



FINANCIAL MARKET INFLATION EXPECTATIONS – JANUARY

Financial Markets Department
Operations Analyses Division

2014

Eleven domestic and two foreign analysts took part in the January survey. The results reveal that the inflation forecast recorded a sizeable increase but the growth rate of the expected economic recovery in 2014 remained unchanged from December. Economic growth is expected to pick up further in 2015. None of the respondents expects the 2W repo rate to change at the one-year horizon. The changes in the forecasts for the 12M PRIBOR, IRS rates and the exchange rate of the koruna are virtually in line with the market developments over the last month. Nominal wage growth is expected to be slightly weaker again this year.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
David Navrátil, Česká spořitelna	+											
David Marek, PATRIA Finance	+											
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	+											
Tomáš Holinka, Moody's Analytics	+											
Jan Kudláček, AXA	+											
FOREIGN ANALYSTS												
Mateusz Szczurek, ING Bank												
Magdalena Polan, Goldman Sachs	+											
Katya Kocourek, The Economist Intelligence Uni	+											
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We would like to thank everyone who contributed to this survey of financial market inflation expectations.

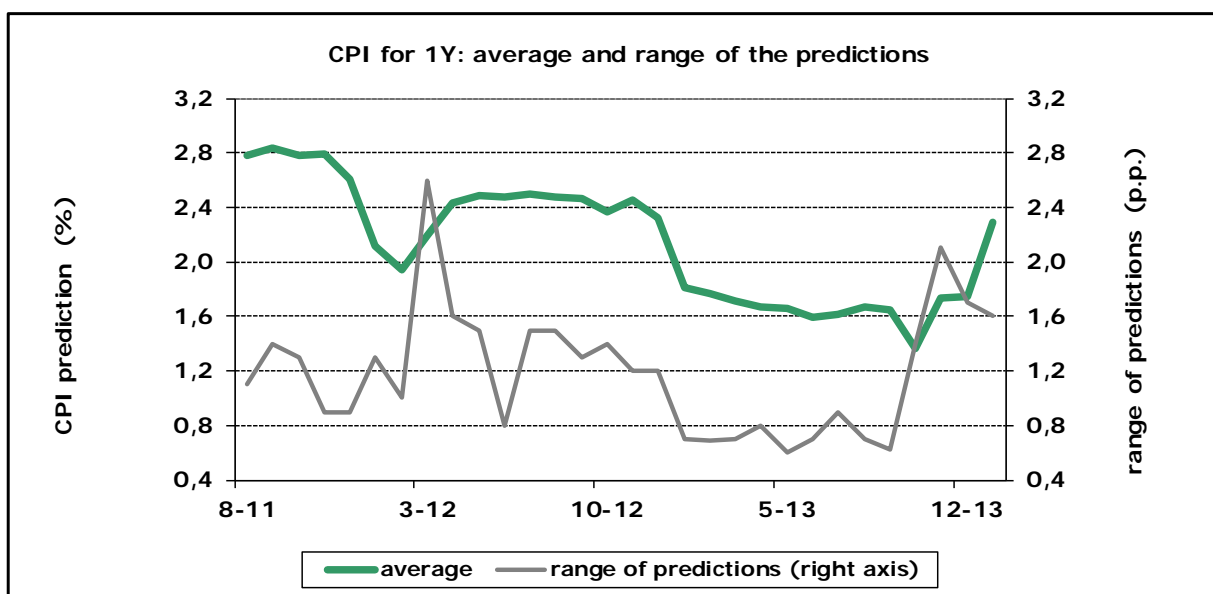
Prague, 27 January 2014

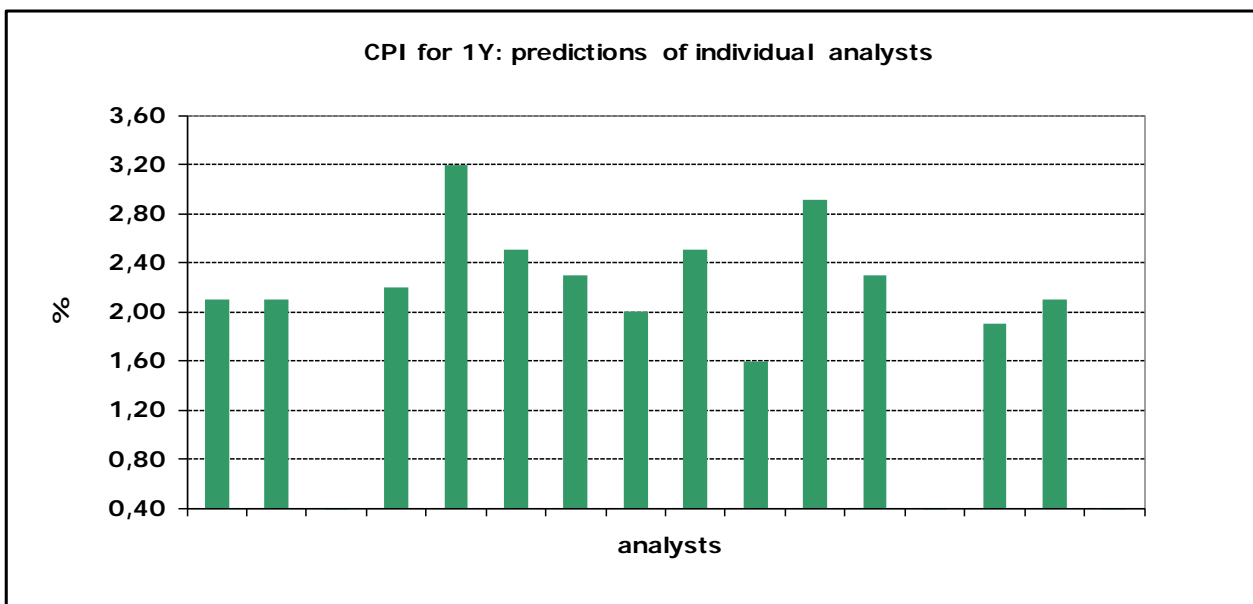
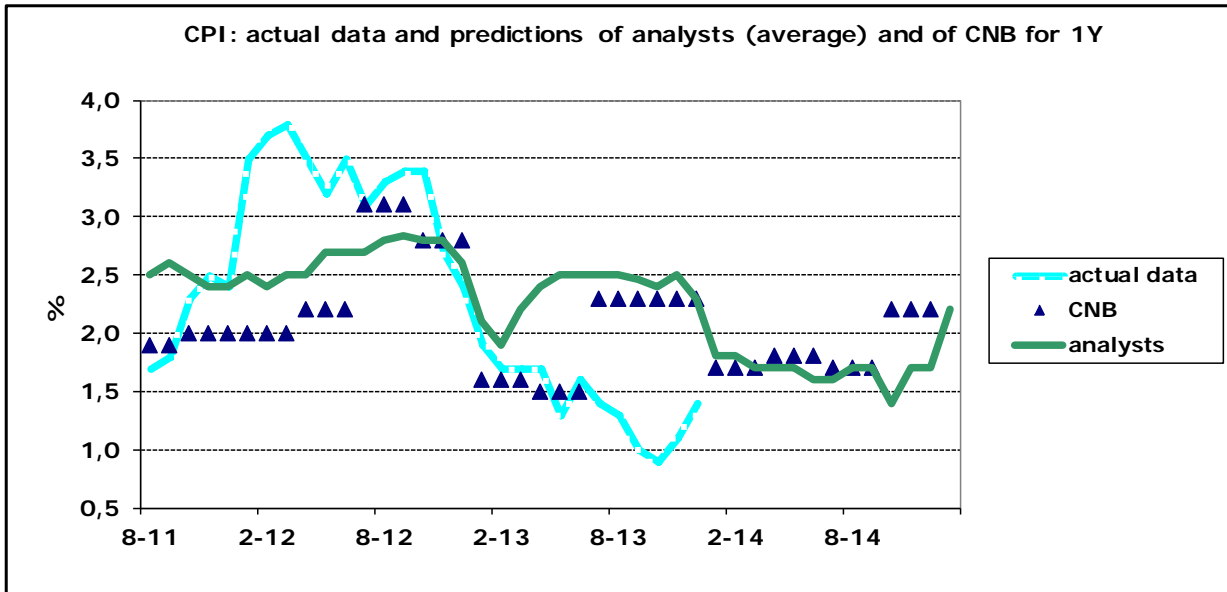
January 2014	1Y CPI y/y %	3Y CPI y/y %
minimum	1,6	1,4
average	2,3	2,1
maximum	3,2	2,7

Prediction Horizon Date of Prediction	1Y y/y CPI %	3Y y/y CPI %	1Y CNB %
1.13	1,8	2,0	1Q: 1,7
3.13	1,7	1,9	
6.13	1,6	2,1	2Q: 1,8
8.13	1,7	2,0	
10.13	1,4	2,1	3Q: 1,7
11.13	1,7	2,1	
12.13	1,7	2,1	4Q: 2,2
1.14	2,3	2,1	

Annual CPI inflation rose to 1.4% in December, 0.3 pp higher than in November. The average one-year inflation forecast stemming from this year's first survey also increased significantly, from 1.7% in December to 2.3% in January. On the other hand, the three-year forecast saw no change and remained at 2.1%. The range of the one-year forecasts did not change last month, while that of the three-year forecasts narrowed slightly due to a larger decline in the maximum value.

