
5th 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.

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

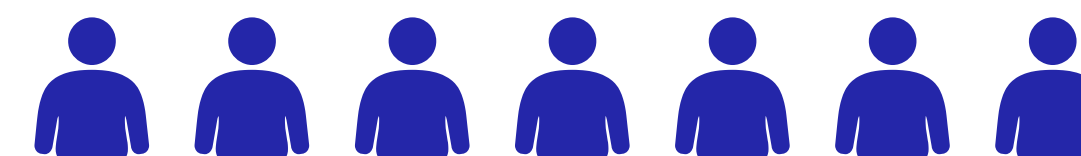
0.05%

discount
rate

1.00%

Lombard
rate

FOR NO CHANGE

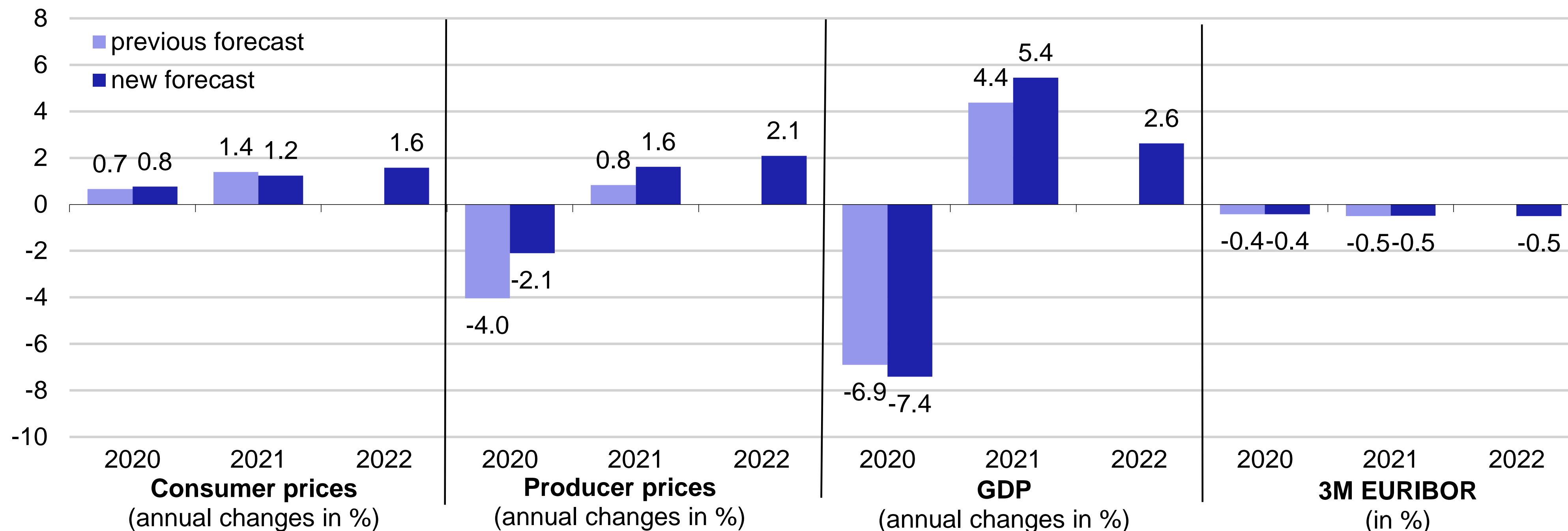


The decision adopted by the Bank Board is underpinned by **the CNB's new macroeconomic forecast.**

Consistent with the forecast is **stability of domestic market interest rates until mid-2021, followed by a gradual rise in rates.**

