

# Financial Market Inflation Expectations

— 7/2024



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Czech National Bank — Financial Market Inflation Expectations — 7/2024

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## I. SUMMARY

Fourteen domestic and three foreign analysts took part in the July survey of financial market inflation expectations. The data suggest that the expected path of inflation has declined for both the one-year and three-year horizons. The estimate for this year's economic growth is unchanged on average, but the outlook for next year expects slightly lower acceleration than in the previous survey. The vast majority of respondents expected the August meeting of the CNB Bank Board to bring a drop of 25 basis points in key interest rates. The koruna exchange rate forecast was affected by the recent depreciation on the foreign exchange market and shifted to weaker levels. The view on nominal wage growth has not changed since June and thus a deceleration of wage growth next year is still expected.

<b>DOMESTIC ANALYSTS</b>	<b>I.</b>	<b>II.</b>	<b>III.</b>	<b>IV.</b>	<b>V.</b>	<b>VI.</b>	<b>VII.</b>	<b>VIII.</b>	<b>IX.</b>	<b>X.</b>	<b>XI.</b>	<b>XII.</b>
Jiří Polanský, Česká spořitelna	+	+	+	+	+	+	+					
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			+		+	+						
David Havrlant, ING					+	+	+					
<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, 1 August 2024

## II. INFLATION

### FORECAST FOR Y/Y CPI GROWTH

(%)

July 2024	CPI	
	1Y	3Y
minimum	0.9	1.3
average	2.1	2.1
maximum	3.1	2.6

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

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
VII.23	3.1	2.5	
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	
VI.24	2.2	2.2	2Q: 1.9
VII.24	2.1	2.1	

June inflation was a surprise once again. The consumer price index rose by 2.0% year on year, which is 0.6 percentage point lower than in May. This slowdown was largely due to a moderation in fuel and package holiday price inflation. In month-on-month terms, consumer prices fell by 0.3%, partly due to lower fuel prices and lower prices of selected food and beverages. While prices of goods fell by 0.5%, prices of services continue to maintain relatively high dynamics, rising by 0.4%. The unexpectedly low inflation in June probably also had an impact on the analysts' forecasts – they corrected their average opinion on future price growth over both the one-year and three-year horizons. The one-year and three-year forecasts thus decreased by 0.1 percentage point and are now 2.1% in both cases. The range of individual forecasts widened at both horizons. While this was due to an increase in the maximum value for the one-year estimates, in the case of the three-year forecasts the minimum value decreased.

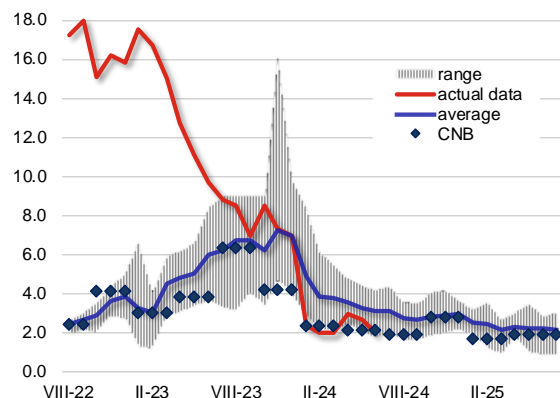
The analysts commented that June inflation was surprisingly low. It was generally expected to be about 0.4–0.5 percentage point higher. This difference is often attributed to the decline in food and holiday prices, the growth of which, despite strong demand, fell short of expectations at the beginning of the season. The slowdown in core inflation is seen as a result of weaker demand pressures in the Czech economy. The effects of tight monetary policy and a decline in consumer demand due to the sharp fall in households' purchasing power are now manifesting themselves with a lag. By contrast, prices of services continue to be seen as an important inflationary factor.

Inflation is expected to remain low during the summer, and below 2.5% according to some estimates. In September, however, it could jump to 3% due to the economic recovery and the effect of last year's lower comparison base. In the coming years, it could remain in the upper half of the tolerance band as it will be subject to the influence of the continuing economic recovery and positive developments in the labour market.

