Financial Market Inflation Expectations

6/2023

Czech National Bank —— Financial Market Inflation Expectations —— 6/2023

ČESKÁ NÁRODNÍ BANKA

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Contents

I. SUMMARY

Sixteen domestic and one foreign analyst sent in their contributions to the June survey of financial market inflation expectations. The updated data show that the one-year inflation forecast decreased somewhat again, while the three-year outlook remains unchanged. The economic growth outlooks for this year are also the same. However, the respondents are slightly less optimistic regarding the outlooks for next year. None of the analysts expected a change in the monetary policy stance at the CNB's June meeting. Most of the analysts continue to believe that interest rates will fall at the one-year horizon. However, the expected extent of this decline differs greatly. The koruna is expected to be flat close to its current level in the weeks ahead and depreciate somewhat less compared to the May survey at the one-year horizon. The forecasts for wage growth both this year and the next were left unchanged.

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 June 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH
(%)

June 2023	CPI 1Y	CPI 3Y
minimum	1.7	1.9
average	3.1	2.5
maximum	4.2	4.0

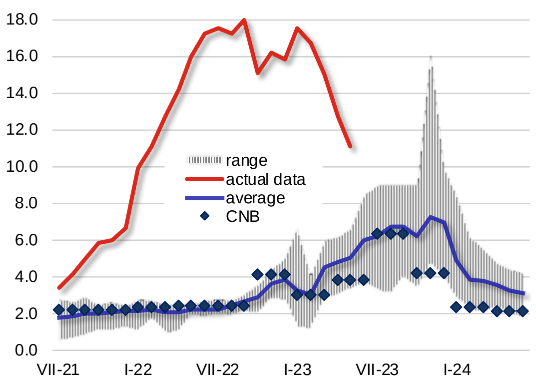
1Y AND 3Y FORECAST FOR CPI GROWTH
(%)

Date of Prediction	ANALYSTS 1Y	ANALYSTS 3Y	CNB (%) 1Y
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	
V.23	3.2	2.5	2Q: 2.1
VI.23	3.1	2.5	

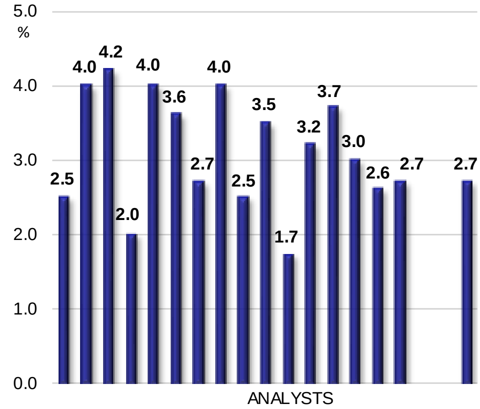
Inflation in the Czech Republic continues to slow. According to CZSO data for May, the consumer price index dropped by 1.6 percentage point to 11.1 % year on year, due mainly to base effects and several other anti-inflationary factors. In year-on-year terms, inflation slowed in all key price categories. Consumer prices grew by 0.3% month on month in May following a decline in April that gave hope of a turnaround in the trend. The biggest contribution to the growth came from another increase in food prices. The analysts' average one-year forecast decreased by 0.1 percentage point to 3.1% compared to the previous survey but their three-year forecast remains flat at 2.5%. The range of the one-year estimates widened slightly owing to a sharper decrease in the minimum values. The range of the three-year estimates remains unchanged.