The sizeable increase in the average one-year inflation forecast was due to technical factors rather than to the December pick-up in the CPI. Some analysts believe the base will drop significantly in January 2014 as a result of a decrease in energy prices, which will subsequently be reflected in an opposite movement at the start of 2015.



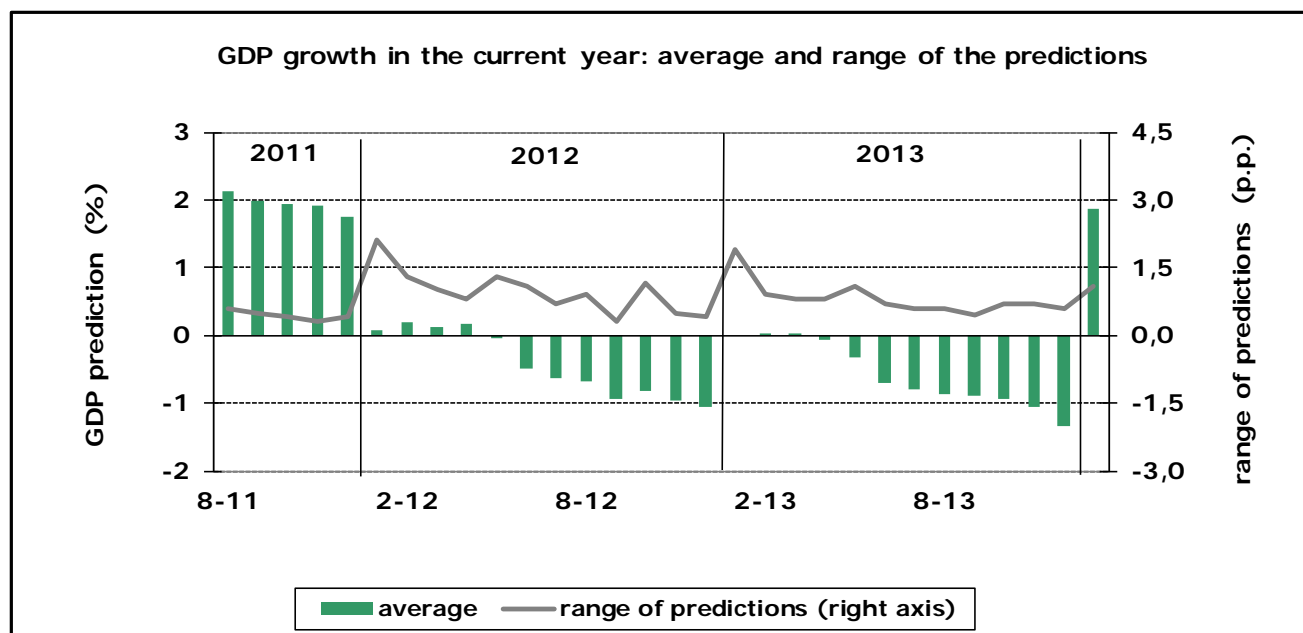


January 2014	end of year	
	current	+1Y
	GDP %	
minimum	1,4	2,3
average	1,9	2,6
maximum	2,5	3,2

Prediction Horizon Date of Prediction	end of year	
	current	current + 1Y
	% GDP Growth	
1.13	0,0	1,7
3.13	0,0	1,7
6.13	-0,7	1,8
8.13	-0,9	1,8
10.13	-0,9	1,8
11.13	-1,1	1,9
12.13	-1,3	1,9
1.14	1,9	2,6

The CZSO revised the decline in GDP for 2013 Q3 by a further 0.1 pp to 1.2%. Nevertheless, the average forecast for this year remained unchanged and Czech GDP is expected to grow by 1.9%. In 2015, the economy is expected to accelerate to 2.6%.

