

2nd Situation Report on Economic and Monetary Developments

Press conference of the Bank Board

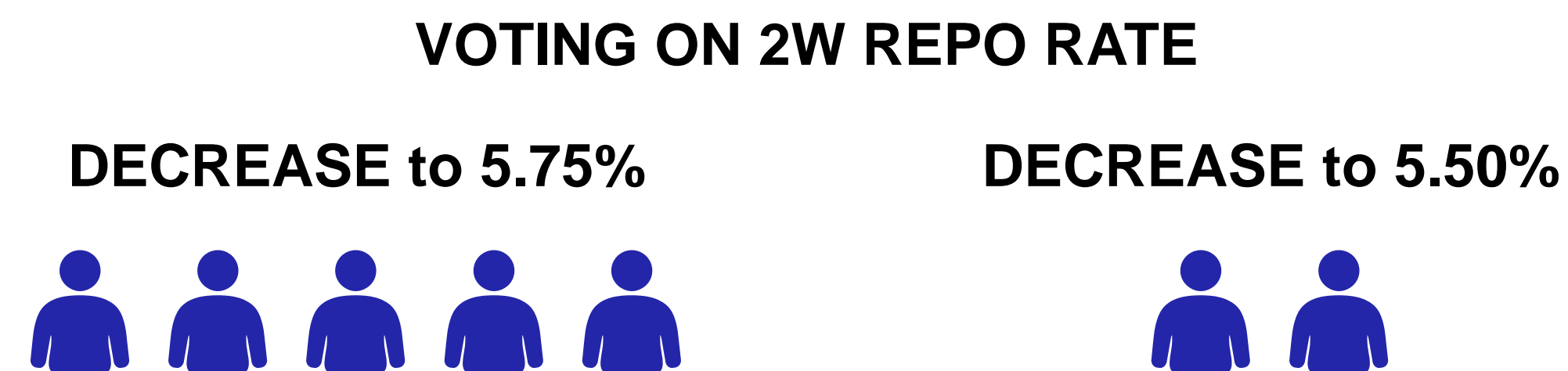


Monetary policy decision

4.75%
discount
rate

5.75%
2W repo
rate

6.75%
Lombard
rate



The decision adopted by the Bank Board is underpinned by **the winter (February) 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.**

