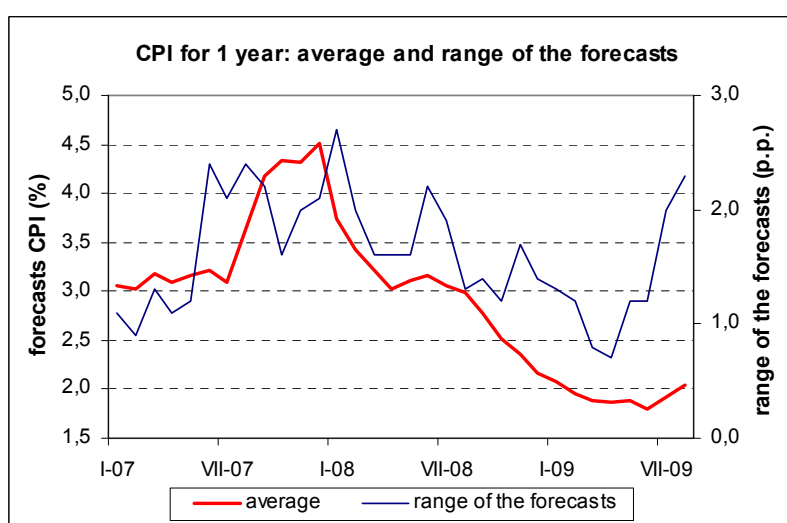


Measuring financial market inflation expectations – Results of the 124th Measurement (August 2009)

Six domestic and one foreign analyst sent in their predictions for inflation and other indicators to the CNB's August survey. The expected increase in the price level rose somewhat compared to July at both the one-year and three-year horizons. Although the expected fall in economic growth remained unchanged this year, the outlook for next year is slightly more optimistic. The change in expected money interest rates and IRS yields is ambiguous. The forecast for the exchange rate has shifted towards stronger levels at both the one-month and one-year horizon. Despite the escalating tensions on the labour market, the analysts predict a marginal increase in wage growth this year and the next. However, when analysing the survey results, it is important to bear in mind that the August shift in some forecasts may be due to some extent to the relatively small number of analysts participating in the survey during the summer holidays.

1. Inflation

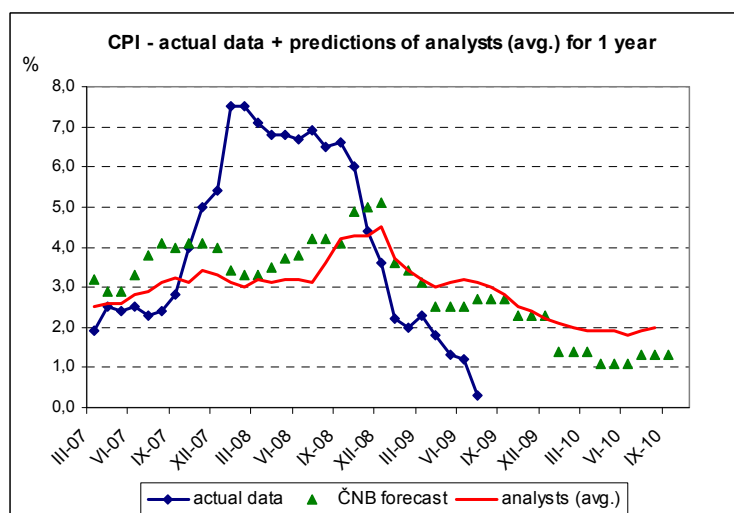
VIII-09	annual CPI (%)	
	1 year	3 years
min.	1,2	2,0
average	2,0	2,7
max.	3,5	4,0



Unlike the actual decline in the consumer price index in July, the inflation forecast moved upwards again at both the one-year and three-year horizons. This shift is due to an increase in the foreign analyst's forecast, since the growth rate of the price level expected by the set of domestic analysts remained unchanged at both horizons.

