
5th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



Monetary policy decision

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



The decision adopted by the Bank Board is underpinned by **the CNB's new macroeconomic forecast**. In the baseline scenario of the forecast, the monetary policy horizon is shifted to 18–24 months ahead due to extraordinary cost pressures amid exceptionally high uncertainty.

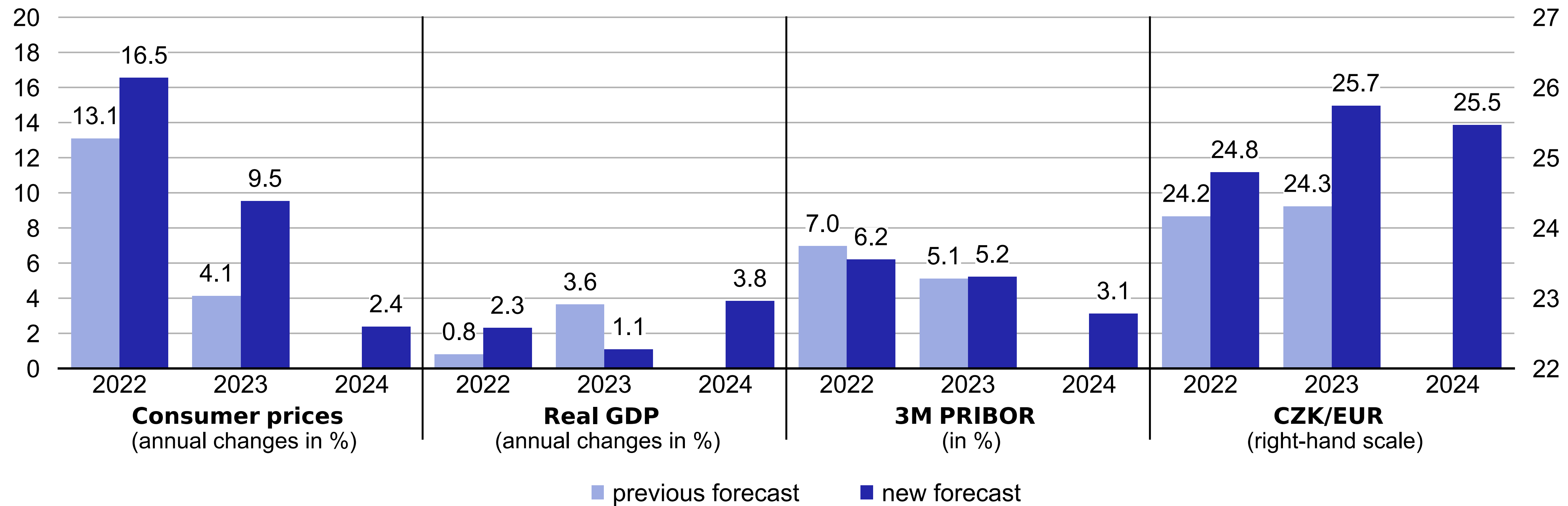
The Bank Board also discussed other scenarios.

The CNB will continue to prevent excessive fluctuations of the koruna exchange rate.

