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# FINANCIAL MARKET INFLATION EXPECTATIONS – APRIL

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Financial Markets Department  
Operations Analyses Division

2014

Eleven domestic and three foreign analysts sent in their contributions to the April survey. The results reveal that the one-year inflation forecast decreased slightly, returning to its February level. The estimate for GDP growth this year is unchanged. Next year the economy should grow at a slightly slower pace than expected in the previous survey. Five analysts expect the 2W repo rate to be increased to 0.25% by April 2015, while the others believe that it will remain at the current level. A slightly weaker forecast for the koruna exchange rate most likely reflects the change on the foreign exchange market in the last month. Nominal wage growth will be slightly faster next year than expected in March.

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>	+	+	+	+								
<b>Petr Dufek, ČSOB</b>	+	+	+	+								
<b>Petr Sklenář, J&amp;T Banka</b>	+	+	+	+								
<b>Radomír Jáč, Generali PPF</b>	+	+	+	+								
Jaromír Šindel, Citi	+			+								
Tomáš Holinka, Moody's Analytics	+	+	+	+								
<b>Jan Kudláček, AXA</b>	+	+	+	+								
FOREIGN ANALYSTS												
<b>Mateusz Szczurek, ING Bank</b>												
Magdalena Polan, Goldman Sachs	+	+		+								
<b>Joan Hoey, 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.

