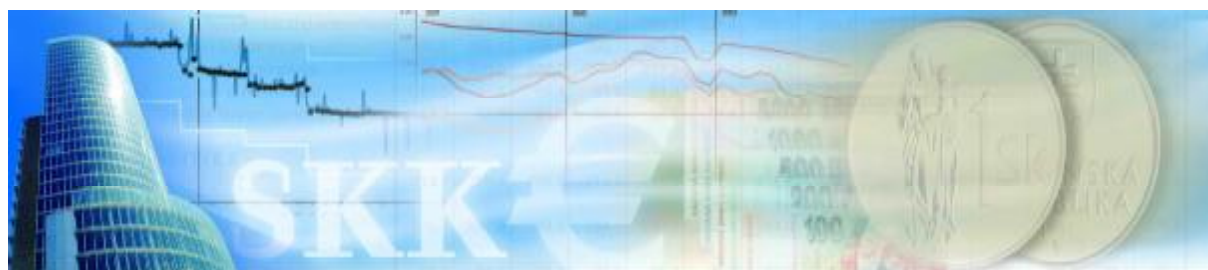




NÁRODNÁ BANKA SLOVENSKA

MEDIUM-TERM FORECAST (MTF-2007Q3)

July 2007



Equilibrium variables, development of potential output

The medium-term forecast is based on the assumption that Slovakia is a converging economy, with corresponding equilibrium trends in its main macroeconomic indicators. The basic framework of the forecast is formed by the equilibrium real interest rates, the equilibrium real exchange rate, and non-inflationary growth in the economy (potential output). The long-term trends in the real monetary variables remain unchanged in the MTF-2007Q3.

The data released on the structure of GDP in the first quarter of 2007 did not fully confirm the MTF-2007Q2 assumptions concerning the continuing acceleration in export performance. As a result, GDP growth was somewhat slower compared with the MTF-2007Q2 forecast, but part of the supply stimulus from the first quarter of 2007 is expected to shift to the next quarters. The fulfilment of this assumption means that the slower-than-expected GDP growth in the first quarter of 2007 led to a slight slowdown in the growth of the economy's potential output in the given quarter, as a result of which the view on its cyclical position remained unchanged.

Over the medium-term horizon, foreign direct investment is still expected to have a favourable influence on the economy, including a positive impact on export performance. There are unchanged assumptions, in the present medium-term forecast like in the previous one, regarding an acceleration in the rate of non-inflationary economic growth above the long-term average. Growth in the economy's potential output (reaching approximately 9.0% in 2007) is likely to moderate in the coming years.

