
7th 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

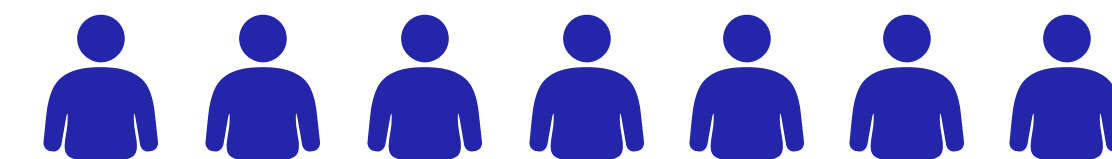
0.05%

discount
rate

1.00%

Lombard
rate

FOR NO CHANGE



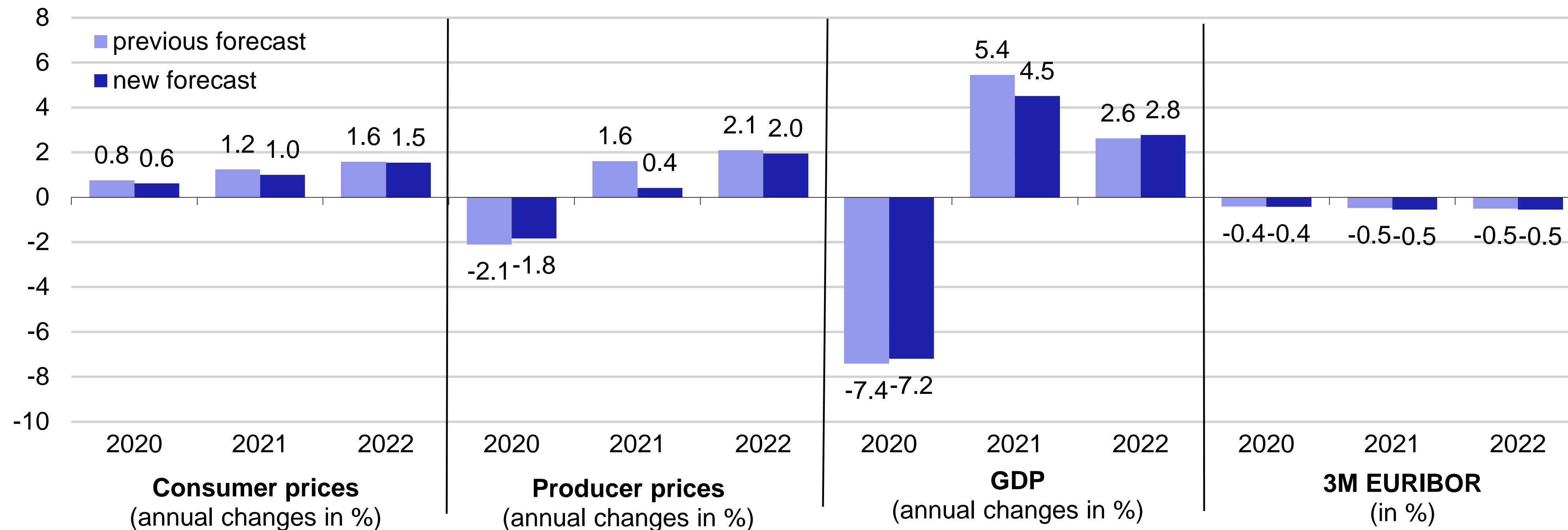
The decision adopted by the Bank Board is underpinned by **the CNB's new macroeconomic forecast.**

Consistent with the forecast is stability of market interest rates initially, followed by a gradual rise in rates in 2021.

This interest rate path is strongly conditional on the fulfilment of the forecast assumptions made about the course of the epidemic situation and the anti-pandemic measures.

