

Financial Market Inflation Expectations

7/2021



Czech National Bank — Financial Market Inflation Expectations — 7/2021

Contents

I. SUMMARY	3
II. INFLATION	4
III. GROSS DOMESTIC PRODUCT	5
IV. INTEREST RATES – 2W REPO, PRIBOR, IRS	6
V. EXCHANGE RATE	8
VI. NOMINAL WAGES	9

I. SUMMARY

Thirteen domestic and three foreign analysts took part in the CNB's July survey. On average, they expect the Czech economy to grow at the same pace as they were expecting in June this year and slightly faster next year. Their view of consumer price inflation remains unchanged from the previous month at both the one-year and three-year horizon. Most of the respondents expect key interest rates to be raised further at the CNB Board meeting in August. According to the analysts, the 2W repo rate will also be higher in a year's time than they were predicting in the previous survey. The forecast for the koruna-euro exchange rate again reflects the recent movement on the foreign exchange market. Nominal wage growth expectations are unchanged from the last survey for this year and have increased slightly for next year.

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 July 2021

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

July 2021	CPI	
	1Y	3Y
minimum	1.9	2.0
average	2.2	2.1
maximum	2.8	3.1

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

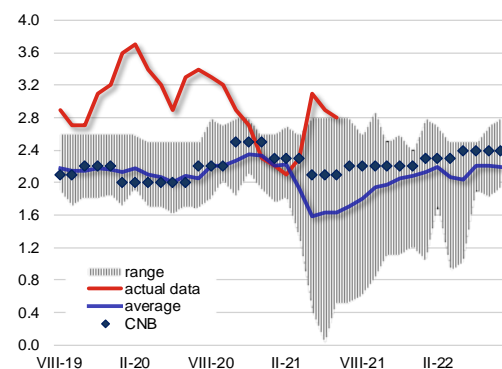
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
VII.20	1.7	2.0	
VIII.20	1.8	2.0	3Q: 2.2
X.20	2.0	2.0	
XII.20	2.1	2.0	4Q: 2.2
III.21	2.1	2.0	1Q: 2.3
V.21	2.2	2.1	
VI.21	2.2	2.1	2Q: 2.4
VII.21	2.2	2.1	3Q: 2.4

Consumer prices in the Czech Republic recorded a month-on-month increase of 0.5% in June. According to the CZSO, this was due mainly to house maintenance goods and services and seasonal package holiday prices. Despite the relatively high month-on-month growth, the year-on-year growth rate slowed by 0.1 percentage point to 2.8%. This was due primarily to base effects, i.e. even faster month-on-month growth in consumer prices in June 2020. However, the latest inflation developments had no impact on the analysts' average forecast at either the one-year or three-year horizon. The one-year forecast thus remains at 2.2% and the three-year forecast 0.1 percentage point lower. The range of the individual one-year estimates remained unchanged, as the maximum and minimum values increased by the same amount, while the range of the three-year forecasts widened due to an increase in the maximum value.

The analysts' view thus remains unchanged: they expect inflation to be driven mainly by a strong labour market, which will foster a favourable trend in household demand. In addition, high producer prices, including oil and energy prices, will feed through to inflation. Last but not least, supply chain disruptions may have the same effect. According to some of the estimates, inflation could be close to 4% at the end of this year. Inflation is expected to slow subsequently, as this year's one-off factors are expected to fade and the CNB's tightening monetary policy will also start to be felt. Inflation is thus expected to return gradually to the 2% target. However, there are also views that year-on-year growth in the consumer price index may not pick up much further over the rest of this year and could begin to slow from its current levels towards the inflation target at the start of next year.

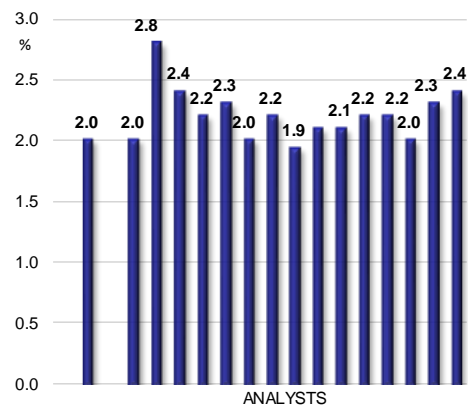
CONSUMER PRICE INDEX

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

(%)

July 2021	end of year	
	current	current + 1Y
minimum	2.5	2.2
average	3.6	4.5
maximum	5.2	6.4

FORECAST FOR GDP GROWTH

(%)

