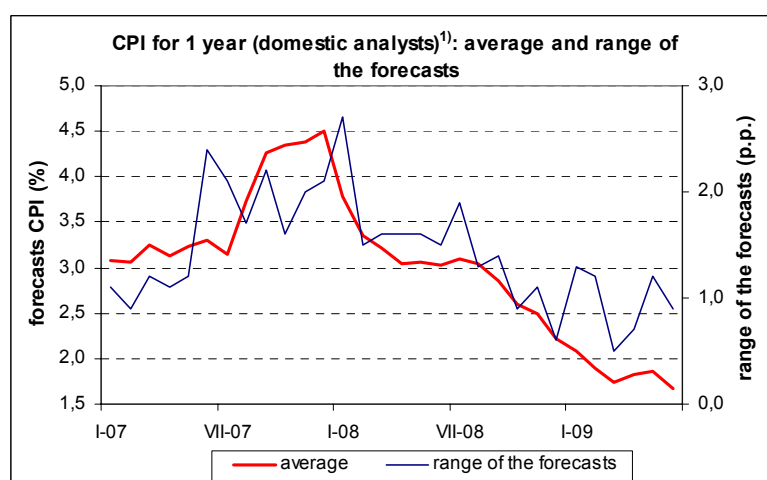


Measuring financial market inflation expectations – Results of the 122th Measurement (June 2009)

Nine domestic and two foreign analysts sent in their predictions for inflation and other indicators to the CNB's June survey. The expected growth rate of the price level remains broadly unchanged. However, the estimated decline in GDP for this year deepened further, reflecting an unexpectedly strong actual decline in the domestic economy in 2009 Q1. The worse economic outlook had an adverse effect on nominal wage growth, especially in the non-business sector. Compared to the previous survey, the analysts expect a slightly weaker exchange rate of the koruna at the one-year horizon and a further slight rise at the longer end of the yield curve, although five of the eleven respondents expect key interest rates to be lowered by 25 basis points at the CNB Bank Board's June meeting.

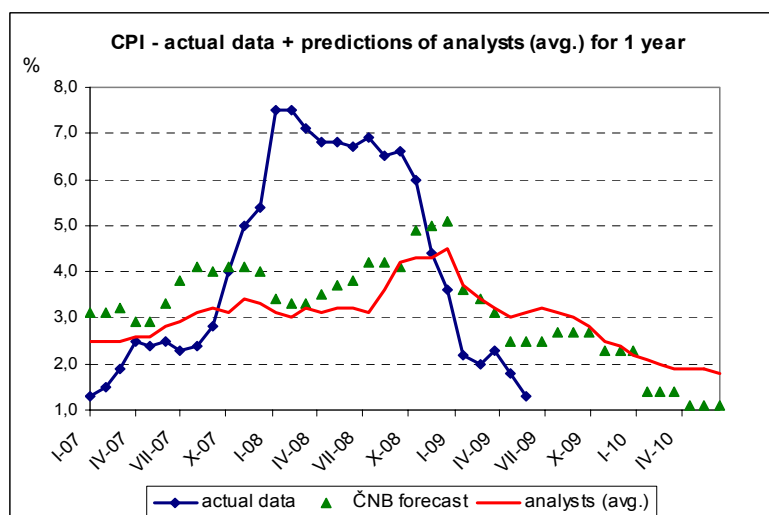
1. Inflation

VI-09	annual CPI (%)	
	1 year	3 years
min.	1,3	1,9
average	1,8	2,5
max.	2,5	4,0



The inflation forecast shifted downwards somewhat at the one-year horizon (*see the table below*), while remaining unchanged at the three-year horizon. There was a decline to 1.7 % at the one-year horizon in the narrower set of domestic analysts (*see the chart above*), while their opinions became more unified, i.e. the gap between the extreme forecasts narrowed. The average of the domestic estimates shifted slightly upwards at the three-year horizon (to 2.4 %). According to the analysts, growth in the price level should be close to zero in the coming months. Subsequently it should pick up again, but this acceleration will be greatly limited by an only slight economic recovery. The pace of the economic recovery, oil prices and food prices are the main risks to future inflation.

