Financial Market Inflation Expectations

7/2023

ČNB ČESKÁ NÁRODNÍ BANKA 30

Czech National Bank —— Financial Market Inflation Expectations —— 7/2023

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I. SUMMARY

Fifteen domestic and three foreign respondents took part in the July survey of financial market inflation expectations. The obtained data reveal that the forecasts of the macroeconomic variables under review did not change much overall. The views on inflation at both the one-year and three-year horizons remain the same on average. The estimate of GDP growth this year and the next is also unchanged. None of the analysts is expecting the CNB Bank Board to change the key interest rates at its next meeting. After that, the rates are mostly expected to move downwards, and the drop should be slightly faster than expected a month ago. The forecast for the koruna exchange rate shifted to a slightly weaker level at both monitored horizons. The view on the growth in domestic nominal wages this year and the next is now less optimistic than a month ago.

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, Henry Burdon, JP Morgan	+	+	+	+	+	+	+					

We would like to thank everyone who contributed to this survey of financial market inflation expectations.

Prague, 24 July 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

July 2023	CPI 1Y	CPI 3Y
minimum	1.9	1.9
average	3.1	2.5
maximum	4.4	4.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS 1Y	ANALYSTS 3Y	CNB (%) 1Y
VII.22	6.2	2.5	
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	
VI.23	3.1	2.5	2Q: 2.1
VII.23	3.1	2.5	

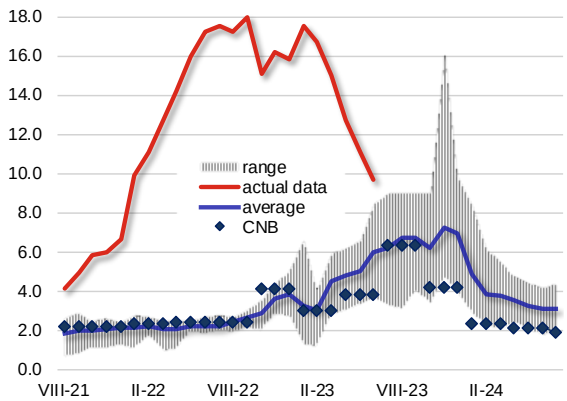
Inflation in the Czech Republic is slowing further. According to the CZSO, the annual growth rate of the consumer price index dropped below the psychological threshold of 10% to 9.7% in June. The figure is 1.4 percentage points lower than in May. The slowdown in inflation was due mainly to food and housing prices. In month-on-month terms, by contrast, consumer prices rose by 0.3%, due largely to a seasonal increase in package holiday prices. The June inflation brought no major surprises and was in line with the market consensus. This is probably also why the analysts in our survey did not change their inflation outlooks on average. In their opinion, annual inflation will reach 3.1% at the one-year horizon and gradually slow to 2.5% at the three-year horizon. The range of the one-year estimates did not change due to the same increase in the maximum and the minimum values. At the three-year horizon, the maximum and minimum values were unchanged and so was their range.

Inflation is expected to decrease further in Q3, though at an increasingly slower pace. Its decline will even halt in Q4. This will be due to last year's introduction of the energy savings tariff, which led to a sharp drop in energy prices and considerably reduced the comparison base. The statistical base will thus have the opposite effect on inflation (i.e. will increase it) in 2023 Q4 than it had previously. This effect will fade away in January next year when inflation is expected to decline to lower levels again and continue to approach the CNB's 2% target. A slowdown in inflation next year could also be fostered by a worsening labour market, the announced fiscal consolidation and a drop in energy prices. Food price inflation, for example, is viewed as a risk of non-materialisation of the outlined scenario.

The CNB's summer forecast expects annual consumer price inflation of 1.9% in 2024 Q3.

