



FINANCIAL MARKET INFLATION EXPECTATIONS – JANUARY

Financial Markets Department
Operations Analyses Division

2012

Ten domestic and one foreign analyst sent in their contributions to this year's first survey. The annual inflation forecast decreased significantly compared to December 2011. The GDP growth estimate for 2012 fell slightly, but the Czech economy is expected to start recovering in 2013. All the respondents believe that key interest rates will remain at the current level after the CNB Bank Board's February meeting. The 12M PRIBOR forecasts increased somewhat, whereas the IRS rate predictions are still showing mostly downward trends. The forecast for the koruna-euro exchange rate shifted towards weaker levels at the one-month horizon, but was unchanged at the one-year horizon. Nominal wage growth should be even slower this year than expected in the previous survey.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
Martin Lobotka , Česká spořitelna	+											
David Marek , PATRIA Finance	+											
Josef Novotný , Fio banka, a.s.												
Jan Vejmělek , Komerční banka	+											
Pavel Sobišek , Unicredit Global Research	+											
Michal Brožka, Helena Horská , Raiffeisenbank	+											
Petr Dufek , ČSOB	+											
Petr Sklenář , J&T Banka	+											
Radomír Jáč , Generali PPF	+											
Jaromír Šindel , Citi												
Vojtěch Benda , ING Commercial Banking	+											
Tomáš Holinka , Moody's Analytics	+											
FOREIGN ANALYSTS												
Magdalena Polan , Goldman Sachs												
Katya Kocourek , The Economist Intelligence	+											

We would like to thank everyone who contributed to this survey of financial market inflation expectations.

Prague, 25 January 2012

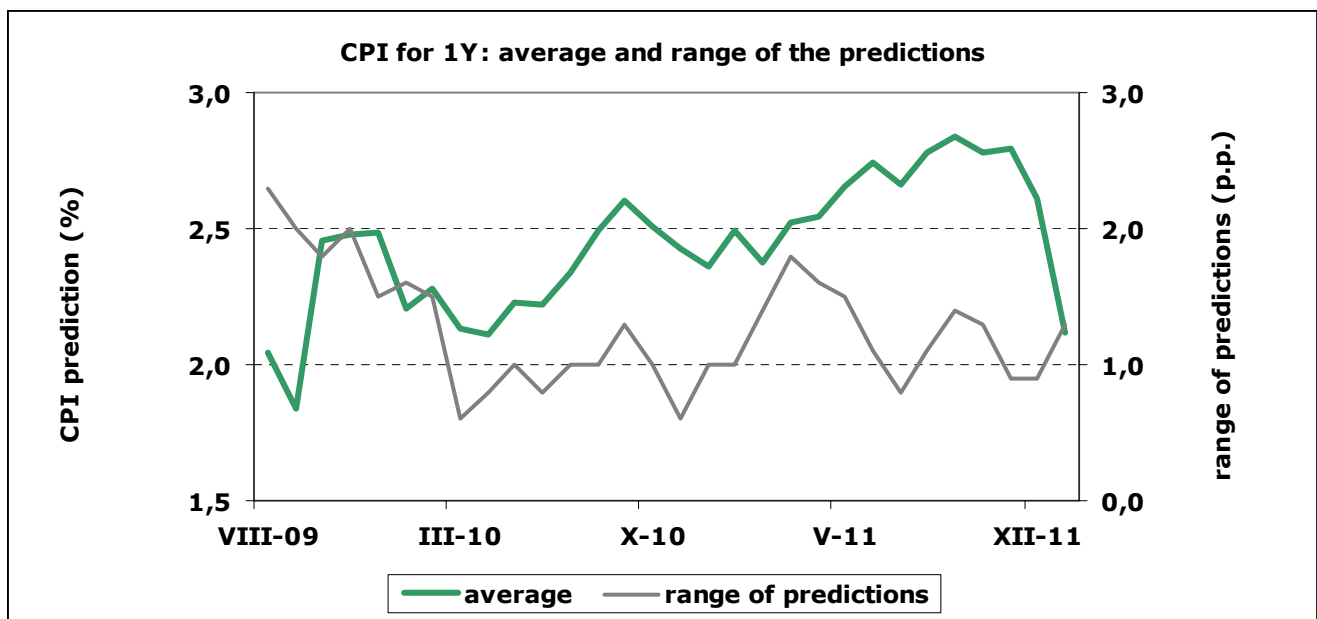
January 2012	1R CPI y/y %	3Y CPI y/y %
minimum	1,5	1,3
average	2,1	2,1
maximum	2,8	2,6

