1 Macroeconomic developments

1.1 THE EXTERNAL ECONOMIC ENVIRONMENT

1.1.1 Global trends in output and prices

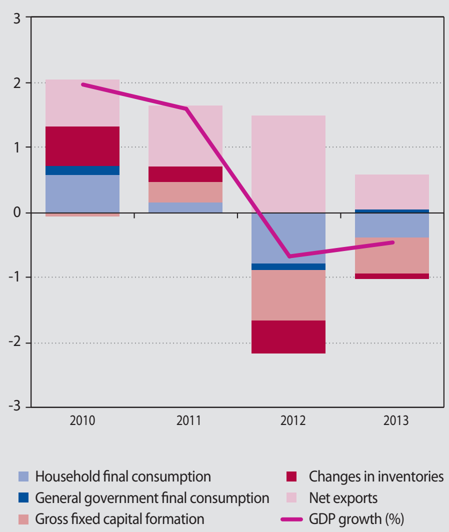
Global economic growth edged down to 3.0% in 2013 (from 3.1% in the previous year) with deceleration observed in both advanced and emerging economies. The euro area remained the most subdued economy in the advanced world, although its rate of contraction moderated in comparison with the previous year. The US economy maintained relatively strong growth, though its pace slowed slightly owing to a federal government shutdown in October and uncertainty about how to resolve the debt ceiling issue. In Japan and the United Kingdom, by contrast, economic growth gathered pace. In euro area countries in particular, activity was curtailed by uncertainty related to the debt crisis and by the ongoing repair of balance sheets in the banking sector and non-financial sector. Although labour markets improved slightly in certain major economies, they remained weak. Growth in emerging economies remained higher than that in advanced economies. Global foreign trade growth was virtually unchanged, at 2.7%, after falling sharply in the previous year.

Consumer price inflation declined as activity remained relatively low; it also reflected prices of most commodities, especially energy, which decreased amid lower demand. The average inflation rate in the advanced world fell from 2.0% in 2012 to 1.4% in 2013, while in emerging economies it increased marginally (from 6.0% to 6.1%). Commodity prices were volatile during 2013; their overall trend was slightly downward owing mainly to lower demand in emerging economies. After rising significantly in the first half of the year, agricultural commodity prices fell markedly in the next months; nevertheless, their average level remained almost unchanged. A sharp drop in metals prices in the first half of the year was caused largely by easing demand in China. Their level corrected in the second half of the year as global industrial activity picked up. The average oil price fell slightly in 2013, with its level determined by outlooks for demand and production as well as by geopolitical conditions in the Middle East and North Africa.

1.1.2 Economic developments in the euro area

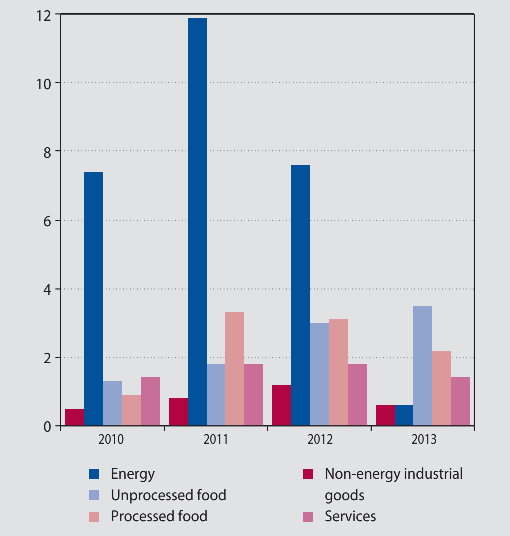
The contraction of the euro area economy moderated to -0.5% in 2013, from -0.7% in 2012. The domestic demand component made a negative contribution, with investment and private consumption both declining. Nevertheless, business and consumer sentiment began to pick up gradually, and credit conditions were also showing signs of improvement by the year-end. Net exports contributed positively to growth, with export growth somewhat higher than the moderate increase in imports. The fragile economic recovery was accompanied by balance-sheet adjustment in both the financial and non-financial sectors amid ongoing fiscal consolidation. The economic situation was reflected in the labour market, as the unemployment rate gradually stopped rising over the course of the year (it edged up from 11.9% in December 2012 to 12.0% in December 2013). The labour market situation constrained private consumption. The need for fiscal consolidation ensured that general government final consumption remained flat.

Chart 1 Contributions to annual GDP growth (p.p.)



