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# 5th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



## Monetary policy decision

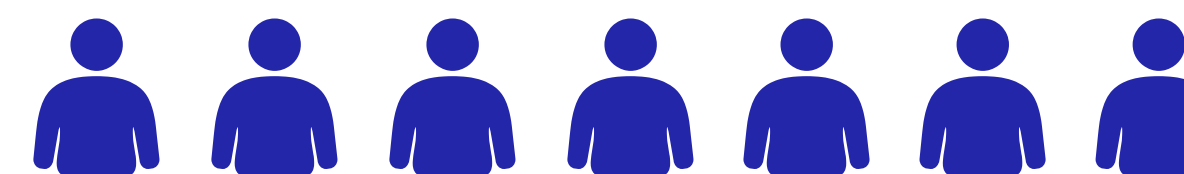
6.00%  
discount  
rate

7.00%  
2W repo  
rate

8.00%  
Lombard  
rate

### VOTING ON 2W REPO RATE

LEAVE UNCHANGED at 7.00%



The interest rate decision adopted by the Bank Board is underpinned by **a new macroeconomic forecast**. Consistent with the baseline scenario of the forecast is a decline in market interest rates over the entire outlook.

In addition to the baseline scenario, the Bank Board discussed **two other scenarios**. The first simulates the potential impact of elevated inflation expectations, while the second assumes a faster recovery in domestic demand.

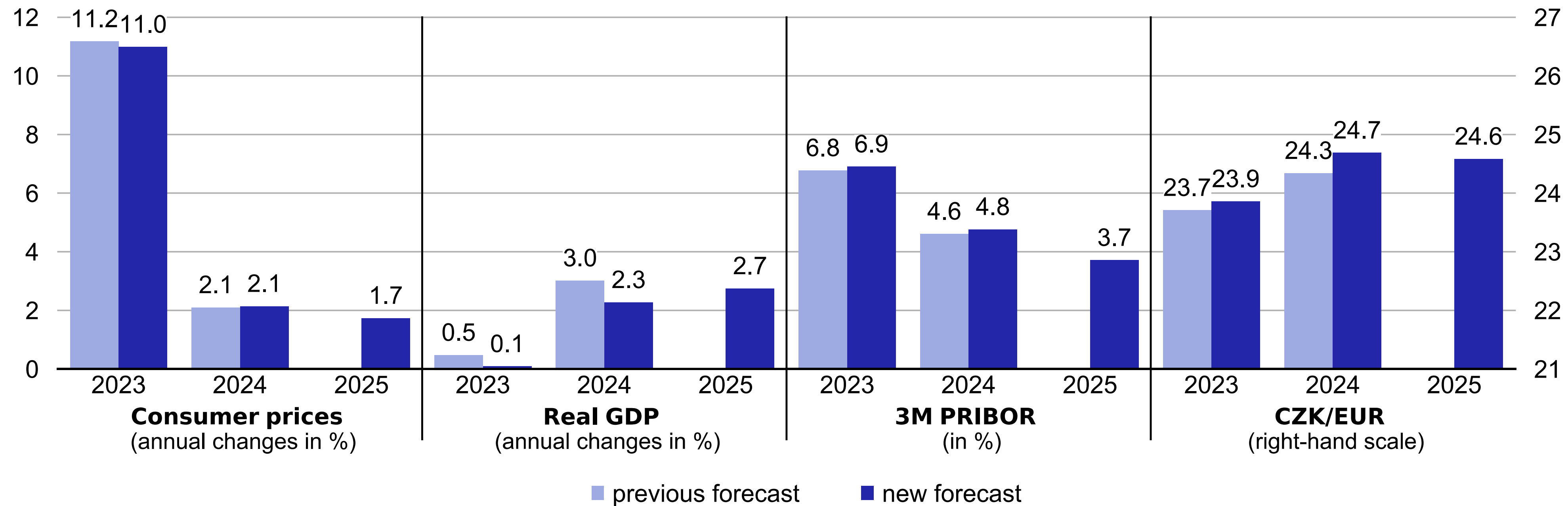
Since October 2022, the CNB has not intervened on the foreign exchange market to counter depreciation of the koruna. The Bank Board **today formally ended the intervention regime** announced in May 2022 and at the same time **resumed the programme of sales of part of the income on international reserves**. As part of the managed float regime, the CNB will always as a matter of principle prevent excessive fluctuations of the koruna exchange rate that would jeopardise price stability or financial stability, at any time the Bank Board deems it necessary.

