Financial Market Inflation Expectations

5/2023

CNB CZECH NATIONAL BANK 30

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I. SUMMARY

Fifteen domestic and three foreign respondents sent in their contributions to the May survey of financial market inflation expectations. The results clearly indicate that the analysts are more optimistic about economic growth. At the same time, they are expecting a further slowdown in inflation. The inflation forecast has decreased slightly, even at the three-year horizon. Unlike in the previous survey, one of the analysts is expecting key interest rates to be raised at the CNB's next monetary policy meeting. However, most of the respondents continue to expect rates to stay unchanged. They expect the koruna to remain close to its current levels in the weeks ahead but to depreciate less than assumed in the April survey at the one-year horizon. The forecasts for nominal wages have shifted to higher levels due to inflation and the current labour market situation.

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, 22 May 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

May 2023	CPI 1Y	3Y
minimum	2,0	1,9
average	3,2	2,5
maximum	4,4	4,0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS 1Y	3Y	CNB (%) 1Y
V.22	5,0	2,3	
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
IV.23	3,5	2,6	2Q: 2.1
V.23	3,2	2,5	

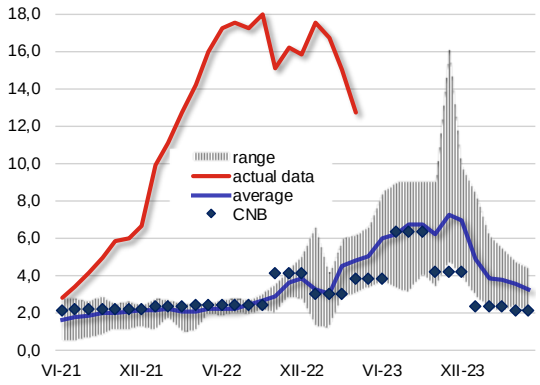
Inflation in the Czech Republic is continuing to slow, and at an even faster pace than expected. According to the CZSO, the annual consumer price index fell by 2.3 percentage points to 12.7% in April. Besides base effects, this slowdown was driven mainly by food prices (down month on month for the first time since October 2021), non-alcoholic beverages and housing. In month-on-month terms, consumer prices even fell by 0.2%. The analysts' average one-year forecast also shifted downwards compared to the previous survey (by 0.3 percentage point to 3.2%). The three-year forecast also saw a slight decrease this time – down by 0.1 percentage point to 2.5%. The range of the one-year estimates narrowed owing to a larger drop in the maximum value. Conversely, the drop in the minimum value lead to a widening of their range for the three-year forecasts.

Inflation is still expected to continue to slow. According to the analysts, this will still be mostly due to last year's base effects supplemented by other factors. These include subdued household consumption, which will be reflected in goods and services prices and probably already contributed significantly to the drop in food prices in April. However, some analysts point out that the April figures may just be a one-off swing, which would not be unusual. It will only be clear in the months ahead whether there really was a major decrease in the demand-pull inflation pressures. The decline in some energy and commodity prices will help slow inflation. A stronger koruna and a correction on the property market will also play a role. However, the lower comparison base arising from the introduction of the energy savings tariff at the end of last year will also be reflected in Q4. Annual inflation could average around 10–11% in 2023 as a whole. January next year should see a sharp drop in inflation, with some estimating a decline to 3%.

The CNB's spring forecast expects consumer prices to increase by 2.1% year on year in 2024 Q2.

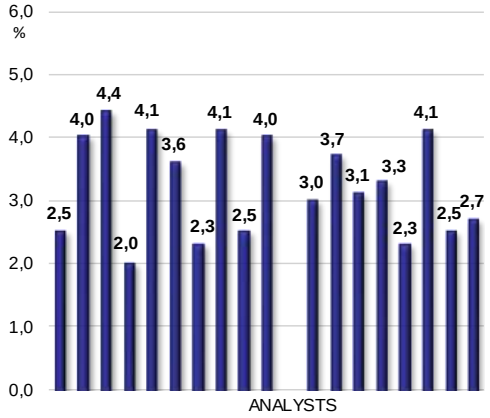
CONSUMER PRICE INDEX

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

(%)