Current position of the economy¹

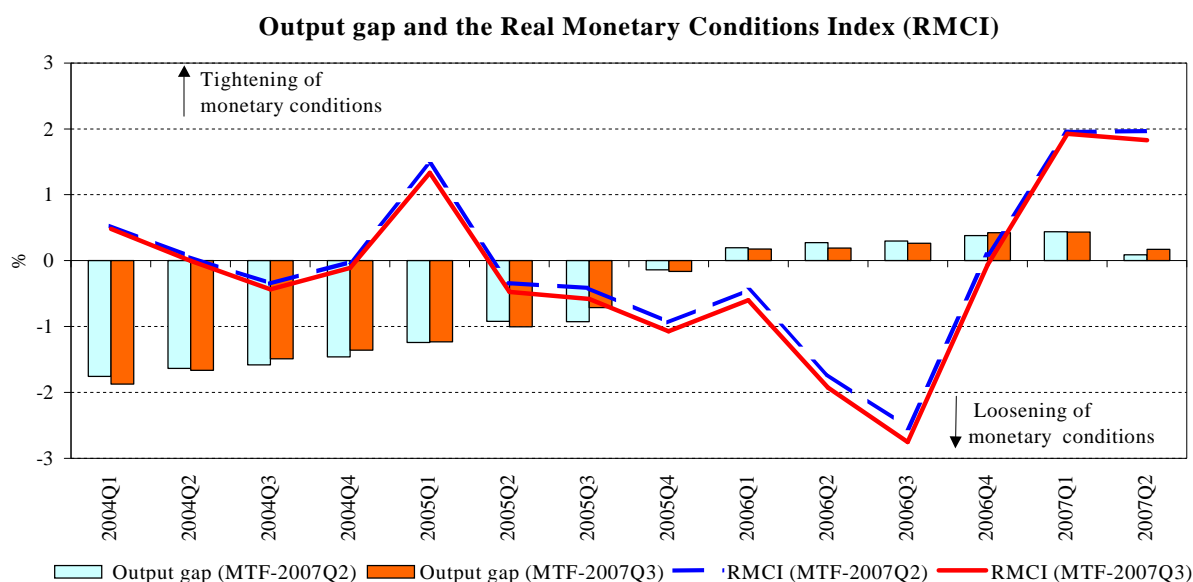
The estimate of the economy's current position is based on the estimated deviations of the key macroeconomic indicators from their equilibrium trends. The impact of monetary policy through the Real Monetary Conditions Index (RMCI) in the second quarter of 2007 was characterised by opposite developments in the individual components. The appreciation of the real exchange rate, which took place mostly through nominal appreciation, was faster compared with the assumptions on the equilibrium real exchange rate. The current medium-term forecast assumes that the exchange rate component of the monetary conditions may have a dampening impact on the economy in the next quarters. Due to a cut in the key NBS interest rate, the interest rate component of the monetary conditions remains somewhat below its equilibrium level. Despite the opposite effect of the interest rate component, the overall monetary conditions maintained restrictive character in the second quarter of 2007, in line with the assumptions of the April forecast.

In the first quarter of 2007, real economic growth reached 9.0%. The previous forecast (MTF-2007Q2) was based on the assumption of a further increase in export performance and growth in value added in manufacturing production, mainly in the production of transport vehicles and, owing to the favourable climatic conditions (mild winter), in construction. As far as the structure of GDP is concerned, the April forecast was based on the assumption that overall economic growth would be influenced by both foreign and domestic demand, while in relative terms, GDP growth was expected to be stimulated largely by foreign demand. In the first quarter of 2007, foreign demand grew in real terms by 24.1% and net exports contributed 5.6

¹ The current position of the economy refers to its state in the second quarter of 2007 (according to a GDP growth estimate), upon which the short-term as well as medium-term forecasts are based.

percentage points to GDP growth, which was less than predicted in the MTF-2007Q2. In line with expectations, the developments in domestic demand reflected the pro-growth effects of final consumption and fixed investments. The assumed dampening effect on final economic development by the volume of inventories was also confirmed.

As for real economic development in the second quarter of 2007, a significant factor will be the persistent strong foreign demand, while the dynamic value added creation should continue in the production of transport vehicles as well as in overall manufacturing production. The Slovak economy is expected to reach rapid growth at constant prices in the second quarter of 2007.



Actual and projected GDP growth figures for the second quarter indicate that the economy remained in a slightly positive output gap over the first half of 2007 (0.4% in the first quarter and 0.2% in the second quarter). However, the economic cycle is not opening substantially in line with the assumptions of the previous medium-term forecast. The current forecast, like that of April, assumes a turn in the economy's cyclical position next year, mainly as a result of the current restrictive monetary conditions. On the other hand, a certain stimulus can be expected from the growing foreign demand.

The growth in nominal and real wages in the first quarter of 2007 was slightly weaker than expected by the NBS in the April forecast, which was mainly the result of slower wage growth in industry. The monthly indicators of wage developments in this sector indicated faster growth than was actually recorded. The dynamic nominal wage growth is expected to continue in the second quarter of 2007, which is also indicated by preliminary data on wage developments in the selected sectors in April and May. However, their dynamics should be somewhat weaker than in the first quarter (as according to the previous forecast). In the second quarter of 2007, real wage growth is likely to accelerate in comparison with the previous quarter, mainly as a result of a lower average inflation rate.

