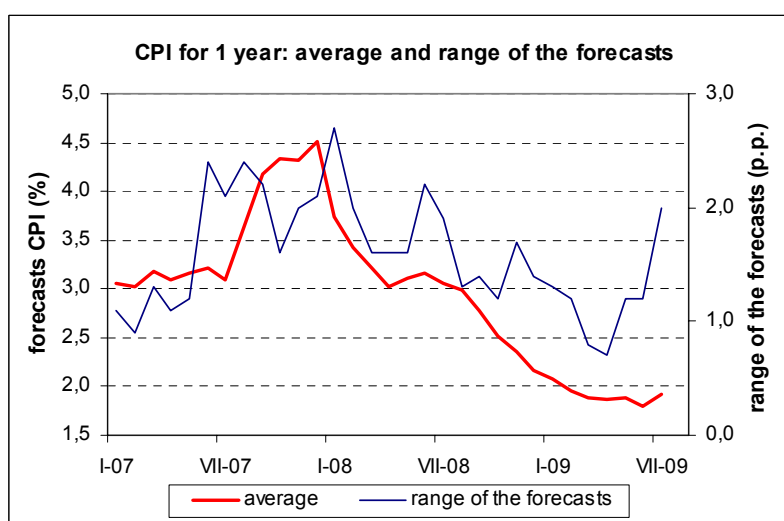


Measuring financial market inflation expectations – Results of the 123th Measurement (July 2009)

Eight domestic and one foreign analyst sent in their predictions for inflation and other indicators to the CNB's July survey. The expected growth rate of consumer prices increased slightly compared to the previous survey. The expected decline in GDP for this year was unchanged, but GDP growth is expected to be slightly lower next year. Five of the nine analysts expect interest rates to be lowered at the August monetary policy meeting of the CNB Bank Board. The other four analysts expect no change. However, an upward shift is expected at the longer end of the yield curve at the one-year horizon. Following a temporary depreciation, the koruna's exchange rate is expected to return to an appreciation scenario at the end of 2009 and particularly in the first half of 2010.

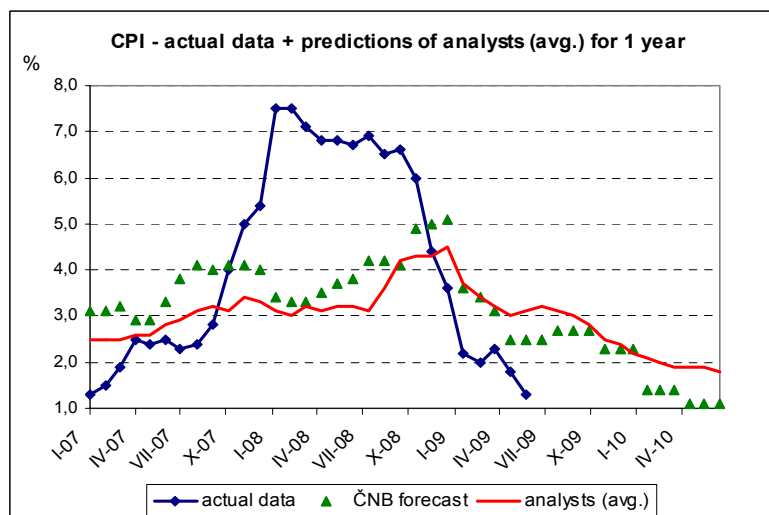
1. Inflation

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



The inflation forecast increased slightly at both the one-year and three-year horizons. Owing to base effects, annual inflation is expected to be close to zero in the coming months. A weaker koruna and oil prices are expected to push inflation subsequently above 1%. According to the analysts, weaker-than-expected aggregate demand might act in the opposite direction, i.e. towards lower inflation. The range of the forecast increased rapidly at the one-year horizon owing to a rise in the maximum value. By contrast, it narrowed at the three-year horizon due to a rise in the minimum forecast.

