
8th 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.**

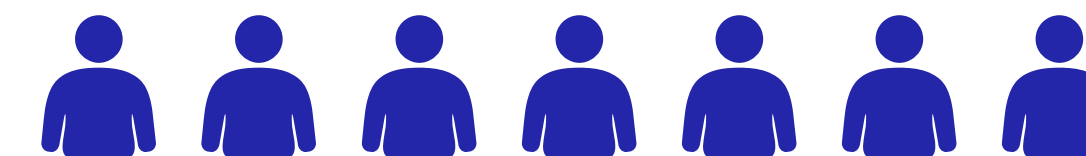
The two-week repo rate thus remains at 0.25%, the discount rate at 0.05% and the Lombard rate at 1%.

0.25%
2W repo
rate

0.05%
discount
rate

1.00%
Lombard
rate

FOR NO CHANGE

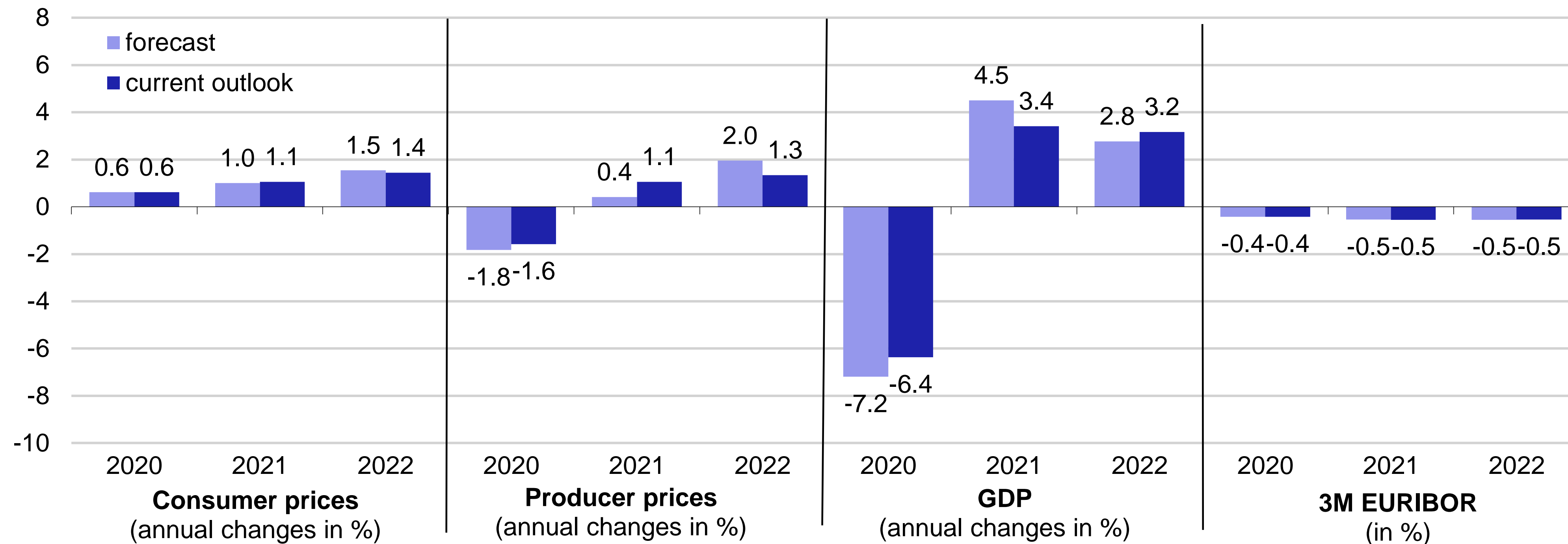


Consistent with the forecast is **stability of market interest rates initially, followed by a gradual rise in rates in the course of 2021.**

The Bank Board assessed **the risks and uncertainties of the forecast in the context of the ongoing second wave of the pandemic as remaining very substantial.**

