Financial Market Inflation Expectations

4/2023

CNB CZECH NATIONAL BANK 30

Czech National Bank —— Financial Market Inflation Expectations —— 4/2023

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I. SUMMARY

Fourteen domestic and three foreign analysts took part in the April survey of financial market inflation expectations. The results show that the inflation forecast decreased at the one-year horizon. The three-year outlook is unchanged. The economic growth outlook is also marginally weaker for this year and the next. As in the previous rounds of the survey, none of the respondents expected key interest rates to change at the May monetary policy meeting of the CNB Bank Board. Most of the analysts continue to believe that rates will fall at the one-year horizon. However, the opinions on the extent of this decline remain very mixed. The analysts expect the koruna to weaken at both the one-month and one-year horizons. Nominal wages could increase this year more than expected in the March survey.

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, Vratislav Zámiš, 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, 4 May 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

April 2023	CPI 1Y	CPI 3Y
minimum	2.3	2.0
average	3.5	2.6
maximum	4.8	4.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

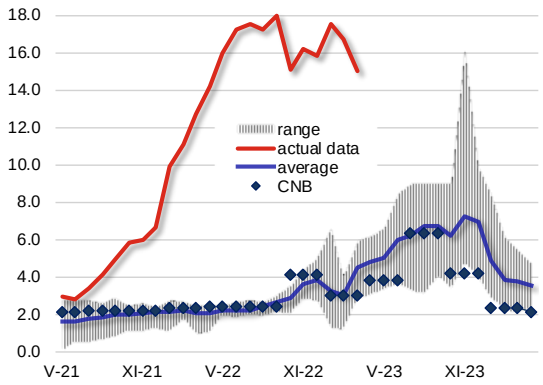
Date of Prediction	ANALYSTS 1Y	ANALYSTS 3Y	CNB (%) 1Y
IV.22	4.7	2.2	
VI.22	6.0	2.5	2Q: 3.8
VIII.22	6.7	2.5	3Q: 6.3
XI.22	7.3	2.5	4Q: 4.2
I.23	4.8	2.6	
II.23	3.8	2.7	1Q: 2.3
III.23	3.7	2.6	
IV.23	3.5	2.6	2Q: 2.1

Base effects are at work and inflation in the Czech Republic is slowing further. The annual consumer price index fell by 1.7 percentage points to 15% in March. This was driven significantly by prices of transport and housing, as fuel prices dropped markedly year on year and growth in natural gas prices slowed. In month-on-month terms, consumer prices rose by 0.1% in March, reflecting growth in prices of some food and services. The average one-year forecast of the analysts in our survey decreased by 0.2 percentage point to 3.5% from mid-March. By contrast, the three-year forecast stayed at 2.6%. The range of the individual estimates narrowed at both the one-year and three-year horizons, owing to a decrease in the maximum value as well as an increase in the minimum value.

The analysts expect inflation to slow further in the months ahead. Base effects will still be the strongest factor. However, other factors will also act in the same direction. They include subdued household consumption, lower prices of some commodities and energy, a stronger koruna on the foreign exchange market and a slight correction in property prices. By contrast, a tight labour market and accelerating wage growth could make the decline in inflation s lower. Higher inflation expectations could also play a role. The lower comparison base due to the introduction of the energy savings tariff at the end of last year will also manifest itself in Q4; as a result of the tariff, reported energy prices formally declined temporarily. Annual inflation could average around 10% in 2023 as a whole. According to some analysts, inflation should approach levels around the upper boundary of the tolerance band in early 2024.

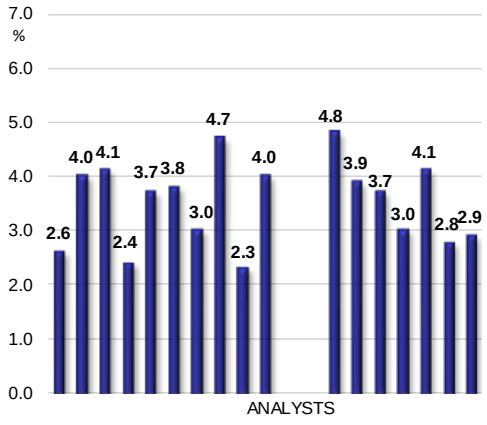
CONSUMER PRICE INDEX

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

(%)

April 2023	current year	current+ 1Y
minimum	-1.1	1.7
average	0.1	2.6
maximum	0.9	4.1

FORECAST FOR GDP GROWTH

(%)