May 2023	current year	current+ 1Y
minimum	-0,8	1,8
average	0,3	2,7
maximum	1,0	4,1

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
V.22	1,8	2,8
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
IV.23	0,1	2,6
IV.23	0,3	2,7

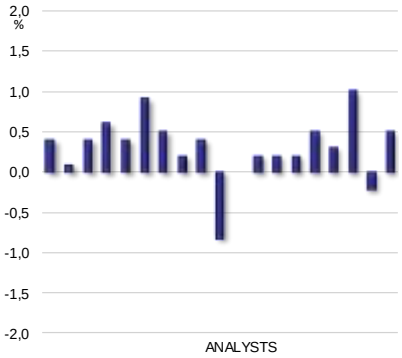
According to the CZSO's preliminary estimate, the domestic economy grew by 0.1% quarter on quarter in 2023 Q1. It was down by 0.2% compared to the same quarter a year earlier. Annual and quarterly GDP were positively affected mainly by external demand, while decreasing expenditure on final household consumption and the drop in investment had an adverse effect. The higher-than-expected quarter-on-quarter GDP in 2023 Q1 probably bolstered optimism among analysts. They currently estimate that GDP will grow by 0.3% this year, which is 0.2 percentage point more than a month ago. The analysts' forecast for this year also moved 0.1 percentage point higher to 2.7%. The range of the individual forecasts for this year and the next narrowed owing mainly to a faster increase in the minimum values.

The technical recession that occurred in the Czech Republic in the second half of last year has ended. Some of the respondents believe that the forthcoming revision could improve the figure for 2023 Q1 even more, as the March data are not yet known and, according to a Czech Automotive Industry Association estimate, there was a further acceleration in economic activity in March. According to the analysts, this year should see an increase in economic activity. Reduced uncertainty (the scenario regarding the strong adverse effects of high energy prices did not materialise) and higher wage growth stemming from persisting tight labour market conditions will help restore growth in consumer expenditure. The labour market has not been substantially affected by the current recession so far and some analysts believe a dramatic increase in unemployment does not seem likely. However, growth in consumer expenditure will probably be gradual. The supply chain situation is also reportedly returning to the pre-pandemic level, reducing production barriers. The strong results of German industry in recent months are also encouraging for the Czech export-oriented production sector, as is the expected recovery of the Chinese economy. The fall in energy prices on the wholesale market is also perceived positively. Investment is also expected to increase, but will probably not pick up more markedly until next year with a move to automation associated with labour shortages on the domestic market or when investments financed by European funds to support the transition of the economy towards sustainable production and consumption have a greater impact.

The CNB's spring forecast expects GDP growth of 0.5% in 2023 and 3.0% in 2024.

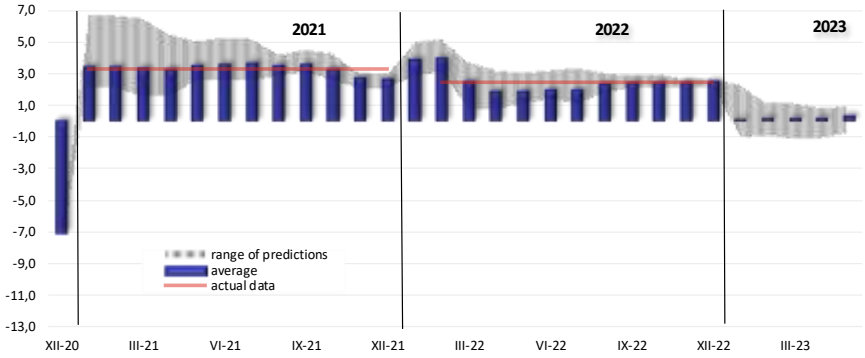
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



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

(%)

May 2023	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7,00	4,25	6,10	4,00	4,50	3,66	4,20	3,43
average	7,01	5,53	7,12	5,35	4,79	4,18	4,42	4,02
maximum	7,25	6,50	7,29	6,65	5,30	4,70	4,85	4,50

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
V.22	6,37	5,38	6,63	5,37	5,43	4,50	5,03	4,29
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
IV.23	7,00	5,56	7,18	5,34	4,98	4,22	4,53	4,09
V.23	7,01	5,53	7,12	5,35	4,79	4,18	4,42	4,02

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.5.	7,00	7,18	4,64	4,27

Most respondents continue to expect no change in key interest rates at the CNB Bank Board monetary policy meeting in June either and the 2W repo rate to remain at 7.00%. However, on this occasion one respondent estimates that those in favour of raising interest rates will be in the majority at the next Bank Board meeting, and the CNB will increase the 2W repo rate by 25 basis points to 7.25%.

