

Financial Market Inflation Expectations

—— 12/2023



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I. SUMMARY

Fourteen domestic and two foreign analysts sent in their contributions to the last survey this year. The current survey shows that the analysts raised their one-year inflation forecast slightly, but the three-year outlook is unchanged. At the same time, their opinion on domestic economic activity is less optimistic – the decline this year could be deeper and the recovery next year weaker. The vast majority of respondents participating in our December survey expected key interest rates to be cut by 25 basis points just before the end of 2023. The koruna exchange rate was revised slightly to stronger levels. The expected growth rate for nominal wages this year was lowered further, while the forecast for next year remained 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 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 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, 22 December 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

December 2023	CPI	
	1Y	3Y
minimum	2.1	2.0
average	2.9	2.3
maximum	3.7	3.3

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
XII.22	7.0	2.7	4Q: 4.2
I.23	4.8	2.6	
II.23	3.8	2.7	1Q: 2.3
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

Domestic year-on-year inflation fell to 7.3% in November, 1.2 percentage points lower than a month earlier. Interestingly, this is exactly the level that analysts had forecast on average a year ago for this November. Slower year-on-year growth in the price level was visible in most categories of the consumer basket, although most of all in food and housing; fuel prices even declined. Adjusted for the impacts of the energy savings tariff on electricity prices, the year-on-year growth rate for inflation would be 4.7% according to the CZSO. Inflation rose by 0.1% month on month. This was largely due to higher prices for electricity, natural gas, clothing, personal care products and services and some foodstuffs.

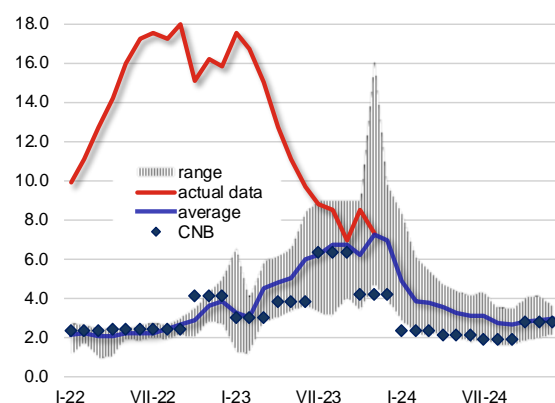
The analysts' view of inflation shifted slightly upwards at the one-year horizon. While in the previous survey, on average, inflation was expected to reach 2.8% in 12 months, this is now 0.1 percentage points higher at 2.9%. The three-year outlook is unchanged at 2.3%. The range of individual estimates narrowed at both horizons monitored owing to a decline in the maximum values, as well as an increase in the minimum values.

The analysts expect annual inflation in December to be similar to the November level; price growth could be slowed by weak demand and possibly also by a drop in fuel prices. Overall, year-on-year growth in price levels could slightly exceed 10% this year. Inflation will drop rapidly in January, as the base effect of the energy savings tariff fades away. The extent of this will depend on trends in the administered components of energy prices and the degree of traditional repricing in January. According to some estimates, annual inflation could be just above 3% in January. Price growth will probably be dampened in the course of next year by a downturn in economic activity and inflation could thus remain low, very likely within the tolerance band around the inflation target.

The CNB's autumn forecast expects consumer prices to rise by 2.8% year on year in 2024 Q4.

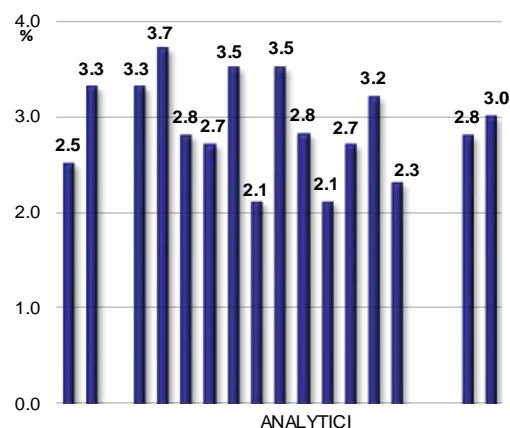
CONSUMER PRICE INDEX

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

(%)

December 2023	current year	current+ 1Y
minimum	-0.6	0.8
average	-0.4	1.4
maximum	-0.2	2.1

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
XII.22	2.4	0.0
I.23	0.0	2.4
II.23	0.2	2.6
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

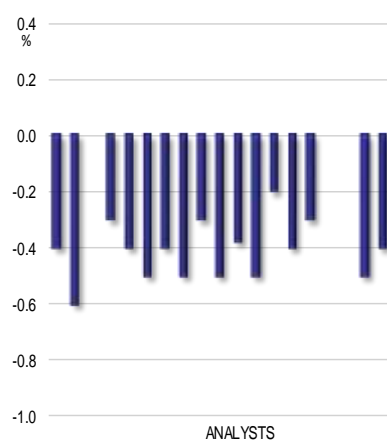
According to the updated CZSO estimate, GDP fell by 0.7% year on year in 2023 Q3, which is 0.1 percentage points lower than in the preliminary estimate. Compared to the previous quarter, Czech GDP fell by 0.5%, 0.2 percentage points more than in the preliminary estimate. The range of the individual estimates narrowed for both this year and the next, owing to a decline in the maximum values.

