

Financial Market Inflation Expectations

— 3/2023



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I. SUMMARY

Fifteen domestic and two foreign respondents sent in their contributions to the March survey of financial market inflation expectations. Their responses reveal that the expected inflation rate has dropped slightly at both the one-year and three-year horizons, amid expectations of a larger decrease in the CNB's key interest rates over the next 12 months combined with depreciation of the koruna above CZK 24 to the euro. However, the average one-year forecast for the koruna exchange rate has shifted to a stronger level than in the previous survey. The estimate of domestic economic output this year is unchanged, but the outlook for next year is more optimistic. The forecast for nominal wage growth this year has been revised down, while the outlook for next year is higher.

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 Janičko, 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, 23 March 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

March 2023	CPI	
	1Y	3Y
minimum	2.0	1.6
average	3.7	2.6
maximum	5.5	4.2

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

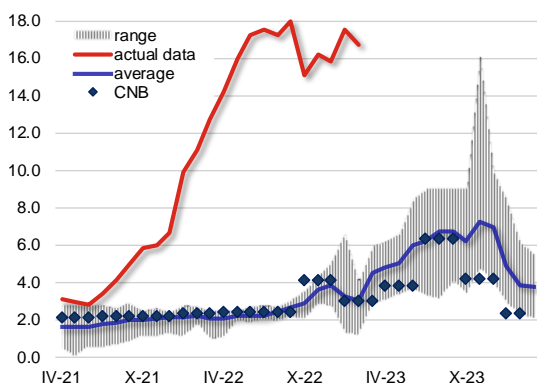
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
III.22	4.5	2.2	1Q: 3.0
IV.22	4.7	2.2	
VI.22	6.0	2.5	2Q: 3.8
VIII.22	6.7	2.5	3Q: 6.3
XI.22	7.3	2.5	4Q: 4.2
I.23	4.8	2.6	
II.23	3.8	2.7	1Q: 2.3
III.23	3.7	2.6	

Growth in the annual consumer price index slowed by 0.8 pp to 16.7% in February. Besides base effects, the drop in inflation was due to lower growth in electricity and natural gas prices. In month-on-month terms, consumer prices rose by 0.6%. This mainly reflected growth in prices of some foodstuffs, package holidays, fuels and household equipment. The inflation forecast in our survey shifted downwards at both the one-year and three-year horizons. On average, the analysts expect inflation of 3.7% in March next year. This represents a drop of 0.1 pp in the one-year forecast compared to the previous survey. The three-year outlook decreased to the same extent to 2.6%. The range of the one-year estimates narrowed owing to a faster decrease in the maximum value. By contrast, the maximum and minimum values of the three-year forecasts widened slightly due to a larger drop in the minimum value.

The analysts continue to expect inflation to decline further in the months ahead. This will be due mainly to last year's high base. However, the pace of disinflation remains a question. Some of the analysts think that lower inflation will be fostered by certain anti-inflationary aspects, such as subdued household consumption, which should be reflected in food prices in addition to goods and services prices. Cheaper commodities and energy could also contribute to lower consumer price inflation, as could a strong koruna and a price correction on the property market. By contrast, some of the analysts are of the opinion that the decline will be gradual, as the demand inflation pressures indicated by core inflation remain quite strong and persistent in the Czech economy. This is due to persisting tight labour market conditions and related wage growth in some sectors. Moreover, inflation in the final quarter will reflect the impact of the energy savings tariff at the end of last year. Average whole-year inflation could exceed 10% this year.

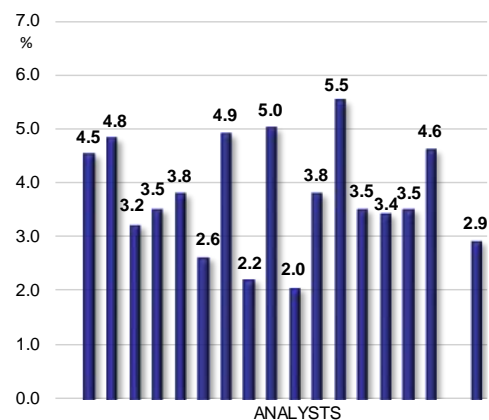
CONSUMER PRICE INDEX

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

(%)

March 2023	current year	current+ 1Y
minimum	-1.2	1.7
average	0.2	2.7
maximum	1.2	4.1

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
březen 2022	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
III.23	0.2	2.7

