ERSTE GROUP

Monthly forecasts – Fixed Income Research – May 7, 2009

Slovakia: May 2009

Date	Indicator		Period	Our estimate	Min	Market Average	Max	Previous	Year ago
11-May	Industrial production	% y/y	Mar-09	**-20.0**	-25.0	-21.3	-17.9	-27.4	18.8
12-May	Foreign trade	EUR mn	Mar-09	**-25.0**	-169.5	-17.3	75.4	84.3	-57.4
13-May	CPI inflation	% y/y	Apr-09	**2.6**	2.3	2.4	2.6	2.6	4.3
13-May	Core inflation	% y/y	Apr-09	**1.5**	1.2	1.4	2.0	1.6	4.6
15-May	EU-harmonised inflation	% y/y	Apr-09	**1.7**	1.2	1.5	1.7	1.8	3.7
15-May	Flash GDP estimate	% y/y	1Q 2009	**0.3**	-5.7	-2.0	0.3	2.5	9.3
28-May	PPI	% y/y	Apr-09	**0.5**	0.0	0.3	0.5	0.5	5.8

Price development

Low demand pressures and still favorable commodity prices will likely allow inflation to decline further in April. Harmonized inflation should decline to 1.7% y/y and national headline inflation could stagnate at 2.6% y/y, in our view. Depreciation of neighboring currencies, putting pressure on Slovak retail margins is a downward risk to our inflation estimates (anecdotal evidence suggests that some food retail chains have adjusted their prices after Slovaks increased their cross-border purchases).

Real economy

Scrap subsidy (especially the one launched on the key export markets, such as in Germany) might have supported industrial production figures in March. In line with that, we expect some improvement of production and export figures; however, industrial production will likely remain deep in red. Later in the month, flash GDP figure for the first quarter of 2009 will be released. With estimate of 0.3% y/y we belong to the optimistic side of the range. We expect the first quarter to show the steepest quarterly decline (q/q s.a.), which should given the base and one-off effects (such as pre-stocking with cigarettes) yield the highest y/y figure among the 2009 quarters. For the full year we expect contraction of around 1.2%.

Monetary policy of ECB

The European Central Bank lowered the interest rates by 25 basis points to 1.0% today (the overnight deposit rate stayed at 0.25% and marginal lending rate was lowered by 50bp to 1.75%). At the same time, in order to increase liquidity the central bank increased the maturities of refinancing operations to 12 months. The ECB also decided to purchase covered bonds in the volume of 60bn EUR but declined to give further details of this non-standard measure (they will be given only in June). It is likely that interest rates will remain unchanged in the coming months as ECB governor J. C. Trichet indicated that current level of interest rates are appropriate for the economy and incorporate also possible downward revision of the ECB outlook on Euro area performance.

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