
8th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



Monetary policy decision

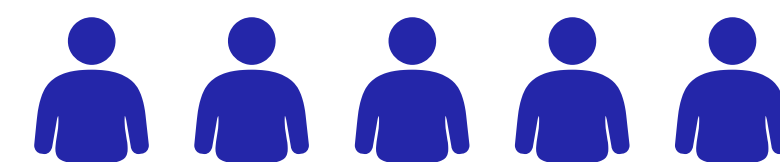
At its meeting today, the CNB Bank Board **increased the 2W repo rate by one percentage point to 3.75%**. At the same time, it decided to increase the discount rate by the same amount to 2.75% and the Lombard rate to 4.75%.

2.75%	3.75%	4.75%
discount rate	2W repo rate	Lombard rate

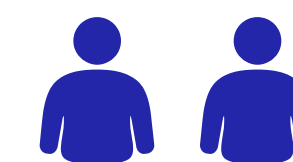
Five members voted in favour of this decision and two members voted for leaving rates at 2.75%.

VOTING ON 2W REPO RATE

INCREASE TO
3.75%



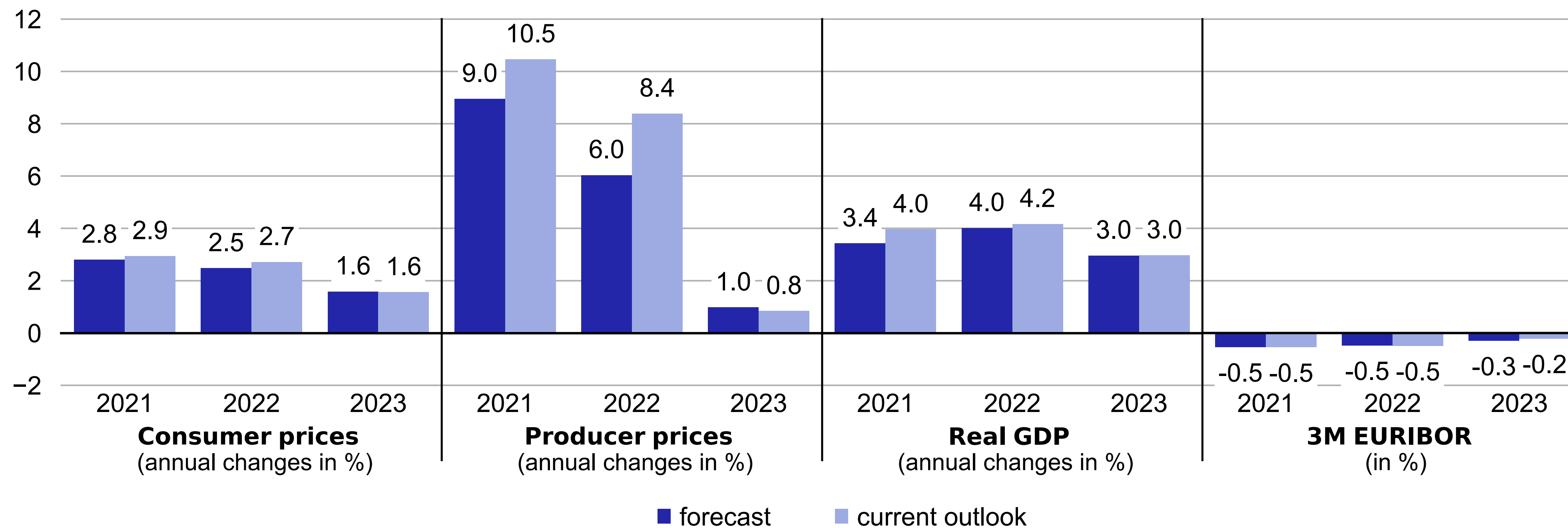
LEAVE
UNCHANGED



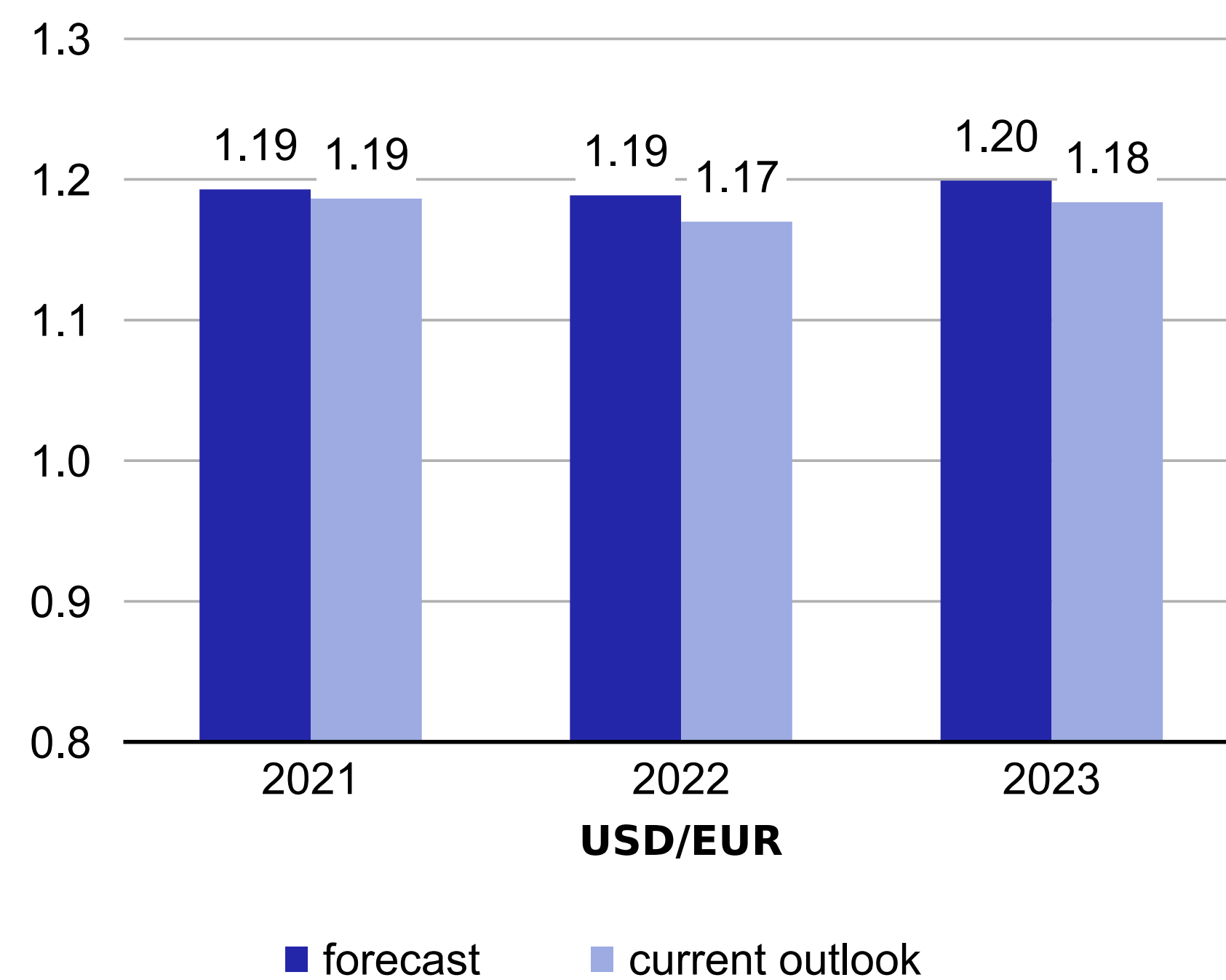
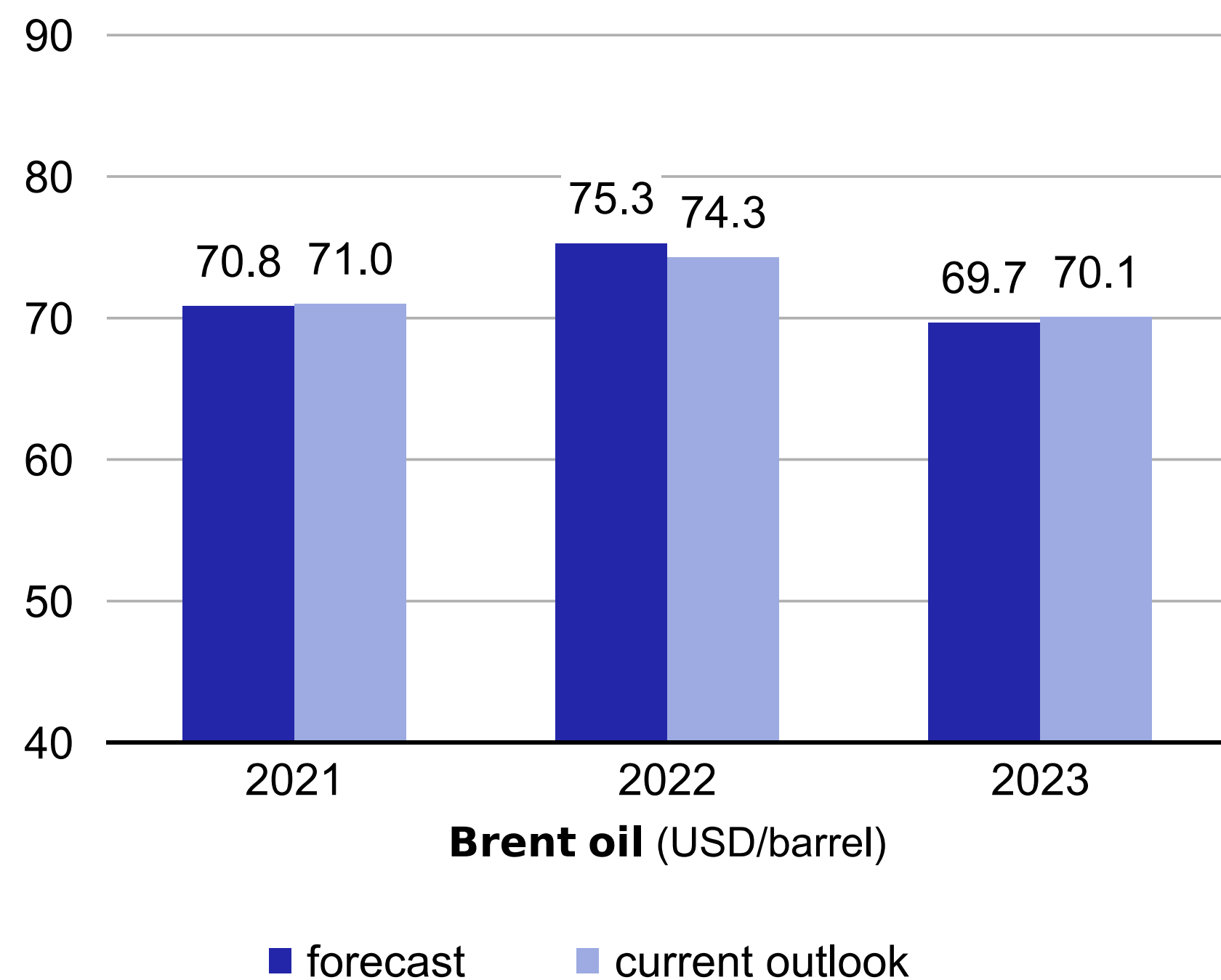
Consistent with the autumn forecast is a **sharp rise in market interest rates at the end of this year and at the start of 2022.**

