
CNB's Forecast and Current Developments

Tomáš Holub

Citi CEEMEA conference

September 4, 2020



Monetary policy decision

At its meeting on August 6, 2020, the CNB Bank Board unanimously kept the 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%.

The decision adopted by the Bank Board is underpinned by the **CNB's macroeconomic forecast** prepared by the staff in July.

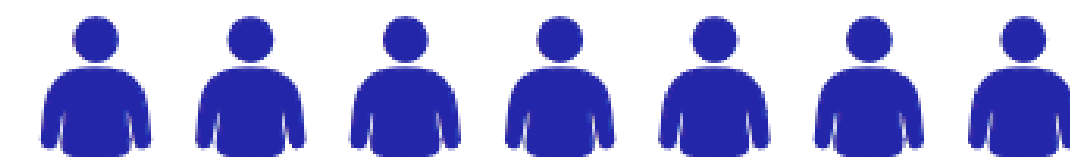
Consistent with the forecast is **stability of domestic market interest rates until mid-2021, followed by a gradual rise in rates.**

0.25%
2W repo
rate

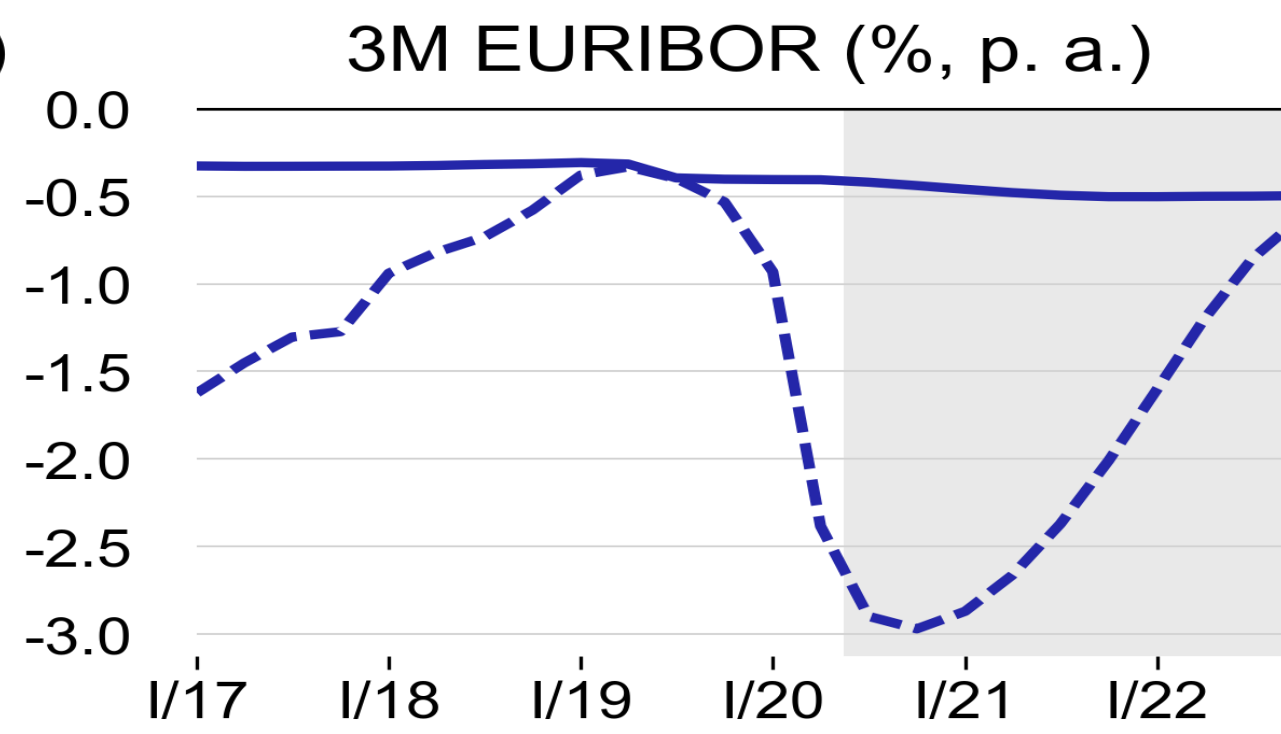
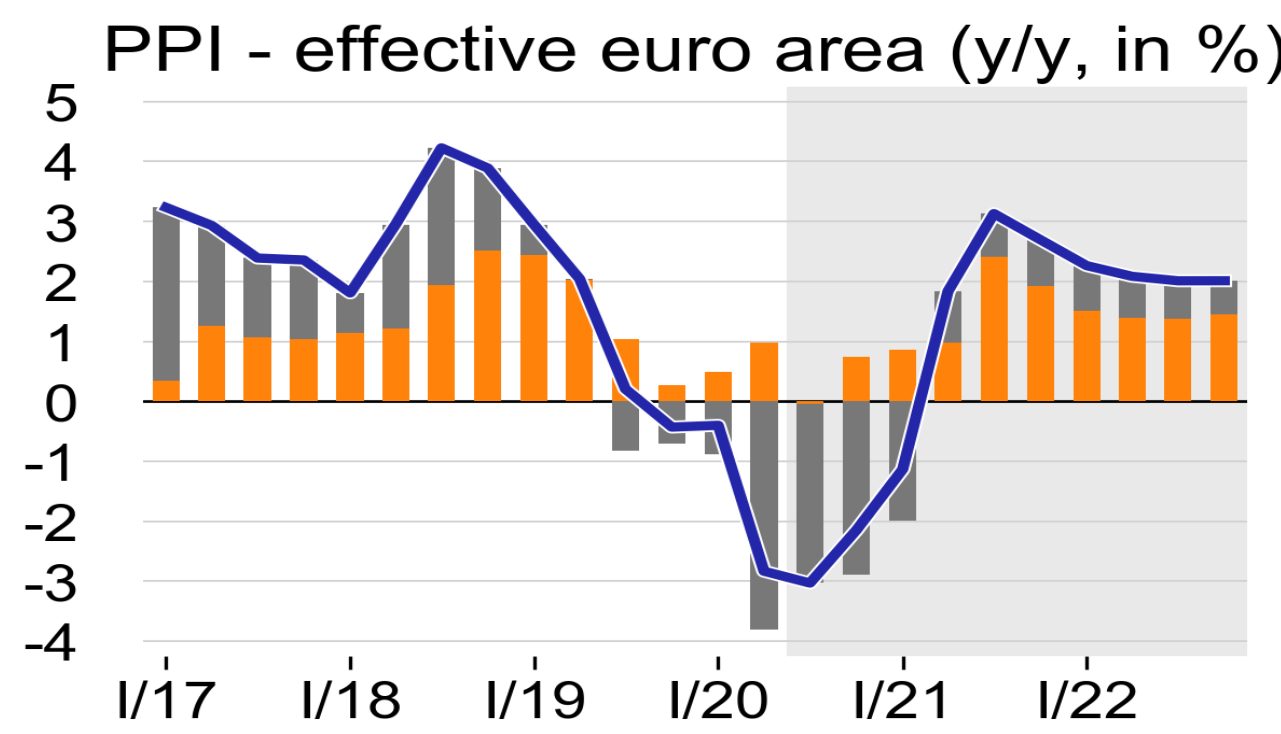
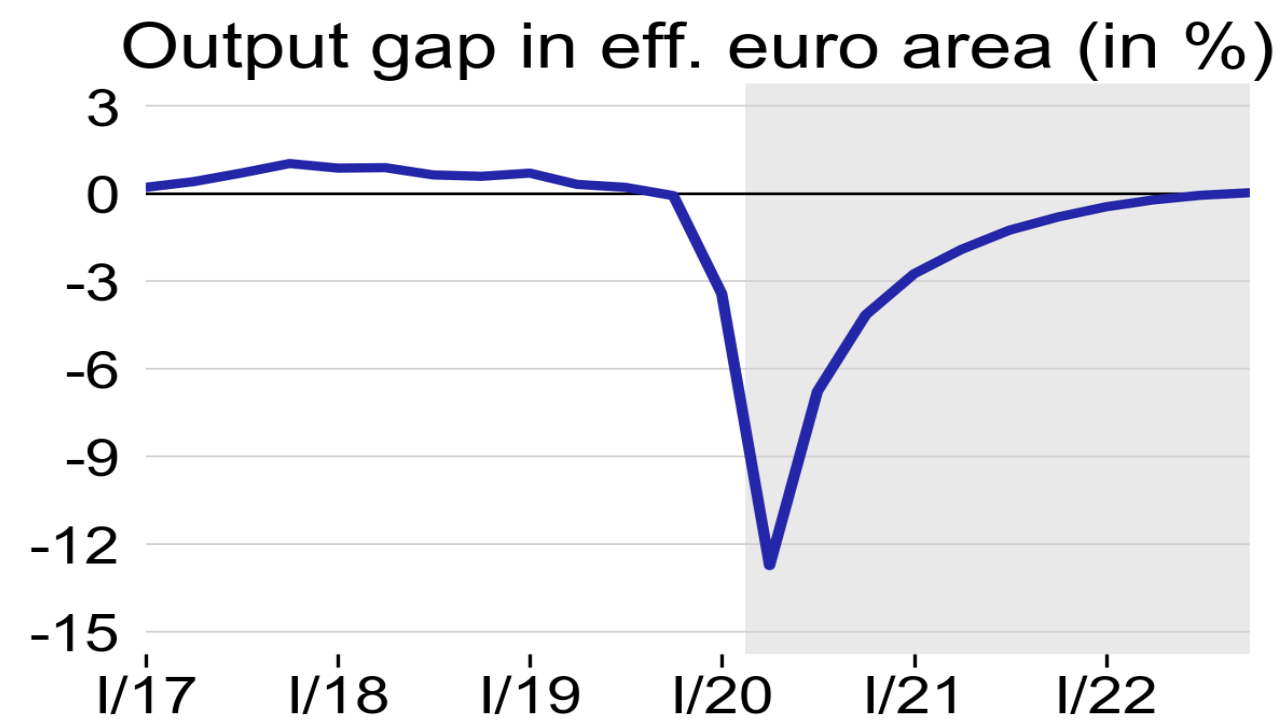
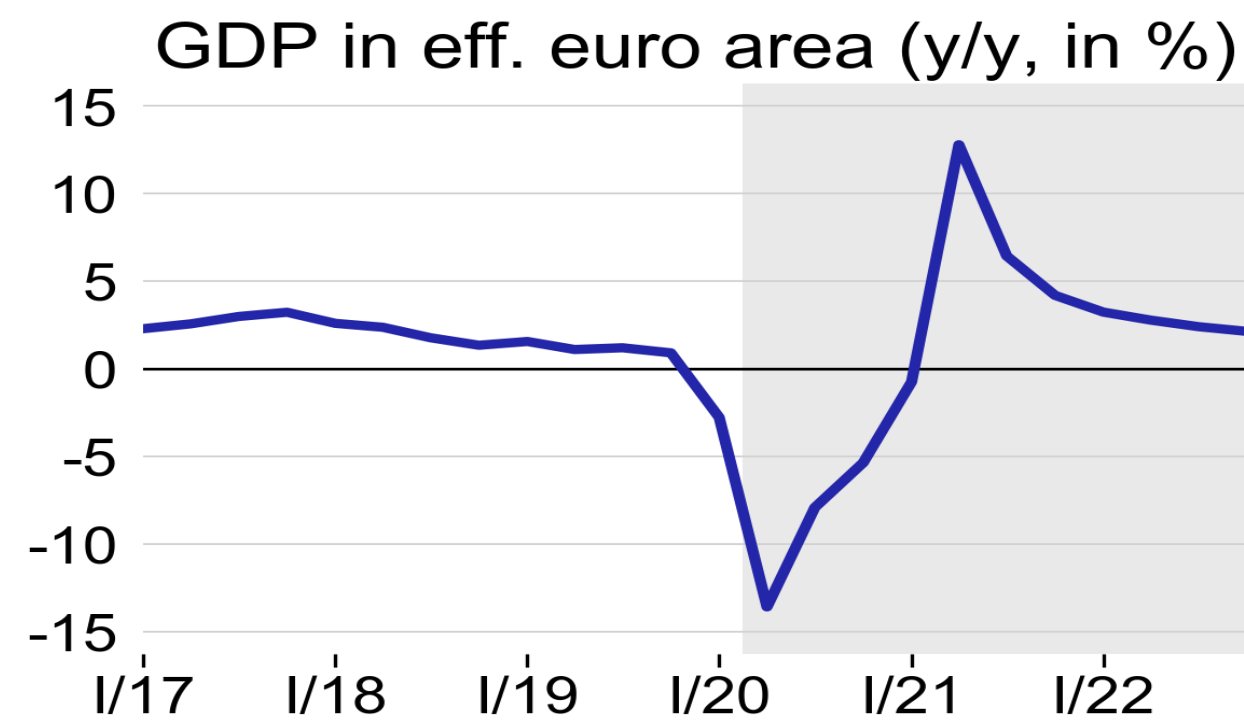
0.05%
discount
rate

