

Financial Market Inflation Expectations

— 4/2022



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I. SUMMARY

Once again, fifteen domestic and three foreign analysts sent in their contributions to the April survey. The data received, which also capture the initial expected impacts of the war in Ukraine, reveal that inflation expected by analysts increased again at the one-year horizon. It remains slightly above the 2% inflation target at the three-year horizon. Most respondents believe that the CNB will have to combat the intensive inflation pressures by means of tighter monetary policy, i.e. a higher level of key interest rates, than expected last month. The outlook for economic output this year and the next is less optimistic, but given the still tight labour market, nominal wages are expected to grow at a relatively high pace. Their expected growth rate next year is now higher than in March on average. The analysts also believe that the koruna will have only very limited room for strengthening in the next 12 months and the appreciation trend will thus be very gradual.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
Jiří Polanský, Česká spořitelna	+	+	+	+								
David Marek, Deloitte Czech Republic	+	+	+	+								
Jan Vejmělek, Komerční banka	+	+	+	+								
Patrik Rožumberský, Unicredit Global Research	+	+	+	+								
Helena Horská, Vít Hradil, Raiffeisenbank		+	+	+								
Petr Dufek, Banka CREDITAS	+	+	+	+								
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	+	+	+	+								
Jan Bureš, ČSOB			+									
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 April 2022

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

April 2022	CPI	
	1Y	3Y
minimum	3.0	2.0
average	4.7	2.2
maximum	6.2	3.0

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

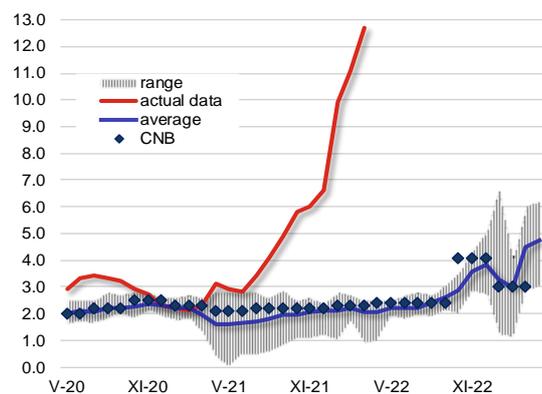
Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
IV.21	2.0	2.1	
V.21	2.2	2.1	2Q: 2.4
VI.21	2.2	2.1	
VIII.21	2.4	2.1	3Q: 2.4
X.21	2.9	2.2	4Q: 4.1
I.22	3.2	2.2	
III.22	4.5	2.2	1Q: 3.0
IV.22	4.7	2.2	

Inflation keeps increasing and does not cease to surprise. The year-on-year consumer price index was 12.7% in March, up by 1.6 percentage points on a month earlier. This was again mostly attributable to prices of housing, transport and food. Consumer prices recorded a month-on-month increase of 1.7% in March. The economic developments and the latest information made the analysts adjust the one-year inflation forecast, up by 0.2 percentage point to 4.7%. The three-year forecast saw no change and the analysts thus expect on average that the growth rate of the price level will stabilise during this time window and inflation will be only 0.2 pp above the CNB's long-term inflation target. The range of the individual forecasts was unchanged at both the one-year and three-year horizons; the minimum and maximum values grew symmetrically for one-year forecasts, while remaining unchanged for three-year forecasts.

According to the analysts, inflation is due mainly to supply effects, while demand factors (e.g. the overheated labour market, strong household consumption and expansionary fiscal policy) are gradually fading. However, supply pressures in the form of higher prices of energy, fuels and food will continue to increase headline inflation in the coming months, despite weaker economic performance due to the negative effects of Russia's invasion of Ukraine. After peaking around the middle of this year, inflation is expected to gradually decrease according to some analysts. But it is not likely to come closer to the inflation target during 2023; this might not occur until 2024.

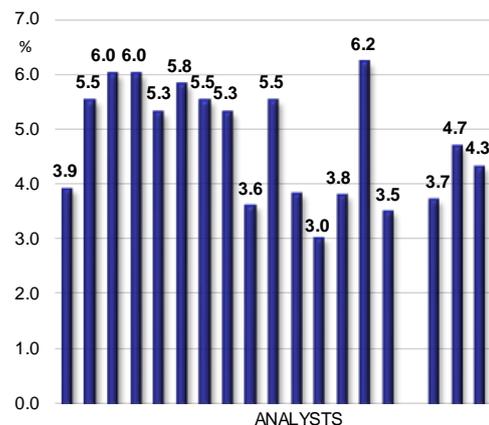
CONSUMER PRICE INDEX

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

(%)

April 2022	end of year	
	current	current + 1Y
minimum	0.6	0.9
average	1.9	3.0
maximum	3.2	4.8

