# 8th Situation Report
# on Economic and Monetary Developments



Press conference of the Bank Board

21 December 2023

# Monetary policy decision

**VOTING ON 2W REPO RATE**

**DECREASE to 6.75%**

5.75%
discount rate

**6.75%**
**2W repo rate**

7.75%
Lombard rate

The decision adopted by the Bank Board is underpinned by **the autumn (November) macroeconomic forecast** and **by an assessment of information obtained since it was prepared**.

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

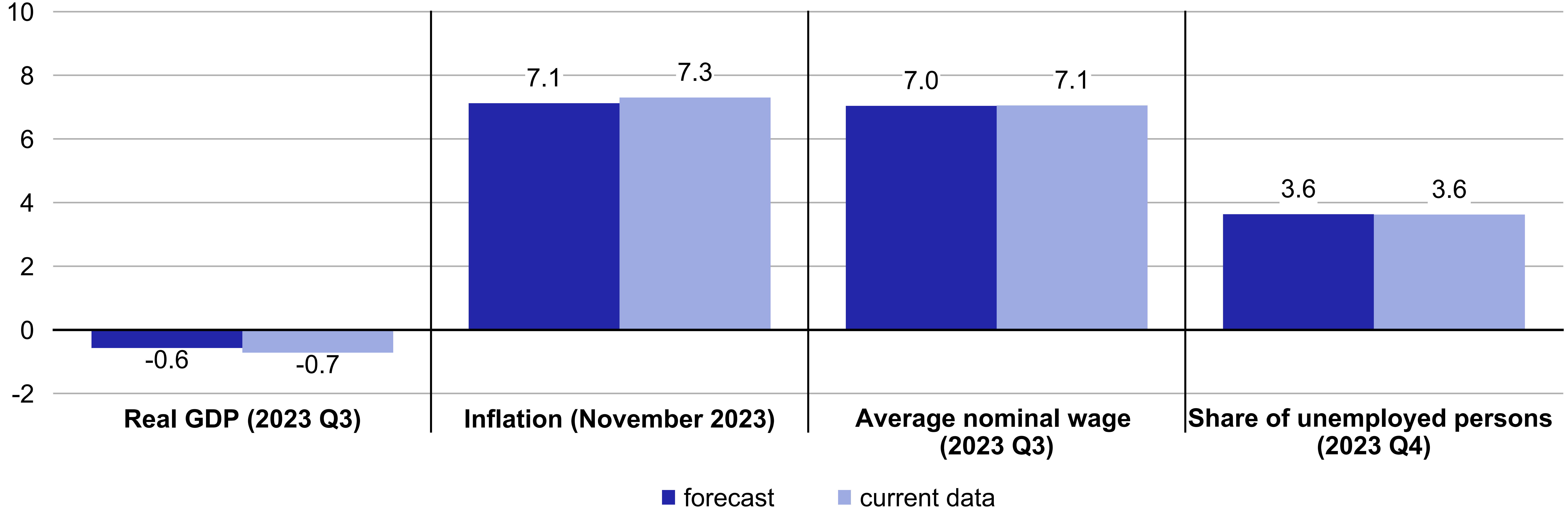
# Economic developments

- The cost inflation pressures from the external environment and demand pressures from the domestic economy are still receding in the Czech economy.
- According to our analyses, the economy is below its potential. It is being held back by household consumption, which is being dampened by the still restrictive monetary policy, high energy and food prices and negative sentiment. GDP fell by 0.5% quarter on quarter in Q3, i.e. by 0.3 percentage point more than forecasted.
- Unemployment remains low and the labour market tight. Wage growth was broadly in line with the forecast in Q3 (wages rose by 7.1% year on year). The risk of a wage-price spiral is therefore not materialising so far. In the coming quarters, we expect real wage growth to turn positive and thus support household consumption.

