

6th Situation Report on Economic and Monetary Developments

Press conference of the Bank Board

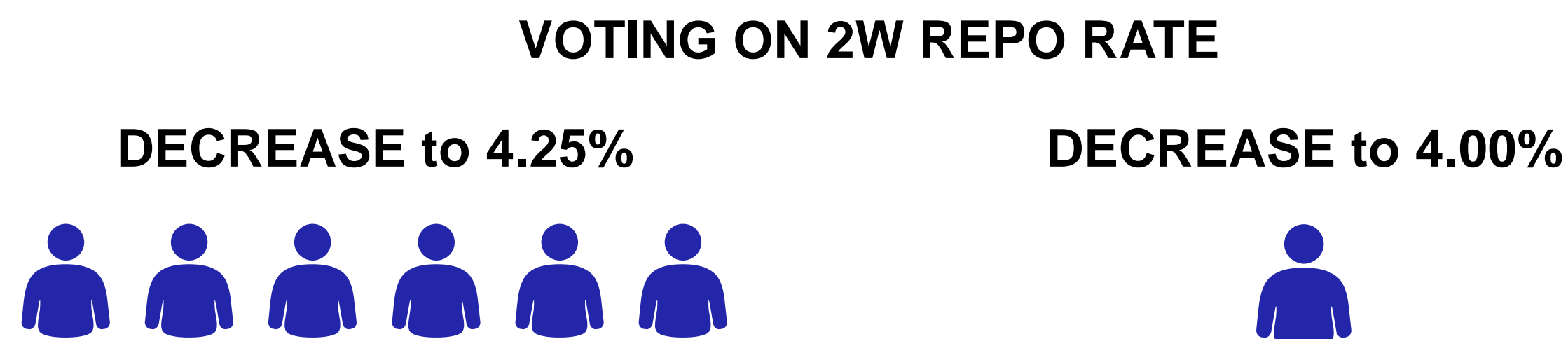


Monetary policy decision

3.25%
discount
rate

4.25%
2W repo
rate

5.25%
Lombard
rate



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 its tight monetary policy in order to maintain inflation near the 2% target in the long term.**