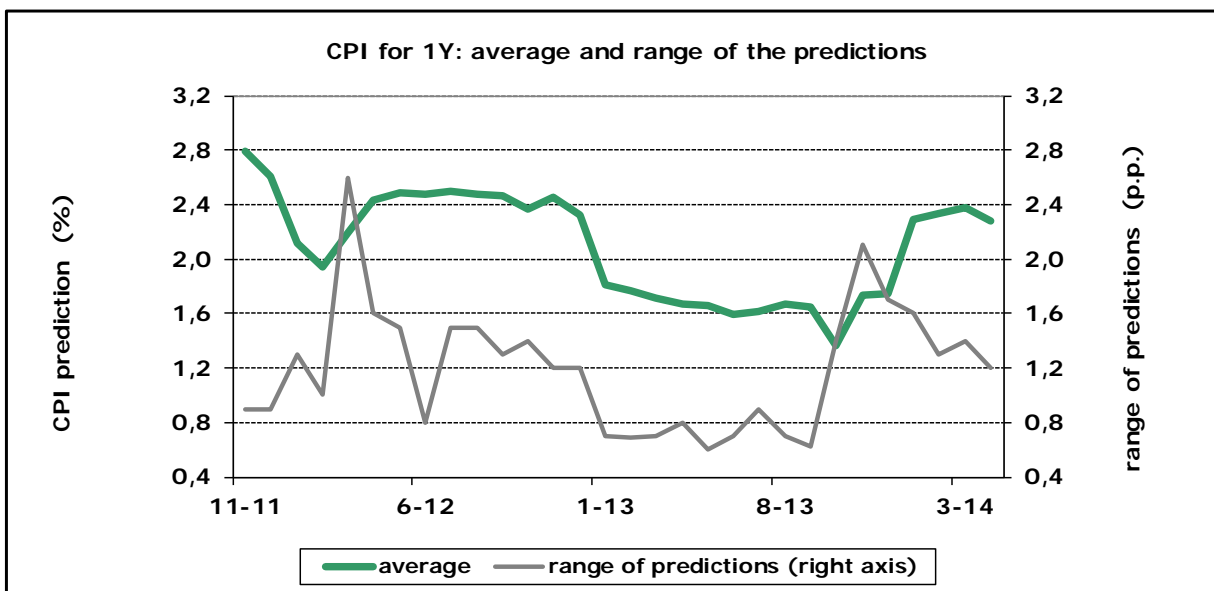
Prague, 28 April 2014

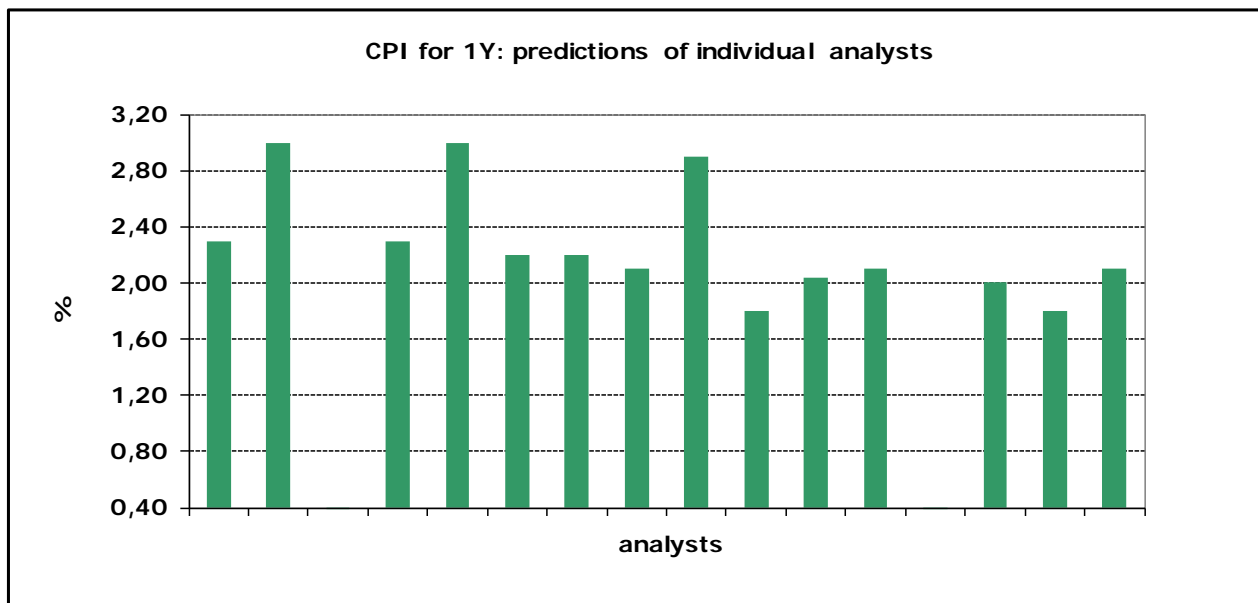
