



# FINANCIAL MARKET INFLATION EXPECTATIONS – MAY

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Financial Markets Department  
Operations Analyses Division

2014

Nine domestic and three foreign analysts sent in their contributions to the May survey. The results show that the analysts are now more optimistic about future economic growth, which should, however, be accompanied by slightly lower inflation than expected in April. Four analysts expect the 2W repo rate to increase at the one-year horizon, with one of them expecting it to rise to 0.50%. The IRS forecasts recorded a marked downward shift, while the outlook for the koruna's exchange rate was almost unchanged from the previous survey. Despite signs of a labour market recovery, the analysts expect lower nominal wage growth.

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>Magdalena Polan, Goldman Sachs</b>	+	+		+	+							
Joan Hoey, The Economist Intelligence Unit	+	+		+	+							
<b>Nicolaie Alexandru, JP Morgan</b>		+	+	+	+							

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

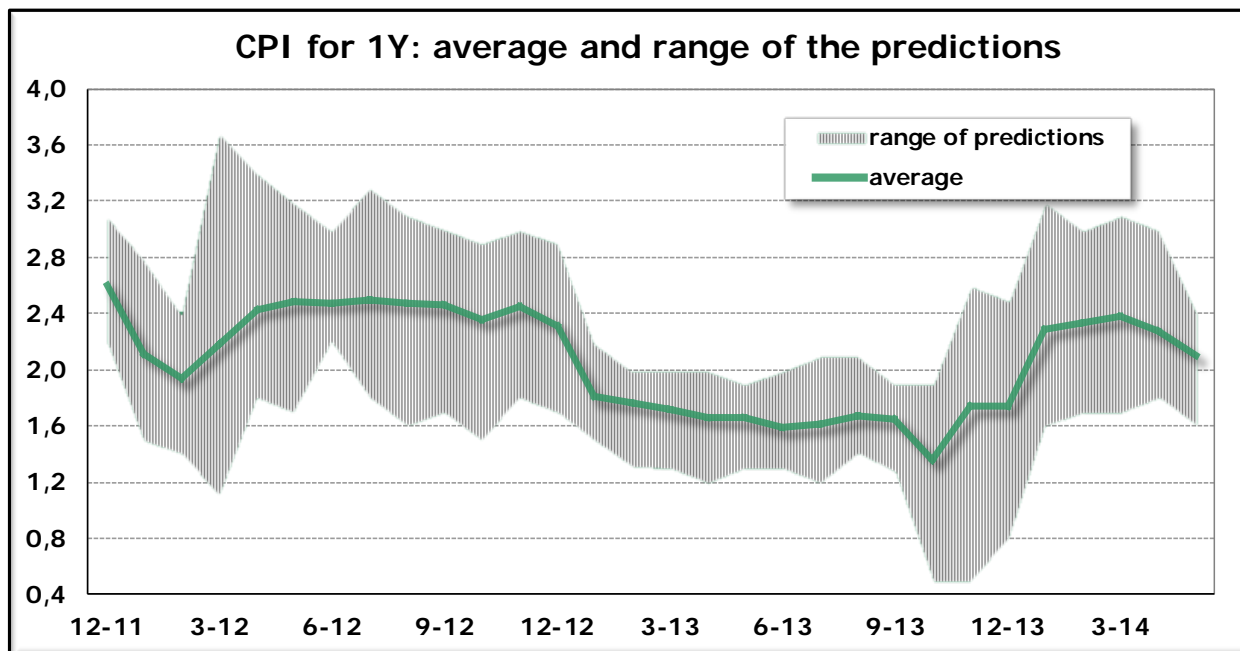
Prague, 27 May 2014

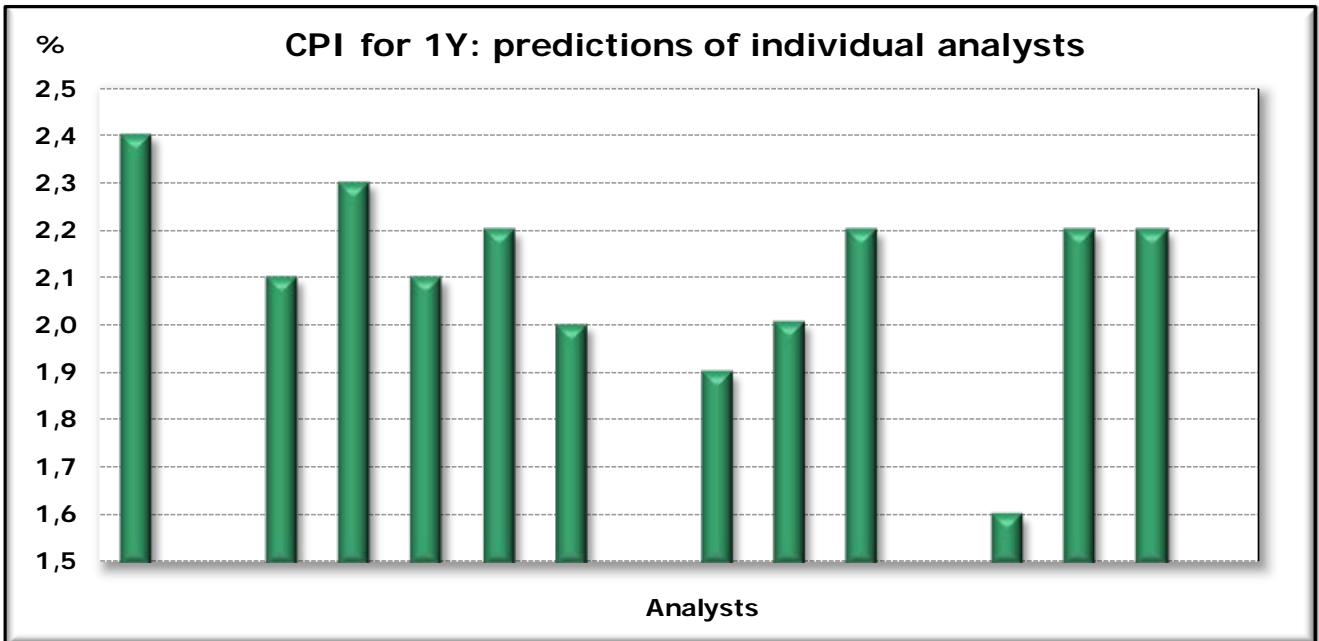
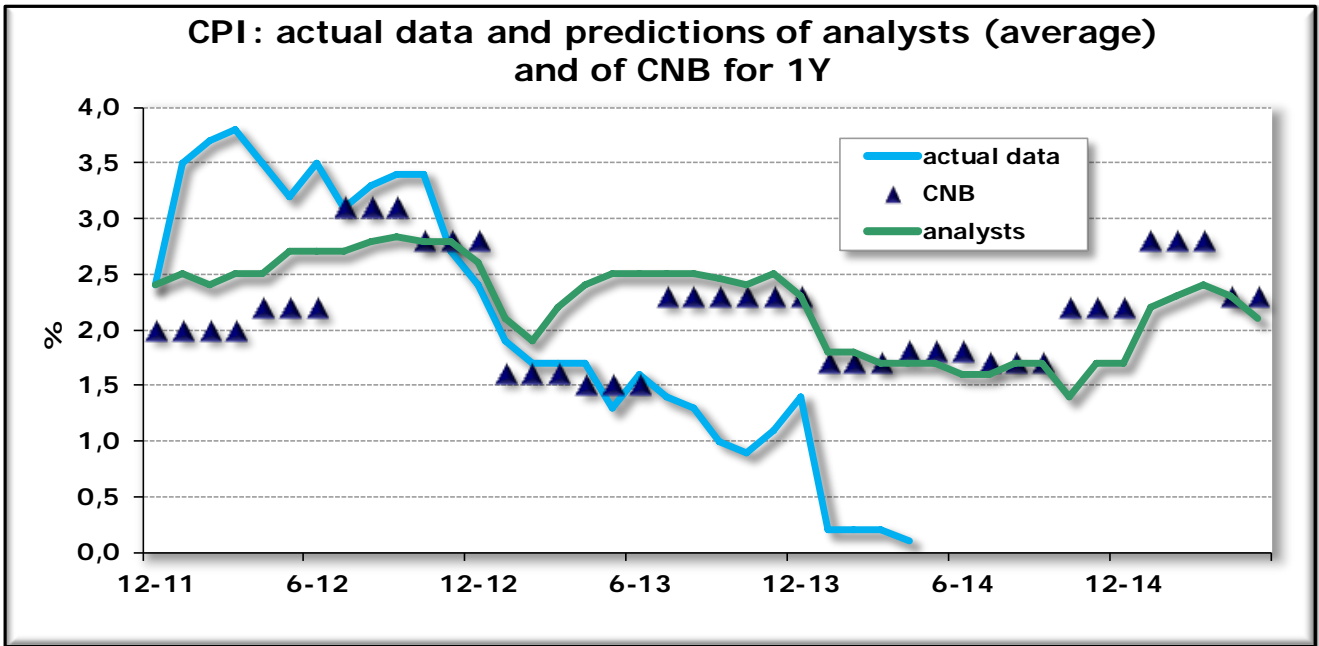
May 2014	1Y CPI y/y %	3Y CPI y/y %
minimum	1,6	1,5
average	2,1	2,0
maximum	2,4	2,7

