

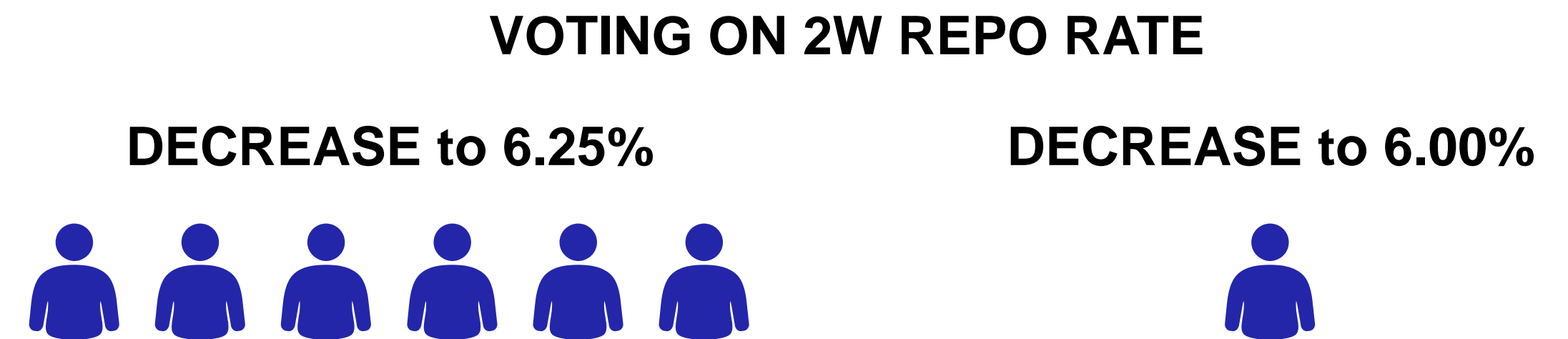
1st Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



Monetary policy decision

5.25% discount rate
6.25% 2W repo rate
7.25% Lombard rate



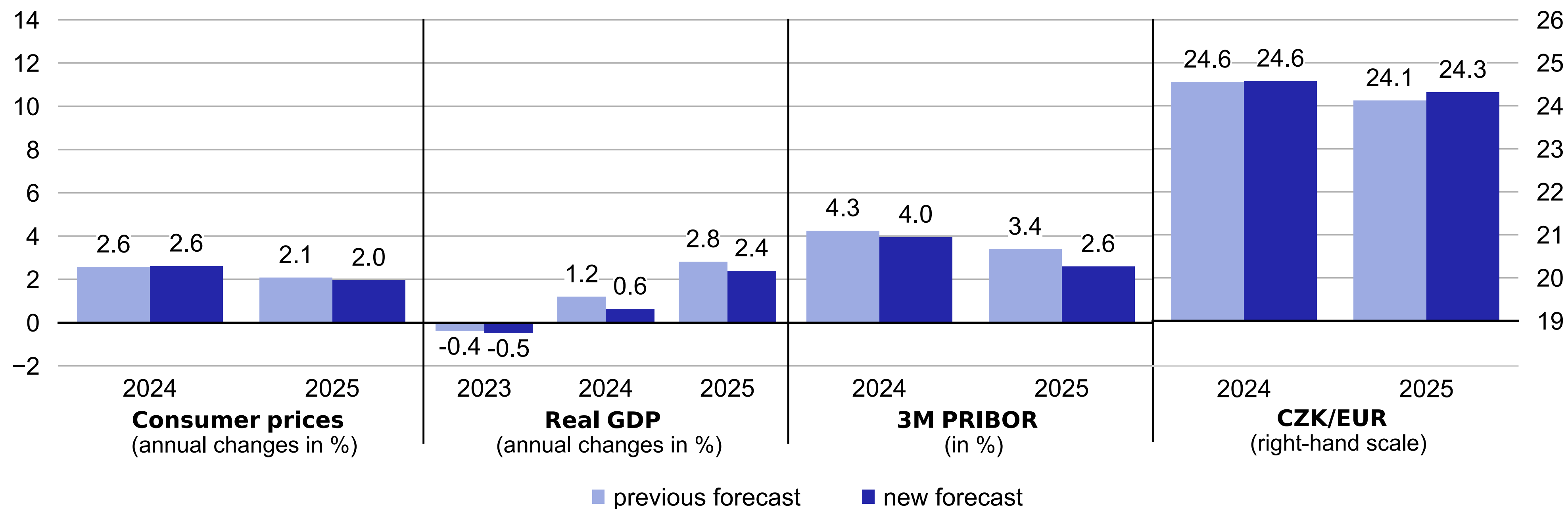
The Bank Board discussed the **new macroeconomic forecast**. Its baseline scenario implies a rapid decline in market interest rates in the course of this year.