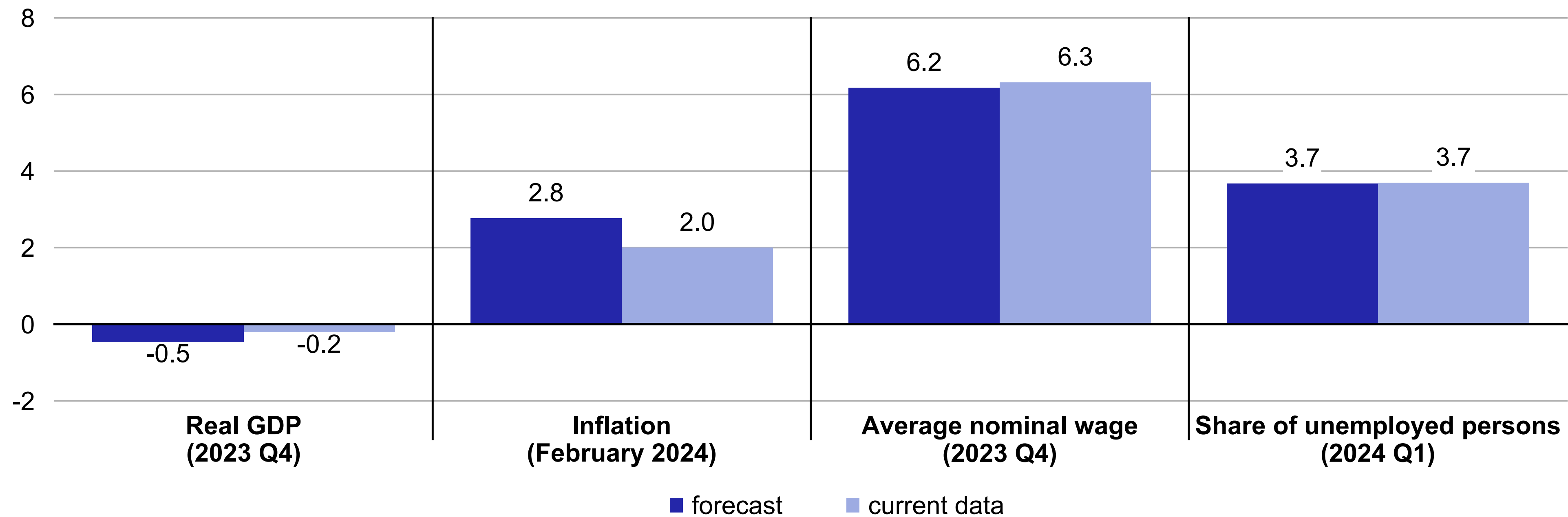
Economic developments

- According to our analyses, the economy is below its potential. GDP rose by 0.2% quarter on quarter in 2023 Q4, while the forecast had expected stagnation. Household consumption rose slightly, but was 8% below the level observed before the pandemic.
- The available indicators from the real economy are indicating continued quarterly growth in real GDP in 2024 Q1. With inflation falling, real household income growth is recovering. This is reflected in improved, albeit still rather negative, household sentiment. The recovery in domestic demand is confirmed by the figures for retail sales, which saw positive year-on-year growth in December for the first time since May 2022 and accelerated further in January.

Economic developments

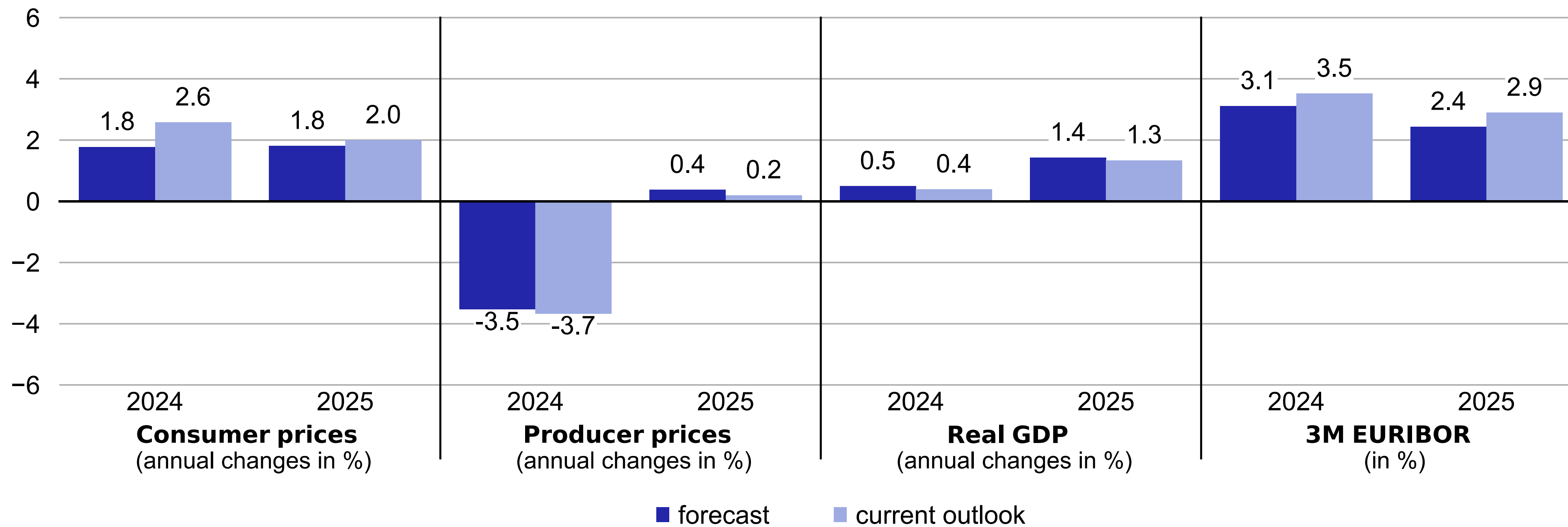
- The labour market tightness is easing slowly, but unemployment remains low. Wage growth slowed to 6.3% in line with the forecast in 2023 Q4. It remains slightly elevated from a historical perspective, but the risk of a wage-price spiral does not seem to be materialising.
- External demand continues to slow down, due in part to the tightened 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.
- Annual inflation fell sharply to 2.3% in January and reached the CNB's 2% target in February. The decline was therefore deeper than forecasted. However, core inflation remains elevated, reaching 2.8% in February. Growth in services prices in particular remains above the level consistent with achieving the inflation target over the long term.

