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# 7th 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%

DECREASE  
to 6.75%



The Bank Board discussed **the new macroeconomic forecast**. Its baseline scenario implies a gradual decline in interest rates from 2023 Q4 onwards.

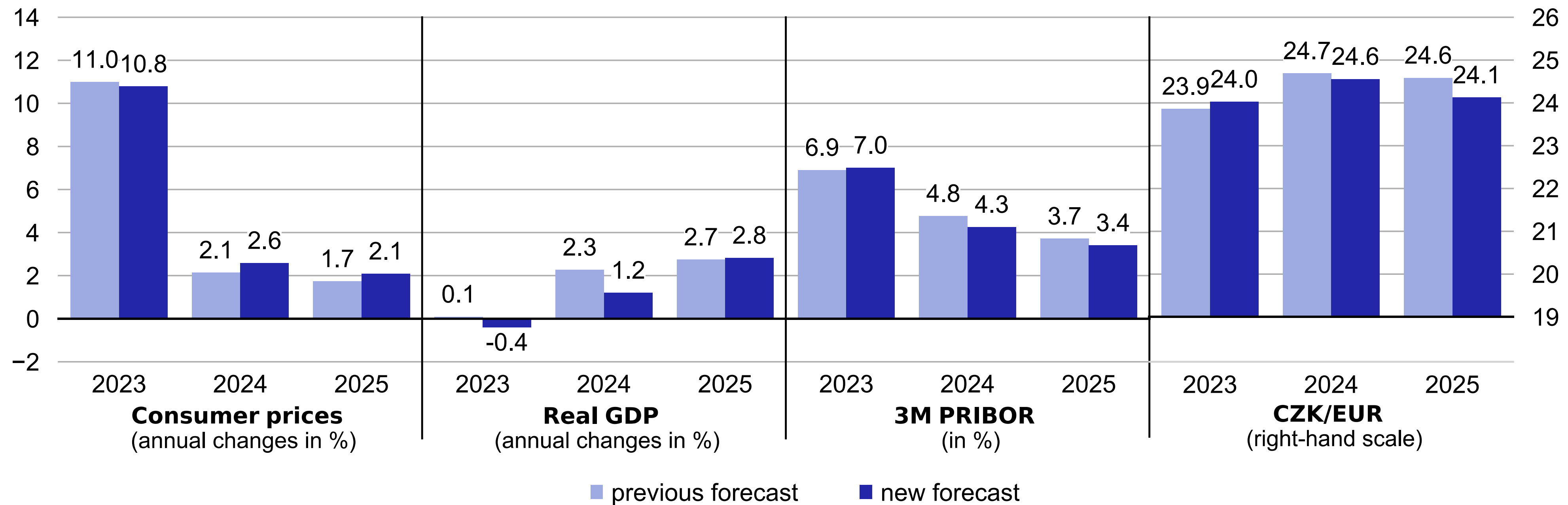
The Bank Board discussed other scenarios showing that the potential macroeconomic costs of leaving rates unchanged for longer than in the baseline scenario would be low if the upside risks to inflation did not materialise.

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**. The interest rate path will therefore most probably be higher than in the baseline scenario of the forecast in the coming quarters.

