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# 6th 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 summer (August) macroeconomic forecast and by an assessment of information obtained since it was prepared.**

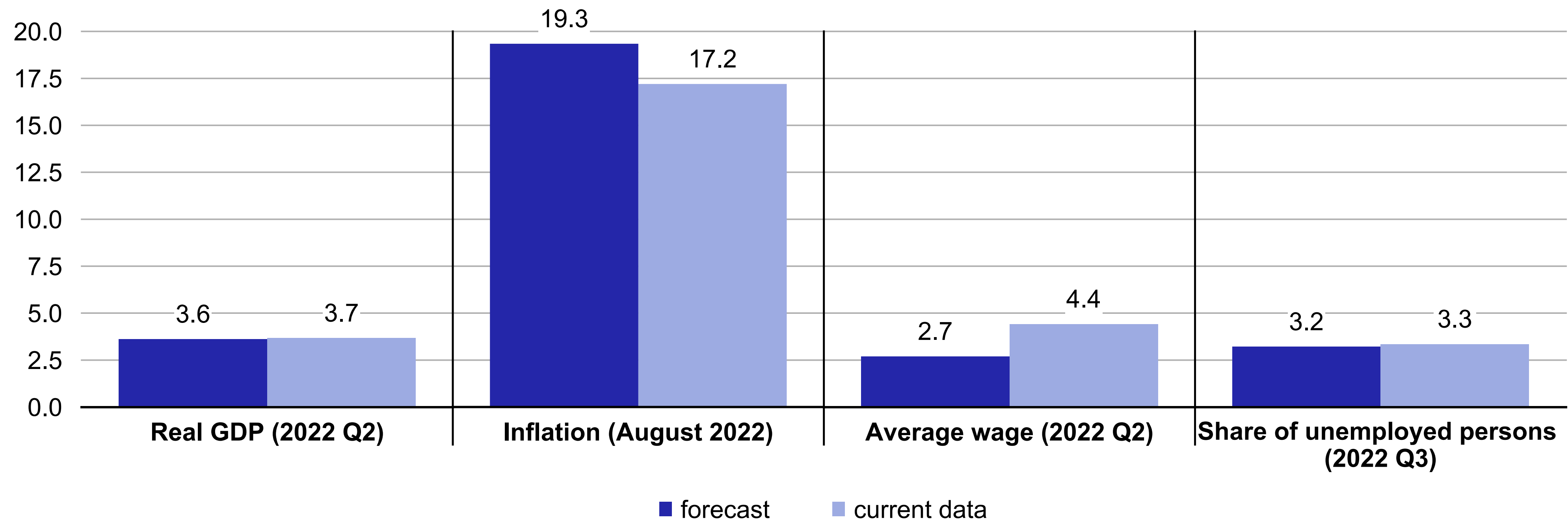
The Bank Board confirmed that it is ready to **continue to fight inflation until inflation is fully under control, i.e. stabilised at the 2% target.** This means interest rates will remain relatively high for some time.

