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EUROSYSTÉM

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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 slowed in the first quarter of 2015. After accelerating in the first three quarters of 2014, it declined towards the end of 2014 and this trend continued at the beginning of 2015. The slowdown reflected developments in both advanced and emerging economies, although the situation within both groupings was heterogeneous.

Among advanced countries, Japan made a positive contribution to global growth. Although its economy began to contract after the consumption tax was hiked in April 2014, it had returned to a growth path by the end of the year and continued expanding, even slightly faster, in early 2015. Changes in inventories had the largest impact on activity. Going forward, Japan's economic growth is expected to accelerate further with support from low oil prices, yen depreciation, an accommodative monetary policy stance and the postponement of a further increase in the consumption tax, as well as from fiscal stimulus measures planned for 2015. In the euro area, GDP growth was unchanged from the previous quarter, but the increases in both the consumer and investment demand components were higher. Net exports contributed negatively to growth, owing mainly to an increase in imports. In the quarters ahead, euro area growth is expected to benefit from accommodative monetary policy and low energy prices. The United Kingdom had a downward impact on global growth, as positive developments in private consumption and investment were more than offset by accelerating import growth and a drop in exports. In the United States, the economy contracted surprisingly after initial estimates had pointed to its moderate growth. The economy was affected more adversely than expected by temporary factors such as adverse weather conditions and the disruption of oil extraction. After these one-off effects have faded, US economic growth is expected to begin picking up again.

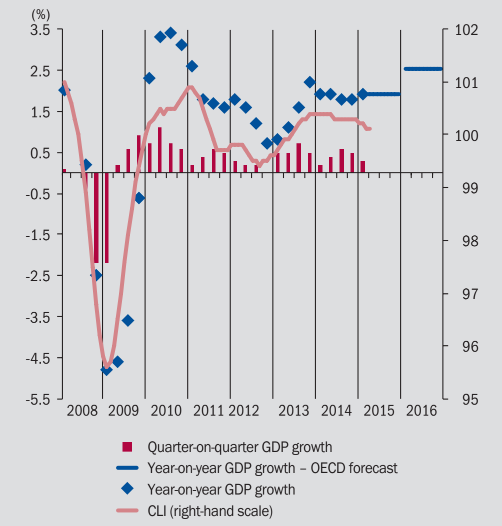
Across emerging economies, too, the situation remained heterogeneous. While China's GDP growth remained subdued by the situation in the mining and industry sector (related to weaker imports), the Indian economy, buoyed by low oil prices, continuing reforms and loose monetary policy, became the fastest growing large economy in the world in the first quarter of 2015. Asia's economic performance is expected to improve since, firstly, the Chinese economy should be stimulated by planned construction projects and accommodative monetary policy and, secondly, the economic outlook for India is improving. In Latin America, Brazil's GDP fell amid a further tightening of financial conditions, high inflation and low confidence, while Mexican GDP growth slowed, as low oil prices weighed on investment and resulted in losses of export and fiscal revenue. Another country with a negative impact on global growth in early 2015 was Russia, whose economy fell into recession as a consequence of the oil price slump, rouble depreciation, and falling confidence.

Across OECD countries economic growth moderated to 0.3% in the first quarter of 2015, from 0.5% in the previous quarter. The annual growth rate increased by 0.1 percentage point, to 1.9%. The OECD's average Composite Leading Indicator (CLI)[1] for its member countries gives no indication that global growth will accelerate in the short-term horizon, since after staying flat in the fourth quarter of 2014 and falling slightly in the first quarter of 2015, the CLI remained at a low level in April.

Although short-term leading indicators point to a slowdown in the global economy, it is assumed that world growth will accelerate over the long-term horizon. Its progress will reflect the divergence in outlooks for different countries, which in turn stem from the varying impact of several factors. The positive impact of the oil price slump on oil-importing countries is expected to outweigh the negative impact on oil-exporting countries and hence to support global demand. Furthermore, even though the US Federal Reserve is expected to increase interest rates, global financial conditions are expected to remain loose, due in part to the effect of the ECB's ongoing asset purchase programme. There is also a diminishing impact

1 The CLIs for OECD countries are published on a monthly basis, and the most recent, published in June 2015, are for the period up to April 2015.

Chart 1 GDP growth and CLI



Source: OECD.
Note: CLI – Composite Leading Indicator.

from such factors as private sector balance sheet repair, fiscal consolidation, and labour market weakness, which since the financial crisis have been curbing growth in advanced countries.

Global consumer price inflation fell further in the first quarter of 2015, and far more so than in previous quarters owing mainly to developments in energy prices. But while inflation slowed in most advanced economies, its rate when stripped of energy and food prices continued to be broadly stable, which suggests that deflationary pressures remained contained. In China, too, the inflation rate declined, due to falling food price inflation. In several emerging countries, however, inflation accelerated as currency depreciation resulted in higher import prices and as the low credibility of domestic monetary policy was reflected in the continuation of high inflation expectations.

The average rate of consumer price inflation for OECD countries was significantly lower in the first quarter of 2015 than in the previous quarter. While all components contributed to this trend, energy prices had the largest negative impact, as they began to fall sharply in January and mirrored the movements of energy commodity prices. Food price inflation fell in this period, and so did core inflation to a moderate extent. Overall, the inflation rate fell from 1.1% in December 2014 to 0.6% in March, while core inflation decreased from 1.8% to 1.7%. Although the decline in energy prices moderated in the first quarter of 2015, it accelerated again in April. With food price inflation also continuing to fall and core inflation decreasing to 1.6%, the OECD's headline inflation rate dropped to 0.4%.

The global inflation rate is expected to remain subdued over the short-term horizon. The previous decline in commodity prices should in the short term contribute to a slowdown in consumer price inflation, while the pick-up in prices of oil and oil futures contracts suggests that the contributions of energy prices to the headline inflation rate will increase over the longer-term horizon. The relatively slow recovery of the global economy will, however, lead to only a gradual decrease in spare capacity and therefore inflationary pressures will remain contained.

2 Commodities

The sharp decline in the Brent oil price in US dollars that occurred in the second half of 2014 – due to the supply of oil exceeding demand – came to a halt at the beginning of 2015, with oil trading at around its end-2014 level. Nevertheless, the average price for the first quarter was USD 54 per barrel, fully USD 22 lower than the average for the previous quarter. In mid-January, amid concerns about an oil supply glut, the oil price fell close to USD 45 per barrel. It remained at low levels at this time, owing in part to the deteriorating outlook for the world economy. However, reduced oil production in Iraq and Libya caused the price to increase in February, up to USD 62 per barrel. A subsequent brief decrease in the oil price was triggered by the ECB's commencement of quantitative easing as well as by expectations for increased oil production in the United States and Libya. The price was further dampened by the prospect of an increase in oil supply resulting from the potential agreement to end Iran's nuclear weapons programme. In the period up to mid-May, however, the oil price climbed back to USD 66 per barrel, reflecting in particular the drop in US oil production as well as escalating tensions in the Middle East and the potential implications of that for global oil output. As a result of a global oil surplus and OPEC's decision not to cut oil production, the oil price fell moderately in the first half of June.

