



Press conference of the CNB Bank Board

6th Situation Report on Economic and Monetary Developments

29 September 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.

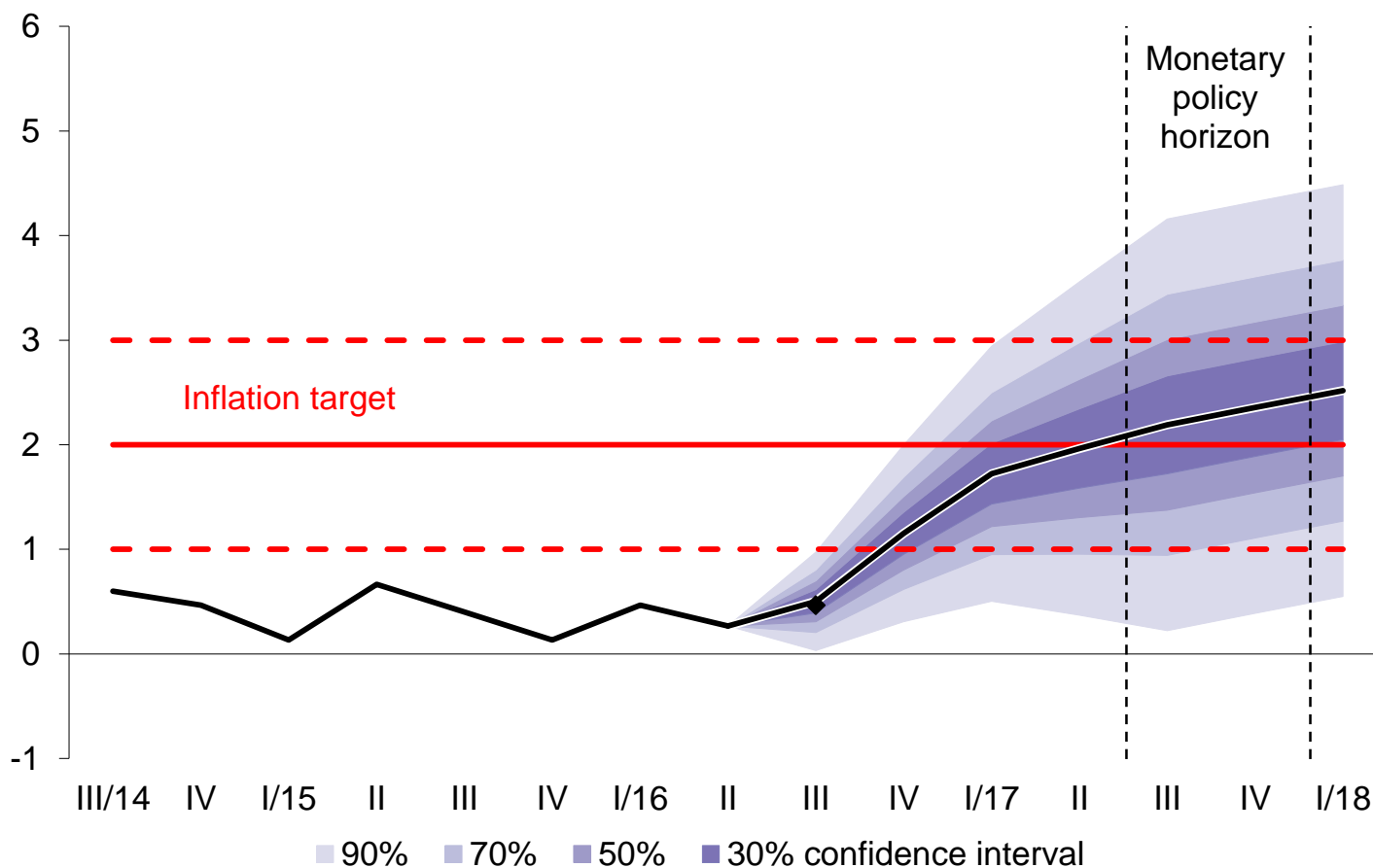
Reasons for the decision in the context of the current forecast (i)

- 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 starting to rise in line with the forecast, but it is still well below the CNB's target of 2%. 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.
- According to the forecast, inflation will slightly exceed the 2% target at the monetary policy horizon and then return to it from above. Sustainable fulfilment of the target, which is a condition for a return to conventional monetary policy, will occur in mid-2017.