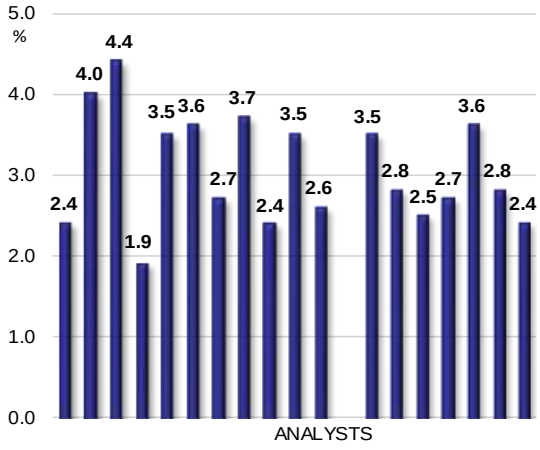
CONSUMER PRICE INDEX

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

(%)

July 2023	current year	current+ 1Y
minimum	-0.5	1.5
average	0.3	2.5
maximum	0.8	3.9

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	current year	current+1Y
VII.22	1.9	2.2
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
VI.23	0.3	2.5
VII.23	0.3	2.5

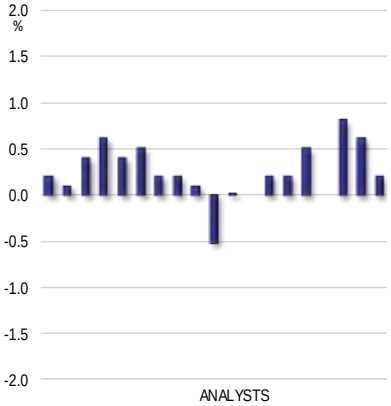
According to the CZSO's revised estimate, the domestic economy was flat (0.0%) in quarter-on-quarter terms in 2023 Q1. The year-on-year figure was revised down by 0.1 percentage point to 0.5%. As in the case of the inflation forecast, the analysts' did not change their outlook for economic growth on average. They still expect GDP to grow by 0.3% this year and accelerate to 2.5% next year. The range of the individual estimates for this year widened slightly due to an increase in the maximum value. In the case of the forecasts for next year, the widening of the range was caused by a drop in the minimum estimate and a rise in the maximum one.

Economic performance in the Czech Republic remains subdued. This is particularly evident in household consumption, which is being adversely affected by high inflation and a drop in real wages. Concerns regarding future developments and low consumer confidence are also playing a role. The analysts also noticed deteriorating external trade, as unfavourable macroeconomic data on export markets undermine demand for Czech exports. A high volume of work in progress in the automotive industry and a drop in consumer and investment imports are reducing the negative impact on the trade balance. Leading indicators are signalling no major recovery in the near term, with the situation in industry in particular being not very optimistic. Given the government's rhetoric and its effort to push through a consolidation package, no significant pro-growth effects can be expected in the area of government expenditure either. However, economic performance is not expected to remain subdued for long, and economic activity could accelerate again next year.

The CNB's summer forecast expects GDP growth of 0.1% in 2023 and 2.3% in 2024.

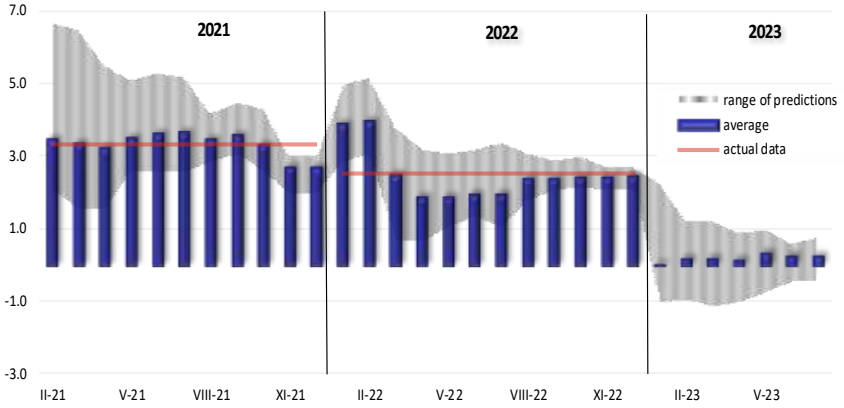
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



GDP GROWTH AT END OF 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

(%)

