

# 4th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board

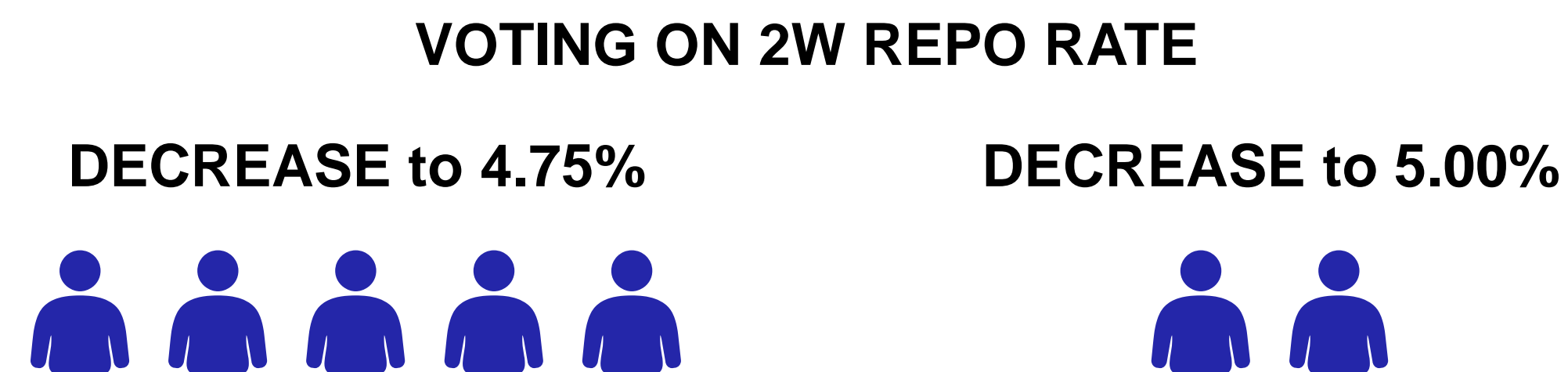


## Monetary policy decision

**3.75%**  
discount  
rate

**4.75%**  
2W repo  
rate

**5.75%**  
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**.

At the same time, the Bank Board confirmed its determination to **continue its tight monetary policy in order to stabilise inflation near the 2% target in the long term**.

