

Financial Market Inflation Expectations

1/2024



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I. SUMMARY

Fifteen domestic and three foreign analysts took part in the initial survey this year. The data reveal that expected inflation decreased markedly over the one-year horizon, while remaining at the original level over the three-year horizon. The view on the pace of economic growth in 2024 is also unchanged. The outlook for 2025 offers a pick-up in economic performance. This should also be fostered by less restrictive monetary policy via lower key interest rates. The koruna exchange rate is expected to be slightly stronger in mid-February this year and at the start of next year than on the closing date of this survey. According to the analysts, nominal wages will probably show lower growth this year than they had expected in December. They also expect nominal wages to rise less next year than this year.

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, 26 January 2024

II. INFLATION

FORECAST FOR YY CPI GROWTH

(%)

January 2024	CPI	
	1Y	3Y
minimum	1.8	2.0
average	2.5	2.3
maximum	3.2	3.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
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
I.24	2.5	2.3	

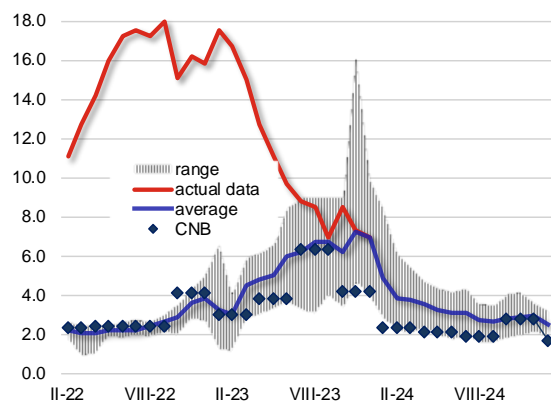
The consumer price index fell by 0.4% month on month last December. This was largely due to the items in the food, alcoholic beverages and fuel categories. In year-on-year terms, inflation slowed by 0.4 percentage point to 6.9%. The year-on-year index would be 4.2% if we excluded last year's effect of the energy savings tariff. The average inflation rate for 2023 as a whole was 10.7%. The December statistics surprised many analysts, as they generally expected month-on-month stagnation and thus higher year-on-year growth. Some of the analysts are of the opinion that anti-inflationary pressures are apparent in the data, driven mainly by weak household consumption or cheaper agricultural products. This was accompanied by price effects from abroad via imported goods and commodities.

On the other hand, the sharp increase in prices at the beginning of last year means there will be a significant slowdown this January due to a purely technical effect. According to the analysts, however, there remains relatively high uncertainty regarding this January's repricing. Subdued domestic demand (due, among other things, to the consolidation package) accompanied by weaker external demand resulting from global developments should continue to have an anti-inflationary effect over the coming months. Inflation could converge towards the inflation target in the first half of the year. For the one-year horizon, the analysts revised their forecasts markedly downwards on average compared to the previous survey – whereas in December they expected inflation to reach 2.9% in 12 months' time, they are now expecting it to slow to 2.5%. The inflation estimates for 2024 as a whole are in the upper part of the tolerance band around the CNB's inflation target. The analysts' opinion remains unchanged on average for the three-year horizon, with expected inflation of 2.3%. The range of the individual one-year and three-year forecasts narrowed, mainly owing to a reduction in the maximum values.

The CNB's winter forecast expects consumer prices to rise by 1.7% year on year in 2025 Q1.

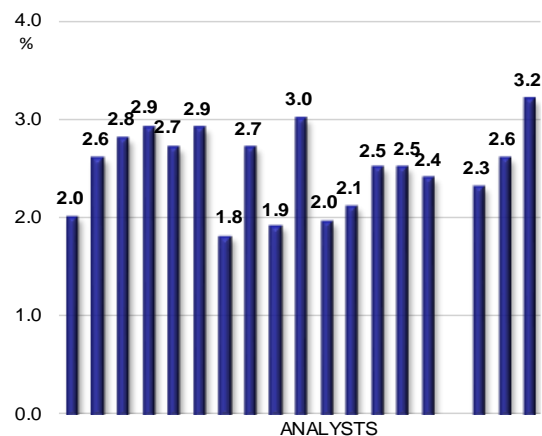
CONSUMER PRICE INDEX

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

(%)

January 2024	current year	current+ 1Y
minimum	0.8	1.7
average	1.4	2.7
maximum	2.4	4.3

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
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
I.24	1.4	2.7

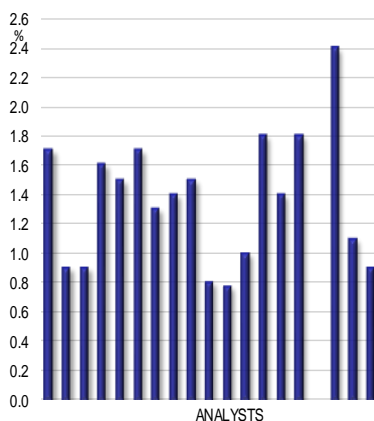
According to a further-revised CZSO estimate, GDP fell by 0.8% year on year in 2023 Q3. This is 0.1 percentage point less than in the previous estimate. The quarter-on-quarter statistics were also revised down by 0.1 percentage point to -0.6%. The analysts' opinion on GDP growth in 2024 was unchanged, and on average the domestic economy is expected to grow by 1.4% this year. The outlook for next year is more optimistic, with economic output expected to accelerate to 2.7%. The range of individual estimates for 2024 has widened due to an increase in the maximum predicted value.