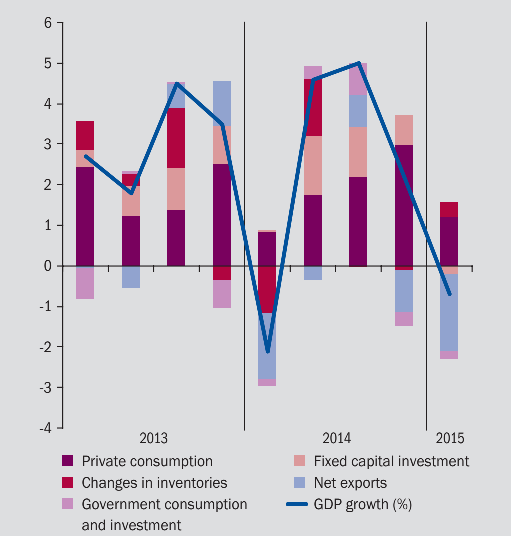
Non-energy commodity prices continued to decrease in the first quarter of 2015, owing partly to appreciation of the US dollar. Their movement was based on a parallel decline in prices of metals and agricultural commodities, which reflected excesses in global supply and weak demand. As regards agricultural commodities, meat prices recorded the largest decrease owing mainly to higher production in the United States as well as to increasing exports from Australia. The prices of some commodities, such as soya, fell despite rising demand. Coffee and wheat prices also decreased in the light of bright outlooks for the coming harvest. At the end of the first quarter, overall agricultural commodity prices were affected largely by sugar prices, which fell to a six-year low amid improved expectations for production in Brazil. The downward trend in agricultural commodity prices continued in April and May, albeit more moderately as meat prices began to rebound. Metal prices responded to falling demand from China (particularly in the construction sector), as well as to a general weakening in global manufacturing. The fall in commodity prices resulted in the closure of some mining and quarrying firms. At the same time, however, businesses benefited from reduced energy prices, from cost deflation, and from the depreciation of currencies of producer countries. The metal commodities that recorded the largest price decreases in the period under review were copper, nickel, iron ore and tin. Metal prices, like agricultural commodity prices, fell more slowly in April, and they began to increase in May for the first time in nine months.

3 The United States

In early 2015 the US economy was heavily affected by the severe winter in the north-east of the country as well as by a decline in shale oil production. In consequence, US quarterly GDP contracted by an annualised 0.7% in the first quarter of 2015, after increasing by 2.2% in the fourth quarter of 2014. Annual GDP growth accelerated from 2.4% to 2.7% from the one quarter to the next. Low oil prices weighed on investment in the US oil extraction industry, with the result that fixed capital investment made a negative contribution to overall GDP growth in the first quarter. Diminished oil output and appreciation of the US dollar were reflected in a substantial fall in exports. Although the effect of this decline was mitigated by a quarter-on-quarter slowdown in import growth, the negative impact of net exports on GDP growth was almost two percentage points. Government investment and consumption also contributed negatively to growth. The combination of low energy prices and favourable developments in real disposable income did not translate into a further increase in private consumption growth, which had accelerated during 2014. In fact, its growth rate fell appreciably, owing to the unexpectedly harsh winter in the north-east of the United States. In the light of these one-off seasonal factors that adversely affected US activity, the second quarter is expected to see the US economy return to growth.

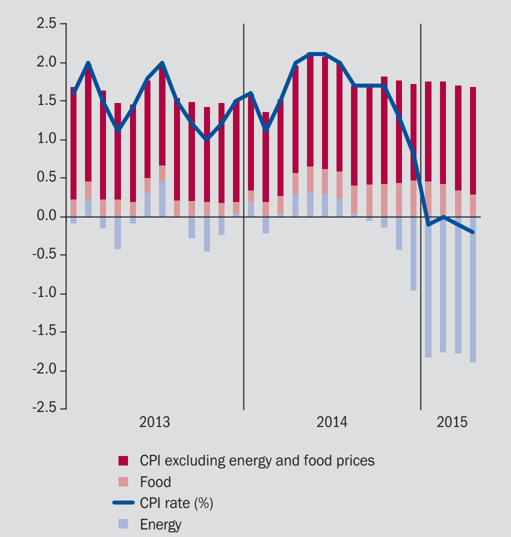
US consumer price inflation entered negative territory in the first quarter of 2015 for the first time in more than five years. The annual inflation rate, which only last December was at 0.8%, was down to -0.1 % in March 2015. Energy prices, reflecting commodity price developments, slumped in the first months of the year by around 20% year-on-year, and therefore had the most significant impact on the overall price level. Food prices also contributed to the downward pressure on inflation, with their growth rate falling gradually from December. On the other hand, annual core inflation, which was at 1.6% in December 2014, edged up to 1.8% in March 2015. In April the headline inflation became more negative, at -0.2%, owing to energy prices, while the core rate remained unchanged (at 1.8%). Looking forward, the US inflation rate is expected to turn positive and gradually increase, as labour market conditions improve and the temporary

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.)



Source: Bureau of Labour Statistics, NBS calculations.

effect of falling energy prices and import prices fades away.

The US Federal Open Market Committee (FOMC) decided at its meetings in January, March, April and June to leave its target range for the federal funds rate unchanged, at 0% to 0.25%.

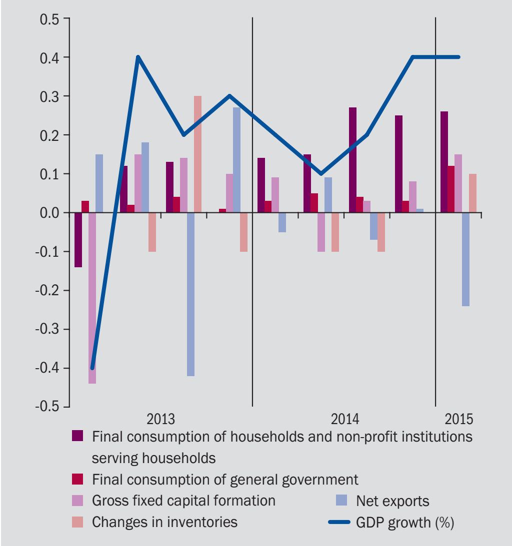
The FOMC stated that in determining how long to maintain this target range, it would assess progress – both realised and expected – towards its objectives of maximum employment and two per cent inflation. This assessment would take into account a wide range of information, including measures of labour market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. In its statement after the January meeting, the FOMC said that it could be patient in beginning to normalise the stance of monetary policy, but that if incoming information indicated faster progress towards the employment and inflation objectives, then increases in the federal funds rate target range would be likely to occur sooner than currently anticipated. Conversely, if progress proved slower than expected, then increases in the target range would be likely to occur later than currently anticipated. In its March statement, the FOMC noted that an increase in the target range for the federal funds rate remained unlikely at the April FOMC meeting. The Committee anticipated that it would be appropriate to raise the target range when it had seen a further improvement in the labour market and was reasonably sure that inflation would move back to its two per cent objective over the medium term. This view was reiterated in the FOMC statements issued after the April and June meetings.

