

Monthly forecasts – Fixed Income Research – March 4, 2009

Slovakia: March 2009

Date	Indicator		Period	Our estimate	Min	Market Average	Max	Previous	Year ago
5-Mar	Detailed GDP	% y/y	4Q 2008	2.7	-	-	-	7.0	14.3
9-Mar	Industrial production	% y/y	Jan-09	-35.0	-	-	-	-16.8	8.7
12-Mar	CPI inflation	% y/y	Feb-09	3.6	3.5	3.6	3.7	3.7	4.0
12-Mar	Core inflation	% y/y	Feb-09	2.5	2.2	2.6	2.9	2.5	4.3
13-Mar	Foreign trade	EUR m	Jan-09	-196	-398	-124	240	-359	-153
16-Mar	EU-harmonised inflation	% y/y	Feb-09	2.5	2.5	2.6	2.8	2.7	3.4
27-Mar	PPI	% y/y	Feb-09	1.3	-	-	-	3.7	5.1

Price development

We expect consumer price index to have increased by 0.3% on the month in February, owing to increase in prices of seasonal vegetables, services and imputed rents. This should be partially offset by declining prices of fuels and heat. We expect harmonized inflation to increase in lesser extent, by 0.1-0.2% on the month because imputed rents, equivalent of home owners rent, which we expect to increase are included only in CPI index and not in harmonized inflation. On annual basis, consumer inflation likely decelerated to 3.6% from 3.7% seen in January. Like-wise, harmonized inflation decelerated in our view to 2.5% y/y.

Real economy

Thursday will bring detailed 4Q08 GDP breakdown and revised GDP data for the third quarter. The economic activity slowed down sharply (according to flash estimate to 2.7% y/y in 4Q) due to weak foreign demand and likely due to lower investment activity. Industrial production declined sharply in January due to gas supply outage (we expect the volume of industrial production to be by 30-40% lower than in the same month year ago).

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 very low inflation (in February inflation was at 1.2% y/y), provides space for further monetary easing. We see the bottom of rate cutting cycle at 1.00-1.25%.

*Analyst: Mária Valachyová, Slovenska sporitelna
valachyova.maria@slsp.sk*

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