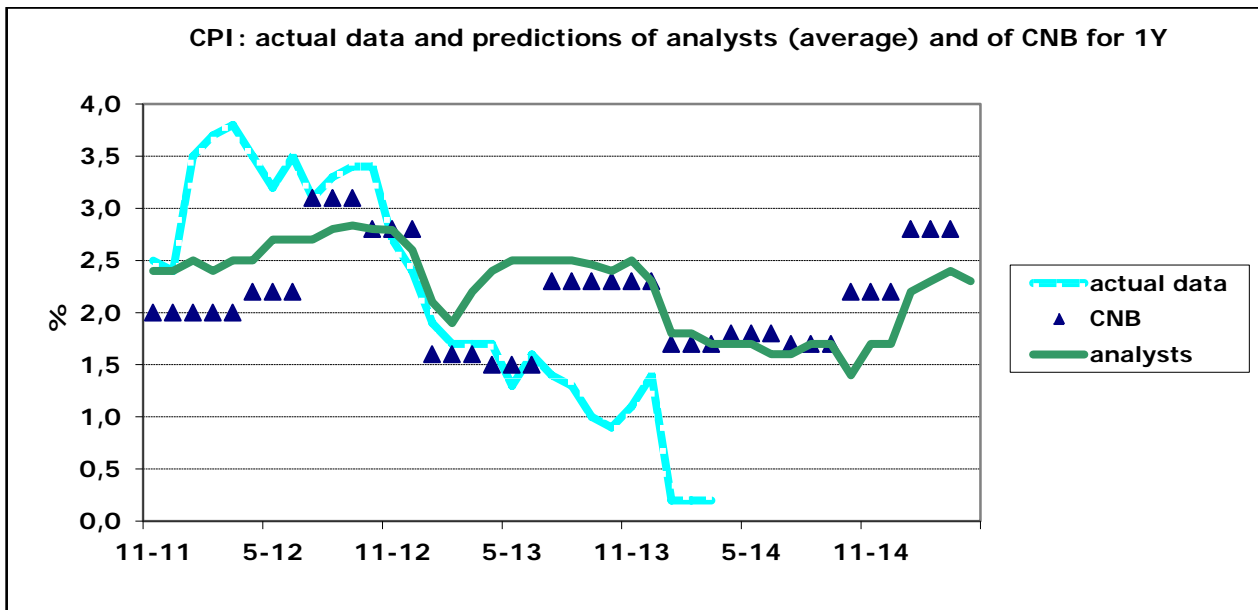
April 2014	1Y CPI y/y %	3Y CPI y/y %
minimum	1,8	1,5
average	2,3	2,1
maximum	3,0	2,7

