

4th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



Monetary policy decision

At its meeting today, the CNB Bank Board unanimously kept interest rates unchanged.

FOR NO CHANGE


The two-week repo rate thus remains at 0.25%, the discount rate at 0.05% and the Lombard rate at 1%.

0.25%
2W repo
rate

0.05%
discount
rate

1.00%
Lombard
rate

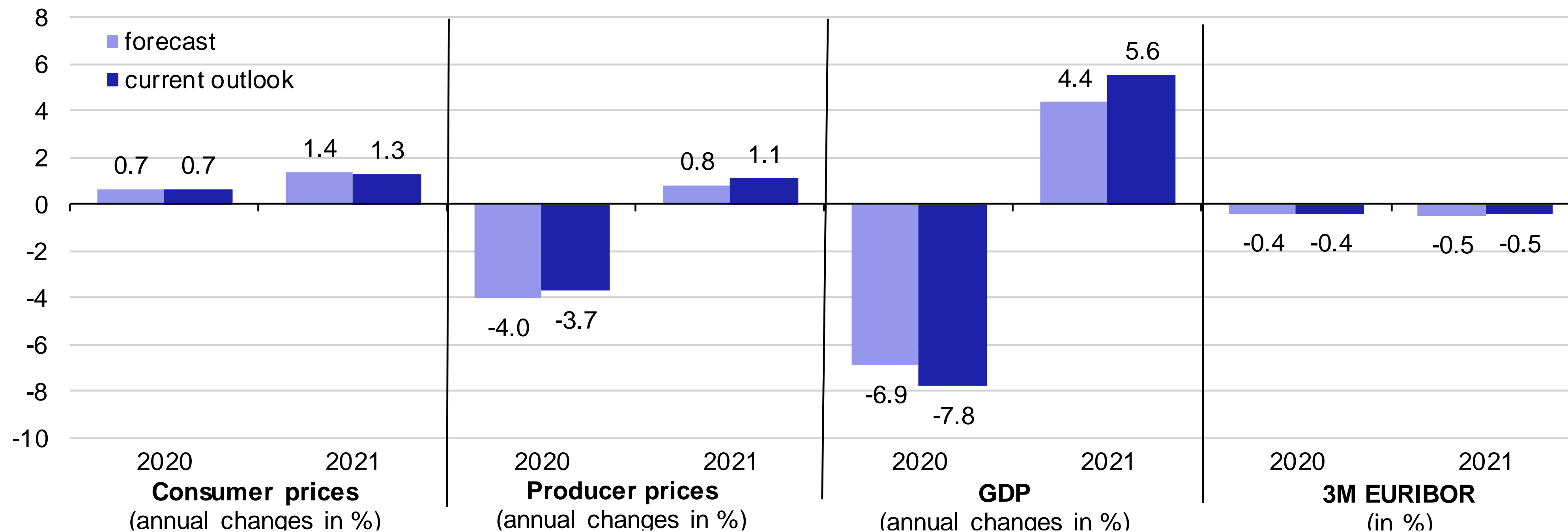
The baseline scenario of the current forecast is largely materialising.

After the fall in domestic market interest rates in May, **consistent with the forecast is broad stability of rates in the following quarters.**

The Bank Board assessed **the risks to the current inflation forecast at the monetary policy horizon as being broadly balanced.**

