

2nd Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



Monetary policy decision

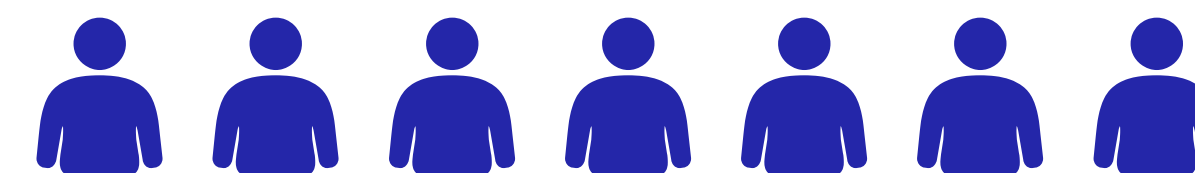
2.75%
discount
rate

3.75%
2W repo
rate

4.75%
Lombard
rate

VOTING ON 2W REPO RATE

LEAVE UNCHANGED at 3.75%



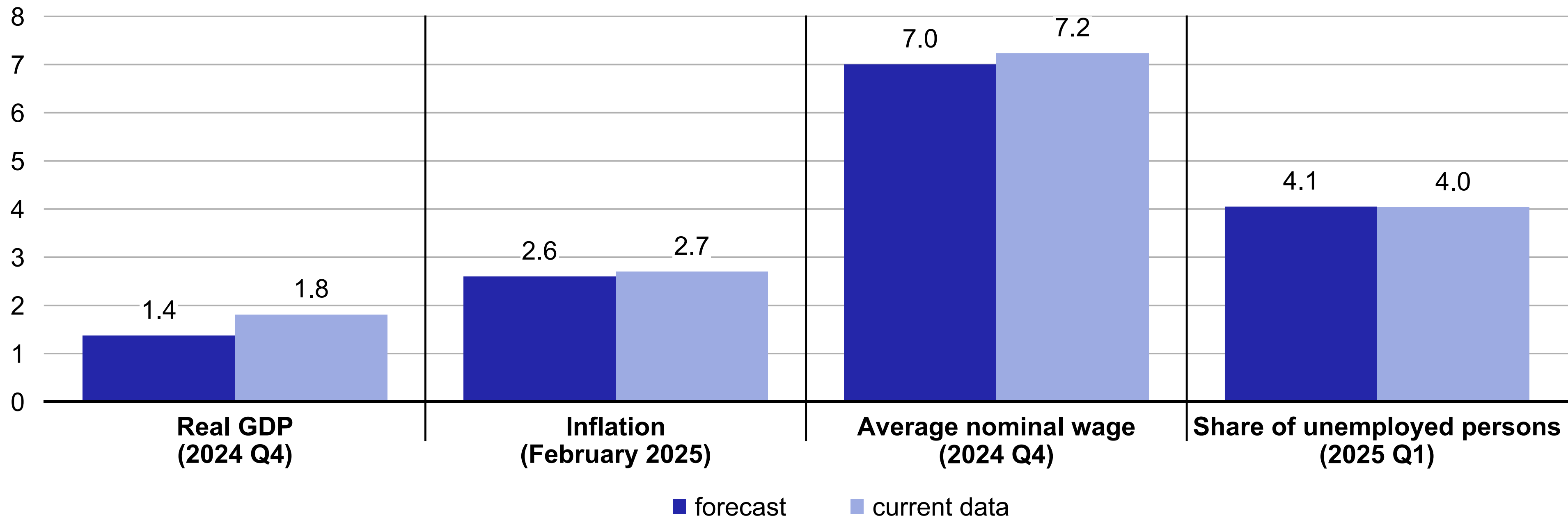
The decision adopted by the Bank Board is underpinned by **the winter (February) macroeconomic forecast** and **by an assessment of information obtained since it was prepared.**

