
2nd 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 0.50 percentage point to 5%**. At the same time, it decided to increase the discount rate by the same amount to 4% and the Lombard rate to 6%.

4%

discount
rate

5%

2W repo
rate

6%

Lombard
rate

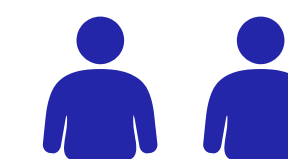
Five members voted in favour of this decision, two members voted for leaving rates at 4.50%.

VOTING ON 2W REPO RATE

INCREASE TO 5%



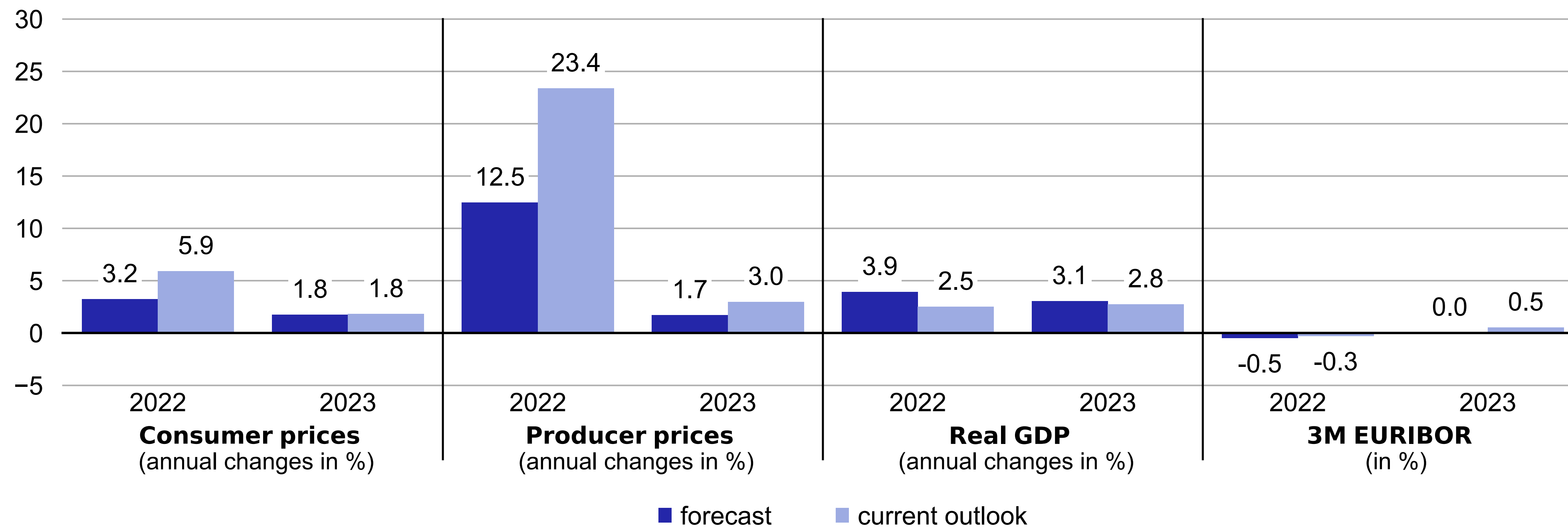
LEAVE
UNCHANGED



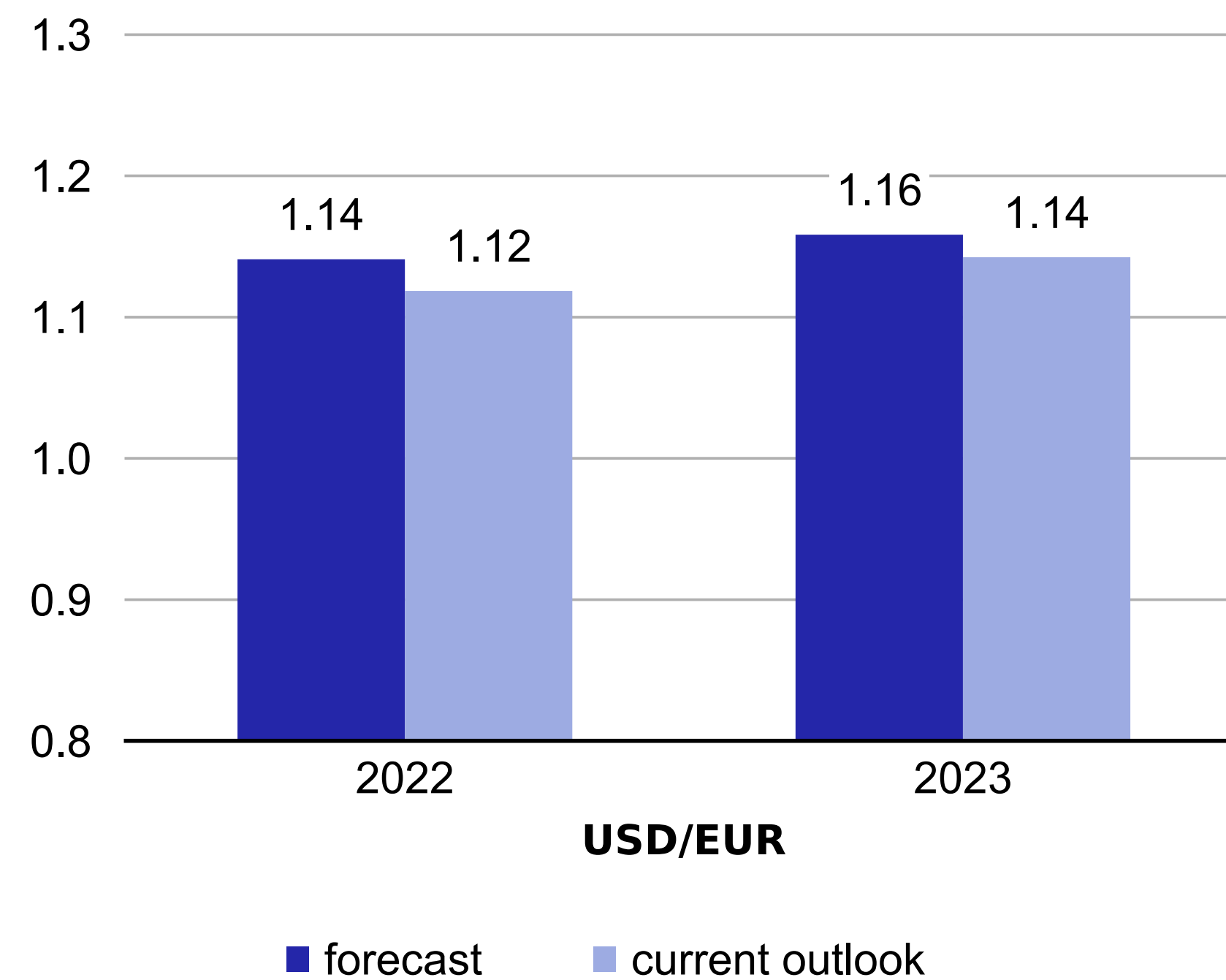
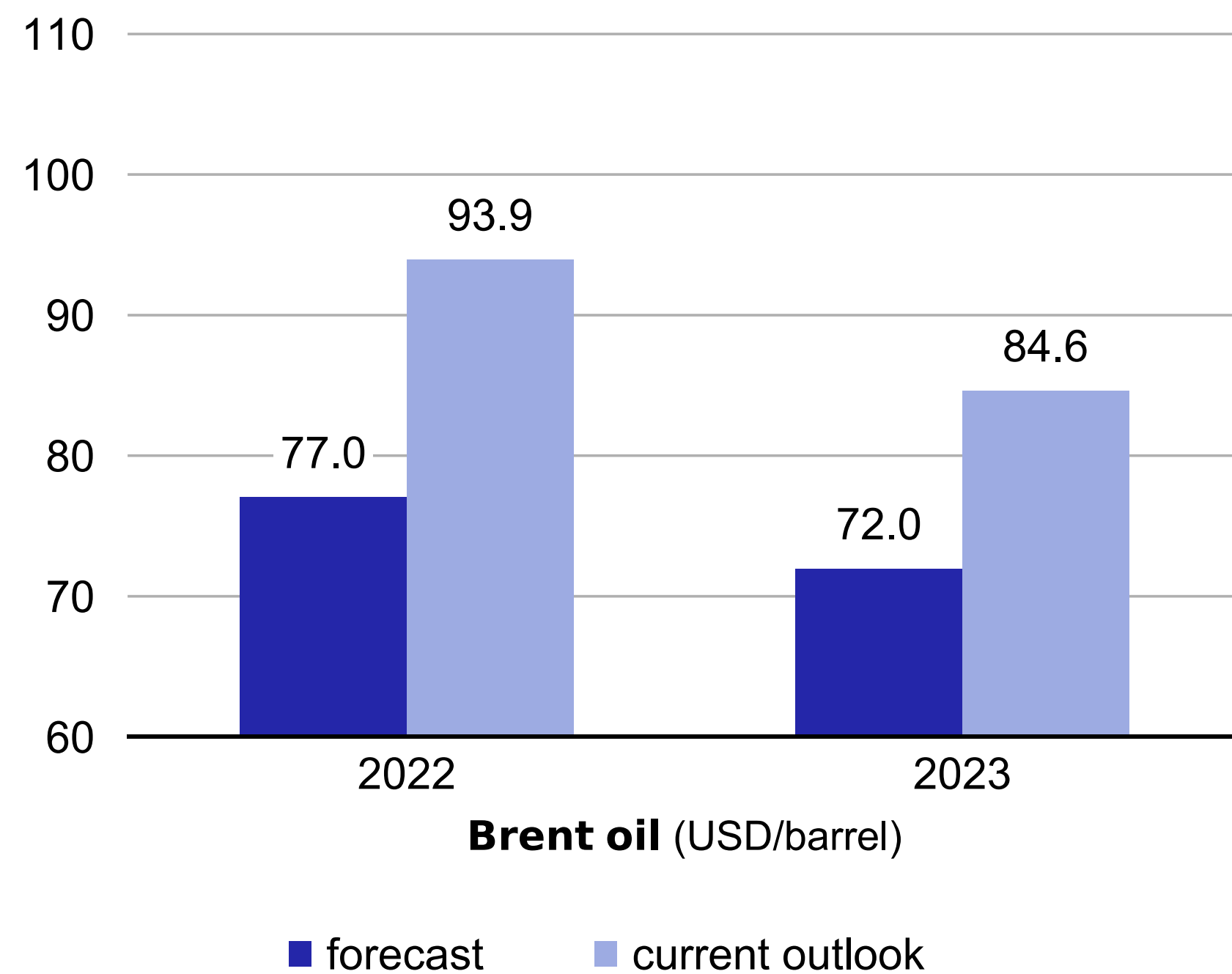
Today's monetary policy decision is underpinned by an assessment of the currently available information, which largely relates to the war in Ukraine. The war has significantly changed the outlooks for the foreign and domestic variables included in the CNB's winter forecast. Consistent with the winter forecast was **a substantial rise in market interest rates, followed by a gradual decline from the second half of this year onwards.**

The Bank Board assessed **the risks and uncertainties of the winter forecast in light of the new** information as being markedly inflationary, especially in the short run. These risks require significantly tighter monetary policy compared with the winter forecast, and probably for longer than predicted by the winter forecast.

