

Financial Market Inflation Expectations

— 4/2021



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I. SUMMARY

Fourteen domestic and three foreign analysts sent in their contributions to the April survey of financial market inflation expectations. The data received reveal that while the three-year forecast is slightly higher, the average one-year inflation forecast decreased moderately. The GDP growth estimate for this year was revised downwards slightly, whereas the outlook for next year is unchanged. All the respondents are expecting key interest rates to remain at the current level after the CNB Bank Board's meeting in May. However, none of the analysts is now expecting the 2W repo rate to remain at 0.25% over the next 12 months. There is now even more intense speculation than before on date of the first increase in the rate. The forecast for the koruna exchange rate responded again to the current foreign exchange market trend and shifted to a stronger level. The analysts expect slightly higher growth in nominal wages this year, but the opinion on their growth next year is less optimistic.

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, 26 April 2021

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

April 2021	CPI	
	1Y	3Y
minimum	1.0	2.0
average	2.0	2.1
maximum	2.5	2.3

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
IV.20	1.6	2.0	
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
III.21	2.1	2.0	1Q: 2.3
IV.21	2.0	2.1	

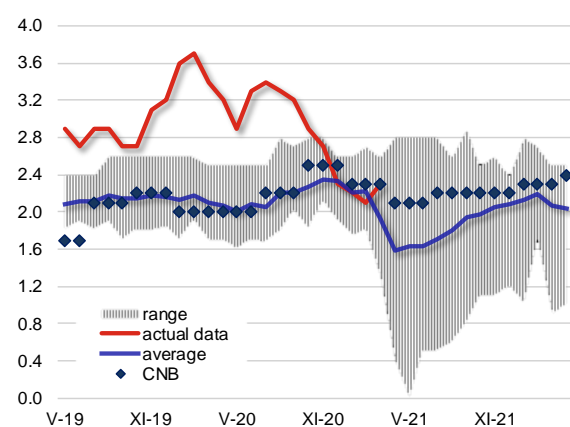
CPI inflation in the Czech Republic accelerated slightly in March. Its annual growth increased by 0.2 pp to 2.3%. This was due mainly to transport, where fuel prices and prices of oils began to rise in March following a decline of almost 10%. However, the analysts' forecasts did not reflect the pick-up in inflation. On the contrary, their average one-year forecast dropped by 0.1 pp to 2.0%, compared to the previous survey. The three-year forecast, by contrast, recorded a modest upward shift for the first time in a long time, up by 0.1 pp to 2.1%. The range of individual forecasts narrowed at both horizons due to an increase in the minimum values.

According to some of the analysts, a lifting of the anti-pandemic restrictions may also be reflected in prices if retailers and service providers try to at least partially offset last year's losses by price hikes. Contrary to this, however, it is also argued that markdowns might be introduced in an effort to dispose of stocks.

Demand remains strong owing to low unemployment and growing wages, and is thus likely to foster growth in inflation pressures. Moreover, demand will be amplified by fiscal expansion and purchases deferred by consumers during the pandemic. On the other hand, we may see a fall in supply (and a related increase in consumer prices) due to the permanent closure of some operations or disruptions to supplier-customer relations. However, a strengthening koruna and the CNB's increasing interest rates will slow accelerating inflation.

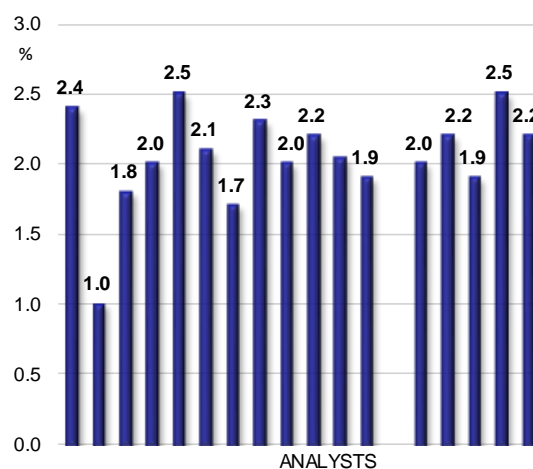
CONSUMER PRICE INDEX

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

(%)

April 2021	end of year	
	current	current + 1Y
minimum	1.5	1.5
average	3.2	4.4
maximum	5.5	6.4

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	end of year	
	current	current+1Y
IV.20	-7.2	5.8
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
III.21	3.3	4.4
IV.21	3.2	4.4