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

Economic developments

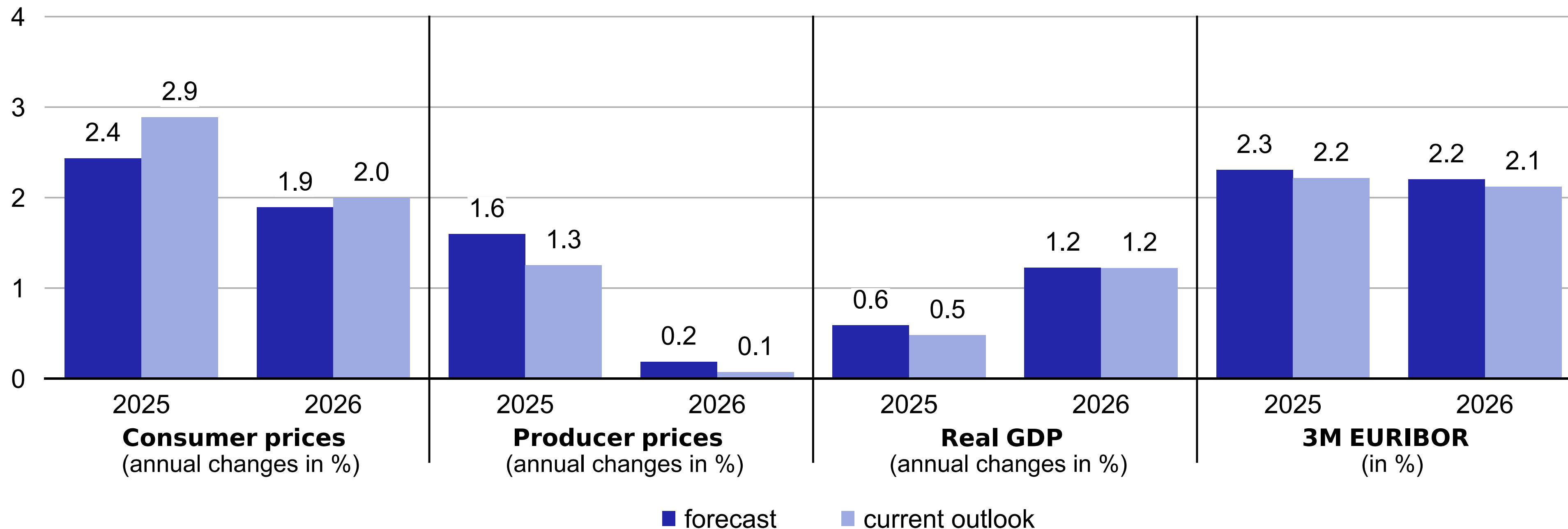
- GDP rose by 1.8% year on year in 2024 Q4. Economic growth was 0.4 percentage point faster than assumed in the February forecast. Household consumption in particular surprised, as its recovery is gathering pace. Conversely, external demand remains weak. This, together with subdued sentiment, is leading to low investment activity of companies.
- The labour market tightness persists. Average wage growth in market sectors stood at 8.3% year on year in 2024 Q4, 0.6 percentage point faster than forecasted.
- Inflation has remained within the tolerance band of the ČNB's target since last January. In 2024, the average annual inflation rate was 2.4%, the lowest figure in six years. At the start of this year, inflation developed broadly in line with the forecast. In particular, growth in services prices remains elevated, reflecting rapid wage growth.

