

Financial Market Inflation Expectations

9/2021



Czech National Bank — Financial Market Inflation Expectations — 9/2021

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I. SUMMARY

Ten domestic and three foreign analysts took part in the CNB's September survey. As the data obtained indicate, expected inflation has shifted upwards at the one-year horizon, while three-year inflation expectations remain anchored just above the CNB's inflation target of 2%. The forecasts for PRIBOR interbank interest rates and IRS swap rates have increased due to higher inflation. The forecast for nominal wage growth is also higher; in particular, the pace expected in 2021 has been revised appreciably. The economic growth estimate for this year has also recorded a modest upward shift. A slight revision of the view of the future path of the nominal exchange rate of the koruna reflects a small change in its level on the foreign exchange market since the last 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, ČBA	+	+	+	+								
Lukáš Kovanda, Trinity Bank	+	+	+	+	+	+	+	+	+			
Michal Šoltés, RoklenFin	+	+	+			+	+		+			
Martin Janičko, MND	+	+	+	+	+	+	+	+	+			
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 September 2021

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

September 2021	CPI	
	1Y	3Y
minimum	2.1	2.0
average	2.6	2.1
maximum	3.1	2.4

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

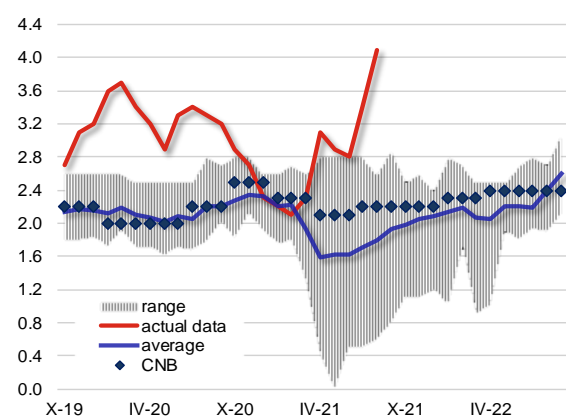
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
IX.20	1.9	2.0	3Q: 2.2
X.20	2.0	2.0	
XII.20	2.1	2.0	4Q: 2.2
III.21	2.1	2.0	1Q: 2.3
V.21	2.2	2.1	
VI.21	2.2	2.1	2Q: 2.4
VIII.21	2.4	2.1	3Q: 2.4
IX.21	2.6	2.1	

The domestic consumer price index rose by 0.7% month on month in August, driven up by almost all components of the consumer basket. Inflation accelerated to 4.1% year on year, which is 0.7 percentage point higher than in July and the fastest pace since 2008. According to the CZSO, this was due most of all to higher prices of housing and transport. Such fast growth in inflation was also reflected in the analysts' one-year forecasts, which increased by 0.2 percentage point on average to 2.6%. The average forecast remains unchanged at the three-year horizon, still standing at 2.1%. The range of the individual one-year estimates widened owing to a faster increase in the maximum values, while that of the three-year forecasts was unchanged.

The analysts attribute the surprising pick-up in inflation to the strong labour market, which is fuelling household demand. This is being reflected in turn in core inflation, which, according to some calculations, is very close to 5%. The supply side, however, is also playing a significant role, as it is being affected by a lack of materials and production parts. The fast pace of growth of consumer prices is also due in large part to imputed rents, as is apparent from significantly lower growth of the harmonised index of consumer prices (3.1%), which does not include this item. In the months ahead, inflation may accelerate further and exceed the 5% level at the end of this year due to growth in electricity and food prices. Next year, it is expected to weaken as one-off factors fade out and the CNB's tighter monetary policy starts to have an effect. However, it will be kept above the target by the strong labour market. In addition, the analysts do not have a unanimous opinion on whether the current higher inflation is a short- or longer-term phenomenon.

