



FINANCIAL MARKET INFLATION EXPECTATIONS – JULY

Financial Markets Department
Operations Analyses Division

2014

Nine domestic and three foreign analysts took part in the July survey. The one-year forecast for CPI growth the edged down compared to the previous survey, converging very close to the CNB's inflation target. The forecasts for domestic economic growth this year and the next remained unchanged despite a GDP revision. Only one analyst expects the 2W repo rate to increase in the next twelve months. The swap rate forecasts continue to follow a falling trend. The expected path of the koruna exchange rate moved towards marginally weaker levels at the one-year horizon. The analysts believe that the CNB will exit its current exchange rate commitment later than previously expected. Nominal wages are expected to rise at a faster pace both this year and the next.

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												
Magdalena Polan, Goldman Sachs	+	+		+	+		+					
Alex Nice, The Economist Intelligence Unit	+	+		+	+			+				
Nicolaie Alexandru, JP Morgan		+	+	+	+	+	+					

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

Prague, 23 July 2014

FORECAST FOR Y/Y CPI GROWTH (%)

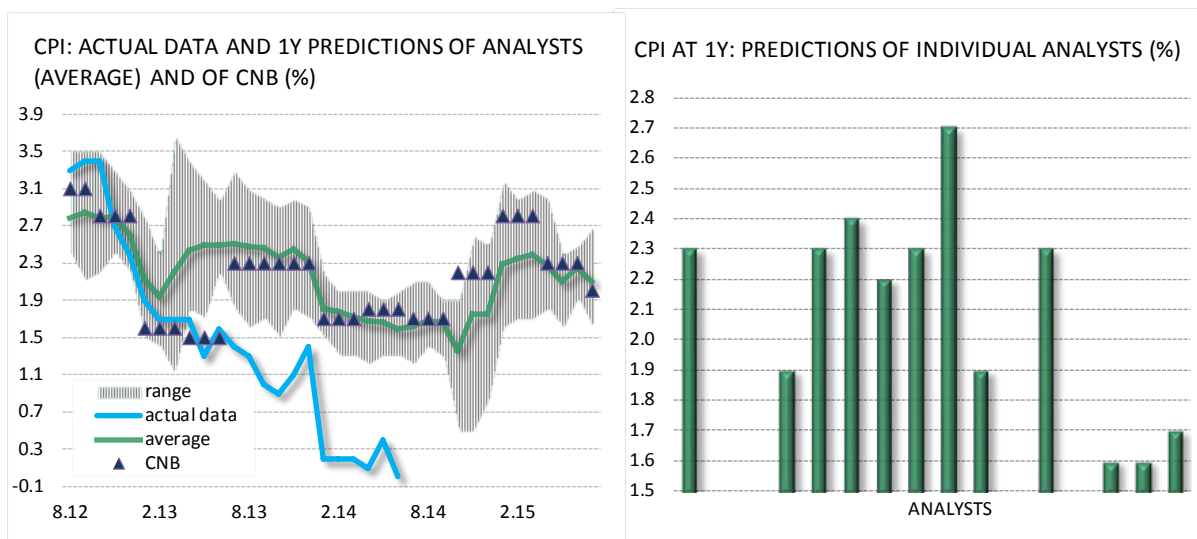
July 2014	CPI	
	1Y	3Y
minimum	1.60	1.50
average	2.10	2.03
maximum	2.70	2.40

1Y AND 3Y FORECAST FOR CPI GROWTH (%)

Date of Prediction	ANALYSTS		CNB
	1Y	3Y	v % 1Y
7.13	1.6	2.1	
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	
6.14	2.2	2.0	2Q: 2,3
7.14	2.1	2.0	

The one-year forecast for inflation has been following a gradual downward trend this year and moved 0.1 pp downwards compared to the previous survey to 2.1%. The three-year outlook again saw no change, with expectations remaining anchored at 2.0%. The range of the one-year forecasts widened due to a decrease in the minimum value and an increase in the maximum value, while the range of the three-year forecasts narrowed owing to a decline in the maximum value.

The inflation rate is expected to rise gradually and could converge to the inflation target of 2% in the first half of next year. There is a view among the analysts that the exit from the intervention regime will not take place until the inflation target is reached. At the same time, some analysts admit that the risks to their inflation forecasts are tilted towards lower levels.