Prediction Horizon Date of Prediction	1Y y/y CPI %	3Y y/y CPI %	1Y CNB %
5.13	1,7	2,0	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
4.14	2,3	2,1	
5.14	2,1	2,0	2Q: 2,3

The annual average inflation forecast was 0.2 pp lower than in the previous survey (2.1%) and the three-year forecast fell by 0.1 pp exactly to the 2% the inflation target set by the CNB. The range of the one-year forecasts narrowed owing to a larger decline in the maximum value, while the range of the three-year forecasts was unchanged.

The analysts still expect inflation to bottom out and start increasing in the months ahead, albeit at a lower rate than expected a month ago. According to some analysts, anti-inflationary risks prevail, owing, for example, to the starting conditions or a lower inflation outlook in the EMU. The consumer price index should reach the inflation target at the very end of 2014 or during the first half of 2015.



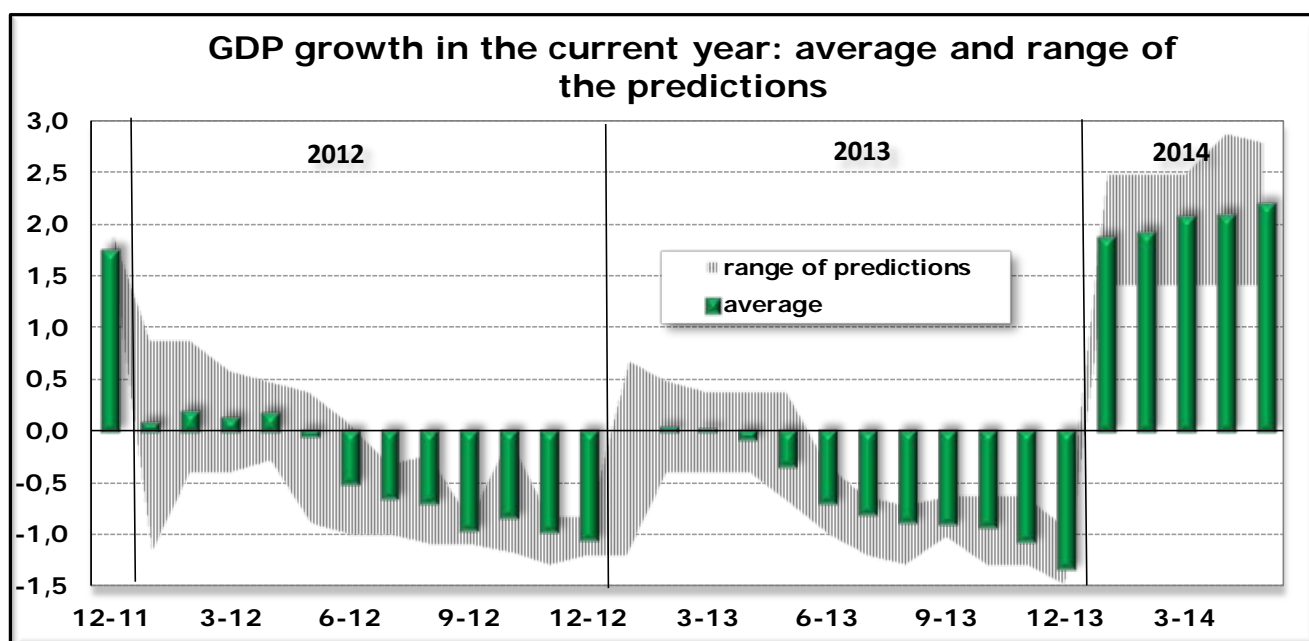


May 2014	end of year	
	current	+1Y
	GDP %	
minimum	1,4	2,3
average	2,2	2,6
maximum	2,8	3,1

Prediction Horizon Date of Prediction	end of year	
	current	current +1Y
	% GDP Growth	
5.13	-0,3	1,8
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
4.14	2,1	2,5
5.14	2,2	2,6

The average forecast for economic growth in the Czech Republic increased by 0.1 pp for both this year and the next. The domestic economy is expected to grow by 2.2% in 2014 and pick up to 2.6% next year. The range of the forecasts for this year narrowed slightly owing to a decline in the maximum value, while the difference between the maximum and minimum values remained unchanged in the forecasts for 2015.