Source: Eurostat.

Chart 2 Components of HICP inflation (annual percentage changes)



Source: Eurostat.

Annual average HICP inflation was 1.4% in 2013, 1.1 percentage point lower than in the previous year. It followed a declining trend, and for every month from October onwards it was below 1%. The main downward pressure on inflation was from energy (especially oil) prices and to a lesser extent from food prices. From a level of 2.2% in December 2012, the HICP rate fell to 0.8% in December 2013. Core inflation (HICP inflation excluding energy and unprocessed food prices) fell in 2013 to an average level of 1.3% (from 1.8% in 2012).

The ECB's Governing Council adjusted key ECB interest on two occasions in 2013, so as to ensure price stability in the medium term amid low underlying price pressures and to support gradual economic recovery.

1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

Slovakia's economic growth decelerated further in 2013. According to the Statistical Office of the Slovak Republic (SO SR), the annual growth rate of GDP at constant prices was 0.9%, down from 1.8% in 2012. Despite its deceleration, the Slovak economy was among the fastest growing economies in the euro area. External demand was the main driver of its growth, while domestic demand made a negative contribution owing largely to lower investments. As regards GDP measured by production method, its growth was largely accounted for by agriculture, industry and some services.

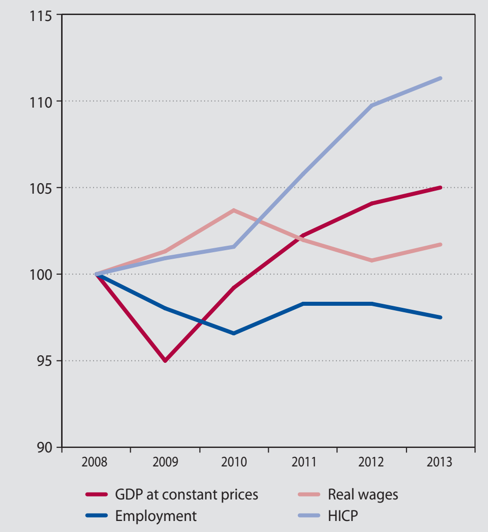
The balance of payments current account posted a surplus of 2.2% of GDP for 2013, unchanged from the previous year. Looking at its composition, the surplus was accounted for mainly by the trade balance, which was primarily boosted by external demand growth. Compared with the previous year, the contributions of other current account components were less favourable.

The labour market situation reflected the environment of subdued economic growth, showing somewhat negative trends and no significant upturn or downturn. Employment (according to ESA 95 methodology) fell by 0.8%, while the number of job seekers increased by 2.2% and the unemployment rate rose by 0.5 percentage point. Only in the second half of the year did employment increase in quarter-on-quarter terms; in the first six months employment trends remained on the negative path observed in late 2012. The number of hours worked declined, reflecting the shortage of labour demand that had been a feature of the economy since 2012. Annual nominal wage growth remained unchanged from its 2012 level, but real wages, unlike in the previous year, increased owing to depressed inflation. Labour productivity growth fell in both nominal and real terms. Real productivity growth exceeded real wage growth, while relatively low wage growth had a downward effect on unit labour costs.

Average annual HICP inflation fell to 1.5% in 2013, from 3.7% in 2012. This marked slowdown was largely attributable to the developments in administered energy prices and in prices of food, non-energy industrial goods, and services.

Looking at the main macroeconomic indicators, only employment has failed to return to its pre-crisis level of 2008. Real wages showed somewhat less downward flexibility, being at present at 1.7% above their pre-crisis level. GDP was appreciably higher in 2013 than before the crisis, even though its growth deceler-

Chart 3 Post-crisis performance of key economic indicators (index: 2008=100)



Source: SO SR.
Note: Real wages deflated by the CPI index; employment according to ESA 95 methodology.

ated last year. A similar situation pertained to the price level.

1.2.1 Price developments

HICP / consumer prices

The average HICP inflation rate for 2013 was 1.5%, down from 3.7% in the previous year. Its slowdown was accounted for largely by lower inflation in administered energy prices and in food prices. Also recording lower annual rates of increase were non-energy industrial goods prices and services prices.

