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## CFA Society Forecasting Dinner 2015 Survey

Final survey report  
February 2015

Dear reader,

We herewith present the final report of the annual survey conducted on the occasion of the CFA Society Forecasting Dinner 2015, organized by the CFA Society Czech Republic. This year we again worked with Donath Business & Media and Herzmann consulting company, and we surveyed the opinions of the professional community concerning topical issues related to the Czech economy.

In addition to taking our traditional poll regarding the activities of the government and the Czech National Bank, we included some questions this time about the opinions respondents have about foreign investment from China and Russia.

We trust that that you will enjoy reading the results of the survey and will then have the opportunity to compare notes with your colleagues.

Marek Jindra, CFA

President

CFA Society Czech Republic

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## About the survey

The survey was conducted on the occasion of the 13th annual CFA Society Forecasting Dinner 2015, organized regularly by the CFA Society Czech Republic, associating certified financial experts. The theme of the annual meeting of leading domestic and foreign economists under the auspices of Miroslav Singer, Governor of the Czech National Bank, is the forecasting of the economic development of the country in the coming year as well as trends on the international markets.

Donath Business & Media PR agency, in cooperation with the Herzmann consulting company, conducted the on-line survey for the CFA Society Czech Republic from January 7 to January 20, 2015. The purpose of the survey was to map the views of economic and financial experts on selected aspects of the Czech economy. The exchange rate of the Czech shot to CZK 28.40/EUR during the survey period.

An invitation to take part in the survey was extended to:

- Members of the CFA Society Czech Republic, and candidates of the CFA Program;
- Leading figures of the Czech business and financial sector (VIP);
- Readers of The Fleet Sheet's Final Word electronic bulletin.

The questions focused on:

- Policies of the government and the CNB;
- Russian and Chinese investment in the country;
- Economic development of the country.

A total of 1,699 respondents took part in the survey. The invitation was extended to 8,122 individuals, for a 20.9% response rate. The views of the respondents are described below.

## Key findings

### **CNB's policy of interventions has not helped to revive the economy**

The majority (53.2%) of those taking part in the survey believe that the bank's action to weaken the crown has not helped to revive the Czech economy; more than a third (37.0%) are of the opposite opinion. However, the subgroup of respondents from the financial sector shows a different pattern: 54.9% believe the CNB's intervention policy has helped to revive the Czech economy. The majority (55.3%) expect the CNB to use intervention to maintain the current exchange rate of the crown for the next 12-18 months.

### **Appointment of the Bank's board should not be solely the President's prerogative**

A clear majority of the respondents believe that the appointment of the members of the CNB board should not remain an exclusive prerogative of the President. This view is shared by almost two-thirds of the respondents, whilst less than one-third (32.2%) are of the opposite opinion.

### **The government fails to control corruption and unemployment**

Three-fourths of the respondents (73.4%) believe the government fails to implement the promised anti-corruption measures; only one-fifth (19.3%) are of the opposite opinion. The findings correspond to last year's expectations. The majority of the respondents (58.2%) believe the government's policy does not help to reduce unemployment. Less than one-third (30.5%) are of the opposite opinion. Respondents from the private sector and managers are the most critical of the government.

### **The new VAT structure is not suitable for the Czech economy**

Late last year the government pushed through a new VAT arrangement, which took effect on January 1. More than two-thirds of the respondents do not consider the VAT structure of three rates, i.e. 21%, 15% and 10%, to be suitable for country. This critical view is shared by 67.8% of the respondents, whilst 27.8% are of the opposite opinion.

### **China is an opportunity, Russia more of a threat**

Whilst twice as many view Chinese investment in Central Europe as an opportunity (65.6%) compared to those who see it as a threat (31.0%), in case of Russian investment a moderate majority sees it rather more as a threat (50.5%) than an opportunity (47.1%). The Czech government should encourage the investment, but only in selected industries and activities (51.9% in the case of Russian investment, 61.5% in case of Chinese investment). 38.8% oppose any kind of government incentives for Russian investment, and 24.9% in the case of Chinese investment. A large majority of the respondents (74.3%) expect the inflow of Chinese investment to Central Europe to grow in the years to come, while only a little more than a quarter (28.3%) expect growth in Russian investment.

### **Human rights prevail over economic interests**

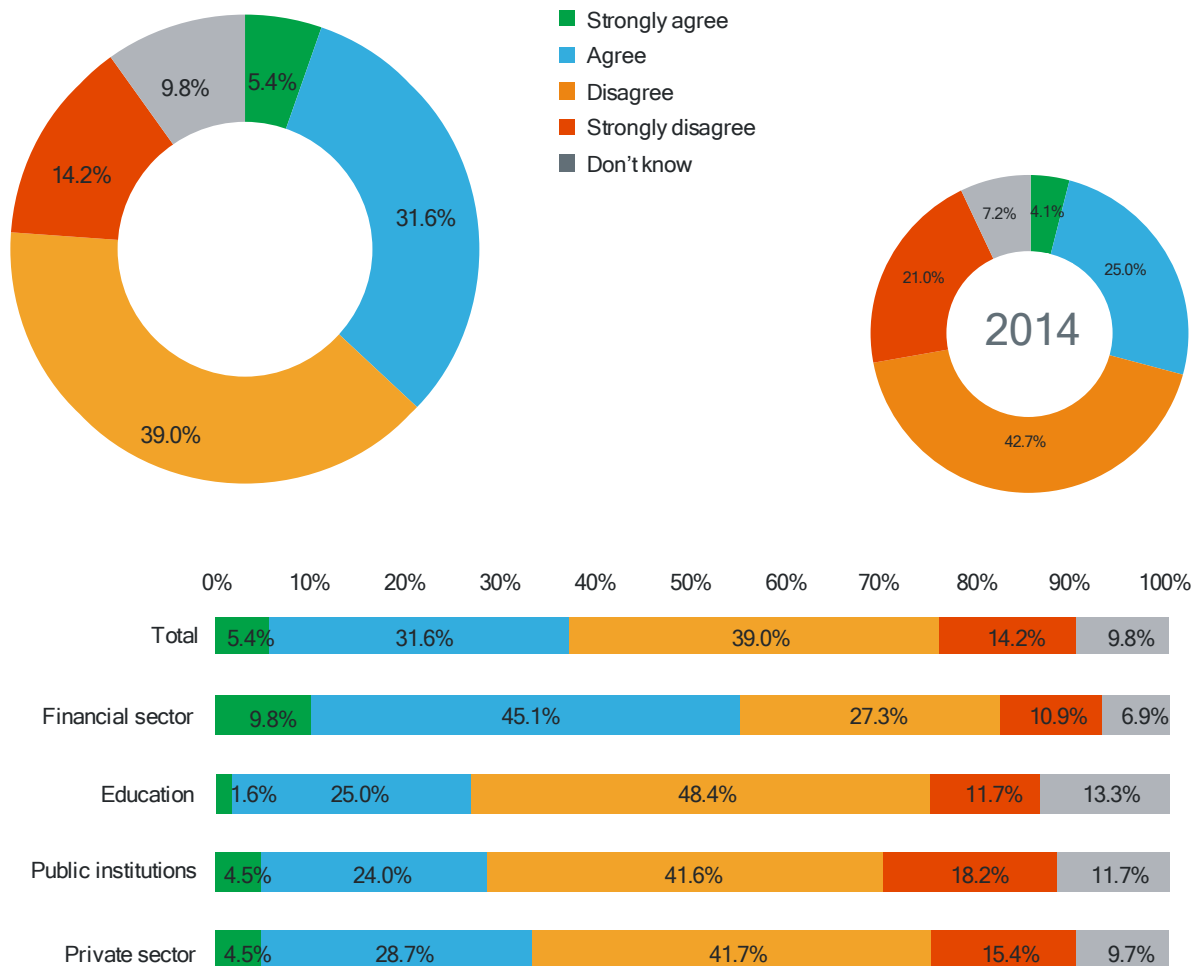
Which is more important in relation to Russia and China: economic interests, or the principles of democracy and human rights? Nearly two-thirds of the respondents see democracy and human rights as the priority (61.5%); more than one-third prefer the economy (35.8%). Half of the respondents (50.9%) believe Czech politicians are able to provide efficient support to Czech firms active on the Russian and Chinese markets.

### **Crisis in Russia will reduce the growth of Czech economy**

Nearly two-thirds of respondents (62.3%) expect the crisis in Russia to reduce the growth of Czech GDP; 47% of the respondents expect the reduction to be less than 1%, and only 15.3% expect the reduction to be more than 1%.

