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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 in the third quarter of 2015 remained slow and modest by historical standards. Advanced economies continued to post quite solid growth rates, while the sluggish performance of some emerging market economies raised doubts about their growth potential. The situation in these countries was also affected by the further tightening of financial conditions in anticipation of monetary policy normalisation in the United States. At the same time, the persistence of low commodity prices has been weighing on exports, while importers have benefited from this trend.

Looking at the advanced world, the US economy's growth decreased in line with expectations, after its strong performance in the previous quarter. This slowdown was largely attributable to negative contributions of changes in inventories and net exports. Nevertheless, US economic activity continued to be boosted by domestic demand, in particular private consumption. The US economy is expected to remain buoyed by the labour and property markets, low oil prices, a moderately expansive fiscal stance, and favourable financial conditions. Other factors, however, may be having a negative impact on the economy, including the US dollar's previously strong appreciation and the subdued external demand. In the United Kingdom, too, GDP growth moderated slightly. While growth in both private consumption and investment was similar to the previous quarter, the pace of import growth had a negative impact on the economy. As regards the outlook for households' balance sheets and consumption there may be downside risks in the form of potential interest rate increases and the property market. The investment outlook may also face a downward risk in the political uncertainty surrounding the referendum on continued EU membership, expected to take place later in 2016. Although the euro area economy continued to expand in the third quarter, its growth eased for a second successive quarter. The growth was driven entirely by domestic demand, namely government and private consumption expenditure. Going forward, domestic demand is expected to continue stimulating euro area GDP growth. Japan's GDP fell for a second successive quarter, but whereas the second quarter contraction was caused by muted private consumption and net exports, the third quarter drop stemmed mainly from changes in inventories and weak investment. Looking ahead, increases in real income due to lower oil prices are expected to continue boosting household consumption, while improving corporate profits imply an upturn in investment. The Japanese economy could be adversely affected by weakening demand from emerging markets.

As regards emerging markets, economic growth in China maintained the quarter-on-quarter pace of the previous quarter, while edging down in year-on-year terms. The growth rate therefore remained close to the official target set for 2015 (7%) and is so far bucking expectations of its significant slowdown. Lower investment growth in this period was not fully offset by stronger consumption. The Chinese economy is still expected to cool, although the slowdown in investment growth could be eliminated by loosening of monetary and fiscal policy. Stability returned to the Chinese stock markets after their turbulence in the summer. The Chinese currency, too, after depreciating by around 3% at the beginning of August, is relatively stable again thanks to interventions aimed at boosting export performance. Elsewhere in Asia, India's economic growth accelerated and India will probably be the fastest-growing large economy in 2015. Further evidence of its robust performance is provided by capital goods production and the manufacturing sector, with the economy currently attracting a strong inflow of foreign direct investment. Possible risks to India's economic outlook include the postponement of structural reforms, the impact of a slowdown in the Chinese economy, and an upsurge in market volatility after US monetary policy normalisation. In Brazil, the economy has been adversely affected by domestic factors, including political instability and deteriorating fiscal performance. This export-oriented country is now facing the headwinds of falling commodity prices. The worsening of the outlooks for the Brazilian economy also reflects the limited response of macroeconomic policy and developments in other emerging economies. The Russian economy contracted again in third quarter, although probably at a more moderate pace according to available indicators. The recession is expected to continue into the next period, too, given the persistence of inflationary pressures, high funding costs and the continuing climate of uncertainty. The Russian economy is also being adversely affected by a combination of geopolitical tensions, sanctions and falling commodity prices.

Across OECD countries, economic growth moderated, quarter-on-quarter, to 0.4% in the third quarter of 2015, from 0.6 % in the previous quarter. The annual growth rate also slowed, from 2.2% in the second quarter to 2.0% in the third. The average Composite Leading Indicator (CLI)[1] for the OECD's member countries is not as yet pointing to any acceleration in global growth in the near term, but although the CLI continued its downward trend in the third quarter, it stabilised in October.

Leading indicators suggest that global GDP growth will remain no more than moderate over the short term. Over the longer term, the world economy is expected to accelerate gradually, and in 2016 and 2017 its growth should already be exceeding the rates recorded during the past four years. This upturn will be driven mainly by recovery in the majority of advanced economies,

Chart 1 GDP growth and the CLI

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

while growth across emerging market economies will be lower by historical standards. Growth in the advanced world is expected to be supported by low oil prices, persisting accommodative financial conditions, an improving labour market situation and rising confidence, as well as less extensive private sector consolidation and fiscal consolidation efforts. At the same time, however, emerging market developments may be heterogeneous. While these economies should benefit from increasing demand in advanced economies, their structural barriers and macroeconomic imbalances may constrain their activity growth. In addition, some emerging economies must continue adjusting to lower commodity prices and to tighter external financing conditions stemming from the assumed normalisation of US monetary policy. Some emerging economies also face persisting political instability.

Global inflation has stabilised at low levels as a result of oil price movements. Inflation in advanced economies has mostly been decelerating, while emerging economies show more varied trends. In Brazil, Russia and Indonesia, inflation remained elevated owing to the impact of exchange rate depreciation. India's inflation rate eased at the beginning of the quarter and then began to pick up, whereas China's inflation turned from an accelerating to a decelerating path.

The average inflation rate for OECD countries in the first two months of the third quarter was unchanged from its level of June 2015 (0.6%). On the one hand, food price inflation eased and energy inflation became more negative, while on the other hand core inflation increased moderately. In September, however, the year-on-year drop in energy prices was even more marked, and not even a further slight increase in core inflation could prevent the headline rate from falling to 0.4%. Annual core inflation stood at 1.8% in September, 0.2 percentage point higher than its June rate. October brought a more moderate fall in energy prices, and with food inflation accelerating, the headline inflation rate moved back up to 0.6%. The core rate remained unchanged in October.

The global inflation rate is expected to follow a gradual upward path. While falling prices of oil and other commodities are expected to

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

dampen inflationary pressures in the short term, the negative impact of energy prices on the headline inflation rate should subsequently fade away owing to the base effect. In addition, the increasing forward curve of oil prices implies a gradual increase in global inflation. However, with the output gap closing slowly in advanced economies and widening in certain emerging market economies, there are signs of spare capacity at the global level, such that may dampen inflationary pressures over the medium term.

2 Commodities

The price of Brent crude oil followed a downward trend in the third quarter of 2015, and its average level of around USD 51 per barrel was around USD 11 lower than the average for the previous quarter. The oil price fell most markedly in July and August (by around USD 20 per barrel), since in the wake of the signing of a nuclear deal with Iran there was the prospect of further increases in supply. Additional downward pressure on the oil price came from the growth in US oil reserves, expectations for a slowdown of the Chinese economy, and the contraction of Japan's economy in the second quarter of 2015, as well as the turmoil in Chinese stock markets. Oil prices accelerated towards the end of August and in early September, however, reflecting the strengthening of equity markets, destocking, and reports that OPEC countries were preparing to discuss further restrictions on production. As the quarter went on, the oil price stayed relatively stable, its level determined mainly by reports about global inventories. The oil price rallied briefly at the beginning of August in response to hikes in petrol prices in the United States, to Russia's stance on talks with other oil producers about the state of the market, and above all by the geopolitical risks in Syria. However, OPEC's decision not to cut oil production resulted in the oil price returning to its level of earlier in the month. A further significant drop in oil prices in mid-November reflected the continuing growth in US oil inventories (despite falling shale oil production) and expectations for increased oil production in Iraq. The subsequent terrorist attacks in Paris heightened geopolitical tensions and caused oil prices to correct upwards. The OPEC meeting in early December, however, failed to reach an agreement on cutting output and the oil price fell to a seven-year low of USD 40 per barrel.

