

FINANCIAL MARKET INFLATION EXPECTATIONS - SEPTEMBER

Financial Market Department
Operations Analyses Division

2014

Twelve domestic and one foreign analyst took part in the CNB's September survey. The average inflation forecast was unchanged at both the one-year and three-year horizons. Optimism about the economic growth outlook in the Czech Republic decreased slightly. Key interest rates will not change over the next 12 months, according to the analysts. The forecast for the 12M PRIBOR rose modestly, whereas the one-year forecasts for swap rates shifted noticeably downwards. The expected path of the koruna-euro exchange rate shifted to slightly stronger levels, but most of the respondents still believe that the CNB will not exit from its exchange rate commitment before 2016. The opinion on nominal wage growth was unchanged from August.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
David Navrátil, Česká spořitelna	+	+	+	+		+	+	+	+			
David Marek, Deloitte Czech Republic	+	+	+	+	+	+			+	+		
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	+	+	+	+	+	+	+	+	+			
Jakub Seidler, ING									+	+		
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 September 2014

FORECAST FOR Y/Y CPI GROWTH (%)

September 2014	CPI	
	1Y	3Y
minimum	1.05	1.50
average	1.97	2.06
maximum	2.40	2.70

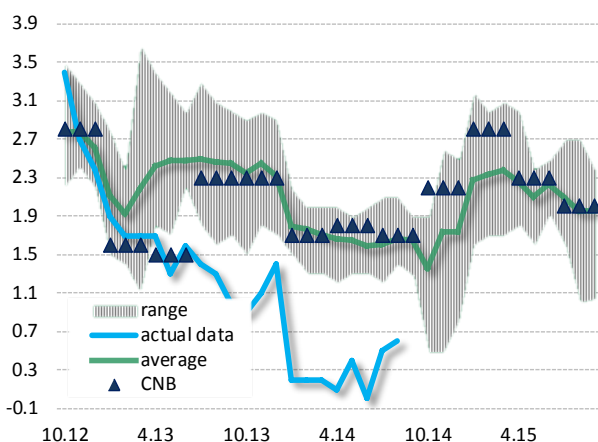
1Y AND 3Y FORECAST FOR CPI GROWTH (%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
9.13	1.7	2.1	
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
8.14	2.0	2.1	3Q: 2,0
9.14	2.0	2.1	

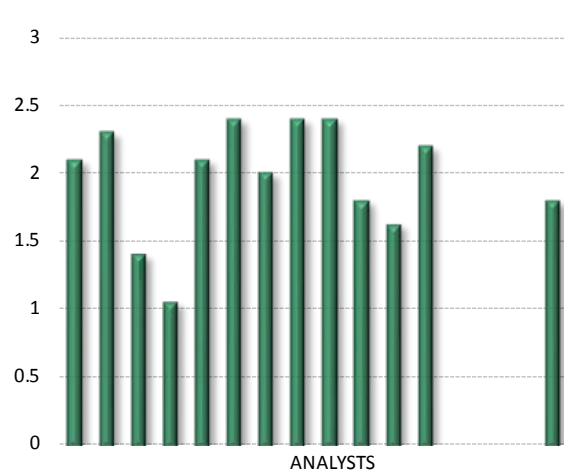
The CPI rose slightly again according to the CZSO, but the inflation forecast was unchanged from the previous survey and remains anchored close to the CNB's inflation target at both monitored horizons. Our hypothesis from the previous survey that the analysts would not manage to incorporate the higher-than-expected inflation into their August estimates thus did not materialise. The price level is expected to rise by 2.0% at the one-year horizon and by 2.1% two years later. Although the forecasts themselves were unchanged, their range narrowed at both monitored horizons, mainly because of a decline in the maximum estimates (for the one-year forecast see the chart below).

Both demand-pull and headline inflation are expected to pick up in the coming months, thanks in part to a continued recovery of the domestic economy. According to some of the analysts, however, the pass-through of demand to inflation could be slower than in previous decades.

