



FINANCIAL MARKET INFLATION EXPECTATIONS - NOVEMBER

Financial Market Department
Operations Analyses Division

2014

Ten domestic and one foreign analyst took part in the CNB's November survey. The results reveal that the average annual inflation forecast has decreased since the previous survey. The GDP forecast has also shifted downwards for both this year and the next. None of the respondents expects the CNB to increase its key interest rates over the next 12 months. The estimate for the koruna's future exchange rate against the euro has changed only slightly, tracking developments on the foreign exchange market. Overall, the analysts now expect the CNB to exit from its current foreign exchange commitment later than they estimated in the previous survey. Compared to the October survey, nominal wages are expected to rise more this year.

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 November 2014

FORECAST FOR Y/Y CPI GROWTH (%)

November 2014	CPI	
	1Y	3Y
minimum	1.0	1.5
average	1.7	2.0
maximum	2.1	2.3

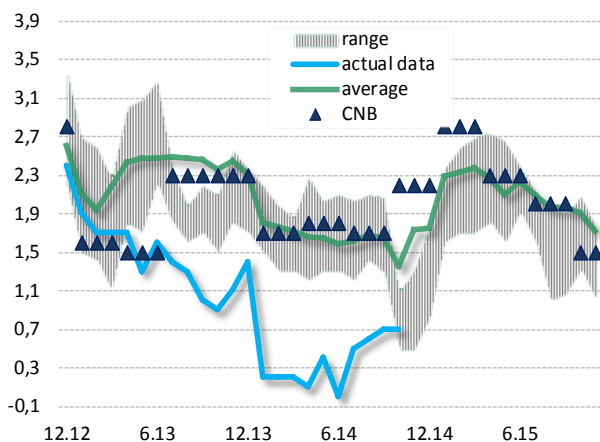
1Y AND 3Y FORECAST FOR CPI GROWTH (%)

Date of Prediction	ANALYSTS		CNB (%)
	1Y	3Y	1Y
11.13	1.7	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
10.14	1.9	2.0	
11.14	1.7	2.0	4Q: 1,5

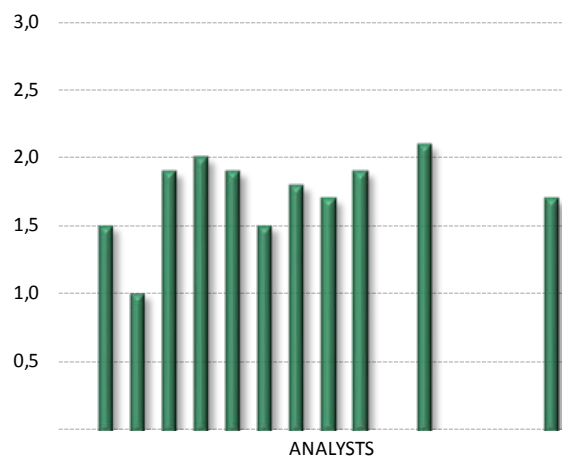
According to the CZSO, the consumer price index recorded annual growth of 0.7% in both October and November. However, the analysts' average annual forecast dropped by 0.2 pp to 1.7%. The analysts' forecast at the three-year horizon was unchanged, remaining anchored at the CNB's 2% inflation target. The range of the extreme forecasts narrowed both at the one-year and three-year horizons due to a larger decline in the maximum values.

According to the analysts, the main reasons for the inflation forecast adjustment include an expected decline in food prices due in part to this year's above-average harvest. Another fundamental factor that will slow the rise in consumer prices is a decline in oil prices on world markets, which will pass through to domestic inflation through lower fuel prices.

