

# 3rd Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



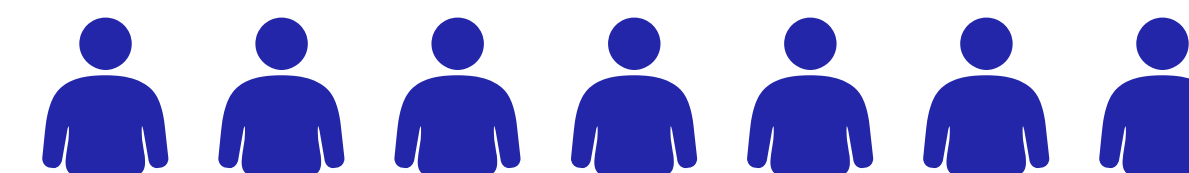
## Monetary policy decision

4.25%    **5.25%**    6.25%

discount    **2W repo**    Lombard  
rate        rate        rate

VOTING ON 2W REPO RATE

DECREASE to 5.25%



The Bank Board discussed the **new macroeconomic forecast**. Its baseline scenario implies a further decline in market interest rates.

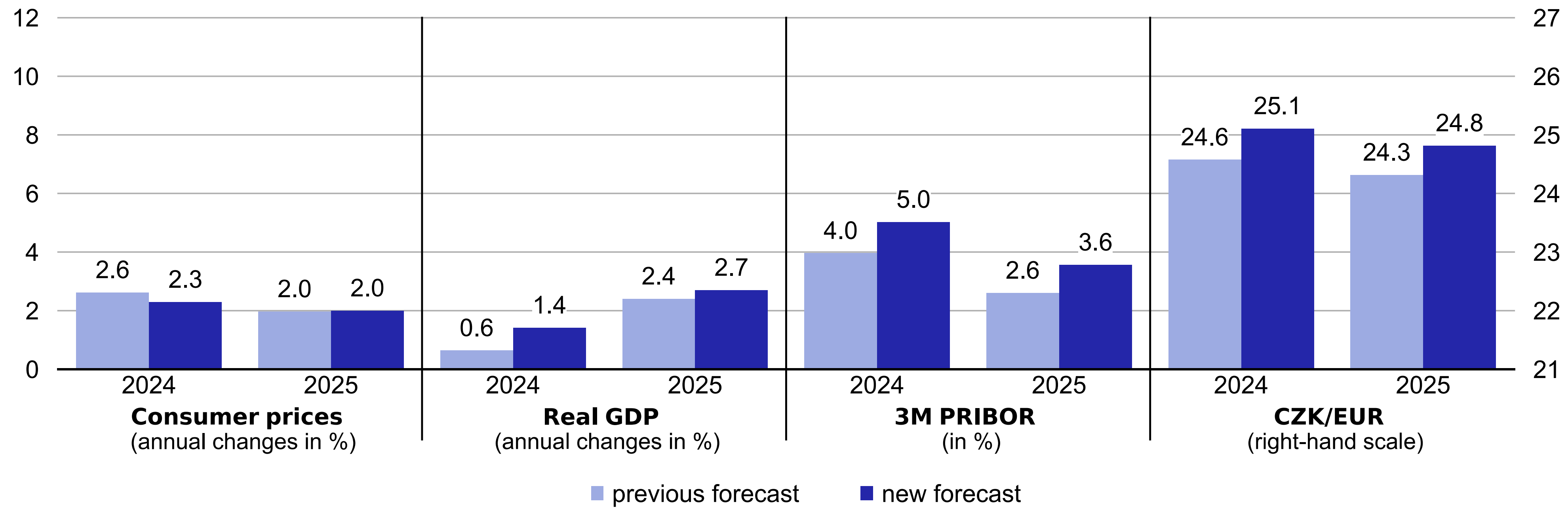
At the same time, the Bank Board confirmed its determination to **continue its tight monetary policy in order to stabilise inflation near the 2% target in the long term**.

