
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 **increased the 2W repo rate by 125 basis points to 2.75%**. At the same time, it decided to increase the discount rate to 1.75% and the Lombard rate to 3.75%.

2.75%

2W repo
rate

1.75%

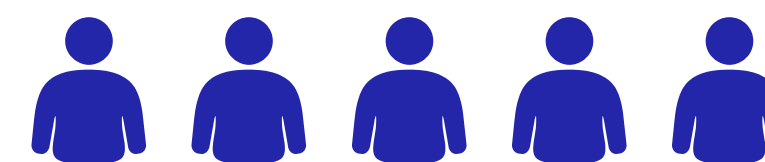
discount
rate

3.75%

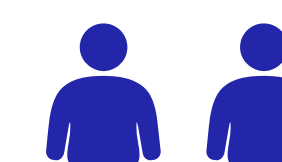
Lombard
rate

Five members voted in favour of this decision, two members voted for keeping interest rates unchanged.

FOR INCREASE OF 125 BP



FOR NO CHANGE

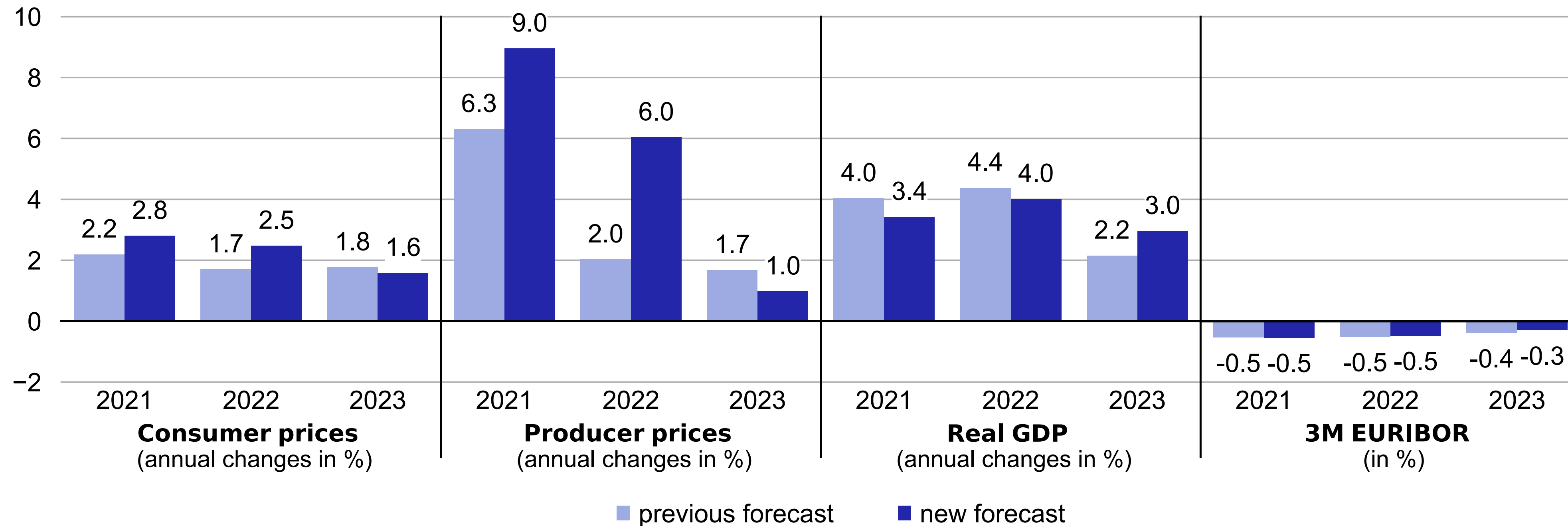


Consistent with the autumn forecast is **a sharp rise in market interest rates at the end of this year and at the start of 2022.**

