
6th 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.

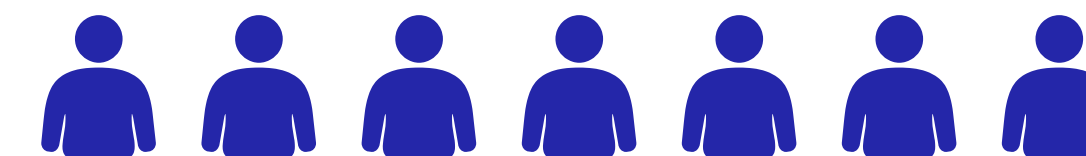
The two-week repo rate thus remains at 0.25%, the discount rate at 0.05% and the Lombard rate at 1%.

0.25%
2W repo
rate

0.05%
discount
rate

1.00%
Lombard
rate

FOR NO CHANGE



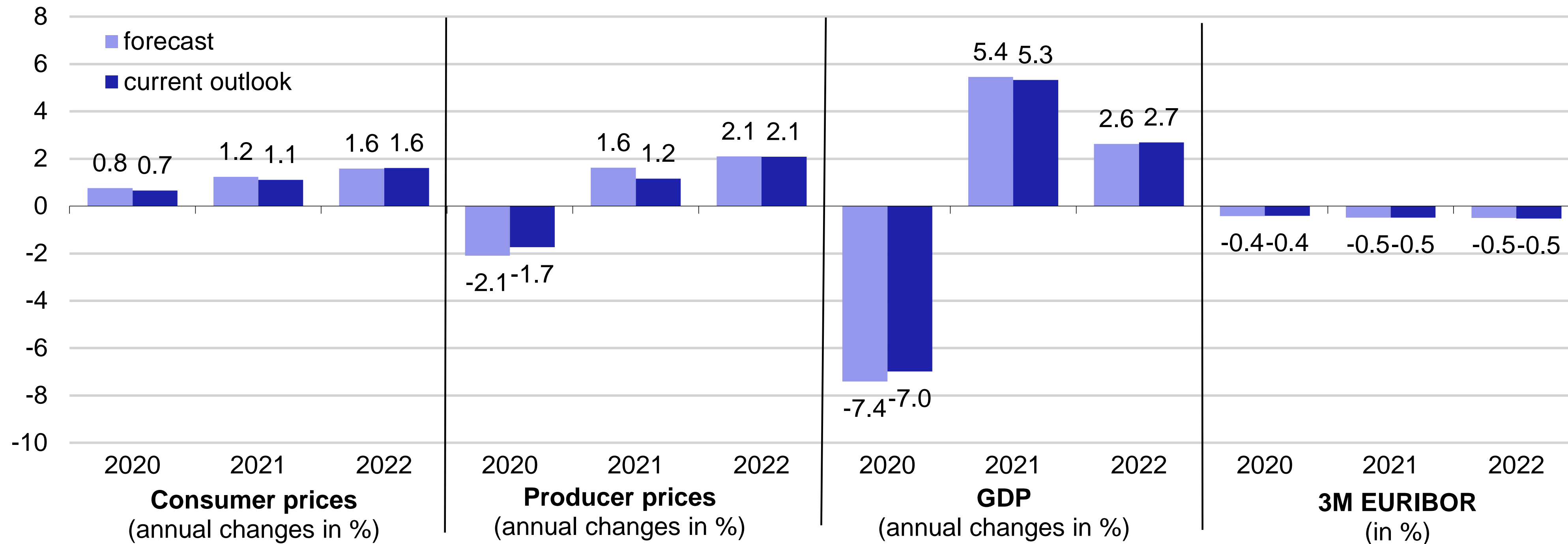
The baseline scenario of the current forecast is materialising fairly well so far.

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

The Bank Board assessed **the risks to the forecast as remaining substantial, with the current epidemiological situation increasing the uncertainty regarding future economic developments.**

