
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 **increased the 2W repo rate by 75 basis points to 1.50%**. At the same time, it decided to increase the discount rate to 0.50% and the Lombard rate to 2.50%.

Five members voted in favour of this decision, and two members voted for leaving rates unchanged.

1.50%

2W repo
rate

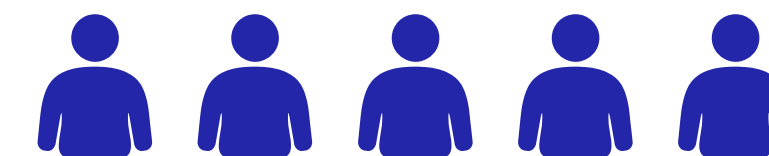
0.50%

discount
rate

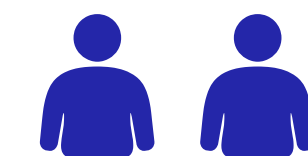
2.50%

Lombard
rate

FOR INCREASE
OF 75 BP



FOR NO CHANGE

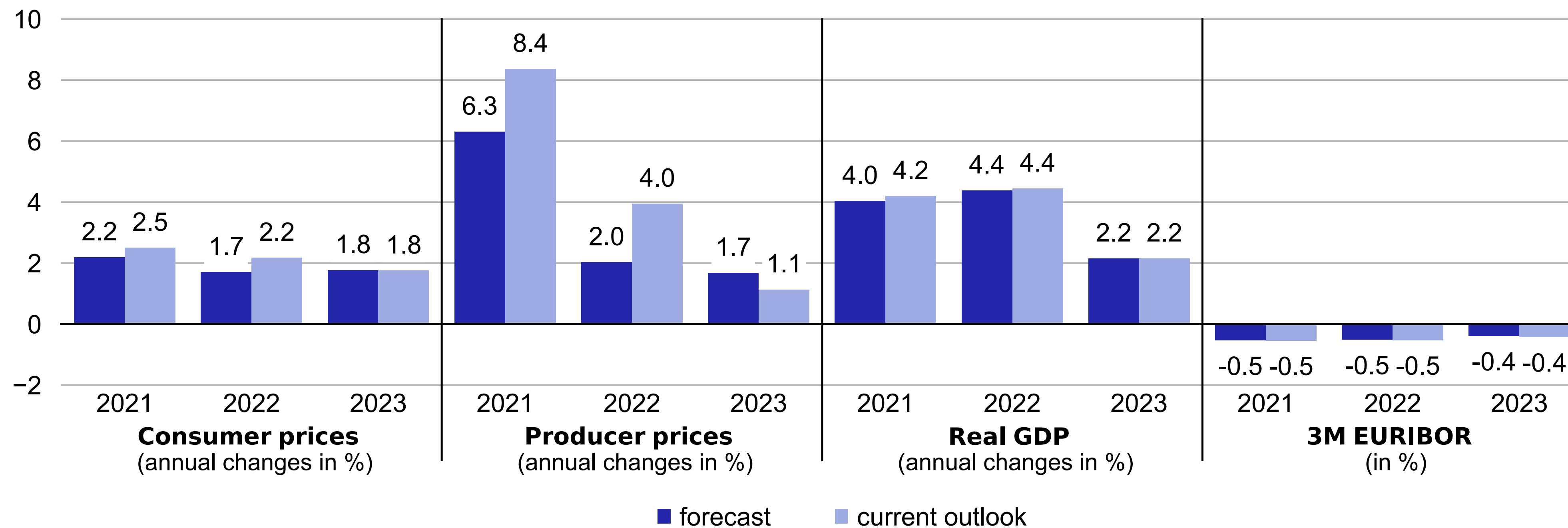


Consistent with the summer forecast is **a rise in market interest rates from the middle of this year onwards.**