FORECAST FOR GDP GROWTH

(%)

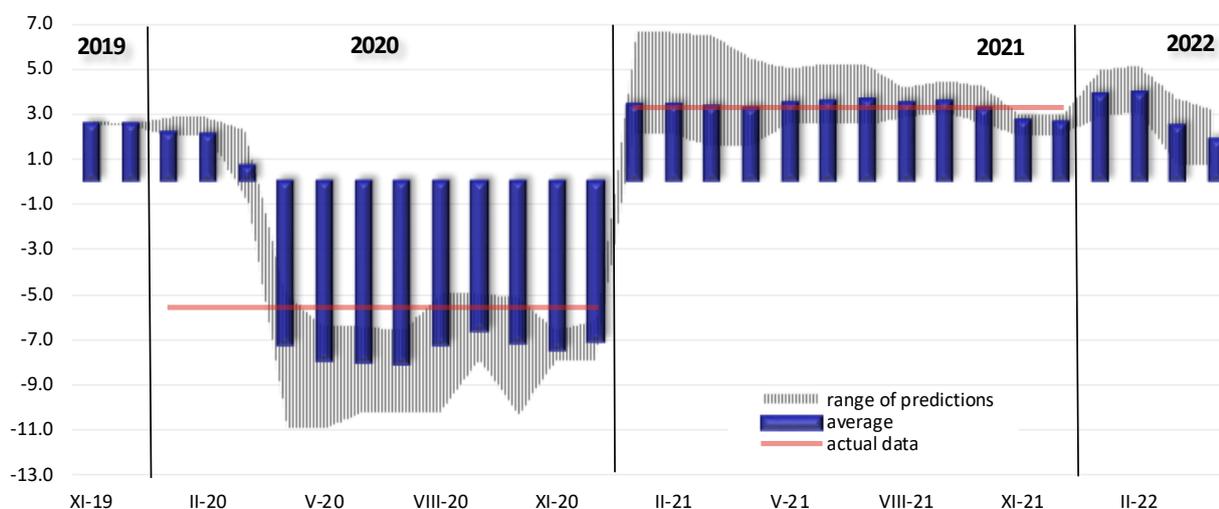
Date of Prediction	end of year	
	current	current+1Y
IV.21	3.2	4.4
V.21	3.5	4.5
VI.21	3.6	4.3
VIII.21	3.4	4.7
X.21	3.3	4.7
I.22	3.9	4.0
III.22	2.5	3.2
IV.22	1.9	3.0

The second revised CZSO estimate confirmed year-on-year growth in the Czech economy of 3.3% in 2021 as a whole and 3.6% in 2021 Q4. Only the quarterly statistics recorded a slight downward correction (of 0.1 percentage point) to 0.8%. However, the impacts of the persisting war in Ukraine made the analysts view the future economic developments in the Czech Republic even less optimistically than a month ago. Domestic economic growth is expected to slow to 1.9% this year. This is 0.6 percentage point less than in the March survey. An economic recovery is expected next year, but only to 3.0%, i.e. 0.2 percentage point less than a month ago. The range of the individual forecasts for 2022 narrowed due to a decline in the maximum value; the most pessimistic estimate expects growth close to economic stagnation this year. An increase in the highest estimated value resulted in a widening of the range of the forecasts for 2023.

The analysts fear that the war in Ukraine will have deeper negative impacts than expected initially. They believe that economic data will confirm a worsening of the issues in supply chains after they moderated at the start of the year. Moreover, the economy is also adversely affected by strict anti-pandemic measures in China, which extend delivery times. Last but not least, turbulence on commodity markets fosters a further pronounced increase in input prices. In addition, high inflation will have a negative impact on households' purchasing power and consumption. Economic activity will also be naturally undermined by great uncertainty relating to the war and the future global economic setup. However, in addition to the above factors, if Europe decided to switch from supplies of Russian gas and oil to limit the financing of Russia's military activities in Ukraine, this might lead to a drop in Czech GDP of several per cent.