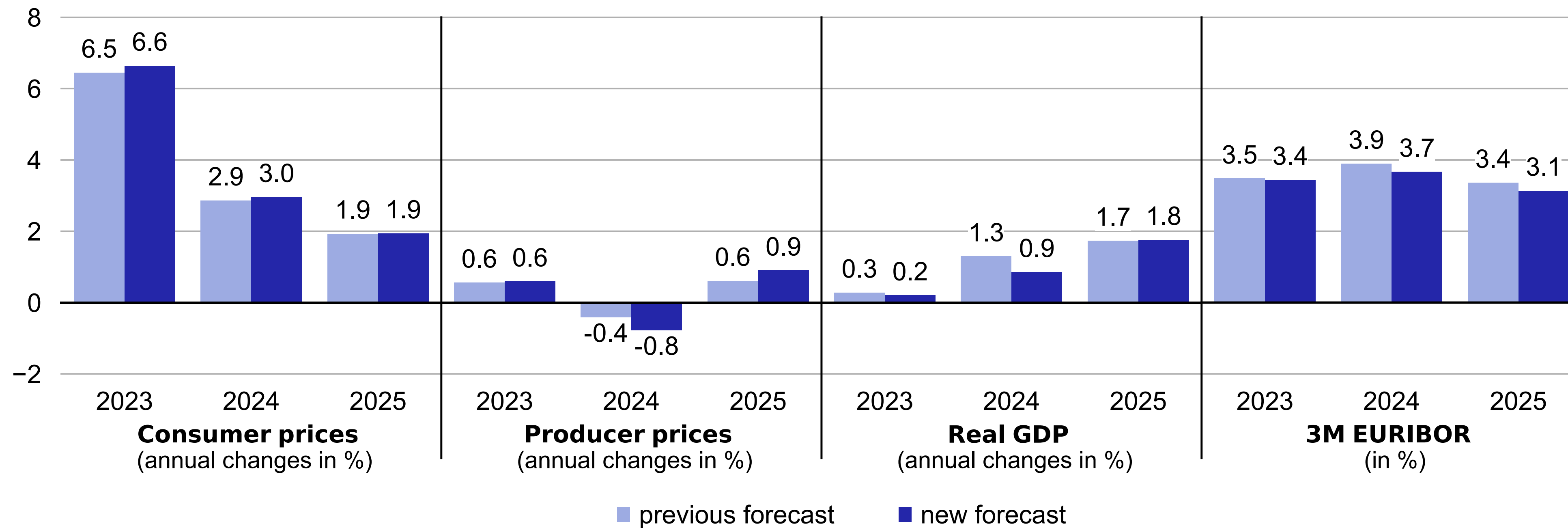
## Economic developments

- 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 fell by 0.6% year on year in 2023 Q3, the same as in the previous quarter. Economic activity is being held back 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. However, wage growth was below expectations in 2023 Q2 (wages grew by 7.7% year on year). Industrial production is declining year on year, due mainly to subdued external demand, which is being affected by the tight monetary policy of foreign central banks.