Comparison of current domestic data with the CNB forecast



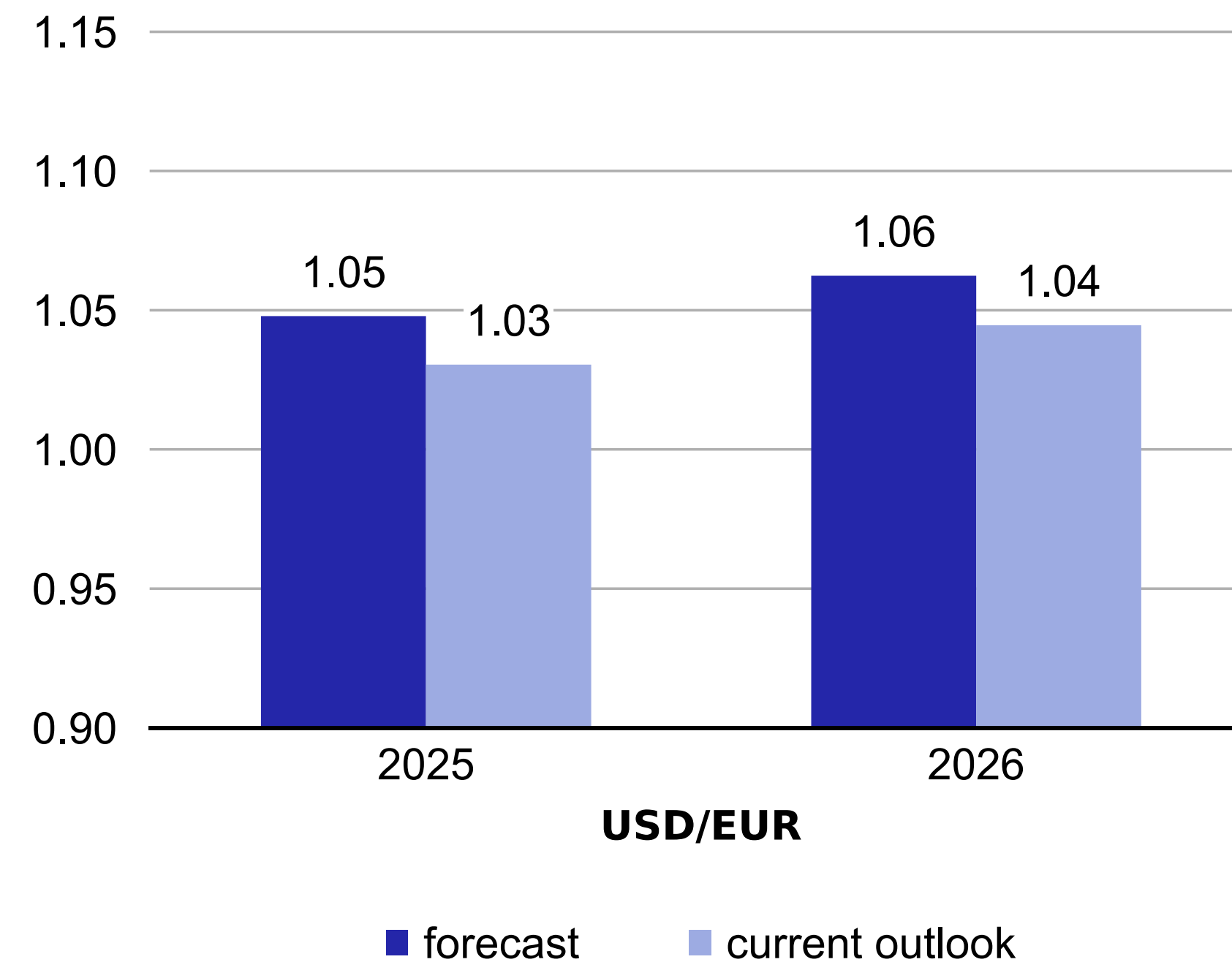
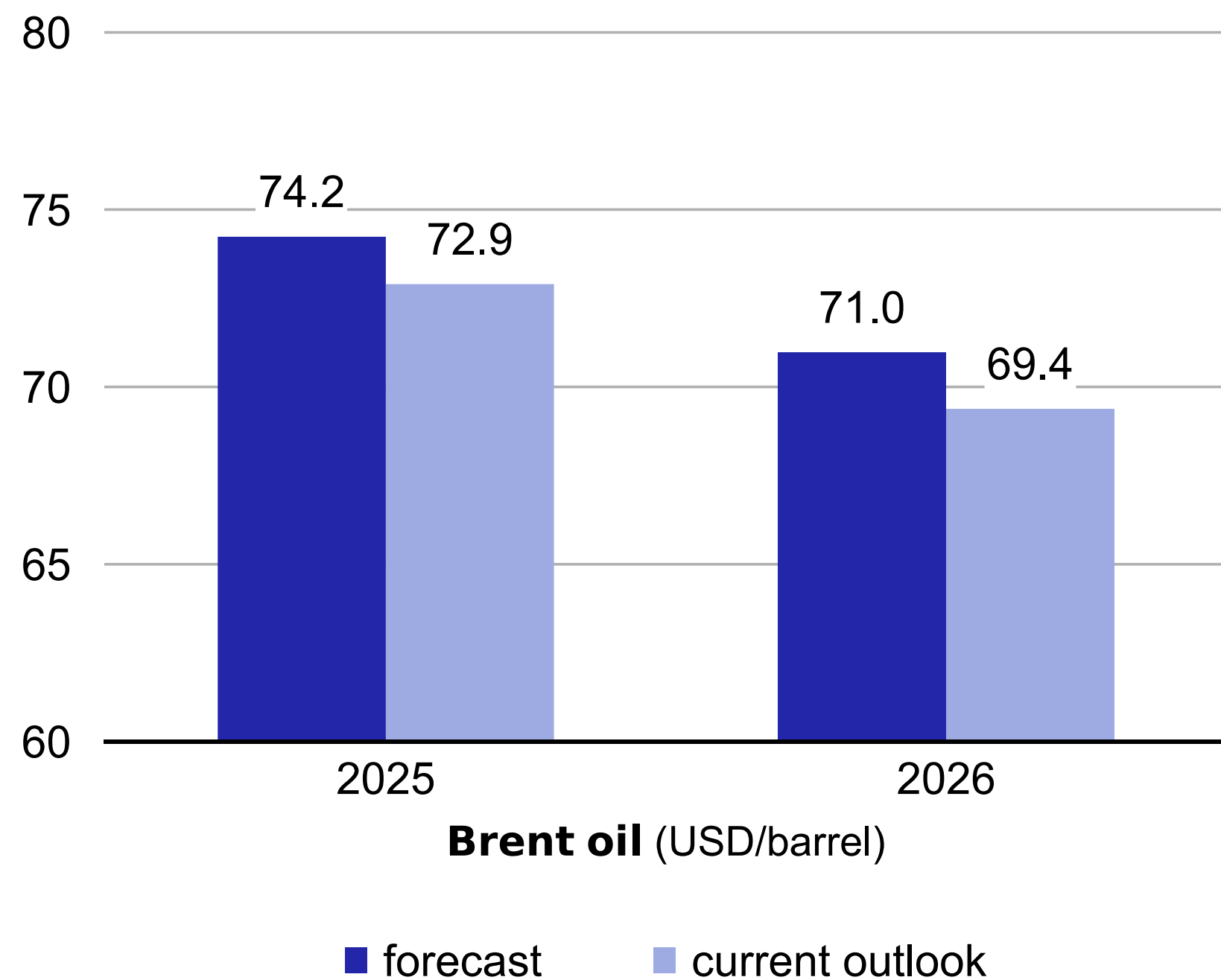
Note: annual changes in %, share of unemployed persons in % (comparison of s.a. outcomes in January and February with the forecast for 2025 Q1). The bars are based on precise data, whereas the values above the bars are rounded.