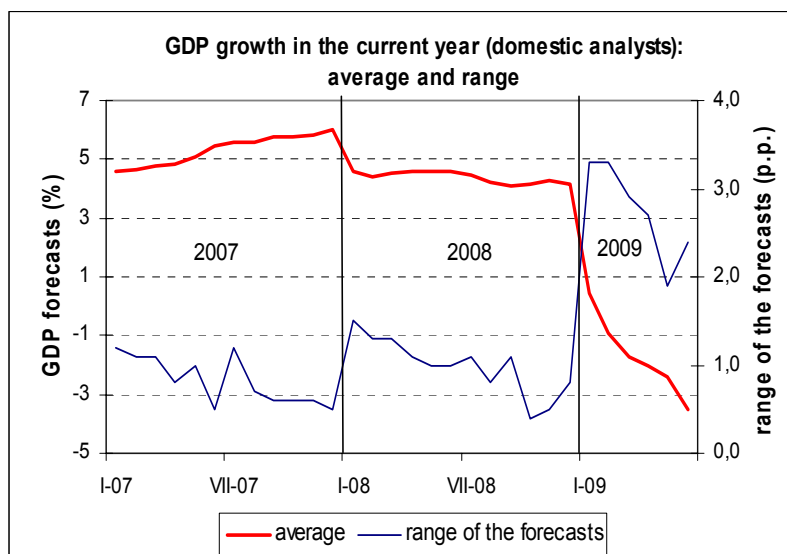
Prediction for Month of prediction	annual CPI		ČNB 1 Y %
	1 Y %	3 Y %	
VI-08	3,1	2,6	2Q: 2,5
VIII-08	3,0	2,6	3Q: 2,7
X-08	2,5	2,5	
XI-08	2,2	2,5	4Q: 2,0
II-09	2,0	2,4	
IV-09	1,9	2,4	1Q: 1,4
V-09	1,9	2,5	
VI-09	1,8	2,5	2Q: 1,1



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 extent of the fall in GDP in the Czech Republic this year remained unchanged. The domestic economy is expected to shrink by 3.4%. The forecast for next year decreased slightly.

The analysts regard weakness on major sales markets in Western Europe, especially Germany, as the key negative factor that will burden the domestic economy. Weaker exports are affecting industrial production. Investment activity (not only in the construction sector) is being dampened by lower demand and also by poor access to funds. The so far minor decline in household consumption was surprising. According to the analysts, this trend is unsustainable. Given the rise in unemployment, the only slight increase in real wages and tighter credit conditions, the analysts expect a greater decline in household consumption to set in. GDP is expected to rebound in 2010, although the rate of growth is again expected to be lower than in the previous survey (1.3% compared to 1.4% in June).

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

3. Interest rates

Interest rates and IRS yields mostly declined at the one-month horizon, while showing the opposite trend at the one-year horizon.

