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Address:
Národná banka Slovenska
Imricha Karvaša 1, 813 25 Bratislava
Slovakia

Contact:
+421/2/5787 2146

http://www.nbs.sk

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Abbreviations

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EIA	Energy Information Administration
EMU	Economic and Monetary Union
EONIA	euro overnight index average
ESA 95	European System of National Accounts 1995
EU	European Union
Eurostat	Statistical Office of the European Communities
FDI	foreign direct investment
Fed	Federal Reserve System
EMU	Economic and Monetary Union
EURIBOR	euro interbank offered rate
FNM	Fond národného majetku – National Property Fund
GDP	gross domestic product
GNDI	gross national disposable income
GNI	gross national income
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
IPI	industrial production index
IRF	initial rate fixation
MFI	monetary financial institutions
MF SR	Ministry of Finance of the Slovak Republic
MMF	money market fund
NARKS	National Association of Real Estate Offices of Slovakia
NBS	Národná banka Slovenska
NEER	nominal effective exchange rate
NPISHs	Non-profit Institutions serving households
OIF	open-end investment fund
p.a.	per annum
p.p.	percentage points
qoq	quarter-on-quarter
PPI	Producer Price Index
REER	real effective exchange rate
SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Asset Management Companies
SO SR	Statistical Office of the Slovak Republic
SR	Slovenská republika – Slovak Republic
ULC	unit labour costs
VAT	value-added tax
yoy	year-on-year

Symbols used in the tables

.	– Data are not yet available.
-	– Data do not exist / data are not applicable.
(p)	– Preliminary data

1 The global economy

The global economy slowed in the fourth quarter of 2015, with weakening of GDP growth observed in both advanced and emerging market economies (EMEs). These trends stemmed to a large extent from the Chinese economy's structural slowdown and gradual transition to more balanced growth. The softening of global growth may also have reflected elevated volatility in global financial markets and consequent tightening of global financial conditions, as well as downward impact of further declines in oil prices on economic growth in oil-exporting countries.

With growth falling in most advanced economies in the fourth quarter of 2015, expectations for monetary policy normalisation in the United States and the United Kingdom were pushed back. US economic growth fell owing to weaker growth in domestic demand, but also included negative contributions from net exports and changes in inventories. Nevertheless, the economy's favourable trends are supported by domestic fundamentals, including households' balance sheets, the property market, the slightly expansionary fiscal stance, and the labour market. The Japanese economy, after its fluctuating trends in the previous three quarters, contracted in the fourth quarter of 2015. The main cause of the decline was private consumption, which was adversely affected by weather conditions. Japan's economy may, according to the latest indicators, struggle to recover from its malaise and it may be further impaired by weakening demand from EMEs. The euro area's GDP growth was unchanged from the previous quarter, with stronger investment demand and government consumption offset by the negative contribution of net exports. Private consumption growth slowed. Going forward, the economy should benefit from the ECB's accommodative monetary policy. The United Kingdom, too, broadly maintained its GDP growth rate. Strong growth in the services sector was counterbalanced by negative contributions from the manufacturing and construction sectors. In the near term, the UK economy will be significantly affected by the political situation surrounding the country's referendum on whether to remain in the European Union.

Turning to EMEs, the Chinese economy's growth declined in line with expectations. The gradual slowdown in manufacturing was partially compensated by consumer demand. The risks to China's economic growth outlook increased at the beginning of 2016, when exchange rate volatility escalated again. Uncertainty about China's currency regime and the continuation of capital flight from the country (and accompanying drop in foreign exchange reserves) caused increasing volatility in global financial markets and subsequently amplified these risks still further. The Brazilian and Russian economies also exerted a significant drag on global activity in late 2015, as they remained in deep recession. Moreover, given the dependence of these economies on exports, their outlooks remain unfavourable amid current trends in commodity prices. India maintained solid economic growth in the last quarter of 2015, becoming the fastest-growing large economy in the world. Its growth outlooks remain strong, but this economy, too, is heavily affected by developments in the Chinese economy.

Average economic growth across OECD countries in the fourth quarter of 2015 slowed significantly, quarter-on-quarter, to 0.2%, from 0.5% in the previous quarter. The annual growth rate also decreased, from 2.1% in the third quarter to 1.8% in the fourth. The average Composite Leading Indicator (CLI)[1] for the OECD's member countries fell further in the fourth quarter of 2015 and continued downwards in January 2016; it therefore suggests that global activity growth will decrease in the near term.

The medium-term outlooks for EMEs remain uncertain. Export-oriented countries in particular will need to adjust to lower commodity prices and will be exposed to tighter external financial conditions, heightened polical instability and increasing geopolitical tensions.

The average inflation rate for OECD countries over the last three months of 2015 increased from 0.4% in September to 0.9% in December. Since the headline inflation rate was dampened by food price inflation, and core inflation

1 *The CLIs for OECD countries are published on a monthly basis, and the most recent, published in March 2016, are for the period up to January 2016.*

Chart 1 GDP growth and the CLI

Source: OECD.
Note: Composite Leading Indicator (CLI).

remained relatively stable, the marked increase in the inflation was attributable to energy prices, whose rate of decline moderated throughout the fourth quarter. Core inflation was 0.1 percentage point higher in December than in September, at 1.9%. In January, the decline in energy prices eased further, the headline inflation rate rose to 1.2%, and core inflation remained flat.

The upward trend in the OECD's headline inflation rate is expected to be short-lived, given the slump in energy commodity prices at the beginning of 2016 and persisting excess economic slack at the global level.

2 Commodities

The price of a barrel of Brent crude oil maintained its downward trend in the fourth quarter of 2015, with its average level falling by around USD 6, quarter-on-quarter, to USD 44. The oil price did rise at the beginning of October amid reports of rising pump prices in the United States, Russia's willingness to discuss market conditions with other oil producers, and the heightening geopolitical tensions in Syria. Subsequently, however, the oil price again came under downward pressure, based on information about rising oil stocks in the United States and reports that OPEC is not planning to stem production. At the same time, Russia's daily oil production reached record levels in October, indicating a continuation of the global oil glut. During this period, however, demand-side factors also began to have a greater impact, with the slowdown in Chinese manufacturing contributed to the fall in the oil price. The price continued downwards for the rest of the year, and by the end of December it stood at USD 37. The trend became even more pronounced in the first half of January 2016, when the oil price hit a 12-year low of USD 28. This slump was largely attributable to turmoil in Chinese stock markets and a more pronounced slowdown in the Chinese economy, as well as to the lifting of the embargo on oil exports from Iran. The oil price subsequently picked up, however, mainly in response to the ECB Governing Council's thorough review of its monetary policy stance (at the March monetary policy meeting), as well as to the agreement between Russia and certain OPEC countries to keep production at January's level.