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



CPI AT 1Y: PREDICTIONS OF INDIVIDUAL ANALYSTS



FORECAST FOR GDP GROWTH (%)

November 2014	end of year	
	current	current+1Y
minimum	2.2	2.0
average	2.4	2.4
maximum	2.7	2.8

FORECAST FOR GDP GROWTH (%)

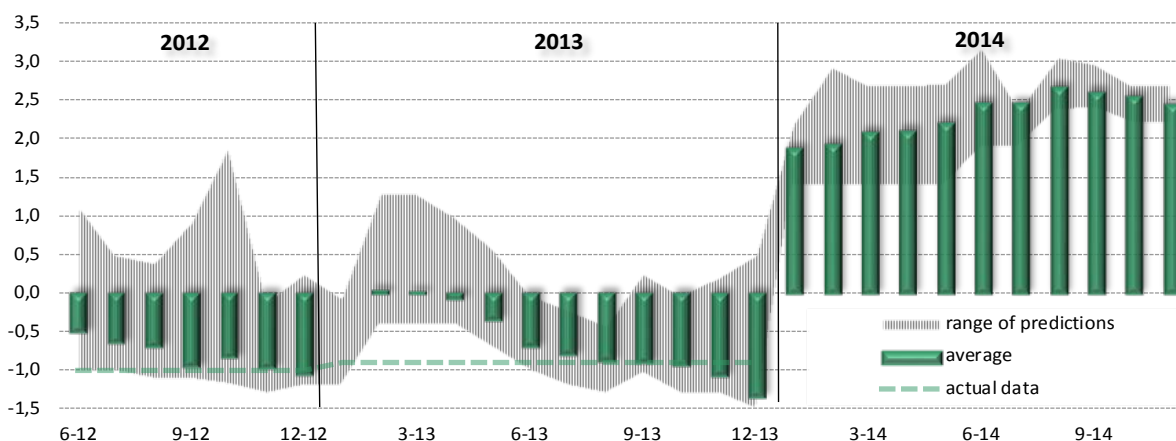
Date of Prediction	end of year	
	current	current+1Y
11.13	-1.1	1.9
12.13	-1.3	1.9
2.14	1.9	2.5
4.14	2.1	2.5
6.14	2.5	2.7
8.14	2.7	2.8
10.14	2.5	2.5
11.14	2.4	2.4

According to the CZSO's preliminary estimate, the domestic economy recorded year-on-year growth of 2.3% in 2014 Q3, i.e. 0.2 pp lower than in 2014 Q2. The analysts' view of the domestic economy going forward also worsened. Czech GDP is expected to grow by 2.4% this year and the next, compared to 2.5% in October. The range of the extreme forecasts narrowed at both monitored horizons due to a decline in the maximum values.

The lower economic growth outlook for the Czech Republic was due mainly to worse developments abroad. Some analysts also mentioned the impact of the sanctions between Russia and the EMU. Although the domestic economy is being supported by easy fiscal and monetary policy, some analysts fear that the economic situation in the Czech Republic will be difficult until the end of this year and maybe even at the start of next year.

As the Q3 GDP data were not known as of the cut-off date of the survey, the analysts could not incorporate them into their contributions. The GDP growth forecast may thus be revised further downwards in December.

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
11.13	0.05	0.05	0.58	0.68	1.29	1.74	2.05	2.38
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
10.14	0.05	0.05	0.51	0.60	0.62	0.98	1.13	1.60
11.14	0.05	0.05	0.51	0.59	0.57	0.92	1.03	1.51

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

November 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	0.50	0.70	0.90	1.15
average	0.05	0.05	0.51	0.59	0.57	0.92	1.03	1.51
maximum	0.05	0.05	0.55	0.75	0.65	1.20	1.10	1.90

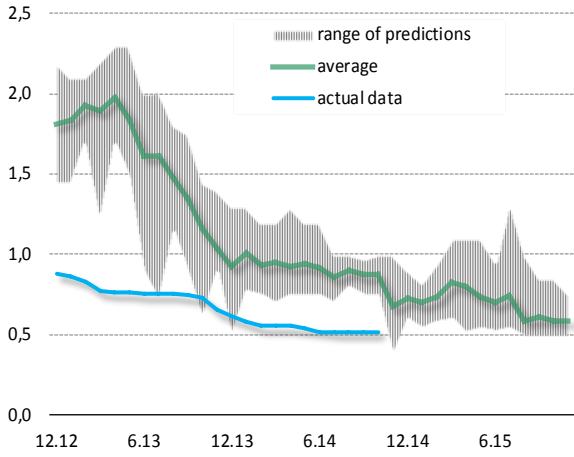
ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE (%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
13.11.	0.05	0.51	0.55	1.03

