CZECH NATIONAL BANK

7th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board

3 November 2022

Monetary policy decision

6.00%
discount rate

7.00%
2W repo rate

8.00%
Lombard rate

VOTING ON 2W REPO RATE

LEAVE UNCHANGED	**FOR INCREASE**
at 7.00%	**to 7.75%**
5 members	2 members

The decision adopted by the Bank Board is underpinned by **the CNB's new macroeconomic forecast**. Consistent with the baseline scenario of the forecast is a rise in market interest rates, followed by a gradual decline in 2023.

At the meeting today, however, a majority of the Bank Board members preferred to keep policy rates unchanged.

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

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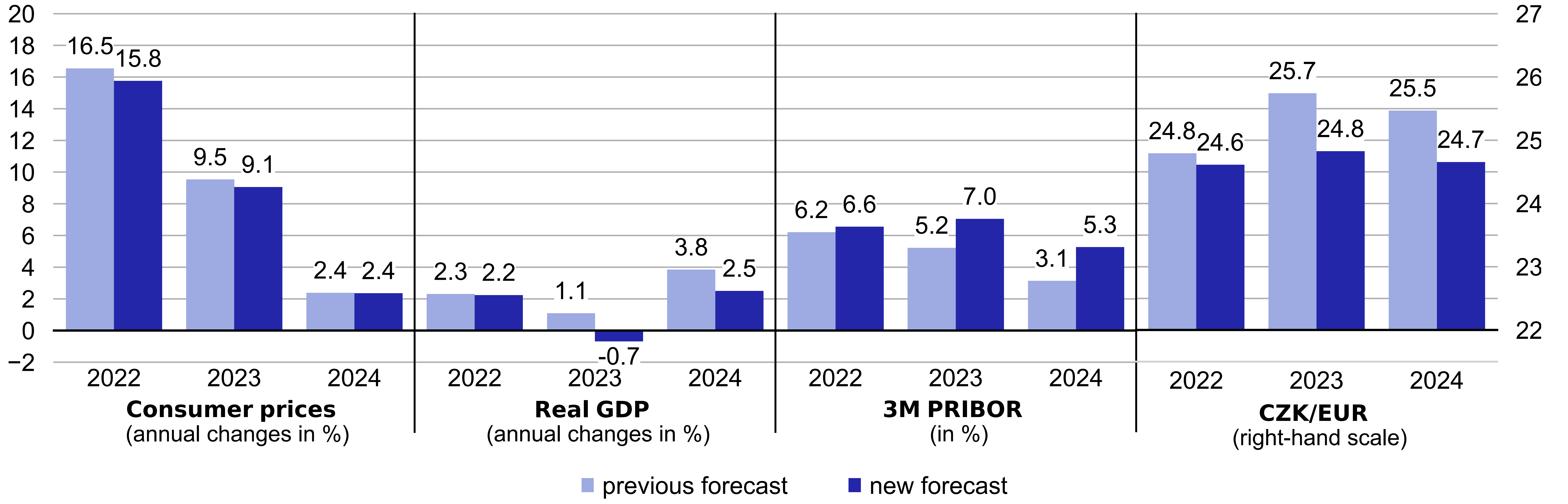
Economic developments

- The Czech economy is facing strong cost 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 now 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. Leading indicators point to a further slowdown in external demand. Credit activity in the Czech Republic is weakening due to a fall in demand for loans and a tightening of credit conditions by banks.
- The effect of fiscal policy on economic activity is now broadly neutral, but with an upside risk to inflation going forward.