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## Economic developments

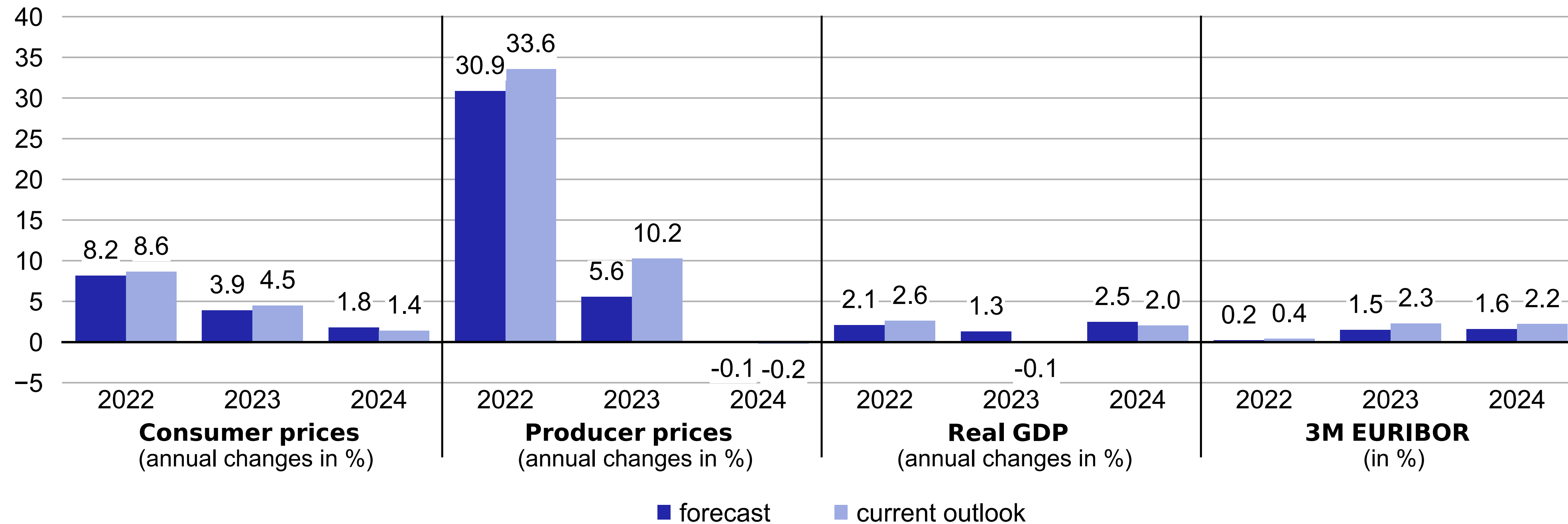
- The Czech economy is facing both strong cost pressures from the external environment and demand pressures from the domestic economy. The economy grew broadly in line with the forecast in the second quarter of this year.
- Unemployment remains low.
- Industrial production has so far been resilient to the increased costs and supply chain problems.
- However, foreign trade 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 has so far been broadly neutral, but with an upside risk to inflation going forward.

