



# FINANCIAL MARKET INFLATION EXPECTATIONS – MARCH

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Financial Markets Department  
Operations Analyses Division

2014

Ten domestic and one foreign analyst sent in their contributions to the March survey. The survey shows that the inflation forecast was shifted slightly upwards at the one-year horizon and remained unchanged at the three-year horizon. The outlook for future growth of the Czech economy is more optimistic. GDP should grow faster this year and the next than expected in February. The 2W repo rate remained virtually stable at the one-year horizon, 12M PRIBOR and 5Y IRS forecasts are higher, whereas the 10Y IRS forecast decreased. The expected koruna exchange rate moved slightly towards stronger levels at both monitored horizons. The view of wage growth improved modestly compared to the previous survey.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
<b>David Navrátil, Česká spořitelna</b>	+	+	+									
David Marek, PATRIA Finance	+	+	+									
<b>Jan Vejmělek, Komerční banka</b>	+	+	+									
Pavel Sobíšek, Unicredit Global Research	+	+	+									
<b>Michal Brožka, Helena Horská, Raiffeisenbank</b>	+	+	+									
Petr Dufek, ČSOB	+	+	+									
<b>Petr Sklenář, J&amp;T Banka</b>	+	+	+									
<b>Radomír Jáč, Generali PPF</b>	+	+	+									
<b>Jaromír Šindel, Citi</b>	+											
Tomáš Holinka, Moody's Analytics	+	+	+									
<b>Jan Kudláček, AXA</b>	+	+	+									
FOREIGN ANALYSTS												
<b>Mateusz Szczurek, ING Bank</b>												
Magdalena Polan, Goldman Sachs	+	+										
<b>Katya Kocourek, The Economist Intelligence Unit</b>	+	+										
Nicolaie Alexandru, JP Morgan		+	+									