## Policy of CNB and appointment of its board

**Q1: The CNB's policy of intervening against the crown has helped revive the Czech economy**

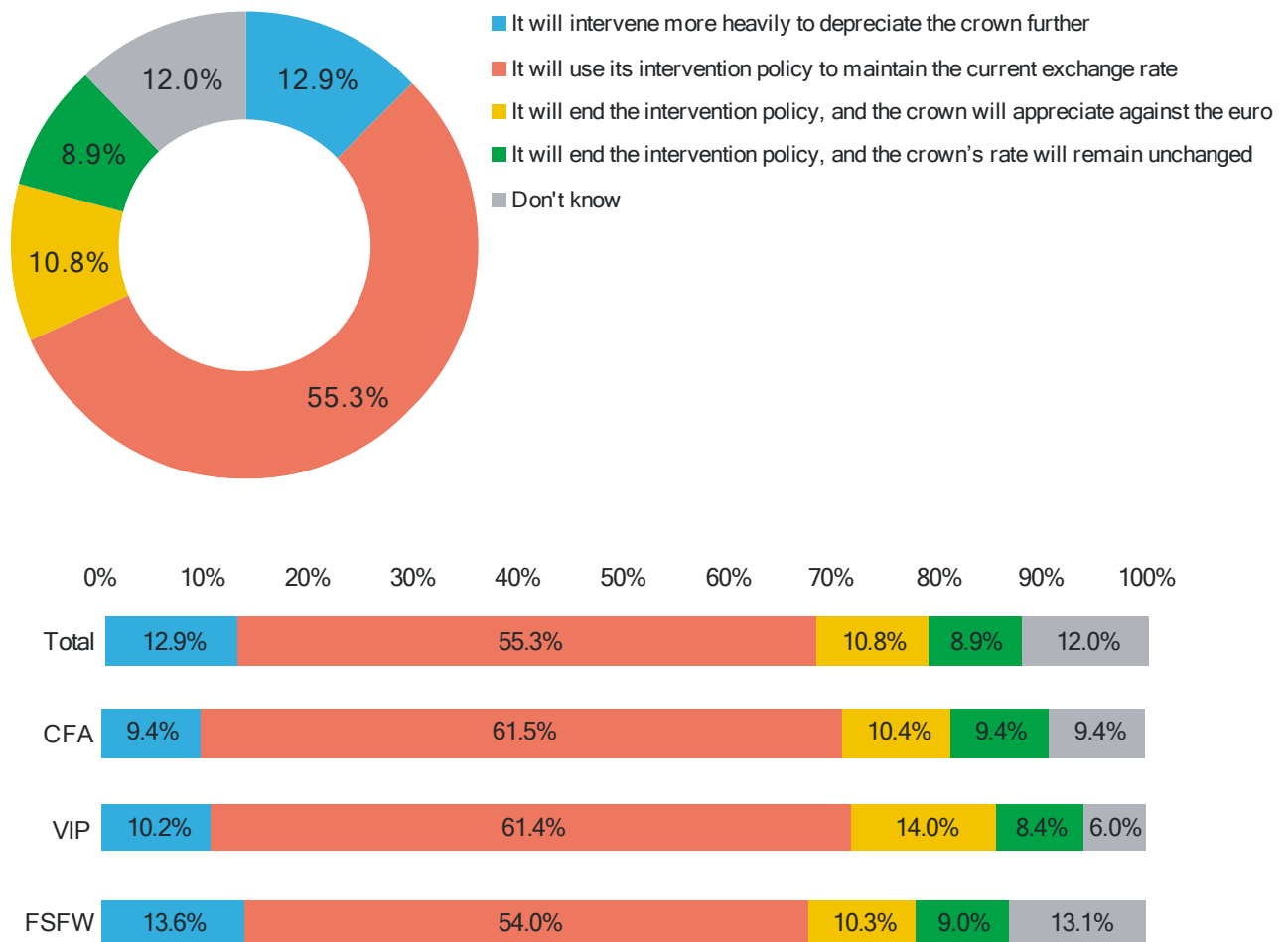


Last year's CFA Society Forecasting Dinner 2014 Survey, conducted with the same target group as this year, suggested that almost three-fourths of the respondents (63.7%) did not expect the CNB's intervention policy to contribute to a real growth of the domestic economy; only a little more than one-fourth (29.1%) had positive expectations.

This year's response to the CNB's action is somewhat less critical. Although most respondents (53.2%) still believe the CNB has not helped to revive the Czech economy, more than one-third (37.0%) are of the opposite opinion, i.e. positive opinion has grown by 7.9 percentage points. The opinion of people working in the financial sector is significantly different from the average: most of them believe that the CNB's intervention policy has helped to revive the Czech economy, whilst less than one-third of people working in other sectors believe so.

It is interesting that more men tend to agree with the CNB's measure (39.6% positive) than women (only 26.9% positive).

**Q2: Do you expect the CNB to change its policy of maintaining a weaker crown within the next 12 to 18 months?**

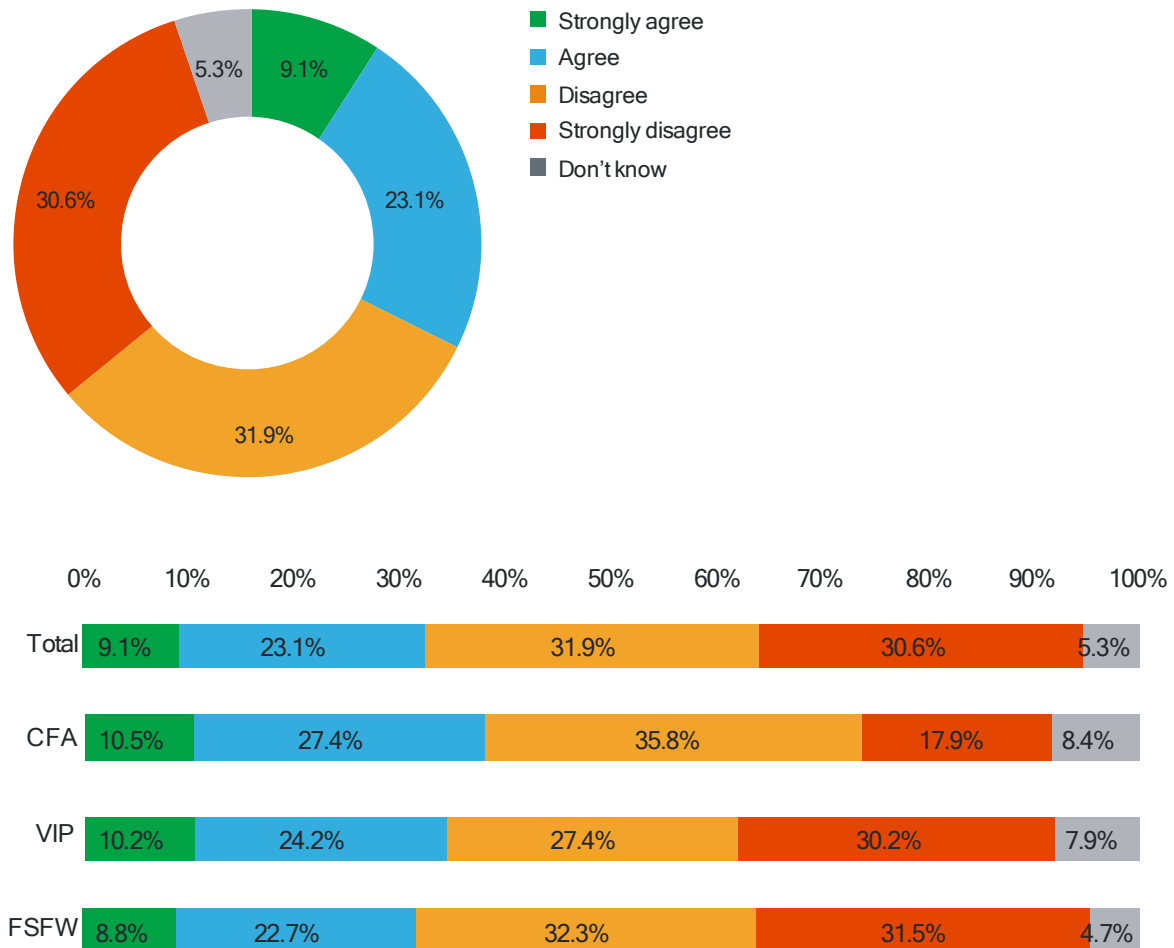


Most respondents (55.3%) expect the CNB to use intervention to maintain the current rate of the crown vs. euro for the next 12-18 months. Only about one-tenth of the respondents expect each of the other possible scenarios.

It is most often the experts – CFA members and candidates (61.5%) and VIPs of the Czech corporate and financial sectors (61.4%) - that hold the opinion that the CNB will use intervention to maintain the current exchange rate of the crown for the next 12-18 months. Final Word readers expect a little more often (13.6%) than the other respondents that the CNB will step up its intervention, causing the crown to drop further.