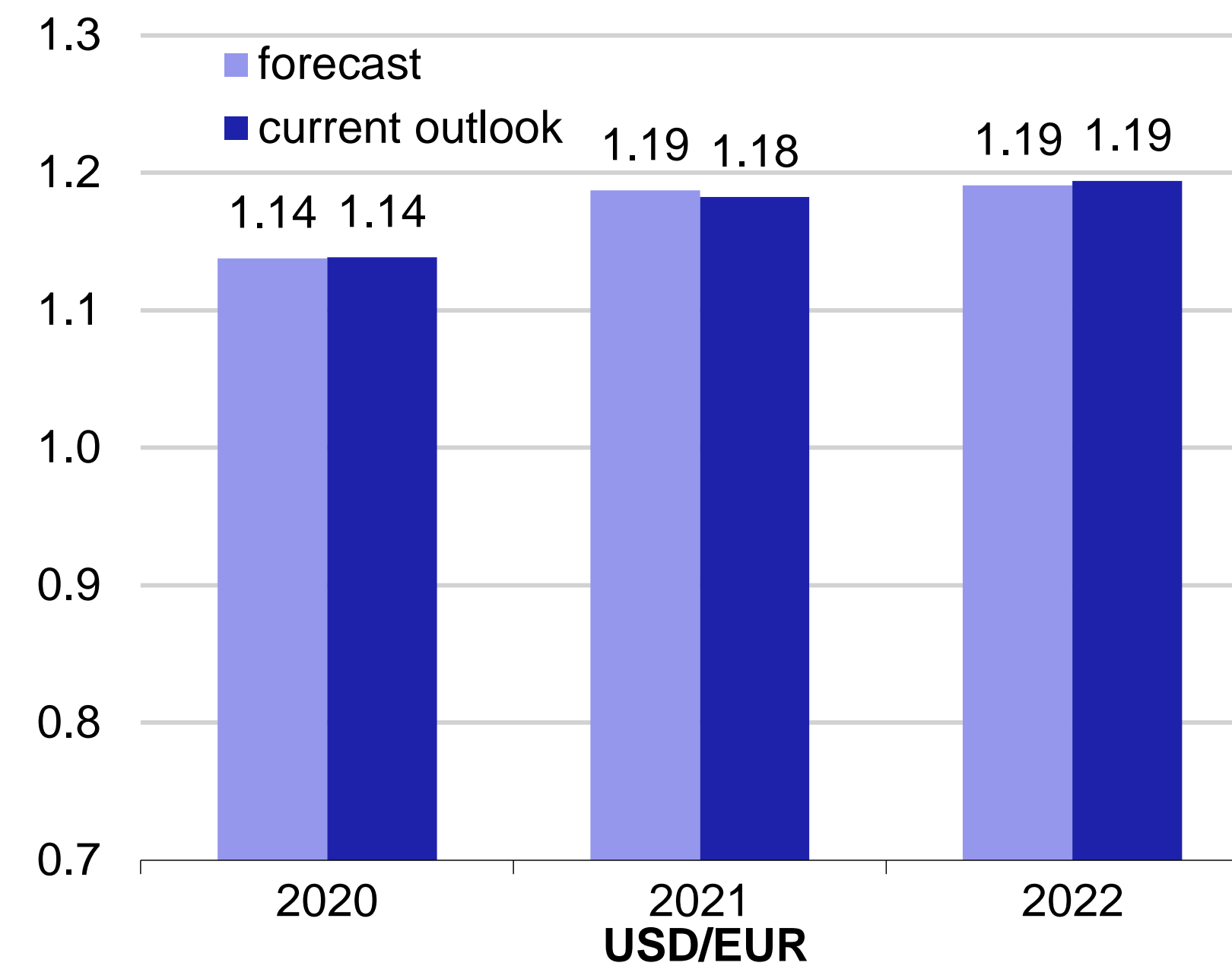
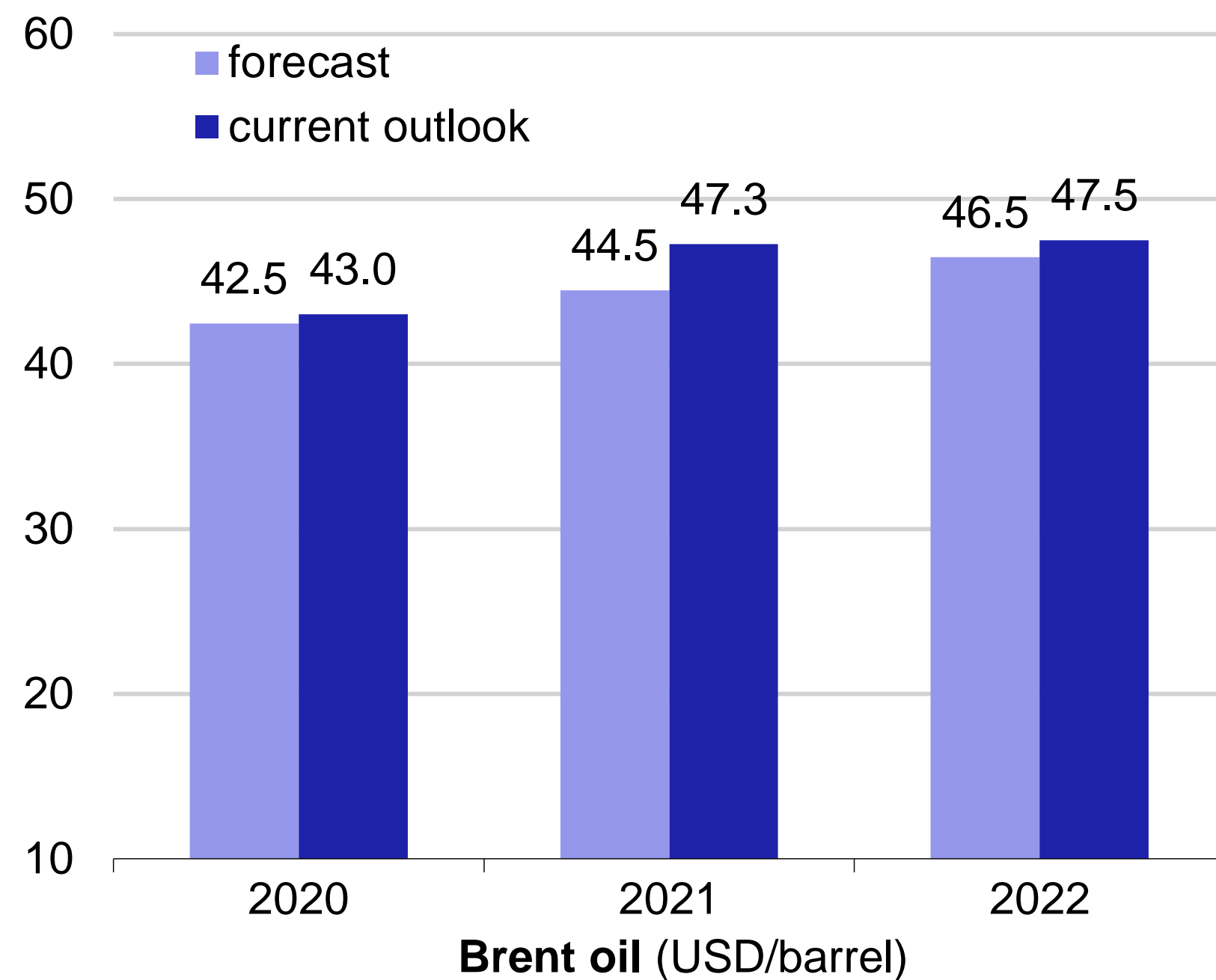
External environment (i)

