Financial Market Inflation Expectations

1/2023

ČNB ČESKÁ NÁRODNÍ BANKA 30

Czech National Bank —— Financial Market Inflation Expectations —— 1/2023

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I. SUMMARY

Fifteen domestic and two foreign analysts took part in this year's first survey of financial market inflation expectations. The data obtained indicate a distinct drop in the one-year inflation forecast. Inflation is also expected to fall at the three-year horizon, albeit to a lesser extent. This year, the analysts continue to expect economic stagnation, which should turn into economic growth of more than 2% in 2024. Key interest rates are not expected to change at the next monetary policy meeting. The analysts do not expect them to drop until the second half of this year. The forecast for the koruna exchange rate has again responded to the recent evolution of the domestic currency on the foreign exchange market. However, the analysts continue to consider the koruna slightly overvalued at its current level and expect its correction to weaker levels. The tightness in the labour market may not ease as fast as previously expected and nominal wages are thus predicted to grow at a higher pace this year than assumed a month ago. Next year, wage growth is expected to slow.

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, 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, 23 January 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

January 2023	CPI 1Y	3Y
minimum	2.8	0.6
average	4.8	2.6
maximum	8.5	4.5

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS 1Y	3Y	CNB (%) 1Y
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
I.23	4.8	2.6	

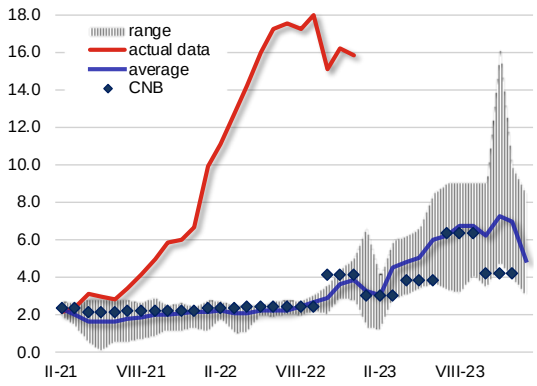
The consumer price level was unchanged month on month in December. Growth in gas and electricity prices in the category of housing and higher holiday and food prices were offset mainly by a drop in fuel prices. In year-on-year terms, inflation slowed by 0.4 percentage point to 15.8%. This slowdown was due mainly to slower growth in car and fuel prices. Without taking into account the energy-saving tariff and the waiver of the renewable sources fee, the overall consumer price index would have increased by 19.3% year on year.

After taking into account the above information and other effects (such as base effects), the analysts revised the one-year inflation forecast down markedly. While in the December survey the analysts were expecting prices to grow by 7.0% on average at the end of the year, they now estimate that annual inflation will reach 4.8% in January 2024. The three-year outlook is also slightly lower, shifting downwards by 0.1 percentage point to 2.6%.

The inflation level in January is subject to much speculation, as it is shrouded in great uncertainty. Its final level will reflect a number of factors, including the end of the energy-saving tariff and the fade-out of the effect of a lower base from the end of 2021 following the waiver of VAT on energy. It will also be affected by energy price caps, growth in heat prices, and water supply and sewerage charges. Other effects may include higher egg prices due to the bird flu and the usual January adjustments to price lists. However, some of the analysts think that the effect of the January repricing may not be great this time due to a drop in demand and the many price adjustments already made in 2022. The current weakening of economic activity is also expected to ease price pressures in the rest of 2023 and foster an overall decline in inflation. On the other hand, there is a view among the analysts that the drop in energy commodity prices may not have a strong impact on consumer prices in the near future, as a large share of households have fixed-price contracts and energy prices have not yet fallen too much below the price caps. Also, lower energy prices imply more favourable economic developments, which would slow the easing of tight labour market conditions and strengthen the position of employees in wage negotiations. However, according to many estimates, inflation will stay in double figures on average in 2023 as a whole.