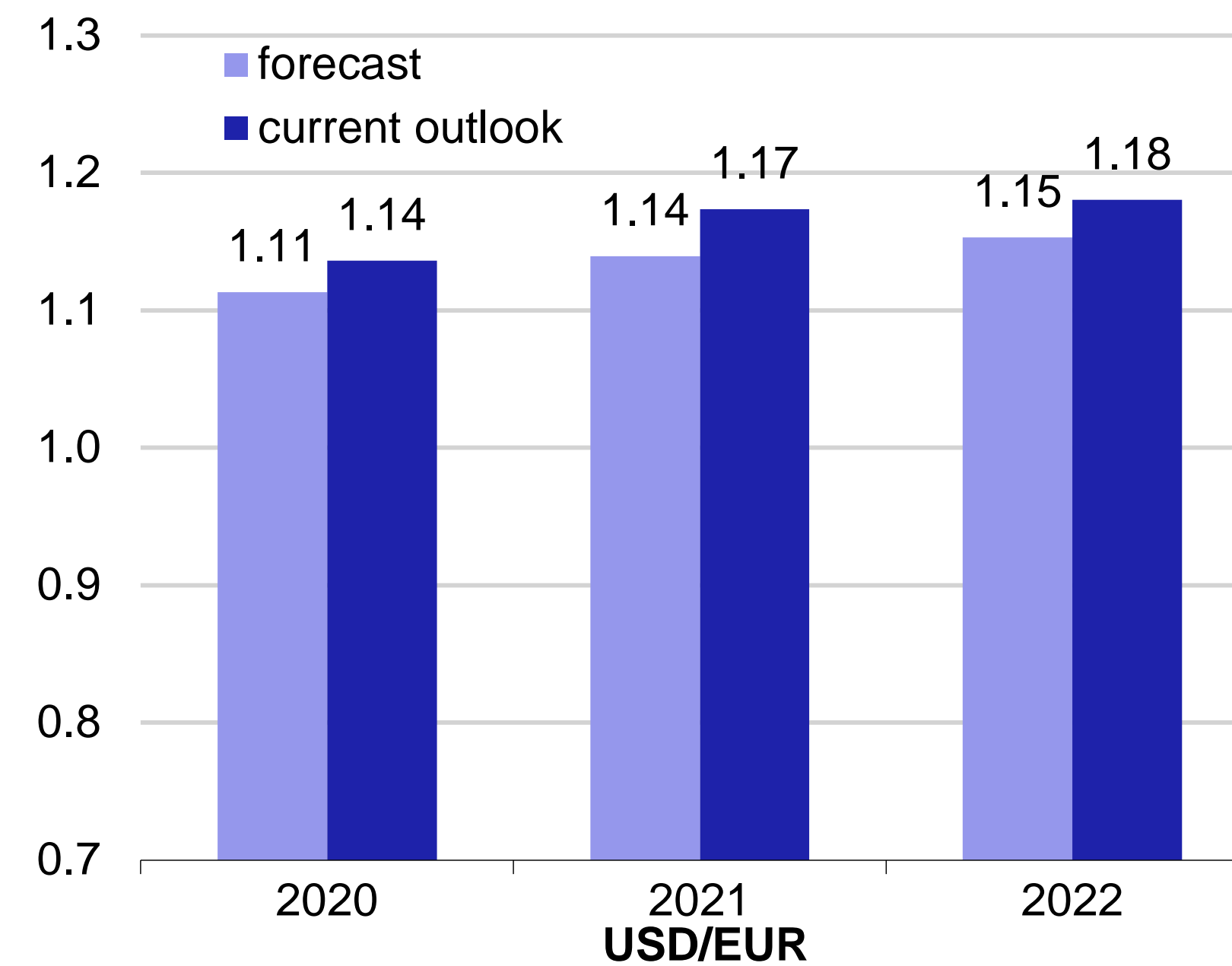
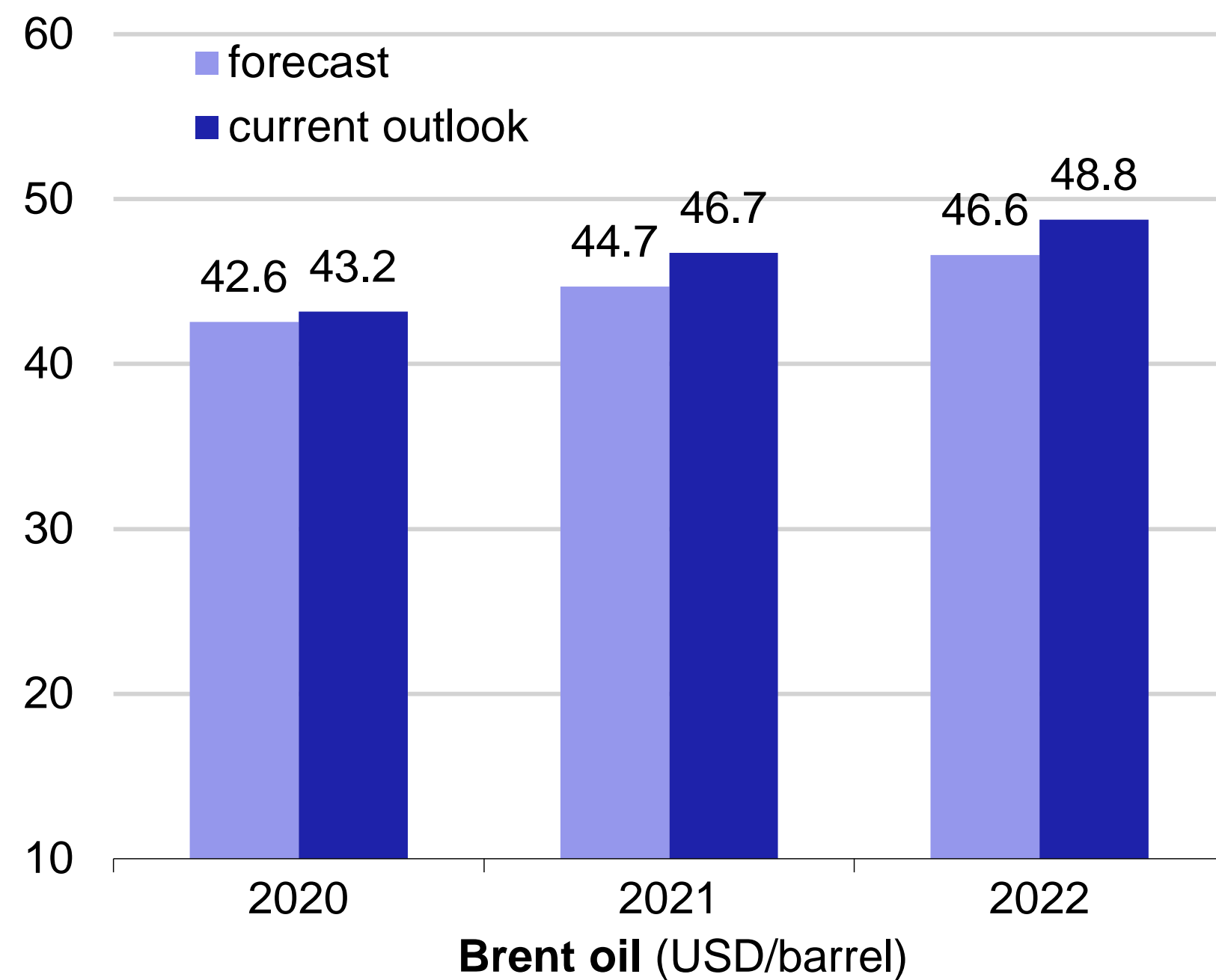
External environment (i)

