

Financial Market Inflation Expectations

6/2022



Czech National Bank — Financial Market Inflation Expectations — 6/2022

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I. SUMMARY

Only eleven domestic and three foreign analysts took part in the June survey, which could have affected the results to some extent. However, the data show clearly that inflation expectations continue to grow at both the one-year and three-year horizons and move further away from the 2% inflation target. At the same time, sustained tight conditions in the domestic labour market raise the estimated nominal wage growth both this year and the next. However, real income will most likely fall sharply, at least in 2022. The expected path of the koruna exchange rate one year ahead shifted to a slightly weaker level. The GDP growth outlook for this year was revised upwards slightly. Next year, by contrast, economic growth will be much lower than in the previous survey despite accelerating somewhat. Market interest rates and the key 2W repo rate are expected to gradually decline on average at the one-year horizon.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
Jiří Polanský, Česká spořitelna	+	+	+	+	+							
David Marek, Deloitte Czech Republic	+	+	+	+	+	+						
Jan Vejmelek, Komerční banka	+	+	+	+	+	+						
Patrik Rožumberský, Unicredit Global Research	+	+	+	+	+	+						
Helena Horská, Vít Hradil, 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, UNIQA	+	+	+	+	+	+						
Jakub Seidler, ČBA	+	+	+	+	+	+						
Lukáš Kovanda, Trinity Bank	+	+	+	+	+	+						
Michal Šoltés, RoklenFin		+	+	+	+	+						
Martin Janičko, MND	+	+	+	+	+							
Jan Bureš, ČSOB			+		+							
FOREIGN ANALYSTS												
Madhvee Bangur, Goldman Sachs	+	+	+	+	+	+						
Prianthi Roy, 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, 23 June 2022

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

June 2022	CPI	
	1Y	3Y
minimum	3.6	1.9
average	6.0	2.5
maximum	8.5	4.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

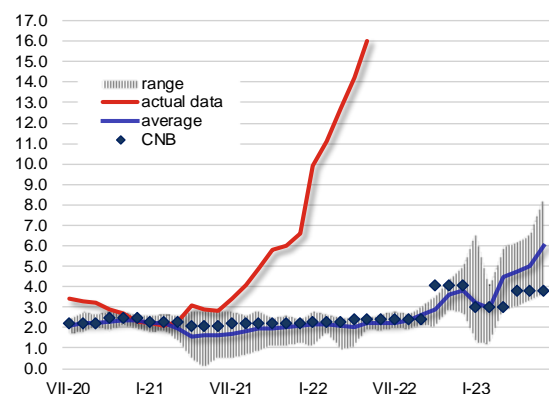
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
VI.21	2.2	2.1	2Q: 2.4
VIII.21	2.4	2.1	3Q: 2.4
X.21	2.9	2.2	4Q: 4.1
I.22	3.2	2.2	
III.22	4.5	2.2	1Q: 3.0
IV.22	4.7	2.2	
V.22	5.0	2.3	2Q: 3.8
VI.22	6.0	2.5	

Strong inflationary pressures in the Czech Republic are not easing and continue to exceed estimates. The year-on-year consumer price index reached 16.2% in May, 1.8 percentage points higher than in April and its highest level since December 1993. Inflation continues to be driven mainly by growth in prices of food, housing and fuel. In month-on-month terms, consumer prices increased by 1.8% on average. Overall, inflation covers the entire consumer basket. Moreover, the outlook for its growth in the months ahead is likely to be influenced by changes in price lists announced by several energy providers. Inflation is thus undoubtedly one of the variables whose predictions are currently associated with a significant level of uncertainty and whose estimates vary widely. Overall, the analysts revised their forecasts significantly upwards again in the latest survey compared to the previous month. At the one-year horizon, the average rate increased by 1.0 percentage point to 6.0%. The otherwise very stable three-year forecast also recorded a significant shift, rising by 0.2 percentage point to 2.5%. The range of the forecasts widened at both the one-year and three-year horizons owing to a substantial increase in the maximum values.