At the same time, the Bank Board confirmed its determination to **continue its tight monetary policy until inflation is stabilised near the 2% target**.

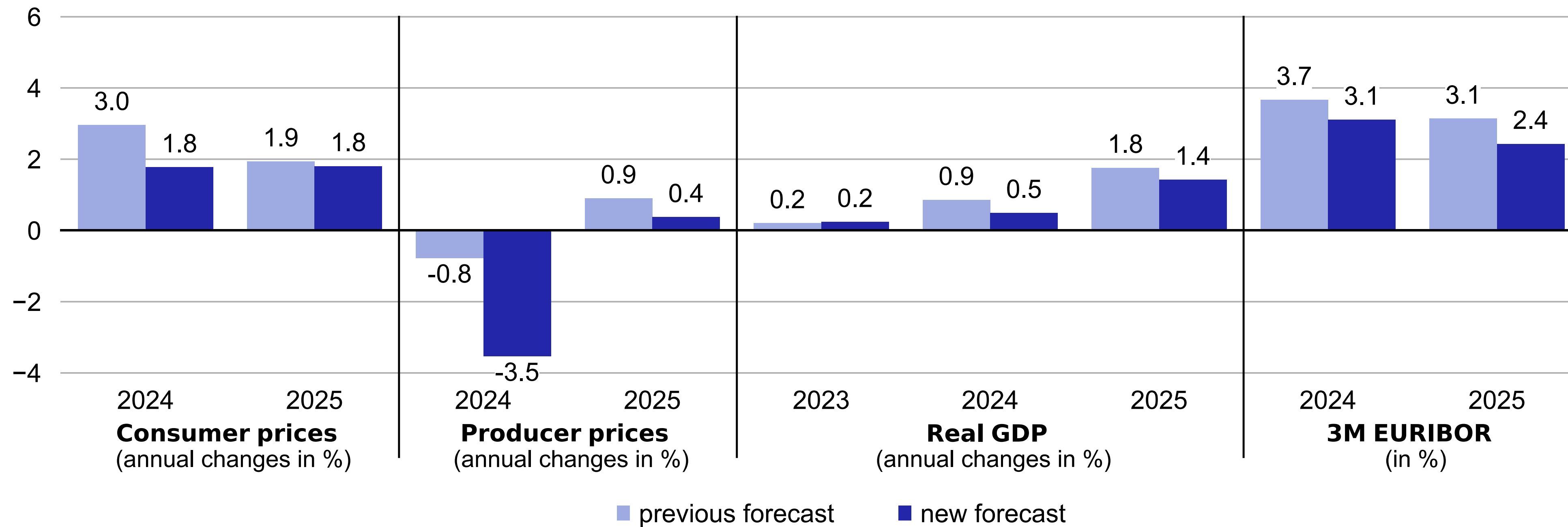
Economic development

- The cost inflation pressures from the external environment and demand pressures from the domestic economy are receding in the Czech economy. The economy rebounded at the end of 2023. According to the CZSO's flash estimate, GDP rose by 0.2% quarter on quarter in 2023 Q4. The growth was driven by external demand and, for the first time in several quarters, by household consumption.
- However, domestic and external demand remain weak. They are being dampened by restrictive monetary policy, negative sentiment and continued high energy prices, which are slowing growth in real household income. Domestic and, to a lesser extent, external demand are also being dampened by elevated saving due to households' caution and attractive returns on deposits. According to our analyses, the economy is below its potential.
- On the other hand, unemployment remains low and the labour market tight. However, wage growth slowed to 7.1% in 2023 Q3 and the risk of a wage-price spiral is therefore not materialising.

