
2nd Situation Report on Economic and Monetary Developments

Press conference of the Bank Board

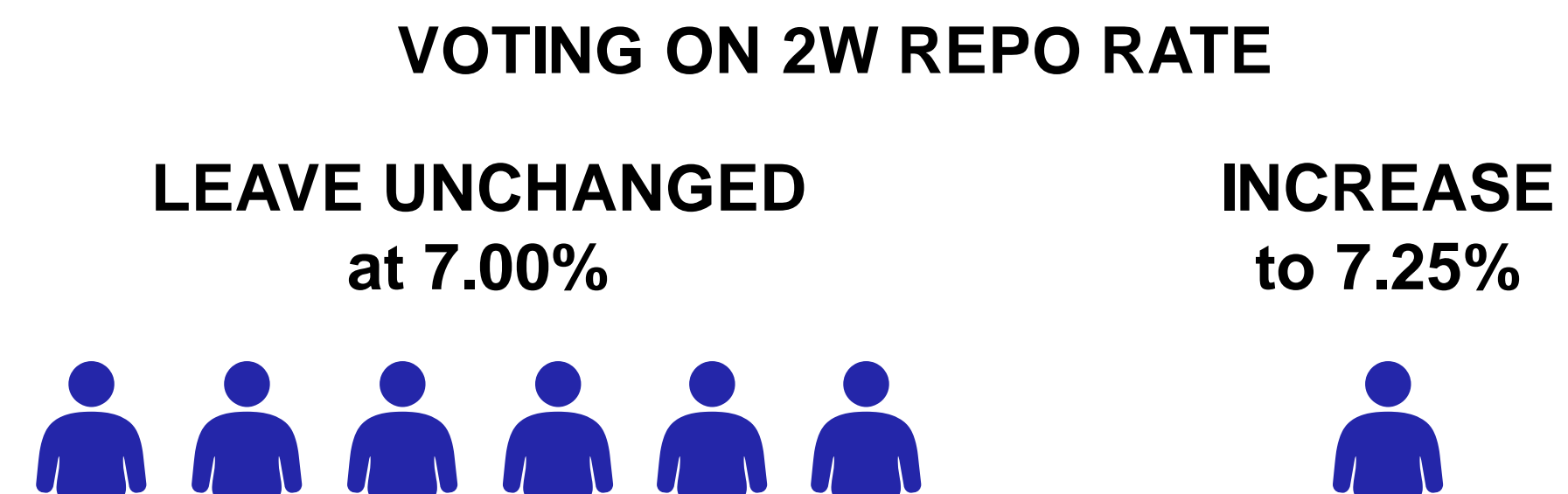


Monetary policy decision

6.00%
discount rate

7.00%
2W repo rate

8.00%
Lombard rate



The decision adopted by the Bank Board is underpinned by **the winter (February) 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.