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 be higher than in the baseline scenario** of the forecast in the coming quarters.

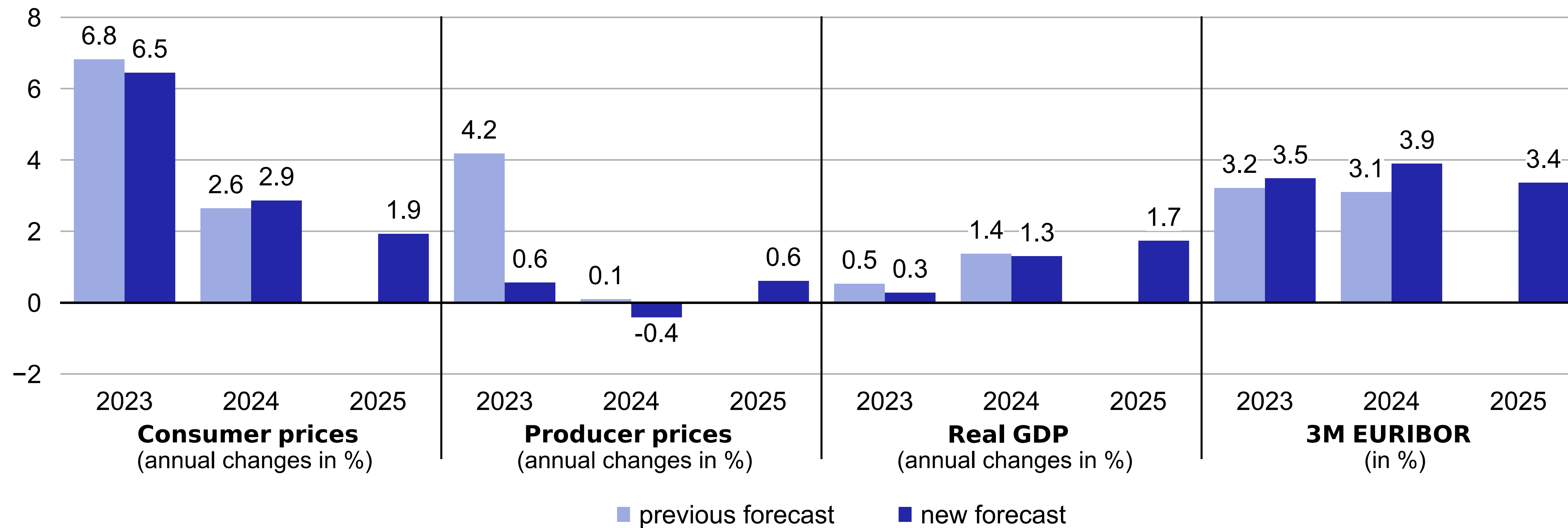
## Economic developments

- The strong cost inflation pressures from the external environment and demand pressures from the domestic economy are receding in the Czech economy.
- According to the CZSO's flash estimate, GDP rose by 0.1% quarter on quarter in Q2. In the previous quarter, the economy had stagnated. On a year-on-year basis, GDP fell by 0.6% in Q2. Growth continued to be countered mainly by household consumption, which is being dampened by high energy and food prices, negative sentiment and higher interest rates. According to our analyses, the economy is below its potential.
- On the other hand, unemployment remains low and the labour market tight. Industrial production is rising year on year, due mainly to a recovery in the automotive industry as supply chain problems recede.
- External demand is slowing, partly because of the tight monetary policies of major central banks and the gradual fading of the government measures adopted during the energy crisis.

