions of the new and previous forecasts for the effective euro area\*



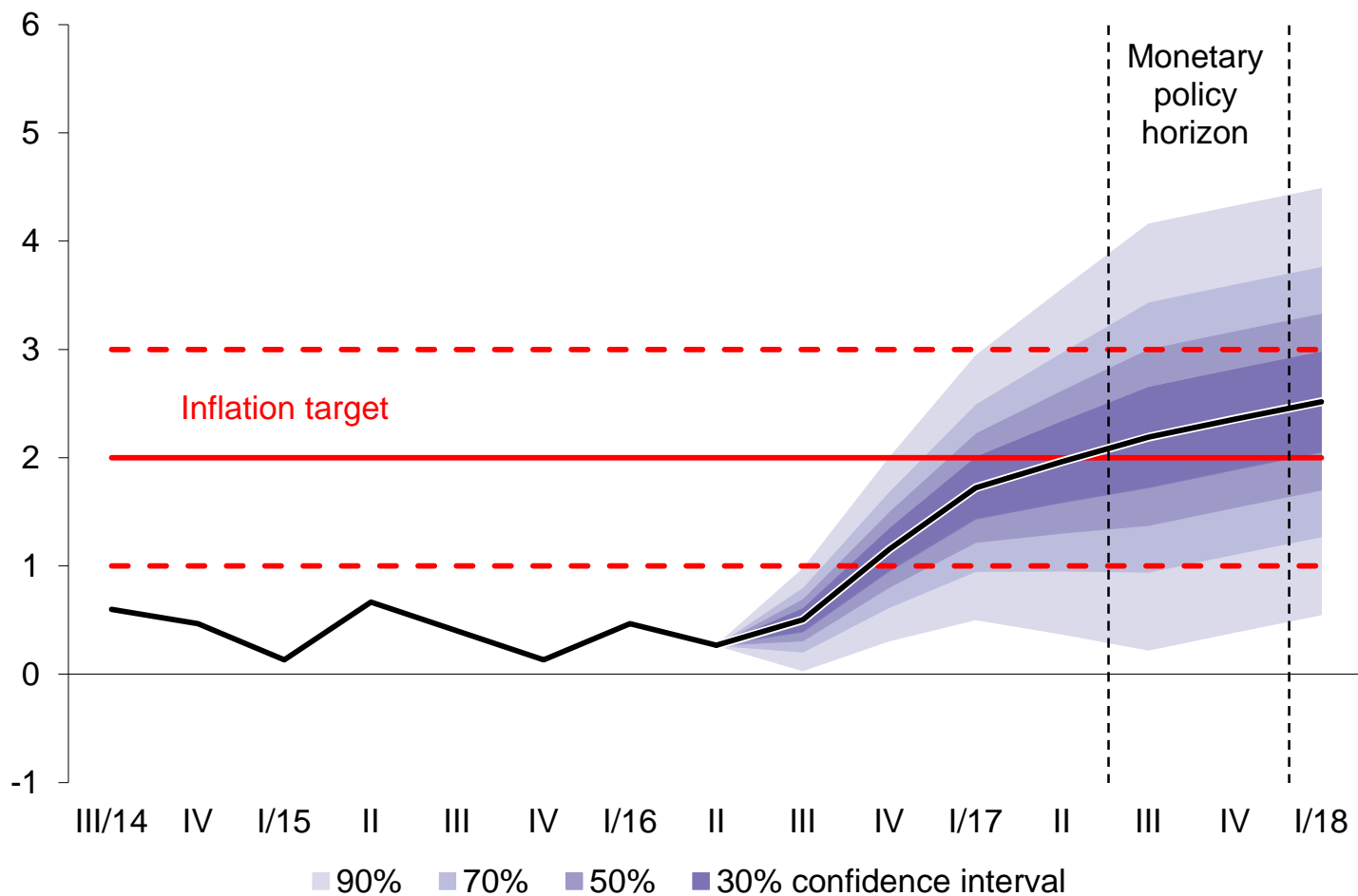
\* Effective euro area means that individual countries of the euro area are weighted by their share on Czech exports