4 The euro area

The euro area economy continued to grow, in the first quarter of 2015, maintaining the gradual recovery that emerged in the second half of 2014. GDP growth was the same as in the fourth quarter, at 0.4%[2]. Looking at the larger economies within the euro area, France and Italy saw an upturn from their previous sluggish performance (and stagnation in the fourth quarter), with growth of 0.6% and 0.3%, respectively, while Spain's growth accelerated to 0.9% (from 0.7% in the previous quarter). By contrast, GDP growth declined in both Germany (by 0.4 p.p., to 0.3%) and the Netherlands (by 0.4 p.p., to 0.4 %). The euro area's annual GDP growth rate edged up to 1.0% in the first quarter of 2015, from 0.9% in the previous quarter.

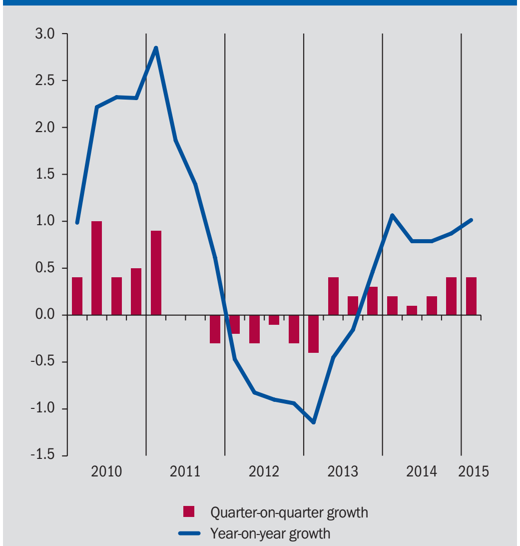
Economic growth in the first quarter of 2015, as in the fourth quarter of 2014, was driven by domestic demand and in particular by private consumption. Consumer demand growth was slightly higher in the first quarter than in the previous quarter, as it continued to benefit from the effects of low oil prices. Government consumption, too, contributed positively, and quite significantly, to GDP growth. Investment demand continued to pick up, increasing for a third consecutive quarter and at a higher rate compared with the previous quarter. Investment demand was supported by an accommodative monetary policy stance that boosted access to financing. Changes in inventories also had a positive impact on overall growth. Net exports, however, contributed negatively to growth. Export growth continued, although at a slower pace than in the previous quarter. Import growth nevertheless accelerated significantly.

Chart 5 Quarterly GDP growth and its components (p.p.)



Source: Eurostat, NBS calculations.

Chart 4 Economic growth (at 2010 constant prices, per cent)



Source: Eurostat.

Looking at GDP from the production approach, value added increased by 0.4%. The sectors of trade and services made the largest contributions to that growth, and value added also increased in industry, construction, and scientific research and development.

In the manufacturing sector, which is heavily oriented to exports, production continued to recover in the first quarter of 2015 and its growth was even slightly higher than in the previous quarter. Competitiveness surveys in industry provided further evidence of the upturn in manufacturing, showing improved assessments in both the first and second quarters. The excep-

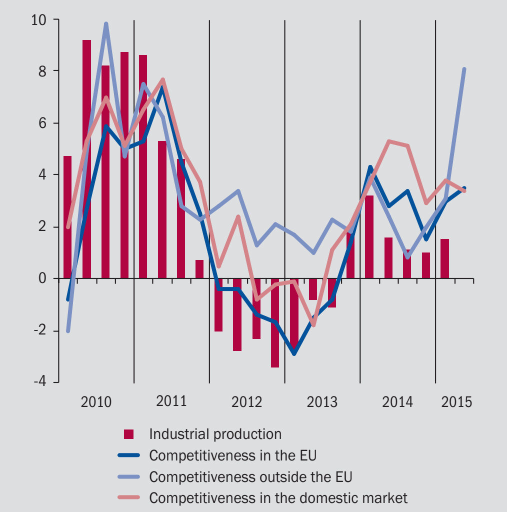
2 *The GDP growth rate for the fourth quarter was originally stated as 0.3% and later revised up to 0.4%.*

tional brightening of assessments of competitive positions in non-EU markets is assumed to reflect the depreciation of the euro's nominal and real effective rates. However, assessments of competitive positions within the EU also improved moderately. This, together with an increase in export expectations, may point to continuing upward momentum in the manufacturing industry.

The easing of demand-side constraints on production returned to a moderate extent in the first and second quarters, after halting in the last quarter of 2014. In the case of financial factors, however, the easing was pronounced, and firms are increasingly seeing them as less limiting. This trend stemmed from the ECB's measures to loosen credit and financial conditions (which the Governing Council adopted in stages from June 2014) – including longer-term refinancing operations, the ABS purchase programme (ABSPP), the third covered bond purchase programme (CBPP3), and the expansion of the asset purchase programme (the ABSPP and CBPP3) by the addition of the public sector purchase programme (PSPP). Neither plant capacity nor labour were considered significant as production constraints in the second quarter, and firms' assessments of these factors as production limiting fell moderately in comparison with the previous quarter. This points to the ongoing high level of spare capacity in the economy, which may to some extent hold back investment recovery or a stronger pick-up in the labour market.

Despite improving gradually, the labour market remains a weak link in the economy. The

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

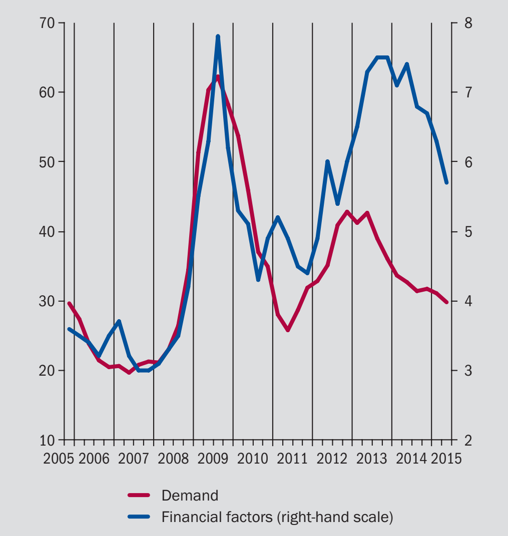


Source: European Commission, Eurostat, NBS calculations.

Chart 7 Export expectations in industry (balance of responses) and annual industrial production growth (%)

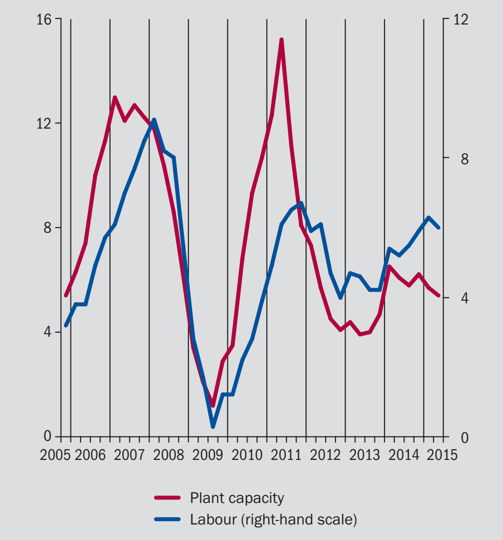
Source: European Commission, Eurostat, NBS calculations.