FORECAST FOR GDP GROWTH (%)

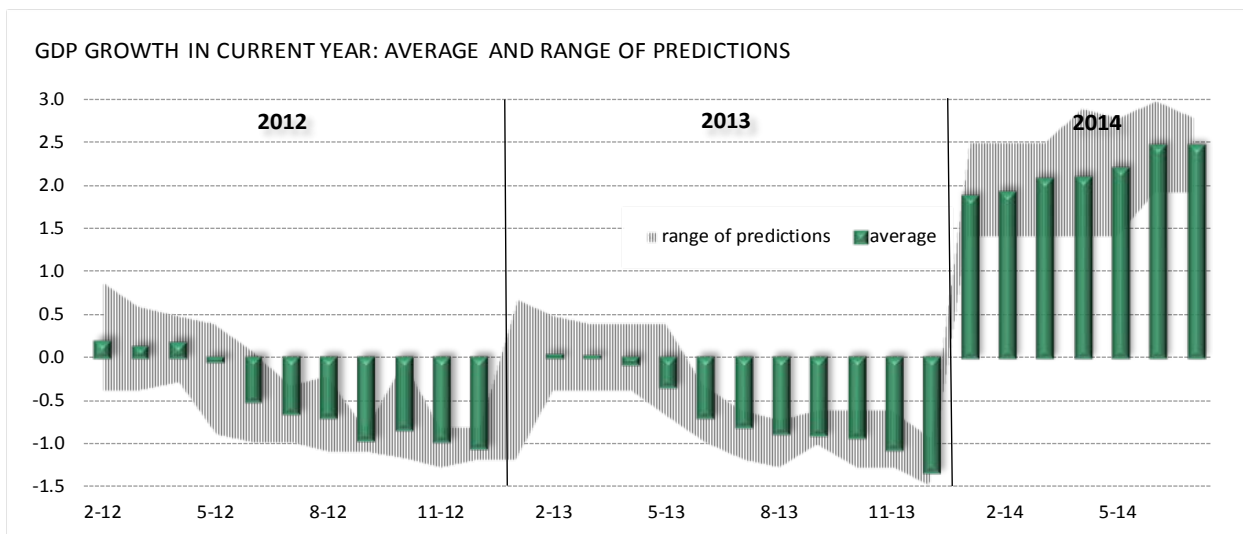
July 2014	end of year	
	current	current+1Y
minimum	1.9	2.4
average	2.5	2.7
maximum	2.8	3.0

FORECAST FOR GDP GROWTH (%)

Date of Prediction	end of year	
	current	current+1Y
7.13	-0.8	1.7
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
6.14	2.5	2.7
7.14	2.5	2.7

The final GDP data published by the CZSO showed that the Czech economy grew even faster in 2014 Q1 (by 2.9%) than indicated by the revised estimate (2.5%). However, this did not affect the analysts' forecasts. The domestic economy is expected to grow by 2.5% this year and accelerate to 2.7% next year. The range of the extreme forecasts for both this year and the next narrowed due to a decline in the maximum estimates.

The assessment of the data revision was naturally very favourable. The analysts consider it to be positive from the perspective of both the strength of the economic recovery and the structure of economic growth. According to the analysts, the increase in gross operating surplus should boost investment activity. However, further potential revisions, which could still be relatively sizeable and change the overall picture, are giving rise some doubts.



FORECAST FOR 2T REPO, 12 PRIBOR AND 5Y AND 10Y IRS (%)

Date of Prediction	2T repo rate		12M PRIBOR		5R IRS		10R IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
7.13	0.05	0.08	0.71	0.86	1.37	1.65	1.85	2.24
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
6.14	0.05	0.12	0.53	0.70	0.83	1.43	1.52	2.08
7.14	0.05	0.07	0.51	0.74	0.76	1.39	1.44	2.09

FORECASTS: MINIMUM, AVERAGE AND MAXIMUM 2T REPO, 12 PRIBOR AND 5Y AND 10Y IRS (%)

