

# 1st Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



## Monetary policy decision

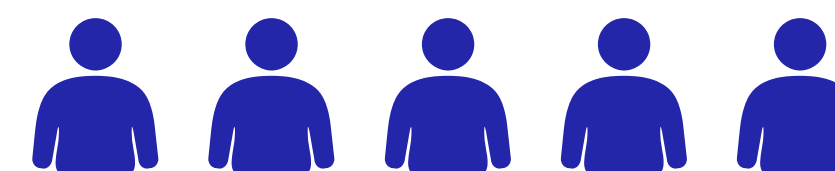
6.00%  
discount  
rate

**7.00%**  
**2W repo**  
**rate**

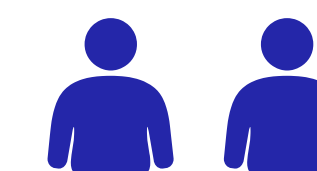
8.00%  
Lombard  
rate

### VOTING ON 2W REPO RATE

LEAVE UNCHANGED  
at 7.00%



INCREASE  
to 7.50%



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 initially, followed by a gradual decline.

The Bank Board discussed a scenario in which the CNB's monetary policy rates remain at the current level for longer. In both scenarios, inflation falls close to the target in the first half of next year.

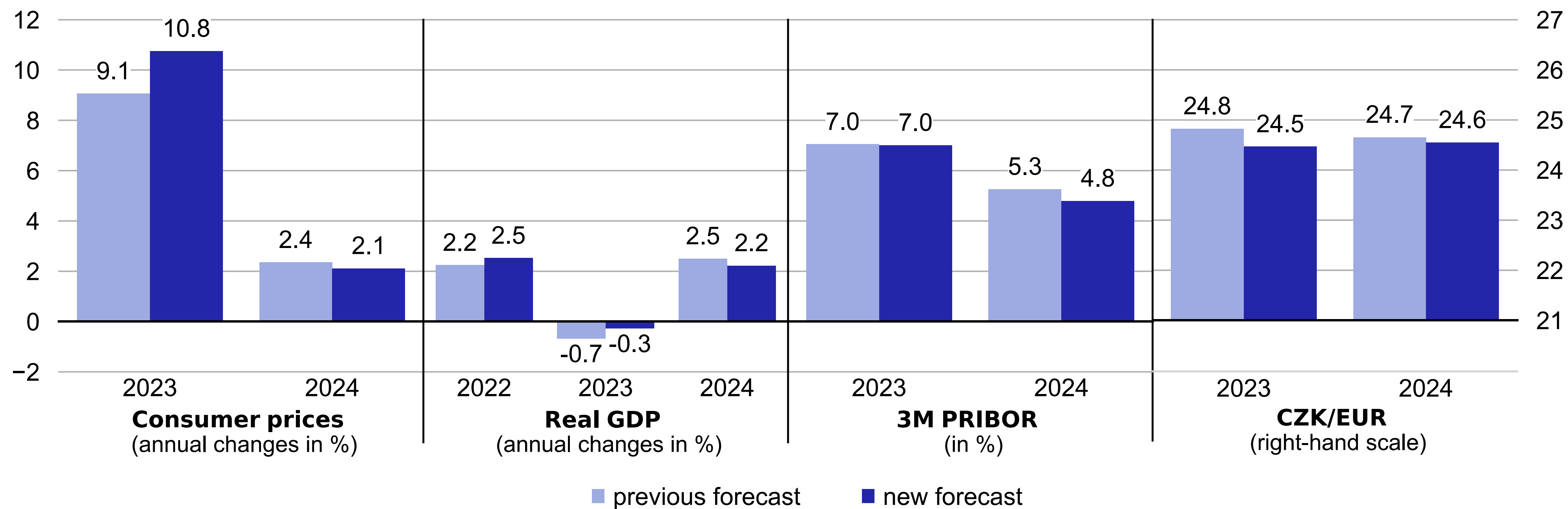
The CNB **will continue to prevent excessive fluctuations of the koruna exchange rate.**

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.

