

# Financial Market Inflation Expectations

7/2022



Czech National Bank — Financial Market Inflation Expectations — 7/2022

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## I. SUMMARY

Thirteen domestic and three foreign respondents took part in the CNB's July survey. The results show that the analysts expect higher inflation at the one-year horizon than a month ago, while the forecast for consumer price inflation is unchanged at the three-year horizon. The economic growth estimate remains the same for 2022, while the outlook for next year is slightly less optimistic. Most respondents expect the key rates to remain unchanged at the August meeting, but some admit that they could increase further, in four cases even by 50 basis points. The forecast for the koruna exchange rate has shifted to a slightly stronger level at the one-month horizon and is expected to weaken very slowly at the one-year horizon given interest rate developments in the Czech Republic and abroad. The analysts expect nominal wages to grow faster this year than they had predicted in June. The average estimate for next year remains unchanged.

<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	+	+	+	+	+							
David Marek, Deloitte Czech Republic	+	+	+	+	+	+	+					
Jan Vejmělek, Komerční banka	+	+	+	+	+	+	+					
Patrik Rožumberský, Unicredit Global Research	+	+	+	+	+	+	+					
Helena Horská, Vít Hradil, 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, UNIQA	+	+	+	+	+	+	+					
Jakub Seidler, ČBA	+	+	+	+	+	+	+					
Lukáš Kovanda, Trinity Bank	+	+	+	+	+	+	+					
Michal Šoltés, RoklenFin		+	+	+	+	+	+					
Martin Janičko, MND	+	+	+	+	+			+				
Jan Bureš, ČSOB			+		+							
<b>FOREIGN ANALYSTS</b>												
Madhvee Bangur, Goldman Sachs	+	+	+	+	+	+	+					
Prianthi Roy, 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, 25 July 2022

## II. INFLATION

### FORECAST FOR Y/Y CPI GROWTH

(%)

July 2022	CPI	
	1Y	3Y
<b>minimum</b>	3.2	1.9
<b>average</b>	6.2	2.5
<b>maximum</b>	9.0	4.0

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

(%)

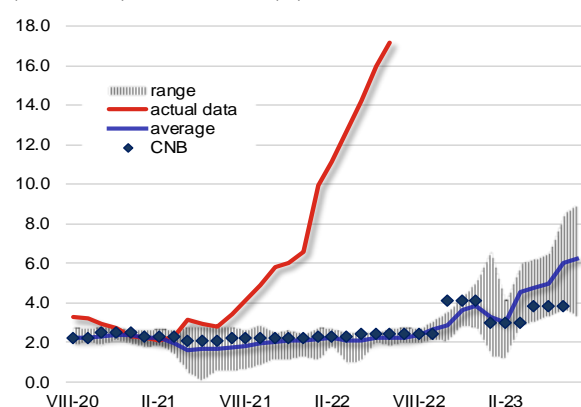
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
VII.21	2.2	2.1	
VIII.21	2.4	2.1	3Q: 2.4
X.21	2.9	2.2	4Q: 4.1
I.22	3.2	2.2	
III.22	4.5	2.2	1Q: 3.0
IV.22	4.7	2.2	
VI.22	6.0	2.5	2Q: 3.8
VII.22	6.2	2.5	

Inflation has accelerated further in the Czech Republic. The year-on-year consumer price index rose to 17.2% in June, up by 1.2 percentage point from May. An increase in prices of housing (imputed rents and energy in particular), food and transport continues to be significantly reflected in inflation, which is affecting most categories. Month-on-month consumer price inflation stood at 1.6%. In addition to the above factors, this was also due to a seasonal increase in the prices of package holidays. Although inflation in June did not deviate much from market and analyst estimates, the one-year forecast recorded a further upward shift in our survey. The analysts expect inflation to slow less considerably and the annual consumer price index to stand at 6.2% in June 2023. Annual inflation is expected to be around 2.5% two years later i.e. at the three-year horizon, which is the same value as in the previous survey. As suggested by the widening range of the individual forecasts, the annual inflation forecast is subject to ever greater uncertainty. The range between the maximum and minimum values widened both due to a decline in the minimum value and an increase in the maximum value. The minimum and maximum values were unchanged at the three-year horizon.

