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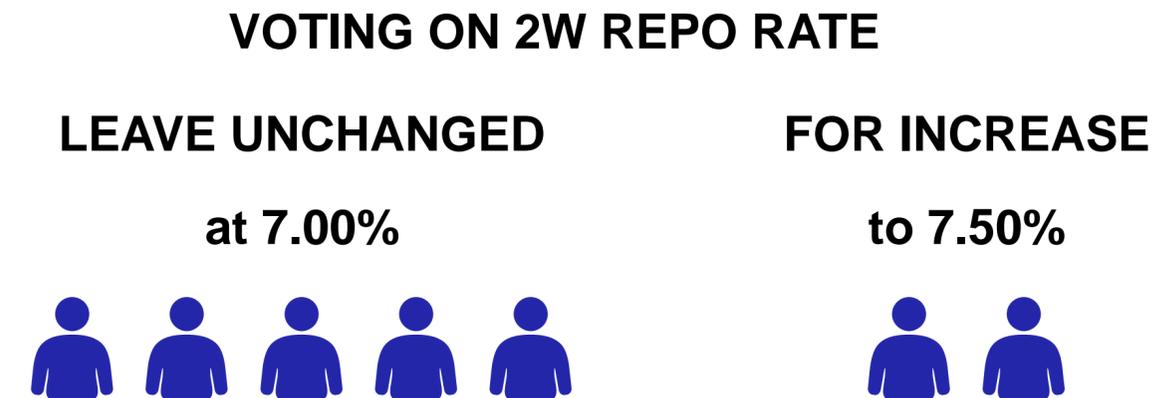
# 8th Situation Report on Economic and Monetary Developments

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 autumn macroeconomic forecast** and **by an assessment of information obtained since it was prepared.**

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

At the same time, the Bank Board confirmed its determination to **continue fighting inflation until it 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

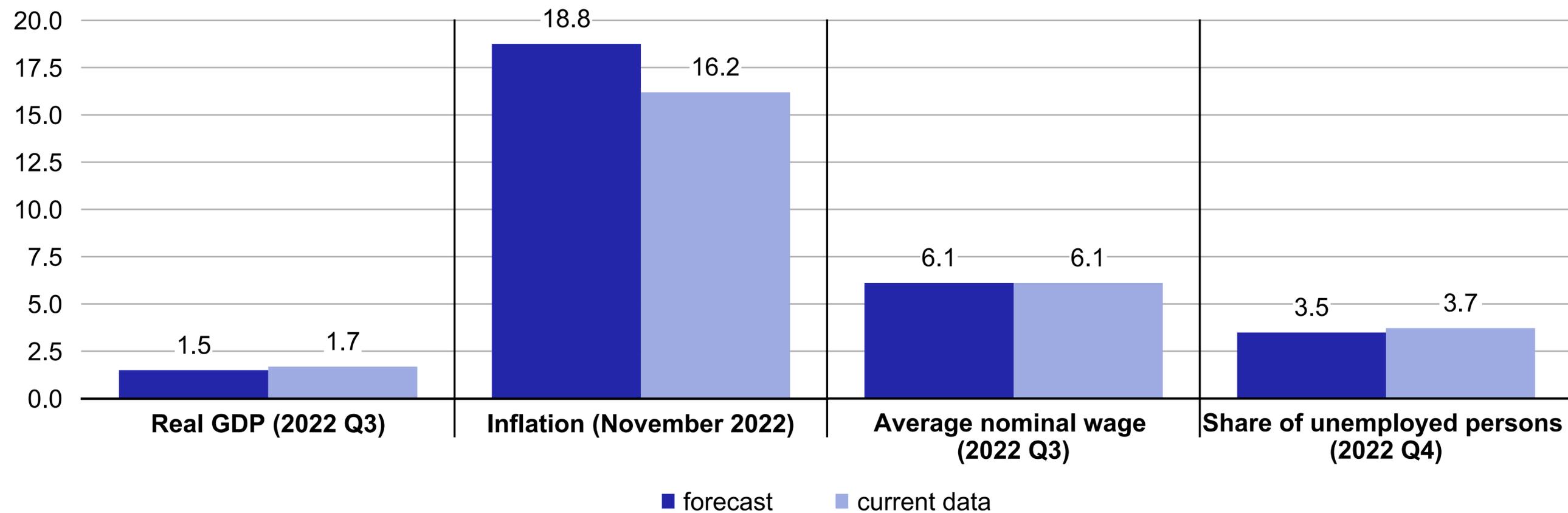
- The Czech economy is facing strong cost pressures from the external environment and demand pressures from the domestic economy.
- However, the demand pressures are already easing. GDP decreased by 0.2% in quarter-on-quarter terms in 2022 Q3. Household consumption, which is crucial for the future course of demand-pull inflation, is now being dampened by high energy and food prices, negative sentiment and higher interest rates. Consumption fell by 3.1% quarter on quarter in real terms, its largest-ever decline if we abstract from the first lockdown in the Czech Republic. The average wage increased by 6.1% in Q3 but fell by 9.8% in real terms.
- We are also seeing a major slowdown in the property and mortgage markets. The year-on-year change in pure new mortgages was -82% in October. This will gradually help reduce core inflation.