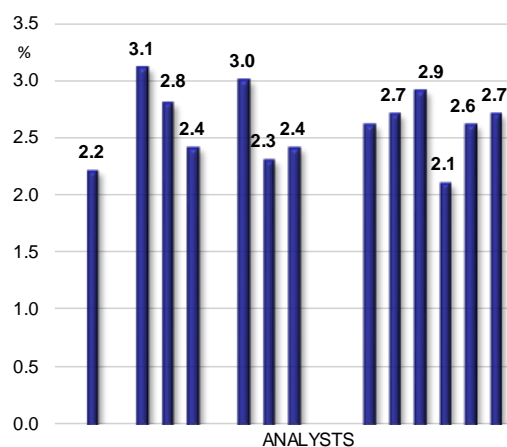
CONSUMER PRICE INDEX

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

(%)

September 2021	end of year	
	current	current + 1Y
minimum	3.0	3.4
average	3.5	4.7
maximum	4.5	6.1

FORECAST FOR GDP GROWTH

(%)

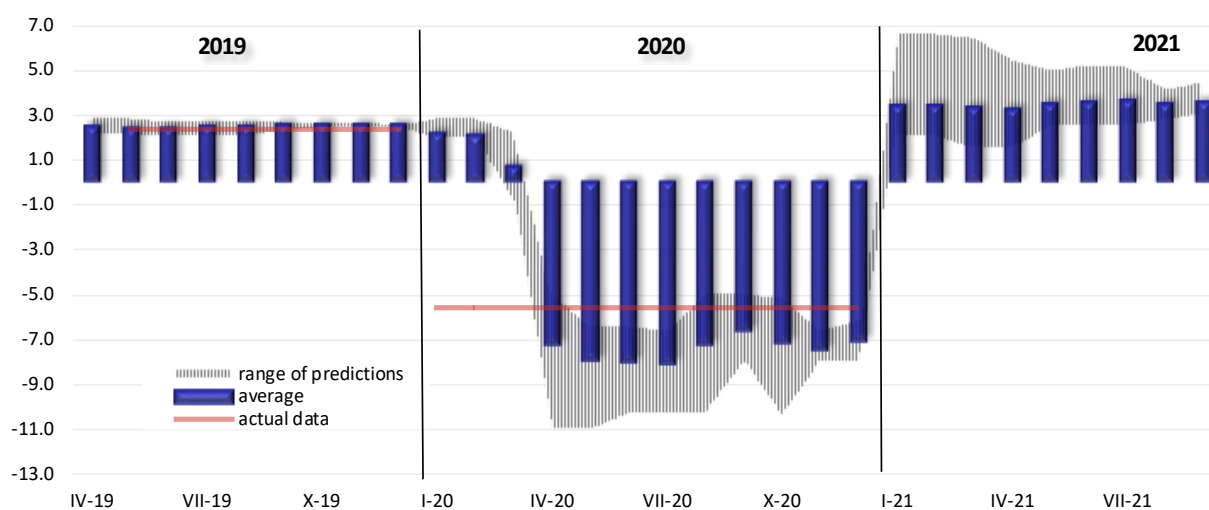
Date of Prediction	end of year	
	current	current+1Y
IX.20	-6.5	4.5
X.20	-7.1	4.3
XII.20	-7.0	3.5
III.21	3.3	4.4
V.21	3.5	4.5
VI.21	3.6	4.3
VIII.21	3.4	4.7
IX.21	3.5	4.7

The CZSO has revised its estimate for the growth of the Czech economy in 2021 Q2. GDP grew by 1.0% quarter on quarter and 8.2% year on year. The quarter-on-quarter growth was driven mainly by household consumption, followed by fixed capital investment. By contrast, foreign trade dampened economic growth in 2021 Q2. The analysts' forecast for this year moved 0.1 percentage point higher to 3.5%. The outlook for next year is unchanged and Czech economic growth is thus expected to accelerate to 4.7%. The range of the individual estimates for this year widened due to a faster increase in the maximum value, while that of the forecasts for next year narrowed due to a decrease in the minimum value.