At its meeting today, the Bank Board assessed **the risks and uncertainties of the autumn forecast as being markedly inflationary overall and hence requiring faster monetary policy tightening compared with the current forecast.**

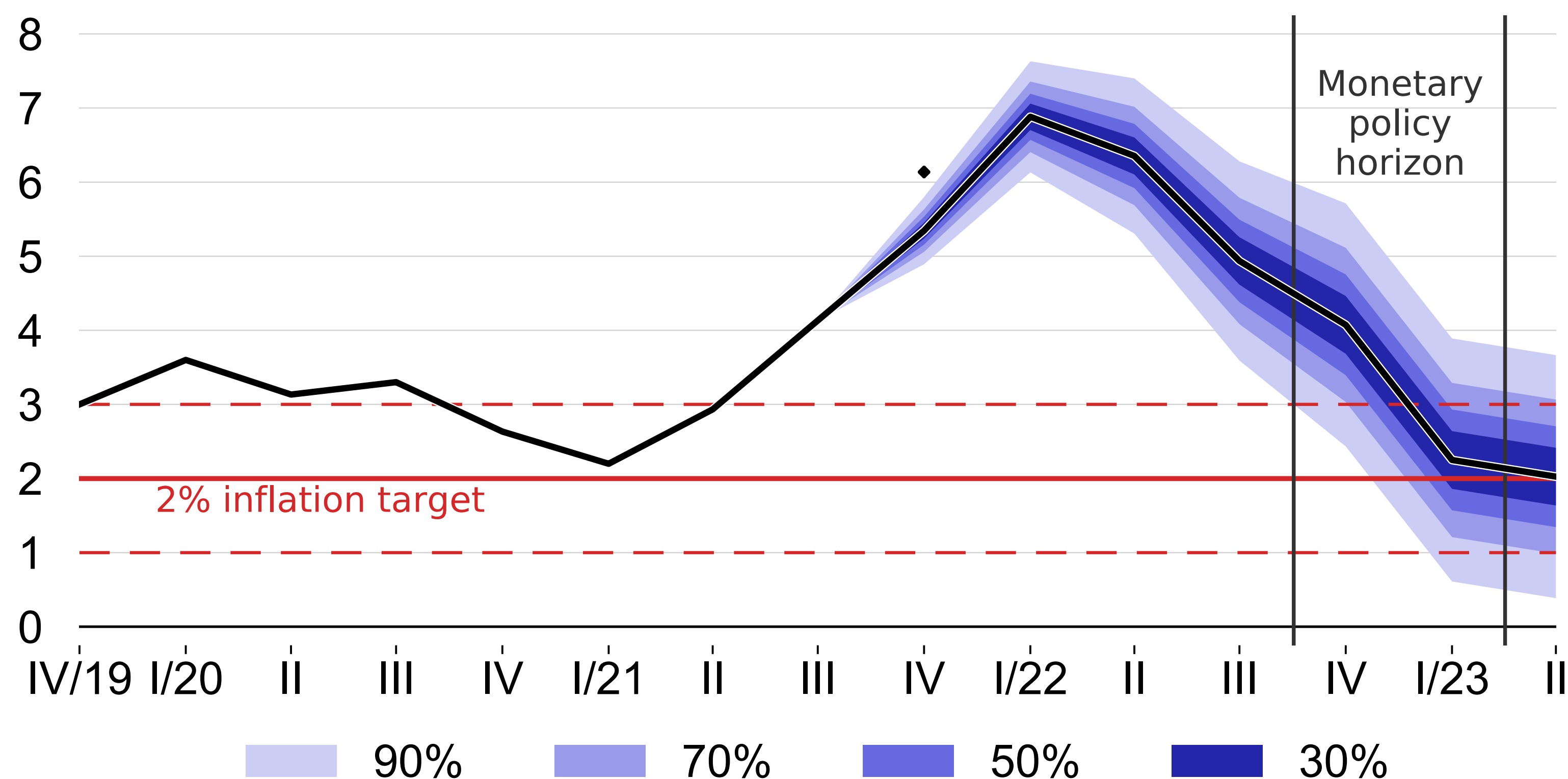
External environment: forecast and current outlook for the effective euro area



