

Measuring financial market inflation expectations – results of the 24th measurement (April 2001)

The only moderate rise in prices in March further bolstered the expectations of stable inflation this year and consequently also the expectations of only a small rate increase at the longer end of the curve and a negligible increase in its slope. The koruna's exchange rate remains under the influence of FDI inflow. The analysts view public finances as the greatest pro-inflationary risk.

1. Inflation

IV-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	4,0	3,4	2,7	2,7
max	4,5	4,5	3,5	3,7

The only moderate March price growth led the analysts to adjust their predictions downward at the one-year horizon for both indicators (by 0.2% for CPI inflation and by 0.3% for net inflation). For the longer time horizon (three years) the estimates were the same as in March. The inflationary pressures thus still remain modest, according to the analysts. As in March, according to a number of comments, the economic slowdown (chiefly in Germany) will probably slow expected growth in the Czech Republic. The inflation indicators will also be affected partially by decreasing base effects. As a result of continuing deregulation, the difference between CPI and net inflation is diminishing at the longer term horizon (three years) – the difference is 0.7% for April 2004 compared with 1.3% for the preceding year (with the CPI estimates falling and the net inflation forecasts remaining unchanged). The analysts still view public finances as the greatest pro-inflationary risk.

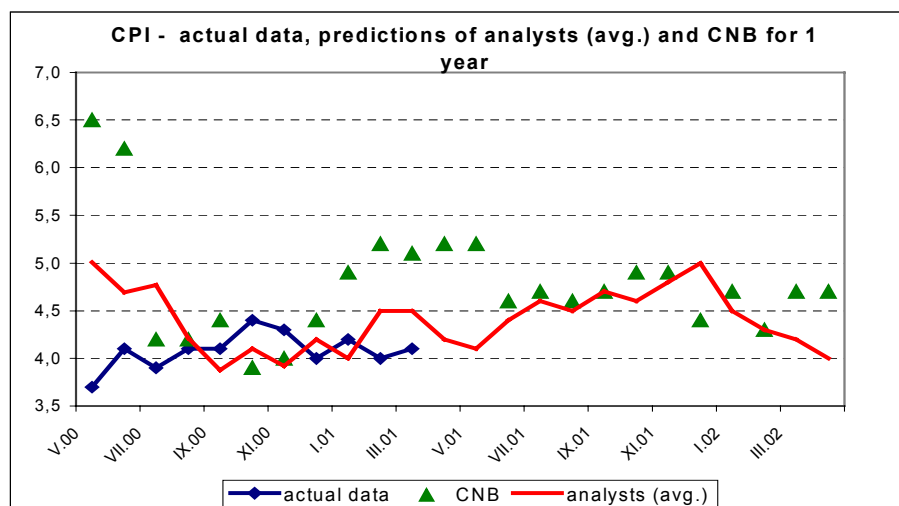
For CPI inflation, the analysts' forecasts are, as in March, substantially (0.7%) lower than the CNB's estimates. As regards net inflation, the forecasts for April differ by 0.4% owing to a decrease on the part of the analysts (in March the estimates were the same). Since the start of this year the analysts' predictions have for the most part been lower for the CPI. In contrast, the analysts have been more pessimistic with respect to net inflation, with a change occurring only this month.

Comparing the two groups of analysts (domestic and foreign), the predictions of domestic entities are 0.2%–0.3% lower, the only exception being for net inflation at the three-year horizon (where their estimates do not differ).

The main factors and risks which may affect inflation:

- Public finances
- Economic growth (this, however, could be mitigated by the economic slowdown around the world – especially in Germany)

Prediction for Month of prediction	y-o-y CPI		CNB 1 Y	y-o-y net inflation		CNB 1 Y
	1 Y %	3 Y %		1 Y %	3 Y %	
IV-00	4,2	4,0	5,2	2,7	2,7	3,2
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
IV-01	4,0	3,4	4,7	2,7	2,7	3,1



2. Interest rates

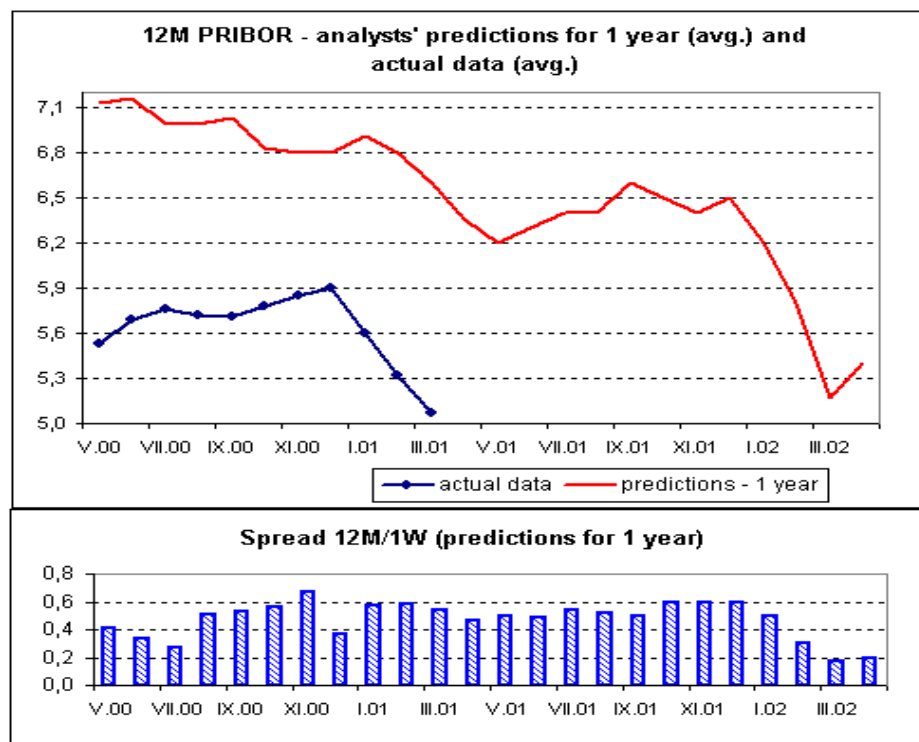
IV-01	1W PRIBOR (%)		12M PRIBOR (%)		spread 12M/1W (%)		5Y IRS (%)	
	1 month	1 year	1 month	1 year	1 month	1 year	1 month	1 year
min	4,9	4,6	4,7	4,5			5,4	5,5
average	5,0	5,2	5,0	5,4	0,0	0,2	5,8	6,2
max	5,1	5,8	5,3	6,3			6,0	7,0