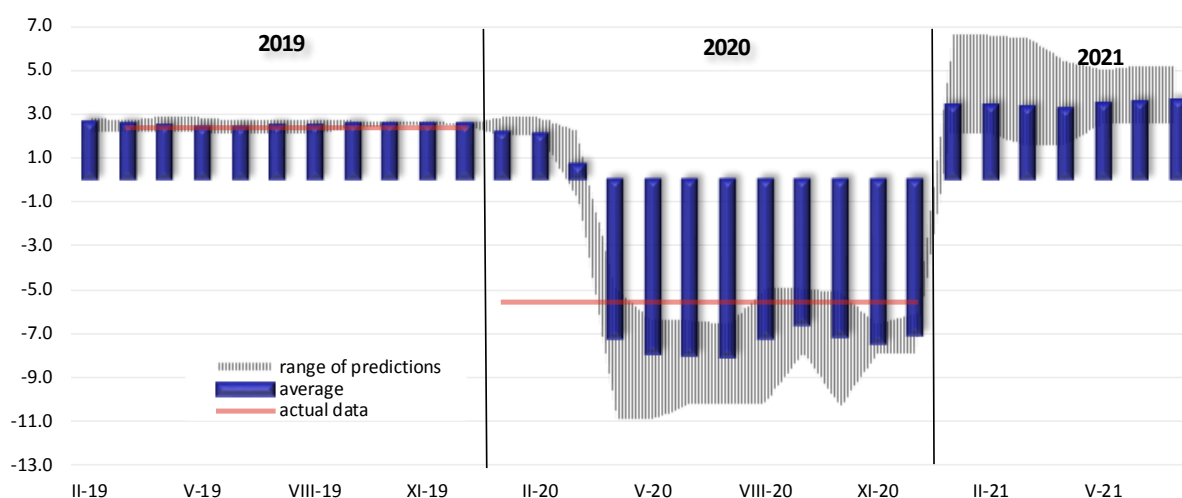
Date of Prediction	end of year	
	current	current+1Y
VII.20	-8.0	5.6
VIII.20	-7.2	5.0
X.20	-7.1	4.3
XII.20	-7.0	3.5
III.21	3.3	4.4
V.21	3.5	4.5
VI.21	3.6	4.3
VII.21	3.6	4.5

At the end of June, the CZSO again revised its estimate for the growth of the Czech economy in 2021 Q1. GDP declined by 0.3% quarter on quarter and 2.4% year on year. The quarter-on-quarter figure is unchanged, but the year-on-year decline is 0.3 percentage point larger than in the previous estimate. The analysts' view of the domestic economy this year remains the same. On average, they expect annual GDP growth to amount to 3.6%. Economic growth is expected to pick up to 4.5% next year, 0.2 percentage point higher than in the June survey. The range of the individual estimates for this year narrowed slightly due to a decrease in the maximum value, while the outlooks for next year widened significantly due mainly to an increase in the maximum value.

The analysts expect the economy to rebound as early as 2021 Q2. According to incoming data, external demand – most notably from Germany – remains favourable and domestic demand is also increasing. This is evident not only from leading indicators, which are exceeding expectations, but also from inflation. EU funds are also expected to have a positive impact. Although the domestic economy is heading towards solid economic growth, the currently worsening pandemic situation, the spread of the Delta variant and the potential introduction of further restrictive measures, a downturn in consumer activity or a drop in confidence may change the economic outlooks entirely.

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

(%)

July 2021	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0.50	0.75	0.95	1.10	1.69	1.90	1.65	1.85
average	0.67	1.39	1.14	1.85	1.88	2.15	1.86	2.19
maximum	0.75	1.75	1.40	2.18	2.10	2.54	2.12	2.60

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.II.20	0.24	0.18	0.43	0.45	0.56	0.71	0.76	0.94
V.III.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
V.21	0.27	0.88	0.67	1.31	1.70	1.95	1.84	2.07
VI.21	0.42	1.16	0.84	1.66	1.77	2.11	1.85	2.21
VII.21	0.67	1.39	1.14	1.85	1.88	2.15	1.86	2.19

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.7.	0.50	1.00	1.90	1.75

Most of the respondents, specifically 11 out of the 16, expect the CNB to tighten its monetary policy again and raise the key repo rate by a further 25 basis points to 0.75% at the August meeting. The remaining five respondents in the July survey expect rates to stay at the current level. According to the analysts, both the latest inflation figures, which slightly exceeded the CNB forecast, and the CNB Board's communications confirm the need to increase interest rate further. However, this will depend on the pandemic situation. The respondents also speculate that some Bank Board members may make up their mind based on the coronavirus situation in the Czech Republic in the first week of August.

However, the increases in key interest rates may not end at the August CNB Board meeting; the analysts believe there might be one more hike before the end of this year. The analysts also expect interest rates to be higher at the one-year horizon. Most of the respondents in the June survey were expecting the 2W repo rate to be increased to 1.25%. The prevailing view now is that this rate will be at 1.50% in one year's time, while three respondents even expect it to rise to 1.75%.