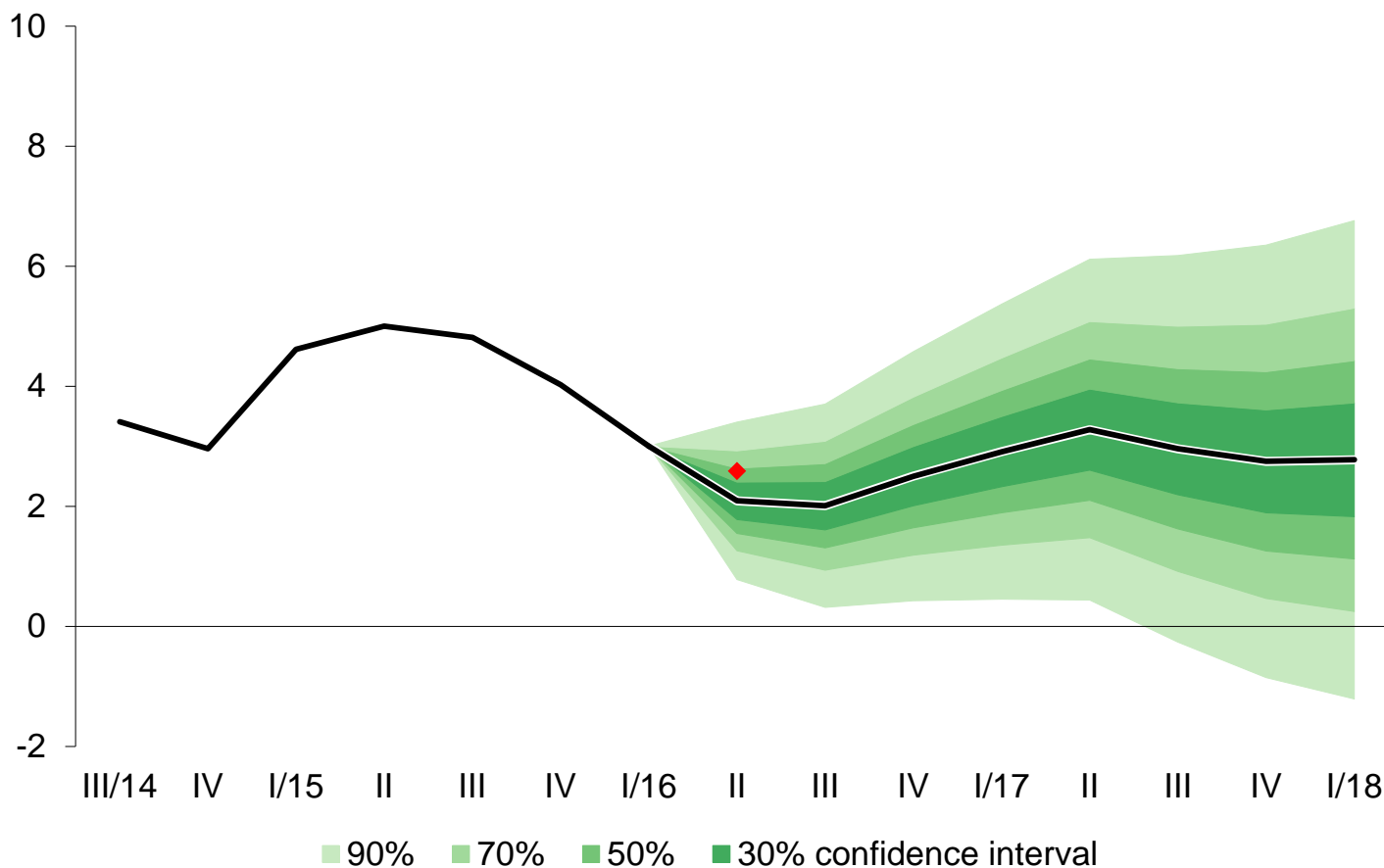
Reasons for the decision in the context of the current forecast (ii)

