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MEDIUM-TERM FORECAST

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1 Summary[1]

This latest medium-term forecast (MTF-2009Q4) is based on more benign assumptions for developments in external demand, as well as on projections of higher commodity prices. Expectations for external demand had a stimulating effect on the Slovak economy, in comparison with the estimates of the previous forecast.

In the third quarter of 2009, GDP continued to increase in line with expectations, according to the flash estimate of quarter-on-quarter growth published by the Statistical Office of the Slovak Republic (SO SR). Foreign trade, however, recorded even stronger figures over the same period, largely due to a more robust revival in export performance amid persistently low imports. This trend is assumed to continue, thereby slightly mitigating the decline in 2009 GDP projected in NBS's previous medium-term forecast. As for domestic demand, investment is expected to keep declining, though the drop in final consumption should be more moderate compared with the previous forecast (MTF-2009Q3). Another drag on GDP growth should be the fact that destocking continued in the third quarter of 2009 to a more marked degree than originally envisaged. The coming period, however, is expected to bring modest restocking in response to the recovery in economic activity.

The Slovak economy's downturn was reflected in a sharper than expected fall in employment in the third quarter of 2009, which resulted in the full-year projection for employment dynamics having to be revised.

With inflation rising at a slower than expected pace over the last months of the year, the effect on consumer prices should mean that the average HICP inflation rate for 2009 will be lower in comparison with the previous forecast. The following months are assumed to see a gradual acceleration in the year-on-year inflation rate, as commodity prices rise and should only partly restrained by the decrease in certain regulatory prices due to take effect at the beginning of 2010.

In the medium-term horizon, the revival in external demand is expected to continue at slightly higher levels than stated in the previous forecast, and stronger global demand will feed through to an improvement in export performance. Because of the considerably stronger foreign trade figures for 2009, however, net exports will make a negative contribution to GDP growth in 2010. As output rises, so developments in the labour market will gradually improve, but the impact of the sharper than expected fall in employment in the third quarter of 2009 will continue to be felt at the beginning of next year. Investment activity in the medium-term horizon is expected to rise as projected in MTF-2009Q3, partly boosted by investments in PPP infrastructure projects and in the local automobile industry. In 2011, the launch into production of a new car model should be a further spur to economic growth. The gradual recovery over the medium term will also be reflected in a faster rise in consumer prices.

The risks to the forecast for the real economy remain balanced in this latest medium-term forecast, as they were in the previous one. On the downside, there is the withdrawal of economic stimulus measures by foreign government, which could lead to a slower, W-shaped recovery in economic activity. Also in question is the effect that necessary consolidation of public finances will have on both domestic and external demand. An upside risk is the implementation of further PPP project packages, which this forecast does not take into account.

As for inflation, the risks to the current forecast are balanced on the upside, as well as on the disinflationary side, should developments in external demand not be in line with expectations. Differing developments in global demand may lead to different prices for energy and agricultural commodities, as well as to different import prices.

1 The latest GDP forecast is based on the SO SR's flash estimate for the third quarter of 2009, which does not, however, give data for GDP components. Data on the GDP structure for the third quarter of 2009 were not available at the time of this forecast's completion.

2 TECHNICAL ASSUMPTIONS AND THE INTERNATIONAL ENVIRONMENT

The technical assumptions for the medium term-forecast and the international economic environment were taken from the ECB's December forecast (Eurosystem Staff Macroeconomic Projections for the Euro Area).[2 3]

The assumption about short-term interest rates is of a purely technical nature. The methodology gives an overall average level of short-term interest rates of 1.2% for 2009 and 2010. They are assumed to increase thereafter to 2.4% in 2011. The market expectations for euro area ten-year nominal government bond yields imply an average level of 4.0% in 2009, increasing slightly to 4.1% in 2010 and to 4.6% in 2011. The projection takes into account the recent improvements in financing conditions and assumes that, over the projection horizon, bank lending rate spreads vis-à-vis the above-mentioned interest rates will narrow. Similarly, credit supply conditions are assumed to ease over the horizon. Oil prices per barrel are assumed to rise gradually on average in 2010 and 2011. The prices of non-energy commodities in US dollars are estimated to have decreased significantly in 2009 and assumed to rise sharply in 2010, followed by a more modest increase in 2011. The bilateral EUR/USD exchange rate for the projection is assumed to be the average level prevailing in the two-week period ending on the cut-off date, and this implies an exchange rate of 1.39 in 2009 and 1.49 in 2010 and 2011.