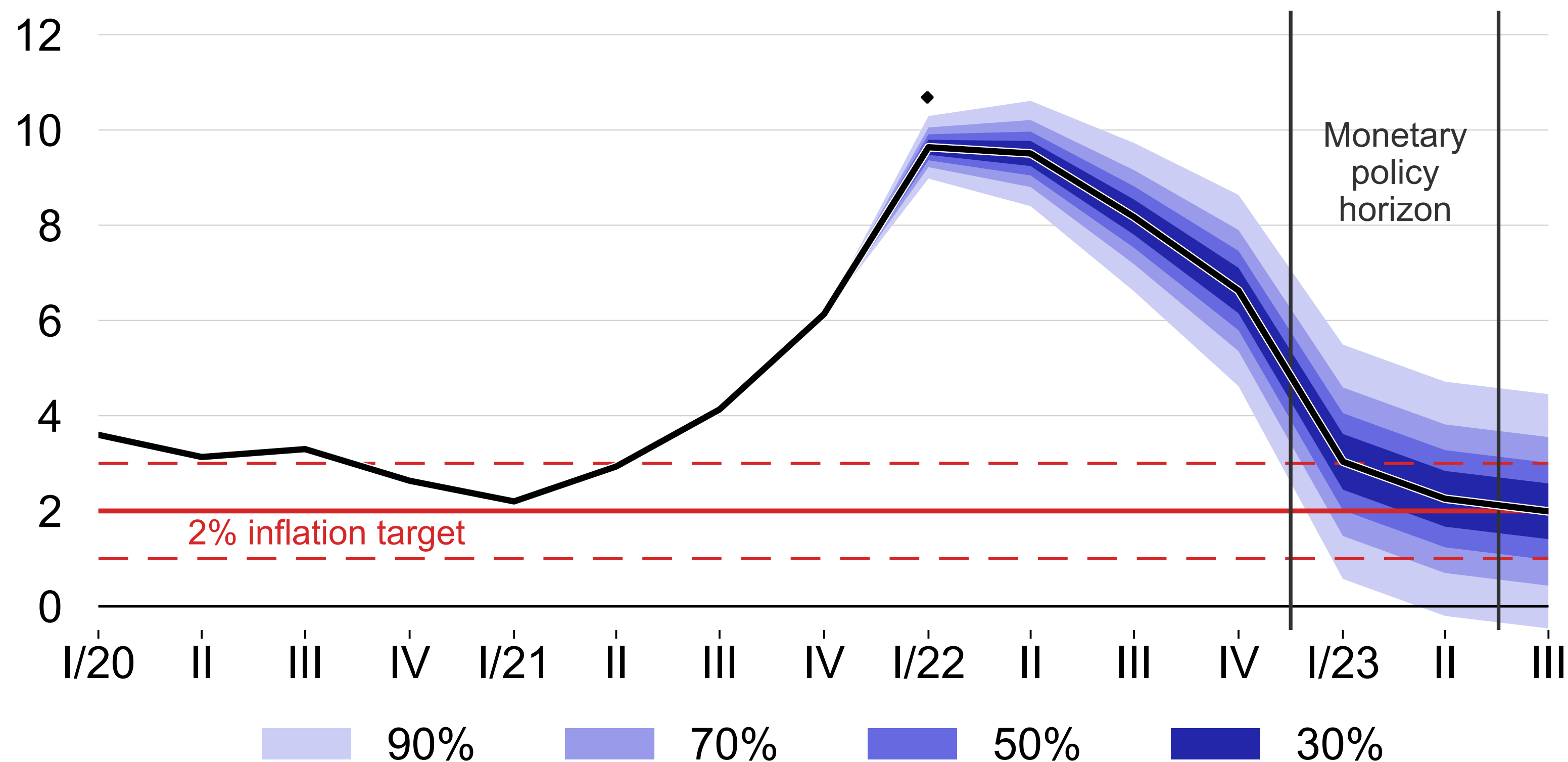
External environment: forecast and current outlook for the effective euro area