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

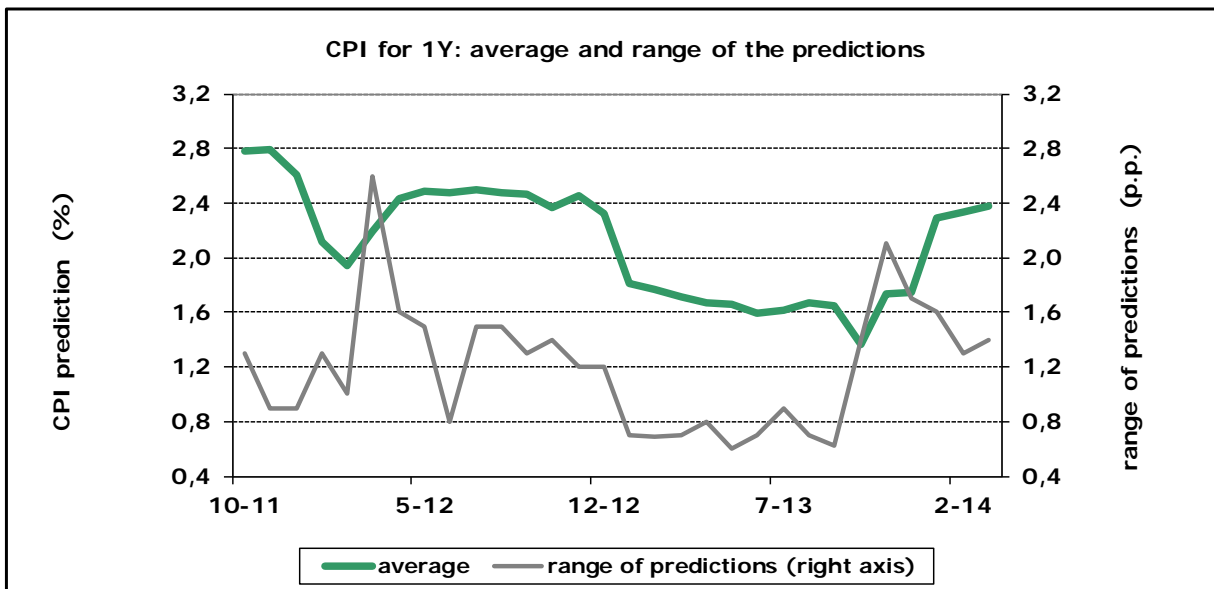
Prague, 24 March 2014

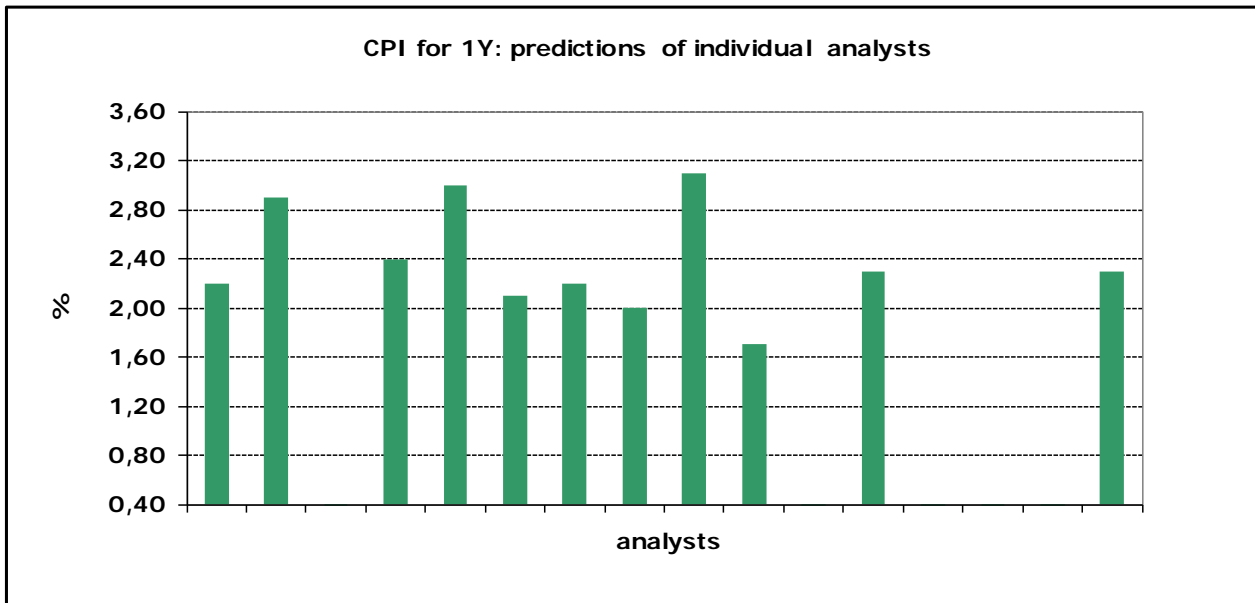