Compared with the ECB's September forecast, the December forecast assumes higher oil prices in 2010. Prices of non-energy commodities for 2009 are expected to have dipped in comparison with the previous forecast, but they should record a stronger rise in 2010. At the same time, December's projection assumes that the effective exchange rate of the euro against the US dollar will appreciate by 0.8 % in 2009 and then by 2.2% in 2010.

The global economic outlook continues to show signs of improvement. The recovery, however, will be uneven, as it is being driven primarily by the impact of monetary and fiscal stimuli, the rebound in trade and the inventory cycle. While some of the factors have only a temporary impact, the gradual improvement in financing conditions is expected to provide more lasting support to the recovery. Overall, global economic growth is expected to remain below past trends, as the recovery in advanced countries remains subdued by the crisis. World real GDP outside the euro area is estimated to have fallen by 0.6% in 2009, but it is assumed to grow by 3.5% in 2010 and 3.9% in 2011. Growth in the euro area's export markets is estimated to have fallen in 2009, by 12.2%, and is assumed to recover to 4.2% in 2010 and 4.7% in 2011.

Table 1 Technical assumptions (year-on-year changes in %, unless otherwise indicated)

	Forecast from	Forecast for the period		
		2009	2010	2011
Oil (USD/barrel)	September 2009	62.4	78.8	-
	December 2009	62.2	81.4	85.9
Non-energy commodities	September 2009	-21.4	17.1	-
	December 2009	-22.3	24.7	4.0

Source: ECB.

2 The technical assumptions about energy and non-energy commodity prices are based on market expectations, with a cut-off date of 12 November 2009.

3 More detailed informed about the ECB projection is available at www.ecb.int

3 Medium-term forecast for the euro area

After five quarters of decline, the euro area economy returned to growth in the third quarter of 2009. This upturn was caused by a number of factors, such as fiscal stimulus packages, the inventory cycle and the acceleration of trade. Once those temporary factors reverse, in early 2010, GDP growth is expected to moderate again. Over the full projection horizon until 2011, growth is expected to be supported by exports and by stronger domestic demand. The lagged effects of monetary policy action and of the efforts to restore the functioning of the financial system will support the recovery over the projection horizon. GDP growth is, however, expected to remain on a weaker path than before the recession. Among the components of GDP, total investment is expected to decline until 2011, albeit at a diminishing pace. Private consumption growth will be subdued given the outlooks for the labour market. In line with announced fiscal packages, government investment is assumed to grow strongly in 2009 and 2010, before declining the following year. In the wake of their sharp decline, exports are projected to recover and to do so at a faster pace than imports. Labour demand is expected to be dampened by downward wage rigidities in the context of the sharp downturn in activity. Reflecting the fall in employment, the unemployment rate is expected to increase over the projection horizon. It is also assumed that the output gap will remain significantly negative over the same period.

Compared with the September projection, the ranges estimated for GDP growth have been adjusted slightly upwards over the whole projection horizon.

Inflation is assumed to remain moderate over the projection horizon, being dampened by the relatively low level of economic activity. Turning to domestic prices pressures, wage pressures have fallen markedly in the course of 2009, in view of the deterioration of the labour market and the fall in inflation. Wage growth is therefore expected to remain moderate over the projection horizon. After declining in 2009, productivity should start recovering, while unit labour costs are expected to decline in 2010 and to rebound only moderately in 2011.

With regard to HICP inflation, the figure for 2009 is within the range published in September 2009, while the range for 2010 is somewhat higher.

Table 2 Projections of selected euro-area indicators (average year-on-year changes in %)

