



# FINANCIAL MARKET INFLATION EXPECTATIONS - OCTOBER

---

Financial Market Department  
Operations Analyses Division

2014

Eleven domestic and two foreign analysts took part in the October survey. The average inflation forecast has decreased at both monitored horizons since the previous survey. Expected GDP growth and the 12M PRIBOR forecast have also been revised downwards. None of the respondents expects the CNB to increase the 2W repo rate over the next 12 months. Improving labour market conditions are expected to result in faster nominal wage growth.

The short-term estimate for the koruna's exchange rate reflects a slight appreciation of the domestic currency on the foreign exchange market. However, the analysts do not expect the koruna to appreciate below CZK 27 to the euro at the one-year horizon, as most of the respondents estimate that the CNB will not exit from its foreign exchange commitment until the first half of 2016.

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, 24 October 2014

## FORECAST FOR Y/Y CPI GROWTH (%)

October 2014	CPI	
	1Y	3Y
minimum	1.3	1.5
average	1.9	2.0
maximum	2.6	2.5

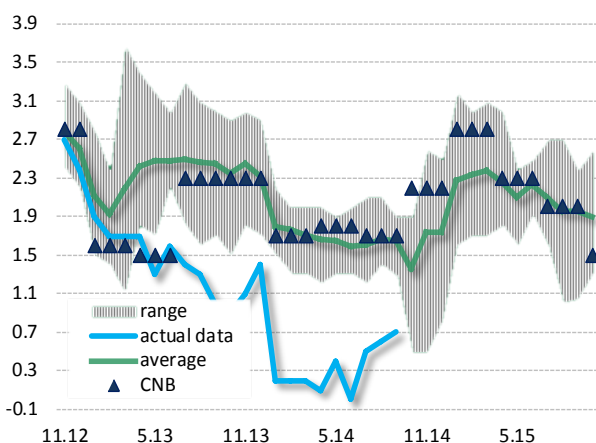
## 1Y AND 3Y FORECAST FOR CPI GROWTH (%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
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	
10.14	1.9	2.0	

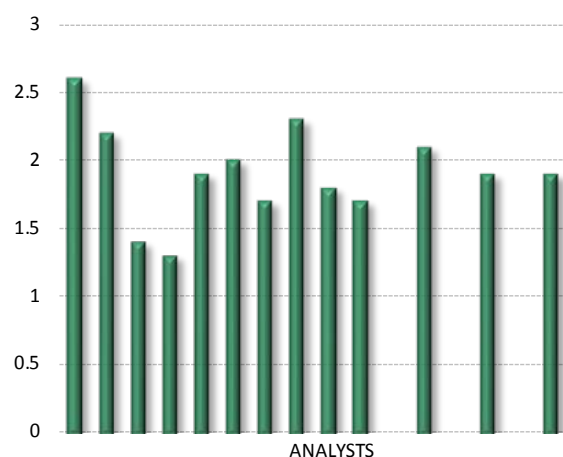
According to the CZSO, the CPI picked up slightly again in September (the growth rate increased to 0.7%), but still remained behind some estimates. The average inflation forecast decreased at both horizons monitored (by 0.1 pp). It returned to the CNB's inflation target at the three-year horizon, while declining just below it at the one-year horizon.<sup>1</sup> The range of the extreme forecasts narrowed slightly for both the one-year and three-year forecasts.

Monthly core inflation fell in September, signalling weak inflation pressures. Thanks to the CNB's intervention, however, the analysts do not expect the Czech economy to fall into deflation. However, growth in the price level will be gradual both this year and the next. External conditions – in particular the worsening outlook in Germany, which might impact negatively on the domestic economy – are the main risk.

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



CPI AT 1Y: PREDICTIONS OF INDIVIDUAL ANALYSTS



<sup>1</sup> Only five analysts estimate that inflation will reach (or exceed) the CNB's 2% inflation target over the next 12 months; all the others believe that it will remain below it.

