
4th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



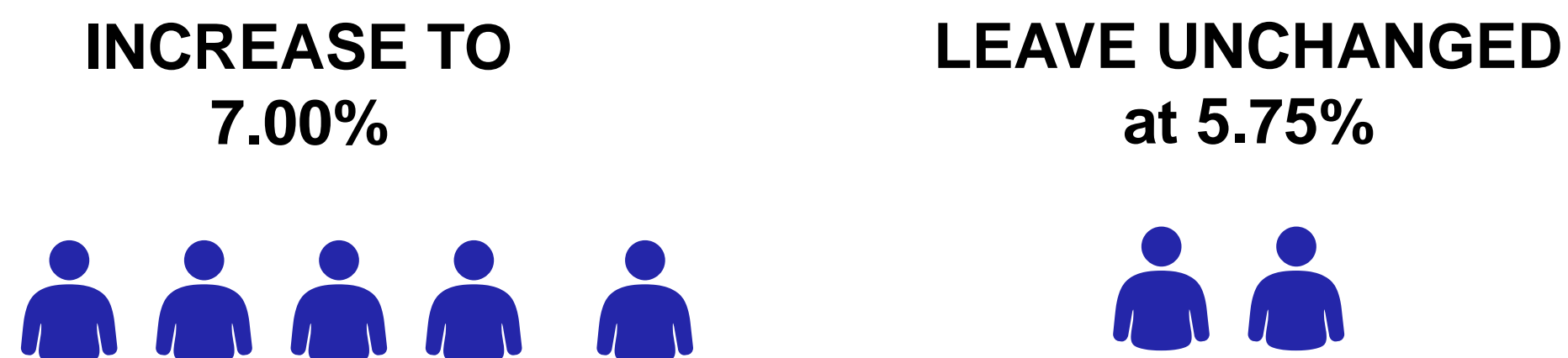
Monetary policy decision

At its meeting today, the CNB Bank Board increased the 2W repo rate by 1.25 percentage points to 7.00%. At the same time, it decided to increase the discount rate by the same amount to 6.00% and the Lombard rate to 8.00%.

6.00%	7.00%	8.00%
discount rate	2W repo rate	Lombard rate

Five members voted in favour of this decision, two members voted for leaving rates at 5.75%.