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

(%)

April 2022	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	5.00	4.00	5.10	3.70	4.13	3.00	3.58	2.70
average	5.43	4.90	5.90	5.07	4.94	4.17	4.36	3.83
maximum	5.50	5.75	6.55	5.80	5.72	5.00	5.49	4.53

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
IV.21	0.25	0.68	0.57	1.07	1.55	1.75	1.76	1.94
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
I.22	4.42	4.28	4.82	4.33	4.11	3.66	3.63	3.45
III.22	4.93	4.57	5.18	4.61	4.29	3.88	3.75	3.55
IV.22	5.43	4.90	5.90	5.07	4.94	4.17	4.36	3.83

Most respondents (specifically, 14 of 18) expect key interest rates to be raised further by 50 basis points at the CNB Bank

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.4.	5.00	5.78	4.82	4.28

Board meeting in May. The 2W repo rate is thus expected to be set newly at 5.50%. Three analysts expect it to increase just by 25 basis points and one expects it flat at the current level (5.00%). The analysts believe that the CNB will raise the rates due to inflation standing relatively high above the CNB winter forecast and concerns about second-round effects of high energy prices and growing inflation expectations. The CNB needs to send a clear signal that it is willing to combat inflation. Moreover, higher rates will help keep the koruna exchange rate on a stronger level, which is expected to prevent an increase in import prices. But there are also concerns that the CNB might deliver a greater rate increase than the Czech economy really needs. At the same time, the analysts point out that a change in key rates may ultimately be very far from the current estimates, given the present very difficult situation (with a high inflation rate on the one hand and subdued economic developments due to the severe impacts of the war in Ukraine on the other) and an exceptionally high degree of uncertainty.

As suggested by the table below, the expected level of the future setting of the 2W repo rate shifted again at the one-year horizon, up by more than 30 basis points on average. The wide range of the current one-year outlooks for the 2W repo rate (4.00%–5.75%) also shows the previously mentioned high degree of uncertainty among analysts regarding not only the domestic economic developments.

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

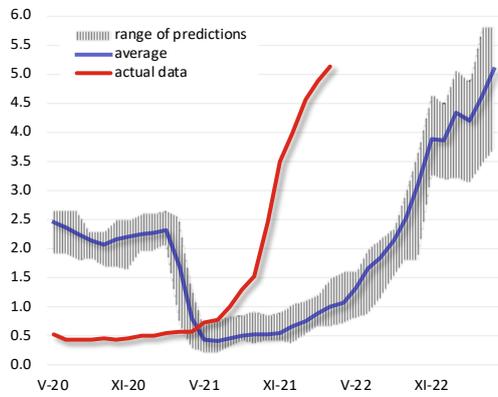
(%)

2W repo rate level in 1Y (%)	3.50	3.75	4.00	4.25	4.50	4.75	5	5.25	5.50	5.75
number of analysts - current survey	0	0	3	0	2	2	5	2	3	1
-previous survey	1	0	3	1	4	4	3	2	0	0

The current PRIBOR market reference interbank rates and the swap derivative rates have surged since mid-March. Their average forecasts also shifted upwards in this survey, by 29–72 basis points, with a more pronounced shift in one-month forecasts. The analysts expect PRIBOR and swap rates to increase further on the market in the coming weeks, but to correct at the one-year horizon and drop significantly below their current levels. It still holds true for swap rates that the average one-month and one-year forecasts for the 5Y IRS exceed the forecasted levels for the 10Y IRS.

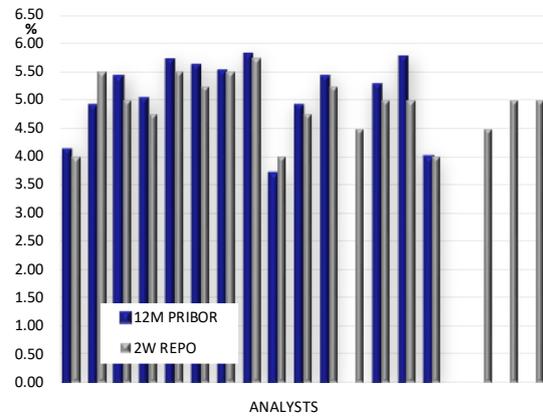
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



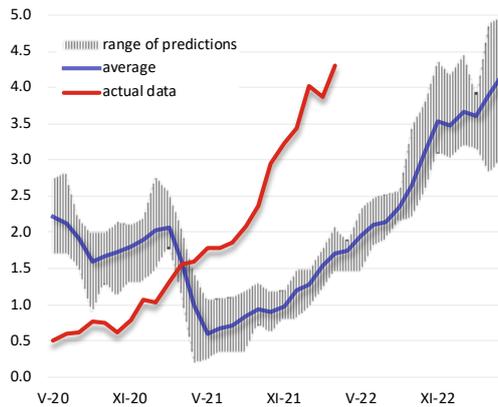
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