As the downward trend in prices of metals and agricultural commodities continued in the third quarter of 2015, average prices of non-energy commodity prices fell in comparison with the previous quarter. Non-energy commodity prices thus responded to persisting oversupply and high inventories, as well as to weaker demand. The fall in metal prices in July and August stemmed mainly from the financial crisis in Greece, low demand from China and the turmoil in Chinese stock markets. The iron ore price decreased the most, although it subsequently rallied on the basis of falling stocks in China and a pick-up in commodity markets. Amid fears of a slowdown of the Chinese economy, prices of zinc, nickel, copper and aluminium also dropped. Metal prices temporarily increased in September, owing to reduced aluminium production in China, but their downward trend returned in October. Agricultural commodity prices rose briefly in July on the basis of increases in maize and soybean prices stemming from adverse natural conditions. The next three months saw a falling trend in agricultural commodity prices, owing to increased yields of maize and soybean, as well as to rising supplies of wheat from Europe and the Black Sea region and to concerns about future demand in China.

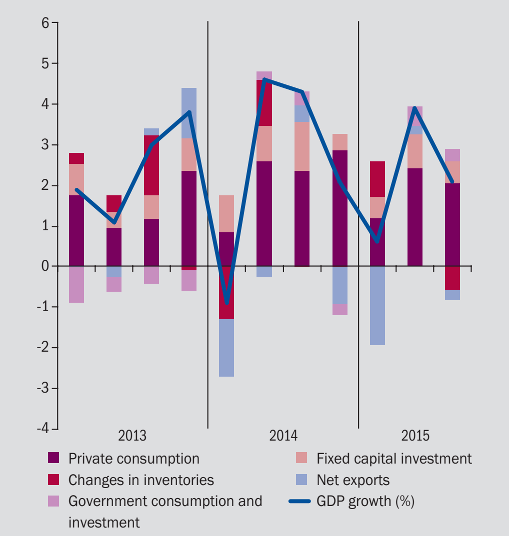
3 The United States

The annualised growth rate of the US economy slowed to 2.1% in the third quarter of 2015, from 3.9% in the second quarter. The year-on-year growth rate fell to 2.2%, from 2.7%. The lower activity growth had been widely expected in the light of the economy's strong performance in the previous quarter. Even so, US growth in the third quarter was also affected by weakening of global demand as well as by the economic and financial turbulence in China.

Changes in inventories made the largest negative contribution to third-quarter GDP growth. It may therefore be assumed that firms relied more on using existing stocks than on increasing production. External demand developments weighed on export performance, and together with a slight increase in imports, resulted in net exports having a negative impact on GDP growth. On the other hand, the economy continued to benefit from domestic demand. Although decelerating private investment suggested that some firms were taking a cautious approach, private consumption expenditure, accounting for around 70% of GDP, maintained its relatively strong rate of growth. Consumption demand was supported mainly by the continuing recovery of the labour market and by real disposable income growth based on subdued oil prices and low inflation. The third-quarter growth of the US economy was also boosted by government consumption and investment expenditure, mainly at the state and local level. The available activity indicators suggest that in the short term the US economy will remain buoyed by domestic demand, reflecting favourable financial conditions, an improving labour market and the increasing purchasing power of households. Downsides risks to the outlook for US activity include strengthening of the dollar and stagnation in external demand.

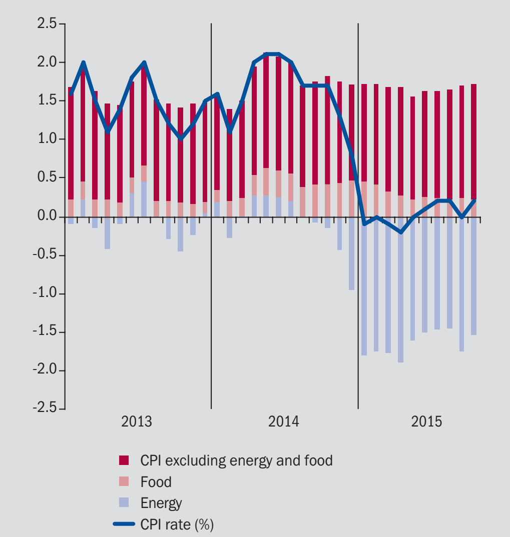
Consumer price inflation in the US remained extremely low in the third quarter of 2015, as it continued to reflect commodity price movements. Similarly to what was observed in the previous two quarters, the inflation rate rose slightly at the beginning of the period under review and then substantial energy price fluctuations kept consumer prices flat at the end of the period. Food price inflation fell slightly in July and remained stable in the next two months. Core inflation was largely unchanged, reflecting import prices that remain low owing to real appreciation of the dol-

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



Source: Bureau of Economic Analysis.

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



Sources: Bureau of Labor Statistics and NBS calculations.

lar. The fall in energy prices came to the end of its moderating trend in the third quarter of 2015, and even became more pronounced in September owing to the slump in petrol prices (30% year-on-year). In consequence, the US inflation rate fell from 0.1% in June to 0.0% in September. In October, with energy price deflation easing again, the headline inflation rate increased to 0.2%. The core inflation rate edged up from 1.8% in June, to 1.9 % in September and remained at that level in October. Going forward, US consumer price inflation is expected to begin accelerating, as the impact of falling energy prices fades.

The US Federal Open Market Committee (FOMC) decided at its meetings in July, September and October to leave its target range for the federal funds rate at 0% to 0.25%, where it had been since December 2008. In its statements following the July and September meetings, 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. At the October meeting, the FOMC reaffirmed that these same criteria would be assessed in determining whether to raise the target range at its meeting in December. 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. At all three meetings, the FOMC 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. The Federal Reserve's monetary policy remained accommodative throughout the period under review, amid depressed inflation and subdued wage costs; nevertheless, there were increasing expectations for monetary policy tightening in the next period, as indicators showed the economy returning to full employment.

4 The euro area

The euro area economy maintained quarter-on-quarter growth in third quarter of 2015, although the rate of 0.3% was lower than the rate of 0.4% reported for the second quarter. Looking at the larger national economies in the euro area, activity growth slowed in Spain (from 1.0% to a still solid 0.8%), Germany (from 0.4% to 0.3%) and Italy (also from 0.4% to 0.3%), while in France it accelerated (from 0.0% to 0.3%). The moderation in the euro area's quarter-on-quarter GDP growth did not yet have an impact on the annual growth rate, which remained unchanged from the previous quarter, at 1.6%.

