

Financial Market Inflation Expectations

8/2022



Czech National Bank — Financial Market Inflation Expectations — 8/2022

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I. SUMMARY

Fifteen domestic and one foreign analyst took part in the CNB's August survey. The data obtained indicate that the analysts again expect a higher inflation rate at the one-year horizon than a month ago. The forecast for consumer price inflation remains again unchanged at the three-year horizon. The economic growth estimate increased this year, while the outlook for next year is less optimistic. According to estimates, the CNB will not change its interest rates at the next meeting. Analysts' views on the interest rate path at the one-year horizon remained very mixed, but the average level shifted downwards. The expected path of the future koruna exchange rate remains virtually the same as in the July survey. The analysts expect nominal wages to grow more slowly this year than expected a month ago, while higher growth is expected next year.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
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			+		+							
FOREIGN ANALYSTS												
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 August 2022

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

August 2022	CPI	
	1Y	3Y
minimum	3.1	0.2
average	6.7	2.5
maximum	9.0	6.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
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	
VIII.22	6.7	2.5	3Q: 6.3

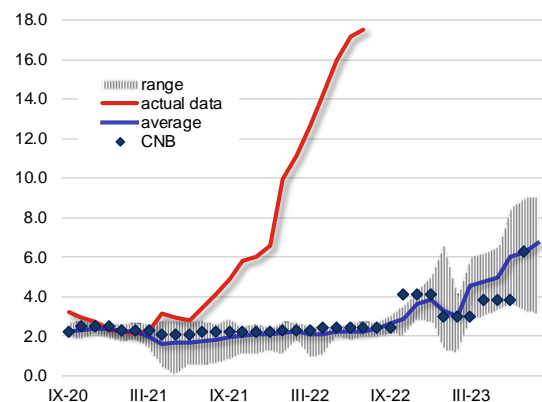
Domestic inflation edged up again in July. The annual consumer price index rose by 0.3 percentage point to 17.5%. This was mostly attributable to prices of housing, food and transport. This is a month-on-month increase of 1.3%, the lowest growth rate since February 2022. In month-on-month terms, prices of package holidays in particular increased. Although the inflation rate came as no surprise this time, the analysts again increased significantly the annual inflation forecast on average (by 0.5 pp to 6.7%). The range of the individual forecasts widened marginally due to a slight decline in the minimum value. The three-year outlook is unchanged at 2.5%. Owing to a decline in the minimum value and an increase in the maximum value, the range of the maximum and minimum values rose considerably.

Given the growth in energy and food prices, the analysts expect inflation to increase further in the months ahead. Some believe that it might exceed 19% as major electricity and natural gas suppliers gradually update their price lists. It is expected to slow gradually from Q4, due to weakening demand and, most notably, base effects in autumn 2021. Over time, inflation might also be dampened by a correction of some prices, such as construction materials and property prices and, in the longer run, also energy prices, which are currently extremely high.

A further increase in energy and food prices is currently the largest inflationary risk to the outlined scenario. There is considerable uncertainty among the analysts regarding the speed and scale of the pass-through of the high energy prices to inflation. Wage growth and the related wage-price spiral may act in the same direction. By contrast, a more pronounced cooling of economic activity is an anti-inflationary risk.

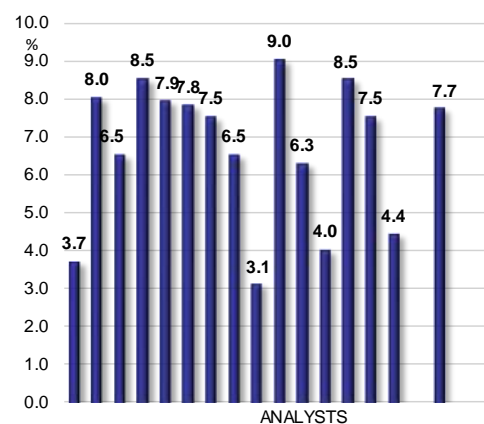
CONSUMER PRICE INDEX

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

(%)

August 2022	end of year	
	current	current + 1Y
minimum	1.7	-0.8
average	2.4	1.3
maximum	3.1	2.6

FORECAST FOR GDP GROWTH

(%)