Employment (ESA 95) continued to grow dynamically on a year-on-year basis in the first quarter of 2007, but at a somewhat slower pace than according to the MTF-2007Q2, mainly as a result of a slowdown in employment growth in construction and trade, accompanied by

its decline in education. The growth in employment should also continue in the second quarter of 2007, at a slightly slower rate than in the first quarter of 2007.

The balance of payments on current account for the first quarter of 2007 resulted in a deficit of Sk 3.6 billion, representing a year-on-year decrease of Sk 19.7 billion. The year-on-year decrease in the current account deficit was mainly the result of a smaller trade deficit, which was accompanied by a change in the balance of income, from a last year deficit to a surplus. The other two current account components recorded a deterioration in comparison with the same period in 2006. In line with NBS expectations from the MTF-2007Q2, the trade balance recorded a marked year-on-year improvement, mainly as a result of the growing participation of newly established foreign direct investments. This was reflected in the high dynamics of exports. As a result of favourable developments in some components of the current account, its deficit decreased as a share of GDP compared with the same period of 2006 by 5.4 percentage points, to 0.9% in the first quarter of 2007.

Despite the positive trends in exports and the trade balance, NBS expectations from the previous forecast (where somewhat higher exports and imports were predicted) were not met in full. The deteriorated balance recorded in the first quarter, compared with the April forecast, may to a considerably extent be offset by the better-than-previously-expected deficit in the second quarter (this fact was confirmed by developments in the trade deficit in April and May 2007).

As expected, consumer prices recorded a slowdown in the year-on-year rate in the second quarter of 2007 (to 1.7%). Compared with the previous forecast (MTF-2007Q2), the level of inflation in the second quarter of 2007 was somewhat higher, mainly due to the stronger-than-expected dynamics of food and energy prices (fuel prices) and the slower than expected decline in the prices of industrial goods, excluding energy. In non-energy industrial goods prices, the exchange rate appreciation from the turn of 2006-2007 and the first months of 2007 was reflected only in minimal measure, when their dynamics were more or less stable and showed no decelerating tendency. Compared with the MTF-2007Q2 assumptions, however, slower year-on-year increases were recorded in prices for services. In services, weaker dynamics than predicted were reflected in the prices of services related to housing, transport, recreation, and personal services.

Medium-term forecast

External environment

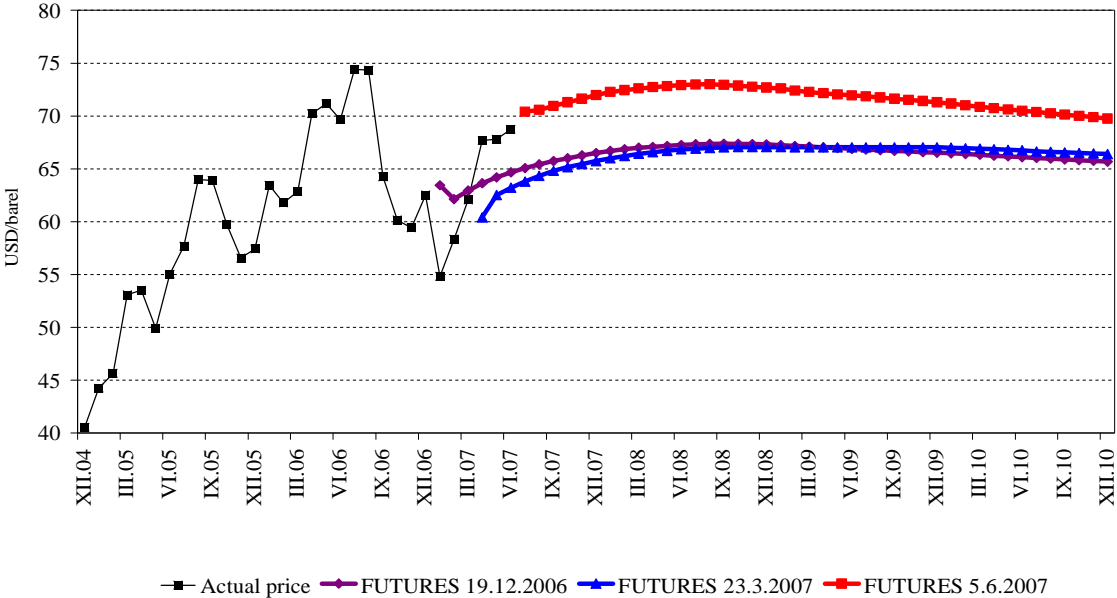
The current medium-term forecast of exogenous indicators is based on the June issue of the Consensus Forecasts (CF)². The expected developments in oil prices are based on the prices of futures as of 5 June 2007.