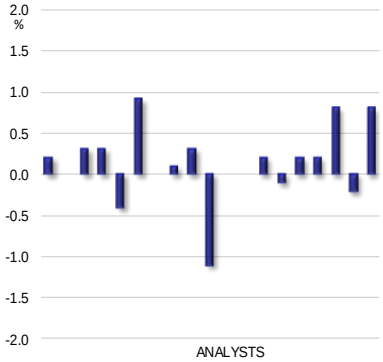
Date of Prediction	current year	current+1Y
IV.22	1.9	3.0
VI.22	1.9	2.3
VIII.22	2.4	1.3
XI.22	2.4	0.0
I.23	0.0	2.4
II.23	0.2	2.6
III.23	0.2	2.7
IV.23	0.1	2.6

The CZSO revised year-on-year GDP data for 2022 Q4 and the annual growth rate for 2022 as a whole. According to the latest data, the Czech economy grew by 0.3% in Q4 and 2.5% for last year as a whole. In both cases, growth is 0.1 pp higher than in the previous estimate. The analysts' view of economic growth this year and the next is slightly less optimistic than in the previous survey. On average, they estimate average real GDP growth of 0.1% this year compared with 0.2% expected in March. Economic growth is expected to accelerate to 2.6% next year, 0.1 pp less than a month ago. The range of the individual predictions for this year narrowed owing to a decrease in the maximum value and an increase in the minimum value. The maximum and minimum outlook values for next year were unchanged.

There is still a view among the respondents that the domestic economy could decline quarter on quarter again in 2023 Q1 after sliding into recession in the second half of last year. Weak household consumption constrained by high inflation is the main reason for this. External demand is deteriorating at the same time. However, its adverse impact will be dampened, e.g. in the automotive industry, by sufficient unfinished orders from last year. An economic recovery may already occur in the second half of this year, driven by investment and exports. The start of economic growth will probably only be gradual this year and we will have to wait for stronger growth at least until next year.

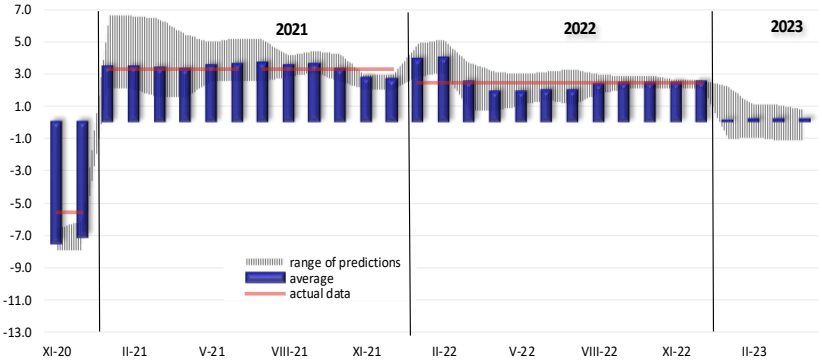
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



GDP GROWTH AT CURRENT YEAR

AVERAGE AND RANGE OF PREDICTIONS



IV. INTERNEST RATES – 2W REPO, PRIBOR, IRS

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

(%)

April 2023	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	4.50	6.80	4.20	4.60	3.64	4.30	3.40
average	7.00	5.56	7.18	5.34	4.98	4.22	4.53	4.09
maximum	7.00	6.50	7.40	6.35	5.20	5.00	4.75	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
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
IV.23	7.00	5.56	7.18	5.34	4.98	4.22	4.53	4.09

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.4.	7.00	7.23	5.11	4.66

Given the CNB Bank Board's communications, none of the analysts again expected the CNB's key interest rates to be changed at the Bank Board's next monetary policy meeting in May. Therefore, the expected 2W repo rate remained at 7.00%.

Although the CNB is not completely ruling out the possibility of a further hike in key interest rates, the analysts are essentially not expecting this to happen. By contrast, their estimates now focus on the timing of the first cut in monetary policy rates and the pace at which CNB key rates will decline. According to some estimates, the CNB could lower interest rates for the first time in 2023 Q3. However, this is not expected to be an isolated step, with the 2W repo rate probably falling further thereafter. According to the analysts, it could stand within a fairly broad range between 4.50% and 6.50% at the one-year horizon.