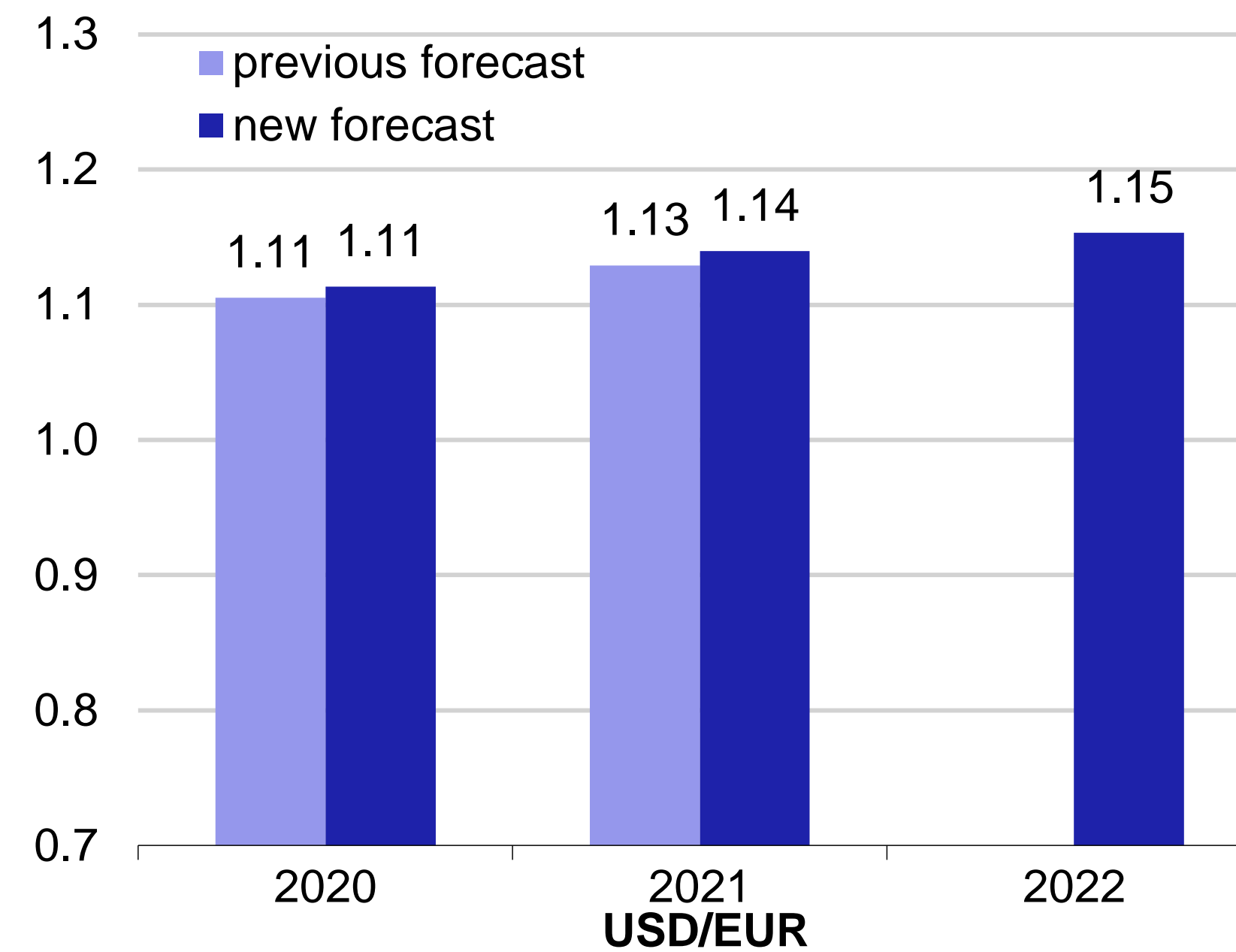
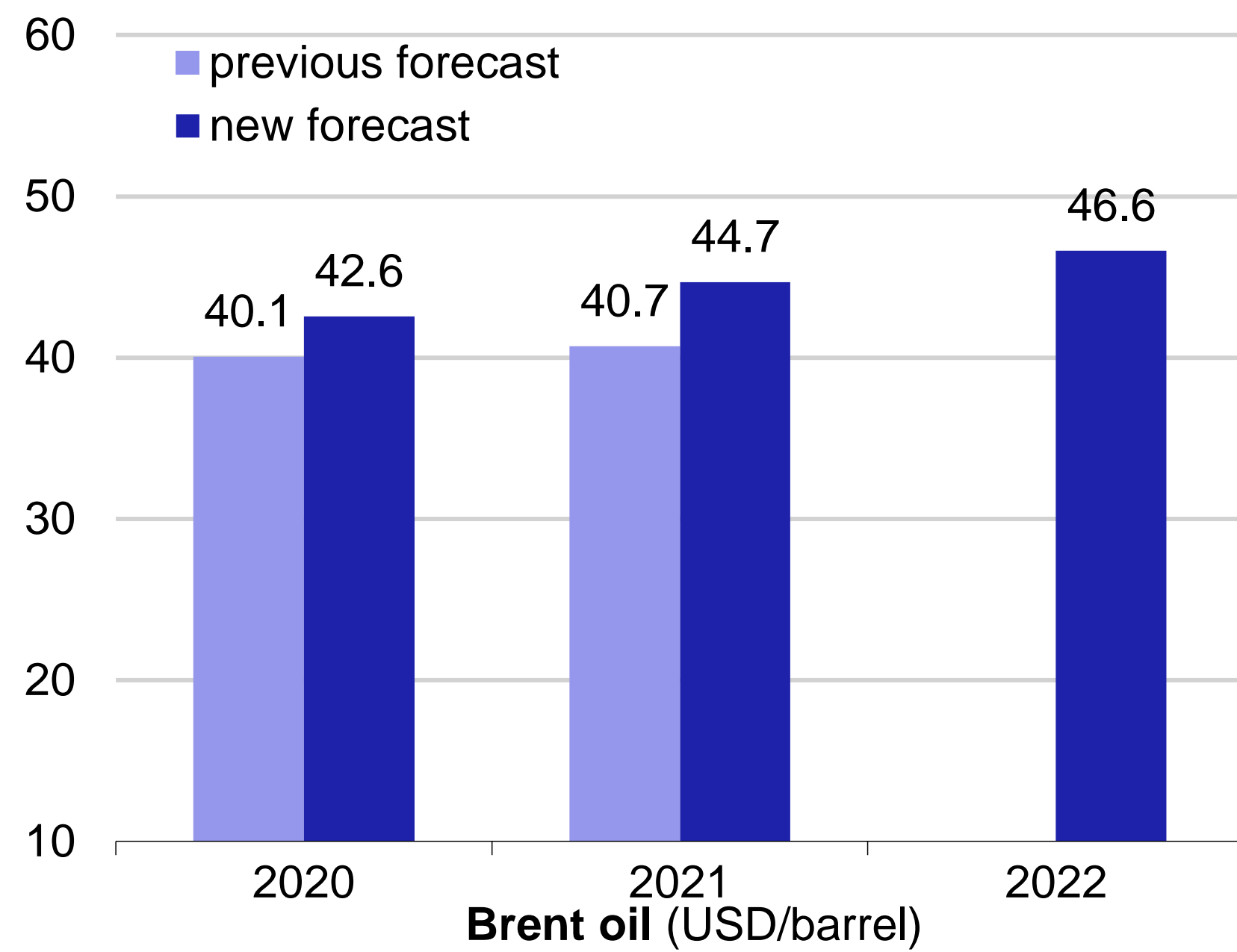
External environment (i)