The analysts estimate that inflation could peak at around 17% in the summer, with the risk being tilted upwards. Inflation is expected to reach around 15% on average in 2022 as a whole. However, the rate of consumer price growth is very high and very volatile, making it difficult for experts to estimate it. On the one hand, the fact that increases in the CNB's interest rates may start to dampen demand gives hope that inflation will slow. Base effects and a drop in real wages are also expected to affect inflation. On the other hand, there is the risk that the crisis in the energy market will deepen and the related growth in key commodity prices will accelerate. The degree of the anchoring of inflation expectations may also play an important role in future developments. The analysts generally do not expect inflation to start to move significantly closer to the CNB's inflation target until the second half of 2023. It will probably achieve the target in 2024.

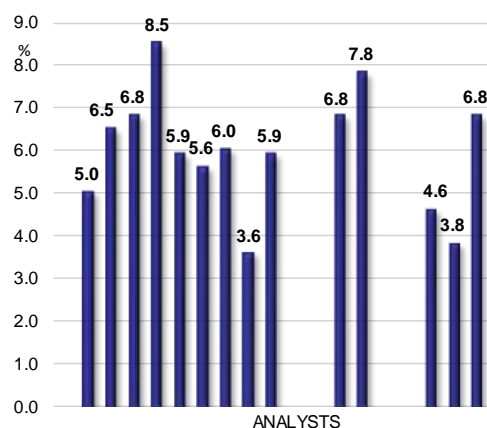
CONSUMER PRICE INDEX

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

(%)

June 2022	end of year	
	current	current + 1Y
minimum	1.3	0.9
average	1.9	2.3
maximum	3.2	3.6

FORECAST FOR GDP GROWTH

(%)

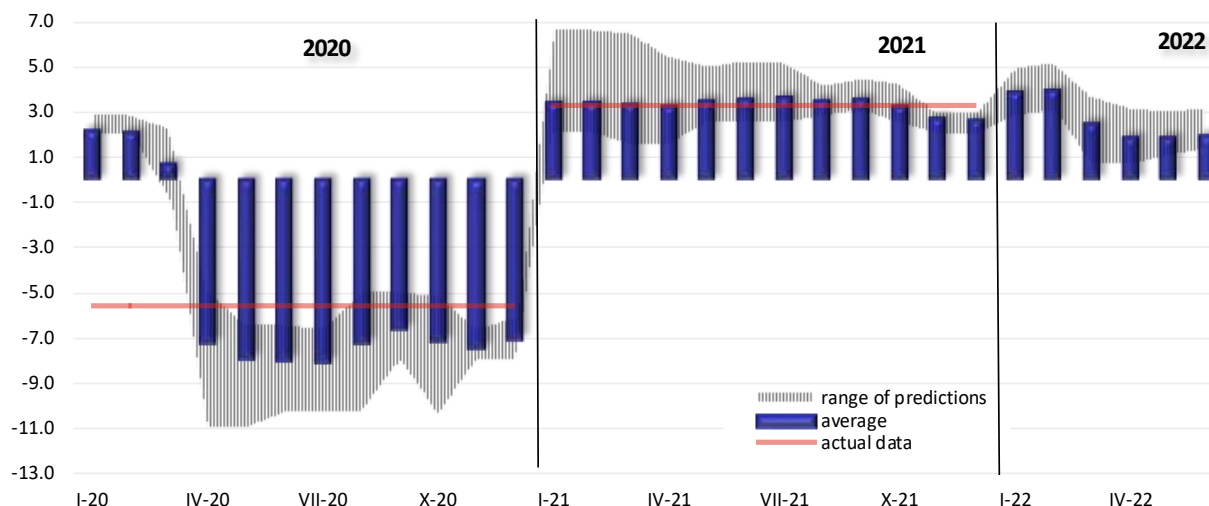
Date of Prediction	end of year	
	current	current+1Y
VI.21	3.6	4.3
VIII.21	3.4	4.7
X.21	3.3	4.7
I.22	3.9	4.0
III.22	2.5	3.2
IV.22	1.9	3.0
V.22	1.8	2.8
VI.22	1.9	2.3

