

5th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board

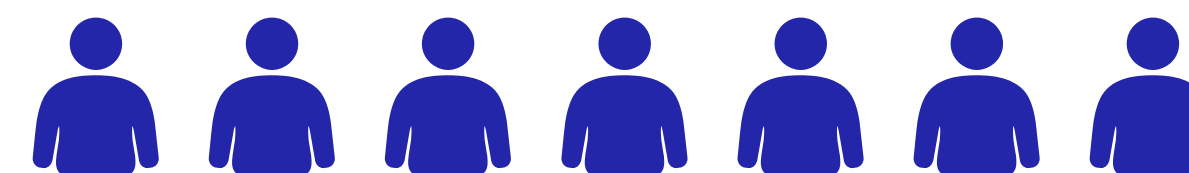


Monetary policy decision

3.50%	4.50%	5.50%
discount rate	2W repo rate	Lombard rate

VOTING ON 2W REPO RATE

DECREASE to 4.50%



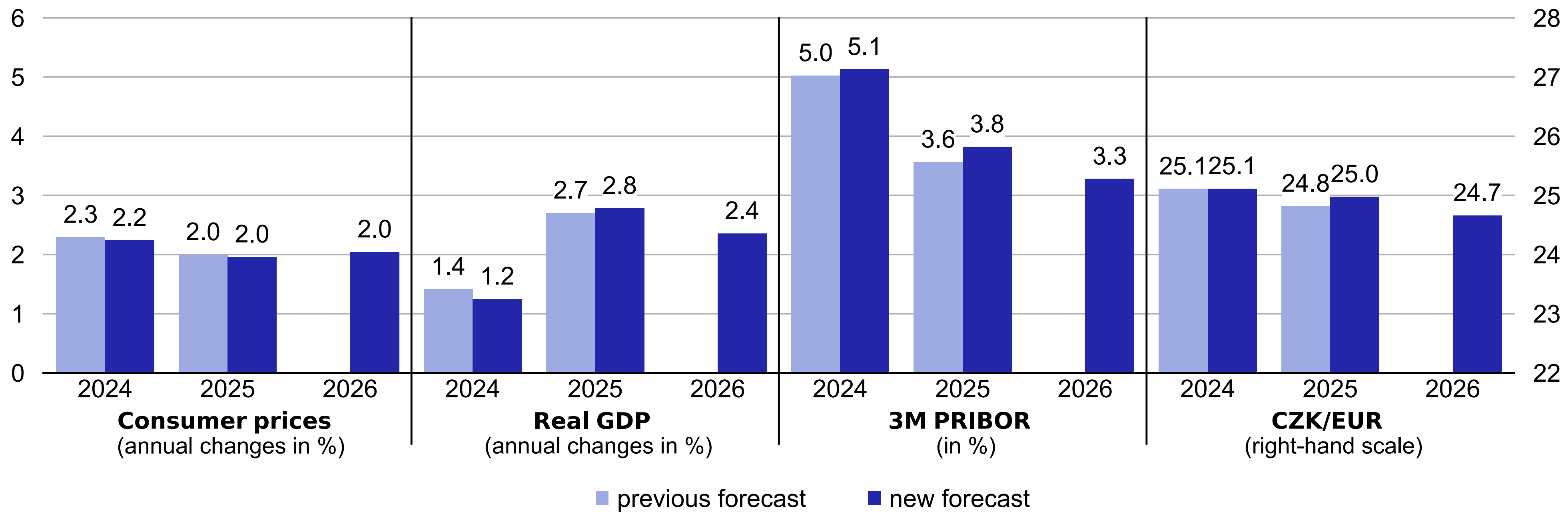
The decision adopted by the Bank Board is underpinned by **the CNB's new macroeconomic forecast**. The forecast implies a modest decline in short-term market interest rates.

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**.

