Financial Market
Inflation Expectations

——— 8/2023

ČNB ČESKÁ
NÁRODNÍ
BANKA

Contents

I. SUMMARY

Fourteen domestic and two foreign respondents sent in their contributions to the August survey of financial market inflation expectations. The data obtained show clearly that the analysts expect inflation to slow further. Given the weak domestic demand, this is expected to be accompanied by lower economic activity this year and the next. At the same time, none of the respondents expects the CNB to change its key interest rates at the next monetary policy meeting. In light of the CNB's rhetoric, the rate cut may be postponed until next year. However, the key rates are expected to decrease relatively quickly in the first half of 2024. The koruna weakened after the intervention regime was formally ended. The analysts believe it came close to its fundamental equilibrium level, where it may remain over the next 12 months. The persisting labour market tightness, combined with a drop in real wages and an increase in the profit margins of firms, will lead to relatively fast growth in nominal wages, which is expected to be stronger than the analysts predicted in July.

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 August 2023

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH
(%)

August 2023	CPI	
	1Y	**3Y**
minimum	1.6	1.0
average	2.7	2.4
maximum	3.6	4.0

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

Date of Prediction	ANALYSTS		CNB (%)
	1Y	**3Y**	**1Y**
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	
VIII.23	2.7	2.4	

Inflation slowed further in July. The consumer price index declined to 8.8% in year-on-year terms, 1.1 pp lower than a month earlier. This was due mainly to prices of food, natural gas and solid fuels. In month-on-month terms, consumer prices rose by 0.5%, due largely to an increase in seasonal package holiday prices. The forecasts in our survey are also decreasing in the disinflationary environment. On average, the analysts expect consumer prices to rise by 2.7% year on year at the one-year horizon, i.e. 0.4 pp less than they estimated in July. The range of the estimates narrowed, owing to a larger decrease in the maximum value. The three-year outlook is 0.1 pp lower, currently standing at 2.4%. The range of the forecasts at the three-year horizon widened due to a marked decline in the minimum value.

According to the analysts, the fall in inflation is due not only to base effects, but also to some other factors. These include lower household consumption and decreasing food prices, linked partially with lower agricultural producer prices. Although inflation is expected to drop further in Q3, the decline is expected to halt in 2023 Q4 (due to the base statistical effect of the introduction of the energy savings tariff last year) or inflation will increase slightly in year-on-year terms. It may stand at 10–11% in 2023 as a whole. The January figure will be very interesting, as some respondents estimate it at 2–3%. However, the extent of the expected decrease in energy prices for final consumers is surrounded by considerable uncertainty. There are also doubts about the strength of the global economic recovery. There remains the question of the path and impact of the koruna exchange rate after the formal end of the intervention regime.

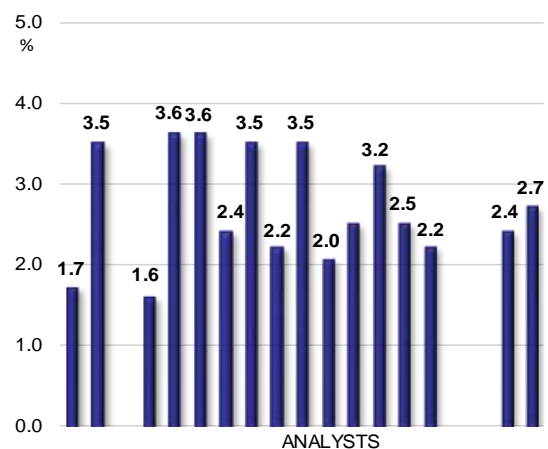*The CNB's summer forecast expects annual consumer price inflation of 1.9% in 2024 Q3.*