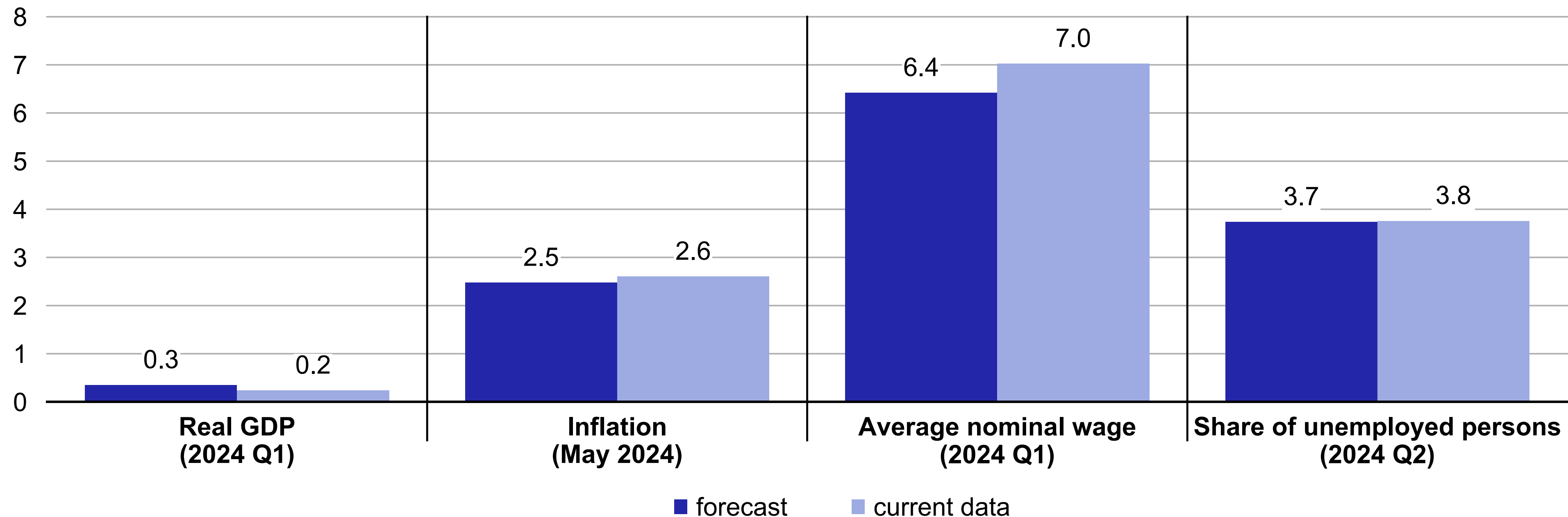
## Economic developments

- GDP rose by 0.3% quarter on quarter and 0.2% year on year in 2024 Q1. Household consumption in particular contributed to the growth, but was 7% below the level observed before Covid. By contrast, investment activity fell significantly, by 7.9% quarter on quarter, the largest decline in history. According to our analyses, the economy is still below its potential. It will probably not reach pre-Covid levels until the second half of this year.
- The available indicators from the real economy are indicating a continued recovery in 2024 Q2. With inflation falling, real household income growth is recovering. This is reflected in improved household sentiment. The gradual recovery in domestic demand is confirmed by the retail and services sales figures.

## Economic developments

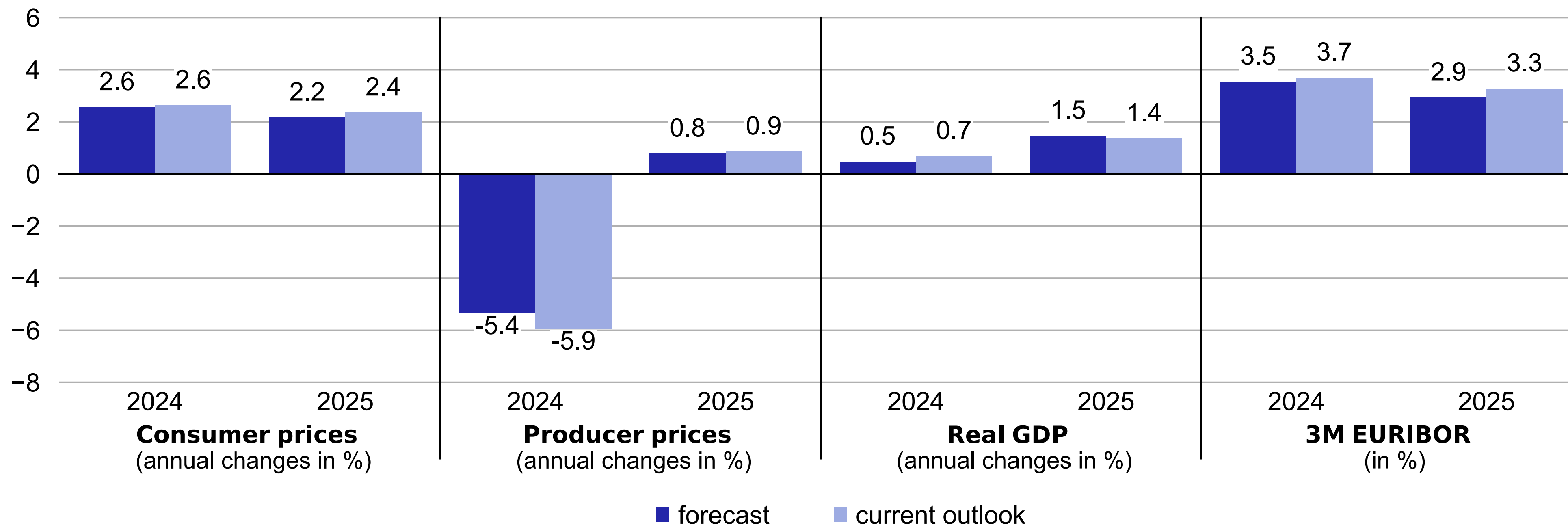
- The labour market tightness is easing slowly, but unemployment remains low. Average wage growth reached 7% in 2024 Q1. It remains slightly elevated from a historical perspective, but real wages are 6% below pre-Covid levels. The risk of a wage-price spiral does not seem to be materialising.
- Inflation has been inside the tolerance band around the CNB's target since the beginning of this year. Core inflation is following roughly the same path as forecasted, but growth in services prices remains elevated.
- External demand remains subdued, due in part to the tight monetary policies of major central banks and the fading of government measures taken during the energy crisis. Real activity is declining, particularly in manufacturing in Germany.