The Bank Board also discussed the assumption regarding **the nominal natural rate of interest**. The baseline scenario is still based on a rate of 3%. However, part of the Bank Board considers it highly likely that the natural rate of interest has risen slightly compared with the pre-Covid period.

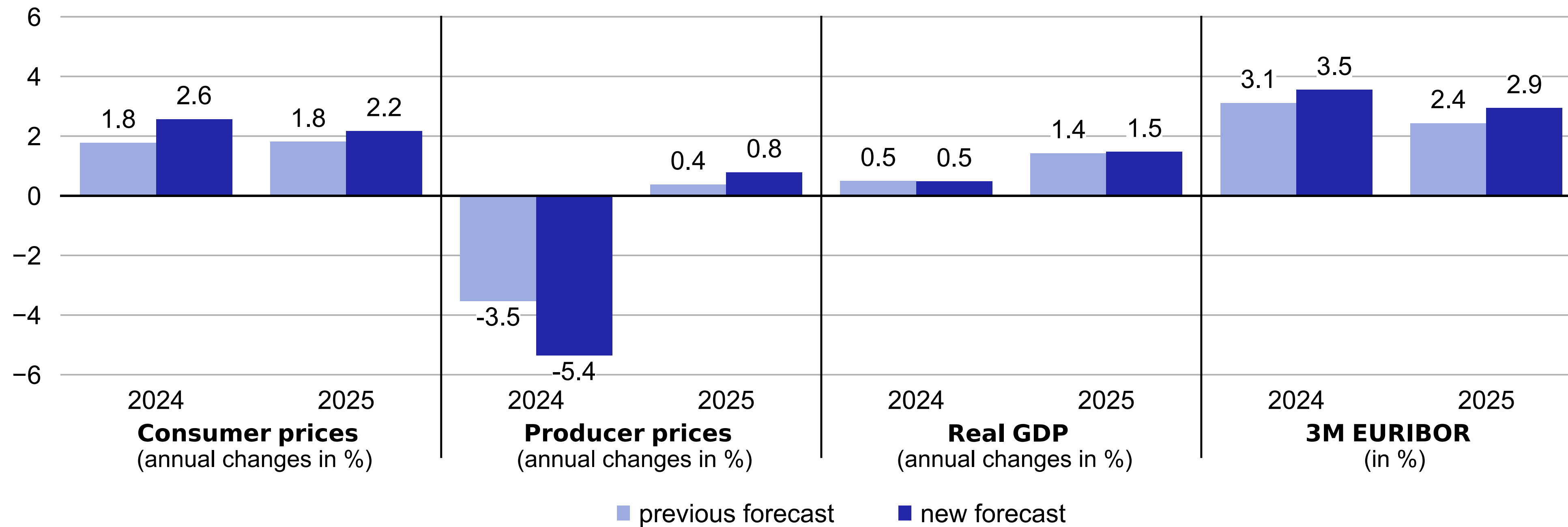
## Economic developments

- The Czech economy rebounded at the end of 2023 and continued to grow at the start of this year. According to the CZSO's flash estimate, GDP rose by 0.5% quarter on quarter and 0.4% year on year in 2024 Q1. Both external demand and household consumption 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. Demand is being partially dampened by tight monetary policy. Domestic and, to a lesser extent, external demand are also being curbed by elevated saving due to households' caution and attractive returns on deposits.
- The labour market tightness is easing slowly, but unemployment remains low. Wage growth slowed from 7.1% to 6.3% 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.
- We observe signs of recovery in external demand, and the forecast assumes it will accelerate in the course of this year. More robust global economic developments – together with more persistent inflation – push the outlook for foreign rates higher than in the previous forecast.

