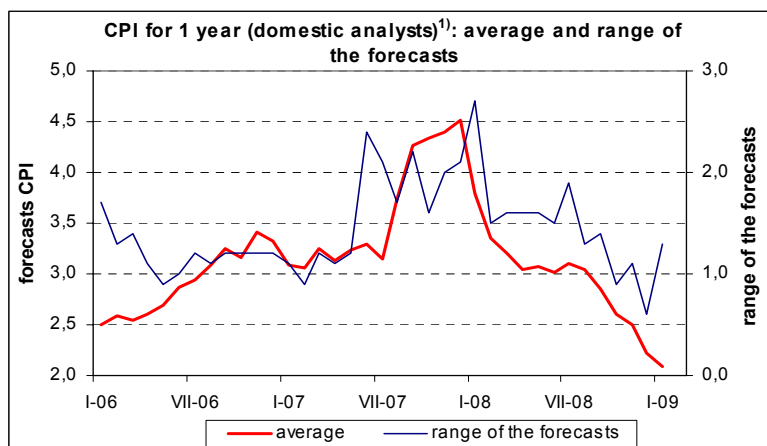


## Measuring financial market inflation expectations – Results of the 117th measurement (January 2009)

Nine domestic and one foreign analyst sent in their predictions for inflation and other indicators to the CNB's January survey. Given the still deteriorating economic outlook for the EU and consequently the decrease in domestic demand, a further significant decline in economic growth will occur according to the analysts' consensus. Weaker aggregate demand will also lead to lower inflation. This will naturally be reflected in lower interest rates. The exchange rate of the koruna should start to appreciate again after a renewal of confidence in the Central European region and a return to the convergence scenario. The negative news from the real economy could not but affect the outlook for nominal wage growth, which should also be significantly lower than was expected in December.

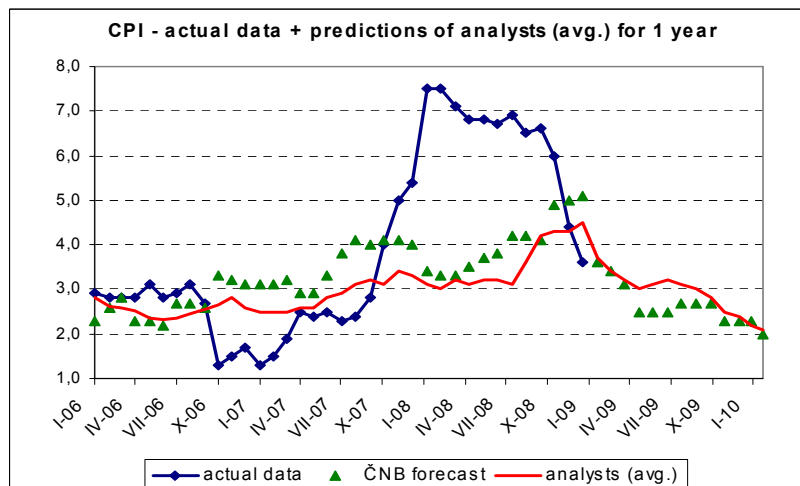
### 1. Inflation

I-09	annual CPI (%)	
	1 year	3 years
min.	1,6	1,5
average	2,1	2,4
max.	2,9	3,0



The consensus inflation forecast decreased slightly again at both the one-year and the three-year horizon (*see the Chart below*). The analysts expect annual inflation to stand at 2.1% in January 2010 (compared to the 2.2% forecasted in December). At the three-year horizon, inflation should be around 2.4%. The decline in the forecast at the one-year horizon reflects falling prices of commodities, especially oil, and weakening domestic demand, which has been hit by the recession in the EU. The slowdown in inflation will also be partly due to slower price deregulation. The downside risks to the inflation forecast include a much sharper economic downturn in the EU than hitherto expected and even slower wage growth, which would affect household spending to a larger extent. An excessively weak koruna may act in the opposite direction. The range of the forecasts widened owing to shifts in both the minimum and maximum values.