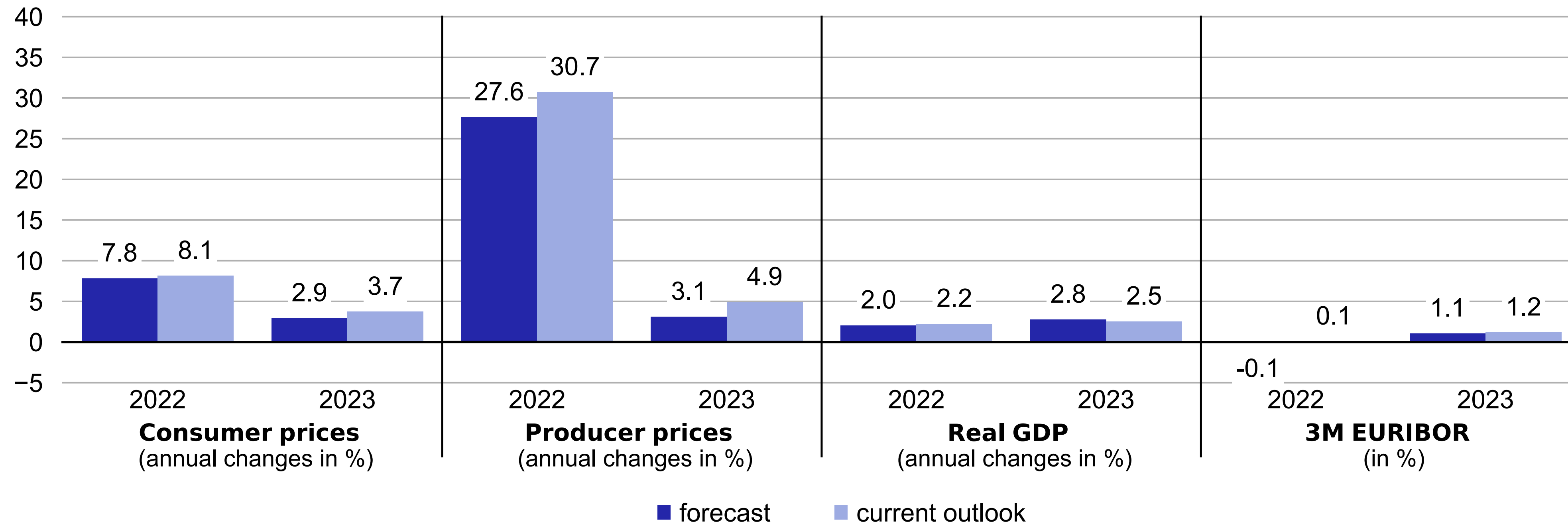
VOTING ON 2W REPO RATE



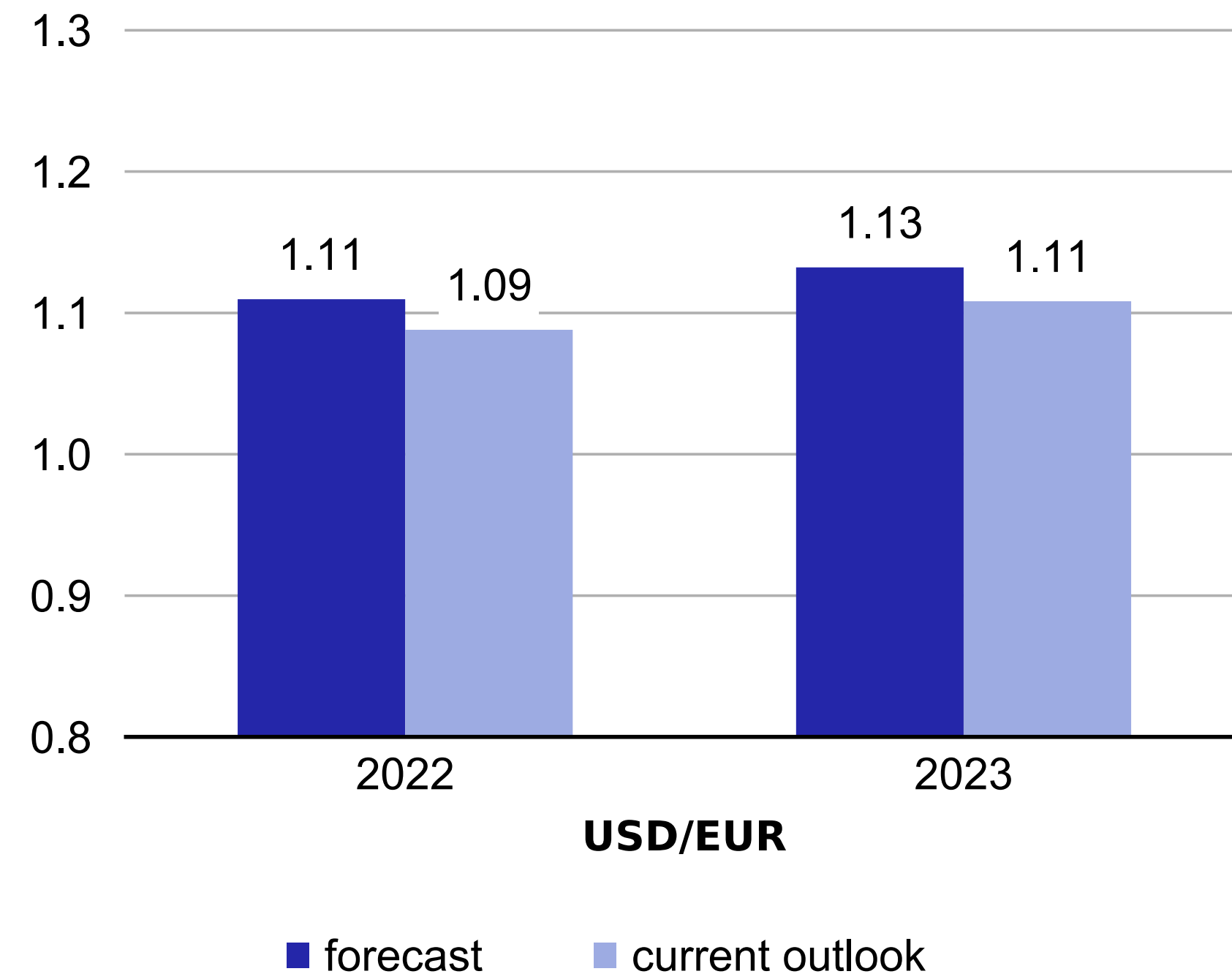
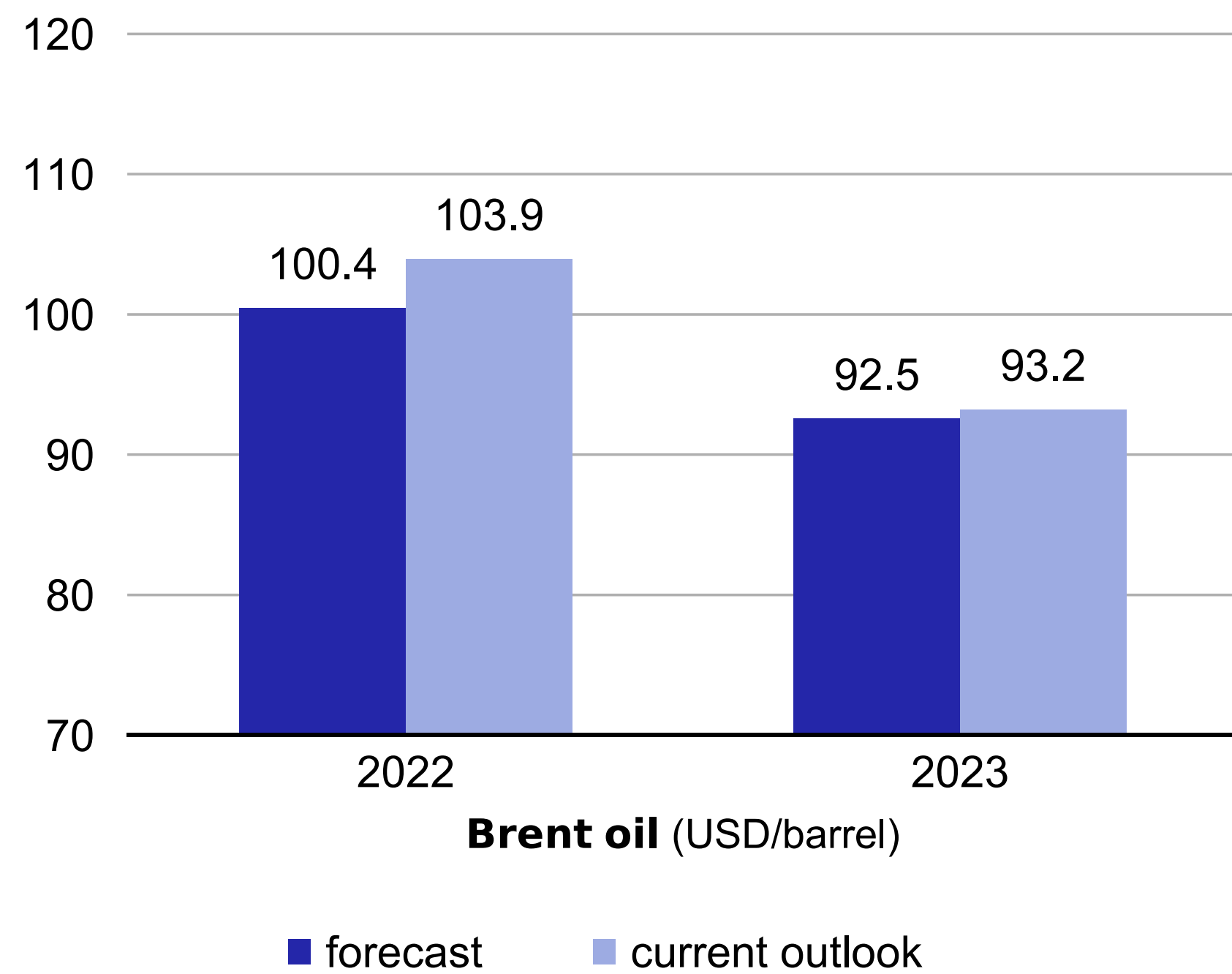
Consistent with the baseline scenario of the spring forecast is a further sharp rise in market interest rates.

