6th Situation Report
on Economic and Monetary Developments

Press conference of the Bank Board

27 September 2023

Monetary policy decision

6.00%	**7.00%**	8.00%
discount rate	**2W repo rate**	Lombard rate

VOTING ON 2W REPO RATE

LEAVE UNCHANGED at 7.00%

The decision adopted by the Bank Board is underpinned by **the summer (August) 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 Bank Board expects **the interest rate path to be higher than in the baseline scenario** of the current forecast in the coming quarters.

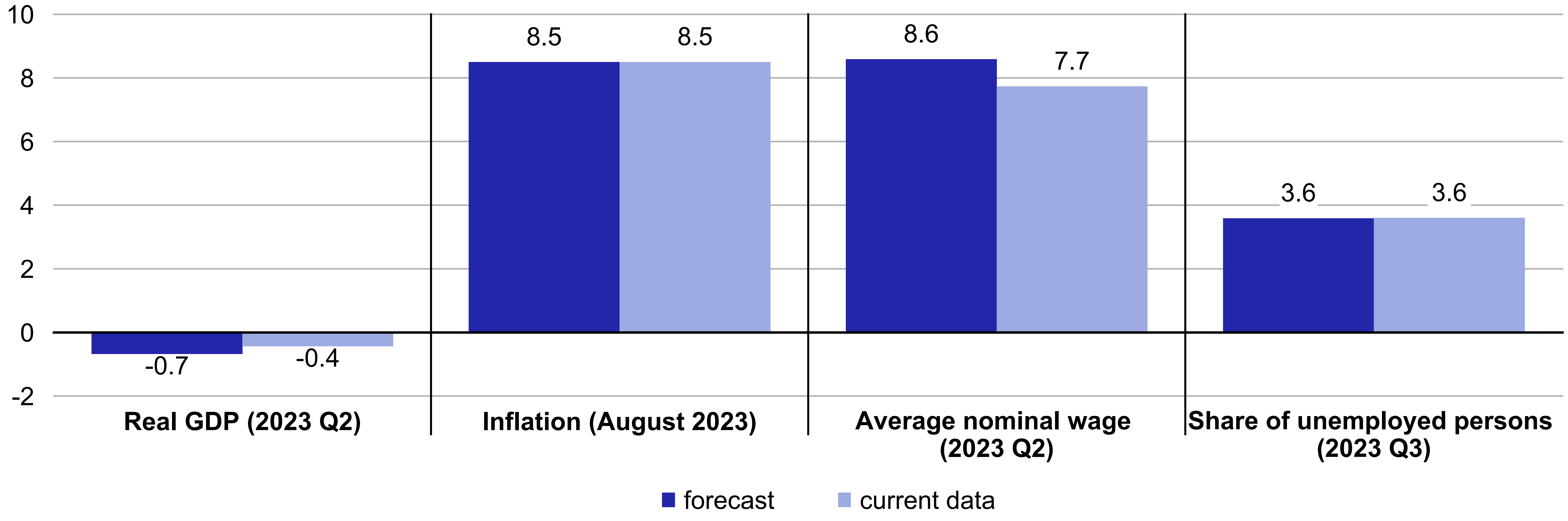
Economic developments

- The strong cost inflation pressures from the external environment and demand pressures from the domestic economy are receding in the Czech economy.
- According to our analyses, the economy is below its potential. 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 0.4% in Q2.
- Household consumption rose slightly following six quarters of decline, but was 9% below the pre-Covid level. It continues to be dampened by tight monetary policy, high energy and food prices and negative sentiment. Overall, the performance of the economy was broadly in line with the forecast assumptions.
- The labour market remains tight and unemployment low. However, wage growth, which reached 7.7% in Q2, was almost 1 percentage point lower than assumed in the forecast. In the coming quarters, we expect real wage growth to turn positive and thus support household consumption.