Compared with the MTF-2007Q2, the oil price forecast predicts a shift to higher levels for the entire projection horizon. In 2009, however, oil prices are expected fall slightly in comparison with the previous forecast. Compared with the MTF-2007Q2, the USD/EUR exchange rate is

² A survey of forecasts made by international economic and financial institutions, from which an average is calculated. This ensures the most unbiased estimate of the trends in foreign sector indicators. With regard to the course and schedule of forecasting at the NBS, the values of input variables were obtained from the Consensus Forecasts of June 2007 and fixed at these levels throughout the forecasting process. Any new information will be taken into account in the next medium-term forecasts.

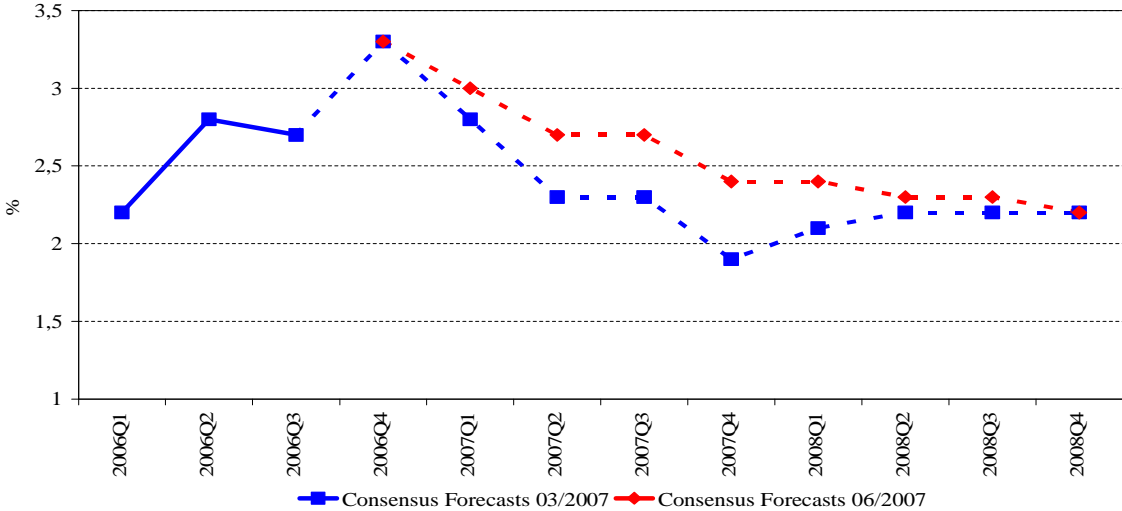
likely to be weaker throughout the projection horizon, but the expected appreciating trend in the US dollar will continue.

Expected oil prices



The first quarter of 2007 saw GDP growth in the euro area at the level of 3.0%, which was more than expected in the MTF-2007Q2. Compared with the previous forecast, the new GDP growth estimates for 2007 are again higher (by approximately 0.4 of a percentage point).

Euro-area GDP growth forecast based on the Consensus Forecasts



Compared with the MTF-2007Q2, the average rate of euro-area inflation is expected to accelerate in 2007, mainly as a result of higher oil prices.