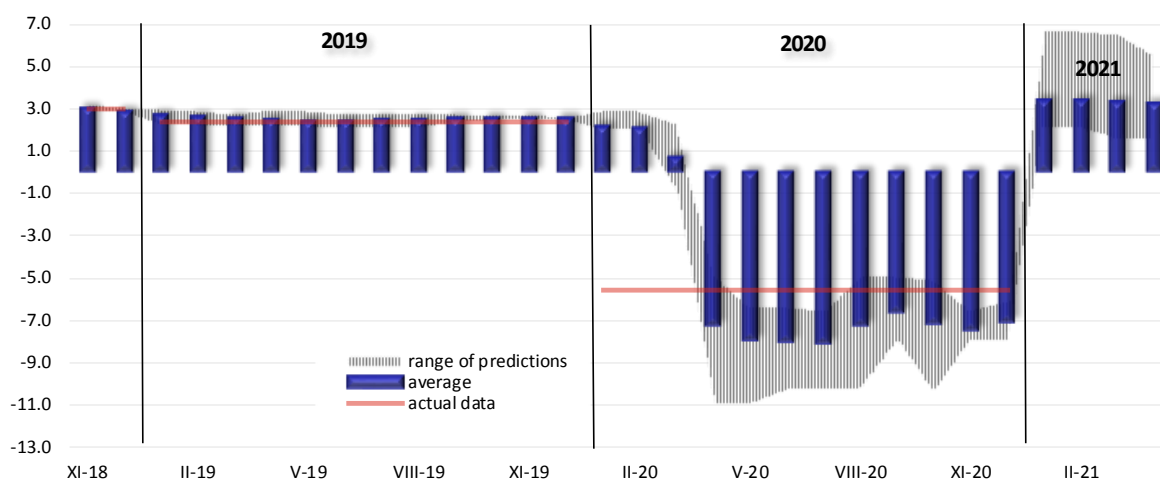
After incorporating new data from the general government sector, the CZSO again revised slightly its estimate for Czech GDP growth in 2020 Q4. According to the latest data, the economy contracted by 4.8% year on year, 0.1 percentage point deeper than the previous estimate. The quarter-on-quarter estimate (+0.6%) and the drop in 2020 as a whole (-5.6%) are unchanged.

The analysts' view on the future of the domestic economy has changed only marginally from the previous survey. They are expecting growth to fall by 0.1 percentage point to 3.2% in 2021. The outlook for 2022 is unchanged at 4.4%. The range of individual forecasts for this year narrowed owing to a decline in the maximum values, while the range between the maximum and minimum values of the forecasts for next year widened, due mainly to a drop in the minimum values, but also an increase in the maximum ones.

The analysts estimate that the economic recovery will be felt in 2021 Q2, accelerating further in the second half of the year. Both domestic and external demand is expected to improve, with analysts expecting the most substantial advance in household consumption, reflecting not only the gradual lifting of restrictive measures, but also households making up for previously deferred consumption in 2020. Moreover, real wages are growing and household income received an additional boost due to tax changes. These factors will also contribute to higher consumer spending. The pandemic situation still naturally presents a risk, as does a potential next wave. Inflation pressures, which will undoubtedly accompany the economic recovery, may also lead to complications.

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

(%)

April 2021	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0.25	0.50	0.40	0.70	1.27	1.47	1.53	1.50
average	0.25	0.68	0.57	1.07	1.55	1.75	1.76	1.94
maximum	0.25	1.00	0.65	1.60	1.75	1.90	1.95	2.10

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
IV.20	0.61	0.44	0.76	0.79	0.75	1.00	0.83	1.12
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
III.21	0.25	0.64	0.56	1.00	1.44	1.71	1.70	1.95
IV.21	0.25	0.68	0.57	1.07	1.55	1.75	1.76	1.94

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.4.	0.25	0.56	1.55	1.72

All the respondents who took part in the April survey are expecting key interest rates not to be changed at the CNB Bank Board meeting in May. The 2W repo rate is thus expected to stay at 0.25%. By contrast, the rate shifted slightly upwards again at the one-year horizon. One more respondent estimates that the 2W repo rate will be raised to 0.75% compared to the previous survey, while none of them expects this key CNB rate to stand at the current level in a year's time.

The analysts believe that the latest inflation developments might indicate even greater monetary policy tightening in the new CNB forecast. It will thus be interesting to observe the Bank Board's May meeting, at which the new CNB forecast will be presented. There is speculation that August might be the possible date for the first monetary policy tightening in the Czech Republic in a long time. Nevertheless, given the Bank Board's relatively dovish communications which clearly indicate that the CNB is in no rush to raise interest rates, the monetary policy stance may not change until September or even later, according to the analysts. Some of them are of the view that this will not happen until early 2022.