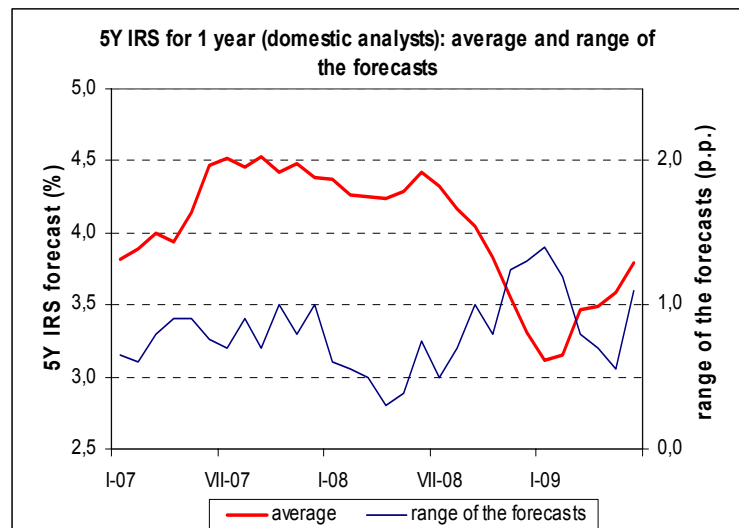
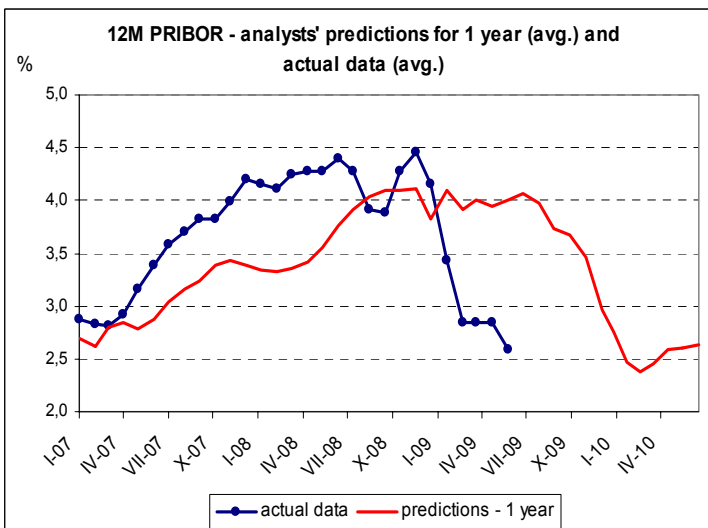
Five of the nine respondents expect key interest rates to be lowered by 25 basis points at the next CNB Bank Board meeting. The remaining analysts expect no change. The analysts concede that money market rates might decline slightly in the near future. However, stability is expected for the rest of this year, while growth is projected for IRS yields at the one-year horizon. The lower forecast for IRS yields at the one-month horizon is probably due to a decline in the actual current figures compared to the previous survey period (i.e. June 2009).

The downside risk to key interest rates still consists in worse-than-expected economic developments and a steeper decline in inflation. By contrast, there is an upward risk to IRS yields due to the need to cover the dramatically growing public finance deficits both in the Czech Republic and abroad.

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%

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

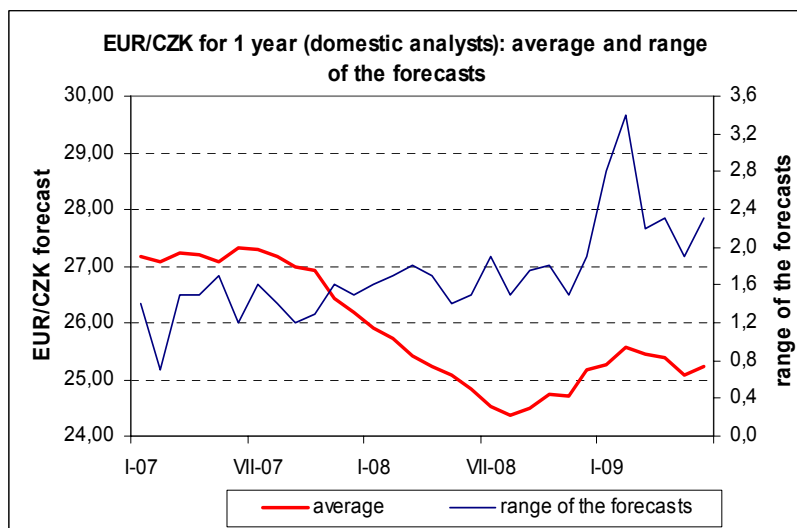


4. The exchange rate

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

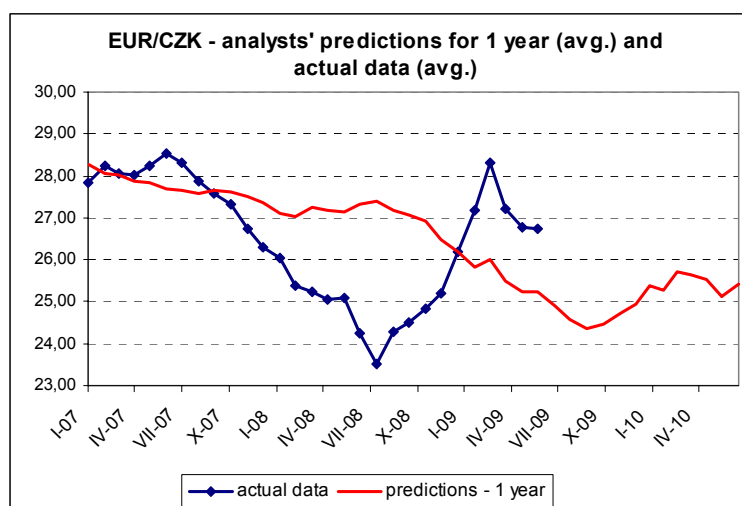
12.6.	26,65
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The overall forecast for the exchange rate shifted towards stronger levels at both the one-month and one-year horizons. The shift was less pronounced at the one-year horizon. The main factor underlying this correction is also probably the current appreciation of the exchange rate, which moved below CZK 26.00/EUR.