	2006	2007	2008	2009
Euro-area inflation in %				
CF 03/07 (annual average)	2.2	1.8	2.0	2.0*
CF 06/07 (annual average)	2.2	2.0	2.0	2.1*
Euro-area GDP growth in %				
CF 03/07	2.7	2.3	2.2	2.0*
CF 06/07	2.8	2.7	2.3	2.0*
Oil prices in USD/barrel and EUR/barrel respectively (annual average)				
23 March 2007	66.2/52.9	62.5/47.5	66.7/51.0	67.1/51.3*
5 June 2007	66.2/52.9	67.2/50.3	72.8/54.6	71.9/54.3*
Interest rates (3-month EURIBOR) (end of the relevant quarter)				
CF 03/07	3.725 (Q4)	4.0 (Q2)	4.1 (Q1)	4.1* (Q4)
CF 06/07	3.725 (Q4)	4.3 (Q3)	4.5 (Q2)	4.2* (Q4)
USD/EUR exchange rate (end of the relevant quarter)				
CF 03/07	1.317 (Q4)	1.319 (Q2)	1.309 (Q1)	1.307 (Q1)
CF 06/07	1.317 (Q4)	1.352 (Q3)	1.338 (Q2)	1.323 (Q2)

* NBS forecast.

The stronger economic growth in the euro area is likely to have a stimulating effect on the Slovak economy through foreign demand. Compared with the previous forecast, upward pressures on inflation are expected from increases in oil prices, mainly in 2007 and 2008, though these pressures should be moderated by an expected weaker US dollar.

Forecast for 2007

The forecast for 2007 predicts an acceleration in the 12-month rate of HICP inflation compared with the MTF-2007Q2, but its rate is expected to remain below the pre-set inflation target. The higher headline inflation forecast in comparison with the MTF-2007Q2 may mainly be ascribed to increased year-on-year increases expected in food prices, energy prices (fuel prices), and non-energy industrial goods prices in the following quarters. On the other hand, prices for services are expected to show somewhat weaker dynamics.

The actual developments (in the second quarter) in food prices, as well as the expected prices of agricultural commodities, should cause a slowdown in the year-on-year dynamics of food prices in the next three quarters, but at higher levels compared with the previous forecast. The estimate of a less significant year-on-year fall in fuel prices in the third quarter and their year-on-year rise in the last quarter are connected with the increased world oil price estimates. The more moderate year-on-year decline in non-energy industrial goods prices is likely to be influenced by a slight increase in imported inflation.

As a result of these factors, the rate of headline inflation should slow, but is likely to remain until the end of 2007 at a higher level than was predicted in the previous forecast (MTF-2007Q2). At the end of 2007, HICP inflation is expected to reach 1.5%; 1,7% as the average annual rate.

The dynamics of regulated prices (energy and other regulated prices) in the NBS forecast remained unchanged in comparison with the April forecast and their increase over 2007 should reach 1.8%, which would represent a contribution to headline inflation of approximately 0.6 of a percentage point.

In the real GDP growth forecast for 2007 (8.9%), the overall growth rate is expected to remain unchanged in comparison with the April forecast. As a result of a slight adjustment to the employment and wage development forecasts, the household final consumption forecast is 0.1 of a percentage point lower than the figure predicted in the MTF-2007Q2. General government final consumption has remained unchanged in comparison with the previous forecast. The dynamics of gross fixed capital formation are 0.2 of a percentage point higher, owing to the actual developments in the first quarter of 2007 and unchanged expectations for the next quarters. In 2007, net exports are expected to contribute approximately 2 percentage points more to the rate of economic growth than in 2006, also as a result of persistent foreign demand. The expectations regarding the dampening effect of inventories on overall economic development in 2007 are the same as in the MTF-2007Q2.

