

Financial Market Inflation Expectations

— 12/2021



Czech National Bank — Financial Market Inflation Expectations — 12/2021

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

All the respondents addressed, i.e. fifteen domestic and three foreign analysts, took part in the CNB's December survey. Despite an expected increase in the CNB's key interest rates, the respondents' view of inflation at the one-year horizon has been revised upwards again. The estimate of higher nominal wage growth in 2021 and 2022 is probably linked with this. The forecast for GDP growth this year is unchanged, while the forecast for next year is slightly less optimistic. Given the sizeable uncertainties during 2022, the analysts expect the exchange rate of the koruna to appreciate slightly more slowly than they predicted in the previous 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 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, 22 December 2021

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

December 2021	CPI	
	1Y	3Y
minimum	2.7	2.0
average	3.8	2.2
maximum	5.1	3.2

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

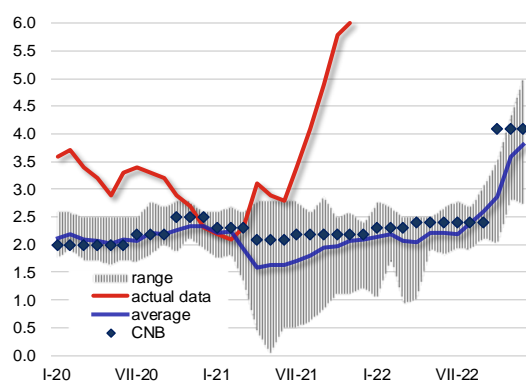
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
XII.20	2.1	2.0	4Q: 2.2
III.21	2.1	2.0	1Q: 2.3
V.21	2.2	2.1	
VI.21	2.2	2.1	2Q: 2.4
VIII.21	2.4	2.1	3Q: 2.4
X.21	2.9	2.2	
XI.21	3.6	2.2	4Q: 4.1
XII.21	3.8	2.2	

Inflation is rising further. The year-on-year consumer price index increased to 6.0% in November, 0.2 percentage point higher than in October. This was due mainly to an increase in transport prices, with prices of fuels and cars rising substantially. In month-on-month terms, the price level rose by 0.2%. Had housing-related prices not declined, however, the growth would have been considerably higher. Prices of electricity and gas fell significantly due to a waiver of VAT. According to the CZSO's tentative calculations, this tax measure lowered the monthly and aggregate year-on-year growth in the consumer price index by 1 percentage point in November. The persisting strong inflation pressures probably prompted the analysts to shift the one-year forecast by 0.2 percentage point to 3.8%, while the three-year forecast stayed at 2.2%. The ranges of the forecasts widened due mainly to an increase in the maximum values.

Inflation in November was lower than estimated, but, taking into account the impact of the VAT waiver, the rate of growth of the price level was surprisingly high. Further developments will depend on how long consumers will not have to pay VAT on energy. Should this measure apply only to November and December, the increase in energy prices would materialise fully in January. Higher prices of heat are also likely to foster growth in inflation. Moreover, there is uncertainty regarding the scale of the price adjustments that businesses traditionally make at the start of the calendar year. The year-on-year growth rate of the consumer price index might thus surge to 7–8% at the start of next year. Inflation could start to slow quickly in the rest of 2022 after supply bottlenecks free up and base effects unwind.

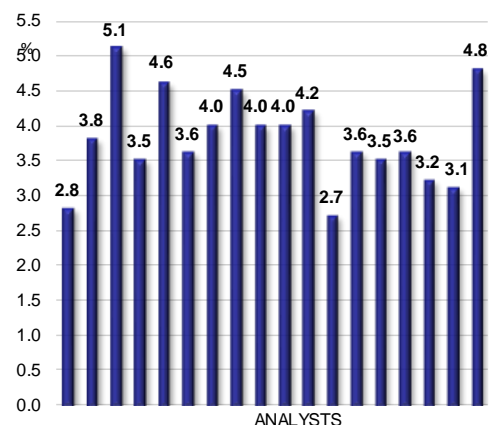
CONSUMER PRICE INDEX

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

(%)

December 2021	end of year	
	current	current + 1Y
minimum	1.9	2.9
average	2.7	4.0
maximum	3.0	5.0

FORECAST FOR GDP GROWTH

(%)