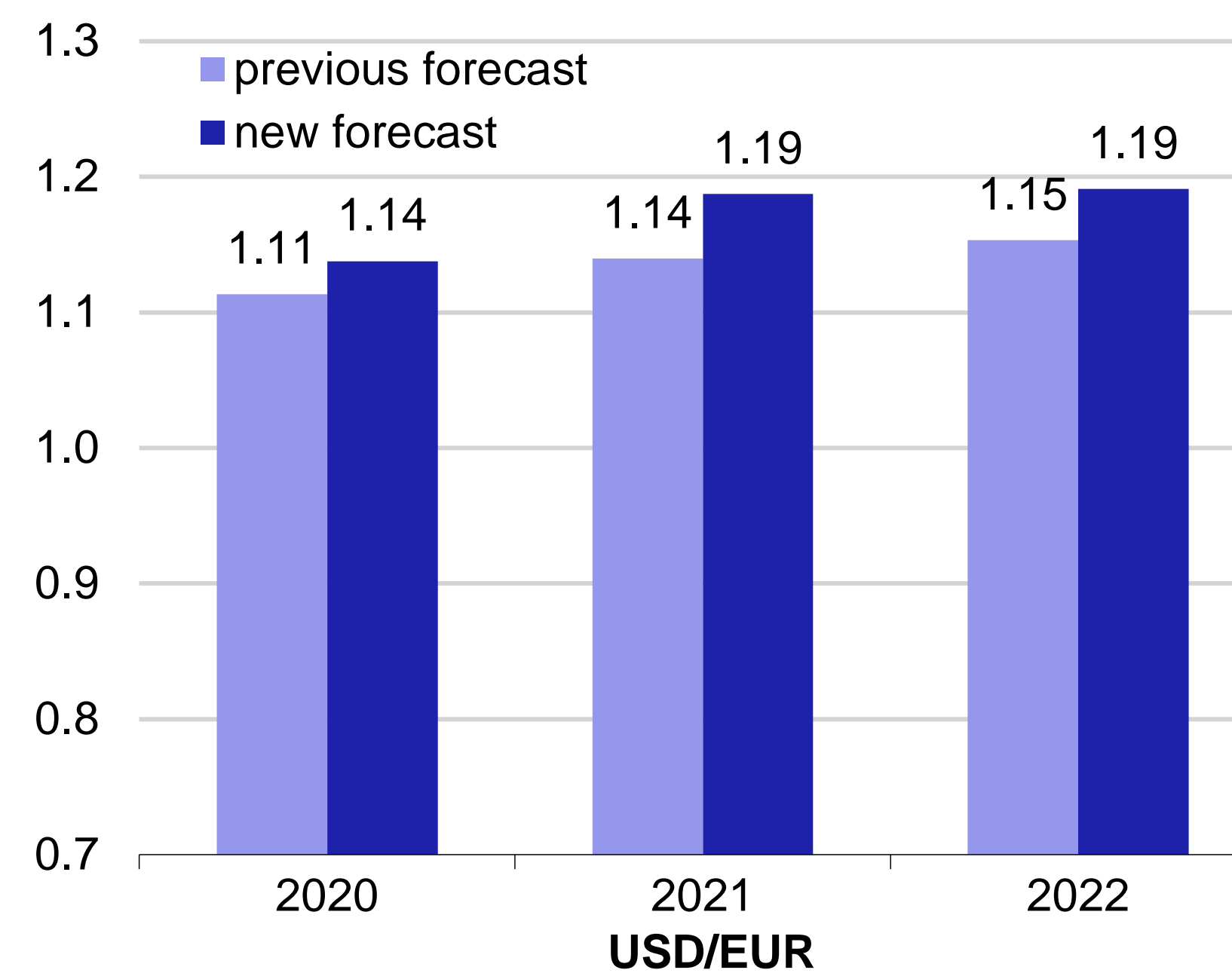
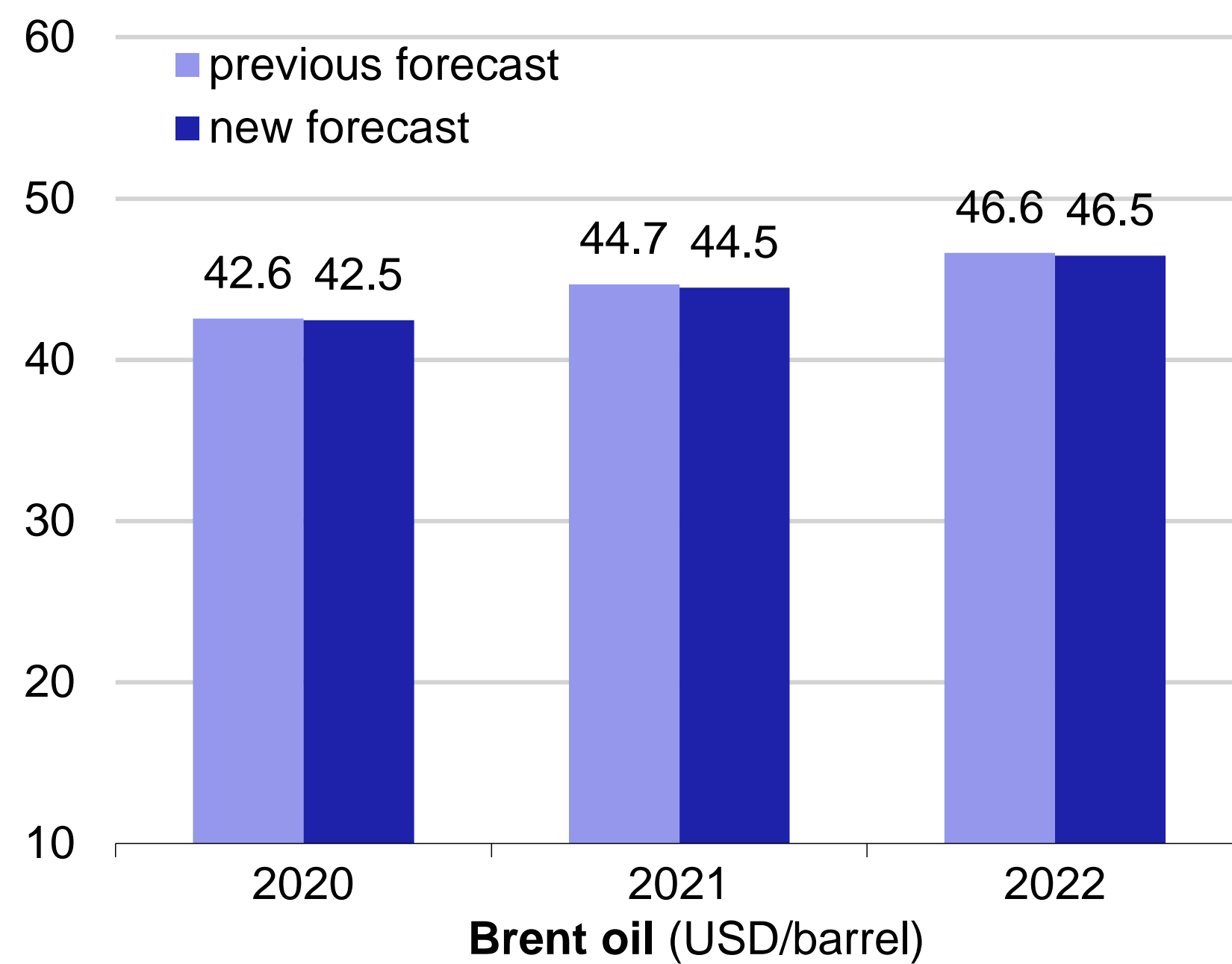
External environment (i)

