

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

## Slovakia: April 2009

Date	Indicator		Period	Our estimate	Min	Market Average	Max	Previous	Year ago
9-Apr	Industrial production	% y/y	Feb-09	<b>-18.0</b>	-29.0	-20.6	-14.1	-27.0	12.1
9-Apr	Foreign trade	EUR mn	Feb-09	<b>-168</b>	-423	-205	-125	-279.5	9.5
14-Apr	CPI inflation	% y/y	Mar-09	<b>3.0</b>	2.7	2.9	3.1	3.1	4.2
14-Apr	Core inflation	% y/y	Mar-09	<b>2.2</b>	2.0	2.2	2.8	2.2	4.5
16-Apr	EU-harmonised inflation	% y/y	Mar-09	<b>2.2</b>	1.9	2.1	2.2	2.4	3.6
28-Apr	PPI	% y/y	Mar-09	<b>1.8</b>	1.3	1.7	1.9	1.8	5.4

### Price development

Consumer inflation likely continued in deceleration trend also in March, in an absence of demand pressures and in environment of low commodity prices. We expect prices of services to push consumer price index slightly up as compared to the month ago. Nevertheless, annual inflation rate should slightly decline, from 3.1% in February to 3.0% in March. Like-wise, harmonized inflation decelerated in our view to 2.2% y/y. In the course of the year we expect inflation to decline further, to below 2%, owing to favorable base effects and absence of both cost and demand inflationary pressures.

### Real economy

Industrial production has likely posted another strong annual decline, albeit milder than in January, as in February the natural gas supply resumed back to normal levels. Nevertheless, foreign demand stayed weak, as suggested steeply falling industrial orders. We forecast the fall of industrial production at around 18% y/y. In line with falling production, merchandise foreign trade will end with a deficit of around EUR 170mln in our view, which is sharp deterioration as compared to the almost balanced trade in the same month year ago. Sentiment in retail and services fell significantly in March, pointing to the fact that recession starts to affect these economic sectors as well. Indeed, retail sales fell in February by 10% y/y, which could be ascribed to several factors, including lower appetite for spending on durable goods due to fear of unemployment and/or lower future income. Technical effect (high base from last year) as well as depreciation of the neighboring currencies, which made purchases abroad cheaper, could have caused lower sales of Slovak retail. It will be interesting to watch for the extent of slowdown of household consumption in the months ahead, as we expect final consumption (of households and government) to be the key positive contributor to the GDP growth in 2009.

### Monetary policy of ECB

The European Central Bank lowered the interest rates by “measured” 25 basis points to 1.25% in early April, and indicated that it will likely lower headline rates again in May by the same 25 basis points (the deposit overnight rate will likely remain unchanged at 0.25% as it is already very low). The bank will also decide upon non-standard measures to support economy, which ECB President J.C. Trichet denied to specify.

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