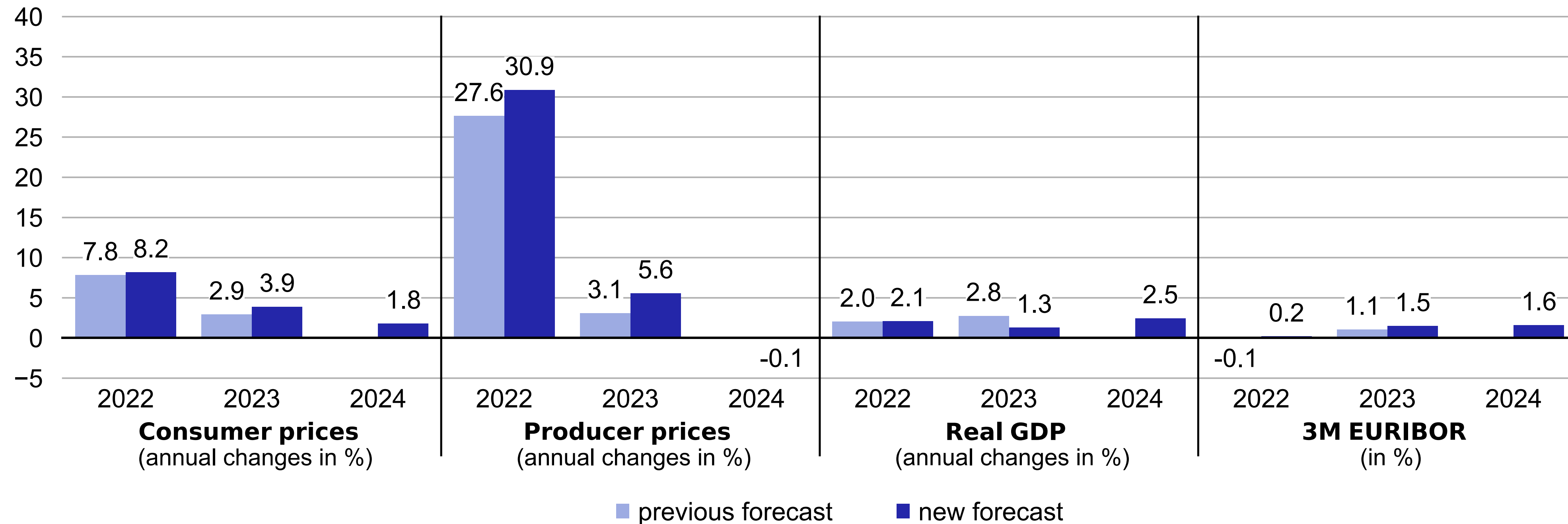
Economic development

- The Czech economy is facing both strong cost inflation pressures from the external environment and demand pressures from the domestic economy.
- Household consumption, which is crucial for the future course of demand-pull inflation, is being dampened by high energy and food prices, negative sentiment and higher interest rates.
- On the other hand, unemployment remains low. Industrial production has so far been resilient to the increased costs and supply chain problems. However, external demand is now having a negative effect on GDP. Leading indicators point to a further slowdown in external demand.
- The effect of fiscal policy on economic activity is now broadly neutral.