CPI: ACTUAL DATA AND 1Y PREDICTIONS OF ANALYSTS (AVERAGE) AND OF CNB (%)



CPI AT 1Y: PREDICTIONS OF INDIVIDUAL ANALYSTS



FORECAST FOR GDP GROWTH (%)

September 2014	end of year	
	current	current+1Y
minimum	2.4	2.4
average	2.6	2.7
maximum	2.9	3.3

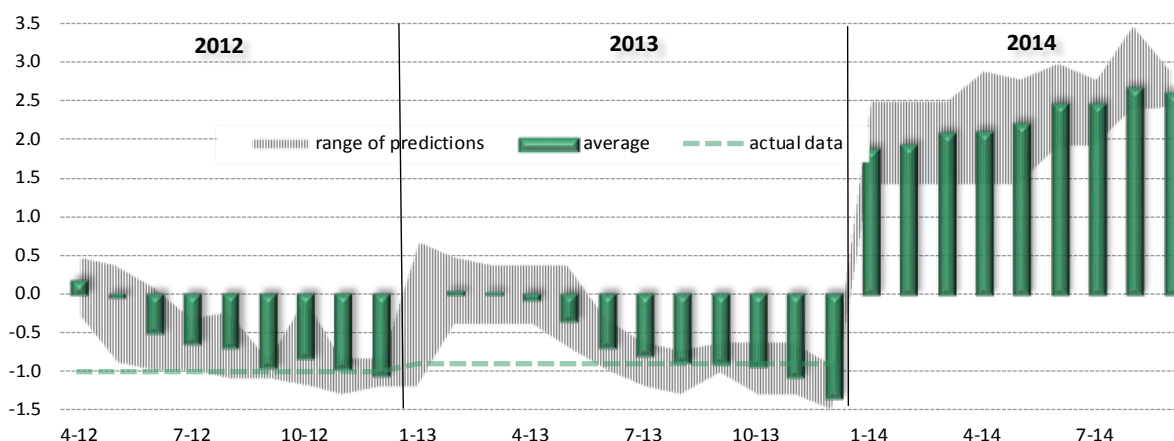
FORECAST FOR GDP GROWTH (%)

Date of Prediction	end of year	
	current	current+1Y
9.13	-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
8.14	2.7	2.8
9.14	2.6	2.7

According to the second CZSO estimate, the domestic economy in 2014 Q2 was flat in quarter-on-quarter terms and increased by 2.7% year on year, up by 0.1 pp compared to the flash estimate. However, the analysts lowered their average estimates for both this year and last year by 0.1 pp on average. The domestic economy is expected to grow by 2.6% in 2014 and pick up slightly to 2.7% next year. This means a return to the levels expected in June and July. The range of the extreme forecasts narrowed at both monitored horizons owing to a larger decline in the maximum values.

The analysts still regard external factors as the main risk of non-fulfilment of the present GDP growth scenario. In addition to the impact of the sanctions relating to the crisis in Ukraine they include potential slower growth in export markets, particularly in Germany, which is the key market for Czech exports. The figures could also be affected by an extraordinary revision of the national accounts (the switch to ESA 2010), which are due to be published at the start of October.

GDP GROWTH IN CURRENT YEAR: AVERAGE AND RANGE OF PREDICTIONS



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

Date of Prediction	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
9.13	0.05	0.07	0.75	0.87	1.61	1.88	2.22	2.34
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
8.14	0.05	0.05	0.51	0.60	0.74	1.11	1.33	1.75
9.14	0.05	0.05	0.52	0.61	0.67	0.96	1.25	1.59