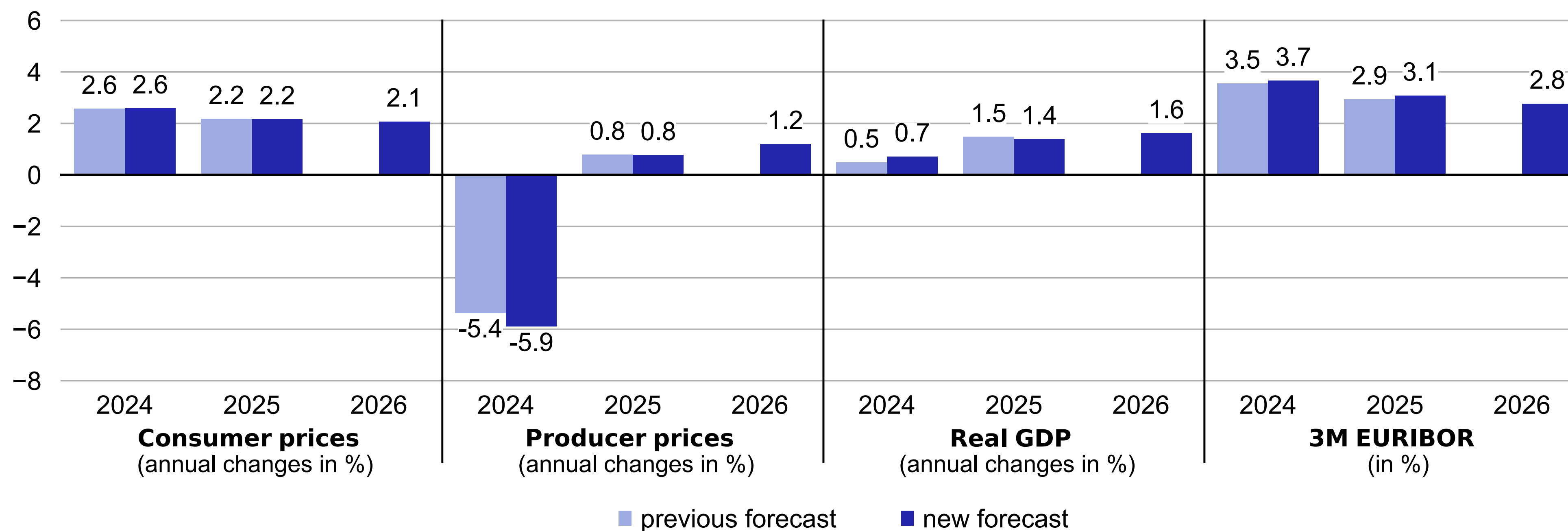
Economic developments

- According to the CZSO's flash estimate, GDP rose by 0.3% quarter on quarter and 0.4% year on year in 2024 Q2. External demand and above all household consumption both contributed to the year-on-year growth. With inflation falling, real household income growth is recovering.
- However, according to our analyses, the economy is still below its potential and domestic and external demand remain weak. A stronger recovery is being counteracted mainly by subdued household and corporate confidence in the economy.
- The labour market tightness is easing slowly, but unemployment remains low. Average wage growth stood at 7% in 2024 Q1. It remains slightly elevated from a historical perspective. This growth has so far been absorbed by profit margins and is not inducing further price increases. The risk of a wage-price spiral thus does not seem to be materialising.