It is still assumed that inflation will continue to slow in the months ahead and could approach 10% in June. Inflation will reach single digits during the summer holidays. According to the analysts, this will be due mainly to statistical base effects. In addition, it will also be strongly affected by several other factors such as subdued household consumption, which will be reflected in goods and services prices, and a drop in prices of energy and some commodities, including fuel. A price correction on the property market will also play a role. Last but not least, the CNB's restrictive monetary policy continues to act in the same direction. The main uncertainty surrounding future inflation is the volatility of food prices. In 2023 Q4, the decline in inflation will probably halt due to base effects caused by last year's energy savings tariff. Average annual inflation is estimated to be 10–11% this year. Inflation is expected to fall sharply to 3% at the start of next year and could range from 2% to 3% for most of next 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
(%)

June 2023	current year	current+ 1Y
minimum	-0.5	1.8
average	0.3	2.5
maximum	0.6	3.8

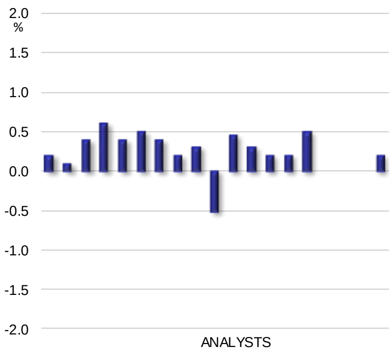
FORECAST FOR GDP GROWTH
(%)

Date of Prediction	current year	current+1Y
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
V.23	0.3	2.7
VI.23	0.3	2.5

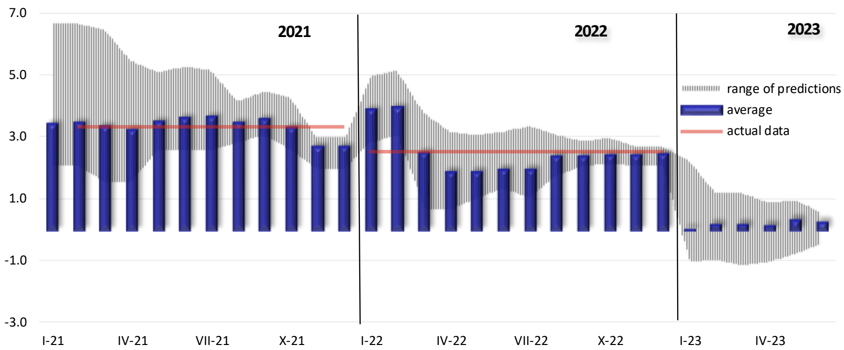
According to the CZSO's revised estimate, the domestic economy was flat in quarter-on-quarter terms in Q1 2023 (0.0%). The figure is 0.1 percentage point lower than the preliminary estimate. The year-on-year GDP statistics were also revised downwards (by 0.2 percentage point to -0.4%) compared to the preliminary figure. This was the first year-on-year decline of the Czech economy recorded since 2021 Q1. The decline was due in large part to lower household expenditure on final consumption and a drop in inventories, while external demand had the opposite effect, a positive one. As in the previous month, the analysts in the current survey on average estimate that GDP will grow by 0.3% this year. However, the average forecast for next year was revised downwards by 0.2 percentage point to 2.5%. The range of the individual estimates for this year narrowed considerably due to an increase in the minimum values and a decrease in the maximum values. Next year, the range is slightly narrower due to a drop in the maximum values.

Despite the downward revision of GDP, which thus failed to meet the optimistic expectations of some of the analysts, it still holds that the decline of the Czech economy observed in the second half of last year, and hence also the technical recession, seem to have dissipated. However, further revisions cannot be ruled out in the future, with figures more likely to be revised downwards than upwards. This would extend the period of a technical recession to three consecutive quarters. The Czech economy could return to growth as early as in Q2. However, the growth rate will not be high given the still very subdued domestic consumption. Consumption will not probably recover until the second half of this year thanks to a gradual decline in inflation and a return of real wages to growth. Firms' exports and investment activity are also expected to recover. The uncertainties regarding future GDP have so far been skewed to the downside. This is due mainly to a correction of the leading indicators of both consumer and business sentiment in May (the April values probably did not correspond to the macroeconomic situation). Business confidence was weighed down more strongly by the sentiment in the cyclical automotive sector, which is suffering from a shortage of new orders. Similar leading indicators in the euro area (especially in Germany) are also showing a high degree of uncertainty. They are indicating a deterioration in the macroeconomic developments in the months ahead and do not even rule out a modest recession in late 2023 or early 2024. The Czech government's efforts to consolidate public finances, which (if the proposed set of measures is approved) will be reflected in slower growth of the Czech economy next year, also need to be taken into account.