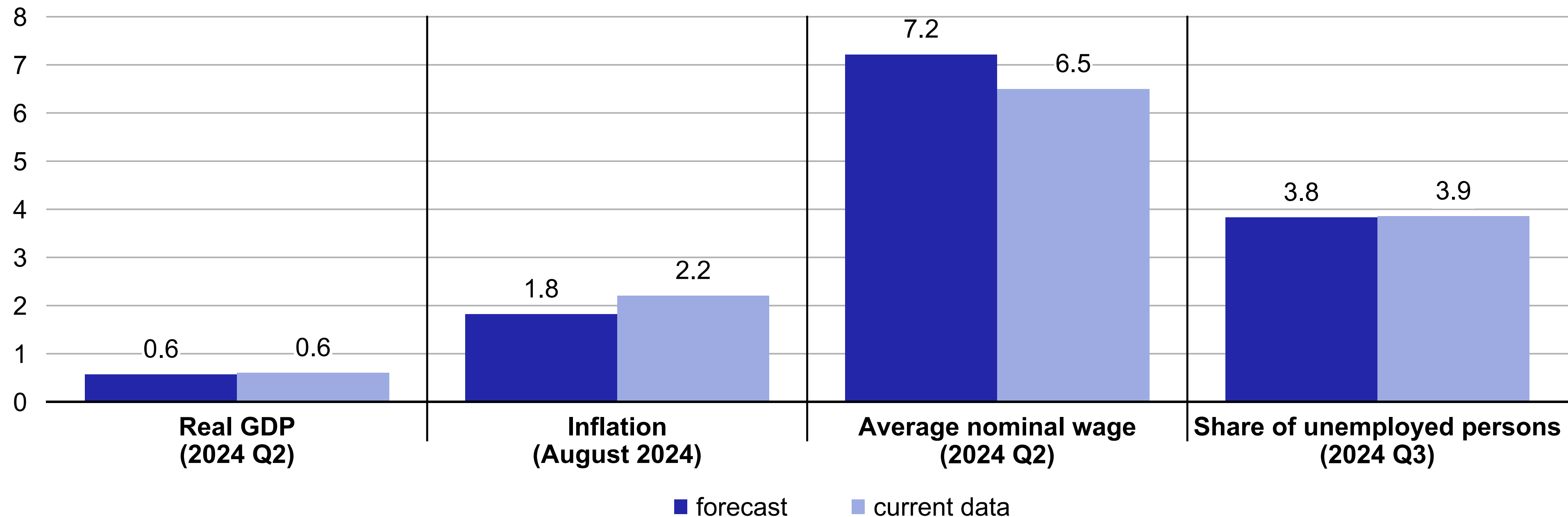
Economic developments

- In line with our expectations, the Czech economy is recovering only slowly and remains below its potential. GDP rose by 0.3% quarter on quarter and 0.6% year on year in 2024 Q2. Corporate fixed capital investment in particular contributed to the growth, while household consumption grew moderately (0.2% q-o-q). It was still 5.2% below the level observed before Covid.
- With inflation falling, real household income growth is recovering. However, it is being counteracted by negative sentiment. The recovery in domestic demand is thus slow, which is also confirmed by the retail and services sales figures. External demand also remains subdued.
- The labour market tightness is easing slowly, but unemployment remains low. Average wage growth stood at 6.5% in 2024 Q2 and slowed compared to 2024 Q1. It remains elevated from a historical perspective, but real wages are 5% below pre-Covid levels. The risk of a wage-price spiral does not seem to be materialising.

Economic developments

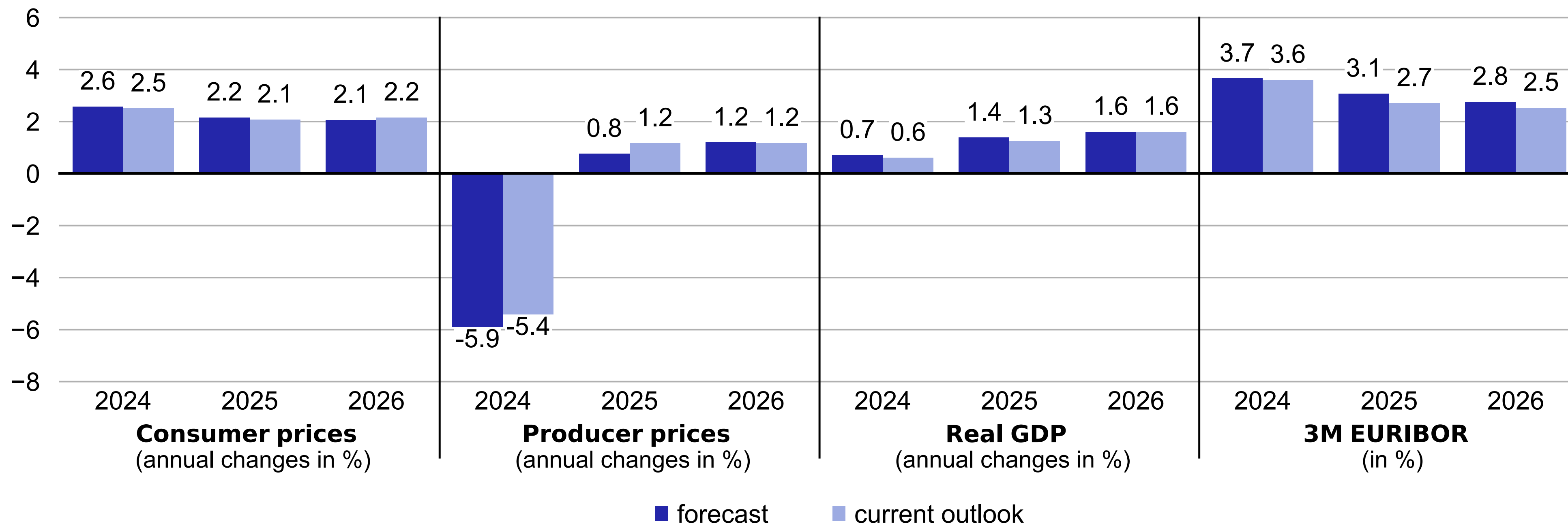
- Inflation has been close to the CNB's target since the beginning of this year. Headline inflation was slightly above the summer forecast in July and August, mainly due to faster growth in food prices. Core inflation was also higher than forecasted, confirming the appropriateness of the cautious approach to rate cuts.
- A temporary increase in inflation towards the upper boundary of the tolerance band around the target can be expected at the end of this year due to base effects. Inflation will decrease at the start of next year and fluctuate close to the CNB's 2% target.

