

Short note – Macro/Fixed Income Research – September 2, 2009

Slovakia: 2Q09 GDP growth

Household consumption increased in 2Q09, inventory stocks were depleted further

- The Statistical Office confirmed its flash estimate of annual GDP at -5.3% in 2Q09. On the quarterly seasonally adjusted basis, GDP increased by 2.2%.
- Surprisingly, detailed structure revealed **increase in household consumption** (by 0.7% y/y after -1.2% in 1Q09), despite further increase in the unemployment rate. Economy was also supported by hefty government spending (5.9% y/y).
- On the other hand, investments continued to fall throughout the second quarter. Similar to Germany, **inventory stocks were depleted further and the fall in the fixed investments (-17.6% y/y) deepened over the second quarter**. Inventories and fixed investments subtracted approximately 2 and 5 percentage points from the annual GDP growth, respectively. While stocks will likely boost GDP growth in the second half of the year, decline in fixed investments will be a drag on the economic performance in the periods ahead.
- Gradual recovery in the Euro area and especially in Germany had positive affect on exports, which contracted less than in the 1Q (net exports contributed positively to the annual GDP growth). We expect Slovak economy to show increases on quarterly basis also in the second half of the year, although they might be smaller than the one seen in the 2Q09.
- **We think that the released structure was rather positive** (especially potential for growth in stocks as well as increase in household consumption) **and along with further signs of stabilisation in Europe imply positive risk to our full-year GDP forecast at -5.5%**. In addition, Slovak Stats Office officials said that **downward revision of 4Q08 GDP growth is likely** (although it will be known only in early December). That means that both GDP growth in 2008 and decline in 2009 would be smaller than otherwise.

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