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

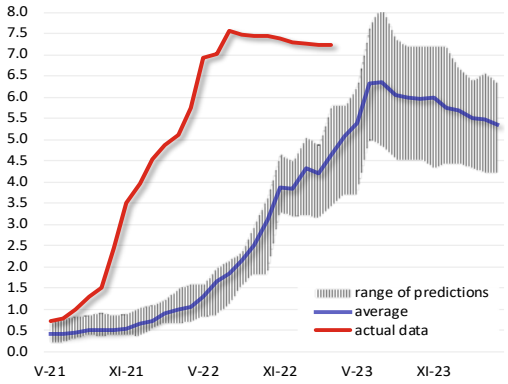
(%)

2W repo rate level in 1Y (%)	4.00	4.25	4.50	4.75	5.00	5.25	5.5	5.75	6.00	6.25	6.50	6.75
number of analysts - current survey	0	0	3	0	1	0	5	2	3	2	1	0
-previous survey	0	0	2	1	1	2	1	4	1	1	3	0

Although the 12M PRIBOR interbank benchmark rate is the same as a month earlier, its average forecast in our survey declined. A more pronounced drop (-12 bp) can be observed for the one-year outlook. By contrast, current market swap rates increased (5Y IRS by 18 bp and 10Y IRS by 15 bp). The changes in the swap rate forecasts are mixed compared to March and are within a narrow range from -2 bp to 3 bp. The current data obtained still clearly point to an expected decrease not only in key interest rates, but also in money market rates and rates on interest rate derivatives. At the same time, the expected rates with shorter maturities are still higher than those with longer maturities.

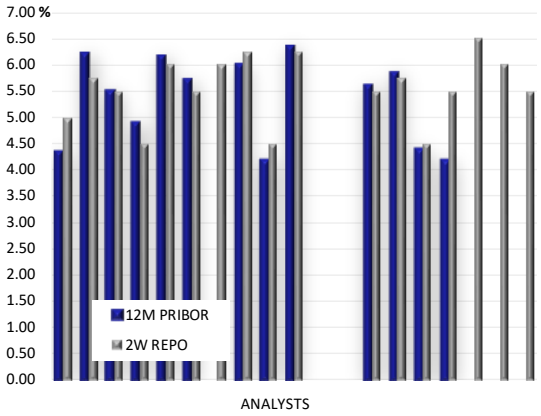
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



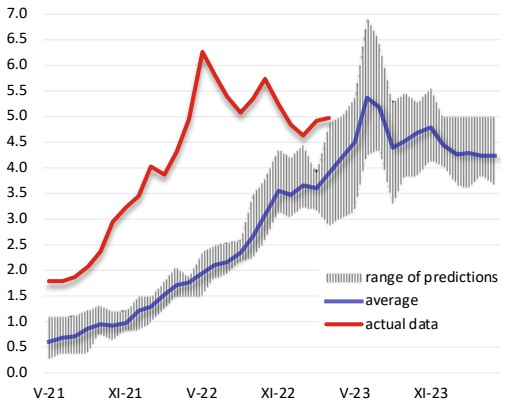
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



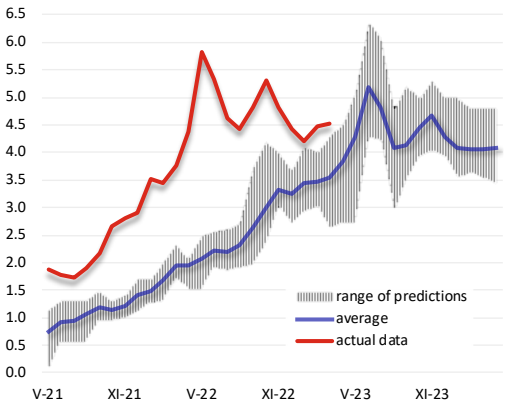
5Y IRS AT 1Y

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
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
III.23	23.81	24.15
IV.23	23.47	24.07

EXCHANGE RATE FORECAST

April 2023	EUR/CZK	
	1M	1Y
minimum	23.20	22.90
average	23.47	24.07
maximum	23.65	24.80

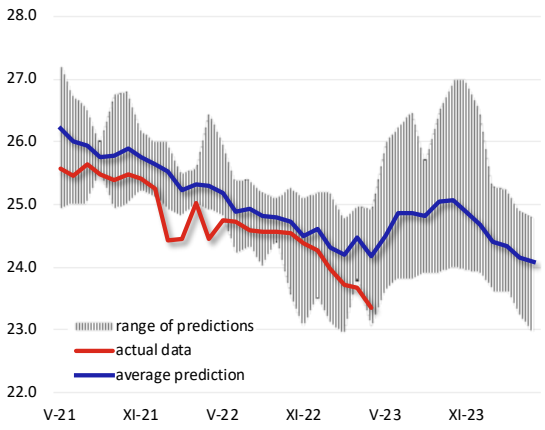
ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.4.	23.35

As the situation in banking stabilised and risk aversion declined, the koruna exchange rate appreciated on the global financial market. The koruna was 59 hellers stronger at CZK 23.35/EUR compared to the March survey. This is also reflected in the analysts' forecasts. However, the analysts are not expecting the exchange rate to stay at these levels for long. They are expecting it to weaken soon to around CZK 23.47/EUR at the one-month horizon. However, that is not necessarily the end of its road to weaker levels. Over the subsequent eleven months, it is expected to depreciate gradually further, reaching about CZK 24.07/EUR in April 2024. This may be due partly to a narrowing interest rate differential. Potential renewed problems with energy supplies would act in the same direction. There is also uncertainty regarding the future path of international trade, which largely depends on the intensity of the slowdown in economic activity in the euro area and the USA. According to one respondent, a public termination of the CNB's current intervention regime could also result in higher volatility of the koruna exchange rate.

