
4th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board

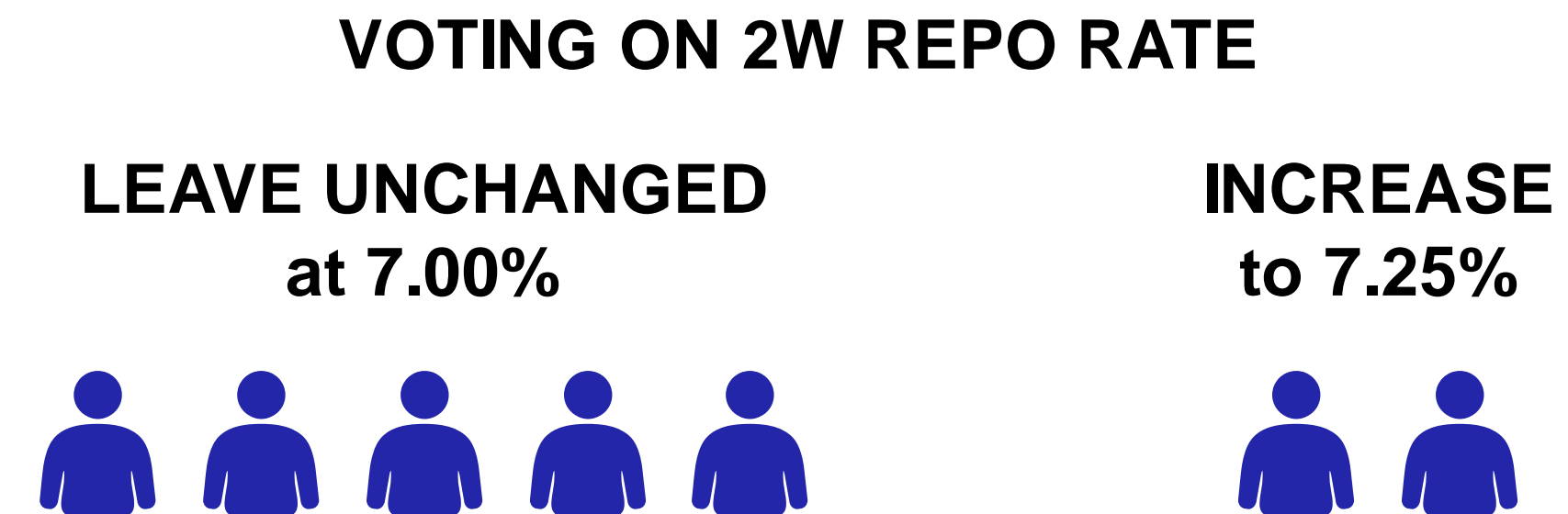


Monetary policy decision

6.00%
discount
rate

7.00%
2W repo
rate

8.00%
Lombard
rate



The decision adopted by the Bank Board is underpinned by **the spring (May) 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.** Therefore, interest rates will remain relatively high for a longer period.

