Financial Market Inflation Expectations

2/2024

Czech National Bank —— Financial Market Inflation Expectations —— 2/2024

CZECH NATIONAL BANK

Contents

I. SUMMARY

Fourteen domestic and three foreign respondents took part in the February survey of financial market inflation expectations. The data reveal that inflation expectations one year ahead are continuing to fall. The three-year outlook remains stable. The analysts' economic growth forecasts are less optimistic on average for both this year and the next. A large majority of the respondents meanwhile expect policy rates to be cut by 50 basis points at the CNB Bank Board's next monetary policy meeting. The forecasts for interbank reference rates and interest rate swap rates were moved downwards again. The opinion on the future path of the exchange rate of the koruna reflects its recent depreciation on the foreign exchange market. According to the analysts, nominal wage will record lower growth this year than they thought in January. The wage growth 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 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												
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 February 2024

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

February 2024	CPI 1Y	CPI 3Y
minimum	1.1	2.0
average	2.4	2.3
maximum	3.6	3.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS 1Y	ANALYSTS 3Y	CNB (%) 1Y
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	1Q: 1.7
II.24	2.4	2.3	

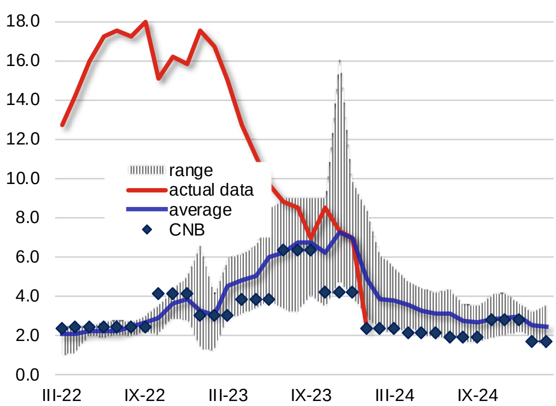
The January inflation outturn came as a pleasant surprise – the consumer price index rose by just 2.3% year on year, i.e. 4.6 percentage points less than in December of last year. It was the lowest figure since March 2021. This was due mainly to the base effect of repricing last January and to prices in housing categories. Goods prices went up by 0.7% overall, while services prices increased by 5.1%. In month-on-month terms, the price index rose by 1.5%, again primarily because of changes in housing-related prices (electricity, water supply and sewerage, etc.). Goods prices increased by 1.7% and services prices by 1.3% month on month overall. Although markedly higher inflation had generally been expected in January, the analysts' one-year forecast in our survey decreased by only 0.1 percentage point to 2.4%. It is therefore possible that some of the analysts had not had time to update their projections and the January reading will not be fully reflected in their forecasts until the next survey. The range of the one-year forecasts widened, owing to a reduction in the minimum value and an increase in the maximum one. The three-year forecast is unchanged at 2.3%. The range of the forecasts also remains the same at this time horizon.

Inflation could slow as a result of base effects again in February, according to the analysts. As economic growth remains weak, inflation pressures are unlikely to build up again in the near term and consumer price inflation will probably stay close to the CNB's 2% target over the coming months. The only significant upside risk to inflation at the moment is the koruna exchange rate, which could make imports more expensive. Even the recovery expected this year is unlikely to be robust enough to generate sizeable inflationary pressures. The latter should be curbed by an expected rise in the unemployment rate and the CNB Bank Board's cautious approach to cutting policy rates. Developments abroad are not expected to exert strong inflationary pressures either.

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

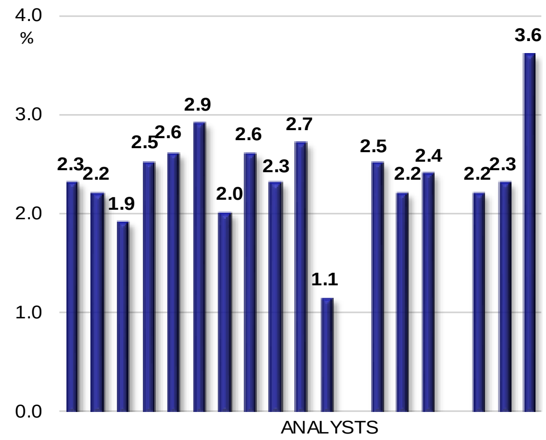
CONSUMER PRICE INDEX

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
(%)

February 2024	current year	current+ 1Y
minimum	0.7	1.7
average	1.2	2.6
maximum	2.4	4.3

FORECAST FOR GDP GROWTH
(%)