- A need to maintain expansionary monetary conditions at least to the current extent persists.
- The Bank Board therefore states that the CNB will not discontinue the use of the exchange rate as a monetary policy instrument before 2017 Q2.
- The Bank Board still considers it likely that the exchange rate commitment will be discontinued in mid-2017.
- At the same time, the Bank Board stated again 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, as well as by the closing of koruna positions by financial investors.
- In addition, the CNB will stand ready to intervene to mitigate exchange rate volatility.

The inflation forecast and expected outcome in 2016 Q3

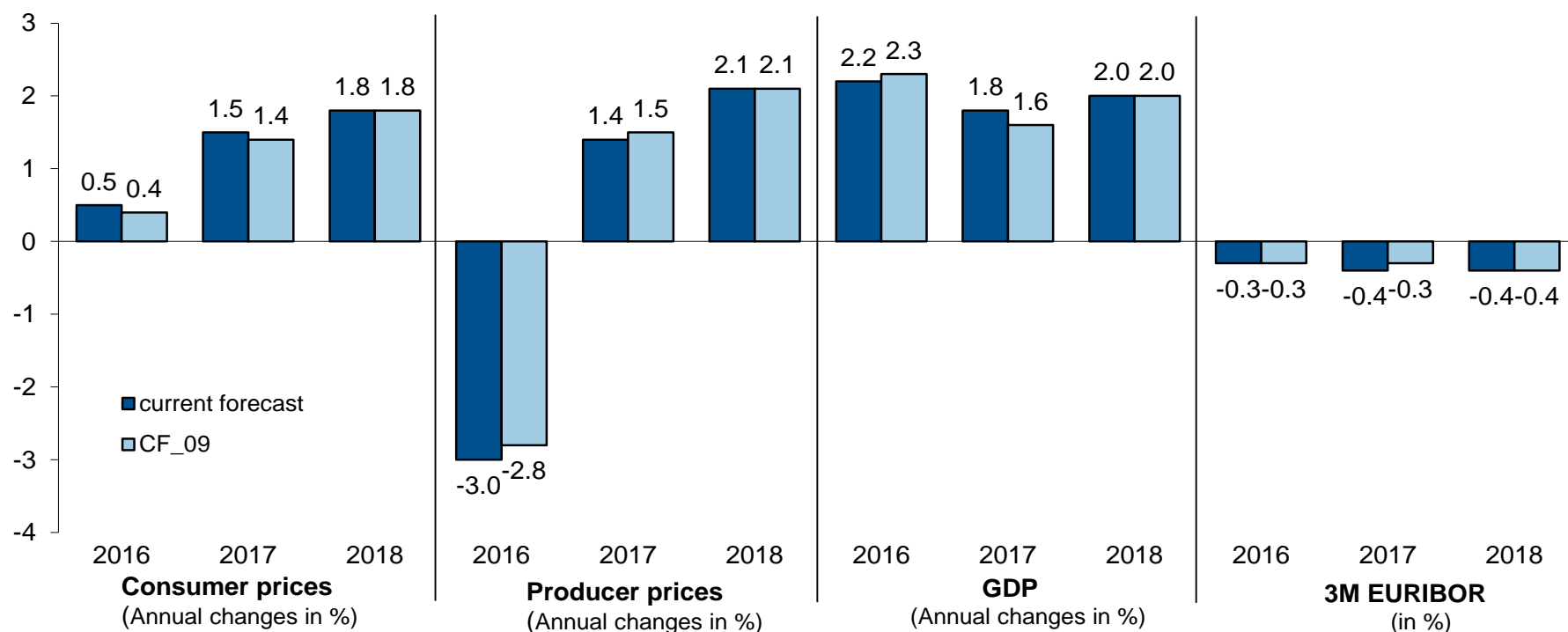


The GDP forecast and outcome in 2016 Q2



The external environment (i)