Comparison of current domestic data with the CNB forecast

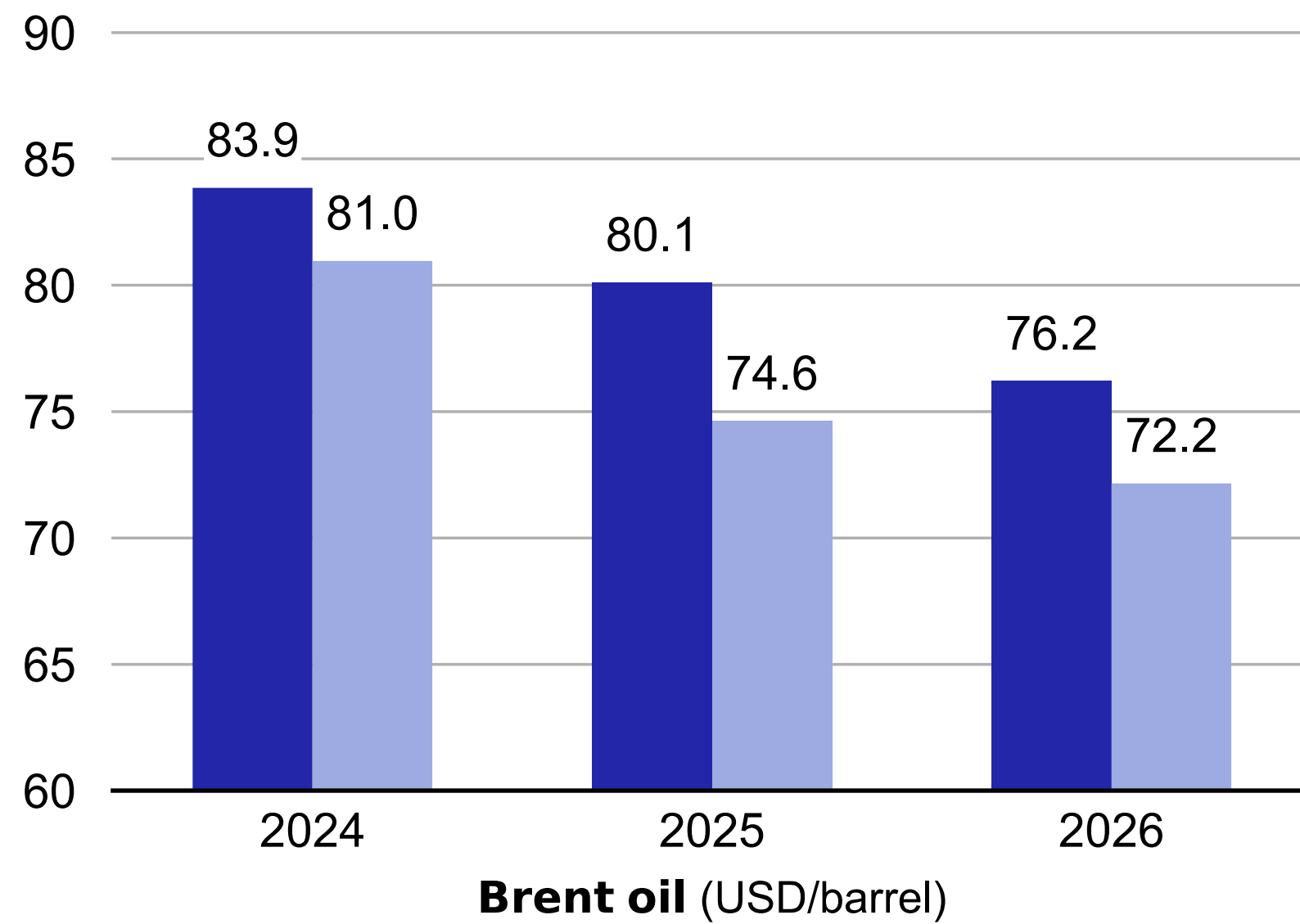


Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in July and August with the forecast for 2024 Q3).

