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# 3rd Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



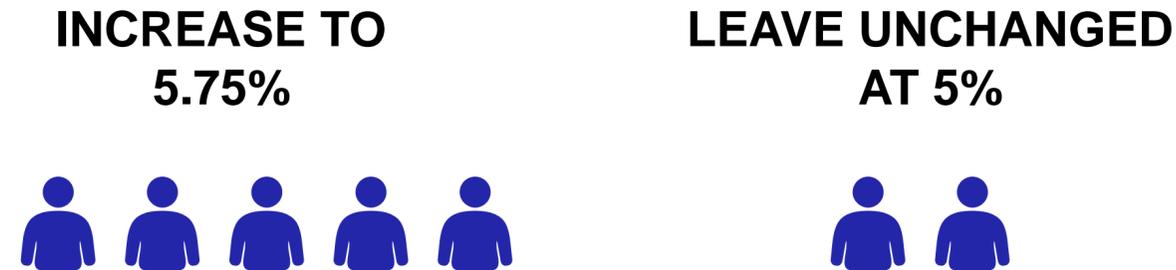
## Monetary policy decision

At its meeting today, the CNB Bank Board increased the 2W repo rate by 0.75 percentage point to 5.75%. At the same time, it decided to increase the discount rate by the same amount to 4.75% and the Lombard rate to 6.75%.

<b>4.75%</b>	<b>5.75%</b>	<b>6.75%</b>
discount rate	2W repo rate	Lombard rate

Five members voted in favour of this decision, two members voted for leaving the rate unchanged at 5%.