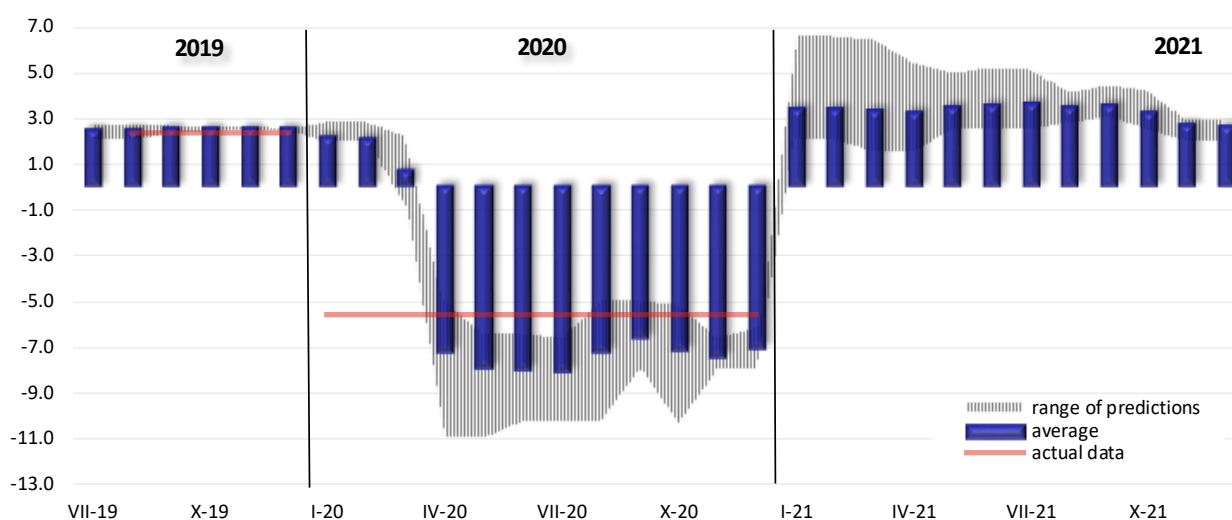
Date of Prediction	end of year	
	current	current+1Y
XII.20	-7.0	3.5
III.21	3.3	4.4
V.21	3.5	4.5
VI.21	3.6	4.3
VIII.21	3.4	4.7
X.21	3.3	4.7
XI.21	2.7	4.1
XII.21	2.7	4.0

The revised GDP growth estimate for 2021 Q3 offers better news. The Czech economy grew by 1.5% quarter on quarter and 3.1% year on year. The CZSO confirmed that the growth had been driven by domestic demand, especially final consumption expenditure of households and general government, but also change in inventories. By contrast, external demand had had a negative effect. The revision had no major impact on the analysts' average forecast. They continue to expect the economy to grow by 2.7% year on year. The outlook for next year is slightly less optimistic, as economic activity is expected to accelerate to 4.0%, 0.1 percentage point lower than in the November survey. The range of the estimates for this year was unchanged, while that of the outlooks for next year narrowed due to a larger decrease in the maximum value.

The analysts fear that the Czech economy will still be negatively affected by supply bottlenecks in 2021 Q4, which persist and have even worsened according to some data. This is due to some extent to the current wave of the pandemic, which may adversely affect consumer sentiment and the final consumption expenditure of households, whose purchasing power is also being reduced by high inflation. If the pandemic retreats and chip supplies to the automotive industry improve, domestic economic growth is expected to accelerate in early 2022. External demand is also expected to recover, and the GDP statistics will also benefit from the low base of 2021 Q1.

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

(%)

December 2021	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	2.75	3.00	3.75	3.18	3.30	3.00	2.50	2.69
average	3.38	3.65	3.95	3.85	3.55	3.47	3.05	3.25
maximum	3.50	4.50	4.26	4.50	4.00	4.20	3.50	3.70

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
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
XII.21	3.38	3.65	3.95	3.85	3.55	3.47	3.05	3.25

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.12.	2.75	3.83	3.46	2.91

In line with the CNB's communications, the analysts were expecting the key interest rates to be raised at the December meeting. The question, however, was by how much. The majority, i.e. 11 of the 18 respondents, ultimately saw the 2W repo rate being increased by 75 basis points. One third of them predicted an increase of 50 basis points, and only one analyst expected the key rates to stay the same.

The expected average 2W repo rate increased from 3.5% to 3.9% at the one-year horizon, too. Although the most respondents still expect this rate to be at 3.5% at the end of next year, the number expecting a higher level has increased. One respondent even judges that it might be raised to 4.5%. According to the analysts, the current rise in interest rates is due mainly to the high inflation and the related increase in inflation expectations. However, they believe that other macroeconomic variables are also higher than forecasted, such as average wage growth, industrial producer price inflation in the euro area, and the weaker koruna exchange rate. In line with the CNB's communications, however, the analysts expect the key interest rates to reverse next year or at the start of 2023 and the central bank to lower them.