INDIVIDUAL 1Y PREDICTIONS
OUTLOOK FOR THIS YEAR



GDP GROWTH AT 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

(%)

June	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
2023	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	4.50	6.90	4.10	4.50	3.20	4.10	3.18
average	7.00	5.43	7.14	5.29	4.67	4.05	4.27	3.88
maximum	7.00	6.50	7.29	6.60	5.09	4.60	4.55	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
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
VI.23	7.00	5.43	7.14	5.29	4.67	4.05	4.27	3.88

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.6.	7.00	7.13	4.48	4.18

None of the analysts expected the CNB Board to change key interest rates at its June meeting, despite some members changing their voting position at the May meeting. According to the respondents, the CNB's communications along with the recent macroeconomic developments generally suggested continued rate stability and pointed in a more anti-inflationary direction than in May. The expected 2W repo rate thus remained firmly at 7.00%.

Looking ahead, the analysts expect only one possible scenario – a decline in key interest rates. This should be aided by the expected decline in inflation, now also fostered by the Czech government's consolidation plan, and slowing wage growth as the overheated labour market gradually cools. The estimates are thus now more focused on the timing of the first cut in interest rates, which some believe may happen at the end of Q3 or during Q4 of this year. Although the views on the level of the 2W repo rate one year ahead, i.e. in June 2024, are within a broad range of between 4.50% and 6.50%, almost half the estimates range from 5.00 to 5.50%.

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

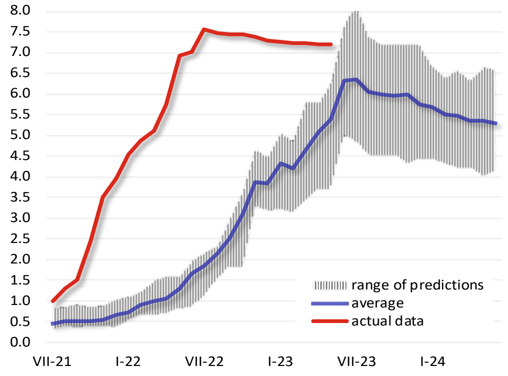
(%)

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

The forecast for the 12M PRIBOR reference rate at the one-month horizon is essentially at the level of the current market rates and fell slightly at the one-year horizon. Given the decrease in the current market values of interest rate swaps, the average IRS swap rate estimates at both predicted horizons (5Y and 10Y) recorded a downward correction of between 12 and 15 bps. In line with the shape of the yield curve, the expected rates with shorter maturities remain higher than those with longer maturities.

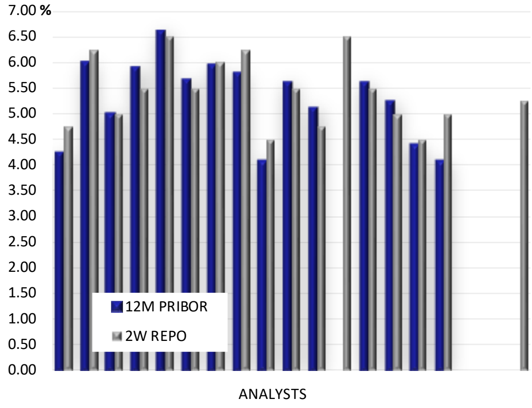
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