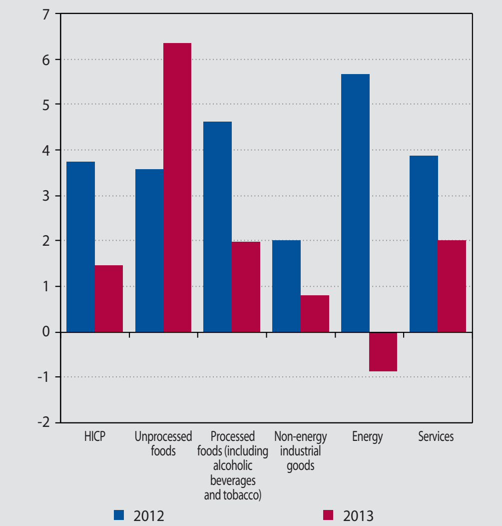
Electricity and gas prices increased more slowly in January owing to a decrease in prices of energy commodities (oil and electricity). Energy price developments at the beginning of the year contributed the most to the HICP's decline from 3.4% in December 2012 to 2.5% in January 2013. Fuel price inflation also began to decrease as the year progressed, owing to the effect of falling oil prices.

Food price inflation followed a downward path from the beginning of 2013. A good harvest led to lower agricultural commodity prices and created scope for a still more substantial drop in food prices in the second half of 2013. The annual rate of change in food price inflation fell from 4.0% in June 2013 to 0.7% in December, and so the food component accounted for most of the decline in HICP inflation in late 2013.

Annual inflation in non-energy industrial goods declined amidst subdued import price growth and relatively weak consumer demand. One factor in this slowdown was markedly lower inflation in non-durable goods (particularly washing powders in solid or liquid form, pharmaceutical preparations, electric personal care devices, and newspapers) and another was the annual rate of decline in prices of durable goods (particularly furniture, motor vehicles, washing machines, and sound recording and reproduction equipment), which may have reflected the effect of structural changes (a decline in manufacturing unit costs; technological progress; sales methods; the availability of goods; and easier comparability of prices).

The average rate of services price inflation was lower in 2013 than in the previous year due mainly to administrative interventions. After rail transport prices were raised sharply at the end of 2011, they posted a high average rate of increase in 2012. The fading of the base effect of increased transport prices had a downward effect on services prices inflation in 2013. No less significant was the cancellation of a levy on bank mortgage accounts in June 2013, the impact of

Chart 4 HICP inflation and its components (average annual percentage changes)



Source: SO SR, NBS calculations.

which on the average HICP rate was put at -0.1 percentage point. Disregarding administrative interventions, the annual inflation rate in non-administrative services also decelerated, probably owing to subdued consumer demand and low wage growth.

1.2.2 Gross domestic product

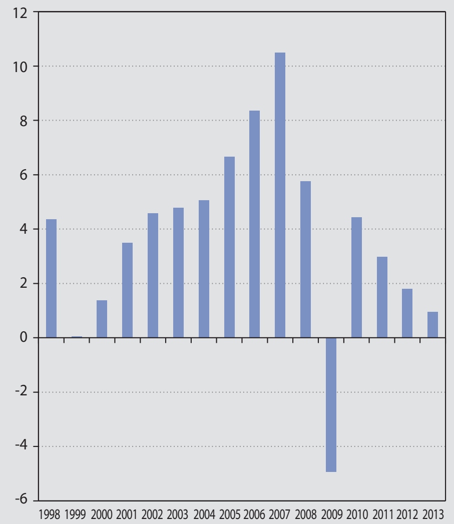
According to the SO SR, gross domestic product at constant prices grew in 2013 by 0.9% year-on-year, after increasing by 1.8% in 2012.

In the case of GDP measured by expenditure method, most of the growth was accounted for by external demand, which accelerated gradually over the course of the year. Domestic demand declined due to a fall in investment, while private consumption remained flat and public consumption increased gradually. Looking at GDP measured by production method, the main contribution to its annual growth rate was from the agriculture and industry sectors, and to a lesser extent from some services (trade, financial and insurance services, IT and communication, and other specialised services). Nominal GDP in 2013 amounted to €72,134 million, which was 1.5% higher compared with the previous year. Owing to the decline in consumer price inflation, as well as in producer price inflation, the increase in the deflator eased to 0.5% (from 1.3% in 2012).

Supply side of GDP

The GDP figure for 2013 was affected by the annual rate of growth in value added (at constant prices), which slowed to 0.5% (from 2.8 % in 2012). There was, however, a positive contribution to GDP growth from net taxes on products (value added tax, excise tax, and import tax, less subsidies), which increased by 5.6 %.