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

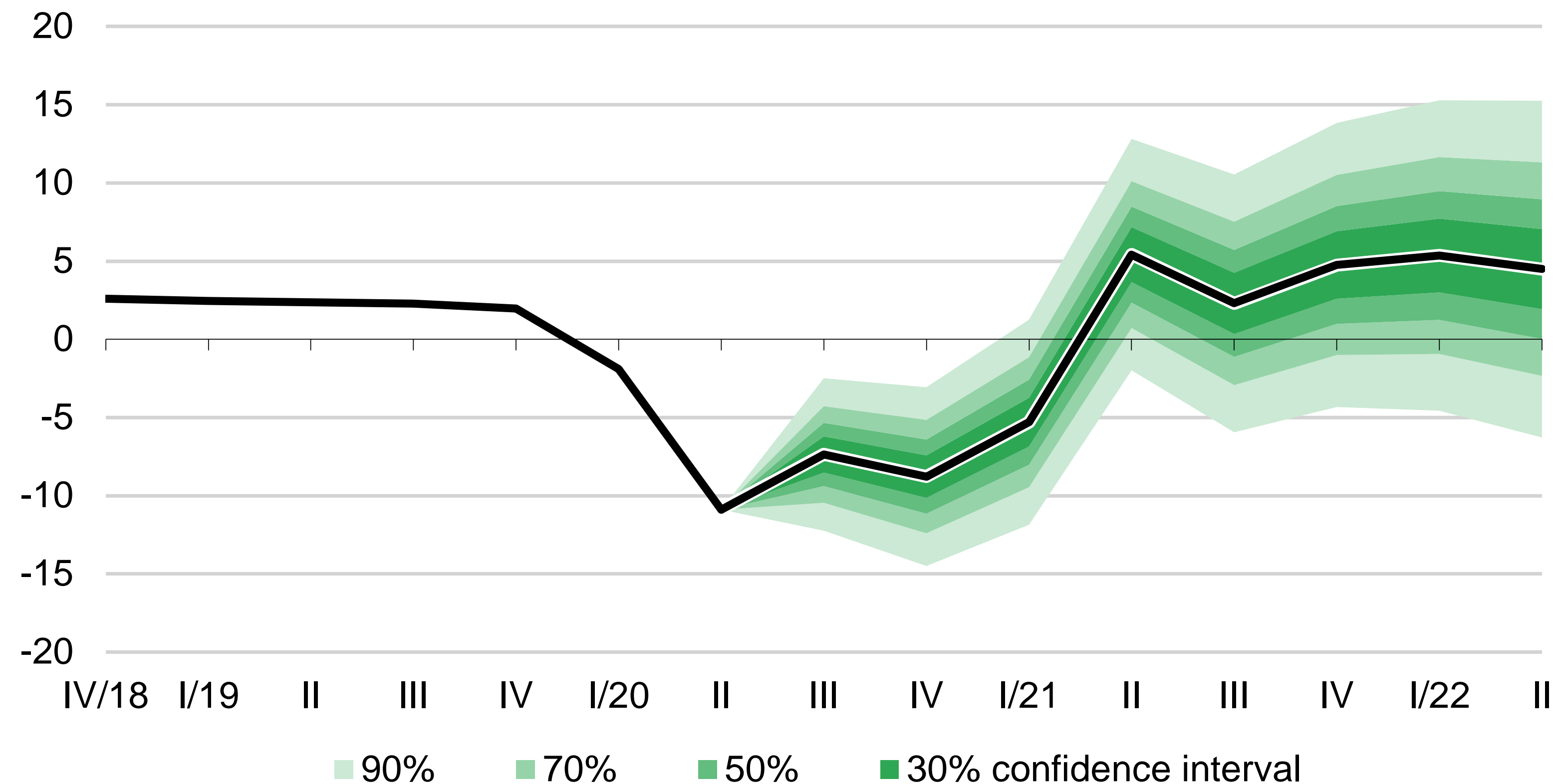


External environment (ii)