The forecast for GDP growth was revised upwards. According to the updated estimate, GDP increased by 0.9% quarter on quarter and by 4.8% year on year in 2022 Q1. Both figures exceeded the consensus estimates. However, the GDP figures continue to be largely affected by the low base of the previous year, affected by measures to counter the spread of the coronavirus. Economic activity is still lower than before the pandemic. The CZSO's commentary indicates that year-on-year economic growth was driven mainly by final consumption expenditure of households and gross capital formation, while external demand continued to have a negative effect. However, the effect of high inflation on household consumption (a drop in real wages) and the impacts of the war in Ukraine and coronavirus restrictions in China will be fully reflected in a decline in the performance of the Czech economy with a lag. The respondents in the latest survey on average slightly increased their estimate of economic growth this year but significantly lowered the outlook for next year. In 2022 as a whole, GDP in the Czech Republic is expected to grow by 1.9%, i.e. 0.1 percentage point more than in the May survey. Growth will accelerate to just 2.3% in 2023, as against 2.8% in the previous survey. The range of the estimates for this year narrowed, owing to a rise in the minimum value. For next year, the range narrowed due to a significant decrease in the maximum value from 4.8% to 3.6%.

The analysts expect economic activity to weaken gradually from Q2 onwards due to the war in Ukraine, the spread of the pandemic in Asia linked to China's zero-Covid policy, and due to persisting problems in global supply chains. They do not even rule out its decline in the subsequent quarter. Household consumption, constrained by high inflation and the current levels of interest rates, will undoubtedly also be a key factor. Coupled with a drop in external demand, these two factors will also naturally affect private investment and exports. Net exports will continue to be weakened by the drop in exports to Russia and Ukraine and imports of expensive raw materials. By contrast, growth in government supports and fiscal stimuli should help neutralise the negative trend and foster GDP growth.

GDP GROWTH AT END OF 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 2022	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	6.25	5.00	6.80	5.00	5.30	4.20	4.90	4.25
average	6.77	6.20	7.24	6.34	6.23	5.36	5.80	5.19
maximum	7.00	7.50	7.50	7.70	6.80	7.00	6.30	6.40

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.21	0.42	1.16	0.84	1.66	1.77	2.11	1.85	2.21
VIII.21	1.00	1.80	1.36	2.14	2.12	2.34	1.98	2.31
X.21	1.94	2.69	2.51	3.11	2.91	3.08	2.64	3.00
I.22	4.42	4.28	4.82	4.33	4.11	3.66	3.63	3.45
III.22	4.93	4.57	5.18	4.61	4.29	3.88	3.75	3.55
IV.22	5.43	4.90	5.90	5.07	4.94	4.17	4.36	3.83
V.22	6.34	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

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.6.	5.75	6.94	6.25	5.82

The CNB Bank Board tightened monetary policy more significantly again at its meeting in June, raising the 2W repo rate by 125 basis points to 7.00%. This was at the upper end of the range of the individual estimates. One analyst expected a rise of 50 basis points, three of 75 basis points, four of 100 basis points and the remaining six of 125 basis points. However, given the approaching start of the new-line up of the CNB Bank Board's term in office, earlier statements made by the new Governor Aleš Michl and the still expected peak in the current inflation wave during the summer months, some of the analysts are of the opinion that interest rates may stabilise or change only slightly from August onwards. Some analysts also believe that November could see the first reduction in interest rates against a backdrop of a gradual slowdown in inflation and an expected economic downturn.