Chart 8 Production constraints in industry (%)



Source: European Commission.

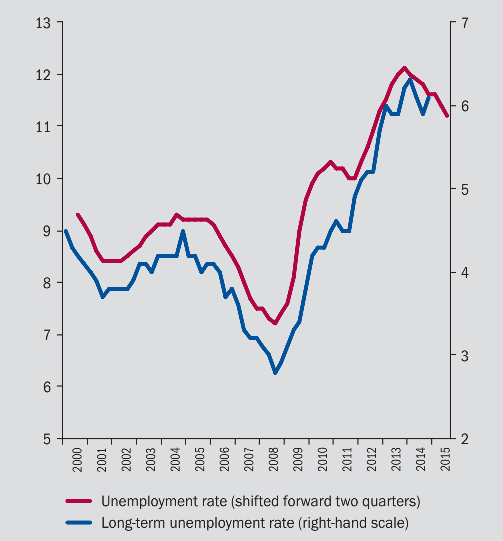
Chart 9 Production constraints in industry (%)



Source: European Commission.

euro area unemployment rate declined to 11.2% in the first quarter of 2015, from 11.4% in the fourth quarter of 2014. Furthermore, in April 2015 the unemployment rate fell to 11.1%. An adverse feature of the labour market is the continued historically high rate of long-term unemployment[3]. As labour market conditions gradually improve, however, long-term unemployment is expected to edge down.

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



Source: Eurostat.

Consumers' expectations for the future economic situation and for unemployment remained on an upward path throughout the first quarter of 2015. Although these expectations deteriorated slightly in the next two months, they remain far higher than they were at the end of 2014.

Assessments of future employment in individual sectors also improved quite markedly in the first quarter of 2015, particularly in industry and services. This trend continued in April and May. In retail trade, too, assessments of future employment were relatively positive, which is assumed to stem from an upturn in consumer demand. Only in the construction sector did employment assessments become more negative.

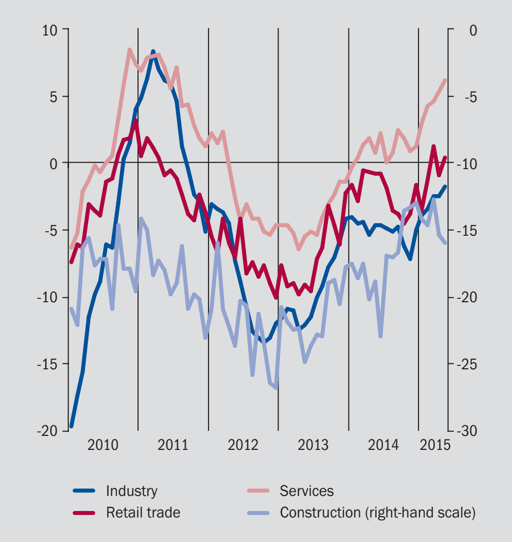
Although sentiment among economic agents picked up in early 2015, several indicators showed this trend coming to a halt (and sometimes even going into reverse) in March. Similar tendencies continued at the beginning of the second quarter, when economic sentiment reflected to a considerable degree the uncertainty surrounding the Greek debt crisis, as well as the surprising contraction of the US economy, which highlighted the fragility of the global economy. The composite PMI for the

Chart 11 Unemployment rate (%) and consumers' expectations for the economic situation and unemployment in the next 12 months (balance of responses)

Source: European Commission and Eurostat.

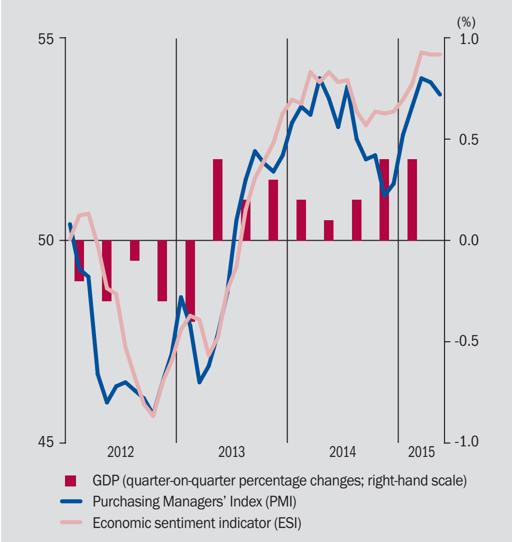
3 *Twelve months or more.*

Chart 12 Employment expectations by sector (balance of responses)



Source: European Commission.

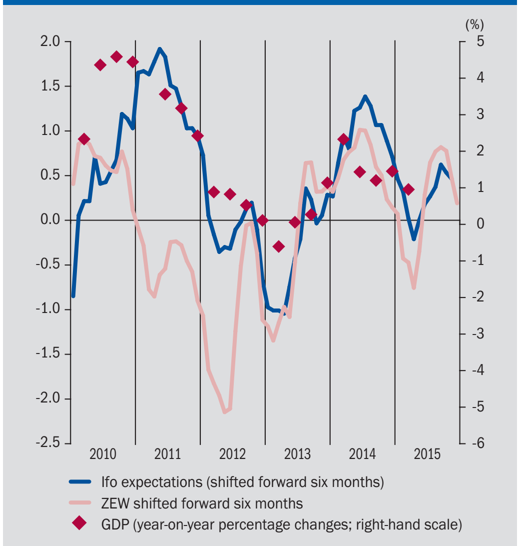
Chart 13 Euro area leading indicators and quarterly GDP growth



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

euro area fell slightly in April and May, but its level still points to relatively healthy economic growth. The composite PMI for Germany fell significantly, but its level, too, corresponds to activity growth, albeit modest. Among other indicators for the Germany economy, the ZEW index declined sharply, especially in May and June, but it also remains above the growth threshold. By contrast, the Ifo index for Germany increased moderately up to and including April, and remained unchanged in May. Furthermore, neither the economic sentiment indicator (ESI) for the euro area, nor the ESI for Germany, showed any significant negative tendencies, with each of them improving in the first quarter and remaining broadly flat in the next two months. The euro area ESI in both April and May included growing confidence in services and retail trade, which was cancelled out by moderate deteriorations in the consumer and construction confidence indicators. The movement of leading indicators continues to highlight the fragile nature of the euro area recovery, accompanied as it is by the serious risks related to the Greek debt crisis as well as to the further unfolding of the Ukraine-Russia conflict. Nevertheless, economic sentiment and consequently activity are expected to be supported by the ECB's accommodative monetary policy stance and the array of non-standard monetary policy measures that the ECB has adopted in order to boost the economy and return inflation to target levels. These measures are gradually leading to an easing of conditions for financing of the business sector and recovery of lending activity.