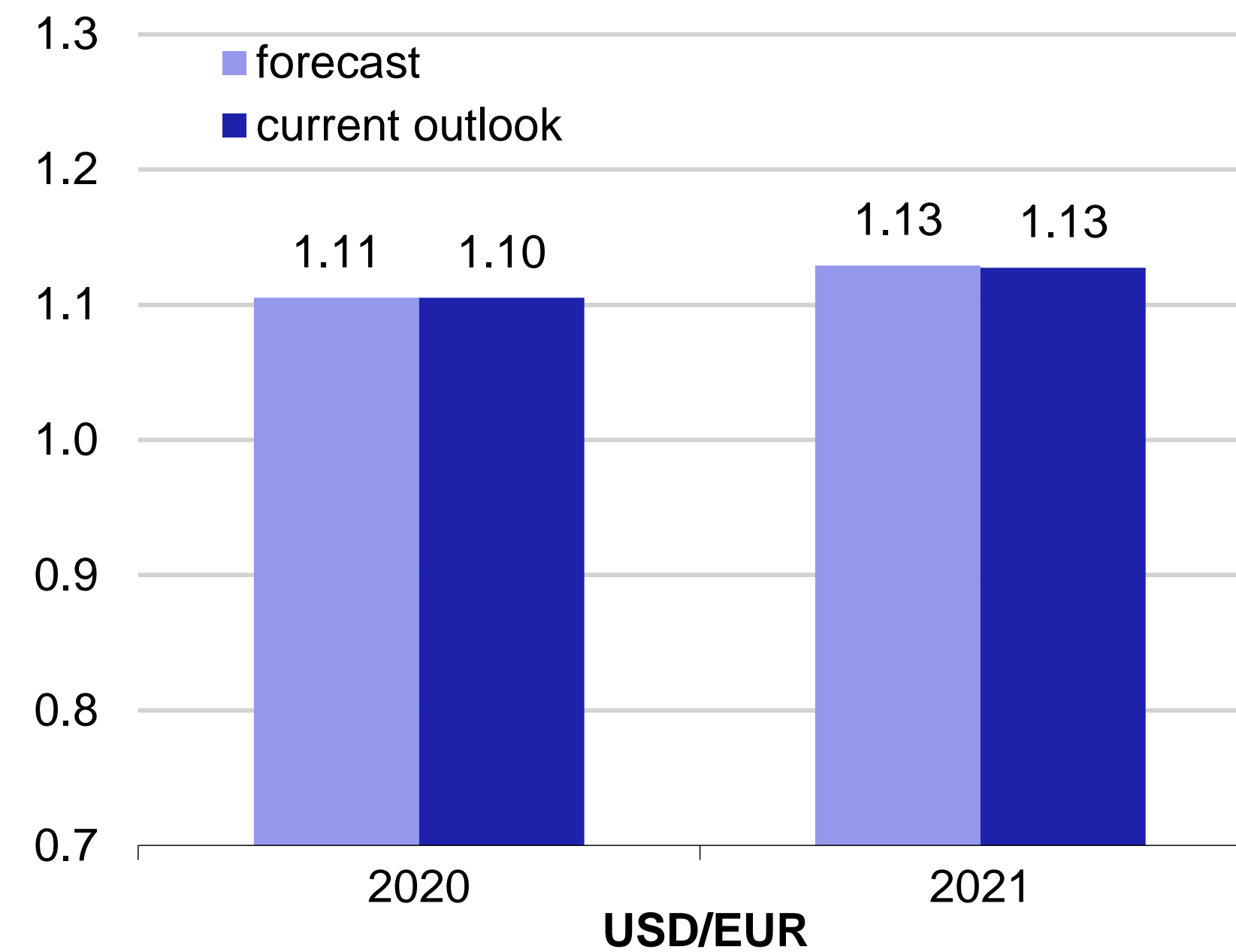
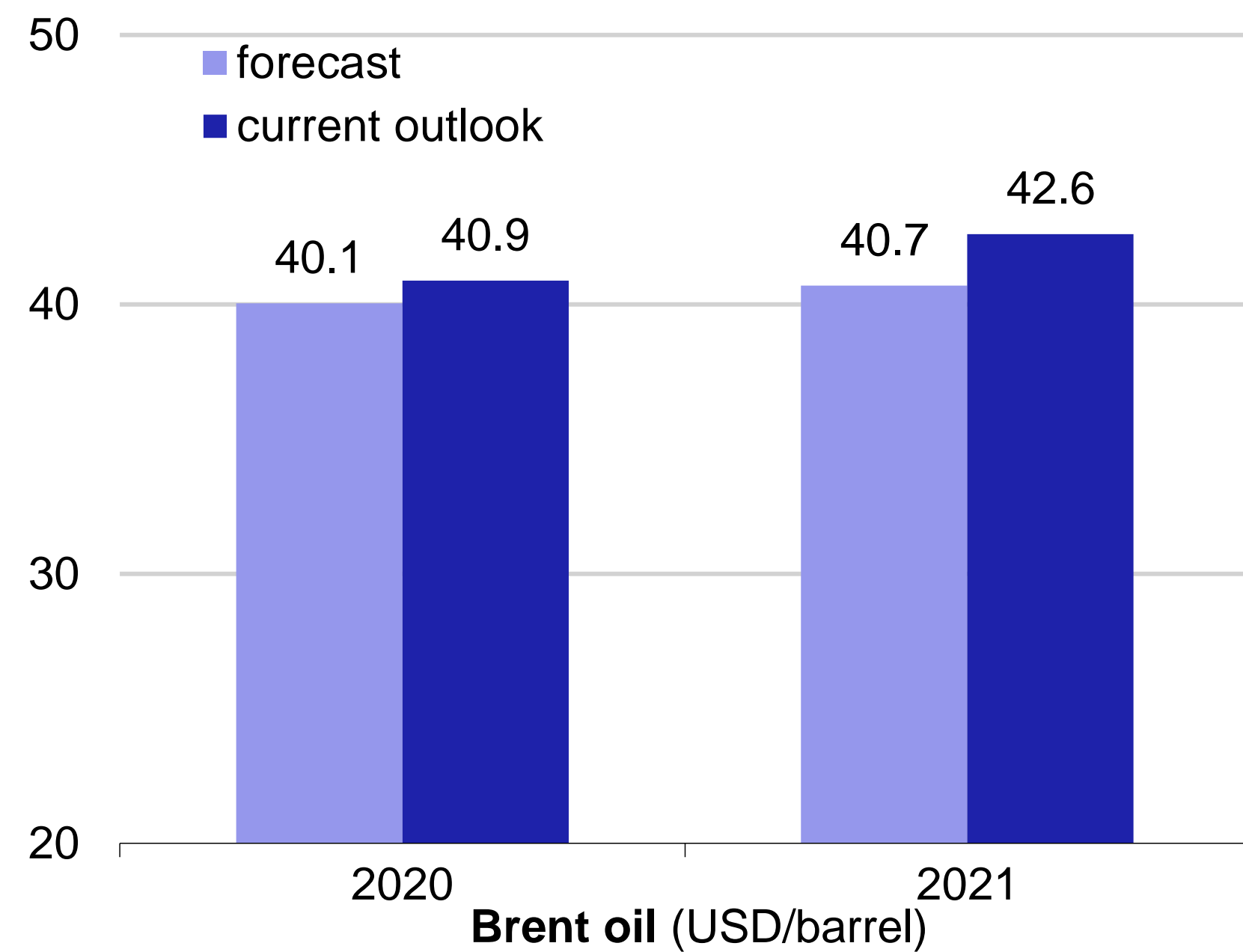
External environment (i)

