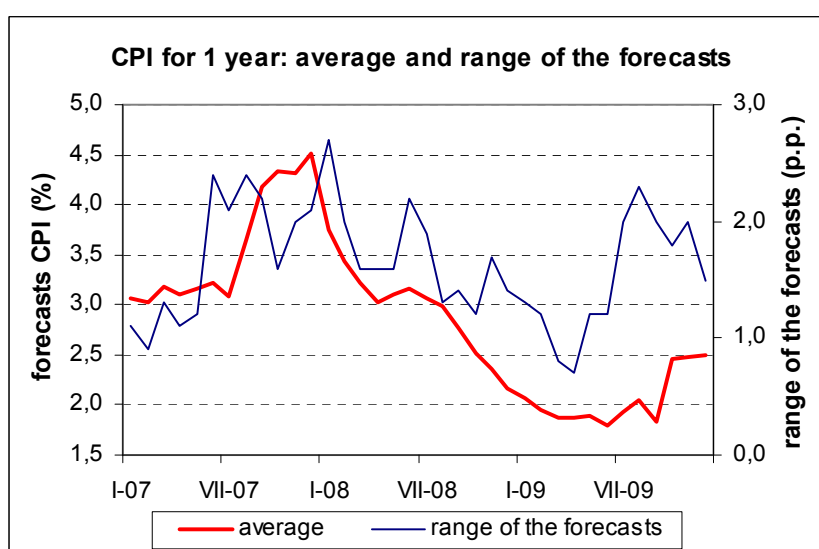


Measuring financial market inflation expectations – Results of the 128th measurement (December 2009)

Eight domestic and one foreign analyst sent in their predictions for inflation and other indicators to the CNB's December survey. The results show that the inflation forecast was unchanged at the one-year horizon and recorded a slight increase at the three-year horizon. The estimate of the GDP decline for 2009 decreased slightly, whereas the outlook for growth next year was unchanged. The forecasts for interest rates and IRS yields decreased at the very short (one-month) horizon, but at the one-year horizon the analysts are now expecting a growth trend. Following a modest short-term depreciation, the exchange rate of the koruna is expected to return to an appreciation scenario and reach slightly stronger levels at the end of next year than expected in November. As regards nominal wages, the respondents are more optimistic and expect higher growth rates this year and the next.

1. Inflation

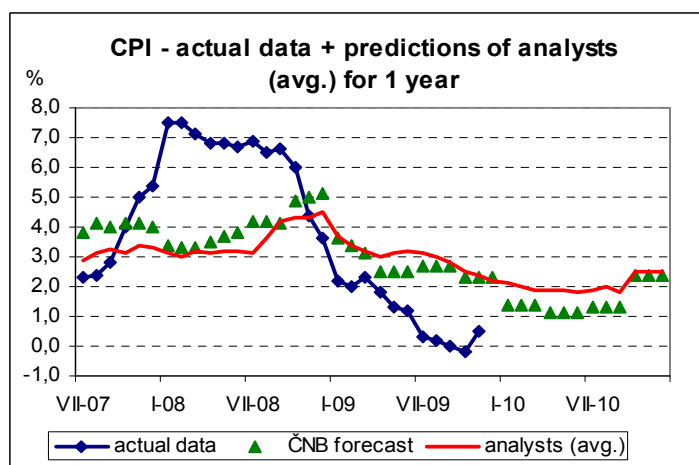
XII-09	annual CPI (%)	
	1 year	3 years
min.	1,9	2,0
average	2,5	2,6
max.	3,4	4,0



In 2010, the analysts expect inflation to accelerate gradually. However, CPI growth is not expected to significantly exceed one per cent at the start of the new year, despite a planned rise in indirect taxes and base effects. At the one-year horizon, the expected increase in the price level was the same as in the previous survey, at 2.5%. At the three-year horizon there was a slight rise (of 0.1 percentage point to 2.6%).

