

# Financial Market Inflation Expectations

— 5/2021



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## I. SUMMARY

Twelve domestic and three foreign analysts took part in the May survey of financial market inflation expectations. The latest data obtained indicate more optimistic outlooks for the growth of the Czech economy both this year and the next amid higher expected inflation at the one-year horizon. The three-year inflation forecast is unchanged. This is reflected in faster wage growth and the expected CNB monetary policy settings, which could be tightened earlier and with greater force. Part of the tightening of the monetary conditions could be achieved through the koruna exchange rate which shifted to stronger levels. This was also reflected in the analysts' forecasts in our survey.

<b>DOMESTIC ANALYSTS</b>	<b>I.</b>	<b>II.</b>	<b>III.</b>	<b>IV.</b>	<b>V.</b>	<b>VI.</b>	<b>VII.</b>	<b>VIII.</b>	<b>IX.</b>	<b>X.</b>	<b>XI.</b>	<b>XII.</b>
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	+	+	+	+	+							
<b>FOREIGN ANALYSTS</b>												
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, 24 May 2021

## II. INFLATION

### FORECAST FOR Y/Y CPI GROWTH

May 2021	CPI	
	1Y	3Y
<b>minimum</b>	1.9	2.0
<b>average</b>	2.2	2.1
<b>maximum</b>	2.5	2.3

### 1Y AND 3Y FORECAST FOR CPI GROWTH

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
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	
V.21	2.2	2.1	2Q: 2.4

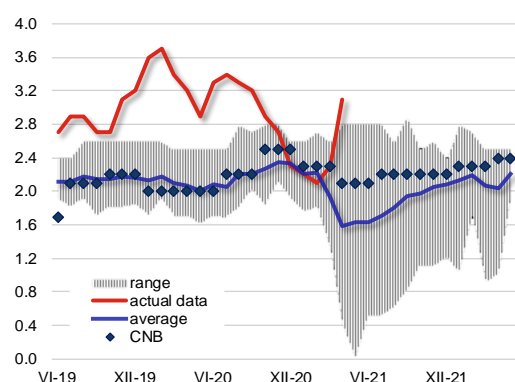
Many analysts found the growth in the Czech consumer price index (CPI) in April surprisingly high. According to the CZSO, the index grew by 0.5% month on month and by 3.1% year on year, i.e. by 0.8 percentage point more than in March. This sharp increase in the year-on-year growth was due mainly to growth in fuel prices which fell sharply in April 2020 due to the onset of the pandemic, resulting in a significant reduction in the base effect for this year's levels. However, inflation was also significantly affected by an increase in prices of alcoholic beverages and tobacco in April.

The sizeable growth in inflation also affected the analysts' one-year forecasts which increased by 0.2 percentage point on average to 2.2%. The outlook remains unchanged from the previous survey at 2.1% at the three-year horizon. The range of the individual one-year forecasts narrowed noticeably owing to a rise in the minimum value, while the range of three-year forecasts is unchanged.

The analysts generally expected, and continue to expect, the retreat of the pandemic to be accompanied by stronger inflation pressures. Some of the analysts believe that the April inflation data and a more rapid easing of anti-epidemic restrictions increase the risk of even faster inflation than originally estimated. CPI inflation is expected to be above the inflation target not only this year, but probably also for part of next year. However, a gradual increase in interest rates will gradually push it back to 2%. Some of the respondents also speculate whether the higher inflation will really only be short-lived or will become a longer-term phenomenon.