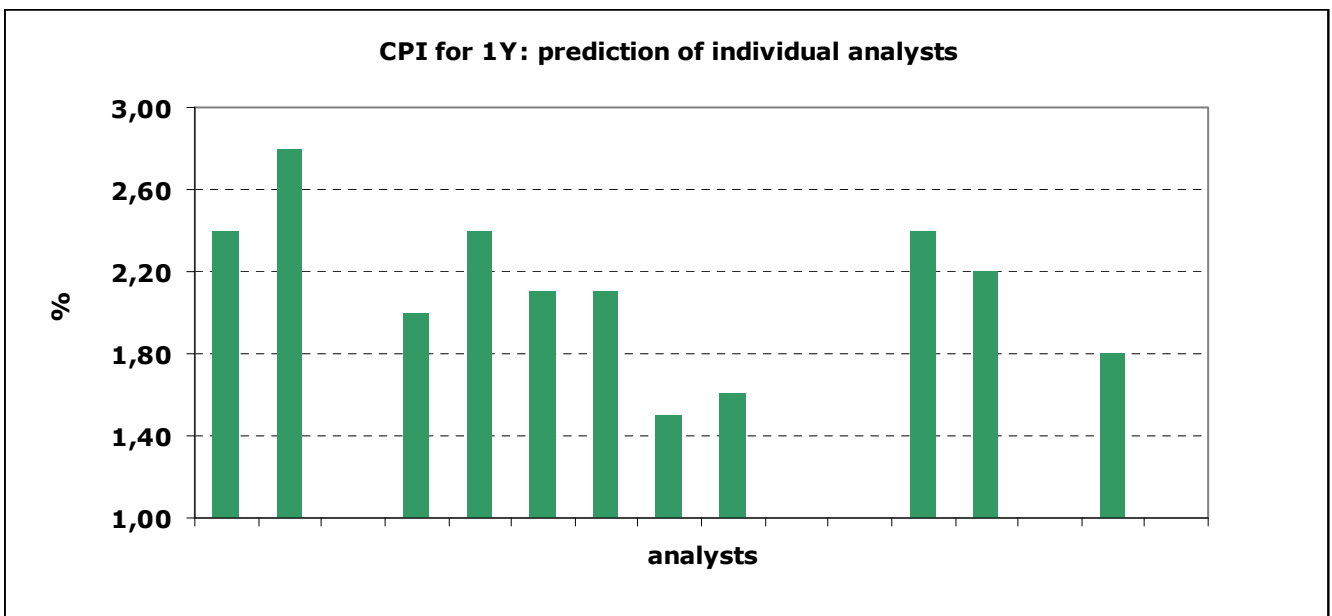
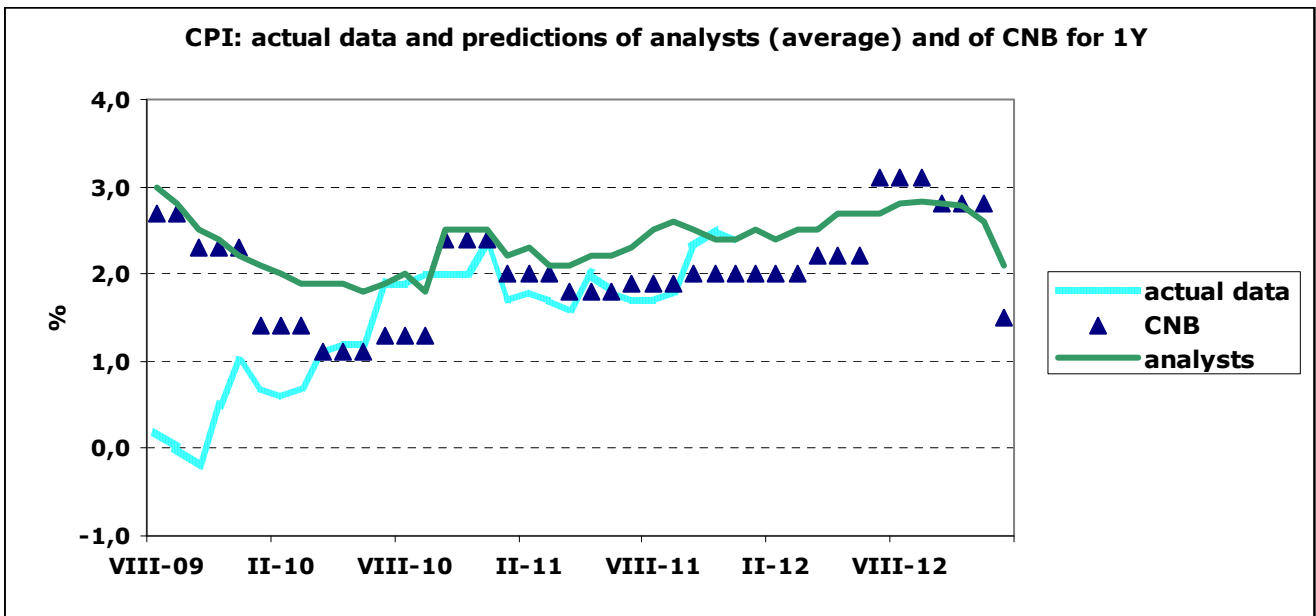
Prediction Horizon	1Y	3Y	1Y CNB %
Date of Prediction	y/y CPI %		
I-11	2,5	2,5	1Q: 2,0
IV-11	2,5	2,6	
V-11	2,7	2,5	2Q: 2,2
VII-11	2,7	2,4	
VIII-11	2,8	2,3	3Q: 3,1
XI-11	2,8	2,2	
XII-11	2,6	2,1	4Q: 2,8
I-12	2,1	2,1	1Q: 1,5

