NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

Report on the International Economy

September 2016

Published by:

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http://www.nbs.sk

Discussed by the NBS Bank Board on 27 September 2016.

The cut-off date for this report was 14 September 2016.

ISSN 1339-9616 (online)

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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

Global economic growth remained moderate in the second quarter of 2016. The June referendum in the United Kingdom that resulted in a vote to leave the European Union represents a downward risk to the global growth outlook. Although the post-referendum volatility in financial markets was short-lived, the UK's growth outlook was revised down, indicating a dampening effect on global demand. Larger commodity exporters among emerging market economies (EMEs) are stabilising and could support global growth in the period ahead; however, their outlooks remain subdued amid indicators of only modest global growth and lower than expected GDP growth in the United States.

In advanced economies, GDP growth remained relatively weak in the second quarter of 2016. Although the United States saw strong private consumption in the second quarter, its economic growth increased only modestly, due to the continuing drag from inventories and falling capital expenditure in the energy sector, as well as the impact of the dollar's previous appreciation. Looking ahead, US economic growth is expected to strengthen, as the negative impact of investment and inventories gradually recedes and as favourable labour market developments boost wage growth, with an upward impact on real disposable income and consumption. In the United Kingdom, GDP growth increased moderately, driven by a domestic demand component in which both private consumption and investment accelerated. Net exports contributed negatively to economic growth. In the short-term, the impact of the EU referendum on the UK economy was lower than originally projected. However, the uncertainty surrounding the negotiations to leave the EU is expected to weigh on the economy through the investment and trade channels. Japan's economic growth slowed in the second quarter due to a decline in export performance and softening of private consumption. These factors may be partly explained by leap year effects boosting first-quarter growth. The slump in exports, however, may also be attributed to the yen's appreciation in an environment of weak foreign demand. While the Japanese economy faces deflationary pressure and subdued growth in disposable income and foreign demand, it should in time benefit from policies of fiscal and monetary accommodation. Private consumption is expected to recover amid rises in real income, while accommodative financial conditions should support investment growth. The postponement of the rise in VAT (scheduled for April 2017) until 2019 will support activity growth in Japan, as will additional stimulus measures. Euro area GDP growth slowed in the second quarter after increasing strongly earlier in the year. The main drivers of growth were net exports and consumption, both private and public, while inventories had a negative impact. The euro area economic recovery is expected to continue despite a projected weakening of exports following the UK's vote to leave the EU, which has so far had limited impact on confidence and uncertainty indicators. Thus the outlook for euro area growth is more favourable than originally expected.

Turning to EMEs, China's economic growth stopped decelerating and stabilised, thanks to accommodative monetary policy, currency depreciation and capital investment by state-owned firms. In the short term, monetary policy accommodation and fiscal stimulus are expected to continue supporting the economy. In the medium term, however, China's transition to a more balanced economy is expected to dampen growth both domestically and in other Asian countries with close links to China. India's economic growth fell moderately in the second quarter, but trends remained favourable, supported by firm confidence indicators, by the adoption of measures suggesting political consensus for economic reform, and by robust investment growth. Although the Russian economy remained in recession in the second quarter, its upturn is now expected and it could even return to growth in the second half of 2016. Falling inflation is expected to support consumption and help ease financial conditions. The recession in Brazil was more moderate in the second quarter than in the first, with both consumer and business confidence picking up. On the other hand, a combination of political uncertainty, tight monetary policy and financing conditions, and planned fiscal consolidation measures is expected to result in further dampening of economic activity.

Quarter-on-quarter GDP growth in the OECD area slowed to 0.3% in the second quarter of 2016, down from 0.4% in the previous quarter. The year-on-year growth rate fell from 1.7% to 1.6%. The average Composite Leading Indicator (CLI)[1] for the OECD area maintained its downward trend in the second quarter, possibly pointing to a slowdown in global economic growth in the short term. In July, however, the CLI remained unchanged from the previous month.

Global economic growth is expected to recover gradually in the period ahead. Looking at advanced economies, the United States should continue to be supported by low interest rates, improving labour and property markets, and growing confidence. The Japanese economy is expected to benefit from accommodative fiscal and monetary policies. In the United Kingdom, on the other hand, heightened uncertainty is expected to dampen activity. As regards EMEs, the gradual slowdown of the Chinese economy may also weigh on other Asian countries. Capital flows to EMEs have recovered recently, but a number of these countries are still coping with the tightening of external financing conditions associated with the expected normalisation of US monetary policy. The gradual easing of deep recessions in certain commodity exporters may provide some support for global growth, but many commodity exporters face difficulties in adjusting to the low commodity price environment. The global economy is also confronted with the headwind of geopolitical tension in several regions.

Chart 1 GDP growth and the CLI in the OECD

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

Average annual inflation in OECD countries remained relatively stable in the second quarter of 2016, standing only slightly higher in June (at 0.9%) than in March (0.8%). Nevertheless, the annual inflation rate was lower for the second quarter as a whole than for the first quarter (down to 0.8% from 1.0%). The energy component continued to weigh on inflation, albeit to a lesser extent than it did in the previous period. With core inflation relatively unchanged during the period under review, it was the food component that accounted for the drop in the headline rate. Food price inflation decreased gradually during the second quarter and reached zero in June. The core inflation rate for June was the same as for March (1.9%). Annual consumer price inflation remained at 0.8% in July, with a slight increase in the food component being offset by a more negative rate of energy price inflation and a slight drop in core inflation, to 1.8%.

Looking ahead, global inflation is expected to rise gradually, and, in the short-term, the effect of past declines in commodity prices will diminish. At the same time, on the basis the oil futures curve, oil prices are forecast to push up inflation. On the other hand, the abundance of spare capacity at the global level is expected to weigh on underlying inflation over the medium term.

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

2 Commodities

The average price of a barrel of Brent crude oil had an upward trend in the second quarter of 2016, and its average level of USD 47 was around USD 12 higher than the average for the previous quarter. In early April, the oil price responded to a fall in US oil inventories, as well as to expectations that a production freeze would be agreed by OPEC and non-OPEC countries at a summit in Qatar. When the summit ended without agreement in mid-April, the oil price fell, but only for a short period. Thereafter, the upward impact of supply-side factors again came to the fore. These included not only the level of US oil stocks, but the substantial reduction in Canadian oil output as a result of wildfires. The oil price fell briefly also at the beginning of May and June, but amid diminishing global oil surpluses and projections of increasing demand, the price increased towards the end of the second quarter, to around USD 50 per barrel. In July, however, the oil price fell appreciably due to subdued demand and a slight recovery in US oil output. The following period until mid-September saw a moderate rebound from the July level.

