

Financial Market Inflation Expectations

— 3/2021



Czech National Bank — Financial Market Inflation Expectations — 3/2021

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I. SUMMARY

All the respondents addressed, i.e. fifteen domestic and three foreign analysts, took part in the March survey of financial market inflation expectations. The data obtained indicate a moderate decline in the inflation forecast at the one-year horizon. The three-year inflation forecast is unchanged, remaining at the CNB's inflation target. The estimate for economic growth has been reduced for this year and the next. The number of analysts who expect key interest rates to rise over the next 12 months has increased again. The question is no longer whether there will be an increase in the 2W repo rate, but when this year it will happen. The analysts' view on the future path of the koruna exchange rate was affected by a correction that occurred on the foreign exchange market in the second half of February. Nominal wage growth is expected to be slightly higher both this year and the next compared to the February survey

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
J. Polanský, Česká spořitelna	+	+	+									
David Marek, Deloitte Czech Republic	+	+	+									
Jan Vejmělek, Komerční banka	+	+	+									
Patrik Rožumberský, Unicredit Global Research	+	+	+									
Helena Horská, Vít Hradil, Raiffeisenbank	+	+	+									
Petr Dufek, ČSOB	+	+	+									
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, ING	+	+	+									
Lukáš Kovanda, Trinity Bank	+	+	+									
Michal Šoltés, RoklenFin	+	+	+									
Martin Janičko, MND	+	+	+									
FOREIGN ANALYSTS												
Timon Dreyer, Kevin Daly, Goldman Sachs	+	+	+									
Alessandro Cugnasca, The Economist Intelligence	+	+	+									
Jose A. Cerveira, JP Morgan	+	+	+									

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

Prague, 23 March 2021

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

March 2021	CPI	
	1Y	3Y
minimum	0.9	1.7
average	2.1	2.0
maximum	2.5	2.3

1Y AND 3Y FORECAST FOR CPI GROWTH

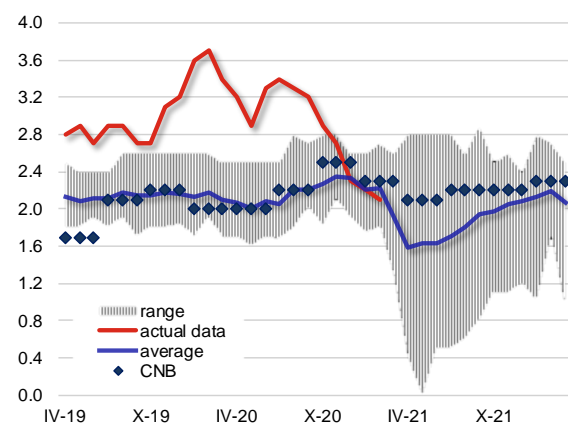
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
III.20	1.9	1.9	1Q: 2.3
V.20	1.6	1.9	2Q: 2.1
VII.20	1.7	2.0	
VIII.20	1.8	2.0	3Q: 2.2
X.20	2.0	2.0	
XII.20	2.1	2.0	4Q: 2.2
I.21	2.2	2.0	
III.21	2.1	2.0	1Q: 2.3

Inflation is slowing further in the Czech Republic. Annual CPI inflation stood at 2.1% in February, 0.1 pp lower than in January. In month-on-month terms, consumer prices rose by 0.2%. The decline in annual inflation was strongly reflected, for example, in prices of household equipment, goods and services for household maintenance and footwear, while a pick-up in inflation was seen for prices of alcoholic beverages. The dominant factor in month-on-month terms was a rise in fuel prices caused by growth in oil prices. According to Thomson Reuters, annual inflation is expected to remain at its January level (2.2%). The lower-than-expected inflation in January was reflected in the one-year forecasts in our survey, which fell by 0.1 pp on average to 2.1%. However, the forecast remains at the CNB's inflation target at the three-year horizon. The range of the one-year estimates widened owing to a larger decrease in the minimum value. By contrast, a rise in the minimum value caused the range of the forecasts at the three-year horizon to narrow.

