

Financial Market Inflation Expectations

9/2022



CNB CZECH
NATIONAL
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Czech National Bank — Financial Market Inflation Expectations — 9/2022

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Contents

I. SUMMARY	3
II. INFLATION	4
III. GROSS DOMESTIC PRODUCT	5
IV. INTEREST RATES – 2W REPO, PRIBOR, IRS	6
V. EXCHANGE RATE	8
VI. NOMINAL WAGES	9

I. SUMMARY

In September, twelve domestic and two foreign analysts sent in their contributions to the CNB's monthly survey. The results show that although the views on economic growth and inflation remain unchanged at the one-year horizon, the outlook for economic growth next year is somewhat less optimistic. At the same time, there was an unusually large increase in expected inflation at the three-year horizon. As regards monetary policy, none of the respondents expect the CNB Bank Board to change its key interest rates at its September meeting. The 2W repo rate may fall by around 1 percentage point by September 2023. The analysts expect the koruna exchange rate to weaken to above CZK 25 to the euro on average over the next 12 months. Nominal wages are expected to grow slightly less this year, while next year they should grow faster than was expected in August.

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, 22 September 2022

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

September 2022	CPI	
	1Y	3Y
minimum	4.0	2.0
average	6.7	2.8
maximum	9.0	6.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

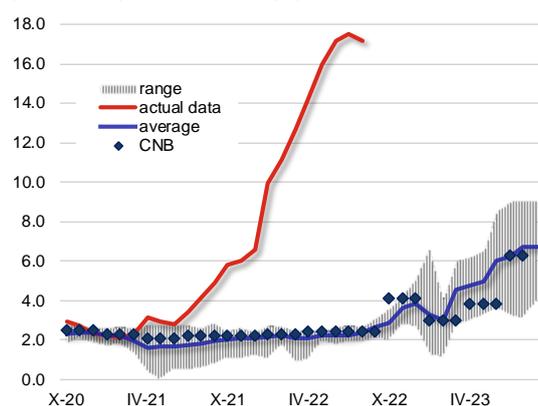
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
IX.21	2.6	2.1	3Q: 2.4
X.21	2.9	2.2	4Q: 4.1
I.22	3.2	2.2	
III.22	4.5	2.2	1Q: 3.0
IV.22	4.7	2.2	
VI.22	6.0	2.5	2Q: 3.8
VIII.22	6.7	2.5	
IX.22	6.7	2.8	3Q: 6.3

Growth in the consumer price index declined by 0.3 percentage point in August, returning to the June level, i.e. 17.2%. This is an increase of 0.4% in month-on-month terms. According to the CZSO, it was affected by inflation in almost all categories of the consumer basket except transport. The annual increase in the price level continued to be due largely to housing, while the decline in the annual rate was largely attributable to a pronounced monthly decline in fuel prices, which responded to a correction in oil prices on the commodity market. The analysts' one-year average forecast did not respond to the latest price developments, remaining at 6.7%. By contrast, there was a pronounced increase at the three-year horizon, up by 0.3 percentage point to 2.8%. The range of the individual one-year and three-year estimates narrowed greatly due to a rapid increase in the minimum values. This was more substantial for the three-year outlook.

The analysts hold different views on future inflation. According to one group, inflation may already have reached its peak. A higher base effect, a decline in consumer demand reflecting a fall in real wages, an only gradual pass-through of the high wholesale energy prices into consumer prices, measures taken by the Czech government, such as a price cap on energy prices, a waiver of payments for renewable energy sources and a cost-saving energy tariff, are expected to foster a decline in the pace of inflation. Others advise caution because, in their view, inflation may be yet to peak.

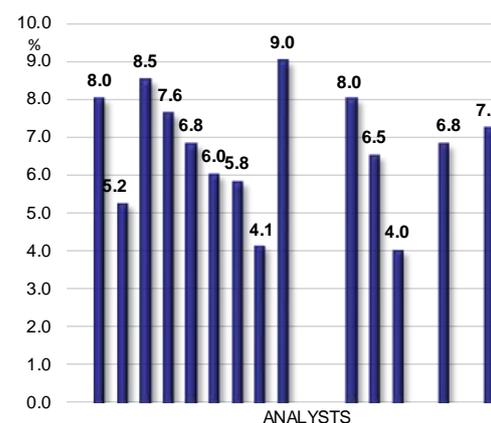
CONSUMER PRICE INDEX

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 2022	end of year	
	current	current + 1Y
minimum	2.0	-0.3
average	2.4	1.2
maximum	2.9	2.0