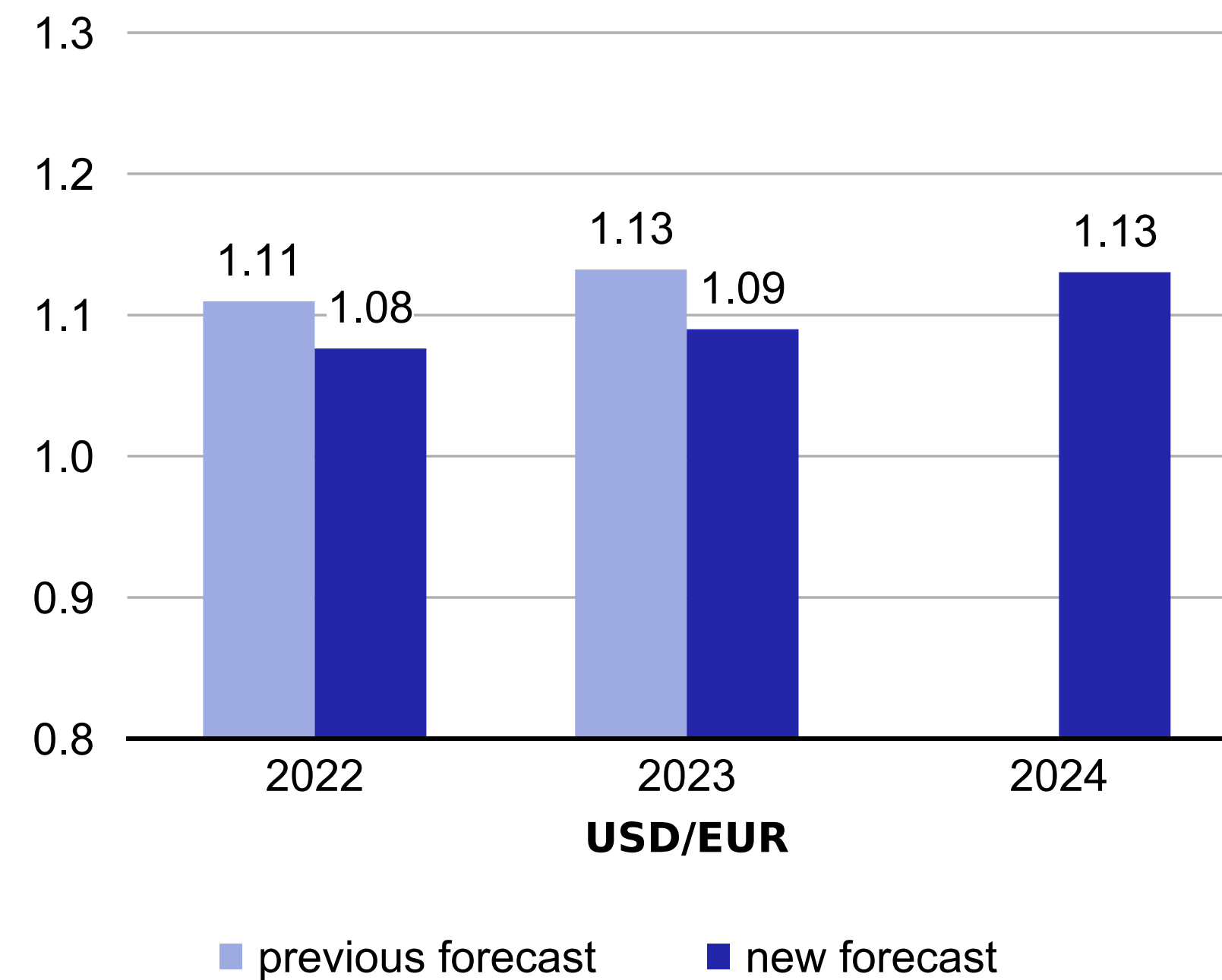
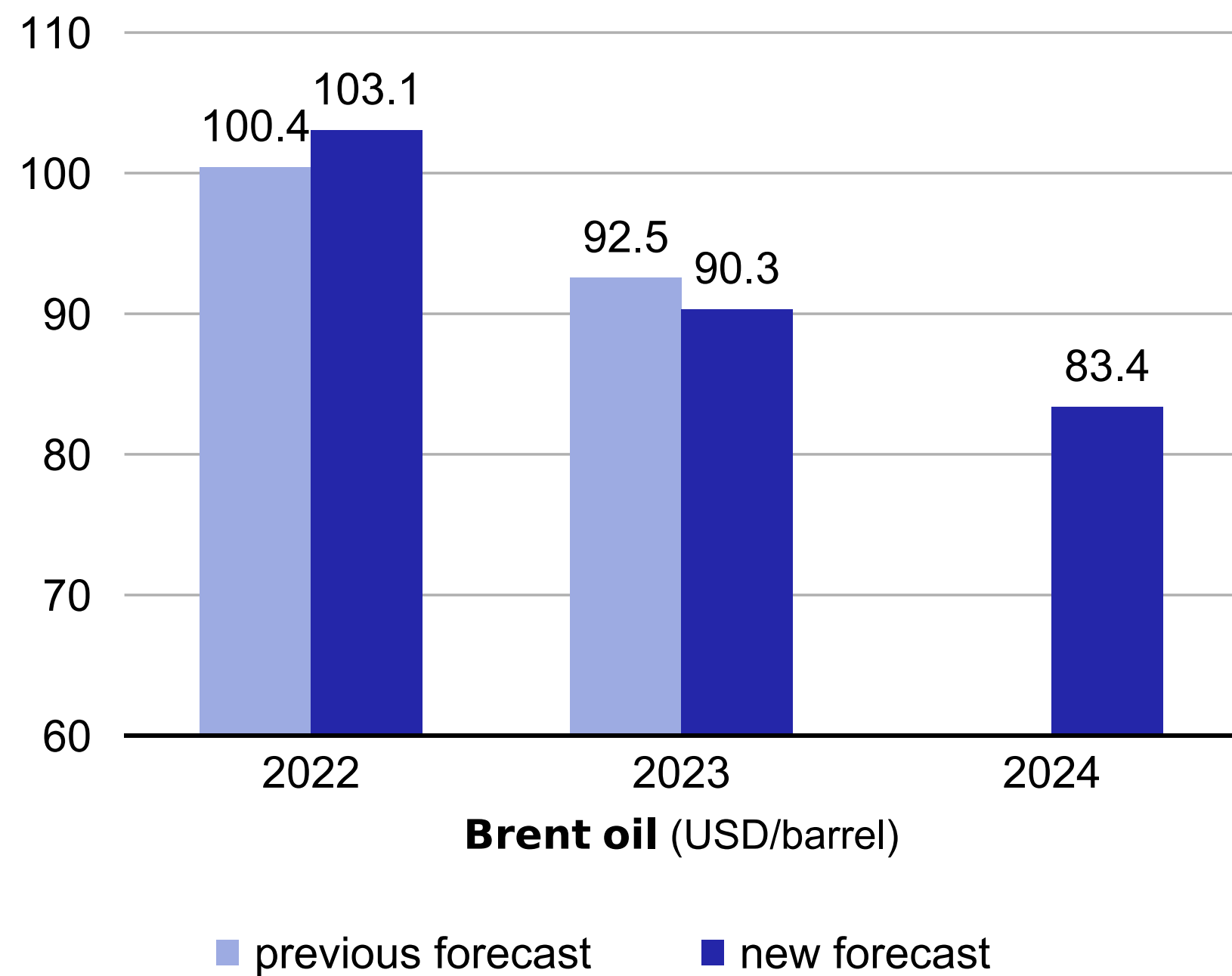
Comparison with the previous CNB forecast