Non-energy commodity prices continued to fall in the fourth quarter of 2015, with the decline in metal prices becoming more pronounced and prices of agricultural commodities also decreasing. Non-energy commodity prices thus responded to persisting oversupply and to a weakening of global demand caused mainly by falling demand from China. Overall, metal prices fell by around 30% over the course of 2015. Looking at metal prices in the fourth quarter of 2015, the largest quarter-on-quarter drop was recorded by the iron ore price, which reflected surplus global production and a downturn in the Chinese steel industry. The quarter-on-quarter fall in agricultural commodity prices was based on oversupply, softening demand and the high level of stocks, with the largest decreases recorded by prices of wheat, soya and pork. Signs of weakening supply and higher demand were, however, beginning to appear by the end of the year, and consequently agricultural commodity prices posted a month-on-month increase in December. This trend was maintained at the beginning of 2016. Metal prices, too, began to pick up in February.

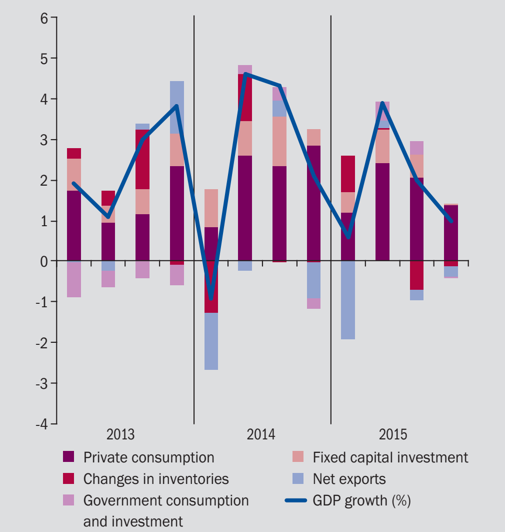
3 The United States

US economic growth slowed further in the fourth quarter of 2015, with the annualised rate easing to 1.0%, down from 2.0% in the previous quarter. The year-on-year growth rate also decreased, from 2.1% in the third quarter to 1.9% in the fourth. Based on developments in employment, as well as in retail sales, the US economy's slowdown towards the end of 2015 was probably only temporary. US activity growth for the whole of 2015 was 2.4%, the same as in the previous year.

Expectations that further declines in energy prices would have a positive impact on private consumption in the fourth quarter of 2015 were not borne out. Although consumer demand growth fell again, it still made the largest contribution to GDP growth. The slowdown in private consumption growth was probably due in part to the negative impact of the hot and humid weather on residential expenditure. Investment activity was also notably subdued, as non-residential investment was dampened by declines in structural investment and fixed capital investment. Investment may also have been affected by a base effect, namely the significant increase in investment in the transportation and IT sectors recorded in the previous quarter. The slump in non-residential investment in the fourth quarter of 2015 was offset by residential investment activity. The impact of the government sector on US growth was minimal in the last months of 2015, as growth in federal government expenditure and investment constrained government activity at the state and local level. With exports falling more than imports, net exports had a negative impact on GDP growth.

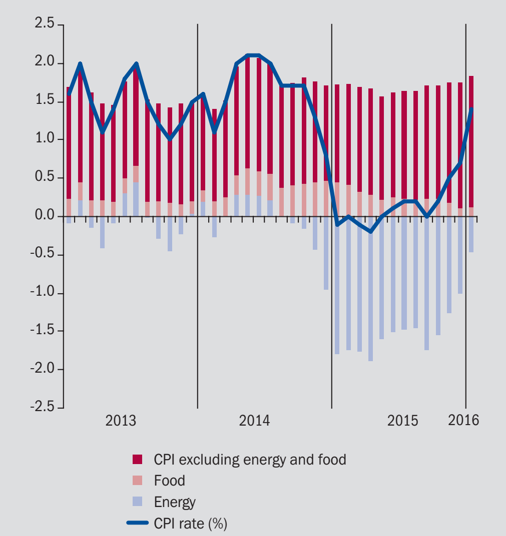
Consumer price inflation in the United States increased in the fourth quarter in line with expectations. In contrast to the first three quarters of 2015, when US consumer prices remained virtually flat, the last period saw inflation accelerate. This stemmed largely from the base effect of the sharp drop in automotive fuel prices that occurred from November 2014 to January 2015. Another driver of the price growth in the period under review was core inflation, which, as a result of increasing health services prices, rose back to 2% in November for the first time in 18 months. Food prices had a negative impact on headline inflation as their growth rate was lower in the last quarter than in the previous quarter. Overall, the annual inflation rate increased from

Chart 2 Annualised GDP growth (%) and its composition (p.p.)



Source: Bureau of Economic Analysis.

Chart 3 Annual consumer price inflation (%) and its composition (p.p.)



Sources: Bureau of Labor Statistics and NBS calculations.

0.0% in September to 0.7% in December, and the rate excluding food and energy edged up from 1.9% to 2.1%. The headline rate climbed again in January 2016, to 1.4%, reflecting a lower negative contribution from the energy component as well as a further increase in core inflation, to a three-and-a-half-year high (2.2%). Consumer price inflation is expected to moderate in the next period owing to the impact of low commodity prices.

The US Federal Open Market Committee (FOMC) stated after its meeting in December that there had been considerable improvement in labour market conditions in 2015 and that it was reasonably confident that inflation would rise, over the medium term, to its 2% objective. Given the economic outlook, and recognising the time it takes for policy actions to affect future economic outcomes, the Committee decided to raise the target range for the federal funds rate to 0.25% to 0.5%. The rate remained unchanged after the FOMC's meetings in January and March 2016. According to the FOMC, the stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2% inflation. In its statements following the December, January and March meetings, the FOMC reiterated that in determining the timing and size of future adjustments to the target range for the federal funds rate, it would assess realised and expected economic conditions relative to its objectives of maximum employment and 2% inflation. This assessment would take into account a wide range of information, including measures of labour market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

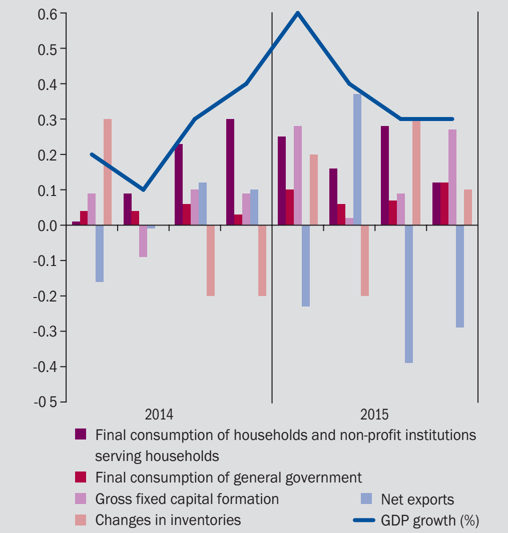
4 The euro area

The euro area's GDP rose by 0.3%, quarter-on-quarter, in the fourth quarter of 2015, with its growth rate unchanged from the previous quarter. Among the larger national economies in the euro area, economic activity slowed only in Italy (from 0.2% to 0.1%), while accelerating in the Netherlands (from 0.1% to 0.3%) and remaining unchanged in France (0.3%), Germany (0.3%) and Spain (0.8%). The euro area's annual GDP growth was the same in the fourth quarter as in the third, at 1.6%, and for the year as a whole was also 1.6%, up from 0.9% in 2014.