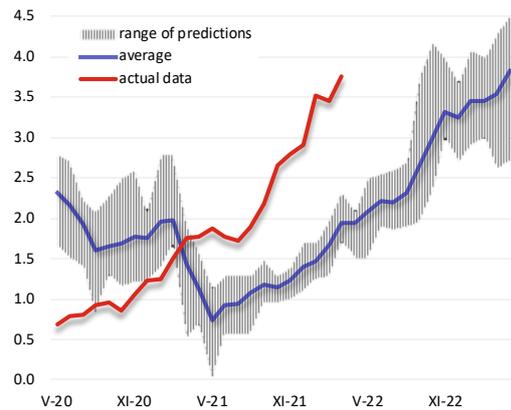
5Y IRS AT 1Y

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
IV.21	25.88	25.29
V.21	25.55	25.19
VI.21	25.36	24.88
VIII.21	25.37	24.82
X.21	25.33	24.73
I.22	24.52	24.30
III.22	24.82	24.47
IV.22	24.42	24.17

EXCHANGE RATE FORECAST

April 2022	EUR/CZK	
	1M	1Y
minimum	24.20	23.00
average	24.42	24.17
maximum	24.75	24.93

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

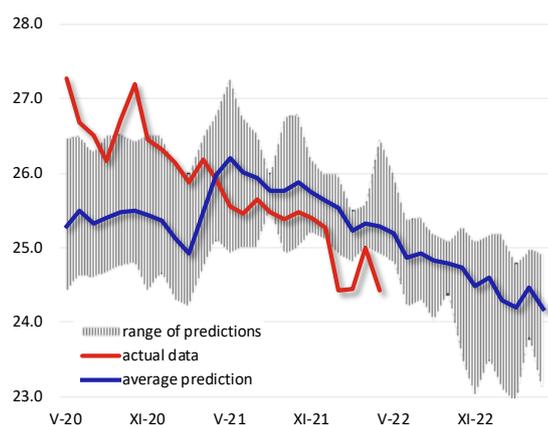
15.4.	24.42
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Geopolitical tensions have eased slightly despite the persisting war and the koruna exchange rate has appreciated by 45 hellers to CZK 24.42 to the euro since mid-March, aided by higher CNB interest rates. The analysts expect it to stay at this level in mid-May. The analysts see room for its appreciation to CZK 24.17 to the euro over the next 11 months, which represents an even more gradual pace of appreciation than estimated in March.

The koruna exchange rate is fundamentally affected by the CNB's monetary policy, the interest rate differential vis-à-vis other countries and to a large extent geopolitical factors, currently dominated by the situation in Ukraine. Unless unforeseen events occur, the analysts believe that the koruna exchange rate might remain relatively stable with a slight appreciation trend in the coming weeks and months. Domestic respondents have slightly greater confidence in the appreciation trend. However, if the CNB's meeting in May surprises, e.g. in the form of a smaller-than-expected monetary policy tightening, some believe that there is a risk that the koruna might depreciate at least temporarily.

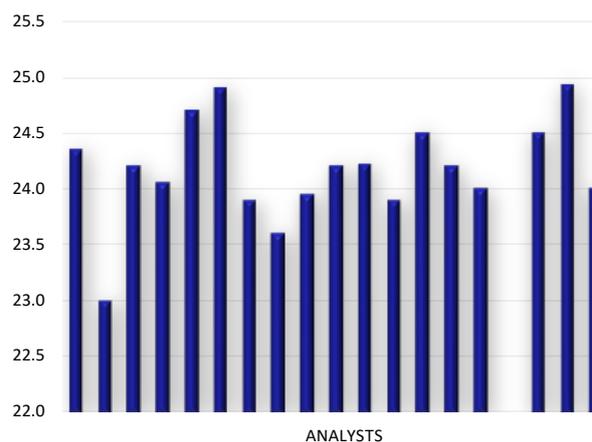
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

April 2022	year end	
	current	current+1Y
minimum	4.0	4.0
average	6.5	5.9
maximum	10.2	10.5

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	year end	
	current	current+1Y
IV.21	3.5	4.2
V.21	3.8	4.3
VI.21	3.7	4.4
V III.21	4.0	4.6
X.21	5.0	5.0
I.22	5.5	5.1
III.22	6.5	5.6
IV.22	6.5	5.9

The Czech Labour Office again reported a decline in the share of unemployed persons of 0.1 percentage point to 3.4%. This represents a decrease of 0.8 percentage point in year-on-year terms. According to the latest available data, the unemployment rate in the Czech Republic remains the lowest of all the EU countries. Although the analysts admit that the economic developments affected by the situation in Ukraine will lead to a gradual increase in the unemployment rate, its levels are expected to remain low. This will allow employees to require a relatively high nominal wage growth rate, which is expected to reach 6.5% according to the analysts' average estimate, the same level as in the March survey. However, this pace will naturally not cover double-digit inflation and real wages will thus decline. On the other hand, the average forecast for nominal wage growth next year rose by 0.3 percentage point to 5.9% and, reflecting the prospects of slowing inflation, some believe the real wage might return to slight growth.

NOMINAL WAGE GROWTH

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