1.00%
Lombard
rate

FOR NO CHANGE



External assumptions



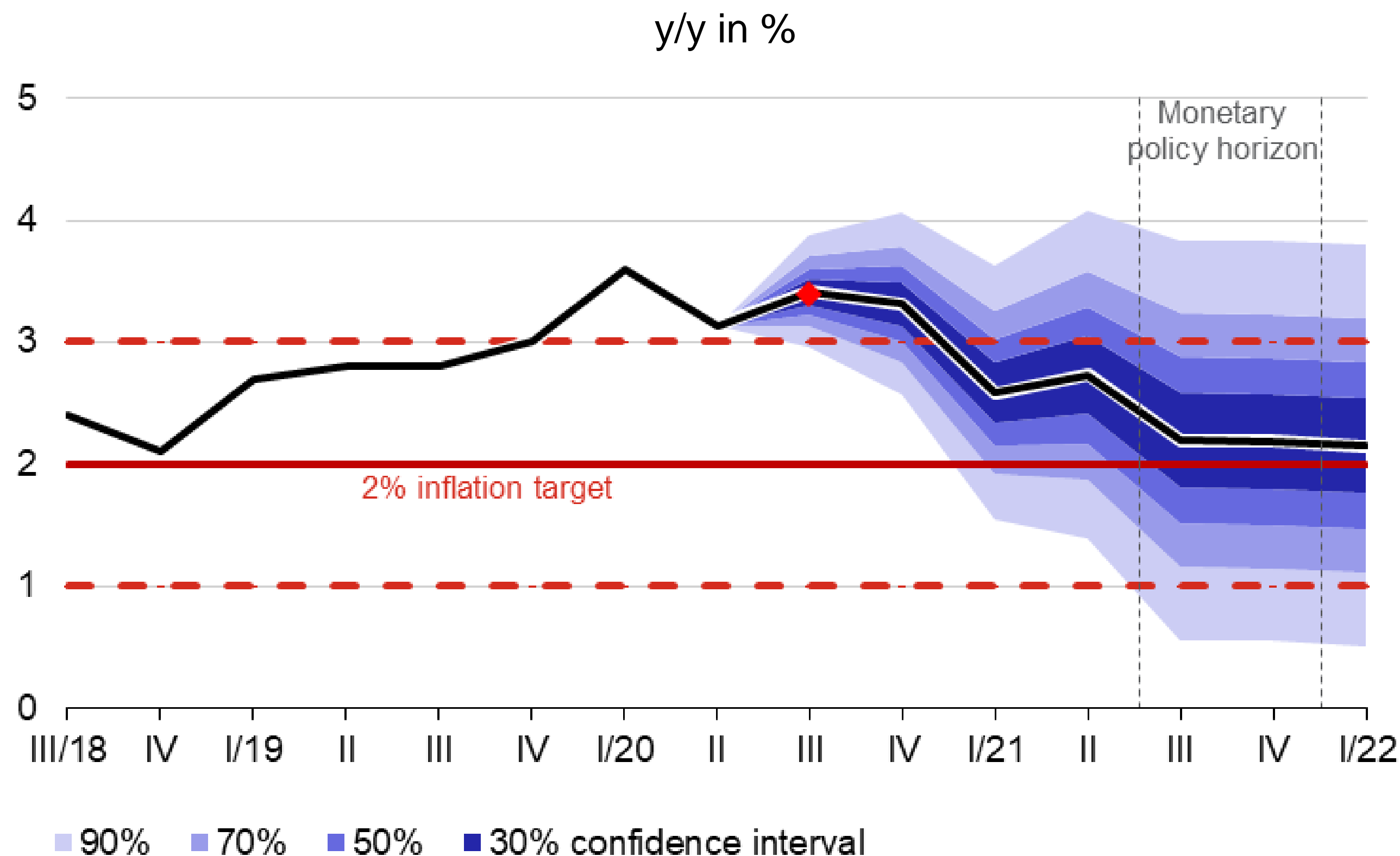
■ Core component
 ■ Energy component
 - - - Shadow rate

The **effective euro area** economy will decline by more than 7% this year. The currently highly **negative output gap** is assumed to close in 2022.

Observed **drop of energy prices** will lead to a sizeable decline in producer prices on the back of the fall in economic activity.

The **3M EURIBOR will remain negative over the entire forecast horizon**. The forecast takes into account expectations regarding the ECB's asset purchase program (via a shadow interest rate concept). The shadow rate is significantly lower than market rates.

Headline inflation



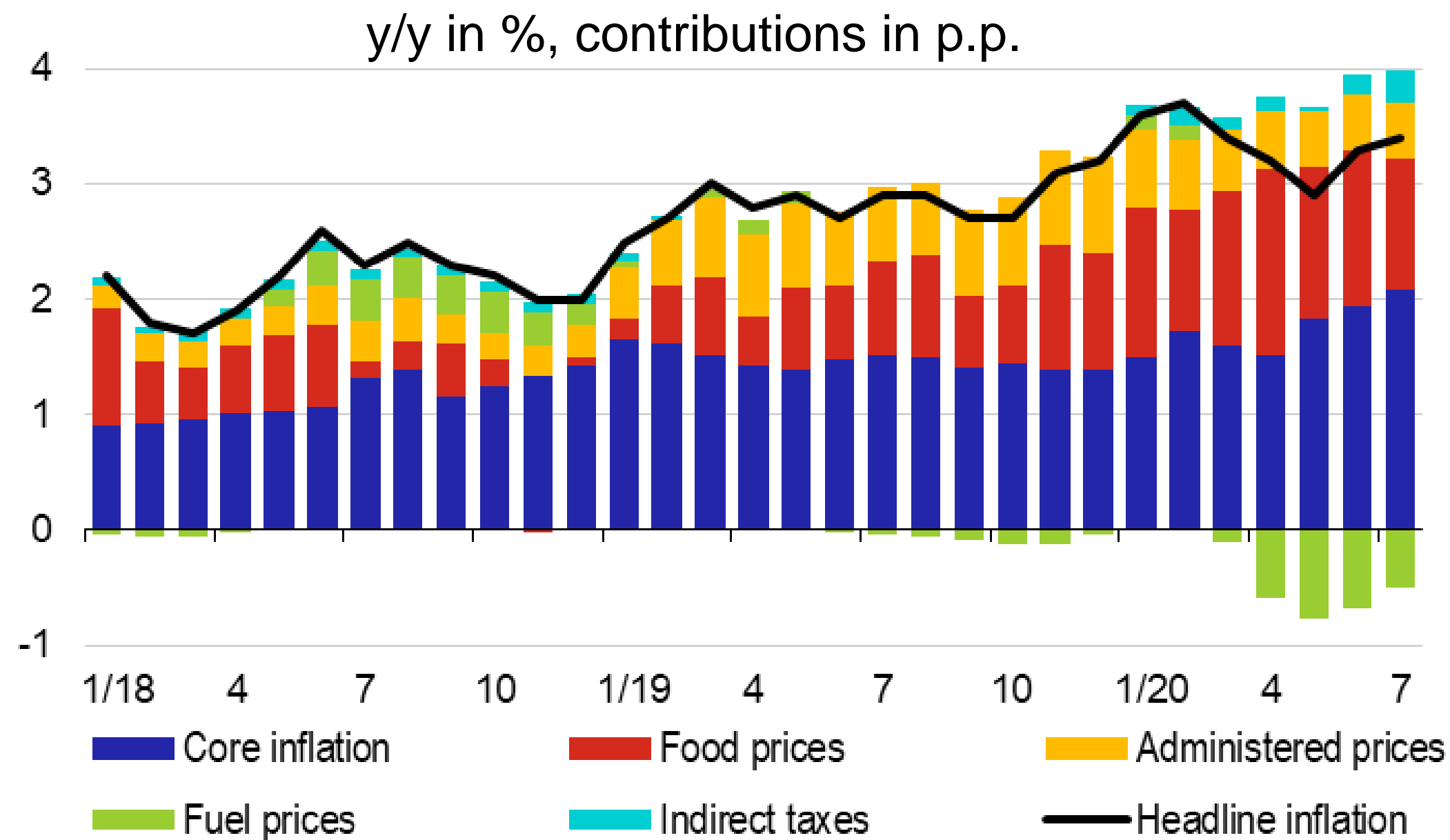
Headline inflation will stay **above the upper bound** of the tolerance band **for the rest of this year** and return close to the target next year.