The upward trend in non-energy commodity prices continued in the second quarter of 2016, albeit more moderately than in the previous period. The increase in these prices was driven mainly by agricultural commodity prices, which climbed from April to June. By contrast, metal prices returned to a downward path in May and June. The upward trend in agricultural commodity prices was largely attributable to weakening supply. Maize and soya prices recorded the highest increases, reflecting lower harvests in Argentina and Brazil, and rice prices also rose owing to persisting drought in Asia. Meat prices increased in response to rising demand from Asia as well as to a fall in meat exports from the EU. The fall in wheat prices was an exception that reflected a combination of oversupply, large stocks, and favourable production outlooks. The metal price index increased further in April, with iron ore prices being boosted by the strength of steel production in China. Prices of aluminium, nickel, tin and zinc also increased. Subsequently, however, the metal price index decreased due to increases in inventories and production. Non-energy commodity prices continued to increase in July, but this time their growth was accounted for by an upturn in metal prices, which reflected both lower supply, and higher demand from China for industrial metals. On the other hand, agricultural commodity prices fell owing to developments in the wheat and soya markets. As they continued to fall and as metal price inflation slowed, the non-energy commodity price index fell in August in month-on-month terms.

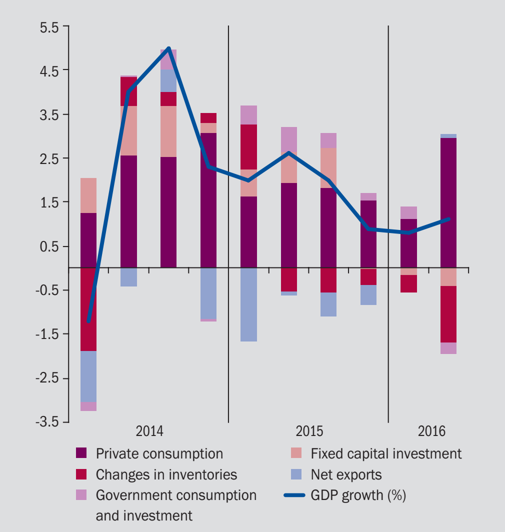
3 The United States

In the United States, the annualised rate of economic growth accelerated only slightly in the second quarter of 2016, to 1.1% (up from 0.8% in the previous quarter). At the same time, the year-on-year growth rate dropped to 1.2%, from 1.6% in the first quarter.

The growth figures were somewhat underwhelming, given that expectations for a stronger recovery had been raised by favourable private consumption figures at the start of the second quarter (reflecting increases in durable and non-durable consumption). Looking at the composition of GDP growth, the strong contribution of private consumption (around 3 percentage points) was driven mainly by purchases of motor vehicles and housing-related services. Net exports had negligible positive impact, with exports increasing moderately and imports only fractionally. On the other hand, investment demand and inventories both contributed negatively to overall activity growth. The negative impact of non-residential investment stemmed largely from structural investment and investment in equipment, although a slump in residential investment also weighed heavily on the economy. Further dampening of activity came from the government sector, at both the federal and state level. The second half of the year should see the economy pick up on the basis of strong economic fundamentals, including labour and property market developments, the accommodative monetary policy and favourable financial conditions. The impact of temporary factors such as past appreciation of the dollar, falling inventories and a rebalancing of investment in the energy sector is expected to fade gradually. At the same time, increasing political uncertainty, both at home and abroad, constitutes a downward risk to investment and export outlooks.

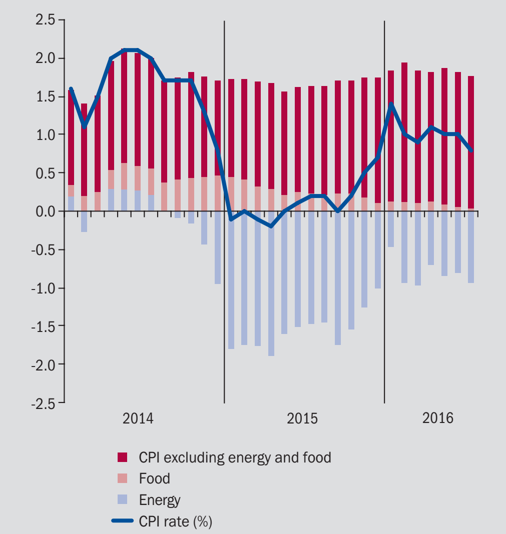
Annual consumer price inflation in the United States was relatively stable in the second quarter of 2016. The disinflationary trend of the first quarter ended in April, as the negative rate of energy inflation moderated. In May, however, energy inflation turned more negative again, and at the same time a softening of agricultural commodity prices dampened food inflation. The result was a drop in the headline inflation rate. In June, inflation remained relatively stable, at 1.0%, just above its level in March (0.9%). Infla-

Chart 2 Annualised GDP growth and its composition (percentages; percentage point contributions)



Source: Bureau of Economic Analysis.

Chart 3 Annual consumer price inflation and its composition (percentages; percentage point contributions)



Sources: Bureau of Labor Statistics and NBS calculations.

tion excluding food and energy edged up in June, to 2.3% (from 2.2% in May). The headline rate fell to 0.8% in July, as the energy component exerted an increasing drag (due to petrol price developments) and as food inflation slowed further. Core inflation also contributed negatively to overall inflation in July, easing to 2.2% despite an increase in health-care prices. The core rate was notably affected by falling air fares. July's slowdown in consumer price inflation supported the view that the Federal Reserve will not increase interest rates as early as had been expected.

The US Federal Open Market Committee (FOMC) decided at its meetings in April, June and July 2016 to leave the target range for the federal funds rate unchanged, at 0.25% to 0.50%. According to the FOMC, the stance of monetary policy remains accommodative, thereby supporting further improvement in labour market conditions and a return to 2 per cent inflation. In its statements following these 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 per cent 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.