Net exports made a negative contribution to third-quarter growth, in contrast to their positive impact in the previous quarter. This turnaround occurred because export growth slowed markedly while import growth remained unchanged. GDP growth was driven entirely by domestic demand and in particular by private and government consumption expenditure. Household consumption increased for a sixth successive quarter, supported by the positive impact of low oil prices on real disposable income growth, as well as by labour market improvement and favourable lending conditions. Besides weaker export growth, another negative feature of GDP growth was the stagnation of investment demand, possibly reflecting fears about global economic developments, in particular the risk of falling demand from emerging market economies. Changes in inventories contributed positively to the growth rate.

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

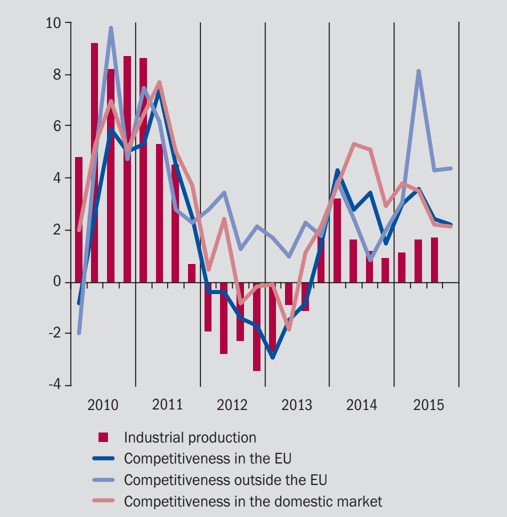
Sources: Eurostat and NBS calculations.

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

Source: Eurostat.

Sharply deteriorating assessments of competitiveness in industry in the third quarter of 2015 were reflected in worsening export performance and stagnation in the significant exporting sector of manufacturing industry. Competitiveness assessments – especially in regard to non-EU markets – stopped deteriorating in the fourth quarter, probably because the euro's exchange rate began depreciating towards the end of October**.** In addition, export expectations picked up slightly in industry, and this may be reflected in the sector's performance.

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

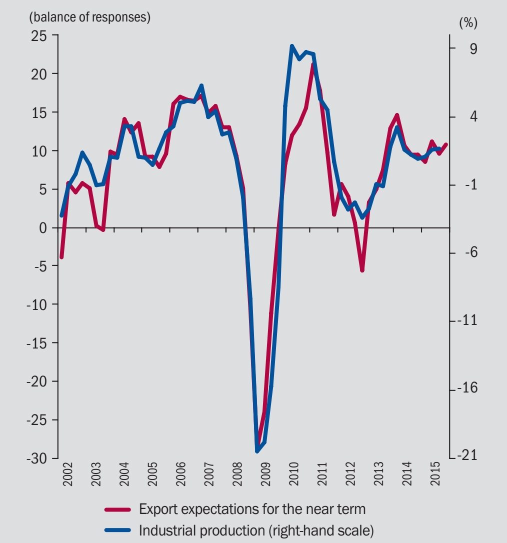


Sources: European Commission, Eurostat and NBS calculations.

Chart 8 Factors limiting production in industry (%)

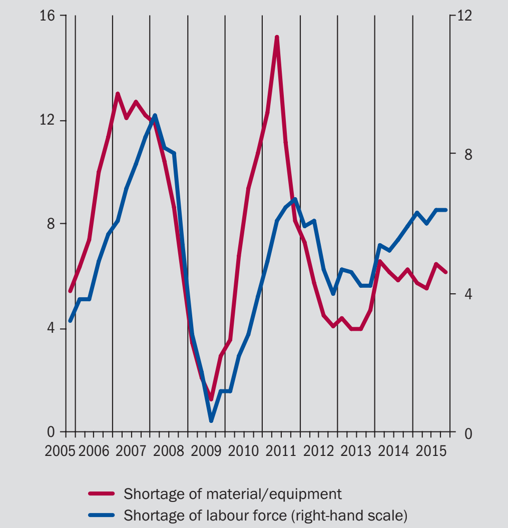
Source: European Commission.

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



Sources: European Commission, Eurostat and NBS calculations.

Chart 9 Factors limiting production in industry (%)



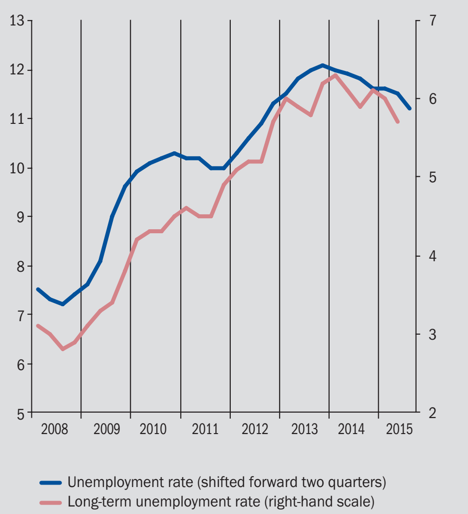
Source: European Commission.

As regards factors limiting industrial production, perceptions of demand as such a factor continued to lessen in the fourth quarter. For a second successive quarter, however, firms increasingly perceived financial constraints as a factor limiting production. This may suggest that the trend easing of such constraints – supported by unconventional monetary measures, including the ECB's asset purchase programme – came to an end. Perceptions of material/equipment shortages as a factor limiting production decreased in the fourth quarter, after rising in the previous period; this indicates that investment activity is not rebounding significantly from its subdued level. Perceptions of labour force shortages as a production constraint remained unchanged, although their level continues to reflect the improving labour market situation.

The labour market situation continued to improve moderately in the third quarter. Unemployment fell by 0.1 percentage point, to 10.9%, and continued to drop in October and November, down to 10.7%. The downward trend in the overall unemployment rate has also been accompanied by a gradual decrease in the long-term unemployment rate, which is a problem in certain periphery economies in particular.

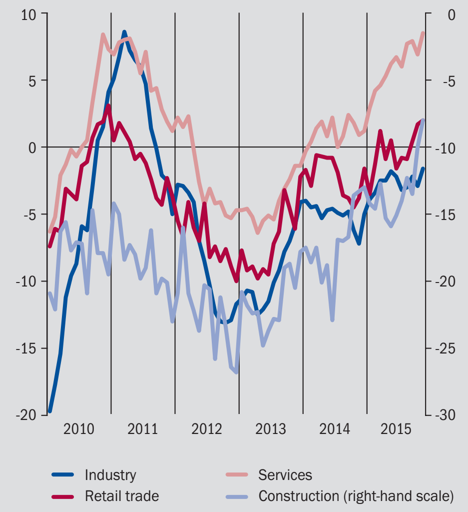
The continuing favourable developments in unemployment, together with firming demand, were reflected, more or less from August onwards, in improving outlooks for employment in a majority of sectors. The most improved outlooks were in the construction and retail trade sectors, indicating, on the one hand, increasing demand for building and infrastructure investments, supported by favourable financing conditions, and, on the other hand, the strengthening of consumer demand. In industry and services the employment outlooks were moderately improved. Although labour market signals remain consistent with improving conditions, the unemployment rate is still at very high levels and the situation remains fragile.