Comparison between the assumptions of the new and previous forecasts



Forecast for GDP

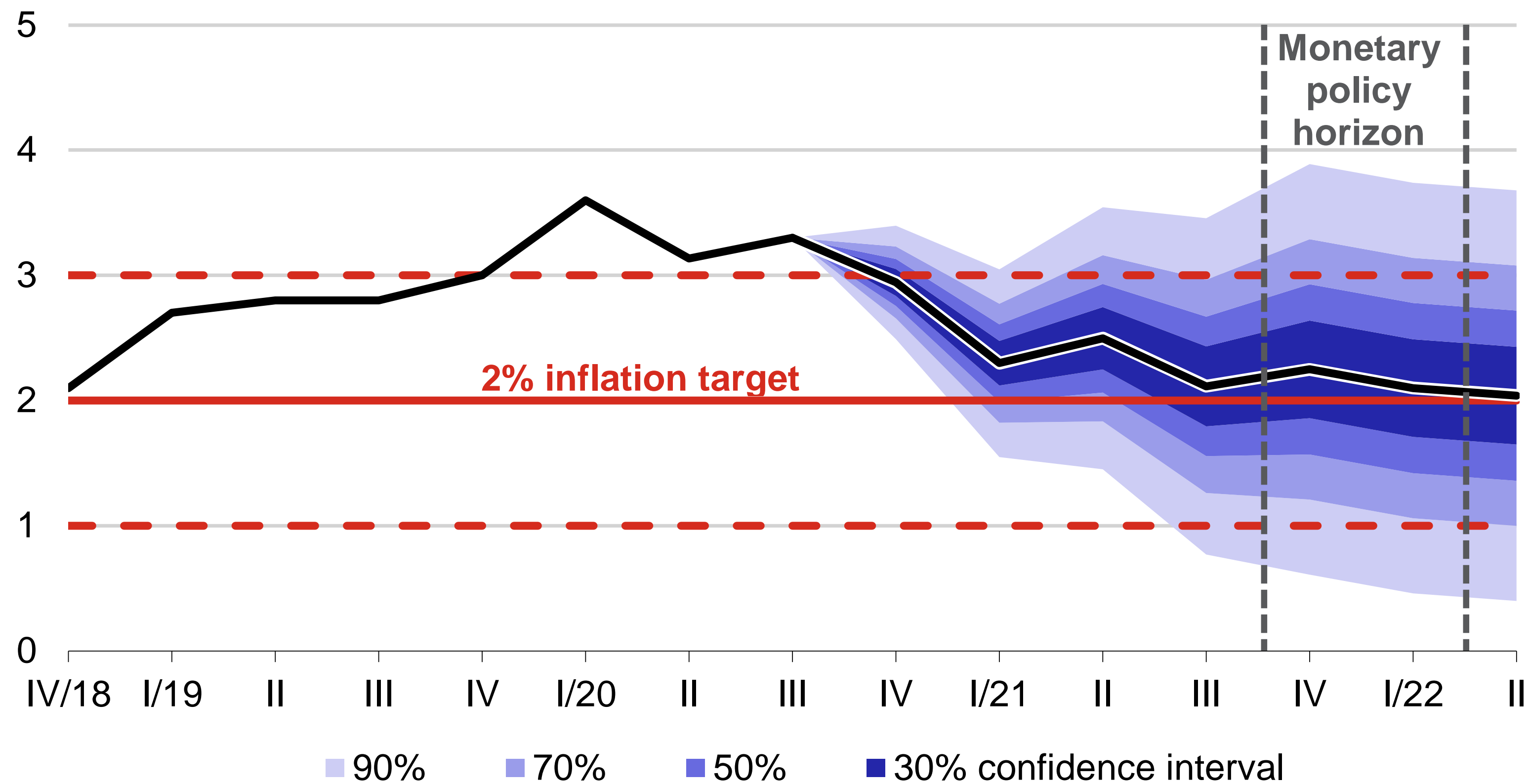


The Czech economy is suffering a sharp contraction this year caused by the coronavirus pandemic.

