Financial Market Inflation Expectations

2/2023

ČNB ČESKÁ NÁRODNÍ BANKA 30

Czech National Bank —— Financial Market Inflation Expectations —— 2/2023

www.cnb.cz

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

Fifteen domestic and three foreign respondents sent in their contributions to the February survey of financial market inflation expectations. The survey results indicate that on average, the analysts expect the continued slowdown in annual inflation at the one-year horizon. By contrast, inflation expectations have increased moderately at the three-year horizon. The analysts' view of economic growth in 2023 and 2024 is somewhat more optimistic and the expected 2W repo rate at one year is slightly lower than in January. The estimated path of the koruna's exchange rate reflects the appreciation of the koruna in the foreign exchange market in recent weeks. The expected nominal wage growth was revised downwards for this year but upwards for 2024.

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												
Basak Edizgil, Goldman Sachs		+										
Sili Tian, 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 February 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

February 2023	CPI 1Y	3Y
minimum	2.2	2.0
average	3.8	2.7
maximum	6.2	4.5

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS 1Y	3Y	CNB (%) 1Y
II.22	3.0	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	4Q: 4.2
I.23	4.8	2.6	
II.23	3.8	2.7	1Q: 2.3

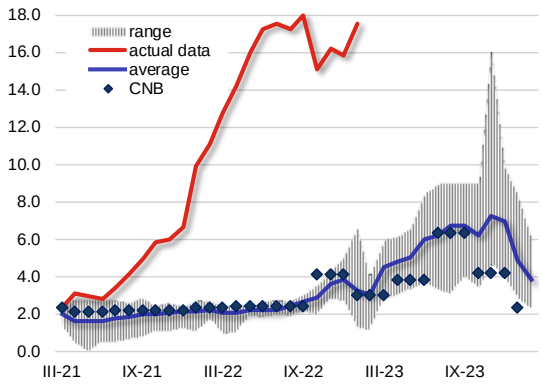
The January data on the consumer price index was eagerly awaited by the professional public. Many factors were reflected in the data, making it more difficult to predict than usual. In the end, the CZSO announced that year-on-year consumer prices increased by 17.5% compared to 15.8% in December 2022. In month-on-month terms, there was an unprecedented increase of 6.0%. Such a high increase was due mainly to the cost of housing. However, food prices also went up significantly. The dominant factor in housing was the discontinuation of the energy-saving tariff which, combined with the increase in the electricity price (towards the government cap), resulted in an almost 140% month-on-month rise in electricity prices. If the effect of the energy-saving tariff and the waiver of the renewable sources fee were not included in the consumer price index, these prices would increase 3.4% month on month. Conversely, the year-on-year index value would rise faster, reaching 18.1%.

Despite the higher growth in the consumer price index in January, the annual inflation forecast has decreased markedly, down by 1 pp to 3.8%. By contrast, inflation expectations at the three-year horizon rose slightly, up by 0.1 pp to 2.7% compared to the previous survey. The range of individual forecasts narrowed, while this was due to a larger decline in the maximum value for the one-year forecasts and a rise in the minimum value at the three-year horizon.

Inflation is expected to slow gradually in the coming months. Some are of the opinion that inflation could fall to single figures in 2023 Q3. This should be fostered by last year's base effects and the easing of demand inflation pressures, which is being affected by the drop in real wages and the related caution among consumers. The reduction in electricity prices could act in the same direction. However, it does not seem to be significant yet. At the end of this year, the effect of the energy-saving tariff should become apparent again which, given the base effects, will technically increase inflation in Q4 or slow its decline. Once this effect fades out, there could be a more sizeable drop at the start of 2024. The main risk, which has the potential to act in both directions, is the difficult-to-predict energy prices and the speed of their pass-through to end prices.