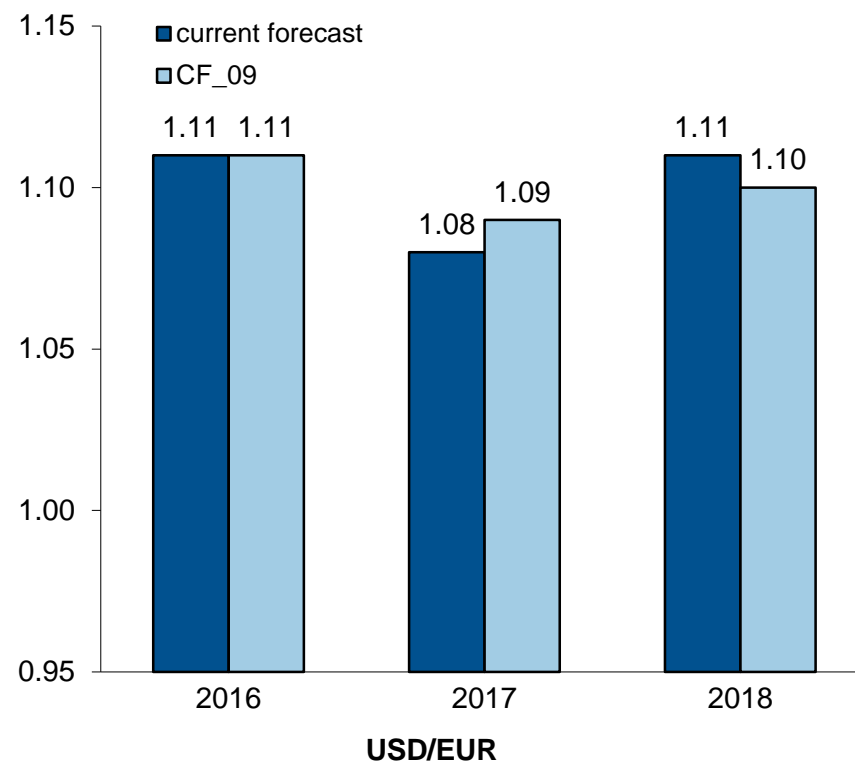
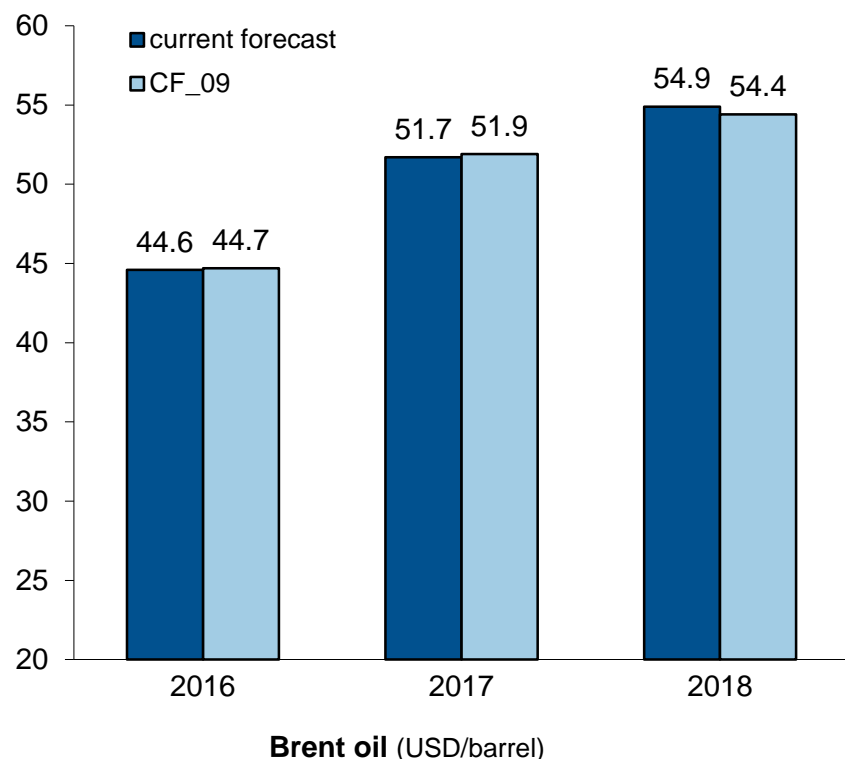
Comparison between the current forecast assumptions and the September outlook based on Consensus Forecasts survey and market expectations for the effective euro area*