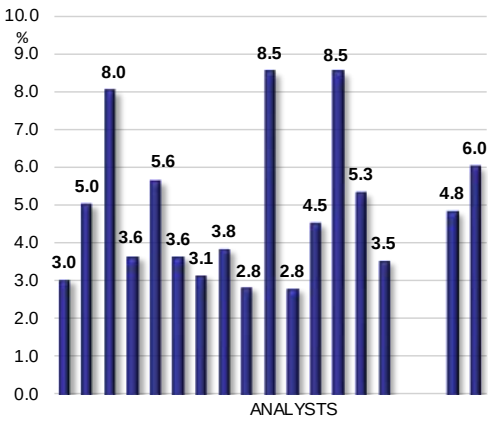
CONSUMER PRICE INDEX

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

(%)

January 2023	current year	current+ 1Y
minimum	-1.1	-1.5
average	0.0	2.4
maximum	2.3	3.7

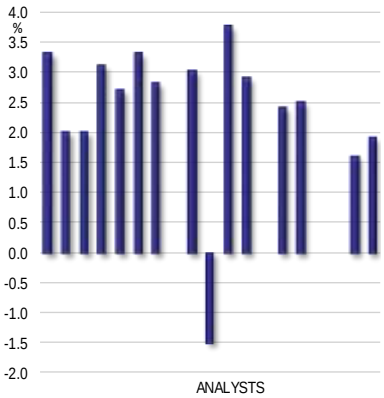
FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
leden 2022	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
I.23	0.0	2.4

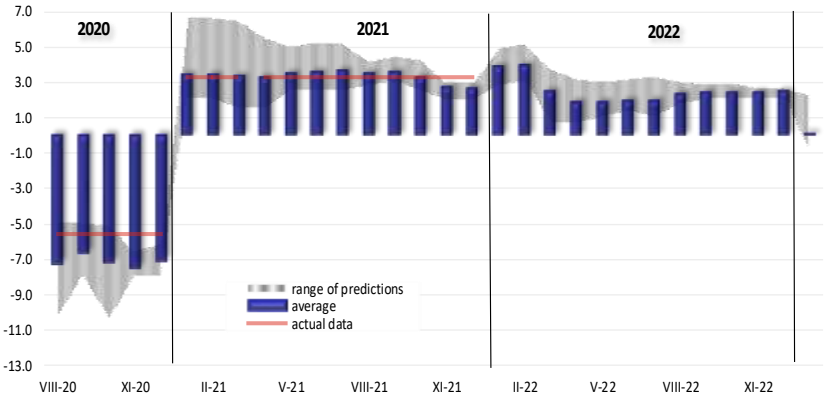
The estimate of annual GDP growth in 2022 Q3 was revised downwards. According to the latest data, the domestic economy expanded by 1.5% in Q3. Quarterly statistics are unchanged, showing a drop in GDP of 0.2%. However, the newly published data had virtually no effect on the analysts' average forecast. The economy is thus still expected to stagnate this year. The outlook for next year expects economic growth of 2.4%. The range of the individual estimates for 2023 narrowed despite an unchanged average. Both the minimum and maximum values increased, but the growth in the minimum value was higher than the growth in the maximum value.

According to some of the analysts, the Czech economy is now probably going through a modest recession. They are thus expecting a small quarter-on-quarter decline in economic activity in the coming quarters as well. The weaker economic performance is due mainly to a drop in consumer demand caused by a fall in real wages and pessimistic household prospects. Given the cooling of global economic activity, weaker external demand may also play a role. The potential release of accumulated inventories may also have an effect. However, the economy may start to grow again in the second half of this year. Real wages are also expected to return to growth. One of the risks of the outlined scenario is, for example, a larger than expected downturn in the global economy. This would probably postpone the recovery in the Czech Republic until 2024.



