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# ECONOMIC OUTLOOK AND ITS RISKS

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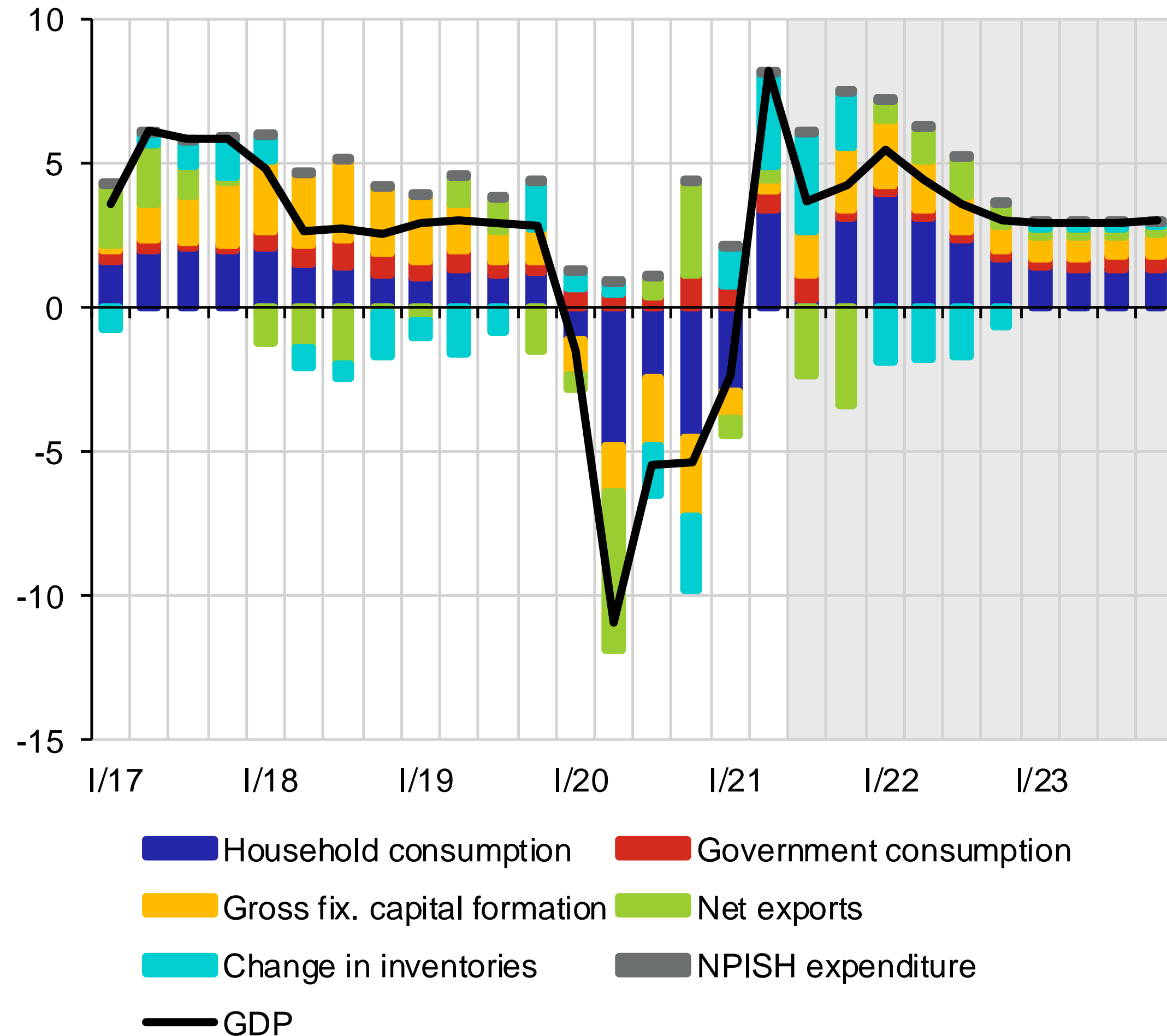
Deputy Governor, Czech National Bank



# Importance of Domestic and Foreign Demand

## GDP

(y-o-y changes in %; contributions in p.p.; seasonally adjusted)

