Financial Market Inflation Expectations

5/2024

CZECH NATIONAL BANK

www.cnb.cz

Contents

I.	**SUMMARY**	**3**
II.	**INFLATION**	**4**
III.	**GROSS DOMESTIC PRODUCT**	**5**
IV.	**INTEREST RATES – 2W REPO, PRIBOR, IRS**	**6**
V.	**EXCHANGE RATE**	**8**
VI.	**NOMINAL WAGES**	**9**

I. SUMMARY

Seventeen domestic and two foreign analysts took part in the May survey of financial market inflation expectations. This time, the ranks of domestic analysts were expanded by David Havrlant from ING while, on the other hand, David Marek from Deloitte is leaving the group of respondents. The data show that analysts' views on inflation have not changed over the one-year or three-year horizon. The economic growth outlook is more optimistic for both this year and the next, and the pace of the projected decline in key interest rates has been moderated. The exchange rate outlook reflects the appreciation of the koruna on the foreign exchange market since the previous survey. At the same time, the analysts no longer expect a long-term weakening of the koruna above CZK 25 to the euro. The nominal wage growth forecast was slightly increased for both this year and the next.

DOMESTIC ANALYSTS	**I.**	**II.**	**III.**	**IV.**	**V.**	**VI.**	**VII.**	**VIII.**	**IX.**	**X.**	**XI.**	**XII.**
Jiří Polanský, Česká spořitelna	+	+	+	+	+							
David Marek, Deloitte Czech Republic	+	+	+	+	+							
Jan Vejmělek, 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 Janíčko, MND	+	+	+	+	+							
Jan Bureš, ČSOB			+		+							
David Havrlant, ING					+							
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 May 2024

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

May 2024	CPI 1Y	3Y
minimum	0.9	1.7
average	2.2	2.2
maximum	3.5	2.8

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS 1Y	3Y	CNB (%) 1Y
V.23	3.2	2.5	
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
IV.24	2.2	2.2	
V.24	2.2	2.2	2Q: 1.9

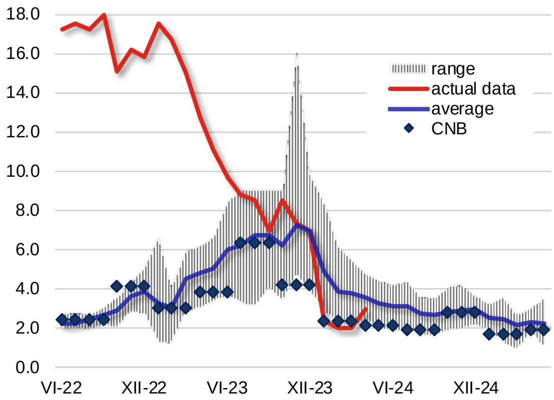
The domestic consumer price index surprised in April, rising by 2.9% year on year, which is 0.9 percentage point more than in the previous month. According to the CZSO, the acceleration in price growth was caused mainly by higher prices of food, alcoholic beverages and fuels. In month-on-month terms, there was an increase of 0.7%, mainly due to an increase in food and alcohol prices. Goods prices rose by 1.0% month on month, while services were flat at the March level. Despite the unexpected increase in annual inflation, the analysts' forecasts have not changed since the previous survey. They thus remain at 2.2% at both the one-year and three-year horizons. The range of individual estimates has widened for both one-year and three-year forecasts. In both cases, this was mainly due to a decrease in the minimum value. In the case of one-year estimates, this was compounded by an increase in the maximum value, probably related to the unexpectedly large increase in the year-on-year consumer price index in April.

According to the analysts, the acceleration in price growth is being fostered by a rise in agricultural producer prices, which have been rising since the beginning of this year. The second likely factor could be a recovery in household consumption, to which food and alcohol prices are responding. The surprisingly high latest inflation figure increases the uncertainty of the forecast, according to the analysts. Nevertheless, it should remain in the upper half of the tolerance band around the target in the coming months, including its core component. Price pressures could be eased by cheaper energy, i.e. lower electricity and gas prices for end consumers. In view of the economic recovery and high growth in services and agricultural producer prices, inflation could temporarily exceed the upper boundary of the tolerance band in the second half of the year. However, it is expected to return closer to the inflation target in 2025 and 2026, although the recovery in demand could mean it will be slightly above it. A faster rise in aggregate demand will be hindered by the prudent monetary policy adopted by the CNB, whose rates are likely to be lowered only gradually, according to the analysts.