Chart 5 Real GDP (annual percentage changes)



Source: SO SR.

The most marked increases in value added in 2013 were in the sectors of manufacturing industry, trade, and financial and insurance services. Value added declined in construction and in public services.

Demand side of GDP

In terms of the expenditure method of measuring GDP, it was net exports that accounted for economic growth in 2013, while domestic demand made a negative contribution with a further annual decline (including a decrease in inventories).

The negative effect of domestic demand stemmed mainly from a fall in investment. Household consumption remained flat and public consumption increased slightly. Because

Table 1 GDP and its components (index: same period a year earlier = 100; constant prices)

	2012	2013				
	Q1–Q4	Q1	Q1–Q4	Q1	Q1–Q4	Q1
Gross output	102.4	96.3	100.0	100.9	103.1	100.1
Intermediate consumption	102.1	94.1	99.8	101.5	104.1	99.9
Value added	102.8	100.2	100.4	99.9	101.5	100.5
Net taxes on products[1)]	92.1	103.8	104.9	111.4	102.3	105.6

Source: SO SR.
1) Value added tax, excise tax, import tax, less subsidies.

Table 2 GDP measured by expenditure (index: same period a year earlier = 100; constant prices)

	2012			2013		
	Q1–Q4	Q1	Q1–Q4	Q1	Q1–Q4	Q1
Gross domestic product	101.8	100.7	100.8	100.9	101.4	100.9
Domestic demand	97.0	96.6	99.7	99.0	101.6	99.2
Final consumption	99.6	99.3	100.4	100.6	100.9	100.3
Household final consumption	99.8	99.2	100.1	100.1	100.4	99.9
General government final consumption	98.9	99.4	101.1	102.5	102.6	101.4
Non-profit institutions serving households	100.7	99.1	98.2	99.0	98.6	98.7
Gross fixed capital formation	89.5	89.2	96.6	93.8	103.8	95.7
Exports of products and services	109.9	104.0	104.6	102.5	106.7	104.5
Imports of products and services	103.3	102.6	102.0	99.7	107.4	102.9

Source: SO SR.

unemployment was still high, and despite improving consumer sentiment and an increase in disposable income, household final consumption either declined moderately or stagnated. Public consumption increased as developments improved in the second half of the year. Investment continued to fall in 2013, albeit to a lesser extent compared with 2012. Towards the year-end, however, as uncertainty about the future diminished, investment began to rebound from its long downward trend and recorded year-on-year growth.

Except for slowing slightly in the third quarter, export growth increased gradually over the course of 2013. The amount of goods and services exports at constant prices rose by 4.5%. Growth in imports of goods and services was more moderate (2.9% at current prices), especially so in the first three quarters owing to low import intensity, subdued domestic demand and increasing uncertainty about the future situation. Import growth picked up significantly in the last quarter, reflecting an increase in investment activity. Annual net exports for 2013 amounted to an all-time high of €9,527.6 million (at constant prices). As regards price developments, the export deflator fell more than the import deflator, possibly indicating a deterioration in export conditions (and a loss of price competitiveness) and a decline in import prices.

The annual growth rate of exports increased by 1.0 percentage point in 2013, while the import intensity of the Slovak economy decreased year-on-year by 0.1 percentage point. The openness of the Slovak economy, as measured by the ratio of exports and imports of goods and services to nominal GDP, increased by 1.0 percentage point to 189.0%.

1.2.3 Labour market

The labour market situation in 2013 was initially adverse and then stabilised in the second half of the year as activity picked up. This growth, however, was not sufficiently robust to translate into increased job creation. With labour supply exceeding labour demand, nominal wages did not increase significantly. This situation was reflected in low wage growth, declining employment, and a moderate increase in the unemployment rate.

Employment

Employment (according to ESA 95 methodology) fell year-on-year by 0.8% in 2013, after rising by 0.1% in 2012; its annual rate of change was increasingly negative in the first two quarters, less so in the third quarter, and then turned positive in the last quarter for the first time in five quarters. The number of hours worked fell by 1.8% in comparison with the previous year. The sectors that accounted for most of the slowdown in annual employment growth were industry (where employment fell 0.8% year-on-year), and trade and transportation (with a drop of 0.7%). By contrast, employment in the IT and communication sector increased by 4.4%, while the decline in employment in the sector of public administration, education, and health care was more moderate in 2013 than in 2012. Not only did the overall number of employees decrease (by 0.5%), so did the number of self-employed persons (by 2.2%). According to the Labour Force Survey, the number of Slovak citizens working abroad in 2013 increased year-on-year by 13.1 % (or 15,800 people). This growth, representing an acceleration of a rising trend that began in 2012, abated toward the end of the year.