However, all the analysts expect the 2W repo rate to be below its current level at the one-year horizon. Declining inflation and its outlook are creating the conditions for this. Some of the analysts think that the likelihood of a further rise in policy rates fell with the publication of the macroeconomic data on inflation in April when core inflation fell more than expected. Fiscal policy and the proposed government consolidation adjustments are having the same effect. Slower wage growth in industry and subdued demand are also mentioned. Thus, the analysts mostly estimate that the next shift in rates will be downwards. Some estimate that the process of reducing interest rates may start in September. However, the views on the level of the 2W repo rate in May 2024 are very mixed, and are within a relatively broad range of 4.25%–6.50%.

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

(%)

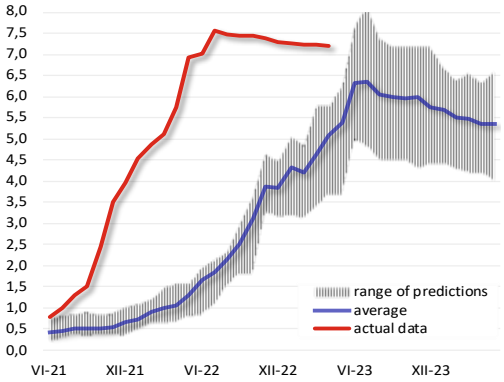
2W repo rate level in 1Y (%)	4,00	4,25	4,50	4,75	5,00	5,25	5,5	5,75	6,00	6,25	6,50	6,75
number of analysts - current survey	0	1	1	0	4	2	1	1	6	0	2	0
-previous survey	0	0	3	0	1	0	5	2	3	2	1	0

The 12M PRIBOR reference rate is slightly lower than in the previous survey (−5 basis points). The monthly forecast for the 12M PRIBOR in our survey also recorded a decline of 5 basis points to 7.12% in the same period. Conversely, it rose by 1 basis point to 5.35% at the one-year horizon. Market swap rates recorded a more marked decrease since the cut-off date of the April survey (5Y IRS −47 basis points to 4.64% and 10Y IRS −39 basis points to 4.27%). The downward correction of the average swap rate forecasts of between −4 and −19 basis points was more pronounced than for the aforementioned reference interbank rates, but smaller than for market swap rates. 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. In line with the inverted shape of the yield curve, the expected rates with shorter maturities are still higher than those with longer maturities.

The CNB's spring forecast implies a 2W repo rate of 4.5% in 2024 Q2.

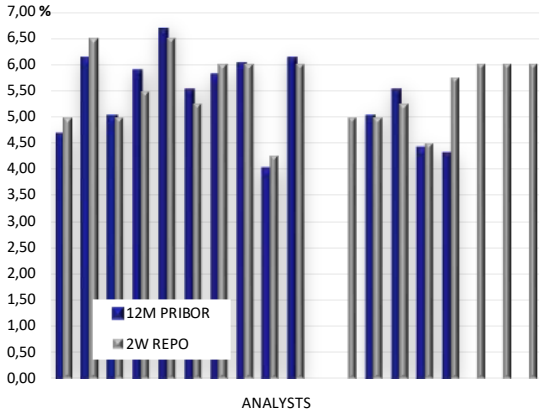
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