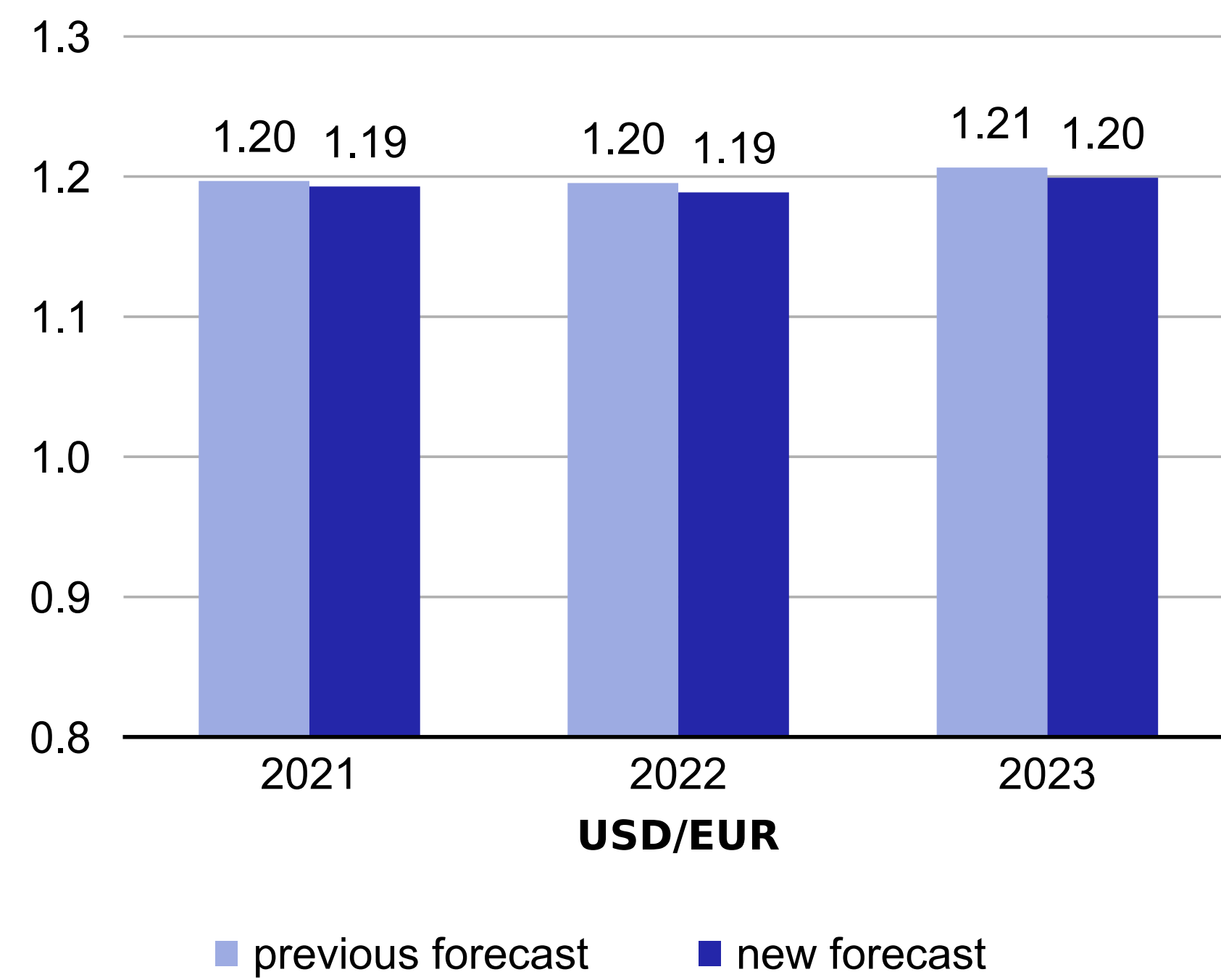
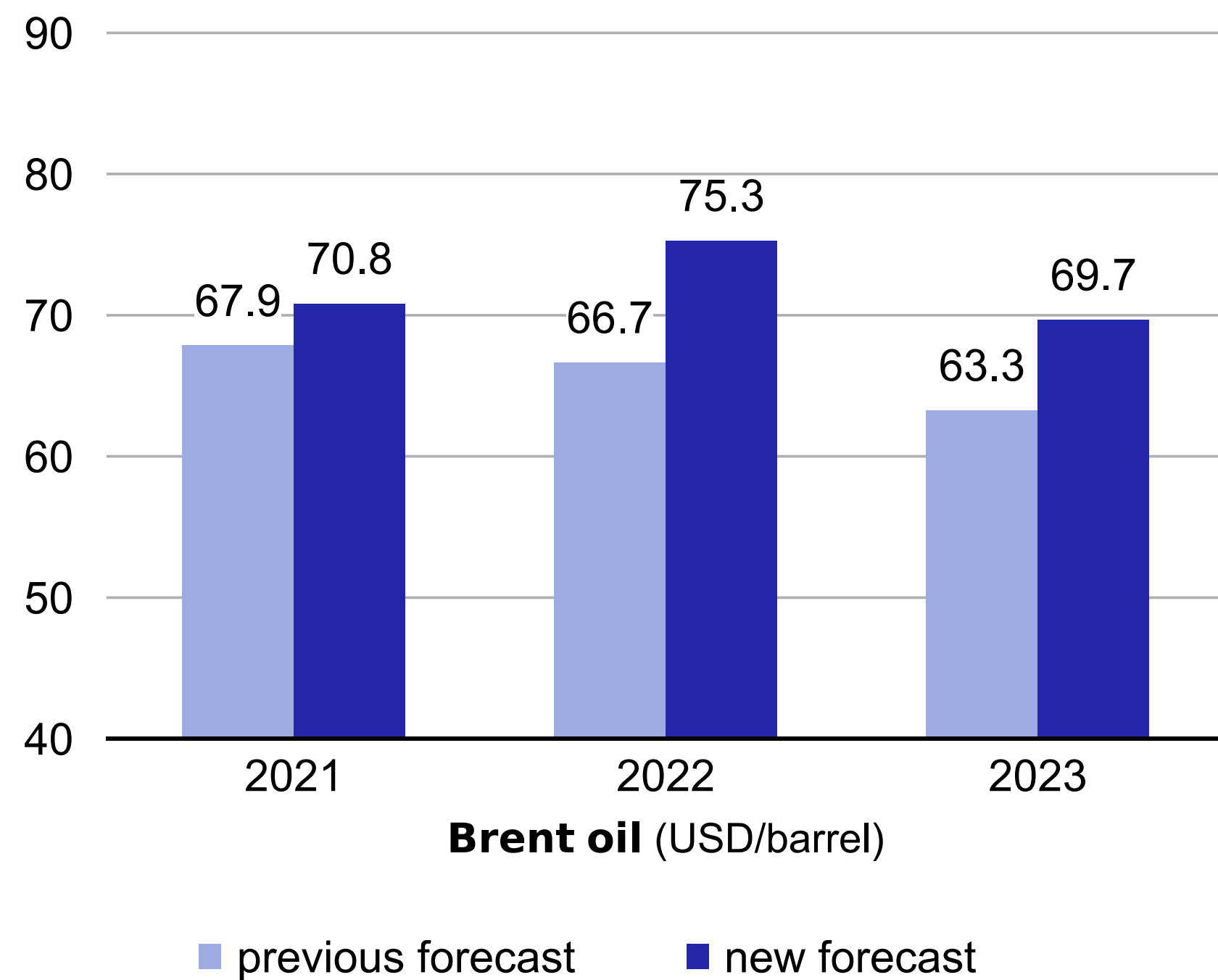
This is in response to the current exceptionally strong price pressures in the domestic and foreign economies.