In addition, the path of key interest rates at the one-year horizon is affected, on the one hand, by future inflation and economic developments. On the other hand, it is influenced by speculations about whether the new CNB Bank Board will have more dovish or hawkish tendencies in the future. On average, the analysts continue to expect key interest rates to decline gradually, albeit from a higher starting position and not at as fast a pace as expected in the previous survey. The level of uncertainty regarding the future setting of key interest rates remains high. This is clearly illustrated by the wide spectrum of one-year forecasts, which range between 5.00% and 7.50%.

The estimates of the monitored interbank reference rates and interest rate derivatives again strongly reflect market developments. The 12M PRIBOR increased by 59 basis points, the 5Y IRS by 92 basis points and the 10Y IRS by 83 basis points compared with the previous survey. Their current forecasts shifted to higher levels to a similar extent – by 61 to 97 basis points. The market interest rates are still expected to drop at the one-year horizon, albeit less and from a higher base again than in the May survey. Moreover, it still holds true for swap rates that the average one-month and one-year forecasts for the 5Y IRS exceed the forecasted levels for the 10Y IRS.

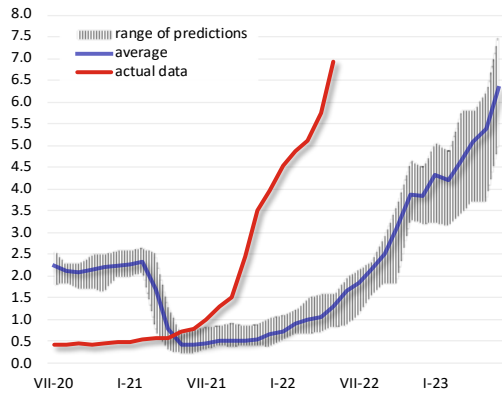
ANALYSTS' FORECAST – 2W REPO RATE LEVEL IN 1Y

(%)

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	7.00	7.25	7.50
⁽¹⁾ number of analysts - current survey	0	0	0	0	1	2	2	2	0	0	1	1	4	0	1
-previous survey	2	0	2	1	1	1	3	4	3	1	1	0	0	0	0

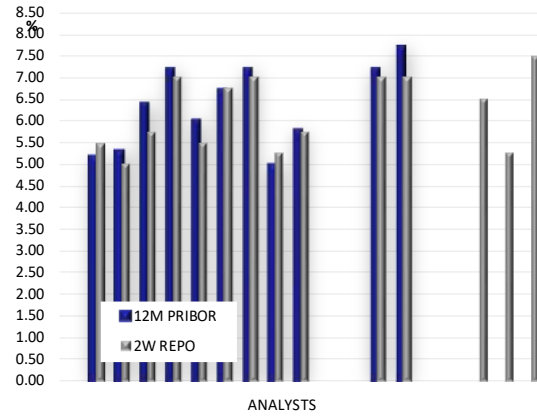
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



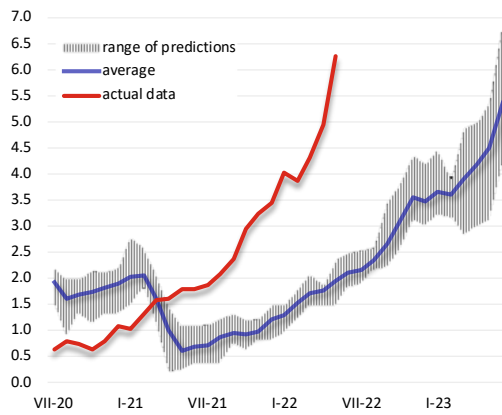
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



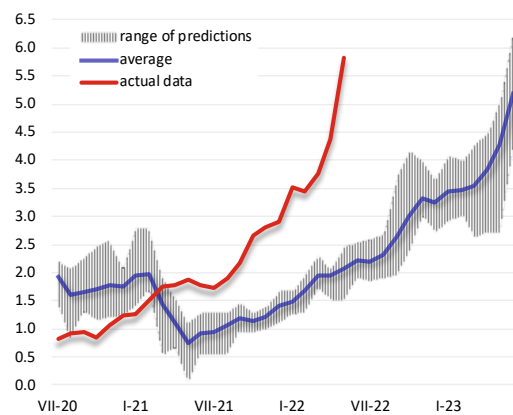
5Y IRS AT 1Y

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.21	25.36	24.88
VIII.21	25.37	24.82
X.21	25.33	24.73
I.22	24.52	24.30
III.22	24.82	24.47
IV.22	24.42	24.17
V.22	24.75	24.49
VI.22	24.72	24.85