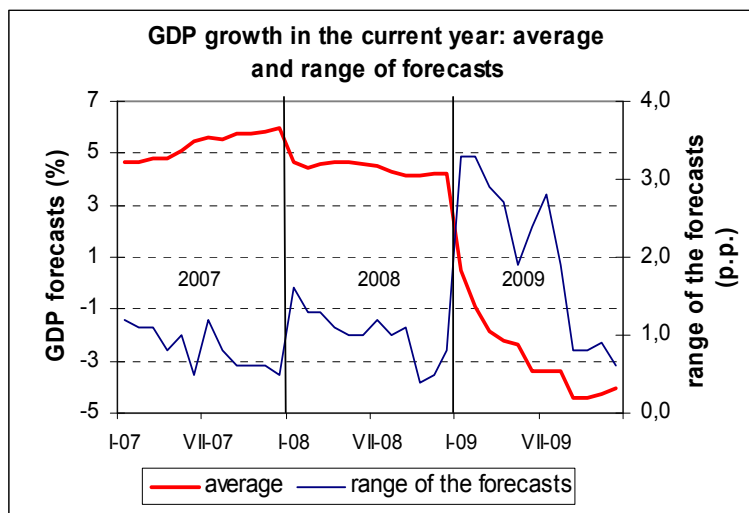
Tax changes thus remain the main upside risk to inflation, although the magnitude of their second-round effects will be very small according to the analysts. The range of the one-year forecasts narrowed significantly owing to an increase in the minimum estimate and a decrease in the maximum estimate. The range of the three-year forecasts remained unchanged.

Prediction for Month of prediction	annual CPI		ČNB 1 Y %
	1 Y %	3 Y %	
XII-08	2,2	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	
XII-09	2,5	2,6	4Q 2,4



2. Gross domestic product

XII-09	GDP growth in	
	current year	next year
min	-4,5	1,0
average	-4,1	1,6
max	-3,9	2,5



Prediction for Month of prediction	GDP growth in	
	current year	next year
	%	
XII-08	4,2	1,4
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
XI-09	-4,3	1,6
XII-09	-4,1	1,6

According to the current forecast, the output of the domestic economy should decrease by 4.1% year on year in 2009, which is 0.2 percentage point less than in November. The gradual return of GDP to growth should be based on external demand, i.e. on an improvement in the country's export performance. By contrast, household consumption will be adversely affected by a high unemployment rate, which will naturally be reflected in the purchasing power of households. The outlook for next year is the same for the third consecutive month. According to the analysts, the Czech economy should grow by 1.6% next year.

The main risk of non-fulfilment of the forecast consists in external demand, which, according to some of the analysts, largely depends on a successful exit from quantitative easing by central banks around the world.

3. Interest rates

XII-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	2,10	2,10	3,00	3,50	3,40	3,80
average	1,19	1,78	2,21	2,62	3,10	3,65	3,58	4,11
max.	1,25	3,00	2,30	3,00	3,20	3,80	3,90	4,40

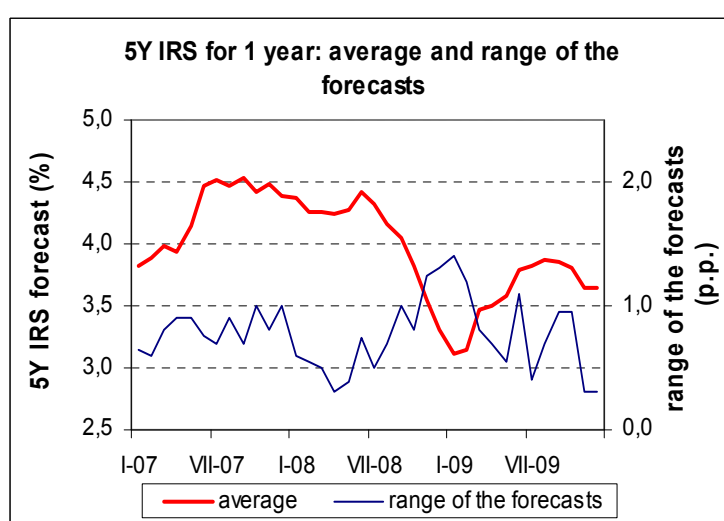
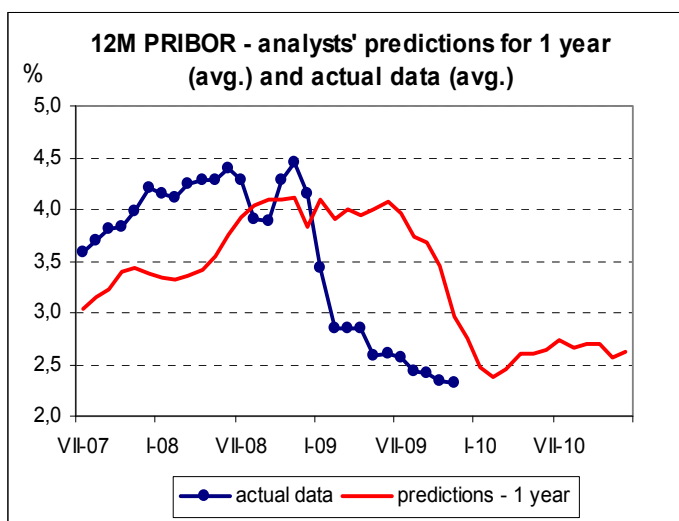
The forecasts for short-term interest rates and IRS yields fell slightly at the one-month horizon but grew at the one-year horizon. According to the analysts, the short-term decline in interest rates is due to the gradual elimination of credit risk on global financial markets. At the longer horizon, however, a gradual global recovery and a tightening of monetary policies, including in the Czech Republic, can be expected. The analysts also expect a rise in the supply of bonds (given falling revenues and rising public expenditure in most world economies), which, amid constant investor demand, will lead to pressure for global growth in yields.