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

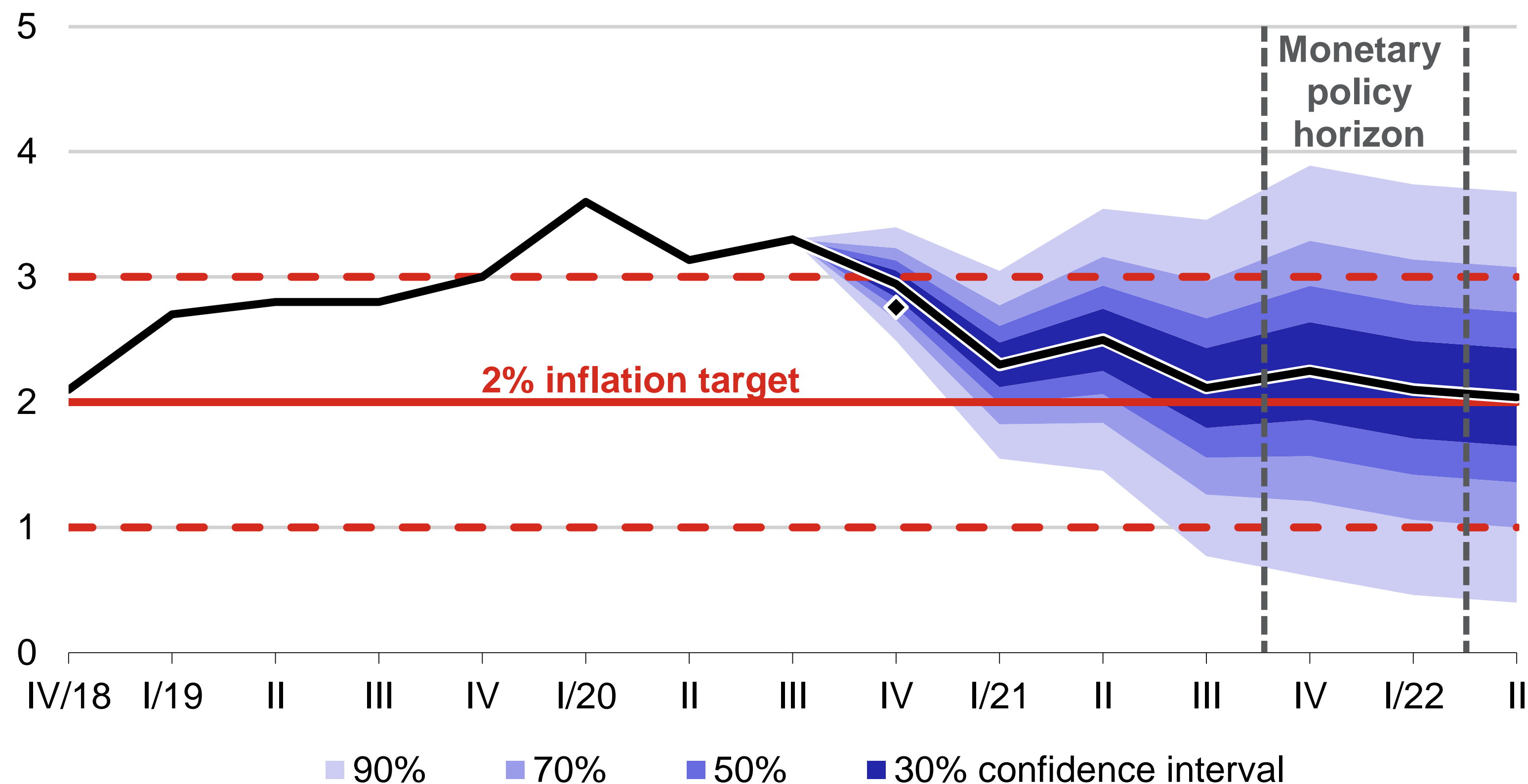


External environment (ii)