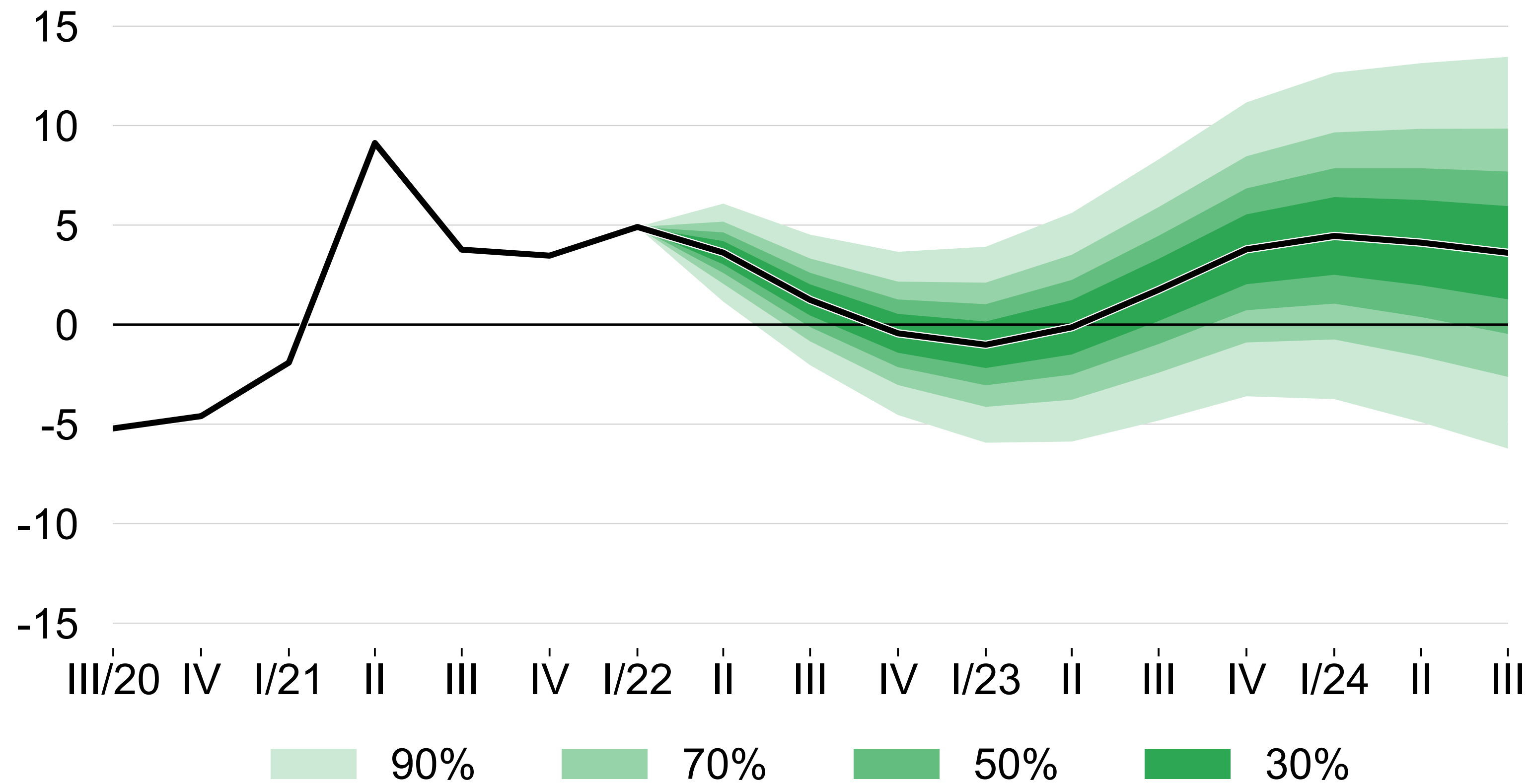
External environment: forecast and outlook for the effective euro area



