

1st Situation Report on Economic and Monetary Developments

Press conference of the Bank Board

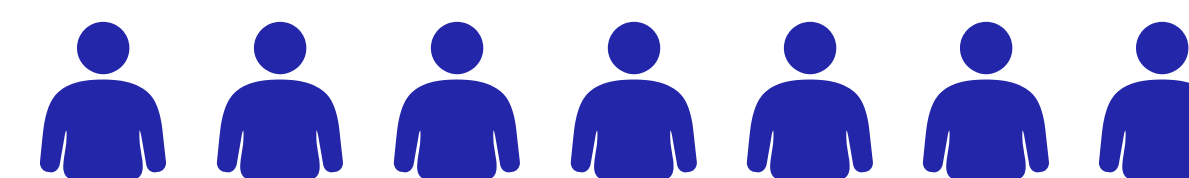


Monetary policy decision

2.75%	3.75%	4.75%
discount rate	2W repo rate	Lombard rate

VOTING ON 2W REPO RATE

DECREASE TO 3.75%



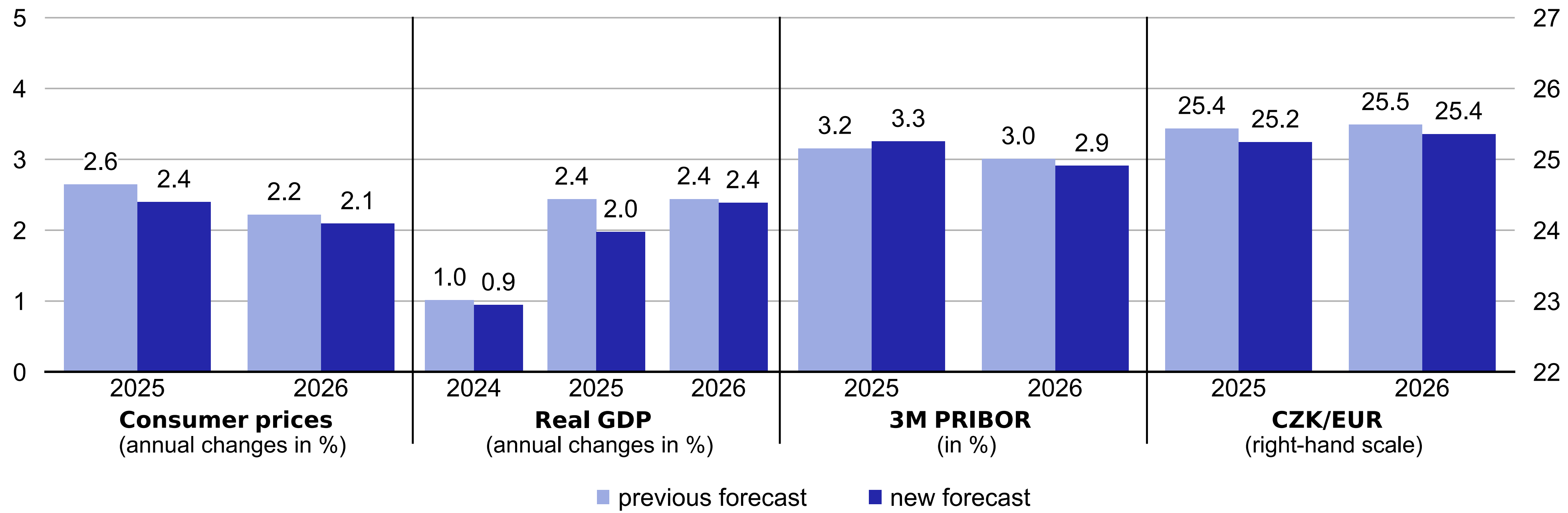
The decision adopted by the Bank Board is underpinned by **the CNB's new macroeconomic forecast**. It implies a modest decline in interest rates followed by broadly stable rates from mid-2025 onwards.

At the same time, the Bank Board confirmed its determination to **continue its monetary policy in order to maintain inflation near the 2% target in the long term**. At present, this still requires relatively high key interest rates.