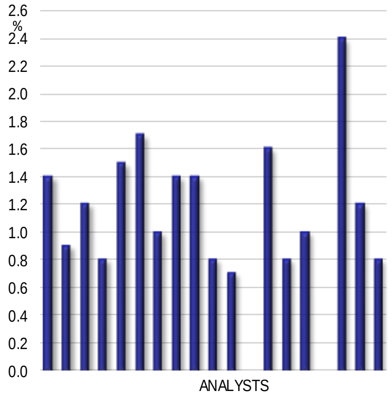
Date of Prediction	current year	current+1Y
II.23	0.2	2.6
IV.23	0.1	2.6
VI.23	0.3	2.5
IX.23	0.1	2.3
XI.23	-0.3	1.8
XII.23	-0.4	1.4
I.24	1.4	2.7
II.24	1.2	2.6

According to a preliminary estimate, GDP fell by 0.2% year on year in 2023 Q4. The negative effect of declining investment outweighed growth in external demand. In quarter-on-quarter terms, GDP grew by 0.2%. According to the CZSO, this was also due mainly to external demand and – for the first time in a long time – to household final consumption expenditure as well. The output of the Czech economy was 0.4% lower in 2023 as a whole than in 2022. It was weighed down by a decrease in final consumption expenditure of households and by change in inventories. On the other hand, external demand had a positive effect. Gross value added was supported primarily by manufacturing and information and communication activities, while trade, transport and accommodation and food service activities had a negative influence.

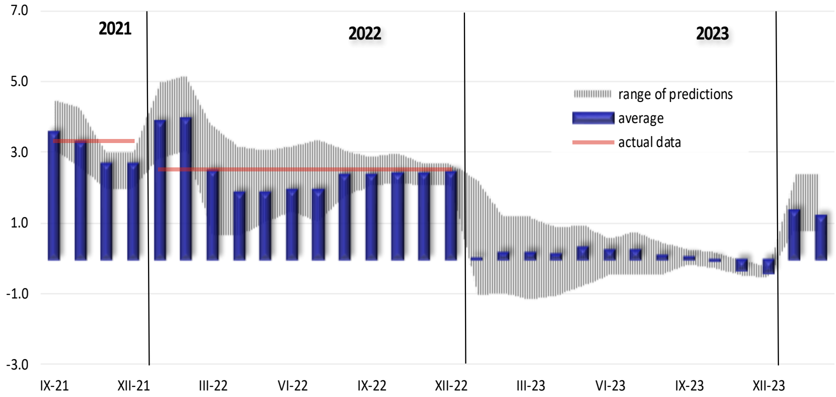
The analysts' view is that although economic activity was up on previous quarters, it remains very subdued. They expect it to stay similarly muted in the near future. The average forecast for the economic recovery in our survey has been revised for both 2024 and 2025. For 2024, the analysts expect 0.2 percentage point lower growth than they did in January, predicting that GDP will grow by 1.2%. Household consumption has probably rebounded and will gradually recover amid low inflation and rising real wages. External demand will also boost domestic growth. The range of the estimates for this year narrowed slightly due to a decrease in the minimum value. The outlook for domestic economic activity in 2025 was also reduced, although by only 0.1 percentage point to 2.6%. The extreme forecasts for next year are unchanged, so their range also remains the same. However, the analysts still see substantial risks that could lead to lower-than-expected GDP growth in the Czech Republic. These risks include the geopolitical situation, a cooling of the global economy and too-tight CNB monetary policy.

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

(%)

February 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	5.50	3.00	4.35	3.00	3.00	2.20	2.90	2.00
average	5.75	3.66	4.90	3.50	3.41	3.21	3.45	3.27
maximum	6.00	4.50	5.85	3.80	3.60	3.75	3.70	3.85

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
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
II.24	5.75	3.66	4.90	3.50	3.41	3.21	3.45	3.27

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.2.	6.25	4.93	3.36	3.47

A large majority of the respondents (11 out of 17) think that at its March meeting, the CNB Bank Board will continue to lower its policy rates rapidly and cut the 2W repo rate by 50 basis points to 5.75%. Only three respondents believe it will take a more cautious approach and reduce the key rate by just 25 basis points to 6.00%. The analysts naturally see the lower inflation reading in January as the main reason for easing monetary policy now that the risk of major repricing in January has disappeared. The size of the rate cut at the CNB Bank Board's February meeting also probably played a role. Some of them do not entirely rule out the possibility of rates being lowered by 75 or even 100 basis points at the March meeting. The issue, however, is the koruna's exchange rate path and the CNB Bank Board's view of it. If the Board views the koruna's recent depreciation as an upside risk to inflation, it will probably ease monetary policy less forcefully. The analysts currently expect the 2W repo rate to be at 3.66% in mid-February 2025 on average.