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



Source: Eurostat.

Chart 11 Employment expectations by sector (balance of responses)



Source: European Commission.

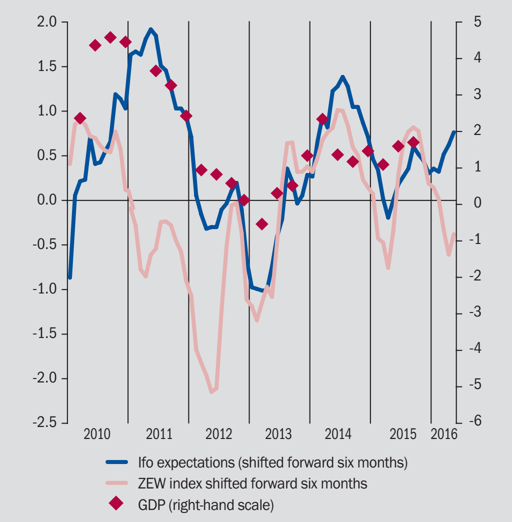
Several leading indicators for the euro area, as well as for Germany, improved in the first two months of the fourth quarter of 2015. After falling appreciably in September, the Purchasing Managers' Index (PMI) for the euro area increased in October and November (up to 54.4), indicating continuing economic growth. The Eurocoin index also strengthened slightly in November. The economic sentiment indicator (ESI) for the euro area remained flat in November, after being on a steady upward trend since July. It nevertheless remains at relatively high levels above its historical average, and its average level for October and November was notably higher than that for the third quarter. Likewise the ESI for Germany remains elevated, above its historical and third-quarter averages, despite dropping slightly in November. The Ifo Business Climate Index for Germany rebounded in November, after its dip in October ended an upward trend going back to July. Its average level for the first two months of the fourth quarter surpassed the third-quarter average and pointed to favourable tendencies in the economy. After falling in September, the PMI for Germany increased quite strongly in November (to 54.9), leaving its average for October and November slightly higher than the third-quarter average. The ZEW index is painting a less favourable picture of the German economy, and despite edging up in November, its previous seven months

Chart 12 Euro area leading indicators and quarterly GDP growth

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

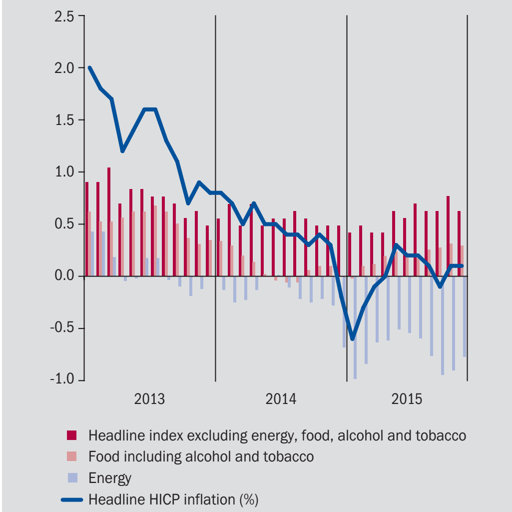
of decline still left it below its historical and third-quarter averages. On the whole, however, the leading indicators for the euro area and Germany point to continuing economic growth in each case.

Chart 13 German leading indicators and annual GDP growth



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

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



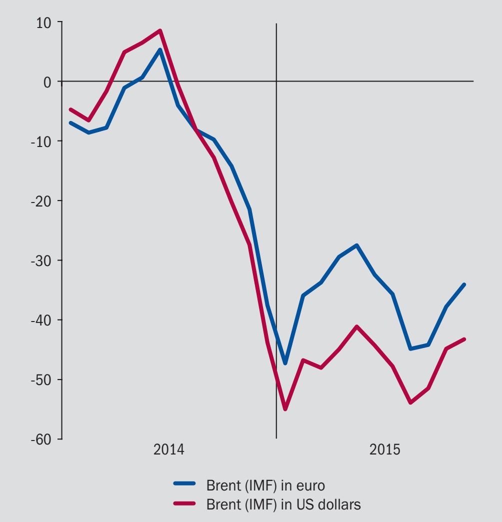
Sources: Eurostat, NBS calculations.

The inflation rate in the euro area fell gradually over the third quarter, from 0.2% in June to -0.1% in September. The shift into negative territory was entirely attributable to a more marked fall in the energy component. Food price inflation remained unchanged during the quarter. The inflation rate excluding energy and food accelerated slightly, owing mainly to increases in services prices. October and November saw energy prices fall more moderately, which helped nudge the headline inflation rate back into positive figures (0.1% in each month). There was also a slight increase in food inflation. Inflation excluding energy and food was unchanged, as a modest rise in non-energy industrial goods inflation was offset by a slowdown in services inflation.

The annual rate of decrease in oil prices in global markets accelerated during the third quarter, and by continuing to pass through to energy consumer prices it had a negative impact on the euro area's headline inflation rate. Although global oil prices fell appreciably in November, their annual rate of decrease was moderating and this was reflected in energy prices, too. Owing to the euro's relatively large depreciation in November, the slowdown in energy inflation was more marked for prices in euro. On the one hand, the persistence of low oil prices is expected to continue containing inflation in the near term; on the other hand, their impact may be partly mitigated by weakening of the euro, and falling energy prices are supporting real disposable income growth and therefore consumption.

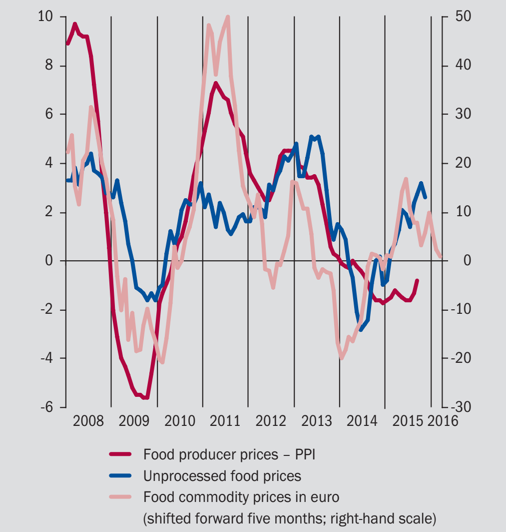
Responding with a certain lag to increasing inflation in global food commodity prices (in euro), unprocessed food price inflation increased during the third quarter and again in October. It is also likely that accelerating commodity prices

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



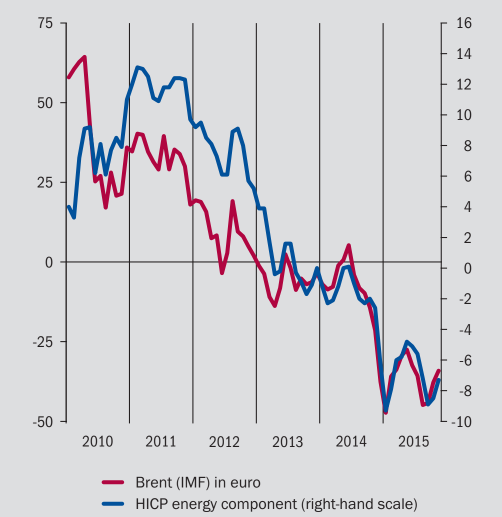
Sources: IMF, ECB and NBS calculations.