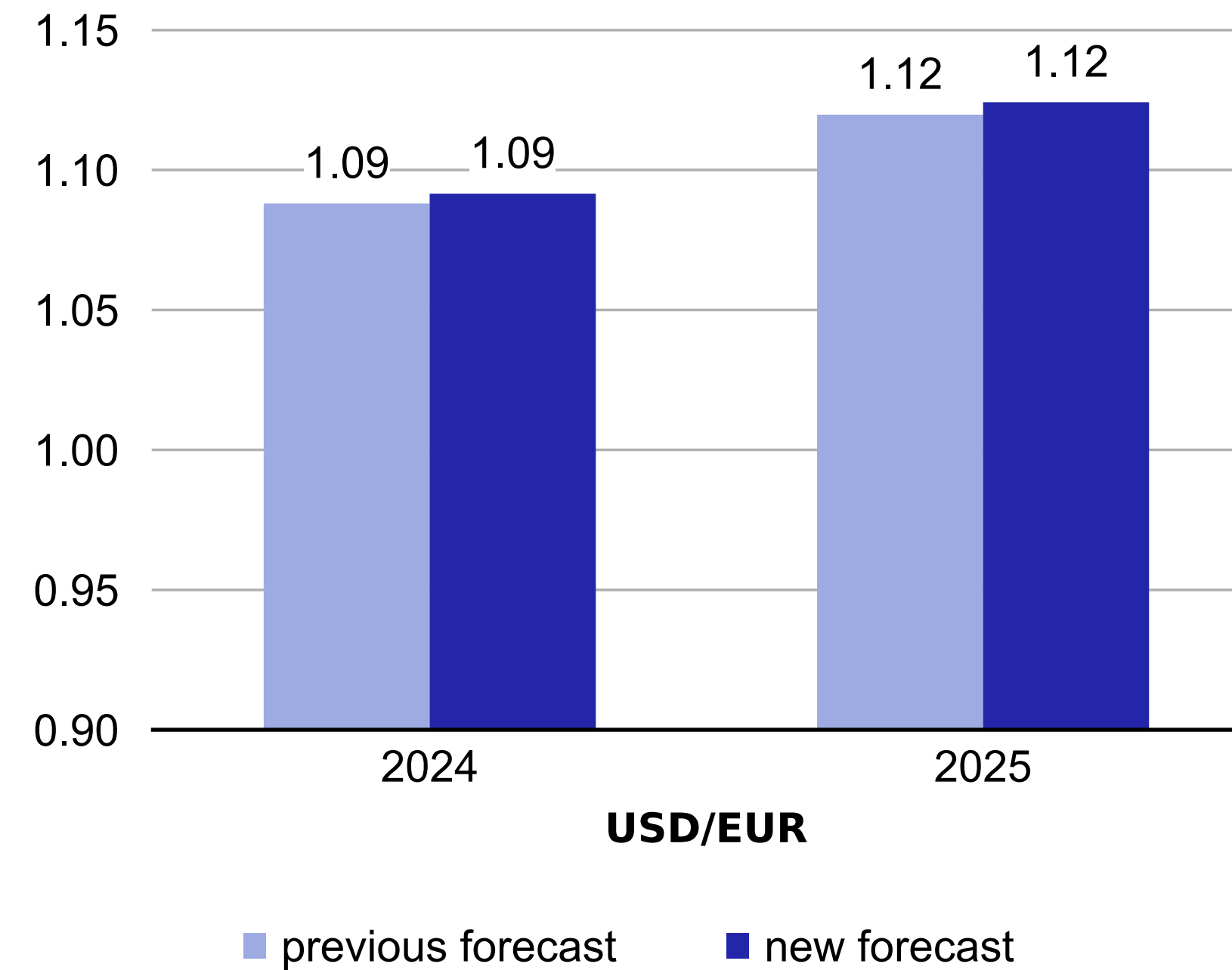
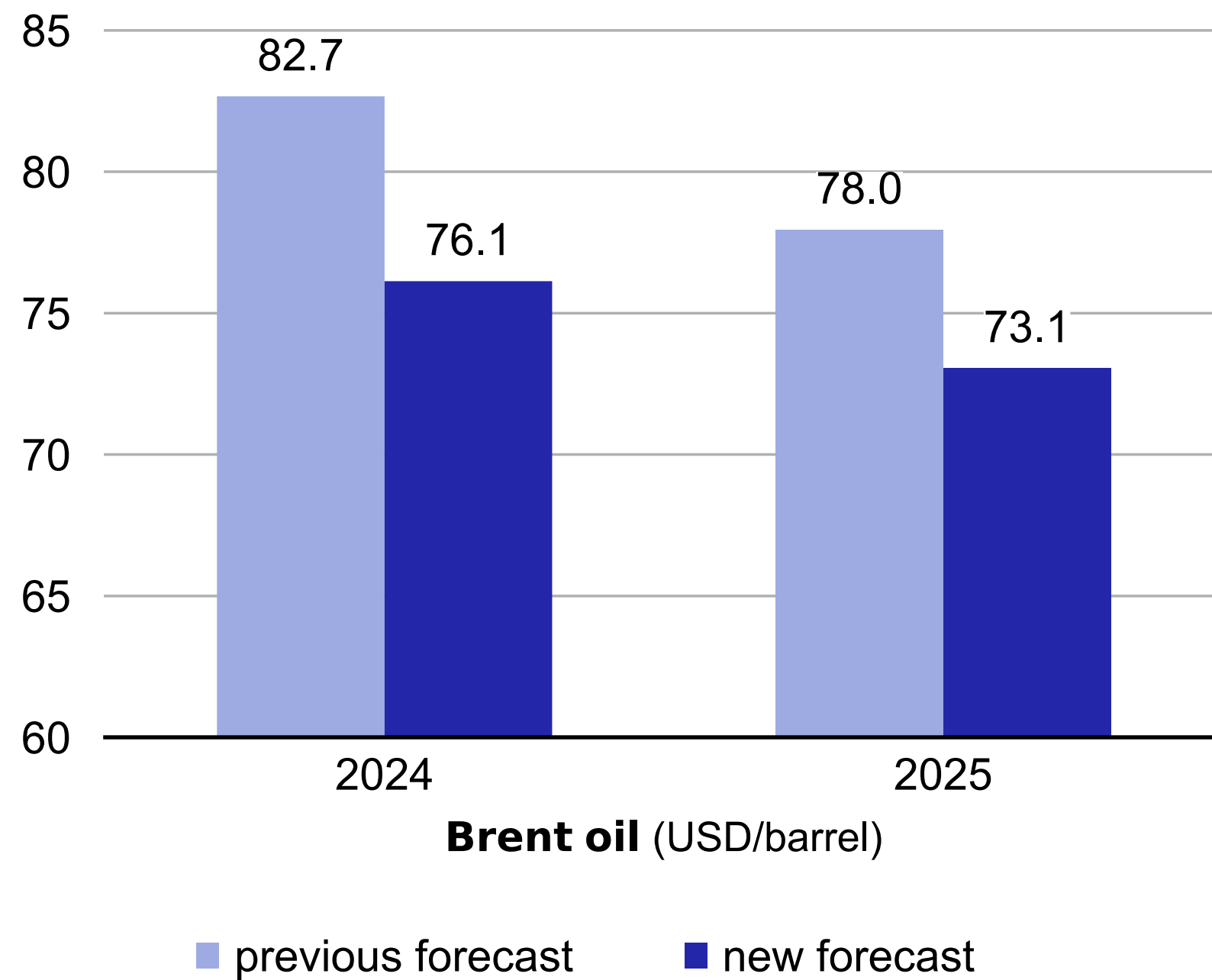
Comparison with the previous CNB forecast