Comparison of current domestic data with the CNB forecast

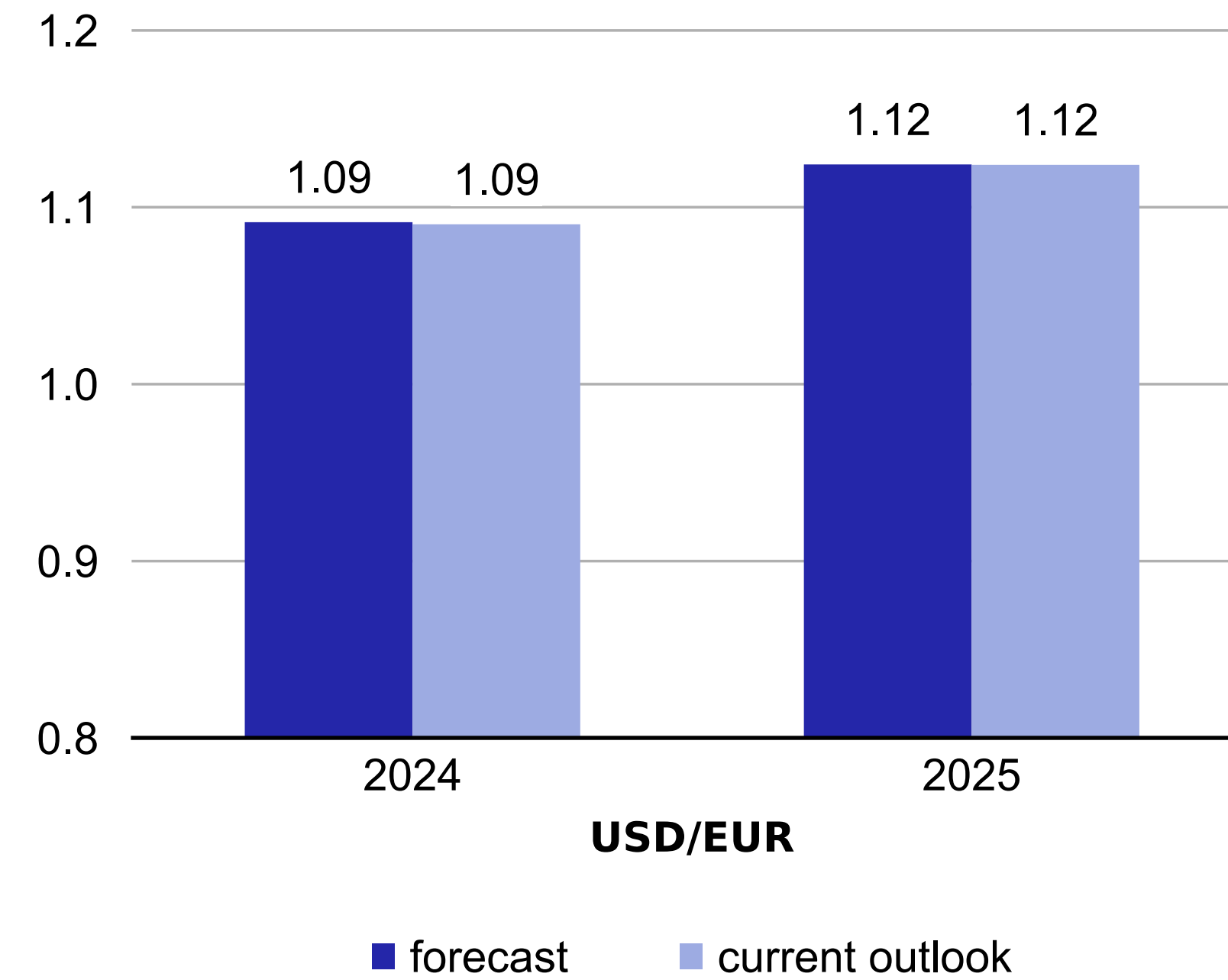
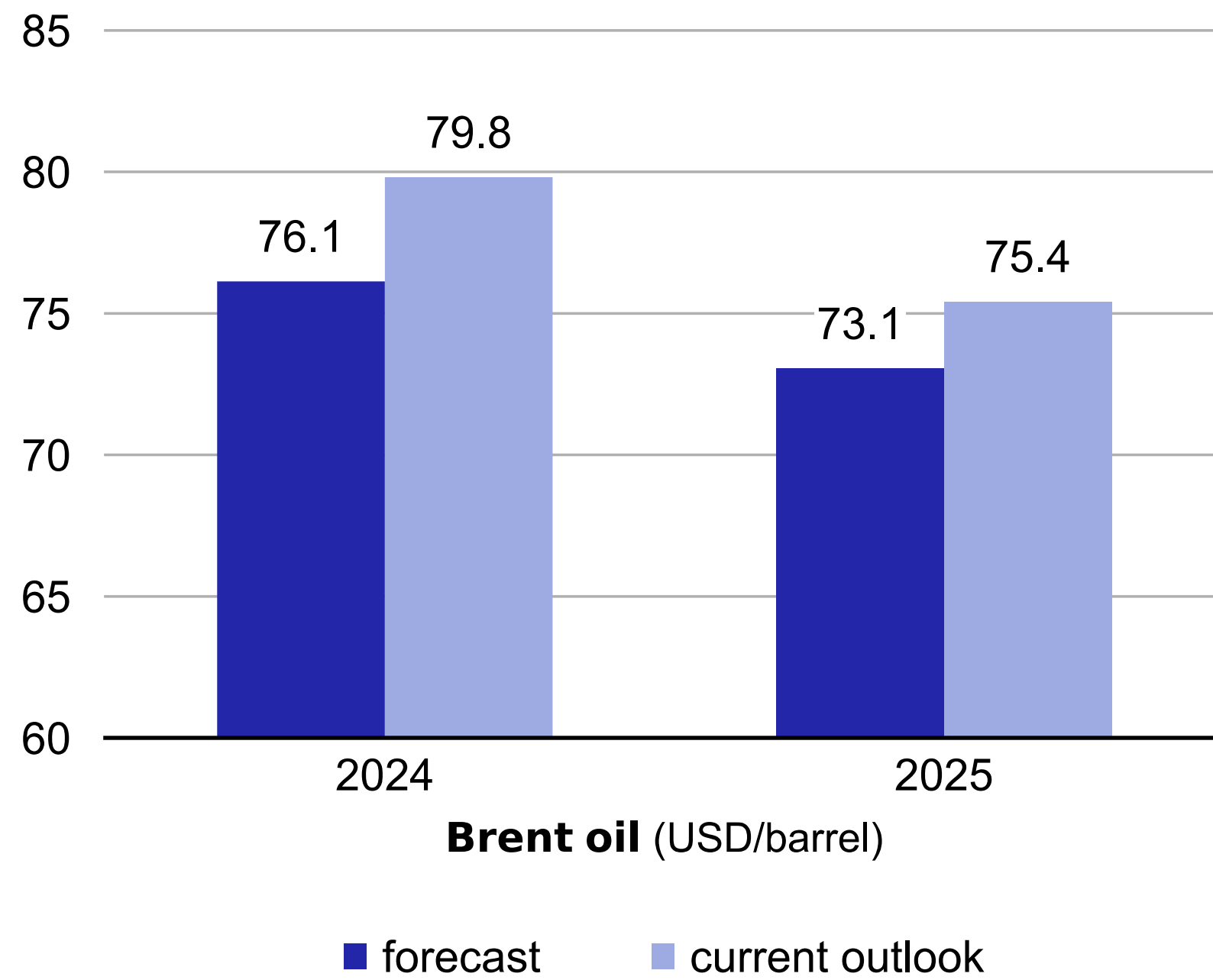


Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in January and February with the forecast for 2024 Q1).

