Financial Market Inflation Expectations

10/2024

CZECH NATIONAL BANK

Contents

I. SUMMARY

Fifteen domestic and two foreign analysts took part in the October survey of financial market inflation expectations. The survey results reveal that the one-year inflation forecast remains slightly above the inflation target. The three-year forecast rose slightly to the same level as the one-year forecast. The estimate for domestic economic growth this year is also unchanged, whereas the outlook for next year has been revised marginally downwards. A clear majority of the participating analysts had expected the CNB Bank Board to lower the 2W repo rate by 25 basis points at its November meeting. The forecast for the koruna exchange rate is again affected significantly by recent foreign exchange market developments. The expected growth rate of nominal wages is unchanged from the September survey.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
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 Janíčko, 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, 31 October 2024

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

October 2024	CPI 1Y	CPI 3Y
minimum	1.4	2.0
average	2.2	2.2
maximum	3.5	2.5

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS 1Y	ANALYSTS 3Y	CNB (%) 1Y
X.23	2.8	2.3	
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	
IX.24	2.2	2.1	3Q: 1.9
X.24	2.2	2.2	

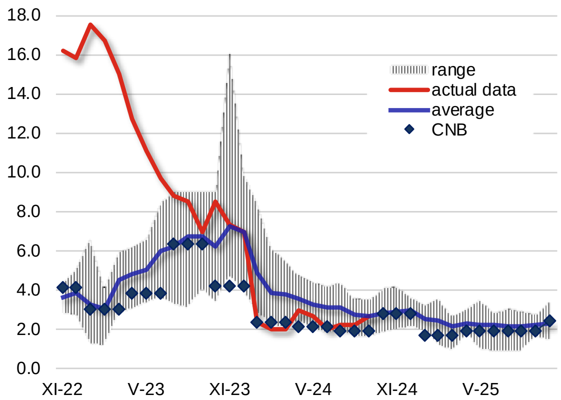
Although consumer prices fell by 0.4% month on month in September, this was not enough to slow annual inflation. The consumer price index rose by 2.6% compared with September 2023, i.e. 0.4 percentage point higher than in August. The month-on-month decline was due most of all to a drop in package holiday prices, which occurred as the summer season ended. Lower fuel prices also played a role. By contrast, according to the analysts, the higher-than-expected year-on-year growth was due mainly to higher food prices and base effects. Goods prices rose by 1.2% year on year overall, but inflation in services remains relatively high at 5.0%. Although the September consumer price inflation rate exceeded the consensus estimate, the analysts' average one-year forecast in our survey is unchanged at 2.2%. The three-year core inflation forecast rose by 0.1 percentage point, also reaching to 2.2%. The range of the one-year individual estimates widened noticeably, with the maximum rising and the minimum falling. The range of the three-year forecasts narrowed owing to an increase in the lowest value.

According to the analysts, inflation will pick up in the coming months. It could even exceed 3% in year-on-year terms in December. However, the key factors will be fuel and food prices, which show considerable volatility and complicate the prediction. Prices in services, which reflect relatively strong wage growth and recovering household consumption, could also become an inflationary factor given the low unemployment rate and high trade union demands. A strong labour market could also have an inflationary effect over the next two years. Combined with expansionary fiscal policy and the expected economic recovery, it could contribute to inflation staying slightly above the 2% target. Despite the currently accelerating headline inflation, some of the analysts positively assess the slowing trend of its core component, which best reflects demand pressures in the economy and which is important for monetary policy. However, one of the risks fostering higher core inflation is the currently recovering property market, now starting to be reflected in rising house and apartment prices.

The CNB's autumn forecast expects annual consumer price inflation of 2.4% in 2025 Q4.