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

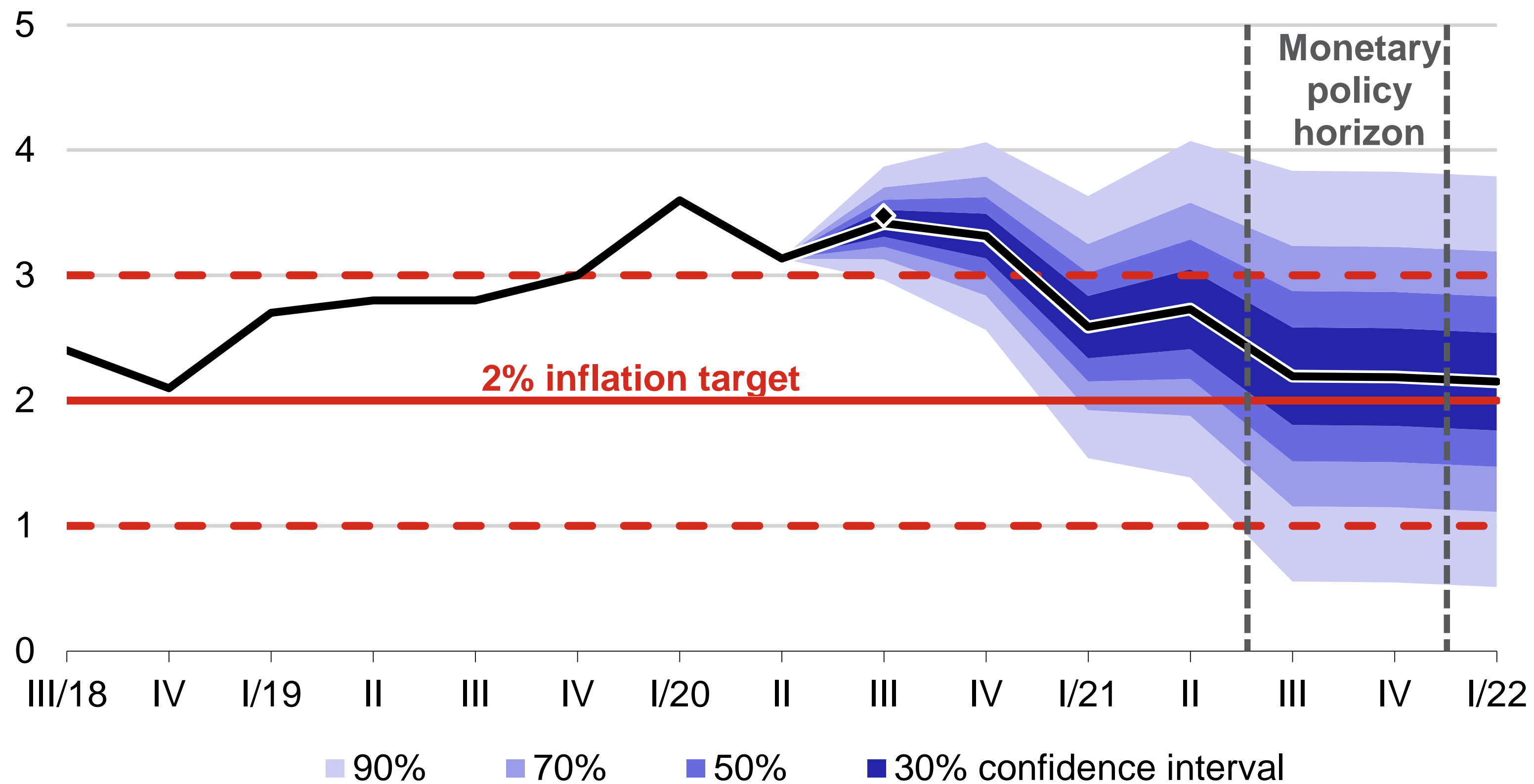


External environment (ii)