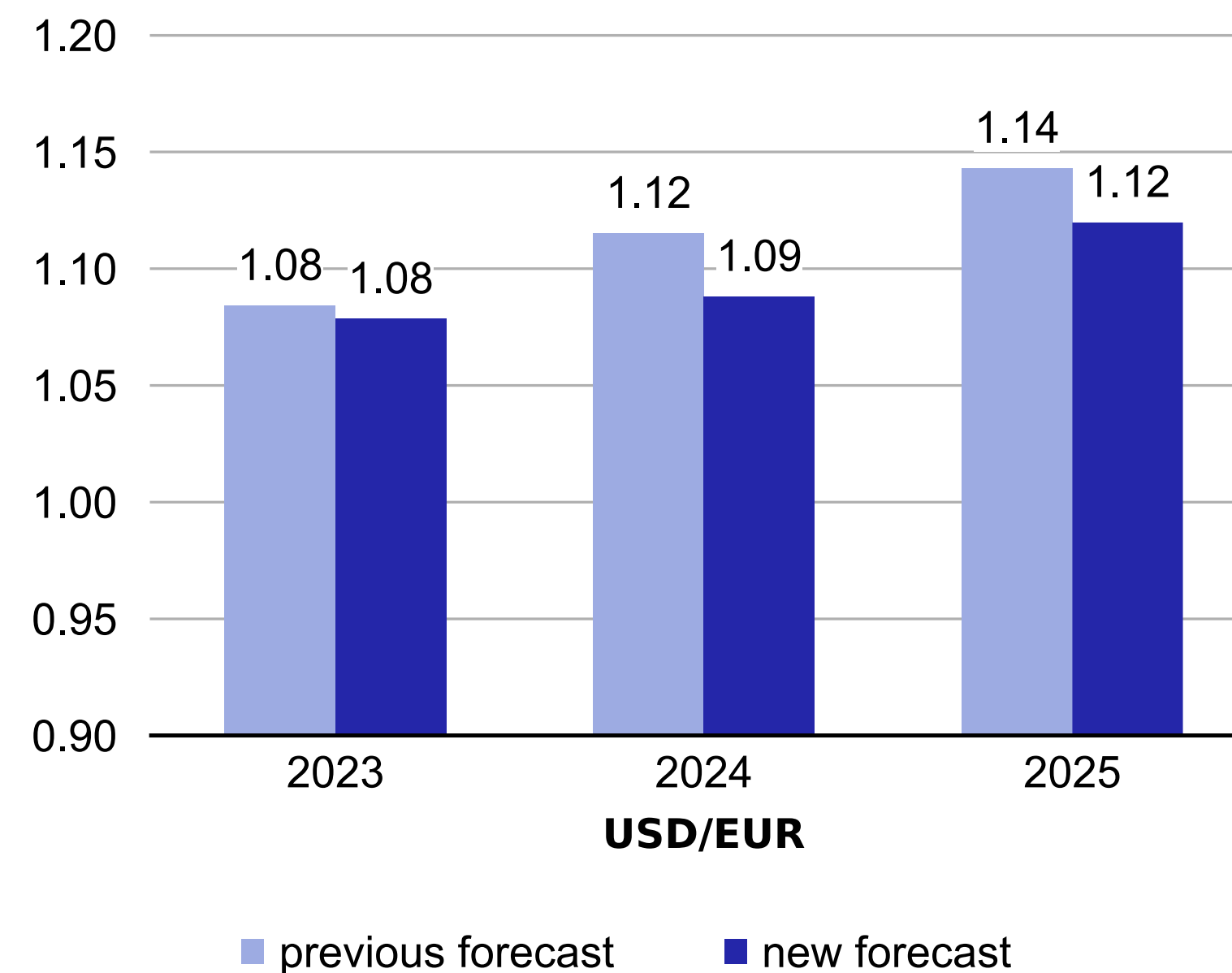
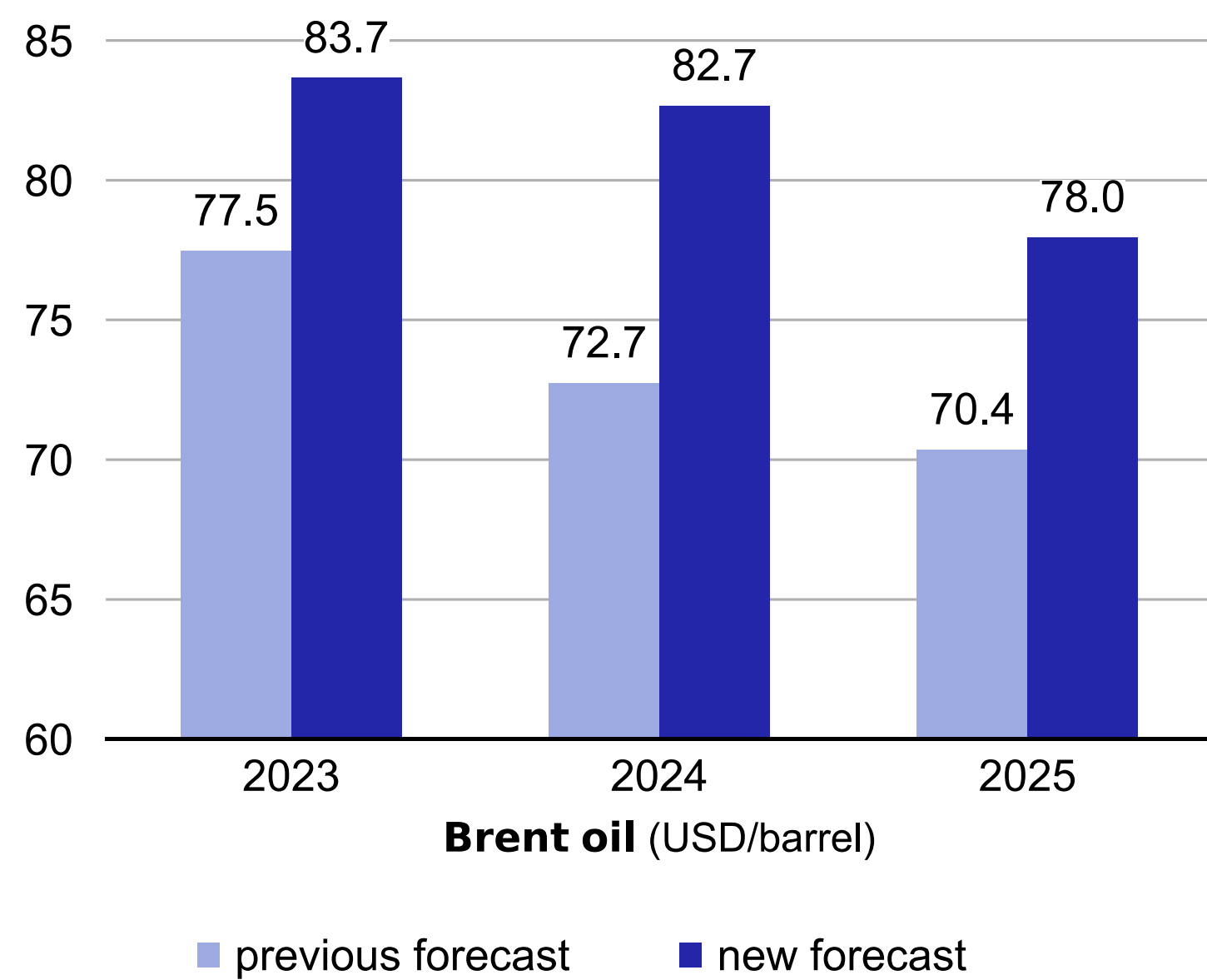
## Comparison with the previous CNB forecast