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

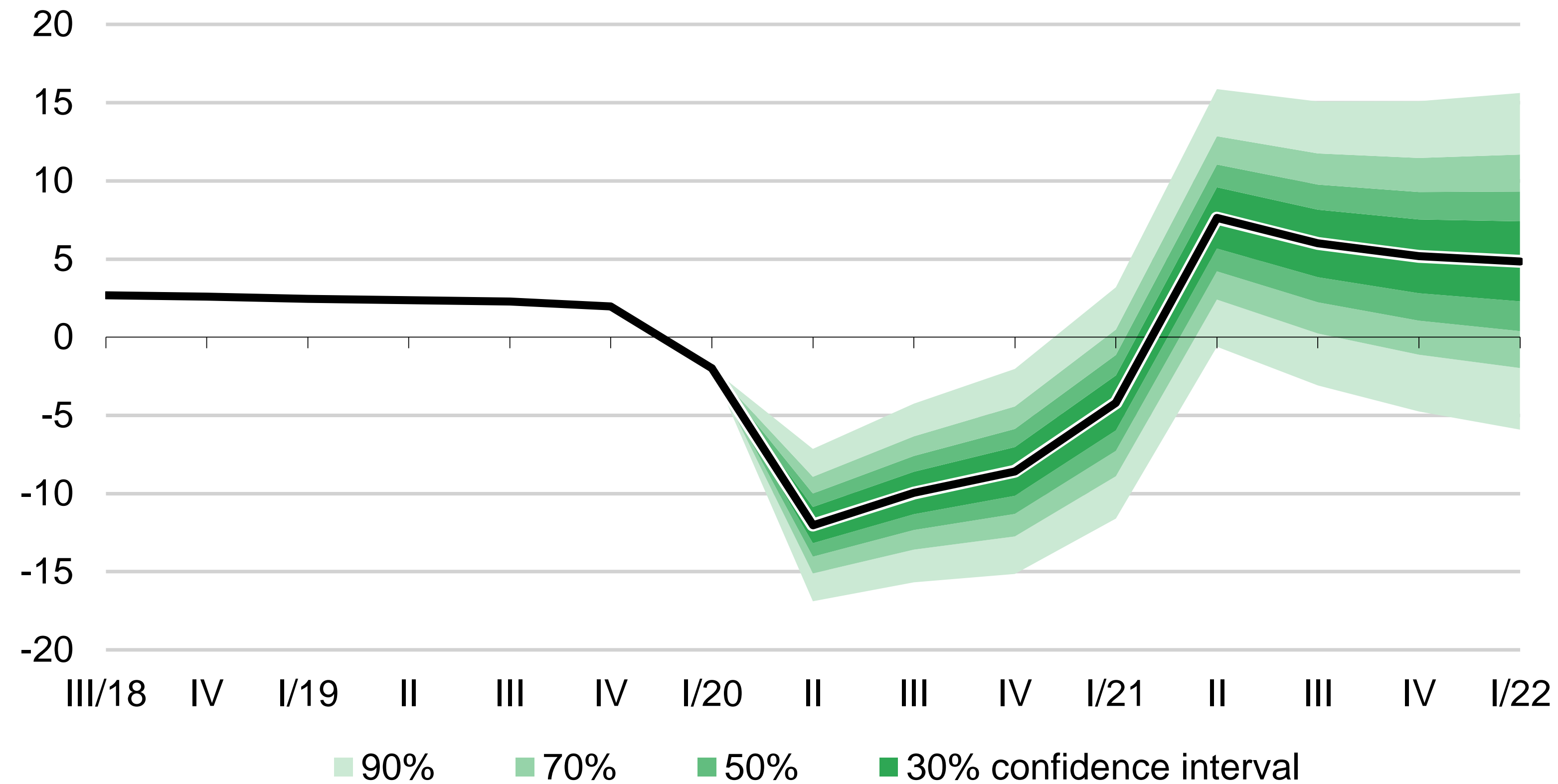


External environment (ii)

