



FINANCIAL MARKET INFLATION EXPECTATIONS – FEBRUARY

Financial Markets Department
Operations Analyses Division

2014

Ten domestic and three foreign analysts sent in their contributions to the February survey. The results of the survey show that the opinion on inflation and the estimate of this year's GDP growth were unchanged. As regards the future monetary policy settings, two analysts now expect the 2W repo rate to be higher in February 2015 than at present. The forecasts for PRIBOR reference rates and IRS swap rates mostly shifted downwards. The expected koruna exchange rate moved to slightly weaker levels at both monitored horizons. The analysts differ widely in their opinions on when the CNB will end its commitment to maintain the exchange rate of the koruna close to CZK 27/EUR. Nominal wage growth should again be slower than expected in January.

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 Sobíšek, 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	+	+										
Nicolaie Alexandru, JP Morgan		+										

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

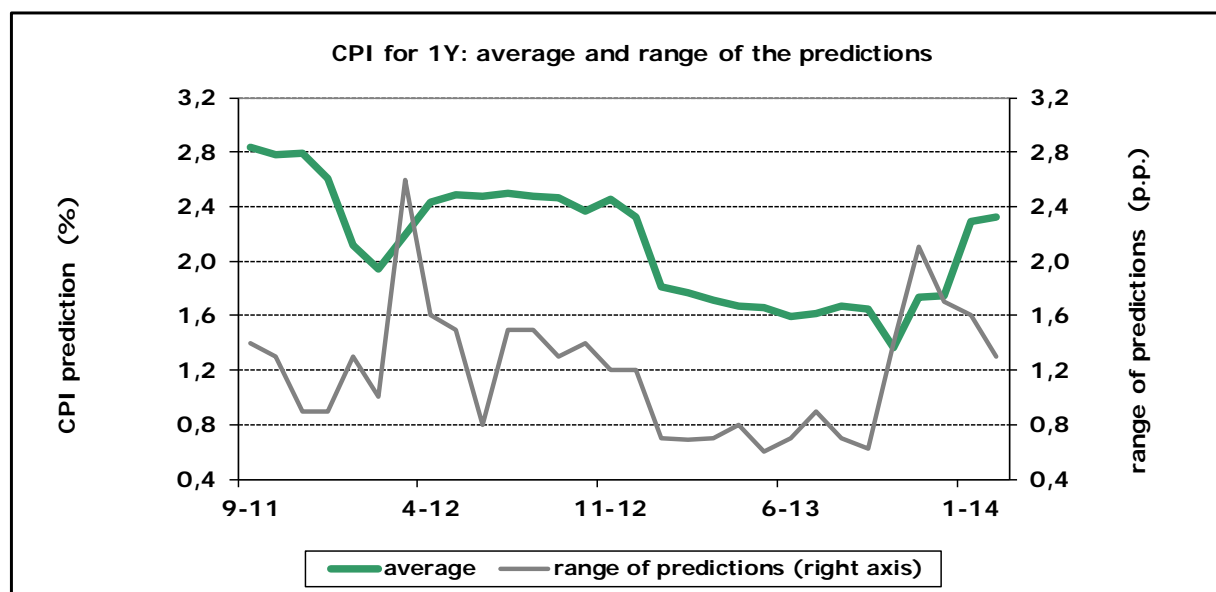
Prague, 27 February 2014

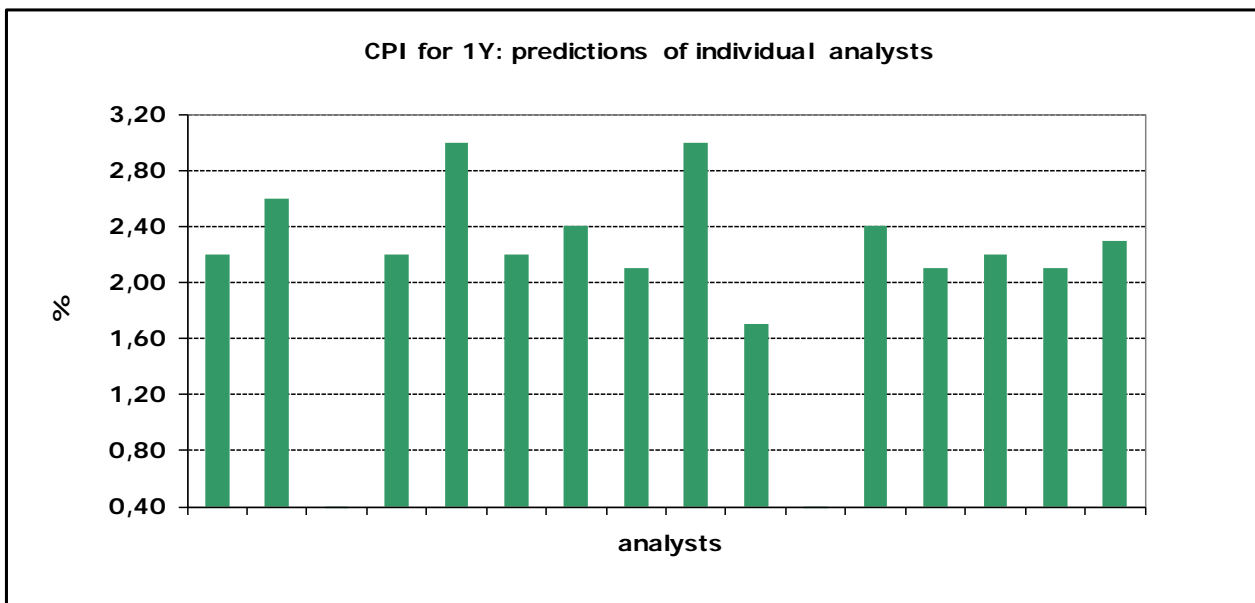
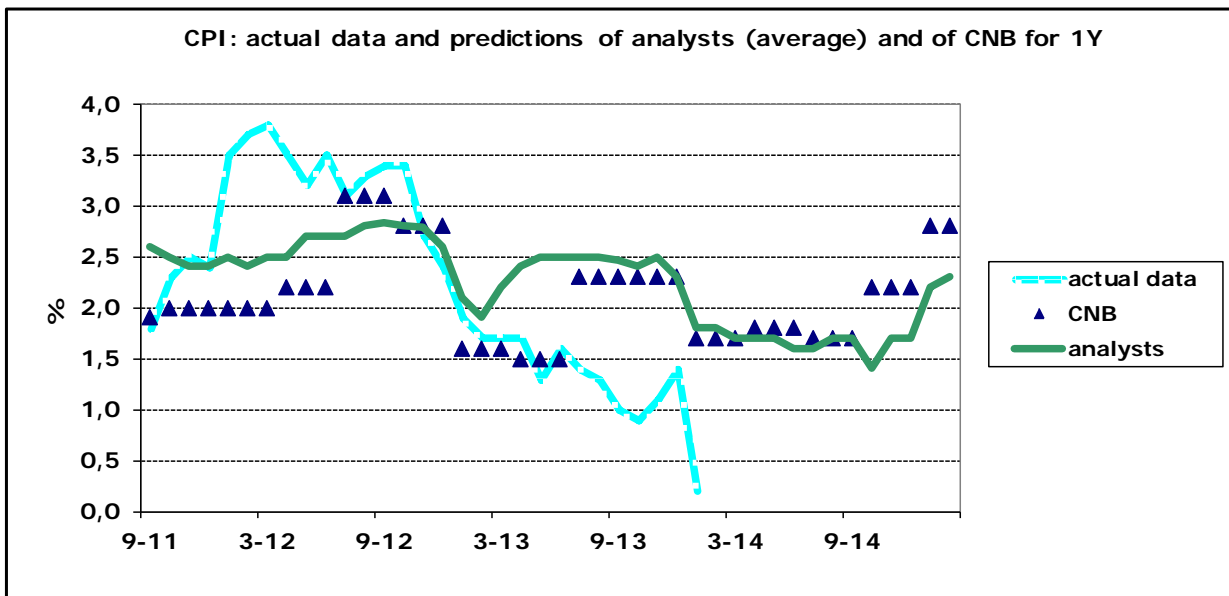
February 2014	1Y CPI y/y %	3Y CPI y/y %
minimum	1,7	1,7
average	2,3	2,1
maximum	3,0	2,6

Prediction Horizon Date of Prediction	1Y y/y CPI %	3Y y/y CPI %	1Y CNB %
2.13	1,6	1,9	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
12.13	1,7	2,1	
1.14	2,3	2,1	4Q: 2,2
2.14	2,3	2,1	

Annual CPI inflation slowed significantly in January, falling by 1.2 pp from December 2013 to 0.2%. As the analysts had been expecting inflation to go down, their average forecasts were unchanged at both monitored horizons. The average one-year forecast remains at 2.3% and the average three-year forecast at 2.1%. Inflation expectations are thus still firmly anchored close to the CNB's inflation target. The range of both the one-year and three-year forecasts narrowed last month, owing to a rise in the minimum forecasts and a decline in the maximum ones.