The rise in rates will limit the pass-through of these pressures to prices in the longer term, ensuring **the return of inflation close towards the 2% target of the CNB** at the monetary policy horizon.

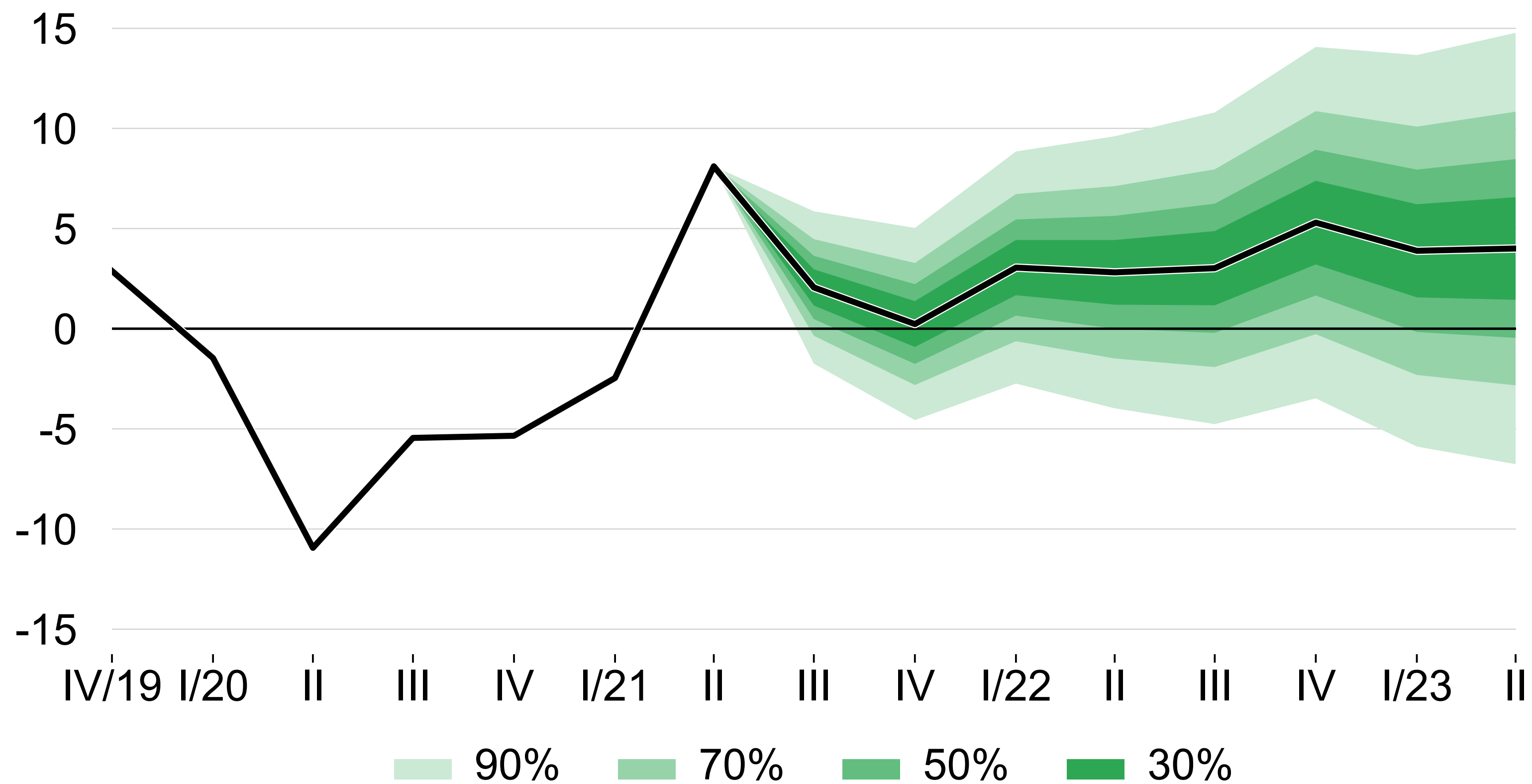
External environment: forecast and outlook for the effective euro area



