

Donath-Burson-Marsteller
Factum Invenio

CFA/OVB Forecasting Survey

Final Report
February 2010

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About the Survey

The survey was conducted in connection with the Forecasting Dinner 2010. It is a prestigious annual meeting of members and candidates of the Czech CFA Society, which is for Chartered Financial Analysts, as well as leading domestic and foreign economists, for the purpose of predicting economic trends in the next year. This year's Forecasting Dinner, the eighth, is again being held under the patronage of the governor of the Czech National Bank, Zdeněk Tůma.

The survey was done for the Czech CFA Society and its general partner, the financial advisory company OVB Allfinanz, by Donath-Burson-Marsteller, in co-operation with Factum Invenio between January 26 and February 4, 2010.

The survey's aim was to map the opinions of economic and financial experts on key questions on trends in the world and the Czech economy.

The following received invitations to participate in the research:

- Members and candidates of the Czech CFA Society;
- OVB Allfinanz managers;
- Leading Czech managers;
- Selected economics journalists.

The questions concerned:

- An assessment of the economic crisis and its impact on industries and regions;
- Expected trends in key parameters of the Czech economy this year (including the outcome of the elections);
- Acceptance of the Euro;
- Personal bankruptcy, household indebtedness and pension reform.

Of the 886 people contacted, 347 respondents participated in the survey. The respondents' attitudes on the various questions are given in this report below.

Main Findings

The opinion that the bottom of the crisis has been reached was prevalent among the respondents (the biggest optimists were the members and candidates of the Czech CFA Society – “CFA”). The sectors that come out of the crisis best should be finance, as well as power and utilities; the best-off regions should be China and also Southeast Asia.

The asset class with the best earnings in the Czech Republic this year should be equities (OVB Allfinanz managers – “OVB” – believed in them most). However, only just under a quarter of respondents expect more than ten percent growth in the Prague stock exchange’s PX index.

As far as concerns the results of the elections, the respondents see the ČSSD and ODS’ chances of victory as quite even (28 percent each). The third most expected result is then a grand coalition of both the strongest parties.

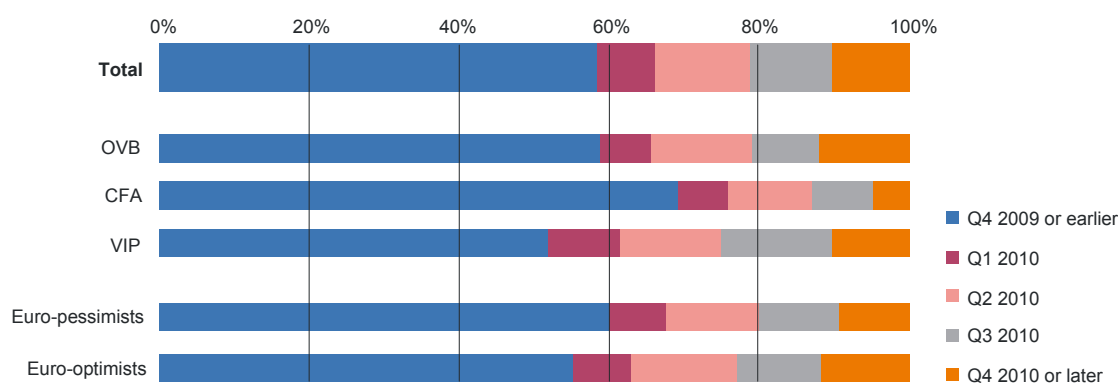
In comparison with last year’s research, there has been a shift in respondents’ opinions on whether the Euro would better protect the Czech economy in the crisis. Whereas a slight majority preferred the Euro last year, almost two thirds of respondents came down on the side of the Czech currency this year. The crown obtained the least support from the group of leading managers (“VIP”).

42 percent of respondents called entering the Eurozone a clear priority. Four percent of respondents want the Czech Republic to reject the Euro. As far as concerns the expected date of acceptance of the Euro, around 90 percent of respondents were divided almost equally between the options 2015, 2016 and “later.”

The fact that a quarter of respondents called the risk of bankruptcy of a Eurozone country “significant,” or even “dramatic,” is worthy of note.

In the field of household finance, 70 percent of respondents expect that the number of personal bankruptcies will increase significantly, or even dramatically. Respondents’ distrust of the current pension system is remarkable: not one of them thinks that the current government pensions system will be enough to guarantee them a dignified retirement.

In which quarter did or will the global economy hit bottom?



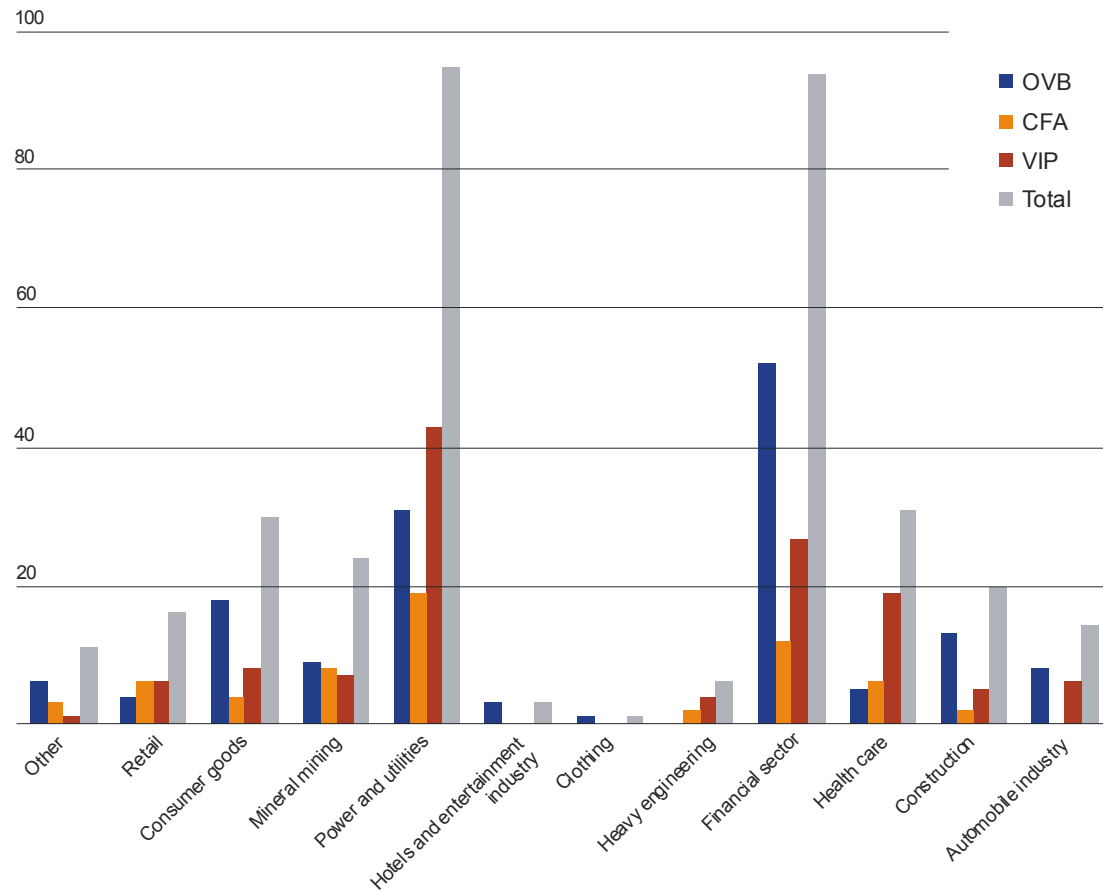
Just under 60% of respondents think that the financial crisis hit bottom last year. For comparison: in last year's research (from February 2009), eight out of ten respondents expected the bottom to be hit in 2009. The CFA group contains the most optimists concerning hitting the bottom, whereas the VIP group has the most pessimists.

