

Financial Market Inflation Expectations

6/2024



CNB CZECH
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Czech National Bank — Financial Market Inflation Expectations — 6/2024

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I. SUMMARY

Sixteen domestic and three foreign analysts took part in the June survey of financial market inflation expectations. The data suggest that there has been no change in the expected path of inflation this year amid slightly lower expected economic activity. The economic growth outlook for next year also remained unchanged. In the June survey, most respondents expect the 2W repo rate to fall by 25 basis points to 5.00% at the CNB's monetary policy meeting at the end of June. The exchange rate outlook predicts a very gradual appreciation in view of the likely slower pace of decline in key interest rates. Expected nominal wage growth this year and the next increased significantly, reflecting the publication of wage statistics for 2024 Q1.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
Jiří Polanský, Česká spořitelna	+	+	+	+	+	+						
Jan Vejrnělek, 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			+		+	+						
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, 26 June 2024

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

June 2024	CPI	
	1Y	3Y
minimum	0,9	1,7
average	2,2	2,2
maximum	2,9	2,6

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
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
VI.24	2,2	2,2	

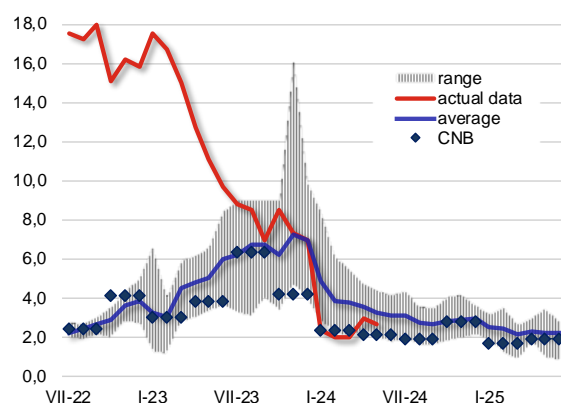
The domestic consumer price index surprised in May with lower values than the market consensus, stagnating month on month, which was 0.7 percentage point less than in April, while the year-on-year dynamic showed an increase of 2.6%, which was 0.3 percentage point less than in the previous month. The slowdown in the growth rate in May is also due to a different inflation structure, as the April rise in food and fuel prices was not repeated. By contrast, both decreased month on month in May, fuel prices more so, being aided by a decline in crude oil prices on global commodity markets. Goods prices fell by 0.2% month on month overall, while services prices recorded an increase of 0.2%. Despite a slight slowdown in inflation growth, the analysts' forecasts were unchanged on average compared to the May survey, remaining anchored at 2.2% for the third month in a row at both the one-year and three-year horizons. The range of individual estimates narrowed for both the one-year and three-year forecasts, in both cases due to a decline in the maximum value while the minimum stagnated.

According to the analysts, it will mainly be continued brisk growth in services prices that will keep inflation above the central bank's target in the months ahead. However, according to the CZSO, their month-on-month increase in May, especially in the catering and accommodation segment, may also be related to the impact of the Ice Hockey World Championship in the Czech Republic, so a slight correction of these prices could occur in June. Food prices may also represent another upside risk to inflation due to climate change and its adverse impacts on global harvests. A moderation of inflation will continue to be hampered in the future mainly by a recovery in household demand in the context of real wage growth. The improving economic situation, together with the lower base from last year, could even be reflected in a short-term exceeding of the upper boundary of the tolerance band around the inflation target in the second half of the year. On the other hand, the tighter monetary policy will gradually make itself felt, and should prevent a faster rise in aggregate demand thanks to the announced slower decline in key interest rates.