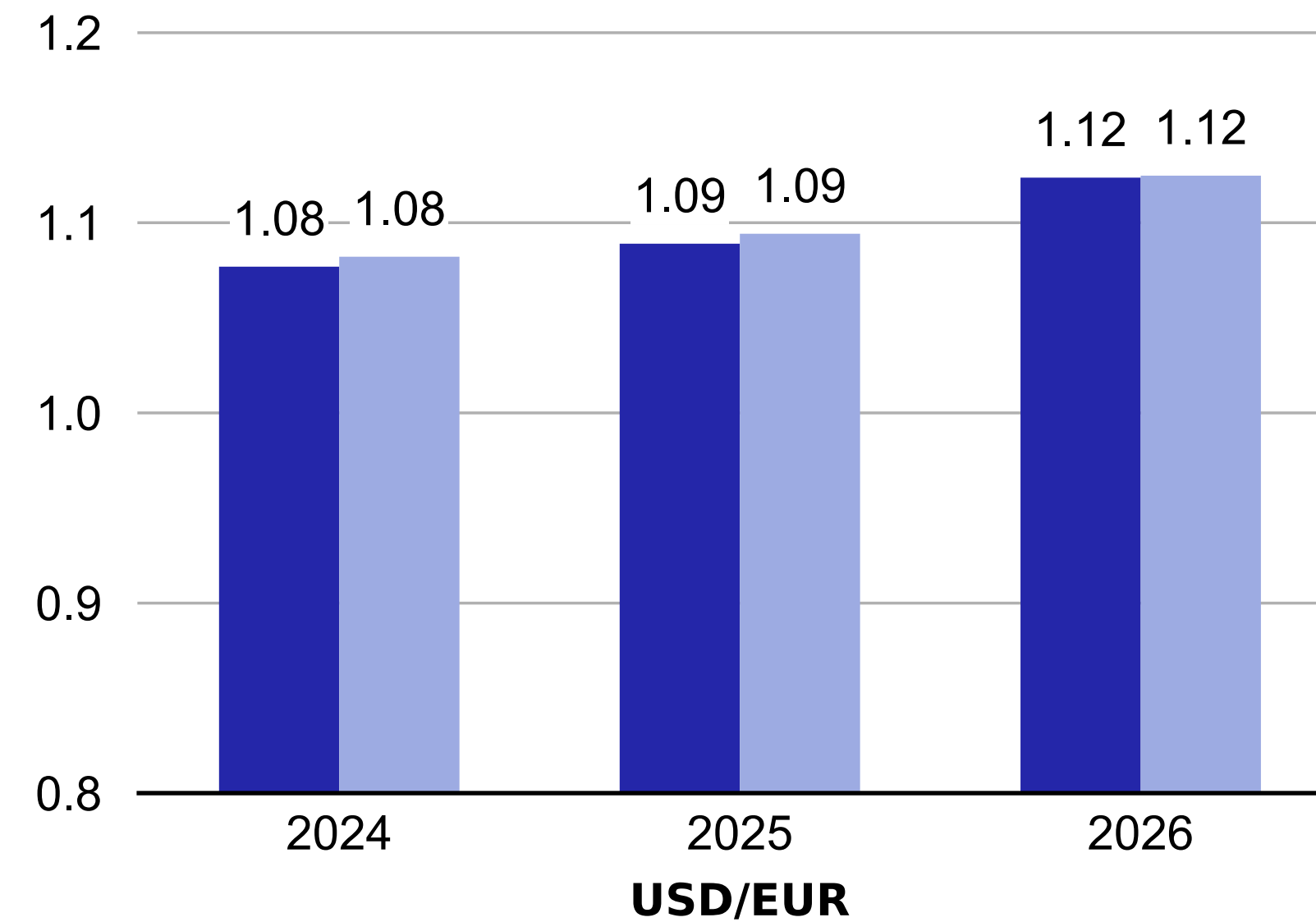
External environment: forecast and outlook for the effective euro area