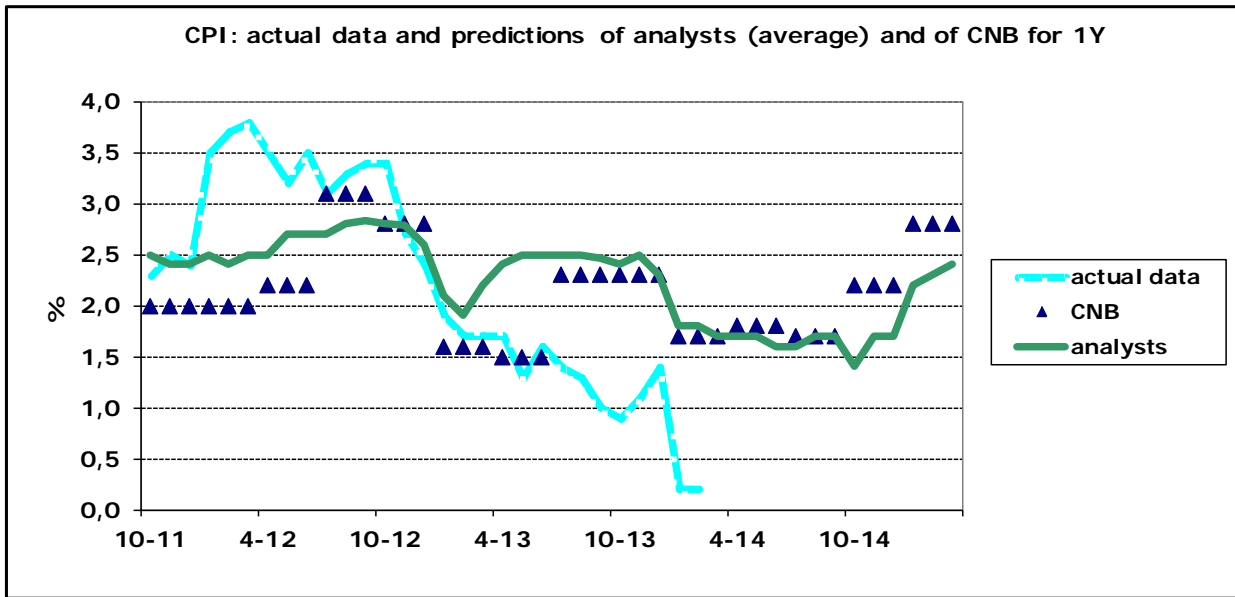
March 2014	1Y CPI y/y %	3Y CPI y/y %
minimum	1,7	1,7
average	2,4	2,1
maximum	3,1	2,7