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

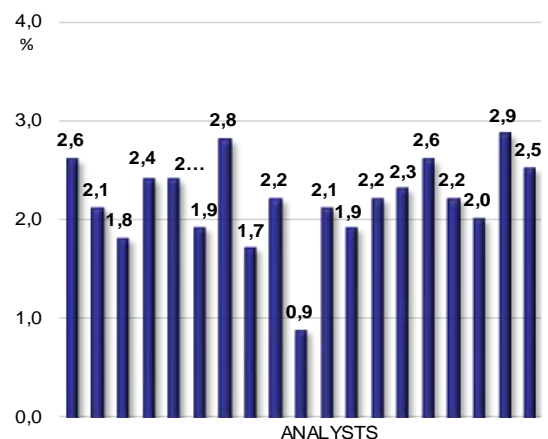
CONSUMER PRICE INDEX

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

(%)

June 2024	current year	current+ 1Y
minimum	1,0	2,0
average	1,3	2,7
maximum	1,7	4,3

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
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
VI.24	1,3	2,7

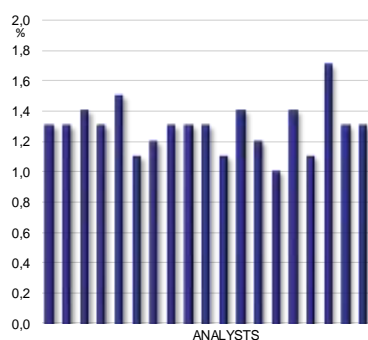
According to a revised estimate from the CZSO, domestic GDP grew by 0.3% quarter on quarter and by 0.2% year on year in the first quarter of this year, in both cases 0.2 percentage point less than the preliminary estimate. The data thus suggest that the Czech economy has recovered from stagnation and returned to growth, albeit at a more moderate pace. The strongest drivers were household final consumption expenditure and government final consumption expenditure. By contrast, gross fixed capital formation remained the biggest burden. The revised figures, which ultimately turned out to be worse than the market estimate, led the analysts to only partially adjust their expectations towards worse levels. The economic growth forecast for this year decreased by 0.1 percentage point to 1.3%, while the outlook for next year remained unchanged at 2.7%. The range of individual estimates for both this year and the next narrowed slightly, both due to a decrease in maximum values.

In line with the analysts' expectations, economic growth in 2024 Q1 was driven by domestic demand. Growth in real wages, significantly helped by the unwinding of high inflation, is having a positive effect on rising household consumption. Improving sentiment among businesses and consumers, who are generally more looking forward to a recovery in the economy and are less worried about further price increases, is also fostering growth. By contrast, weak external demand, owing to subdued developments in Germany, was a drag on economic activity. In addition to domestic consumption, GDP growth is expected to be driven by foreign trade in the rest of this year. However, its contribution to growth will be weaker due to stronger imports for consumption and investment purposes connected with the recovery in the domestic economy, which will start to emerge. The still very high inventories, expected to decline only gradually, will tend to work against GDP growth.

According to the CNB's spring forecast, GDP will grow by 1.4% in 2024 and accelerate to 2.7% in 2025.

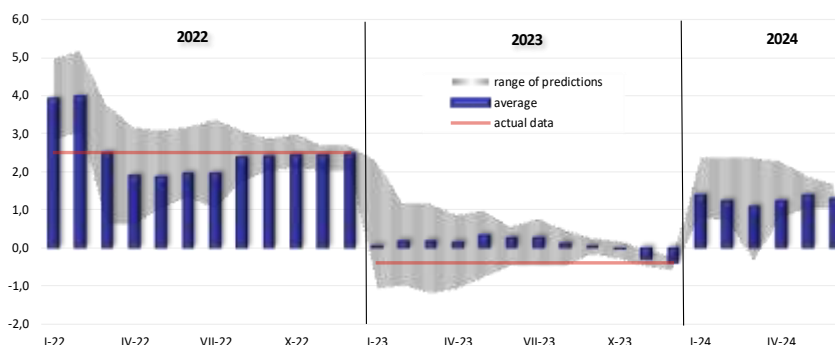
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



GDP GROWTH AT END OF YEAR

AVERAGE AND RANGE OF PREDICTIONS



IV. INTEREST RATES – 2W REPO, PRIBOR, IRS

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
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
VI.24	4,93	3,54	4,47	3,59	3,86	3,53	3,95	3,63