According to the analysts, the increase in the average forecast was due to better macroeconomic data from the Czech Republic and from abroad (the economic recovery in the EMU in particular). Domestic economic growth is being driven mainly by manufacturing, while exports are the motor on the expenditure side. However, fixed investment is expected to gradually become a major contributor to the domestic economic recovery, owing to statistical base effects, improving sentiment among entrepreneurs and fiscal expansion, which is also having some effect on private sector investment activity. The end of fiscal consolidation will also probably boost private consumption.



May 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	0,37	0,55	0,80	1,33	1,50	1,85
<b>average</b>	0,05	0,13	0,52	0,73	0,92	1,62	1,62	2,28
<b>maximum</b>	0,05	0,50	0,55	1,10	1,05	2,20	1,70	2,90

Prediction Horizon	1M 1Y 2W Repo Rate %		1M 1Y 12M PRIBOR %		1M 1Y 5Y IRS %		1M 1Y 10Y IRS %	
Date of Prediction								
5.13	0,05	0,09	0,77	0,94	0,84	1,34	1,36	1,89
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
4.14	0,05	0,12	0,57	0,80	1,20	1,74	1,90	2,41
5.14	0,05	0,13	0,52	0,73	0,92	1,62	1,62	2,28

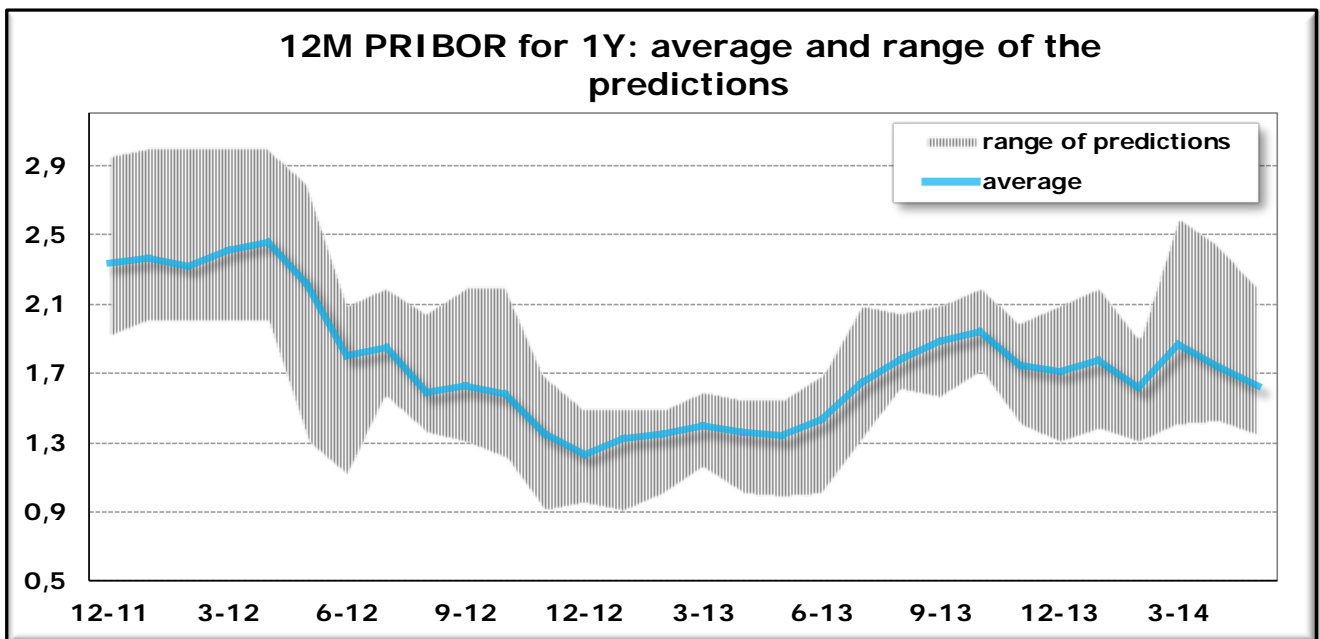
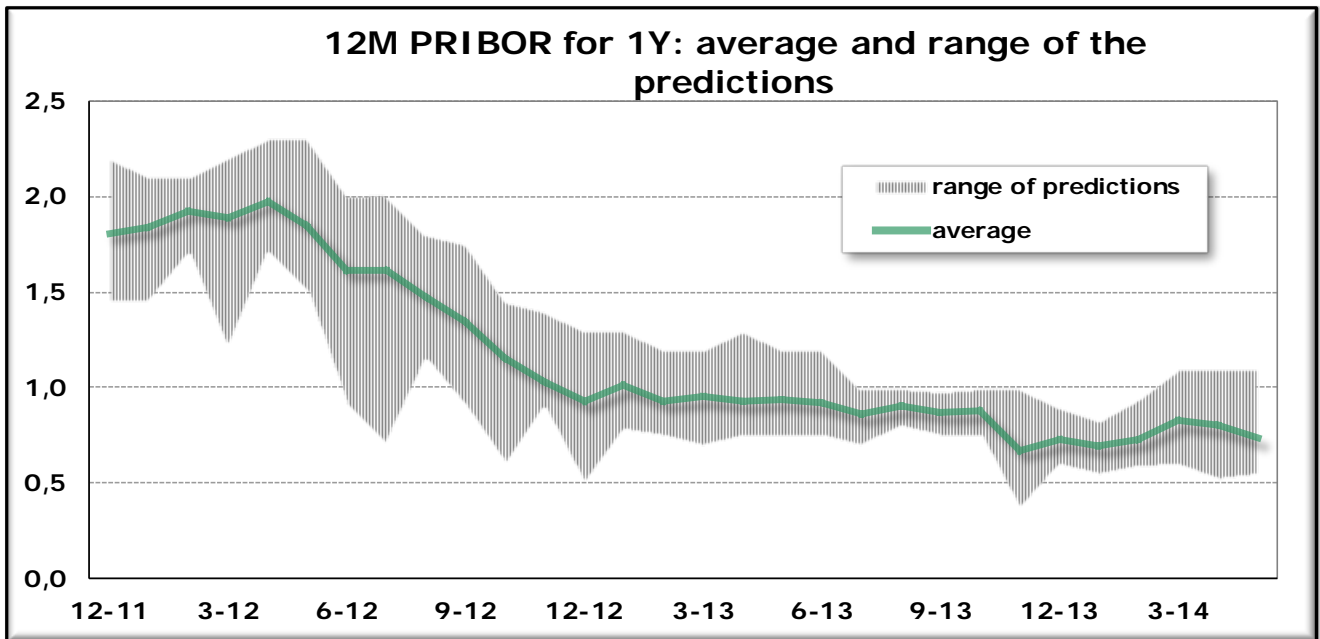
**Actual indicator values as of forecast deadline**