Comparison between the CNB forecast assumptions and the current outlook for the effective euro area

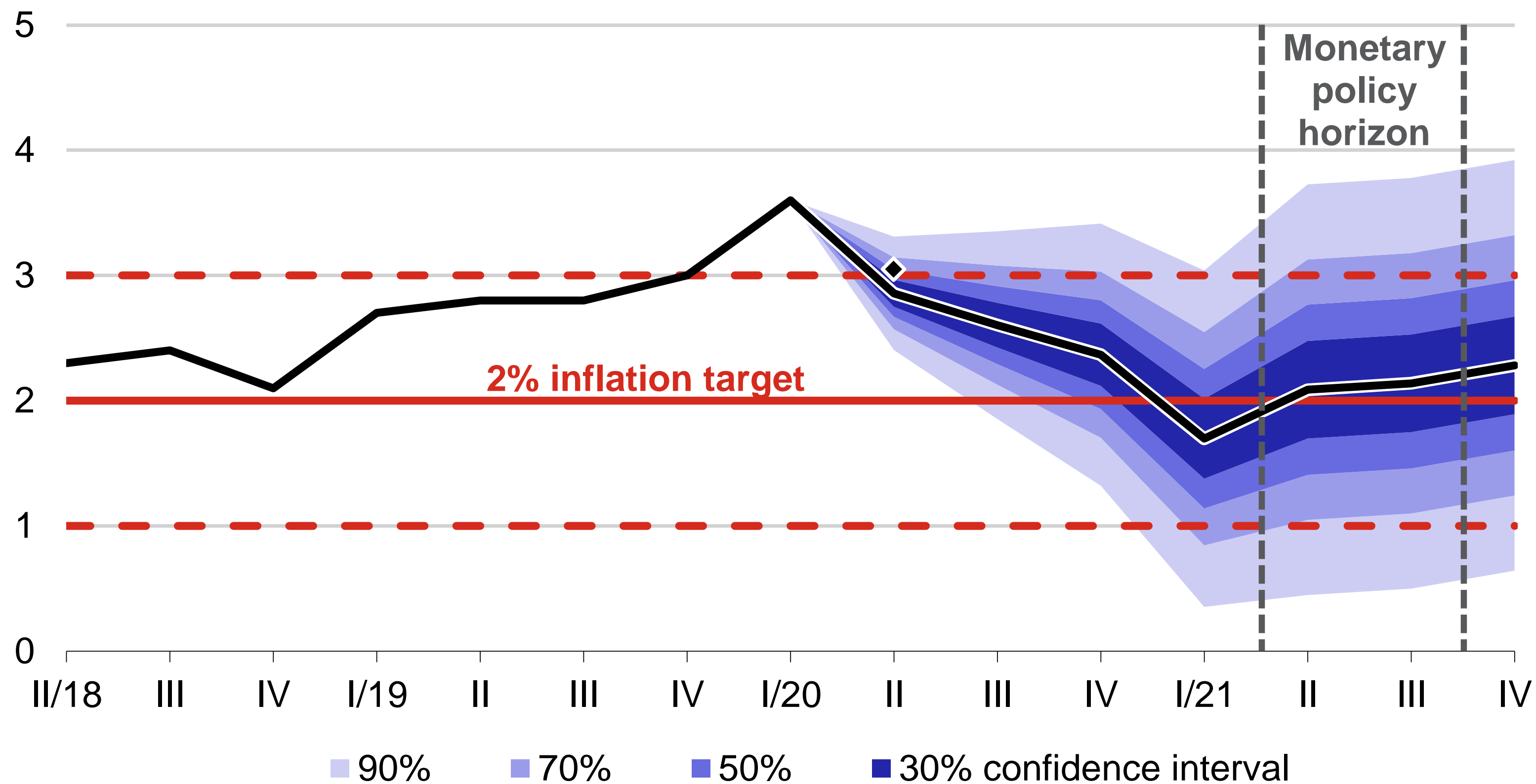


External environment (ii)