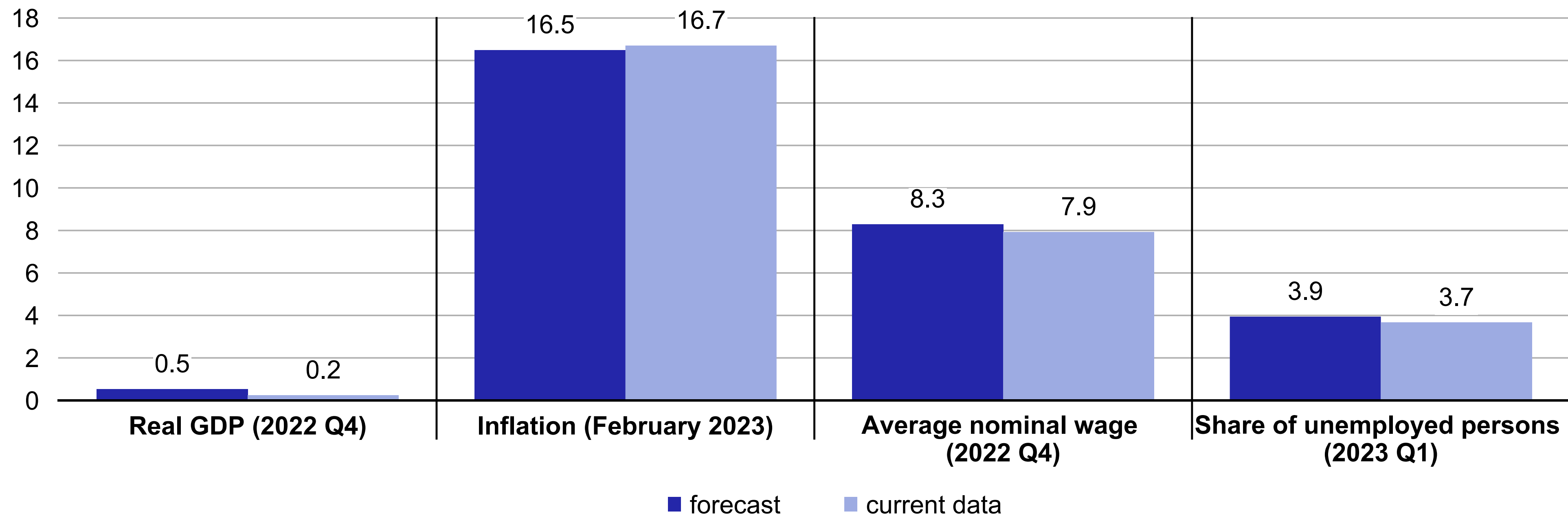
Economic developments

- 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.
- Inflation was 17.5% year on year in January, in line with the forecast. In February, it decreased to 16.7% (the CNB forecast had been 16.5%). Inflation will fall further in the coming months and reach single digits in the second half of the year. According to the winter forecast, inflation will fall close to the 2% target next year. Core inflation has been decreasing since autumn 2022.
- The demand pressures from the domestic economy continue to ease. GDP decreased by 0.4% in quarter-on-quarter terms in 2022 Q4. The economy thus entered a mild recession. Household consumption, which is crucial for the future course of demand-pull inflation, is being dampened by high energy and food prices, negative sentiment and higher interest rates. In quarter-on-quarter terms, real household consumption fell for the fifth consecutive quarter.

