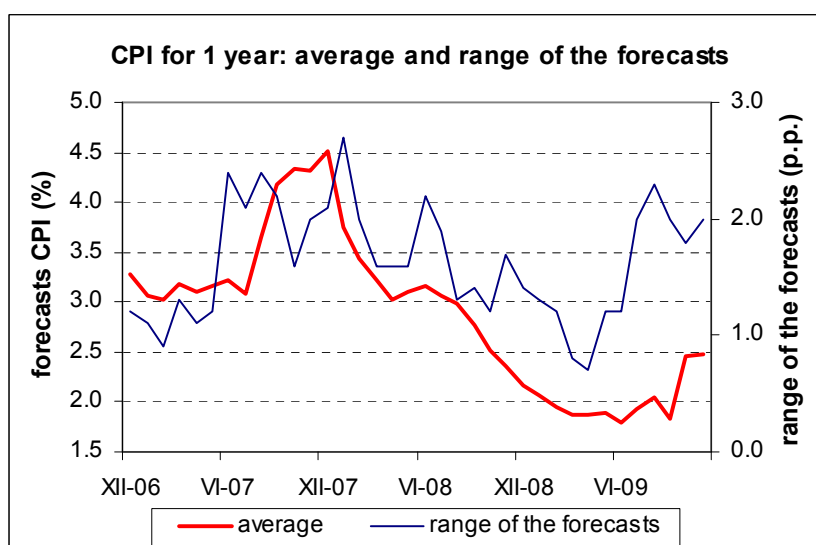


Measuring financial market inflation expectations – Results of the 127th Measurement (November 2009)

Nine domestic and one foreign analyst sent in their predictions for inflation and other indicators to the CNB's November survey. The consensus inflation forecast remained unchanged at both the one-year and three-year horizons. The expected decline in GDP this year should be slightly smaller than forecasted by the analysts in the October survey. There was a slight gradual decline in the case of PRIBOR rates and IRS yields, while the forecast for the 2W repo rate increased somewhat. Compared to the previous survey, the number of respondents that expect the 2W repo rate to fall at the one-month horizon dropped to two. The remaining eight analysts expect key rates to remain at the current level. The forecasts for the exchange rate were slightly shifted towards stronger levels. Nominal wages are expected to grow somewhat faster this year but more weakly next year.

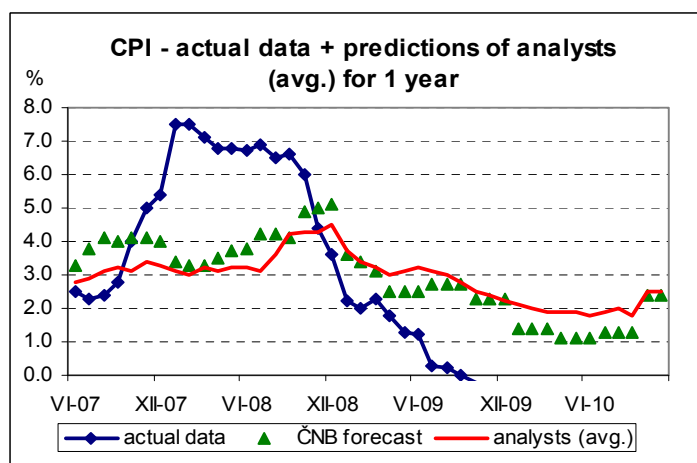
1. Inflation

XI-09	annual CPI (%)	
	1 year	3 years
min.	1.5	2.0
average	2.5	2.5
max.	3.5	4.0



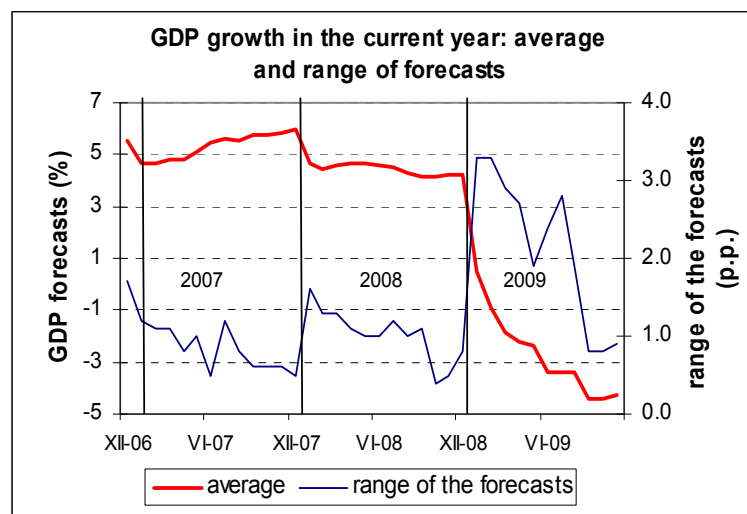
The expected increase in the price level at the one-year horizon remained unchanged compared to the previous survey, standing at 2.5% at both the one-year and three-year horizons. The analysts expect the current deflation to turn into gradually rising inflation in the coming months. This should be fostered by fading base effects, the recent temporary depreciation of the koruna's exchange rate and, in particular, growth in prices of commodities, especially oil, stemming from confidence in an approaching global economic recovery. However, given the weak domestic economy, the transmission of the above factors into inflation will not be as pronounced as has been usual in recent years. Tax changes are an upside risk to inflation, although according to the analysts the magnitude of the second-round effects on inflation should not be dramatic. While the range of the one-year forecasts widened slightly due to an increase in the maximum estimate, that of the three-year forecasts narrowed somewhat owing to a rise in the minimum value.