For the purpose of researching respondents' attitudes to other questions, we divided them into "optimists," according to which the bottom of the crisis was hit in the fourth quarter of 2009 or earlier, and "pessimists," who expect the bottom of the crisis in the second quarter this year or later.

The attitudes of the VIP group are similar to the attitudes of "Euro-optimists," i.e. those who believe that the Czech crown protects the domestic economy better than the Euro would (see page 13 of this report).

	IV/2009 or earlier	IV/2009 or earlier	Q2 2010	Q3 2010	Q4 2010 or later	Don't know Did not answer
Total	200	26	45	37	35	4
VIP	52	10	14	14	10	2
VIP – English	13	2	3	4	3	0
CFA	43	4	7	5	3	0
OVB	88	10	20	13	18	2
Journalists	4	0	1	1	1	0

In your opinion, which industry will recover from the financial crisis first?

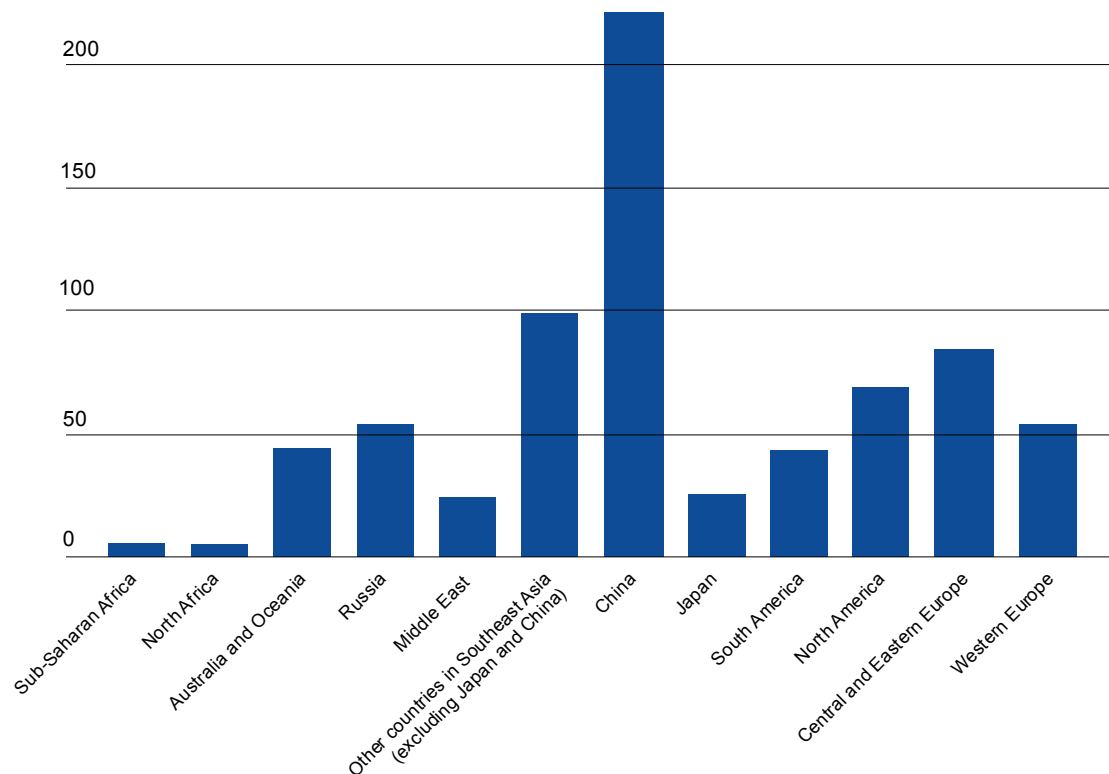


Together with the “Power and utilities” sector, the financial sector should recover from the crisis best, according to respondents’ opinions. (Interestingly: banks’ insatiability came out of last year’s research as the main cause of the crisis.) When analysing the replies from the viewpoint of the sectors the respondents work in, it was found that those who do not work in the financial sector are those that believe in it more.

	Automobile industry	Construction	Health care	Financial sector	Heavy engineering	Clothing	Hotels and entertainment industry	Power and utilities	Mineral mining	Consumer goods	Retail	Other	Don't know Did not answer
Total	14	20	31	94	6	1	3	95	24	30	16	11	2
VIP	6	4	16	21	4	0	0	36	6	6	2	0	1
VIP – English	0	1	3	6	0	0	0	7	1	2	4	1	0
CFA	0	2	6	12	2	0	0	19	8	4	6	3	0
OVB	8	13	5	52	0	1	3	31	9	18	4	6	1
Journalists	0	0	1	3	0	0	0	2	0	0	0	1	0

What regions will recover from the financial crisis best?

Respondents could give a maximum of three regions.