# Comparison of current domestic data with the CNB forecast



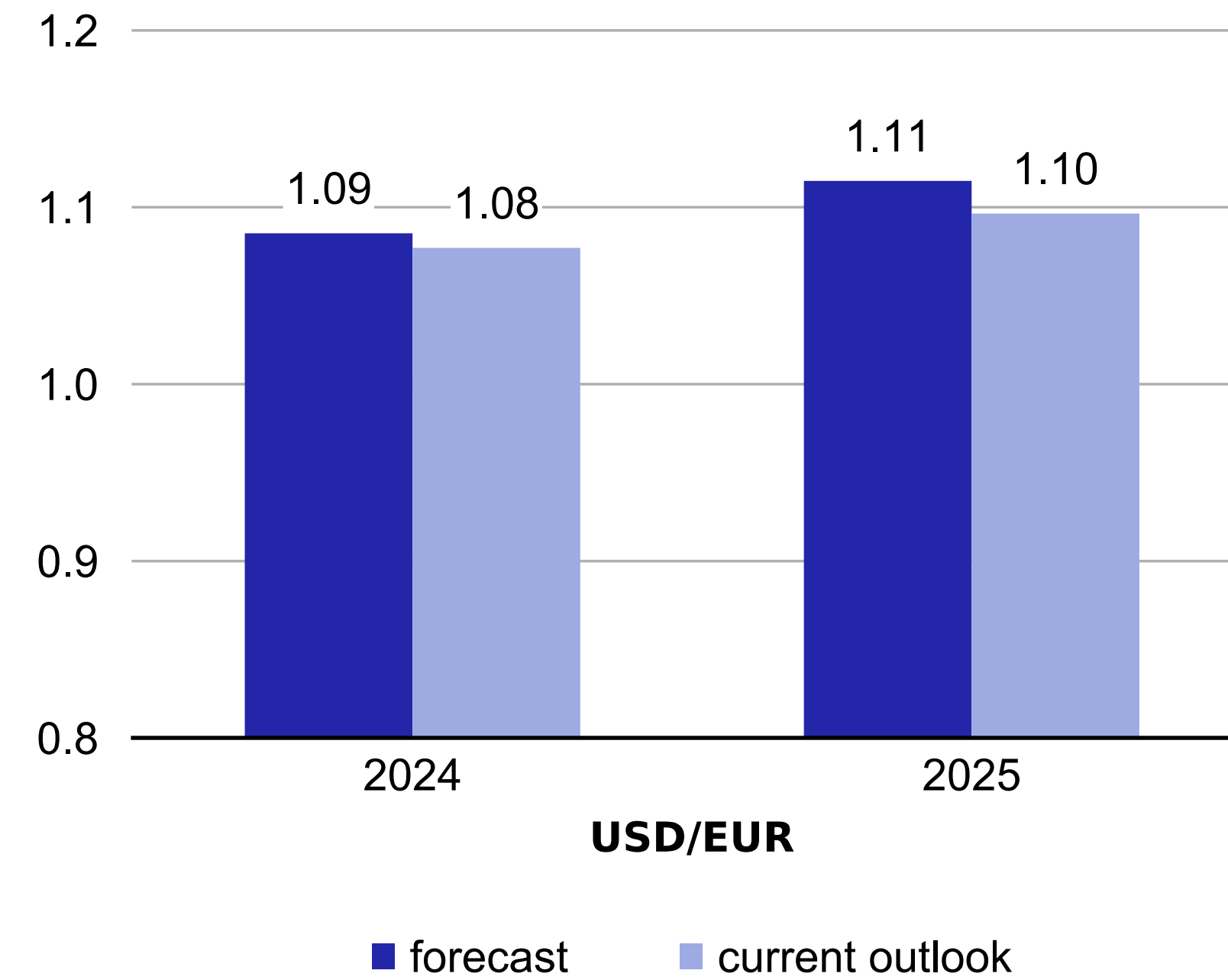