External environment: oil price and USD/EUR exchange rate



Forecast for GDP



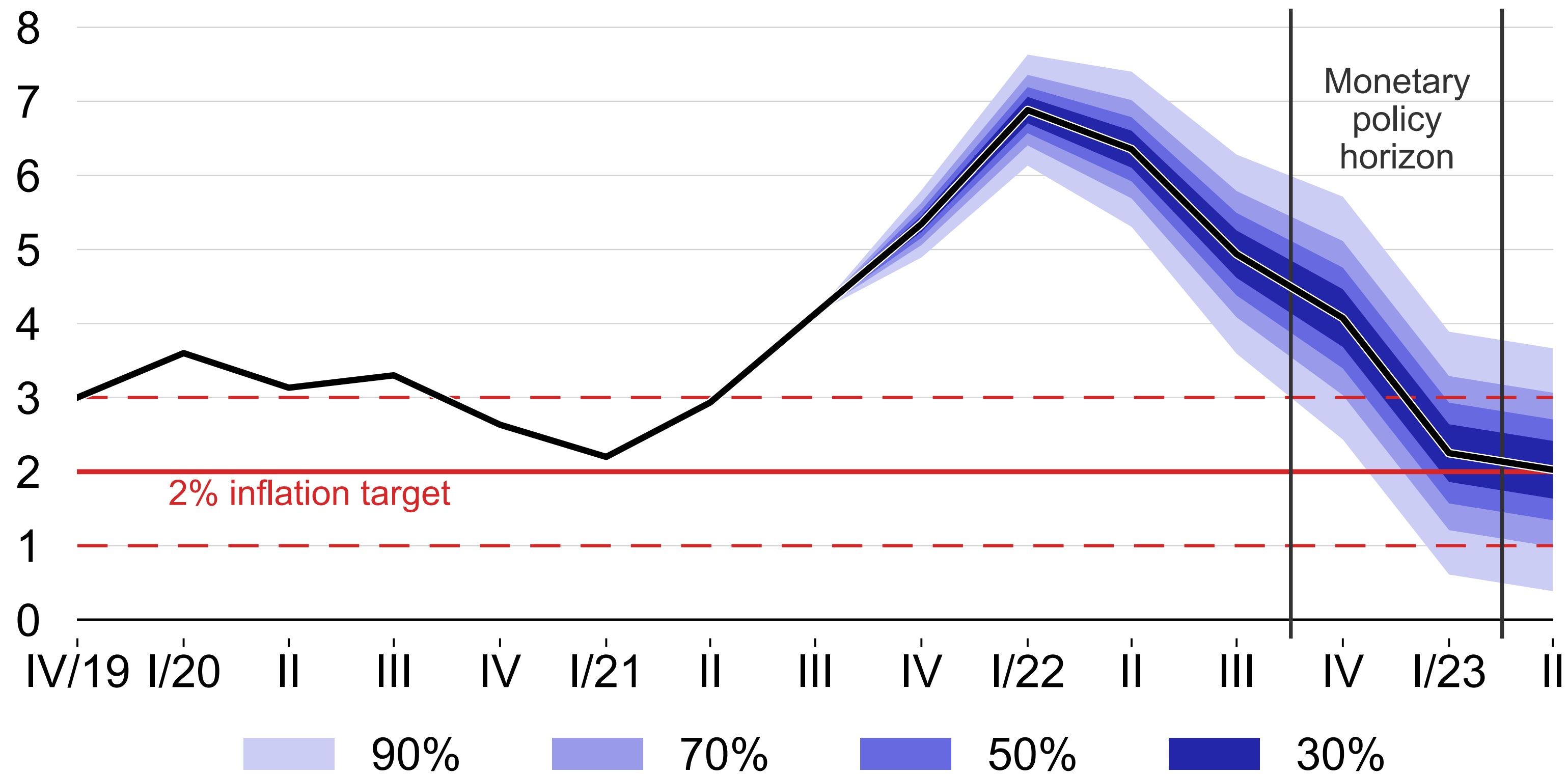
The growth of the Czech economy will be fostered by robust household consumption as well as corporate and government investment activity.

Exports will be subdued until mid-2022 due to continued overloading of global production and supply chains.

The Czech economy will expand by around 2% overall this year and gain pace considerably over the next two years.

