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Herzmann

# CFA Society Forecasting Dinner 2014 Survey

Final survey report  
February 2014

Dear readers,

This is the final report for a survey we traditionally undertake to mark the occasion of the annual CFA Society Forecasting Dinner, organized by the CFA Society Czech Republic. This year, with the help of our longtime PR and research partners Donath Business & Media and Herzmann advisory, we have mapped the opinions of the professional public on current topics concerning the Czech economy.

We were interested in learning the expectations of survey participants regarding trends in fiscal policy and an assessment of the intentions declared by the new government coalition. As in our past surveys, we also paid attention to the questions of economic growth, monetary policy and the euro.

We trust that the following pages will allow an interesting and inspiring comparison of your views with those of some of your professional colleagues.

Marek Jindra, CFA  
President  
CFA Society Czech Republic

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## About the survey

This survey was carried out to mark the 12th annual CFA Society Forecasting Dinner 2014, which is organized by the CFA Society Czech Republic, an organization that groups together chartered financial analysts. Forecasting this year's economic trends is the subject of the annual meeting of leading domestic and foreign economists, held under the auspices of Miroslav Singer, the governor of the Czech National Bank.

An online survey was conducted for the CFA Society Czech Republic between January 9 and 24, 2014, by Donath Business & Media, in cooperation with Herzmann advisory. Its aim was to map the opinions of economic and financial professionals on current topics concerning the Czech economy and expectations linked to the forming of the coalition government.

The following groups of professionals were invited to participate in the survey:

- Members of the CFA Society Czech Republic and CFA Programme candidates;
- Leading figures in the Czech corporate and financial sector (VIP);
- Readers of The Fleet Sheet's Final Word electronic bulletin;
- Readers of the Ekonom.cz server.

The questions concerned:

- Economic policy of the new governing coalition of ČSSD, ANO and KDU-ČSL;
- Economic trends in the Czech Republic;
- The banking union and adoption of the euro.

A total of 2,044 respondents participated in the survey. An invitation to participate in the survey was mailed to 8,031 addressees, of which 1,624 replied, i.e. 20.2% of those addressed. The total includes 420 readers of the Ekonom.cz news portal who participated in the survey spontaneously. The respondents' attitudes to various survey questions are described below.

## Main findings

### **The government should win a vote of confidence but will probably not last**

Most respondents (60.5%) would give the coalition government of ČSSD, ANO and KDU-ČSL a confidence vote. This position does not differ across the groups queried. A comparable quantity (59.4%) of survey participants believe that the government will not last its entire electoral term.

### **The Czech economy is expected to grow in 2014**

The Czech economy should grow this year, according to 81.1% of representatives of the professional public who participated in the survey. Respondents from the financial sector (90.8%) expect an increase in GDP, and just under half of them (42%) think GDP will rise more than 1%. Three-quarters of respondents (73.5%) think this year's inflation will be between 1% and 3%.

### **The government will increase spending and taxes, and this will hurt the economy**

A majority of 79.1% of respondents expect the current coalition government to increase spending. A total of 46.5% think the 3% budget deficit limit will be met but that taxes will be increased. Another 32.6% expect spending will be financed by an increase in government debt.

Concerning taxation, respondents most frequently expect that in the next year the government will make personal income tax more progressive (69.7%) and will introduce a sector tax (60.6%). Expectations for corporate income tax are split, with 47.9% of respondents expecting the government to increase it. The prevalent opinion is that the increase could reach as high as 2%. No change to the tax rate is expected by 44.1% of survey participants. The majority view (65.9%) is that the coalition government will reduce VAT on some select items.

Most respondents (57.4%) believe the tax changes expected by the coalition government will damage the economy. This opinion is most frequently held by people in the financial sector (67.9%).

### **The government will not be able to introduce effective anti-corruption measures effective measures to reduce corruption, but it is expected to improve transport infrastructure**

Most participants in the survey (70%) do not expect the government to introduce effective anti-corruption measures. Respondents are even more pessimistic in their view of claims by the coalition parties that the individual ministries will not serve the special interests of the parties or movements that control them. A full 83.6% of respondents think the government will not manage to prevent this.

A significant majority of respondents (80%) agree with the government's intention to increase investment in the development and maintenance of transport infrastructure to 2% of GDP. The majority (68.8%) also agree with the government's plan to achieve food self-sufficiency in basic commodities that can be produced in the Czech Republic.

### **We don't want a banking union, and the euro can wait**

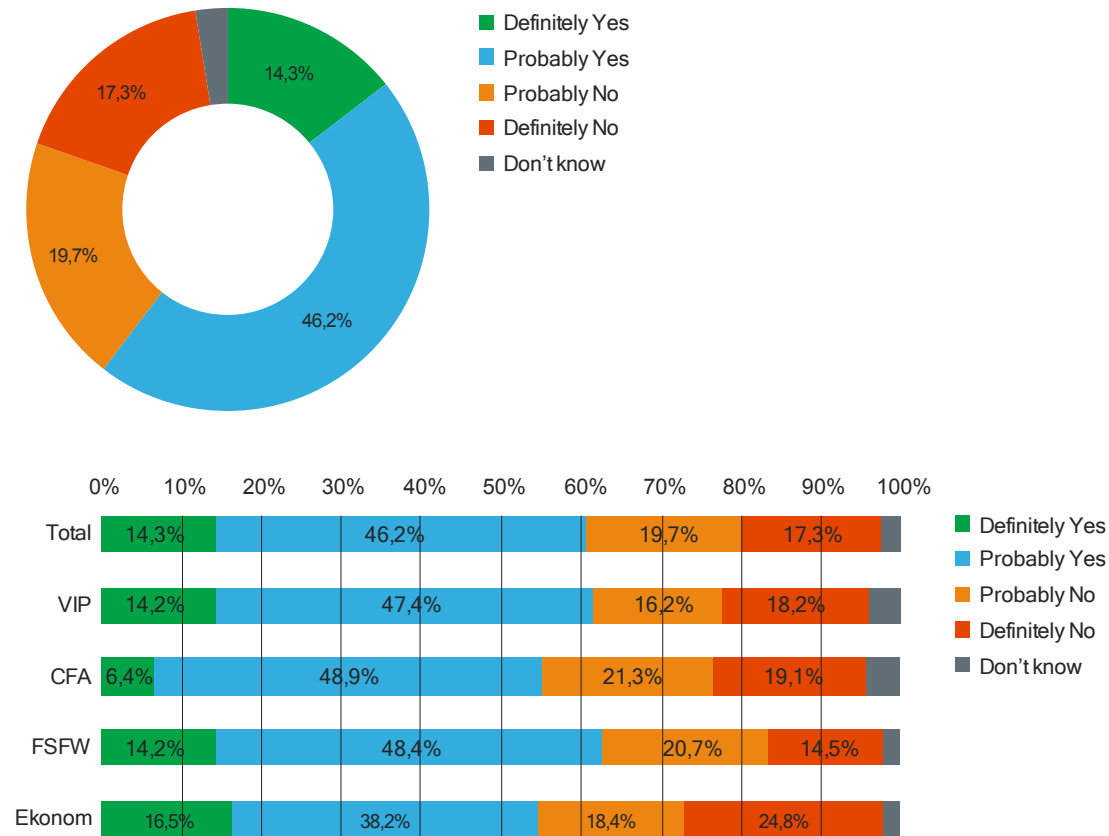
A negative opinion on the banking union was prevalent among survey participants (52.1%), and the tendency toward categorical rejection was very strong (27.3%). Respondents from financial circles and the rest of the private sector more frequently had a negative attitude. Tolerance for a banking union rises with the respondents' age.

Most respondents (66.1%) think the Czech Republic should adopt the euro, but 45.1% would defer this step until the direction of the eurozone becomes clear. Support for this opinion is most frequent in the case of respondents from educational, government and public institutions. As age rises, there is a greater willingness to give up the Czech currency.

As respondents get older, they tend more towards adopting the euro and acceding voluntarily to the banking union. Agreement with food self-sufficiency also rises as the age increases, while agreement with the Czech National Bank's intervention against the Czech crown falls.

## The government should win a vote of confidence

Q1: If you had a say in the matter, would you give a vote of confidence to the budding coalition government of ČSSD, ANO and KDU-ČSL?

