

# Financial Market Inflation Expectations

———— 9/2024



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## I. SUMMARY

Thirteen domestic and three foreign analysts sent in their contributions to the September survey of financial market inflation expectations. The results reveal that the average annual inflation forecast changed only slightly, rising modestly at the one-year horizon but falling to the same extent at the three-year horizon. The estimate for Czech economic growth this year is unchanged, but the outlook for next year is slightly more pessimistic. All the analysts in the September survey were correctly expecting the CNB Bank Board to cut key interest rates by 25 basis points at the September meeting. The forecast for the koruna exchange rate shifted to stronger levels at the one-month horizon but was unchanged at the one-year horizon. The forecast for nominal wage growth in 2024 was revised down, while the outlook for next year moved upwards.

<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 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 Janíčko, 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, 25 September 2024

## II. INFLATION

### FORECAST FOR YY CPI GROWTH

(%)

September 2024	CPI	
	1Y	3Y
minimum	1.6	1.7
average	2.2	2.1
maximum	2.8	2.5

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

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
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	2Q: 1.9
VII.24	2.1	2.1	
VIII.24	2.1	2.2	3Q: 1.9
IX.24	2.2	2.1	

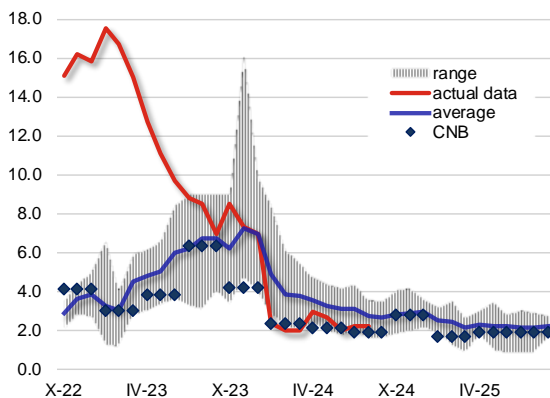
Inflation was higher than expected again in August. As in July, the consumer price index rose by 2.2% year on year. Lower growth in fuel prices was offset by a slower decline in food prices. However, housing was still the biggest contributor to the year-on-year growth. Overall, goods prices rose by 0.5% and services prices by a full 5.0%. In month-on-month terms, consumer prices increased by 0.3% in August. This was again due to rising housing-related prices, in particular higher rents and prices of heat and hot water. Relatively strong growth in services prices (0.5%) is also still visible in month-on-month terms compared with growth in goods prices (0.1%). The above data had no major impact on the analysts' forecasts in our survey, which changed only marginally, increasing by 0.1 percentage point to 2.2% at the one-year horizon while declining by the same amount to 2.1% at the three-year horizon. The range of the individual estimates narrowed at the one-year horizon due to an increase in the minimum value and a decline in the maximum value. By contrast, the minimum and maximum values at the three-year horizon were unchanged.

Inflation was surprisingly high for some analysts in August, with food prices recording an unexpected month-on-month increase. Inflation is expected to pick up further in the coming months, reaching around 2.5% in September and even hovering around 3% at the end of the year. In addition to the inflationary effect of services prices, base effects will start to be felt, as inflation pressures receded in the second half of last year. Food prices, which have recently been unpredictable, will also play a role. A later recovery in Germany could act in the opposite direction, dampening growth in the Czech price level. Next year, inflation should initially fall below the CNB's 2% inflation target. This will be fostered by the CNB's tight monetary policy and a weak domestic economy. However, a recovery in consumer spending based on a rebound in the purchasing power of households should gradually manifest itself. Inflation should subsequently return just above the inflation target.

The CNB's summer forecast expects annual consumer price inflation of 1.9% in 2025 Q3.