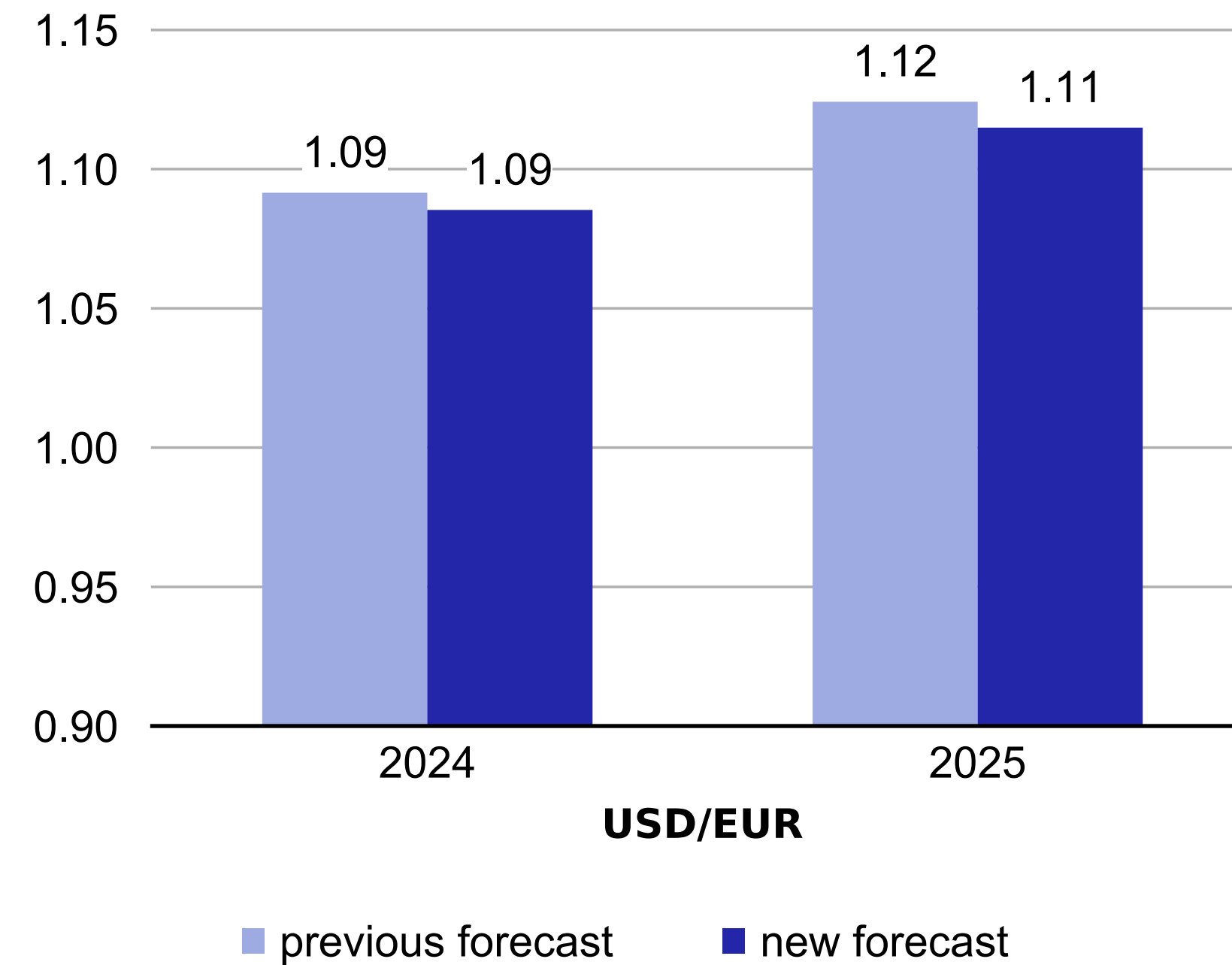
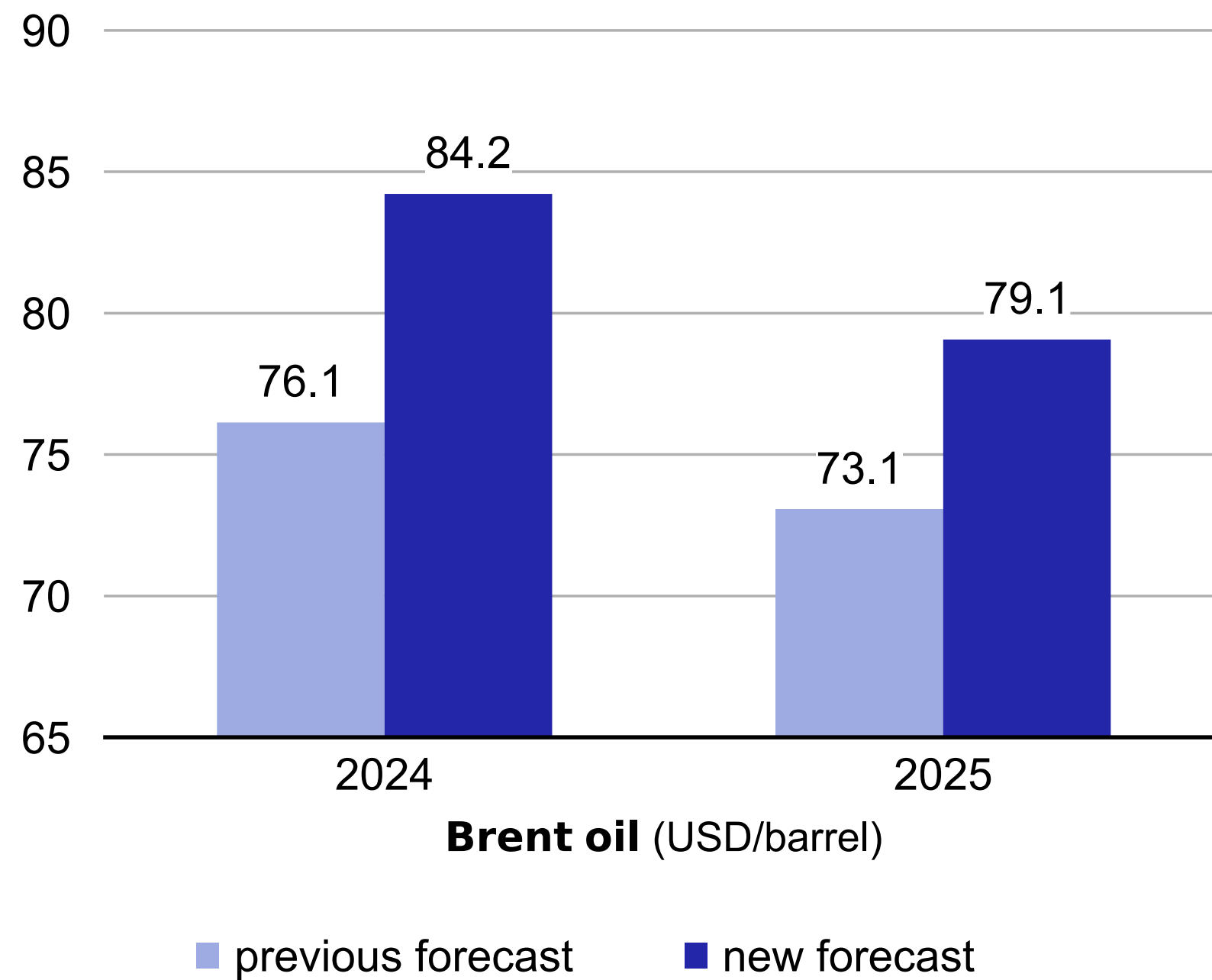
# Comparison with the previous CNB forecast