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

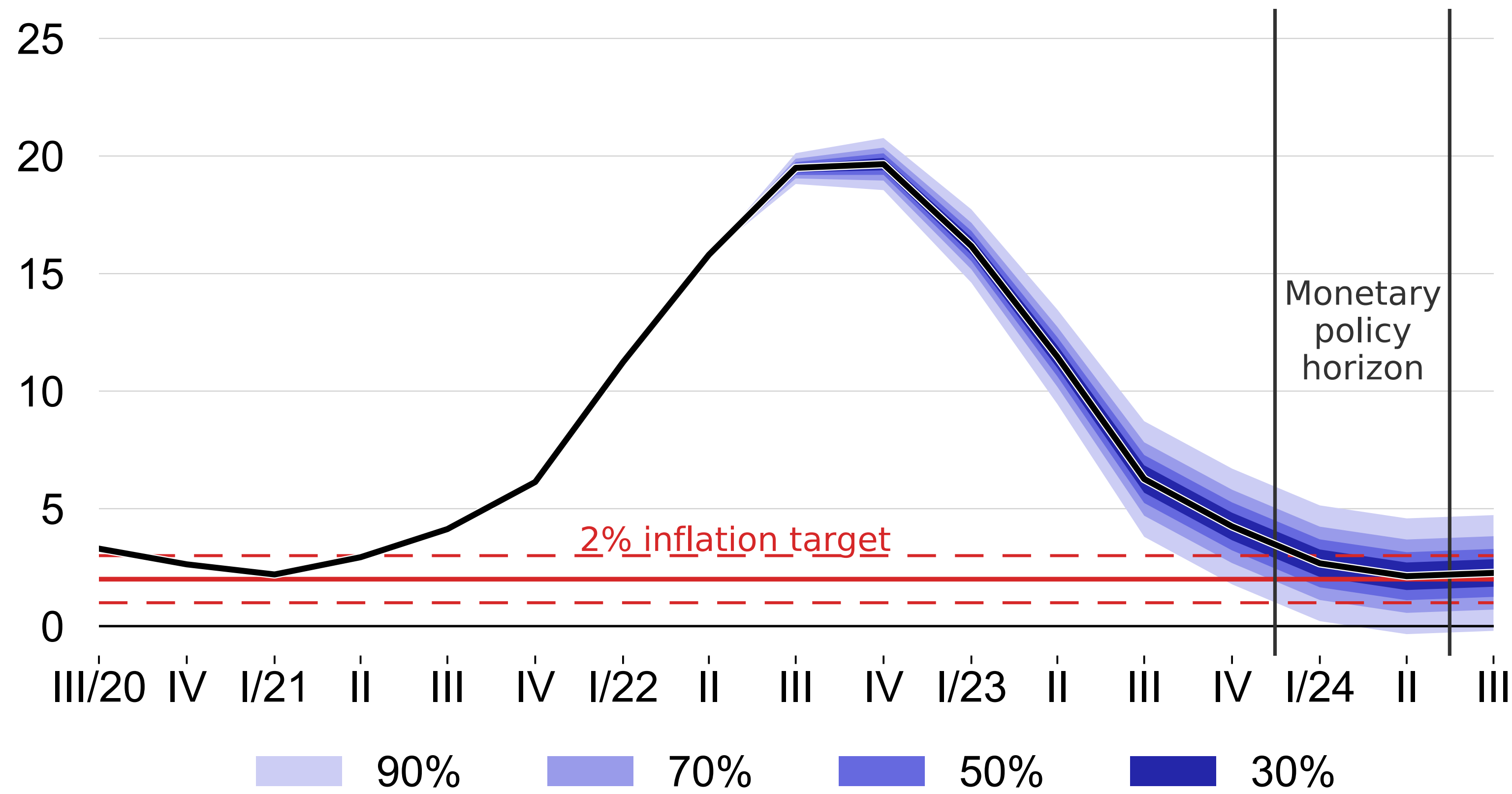


The GDP forecast