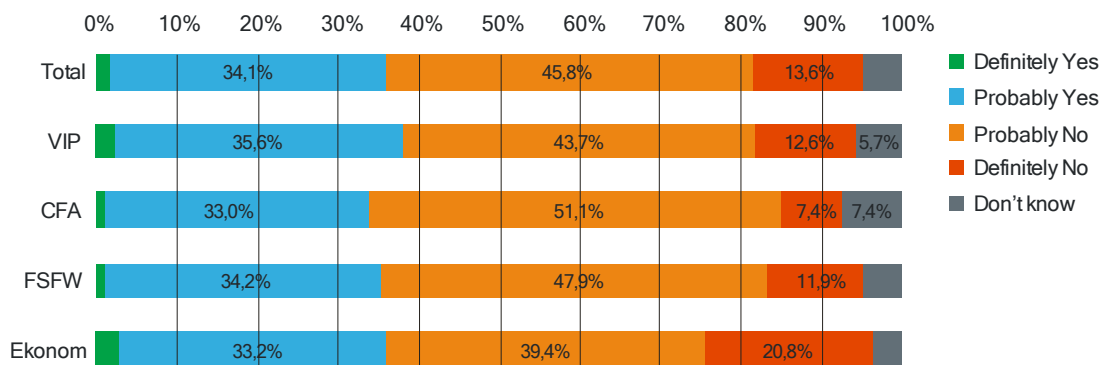
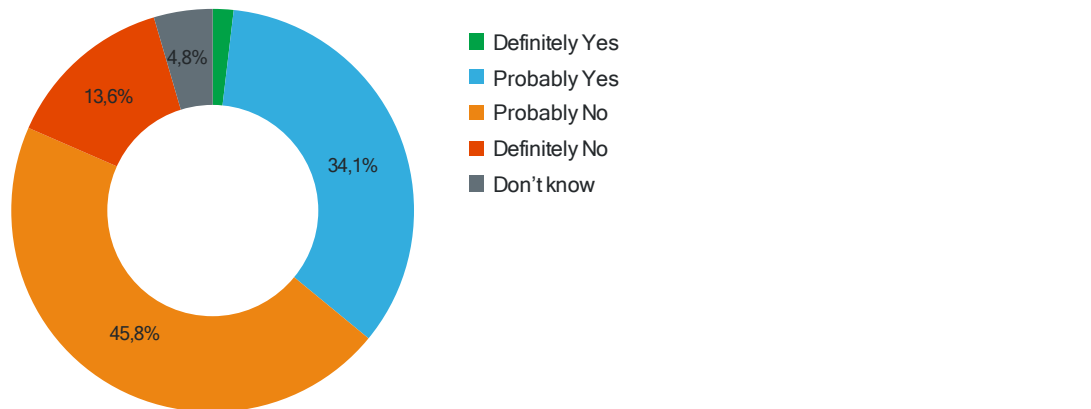


Most respondents across all groups would give a vote of confidence to the coalition government of ČSSD, ANO and KDU-ČSL. In a number of areas analyzed below, respondents have a critical view of the government's ability to implement the intentions declared in the coalition agreement, but 60.5% of respondents would nevertheless express confidence in the government. Is this a high level of confidence, or not so high? Given that the political preferences of the largest group of respondents are more to the Right, one could think that the "expressed confidence" is mainly a result of the desire to have a government with a mandate to act.

## Will the ČSSD, ANO and KDU-ČSL government be successful?

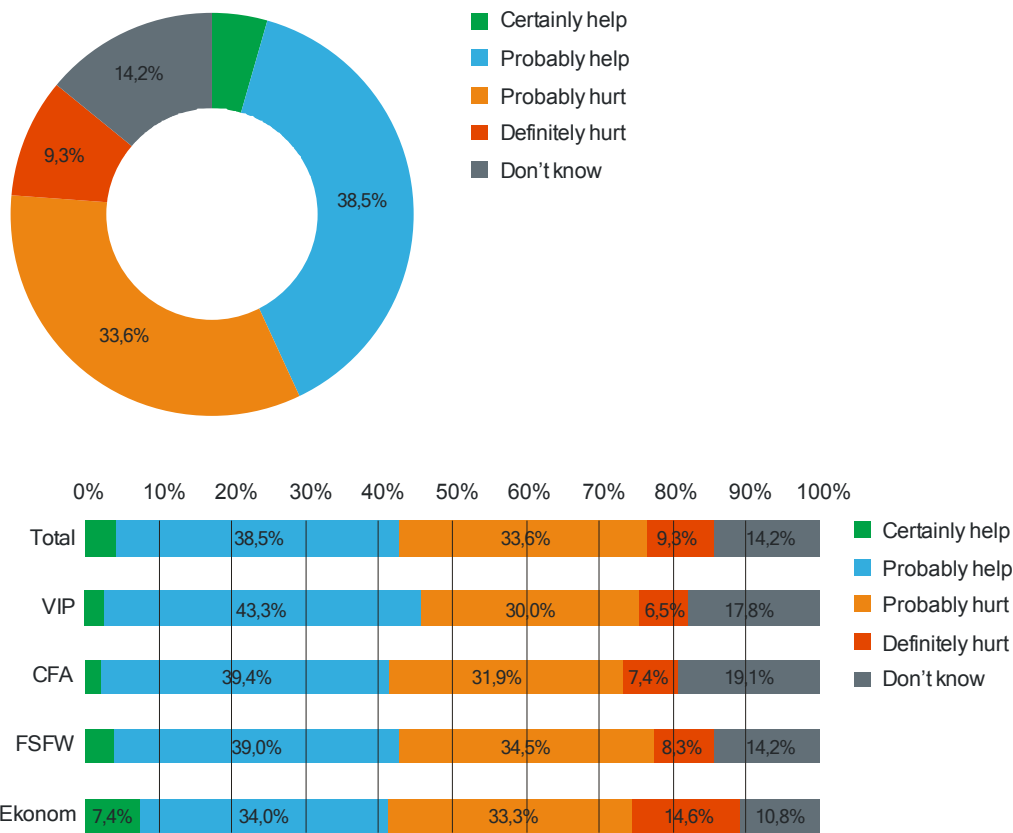
Negotiations for the creation of a parliamentary majority led to the formulation of various political goals. Respondents were asked in through the following questions whether they thought the government would be successful in keeping its pre-election promises.

Q2: Do you believe the coalition of ČSSD, ANO and KDU-ČSL will survive the full election period?



Three caretaker governments have come to power in the Czech Republic after the collapse of a ruling coalition. It is therefore no surprise that 59.4% of respondents are skeptical about the ability of the current government to last the entire electoral term, regardless of its majority of 111 votes. The previous Nečas coalition of three parties originally had the support of 118 deputies in 2010.

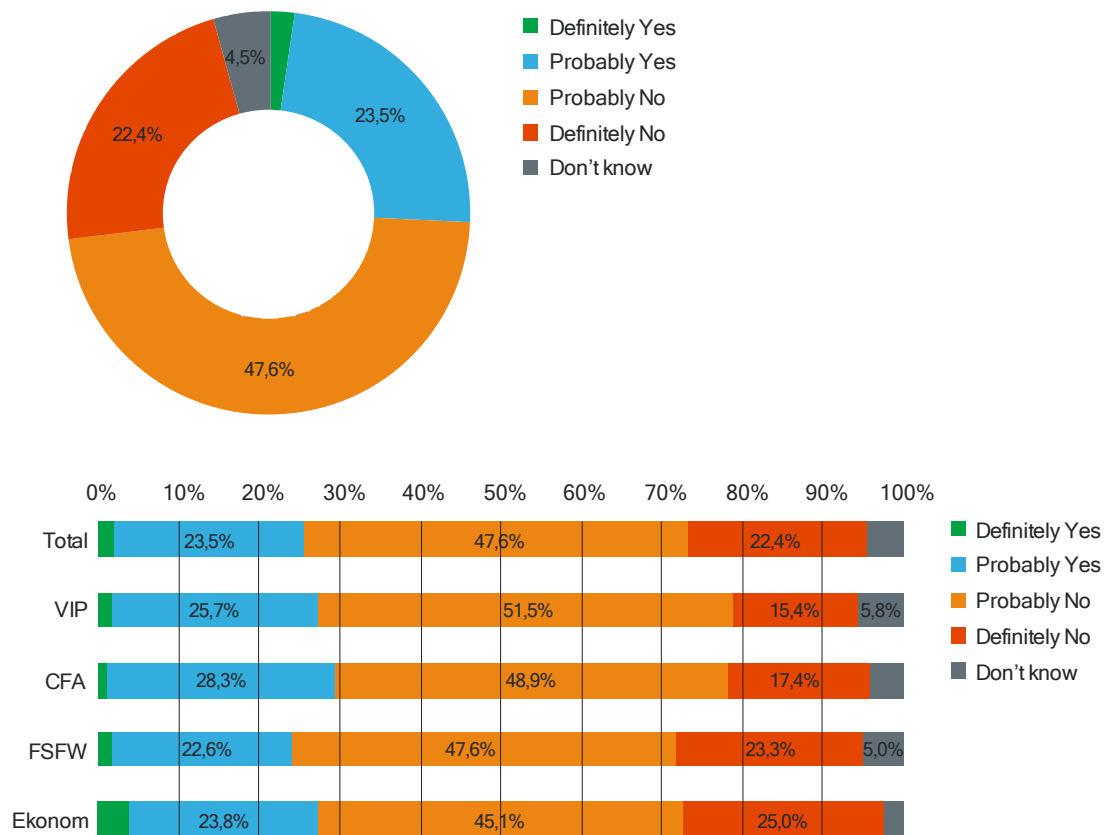
Q3: Do you expect the new coalition government to help or hurt the Czech economy?