The Bank Board assessed the risks and uncertainties of the spring forecast in light of the new information as being markedly inflationary and acting towards a need for further significant tightening of monetary policy.

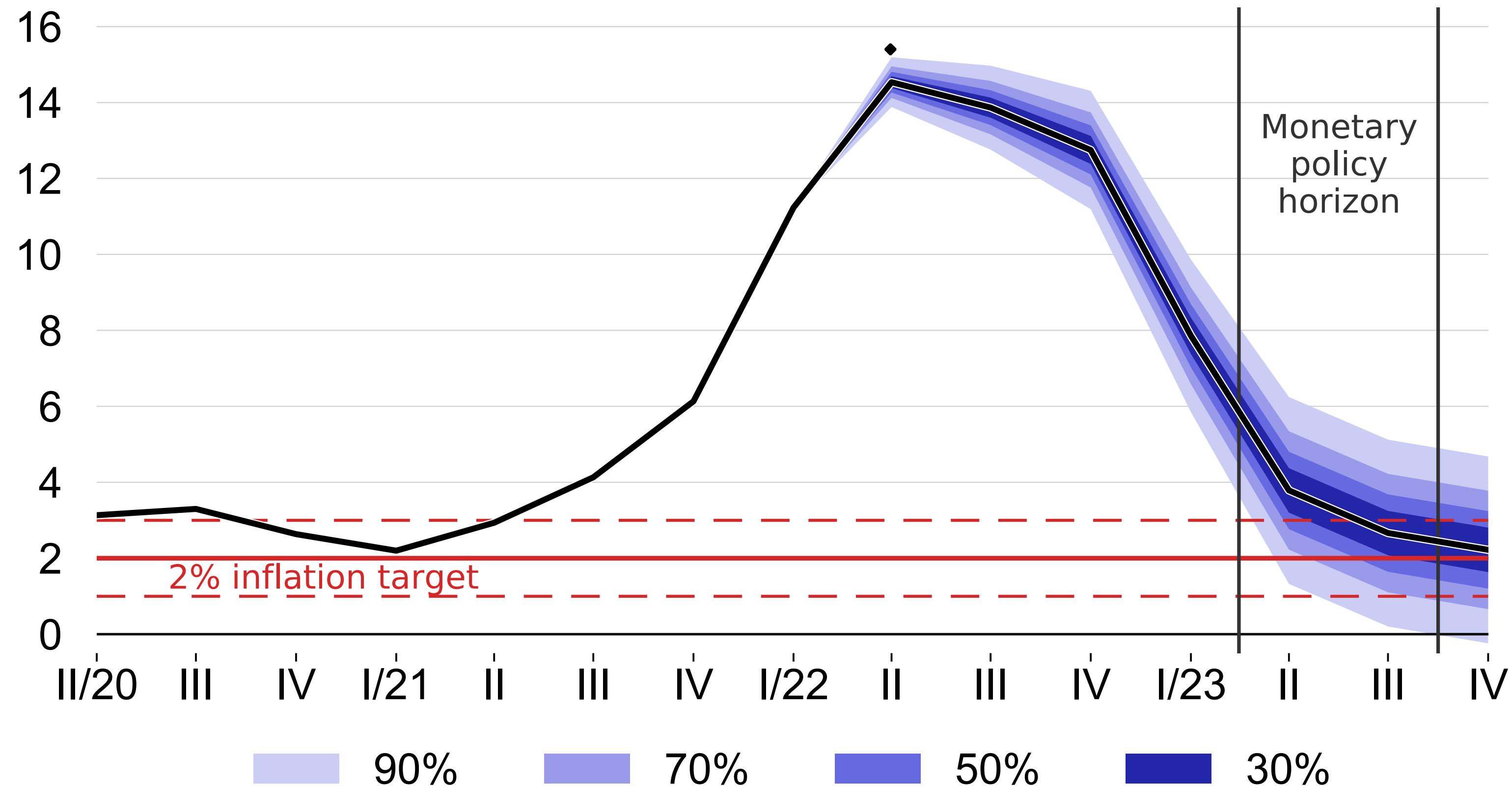
External environment: forecast and current outlook for the effective euro area