Comparison with the previous CNB forecast



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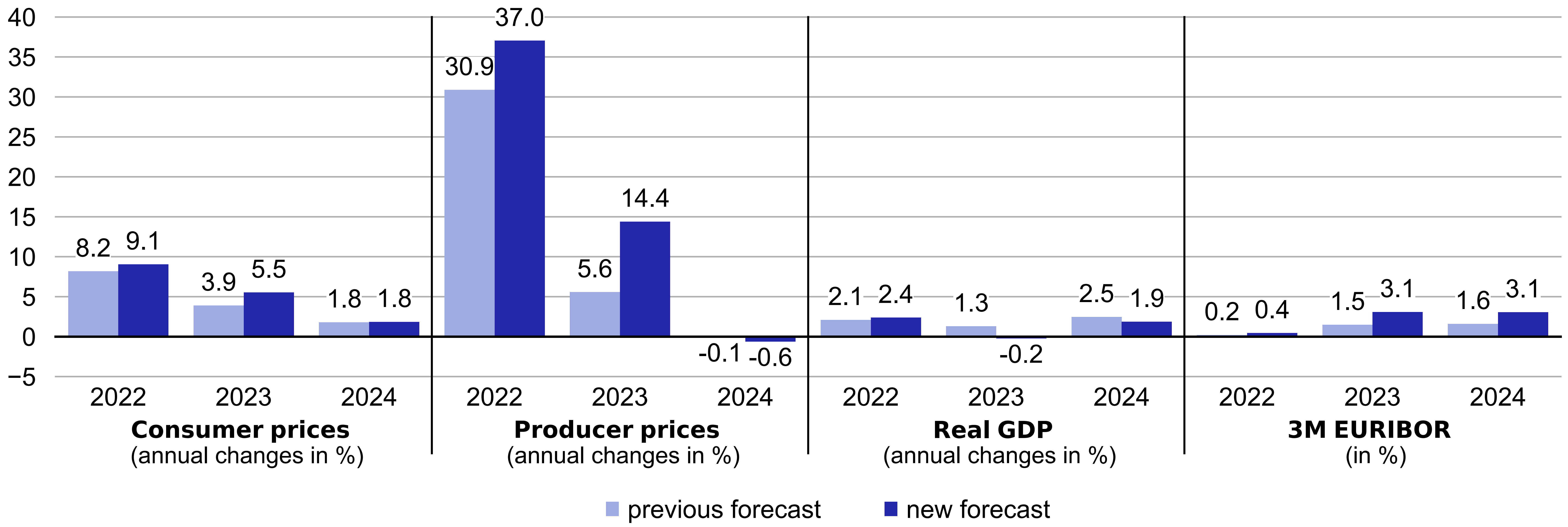
