Press conference of the CNB Bank Board

6th Situation Report on Economic and Monetary Developments

25 September 2019

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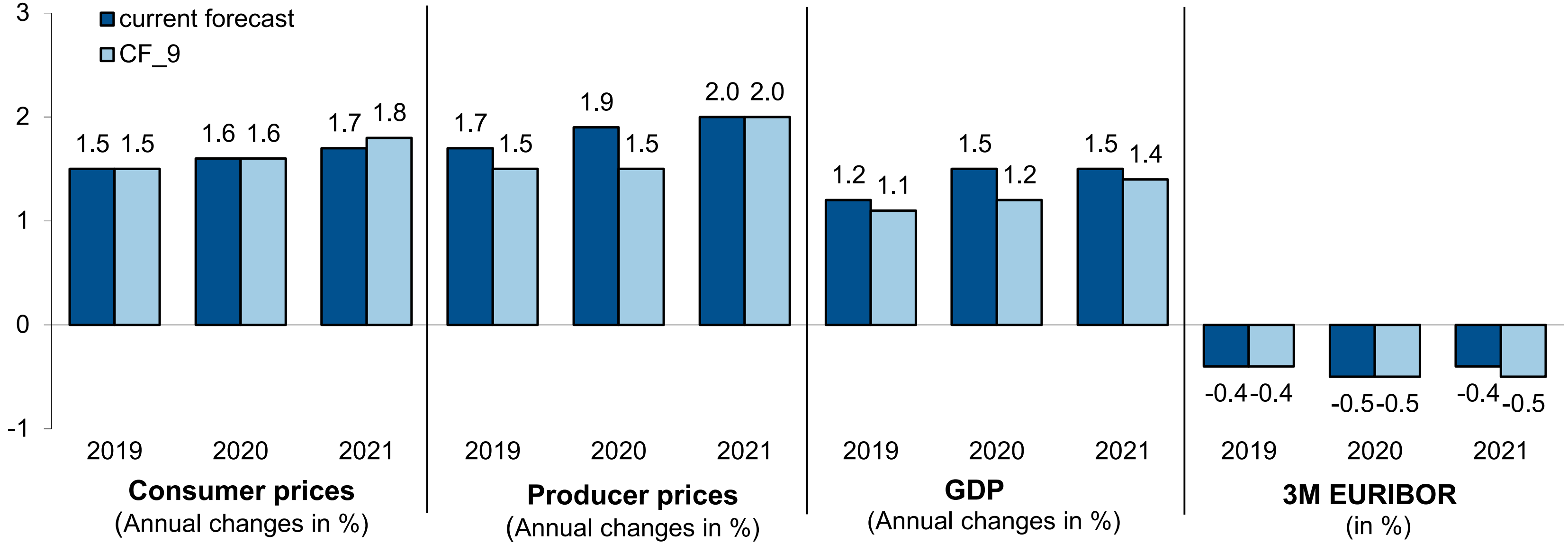
The monetary policy decision

- At its meeting today, the CNB Bank Board kept interest rates unchanged. The two-week repo rate thus remains at 2%, the discount rate at 1% and the Lombard rate at 3%.
- Five members voted in favour of this decision, and two members voted for increasing interest rates by 25 basis points .
- The current forecast expects inflation to stay above the 2% target but still within the tolerance band around the target in the quarters ahead. Inflation will start to decrease at the start of next year and will approach the target over the monetary policy horizon, i.e. in the second half of next year.
- Consistent with the forecast is a modest rise in domestic market interest rates in the second half of this year, followed by a decline next year.
- The Bank Board assessed the risks to the current forecast as being rather substantial in both directions and slightly inflationary overall.

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 calculation are equal to the shares of the individual euro area countries in the total exports of the Czech Republic to the euro area

