

Financial Market Inflation Expectations

— 12/2022



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I. SUMMARY

Fourteen domestic and two foreign analysts took part in this year's last survey of financial market inflation expectations. The results reveal that the one-year inflation forecast was revised downwards, while the three-year forecast was increased. The overall opinion regarding economic growth this year and the next is unchanged from the previous survey. At the same time, the prevailing view is still that the CNB's 2W repo rate will drop next year. The exchange rate of the koruna is still expected to depreciate moderately from its current level, which some of the respondents consider overvalued given the fundamentals. The average estimate for nominal wage growth this year is unchanged. Next year, however, wages are expected to grow at a slower pace than envisaged in November.

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 Jác, 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			+		+							+
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, 21 December 2022

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

December 2022	CPI	
	1Y	3Y
minimum	3.8	0.6
average	7.0	2.7
maximum	10.0	5.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
XII.21	3.8	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	3Q: 6.3
XI.22	7.3	2.5	
XII.22	7.0	2.7	4Q: 4.2

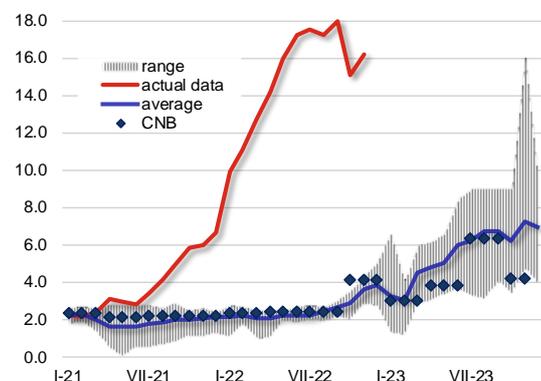
The annual consumer price index returned to growth in November this year. The pace of growth increased from 15.1% in October to 16.2%. In month-on-month terms, consumer prices grew by 1.2%. This growth was due mainly to higher energy and food prices. The year-on-year increase additionally reflected last year's waiver of VAT on electricity and natural gas. If the current government measures (the energy savings tariff and the waiver of the renewable sources fee, which affected the calculation of the October inflation figure) had not been included, the overall consumer price index would have risen by 19.8% year on year, according to the CZSO.

The average one-year inflation forecast in our survey was revised down from 7.3% to 7.0%. At the three-year horizon, by contrast, inflation expectations increased further to 2.7%, which is 0.2 pp more than a month earlier. The range of the forecasts narrowed. At the one-year horizon, this was mainly a result of a more marked adjustment of the maximum value, while the three-year forecast narrowed owing to a slight increase in the minimum estimate.

The analysts estimate annual inflation to remain high in the months ahead due to energy and food prices. However, demand-driven inflation pressures should gradually weaken. Considerable uncertainty surrounds the start of next year, when several factors will collide. The effect of the energy savings tariff, which was in place only in 2022 Q4, will fall out. Energy prices will be capped, and it is estimated that final prices for customers will rise towards the cap rather than fall towards it. Water supply charges, heat prices and so on will be adjusted at the same time. In addition, many economic agents increase the prices of their products at the start of the year. By contrast, inflation will significantly reflect a higher base in January this year after the effect of the VAT waiver falls out. The risks are thus tilted to both sides. However, the analysts suggest that the risk of higher inflation is greater.

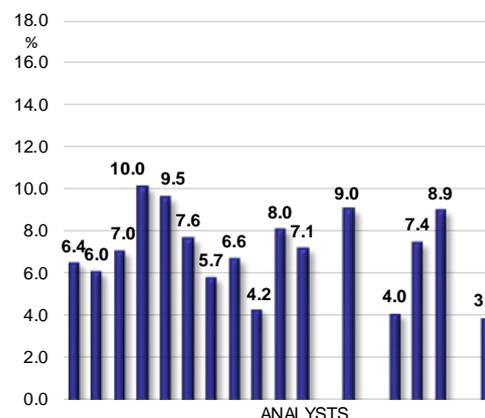
CONSUMER PRICE INDEX

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 2022	current year	current+ 1Y
minimum	2.0	-1.8
average	2.4	0.0
maximum	2.7	1.9

FORECAST FOR GDP GROWTH

(%)

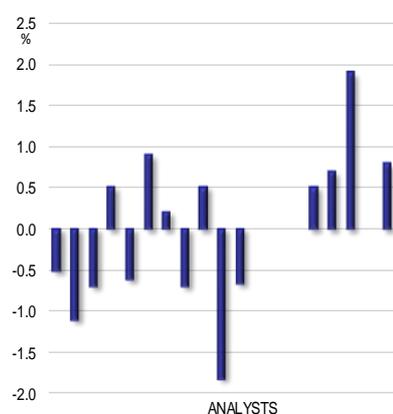
Date of Prediction	current year	current+1Y
XII.21	2.7	4.0
I.22	3.9	4.0
III.22	2.5	3.2
IV.22	1.9	3.0
VI.22	1.9	2.3
VIII.22	2.4	1.3
XI.22	2.4	0.0
XII.22	2.4	0.0