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

Forecast for headline inflation

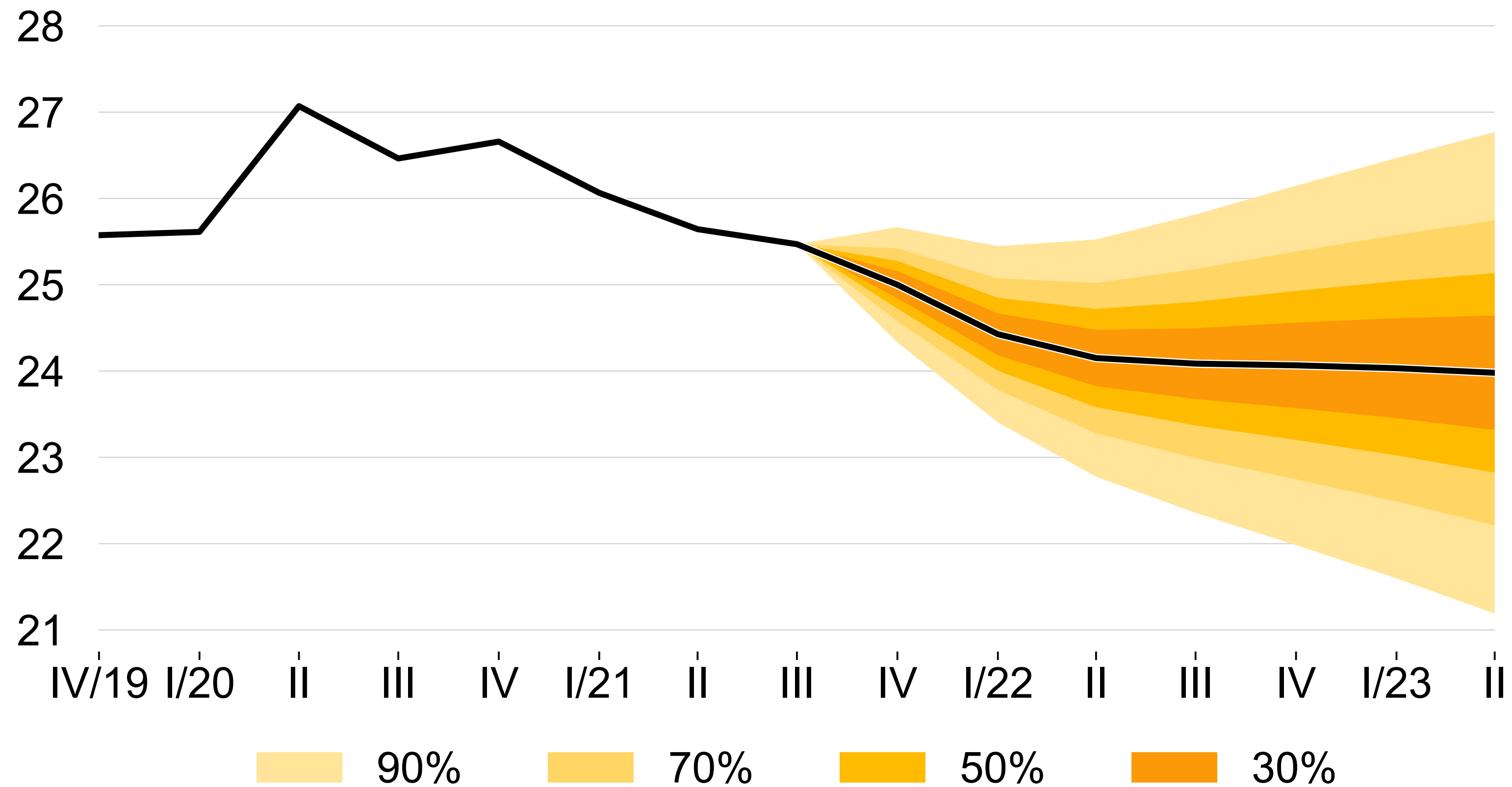


Consumer price inflation will rise significantly further at the close of this year and approach 7% during the winter.

Inflation will gradually fall in the course of next year, aided by a prior significant tightening of both components of the monetary conditions. It will decline close to 2% over the monetary policy horizon.

Note: y-o-y changes in %, confidence interval.