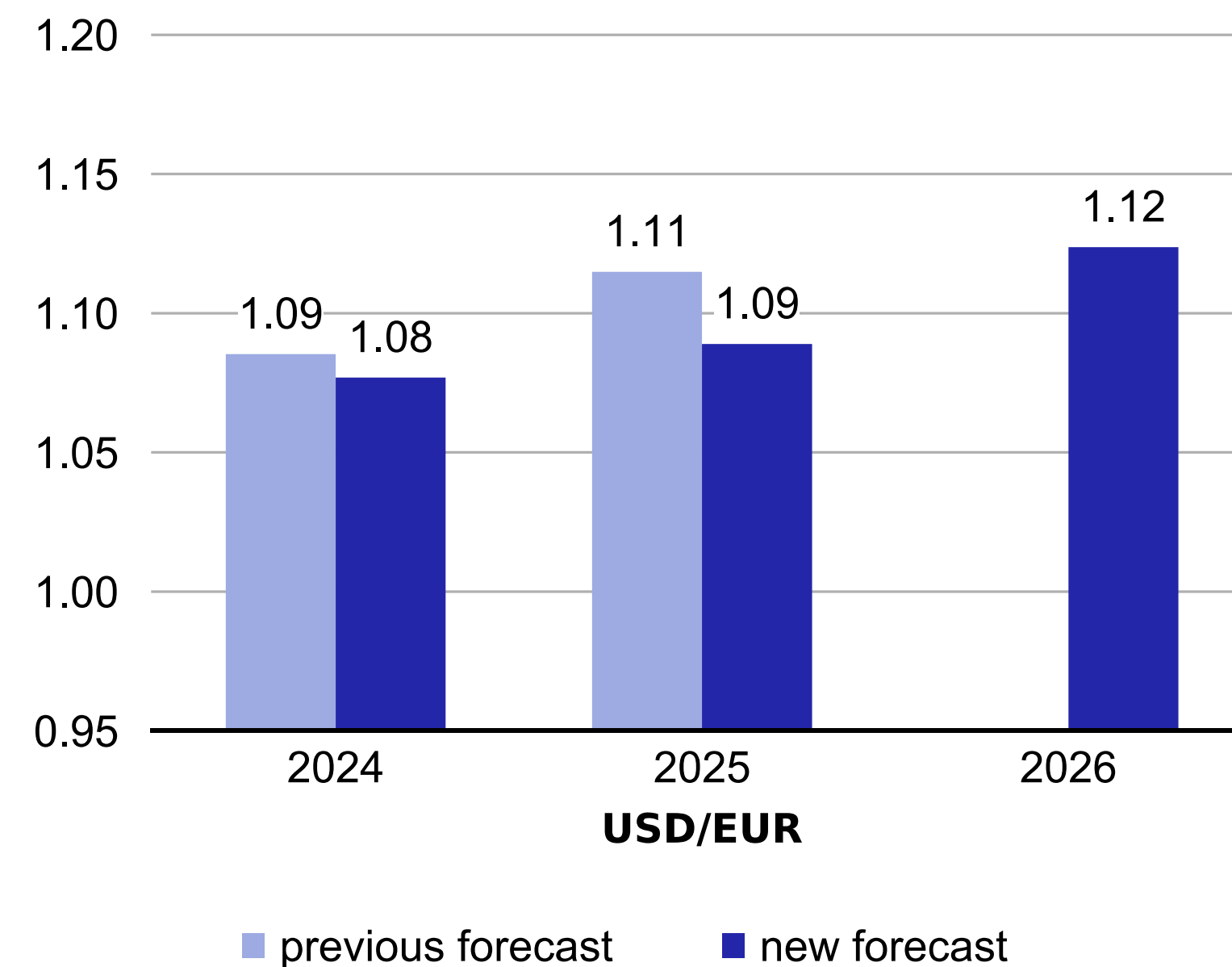
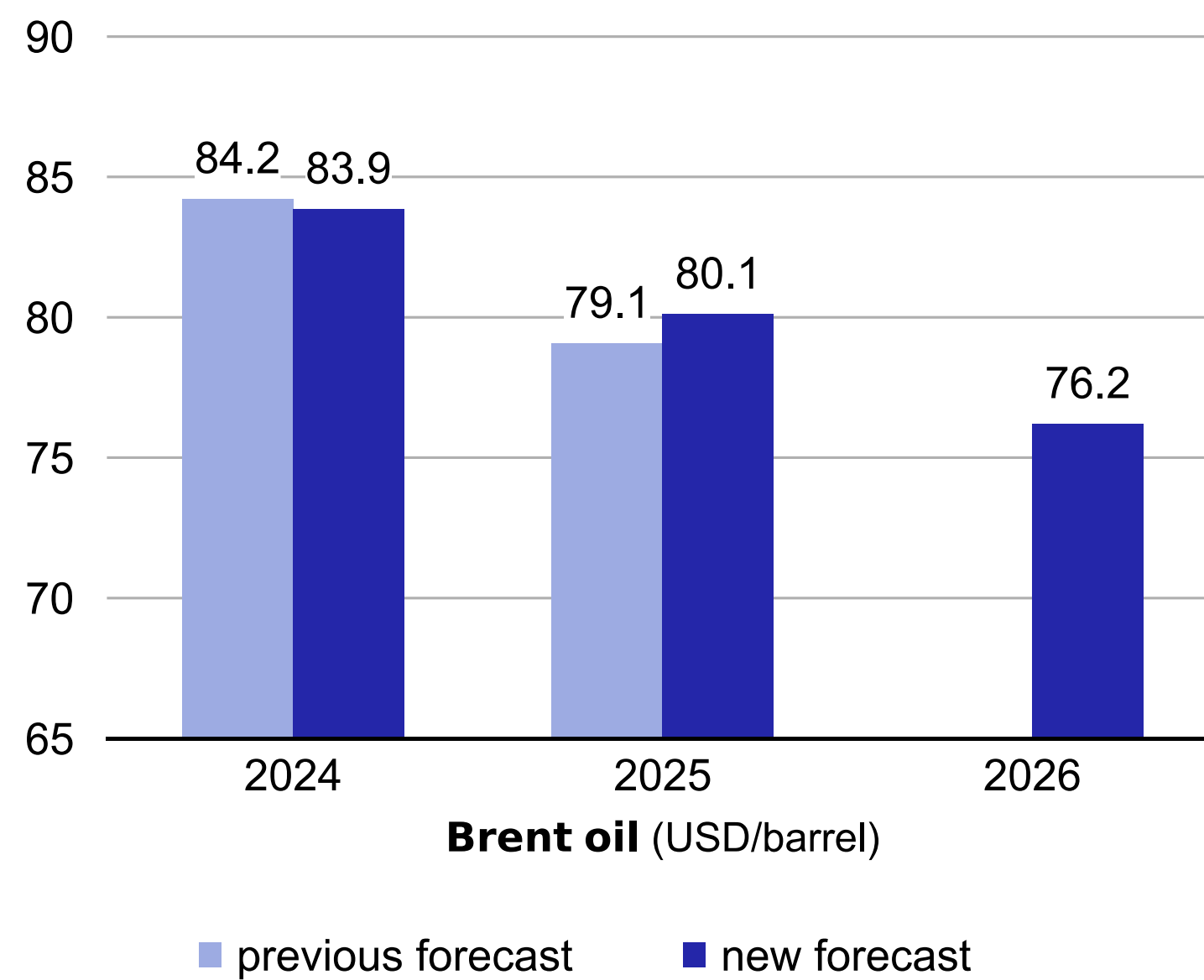
Comparison with the previous CNB forecast