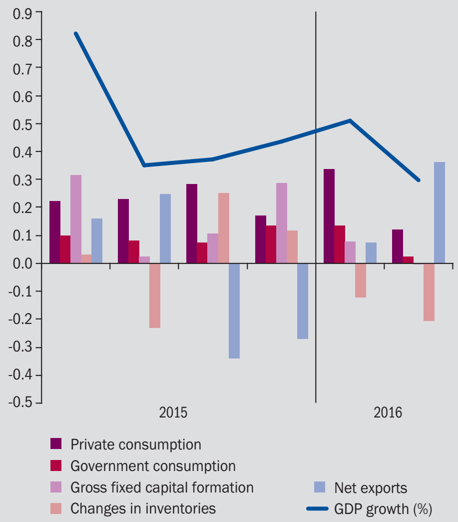
4 The euro area

The euro area's GDP growth slowed to 0.3%, quarter on quarter, in the second quarter of 2016, down from 0.5% in the first quarter. Among the larger national economies, the strongest contractions in GDP growth were observed in France (from 0.7% to 0%), Germany (from 0.7% to 0.4%) and Italy (from 0.3% to 0%). In Spain and the Netherlands, activity growth remained unchanged, at 0.8% and 0.6% respectively. The euro area's annual GDP growth rate fell slightly in the second quarter, to 1.6% (from 1.7% in the first quarter).

In contrast to the previous three quarters, economic growth was driven mainly by net exports, reflecting a notable acceleration of goods and services exports at a time of modest import growth. Domestic demand had a negative impact on activity growth, owing to a sharp, probably export-driven, drop in inventories. As in the previous eight quarters, consumer demand growth, contributed positively to GDP growth, albeit more moderately than in the previous quarter. Both private and public consumption growth slowed appreciably. The lower growth rates in the most significant domestic demand components (investment, consumption) may be partly explained by the United Kingdom's vote to leave the European Union. Nevertheless, domestic demand continues to be supported by the ECB's accommodative monetary policy stance and its pass-through to credit conditions.

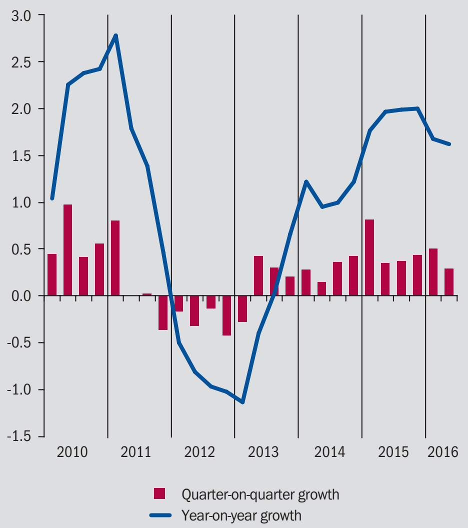
Although the substantial lowering of monetary policy rates is conducive to a decrease in the saving ratio, that effect has not yet been evident due probably to the climate of uncertainty. The spending of savings may be stimulated by the additional monetary policy measures recently adopted. Given the assumption of economic recovery, the willingness of consumers to make major purchases is expected to increase. Such a trend could support a recovery in consumer demand.

Chart 5 Quarterly GDP growth and its composition (percentages; percentage point contributions)



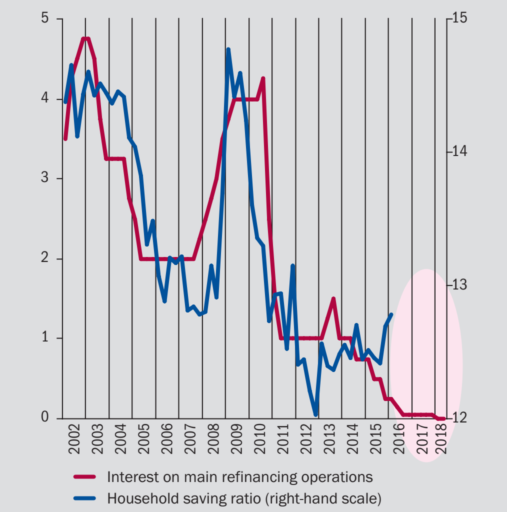
Sources: Macrobond and NBS calculations.

Chart 4 GDP growth (percentages; constant prices)



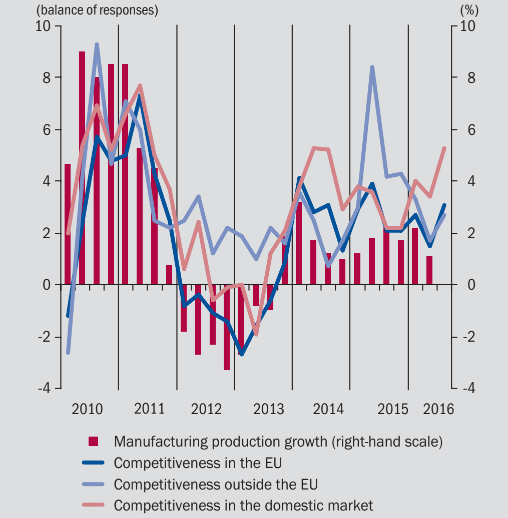
Source: Macrobond.

Chart 6 Monetary policy rates and the household saving ratio (percentages)



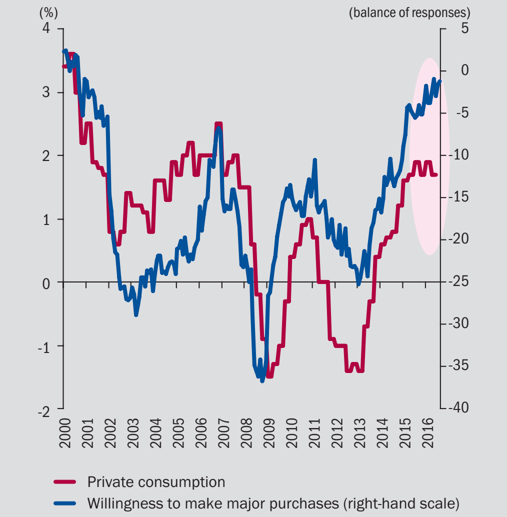
Source: Macrobond.

Chart 8 Competitiveness in industry (balance of responses) and growth in manufacturing production (annual percentage changes)



Sources: European Commission, Eurostat and NBS calculations.

Chart 7 Consumers' willingness to make major purchases (balance of responses) and private consumption (annual percentage changes)



Source: Macrobond.
Note: Year-on-year consumption growth in each month of each quarter is approximated by consumption growth for the quarter as a whole.