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## Economic developments

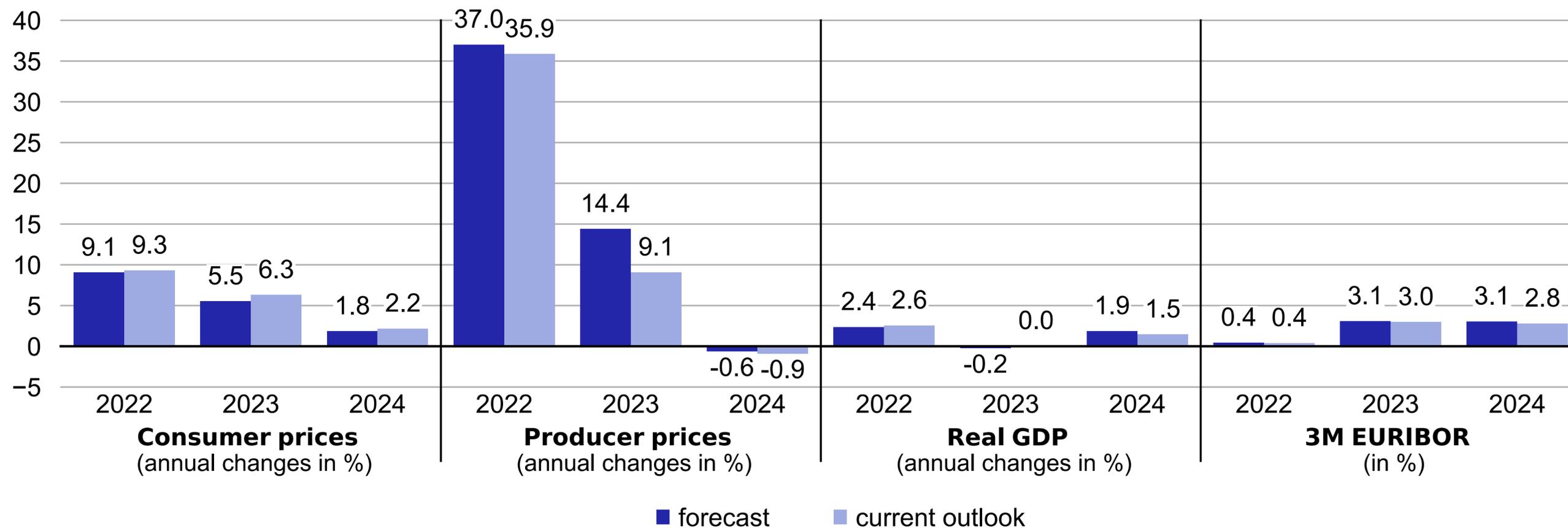
- Firms are facing rising costs of energy and commodities, which is slowing investment growth. The year-on-year change in pure new koruna loans to corporations was -42.6% in October.
- On the other hand, unemployment remains low. Industry is facing increased costs, while the supply chain problems are gradually easing. However, leading indicators point to a slowdown in external demand.
- The effect of fiscal policy on economic activity is broadly neutral, but with an upside risk to inflation going forward.