Prediction for Month of prediction	annual CPI		CNB 1 Y %
	1 Y %	3 Y %	
XI-08	2.4	2.5	4Q: 2,0
I-09	2.1	2.4	1Q: 1,4
II-09	2.0	2.4	
IV-09	1.9	2.4	2Q: 1,1
VI-09	1.8	2.5	
VIII-09	2.0	2.7	3Q: 1,1
X-09	2.5	2.5	
XI-09	2.5	2.5	4Q: 2,4



2. Gross domestic product

XI-09	GDP growth in	
	current year	next year
min	-4.9	0.8
average	-4.3	1.6
max	-4.0	2.5



Prediction for Month of prediction	GDP growth in	
	current year	next year
	%	
XI-08	4.2	2.4
I-09	0.5	2.5
IV-09	-2.2	1.2
VI-09	-3.4	1.4
VIII-09	-3.4	1.6
IX-09	-4.4	1.9
X-09	-4.4	1.6
XI-09	-4.3	1.6

The forecast for a decline in GDP this year changed only minimally compared to the previous survey. According to the current consensus forecast, domestic economic output should decrease by 4.3% year on year in 2009. The estimate may be adjusted further following the publication of the economic growth structure for Q3 in December. The outlook for next year remains the same. According to the analysts, the Czech economy should grow by 1.6% next year.

An improvement in the domestic economic situation is already being signalled by leading indicators. According to the analysts, the assumption of a return to GDP growth next year is based to some extent on an improvement in the contribution of changes in inventories (a large contribution of inventories to the decline in GDP was recorded in 2009 Q1 and Q2). Net exports are also expected to improve slightly. Given the still severe strains on the labour market, household consumption is expected to stagnate, while weak external demand and a high level of unused production capacity will continue to exert downward pressure on fixed investment.

3. Interest rates

XI-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.	1.00	1.25	2.05	2.30	3.10	3.50	3.50	3.80
average	1.20	1.70	2.31	2.57	3.20	3.65	3.64	4.08
max.	1.25	2.50	2.40	3.00	3.30	3.80	3.70	4.30

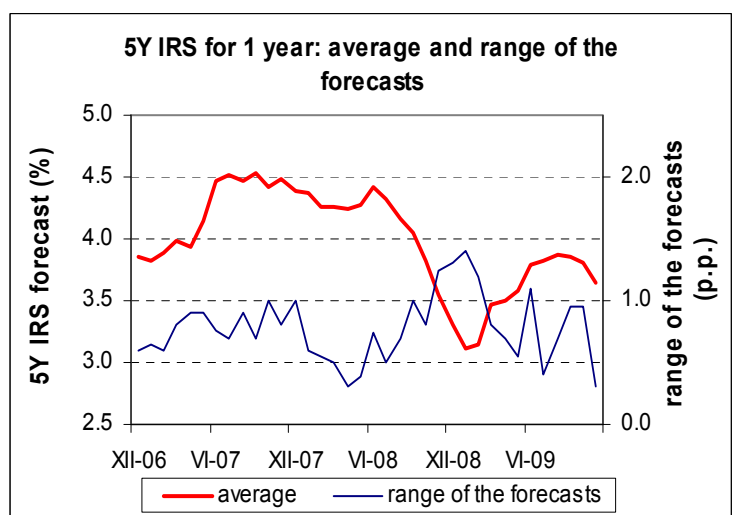
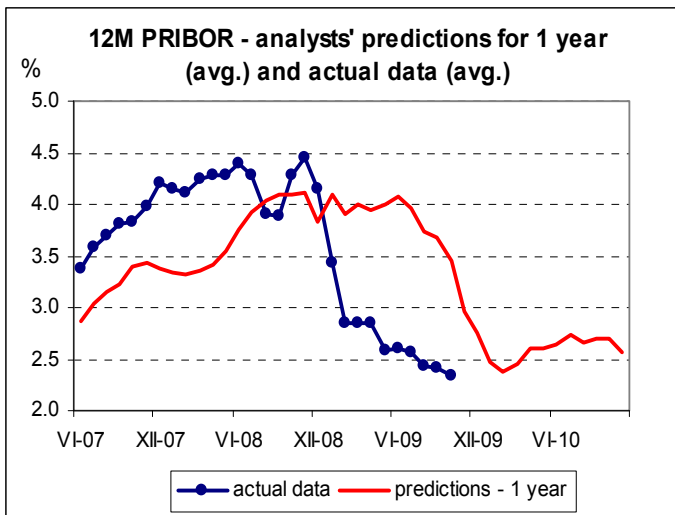
The forecasts for PRIBOR rates and IRS yields decreased considerably compared to the previous survey at both the one-month and the one-year horizons. The only exception was the 2W repo rate at both monitored time horizons, which by contrast increased. The narrowing of the spread between the expected 12M PRIBOR and the 2W repo rate may indicate, among other things, a decline in the expected risk premium. Compared to October, the number of analysts expecting key interest rates to decline at the one-month horizon dropped to two. The remaining eight respondents believe that rates will remain unchanged at the December monetary policy meeting of the CNB Bank Board.