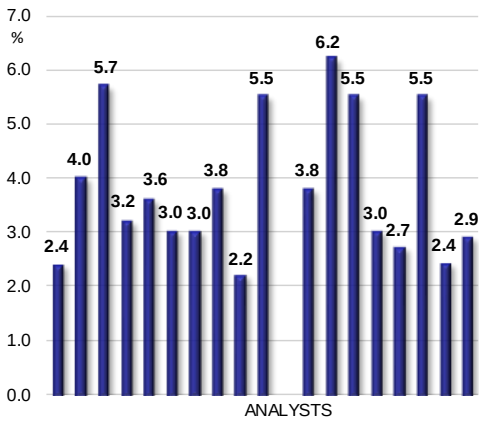
CONSUMER PRICE INDEX

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

(%)

February 2023	current year	current+ 1Y
minimum	-1.0	1.7
average	0.2	2.6
maximum	1.2	4.1

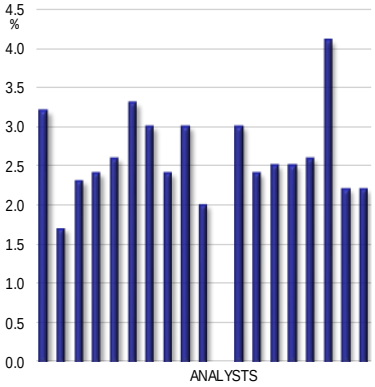
FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
únor 2022	3.9	3.7
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
I.23	0.0	2.4
II.23	0.2	2.6

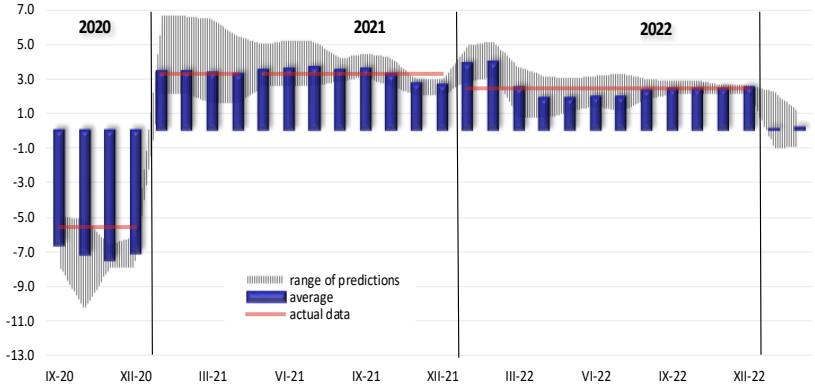
According to a preliminary CZSO estimate, the domestic economy increased by 0.4% year on year in 2022 Q4, corresponding to a quarter-on-quarter decline of 0.3%. In 2022 as a whole, GDP in the Czech Republic grew by 2.5%. This growth (both in Q4 and throughout 2022) was based primarily on investment and external demand, while household consumption had a negative effect. From the perspective of value added, economic growth was supported mostly by industrial production. The analysts' view is more optimistic after the newly published macroeconomic data. The economy is expected to grow by 0.2% this year, compared to the stagnation forecasted in the January survey. The outlook for next year sees a recovery of 2.6%, up by 0.2 pp on a month ago. The range of the individual forecasts narrowed. This was owing to a decrease in the maximum value in the case of the estimates for this year, while it was due to a more significant increase in the minimum value for the outlooks for next year.

Some analysts admit that a slight drop in GDP may occur in 2023 Q1 as well due to weaker household consumption and a moderate cooling of external demand. However, the domestic economy could return to the expansionary phase this year. Better-than-expected macroeconomic data from the euro area bring hope. According to the analysts, shortages of materials and components could be increasingly less limiting, although there are still problems with semiconductor supplies for the automotive industry.