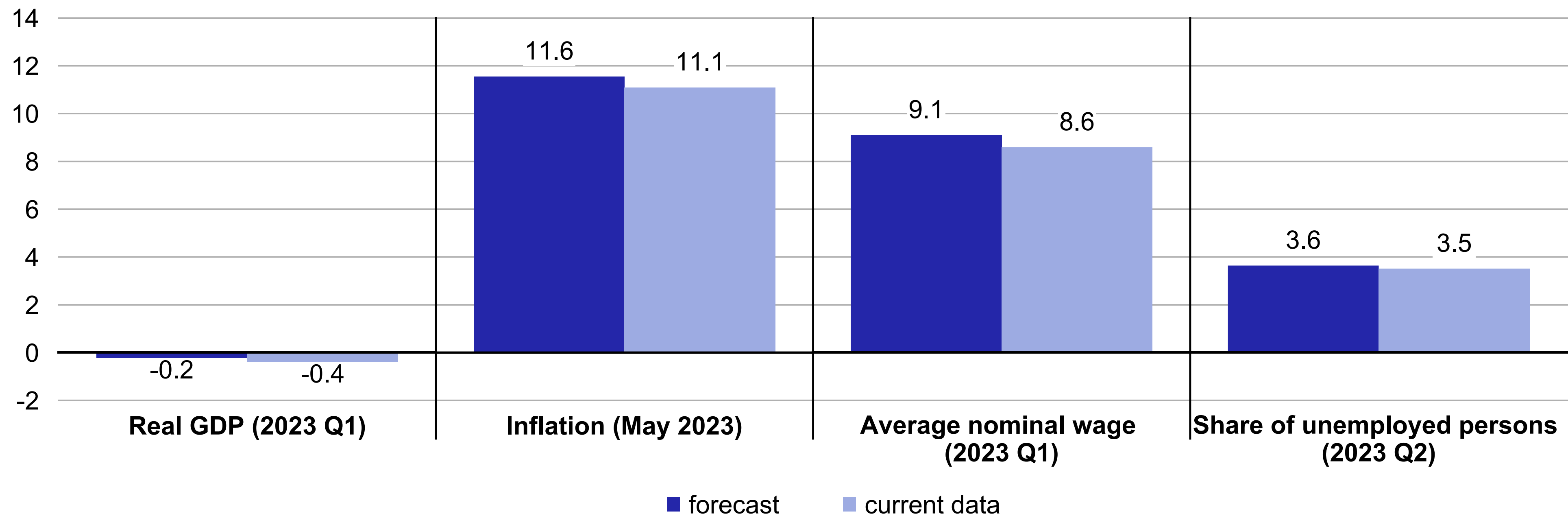
Economic developments

- The strong cost inflation pressures from the external environment and demand pressures from the domestic economy are receding in the Czech economy. The strength of the foreign cost pressures and the problems in supply chains continue to ease.
- The demand pressures from the domestic economy continue to weaken. GDP stagnated in quarter-on-quarter terms in 2023 Q1. The economy was below its potential and below the pre-Covid level. Household consumption, which is crucial for the future course of demand-pull inflation, fell for the sixth consecutive quarter and is well below its pre-pandemic level in real terms.
- Firms are facing increased costs of energy and commodities, which is slowing investment growth. The supply chain problems are easing further. External demand will be dampened by the monetary policies of major central banks and the gradual fading of the government measures adopted during the energy crisis.