Economic developments

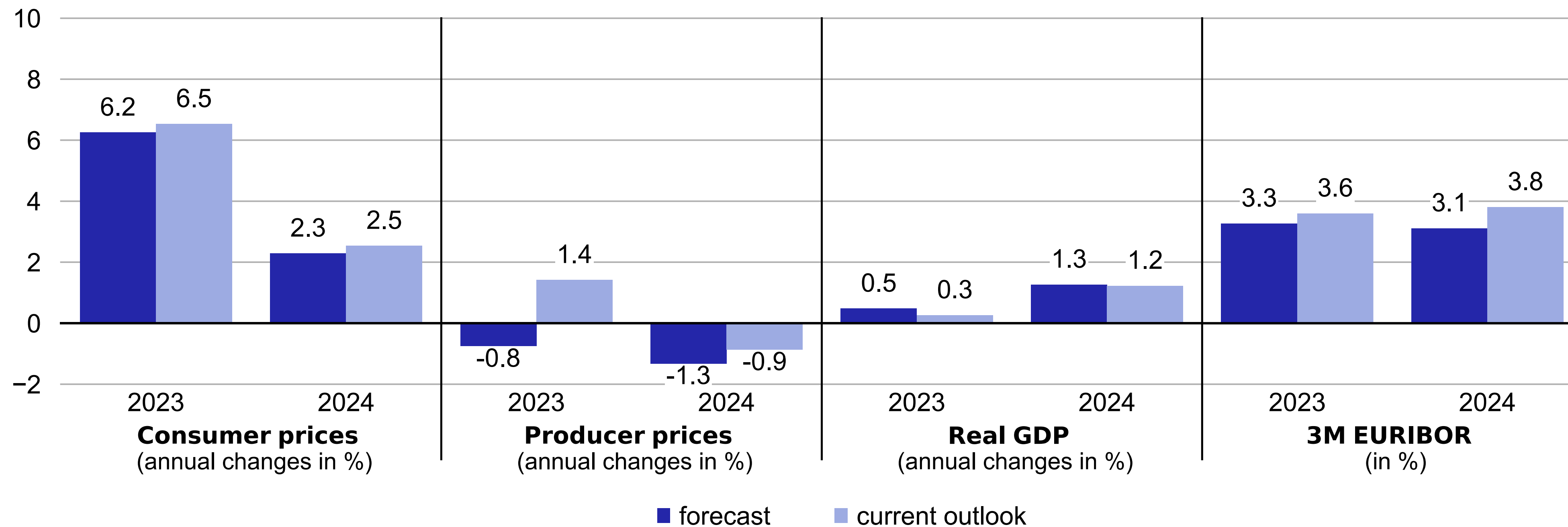
- We are also seeing a major slowdown in the property and mortgage markets. The double-digit year-on-year decline in the volume of pure new mortgages continued at the start of the year (80% in January). This will gradually help reduce core inflation further.
- Firms are facing increased costs of energy and commodities, which is slowing investment growth. While the supply chain problems are gradually easing, they continue to constrain production in some segments of the economy. External demand will be dampened also by tighter financial conditions.
- On the other hand, unemployment in the Czech Republic remains low. In January, there were relatively significant increases in nominal wages in industry (11.9% year on year) and construction (14.9%). At its May meeting, the Bank Board will thoroughly assess wage developments on the basis of new data, analyses thereof, and surveys.
- The effect of fiscal policy on economic activity will be inflationary unless the government deficit is reduced.

