

Financial Market Inflation Expectations

— 10/2021



Czech National Bank — Financial Market Inflation Expectations — 10/2021

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I. SUMMARY

All the respondents addressed, i.e. fifteen domestic and three foreign analysts, took part in the CNB's October survey. They are expecting much higher inflation at the one-year horizon than they did in the previous survey. The three-year inflation forecast has also shifted slightly upwards this month. By contrast, the GDP growth estimate for this year is less optimistic, but the outlook for next year is unchanged for the third consecutive month. The expected key interest rates are higher, as are interbank reference rates and rates of interest rate derivatives. There were only slight changes in the outlook for the koruna exchange rate. The forecast for nominal wage growth has shifted upwards, and analysts continue to expect roughly the same growth both this year and the next.

| 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 Janíčko, 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, 25 October 2021

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

| October 2021 | CPI | |
|-----------------|-----|-----|
| | 1Y | 3Y |
| minimum | 2.0 | 2.0 |
| average | 2.9 | 2.2 |
| maximum | 3.6 | 2.8 |

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

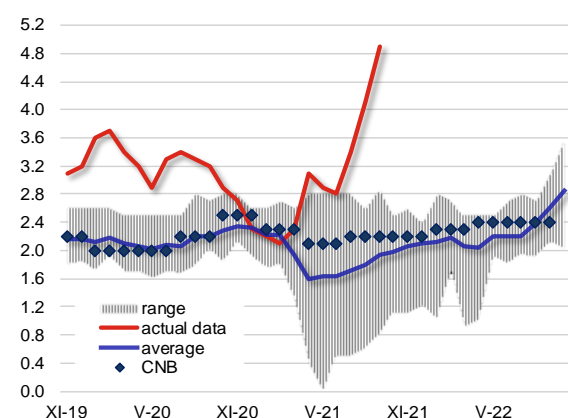
| Date of Prediction | ANALYSTS | | CNB (%) |
|-----------------------|----------|-----|---------|
| | 1Y | 3Y | 1Y |
| X.20 | 2.0 | 2.0 | 3Q: 2.2 |
| XII.20 | 2.1 | 2.0 | 4Q: 2.2 |
| III.21 | 2.1 | 2.0 | 1Q: 2.3 |
| V.21 | 2.2 | 2.1 | |
| VI.21 | 2.2 | 2.1 | 2Q: 2.4 |
| VIII.21 | 2.4 | 2.1 | 3Q: 2.4 |
| IX.21 | 2.6 | 2.1 | |
| X.21 | 2.9 | 2.2 | |

According to the latest CZSO figures, the growth of the consumer price index accelerated sharply again in September, increasing by “just” 0.2% month on month but by 4.9% year on year, which was 0.8 percentage point more than in August. The annual growth was driven mainly by price increases in the housing and transport categories. However, it is important to bear in mind that, despite its already high growth, September inflation does not yet fully reflect the rise in energy prices that is currently taking place on the market. According to the CZSO, electricity prices were 2.3% lower year on year in September. In any case, economic developments since the September survey have made the analysts quickly raise the one-year inflation forecast again – by 0.3 percentage point to 2.9%. The range of the individual one- and three-year estimates widened due to a faster increase in the maximum values.

The analysts are attributing a number of factors to inflation pressures. On the demand side, these include in particular the strong labour market, households’ strong appetite for spending and accommodative fiscal policy. Supply-side factors consist of growth in energy and food prices and shortages of materials and components for production. At the same time, the rapid rise in consumer prices can also be observed abroad. Inflation in the Czech Republic is expected to slow gradually next year as its one-off factors dissipate and the effects of the CNB’s higher interest rates are felt. According to some analysts, it will remain above the 2% target until 2023 H2.