The CZSO has revised the GDP data for both 2022 Q4 and 2022 as a whole downwards. According to the revised estimate, the domestic economy contracted by 0.4% quarter on quarter in 2022 Q4, confirming a modest (technical) recession, but grew by 0.2% in year-on-year terms. In 2022 as a whole, GDP increased by 2.4%. The quarter-on-quarter drop was due mainly to lower household final consumption expenditure and a fall in gross capital formation. By contrast, the full-year growth was driven by investment and external demand. General government expenditure made a slight positive contribution and final household consumption a negative one. The newly published data had no major effect on the analysts' view. As in the February survey, they expect Czech economic output to grow by 0.2% on average this year. Next year, by contrast, the growth should be slightly faster at 2.7%, which is 0.1 pp more than in the February survey. The range of the estimates for this year widened slightly due to a drop in the minimum value. The maximum and minimum outlooks for next year were unchanged.

Some of the analysts think that GDP in the Czech Republic may decline year on year in 2023 Q1 as well, due to worsening domestic consumption and cooling external demand. However, risks are seen on both sides. A faster recovery in the euro area and lower imports due to weaker consumption by Czech households could foster better economic growth. By contrast, a shortage of semiconductors, particularly in the automotive industry, as well as a potential deeper decline in household consumption, could still limit domestic production. Next year, investment and exports should be the main drivers of the Czech economic recovery. Household consumption will probably pick up more slowly.

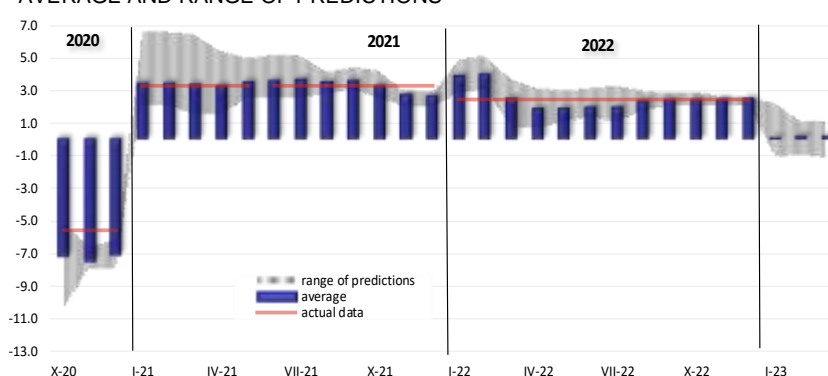
INDIVIDUAL PREDICTIONS

AVERAGE FOR THIS 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

(%)

March 2023	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	4.50	6.90	4.20	4.40	3.80	4.20	3.52
average	7.00	5.59	7.20	5.46	4.95	4.24	4.49	4.07
maximum	7.00	6.50	7.40	6.60	5.32	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
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
III.23	7.00	5.59	7.20	5.46	4.95	4.24	4.49	4.07

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W	12M	5Y	10Y
	repo rate	PRIBOR	IRS	IRS
15.3.	7.00	7.23	4.93	4.51

The 12M PRIBOR reference interbank rate again remained virtually unchanged between the previous survey and the deadline for submitting responses to the current one. The forecast for this rate has thus recorded no major changes so far at either the one-year or the three-month horizon. The average swap rate forecasts also recorded relatively small movements limited to between -5 bp and +12 bp. The forecasted levels continue to reflect their expected drop. The fact that expected rates with shorter maturities are higher than those with longer maturities is also unchanged.

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

(%)

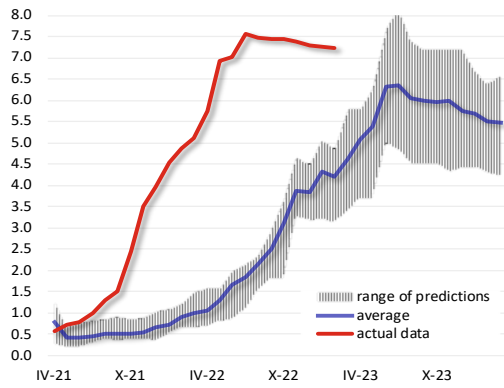
2W repo rate level in 1Y (%)	4.50	4.75	5.00	5.25	5.50	5.75	6	6.25	6.50	6.75	7.00	7.25
number of analysts - current survey	2	1	1	2	1	4	1	1	3	0	0	0
-previous survey	0	2	2	0	2	4	4	2	1	0	1	0

None of the analysts expects the CNB's key interest rates to be changed at the Bank Board's monetary policy meeting in March. According to our survey results, the 2W repo rate will remain at 7.00%.