The average annual inflation forecast fell significantly compared to the December survey. This shift is mostly due to technical factors. The VAT increase at the start of this year will create a high comparison base, which will fade in early 2013. The fall in inflation is then expected to be further deepened by the deflationary effect of a second round of VAT changes (the unification of rates at 17.5%). Consumer price inflation decreased to 2.1% at the one-year horizon and should also be at the same level two years later. The average three-year inflation forecast thus converged noticeably towards the inflation target in 2011 and its maximum value is now just 0.6 percentage point above the target (the maximum value in January 2011 was 4%).

The higher consumer price inflation relating to the increase in the reduced VAT rate should peak in January this year. It is then expected to moderate and – according to some analysts – could even fall into the lower half of the inflation band, i.e. below 2%. The low inflation may be threatened only by a weaker koruna or by external shocks such as a sharp growth in oil prices if the conflict with Iran escalates.

The range of the annual forecasts widened compared to the previous survey owing to a larger decrease in the minimum value. At the three-year horizon, the difference between the extreme values was unchanged.



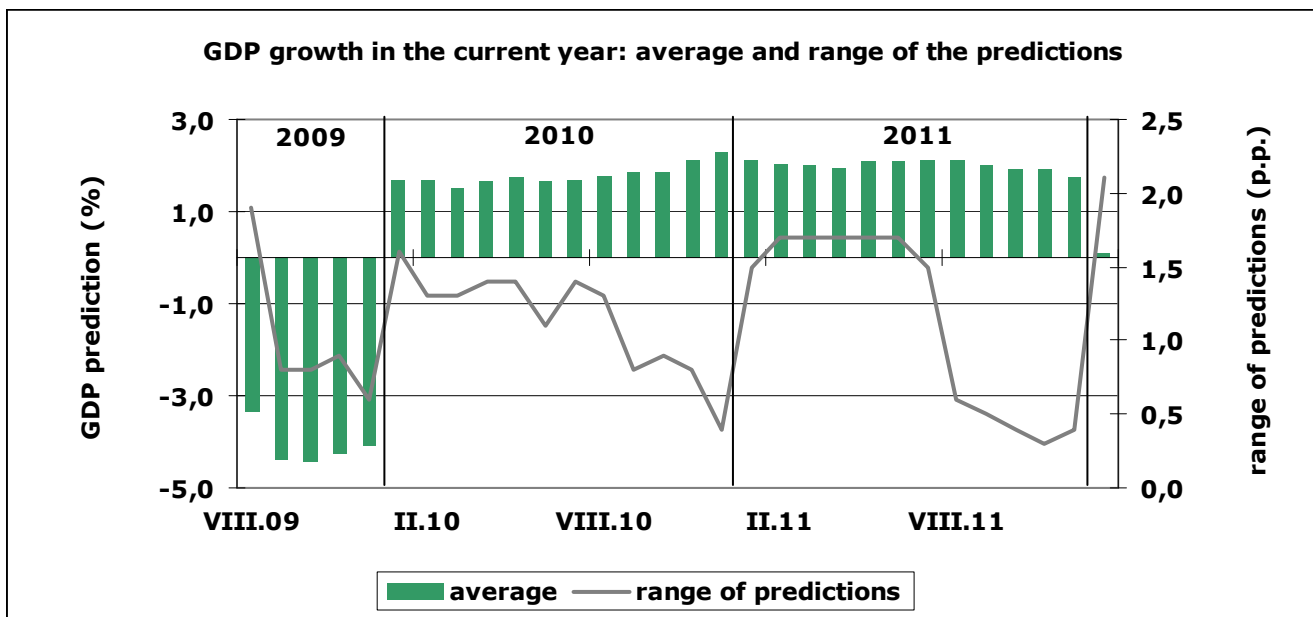


January 2012	end of year current +1Y GDP %	
	minimum	-1,2
average	0,1	2,0
maximum	0,9	3,1

Prediction Horizon Date of Prediction	end of year current +1Y % GDP Growth	
	I-11	2,1
IV-11	2,0	2,7
V-11	2,1	2,8
VII-11	2,1	2,7
VIII-11	2,1	2,2
XI-11	1,9	0,9
XII-11	1,7	0,2
I-12	0,1	2,0

The analysts' opinion regarding economic growth in 2012 worsened slightly. At 0.1%, the average forecast was 0.1 percentage point lower than in the previous survey. In 2013, the growth of the Czech economy should pick up to 2.0%.