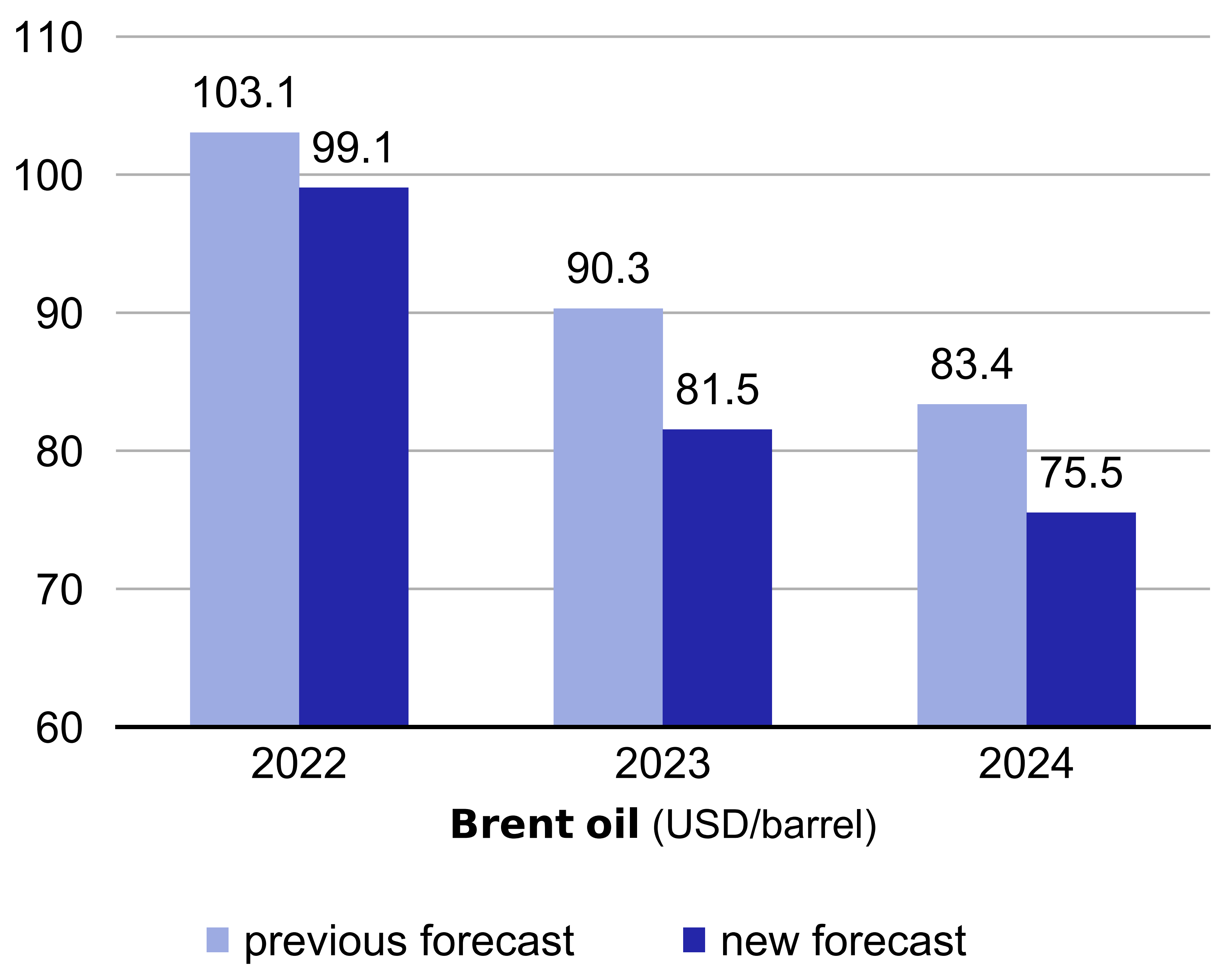
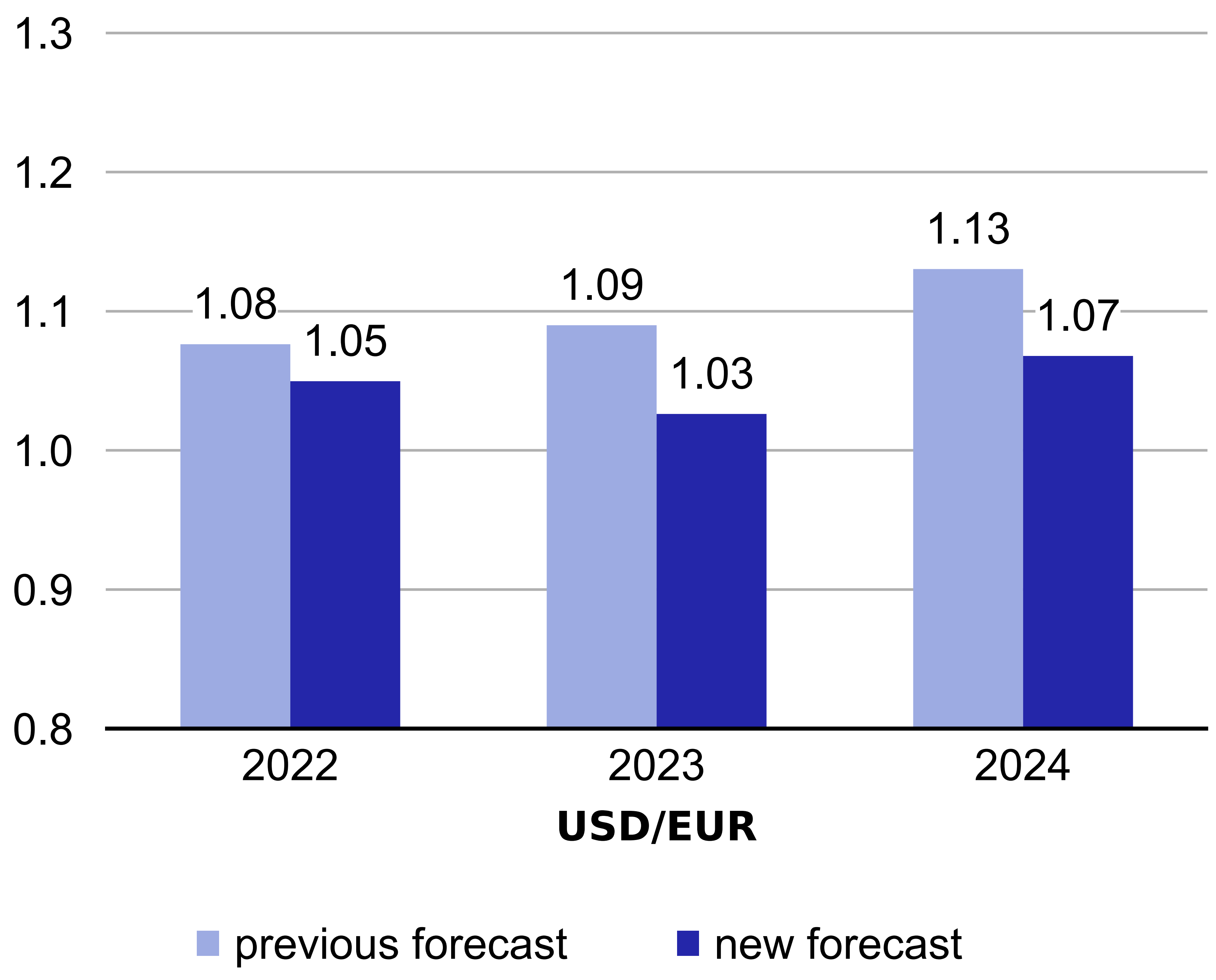
External environment: forecast and outlook for the effective euro area