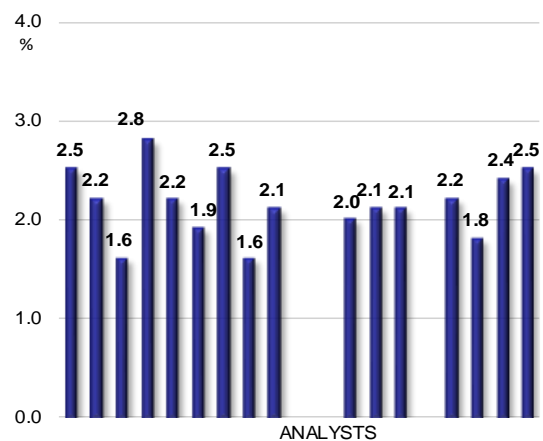
### CONSUMER PRICE INDEX

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

(%)

September 2024	current year	current+ 1Y
minimum	0.7	1.9
average	1.0	2.5
maximum	1.2	3.4

#### FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
IX.23	0.1	2.2
XI.23	-0.3	1.8
XII.23	-0.4	1.4
II.24	1.2	2.6
IV.24	1.2	2.6
VII.24	1.3	2.6
VIII.24	1.0	2.6
IX.24	1.0	2.5

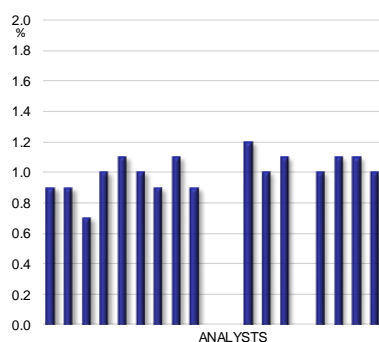
According to a revised estimate, GDP in the Czech Republic rose by 0.6% year on year in 2024 Q2 (compared to 0.4% according to the preliminary estimate). The main drivers of the growth were household final consumption expenditure (+1.2 percentage points) and government final consumption expenditure (+0.8 percentage point). Gross capital formation and external demand also made positive contributions (+0.4 and +0.3 percentage point respectively). By contrast, the contribution of change in inventories to GDP growth was strongly negative (-2.1 percentage points). In quarter-on-quarter terms, the domestic economy grew by 0.3% in Q2, in line with the preliminary estimate. The revision of GDP growth had no major effect on the forecast in our survey. On average, the economy is still expected to grow by 1.0% this year. The outlook for next year was revised down by 0.1 percentage point to 2.5%. The range of the individual estimates narrowed at both monitored horizons owing to a decline in the maximum values.

In addition to the positive effect of household consumption, the analysts expect external demand to contribute increasingly to domestic economic growth. However, its onset will be very gradual. As regards consumption, leading indicators (retail sales and consumer sentiment) suggest that its further recovery will be only cautious. The Czech economy should probably see faster growth in the next two years, when the German economy is expected to improve. This should translate into better foreign trade and investment results. Higher GDP growth in the Czech Republic will also be fostered by expansionary fiscal policy, which will be affected by the upcoming parliamentary elections. And, as is now evident, inventories can have a significant impact on the GDP statistics. Following their current strong negative contribution to growth, they are expected to have a broadly neutral effect next year.

*The CNB's summer forecast expects GDP to grow by 1.2% in 2024 and accelerate to 2.8% in 2025.*

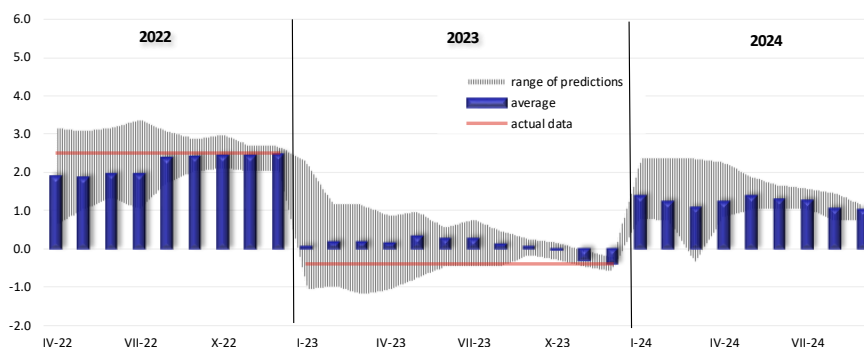
#### INDIVIDUAL 1Y PREDICTIONS

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
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
VII.24	4.51	3.35	4.21	3.42	3.58	3.45	3.66	3.55
VIII.24	4.26	3.38	3.88	3.38	3.35	3.44	3.41	3.54
IX.24	4.25	3.36	3.73	3.34	3.29	3.39	3.43	3.50