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



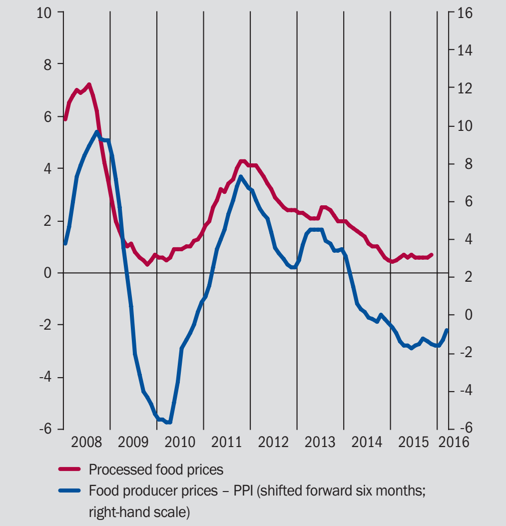
Sources: Eurostat and ECB.

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



Sources: IMF, ECB and NBS calculations.

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



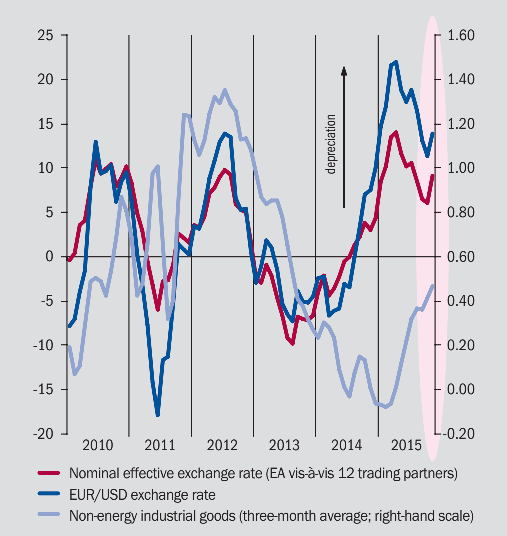
Sources: Eurostat and ECB.

passed through to food producer prices, whose annual rate of change became less negative from August. Processed food prices, however, remained unaffected. The slight slowdown of unprocessed food inflation in November probably reflected developments in food commodity prices, which began to decline in August. The downward trend in food commodity prices is also expected to have a dampening effect on unprocessed food prices and food producer prices in the months ahead.

The inflation rate excluding energy, food, alcohol and tobacco prices, which includes the components most sensitive to demand, increased slightly in the third quarter, from 0.8% in June to 0.9% in September. After accelerating to 1.1% in October, it fell back to 0.9% in November.

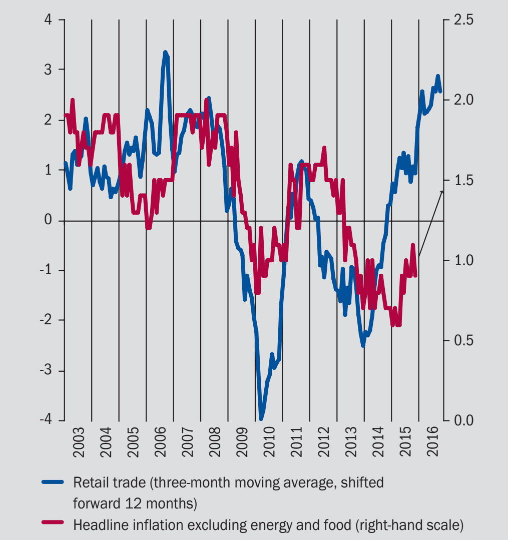
An environment of strong competition and the persisting weakness of demand continued to curb the rate of increase in demand-sensitive components of inflation. Non-energy industrial goods inflation remained broadly unchanged in the third quarter, with its level in September (0.3%) the same as that in June; however, it accelerated moderately in October and November

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



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

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



Sources: Eurostat and ECB.

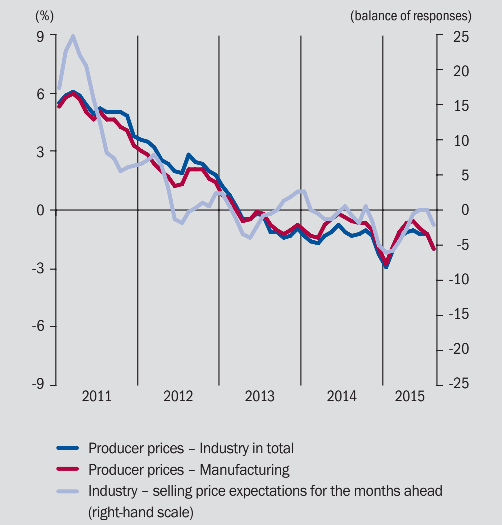
(to 0,5%), probably owing to the lagged impact of euro depreciation. Services price inflation barely changed in the third quarter, edging from 1.1% in June to 1.2% in September; it thus continued the pattern of the first six months, during which it fluctuated between 1.0% to 1.3% without showing any marked tendencies. In October services inflation temporarily accelerated, but in November it corrected downwards again, to 1.1%. Continuing growth in consumption and retail turnovers may contribute to a pick-up in the demand-sensitive components of inflation in the next period.

Price expectations of economic agents remain subdued at historically low levels. After falling in most sectors in the third quarter, expectations for selling prices, picked up moderately in October and to some extent in November, too. The increase in price expectations during these months was most marked in industry and retail trade. In the case of industry, the rise in price expectations may indicate an easing of the rate of decrease in producer prices. Nevertheless, price expectations remain low in all sectors, and although there are signs of a slight acceleration in inflation, this process is very fragile.

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

Sources: European Commission and Eurostat.

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



Sources: European Commission and Eurostat.

At its meeting in December, the ECB's Governing Council reassessed its monetary policy instruments, taking particular account of the continuing weakening of the inflation outlook. This reflected mainly the slowing of growth in emerging market economies, as well as falling oil prices and euro appreciation (especially in the third quarter).

The Governing Council decided to lower the interest rate on the deposit facility by 10 basis points, to -0.30%, with effect from 9 December 2015. The interest rates on the main refinancing operations and the marginal lending facility remained unchanged, at 0.05% and 0.3%, respectively.

The Governing Council also decided to extend the asset purchase programme (APP). Monthly purchases of €60 billion under the APP will now run until the end of March 2017 (extended from September 2016) or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term.