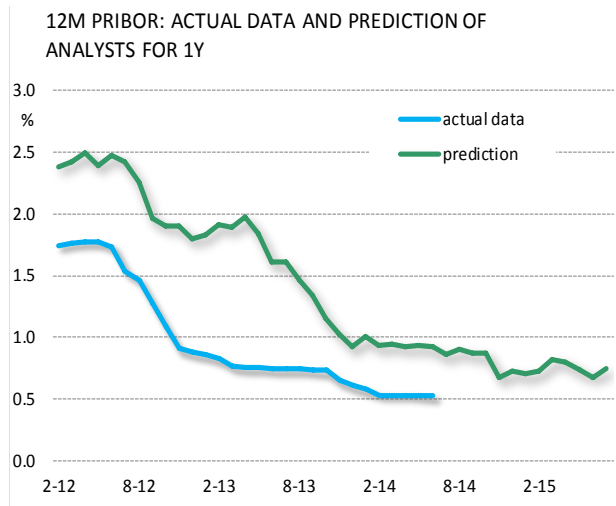
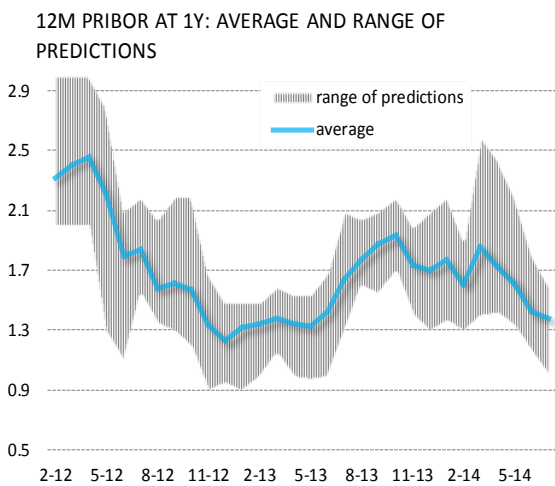
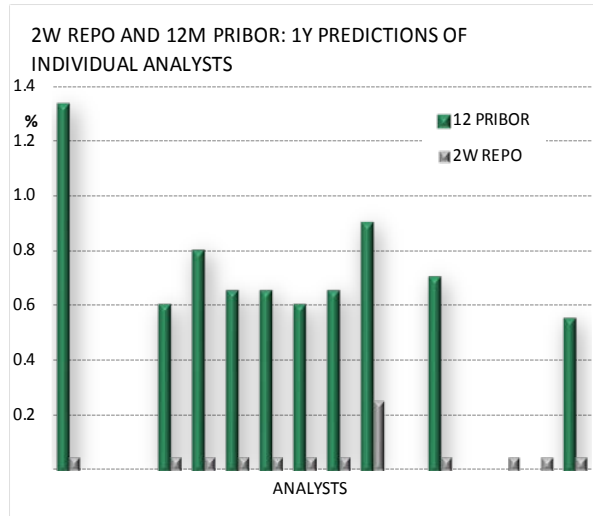
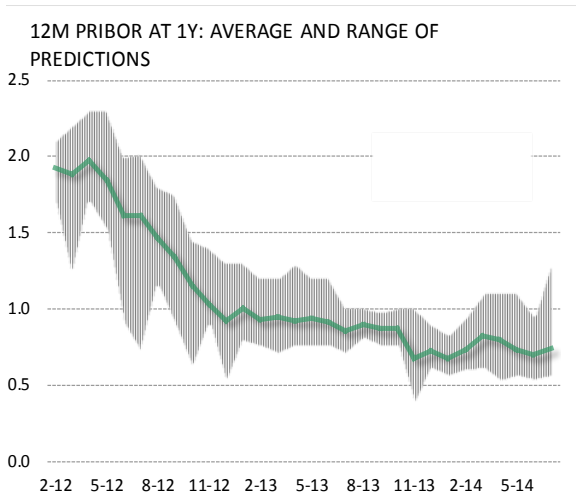
July 2014	2T repo rate		12M PRIBOR		5R IRS		10R IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0.05	0.05	0.50	0.55	0.70	1.00	1.35	1.80
average	0.05	0.07	0.51	0.74	0.76	1.39	1.44	2.09
maximum	0.05	0.25	0.54	1.33	0.86	1.60	1.56	2.35

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE (%)

	2T repo rate	12M PRIBOR	5R IRS	10R IRS
15.7.	0.05%	0.52%	0.72%	1.38%

The number of analysts who expect the 2W repo rate to increase over the coming twelve months, decreased to one. All the other analysts believe that key interest rates will remain unchanged throughout this period and the 2W repo rate will stay at technical zero.

The average forecast for the 12M interbank market reference rate (PRIBOR) fell at the one-month horizon but rose at the one-year horizon. This slight but surprising increase was due to a revision of the estimate of only one analyst, as the other analysts did not change their views. The forecasts for swap rates (IRS) continue to follow a declining trend, probably because of the downward tendency in market rates. The exception was the expected 10Y IRS, which rose marginally at the one-year horizon.