With regard to the actual developments in nominal wages, which did not differ markedly from the expectations of the NBS, and the unchanged forecast of the other macroeconomic indicators, the NBS foresees no change in the rate of nominal wage growth (7.2%) in the MTF-2007Q3, compared with the April forecast. The NBS based its assumptions on wage developments in the first quarter of 2007, when the risk of pass-through of the faster growth in labour productivity to wage growth was not confirmed. This assumption, however, remains as a risk in the forecast. Real wage growth is expected to be somewhat slower in comparison with the previous forecast, due to a steeper rise in consumer prices.

In 2007, employment should continue to grow, but at a slightly slower pace (2.0%) compared with the April forecast, due to its actual development in the first quarter of 2007.

The number of unemployed in the first quarter of 2007 was notably lower than predicted by the NBS. On the basis of this fact, the unemployment rate (based on a labour force sample survey) is expected to be somewhat lower in 2007 than according to the MTF-2007Q2 (provided the assumptions concerning employment remain unchanged).

The balance of payments on current account for the first months of 2007, as well as the new assumptions concerning the external factors affecting the current account, provided a basis for changes in the values of current account components predicted for 2007.

The foreign trade forecast for 2007 is based on the actual trade balance developments. Over the first months of 2007, exports continued to grow at a high rate (from January to May at 23.7%), but the rate of growth achieved was slower than the NBS expectations (based on the rapid growth in January 2007). Thus, the assumption from the previous forecast of a possible marked acceleration in exports was not confirmed. This fact is reflected in the lower export volumes in 2007, mainly in the weaker dynamics of machine exports. The decline in exports led to lower import expectations for both semi-finished goods and machines. The exports and imports of raw materials in 2007 are expected to be higher than according to the previous forecast, due to the anticipated rise in oil prices.

The total decrease in the estimated volumes of exports and imports resulting from actual developments in the first half of 2007 led to a slight deterioration in the trade balance. Since

the deteriorated trade balance from the first quarter of 2007 (compared with the previous forecast) is expected to be only partly offset by a lower-than-previously-expected deficit in the second quarter (this assumption is confirmed by data for April and May), this fact is reflected in the annual balance of trade. The deterioration in the trade balance compared with the previous forecast was also supported by the expected developments in oil prices in global markets. Thus, the expected deficit in the trade balance forecast for 2007 was increased by a total of Sk 1.9 billion.

The reclassification of part of the estimated drawings from EU funds from current transfers to capital transfers (in connection with a methodological change) led to a deterioration in the estimated balance of current transfers. On the basis of the latest estimates, the balance of transfers surplus predicted for 2007 (Sk 2.5 billion) was changed to a deficit in the same amount.

BOX

Reclassification of part of the receipts from EU funds from current to capital transfers

The recording of receipts from the EU budget was modified in 2007. Originally, all receipts were recorded within the balance of current transfers, since receipts from EU funds could not be identified and divided into current and capital transfers. Based on an analysis of the structure of receipts from the EU, using data supplied to Eurostat by the European institutions involved, the individual receipts from the EU could be classified into current and capital transfers. The new classification reflects the character of the individual funds through which money is drawn from the EU, i.e. it distinguishes between their utilisation for common and investment purposes. This led to the shift of part of the receipts (intended for investment purposes) from the balance of current transfers to that of capital transfers with a subsequent negative impact on the current account balance. This methodological change has no effect on the external equilibrium, since the lower receipts within the current account are fully offset by an increased inflow in the capital and financial account.

The changes in the estimates of individual current account components led to an increase of approximately Sk 7.9 billion in the deficit predicted for 2007; the share of the current account deficit of GDP is expected to increase by 0.4 of a percentage point, to 4.7%. Compared with the previous forecast, the degree of openness of the economy is expected to decrease to 174.1% of GDP.

Forecasts for 2008 and 2009

The current medium-term forecast foresees a year-end HICP inflation rate of 2.0% in 2008 (an average of 1.9%), followed by an acceleration in 2009, to 2.5% (an average of 2.2%). Compared with the MTF-2007Q2, the current medium-term inflation forecast predicts unchanged figures for both 2008 and 2009.