Given the already published updated energy suppliers' price lists, the analysts believe that inflation will surge again in July, possibly approaching the psychological level of 20% in year-on-year terms. A slowdown is expected after that. However, the inflation rate is not expected to drop below 15% until the end of this year, as the current very high wholesale energy prices have yet to pass through fully to price lists for end customers. Conversely, slower inflation will be fostered by base effects, a correction of commodity prices and weakening demand due to a decline in real wages and disposable income of households affected by higher payments for energy or mortgages. Lower demand might thus start to push down firms' margins if the hypothesis is true that they became inflated after the worst months of the pandemic.

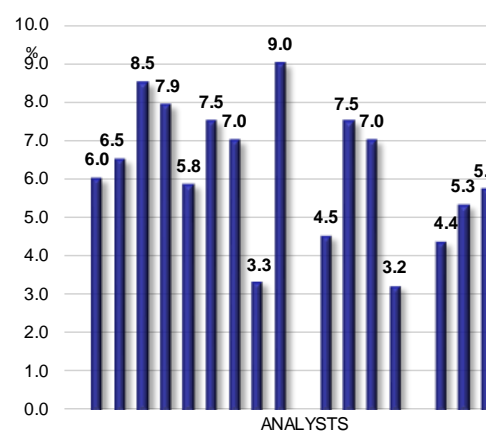
### CONSUMER PRICE INDEX

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 2022	end of year	
	current	current + 1Y
<b>minimum</b>	1.0	0.9
<b>average</b>	1.9	2.2
<b>maximum</b>	3.4	3.2

#### FORECAST FOR GDP GROWTH

(%)

Date of Prediction	end of year	
	current	current+1Y
VII.21	3.6	4.5
VIII.21	3.4	4.7
X.21	3.3	4.7
I.22	3.9	4.0
III.22	2.5	3.2
IV.22	1.9	3.0
VI.22	1.9	2.3
VII.22	1.9	2.2

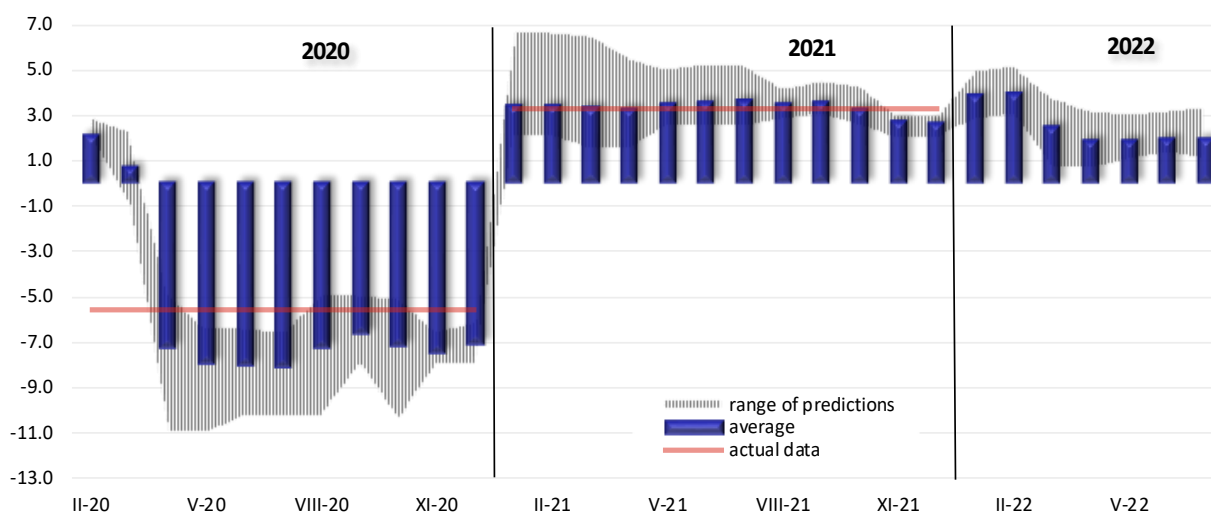
According to a revised estimate, GDP grew by 4.9% year on year in 2022 Q1, which is an upward correction of 0.1 percentage point. Additional information from the CZSO also shows that non-financial corporations recorded a quarterly increase in the investment rate and profit rate. By contrast, households recorded a decline in real income, mainly due to high price growth, leading to a quarterly decrease in the rate of savings and real consumption.