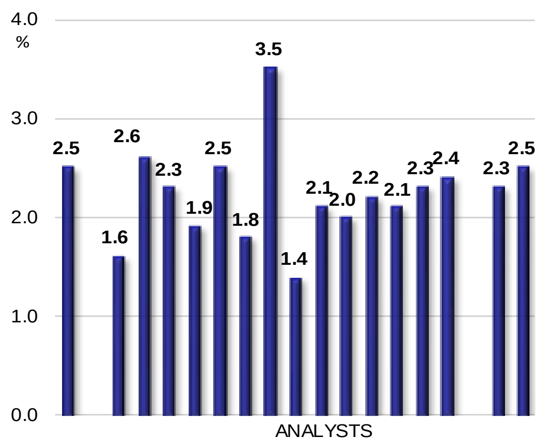
CONSUMER PRICE INDEX

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
(%)

October 2024	current year	current+ 1Y
minimum	0.8	1.5
average	1.0	2.4
maximum	1.2	2.9

FORECAST FOR GDP GROWTH
(%)

Date of Prediction	current year	current+1Y
X.23	0.0	2.1
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
IX.24	1.0	2.5
X.24	1.0	2.4

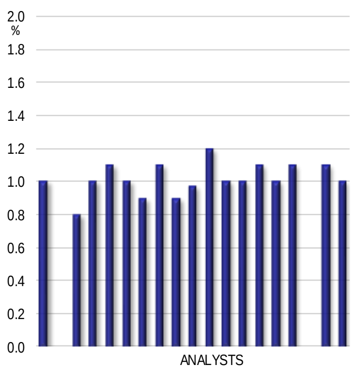
The final estimate of annual GDP growth in the Czech Republic in 2024 Q2 confirmed the value from the previous revision. The domestic economy thus grew by 0.6% in April–June compared to 2023 Q2. In quarter-on-quarter terms, by contrast, the growth rate was revised from 0.3% to 0.4%. This growth was driven by fixed investment, which rose by 1.9% quarter on quarter. Government consumption also contributed to growth, whereas household consumption is showing signs of weakening. Its quarter-on-quarter growth slowed to 0.2%. Households are spending less, but they are saving more and the saving rate is well above the pre-pandemic level. The revision to GDP growth, once again, had no major effect on the forecasts in our survey. On average, the economy is still expected to grow by 1.0% this year. The outlook for next year was again revised downwards by 0.1 percentage point, reaching 2.4%. The range of the individual estimates narrowed at both time horizons – for this year due to a rise in the minimum value and for next year due to a larger decline in the maximum value.

Against the backdrop of weak external demand, the analysts expected only moderate growth in the domestic economy in 2024 Q3. In year-on-year terms, however, given the decline in GDP in 2023 Q3 – and hence a lower base – they acknowledged the possibility of faster growth. According to some analysts, the domestic economy could accelerate as usual in Q4, aided by investment related to recovery and repairs following the floods. Other opinions are pessimistic, with some analysts expecting a slowdown in quarter-on-quarter growth.

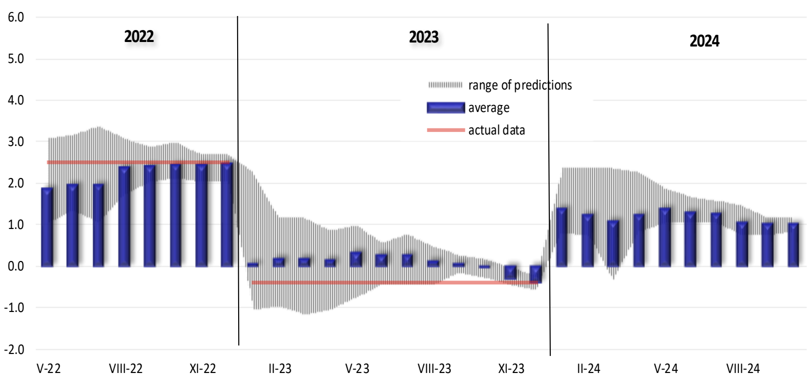
Germany, and therefore external demand, is expected to recover next year. This would be reflected in an upswing in domestic economic growth. However, the economic recovery in Germany will probably not be as strong as previously expected and thus remains a major risk to domestic economic growth.