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

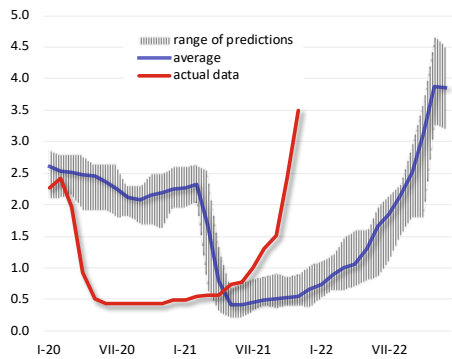
(%)

2W repo rate level in 1Y (%)	2.50	2.75	3.00	3.25	3.50	3.75	4	4.25	4.50	4.75
number of analysts - current survey	0	0	1	3	5	4	4	0	1	0
-previous survey	0	1	1	2	6	3	2	0	0	0

Given the expected increase in the CNB's key interest rates and the rise in the corresponding financial market rates, the one-month forecasts for the 12M PRIBOR reference rate and the 5Y swap rate increased. The one-month 10Y IRS estimate was unchanged from November. On the other hand, the prospect of a decrease in key interest rates next year or at the start of 2023 probably contributed to the decline in the one-year forecasts for both the 12M PRIBOR and the 5Y and 10Y IRS. The slope of the current financial market swap curve remains negative, and the average one-year forecast for the 5Y IRS continues to exceed the forecasted level of the 10Y IRS.

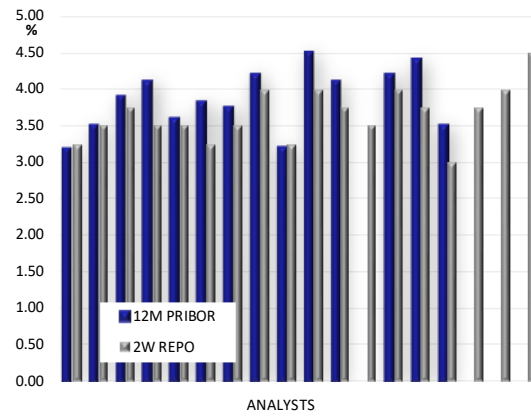
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



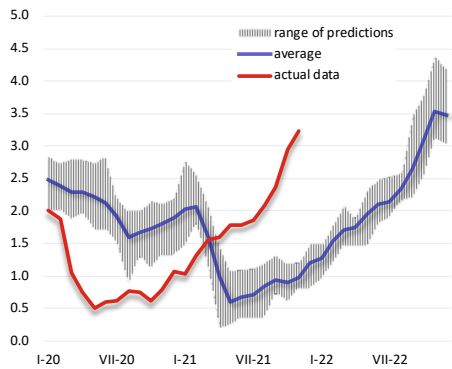
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



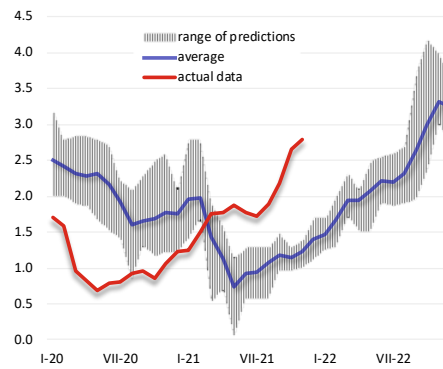
5Y IRS AT 1Y

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
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
XII.21	25.20	24.60

EXCHANGE RATE FORECAST

December 2021	EUR/CZK	
	1M	1Y
minimum	25.00	23.50
average	25.20	24.60
maximum	25.30	25.20

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

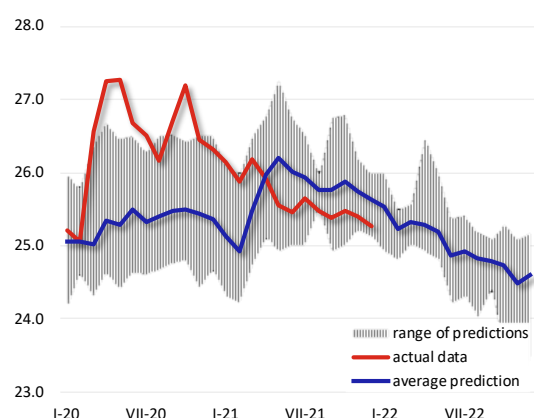
15.12.	25.27
--------	-------

The exchange rate of the koruna was little changed from its level at the time of the November survey, having weakened by 5 hellers to CZK 25.27 to the euro. The analysts' one-month forecast thus remains at CZK 25.20 to the euro. However, there was a change at the one-year horizon. The analysts now expect the koruna to appreciate less next year and the exchange rate to be around CZK 24.60 to the euro at the end of 2022, i.e. 11 hellers weaker than they predicted in the previous survey.