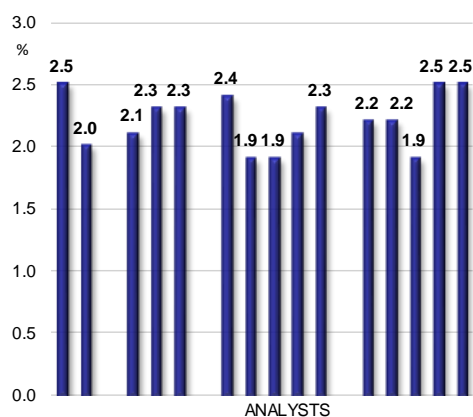
### CONSUMER PRICE INDEX

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

(%)

May 2021	end of year	
	current	current + 1Y
minimum	2.5	3.5
average	3.5	4.5
maximum	5.1	6.5

#### FORECAST FOR GDP GROWTH

(%)

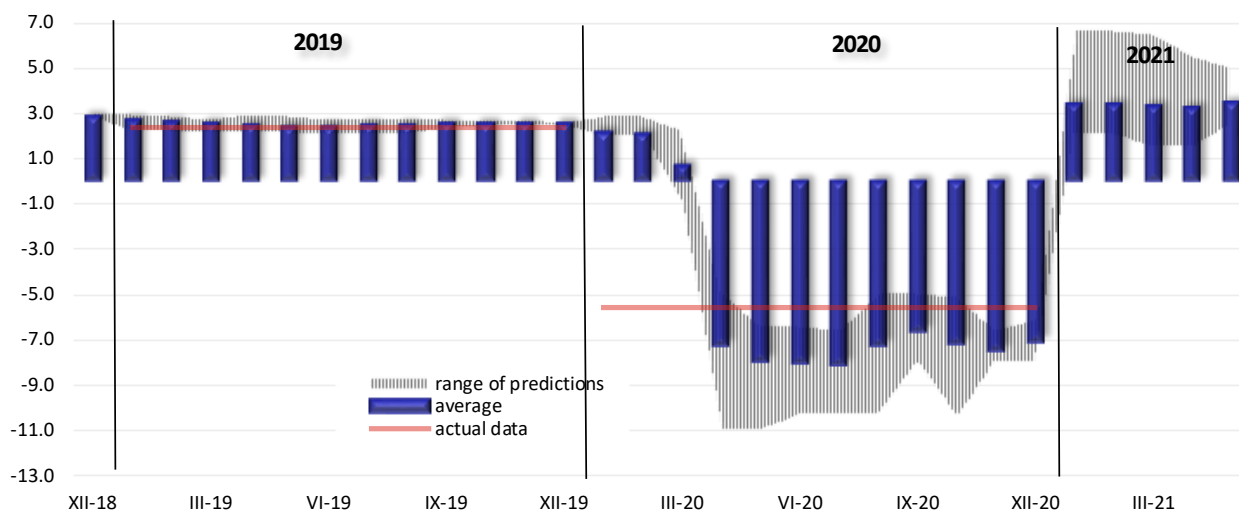
Date of Prediction	end of year	
	current	current+1Y
V.20	-7.9	5.8
VII.20	-8.0	5.6
VIII.20	-7.2	5.0
X.20	-7.1	4.3
XII.20	-7.0	3.5
III.21	3.3	4.4
IV.21	3.2	4.4
V.21	3.5	4.5

According to the CZSO's initial estimate, the Czech economy fell by 0.3% quarter on quarter and by 2.1% year on year in 2021 Q1. This was due mainly to lower expenditure on final consumption of households. By contrast, the drop was slowed mainly by expenditure on final consumption of general government and external demand. Given the restrictive measures and shortages of components in the automotive industry, most of the analysts were very pleasantly surprised by these figures, as they had expected a much deeper decline. This led to a revision of the expected economic growth. According to the average estimate, GDP will increase by 3.5% this year, i.e. 0.3 percentage point higher than in the previous survey. The outlook for next year was revised upwards by 0.1 percentage point to 4.5%. The range of the individual forecasts narrowed due mainly to an increase in the minimum values in both years monitored.

The analysts continue to expect the domestic economy to recover in Q2 provided that vaccination and the easing of restrictions continue successfully. The recovery will be driven by both domestic and external demand. According to the analysts, the economic situation in the USA, where vaccination is relatively fast, has been improving since February. Europe is lagging behind the USA by about two months. However, the latest data indicates that the economic recovery in the Czech Republic could be faster than originally expected. The risk to the forecast is thus tilted towards the upside but only on condition that a large proportion of the population is vaccinated, thus preventing another wave of the pandemic.