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	4Q: 2,2
2.14	2,3	2,1	
3.14	2,4	2,1	1Q: 2,8

At 2.4%, the average one-year inflation forecast was 0.1 pp higher than in the previous survey, whereas the three-year forecast remains at 2.1%. The range of both the one-year and three-year forecasts widened slightly last month thanks to a small rise in the maximum forecasts.

After declining to zero, CPI inflation should pick up gradually in the remainder of the year. It should continue rising next year, when administered and fuel price inflation should accelerate according to some analysts. A modest pick-up is also expected for food prices and core inflation. Overall, however, the analysts do not expect inflation to exceed the CNB's 2% inflation target by very much in 2015.



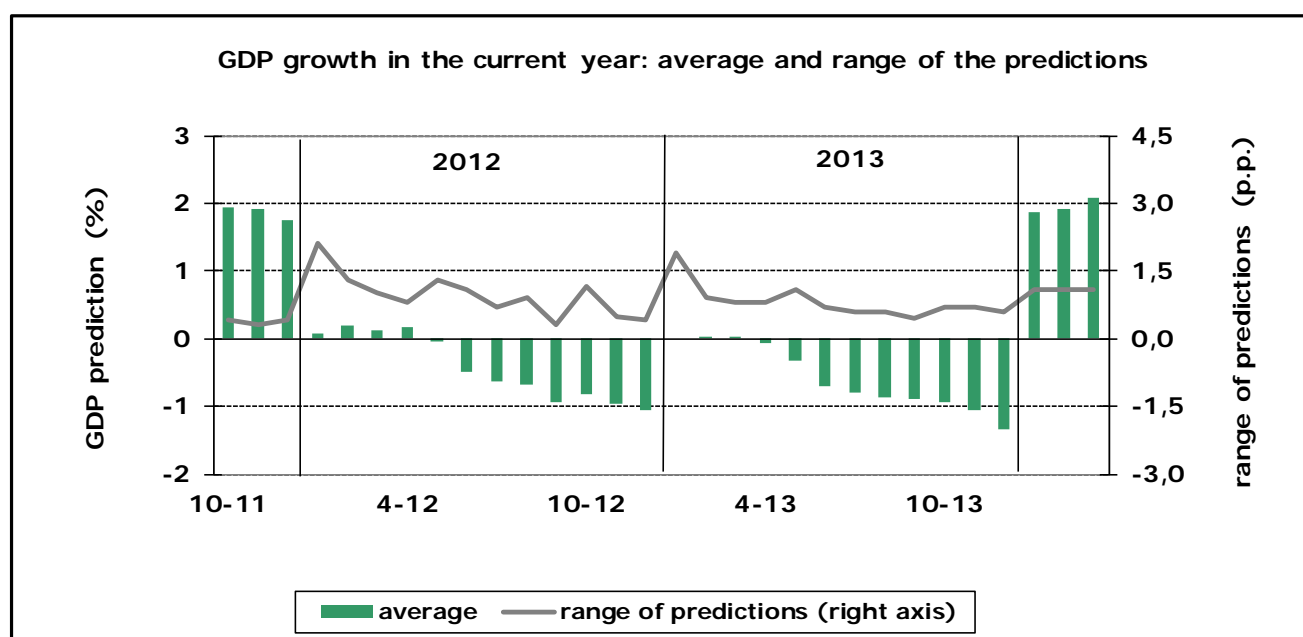


March 2014	end of year	
	current	+1Y
	GDP %	
minimum	1,4	2,2
average	2,1	2,6
maximum	2,5	3,0

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
2.14	1,9	2,5
3.14	2,1	2,6

The forecast for economic growth in the Czech Republic increased compared to the February survey for both this year and the next. GDP is expected to grow by 2.1% this year (compared to 1.9% in February) and by 2.6% in 2015, which means a return to the January level. The range of the forecasts is unchanged for both years.