# Economic developments

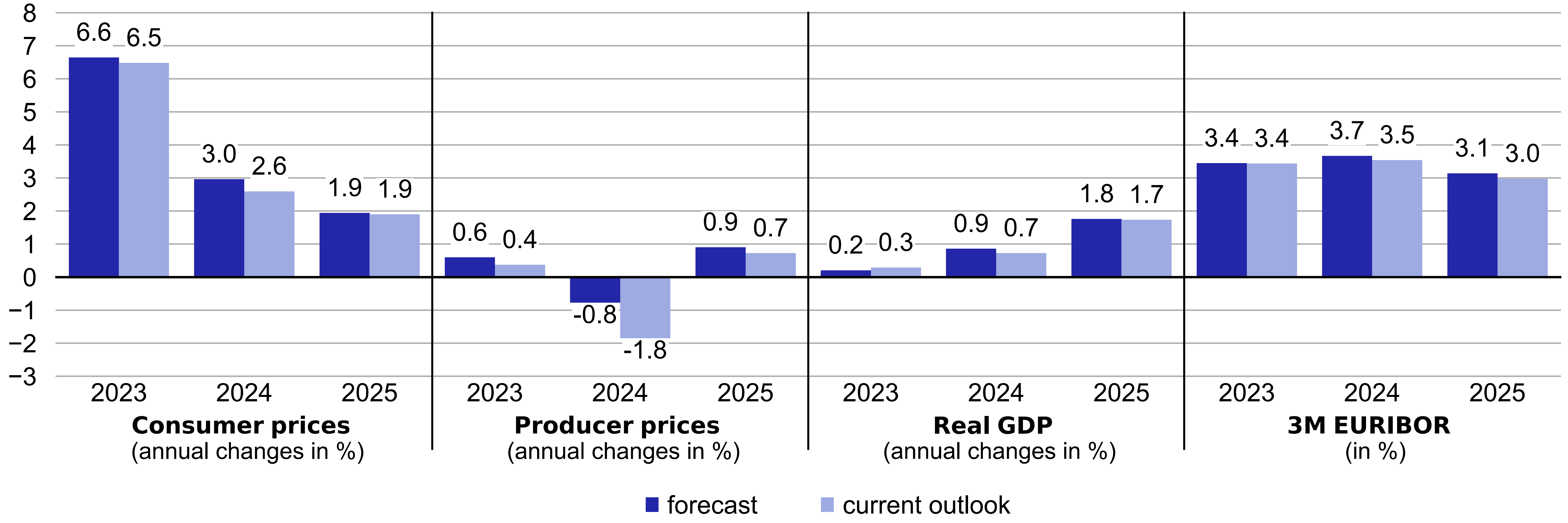
- The available indicators from the real economy are indicating that the Czech economy will be broadly stagnant in 2023 Q4. External demand is slowing, partly because of the tight monetary policies of major central banks and the gradual fading of the government measures adopted during the energy crisis.
- Annual inflation rose temporarily to 8.5% in October and then fell to 7.3% in November. The one-off rise in October was due to the statistical effect of last year’s energy savings tariff, which lowered the comparison base for prices. Adjusted for this technical factor, annual inflation would have been 4.7% in November. Inflation was slightly above the forecast, but the deviations were caused by growth in administered prices, which was higher than we had expected. As for core inflation, the disinflation continued in accordance with our assumptions. We expect inflation to fall to the upper boundary of the tolerance band around the inflation target at the start of next year.