Comparison between the CNB forecast assumptions and the current outlook



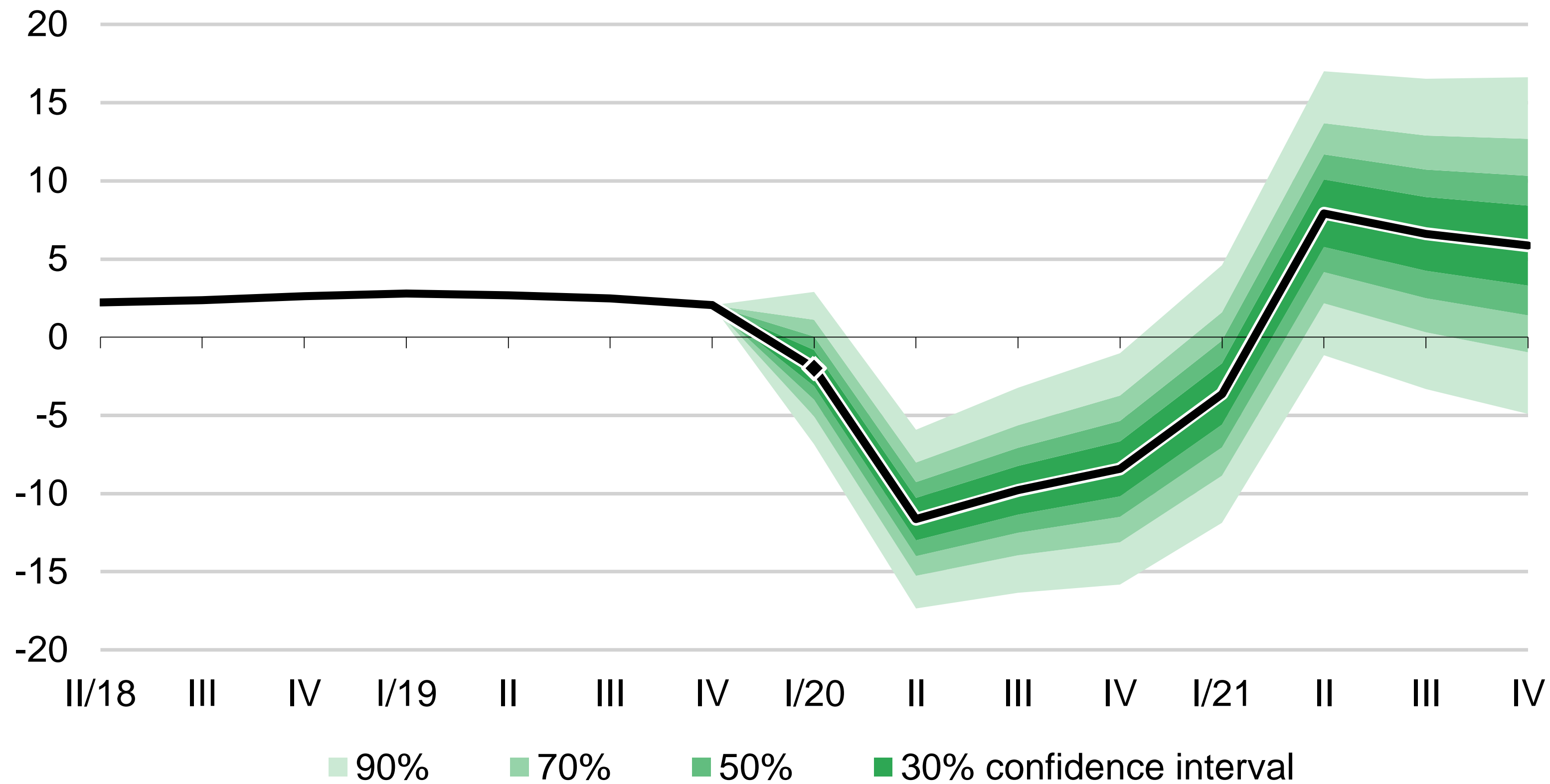
The inflation forecast and expected outcome in 2020 Q2



Consumer price growth was slightly above the forecasted values during Q2. The key reason was higher-than-expected core inflation.

The forecast expects inflation to decline to the CNB's 2% target at the end of this year.