The exchange rate of the crown dropped to 28.40 crowns per euro during the time of the survey.

**Q3: The appointment of CNB Board members should remain within the exclusive authority of the president.**



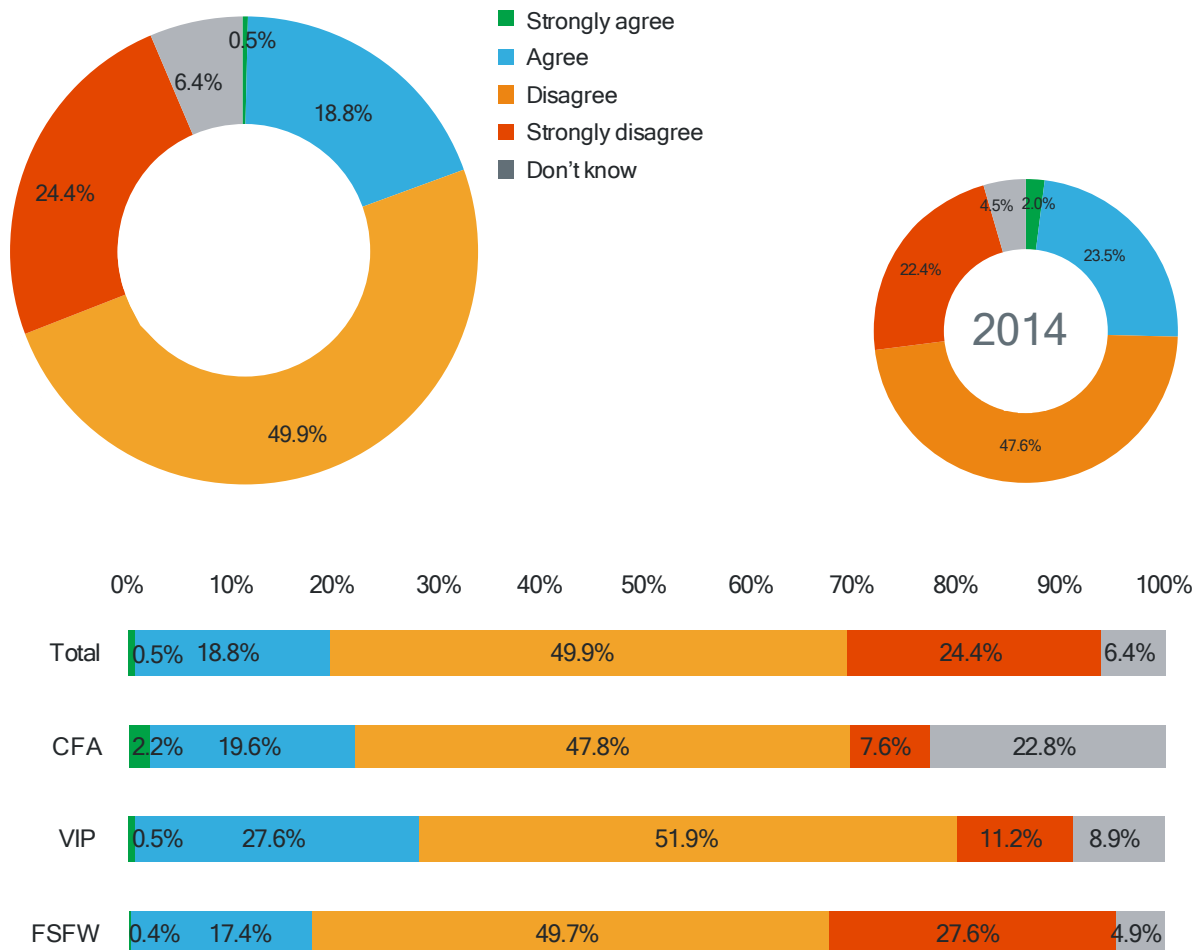
The current coalition government is contemplating making an amendment to the Constitution for requiring the President to have a co-signature for appointing members of the bank's board. The matter has been recurrent since 2000, when Zeman's government challenged President Havel's practice in this respect at the Constitutional Court.

The opinion clearly prevails among the respondents that the appointment of CNB board members should not remain the exclusive authority of the President. Nearly two-thirds of respondents believe so (62.5%), whilst less than one-third are of the opposite opinion (32.2%). Most of those advocating the existing arrangement are CFA members and candidates, though even among them little more than one-third hold this view (37.9%).