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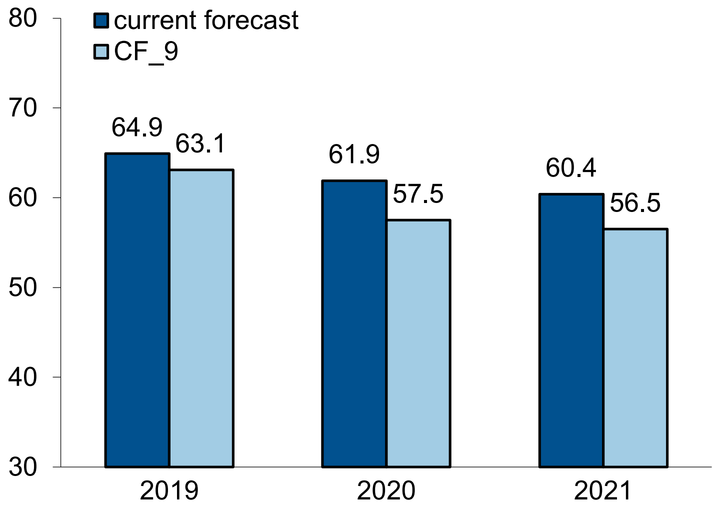
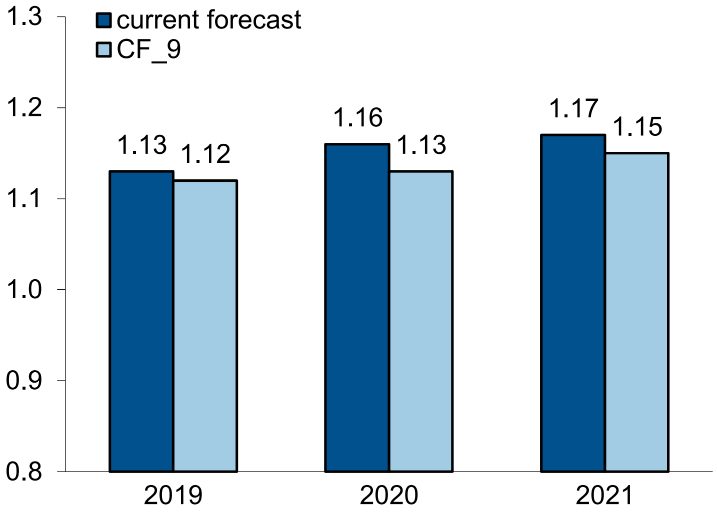
The external environment (ii)

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



Brent oil (USD/barrel)



USD/EUR

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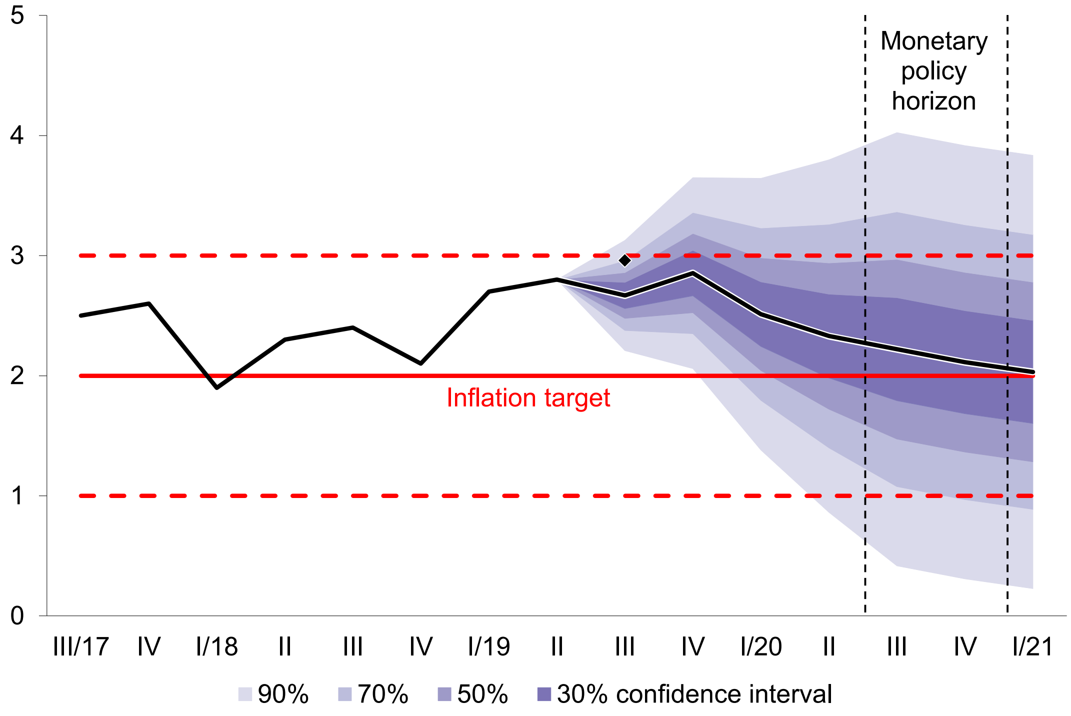
The inflation forecast and expected outcome in 2019 Q3