#### 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

(%)

May 2021	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
<b>minimum</b>	0.25	0.50	0.58	0.80	1.27	1.47	1.53	1.50
<b>average</b>	0.27	0.88	0.67	1.31	1.70	1.95	1.84	2.07
<b>maximum</b>	0.50	1.25	0.72	1.60	1.82	2.35	2.00	2.50

### 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
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
V.21	0.27	0.88	0.67	1.31	1.70	1.95	1.84	2.07

Most of the analysts who took part in the May survey are not expecting key interest rates to change at the CNB Bank Board

### ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
<b>15.5.</b>	0.25	0.69	1.79	1.85

meeting in June and believe that the 2W repo rate will stay at 0.25%. However, one of the domestic respondents is expecting it to grow by 25 bp in view of the change in the CNB's rhetoric and high inflation in June. An upward shift in the expected key interest rates can also be observed in the one-year forecasts. While a slight majority of the analysts were of the view that the 2W repo rate would stand at 0.75% one year ahead in April, now most of them are expecting it to reach 1.00% and three are even predicting an increase to 1.25%.

The data on GDP for the first quarter of this year surpassed estimates and inflation is above the tolerance band, so the reason for the rise in rates is obvious. However, the analysts still believe that the CNB will tighten its monetary policy very cautiously and will want to see the pandemic situation ease markedly before the first rate increase. Naturally, concerns about another wave, potentially in autumn for example, may postpone a monetary policy tightening in the Czech Republic. However, this option is now considered to be an alternative and less likely scenario, so in their comments the analysts most often cite August as the month in which key rates will grow for the first time.

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

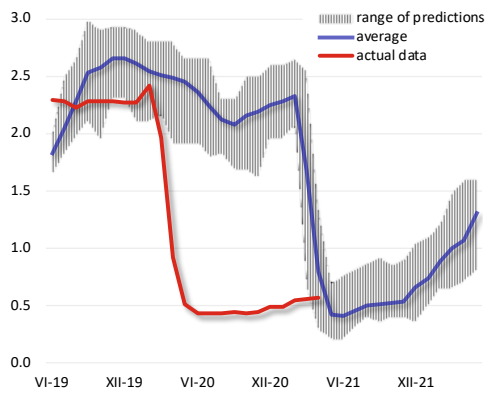
(%)

2W repo rate level in 1Y (%)	0.05	0.25	0.50	0.75	1	1.25	1.5
<b>number of analysts - current survey</b>	0	0	3	4	5	3	0
<b>-previous survey</b>	0	0	7	8	2	0	0

Concerns about accelerating inflation and the assumption of an increase in key interest rates are also reflected in the forecasts for PRIBOR reference interbank rates and interest rate swaps (IRSs). The forecasts shifted upwards by 8–24 basis points. The spreads between the 5Y and 10Y IRS forecasts have simultaneously been decreasing gradually over the last three months due to faster growth in the 5Y IRS.