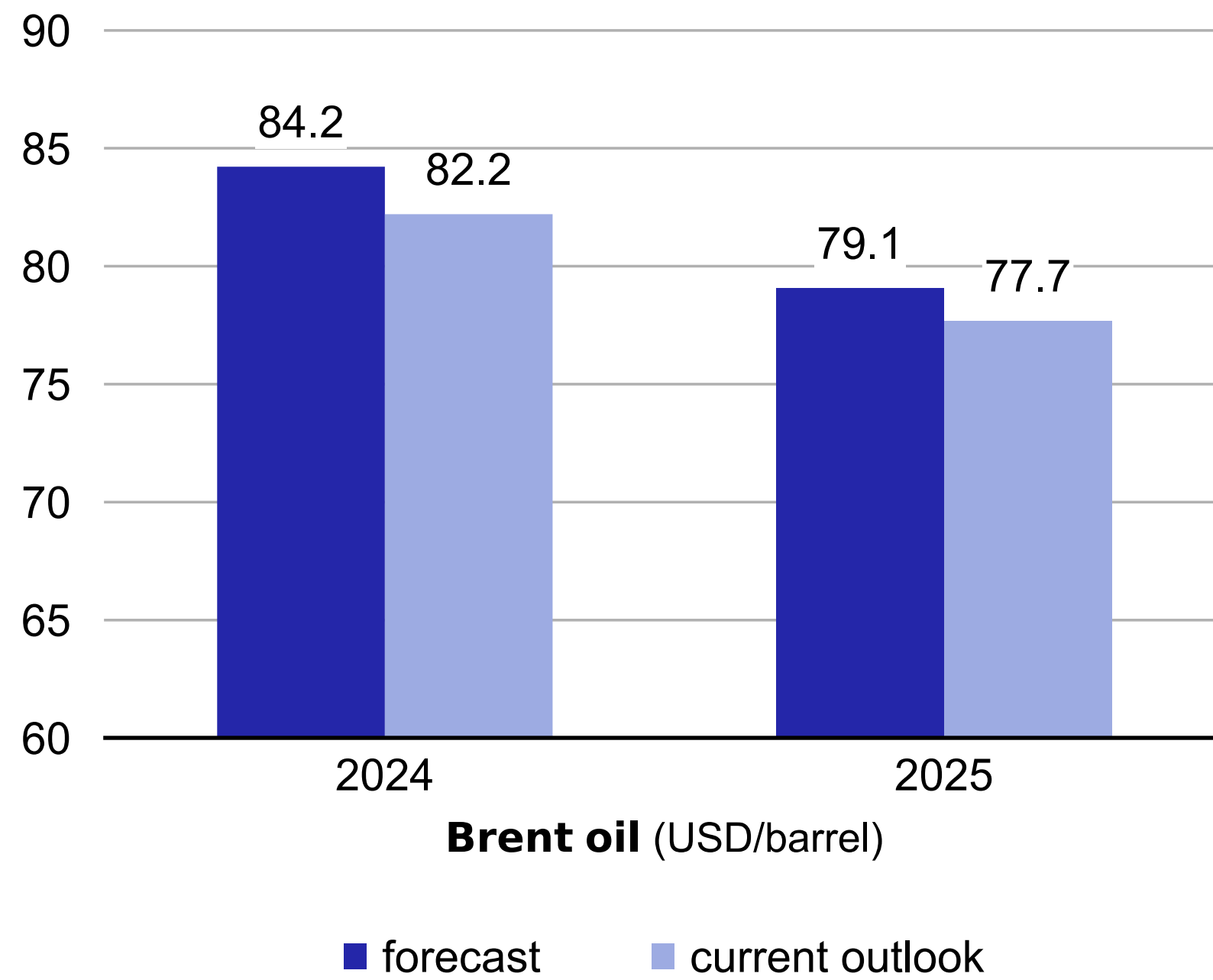
Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in April and May with the forecast for 2024 Q2).