## Comparison of current domestic data with the CNB forecast

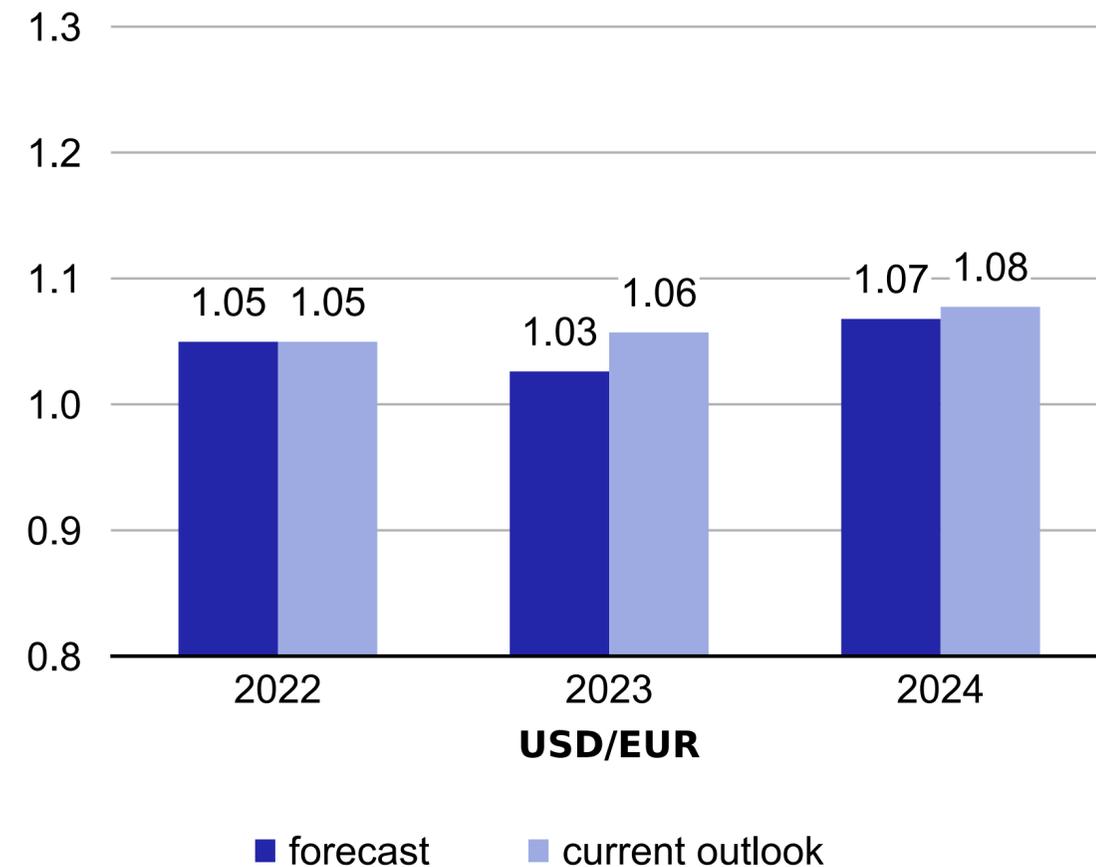
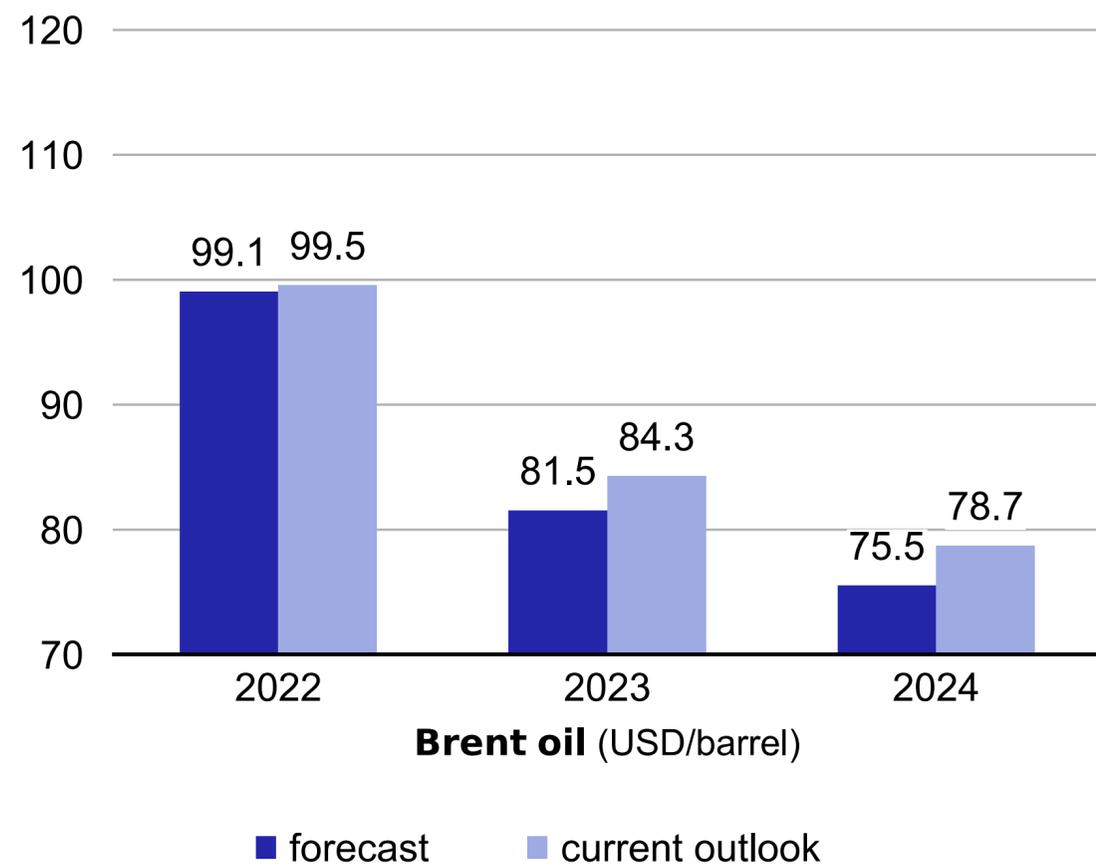


Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in October and November with the forecast for 2022 Q4).

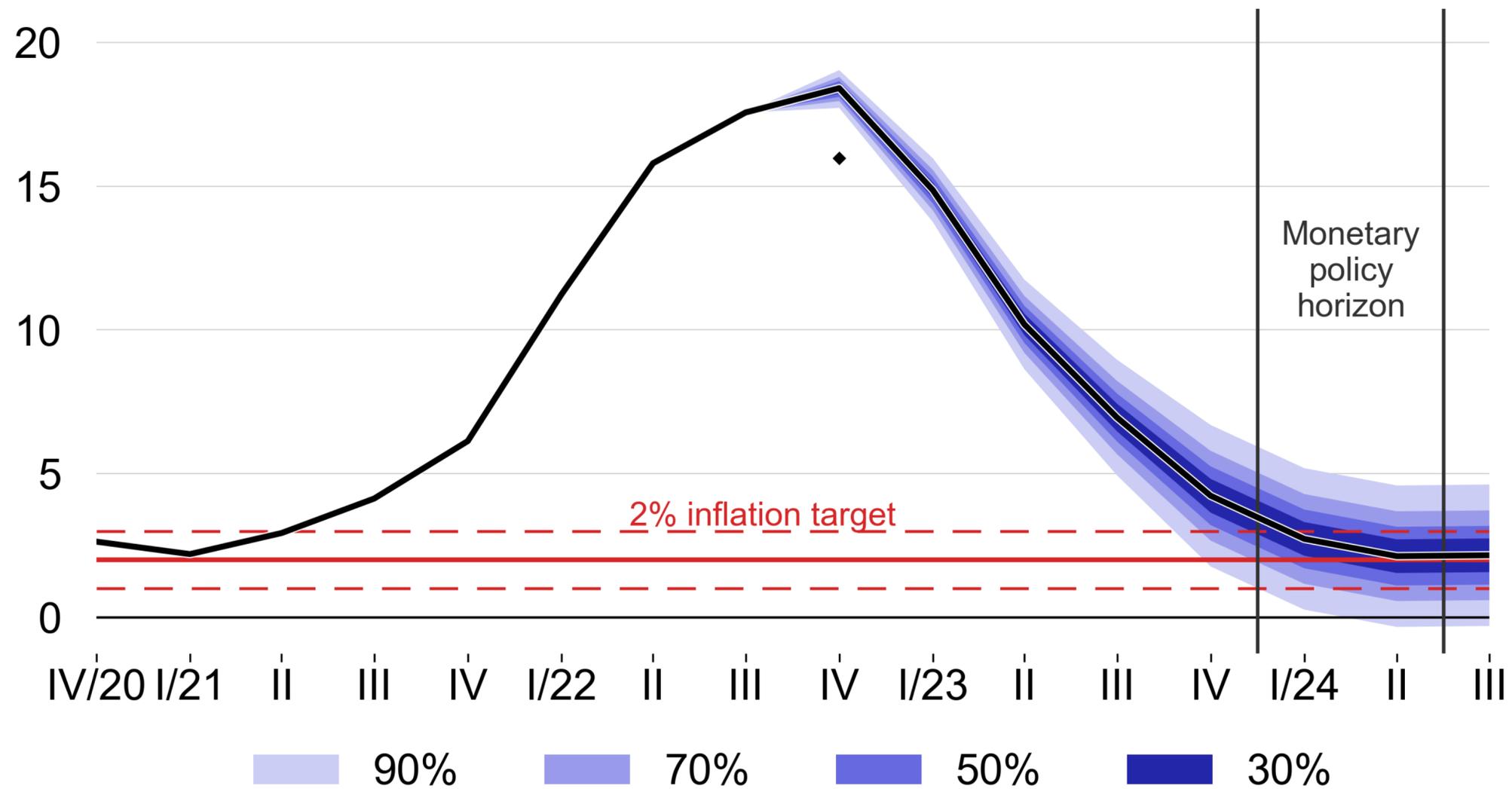
## External environment: forecast and current outlook for the effective euro area