The CZSO revised its GDP growth estimate for 2022 Q3. According to the CZSO, the domestic economy grew by 1.7% year on year, 0.1 pp more than in the preliminary estimate. However, a decrease of 0.2% was recorded in quarter-on-quarter terms, as against a previous drop of 0.4%. The year-on-year GDP growth was driven by external demand and gross fixed capital formation. By contrast, declines in the final consumption of households and general government made negative contributions to GDP growth, the drop in household consumption having the bigger impact. The published data probably came as no great surprise to the analysts, as the average estimates were unchanged from the November survey. On average, the analysts expect the economy to grow by 2.4% year on year this year and stagnate next year. The range of the estimates for 2022 remained unchanged, while the outlooks for next year widened due to an increase in the maximum value.

According to the analysts, cyclical developments are better expressed by the quarter-on-quarter decline, which reflects cooling domestic demand, especially lower consumption of households, who are suffering the consequences of a sharp fall in real wages and record-low sentiment. The year-on-year figure is distorted and optically improved by the automotive sector's problems with shortages of production parts (especially semiconductors) last year. The analysts expect the developments in the last quarter of this year to confirm a technical recession. However, the recession should not be deep. According to the analysts, the labour market will remain strong in terms of employment. Further developments will depend on the situation in Ukraine and energy prices, which are not only dampening consumption, but may also affect firms' output, as there is a hypothesis that some firms launched winter production already in the autumn. Another important factor will be global demand.

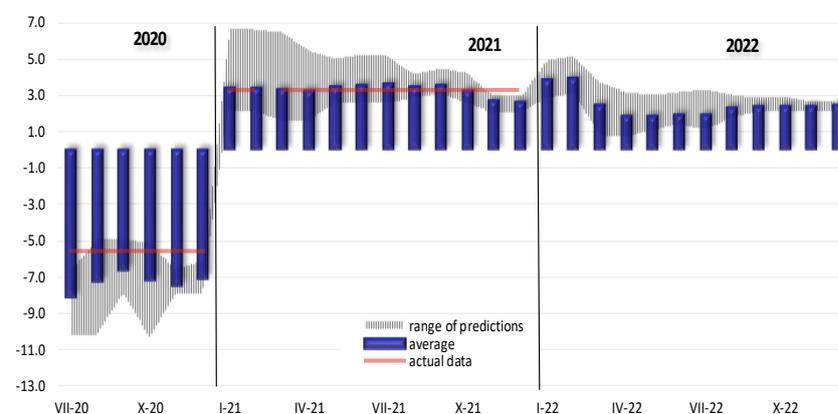
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR NEXT YEAR



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

(%)

December 2022	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	5.00	7.11	4.40	4.70	4.00	4.01	3.89
average	7.00	6.02	7.29	5.74	4.96	4.43	4.50	4.27
maximum	7.00	8.00	7.60	7.20	5.26	5.00	4.71	5.00

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.21	3.38	3.65	3.95	3.85	3.55	3.47	3.05	3.25
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
XI.22	7.01	6.00	7.43	5.99	5.43	4.80	4.97	4.67
XII.22	7.00	6.02	7.29	5.74	4.96	4.43	4.50	4.27

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.12.	7.00	7.27	4.67	4.29

All the respondents are expecting key interest rates to remain unchanged at the December CNB meeting and the 2W repo rate to stand at 7.00% at the start of 2023. However, most of the respondents expect the rate to drop in 2023. Nonetheless, the range of the one-year estimates narrowed to 5%–7%. Only one estimate was outside this range, expecting the 2W repo rate to rise to 8%. The appointment of new Bank Board members Jan Procházka and Jan Kubíček in place of Oldřich Dědek and Marek Mora has had no major impact on the analysts' forecasts yet, as none of the newly appointed members has publicly commented much on monetary policy so far. However, some of the analysts think that this change will probably have little effect on the current monetary policy course.