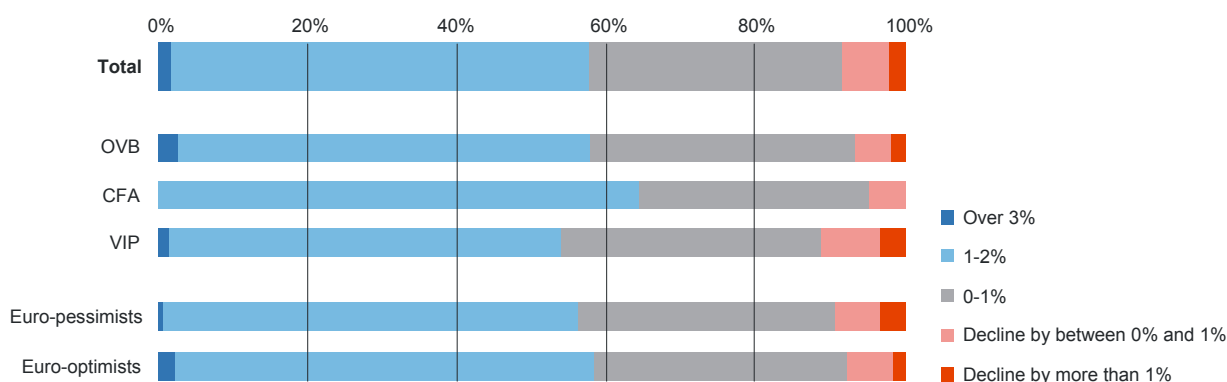


The group with the most marked preferential choice of “China” is the CFA. This group also believes in Southeast Asia most of all. The only group with a more massive belief in Europe (both Western, and Central and Eastern) is OVB.

A shift in respondents’ attitudes since last year is worth noting. According to last year’s research, the region that was to come out of the crisis best was Central and Eastern Europe, followed by China and North America.

	Western Europe	Central and Eastern Europe	North America	South America	Japan	China	Other countries in Southeast Asia (excluding Japan and China)	Middle East	Russia	Australia and Oceania	North Africa	Sub-Saharan Africa	Don't know Did not answer
Total	54	84	69	43	26	221	99	24	54	44	5	6	3
VIP	13	17	21	19	8	77	34	9	11	19	2	4	2
VIP – English	4	7	8	3	0	19	6	2	3	8	0	0	0
CFA	6	11	11	9	2	41	27	1	8	9	0	0	0
OVB	31	49	25	11	15	78	31	10	31	7	3	2	1
Journalists	0	0	4	1	1	6	1	2	1	1	0	0	0

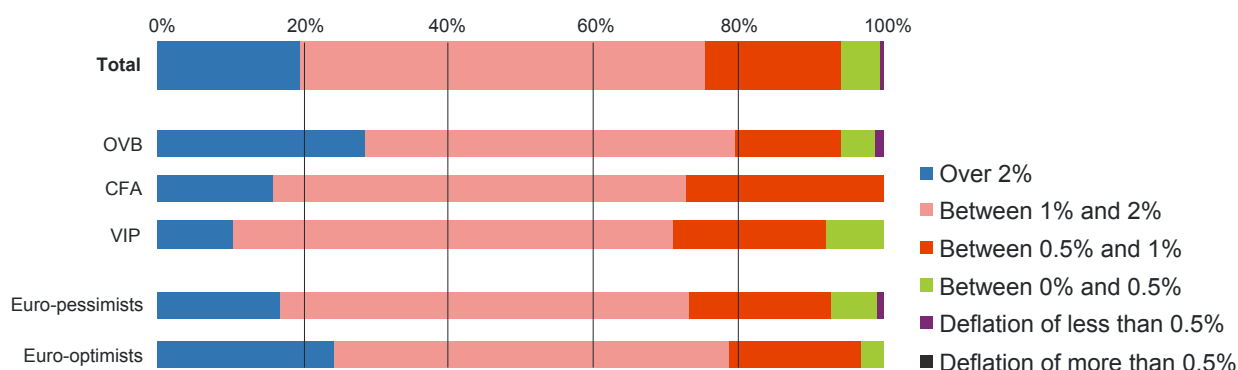
What level of real GDP growth do you expect in the Czech Republic in 2010?



Expectations of growth in the Czech economy are very similar for the various groups of respondents. This also applies when dividing respondents based on their relationship to the Euro (see page 13 of the report). In other words, not even a different view of a question as fundamental as the advantageousness of the Euro divides respondents' opinions on economic trends. The only group whose GDP growth expectations are slightly different is the CFA. It is also worth noting that this group—as the only one—ignored both extreme choices. (Note: The Ministry of Finance forecasts GDP growth of 1.3% this year).

	Over 3%	1-2 %	0-1%	Decline by between 0% and 1%	Decline by more than 1%	Don't know Did not answer
Total	6	193	117	21	8	2
VIP	2	54	34	8	3	1
VIP – English	0	12	10	2	1	0
CFA	0	40	19	3	0	0
OVB	4	83	53	7	3	1
Journalists	0	4	1	1	1	0

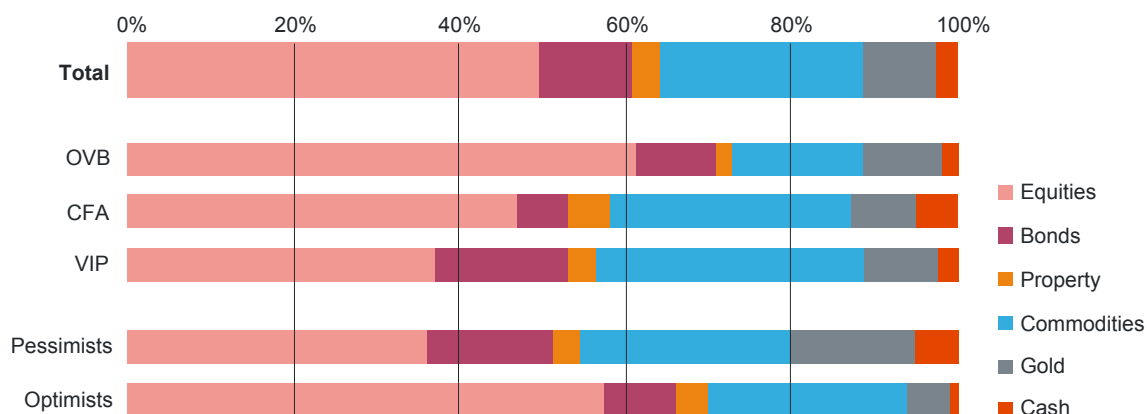
What average inflation rate (CPI) do you expect in the Czech Republic in 2010?