Although almost two-thirds of respondents would give the coalition government a vote of confidence, respondents are evenly split on whether the government will help or harm the Czech economy. In both cases, the response rate is 42.9%. Only the group of VIP respondents is markedly different, and the prevalent view there is a positive one.

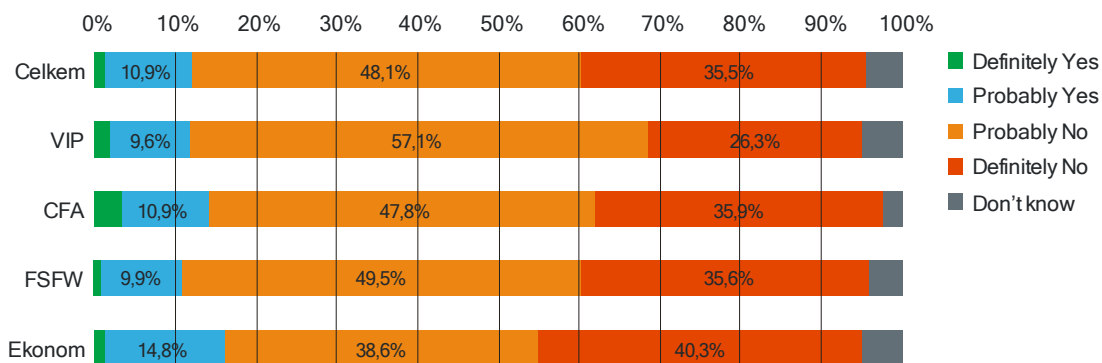
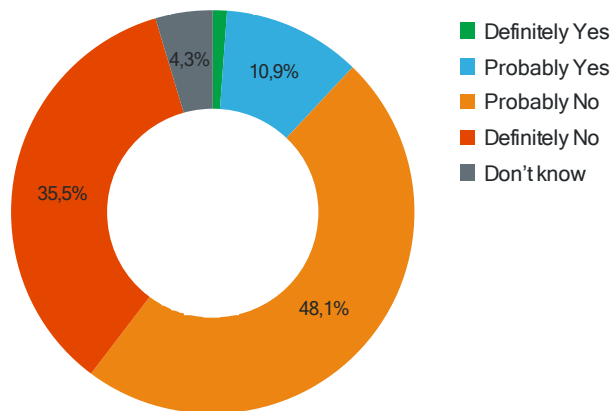


Q4: Do you believe the Cabinet will implement effective measures to reduce corruption?



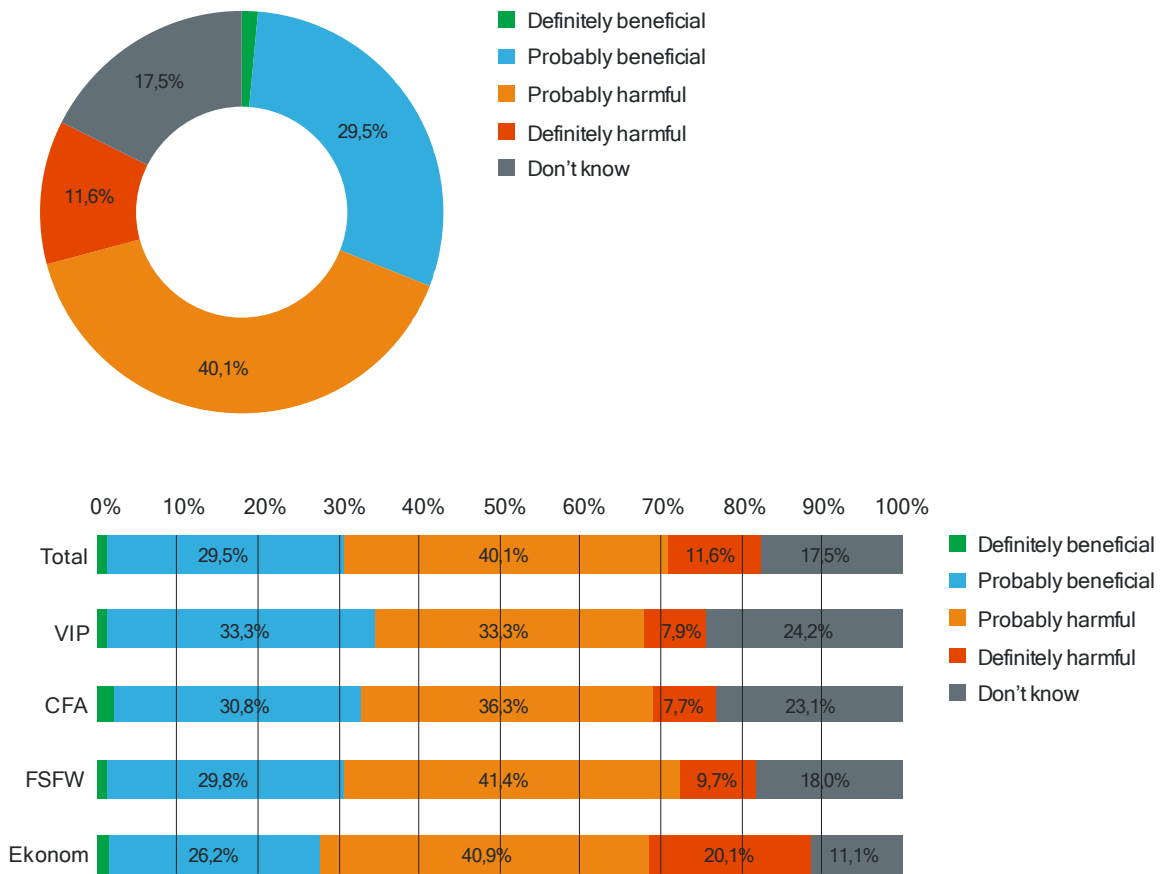
Reducing corruption was a conspicuous topic in the elections, although respondents across all groups are visibly skeptical about the fulfillment of such promises. More than two-thirds (70%) of participants in the survey do not expect the government to introduce effective anti-corruption measures. The biggest pessimists are respondents in the 45-54 age bracket, where 29.5% expect the government to “definitely” not be successful here. Another 44.3% selected the “probably no” option. In this age group, only 21.0% of respondents anticipate that effective steps to reduce corruption will be taken by the government.

Q5: Do you believe the Cabinet will prevent individual ministries from serving the special interests of the political parties or movements that control them?



Respondents are even more pessimistic about the possibility that individual ministries will refrain from serving the special interests of the parties or movements that control them than they are about the implementation of effective anti-corruption measures. A total of 83.6% of respondents think the government will be unsuccessful in this respect, and a third (35.5%) expect that it will “definitely” not be successful.

Q6: Do you believe the policies of the coalition government will be beneficial to the development of small and medium-size businesses, or harmful?