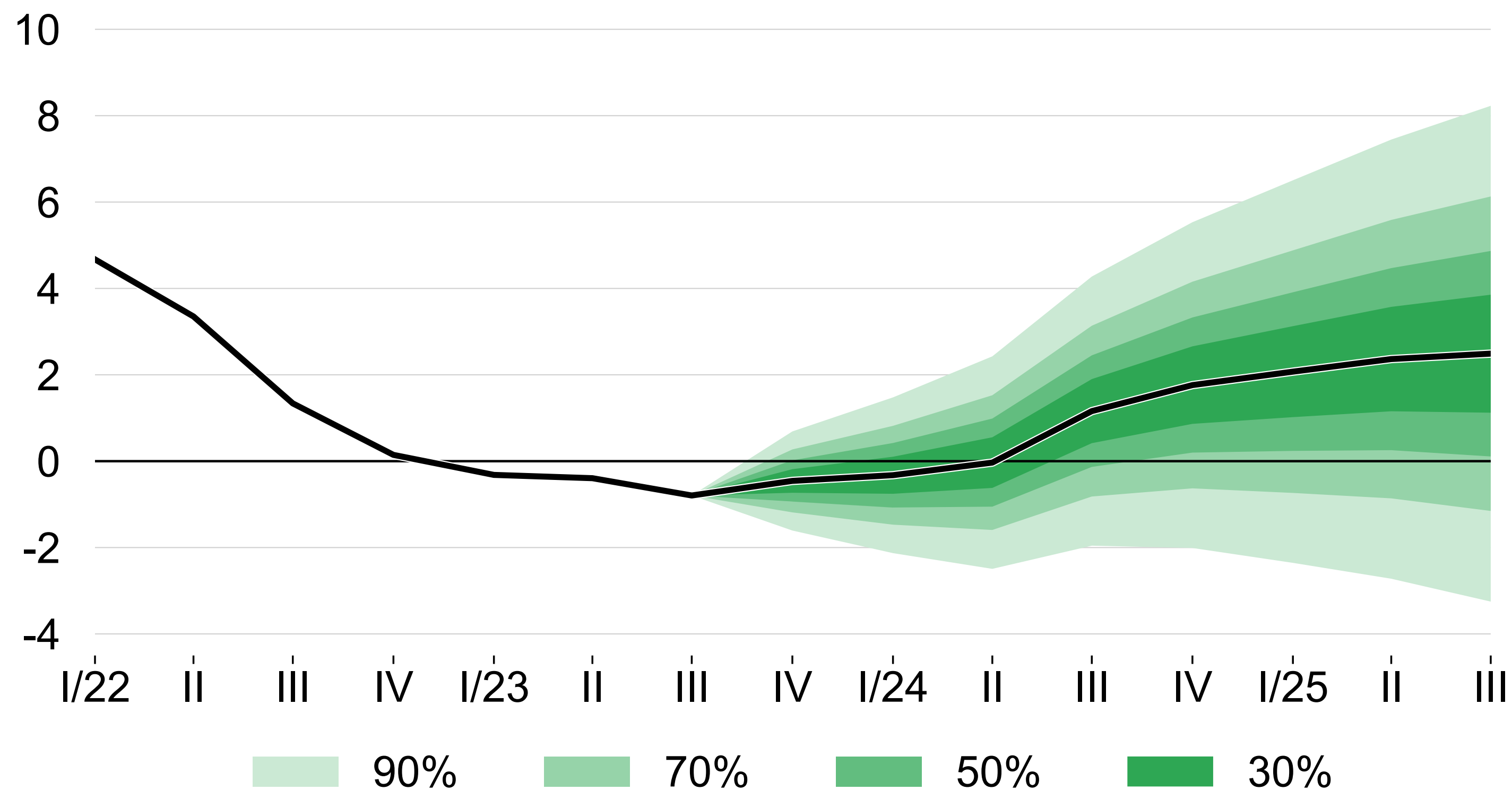
External environment: forecast and outlook for the effective euro area