According to the CNB's autumn forecast, GDP will grow 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
X.23	6.94	4.78	6.64	4.58	4.38	3.67	4.30	3.58
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
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

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

(%)

October	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
2024	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	4.00	2.50	3.55	2.50	3.14	2.50	2.87	2.42
average	4.01	3.25	3.67	3.28	3.38	3.35	3.53	3.50
maximum	4.25	4.00	4.15	3.60	3.60	3.70	3.90	3.95

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.10.	4.25	3.71	3.48	3.64

The vast majority (16 out of 17) of the analysts who participated in the October survey estimated that the CNB Bank Board would lower key interest rates by 25 basis points at the November meeting and the 2W repo rate would thus drop to 4.00%. An important factor is the weak performance of the domestic economy, which could significantly lag behind the CNB’s August forecast in the last quarter of this year. Wage growth, core inflation and growth in non-tradable consumer goods prices are also slower. Of the analysts surveyed, only one estimated that the Bank Board would be cautious and the CNB’s key interest rates would remain unchanged in November.

Key interest rates are also expected to decline at the forthcoming monetary policy meetings. According to some estimates, they should fall by 25 basis points at each meeting until the spring of next year, when the 2W repo rate could approach the 3% level. However, alternative views suggest that rates may be kept stable as early as the December meeting. The decision will be affected by autumn macroeconomic developments, the monetary policy stances of the ECB and the Fed and the outcome of the US presidential election (via the euro-dollar exchange rate). There is an opinion that developments on the property market could be a reason for further caution for the CNB Bank Board, even though the ability of monetary policy to effectively influence property price growth through interest rates is debatable. Price growth on the property market is accelerating, although mortgage interest rates are not falling significantly and remain relatively high. The continued upward pressure on property prices is attributed to failures in structural policies and persistent strong excess demand. Moreover, high accumulated savings complicate the situation. The weakening economy, which some analysts believe is being affected by the current excessively tight monetary policy, will be the reason for easing restrictive monetary policy. Moreover, the analysts also perceive that the rhetoric regarding the neutral interest rate is shifting. The level of 3.0%–3.5% is currently being discussed, compared with 3.5%–4.0% mentioned earlier.

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

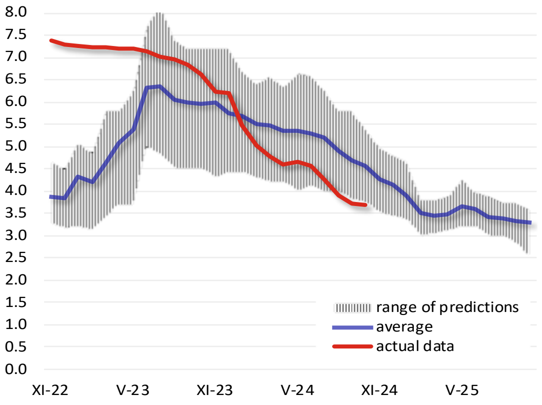
(%)

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	1	0	6	5	2	2	1
-previous survey	0	0	5	3	5	2	1

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

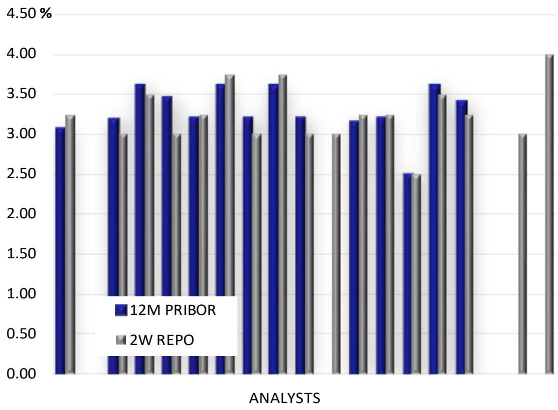
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