## Comparison of current domestic data with the CNB forecast

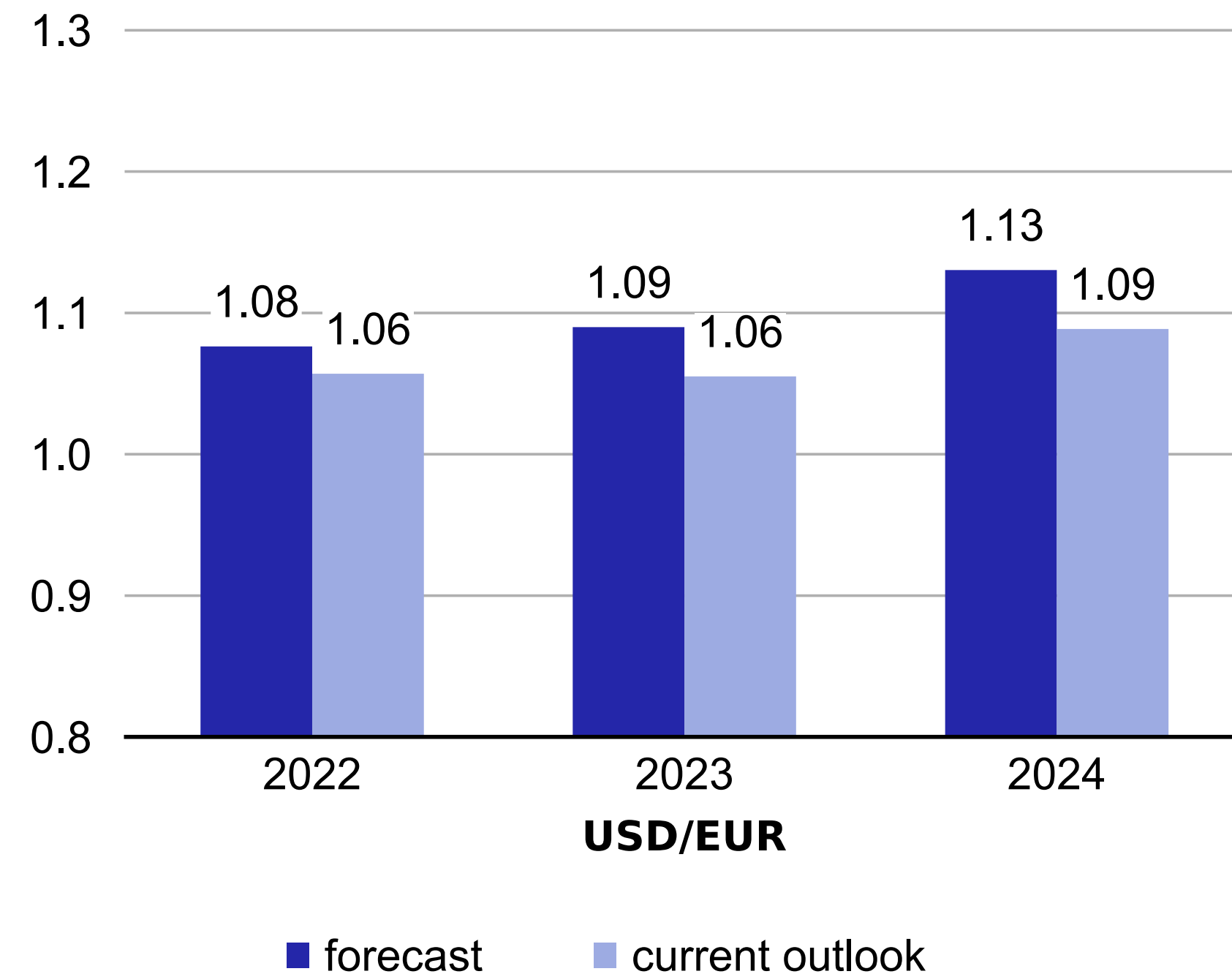
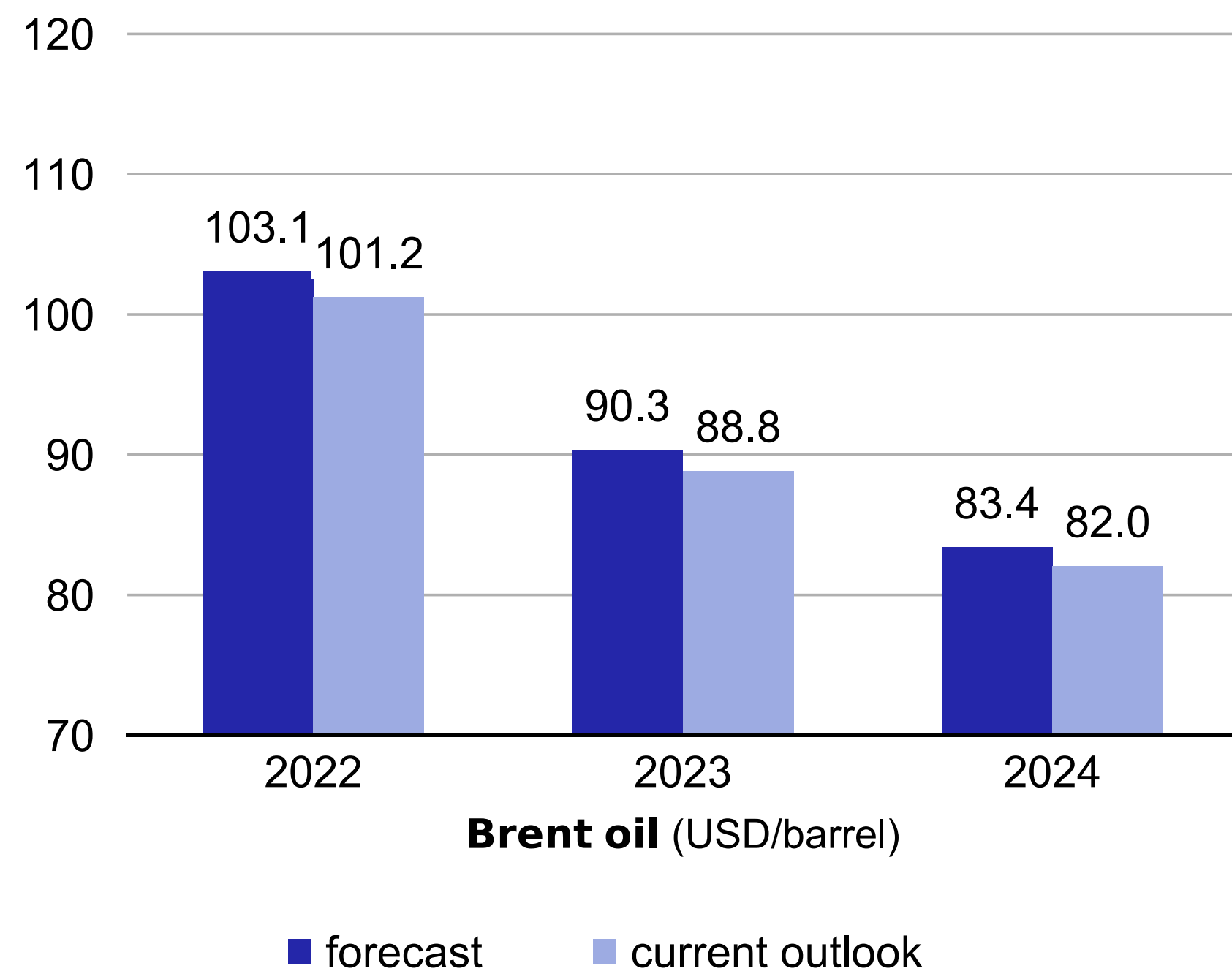


Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in July and August with the forecast for 2022 Q3).