Within the basic structure of inflation, prices for services are expected to show increased dynamics in 2008 compared with 2007 (as according to the MTF-2007Q2). In 2008, the prices of services are likely to be affected by the somewhat higher cost impulses resulting from a faster rise in regulated energy prices anticipated in 2008. Besides regulated energy

prices, inflationary pressures are also expected from fuel prices, which are likely to rise again on a year-on-year basis from 2008 onwards, but in comparison with the MTF-2007Q2, their year-on-year dynamics should reach higher levels as a result of the actual developments in the prices of Brent oil futures.

The average year-on-year dynamics of food prices are expected to weaken in 2008, mainly in the first half of 2008, when the base effect of increased dynamics from 2007 should appear. In the second half of 2008, food prices should be affected by the increased excise duty on cigarettes, while the current forecast expects an increase in the excise duty on cigarettes, which should represent a contribution of approximately 0.2 of a percentage point in 2008 (as in the MTF-2007Q2). The maintenance of inflation below the target level in 2008 will again be supported by the significant slowdown in inflation in 2007 and from that resulting lower inflation expectations for 2008.

In 2009 (as according to the MTF-2007Q2), the prices of goods and services are expected to follow the trend from 2008. According to the assumption of the NBS, the dynamics of energy prices are likely to weaken in 2009 (compared with 2008), mainly as a result of fuel price developments. Food prices should be affected by the effect of excise tax increases also in 2009. Goods prices in 2009 are likely to be influenced by the low inflation expectations as well as the simplified trading and price comparison after the introduction of the euro. The acceleration in inflation in 2009 will be primarily caused by factors outside the range of monetary policy.

In 2009, energy taxes are planned to be introduced with a contribution to headline inflation of 0.1 of a percentage point. According to the Draft General Government Budget for 2007-2009, another factor will be a further increase in the excise duty on cigarettes with effect from January 2009. According to NBS calculations, the increased excise duty on cigarettes should contribute approximately 0.2 of a percentage point to headline inflation, as according to the MTF-2007Q2. The acceleration in inflation will also be influenced by the introduction of euro coins and notes (the so-called 'euro changeover effect'). According to Eurostat's estimates, the exchange of coins and notes in national denominations for euro coins and notes raised inflation in euro-area countries in 2002, by 0.12 to 0.29 of a percentage point³. According to Eurostat's first estimates, the euro changeover effect in Slovenia reached approximately 0.3 of a percentage point⁴. The Slovak Government and the NBS are preparing various measures for the elimination or minimisation of this effect in consumer prices. In the current forecast, the NBS expects, as a precaution, the same contribution from the euro cash changeover effect (0.3 of a percentage point) as the figure recorded in the case of Slovenia.

According to NBS estimates, regulated prices (energy prices and other regulated prices) are likely to rise (as according to the MTF-2007Q2) by an average of 1.9% in 2008 and by 1.7% in 2009. Their contribution to headline inflation should be approximately 0.6 of a percentage point in 2008 and approximately 0.5 of a percentage point in 2009. By the end of 2008, regulated prices should rise by 1.8% with a contribution of 0.5 of a percentage point to overall year-on-year inflation, and by the end of 2009 by 2.1% with a contribution to overall inflation of approximately 0.6 of a percentage point.

³ Source: News Release 69/2003 of 18/06/2003 with an Annex on the Euro Changeover Effect - Study 4, Eurostat, June 2003.

⁴ Source: Euro Changeover and Inflation in Slovenia, Eurostat, March 2007.