	Projection from	Projection for the period			
		2008[1]	2009	2010	2011
HICP	September 2009	-	0.2 – 0.6	0.8 – 1.6	-
	December 2009	3.3	0.3 – 0.3	0.9 – 1.7	0.8 – 2.0
Real GDP	September 2009	-	-4.4 – -3.8	-0.5 – 0.9	-
	December 2009	0.5	-4.1 – -3.9	0.1 – 1.5	0.2 – 2.2
Private consumption	September 2009	-	-1.3 – -0.5	-0.8 – 0.6	-
	December 2009	0.4	-1.2 – -1.0	-0.2 – 0.8	0.2 – 1.8
Government consumption	September 2009	-	1.4 – 2.0	1.0 – 1.8	-
	December 2009	2.0	2.2 – 3.0	0.5 – 1.7	0.4 – 1.8
Gross fixed capital formation	September 2009	-	-12.1 – -9.9	-5.2 – -1.2	-
	December 2009	-0.6	-11.3 – -10.5	-3.1 – -0.1	-1.7 – 2.3
Exports (goods and services)	September 2009	-	-16.2 – -13.6	-0.6 – 2.4	-
	December 2009	0.8	-14.5 – -12.5	0.6 – 5.6	0.7 – 6.5
Imports (goods and services)	September 2009	-	-13.6 – -11.0	-2.3 – 2.1	-
	December 2009	0.9	-12.6 – -11.0	0.4 – 4.6	0.8 – 5.4

Source: ECB.
1) Actual data.

4 Medium-term forecast for Slovakia

4.1 THE REAL ECONOMY

Current account

In the balance of payments **current account**, the most significant differences in the second half of 2009 were recorded in the trade balance, where the deficit was more modest than had been expected. Behind the better **trade balance** was an improvement in export performance alongside a drop in imports. The revival in exports outdid expectations, and reflected a pick-up in external demand, especially in the August and September figures. Lower imports reflected the undershooting of projections for gas imports and for restocking in anticipation of a gradual economic recovery, as well as a decrease in import intensity. With external demand projected to continue improving (in comparison with MTF-2009Q3), the level of exports is expected to rise both by the end of 2009 and over the whole projection horizon. This medium-term forecast expects imports to be stimulated by the import-intensity of exports, while taking account of the gradual decline in import intensity seen over the course of 2009. The level of imports in the last quarter of 2009 should also be positively affected by estimates for gas imports being revised downwards (since, contrary to projections, these imports have not gradually returned to last year's level), as well as by the assumption of lower than expected restocking. The effect of these factors on imports in 2010 is no longer expected to be as positive as it has been this year, and therefore imports are projected to rise more steeply year-on-year in comparison with the previous forecast.

As for the dynamics of imports and exports, their year-on-year decline in 2009 is expected to exceed 20% (in line with the previous forecast), but in 2010 and 2011 a gradual return to positive dynamics may be expected.

Because of the effect of these factors, the full-year trade deficit for 2009 has declined in comparison with the previous forecast. The trade balance should continue improving over coming years, too, largely due to rising external demand. September's assumptions for PPP projects remain unchanged in terms of their effect on imports over the whole projection horizon. The projections for new investment in the car industry, which is expected to increase imports from 2011, remain unchanged as well.

The main risk to the trade balance forecast is external demand rising more slowly than expected, as well as the timing of particular investments in PPP projects or foreign direct investments. Another risk is if the level of gas imports is other than expected by the end of year, considering its marked volatily in the first half of the year.

Compared with the previous forecast, the **balance of services** is expected to perform more negatively from 2009 to 2011, owing to actual developments in the first half of 2009 that were reflected mainly in lower revenue on services and a subsequent revision of their estimated development for the projection horizon. By contrast, interest payments are assumed to be lower than stated in the previous forecast (owing to changes in the external debt structure), which should be reflected in a slightly improved **balance of income**. The estimate for the **balance of current transfers** has been adjusted because of new assumptions for income and expenditure in relation to EU funds. These had the most marked effect on the 2009 forecast, since the lower estimate for income (based also on current developments) caused a significant deterioration in the projected balance of current transfers for the full year.

The **current account to GDP ratio** is assumed to improve over the projection horizon, largely due to the expected improvement in external demand (affecting the development of the trade balance).

Labour market

Compensation per employee in 2009 is not expected to change from the levels projected in the previous forecast. In the first half of 2009, compensation per employee rose sharply due to the effect of severance payments arising from mass redundancies. The rate of increase in compensation is expected to slow down gradually in the coming period, due to the basic wage component rising more slowly as a result of developments in corporate profits, as well as due to severance payments having a less marked effect. In 2010, the rise in compensation per employee is assumed to be sharper than predicted in MTF-2009Q3, as the economy recovers more quickly than expected and therefore the number of hours worked increases. The higher increase in compensation is assumed to reflect also the rise in the statutory minimum wage, which may subsequently show up in a decline in employment. In 2011, the rise in compensation growth is expected to be more marked in comparison with the previous forecast, as a result of labour productivity increasing faster in previous years and in turn giving a boost to wage negotiations.