GDP growth will recover next year.

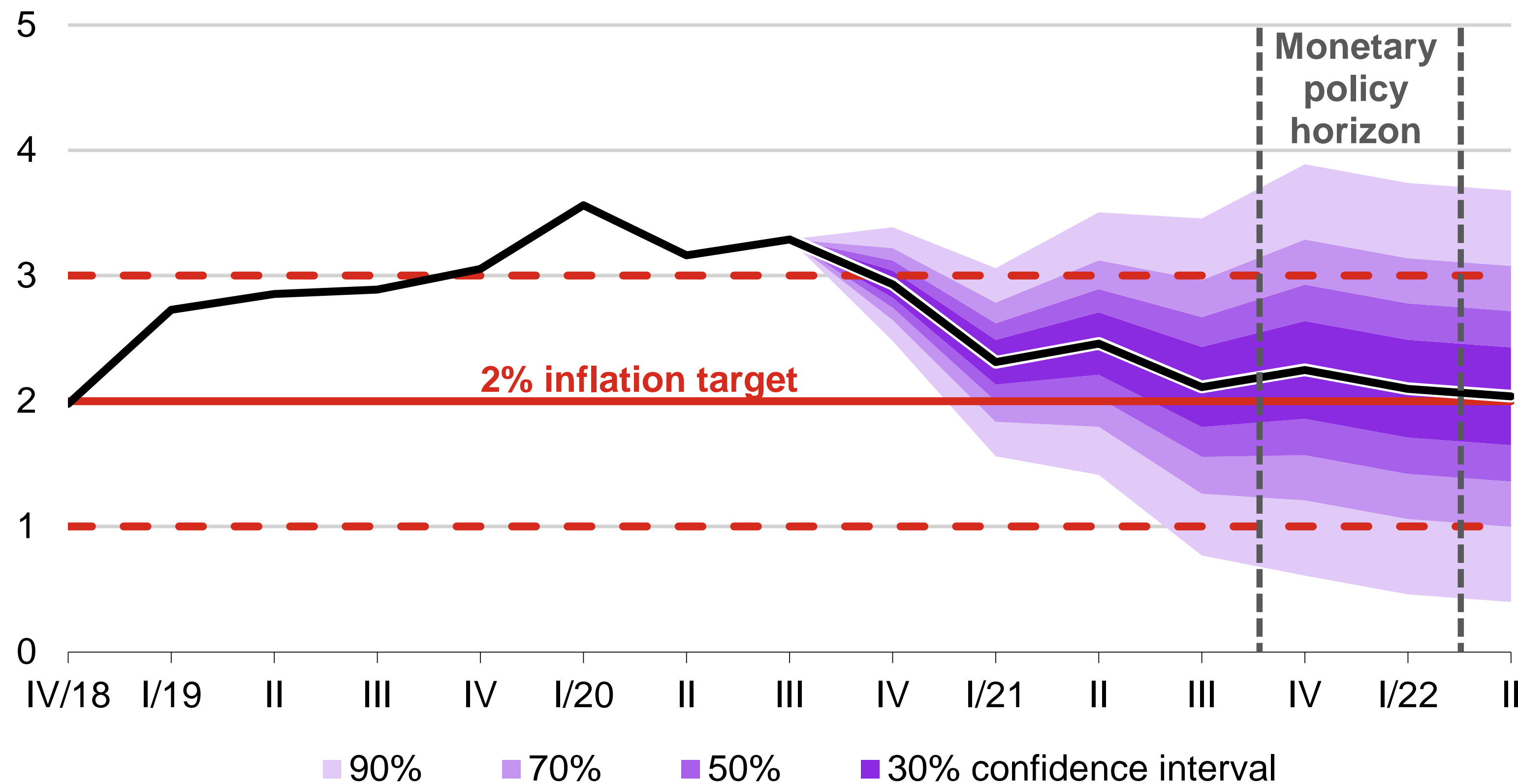
However, the output of the economy will not reach the pre-pandemic level even by the end of 2022.