July 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	4.00	4.20	3.20	3.90	3.04
average	7.00	5.33	7.11	5.20	4.45	3.97	4.15	3.76
maximum	7.00	6.25	7.30	6.30	4.81	4.60	4.36	4.30

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
VII.22	7.16	6.30	7.57	6.36	5.70	5.19	4.93	4.81
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
VI.23	7.00	5.43	7.14	5.29	4.67	4.05	4.27	3.88
VII.23	7.00	5.33	7.11	5.20	4.45	3.97	4.15	3.76

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.7.	7.00	7.02	4.24	3.98

In the context of the central bank's communications, all the respondents were expecting key interest rates to remain unchanged at the CNB Bank Board policy meeting in August and the 2W repo rate to stay at 7.00%. The result of the voting at the meeting in June, at which the number of Bank Board members supporting an increase in policy rates fell by one, also undoubtedly indicated rate stability.

As the CNB has not so far wanted to raise its key rates, the analysts believe that the newly published macroeconomic data (especially the faster decrease in inflation) do not give it a reason for doing so now. There are thus increasing speculations about the timing of their first reduction. According to some estimates, this could occur between September and November this year. However, the September date is in sharp contrast with the comments made by several Bank Board members who dismiss a debate about cutting key interest rates soon. The analysts think that the 2W repo rate could range between 4.50% and 6.25% at the one-year horizon, averaging 5.33%.

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

(%)

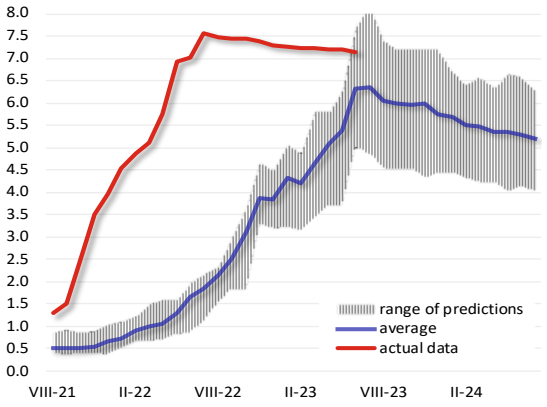
2W repo rate level in 1Y (%)	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.25
number of analysts - current survey	1	2	5	2	4	0	2	2
-previous survey	2	2	3	1	4	0	1	2

Market interest rates have dropped significantly since the June survey due to new macroeconomic data – the 12M PRIBOR reference rate by 16 bp, the 5Y IRS rate by 40 bp and the 10Y IRS rate by 29 bp. Their average one-month and one-year forecasts have also been revised downwards, albeit to a smaller extent. They have decreased by 3–12 bp. The analysts now incorporate a slightly faster decline in key interest rates in their outlooks. As the current market swap rates take monetary policy easing into account and the analysts probably expect the yield curve to return to the traditional slope, the expected drop in the forecasted rates for longer maturities is not as sizeable as that in money market rates.

The CNB's summer forecast implies a 2W repo rate of 4.1% in 2024 Q3.

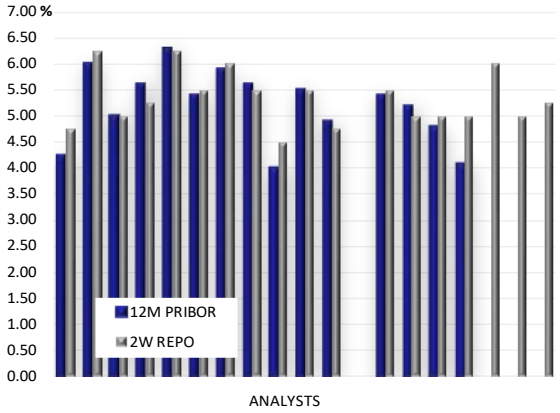
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