FORECAST FOR GDP GROWTH (%)

October 2014	end of year	
	current	current+1Y
minimum	2.2	2.0
average	2.5	2.5
maximum	2.9	3.3

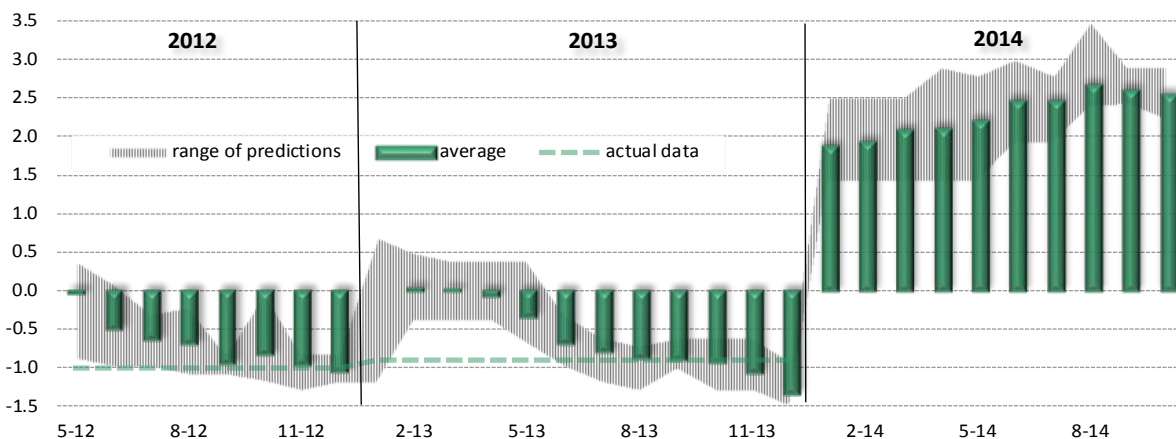
FORECAST FOR GDP GROWTH (%)

Date of Prediction	end of year	
	current	current+1Y
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
10.14	2.5	2.5

According to a revised estimated based on ESA 2010, Czech GDP rose by 2.5% year on year in 2014 Q2 (as against 2.7% in the previous survey).<sup>2</sup> The analysts' forecast has also been lowered both for this year and the next. Given the updated data, the analysts expect the domestic economy to grow by 2.5% both this year and the next. The range of the extreme forecasts widened at both monitored horizons owing to a decline in the minimum values.

According to some of the analysts, the main risk of non-materialisation of the current GDP growth scenario lies in external factors. In particular, a more sizeable weakening of the European economy might weigh heavily on domestic GDP. By contrast, the promised fiscal expansion is expected to have the opposite effect next year.

GDP GROWTH IN CURRENT YEAR: AVERAGE AND RANGE OF PREDICTIONS



<sup>2</sup> This involved not only a methodological revision (a switch from ESA 95 to ESA 2010), but also a standard revision associated mainly with updated data on excise duties, a data source revision and the compilation of the first version of annual national accounts for 2013.

## 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
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
10.14	0.05	0.05	0.51	0.60	0.62	0.98	1.13	1.60

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

October 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	0.52	0.67	1.00	1.20
average	0.05	0.05	0.51	0.60	0.62	0.98	1.13	1.60
maximum	0.05	0.05	0.55	0.85	0.70	1.40	1.25	2.00

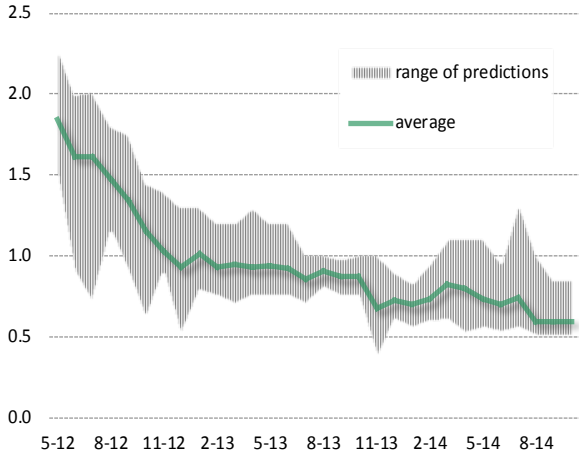
## ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE (%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
14.10.	0.05	0.52	0.62	1.13