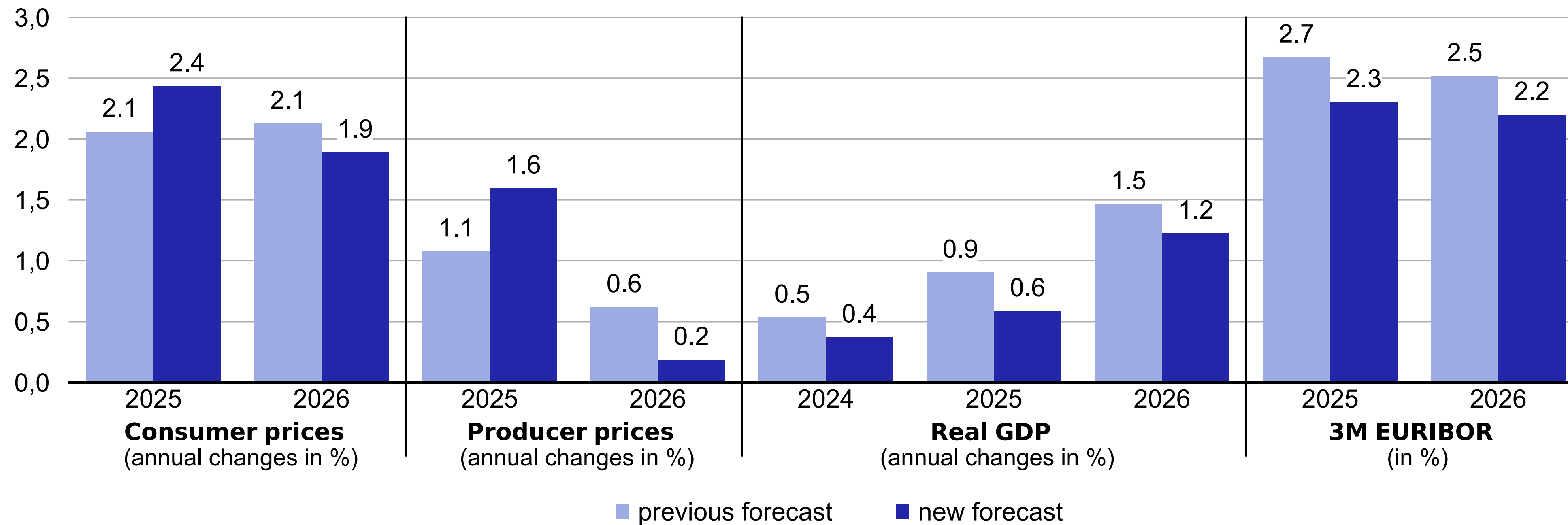
Economic developments

- The Czech economy is gradually recovering but is below its potential. According to the CZSO's flash estimate, GDP rose by 0.5% quarter on quarter and by 1.6% year on year in 2024 Q4.
- Growth is being driven mainly by household consumption, which is being supported by renewed real income growth and moderation of monetary policy restriction. On the other hand, external demand remains subdued, mainly due to the decline in European industry. The latter is facing high energy prices, structural problems and uncertainty relating to US trade policy.
- The labour market tightness is easing slowly, but unemployment remains low. Average wage growth stood at 7% in 2024 Q3, remaining elevated from a historical perspective. It is also one of the reasons for the inertia in services inflation.