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



The inflation forecast and expected outcome in 2021 Q4

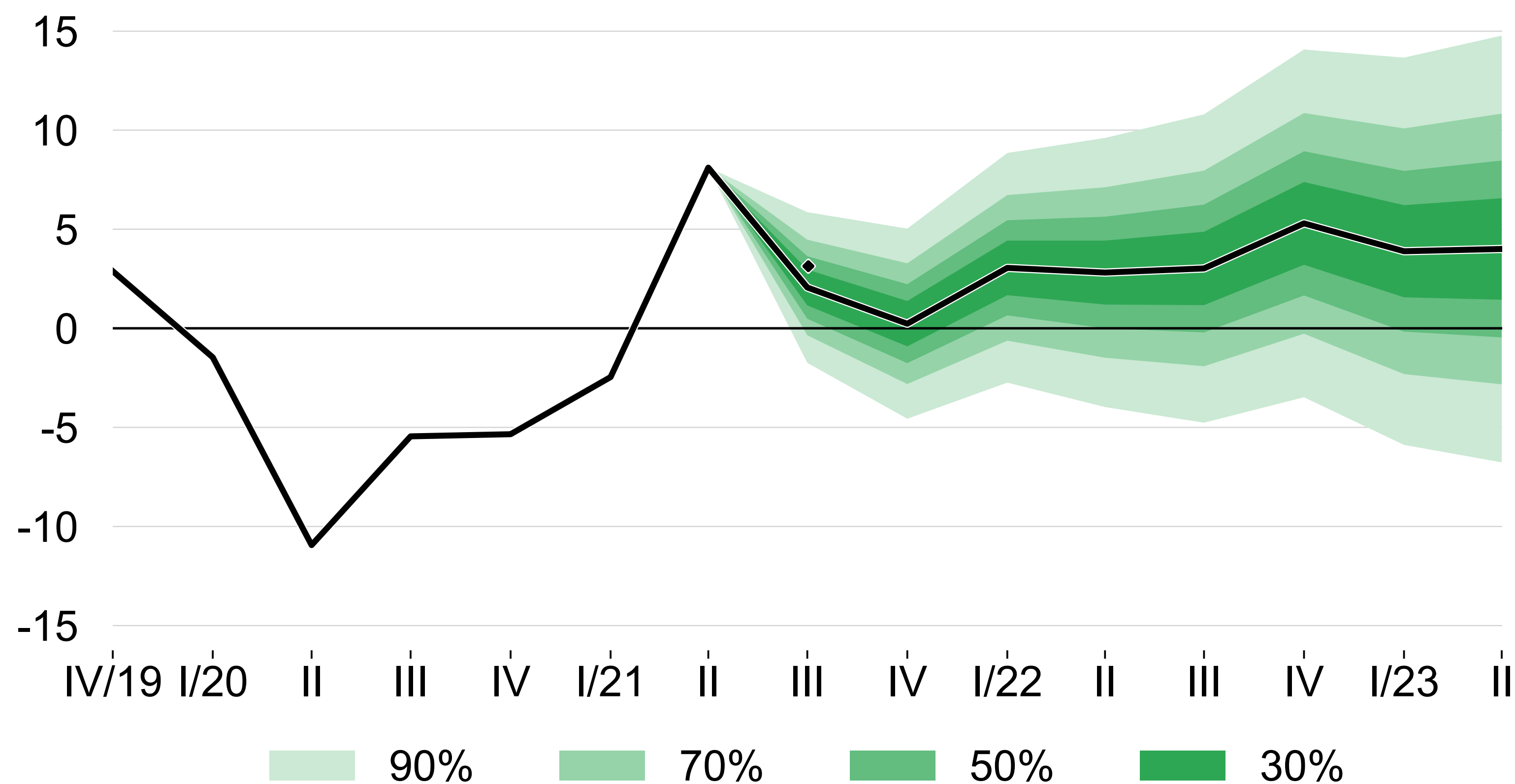


In Q4, inflation continued to move well above the upper boundary of the tolerance band around the target and above the forecast.

According to the autumn forecast, inflation will rise further in the winter months. It will start to ease in the course of next year and will decrease close to the 2% target over the monetary policy horizon.

Note: y-o-y changes in %.