The analysts, who participated in our July survey, did not change their average opinion on the development of the Czech economy this year in light of the new macroeconomic data and expect GDP to grow by 1.9% year on year. However, there were changes in the individual estimates, and their range widened due to a decline in the minimum value and an increase in the maximum value. The economic growth outlook for next year was reduced by 0.1 percentage point to 2.2%. The range of the forecasts for 2023 narrowed due to a decline in the maximum value.

The analysts expect economic performance to be dampened for the rest of the year due to a decline in both domestic and external demand. Domestic demand will mainly be affected by lower household consumption, which will suffer due to a sharp drop in real wages. Some believe that investment may also be weaker. As regards external demand, Czech exports will be affected by relatively high sensitivity to the business cycle. The demand for cars in particular is responding quite quickly to a cooling in the global economy. On the other hand, government support programmes will have the opposite effect. The actual economic output will also be significantly affected by the war in Ukraine and the size of natural gas supplies from Russia. Domestic economic growth is expected to pick up slightly next year, which may be fostered by greater investment activity and a recovery in exports. A cooling of the labour market and high energy prices will act against accelerating private consumption. The current government expansion is expected to slow gradually.

#### GDP GROWTH AT END OF CURRENT YEAR

AVERAGE AND RANGE OF PREDICTIONS



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

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

(%)

July 2022	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
<b>minimum</b>	7.00	4.50	7.20	4.80	5.10	4.30	4.50	4.20
<b>average</b>	7.16	6.30	7.57	6.36	5.70	5.19	4.93	4.81
<b>maximum</b>	7.50	8.00	8.00	8.20	6.30	6.50	5.80	6.10

### 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.21	0.67	1.39	1.14	1.85	1.88	2.15	1.86	2.19
VIII.21	1.00	1.80	1.36	2.14	2.12	2.34	1.98	2.31
X.21	1.94	2.69	2.51	3.11	2.91	3.08	2.64	3.00
I.22	4.42	4.28	4.82	4.33	4.11	3.66	3.63	3.45
III.22	4.93	4.57	5.18	4.61	4.29	3.88	3.75	3.55
IV.22	5.43	4.90	5.90	5.07	4.94	4.17	4.36	3.83
VI.22	6.77	6.20	7.24	6.34	6.23	5.36	5.80	5.19
VII.22	7.16	6.30	7.57	6.36	5.70	5.19	4.93	4.81

Most analysts (10 of 16 respondents) expect key interest rates to remain unchanged at the CNB's monetary policy meeting

### ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
<b>15.7.</b>	7.00	7.59	5.57	4.74

in August. This may be due to signals that inflation is about to peak, the prospect of slowing economic growth, and the new Bank Board, which is expected to take a somewhat more dovish approach. However, despite Governor Michl's communication, the remaining respondents expect the CNB's monetary policy to tighten further, given the current inflation pressures. Two respondents expect the 2W repo rate to increase by 25 basis points to 7.25%, while four expect an increase of 50 basis points to 7.50%.

There is growing uncertainty and a lack of consensus among the analysts at the one-year horizon, as the range of the individual estimates widened again to unprecedented levels (from 4.50% to 8.00%). On the one hand, the analysts believe that inflation will continue to exert pressure on the central bank to raise interest rates because otherwise there is a risk that high inflation will persist in the Czech Republic for longer. On the other hand, it is argued that price growth should slow gradually at the monetary policy horizon. Moreover, economic activity will contract considerably at the end of 2022, which will moderate demand-driven inflation pressures. In this scenario, November 2022 may see the first rate cut.

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

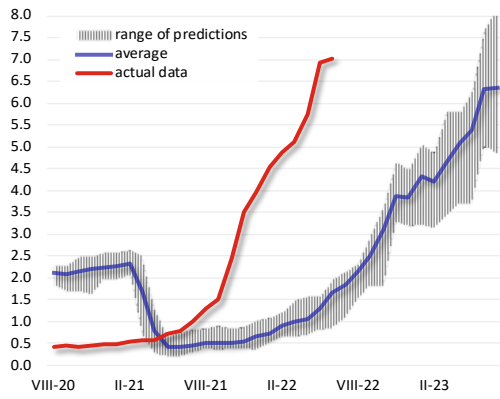
(%)

2W repo rate level in 1Y (%)	4.50	4.75	5.00	5.25	5.50	5.75	6	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00
number of analysts - current survey	1	0	1	1	1	0	4	1	1	0	3	1	1	0	1
-previous survey	0	0	1	2	2	2	0	0	1	1	4	0	1	0	0