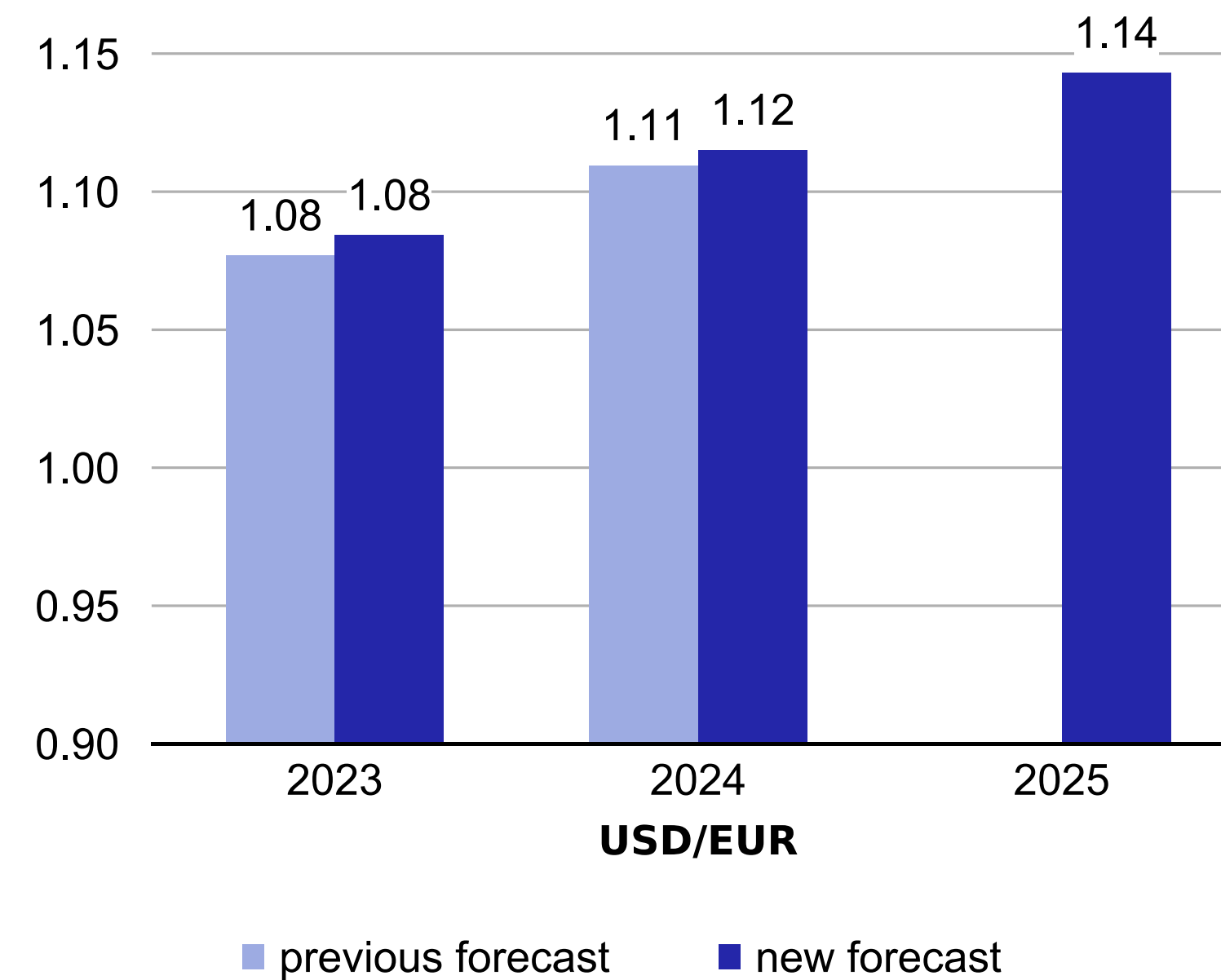
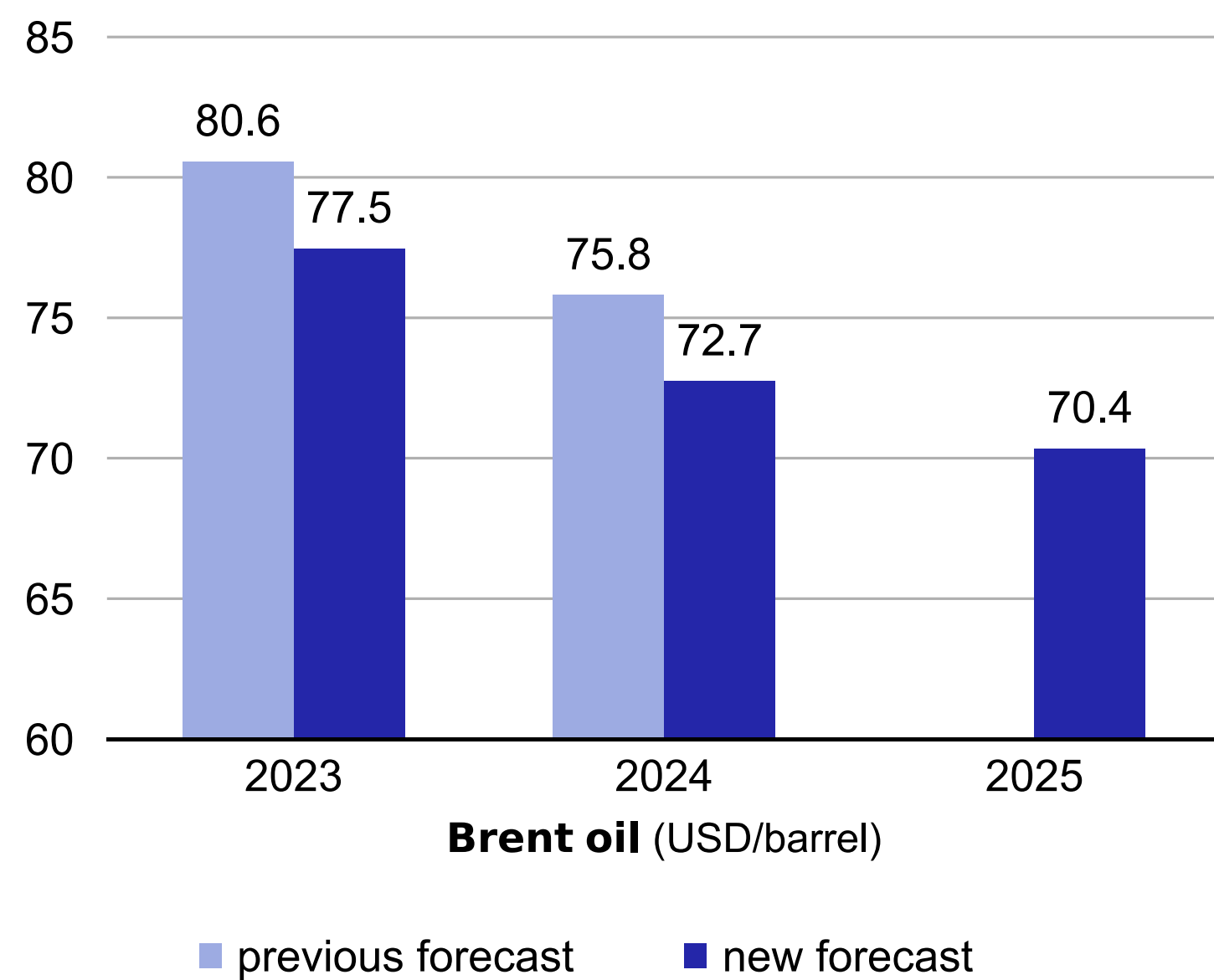
# Comparison with the previous CNB forecast