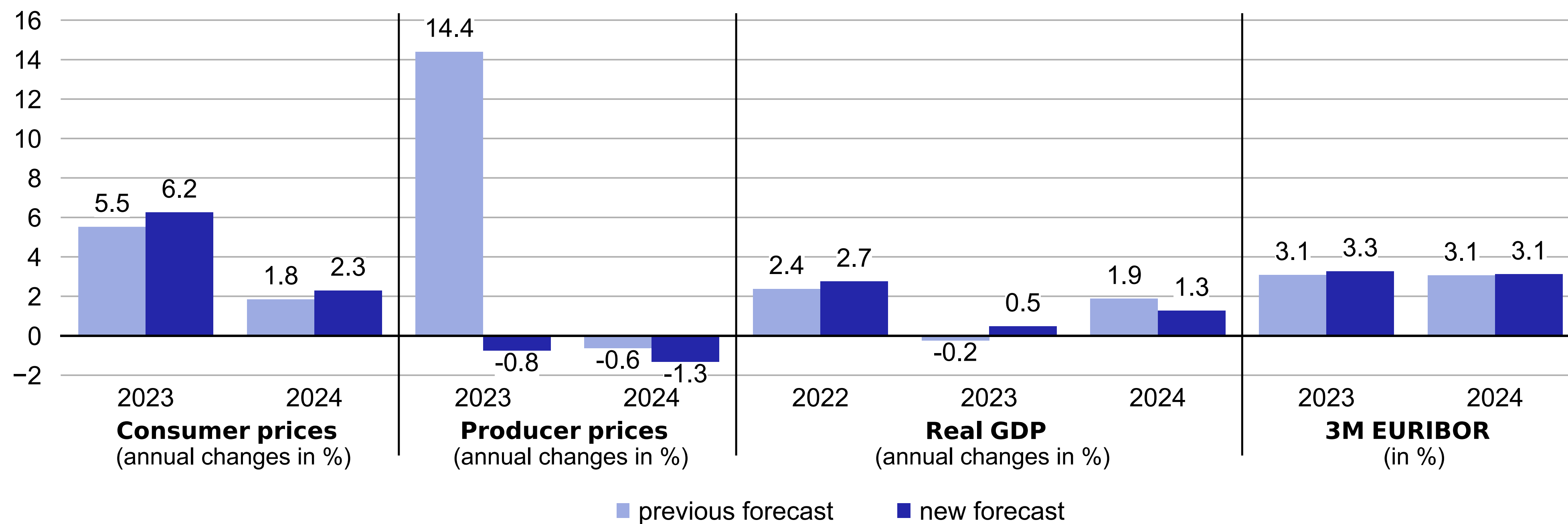
## Economic developments

- The Czech economy is facing both strong cost inflation pressures from the external environment and demand pressures from the domestic economy. The strength of the foreign cost pressures and the problems in supply chains are gradually easing.
- According to the CZSO's flash estimate, GDP fell by 0.3% quarter on quarter in 2022 Q4. The economy thus entered a mild recession.
- On the other hand, unemployment remains low. Industrial production has so far been resilient to the increased costs and supply chain problems. However, leading indicators point to a slowdown in external demand.
- The effect of fiscal policy on economic activity is now broadly neutral, but with an upside risk to inflation going forward.

