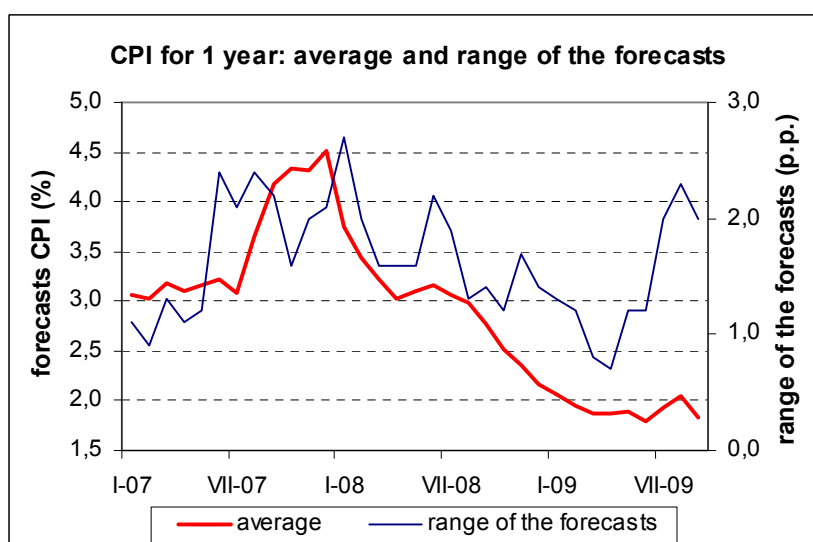


Measuring financial market inflation expectations – Results of the 125th Measurement (September 2009)

Seven domestic and one foreign analyst sent in their predictions for inflation and other indicators to the CNB's September survey. The expected increase in the price level recorded a decline compared to August at both the one-year and three-year horizons. A revision to the decline in GDP in Q2 was the probable cause of the deepening economic decline expected by the analysts this year. By contrast, the economy is expected to develop more favourably next year. Although no analyst expects a change in key interest rates at the CNB Bank Board's meeting in September, there was a view that key rates might be eased once again in November. The one-year forecasts for short-term interest rates and IRS yields shifted mostly downwards. The expected development of the koruna against the euro is still probably being affected by the current appreciation of the exchange rate. Although the forecast for wage growth for this year recorded a slight increase, the analysts predict that the current unfavourable economic conditions will show up more on the labour market next year.

1. Inflation

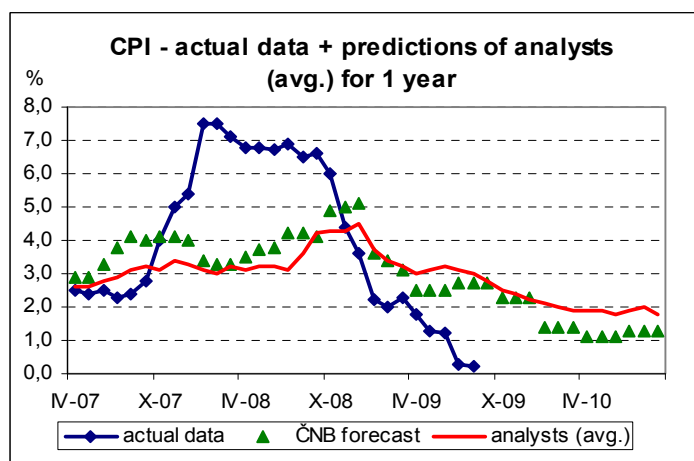
IX-09	annual CPI (%)	
	1 year	3 years
min.	1,3	1,9
average	1,8	2,5
max.	3,3	4,0



Following a slight increase in August, the inflation forecast edged down again in September at both the one-year and three-year horizons.