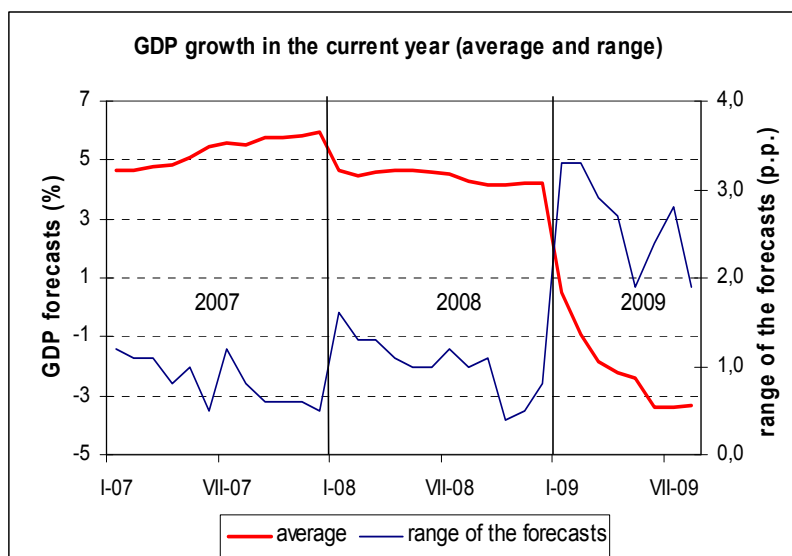
The slowdown in inflation – due to base effects, weaker aggregate demand and the second-round effects of lower prices of raw materials – is expected to subside gradually. According to the analysts, the effects of the weaker koruna and the rise in oil prices from around USD 35 a barrel (at the start of this year) to above USD 70 a barrel will gradually prevail. Inflation is thus expected to reach the CNB's new inflation target of 2% at the one-year horizon. The range of the forecasts widened at the one-year horizon due to an increase in the maximum estimate, while remaining unchanged at the three-year horizon.

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



2. Gross domestic product

VIII-09	GDP growth in	
	current year	next year
min	-4,7	1,1
average	-3,4	1,6
max	-2,8	2,0



Prediction for Month of prediction	GDP growth in	
	current year	next year
	%	
VII-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
VII-09	-3,4	1,3
VIII-09	-3,4	1,6

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%. However, optimism prevailed for next year and the average forecast shifted upwards.

The effect of car-scraping incentives, which have been boosting Czech industry and exports since February 2009, will slowly subside. According to the analysts, weaker car exports should therefore be seen in the remainder of 2009. This will have an impact in the form of a negative contribution to GDP growth in 2009 Q3 and Q4. Nevertheless, a more sustained recovery is expected next year based on rising external demand, temporary foreign and domestic fiscal stimuli, the koruna's easy exchange rate and lower key interest rates. However, according to the analysts, the risk to future economic growth, which depends to a large extent on external demand, is skewed towards lower dynamics.

3. Interest rates

VIII-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	1,50	2,35	2,30	3,40	3,70	3,70	4,20
average	1,25	1,86	2,39	2,66	3,44	3,88	3,85	4,43
max.	1,25	2,50	2,45	3,20	3,50	4,40	3,90	4,80

The movements in the forecasts for interest rates and IRS yields are ambiguous compared to the previous survey. Money rates saw a slight decline, with the exception of the expected 2W repo rate at the one-year horizon. Compared to the July survey, none of the respondents expects the 2W repo rate to stand below 1.50% at the one-year horizon. They thus expect key interest rates to return gradually to around 2% next year. Some expect the monetary policy tightening to start in autumn this year.