Economic developments

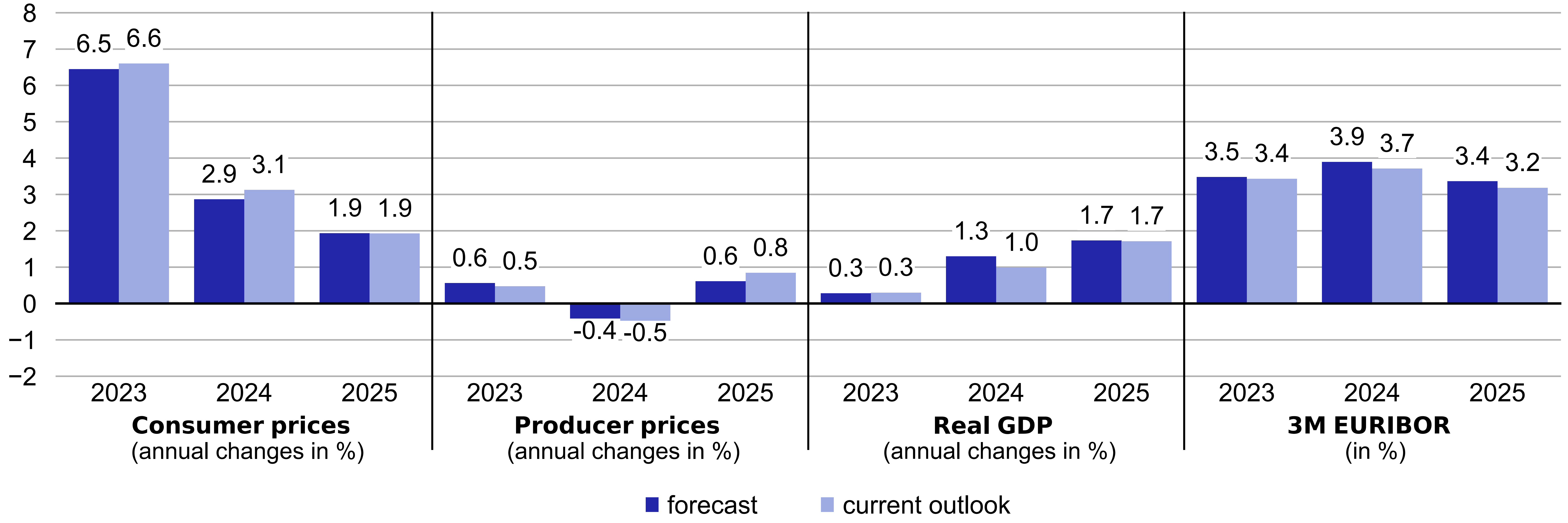
- The available economic indicators are signalling a broad stagnation of real GDP in Q3, whereas the summer forecast expected growth of 0.7%. Industrial production fell in both month-on-month and year-on-year terms in July (by 2.3%). New orders in industry and other leading indicators suggest that the downturn in industry will continue. 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.
- Inflation has fallen in accordance with the summer forecast over the past two months. In September, we expect another significant decline. This will be counteracted by a rise in fuel prices following the growth in oil prices and the increase in excise duty on diesel fuel back to its original level in recent weeks. In October, we expect annual inflation to rise temporarily due to the base effect caused by the introduction of the energy savings tariff last year; the rise in annual inflation at the end of the year will thus be technical and does not threaten the decline in inflation towards the target. In the first half of 2024, we expect inflation to be close to the 2% inflation target.