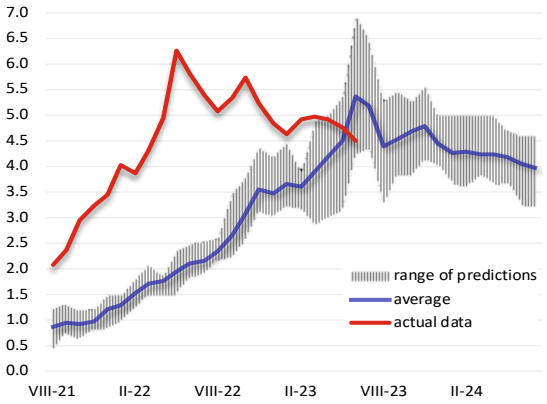
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



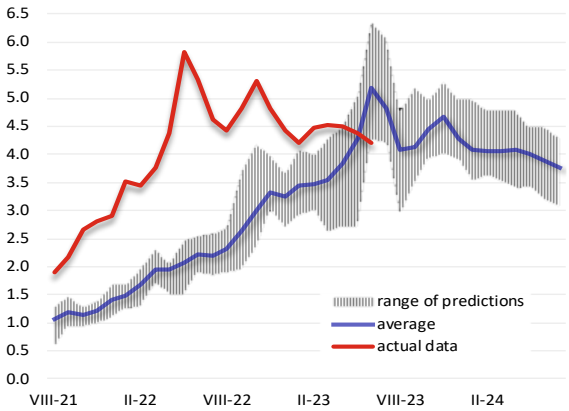
5Y IRS AT 1Y

AVERAGE AND RANGE OF PREDICTIONS



10Y IRS AT 1Y

AVERAGE AND RANGE OF PREDICTIONS



V. EXCHANGE RATE

1M AND 1Y EXCHANGE RATE FORECAST

	1M	1Y
VII.22	24.63	24.86
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
VI.23	23.74	23.94
VII.23	23.80	24.03

EXCHANGE RATE FORECAST

July 2023	EUR/CZK 1M	EUR/CZK 1Y
minimum	23.60	23.00
average	23.80	24.03
maximum	24.00	25.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.7.	23.78

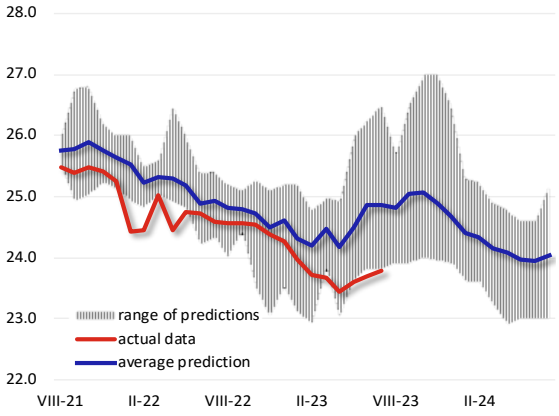
The exchange rate of the koruna against the euro was broadly unchanged from the cut-off date of the previous survey until mid-July, depreciating by 2 hellers to CZK 23.78 to the euro. The analysts' average forecasts also shifted to slightly weaker levels. They assume that the koruna will be close to CZK 23.8 to the euro in mid-August. However, the koruna is expected to depreciate (albeit only slightly) in the following months and be close to CZK 24.00 to the euro in July next year.

The analysts perceive the koruna as relatively strong and believe that purely macroeconomic developments imply its weaker level. Some of the analysts are of the opinion that the recent appreciation of the euro against the dollar and above all the CNB's hawkish rhetoric is keeping the koruna at stronger levels. The analysts do not expect another increase in rates, but gradually put off their first decrease until later. However, Deputy Governor Eva Zamrazilová has admitted that a debate about when to begin easing the monetary conditions could start. In her opinion, the koruna could depreciate and weaken by as much as one koruna at the one-year horizon, which can be an important signal for the market.

The CNB's summer forecast expects the koruna at CZK 24.7 to the euro in 2024 Q3.