Similarly to the previous quarter, the fourth quarter's GDP growth was supported by domestic demand. Private consumption growth, however, fell to its lowest level for six quarters, while growth in investment demand accelerated significantly, to its highest level for three quarters. Looking at data for the the five largest euro area economies, investment demand growth was attributable mainly to the construction sector in the cases of Germany, the Netherlands and Italy, and there were also increases in investment in machinery and equipment in the Netherlands, France, Germany and Italy. Both private consumption and investment were supported by the ECB's accommodative monetary policy stance. The positive contribution of government consumption to GDP growth increased, while that of changes in inventories decreased. Net exports made a negative contribution for a second successive quarter, as imports accelerated and export growth remained subdued.

Assessments of firms' competitiveness in markets both within and outside the European Union became more negative in the first quarter of 2016, and may be indicative of prolonged weakness in export performance as well as in manufacturing production. Somewhat belying these assessments is the fact that both overall industrial production and manufacturing production increased, month-on-month, in January, by 2.1% and 2.2% respectively. January's industrial production growth included a relatively strong contribution from the production of capital and consumption goods. Nevertheless, given the heightened risk of a slowdown in global economic growth, the outlooks for industrial production and exports are subject to significant downside risks.

Chart 5 Quarterly GDP growth (%) and its composition (p.p.)

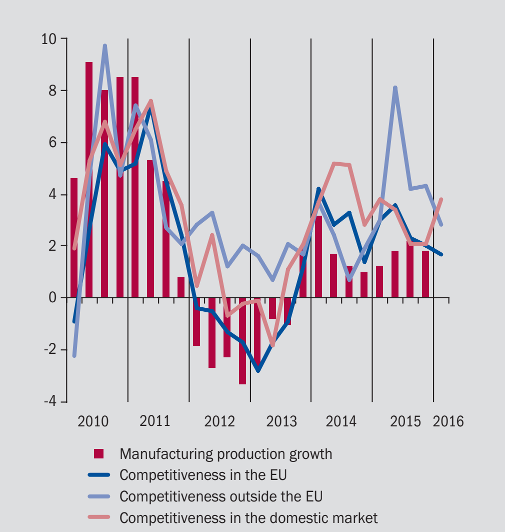


Sources: Eurostat and NBS calculations.

Chart 4 Economic growth (at constant prices, per cent)

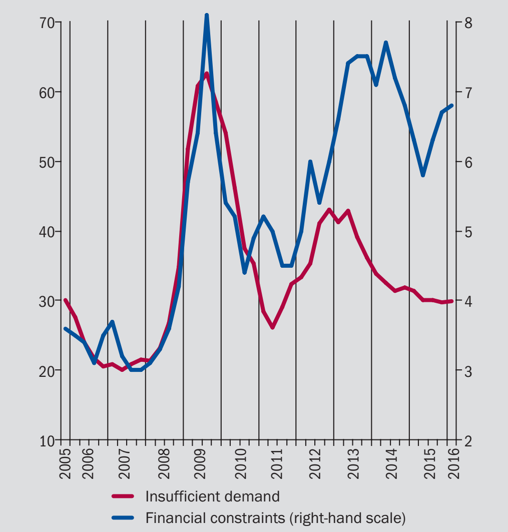
Source: Eurostat.

Chart 6 Competitiveness in industry (balance of responses) and growth in manufacturing production (annual percentage changes)



Sources: European Commission, Eurostat and NBS calculations.

Chart 8 Factors limiting production in industry (%)

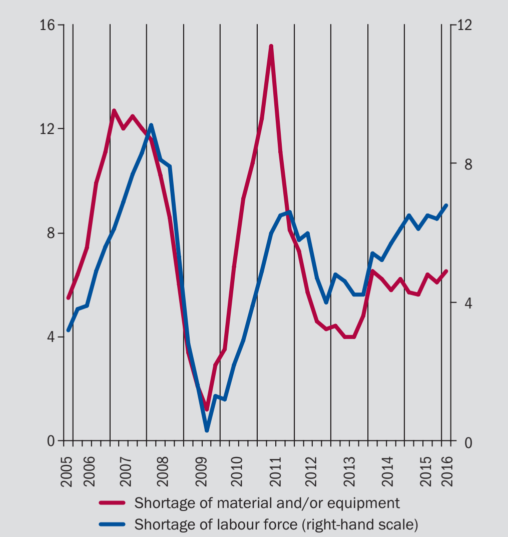


Source: European Commission.

Chart 7 Export expectations in industry (balance of responses) and growth in exports and manufacturing production (annual percentage changes)

Sources: European Commission, Eurostat and NBS calculations.

Chart 9 Factors limiting production in industry (%)

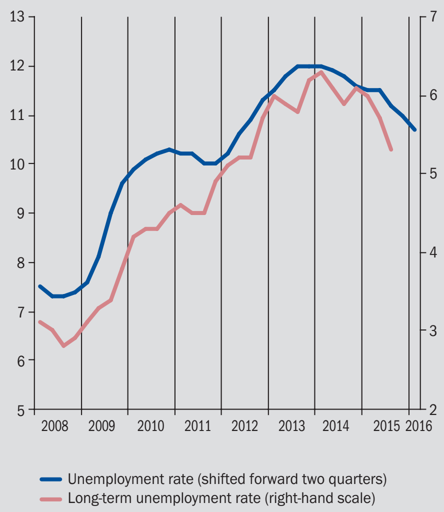


Source: European Commission.

Assessments of insufficient demand as a limit to industrial production remained largely unchanged in the first quarter of 2016, for a fourth successive quarter, and the importance of this factor remains above pre-crisis levels. The importance of financial constraints increased again, moderately, despite the ECB having decided in December to extend the asset purchase programme (APP), to reinvest the principal payments on the securities purchased under the APP as they mature, and to lower the deposit facility rate. As for shortage of material and/or equipment and shortage of labour force as limits to production, they gained slightly in importance in the first quarter of 2016. Shortage of labour in particular has an increasing trend, as evidenced by the gradual strengthening of the labour market; this implies further declines in unemployment subject to the availability of skilled labour. The importance of shortage of material and/or equipment had fallen in the previous quarter and its latest increase does not as yet point to significant upward pressure on investment demand growth.