Chart 9 Export expectations in industry (balance of responses) and growth in manufacturing production (annual percentage changes)

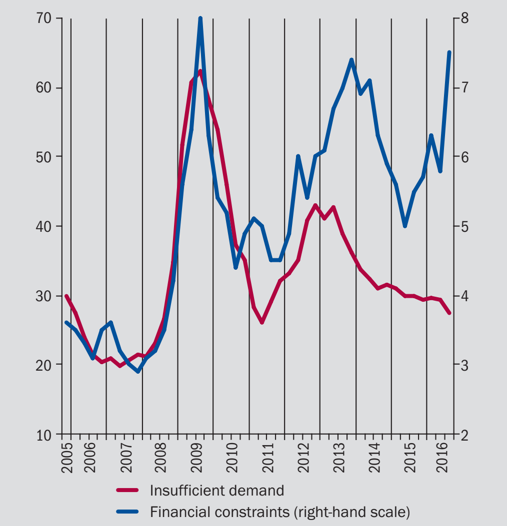
Sources: European Commission, Eurostat and NBS calculations.

Despite relatively strong export growth in the second quarter, manufacturing production fell quarter on quarter (by 0.4%) and its annual growth rate slowed. This may be partly explained by the proportion of exports drawn from existing inventories. Firms in industry nevertheless became more optimistic in assessments of their competitive position for the third quarter, indicating perhaps a moderate recovery in manufacturing. Another sign that the manufacturing slump may be temporary is that the third quarter saw an end to the downward trend in export expectations observed in previous quarters.

Perceptions of factors limiting industrial production changed more in the third quarter than in any quarter for the past two years, after remaining broadly unchanged in the past two quarters. The decline in the importance of insufficient demand indicates a situation supporting further economic recovery. By contrast, the importance of financial constraints as a limiting factor increased significantly, although that is highly likely to be related to the UK's vote to leave the EU. The importance of labour shortages fell only slightly and remains at a relatively high level consistent with an improving situation in the labour market. The impact of shortage of material/equipment increased slightly in the third quarter after falling markedly in the previous quarter. It therefore appears that investment demand, after stagnating in the second quarter, is unlikely to soften.

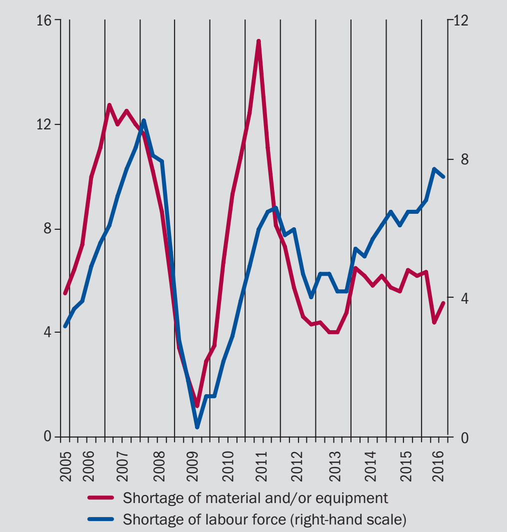
The unemployment rate, continuing a downward trend, was 0.1 percentage point lower in April than in March, at 10.1%. It remained at that level in May, June and July. Employment expectations strengthened in the second quarter and subsequent two month, particularly in industry and construction (in July and August). This may point to a pick-up in economic performance and an improving labour market situation. Employment expectations in retail trade and services were volatile and showed no clear trends.

Chart 10 Factors limiting production in industry (percentages)



Source: European Commission.

Chart 11 Factors limiting production in industry (percentages)

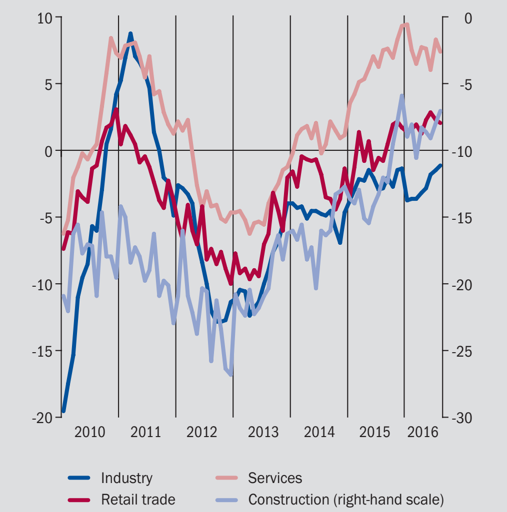


Source: European Commission.

Chart 12 Unemployment rate and long-term unemployment rate (percentages)

Source: Eurostat.

Chart 13 Employment expectations by sector (balance of responses)

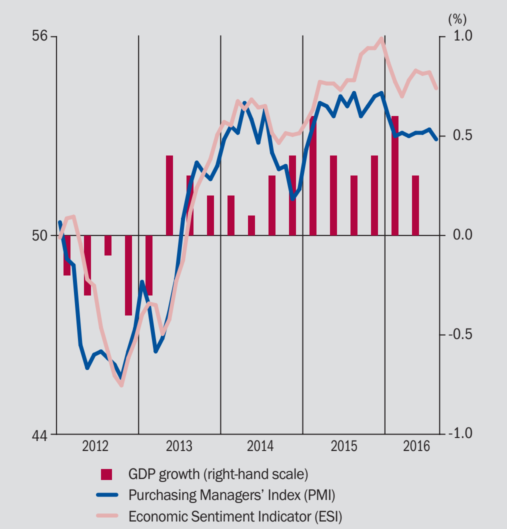


Source: European Commission.

Leading indicators have been significantly affected by the UK's vote to leave the European Union. The Purchasing Managers' Indices (PMIs) for the euro area and Germany edged down in August after increasing in July. They nevertheless remain at a level that points to ongoing economic growth. The European Commission's Economic Sentiment Indicator (ESI) for the euro area also deteriorated in August, with all sectors apart from services reporting a decline in confidence. The ESI for Germany likewise fell in August, and the Ifo Business Climate Index for the same country fell in both July and August. However, the ZEW economic sentiment index for Germany picked up slightly in August, after its slump in July, and remained unchanged in September. Leading indicators have clearly been affected by the uncertainty surrounding the UK's vote to the leave the EU, and they may at present not be fully reflecting fundamental information about the economy.