External environment: forecast and outlook for the euro area



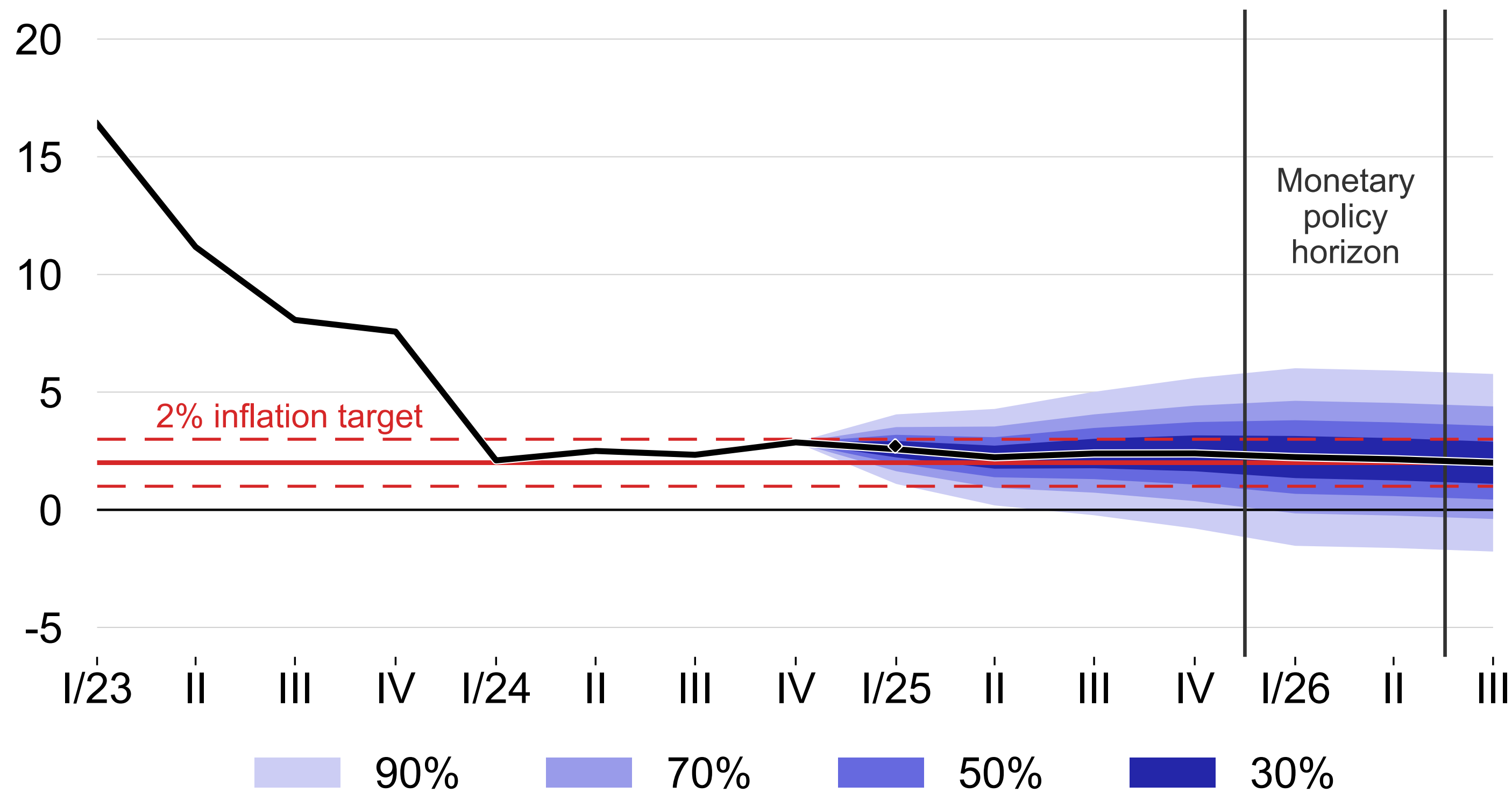
Note: Developments in the euro area are approximated by developments in the “effective euro area” – the six euro area countries with which the Czech economy has the strongest trade links. The bars are based on precise data, whereas the values above the bars are rounded.