# The external environment (ii)

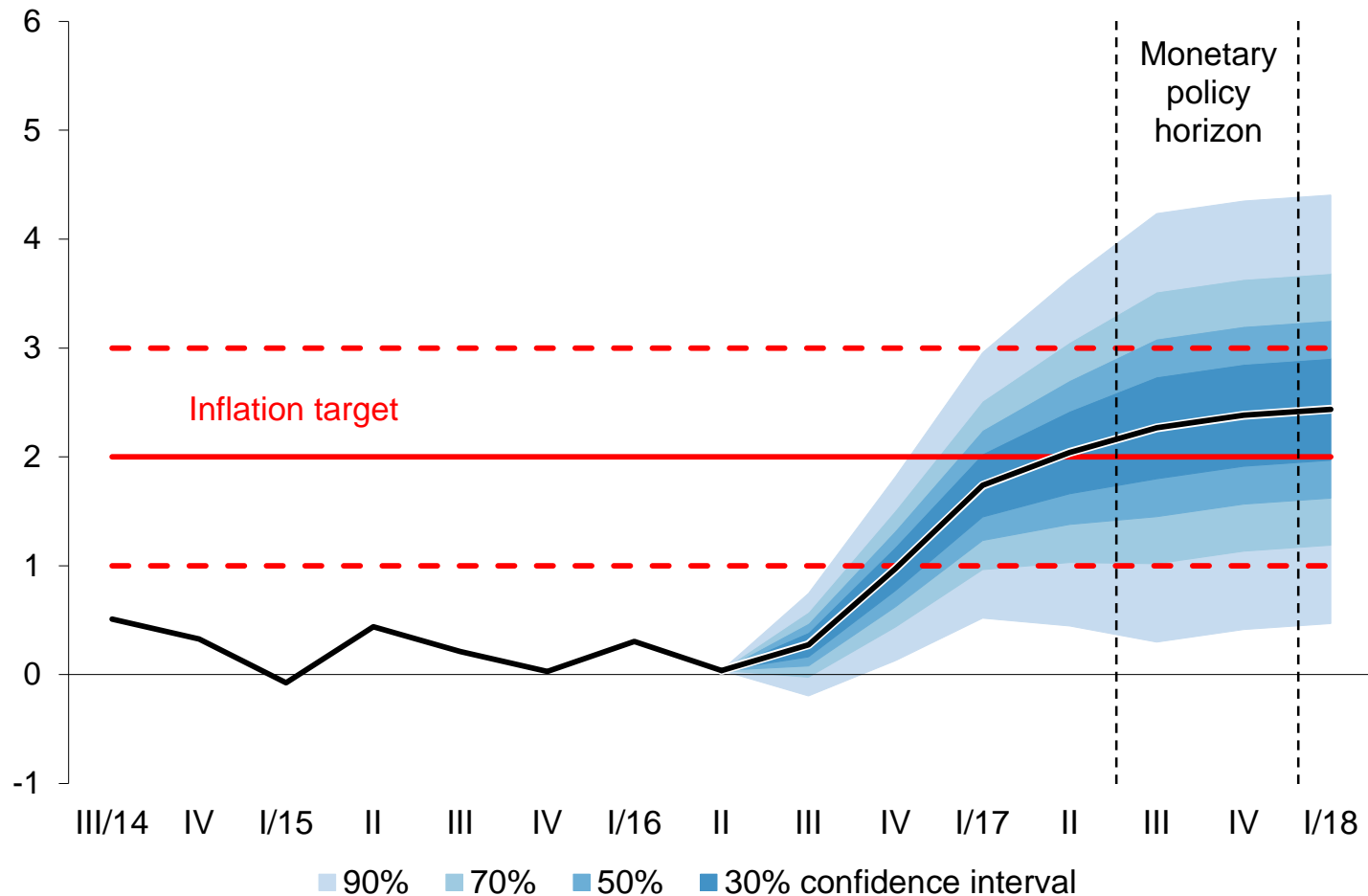
## Comparison between the assumptions of the new and previous forecasts