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

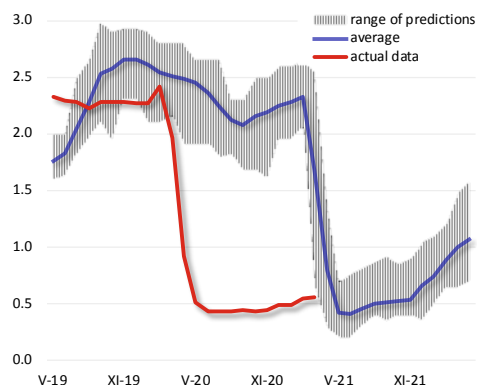
(%)

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

Accelerating inflation and expectations of an increase in interest rates are also reflected in the outlook for PRIBOR reference interbank rates and interest rate swaps (IRS). Their forecasts thus mostly shifted upwards by 1–11 basis points.

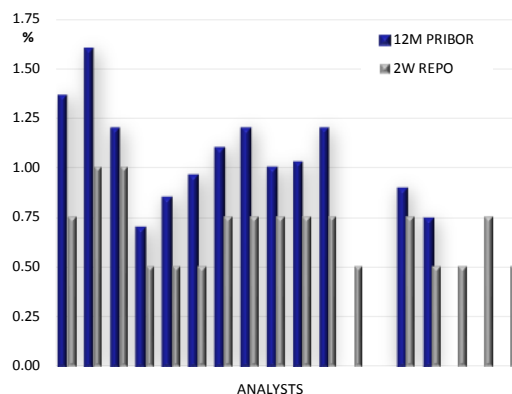
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



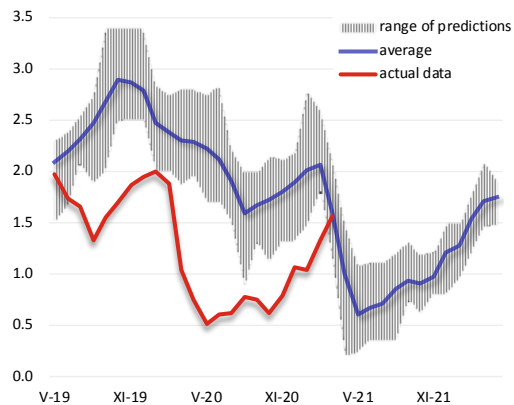
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



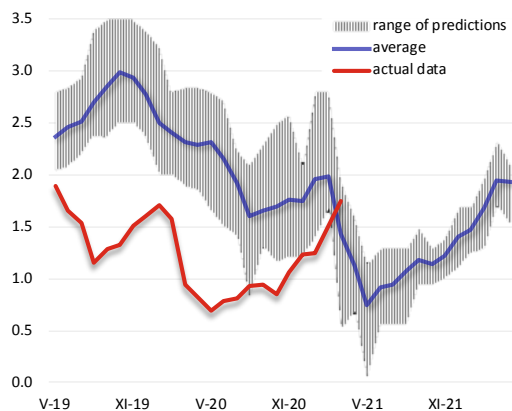
5Y IRS AT 1Y

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
IV.20	26.98	25.98
V.20	27.28	26.20
VI.20	26.64	25.93
VIII.20	26.17	25.76
X.20	27.11	25.88
XII.20	26.33	25.63
III.21	26.01	25.32
IV.21	25.88	25.29

EXCHANGE RATE FORECAST

April 2021	EUR/CZK	
	1M	1Y
minimum	25.70	24.90
average	25.88	25.29
maximum	26.20	26.50

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

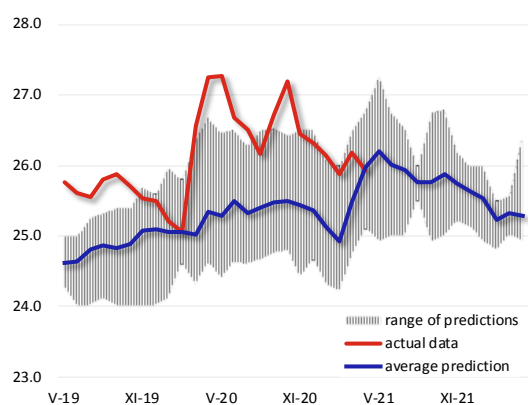
15.4.	25.94
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The improving pandemic situation and the prospect of relaxing the related restrictive measures were probably also reflected in the current koruna exchange rate on the foreign exchange market. The koruna has appreciated below CZK 26 to the euro again since mid-March. As usual, this movement was followed by the analysts' forecasts, which shifted to stronger levels on average. The koruna might thus stand close to CZK 25.88 to the euro in mid-May and slowly appreciate to CZK 25.29 to the euro over the next eleven months.