Opinions on trends in inflation are more polarised than opinions on trends in GDP in the previous question. In contrast to GDP, the respondents' attitude to the Euro has an effect on inflation expectations: Euro-optimists tend to expect higher inflation, whereas Euro-pessimists tend to expect lower inflation. The groups with the most divergent expectations are VIP and OVB.

	Over 2%	Between 1% and 2%	Between 0.5% and 1%	Between 0% and 0.5%	Deflation of less than 0.5%	Deflation of more than 0.5%	Don't know Did not answer
Total	68	191	65	18	2	0	3
VIP	12	62	21	6	0	0	1
VIP – English	1	14	5	4	0	0	1
CFA	10	35	17	0	0	0	0
OVB	43	76	22	7	2	0	1
Journalists	2	4	0	1	0	0	0

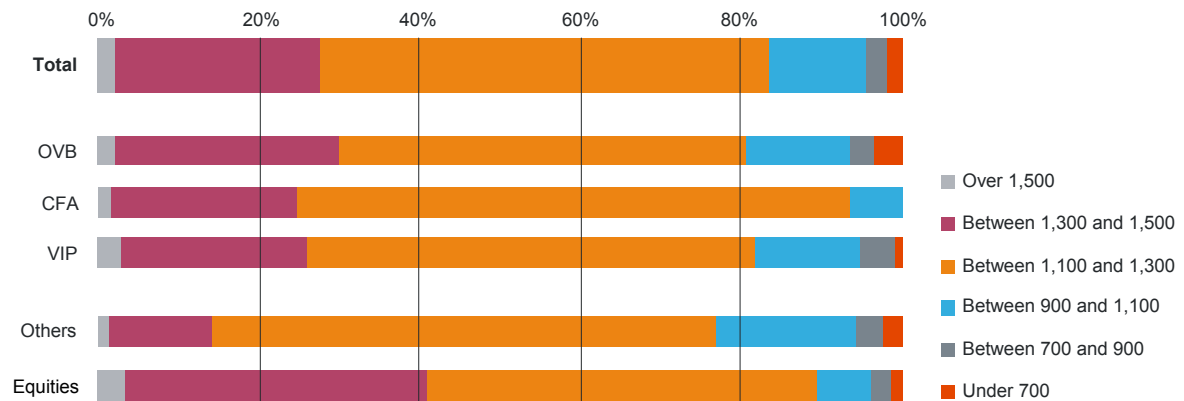
Which category of assets will provide the greatest earnings in the Czech Republic in 2010?



The assets that will provide the greatest earnings on the Czech market this year should be equities. That is the opinion of half the respondents, whereas the other half divided their favour between the quintet of alternatives. Equities are most trusted by OVB financial advisors, least by the VIP group. It is worth noting that the position of financial advisors corresponds to the “optimists” attitude (i.e. those for whom the financial crisis has already peaked—see page 5 in this report) and the attitude of the VIP group corresponds to the “pessimists” opinion. Those two groups trust in commodities more vigorously.

	Equities	Bonds	Property	Commodities	Gold	Cash	Don't know Did not answer
Celkem	168	39	11	83	30	9	7
VIP	36	14	2	36	10	1	3
VIP – English	10	6	2	4	1	2	0
CFA	29	4	3	18	5	3	0
OVB	90	14	3	23	14	3	4
Journalists	3	1	1	2	0	0	0

In your opinion, what will be the value of the PX index as of 31 December 2010?

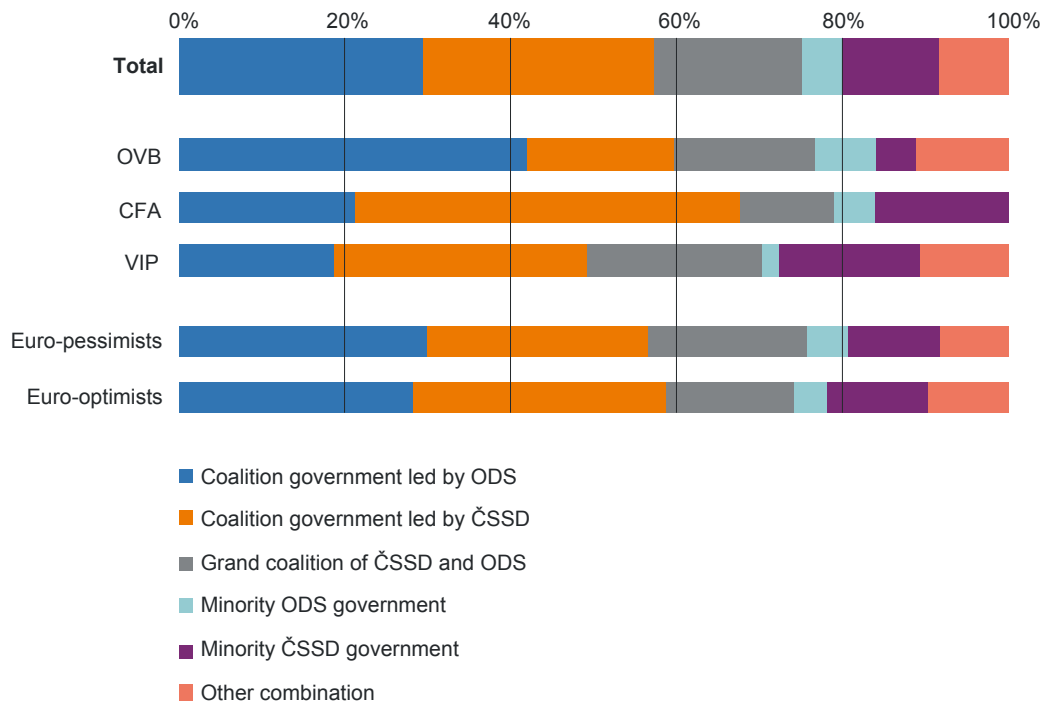


More than half the respondents (55%) expect that the main Prague stock exchange index will not change dramatically by the end of 2010 (during the survey it was at around 1,170 points). The biggest optimists are the financial advisors (OVB group). In the question about the expected earnings of various asset classes (see page 10), of all the groups they were the biggest supporters of equities. The group of those who, according to the aforementioned question, believe in equities most (“Equities” in the graph) have expectations for trends in the PX index that are different to those who most believe in one of the five other asset classes offered (“Others” in the graph).