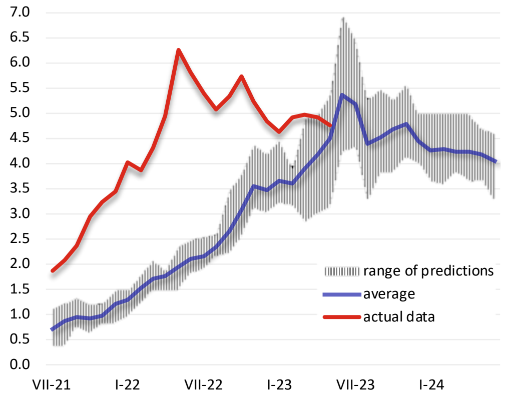
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



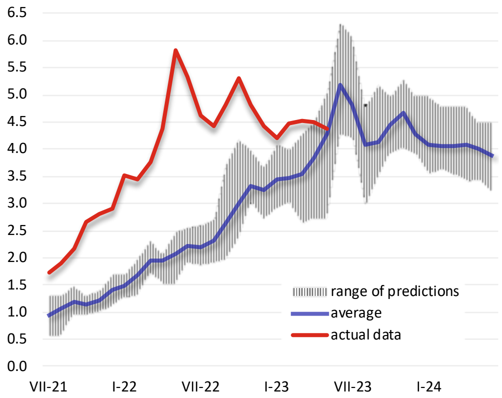
5Y IRS AT 1Y

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
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
V.23	23.60	23.97
VI.23	23.74	23.94

EXCHANGE RATE FORECAST

June 2023	EUR/CZK	
	1M	1Y
minimum	23.50	23.00
average	23.74	23.94
maximum	24.00	24.60

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.6.	23.77

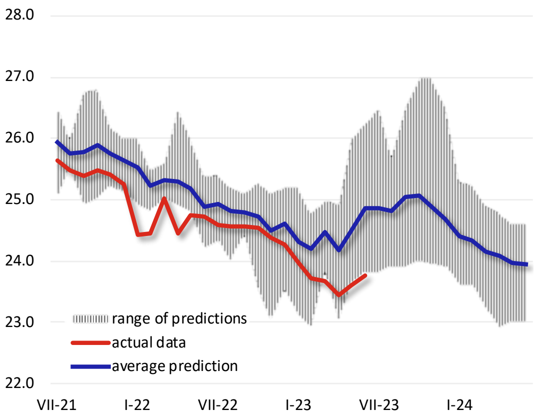
The koruna depreciated by 20 hellers to CZK 23.77/EUR between the cut-off date of the May survey and mid-June. Accordingly, the analysts' average one-month forecast also saw a similar correction towards weaker levels, shifting from CZK 23.60/EUR to CZK 23.74/EUR. At the one-year horizon, the average estimate remains just below CZK 24/EUR.

According to the analysts, the depreciation of the koruna is probably attributable to several factors. Recent macroeconomic developments are one such factor. These point in a broadly anti-inflationary direction and reduce the likelihood of a possible further increase in interest rates. Another reason is an increase in risk aversion and negative market sentiment in Europe which often leads to a depreciation of local currencies. However, the relatively hawkish tone being adopted by the CNB is continuing to have an effect, keeping the koruna at stronger levels than it would probably be on the basis of macroeconomic fundamentals alone. The possibility of a later reduction in key interest rates than currently expected by the market also plays a role.

According to some analysts, the appreciation trend of the koruna has temporarily come to a halt. Given the weak domestic economic activity in 2023 Q1, the recent European and global macroeconomic developments and the narrowing interest rate differential, the koruna is expected to be at similar levels as it is now in the months ahead as well.

