

Financial Market Inflation Expectations

— 11/2021



Czech National Bank — Financial Market Inflation Expectations — 11/2021

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I. SUMMARY

Twelve domestic and three foreign analysts took part in the November survey of financial market inflation expectations. On average, they are expecting domestic economic activity to be lower this year and inflation to be higher at both the one-year and three-year horizons than they did one month ago. Opinions on future key interest rates are much more mixed following the last two monetary policy meetings. However, the majority of the respondents are expecting the CNB to continue to tackle rapid inflation and raise the 2W repo rate by a further 50 basis points in December. According to the analysts, the rapid rise in the price level will naturally be reflected in higher wages, whose forecast has shifted significantly upwards (especially for this year). The outlook for the exchange rate of the koruna against the euro continues to reflect the latest foreign exchange market developments. This time, however, the one-year outlook also mirrors to a greater extent the expected growth in interest rates and hopes of imminent improvements in financial market sentiment.

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	+	+	+	+	+	+	+	+	+	+	+	+
Priyanthi 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, 24 November 2021

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

November 2021	CPI	
	1Y	3Y
minimum	2.8	2.0
average	3.6	2.2
maximum	4.4	2.8

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

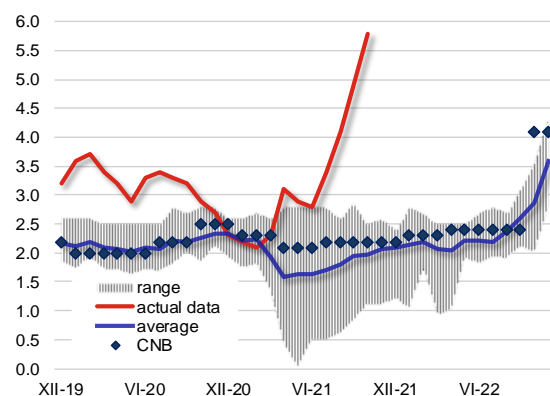
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
XI.20	2.1	2.0	
XII.20	2.1	2.0	4Q: 2.2
III.21	2.1	2.0	1Q: 2.3
V.21	2.2	2.1	
VI.21	2.2	2.1	2Q: 2.4
VIII.21	2.4	2.1	3Q: 2.4
X.21	2.9	2.2	
XI.21	3.6	2.2	4Q: 4.1

Inflation is soaring. According to the latest CZSO data, the year-on-year consumer price index accelerated to 5.8% in October, the highest level since October 2008. Its growth is 0.9 percentage point higher than in September. In month-on-month terms, consumer prices rose by 1%. The rapid price growth was driven by goods and services from almost all categories of the consumer basket, led by housing and transport. The pace of inflation was surprisingly high for many, including some analysts taking part in our survey. The average one-year inflation forecast in our survey has thus increased significantly, up by 0.7 percentage point to 3.6%. By contrast, the three-year forecast is unchanged at 2.2%. The range of the individual estimates is also the same. Both the minimum and maximum values of the one-year forecasts increased by 0.8 percentage point, while those of the three-year forecasts were unchanged.

According to some estimates, inflation will not increase much further but could slowly weaken. This will be aided by a VAT waiver on energy in the last months of this year. However, what will happen after the New Year is fairly uncertain, as many businesses tend to raise their prices in January. Year-on-year consumer price growth could thus climb to above 6% in early 2022. Nevertheless, improvements in supply chains, combined with a stronger koruna and the impact of higher interest rates, is expected next year to foster a slowdown in year-on-year inflation, which will start to be affected by base effects. The supply side, however, still represents a major risk. Persisting problems could push the year-on-year consumer price index even above 7%.

