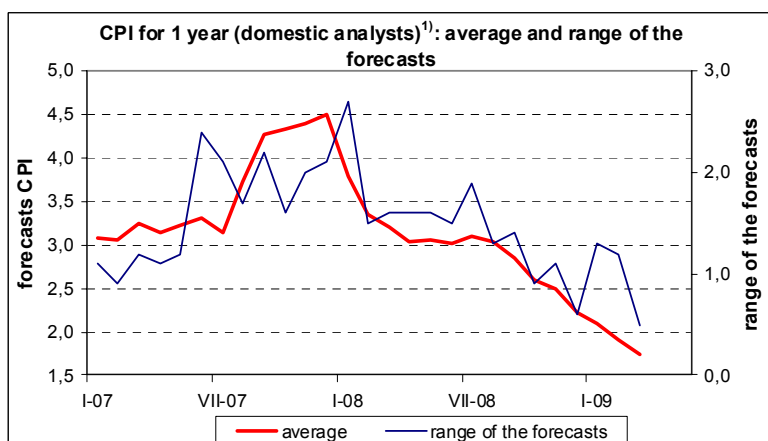


Measuring financial market inflation expectations – Results of the 119th Measurement (March 2009)

Seven domestic and three foreign analysts sent in their predictions for inflation and other indicators to the CNB's March survey. The consensus inflation forecast at the one-year horizon decreased marginally, whereas the outlook for the real economy is constantly deteriorating, both for this year and for 2010. Only two analysts expect the CNB Bank Board to reduce its key interest rates at its next meeting. The remaining analysts expect that the two-week repo rate will be left at its present level. The monitored market interest rates and yields are expected to rise across the spectrum. The exchange rate forecast, particularly at the one-month horizon, conforms to the present trend. At the one-year horizon, a gradual return to an appreciation scenario is expected. The analysts are becoming increasingly sceptical about future labour market developments. The growth in unemployment, which should peak next year, is adversely affecting the nominal wage growth forecasts, which shifted further downwards.

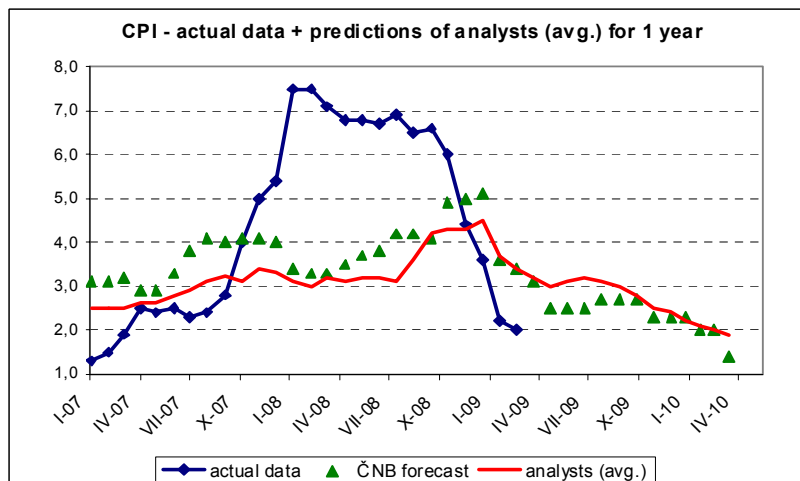
1. Inflation

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



The inflation forecast decreased slightly at the one-year horizon (*see the Chart below*) but rose slightly at the three-year horizon. The analysts expect annual inflation to fall just below the new inflation target in March 2010, to 1.9% (compared to 2.0% in February). According to the analysts, consumer price inflation should be curbed this year by the slowing economy. The rise in unemployment and the subsequent slowdown in nominal wage growth should further weaken the inflationary pressures. The inflationary effect of the weak koruna exchange rate still poses a risk, however. At the three-year horizon, inflation is expected to move to 2.5%. The change in average forecasts was also affected to a certain extent by the lower number of estimates received compared to the previous survey. The greater agreement of the estimates at the one-year horizon was evidenced by a narrowing of the extreme forecasts. At the three-year horizon, however, the situation is just the opposite, since the range widened owing to a decrease in the minimum estimate.