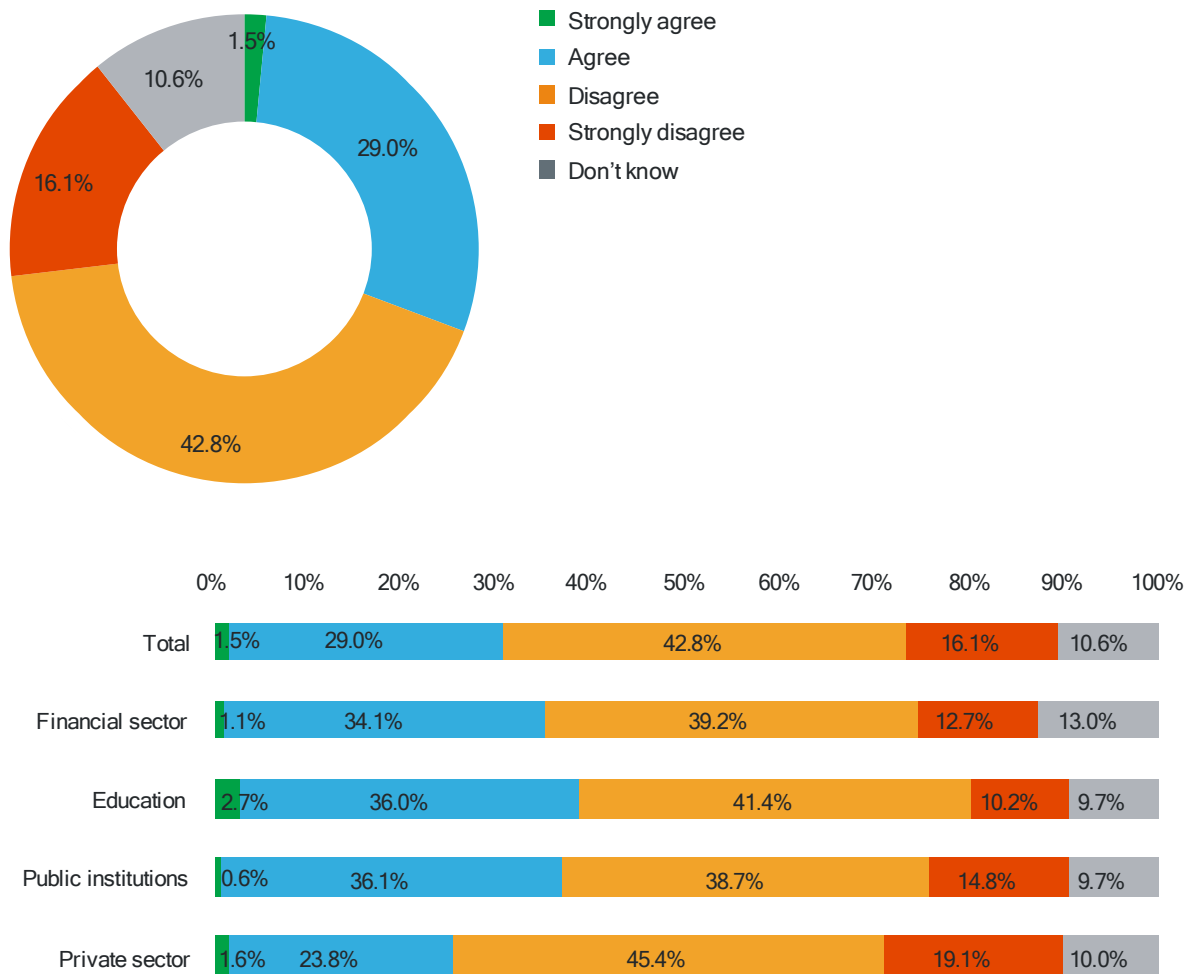
## Czech government policy

**Q4: The government is fulfilling its promise of instituting anticorruption measures.**



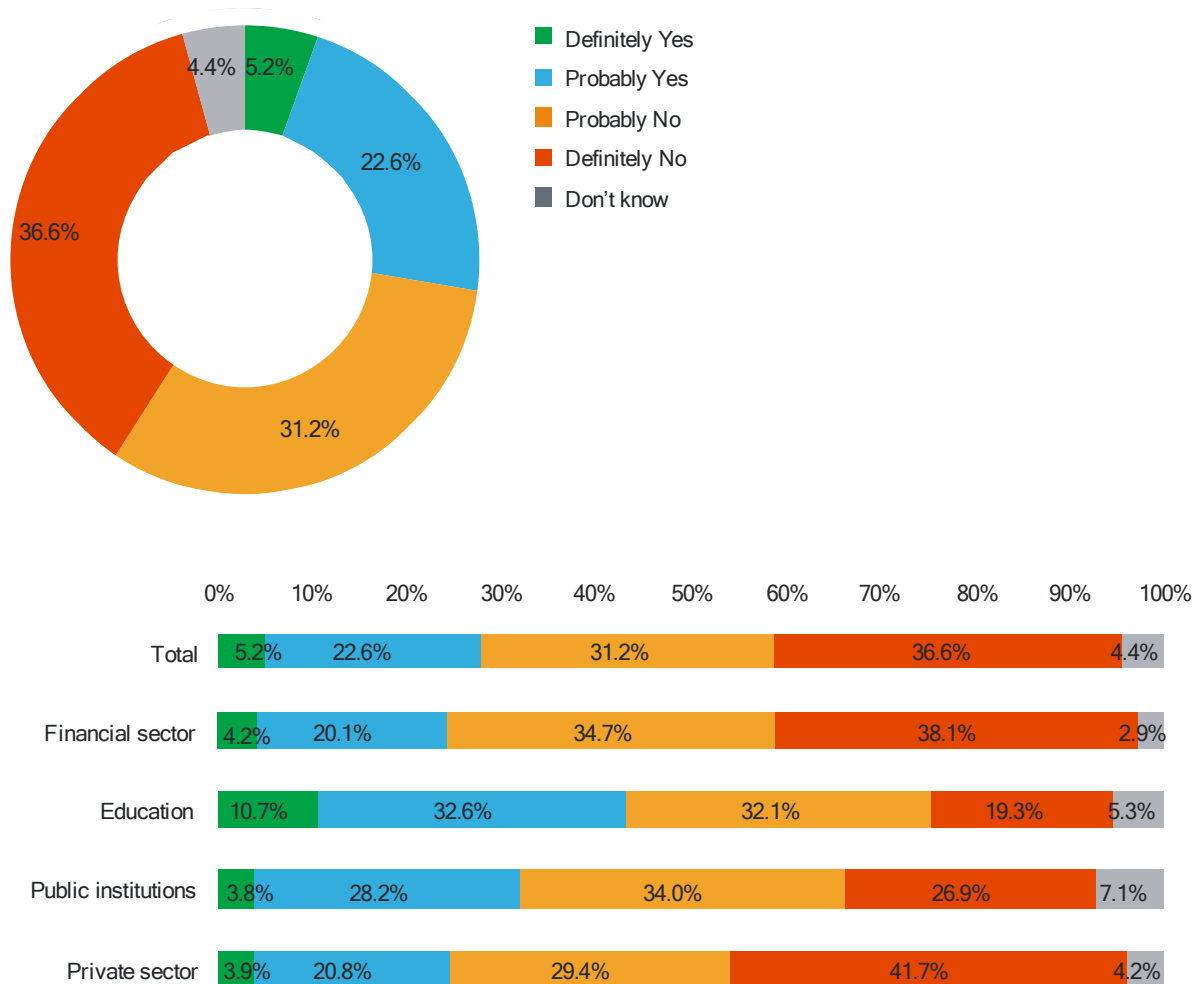
Last year's CFA Society Forecasting Dinner 2014 Survey suggested that the great majority of the respondents (70.0%) did not expect Sobotka's cabinet to institute effective corruption control measures. This year's findings are in an unusually high level of agreement with last year's survey results. Three-quarters of the respondents (73.4%) believe the cabinet has failed to keep its promise of corruption control measures; only one-fifth of respondents are of the opposite opinion (19.3%). Final Word (FSFW) readers are the most critical of the government in this respect: 77.3% of them believe the government has not been able to make good on this intention. Surprisingly, almost a quarter of CFA members and candidates have no opinion on this matter (22.8%).

**Q5: The policies of the current government help to reduce the unemployment rate.**



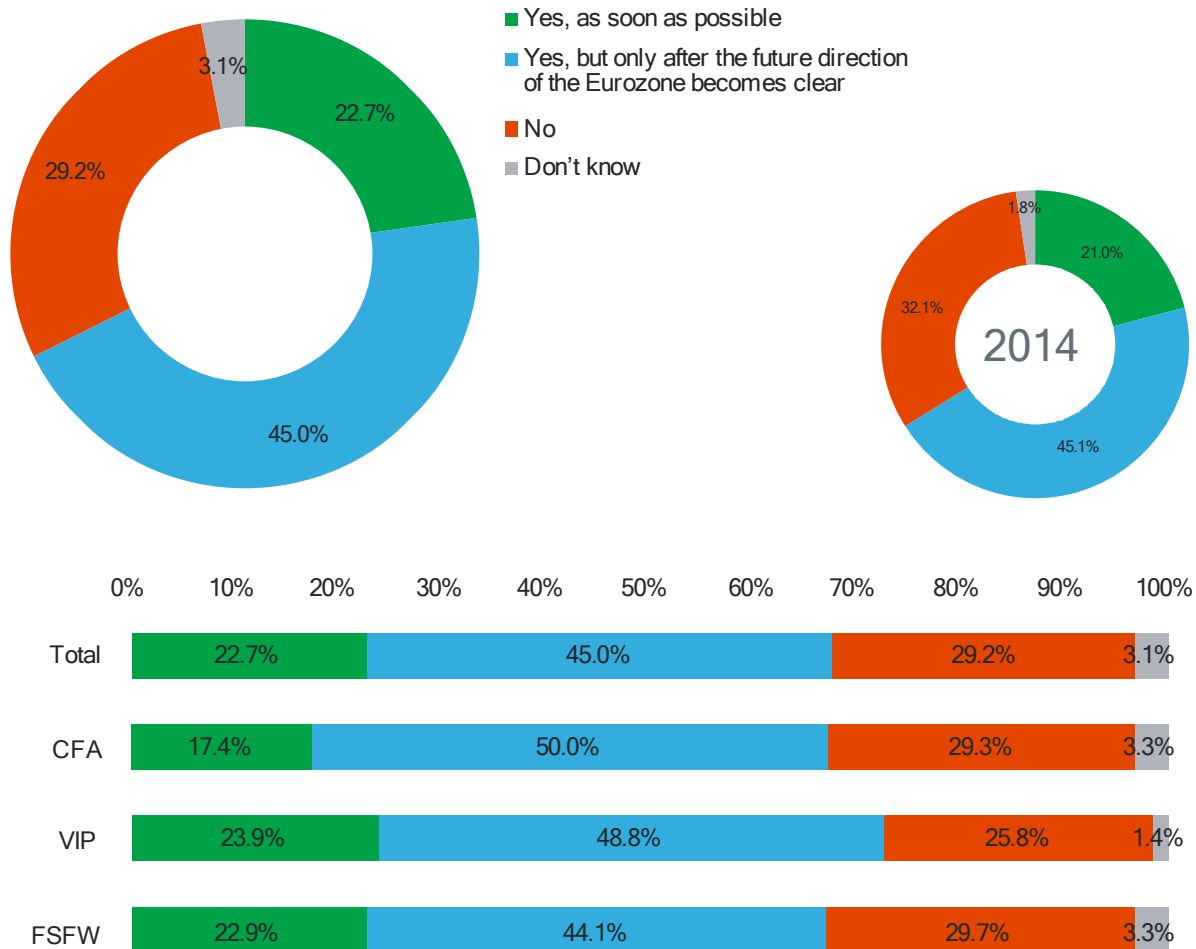
The view of the current government’s employment policy is only a fraction less critical than that described in the response to the previous question. Most respondents (58.2%) believe the current government policy does not help reduce the unemployment rate; less than one-third believe it helps (30.5%). Respondents from the private sector (minus finance and education) are the most critical in this respect: almost two-thirds (64.5%) believe the current government’s strategy does not help to reduce the unemployment rate.

**Q6: As of January 1, 2015, there are three VAT rates in force: the basic 21% rate, the reduced 15% rate, and the further reduced 10% rate on books, infant food and pharmaceuticals. Do you find this system beneficial to the Czech economy?**



Close to the end of last year the coalition government pushed through a new VAT structure, which took effect on January 1. More than two-thirds of respondents do not see the three-rate arrangement (21%, 15%, and 10%) as being suitable for country. 67.8% of respondents are of this opinion; 27.8% think the opposite. The most-critical responses were registered in the fields that deal on a practical basis with the issue of VAT: the financial sector (72.8%) and the private sector minus finance and education (71.1%). On the contrary, people in the educational sector are more conciliatory to the new arrangement: 43.3% of them see this amendment as being suitable for Czech economy.