* Effective euro area means that the weights used in the calculations correspond to the share of individual euro area countries in total Czech exports into the euro area

The external environment (ii)

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

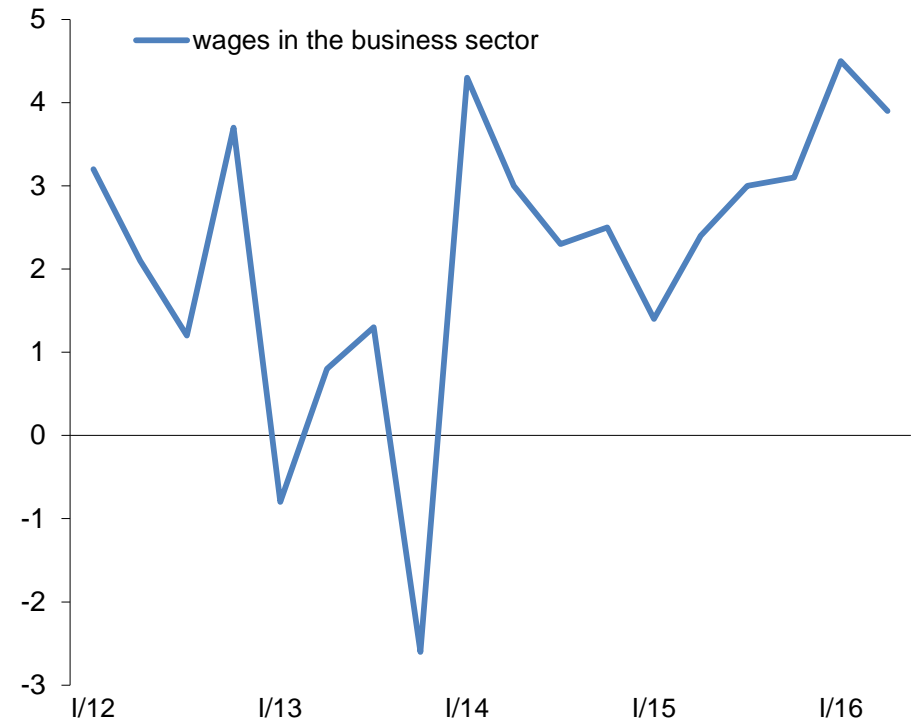


The labour market

(in %, seasonally adjusted)