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

(%)

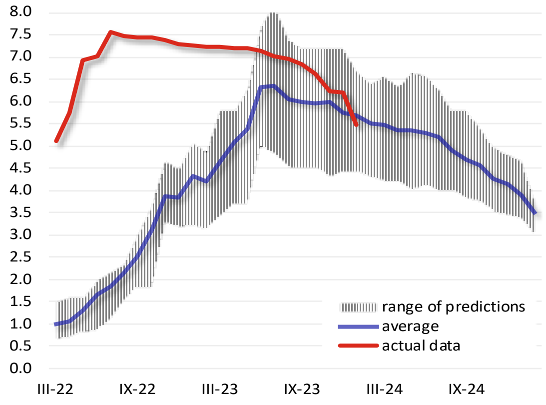
2W repo rate level in 1Y (%)	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.25
number of analysts - current survey	3	1	2	6	4	0	1	0	0	0
-previous survey	1	0	2	2	6	3	3	1	0	0

The downward trend in market interest rates continues, with interbank PRIBOR reference rates again recording a larger shift (the 12M rate -51 basis points). The 5Y swap rate decreased by 24 basis points and the 10Y rate by 14 basis points. The average rate forecasts fell by 52–21 basis points. Again, the one-month estimates mostly showed greater movement than the one-year ones, as did shorter compared to longer maturities. It is meanwhile apparent from the data that the analysts still see room for both interbank reference rates and IRS rates to decline further one year ahead.

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

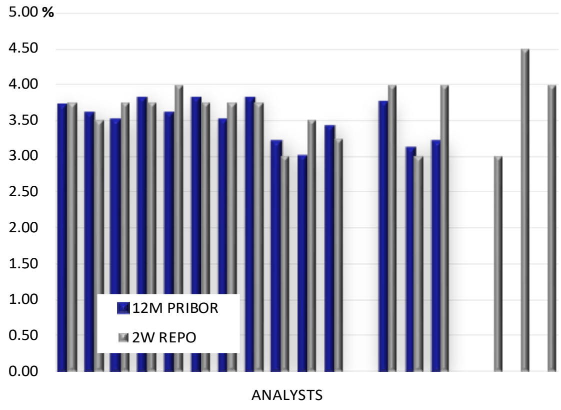
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



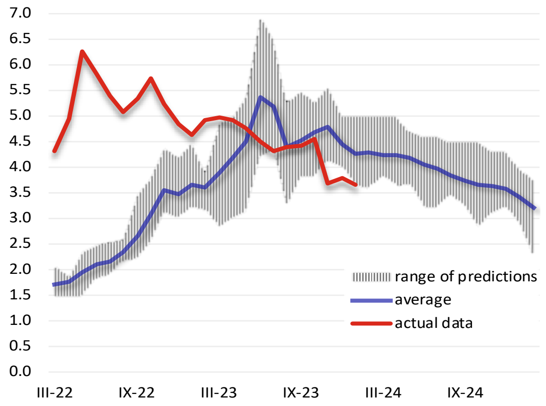
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



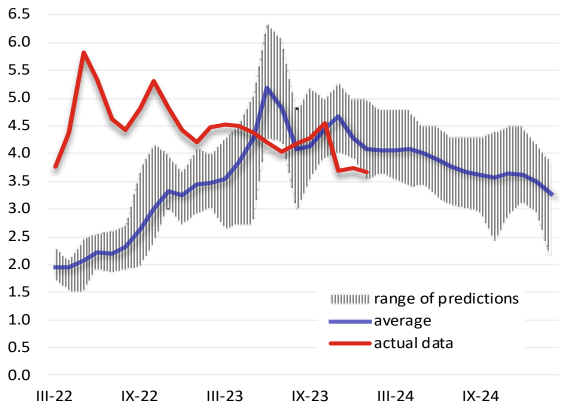
5Y IRS AT 1Y

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
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
II.24	25.25	24.78

EXCHANGE RATE FORECAST

February	EUR/CZK	
2024	1M	1Y
minimum	24.60	23.75
average	25.25	24.78
maximum	25.50	26.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.2.	25.42

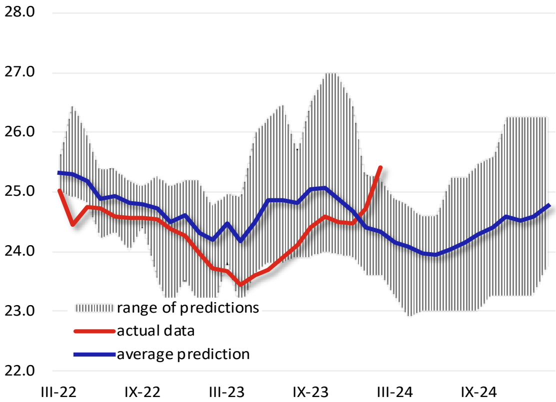
The koruna's exchange rate against the euro on the foreign exchange market has weakened since the cut-off date of the January survey. The depreciation accelerated after the CNB Bank Board's February meeting, which was surprisingly dovish for part of the market. The koruna was thus trading at CZK 25.42 to the euro on the cut-off date of the February survey, as against CZK 24.72 a month earlier. This was its weakest rate since the end of 2021. The analysts adjusted their forecasts to this development by moving them to a weaker level. However, they consider CZK 25.50 to the euro to be too weak and expect the rate to correct to CZK 25.25 to the euro at the one-month horizon.