**Q7: Should the Czech Republic adopt the euro?**

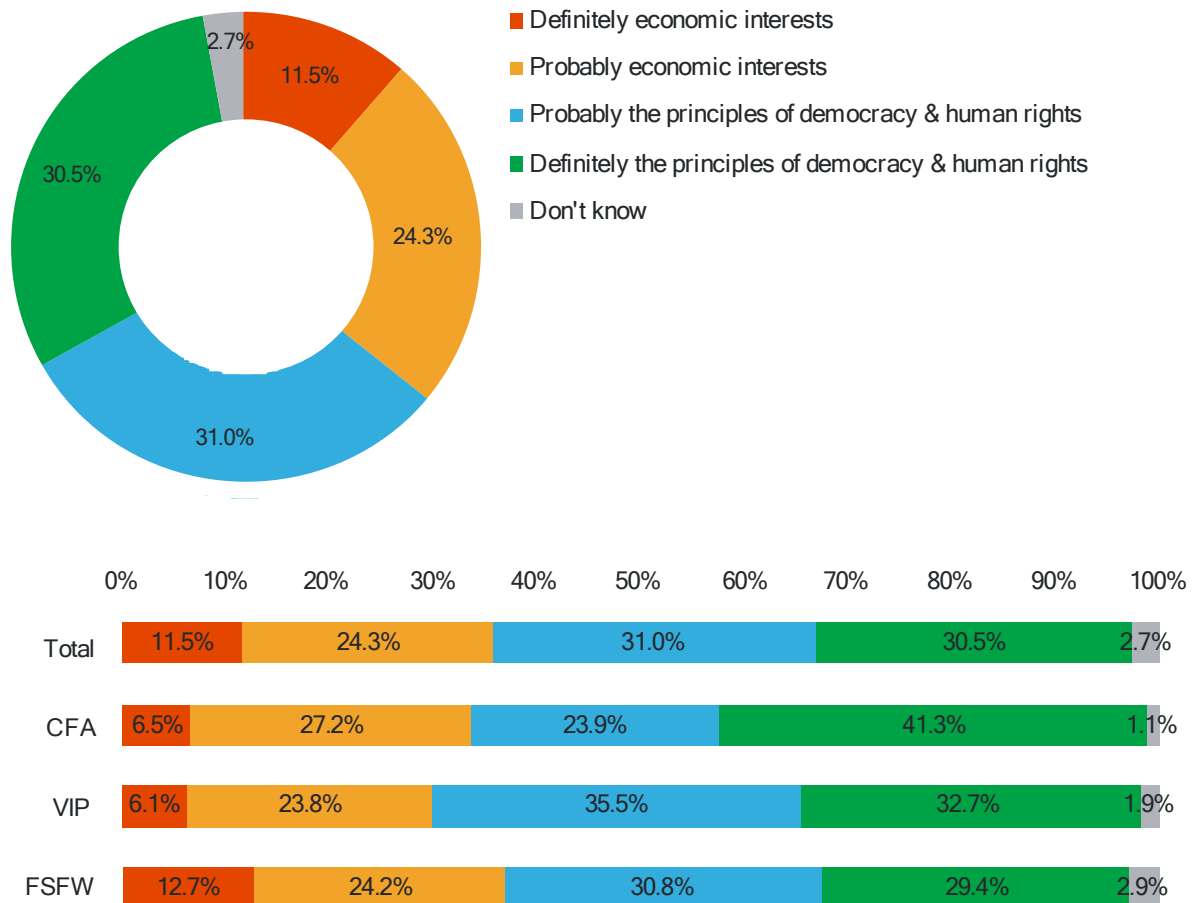


Similarly to the past, there is a wide divergence in opinion on the adoption of the euro. The largest number of respondents believe the country should adopt the euro, but only when the further direction of the eurozone becomes clear (45.0%; it was 45.1% in 2014). The view that the country should not opt for the euro is a little less common (29.2%) than a year ago (32.1%).

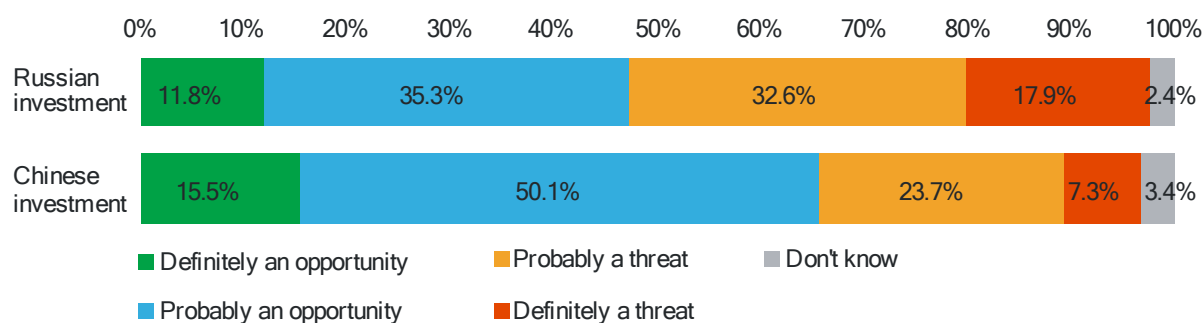
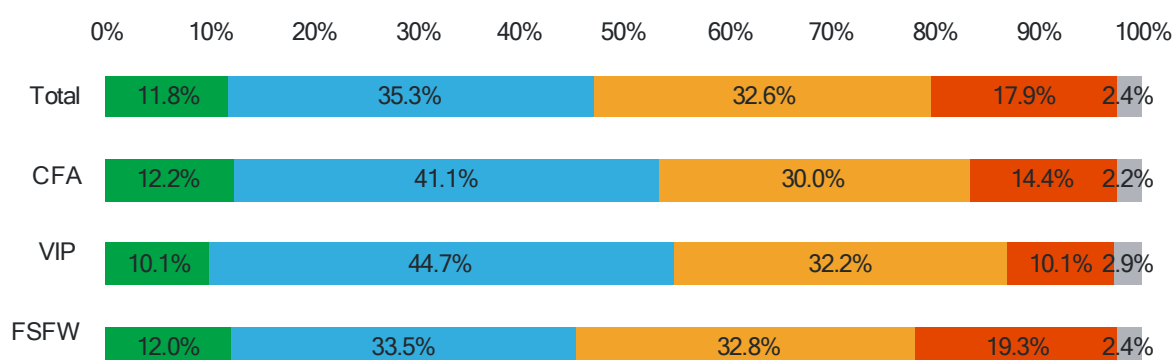
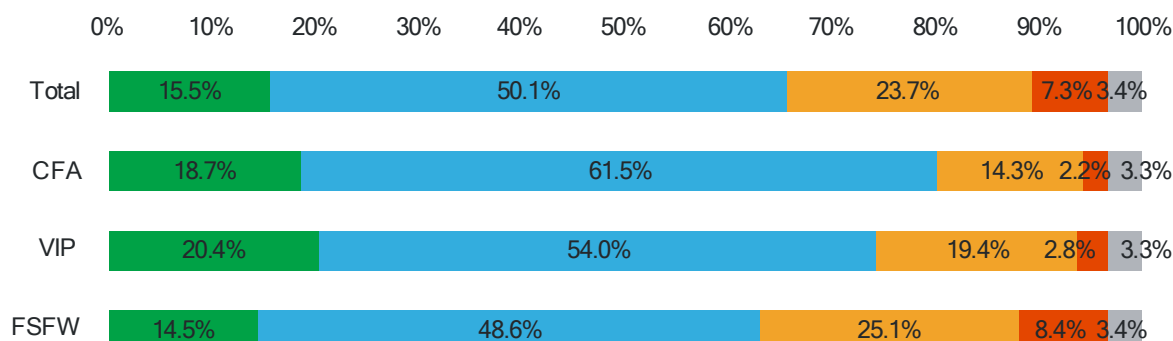
Most cautious on the euro matter are CFA members and candidates: only 17.4% would adopt the euro immediately, whilst precisely 50.0% advocate adoption when the prospects for the eurozone are clear, and 29.3% flatly oppose euro adoption. Women oppose adoption of the euro still more often: 37.2% would never adopt the euro.