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



The inflation forecast and expected outcome in 2022 Q1



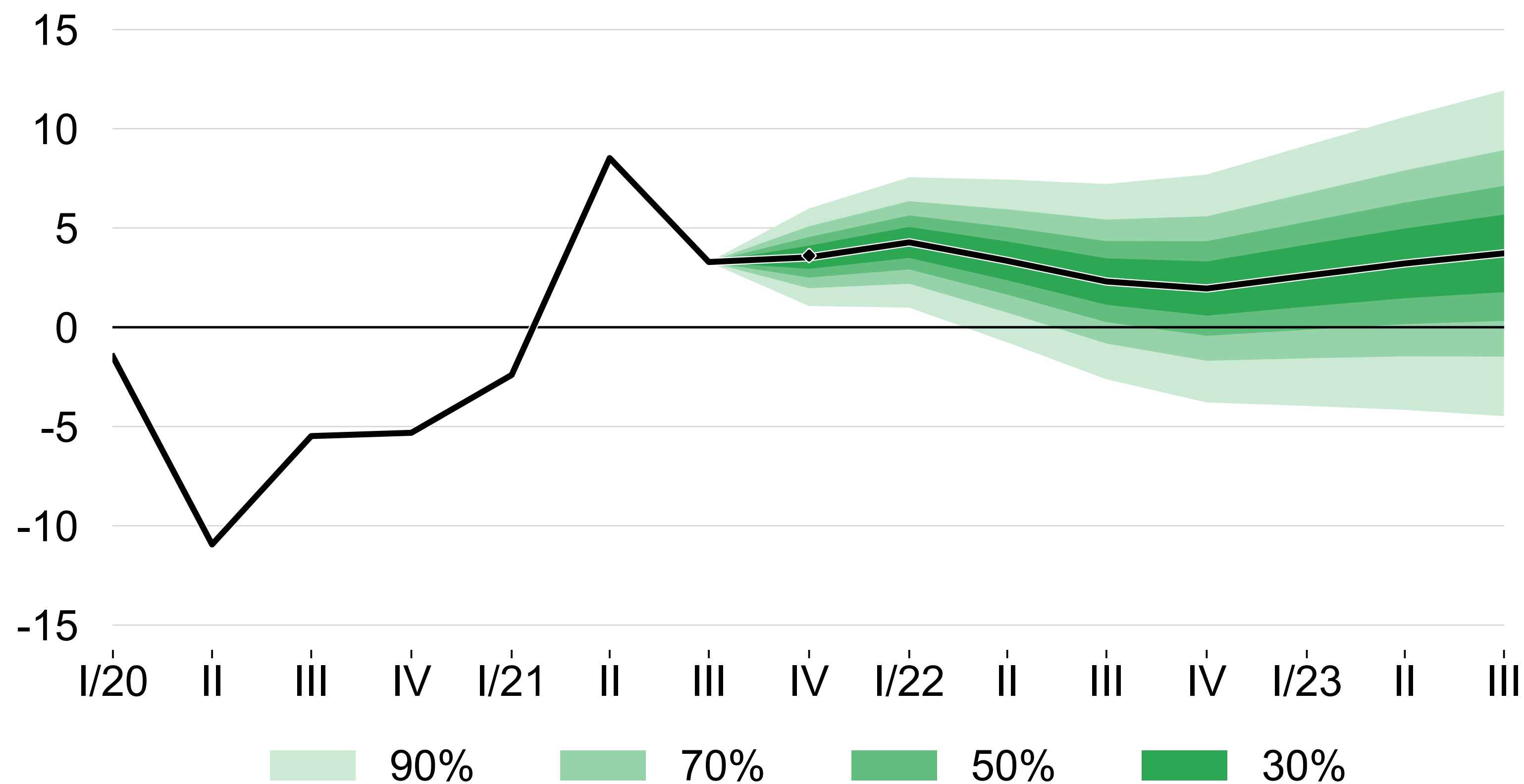
Note: y-o-y changes in %.

In January and February, i.e. before the war in Ukraine broke out, inflation was well above the forecast.

The winter forecast expected inflation to peak in 2022 H1 and decrease close to the 2% target over the monetary policy horizon.

According to the current estimate, inflation will remain very high even for the rest of this year.

The GDP forecast and outcome in 2021 Q4



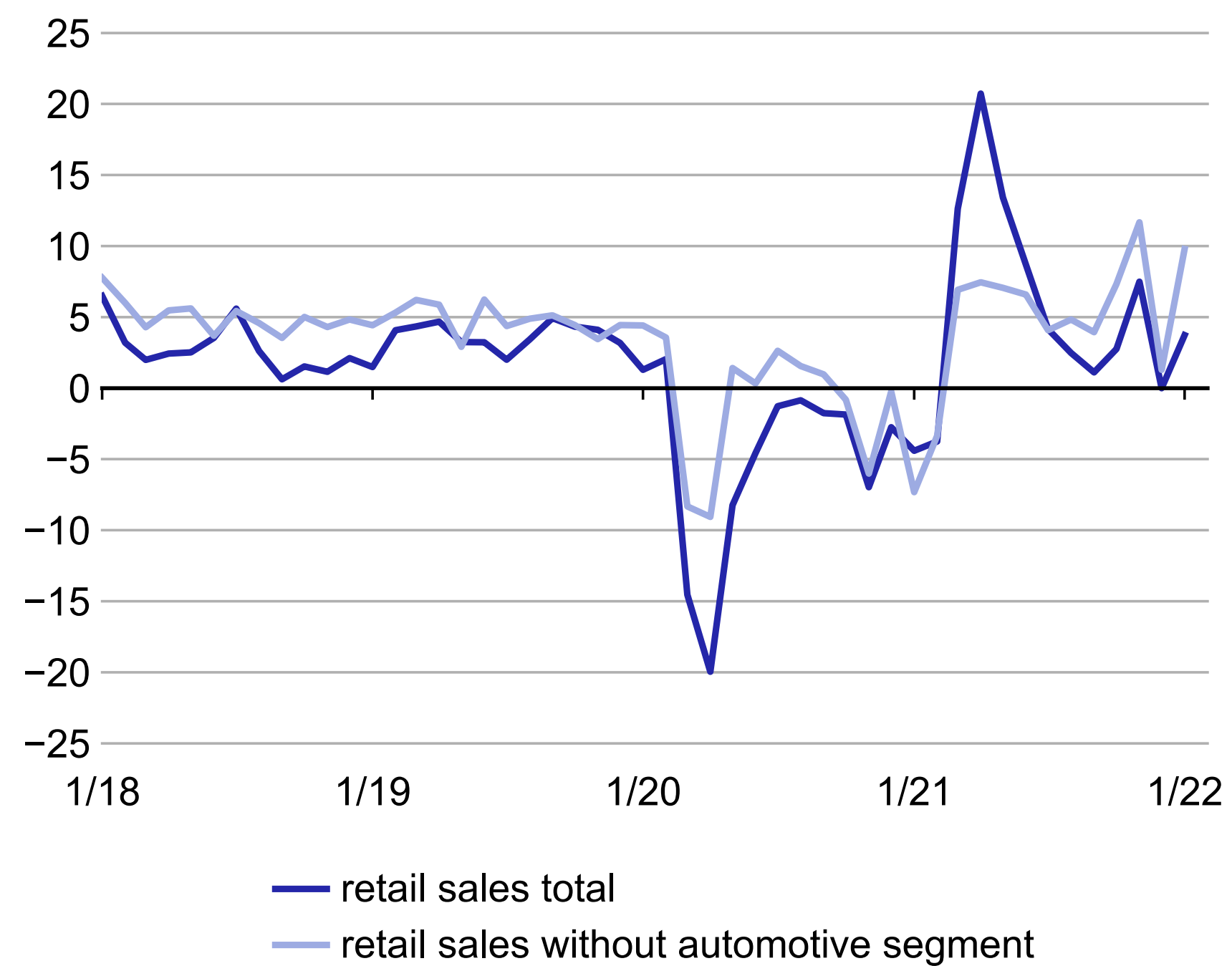
The Czech economy continued to grow in Q4. Its growth rate corresponded to the forecast.