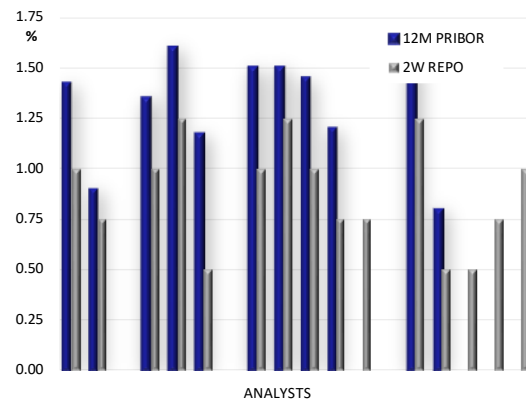
**12M PRIBOR AT 1Y**

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



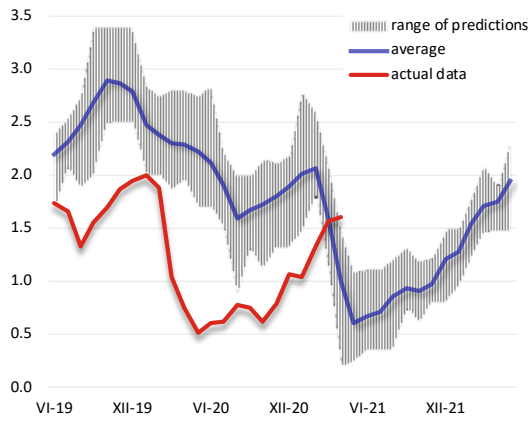
**2W REPO AND 12M PRIBOR AT 1Y**

PREDICTIONS OF INDIVIDUAL ANALYSTS



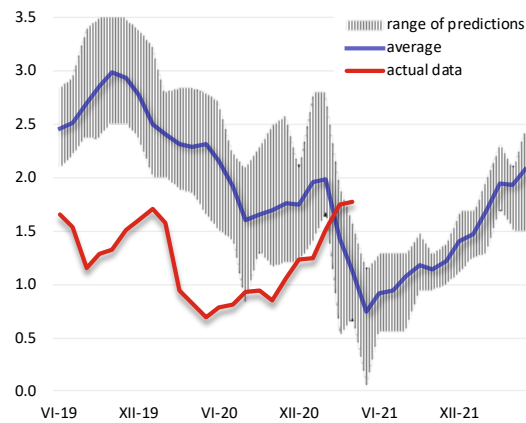
**5Y IRS AT 1Y**

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
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
III.21	26.01	25.32
IV.21	25.88	25.29
V.21	25.55	25.19

### EXCHANGE RATE FORECAST

May 2021	EUR/CZK	
	1M	1Y
minimum	25.30	24.80
average	25.55	25.19
maximum	25.90	26.00

### ACTUAL EUR/CZK AS OF FORECAST DEADLINE

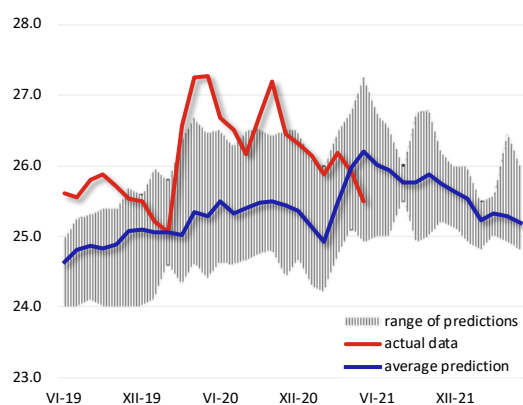
15.5.	25.49
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The current forecasts for the koruna-euro exchange rate again reflect the latest developments in the foreign exchange market where the koruna appreciated to CZK 25.5 CZK to the euro. The analysts predict that the koruna will fluctuate around this level in the coming weeks, expecting an exchange rate of CZK 25.55 to the euro in mid-June. A very gradual appreciation trend will then prevail, with the koruna strengthening to CZK 25.19 to the euro in May next year.

According to the analysts, the koruna's appreciation was mainly a response to the outcome of the CNB meeting and published inflation data, which created expectations of an impending, faster-than-forecasted tightening of the CNB's monetary policy on the market. This was also reflected in the forecasts in our survey, which on average shifted to stronger levels. However, the overall outlook remains the same, as gradual appreciation will be fostered by the unwinding of the pandemic-related uncertainty, the growing difference in the monetary policy settings of the CNB and the ECB, the current relatively low level of exporters' hedging against a stronger koruna and, from a longer term perspective, convergence of the Czech economy to advanced Western European countries.