Following its sharp slowdown, inflation should pick up gradually over the next twelve months. According to the analysts, core inflation will be positive this year, thanks mainly to a weaker koruna. Food and fuel prices are also expected to rise gradually, but their effect will be offset by falling administered prices.



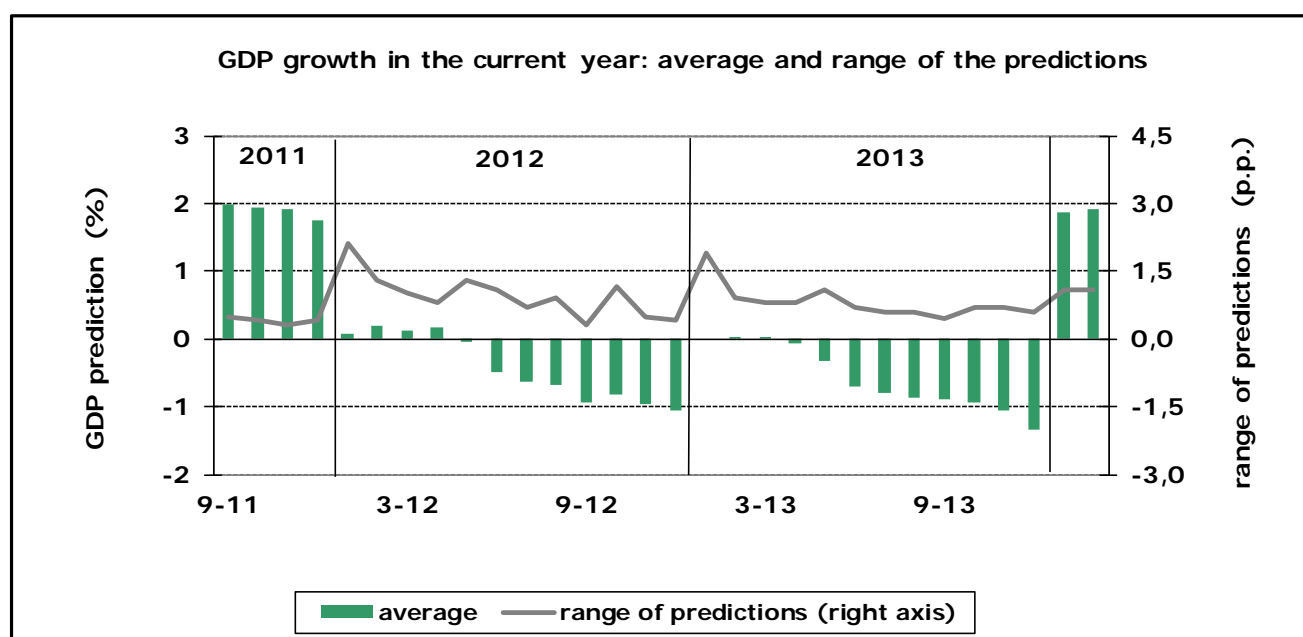


February 2014	end of year	
	current	+1Y
	GDP %	
minimum	1,4	2,2
average	1,9	2,5
maximum	2,5	3,0

Prediction Horizon Date of Prediction	end of year	
	current	current + 1Y
	% GDP Growth	
2.13	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
12.13	-1,3	1,9
1.14	1,9	2,6
2.14	1,9	2,5

The average GDP growth forecast for this year is the same as in January and the Czech economy should thus grow by 1.9%. However, the optimism about a pick-up in economic growth next year is starting to decline slightly again. In January the analysts predicted that Czech GDP would rise by 2.6% in 2015. Now, however, their average estimate is 0.1 pp lower.

A recovery in industry was apparent in 2013 H2 and should continue this year according to business surveys. This recovery should be fostered by economic growth in major trading partners, Germany in particular. Construction is also expected to finally emerge from the crisis. With a lag, the analysts expect an improvement in services and agriculture as well. The improvement in the agriculture will, of course, depend strongly on this year's harvest. On the expenditure side, all the main components could contribute to GDP growth this year.