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

(%)

September 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
<b>minimum</b>	4.25	3.00	3.40	2.80	3.00	2.80	3.10	2.80
<b>average</b>	4.25	3.36	3.73	3.34	3.29	3.39	3.43	3.50
<b>maximum</b>	4.25	4.00	4.14	3.75	3.69	3.85	3.80	4.00

### ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
<b>15.9.</b>	4.50	3.74	3.15	3.30

All 16 respondents who participated in the September survey correctly estimated that the CNB Bank Board would lower key interest rates by 25 basis points at the September meeting and the 2W repo rate would thus drop to 4.25%. According to the analysts, the rate cuts were due to weak figures from the real economy and to expectations of rate cuts by the Fed and the ECB. According to current assumptions, the latter will cut rates faster than previously expected.

Key interest rates could continue to fall at subsequent meetings. According to some of the analysts, however, the pace of the cuts will not be as pronounced as before, owing to a pick-up in inflation at the end of this year and caution on the part of the CNB Bank Board. Moreover, the question is how wage bargaining will turn out and what impact political events in the Czech Republic (such as the fiscal impulse associated with the upcoming parliamentary elections) and abroad will have. The one-year forecast for the 2W repo rate saw only a minor change, this time a downward shift to an average of 3.36%. This shows that the analysts most likely do not expect the rate-cutting cycle to end this year, but foresee a few reductions in the course of next year as well.

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

(%)

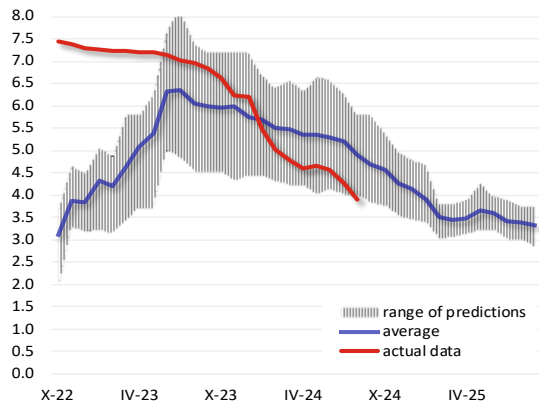
2W repo rate level in 1Y (%)	2.50	2.75	3.00	3.25	3.50	3.75	4.00
<b>number of analysts - current survey</b>	0	0	5	3	5	2	1
<b>-previous survey</b>	0	0	4	3	8	1	1

The 12M PRIBOR market interbank reference rate and the monitored rates on interest rate derivatives have decreased slightly since the previous survey. The forecasts for these rates in our survey have similarly shifted downwards. Larger declines of 6–15 basis points were recorded for the one-month forecasts, except for the 10Y IRS, where the rate rose by 1 basis point. The one-year forecasts for the monitored rates fell by 3–5 basis points. The 12M PRIBOR continues to reflect the predicted decline in the CNB's key interest rates, with the one-year forecast being below the one-month one. However, rates on interest rate derivatives are expected to rise slightly at the one-year horizon for the 5Y and 10Y IRS.