Firms' falling revenues and rising production costs will fuel inflation this year, despite a deep decline in demand and overall economic activity.

Inflation will fall at the beginning of **2021** in line with lower growth in domestic costs, slightly appreciating koruna, and cooling of the domestic labor market.

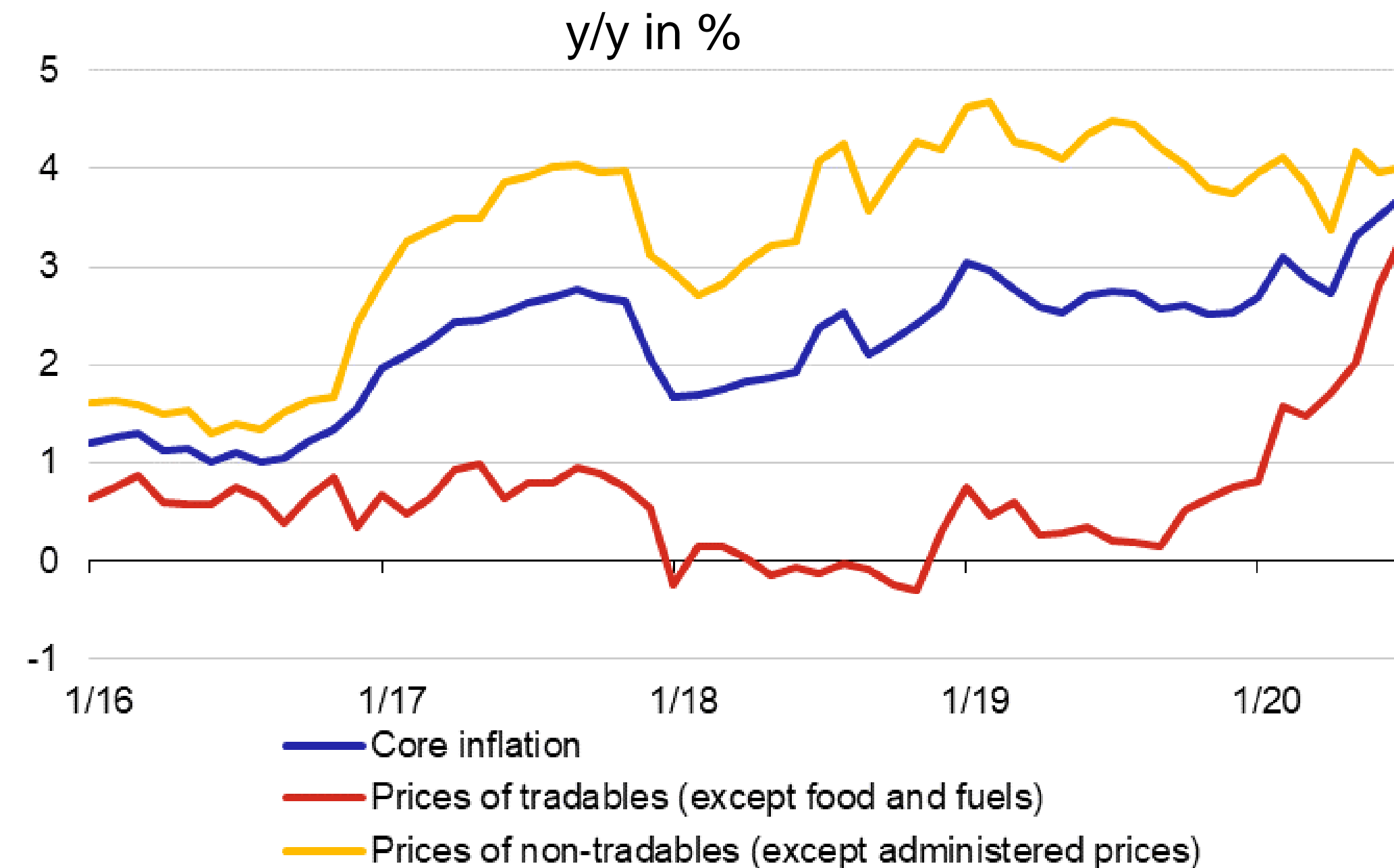
In July headline inflation reached 3.4% y-o-y and was in line with the forecast. Higher than forecasted core inflation, reflecting previously strong domestic demand and temporarily elevated corporate costs, was offset by lower food price growth.