Monetary policy rates are expected to rise by 45 basis points at the one-year horizon. According to the analysts, a surprise appreciation of the koruna's exchange rate is the main risk that might foster a slower monetary policy tightening and thus a more moderate than expected rise in short-term rates. The question of monetary transmission also remains unanswered. In the event of a high risk premium persisting on the market (weakening the monetary policy transmission effect), the analysts admit the possibility of a slower increase in key interest rates.

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
	%		%		%		%	
XI-08	2.53	2.06	4.19	2.96	3.17	3.55	3.41	4.03
I-09	1.73	1.63	3.28	2.47	2.74	3.12	3.30	3.62
IV-09	1.64	1.77	2.79	2.59	3.26	3.49	3.77	4.06
VI-09	1.39	1.70	2.50	2.64	3.56	3.79	4.11	4.39
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
X-09	1.17	1.58	2.38	2.67	3.33	3.80	3.78	4.32
XI-09	1.20	1.70	2.31	2.57	3.20	3.65	3.64	4.08

Actual indicator values as of forecast deadline

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
16.11.	1.25%	2.34%	3.18%	3.64%

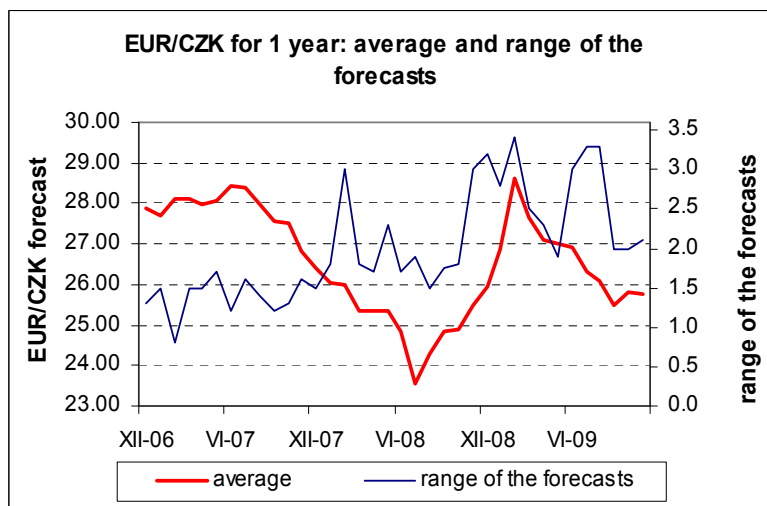


4. The exchange rate

X1-09	EUR/CZK	
	1 month	1 year
min.	25.50	23.90
average	25.78	24.93
max.	26.20	26.00