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

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

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

Box 1

ADDITIONAL LIQUIDITY PROVIDED BY THE ECB'S NON-STANDARD MEASURES SINCE JUNE 2014

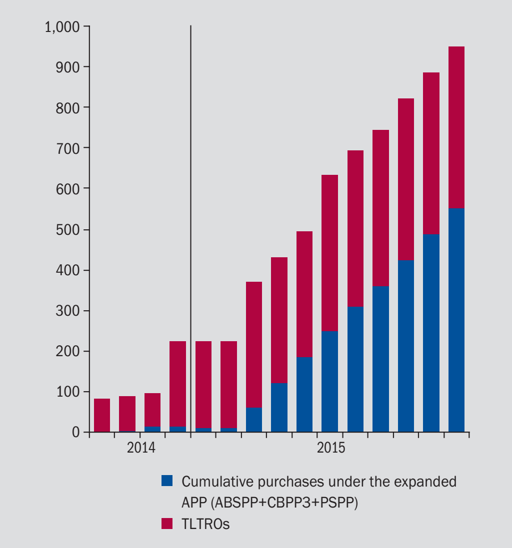
From the onset of the crisis in 2007-2008 central banks began conducting a broad array of interventions of varying scale and composition. These interventions included: operations aimed at ensuring the availability of funding; the easing of credit conditions and enhancement of the impaired monetary policy transmission mechanism; large purchases of securities to provide additional monetary policy accommodation at a time when short-term interest rates were at the zero lower bound.

The ECB also deployed a wide range of instruments in pursuing its mandate. Nevertheless, despite the introduction of several measures designed to simplify access to liquidity (fixed-rate tenders with full allotment; the lengthening of the maturity period of longer-term refinancing operations up to 36 months; the extension of the list of eligible collateral), the transmission mechanism did not perform smoothly and there was insufficient pass-through of accommodative monetary conditions to lending and deposit rates and to the real economy. From June 2014, in an environment of low inflation, inflationary expectations, falling credits and weak growth in monetary aggregates, the ECB gradually adopted measures aimed at further loosening credit and monetary conditions.

In June 2014 the ECB, in pursuing its price stability mandate, announced monetary policy measures designed to enhance the functioning of the monetary policy transmission mechanism and support lending to the real economy. It decided to conduct a series of targeted longer-term refinancing operations (TLTROs) in order to support bank lending to the euro area's non-financial private sector (excluding loans to households for house purchase) over a period of two years. It was also decided to intensify preparatory work related to outright purchases of asset-backed securities. The ECB's asset purchase programmes were designed to make greater use of the Eurosystem's balance sheet in the task of fulfilling the ECB's price stability mandate.

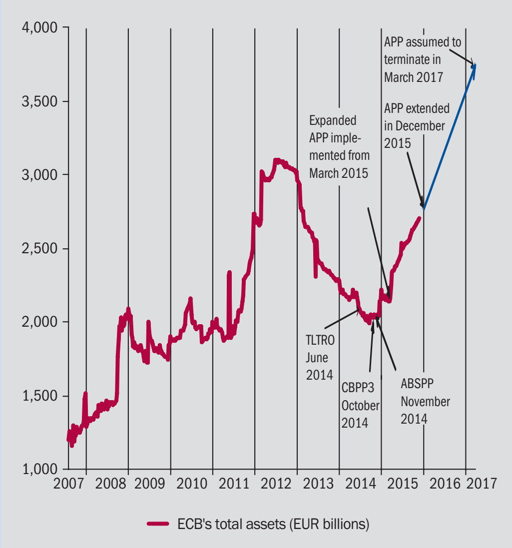
In autumn 2014 the ECB began to implement a programme to buy a broad portfolio of simple and transparent asset-backed securities (the asset-backed securities purchase programme or ABSPP – beginning in November 2014) where the underlying assets are claims on the euro area's non-financial private sector, and a programme to buy a broad portfolio of euro-denominated covered bonds (the third covered bond purchase programme or CBPP3 – beginning in October 2014) issued by monetary financial institutions resident in the euro area. In January 2015 the ECB announced that it would be expanding its asset purchase programme (APP), to include a new public sector asset purchase programme (PSPP). The PSPP began in March 2015 and involves buying bonds issued by euro area central governments, agencies and European institutions in the secondary market. These purchases are another instrument aimed at ensuring compliance with the ECB's price stability mandate. In December 2015 the ECB extended the intended horizon of purchases under the APP from September 2016 to March 2017, or beyond, if necessary, and in any case until there is a sustained adjustment in the path of inflation consistent with the aim of achieving inflation rates below, but close to, 2% over the medium term. At the same time, the ECB decided to reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary. It was also decided that the list of assets eligible for purchase under the PSPP would include euro-denominated marketable debt instruments issued by regional and local governments located in the euro area.

Chart A Cumulative purchases under the expanded APP and TLTROs (EUR billions)



Source: ECB.

Chart B The Eurosystem's assets (EUR billions)



Source: ECB.

Between June 2014 and November 2015, the Eurosystem's balance sheet was increased by almost €400 billion through TLTROs and by further approximately €600 billion through the APP, including €550 billion through the expanded APP (from March 2015). Cumulatively, these non-standard measures therefore increased the Eurosystem's balance sheet by €1 trillion, almost 10% of GDP, between June 2014 and November 2015. At the same time, the extension of monthly purchases of €60 billion under the APP to March 2017 should add a further €960 billion in assets (around 9% of GDP) to the Eurosystem's balance sheet between December 2015 and March 2017, increasing it from around €2.7 trillion to almost €3.7 trillion.

Not only the extension of the APP, but also the decision to reinvest the principal payments on the maturing securities will contribute to favourable liquidity. As Mario Draghi, President of the ECB, pointed out in his speech in New York on 4 December 2015, this recalibration of the APP "will add €680 billion – some 6.5% of the euro area GDP – in liquidity to the system by 2019, relative to the situation that would have prevailed under previous policies".

The unconventional measures adopted since June 2014, including the easing of credit conditions and large-scale asset purchases, are designed to expand the monetary policy stance in an environment of zero-lower-bound interest rates. The considerable size of the monthly purchases, together with the specified horizon and flexibility of the APP should ensure a significant monetary impulse.

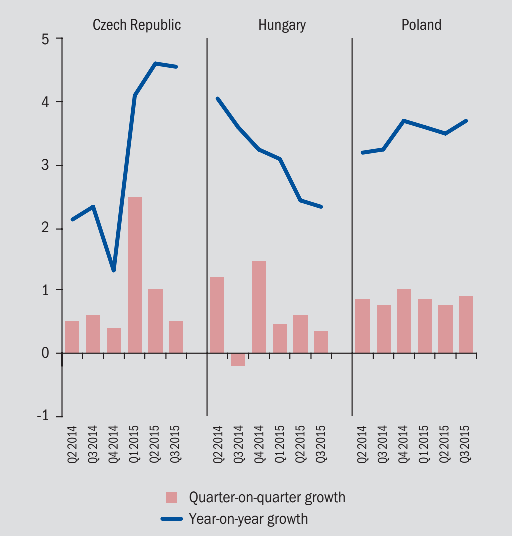
The key indicator of the success of this comprehensive package of programmes and operations is whether the inflation rate objective of below, but close to, 2% is achieved over the medium term. With regard to the delay in the effectiveness of the adopted measures within the transmission mechanism, it can now be confirmed that the indicators of financing conditions and confidence, among others, have been sending favourable signals. The measures have begun to have a downward impact on banks' funding costs, and the same banks have in due course reduced borrowing costs for the non-financial private sector. The gradual improvement in the functioning of the transmission mechanism is also indicated by the pick-up in lending activity[2]. All things being equal, the ultimate result of this development in the medium term should be that the rate of inflation gradually reaches a level that is consistent with the ECB's primary objective.