According to the analysts, the recovery in the domestic economy will be driven mainly by exports. Investment is also expected to see a cyclical increase. The approved state budget deficit for this year also suggests easy fiscal policy and therefore the abandonment of efforts to reduce the structural deficit. Since consumers' buying appetite was largely exhausted even before Christmas and the unemployment rate remains high, household consumption will still be relatively weak in the first half of the year. However, if real income increases in the second half of the year, private consumption might start to rebound.



Prediction Horizon Date of Prediction	2W Repo Rate %		12M PRIBOR %		5Y IRS %		10Y IRS %	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
1.13	0,05	0,12	0,87	1,01	0,88	1,33	1,44	1,90
3.13	0,05	0,10	0,81	0,95	1,00	1,39	1,51	2,01
6.13	0,05	0,10	0,76	0,92	1,12	1,44	1,63	2,03
8.13	0,05	0,10	0,76	0,90	1,48	1,78	2,10	2,40
10.13	0,05	0,07	0,73	0,87	1,48	1,94	2,11	2,46
11.13	0,05	0,05	0,58	0,68	1,29	1,74	2,05	2,38
12.13	0,05	0,05	0,60	0,73	1,21	1,71	2,02	2,44
1.14	0,05	0,05	0,60	0,70	1,26	1,77	2,07	2,47

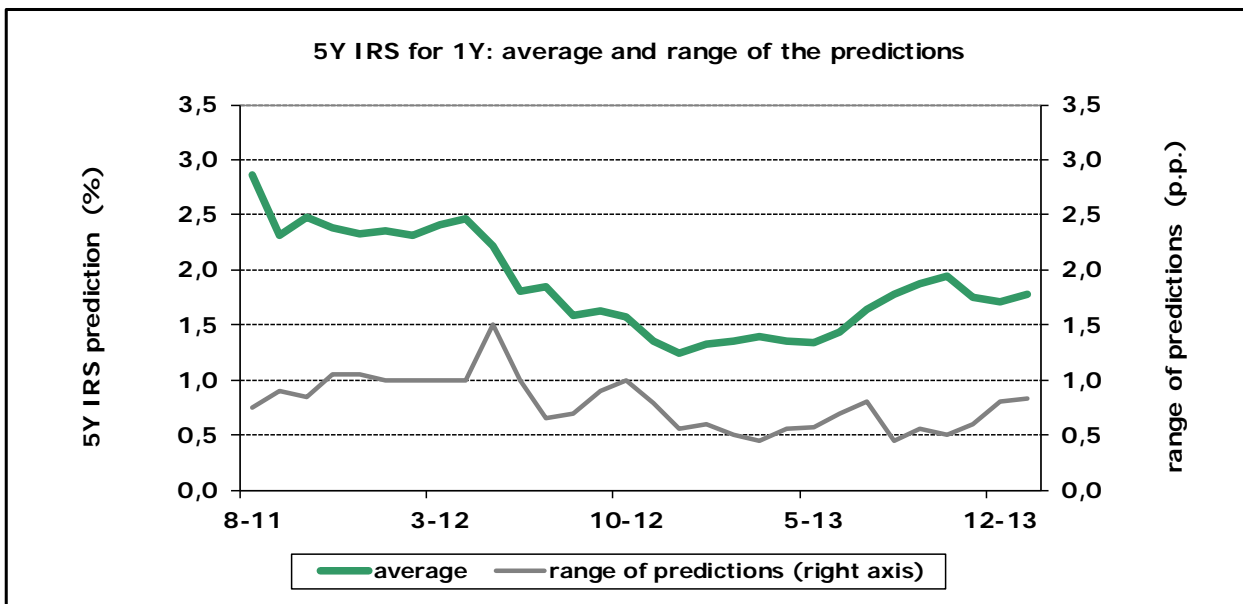
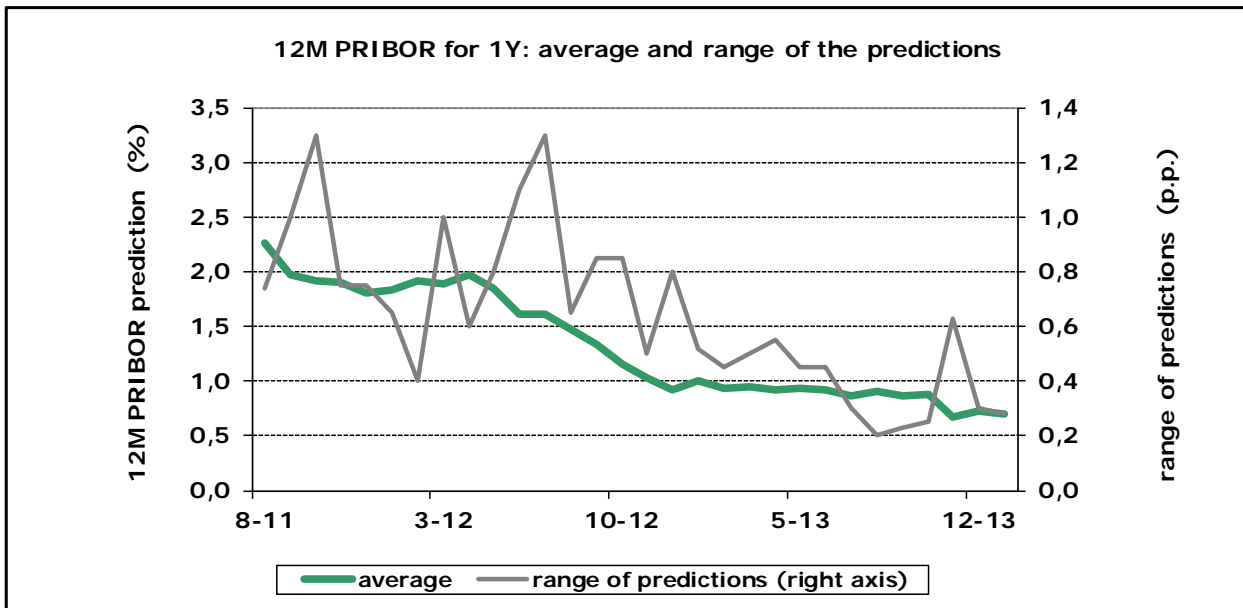
January 2014	2W Repo Rate %		12M PRIBOR %		5Y IRS %		10Y IRS %	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0,05	0,05	0,60	0,55	1,20	1,37	2,00	2,10
average	0,05	0,05	0,60	0,70	1,26	1,77	2,07	2,47
maximum	0,05	0,05	0,60	0,83	1,30	2,20	2,15	2,90