Prediction for Month of prediction	annual CPI		CNB
	1Y %	3Y %	1Y %
I-08	3,7	2,8	3,6
IV-08	3,0	2,6	2Q 2,5
VII-08	3,1	2,6	
VIII-08	3,0	2,6	3Q 2,7
X-08	2,5	2,5	
XI-08	2,4	2,5	4Q 2,0
XI-08	2,2	2,5	
I-09	2,1	2,4	1Q 1,4

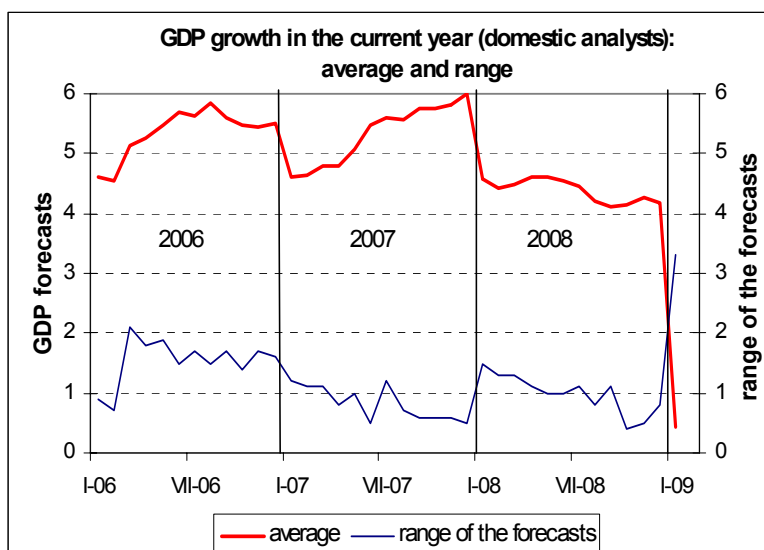


1) A narrower view of the average and the difference between the maximum and minimum estimate of the domestic analysts is used to ensure a more stable data base.

## 2. Gross domestic product

I-09	GDP growth in	
	current year	next year
min	-1,5	1,3
average	0,5	2,5
max	1,8	3,5

Prediction for Month of prediction	GDP growth in	
	current year	next year
	%	
I-08	4,7	4,8
IV-08	4,6	4,8
VII-08	4,5	4,5
VIII-08	4,3	4,2
X-08	4,2	3,2
XI-08	4,2	2,4
XI-08	4,2	1,4
I-09	0,5	2,5



The estimate for GDP growth in 2009 was also revised considerably downwards (from 1.4% in December to 0.5% in January). The weak external demand will not only be reflected in a decrease in sales/exports, but will also influence investment activity. Investment will be adversely affected by tensions in the banking sector and tightening credit standards. A decline in the number of foreign employees and rising unemployment will also cause household consumption to diminish. According to the analysts, the decrease in employment and the tightening supply of consumer credit should more than offset the increase in real wages caused by disinflation. A deeper recession in the euro area, which may worsen the economic situation in the Czech Republic even further, is still considered the most significant risk. The analysts expect economic growth to accelerate to 2.5% in 2010.

## 3. Interest rates

I-09	2W repo rate (%)		12M PRIBOR (%)		5Y IRS (%)		10Y IRS (%)	
	1 month	1 year	1 month	1 year	1 month	1 year	1 month	1 year
min.	1,50	1,00	2,60	2,00	2,50	2,30	2,80	3,00
average	1,73	1,63	3,28	2,47	2,74	3,12	3,30	3,62
max.	2,00	2,50	3,60	3,50	3,50	3,70	4,00	4,40

The interest rate forecast was lowered because of the unfavourable economic situation, which is linked with dissipation of most inflationary pressures (slump in external demand, weakening domestic demand, lower growth outlook, etc.). By comparison with the December survey, declines were recorded across the entire spectrum except the 10Y IRS. Seven out of the ten analysts expect the CNB Bank Board to reduce its key rate by 50 basis points at its February meeting. Two analysts expect a reduction of 75 basis points and one expects a reduction of 25 basis points.

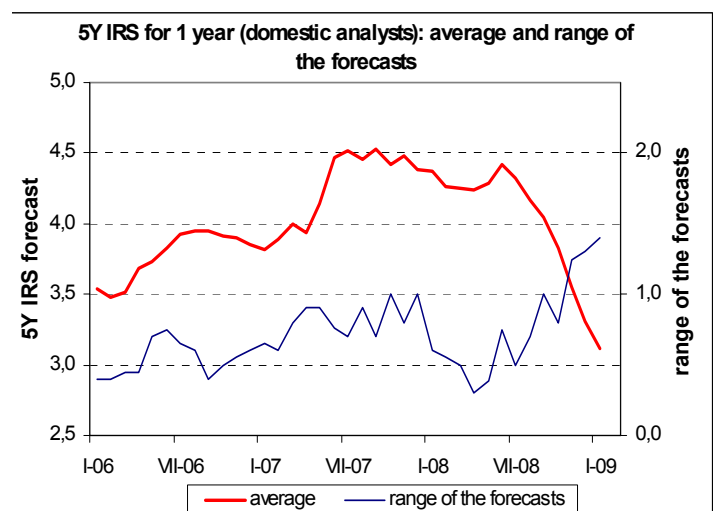
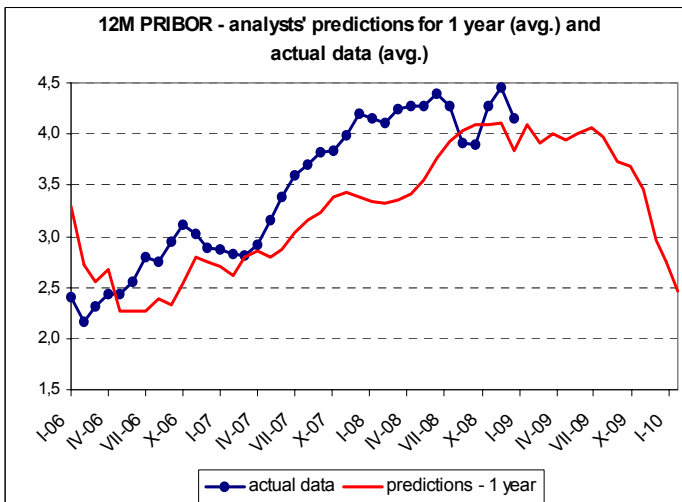
The increasing heterogeneity of views regarding the rate of deterioration of the economy is reflected in a wider range of the forecasts, except for the 10Y IRS and 2W repo rate at the one-year horizon.