In line with the expected moderate rise in consumer prices, at the one-year horizon the analysts forecast stable, or negligibly higher, rates at the short end of the curve and a moderate rise at the long end (both the 1Y PRIBOR and 5Y IRS) of 0.4% compared with the current level. As a result, a slightly greater PRIBOR curve slope is also expected. As in the previous month, some foreign analysts foresee a possible further rate cut this year due, among other things, to the fact that inflation remains low, giving the CNB room to pursue secondary objectives such as the promotion of investment-driven economic growth.

The short end of the curve is affected by speculation on a lowering of rates by the CNB on the back of a similar move by the ECB and in the case of further strengthening of the koruna. The rise in rates at the longer end of the curve (the average forecast) should be influenced by developments in public finances and the probable uncertainty brought by the elections. Overall, despite the above comments, a further change in rates by the CNB is unlikely this year, and should such a reduction take place it would only be short-term.

As in March, the forecasts of individual groups of analysts differ negligibly (by 0.1% at maximum). The analysts expect the curve to be modestly upward sloping, with domestic analysts expecting it to be slightly flatter.

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
	%		%		%		%	
IV-00	5,3	5,9	5,6	6,4	0,3	0,5	6,5	7,2
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
IV-01	5,0	5,2	5,0	5,4	0,0	0,2	5,8	6,2



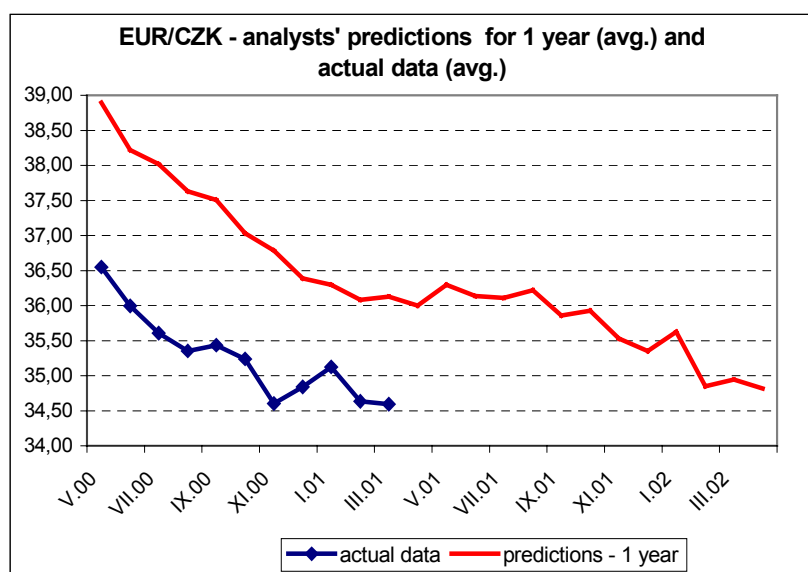
3. Exchange rate

IV-01	EUR/CZK	
	1 month	1 year
min	34,50	33,00
average	34,60	34,82
max	34,75	36,00

Prediction for Month of prediction	exchange rate	
	1 month	1 year
EUR/CZK		
IV-00	36,08	36,00
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
IV-01	34,60	34,82

Since February 2001 the predictions for the koruna's exchange rate (average) have been constantly below 35.000 CZK/EUR at both the short and one-year horizons. The exchange rate should not change significantly compared with the current level. A negligible weakening of 10–20 hellers is possible at the longer horizon. According to some comments, however, the koruna's weakening could be even greater (more markedly beyond 35.000 CZK/EUR). This is justified by the over-optimistic expectations associated with investment inflow from privatisation. Certainly, FDI inflows are still the dominant factor affecting the exchange rate. The effect of the interest rate differential is minimal. CNB intervention against any strengthening of the koruna is expected at around 34.000 CZK/EUR.

At the one-month horizon the predictions of domestic and foreign analysts do not differ. At the one-year horizon, domestic entities are rather more pessimistic, expecting the koruna about 30 hellers weaker (only just below 35.000 CZK/EUR).



Prague, 17th April 2001