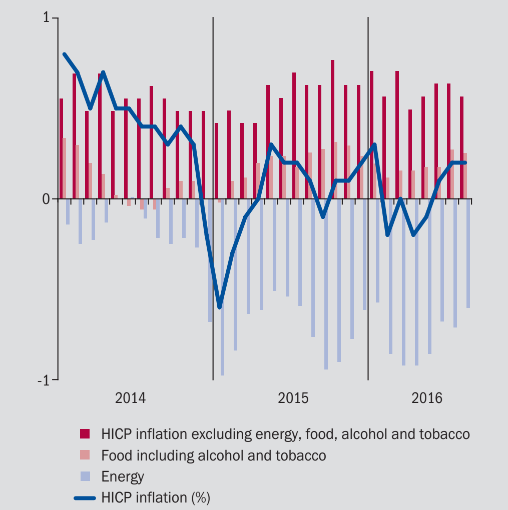
Euro area annual HICP inflation in the second quarter reflected the fact that the Easter holiday fell in the first quarter of 2016 and in the second quarter of the previous year. However, this calendar effect gradually faded. After dipping into negative territory in April and May, the headline inflation rate turned marginally positive again in June (0.1%) and stood slightly higher (by 0.1 percentage point) than in March. The inflation acceleration was driven mainly by lessening of the energy component's negative contribution, as well as by a moderate increase in food inflation.

Chart 14 Euro area leading indicators and quarterly GDP growth



Sources: European Commission, Eurostat, Bloomberg and NBS calculations.

Chart 15 Annual HICP inflation rate and the contributions of selected components (percentages; percentage point contributions)

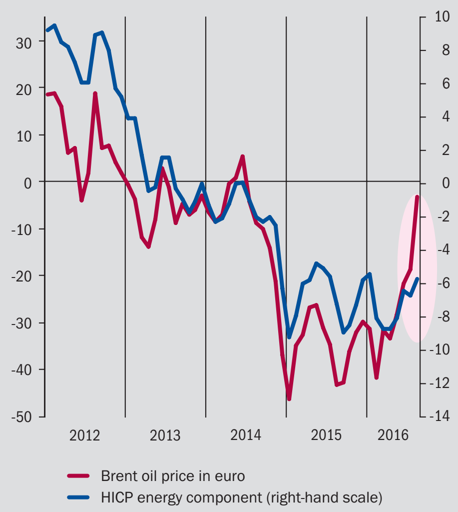


Sources: Macrobond and NBS calculations.

There was also downward pressure from a slight drop in industrial goods inflation. Annual services inflation was quite significantly affected by the early Easter. It increased in March precisely due to this factor, and then, owing to the base effect, slowed towards the end of the second quarter. Its level in June was 1.1%, the same as at the end of 2015. July saw the headline inflation rate edge up to 0.2%, owing mainly to stronger food price inflation and also slightly rising services prices. The rate remained unchanged in August as the upward impact of a slower decline in energy inflation was offset by decreases in non-energy industrial goods inflation and services inflation. So while cost-push factors are having a positive impact on the headline inflation rate, demand-sensitive items are exerting a drag.

Both in the second quarter and in July and August, consumer prices reflected global oil price developments. The average oil price rose quite markedly during the second quarter and this was reflected in its annual rate of change. Although the oil price fell slightly in July and August, its year-on-year decline was moderated significantly by a base effect. This dynamic gradually passed through to consumer energy prices, easing their rate of decrease. Nevertheless, the slowdown in the annual rate of decline in oil prices has not yet been fully reflected in energy prices.

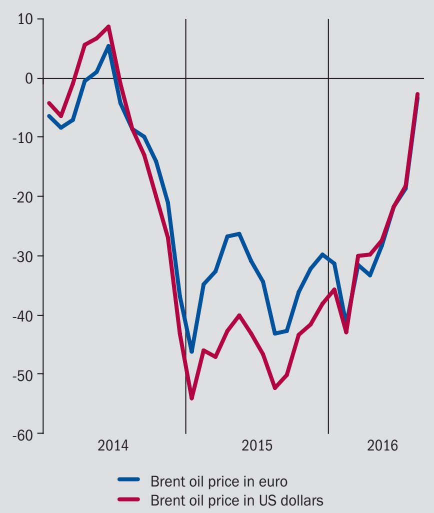
Chart 17 Oil prices in euro and the HICP energy component (annual percentage changes)



Sources: Macrobond and NBS calculations.

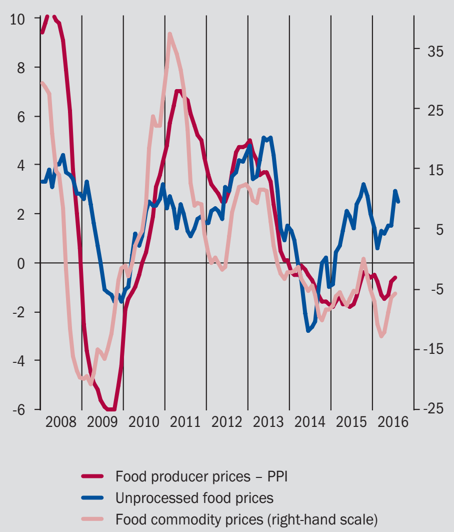
With the food commodity market recovering and food commodity inflation becoming less negative, unprocessed food inflation at the consumer level increased by 0.2 percentage point in the second quarter, to 1.5%, and then accelerated more strongly in July, to 2.5%. At

Chart 16 Oil prices in euro and US dollars (annual percentage changes)



Sources: Macrobond and NBS calculations.

Chart 18 Food prices: commodity, producer and consumer prices (annual percentage changes)

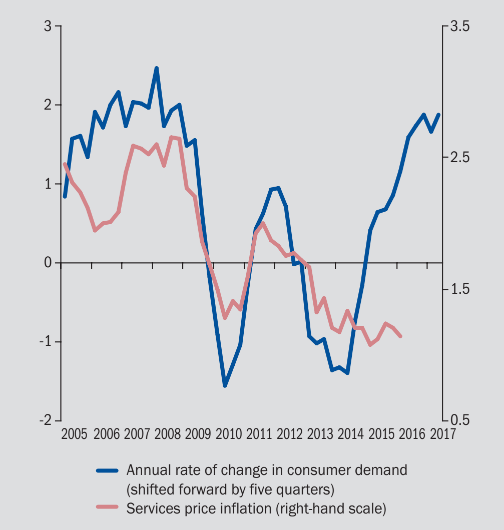


Sources: Macrobond, ECB and NBS calculations.