Employment in 2009 is assumed to have fallen more sharply than projected in MTF-2009Q3, given that the SO SR's flash estimate for the 3rd quarter of 2009 showed a steeper decline in **employment** and also that mass redundancies are still being announced. By the end of 2008, firms in Slovakia (especially in the industrial sector) were beginning to scale back production in response to the economic crisis. Employers looked to save jobs by putting workers on short time. Although this trend continued in the first half of 2009, the quarter-on-quarter decline in hours worked was more moderate in the second quarter compared with previous periods. It is expected that some employers will not be able to sustain short-time working and will begin laying staff off, therefore exacerbating the decline in the employment rate reported at the end of 2009. The deterioration in the employment situation is expected to continue into 2010, and so the employment rate for the whole of next year is assumed to be lower than projected in MTF-2009Q3. The gradual recovery of the economy should feed through to the employment figures in 2011, which are expected to be around the level stated in the previous forecast. As the economy picks up, the cuts in production and accompanying reductions in working hours will gradually cease.

The slump in employment has been reflected in a rise in the unemployment rate over the whole projection horizon.

The main risk to the labour market forecast is a slower than expected economic recovery, which could entail further mass redundancies and production cuts, especially at export-oriented companies.

GDP

In line with the MTF-2009Q3 forecast, GDP in the third quarter of 2009 rose by 1.6% on the previous quarter and declined at a slower pace year-on-year, according to the SO SR's flash estimate. The GDP growth was driven mainly by developments in net exports, as monthly indicators show. Not only did the revival in external demand stimulate the economy's export performance, but the fact that imports of goods and services remained low also had a positive effect. The weak import dynamics reflected the lower import intensity of exports and developments in domestic demand. As for individual components of domestic demand, the forecast remains unchanged from MTF-2009Q3, and that is also the case with one-off effects on private consumption and investment (e.g. consumer confidence, scrapping schemes, PPP projects, new investments, etc.). The current upturn in foreign trade is expected to be reflected in its full-year positive contribution to GDP and in the economy declining more moderately in 2009 than projected in the previous forecast.

In the medium-term horizon, economic activity is assumed to recover more quickly than forecast in MTF-2009Q3, as a result of the more positive situation in the world economy. The export performance of the Slovak economy in 2010 should be driven up by higher external demand, and is expected to accelerate further in 2011. Faster growth in domestic demand will also reflect this development. As stated in the previous prediction, the expansion of production in the local automobile industry in 2011 will give a further boost to economic growth.

After slumping in the first quarter of 2009, GDP started to recover in the second and third quarters in the quarter-on-quarter comparison, and that trend is expected to have continued in the last three months of the year. While both domestic and external demand are assumed to have been substantially stimulated by government support measures taken in response to the crisis, the effects of these measures began to wane towards the year-end. Consequently, the first quarter of 2010 may not record quarterly growth in GDP. As for the year-on-year dynamics during the coming period, they will largely be determined by the base effects that need to be taken into consideration when evaluating the economic situation. This means that even positive year-on-year dynamics may not necessarily indicate a substantial kick-starting of economic growth, but may rather be the result of the slump in GDP during the same period of the previous year. In 2010-2011, the economic recovery and quarter-on-quarter GDP growth are assumed to continue, but at a slower pace than in 2009.

Domestic demand

Household final consumption in 2009 is expected to decline owing to slower growth in disposable income, which in turn stems from developments in the labour market (decline in employment, lower increase in compensation per employee). Even so, this decline is projected to be more moderate in comparison with MTF-2009Q3, as consumer confidence (which slumped early in the year) should return and feed through to a slight rise in private consumption. In view of these factors, the savings ratio is assumed to decline in comparison with the previous forecast. In connection with the rise in disposable income, coming years are expected to see household consumption rise to slightly higher levels than those stated in MTF-2009Q3.

This forecast, like the last one, projects that **fixed investments** will decline sharply in 2009, since low external demand is expected to hit corporate profits and thus lead companies to cut back investment activities. As in MTF-2009Q3, the full-year slump in investments is assumed to be offset slightly by investment in PPP infrastructure projects, as well as in the car industry. In the medium-term horizon, investments in machinery and construction are expected to rise slightly in connection with the recovery of economic activity.