The increase in the forecast for domestic economic growth was probably due to a revision of the preliminary estimate of GDP growth in 2013 Q4, according to which the domestic economy grew by 1.3% year on year in Q4 as against the previously estimated 0.8%. The increase in the forecast was not so large, however, as the analysts are naturally aware that the dominant and one-off factor behind this GDP growth was frontloading of tobacco products owing to an increase in excise duty on these products at the start of this year. In addition, industrial production growth in January was lower than expected according to newly published macroeconomic data.



March 2014	1M 1Y 2W Repo Rate %		1M 1Y 12M PRIBOR %		1M 1Y 5Y IRS %		1M 1Y 10Y IRS %	
<b>minimum</b>	0,05	0,05	0,54	0,60	1,15	1,40	1,20	1,80
<b>average</b>	0,05	0,12	0,58	0,82	1,30	1,87	1,88	2,39
<b>maximum</b>	0,05	0,25	0,65	1,10	2,00	2,60	2,15	2,80

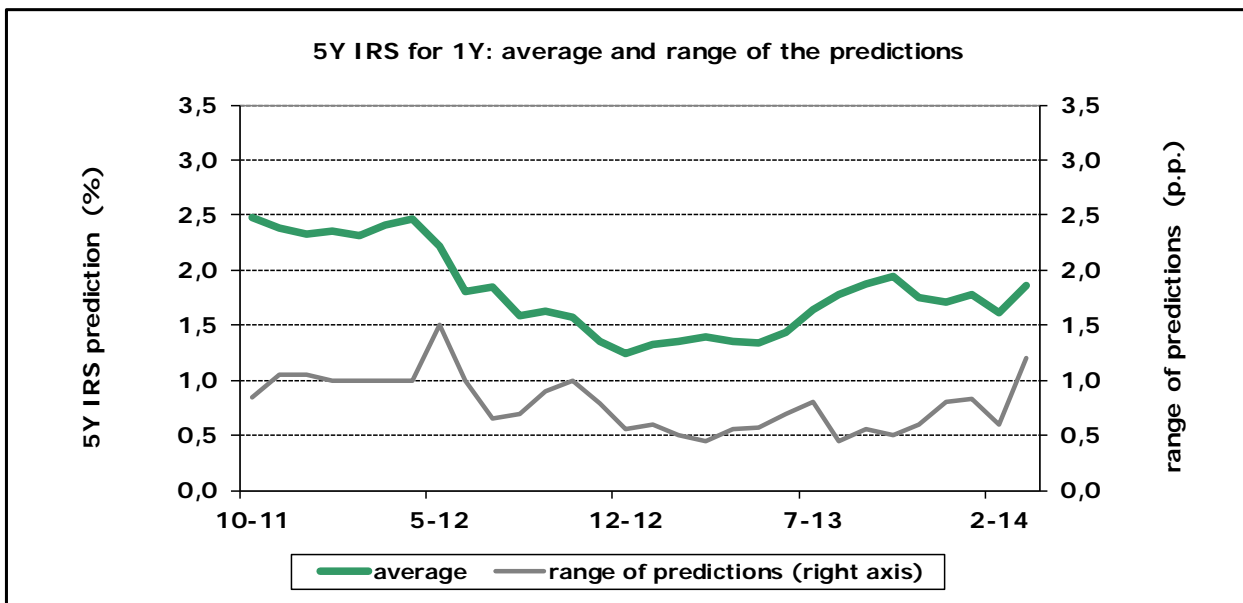
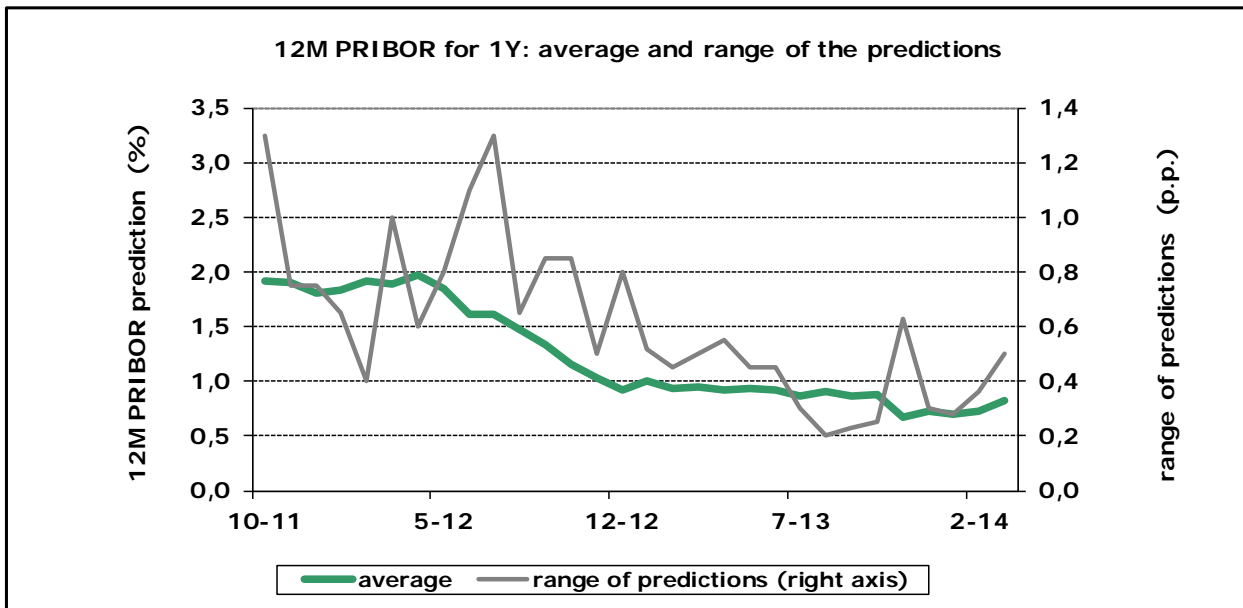
Prediction Horizon	1M 1Y 2W Repo Rate %		1M 1Y 12M PRIBOR %		1M 1Y 5Y IRS %		1M 1Y 10Y IRS %	
Date of Prediction								
2.13	0,05	0,10	0,84	0,93	1,00	1,35	1,50	1,93
3.13	0,05	0,10	0,81	0,95	1,00	1,39	1,51	2,01
6.13	0,05	0,10	0,76	0,92	1,12	1,44	1,63	2,03
8.13	0,05	0,10	0,76	0,90	1,48	1,78	2,10	2,40
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
2.14	0,05	0,14	0,56	0,73	1,17	1,61	1,96	2,46
3.14	0,05	0,12	0,58	0,82	1,30	1,87	1,88	2,39