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

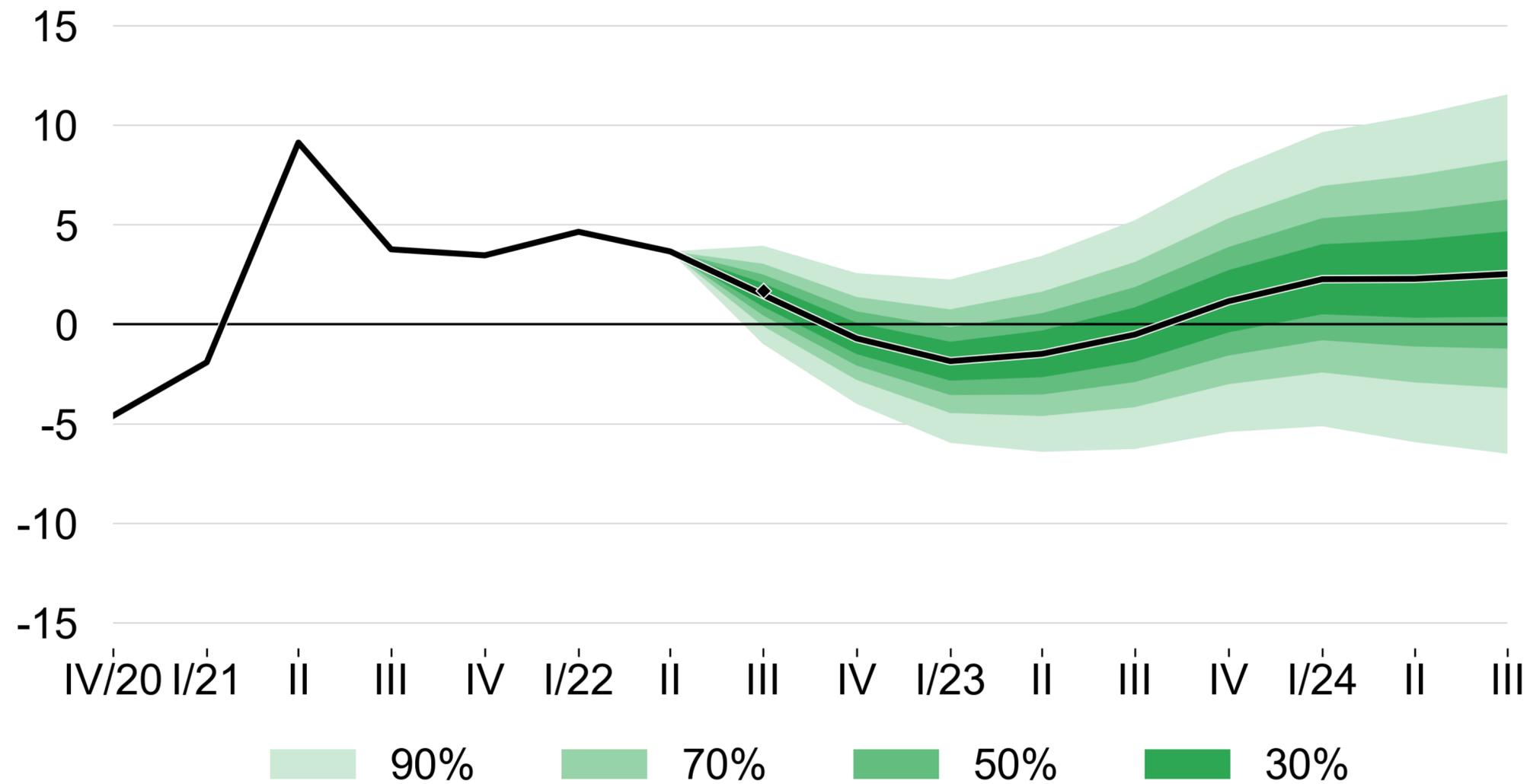


# Inflation forecast and expected outcome in 2022 Q4



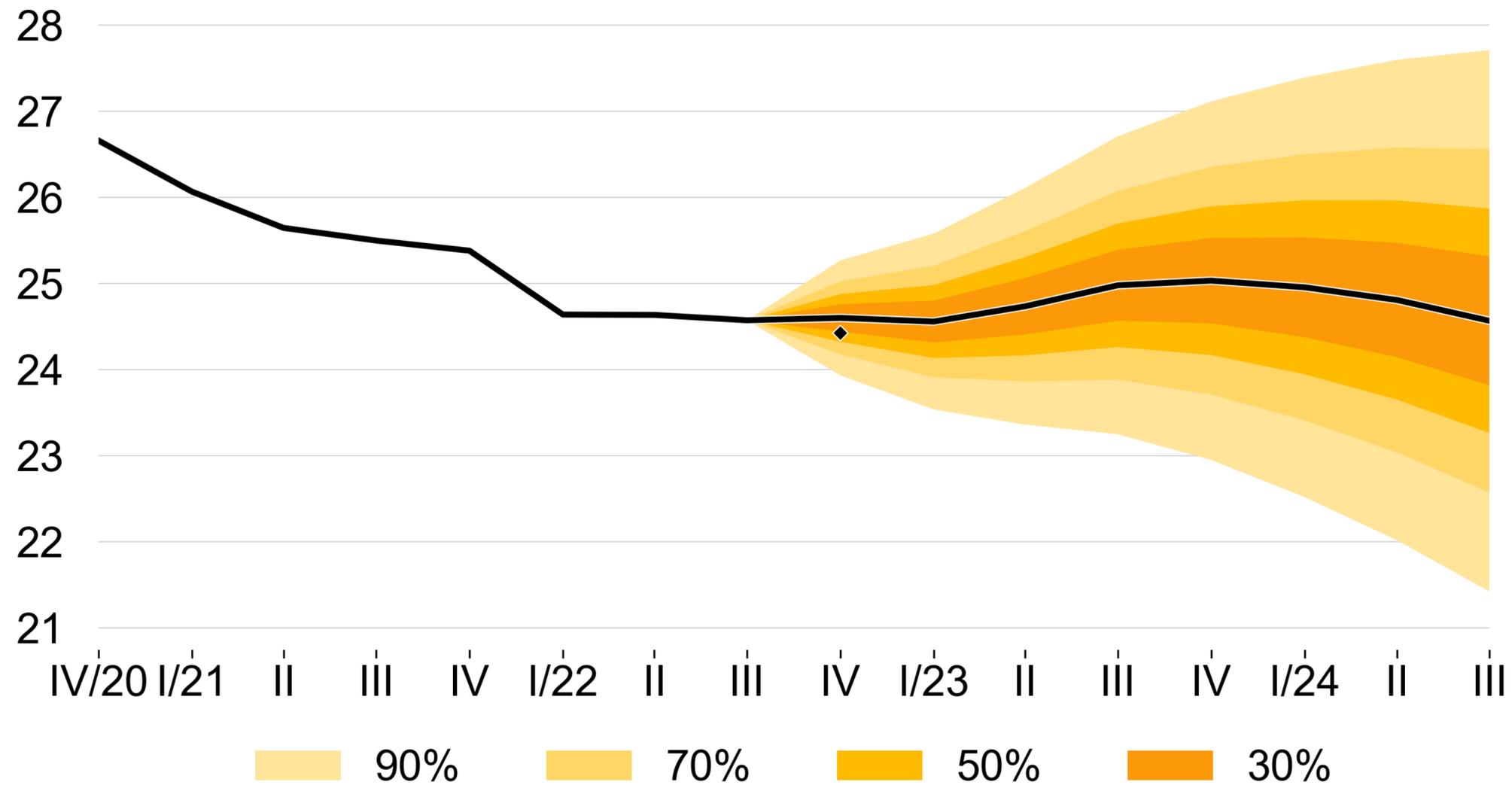
Note: y-o-y changes in %.

## GDP forecast and outcome in 2022 Q3



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

## CZK/EUR exchange rate forecast and outcome in 2022 Q4



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## Risks and uncertainties of the forecast

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

### **Inflationary risks:**

- faster-than-forecasted wage growth
- more expansionary fiscal policy
- 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 abroad and a stronger-than-forecasted downturn in domestic consumer and investment demand
- faster-than-expected decline in core inflation

### **Uncertainties:**

- extent of repricing of goods and services in January
- 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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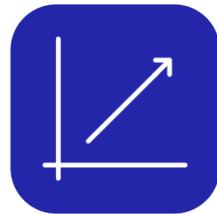
## Thank you for your attention

Minutes of the today's meeting and the Graph of Risks to the Inflation Projection (GRIP) will be released on 6 January 2023 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 forecast is a rise in market interest rates, followed by a gradual decline in 2023.



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%. It will decide at the next meeting whether rates will remain unchanged or increase.



Five members voted in favour of this decision.