The threat of recession in the EMU and weak domestic demand create less than favourable prospects for the Czech economy. Domestic economic activity is thus expected to decline in the first half of this year, but in the second half of the year the Czech economy could return to accelerating growth. Nonetheless, the risks are skewed towards a worse scenario and consist chiefly in weaker-than-expected growth in the Czech Republic's major trading partner countries.



January 2012	1M 1Y 2W Repo Rate %		1M 1Y 12M PRIBOR %		1M 1Y 5Y IRS %		1M 1Y 10Y IRS %	
minimum	0,75	0,50	1,70	1,45	1,64	2,00	2,05	2,20
average	0,75	0,73	1,72	1,83	1,74	2,36	2,23	2,77
maximum	0,75	1,00	1,80	2,10	1,80	3,00	2,30	3,40

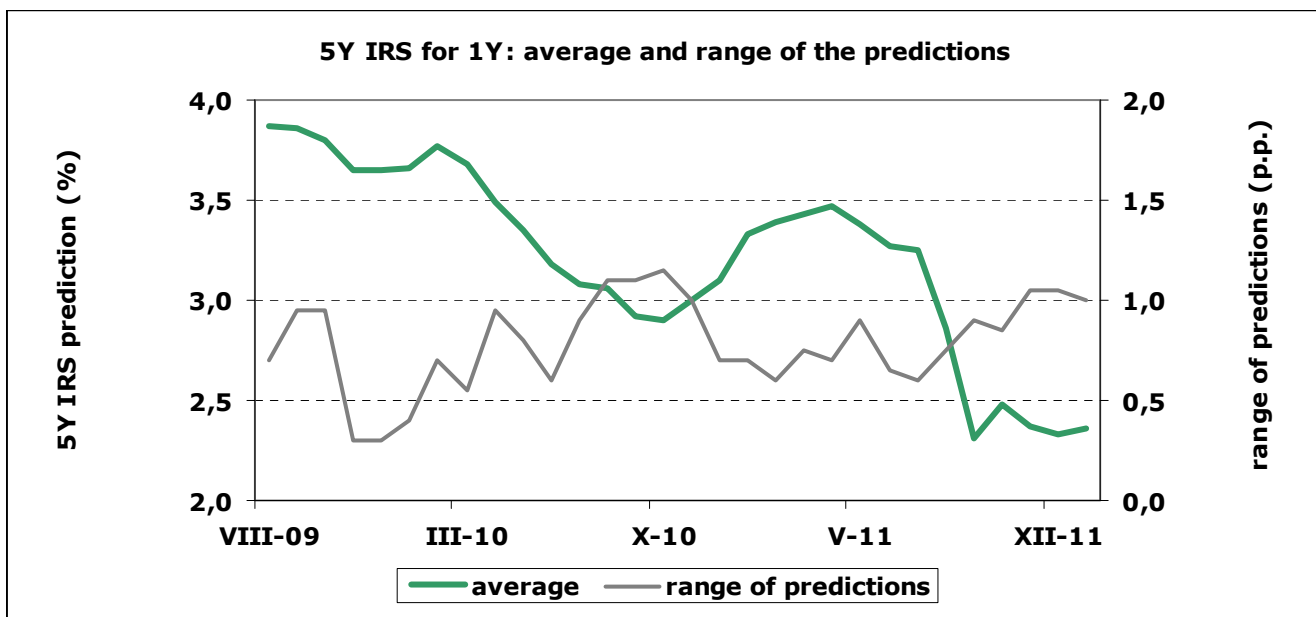
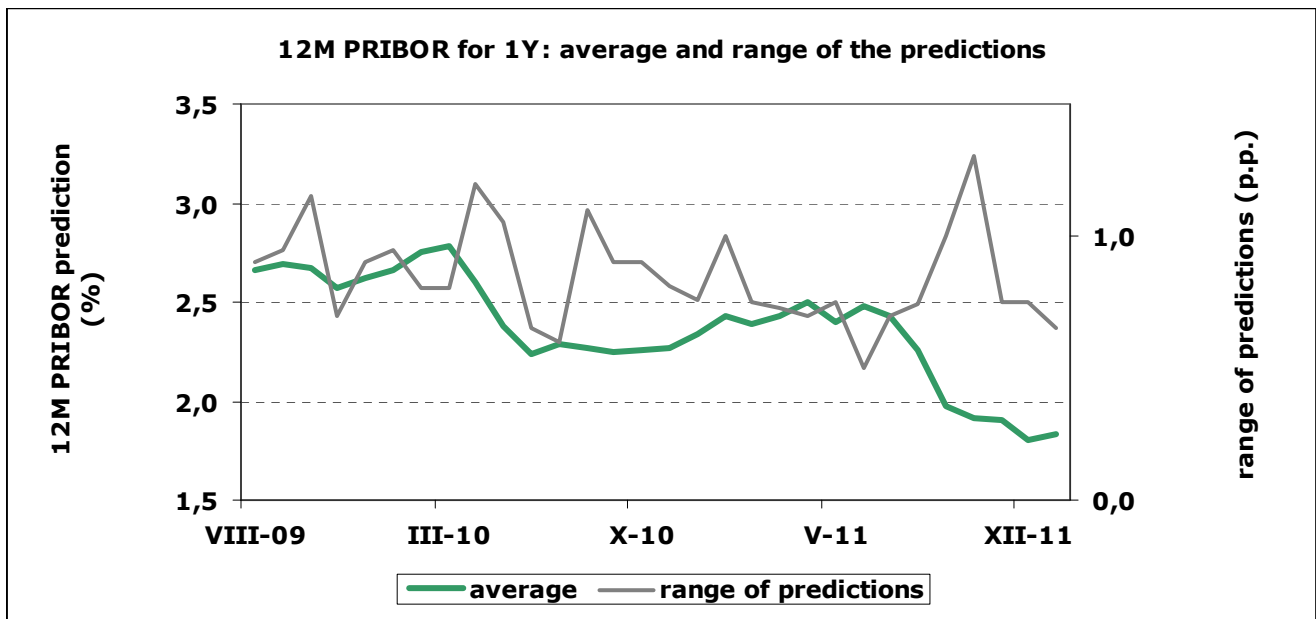
Prediction Horizon	1M 1Y 2W Repo Rate %		1M 1Y 12M PRIBOR %		1M 1Y 5Y IRS %		1M 1Y 10Y IRS %	
Date of Prediction								
I-11	0,75	1,42	1,87	2,42	2,75	3,33	3,29	3,78
IV-11	0,81	1,64	1,87	2,50	2,99	3,45	3,43	3,91
V-11	0,75	1,58	1,78	2,40	2,71	3,38	3,20	3,78
VII-11	0,80	1,58	1,82	2,43	2,40	3,25	2,94	3,68
VIII-11	0,75	1,38	1,75	2,26	2,14	2,86	2,72	3,36
XI-11	0,75	0,80	1,71	1,91	1,74	2,38	2,23	2,84
XII-11	0,77	0,73	1,70	1,80	1,77	2,33	2,26	2,80
I-12	0,75	0,73	1,72	1,83	1,74	2,36	2,23	2,77