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



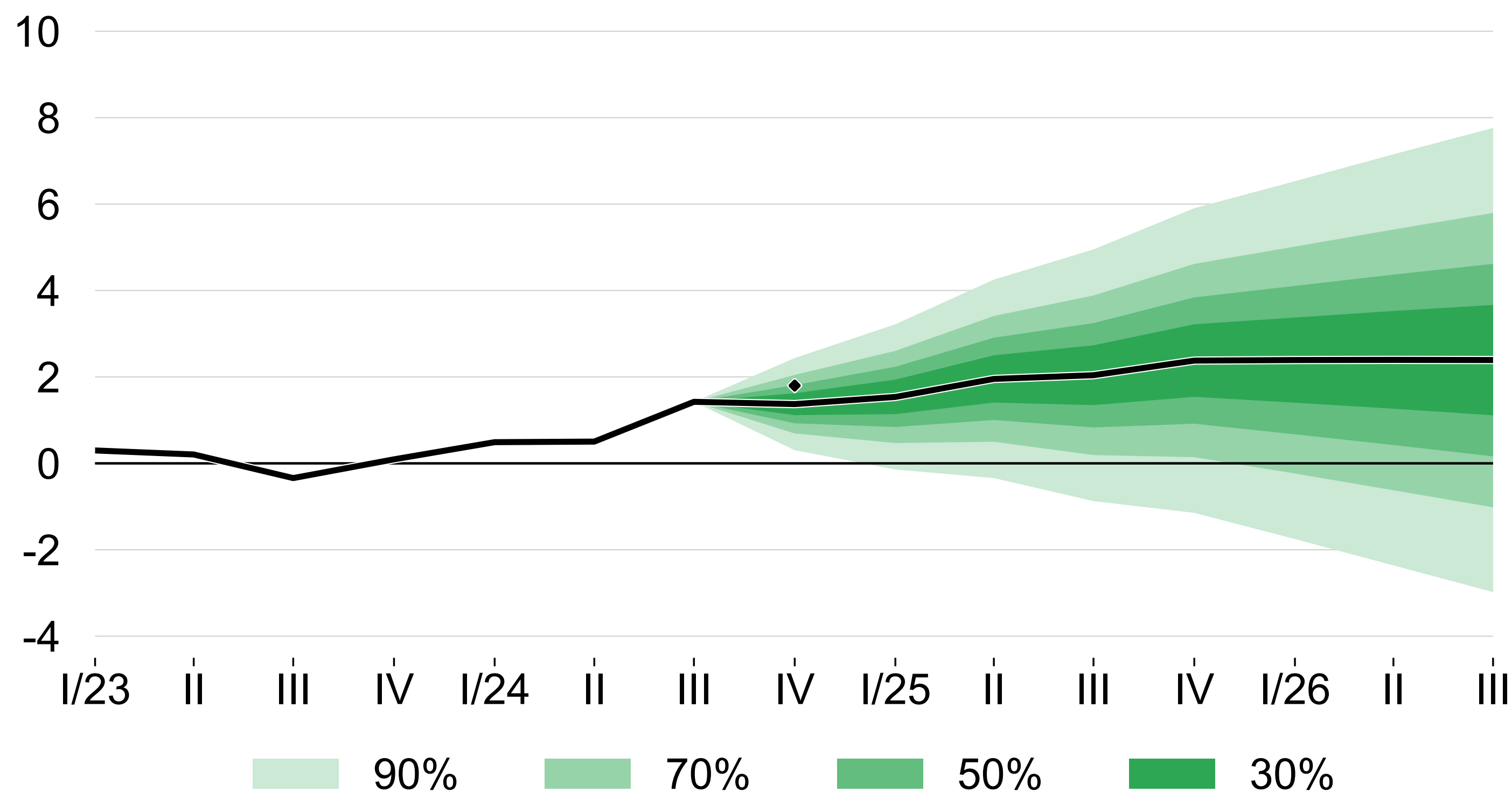
Note: The bars are based on precise data, whereas the values above the bars are rounded.