Unemployment

The number of unemployed in 2013 increased year-on-year by 2.3%, according to the Labour Force Survey. Consequently, the average annual unemployment rate increased by 0.2 percentage point, to 14.2%. The registered unemployment rate according to labour office figures averaged 14.1% in 2013, which was 0.5 percentage points higher compared with the previous year.

Wages and labour productivity

The average monthly nominal wage in 2013 increased to €824, and its annual growth rate was unchanged from the previous year, at 2.4%. The sectors that recorded the highest nominal wage growth were professional, scientific and technical activities (9.4%), water supply (6.3%), education (5.9%), and health care (3.8%). In the sector of financial and insurance activities, wages declined by 7.7% (after recording the largest increase, 7.3%, in 2012), and in real estate activities they fell by 4.7%. Real wages increased by 1% since nominal wage growth was higher than inflation, interrupting the downward trend that had seen real wages fall by 1.2% in 2012 and 1.7% in 2011. Another factor behind real wage growth was a trend away from work agreements in favour of standard employment contracts.[1] Since employment fell year-on-year, GDP growth may be attributable more to intensive than extensive factors. Annual labour productivity growth (measured by GDP per employed person) in 2013 was the same as in 2012, and, similarly as in 2012, real labour productivity growth exceeded real wage growth. Such a situation supports competitiveness and the containment of inflationary pressures. With real labour productivity growth higher than wage growth, average unit labour costs declined year-on-year by 0.9%.

1.2.4 Financial results[2]

In 2013 the total profits of non-financial and financial corporations in Slovakia (excluding NBS) amounted to €10,412.5 million, down by €59.1

Table 3 Labour market indicators (index: same period a year earlier = 100; percent)

	2012	2013				
	Q1–Q4	Q1	Q1–Q4	Q1	Q1–Q4	Q1
Nominal wage (index)	102.4	102.5	103.2	102.4	101.4	102.4
Real wage (index)	98.8	100.3	101.5	101.1	100.9	101.0
Nominal compensation per employee – ESA 95 (index)	102.8	101.3	101.3	100.7	100.0	100.8
Labour productivity based on GDP (index, current prices)	103.0	102.5	103.1	102.0	101.5	102.3
Labour productivity based on GDP (index, constant prices)	101.7	101.5	102.2	101.7	101.5	101.7
Employment – ESA 95 (index)	100.1	99.0	98.7	99.1	100.1	99.2
Unemployment rate – LFS[1)] (%)	14.0	14.5	14.0	14.1	14.2	14.2
Nominal unit labour costs (ULC)[2)]	101.0	99.8	99.1	99.0	98.5	99.1

Source: SO SR, NBS calculations.
1) Labour Force Survey.
2) Ratio of compensation per employee growth at current prices to labour productivity growth (ESA 95) at constant prices.

1 *http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/nbs-monthly-bulletin/2013*
2 *Earnings before taxation; quarterly financial statistics of the SO SR.*

million from the previous year, according to the SO SR's preliminary data. That decline of 0.6% followed a drop of 2.7% in 2012. Profits of non-financial corporations declined more moderately in 2013 (3.6%) than in 2012 (8.1%), as did profits of financial corporations (a fall of 2.6% in 2013, down from 17.7% in 2012).

Non-financial corporations made an aggregate profit of €8,537.4 million in 2013, which was €320 million lower than in 2012. Profits fell mainly in agriculture, as well as in construction and industry. The industry segments in which profits fell most sharply were mining and quarrying, petroleum industry, and chemical industry. The decline in the overall profit was to some extent mitigated by improved results in manufacture of transport equipment, manufacturing of machinery and equipment, real estate activities, and trade.

The total profit of the financial sector (excluding NBS) in 2013 decreased by €31.9 million year-on-year, to €1,383.0 million. The composition of the aggregate profit was, however, markedly different from that in the previous year. The decline in profit was largely attributable to other financial intermediaries – including, for example, leasing companies, private health insurers, stock exchanges, and pension funds management companies – as their overall profit fell by 26% (after soaring by 633.2% in 2012). As for insurance corporations and pension funds, their aggregate profit slumped by 19.3% year-on-year, after increasing by 47.1% in 2012. By contrast, the banking sector's aggregate profit increased by 26% in 2013 (following a decline of 30.4% in 2012). The improved performance of the banking sector reflected gains from financial operations at certain banks and increased interest income.