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

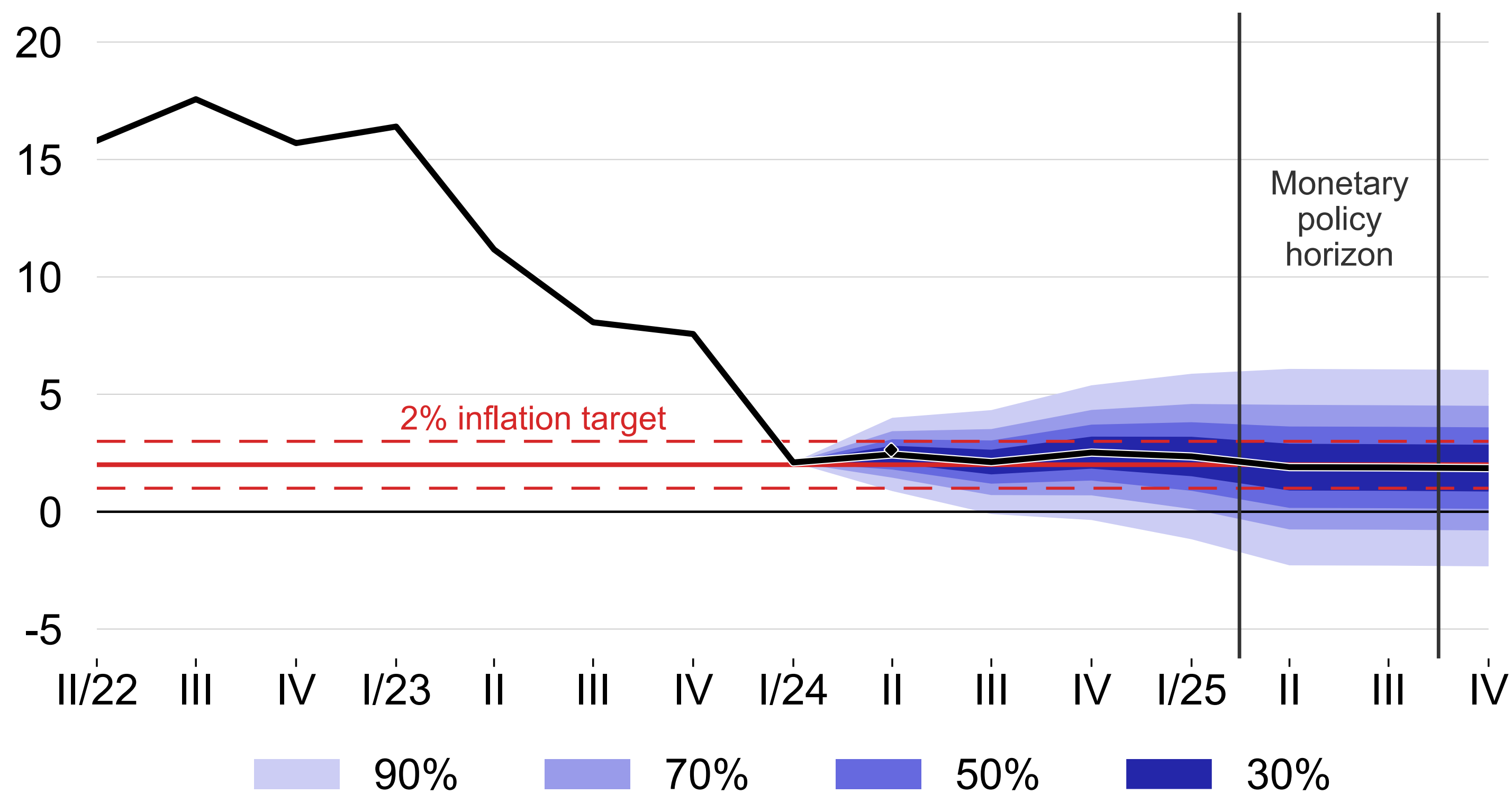




# External environment: oil price and the