

# Financial Market Inflation Expectations

— 3/2024



Czech National Bank — Financial Market Inflation Expectations — 3/2024

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## I. SUMMARY

Sixteen domestic and two foreign respondents sent in their contributions to the March survey of financial market inflation expectations. The survey results reveal that predicted inflation decreased at both the one-year and three-year horizons and is very close to the CNB's 2% inflation target. The estimated GDP growth rate for this year is also lower, while the outlook for next year is unchanged. Most of the respondents were right to expect the CNB Board meeting in March to result in cutting the 2W repo rate by 50 basis points to 5.75%. The opinion on the expected koruna exchange rate at the one-month horizon was virtually unchanged and the koruna is expected to be slightly stronger at the one-year horizon. The forecast for nominal wage growth this year is unchanged, whereas the outlook for next year is slightly less optimistic.

<b>DOMESTIC ANALYSTS</b>	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			+									
<b>FOREIGN ANALYSTS</b>												
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 March 2024

## II. INFLATION

### FORECAST FOR YY CPI GROWTH

(%)

March 2024	CPI	
	1Y	3Y
<b>minimum</b>	0.9	2.0
<b>average</b>	2.1	2.2
<b>maximum</b>	2.7	2.8

### 1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
III.23	3.7	2.6	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
II.24	2.4	2.3	1Q: 1.7
III.24	2.1	2.2	

In February, inflation in the Czech Republic slowed by 0.3 percentage point to 2.0%, i.e. exactly to the target set by the CNB. This was mainly driven by developments in vegetable prices within food prices and by slower growth in prices of alcoholic beverages and tobacco. Goods prices increased by 0.2%, while services prices increased by 5.2%. In month-on-month terms, consumer prices rose by 0.3%. Growth in prices of fuels and package holidays had a large effect. Goods prices were flat month on month, while prices in services rose by 0.7%.

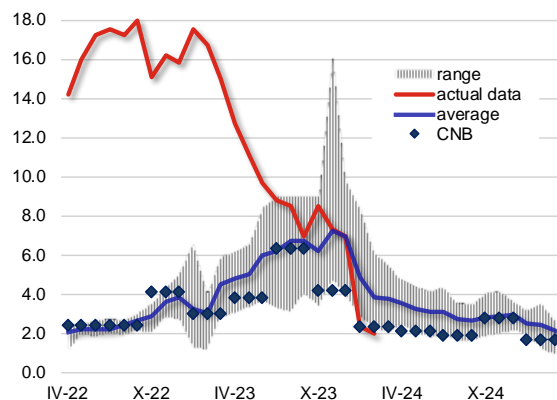
The analysts' view of future inflation was revised downwards at both the one-year and three-year horizons. The average one-year forecast thus shifted downwards by 0.3 percentage point to 2.1%. The correction was more moderate at the three-year horizon, with the average forecast falling by 0.1 percentage point to 2.2%. The range of individual estimates narrowed in both cases, owing mainly to a decline in the maximum estimates.

The analysts believe that inflation will be relatively stable in the months ahead. During the summer, it could slow further below the 2% inflation target, falling below 1.5% according to some estimates. This would help stabilise general inflation expectations in the economy. Inflation should return to the inflation target or slightly above it in the second half of the year owing to the year-on-year effect. In any case, analysts are of the opinion that annual inflation should remain within the tolerance band this year. Consumer price inflation is expected to be close to 2% next year, with the inflationary effect of the economic recovery being dampened by an expected fall in energy prices for households. However, current price developments in the services sector, i.e. the fundamental building block of core inflation, do not go unnoticed. The exchange rate of the koruna is also attracting some attention. In both cases, this is an upside risk to inflation, which, according to the analysts, may have an impact on the CNB's decisions regarding key interest rates.