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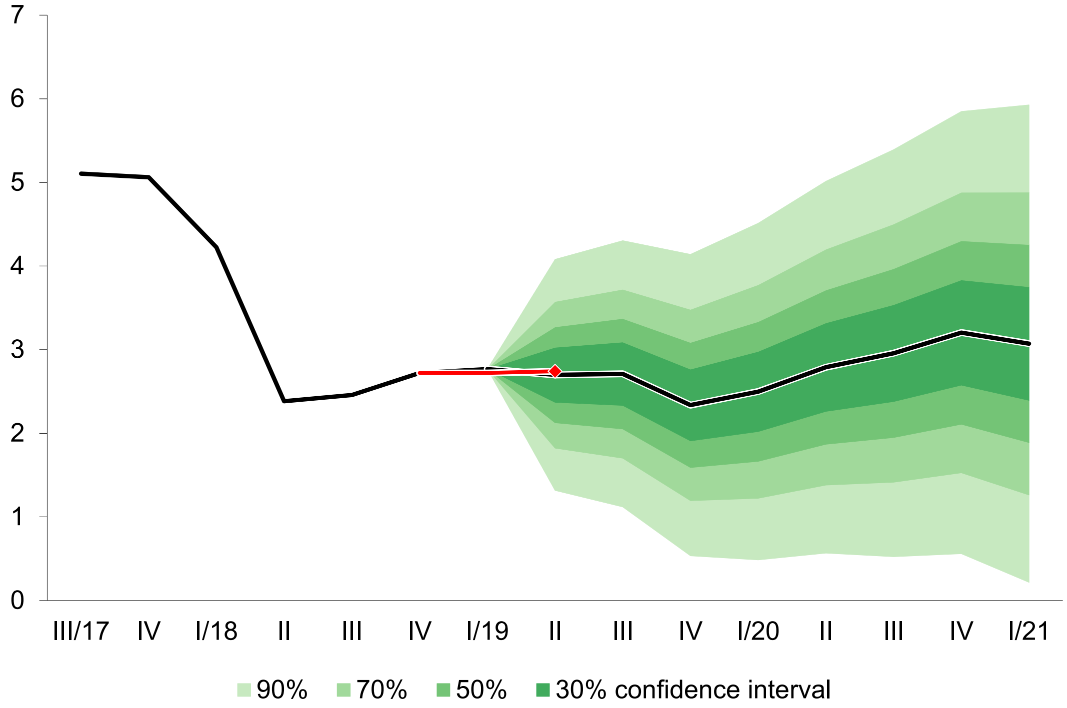
The GDP forecast and outcome in 2019 Q2



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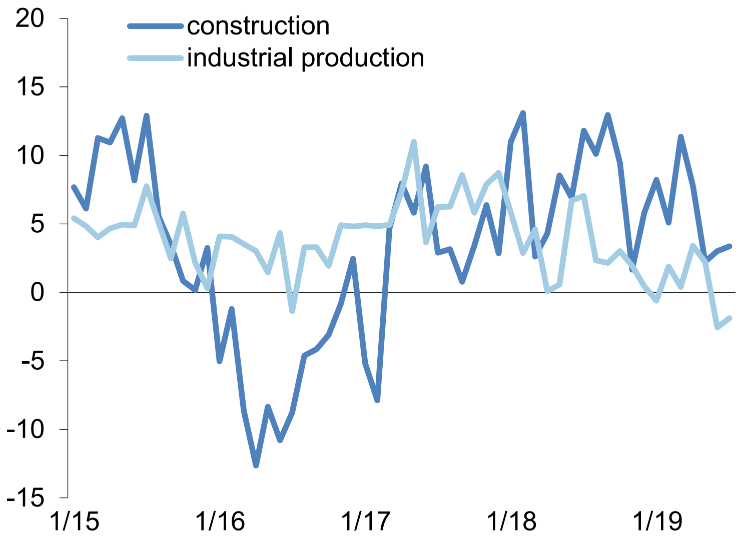
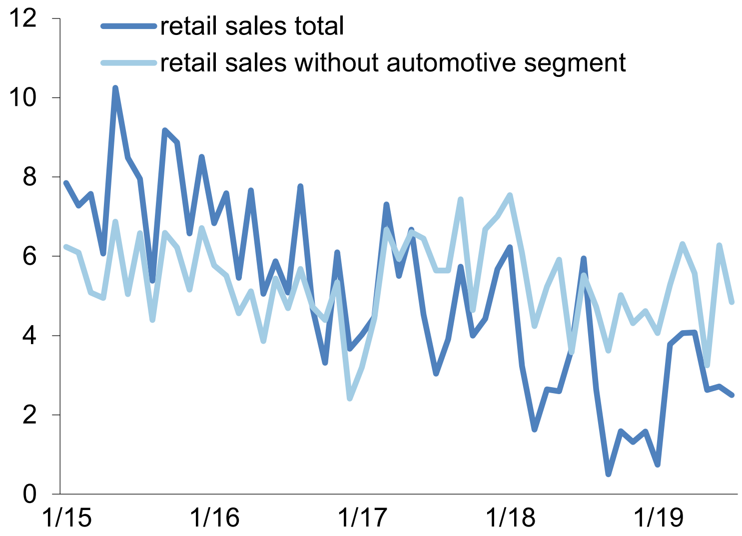
Industry, construction and retail sales