According to some estimates, although core inflation is decreasing, headline inflation will stay above the 2% target owing to price increases in January and will slow less at the start of 2021 than originally expected. The still strong labour market is playing an important role here, as the rise in unemployment is not significant enough to allow anti-inflationary pressures to manifest more strongly. In addition, growing optimism about a future global economic recovery is reflected in oil prices on the commodity market, a factor that has been passing through to the Czech consumer price index in recent months. However, any higher inflationary pressures related to the onset of economic recovery will be offset by appreciation of the koruna and in particular by rising CNB interest rates.

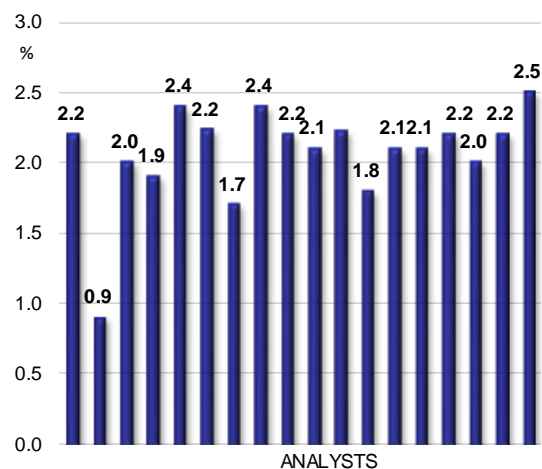
CONSUMER PRICE INDEX

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

(%)

March 2021	end of year	
	current	current + 1Y
minimum	1.5	2.0
average	3.3	4.4
maximum	6.5	6.2

FORECAST FOR GDP GROWTH

(%)

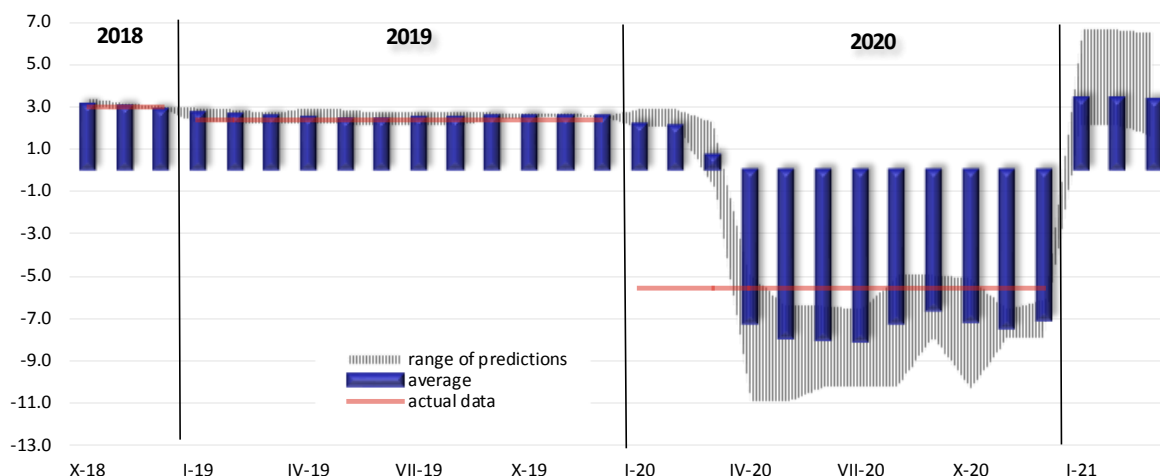
Date of Prediction	end of year	
	current	current+1Y
III.20	0.7	2.2
V.20	-7.9	5.8
VII.20	-8.0	5.6
VIII.20	-7.2	5.0
X.20	-7.1	4.3
XII.20	-7.0	3.5
II.21	3.4	4.6
III.21	3.3	4.4

The CZSO revised its estimate for the growth of the Czech economy in 2020 Q4 towards more favourable values. According to the latest figures, the economy grew by 0.6% quarter on quarter (as against 0.3% in the previous survey), while in year-on-year terms GDP fell by 4.7% (as against 5.0%). General government expenditure was the only component not to record a negative contribution to growth. After the revision, which slightly improves the picture of economic growth at the end of last year, the analysts slightly lowered their GDP growth estimates for both this year and the next. One explanation for this may be that a smaller-than-expected contraction in 2021, and thus a higher base effect, will lead to a lower growth rate in 2022. Economic activity is therefore expected to increase by 3.3% this year (i.e. by 0.1 pp less than in the February survey) and by 4.4% in 2022 (as against 4.6% in the previous survey). The range of the forecasts widened in both monitored years owing to a larger decline in the minimum values.