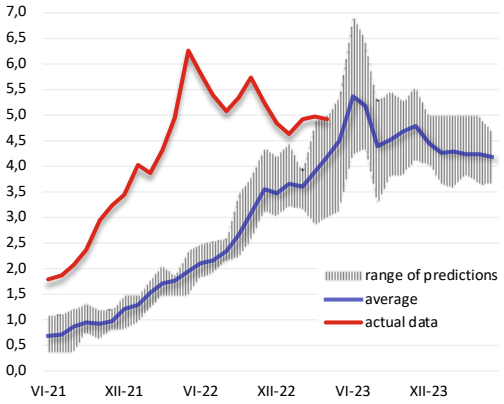
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



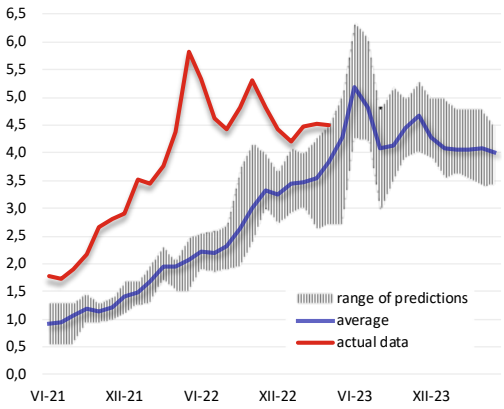
5Y IRS AT 1Y

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
V.22	24,75	24,49
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
IV.23	23,47	24,07
IV.23	23,60	23,97

EXCHANGE RATE FORECAST

May 2023	EUR/CZK	
	1M	1Y
minimum	23,40	23,00
average	23,60	23,97
maximum	23,80	24,60

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.5.	23,57

The koruna depreciated by 22 hellers to CZK 23.57/EUR between the cut-off date of the April survey and mid-May. The analysts' average monthly forecast also recorded a similar – albeit slightly smaller – correction, shifting from CZK 23.47/EUR to CZK 23.60/EUR. By contrast, the exchange rate of the koruna was revised to stronger levels at the one-year horizon, up from CZK 24.07/EUR to CZK 23.97/EUR.

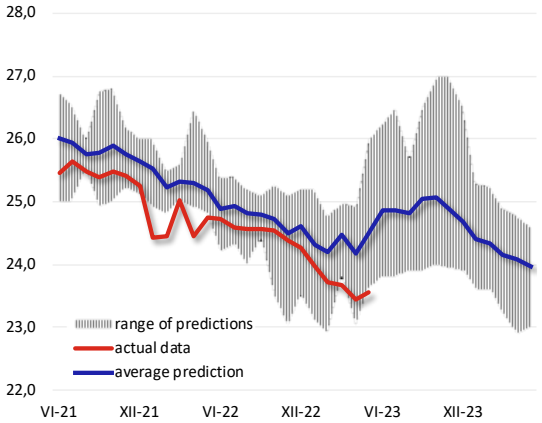
According to the analysts, in addition to lower-than-expected inflation, which is reducing the likelihood of a further monetary policy tightening by the CNB and is pushing market rates down, the impact of the global environment is also significantly contributing to the depreciation of the koruna against the euro. The dollar strengthened on the back of growing chances that the US debt ceiling would be raised and due to a reduction in wagers that the Fed would start cutting rates soon.

Analysts generally believe that the koruna exchange rate should be fluctuating around its current levels in the coming weeks. However, it is expected to continue to depreciate very slowly in the next 12 months. According to the analysts, the depreciation pressures include the narrowing interest rate differential and faster growth in the price level in the Czech Republic compared to the euro area, which also reduces the potential for the nominal appreciation of the koruna's exchange rate. Potential renewed problems with energy supplies, which would generally increase the pressure on Central European currencies, is a risk towards faster depreciation of the koruna. Conversely, faster disinflation and a stronger recovery in foreign trade could act in the opposite direction. The potential economic developments in the USA, the Fed and ECB monetary policy settings and the exchange rate of the dollar are contributing to considerable uncertainty. A public termination of the CNB's current intervention regime could also give rise to higher volatility of the koruna exchange rate.

The CNB spring forecast expects an exchange rate of around CZK 24.3/EUR in 2024 Q2.