FORECASTS: MINIMUM, AVERAGE AND MAXIMUM 2W REPO, 12M PRIBOR, 5Y AND 10Y IRS

(%)

June 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	4,75	3,00	4,00	3,20	3,50	2,90	3,70	3,00
average	4,93	3,54	4,47	3,59	3,86	3,53	3,95	3,63
maximum	5,00	4,00	4,95	4,00	4,05	4,03	4,20	4,20

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.6.	5,25	4,59	4,02	4,03

The results of the June survey show that all 19 analysts expect key interest rates to fall at the CNB Bank Board's monetary policy meeting in June. Fourteen of them expect a decrease in the 2W repo rate of 25 basis points to 5.00% and five of 50 basis points to 4.75%. This is in line with the recent rhetoric of Bank Board representatives, which allows for both variants. The difference between expected inflation and rates, which is not so large, speaks in favour of a slower decline in key interest rates. Moreover, strong inflation pressures are still emerging in the Czech economy, causing the CNB to remain more cautious. By contrast, the fact that monetary policy remains restrictive due to both current and expected inflation argues for a faster decrease in interest rates. The slightly stronger koruna exchange rate against the forecast could also play a role.

At the one-year horizon, the analysts expect the 2W repo rate to fall gradually at a somewhat faster pace than in the previous survey. The range of individual estimates was mostly concentrated within the 3.50%–3.75% range. The number of respondents expecting lower rates next June also increased.

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

(%)

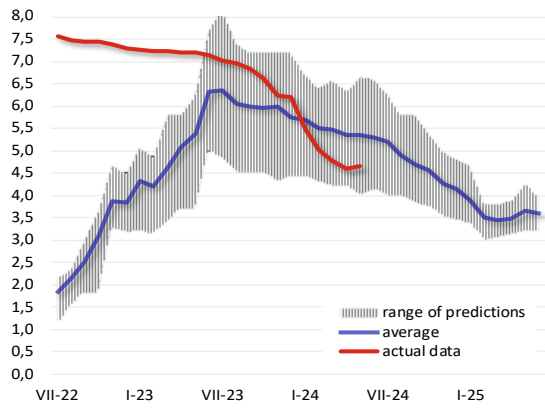
2W repo rate level in 1Y (%)	3,00	3,25	3,50	3,75	4,00
number of analysts - current survey	3	1	8	4	3
-previous survey	2	0	6	6	5

The annual PRIBOR interbank market reference rate had decreased by 6 basis points by the cut-off date for the survey. By contrast, swap rates increased (5Y by 14 basis points and 10Y by 15 basis points). The analysts' average forecasts changed only very slightly when it comes to reference interbank rates, which decreased by 7 basis points, while for swap rates the development was mixed (5Y up 5 basis points and 10Y down 2 basis points). However, these changes do not alter the overall scenario of an expected decline in money rates and swap rates over the one-year horizon, as the current values of the individual rates are visibly above the one-year forecasts. However, they also take into account the expected slowdown in the pace of interest rate cuts and the CNB's cautious approach.

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

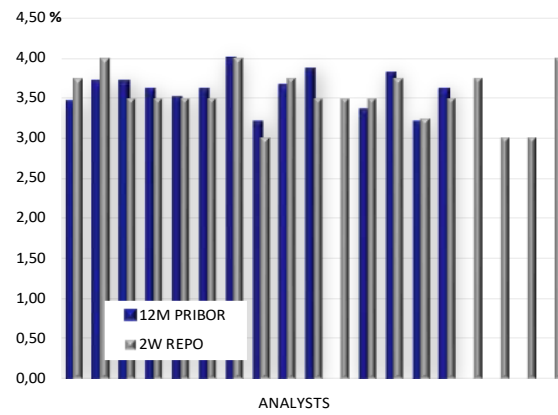
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