The GDP forecast and outcome in 2021 Q3

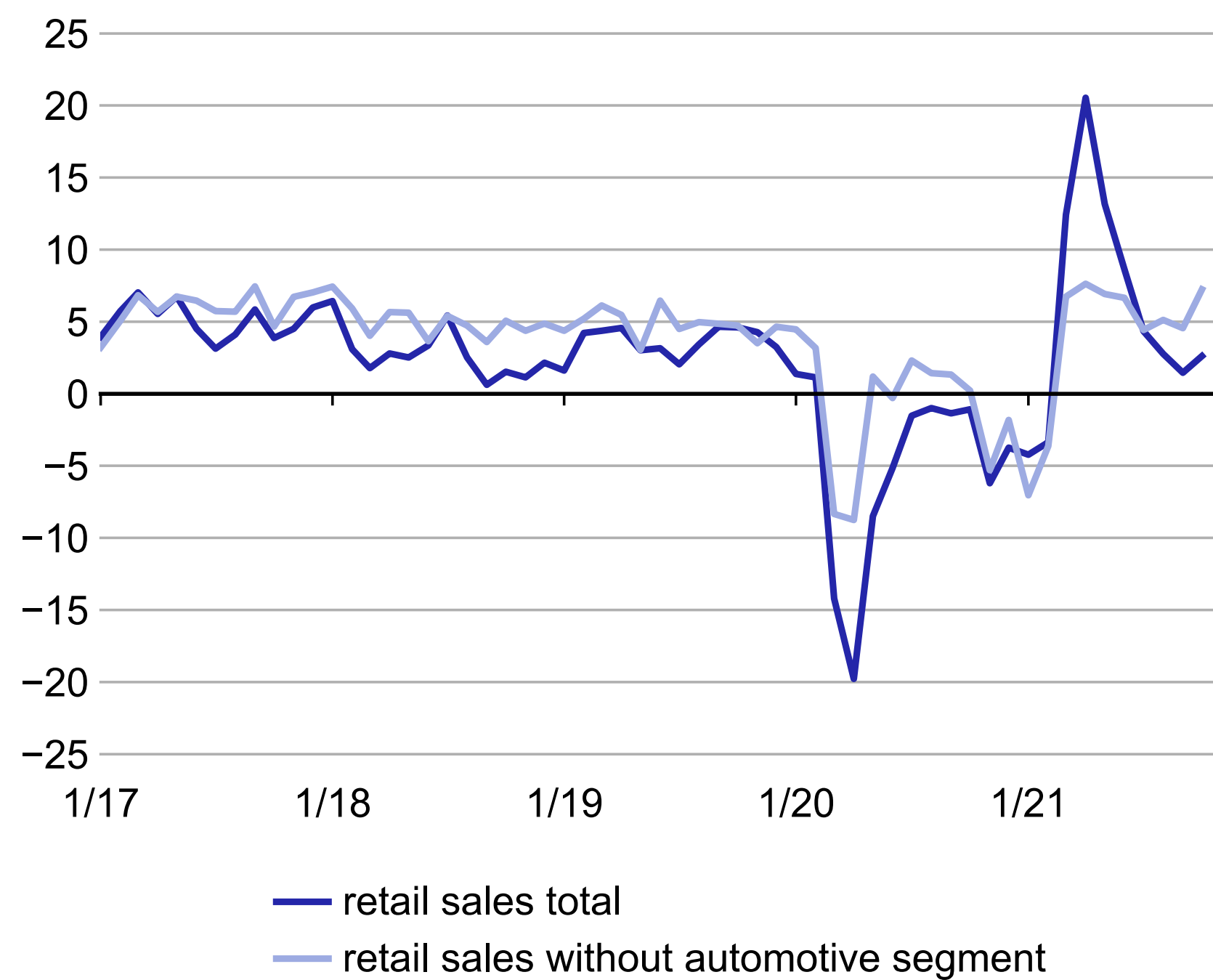


The Czech economy continued to rise in Q3. Its growth was stronger by comparison with the current forecast.

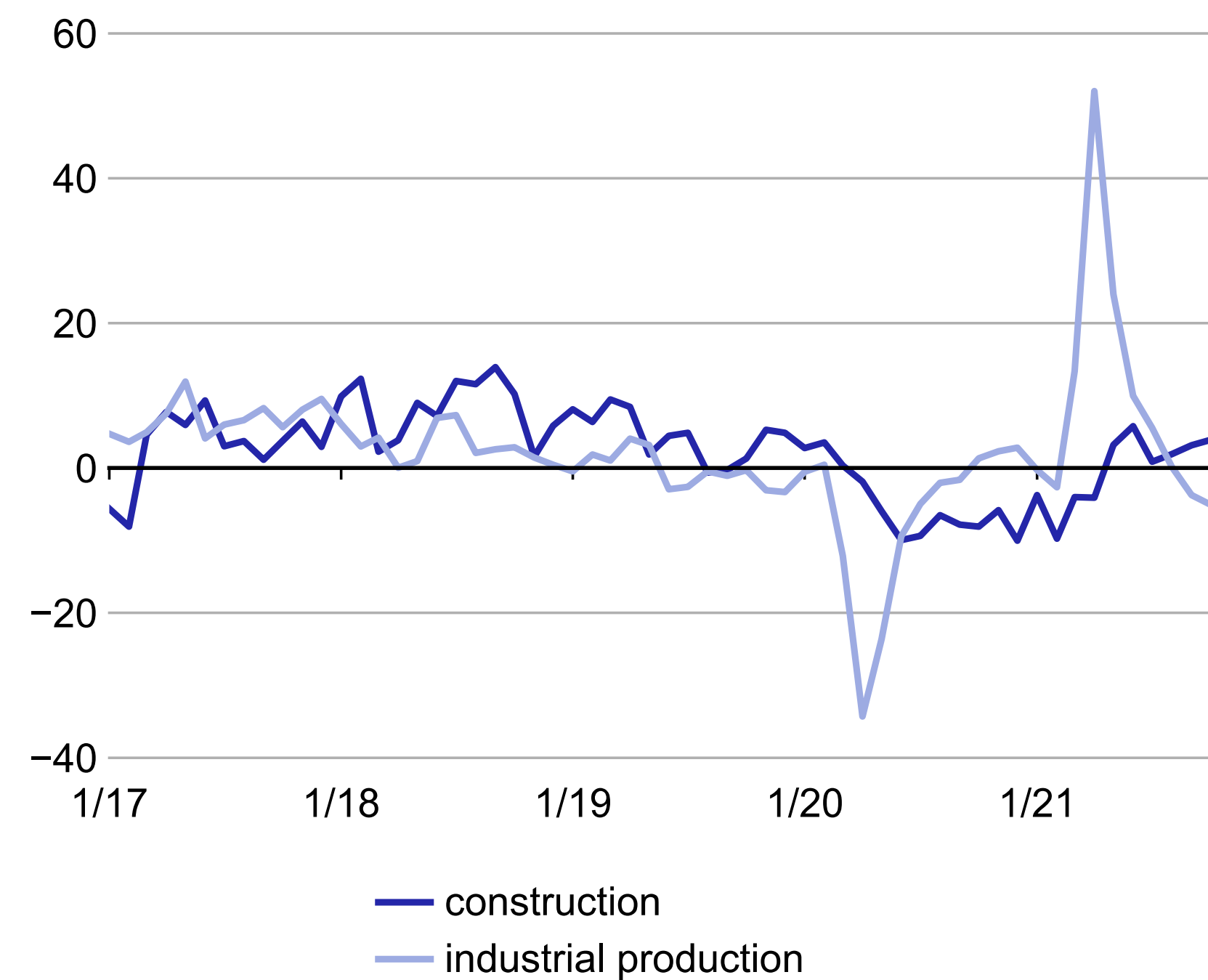
According to the forecast, GDP will grow by around 2% this year and gain pace considerably over the next two years.