The **destocking** recorded in the first half of 2009 is projected to continue in next period, too, and is also implied by lower imports shown in monthly indicators. The negative contribution of destocking to this year's GDP is expected to be more pronounced than forecast in MTF-2009Q3. In 2010, however, the gradual economic recovery is expected to see a return to restocking, which will make a positive contribution to economic growth and have a negative effect on import developments.

Net exports

According to the latest monthly statistics, the economy's export performance for the third quarter of 2009 was far stronger than expected. Import volumes, by contrast, remained entrenched at the low levels of previous months (reflecting subdued domestic demand, as well as the declining import intensity of exports). The trade balance should improve substantially on the basis of these developments, to the extent that it will make a positive contribution to GDP in 2009 (in contrast to the dampening effect projected in MTF-2009Q3). The expectations for 2010 and 2011 are that external demand will continue its positive trend, export performance will rise, and imports, too, will report a gradual increase in connection with growth in domestic demand. It is assumed, however, that net exports will contribute negatively to GDP growth in 2010 largely due to their substantial positive contribution in 2009 and the projected rise in restocking. A further boost to export performance is expected in 2011, when car production is extended (launch of a new model).

The risks in this medium-term forecast are balanced, as were the risks in the previous forecast.

Chart 1 Forecast for GDP growth at constant prices (%)

Source: NBS.

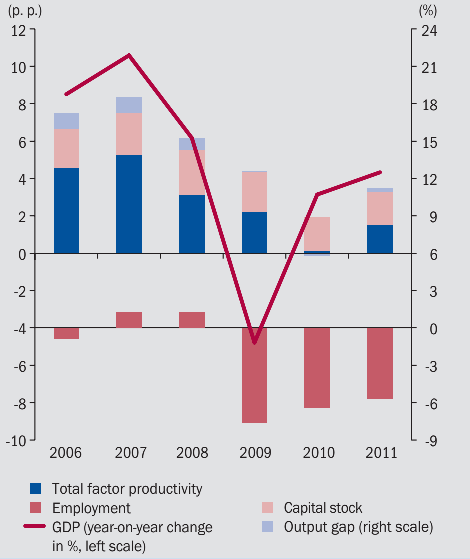
A downside risk is the ending of support measures introduced by foreign governments, which could result in a slower revival in economic activity and therefore a W-shaped recovery (both globally and domestically). Also in question is the effect that necessary consolidation of public finances will have on both domestic and external demand. An upside risk is the implementation of further PPP packages, which this forecast does not take into account.

Potential GDP and the output gap

In this medium-term forecast, the growth potential of the economy also underwent a revision. Although, following a period of substantial FDI inflows, potential GDP growth was expected to return to a long-term sustainable level, it is currently rising at below that level largely due to the economic crisis. The slowdown in investment activity, as well as the deterioration in the labour market are assumed to be reflected not only in GDP growth, but also in the slower rise in its potential growth. Whereas in 2009, the economy's potential growth is projected to rise to 4.4% owing to a base effect, the potential growth in 2010 is assumed to be only 1.8%. All GDP components are expected to be a drag on potential GDP growth. The most marked changes should be in total factor productivity (TFP), which is expected to make a close-to-zero contribution in 2010, rising gradually in the years thereafter. The accumulation of capital in response to the crisis will also reflect the weak investment activity, and the growth in capital over the projection horizon is expected to slow down to around the 3.2% level. Potential employment in 2009 is assumed to have declined slightly, reflecting the slump in actual employment. The stagnation in potential employment should persist in 2010, and because of a base effect it is expected to make a slightly negative contribution to potential GDP growth. The economic recovery is expected to be seen gradually in potential employment, but, as with TFP, the effect will not be apparent until 2011. Potential GDP growth in that year is projected to be 3.5%.

In view of the sharp economic downturn, the negative output gap is expected to widen considerably in 2009, to -7.6%. This, however, represents a modest improvement in comparison with the previous forecast (since the current forecast estimates a more moderate decline in GDP), and the gap is expected to narrow further in subsequent years as a corollary of the economic recovery.

Chart 2 Contributions to potential GDP growth and the output gap



Source: NBS.

4.2 HICP

Consumer prices continued to rise more slowly year-on-year, and in October they entered deflationary territory for the first time ever.