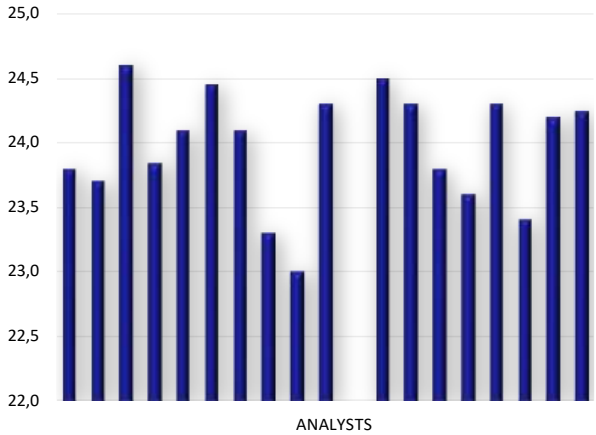
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

May 2023	current year	current+1Y
minimum	6,0	4,0
average	8,7	6,5
maximum	10,4	10,0

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
V.22	6,5	6,2
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
IV.23	8,2	6,0
V.23	8,7	6,5

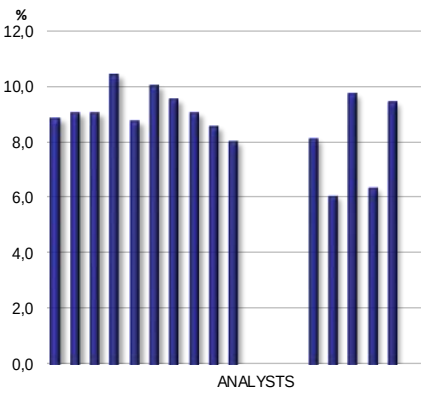
New data from the Czech Labour Office signal a further tightening of labour market conditions. The share of unemployed persons fell by 0.1 percentage point month on month to 3.6% at the end of April, owing mainly to seasonal work. The number of job vacancies (285,000) continues to exceed the number of job applicants (262,000). As regards the number of available job applicants (237,000), the difference is even higher. The statistics also continue to be favourable by international comparison, with the Czech Republic still having the lowest unemployment in the EU (according to the Eurostat methodology, the unemployment rate in the Czech Republic in March was 2.6%, compared to the average 6.1%).

According to some analysts, the scenario that high energy prices, a fall in demand and a technical recession would lead to an increase in unemployment has not quite materialised. By contrast, conditions are still tight on the labour market, with the related labour shortages prevailing. The unemployment rate is thus now expected more likely to remain close to its current levels. The information published on the results of collective bargaining in individual firms suggests that wage growth could be higher in some cases than previously assumed due to ongoing inflation and the situation on the labour market. The analysts expect nominal wages to grow by 8.7% on average this year, which is 0.5 percentage point higher than in the April survey. However, even such growth will not prevent real wages from falling. Given labour productivity, it will not worsen the still favourable financial situation of firms either. The outlook for next year is 0.5 percentage point more optimistic than a month ago, as nominal wages are expected to rise by 6.5% on average.

The CNB's spring forecast expects nominal wage growth of 8.8% in 2023 and 7.9% in 2024.

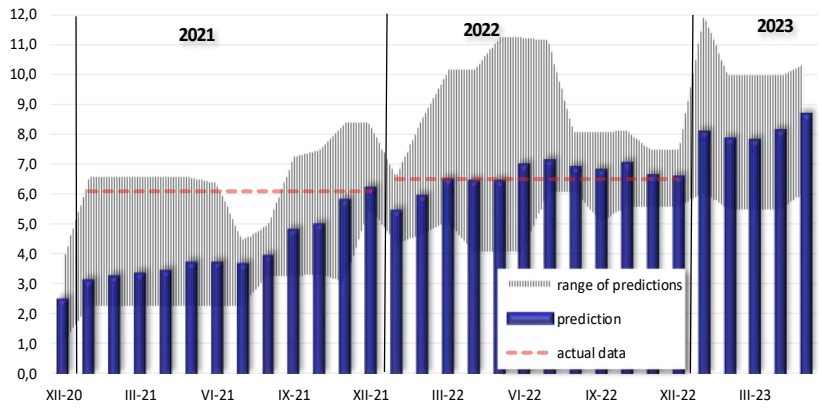
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

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



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