## Russia and China

**Q8: Should Czech foreign policy toward Russia & China put the interests of the domestic economy first, or should it instead emphasis the principles of democracy & human rights?**



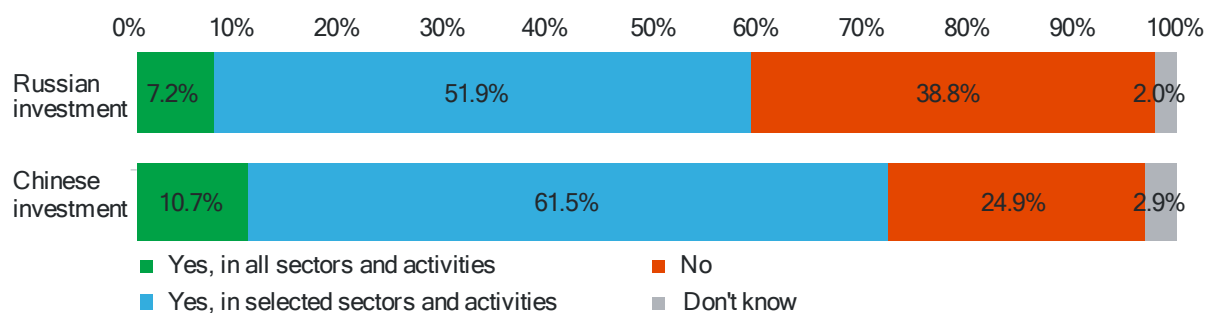
Which matters more in relation to Russia and China: the interests of our domestic economy or the principles of democracy and human rights? Nearly two-thirds (61.5%) of respondents prefer advocacy of the principles of democracy and human rights, and more than a third (35.8%) put economic interests first. CFA members and candidates favor the promotion of democracy and human rights more often than the average respondent (65.2%), the same as VIPs (68.2%), whilst the Final Word (FSFW) has a higher proportion of those who put the interests of the domestic economy first (36.9%). The survey found that the highest proportion (43.5%) of those who believe that Czech foreign policy should cater more to the domestic economic interests is in the age group of 55 and above, although even in this group the opposite opinion prevails (53.2%).

**Q9: Is Russian and Chinese investment in Central Europe an opportunity or a threat?****Russian investment:****Chinese investment:**

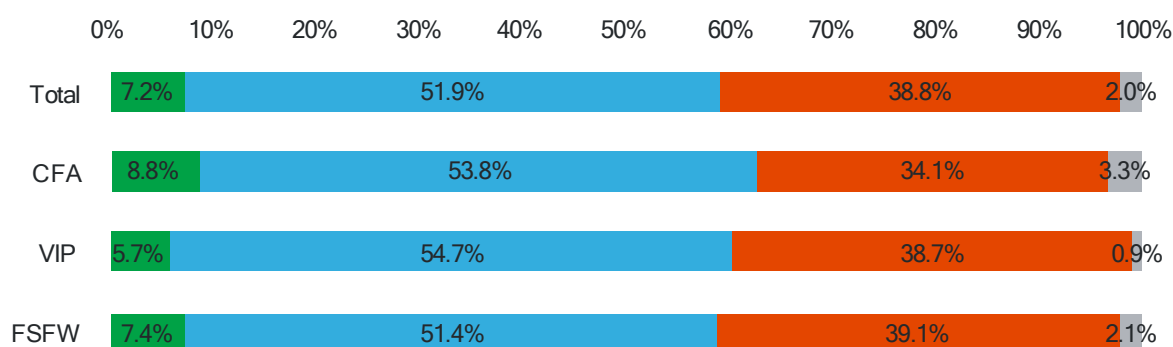
Whilst Chinese investment in Central Europe is perceived as an opportunity (65.6%) twice as often as a threat (31.0%), Russian investment is slightly more often seen as a threat (50.5%) than as an opportunity (47.1%). The community directly related to the Forecasting Dinner also tends to regard Russian investment as an opportunity: this is the opinion of 53.3% of CFA members and candidates, and 54.8% of VIP respondents. Misgivings slightly prevail only among FSFW readers (52.1% to 45.5%). FSFW readers are also the most skeptical of Chinese investment in Central Europe: 33.5% of them see it as a threat, although the opinion that Chinese investment is an opportunity clearly prevails even in this group (63.1%). CFA members and candidates have the most positive opinion of Chinese investment: 80.2% see it as an opportunity.

Quite interestingly, women see both Russian and Chinese investment in Central Europe as a threat somewhat more often than men. This probably reflects the fact that women generally tend to be more cautious of risks.

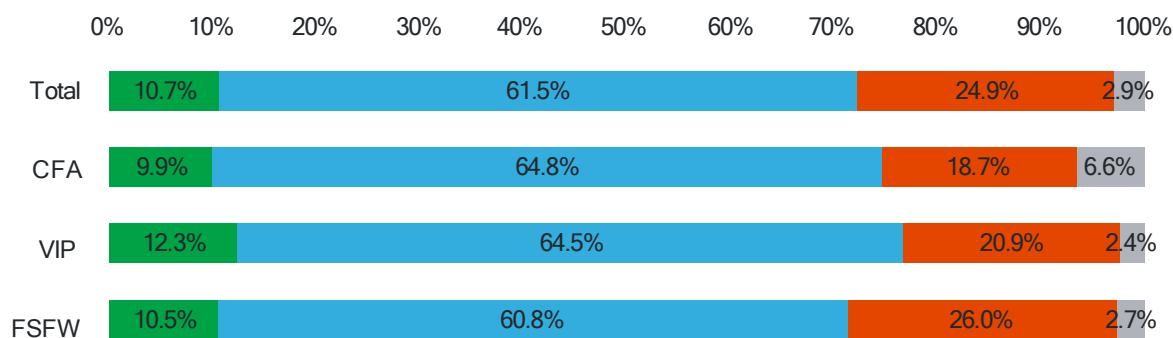
### Q10: Should Czech politicians promote Russian and Chinese investment into the Czech economy?



#### Russian investment:

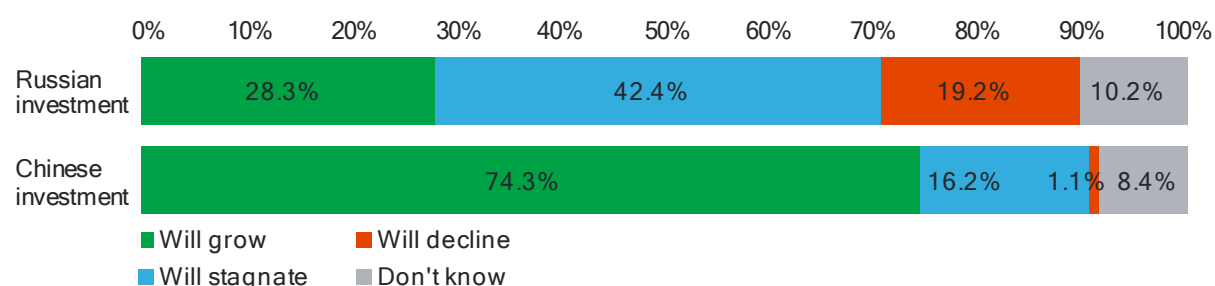


#### Chinese investment:

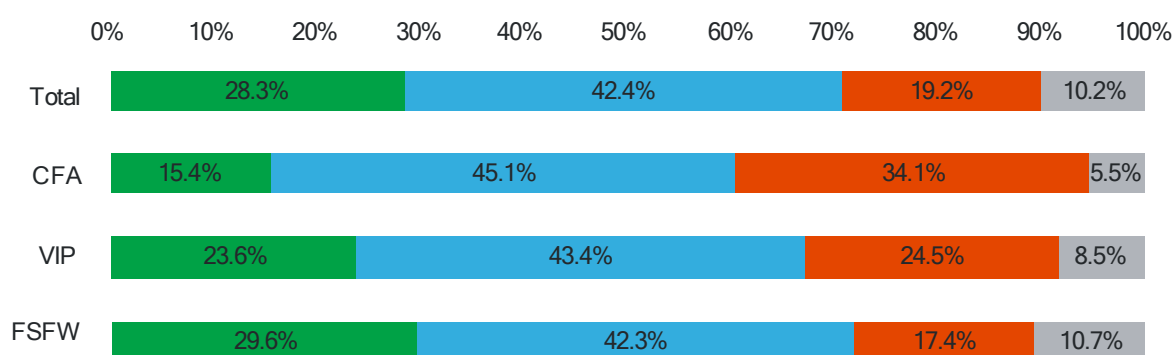


Attitudes toward incentives on the part of the Czech government for Russian and Chinese investment in Central Europe generally correspond to the perceptions of such investment as being either an opportunity or a threat. The opinion prevails that the Czech government should encourage investment from both countries, but only in selected sectors and activities (51.9% in the case of Russian investment, 61.5% for Chinese investment). 38.8% of the respondents oppose all government support for Russian investment in the Czech Republic, and 24.9% oppose support for Chinese investment.