GDP GROWTH AT CURRENT YEAR

AVERAGE AND RANGE OF PREDICTIONS



IV. INTERESTRATES – 2W REPO, PRIBOR, IRS

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

(%)

January 2023	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	5.00	7.14	4.40	4.40	3.64	4.10	3.52
average	7.00	5.85	7.27	5.69	4.73	4.26	4.32	4.07
maximum	7.00	6.75	7.40	6.70	5.36	5.00	4.72	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
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
I.23	7.00	5.85	7.27	5.69	4.73	4.26	4.32	4.07

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.1.	7.00	7.24	4.39	4.01

The CNB clearly signalled in its communications that rates will remain unchanged at the next meeting, or that they will increase if inflation pressures strengthen. Given the sharp fall in real wages, a less expansionary fiscal policy and other macroeconomic indicators suggesting an economic slowdown, all the respondents are again expecting the CNB Bank Board to keep its key interest rates unchanged at its February meeting and thus maintain the 2W repo rate at 7.00%. The downward path of expected interest rates is starting to be reflected at the one-year horizon and the average forecast has thus shifted downwards to below 6%. None of the respondents is expecting a rise in rates anymore. Inflation is anticipated to fall rapidly due to base effects and weaker inflation pressures. Some of the analysts are of the opinion that it could be in the tolerance band at the monetary policy horizon. The subject of debate is now the timing of the drop in rates. There is speculation that interest rates could be cut for the first time around mid-2023. However, according to the analysts, this is not fully consistent with the CNB's current communication, which is preparing the market for a longer period of higher interest rates. The analysts are thus speculating that this may be due to concerns over depreciation of the koruna, whose strong level is currently helping to fight inflation, and possible concerns over the related return of inflation pressures after key interest rates start to fall.

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

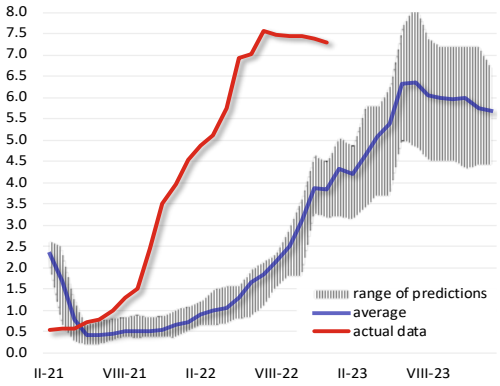
(%)

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

Together with a slight decline in the 12M PRIBOR reference interbank rate (of 3 basis points), the analysts' average forecast of the rate decreased to a similar extent at both the one-month and one-year horizons (by 2 and 5 basis points respectively). Market swap rates recorded a larger downward shift (of 28 basis points for both 5Y and 10Y rates). This was also reflected in the average forecasts in our survey, albeit to a lesser extent than on the market (a decrease of 17– 23 basis points). The analysts continue to expect the PRIBOR and IRS rates to fall, with their one-month forecasts exceeding one-year ones. At the same time, the expected rates for shorter maturities are higher than the longer-term rates.

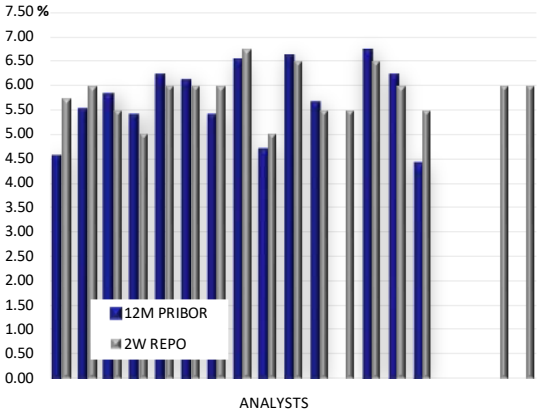
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