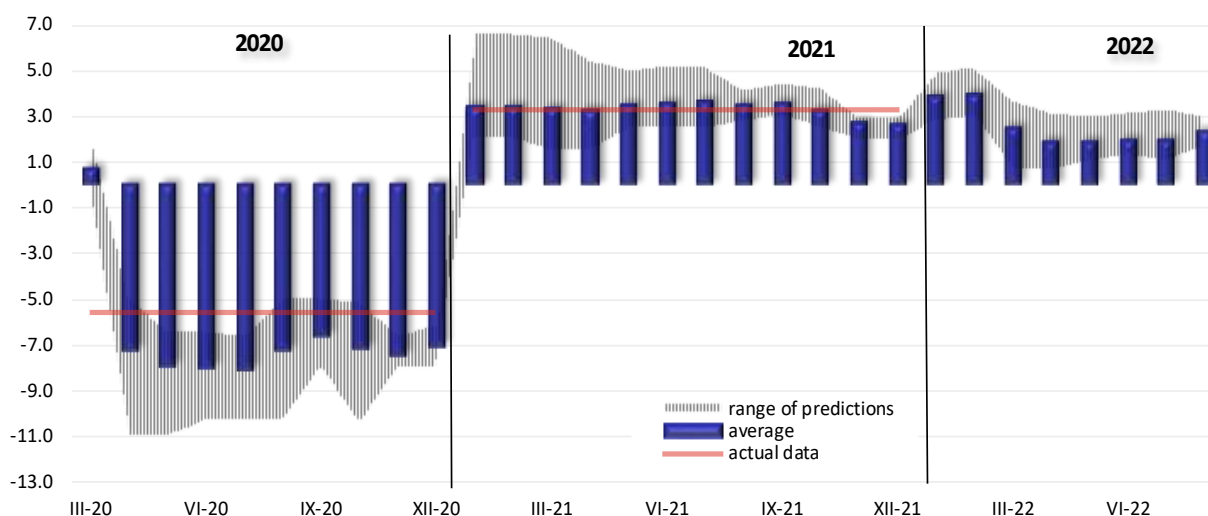
Date of Prediction	end of year	
	current	current+1Y
VIII.21	3.4	4.7
X.21	3.3	4.7
I.22	3.9	4.0
III.22	2.5	3.2
IV.22	1.9	3.0
VI.22	1.9	2.3
VII.22	1.9	2.2
VIII.22	2.4	1.3

According to a preliminary estimate, the domestic economy grew by 3.6% year on year in 2022 Q2. This corresponds to a quarterly increase of 0.2%. Expenditure on final consumption and gross capital formation contributed the most to annual growth, while the effect of external demand remained negative. From the perspective of gross value added, wholesale and retail, transport, hotels and restaurants have the largest shares. By contrast, industry and construction were flat according to the CZSO. Recent events and the current macroeconomic data have adjusted the analysts' view of future developments. They estimate that the economy will grow by 2.4% this year, i.e. 0.5 pp more than expected in the previous survey. By contrast, GDP is expected to increase by a mere 1.3% next year, i.e. 0.9 pp less than in the July survey. The range of the forecasts for this year narrowed due to an increase in the minimum value and a decline in the maximum value. A decline in the minimum value narrowed the range of estimates for next year.

Given the war in Ukraine, the high energy prices and weakening household consumption, the data on economic performance in 2022 Q2 came as a positive surprise for many respondents. However, weakening tendencies are expected to prevail for the rest of this year. There are estimates that the Czech economy may slide into a short shallow recession in H2. The economy will be hampered by demand, i.e. weakening household consumption due to high energy prices, and also foreign trade due to the expected deterioration in the global economy. Possible disruptions of natural gas supplies pose a considerable risk with a major impact on industrial production. A recovery may occur as early as spring 2023 when foreign trade is expected to improve.

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

(%)

August 2022	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	4.50	7.35	4.51	3.90	3.20	3.60	2.90
average	7.09	6.03	7.45	6.05	4.86	4.40	4.18	4.07
maximum	8.00	8.00	7.60	7.40	5.80	5.30	5.00	4.80

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
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
VIII.22	7.09	6.03	7.45	6.05	4.86	4.40	4.18	4.07

Most analysts (13 of 16 respondents) expect the key interest rate to remain unchanged at the CNB's monetary policy

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.8.	7.00	7.45	4.70	4.09

meeting in September. Two respondents anticipate that the 2W repo rate will rise by 25 bp to 7.25%, while only one expects a rise of 100 bp to 8.00%. The risk of strong secondary effects and the threat of inflation expectations becoming unanchored are considered the main reasons justifying a further tightening of the CNB's monetary policy (despite speculation about the contribution of an increase in interest rates to taming inflation in the short term and cost shocks and the expected slowdown in economic growth). This was despite the new Bank Board's rather dovish approach.