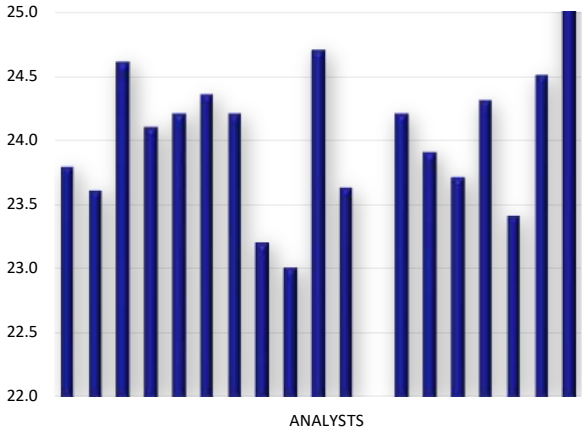
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

July 2023	current year	current+1Y
minimum	6.0	4.0
average	8.5	6.4
maximum	10.4	8.0

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
VII.22	7.2	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
VI.23	8.7	6.5
VII.23	8.5	6.4

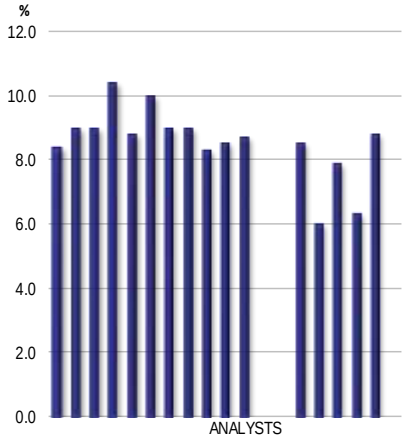
Unemployment continues to decline. The labour market is affected not just by long-running high demand for craftsmen, blue-collar workers and highly qualified staff, but now also mainly by seasonal activities. The number of job applicants dropped by 4,101 compared with the previous month to 249,792 at the end of June, while the number of job vacancies exceeded 286,000. In percentage terms, the share of unemployed persons fell by 0.1 percentage point month on month to 3.4%. Compared with June 2022, by contrast, the share is 0.3 percentage point higher.

The analysts also probably gradually incorporated wage growth in 2023 Q1, when wages rose by 8.6% in nominal terms but dropped by 6.7% in real terms, into their updated forecasts. The decline in real wages was deeper than the consensus estimate and the CNB's forecast. The brisk nominal wage growth, fostered by persisting labour shortages, solid corporate profits and employees' demands for compensation for the surge in living costs, is expected to continue. However, the analysts' current average forecast for this year and the next is more cautious than in June. According to the July estimate, nominal wages will thus grow by 8.5% in 2023, which is 0.2 percentage point less than a month ago. At the same time, this pace is highly unlikely to be sufficient to compensate for the expected consumer price inflation, and real wages are thus predicted to drop again this year. Real wages are expected to return to positive growth next year, although the outlook for nominal wage growth in 2024 was also revised slightly downwards – by 0.1 percentage point to 6.4%.

The CNB's summer forecast expects nominal wage growth of 8.7% in 2023 and 7.8% in 2024.

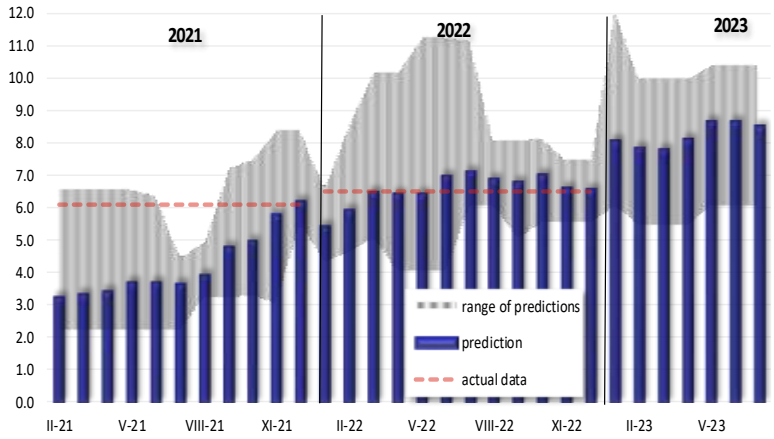
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

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



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