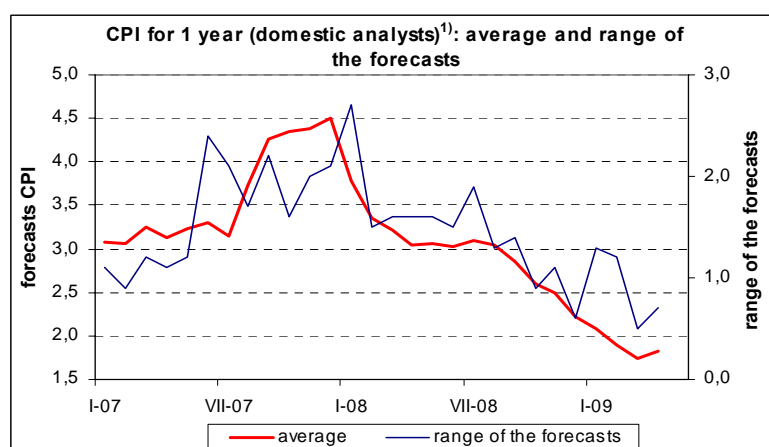


Measuring financial market inflation expectations – Results of the 120th Measurement (April 2009)

Nine domestic and two foreign analysts sent in their predictions for inflation and other indicators to the CNB's April survey. The consensus forecast for annual consumer price inflation remained unchanged at the one-year horizon, while a slight downward shift was recorded at the three-year horizon. However, the GDP forecast again showed a significant change, particularly this year. The publication of the latest macroeconomic data makes the analysts ever more sceptical about external demand and domestic investment activity, while many of the analysts are sceptical about household consumption. Although some of the analysts expect key interest rates to be lowered at the CNB Bank Board's next monetary policy meeting, the 1Y PRIBOR and the IRS continued to rise as in the previous survey. The exchange rate forecast was adjusted towards stronger levels owing to the increasing confidence on financial markets. The worse GDP forecast could not but affect the labour market. The growth rate of nominal wages declined again slightly.

1. Inflation

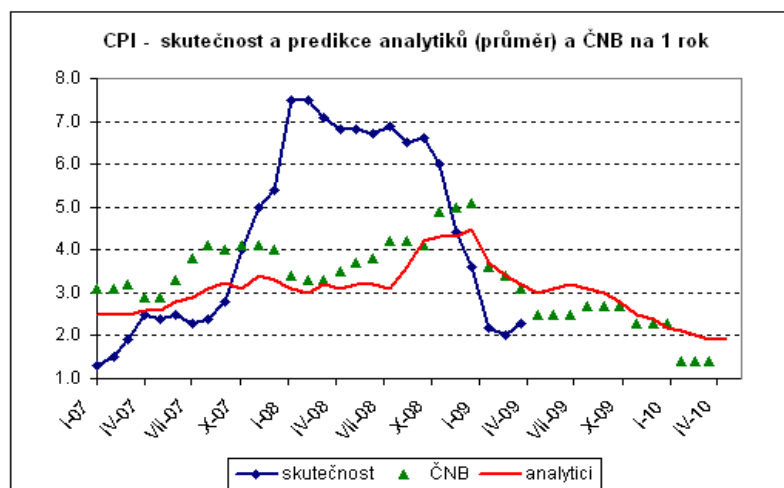
IV-09	annual CPI (%)	
	1 year	3 years
min.	1.5	1.2
average	1.9	2.4
max.	2.2	4.0



The inflation forecast remained unchanged at the one-year horizon (*see the table below*) and declined slightly at the three-year horizon. The analysts still predict that annual inflation will be temporarily below the CNB's new inflation target next year, at 1.9% in April 2010. Consumer prices should be held in check again this year by the sharply slowing economy and by the poor situation on the labour market resulting in slower nominal wage growth. An excessive depreciation of the koruna exchange rate still poses a risk, however. At the three-year horizon, inflation should move to 2.4%.

The range of the extreme values in the sample of domestic analysts (*see the chart above*) widened slightly owing to an increase in the maximum forecast. However, the aggregate range for all the analysts – including the foreign ones – narrowed, as one of the foreign analysts revised his maximum value downwards.