Chart 19 Food producer prices and processed food prices (annual percentage changes)

Source: Macrobond.

Chart 20 Consumer demand and services price inflation (annual percentage changes)



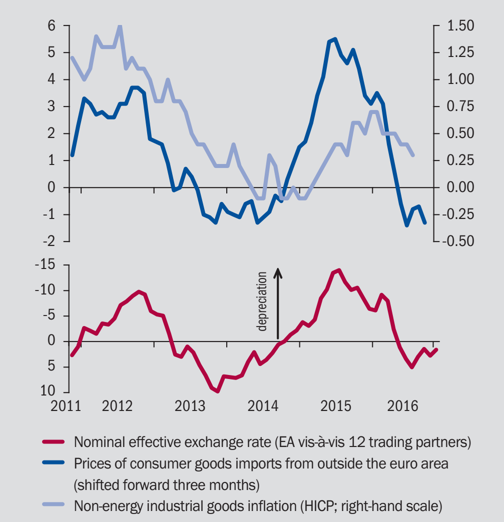
Source: Macrobond.

the same time, food commodity prices had a moderating effect on the negative rate of food producer prices. This may, in the period ahead, ease the drag on processed food inflation, which remained broadly unchanged during the second quarter and subsequent two months, at 0.5%.

In an environment of strong competition, prices of demand-sensitive items remained subdued in the second quarter of 2016. Services inflation was affected by the calendar effects of the early Easter holiday, but these gradually faded and the services inflation rate stabilised in July and August at just above 1%. Although the gradual strengthening of consumer demand points to its moderate increase, services inflation is likely to be dampened by the high level of competition as well as by efforts to gain market share. After remaining flat in April and May, non-energy industrial goods inflation slowed slightly towards the end of the second quarter (by 0.1 percentage point), to 0.4%, and then edged down further in August, to 0.3%. Non-energy industrial goods inflation came under downward pressure from the slump in import price inflation, which reflected the fading effect of the euro's previous depreciation.

Price expectations remain subdued across economic sectors. Expectations for selling prices in industry picked up moderately until June, and then softened in subsequent months. Although the easing of the negative rate of import price inflation had a positive impact on the negative producer price inflation rate, price expectations stopped firming in third quarter.

Chart 21 Non-energy industrial goods prices and the nominal exchange rate (annual percentage changes)



Source: Macrobond.
Note: Positive values for the exchange rate denote euro depreciation.

This may in part be explained by the uncertainty surrounding the UK's vote to leave the European Union. The outlooks for price developments in the retail trade and services sectors are also subdued.

Chart 22 Price expectations in industry, services and retail trade (balance of responses)

Sources: European Commission and Eurostat.

Chart 23 Price expectations in industry and producer prices

Sources: European Commission, Eurostat and Macrobond.

At its meetings from April to September, the ECB's Governing Council decided to leave the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40% respectively.

As regards non-standard monetary policy measures, in April the Governing Council implemented the decision it had taken in the previous month to expand monthly purchases under the asset purchase programme (APP) to €80 billion, from the previous amount of €60 billion. At the same time, again on the basis of decisions taken in March, the Governing Council provided information on implementation aspects of the Corporate Sector Purchase Programme (included in the APP monthly purchases). The CSPP purchases will be carried out by six national central banks acting on behalf of the Eurosystem, with the ECB coordinating the purchases. In June the Governing Council decided that the CSPP purchases would begin on 8 June 2016. In May the ECB published a legal act relating to the second series of targeted longer-term refinancing operations (TLTRO-II) that each have a four-year maturity. It also introduced an additional early repayment option for TLTROs in June 2016, and published an indicative calendar for TLTRO-II. The first of the four TLTRO-II operations was carried out on 22 June 2016.

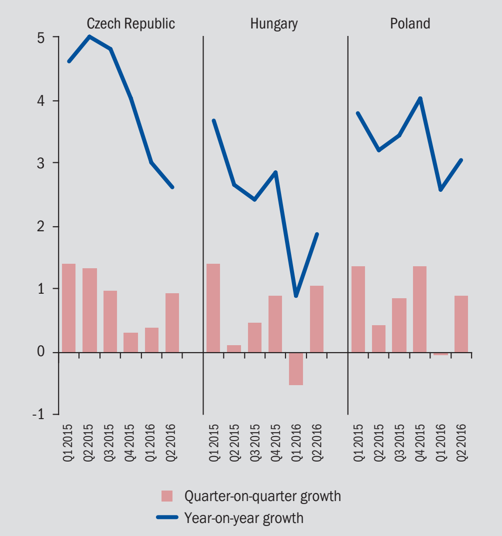
Following the outcome of the UK referendum on EU membership on 23 June, the ECB said in a statement on 24 June that it was closely monitoring financial markets and would continue to fulfil its responsibilities to ensure price stability and financial stability in the euro area.

In September the Governing Council confirmed that that the monthly asset purchases of €80 billion are intended to run until the end of March 2017 or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

5 The Czech Republic, Hungary and Poland

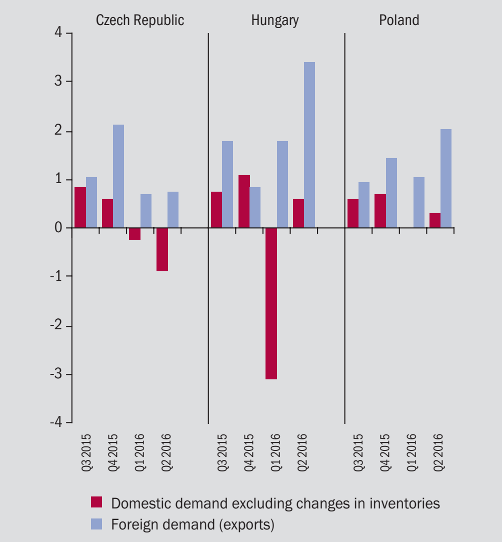
In the Czech Republic, annual GDP growth in the second quarter was 2.6%, down by 0.4 percentage point from the first quarter. In Poland and Hungary, however, GDP growth increased, by 0.9 and 0.5 percentage point, to 1.8% and 3.1% respectively.

Chart 24 GDP growth (percentages)



Source: Eurostat.