It is remarkable that there is a rather small group of respondents that expect the PX index to rise above 1,300 points, i.e. by at least ten percent, although they do not expect that equities will be the asset class that earns most. According to the majority of them, commodities will earn the most.

	Over 1,500	Between 1,300 and 1,500	Between 1,100 and 1,300	Between 900 and 1,100	Between 700 and 900	Under 700	Don't know Did not answer
Total	7	82	180	39	9	6	24
VIP	3	22	49	13	5	1	9
VIP – English	0	5	15	2	0	0	3
CFA	1	14	42	4	0	0	1
OVB	3	39	71	18	4	5	11
Journalists	0	2	3	2	0	0	0

In your opinion, what will be the result of this year's parliamentary elections?

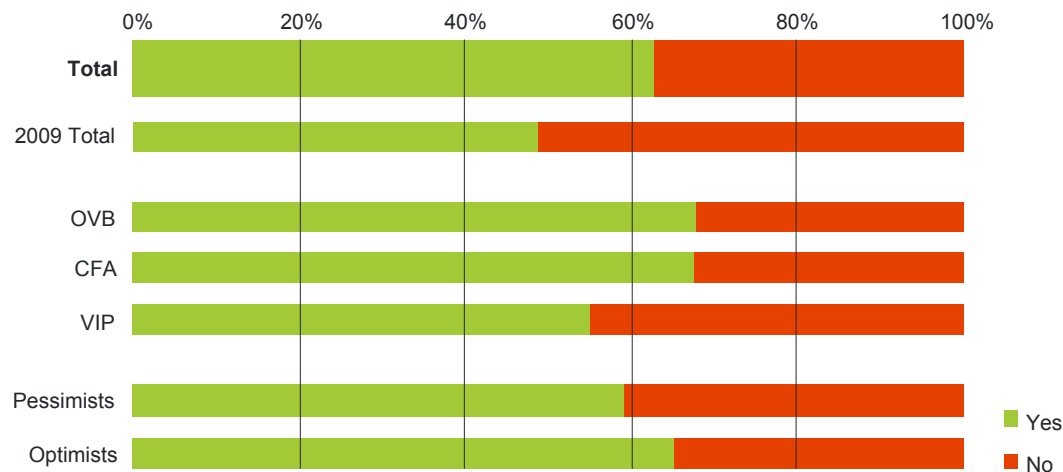


Whereas respondents as a whole see the chances of victory of the ČSSD and ODS as quite even (it is worth noting that the third most expected result is a grand coalition of the two strongest parties), the attitudes of the various groups are different. The CFA group inclines towards expecting a victory of the ČSSD, whereas the OVB group opts for the ODS.

In contrast with this, it is clear that not even different attitudes on a question as fundamental as the advantageousness of the Euro divide respondents in terms of the elections' results. (The attitudes of "Euro-optimists" and "Euro-pessimists" only differ slightly.)

	Coalition government led by ODS	Coalition government led by ČSSD	Grand coalition of ČSSD and ODS	Minority ODS government	Minority ČSSD government	Other combination	Don't know Did not answer
Total	99	95	59	16	39	29	10
VIP	19	31	19	0	20	9	4
VIP – English	4	6	7	2	1	4	1
CFA	13	29	7	3	10	0	0
OVB	61	26	25	11	7	16	5
Journalists	2	3	1	0	1	0	0

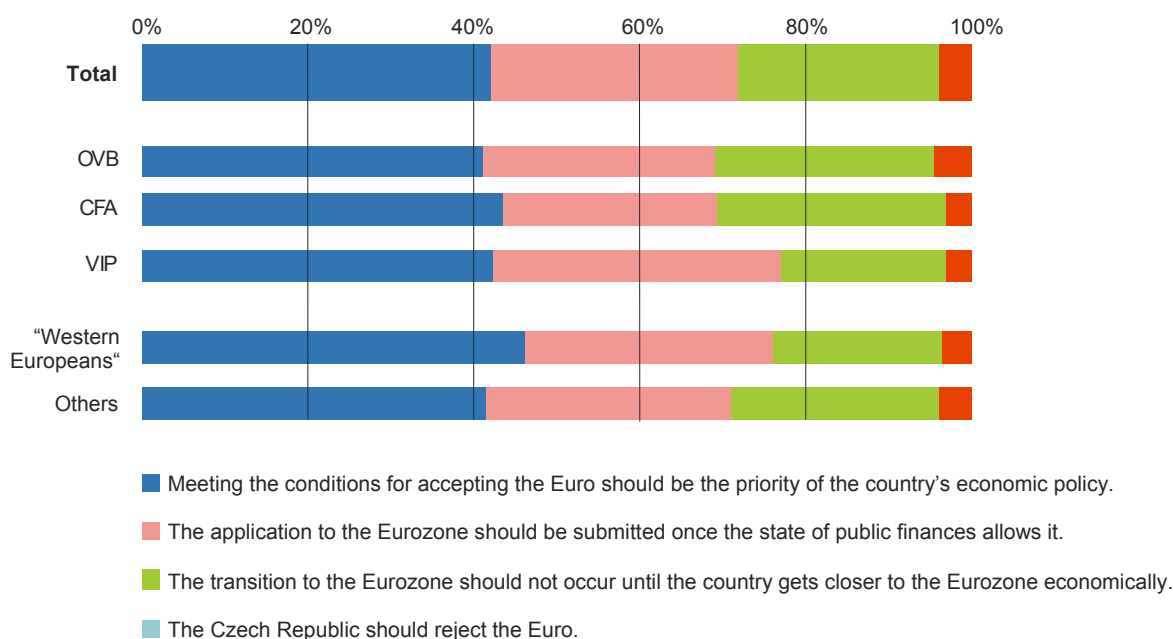
Do you agree with the opinion that the Czech national currency protects the domestic economy better in the current crisis than the Euro could?



In the battle to find the most useful currency for the crisis period, the Czech crown beats the Euro. There are no large differences between the attitudes of the various groups of respondents. The similarity of the “Pessimists” and “Optimists” (see definition page 10) attitudes is worth nothing. The closest correlation is between the attitudes of financial advisors and the VIP group. A comparison with the respondents’ attitudes on the same question from February 2009 is remarkable. A simple majority of respondents came out in favour of the Euro last year.