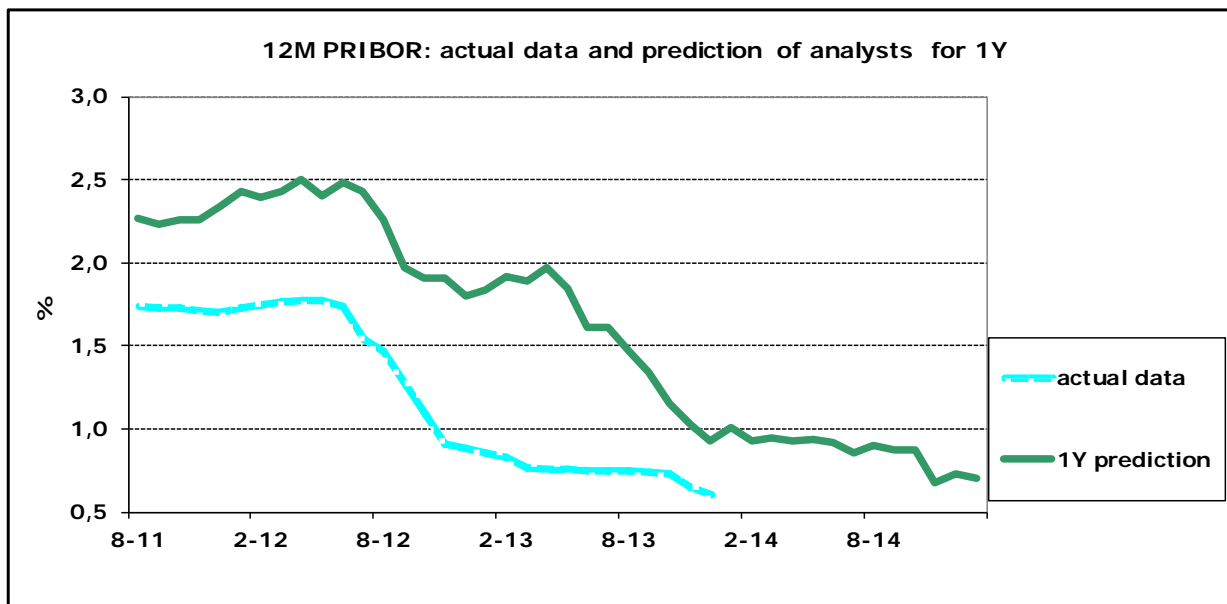
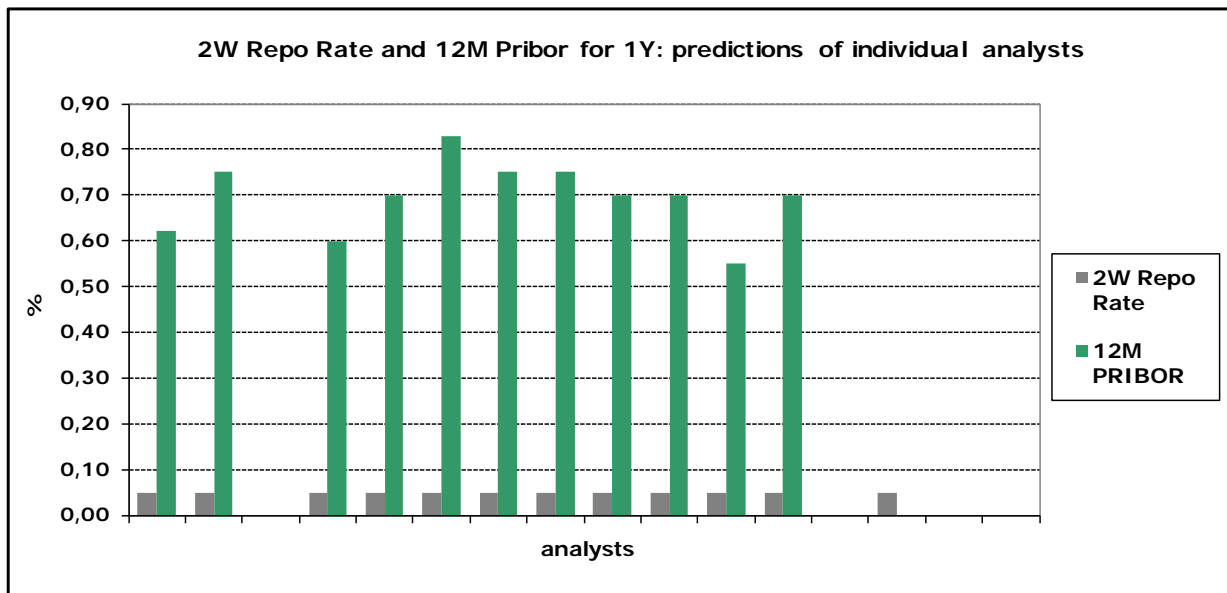
Actual indicator values as of forecast deadline