The analysts expect that GDP growth will be strong in 2021 Q3 due to the end of anti-pandemic measures, which had their strongest effect in the second half of 2021 Q2. It may even be the highest level recorded in the quarter-on-quarter statistics during the current economic recovery, since economic activity may cool in the final quarter of this year as shortages of necessary components increasingly affect production. A tightening of the CNB's monetary policy and on the labour market is also expected to have an effect gradually. There is still great uncertainty about the pandemic situation and the spread of the Delta variant, which could not only cause production shutdowns, but also weaken consumer confidence and hence also the currently robust consumer demand.

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

(%)

September 2021	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	1.00	1.50	1.40	1.80	2.12	2.20	2.09	1.95
average	1.17	2.17	1.66	2.52	2.39	2.65	2.25	2.65
maximum	1.25	2.75	1.85	3.00	2.70	3.50	2.50	3.75

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
IX.20	0.25	0.25	0.42	0.51	0.74	0.94	0.96	1.18
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
VIII.21	1.00	1.80	1.36	2.14	2.12	2.34	1.98	2.31
IX.21	1.17	2.17	1.66	2.52	2.39	2.65	2.25	2.65

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.9.	0.75	1.52	2.38	2.17

The view on the path of key interest rates has shifted again. Four respondents believe that the CNB Bank Board will raise the two-week repo rate by 25 basis points to 1.00% again at its September meeting, but the remaining nine estimate that monetary policy will be tightened more and the two-week repo rate will go up by 50 basis points to 1.25%. Higher key interest rates are also expected at the one-year horizon. The highest number of respondents (four) now believe that the two-week repo rate will be 2.50% in September next year. Faster monetary policy tightening is supported not just by the surprisingly high September inflation, but also by a better pandemic situation and the CNB Bank Board members' communications. The course of the pandemic and potential appreciation of the koruna are regarded as the main risks that might lead to slower growth of key interest rates.

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

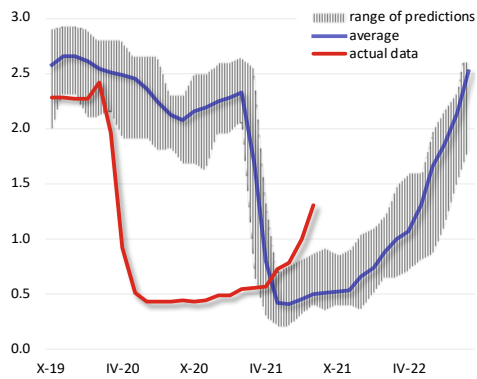
(%)

2W repo rate level in 1Y (%)	1	1.25	1.50	1.75	2	2.25	2.5	2.75
number of analysts - current survey	0	0	1	2	3	2	4	1
-previous survey	0	1	2	6	5	1	0	0

The expectations of a faster increase in the CNB's key interest rates coupled with the related growth in current interest rates on the money and derivatives markets are also naturally reflected in the analysts' forecasts, which moved significantly upwards again. The forecasts for PRIBOR interbank reference rates rose by 29–38 basis points and those for the 5Y and 10Y IRS rates by 28–34 basis points on average.

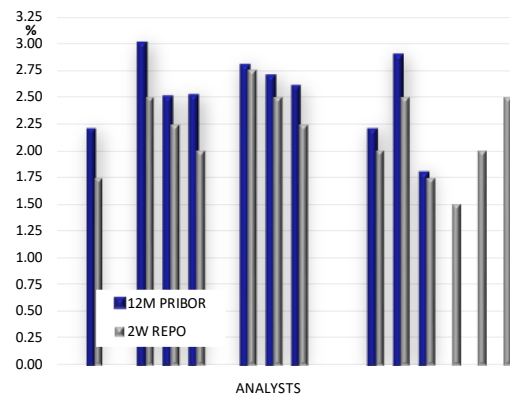
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