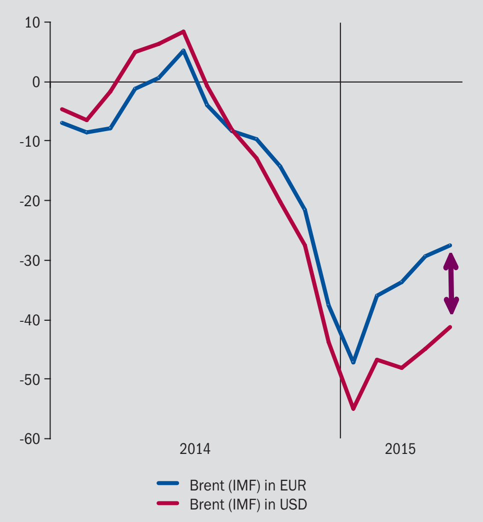
Chart 14 German leading indicators and annual GDP growth



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

The downward trend in inflation that continued more or less from the end of 2011 is assumed to have bottomed out in the first quarter of 2015. After falling to -0.6% in January (from -0.2% in December) as a result of the slump in global oil prices, the annual inflation rate began to pick up moderately owing mainly to a less negative contribution from the energy component. At the same time, food prices increased moderately. While the inflation rate excluding energy and food prices remained broadly flat in the first quarter, the negative annual headline rate reflected the impact of commodity price movements by stabilising and then moderating to -0.1% in March. In April and May, the energy and food components contributed to an acceleration of inflation and its return to positive territory. In particular in April (when overall inflation reached 0%) there were also positive contributions from market components (services and non-energy industrial goods), as their rate of increase accelerated. The inflation rate turned positive in May, to stand at 0.3%.

Chart 16 Oil price in EUR and USD (annual percentage changes)

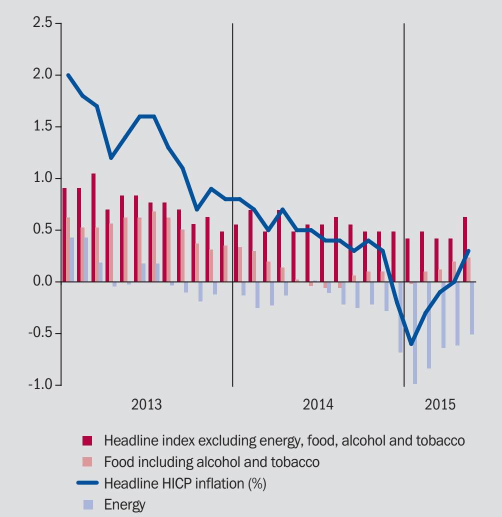


Source: IMF, ECB and NBS calculations.

Movements in oil prices and in the EUR/USD exchange rate passed quickly through to consumer energy prices. While in January the global oil prices were still falling sharply, in subsequent months they gradually bottomed out and began to pick up again. Furthermore, depreciation of the euro's exchange rate against the US dollar mitigated the annual rate of decrease in oil prices and gradually reduced their dampening effect on consumer prices. This impact declined gradually from February, and the rate of decrease in energy prices slowed from -9.3% in January, to -4.8% in May.

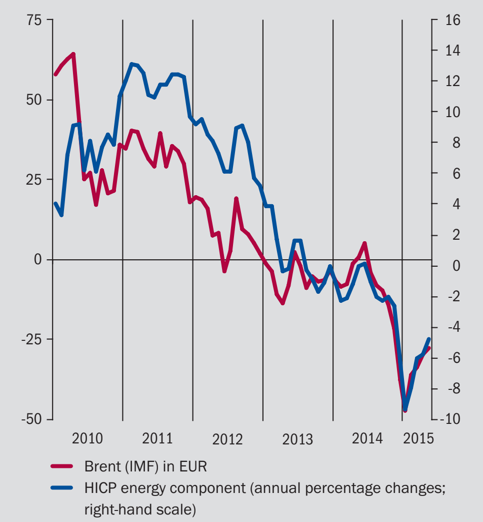
Changes in annual food commodity inflation, supported with a certain lag by euro depre-

Chart 15 Annual HICP inflation rate (%) and contributions of selected components (p.p.)



Source: Eurostat, NBS calculations.

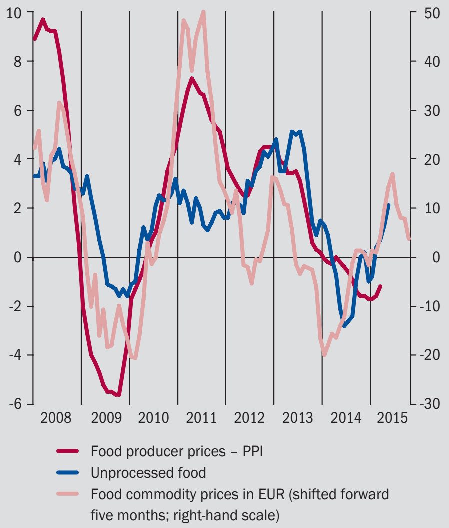
Chart 17 Oil price in EUR and HICP energy component (annual percentage changes)



Source: IMF, ECB and NBS calculations.

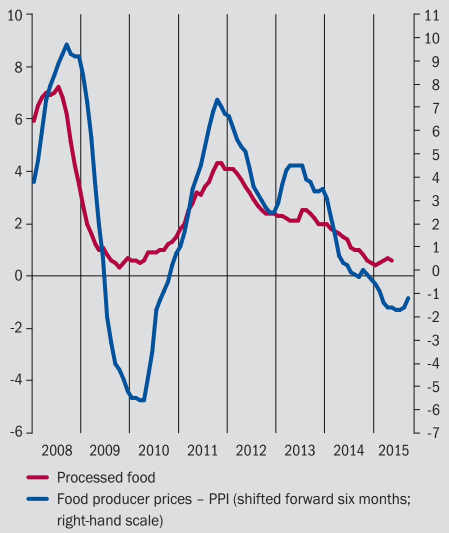
ciation, are passing through to food producer prices, as well as directly into unprocessed food prices. Hence unprocessed food inflation turned positive from February, and it gradually accelerated in the subsequent months up to and including May. Commodity prices, too, helped to end the trend of an increasing annual rate of decline in food producer prices, and, from April, to slightly reverse that trend. Given the gradual pass-through of producer prices to processed food prices, price developments could stabilise in this segment, too. On the other hand, food commodity prices, were falling moderately from the beginning of the year, and therefore no significant pick-up in consumer food price inflation can be expected.

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



Source: Eurostat and ECB.

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



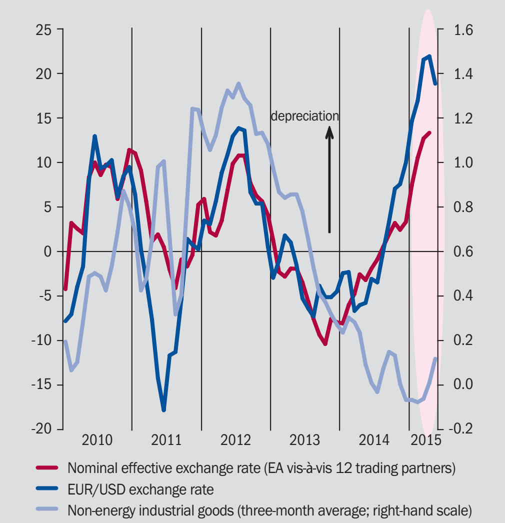
Source: Eurostat and ECB.