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	end of year	
	current	current+1Y
IX.21	3.5	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
VIII.22	2.4	1.3
IX.22	2.4	1.2

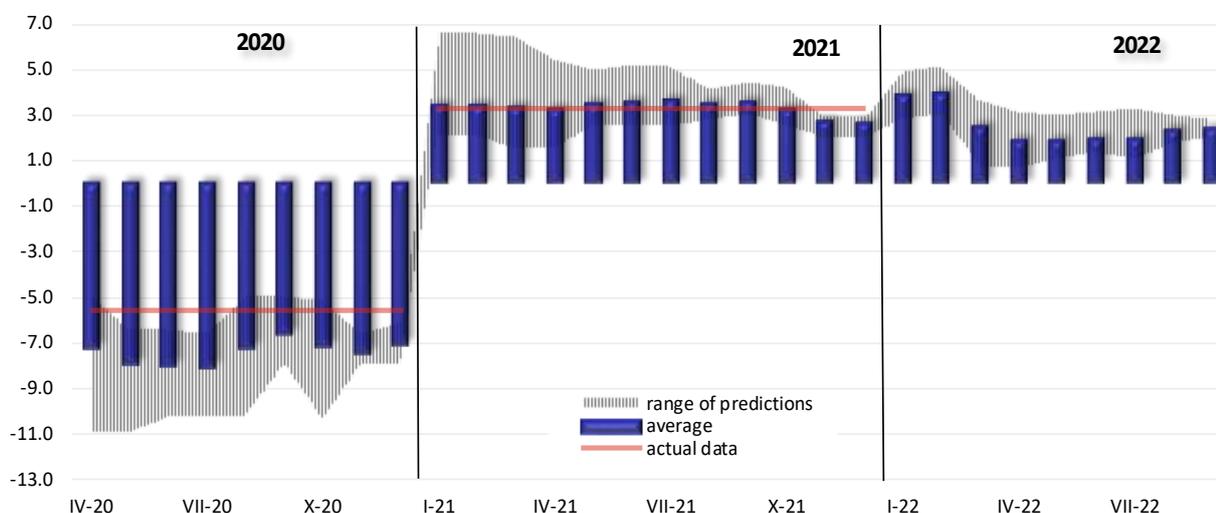
According to a revised estimate, the domestic economy grew by 3.7% year on year in 2022 Q2 (compared to 3.6% in the preliminary estimate). The correction was even more pronounced in quarter-on-quarter terms, with GDP increasing by 0.5% (compared to 0.2%). The growth was due mainly to a change in inventories followed by gross fixed capital formation. By contrast, external demand had a negative impact in year-on-year terms. Although final consumption expenditure rose year on year, it recorded a quarterly decline, both for households and government institutions. Despite the above revised estimate, the analysts have not changed their view on this year's whole-year GDP growth and continue to expect the domestic economy to grow by 2.4% year-on-year. They are slightly less optimistic about next year, expecting a slowdown to 1.2%, 0.1 pp less than in the August survey. The range of the individual estimates for this year and the next narrowed due to an increase in the minimum values and a fall in the maximum values.

The analysts believe that the increased contribution of inventories may have been due to persisting problems in subcontracting chains and the related accumulation of unfinished inventories. There is speculation that investment activity is being affected by EU funds and investments related to green policy. Some analysts believe that the negative quarterly contribution of household consumption to GDP growth was still surprisingly small (given the weak consumer confidence).

The economy is expected to decline quarter on quarter in 2022 Q3 and Q4. A higher growth rate is not expected until the second half of 2023 when inflation should weaken and higher nominal wage growth will bolster the purchasing power of households. Investment will continue to rely on EU funds. As external demand starts recovering, net exports may start to make a positive contribution to domestic economic growth.

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

(%)

September 2022	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	4.50	7.30	4.50	4.80	3.80	4.30	3.50
average	7.00	6.04	7.42	5.98	5.12	4.51	4.55	4.14
maximum	7.00	8.00	7.50	7.20	5.82	5.50	4.99	5.20

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.21	1.17	2.17	1.66	2.52	2.39	2.65	2.25	2.65
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
VIII.22	7.09	6.03	7.45	6.05	4.86	4.40	4.18	4.07
IX.22	7.00	6.04	7.42	5.98	5.12	4.51	4.55	4.14

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.9.	7.00	7.42	5.17	4.66

This time, all the analysts were expecting the key interest rates to remain unchanged at the CNB's next monetary policy meeting on 29 September 2022, while in the August survey, three of the respondents were still expecting the key interest rates to increase, in one case by as much as 100 bps.