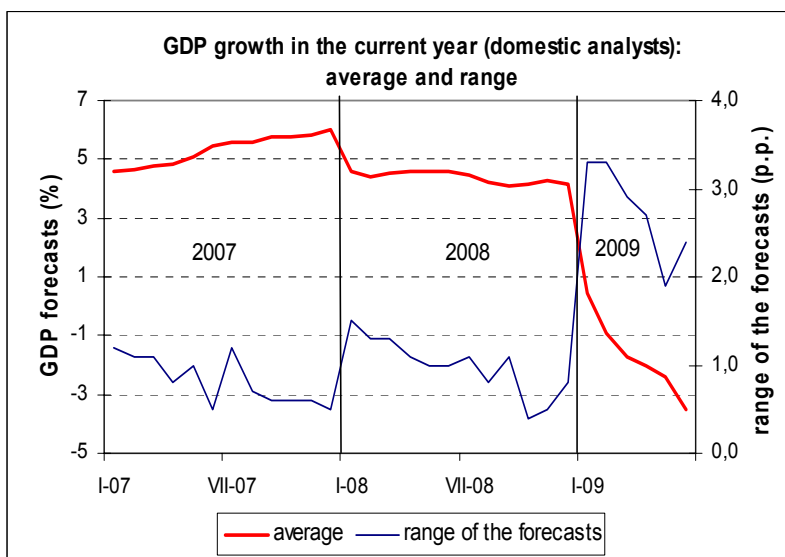
Prediction for Month of prediction	annual CPI		CNB 1 Y %
	1 Y %	3 Y %	
VI-08	3,1	2,6	2Q: 2,5
VIII-08	3,0	2,6	3Q: 2,7
X-08	2,5	2,5	
XI-08	2,2	2,5	4Q: 2,0
II-09	2,0	2,4	
IV-09	1,9	2,4	1Q: 1,4
V-09	1,9	2,5	
VI-09	1,8	2,5	2Q: 1,1



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

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



Prediction for Month of prediction	GDP growth in	
	current year	next year
%		
VI-08	4,6	4,8
VIII-08	4,3	4,2
X-08	4,2	3,2
XI-08	4,2	2,4
II-09	-0,9	1,8
IV-09	-2,2	1,2
V-09	-2,4	1,5
VI-09	-3,4	1,4

The analysts' view of the current recession in the Czech Republic worsened even further after the publication of the preliminary GDP data for Q1. GDP should decline by 3.4 % this year, a shift of a full percentage point compared to May. Although the economic downturn should be dampened by the car-scraping incentives in neighbouring states and the still relatively stable domestic consumption, the domestic recession may deepen further if the global economy fails to recover at least slightly, say the analysts. They believe that given declining sales, investment activity will remain weaker due to the current increase in spare production capacity. Household consumption will not avoid the negative effect, either. It will be burdened by tighter consumer lending standards and in particular by a decline in employment, which cannot be offset by growth in real wages. GDP should return to growth in 2010, although the pace of growth should be lower than stated in the previous survey (1.4% compared to 1.5 % in May).

3. Interest rates

VI-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.	1,25	1,25	1,88	2,08	3,30	3,40	3,80	3,80
average	1,39	1,70	2,50	2,64	3,56	3,79	4,11	4,39
max.	1,50	2,50	2,80	3,00	4,00	4,50	5,00	5,00

Although the averages of the expected 2W repo rates declined slightly, the forecasts for IRS yields shifted considerably upwards, probably owing to the current developments.

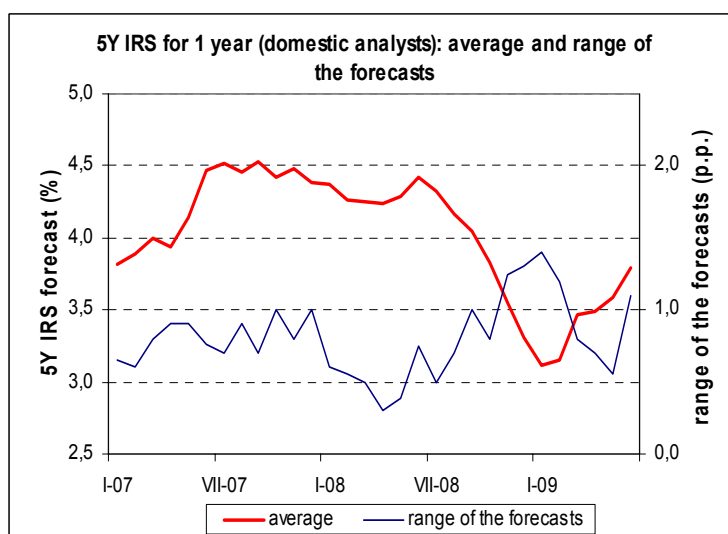
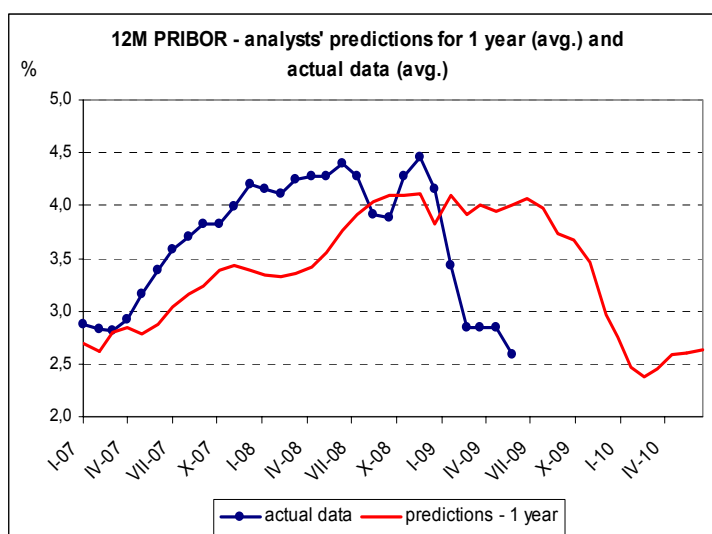
Although five of the eleven respondents expect key interest rates to be lowered at the next CNB Bank Board meeting (the remaining six analysts expect them to remain unchanged), the prevailing view is that market interest rates and IRS yields will not decline. According to the analysts, the departure of short-term money rates, i.e. the short end of the yield curve, from long-term yields, i.e. the long end of the yield curve, is due to the risk premium, the liquidity premium and the state's need to finance expanding public finance deficits.