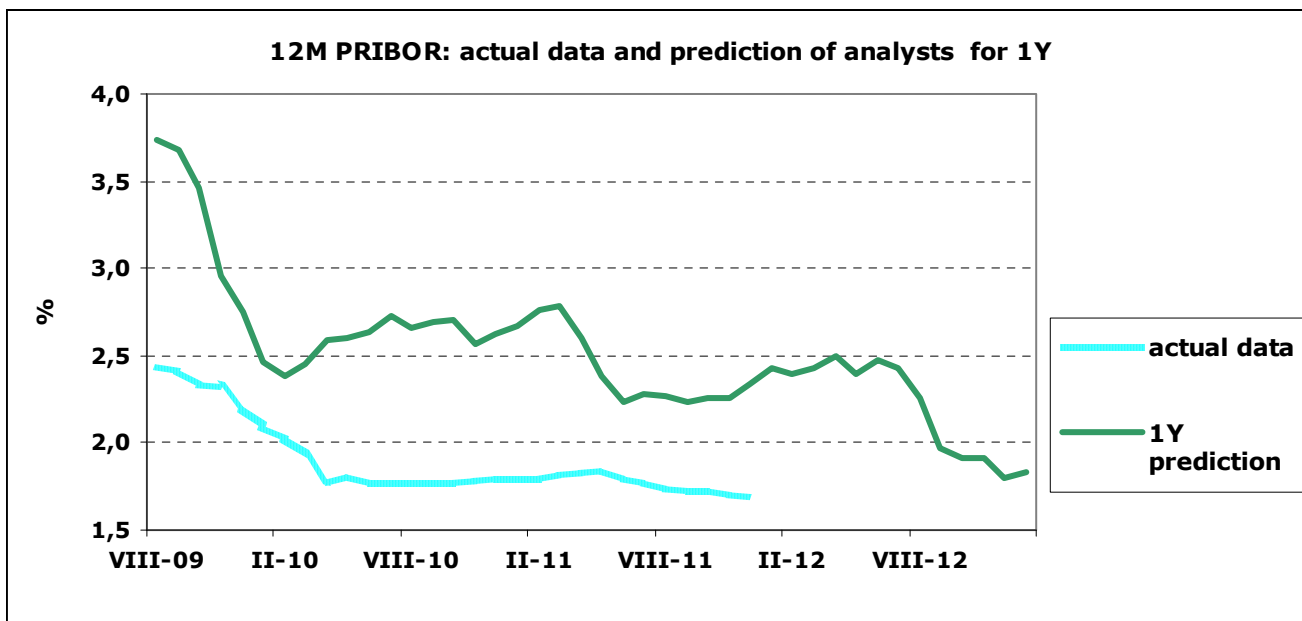
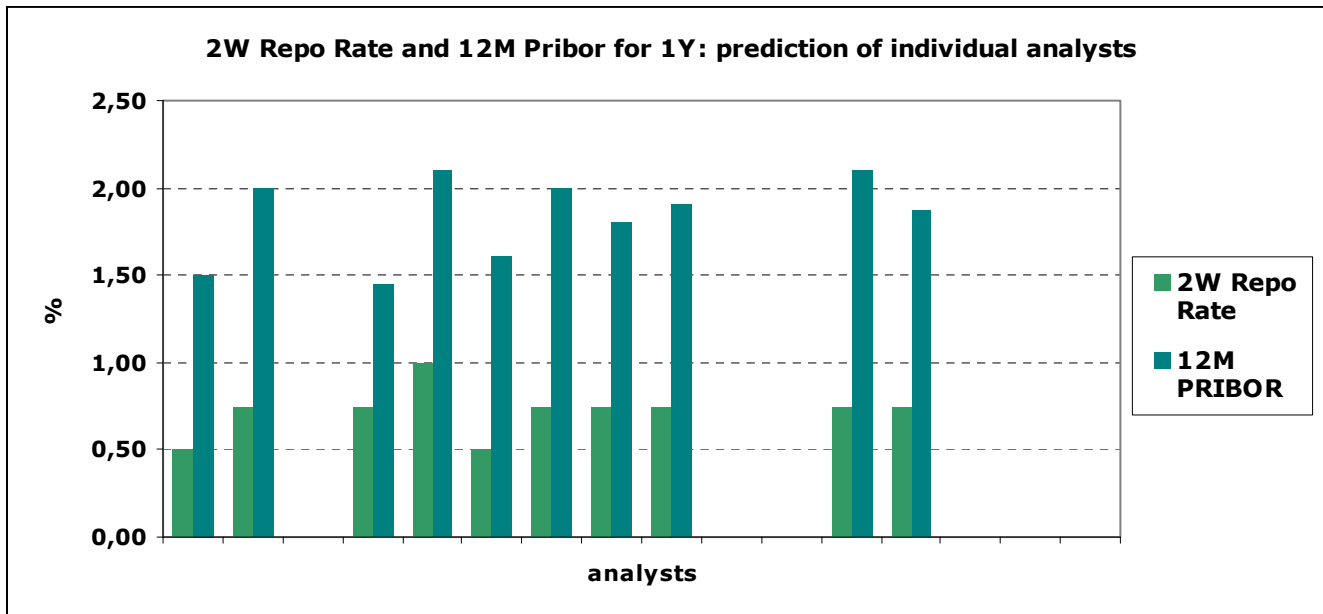
Actual indicator values as of forecast deadline