The latest GDP data for the Czech Republic have provided an unpleasant surprise. According to the analysts, the domestic economy is being negatively affected by high inflation, poor household and business sentiment, and high CNB rates. This was accompanied by unfavourable developments in Germany and a cooling of external demand. Leading indicators for the months ahead do not yet signal rapid economic acceleration. On the contrary, economic growth is likely to increase more slowly and gradually. Household consumption is expected to increase along with a rise in real wages. External demand could also recover, boosting domestic exports and investment. Yet the factors tilting the economic outlook towards worse outcomes have still not disappeared. These include, for example, geopolitical risks, larger-than-expected cooling of the global economy, and a too-long period of high CNB interest rates.

According to the CNB's winter forecast, GDP will grow by 0.6% in 2024 and accelerate to 2.4% in 2025.

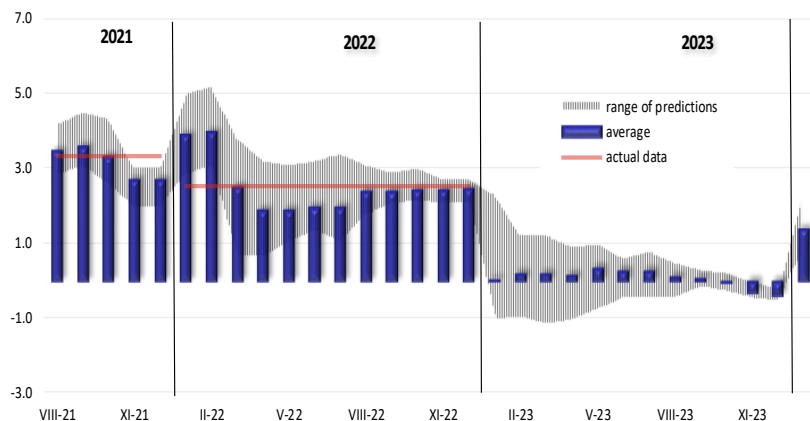
INDIVIDUAL 1Y PREDICTIONS

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

(%)

January 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	6.00	3.00	4.70	3.35	3.50	2.90	3.40	2.90
average	6.43	4.03	5.42	3.91	3.69	3.41	3.67	3.48
maximum	6.50	4.75	6.65	4.70	3.86	4.00	3.90	4.20

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
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
I.24	6.43	4.03	5.42	3.91	3.69	3.41	3.67	3.48

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.1.	6.75	5.44	3.60	3.61

All the respondents expected key interest rates to fall at the CNB Bank Board's February meeting. The great majority of them (probably in view of the results of the December meeting, the CNB Bank Board's communication, and current macroeconomic developments) estimated that the 2W repo rate would be cut by 25 basis points. Three respondents expected monetary policy to be eased by 50 bp, while one even estimated that rates would fall by 75 bp. The analysts admitted that the latest published data on the price level would tend to suggest a deeper decline in key interest rates. However, at its February meeting the Bank Board would not yet have data on inflation for January, so, in view of its precautionary approach so far, the analysts believed that it would prefer a smaller cut in key rates. However, if the January data reveal low inflation close to the upper boundary of the tolerance band around the inflation target (or below), the CNB should, according to some of the analysts, cut its rates briskly so that their strict settings do not unnecessarily negatively affect the economy. Rates are expected to decline gradually throughout this year.

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

(%)

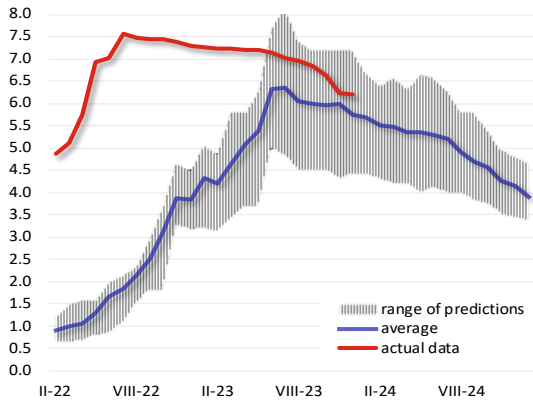
2W repo rate level in 1Y (%)	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.25
number of analysts - current survey	1	0	2	2	6	3	3	1	0	0
-previous survey	0	0	1	1	4	1	7	0	1	1

Market interest rates fell again compared to the previous survey, with the interbank PRIBOR reference rates recording a much larger shift (e.g. the 12M rate -78 basis points). The fall in swap rates was thus more moderate (5Y IRS -9 basis points and 10Y IRS -7 basis points). The average rate forecasts in our survey also fell, in the range from 78 to 13 basis points. Monthly estimates showed greater movement than annual ones, as did benchmark interbank rates compared to swap rates. The forecasted swap rates are still signalling a fall in market rates over the one-year horizon, albeit only a modest one.

