CZECH CNB NATIONAL BANK

Measuring financial market inflation expectations – results of the 35th measurement (March 2002)

The March measurement confirmed the analysts' opinions to date. Inflation expectations are favourable and provide the preconditions for stable short-term interest rates. Most of the analysts expect a tightening of monetary policy at the close of this year. According to the expectations, long-term interest rates should increase in line with the eurozone rates. The Czech koruna should maintain its modest appreciation trend.

1. Inflation

III-02	annual CPI (%) 1 year	3 years
min.	3,0	2,9
average	3,5	3,3
max.	4,5	4,0

Compared with February, the average estimate for annual CPI inflation remained unchanged at both time horizons: 3.5% at the one-year horizon and 3.3% at the three-year horizon. Thanks to base effects, the strong koruna and the still low world producer prices, the analysts expect the downward CPI trend to continue in the months ahead. Inflation should bottom out in July and then gradually rise. Consequently, most of the analysts do not consider it likely that the CNB will change interest rates earlier than at the end of this year, when a moderate tightening of monetary policy can be expected. Opinions prevail that the CNB's key interest rates will be raised by 0.25%–0.50%.

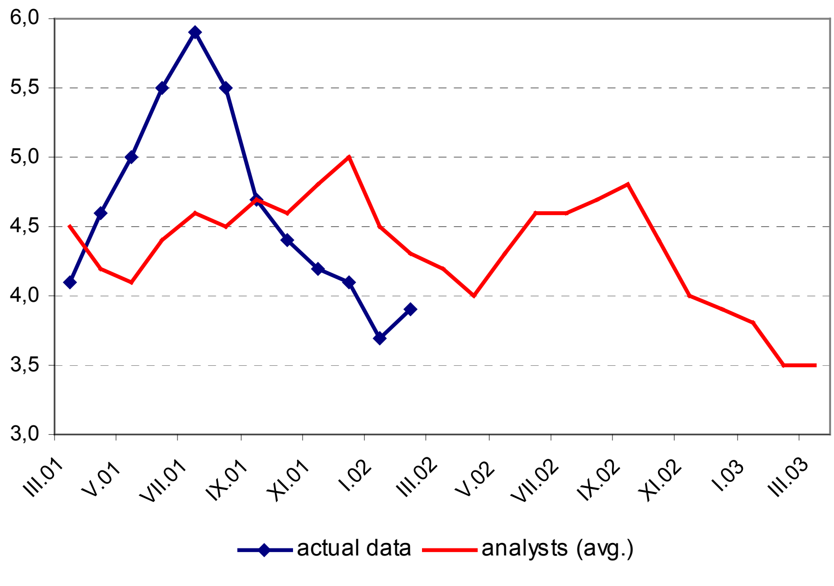
A comparison of the two groups of analysts (domestic and foreign) reveals that their estimates differ. The domestic analysts expect average CPI inflation of 3.3% in March 2003, whereas foreign analysts expect 3.7% on average. The expectations for the three-year horizon are similar: the average forecast of the domestic analysts is 3.2% and that of the foreign analysts 3.4%. A wider range in the predictions continues to be visible within the group of foreign analysts for both time horizons. This is due to the long-term more pessimistic opinion of one of the foreign analysts on the expected trend in the Czech economy.

The main inflation factors and risks:

- Expansionary fiscal policy

Prediction for Month of prediction	annual CPI 1 Y %	 3 Y %
III-01	4,2	3,4
VI-01	4,6	3,8
IX-01	4,8	3,6
XII-01	3,9	3,6
I-02	3,8	3,4
II-02	3,5	3,3
III-02	3,5	3,3

CPI - actual data + predictions of analysts (avg.) for 1 year



2. Interest rates

III-02	1W PRIBOR (%)		12M PRIBOR (%)		12M/1W spread (%)		5Y IRS (%)		CR 6,55/11 yield	
	1 month	1 year	1 month	1 year	1 month	1 year	1 month	1 year	1 month	1 year
min.	4,2	3,9	4,3	4,0			5,2	5,3	5,4	5,4
average	4,3	4,6	4,5	4,9	0,2	0,2	5,3	5,7	5,5	5,9
max.	4,4	5,0	4,6	5,4			5,5	6,4	5,8	6,8

The positive news about the recovery in the USA and Europe has corrected interest rate expectations to a significant extent. The speculation regarding a further lowering of CNB rates has virtually disappeared, and the promise of stronger-than-expected growth in the USA and the signs of an improvement in Europe should help the Czech economy. The growth of the domestic economy and the higher rates in Europe should generate growth in domestic rates. Following approximately six months of gradual decline in the expected interest rate level, a change in trend has occurred and the average estimate of future short and long-term interest rates is higher than in the previous measurement.