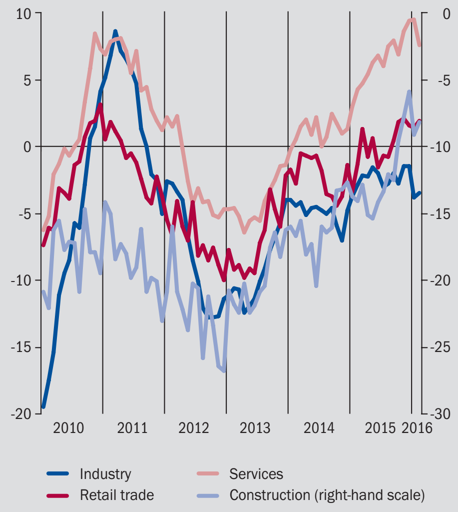
With the labour market maintaining a tightening trend in the fourth quarter of 2015, the unemployment rate fell by 0.2 percentage point from the previous quarter, to 10.4%. The rate edged down further in January 2016, to 10.3%. Strengthening of the labour market has been reflected in a marked drop in the long-term unemployment rate. Employment expectations fell in January in all sectors apart from services, as they appear to have been dented by the deterioration in economic sentiment at the beginning of 2016, related to weakening outlooks for EMEs. Although employment expectations picked up slightly in February, they did not rebound to their pre-January level and expectations in the services sector deteriorated further.

Chart 10 Unemployment rate and long-term unemployment rate (%)



Source: Eurostat.

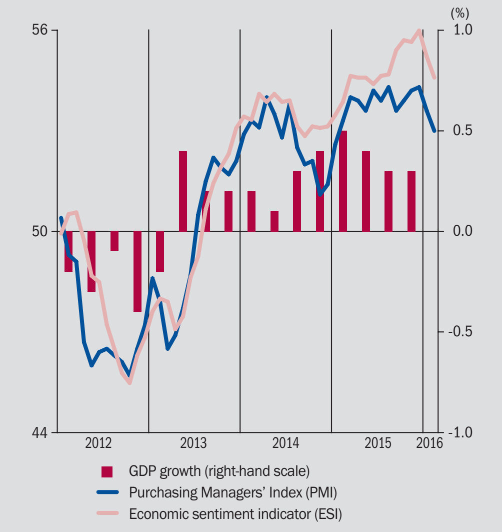
Chart 11 Employment expectations by sector (balance of responses)



Source: European Commission.

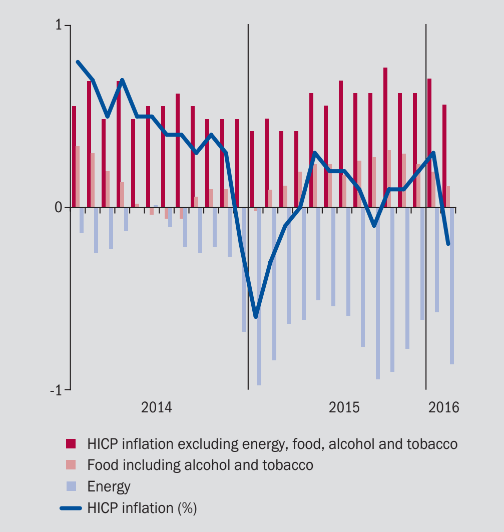
Economic sentiment was still improving towards the end of 2015, but a majority of leading indicators for the euro area and Germany fell notably at the beginning of 2016. This reflected mainly the worsening outlooks for EMEs in general and for China in particular, as well as stock market turbulence. The Purchasing Managers' Indices for the euro area and Germany fell quite sharply in the first two months of 2016, but still stood above 50 (at 53 and 54.1 respectively) and thus pointed to continued economic expansion. The economic sentiment indicator (ESI) for the euro area and the ESI for Germany also posted relatively large decreases, but nevertheless remain above their long-run averages. A worsening outlook for the German economy was indicated by the ZEW index, which fell to a level significantly below its long-run average. Like the ZEW index, the Ifo Business Climate Index for Germany fell in both January and February. It was dragged down mainly by worsening assessments of the business outlook. Overall, leading indicators point to continuing economic growth with downside risks. The available short-term (statistically reported) indicators for January were at odds with the signals from leading indicators, since retail sales, industrial production and construction production increased, month-on-month, by 0.4%, 2.1% and 3.6% respectively, and their growth rates remained above the average for the fourth quarter of 2015.

Chart 12 Euro area leading indicators and quarterly GDP growth



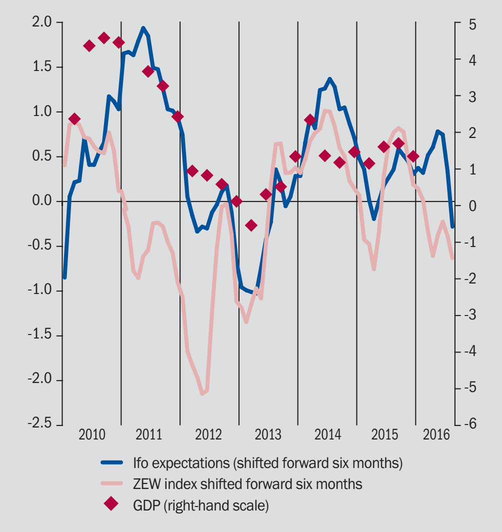
Sources: European Commission, Eurostat, Bloomberg and NBS calculations.
Note: ESI – normalised index.

Chart 14 Annual HICP inflation rate (%) and contributions of selected components (p.p.)



Sources: Eurostat and NBS calculations.

Chart 13 German leading indicators and annual GDP growth

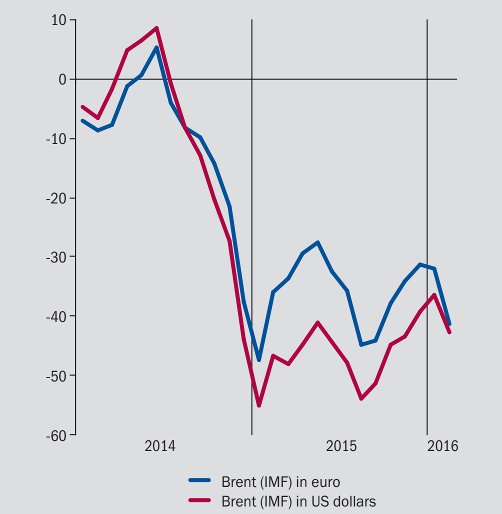


Sources: Ifo Institute, ZEW Centre, Eurostat and NBS calculations.
Note: Ifo and ZEW – normalised indices, deviations from the long-run average.