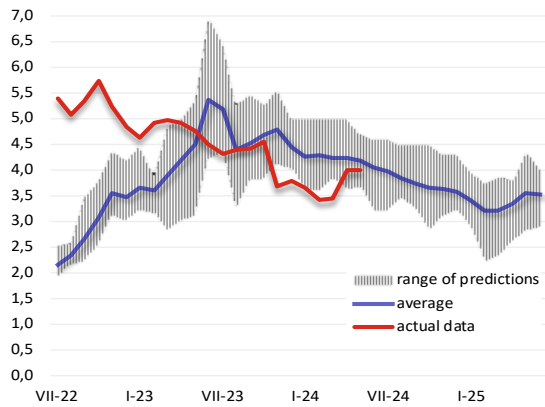
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



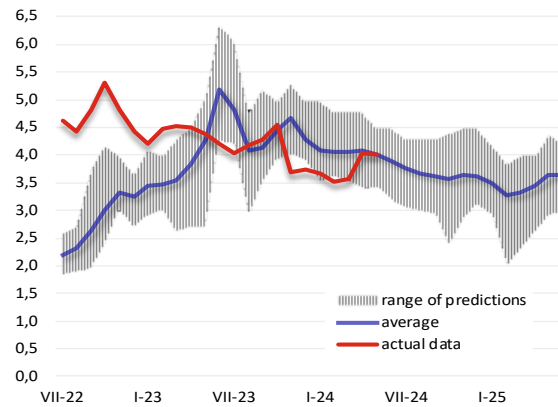
5Y IRS AT 1Y

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
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
VI.24	24,73	24,57

EXCHANGE RATE FORECAST

June 2024	EUR/CZK	
	1M	1Y
minimum	24,65	23,80
average	24,73	24,57
maximum	24,82	25,75

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.6.	24,74
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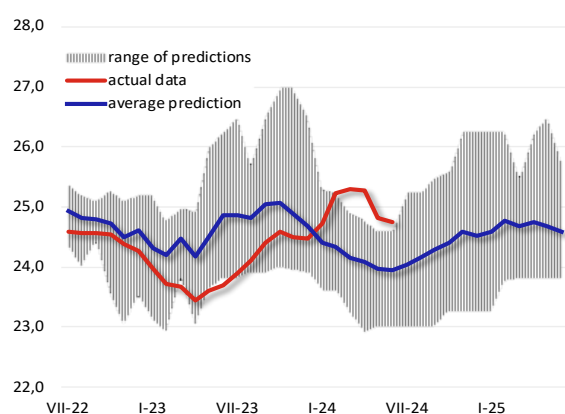
The koruna exchange rate has only changed cosmetically since the last survey, and has been practically stable throughout the entire period. From the original level of CZK 24.76 to the euro, it had moved by 2 hellers to CZK 24.74 to the euro as of the cut-off date for the current survey. Despite the only marginal changes to the exchange rate, the analysts revised their forecasts slightly, moving to stronger levels at both the one-month and one-year horizons. On average, it is expected that the current trend will continue and that in mid-July this year, the koruna will be hovering around its current levels, and then will continue to gradually appreciate until next June to a level of CZK 24.57 to the euro.

Given the CNB's slower pace for reducing key interest rates, a long-term weakening of the koruna back above the psychological level of 25 CZK to the euro currently appears unlikely. The message from the leading indicators and the continuing recovery of the Czech economy are likely to contribute to the appreciation of the koruna. However, the major currencies, especially the US dollar, which generally acts against emerging market currencies, will also play a role going forward. There is a significant chance that the monetary policies of global central banks (especially the US Fed) will, considering the macroeconomic developments, be stricter for a longer period of time. Last but not least, the koruna exchange rate could also be influenced by the geopolitical situation, for example in connection with upcoming early elections in Europe and the autumn presidential elections in the USA.