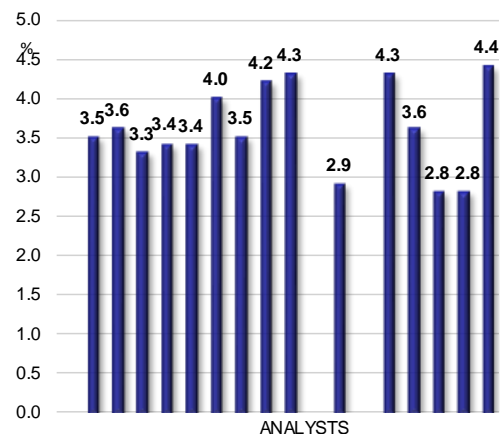
CONSUMER PRICE INDEX

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

(%)

November 2021	end of year	
	current	current + 1Y
minimum	1.9	3.1
average	2.7	4.1
maximum	3.0	5.4

FORECAST FOR GDP GROWTH

(%)

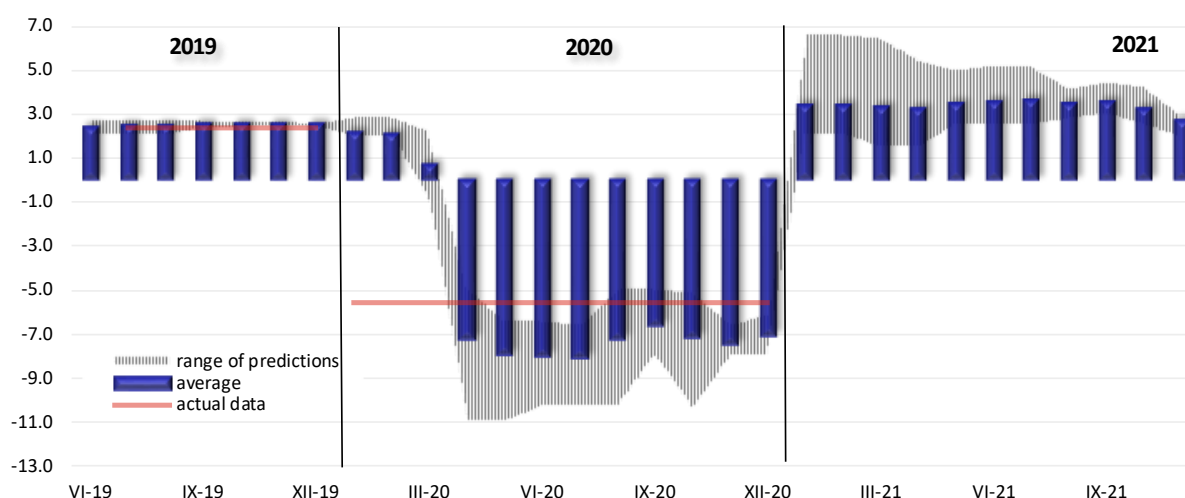
Date of Prediction	end of year	
	current	current+1Y
XI.20	-7.4	3.2
XII.20	-7.0	3.5
III.21	3.3	4.4
V.21	3.5	4.5
VI.21	3.6	4.3
VIII.21	3.4	4.7
X.21	3.3	4.7
XI.21	2.7	4.1

According to a preliminary estimate, gross domestic product grew by 1.4% quarter on quarter and 2.8% year on year in 2021 Q3. The growth is driven mainly by domestic demand, especially final household consumption expenditure and gross capital formation. By contrast, a drop in external demand, which manifested itself in a decline in exports, had an adverse effect on GDP. The preliminary estimates probably disappointed the analysts, who subsequently incorporated them in their forecasts together with the pandemic situation and persisting supply-side problems. The estimates for both 2021 and 2022 were lowered by 0.6 point – to 2.7% for this year and 4.1% for 2022. The range of the individual estimates narrowed distinctly for both monitored years owing to much larger declines in the maximum values.

According to the analysts, the Czech economy is slowing down which could intensify further in the last quarter of this year. However, some analysts consider the GDP growth rate in Q3 as being too slow and expect its upward revision. The problem lies in the automotive sector, which is facing component shortages. However, a surge in energy prices is also adversely affecting the production of other firms. At the same time, high electricity prices may have a negative impact on household consumption. Assuming supply-side problems are resolved, the domestic economy is expected to recover again next year, although risks remain high.