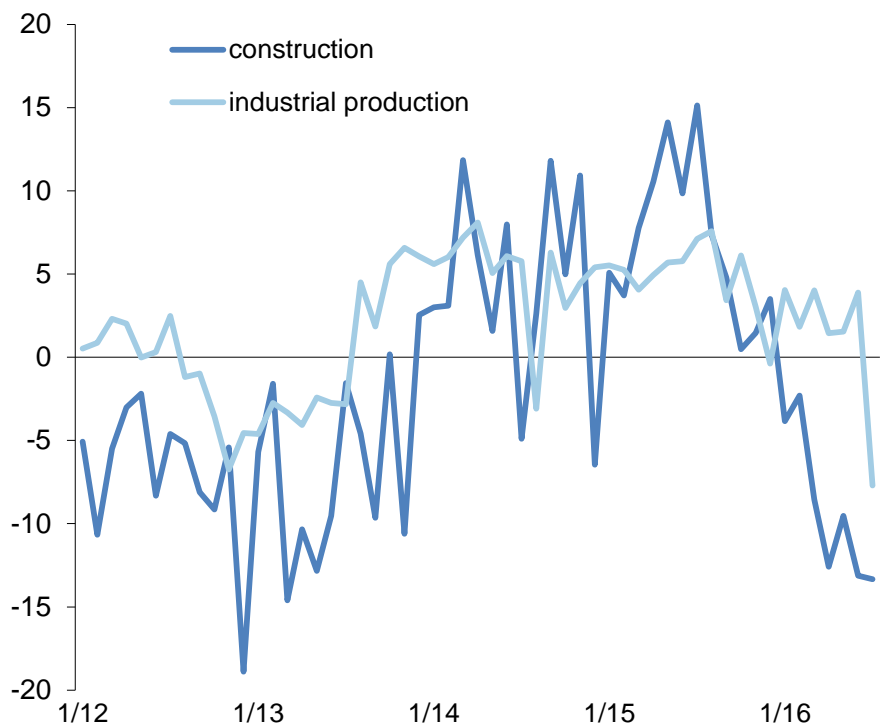


(Annual changes in %)

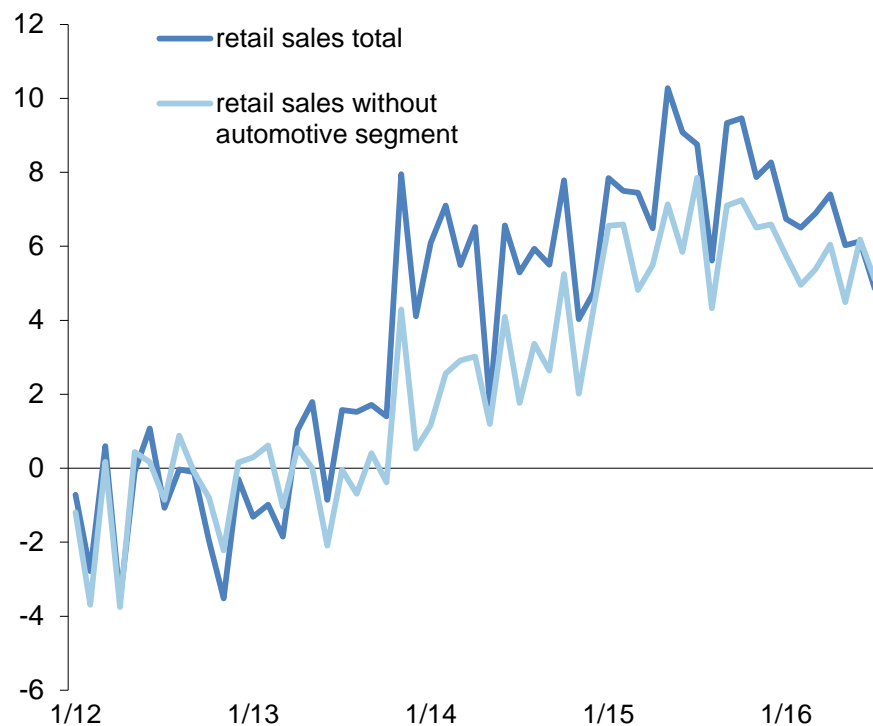


Industry, construction, retail sales

(Annual changes in %, s.a.)