Structure of inflation



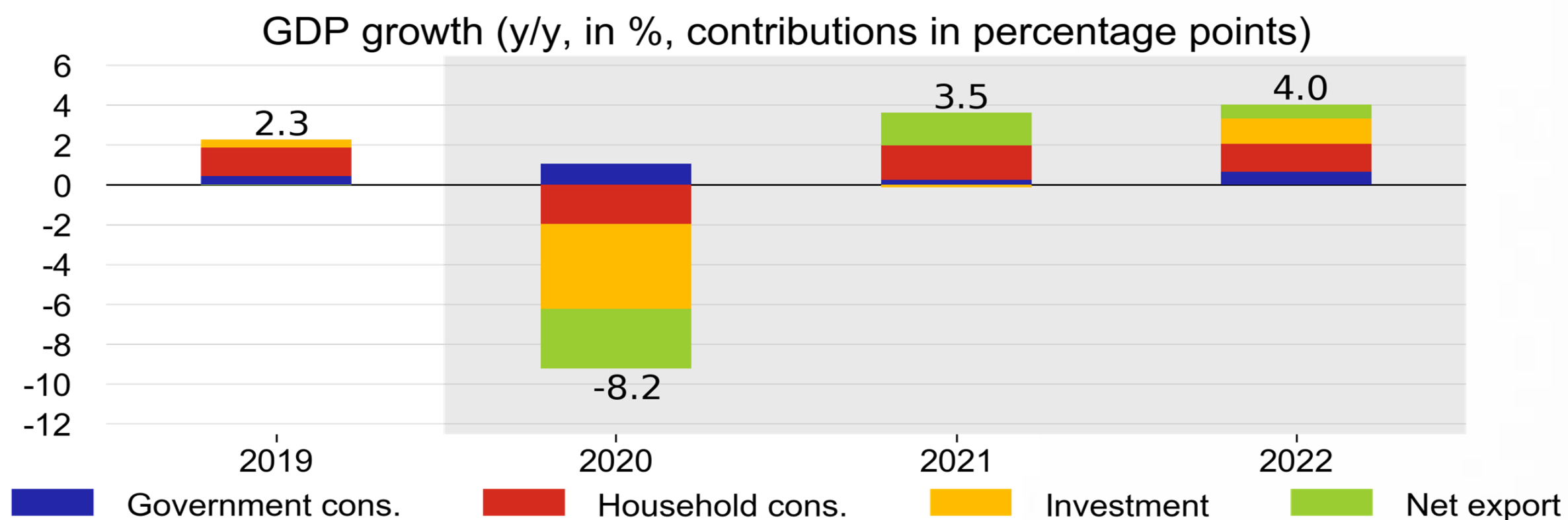
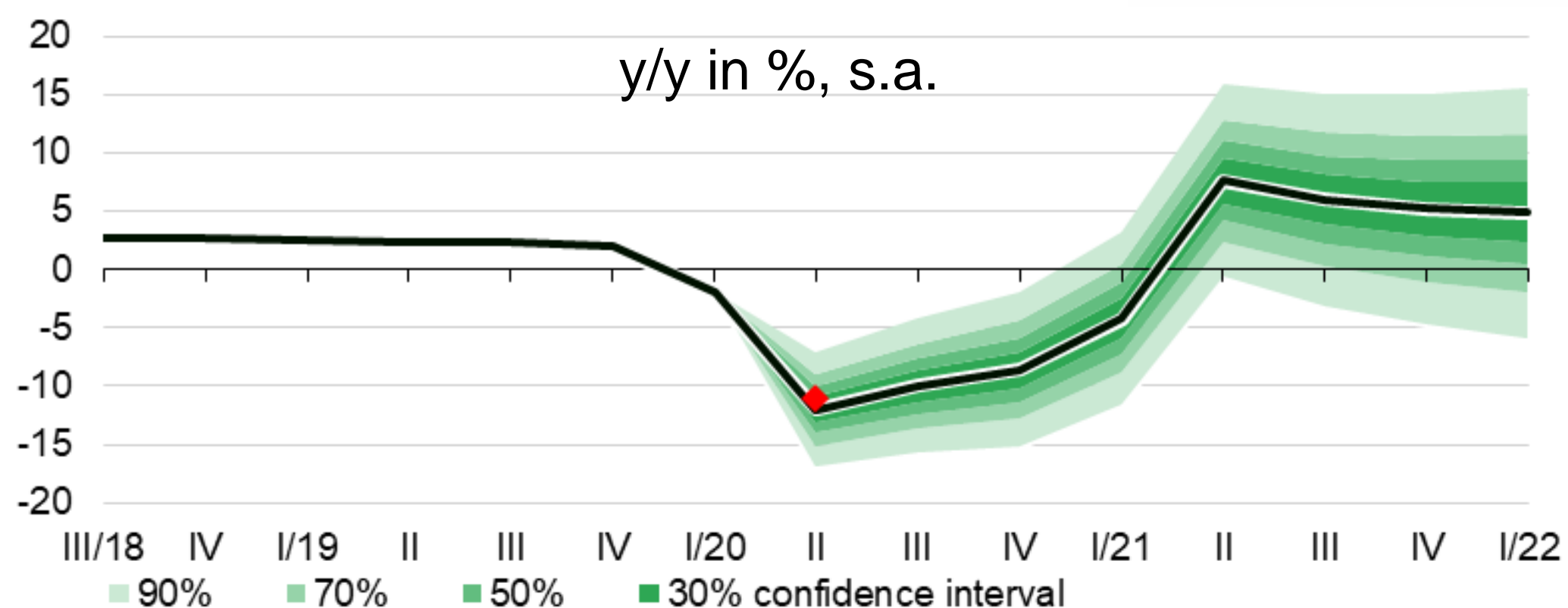
Core inflation continues to contribute to high inflation along with **food price inflation** which has probably peaked. By contrast, consumer price inflation was dampened by a significant **fall in fuel prices**.

Core inflation



Rising tradable inflation – mostly prices of used cars and household equipment given the weak koruna early this year. Continued buoyant price growth in restaurants has kept **non-tradable inflation high**. Moreover, the cut in VAT did not pass through to consumer prices of selected services.

Real GDP Growth



Domestic economic activity will fall sharply this year given the coronavirus pandemic. Mainly **private investment** sharply declines, but also net exports and household consumption.

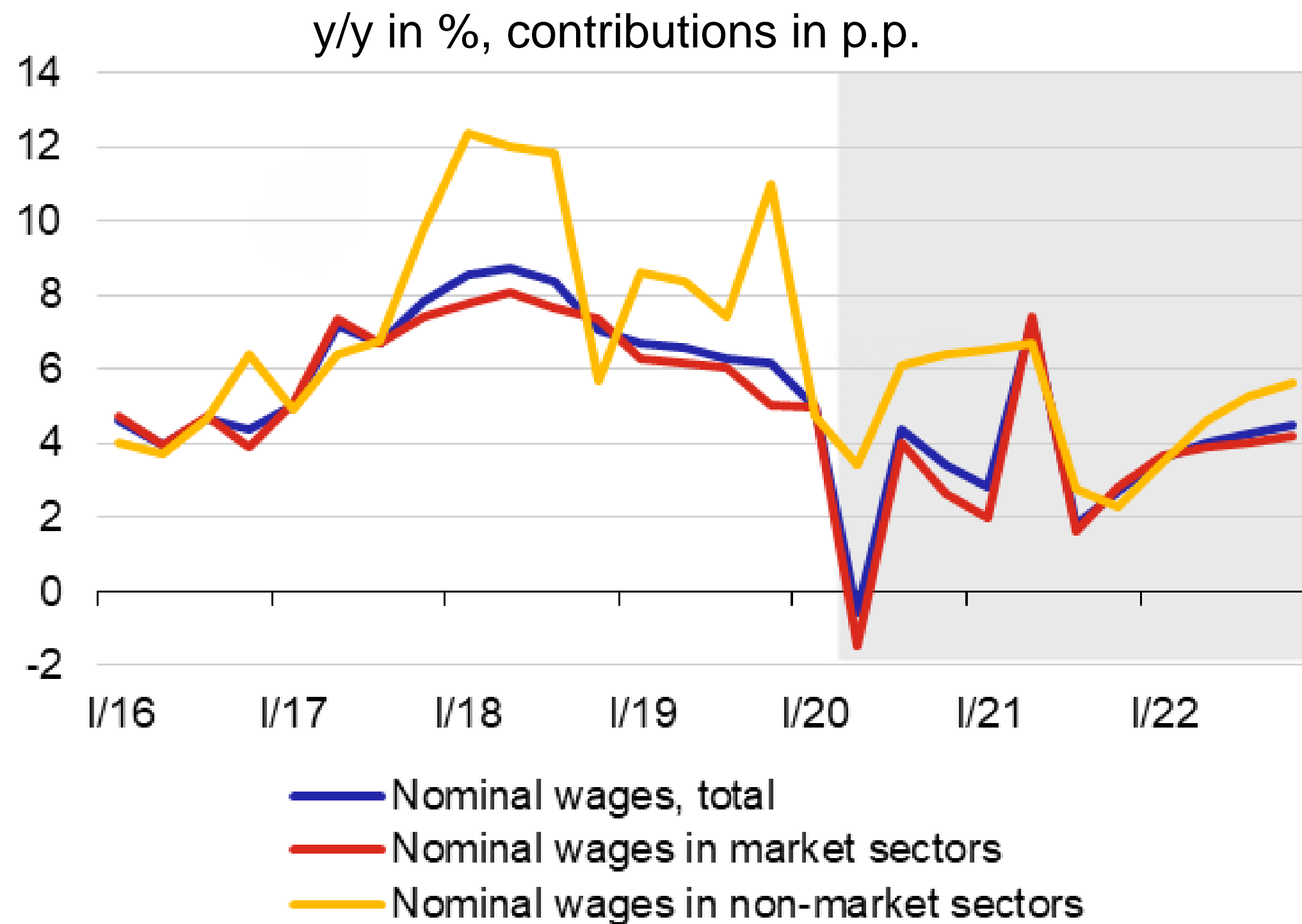
Conversely, **government measures** help reduce the negative impacts of the coronavirus pandemic this year.