Comparison between the CNB forecast assumptions and the current outlook



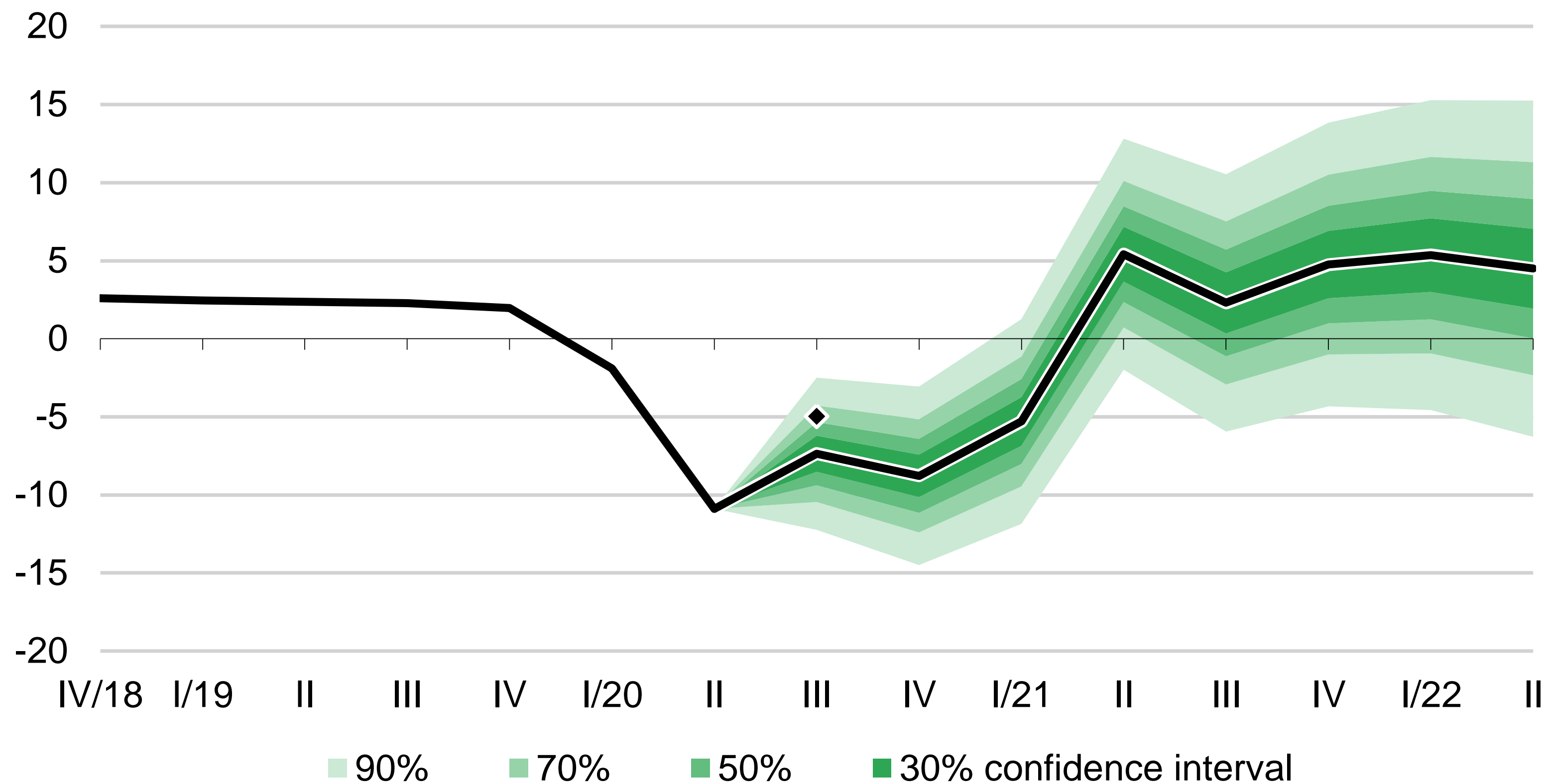
The inflation forecast and expected outcome in 2020 Q4



Inflation returned below the upper boundary of the tolerance band in the autumn and was slightly lower than forecasted.

According to the current forecast, inflation will decrease further next year and will return to the 2% target over the monetary policy horizon.