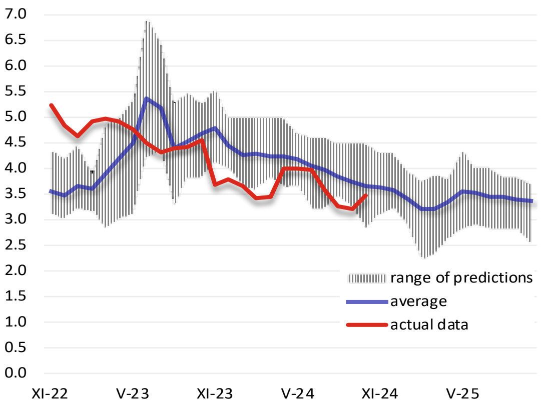
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



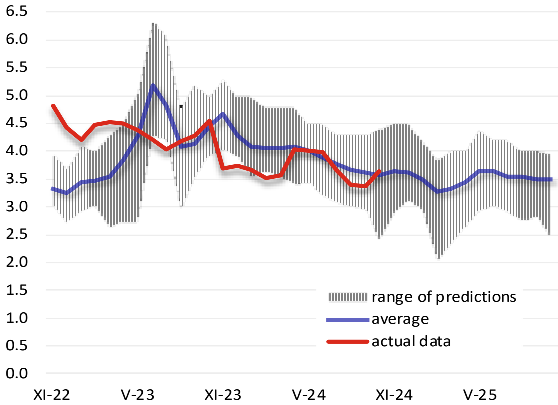
5Y IRS AT 1Y

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
X.23	24.57	24.41
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
IX.24	25.07	24.75
X.24	25.16	24.62

EXCHANGE RATE FORECAST

October 2024	EUR/CZK 1M	1Y
minimum	25.00	23.80
average	25.16	24.62
maximum	25.30	26.50

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.10.	25.24

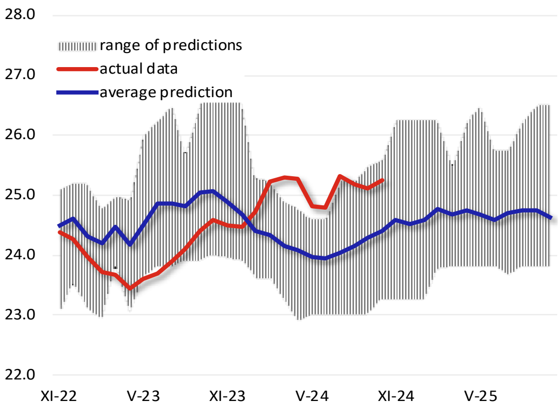
The exchange rate of the koruna depreciated slightly from CZK 25.15 to CZK 25.24 to the euro between the September survey and the October cut-off date. The analysts' one-month average forecast shifted in the same direction, from CZK 25.07 to CZK 25.16 to the euro. By contrast, the one-year forecast moved in the opposite direction, from CZK 24.75 to CZK 24.62 to the euro. The range of the individual one-month estimates narrowed due to a slight increase in the minimum value and a decline in the maximum value. The maximum and minimum values of the one-year forecasts were unchanged.

The analysts believe that the weakening of the koruna may stem from global sentiment and weaker data from the domestic economy. Increased tensions in the Middle East generally benefit the "safe" US currency at the expense of the currencies of riskier countries. The dollar has also been appreciating (at the expense of the euro and, in turn, the koruna) due to easing concerns of an economic recession in the USA and the prospect of a slower decline in US interest rates, which has subsequently been reflected in the interest rate differential. However, the latter should moderate at the one-year horizon and the domestic currency could thus appreciate gradually. Better global sentiment could act in the same direction. However, the koruna is likely to appreciate only slowly, as the domestic economic recovery will be only gradual. That said, the convergence scenario, which should foster appreciation of the koruna in the longer run, is expected to gradually resume. According to some analysts, an increase in sales of the returns on the CNB's international reserves, which are among the largest in the world relative to GDP, might also have a stabilising effect on the koruna exchange rate.