The estimates of the interbank reference rates and interest rate differentials followed the movements in market rates. The 12M PRIBOR rose by 59 bp from the previous survey. The shift in the one-month forecast was significantly smaller (+33%) and the one-year forecast was virtually flat (+2%). The 5Y IRS and the 10Y IRS decreased by 68 and 108 basis points respectively compared to the previous survey. The swap rate forecasts decreased by 17–87 basis points. On average, the analysts still expect the PRIBOR and IRS rates to decline from the current levels at the one-year horizon. As regards the interest rate derivatives, the average one-month and one-year forecasts for the 5Y IRS continue to exceed the corresponding forecasted levels for the 10Y IRS.

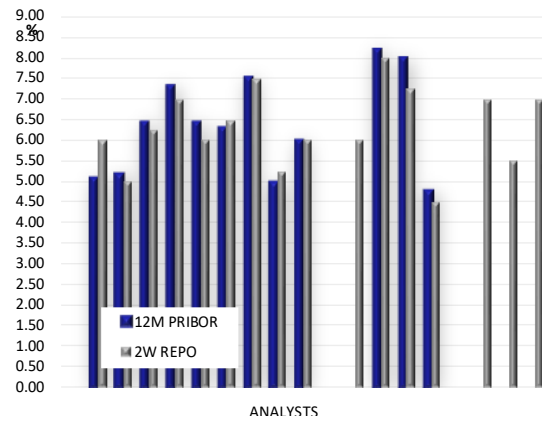
**12M PRIBOR AT 1Y**

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



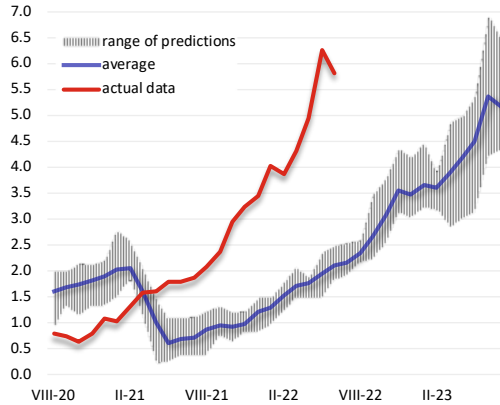
**2W REPO AND 12M PRIBOR AT 1Y**

PREDICTIONS OF INDIVIDUAL ANALYSTS



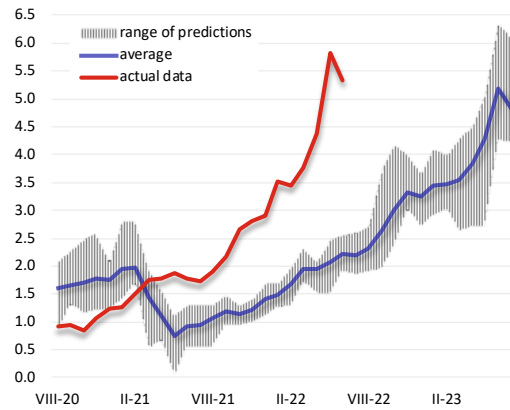
**5Y IRS AT 1Y**

AVERAGE AND RANGE OF PREDICTIONS



**10Y IRS AT 1Y**

AVERAGE AND RANGE OF PREDICTIONS



## V. EXCHANGE RATE

### 1M AND 1Y EXCHANGE RATE FORECAST

Date of Prediction	EUR/CZK	
	1M	1Y
VII.21	25.46	24.93
VIII.21	25.37	24.82
X.21	25.33	24.73
I.22	24.52	24.30
III.22	24.82	24.47
IV.22	24.42	24.17
VI.22	24.72	24.85
VII.22	24.63	24.86

### EXCHANGE RATE FORECAST

July 2022	EUR/CZK	
	1M	1Y
minimum	24.50	23.80
average	24.63	24.86
maximum	24.80	26.50