After turning negative in September, euro area annual HICP inflation was already back into positive territory at the beginning of the fourth quarter. Nevertheless, the inflation rate remained very low in October (0.1%) and did not edge up again until December (to 0.2%). With food price inflation falling slightly, the increase in the overall rate stemmed mainly from the less negative contribution from energy prices. HICP inflation excluding energy and food, after accelerating briefly in October (by 0.2 percentage point, to 1.1%), fell back to 0.9%. The headline rate became negative again in February (-0.2%), reflecting an accelerating decline in energy prices, a marked slowdown in the inflation rate excluding energy and food (to 0.8%), and lower services price inflation.

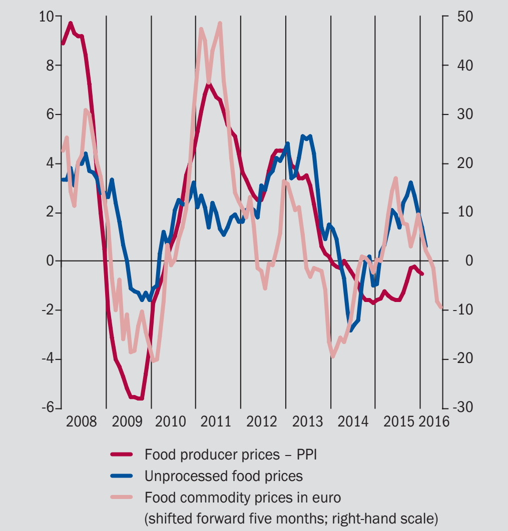
Energy consumer prices continued to reflect movements in global oil prices, which although they fell gradually from November to January, recorded a more moderate year-on-year decline as a result of the greater drop in their prices in the same period of the previous year. This base effect passed through to energy consumer prices, and their inflation rate became less negative over the same period. In February, however, the annual rate of change in oil prices became more negative owing to the base effect of strong oil price growth a year earlier. This change in annual oil price inflation, together with the euro's appreciation in February, exerted a drag on overall HICP inflation. Oil prices are expected to continue having a negative impact on the headline inflation rate in the next period. On the other hand, inflation should come under upward pressure from growth in real incomes and from consumer demand.

Chart 15 Oil prices in euro and US dollars (annual percentage changes)



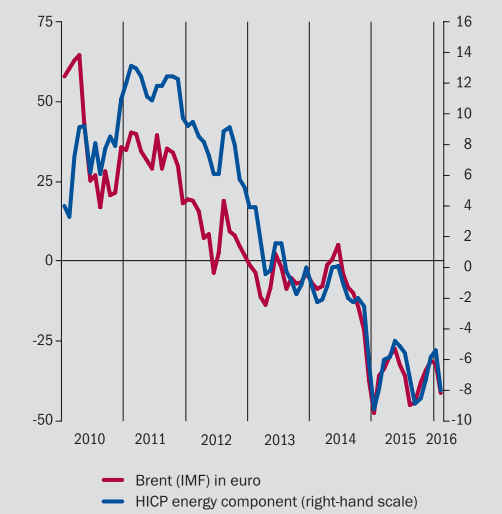
Sources: IMF, ECB and NBS calculations.

Chart 17 Food prices: commodity, producer and consumer prices (annual percentage changes)



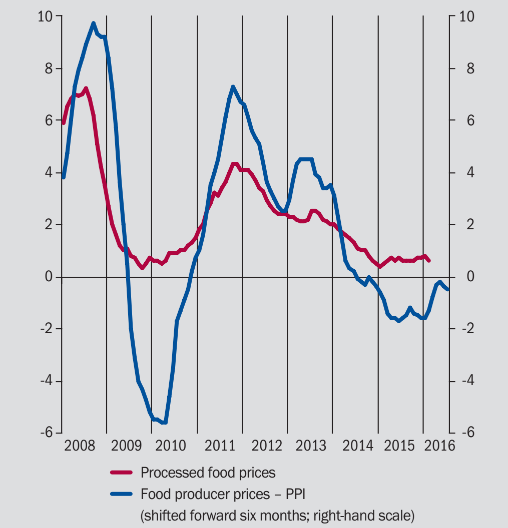
Sources: Eurostat and ECB.

Chart 16 Oil prices in euro and the HICP energy component (annual percentage changes)



Sources: IMF, ECB and NBS calculations.

Chart 18 Food producer prices and processed food prices (annual percentage changes)

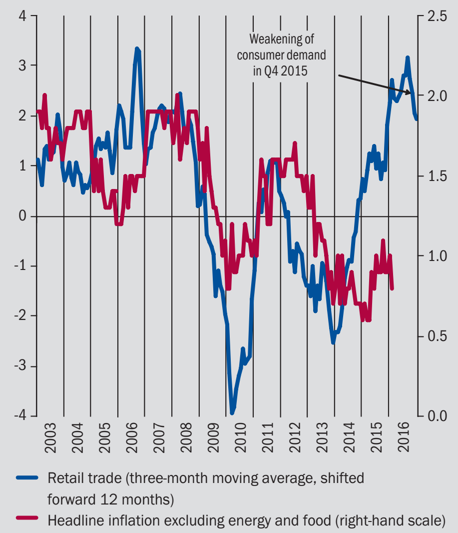


Sources: Eurostat and ECB.

The slowdown in food commodity price inflation passed through to unprocessed food prices with a lag, having a marked impact on their movement in last quarter of 2015 and first months of 2016. Annual food price inflation eased from more than 3% in October 2015 to 0.3% in February 2016. Furthermore, food commodity prices began to fall, year-on-year, from November and this trend became more pronounced in subsequent months. This decline has added a further downward impulse to unprocessed food price inflation, which is now expected to ease further in the months ahead. Food commodity price movements are also assumed to have fed through to food producer price inflation, which moderated in December and January after picking up in previous months. In the absence of any significant pipeline pressures from producer prices, either, processed food price inflation showed only marginal signs of picking up.

The most demand-sensitive inflation components continued to be affected by an environment of strong competition and the relative weakness of demand. Non-energy industrial goods inflation accelerated to 0.6% in October, from 0.3% in September, but remained broadly unchanged in subsequent months, reaching 0.7% in February. Services price inflation hovered around 1.2% in the fourth quarter of 2015 and in January, before slumping by 0.3 percentage point in February, to a historic low of 0.9%.