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

(%)

February 2023	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	4.75	6.90	4.30	4.50	3.57	4.15	3.61
average	7.00	5.75	7.20	5.49	4.83	4.29	4.40	4.06
maximum	7.00	7.00	7.40	6.40	5.20	5.00	4.80	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
II.22	4.78	4.13	5.00	4.21	4.11	3.60	3.67	3.46
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
I.23	7.00	5.85	7.27	5.69	4.73	4.26	4.32	4.07
II.23	7.00	5.75	7.20	5.49	4.83	4.29	4.40	4.06

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.2.	7.00	7.24	5.03	4.53

The macroeconomic data published since the last survey do not change the view on the path of key interest rates. Given the CNB's previous communications, all the respondents are expecting key interest rates not to be changed at the CNB Bank Board monetary policy meeting in March either and the 2W repo rate to remain at 7.00%. The analysts believe that although a small section of the market predicts an increase in interest rates, recent comments from the Bank Board do not indicate this at all.

However, according to the analysts, there could be a change in the key interest rates over the rest of this year. In their opinion, the next shift should be downwards. However, the question is when. Some initial estimates indicated the end of the summer, but now, given the CNB's communications, some have moved to a later date. On average, the analysts believe that the 2W repo rate will be 1.25 pp lower than its current level twelve months from now, i.e. at 5.75%. However, the uncertainty regarding the future path of this key interest rate is considerable as the range of the forecasts of the individual respondents is very wide (4.75% to 7.00%).

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

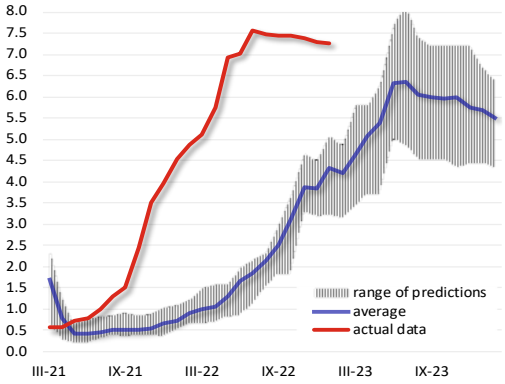
(%)

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
number of analysts - current survey	0	2	2	0	2	4	4	2	1	0	1	0
-previous survey	0	0	2	0	4	1	7	0	2	1	0	0

The 12M PRIBOR reference rate was unchanged from the previous survey. However, its forecast takes into account the expected decrease in key interest rates and shifted downwards, slightly more at the one-year horizon. The forecasts for swap rates were virtually flat (moving within -2 bp and +11 bp), even though market IRS rates increased (5Y IRS +64 bp and 10Y IRS +52 bp). The forecasted levels of interest rates in this survey continue to reflect clearly their expected decline as the one-month forecasts for PRIBOR and IRS rates remain well above the one-year outlooks and the expected rates with shorter maturities are also higher than the rates with longer maturities.

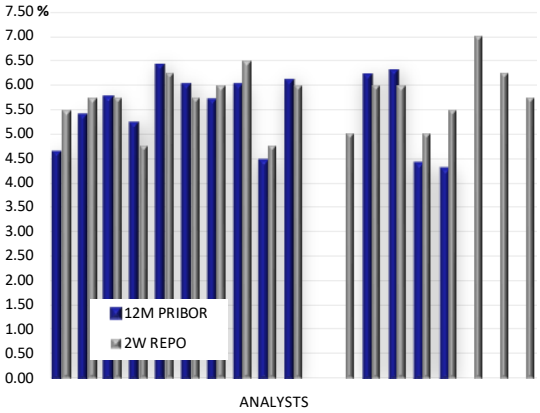
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



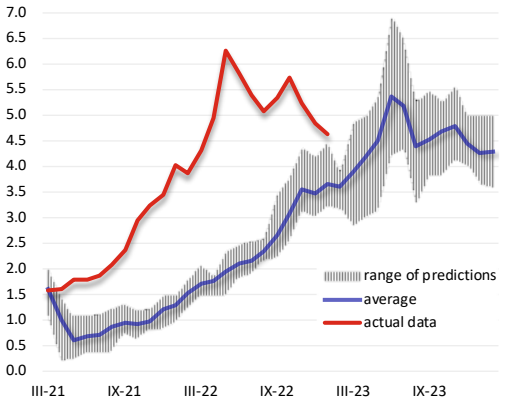
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