CONSUMER PRICE INDEX
ACTUAL DATA AND 1Y PREDICTIONS OF ANALYSTS (AVERAGE) AND OF CNB (%)
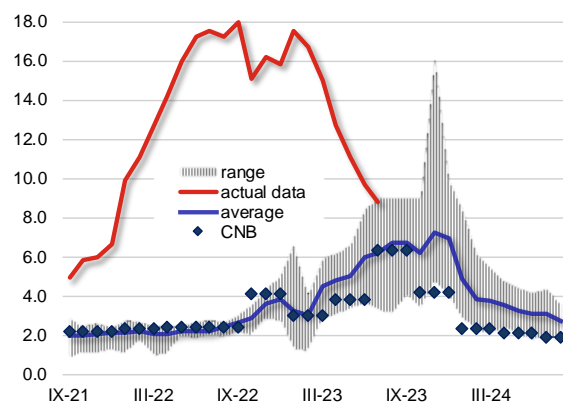
CONSUMER PRICE INDEX AT 1Y
PREDICTIONS OF INDIVIDUAL ANALYSTS (%)

III. GROSS DOMESTIC PRODUCT

FORECAST FOR GDP GROWTH
(%)

August 2023	current year	current+ 1Y
minimum	-0.5	1.5
average	0.1	2.3
maximum	0.5	3.8

FORECAST FOR GDP GROWTH
(%)

Date of Prediction	current year	current+1Y
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
VIII.23	0.1	2.3

According to the CZSO's preliminary estimate, the domestic economy grew by 0.1% in quarter-on-quarter terms in 2023 Q2. By contrast, it contracted by 0.6% in year-on-year terms. Details on the structure will be published together with the revised estimate, but it has been suggested that the year-on-year growth continued to be adversely affected by household final consumption expenditure and lower gross capital formation. Conversely, external demand had a positive effect. The analysts' view of GDP growth this year is less optimistic following the publication of this data. They expect whole-year growth of 0.1%, 0.2 pp lower than expected a month ago. The rate of growth should also be less pronounced next year. While 2.5% was expected in July, economic output is now projected to pick up to just 2.3%. The range of the estimates for this year and the next narrowed due to a decline in the maximum estimates.

According to the analysts, new macroeconomic data confirm that Czech economic output remains subdued. After three quarters of decline, a quarter-on quarter increase was recorded, but it is minimal. Given the weak consumer demand, which is still being affected by high inflation and undermined household sentiment, the analysts expect no major recovery to occur in the remainder of the year. Inventories are not expected to contribute positively to growth either. According to the analysts, they are at high levels due to recent concerns about further potential supply chain problems, or they simply did not reflect the contraction in domestic demand and are now declining to the necessary levels. The analysts therefore generally do not expect the economy to recover significantly until next year. However, new macroeconomic data from a crucial export market – Germany – represent a risk.

The CNB's summer forecast expects GDP growth of 0.1% in 2023 and 2.3% in 2024.
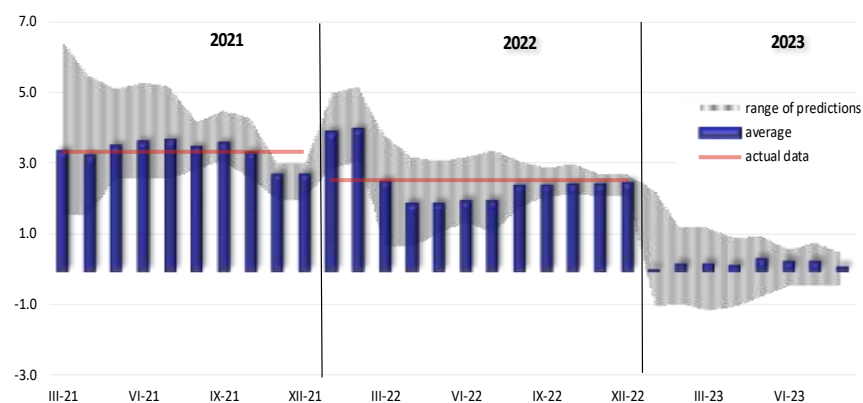
INDIVIDUAL 1Y PREDICTIONS
OUTLOOK FOR THIS YEAR
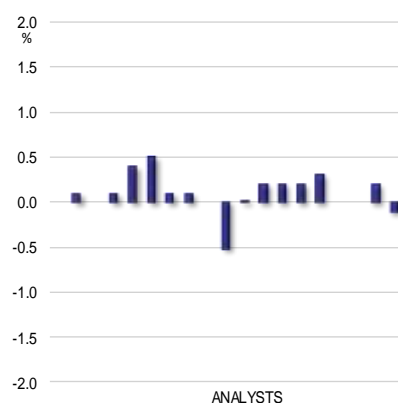
GDP GROWTH AT END OF YEAR
AVERAGE AND RANGE OF PREDICTIONS