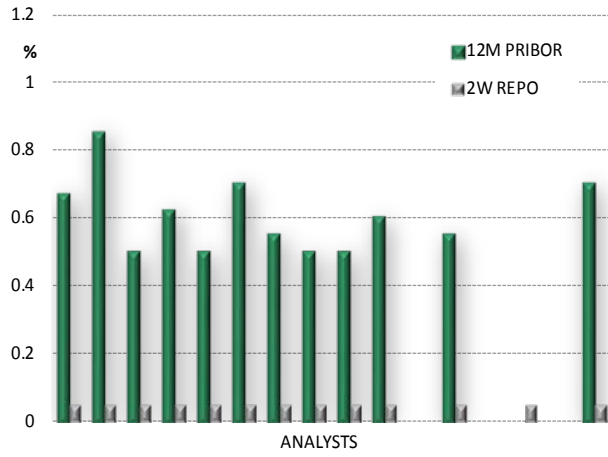
None of the analysts expects the CNB to increase the 2W repo rate over the next 12 months. The forecast for the 12M PRIBOR reference rate fell (by 0.01 pp) at both the one-month and one-year horizons, thus returning to the August level.

The average monthly 5Y and 10Y IRS forecasts shifted downwards in light of the change in current market rates. However, the analysts do not expect them to change significantly in the near future. The 5Y and 10Y IRS are nonetheless expected to increase next year, to 0.98% and 1.60% respectively. This is 1–2 bp more than in the previous survey.

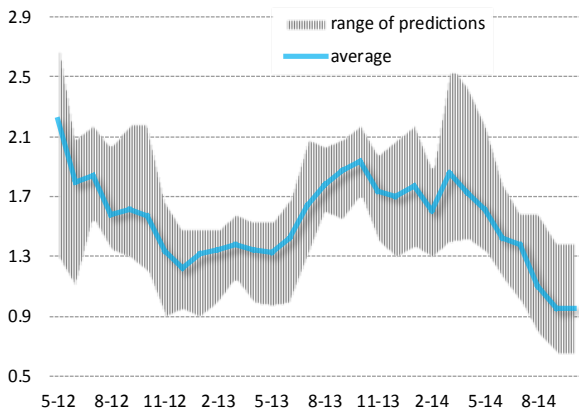
12M PRIBOR AT 1Y: AVERAGE AND RANGE OF PREDICTIONS



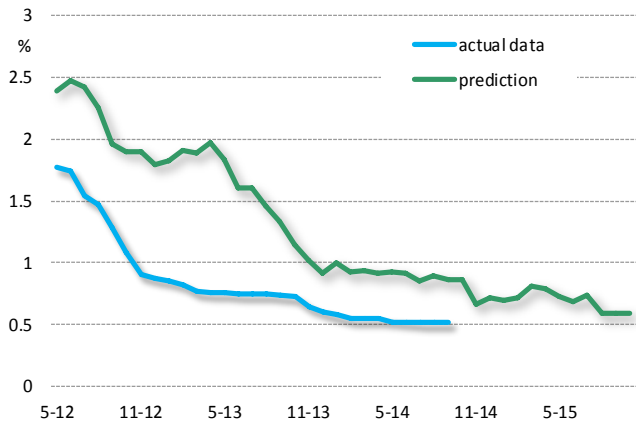
2W REPO AND 12M PRIBOR: 1Y PREDICTIONS OF INDIVIDUAL ANALYSTS



12M PRIBOR AT 1Y: AVERAGE AND RANGE OF PREDICTIONS



12M PRIBOR: ACTUAL DATA AND PREDICTION OF ANALYSTS AT 1Y



## 1M AND 1Y EXCHANGE RATE FORECAST

Date of Prediction	EUR/CZK	
	1M	1Y
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
10.14	27.48	27.26