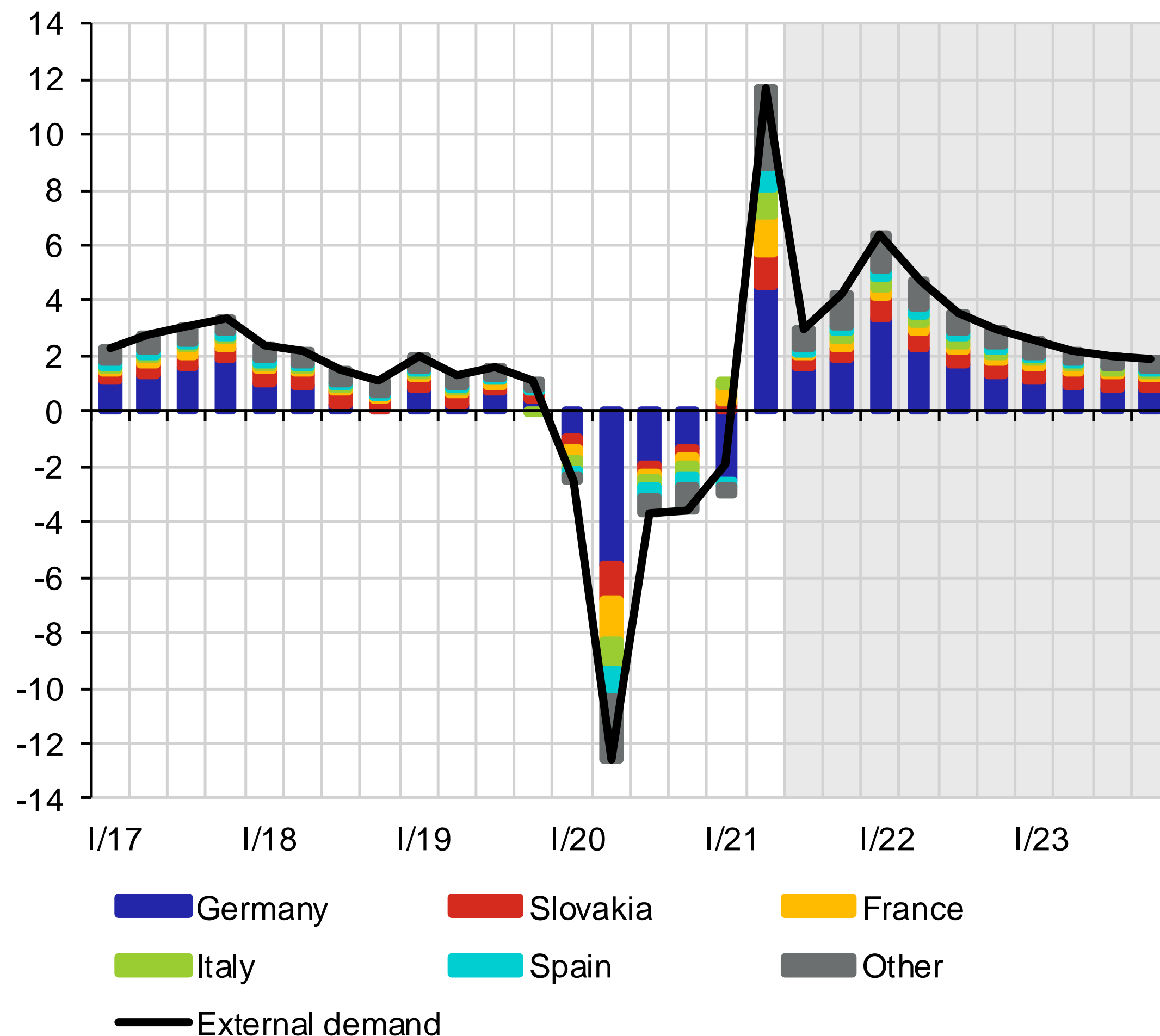


- Harmonized and text book reaction of monetary and fiscal policies
- Structure of economy and export orientation proved to be an advantage
- Economic recovery and macroeconomic stability after Covid lockdowns crucial
- Combination of demand and supply factors
- Inventories: a story of unfinished production
- Strong recovery of household consumption, but not in all retail sectors