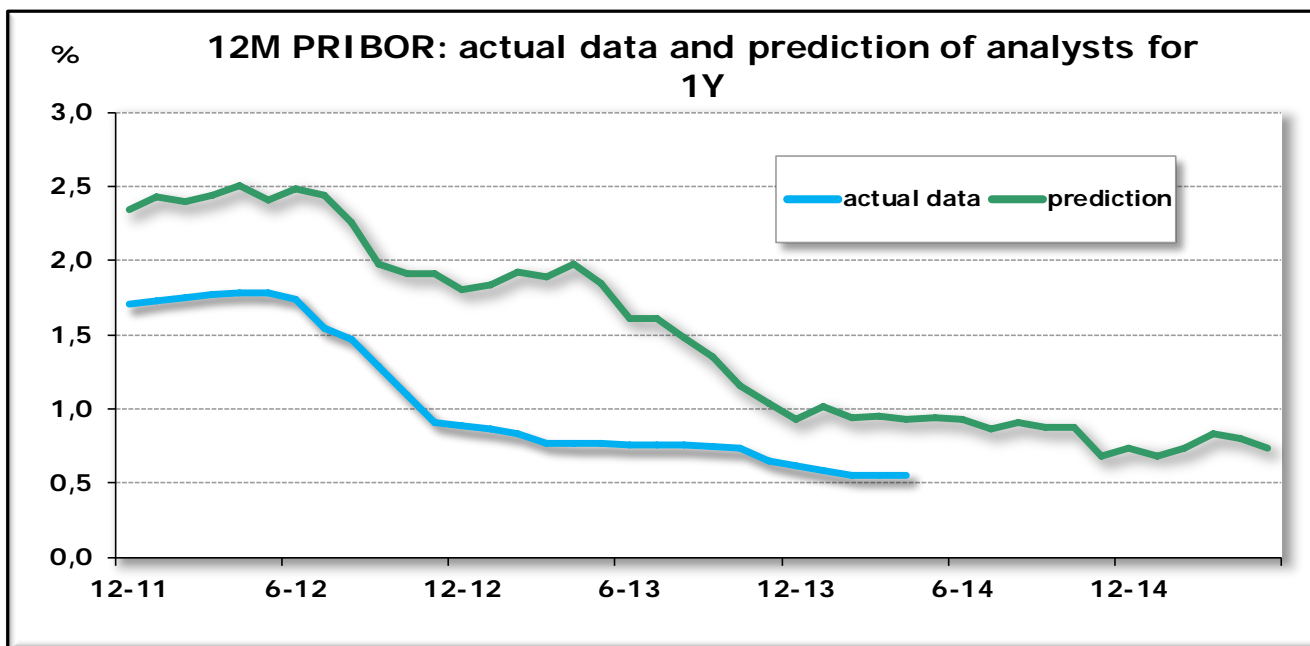
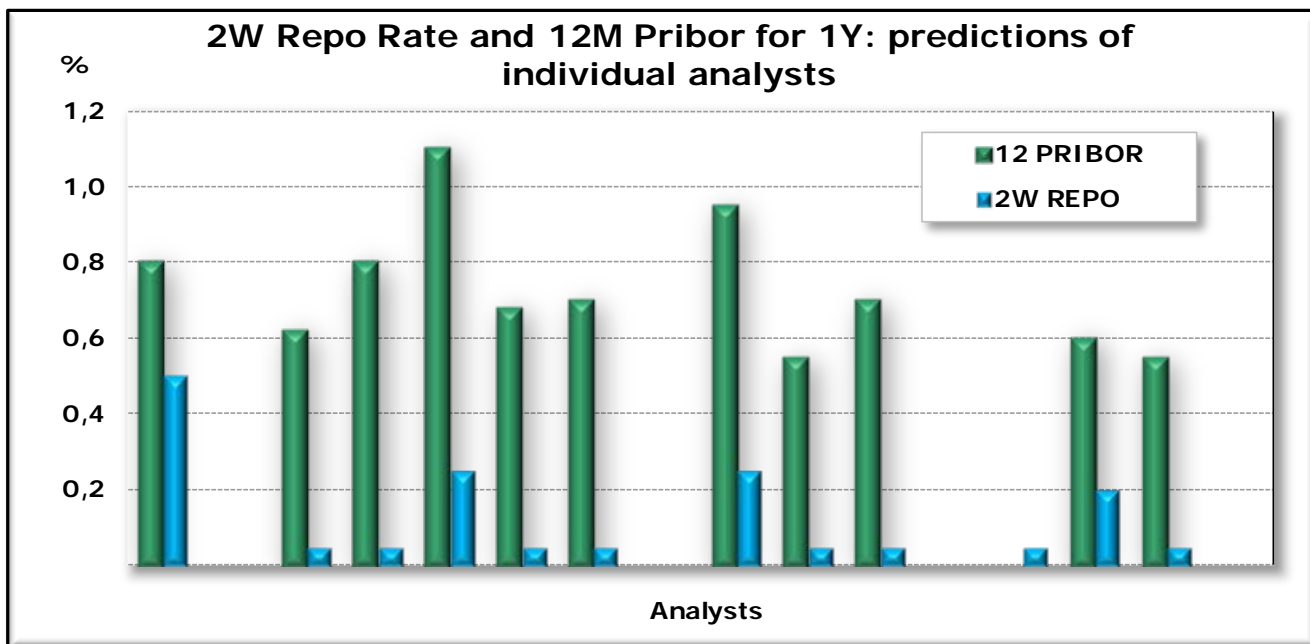
	2W Repo Rate	12M PRIBOR	5Y IRS	10Y IRS
<b>15.5.</b>	0,05%	0,54%	0,86%	1,53%