Comparison between the CNB forecast assumptions and the current outlook



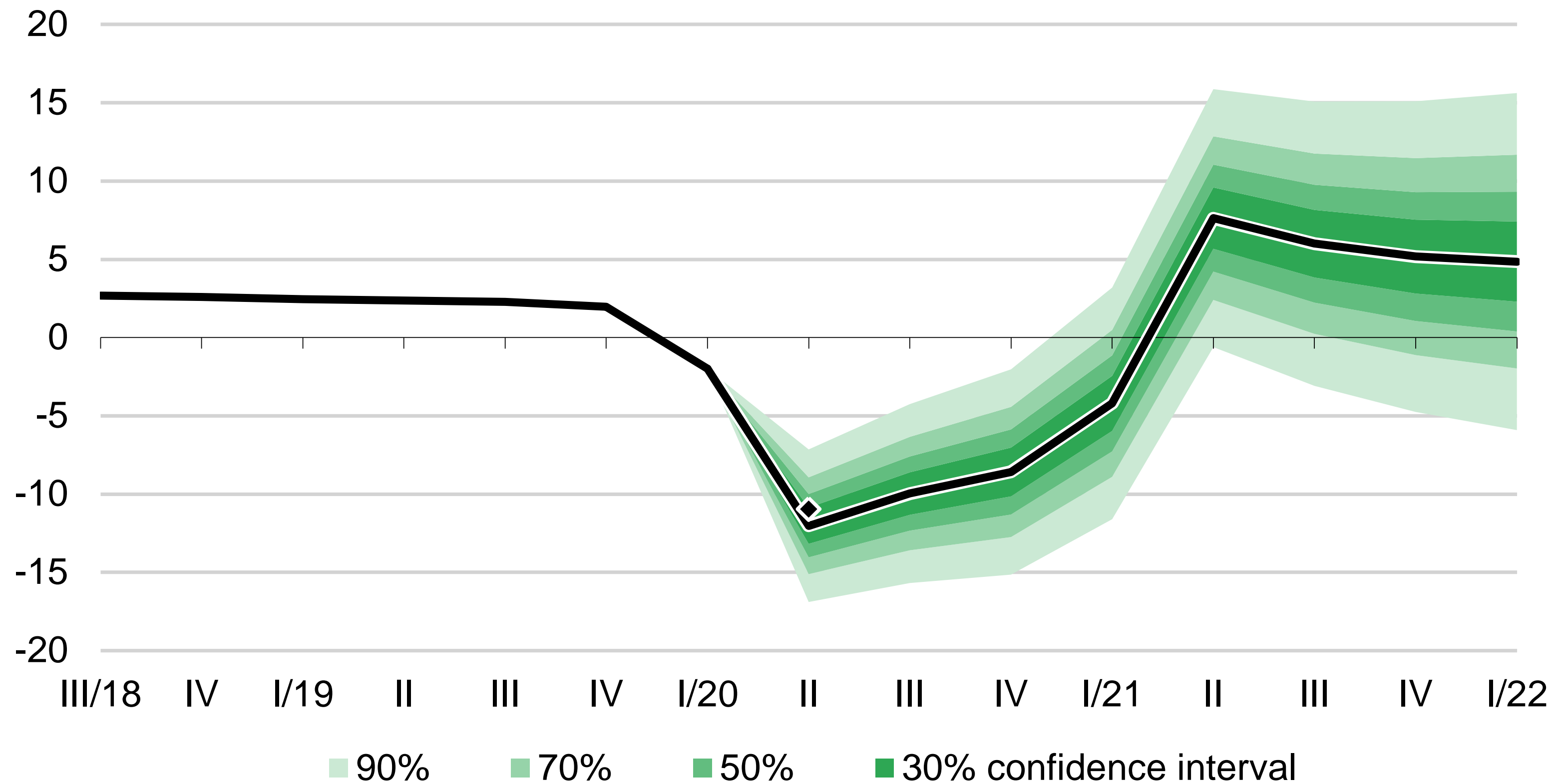
The inflation forecast and expected outcome in 2020 Q3



Domestic consumer price growth has been broadly in line with the forecast so far in Q3.

The forecast expects inflation to return close to the CNB's 2% target at the monetary policy horizon.