The analysts estimate that strong growth figures may not yet be recorded in 2021 Q1 due to the spread of the coronavirus and the related restrictive measures. GDP will probably decline year on year, with retail and services remaining closed and industry facing problems with the supply of inputs and labour shortages. The full reopening of businesses is crucial for further economic growth, but the timing depends largely on vaccination progress. However, given the planned supply of vaccines, the analysts speculate that the economic recovery may not gather momentum until 2021 H2. In addition, the risk of even stricter measures, which could have a negative effect on Czech industry, has still not disappeared entirely. If this risk were to materialise, foreign buyers could turn to alternative suppliers in other countries. This would greatly hinder the recovery of the Czech economy after the pandemic recedes.

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

(%)

March 2021	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0.25	0.25	0.40	0.65	0.93	1.46	1.50	1.70
average	0.25	0.64	0.56	1.00	1.44	1.71	1.70	1.95
maximum	0.25	1.00	0.61	1.50	1.60	2.10	1.80	2.35

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
III.20	1.90	1.37	2.17	1.68	1.32	1.59	1.17	1.43
V.20	0.19	0.16	0.41	0.42	0.44	0.60	0.56	0.74
VII.20	0.24	0.18	0.43	0.45	0.56	0.71	0.76	0.94
VIII.20	0.25	0.27	0.43	0.50	0.69	0.85	0.88	1.07
X.20	0.24	0.24	0.42	0.52	0.60	0.90	0.85	1.15
XII.20	0.25	0.35	0.46	0.65	0.92	1.20	1.13	1.40
II.21	0.25	0.56	0.53	0.89	1.26	1.53	1.44	1.68
III.21	0.25	0.64	0.56	1.00	1.44	1.71	1.70	1.95

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.3.	0.28	0.56	1.55	1.75

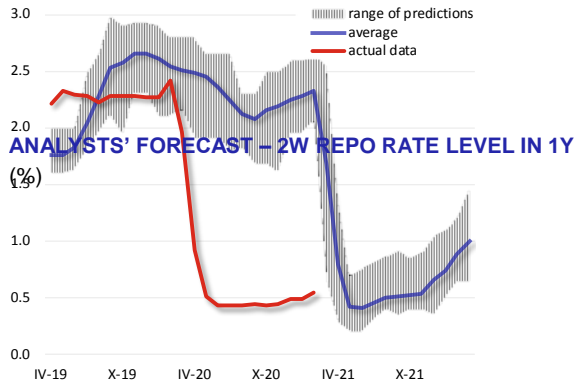
None of the analysts was expecting key interest rates to be raised at the CNB Bank Board's monetary policy meeting in March. However, the outlook paints a different picture. The number of respondents expecting monetary policy to be tightened has again increased, with two of the analysts now expecting the 2W repo rate to increase by 75 bps. Only one analyst is now expecting the CNB's key interest rates to stay at the current level. However, the situation remains very uncertain and the risks associated with the vaccination process, the pandemic and thus the pace of economic recovery remain very high. The CNB is expected to continue with its wait-and-see approach in the months ahead, with the first increase in key interest rates not expected until 2021 H2. Therefore, most of the focus is now on the timing of the first tightening of monetary policy. If the situation develops favourably, the CNB Bank Board could take this step in the summer. However, a potential next wave associated with further restrictions, or a slow return of the economy to normal, would favour delaying the increase in key interest rates until the autumn.

2W repo rate level in 1Y (%)	0.05	0.25	0.50	0.75	1	1.25
number of analysts - current survey	0	1	8	7	2	0
-previous survey	0	2	11	4	1	0

Despite the strengthening expectations of an increase in key interest rates, PRIBOR interbank reference rates have been virtually flat since mid-February. However, the forecasts have increased slightly in our survey (the 12M PRIBOR is up 3 bps at the one-month horizon and up 11 bps at the one-year horizon). The rise in swap rates is more pronounced, both for market rates (17 bps for 5Y IRS and 22 bps for 10Y IRS) and for their forecasts (18 to 27 bps for 5Y and 10Y). The analysts thus still see considerable room for them to rise. In their opinion, rates could shift upwards by around 30 bps for 5Y contracts and even by 40 bps for 10Y contracts over the next 12 months.