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

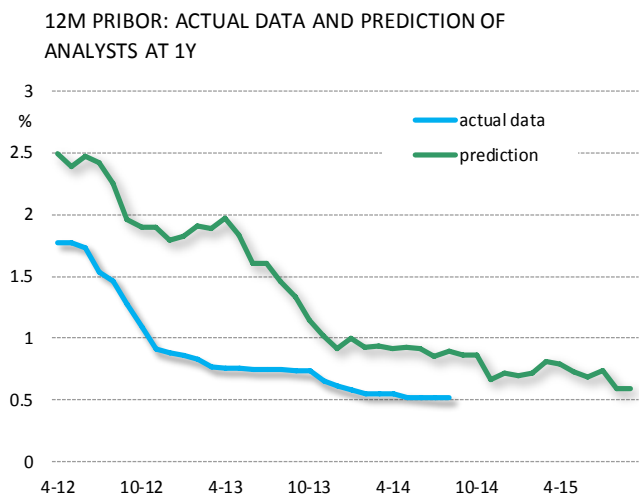
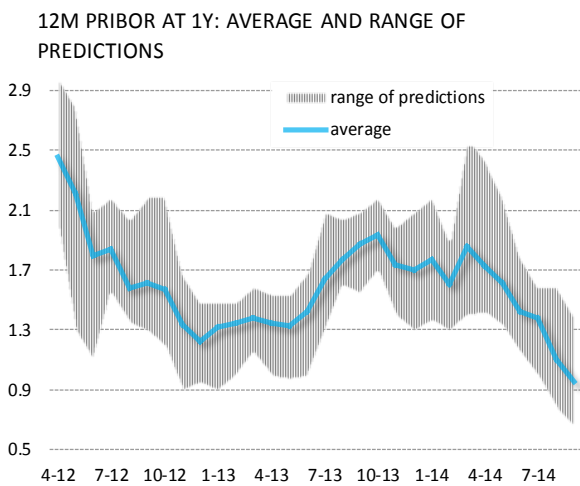
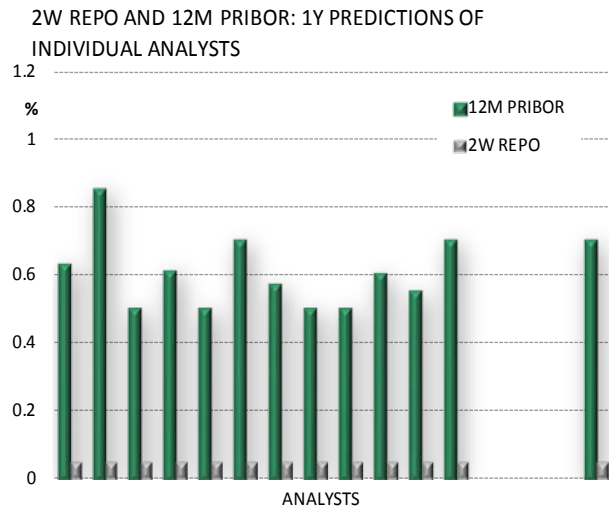
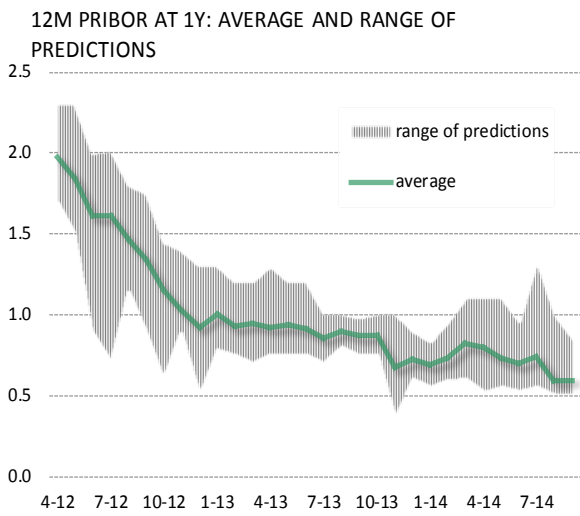
September 2014	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0.05	0.05	0.50	0.50	0.51	0.66	1.12	1.14
average	0.05	0.05	0.52	0.61	0.67	0.96	1.25	1.59
maximum	0.05	0.05	0.55	0.85	0.75	1.40	1.40	2.00

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE (%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
11.9.	0.05	0.52	0.68	1.24

None of the respondents expects the 2W repo rate to be raised in the next 12 months. The forecast for the 12M PRIBOR reference rate rose marginally (by 0.01 pp) at both the one-month and one-year horizons.

The present IRS market rates decreased compared to the previous survey. The forecasts for 5Y and 10Y swap rates (IRS) dropped as well, but their decline was much larger than that for market rates, especially at the one-year horizon. The analysts rank the ECB's easier monetary policy among the key factors pushing the IRS rate outlook down.