# Foreign Demand: Consumption and Re-Exports

## GDP growth of our key trading partners

(y-o-y changes in %; contributions in p.p.; seasonally adjusted)

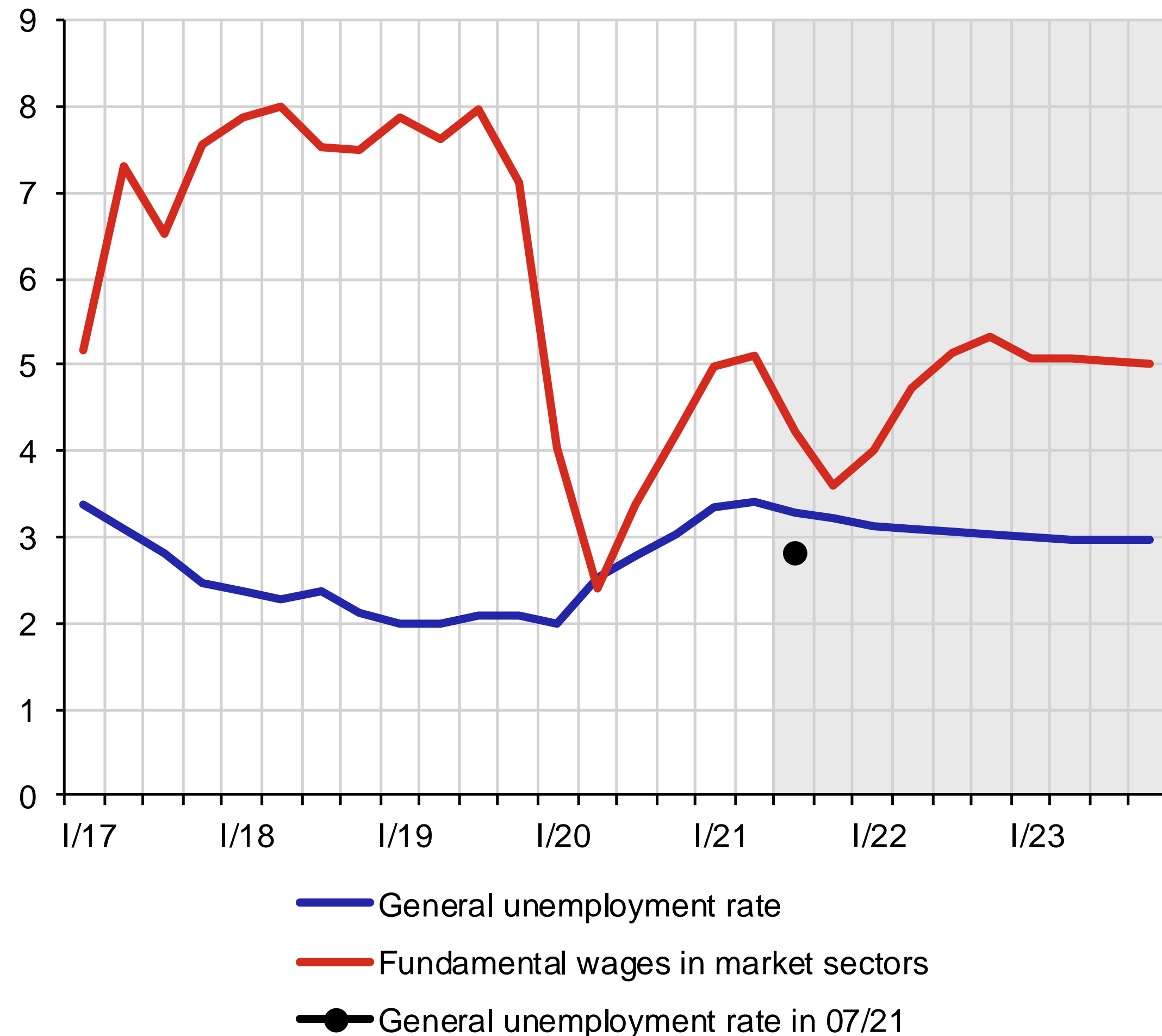


- Economic recovery and resilience of our key trading partners
- Sources of recovery: household consumption and demand from USA & Asia
- Leading and high-frequency indicators confirm further recovery, mainly in services
- Global supply shortages still not resolved
- Uncertainty about near-future pandemic development