Reaching the pre-pandemic economic level is further and further away. In the latest data, the analysts see not only the worse performance of the Czech economy, but also a decline in foreign demand, which is due to adverse developments in Germany and other euro area countries. The fact that household consumption, which increased in Q2, fell back in Q3 did not escape attention. However, this decline was relatively low, which could signal that consumption is approaching the bottom, from which it could soon rise. Economic activity is expected to improve next year, but only gradually. Economic growth should therefore be fostered by renewed growth in consumer demand underpinned by slowing inflation and a related rise in real wages. As some leading indicators suggest, export markets should also recover. Nevertheless, the risks that Czech GDP will experience weaker growth are elevated due to the adverse geopolitical situation, the current condition of the global economy and a very long period of high key interest rates by the CNB.

According to the CNB's autumn forecast, GDP will decline by 0.4% in 2023 and grow by 1.2% in 2024.

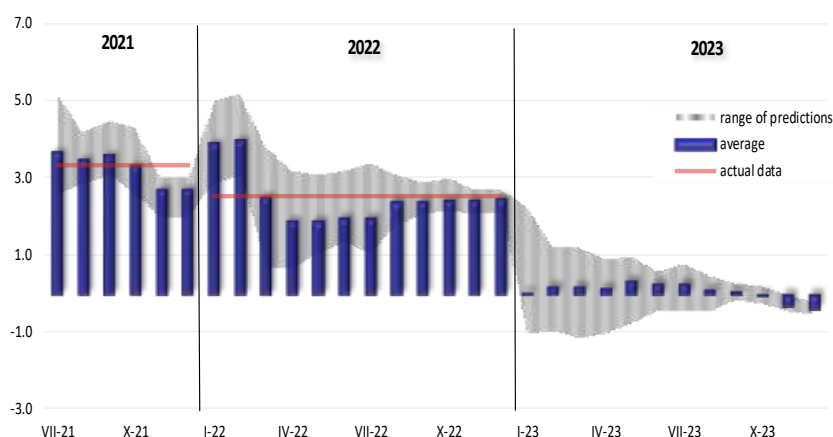
INDIVIDUAL 1Y PREDICTIONS

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

(%)

December 2023	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	6.75	3.50	6.00	3.45	3.70	3.20	3.70	3.10
average	6.81	4.33	6.20	4.13	3.96	3.58	3.91	3.62
maximum	7.00	5.25	6.90	4.80	4.44	4.30	4.20	4.50

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
XII.22	7.00	6.02	7.29	5.74	4.96	4.43	4.50	4.27
I.23	7.00	5.85	7.27	5.69	4.73	4.26	4.32	4.07
II.23	7.00	5.75	7.20	5.49	4.83	4.29	4.40	4.06
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

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.12.	7.00	6.22	3.69	3.68

Twelve of the 16 respondents to our December survey were of the opinion that the latest meeting of the CNB Bank Board in 2023 would bring key interest rates down by 25 basis points (after a relatively long period of stability). In the case of the 2W repo rate, from 7.00% to 6.75%. Several reasons were identified in favour of easing monetary policy and lowering key interest rates. They include slowing inflation, which is expected to be close to the inflation target next year. This will be supported by weak economic activity and the performance of Czech industry. Weak household consumption is also a significant factor. Moreover, according to the analysts, the CNB indicated that monetary policy would remain very restrictive even in the event of a reduction in key interest rates in December and, according to numerous opinions, the domestic economy is not currently in a situation where monetary policy needs to be restrictive.

The remaining four respondents continued to expect key rates to remain unchanged this time and the 2W repo rate to enter 2024 at 7.00%. The main reason for leaving key interest rates unchanged was probably the risk of unanchored inflation expectations and the related prudence by the CNB, which might wait for the impact of the January repricing.

All the respondents are now expecting a rapid decline in the CNB's key rates next year. Compared to the previous survey, the average expected level of the 2W repo rate decreased slightly at the end of 2024, although the full range of individual forecasts shifted upwards by 25 basis points. The estimates are currently even more concentrated around 4.50%.