USD/EUR exchange rate



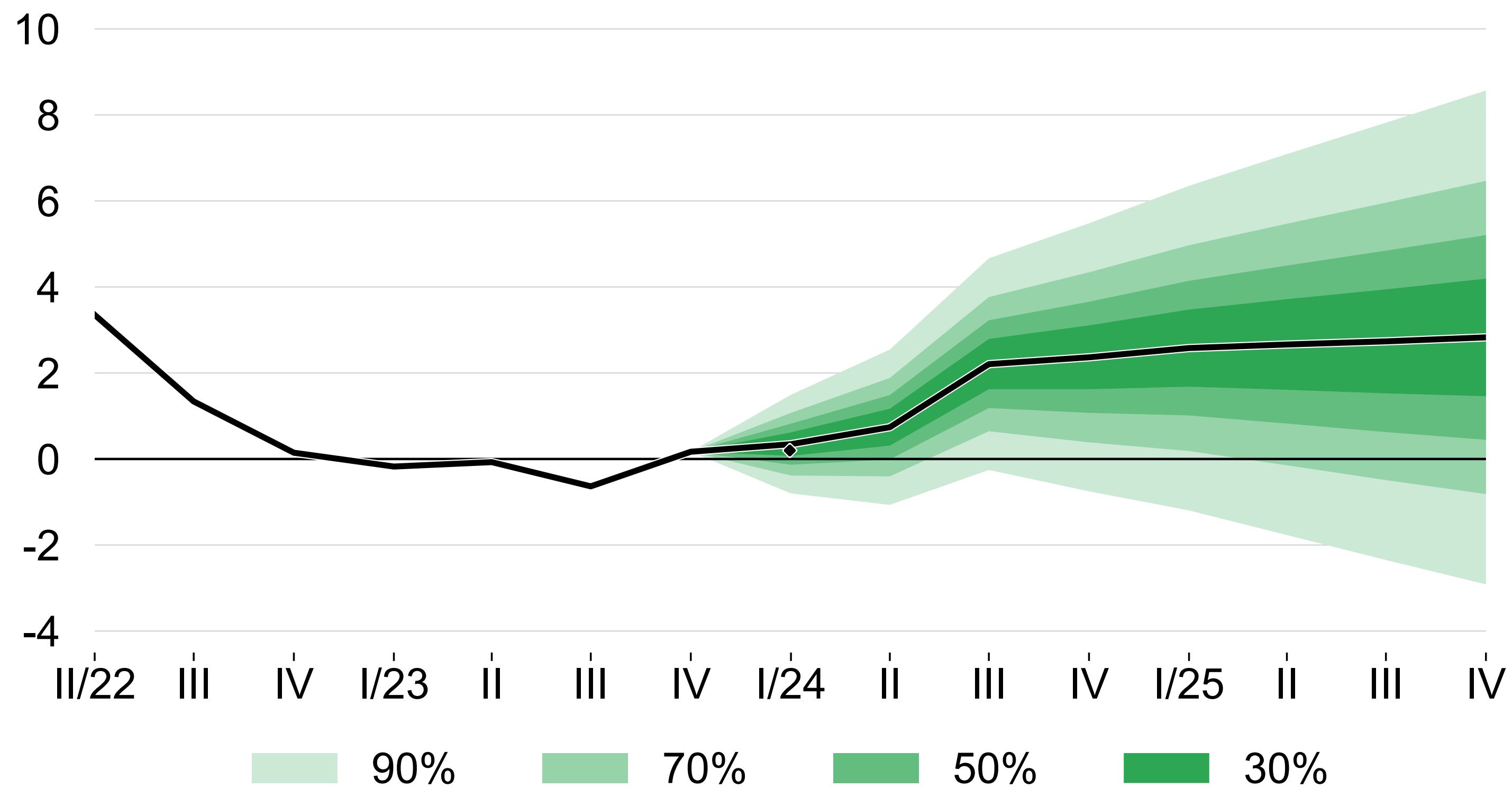
# Inflation forecast and expected outcome in 2024 Q2



Note: y-o-y changes in %.