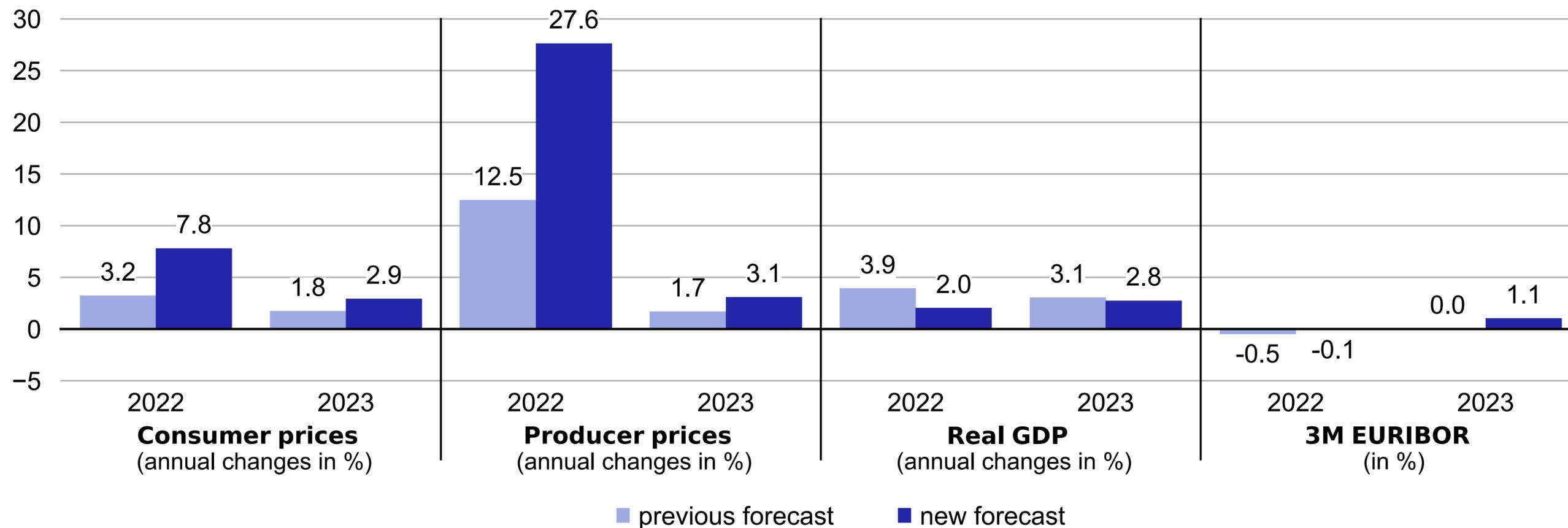
### VOTING ON 2W REPO RATE



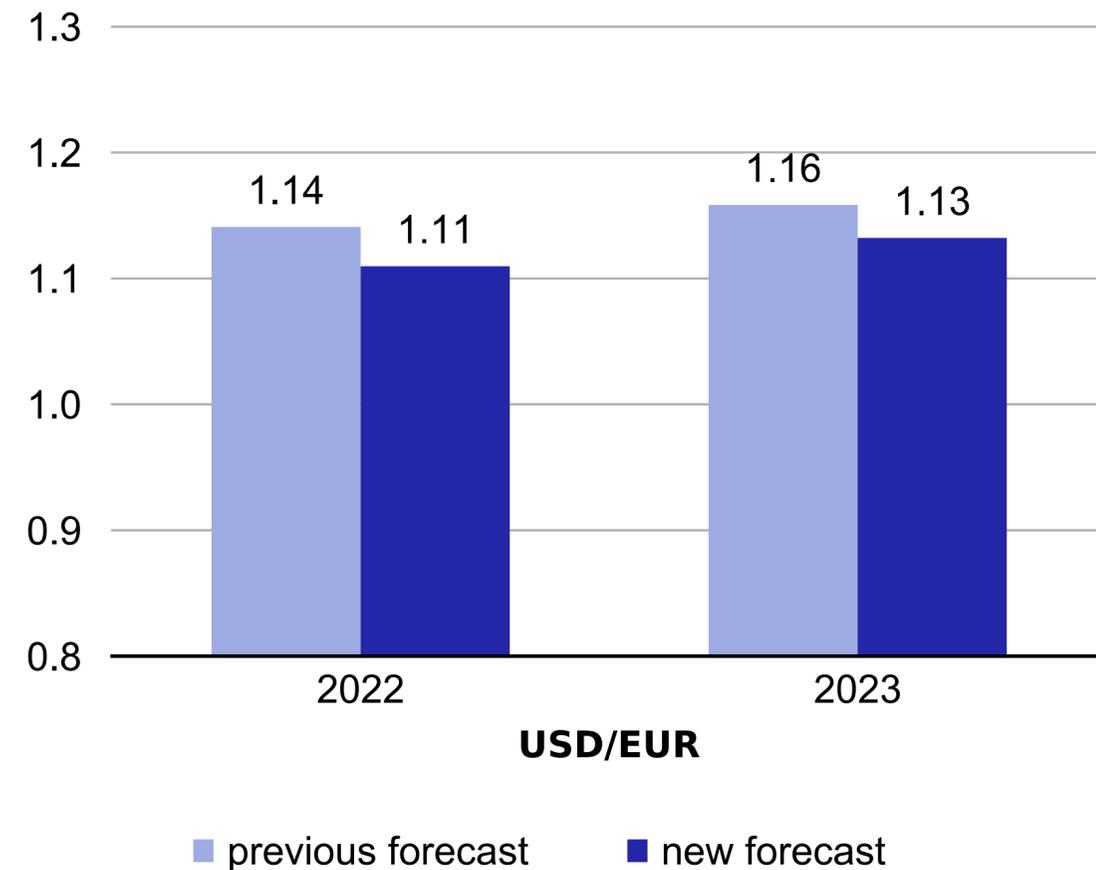
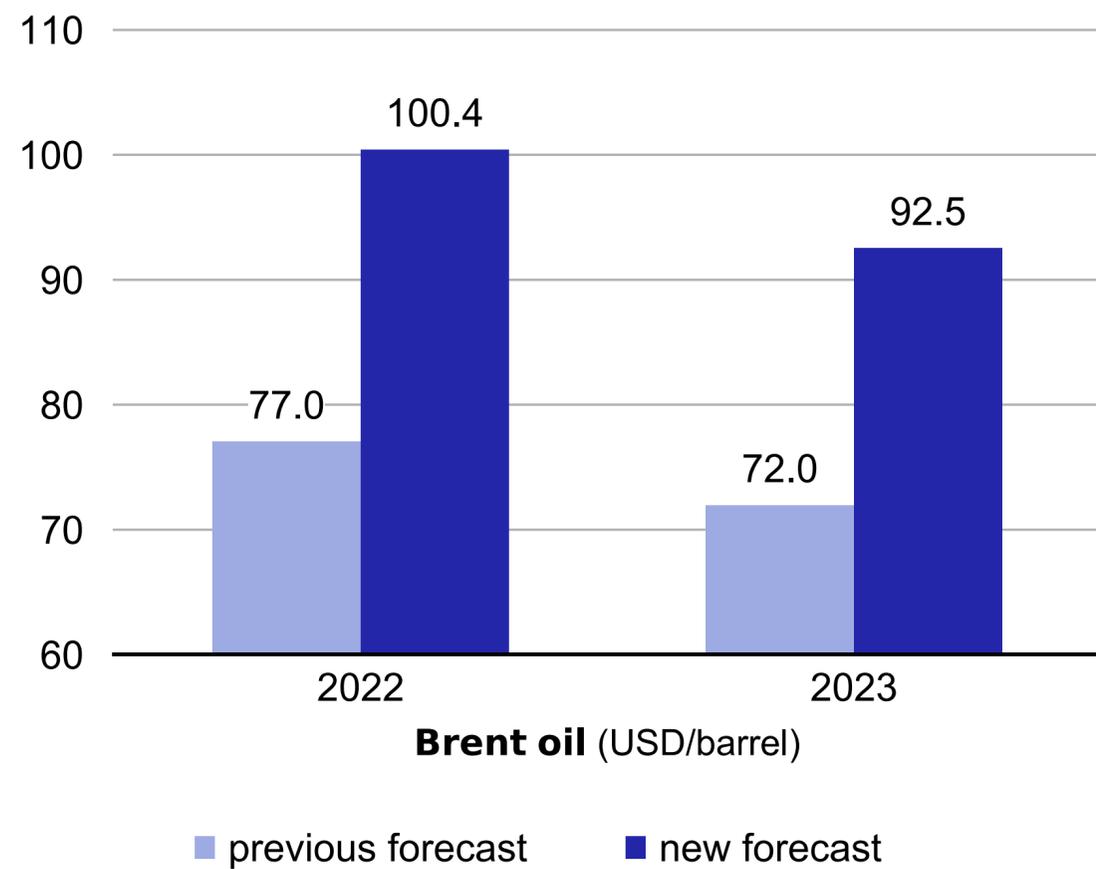
Consistent with the **baseline scenario of the spring forecast is a further sharp rise in market interest rates**. In the baseline scenario, the central bank sets interest rates in order to achieve the 2% target at the standard monetary policy horizon.