# Labor Market: The Source of Inflationary Pressures

## Labor market

(general unemployment rate in %, wages y-o-y changes in %)

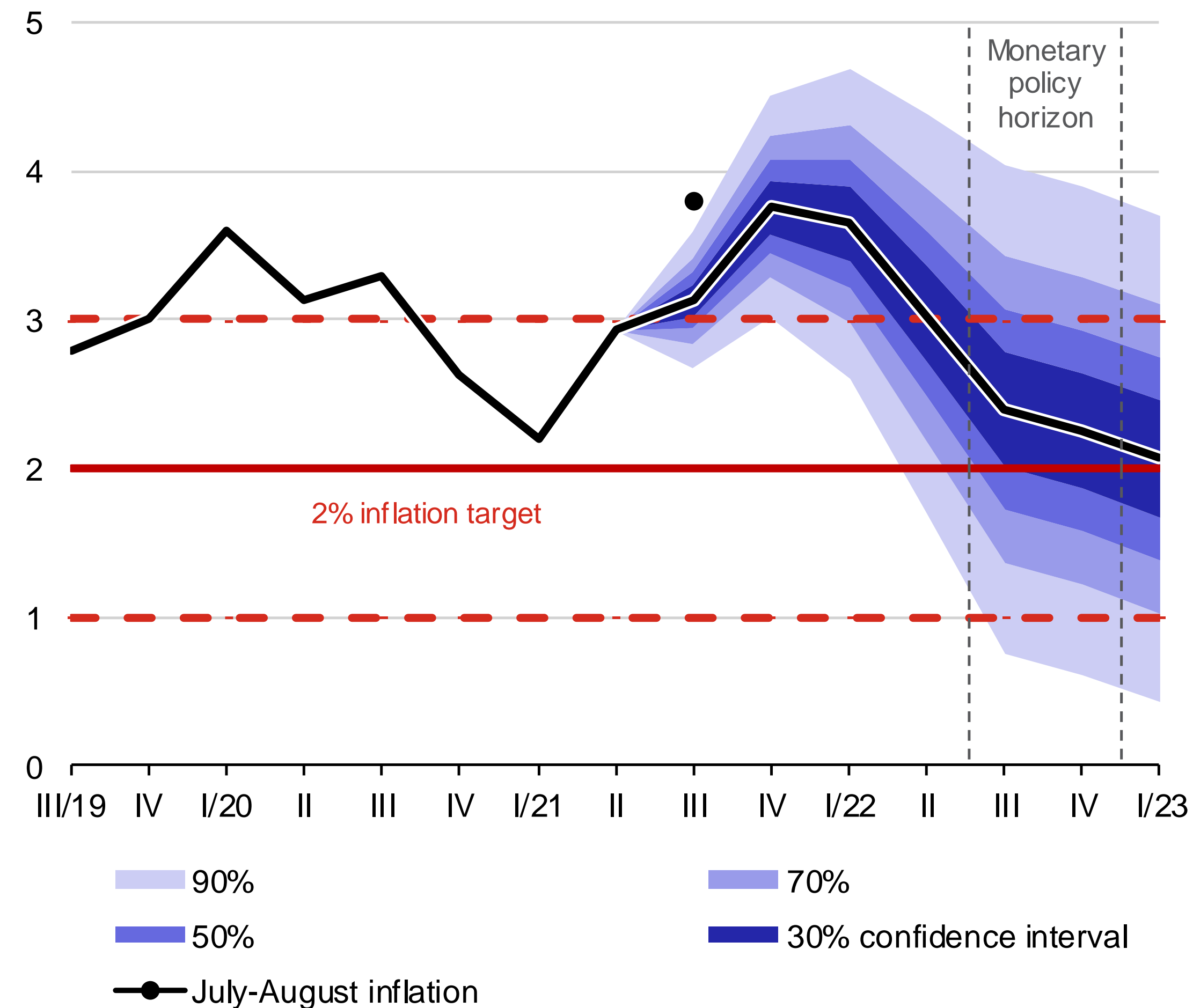


- Unemployment increased only slightly during the Covid year
- Strong relationship between unemployment and wages in the Czech Republic
- Tight labor market implies growing wages
- Higher headline inflation becoming entrenched in expectations
- Monetary policy tightening needed