	2W Repo Rate	12M PRIBOR	5Y IRS	10Y IRS
12.1.	0,75%	1,74%	1,73%	2,23%

All the respondents predict that key interest rates will remain at the current level (0.75%) at the CNB Board's meeting in February. Most of the analysts expect rates not to change much throughout 2012 either. Only two analysts predict that the 2W repo rate will be 0.50% in January 2013, while one analyst believes, by contrast, that it will rise to 1.00%. The koruna-euro exchange rate is an important factor currently giving rise to strong doubts regarding future interest rates. Some analysts believe that if the exchange rate returns to an appreciation trend, and given weak demand pressures, the CNB will have room to lower key rates; by contrast, if the koruna remains weak or depreciates further, the CNB could be forced to tighten monetary policy.

The forecast for the 12M PRIBOR has risen slightly since the previous survey and is thus virtually copying actual interbank market developments. All the IRS forecasts except the 5Y IRS at the one-year horizon are continuing to fall slightly.





Prediction Horizon	1M	1Y
Date of Prediction	Exchange Rate EUR/CZK	
I-11	24,62	23,99
IV-11	24,37	23,76
V-11	24,39	23,79
VII-11	24,34	23,71
VIII-11	24,23	23,75
XI-11	25,52	24,27
XII-11	25,47	24,18
I-12	25,69	24,18

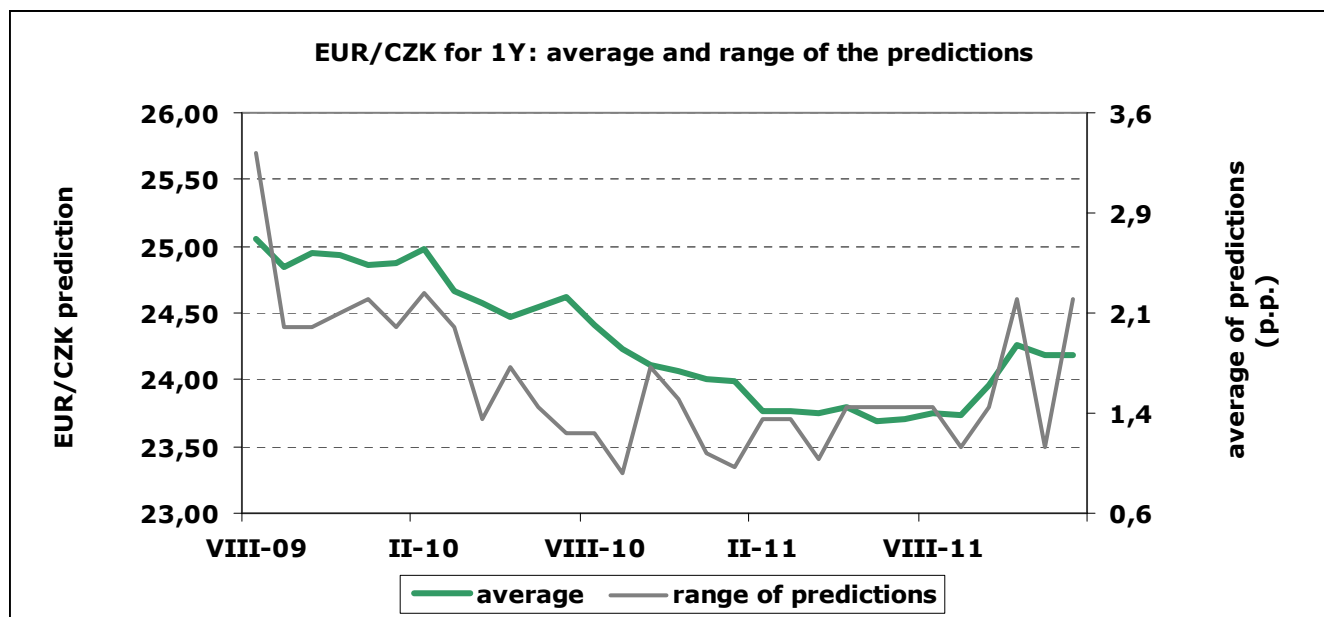
January 2012	1M	1R
	Exchange Rate CZK/EUR	
minimum	25,40	22,80
average	25,69	24,18
maximum	26,20	25,00