# The forecast for headline inflation

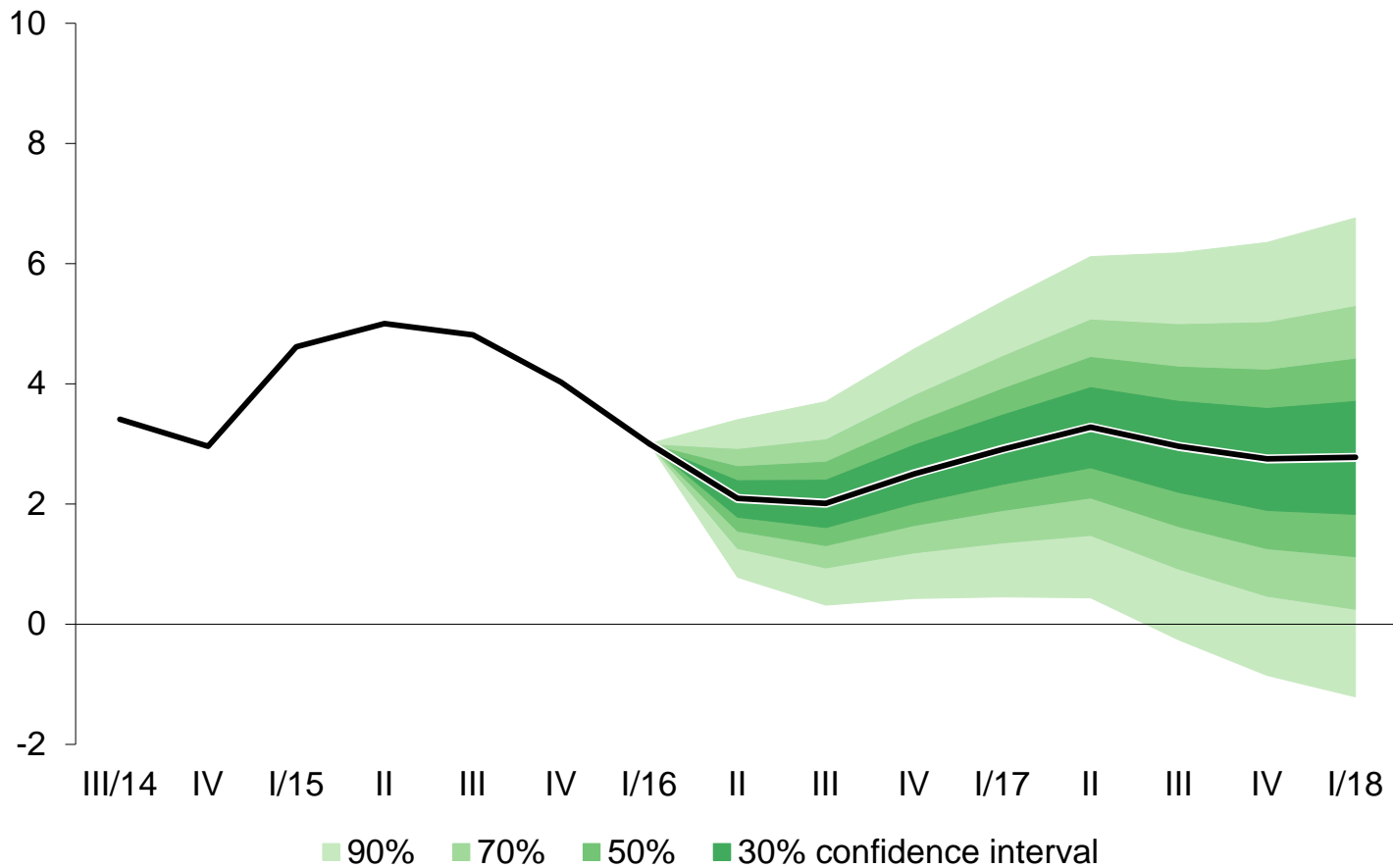


# The forecast for monetary policy-relevant inflation

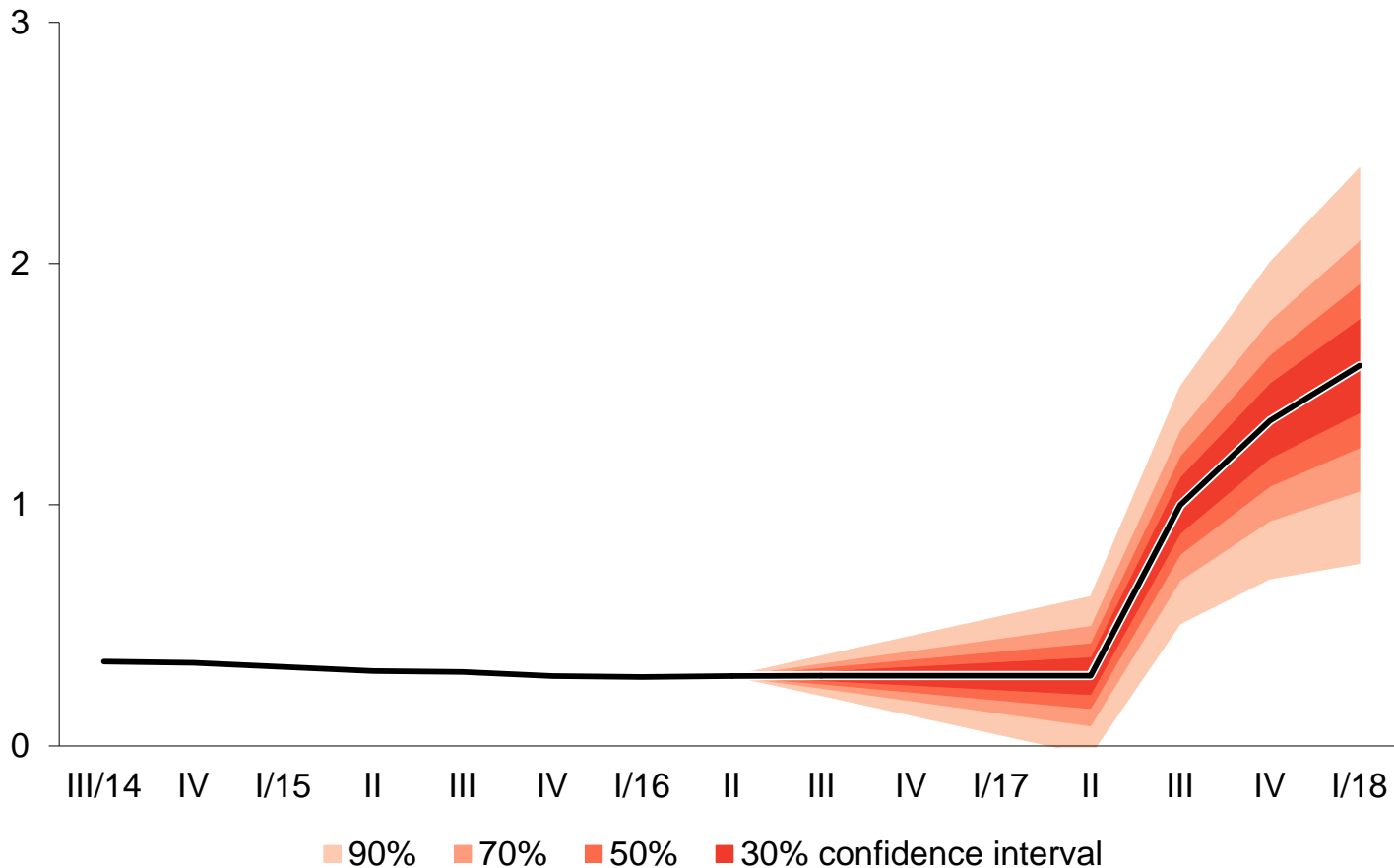




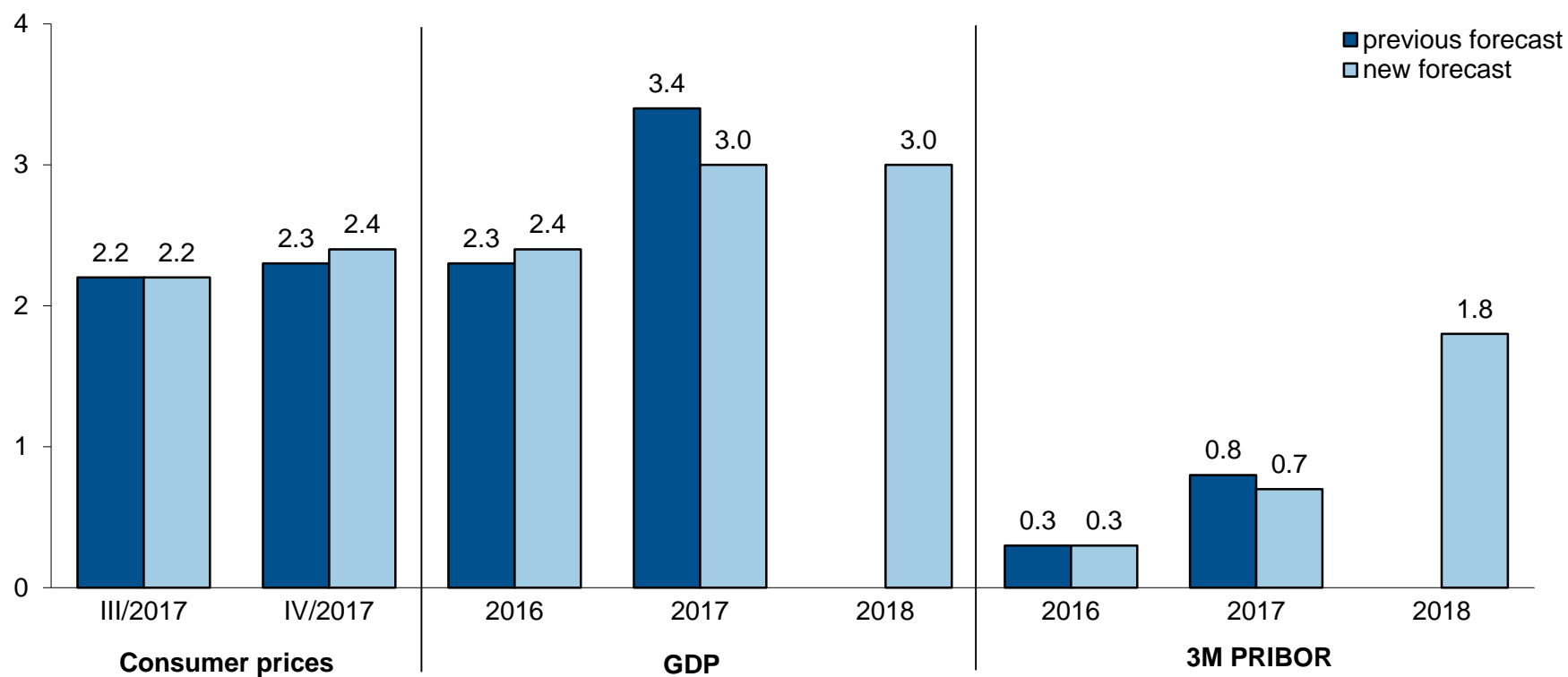
# The forecast for GDP



# 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 balanced.

## *Uncertainties:*

- the evolution of external demand
- the effect of the domestic election cycle on public expenditure growth
- the depth of the fall in government investment this year
- the impact of the long-lasting low inflation on the anchoring of inflation expectations



# Thank you for your attention

More information about the forecast  
can be found at

[http://www.cnb.cz/en/monetary\\_policy/forecast/](http://www.cnb.cz/en/monetary_policy/forecast/)

and in Inflation Report III/2016. The  
Summary of the Report (together  
with the Table of key macroeconomic  
indicators) will be published on  
5 August 2016. The whole Report will  
be published on 12 August 2016.