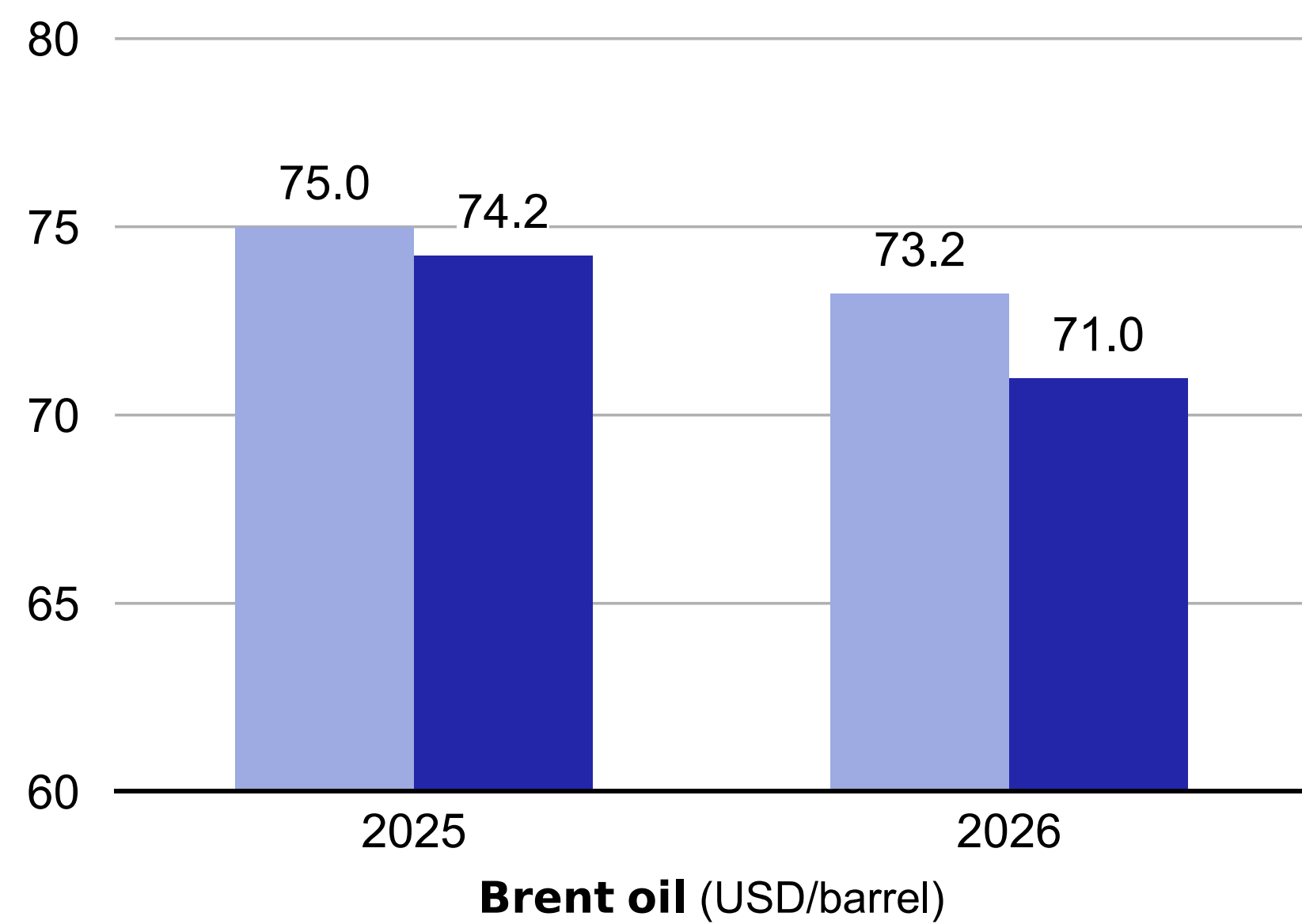
Comparison with the previous CNB forecast