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

(%)

November 2021	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	2.75	2.75	3.60	3.25	3.00	3.10	2.80	3.00
average	3.22	3.50	3.79	3.88	3.46	3.54	3.05	3.32
maximum	3.50	4.00	4.00	4.70	4.00	4.40	3.60	4.00

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
XI.20	0.25	0.31	0.41	0.54	0.69	0.97	0.95	1.22
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
X.21	1.94	2.69	2.51	3.11	2.91	3.08	2.64	3.00
XI.21	3.22	3.50	3.79	3.88	3.46	3.54	3.05	3.32

Following the surprise increase in the 2W repo rate by 125 basis points to 2.75% in November, the analysts are mostly

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.11.	2.75	3.67	3.35	2.90

expecting the Bank Board to raise key rates further at its meeting in December. Two-thirds of respondents (i.e. 10 out of 15) are predicting an increase of 50 basis points to 3.25%, with two even expecting an increase of 75 basis points. By contrast, two analysts are predicting growth of just 25 basis points. Only one analyst expects key rates to be left unchanged.

According to the analysts, in addition to the rapid pace of actual inflation, which is not only driven by supply-side developments and exceeds the CNB's forecast, the CNB's communication also points to a further increase in key rates. Many of them interpret this as the CNB's willingness to tackle high inflation even if it means slower GDP growth. The growth in key rates may not end with an increase in the 2W repo rate in December. On average, the analysts are expecting the 2W repo rate to stand at 3.50% in November 2022 and two of them are even predicting it to be 4.00%. At the same time, some are of the opinion that the CNB could, conversely, ease its monetary policy in the second half of next year due to slowing inflation and a potential appreciation of the koruna. However, the scenario outlined here could naturally be affected by the pandemic situation, the extent of the economic slowdown and the ECB's interest rates.

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

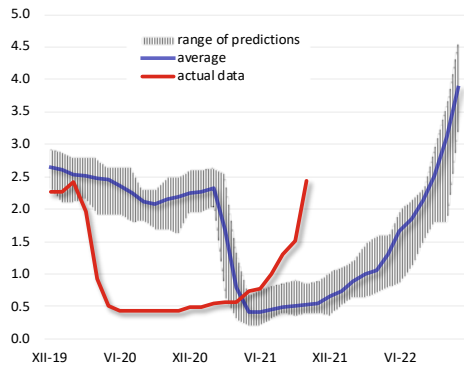
(%)

2W repo rate level in 1Y (%)	2.00	2.25	2.50	2.75	3.00	3.25	3.5	3.75	4.00	4.25
number of analysts - current survey	0	0	0	1	1	2	6	3	2	0
-previous survey	1	1	6	4	5	1	0	0	0	0

The continued pick-up in inflation and the surprisingly large increase in key interest rates was naturally again reflected in reference interbank interest rates and rates of interest rate derivatives, as well as their forecasts. The outlook for the 12M PRIBOR thus moved 128 basis points higher at the one-month horizon and 76 basis points higher at the one-year horizon. The IRS rate forecasts were increased by 32–55 basis points, more for the one-month forecasts. The 5Y rates exceeded the 10Y rates and the spreads between the two maturities widened further.

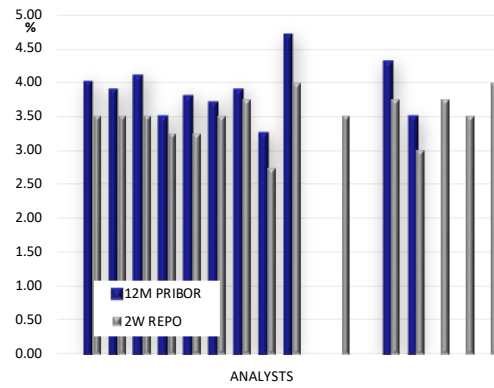
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