### ACTUAL EUR/CZK AS OF FORECAST DEADLINE

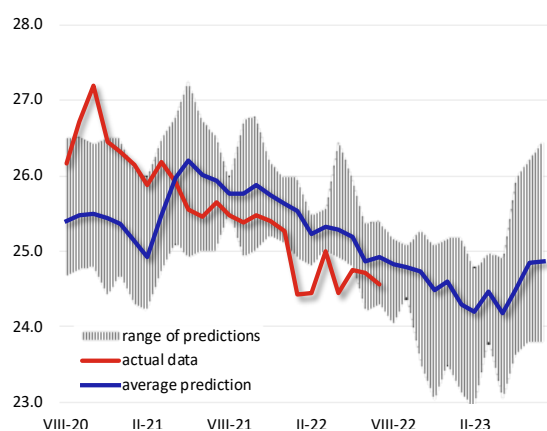
15.7.	24.57
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Compared to the previous survey, the koruna appreciated against the euro by CZK 0.18 to CZK 24.57 as of the cut-off date. The analysts ascribe this shift to a fast and pronounced increase in key interest rates and also to the CNB's support through foreign exchange interventions, which prevent a weakening observed in other CEE currencies. The analysts assume that the koruna exchange rate will remain broadly flat at the one-month horizon, fluctuating around CZK 24.63 to the euro on average. At the one-year horizon, it is expected to depreciate slightly to CZK 24.86 to the euro.

According to the analysts, the koruna remains weaker due to the persisting sentiment on the global financial market, driven by concerns about developments in the euro area and expectations of a faster increase in key rates by the Fed. A major change in sentiment is not expected this year, so the koruna is not expected to appreciate too much (compared to the message in our spring surveys), but rather to depreciate slightly. The expectations of a decrease in the CNB's key interest rates will start to act towards depreciation. Significantly worse economic developments abroad, which would have an adverse effect on the koruna exchange rate, may be a risk to the outlined scenario. According to the analysts, it is currently not clear whether and to what extent the CNB Bank Board in its new line-up would be willing to prevent the koruna from such depreciation, as this may also require a greater range of interventions.

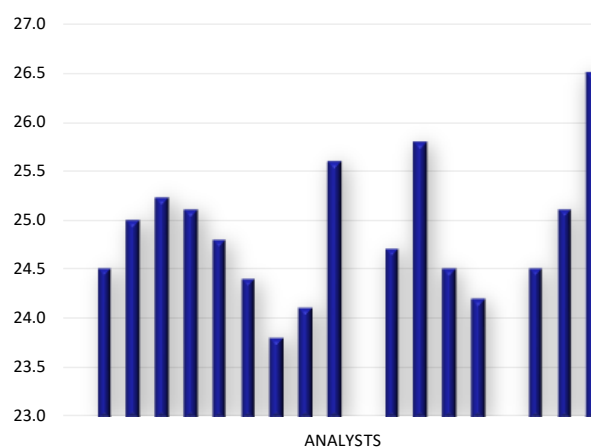
### EUR/CZK

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



### EUR/CZK AT 1Y

#### PREDICTIONS OF INDIVIDUAL ANALYSTS





## VI. NOMINAL WAGES

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

July 2022	year end	
	current	current+1Y
minimum	6.0	4.5
average	7.2	7.0
maximum	11.2	10.1

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	year end	
	current	current+1Y
VII.21	3.7	4.5
VIII.21	4.0	4.6
X.21	5.0	5.0
I.22	5.5	5.1
III.22	6.5	5.6
IV.22	6.5	5.9
VI.22	7.0	7.0
VII.22	7.2	7.0

The analysts continue to perceive the labour market as overheated, as the number of vacancies is still well above the number of job applicants. Although the supply of labour is expanding due to Ukrainian refugees, the labour market cannot be expected to return to equilibrium in the near future and if it does, it will be more in the medium term. On the other hand, excess demand for labour is no longer as high as before the onset of the pandemic, and thus the related inflation pressures may not be as strong, especially if we see an economic cooling.

According to the Czech Labour Office, the number of unemployed persons dropped again by 0.1 percentage point to 3.1%. In addition to seasonal work, the downward trend in unemployment is attributed to the rapid recovery last year and strong domestic and external demand in late 2021 and early 2022. The current unemployment level is perceived as too low from the long-term perspective and as creating an environment for fast wage growth. The analysts thus expect nominal wages to grow by 7.2% in 2021, i.e. 0.2 pp more than in the previous survey. Due to the strong bargaining position of employees (resulting from the low unemployment rate), the outlook for next year is unchanged, remaining at 7.0%

Due to the very high rate of inflation, real wages will drop significantly despite decent nominal growth. However, there may be a turnaround and a return to growth as early as next year, which some estimates expect to continue into 2024.

### NOMINAL WAGE GROWTH

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