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

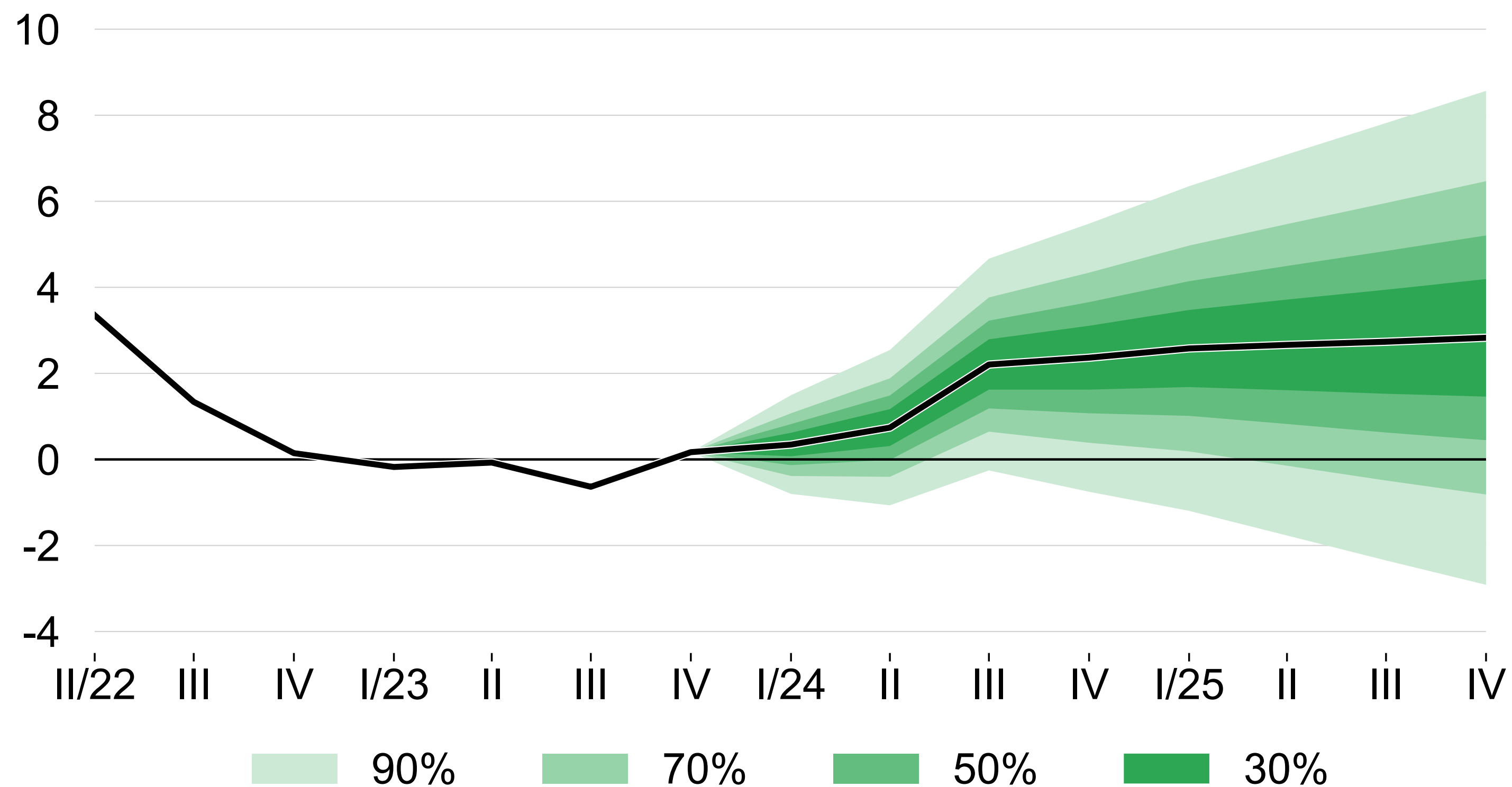


# External environment: oil price and the USD/EUR exchange rate



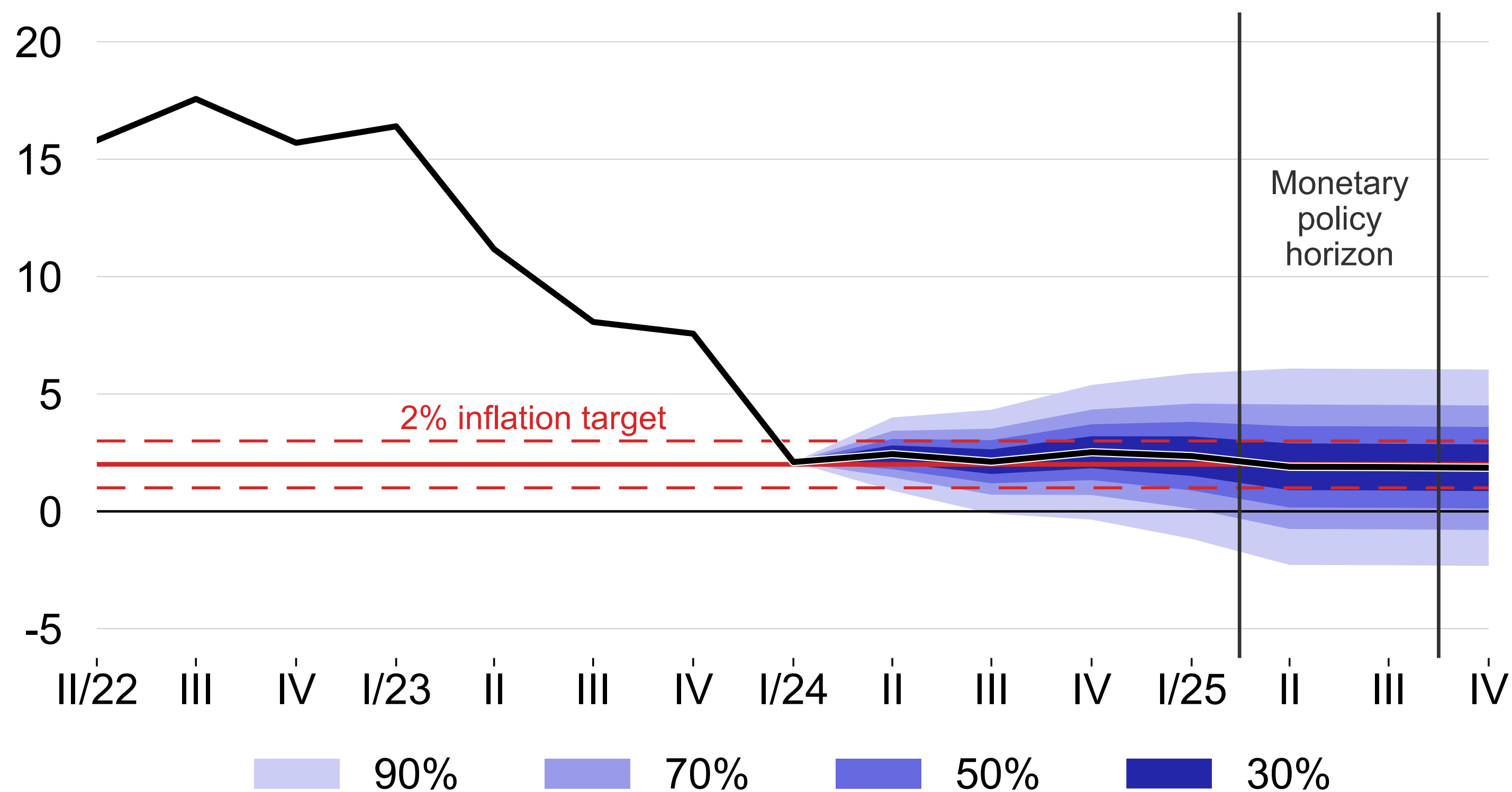


# GDP forecast



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

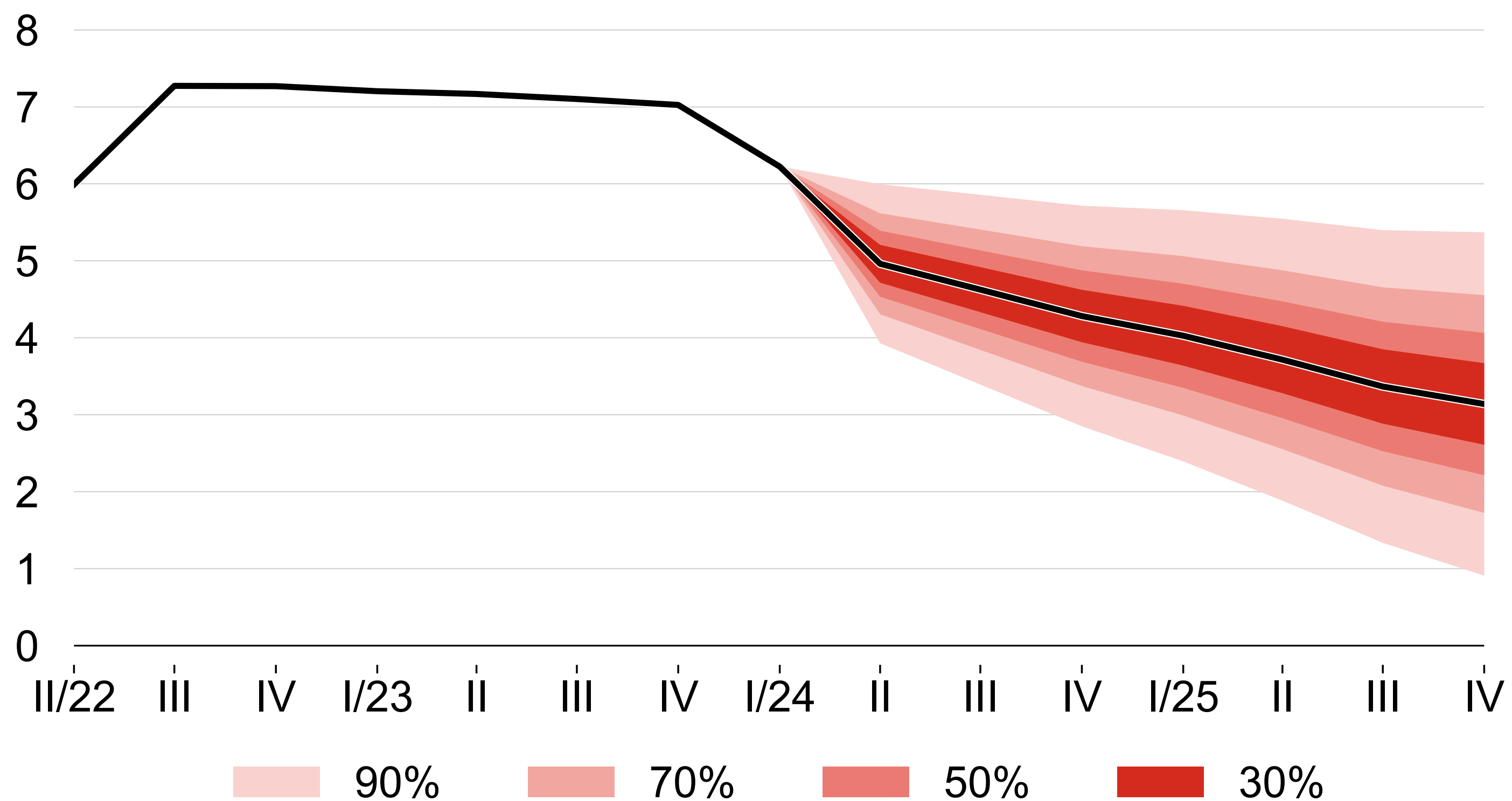
