

Financial Market Inflation Expectations

— 4/2024



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I. SUMMARY

Fourteen domestic and three foreign analysts took part in the April survey of financial market inflation expectations. The data reveal that the one-year inflation forecast has also increased slightly amid slightly higher expected economic activity this year. The economic growth outlook for next year and the three-year inflation outlook remain unchanged. In the April survey, a large majority of respondents expected the 2W repo rate to fall by 50 basis points to 5.25% at the CNB Bank Board meeting in May. The average forecasts for the koruna exchange rate reacted only moderately to the weakening of the koruna. Expected nominal wage growth this year has decreased slightly, while the outlook for next year is unchanged.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
Jiří Polanský, Česká spořitelna	+	+	+	+								
David Marek, Deloitte Czech Republic	+	+	+	+								
Jan Vejrnělek, Komerční banka	+	+	+	+								
Patrik Rožumberský, Unicredit Global Research	+	+	+	+								
Helena Horská, Martin Kron, Raiffeisenbank	+	+	+	+								
Petr Dufek, Banka CREDITAS	+	+	+	+								
Petr Sklenář, J&T Banka	+	+	+	+								
Radomír Jáč, Generali Investments CEE	+	+	+	+								
Jaromír Šindel, Citi	+	+	+									
Kamil Kovář, Moody's Analytics	+		+	+								
Jan Kudláček, Tomáš Lébl, Patrick Vyroubal, UNIQA	+	+	+	+								
Jakub Seidler, ČBA	+	+	+	+								
Lukáš Kovanda, Trinity Bank	+	+	+	+								
Michal Šoltés, RoklenFin	+	+	+	+								
Martin Janičko, MND	+	+	+	+								
Jan Bureš, ČSOB			+									
FOREIGN ANALYSTS												
Basak Edizgil, Goldman Sachs	+	+	+	+								
Sili Tian, The Economist Intelligence Unit	+	+	+	+								
Jose A. Cerveira, Henry Burdon, JP Morgan	+	+		+								

We would like to thank everyone who contributed to this survey of financial market inflation expectations.

Prague, 23 April 2024

II. INFLATION

FORECAST FOR YY CPI GROWTH

(%)

April 2024	CPI	
	1Y	3Y
minimum	1.7	2.0
average	2.2	2.2
maximum	3.1	2.8

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
IV.23	3.5	2.6	
VI.23	3.1	2.5	2Q: 2.1
IX.23	2.7	2.4	3Q: 1.9
XI.23	2.8	2.3	
XII.23	2.9	2.3	4Q: 2.8
II.24	2.4	2.3	1Q: 1.7
III.24	2.1	2.2	
IV.24	2.2	2.2	

The consumer price index in the Czech Republic rose by 0.1% month on month in March, compared to 0.3% the month before. The month-on-month increase in March was due mainly to rising prices in transport where, in addition to rising fuel prices, the motorway toll charge increased by 53.3%. In a year-on-year comparison, inflation remained at the same level as in February, namely 2.0%. The developments here were mixed, as the acceleration in price growth in transport was counteracted by a deepening of the decline in prices of food and non-alcoholic beverages. However, housing remains the driver of annual inflation. Goods prices increased by 0.1%, but services prices rose by 5.4%.

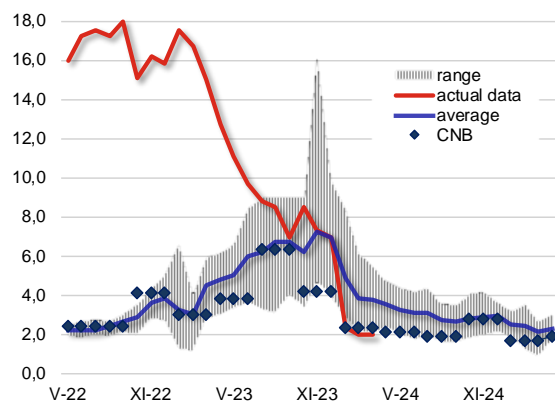
Although annual inflation remained unchanged, the analysts' opinions regarding inflation at the one-year horizon shifted slightly upwards on average. Whereas in the previous survey the forecast was 2.1%, it is now 0.1 percentage point higher. The range of individual estimates narrowed owing to a larger increase in the minimum estimate. The three-year forecast saw no change and remains at 2.2%. The range of forecasts from individual respondents also remained unchanged.