Prediction Horizon	1Y	3Y	1Y CNB %
Date of Prediction	y/y CPI %		
4.13	1,7	1,9	1Q: 1,7
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	1Q: 2,8
3.14	2,4	2,1	
4.14	2,3	2,1	

The annual average inflation forecast was 0.1 pp lower than in the previous survey, returning to its February level (2.3%). The three-year forecast remains stable at 2.1%. The range of the forecasts narrowed at the one-year horizon but widened at the three-year horizon.

There is a view among analysts that inflation has bottomed out and should start increasing slowly in the months ahead. At the end of the year it could already be close to the CNB's inflation target and even exceed it in the first quarter of next year. Lower electricity prices could pose a downside risk to consumer price inflation. Uncertainty surrounds VAT rates next year as well as the wage growth, which could indirectly affect demand-pull inflation. By contrast, higher food prices could foster stronger growth in inflation.



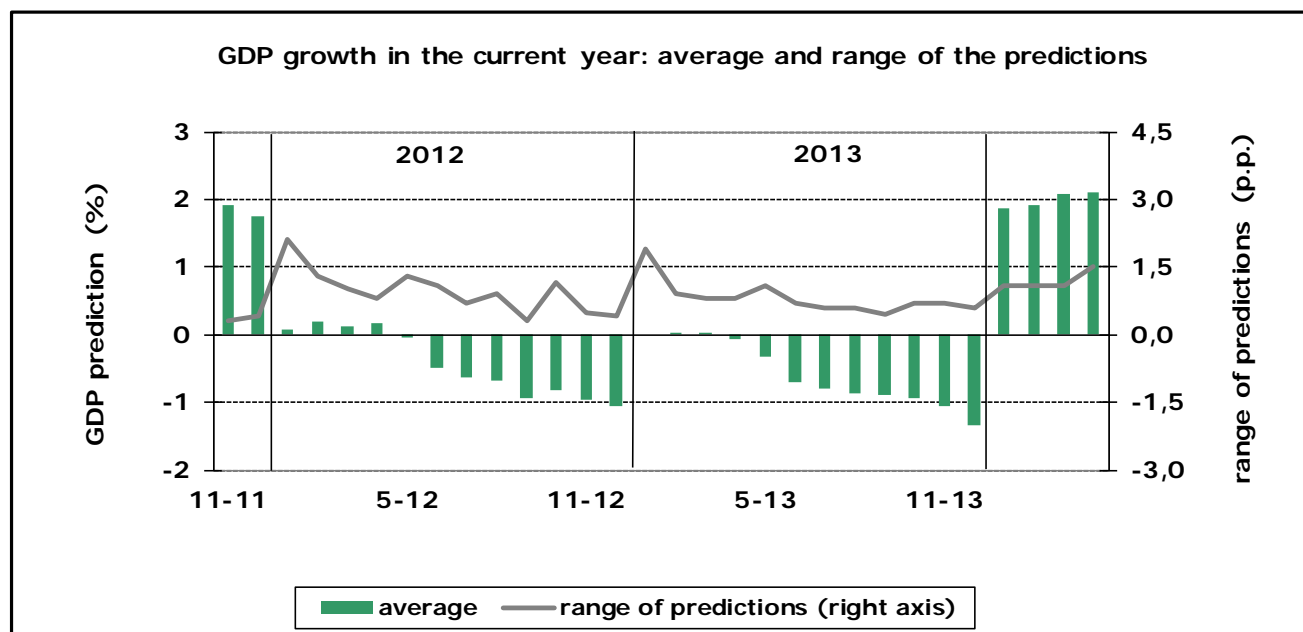


April 2014	end of year current +1Y GDP %	
	current	+1Y
minimum	1,4	2,2
average	2,1	2,5
maximum	2,9	3,0

Prediction Horizon Date of Prediction	end of year current +1Y % GDP Growth	
	current	current +1Y
4.13	-0,1	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
4.14	2,1	2,5

Although the CZSO revised the final GDP growth figure for 2013 Q4 slightly downwards, the average forecast for economic growth in the Czech Republic is unchanged at 2.1%. By contrast, the forecast for next year was lowered by 0.1 pp to 2.5%. The range of the forecasts for this year widened owing to an increase in the maximum value, while the range of the forecasts for next year stayed the same.