# Price Stability

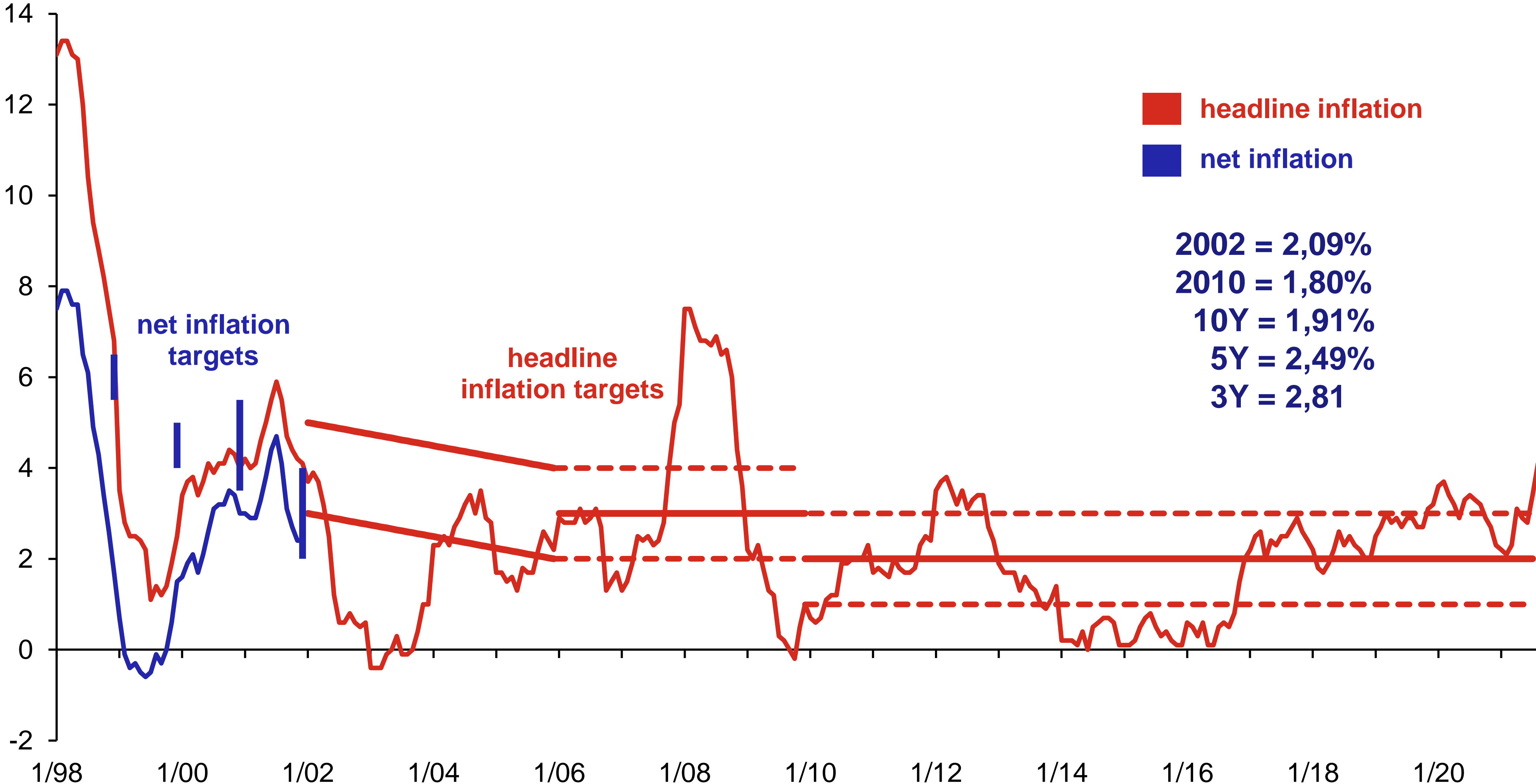
## Consumer price inflation

(y-o-y changes in %)



- Flexible Inflation Targeting
- Inflation near its target on the monetary policy horizon
- Current upward price pressures:
  - persisting global supply bottlenecks
  - labor shortages
  - pent-up household demand
  - inflation expectations
  - cost effect of climate change policies