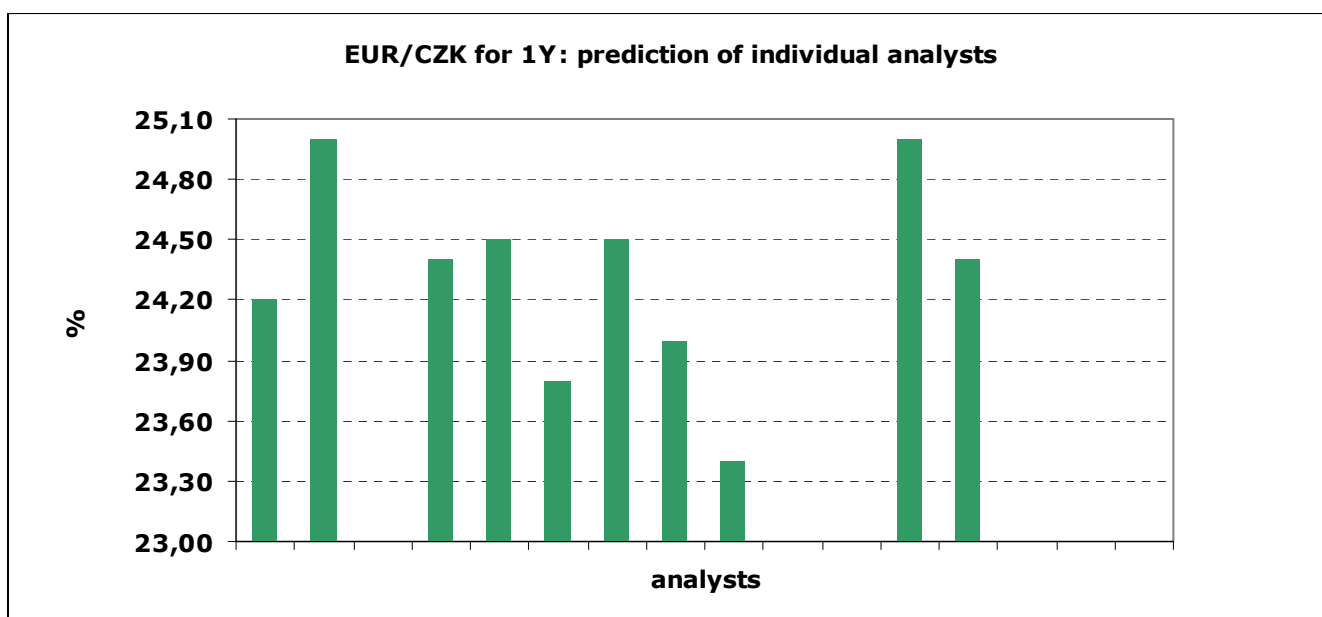
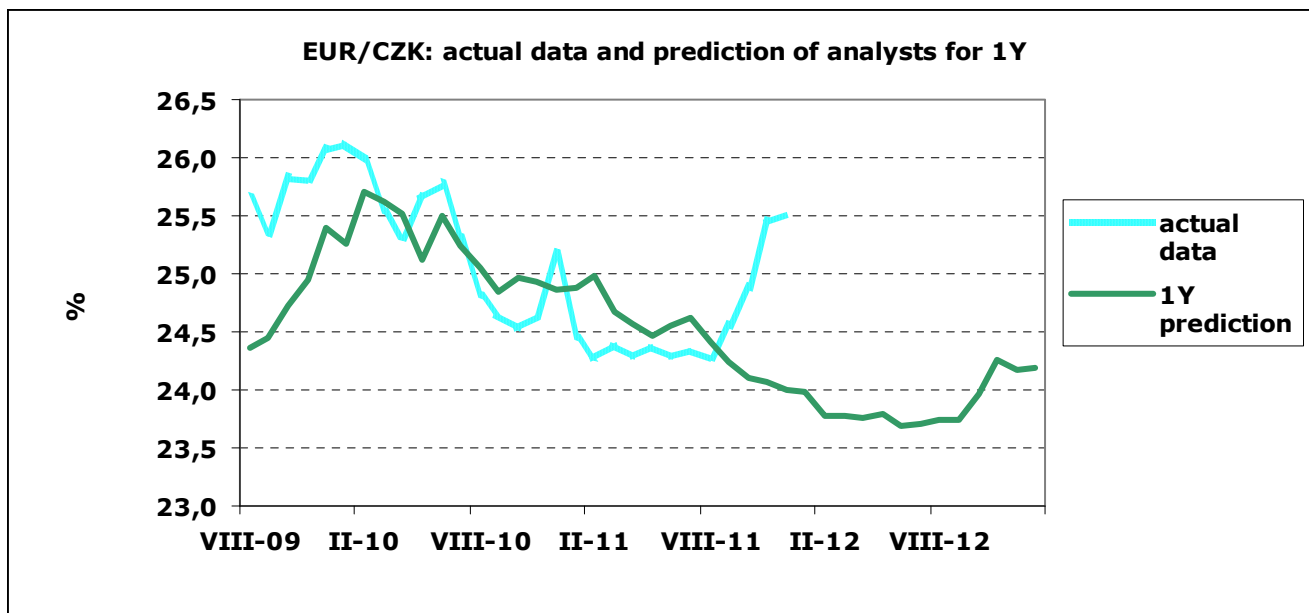
Actual EUR/CZK as of forecast deadline

12.1.	25,58
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The one-month forecast for the koruna-euro exchange rate shifted to weaker values, whereas the one-year forecast recorded no change. According to the analysts, the exchange rate of the koruna to the euro should be about CZK 25.69 in mid-February this year and around CZK 24.18 in a year's time.

The above figures imply that the koruna is expected to depreciate slightly further over the next few weeks. This is due to higher risk aversion linked with the downturn in domestic economic activity and the continuing euro crisis. As the koruna is below its trend level and even below the bound of the long-term trend channel according to the analysts, it should gradually return to an appreciation tendency this year.





January 2012	end of year	
	current	+1Y
	Wages %	
minimum	-0,80	1,00
average	2,24	3,01
maximum	3,30	4,50

Prediction Horizon Date of Prediction	end of year	
	current	current+1Y
	% Wage Growth	
I-11	2,4	4,1
IV-11	2,1	3,9
V-11	2,5	4,3
VII-11	2,3	4,2
VIII-11	2,3	3,6
XI-11	2,3	2,9
XII-11	2,3	2,8
I-12	2,2	3,0

The nominal wage growth estimate for 2012 started to reflect the expectations of a sizeable downturn in economic activity rather more, and was reduced significantly. Average wages are therefore expected to rise by 2.2% year on year in 2012 and pick up to 3.0% in 2013. The analysts who made a distinction between the forecast for wage growth in the business sector and that in the non-business sector expect wages to grow in the business sector by 2.9% this year and by 3.8% in 2013. Wages in the non-business sector are expected to grow at a lower rate. They should increase by 1.5% this year and slow to 1.0% next year.