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



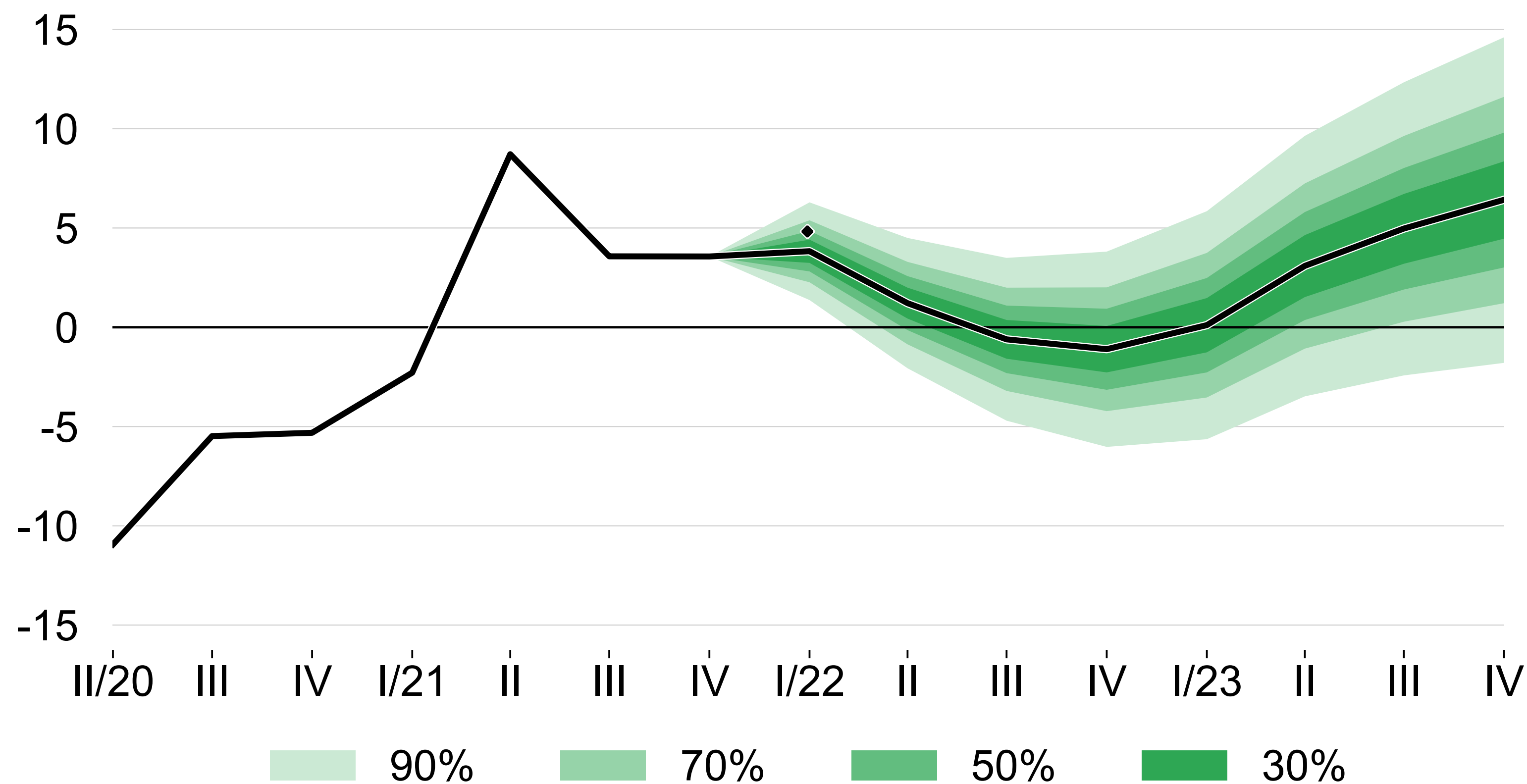
The inflation forecast and expected outcome in 2022 Q2



Inflation continued to rise in April and May and was above the forecast.

According to the spring forecast inflation will be in double figures this year but will fall quickly in the first half of next year and return close to the 2% target in late 2023.