The CNB's winter forecast implies a 2W repo rate set at 2.6% in 2025 Q1.

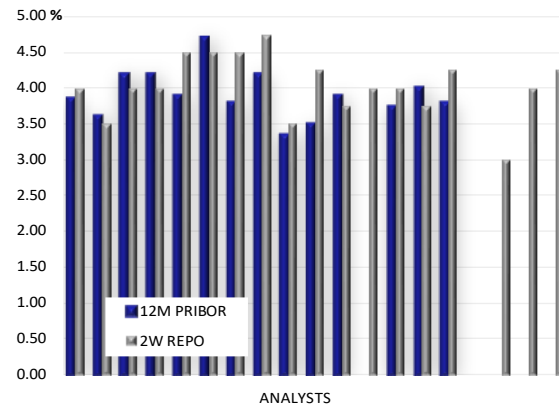
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



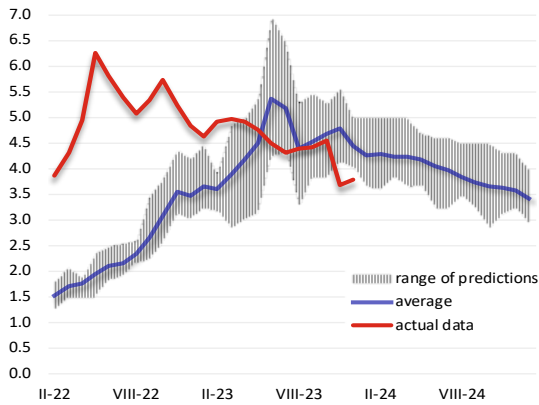
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



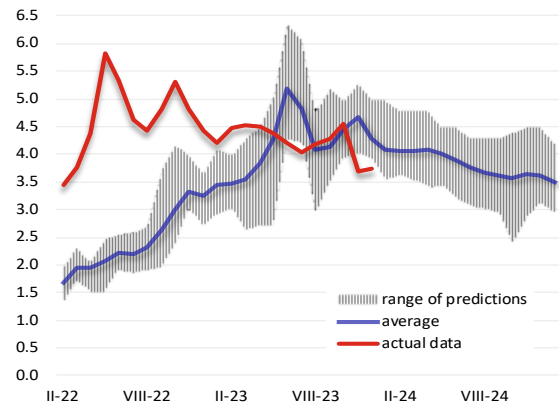
5Y IRS AT 1Y

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
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
I.24	24.63	24.58

EXCHANGE RATE FORECAST

January 2024	EUR/CZK	
	1M	1Y
minimum	24.30	23.25
average	24.63	24.58
maximum	24.80	26.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.1.	24.72
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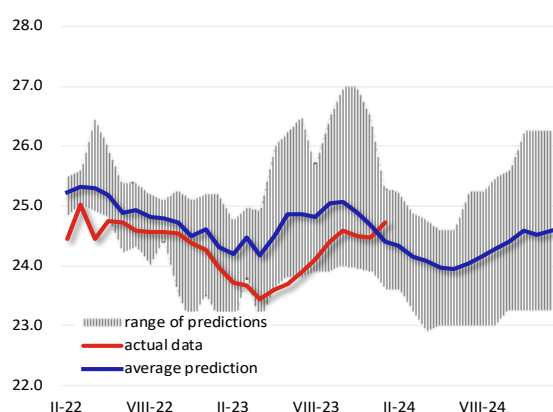
The koruna exchange rate on the foreign exchange market has weakened since the cut-off date of the December survey, moving from around CZK 24.48 to CZK 24.72 to the euro. According to the analysts, this development can be attributed on the one hand to strong macroeconomic data from the USA, which, combined with rhetoric from the central bankers, led to a reassessment of the expected start of the reduction of key interest rates by the Fed and the ECB to a later date. On the other hand, the exchange rate of the Czech currency is being affected by domestic macroeconomic data and speculation on a rapid decrease in the CNB's key interest rates, amplified, inter alia, by lower-than-expected inflation in December and comments made by Deputy Governor Eva Zamrazilová that were perceived as dovish.