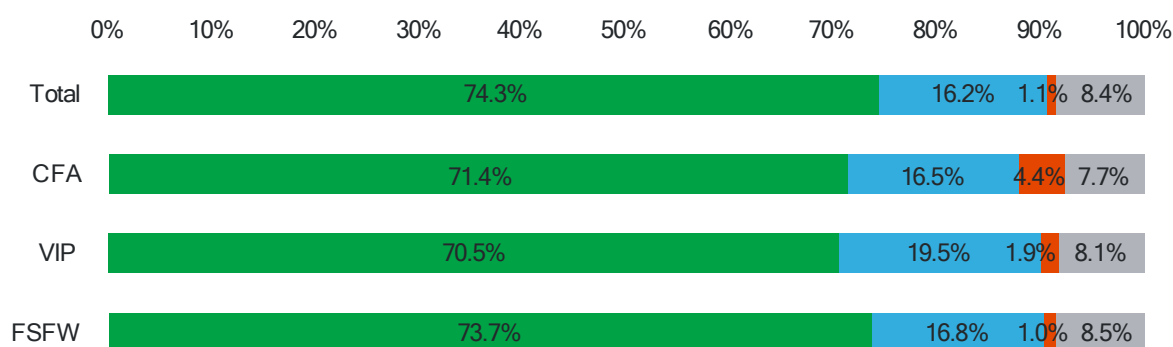
**Q11: Do you expect Russian and Chinese investment into the Czech economy to grow in the years to come?**



**Russian investment:**



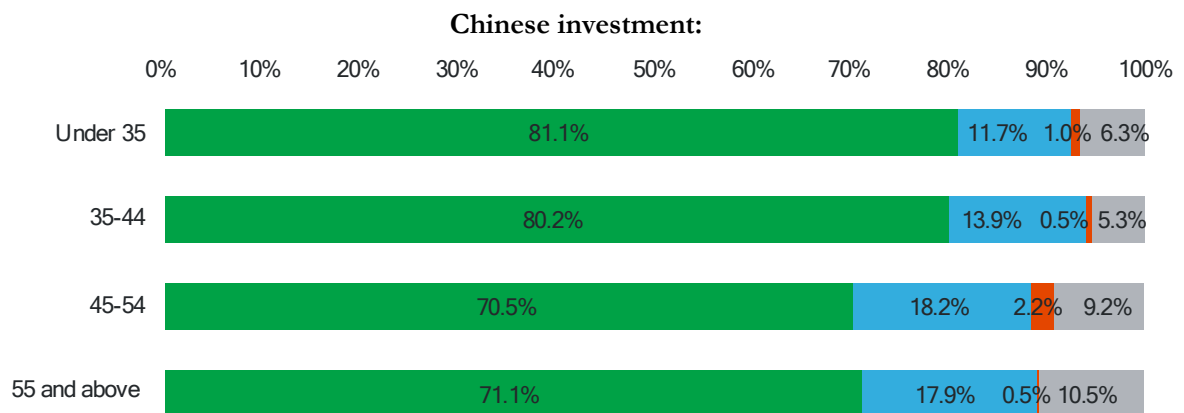
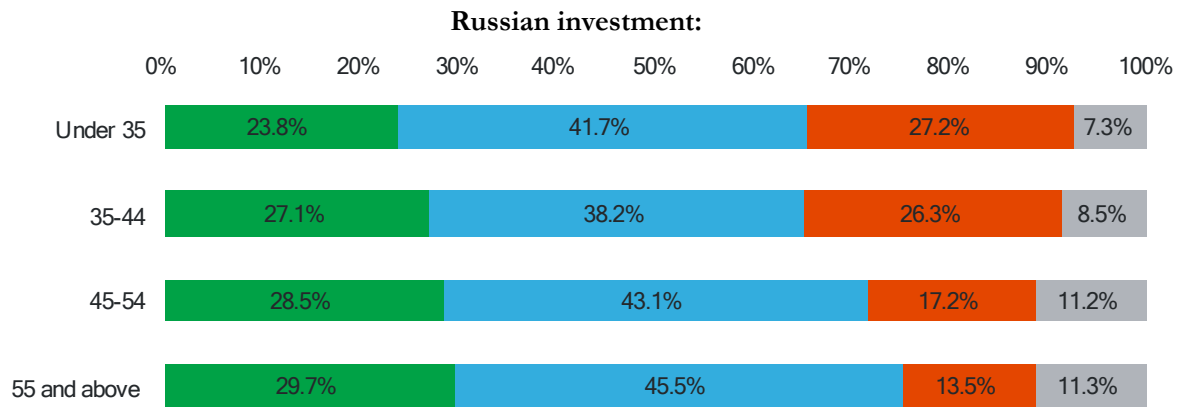
**Chinese investment:**



The great majority of respondents expect Chinese investment in Central Europe to grow in the coming years (74.3%); very few expect it to drop. The picture is quite different in the case of Russia: only a little more than a quarter of respondents expect it to grow (28.3%), and one-fifth of them expect it to drop (19.2%). Should such expectations come true, Chinese capital in Central Europe would grow significantly more influential, whilst the influence of Russian capital would only change marginally.

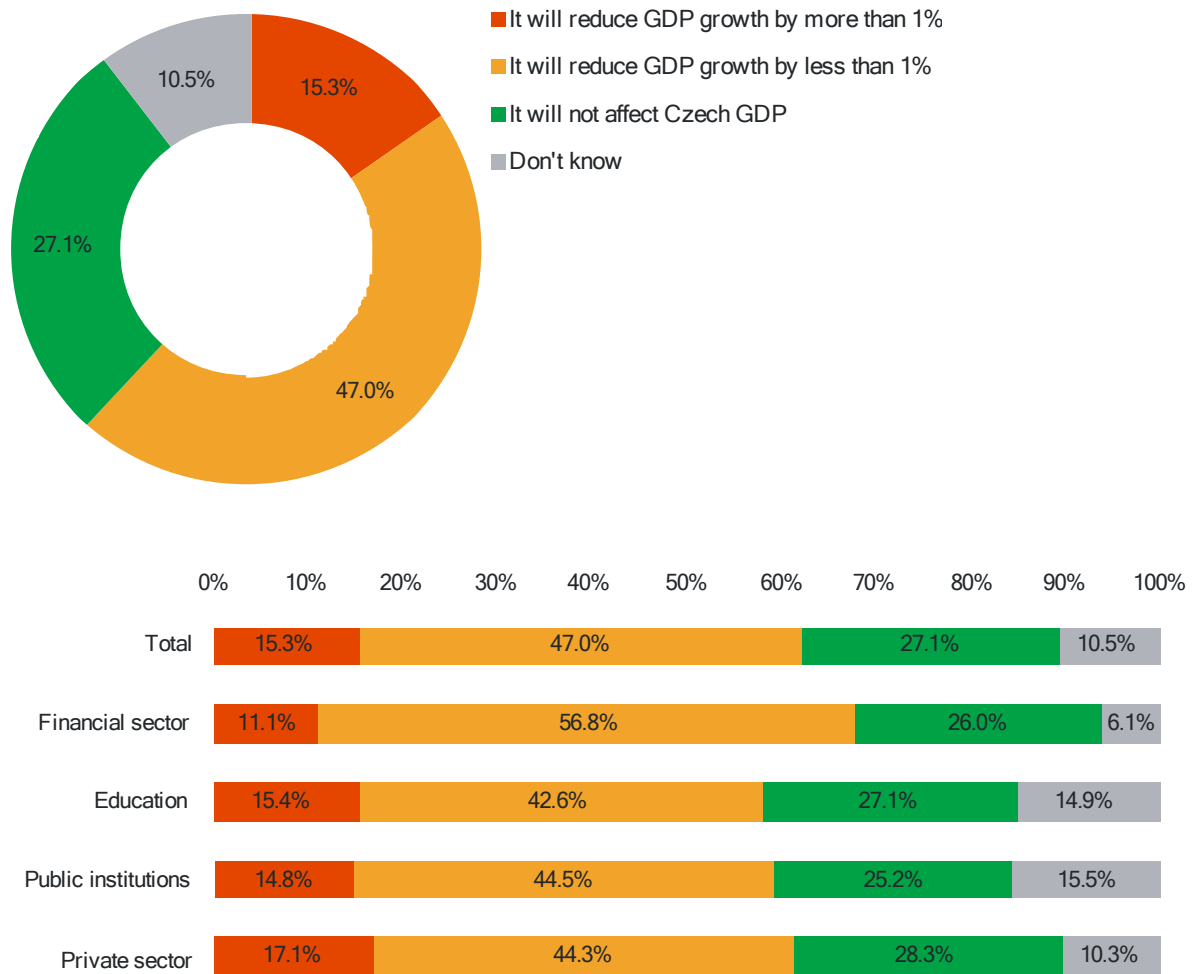
A weaker inflow of Russian investment is most often expected by CFA members and candidates (34.1%), followed by VIP respondents (24.5%), while only 17.4% of FSFW readers expect this. The expectation of further growth of Russian investment increases in reverse order. The three respondent groups differ only marginally in their opinion of Chinese investment.