## EXCHANGE RATE FORECAST

October 2014	EUR/CZK	
	1M	1Y
minimum	27.30	27.00
average	27.48	27.26
maximum	27.60	27.50

## ACTUAL EUR/CZK AS OF FORECAST DEADLINE

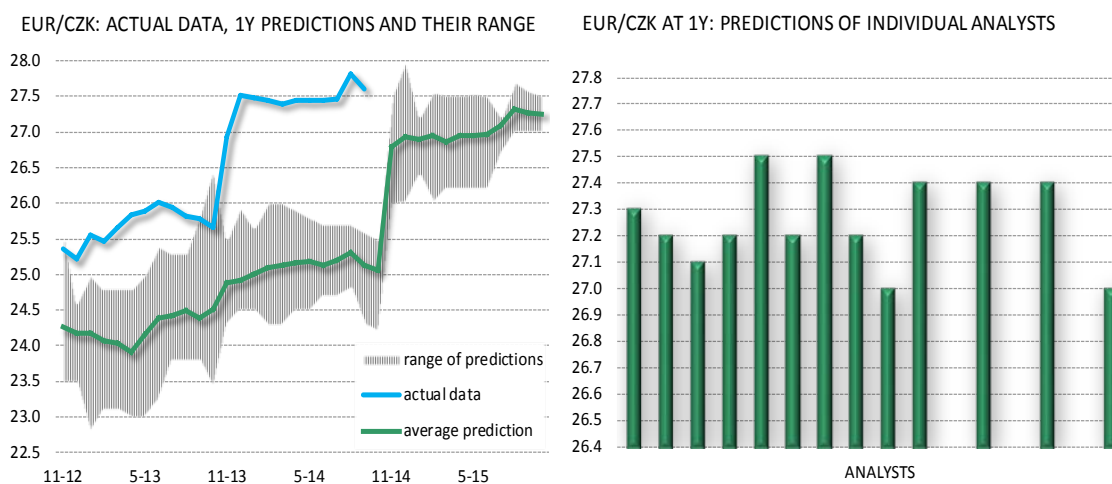
14.10.	27.545
--------	--------

The exchange rate of the koruna against the euro has appreciated from CZK 27.64 to CZK 27.55 since the last survey. As usual, this has affected the analysts' average monthly forecast, which has shifted to a stronger level. The koruna is expected to be around CZK 27.5 to the euro in mid-November and close to CZK 27.3 to the euro in October next year.

## EXPECTED EXIT FROM EXCHANGE RATE COMMIT

Expected exit	Number of analysts
2015 4Q	3
2016 1Q	5
2016 2Q	2
2016 3Q	1
2016 4Q	1
2016 (Q not specified)	1

Most of the respondents believe that the CNB will not exit from its current foreign exchange commitment until 2016 (see the table above). The other three respondents expect the exit to occur in 2015 Q4 or at the very end of next year. There were no major changes in opinion compared to the previous survey; only one respondent shifted his estimate from 2016 Q1 to 2016 Q2.



## FORECAST FOR NOMINAL WAGE GROWTH (%)

October 2014	year end	
	current	current+1Y
minimum	2.0	1.5
average	2.6	3.1
maximum	2.9	4.0

## FORECAST FOR NOMINAL WAGE GROWTH (%)

Date of Prediction	year end	
	current	current+1Y
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
10.14	2.6	3.1

The falling unemployment rate indicates an improving labour market situation, and the analysts expect this trend to continue. This is reflected in their nominal wage forecasts, which increased by 0.1 pp on average for both years monitored. Wages are expected to rise by 2.6% this year and by 3.1% in 2015.

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 2.8% in 2014 and by 3.5% in 2015, while wages in the non-business sector will rise by 2.9% in 2014 and by 3.7% in 2015.

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