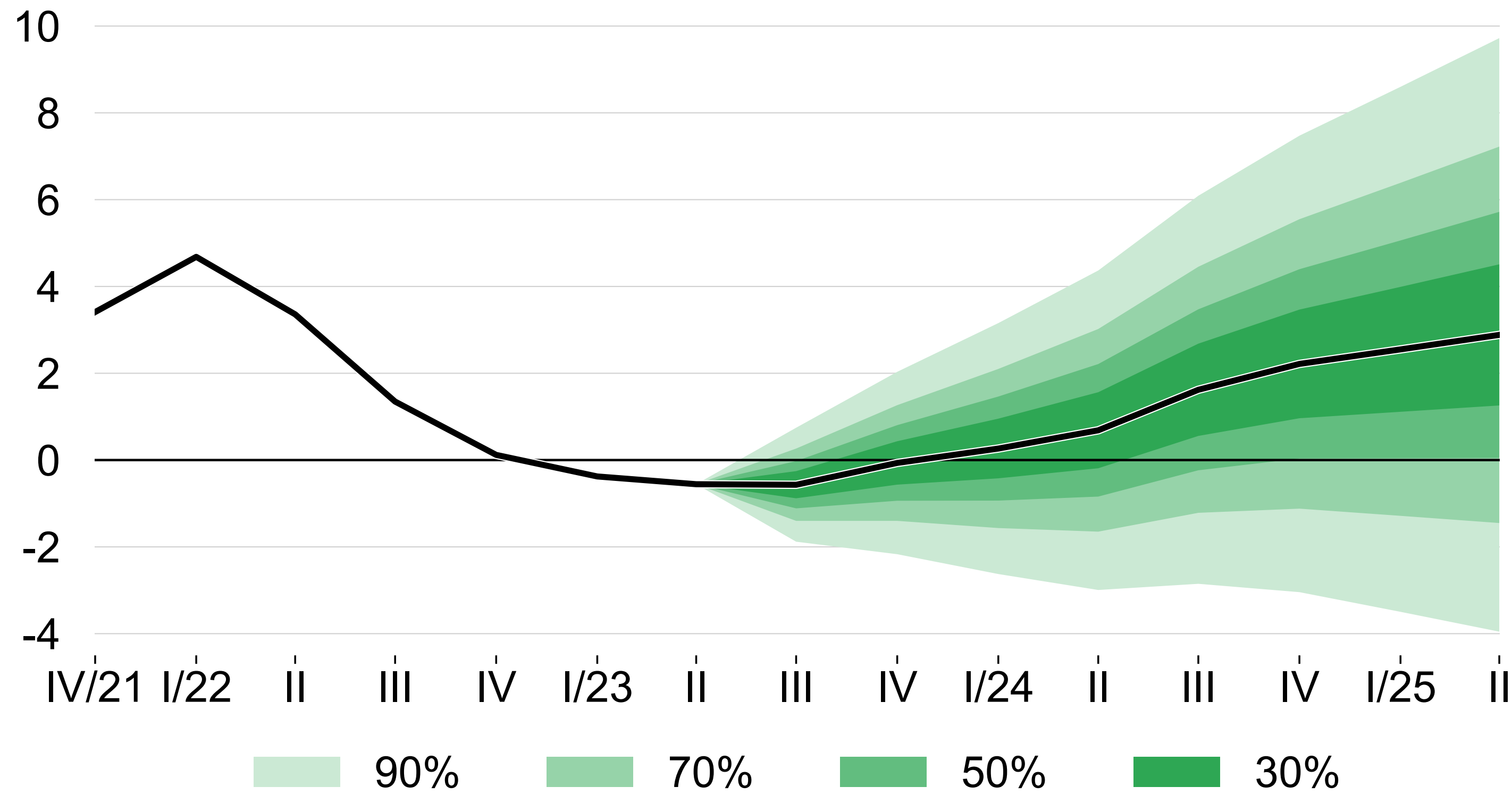
# External environment: forecast and outlook for the effective euro area