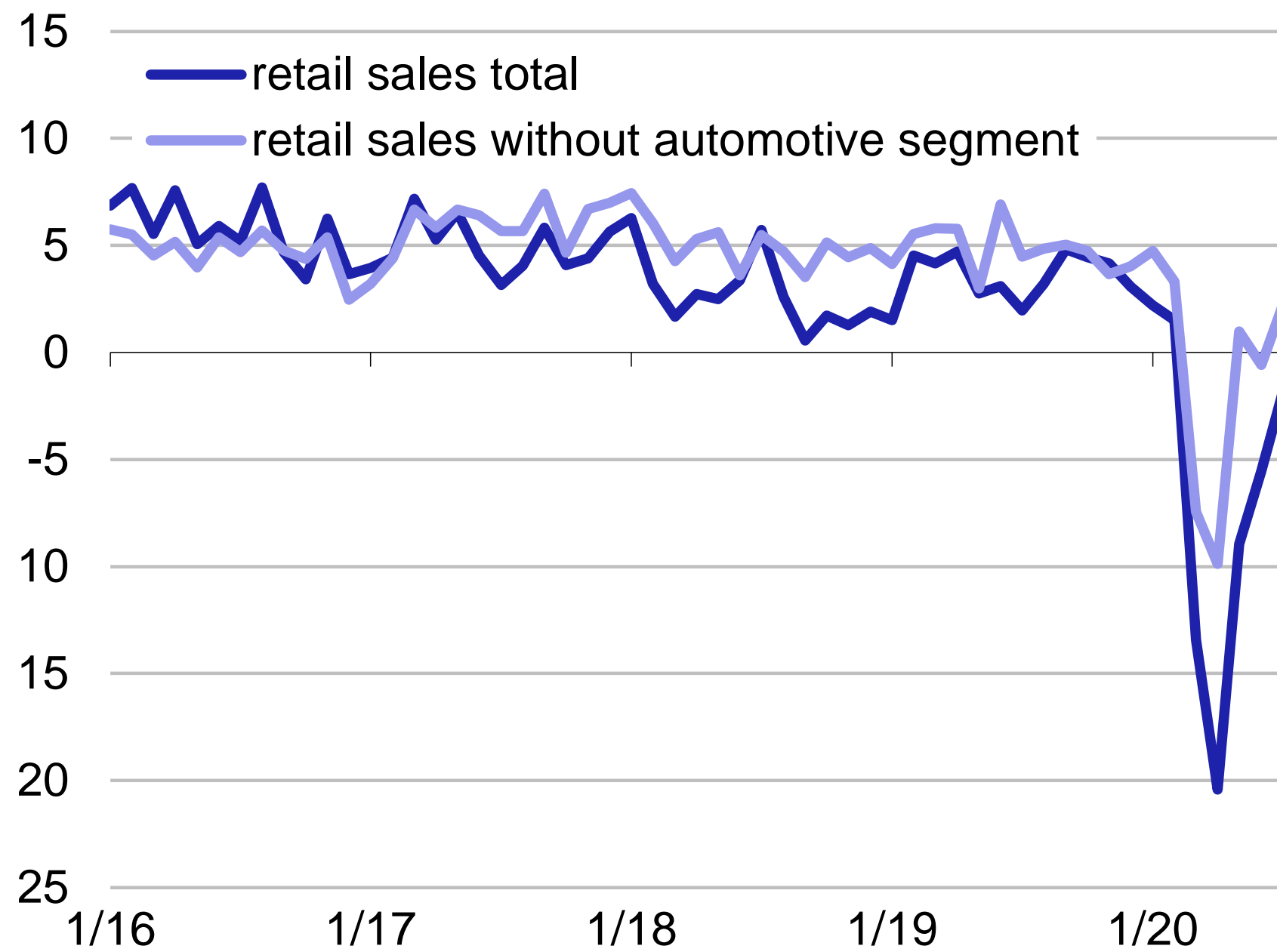
The GDP forecast and outcome in 2020 Q2



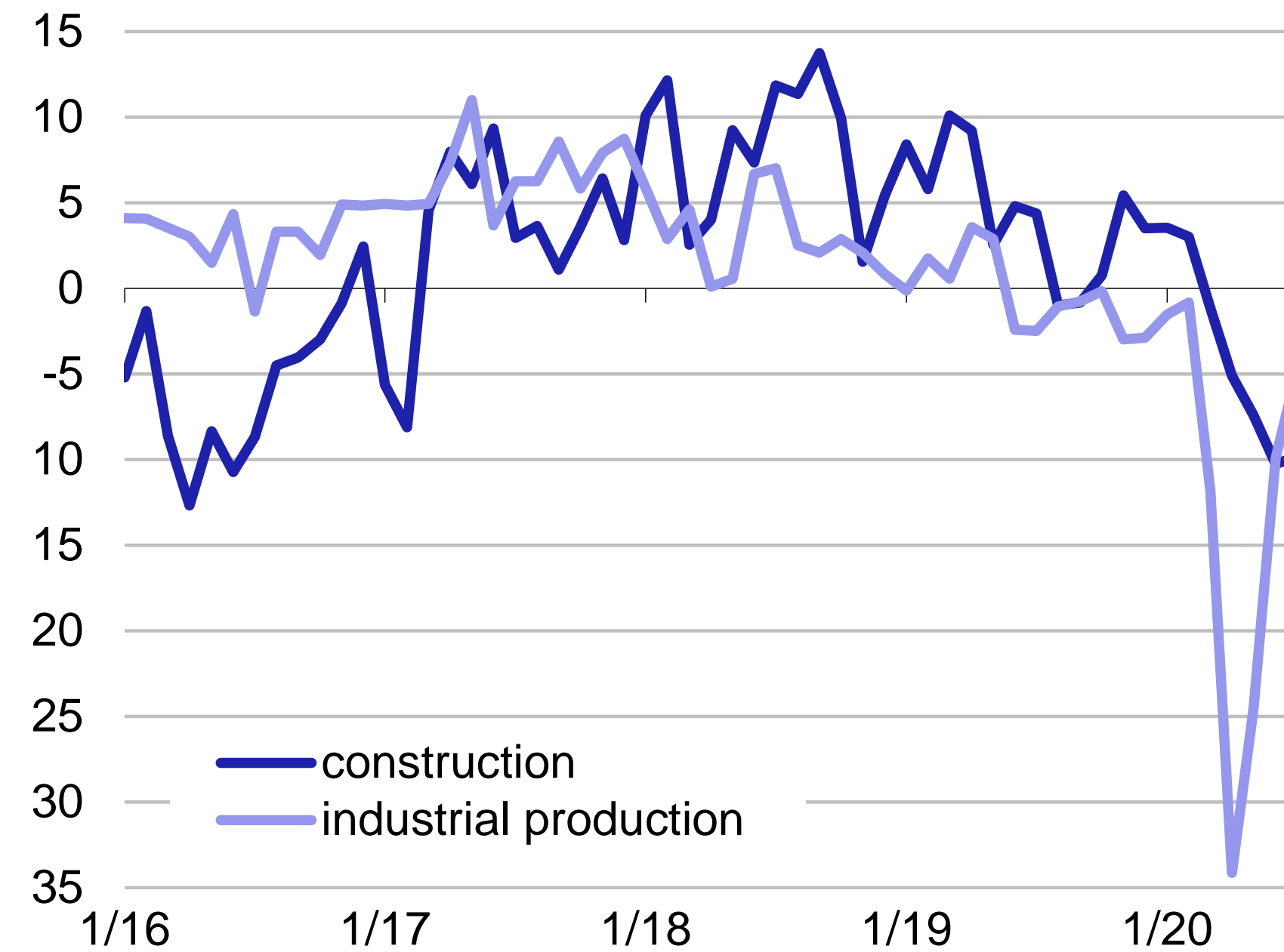
Due to the coronavirus pandemic, economic activity dropped by 11% year on year in Q2, i.e. 1 percentage point less markedly compared with the forecast.

Industry, construction and retail sales

(annual changes in %, seasonally adjusted)