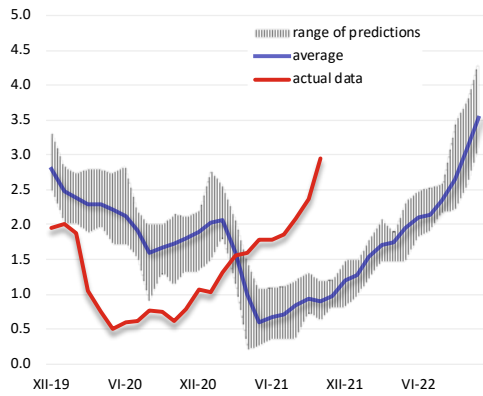
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



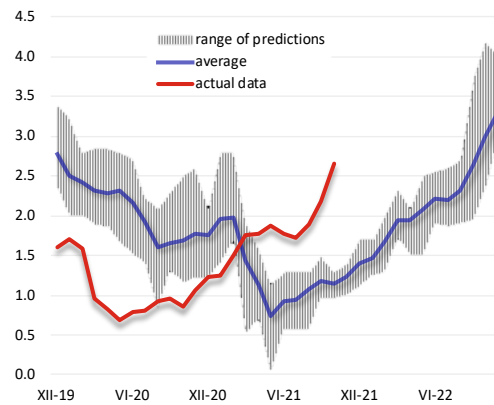
5Y IRS AT 1Y

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
XI.20	26.63	25.75
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
X.21	25.33	24.73
XI.21	25.20	24.49

EXCHANGE RATE FORECAST

November 2021	EUR/CZK	
	1M	1Y
minimum	24.90	23.00
average	25.20	24.49
maximum	25.60	25.10

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

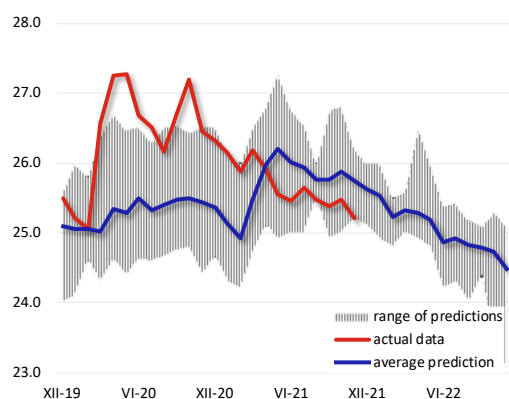
15.11.	25.22
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The koruna appreciated by around 20 hellers to CZK 25.22/EUR on the foreign exchange market compared to the October survey. The analysts' average one-month forecast was also revised to weaker levels, albeit to a lesser extent, shifting to CZK 25.20/EUR. The shift in the one-year forecast was marginally larger (by 24 hellers to CZK 24.49/EUR).

According to the analysts, the appreciation of the koruna on the foreign exchange market in recent weeks not only reflects the surprisingly high November increase in interest rates, but also expectations of further steps by the CNB. In normal circumstances, the koruna would be at stronger levels, but it is being weakened by negative global sentiment (by 50 hellers according to one's respondent's estimate). If the economic situation in the euro area and global market sentiment improve, the koruna could soon strengthen to below CZK 25 to the euro. This should also be aided by a widening interest rate differential, renewed economic convergence towards Western countries and an improvement in foreign trade. Sales of income on international reserves could also foster the koruna's appreciation. However, their impact is perceived by analysts as very small.

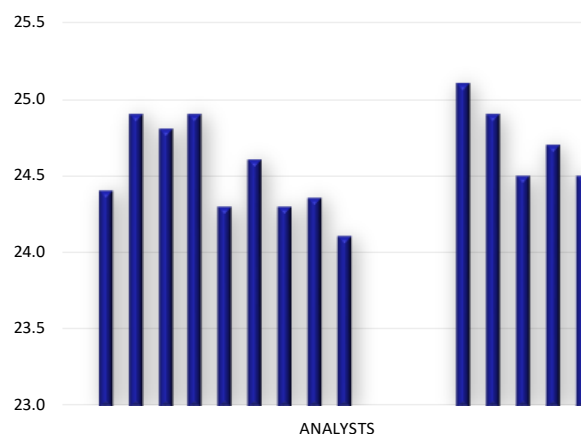
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