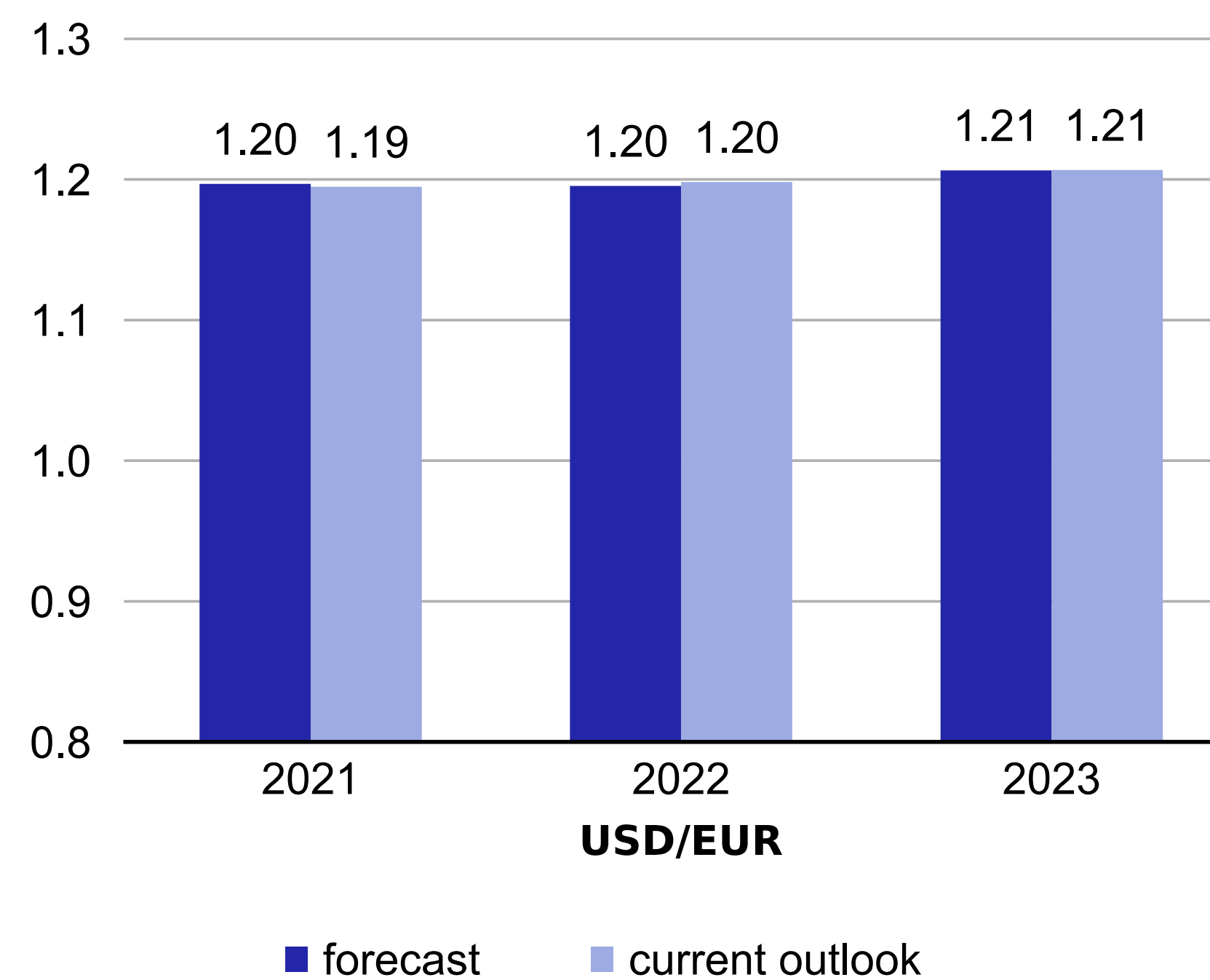
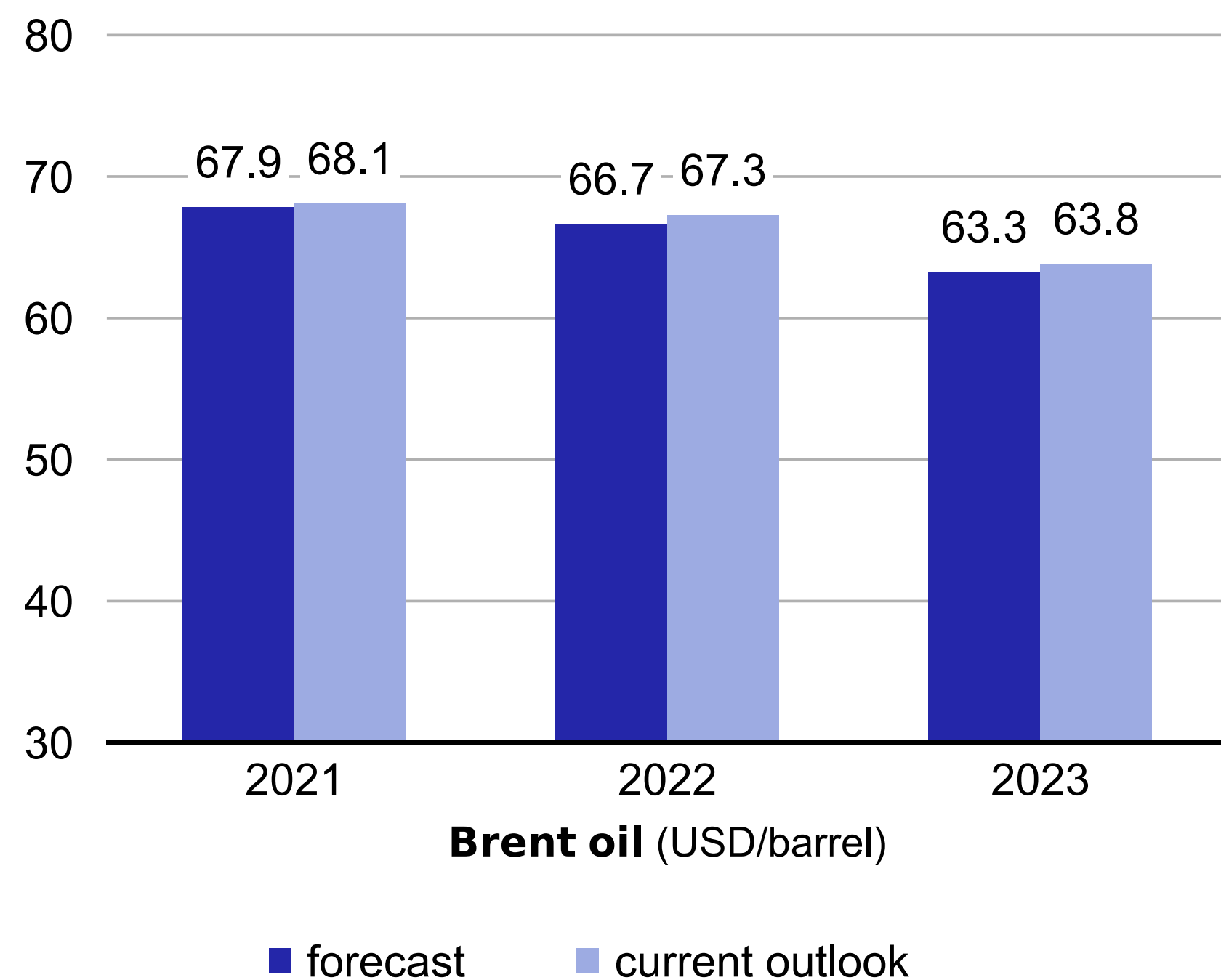
The Bank Board assessed **the risks and uncertainties of the summer forecast as being markedly inflationary and hence requiring a faster rise in interest rates compared with the current forecast.**

The pace of further tightening of monetary policy will be conditional on future developments and on the message of the autumn forecast.