1M AND 1Y EXCHANGE RATE FORECAST

Date of Prediction	EUR/CZK	
	1M	1Y
7.13	25.89	25.21
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
6.14	27.41	26.98
7.14	27.42	27.10

EXCHANGE RATE FORECAST

July 2014	EUR/CZK	
	1M	1Y
minimum	27.30	26.70
average	27.42	27.10
maximum	27.50	27.20

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

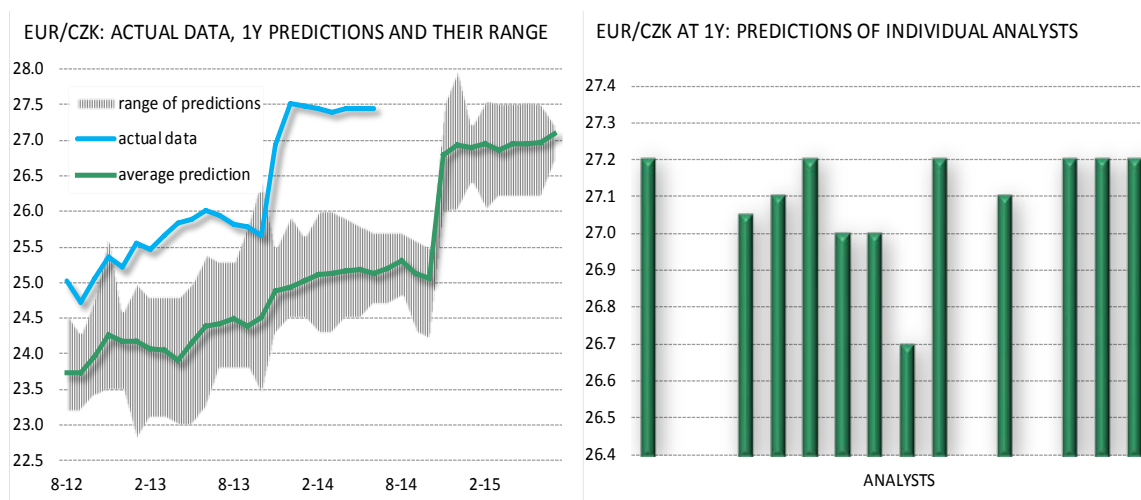
15.7.	27.43
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The koruna remains very stable against the euro, fluctuating around CZK 27.4. The analysts do not expect the koruna to deviate from this level in the very near future, so their forecast for the one-month horizon is virtually unchanged. At the one-year horizon, by contrast, the average exchange rate of the koruna shifted to slightly weaker levels, breaking through the CZK 27.0 barrier and settling at CZK 27.1 to the euro. This is probably due to expectations of a later exit of the CNB from its asymmetric commitment to keep the koruna close to CZK 27.0 to the euro.

EXPECTED EXIT FROM EXCHANGE RATE COMMITMENT

Expected exit	Number of analysts
2015 H1	1
2015 H2	9
2016	2

In line with the statement made by Governor Miroslav Singer following the July meeting of the CNB Bank Board, the analysts expect the exit from the current monetary policy regime to be postponed. In the previous survey four analysts predicted that this step would be taken in the first half of next year, whereas now only one analyst takes this view (see table above).



FORECAST FOR NOMINAL WAGE GROWTH (%)

July 2014	year end	
	current	current+1R
minimum	2.0	1.5
average	2.6	3.0
maximum	3.3	4.0

FORECAST FOR NOMINAL WAGE GROWTH (%)

Date of Prediction	year end	
	current	current+1R
7.13	1.1	2.5
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
6.14	2.4	2.9
7.14	2.6	3.0

The analysts increased their expected wage growth levels for this year and the next, probably due to the positive effects of the recovery of the Czech economy and the consequently improving labour market conditions. The average estimate of wage growth in 2014 shifted from 2.4% in June to 2.6%. The forecast for next year predicts a nominal rise of 3.0%, which is 0.1 pp higher than in June.

The analyst who made a distinction between the forecast for wage growth in the business sector and that in the non-business sector estimates that wages in the business sector will grow by 2.8% in 2014 and by 4.1% in 2015 and that wages in the non-business sector will rise by 2.1% in 2014 and by 3.6% in 2015.