There is a view among the analysts that the macroeconomic data published since the previous survey should not have much effect on the CNB's monetary policy approach. Given the Bank Board's communications, the CNB can also be expected to keep key interest rates at their current levels for some time. However, the subsequent movement should be a downward one. According to some estimates, the CNB will cut rates in 2023 Q3. The analysts on average expect the 2W repo rate to be 5.59% in March next year. This is slightly lower than the respondents predicted in February. The range of the estimates remains very wide (4.50%–6.50%) and the uncertainty is thus relatively high. Moreover, the analysts did not have enough time to fully assess the impacts of the recent financial market turbulence on the monetary policy of the ECB and hence also of the CNB.

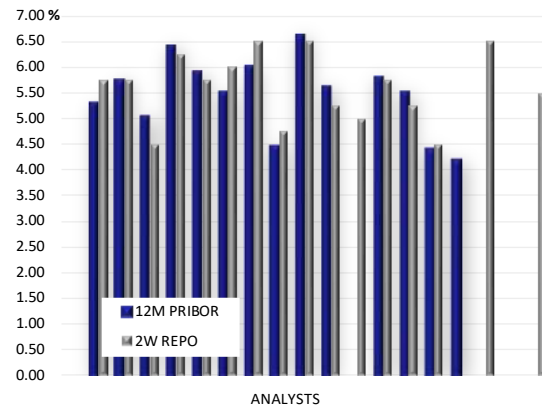
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



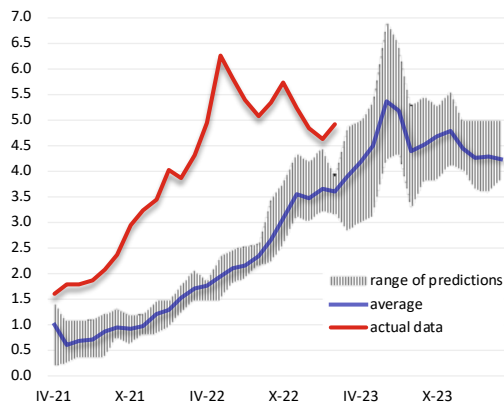
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



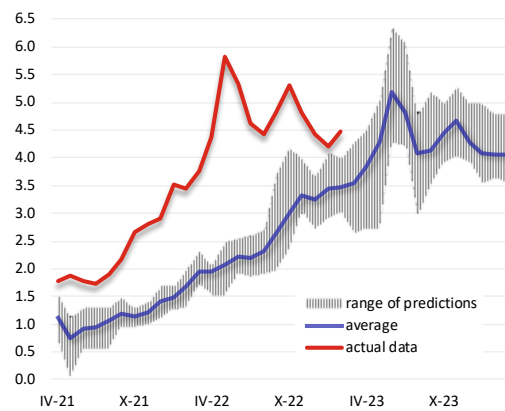
5Y IRS AT 1Y

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
III.22	24.82	24.47
IV.22	24.42	24.17
VI.22	24.72	24.85
V III.22	24.62	24.82
XI.22	24.50	24.88
I.23	24.12	24.39
II.23	23.84	24.33
III.23	23.81	24.15

EXCHANGE RATE FORECAST

March 2023	EUR/CZK	
	1M	1Y
minimum	23.60	23.20
average	23.81	24.15
maximum	24.00	24.90

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.3.	23.94
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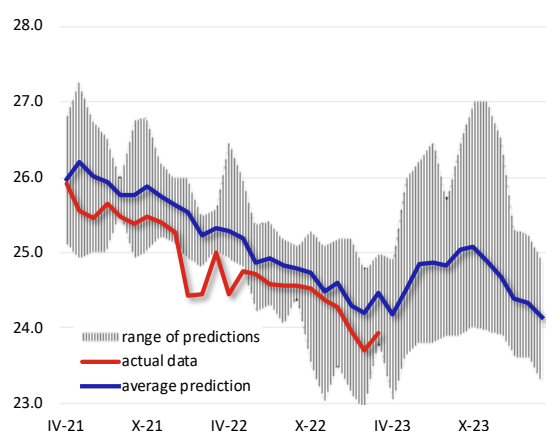
Due to the recent events in the global banking market, the koruna depreciated by 28 hellers to CZK 23.94 to the euro between the previous survey and mid-March. It even briefly weakened above CZK 24 CZK/EUR in the following days. However, the analysts did not have much time to analyse in detail the global financial market developments which occurred just before the cut-off date of the survey, so their forecasts may not fully incorporate them. They might also have viewed the increased market tensions as temporary. Either way, they are expecting an average exchange rate of around CZK 23.81/EUR at the one-month horizon. At the one-year horizon, however, they continue to expect the koruna to weaken above CZK 24/EUR to CZK 24.15/EUR, a level 18 hellers stronger than they estimated in mid-February.