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

(%)

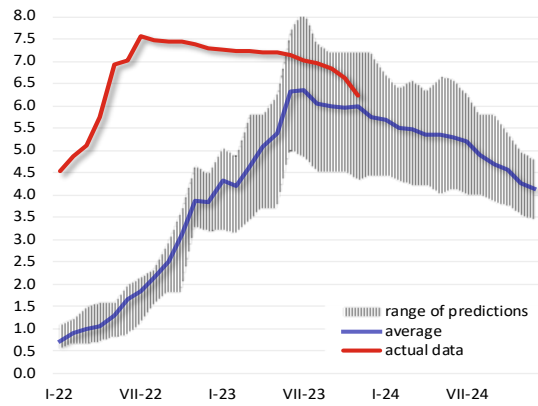
2W repo rate level in 1Y (%)	3.25	3.50	3.75	4.00	4.25	4.5	4.75	5.00	5.25	5.50
number of analysts - current survey	0	1	1	4	1	7	0	1	1	0
-previous survey	1	0	2	3	1	5	3	3	0	0

Market interest rates dropped significantly again compared to the previous survey and the analysts' forecasts also fell, albeit to a lesser extent. While the 12M PRIBOR interbank reference rate fell by 26 basis points and swap rates by more than 50 basis points, their forecasts declined by 2–34 basis points. The analysts' new outlooks also continue to intuitively confirm the expected decline in interest rates, as the one-month forecasts are above the one-year forecasts. Moreover, most rates with shorter maturities are higher than rates with longer maturities.

The CNB's autumn forecast implies a 2W repo rate of 3.4% in 2024 Q4.

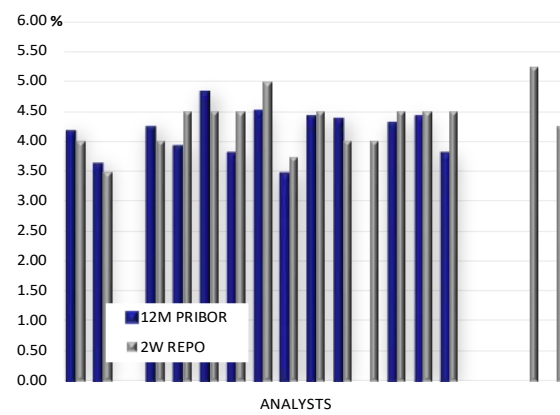
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



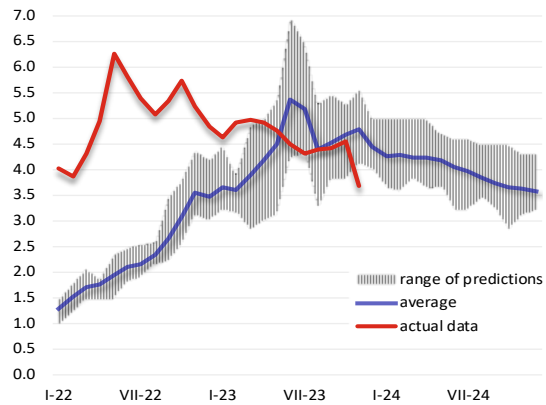
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



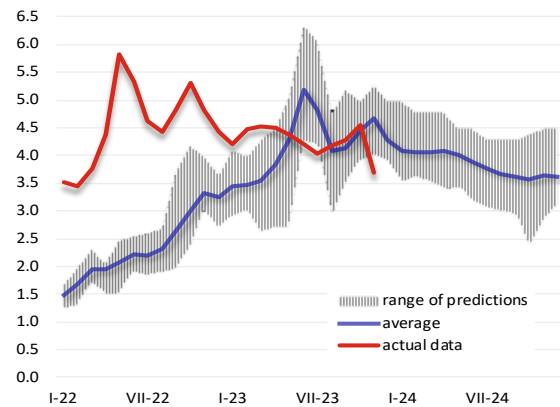
5Y IRS AT 1Y

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
XII.22	24.42	24.67
I.23	24.12	24.39
II.23	23.84	24.33
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

EXCHANGE RATE FORECAST

December 2023	EUR/CZK	
	1M	1Y
minimum	24.25	23.25
average	24.52	24.51
maximum	24.80	26.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.12.	24.48
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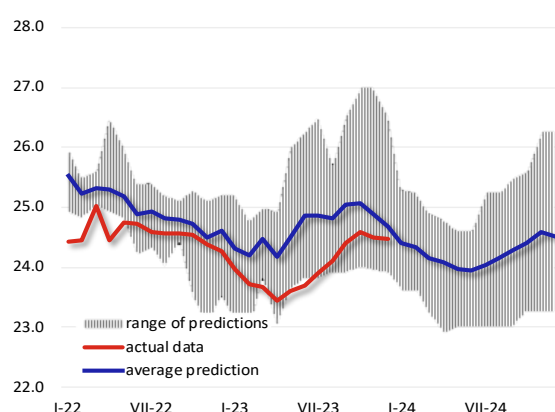
The koruna exchange rate did not experience any major changes on the foreign exchange market compared to the cut-off date of the previous survey, as it moved by only three hellers to stronger levels and was close to CZK 24.48 to the euro in mid-December. The average forecast is currently CZK 24.52 to the euro at the one-month horizon and CZK 24.51 to the euro at the one-year horizon. The forecasts shifted to slightly stronger levels compared to the November survey.