However, the Bank Board decided **to tighten monetary policy more moderately**. In the context of significant risks and uncertainties in both directions, it took into account, among other things, the **message of a scenario featuring a more distant monetary policy horizon** than the standard one used in the CNB's forecasting system.

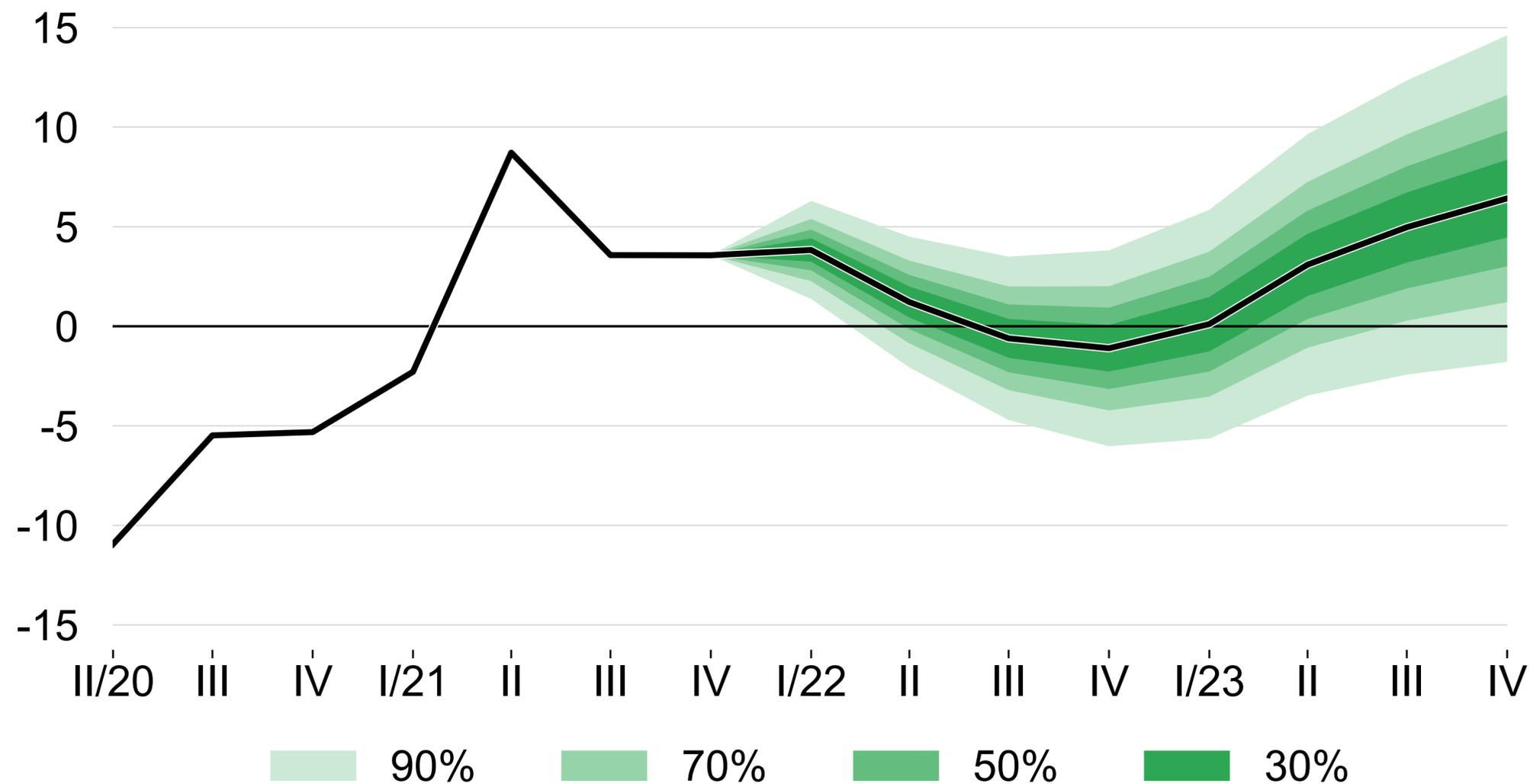
## External environment: forecast and outlook for the effective euro area