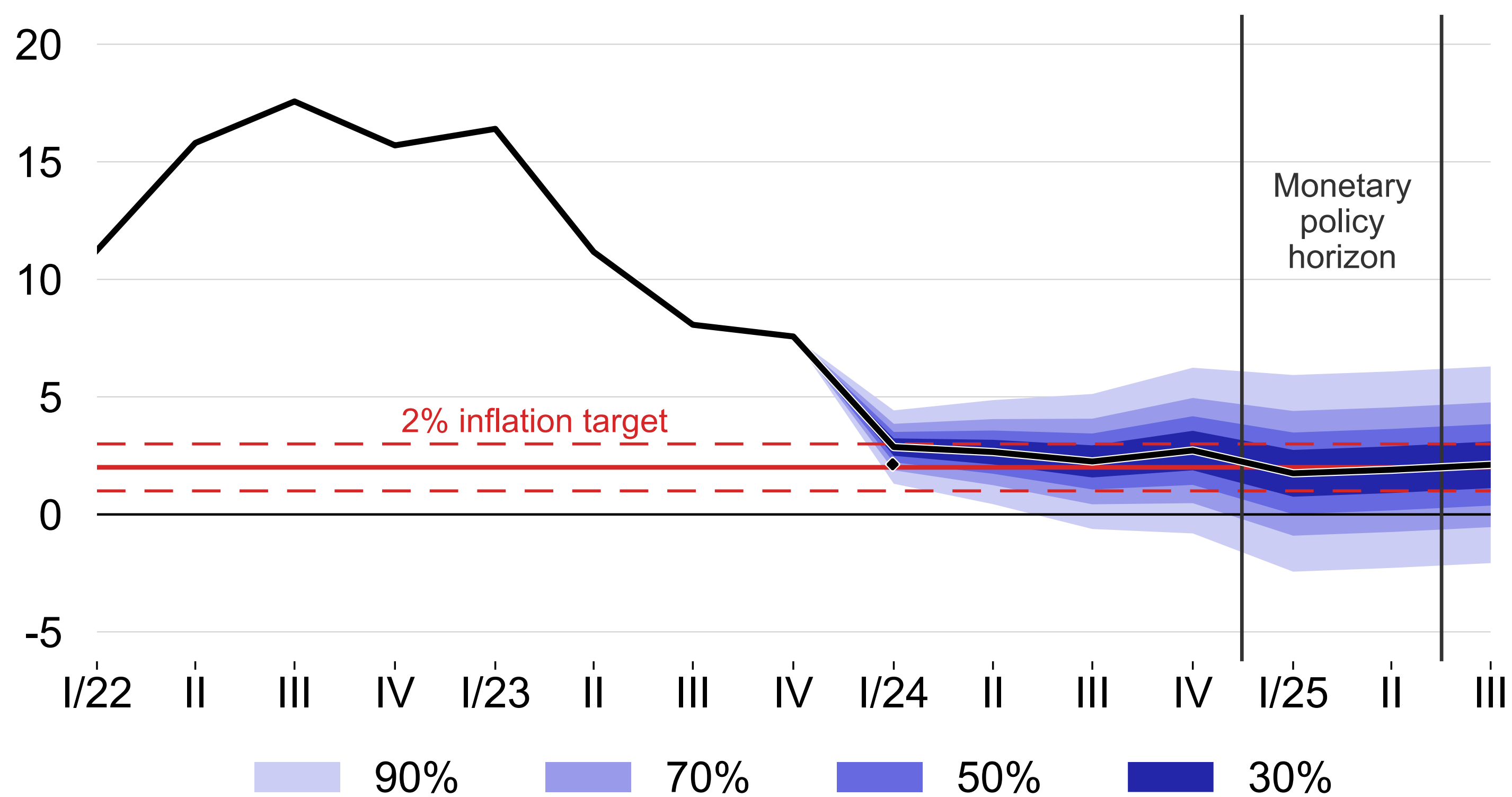
External environment: forecast and outlook for the effective euro area