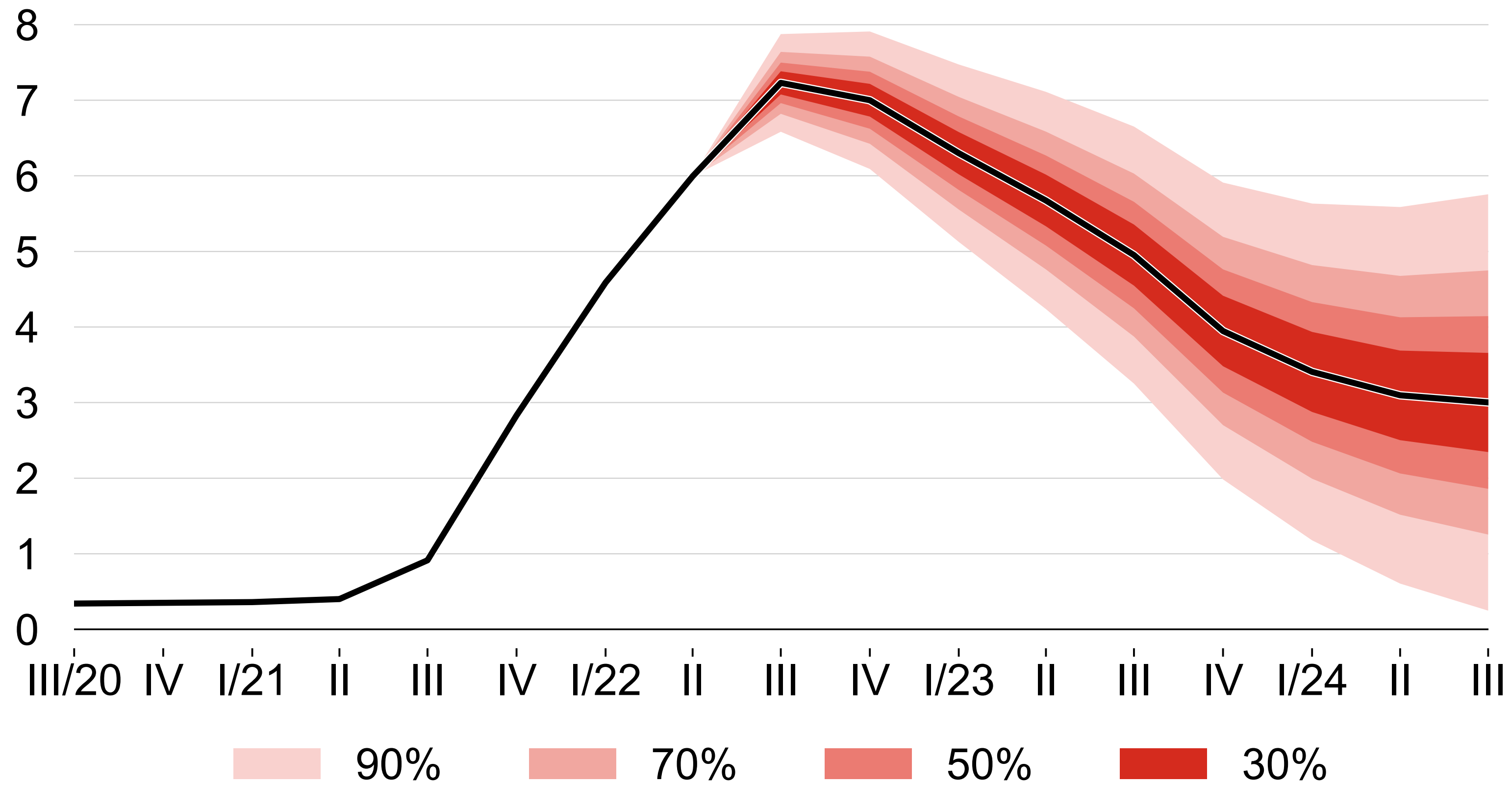
Note: y-o-y changes in %; contributions in pp; constant prices; seasonally adjusted.