The inflation rate excluding energy, food, alcohol and tobacco prices, which includes the components most sensitive to demand, remained broadly flat during the first quarter of 2015 and stood at 0.7% in March. In May, however, the rate increased to 0.9%.

Inflation in prices of demand-sensitive items continued to be dampened by competitive forces and the persisting weakness of consumer demand, which, however, is gradually beginning to pick up. Non-energy industrial goods inflation temporarily edged down into negative territory in January and February (at -0.1%), before, in March, returning to its December 2014-level (0 %) and then, in May, increasing appreciably (to 0.3%). In this case, it is assumed that consumer goods prices began to reflect the pass-through of import prices pushed up by depreciation of the euro exchange rate. Services price inflation was around 1%, except in February, and decreased slightly from its level at the end of 2014. Like goods prices, services prices accelerated strongly in May (to 1.3%). The cause of this increase was assumed to be the pass-through of energy prices (whose rate of decrease was moderating), as observed in rising prices in transportation as well as in tours and excursions. To some extent, however, services prices also reflected demand-pull factors. Although consumer demand remains at relatively low levels, it has been picking up for a number of quarters, supported by the accommodative monetary policy stance. The continuing acceleration of retail trade growth, indicative of trend increases in consumer demand, is supporting increases in demand-sensitive inflation components, which accelerated in May.

Although price expectations of economic agents remain at low levels, recent months have seen a gradual increase in expectations for selling prices, particularly in retail trade and in

Chart 20 Non-energy industrial goods prices and the nominal exchange rate (annual percentage changes)

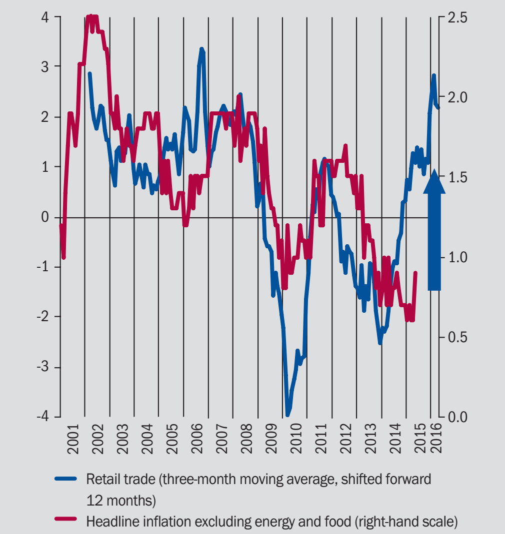


Source: Eurostat and ECB.

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

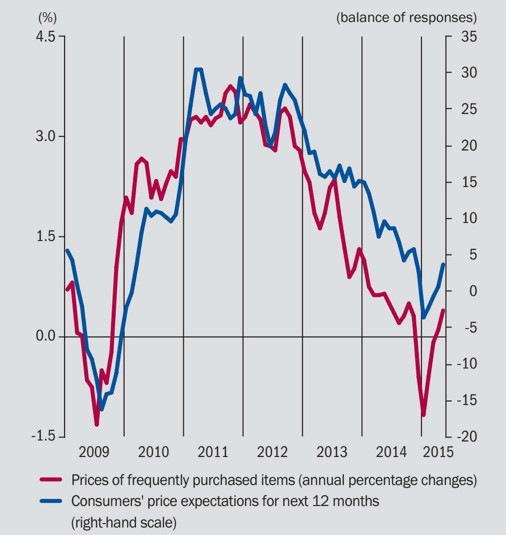
Source: European Commission and Eurostat.

Chart 21 Retail trade and the inflation rate excluding energy and food (annual percentage changes)



Source: Eurostat and ECB.

Chart 23 Prices of frequently purchased items (%) and consumers' price expectations (balance of responses)



Source: European Commission and Eurostat.

industry. In industry, higher prices expectations were observed not only in the manufacture of intermediate goods, but also in the manufacture of consumer goods. This trend is assumed to reflect the pick-up in domestic demand and especially in private consumption. The inflation expectations of consumers also increased slightly, due mainly to price developments in frequently purchased items, which largely reflect energy and food prices.

At its meetings in the first and second quarters of 2015, the ECB's Governing Council left the key ECB interest rates unchanged. The interest rates on the main refinancing operations and the marginal lending facility remained at 0.05%

and 0.30%, respectively, and the rate on the deposit facility at -0.20%. The negative deposit facility rate is intended to discourage banks from accumulating funds in their accounts with the ECB.

At its first meeting of 2015 (in January), the Governing Council decided to expand the asset purchase programme – comprising the asset-backed securities purchase programme (ABSPP) and the third covered bond purchase programme (CBPP3) – by the addition of a programme for purchases of securities issued by euro area central governments, agencies and European institutions, entitled the public sector asset purchase programme (PSPP). Combined monthly purchases under the expanded asset purchase programme (APP) amount to €60 billion and are intended to be carried out until the end of September 2016 and will in any case be conducted until the Governing Council sees a sustained adjustment in the path of inflation which is consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term. The expanded APP is aimed at fulfilling the ECB's price stability mandate and addressing the risks of a too prolonged period of low inflation. The Governing Council retains control over all the design features of the programme and the ECB will coordinate the purchases, thereby safeguarding the singleness of the Eurosystem's monetary policy. The Eurosystem will make use of decentralised implementation to mobilise its resources. In the statement after the March Governing Council meeting, it was announced that purchases of public sector securities under the PSPP would begin on 9 March 2015. The combined value of monthly purchases under the expanded APP met the target amount of €60 billion in March, April and May.

The ECB conducted two TLTROs in the first half of 2015 (in March and June) with a total allotment of around €171.6 billion. This brought the cumulative allotment under the TLTRO programme to €384.1 billion.

The array of non-standard measures gradually adopted by the ECB since July 2014 contributed to a decrease in lending rates for households and non-financial corporations, while at the same time supporting a pick-up in lending to the private sector. Household credit growth accelerated and lending to non-financial corporations also gathered pace after a long subdued period. The six-month annualised rate of change in the stock of corporate loans, which was negative from February 2012, returned to positive territory in the first quarter of 2015.

Chart 24 Composite lending rates (%)

Source: ECB.

Chart 25 Six-month annualised lending growth (%)

Source: ECB.

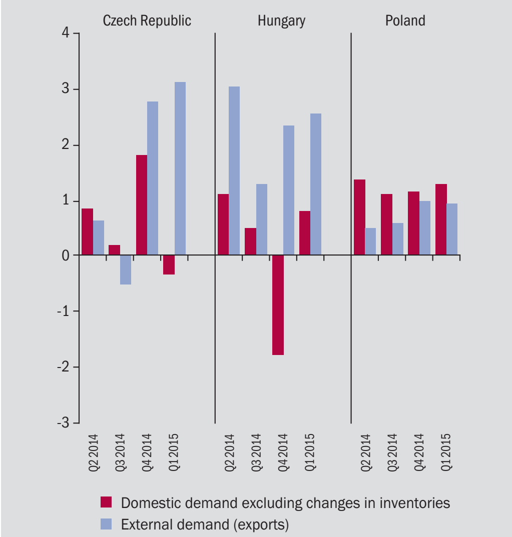
5 Poland, the Czech Republic and Hungary

In the Czech Republic, annual GDP growth increased strongly in the first quarter of 2015, to 4.2% (from 1.4% in the fourth quarter of 2014), while in both Hungary and Poland the growth rate remained the same as in the previous quarter (at 3.3% and 3.5%, respectively).

