ERSTE GROUP

Short note – Fixed Income Research – June 3, 2009

Slovakia: 1Q09 GDP decline

Economy contracted by 5.6% in 1Q09 largely due to investments and stock adjustment

- The Statistical Office slightly revised its estimate of real GDP decline in 1Q09 downwards from preliminary -5.4% y/y to -5.6% y/y.
- The structure of GDP did not look that scary as the headline figure. Lower investment inventories were the main culprit behind the decline (contributed around 3pp to the y/y decline). Industrial factories, facing sharp drop in foreign demand at the end of 2008 were adjusting the stocks to the new lower production levels. Scrap subsidy at the key export markets brought at least temporary revival for the car sector, which should contribute to the larger inventory stocks in the second and third quarter. Fixed investments declined by 4% y/y.
- Consumption of households slowed down significantly, from the growth by 4.7% y/y in 4Q08 to a decline by 1.2% y/y in 1Q09. Fears from loosing a job and lower future income might have played a role, as the situation of households did not worsen that dramatically to explain the drop; real wages still increased by 1.6% y/y in 1Q09 while employment declined by only 0.4% y/y.
- Foreign demand declined sharply as already suggested monthly trade statistics; real exports declined by 24.3% while imports declined by 22.6% y/y.
- We think that the 2Q will bring an improvement on quarterly basis, although annual decline will likely remain in the second and third quarter similar to the 1Q09 decline. For the full year we expect decline of real GDP by around 5%. Speed of recovery will depend largely on the euro area, especially on the improvement in German demand. In the next year, we expect mild GDP growth at around 2.6%.

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