

# Financial Market Inflation Expectations

— 12/2024



**CNB** CZECH  
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BANK

Czech National Bank — Financial Market Inflation Expectations — 12/2024

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## I. SUMMARY

Fourteen domestic and one foreign analyst participated in the December survey of financial market inflation expectations. The results of the survey clearly show that the average inflation forecast had shifted slightly upwards, both in the one-year and three-year time periods. The estimate for growth in GDP this year is unchanged, however, the outlook for next year is slightly less optimistic. The vast majority of analysts expected that the December monetary policy meeting of the CNB's Bank Board would not bring any change in the setting of key interest rates. The monthly CZK forecast was adjusted to reflect recent actual developments on the foreign exchange market and has moved to a stronger position, but the annual forecast is virtually unchanged. In the case of nominal wages, analysts are expecting a slightly higher growth dynamic than they thought a month ago for this year and next.

<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 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, JP Morgan	+	+		+	+	+	+	+	+	+	+	+

We would like to thank everyone who contributed to this survey of financial market inflation expectations.

Prague, 19 December 2024

## II. INFLATION

### FORECAST FOR Y/Y CPI GROWTH

(%)

December 2024	CPI	
	1Y	3Y
minimum	1.4	2.0
average	2.3	2.2
maximum	2.8	2.5

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

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
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	
IX.24	2.2	2.1	3Q: 1.9
X.24	2.2	2.2	
XI.24	2.2	2.1	4Q:2.4
XII.24	2.3	2.2	

In November, the consumer price index showed the same year-on-year growth dynamic as in October, increasing by 2.8%. The main contributors to this were prices in the housing, alcoholic beverages and catering categories. Prices of goods increased by 1.4% overall, whereas inflation in services continued to maintain a relatively high rate of 5.2%. Consumer prices increased by 0.1% month-on-month, this being driven mainly by food prices, where eggs became significantly more expensive. The month-on-month price dynamic was the same for goods and services (0.1%).

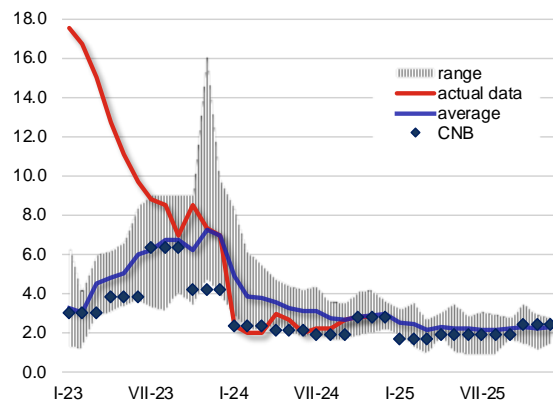
The published inflation, both y-o-y and m-o-m, fell short of estimates. According to some comments, food prices, especially for dairy products, increased at a slightly slower pace than previous surveys indicated. Nevertheless, the forecasts drawn up by analysts resulting from our survey have increased by an average of 0.1 percentage points over both the one-year and three-year horizons. Year-on-year inflation could therefore reach a level of 2.3% next December and 2.2% two years after that. The range of individual annual forecasts narrowed due to an increase in the minimum and the slight decrease in the maximum values, while the extreme values remained unchanged over the three-year horizon.

Though the November consumer price growth rate fell short of estimates, the overall inflation picture did not show much change per the analysts. Several pro-inflationary influences continue to affect the local economy, i.e. low unemployment, wage growth, expansionary fiscal policy, price increases in services, development of agricultural prices and the CZK exchange rate. Weaker macroeconomic developments in Germany, the euro area and the Czech Republic are having the opposite effect. Y-o-y inflation could accelerate to 3% in December or even slightly exceed the 3% threshold. This will partly be due to base effects. This should be a temporary issue and in January, price growth should already be slowing back down to the tolerance band set by the CNB around its inflation target. Greater mitigation of inflation could be hindered by domestic economic recovery and a strong labour market. The potential introduction of tariffs in international trade is also a risk.