One-third of the analysts expect the 2W repo rate to rise at the one-year horizon, with one of them expecting an increase of 0.50%. The other respondents still expect this key rate to stay at technical zero, i.e. 0.05%.

The forecasts for 12M interbank market reference rates (PRIBOR) and IRS rates shifted downwards. This fall was probably due significantly to market rates, which have dropped by around 20 bp since the last survey.

According to the analysts, the decline in the PRIBOR and IRS forecasts was due to the easy monetary conditions both in the Czech Republic and abroad, the prospect of relatively low inflation with no major upward pressures, and especially to the lower IRS rate outlook in the EMU.







Prediction Horizon	1M	1Y
Date of Prediction	Exchange Rate EUR/CZK	
5.13	25,90	25,20
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
4.14	27,40	26,96
5.14	27,37	26,96

May 2014	1M	1Y
	Exchange Rate CZK/EUR	
minimum	27,20	26,20
average	27,37	26,96
maximum	27,50	27,53

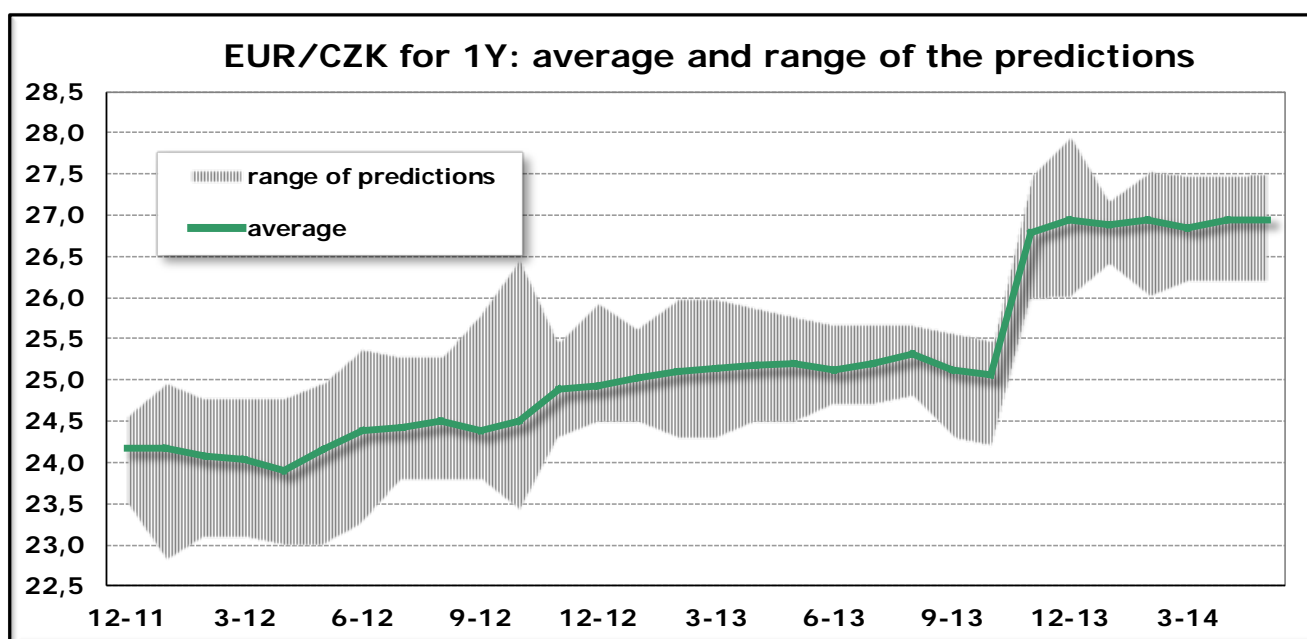
Actual EUR/CZK as of forecast deadline

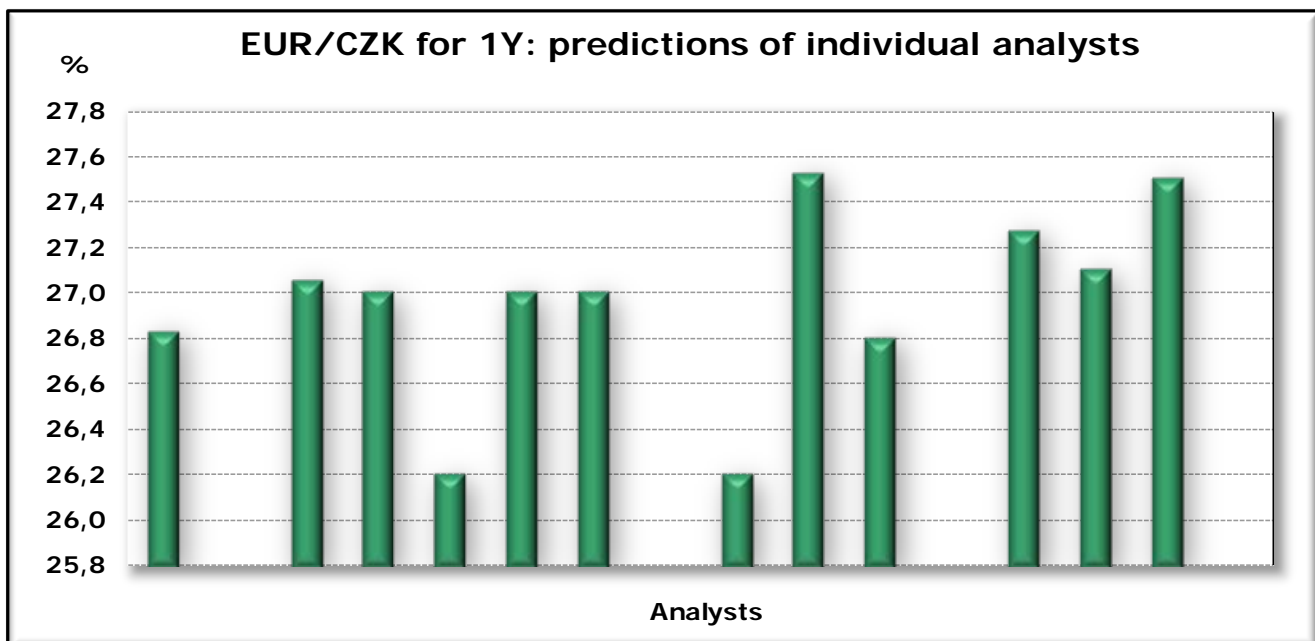
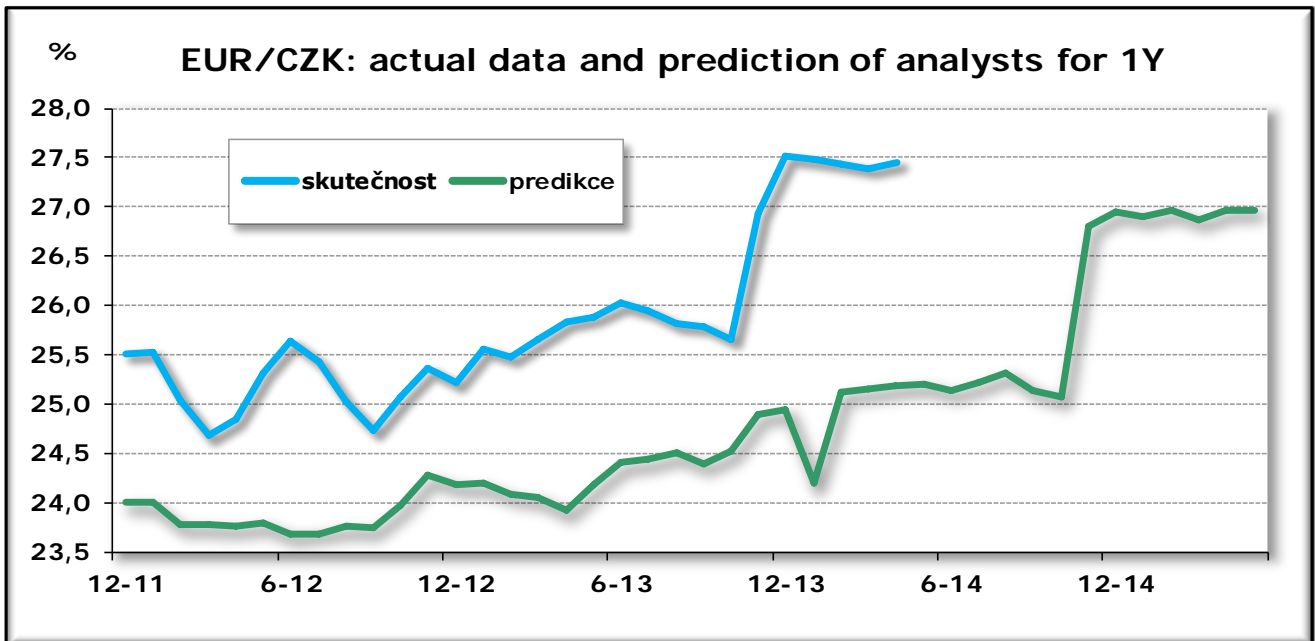
15.5.	27,44
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The koruna-euro rate was almost unchanged from the April survey and the analysts' forecasts remain almost at the previous level. While the one-month forecast shifted to stronger levels (up by CZK 0.03 to the euro), the one-year forecast was unchanged.