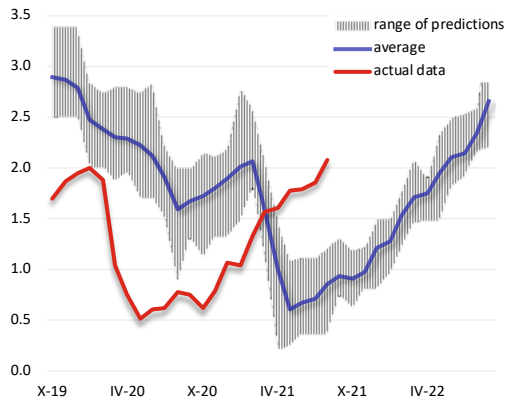
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



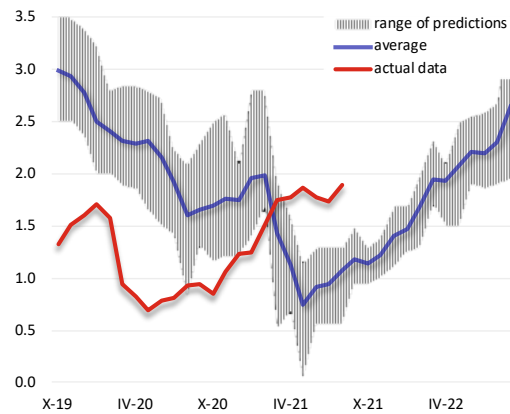
5Y IRS AT 1Y

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
IX.20	26.48	25.77
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
VIII.21	25.37	24.82
IX.21	25.29	24.80

EXCHANGE RATE FORECAST

September 2021	EUR/CZK	
	1M	1Y
minimum	25.20	24.40
average	25.29	24.80
maximum	25.40	25.10

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

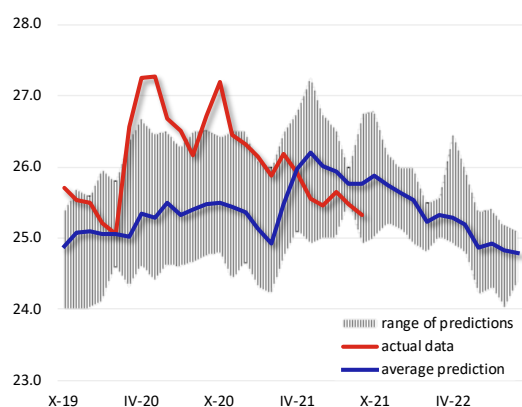
15.9.	25.32
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The koruna has strengthened by 7 hellers to CZK 25.32/EUR on the foreign exchange market since the last survey. This is attributed largely to the surprisingly high August inflation. The analysts' average one-month forecast recorded a similarly slight change towards stronger levels, shifting by 8 hellers to CZK 25.29/EUR. The one-year forecast was revised to an even smaller extent – also towards appreciation but this time by just 2 hellers to CZK 24.80/EUR.

The analysts believe that the koruna failed to strengthen more strongly in response to inflation because its exchange rate already contains expectations of a faster increase in key interest rates, at least until the end of this year. For this reason, they do not expect a further sharp appreciation in the coming months either, unless the CNB raises key rates much more than expected. In addition, negative sentiment linked to the pandemic and the risk of a deterioration in the autumn or winter still prevails on markets. This is also preventing the koruna from appreciating further. The opposite situation would arise if the course of the pandemic improved markedly and the uncertainty on the market decreased, domestic economic growth accelerated and the CNB was forced to tighten its monetary policy more intensively. In the longer run, the pandemic is expected to subside and the koruna is predicted to follow a gradual appreciation trend due to the interest rate differential and economic convergence towards the euro area.

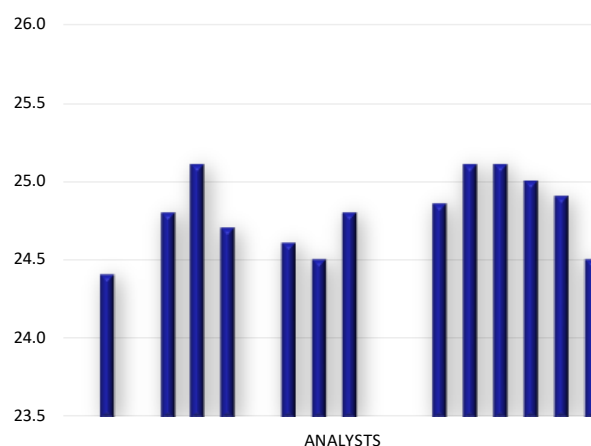
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