February 2014	1M 1Y 2W Repo Rate %		1M 1Y 12M PRIBOR %		1M 1Y 5Y IRS %		1M 1Y 10Y IRS %	
minimum	0,05	0,05	0,50	0,59	1,10	1,30	1,85	1,90
average	0,05	0,14	0,56	0,73	1,17	1,61	1,96	2,46
maximum	0,05	1,05	0,60	0,95	1,20	1,90	2,15	2,80

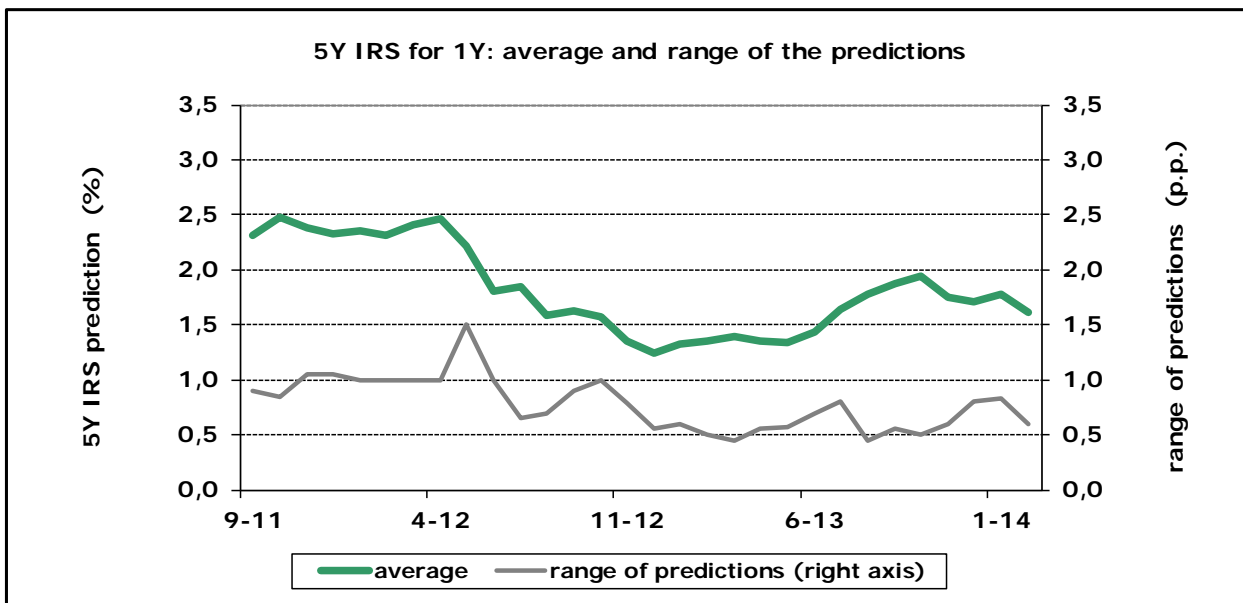
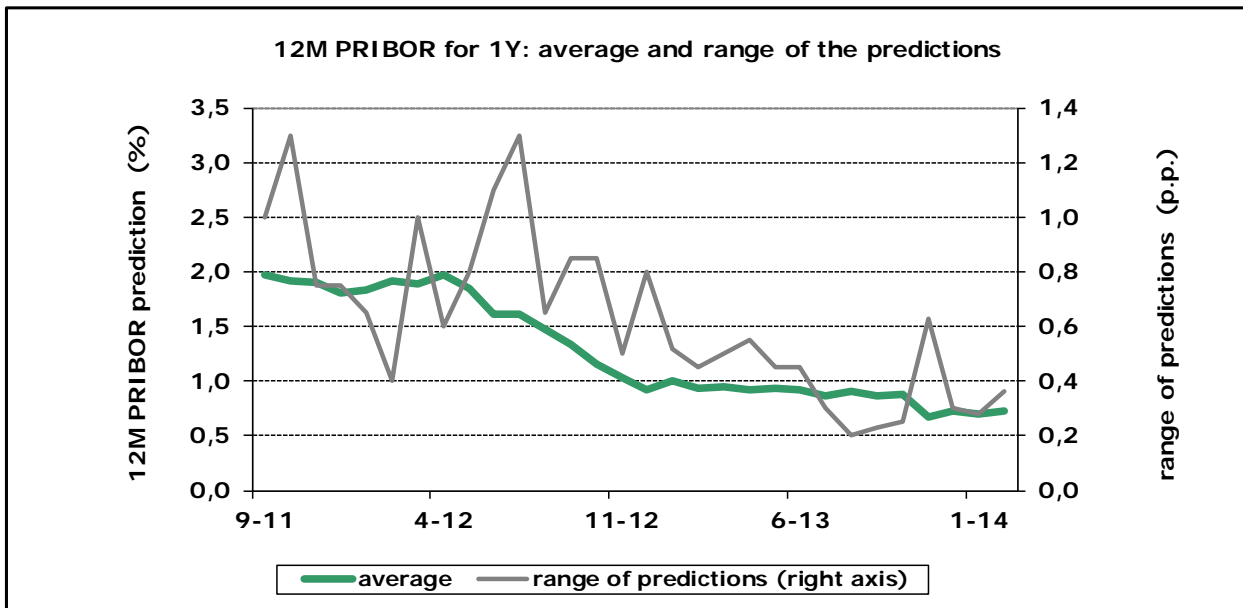
Prediction Horizon	1M 1Y 2W Repo Rate %	1M 1Y 12M PRIBOR %	1M 1Y 5Y IRS %	1M 1Y 10Y IRS %				
Date of Prediction								
2.13	0,05	0,10	0,84	0,93	1,00	1,35	1,50	1,93
3.13	0,05	0,10	0,81	0,95	1,00	1,39	1,51	2,01
6.13	0,05	0,10	0,76	0,92	1,12	1,44	1,63	2,03
8.13	0,05	0,10	0,76	0,90	1,48	1,78	2,10	2,40
10.13	0,05	0,07	0,73	0,87	1,48	1,94	2,11	2,46
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
2.14	0,05	0,14	0,56	0,73	1,17	1,61	1,96	2,46