According to the analysts, the main risks of the current scenario are even stronger anti-inflationary pressures (i.e. a sharper economic downturn in the EU and the Czech Republic, a decline in real wages, a more marked slowdown in household consumption, etc.) and, on the other hand, excessive depreciation of the koruna, which could significantly offset the easing of monetary policy. Uncertainty still prevails over the timing and speed of the decline in the risk premium.

Prediction for Month of prediction	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1 M	1 Y	1 M	1 Y	1 M	1 Y	1 M	1 Y
	%		%		%		%	
I-08	3,75	3,89	4,19	4,10	4,31	4,37	4,55	4,62
IV-08	3,80	3,73	4,16	3,94	4,14	4,25	4,40	4,50
VII-08	3,73	3,66	4,26	3,97	4,34	4,33	4,59	4,57
VIII-08	3,50	3,34	3,78	3,74	3,88	4,17	4,32	4,34
X-08	3,22	2,89	3,91	3,46	3,25	3,83	3,71	4,16
XI-08	2,53	2,06	4,19	2,96	3,17	3,55	3,41	4,03
XII-08	2,30	1,90	4,01	2,75	3,01	3,31	3,28	3,66
I-09	1,73	1,63	3,28	2,47	2,74	3,12	3,30	3,62

**Actual values of indicators on the day of deadline for forecasts**

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
14.1.	2,25%	3,64%	2,77%	3,23%

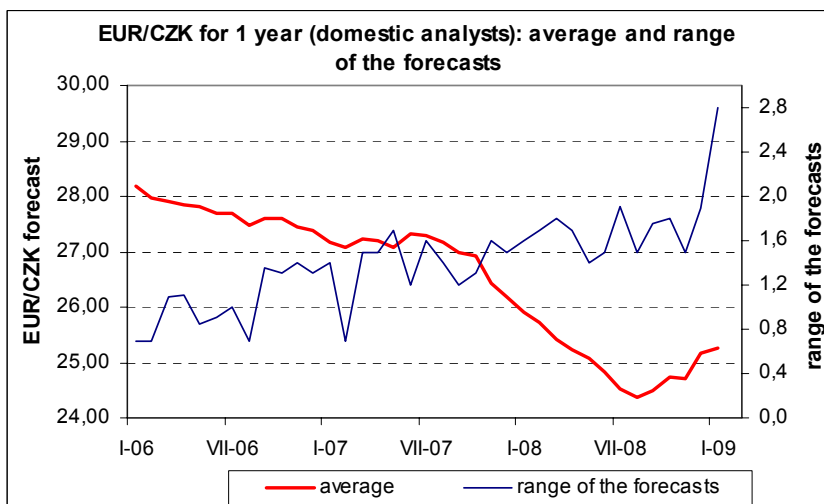


#### 4. The exchange rate

I-09	EUR/CZK	
	1 month	1 year
min.	26,30	24,20
average	26,86	25,26
max.	27,40	27,00