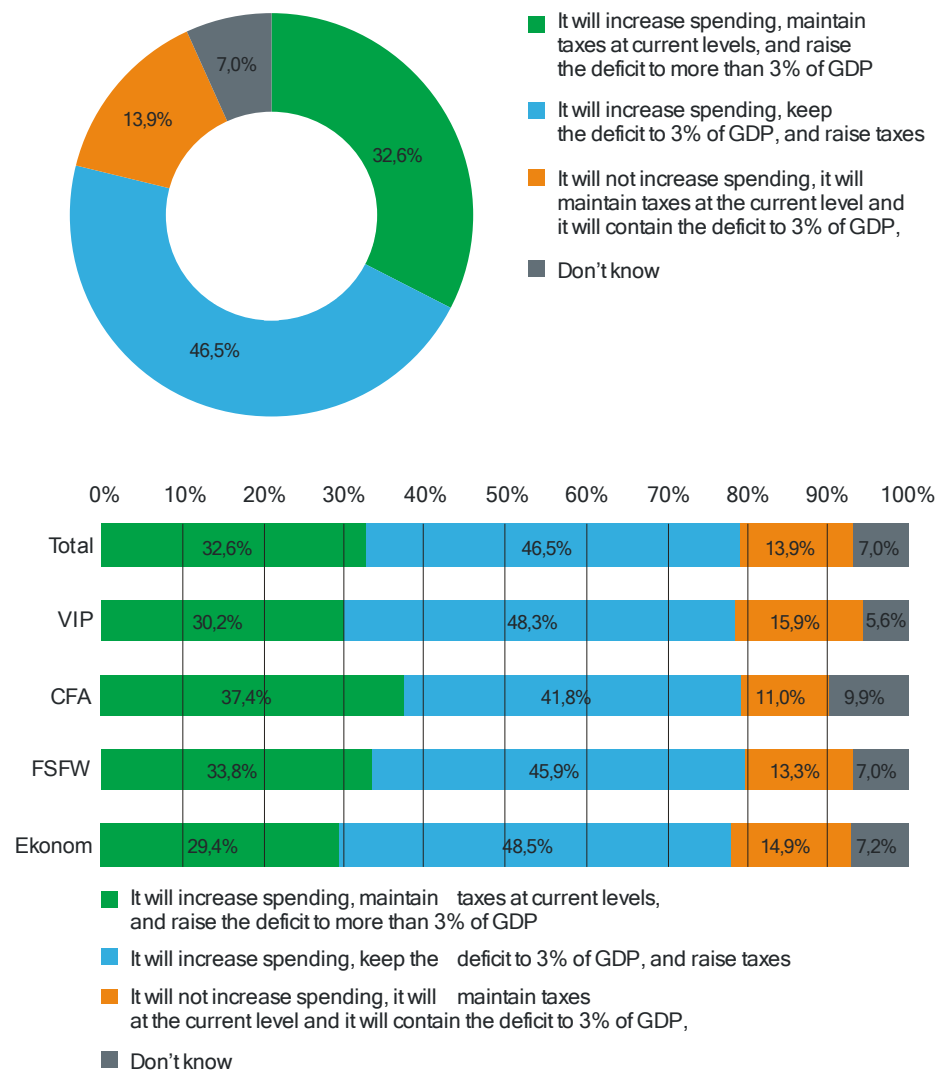


Small and medium-size businesses are an important part of the economy, but in comparison with large companies they usually do not have sufficient strength to push through their interests. Most respondents (51.7%) think the coalition government will harm small and medium-size businesses. The most skeptical expectations are held by readers of the Ekonom.cz server (61.0%), whereas the VIP (41.3%) and CFA (44.0%) views are more moderate. Even in these groups, however, negative expectations exceed the positive ones.

## Taxes and budget

The government's chances of fulfilling its election promises are, to a large part, dependent on what the budget allows. The survey also dealt with the respondents' expectations concerning changes to taxes and issues of budgetary discipline.

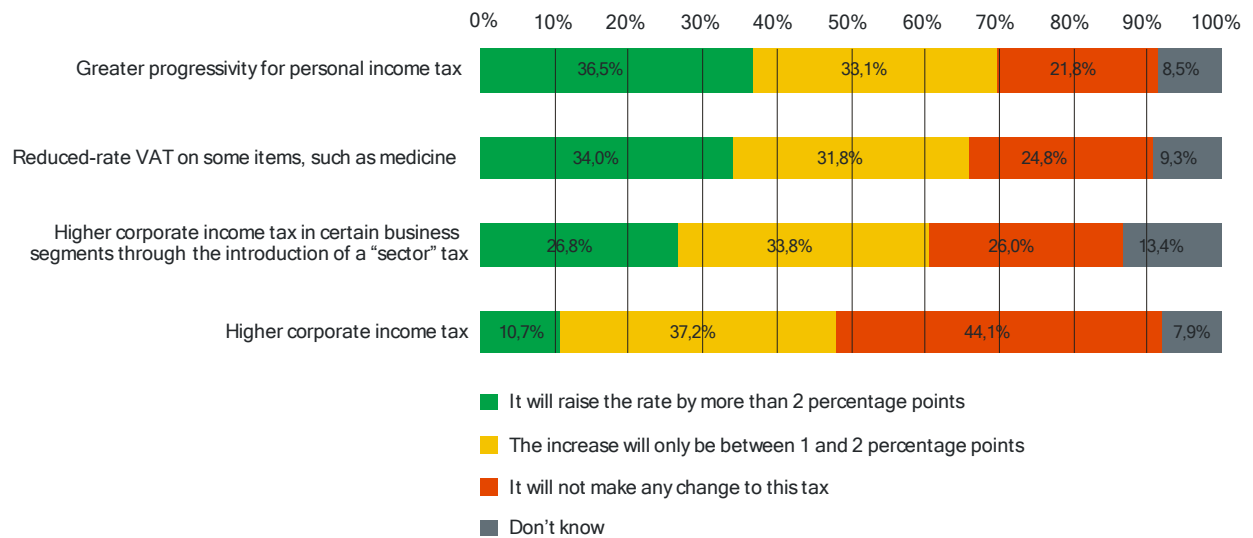
Q11: How do you think the new coalition will address the conflicting goals of not raising taxes, not increasing the budget deficit and raising government investment?



The largest share of respondents expect the government to increase spending and maintain the budget deficit at no more than 3% of GDP by way of increasing taxes (46.5%). The opinion that spending will rise without a tax increase, but at the cost of raising the budget deficit over 3%, is shared by a third of respondents (32.6%). Only one in eight respondents thinks the government will maintain taxes and the budget deficit and will not increase spending (13.9%).

The distribution of responses makes it clear that eight out of 10 respondents expect an increase in spending by the current governing coalition (79.1%). Six out of 10 respondents believe the government, either by raising taxes or abandoning the plan to increase spending, will maintain the budget deficit at no more than 3%. Just under half of the respondents tend toward one of the options assuming the maintenance of the tax quota (46.5%).

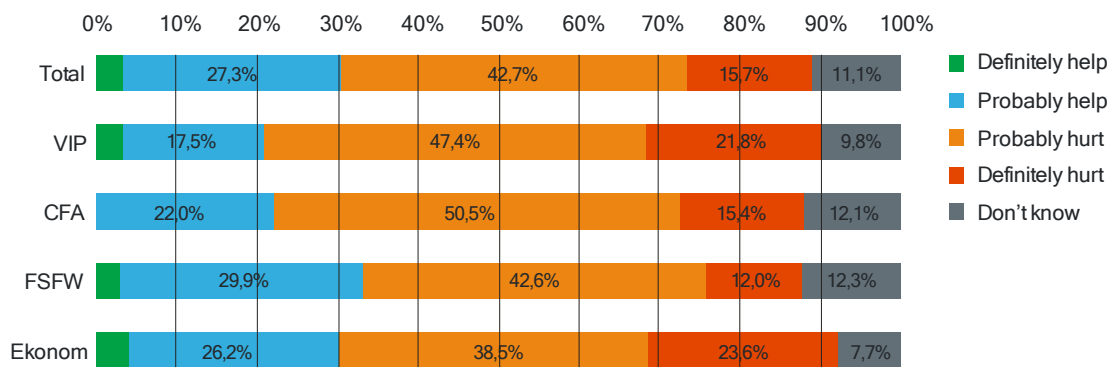
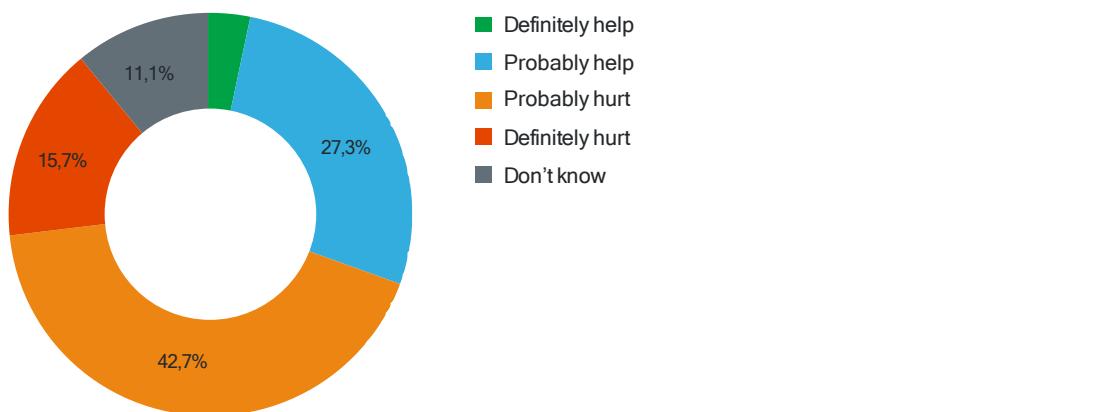
Q7: What tax changes do you think the Cabinet will put in place for 2015?