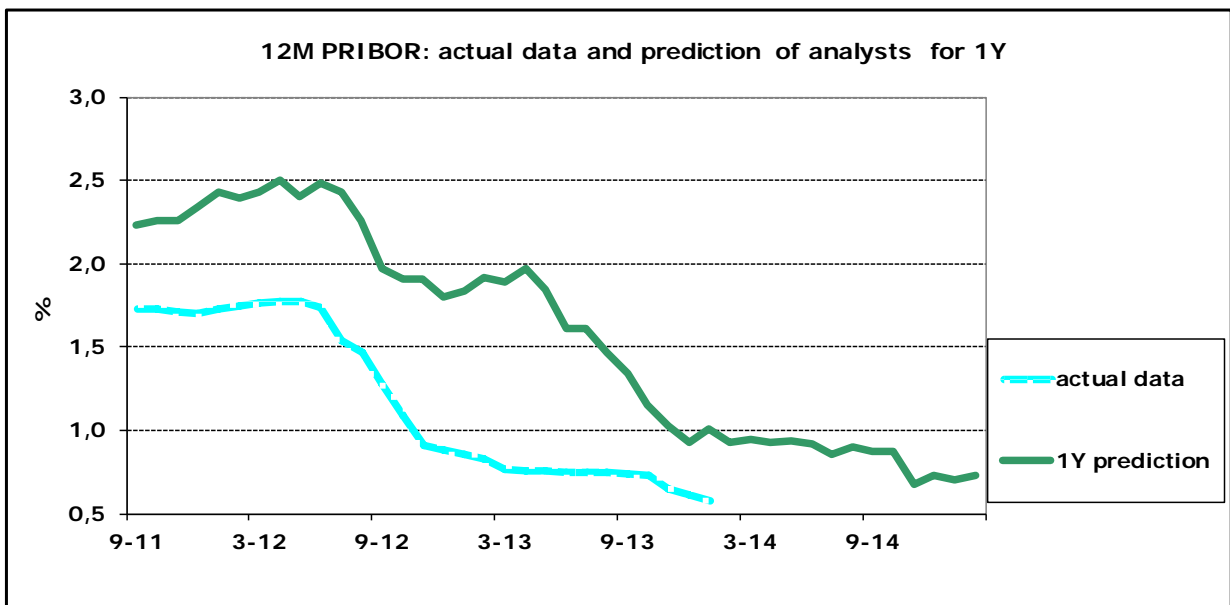
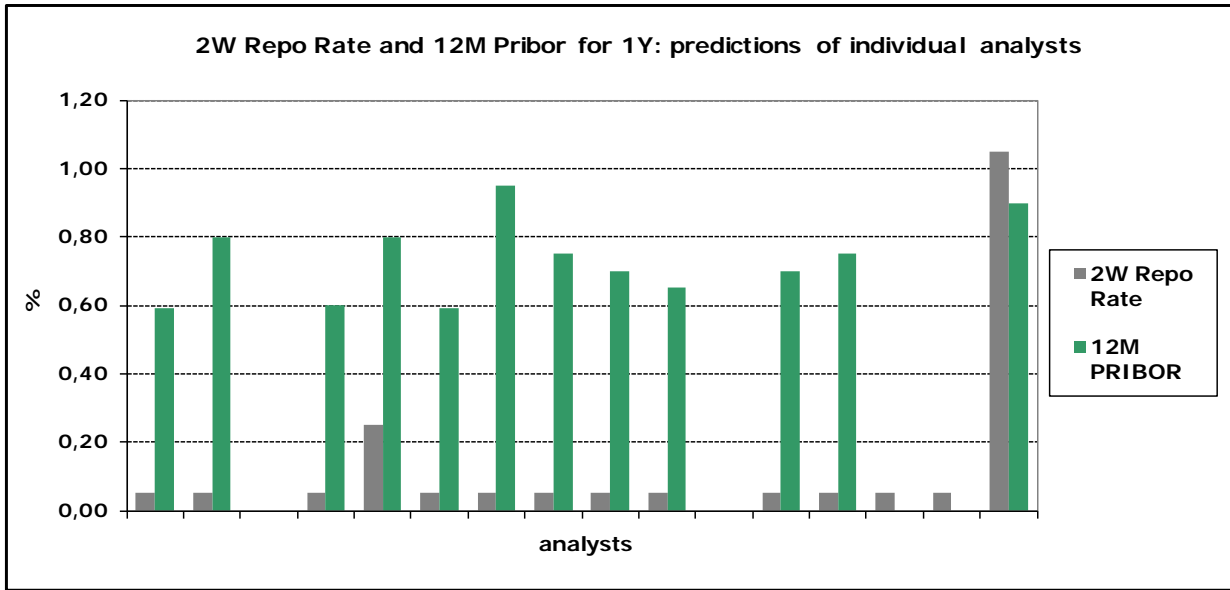
Actual indicator values as of forecast deadline