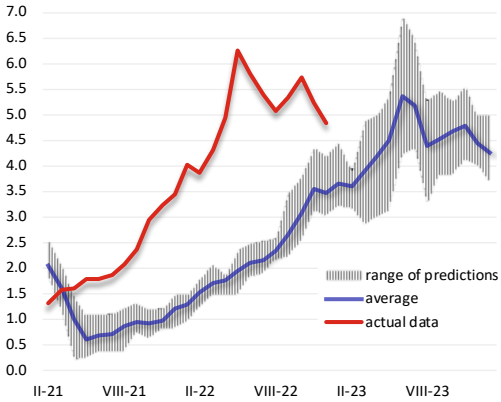
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



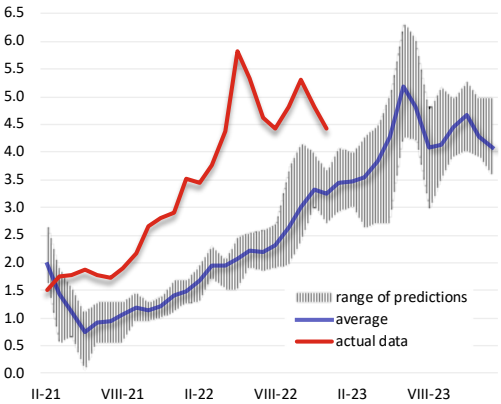
5Y IRS AT 1Y

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
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
I.23	24.12	24.39

EXCHANGE RATE FORECAST

January 2023	EUR/CZK	
	1M	1Y
minimum	24.00	23.60
average	24.12	24.39
maximum	24.30	25.30

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.1.	24.02

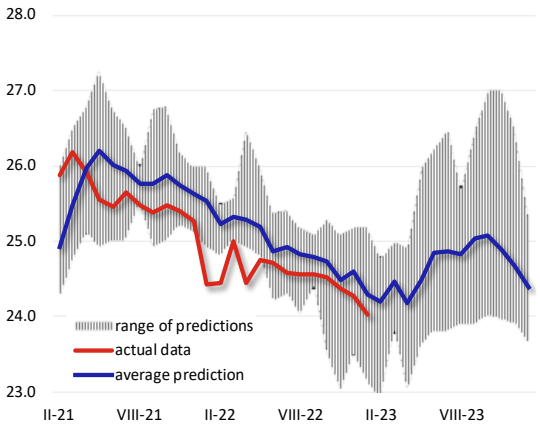
The exchange rate of the koruna has strengthened by 25 hellers since mid-December, attacking CZK 24/EUR as of the January survey deadline. It subsequently broke through CZK 24/EUR. The analysts' average forecast also shifted to a stronger level. They expect the koruna to stand around CZK 24.12/EUR in mid-2023. The analysts thus still predict a depreciation, which should be larger at the one-year horizon when the koruna is expected to weaken to CZK 24.39/EUR.

Although there is speculation about several factors, the analysts do not agree fully on the reason for the koruna's appreciation in recent weeks. A drop in energy commodity prices or better sentiment due to high hopes that Europe will not suffer from gas shortages may have contributed. The analysts also mentioned the prospect of an improvement in external demand or a lower risk premium stemming from a favourable trend in public finance and the current account, which is offsetting the effect of a narrowing interest rate differential. Another factor may be unfavourable macroeconomic data in the USA, which are weakening the exchange rate of the dollar. The CNB's communications, which is emphasising the possibility of a longer period of stable key interest rates at the current level, may also have played a role. However, the appreciation may also be due to technical or seasonal effects which keep the exchange rate in some sort of cyclical movement, where the current appreciation phase will be replaced by a depreciation phase over time.

According to the analysts, depreciation of the koruna will be fostered this year by persisting imbalances in public finance and on the current account. The expected recession in the USA and the euro area and the CNB's falling rates could have an equally negative effect. However, appreciation trends will probably prevail again during 2024. They could stem from a gradual improvement in foreign trade and later also a recovery of the global economy.