Inflation forecast and expected outcome in 2025 Q1



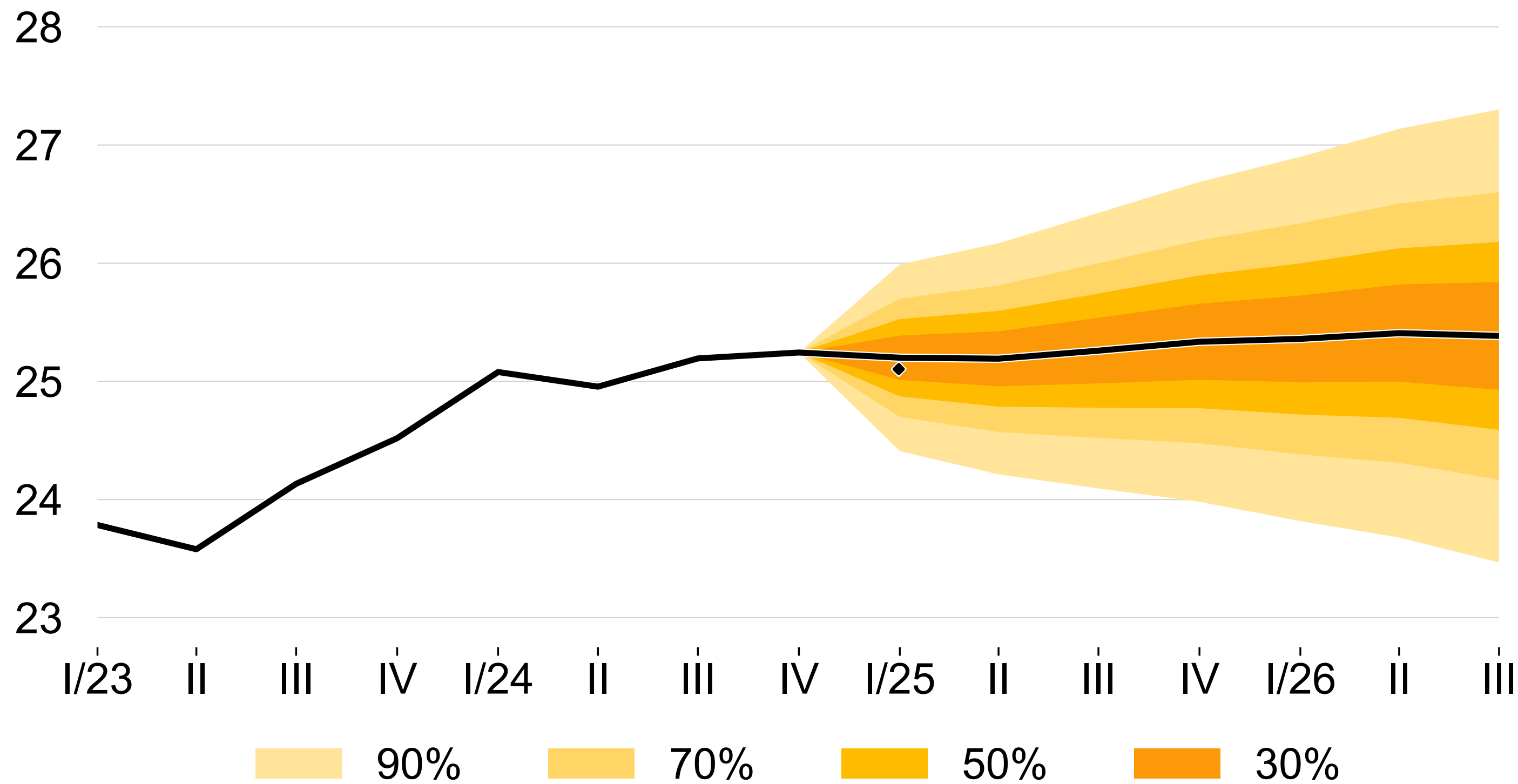
Note: y-o-y changes in %.

GDP forecast and outcome in 2024 Q4



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

Exchange rate forecast (CZK/EUR) and outcome in 2025 Q1



Risks and uncertainties

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

Inflationary risks:

- higher inertia in services and food inflation
- potential additional growth in total public sector spending
- increased wage demands in the private and public sector
- potential acceleration of money creation in the economy stemming from a further stronger recovery in lending activity, especially on the property market
- escalating trade wars

Anti-inflationary risk:

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

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 outlook for the fulfilment of the inflation target.

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 April 2025 at

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



Decision in a nutshell



Consistent with the winter forecast is a continued decline in short-term market interest rates, followed by broadly stable rates from mid-2025 onwards.



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



The Bank Board kept the key interest rate (2W repo) at 3.75%.



Seven members voted in favour of this decision.