In quarter-on-quarter terms, Czech economic growth accelerated by 2.7 percentage points in the first quarter of 2015, to 3.1%, Hungarian growth remained flat, at 0.8%, and Polish growth increased by a marginal 0.2 p.p., to 1.0%. The improvement in **Czech GDP growth** at the beginning of the year was due mainly to changes in inventories, whose contribution had been negative in the previous quarter and was significantly positive in the first quarter. The household consumption and investment components also had a positive impact, although more moderate than in the previous quarter. After supporting growth in the previous quarter, net exports had a neutral effect in the first quarter. Only government final consumption, which fell sharply, made a negative contribution to GDP growth. In **Hungary,** the main drivers of growth were investment (which increased markedly, after declining significantly in the previous quarter), household consumption, and net exports, although the contribution of net exports was lower than before (owing to stronger import growth). Downward pressure on the growth rate came from changes in inventories and, to a slight extent, government final consumption. The acceleration of **Poland's** economic growth in the first quarter was accounted for by both domestic and external demand. In comparison with the previous quarter, both household consumption and investment accelerated, while general government consumption growth slowed moderately. Net exports had a positive impact on overall GDP growth, since a moderate drop in export growth was more than compensated by the decrease in import growth. Only changes in inventories had a negative impact.

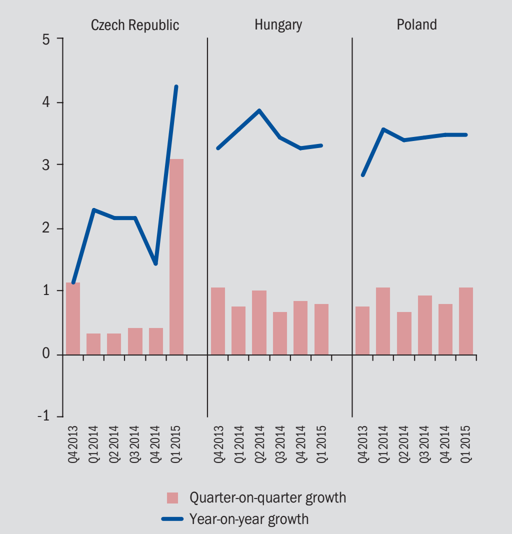
Turning to annual consumer price inflation (CPI) in the first quarter of 2015, the CPI rate in the Czech Republic remained unchanged from the previous quarter, while the negative inflation rates in Hungary and Poland became, respectively, more moderate and more pronounced. In the **Czech Republic**, the inflation rate (0.1%) reflected mainly a less negative contribution from the energy component and a higher increase in proc-

Chart 27 Contributions to quarterly GDP growth (p.p.)



Source: Eurostat and NBS calculations.

Chart 26 GDP growth (%)

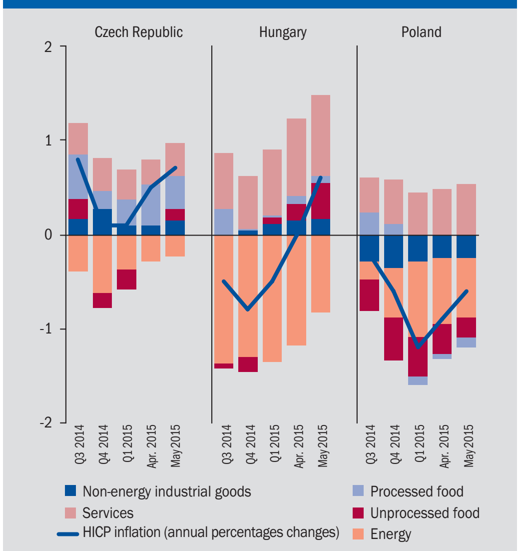


Source: Eurostat.

essed food prices. There was downward pressure on the headline rate from non-energy industrial goods inflation, which slowed significantly, and from unprocessed food prices, as their rate of decrease moderated. Services price inflation was largely unchanged. In April the CPI rate in the Czech Republic increased to 0.5%, owing mainly to food and energy price dynamics, and in May this trend continued, with the rate increasing to 0.7%. In **Hungary,** the negative CPI rate moderated by 0.3 p.p., to -0.5%. This was based largely on unprocessed food inflation, which turned positive after four quarters in negative territory. The services and non-energy industrial goods components also contributed positively to the inflation rate, as they increased moderately. Only energy prices had a negative impact, with their rate of decrease becoming more pronounced. In April Hungary's annual inflation rate reached zero (with all components contributing to the result), and in May it accelerated to 0.6% thanks mainly to the energy, unprocessed food and services components. **Poland** saw its CPI rate move further into negative territory (by 0.6 p.p.), to -1.2%, with all components apart from services reporting negative rates. The accentuated decline in the headline rate stemmed mainly from energy and unprocessed food prices. On the other hand, the negative rate of non-energy industrial goods inflation moderated. In April the decline in Poland's CPI rate moderated (to -0.9 %) due to price developments in services, energy, and unprocessed food, and this trend was maintained in May (-0.6%).

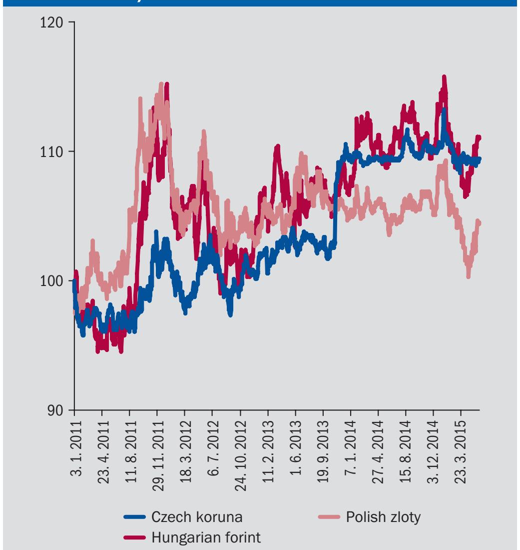
The currencies of all three countries under review were stronger against the euro at the end of the first quarter of 2015 than at the end of the fourth quarter of 2014, with the Czech koruna appreciating by 1.07%, the Hungarian forint by 3.96% and the Polish zloty by 2.83%. The koruna remained constrained to follow a largely strengthening trajectory, with the Czech central bank having decided to use foreign-exchange interventions to maintain accommodative monetary policy conditions. The three currencies' exchange rates in the first quarter were affected, on the one hand, mainly by the political situation in Greece, the surprise unpegging of the Swiss bank from the euro, and the escalation of tensions in Ukraine. On the other hand, they also reacted to the ECB's decision to launch an expanded asset purchase programme (APP), or quantitative easing, with a view to attaining its inflation target over the medium term.