The analysts feel that the interest rate differential will remain a significant factor for the koruna exchange rate going forward. It was undoubtedly a factor in the recent depreciation, as the size of the CNB's interest rate cut in February took the market largely by surprise, while the expected start to the process of reducing policy rates abroad was postponed. US inflation was a major contributor to this – unlike Czech inflation, it exceeded estimates in the case of both consumer prices and producer prices. The analysts believe that the statements made by some of the board members, as well as the minutes of the February meeting, indicate that the CNB will pay attention to the koruna exchange rate, even though the Governor's comments at the press conference following the meeting suggested otherwise. Moreover, a rapid reduction in policy rates is already factored into market expectations. The analysts therefore generally expect the koruna to be stronger one year ahead, estimating it to stand at close to CZK 24.78 to the euro in mid-February 2025.

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

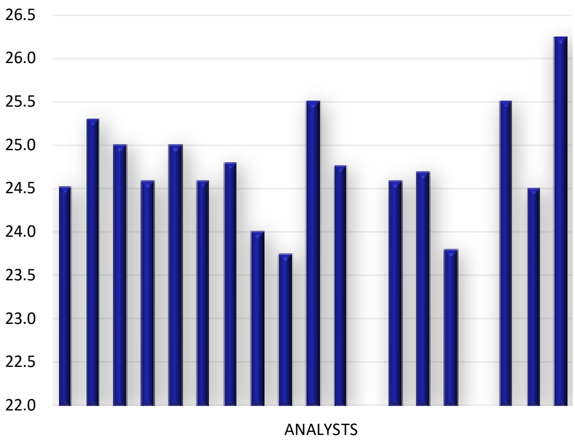
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH
(%)

February 2024	current year	current+1Y
minimum	4.1	4.0
average	6.2	5.2
maximum	7.0	6.2

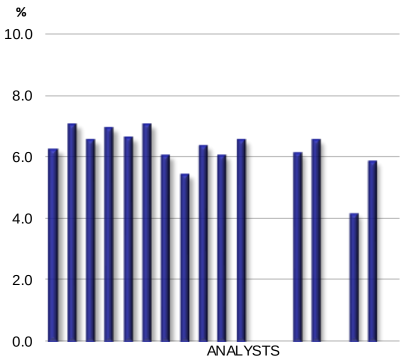
FORECAST FOR NOMINAL WAGE GROWTH
(%)

Date of Prediction	current year	current+1Y
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
II.24	6.2	5.2

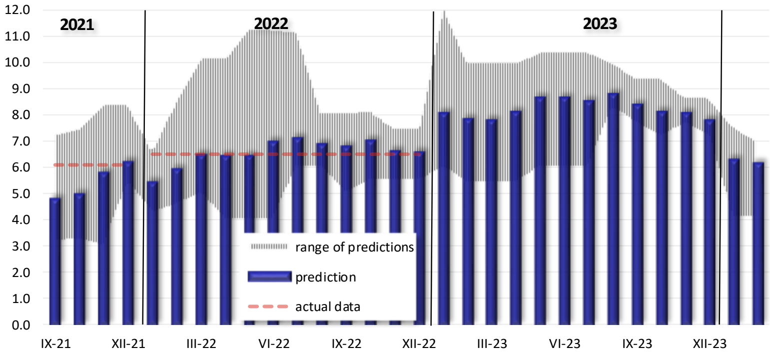
According to the Czech Labour Office, the number of registered job seekers went up by 16,319 to 295,546 in January. This is 28,763 more than the number of registered vacancies. The reasons for this include a drop in seasonal work (in construction, for example), the termination of employment contracts and the temporary suspension of self-employment. The share of unemployed persons thus rose by 0.3 percentage point month on month to 4.0%. This is 0.1 percentage point higher than a year ago. The tightness in the labour market is thus gradually beginning to ease. Although the latest data is subject to seasonality, January was the second consecutive month in which the number of job seekers exceeded the number of vacancies. This has hardly ever happened over the last six years. Against the background of rising unemployment and lower expected inflation, the analysts have slightly revised the growth rate of nominal wages they expect this year. According to the updated data, they expect on average that nominal wages will rise by 6.2% in 2024, which is 0.1 percentage point less than in the January survey. By contrast, the outlook for 2025 is unchanged; on average, wage growth is expected to slow to 5.2%.

According to the CNB's winter forecast, nominal wages are expected to rise by 5.8% in both 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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