	2W Repo Rate	12M PRIBOR	5Y IRS	10Y IRS
15.1.	0,05%	0,59%	1,23%	2,03%

In line with the CNB's communications, no analyst expects the CNB Bank Board to change policy rates this year. The 2W repo rate is expected to remain at technical zero (0.05%) at least until January 2015. However, views are being expressed that any rise in the CNB's key interest rates will be preceded by discontinuation of the exchange rate limit on the appreciation of the koruna.

While the expected level of the 12 PRIBOR remained unchanged at the one-month horizon, it fell slightly at the one-year horizon. The size of this shift more or less corresponds to the change in market rates since the last survey. By contrast, market swap rates recorded an increase, which was also reflected in the analysts' forecasts.





Prediction Horizon	1M	1Y
Date of Prediction	Exchange Rate EUR/CZK	
1.13	25,57	25,02
3.13	25,49	25,14
6.13	25,75	25,13
8.13	25,91	25,31
10.13	25,71	25,06
11.13	27,00	26,79
12.13	27,45	26,94
1.14	27,39	26,89

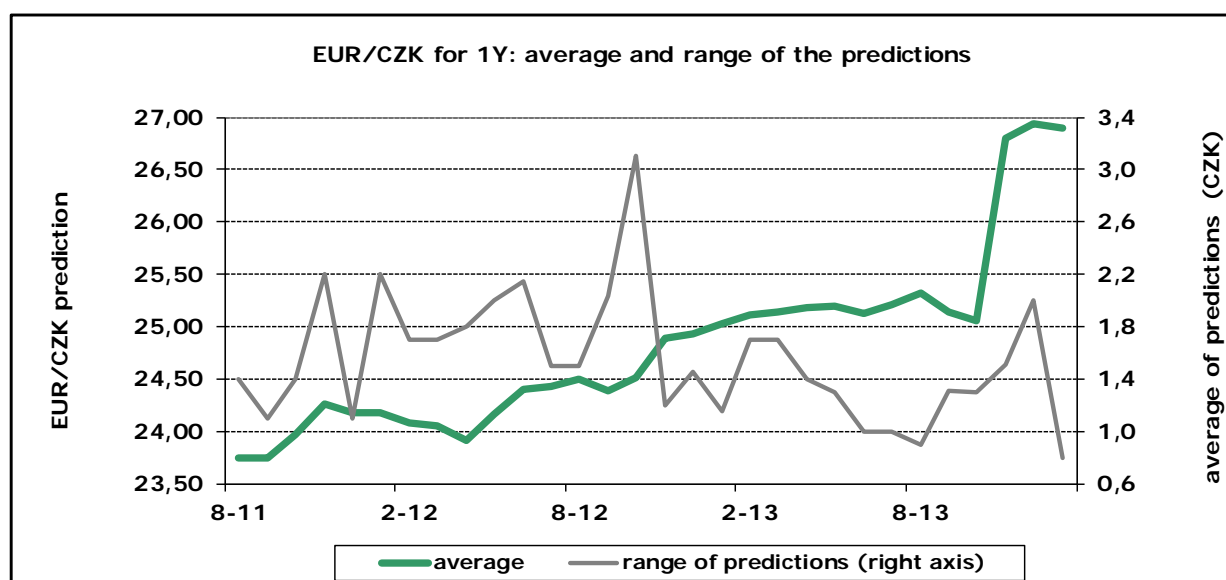
January 2014	1M	1Y
	Exchange Rate CZK/EUR	
minimum	27,20	26,40
average	27,39	26,89
maximum	27,50	27,20

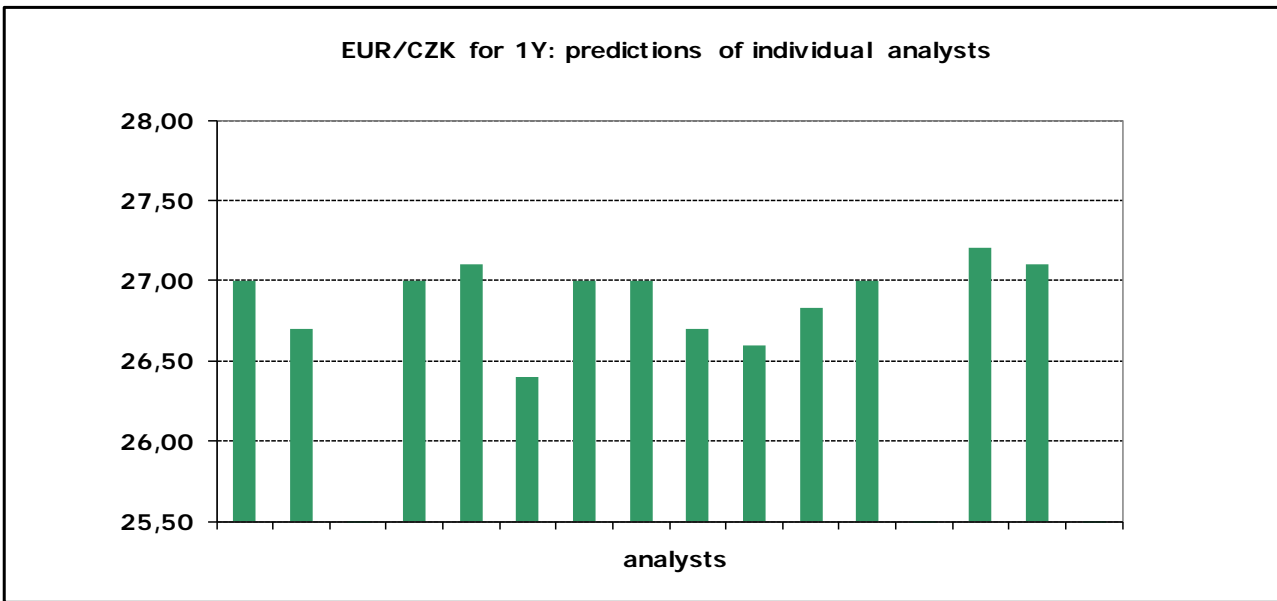
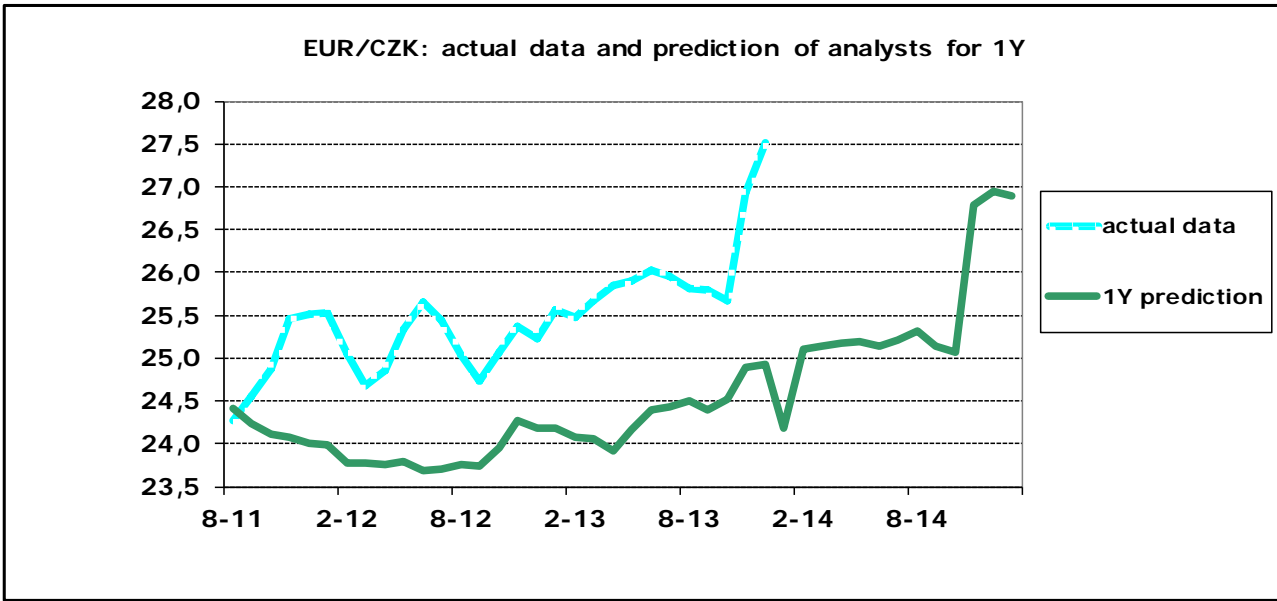
Actual EUR/CZK as of forecast deadline