(annual changes in %, s.a.)



(annual changes in %, s.a.)

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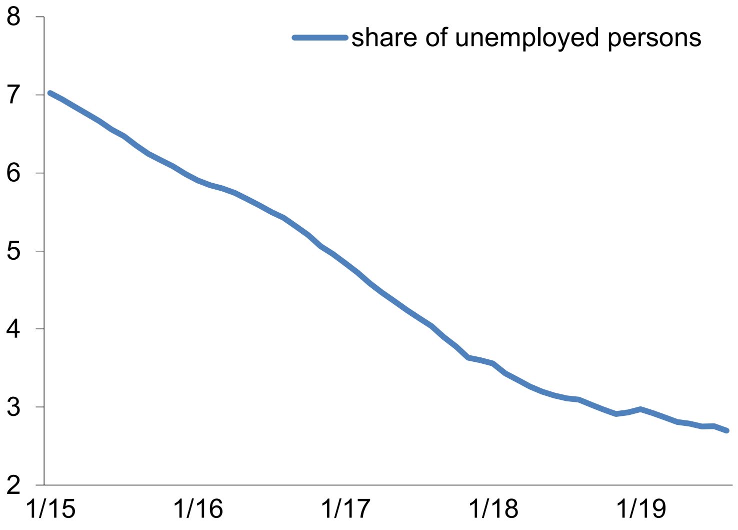
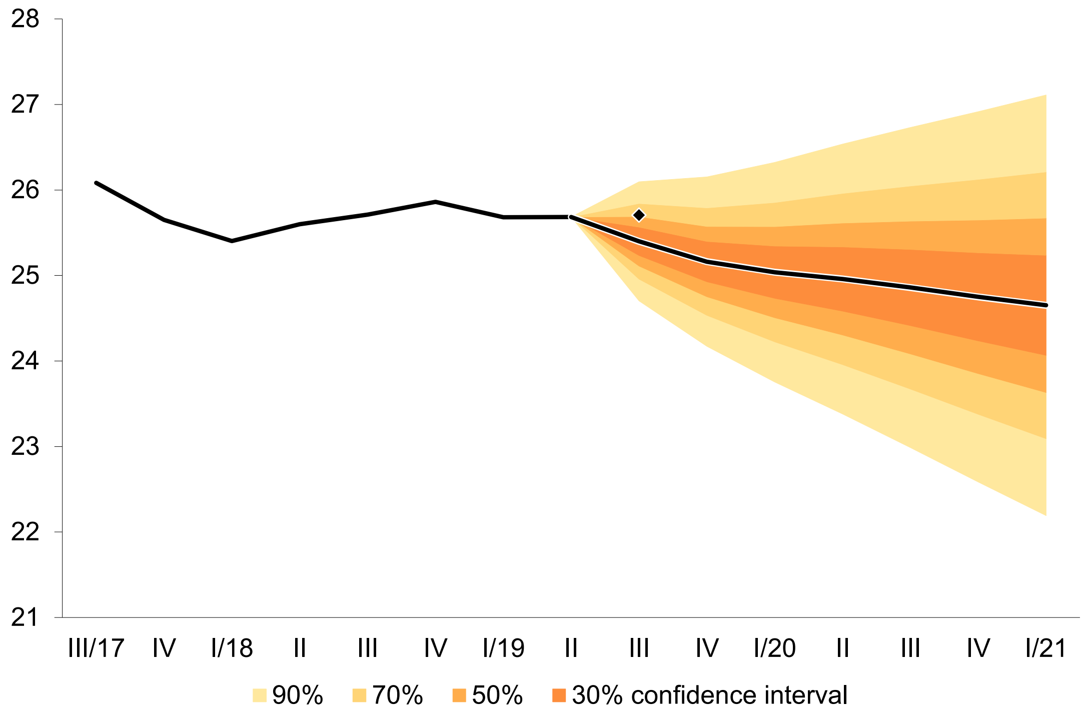
Labour market