The GDP forecast and outcome in 2020 Q3



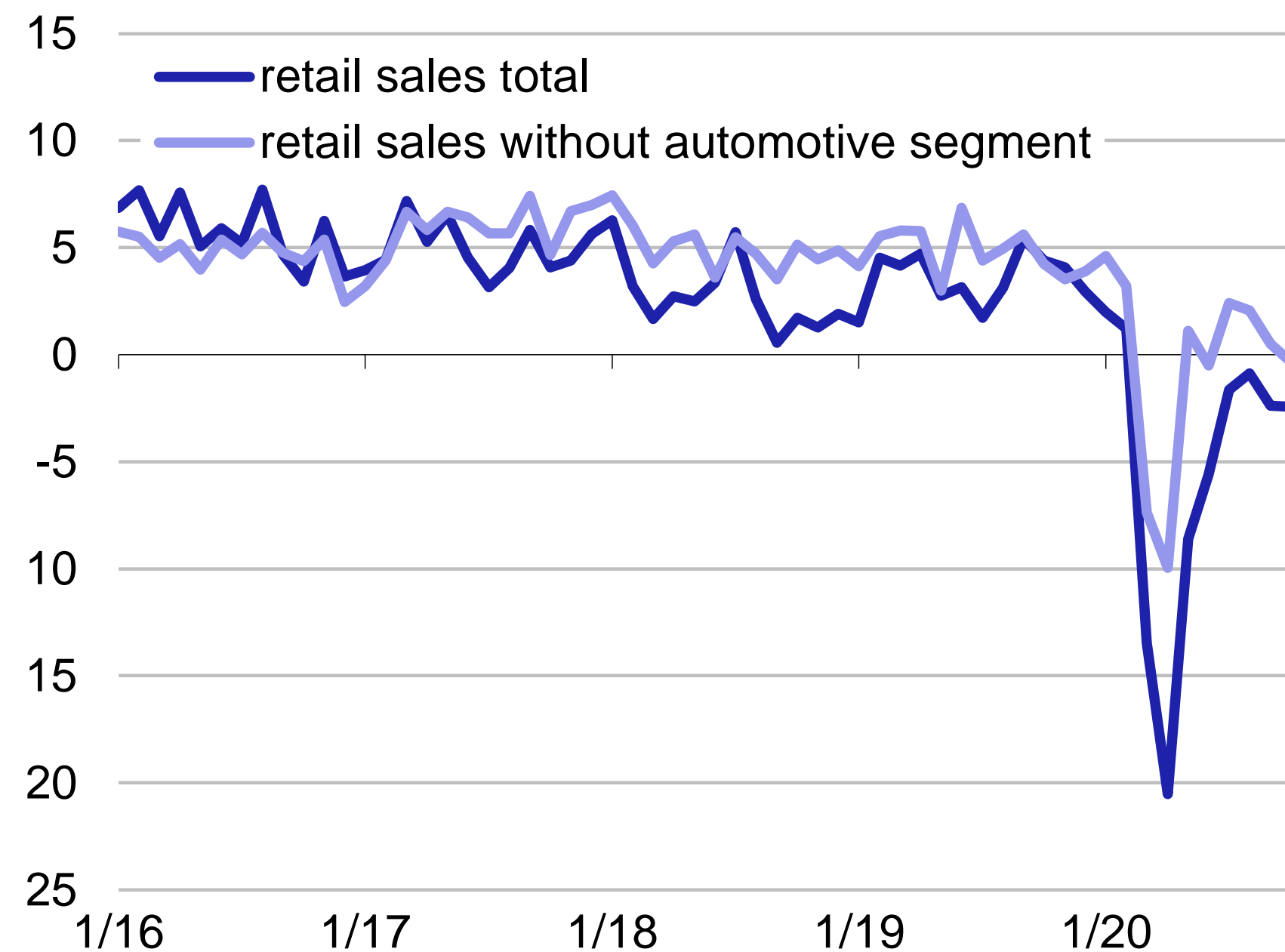
The depth of the year-on-year decline of the Czech economy in 2020 Q3 was smaller than expected.

GDP growth will recover next year.

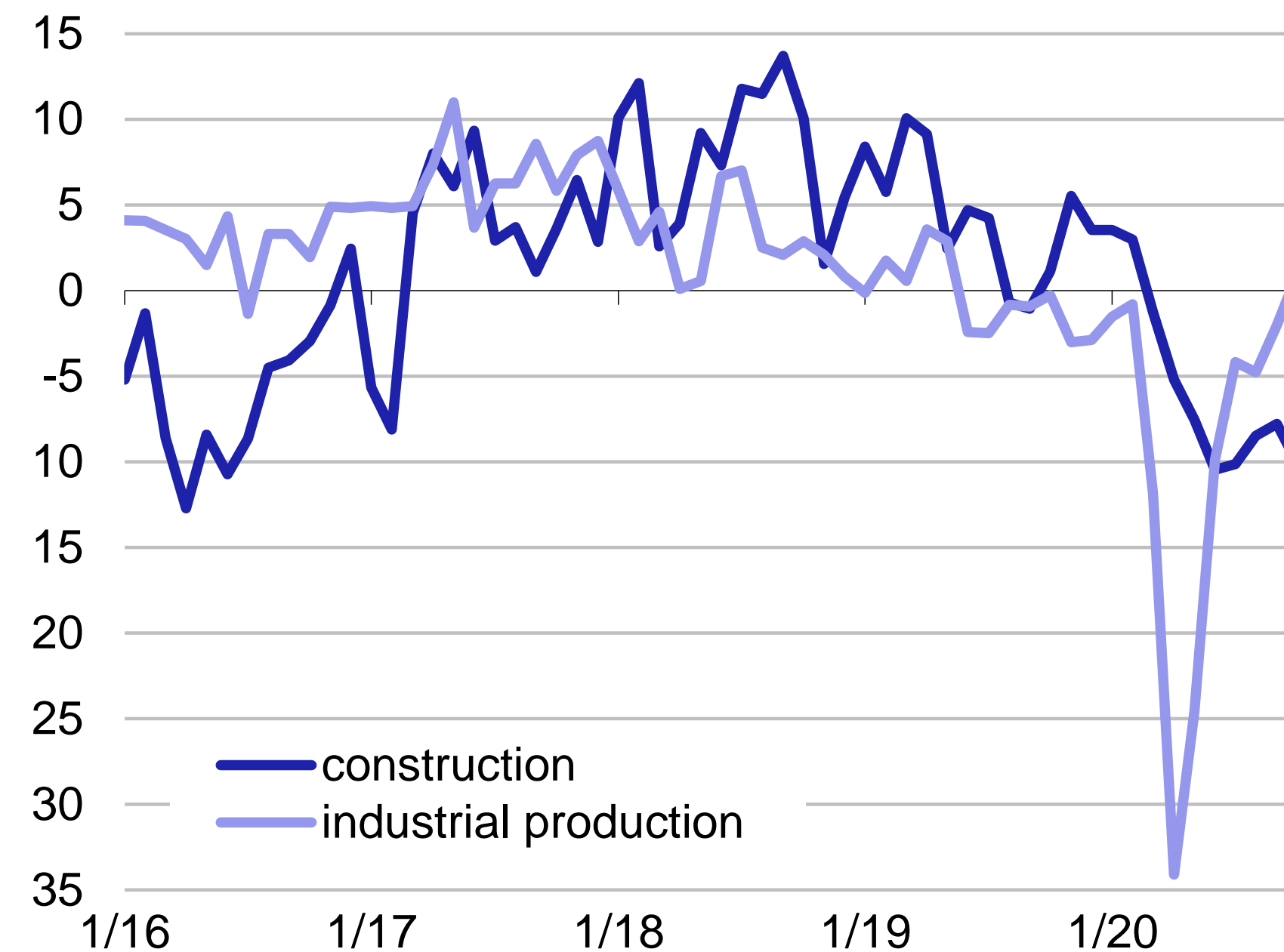
However, the economy will not reach its pre-crisis level even by the end of 2022.