The winter forecast expected the Czech economy to grow around 3% this year and the next.

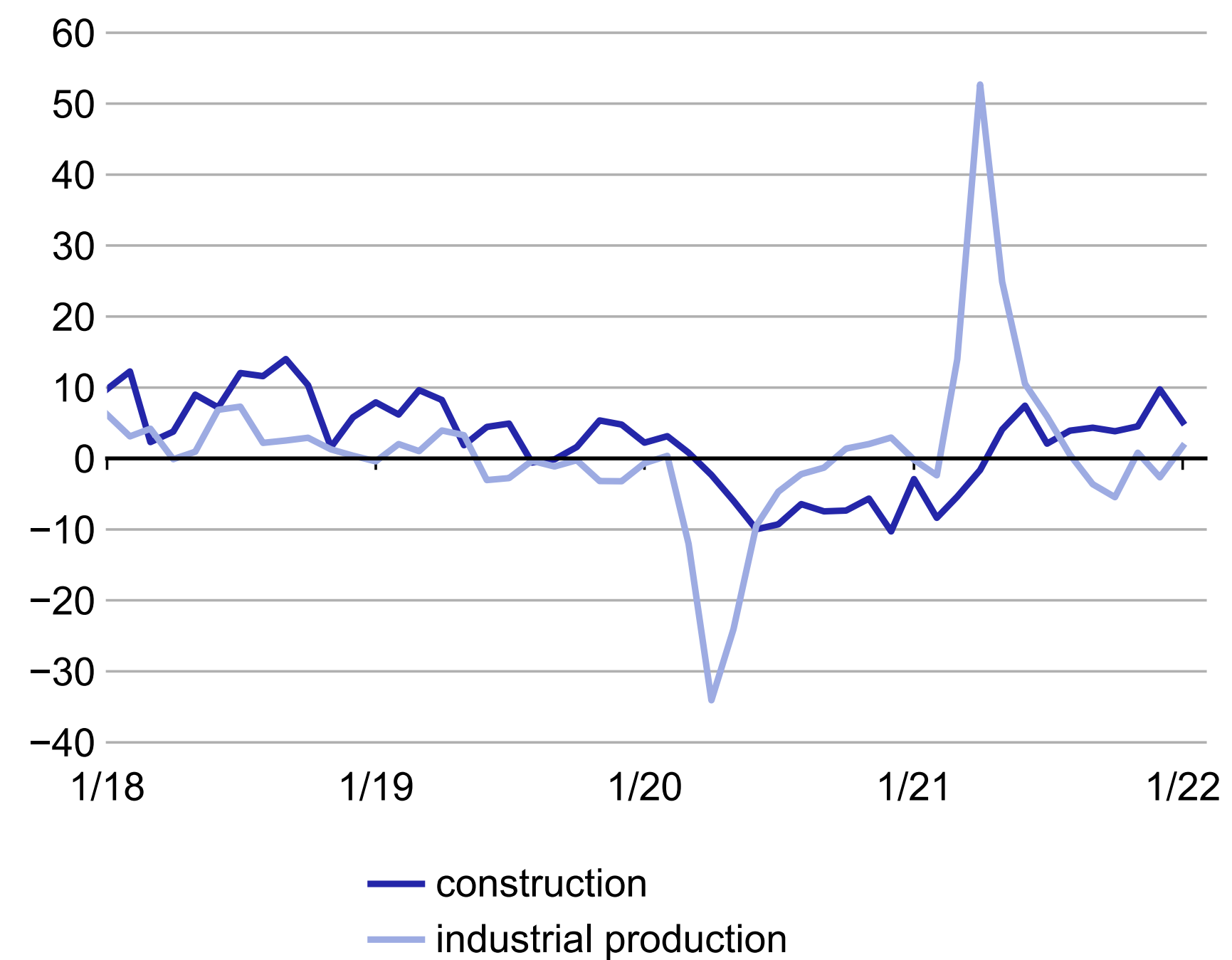
The war in Ukraine will reduce expected economic growth roughly to one-half of that figure.