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

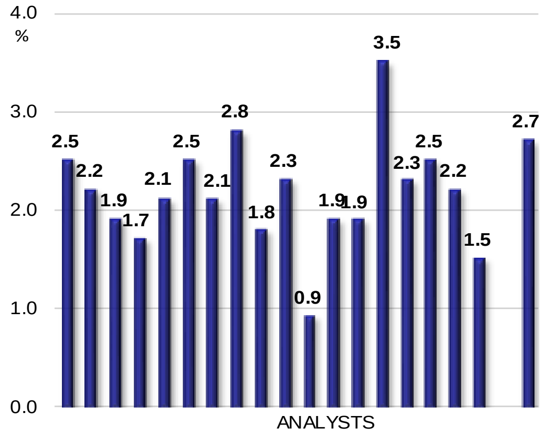
CONSUMER PRICE INDEX

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
(%)

May 2024	current year	current+ 1Y
minimum	1.0	2.0
average	1.4	2.7
maximum	1.9	4.4

FORECAST FOR GDP GROWTH
(%)

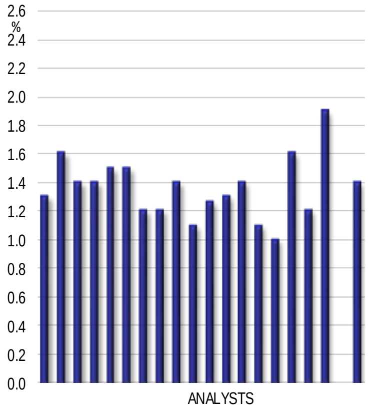
Date of Prediction	current year	current+1Y
V.23	0.3	2.7
VI.23	0.3	2.5
IX.23	0.1	2.3
XI.23	-0.3	1.8
XII.23	-0.4	1.4
II.24	1.2	2.6
IV.24	1.2	2.6
V.24	1.4	2.7

According to the preliminary estimate, GDP grew by 0.5% quarter on quarter in Q1 of this year. This figure was positively influenced mainly by higher household final consumption expenditure and gross capital formation, while external demand had a negative impact. In year-on-year terms, this represented an increase of 0.4%. Final consumption was also a driving force, but this time supported by a growing foreign trade balance. By contrast, gross capital formation continued to decline year on year. The newly published data prompted analysts to correct their opinions, which are now more optimistic on average than in April. The economic growth forecast for this year has been raised by 0.2 percentage point to 1.4%. The outlook for next year has shifted up by 0.1 percentage point to 2.7%. The ranges of individual estimates for this year and the next have narrowed, both seeing an increase in the minimum values and a decrease in the maximum values.

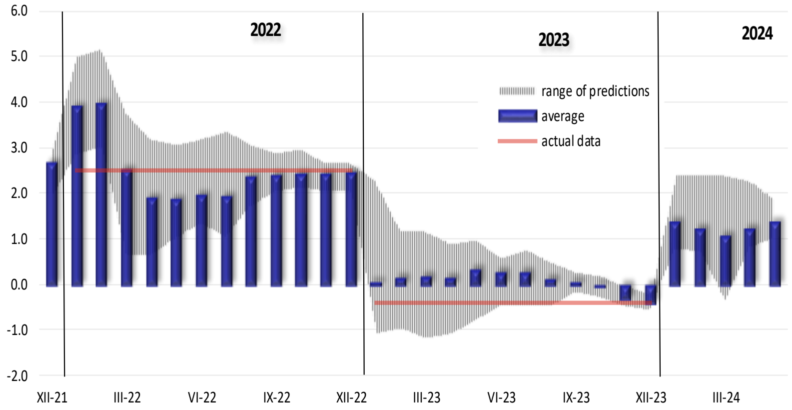
The fact that economic growth in Q1 of this year was driven by domestic demand was in line with the analysts' expectations. They believe that growth in real wages, which was significantly helped by the fading of high inflation, is having a positive effect on growth in household consumption. Investment growth was likely to have been supported by the absorption of EU funds, unless it involved inventory creation. However, the CZSO will publish the details of the GDP growth components at a later date. Last but not least, the improved sentiment among consumers and businesses, both looking forward to an economic recovery and less worried about further price increases, also had a pro-growth effect. By contrast, weak external demand dampened economic activity. Against the backdrop of the lacklustre performance of the German economy, there are opinions that exports of unfinished products, which contributed to net exports in the last quarter of last year, did not significantly support exports this time around. Yet imports for consumption purposes may also have played a role in the context of the rise in household consumption. Domestic demand should continue to drive Czech economic growth for the rest of this year and especially the next. The recovery in external demand is likely to be slower, depending on the situation in Germany and the overall geopolitical situation.