*The CNB summer forecast expects consumer prices to rise by 1.9% year on year in 2025 Q3.*

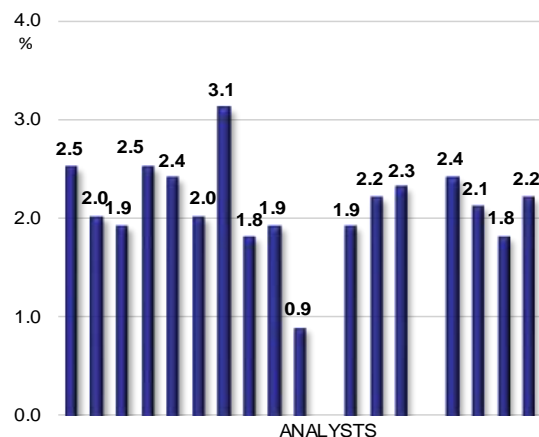
### CONSUMER PRICE INDEX

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

(%)

July 2024	current year	current+ 1Y
<b>minimum</b>	1.0	2.0
<b>average</b>	1.3	2.6
<b>maximum</b>	1.6	4.3

#### FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
VII.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
VI.24	1.3	2.7
VII.24	1.3	2.6

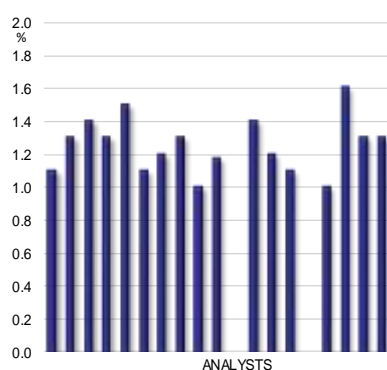
The analysts' view of GDP growth was revised only slightly. The output of the domestic economy is on average expected to grow by 1.3% in 2024, the same pace as the analysts had predicted in the June survey. On the other hand, the outlook for next year has shifted slightly downwards. Currently, our respondents on average expect GDP growth to accelerate to 2.6% in 2025, which is 0.1 percentage point less than a month ago. At the same time, this is in line with the average estimates made in this year's spring surveys. The range of the individual estimates for 2024 narrowed slightly due to a slight decrease in the maximum value, while the extreme values for next year's forecasts remain unchanged.

The analysts believe that the economy should undergo a gradual recovery but any dramatic acceleration is unlikely. GDP growth in the Czech Republic should continue to be driven by household consumption, which will in turn be affected by growth in real wages and improving household consumer sentiment. This is above its long-term average, yet only slightly so. A gradual recovery is also expected from external demand, which is currently significantly burdened by the downturn in Germany. Domestic economic growth should continue to accelerate next year, together with the recovery in Germany, and not only through external demand but also growth in investment. By contrast, inventories could hamper domestic economic growth, as they remain higher than is consistent with the macroeconomic developments, and are therefore expected to decline.

*According to the CNB summer forecast, GDP will grow by 1.2% in 2024 and accelerate to 2.8% in 2025.*

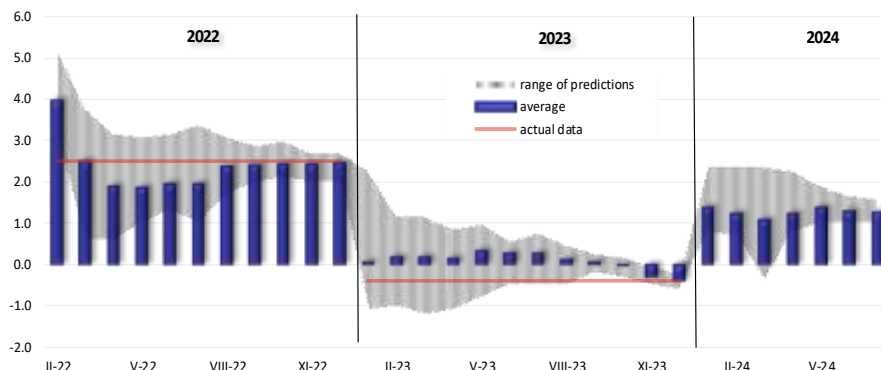
#### INDIVIDUAL 1Y PREDICTIONS

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
VII.23	7.00	5.33	7.11	5.20	4.45	3.97	4.15	3.76
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
VI.24	4.93	3.54	4.47	3.59	3.86	3.53	3.95	3.63
VII.24	4.51	3.35	4.21	3.42	3.58	3.45	3.66	3.55