As a result, **GDP will drop by around 8% this year**. Economic growth will renew next year driven mainly by household consumption and net exports.

GDP for Q2 broadly in line with our forecast: -11.0% y/y versus -12% in the forecast.

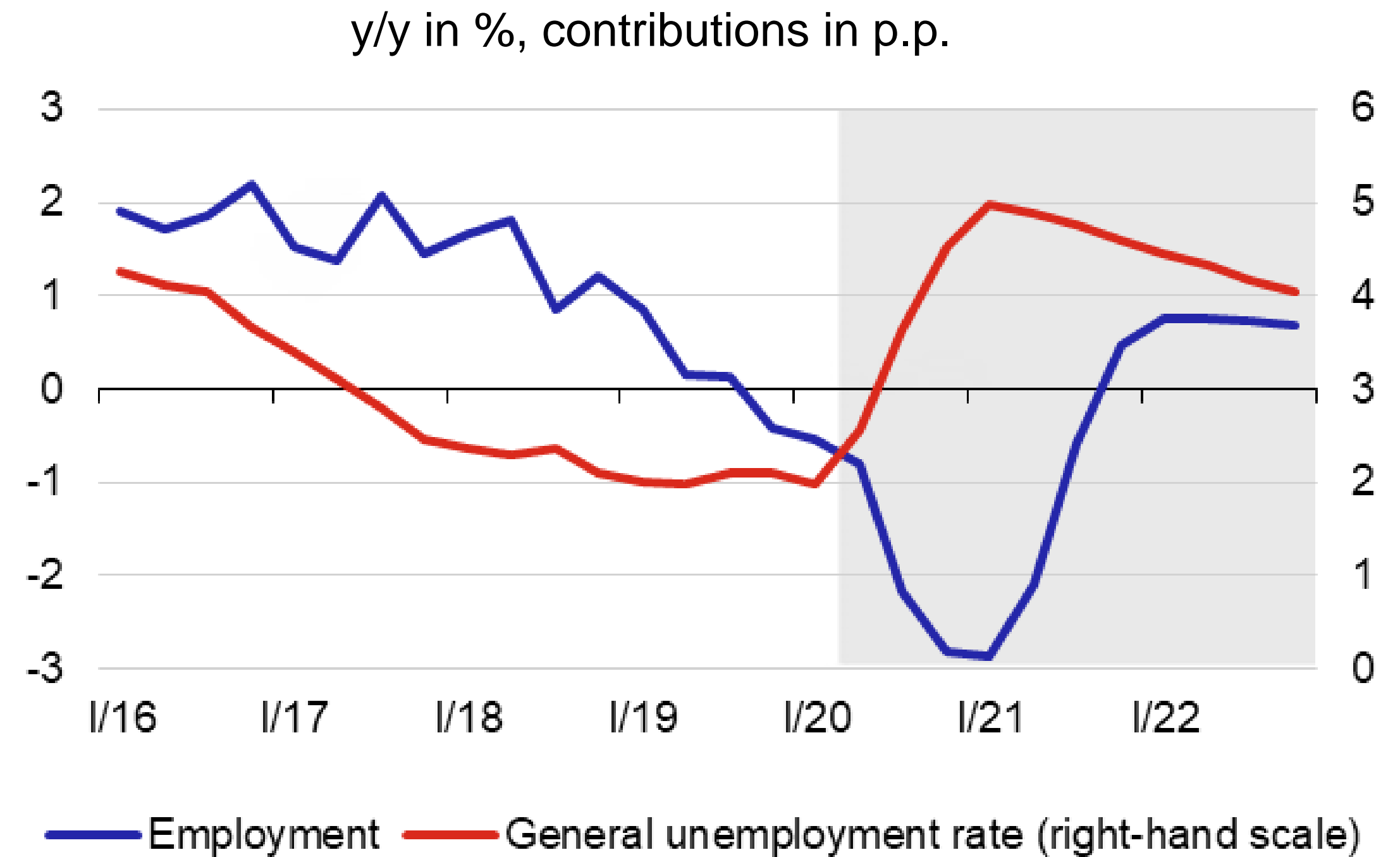
The forecast assumes that the potential **second wave of pandemic will not lead to wide-spread shut-downs** in economies.

Average nominal wages



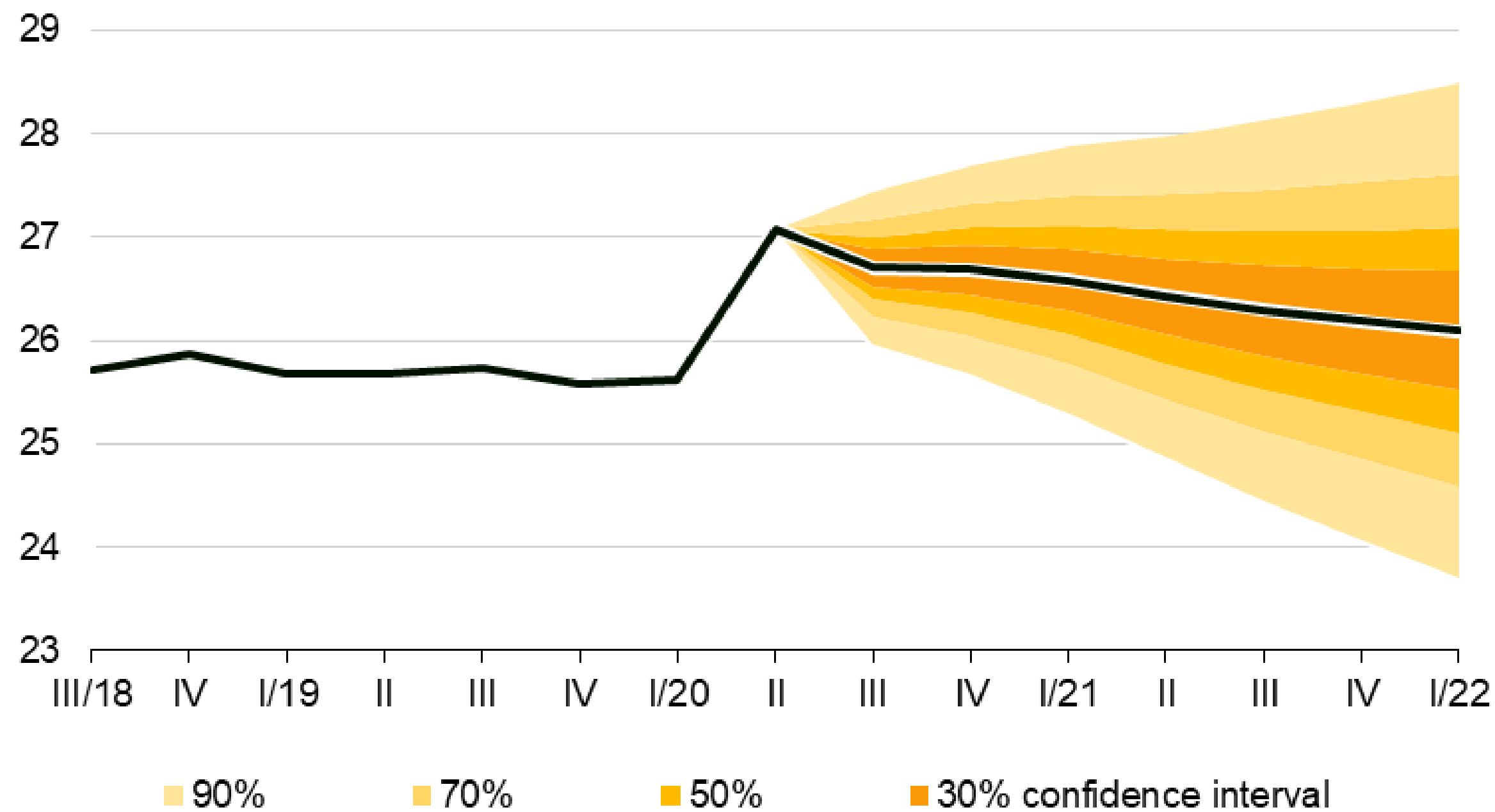
Wage growth will slow significantly in both market and non-market sectors this year. The one-off deceleration in Q2 (actual figure is +0,5% vs. -0.6% in the forecast) reflects quarantine measures.