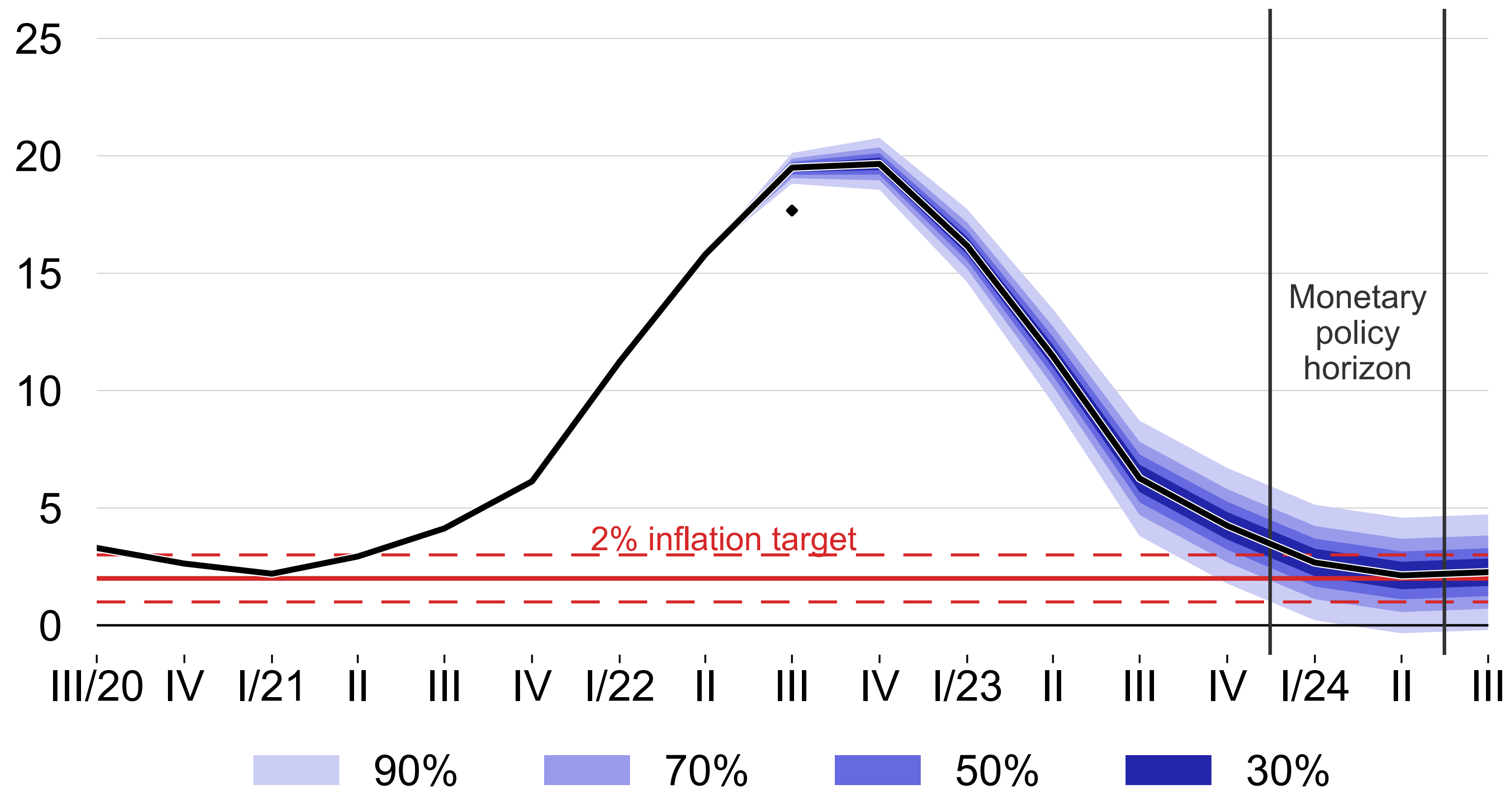
## External environment: forecast and current outlook for the effective euro area