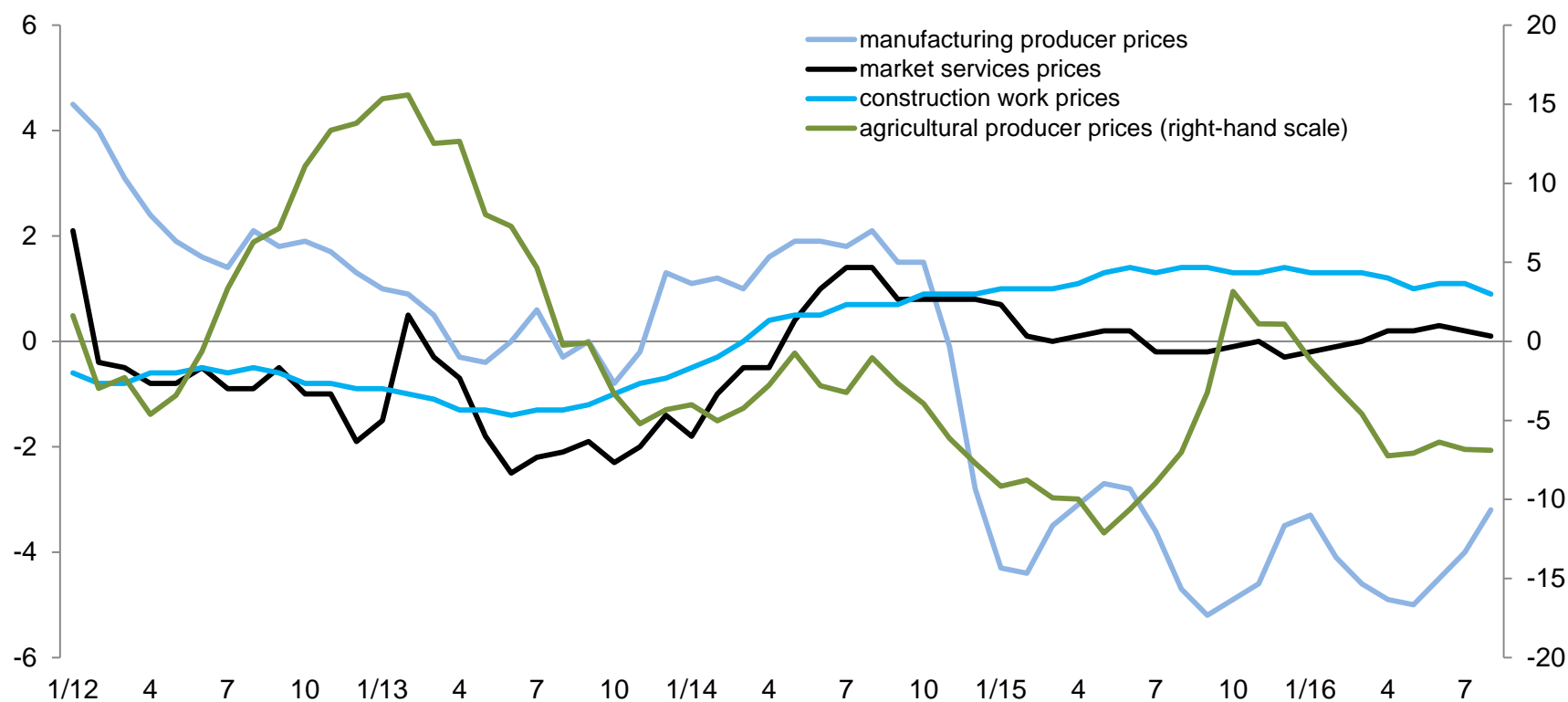


(Annual changes in %, s.a.)