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

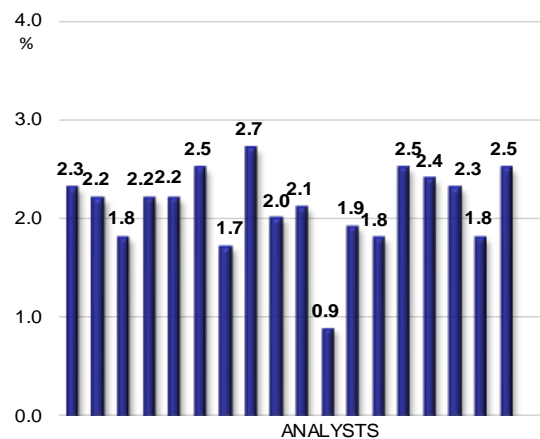
### CONSUMER PRICE INDEX

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

(%)

March 2024	current year	current+ 1Y
<b>minimum</b>	-0.4	1.2
<b>average</b>	1.1	2.6
<b>maximum</b>	2.4	4.5

#### FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
III.23	0.2	2.7
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

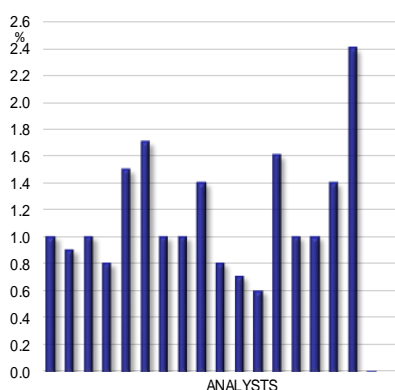
The revised GDP growth estimate for Q4 of last year confirmed the preliminary estimate. The domestic economy contracted by 0.2% year on year and expanded by 0.2% quarter on quarter. Overall, it decreased by 0.4% in 2023. On the demand side, household consumption, investment and external demand were the main quarterly growth factors in Q4, while government expenditure and change in inventories had a negative effect. In terms of gross value added, the drivers were industry and real estate activities, while the construction and financial sectors declined. In year-on-year terms, the growth was again driven mainly by industry and information and communication activities, while transport, hospitality and construction all declined. As regards the demand side, the contributions of external demand and household consumer spending were positive.

The analysts' view of future GDP growth saw no major changes. A gradual economic recovery is expected overall, slightly smaller this year than in the previous survey. The average economic growth forecast for 2024 saw a slight change, down by 0.1 percentage point to 1.1%. The range of individual estimates widened significantly due to a sharp decline in the minimum values. The outlook for next year is unchanged on average, so the expected GDP growth rate remains at 2.6%. The range of extreme estimates has also widened, but this time both with an increase in the maximum value and a fall in the minimum value.

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

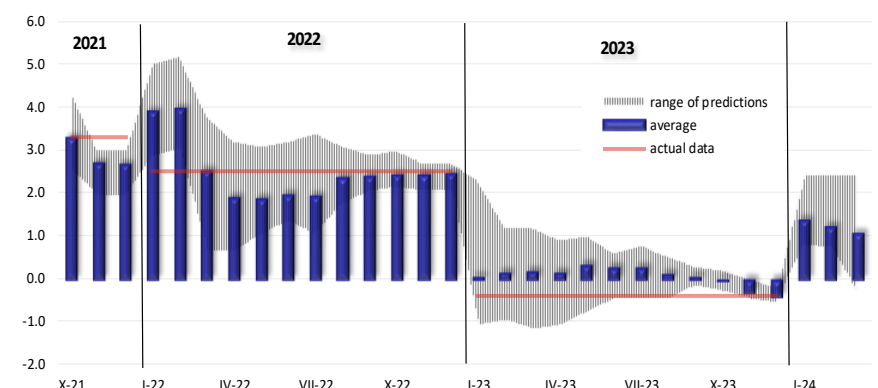
#### INDIVIDUAL 1Y PREDICTIONS

##### 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

(%)

March 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
<b>minimum</b>	5.25	3.00	4.30	3.04	3.00	2.30	3.04	2.30
<b>average</b>	5.71	3.54	4.61	3.45	3.37	3.21	3.47	3.32
<b>maximum</b>	6.25	4.25	5.90	3.80	3.52	3.90	3.80	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
III.23	7.00	5.59	7.20	5.46	4.95	4.24	4.49	4.07
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

### ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
<b>15.3.</b>	6.25	4.84	3.39	3.50

A large majority of the respondents (13 out of 18) were rightly expecting the CNB Board to continue to cut key interest rates rapidly at its March meeting and to reduce the 2W repo rate by 50 basis points to 5.75%. Four respondents believed that the CNB would ease monetary policy even more significantly. Three estimated a reduction in the 2W repo rate of 75 basis points to 5.50% and one even estimated a cut of 100 basis points to 5.25%. By contrast, one analyst estimated that the 2W repo rate would remain at its original level, i.e. 6.25%.

The main speculation concerned whether the Board would cut rates by 50 or 75 basis points. An excessively high level of key rates amid low actual inflation and weak economic performance or the prospect of weaker external demand argued in favour of a deeper decline. By contrast, inflationary pressures stemming from a weaker koruna or the potential rise in core inflation due to dynamic growth in services prices were an argument for more cautious rate cuts. In addition, the Bank Board's communications (especially E. Zamrazilová, J. Kubiček and J. Procházka) also signalled a gradual easing of monetary policy given the evolution of the koruna exchange rate and the need to extinguish the last embers of inflation.

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

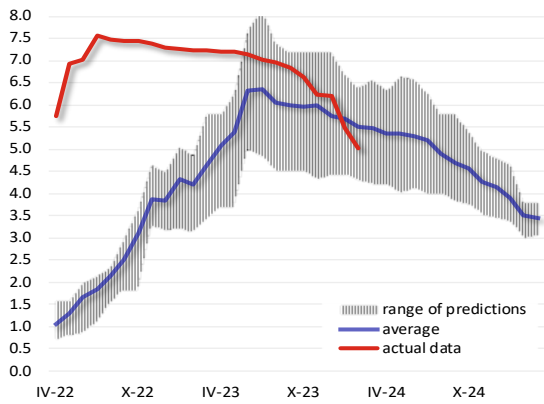
(%)

2W repo rate level in 1Y (%)	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75
<b>number of analysts - current survey</b>	3	2	5	6	1	1	0	0
<b>-previous survey</b>	3	1	2	6	4	0	1	0

The downward trend in money market interest rates is continuing in connection with the outlook for key interest rates, while the 12M PRIBOR interbank reference rate has declined by 9 basis points since the February survey. The forecast for the 12M PRIBOR also shifted downwards, more so at the one-month horizon (-5 basis points for the one-year forecast, as against -29 basis points for the one-month forecast). Market rates on interest rate derivatives rose slightly (by 3 basis points both at 5Y and 10Y IRS). The average swap rate forecasts changed in a mixed way between -4 and +5 basis points. At the same time, the analysts expect the positive slope of the yield curve to be slightly higher on average at both the one-month and one-year horizons than they expected a month ago.