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

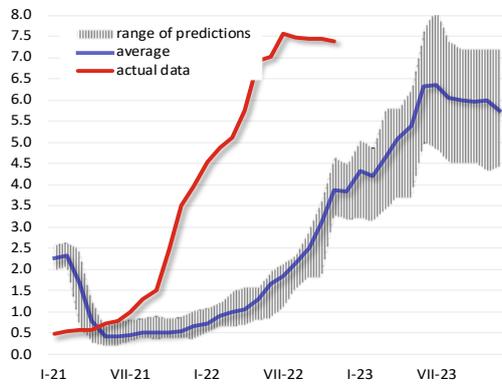
(%)

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	0	0	2	1	2	0	7	1	0	1	1	0	0	0	1
-previous survey	1	1	0	0	4	1	1	4	2	0	3	0	0	0	0

Owing to a drop in reference interest rates on the domestic interbank market and an even bigger decline in rates on interest rate derivatives, their forecasts in our survey were revised downwards markedly. The 12M PRIBOR forecast was lowered by 14 basis points at the one-month horizon and by as much as 25 basis points at the one-year horizon. The swap rate forecast decreased by 36–47 basis points. Looking ahead, the analysts are still convinced that PRIBOR and IRS rates will fall, as the one-month forecasts markedly exceed the one-year forecasts. At the same time, the expected rates for shorter maturities are still higher than the longer-term rates.

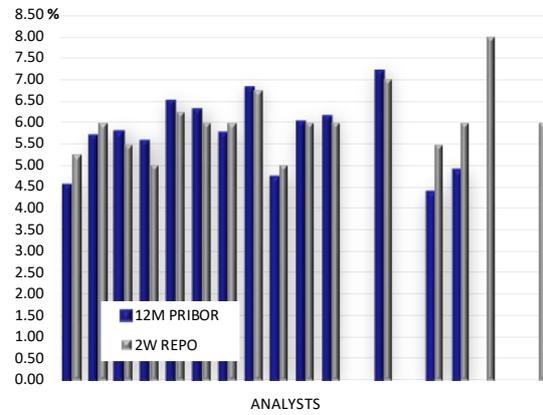
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



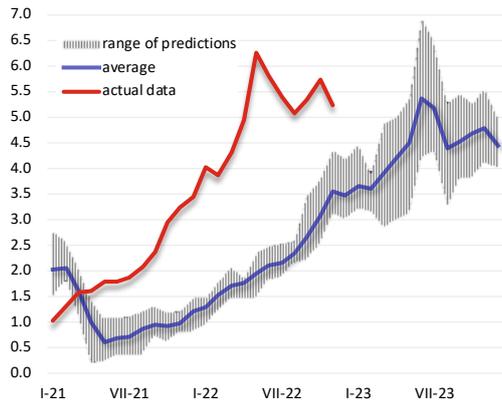
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



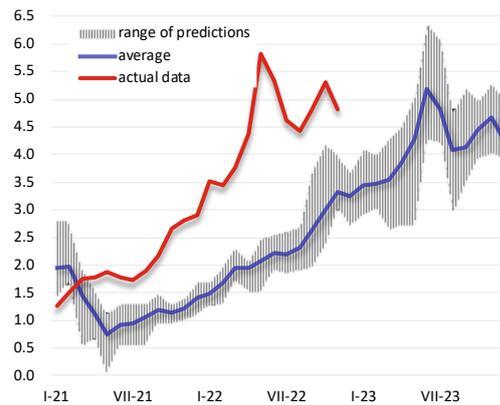
5Y IRS AT 1Y

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
XII.21	25.20	24.60
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
XI.22	24.50	24.88
XII.22	24.42	24.67

EXCHANGE RATE FORECAST

December 2022	EUR/CZK	
	1M	1Y
minimum	24.20	23.90
average	24.42	24.67
maximum	24.70	26.50

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

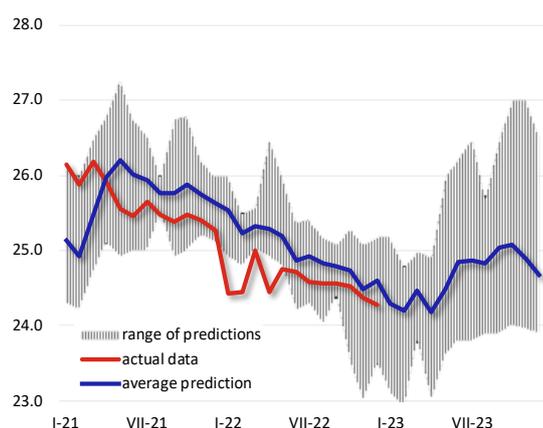
15.12.	24.27
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The uncertainty associated with the situation in Ukraine and with global economic developments remains high. Despite this, the koruna exchange rate is relatively stable. It has appreciated slightly since the last survey to CZK 24.27/EUR. At the one-month horizon, the analysts still expect it to correct to weaker levels – to CZK 24.4/EUR on average. At the one-year horizon, the koruna is expected to weaken further and stand close to CZK 24.7/EUR in December next year.

According to the analysts, there continues to be depreciation pressure on the koruna in the economy. They mention, for example, the growing likelihood of recession in Europe, which is amplified by high dependence on natural gas supplies from Russia. Related to this is a deterioration in foreign trade and the current account, which is exerting depreciation pressure on the Czech national currency. A narrowing interest rate differential and repatriation of earnings retained in the domestic banking sector during the pandemic will have a similar effect. Some of the analysts thus believe that the koruna is being artificially kept slightly overvalued by interventions. According to some comments, however, the CNB will allow the koruna to return to the hypothetical equilibrium (i.e. weaker) level over time.