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

Retail sales

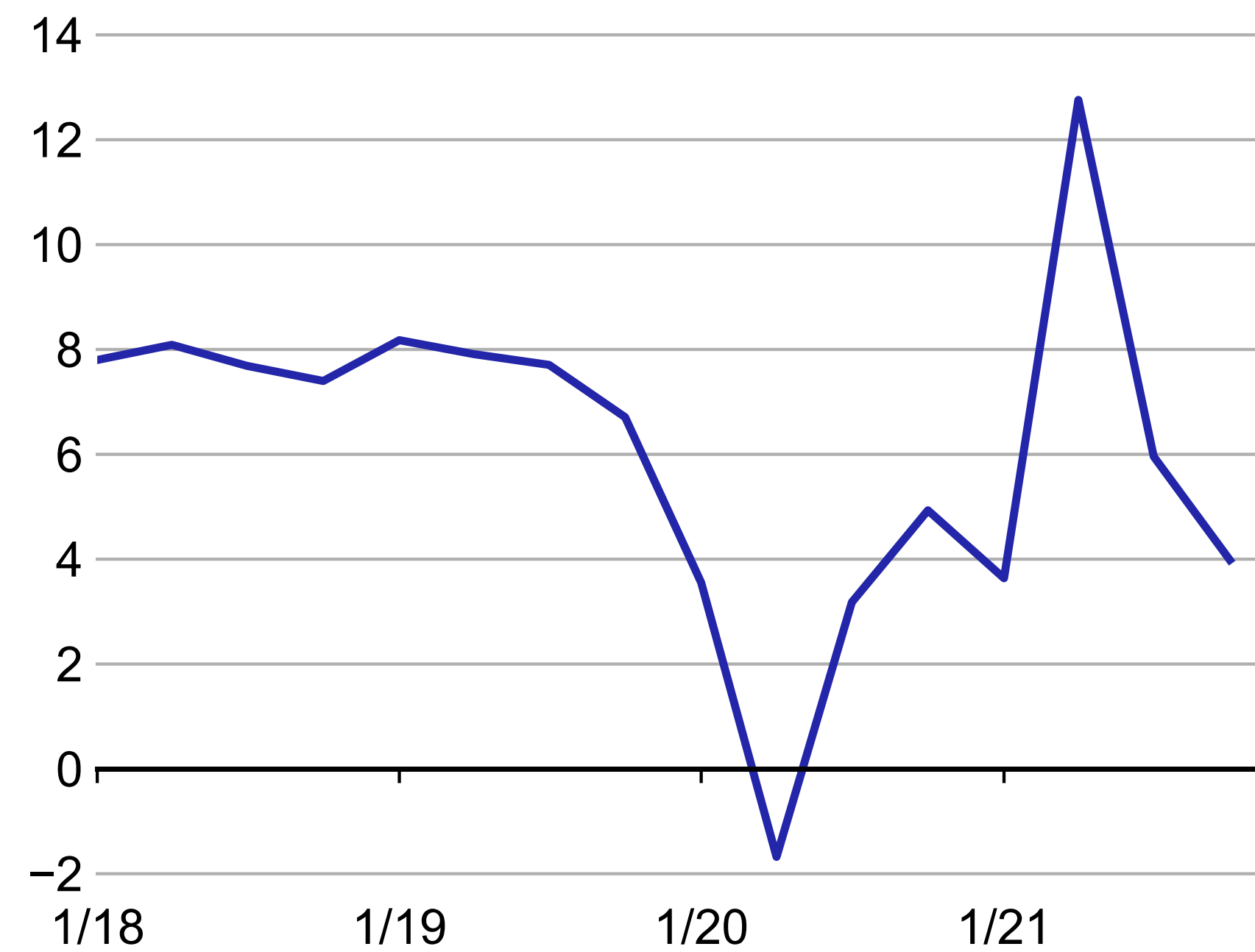
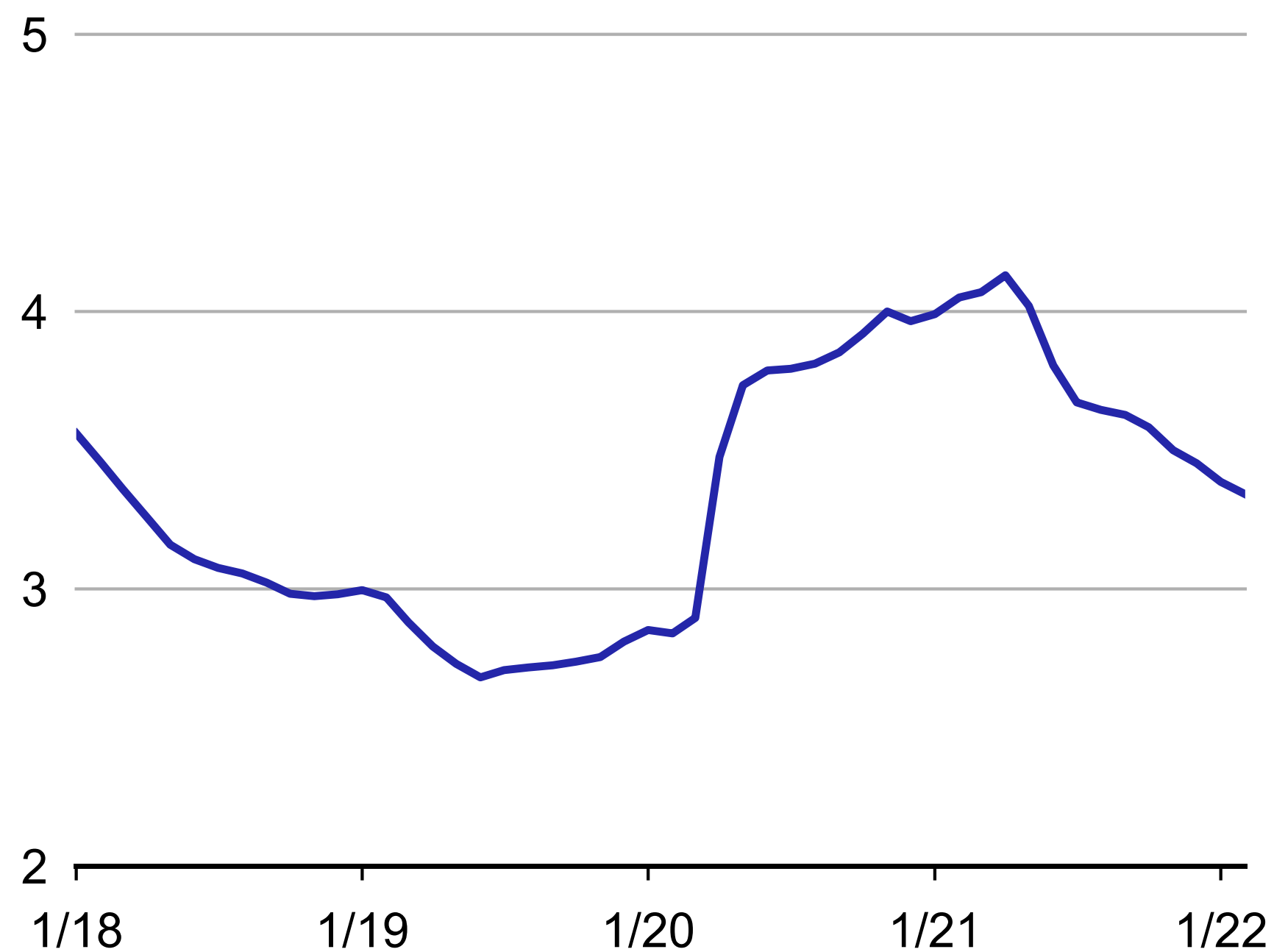