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

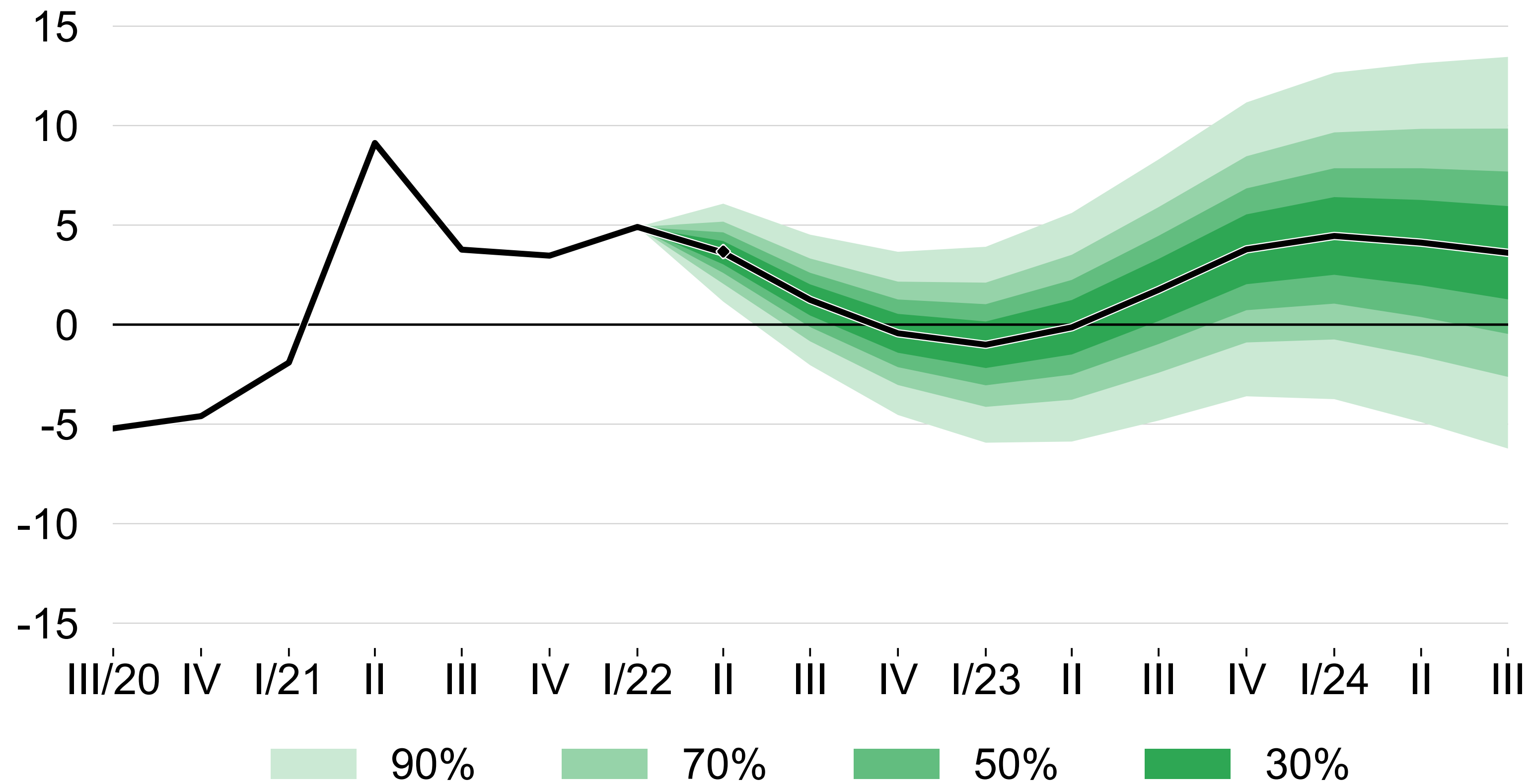


## Inflation forecast and expected outcome in 2022 Q3



Note: y-o-y changes in %.