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

(%)

July 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
<b>minimum</b>	4.50	2.50	4.00	3.00	3.30	2.80	3.35	2.89
<b>average</b>	4.51	3.35	4.21	3.42	3.58	3.45	3.66	3.55
<b>maximum</b>	4.75	4.00	4.65	3.90	3.90	4.03	3.90	4.20

### ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
<b>15.7.</b>	4.75	4.25	3.45	3.54

The data obtained show that 16 out of the 17 analysts expected the CNB Bank Board to cut key interest rates by 25 basis points at its August meeting. The one remaining respondent estimated that key interest rates would remain unchanged.

The CNB might also continue to ease monetary policy over the rest of this year. Yet this should no longer be rapid. Although inflation has fallen to the 2% target, it may still be affected by one-off factors. Moreover, due to base effects, price growth could accelerate in September and December, and jump to 3%. Although these will be temporary effects, they are likely to strengthen the CNB's prudence in lowering key interest rates to avoid a rise in inflation expectations. In addition, the domestic economy will gradually recover and wage demands will intensify. Higher inflation in December which, according to some estimates, could exceed the upper limit of the inflation band, could then cause rates to remain stable in the winter and spring of next year. However, monetary policy easing in the Czech Republic should then continue, and the average estimate is that the 2W repo rate could be at 3.35% in July next year. This is a quarter of a percentage point lower than in the previous survey.

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

(%)

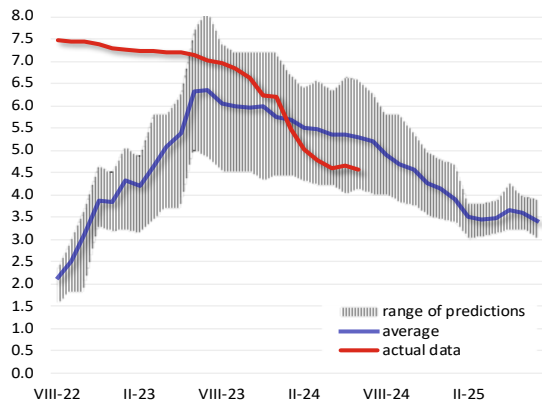
2W repo rate level in 1Y (%)	2.50	2.75	3.00	3.25	3.50	3.75	4.00
<b>number of analysts - current survey</b>	1	0	3	4	7	0	2
<b>-previous survey</b>	0	0	3	1	8	4	3

Influenced by the latest macroeconomic developments, the 12M PRIBOR interbank reference rate has fallen by 35 basis points since the June survey. Swap rates with 5Y and 10Y maturities fell even more sharply, by 57 and 49 basis points respectively. The analysts' forecasts were adjusted in the same direction, but to a lesser extent, namely between 8 and 29 basis points. Their values continue to reflect the expected decline in key interest rates at the one-year horizon, but naturally at a slower pace than a few months or half a year ago.