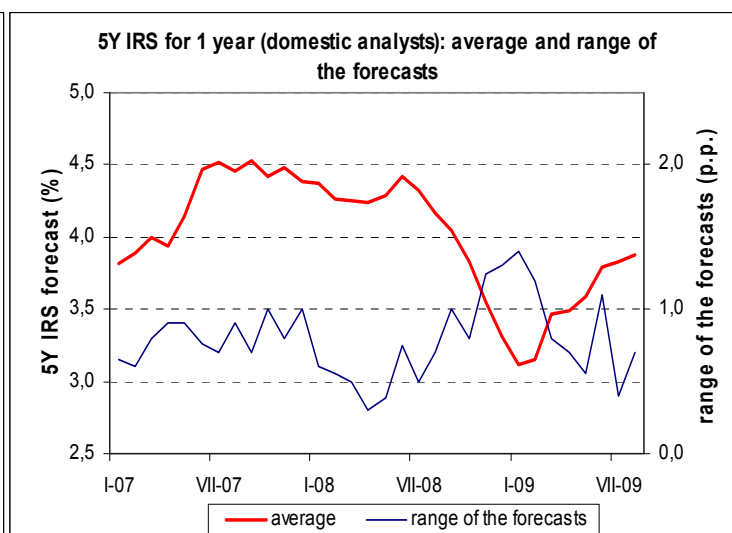
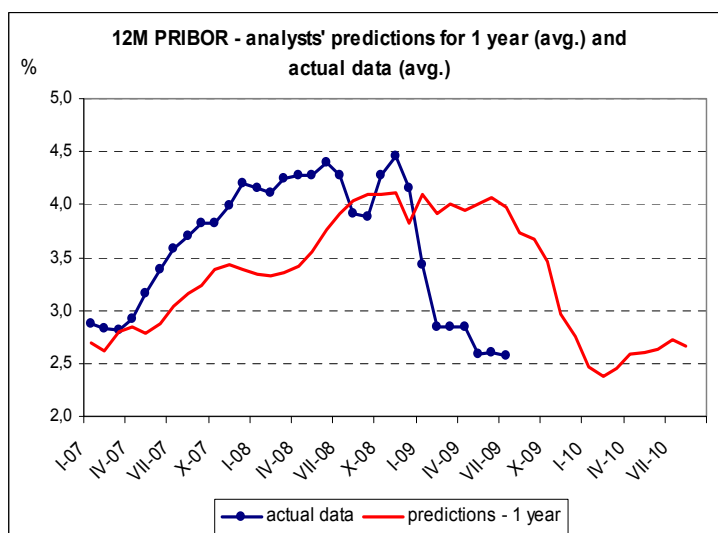
The forecasts for 5Y IRS yields shifted upwards slightly, while those for 10Y IRS yields declined somewhat. The prevailing view among the analysts is that they will gradually increase compared to their current values.

After the easing of monetary policy by the CNB in August, the analysts consider the probability of a lowering of key interest rates to be very small. Particular attention will now be devoted to the timing and degree of the tightening of monetary policy. The public finance deficit remains the dominant risk to yields. The size of the deficit will be very difficult to minimise before the upcoming elections, according to the responses.

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
	%		%		%		%	
VII-08	3,83	3,79	4,32	4,07	4,59	4,42	4,78	4,65
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
VII-09	1,36	1,69	2,53	2,73	3,40	3,83	3,87	4,48
VIII-09	1,25	1,86	2,39	2,66	3,44	3,88	3,85	4,43

Actual values of indicators on the day of deadline for forecasts

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
13.8.	1,25%	2,42%	3,48%	3,86%

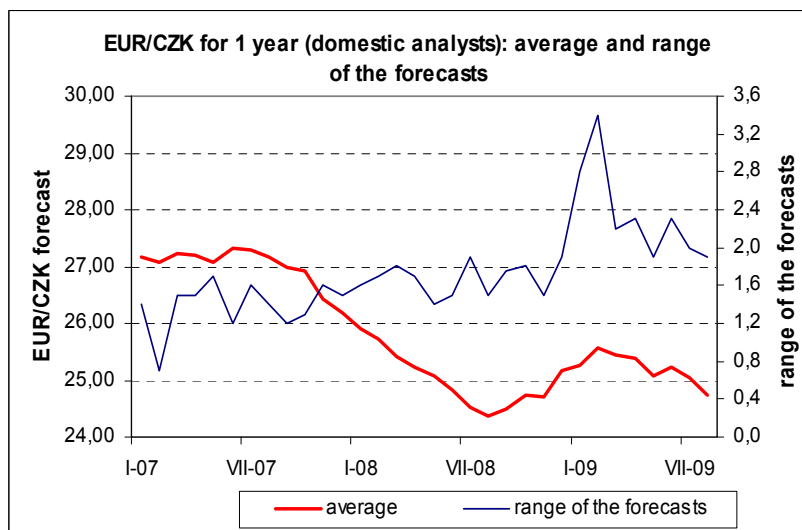


4. The exchange rate

VIII-09	EUR/CZK	
	1 month	1 year
min.	25,40	23,70
average	26,07	25,05
max.	26,50	27,00