*The CNB autumn forecast expects consumer prices to rise by 2.4% year-on-year in Q4 2025.*

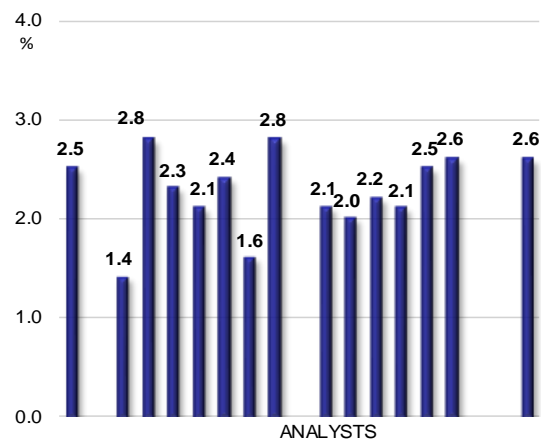
### CONSUMER PRICE INDEX

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

(%)

December 2024	current year	current+ 1Y
<b>minimum</b>	0.8	1.5
<b>average</b>	1.0	2.0
<b>maximum</b>	1.1	2.3

#### FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
XII.23	-0.4	1.4
II.24	1.2	2.6
IV.24	1.2	2.6
VII.24	1.3	2.6
IX.24	1.0	2.5
X.24	1.0	2.4
XI.24	1.0	2.1
XII.24	1.0	2.0

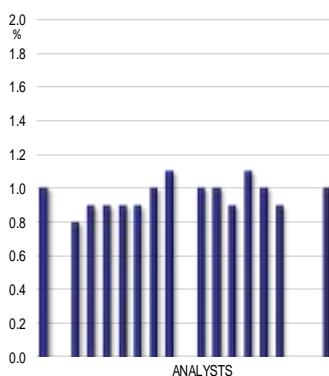
The Czech Statistical Office has updated its estimate of GDP growth in the Czech Republic in Q3 of this year. The annual rate has been confirmed at 1.3%. The greatest contribution to growth came from final consumption by both households and government institutions. However, foreign demand also had a slight positive effect. In contrast, gross fixed capital formation and change in inventories had the opposite effect. The trade, transport, accommodation and hospitality sectors contributed to gross value added. Viewed quarter-on-quarter, the domestic economy grew by 0.4%, i.e. by 0.1 percentage points more than in the preliminary estimate. The main drivers of quarter-on-quarter growth were household consumption and changes in inventories. In terms of gross value added, the main contributor was industry, but the banking and insurance sectors and information and communication technologies also did well. The macroeconomic data published since the last survey did not have a major impact on the average growth forecast for the domestic economy. The estimate for GDP growth this year remains at 1.0%, while the outlook for next year was revised, taking it down by 0.1 percentage points to 2.0%. The extreme values for the 2024 forecasts remained unchanged and the range for next year's outlook narrowed due to a decline in the maximum estimate.

According to the commentaries, the newly published macroeconomic data have not changed the view of the growth trend in the domestic economy. The weak economic performance of Germany is contributing to slower growth. On the other hand, investments could increase due to repairs of flood damage. A more distinct domestic economic recovery is not expected to occur until next year, once foreign demand improves, which could be driven by a revival of the German economy. But this will probably not be as strong as originally expected. The situation in the US poses a significant risk. Czech industry, the automotive industry for example, could be negatively impacted by the introduction of tariffs on exports to the US.

*The CNB autumn forecast expects GDP to increase by 1.0% in 2024 and accelerate to 2.4% in 2025.*

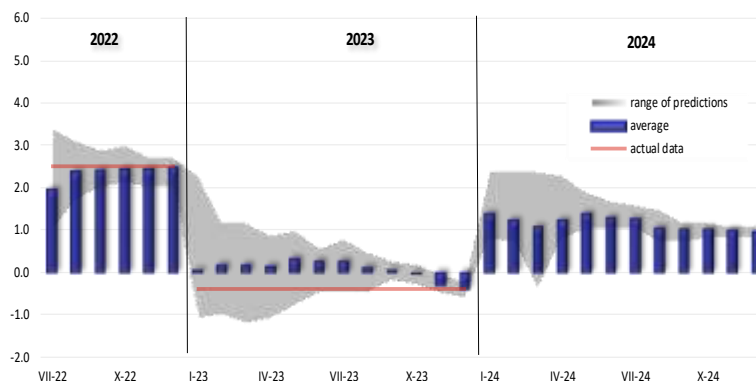
#### INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



#### GDP GROWTH AT END OF YEAR

AVERAGE AND RANGE OF PREDICTIONS



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

### 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
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
IX.24	4.25	3.36	3.73	3.34	3.29	3.39	3.43	3.50
X.24	4.01	3.25	3.67	3.28	3.38	3.35	3.53	3.50
XI.24	3.87	3.22	3.66	3.28	3.48	3.38	3.63	3.53
XII.24	3.95	3.27	3.65	3.29	3.59	3.47	3.70	3.61