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

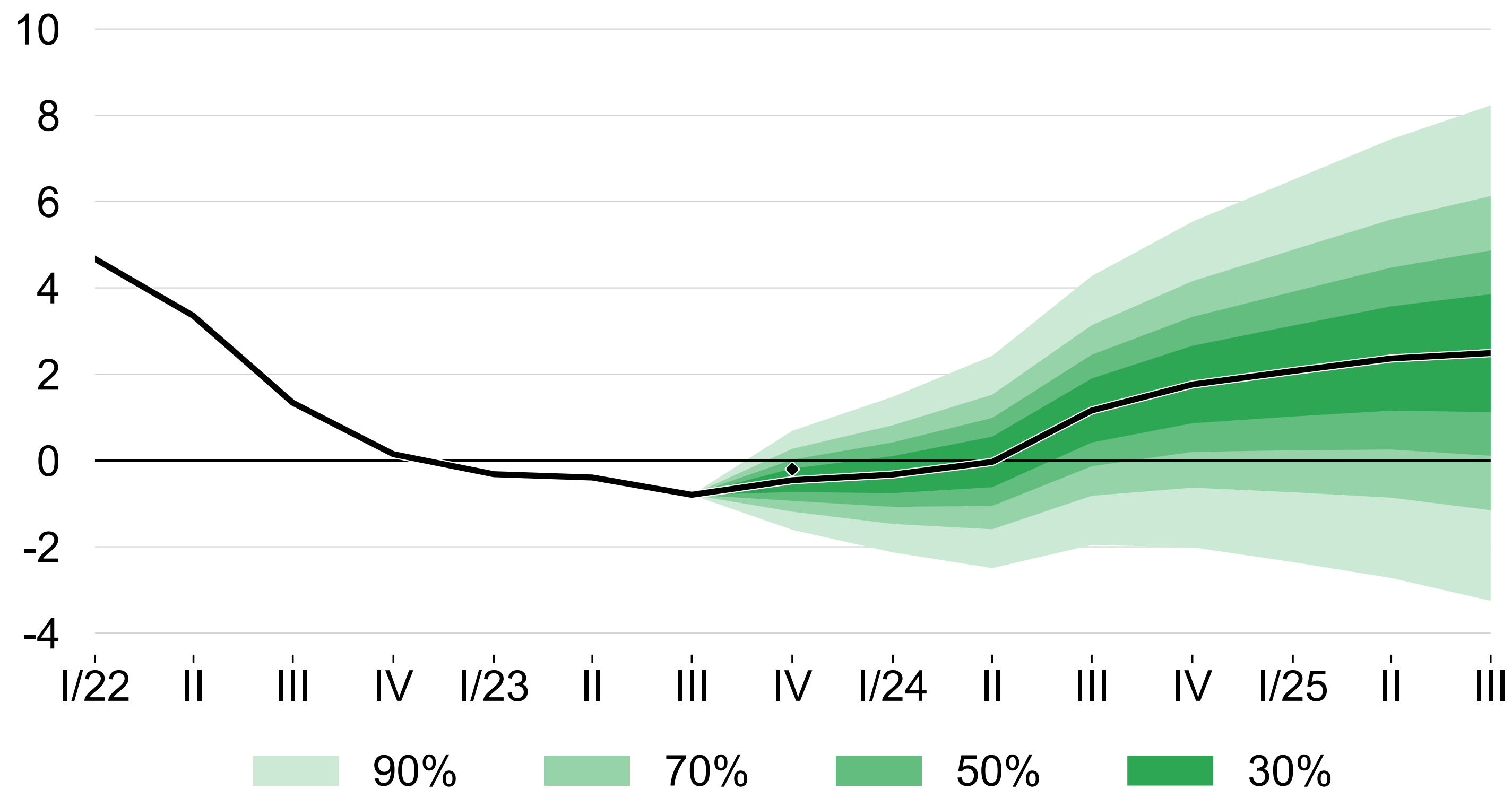


Inflation forecast and expected outcome in 2024 Q1



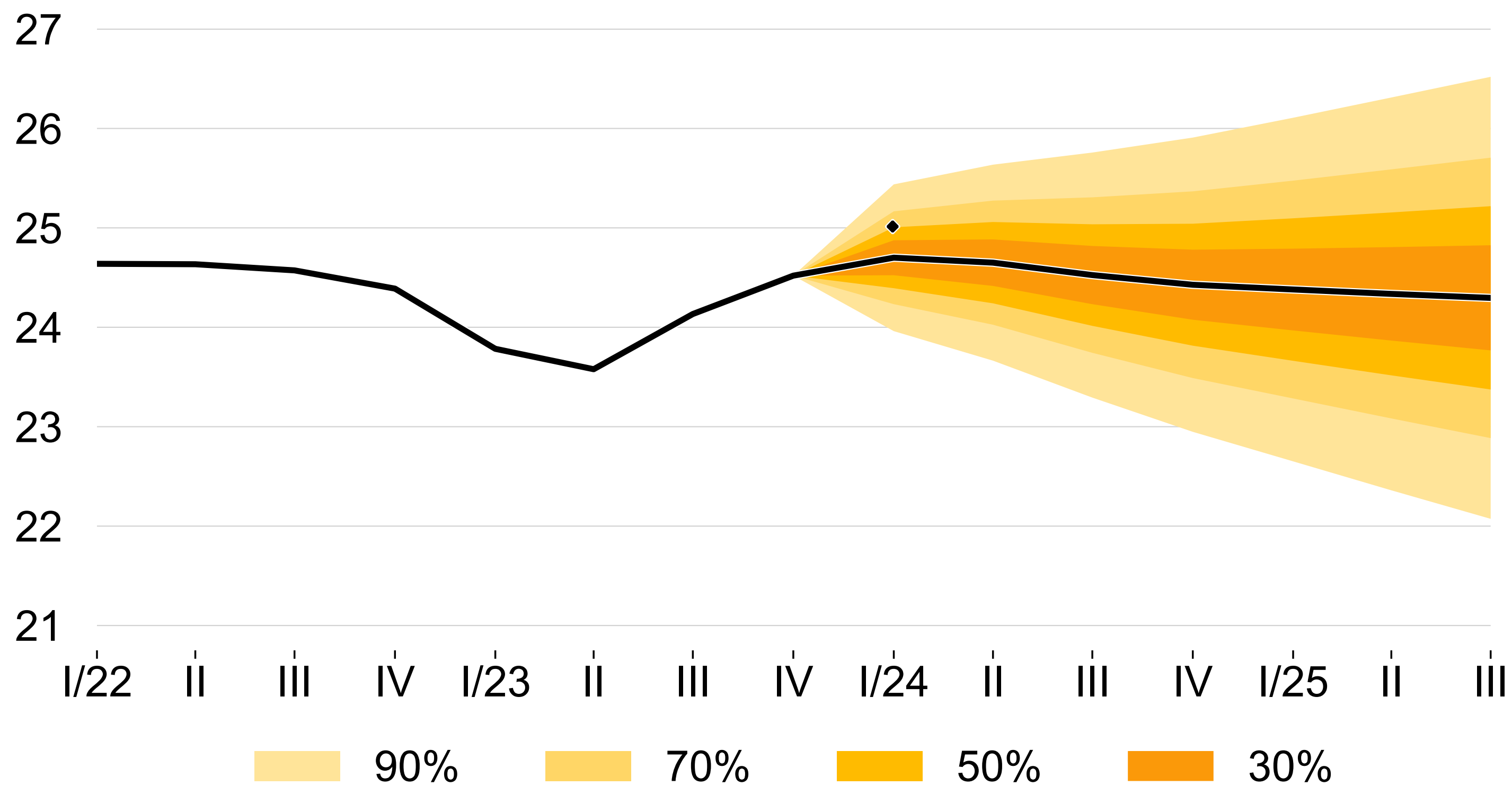
Note: y-o-y changes in %.

GDP forecast and outcome in 2023 Q4



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

Exchange rate forecast (CZK/EUR) and outcome in 2024 Q1



Risks and uncertainties of the forecast

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

Inflationary risks:

- slower decline in the elevated inflation expectations
- higher-than-expected inertia in services prices
- halt in tradables disinflation
- exchange rate of the koruna
- acceleration of money creation in the economy stemming from a significant recovery in lending activity in the longer term

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 2 April 2024 at

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



Decision in a nutshell



Consistent with the baseline scenario of the winter 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 modestly inflationary.



The Bank Board lowered the key interest rate (2W repo) by 0.50 percentage point to 5.75%.



Five members voted in favour of this decision.