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

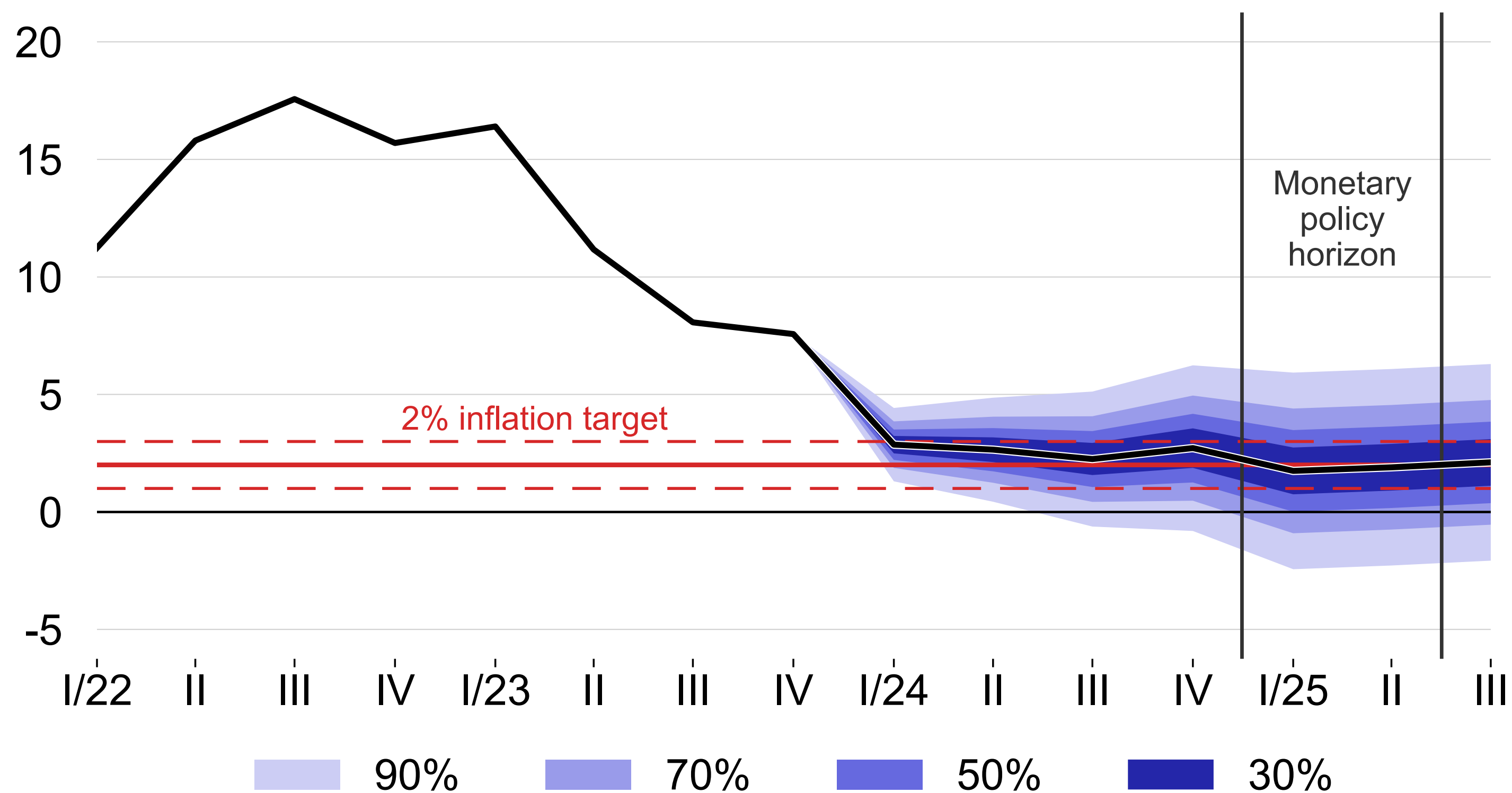


GDP forecast