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

Retail sales

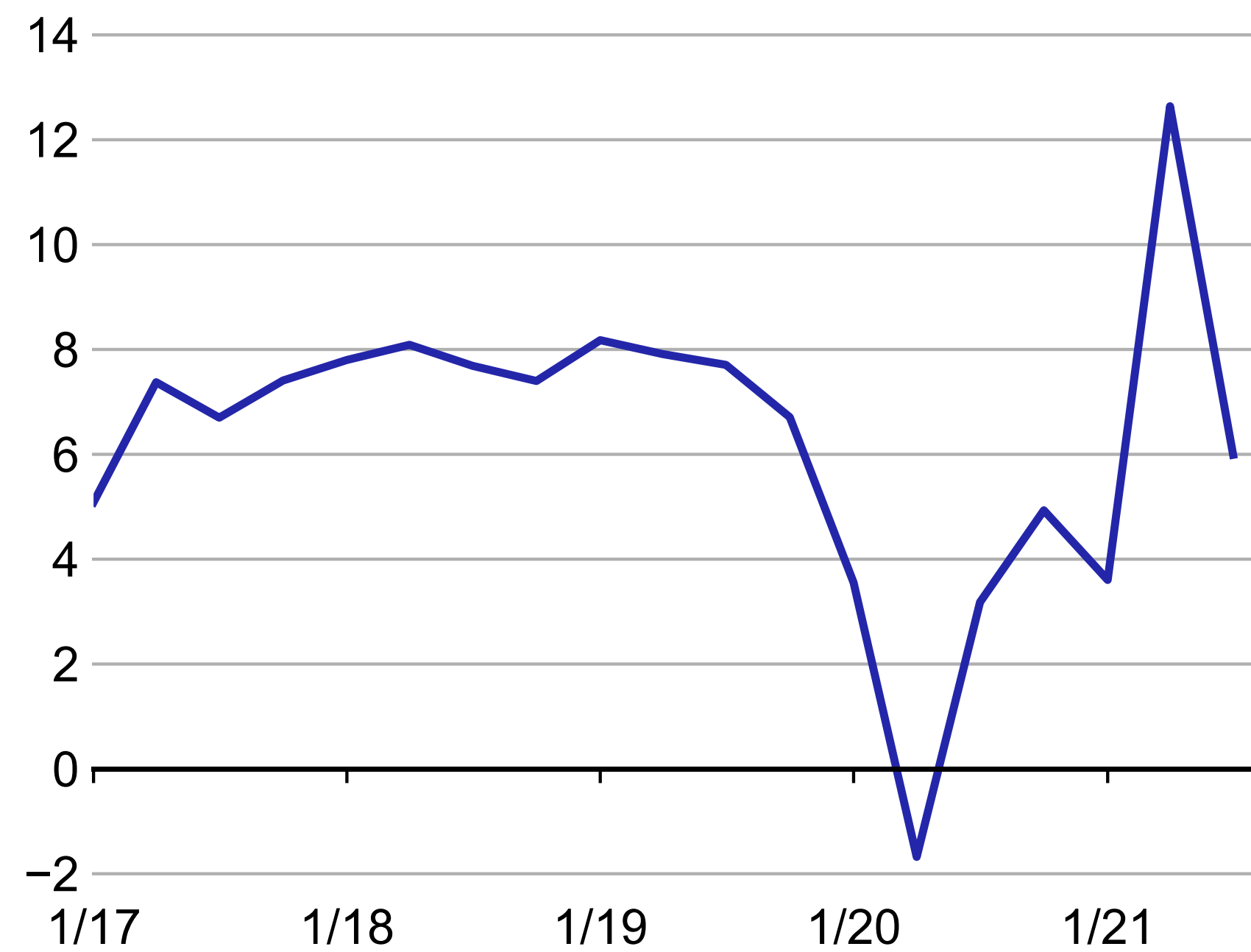
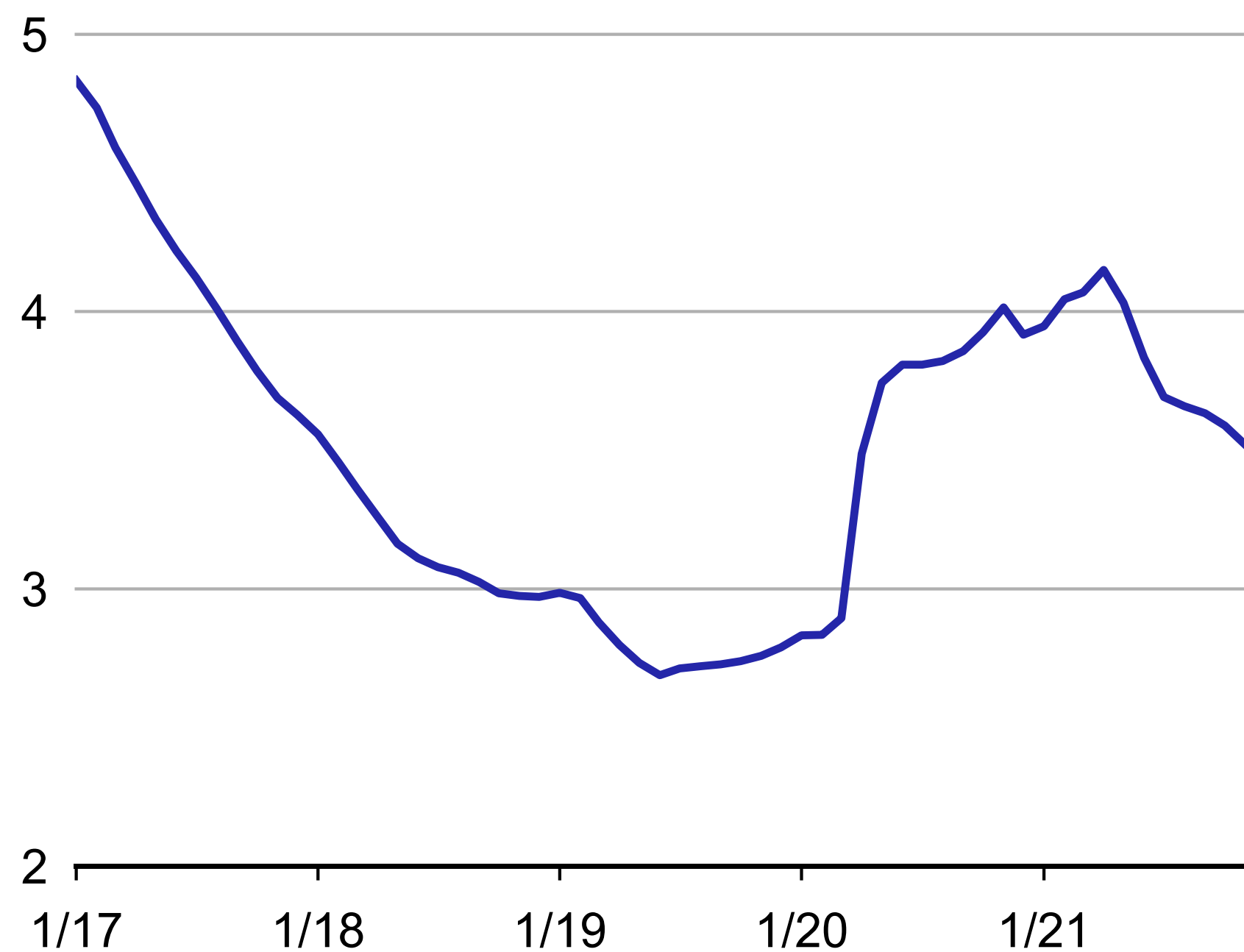