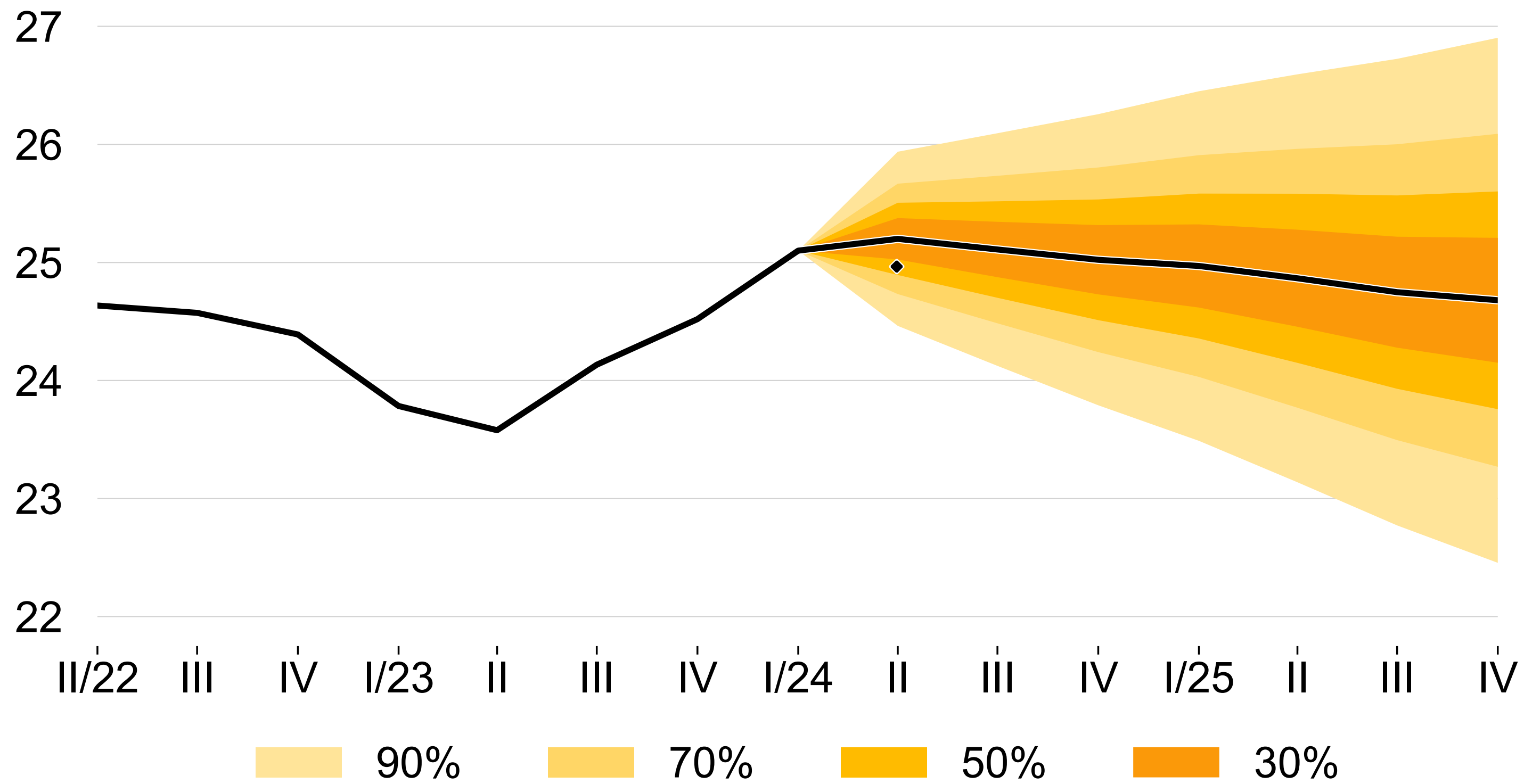


## GDP forecast and outcome in 2024 Q1



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

## Exchange rate forecast (CZK/EUR) and outcome in 2024 Q2



## Risks and uncertainties of the forecast

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

### **Inflationary risks:**

- increased wage demands in the private and public sector
- higher-than-expected inertia in services inflation
- halt in tradables disinflation
- acceleration of money creation in the economy stemming from a significant recovery in lending activity, especially on the property market

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

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

### **Uncertainty:**

- future monetary policy stance abroad

## Statutory mandate

- The Bank Board assures the public that the CNB's actions will be sufficient to maintain 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

The minutes of today's meeting and a description of the risks of the inflation forecast will be released on 8 July 2024 at

<https://www.cnb.cz/en/monetary-policy/bank-board-decisions/>



## Decision in a nutshell



Consistent with the baseline scenario of the spring forecast is a further decline in market interest rates.



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



The Bank Board lowered the key interest rate (2W repo) by 0.50 percentage point to 4.75%.



Five members voted in favour of this decision.