The HICP inflation rate undershot the projections in MTF-2009Q3 and fell from 0.6% in July to -0.1% in October 2009. The most recent inflation figures were marked by slower rises in almost all HICP subcomponents; the exceptions were unprocessed food prices, which recorded a slower decline year-on-year, and prices of non-energy industrial goods, whose dynamics remained at the same level as in July. The most pronounced slowdown in price increases was recorded by energy prices, and was caused by the base effect of heat price developments (a relatively sharp rise in these prices for the same period of the previous year). Prices of services came in lower than projected in MTF-2009Q3, reflecting price developments in transportation, recreational services, and personal and other services (doctors and dentists). The situation in services stemmed from stagnating demand, as well as the base effect of the previous year's price developments.

The largest divergence from the previous forecast's assumptions was seen in food prices and in non-energy industrial goods. In the latter category, the sharpest drop in annual price rises was recorded for clothes, shoes, and furniture. By contrast, pharmaceutical prices accelerated upwards year-on-year, and the decline in motor vehicle prices slowed down in the 12-month comparison. Food price dynamics for October 2009 were the same as they had been in July, whereas MTF-2009Q3 projected that the decline in these prices would ease. The development of individual components did, however, show differences. In the case of processed foods (bread and cereals, oils and fats, non-alcoholic beverages, wine), the decline in their prices accelerated year-on-year, while the prices of unprocessed foods (fruit and vegetables) fell at a slower pace year-on-year.

The current forecast assumes that the inflation rate will gradually accelerate year-on-year. HICP inflation for December 2009 is expected to rise slightly year-on-year, to 0.3%, and at the end of 2010 and 2011, it should record annual increases of, respectively, 1.9% and 2.0%. All inflation components are reflecting the rising pace of inflation, particularly the prices of foodstuffs and non-energy industrial goods. This is largely attributable to the gradual recovery of economic activity and projected developments in commodity prices, as a result of which consumer prices are expected to rise steadily faster.

Compared with MTF-2009Q3, the latest forecast predicts lower annual average inflation in 2009 and 2010, and a slightly higher rate in 2011. The average rate for 2009 should be affected by a slower than expected rise in the inflation figures of recent months, which should also feed through to the rate in the first half of 2010. The current forecast, however, differs from MTF-2009Q3 in assuming a reduction in regulated energy prices from January 2010, such that outweighs even the effect of the faster economic recovery. Compared with MTF-2009Q3, the forecast for 2011 expects a slight increase in the average HICP rate, largely owing to an acceleration in food prices caused by amended technical assumptions.

Chart 3 Projected inflation (%)

Source: NBS.

Table 3 Comparison of HICP inflation forecasts (year-on-year changes in %, average for the period)

	2008	2009	2010	2011
MTF-2009Q2	3.9	1.3	1.8	2.5
MTF-2009Q3	3.9	1.1	1.8	2.4
MTF-2009Q4	3.9	0.9	1.2	2.5

Source: NBS.

Table 4 Comparison of HICP inflation forecasts (year-on-year changes in %, end-of-year figures)

	2008	2009	2010	2011
MTF-2009Q2	3.5	0.9	2.1	2.7
MTF-2009Q3	3.5	0.6	2.2	2.5
MTF-2009Q4	3.5	0.3	1.9	2.0

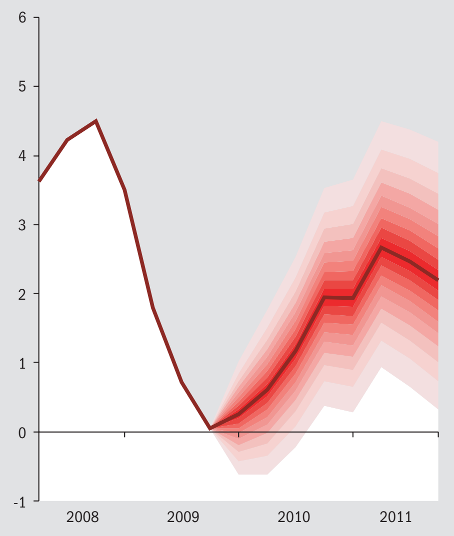
Source: NBS.

The average rise in administrative prices is expected to be 5.1% in 2009, 0.9% in 2010 and 3.2% in 2011 (in MTF-2009Q3, it was 5.4 in 2009, 3.0% in 2010 and 2.7% in 2011). This slower increase in administrative prices4 in 2010, compared both with 2009 and with the assumptions in MTF-2009Q3, is caused by the decline in regulated prices announced to take effect in January 2010.