Comparison of current domestic data with the CNB forecast

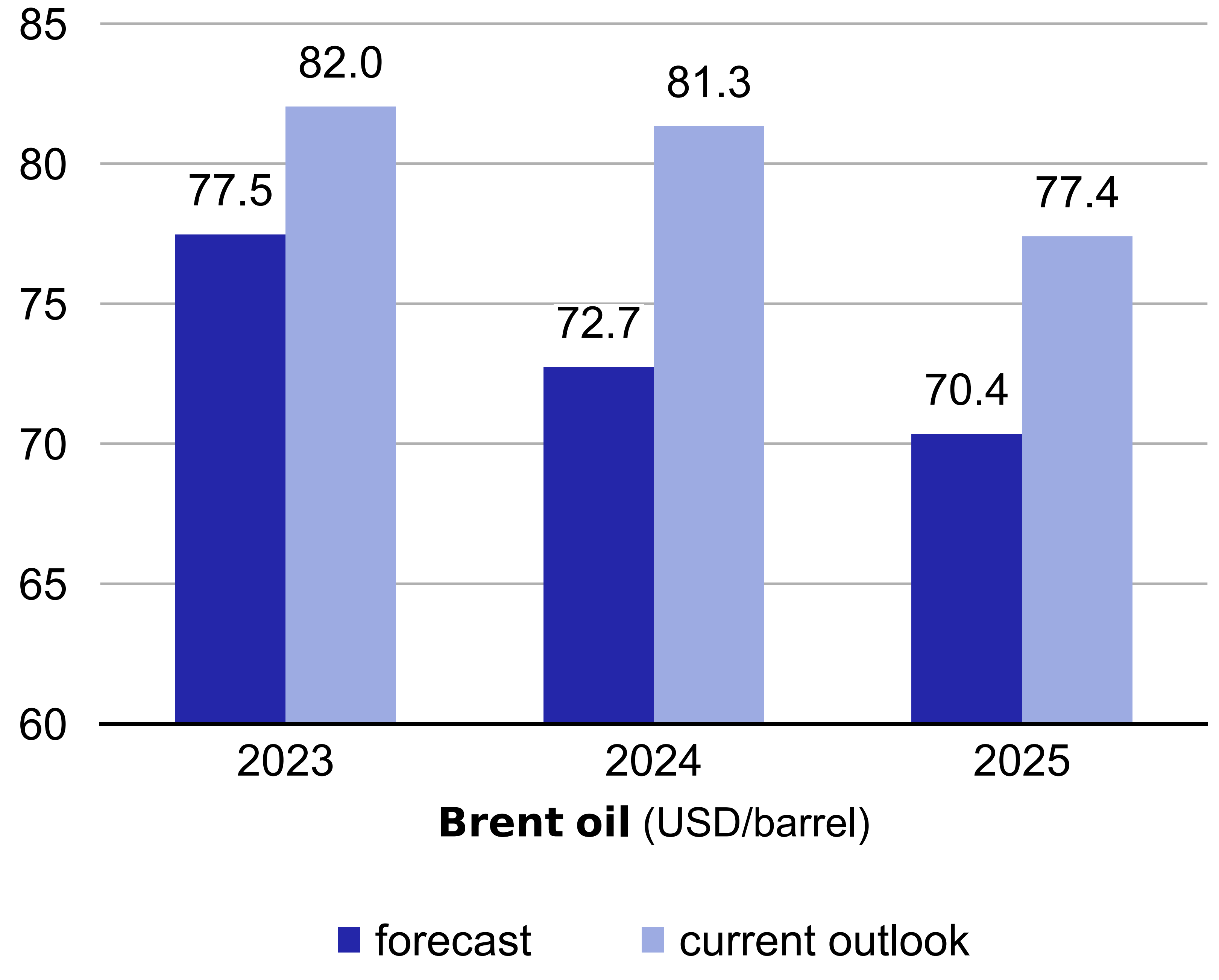


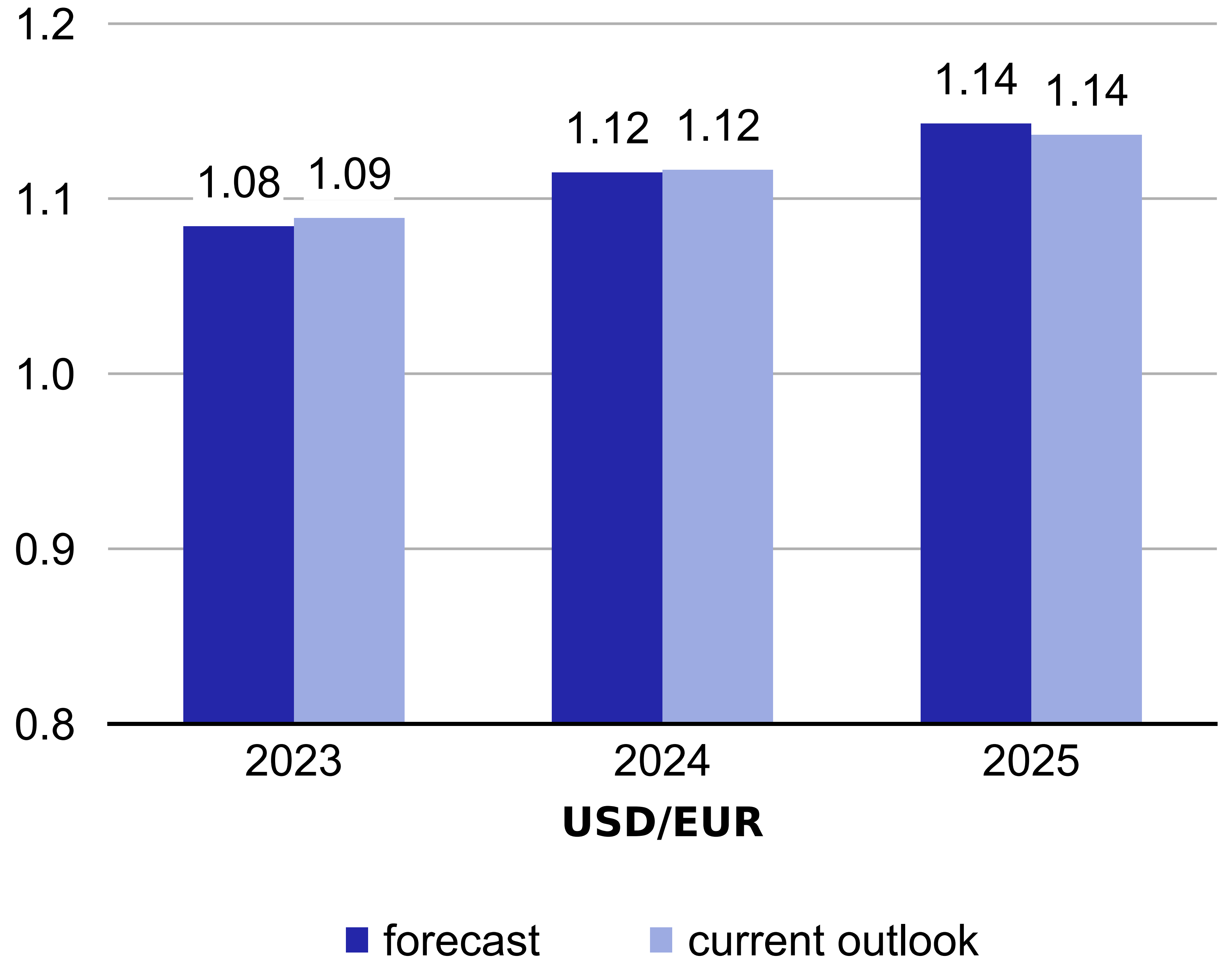
Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in July and August with the forecast for 2023 Q3).