Progress in vaccination and warm weather might continue to curb the spread of the pandemic. The koruna will then have no reason to depreciate in connection with the pandemic. By contrast, investors may start to leave safe havens, which would probably also lead to greater interest in the koruna. However, traditional factors will play a crucial role in the expected gradual appreciation of the koruna, including the higher inflation outlook in the Czech Republic than in the euro area, an increase in the CNB's interest rates amid a stable, extremely accommodative ECB monetary policy (i.e. the interest rate differential) and, in the longer run, the Czech Republic's renewed economic convergence towards the EU.

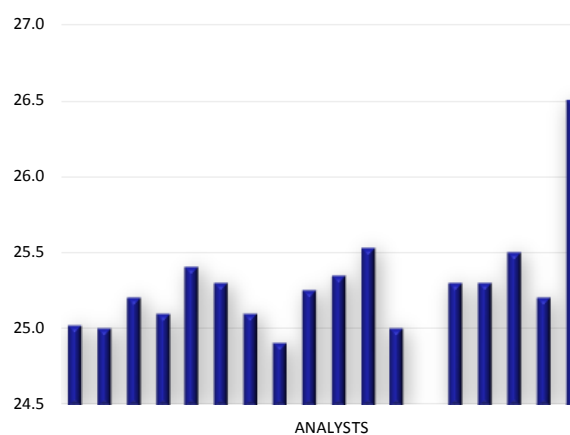
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

April 2021	year end	
	current	current+1Y
minimum	2.20	2.50
average	3.47	4.22
maximum	6.60	5.30

FORECAST FOR NOMINAL WAGE GROWTH

(%)

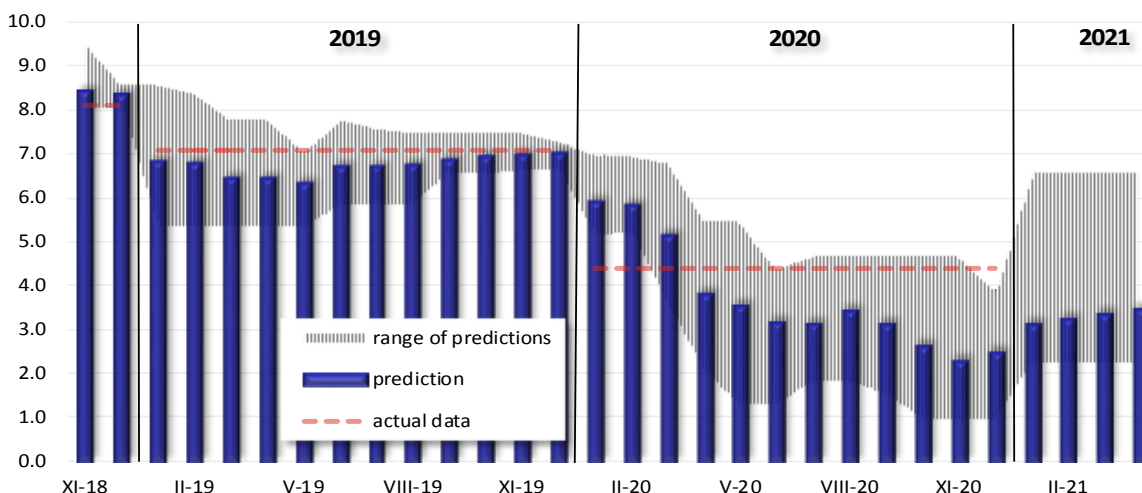
Date of Prediction	year end	
	current	current+1Y
IV .20	3.8	3.2
V .20	3.5	2.8
VII.20	3.1	2.9
VIII.20	3.5	3.2
X.20	2.7	2.9
XII.20	2.5	2.9
III.21	3.4	4.4
IV .21	3.5	4.2

Czech labour market conditions (in terms of the number of unemployed persons) are not bad at all despite the pandemic crisis. Naturally, this is largely due to the government's support programmes. Owing mainly to the start of seasonal work, the share of unemployed persons registered at Czech labour offices dropped by 0.1 pp to 4.2% in March. This is just 1.2 pp more than in March 2020. There has also been an increase in job vacancies, which is higher than the number of registered job applicants. The Czech Republic is also faring very well in this area by international comparison, with its unemployment rate the second lowest in the EU.

Such labour market developments still allow for wage growth, which comfortably exceeds inflation. The analysts expect the nominal wage to grow by 3.5% on average in 2021, i.e. 0.1 pp more than they predicted a month ago. Wage growth is expected to pick up to 4.2% in 2022. However, this is 0.2 pp lower than assumed in the March survey.

NOMINAL WAGE GROWTH

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



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