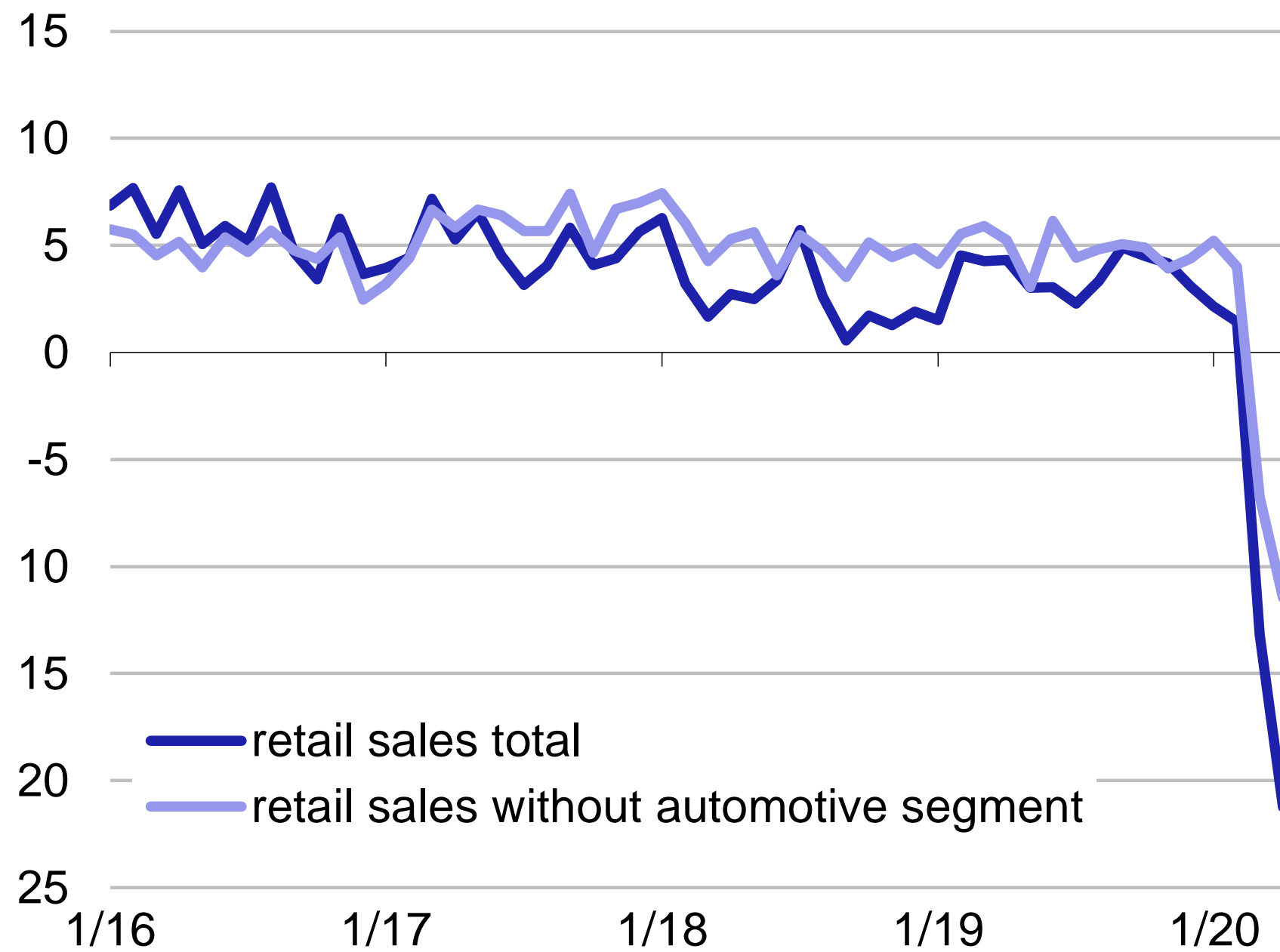
The GDP forecast and outcome in 2020 Q1



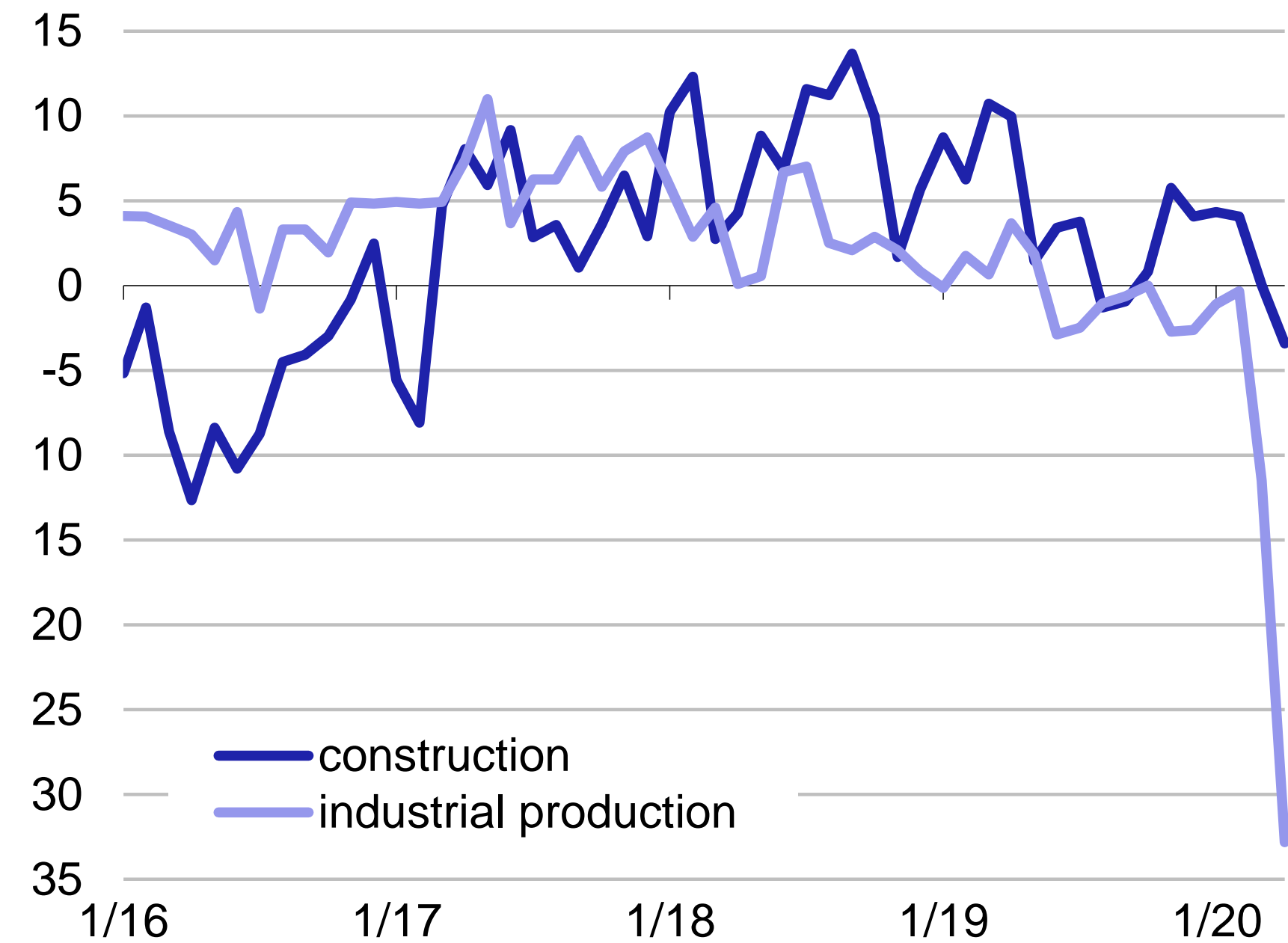
As a result of measures adopted against the pandemic, economic activity dropped by 2% year on year in Q1, in line with the forecast.

Industry, construction and retail sales

(annual changes in %, seasonally adjusted)