*The CNB summer forecast implies a 2W repo rate of 3.7% in 2025 Q3.*

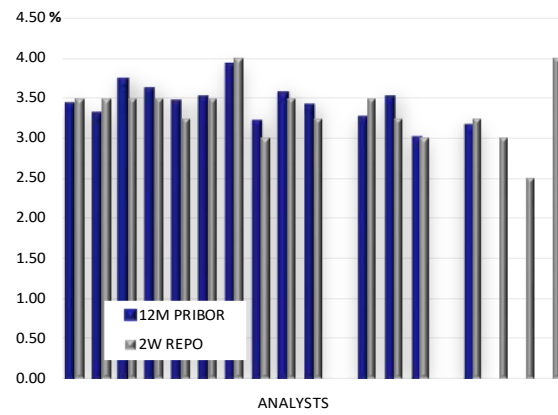
**12M PRIBOR AT 1Y**

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



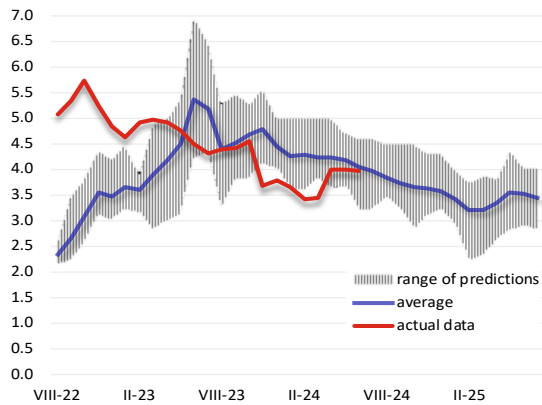
**2W REPO AND 12M PRIBOR AT 1Y**

PREDICTIONS OF INDIVIDUAL ANALYSTS



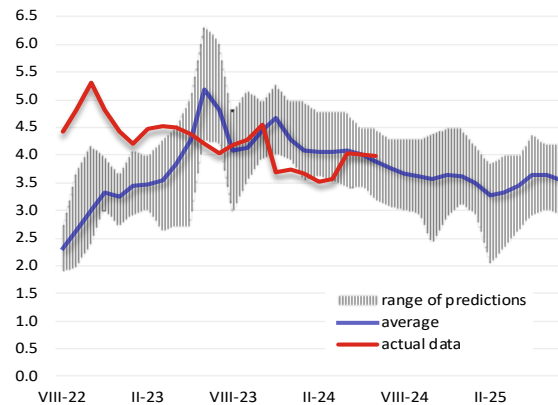
**5Y IRS AT 1Y**

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
VII.23	23.80	24.03
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
VI.24	24.73	24.57
VII.24	25.21	24.70

### EXCHANGE RATE FORECAST

July 2024	EUR/CZK	
	1M	1Y
minimum	24.80	23.65
average	25.21	24.70
maximum	25.40	25.75

### ACTUAL EUR/CZK AS OF FORECAST DEADLINE

<b>15.7.</b>	25.43
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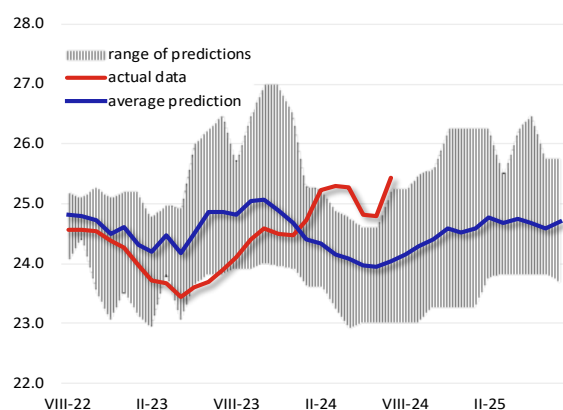
The koruna exchange rate has weakened significantly since the last survey. From CZK 24.74 to the euro, it had shifted to CZK 25.43 to the euro at the cut-off date for the current survey. This was due not only to political developments abroad, but also to a surprisingly large cut in key interest rates at the CNB's June meeting and a larger-than-expected slowdown in inflation. The analysts' forecasts were also revised towards weaker levels. A larger shift was again visible for the one-month forecast. The analysts' average opinion is that the koruna could thus be at CZK 25.21 to the euro in mid-August and, after a gradual appreciation, CZK 24.70 to the euro in July next year.

The analysts continue to expect that the weakening of the koruna will be short-lived. However, the return to appreciation will be rather gradual. A calming of sentiment on the global financial market, an economic recovery, but also an expected slowdown in the pace of the CNB's rate cuts could all contribute to the strengthening of the koruna. In the long term, a slight appreciation trend should prevail. It will build on the favourable development of the domestic economy and the expected positive interest rate differential vis-à-vis the euro area. However, the koruna exchange rate is unlikely to completely lose its sensitivity to global factors, so temporary factors, such as the results of the US presidential election, may deviate it from its long-term trend.