The downside risk to interest rates due to worse economic growth turned out to be justified, since the number of analysts expecting a decline in rates was almost the same as the number expecting stability. Moreover, considerable uncertainty is seen in the koruna exchange rate, the external environment and inflation. The long end of the yield curve should depend more on yields on key foreign bonds, the risk premium and national debt financing policy.

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
	%		%		%		%	
VI-08	3,75	3,68	4,20	3,97	4,19	4,28	4,44	4,55
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
IV-09	1,64	1,77	2,79	2,59	3,26	3,49	3,77	4,06
V-09	1,50	1,80	2,62	2,60	3,28	3,58	3,79	4,10
VI-09	1,39	1,70	2,50	2,64	3,56	3,79	4,11	4,39

Actual values of indicators on the day of deadline for forecasts

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
12.6.	1,50%	2,59%	3,63%	4,10%

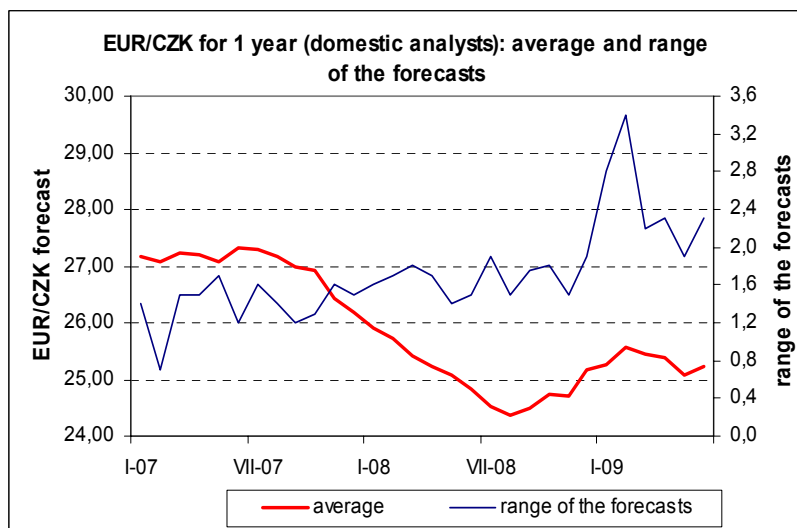


4. The exchange rate

VI-09	EUR/CZK	
	1 month	1 year
min.	26,55	24,00
average	26,93	25,50
max.	27,50	27,00