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

(%)

May 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	4.75	3.00	3.90	3.20	3.50	2.80	3.60	2.90
average	4.99	3.66	4.55	3.66	3.86	3.54	3.93	3.65
maximum	5.25	4.00	5.35	4.30	4.25	4.40	4.30	4.40

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
V.23	7.01	5.53	7.12	5.35	4.79	4.18	4.42	4.02
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
IV.24	5.29	3.49	4.31	3.47	3.71	3.33	3.81	3.45
V.24	4.99	3.66	4.55	3.66	3.86	3.54	3.93	3.65

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.5.	5.25	4.65	3.88	3.87

The May survey shows that almost all the analysts surveyed expect a decline in key interest rates at the next monetary policy meeting of the CNB Bank Board, expected at the end of June. Of these, 16 expect the 2W repo rate to fall by 25 basis points to 5.00% and two expect it to fall by 50 basis points to 4.75%. Only one respondent estimates that the CNB's key interest rates will remain at their current level. A slower fall in key interest rates is supported by the difference between expected inflation and interest rates, which is not so large. A more significant fall in key rates is therefore not so urgent. Moreover, inflationary pressures are still emerging in the Czech economy, which will make the CNB remain cautious, especially after the publication of April's inflation.

Over the one-year horizon, the analysts continue to expect the 2W repo rate to gradually fall, albeit at a slower pace. The range of individual estimates was most concentrated in the 3.50% to 4.00% interval.

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

(%)

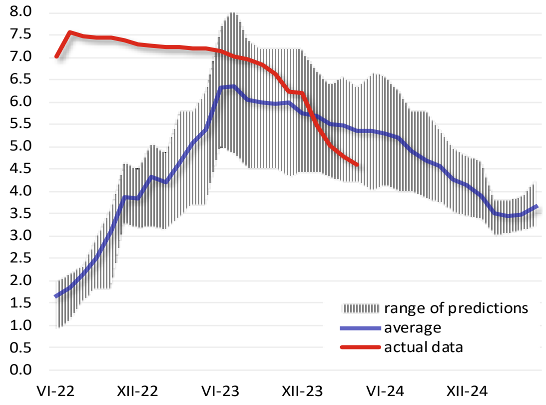
2W repo rate level in 1Y (%)	3.00	3.25	3.50	3.75	4.00
number of analysts - current survey	2	0	6	6	5
-previous survey	3	3	4	6	1

The annual PRIBOR interbank market reference rate increased by 7 basis points in view of the reassessment of the expected pace of reduction in key interest rates. Swap rates, on the other hand, declined (5Y by 14 basis points and 10Y by 23 basis points). However, the analysts' forecasts have shifted upwards for both benchmark interbank rates and swap rates (in the range of 15 to 24 basis points). However, the move to a higher level does not change the overall scenario of an expected decline in money and swap rates at the one-year horizon, as the current values of the individual rates are well above the annual forecasts.