Forecast for headline inflation



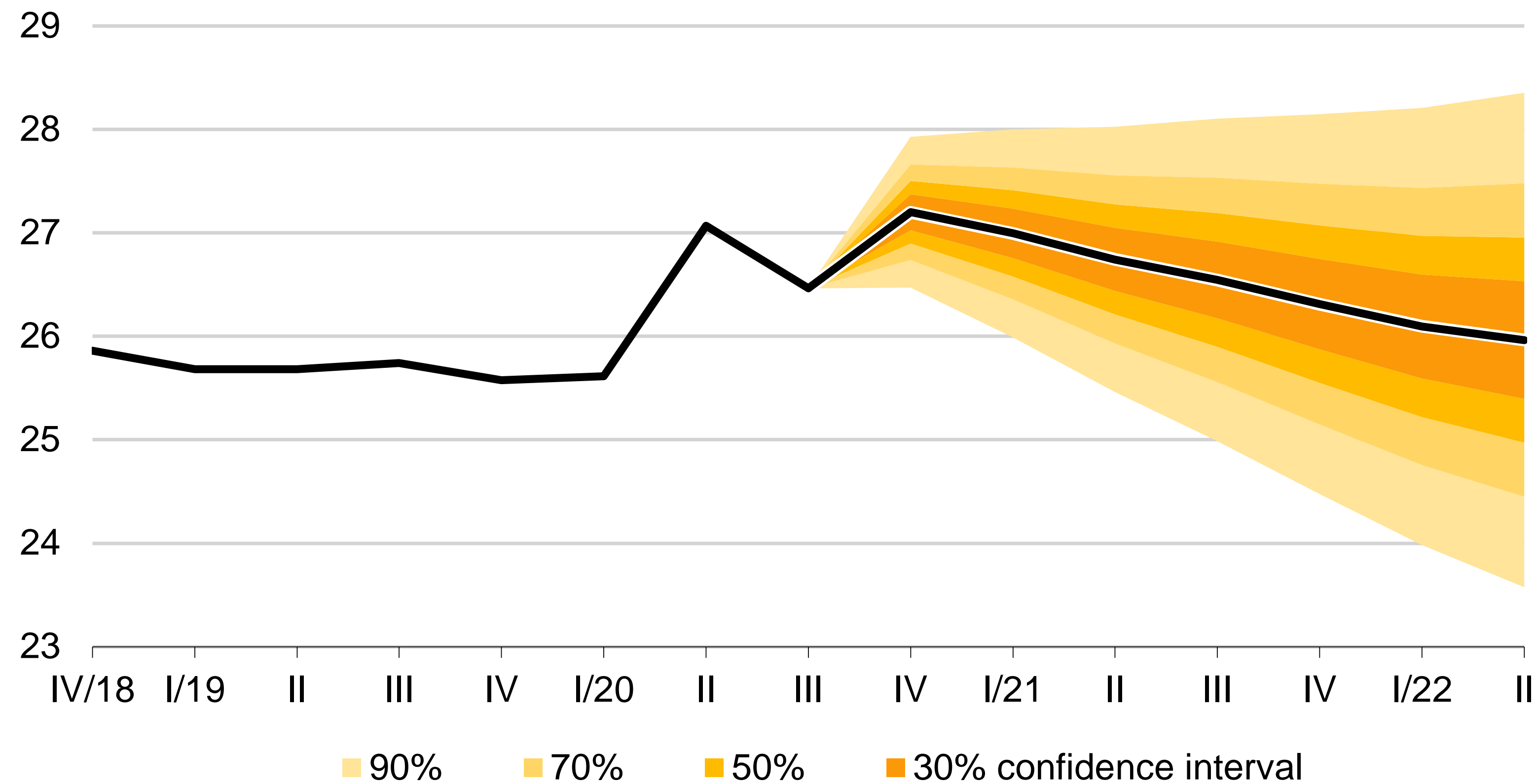
Headline inflation will decrease into the tolerance band in late 2020 and early 2021. It will be close to the 2% target over the monetary policy horizon.