Actual exchange rate

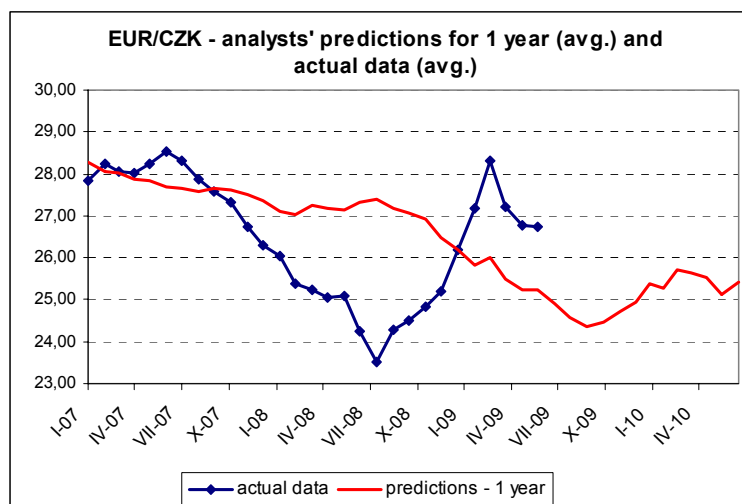
12.6.	26,65
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The consensus forecast for the exchange rate at the one-month horizon shifted negligibly towards stronger levels. However, the analysts now expect a depreciation at the one-year horizon.

Since market activity is generally lower during the summer, the analysts expect greater volatility of the koruna exchange rate in the coming months. This volatility may be augmented by dividend payments abroad. Given the less favourable fundamentals, the koruna may remain weaker in the very short run. However, it should return to an appreciation trend as time goes on. Nevertheless, a fast return to stronger levels may be limited by a lower trade surplus and a smaller inflow of foreign investment than observed until recently. The exchange rate should be around 25.50 CZK/EUR in June next year.

Prediction for Month of prediction	exchange rate	
	1 month	1 year
VI-08	25,33	25,23
VIII-08	24,31	24,36
X-08	24,90	24,72
XI-08	25,50	24,96
II-09	28,64	25,71
IV-09	27,12	25,52
V-09	26,99	25,12
VI-09	26,93	25,50

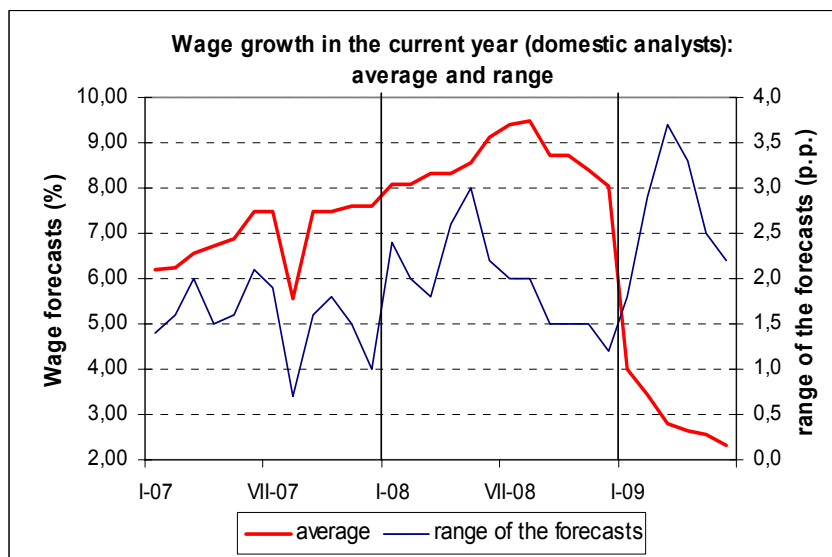


A worsening of the situation in Western Europe poses a risk to the koruna. According to the analysts, adverse developments in the EU would cast a negative light on the CEE region and the Czech economy, although this negative impact would be less severe than in some neighbouring countries. A rise in the risk premium in the event of financial instability in any of the crisis-hit countries of the region also poses a short-term risk. In the longer term, the analysts point to the tension in public finances and newly also to the outcome of the autumn parliamentary elections.

5. Wages

VI-09	Wage growth in	
	current year	next year
min	0,1	1,9
average	2,1	3,3
max	3,2	4,0

Prediction for Month of prediction	wage growth in	
	current year	next year
	%	
VI-08	8,6	7,9
VIII-08	9,4	8,2
X-08	8,8	6,7
XI-08	8,4	6,1
II-09	3,4	4,2
IV-09	2,7	3,8
V-09	2,6	3,6
VI-09	2,1	3,3



The downward shift in the GDP outlook was inevitably reflected in the developments expected on the labour market. The analysts expect lower nominal wage growth this year and the next. Compared to the previous survey, a more sizeable slowdown is apparent this year (from 2.6 % in May to 2.1 % in June). The growth rate of wages for next year declined from 3.6 % to 3.3 %. The forecasts for wage growth in the business sector and the non-business sector are also less optimistic. Wages in the business sector should increase by just 1.2 % in 2009 and pick up slightly to 2.8 % in 2010. According to the analysts, tight public sector finances will cause wage growth in the non-business sector to slow from 3.6 % this year to just 2.0 % next year.

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

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