The analysts expect inflation to still be affected by the Czech economy's subdued performance and the drop in energy prices. According to some analysts, inflationary pressures have not fully disappeared and may still be a risk for the coming quarters. Core inflation declined, yet is not at the 2% target. According to the analysts, the main reason is prices in the services sector, which could be an argument for continuing the Bank Board's cautious approach to the CNB's monetary policy and against a rapid reduction in key interest rates. According to some estimates, headline and core inflation should remain below the upper boundary of the tolerance band around the inflation target, i.e. below 3%, until the end of this year, though more expensive fuel, a weaker koruna and a gradual start to economic recovery could first have an inflationary effect. Plus, headline inflation is likely to accelerate in Q4, due partly to last year's low base, as energy prices started to fall at the end of the year. Core inflation will be kept in the upper part of the tolerance band by rising services prices.

The CNB's spring forecast expects consumer prices to rise by 1.9% year on year in 2025 Q2.

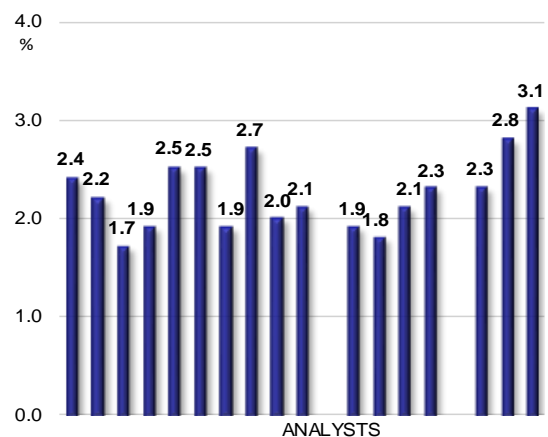
CONSUMER PRICE INDEX

ACTUAL DATA AND 1Y PREDICTIONS OF ANALYSTS (AVERAGE) AND OF CNB (%)



CONSUMER PRICE INDEX AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS (%)



III. GROSS DOMESTIC PRODUCT

FORECAST FOR GDP GROWTH

(%)

April 2024	current year	current+ 1Y
minimum	0.8	1.7
average	1.2	2.6
maximum	2.3	4.5

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
IV.23	0.1	2.6
VI.23	0.3	2.5
IX.23	0.1	2.3
XI.23	-0.3	1.8
XII.23	-0.4	1.4
II.24	1.2	2.6
III.24	1.1	2.6
IV.24	1.2	2.6

The latest revised GDP estimate, which also includes new data for the general government sector, offers a slightly more optimistic view of the domestic economy in 2023 Q4. According to the updated data, economic performance rose by 0.4% quarter on quarter, as against the preceding 0.2%. In year-on-year terms, it increased by 0.2%, compared with a decline of 0.2% in the previous estimate. GDP fell by 0.2% in 2023 as a whole, compared to the previous fall of 0.4%.

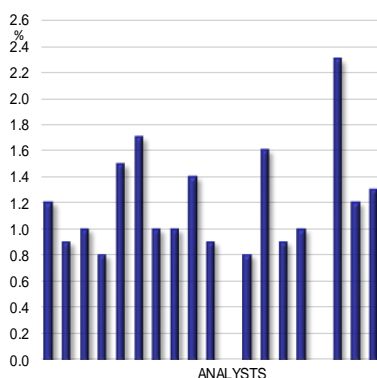
Continuing economic developments and revisions to previous data prompted analysts to slightly increase their estimates of economic growth in the Czech Republic this year by 0.1 percentage point to 1.2%. The outlook for next year is unchanged and domestic economic growth is again expected to accelerate to 2.6%. In our survey, the range of individual estimates for this year and the next narrowed, due mainly to an increase in the minimum values.