External environment: forecast and outlook for the effective euro area

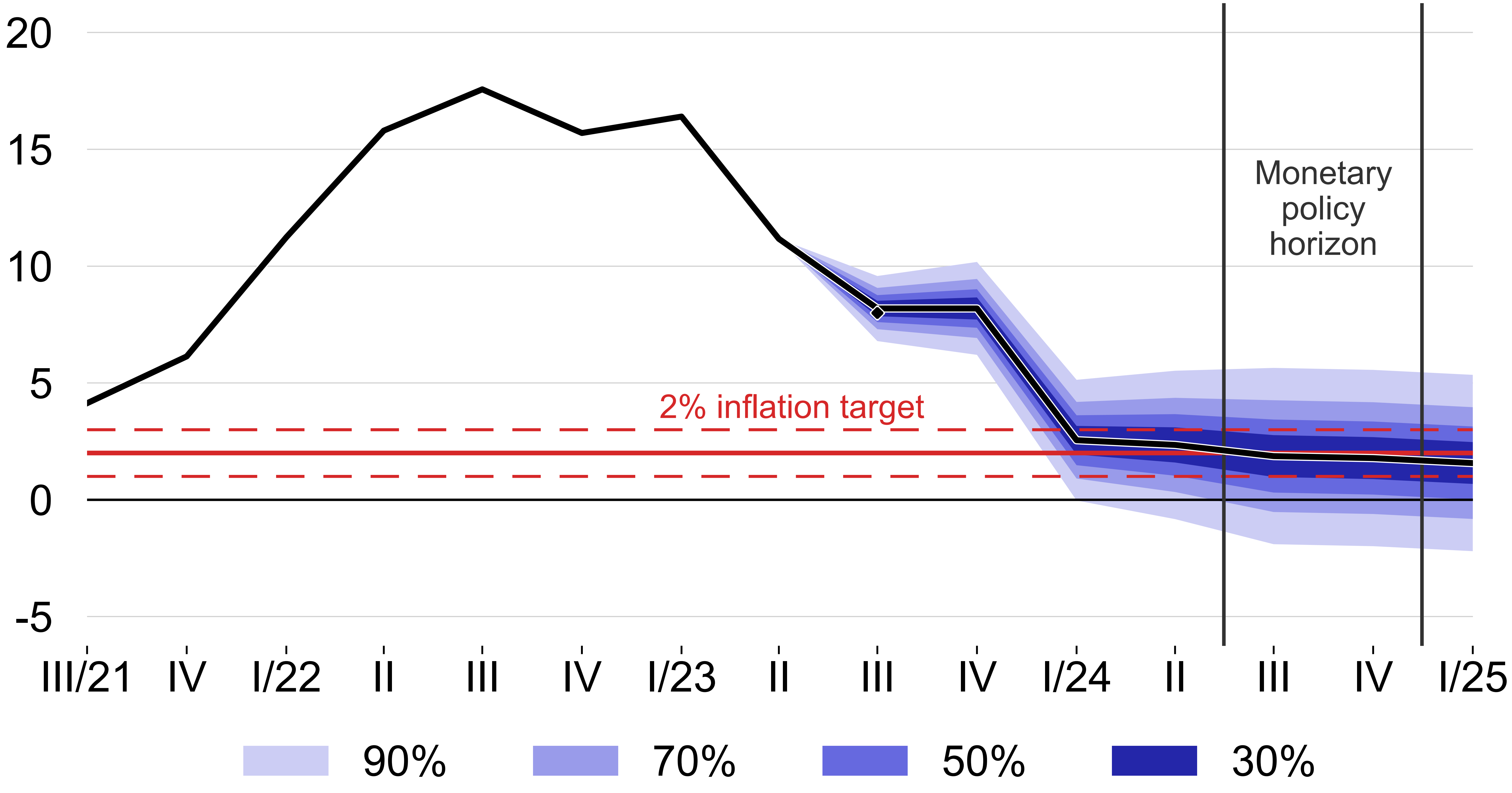


External environment: oil price and the USD/EUR exchange rate



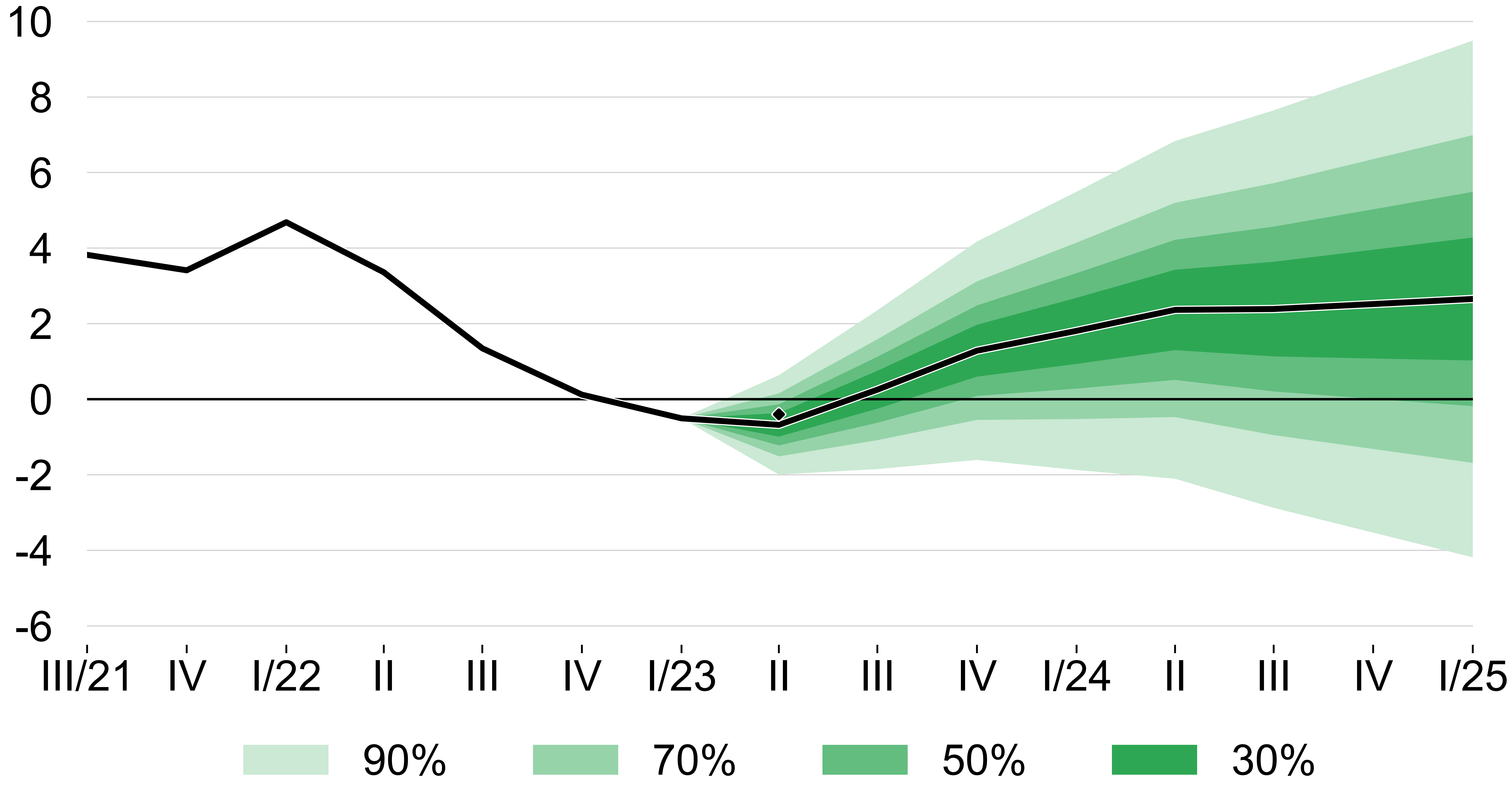


Inflation forecast and expected outcome in 2023 Q3



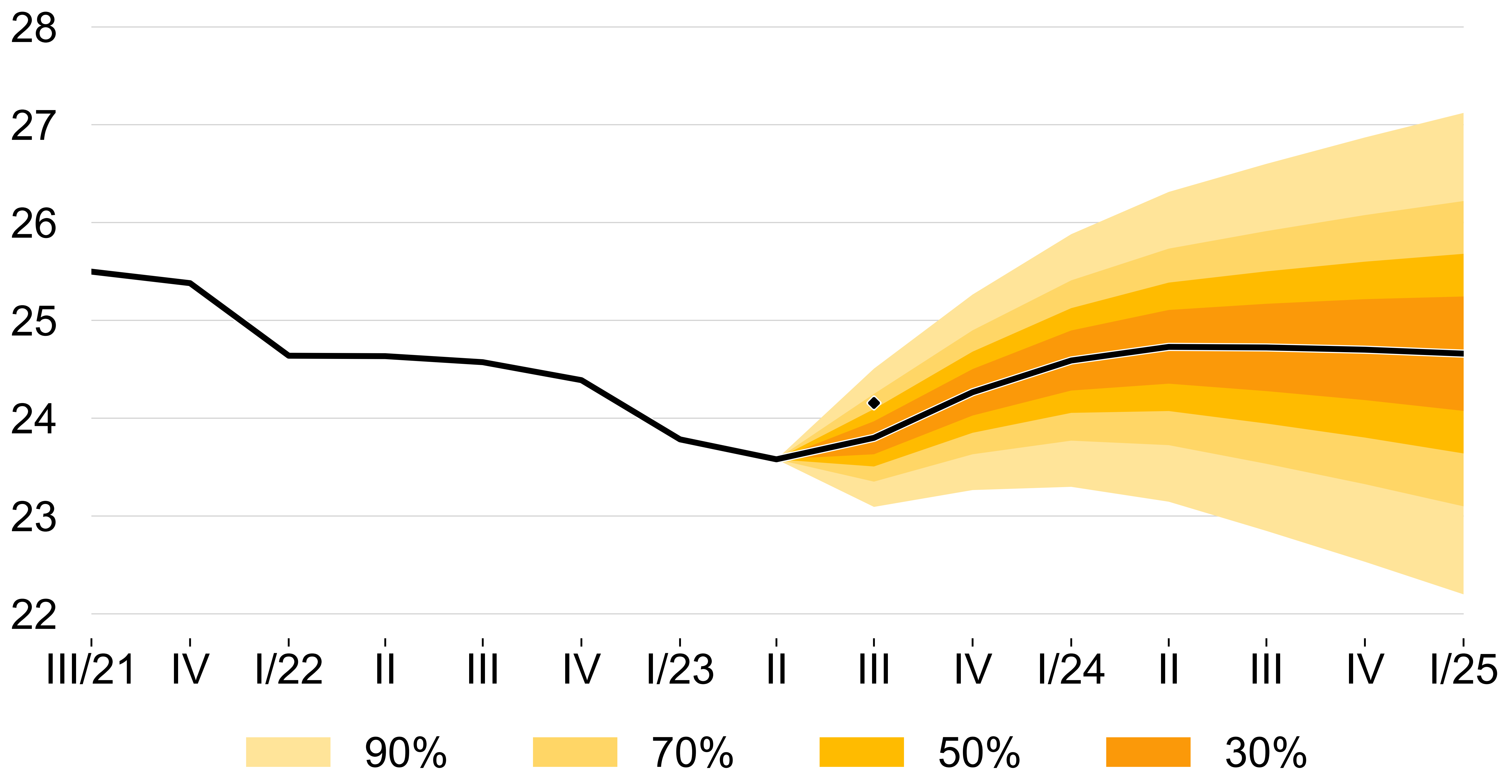
Note: y-o-y changes in %.

GDP forecast and outcome in 2023 Q2



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

CZK/EUR exchange rate forecast and outcome in 2023 Q3



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:

- threat of inflation expectations becoming unanchored and the related risk of a wage-price spiral
- rapid decline of the saving rate to its usual long-term level and its potential upward effect on household consumption
- longer effect of expansionary fiscal policy
- further increase in oil prices

Anti-inflationary risk:

- stronger-than-expected downturn in economic activity in Germany

Uncertainties:

- course of the war in Ukraine
- energy prices
- 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 6 October 2023 at https://www.cnb.cz/en/monetary-policy/bank-board-decisions/

Decision in a nutshell

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

The Bank Board assessed the risks and uncertainties as being significant and going in both directions.

7%

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

All seven members voted in favour of this decision.