Comparison of current domestic data with the CNB forecast

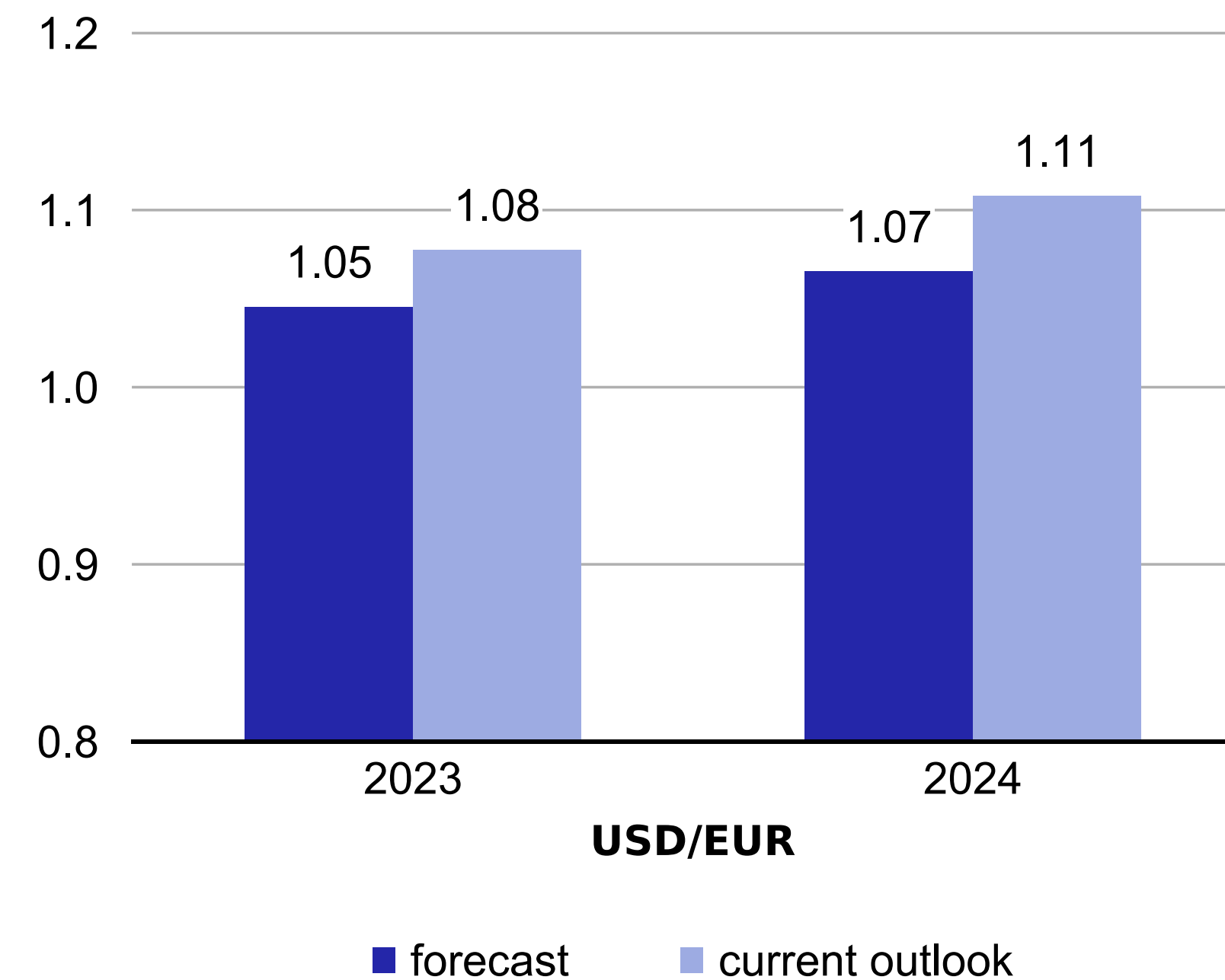
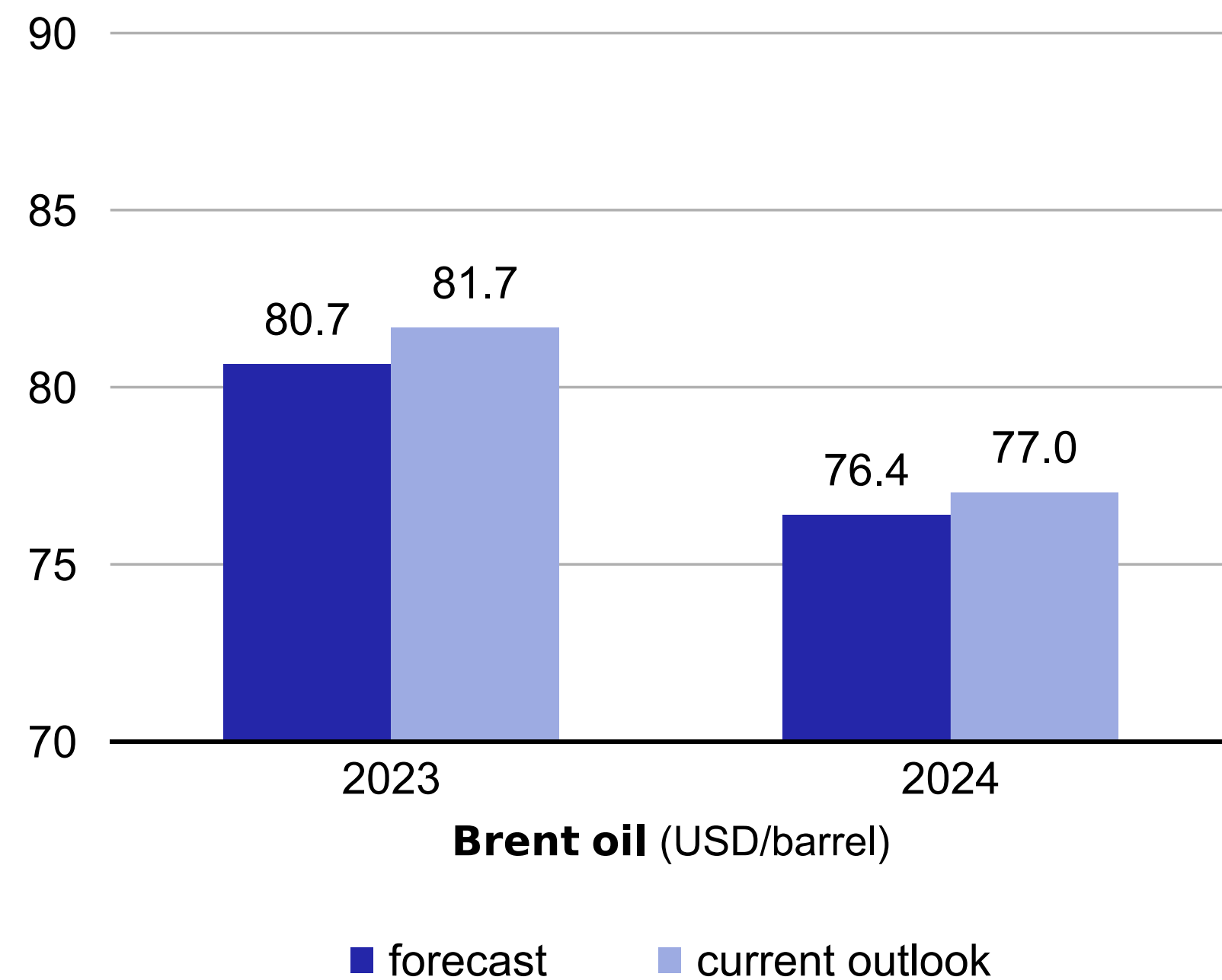


Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in January and February with the forecast for 2023 Q1).

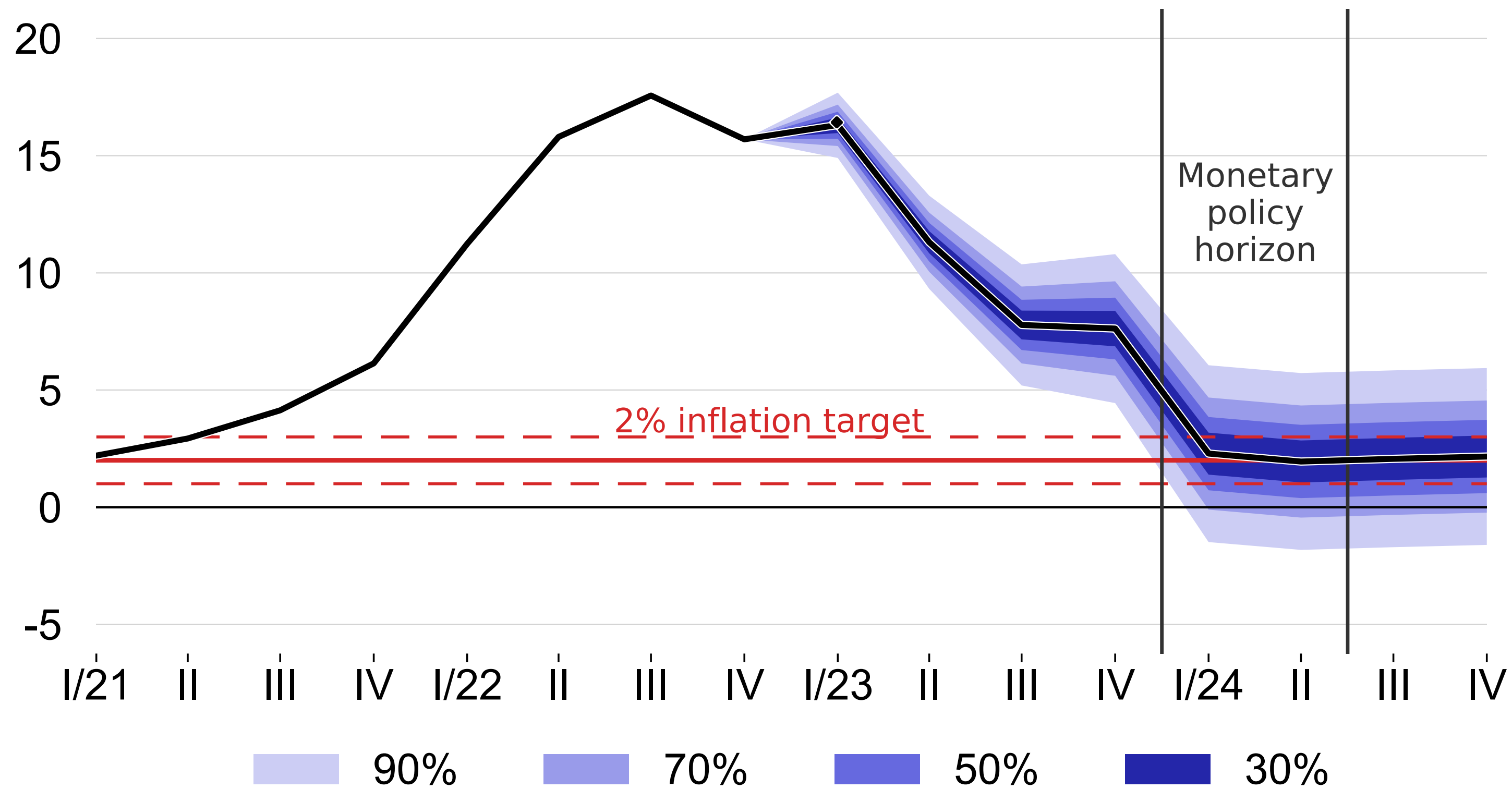
External environment: forecast and outlook for the effective euro area