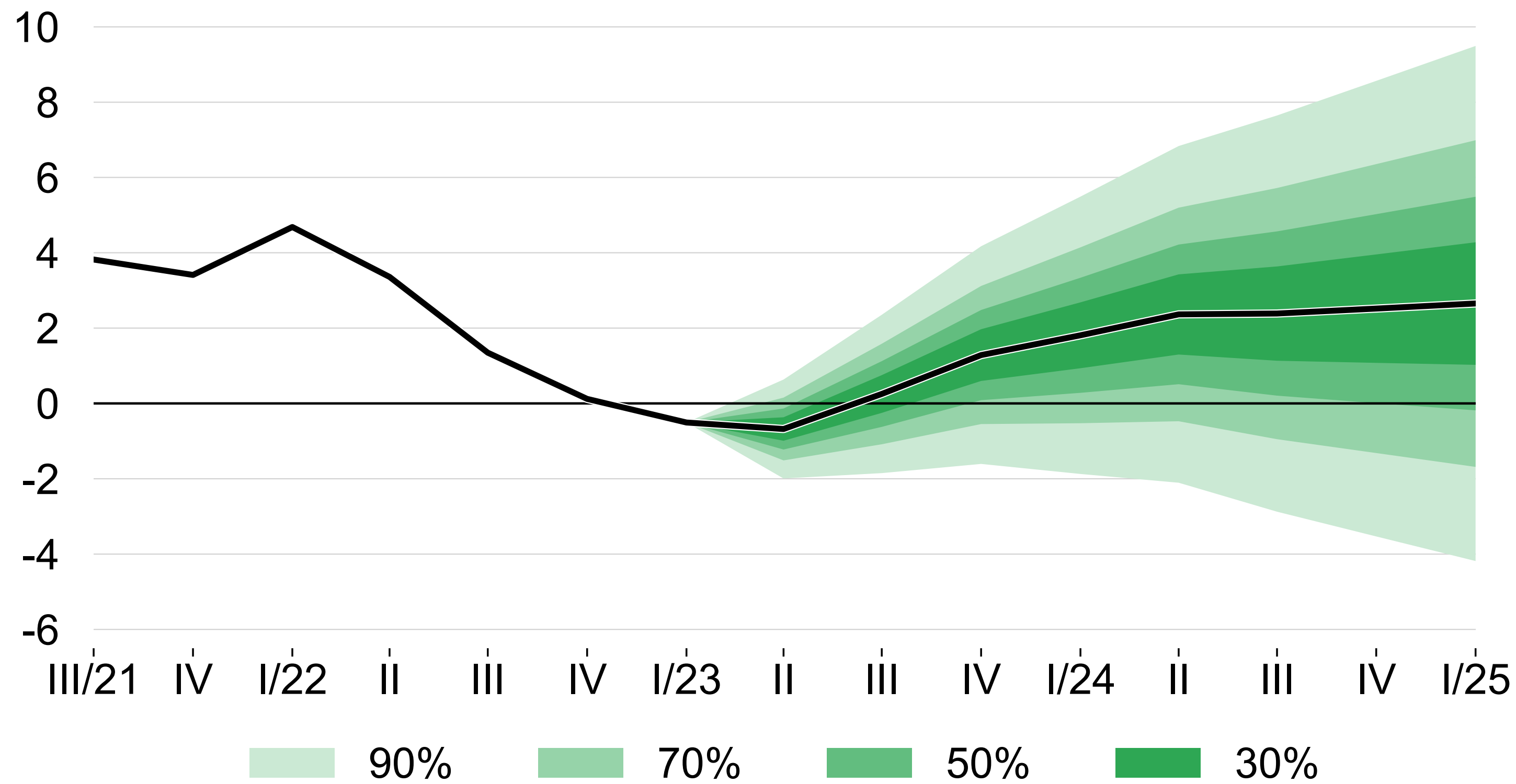
## External environment: forecast and outlook for the effective euro area