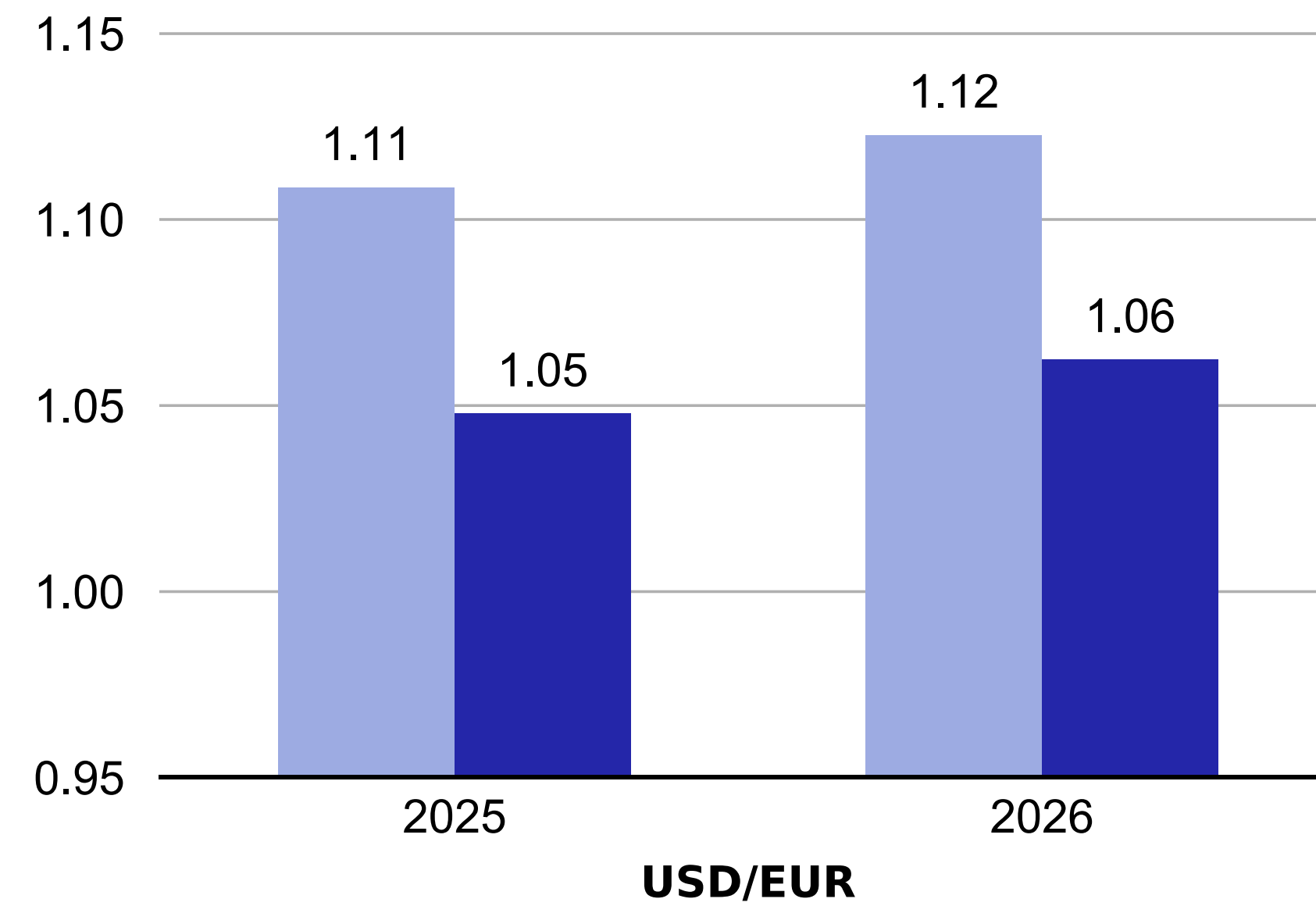
External environment: forecast and outlook for the effective euro area