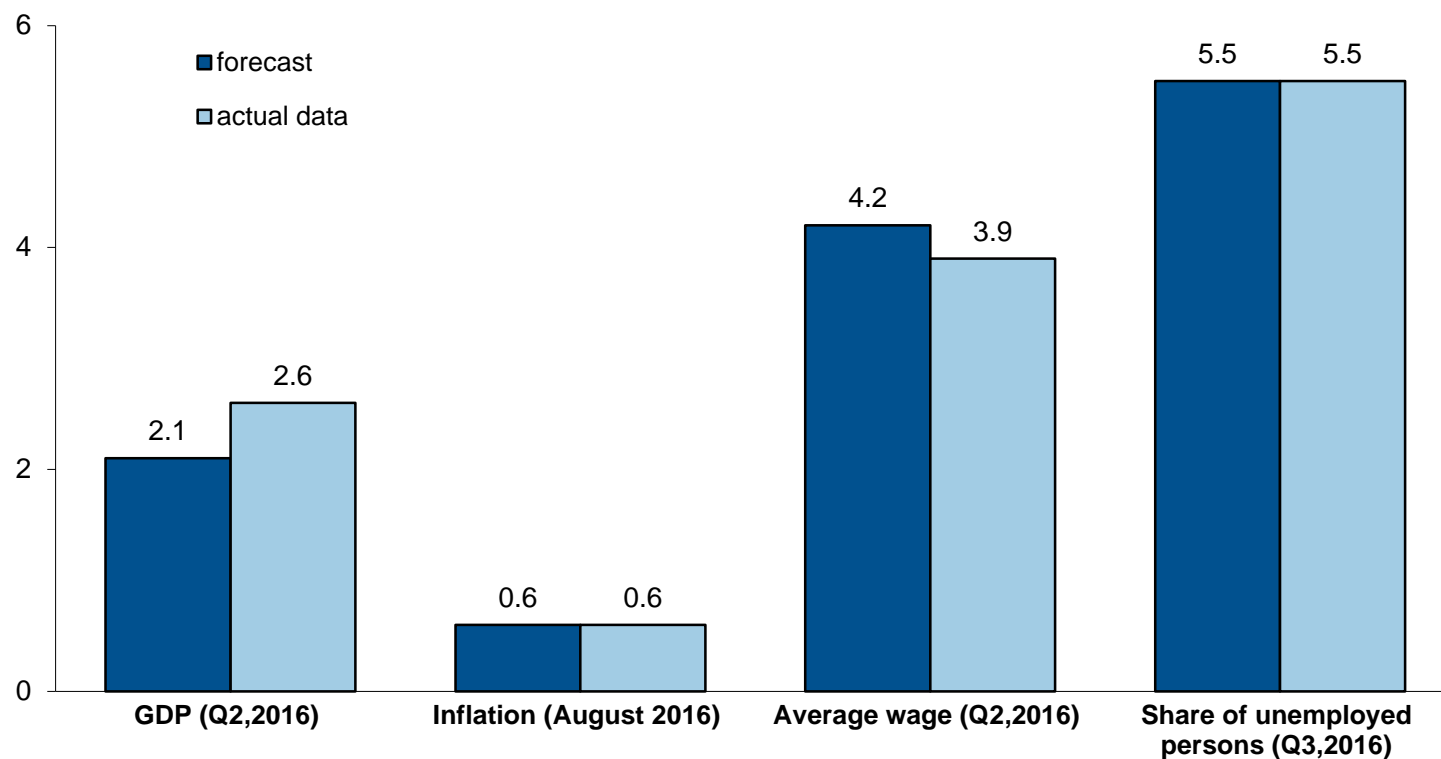


Producer prices

(Annual changes in %)



Comparison of actual data with the CNB forecast



Notes: Annual changes in %, the share of unemployed persons in % (comparison of s.a. outcomes in July and August with the forecast for 2016 Q3)



Risks to the current forecast

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



Summary

- The Bank Board decided to leave interest rates unchanged and to continue using the exchange rate as an additional instrument for easing the monetary conditions.
- A need to maintain expansionary monetary conditions at least to the current extent persists. The Bank Board assessed the risks to the current forecast as being balanced.
- The CNB will not discontinue the use of the exchange rate as a monetary policy instrument before 2017 Q2.
- The Bank Board still considers it likely that the exchange rate commitment will be discontinued in mid-2017.



Thank you for your attention

Minutes of the today's meeting will be released
on 7 October 2016 at

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