	2W Repo Rate	12M PRIBOR	5Y IRS	10Y IRS
17.2.	0,05%	0,55%	1,16%	1,90%

The average 2W repo rate forecast saw a change compared to January. In January, all the respondents were expecting key interest rates to stay at technical zero (0.05%) in January 2015. In the outlook for February 2015, however, some analysts expect the 2W repo rate to increase. One expects it to rise to 0.25% and another even to 1.05%. According to the other analysts, the key rates will remain unchanged.

The forecasts for 12M PRIBOR reference rates and IRS swap rates were again affected by a change in market rates, and all of them except the one-year 12M PRIBOR forecast decreased. Besides changes in market rates, external factors – in particular a lower outlook for euro IRS, which also strongly affect domestic IRS – might foster a decline in IRS.





Prediction Horizon	1M	1Y
Date of Prediction	Exchange Rate EUR/CZK	
2.13	25,39	25,11
3.13	25,49	25,14
6.13	25,75	25,13
8.13	25,91	25,31
10.13	25,71	25,06
12.13	27,45	26,94
1.14	27,39	26,89
2.14	27,42	26,95

February 2014	1M	1Y
	Exchange Rate CZK/EUR	
minimum	27,20	26,00
average	27,42	26,95
maximum	27,60	27,55

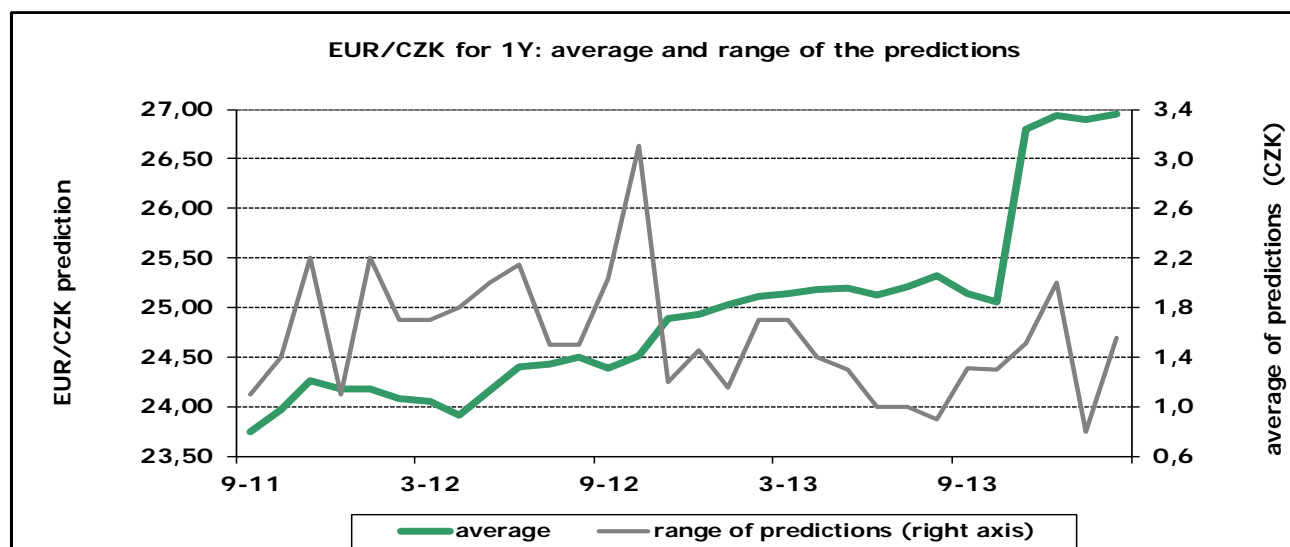
Actual EUR/CZK as of forecast deadline

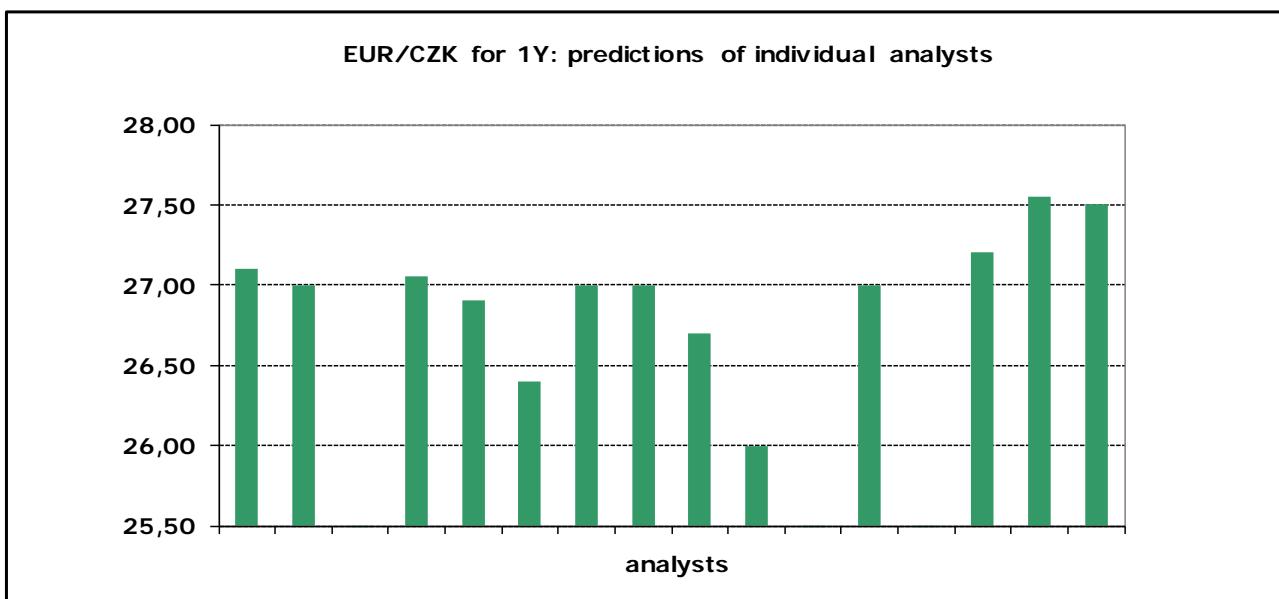
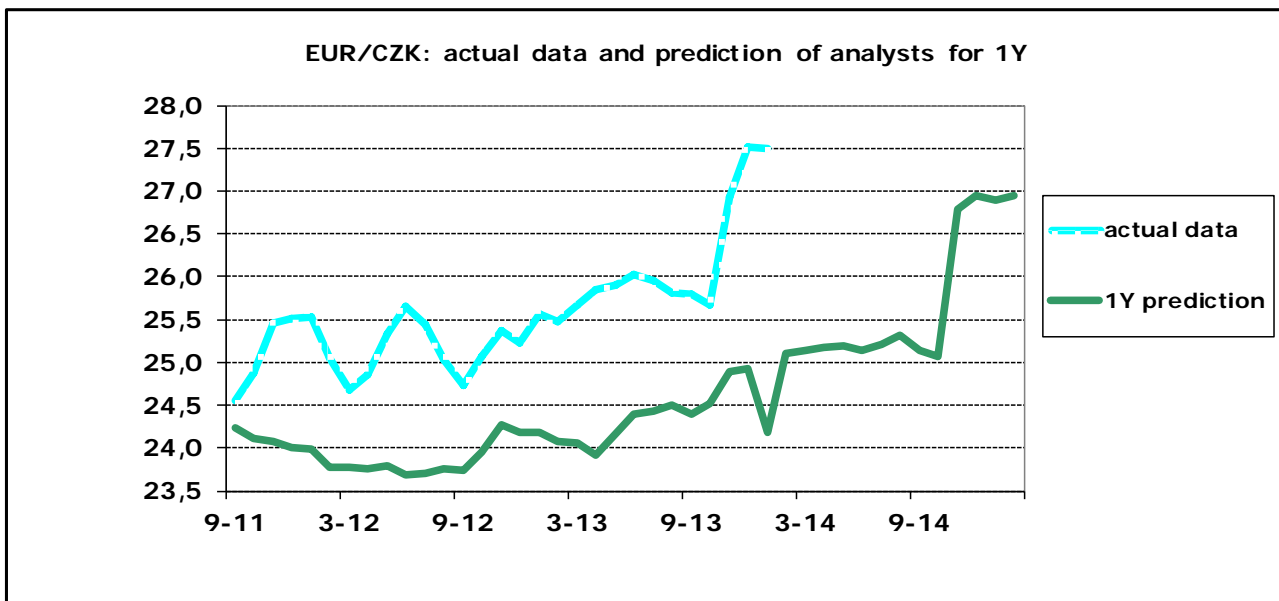
17.2.	27,40
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The one-month forecast for the koruna exchange rate shifted to a slightly weaker level, i.e. CZK 27.42/EUR. The analysts thus slightly revised their estimates of the appreciation dynamics over the next four weeks. The one-year forecast also shifted marginally downwards, to CZK 26.95/EUR.

The table below shows that the analysts differ widely in their opinions on when the CNB will end its commitment to maintain the exchange rate close to CZK 27/EUR. Despite the CNB's communications, some analysts are convinced that the CNB will exit this commitment before the end of this year. By contrast, two respondents expect the CNB not to abandon it before 2016. Based on the experience with the Swiss National Bank, one analyst is inclined towards 2017.

Expected exit	Number of analysts
2014	2
1Q15	2
2Q15	4
3Q15	3
Later	2





February 2014	end of year	
	current	+1Y
	Wages %	
minimum	1,20	2,00
average	2,08	2,80
maximum	2,50	4,00

Prediction Horizon Date of Prediction	end of year	
	current	current+1Y
	% Wage Growth	
2.13	2,4	3,0
3.13	2,2	2,9
6.13	1,5	2,8
8.13	1,0	2,5
10.13	0,7	2,5
12.13	0,8	2,3
1.14	2,2	2,9
2.14	2,1	2,8

The record of last year's forecasts reveals that the analysts were quite optimistic at the start of the year, but as time went on their opinion slowly worsened and expected wage growth rate decreased. The trend so far in 2014 suggests that things will be no different this year. Only the initial level is rather lower than at the start of last year.

The above table shows that nominal wages should increase by only 2.1% this year and pick up to 2.8% in 2015. The analyst who made a distinction between the forecast for nominal wage growth in the business sector and that in the non-business sector expects wages to rise by 2.5% in the business sector and by 2.2% in the non-business sector this year and to accelerate to 4.1% and 3.3% respectively in 2015.