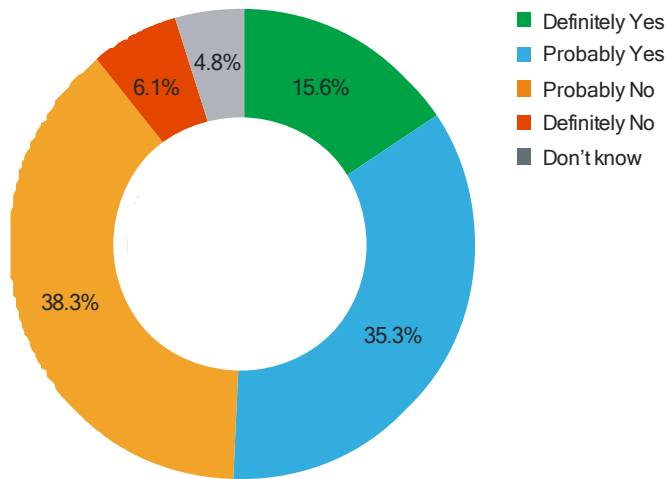
The expectations of future development of Russian and Chinese investment largely depend on the respondents' age. In the case of Russian investment, the expectation of a drop decreases with age (27.2% of respondents in the age group of 34 and less, and only 13.5% in the group of 55 and more). The expectation of growth of Chinese investment decreases with age (81.1% think so in the age group of 34 years and below, compared with 70.5% in the group of 45 to 54, and 71.1% in the group of 55 and above).

### Q12: What effect will the Russian crisis have on Czech GDP growth in 2015?

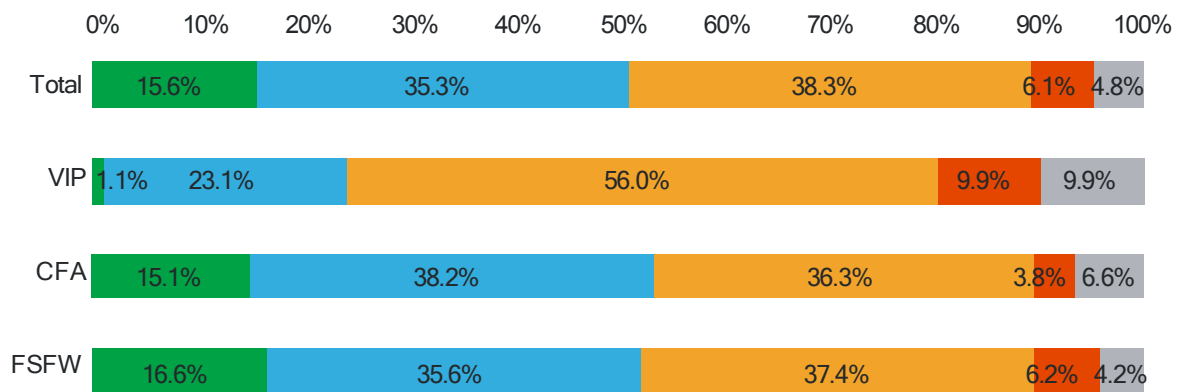


Almost two-thirds of respondents (62.3%) expect the crisis in Russia to cause reduced growth in Czech GDP, although more expect a rather insignificant drop than a significant one (47% expect a decline of less than 1%, while only 15.3% expect a reduction of more than 1%). The most skeptical respondents are those representing the financial sector, of whom 67.9% expect a reduction in Czech GDP, but usually of less than 1%.

**Q13: Do you think Czech politicians are able to effectively promote the interests of Czech companies on the Russian and Chinese markets?**



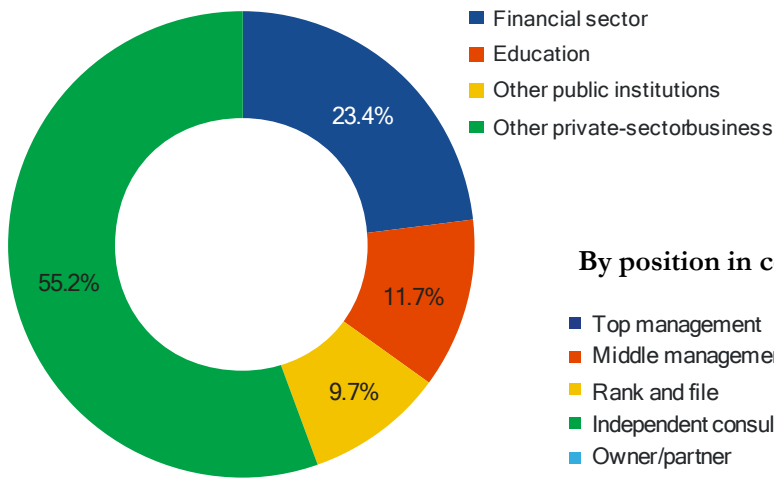
**By the respondent group:**



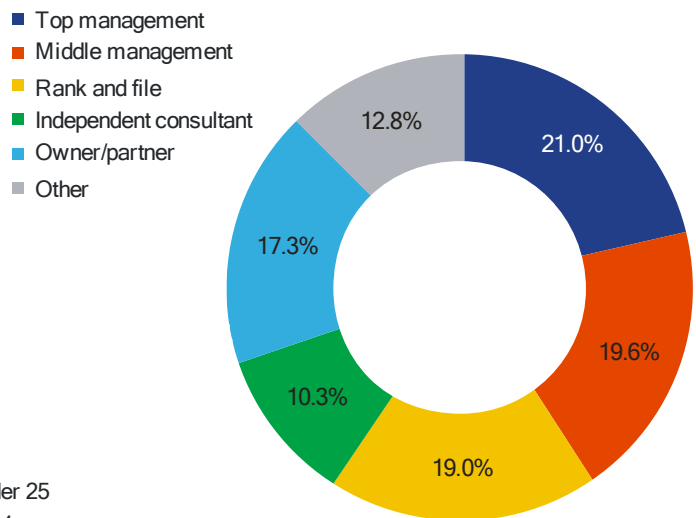
Only half of the respondents believe that Czech politicians are able to effectively promote the interests of Czech companies on Russian or Chinese markets (50.9%); the opposite view is almost equally strong (44.4%). The opinion of CFA members and candidates is significantly different: 65.9% of them believe that Czech politicians are not able to help. Interestingly, there is hardly any difference in the view of this matter according to the sector the respondents represent.

## Structure of the respondents

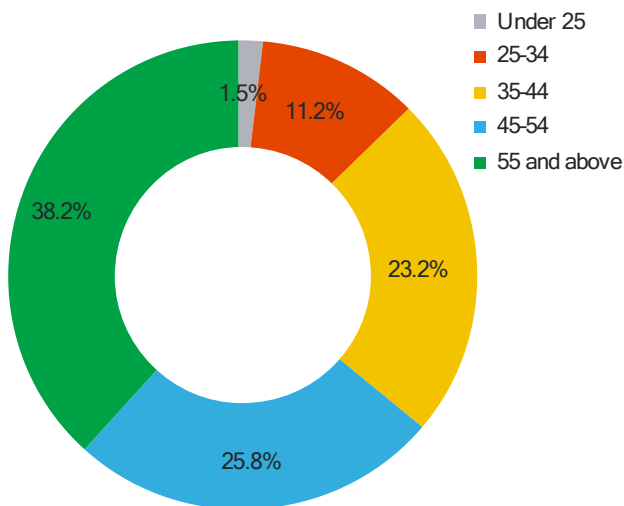
### By the sector



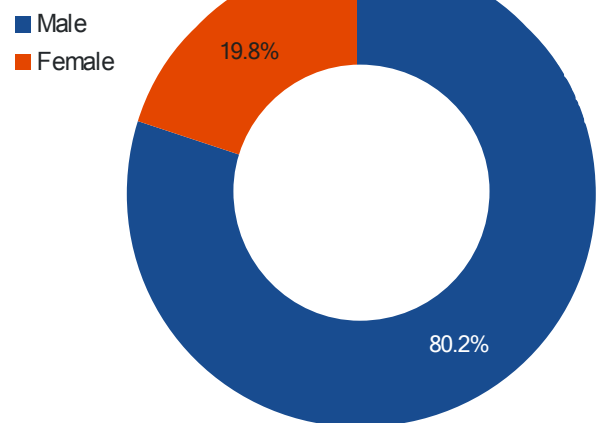
### By position in corporate hierarchy



### 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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**HERZMANN**

The Herzmann advisory has worked in the fields of marketing, communication and market research since 2009. For more information see [www.herzmann.cz](http://www.herzmann.cz).

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