1.2.5 Balance of payments

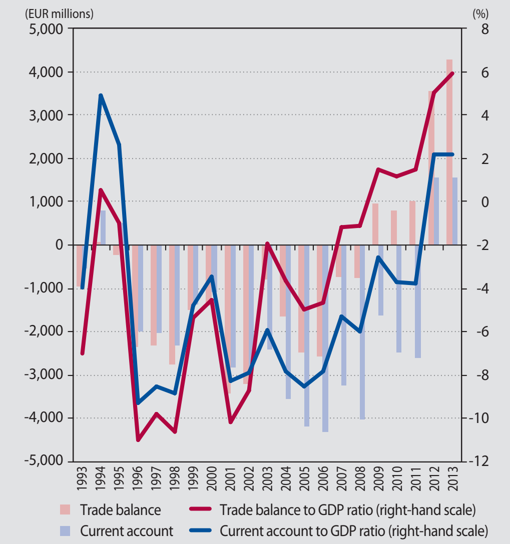
Current account

The balance of payments current account posted a surplus of €1.6 billion in 2013, the same as in the previous year. While export performance improved – reflecting an increased surplus in external trade in goods – other components of the current account deteriorated. The ratio of the current account surplus to GDP (at current prices) was 2.2%, unchanged from 2012.

After expanding production in 2012 and consequently increasing its exports, the automotive sector reported a substantial slowdown in export growth in 2013. The electronics industry had the highest export growth. Through import intensity, the decline in export growth had a downward effect on import growth. Since export growth (3.6%) still exceeded import growth (2.5%), the annual trade surplus increased.

The services balance surplus was lower in 2013 than in 2012 owing to worse results in *other services* and *transportation* items. On the other hand, the surplus in *travel* rose moderately as a result of receipts increasing more than payments. The deficit in *other services* was largely attributable to a decrease in receipts from certain types of services. In the case of *transportation*, however, the decline in the surplus stemmed mainly from higher payments for the use of transport services. The income balance deteriorated slightly from its level in 2012 owing mainly to an increase in interest payments. In the current transfers balance, the deficit became more negative year-on-year. The main cause of that result was *other transfers,* in which receipts declined and payments increased.

Chart 6 Current account and trade balance developments between 1993 and 2013



Source: NBS and SO SR.

Table 4 Balance of payments current account (EUR billions)

	2012	2013
Trade balance	3.6	4.3
Exports	62.8	64.4
Imports	59.2	60.1
Services balance	0.3	0.1
Income balance	-1.7	-1.8
of which: investment income	-3.0	-3.2
of which: reinvested earnings	-0.6	-0.8
Current transfers balance	-0.6	-1.1
Current account in total	1.6	1.6
Current account to GDP ratio (%)	2.2	2.2

Source: NBS and SO SR.

Table 5 Capital and financial account of the balance of payments (EUR billions)

	2012	2013
Capital account	1.4	1.0
Direct investment	2.2	0.9
abroad	0.1	0.3
of which: equity capital	0.0	0.0
reinvested earnings	0.0	0.0
in Slovakia	2.1	0.6
of which: equity capital	0.3	0.7
reinvested earnings	0.7	0.8
Portfolio investment and financial derivatives	8.2	6.9
Other long-term investment	0.3	0.4
Other short-term investment	-11.1	-6.6
Capital and financial account in total	1.0	2.5

Source: NBS.

Capital and financial account of the balance of payments

The surplus of the capital and financial account of the balance of payments increased to €2.5 billion in 2013, from €1.5 billion in 2013.

In the *direct investment* category, the year-on-year fall in net inflow was related to an outflow of other capital caused by an increase in claims on direct investors (which itself resulted from the business activities of corporate entities). On the other hand, inflows in the form of participating interests increased year-on-year. *Portfolio investment* recorded a net inflow owing mainly to funding acquired through the issuance of government bonds and Treasury bills. In *other investment*, the net outflow stemmed mainly from NBS activities, as the debtor position vis-à-vis the Eurosystem (TARGET2) changed to a creditor position owing to an outflow of borrowed funds.