The main risk of a slower monetary policy tightening is a slower-than-expected recovery in the Czech Republic's major export partners. By contrast, the rate of growth of the Czech Republic's debt, which could lead to faster growth in yields in the medium term, is a risk in the opposite direction.

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
	%		%		%		%	
XII-08	2,30	1,90	4,01	2,75	3,01	3,31	3,28	3,66
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
XI-09	1,20	1,70	2,31	2,57	3,20	3,65	3,64	4,08
XII-09	1,19	1,78	2,21	2,62	3,10	3,65	3,58	4,11

Actual indicator values as of forecast deadline

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
14.12.	1,25%	2,25%	3,07%	3,54%

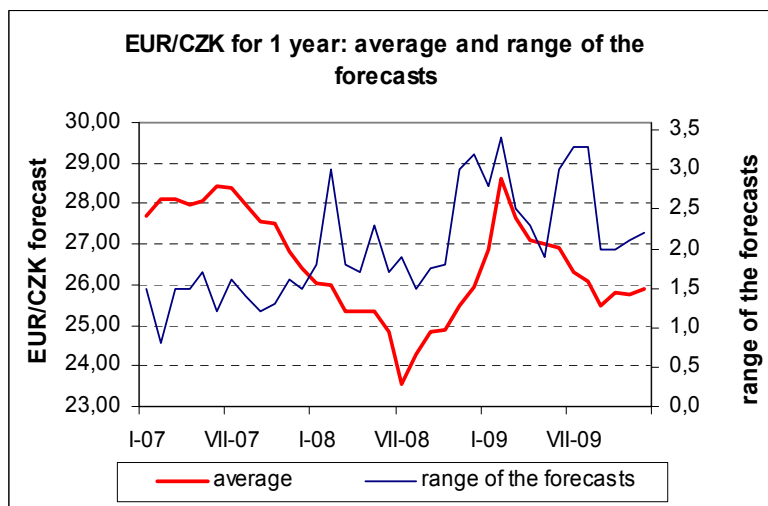


4. The exchange rate

XII-09	EUR/CZK	
	1 month	1 year
min.	25,50	23,80
average	25,88	24,86
max.	26,20	26,00