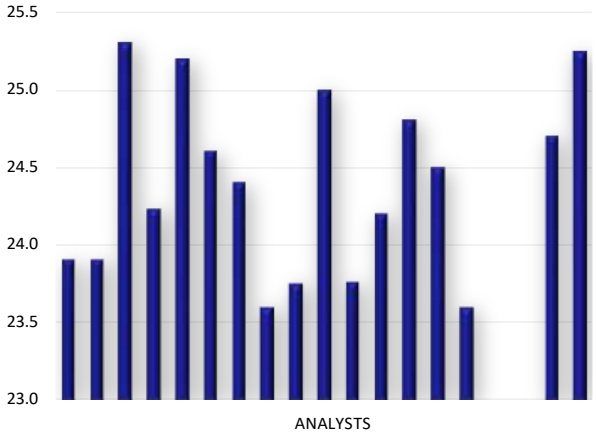
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

January 2023	current year	current+1Y
minimum	6.0	3.8
average	8.1	5.5
maximum	12.2	7.5

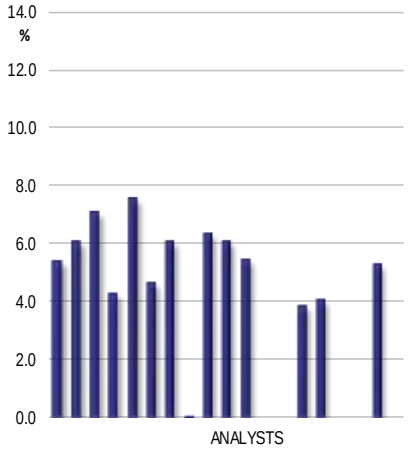
FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
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
I.23	8.1	5.5

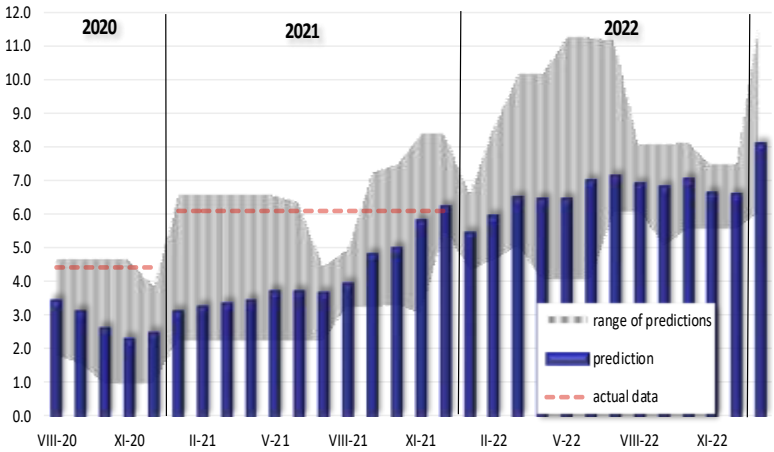
According to the Czech Labour Office, the share of registered unemployed persons rose to 3.7% at the end of last year due to seasonality. As in November, this is 0.2 pp higher than a year earlier. The number of vacancies continues to exceed the number of job applicants despite the rise in the number of unemployed persons. The unemployment rate is relatively low in the Czech Republic, which still ranks among the countries with the lowest unemployment rates in the entire EU. According to the analysts, unemployment will continue to rise in the months ahead, albeit only slowly. This increase will be driven mainly by a cooling of external demand. However, this effect could be moderated by the above-mentioned effect of lower prices of energy and energy commodities.

Given the above, the average forecast of wage growth in 2023 has been increased to 8.1%. This is 0.7 percentage point higher than in the December survey. The expected nominal wage growth will subsequently slow, probably due to the expected slowdown in inflation and economic growth, and is predicted to reach just 5.5% in 2024. At the same time, the analysts estimate that real wages could stop falling in around mid-2023 and return to growth in the second half of the year.



NOMINAL WAGE GROWTH

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



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