Actual exchange rate

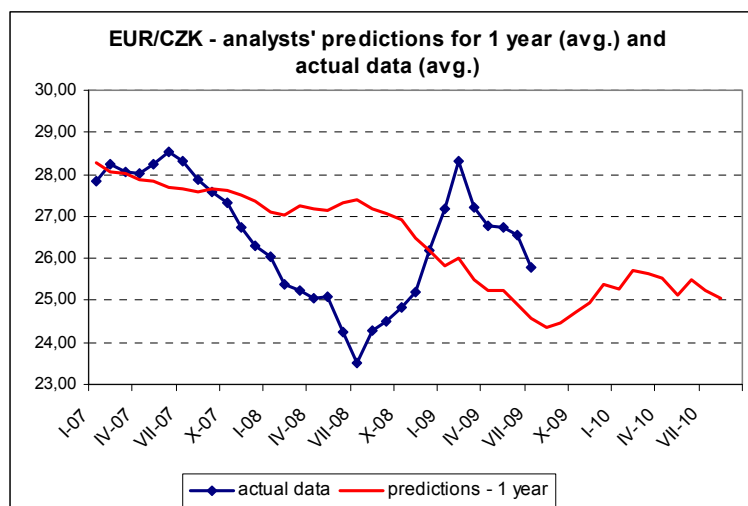
13.8.	25,74
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The average forecast for the exchange rate shifted towards stronger levels at both the one-month and one-year horizons. The main factor underlying this change will probably again be the current appreciation of the exchange rate, which moved to CZK 25.74/EUR.

The monthly forecast (just above CZK 26/EUR) is weaker than the current exchange rate. The analysts believe that the current gains of the koruna against the euro are not justified by the fundamentals, since the economy is not showing clear signs of a sharp recovery. According to the analysts, the current appreciation is due to optimistic market sentiment, and that sentiment tends to be volatile. A sudden sale of risky assets might result in an even sharper short-term weakening of the koruna than currently expected.

Prediction for Month of prediction	exchange rate	
	1 month	1 year
VII-08	24,85	24,90
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
VII-09	26,32	25,25
VIII-09	26,07	25,05

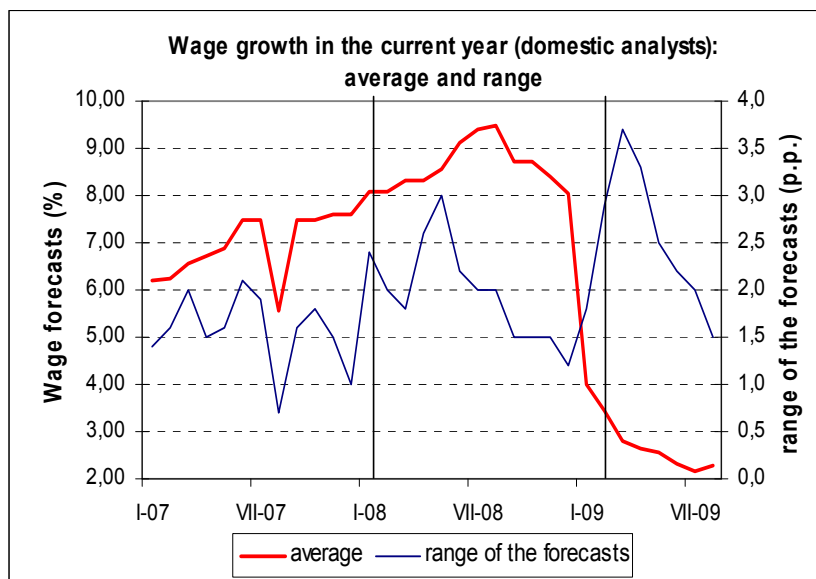


A fundamentally justified appreciation is expected to occur at the end of this year and the start of the next. Nevertheless, the speed and strength of the recovery in export markets and the effect of monetary and fiscal stimuli will play a major role.

5. Wages

VIII-09	Wage growth in	
	current year	next year
min	1,5	3,0
average	2,4	3,4
max	3,0	4,0

Prediction for Month of prediction	wage growth in	
	current year	next year
	%	
VII-08	9,1	8,0
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
VII-09	2,3	3,3
VIII-09	2,4	3,4



Although the analysts do not expect improvements in labour market conditions, or a decline in unemployment, the consensus forecast for wage growth this year and the next increased slightly. Wages are expected to rise on average by 2.4% in 2009 and 3.4% in 2010. In both cases, this represents a shift of 0.1 percentage point (see the table above).

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

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