Comparison between the assumptions of the new and previous forecasts



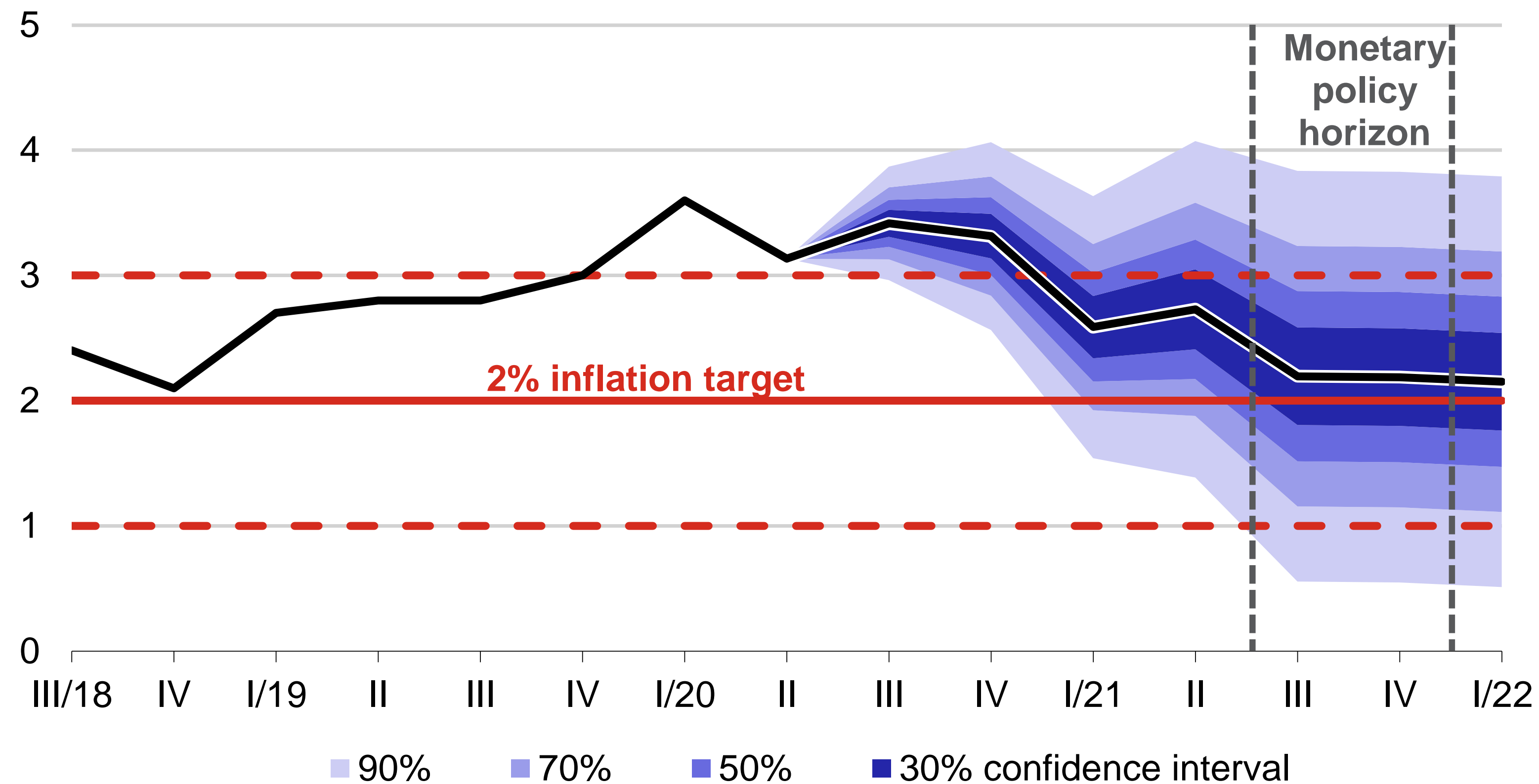
Forecast for GDP



The Czech economy will drop sharply this year due