# Comparison of current domestic data with the CNB forecast

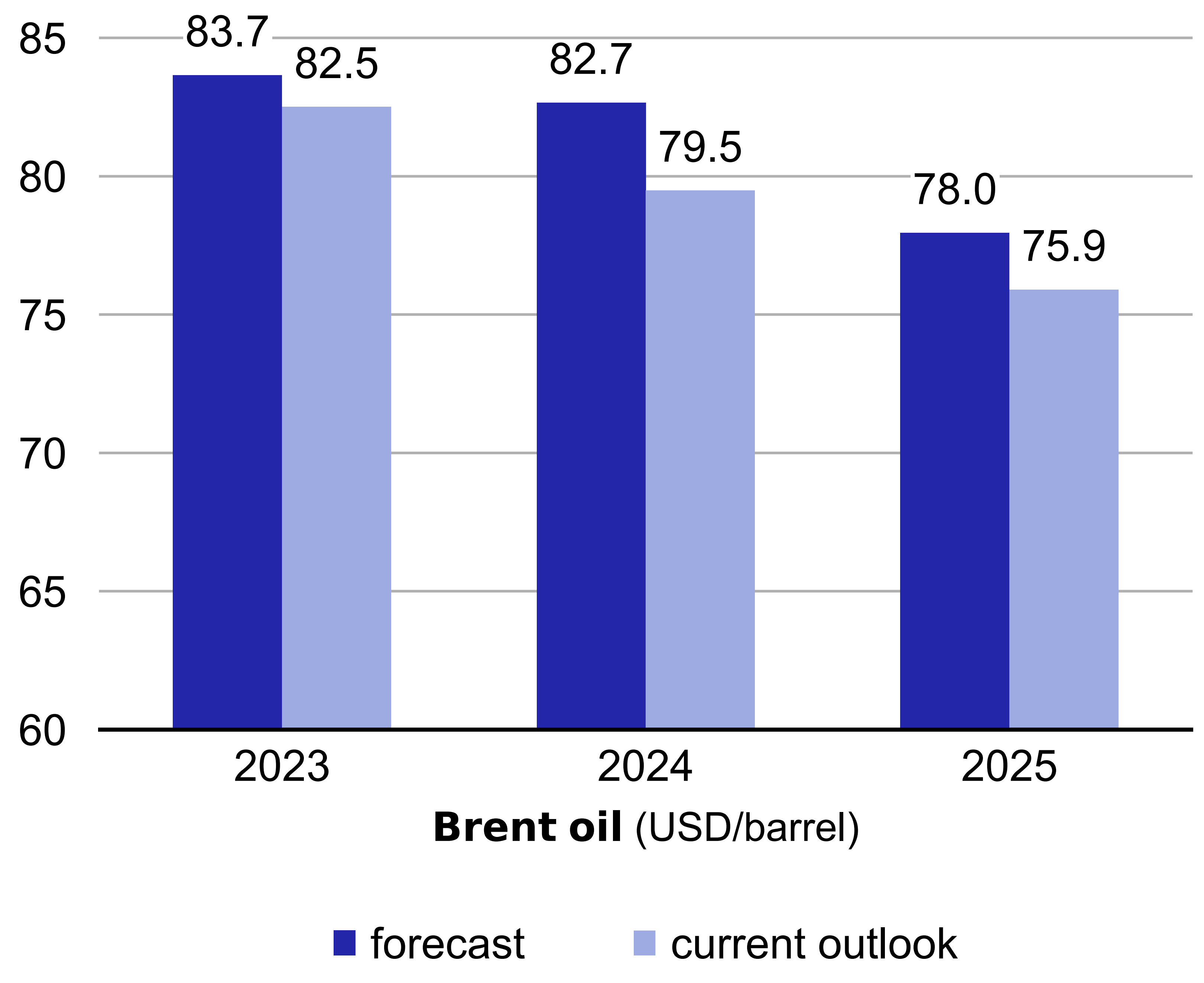


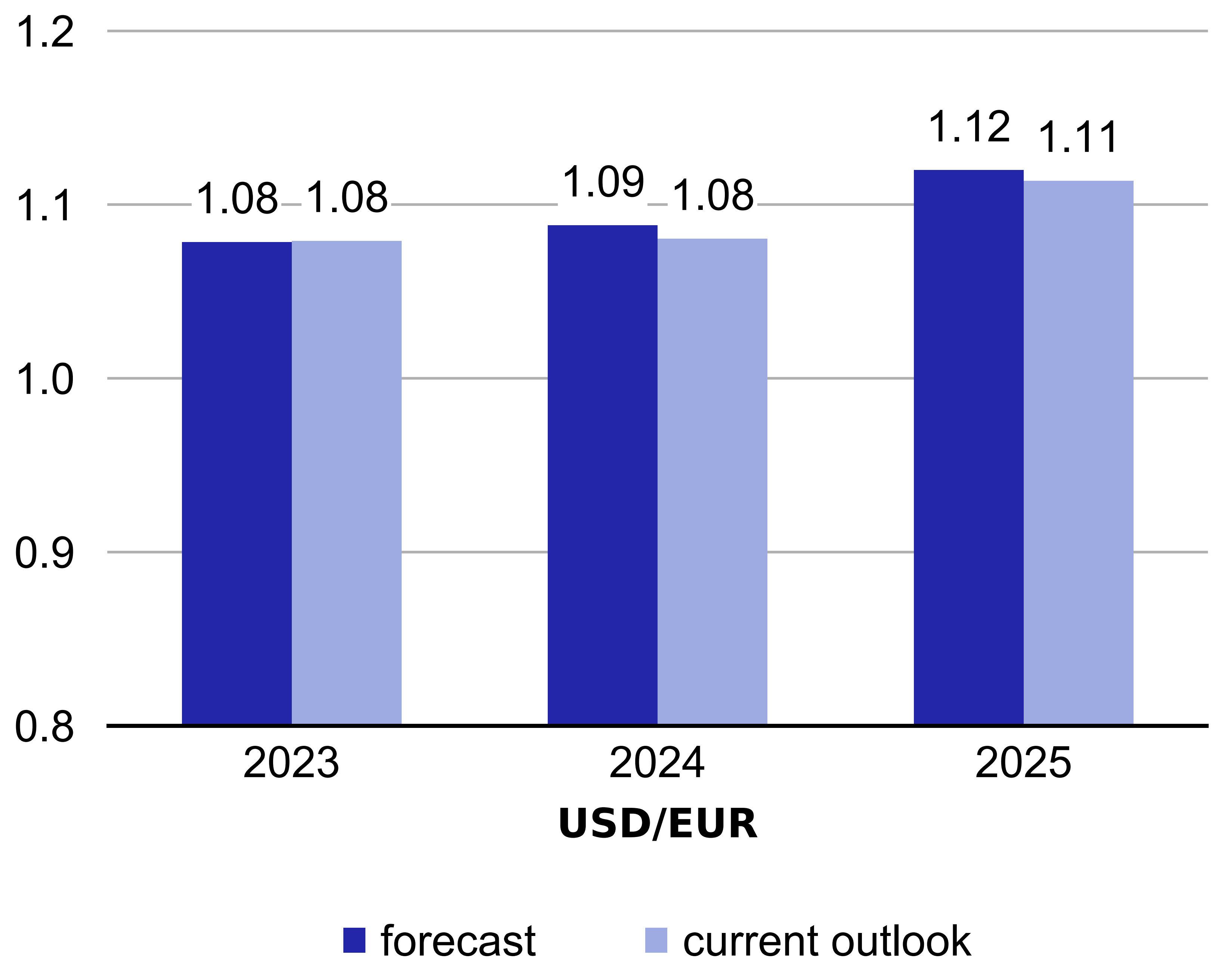

Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in October and November with the forecast for 2023 Q4).