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

(%)

December 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	3.75	2.75	3.50	2.75	3.46	2.70	3.50	2.80
average	3.95	3.27	3.65	3.29	3.59	3.47	3.70	3.61
maximum	4.00	4.00	3.70	3.70	3.80	3.70	4.00	3.90

### ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.12.	4.00	3.70	3.65	3.72

The vast majority of the analysts who participated in the last survey in 2024 (12 out of 15) expected the key interest rates to remain unchanged at the December meeting of the CNB's Bank Board and the 2W repo rate to remain set at 4.00%. The remaining three respondents estimated that key interest rates would be reduced by 25 basis points. Inflation, which is close to the upper boundary of the inflation band, is conducive to keeping the CNB's key interest rates at their current level. Although November inflation was lower than estimated, this was no major surprise. Moreover, inflation in the services sector remained relatively high, retail sales showed a higher dynamic in October and wage developments exceeded expectations. According to some opinions, even the CZK exchange rate still remains at a relatively weak level. Last but not least, communication by the CNB is increasingly indicative of a pause in the reduction of rates. Weaker investment and development of domestic industry could be an argument in favour of easing monetary policy.

However, at the one-year horizon, analysts are mostly counting on a further reduction in the CNB key interest rates towards the 3% level. Compared with the results of the November survey, however, analysts are now on average expecting a slightly slower pace of reduction of the interest rate, which is probably related to the above-mentioned arguments for stability of key interest rates at the December meeting.

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

(%)

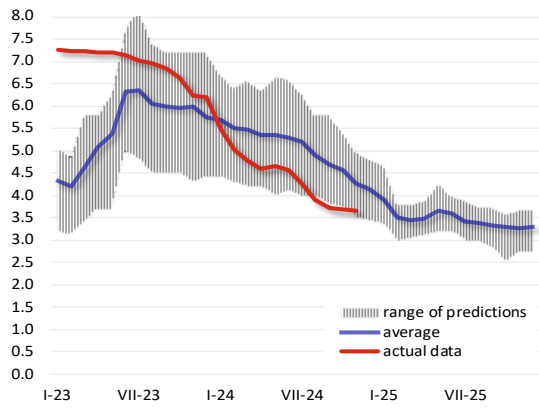
2W repo rate level in 1Y (%)	2.50	2.75	3.00	3.25	3.50	3.75	4.00
number of analysts - current survey	0	1	5	4	3	1	1
-previous survey	0	2	5	4	2	1	1

In relation to reassessment of the pace of easing of monetary policy, interest rates on the money market and the interest rate derivatives market rose. While the 12M PRIBOR rate increased by 4 basis points, IRS rates moved up 11 basis points for a 5Y contract and 2 basis points for a 10Y contract. Growth was similar in the forecasts presented by the analysts, ranging from 1 to 11 basis points, and even more in the case of IRS rates. The fact that the monthly forecasts are at a higher level than the corresponding annual forecasts reflects the above-mentioned expectations of a further decline in interest rates.