Industry and construction



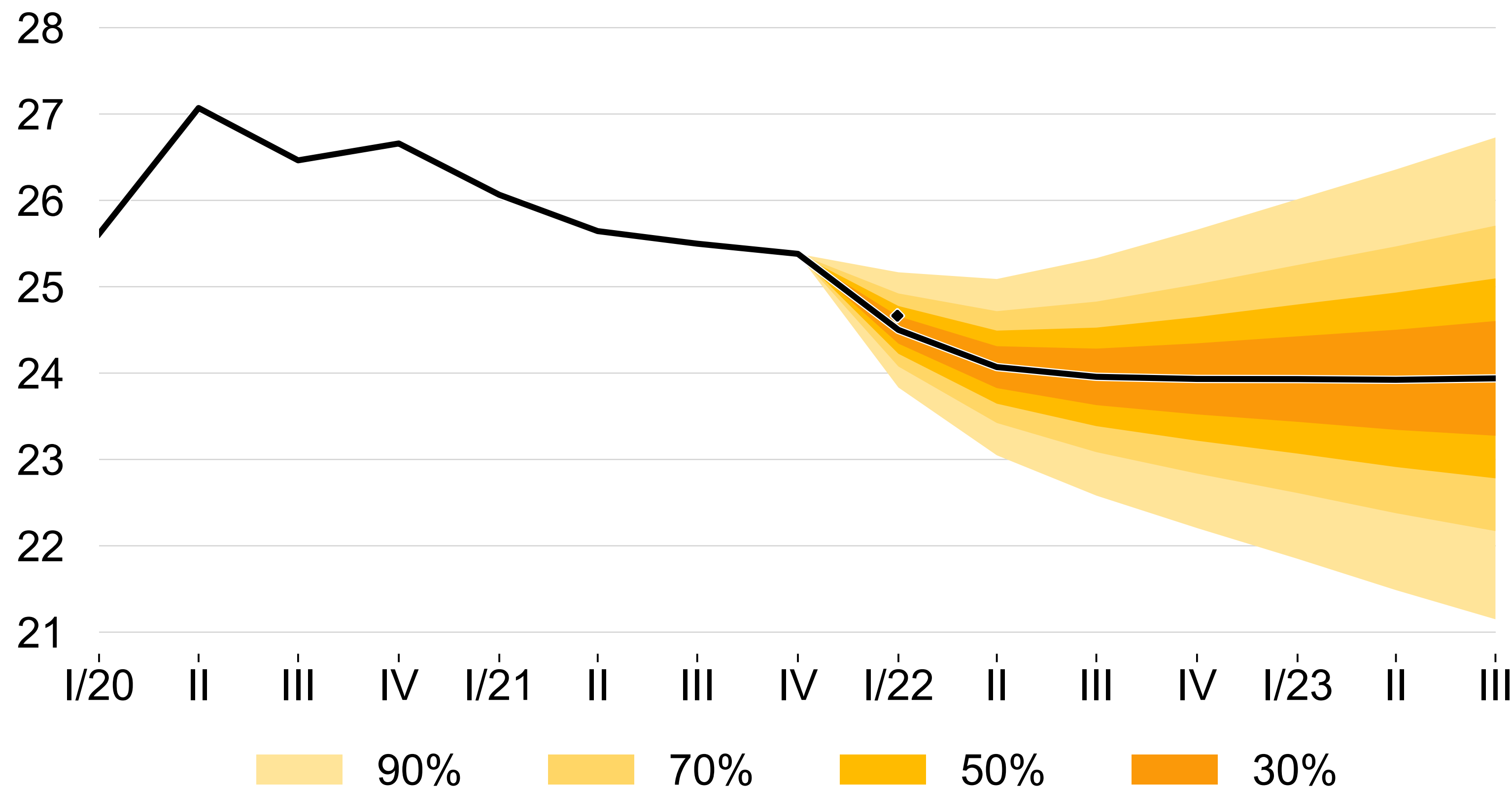
Note: y-o-y changes in %; constant prices; seasonally adjusted.