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

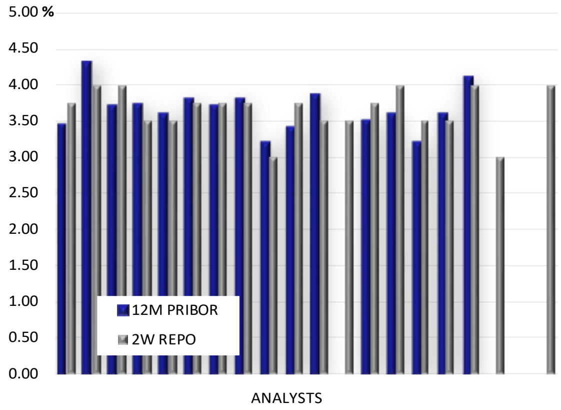
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



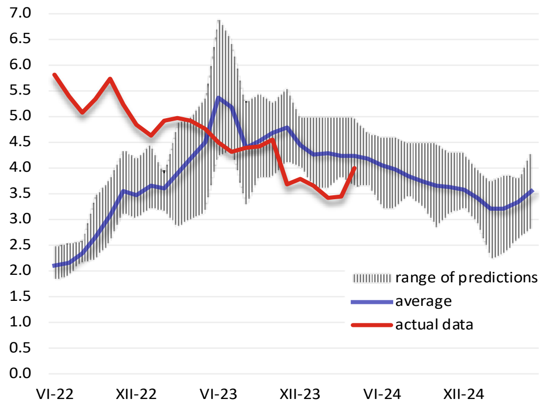
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



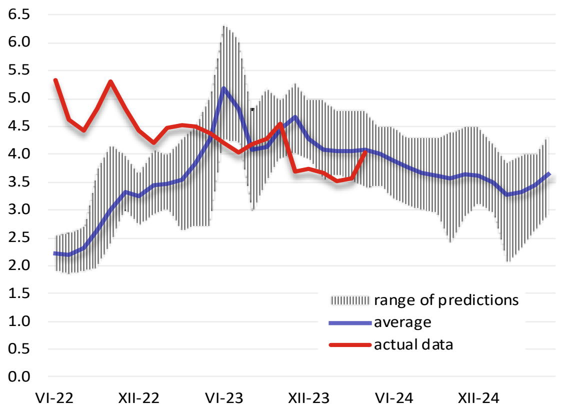
5Y IRS AT 1Y

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
V.23	23.60	23.97
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
IV.24	25.28	24.74
V.24	24.86	24.68

EXCHANGE RATE FORECAST

May 2024	EUR/CZK 1M	EUR/CZK 1Y
minimum	24.60	23.80
average	24.86	24.68
maximum	25.10	26.50

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.5.	24.76

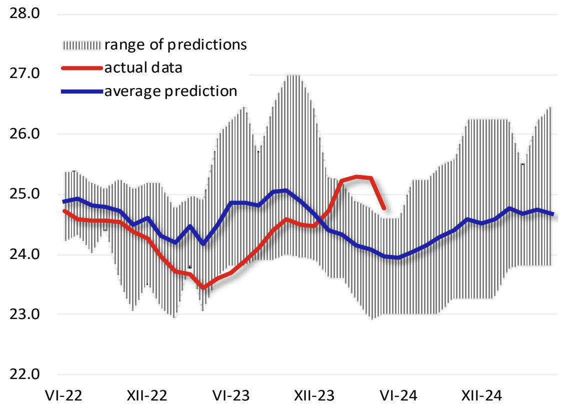
The koruna appreciated significantly compared to the previous survey. After the publication of surprisingly high inflation in April (possibly due to higher retail sales) and due to the related reassessment of the expected (from some perspectives too optimistic) pace of lowering key interest rates, it moved safely below CZK 25 to the euro, from the original CZK 25.33 to around CZK 24.76 to the euro at the time of the survey cut-off date. The analysts revised their forecasts with the appreciation of the koruna exchange rate on the foreign exchange market. Although they now admit a slight correction towards weaker levels, they no longer expect the koruna to weaken permanently above the psychological level of CZK 25 to the euro. On average, they expect the koruna to be close to CZK 24.86 to the euro in mid-June this year, and to follow a gradual appreciation trend towards CZK 24.68 to the euro by May next year.

A recovery in the domestic economy (outpacing euro area growth), improved market sentiment towards the euro area and a higher CNB terminal rate may all contribute to further appreciation of the koruna. However, this appreciation should be rather modest, as the current koruna exchange rate is already close to what some analysts expected for the end of this year. According to some commentators, global sentiment could act in the opposite direction, i.e. towards the depreciation of the koruna, favouring the US dollar, for example in connection with the uncertainty associated with the US presidential election.