September 2021	year end	
	current	current+1Y
minimum	3.2	3.0
average	4.8	4.8
maximum	7.3	6.0

FORECAST FOR NOMINAL WAGE GROWTH

(%)

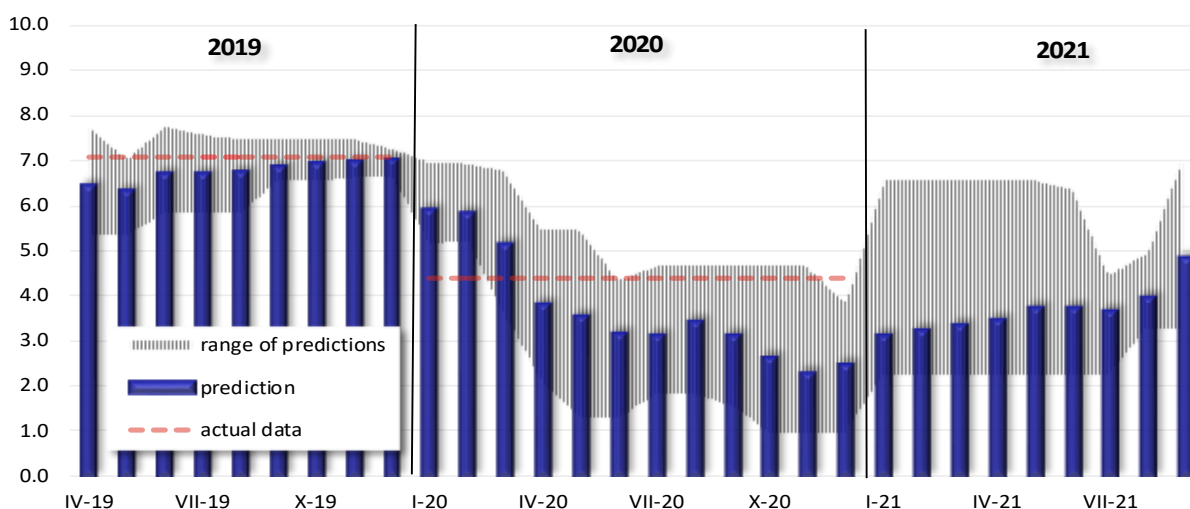
Date of Prediction	year end	
	current	current+1Y
IX.20	3.1	2.9
X.20	2.7	2.9
XII.20	2.5	2.9
III.21	3.4	4.4
V.21	3.8	4.3
VI.21	3.7	4.4
VIII.21	4.0	4.6
IX.21	4.8	4.8

Labour market conditions remain tight. The share of unemployed persons was 3.6% at the end of August, 0.1 percentage point less than in July and 0.2 percentage point less than a year earlier. As regards international comparisons, the July unemployment rate in the Czech Republic was the lowest of all the EU countries, reaching 2.8% compared to an average of 6.9%. Wage growth in 2021 Q2 also exceeded many expectations. The average gross monthly nominal wage rose by 11.3% and the real wage by 8.2%. However, this figure was strongly affected by base effects and the payment of extraordinary bonuses in the health sector linked to covid care.

The above environment on the labour market and the overall economic picture probably made the analysts revise their view of overall wage growth both this year and the next. Nominal wages are thus expected to grow by 4.8% year on year in 2021, 0.8 percentage more than predicted in August. The outlook for next year is also more optimistic, as it expects the same growth as this year, i.e. 4.8%. This is 0.2 percentage point more than in the previous survey.

NOMINAL WAGE GROWTH

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



Issued by:
CZECH NATIONAL BANK
Na Příkopě 28
115 03 Praha 1
Czech Republic

Contact:
COMMUNICATIONS DIVISION
GENERAL SECRETARIAT
Tel.: +420 224 413 112
www.cnb.cz