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



## The GDP forecast

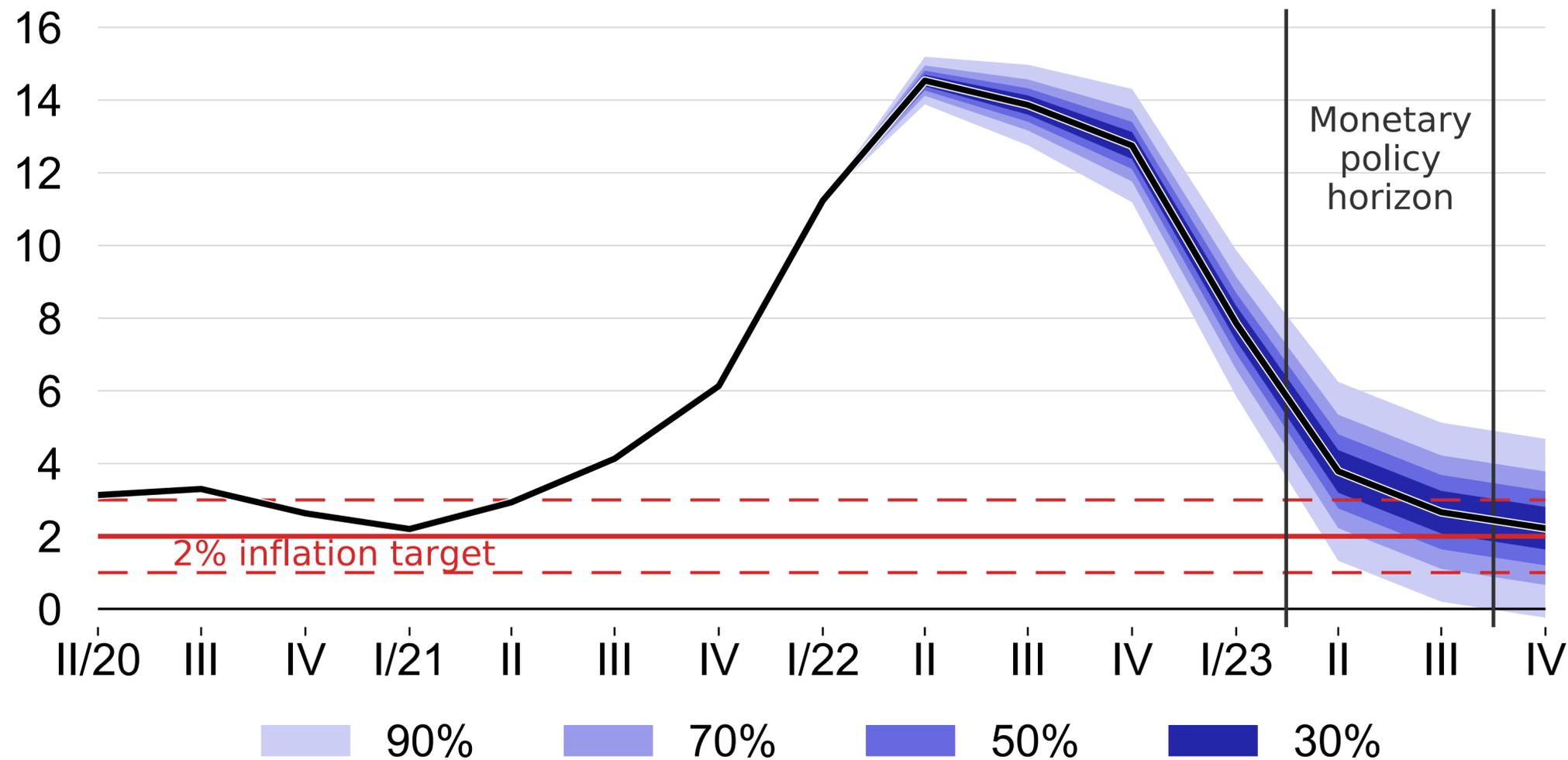


GDP growth will slow considerably this year, with economic activity even contracting slightly year on year in the second half of 2022.

This will be due largely to subdued household consumption, fixed investment and exports.

Economic growth will recover next year.

## The inflation forecast



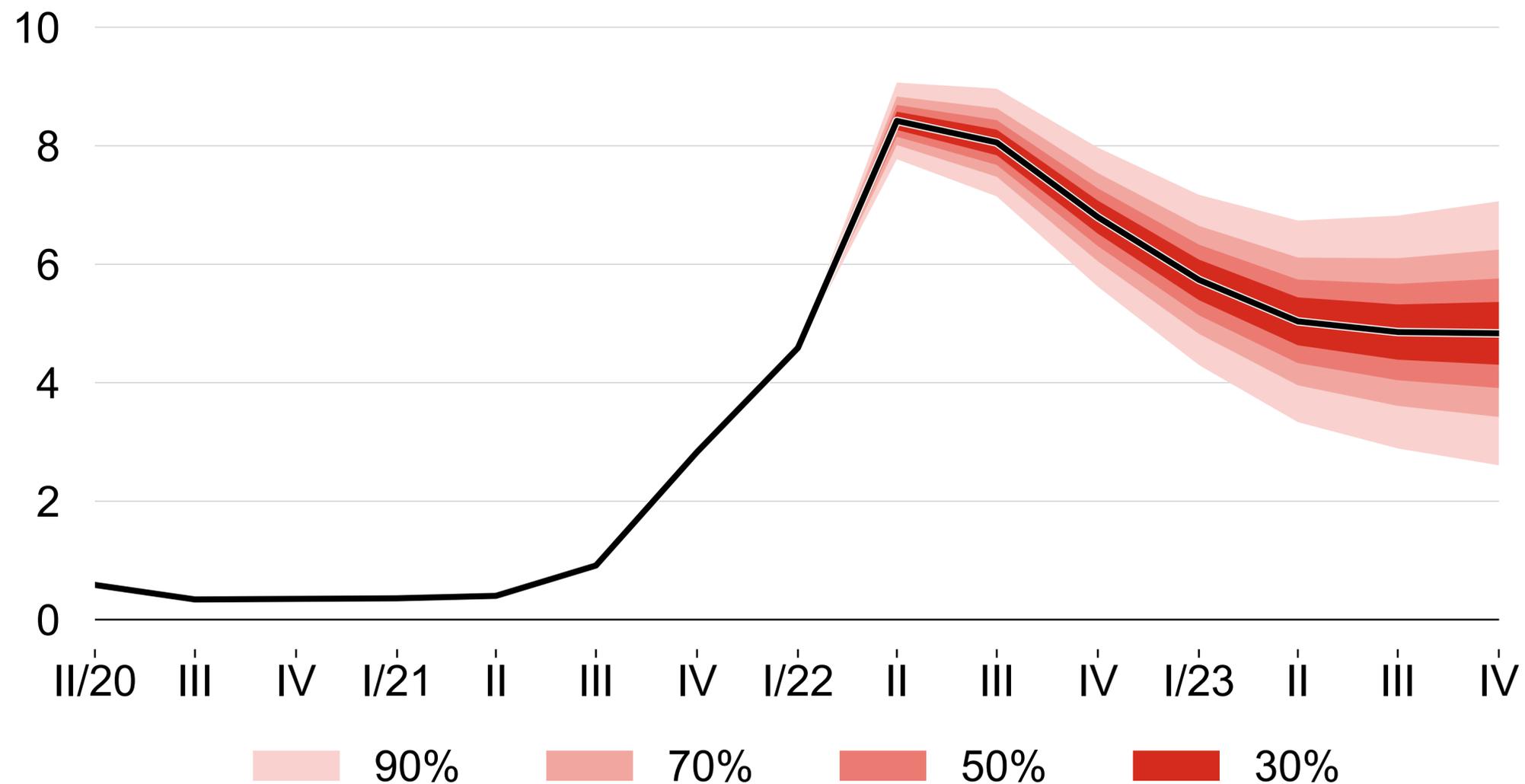
Inflation will rise further in 2022 Q2, reaching almost 15%, with all its components contributing to the increase.