Economic developments

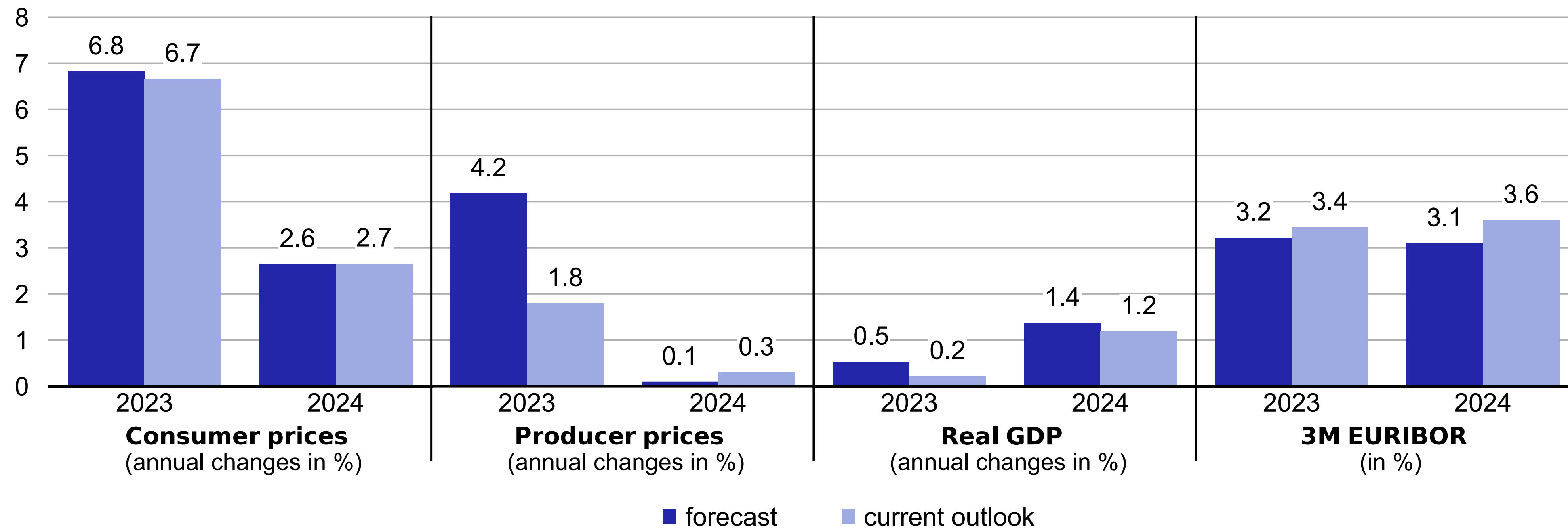
- Unemployment remains low. Nominal wage growth was high in 2023 Q1, reaching 8.6% year on year in Q1, which was below the forecast. Real wage growth remains deeply negative (-6.7%).
- We are seeing a major slowdown in the property and mortgage markets, which will gradually contribute to a further easing of core inflation. The double-digit year-on-year decline in the volume of pure new mortgages continued in previous months. The volume of pure new mortgages fell by 64% year on year in January–April.
- The effect of fiscal policy is creating upside risks to inflation going forward. We assess the public finance adjustment package under discussion as a step in the right direction, but it will only be possible to evaluate it after it has been approved by Parliament.