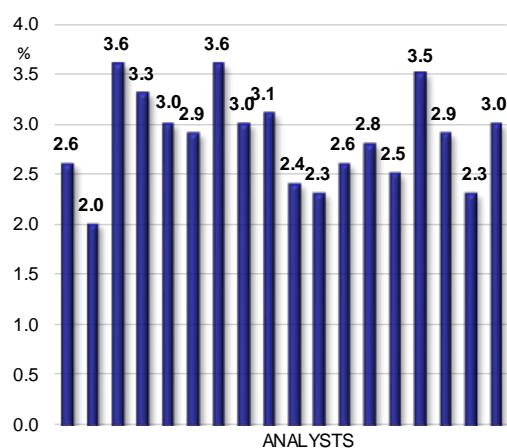
CONSUMER PRICE INDEX

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

(%)

| October 2021 | end of year | |
|-----------------|-------------|--------------|
| | current | current + 1Y |
| minimum | 2.5 | 3.4 |
| average | 3.3 | 4.7 |
| maximum | 4.3 | 6.5 |

FORECAST FOR GDP GROWTH

(%)

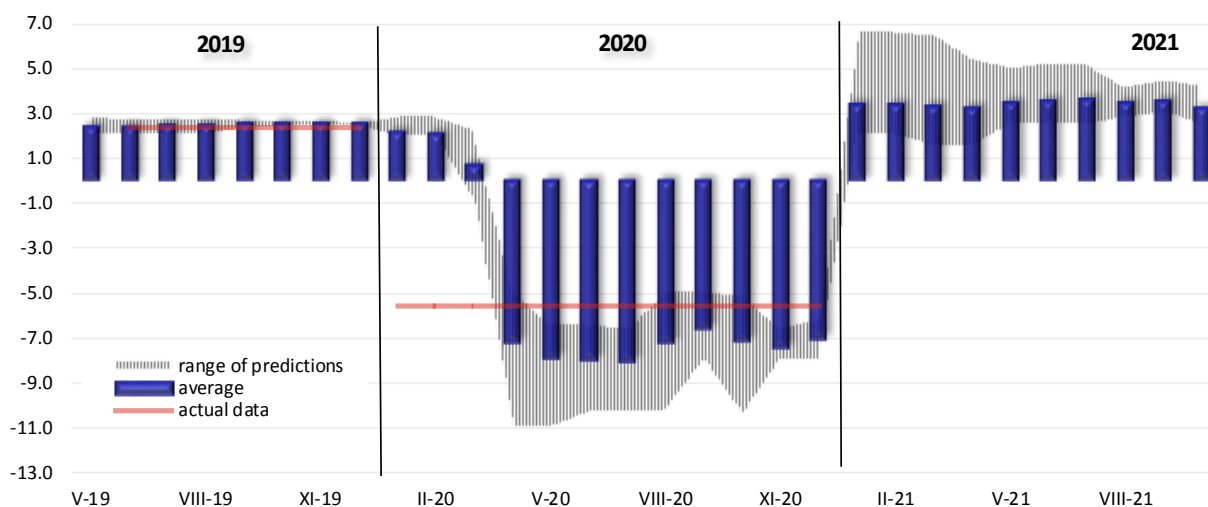
| Date of Prediction | end of year | |
|--------------------|-------------|------------|
| | current | current+1Y |
| X.20 | -7.1 | 4.3 |
| XII.20 | -7.0 | 3.5 |
| III.21 | 3.3 | 4.4 |
| V.21 | 3.5 | 4.5 |
| VI.21 | 3.6 | 4.3 |
| VIII.21 | 3.4 | 4.7 |
| IX.21 | 3.5 | 4.7 |
| X.21 | 3.3 | 4.7 |

The analysts' view on domestic economic growth this year was revised downwards. The average forecast decreased by 0.2 percentage point to 3.3%. However, the outlook for next year remains 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 greater decrease in the minimum values, while the range of the maximum and minimum values of the forecasts for next year widened due to an increase in the maximum values.

The analysts believe that rapid inflation will reduce consumers' appetite to shop, although the labour market in the Czech Republic continues to be strong and demand remains high. In addition, persisting problems with materials and some necessary components will continue to have a negative impact on industrial production. Production has already been restricted in the automotive industry, for example, as indicated by reports from Škoda Auto, among others. Soaring energy prices also pose a significant risk. This, combined with price growth stemming from material and components shortages, is reducing business confidence and raising production costs. The renewed growth in the number of new cases of COVID-19, both in the Czech Republic and elsewhere, cannot be ignored either.