The GDP forecast and outcome in 2022 Q1

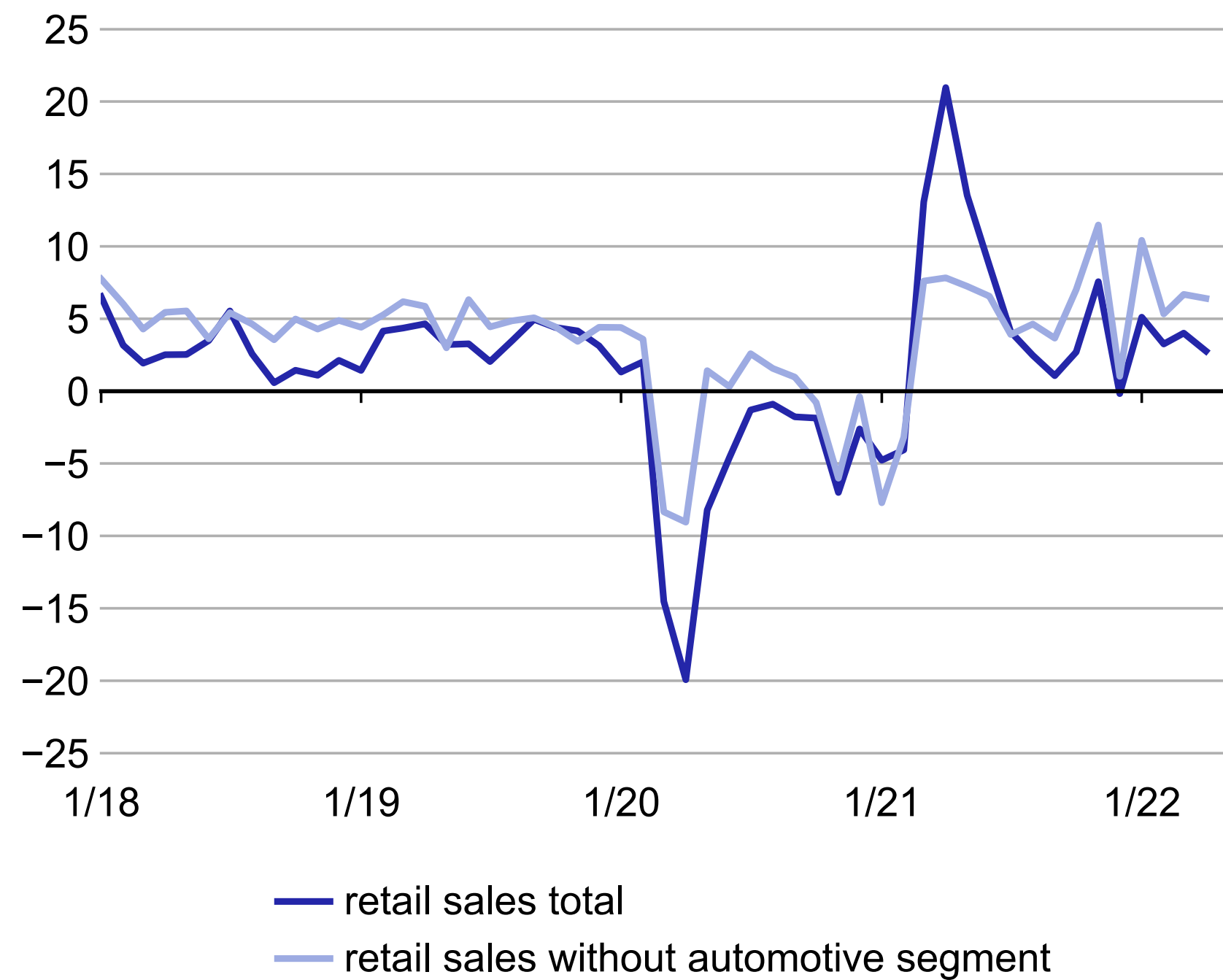


The Czech economy continued to grow in Q1. Its growth was one percentage point faster compared to the forecast.

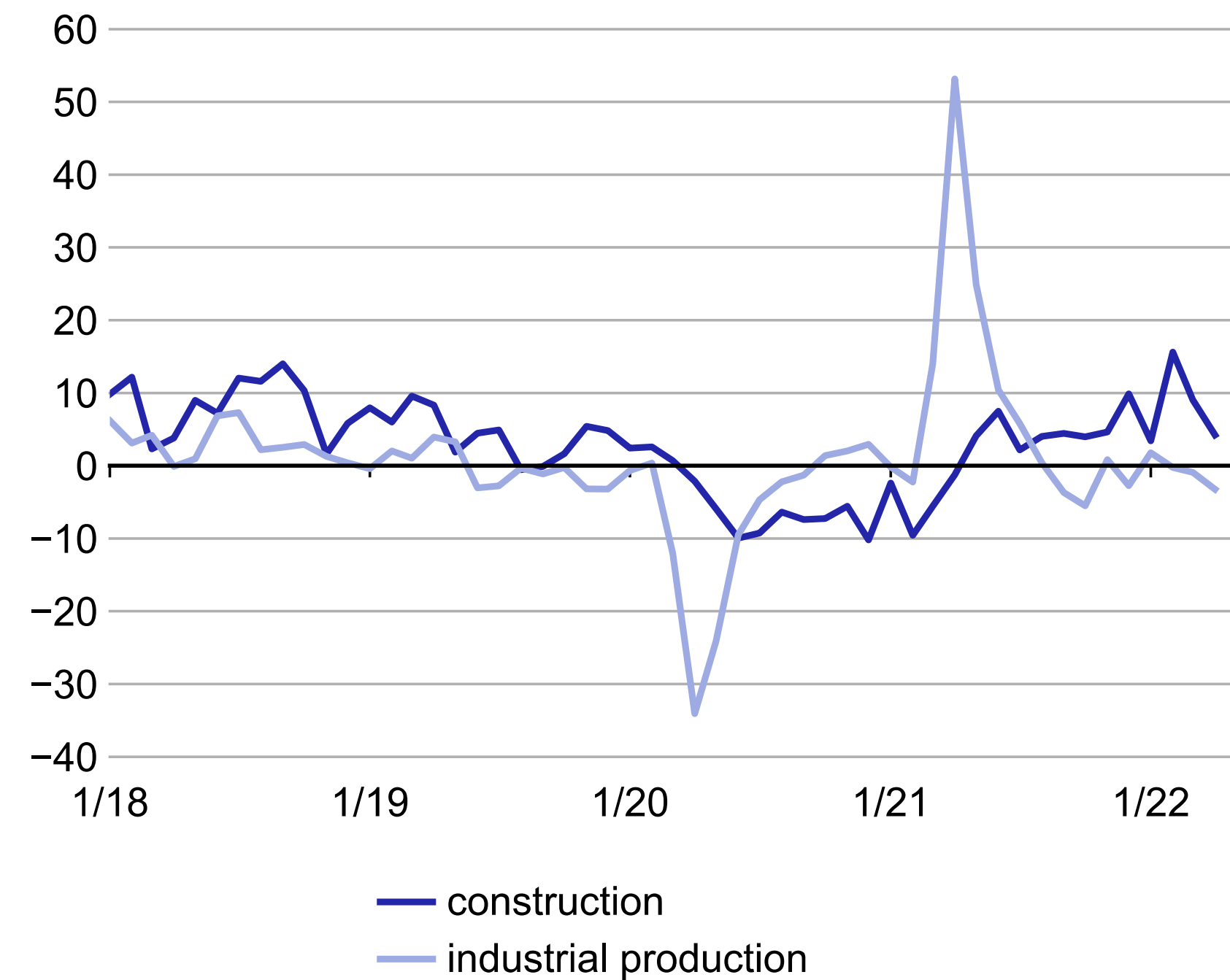
The spring forecast expects a marked slowdown in the growth of the Czech economy this year and even a slight year-on-year decline in economic activity in H2. Economic growth will recover next year.