Comparison of current domestic data with the CNB forecast

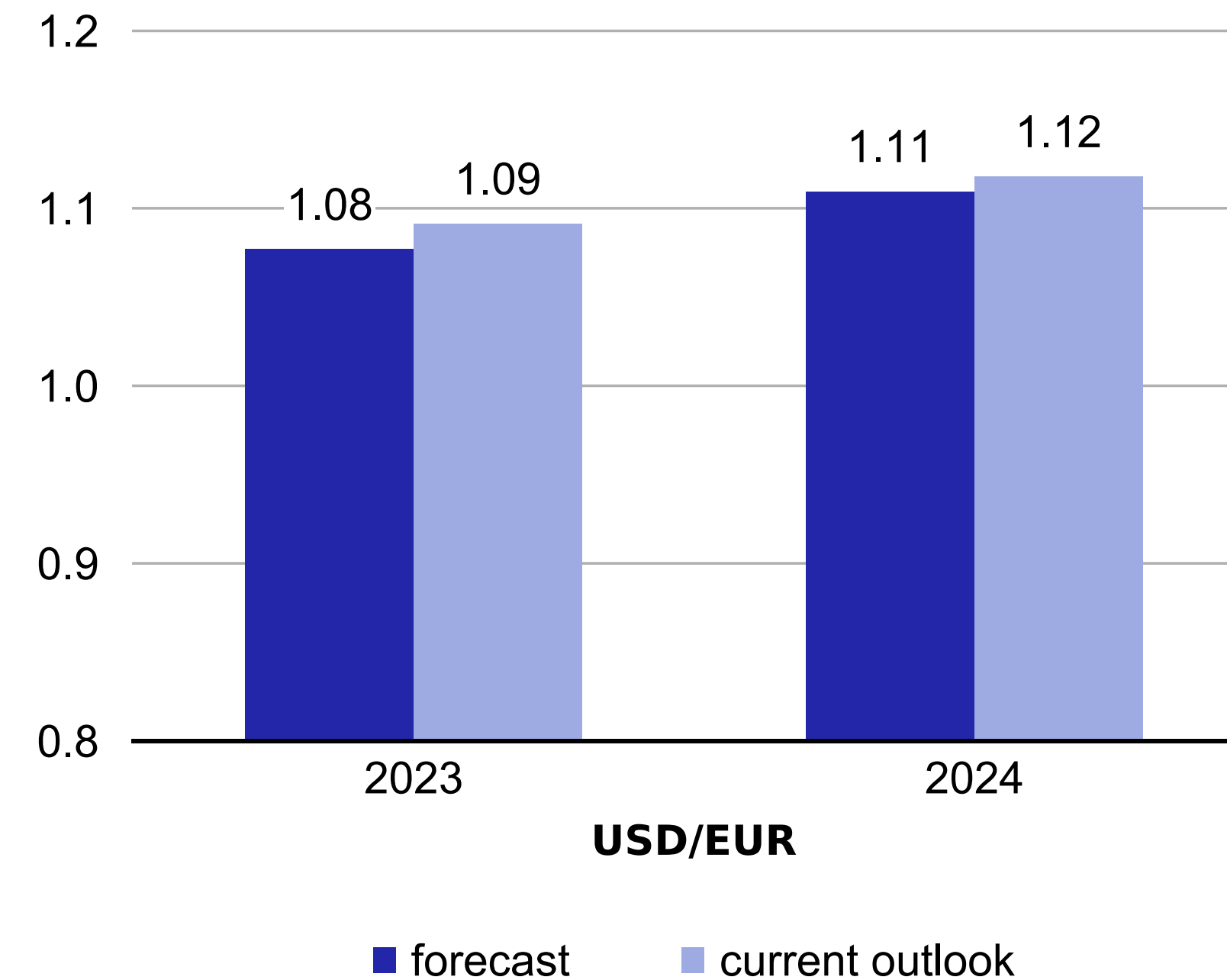
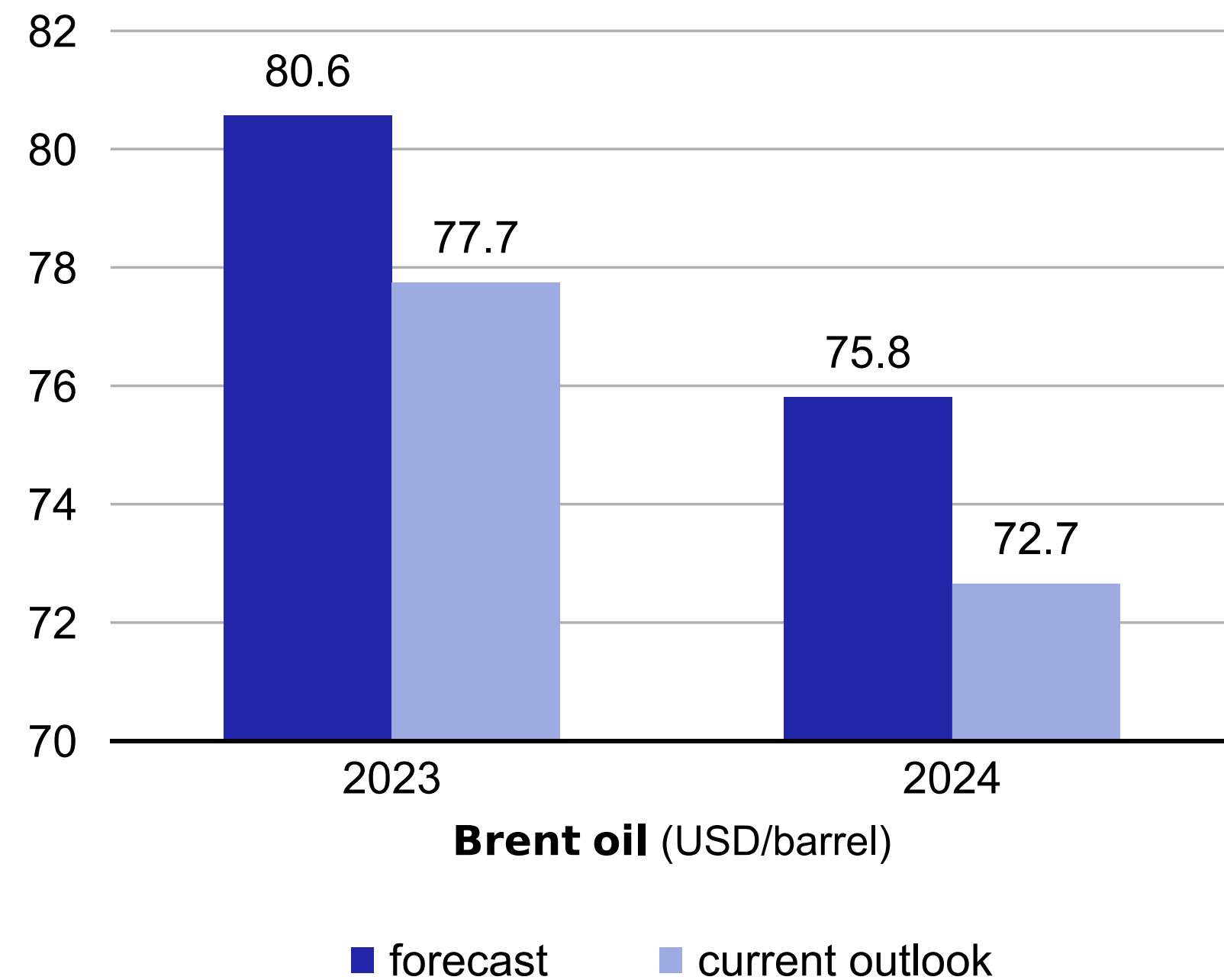


Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in April and May with the forecast for 2023 Q2).

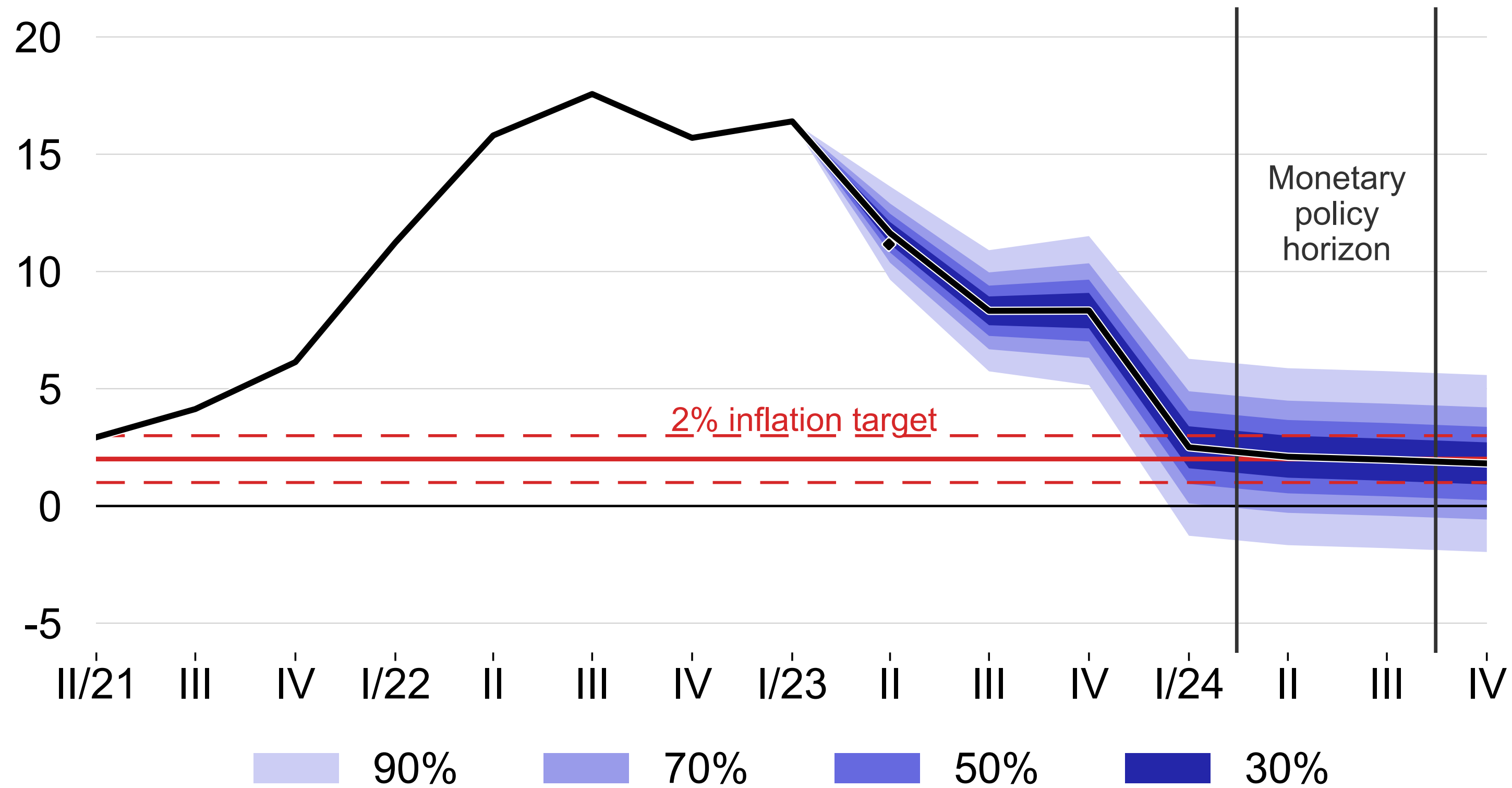
External environment: forecast and outlook for the effective euro area