Some of the analysts consider that the Czech economy remains subdued. However, there are signs that domestic demand has bottomed out and is gradually strengthening according to some macroeconomic data (e.g. consumer sentiment, while there are also signs of improvement in business sentiment). For example, retail sales have risen, benefiting from real wage increases. By contrast, external demand is burdened by the weaker performance of the German economy, especially industry. An economic recovery is thus expected this year, but it will be only gradual. Economic growth is expected to pick up further next year.

According to the CNB's spring forecast, GDP will grow by 1.4% in 2024 and accelerate to 2.7% in 2025.

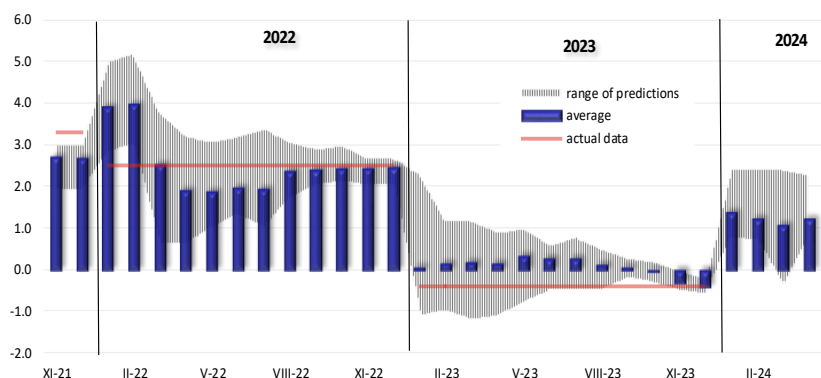
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



GDP GROWTH AT END OF YEAR

AVERAGE AND RANGE OF PREDICTIONS



IV. INTEREST RATES – 2W REPO, PRIBOR, IRS

FORECASTS: MINIMUM, AVERAGE AND MAXIMUM 2W REPO, 12M PRIBOR, 5Y AND 10Y IRS

(%)

April 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	5.25	3.00	4.00	3.10	3.00	2.60	3.10	2.60
average	5.29	3.49	4.31	3.47	3.71	3.33	3.81	3.45
maximum	5.75	4.00	4.60	3.90	4.00	3.80	4.10	4.00

FORECAST FOR 2W REPO, 12M PRIBOR AND 5Y AND 10Y IRS

(%)

Date of Prediction	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
IV.23	7.00	5.56	7.18	5.34	4.98	4.22	4.53	4.09
VI.23	7.00	5.43	7.14	5.29	4.67	4.05	4.27	3.88
IX.23	7.00	4.90	6.89	4.70	4.42	3.74	4.17	3.61
XI.23	6.83	4.38	6.40	4.25	4.30	3.62	4.23	3.64
XII.23	6.81	4.33	6.20	4.13	3.96	3.58	3.91	3.62
II.24	5.75	3.66	4.90	3.50	3.41	3.21	3.45	3.27
III.24	5.71	3.54	4.61	3.45	3.37	3.21	3.47	3.32
IV.24	5.29	3.49	4.31	3.47	3.71	3.33	3.81	3.45

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.4.	5.75	4.58	4.02	4.10

In the April survey, 15 out of 17 respondents were expecting the 2W repo rate to be cut by a further 50 basis points to 5.25% at the CNB Bank Board's May meeting. One of the analysts expected it to fall by only 25 basis points to 5.50% and one expected key interest rates to remain unchanged.