2 *Report on the International Economy – September 2015: BOX 1 – Non-standard monetary policy measures have contributed to a reduction in borrowing costs and helped stimulate lending activity.*

5 The Czech Republic, Hungary and Poland

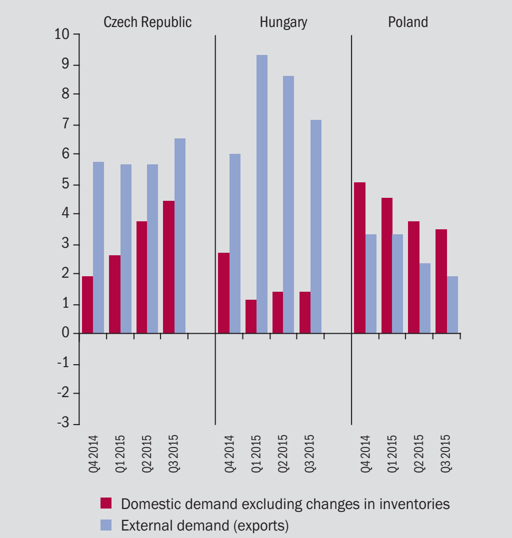
Only in Poland was annual GDP growth higher in the third quarter than the second (by 0.2 percentage point, at 3.7%), while in both the Czech Republic and Hungary it edged down by 0.1 percentage point (to, respectively, 4.5% and 2.3%).

Chart 23 GDP growth (%)



Source: Eurostat.

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



Sources: Eurostat and NBS calculations.

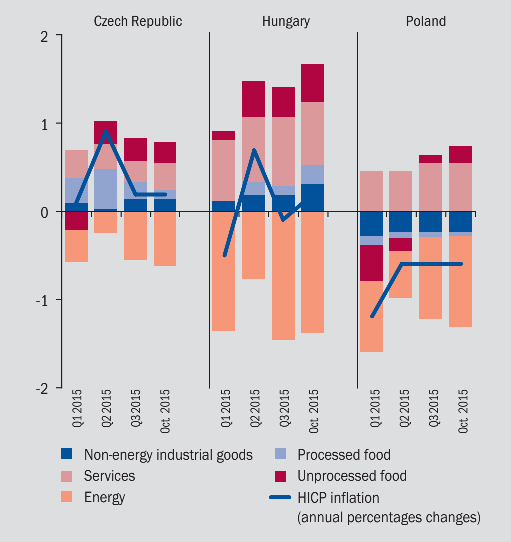
In quarter-on-quarter terms, the Czech Republic's economic growth fell in the third quarter of 2015 (by 0.5 p.p., to 0.5%), while in both Hungary and Poland economic growth increased by 0.1 percentage point, to 0.6% in the former and 0.9% in the latter. The slowdown of the **Czech economy** was caused mainly by changes in inventories, whose contribution to GDP growth turned from positive in the previous quarter to significantly negative. Growth in investment, and also in household consumption, was lower in the third quarter than in the previous period. On the other hand, government final consumption expenditure and net exports contributed positively to growth. In **Hungary**, the moderate acceleration in GDP growth was based largely on net exports, since export growth slowed more moderately than did import growth. Changes in inventories also had a positive impact. By contrast, growth in both private and public consumption slowed slightly, while investment demand actually fell, after increasing in the previous quarter. In **Poland**, the acceleration in economic growth stemmed mainly from higher investment growth. Net exports, too, made a positive contribution, as export growth (after falling in the previous quarter) substantially surpassed import growth. Both private and public consumption growth remained unchanged from the previous quarter, while inventory growth moderated.

In the Czech Republic, annual consumer price inflation was lower in the third quarter of 2015 than in the second quarter. In Hungary, the inflation rate fell after increasing in the previous quarter, while in Poland it remained unchanged. The drop in the **Czech Republic's** headline inflation rate (to 0.2%, from 0.9%) was driven by all components apart from non-energy industrial goods inflation (higher) and unprocessed food inflation (broadly unchanged). The decline in energy prices became more pronounced and processed food inflation slowed.

October saw the headline rate in the Czech Republic stagnate, as the increased momentum in energy deflation and further slowdown in food inflation were offset by an increase in services price inflation. In **Hungary**, annual consumer price inflation returned to negative territory in the third quarter (-0.1%) after the price level increased by 0.7% in the previous quarter. This turnaround was accounted for by a greater fall in energy prices and, to a lesser extent, by a slowdown in unprocessed food inflation. The impact of other components on headline inflation was broadly the same as in the previous quarter, as processed food inflation edged down and services inflation edged up. Hungary's inflation rate turned positive again in October, owing mainly to increases in the non-energy industrial goods and food components. In **Poland**, the negative consumer price inflation rate was the same in the third quarter as in the second, at -0.6%. The impact of an increase in energy deflation was offset by the acceleration of the food and services inflation rates, as well as by an easing of processed food deflation. The rate of decrease in prices of non-energy industrial goods was unchanged from the previous quarter. Poland's consumer price level fell again in October, at the same rate as it did in the third quarter. While energy deflation increased, unprocessed food inflation accelerated.

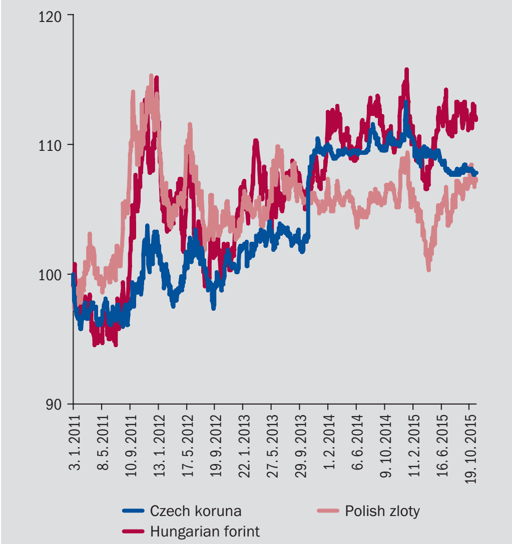
Looking at the currencies of the three countries, the Czech koruna and Hungarian forint were slightly stronger against the euro at the end of the third quarter than at the end of the previous quarter (by, respectively, 0.24% and 0.47%), while the Polish zloty was trading weaker (by 1.28%). It remains the case that the koruna is constrained to follow a largely strengthening trajectory, since the Czech central bank is still committed to using foreign-exchange interventions to maintain accommodative monetary policy conditions. The exchange rates of the three currencies, but in particular the forint and zloty, were buffeted in the third quarter by falling confidence in financial markets, stemming from the turmoil in Chinese stock markets and its impact on global financial markets as well as from concerns about GDP growth outlooks for emerging market economies (especially China). The exchange rates' volatility was later exacerbated by the possibility of US interest rate increases being postponed.