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

Retail sales

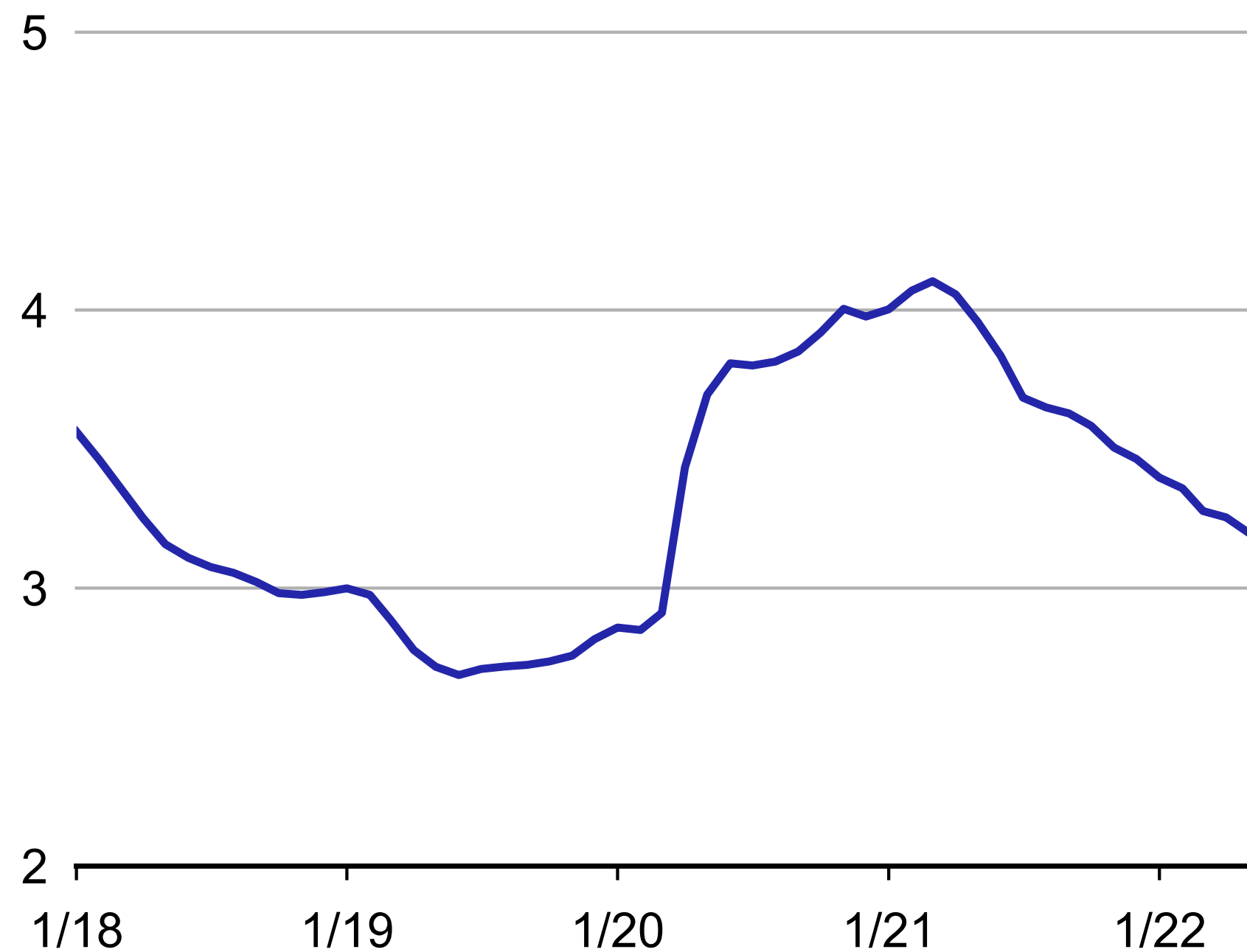


Industry and construction

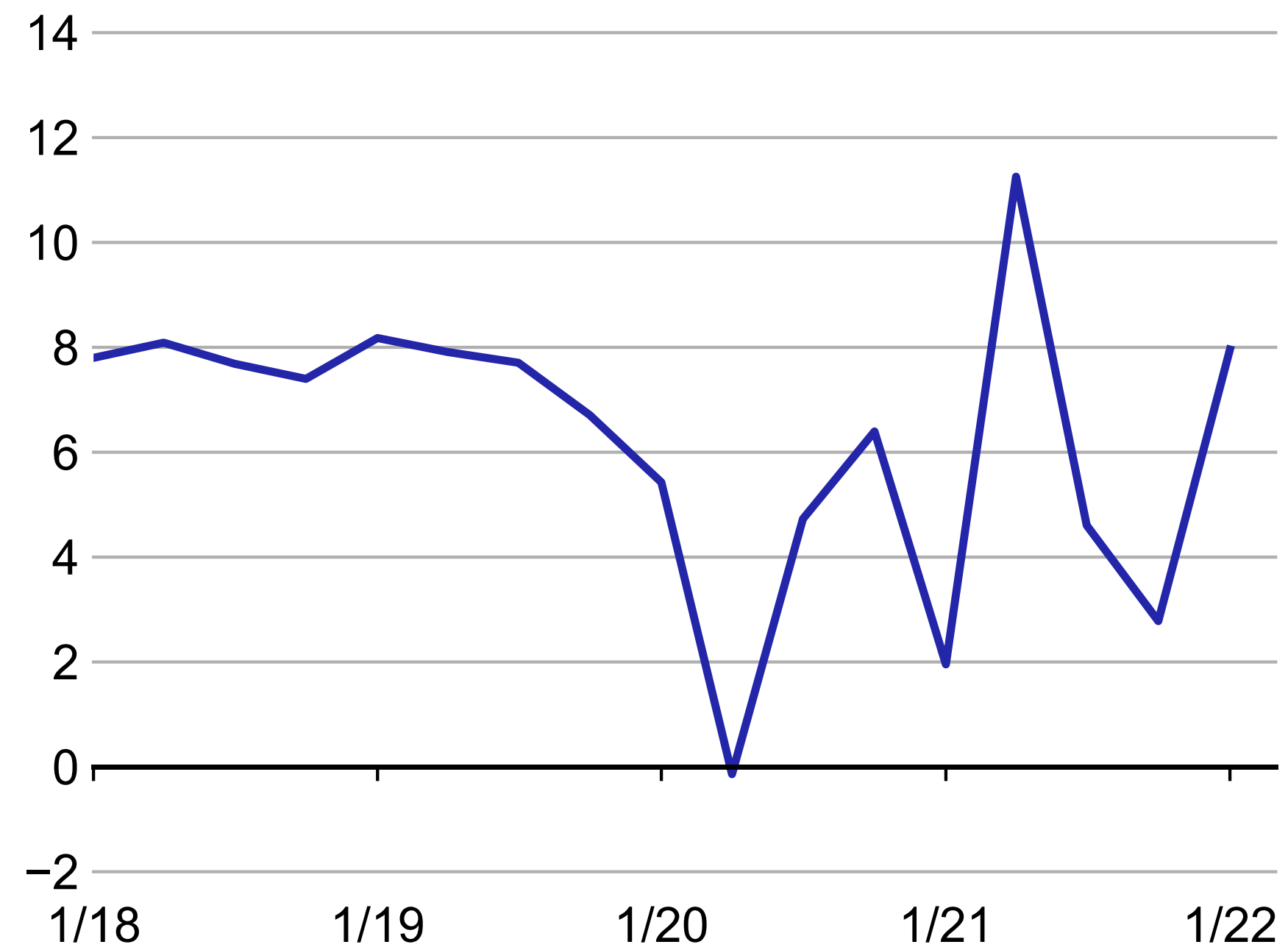


Note: y-o-y changes in %; constant prices; seasonally adjusted.