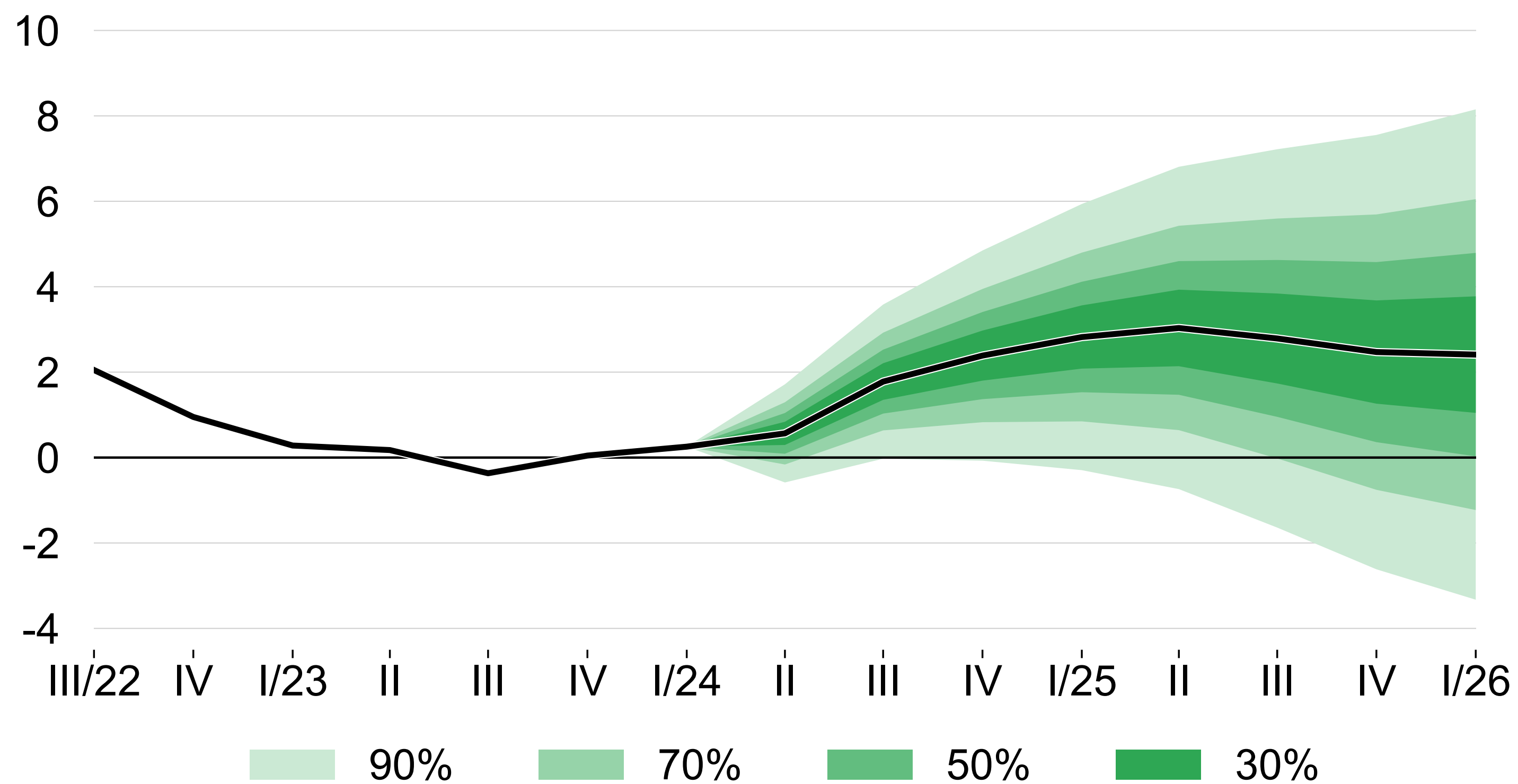
External environment: forecast and outlook for the effective euro area