Forecast for the exchange rate

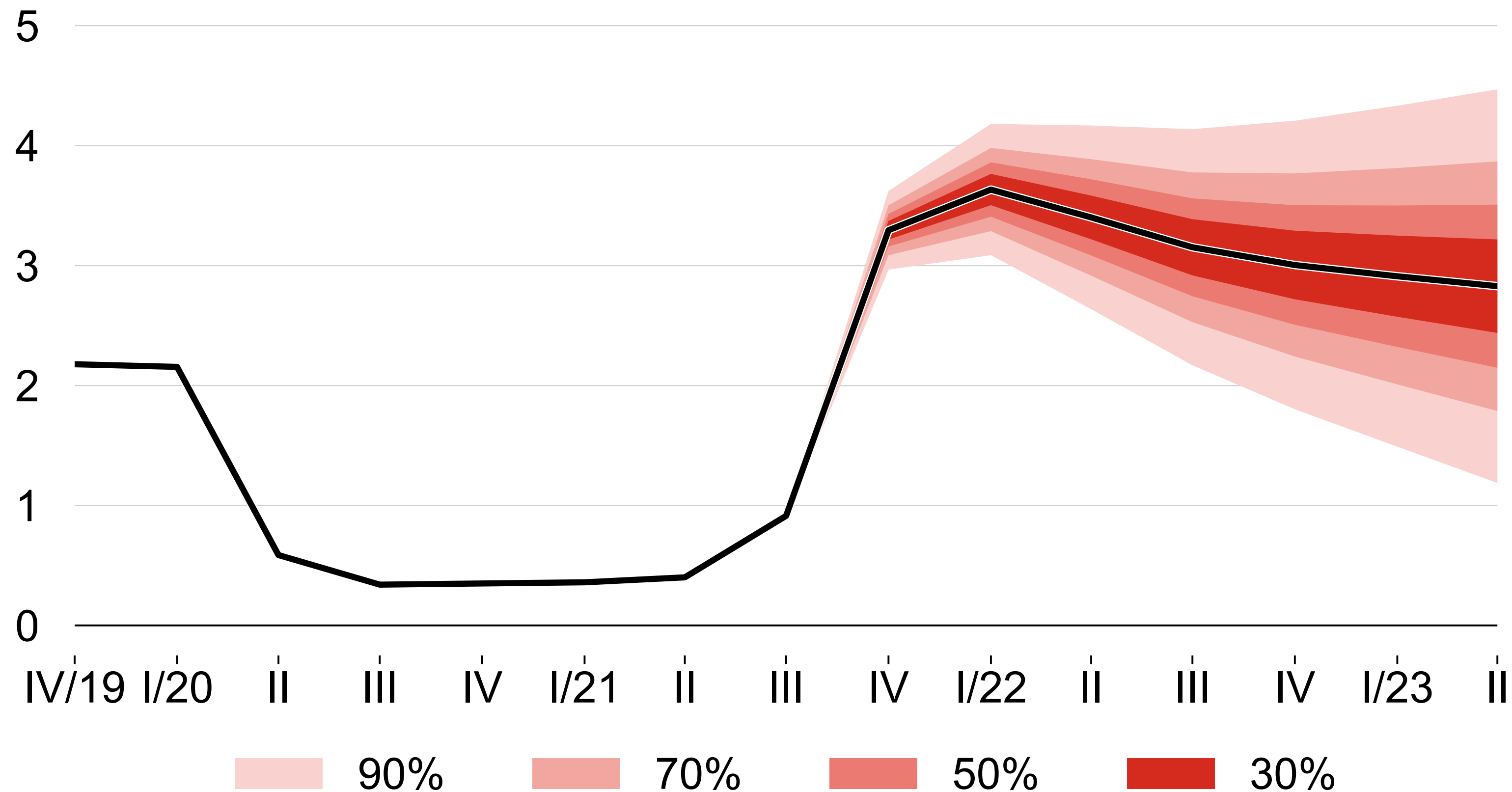


The koruna will initially firm markedly in response to the sharp rise in domestic interest rates.

Its appreciation will slow in the course of next year.

Note: CZK/EUR, confidence interval.