*The CNB autumn forecast implies a 2W repo rate of 3.0% in Q4 2025.*

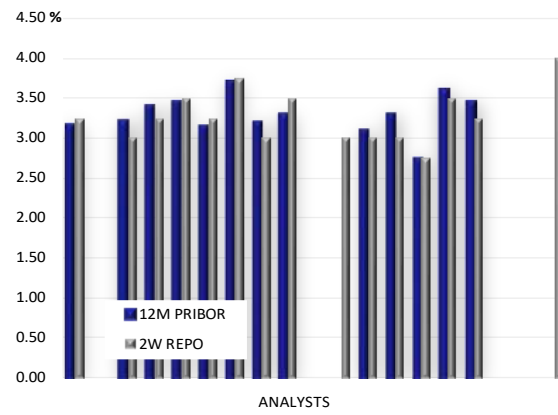
**12M PRIBOR AT 1Y**

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



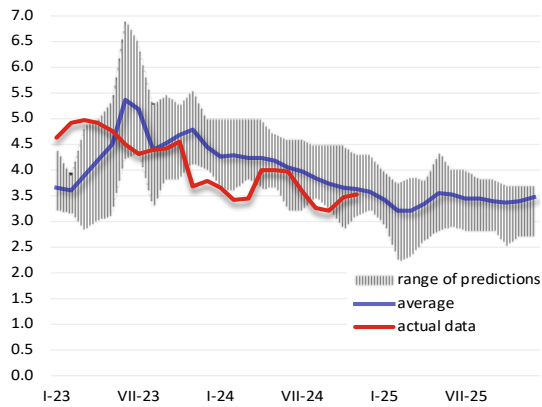
**2W REPO AND 12M PRIBOR AT 1Y**

PREDICTIONS OF INDIVIDUAL ANALYSTS



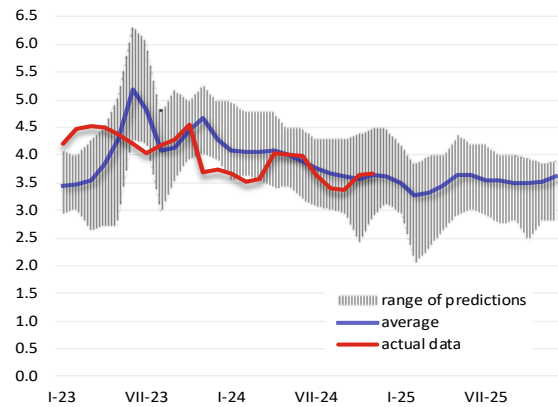
**5Y IRS AT 1Y**

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
XII.23	24.52	24.51
II.24	25.25	24.78
IV.24	25.28	24.74
VII.24	25.21	24.70
IX.24	25.07	24.75
X.24	25.16	24.62
XI.24	25.27	24.84
XII.24	25.08	24.83

### EXCHANGE RATE FORECAST

December 2024	EUR/CZK	
	1M	1Y
minimum	25.00	24.00
average	25.08	24.83
maximum	25.30	26.50

### ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.12.	25.02
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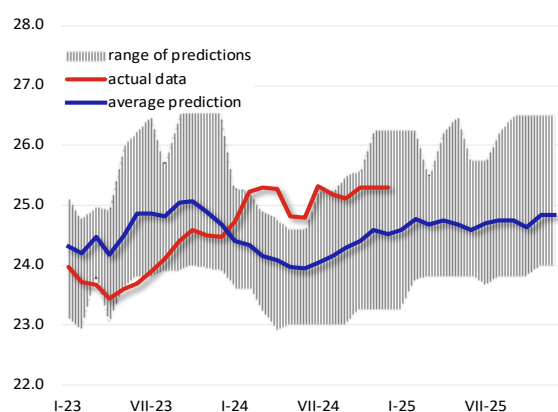
From the time of the last survey until the deadline for the December survey (15 December), the CZK exchange rate strengthened by 27 hellers to CZK 25.02 to the EUR. This appreciation may in particular have been driven by growing expectations that the CNB would leave its key interest rates unchanged at its December meeting. In view of the latest exchange rate developments on the foreign exchange market, the monthly forecast was naturally updated again. At the time of the conclusion of this survey, analysts on average expected the CZK to strengthen slightly and to be somewhere near the level of CZK 25.00 to the EUR. The outlook remains unchanged at the annual horizon, as the CZK is expected to strengthen very gradually towards CZK 24.83 to the EUR, which represents a difference of only one heller compared with the previous survey.

Analysts generally believe that the CZK exchange rate will continue to be strongly influenced by foreign factors in addition to domestic fundamental development. In addition to the pace of the decline in the CNB's key interest rates, the prospect of slower easing of monetary policy by the Fed and the condition of the European economy and the related ECB interest rate settings are therefore likely to have an impact on its development. A decline in aversion to risk on global markets could have a positive impact. Trend-wise, the effect of the long-term convergence scenario is still expected to play a role, supporting a very gradual appreciation of the CZK exchange rate. However, the isolated opinion does also arise among respondents that the current exchange rate level was overvalued and that a correction (i.e. a weakening of the CZK) to CZK 26.50 to the EUR could therefore be expected next year.