The range of the individual estimates, running from 4.5% to 8.00%, is still very wide at the one-year horizon and illustrates the persisting high levels of uncertainty surrounding the views about the future settings of key interest rates. The estimated level of the future key interest rates is broadly unchanged on average; the 2W repo rate is overall expected to be around 1 percentage point lower in September 2023 than now, i.e. at 6%. Yet, this does not rule out that some respondents might expect a further, temporary tightening of the CNB's monetary policy. One of the reasons justifying this step might be, for example, a narrowing of the interest rate differential, which could intensify inflation pressures through a weakening of the koruna (unless the CNB uses interventions to prevent its depreciation).

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

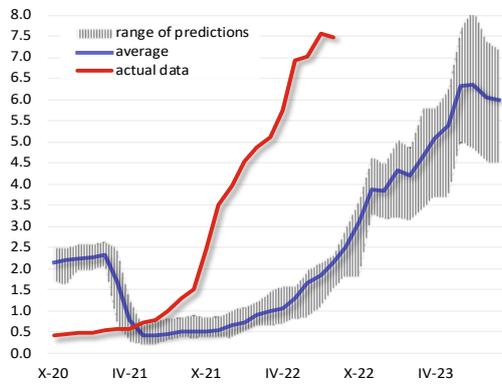
(%)

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

The forecasts for PRIBOR reference interbank rates have declined slightly as speculation on a further increase in key interest rates waned. By contrast, market swap rates increased, following the rise in their European counterparts, which are responding to the ongoing rapid tightening by major central banks. This movement was also reflected in the IRS rate forecasts in this survey, which shifted upwards by 6 to 37 bps. The expectations of a drop in PRIBOR and IRS rates at the one-year horizon persist. Similarly, it still holds true that the average forecast for the 12M PRIBOR exceeds the 5Y IRS forecast, which is higher than the forecasted level for the 10Y IRS at both the one-month and one-year horizon.

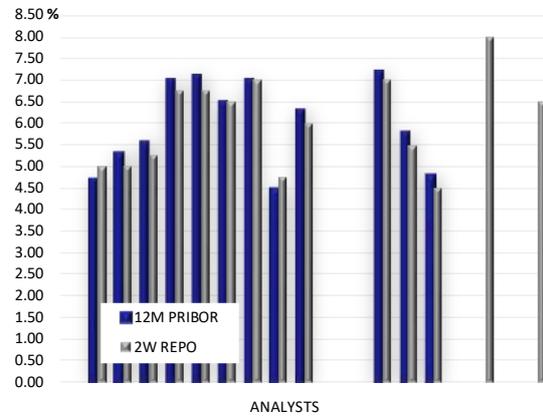
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



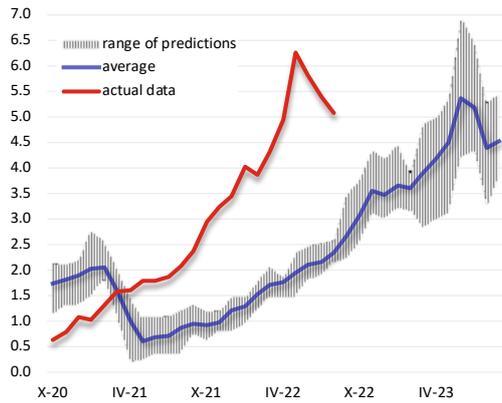
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



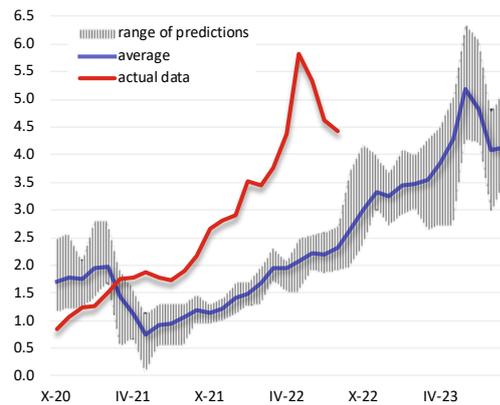
5Y IRS AT 1Y

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
IX.21	25.29	24.80
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
VIII.22	24.62	24.82
IX.22	24.64	25.03