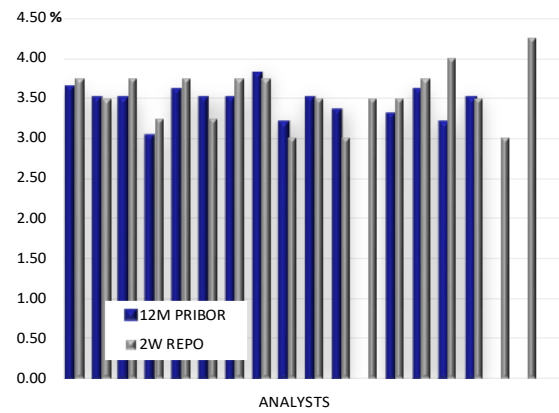
**12M PRIBOR AT 1Y**

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



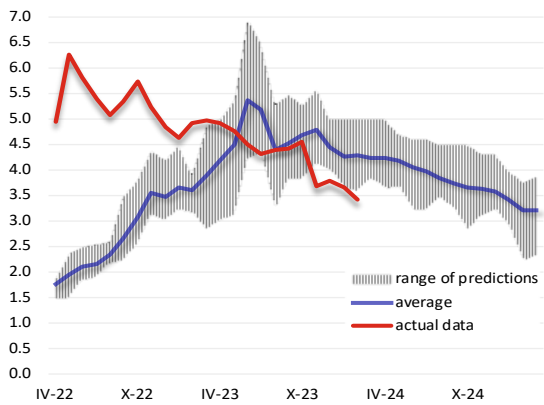
**2W REPO AND 12M PRIBOR AT 1Y**

PREDICTIONS OF INDIVIDUAL ANALYSTS



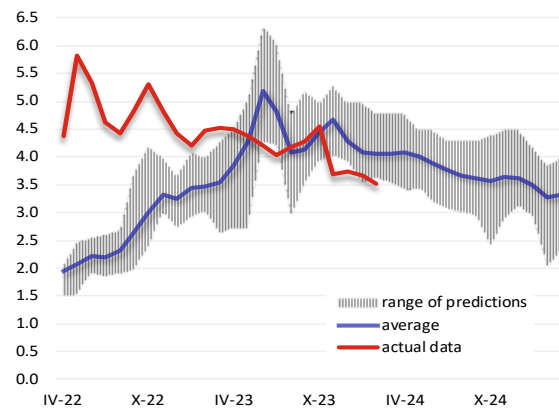
**5Y IRS AT 1Y**

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
III.23	23.81	24.15
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

### EXCHANGE RATE FORECAST

March 2024	EUR/CZK	
	1M	1Y
minimum	25.10	23.80
average	25.26	24.67
maximum	25.50	25.50

### ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.3.	25.16
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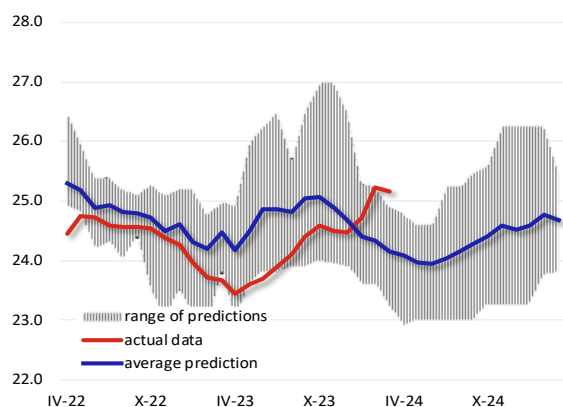
The exchange rate of the koruna against the euro on the foreign exchange market appreciated slightly since the cut-off date of the previous survey, moving from CZK 25.42 to CZK 25.16 to the euro between mid-February and mid-March. However, from this level it subsequently moved back to weaker levels. The analysts kept their monthly forecast virtually unchanged on average and believe that the koruna exchange rate could be close to CZK 25.26 to the euro in mid-April this year. Subsequently, it should take a slight appreciation trend, which will allow it to break the level of CZK 25.00 to the euro and lead it to CZK 24.67 looking at the one-year horizon. That is 11 hellers stronger than the February surveys showed.

The analysts believe that the depreciation of the koruna in recent months was due to a decrease in key interest rates, which was faster in February than expected by the market. This is against the backdrop of the weaker expected performance of the Czech economy. The surprisingly large slowdown in inflation also undoubtedly played a role and, to some extent, possibly also the CNB's communication that the weakening of the koruna did not significantly affect monetary policy decisions. However, the analysts believe that a weaker koruna may become an inflationary factor, so they expect the CNB to support it verbally or by cutting key interest rates more slowly. This is in line with the rhetoric of some CNB Bank Board members and the 50 basis point cut in key interest rates in March. As indicated above, analysts have long been expecting the koruna exchange rate to start a gradual appreciation trend, driven by a recovery in the domestic economy, which might happen already in the second half of this year. However, a less pronounced acceleration of economic growth still remains a risk. A worsening of geopolitical developments is still a potential factor that could significantly increase the volatility of the koruna exchange rate.