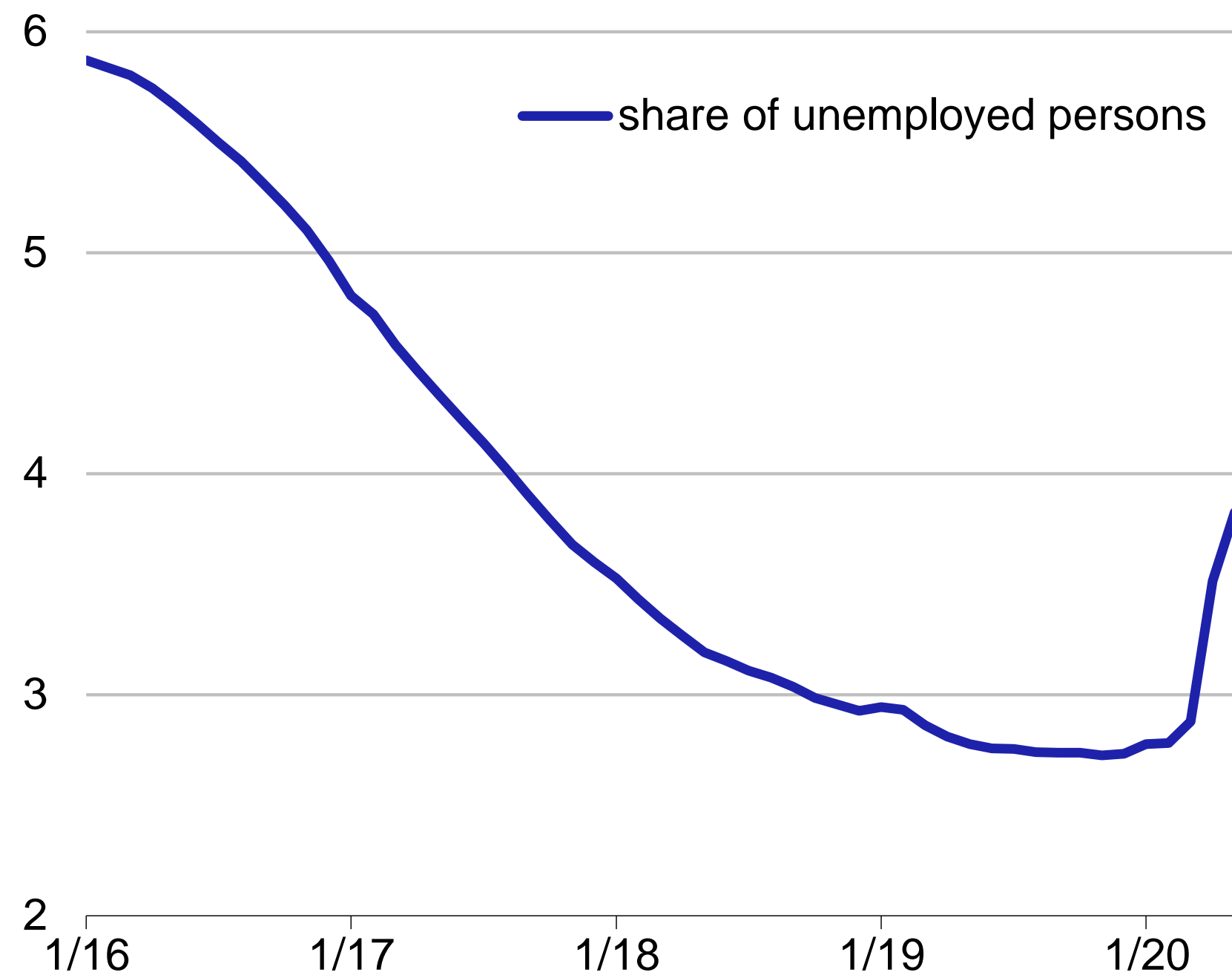


(annual changes in %, seasonally adjusted)



Labour market

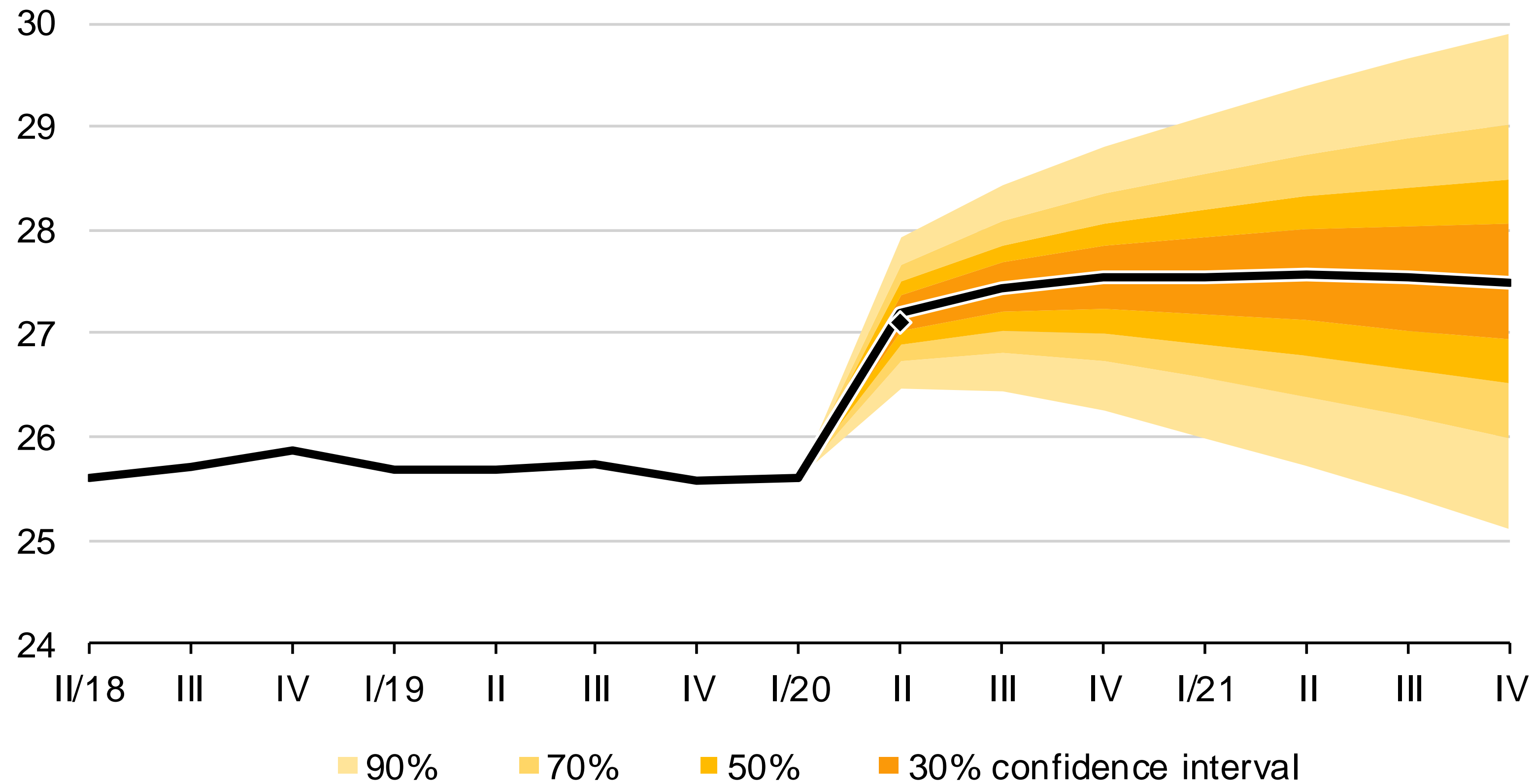
(in %, seasonally adjusted)