to the coronavirus pandemic, but its growth will recover next year.

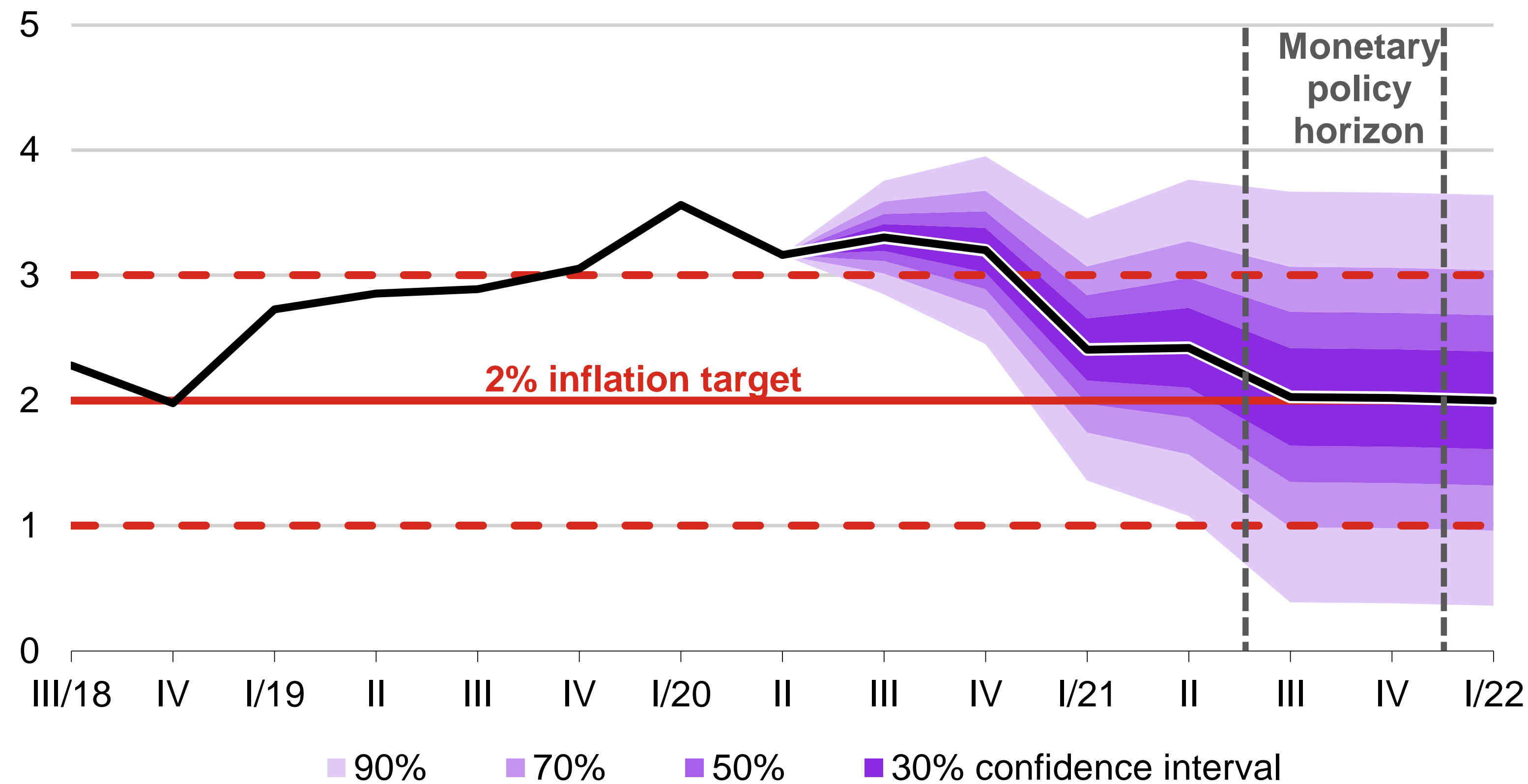
The economy will not reach the pre-pandemic level until the end of 2022.