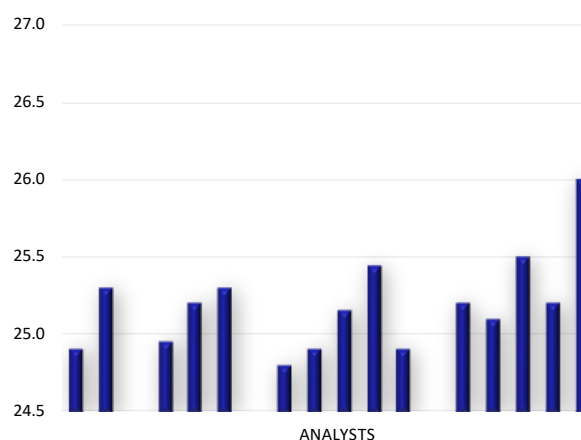
### EUR/CZK

#### ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



### EUR/CZK AT 1Y

#### PREDICTIONS OF INDIVIDUAL ANALYSTS



## VI. NOMINAL WAGES

### FORECAST FOR NOMINAL WAGE GROWTH

(%)

May 2021	year end	
	current	current+1Y
minimum	2.20	2.50
average	3.75	4.30
maximum	6.60	5.30

### FORECAST FOR NOMINAL WAGE GROWTH

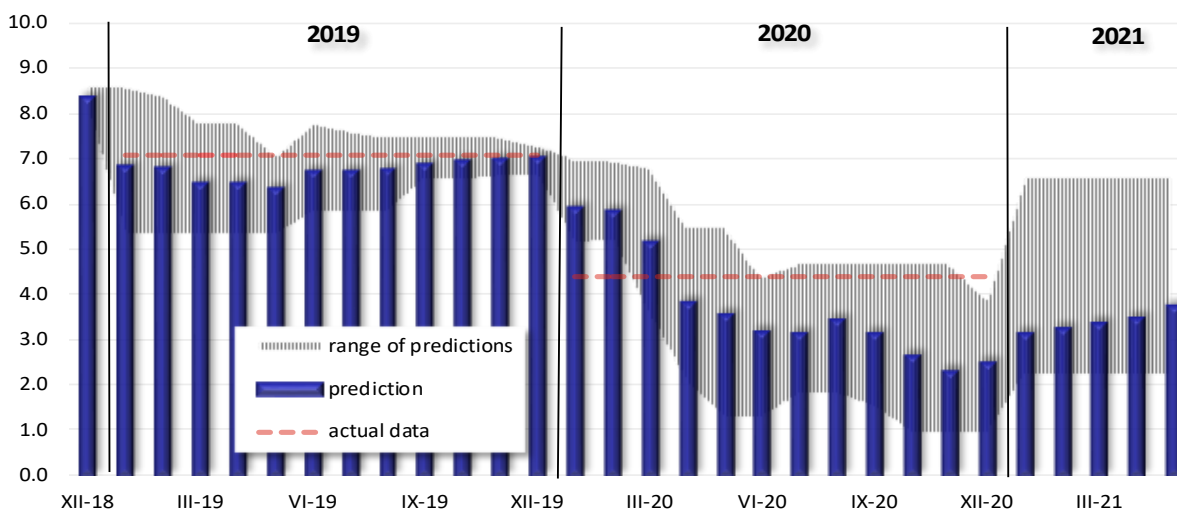
(%)

Date of Prediction	year end	
	current	current+1Y
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
V.21	3.8	4.3

The better-than-expected GDP growth, the easing of restrictive measures and the start of seasonal work in, for example, construction, forestry and mining, as well as logistics and online shops, is strengthening demand for labour. According to the Czech Labour Office, the number of new jobs, although largely low-skilled, increased in both year-on-year and month-on-month terms in April and, despite all the negative impacts of the pandemic, is higher than the number of job applicants. The share of registered unemployed persons dropped by 0.1 percentage point month on month to 4.1%. This is still the second-lowest unemployment rate in the EU by international comparison. Moreover, demand for new employees could grow further in the coming months after the easing of anti-epidemic measures in restaurants, spas and tourism. These labour market developments and good economic prospects are probably the reason analysts have again revised their opinion on nominal wage growth upwards. Wages are thus expected to rise by 3.8% on average this year, i.e. 0.3 percentage point more than in the April survey. Wage growth could accelerate to 4.3% next year, up by 0.1 percentage point than in April.

### NOMINAL WAGE GROWTH

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



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