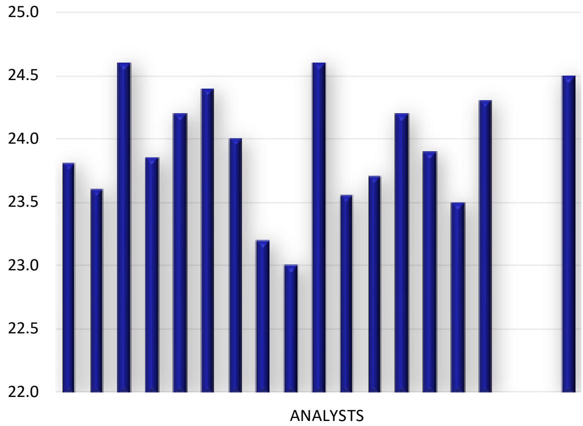
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH
(%)

June 2023	current year	current+1Y
minimum	6.0	4.0
average	8.7	6.5
maximum	10.4	8.0

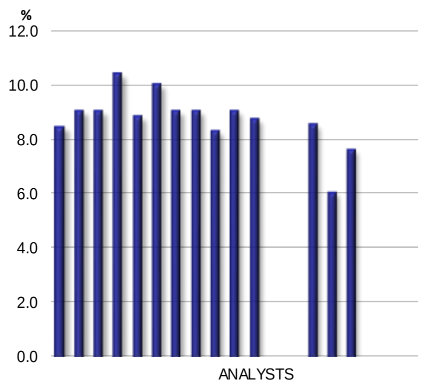
FORECAST FOR NOMINAL WAGE GROWTH
(%)

Date of Prediction	current year	current+1Y
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
VI.23	8.7	6.5

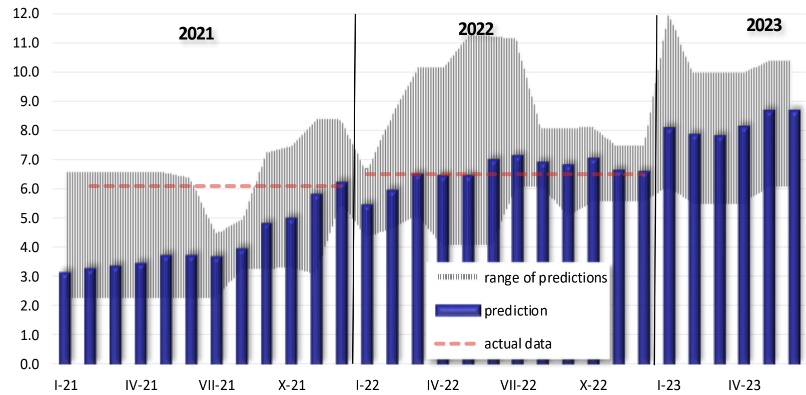
The current data from the Czech Labour Office confirms continued labour market tightness. At the end of May, the share of unemployed persons amounted to 3.5%, down 0.1 percentage point month on month. This is mainly due to seasonal work which is already in full swing. The number of job vacancies (286,000) thus continues to exceed the number of job applicants (254,000). According to Eurostat's latest available data (for April), the Czech Republic and Poland have the lowest unemployment rate in the EU by international comparison (2.7%). According to the latest CZSO statistics for 2023 Q1, the average gross monthly nominal wage in the economy rose by 8.6% compared with the same period a year earlier, reaching CZK 41,265. If we take inflation into account, however, it fell by 6.7% in real terms. The purchasing power of current wages is thus comparable to that observed in the second half of 2017, i.e. the lowest in almost six years. The median wage amounted to CZK 34,741. In quarter-on-quarter terms, nominal wage growth was 2.2% on average (when adjusted for seasonal effects).

The average nominal wage growth expected in our survey was unchanged from May at 8.7% this year and 6.5% next year. According to the analysts, persisting labour market tightness and labour shortages coupled with the still very good financial situation of firms will continue to generate upward pressure on wage growth (as firms want to offset at least part of the rise in employees' living costs). In the second half of this year, however, this factor is expected to weaken as growth in the price level slows. Nominal wage growth for 2023 as a whole is again expected to fall short of compensating for inflation. Real wage growth will probably return to positive territory in late 2023 or early 2024.

INDIVIDUAL 1Y PREDICTIONS
OUTLOOK FOR THIS YEAR



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



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