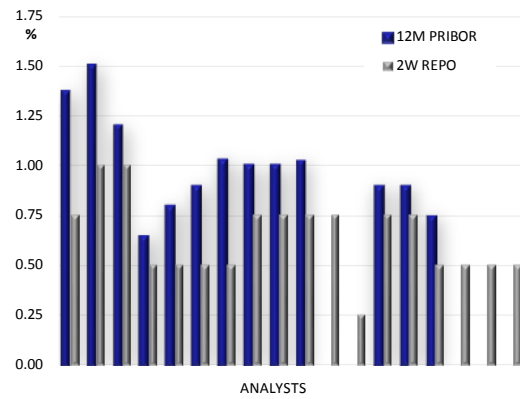
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



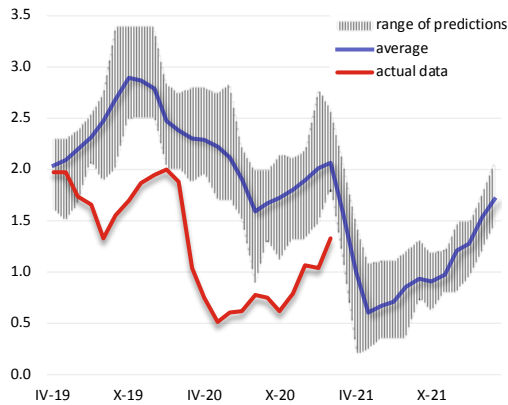
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



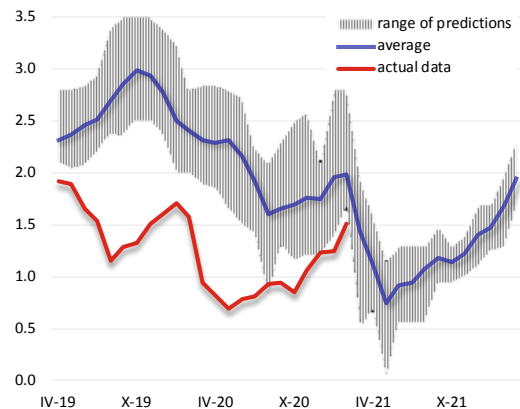
5Y IRS AT 1Y

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
III.20	26.20	25.48
V.20	27.28	26.20
VII.20	26.64	25.93
VIII.20	26.17	25.76
X.20	27.11	25.88
XII.20	26.33	25.63
II.21	25.78	25.23
III.21	26.01	25.32

EXCHANGE RATE FORECAST

March 2021	EUR/CZK	
	1M	1Y
minimum	25.80	25.00
average	26.01	25.32
maximum	26.30	25.60

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

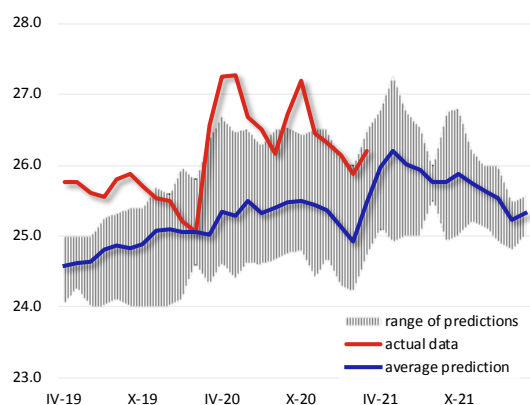
15.3.	26.20
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The introduction of new restrictive measures combined with other factors had a negative impact on the koruna exchange rate in recent weeks, which corrected from its February level back to CZK 26/EUR. The forecasts in our survey have been adjusted accordingly to weaker levels. The analysts on average expect the koruna to return to CZK 26/EUR at the one-month horizon and to appreciate to CZK 25.32/EUR at the one-year horizon.

The koruna is expected to show a gradual appreciation trend this year. According to the analysts, several factors will contribute to this trend. A crucial factor is an improvement in financial market sentiment due to the fading of the pandemic, which should abate due to continued vaccination and warmer weather. Following the global economic recovery, the process of convergence of the Czech economy to Western European countries will resume. There will also be an increase in demand for Czech exports and, along with this, for the koruna. Lastly, the expected tightening of CNB monetary policy will also cause the koruna to strengthen.