Chart 28 Contributions to HICP inflation (p.p.)



Source: Eurostat, NBS calculations.

Chart 29 Exchange rate indices of national currencies vis-à-vis the euro (index: 3 January 2011 = 100)

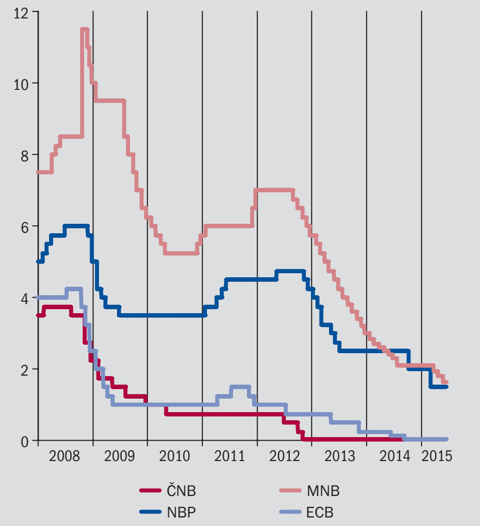


Source: Eurostat, NBS calculations.
Note: A fall in value denotes appreciation.

Although the Czech koruna, unlike the Hungarian forint and Polish zloty, was largely unaffected by the turmoil in Russian financial markets at the end of 2014, it depreciated significantly against the euro at beginning of 2015, amid concerns that the Czech central bank (ČNB) may use the exchange rate to further ease monetary policy conditions (by adjusting the intervention level) in response to deflationary risks in the Czech economy and to geopolitical risks. At the beginning of February, after the ECB had announced in January plans to launch the expanded APP and after ČNB's Bank Board meeting (with no decision to shift the intervention level, and confirmation that the exchange rate commitment would not be discontinued before the second half of 2016), the koruna appreciated gradually against the euro. The exchange rate reached 27.4 koruna per euro, and stayed at around that level in April and May. The depreciation of the zloty and forint observed at the end of 2014 continued at the beginning of 2015, reflecting mainly the above-mentioned international circumstances (economic and political). Each currency began to appreciate from the end of January, largely in response to the ECB's announcement of the expanded APP, but also on the basis of stronger economic reports from the United States. As regards the forint, another factor in its appreciation was improving news from the domestic economy and the consequent raising of Hungary's credit grade by the rating agencies Standard & Poor's (in March) and Fitch (in May). From mid-April the three currencies, in particular the forint, were clearly weakening, owing to adverse sentiment in financial markets.

As regards the central banks of the three countries, Narodowy Bank Polski and the Magyar Nemzeti Bank adjusted their key interest rates in the first quarter of 2015, while Česká národní banka kept its base rate unchanged at 0.05% (zero lower bound). At its meetings in the first quarter, the Bank Board of **Česká národní banka** reaffirmed its commitment to use the exchange rate as an additional instrument for easing monetary policy. Hence, at least until the second half of 2016 and therefore over the whole projection horizon, it will continue to intervene, when necessary, in foreign exchange markets to prevent the koruna appreciating beyond 27 koruna per euro. The **Magyar Nemzeti Bank** cut its main interest rate by 15 basis points, to 1.95%, with effect from 25 March 2015. Based on data in its March "Inflation Report", the bank took the view that the inflation outlook and cyclical position of the Hungarian economy (having regard to increased downside risks to inflation expectations) were consistent with further easing of monetary policy conditions. At the same time, in March, the central bank adopted a tolerance band of ±1% around its inflation target (3% increase in the domestic consumer price index) in a bid to increase the flexibility of its monetary policy, the step being seen as necessary to avoid excessive volatility of real variables (variables of the real economy and other factors of financial stability). Also in March the Hungarian central bank launched a new "Funding for Growth Scheme" (FGS+), providing a further HUF 500 billion (in addition to the same amount under the existing FGS) as a means of supporting bank lending to SMEs. The MNB further cut the key interest rate in April and May, by 15 basis points in each case, leaving it at 1.65% at the beginning of June. As from 5 March 2015 **Narodowy Bank Polski** cut its main interest by 50 basis points, to 1.5%. The decision was explained by the bank as a response to the prolonged period of deflation and the substantial risks of failing to meet the inflation target over the medium-term horizon. Worsening deflation in both consumer and producer prices stemmed mainly from subdued wage growth, global commodity prices, and an absence of demand-pull pressures. At the same time, inflation expectations of firms and households remained at very low levels. According to the central bank, the March rate cut marked the end of the cycle of monetary policy easing. Therefore no further changes to the bank's key rates were made in the subsequent months.

Chart 30 Key interest rates of national central banks (%)



Source: National central banks and ECB.

SUMMARY OF GDP GROWTH PROJECTIONS OF SELECTED INSTITUTIONS

Table 1 The global economy

	Release	2015		2016	
IMF	April 2015	3.5	(=)	3.8	(0.1)
OECD	June 2015	3.1	(-0.6)	3.8	(-0.1)
EK	May 2015	3.5	(-0.1)	3.9	(-0.1)
ECB 1)	June 2015	3.4	(-0.4)	4.1	(-0.1)

Table 2 United States

	Release	2015		2016	
IMF	April 2015	3.1	(-0.5)	3.1	(-0.2)
OECD	June 2015	2.0	(-1.1)	2.8	(-0.2)
EC	May 2015	3.1	(-0.4)	3.0	(-0.2)
Federal Reserve	June 2015	1.9	(-0.6)	2.55	(0.05)

Table 3 Euro area

	Release	2015		2016	
IMF	April 2015	1.5	(0.3)	1.6	(0.2)
OECD	June 2015	1.4	(=)	2.1	(0.1)
EC	May 2015	1.5	(0.2)	1.9	(=)
ECB	June 2015	1.5	(=)	1.9	(=)

Table 4 Czech Republic

	Release	2015		2016	
IMF	April 2015	2.5	(=)	2.7	(0.3)
OECD	June 2015	3.1	(0.8)	2.5	(-0.2)
EC	May 2015	2.5	(=)	2.6	(=)
ČNB	May 2015	2.6	(=)	3.2	(0.2)

Table 5 Hungary

	Release	2015		2016	
IMF	April 2015	2.7	(0.4)	2.3	(0.5)
OECD	June 2015	3.0	(0.9)	2.2	(0.5)
EC	May 2015	2.8	(0.4)	2.2	(0.3)
MNB	March 2015	3.2	(0.9)	2.5	(0.4)

Table 6 Poland

	Release	2015		2016	
IMF	April 2015	3.5	(0.2)	3.5	(=)
OECD	June 2015	3.5	(0.5)	3.7	(0.2)
EC	May 2015	3.3	(0.1)	3.4	(=)
NBP	March 2015	3.4	(0.4)	3.3	(=)

1) Global economic growth excluding the euro area.
Note: Data in brackets denote the change in percentage points from the previous projection.