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

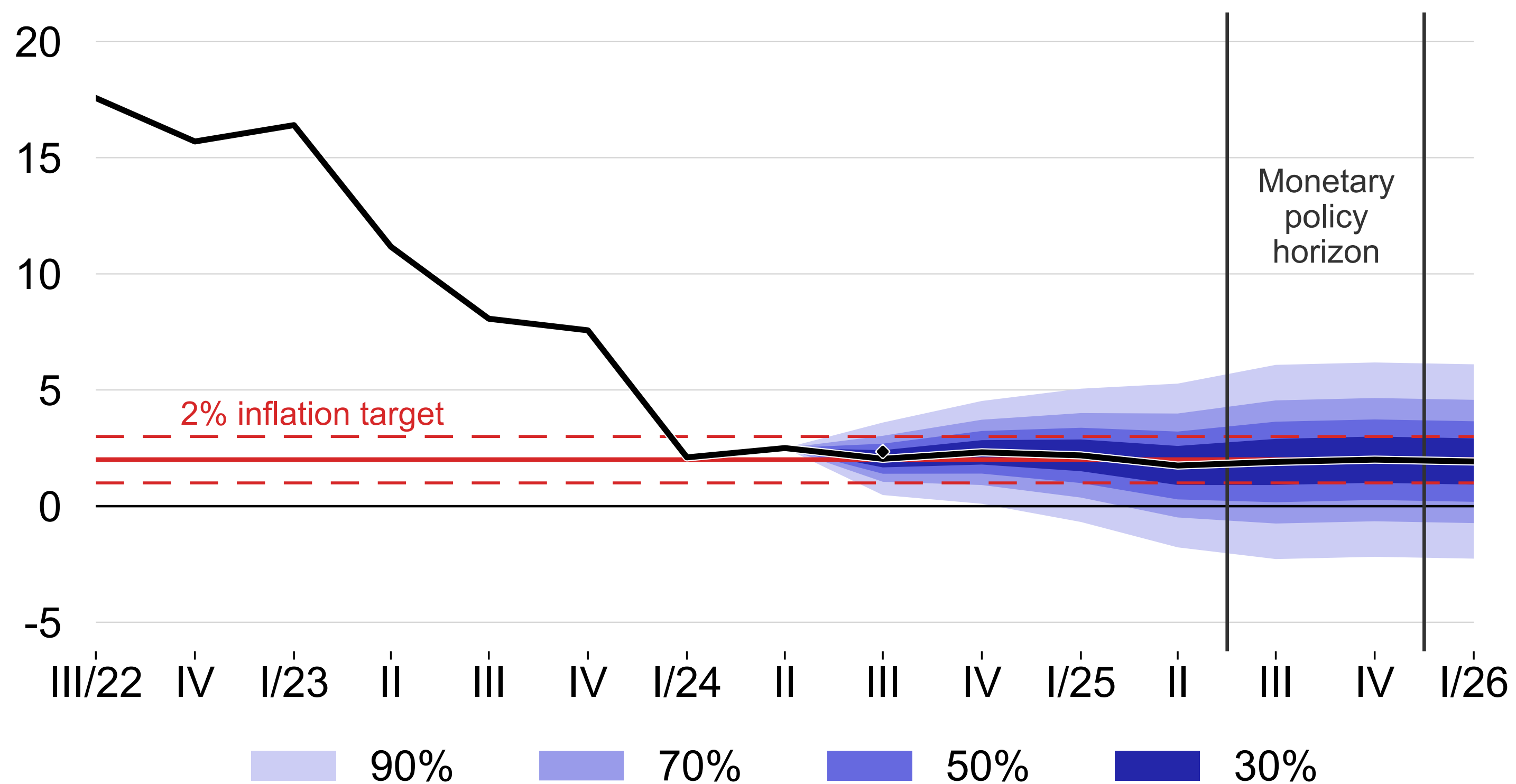


■ forecast ■ current outlook



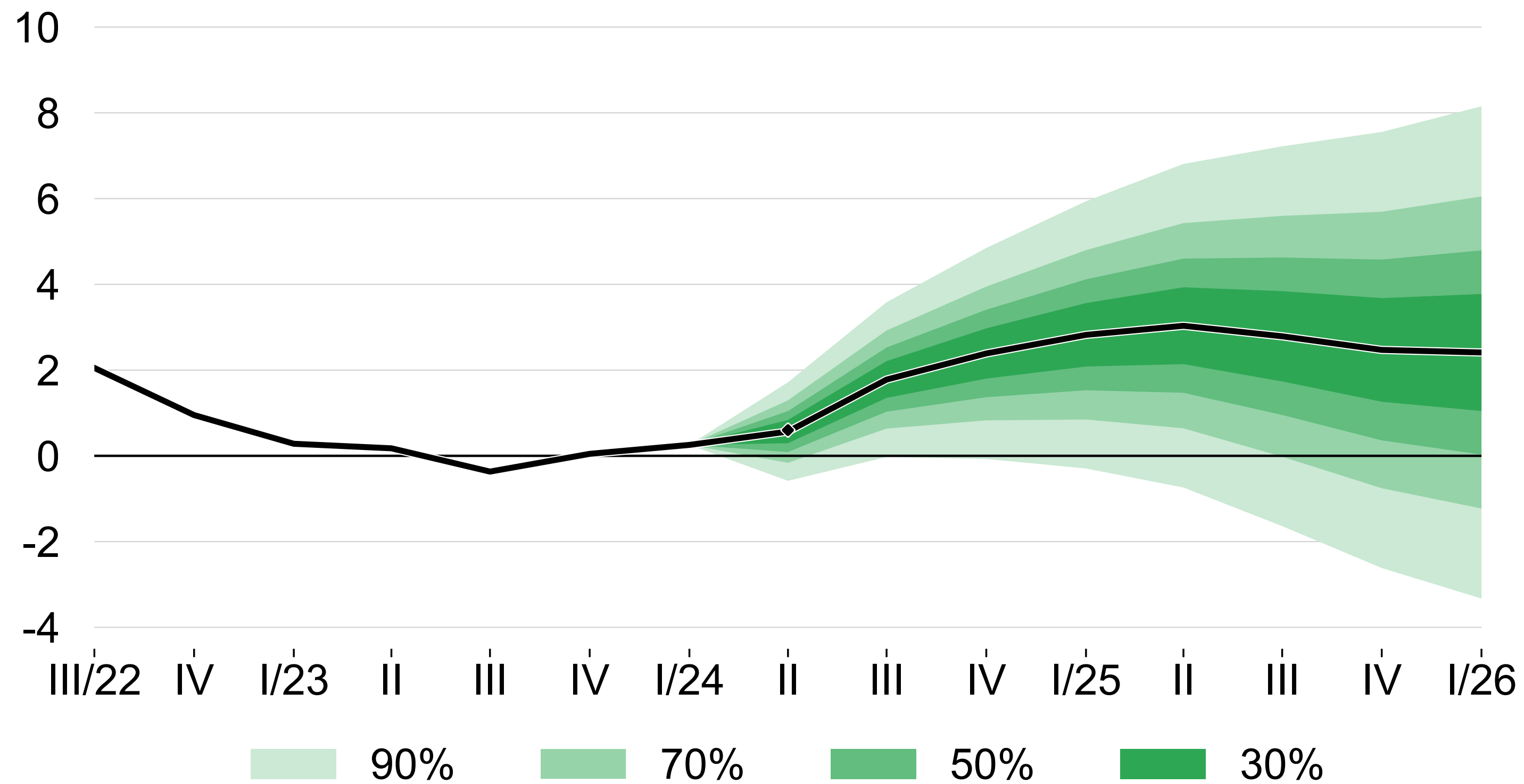
■ forecast ■ current outlook

Inflation forecast and expected outcome in 2024 Q3



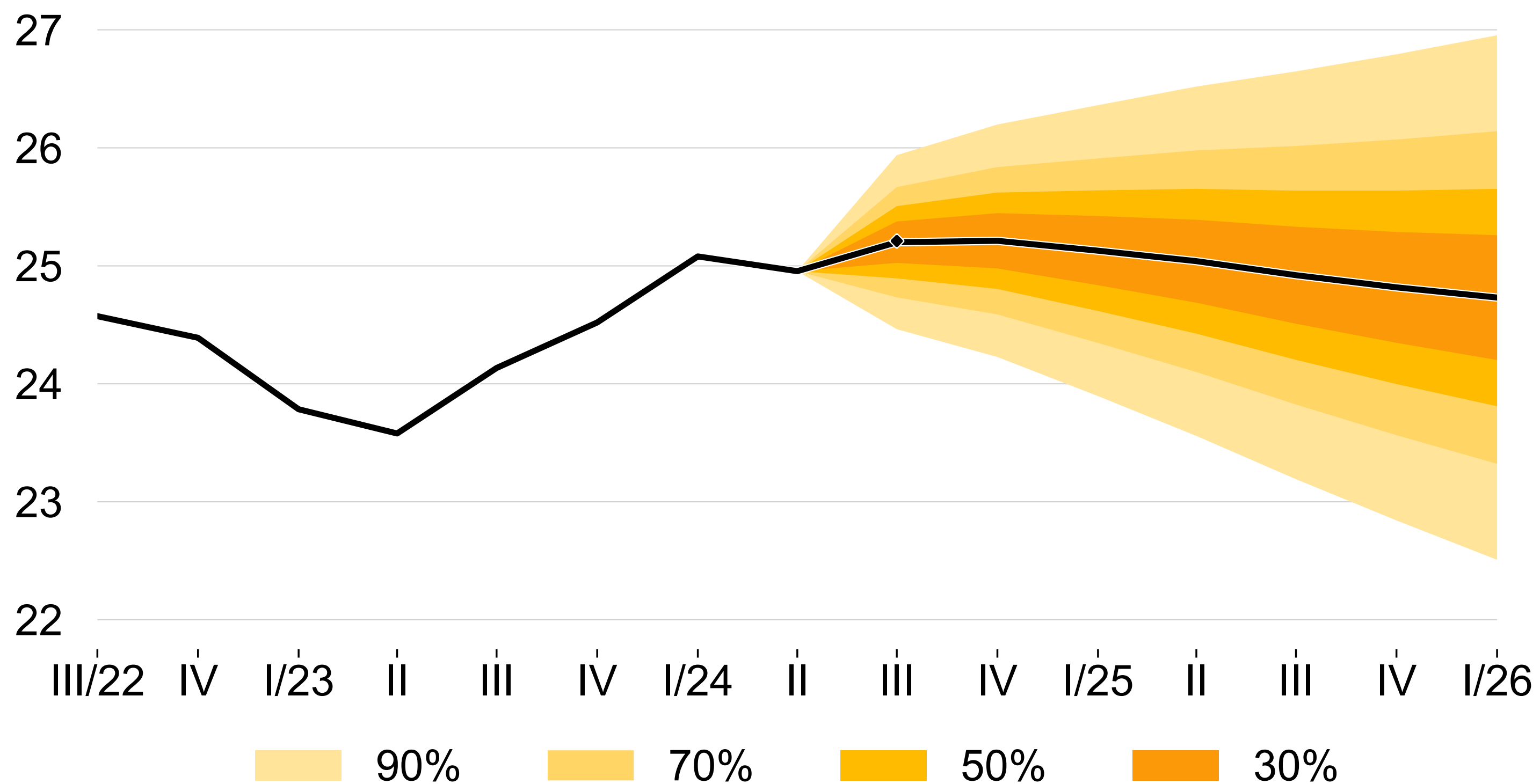
Note: y-o-y changes in %.

GDP forecast and outcome in 2024 Q2



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

Exchange rate forecast (CZK/EUR) and outcome in 2024 Q3



Risks and uncertainties

The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target 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
- 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, also reflected in the outlook for further rate cuts by major central banks.

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 4 October 2024 at

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



Decision in a nutshell



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



The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as broadly balanced overall.



The Bank Board lowered the key interest rate (2W repo) by 0.25 percentage point to 4.25%.



Six members voted in favour of this decision.