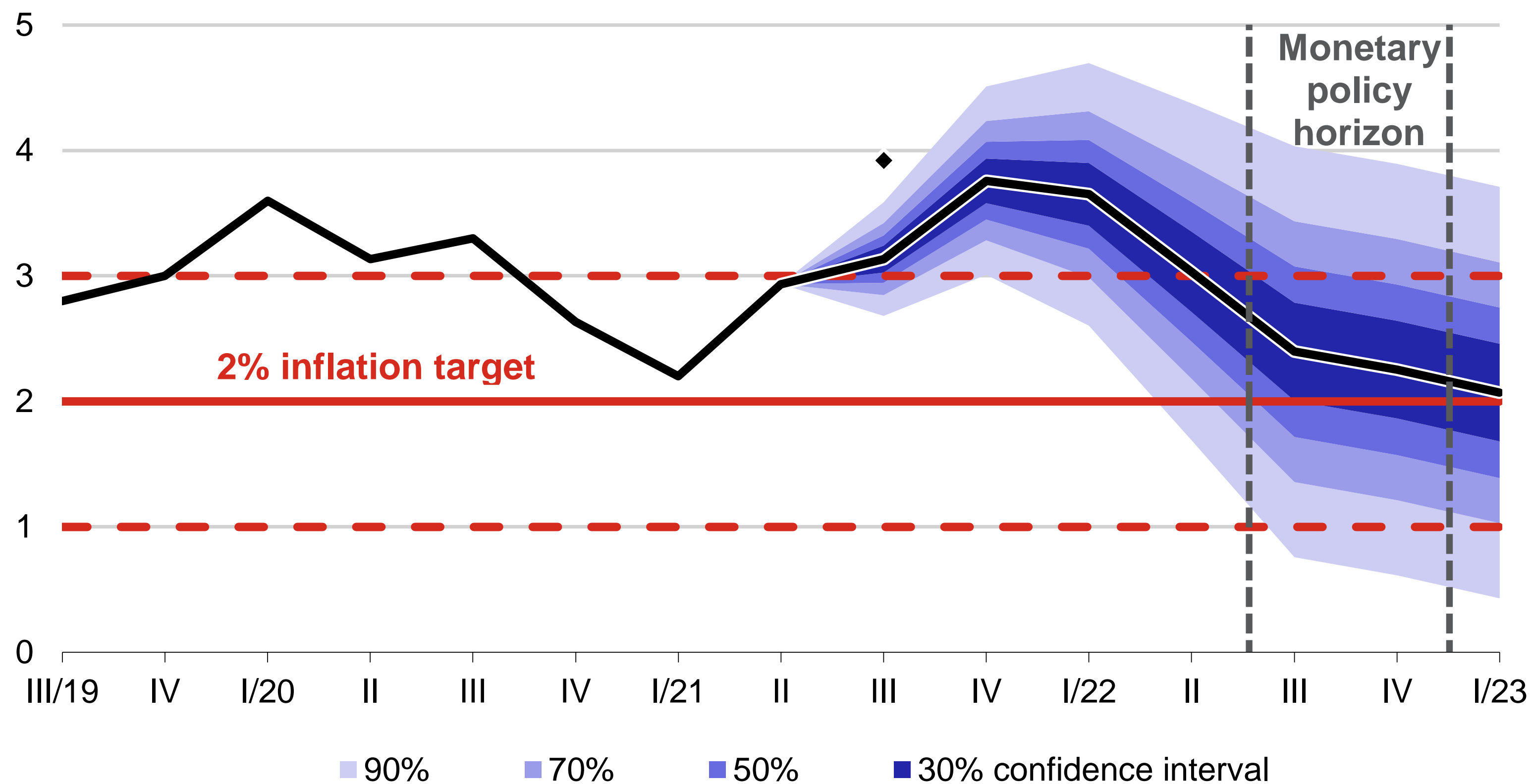
External environment: forecast and current outlook for the effective euro area