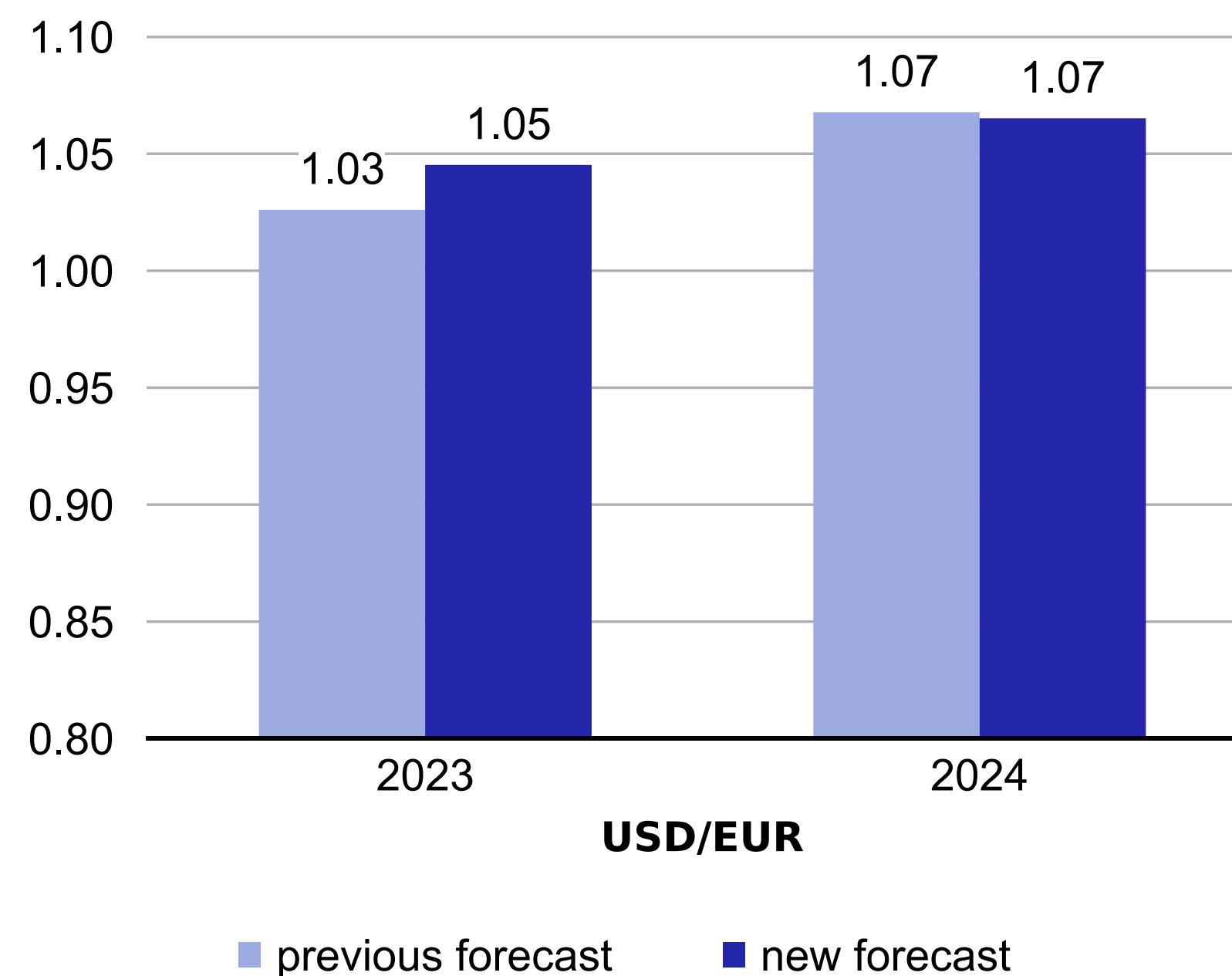
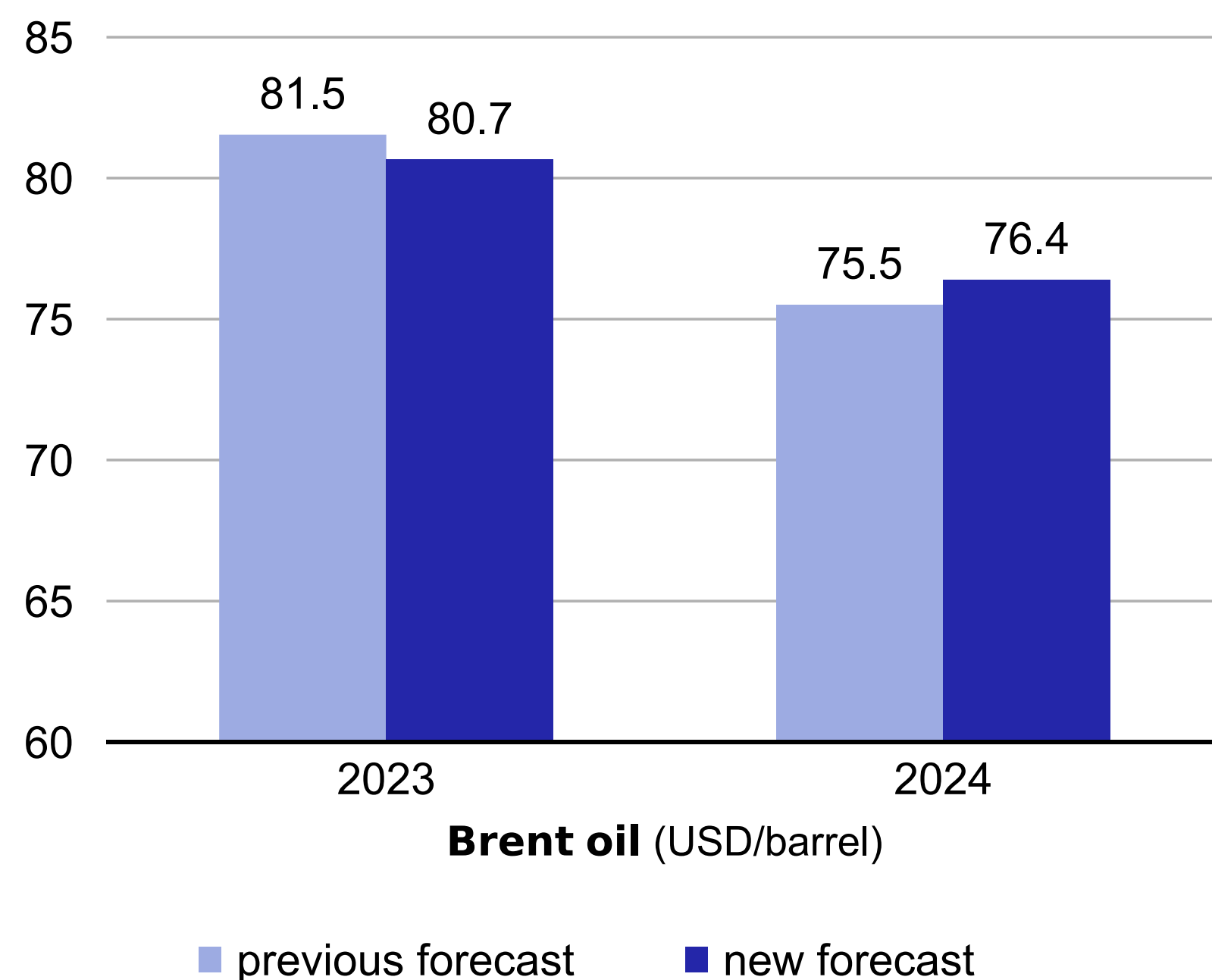
## Comparison with the previous CNB forecast