# Inflation forecast



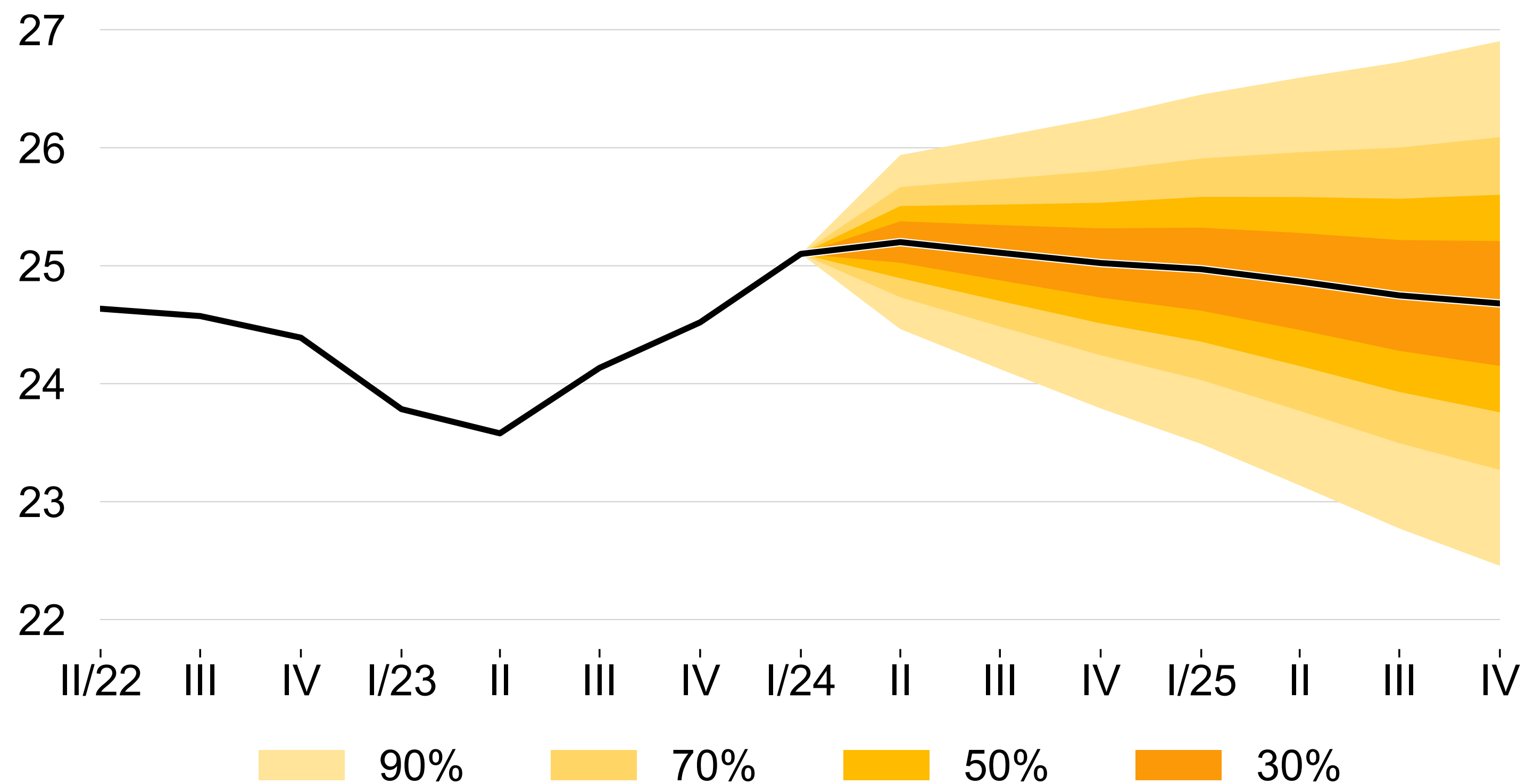
Note: y-o-y changes in %.



## 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 modestly inflationary.**

### **Inflationary risks:**

- slower decline in the elevated inflation expectations
- higher-than-expected inertia in services inflation
- halt in tradables disinflation
- movements in the koruna exchange rate
- potential 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

More information about the forecast can be found at <https://www.cnb.cz/en/monetary-policy/forecast/> and in Monetary Policy Report – Spring 2024.

The introductory part of the Report (together with the boxes, the appendix and the table of key macroeconomic indicators) will be published on 3 May 2024.

The whole Report will be published on 10 May 2024.



## Decision in a nutshell



Consistent with the baseline scenario of the 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 5.25%.



All seven members voted in favour of this decision.