Labor market



Total employment will decrease this year and the next while the unemployment rate will increase markedly in the near future despite the government's employment protection measures.

Exchange rate CZK/EUR

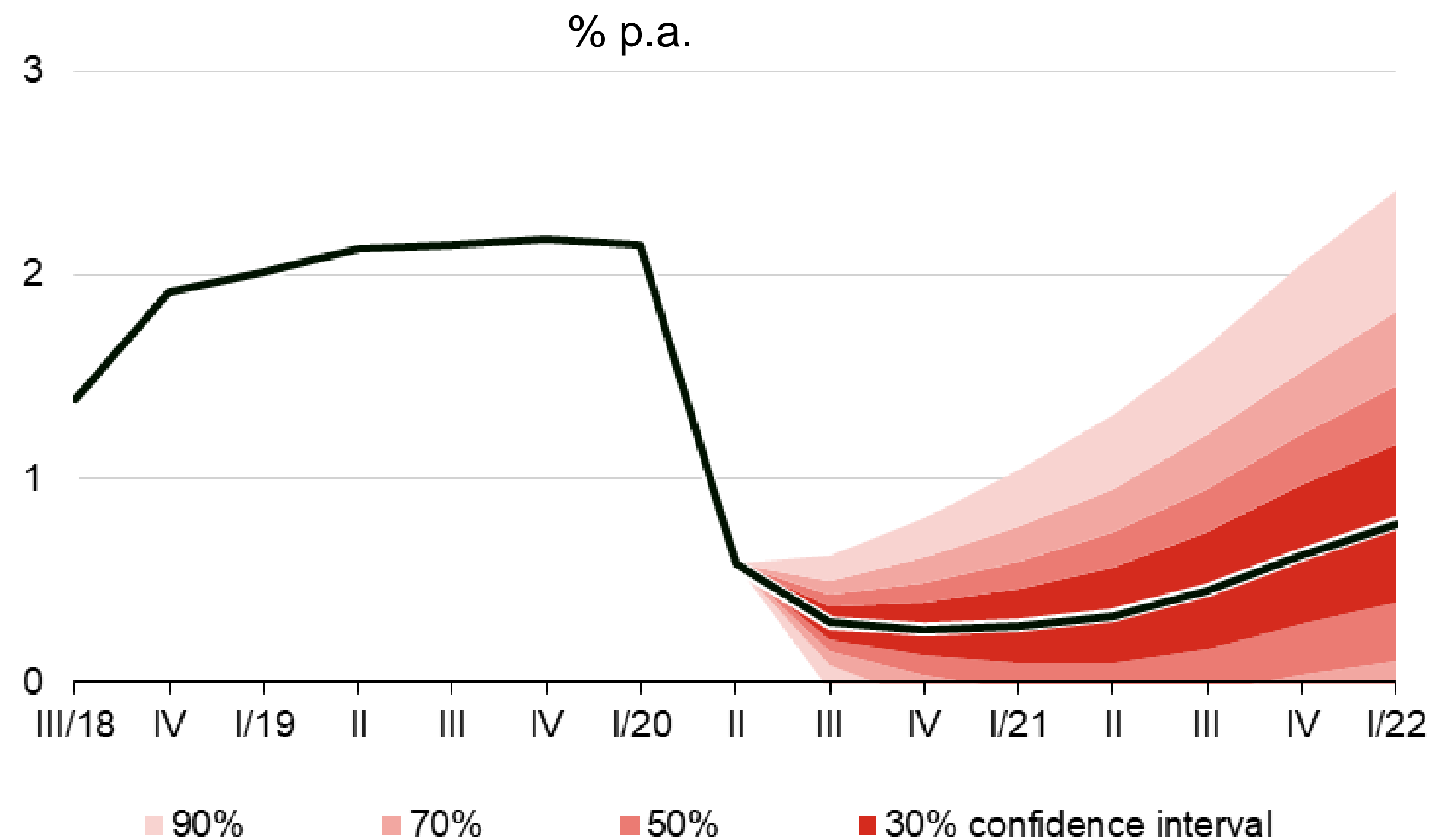


The koruna will gradually **appreciate** over the entire forecast horizon.

Depreciation of the koruna in the first half of this year mirrored worsening of the global sentiment. However, the trend has been reverted in May/June given successful measures fighting against the pandemic.

Further appreciation over the forecast horizon reflects renewed growth in external demand and domestic economic activity.

Interest rate path (3M PRIBOR)



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

The baseline forecast **does not indicate a need for unconventional policy measures.**