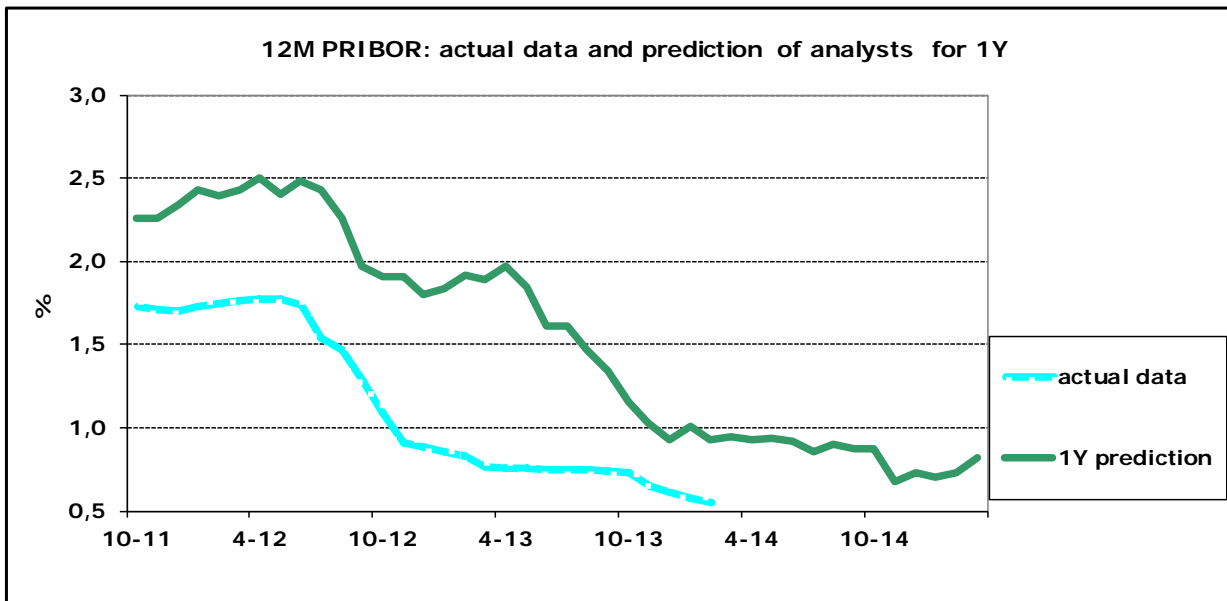
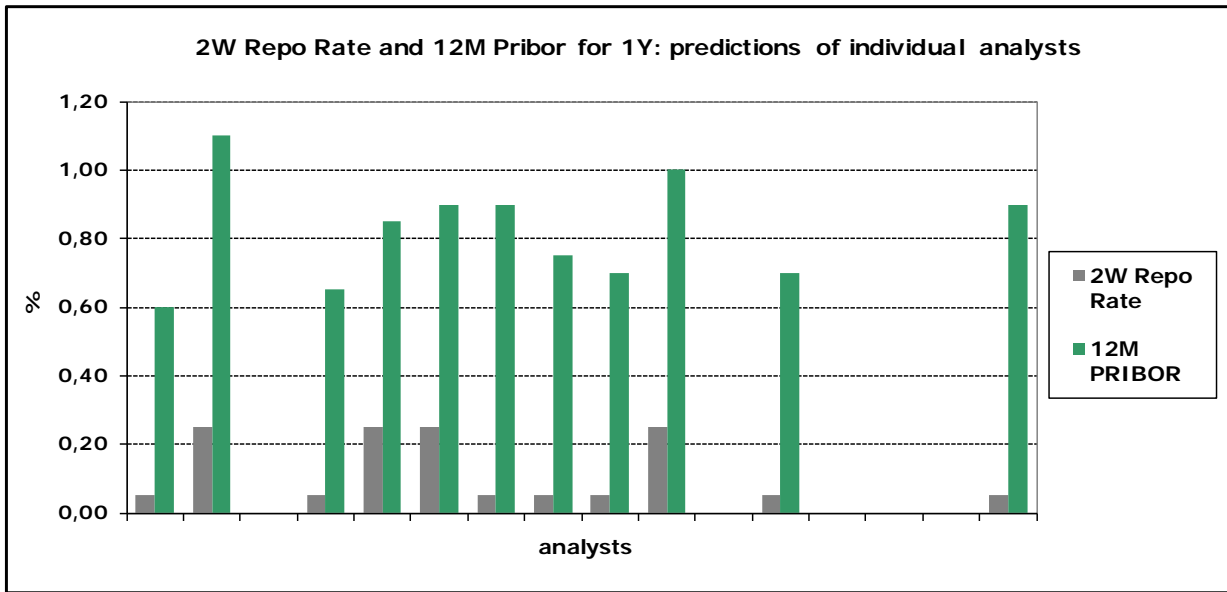
**Actual indicator values as of forecast deadline**