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

(%)

| October 2021 | 2W repo rate | | 12M PRIBOR | | 5Y IRS | | 10Y IRS | |
|-----------------|--------------|------|------------|------|--------|------|---------|------|
| | 1M | 1Y | 1M | 1Y | 1M | 1Y | 1M | 1Y |
| minimum | 1.75 | 2.00 | 1.70 | 1.80 | 2.54 | 2.51 | 2.10 | 2.34 |
| average | 1.94 | 2.69 | 2.51 | 3.11 | 2.91 | 3.08 | 2.64 | 3.00 |
| maximum | 2.25 | 3.25 | 2.85 | 3.70 | 3.20 | 3.80 | 3.00 | 4.20 |

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 |
| 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 |
| X.21 | 1.94 | 2.69 | 2.51 | 3.11 | 2.91 | 3.08 | 2.64 | 3.00 |

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

| | 2W repo rate | 12M PRIBOR | 5Y IRS | 10Y IRS |
|--------|-----------------|---------------|-----------|------------|
| 15.10. | 1.50 | 2.47 | 2.91 | 2.60 |

Analyst opinion on the future path of key interest rates has shifted upwards again. Five analysts are expecting the 2W repo rate to be raised by 25 basis points to 1.75% at the CNB Bank Board meeting on 4 November. However, most of the respondents (twelve, to be precise) is predicting an increase of 50 basis points, with one analyst even expecting an increase of 75 basis points. The one-year outlook is also higher, up 50 basis points on average to 2.7%. One respondent is even expecting the 2W repo rate to stand at 3.25% one year ahead. The respondents also speculate that the CNB will significantly increase both the inflation outlook and the implied interest rate path in its new forecast. The CNB will want to influence the inflation expectations of households and companies so that they remain close to the inflation target in the long term. A potential pick-up in inflation poses a risk of an even more rapid increase in key interest rates. By contrast, the uncertainty associated with a slowdown in industry has the opposite effect on rates.

Accelerating inflation and the surprisingly large increase in the CNB's key interest rates in September contributed to the growth of PRIBOR reference interbank rates and IRS swap rates, as well as their forecasts. As expected, the largest upward shift was recorded for the PRIBOR rate forecasts (of 86 basis points for the one-month forecast and 59 basis points for the one-year forecast). The IRS rate forecasts were raised by 36–52 basis points, while both the yield curve

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

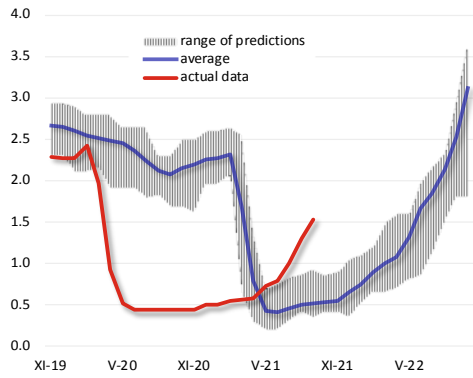
(%)

| 2W repo rate level in 1Y (%) | 1.5 | 1.75 | 2.00 | 2.25 | 2.5 | 2.75 | 3 | 3.25 |
|-------------------------------------|-----|------|------|------|-----|------|---|------|
| number of analysts - current survey | 0 | 0 | 1 | 1 | 6 | 4 | 5 | 1 |
| -previous survey | 1 | 2 | 3 | 2 | 4 | 1 | 0 | 0 |

constructed from the current market swap rates and the one-month and one-year forecasted levels are inverted.

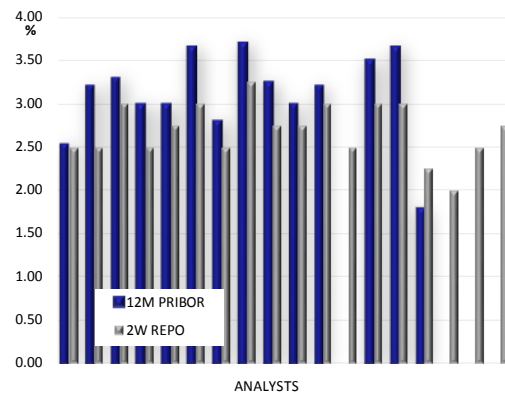
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