	Yes	No	Don't know Did not answer
Total	217	129	1
VIP	53	49	0
VIP – English	17	8	0
CFA	42	20	0
OVB	102	48	1
Journalists	3	4	0

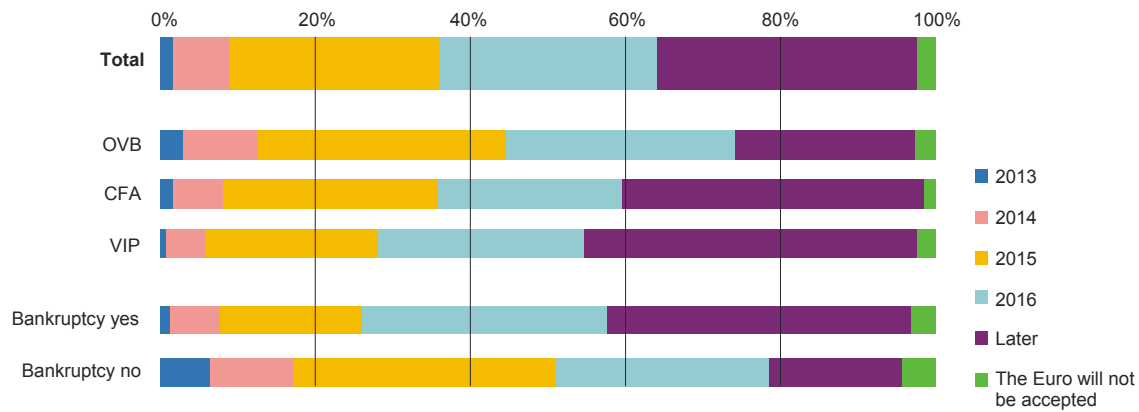
What is your opinion on the acceptance of the Euro?



The attitudes of the various groups of respondents on the transition to the Euro are not that different. It is interesting that the attitudes of respondents with a different opinion on how Western Europe will come out of the crisis (see page 7) do not differ that much in this question. Those who selected Western Europe as a region that will exit the crisis strengthened ("Western Europeans") have a slightly greater enthusiasm for earlier entry to the Eurozone, but even in this group there is no simple majority of respondents in favour of meeting the conditions being a clear priority.

	Meeting the conditions for accepting the Euro should be the priority of the country's economic policy	The application to the Eurozone should be submitted once the state of public finances allows it	The transition to the Eurozone should not occur until the country gets closer to the Eurozone economically	The Czech Republic should reject the Euro	Don't know Did not answer
Total	145	102	84	13	3
VIP	50	30	18	4	0
VIP – English	4	14	7	0	0
CFA	27	16	17	2	0
OVB	61	41	39	7	3
Journalists	3	1	3	0	0

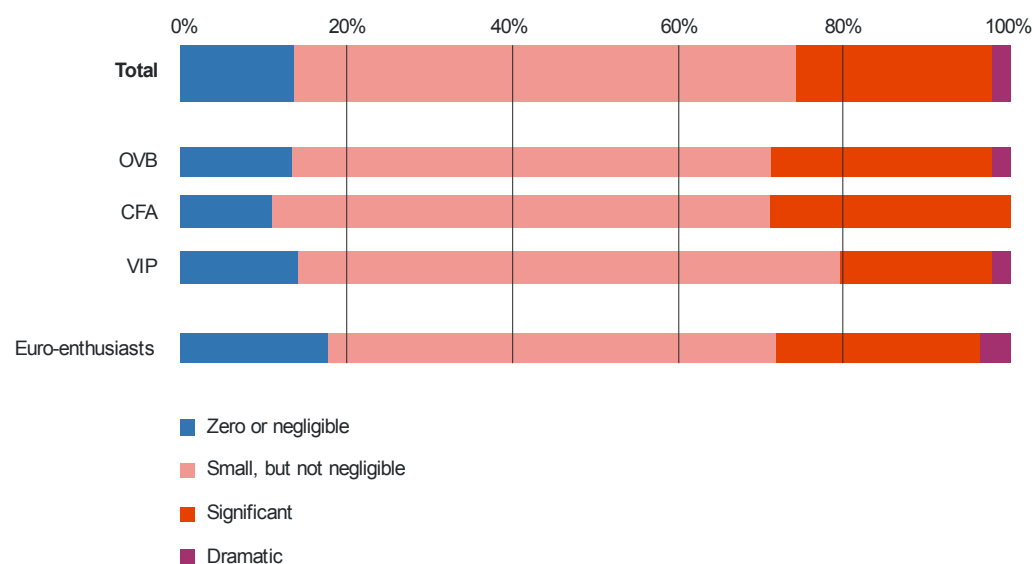
When, in your opinion, will the Euro be accepted in the Czech Republic?



The options 2015 and 2016 or “later” enjoyed roughly the same popularity in the group of all respondents. The OVB group inclines towards expecting an earlier date, whereas the opposite is true for the VIP group. Respondents who do not expect a Eurozone country will go bankrupt (see page 16 of this report, attitude 1 or 2 – “Bankruptcy no”) tend to expect earlier acceptance of the Euro in the Czech Republic.

	2013	2014	2015	2016	Later	Euro will not be accepted	Don't know Did not answer
Total	6	25	94	96	116	8	2
VIP	0	4	20	30	45	2	1
VIP – English	1	2	8	4	9	1	0
CFA	1	4	17	15	24	1	0
OVB	4	15	48	44	35	4	1
Journalists	0	0	1	3	3	0	0

Do you think the risk of national bankruptcy by a member of the Eurozone in the foreseeable future is:



The attitude to the risk that a Eurozone country will go bankrupt is very similar in the various groups of respondents. It is worth noting that the greatest trust in the financial stability of Eurozone member countries is not reported by “Euro-enthusiasts” – those who plead for the acceptance of the Euro to become a priority of Czech economic policy (see page 14).