15.1.	27,44
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The exchange rate of the koruna against the euro was broadly unchanged from the previous survey and the analysts' forecast likewise saw no major change. The koruna is expected to remain flat at CZK 27.4 to the euro at the one-month horizon and close to CZK 26.9 to the euro in January 2015.

Some analysts expect the CNB to remove the exchange rate limit on the appreciation of the koruna at the start of 2015, in line with Governor Singer's statement. Others are speculating that the CNB might start to let the koruna appreciate in autumn this year. Future GDP growth and inflation are of key importance in this respect. The analysts also believe that the CNB will not allow the koruna to appreciate too quickly after the exchange rate limit is discontinued.





January 2014	end of year	
	current	+1Y
	Wages %	
minimum	1,50	2,10
average	2,18	2,93
maximum	2,80	4,00

Prediction Horizon Date of Prediction	end of year	
	current	current+1Y
	% Wage Growth	
1.13	2,0	2,6
3.13	2,2	2,9
6.13	1,5	2,8
8.13	1,0	2,5
10.13	0,7	2,5
11.13	0,7	2,4
12.13	0,8	2,3
1.14	2,2	2,9

The analysts' opinion regarding nominal wage growth in 2014 worsened further. The average wage is expected to grow by only 2.2%, which is 0.1 pp less than expected a month ago. The analysts say that no major recovery is visible on the labour market, and they are tending to delay its expected onset. Hope is pinned mainly on a recovery in industrial production, but this will probably feed through to the labour market with a lag. Wages are expected to increase by 2.9% on average next year. However, given the inflation rate, the analysts seem to have little belief in a sharp rise in real wages.

The respondents who made a distinction between the forecast for wage growth in the business sector and that in the non-business sector expect wages in the business sector to grow by 2.3% this year (compared to 2.7% in December) and 3.9% and next year, while wages in the non-business sector will increase by 2.2% in 2014 (compared to 2.9% in December) and 3.3% in 2015.