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

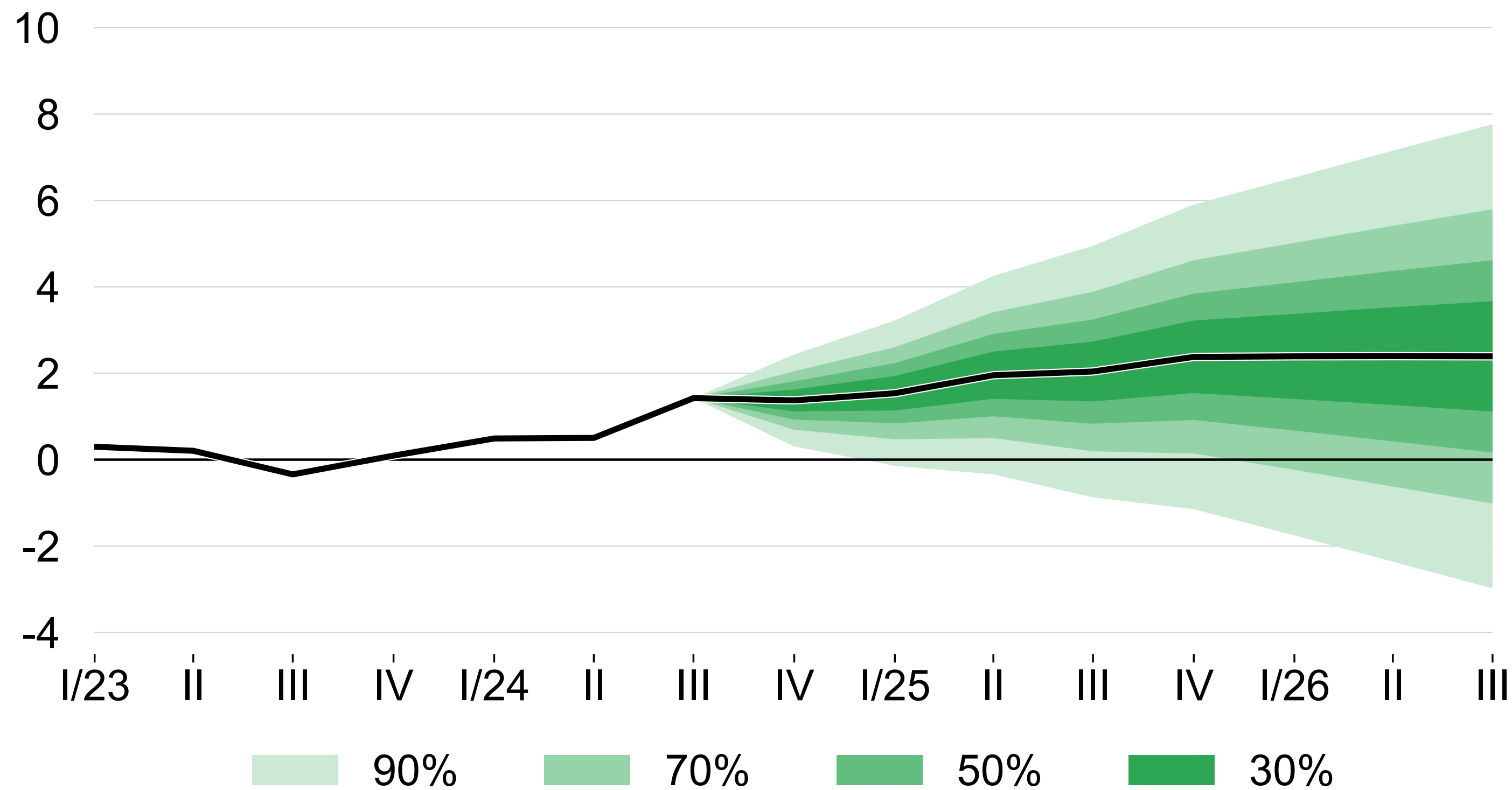


■ previous forecast ■ new forecast



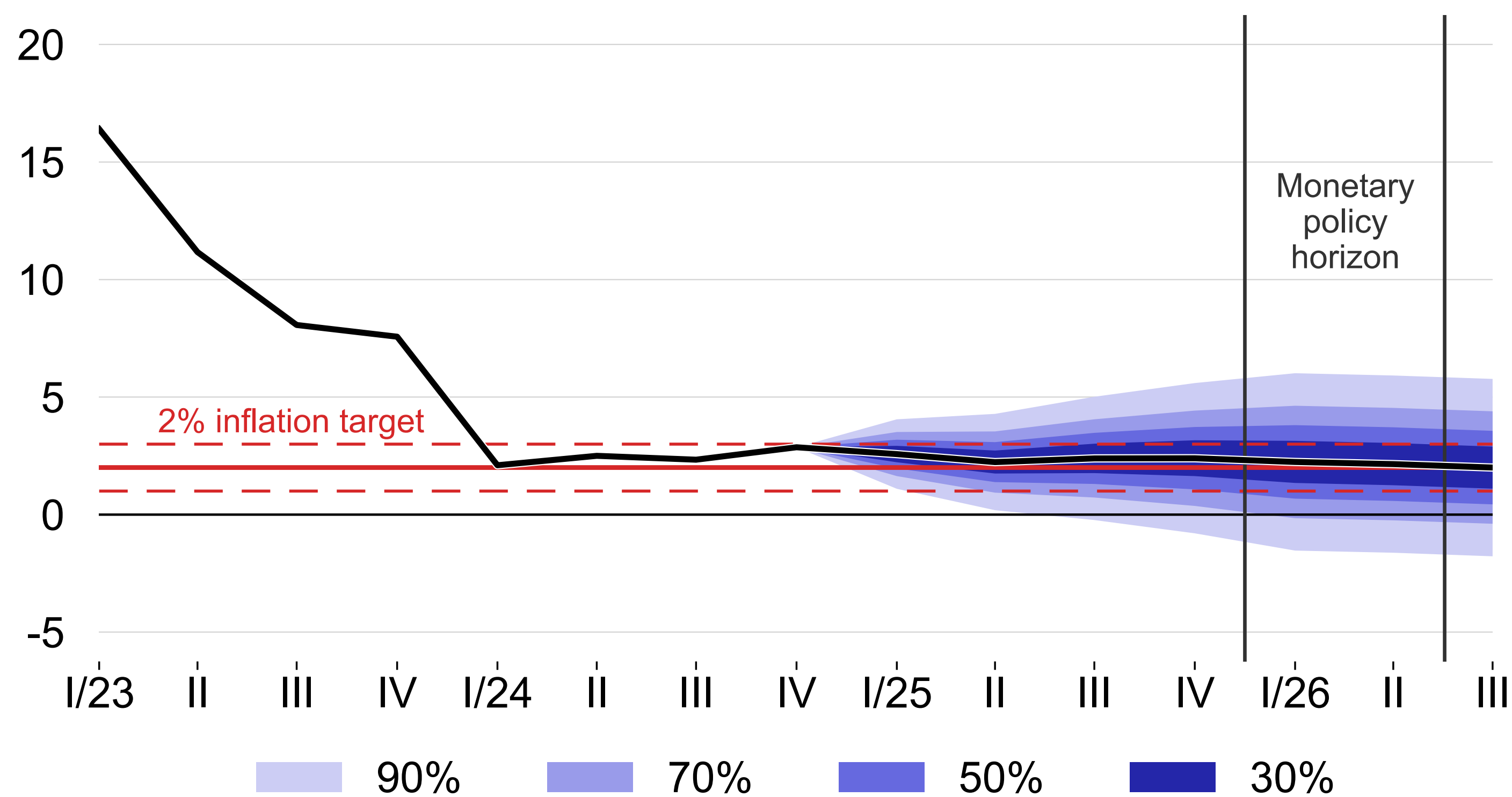
■ previous forecast ■ new forecast

GDP forecast