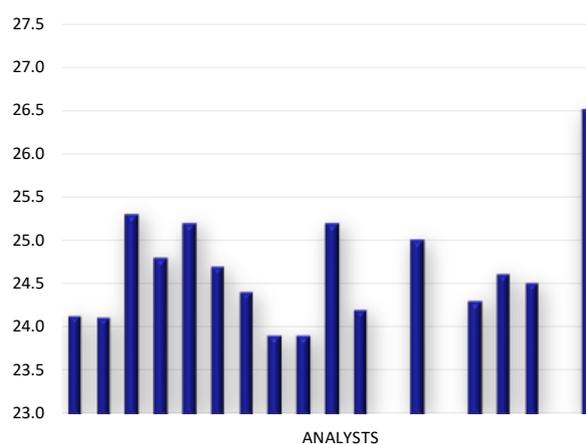
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

December 2022	current year	current+1Y
minimum	5.5	4.5
average	6.6	7.4
maximum	7.5	12.2

FORECAST FOR NOMINAL WAGE GROWTH

(%)

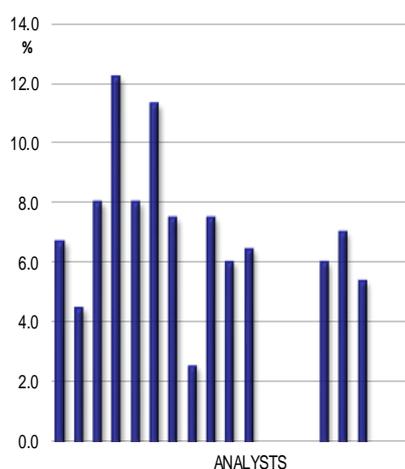
Date of Prediction	current year	current+1Y
XII.21	6.2	5.6
I.22	5.5	5.1
III.22	6.5	5.6
IV.22	6.5	5.9
VI.22	7.0	7.0
VIII.22	6.9	7.5
XI.22	6.6	7.6
XII.22	6.6	7.4

According to the Czech Labour Office, the share of registered unemployed persons was unchanged at 3.5% at the end of November. This is just 0.2 pp higher than a year earlier. This level still ranks the Czech Republic among the countries with the lowest unemployment rates in the entire EU. However, the complicated geopolitical and related domestic economic situation is being reflected in the number of registered job applicants, which is rising in absolute terms. By contrast, the number of vacancies is falling slightly. Growth in the average gross nominal wage accelerated to 6.1% year on year in 2022 Q3 (as against 4.4% in Q2). However, the real wage dropped by 9.8% due to the high inflation. The analysts, though, point out that the faster year-on-year nominal growth was larger due to a lower base in 2021 Q3, when the effect of extraordinary bonuses paid to health and social care workers during the pandemic faded out.

Against the backdrop of the above, the analysts' average forecast for this year remains unchanged. Nominal wages are thus expected to rise by 6.6% in 2022 as a whole. Wage growth is expected to accelerate next year, due mainly to relatively low unemployment, as the still relatively tight labour market conditions will allow employees to demand greater compensation for the high consumer price inflation. Despite this, the overall estimate is less optimistic than a month ago, as the pace of the expected wage growth has been revised to 7.4%. This is 0.2 percentage point less than in the November survey.

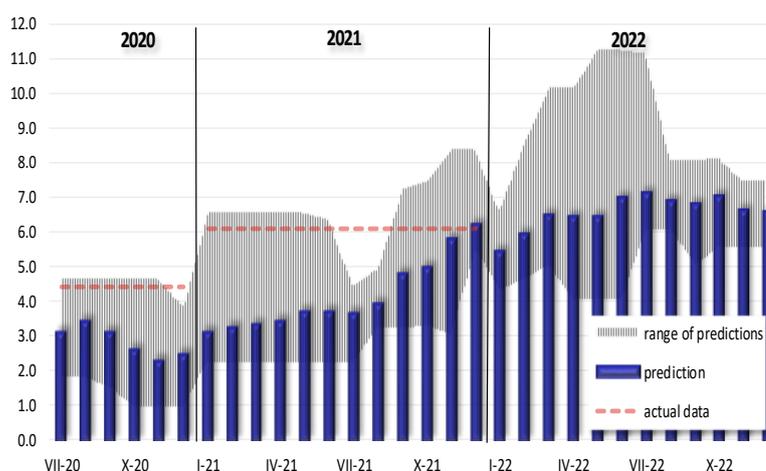
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR NEXT YEAR



NOMINAL WAGE GROWTH

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



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