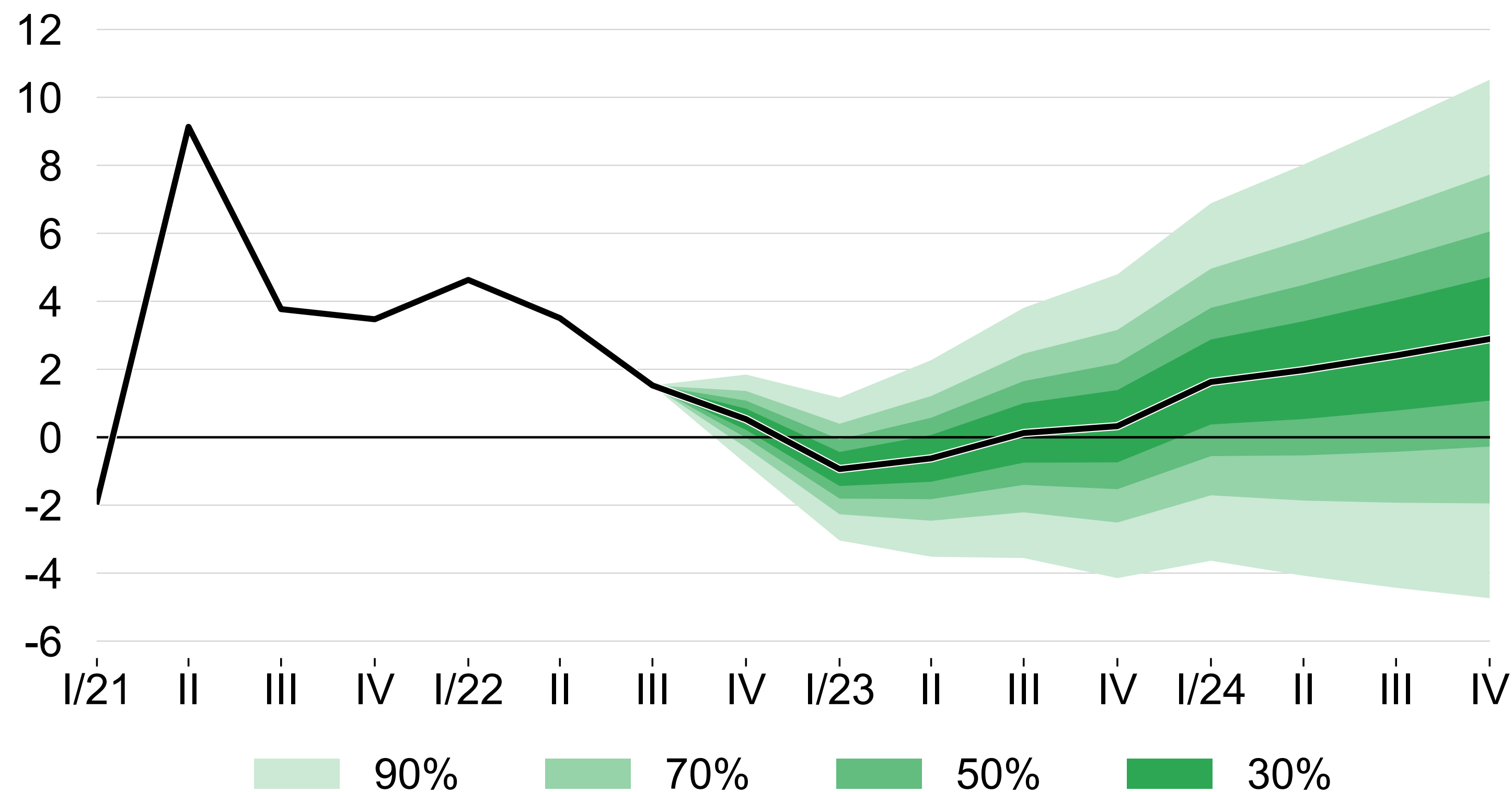
## External environment: forecast and outlook for the effective euro area