*The CNB autumn forecast expects a CZK exchange rate of CZK 25.5 to the EUR in Q4 2025.*

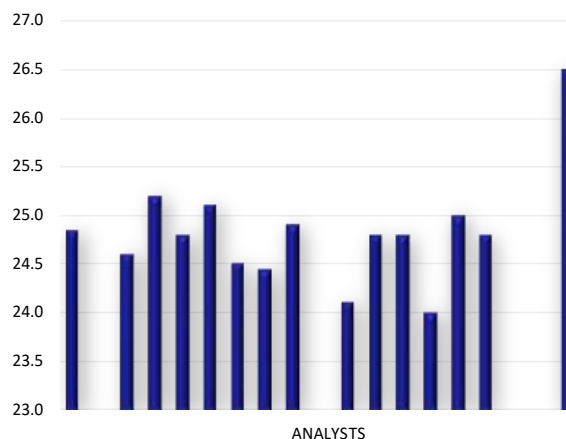
### EUR/CZK

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



### EUR/CZK AT 1Y

#### PREDICTIONS OF INDIVIDUAL ANALYSTS





## VI. NOMINAL WAGES

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

December 2024	current year	current+1Y
minimum	6.5	3.8
average	6.8	5.7
maximum	7.6	6.7

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
XII.23	7.8	6.5
I.24	6.2	5.2
IV.24	6.1	5.1
VII.24	6.8	5.4
IX.24	6.7	5.5
X.24	6.7	5.5
XI.24	6.7	5.6
XII.24	6.8	5.7

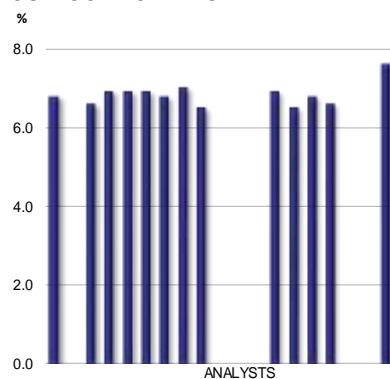
The proportion of the unemployed people reported by the Czech Labour Office rose by 0.1 percentage point to 3.9% at the end of November. Unemployment thus returned to its September level. Compared with the end of November last year, this means an increase of 0.4 percentage points. The total number of jobseekers increased month-on-month by 1,422 to 290,425, though the Czech Republic still maintains the lowest unemployment rate in the EU. In contrast, according to the Labour Force Sample Survey, the ratio of unemployed people to those economically active was 2.7% in October this year, 0.2 percentage points lower than a year earlier. According to the Czech Statistical Office, the average gross nominal monthly wage rose by 7.0% in Q3 this year compared to the same period last year and was CZK 45,412. This represents an increase of CZK 2,973. As consumer prices increased by 2.3% over the same period, the average wage increased in real terms by 4.6%. Median wages increased by 6.6% to CZK 40,482. Viewed q-o-q, average wages increased by 1.9%. The total volume of wages increased by 7.2% y-o-y with a 0.2% increase in the number of employees.

Given the relatively low unemployment rate, there is still some slight tightness in the market, albeit less intense than before. After past experiences, employers are not laying off employees, but rather limiting the creation of jobs. Analysts continue to believe that employees will intensively demand compensation for the previous decline in real wages against the backdrop of the relatively favourable financial situation of the corporate sector and the low unemployment rate. However, even higher wage demands would be hampered by the prospect of weaker economic growth than was anticipated in the first half of the year. Newly published macroeconomic data and recent macroeconomic developments led analysts to slightly reassess their views on nominal wage growth dynamics, now expecting a higher rate of growth. The current average forecasts are therefore 0.1 percentage points higher this year and next. Nominal wages are therefore expected to grow by 6.8% in 2024, while next year they are expected to slow to 5.7%.

*The CNB autumn forecast expects nominal wages to increase by 6.4% in 2024, with growth slowing to 5.7% in 2025.*

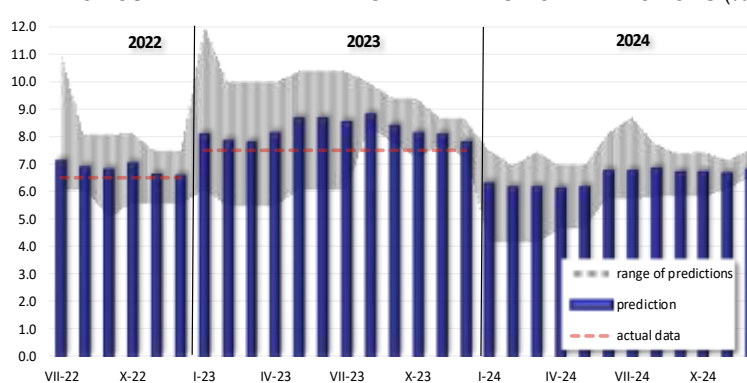
### INDIVIDUAL 1Y PREDICTIONS

#### OUTLOOK FOR THIS YEAR



### NOMINAL WAGE GROWTH

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



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