	2W Repo Rate	12M PRIBOR	5Y IRS	10Y IRS
<b>13.3.</b>	0,05%	0,55%	1,20%	1,92%

The 2W repo rate forecast fell slightly at the one-year horizon compared to the February survey. Four analysts expect this key CNB interest rate to be raised in March 2015, while the other respondents still believe it will remain at technical zero (0.05%) over the next 12 months.

The forecasts for 12M PRIBOR reference rates also shifted slightly upwards at both the one-month and one-year horizons. IRS swap rates recorded mixed movements. The 5Y IRS forecasts increased at both horizons (by 13 bp and 26 bp at the one-month and one-year horizons respectively), and the corresponding market rates changed considerably more compared to the previous survey (+4 bp). By contrast, the 10Y IRS forecasts fell slightly (by 8 bp and 7 bp respectively).







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
2.14	27,42	26,95
3.14	27,34	26,86

March 2014	1M	1Y
	Exchange Rate CZK/EUR	
minimum	27,30	26,20
average	27,34	26,86
maximum	27,50	27,50

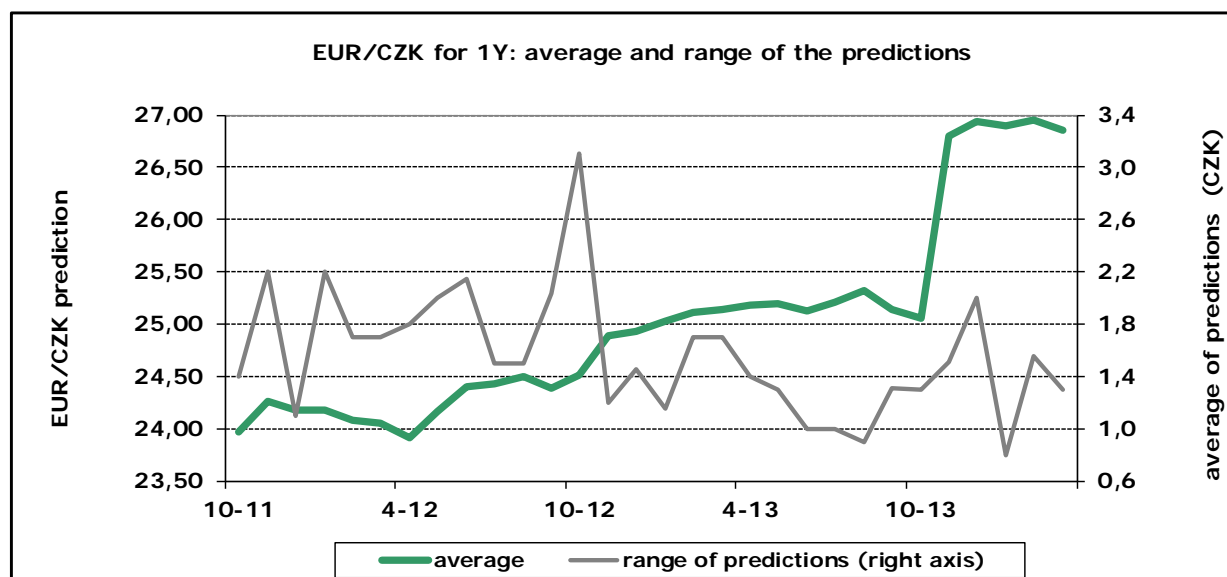
Actual EUR/CZK as of forecast deadline

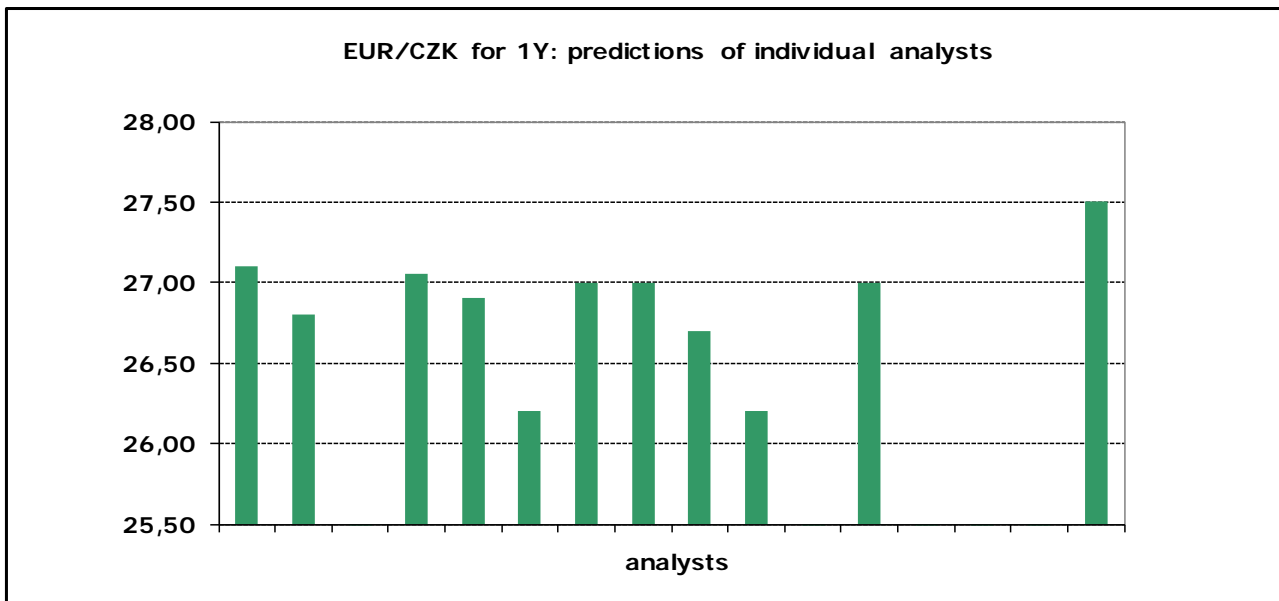
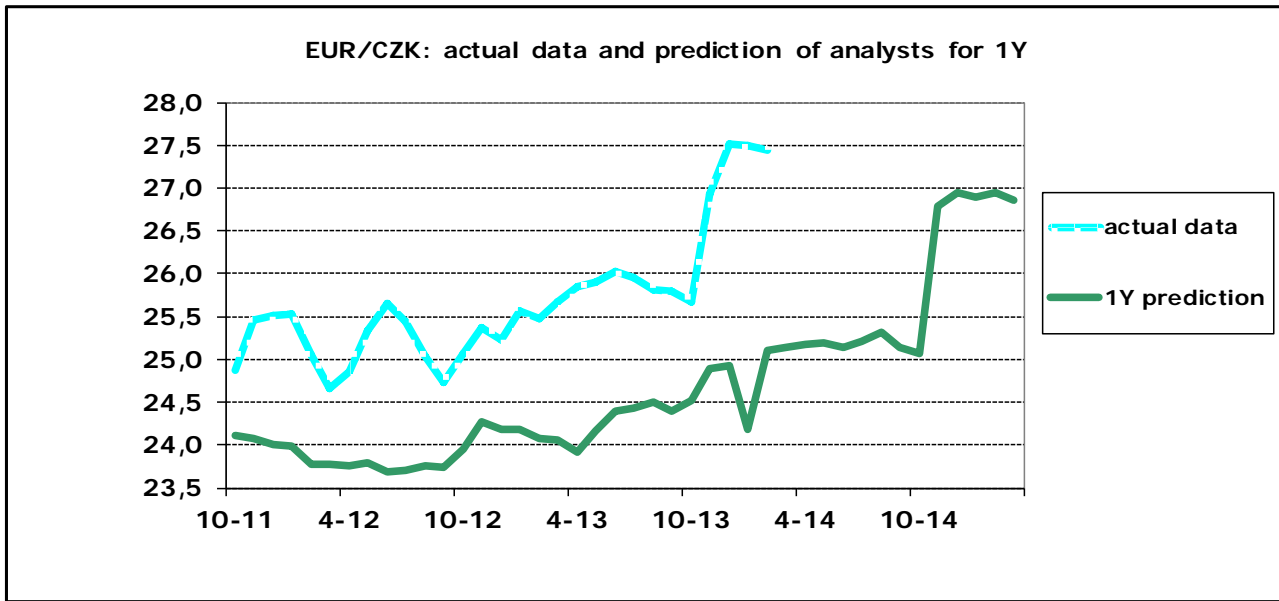
13.3.	27,36
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Both the one-month and one-year forecasts for the exchange rate of the koruna against the euro shifted to a stronger level compared to the previous survey, and to a greater extent than the koruna appreciated on the FX market compared to the closing date of the February survey. According to the analysts, the koruna should thus be fluctuating around CZK 27.34/EUR in mid-April and should firm to CZK 26.86/EUR over the following 11 months.

The analysts still differ widely in their opinions on when the CNB will end its commitment to maintain the exchange rate close to CZK 27 to the euro. Their individual estimates have regrouped since the previous survey, but half of them still believe that the CNB will abandon its commitment by mid-2015. The other respondents expect this to happen later – one at the start of 2016 and the others in 2017.

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





March 2014	end of year	
	current	+1Y
	Wages %	
minimum	1,60	2,10
average	2,18	2,95
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
2.14	2,1	2,8
3.14	2,2	3,0

The analysts see room for faster wage growth, particularly in 2015, probably owing to the better economic growth outlook and labour market stabilisation. The above table shows that nominal wages should increase by 2.2% on average in 2014 and by as much as 3.0% in 2015.

The respondent who made a distinction between the forecast for nominal wage growth in the business sector and that in the non-business sector left his estimate almost unchanged, expecting wages to rise by 2.5% in the business sector and by 2.3% in the non-business sector in 2014 and to accelerate to 4.1% and 3.3% respectively in 2015.