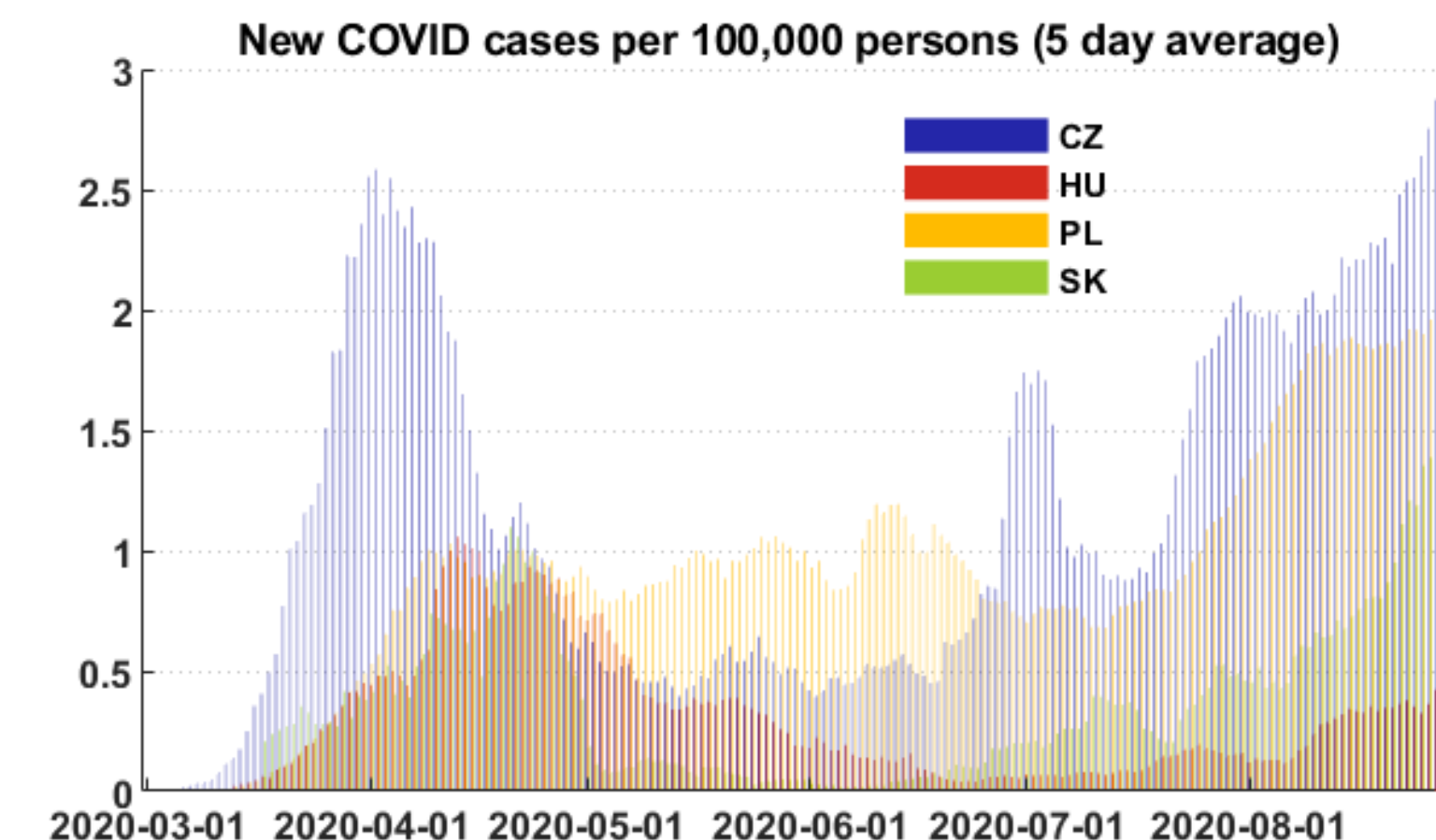
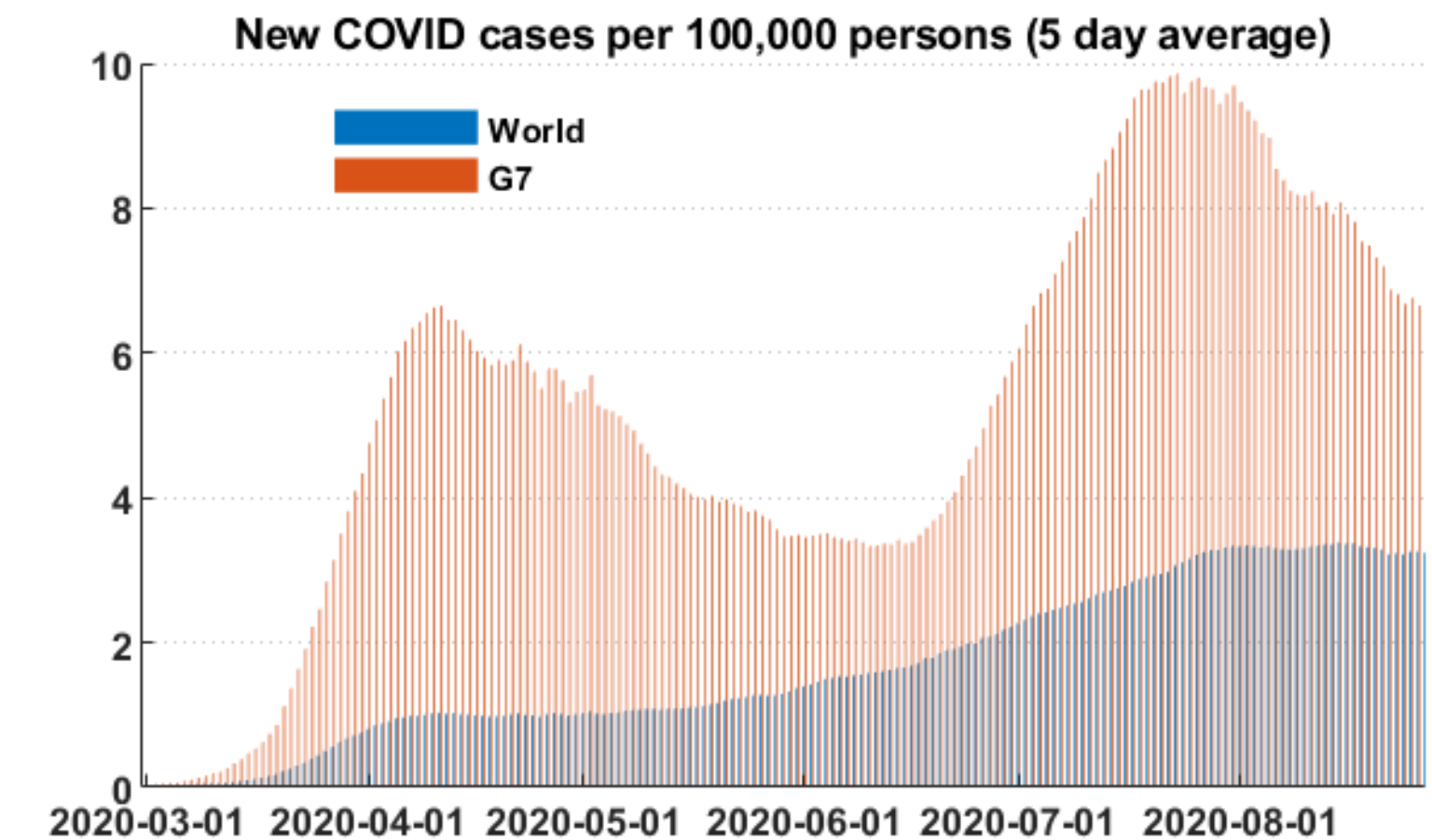
- Unconventional monetary policy measures are discussed only hypothetically as the choice depends highly on circumstances.
- Initial strong policy response helped mitigate the downside risks for price stability, making the need of using unconventional policy measures less likely.

Risks and uncertainty 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



Thank you for your attention

Tomáš Holub

CNB's Board member

tomas.holub@cnb.cz