In view of the preceding large-scale frontloading of cigarettes, a sizeable quarter-on-quarter drop in GDP could occur in 2014 Q1. The economic recovery should become visible in the following quarters and household consumption may be stimulated by improving labour market conditions. However, the potential imposition of bilateral economic restrictions between the EU and Russia and the return of the koruna to an appreciating trend could dampen the expected economic growth.



April 2014	2W Repo Rate %		12M PRIBOR %		5Y IRS %		10Y IRS %	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0,05	0,05	0,54	0,52	1,05	1,42	1,75	2,05
average	0,05	0,12	0,57	0,80	1,20	1,74	1,90	2,41
maximum	0,05	0,25	0,65	1,10	1,50	2,45	2,15	3,00

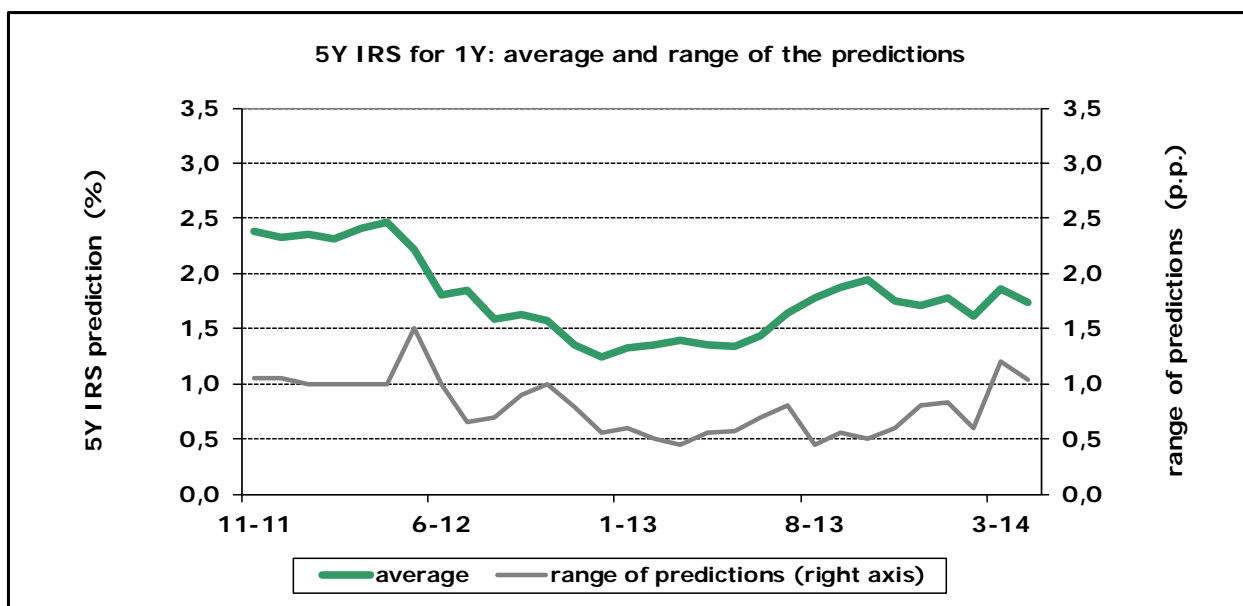
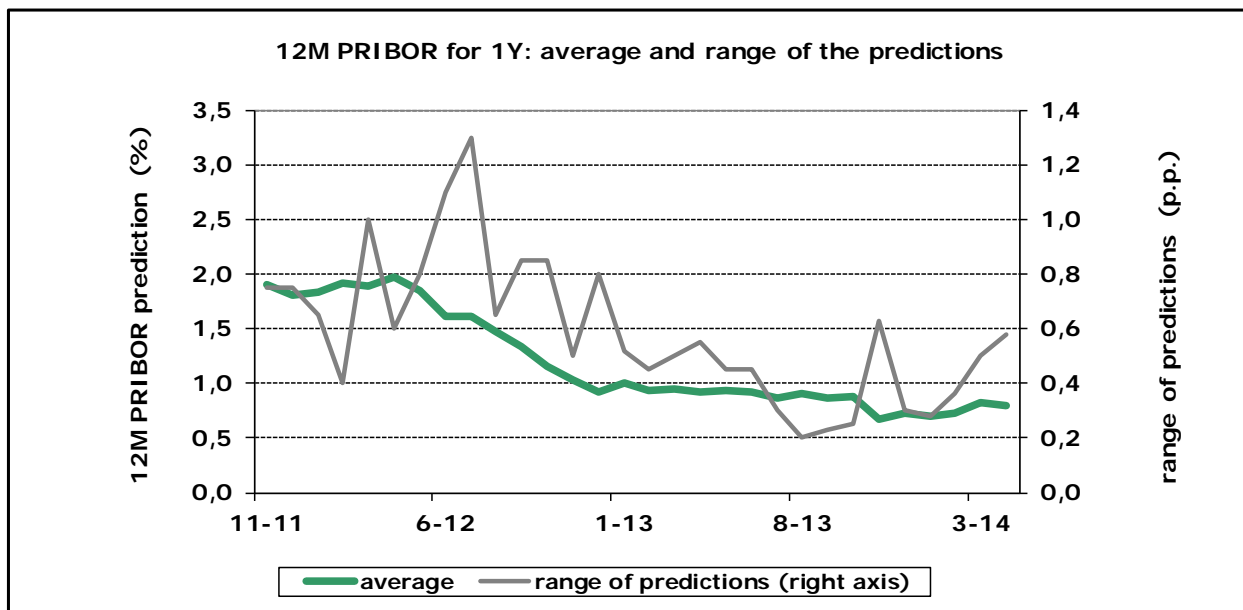
Prediction Horizon	2W Repo Rate %		12M PRIBOR %		5Y IRS %		10Y IRS %	
Date of Prediction	1M	1Y	1M	1Y	1M	1Y	1M	1Y
4.13	0,05	0,10	0,79	0,93	0,86	1,36	1,36	1,84
6.13	0,05	0,10	0,76	0,92	1,12	1,44	1,63	2,03
8.13	0,05	0,10	0,76	0,90	1,48	1,78	2,10	2,40
10.13	0,05	0,07	0,73	0,87	1,48	1,94	2,11	2,46
12.13	0,05	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
4.14	0,05	0,12	0,57	0,80	1,20	1,74	1,90	2,41