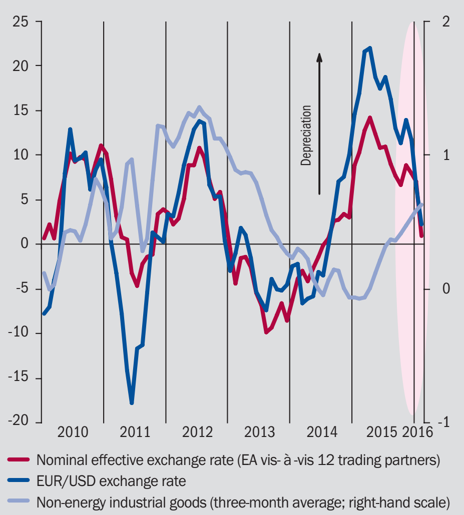
Chart 20 Retail trade and the inflation rate excluding energy and food (annual percentage changes)



Sources: Eurostat and ECB.

Price expectations of economic agents remain subdued at historically low levels. After picking up slightly in October and November, ex-

Chart 19 Non-energy industrial goods prices and the nominal exchange rate (annual percentage changes)

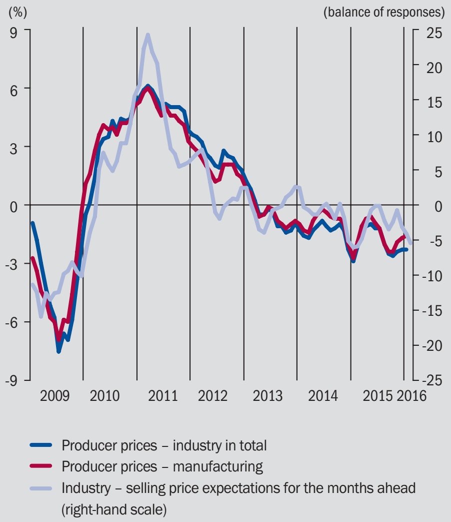


Sources: Eurostat and ECB.
Note: Positive values for the EUR/USD exchange rate denote depreciation of the euro.

Chart 21 Price expectations in industry, services and retail trade (balance of responses)

Sources: European Commission and Eurostat.

Chart 22 Selling price expectations in industry and producer prices (annual percentage changes)



Sources: European Commission and Eurostat.

pectations declined significantly in subsequent months. The most marked drop was in expectations for selling prices in industry, in particular for prices of intermediate consumption goods. Price expectations also remain weak, however, in retail trade and services. Price expectation trends in different sectors suggest that inflation will remain subdued in the near term.

At its meeting in December, the ECB's Governing Council ('the Council') reassessed its monetary policy instruments, taking particular account of the continuing weakening of the inflation outlook. This reflected mainly the slowing of growth in emerging market economies, as well as falling oil prices and euro appreciation (especially in the third quarter). The Council decided to lower the interest rate on the deposit facility by 10 basis points, to -0.30%, with effect from 9 December 2015. The interest rates on the main refinancing operations and the marginal lending facility remained unchanged, at 0.05% and 0.3%, respectively.

The Council also decided to extend the asset purchase programme (APP). Monthly purchases of €60 billion under the APP will now run until the end of March 2017 (extended from September 2016) or beyond, if necessary.

Furthermore, the Council decided to reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary.

Another decision was to include, in the public sector purchase programme**,** euro-denominated marketable debt instruments issued by regional and local governments located in the euro area in the list of assets that are eligible for regular purchases by the respective national central banks.

Finally, the Council decided to continue conducting the main refinancing operations and three-month longer-term refinancing operations as fixed rate tender procedures with full allotment at least until the end of the last reserve maintenance period of 2017.

At the monetary policy meeting in March 2016, the Council decided on a set of monetary policy measures in pursuit of its price stability objective. This comprehensive package will exploit the synergies between the different instruments and has been calibrated to further ease financing conditions, stimulate new credit provision and thereby reinforce the momentum of the euro area's economic recovery and accelerate the return of inflation to levels below, but close to, 2%.

The first of these measures was to lower the ECB's interest rates with effect from 16 March 2016. The main refinancing rate was reduced by 5 basis points, to 0.00%, the marginal lending rate by 5 basis points, to 0.25%, and the deposit facility rate by 10 basis points, to -0.40%.

Second, it was decided to expand the monthly purchases under the APP from €60 billion at present to €80 billion. They are intended to run until the end of March 2017, or beyond, if necessary, and in any case until the Council sees a sustained adjustment in the path of inflation consistent with its medium-term inflation objective. To ensure the continued smooth implementation of the ECB's asset purchases, the Council decided to increase the issuer and issue share limits for the purchases of securities issued by eligible international organisations and multilateral development banks from 33% to 50%.

Third, it was decided to include investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area in the list of assets that are eligible for regular purchases under a new corporate sector purchase programme (CSPP) forming part of the APP. Purchases under the CSPP will start towards the end of the second quarter of 2016.

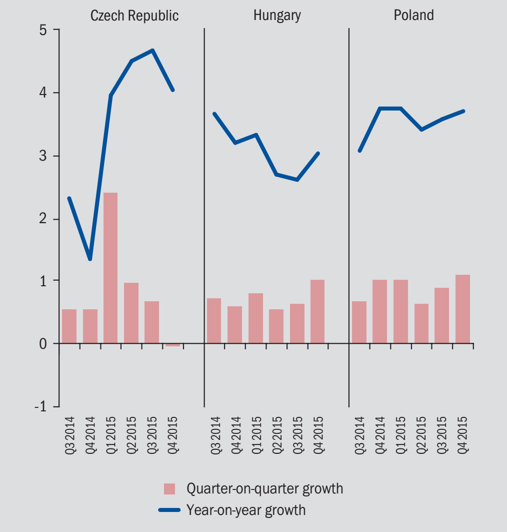
Fourth, it was decided to launch a new series of four targeted longer-term refinancing operations (TLTRO II), each with a maturity of four years. They will be conducted from June 2016 to March 2017 at a quarterly frequency. Counterparties will be able to repay the amounts borrowed under TLTRO II at a quarterly frequency starting two years from the settlement of each operation. The interest rate applied to TLTRO II will be fixed for each operation at the rate applied in the main refinancing operations prevailing at the time of allotment. For counterparties whose eligible net lending in the period between 1 February 2016 and 31 January 2018 exceeds their benchmark, the rate applied to the TLTRO II will be lower, and can be as low as the interest rate on the deposit facility prevailing at the time of take-up. There will be no requirement for mandatory early repayments under TLTRO II, and switches from TLTRO I[2] will be allowed.