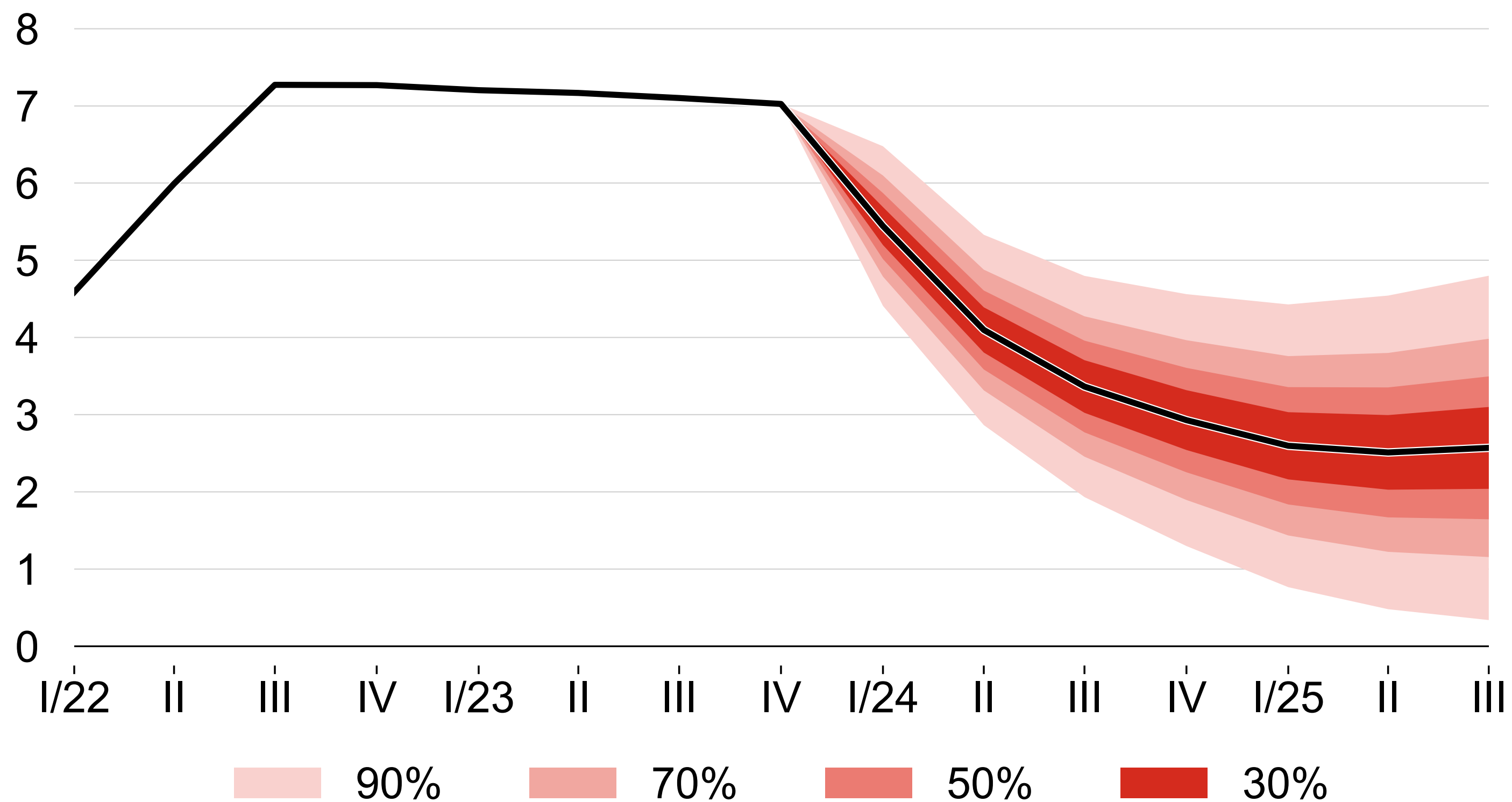
Note: y-o-y changes in %; constant prices; seasonally adjusted.