According to the analysts, the exchange rate of the koruna on the foreign exchange market to some extent reflects the worsening pandemic situation and other risks to the European economy. These are keeping the koruna weaker than where it might be in normal circumstances based on economic fundamentals. These risks might subside next year, and a related improvement in global sentiment would move the koruna to stronger levels. However, this scenario is surrounded by heightened uncertainty regarding the pandemic and other factors going forward. The question of whether chip supplies will be renewed and the growing demand fully satisfied remains unanswered. In addition, nervousness on the global market is increasing due to energy price developments, which are difficult to predict at the moment. The koruna exchange rate continues to be affected naturally by the Czech Republic's convergence towards Western European economies and the currently rapidly widening interest rate differential. However, due to the reduction of the CNB's key interest rates, the differential might start to narrow in the second half of next year. Moreover, the appreciation of the koruna might be slowed to some extent next year by rising Fed rates.

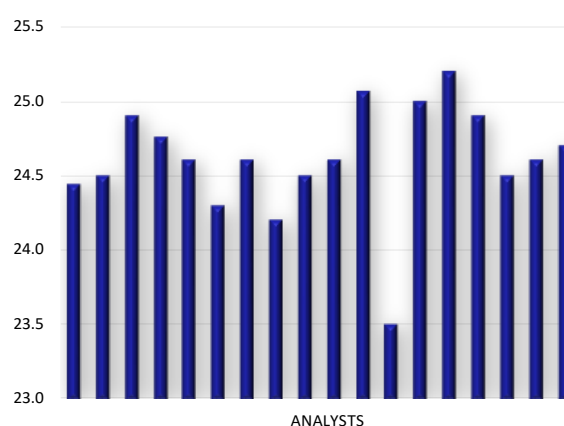
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

December 2021	year end	
	current	current+1Y
minimum	5.4	4.3
average	6.2	5.6
maximum	8.4	7.0

FORECAST FOR NOMINAL WAGE GROWTH

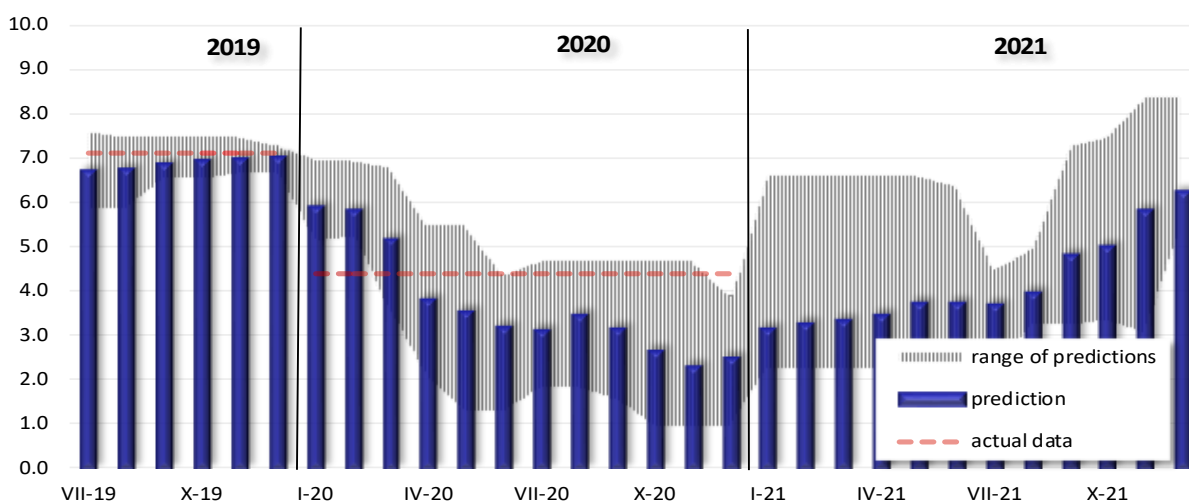
(%)

Date of Prediction	year end	
	current	current+1Y
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
XII.21	6.2	5.6

Despite the gradual end of seasonal work, and with the support of the re-activated Antivirus programme, the share of unemployed persons fell by 0.1 percentage point month on month to 3.8% at the end of November. Compared to the same month a year earlier, it dropped by 0.5 percentage point. According to Eurostat data, the unemployment rate in the Czech Republic remains at the lowest level in the EU. The average gross nominal wage meanwhile rose by 5.7% year on year to CZK 37,499 in 2021 Q3. With inflation at 4.1%, this represents a real increase of 1.5%. According to some of the analysts, it is important to note that, due to tax changes, income received by employees for work done has increased substantially more this year. The scenario that employers would not increase nominal wages and would keep the effect of the reduction in the tax burden on labour for themselves thus did not materialise. According to some of the analysts, the nominal wage growth notwithstanding the complicated pandemic situation shows clearly that the labour market is very tight and quality employees are in short supply, which virtually represents a return to the pre-pandemic conditions. In line with the above, and probably due to the rising inflation, the analysts revised their nominal wage growth forecasts upwards. Wages are expected to grow by 6.2% year on year in 2021. This is 0.4 percentage point higher than predicted in November. The outlook for next year is now 5.6%, i.e. 0.2 percentage point higher 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