The short-term rates expected at the one-month horizon are basically unchanged from their present levels. These predictions are based on the expectations of most analysts of a modest tightening of monetary policy at the close of this year.

The predictions for long-term rates at the one-month horizon also correspond broadly with the current market situation (deadline for dispatching the predictions: 11 March). At the one-year horizon, the recovery in the world economy and the rising inflation in the domestic economy should pass through into a rise in long-term rates and in koruna yields on government bonds.

The average predictions in the two groups of analysts differ only slightly. The domestic analysts expect moderately higher interest rates at the one-month horizon, while at the one-year horizon the situation is opposite.

The analysts' opinions on the appropriate 2W repo rate setting were little changed from the previous measurement, varying between 4.00% and 5.50%. The average of the responses is 4.43%. The average in the group of domestic analysts is 4.29% and that of the foreign analysts is 4.63%.

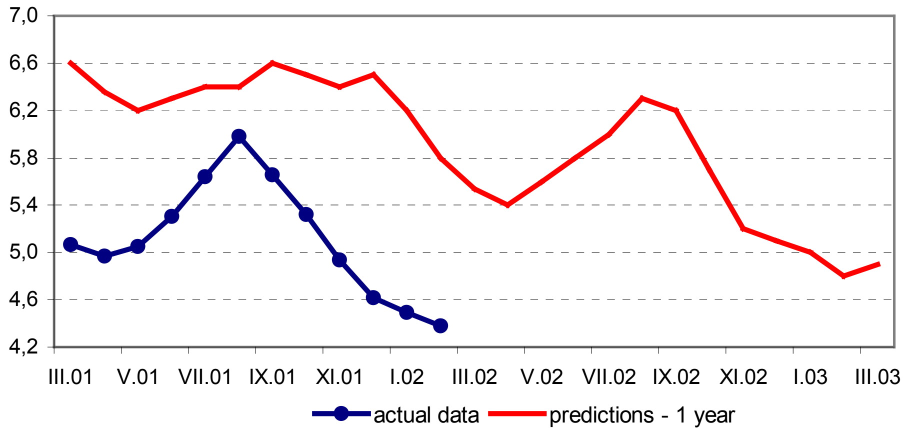
Prediction for Month of prediction	1W PRIBOR		12M PRIBOR		12M/1W spread		5Y IRS		CR 6,55/11 yield	
	1 M	1 Y	1 M	1 Y	1 M	1 Y	1 M	1 Y	1 M	1 Y
	%		%		%		%		%	
III-01	5,0	5,2	5,2	5,5	0,2	0,3	5,9	6,4		
VI-01	5,0	5,5	5,2	5,8	0,2	0,3	6,2	6,7		
IX-01	5,4	5,9	5,8	6,2	0,4	0,3	6,4	6,7	6,7	7,0
XII-01	4,7	4,9	4,7	5,1	0,0	0,2	5,3	5,6	5,6	5,8
I-02	4,6	4,8	4,5	5,0	-0,2	0,1	5,1	5,7	5,3	5,8
II-02	4,3	4,5	4,3	4,8	0,1	0,2	5,3	5,6	5,3	5,6
III-02	4,3	4,6	4,5	4,9	0,2	0,2	5,3	5,7	5,5	5,9

*/ expected yield of CR 6,40/10

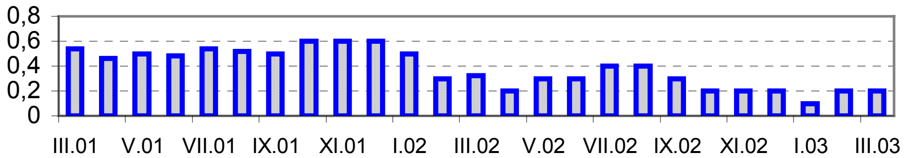
Actual values of indicators on the day of deadline for forecasts

	1T PRIBOR	12M PRIBOR	spread 12M/1T	5R IRS	yield CR 6,55/11	analysts - avg. 2W repo rate
11.3.2002	4,29	4,46	0,17	5,33	5,48	4,43

12M PRIBOR - analysts' predictions for 1 year (avg.) and actual data (avg.)