Forecast for monetary policy-relevant inflation



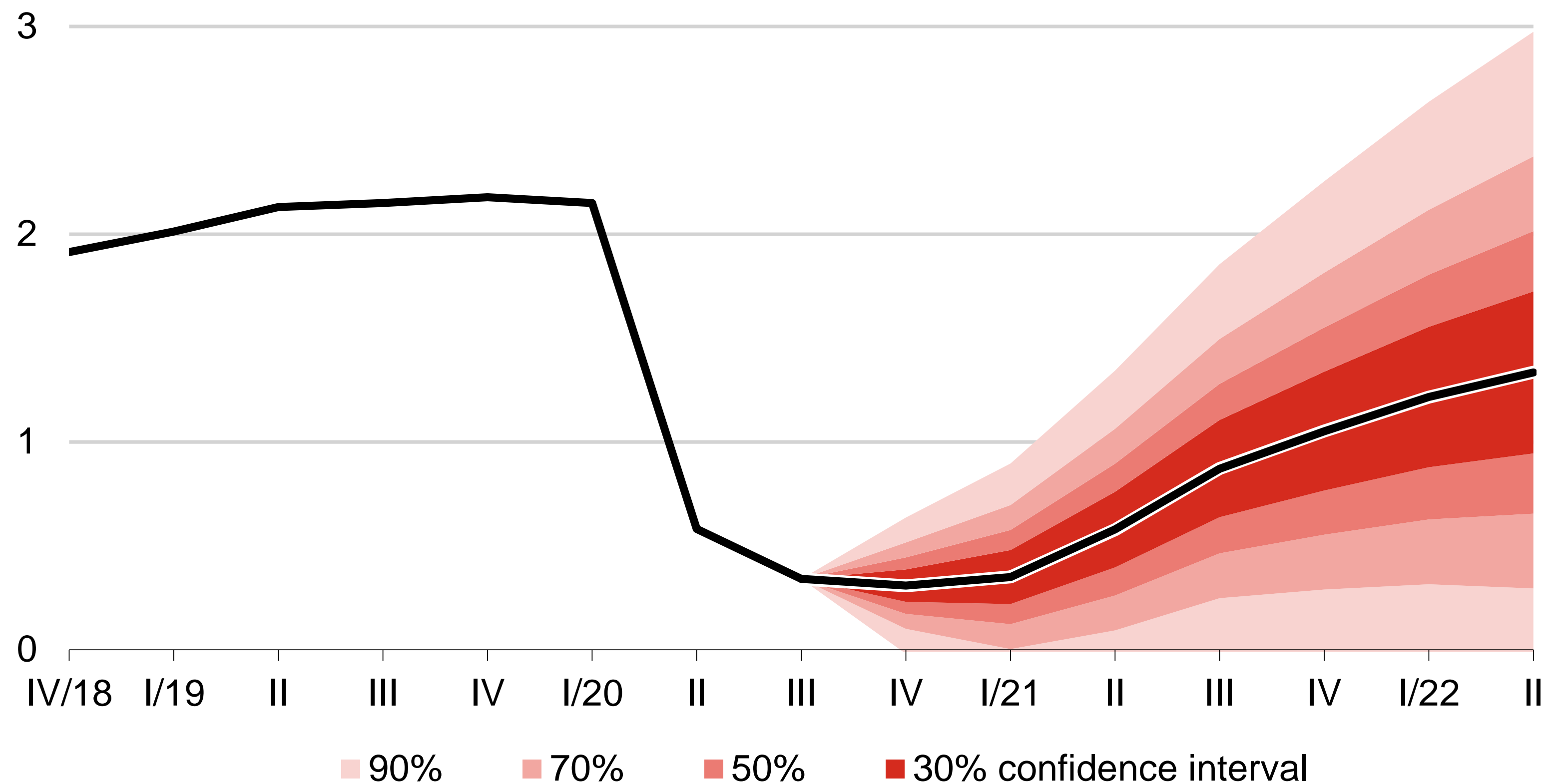
Monetary policy-relevant inflation will merge with headline inflation in mid-2021, when the currently only marginal first-round effects of changes to indirect taxes will fade out fully.