The analysts expect the 2W repo rate to decrease gradually at the one-year horizon as well. The range of their estimates narrowed slightly to between 3.00% and 4.00%. Even though inflation is on target and key interest rates are relatively high, the analysts expect the CNB Bank Board to stick to its current cautious approach. Apart from its current practice, they also see a risk of a possible re-intensification of inflationary pressures. Therefore, some expect that, after the May or even June monetary policy meeting, the CNB Bank Board will return to lowering key interest rates in its traditional 25-point steps.

At the same time, the analysts also focused on the May monetary policy meeting because the CNB promised to present its view of the neutral (equilibrium) interest rate, or r^* , which should improve the CNB's predictability in future monetary policy settings and perhaps even outline the level at which the decline in the 2W repo rate could stop within this monetary policy cycle.

ANALYSTS' FORECAST – 2W REPO RATE LEVEL IN 1Y

(%)

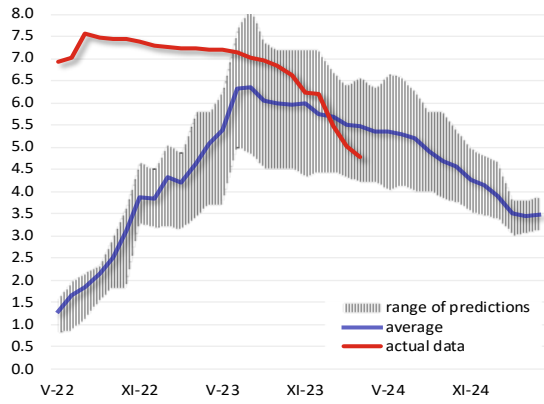
2W repo rate level in 1Y (%)	2.75	3.00	3.25	3.50	3.75	4	4.25	4.50
number of analysts - current survey	0	3	3	4	6	1	0	0
-previous survey	0	3	2	5	6	1	1	0

The PRIBOR reference rates on the interbank market have declined since the March survey due to the CNB Bank Board's monetary policy decisions. Their monthly forecast resulting from our survey also moved down along with them (by 30 basis points for the 12M PRIBOR). By contrast, the 12M PRIBOR forecast increased by 3 basis points at the one-year horizon. Swap rates in the market were also affected by external factors. Their market values shifted significantly upwards (5Y IRS +63 bp and 10Y IRS +60 bp). Their forecasts followed in the same direction in our survey, only to a lesser extent (+12 to +34 bp).

The CNB's spring forecast implies a 2W repo rate of 3.7% in 2025 Q2.

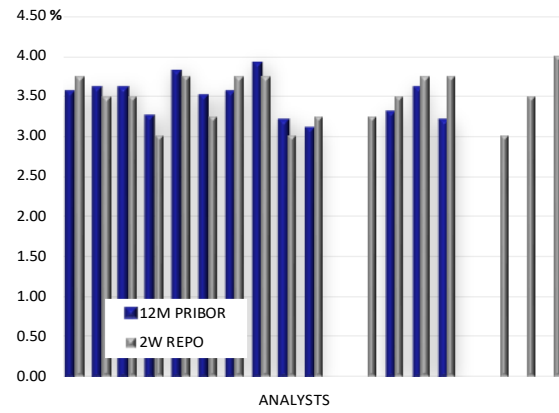
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



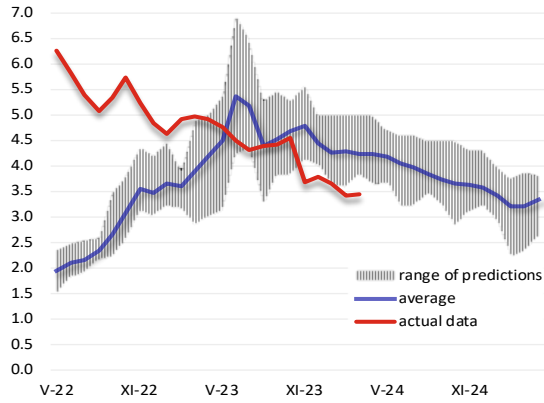
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