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

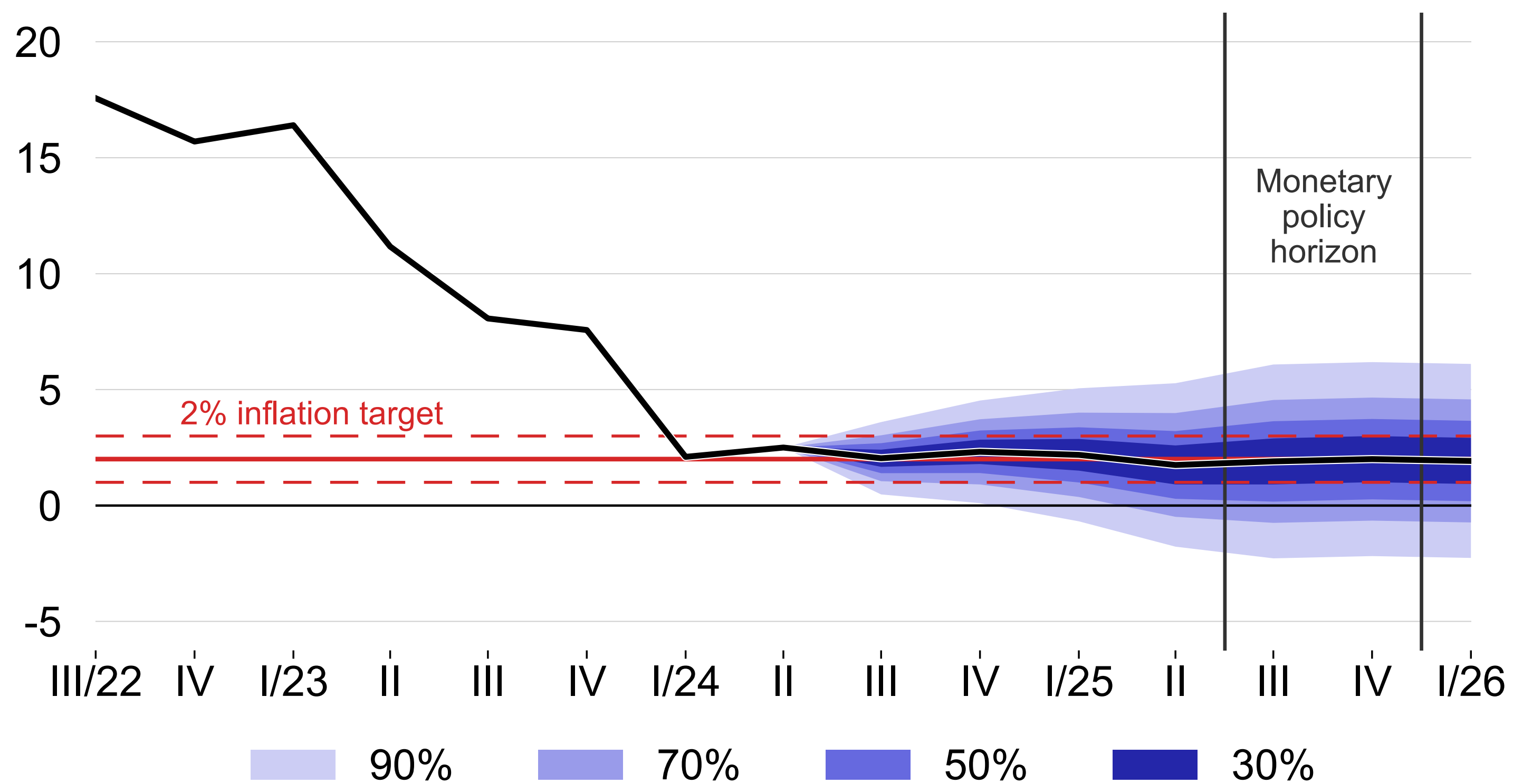


GDP forecast