Industry, construction and retail sales

(annual changes in %, seasonally adjusted)

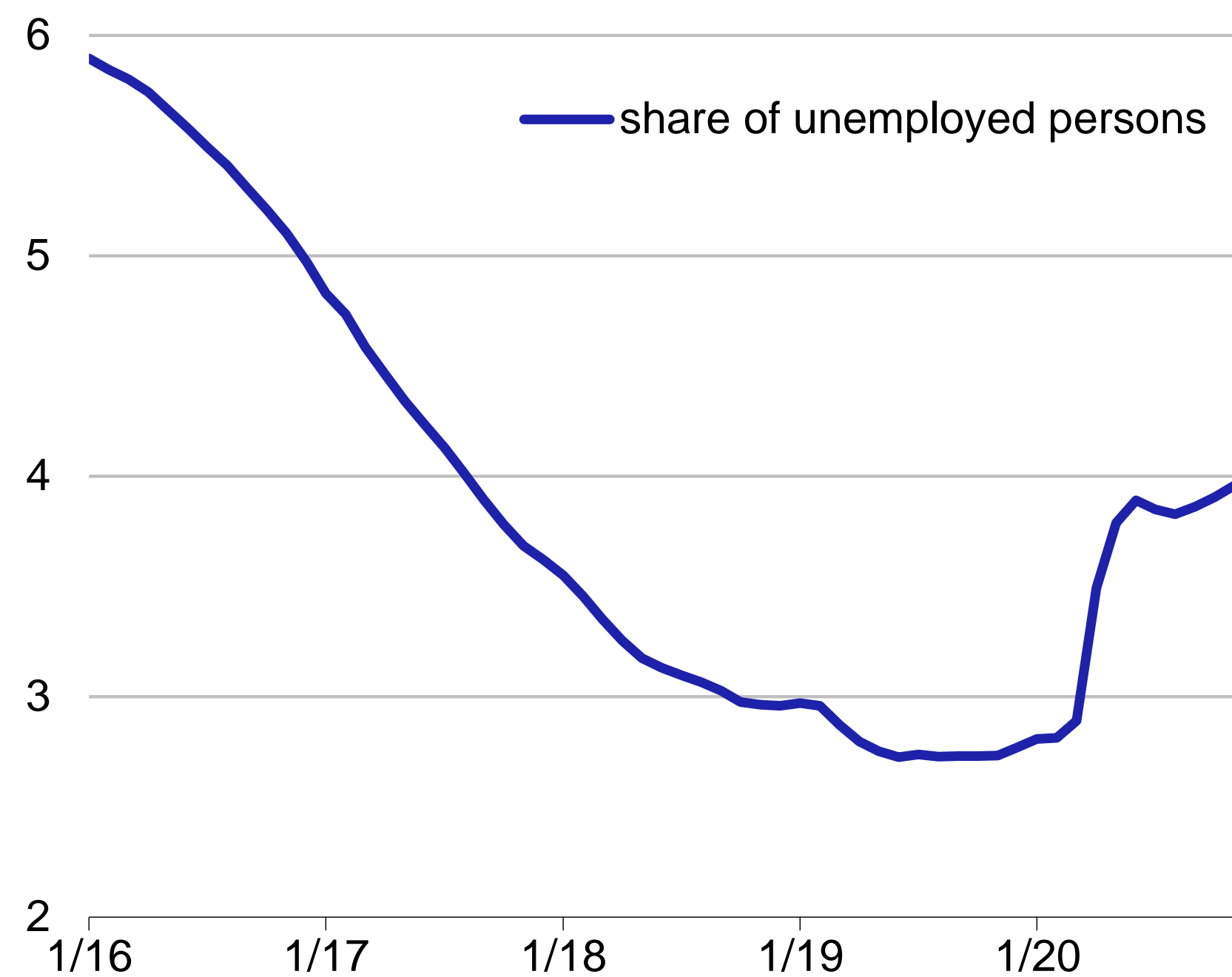


(annual changes in %, seasonally adjusted)