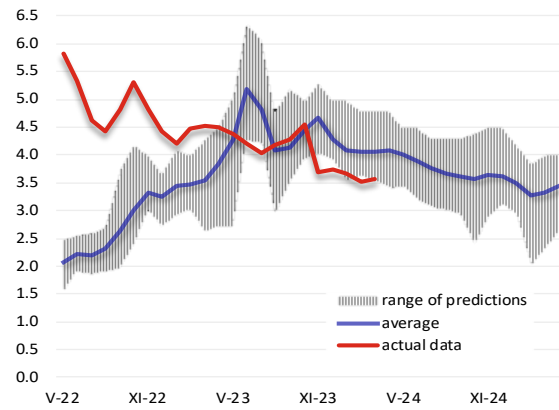
5Y IRS AT 1Y

AVERAGE AND RANGE OF PREDICTIONS



10Y IRS AT 1Y

AVERAGE AND RANGE OF PREDICTIONS



V. EXCHANGE RATE

1M AND 1Y EXCHANGE RATE FORECAST

	1M	1Y
IV.23	23.47	24.07
VI.23	23.74	23.94
IX.23	24.16	24.16
XI.23	24.63	24.58
XII.23	24.52	24.51
II.24	25.25	24.78
III.24	25.26	24.67
IV.24	25.28	24.74

EXCHANGE RATE FORECAST

April 2024	EUR/CZK	
	1M	1Y
minimum	25.15	23.80
average	25.28	24.74
maximum	25.40	26.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.4.	25.33
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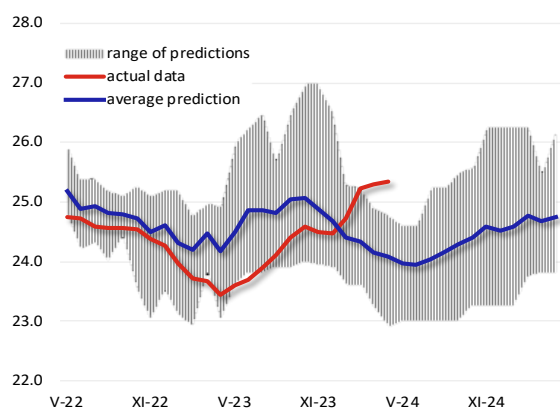
From the March survey to the cut-off date for the April one, the exchange rate of the koruna against the euro weakened on the foreign exchange market from CZK 25.16 to CZK 25.33 to the euro. Some take the view that the CNB's communications after the March meeting, which showed that the continued weakening of the koruna could pose an upside risk to inflation, contributed to preventing even greater depreciation. Despite the above, the analysts did not change their opinion much on the future development of the koruna exchange rate, shifting their forecasts to weaker levels only slightly. They expect the koruna to be close to CZK 25.28 to the euro in mid-May and around CZK 24.74 to the euro in April 2025.

According to the analysts, the future path of the koruna exchange rate may be affected by the neutral interest rate. If the CNB were to move it to a higher level and communicate that it would therefore end the cycle of lowering key interest rates at a higher level than market expectations, the koruna exchange rate could appreciate. Weak economic growth is a risk acting in the opposite direction. In the medium term, however, a return to the long-term gradual appreciation trend is generally expected in connection with the expected recovery in economic activity, a more gradual reduction in CNB rates in the second half of this year and, conversely, the start of a monetary policy easing cycle by central banks around the world.

The CNB's spring forecast expects the koruna to be at CZK 24.9 to the euro in 2025 Q2.