Forecast for headline inflation



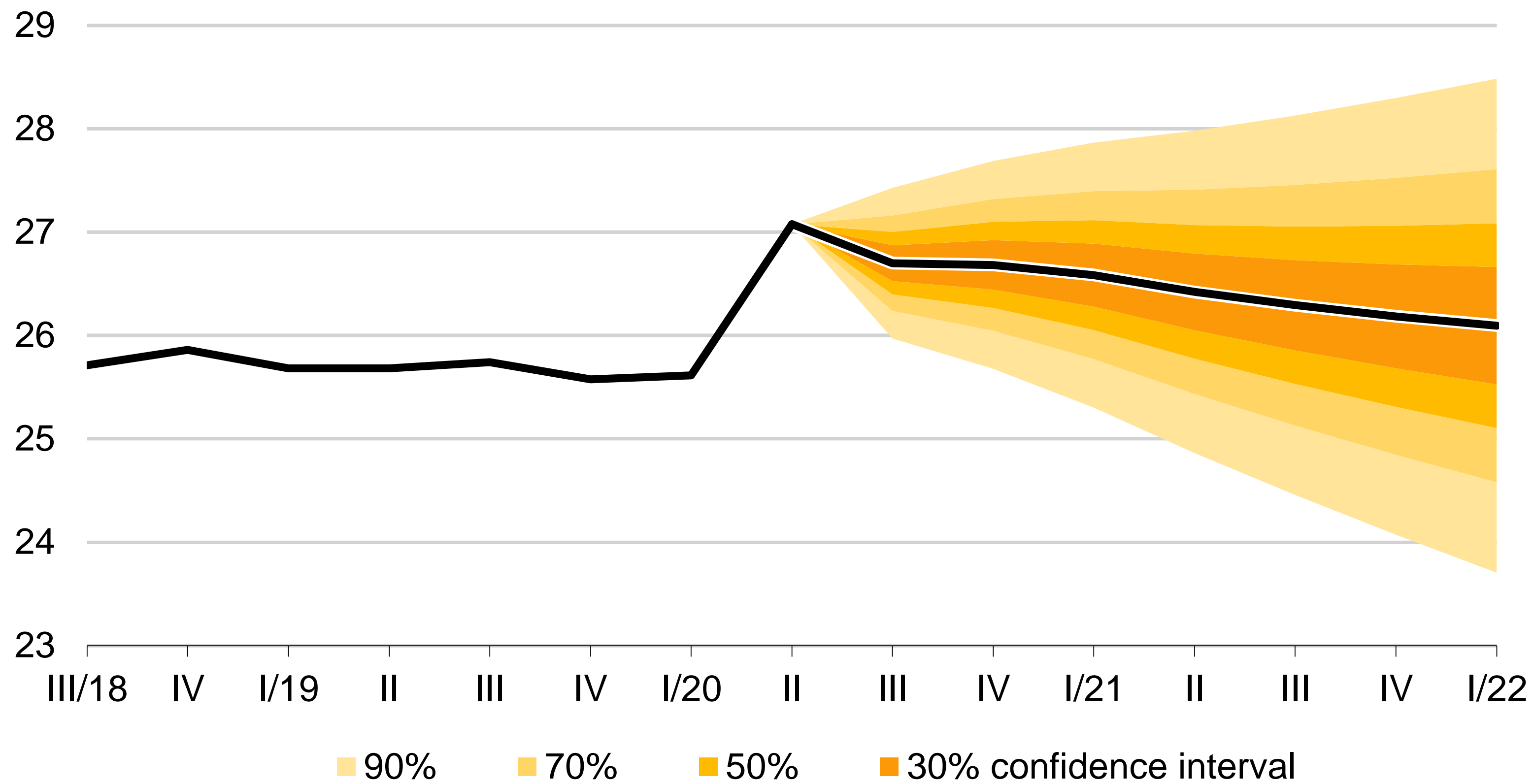
Headline inflation will stay above the upper boundary of the tolerance band this year. It will decline into the tolerance band at the start of next year and return close to the CNB's 2% target over the monetary policy horizon.