November 2021	year end	
	current	current+1Y
minimum	3.0	4.3
average	5.8	5.4
maximum	8.4	7.0

FORECAST FOR NOMINAL WAGE GROWTH

(%)

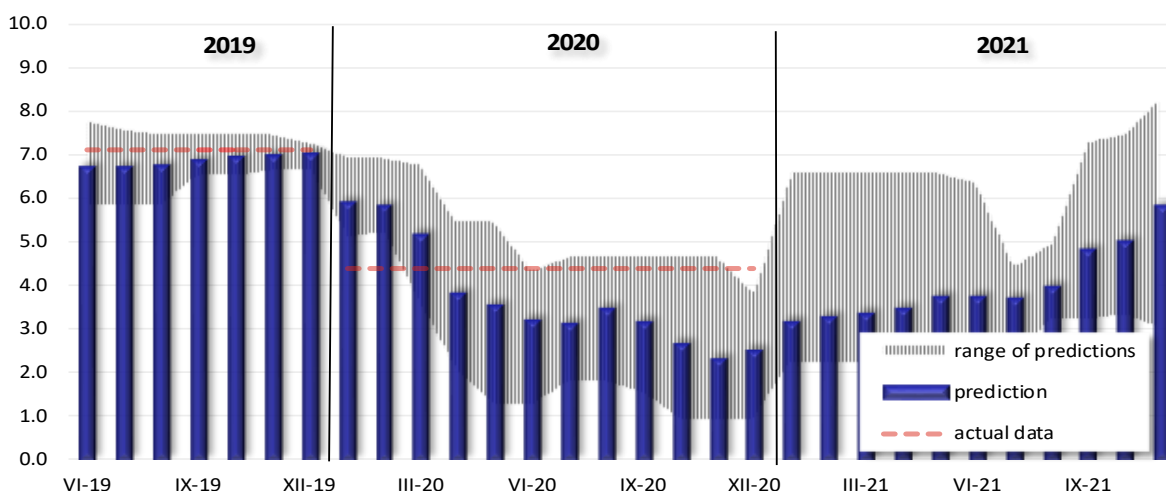
Date of Prediction	year end	
	current	current+1Y
XI.20	2.3	2.7
XII.20	2.5	2.9
III.21	3.4	4.4
V.21	3.8	4.3
VI.21	3.7	4.4
VIII.21	4.0	4.6
X.21	5.0	5.0
XI.21	5.8	5.4

The unemployment rate on the labour market continues to fall thanks to economic recovery despite the termination of government support programmes. Czech labour office statistics showed that the share of unemployed persons dropped to 3.4% in October, down 0.1 pp on September and 0.3 pp on year ago. According to Eurostat, the unemployment rate was again the lowest of all EU countries in September. Data compiled using the International Labour Organisation methodology confirm a similar trend. According to the ILO methodology, the general unemployment rate in the 15–64 age group declined by 0.2 percentage point year on year to 2.8% in 2021 Q3. The analysts' calculations suggest that the unemployment rate is currently near its steady-state level. However, it could drop below this level next year given the expected continued economic recovery. In the rest of this year, however, the rate is expected to be flat due to potential lay-offs in companies which are forced to limit production owing to material shortages.

Economic growth and a low unemployment rate, coupled with high inflation, create room for relatively fast wage growth and enable employees to demand higher wages. This is also indicated by nominal wage growth in 2021 Q2, which reached 11.3% (8.2% in real terms) year-on-year. Naturally, this figure is greatly affected by last year's base effects and wage growth should thus gradually decline. Even so, nominal wages are now expected to grow by 5.8% in 2021 as a whole, up by 0.8 percentage point compared to the October estimate. The outlook for next year is now 5.4%, an increase of 0.4 percentage point on a month earlier.

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