Forecast for the exchange rate (CZK/EUR)



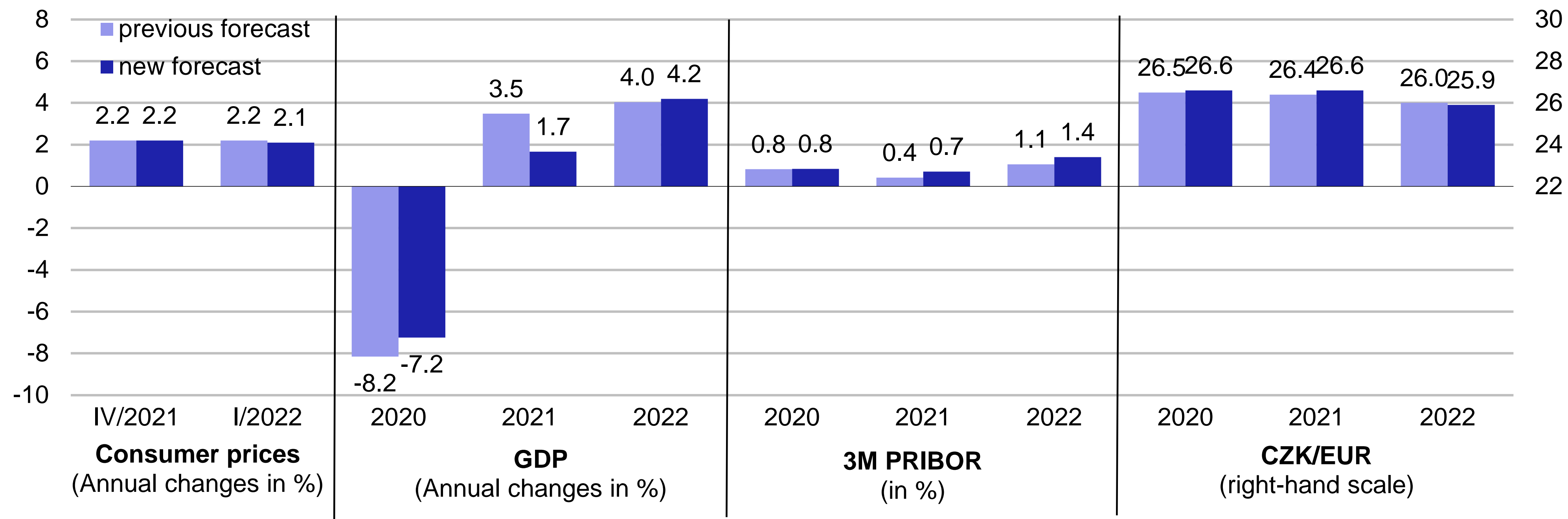
The koruna will start to appreciate gradually again next year.

Forecast for interest rates (3M PRIBOR)



Consistent with the forecast is stability of market interest rates initially, followed by a gradual rise in rates in 2021.

Comparison with the previous forecast



Risks and uncertainties of the forecast

The Bank Board assessed the risks to the forecast as being substantial.

Risks and uncertainties:

- possible further worsening of the course of the second wave of the pandemic in the Czech Republic and especially abroad
- domestic fiscal policy developments next year
- structure of the supply and demand factors underlying domestic and foreign price developments
- internal political situation in the USA and no-deal Brexit

Summary



Consistent with the forecast is stability of market interest rates initially, followed by a gradual rise in rates in 2021.



Risks to the forecast are substantial.



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 IV/2020. The summary of the Report (together with the box and the table of key macroeconomic indicators) will be published on 6 November 2020. The whole Report will be published on 13 November 2020.