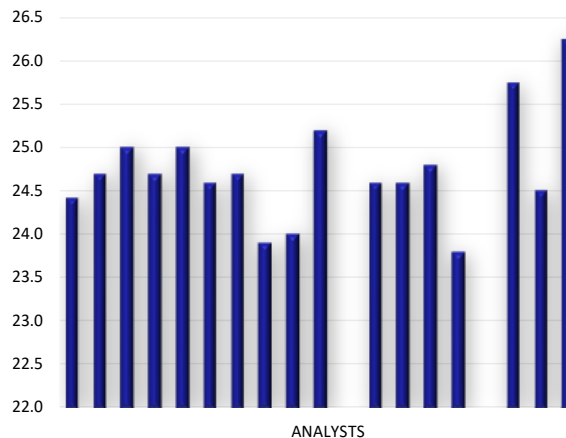
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH (%)

April 2024	current year	current+1Y
minimum	4.6	3.5
average	6.1	5.1
maximum	7.0	5.6

FORECAST FOR NOMINAL WAGE GROWTH (%)

Date of Prediction	current year	current+1Y
IV.23	8.2	6.0
VI.23	8.7	6.5
IX.23	8.8	6.8
XI.23	8.1	6.5
XII.23	7.8	6.5
II.24	6.2	5.2
III.24	6.2	5.1
IV.24	6.1	5.1

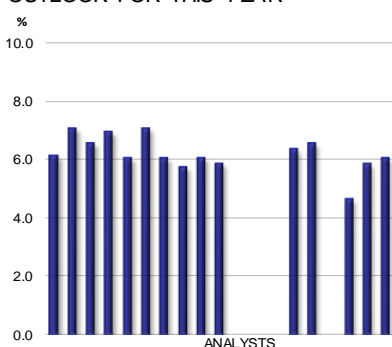
According to the Labour Office, there were 288,623 registered job seekers in March 2024. This was 7,484 less than in February and 15,145 more than in March 2023. At the same time, the number of registered job seekers is 19,963 more than the number of vacancies, which in this period was the lowest since 2018. In March 2024, the start of seasonal work after the winter period, especially in the construction sector, was already noticeable in unemployment. This annual trend has been further reinforced this year by the unusually warm weather in March. The unemployment rate was 3.9% year on year in March, falling by 0.1 percentage point month on month. This is 0.2 percentage point higher than in the same period last year. In an international comparison, the unemployment rate in the Czech Republic is again the lowest in the EU.

Against the background of the above data, the analysts only slightly revised expected nominal wage growth this year. According to the updated data, nominal wages are expected to increase by 6.1% on average in 2024, 0.1 percentage point less than in the March survey. The range of individual forecasts narrowed significantly owing to an increase in the minimum and a decrease in the maximum values. By contrast, the outlook for 2025 remained unchanged for the second consecutive month, with wage growth estimated to slow to 5.1% on average. In this case, however, the range of the analysts' estimates widened slightly, mainly due to a lower minimum value.

According to the CNB's spring forecast, nominal wages are expected to increase by 7.2% in 2024 and by 6.1% in 2025.

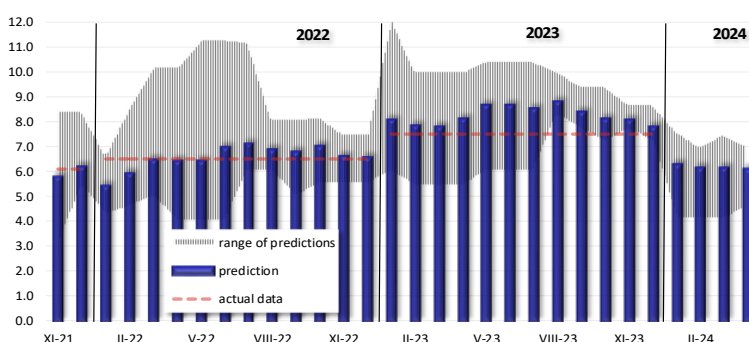
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

END OF CURRENT YEAR: AVERAGE AND RANGE OF PREDICTIONS (%)



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