The CNB's autumn forecast expects the koruna at 25.5 CZK to the euro in 2025 Q4.

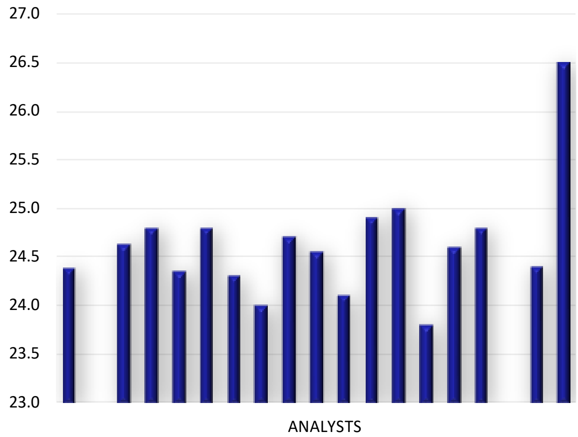
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

October 2024	current year	current+1Y
minimum	5.8	3.5
average	6.7	5.5
maximum	7.5	7.2

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
X.23	8.2	6.6
XI.23	8.1	6.5
XII.23	7.8	6.5
II.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

The labour market situation is easing only gradually. The share of unemployed persons increased but remains relatively small. Rather than laying off staff, employers are reducing the number of vacancies. The share of unemployed persons was 3.9% at the end of September 2024, 0.1 percentage point more than a month earlier and 0.3 percentage point more than a year earlier. In absolute terms, the Labour Office registered almost 291,000 job applicants. This is a month-on-month increase of almost 4,600 applicants. At the same time, the number of job seekers exceeds the number of registered job vacancies by more than 26,000.

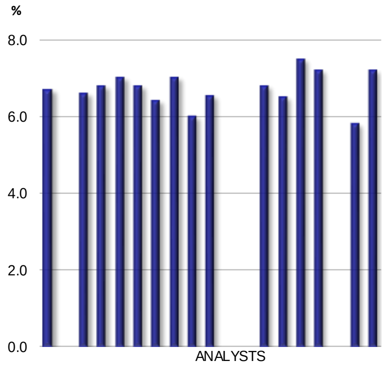
Given the current macroeconomic conditions, the analysts expect growth in real wages, albeit lower than expected in the summer. This is due to lower-than-expected nominal wage growth in Q2 this year and a slower recovery of the domestic economy. This will also be reflected in wage bargaining for next year. Real wages are not expected to return to the pre-pandemic level until around 2026.

The forecast for nominal wages this year and the next is unchanged from the previous survey. The analysts thus expect growth of 6.7% for 2024 and the outlook for next year indicates a slowdown to 5.5%.

According to the CNB's autumn forecast, nominal wages are expected to rise by 6.4% in 2024 and slow to 5.7% in 2025.

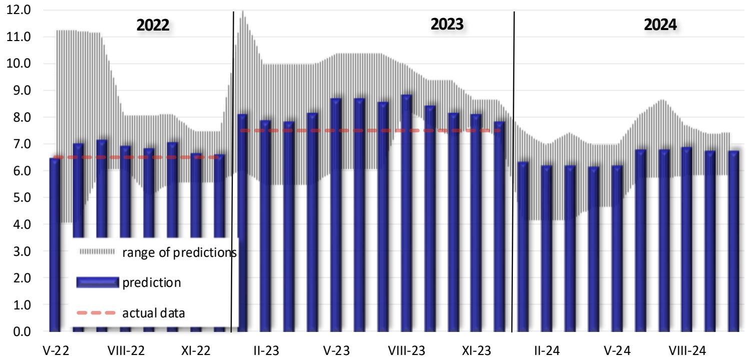
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

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



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