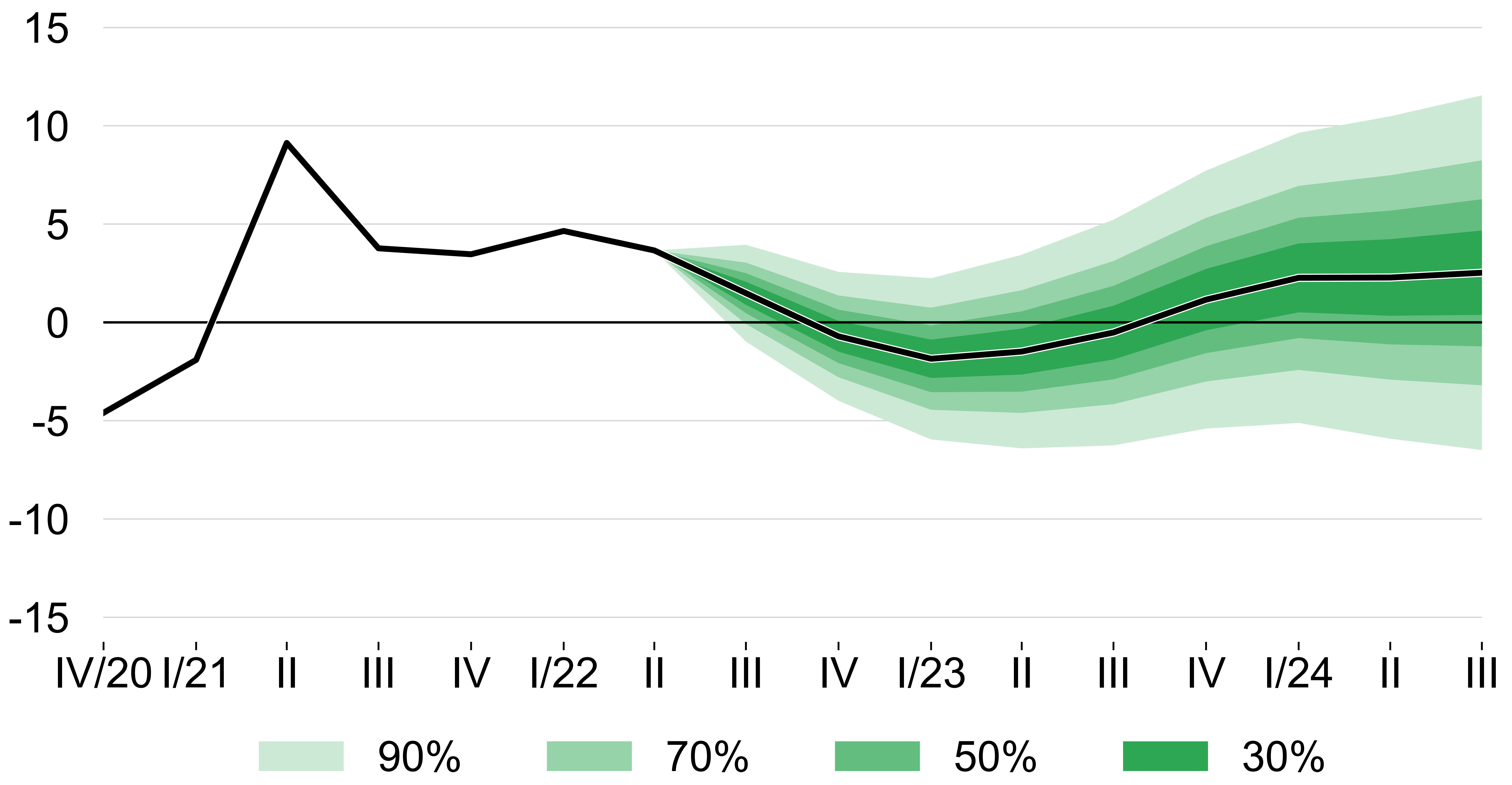


External environment: oil price and the USD/EUR exchange rate





GDP forecast



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