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

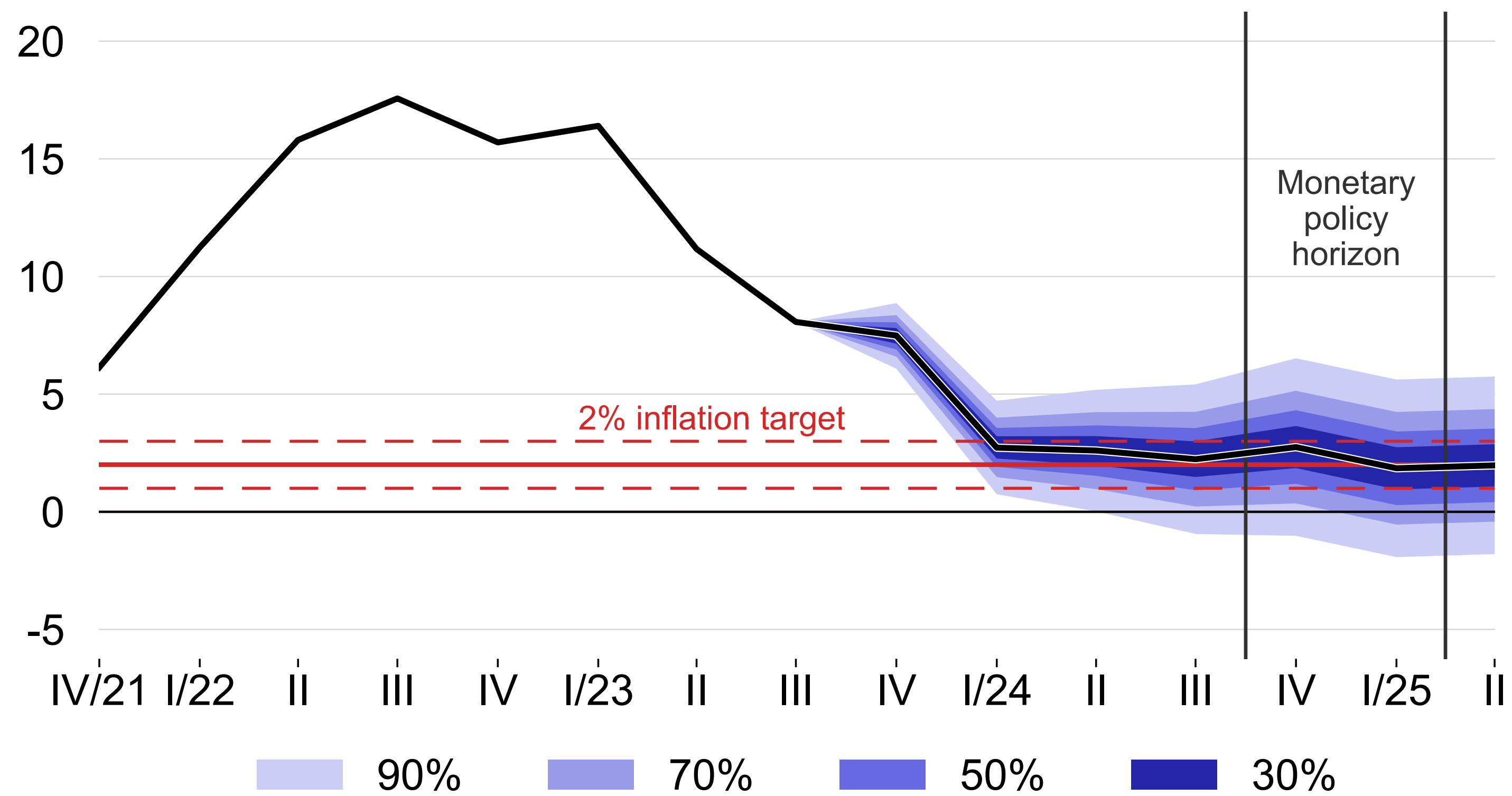


# GDP forecast



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

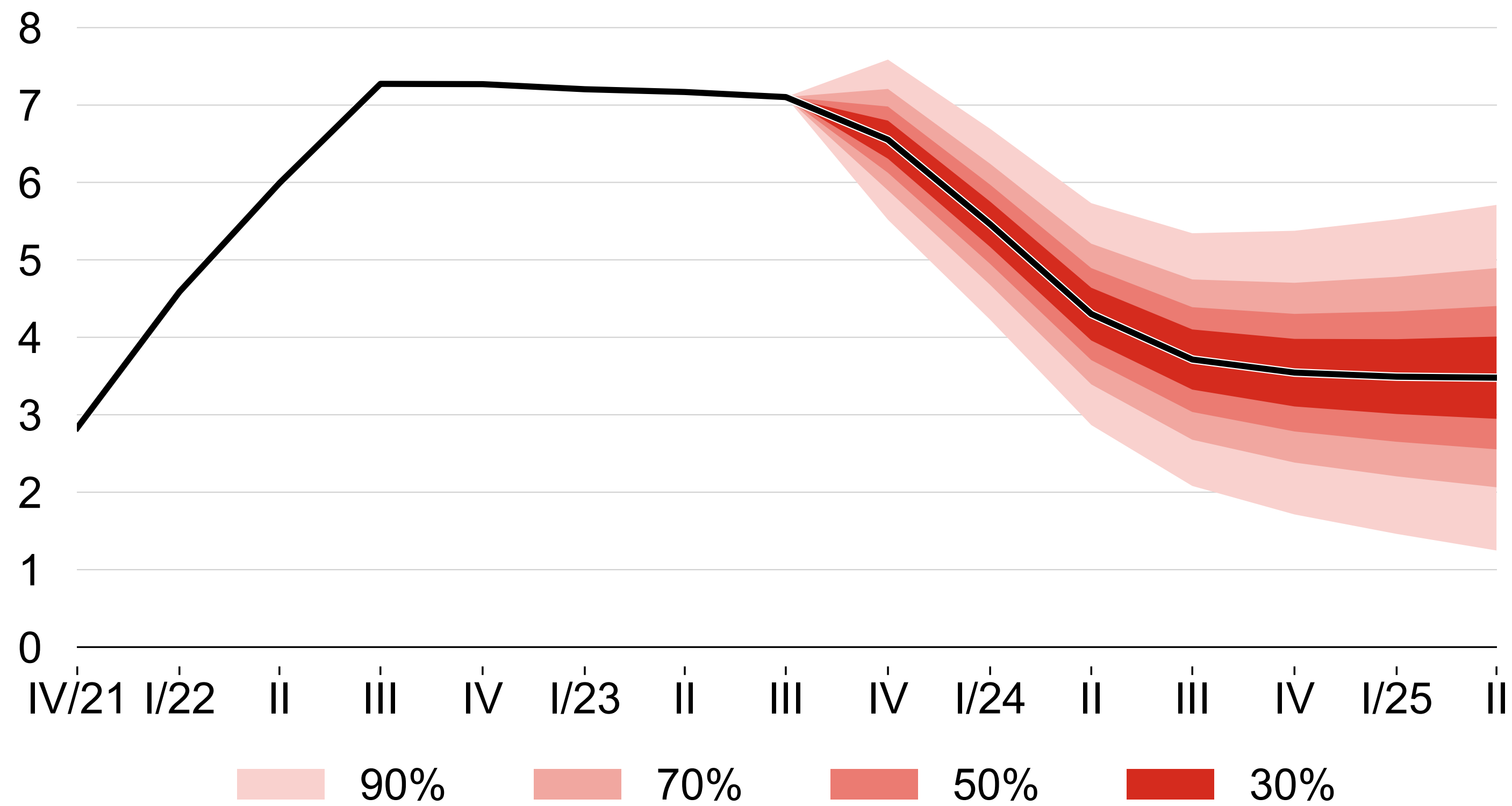
# Inflation forecast



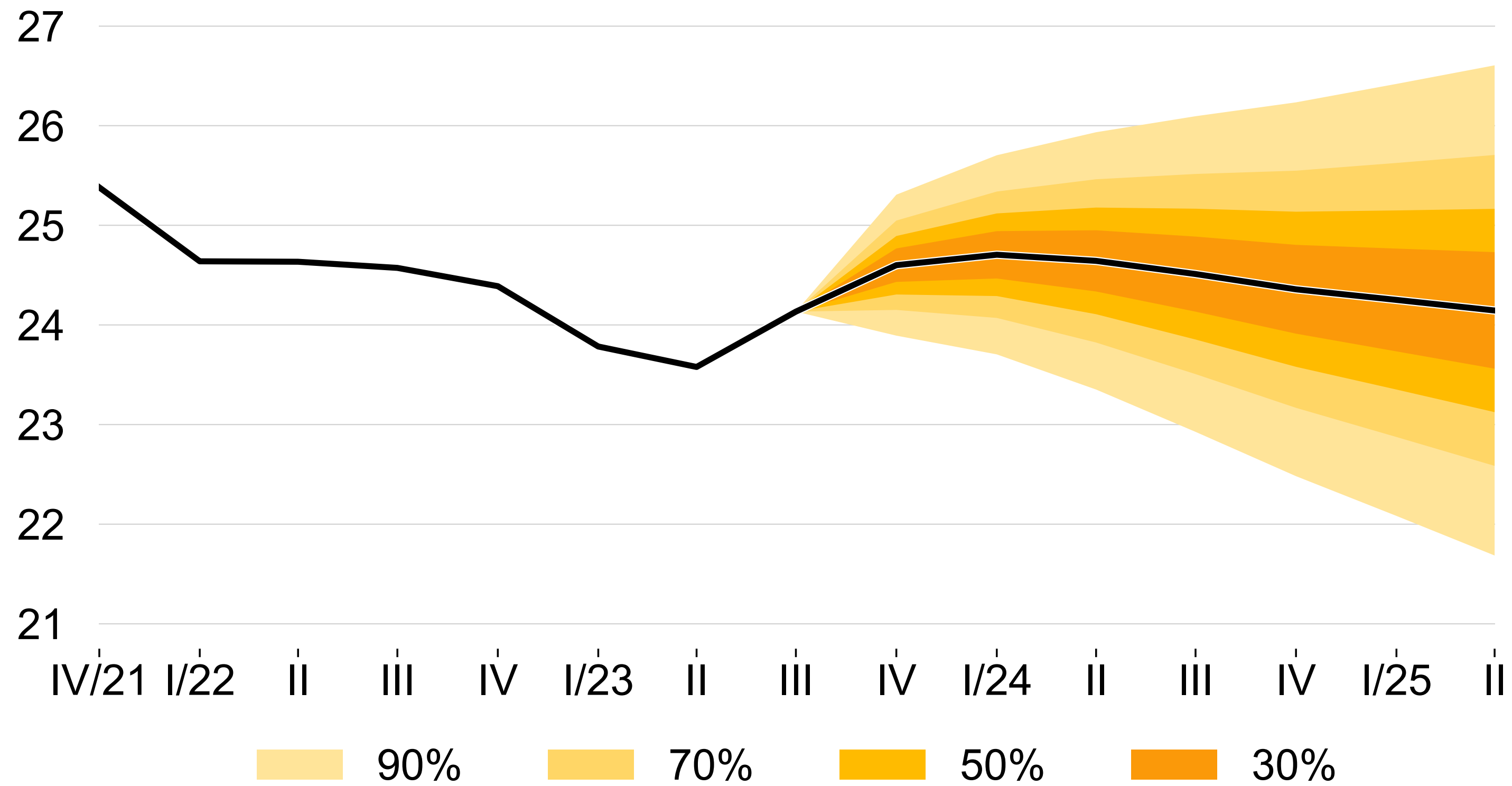
Note: y-o-y changes in %.



## 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, which could lead to increased wage bargaining demands and stronger repricing at the start of next year
- longer effect of expansionary fiscal policy

### **Anti-inflationary risk:**

- stronger-than-expected downturn in economic activity in Germany and potential impacts of globally tightened monetary and financial conditions

### **Uncertainties:**

- future course of the war in Ukraine and the Middle East
- 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 – Autumn 2023.

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

The whole Report will be published on 10 November 2023.



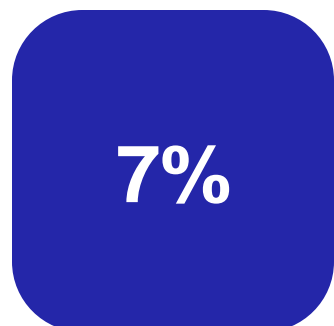
## Decision in a nutshell



Consistent with the baseline scenario of the forecast is a decline in market interest rates from 2023 Q4 onwards.



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%.



Five members voted in favour of this decision.