

Monthly forecasts – Fixed Income Research – February 9, 2009

Slovakia: February 2009

Date	Indicator		Period	Our estimate	Min	Market Average	Max	Previous	Year ago
9-Feb	Industrial production	% y/y	Dec-08	-10.0	-15.30	-10.0	-4.50	-7.2	6.4
11-Feb	Foreign trade	EUR m	Dec-08	-315.3	-617.4	-398.0	-248.0	-243.7	-396.3
11-Feb	CPI inflation	% y/y	Jan-09	3.5	3.5	3.6	3.9	4.4	3.8
11-Feb	Core inflation	% y/y	Jan-09	3.0	2.6	2.9	3.2	3.3	4.1
13-Feb	Flash GDP estimate	% y/y	4Q08	3.5	3.0	3.7	4.5	7.0	14.3
27-Feb	EU-harmonised inflation	% y/y	Jan-09	2.7	2.6	2.8	3.2	3.5	3.2
27-Feb	PPI	% y/y	Jan-09	5.9	-	-	-	6.0	4.4

Price development

In January, consumer inflation should continue in a declining trajectory. We expect annual inflation to have declined to 3.5% from 4.4% in December. We assume that consumer prices increased in January on monthly basis by 0.5%, on the back of rising prices of food, services and imputed rents. This should be somewhat compensated by the declining prices of heat energy and fuels. Producers and service providers usually re-price their products at the beginning of the year, which makes uncertainty about January inflation figure bigger. The euro adoption and round up effect might have added around 0.3pp to inflation, in our view. Nevertheless, inflation will likely continue gradually declining to below 3% during summer.

Real economy

Weak foreign demand will show up also in December industrial production figures. An annual decline could easily be double-digit as employees of car factories stayed home on a prolonged Christmas break. Production of car related sectors (such as machinery, metals and plastics) will likely decline as well. Later in the week, a 4Q flash GDP will be released. We expect a sharp decline from 7% y/y in the third quarter to around 3.5% in the final quarter of the year. Huge pre-stocking of cigarettes back in 4Q07 means a negative comparative base for an annual 4Q08 growth. Adjusted for this one-off factor, we expect significant slowdown in economic activity, especially in industry and investment activity due to recession in the Euro area and causes of financial crises. Household and into some extent government consumption provided support to the economic growth, in our view.

Monetary policy of ECB

After taking a pause in early February, the ECB is likely to deliver another rate cut (we expect 50bp reduction) in early March, when new prognosis of the ECB stuff will be available. Economic outlook remains weak and falling inflation (in January inflation fell to 1.1% y/y), provides space for further albeit limited monetary easing. We see the bottom of rate cutting cycle at 1.25-1.50%.

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