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

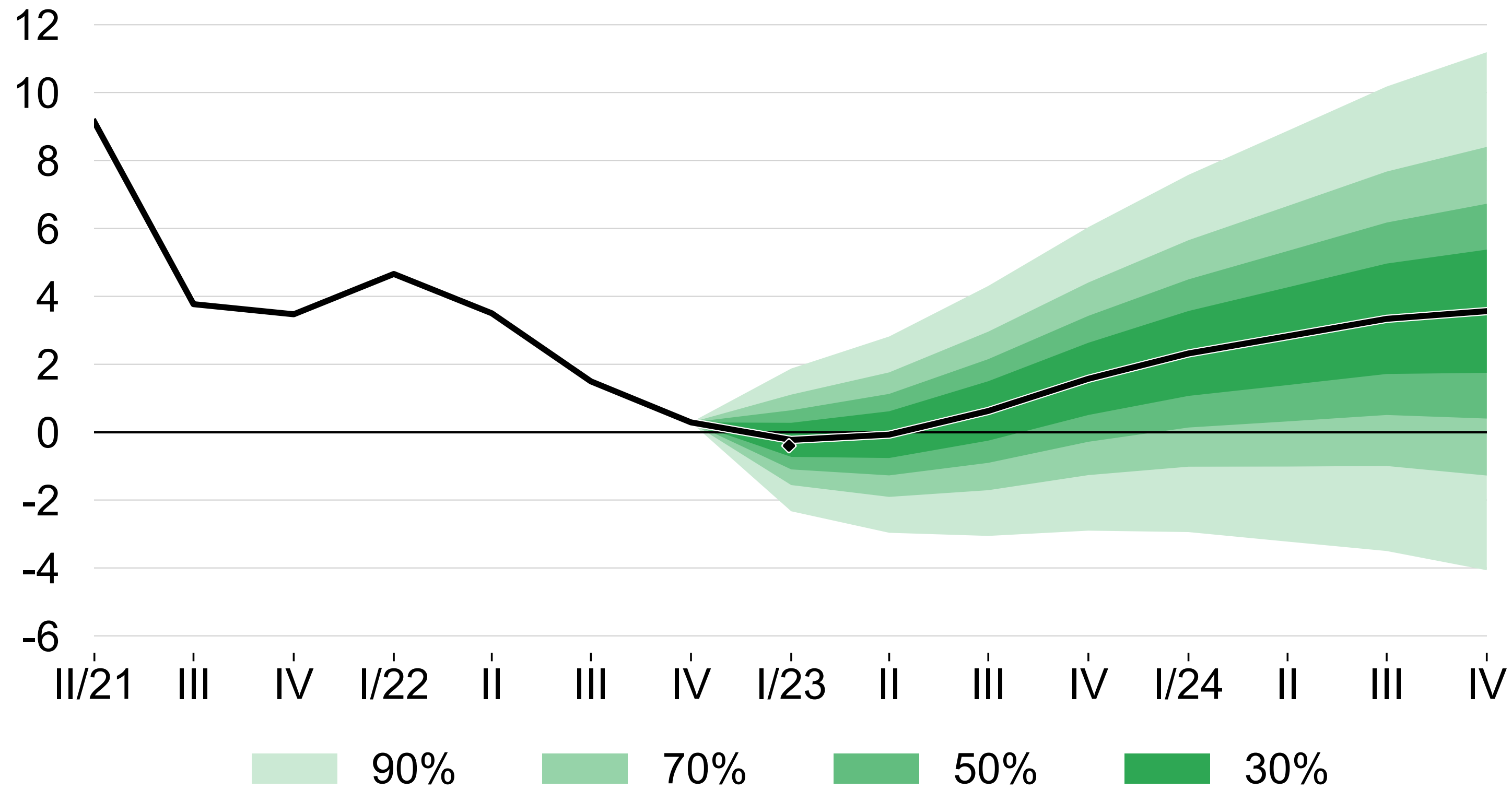


Inflation forecast and expected outcome in 2023 Q2



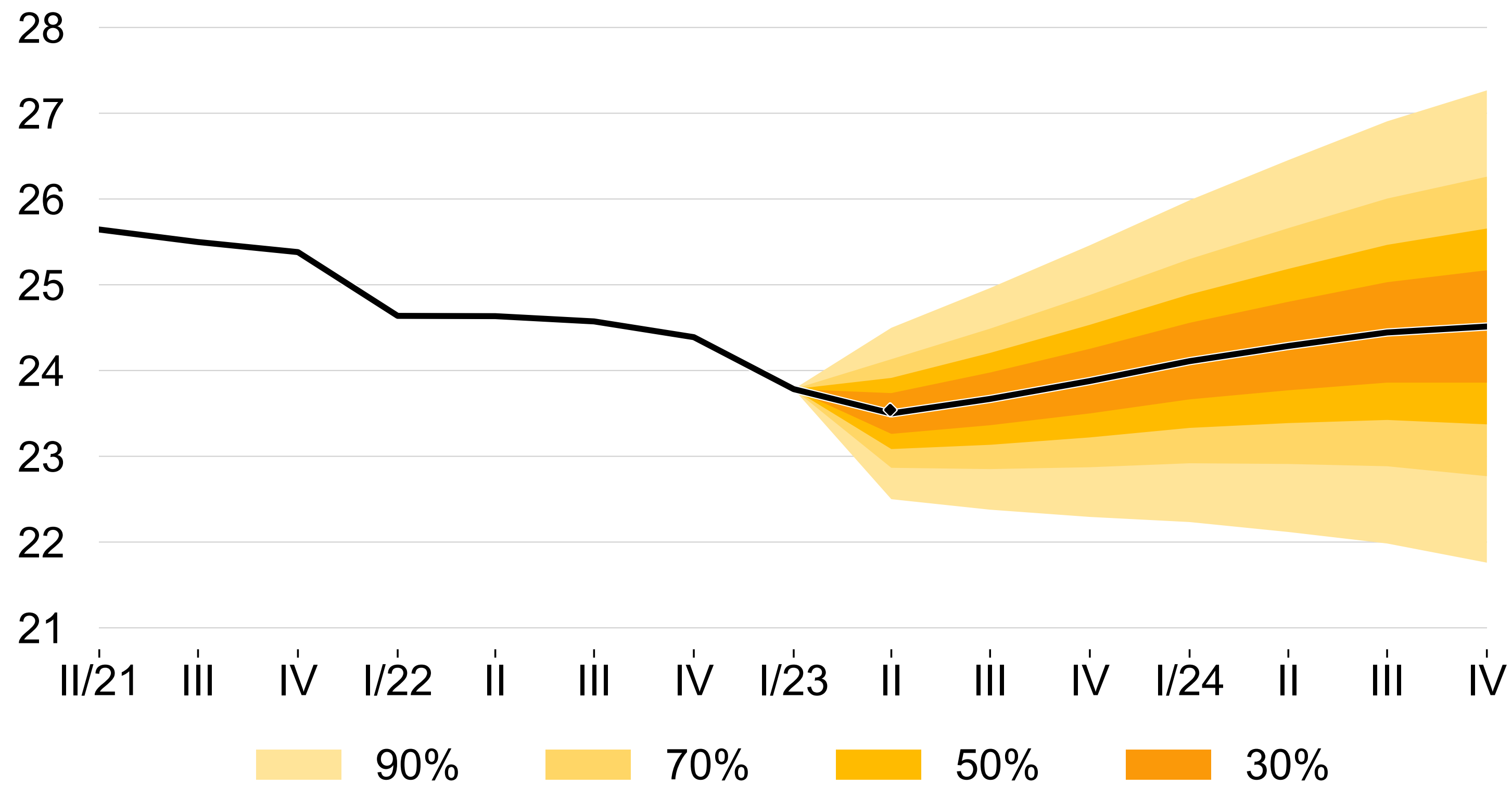
Note: y-o-y changes in %.

GDP forecast and outcome in 2023 Q1



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

CZK/EUR exchange rate forecast and outcome in 2023 Q2



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:

- 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 risk:

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

Uncertainties:

- future course of the war in Ukraine
- availability and prices of energy
- future monetary policy stance abroad

Statutory mandate

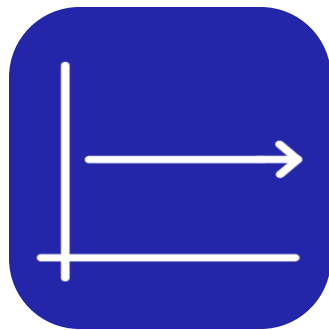
- The Bank Board assures the public that the CNB's actions will be sufficient to restore price stability in accordance with its statutory mandate.
- In addition, the Bank Board is ready to react appropriately to any materialisation of the risks of the forecast.

Thank you for your attention

Minutes of the today's meeting and a description of the risks to the inflation forecast will be released on 30 June 2023 at <https://www.cnb.cz/en/monetary-policy/bank-board-decisions/>



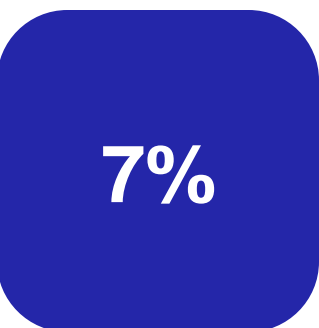
Decision in a nutshell



Consistent with the baseline scenario of the spring forecast was stability of market interest rates initially, followed by a gradual decline from the second half of this year onwards.



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.