Respondents most frequently (69.6%) expect that in the next year the government will make personal income tax more progressive. The most popular opinion (36.5%) is that there will be a change of greater than two percentage points. A solid majority of survey participants (60.6%) expect the introduction of a sector tax. As far as a corporate tax increase goes, the expectations are more uniform, and respondents tend towards a small change of up to two percentage points. The majority opinion (65.9%) is that the coalition government will reduce VAT on some select products.

“Professionals,” i.e. people from finance and the private sector, most frequently expect personal income tax to become markedly more progressive. This can be seen not only in the sum of positive replies but also primarily in the proportion of replies saying there will be a larger change. This group of respondents also more frequently expects larger changes to corporate income tax. At the same time, the group expects a VAT reduction of a little less. Responses from those in finance and other private business sectors indicate that these “professionals” perceive the impossibility of financing the government’s plans without a significant tax increase much more vigorously.

Q8: In your opinion, if the coalition realizes its tax objectives, will this help or hurt the Czech economy?

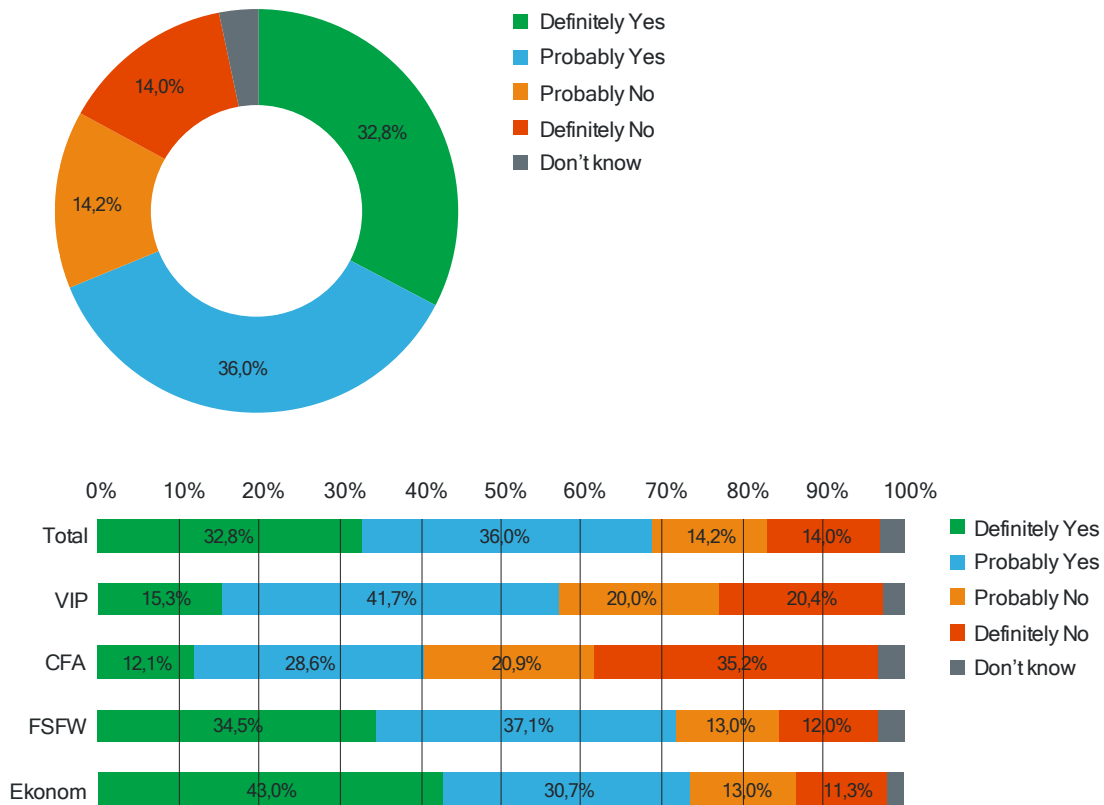


Most respondents (57.4%) think the expected tax changes by the coalition government will hurt the Czech economy. This opinion is more frequently expressed by people in the financial sector (67.9%) and other private companies (61.6%).

## Food and roads

The coalition agreement between ČSSD, ANO and KDU-ČSL sets out a number of goals as part of the new government's future policy. The survey focused on two of them that could have an impact on the general public and the performance of the Czech economy.

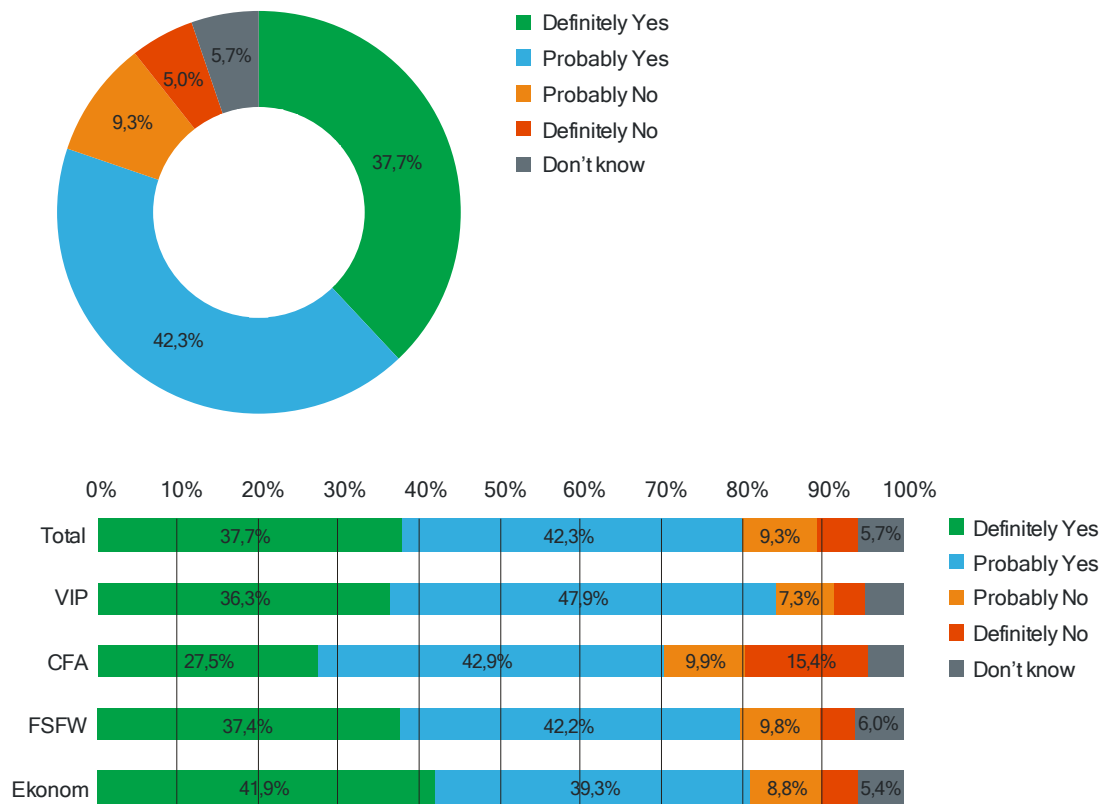
Q9: Is the coalition right to want to achieve self-sufficiency in the key food items that can be produced in the country?