EXCHANGE RATE FORECAST

September 2022	EUR/CZK	
	1M	1Y
minimum	24.50	23.90
average	24.64	25.03
maximum	25.00	26.50

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

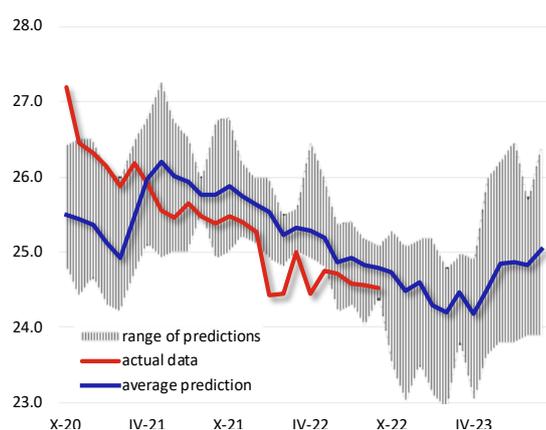
15.9.	24.52
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The exchange rate of the koruna against the euro was broadly unchanged from the previous survey, remaining close to CZK 24.50/EUR. The analysts' one-month forecast also saw only negligible changes, expecting a slight depreciation to CZK 24.64/EUR. The analysts expect a slightly greater depreciation tendency at the one-year horizon than a month ago, estimating on average that the koruna will weaken further by mid-September 2023, surpassing the psychological threshold of CZK 25/EUR and moving close to CZK 25.03/EUR.

There is also speculation among analysts that the exchange rate of the koruna would currently be weaker had it not been for the CNB's interventions. According to some estimates, it would have exceeded CZK 25 to the euro. The current geopolitical tensions relating mainly to the war in Ukraine, coupled with the unfavourable evolution of the balance of payments, may cause the exchange rate of the koruna to deviate to a weaker level on the foreign exchange market. The analysts expect the koruna to return to a gradual appreciation trend in the medium term. This will be based on the renewal of the convergence of the Czech economy to the European economy. A recovery in foreign trade, a reduction in the overboughtness of the koruna and improved market sentiment will also foster appreciation. However, this is all subject to the resolution of the current energy situation in Europe and a favourable course of the war in Ukraine. The CNB's declining monetary policy rates and a narrowing of the interest rate differential vis-à-vis the ECB's rates will act in the opposite direction.

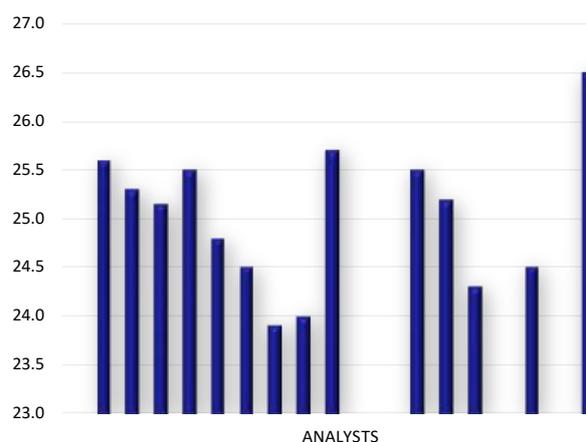
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

September 2022	year end	
	current	current+1Y
minimum	5.0	4.7
average	6.8	7.7
maximum	8.1	13.0

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	year end	
	current	current+1Y
IX.21	4.8	4.8
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
VIII.22	6.9	7.5
IX.22	6.8	7.7

Labour market conditions remain tight. The share of registered unemployed persons rose by 0.1 percentage point to 3.4% at the end of August. According to the latest available data, the unemployment rate in the Czech Republic is still the lowest in the EU. In 2022 Q2, the average gross monthly wage rose by 4.4% year on year to CZK 40,086. The median wage is CZK 34,111, up by 5.3% compared to the same period of last year. The largest wage increase was recorded in accommodation and food service activities, then information and communication, followed by administration and support service activities. The healthcare sector recorded a decrease of more than 20% due to the payment of extraordinary bonuses last year for work during the pandemic. With consumer inflation at 15.8%, the average wage declined by 9.8% in real terms. The analysts' view on the pace of wage growth this year has been corrected downwards slightly, by 0.1 percentage point to 6.8%. By contrast, the outlook for next year has shifted upwards, with the analysts expecting 7.7% on average, 0.2 pp higher than in last month's survey.

NOMINAL WAGE GROWTH

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