In the current environment, of course, the above scenario is conditional on risks not materialising, such as the geopolitical situation not escalating, the global economy not deteriorating and the pace of the reduction in the CNB's key interest rates not being far from market expectations. In the longer term, the koruna exchange rate could gradually return to the path of long-term gradual appreciation as the economy recovers and general financial market sentiment improves. However, the increased volatility and sensitivity of the koruna exchange rate to these factors will fade only slowly.

The CNB's autumn forecast expects a koruna exchange rate of CZK 24.4 to the euro in 2024 Q4.

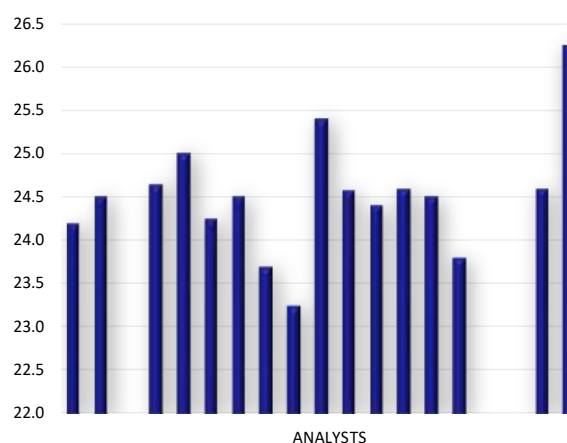
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

December 2023	current year	current+1Y
minimum	7.2	5.8
average	7.8	6.5
maximum	8.7	7.6

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
XII.22	6.6	7.4
I.23	8.1	5.5
II.23	7.9	5.9
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

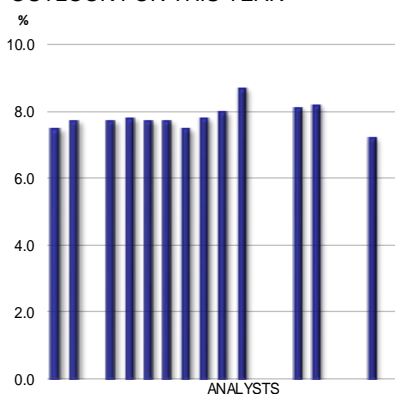
According to the Czech Labour Office, the unemployment rate was unchanged in month-on-month and year-on-year terms in November. It thus remains at 3.5%. In an international comparison, the unemployment rate in the Czech Republic (2.9% according to EUROSTAT) is among the three lowest in the EU (6% on average). The average gross monthly nominal wage in the Czech Republic rose by 7.1% year on year to CZK 42,658 in Q3. Adjusted for inflation, real wages fell by 0.8% year on year. Like the mean average, the median nominal wage rose by 7.1%. In quarter-on-quarter terms, the average wage (seasonally adjusted) rose by 1.5%. This again led to quarter-on-quarter growth in real wages, which was recorded in 2023 Q2. According to the analysts, given companies' solid profitability and the low unemployment rate, quarter-on-quarter real wage growth should continue, as employees will probably demand compensation for the deep drop in purchasing power in the previous two years.

For this year as a whole, the analysts expect nominal wage growth to be lower than they forecast a month ago. Nominal wages of employees in the Czech Republic are expected to rise by 7.8% on average in 2023, which is 0.3 percentage points lower than in the November survey. The outlook for next year remains the same, so wage growth is expected to slow to 6.5% in 2024.

According to the CNB's autumn forecast, nominal wages will rise by 7.5% in 2023 and by 6.7% in 2024.

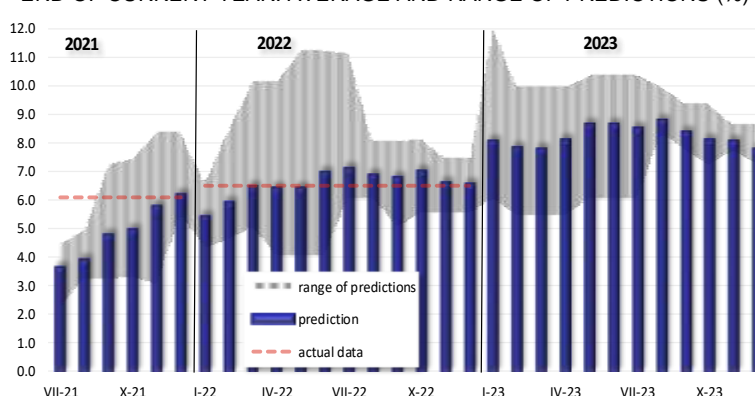
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

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



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