There is still a huge level of uncertainty and large differences in analyst opinion at the one-year horizon. The individual estimates still fluctuate within a broad range of 4.50%–8.00%. The scenarios are thus mixed. In addition to a one-off jump or a gradual fall in key interest rates, there are also considerations that price and wage growth combined with downward pressure on the koruna will initially compel the Bank Board to tighten monetary policy further; however, spring 2023 may see the opposite due to subdued demand pressures and a decline in core inflation. Overall, future expected interest rates are lower than a month ago. However, risks are being perceived in a spillover of extremely high energy prices into core inflation and inflation expectations, which may slow the decline in interest rates.

The estimates of the monitored interbank reference rates and interest rate derivatives again largely followed market

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

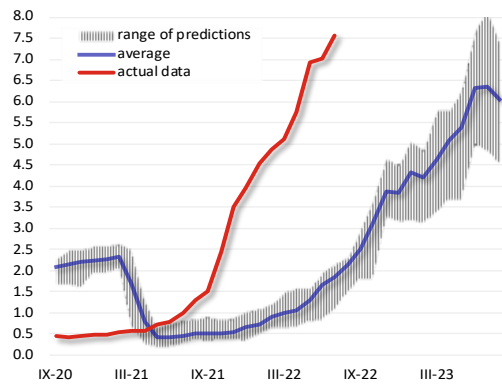
(%)

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	1	2	1	1	0	3	0	2	2	2	0	0	0	1
- previous survey	1	0	1	1	1	0	4	1	1	0	3	1	1	0	1

developments and decreased. The 12-month PRIBOR market rate fell by 14 bp from the previous survey. The one-month and one-year forecasts for the 12M PRIBOR declined by 12 bp and 31 bp respectively. The 5Y IRS rate and the 10Y IRS rate decreased by 87 and 65 bp respectively compared to the previous survey. The IRS rate forecasts decreased by 74–84 bp. The analysts continue to expect the PRIBOR and IRS rates to decrease from their current levels at the one-year horizon. The average forecast for the 12M PRIBOR continues to exceed the 5Y IRS forecast, which is higher than the forecasted level for the 10Y IRS. This applies at both the one-month and one-year horizon.

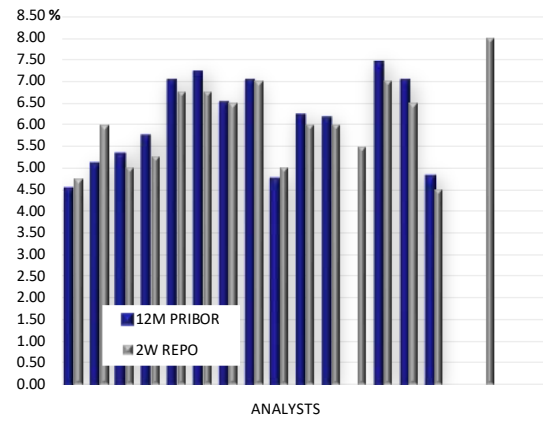
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



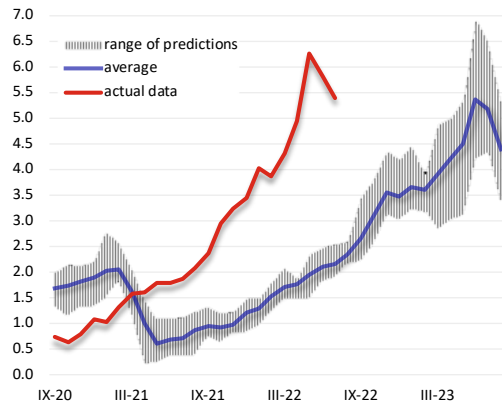
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



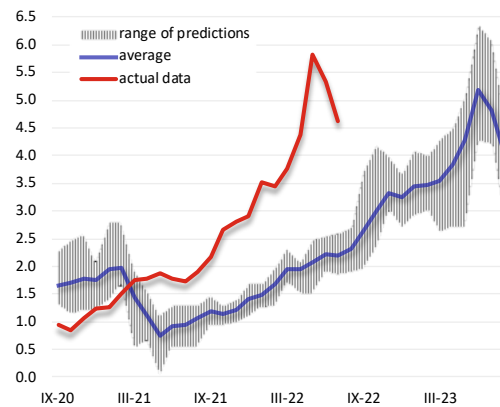
5Y IRS AT 1Y

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
V.III.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
VIII.22	24.62	24.82