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

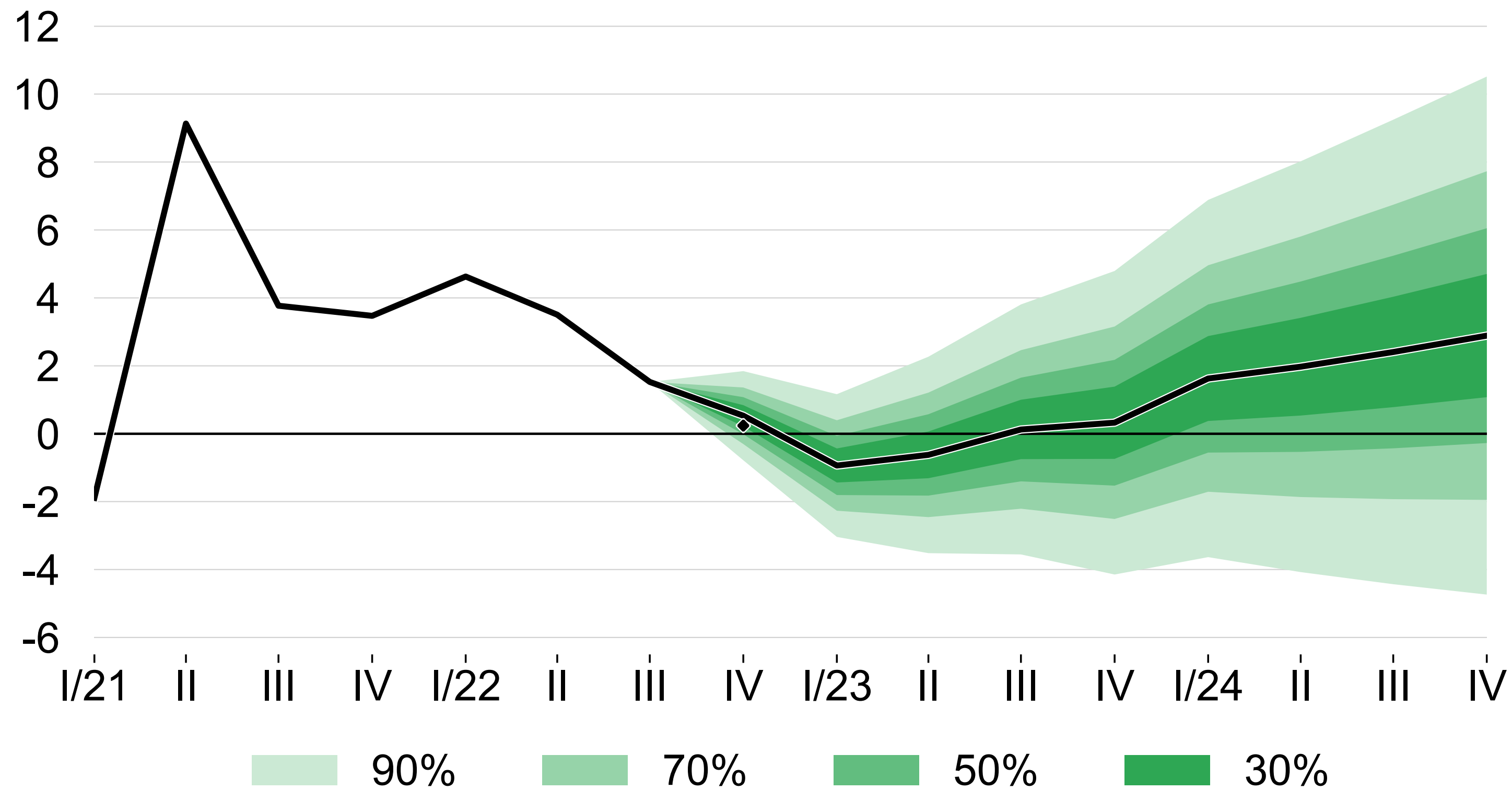


Inflation forecast and expected outcome in 2023 Q1



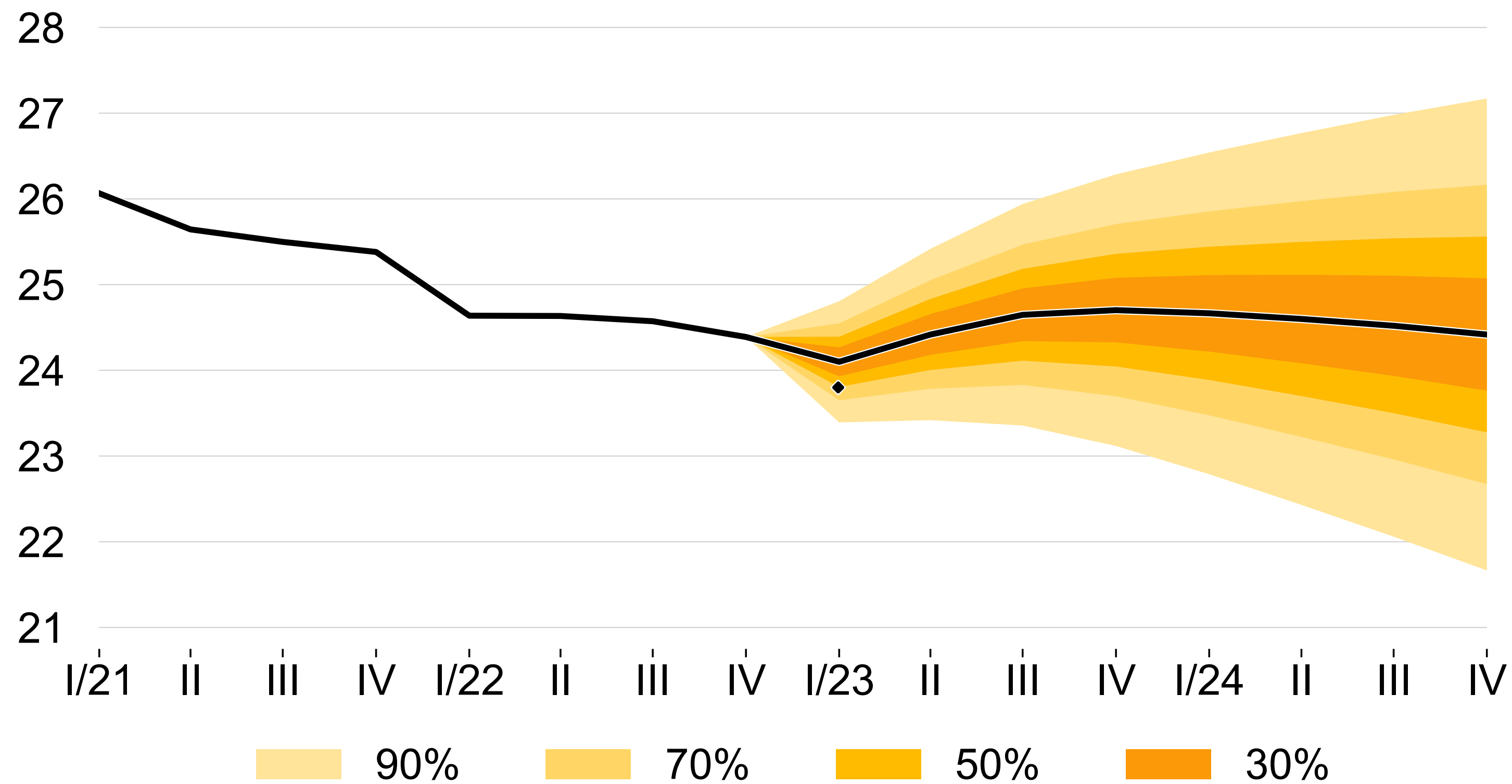
Note: y-o-y changes in %.

GDP forecast and outcome in 2022 Q4



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

CZK/EUR exchange rate forecast and outcome in 2023 Q1



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
- threat of inflation expectations becoming unanchored from the CNB's 2% target

Anti-inflationary risk:

- stronger-than-forecasted downturn in domestic consumer and investment demand

Uncertainties:

- persistence of inflation and its pace of decrease towards the inflation target
- volatility in global financial markets and related monetary policy stance abroad
- future course of the war in Ukraine