Prediction for Month of prediction	annual CPI		CNB
	1Y %	3Y %	1Y %
III-08	3,2	26	0,0
IV-08	3,0	26	2Q 2,5
VII-08	3,1	26	
VIII-08	3,0	26	3Q 2,7
X-08	2,5	25	
XI-08	2,2	25	4Q 2,0
II-09	2,0	24	
III-09	1,9	25	1Q 1,4

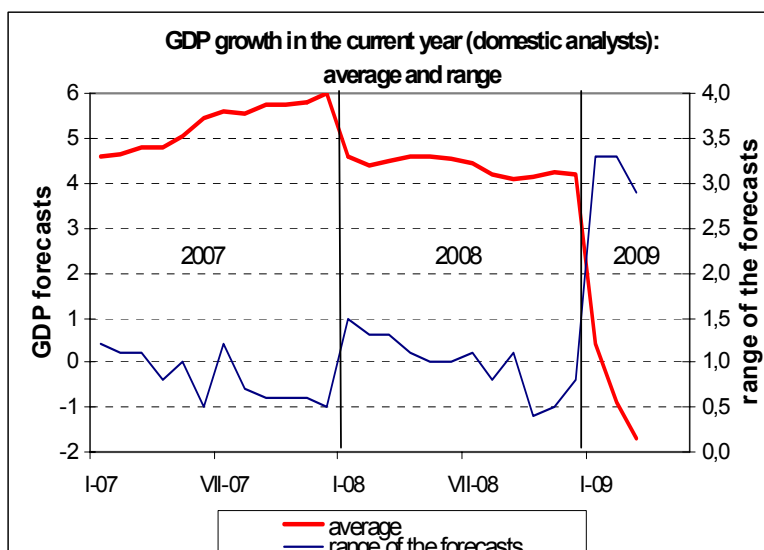


¹ Reduced approach on average and the difference between the maximum and minimum estimate via the domestic analysts is due to a more stable data base.

2. Gross domestic product

III-09	GDP growth in	
	current year	next year
min	-3,5	0,0
average	-1,8	1,4
max	-0,6	2,5

Prediction for Month of prediction	GDP growth in	
	current year %	next year %
III-08	4,6	4,7
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
II-09	-0,9	1,8
III-09	-1,8	1,4



The GDP estimate for 2009 was again decreased dramatically (from -0.9% in February to -1.8% in March). The analysts' deepening pessimism is due to real domestic developments (e.g. the fall in industrial production and the adverse knock-on effect on other industries). A revision of the magnitude of the decline in the euro area and Germany also played a significant role. The analysts' worsening expectations are also due to the prospect of even slower growth in household consumption (as a result of rising unemployment and slower wage growth) and a fall in consumer credit growth. The analysts expect a return to economic growth in 2010, but its pace is lower compared to the previous survey (1.4%, against 1.8% in February).

3. Interest rates

III-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	1,25	2,45	1,95	3,00	3,00	3,30	3,30
average	1,70	1,78	2,76	2,45	3,23	3,46	3,63	3,88
max.	1,75	2,50	3,00	2,80	4,00	3,80	4,80	4,50

The forecast for money market interest rates increased owing to the present situation. The biggest shift was recorded for the two-week repo rate at the one-year horizon. Owing to the depreciating koruna, the expectations of further rate cuts decreased in intensity. Only two analysts expect the reference rate to be lowered by 0.25 percentage point at the CNB's March monetary policy meeting. According to the others, the key rate will remain unchanged. Some analysts believe that the CNB will raise rates before the end of this year once the economy stabilises, the deflationary pressures ease and the weak koruna starts to make itself felt.