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

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

(%)

August 2023	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	7.00	4.25	6.65	4.00	4.15	3.43	4.00	2.99
average	7.00	5.11	6.96	4.88	4.34	3.84	4.11	3.66
maximum	7.00	6.25	7.35	5.80	4.76	4.50	4.30	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
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
VIII.23	7.00	5.11	6.96	4.88	4.34	3.84	4.11	3.66

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.8.	7.00	6.65	4.47	4.24

Probably due to the CNB's communications, all the respondents expect no decision to lower the key interest rates to be made at the CNB's monetary policy meeting in September. The CNB's two-week repo rate is thus expected to remain at 7.00%.

The analysts essentially expect the key interest rates to move downwards. There is still intensive speculation about the timing of the first rate cut. The analysts are therefore closely monitoring the CNB's communications, although so far they have not observed any specific signals regarding the date. Some viewed the August meeting more as a neutralisation of the previous hawkish approach. But with inflation closer to 10% than the inflation target, the cautious approach is understandable. There are also views that purely economic data imply a need to start lowering the rate already, as inflation is expected to drop to 2% next year. However, the current communications suggest that the CNB will probably want to start lowering its key interest rates later to be sure that inflation is under control. The analysts are therefore talking about 2024. The analysts expect the key interest rates to drop swiftly in the first half of 2024, as they expect the 2W repo rate to be almost 2 pp lower in August than it is now.

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
number of analysts - current survey	1	5	0	3	2	2	0	1	2
-previous survey	0	1	2	5	2	4	0	2	2

The 12M PRIBOR reference interbank rate decreased compared to the previous survey. Its forecast shifted in the same direction at both the one-month and one-year horizons. By contrast, rates on interest rate swaps rose compared to the July survey. However, this was not reflected in the average forecasts, as they continued to follow a downward trend, falling by 5–13 bp. The one-year forecasts continue to expect a decline in market IRS rates and an inverted slope of the expected swap curve. However, the latter might normalise gradually due to a stronger expected decline in rates of shorter maturities.

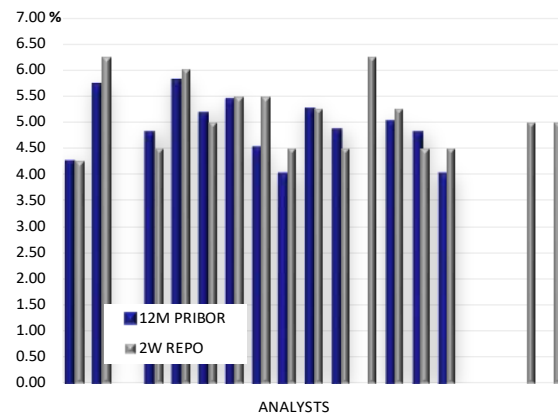*The CNB's summer forecast implies a 2W repo rate of 4.1% in 20124 Q3.*