External environment: oil price and the USD/EUR exchange rate



The inflation forecast and expected outcome in 2021 Q3

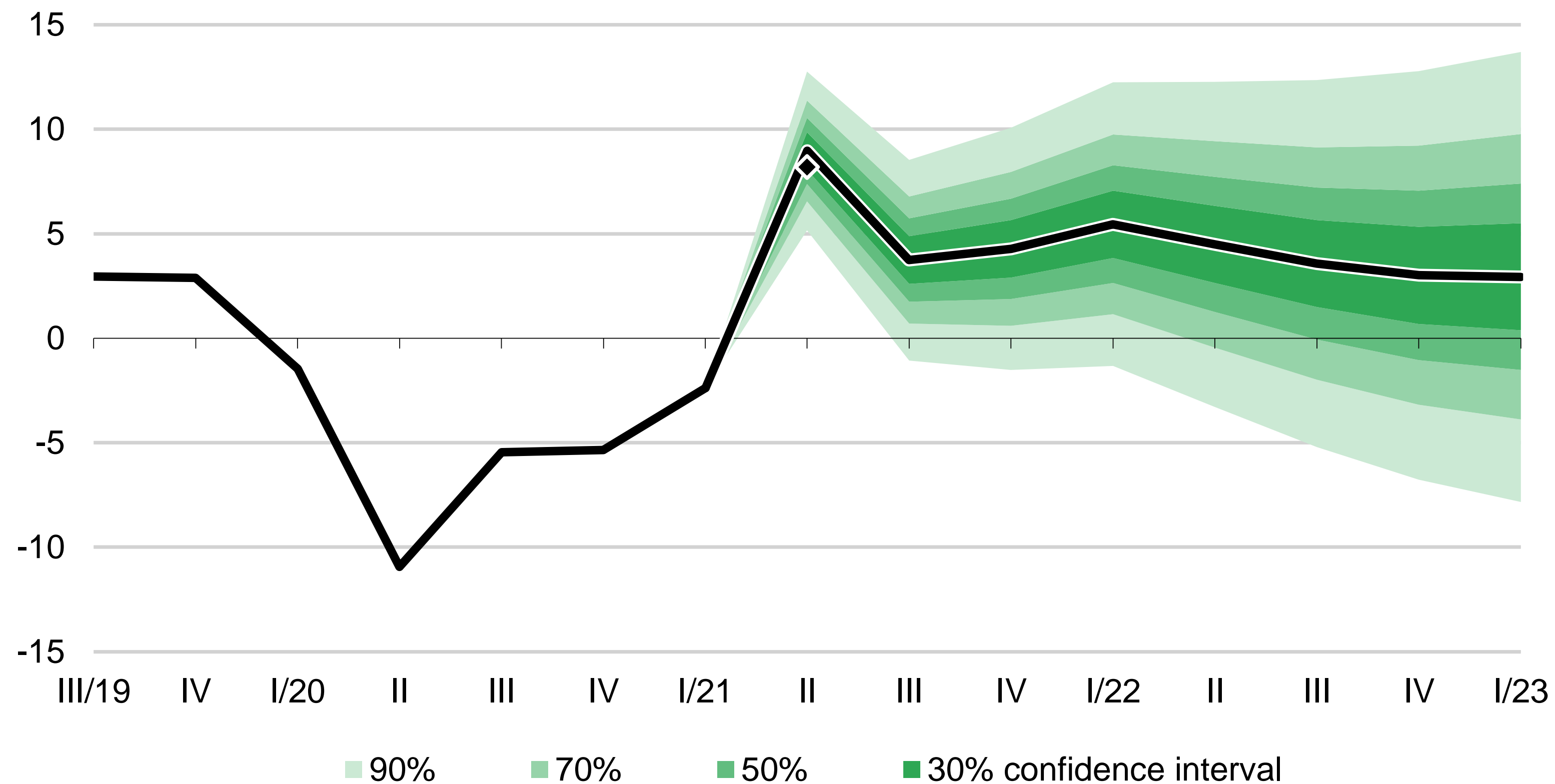


So far in Q3, inflation has been visibly above the upper boundary of the tolerance band, significantly exceeding the forecast.

According to the current forecast, inflation will return towards the 2% target next year.

Note: y-o-y changes in %.