External debt of Slovakia

Owing to balance of payments developments, the external debt of Slovakia increased by €6.0 billion (USD 11.4 billion) in 2013, to €59.7 billion (USD 82.3 billion). This reflected mainly the external liabilities of the Slovak Government and NBS, which increased by a substantial €4.5 billion. According to preliminary figures, Slovakia's ratio of total gross external debt to GDP at current prices was 82.7% as at 31 December 2013, up from 77.8% (4.9 p.p.) at the end of 2012. Over the same period, the ratio of short-term external debt to total gross external debt fell by 9.4 percentage points, to 30.3%. Debt per capita at the end of 2013 amounted to €11,051, representing a year-on-year rise of €1,098.

Nominal and real effective exchange rates[3]

The nominal effective exchange rate (NEER) index appreciated year-on-year by an average of 1.1% in 2013, after depreciating by 1.0% in 2012. Appreciation against the Czech koruna was the largest contributor to that strengthening, with an impact of 0.4 percentage point. The NEER index was also strengthened by exchange rates against currencies of other key non-euro area trading partners of Slovakia.

With the NEER appreciating, the real effective exchange rate (REER) index based on industrial producer prices in manufacturing appreciated by 1.0% (after depreciating by 1.7% in 2012). The lower real appreciation compared with the NEER is the result of a negative inflation differential against Slovakia's main trading partners. The price competitiveness of domestic firms is not expected to have been jeopardised by the REER's appreciation, since labour productivity

3 *The methodology of the effective exchange rate calculation is published on the NBS website at: http://www.nbs.sk/_img/Documents/_Statistika/VybrMakroUkaz/EER/NEER_REER_Methodology.pdf*

growth, being higher than that in the external environment, created leeway for sustainable appreciation of the real exchange rate without disrupting the economy's equilibrium. However, the REER had followed a depreciating trend in previous years. The improvement in Slovakia's trade balance and increase in its exports as a share of global trade points to growing competitiveness.

2 Eurosystem monetary policy

2.1 Monetary policy operations

The ECB's Governing Council adjusted key ECB interest on two occasions in 2013, so as to ensure price stability in the medium term amid low underlying price pressures and to support gradual economic recovery. At the monetary policy meeting in May the Governing Council decided to reduce the main refinancing rate, by 25 basis points, and the marginal lending rate, by 50 basis points, with effect from 8 May 2013, while keeping the deposit facility rate unchanged at 0.00%. At November's meeting the Governing Council decided to decrease both the main refinancing rate and marginal lending rate by 25 basis points, with effect from 13 November, and to leave the deposit facility rate unchanged. Overall in 2013 the main refinancing rate and marginal lending rate were cut, respectively, by 50 basis points and 75 basis points, to 0.25% and 0.75%, and the deposit facility rate stayed at 0.00%.

The EONIA remained below the main refinancing rate throughout the year except during end-month fluctuations. The composition of banks' deposits with the ECB altered slightly. Of the total, only 32% on average were held in the overnight deposit facility while the rest were held in current accounts with the ECB.

The European Central Bank implements monetary policy through the national central banks of the Eurosystem by means of various monetary policy instruments. The most widely used of these instruments are main refinancing operations, longer-term refinancing operations (LTROs), fine-tuning operations (FTOs), and standing facilities, which include the deposit facility (DF) and marginal lending facility (MLF).

During 2013 the Governing Council approved the continuation of selected non-standard monetary measures in order to enhance the transmission of accommodative monetary policy to the real economy in the medium term. In May the Governing Council announced that main refinancing operations (MROs) would continue to be conducted as fixed rate tender procedures with full allotment at least until the end of the sixth reserve maintenance period of in July 2015 (as at present).

The same procedure would remain in use for the Eurosystem's special-term refinancing operations with a maturity of one maintenance period, which will be conducted as long as necessary, but at least until the end of the second quarter of 2014, or 2015. The fixed rate in these special-term refinancing operations would be the same as the MRO rate prevailing at the time. Furthermore, it was decided to conduct the three-month longer-term refinancing operations (LTROs) as fixed rate tender procedures with full allotment until the end of the second quarter of 2014 or 2015. The rates in these three-month operations would be fixed at the average rate of the MROs over the life of the respective LTRO.

At its first monetary policy meeting in July the Governing Council engaged in forward guidance for the first time, announcing its expectation that the key ECB interest rates would remain at present or lower levels for an extended period of time. This expectation was based on the overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the real economy and subdued monetary dynamics. The Governing Council added that in the period ahead it would monitor all incoming information on