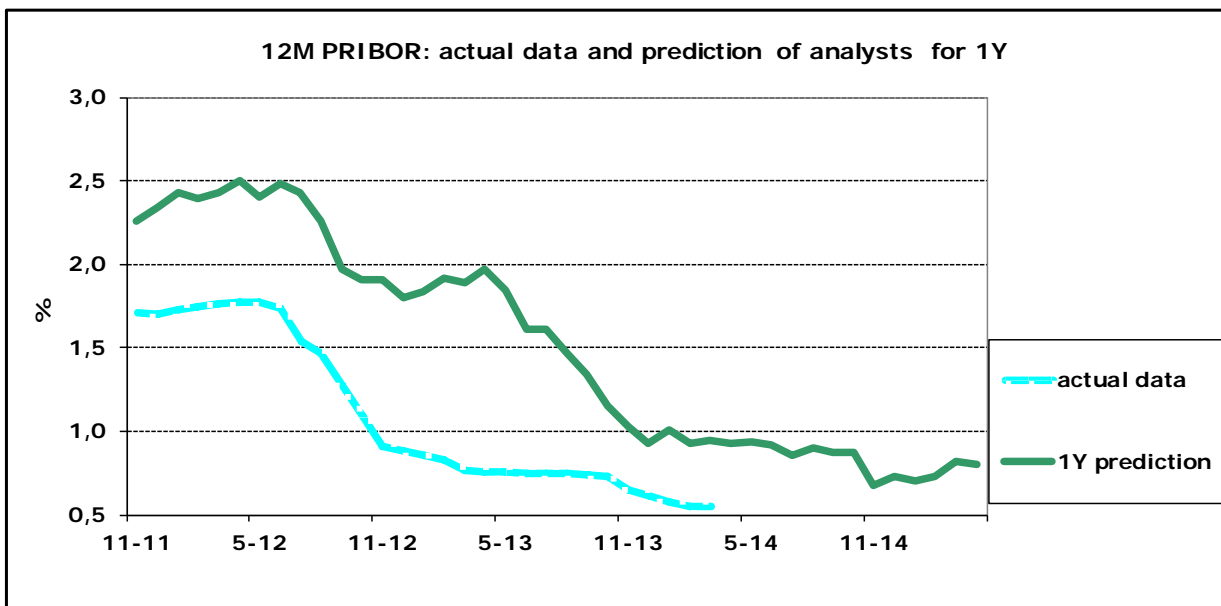
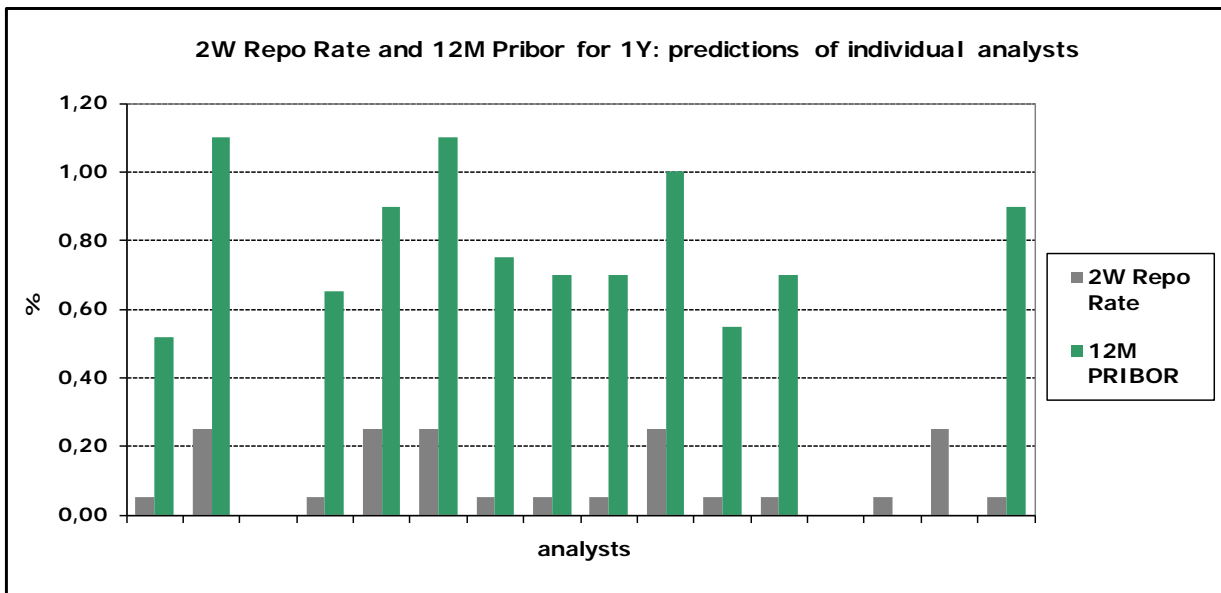
**Actual indicator values as of forecast deadline**