	Zero or negligible	Small, but not negligible	Significant	Dramatic	Don't know Did not answer
Total	47	208	82	7	3
VIP	10	68	21	3	0
VIP – English	8	15	2	0	0
CFA	7	37	18	0	0
OVB	20	85	40	3	3
Journalists	2	3	1	1	0

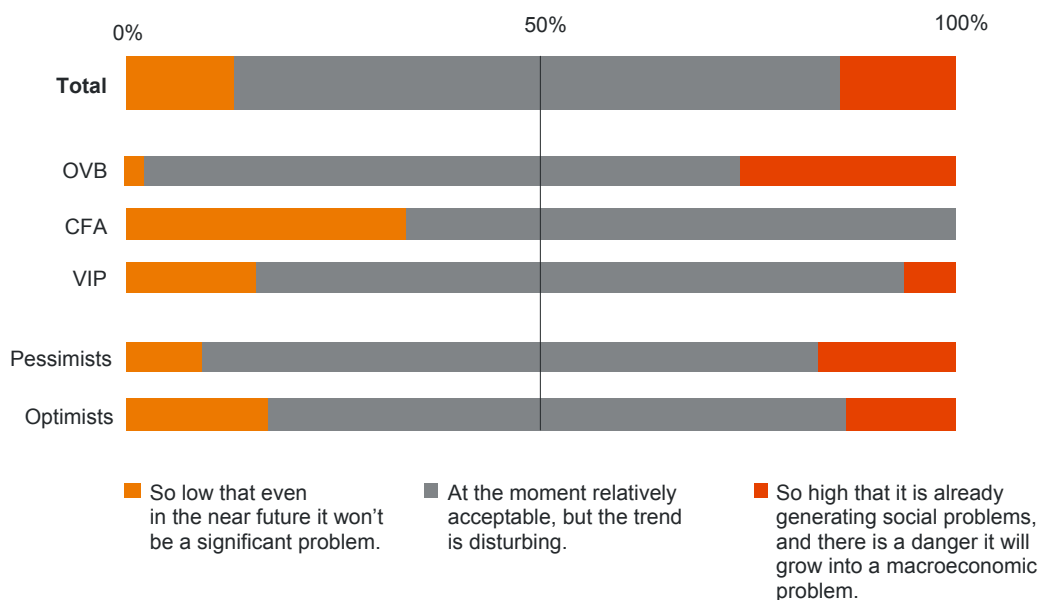
What is your opinion on personal bankruptcies in the Czech Republic?



Three-quarters of respondents expect that the number of personal bankruptcies in the Czech Republic will increase significantly, or even dramatically. The various groups' attitudes do not differ. This applies to the OVB group and also the virtual "young" and "older" groups (see the chart on page 21 of this report – the two outer age categories).

	The number will fall.	I don't expect a significant change in the number.	I expect the number to increase significantly.	I expect the number to increase dramatically.	Don't know Did not answer
Total	4	104	218	20	1
VIP	1	30	69	2	0
VIP – English	0	9	15	1	0
CFA	1	17	44	0	0
OVB	2	44	88	16	1
Journalists	0	4	2	1	0

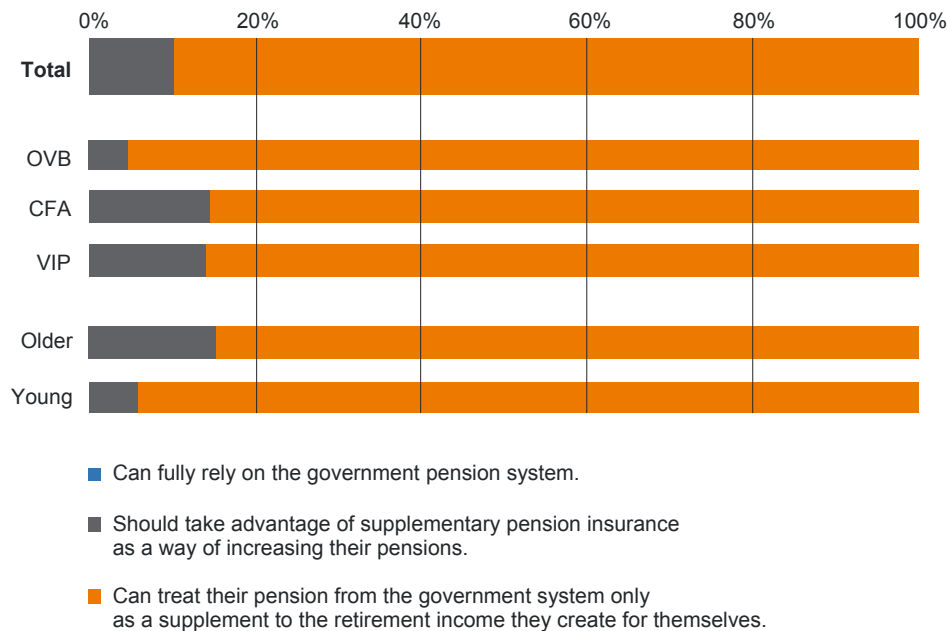
In your opinion, household indebtedness in the Czech Republic is:



Most respondents took neutral position on the indebtedness of Czech households. The dramatic difference in the attitudes of OVB financial advisors and the CFA group is, however, worthy of attention. A full quarter of respondents from OVB think that household indebtedness is “so high that it is already generating social problems, and there is a danger it will grow into a macroeconomic problem,” whereas not one respondent in the CFA group declared this attitude.

	So low that even in the near future it won't be a significant problem.	At the moment relatively acceptable, but the trend is disturbing.	So high that it is already generating social problems, and there is a danger it will grow into a macroeconomic problem.	Don't know Did not answer
Total	46	252	48	1
VIP	10	84	8	0
VIP – English	10	15	0	0
CFA	21	41	0	0
OVB	3	108	39	1
Journalists	2	4	1	0

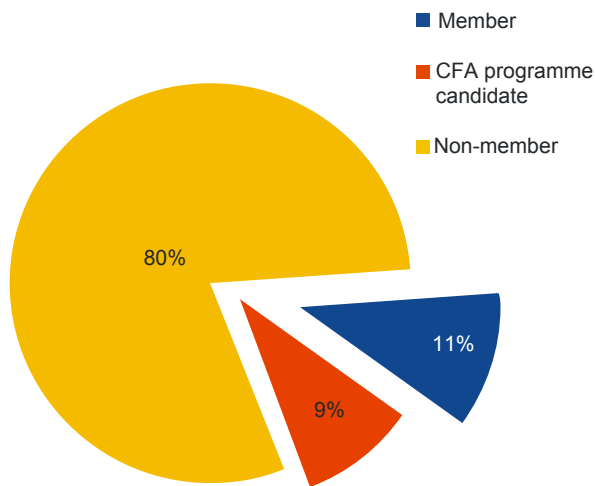
In terms of pensions, do you think that to have a dignified retirement today's 30-year-olds:



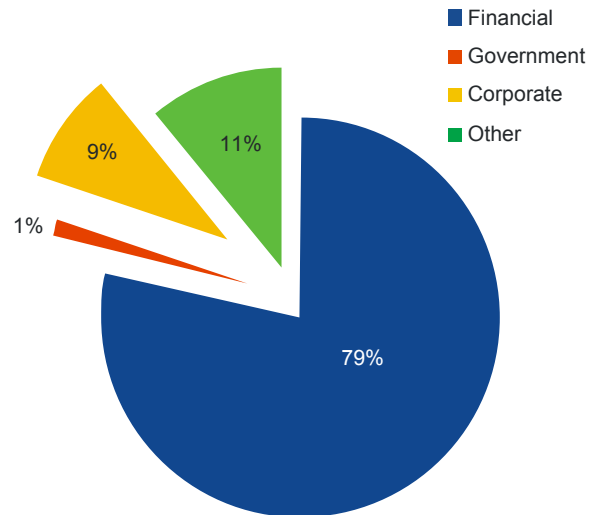
Not a single person was found among the 347 respondents according to whom today's 30-year-olds could fully rely on the government pension system. Not even mild distrust of the government pension system found large support: the vast majority of respondents believe that their government pension will only be a supplement to what people save themselves. A comparison of the attitudes of younger and older respondents (always the two outer age categories, see page 21 of this report) shows some differences, but even for the older respondents the percentage of those that distrust the government pension system exceeds 80%.

	Can fully rely on the government pension system.	Should take advantage of supplementary pension insurance as a way of increasing their pensions.	Can treat their pension from the government system only as a supplement to the retirement income they create for themselves.	Don't know Did not answer
Total	0	36	308	3
VIP	0	16	85	1
VIP – English	0	2	23	0
CFA	0	9	52	1
OVB	0	7	143	1
Journalists	0	2	5	0

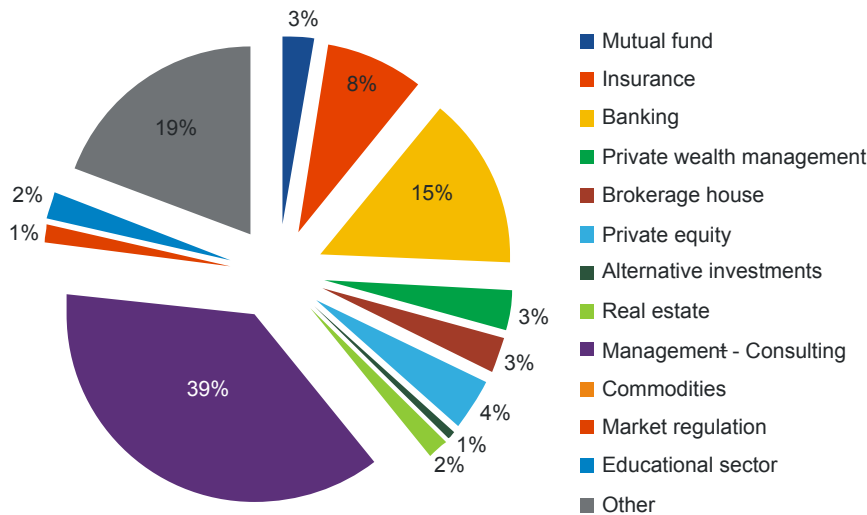
Please give your relationship to the Czech CFA Society:



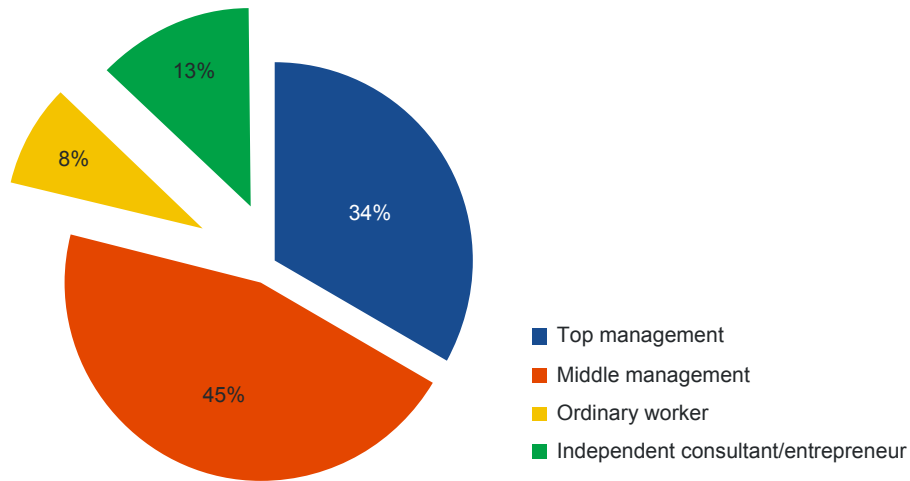
What sector do you work in?



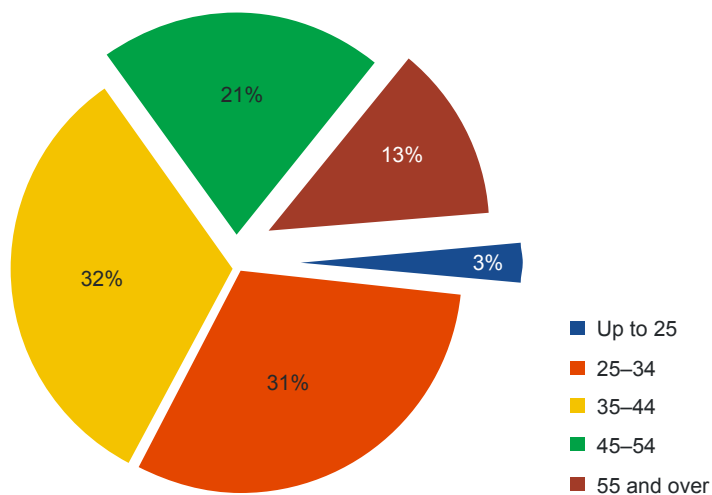
Which financial sector do you work in?



What is your position in the corporate hierarchy?



What age category are you in?



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