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

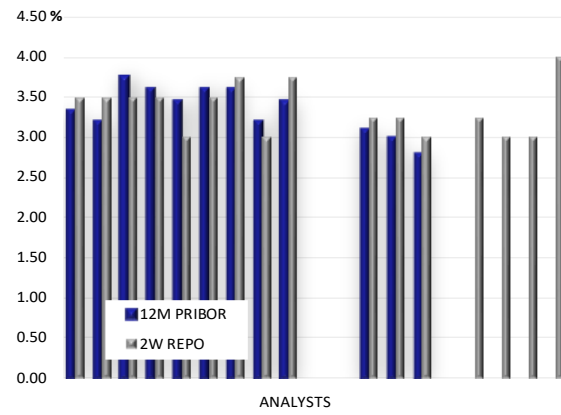
**12M PRIBOR AT 1Y**

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



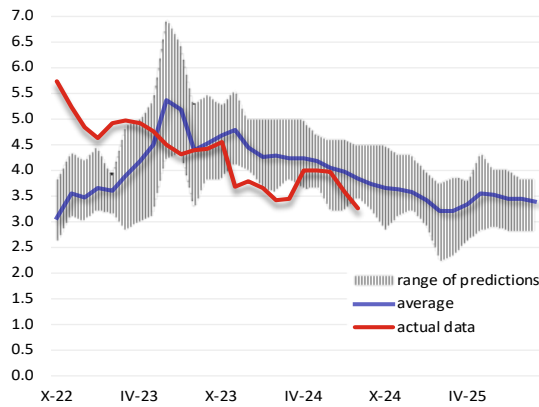
**2W REPO AND 12M PRIBOR AT 1Y**

PREDICTIONS OF INDIVIDUAL ANALYSTS



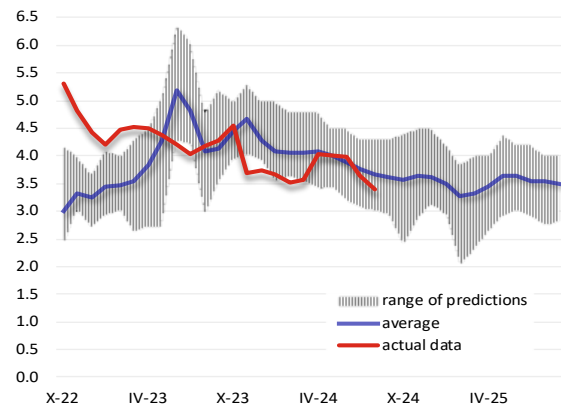
**5Y IRS AT 1Y**

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
IX.23	24.45	24.28
XI.23	24.63	24.58
XII.23	24.52	24.51
II.24	25.25	24.78
IV.24	25.28	24.74
VII.24	25.21	24.70
VIII.24	25.19	24.75
IX.24	25.07	24.75

### EXCHANGE RATE FORECAST

September 2024	EUR/CZK	
	1M	1Y
minimum	24.95	23.80
average	25.07	24.75
maximum	25.40	26.50

### ACTUAL EUR/CZK AS OF FORECAST DEADLINE

<b>15.9.</b>	<b>25.15</b>
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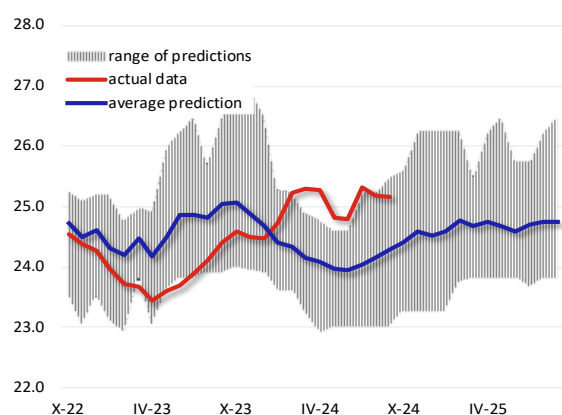
The koruna appreciated only slightly from CZK 25.20 to CZK 25.15 to the euro between the previous survey and the cut-off date. The analysts' average one-month forecast in our survey also shifted to a stronger level, from CZK 25.19 to CZK 25.07 to the euro. By contrast, the one-year forecast was unchanged from August, remaining at CZK 24.75 to the euro. However, the range of the one-year forecasts widened owing to an increase in the weakest expected value.

The analysts continue to work with a long-term scenario of a gradual appreciation trend, underpinned by favourable developments in the domestic economy and by the interest rate differential vis-à-vis the ECB. Two further factors could help the koruna to appreciate over the rest of this year. One is a correction of market expectations, with some investors still expecting the CNB to ease monetary policy too quickly. The second is external demand, which could improve gradually. According to some of the analysts, the koruna could thus move below CZK 25.00 to the euro at the end of this year. Conversely, it may tend to stay above CZK 25.00 to the euro if the performance of the German economy remains subdued.