*The CNB summer forecast expects a koruna exchange rate of CZK 24.9 to the euro in 2025 Q3.*

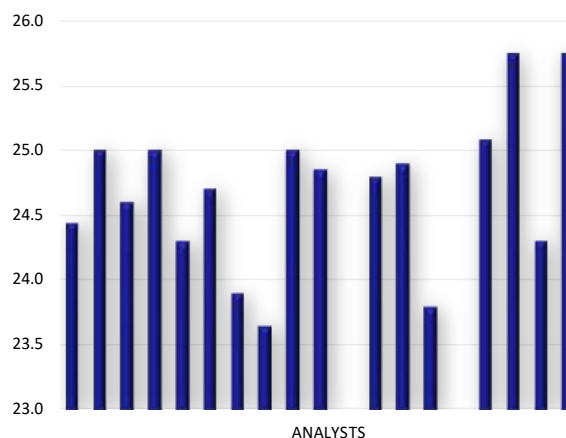
### EUR/CZK

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



### EUR/CZK AT 1Y

#### PREDICTIONS OF INDIVIDUAL ANALYSTS





## VI. NOMINAL WAGES

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

July 2024	current year	current+1Y
minimum	5.7	3.5
average	6.8	5.4
maximum	8.8	6.5

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
VII.23	8.5	6.4
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
VI.24	6.8	5.4
VII.24	6.8	5.4

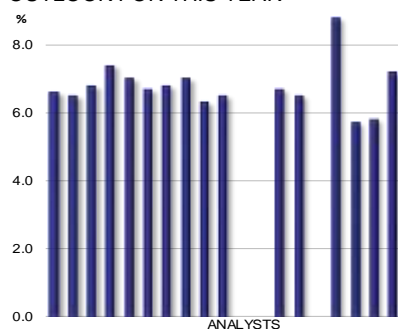
The Labour Office of the Czech Republic registered almost 273,000 jobseekers at the end of June this year. The number of jobseekers was 1,638 lower than at the end of May, and even 22,892 lower year on year. The unemployment rate was 3.6%, the same as at the end of May. Some opinions were that there is a gradual easing of the tightness in the labour market, yet it still shows signs of moderate overheating. Although the unemployment rate remains low, it is common for seasonal work to start in the summer months and so a fall in the rate at this time is standard. According to the Czech Labour Office, however, fewer seasonal workers have been recruited this year. In addition, the number of registered jobseekers has exceeded the number of vacancies for seven months in a row, and this excess increased in June. While the number of jobseekers was 7,805 higher than the number of vacancies at the end of May, it was 9,132 higher at the end of June. However, in international comparison, the Czech Republic is doing very well, as it again has the lowest unemployment rate in the EU.

The new labour market data have not changed the analysts' overall view of wage developments at all, so the average forecasts remain at the levels in the previous survey. For this year, they thus expect the average gross nominal wage to increase by 6.8% year on year. Both the faster-than-expected rise in Q1 this year and the debate on relatively strong wage growth in the public sector are both important aspects for upcoming wage-growth developments. In the outlook for next year, the analysts expect a slowdown in the rate of wage growth to 5.4% which, according to some estimates, could be accompanied by a small increase in the unemployment rate, which should approach its equilibrium level but still remain relatively low.

According to the CNB summer forecast, nominal wages are expected to grow by 7.4% in 2024 and slow to 6.4% in 2025.

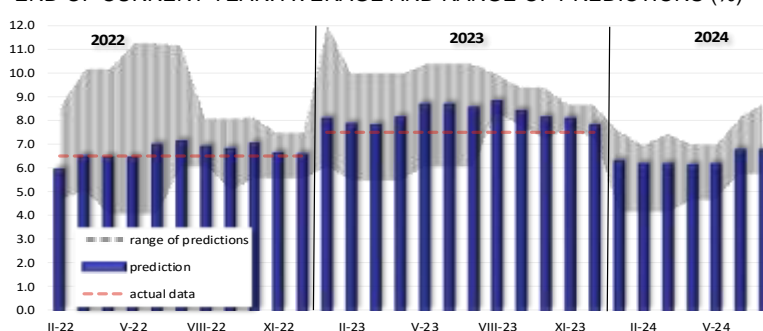
### INDIVIDUAL 1Y PREDICTIONS

#### OUTLOOK FOR THIS YEAR



### NOMINAL WAGE GROWTH

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



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