Thereafter, inflation will start to fall, returning to single-digit levels at the beginning of next year.

Inflation will decline further close to the 2% target in the course of 2023.

Note: y-o-y changes in %.

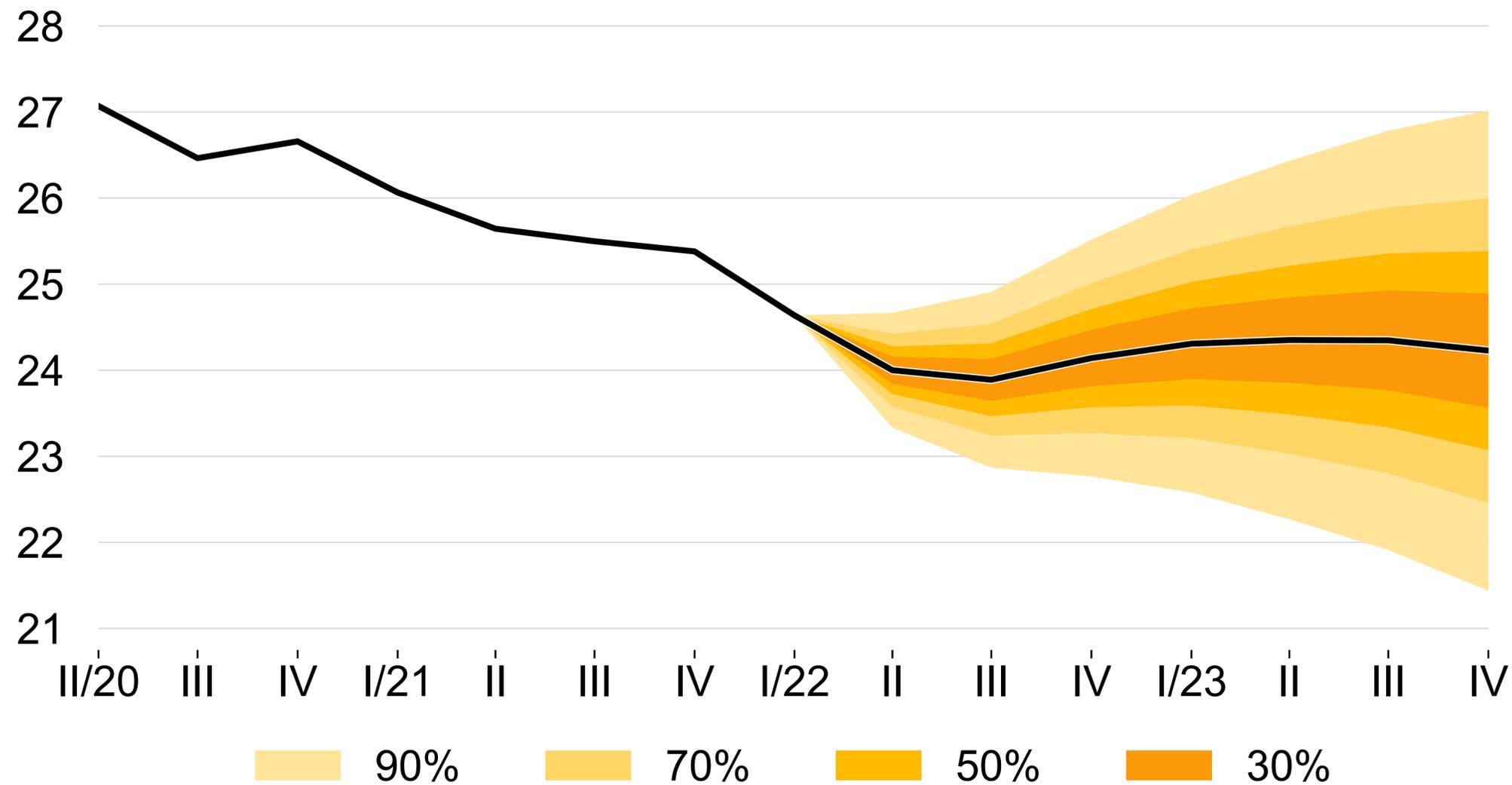
## The interest rates forecast (3M PRIBOR)



Consistent with the baseline scenario of the spring forecast is a further sharp rise in market interest rates until mid-2022, followed by a gradual decline from autumn 2022.