*The CNB's summer forecast expects the koruna exchange rate to be CZK 24.9 to the euro in 2025 Q3.*

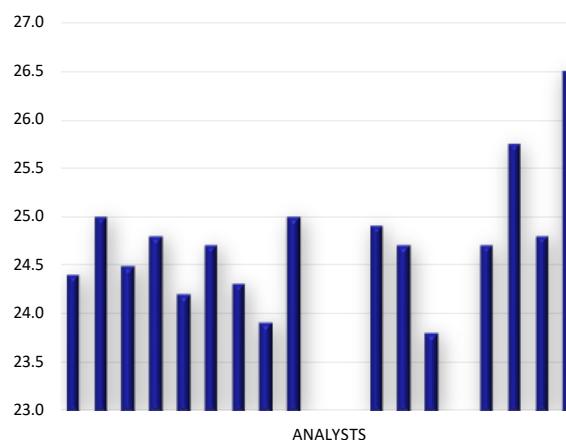
### EUR/CZK

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



### EUR/CZK AT 1Y

#### PREDICTIONS OF INDIVIDUAL ANALYSTS





## VI. NOMINAL WAGES

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

September 2024	current year	current+1Y
minimum	5.8	3.5
average	6.7	5.5
maximum	7.4	7.2

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
IX.23	8.4	6.7
XI.23	8.1	6.5
XII.23	7.8	6.5
I.24	6.2	5.2
IV.24	6.1	5.1
VII.24	6.8	5.4
VIII.24	6.9	5.4
IX.24	6.7	5.5

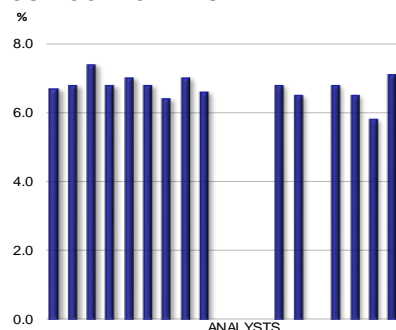
The August data again signal an easing of conditions on an originally very tight labour market. According to the Czech Labour Office, the number of registered unemployed persons rose by more than 3,000 to 286,000 at the end of August this year. This is a year-on-year increase of 25,000 persons. At the same time, however, the number of vacancies rose by more than 1,000 month on month for the first time since March this year. The share of unemployed persons remains at 3.8%. The average nominal wage rose by 6.5% year on year to CZK 45,854 in 2024 Q2. Taking inflation into account, wages went up by 3.9% in real terms. The wage bill also increased by 6.5% and the number of employees by 0.04%. In quarter-on-quarter terms, wages were up by 1.4%. The median was CZK 38,529, up by 5.8% on the same period a year earlier.

The analysts expect wage growth to stay relatively strong for the rest of this year. This should be aided by the economic recovery and the still relatively low unemployment rate. Last but not least, it will be due to public sector salary growth and employees' efforts to make up for the fall in real wages recorded during the period of high inflation. Wages are expected to increase by 6.7% overall this year, 0.2 percentage point less than in the previous survey. Wage growth is likely to slow next year as the continued tight monetary policy makes itself felt and the unemployment rate rises. Wages will go up by 5.5% in 2025 as a whole, according to the analysts' average estimate. This represents an increase of 0.1 percentage point compared to the August survey.

*The CNB's summer forecast expects nominal wages to grow by 7.4% in 2024 and slow to 6.4% in 2025.*

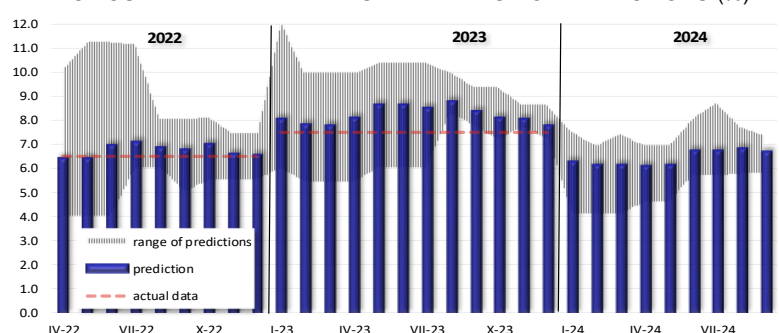
### INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



### NOMINAL WAGE GROWTH

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



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