Overall inflation excluding energy and unprocessed foods (core inflation) is expected to average 1.7% in 2009, 2.4% in 2010 and 2.9% in 2011, according to the current forecast. Among the components of core inflation, processed food prices are predicted to rise more slowly at the end of 2009 and beginning of 2010, given the developments of recent months and the low prices of food commodities in the short-term horizon in comparison with MTF-2009Q3. A return to sharper price rises, compared with the previous forecast, is projected from the second quarter of 2010. This trend should continue through to 2011. Likewise, the effect of higher excise taxes on cigarettes, imposed since February, is assumed to add 0.2 percentage points to the overall inflation rate, with effect from October 2010. This forecast also takes account of the bill proposed by the Ministry of Finance that aims to increase excise duties on alcohol. This is projected to increase the overall inflation rate by a further 0.06 percentage points, from March 2010.

Prices of non-energy industrial goods over the period 2009-2010 are expected to climb more slowly than projected in MTF-2009Q3, reflecting the contrast between their development in recent months and the previous forecast. In 2011,

Chart 4 HICP inflation forecast (%)



Source: NBS.

amid an expected recovery in global demand, these prices should rise more sharply than in 2010. The prices of services will start reflecting the slowdown in economic activity in the last months of the year, with increases lower than projected in MTF-2009Q3. As a result, price rises in 2009-2010 will be lower than expected.

According to the assessment of the respective risks, the medium-term forecast for inflation is realistic, with none of the selected inflation-determining factors being reported as a substantial risk. Compared with the previous forecast, the resulting degree of risk represented by these factors has fallen slightly over the whole projection horizon.

4 The forecast MTF-2009Q4 for the administrative prices of energy is based on assumptions for developments in world oil prices and estimates of regulated prices. The price-setting decision of the Regulatory Office for Network Industries (ÚRSO) was not available when MTF-2009Q4 was being produced.

Table 5 Medium-term forecast MTF-2009Q4 – main macroeconomic indicators

	2008	2009	2010	2011	2009	2010	2011
	Actual	Forecast			Difference versus MTF-2009Q3		
Prices (annual percentage changes)							
HICP inflation (average)	3.9	0.9	1.2	2.5	-0.2	-0.6	0.1
CPI inflation (average)	4.6	1.7	1.9	3.1	-0.1	-0.4	0.0
ULC (compensation per employee at current prices / labour productivity ESA95 at constant prices)	5.5	7.4	-2.3	2.0	-1.5	-0.6	0.5
Labour productivity ESA95 (GDP at constant prices / employment ESA95)	3.3	-2.4	4.4	3.8	1.3	1.3	-0.1
Compensation per employee (current prices)	9.0	4.8	2.0	5.8	0.0	0.7	0.5
Economic activity (annual percentage change; unless otherwise indicated)							
Real GDP	6.2	-4.8	3.1	4.3	0.8	0.2	0.1
Final consumption of households	6.1	-1.1	0.1	3.8	0.2	0.7	0.5
Final consumption of general government	4.3	4.9	3.0	2.7	0.1	-0.3	-0.2
Gross fixed capital formation	6.8	-10.4	3.0	1.7	0.0	0.1	0.2
Exports of goods and services	3.2	-16.2	6.7	6.5	1.4	0.7	-0.2
Imports of goods and services	3.3	-18.5	8.4	4.4	-1.2	2.4	0.2
Gross real disposable income of households	7.2	1.0	0.9	3.8	-0.1	0.2	0.5
Output gap (% of the potential output)	1.3	-7.6	-6.4	-5.7	0.8	1.2	1.2
Labour market							
Employment, based on ESA95 (annual percentage change)	2.8	-2.4	-1.2	0.5	-0.5	-1.0	0.2
Unemployment rate, LFSS-based (%)	9.6	11.5	12.6	12.5	0.3	0.7	0.6
Balance of payments							
Economic openness (% of GDP)	166.8	137.6	140.7	140.6	0.9	1.2	0.3
Balance of trade (% of GDP)	-1.1	1.6	-0.3	1.2	2.6	0.6	0.4
Balance of services (% of GDP)	-0.7	-1.8	-1.5	-1.3	-0.4	-0.3	-0.2
Current account (% of GDP)	-6.5	-3.8	-4.4	-2.2	2.0	0.6	0.7
Current and capital account (% of GDP)	-5.3	-2.9	-2.1	0.0	1.3	0.9	0.8

Source: NBS.
Note: LFSS stands for Labour Force Sample Survey.