

Monthly forecasts – Fixed Income Research – August 6, 2009

Slovakia: August 2009

Date	Indicator		Period	Our estimate	Min	Market Average	Max	Previous	Year ago
7-Aug	Industrial production	% y/y	Jun-09	-18.0	-22.3	-19.3	-15.0	-23.9	10.2
10-Aug	Sales from selected sectors	% y/y	Jun-09	-	-	-	-	-	-
11-Aug	Foreign trade	EUR mn	Jun-09	66.0	-70.5	29.3	81.0	95.0	-71.0
12-Aug	CPI inflation	% y/y	Jul-09	2.1	2.1	2.3	2.5	2.4	4.8
12-Aug	Core inflation	% y/y	Jul-09	0.8	0.8	1.2	1.3	1.3	5.1
13-Aug	Flash GDP estimate	% y/y	2Q 2009	-6.3	-	-	-	-5.6	7.9
14-Aug	EU-harmonised inflation	% y/y	Jul-09	0.6	0.5	0.7	0.9	0.7	4.4
Aug	Unemployment (labour bureaus)	%	Jul-09	12.3	12.0	12.2	12.3	11.8	7.5
28-Aug	PPI	% y/y	Jul-09	-3.8	-	-	-	-3.2	6.3
28-Aug	Economic Sentiment		Aug-09	72.9	-	-	-	70.2	97.2

Price development

Inflation will likely continue in a decelerating trend also in July. Disinflationary process, caused by generally lower prices of food and industrial goods, owes to crises, lower demand and lower prices of agricultural products (which is amplified by seasonality in summer). Substantially lower prices of oil than a year ago helped to ease pressure on energy prices as well. At the moment, there is uncertainty regarding the size and timing of a cut in energy prices. The regulatory body is currently considering request of the gas supplier to lower gas prices for households up to 5% since autumn. Regulatory body is, however, trying to postpone the decision until the beginning of 2010 and is pushing for a bigger price cut (move seen by some observers as an electioneering step ahead of 2010 parliamentary elections). Should gas and heat prices decline by e.g. 4%, annual harmonized inflation would be reduced by 0.2pp.

Real economy

Sentiment in industry improved significantly in the last two months, which shall translate also into the improvement of industrial production volume (we expect annual decline to narrow from -24 % y/y in May to -18 % in June but after significant improvement seen in the June Czech industrial data, risks are skewed to the positive side). Next week will bring also flash estimate of the 2Q09 real GDP growth. On a seasonally adjusted quarterly basis we expect mild growth, mostly due to improvement in industry. Nevertheless, on an annual basis, the GDP decline might deepen. We expect the headline figure at around -6.3% y/y.

Monetary policy of ECB

The ECB is likely to keep interest rates unchanged at the beginning of August, while the bank does not seem to be ready for any further non-standard measures. Withdrawal of monetary stimulus in the form of rate hikes is not expected earlier than in the mid-2010.

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