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

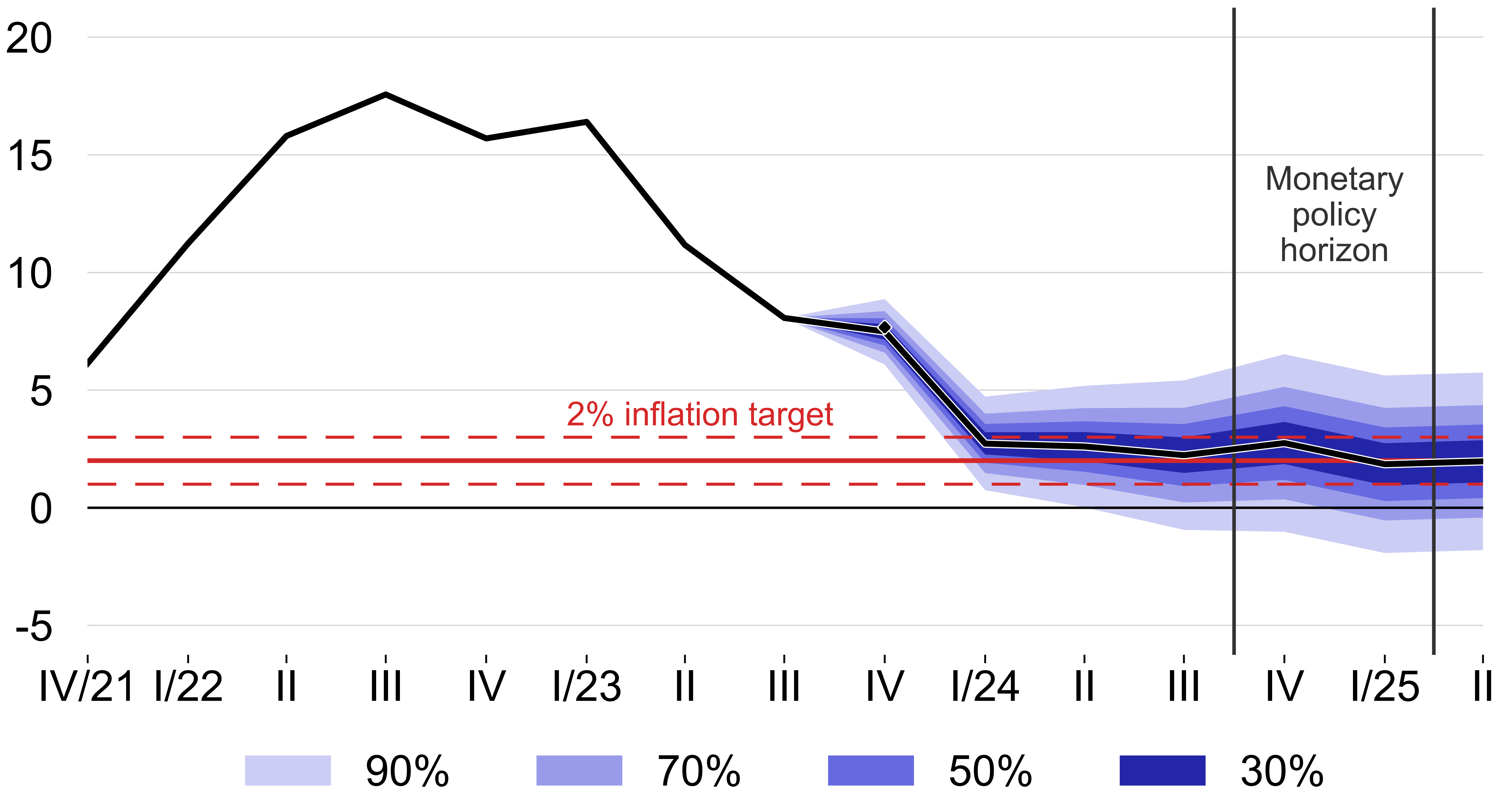


# External environment: oil price and the USD/EUR exchange rate



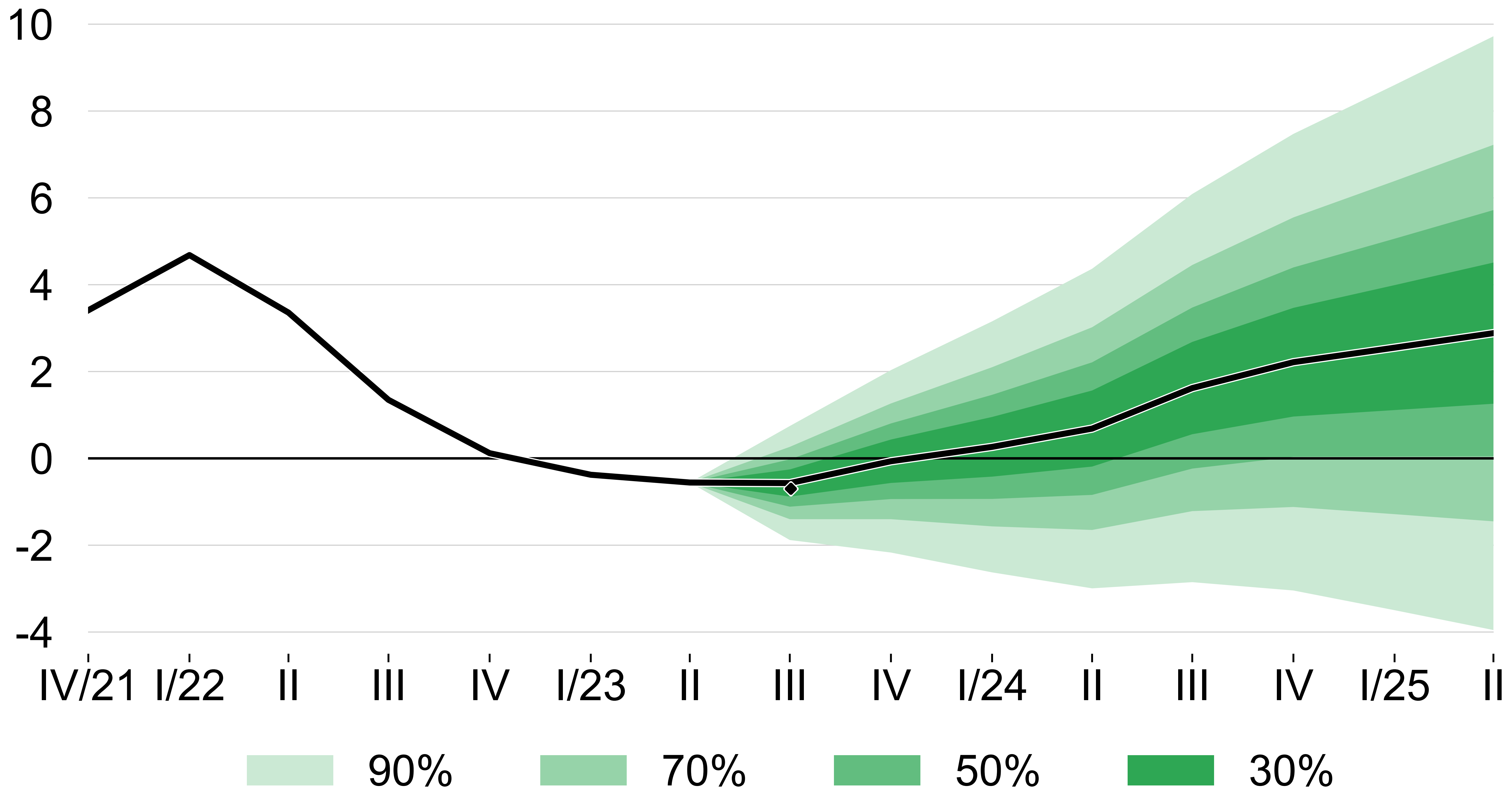



# Inflation forecast and expected outcome in 2023 Q4



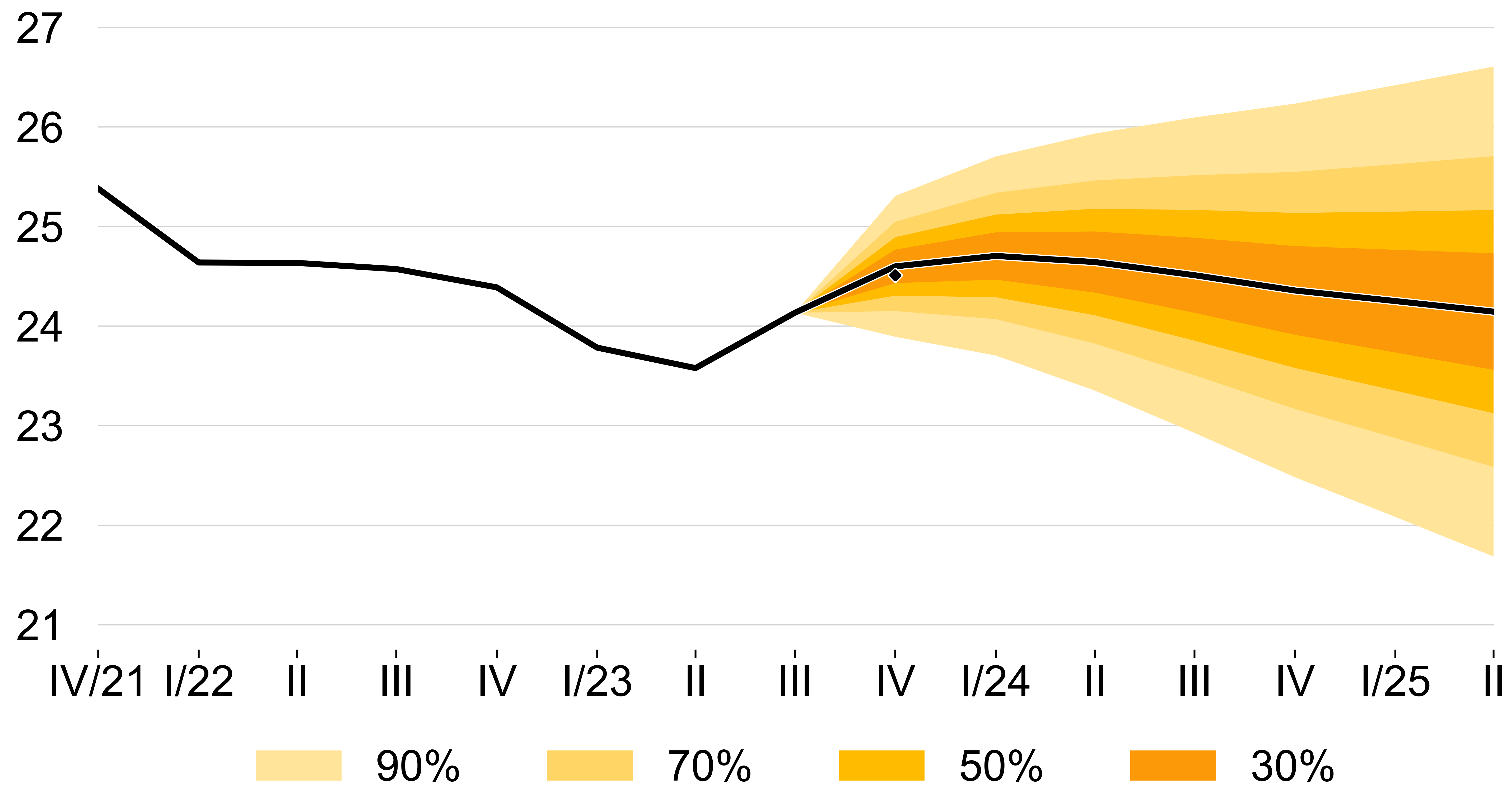

Note: y-o-y changes in %.

# GDP forecast and outcome in 2023 Q3




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

# CZK/EUR exchange rate forecast and outcome in 2023 Q4



# Risks and uncertainties of the forecast

**The Bank Board assessed the risks and uncertainties of the baseline scenario of the forecast as being modestly inflationary.**

**Inflationary risks:**

- threat of inflation expectations becoming unanchored
- impact of changes to indirect taxes on prices

**Anti-inflationary risk:**

- stronger-than-expected downturn in global economic activity and in German economic output

**Uncertainty:**

- future monetary policy stance abroad

CNB CZECH NATIONAL BANK 30

# 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 description of the risks to the inflation forecast will be released on 5 January 2024 at https://www.cnb.cz/en/monetary-policy/bank-board-decisions/

# Decision in a nutshell

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

The Bank Board assessed the risks and uncertainties as being modestly inflationary.

**6.75%**

The Bank Board lowered the key interest rate (2W repo) by 0.25 percentage point to 6.75%.

All seven members voted in favour of this decision.