- availability and prices of energy

Statutory mandate

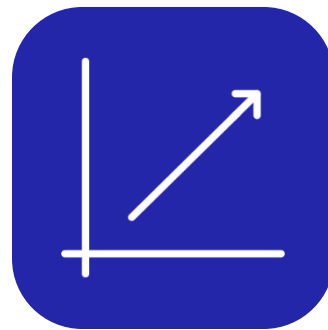
- The Bank Board assures the public that the CNB's actions will be sufficient to restore price stability in accordance with its statutory mandate.
- In addition, the Bank Board is ready to react appropriately to any materialisation of the risks of the forecast.

Thank you for your attention

Minutes of the today's meeting and the Graph of Risks to the Inflation Projection (GRIP) will be released on 11 April 2023 at <https://www.cnb.cz/en/monetary-policy/bank-board-decisions/>



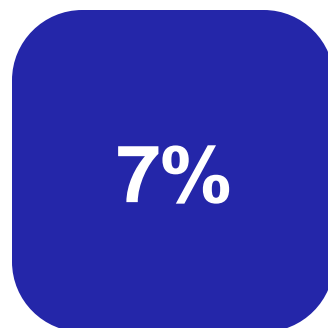
Decision in a nutshell



Consistent with the baseline scenario of the winter 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.



Six members voted in favour of this decision.