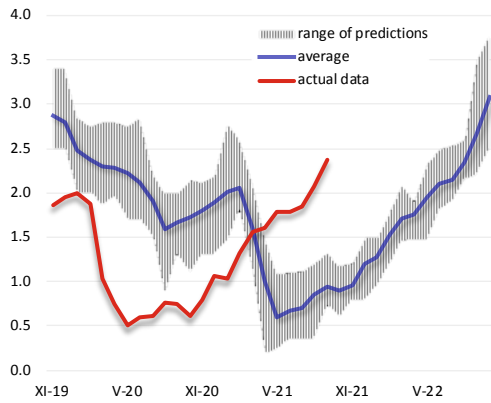
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



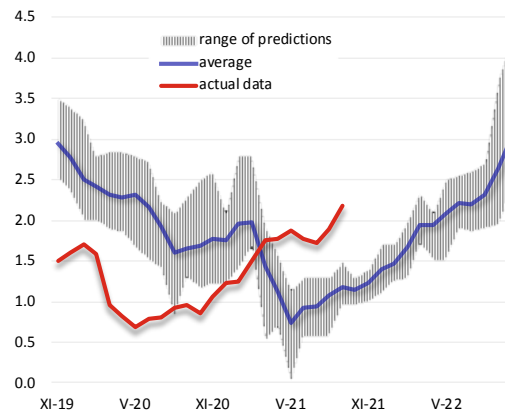
5Y IRS AT 1Y

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 |
| 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 |
| X.21 | 25.33 | 24.73 |

EXCHANGE RATE FORECAST

| October 2021 | EUR/CZK | |
|-----------------|---------|-------|
| | 1M | 1Y |
| minimum | 25.17 | 23.50 |
| average | 25.33 | 24.73 |
| maximum | 25.43 | 25.30 |

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

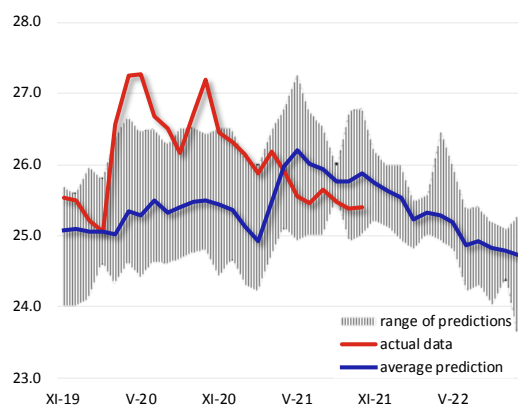
| | |
|--------|-------|
| 15.10. | 25.41 |
|--------|-------|

The koruna depreciated by 9 hellers to CZK 25.41/EUR on the foreign exchange market compared to the September survey. The analysts' average one-month forecast was also revised to weaker levels, albeit to a lesser extent, shifting by 4 hellers to CZK 25.33/EUR. By contrast, the one-year forecast moved to slightly stronger levels again and the koruna is thus expected to stand close to CZK 24.73/EUR in October 2022.

The koruna did not respond much to the election outcome or to high inflation. The analysts believe that external factors are currently having a greater effect on the koruna due to the growing uncertainties in the global economy, while the impact of domestic conditions is only limited. This was evidenced by the response to the unexpectedly high increase in the CNB's key rates when the koruna strengthened but subsequently returned to weaker levels without any major problems. The long-term appreciation trend should continue to be supported by the convergence scenario and the expected widening of the interest rate differential vis-à-vis the euro area (which may already be priced into the exchange rate of the koruna). However, the koruna may divert temporarily from this trend towards weaker levels, at least in the weeks ahead, due to the aforementioned global uncertainty. By contrast, an early return to confidence and the fading of major global risks may lead to a faster appreciation.

