

## Measuring financial market inflation expectations – results of the 23rd measurement (March 2001)

The February inflation outturns further bolstered the expectations of stable inflation and interest rates this year. The analysts still view public finances as the greatest pro-inflationary risk.

### 1. Inflation

III-01	y-o-y CPI (%)		y-o-y net inflation (%)	
	1 year	3 years	1 year	3 years
min	3,5	2,5	2,2	2,0
average	4,2	3,4	3,0	2,7
max	5,1	4,1	4,5	3,9

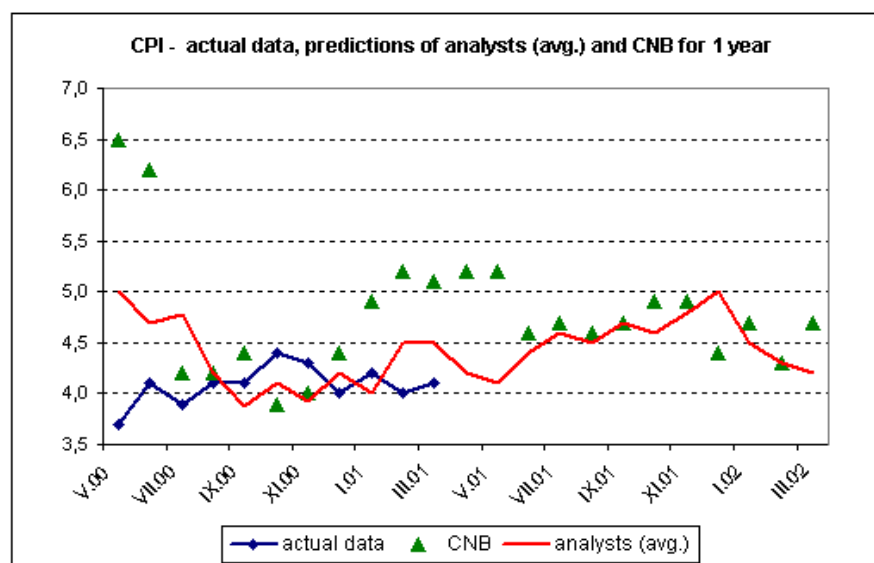
In the wake of the February inflation figures, the analysts' estimates remained virtually unchanged (with changes of between 0.0% and -0.1%) for both indicators and for both forecast time horizons. As for future inflation, the analysts foresee an impact from weaker economic growth, chiefly in Germany, which should slow expected growth in the Czech Republic. Given moderate growth in oil prices, a normal harvest, the unwinding of base effects and wage discipline, they expect a downward trend in consumer price inflation. They assume that in the medium term most, or possibly all, prices will be deregulated and indirect taxes will be harmonised at the EU level, causing the difference between CPI and net inflation to disappear. The analysts continue to view public finances as the greatest pro-inflationary risk, but some expect reforms of the social and pension systems to start after the 2002 elections.

Compared with the CNB forecast, the analysts' estimates are much lower for the CPI, but identical for net inflation. We have been seeing in recent months that the market's view of inflation is much more optimistic than that of the CNB. And if we abstract from the forecast of one of the foreign analysts, who was much more pessimistic than were the others, then both CPI and net inflation would have been 10 basis points lower. The predictions of the individual groups of analysts again differ most for net inflation, with the foreign analysts' forecasts standing 0.2% higher at the one-year horizon and, conversely, 0.4% lower at the three-year horizon than those of the domestic respondents. For the CPI their estimates are either identical or differ negligibly.