EXCHANGE RATE FORECAST

August 2022	EUR/CZK	
	1M	1Y
minimum	24.40	23.90
average	24.62	24.82
maximum	25.00	25.70

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

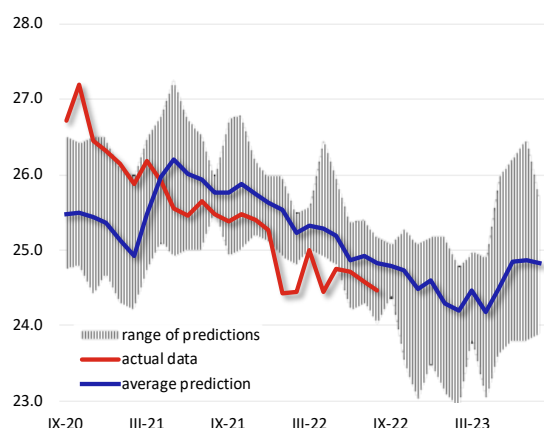
15.8.	24.46
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Although there has been increased aversion to Central European currencies due to the region's dependence on Russian gas supplies and the worsening trade balance, the exchange rate of the koruna against the euro has appreciated by CZK 0.11 to CZK 24.46/EUR since the July survey. The analysts naturally attribute this to the CNB's foreign exchange interventions which, according to their estimates, significantly exceed the size of the support in the spring after the outbreak of the war in Ukraine, and believe that the CNB will continue to use the interventions to help the koruna. The average forecasts thus remain broadly unchanged. The exchange rate of the koruna is expected to fluctuate around CZK 24.62/EUR at the one-month horizon and close to CZK 24.82/EUR at the one-year horizon.

According to some analysts, the downward pressures on the domestic currency will persist. Although it will benefit from a significant interest rate differential, the moderate approach of the new Bank Board to further monetary policy tightening and also signs of a future increase in the ECB's rates rather signal a narrowing of the interest rate differential in the future. A strong dollar will also act against the appreciation of the koruna exchange rate, with regional currencies having weakened in response to its appreciation. The nominal appreciation of the exchange rate will also be prevented by real appreciation, which is a consequence of faster growth in domestic inflation. Foreign trade, which is grappling with weakening external demand and shortages of components on the export side, is unlikely to provide strong support to the koruna either. At the same time, expensive energy commodities will push up the value of imports. Major risks are associated with potential longer-running disruptions to Russian gas supplies and the related onset of a recession, which would also be accompanied by downward pressure on the koruna.

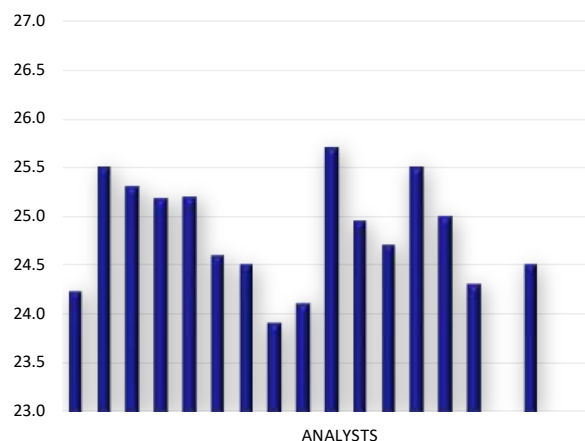
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

August 2022	year end	
	current	current+1Y
minimum	6.0	5.0
average	6.9	7.5
maximum	8.1	13.0

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	year end	
	current	current+1Y
V.III.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
VIII.22	6.9	7.5

The unemployment rate remains low, with the share of unemployed persons at 3.3% in July (up by 0.2 pp compared to June and 0.4 pp less than a year ago). Under the ILO definition, the general unemployment rate declined by 0.6 pp to 2.4% year on year in 2022 Q2. According to the national accounts, employment rose by 1.4% quarter on quarter and 2.3% year on year in Q2. The number of job vacancies continues to markedly exceed the number of job applicants. Labour market conditions thus remain tight. Forecasts for nominal wage growth recorded contradictory corrections. While the estimate for this year was lowered by 0.3 pp to 6.9%, the outlook for next year was increased by 0.5 pp to 7.5%. Real wages are virtually guaranteed to decrease quite significantly this year. They may increase next year but the pace will not be very rapid.

NOMINAL WAGE GROWTH

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