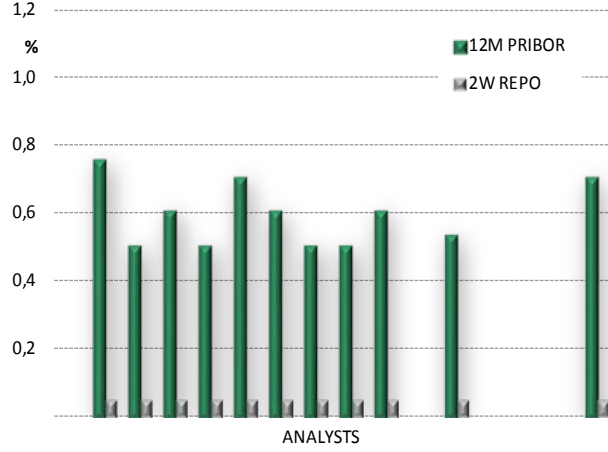
None of the respondents expects monetary policy to be tightened through an increase in key interest rates over the next twelve months. The forecast for the 12M PRIBOR reference rate remained virtually unchanged, shifting negligibly downwards at the one-year horizon only.

Given the change in market rates, the 5Y and 10Y IRS forecasts also fell at both the one-month and one-year horizons. According to the analysts, this was due mainly to external factors, specifically concerns of a return of recession to the EMU, the ECB's accommodative monetary policy and the threat of a downturn in the global economy.

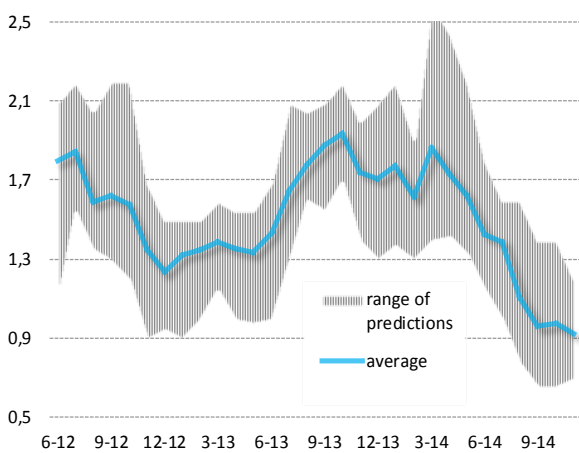
12M PRIBOR AT 1Y : ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



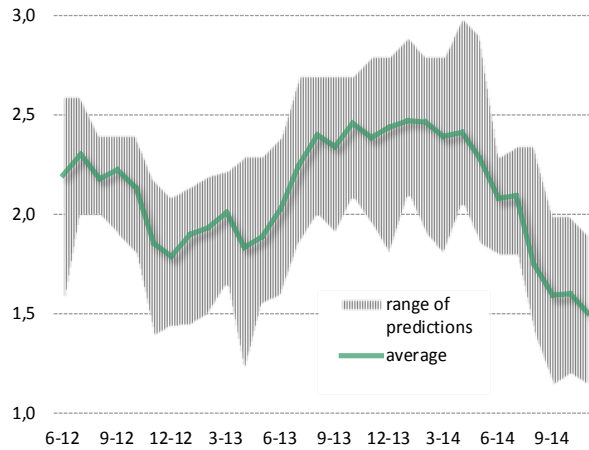
2W REPO AND 12M PRIBOR: 1Y PREDICTIONS OF INDIVIDUAL ANALYSTS