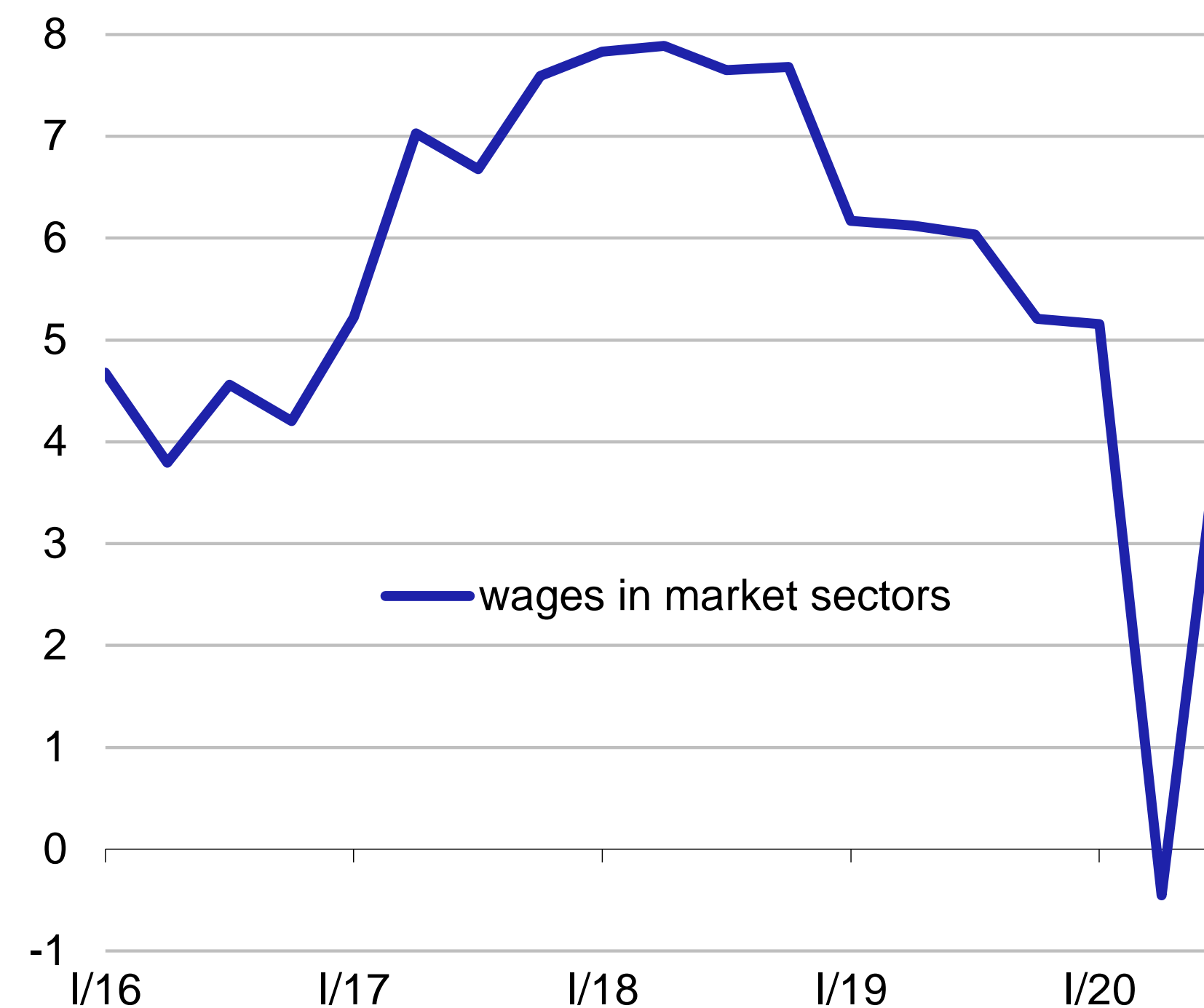


Labour market

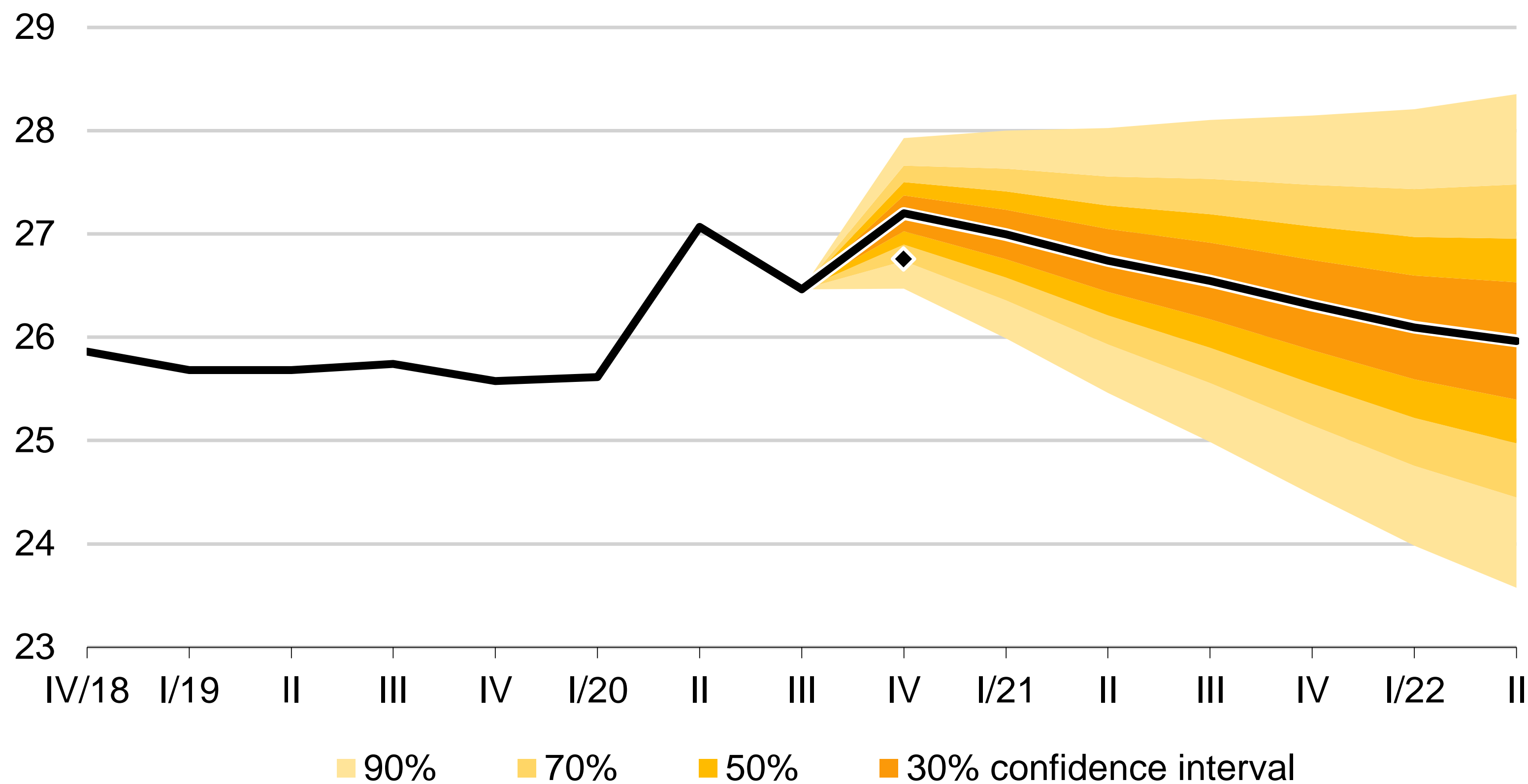
(in %, seasonally adjusted)