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



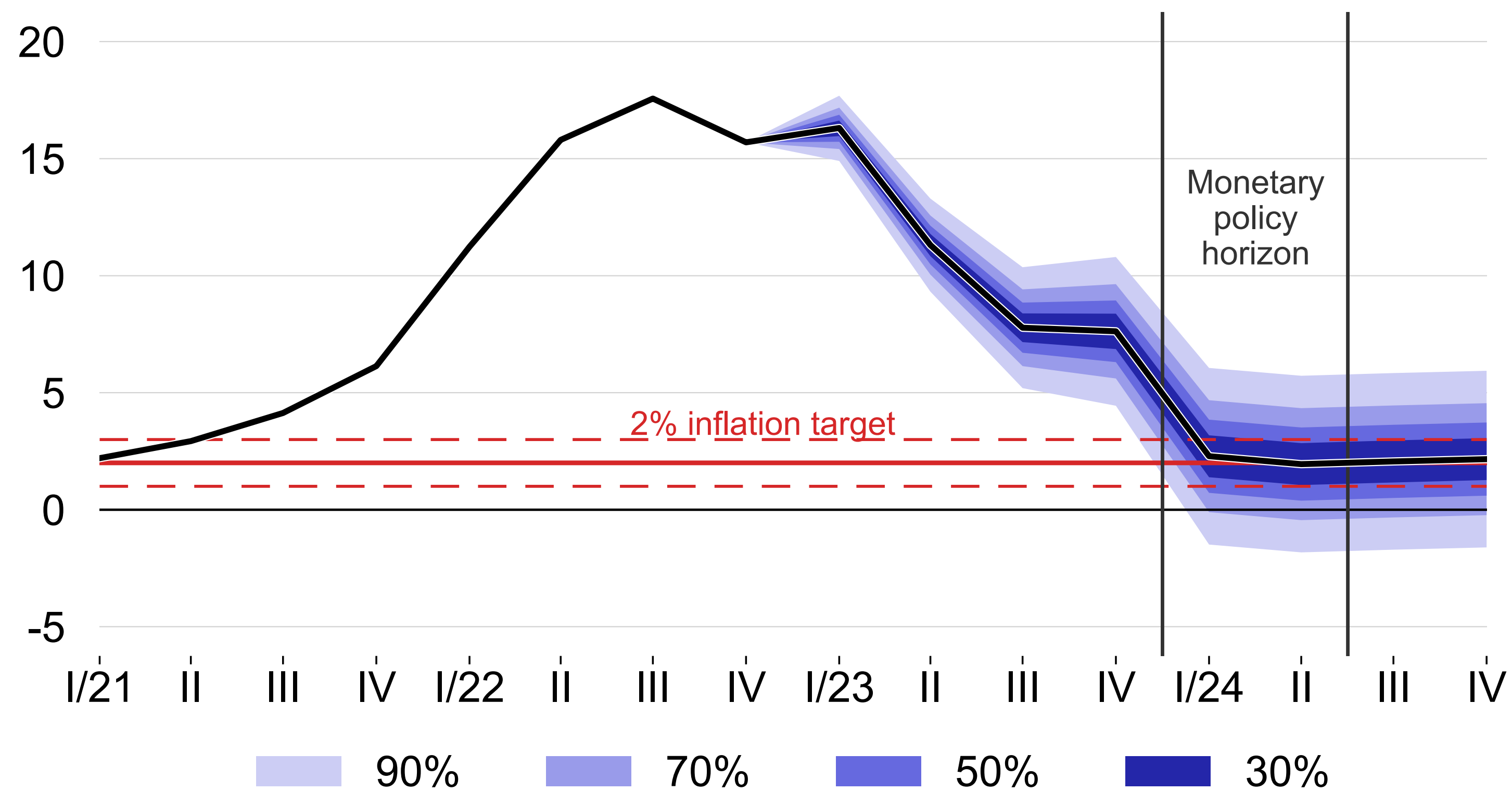
# GDP forecast



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



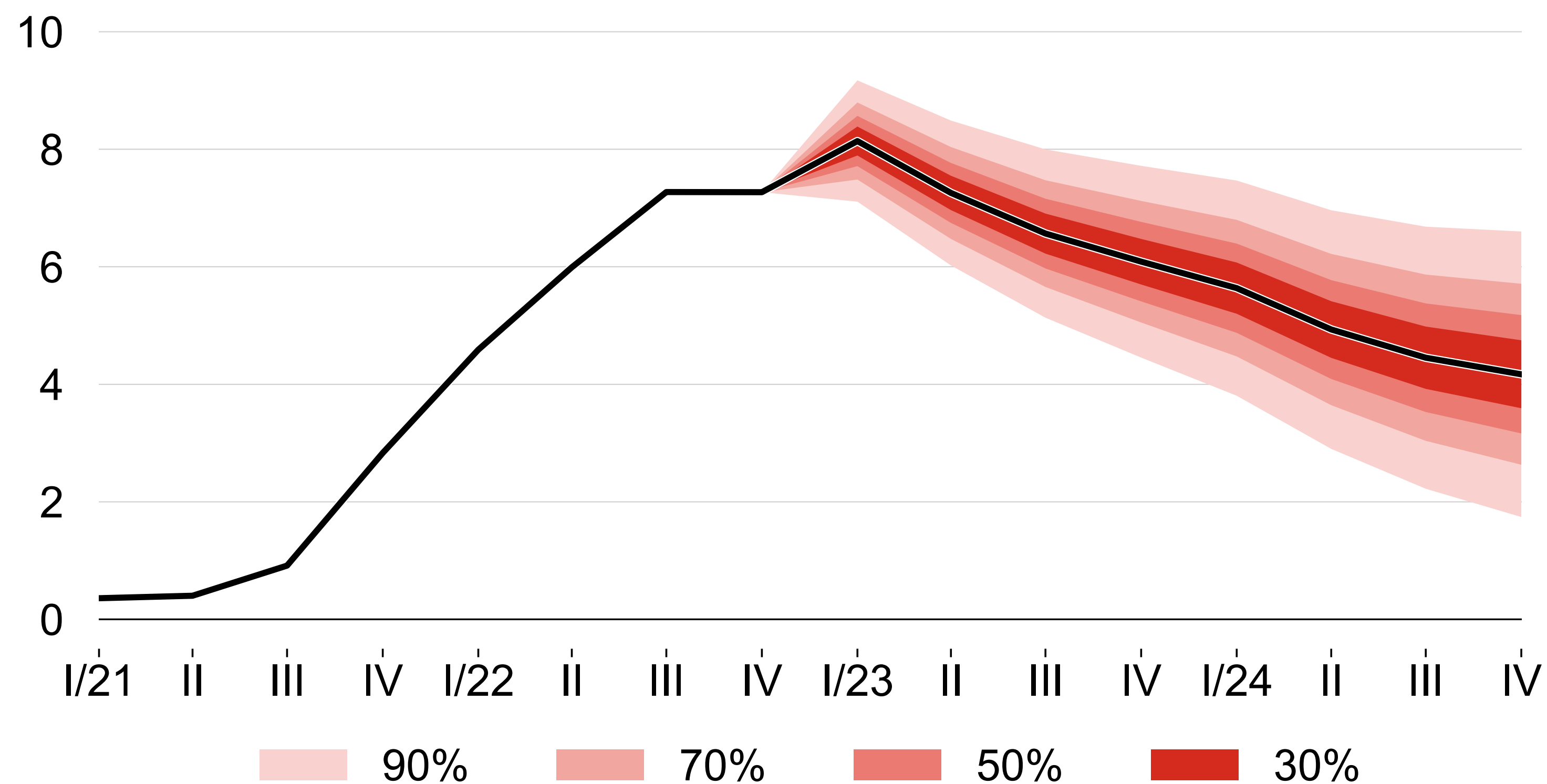
# Inflation forecast



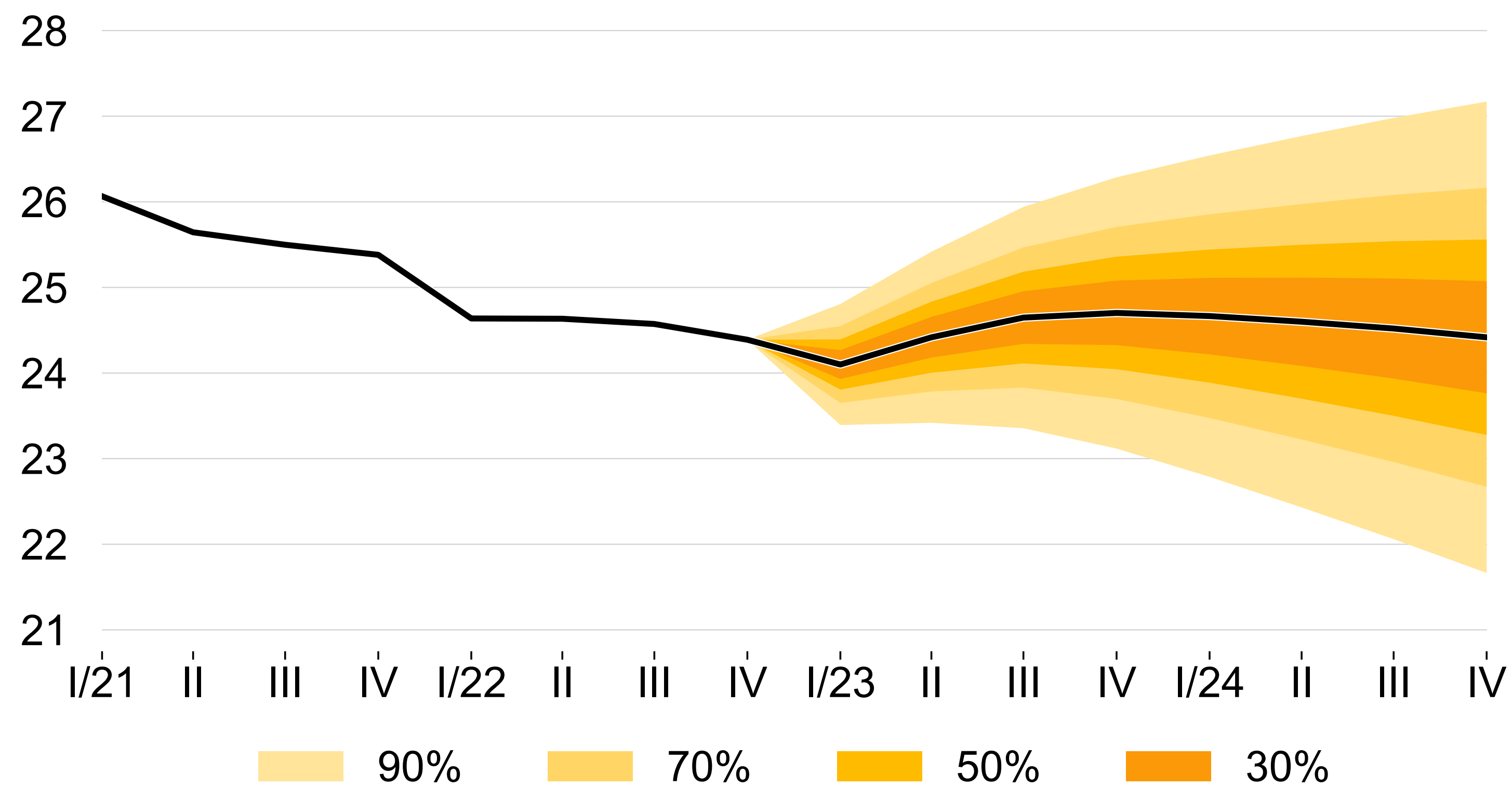
Note: y-o-y changes in %.



## 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:**

- more expansionary fiscal policy
- threat of inflation expectations becoming unanchored from the CNB's 2% target and the related risk of a wage-price spiral

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

- 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.

# Thank you for your attention

More information about the forecast can be found at

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

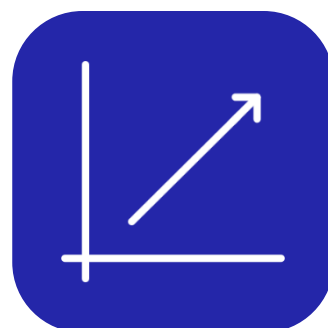
and in Monetary Policy Report – Winter 2023.

The introductory part of the Report (together with the boxes and the table of key macroeconomic indicators) will be published on 3 February 2023.

The whole Report will be published on 10 February 2023.



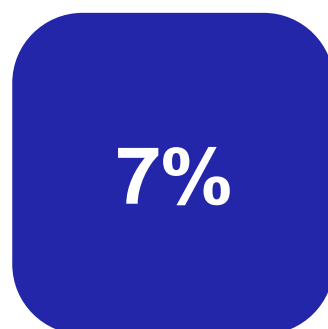
## Decision in a nutshell



Consistent with the baseline scenario of the forecast is a rise in market interest rates initially, followed by a gradual decline.



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.