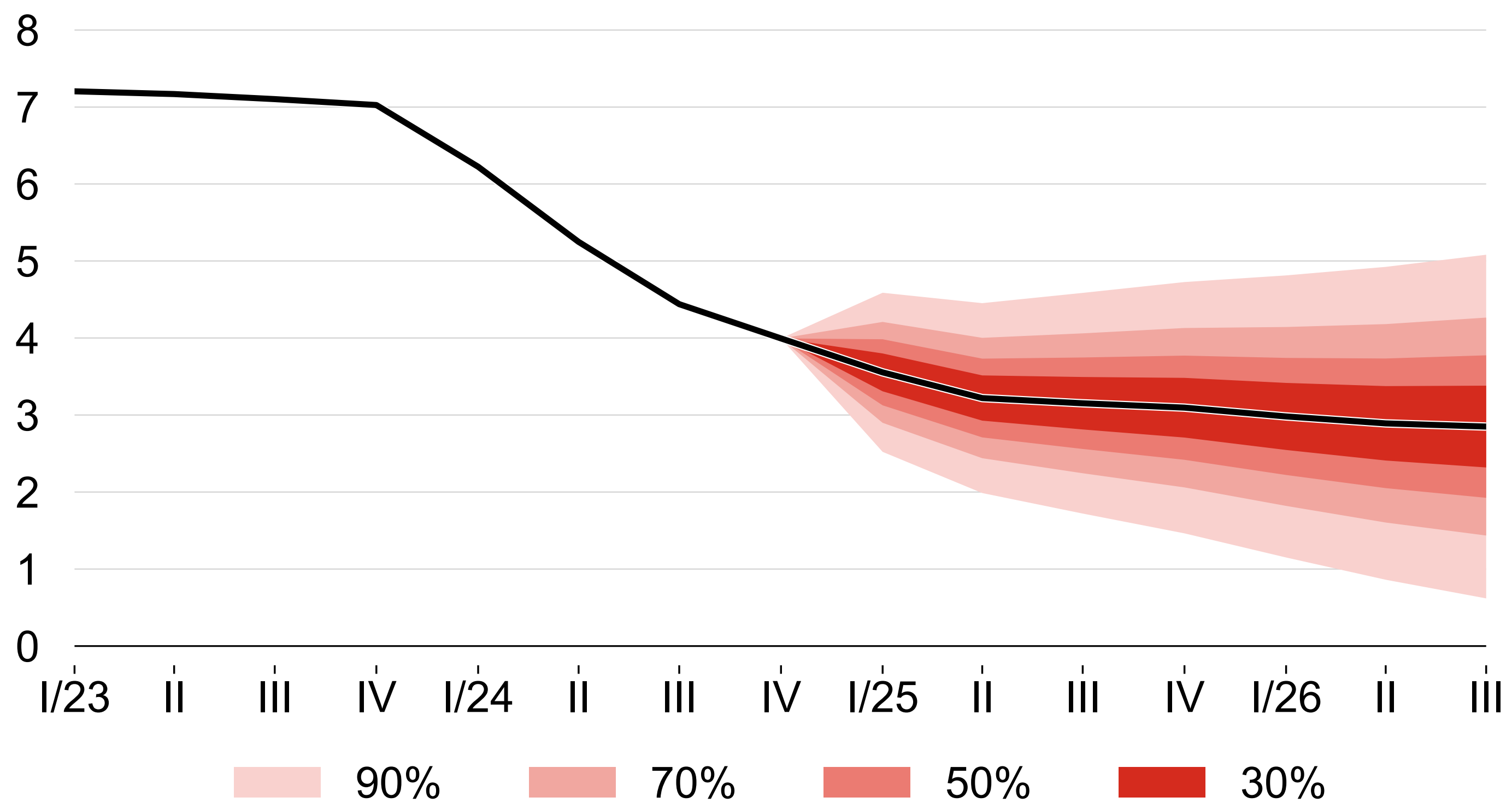
Note: y-o-y changes in %; prices of 2020 (chain-linked); seasonally adjusted.