(in %, seasonally adjusted)

(annual changes in %)

The CZK/EUR exchange rate forecast and outcome in 2019 Q3



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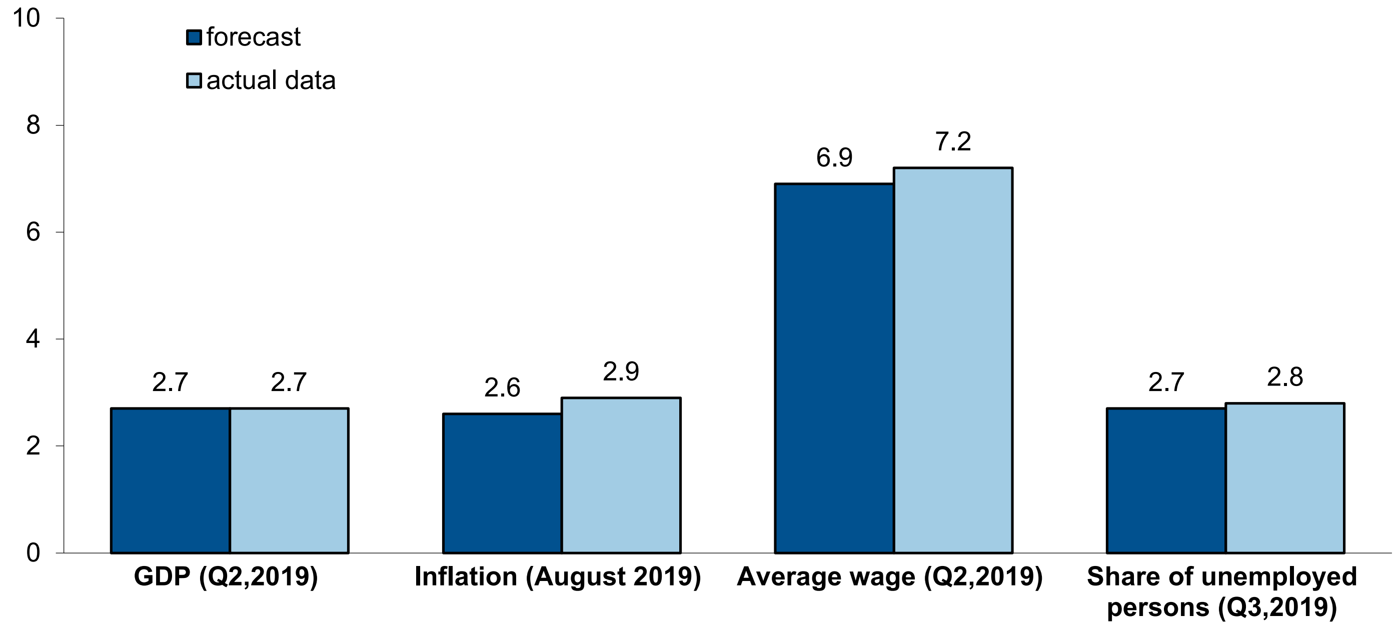
Comparison of actual domestic data with the CNB forecast



Notes: annual changes in %,
the share of unemployed persons in % (comparison of s.a. outcomes in July and August with the forecast for 2019 Q3)

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Risks to the current forecast

The Bank Board assessed the risks to the current inflation forecast at the monetary policy horizon as being **rather substantial in both directions and slightly inflationary overall.**

Inflationary risk:

- weaker-than-forecasted koruna exchange rate

Anti-inflationary risks:

- lower outlook for foreign prices
- potential more pronounced slowdown of the external and, in turn, domestic economy

Uncertainties:

- protectionist measures in global trade
- disorderly Brexit

Thank you for your attention

Minutes of the today's meeting and the Graph of Risks to the Inflation Projection (GRIP) will be released on 4 October 2019 at

https://www.cnb.cz/en/monetary-policy/bank-board-decisions/