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

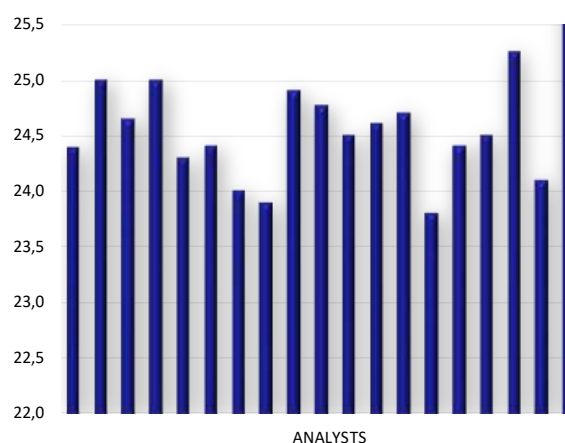
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

June 2024	current year	current+1Y
minimum	5,7	3,5
average	6,8	5,4
maximum	8,2	7,8

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
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
VI.24	6,8	5,4

The number of jobseekers registered with the Labour Office of the Czech Republic in May this year was 274,322, which is 5,756 fewer than in April and 20,429 fewer than last May. The unemployment rate decreased by 0.1 percentage point month on month to 3.6%. The number of registered jobseekers was 7,805 higher than the number of vacancies. May and June are traditionally the months with the lowest unemployment rate thanks to seasonal work (especially in construction) and the positive impact of the summer tourist season. In addition, graduates from secondary schools and universities do not yet appear in the records as they postpone this to after the summer holidays, most typically to September.

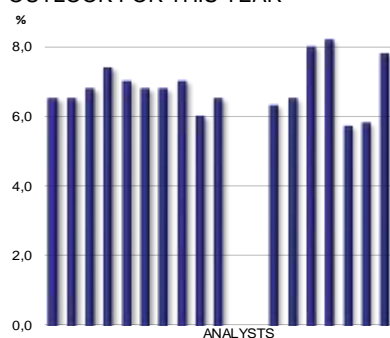
The average gross nominal wage rose to CZK 43,941 in 2024 Q1 and by 7.0% year on year, which is 0.1 percentage point less than in the previous quarter. The median wage grew by 5.5% compared to the same year-ago period, to CZK 36,651. After nine consecutive quarters, the real wage dynamic also reached positive values, showing a year-on-year increase of 4.8%. In the longer-term perspective, the average wage in Q1 2024 had not yet reached the real level for Q1 during the pre-COVID year of 2019, and still lags behind by 4.7%. Real wage growth is expected to continue in the quarters ahead, albeit at a slower pace. Favourable macro developments, labour shortages and low inflation will have a positive effect.

The new data on wage developments, which have exceeded market expectations, according to analysts, are tilting the balance of risks towards higher inflation. The wage statistics have also led to significant revisions to the average forecasts for nominal wage growth for both this year and the next. This year it has increased by 0.6 percentage point to 6.8%, while the figure for 2025 has increased by 0.2 percentage point to 5.4%. The range of the individual estimates also saw major changes and widened. Both the minimum and maximum values for this year have increased, while the maximum for next year has shifted upwards significantly.

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

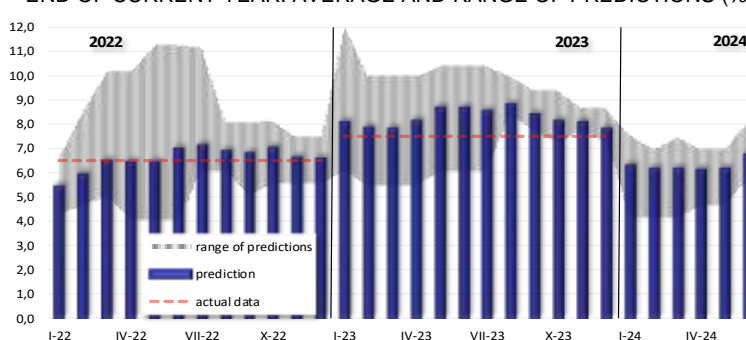
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

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



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