Inflation forecast

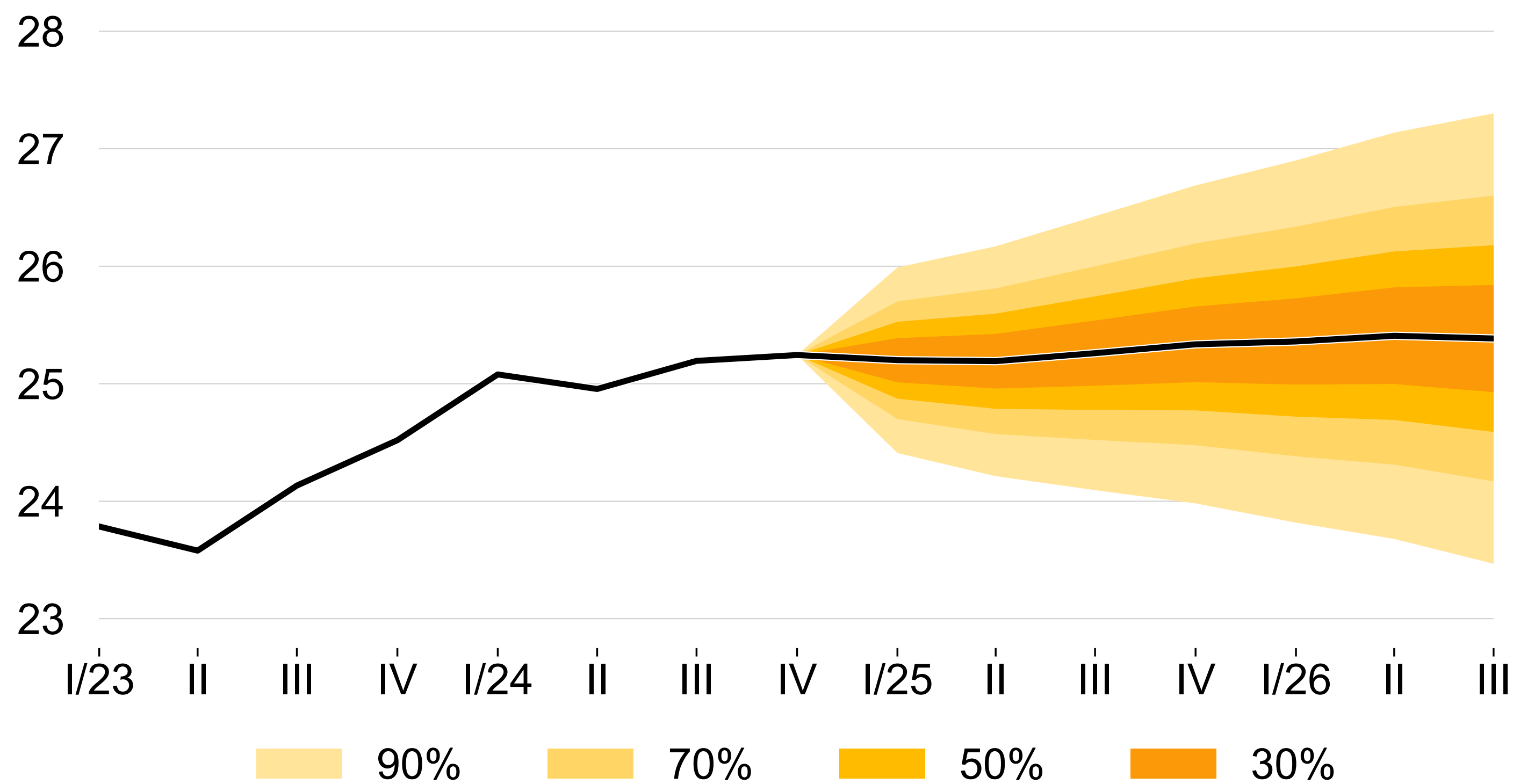


Note: y-o-y changes in %.

Interest rate forecast (3M PRIBOR)



Exchange rate forecast (CZK/EUR)



Risks and uncertainties

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

Inflationary risks:

- higher-than-expected 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 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

Uncertainty:

- impact of some of the actions by the newly elected US administration

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

More information about the forecast can be found at

<https://www.cnb.cz/en/monetary-policy/forecast/>

and in Monetary Policy Report – Winter 2025.

The introductory part of the Report (together with the boxes, the appendix and the table of key macroeconomic indicators) will be published on 7 February 2025.

The whole Report will be published on 14 February 2025.



Decision in a nutshell



Consistent with the 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 modestly inflationary overall.



The Bank Board lowered the key interest rate (2W repo) by 0.25 percentage point to 3.75%.



Seven members voted in favour of this decision.