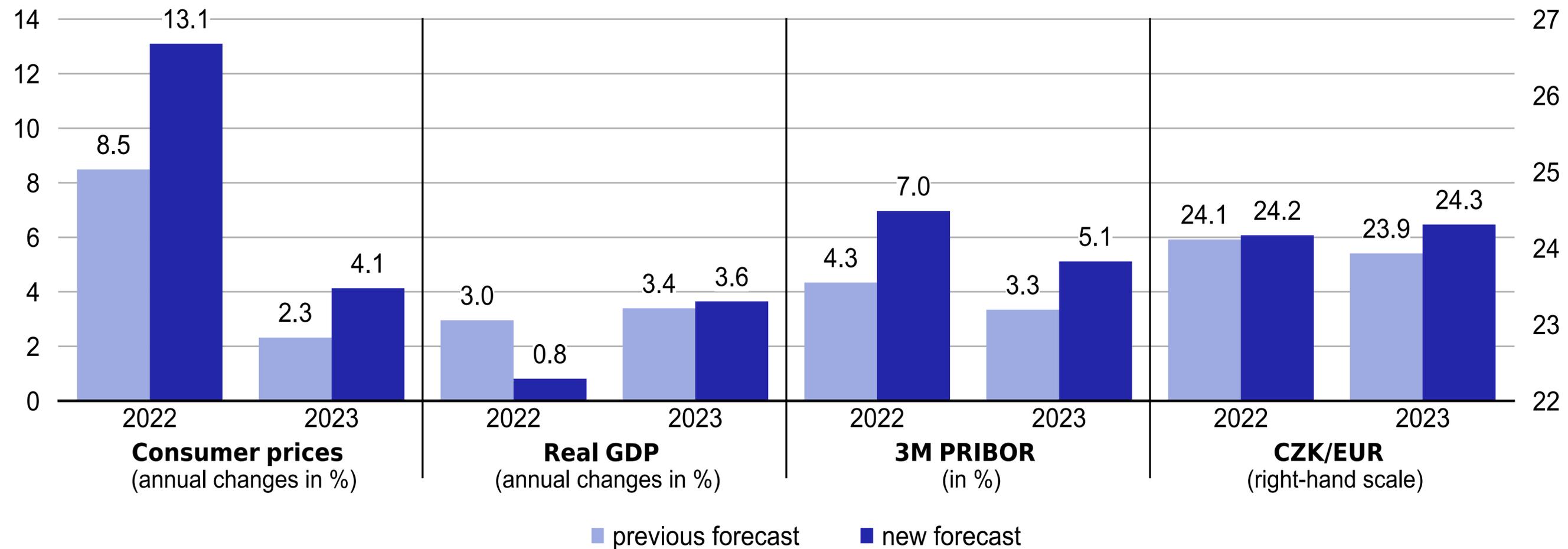
In the baseline scenario, the central bank sets interest rates in order to achieve the 2% target at the standard monetary policy horizon.

## The exchange rate forecast (CZK/EUR)



The CZK/EUR exchange rate will initially appreciate slightly and then will be broadly stable.

## Comparison with the previous CNB forecast



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## Risks and uncertainties of the forecast

**The Bank Board assessed the uncertainties and risks of the spring forecast as being significant and going in both directions.**

### **Inflationary risks:**

- higher-than-forecasted energy and commodity prices
- threat of inflation expectations becoming unanchored from the CNB's 2% target
- related risk of higher growth in prices and wages in the medium term

### **Anti-inflationary risk:**

- stronger-than-expected negative demand impacts of the war in Ukraine

### **Uncertainties:**

- future course of the war in Ukraine
- future monetary policy stance abroad
- duration of the disruptions to global value chains