12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS
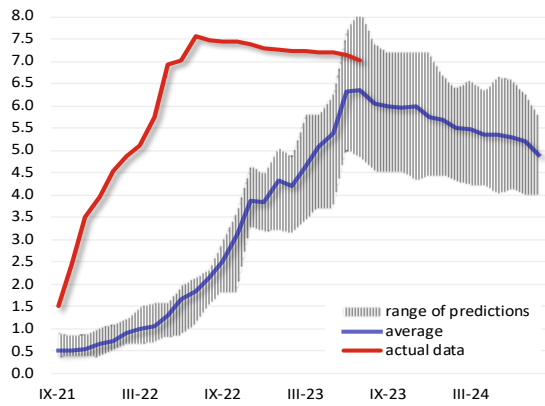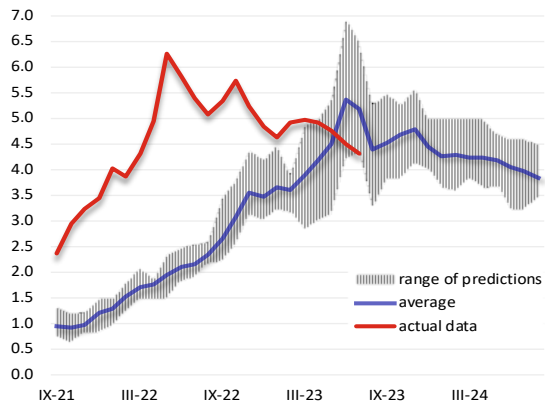

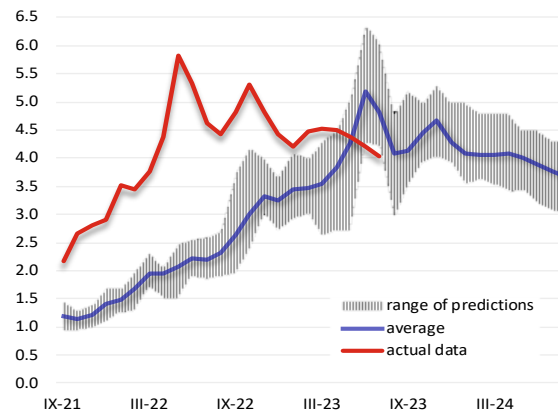## 2W REPO AND 12M PRIBOR AT 1Y

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
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
VIII.23	24.16	24.16

EXCHANGE RATE FORECAST

August	EUR/CZK	
2023	**1M**	**1Y**
minimum	23.87	23.00
average	24.16	24.16
maximum	24.40	25.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

| **15.8.**	24.14

The koruna depreciated significantly between the previous survey and mid-August, moving from CZK 23.78 to the euro to above CZK 24 to the euro and stabilising around CZK 24.14 to the euro as of the cut-off date of this survey. This was naturally reflected again in the forecasts. The analysts on average see the koruna fluctuating around a flat trend next year, as they expect it to be at CZK 24.16 to the euro both one month and one year ahead, broadly the same level as on the cut-off date of this survey.

According to the analysts, the CNB has often mentioned the strong koruna as an important factor contributing to weakening inflation. Although it has not been active on the foreign exchange market, it has supported the koruna verbally. This has often been seen as verbal intervention. Therefore, part of the market might have been surprised when the CNB announced a formal end to foreign exchange interventions at its meeting in August. In response to this, the koruna weakened to CZK 24.20 to the euro, from where it later corrected slightly. Some of the respondents feel that the CNB was keeping the koruna artificially stronger and the currency might now be closer to its fundamental economic equilibrium level. Unless market sentiment changes significantly, the analysts believe that the koruna exchange rate might not see any major movements in the in the near future.