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

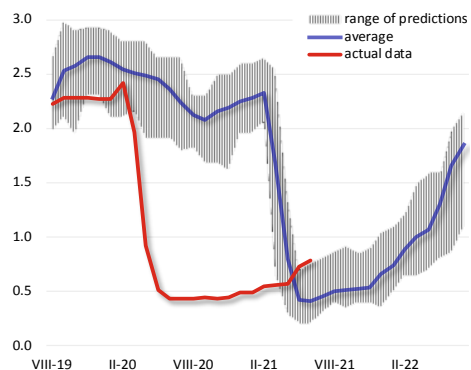
(%)

2W repo rate level in 1Y (%)	0.05	0.25	0.50	0.75	1	1.25	1.5	1.75
number of analysts - current survey	0	0	0	1	1	5	6	3
-previous survey	0	0	2	0	3	8	3	0

The start of the interest rate normalisation process was reflected in money rates. The forecast for the 12M PRIBOR reference rate thus moved significantly upwards – by 30 basis points at the one-month horizon and by 19 basis points at the one-year horizon. By contrast, longer-term swap rates are being influenced more by external developments, reflecting increasing nervousness due to the worsening pandemic situation. The forecasts for 5Y and 10Y swap rates thus recorded mixed changes, ranging from -2 to +11 basis points.

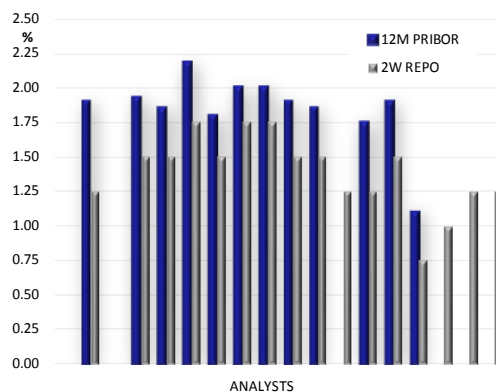
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



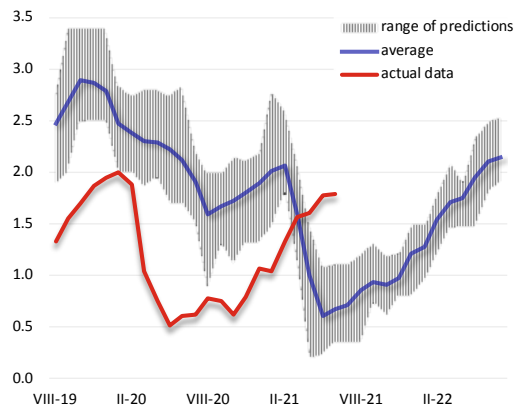
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



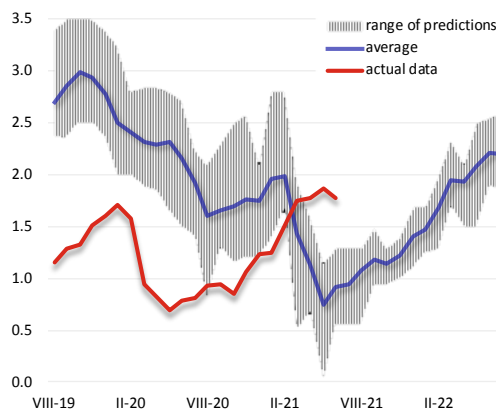
5Y IRS AT 1Y

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
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
V.21	25.55	25.19
VI.21	25.36	24.88
VII.21	25.46	24.93

EXCHANGE RATE FORECAST

July 2021	EUR/CZK	
	1M	1Y
minimum	25.10	24.30
average	25.46	24.93
maximum	25.70	25.42

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

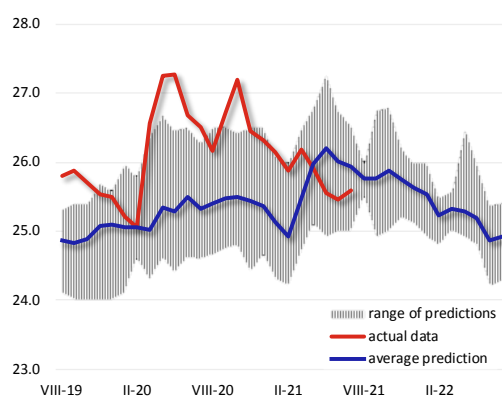
15.7.	25.59
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As usual, the analysts' forecasts were revised towards weaker levels in response to the koruna's depreciation on the foreign exchange market (by around 14 hellers to CZK 25.59 to the euro), which was linked with the pandemic situation in the Czech Republic and abroad. The analysts estimate that the koruna might firm slightly to CZK 25.46 to the euro by mid-August and gradually appreciate to CZK 24.93 to the euro by July 2022.