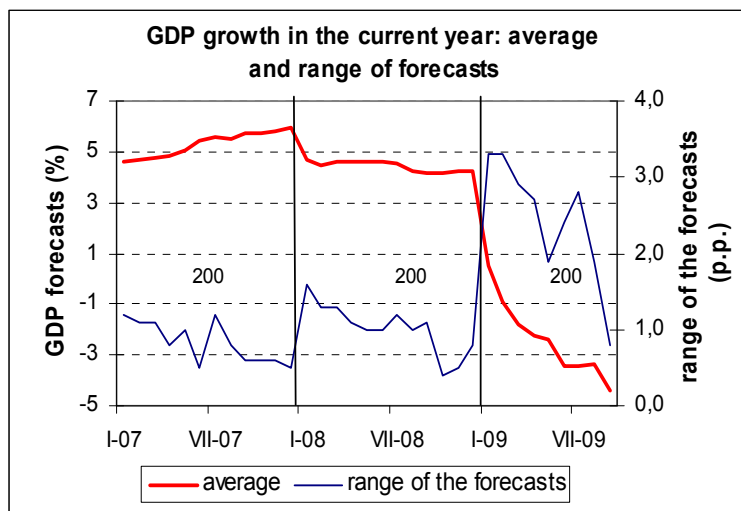
According to the analysts, the consumer price index is expected to be close to zero in the coming months. Inflation is expected to increase gradually after base effects subside and the domestic economy rebounds. However, inflation will be moderated by the second-round effects of low commodity prices. At the one-year horizon, the growth rate of the price level is expected to remain below the CNB's new inflation target, at about 1.8%. At the three-year horizon, inflation is expected to be around 2.5%. While the range of the one-year forecasts narrowed due to an increase in the minimum value and a decline in the maximum value, that of the three-year forecasts widened slightly due to a decline in the minimum value.

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



2. Gross domestic product

IX-09	GDP growth in	
	current year	next year
min	-4,8	1,3
average	-4,4	1,9
max	-4,0	3,0



Prediction for Month of prediction	GDP growth in	
	current year	next year
	%	
IX-08	4,2	3,9
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
IX-09	-4,4	1,9

According to the survey, the decline in GDP is expected to be significantly higher than forecasted in August. According to the consensus forecast, the performance of the domestic economy will drop by 4.4% year on year. The lowering of the estimate for the domestic economy was probably due mainly to a revision to the decline in GDP for Q2. However, the outlook for next year is more favourable. The economy is thus expected to grow by 1.9%.

A revision to household consumption and the unfavourable situation on the labour market determine its weaker contribution to GDP growth in the remainder of this year. Low production capacity utilisation does not offer good conditions for fast growth in investment activity, either. Moreover, the termination of car-scraping payments abroad will dampen external demand. A gradual sustained recovery based on external demand and lower key interest rates is expected to be seen next year. However, the risk associated with the future evolution is skewed towards lower domestic economic growth due to uncertainties regarding the sustainability of growth in external demand.

3. Interest rates

IX-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	2,35	2,30	3,30	3,50	3,70	4,00
average	1,25	1,69	2,39	2,69	3,44	3,86	3,81	4,29
max.	1,25	2,50	2,45	3,25	3,55	4,45	3,90	4,80