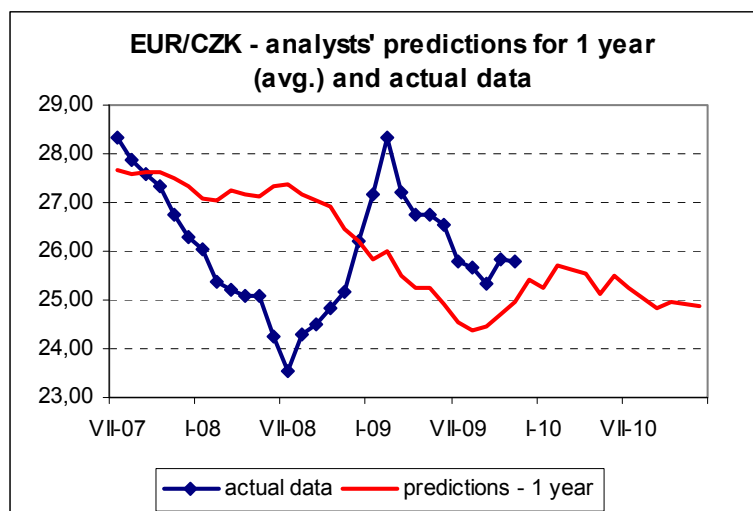
Actual exchange rate

14.12.	25,74
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The shift of the exchange rate forecast towards weaker levels at the one-month horizon was largely determined by a weakening of the actual exchange rate of the koruna against the euro. This exchange rate has been very volatile recently owing to changing risk aversion. By contrast, the forecast for the koruna's exchange rate at the one-year horizon is slightly stronger compared to the November survey. According to the analysts, the current macroeconomic data, which are showing some signs of an economic recovery, speak in favour of exchange rate appreciation.

Prediction for Month of prediction	exchange rate EUR/CZK	
	1 month	1 year
XII-08	25,93	25,40
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
XI-09	25,78	24,93
XII-09	25,88	24,86

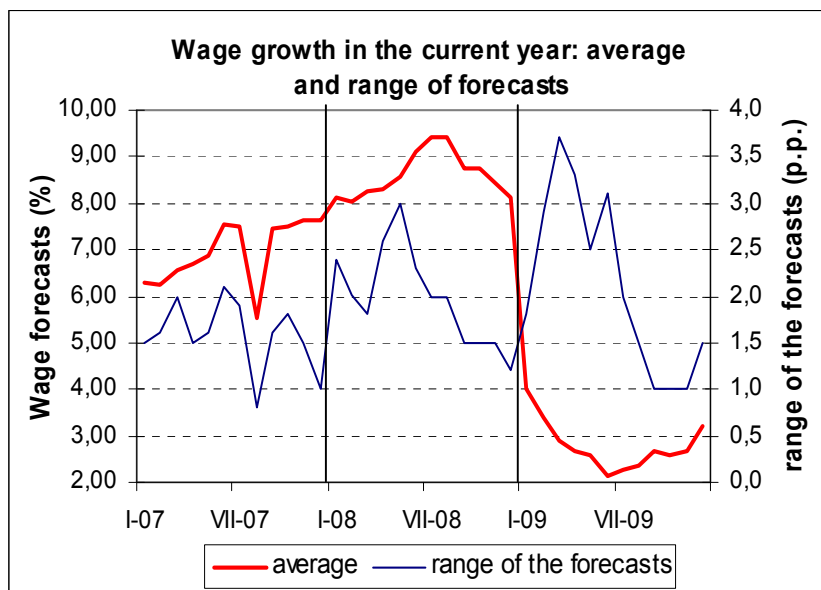


The risk of the koruna depreciating against the euro stems from worse-than-expected developments in the world economy and a potential correction on global stock markets, which could foster an increase in global risk aversion and consequently affect the koruna's exchange rate. By contrast, better global economic developments, which would boost the appetite for more risky assets and/or a faster recovery of the domestic economy, could contribute to faster appreciation of the koruna.

5. Wages

XII-09	Wage growth in	
	current year	next year
min	2,2	0,5
average	3,2	2,1
max	3,7	4,0

Prediction for Month of prediction	wage growth in	
	current year	next year
	%	
XI-08	8,1	4,7
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
XI-09	2,7	1,7
XI-09	3,2	2,1



Shortly before the end of the year, the wage growth prediction for 2009 rose to 3.2% year on year. Similarly, the analysts are apparently more optimistic regarding nominal wage growth next year. The average forecast rose by 0.4 percentage point to 2.1% year on year. In the business sector, wages should also grow faster compared to the November survey (by 3.3% in 2009 and 3.6% in 2010). Conversely, the non-business sector recorded a decline in wage growth this year (to 3.5%) and, owing to the non-adoption of a planned 4% cut in public sector wages, a correction of the wage decline to wage growth (of 1.0%) 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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