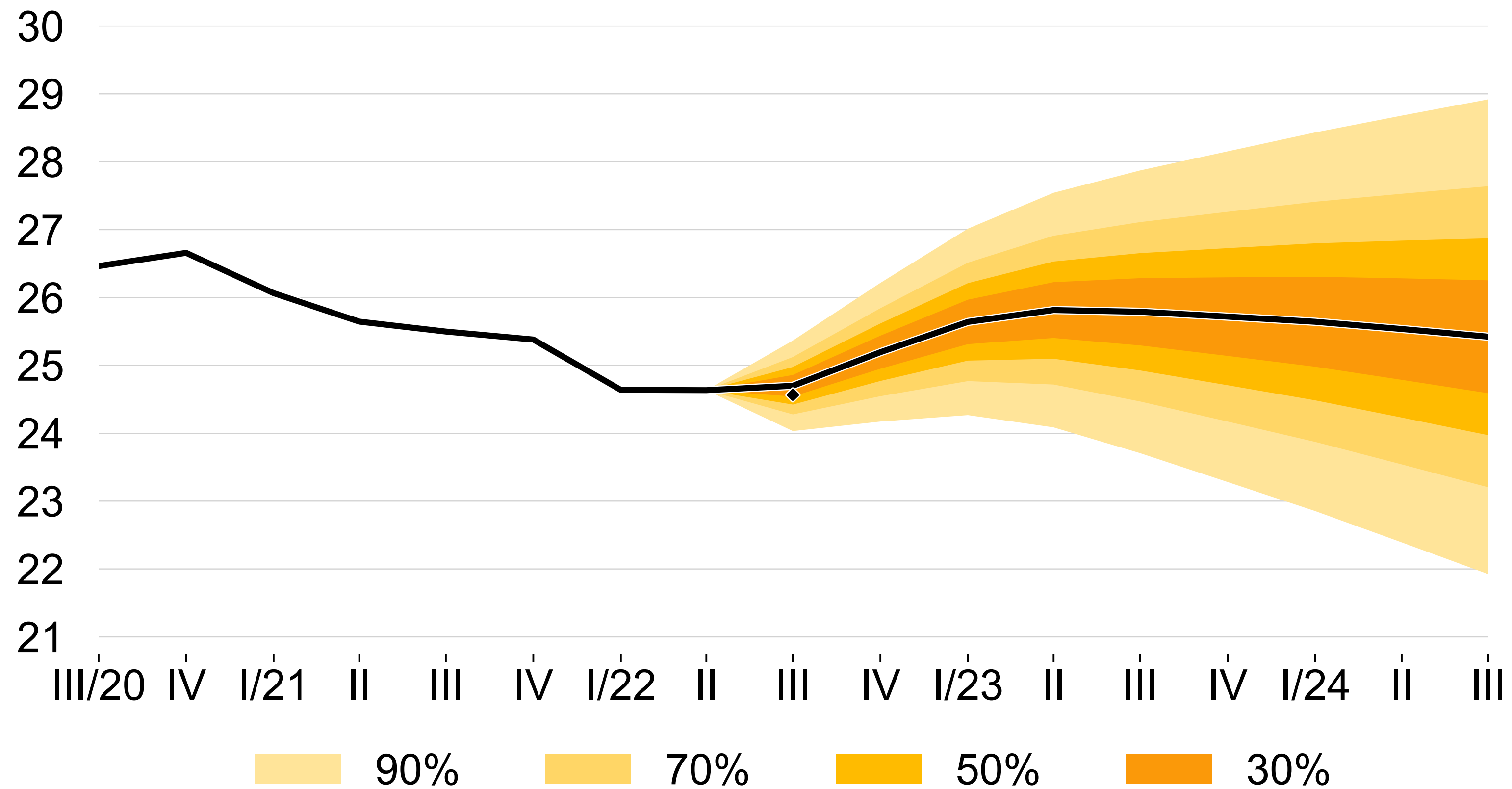
## GDP forecast and outcome in 2022 Q2



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



## CZK/EUR exchange rate forecast and outcome in 2022 Q3



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## Risks and uncertainties of the forecast

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

### **Inflationary risks:**

- faster wage growth
- more expansionary fiscal policy
- a higher outlook for foreign producer prices
- risk of inflation expectations becoming unanchored from the CNB's 2% target and a related risk of a wage-price spiral

### **Anti-inflationary risks:**

- growing likelihood of recession abroad
- stronger-than-forecasted downturn in domestic consumer and investment demand
- introduction of measures to limit growth in energy prices
- faster-than-expected decline in core inflation

### **Uncertainties:**

- future course of the war in Ukraine
- availability and prices of energy
- future monetary policy stance abroad

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## 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.
- In addition, the Bank Board is ready to react appropriately to any materialisation of the risks of the forecast.

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



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## Decision in a nutshell

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

The forecast expects inflation to decline during next year, returning close to the 2% target in the first half of 2024.

The Bank Board assessed the risks and uncertainties of the forecast 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.