EXCHANGE RATE FORECAST

June 2022	EUR/CZK	
	1M	1Y
minimum	24.60	23.80
average	24.72	24.85
maximum	24.80	26.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

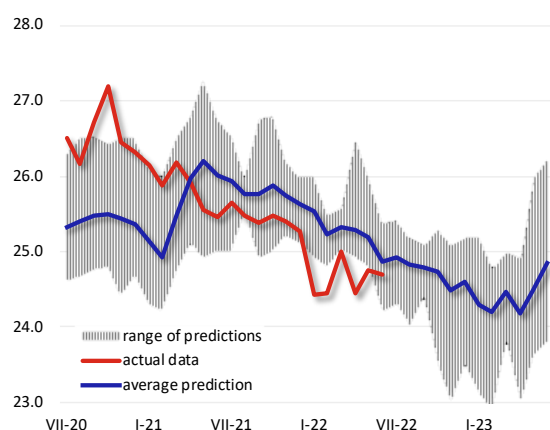
15.6.	24.75
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The exchange rate of the koruna against the euro was virtually unchanged from the previous survey and, as of the cut-off date, was just CZK 0.01 weaker than in the May survey. The analysts' average one-month forecasts were also little changed and the koruna is thus expected to stay close to CZK 24.72 to the euro in mid-July. However, the outlook at the one-year horizon (i.e. around mid-June 2023) shifted to a weaker level on average again and is approaching CZK 25.0 to the euro. Moreover, according to an extreme estimate, the koruna could even break through CZK 26.0 to the euro. Unlike the volatility recorded in connection with the new CNB Governor, the market showed no major response to the appointment of the three new Bank Board members at the start of June and also remained calm even after the publication of the May inflation figures in the Czech Republic.

According to the analysts, the koruna continues to be affected by the increased uncertainty and the lower probability of a further rise in key interest rates after the change in the line-up of the CNB Bank Board. According to the analysts, the koruna may have a tendency to weaken in the short term, especially if the new CNB Bank Board starts to signal a shift towards an easing of monetary policy. Some of the analysts are of the opinion that the potential of a "wait-and-see" monetary policy in an environment of swift price growth may undermine the credibility of the fight against inflation and complicate the anchoring of inflation expectations. The new Bank Board's attitude towards the further use of foreign exchange interventions as a complementary monetary policy tool is also a major unknown and a significant risk for the exchange rate from the analysts' point of view. Compared to the previous survey, the domestic currency is no longer expected to appreciate next year, but rather to depreciate gradually. This is likely to be fostered by a narrowing of the interest rate differential vis-à-vis the rest of the world and the expected deterioration in macroeconomic fundamentals.

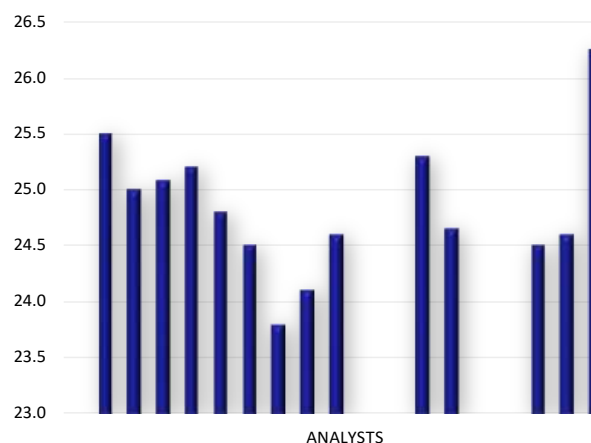
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