Share of unemployed persons

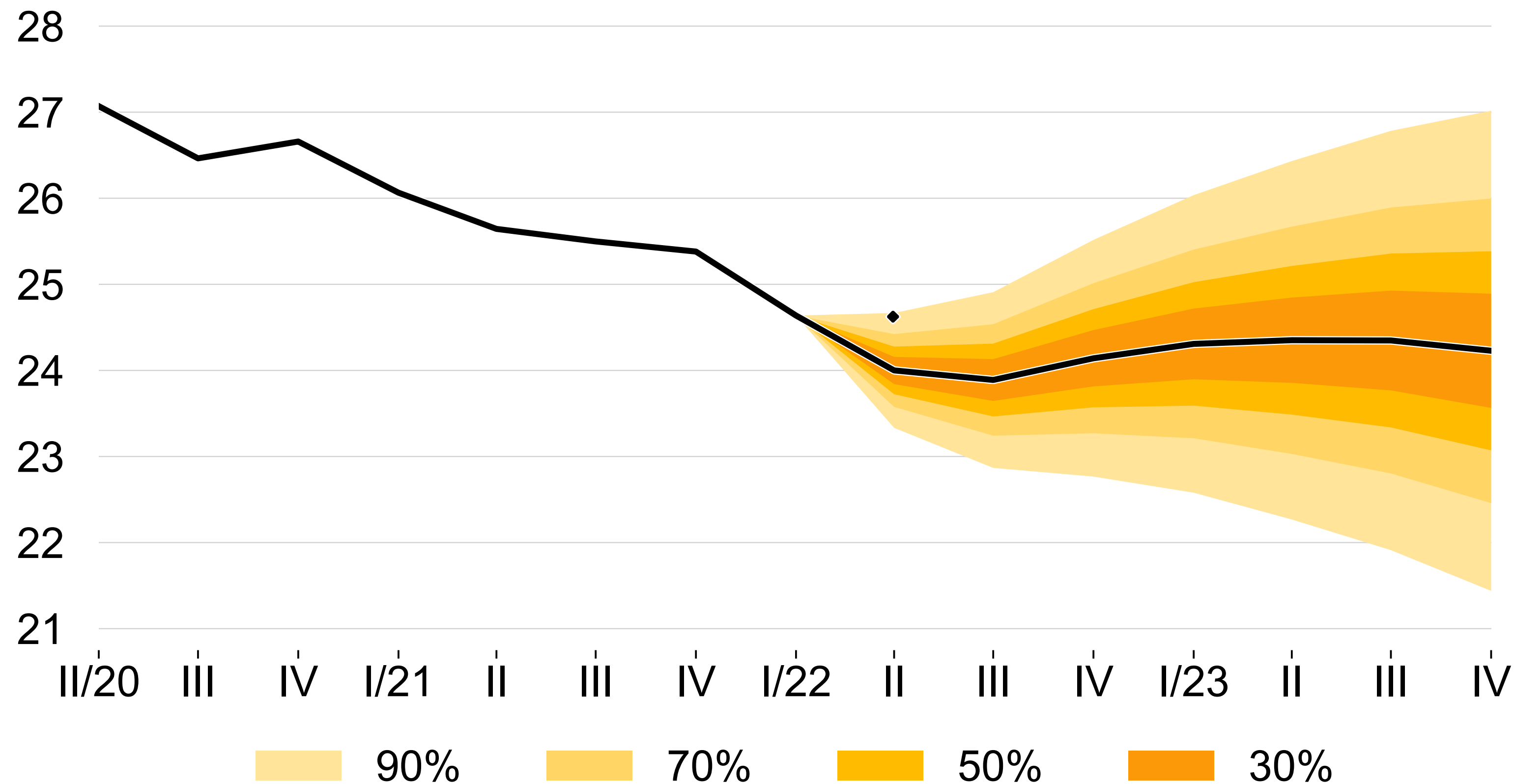


Wages in market sectors



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

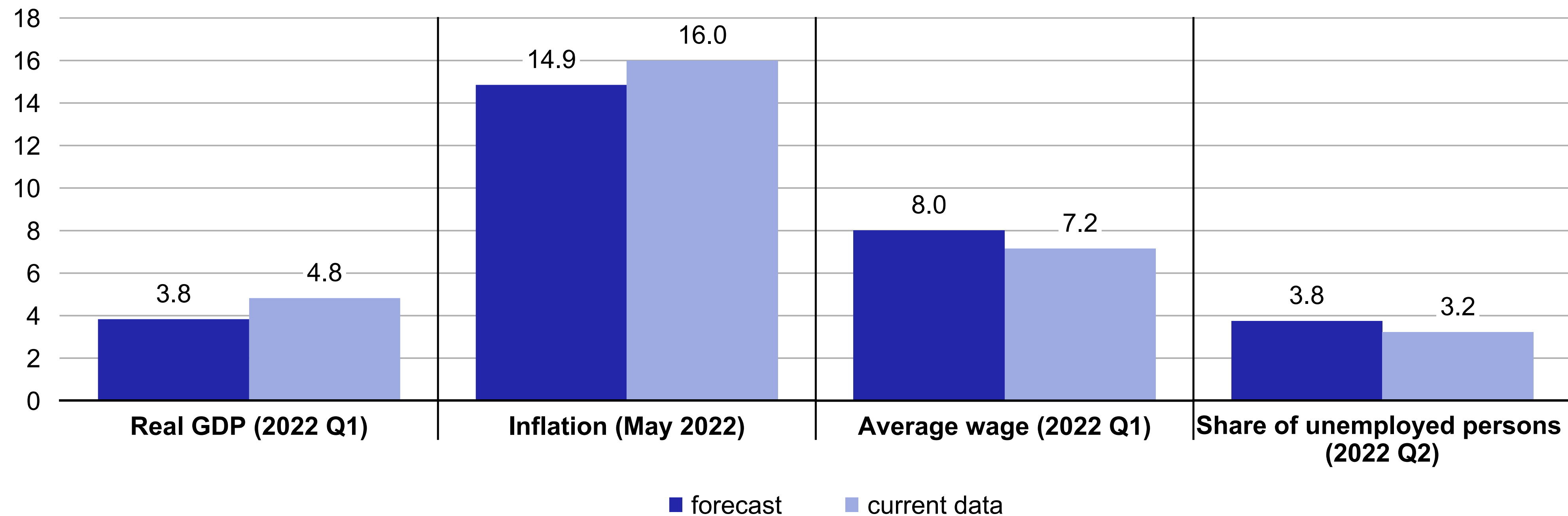
The CZK/EUR exchange rate forecast and outcome in 2022 Q2



So far in Q2, the CZK/EUR exchange rate has been weaker than forecasted.

This is due to a sharp weakening of the domestic currency in May, which reflected a change in financial market sentiment regarding the future course of domestic interest rates. The CNB's FX interventions are preventing the koruna from weakening further.

Comparison of current domestic data with the CNB forecast



Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in April and May with the forecast for 2022 Q2).

Risks and uncertainties of the forecast

The Bank Board assessed the risks and uncertainties of the spring forecast as being markedly inflationary and acting towards a need for further significant tightening of monetary policy.

Inflationary risks:

- higher domestic and foreign price growth
- sharp rise in energy and commodity prices, mainly due to concerns about Russian supplies being cut off
- weaker koruna exchange rate
- threat of inflation expectations becoming unanchored from the CNB's 2% target
- less restrictive fiscal policy this year and the next

Uncertainties:

- future course of the war in Ukraine
- future monetary policy stance abroad

Monetary policy decision

Given the forecast and its strongly inflationary risks, the Bank Board decided to **increase the 2W repo rate by 1.25 percentage points to 7.00%**.

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

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

Future monetary policy steps will depend on incoming new information and future forecasts.

The CNB keeps its strategy of current foreign exchange interventions unchanged.

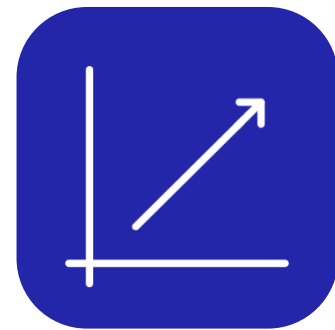
Thank you for your attention

Minutes of the today's meeting and the Graph of Risks to the Inflation Projection (GRIP) will be released on 1 July 2022 at

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



Decision in a nutshell



Consistent with the baseline of the spring forecast is a further sharp rise in market interest rates.



The risks and uncertainties of the forecast are markedly inflationary.



The Bank Board increased the key interest rate (2W repo) to 7.00%.



Five members voted in favour of this decision.