#### The main factors and risks which may affect inflation:

- Public finances

Prediction for Month of prediction	y-o-y CPI		CNB	y-o-y net inflation		CNB
	1 Y	3 Y		1 Y	3 Y	
	%	%	%	%	%	%
III-00	4,5	4,2	5,1	3,2	2,8	3,9
VI-00	4,4	3,9	4,6	2,9	2,7	3,0
IX-00	4,7	4,1	4,7	3,4	2,9	2,9
XII-00	5,0	4,0	4,4	3,6	3,1	2,8
I-01	4,5	3,7	4,7	3,2	2,9	2,8
II-01	4,3	3,5	4,3	3,1	2,7	2,5
III-01	4,2	3,4	4,7	3,0	2,7	3,0



## 2. Interest rates

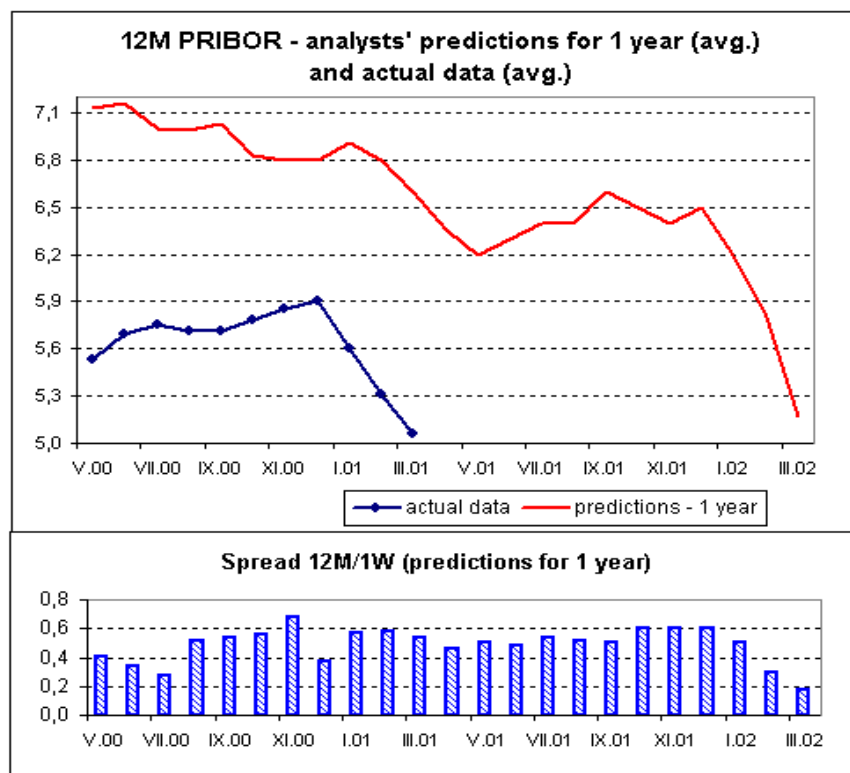
III-01	1W PRIBOR (%)		12M PRIBOR (%)		spread 12M/1W (%)		5Y IRS (%)	
	1 month	1 year	1 month	1 year	1 month	1 year	1 month	1 year
min	4,9	4,6	5,0	4,8			5,5	5,5
average	5,0	5,2	5,2	5,5	0,2	0,3	5,9	6,4
max	5,1	5,8	5,5	6,2			6,3	7,3

The analysts still expect a further rate reduction of between 0.2% and 0.4% at both the short-term (one-month) and medium-term (one-year) horizon and at both the short and long end of the curve. The curve's slope should thus remain unchanged.

Some analysts (foreign in particular) even believe that the CNB's rate cuts were a key signal for strong interest in bonds, since they expect a possible further rate reduction this year. In this connection they foresee a need for a more proactive CNB policy (compared with the ECB) to promote investment-driven economic growth. By the time inflation reaches low levels, they thus envisage sufficient room for secondary objectives such as economic growth.