12M/1W spread (predictions for 1 year)



3. Exchange rate

III-02	EUR/CZK 1 month	EUR/CZK 1 year
min.	31,25	30,00
average	31,62	31,15
max.	32,00	32,50

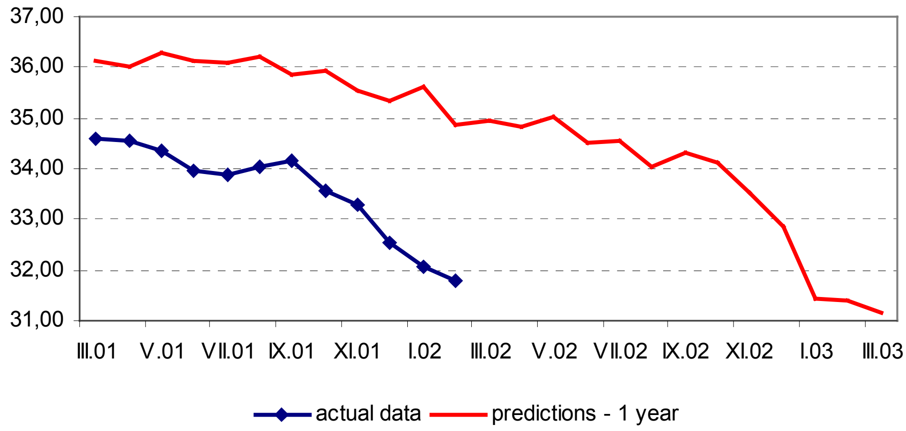
Prediction for Month of prediction	exchange rate 1 month EUR/CZK	exchange rate 1 year EUR/CZK
III-01	34,69	34,95
VI-01	34,02	34,52
IX-01	34,05	34,32
XII-01	32,94	32,85
I-02	32,23	31,42
II-02	31,76	31,41
III-02	31,62	31,15

The strong expectations of a gradual appreciation of the domestic currency have fed through into the estimated CZK/EUR exchange rate. The predictions at the one-month horizon as usual reflect the current exchange rate at the time the questionnaires were dispatched. The CNB fixing on 11 March was 31.625 and the analysts' average estimate is 31.62. For the one-year horizon, the average prediction for the koruna's exchange rate against the euro is 31.15.

The central bank's efforts to prevent excessive appreciation of the koruna with verbal and direct interventions are not assessed as successful. The appreciation is being driven by expectations of high privatisation proceeds and strong inflow of foreign direct investment, with the proximity of the Czech

Republic's accession to the EU also playing a role. Another factor bolstering the appreciation expectations is the economic recovery in Europe which should increase demand for Czech goods and further support the current exchange rate trend. Some of the analysts feel that this trend can be changed only if the market has full confidence in the agreement between the CNB and the Government to convert all privatisation proceeds off the market. Only then do the central bank's interventions have a chance of succeeding.

EUR/CZK - analysts' predictions for 1 year (avg.) and actual data (avg.)



In the medium term, the deteriorating state of public finances remains the biggest risk factor for the koruna. The negative impact of the excessively strong domestic currency on Czech exporters in the current climate of weak foreign demand continues to raise concerns. A temporary weakening of the koruna can be expected in connection with the June elections.

At the one-month horizon the estimates of the two groups analysts differ by approximately 25 hellers (domestic: CZK 31.72/EUR on average; foreign: CZK 31.46/EUR on average). At the one-year horizon the estimates differ by only 8 hellers (domestic: CZK 31.18/EUR on average; foreign: CZK 31.10/EUR on average). The range of estimates at the one-year horizon remains traditionally higher for the foreign analysts, although a significant reduction was recorded in this measurement. In March, the range in the group of foreign analysts is CZK 2.50 (compared with CZK 4 in February) and that of the domestic analysts is CZK 1.00 (compared with CZK 1.60 in February).

Prague, 15 March 2002