5Y IRS AT 1Y: AVERAGE AND RANGE OF PREDICTIONS



10Y IRS AT 1Y: AVERAGE AND RANGE OF PREDICTIONS



1M AND 1Y EXCHANGE RATE FORECAST

Date of Prediction	EUR/CZK	
	1M	1Y
11.13	27.00	26.79
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
10.14	27.48	27.26
11.14	27.54	27.27

EXCHANGE RATE FORECAST

November 2014	EUR/CZK	
	1M	1Y
minimum	27.40	27.00
average	27.54	27.27
maximum	27.60	27.50

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

13.11.	27.645
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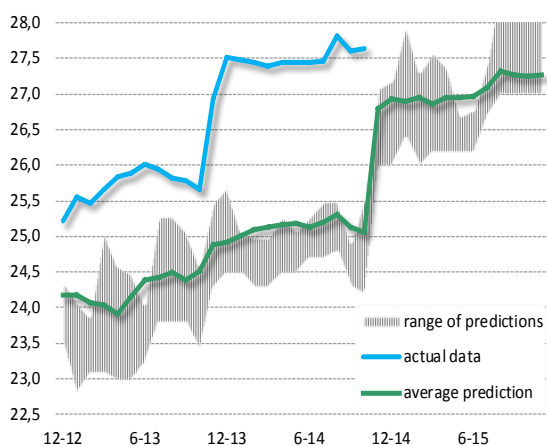
The koruna depreciated from CZK 27.55 to CZK 27.65 to the euro compared to the previous survey. This change was again slightly reflected in the analysts' forecasts, which shifted to CZK 27.54 and CZK 27.27 to the euro at the one-month and one-year horizons respectively.

EXPECTED EXIT FROM EXCHANGE RATE COMMITMENT

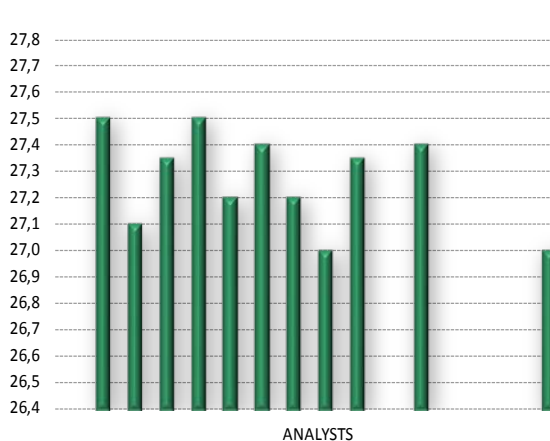
Expected exit	Number of analysts	
	October survey	November survey
2015 4Q	3	0
2016 1Q	5	4
2016 2Q	2	3
2016 3Q	1	1
2016 4Q	1	2
2016 (Q not specified)	1	1

In line with the CNB's communication, most of the respondents now believe that the CNB will exit from its current foreign exchange commitment in 2016 H1 (see the table above). Compared to the October survey, none of the respondents expects the exit to occur in 2015.¹ On the contrary, the analysts generally estimate that it will occur later than they predicted last time. Some of them also admit the possibility of a shift of the CNB's commitment to weaker levels.

EUR/CZK: ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y: PREDICTIONS OF INDIVIDUAL ANALYSTS



¹ In the previous survey, three respondents had expected the exit to occur in 2015.

FORECAST FOR NOMINAL WAGE GROWTH (%)

November 2014	year end	
	current	current+1Y
minimum	2.5	2.7
average	2.8	3.1
maximum	3.0	3.8

FORECAST FOR NOMINAL WAGE GROWTH (%)

Date of Prediction	year end	
	current	current+1Y
11.13	0.7	2.4
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
10.14	2.6	3.1
11.14	2.8	3.1

The average nominal wage growth forecast for 2014 is following an upward trend, while that for 2015 is unchanged. Nominal wage are expected to grow by 2.8% this year, i.e. 0.2 pp more than in October, and by 3.1% next year.

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 (%)