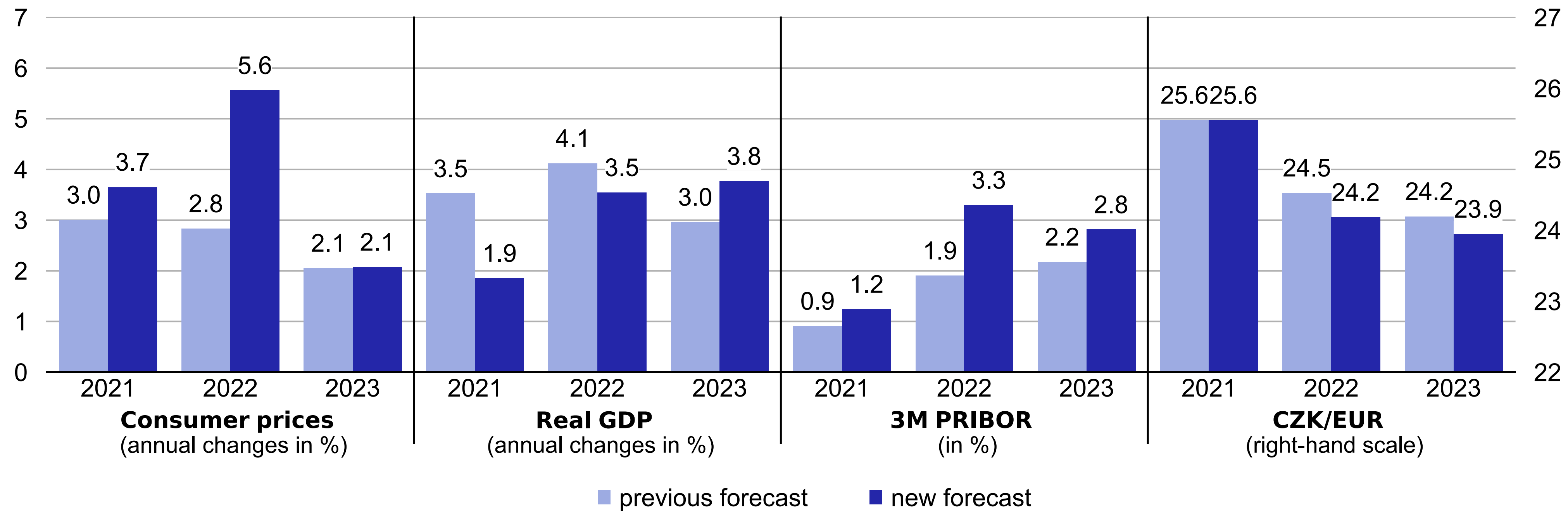
Forecast for interest rates



Consistent with the forecast is a sharp rise in market interest rates at the end of this year and at the start of 2022.

Note: 3M PRIBOR, in %, confidence interval.

Comparison with the previous forecast



Risks and uncertainties of the forecast

The Bank Board assessed the uncertainties and risks to the forecast as being significant but not calling into question the message of the forecast overall.

Inflationary risks:

- lengthier disruptions to global production and supply chains
- weaker CZK/EUR exchange rate
- increase in inflation expectations
- sharper increase in energy prices and imputed rent

Anti-inflationary risk:

- public budget consolidation by the new government

Summary

In view of the forecast, the Bank Board decided to increase **interest rates** by 1.25 percentage points.

This forceful interest rate increase aims to

- **return inflation close to the 2% target** at the monetary policy horizon, i.e. 12–18 months ahead
- support the **anchoring of firms' and households' inflation expectations**

The Bank Board is ready to **continue increasing interest rates** in line with the autumn forecast.

Thank you for your attention

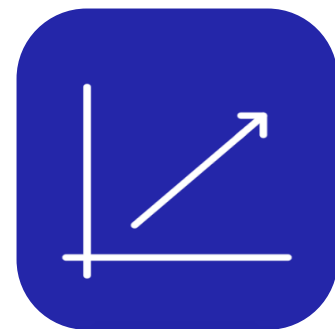
More information about the forecast can be found at <https://www.cnb.cz/en/monetary-policy/forecast/> and in Monetary Policy Report – Autumn 2021.

The introductory part of the Report (together with the boxes and the table of key macroeconomic indicators) will be published on 5 November 2021.

The whole Report will be published on 12 November 2021.



Decision in a nutshell



Consistent with the forecast is a sharp rise in market interest rates at the end of this year and at the start of 2022.



The uncertainties and risks to the forecast are significant but not calling into question the message of the forecast overall.



The Bank Board increased the key interest rate by 125 basis points (five members voted in favour of this decision).



The key interest rate – the 2W repo rate – is 2.75%.