Prediction for Month of prediction	1W PRIBOR		12M PRIBOR		spread 12M/1W		5Y IRS	
	1 M	1 Y	1 M	1 Y	1 M	1 Y	1 M	1 Y
	%	%	%	%	%	%	%	%
III-00	5,3	6,1	5,8	6,6	0,5	0,5	6,9	7,6
VI-00	5,3	5,8	5,6	6,3	0,3	0,5	6,8	7,3
IX-00	5,3	6,0	5,8	6,6	0,5	0,5	6,9	7,5
XII-00	5,3	5,9	5,9	6,5	0,6	0,6	7,1	7,4
I-01	5,3	5,8	5,6	6,2	0,4	0,5	6,6	7,0
II-01	5,3	5,5	5,4	5,8	0,2	0,3	6,3	6,7
III-01	5,0	5,2	5,2	5,5	0,2	0,3	5,9	6,4

The predictions of the individual groups of analysts (domestic and foreign) do not significantly differ this month, diverging by a maximum of 0.1% at the one-year horizon. The same applies to the expected slope of the curve, with domestic analysts' estimates again 10 basis points higher.



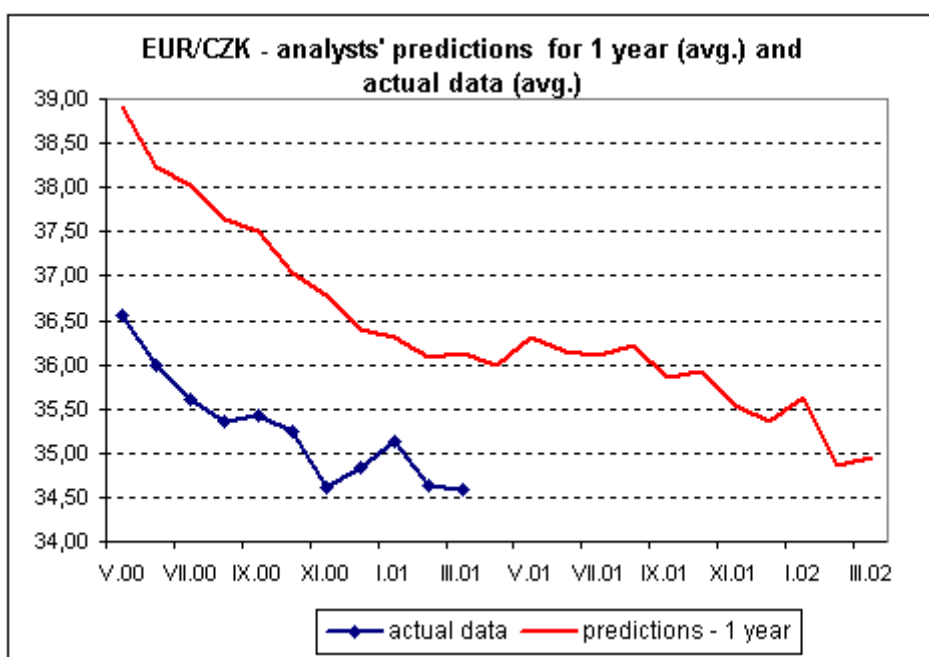
### 3. Exchange rate

III-01	EUR/CZK	
	1 month	1 year
min	34,50	34,00
average	34,69	34,95
max	34,80	36,40

Prediction for Month of prediction	exchange rate 1 month 1 year EUR/CZK	
III-00	35,60	36,13
VI-00	36,23	36,14
IX-00	35,36	35,86
XII-00	34,87	35,35
I-01	35,23	35,63
II-01	34,70	34,85
III-01	34,69	34,95

Compared with the previous month the estimates of the koruna's exchange rate remained virtually unchanged, with a strengthening beyond 35.000 CZK/EUR still expected. Given the substantial FDI inflows the analysts see no relevant impact on the exchange rate from the change in the interest rate differential. Some of the foreign respondents even believe that the CNB should focus more on lowering rates so as to foster an investment-friendly environment, even though this might lead to increased FDI inflows.

At the one-month horizon, the predictions of the domestic analysts differ only negligibly from those of the foreign analysts. But at the one-year horizon the domestic agents, as in previous months, foresee the koruna around 50 hellers weaker than do the foreign respondents. Again the estimates are influenced primarily by one of the domestic agents, who expects the exchange rate to exceed 36.000 CZK/EUR.



Prague, 15th March 2001