	2W Repo Rate	12M PRIBOR	5Y IRS	10Y IRS
<b>14.4.</b>	0,05%	0,55%	1,05%	1,74%

The average annual forecast for the 2W repo rate remained unchanged from the March survey, with five analysts expecting a policy tightening in the form of a rise in the key interest rate of 20 bp and the others predicting that the 2W repo rate will still be 0.05% in April 2015.

The forecasts for 12M interbank market reference rates (PRIBOR) saw only a marginal decrease (1–2 bp). 5Y IRS swap rates saw a more pronounced decline (10 bp at the one-month horizon and 13 bp at the one-year horizon), but 10Y IRS swap rates actually increased by 2bp at both horizons. The analysts expect growth at longer maturities to be driven by US yields, but the increase will be moderated by relatively stable German yields, which strongly affect the domestic market.







Prediction Horizon	1M	1Y
Date of Prediction	Exchange Rate EUR/CZK	
4.13	25,71	25,18
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
4.14	27,40	26,96

April 2014	1M	1Y
	Exchange Rate CZK/EUR	
minimum	27,20	26,20
average	27,40	26,96
maximum	27,60	27,50

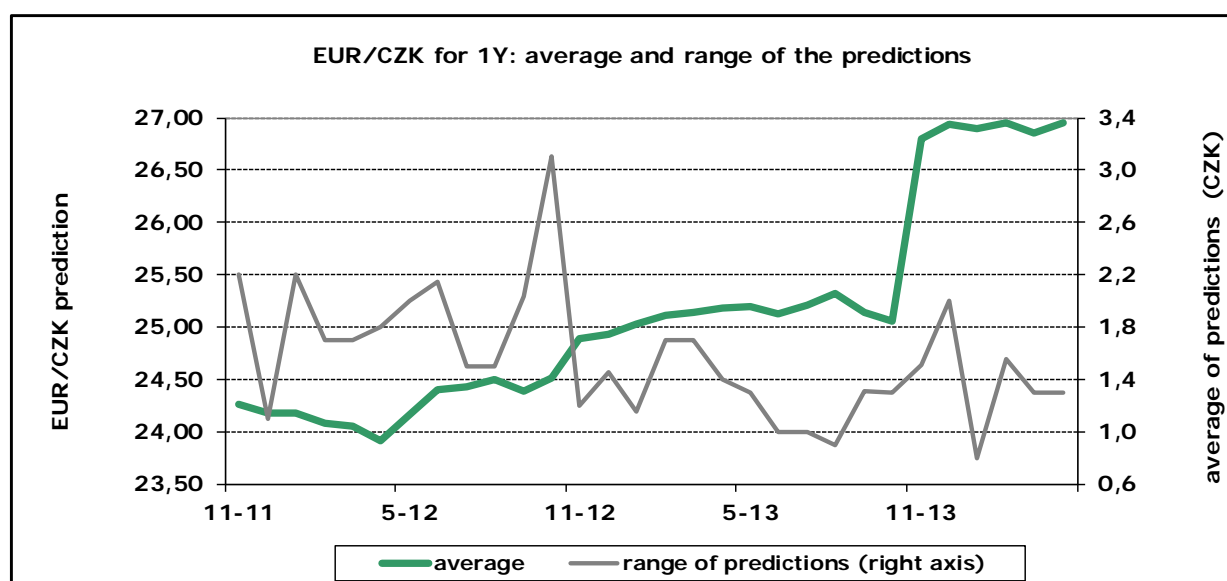
**Actual EUR/CZK as of forecast deadline**