Prediction for Month of prediction	annual CPI		ČNB 1Y
	1Y %	3Y %	
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	2.2	2.5	4Q 2,0
II-09	2.0	2.4	
III-09	1.9	2.5	1Q 1,4
IV-09	1.9	2.4	

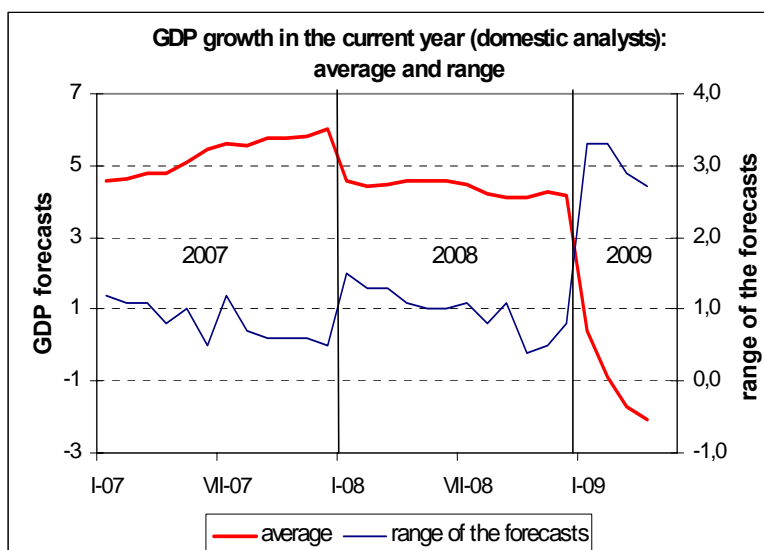


¹ Reduced approach on average and the difference between the maximum and minimum estimate via the domestic analysts is due to a more stable data base.

2. Gross domestic product

IV-09	GDP growth in	
	current year	next year
min	-3.7	0.0
average	-2.2	1.2
max	-1.0	2.0

Prediction for Month of prediction	GDP growth in	
	current year	next year
	%	
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
IV-09	-2.2	1.2



The consensus forecast for GDP growth for 2009 was again lowered considerably (from -1.8% in March to -2.2% in April). The analysts' deepening pessimism is due to worse domestic real developments. Great uncertainty regarding future developments and tight credit conditions are dampening investment activity to a large extent. The negative effect of declining exports (the poor economic outlook of the Czech Republic's trading partners) might be moderated somewhat by lower imports due to falling domestic demand. However, flat real wages, rising unemployment, tighter consumer credit conditions and the overall negative sentiment will continue to have adverse effects on the last stabilising element of GDP, household consumption. The analysts expect economic growth to return in 2010, but its pace is lower than in the previous survey (1.2%, as against 1.4% in March).

3. Interest rates

IV-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	2.65	2.20	2.90	3.10	3.40	3.40
average	1.64	1.77	2.79	2.59	3.26	3.49	3.77	4.06
max.	1.75	2.25	2.90	3.00	4.10	3.80	4.90	4.60

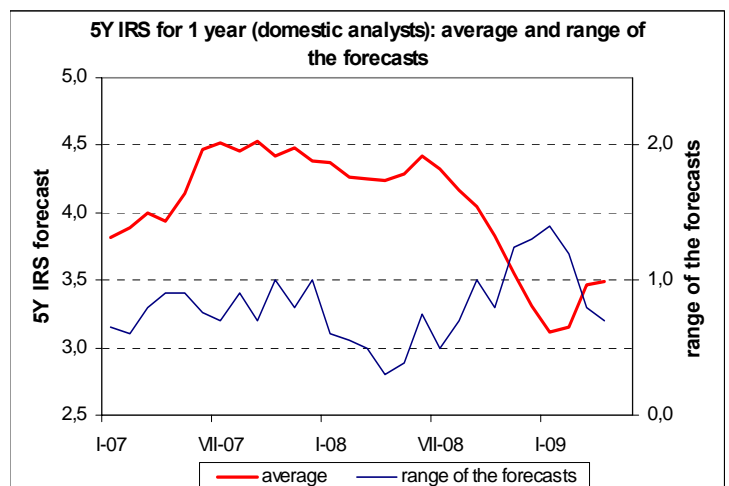
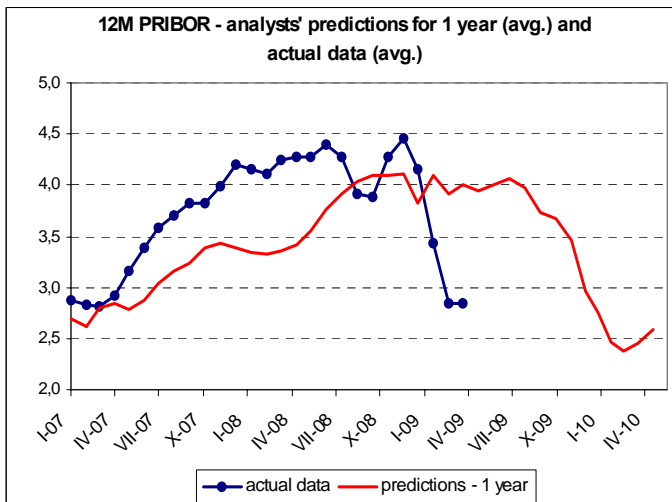
The forecast for the 2W repo rate declined slightly, while the forecast for the 1Y PRIBOR moved upwards. The analysts mostly estimate that key interest rates have reached their bottom or are very close to it. Five analysts expect the interest rates to be lowered by 0.25 percentage point at the CNB Bank Board's next monetary policy meeting, while the remainder expect rates to stay unchanged. Moreover, most of them expect a rise in key interest rates in the second half of this year due to the expected improvement in the economic climate and the potentially weaker nominal exchange rate of the koruna. Therefore, IRS rates are increasing across the entire monitored spectrum. However, this increase should be moderated by a decline in the risk premium.