Chart 25 Contributions to quarterly GDP growth (percentage points)



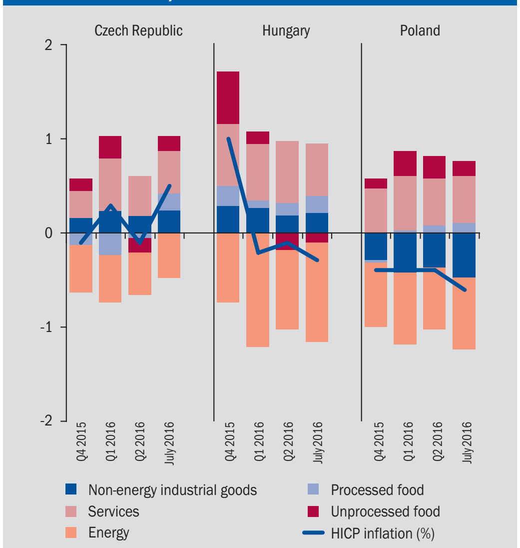
Sources: Eurostat and NBS calculations.

In quarter-on-quarter terms, GDP growth rose in all three countries, and in the case of Poland and Hungary it did so after contracting in the previous quarter. GDP growth in the Czech Republic, Hungary and Poland increased by 0.5, 1.1 and 1.0 percentage point, to 0.9% 1.0% and 0.9% respectively. The Czech economy's growth was driven mainly by net exports, with exports increasing and imports falling from their level in the previous quarter. Government consumption had a moderately positive impact on growth. Household consumption and changes in inventories also contributed positively, but less so than in the previous quarter. Investment demand made a negative contribution to activity growth. The acceleration in Hungary's GDP growth was also based largely on net exports, as export growth outperformed import growth. Government consumption contributed positively to growth, as did household consumption, albeit more moderately compared with the first quarter. The contributions of investment demand and changes in inventories were less negative in the second quarter than in the first. The picture in Poland was similar to that in the other two countries under review. Net exports were the main driver of GDP growth, and both government and household consumption also made positive contributions. The impact of investment demand was negative, but less so compared with the previous quarter. Changes in inventories contributed negatively to overall growth, after contributing positively in the previous quarter.

Turning to annual consumer price inflation in the second quarter, the Czech Republic reported a negative rate, after a positive rate in the previous quarter. In Hungary, the negative annual inflation rate was more moderate in the second quarter than in the first, while in Poland the negative rate remained unchanged. The decline in the **Czech Republic's** inflation rate (to -0.1%, from 0.3% in the first quarter) was due mainly to unprocessed food prices, which decreased in June after rising in the first quarter. The slowdown in services inflation also had a negative impact on the overall rate. At the same time, the negative rate of processed food prices moderated, and there was little change in non-energy industrial goods inflation (positive) and energy inflation (negative). In July, the Czech headline inflation rate accelerated owing mainly to increases in unprocessed and processed food prices. In **Hungary**, the negative inflation rate eased from -0.2% in the first quarter, to -0,1% in the second, reflecting mostly a slower rate of decrease in energy prices and a slight increase in services inflation. Unprocessed food prices had a negative impact, as they fell in the second quarter after rising in the first. Non-energy industrial goods inflation slowed, and processed food inflation remained almost unchanged. In July, Hungary's headline inflation rate became more negative again, as the decline in energy prices accelerated and as services inflation decelerated. In **Poland**, the negative consumer price inflation rate remained unchanged in the second quarter (at -0.4%). While energy inflation became less negative and processed food inflation increased, their impact on the headline rate was offset by declines in the unprocessed food and services components. Non-energy industrial goods inflation remained around the same level. In July, Poland's headline rate turned more negative, owing mainly to larger decreases in non-energy industrial goods prices and in energy prices.

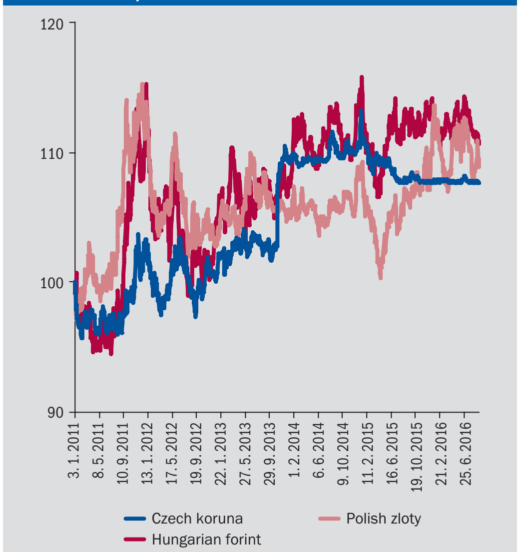
The currencies of all three countries were weaker against the euro at the end of the second quarter than at the end of the first quarter, with the Czech koruna down by 0.30%, the Hungarian forint by 0.94% and the Polish zloty by 4.2%. The koruna nevertheless remains constrained to follow a largely strengthening trajectory, since the Czech central bank is still committed to using foreign-exchange interventions to maintain accommodative monetary policy conditions. All three exchange rates, but more so the forint and zloty, were affected by financial market sentiment in the second quarter, which reflected mainly weaker than expected macroeconomic data from the United States and the euro area, information from the oil market, and, towards the end of the quarter, uncertainties surrounding the UK's vote to leave the EU and geopolitical risks (developments in Turkey).

Chart 26 HICP inflation and its composition (percentages; percentage point contributions)



Sources: Eurostat and NBS calculations.

Chart 27 Exchange rate indices of national currencies vis-à-vis the euro (index: 3 January 2011 = 100)

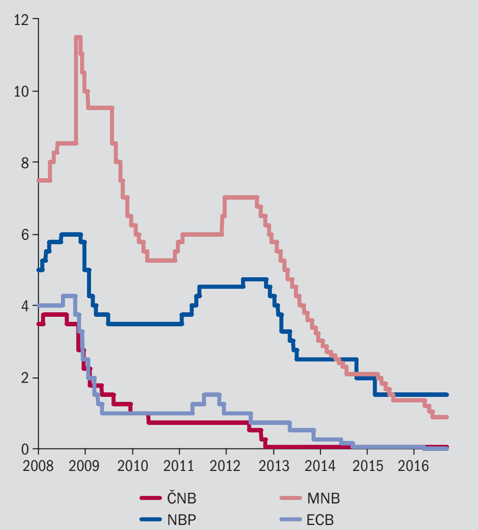


Sources: Eurostat and NBS calculations.
Note: A fall in value denotes appreciation.