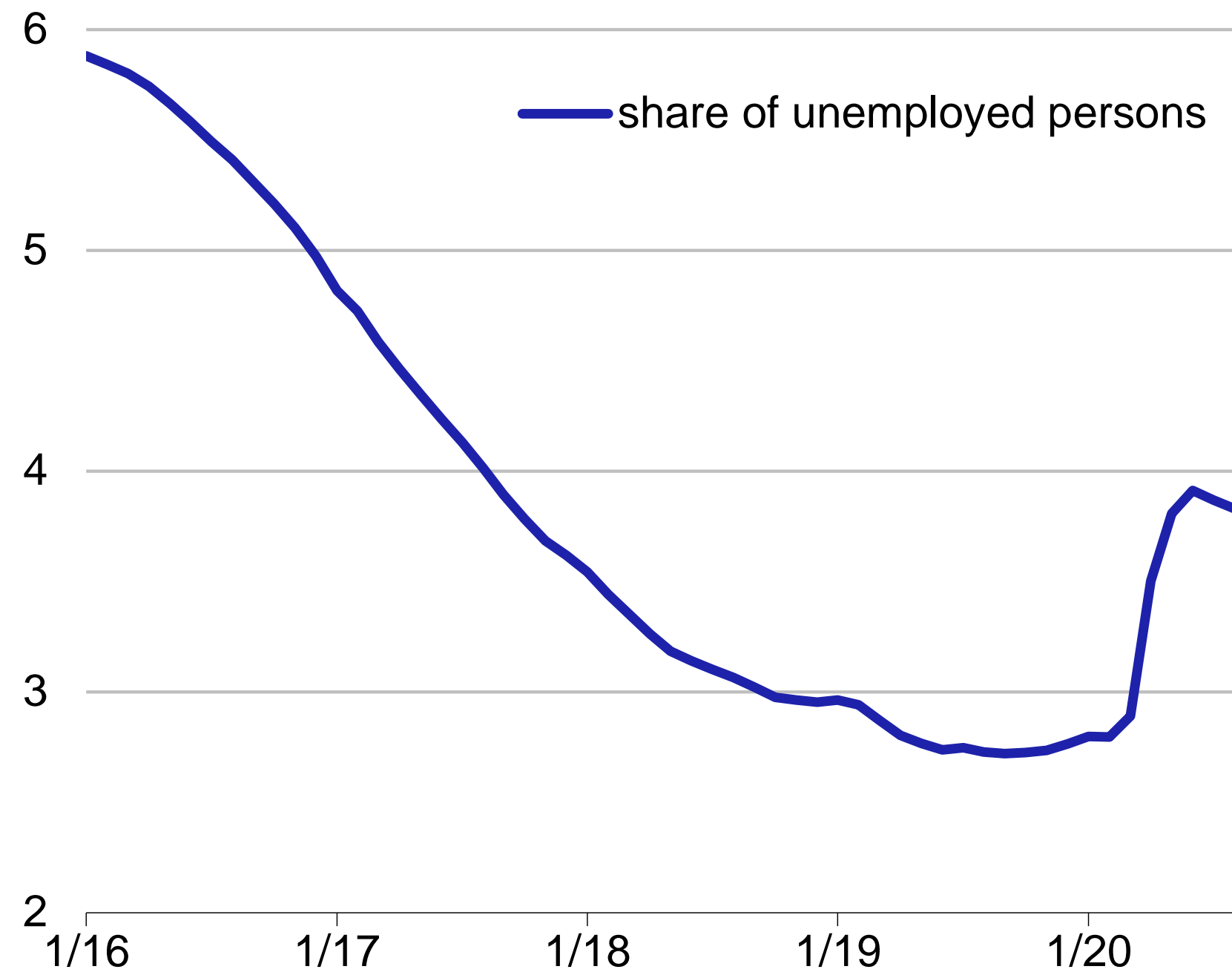


(annual changes in %, seasonally adjusted)



Labour market

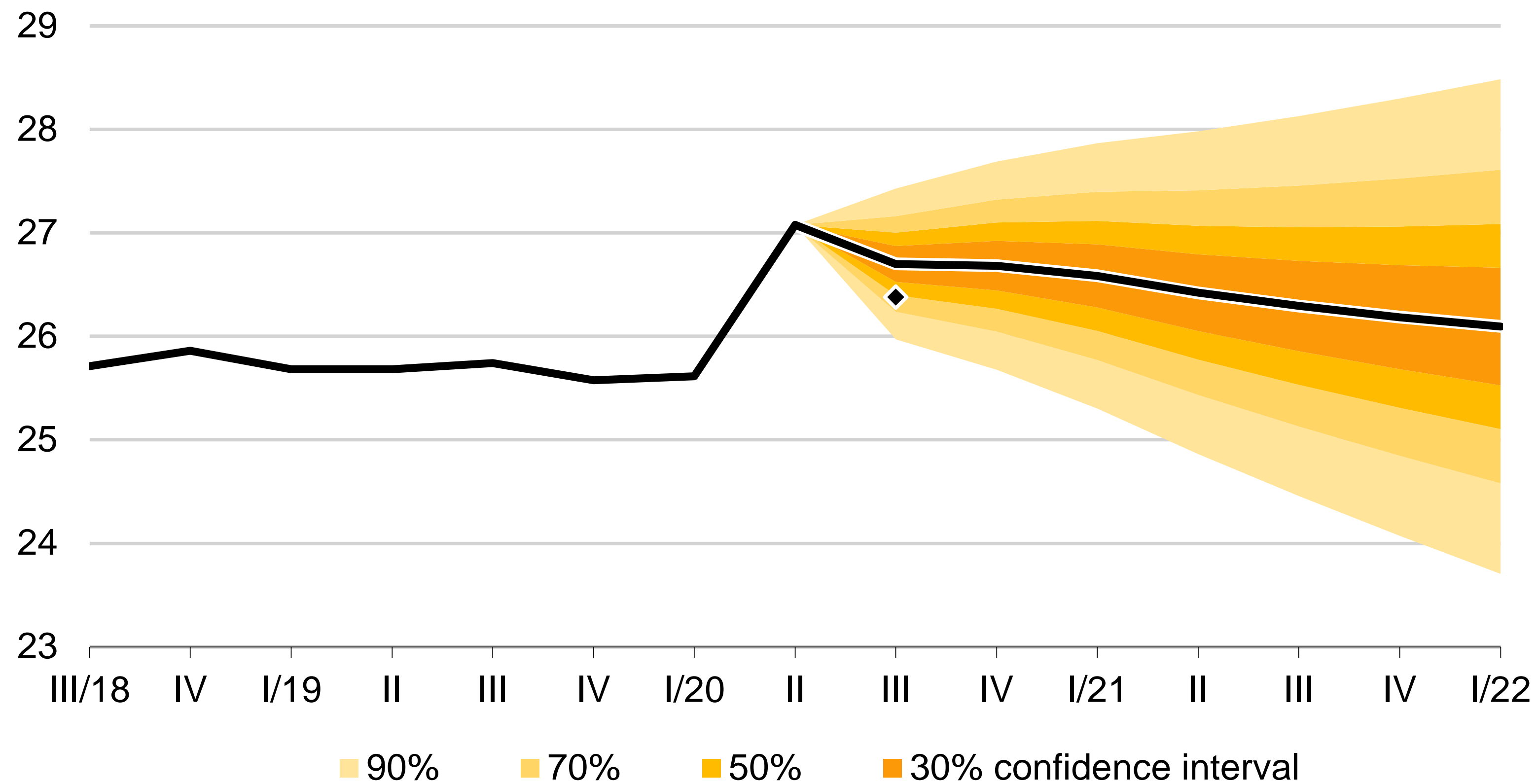
(in %, seasonally adjusted)