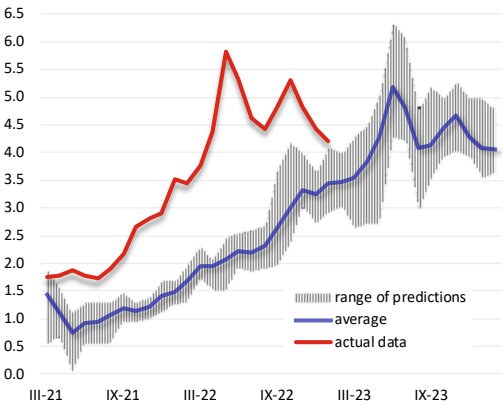
5Y IRS AT 1Y

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
II.22	24.38	24.19
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
I.23	24.12	24.39
II.23	23.84	24.33

EXCHANGE RATE FORECAST

February 2023	EUR/CZK	
	1M	1Y
minimum	23.60	23.60
average	23.84	24.33
maximum	24.00	25.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

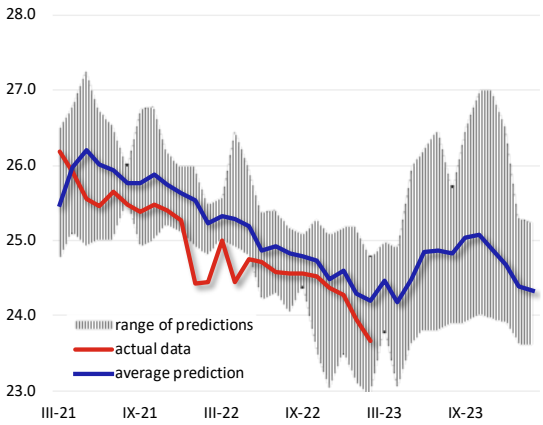
15.2.	23.67

The exchange rate of the koruna strengthened again from the previous survey until mid-February, this time by 36 hellers to CZK 23.67/EUR, settling well below the CZK 24/EUR level. The analysts' average forecasts had to take this appreciation into account and was thus also shifted to a stronger level. The analysts are expecting an exchange rate of around CZK 23.84/EUR at the one-month horizon. However, at the one-year horizon, the analysts continue to expect a correction to above the CZK 24/EUR level, i.e. to CZK 24.33/EUR. This is only a slightly stronger level than they expected in mid-January.

According to the analysts, a reduction in risk aversion (due, among other factors, to the mild winter and the related drop in energy commodity prices) and a recovery in foreign trade are helping the koruna to stronger levels. The CNB's "protective hand" is also perceived as an important factor. However, in the analysts' view, interventions have not been necessary in recent months. High international reserves, combined with an easing of depreciation pressure on the koruna, give the CNB a safe space to continue with its the current policy. However, the depreciation effects have not yet been fully exhausted and could predominate again in the course of this year. The interest rate differential decreased gradually and, given the outlook for the development of monetary policy at home and abroad, has the potential to narrow further. Moreover, the Czech economy is currently going through a recession, while the European economy could successfully avoid one, which may also have depreciation effects. In addition, the CNB itself also expects an exchange rate of above CZK 24 CZK/EUR this year.