#### Actual exchange rate

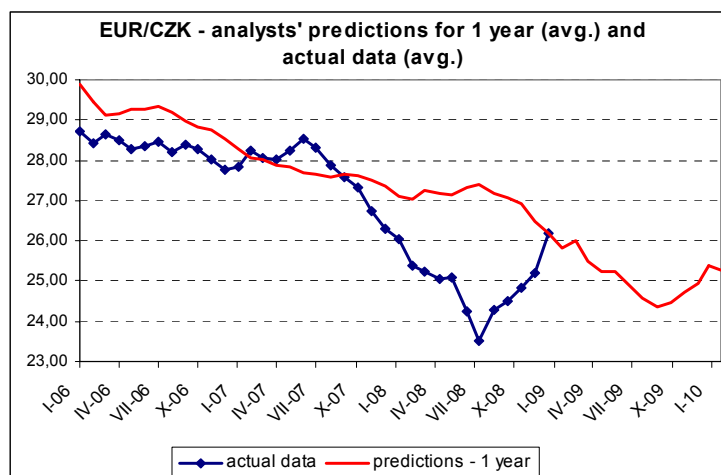
14.1.	26,93
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While the analysts predict a weaker koruna at the one-month horizon compared to the December survey, their average forecast for the one-year horizon has shifted somewhat to stronger levels. After a renewal of confidence in the Central European region and a decrease in risk aversion, the koruna should appreciate slowly to 25.3 to the euro in January 2010 amid gradual stabilisation of the global and Czech economy.

The maximum and minimum forecasts widened at both the one-month and one-year horizons due to a greater shift of the maximum (weakest) estimate by the domestic analysts to even weaker values.

Prediction for Month of prediction	exchange rate	
	1 month	1 year
I-08	26,05	25,84
IV-08	25,36	25,24
VII-08	23,53	24,56
VIII-08	24,31	24,36
X-08	24,90	24,72
XI-08	25,50	24,96
XII-08	25,93	25,40
I-09	26,86	25,26

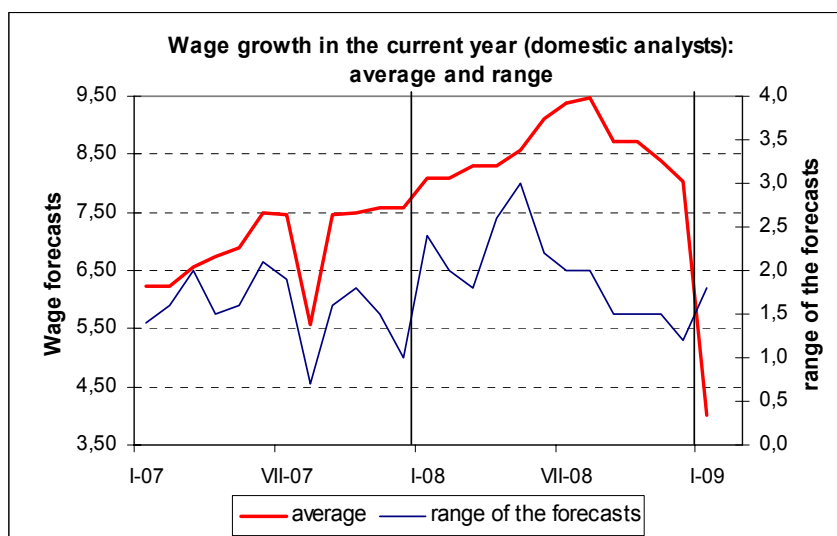


The analysts regard unfavourable developments in the region as the main risk that could lead to a weakening of the koruna. If any of the currencies in the region (where economies are currently very weak and suffering from high current account deficits) were to come under severe pressure or reach the brink of a currency crisis, this would also have a strong impact on the koruna. Moreover, the high volatility currently prevailing on the foreign exchange market may cause the koruna's exchange rate to deviate in either direction in a hard-to-predict manner. A significantly worse and longer recession in the euro area than currently expected could also cast the Czech Republic in a negative light, bringing about further depreciation of the koruna.

## 5. Wages

I-09	Wage growth in	
	current year	next year
min	3,0	3,0
average	4,0	4,5
max	4,8	6,0

Prediction for Month of prediction	wage growth in current year next year %	
	I-08	8,1
IV-08	8,3	7,9
VII-08	9,4	7,8
VIII-08	9,4	8,2
X-08	8,8	6,7
XI-08	8,4	6,1
XII-08	8,1	4,7
I-09	4,0	4,5



The forecast for wage growth recorded another relatively large decline compared to the previous survey. The decline in sales and consequently in industrial production is feeding through to a fall in employment and naturally also a slowdown in wage growth. The expected growth rate of wages in 2009 thus decreased from 4.7% in the December survey to 4.0% in January. The analyst who made a distinction between the forecast for wage growth in the business sector and that in the non-business sector did not change his opinion (business sector: 4.7%, non-business sector: 5.0%). For 2010 he predicts wage growth of 6% in both the business and non-business sector. The range of the forecasts for 2009 widened slightly due to a large decrease in the minimum estimate.

We would like to thank the following respondents for their contributions to this survey of financial market inflation expectations:

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