June 2022	year end	
	current	current+1Y
minimum	4.0	5.2
average	7.0	7.0
maximum	11.3	10.1

FORECAST FOR NOMINAL WAGE GROWTH

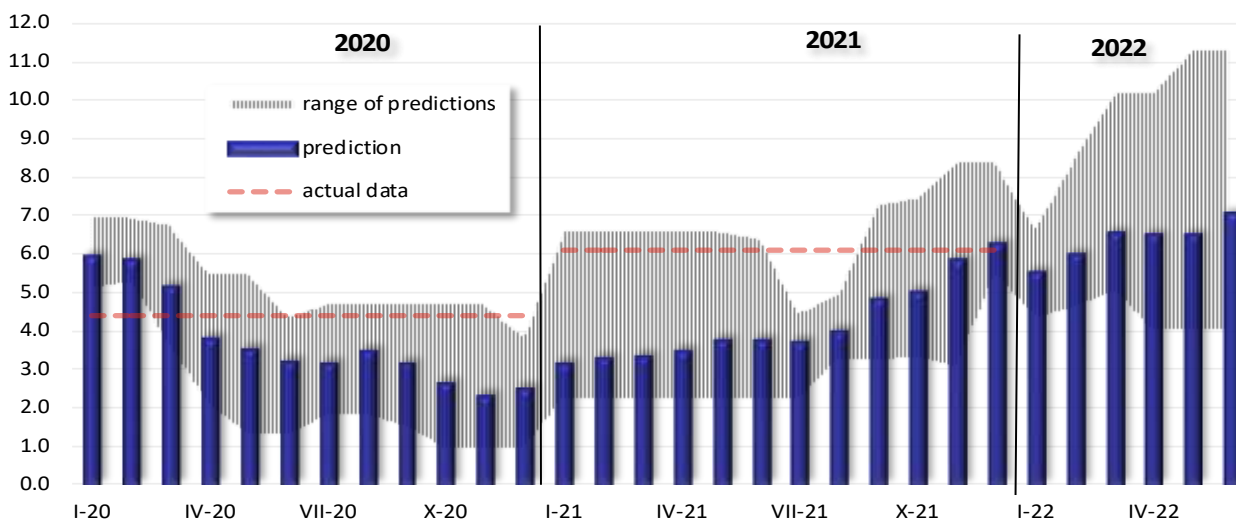
(%)

Date of Prediction	year end	
	current	current+1Y
VI.21	3.7	4.4
VIII.21	4.0	4.6
X.21	5.0	5.0
I.22	5.5	5.1
III.22	6.5	5.6
IV.22	6.5	5.9
V.22	6.5	6.2
VI.22	7.0	7.0

According to the Czech Labour Office, the share of unemployed persons dropped by 0.1 percentage point again to 3.2% in May. This is a decrease of 0.7 percentage point compared to the same period a year earlier. The Czech Republic still has the lowest unemployment rate in the EU, according to the latest available data. The labour market is being affected mainly by the start of seasonal work and summer jobs, while the inflow of Ukrainian refugees has not helped to reverse the situation so far. As a result, the number of job vacancies exceeds the number of job applicants by around 100,000. Given the above data, the analysts believe that the labour market is still showing signs of overheating, which is fostering higher nominal wage growth. The average wage rose by 7.2% year on year in Q1 (to CZK 37,929), due mainly to the effect of the low base of the previous year, when the effect of extraordinary bonuses in the public sector related to the pandemic and the extensive lockdown of the economy faded out. However, wage growth in most sectors lags behind inflation and real household incomes are falling sharply. According to the June survey, nominal wages will grow by 7.0% in 2022. This is 0.5 percentage point more than in the previous three months. The same growth rate – 0.8 percentage point higher than in May – is now also expected for 2023. Assuming a slowdown in inflation, the year-on-year change in real wages could turn positive again next year.

NOMINAL WAGE GROWTH

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



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