Industry and construction



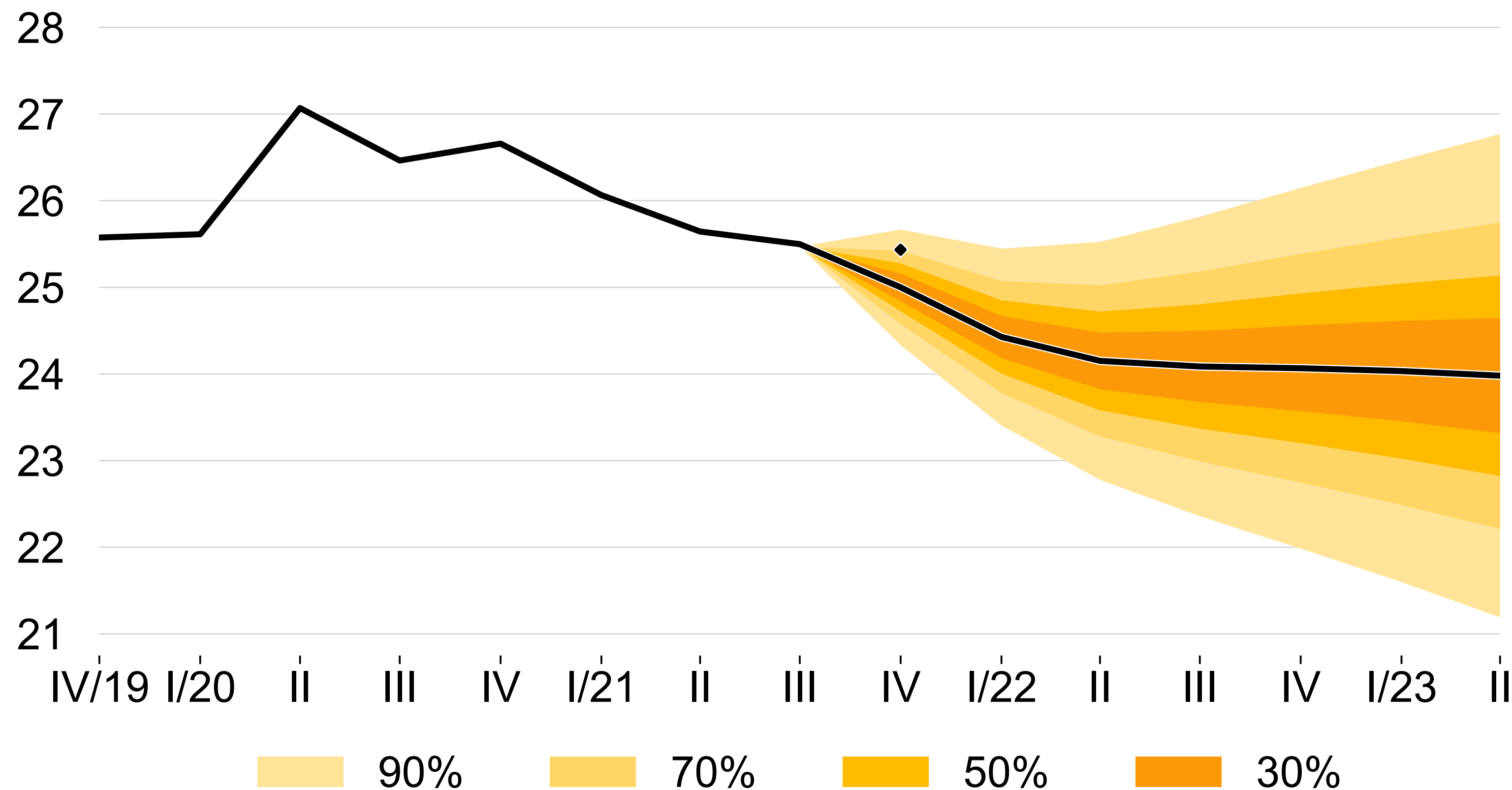
Note: y-o-y changes in %; constant prices; seasonally adjusted.