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



Sources: Eurostat, NBS calculations.

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

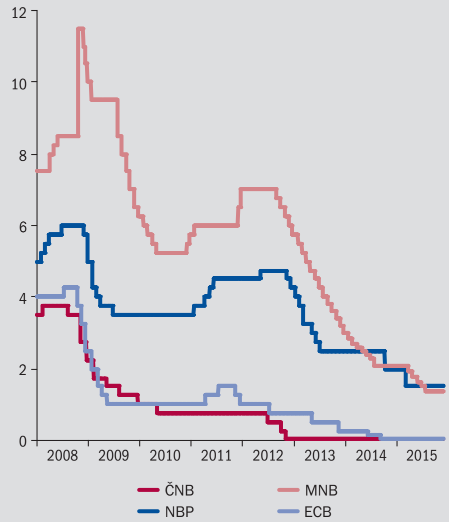


Sources: Eurostat, NBS calculations.
Note: A fall in value denotes appreciation.

In the second half of July, Česká národní banka had to intervene to stop the appreciation trend of the Czech koruna that had begun at the end of second quarter (stemming mainly from favourable figures for the Czech economy). By the end of July, after the intervention, the koruna had stabilised against the euro at just above 27.0 korunas per euro, and it remained at that level until September. At end-September the koruna was trading slightly weaker, affected by the outbreak of the Volkswagen emissions scandal. Once the initial shock had faded, however, the exchange returned to 27.0 CZK/EUR. In July both the forint and zloty came under appreciation pressure after an agreement was reached between Greece and its creditors on a third bailout package worth €86 billion. Soon after, in August, the currencies under review began gradually to depreciate in response to the turmoil in Chinese stock markets (after the Chinese central bank changed the exchange rate regime) and its potential repercussions for the global economy. The three currencies' depreciation was linked in particular to reports of potentially lower than expected growth in the emerging market economies of China, Russia and Brazil. In late October the exchange rates of the three currencies (in particular the forint) were affected by the emerging Volkswagen emissions scandal (with the automotive industry accounting for a significant share of GDP in the Czech Republic and Hungary).

As regards monetary-policy settings in the three countries, only the Hungarian central bank made any adjustments in the third quarter of 2015. In the Czech Republic, **Česká národní banka** (ČNB) kept its base rate unchanged at 0.05% (zero lower bound). At its policy meetings in the second quarter, the ČNB Board reaffirmed its commitment to use the exchange rate as an additional instrument for easing monetary policy, and agreed that the discontinuation of this policy would probably shift to around the end of 2016 (i.e. the end of the projection horizon). (It was on the basis of its exchange-rate commitment that ČNB intervened against the koruna's appreciation in the second half of July.) According to the ČNB Board, sustainable fulfilment of the inflation target, which is a condition for a return to conventional monetary policy, will occur from early 2017. The **Magyar Nemzeti Bank** (MNB) cut its base rate on one occasion in the third quarter, by 15 basis points to 1.35%, with effect from 22 July 2015. In the opinion of the MNB, the adjusted policy rate will ensure fulfilment of the inflation target in the medium term and a corresponding degree of support to the economy. In order to refinance government debt from domestic sources and thereby reduce vulnerability to the external environment and improve the monetary structure of the debt, the MNB continued the restructuring of its monetary policy instruments. With effect from 23 September 2015, the MNB's three-month fixed-rate deposit rate replaced the two-week deposit rate as the main monetary policy instrument (although the two-week facility will remain part of the bank's monetary policy instruments, it will be offered with limited quantity). In July the MNB launched a ten-year interest rate swap (IRS) facility for commercial banks in addition to the three- and five-year maturities already available. In August the central bank and Hungarian Banking Association signed an agreement on the the provision of funding for the conversion of outstanding household foreign currency loans into forints. In Poland, **Narodowy Bank Polski** (NBP) left its monetary-policy settings unchanged in the third quarter of 2015 (keeping the reference rate at 1.5%). In the view of NBP, inflation will increase gradually in the coming quarters, supported by a gradual closing of the output gap amid expected stable activity growth, improving economic conditions in the euro area and favourable domestic labour market developments. In September NBP noted that the increasing risk of a stronger slowdown in emerging market economies and the fact of declining commodity prices were raising uncertainty about the pace of inflation returning to its target. According to NBP's Monetary Policy Council, the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and to maintaining macroeconomic equilibrium. A draft law to allow loans denominated in foreign currency (mainly Swiss francs) to be converted into the domestic currency has not been approved.

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



Sources: National central banks and the ECB.

SUMMARY OF GDP GROWTH PROJECTIONS OF SELECTED INSTITUTIONS

Table 1 Global economy

	Release	2015		2016		2017	
IMF	October 2015	3.1	(-0.2)	3.6	(-0.2)	3.8	-
OECD	November 2015	2.9	(-0.1)	3.3	(-0.3)	3.6	-
EC	November 2015	3.1	(-0.4)	3.5	(-0.4)	3.7	-
ECB[1)]	December 2015	3.1	(-0.1)	3.6	(-0.2)	3.9	(=)

Table 2 United States

	Release	2015		2016		2017	
IMF	October 2015	2.6	(0.1)	2.8	(-0.2)	2.8	-
OECD	November 2015	2.4	(=)	2.5	(-0.1)	2.4	-
EC	November 2015	2.6	(-0.5)	2.8	(-0.2)	2.7	-
Federal Reserve	September 2015	2.15	(0.25)	2.4	(-0.15)	2.2	(-0.10)

Table 3 Euro area

	Release	2015		2016		2017	
IMF	October 2015	1.5	(=)	1.6	(-0.1)	1.7	-
OECD	November 2015	1.5	(-0.1)	1.8	(-0.1)	1.9	-
EC	November 2015	1.6	(0.1)	1.8	(-0.1)	1.9	-
ECB	December 2015	1.5	(0.1)	1.7	(=)	1.9	(=)

Table 4 Czech Republic

	Release	2015		2016		2017	
IMF	October 2015	3.9	(1.4)	2.6	(-0.1)	2.6	-
OECD	November 2015	4.3	(1.2)	2.3	(-0.2)	2.4	-
EC	November 2015	4.3	(1.8)	2.2	(-0.4)	2.7	-
ČNB	November 2015	4.7	(0.9)	2.8	(=)	2.9	-

Table 5 Hungary

	Release	2015		2016		2017	
IMF	October 2015	3.0	(0.3)	2.5	(0.2)	2.3	-
OECD	November 2015	3.0	(=)	2.4	(0.2)	3.1	-
EC	November 2015	2.9	(0.1)	2.2	(=)	2.5	-
MNB	September 2015	3.2	(-0.1)	2.5	(=)	-	-

Table 6 Poland

	Release	2015		2016		2017	
IMF	October 2015	3.5	(=)	3.5	(=)	3.6	-
OECD	November 2015	3.5	(=)	3.4	(-0.3)	3.5	-
EC	November 2015	3.5	(0.2)	3.5	(0.1)	3.5	-
NBP	November 2015	3.4	(-0.2)	3.3	(-0.1)	3.5	-

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