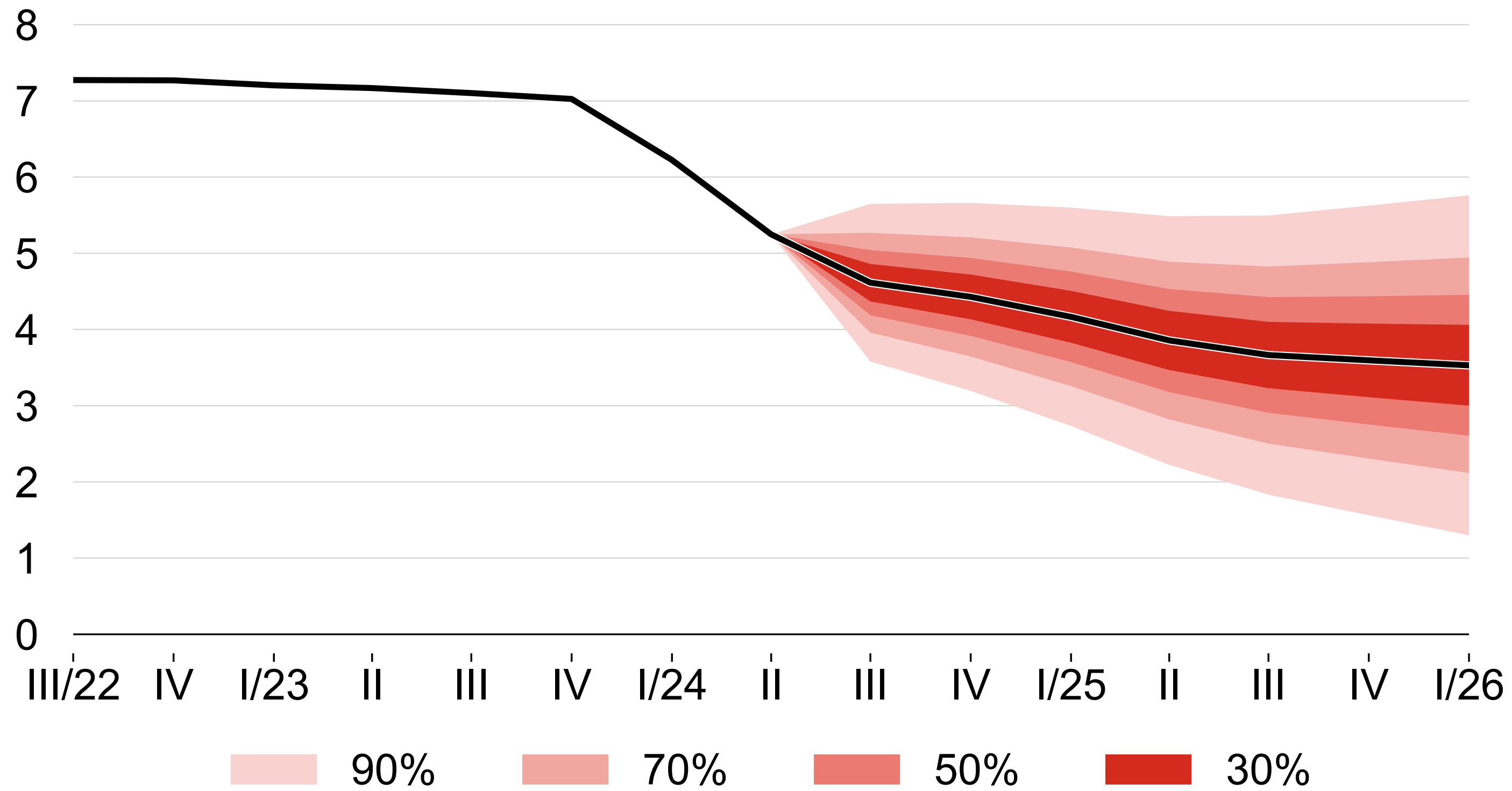
Note: y-o-y changes in %; prices of 2020 (chain-linked); seasonally adjusted.