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

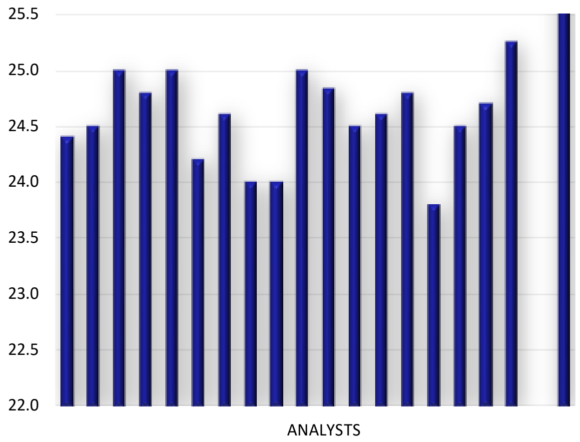
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

May 2024	current year	current+1Y
minimum	4.6	3.5
average	6.2	5.2
maximum	7.0	5.8

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
V.23	8.7	6.5
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
IV.24	6.1	5.1
V.24	6.2	5.2

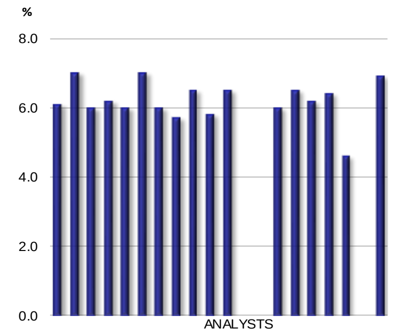
There were 280,078 jobseekers registered with the Labour Office of the Czech Republic in April this year, which is 8,545 fewer than in March and 18,395 more than in April last year. The unemployment rate decreased by 0.2 percentage point month on month to 3.7%. This decline in the unemployment rate is predominantly due to the continuing onset of seasonal work in construction, agriculture and services, and the return to trades that were interrupted over the winter. At the same time, it was predominantly due to a fall in unemployment among men, who profit more from seasonal work. In a year-on-year comparison, the unemployment rate increased by 0.1 percentage point. In an international comparison, the unemployment rate in the Czech Republic is the second-lowest in the EU. According to the CZSO, Q1 employment increased by 0.2% quarter on quarter this year, and by 0.4% compared to the same quarter last year. According to some estimates, an influx of foreign workers may have contributed to this.

Economic developments over the past month, and not only on the labour market, have led to a correction in the average forecast for nominal wage growth both this year and the next. In both cases, they were increased by 0.1 percentage point. On average, the analysts thus expect nominal wages to rise by 6.2% in 2024. In 2025, wage growth is expected to slow to 5.2%. Real wages should continue to rise as workers demand compensation for the previous fall. This should be fostered by the favourable financial situation of companies and the long-term shortage of labour on the Czech labour market. However, the average real wage is unlikely to return to its pre-pandemic level until 2026.

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

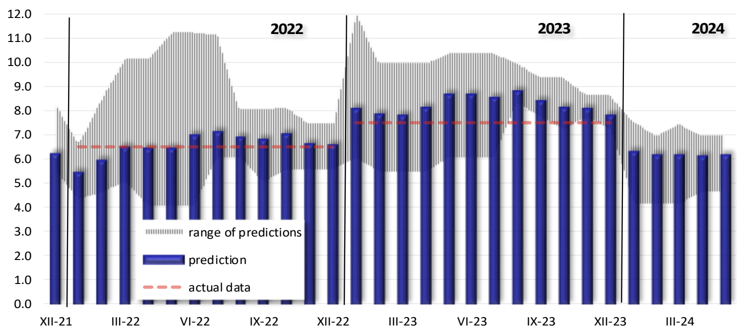
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

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



Issued by:
CZECH NATIONAL BANK
Na Příkopě 28
115 03 Praha 1
Czech Republic

Contact:
COMMUNICATIONS DIVISION
GENERAL SECRETARIAT
Tel.: +420 224 413 112
www.cnb.cz