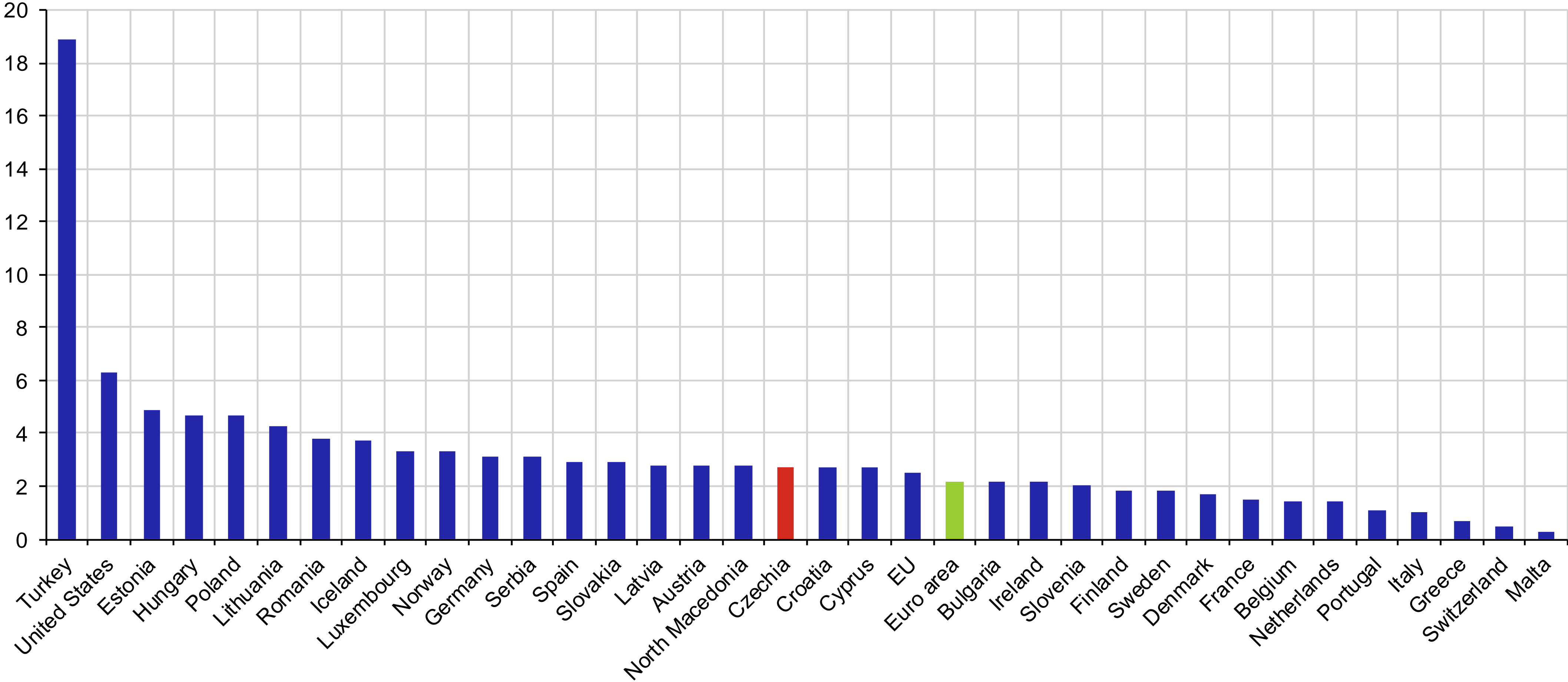
# Flexible and Average Inflation Targeting