More than two-thirds of respondents (68.8%) agree with the government's plan to achieve food self-sufficiency in basic commodities that can be produced in the Czech Republic. The view on this matter, however, significantly differs across the individual groups of respondents. On one side of the spectrum are CFA members, who reject food self-sufficiency, and on the other side are FSFW and Ekonom.cz readers, who fairly clearly support it. VIP respondents are somewhere in the middle; they are more likely to support the idea of food self-sufficiency, but the opposite opinion has a large block of supporters there, as well.

Food self-sufficiency is most frequently supported by women (79.4%), compared with men (65.8%). The policy has significantly less support from respondents in the financial sector, although its support rises with the age of respondents.

Q10: Do you agree with the coalition's declared goal of increasing spending on transportation infrastructure to 2% of GDP?

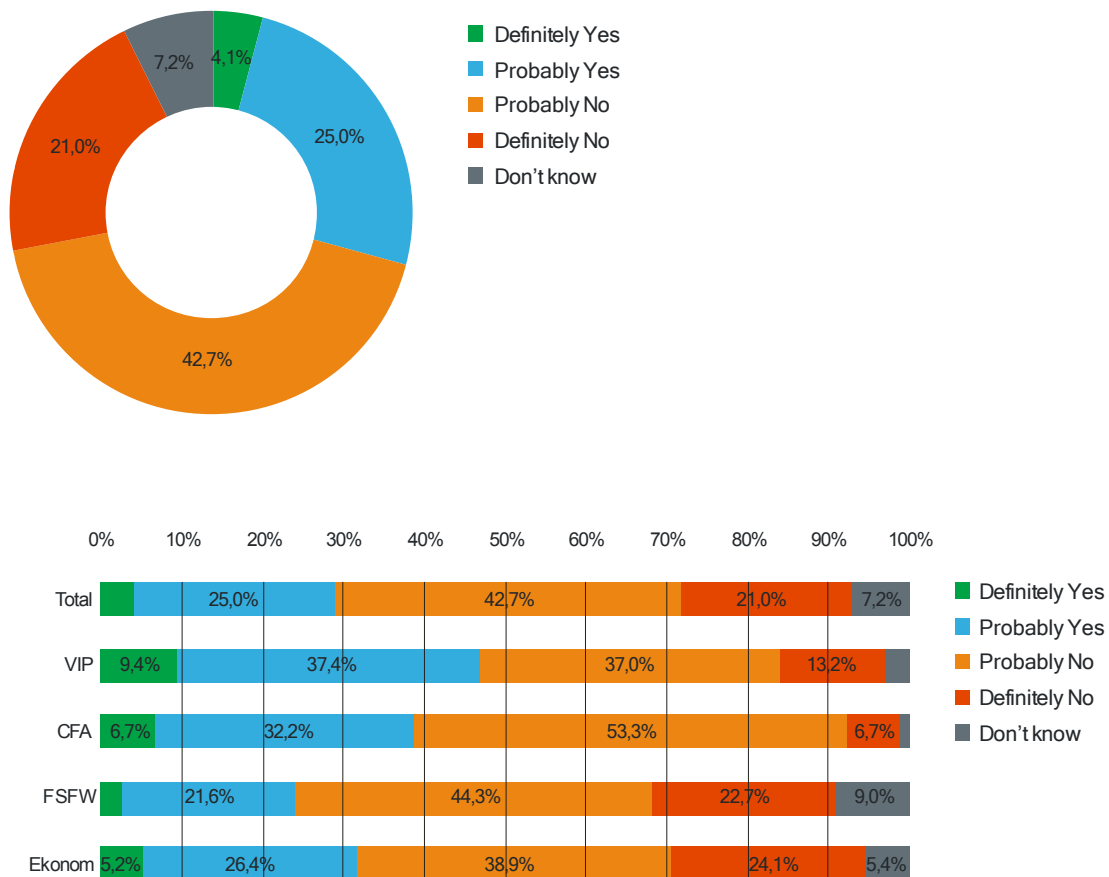


A very marked majority of respondents (80%) agree with the government's intention to increase investment in the development and maintenance of transport infrastructure to 2% of GDP. The majority opinion is dominant across all groups of respondents, but it is impossible to overlook the fact that a quarter of CFA members (25.3%) oppose it.



## Czech National Bank's intervention policy

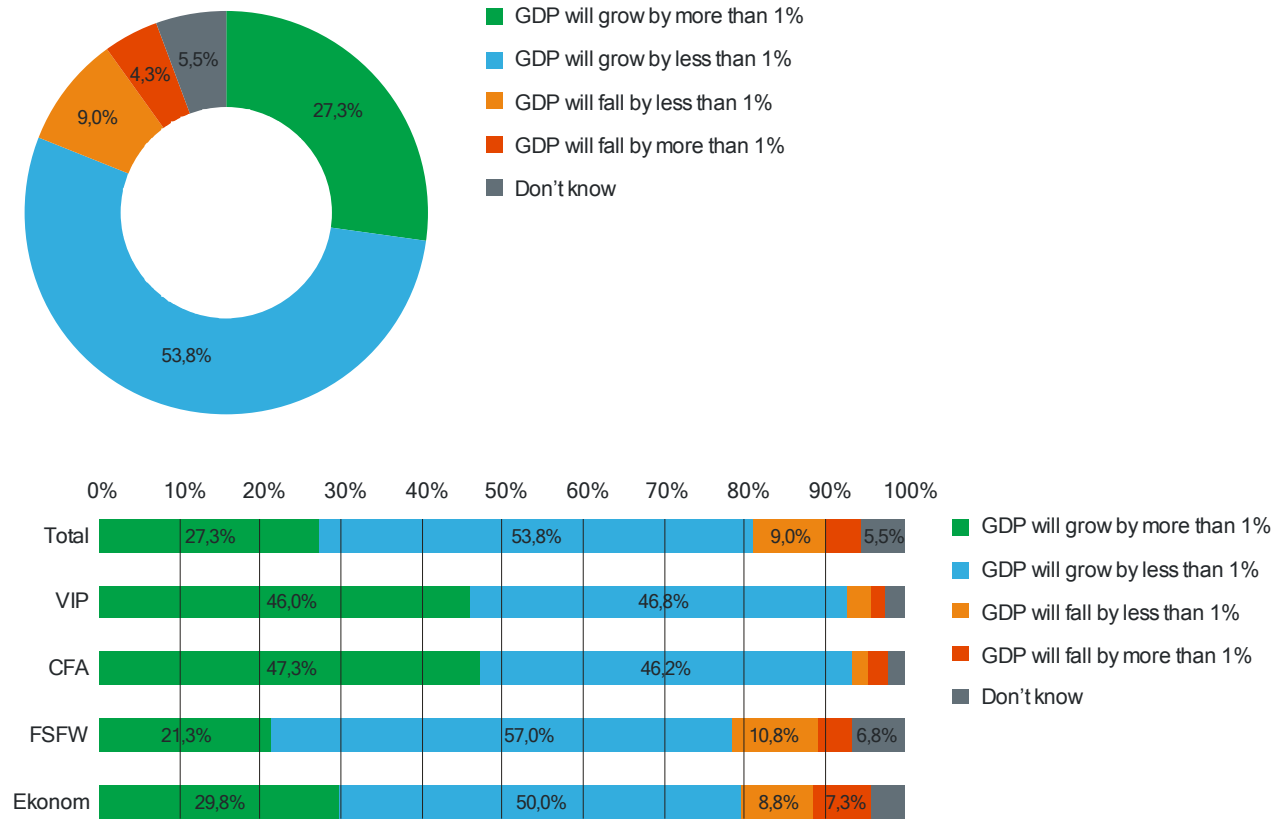
Q12: Will the Czech National Bank's intervention against the crown lead to growth of the domestic economy?



Two-thirds of respondents (63.7%) do not expect the Czech National Bank's intervention to lead to growth. The Czech National Bank's policy has the strongest support from the VIP group (46.8%), but even they are mostly critical (50.2%). It is interesting to note that respondents from the financial sector are the least skeptical. More than a third of them expect the same as the Czech National Bank. This could be related to the fact that more than 40% of financial experts expect GDP growth exceeding 1%.