1M AND 1Y EXCHANGE RATE FORECAST

Date of Prediction	EUR/CZK	
	1M	1Y
9.13	25.84	25.13
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
8.14	27.73	27.33
9.14	27.63	27.27

EXCHANGE RATE FORECAST

September	EUR/CZK	
	1M	1Y
2014		
minimum	27.50	27.00
average	27.63	27.27
maximum	27.70	27.58

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

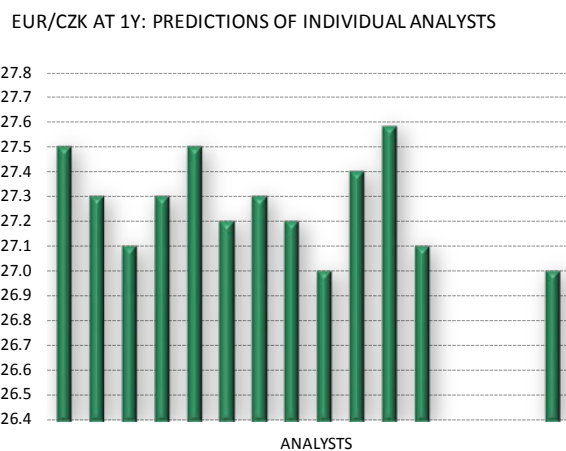
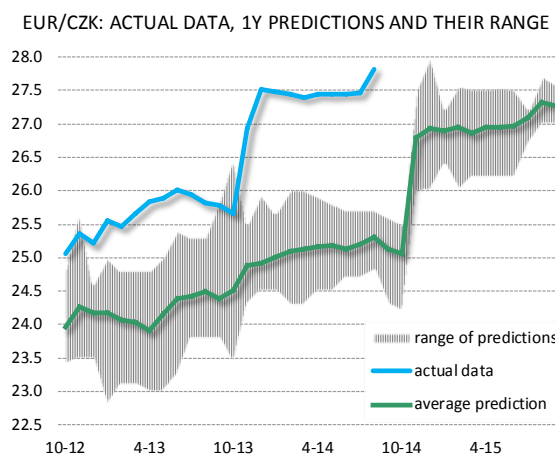
11.9.	27.635
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The exchange rate of the koruna against the euro has appreciated from CZK 27.8 to CZK 27.6 since mid-August. This has also affected the analysts' forecasts, which have also shifted to stronger levels, albeit to a lesser extent. The analysts' opinions are thus showing some inertia and lower sensitivity to market exchange rate changes. According to the latest survey, the koruna should be flat until mid-October, then appreciate gradually and stand close to CZK 27.3 to the euro in September 2015.

EXPECTED EXIT FROM EXCHANGE RATE COMMIT

Expected exit	Number of analysts
2015 4Q	3
2016 1Q	6
2016 2Q	1
2016 3Q	1
2016 4Q	1
2016 (Q not specified)	1

The number of analysts who believe that the CNB will exit from its commitment to prevent excessive appreciation of the koruna below CZK 27 to the euro in 2015 increased by one to three compared to the previous survey. Nonetheless, the majority of the respondents (i.e. the remaining 10) are still convinced that this step will not be taken until 2016 (see the table above), with most estimates being for 2016 Q1.



FORECAST FOR NOMINAL WAGE GROWTH (%)

September 2014	year end	
	current	current+1Y
minimum	2.0	1.5
average	2.5	3.0
maximum	2.9	3.6

FORECAST FOR NOMINAL WAGE GROWTH (%)

Date of Prediction	year end	
	current	current+1Y
9.13	0.8	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
8.14	2.5	3.0
9.14	2.5	3.0

The analysts' view of nominal wage growth remains the same as in August. Wages are thus expected to grow by 2.5% on average this year and pick up to 3.0% in 2015. The analysts thus still believe that real wages will also go up.

The analysts who made a distinction between the forecast for wage growth in the business sector and that in the non-business sector estimate that wages in the business sector will grow by 3.0% in 2014 and by 3.5% in 2015, while wages in the non-business sector will rise by 2.0% in 2014 and by 3.6% in 2015.

WAGE GROWTH - END OF CURRENT YEAR: AVERAGE AND RANGE OF PREDICTIONS (%)