The analysts still believe that the holiday mood and lower business activity will increase the volatility of the koruna's exchange rate during the summer months. Weaker macroeconomic data, lower FDI inflows, the wait for economic stabilisation and technical factors should, given the one-month expectations, lead to a depreciation of the current rate. However, the macroeconomic data are expected to improve, risk aversion is expected to decrease and the sentiment about the region is expected to improve in H2, particularly towards the end of the year. The return to the convergence scenario is expected to move the exchange rate subsequently to CZK 25.25/EUR.

Prediction for Month of prediction	exchange rate EUR/CZK	
	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

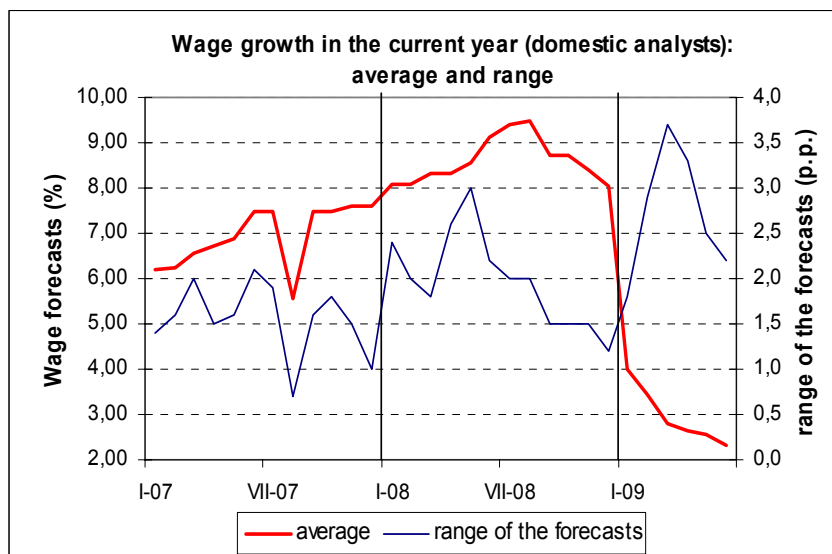


The analysts still consider developments in the EMU to be a risk that might cause the koruna to depreciate. A steeper decline in European economies would, of course, negatively affect the Czech Republic and its currency. Similarly, it still applies at the shorter horizon that an escalation in the problems of any of the CEE countries might dramatically increase aversion to the region. This might lead to a sell-off of local currencies. The analysts point to tensions in public finances at the longer horizon, tensions which, moreover, are definitively preventing adoption of the euro in the near future. According to the analysts, the autumn parliamentary elections might also be viewed negatively. Many of the promised spending plans are regarded by investors as unfinanceable in the long term and would have an adverse impact on public finances. By contrast, a faster economic recovery and/or a dramatic rise in optimism on world financial markets, a decline in risk aversion and greater interest in "riskier" investments in the region would result in a faster return to the convergence scenario, or a sharper appreciation.

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



Although the GDP outlook for 2009 was no better and conditions on the labour market are still getting more difficult, the consensus forecast for wage growth for 2009 paradoxically increased compared to the previous survey, from 2.1% to 2.3%. However, this is due to a technical factor, since one very low estimate is missing from this survey. The forecast for 2010 remained unchanged at 3.3%.

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

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