Forecast for monetary policy-relevant inflation



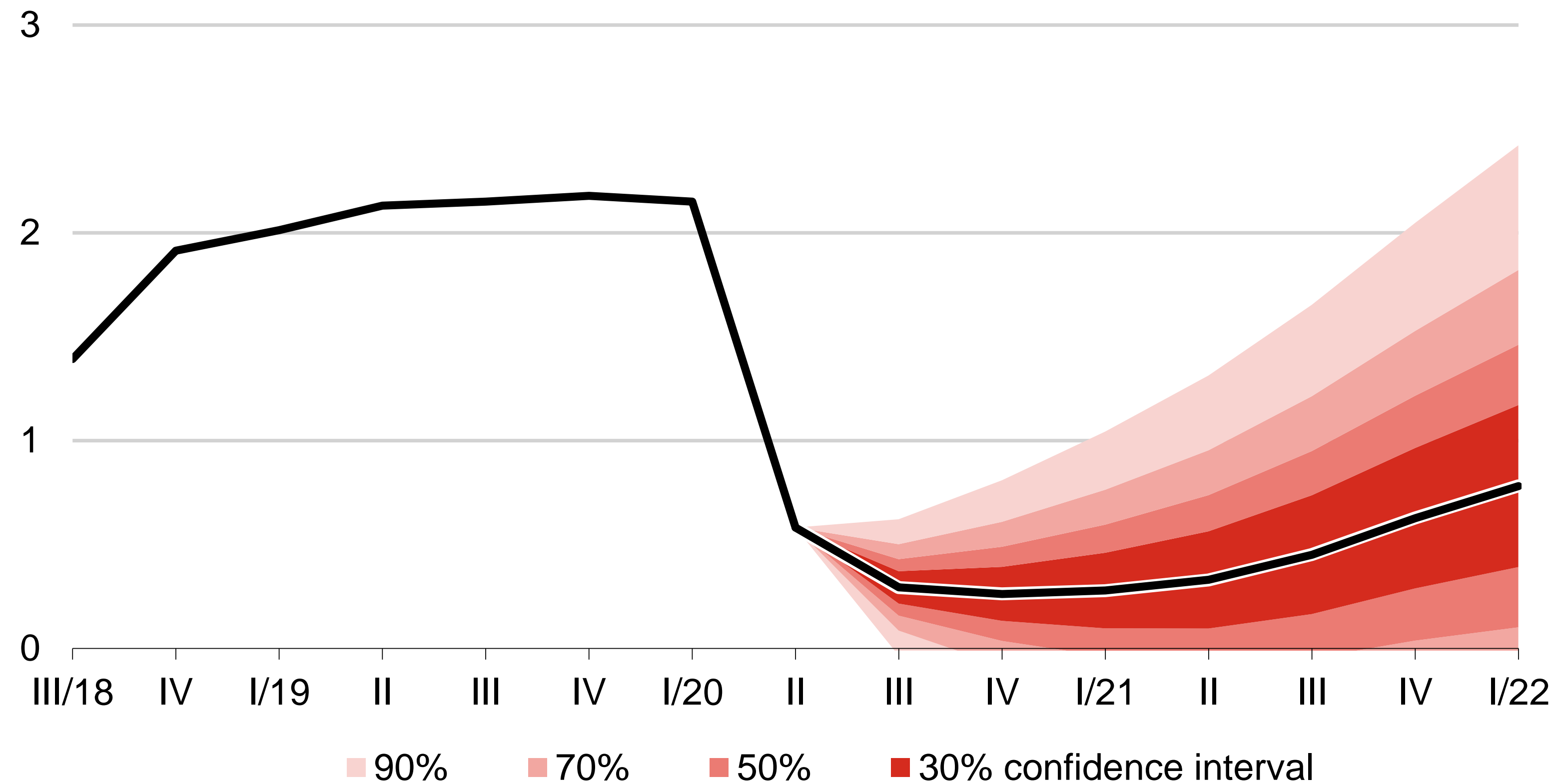
Monetary policy-relevant inflation will be slightly lower than headline inflation, as the first-round effects of changes to indirect taxes will be slightly positive overall.