## Scenario featuring a more distant monetary policy horizon

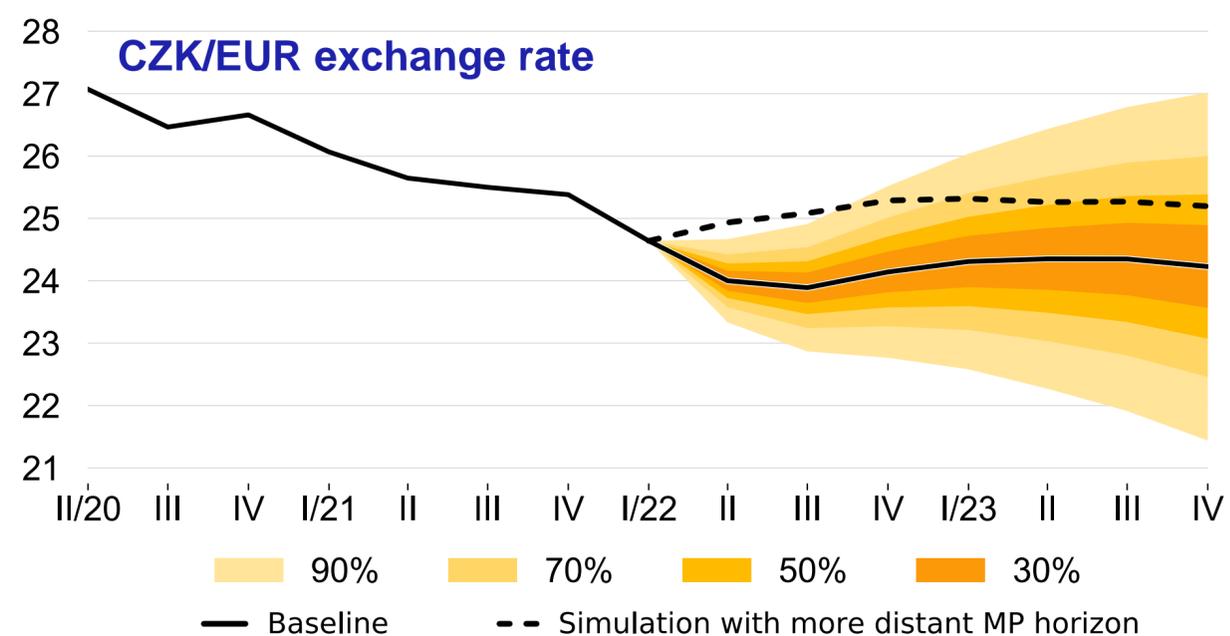
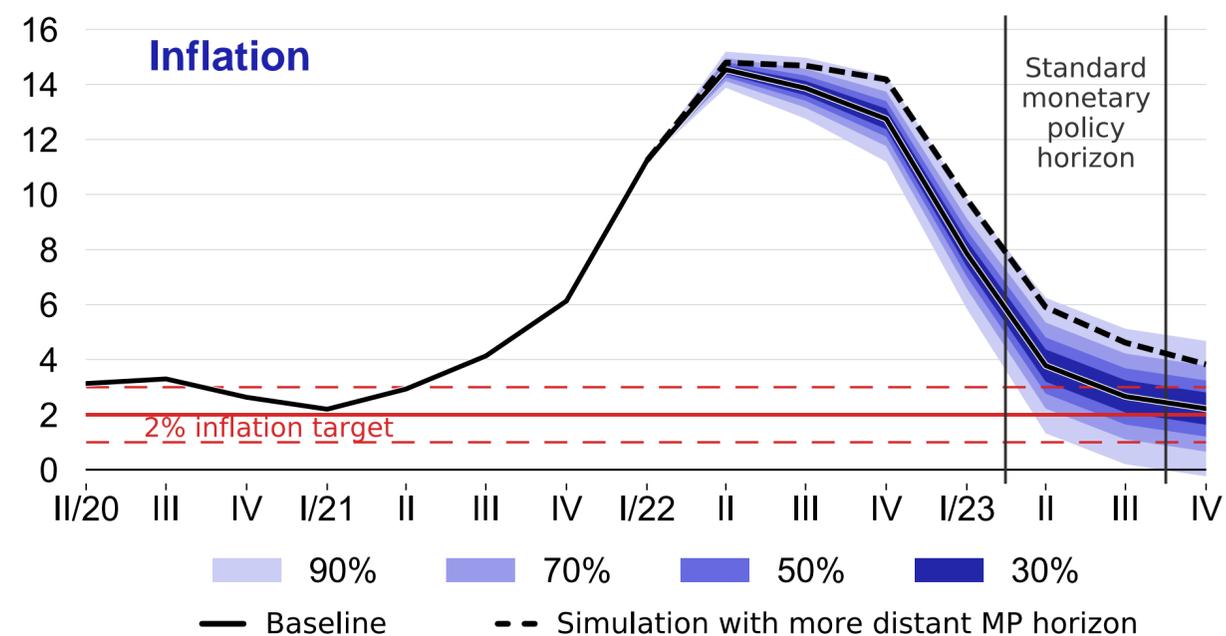
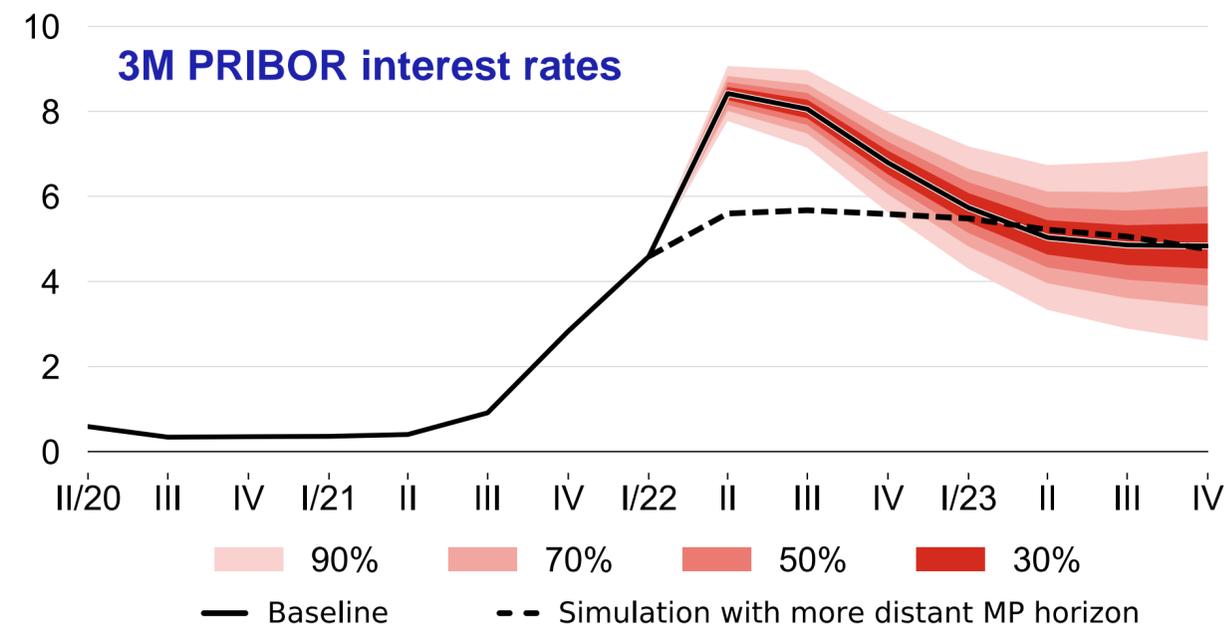
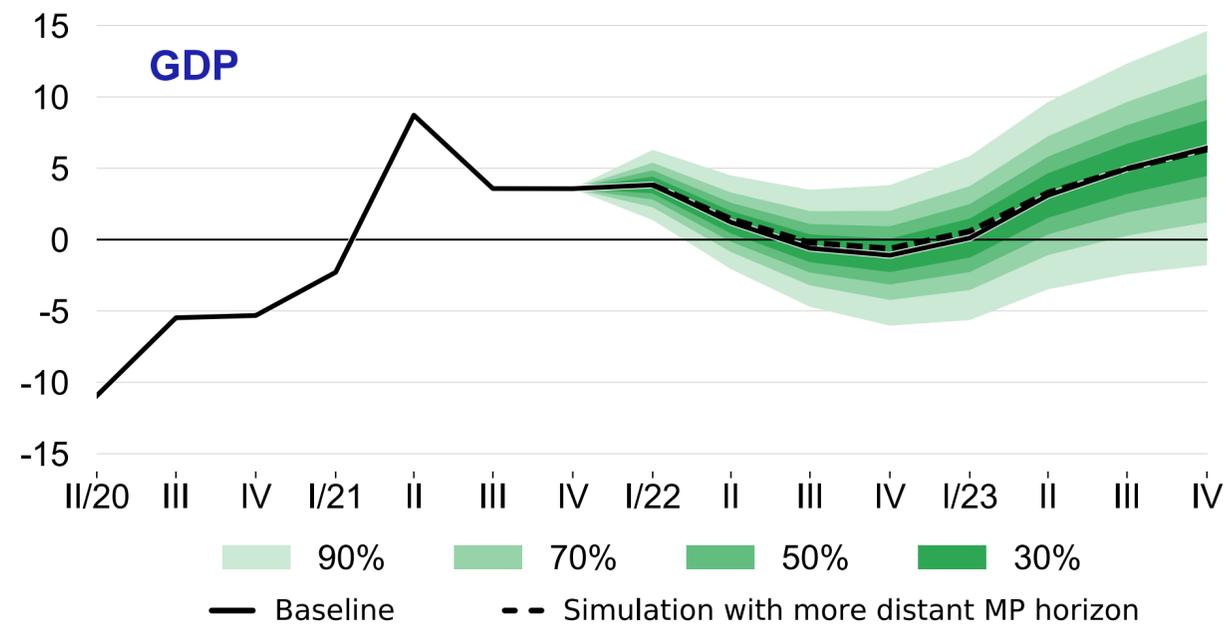
In this scenario, the central bank **abstracts from inflation, which is being directly affected by strong external price shocks** that will manifest themselves in inflation at a horizon of 12–18 months.