Inflation forecast

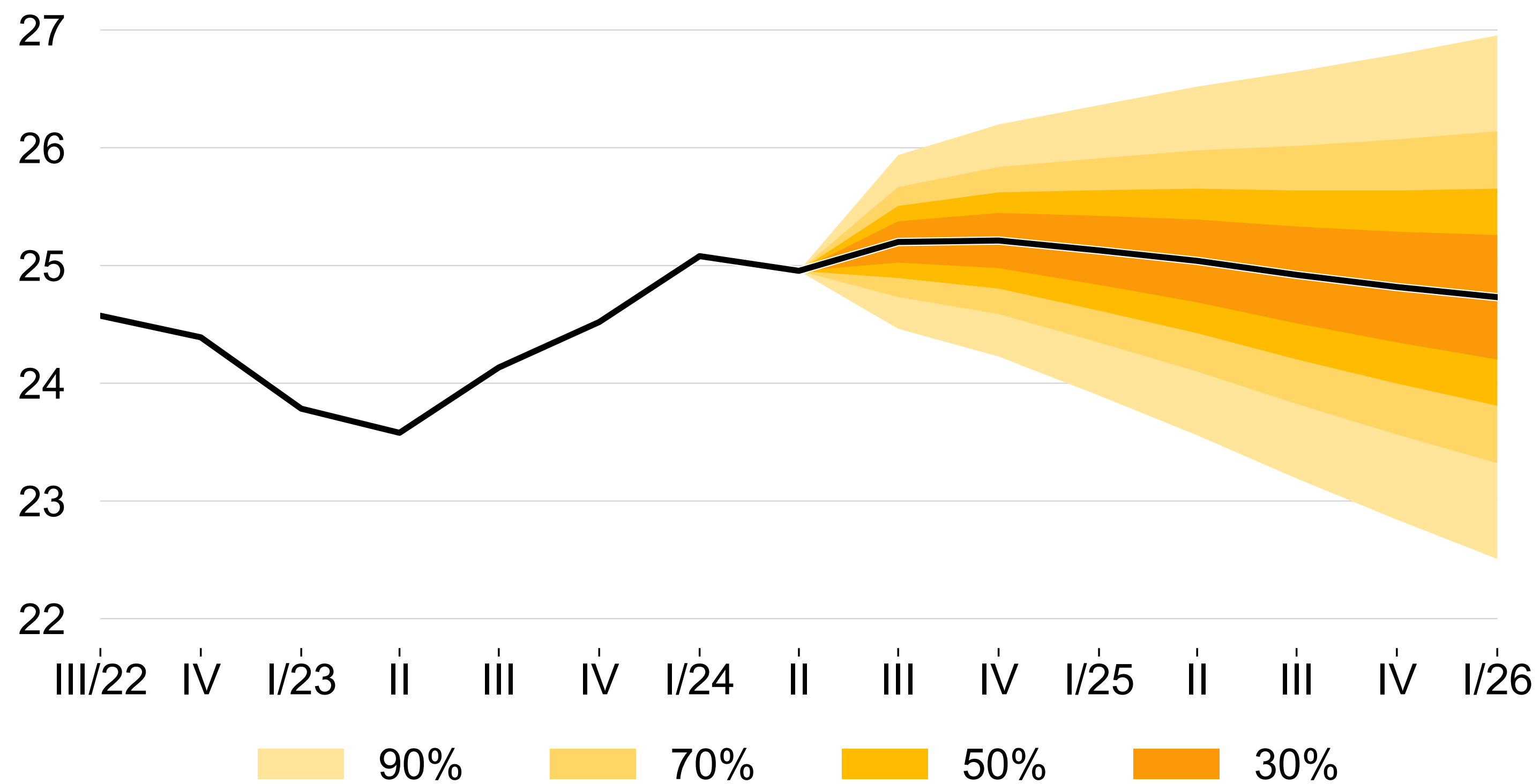


Note: y-o-y changes in %.

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 forecast as broadly balanced overall.

Inflationary risks:

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

Anti-inflationary risk:

- downturn in global economic activity and weaker German – and hence Czech – 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

More information about the forecast can be found at

<https://www.cnb.cz/en/monetary-policy/forecast/>

and in Monetary Policy Report – Summer 2024.

The introductory part of the Report (together with the boxes, the appendix and the table of key macroeconomic indicators) will be published on 2 August 2024.

The whole Report will be published on 9 August 2024.



Decision in a nutshell



Consistent with the forecast is a modest decline in short-term market interest rates.



The Bank Board assessed the risks and uncertainties of the forecast as broadly balanced overall.



The Bank Board lowered the key interest rate (2W repo) by 0.25 percentage point to 4.50%.



All seven members voted in favour of this decision.