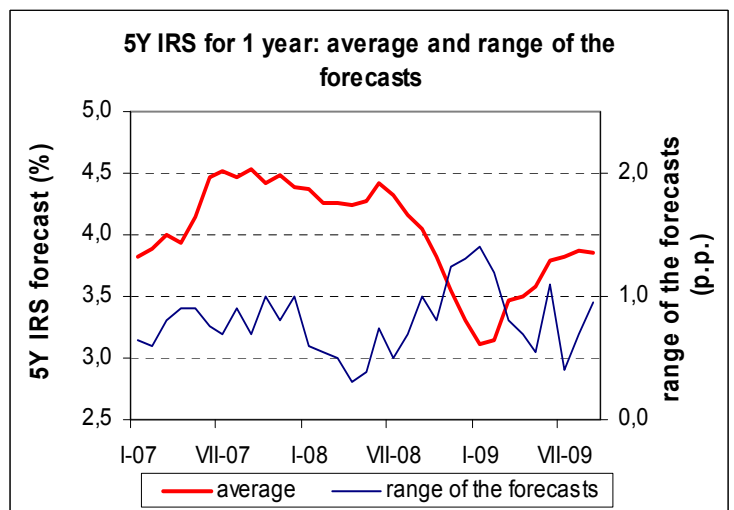
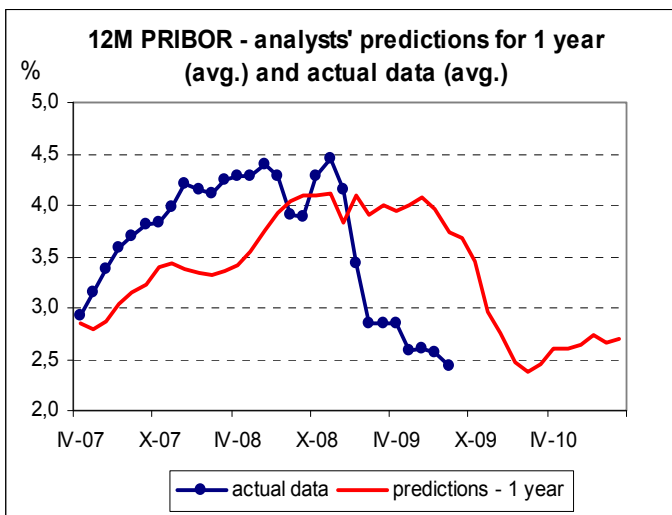
The analysts expect stable interest rates and IRS yields at the short, one-month, horizon. All eight respondents expect the CNB Bank Board to leave key interest rates unchanged at the September meeting (at 1.25%). Most analysts believe that key interest rates have reached their bottom. However, there was also a view that due to worse macroeconomic data and a stronger koruna, the Bank Board might lower rates once again in November after the new CNB forecast has been submitted. According to the analysts, the expected tightening of monetary policy is being postponed to mid-2010. The average forecasts for money rates and IRS yields were lowered slightly at the one-year horizon, with the exception of the 12M PRIBOR, the forecast for which increased somewhat.

The consideration of a further easing of monetary policy and the postponement of the expected tightening of monetary policy tilts the risk to future rates towards the downside. The public finance deficit remains the dominant risk for yields. The analysts also perceive more sensitively the political risk, or the uncertainty, regarding whether, after the cancellation of early elections, the caretaker government will have a sufficiently strong mandate to rein in public finances.

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
	%		%		%		%	
IX-08	3,44	3,19	3,79	3,68	3,75	4,04	4,04	4,32
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
IX-09	1,25	1,69	2,39	2,69	3,44	3,86	3,81	4,29

Actual values of indicators on the day of deadline for forecasts

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
14.9.	1,25%	2,42%	3,47%	3,85%

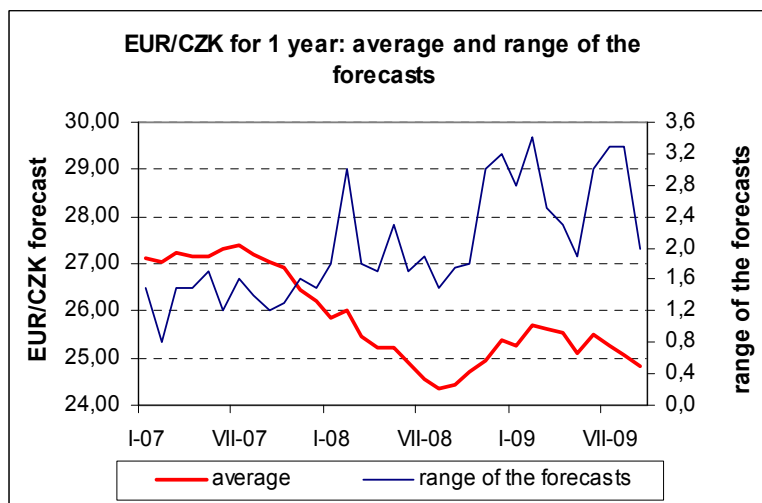


4. The exchange rate

IX-09	EUR/CZK	
	1 month	1 year
min.	25,00	24,00
average	25,48	24,84
max.	25,80	26,00