The GDP forecast and outcome in 2021 Q2

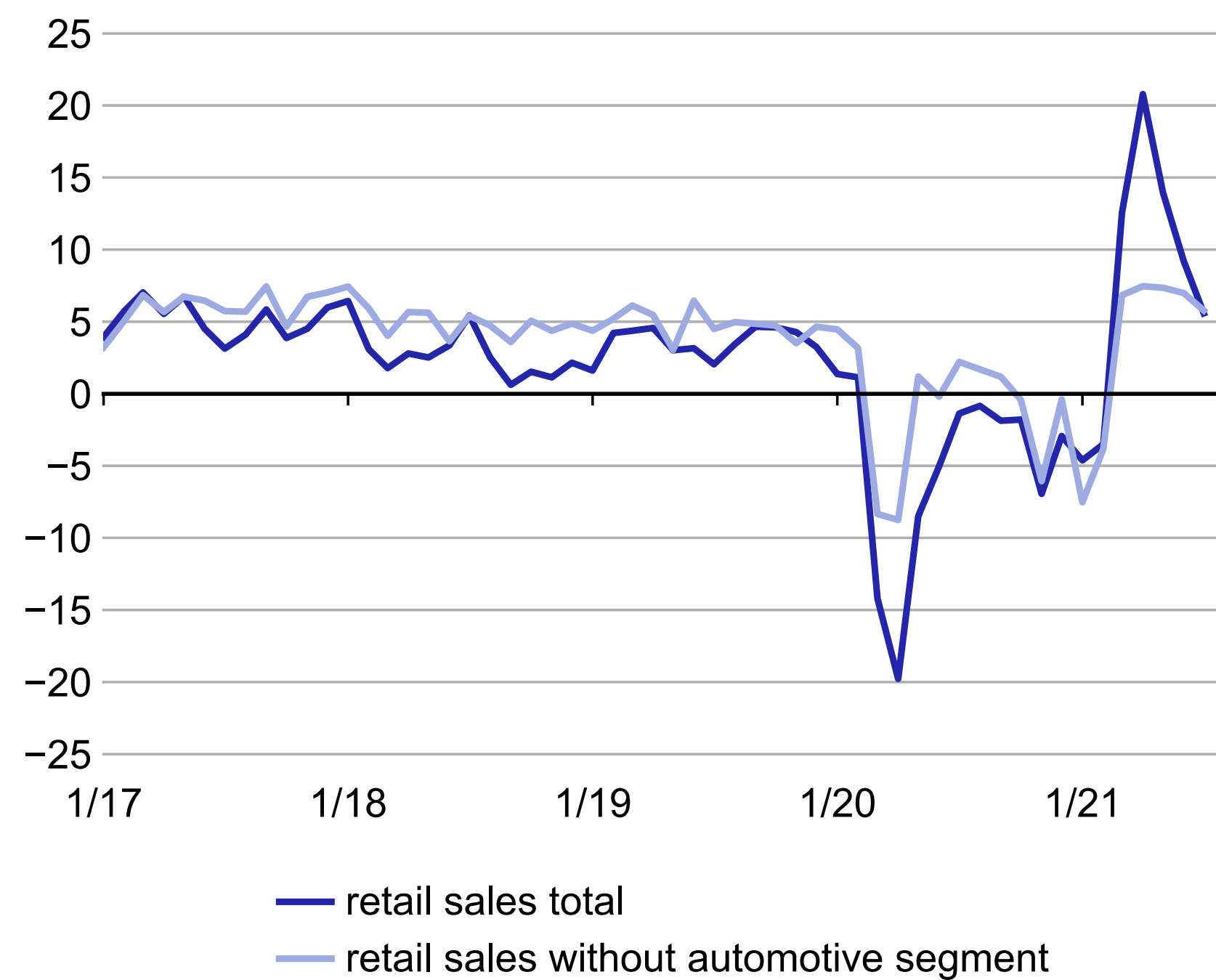


As expected, an easing of most pandemic restrictions led to a return to economic growth. Its pace lagged only slightly behind the forecast.

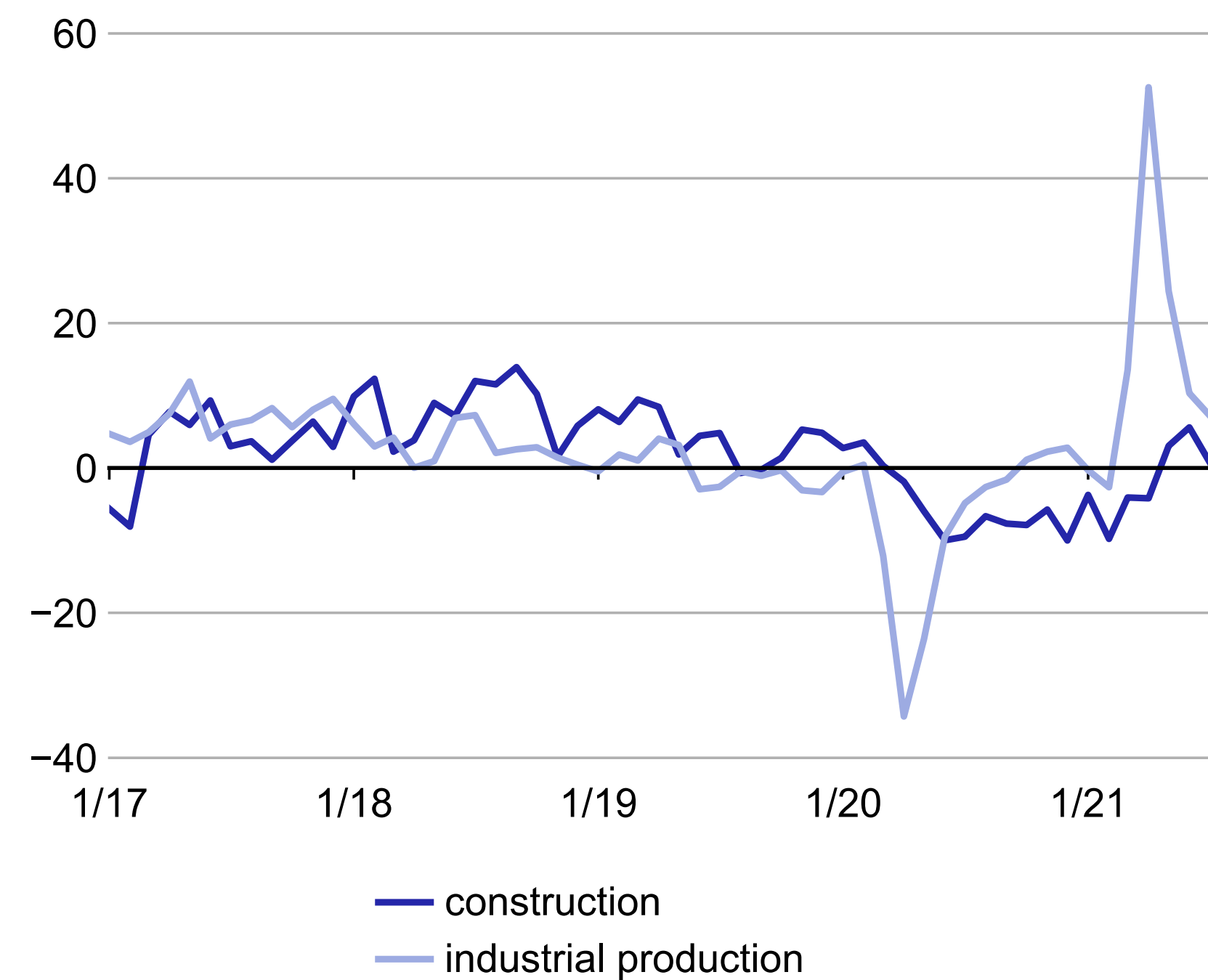
According to the forecast, the Czech economy will grow by 3.5% this year and its growth will pick up slightly further next year.