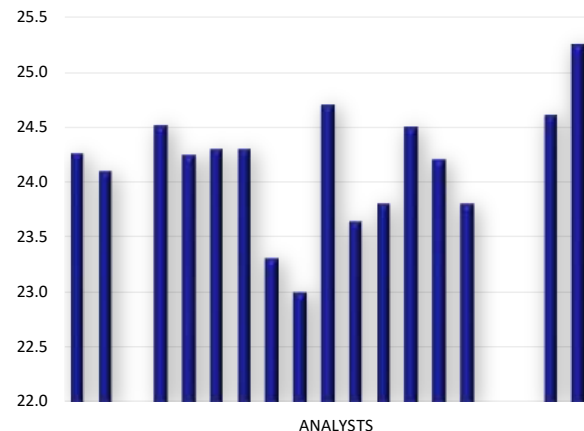*The CNB's summer forecast expects the koruna at CZK 24.7 to the euro in 2024 Q3.*

EUR/CZK
ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE
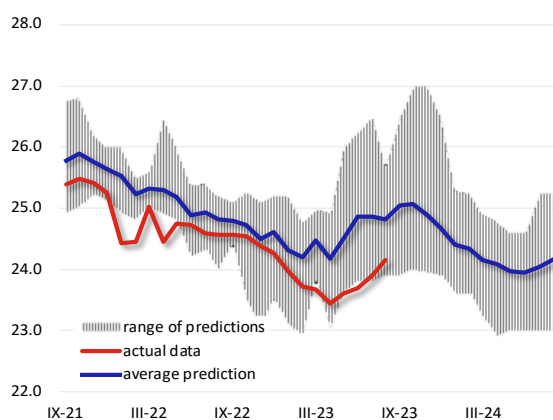
EUR/CZK AT 1Y
PREDICTIONS OF INDIVIDUAL ANALYSTS

VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH
(%)

August 2023	current year	current+1Y
minimum	8.3	5.8
average	8.8	6.8
maximum	10.0	8.0

FORECAST FOR NOMINAL WAGE GROWTH
(%)

Date of Prediction	current year	current+1Y
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
VIII.23	8.8	6.8

The registered unemployment rate in the Czech Republic rose slightly to 3.5% at the end of July. The number of job applicants increased by more than 9,000 month on month and 18,000 year on year. Despite this, the number of applicants is lower than the number of vacancies and, according to the analysts, the labour market continues to face a major shortage of labour. As the economy recovers, employment is expected to start rising again, so no major increase in unemployment can be expected in the near future according to the analysts.

Given the persisting labour market tightness and the previous sharp decline in real income, the analysts see room for continued rapid nominal wage growth. They thus expect nominal wages to grow by 8.8% on average in 2023. This is 0.3 pp more than in the previous survey. Wage growth is expected to slow next year, although somewhat less than expected in July. Nominal wages are expected to increase by 6.8% on average in 2024, 0.4 pp more than in the previous survey.

As inflation decreases and nominal wages increase relatively quickly, real wages will inevitably start growing again as well. At least one respondent believes that real wages rose quarter on quarter already in 2023 Q2. This trend might continue in the quarters ahead. Some believe that wage growth should not be an issue for firms, as they have managed to pass on their higher costs to final consumers and even increase their profit margins. The inflation has thus strongly affected employees. The above arguments will be probably reflected in further wage bargaining, which, moreover, will take place against the background of a relatively low unemployment rate and labour shortages on the labour market.

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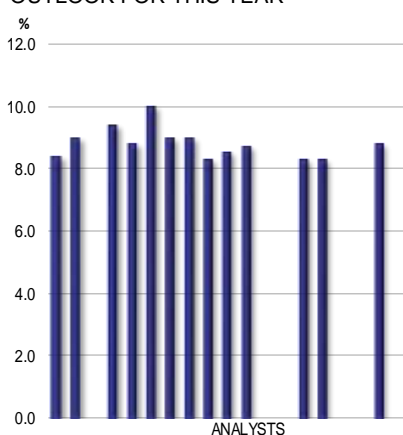
NOMINAL WAGE GROWTH
END OF CURRENT YEAR: AVERAGE AND RANGE OF PREDICTIONS (%)