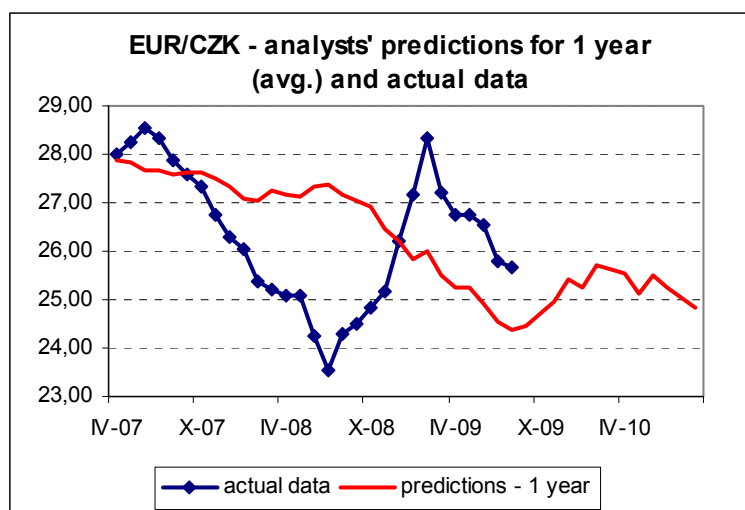
Actual exchange rate

14.9.	25,46
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Owing to the current appreciation of the actual exchange rate of the koruna, which has strengthened by almost 30 hellers since the last survey, the average forecasts are being corrected towards stronger levels. This goes for both horizons (one-month and one-year), although a more pronounced shift is observed at the one-month horizon. According to the analysts, the strong appreciation of the koruna is due to a rapid decline in risk aversion, which stems from signs of a recovery in the global economy, in particular the US economy. Although some analysts believe that there will be a correction towards weaker levels, it should not be as large as previously expected. The exchange rate of the koruna is expected to maintain the scenario of a long-term slight appreciation at the longer horizon.

Prediction for Month of prediction	exchange rate EUR/CZK	
	1 month	1 year
IX-08	24,85	24,45
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
IX-09	25,48	24,84

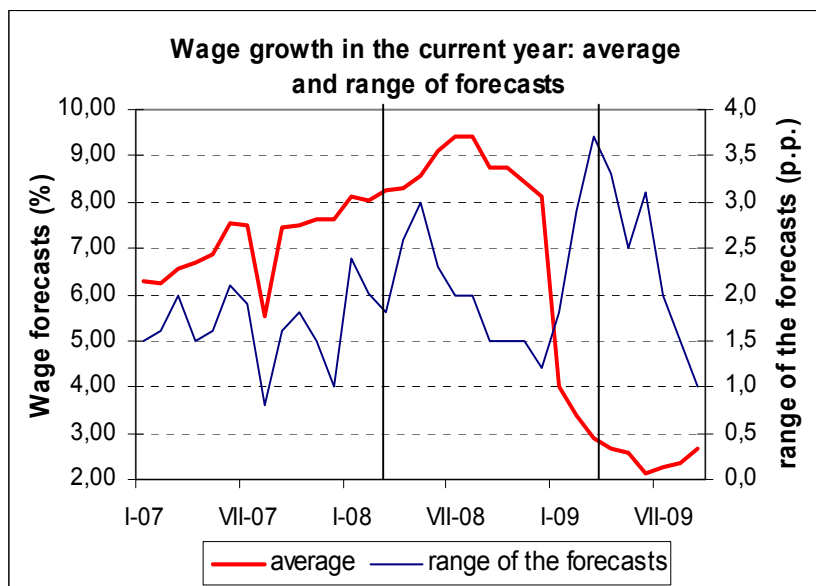


The risk of the consensus forecast is skewed towards weaker levels. According to the analysts, the optimism on the financial market is excessive and the recovery of the global economy very slow and fragile. It is not clear whether economies hit by the crisis will return to robust and sustainable economic growth after the effect of the car-scraping incentives subsidies. Moreover, domestic political risk is gaining importance, which might also weaken the domestic currency.

5. Wages

IX-09	Wage growth in	
	current year	next year
min	2,0	2,0
average	2,7	2,7
max	3,0	4,0

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



Although the analysts expect a further deterioration of the labour market situation, the forecast for wage growth this year was again shifted upwards. The forecast for wage growth was increased in both the business and non-business sectors (to 2.4% and 4.3% respectively). The worse economic prospects will show up next year, when the rate of wage growth will be lower than forecasted by the analysts in August. Wages in the business and non-business sectors are expected to rise by 2.3% and 1.5% respectively in 2010.

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

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