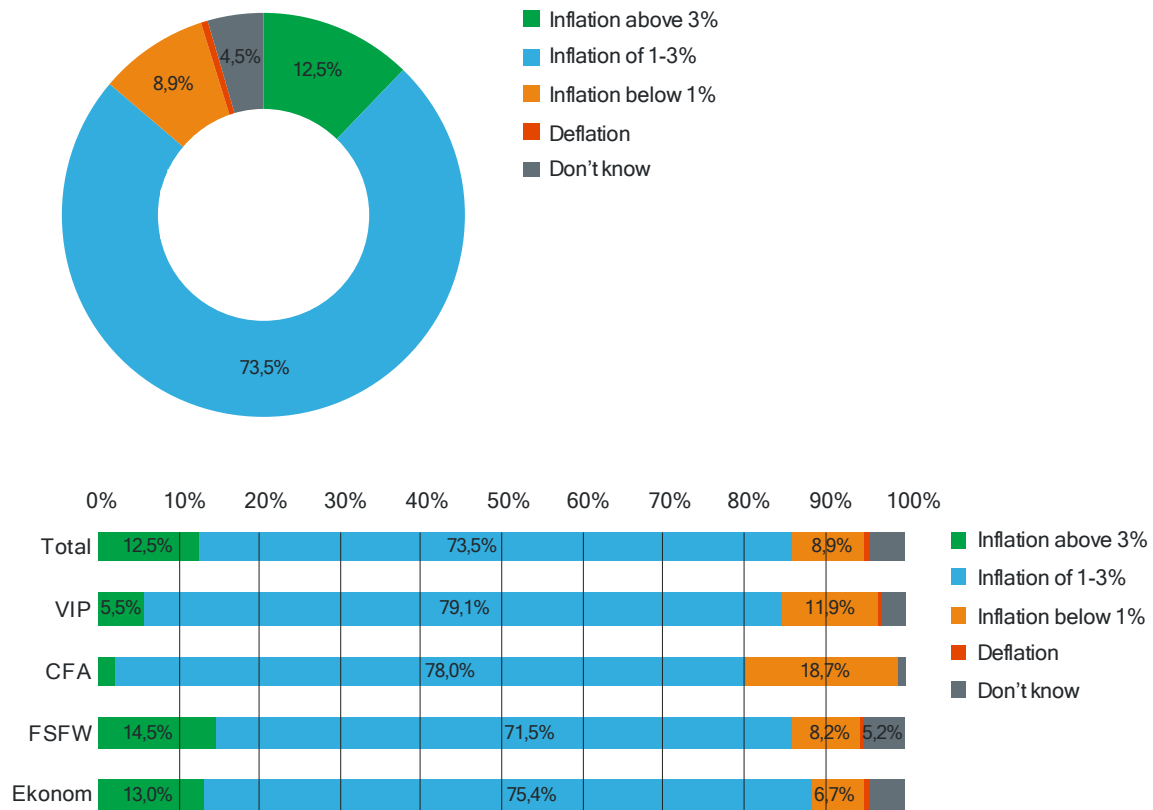
## We believe in weak growth and slight inflation

Q13: How do you expect the economy to perform in 2014?



The Czech economy should grow this year, according to 81.1% of survey respondents. There are, however, evident differences across the groups in the degree of their belief in growth, as well as the level of growth expected. A full 90% of VIPs and CFA members expect growth, and approximately half of them expect it to be more than 1%. These results correspond to another survey result, where 90.8% of respondents from the financial sector expect growth and 42% think it will be higher than 1%. Relatively speaking, the most skeptical are FSFW readers, of which only a fifth expect growth over 1% and half expect growth of up to 1%.

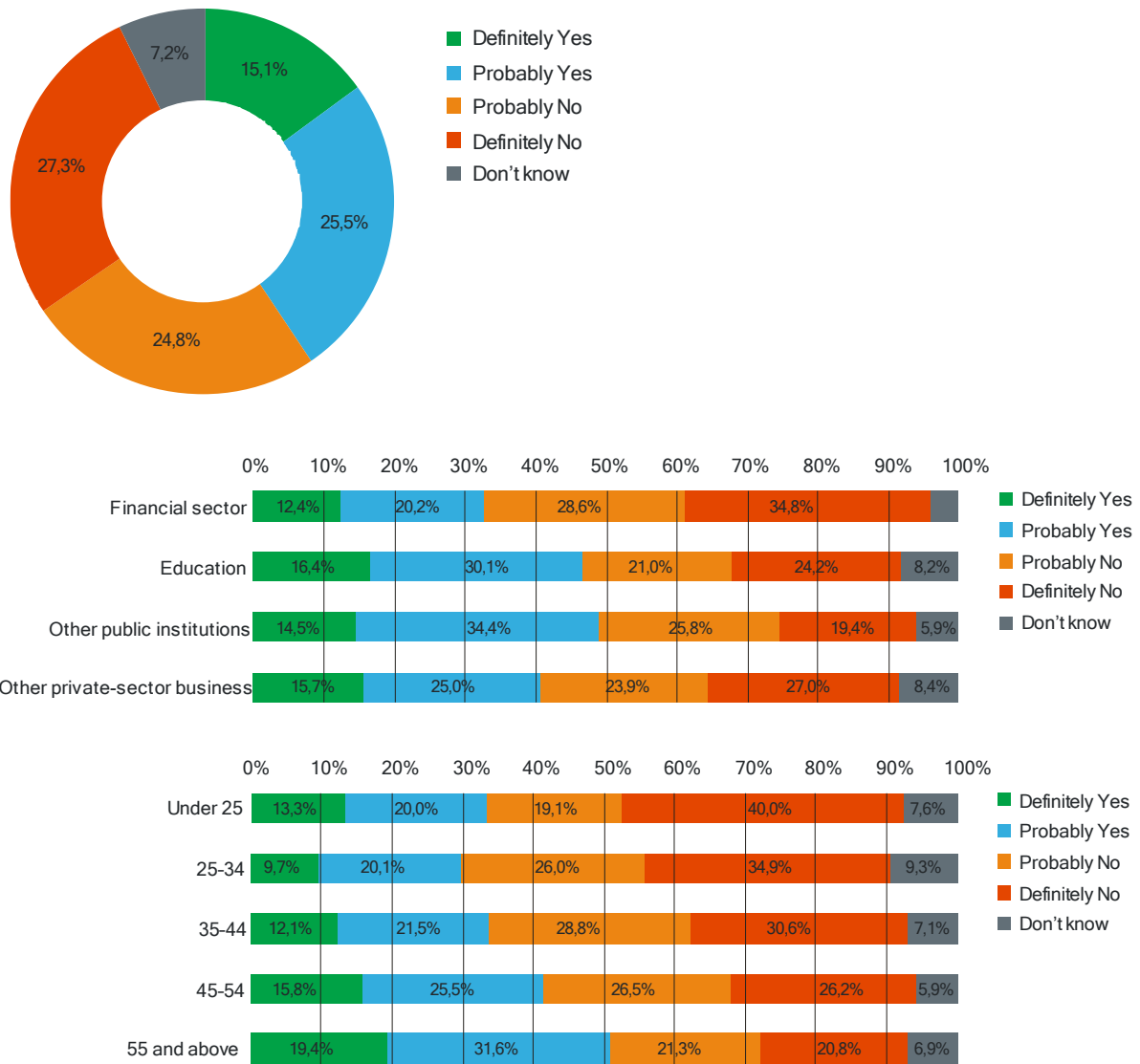
Q14: What is your inflation expectation for 2014?



In terms of inflation expectations, responses related to 2014 correspond for the most part to the Czech National Bank's declared monetary policy. The opinion that inflation will oscillate between 1% and 3% is dominant (73.5%). This is the belief of 80.9% of respondents from the financial sector.

