

## Monthly forecasts – Fixed Income Research – January 8, 2009

## Slovakia: January 2009

Date	Indicator		Period	Our estimate	Min	Market Average	Max	Previous	Year ago
9-Jan	Industrial production	% y/y	Nov-08	<b>-1.6</b>	-	-	-	0.0	12.3
9-Jan	Foreign trade	EUR m	Nov-08	<b>54</b>	-143	-27	73	134	-153
13-Jan	CPI inflation	% y/y	Dec-08	<b>4.8</b>	4.6	4.6	4.8	5.4	3.4
13-Jan	Core inflation	% y/y	Dec-08	<b>3.9</b>	3.6	3.9	4.5	4.1	4.2
15-Jan	EU-harmonised inflation	% y/y	Dec-08	<b>3.8</b>	3.5	3.6	3.8	3.9	2.5
15-Jan	ECB key rate	%	Jan-09	<b>2.00</b>	-	-	-	2.50	4.25
28-Jan	PPI	% y/y	Dec-08	<b>6.3</b>	-	-	-	6.7	2.8

### Price development and

Annual inflation likely decelerated in December; we expect CPI inflation to dip a notch from 4.9% in November to 4.8% in December. Likewise, harmonised inflation, which does not include imputed rents (equivalent of homeowners' rent), should decline to 3.8% in December according to our estimate. Structure-wise, we will likely see another increase in prices of tobacco, and possibly seasonal increase in food. On the other hand, prices of fuel declined by around 9% m/m in December. In the coming months inflation will likely gradually decline further due to high base from year ago (the prices of food increased last year). We expect harmonized inflation to decline below 3.5% over the course of 2009 and CPI below 4.0% by mid-year.

### Real economy

Industry was negatively hit by weak foreign demand as the year closed. After stagnation of industrial production in October, industry might decline on annual basis in November and even more in December, when the car factories prolonged Christmas break for their employees due to lower car sales in Europe. Decline in exports y/y will be likely compensated also with lower imports.

### Monetary policy of ECB

The ECB is likely to continue in its cutting cycle due to gloomy economic outlook and falling inflation (consumer inflation in the Euro area fell in December to 1.6% y/y, well below the ECB target defined as "below but close to 2%"). We therefore expect the ECB to cut rates further by 50bp to 2.0%.

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