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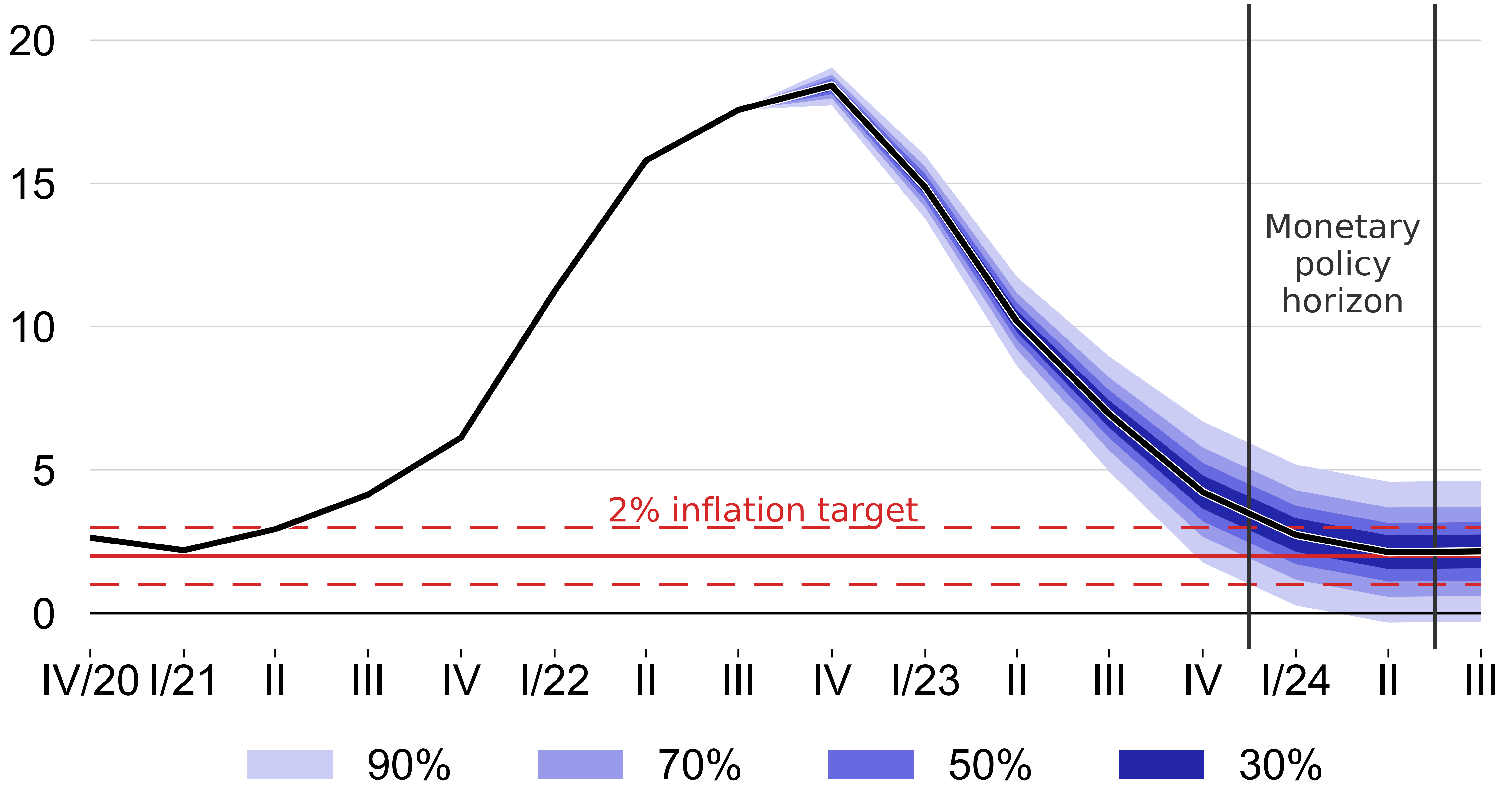
Inflation forecast



Note: y-o-y changes in %.