(annual changes in %)



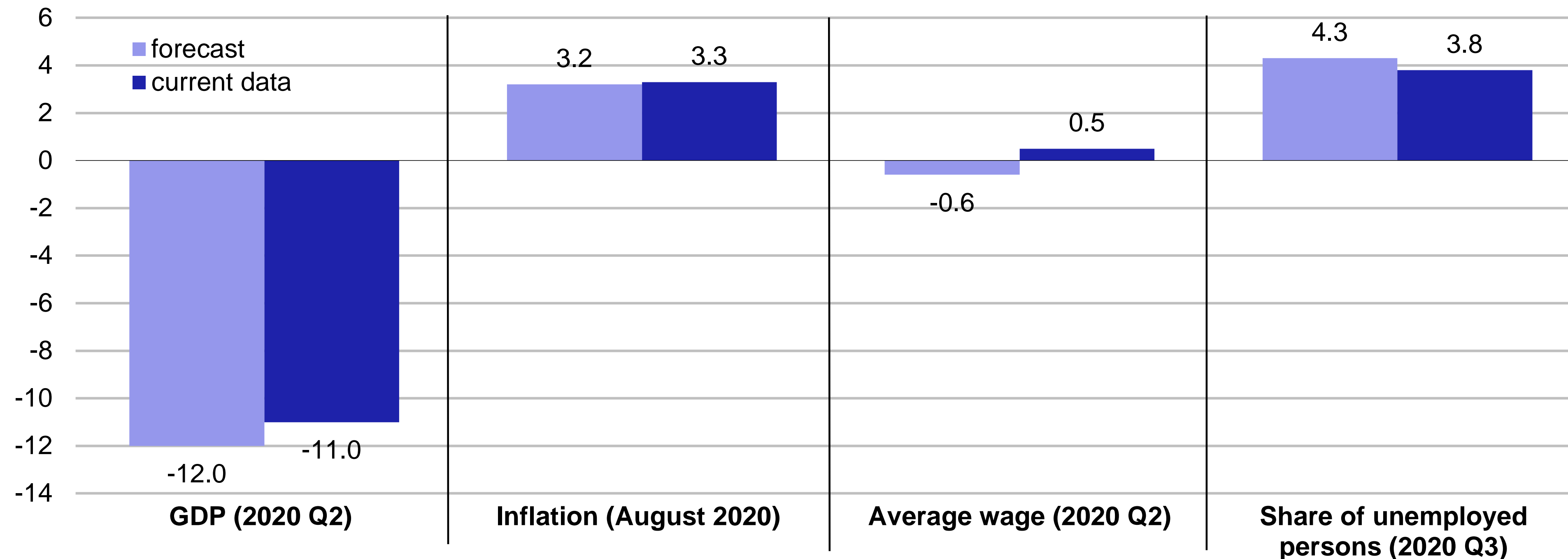
The CZK/EUR exchange rate forecast and outcome in 2020 Q3



The average koruna exchange rate against the euro was slightly stronger than forecasted in Q3.

However, the koruna is now weaker than the forecast expected for Q3.

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 July and August with the forecast for 2020 Q3)

Risks and uncertainties of the forecast

The Bank Board assessed the risks to the forecast as remaining substantial, with the current epidemiological situation increasing the uncertainty regarding future economic developments.

Risks and uncertainties of the forecast:

- course of the pandemic at home and abroad and the related impacts on the Czech economy
- stronger stabilising effect of budget policy
- structure of the supply and demand factors underlying inflation developments

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 2 October 2020 at <https://www.cnb.cz/en/monetary-policy/bank-board-decisions/>



Summary



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



Risks to the forecast remain substantial, with the current epidemiological situation increasing the uncertainty regarding future economic developments.



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



The key interest rate remains at 0.25%.