The inflation forecast

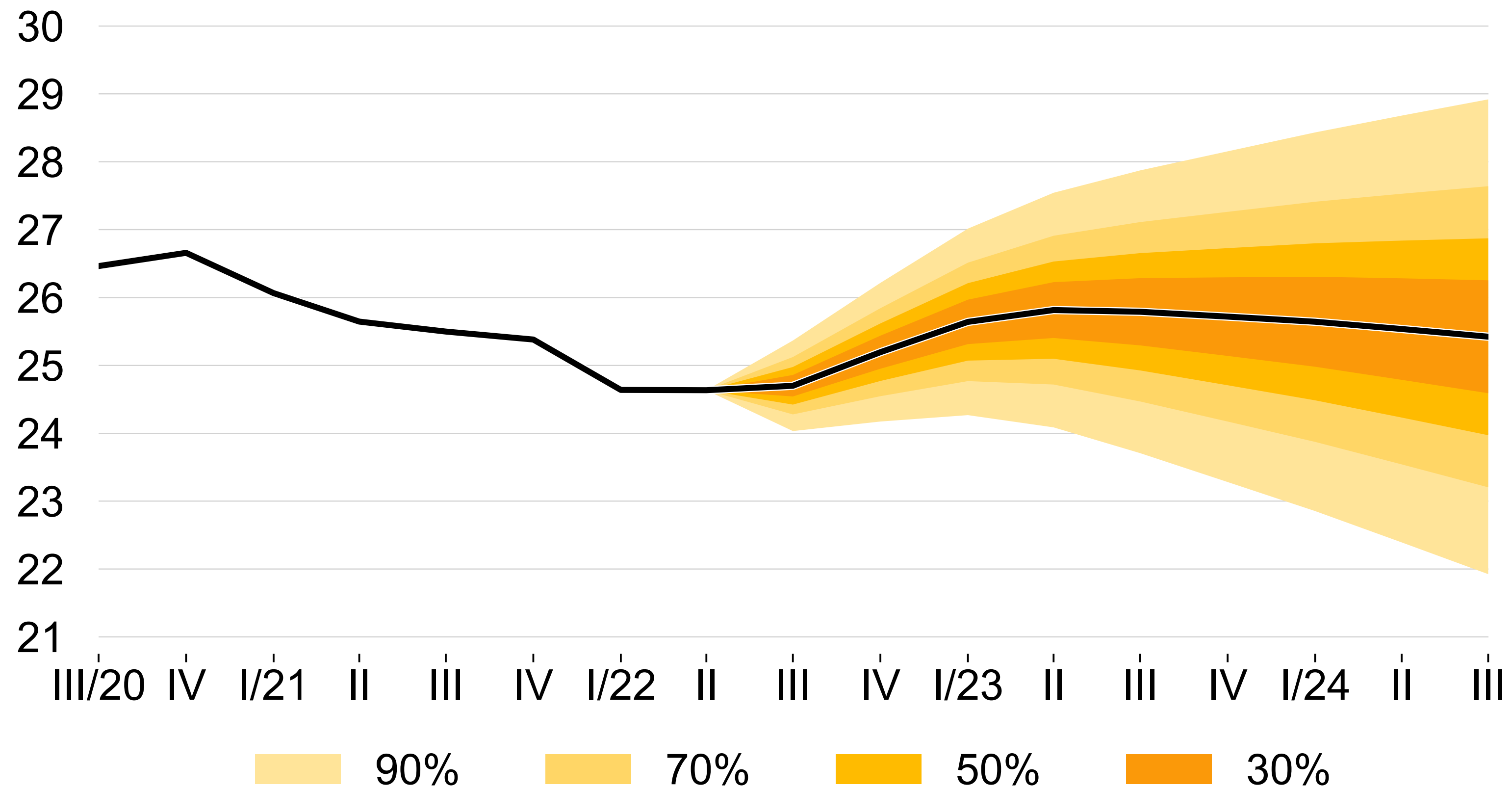


Note: y-o-y changes in %.

The interest rate forecast (3M PRIBOR)



The exchange rate forecast (CZK/EUR)



Risks and uncertainties of the forecast

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

Inflationary risks:

- further rise in commodity prices
- threat of inflation expectations becoming unanchored from the CNB's 2% target and a related risk of a wage-inflation spiral
- easier fiscal policy

Anti-inflationary risks:

- growing likelihood of economic recession abroad
- stronger-than-forecasted downturn in domestic consumer and investment demand

Uncertainties:

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

The statutory mandate

- The Bank Board assures the public that the CNB's actions will be sufficient to restore price stability in accordance with its statutory mandate.
- The Bank Board is also ready to react appropriately to any materialisation of the risks of the 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 – Summer 2022.

The introductory part of the Report (together with the box and the table of key macroeconomic indicators) will be published on 5 August 2022.

The whole Report will be published on 12 August 2022.



Decision in a nutshell

Consistent with the baseline scenario of the forecast is broad stability of interest rates initially and a decline in 2023.

The forecast expects inflation to rise further in the coming months. Prices will increase by a total of 16.5% this year. Inflation will decline during next year, returning close to the 2% target in the first half of 2024.

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

The Bank Board kept the key interest rate (2W repo) at 7.00%.

Five members voted in favour of this decision.