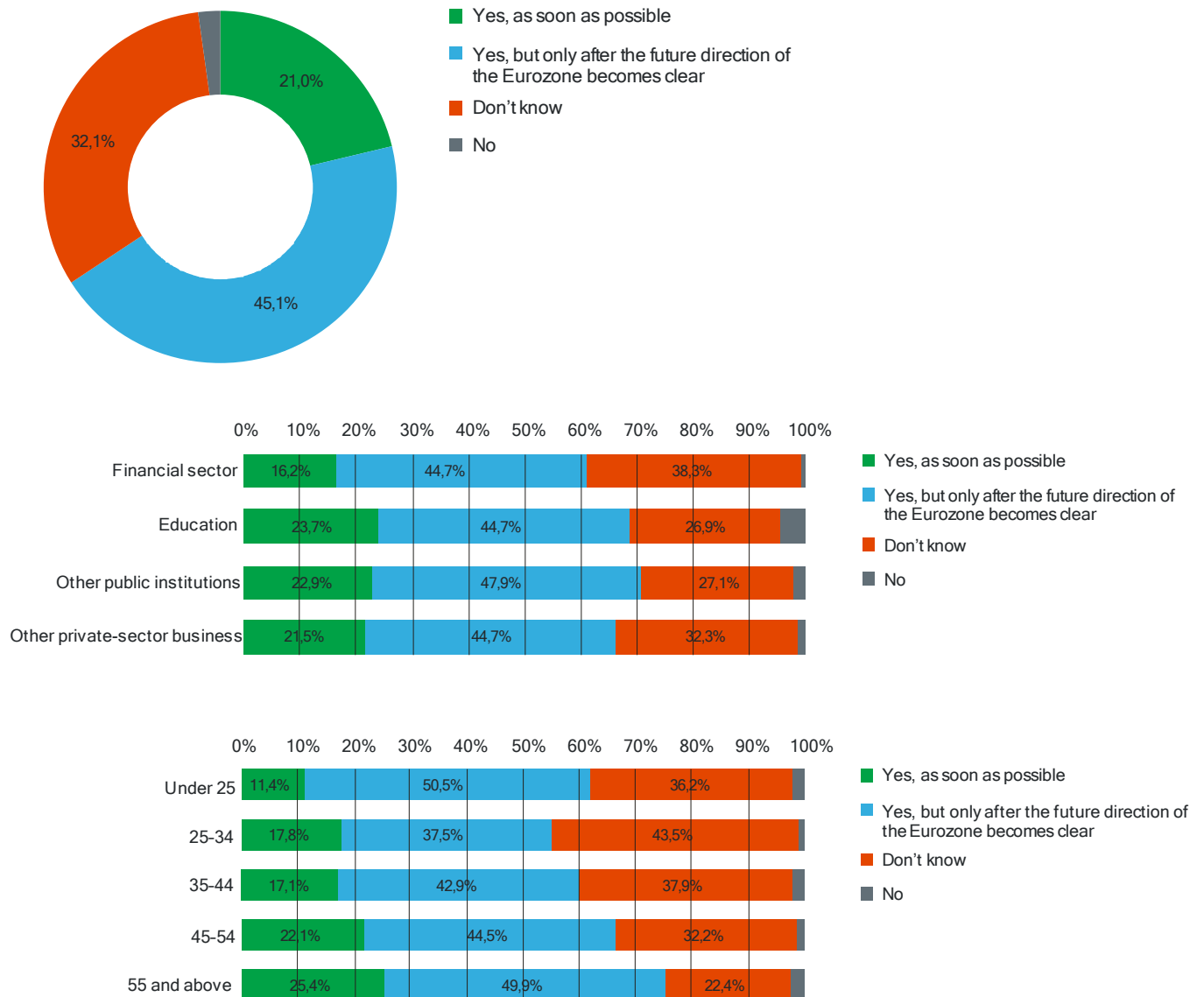
## The banking union and the euro

Q15: Should the Czech Republic join the European Banking Union, even though it is not a member of the eurozone?



The banking union was perceived negatively by 52.1% of participants, and the tendency toward categorical rejection was very strong (27.3%). Respondents from the financial and the rest of the private sector more frequently had a negative attitude. Tolerance of the banking union rises with the age of the respondents.

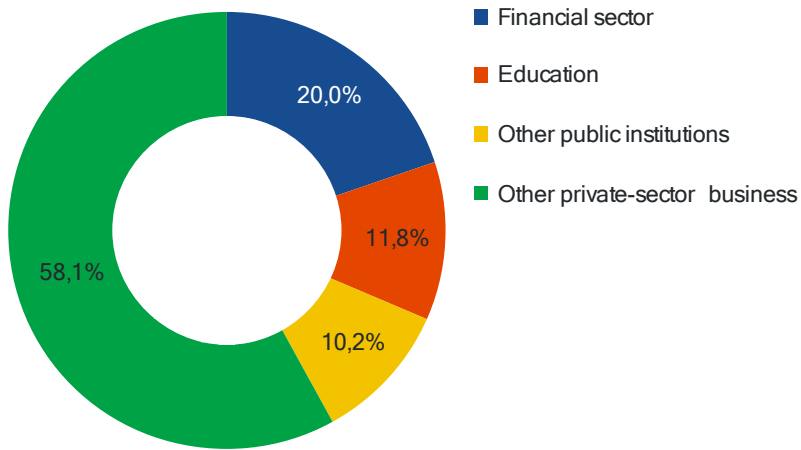
Q16: Should the Czech Republic adopt the euro?



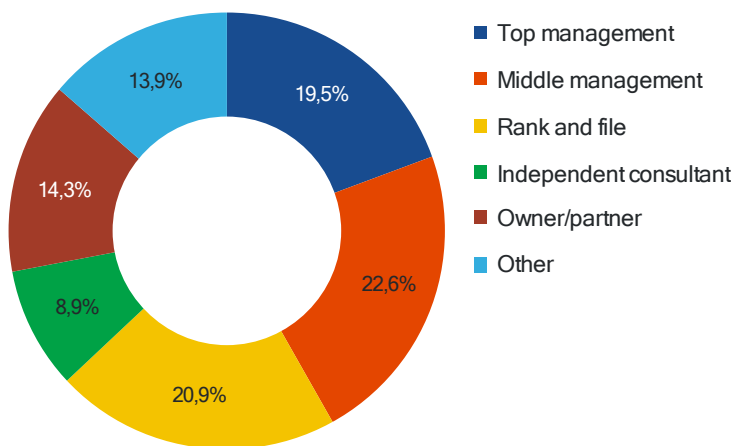
Most respondents (66.1%) think the Czech Republic should adopt the euro, but 45.1% would defer this step until the direction of the eurozone becomes clear. Support for this opinion is more frequent from respondents from education, government and public institutions; the financial sector and respondents from other private businesses are more cautious. As age rises, there is a greater willingness to give up the Czech currency.

## Structure of respondents (as a %)

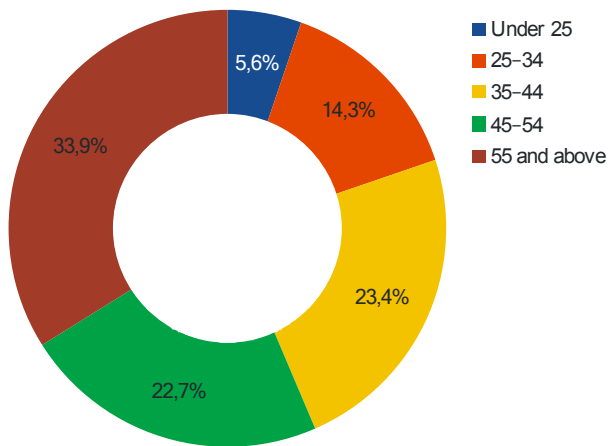
Employment in national economy sectors



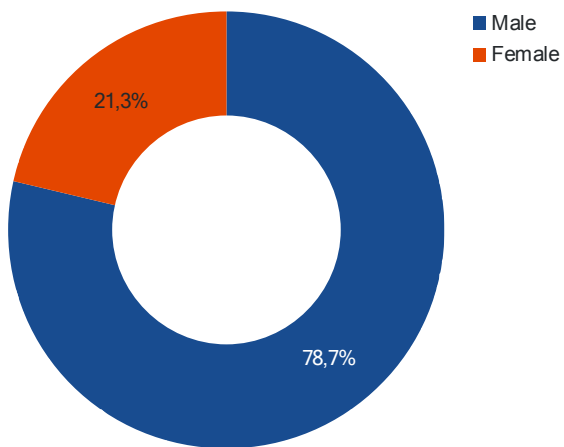
Position in company hierarchy



Age



Sex



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Donath Business & Media has been active in public relations and public affairs since 1991. You can find more information about the agency at [www.dbm.cz](http://www.dbm.cz).

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