The analysts regard the CNB's commitment to maintain the koruna's exchange rate close to CZK 27 to the euro until early 2015 as very credible and on average expect the koruna not to appreciate below this level until May 2015. At the same time, it is not apparent from the individual forecasts that any of the analysts expect the CNB's commitment to be moved to a weaker level; rather, the view is that if necessary the CNB would indeed extend the duration of the current exchange rate commitment. The estimates for the end dates of this commitment are mostly in 2015, concentrated around the middle of the year.

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





May 2014	end of year	
	current	+1Y
	Wages %	
minimum	1,00	1,50
average	2,01	2,95
maximum	2,50	4,00

Prediction Horizon Date of Prediction	end of year	
	current	current+1Y
	% Wage Growth	
5.13	1,9	2,8
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
4.14	2,2	3,1
5.14	2,0	2,9

Despite favourable signals from the labour market (a falling unemployment rate), the forecasts for nominal wage growth decreased by 0.2 pp for both this year and next. The analysts estimate that wages will grow just by 2.0% on average in 2014 and by only 2.9% in 2015. This will also give rise to lower upward pressures on inflation.

The analysts who made a deeper analytical distinction between the forecast for nominal wage growth in the business sector and that in the non-business sector still expect wages in the business sector to grow by 2.5% on average in 2014 and by 3.9% in 2015. Wages in the non-business sector should rise by 1.7% and 3.2% this year and the next respectively.