# Inflation: International Comparison

HICP inflation in selected countries in July 2021

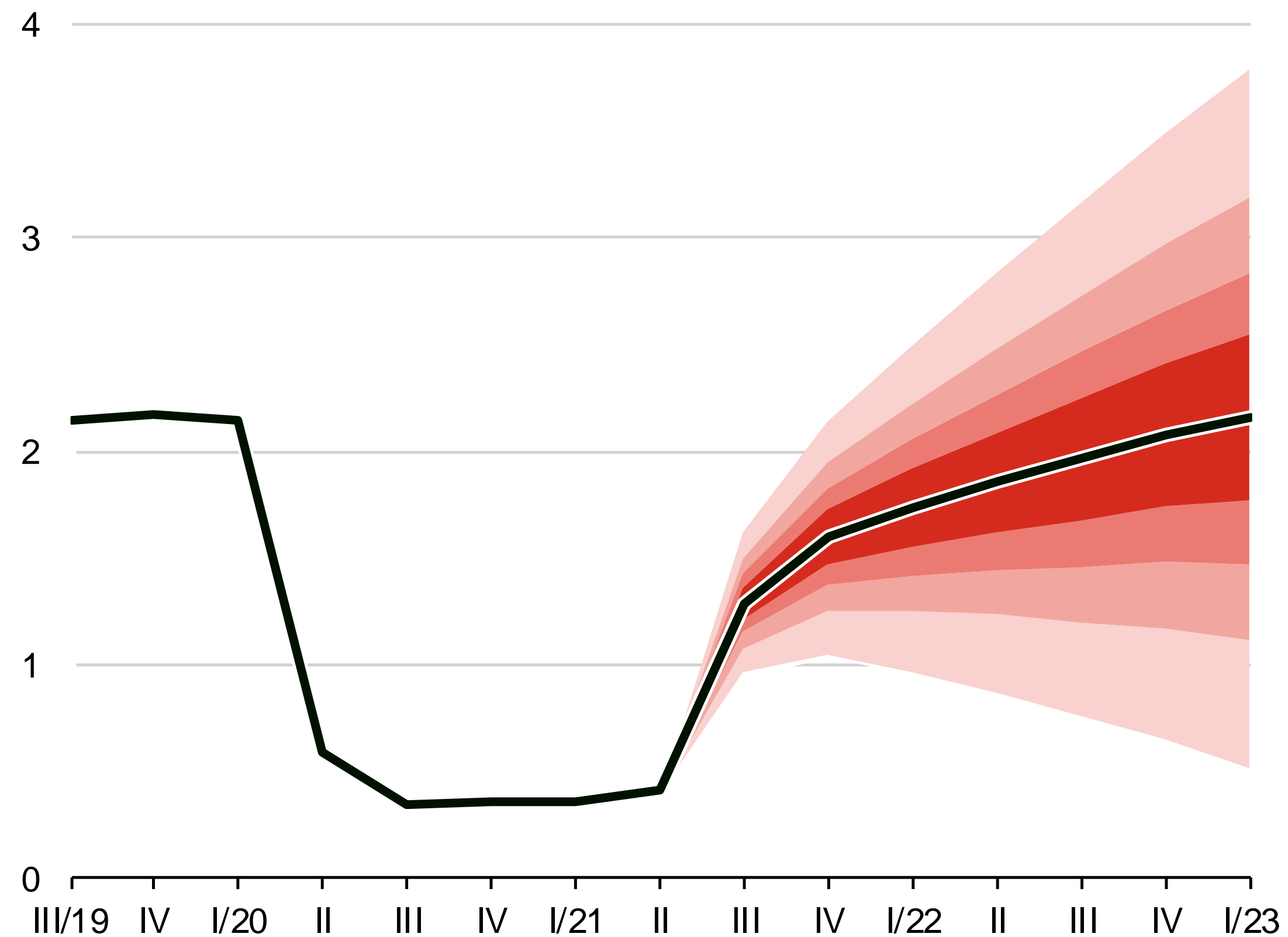
(in %)



# Gradual Monetary Policy Tightening Ahead

## Interest rate forecast

(3M PRIBOR in %)



90% 70% 50% 30% confidence interval

- Still high degree of uncertainty
- ECB isn't reacting much to high inflation, expects its return to the target
- Czech situation is different: we don't need reasons to start tightening, but reasons to stop
- Covid hopefully did not change the fundamentals of the Czech economy much, the transmission of monetary policy to inflation still works
- Negative real interest rates not healthy for the economy in the long run, financial stability tasks important too



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# Thank you for your attention

More information available at [www.cnb.cz](http://www.cnb.cz)

Highly recommended publications:

- Monetary Policy Report
- Financial Stability Report
- Financial Market Supervision Report
- Global Economic Outlook