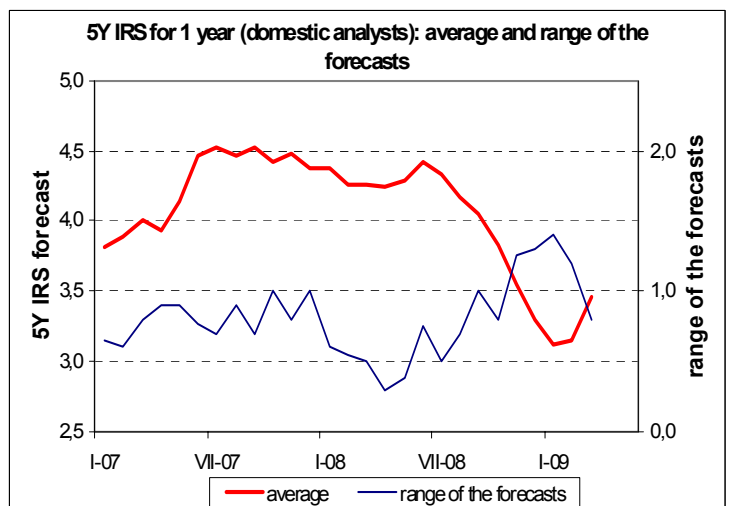
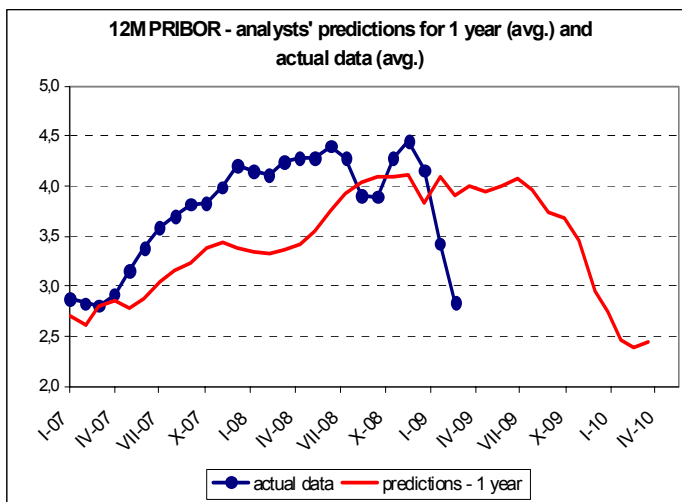
As in the case of money market rates, the forecasts for IRS rates increased slightly across the whole monitored spectrum. The forecast at the one-month horizon is also due in large part to the present level. At the one-year horizon, according to the analysts, the forecast is being determined by expectations of rising key rates, which are currently close to their trough.

The settings of reference interest rates will, according to the analysts, again depend mainly on the exchange rate of the koruna. Should the koruna remain very weak, the risk of a pick-up in inflation could outweigh concerns about deep recession and other anti-inflationary factors (economic developments abroad, oil prices, etc.).

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
	%		%		%		%	
III-08	3,82	3,75	4,09	3,98	4,15	4,26	4,44	4,50
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
II-09	1,69	1,48	2,52	2,38	2,86	3,15	3,33	3,63
III-09	1,70	1,78	2,76	2,45	3,23	3,46	3,63	3,88

Actual values of indicators on the day of deadline for forecasts

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
13.3.	1,75%	2,84%	3,15%	3,48%

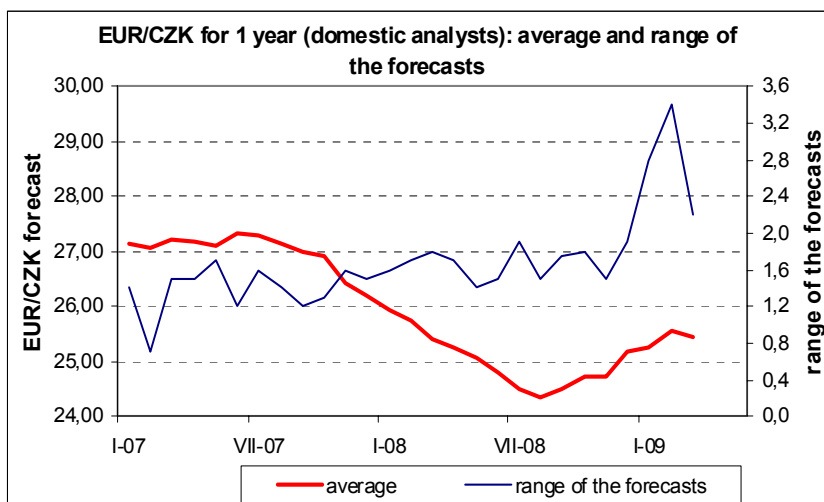


4. The exchange rate

III-09	EUR/CZK	
	1 month	1 year
min.	27,00	24,30
average	27,65	25,62
max.	28,00	26,80