In view of the recent development of the koruna exchange rate, the analysts' forecasts have also shifted to weaker levels on average, and now assume that the koruna will be at CZK 24.63 to the euro in mid-February this year. However, the koruna exchange rate could be steered towards stronger levels by higher-than-expected inflation in January, or a reassessment of market bets on a rapid decline in interest rates, against which some CNB Bank Board members have warned. Similarly, reduced global risk aversion would probably weaken the US dollar and, conversely, help currencies such as the Czech koruna. By contrast, weaker domestic macroeconomic data could act in the opposite direction. According to some of the analysts, depreciation of the koruna to CZK 25.00 to the euro during the first half of this year cannot yet be ruled out, but it should appreciate below its current levels by the start of next year. For mid-January 2025, the average estimate is that the koruna will be at CZK 24.58 to the euro.

The CNB's winter forecast assumes the koruna exchange rate to be CZK 24.4 to the euro in 2025 Q1.

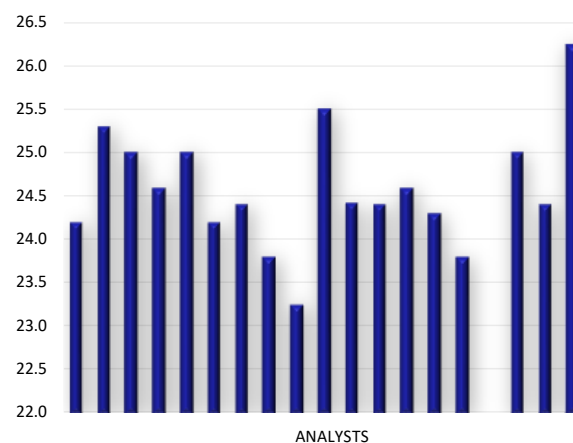
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

January 2024	current year	current+1Y
minimum	4.1	4.0
average	6.3	5.2
maximum	7.6	6.2

FORECAST FOR NOMINAL WAGE GROWTH

(%)

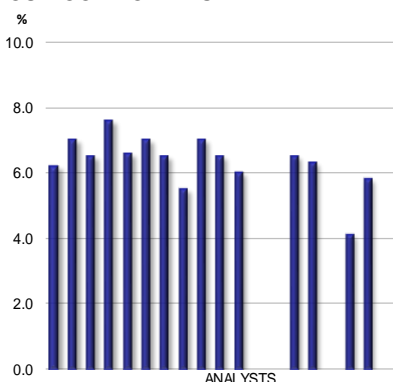
Date of Prediction	current year	current+1Y
I.23	8.1	5.5
II.23	7.9	5.9
IV.23	8.2	6.0
VI.23	8.7	6.5
IX.23	8.8	6.8
XI.23	8.1	6.5
XII.23	7.8	6.5
I.24	6.3	5.2

According to the Labour Office of the Czech Republic, the share of unemployed persons remained unchanged year on year last December. In month-on-month terms, however, it rose by 0.2 percentage point to 3.7%, mainly because of the termination of seasonal work. In an international comparison, unemployment in the Czech Republic (2.9% according to Eurostat) is still among the three lowest in the European Union (6% on average). Although employers are still interested in hiring (mainly in technical and blue-collar professions, and in the long term also craftsmen), the number of job seekers exceeded the number of vacancies for the first time in almost a year. The relatively high profitability of firms and persisting labour shortages should continue to support nominal wage growth. However, the latter might not be as large as suggested by the previous estimates. This is because the December estimate of 6.5% has been revised downwards to 6.3%. Some of the analysts believe that the mismatch between the share of profits and wages in added value will record a gradual correction as a result of weak demand and continued wage growth. However, no marked rise in unemployment due to weaker domestic economic performance is expected yet, but wage growth is expected to slow to 5.2% on average next year.

According to the CNB's winter forecast, nominal wages are expected to rise by 5.8% in 2024 and 2025.

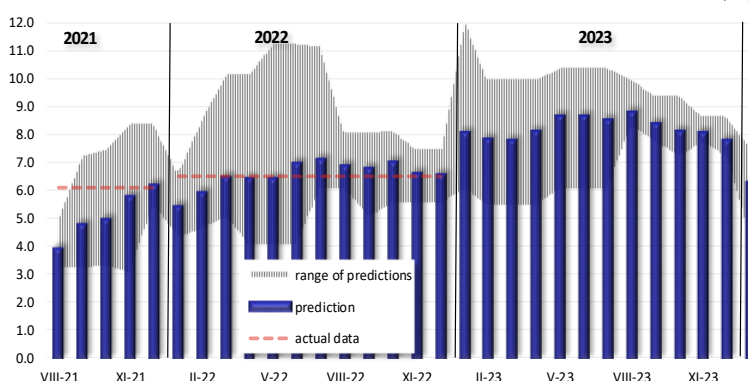
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

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



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