2 *Further details about the different instruments are or will be published on the ECB's website, at www.ecb.europa.eu*

5 The Czech Republic, Hungary and Poland

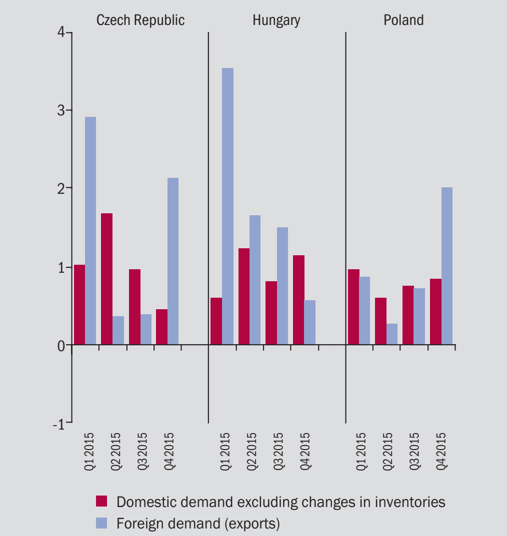
In Hungary, annual GDP growth accelerated in the fourth quarter of 2015, to 3.0%, surpassing its third-quarter rate by 0.4 percentage point. In Poland, growth edged up by 0.1 percentage point, to 3.7%, while in the Czech Republic it fell by 0.7 percentage point, to 4.0%.

Chart 23 GDP growth (%)



Source: Eurostat.

Chart 24 Contributions to quarterly GDP growth (p.p.)

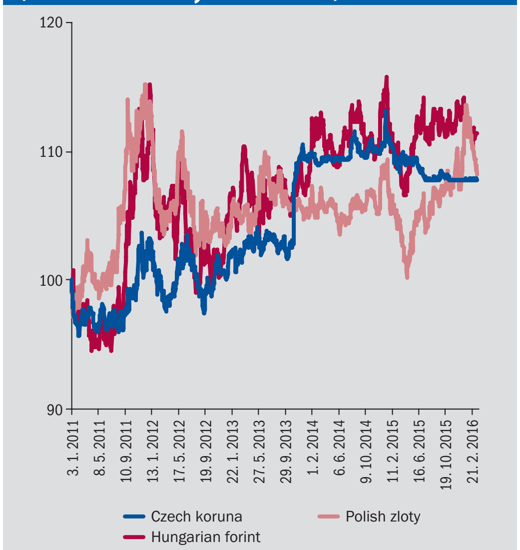


Sources: Eurostat and NBS calculations.

In quarter-on-quarter terms, too, GDP growth increased in Hungary (by 0.4 percentage point, to 1.0%) and in Poland (by 0.2 percentage point, to 1.1%). The Czech Republic's GDP growth remained flat (after rising by 0.7% in the previous quarter). The **Czech** economy's result reflected mainly a quarter-on-quarter drop in investment demand, as well as a lower government consumption growth. There were negative contributions from both changes in inventories and net exports (with import growth exceeding export growth), while household final consumption had a positive impact. The economic growth in **Hungary** was driven largely by household final consumption and, to a lesser extent, by investment demand. The contribution of government consumption was also positive, albeit smaller relative to the previous quarter. Changes in inventories had a more moderate negative impact in comparison with the third quarter. The contribution of net exports fell significantly, as export growth was notably lower than import growth. In **Poland**, government consumption accounted for most of the modest increase in economic growth. The annual growth rates of both household consumption and investment demand were broadly unchanged from the previous quarter. Net exports made the largest negative contribution.

In the Czech Republic, annual consumer price inflation turned negative in the fourth quarter of 2015. In Hungary, where the price level fell at the end of the previous quarter, consumer price inflation increased significantly in the fourth quarter. In Poland, the headline inflation rate became less negative. The drop in **the Czech** inflation rate (to -0.1%, from 0.3% in the previous quarter) stemmed mainly from developments in prices of unprocessed and processed food. Unprocessed food price inflation slowed and processed food inflation entered negative territory. Non-energy industrial goods prices posted the only, marginal, increase, and energy price inflation became very slightly less negative. Services price inflation made a positive contribution to the

Chart 26 Exchange rate indices of national currencies vis-à-vis the euro (index: 3 January 2011 = 100)



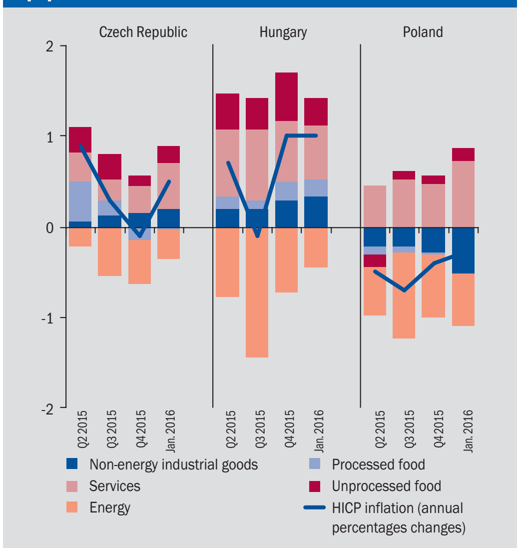
Sources: Eurostat and NBS calculations.
Note: A fall in value denotes appreciation.

headline rate. In January, the Czech inflation rate accelerated (to 0.5%), based on strong increases in services inflation and unprocessed food inflation and a more moderate increase in the non-energy industrial goods component. The rate of decline in energy prices moderated. In **Hungary**, after the price level fell in September (by 0.1%), it increased markedly in the last quarter of 2015 (by 1.0%). This growth was broadly-based across all components other than services price inflation, which fell. The inflation rates for non-energy industrial goods and food accelerated, while the energy component made a significantly less negative contribution. Hungary's headline inflation rate in January 2016 was the same as in December. In **Poland**, the consumer price inflation rate was less negative in the fourth quarter of 2015 (at -0.4%) than in the third quarter (-0.7%), owing mainly to more moderate declines in prices of energy and processed food. By contrast, the negative contribution of non-energy industrial goods increased. January's inflation figure in Poland followed the trend observed in the fourth quarter. The headline rate moved further towards positive territory, with services price inflation increasing significantly and other components remaining unchanged from their December levels.

Looking at the currencies of the three countries, the Czech koruna and Hungarian forint were slightly stronger against the euro at the end of the fourth quarter than at the end of the previous quarter (by, respectively, 0.60% and 0.81%), while the Polish zloty was trading slightly weaker (by 0.45%). None of the exchange rates showed any significant volatility during the period under review. It remains the case that the koruna is constrained to follow a largely strengthening trajectory, since the Czech central bank is still committed to using foreign-exchange interventions to maintain accommodative monetary policy conditions. The three exchange rates, and in particular the forint and zloty, were affected during the fourth quarter by financial market volatility stemming from the prospect of a further easing of the ECB's monetary policy, from expectations of a delay in monetary policy normalisation in the United States and from concerns about GDP growth rates in emerging market economies (especially China).

At the end of September 2015, the Czech koruna was trading slightly weaker due largely to the outbreak of the Volkswagen emissions scandal, but at the beginning of the fourth quarter, once the initial shock of the scandal had faded, its exchange rate returned to EUR/CZK 27.0 and remained at that level for the rest of 2015 and the first months of 2016. The forint remained broadly

Chart 25 HICP inflation and its composition (p.p.)