Share of unemployed persons Wages in market sectors



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

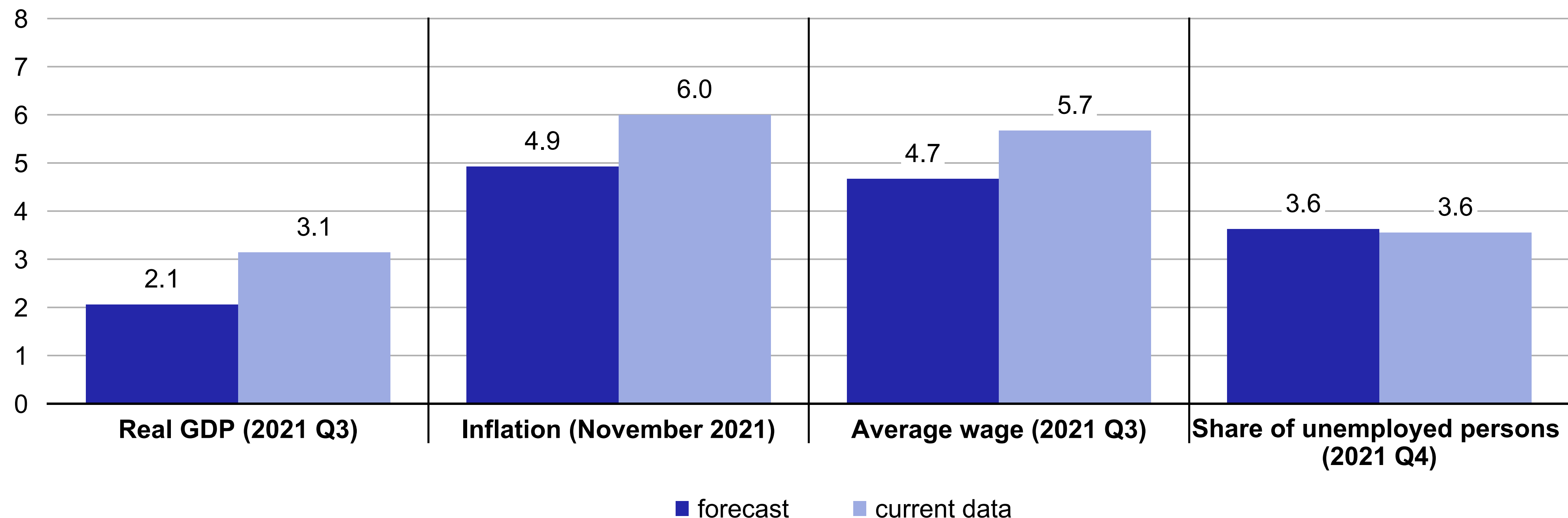
The CZK/EUR exchange rate forecast and outcome in 2021 Q4



The CZK/EUR exchange rate has been weaker than forecasted so far during Q4.

According to the forecast, the koruna will firm gradually to CZK 24 to the euro.

Comparison of current domestic data with the CNB forecast



Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in October and November with the forecast for 2021 Q4).

Risks and uncertainties of the forecast

The Bank Board assessed the risks and uncertainties of the autumn forecast as being markedly inflationary overall and hence requiring faster monetary policy tightening compared with the current forecast.

Inflationary risks:

- threat of weaker anchoring of inflation expectations
- faster and lengthier growth in industrial producer prices abroad
- weakening of the response of the exchange rate to growth in domestic interest rates

Summary

Given the forecast and its markedly inflationary risks, the Bank Board decided to **increase the 2W repo rate by one percentage point to 3.75%**.

This forceful increase in interest rates will:

- **return inflation close to the 2% target** over the monetary policy horizon
- **anchor firms' and households' inflation expectations**

The Bank Board is ready to **continue increasing interest rates** in order to maintain price stability in the Czech Republic.

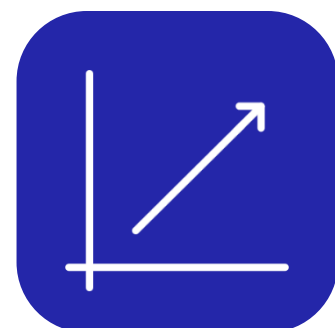
Thank you for your attention

Minutes of the today's meeting and the Graph of Risks to the Inflation Projection (GRIP) will be released on 7 January 2022 at

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



Decision in a nutshell



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.



The risks and uncertainties of the forecast are markedly inflationary overall.



The Bank Board increased the key interest rate (2W repo) to 3.75%.



Five members voted in favour of this decision.