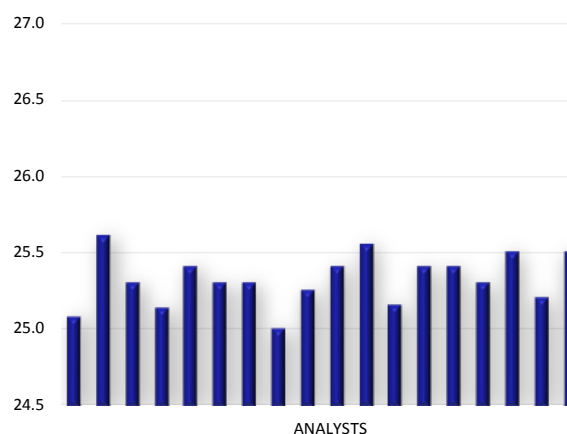
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

March 2021	year end	
	current	current+1Y
minimum	2.20	2.50
average	3.35	4.36
maximum	6.60	5.50

FORECAST FOR NOMINAL WAGE GROWTH

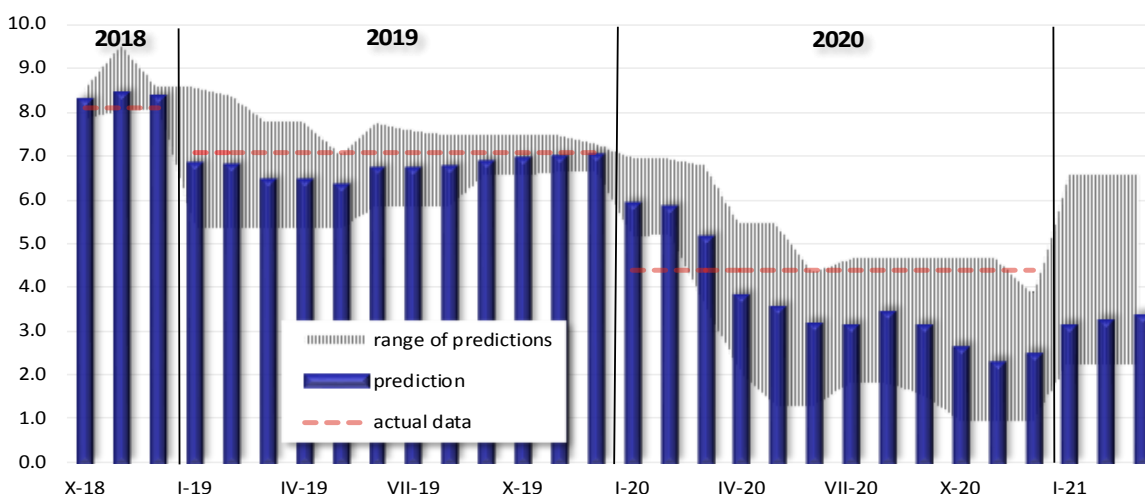
(%)

Date of Prediction	year end	
	current	current+1Y
III.20	5.1	4.1
V.20	3.5	2.8
VII.20	3.1	2.9
VIII.20	3.5	3.2
X.20	2.7	2.9
XII.20	2.5	2.9
II.21	3.3	4.2
III.21	3.4	4.4

According to the latest Labour Force Survey, the general unemployment rate in the population aged 15–64 was 3.3% in January 2021. According to the Czech Labour Office, the share of unemployed persons in February remained the same as in January 2021, at 4.3%. The number of vacancies meanwhile increased. The gross nominal wage in the Czech Republic increased by 6.5% year on year in 2021 Q1. With inflation at 2.6%, this represents a real increase of 3.8%. The labour market developments and wage growth came as a positive surprise to the analysts. They attribute this mainly to strong fiscal support, public sector wage growth and a more moderate impact of the autumn restrictive measures on industrial production than in the spring wave. The average forecasts emerging from the data have shifted upwards in both monitored years. Nominal wages are expected to increase by 3.4% in 2021, i.e. by 0.1 pp more than in February. Given the predicted inflation rate, this pace of growth guarantees an increase in the real wage. Wage growth is expected to pick up to 4.4% in 2022, 0.2 pp higher than in the previous survey.

NOMINAL WAGE GROWTH

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



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