The simulation – like the baseline scenario – assumes that **monetary policy maintains full credibility and inflation expectations remain anchored to the target**, thus helping inflation return close to it despite the more restrained monetary policy response.

Results of the scenario:

- The **market interest rate path is lower** than in the baseline scenario, especially this year. The rates increase to almost 6%.
- The **exchange rate** of the koruna is **weaker**, due to a substantially narrower interest rate differential.
- The lower interest rates, coupled with the weaker exchange rate, lead to **higher inflation** than in the baseline scenario. However, inflation also falls to single figures in 2023, although the return to the 2% target is delayed until 2024.

# Scenario featuring a more distant monetary policy horizon



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## Summary

The Bank Board **increased the 2W repo rate by 0.75 percentage point to 5.75%.**

**The increase in interest rates is more moderate** than in the baseline scenario because it takes into account the extreme external cost pressures underlying the surge in inflation this year and the exceptionally high uncertainties and risks of the forecast. The Bank Board took into account, among other things, the message of the scenario featuring a more distant monetary policy horizon.

The Bank Board disagreed with the simulation as regards the upside risks, mainly because of the **threat of inflation expectations becoming unanchored**. It therefore raised interest rates more than implied by this scenario.

**Monetary policy may be tightened further** at the forthcoming monetary meetings.

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## 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 – Spring 2022.

The introductory part of the Report (together with the boxes, the appendix and the table of key macroeconomic indicators) will be published on 6 May 2022.

The whole Report will be published on 13 May 2022.



## Decision in a nutshell



Consistent with the baseline scenario of the spring forecast, in which the central bank sets interest rates in order to achieve the 2% target at the standard monetary policy horizon, is a further sharp rise in market interest rates.



The Bank Board assessed the uncertainties and risks of the spring forecast as being significant and going in both directions.



The Bank Board increased the key interest rate (2W repo) to 5.75%.



Five members voted in favour of this decision.