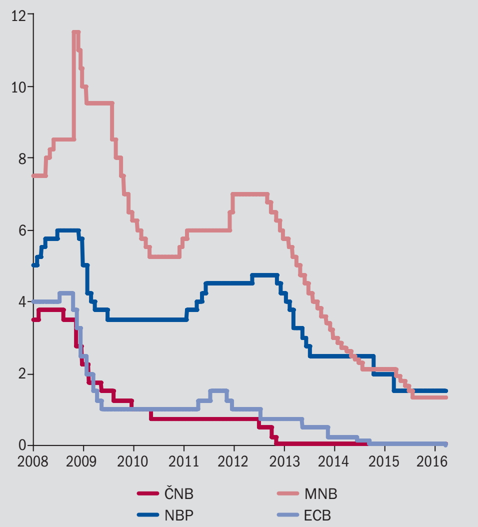


Sources: Eurostat and NBS calculations.

stable throughout the quarter, hovering within a range of EUR/HUF 310 to 315. Its exchange rate was, and remains, supported by monetary policy measures that are gradually reducing the Hungarian economy's external vulnerability. The zloty's exchange rate reflected more the impact of non-economic domestic factors (post-election uncertainty and policy adjustments). The zloty continued to depreciate against the euro in early 2016, notably so after the credit rating agencies Standard & Poors and Moody's downgraded Poland in January, based on expectations of a deterioration in the country's fiscal stance.

In each of the three countries, the central bank did not make any change to monetary-policy settings in the fourth quarter of 2015. In the Czech Republic, **Česká národní banka** (ČNB) kept its base rate unchanged at 0.05% (zero lower bound). In the statements following its monetary policy meetings in the fourth quarter, the ČNB's Bank Board reaffirmed its commitment to use the exchange rate as an additional instrument for easing monetary policy, at least until the second half of 2016, and it reiterated that the commitment would probably be discontinued at the end of that year (therefore at the end of the projection horizon). The Bank Board took the view that, sustainable fulfilment of the inflation target, a condition for a return to conventional monetary policy, would occur from early 2017. After the February 2016 meeting, the Bank Board stated that, on the basis of a new macroeconomic forecast, the exchange rate commitment would not be discontinued before 2017. At the February meeting, the Bank Board also discussed the possibility of introducing negative interest rates. The **Magyar Nemzeti Bank** (MNB) left its base rate unchanged in the fourth quarter of 2015, at the rate of 1.35% that was introduced on 22 July 2015. In the assessment of the MNB's Monetary Council, this rate level and the use of non-standard monetary policy instruments are consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the economy. In November, the MNB announced that in January 2016 it would launch its Growth Supporting Programme (GSP) in order to help domestic banks return to market-based financing by gradually phasing out the Funding for Growth Scheme (FGS) and by introducing a new Market-Based Lending Scheme (MLS) providing a positive incentive for banks to boost their lending to SMEs. Also in November, the MNB decided to introduce systemic risk buffers in response to the persistently high amount and institutional concentration of problem project exposures, which pose a significant risk to financial stability. According to an MNB statement, systemic risk buffers will be set for financial institutions in the form of individual decisions in the final quarter of 2016. The institutions will be required to comply with the new requirements from 1 January 2017. In January 2016, the MNB decided to phase-out the two-week central bank deposit facility by the end of April 2016, thereby completing the reform of the MNB's monetary policy instruments. In Poland, **Narodowy Bank Polski** (NBP) left its monetary-policy settings unchanged in the fourth quarter of 2015 (keeping the reference rate at 1.5%). In the statements issued after its policy meetings in the fourth quarter, NBP's Monetary Policy Council reiterated its view that inflation would increase gradually in coming quarters, supported by a gradual closing of the output gap amid improving economic conditions in the euro area and favourable domestic labour market developments. According to NBP, the time horizon for inflation returning to target is subject to the risks of a stronger slowdown in emerging market and of commodity prices persisting at low levels. The current level of interest rates was considered to be conducive to keeping the Polish economy on a sustainable growth path and to maintaining macroeconomic equilibrium.

Chart 27 Key interest rates of national central banks (%)



Sources: National central banks and the ECB.

SUMMARY OF GDP GROWTH PROJECTIONS OF SELECTED INSTITUTIONS

Table 1 Global economy

	Release	2016		2017		2018	
IMF	January 2016	3.4	(-0.2)	3.6	(-0.2)	-	-
OECD	February 2016	3.0	(-0.3)	3.3	(-0.3)	-	-
EC	February 2016	3.3	(-0.2)	3.5	(-0.2)	-	-
ECB [1)]	March 2016	3.2	(-0.4)	3.8	(-0.1)	3.9	-

Table 2 United States

	Release	2016		2017		2018	
IMF	January 2016	2.6	(-0.2)	2.6	(-0.2)	-	-
OECD	February 2016	2.0	(-0.5)	2.2	(-0.2)	-	-
EC	February 2016	2.7	(-0.1)	2.6	(-0.1)	-	-
Federal Reserve	March 2016	2.2	(-0.2)	2.15	(=)	1.95	(-0.05)

Table 3 Euro area

	Release	2016		2017		2018	
IMF	January 2016	1.7	(0.1)	1.7	(=)	-	-
OECD	February 2016	1.4	(-0.4)	1.7	(-0.2)	-	-
EC	February 2016	1.7	(-0.1)	1.9	(=)	-	-
ECB	March 2016	1.4	(-0.3)	1.7	(-0.2)	1.8	-

Table 4 Czech Republic

	Release	2016		2017		2018	
IMF	October 2015	2.6	(-0.1)	2.6	-	-	-
OECD	November 2015	2.3	(-0.2)	2.4	-	-	-
EC	February 2016	2.3	(0.1)	2.7	(=)	-	-
ČNB	February 2016	2.7	(-0.1)	3.0	(0.1)	-	-

Table 5 Hungary

	Release	2016		2017		2018	
IMF	October 2015	2.5	(0.2)	2.3	-	-	-
OECD	November 2015	2.4	(0.2)	3.1	-	-	-
EC	February 2016	2.1	(-0.1)	2.5	(=)	-	-
MNB	December 2015	2.5	(=)	3.0	-	-	-

Table 6 Poland

	Release	2016		2017		2018	
IMF	October 2015	3.5	(=)	3.6	-	-	-
OECD	November 2015	3.4	(-0.3)	3.5	-	-	-
EC	February 2016	3.5	(=)	3.5	(=)	-	-
NBP	March 2016	3.8	(0.5)	3.8	(0.3)	3.4	-

1) Global economic growth excluding the euro area.
Note: Data in brackets denote the change in percentage points from the previous projection.
The IMF forecast of January 2016 and the OECD forecast of February 2016 include only projections for large economies.