Some of the analysts think that a koruna below CZK 23.50/EUR was too strong. It was not consistent with economic developments and the monetary policy expected in the Czech Republic and the euro area. Some of the respondents estimate that an exchange rate of around CZK 24/EUR is consistent with the current macroeconomic fundamentals. The analysts also expect the koruna to be above this level in spring next year. However, its deviations from the outlined scenario will continue to be influenced by the risk aversion that generally strongly affects the currencies of Central Europe.

After the turbulence on the financial market subsides and the high inflation subsequently eases, the koruna could return to a long-term gradual appreciation trend, which will be based on an economic recovery and improved sentiment. However, this is not likely to happen until 2024 and 2025.

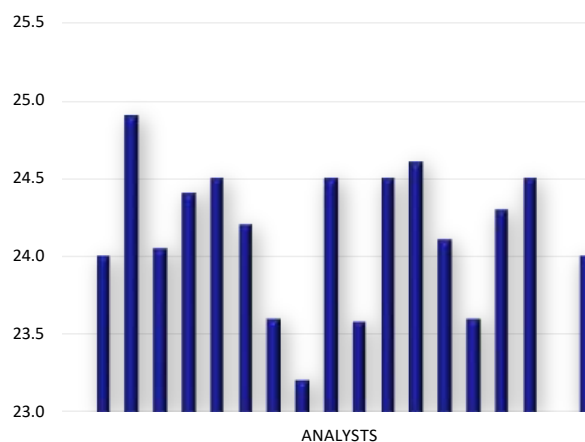
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

March 2023	current year	current+1Y
minimum	5.4	4.0
average	7.8	6.0
maximum	10.0	7.5

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
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
III.23	7.8	6.0

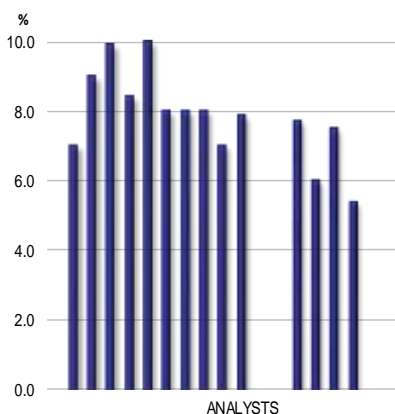
According to the latest data available at the end of February this year, the number of vacancies registered by Czech labour offices is still slightly higher than the number of job applicants. As regards the number of available job applicants, the overhang is much higher. The share of unemployed persons was unchanged compared to the previous month, at 3.9%. The latest data still rank the Czech Republic among the countries with the lowest unemployment in the EU.

The newly published data for Q4 show a year-on-year rise in total unemployment of 1.3%. In quarter-on-quarter terms, however, the unemployment rate decreased by 0.4%. The wage bill grew by 6.2% year on year in the same period. The average wage rose by 7.9% year on year to CZK 43,412. In 2022 as a whole, it reached CZK 40,353, up 6.5% on a year earlier. With consumer price inflation at 15.1%, the real wage fell by 7.5% last year.

The average forecast for nominal wage growth this year in our survey dropped slightly – by 0.1 pp to 7.8% – compared to the March survey. By contrast, the outlook for next year is slightly more optimistic, as the average estimate rose by 0.1 pp to 6.0%.

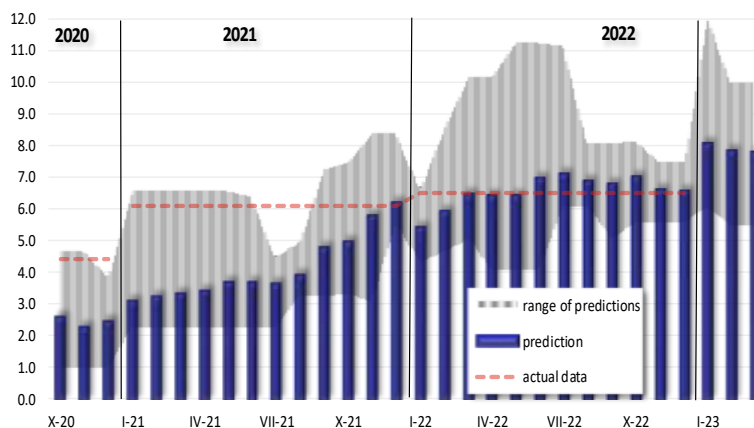
INDIVIDUAL PREDICTIONS

AVERAGE FOR THIS YEAR



NOMINAL WAGE GROWTH

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



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