(annual changes in %)

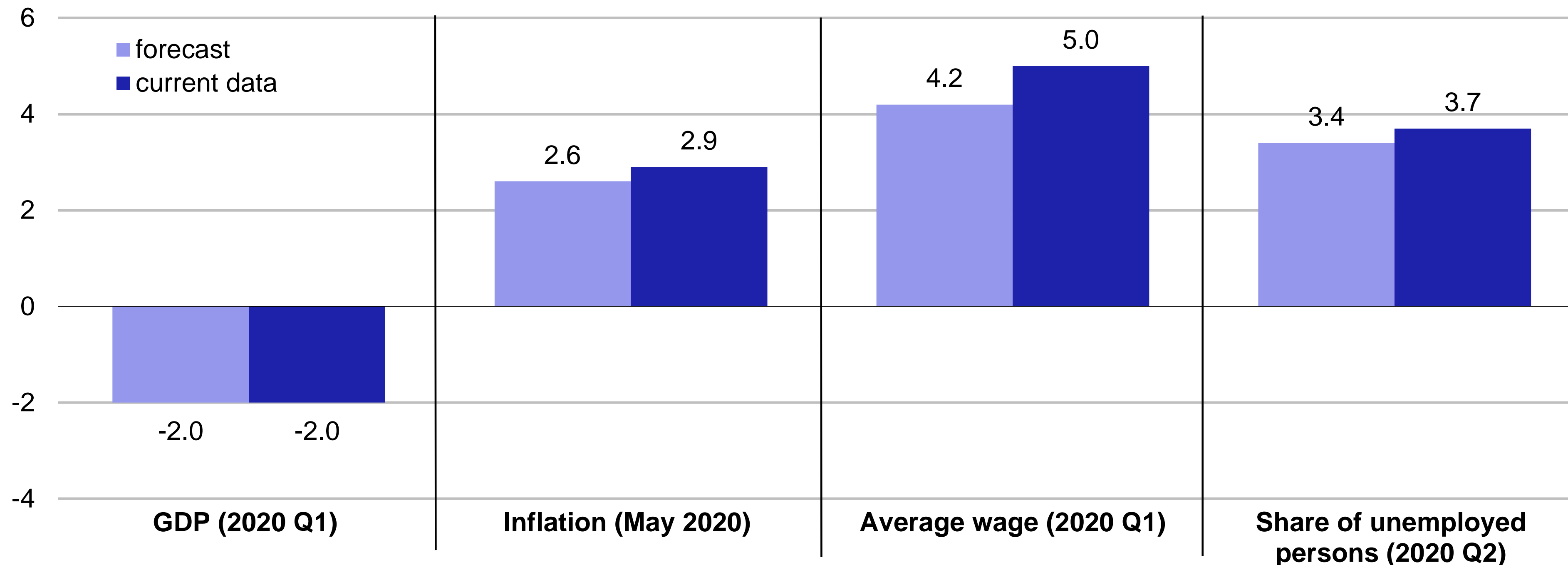


The CZK/EUR exchange rate forecast and outcome in 2020 Q2



The average koruna exchange rate against the euro was close to the forecast in Q2.

Comparison of current domestic data with the CNB forecast



Note: annual changes in %, the share of unemployed persons in % (comparison of s.a. outcomes in April and May with the forecast for 2020 Q2)

Risks and uncertainties of the forecast

The Bank Board assessed the risks to the current inflation forecast at the monetary policy horizon as being broadly balanced.

Risks and uncertainties of the forecast:

- anti-inflationary effect of current exchange rate developments
- stronger stabilising effect of budget policy
- course of the pandemic at home and abroad and the related cyclical and structural impacts on individual economies

Thank you for your attention

Minutes of today's meeting will be released on 3 July 2020 at

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

As after the March meeting, the Graph of Risks to the Inflation Projection (GRIP) will not be published.



Summary



After the fall in domestic market interest rates in May, consistent with the forecast is broad stability of rates.



Risks to the current forecast are broadly balanced. The uncertainty related to the pandemics, however, remains very high.



The Bank Board unanimously kept interest rates unchanged (voting 7:0).



The key interest rate remains at 0.25%.