Note: y-o-y changes in %; contributions in pp; constant prices; seasonally adjusted.

Retail sales

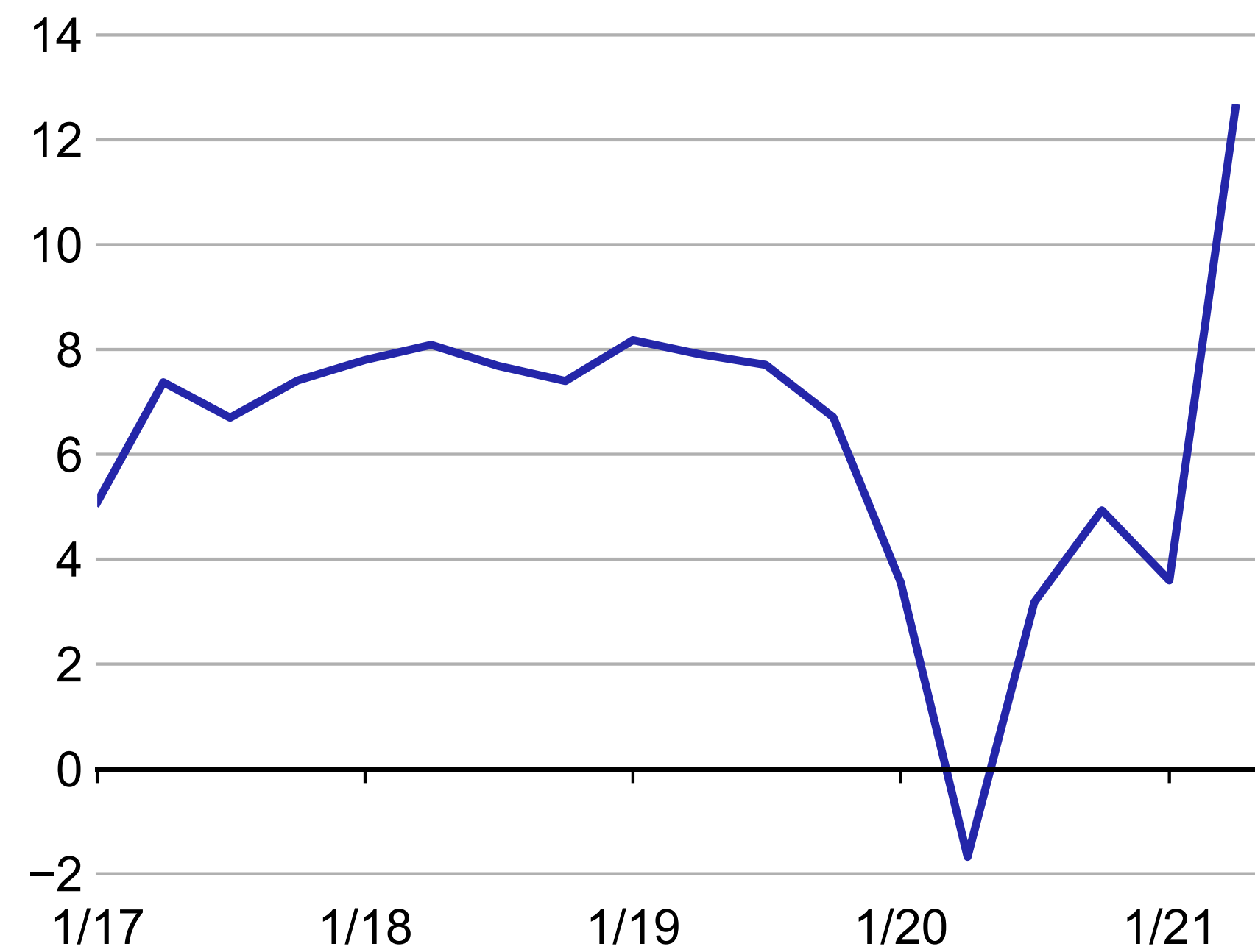
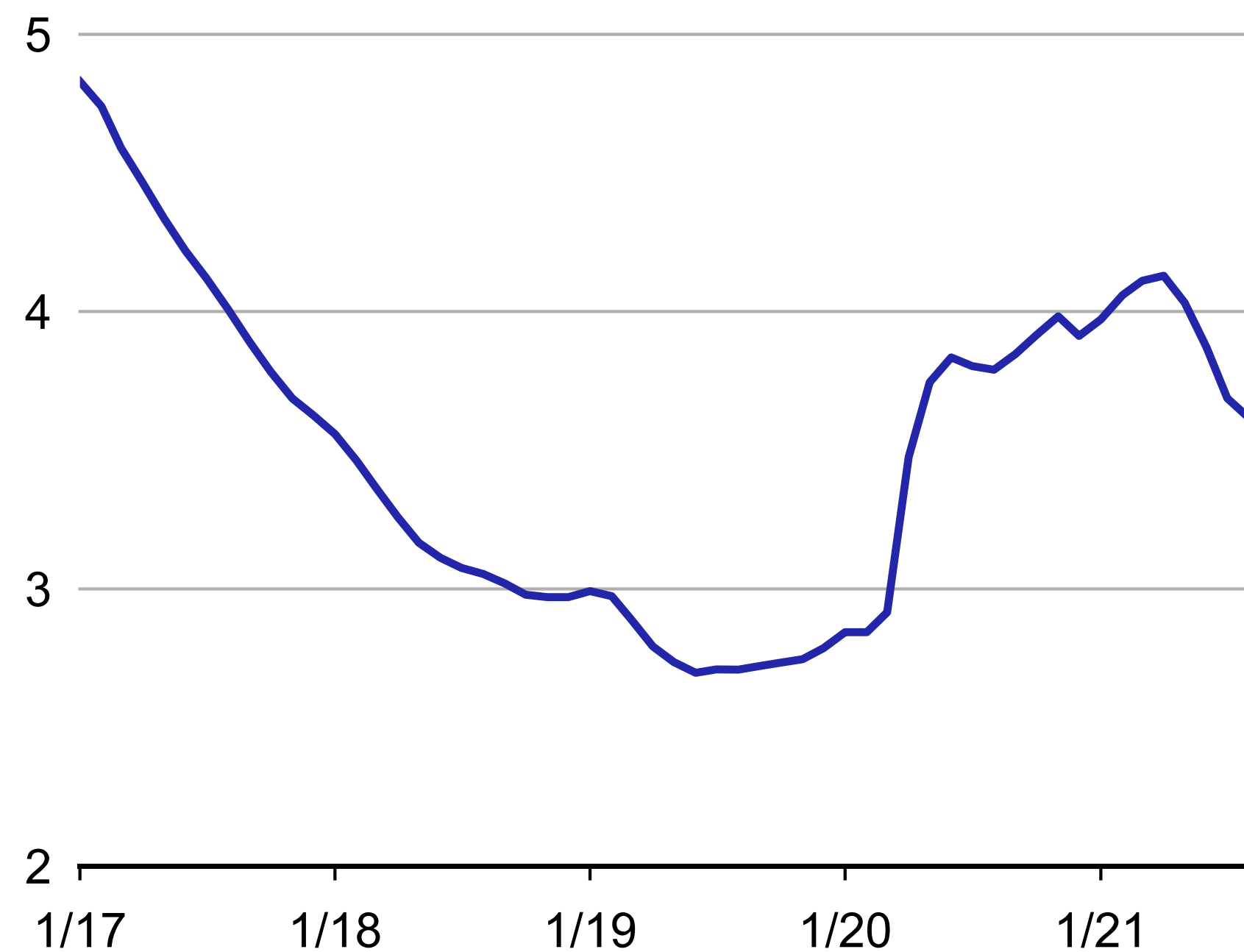