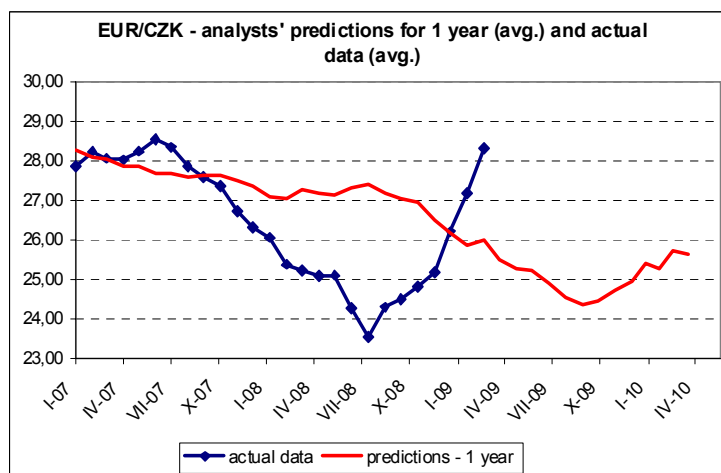
Actual exchange rate

13.3.	26,59
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The correction of the sharp depreciation of the koruna against the euro also affected the analysts' consensus forecast, which shifted upwards at both the one-month and one-year horizons. Greater shifts were naturally apparent at the one-month horizon. The analysts expect the volatility of the koruna's exchange rate to gradually shrink and, provided that the economic situation at home and abroad improves, risk aversion decreases and there are signs of a trade balance improvement, the koruna should return to an appreciation trend in the second half of this year. The exchange rate is expected to be around 25.60 CZK/EUR in March next year.

Prediction for Month of prediction	exchange rate EUR/CZK	
	1 month	1 year
III-08	25,34	25,48
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
II-09	28,64	25,71
III-09	27,65	25,62



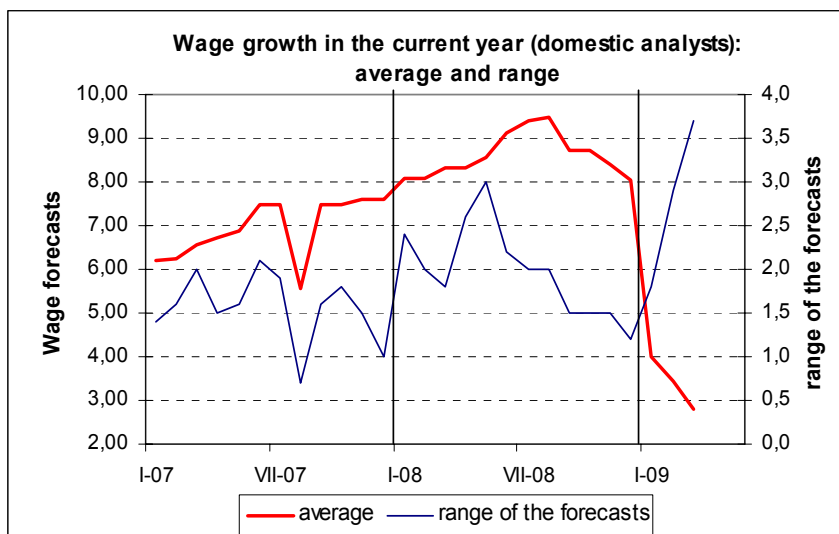
The high exchange rate volatility in the previous month and the resulting wide range of the exchange rate forecasts in the February survey narrowed in March due to a decline in the maximum (weakest) values.

According to the analysts, the exchange rate of the koruna in the near term will be affected by higher, albeit slowly decreasing volatility without any clear trend. The risks for further depreciation could include even more pronounced falls in industry and potential anti-inflationary pressures associated with the weakening economy, which could create room for cuts in key interest rates. Naturally, the koruna could react to this by depreciating. A faster recovery of the economy, an emergence of inflationary pressures and an earlier monetary policy tightening could act in the opposite direction.

5. Wages

III-09	Wage growth in	
	current year	next year
min	0,5	3,0
average	2,9	3,9
max	4,2	5,0

Prediction for Month of prediction	wage growth in	
	current year	next year
	%	
III-08	8,3	7,8
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
II-09	3,4	4,2
III-09	2,9	3,9



The increasingly dire outlook for economic growth, from which the analysts derive a dramatic rise in unemployment, naturally continues to burden expected nominal wage growth. Compared to the previous survey, a larger slowdown is expected this year (from 3.4% in February to 2.9% in March). In addition, the analysts believe that the unfavourable situation on the labour market will not improve until the second half of next year. Wage growth should thus be even slower than assumed in February (3.9%). The respondents who made a distinction between the forecast for wage growth in the business sector and that in the non-business sector left their expectations unchanged. Wages in the business and non-business sector will rise by 2.0% and 4.5% respectively this year. Next year, they are expected to pick up to 5.3% in the business sector and remain at 4.5% in the non-business sector.

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