According to the analysts, the settings of reference interest rates might be affected by a surprising evolution of the exchange rate of the koruna. In particular, if the koruna were to depreciate to very low levels and give rise to concerns about inflation pressures, any considerations of further key interest rate cuts due to an economic decline (or a fall in domestic aggregate demand) might prove to be no longer necessary, according to the analysts. At the longer horizon, the speed of return to growth will be of key importance.

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
	%		%		%		%	
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
IV-09	1.64	1.77	2.79	2.59	3.26	3.49	3.77	4.06

Actual values of indicators on the day of deadline for forecasts

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.4.	1.75%	2.87%	3.22%	3.70%

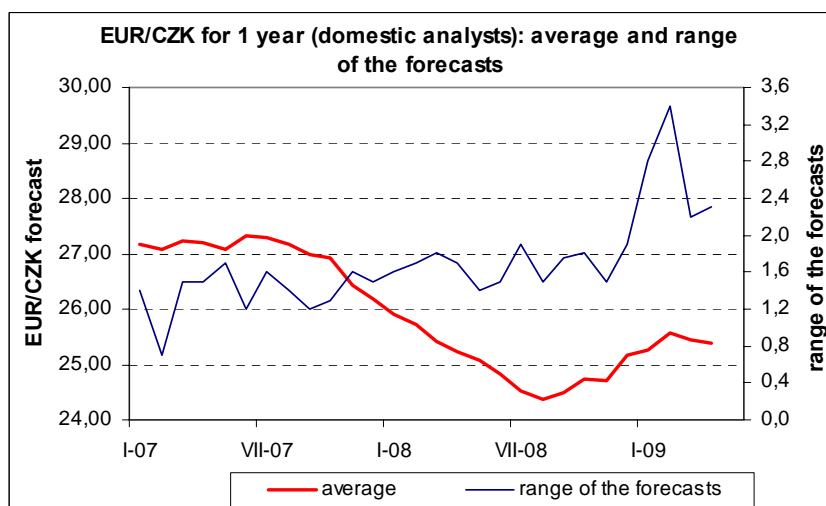


4. The exchange rate

IV-09	EUR/CZK	
	1 month	1 year
min.	26.40	24.50
average	27.12	25.52
max.	27.80	26.80

Actual exchange rate

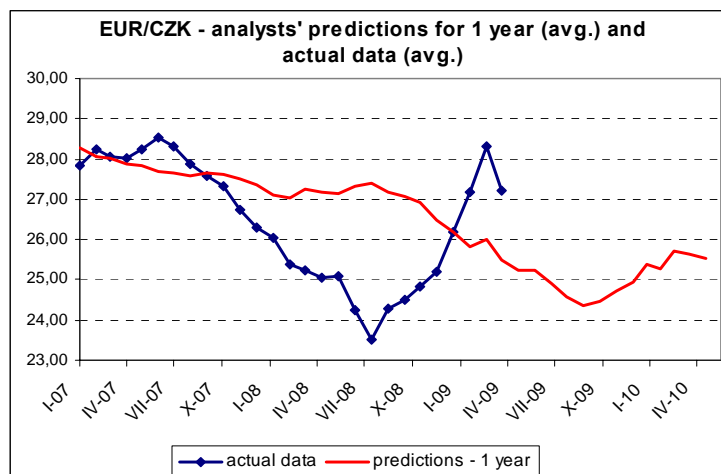
15.4.	26.88
-------	-------



The consensus forecast for the exchange rate was shifted towards stronger levels at both the one-month and one-year horizon. The shift at the one-month horizon is greater than that at the one-year horizon, probably due to the current situation (according to the analysts the appreciation trend is due to improved global sentiment and a more differentiated view of the CEE economies). The analysts still expect exchange rate volatility around the current levels in the next few months, with a subsequent slight appreciation at the end of this year. The exchange rate should be moving around 25.50 CZK/EUR in April next year.