Industry and construction



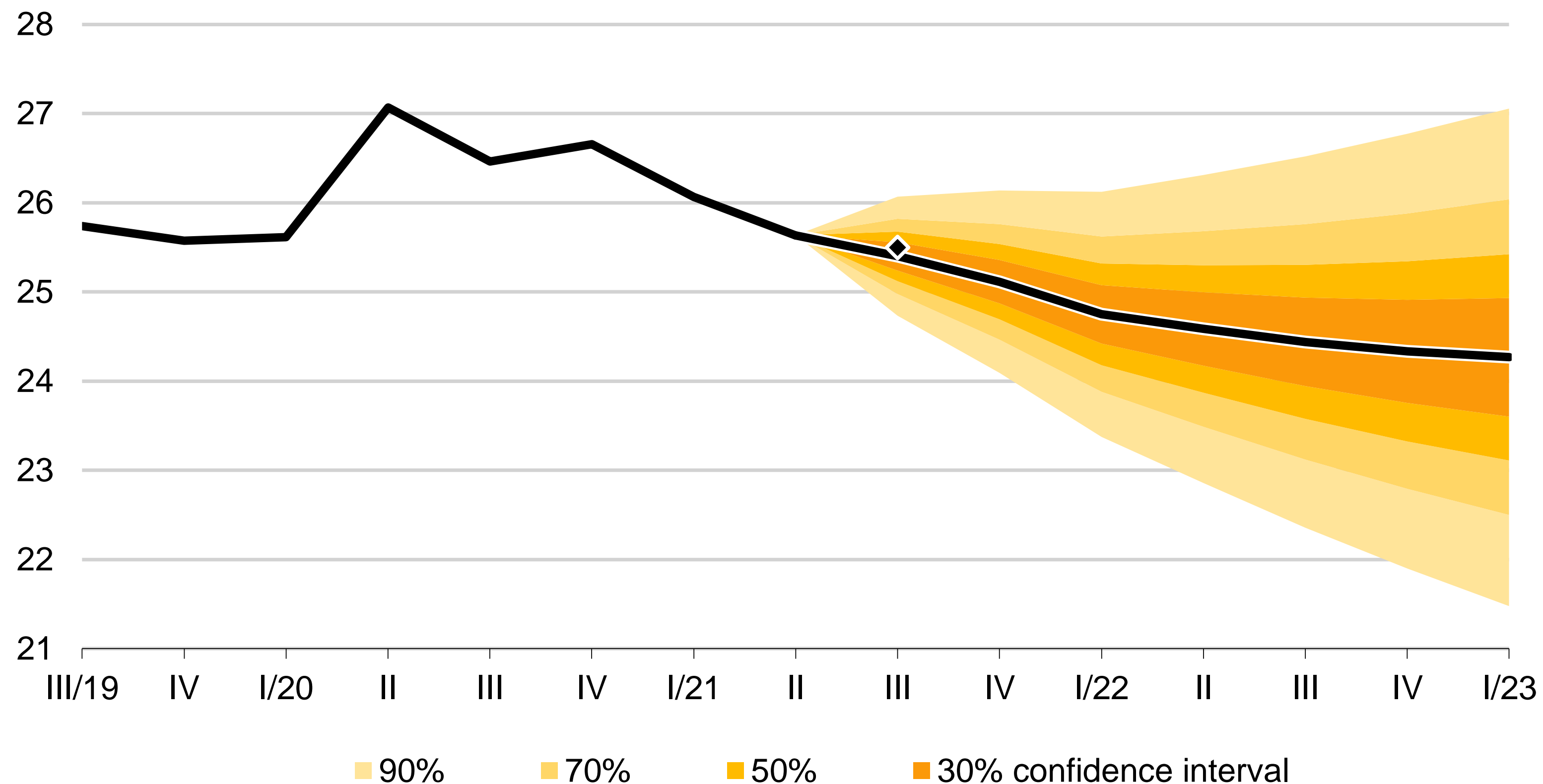
Note: y-o-y changes in %; constant prices; seasonally adjusted.