Share of unemployed persons Wages in market sectors



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

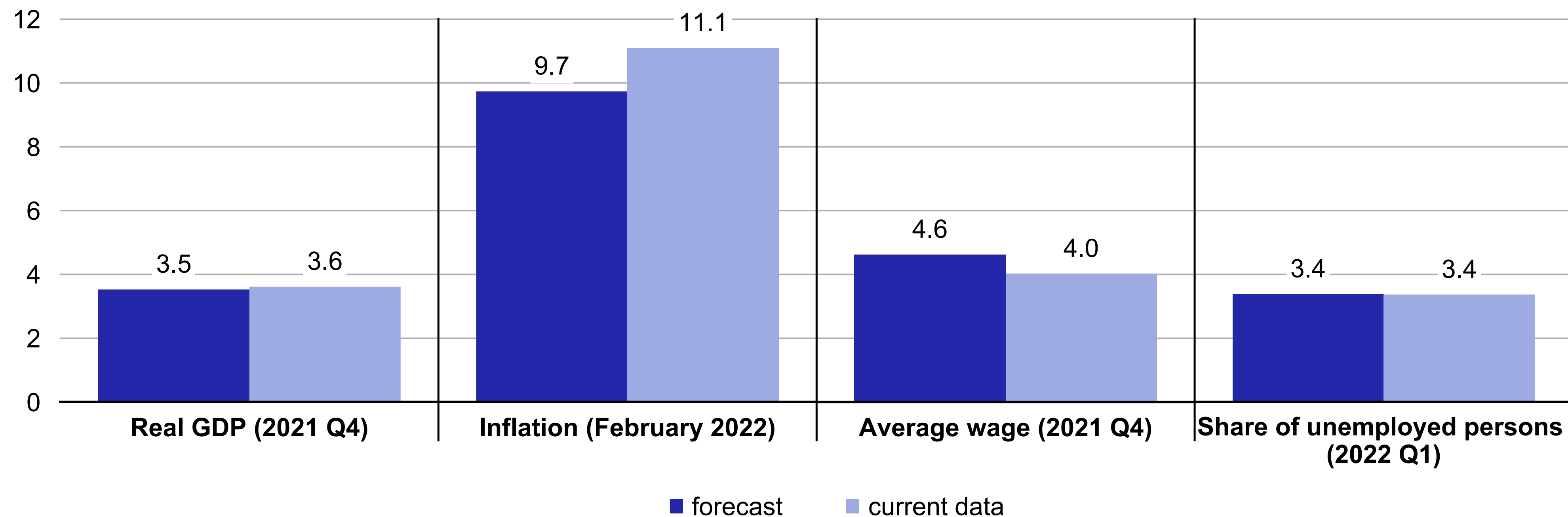
The CZK/EUR exchange rate forecast and outcome in 2022 Q1



The winter forecast expected the koruna to appreciate initially and then stabilise just below CZK 24 to the euro.

The CZK/EUR exchange rate was somewhat weaker on average compared with the winter forecast in Q1.

Comparison of current domestic data with the CNB forecast



Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in January and February with the forecast for 2022 Q1).

Risks and uncertainties of the forecast

The Bank Board assessed the risks and uncertainties of the winter forecast as being markedly inflationary, especially in the short run. This requires significantly tighter monetary policy compared with the current forecast, and probably for a longer period of time.

Inflationary risks:

- higher domestic and foreign inflation in the year to date
- sharp growth in energy and commodity prices, mainly due to the war in Ukraine
- weaker anchoring of inflation expectations to the CNB's 2% target
- less restrictive fiscal policy this year related to the refugee crisis

Anti-inflationary risk:

- worse future economic developments having an impact on the labour market and related lower demand-driven inflation

Monetary policy decision

Given the forecast and its strongly inflationary risks, the Bank Board decided to **increase the 2W repo rate by 0.50 percentage point to 5%**.

The continued increase in interest rates is a reaction to a **further marked rise in inflation pressures in the Czech economy**.

For the time being, the CNB has decided **to partially disregard the primary price effects related to the war in Ukraine**. However, **monetary policy is reacting and will react to the secondary effects of these pressure**. This will **ensure that inflation will return to the 2% target** in the longer run.

The Bank Board is closely monitoring the current developments and is ready to **continue raising interest rates** so that inflation expectations do not diverge from the CNB 2% inflation target in the longer term.

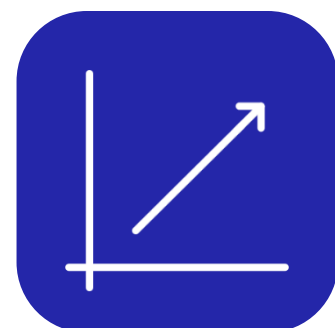
Restoring price stability soon is now the CNB's absolute priority, and it is a necessary precondition for long-term prosperity of the Czech economy.

The CNB's next steps will depend on incoming new information and future forecasts.

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 April 2022 at <https://www.cnb.cz/en/monetary-policy/bank-board-decisions/>

Decision in a nutshell



Consistent with the winter forecast was a substantial rise in market interest rates followed by a gradual decline from the second half of this year onwards.



The risks and uncertainties of the forecast are markedly inflationary, especially in the short run.



The Bank Board increased the key interest rate (2W repo) to 5%.



Five members voted in favour of this decision.