The high volatility of the actual exchange rate resulted in a widening of the range of the extreme forecasts at the one-month horizon. At the one-year horizon, by contrast, there is more of a consensus among the domestic and foreign analysts, with the range narrowing slightly.

Prediction for Month of prediction	exchange rate EUR/CZK	
	1 month	1 year
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
IV-09	27.12	25.52

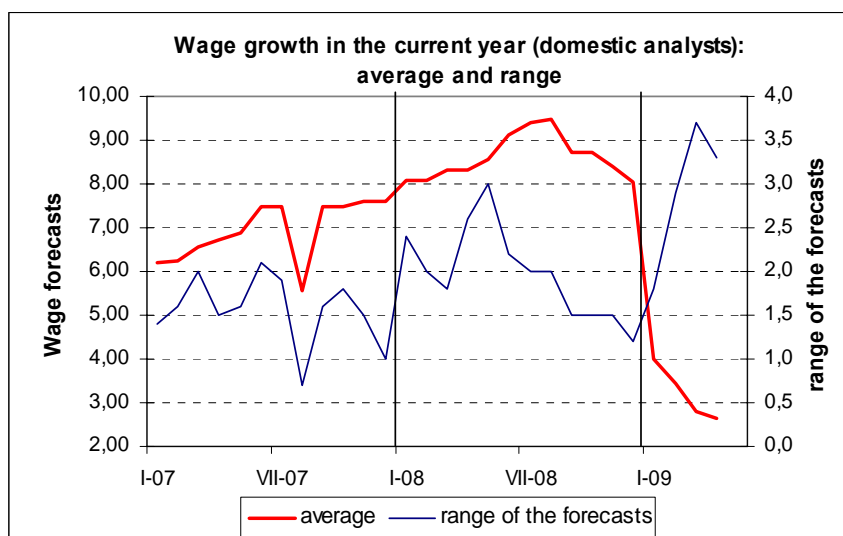


Due to worse fundamentals (for example a deterioration in the domestic real economy), the expected return to the appreciation trend might be postponed. On the other hand, it might be brought forward by a earlier start of economic growth in the USA or greatly improved sentiment and confidence in the Central European region.

5. Wages

IV-09	Wage growth in	
	current year	next year
min	0.5	3.0
average	2.7	3.8
max	3.8	4.5

Prediction for Month of prediction	wage growth in current year next year %	
	IV-08	8.3
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
IV-09	2.7	3.8



The worsening situation on the labour market (a larger-than-expected rise in unemployment) and the bleak outlook for economic growth, in particular this year, resulted in a further decline in the nominal wage growth forecasts. Compared to the previous survey, a more sizeable slowdown is apparent again this year (from 2.9% in March to 2.7% in April). The growth rate of wages next year is also slightly lower than in the previous survey (down by 0.1 percentage point to 3.8%). The separate forecasts for wage growth in the business sector and in the non-business sector were also revised downwards, with the exception of non-business wages this year. Wages in the business sector should increase by just 1.2%, while those in the non-business sector should rise by 5.2%. Wages in both the business and non-business sectors should grow by 3.3% next year.

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

David Marek, Patria Finance
 Martin Lobotka, Česká spořitelna
 Jan Vejmělek, Komerční banka
 Pavel Sobíšek, Unicredit Global Research
 Michal Brožka, Raiffeisenbank
 Petr Dufek, ČSOB
 Petr Sklenář, Atlantik FT
 Radomír Jáč, Generali PPF
 Vojtech Benda, ING Wholesale Banking
 Leila Butt, Economist Intelligence Unit
 Miroslav Plouhat, JP Morgan

Special thanks go to the analytical team at Komerční banka, Raiffeisenbank, Economist Intelligence Unit and Česká spořitelna for comments on the forecasts.

Prague, April 24, 2009