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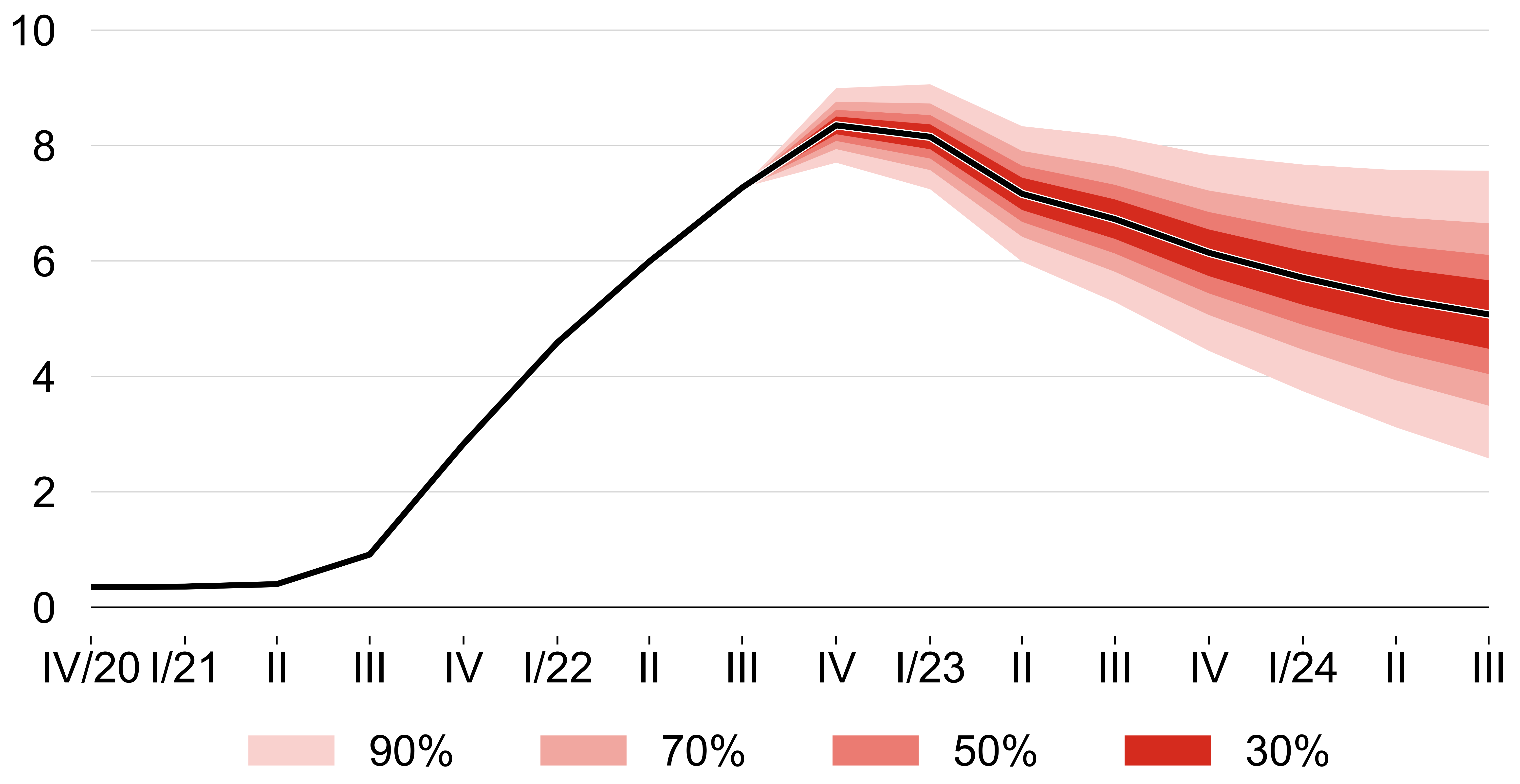
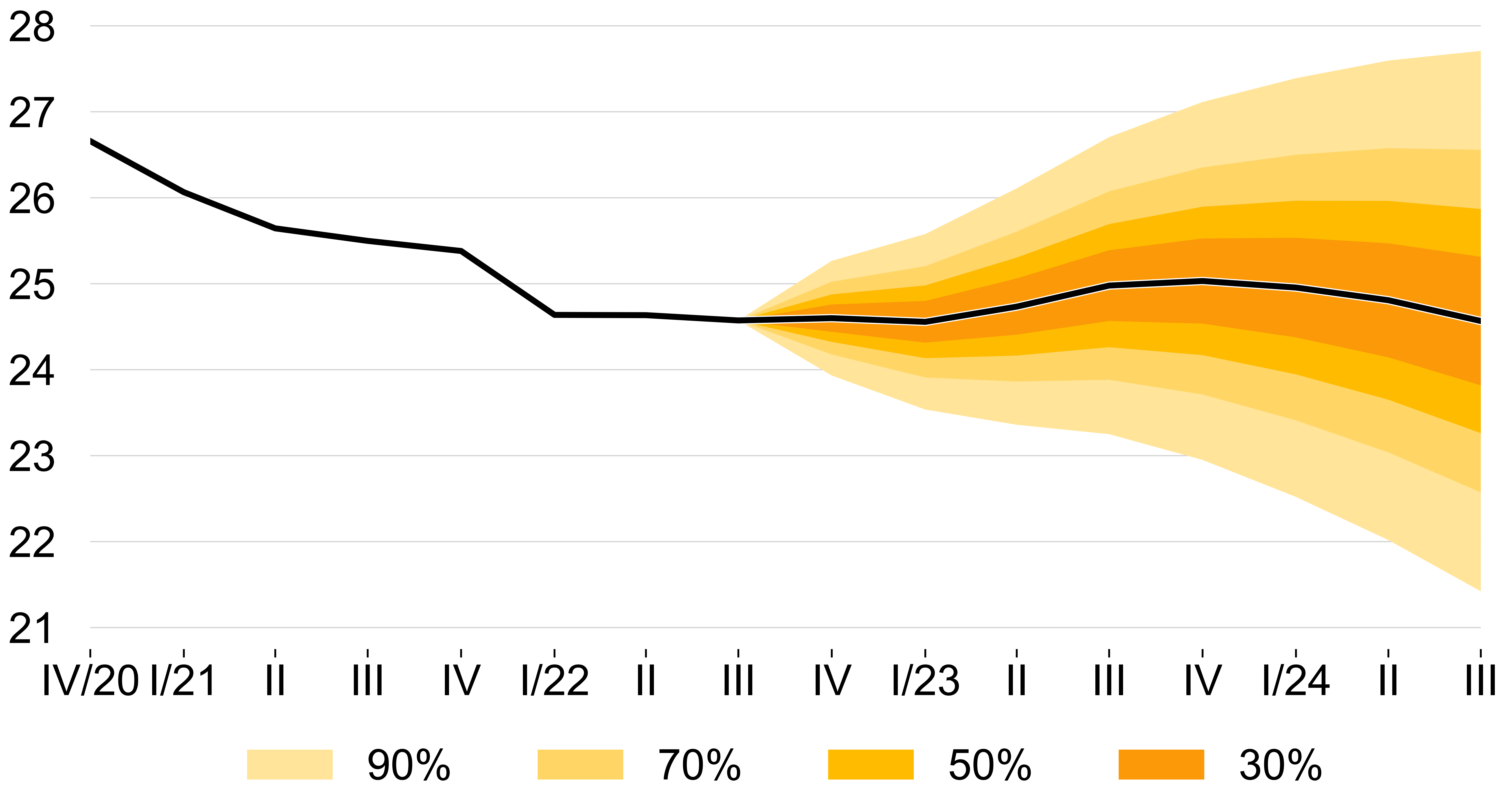
Interest rate forecast (3M PRIBOR)



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:

- faster-than-forecasted wage growth
- more expansionary fiscal policy
- higher outlook for foreign producer prices
- threat 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 in the Czech Republic and abroad and hence a stronger-than-forecasted slowdown in domestic consumer and investment demand
- introduction of additional measures to limit growth in energy prices at the domestic or European level
- 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

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

More information about the forecast can be found at

https://www.cnb.cz/en/monetary-policy/forecast/

and in Monetary Policy Report − Autumn 2022.

The introductory part of the Report (together with the boxes and the table of key macroeconomic indicators) will be published on 4 November 2022.

The whole Report will be published on 11 November 2022.

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Decision in a nutshell

Consistent with the baseline scenario of the forecast is a rise in market interest rates, followed by a gradual decline in 2023. At the meeting today, however, a majority of the Bank Board members preferred to keep policy rates unchanged.

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

7%

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

Five members voted in favour of this decision.