(annual changes in %)



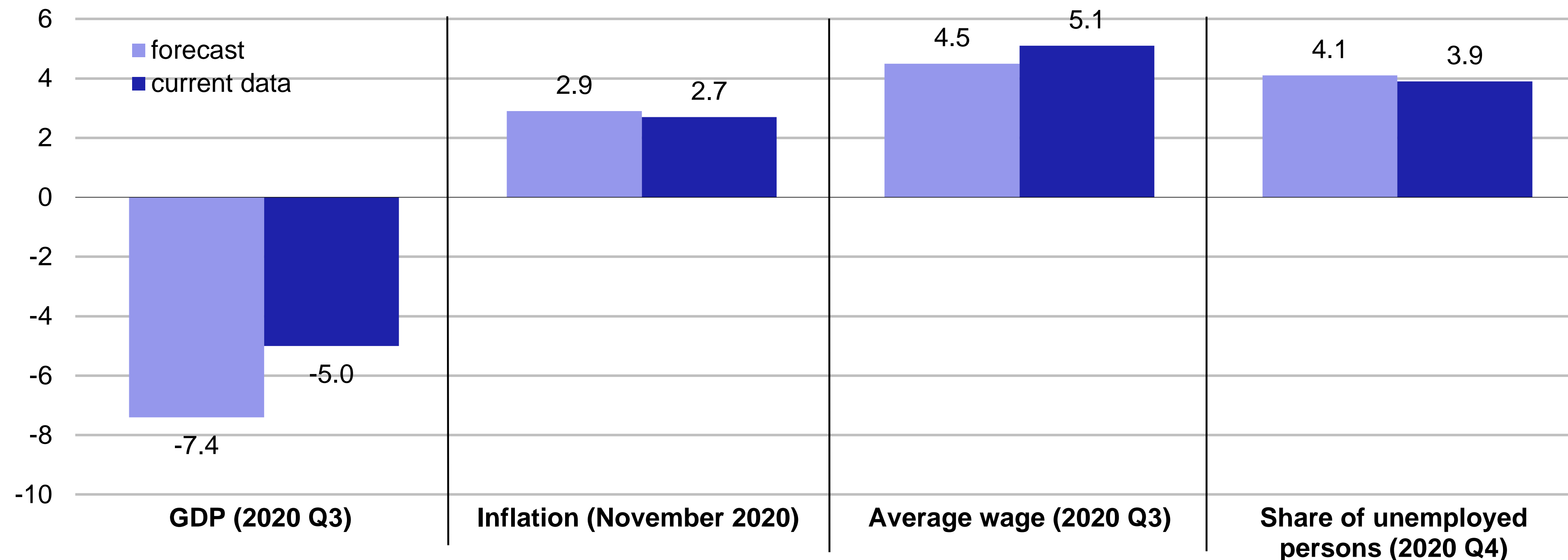
The CZK/EUR exchange rate forecast and outcome in 2020 Q4



In Q4, the koruna has on average been almost 0.5 CZK/EUR stronger against the euro than forecasted.

The forecast expects the koruna to appreciate gradually next year.

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 October and November with the forecast for 2020 Q4)

Risks and uncertainties of the forecast

The Bank Board assessed the risks and uncertainties of the forecast in the context of the ongoing second wave of the pandemic as remaining very substantial.

Risks and uncertainties of the forecast:

- easier fiscal policy in the years ahead
- further possible worsening of the course of the second pandemic wave at home and especially abroad
- no-deal Brexit
- structure of the supply and demand factors underlying domestic and foreign 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 8 January 2021 at

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



Summary



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



The risks and uncertainties of the forecast remain very substantial.



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



The key interest rate remains at 0.25%.