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

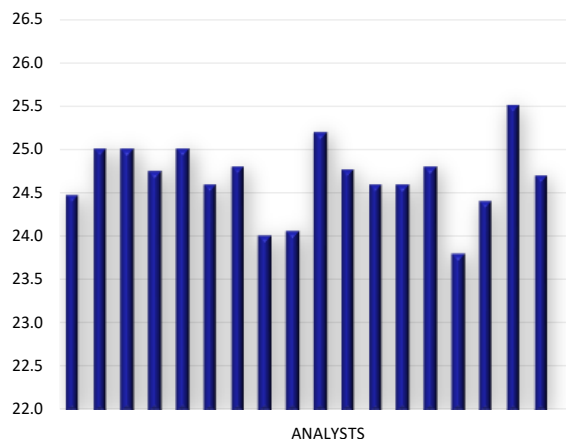
### EUR/CZK

#### ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



### EUR/CZK AT 1Y

#### PREDICTIONS OF INDIVIDUAL ANALYSTS





## VI. NOMINAL WAGES

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

March 2024	current year	current+1Y
minimum	4.1	4.0
average	6.2	5.1
maximum	7.5	5.8

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
III.23	7.8	6.0
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

According to the Labour Office, the number of registered job seekers increased to 296,107 in February 2024. This is 27,528 more than the number of job vacancies. The situation is very similar to January, when seasonal or fixed-term work is being terminated or interrupted, while unemployment is not actually falling due to the start of new seasonal work. The share of unemployed persons was unchanged month on month at 4% at the end of February. This is 0.1 percentage point higher than in the same period last year. In international comparison, it is the third lowest in the EU.

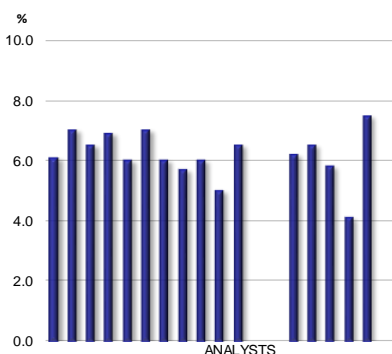
The average gross monthly nominal wage in 2023 Q4 was CZK 46,013, up by CZK 2,734 or 6.3% year on year. As consumer prices increased by 7.6% over the same period, the average wage in real terms decreased by 1.2%. In quarter-on-quarter terms, seasonally adjusted wage growth was 1.5%. The average wage for 2023 as a whole was CZK 43,341, up by CZK 3,024 (7.5%) on the previous year. In real terms, however, this represents a decrease of 2.9%. According to some of the analysts, the publication of these data definitively released concerns of a wage-price spiral.

According to comments, developments in the period ahead in an environment of relatively low unemployment will depend heavily on employees' ability to demand compensation in terms of wage increases for the previous deep drop in the purchasing power of their earnings. On average, it is estimated that wage growth will be 6.2% this year, the same as in the previous survey. The outlook for next year is 5.1%, 0.1 percentage point lower than in February.

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

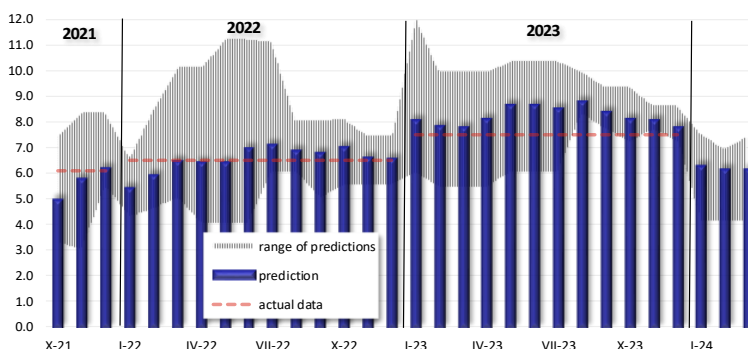
### INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



### NOMINAL WAGE GROWTH

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



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