<b>14.4.</b>	<b>27,47</b>
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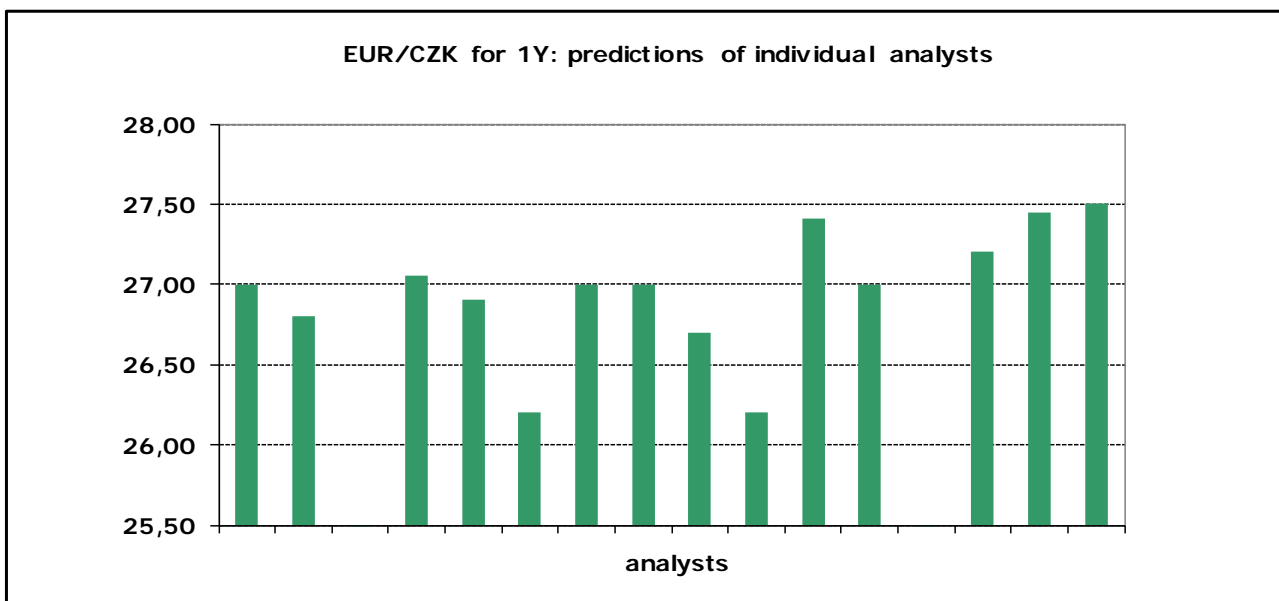
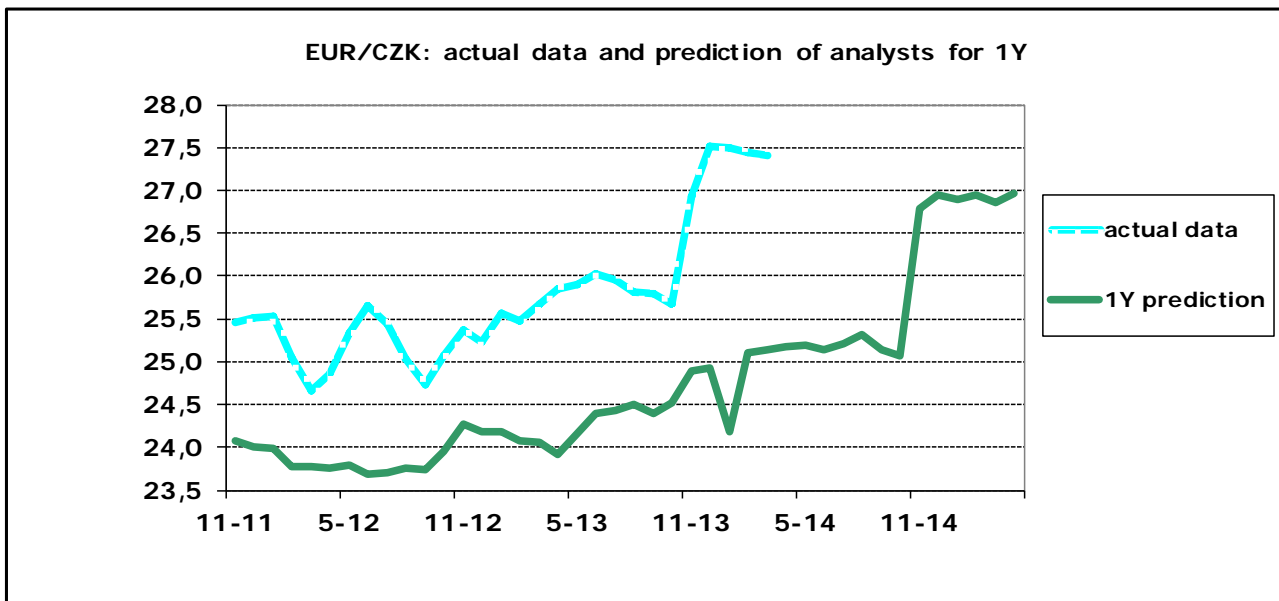
Both the one-month and one-year forecasts for the koruna-euro exchange rate are slightly weaker than in the previous survey, returning to their February levels (see the table above). The magnitude and direction of this shift reflect the change in the forex exchange rate over the last month. However, some analysts admit that the koruna could weaken in reaction to a surprisingly large quarterly fall in GDP in 2014 Q1<sup>1</sup>.

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, although most estimates lie in the first half of 2015. However, it is likely that the CNB will not then let the exchange rate float freely; rather, it will introduce some sort of gradual and managed appreciation. However, this step may be delayed by slower resurgence of inflation.

Expected exit	Number of analysts
2014	1
1H 2015	6
2H 2015	5
2016	1
2017	1



<sup>1</sup> The CZSO is to publish GDP data for 2014 Q1 in mid-May.



April 2014	end of year	
	current	+1Y
	Wages %	
minimum	0,90	1,90
average	2,16	3,05
maximum	3,00	4,00

Prediction Horizon Date of Prediction	end of year	
	current	current+1Y
	% Wage Growth	
4.13	2,1	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
4.14	2,2	3,1

The forecast for nominal wage growth this year is unchanged at 2.2%. Coupled with low inflation, this could mean an increase in real wages. The continuing rise in the nominal wage outlook next year to 3.1% confirms stronger confidence in a market recovery and disproves the hypothesis that analysts are overly optimistic at the start of the year and have to revise their views downwards over time.

The analysts who break down wage growth further expect wage growth in the business sector to stand at 2.5% on average this year and accelerate to 3.9% next year. Wages in the non-business sector should rise by 1.7% this year and 3.2% next year.