Share of unemployed persons Wages in market sectors



Note: share of unemployed persons in %, seasonally adjusted , y-o-y change in nominal wages in %.

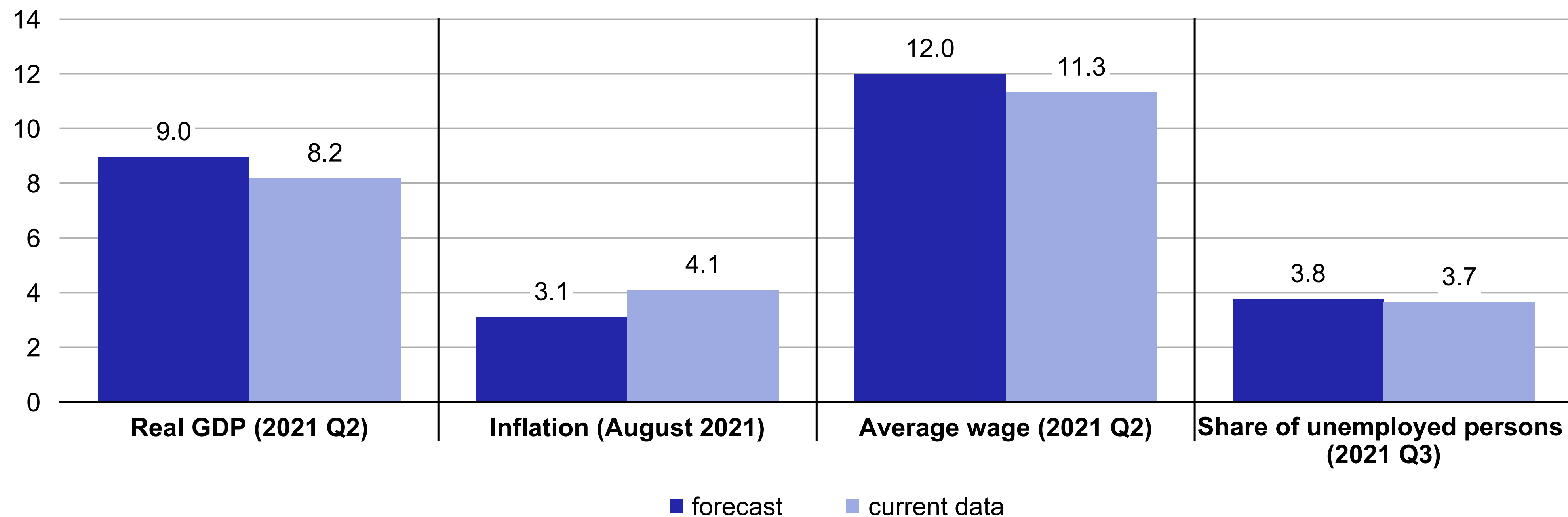
The CZK/EUR exchange rate forecast and outcome in 2021 Q3



The koruna exchange rate against the euro has been broadly as forecasted in Q3 so far.

According to the forecast, the koruna will appreciate further, strengthening beyond CZK 25 to the euro in late 2021 and early 2022.

Comparison of current domestic data with the CNB forecast



Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in July and August with the forecast for 2021 Q3).

Risks and uncertainties of the forecast

The Bank Board assessed the risks and uncertainties of the summer forecast as being markedly inflationary and hence requiring a faster rise in interest rates compared with the current forecast.

Inflationary risks:

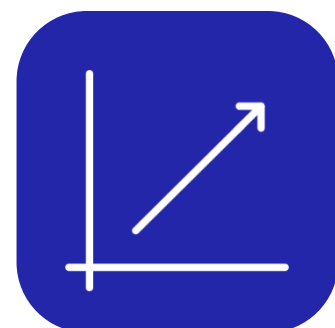
- markedly higher-than-expected domestic inflation in summer including persisting increased contribution of the cost of owner-occupied housing (imputed rent) to headline inflation
- longer-lasting disruptions to global supply chains, resulting in stronger growth in producer prices
- fading anchoring of inflation expectations in an environment of long-term overshooting of the inflation target

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 October 2021 at

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

Summary



Consistent with the summer forecast is a rise in market interest rates from the middle of this year onwards.



The risks and uncertainties of the forecast are markedly inflationary.



The Bank Board increased interest rates by 75 basis points (five members voted in favour of this decision).



The key interest rate was increased to 1.50%.