The current situation full of uncertainty regarding the future course of the coronavirus pandemic may generate considerable volatility of the koruna in the near future. A rapid increase in new cases and the introduction of restrictive measures might cause the koruna to weaken to CZK 26 to the euro, whereas an improvement in the pandemic situation could return it to CZK 25.4 to the euro. The analysts do not expect a pronounced appreciation, as the increase in interest rates is already priced into the exchange rate of the koruna. The factors behind the expected gradual long-term recovery trend remain the same: normalisation of CNB monetary policy with a related widening of the interest rate differential, and continuing convergence of the Czech economy to Western European countries.

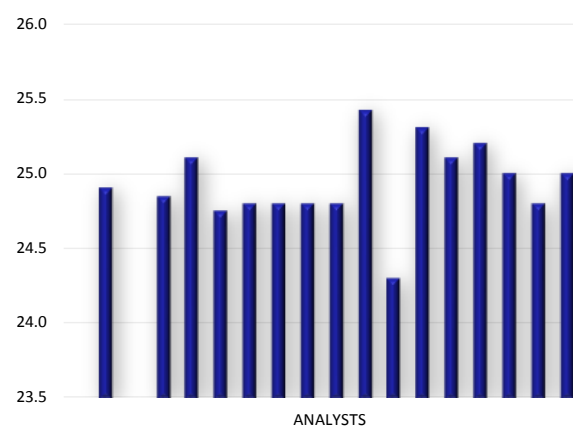
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

July 2021	year end	
	current	current+1Y
minimum	2.2	2.5
average	3.7	4.5
maximum	4.5	5.3

FORECAST FOR NOMINAL WAGE GROWTH

(%)

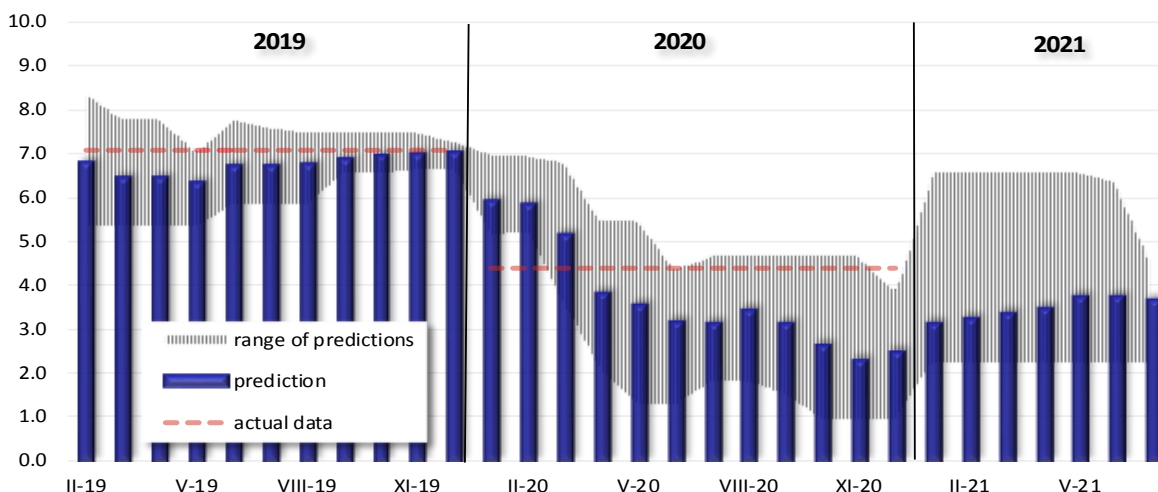
Date of Prediction	year end	
	current	current+1Y
VII.20	3.1	2.9
VIII.20	3.5	3.2
X.20	2.7	2.9
XII.20	2.5	2.9
III.21	3.4	4.4
V.21	3.8	4.3
VI.21	3.7	4.4
VII.21	3.7	4.5

The labour market situation remains very favourable for employees. The share of unemployed persons fell by 0.2 percentage points to 3.7% in June on the back of strong interest in new employees in manufacturing and recruitment of seasonal workers. The unemployment rate in the Czech Republic in May was the lowest of all the EU Member States. Provided that the pandemic situation does not deteriorate, the number of vacancies might increase in the months ahead, especially in hotels and restaurants. At the same time, nominal wages showed solid growth in 2021 Q1, rising by 3.2%. With inflation at 2.2%, this represents a real increase of 1.0%.

In the baseline scenario, which assumes a gradual fading of the pandemic, the analysts expect nominal wages (with the exception of some strongly affected sectors, such as hotels and services) to continue to grow buoyantly and to increase by 3.7% on average in 2021 as a whole. This is the same figure as in the previous survey. If the economy continues to recover and economic activity in the Czech Republic returns to normal, wage growth might pick up to 4.5% next year, 0.1 percentage point higher than the analysts were predicting in June.

NOMINAL WAGE GROWTH

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



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