Inflation forecast

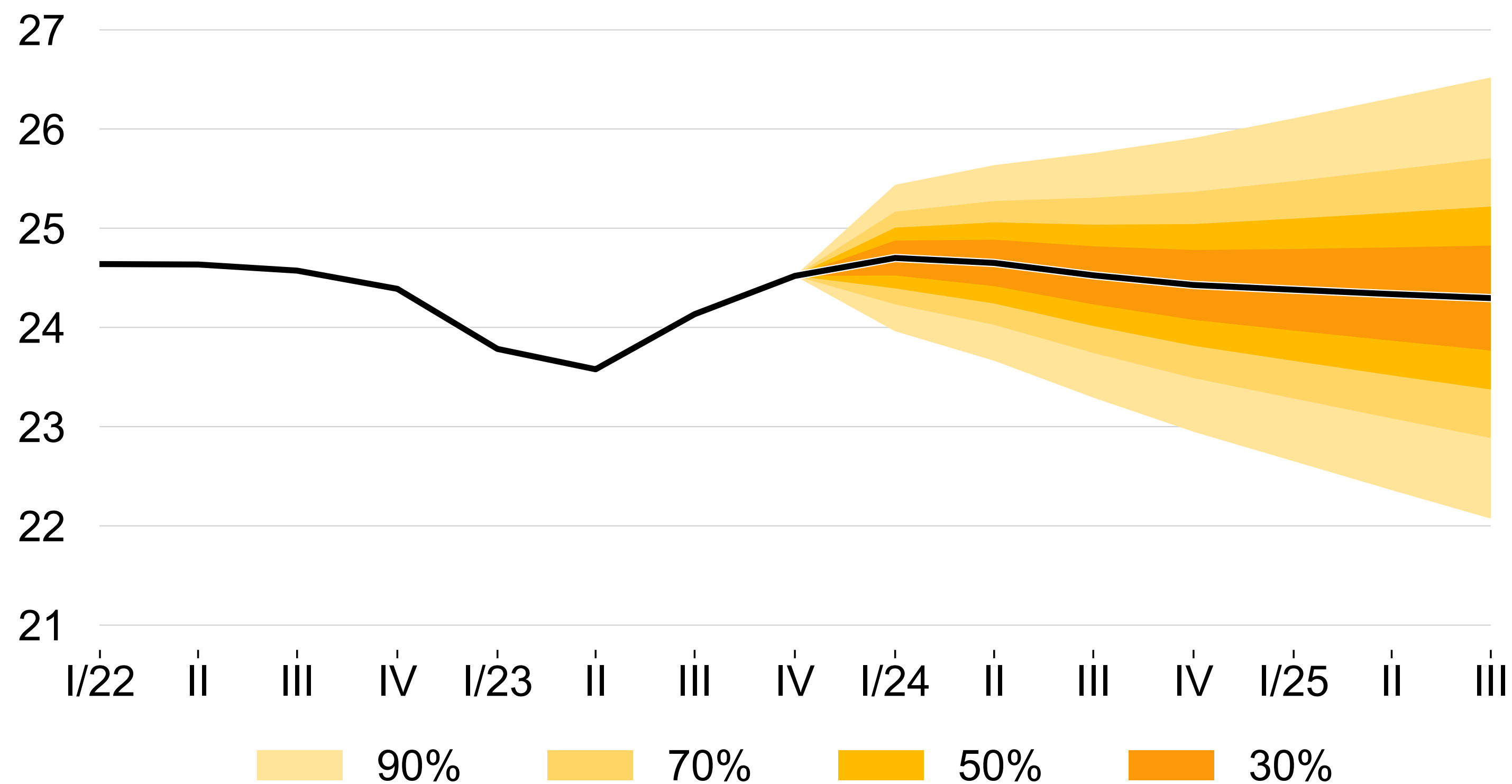


Note: y-o-y changes in %.

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 baseline scenario of the forecast as being broadly inflationary.

Inflationary risks:

- slower decline in the elevated inflation expectations
- higher-than-expected inertia in services prices
- halt in tradables disinflation
- acceleration of money creation in the economy stemming from excessive lending activity in the property market in the longer term

Anti-inflationary risk:

- stronger-than-expected downturn in global economic activity and 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 restore price stability in accordance with the 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 – Winter 2024.

The introductory part of the Report (together with the box and the table of key macroeconomic indicators) will be published on 9 February 2024.

The whole Report will be published on 16 February 2024.



Decision in a nutshell



Consistent with the baseline scenario of the forecast is a rapid decline in market interest rates in the course of this year.



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



The Bank Board lowered the key interest rate (2W repo) by 0.50 percentage point to 6.25%.



Six members voted in favour of this decision.