Forecast for the exchange rate (CZK/EUR)



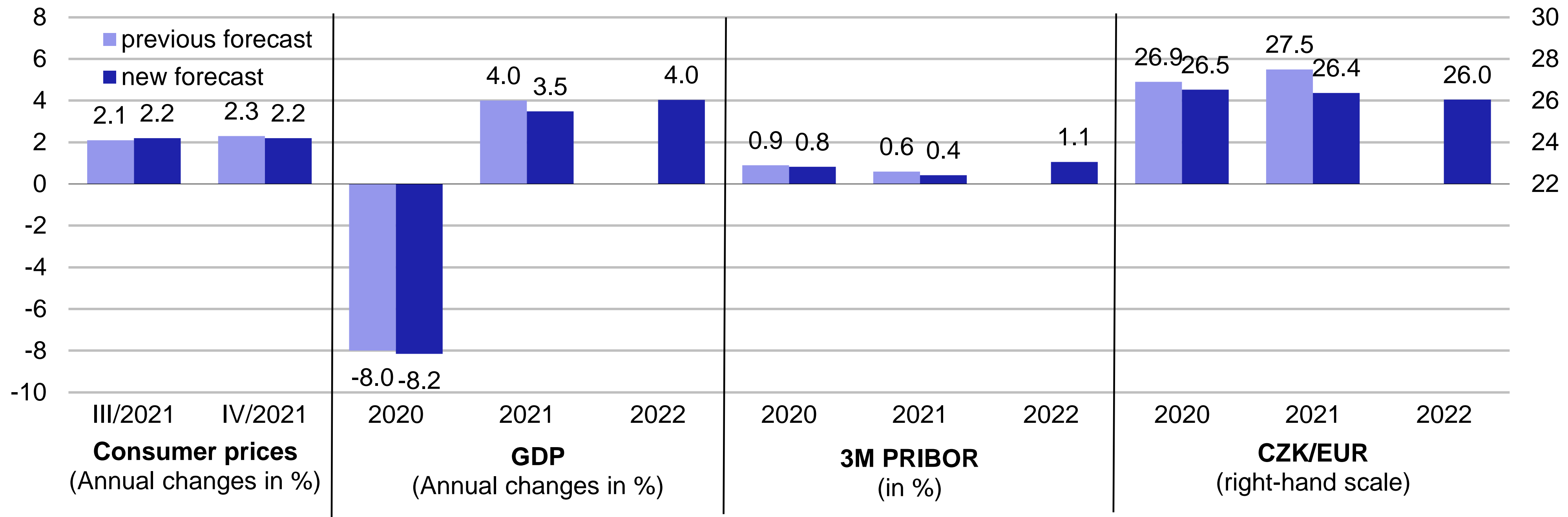
The koruna will appreciate gradually over the entire forecast horizon.

Forecast for interest rates (3M PRIBOR)



Consistent with the forecast is stability of domestic market interest rates until mid-2021, followed by a gradual rise in rates.

Comparison with the previous forecast



Risks and uncertainties of the forecast

The Bank Board assessed the risks to the forecast as being significant but not tilted in either direction overall.

Risks and uncertainties:

- course of the pandemic, and the duration and size of the impacts of the quarantine measures on the global and domestic economies
- current evolution of the koruna exchange rate
- fiscal policy support for the domestic economy
- structure of the supply and demand factors underlying growth in domestic consumer prices

Summary



Consistent with the forecast is stability of domestic market interest rates until mid-2021, followed by a gradual rise in rates.



The risks to the forecast are significant but not tilted in either direction overall.



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



The key interest rate remains at 0.25%.

Thank you for your attention

More information about the forecast can be found at <https://www.cnb.cz/en/monetary-policy/forecast/> and in Inflation Report III/2020. The summary of the Report (together with boxes and the table of key macroeconomic indicators) will be published on 7 August 2020. The whole Report will be published on 14 August 2020.