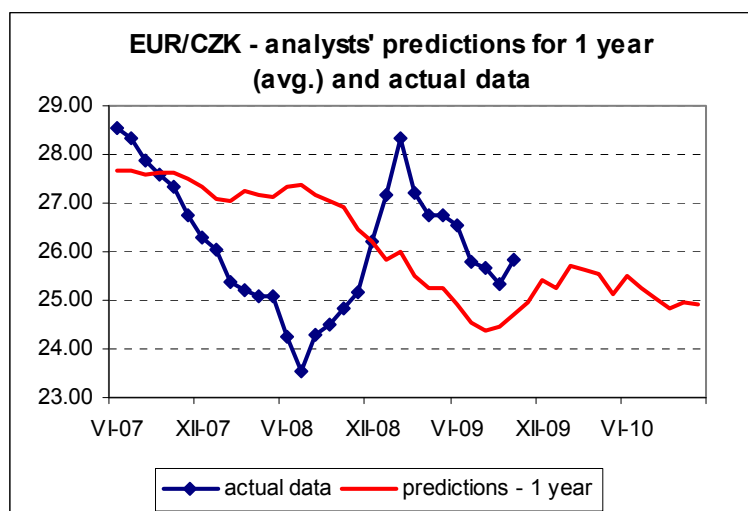
Actual exchange rate

16.11.	25.50
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Compared to the October survey, there was a slight shift in the expected exchange rate towards stronger values at both the one-month and one-year horizons. In mid-November, when the koruna's exchange rate was CZK 25.50/EUR, the analysts expected a correction to weaker levels at the one-month horizon, in some cases even beyond CZK 26/EUR. By contrast, the effect of the improving global economy stimulating Czech exports is expected to prevail at the one-year horizon and thus also foster appreciation of the koruna.

Prediction for Month of prediction	exchange rate	
	1 month	1 year
XI-08	25.50	24.96
I-09	26.86	25.26
IV-09	27.12	25.52
VI-09	26.93	25.50
VIII-09	26.07	25.05
IX-09	25.48	24.84
X-09	25.82	24.96
XI-09	25.78	24.93

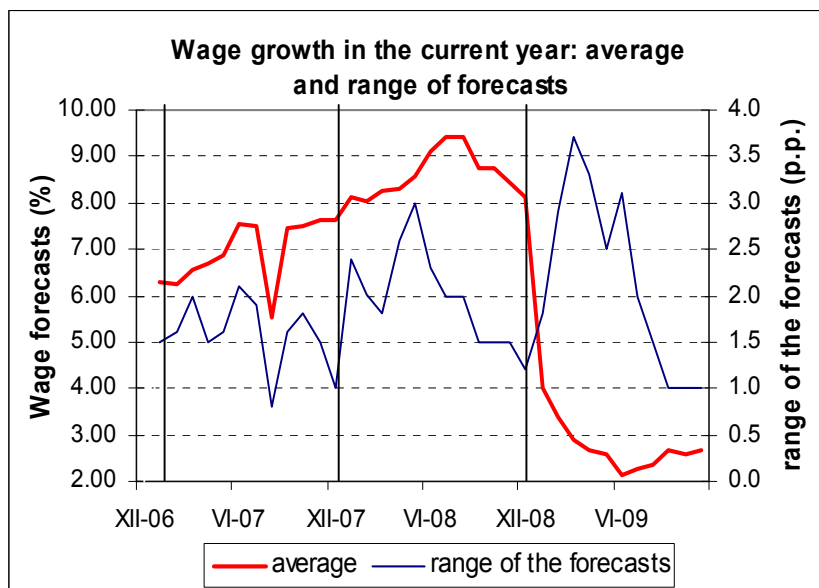


A risk of the koruna depreciating during the next half-year stems from worse developments in the world economy or a correction of the "overestimated" developments on world financial markets, which would also negatively affect the Czech koruna, for instance through an increase in risk aversion. On the other hand, if the optimism on world markets caused by the favourable corporate results for Q3 lasts for a longer period, the koruna's exchange rate may appreciate by more than currently expected on average by the analysts.

5. Wages

XI-09	Wage growth in	
	current year	next year
min	2.0	0.5
average	2.7	1.7
max	3.0	3.0

Prediction for Month of prediction	wage growth in	
	current year	next year
	%	
XI-08	8.4	6.1
I-09	4.0	4.5
IV-09	2.7	3.8
VI-09	2.1	3.3
VIII-09	2.4	3.4
IX-09	2.7	2.7
X-09	2.6	1.9
XI-09	2.7	1.7



The consensus forecast for wage growth for this year increased slightly (by 0.1 percentage point to 2.7%). On the other hand, the outlook for next year is more pessimistic than in October. According to the analysts, the weakly growing economy will not be able to offer enough jobs and the strains on the labour market will not ease. This will, of course, negatively affect nominal wage growth next year. The consensus forecast for 2010 thus fell by 0.2 percentage point to 1.7%. Although the forecasts for wage growth in the business sector remained again unchanged (at 2.4% in 2009 and 2.1% in 2010), the decline in the non-business sector moderated by 0.5 percentage point next year (+4.3% in 2009 and -2.6% 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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