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

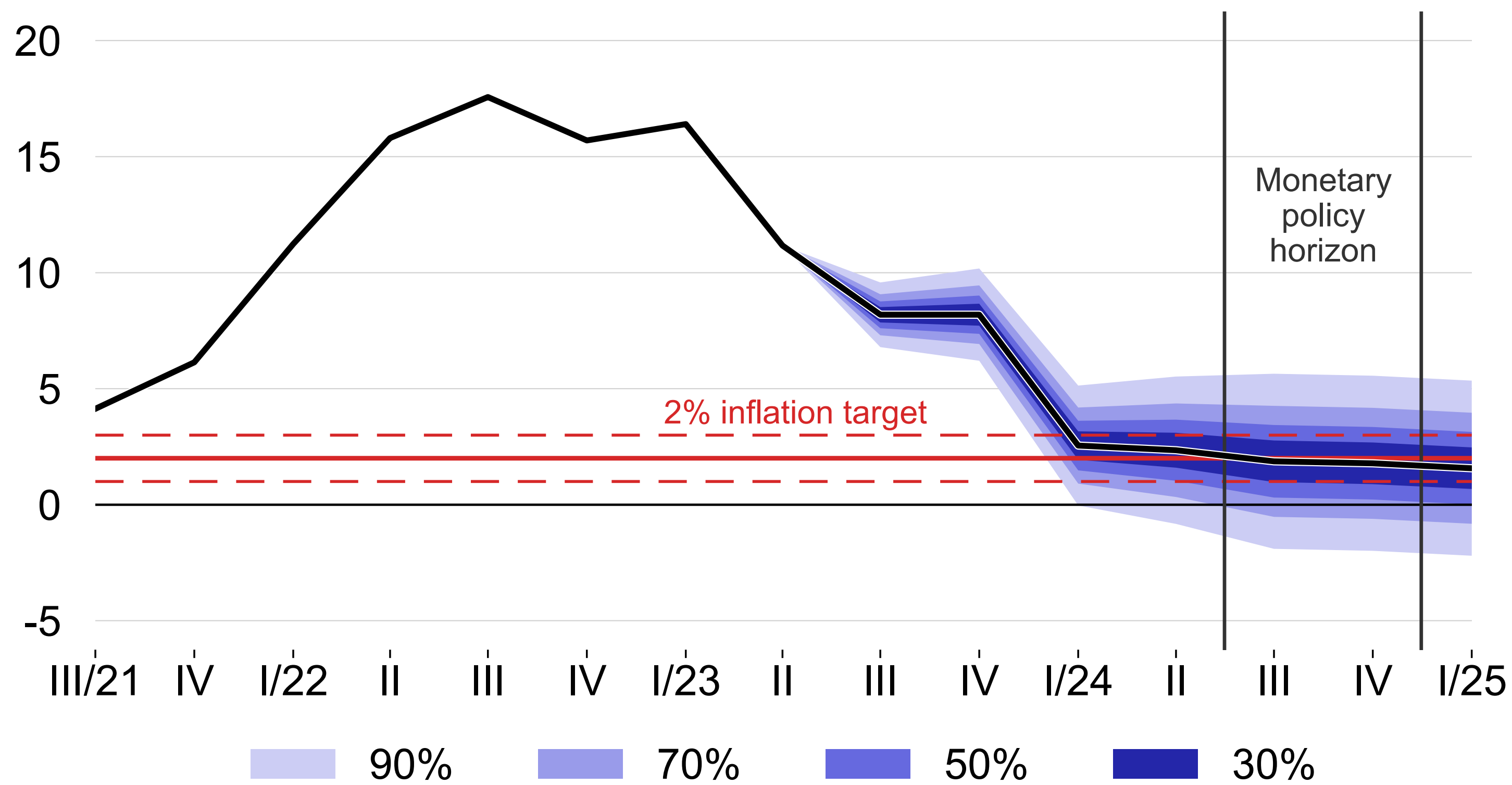


# GDP forecast



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

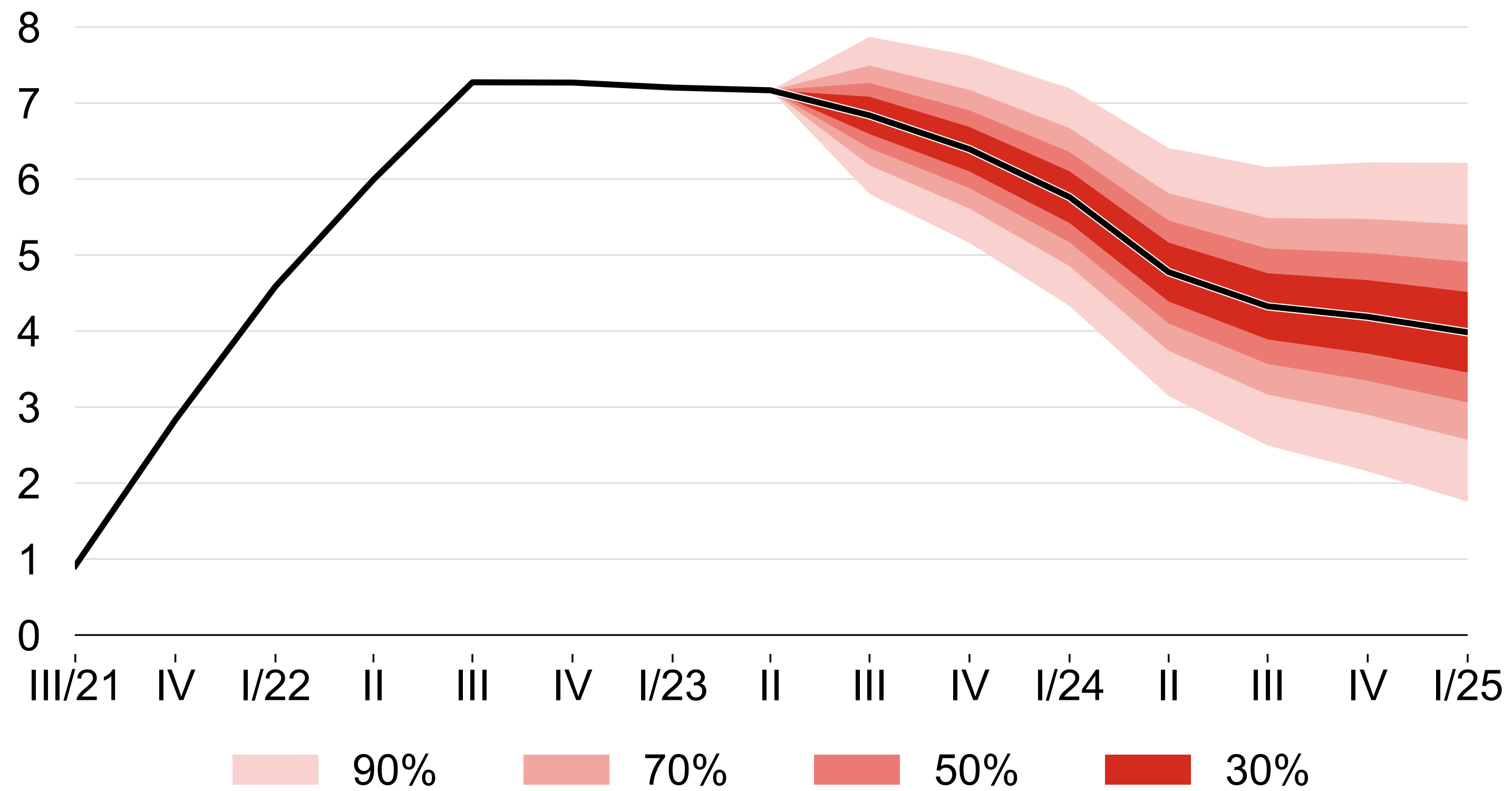
# Inflation forecast



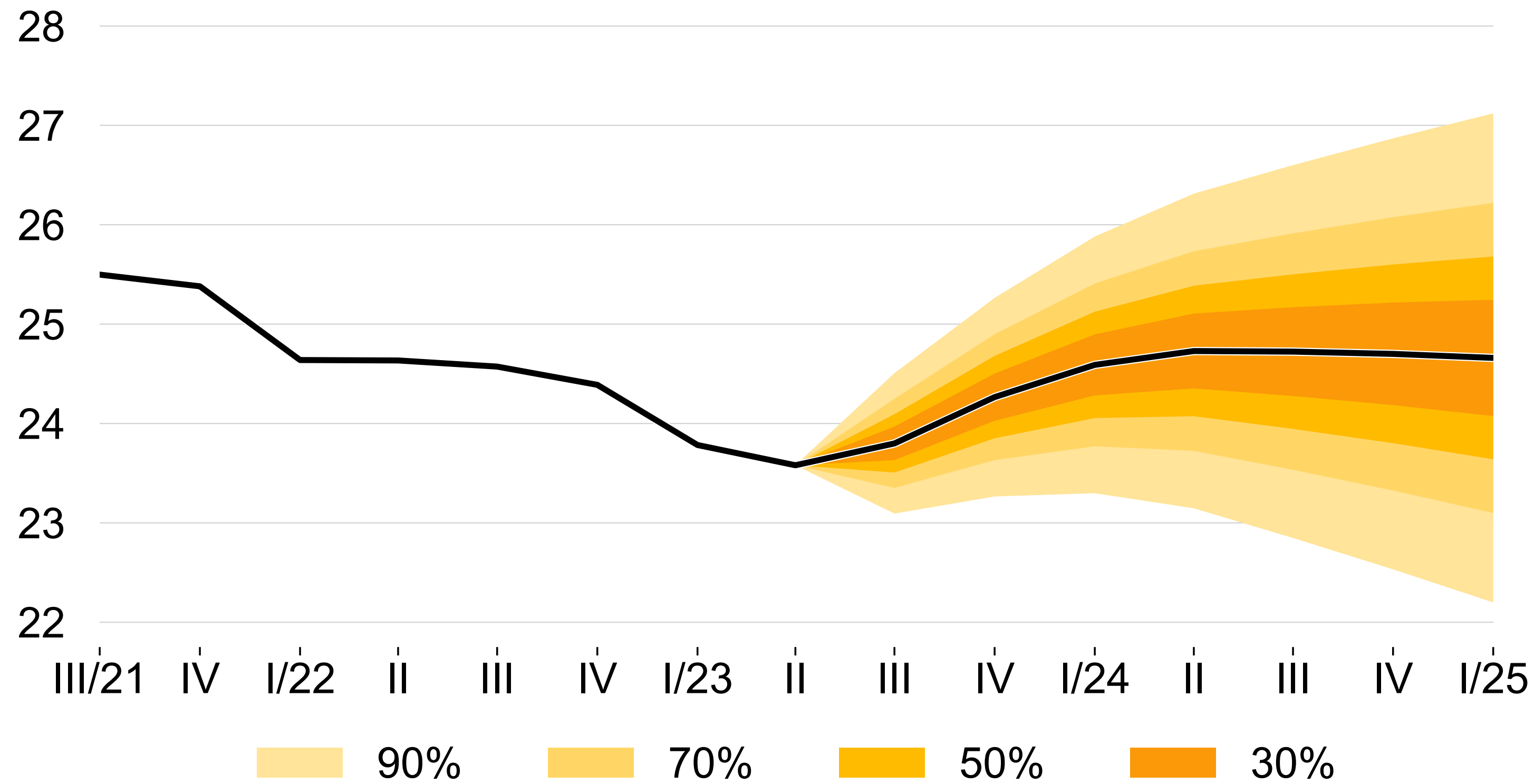
Note: y-o-y changes in %.



## 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 tilted to the upside.**

### **Inflationary risks:**

- threat of inflation expectations becoming unanchored and the related risk of a wage-price spiral, which would lead to renewed demand-pull pressures and persistent inflation
- longer effect of expansionary fiscal policy

### **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 – Summer 2023.

The introductory part of the Report (together with the boxes and the table of key macroeconomic indicators) will be published on 4 August 2023.

The whole Report will be published on 11 August 2023.



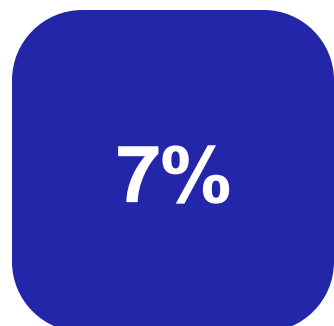
## Decision in a nutshell



Consistent with the baseline scenario of the forecast is a decline in market interest rates over the entire outlook.



The Bank Board assessed the risks and uncertainties as being significant and tilted to the upside.



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



All seven members voted in favour of this decision.