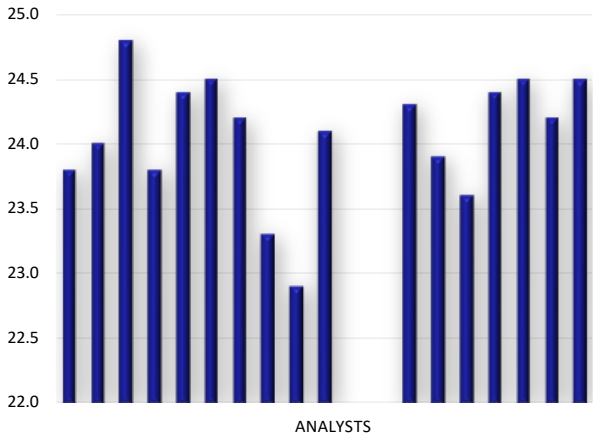
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

April 2023	current year	current+1Y
minimum	5.4	4.0
average	8.2	6.0
maximum	10.0	7.5

FORECAST FOR NOMINAL WAGE GROWTH

(%)

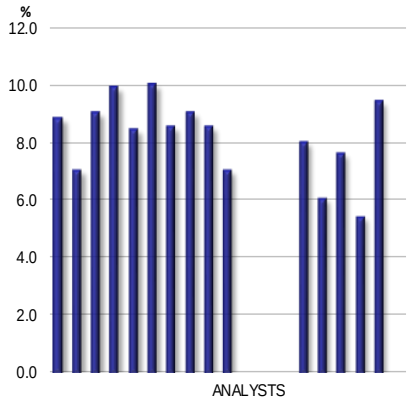
Date of Prediction	current year	current+1Y
IV.22	6.5	5.9
VI.22	7.0	7.0
VIII.22	6.9	7.5
XI.22	6.6	7.6
I.23	8.1	5.5
II.23	7.9	5.9
III.23	7.8	6.0
IV.23	8.2	6.0

The labour market situation remains tight. According to the latest available data from the Czech Labour Office as of the end of May, the usual seasonal pattern is manifesting itself, with the share of unemployed persons falling by 0.2 pp to 3.7%. The number of job vacancies continues to exceed the number of job applicants. The Czech Republic's position is also unchanged by international comparison. According to the Eurostat methodology, the unemployment rate in the Czech Republic was 2.6%, the lowest in the whole EU, which averaged 6.3%.

The average nominal wage growth expected in our survey for this year increased by 0.4 pp from March to 8.2%. Higher wages will be supported not only by the labour market situation, but also the favourable financial situation of firms. There is a view among the analysts that wages will grow more this year, driven not only by high inflation, but also by some firms trying to compensate their employees for at least part of the drop in real wages, as employees have so far borne the brunt of the inflation burden. In view of the expected slowdown in inflation, wage growth should decline next year. Nominal wages are expected to grow by 6.0% on average in 2024 (unchanged from the previous survey). According to some estimates, real wages could return to growth in the second half of 2023 or in 2024.

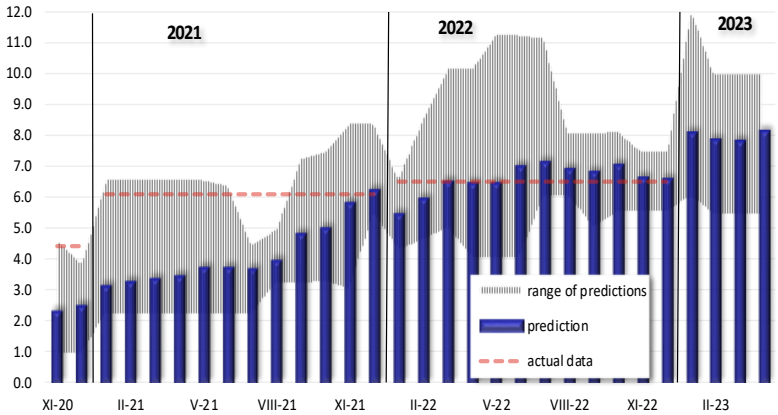
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

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



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