The Czech koruna's exchange rate remained just above CZK 27.0 per euro during the second quarter, thanks to Czech central bank's interventions on the foreign-exchange market. The currency weakened slightly towards the end of the quarter amid financial market turbulence related to the UK's vote to leave the EU. The forint's depreciation against the euro in the second quarter reflected the impact of the Hungarian central bank's interest rate cuts in April and May. The exchange rate regained some ground later in the quarter in response to favourable news on the domestic economy. Like the other currencies under review, the forint depreciated in the wake of the UK's referendum on EU membership and the financial market uncertainty triggered by its result. The zloty's depreciation in the second quarter followed its overall appreciation in the first quarter. The exchange rate reflected not only external factors (notably the UK referendum result), but also, to a large extent, risks related to domestic developments (a deterioration in the Polish economy's fiscal stance, and a downturn in investor sentiment caused by political risks related to the Constitutional Court crisis).

As regards monetary-policy settings in the three countries, only the Hungarian central bank made any adjustments in the second quarter of 2016. In the Czech Republic, **Česká národní banka** (ČNB) kept its base rate unchanged at 0.05% (zero lower bound). In statements following its monetary policy meetings in the second quarter, the ČNB Bank Board reaffirmed that its commitment to use the exchange rate as an additional instrument for easing monetary policy would not be discontinued before 2017, the end of the projection horizon, adding that it would probably be discontinued in mid-2017 (the central bank conducted further interventions in the foreign exchange market in the second quarter). According to the ČNB Bank Board, sustainable fulfilment of the inflation target, which is a condition for a return to conventional monetary policy, should occur in the second half of 2017. In May, the ČNB Bank Board reiterated its readiness to shift the exchange rate commitment to a weaker level if there were to be a further decrease in inflation expectations. The Bank Board also discussed the possibility of applying negative interest rates, but in the end agreed it would be an inappropriate means of further easing monetary policy. In Hungary, the **Magyar Nemzeti Bank** (MNB) cut its base rate and overnight collateralised lending rate in both April and May, by 15 basis points on each occasion, to leave the rates at 0.9% and 1.15% respectively (with effect from 25 May 2016). The overnight deposit rate was left unchanged at -0.05% (effective since 23 March 2016). According to the MNB Monetary Council's statement in April, a combination of low cost-side inflationary pressure, the slowdown in global growth and the historically low level of inflation expectations has heightened the risk of second-round effects which result in below-target inflation over a sustained period. In May, the Monetary Council said it expected the base rate to be kept at 0.9% for an extended period, having regard to the inflation outlook and cyclical position of the real economy. In July the MNB announced that the frequency of tenders for its main three-month deposit facility would change from weekly to monthly as from August, and that the amount of funds that banks may keep in the facility would be reduced with effect from October. In Poland, **Narodowy Bank Polski** (NBP) left its monetary-policy settings unchanged in the second quarter of 2016 (keeping the reference rate at 1.5%). According

Chart 28 Key interest rates of national central banks (percentages)



Sources: National central banks and the ECB.

to NBP's Monetary Policy Council, inflationary pressure is currently absent from the economy since the output gap remains negative and average nominal wage growth is moderate. The MPC also notes that external factors – particularly the earlier sharp fall in global commodity prices and low price growth in the environment of the Polish economy – continue to be the main reason for deflation. This situation is accompanied by very low inflation expectations. In the assessment of the MPC, the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and to maintaining macroeconomic equilibrium.

SUMMARY OF GDP GROWTH PROJECTIONS OF SELECTED INSTITUTIONS

Table 1 Global economy

	Release	2015		2016		2017	
IMF	July 2016	3.1	(=)	3.1	(-0.1)	3.4	(-0.1)
OECD	June 2016	3.0	(=)	3.0	(=)	3.3	(=)
EC	May 2016	3.0	(=)	3.1	(-0.2)	3.4	(-0.1)
ECB [1)]	September 2016	3.2	(0.1)	3.0	(-0.1)	3.5	(-0.2)

Table 2 United States

	Release	2015		2016		2017	
IMF	July 2016	2.4	(=)	2.2	(-0.2)	2.5	(=)
OECD	June 2016	2.4	(=)	1.8	(-0.2)	2.2	(=)
EC	May 2016	2.4	(-0.1)	2.3	(-0.4)	2.2	(-0.4)
Federal Reserve	June 2016	-	-	1.95	(-0.25)	2.05	(-0.1)

Table 3 Euro area

	Release	2015		2016		2017	
IMF	July 2016	1.7	(0.1)	1.6	(0.1)	1.4	(-0.2)
OECD	June 2016	1.6	(0.1)	1.6	(0.2)	1.7	(=)
EC	May 2016	1.7	(0.1)	1.6	(-0.1)	1.8	(-0.1)
ECB	September 2016	1.9	(0.3)	1.7	(0.1)	1.6	(-0.1)

Table 4 Czech Republic

	Release	2015		2016		2017	
IMF	April 2016	4.2	(0.3)	2.5	(-0.1)	2.4	(-0.2)
OECD	June 2016	4.3	(=)	2.4	(0.1)	2.6	(0.2)
EC	May 2016	4.2	(-0.3)	2.1	(-0.2)	2.6	(-0.1)
ČNB	August 2016	4.6	(0.3)	2.4	(0.1)	3.0	(-0.4)

Table 5 Hungary

	Release	2015		2016		2017	
IMF	April 2016	2.9	(-0.1)	2.3	(-0.2)	2.5	(0.2)
OECD	June 2016	3.0	(=)	1.6	(-0.8)	3.1	(=)
EC	May 2016	2.9	(0.2)	2.5	(0.4)	2.8	(0.3)
MNB	June 2016	2.9	(=)	2.8	(=)	3.0	(=)

Table 6 Poland

	Release	2015		2016		2017	
IMF	April 2016	3.6	(0.1)	3.6	(0.1)	3.6	(=)
OECD	June 2016	3.6	(0.1)	3.0	(-0.4)	3.5	(=)
EC	May 2016	3.6	(0.1)	3.7	(0.2)	3.6	(0.1)
NBP	July 2016	3.6	(=)	3.2	(-0.5)	3.5	(-0.3)

1) Global economic growth excluding the euro area.
Note: Data in brackets denote the percentage point change from the previous projection.
The IMF forecast of July 2016 covers only large economies.