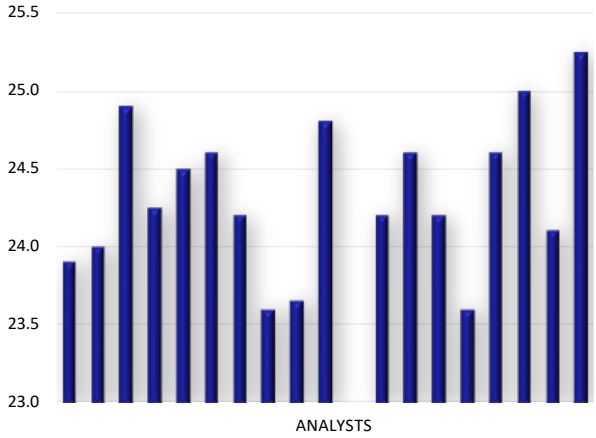
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

February 2023	current year	current+1Y
minimum	5.4	4.0
average	7.9	5.9
maximum	10.0	7.5

FORECAST FOR NOMINAL WAGE GROWTH

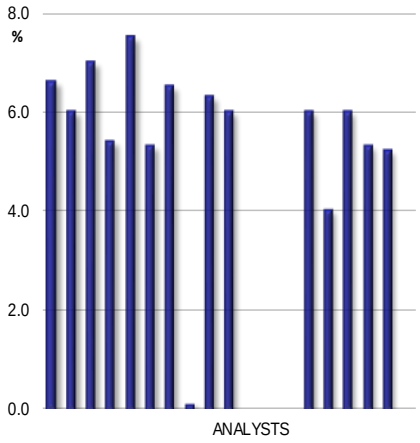
(%)

Date of Prediction	current year	current+1Y
II.22	6.0	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
I.23	8.1	5.5
II.23	7.9	5.9

The labour market situation remains tight. The unemployment rate is still very low. According to the Czech Labour Office, the share of unemployed persons was 3.9% in January, a month which is affected by the usual seasonality. The Czech Republic still ranks among the countries with the lowest unemployment rates in the EU. The analysts believe that the mild recession will give rise to only a slight and delayed increase in unemployment. They thus see ample room for wage growth in an environment of high inflation. However, its pace should be lower than they expected in the previous survey. They currently estimate that nominal wages will grow by 7.9% this year, which is 0.2 percentage point less than a month ago. Real wages are thus likely to drop again this year. However, the potential recovery of the domestic economy could exert renewed downward pressure on unemployment. According to some of the analysts, this pressure could also be amplified by the relatively low unemployment in EU countries. This, along with firms' good financial situation, will result in faster nominal wage growth next year. There is even a view among the analysts that wage growth, which lagged significantly behind inflation last year, could be compensated to some extent in the years ahead. As a result, wages are expected to rise by 5.9% on average in 2024, i.e. by 0.4 percentage points more than in the January survey.

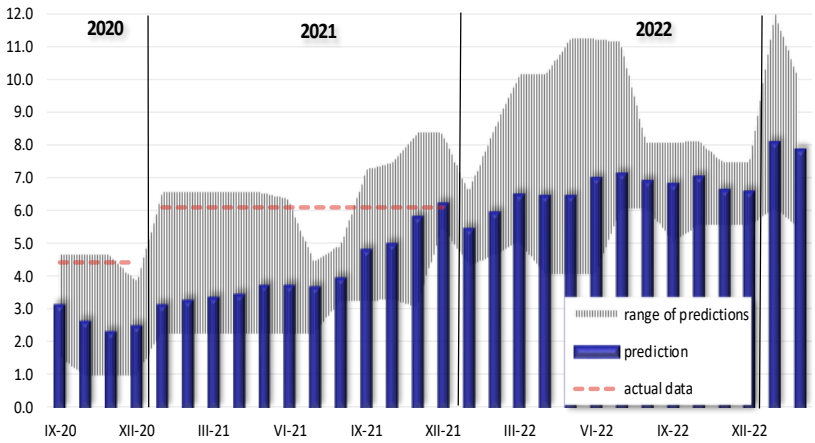
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR NEXT YEAR



NOMINAL WAGE GROWTH

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



Issued by:
CZECH NATIONAL BANK
Na Příkopě 28
115 03 Praha 1
Czech Republic

Contact:
COMMUNICATIONS DIVISION
GENERAL SECRETARIAT
Tel.: +420 224 413 112
www.cnb.cz