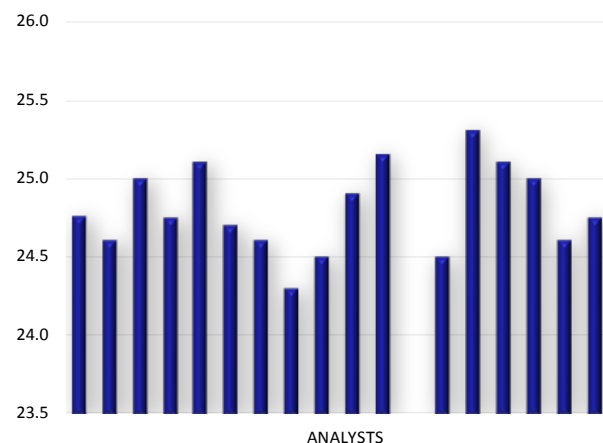
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

| October 2021 | year end | |
|-----------------|----------|------------|
| | current | current+1Y |
| minimum | 3.3 | 3.1 |
| average | 5.0 | 5.0 |
| maximum | 7.5 | 7.0 |

FORECAST FOR NOMINAL WAGE GROWTH

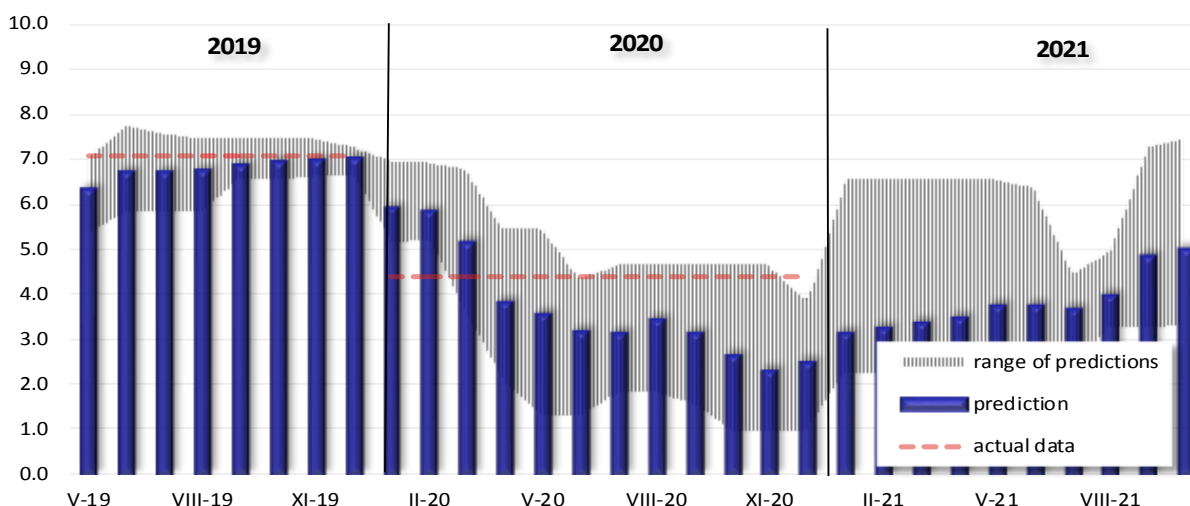
(%)

| Date of Prediction | year end | |
|--------------------|----------|-----------|
| | current | current+1 |
| 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 |
| X.21 | 5.0 | 5.0 |

The domestic labour market is in good shape. According to data from Czech labour offices, it continued to recover in September, with the share of unemployed persons falling by 0.1 percentage point again, to 3.5%. By international comparison, Czech unemployment continues to be the lowest of all the EU countries. The registered unemployment rate fell despite the usual wave of school leavers entering the labour market after the holidays and seasonal work beginning to decline. Firms restarted production after the end of the summer holidays and are hiring new employees, especially manual workers in manufacturing and construction, despite material and component shortages. External demand for labour is also naturally playing a role, with cross-border commuters in border areas returning to work. The analysts believe that the labour market will remain strong and the number of vacancies will continue to exceed the number of job seekers. Combined with higher expected inflation, this will exert upward pressure on growth in nominal wages. The analysts' forecasts shifted upwards to the same extent and to the same level for both monitored years. According to the average estimate, nominal wages in the Czech economy will thus grow at a minimum rate of 5% this year and the next, which is 0.2 percentage point more than in the September survey.

NOMINAL WAGE GROWTH

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



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