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

		2006	2007	2008	2009
TOTAL (HICP)	MTF-2006Q1	4.2	1.6	2.0	
	MTF-2007Q2	4.3	1.5	1.9	2.2
	MTF-2007Q3	4.3	1.7	1.9	2.2

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

		2006	2007	2008	2009
TOTAL (HICP)	MTF-2007Q1	3.7	1.5	2.0	
	MTF-2007Q2	3.7	1.3	2.0	2.5
	MTF-2007Q3	3.7	1.5	2.0	2.5

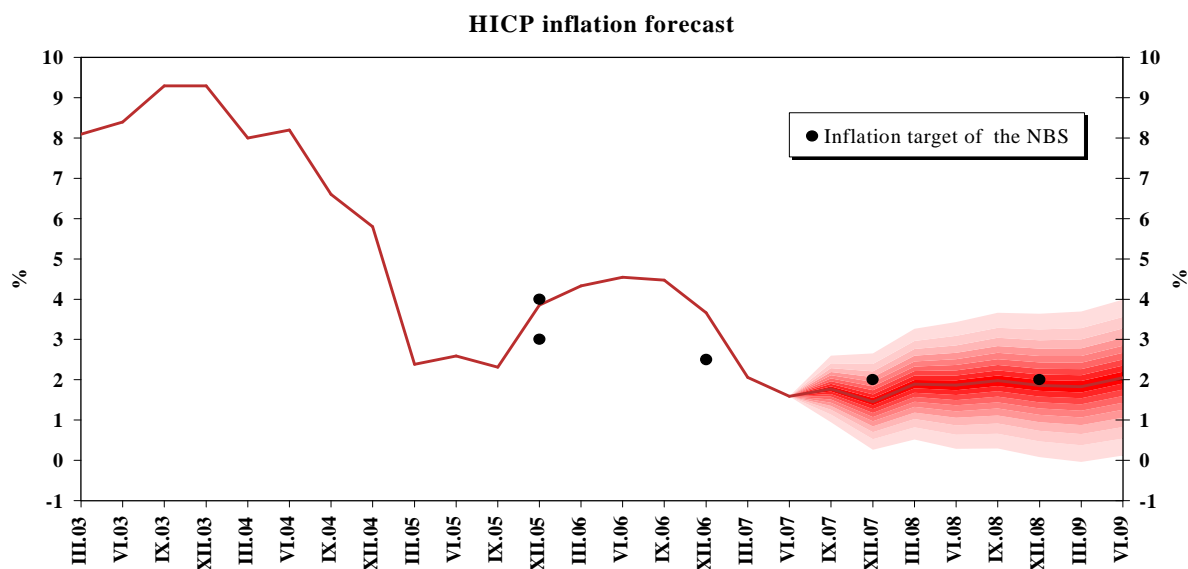
The most serious inflationary risks (which are increasing in comparison with the MTF-2007Q2 due to developments in the exporting countries, namely Iraq, Venezuela, and Nigeria) are the developments in oil prices and from that resulting impact on energy prices, which may change the level of inflation rate in comparison with the current forecast (mainly at the end of 2007 and the beginning of 2008).

Food prices, which may be affected by weather conditions and developments in the prices of agricultural commodities in the European market with a possible increase in demand for biofuels, also pose a persistent inflationary risk. With regard to the estimate of this year's crops and the increase in food price dynamics in 2007, however, the risk of an accelerated rise in food prices is lower than according to the previous forecast (MTF-2007Q2).

A risk (unchanged in comparison with the MTF-2007Q2) is also posed by developments in the prices of non-energy industrial goods. The marked exchange rate appreciation in the last few months is not reflected in the prices of industrial goods in the expected range and there is a risk that this may become more apparent in the coming period.

In prices for services on one hand still persists the upward inflationary risk resulting (at the same rate as according to the previous forecast) from growing employment, nominal and real wage growth, and household final consumption. At the beginning of the year, on the other hand, the secondary effects of modest increases in regulated prices were reflected in services prices to an extent smaller than expected. This trend, i.e. the slower than expected dynamics, may continue in the coming period and represents a risk towards lower than expected levels, but to a lesser extent than according to the previous forecast, due to the weaker dynamics of services prices than was predicted in the previous forecast, and the currently recorded services prices with very weak dynamics.

A risk is also posed by the current proposal on consumer taxes on cigarettes for 2008, which would mean a more significant tax increase than expected by the NBS and an additional contribution to headline inflation of approximately 0.2 of a percentage point.

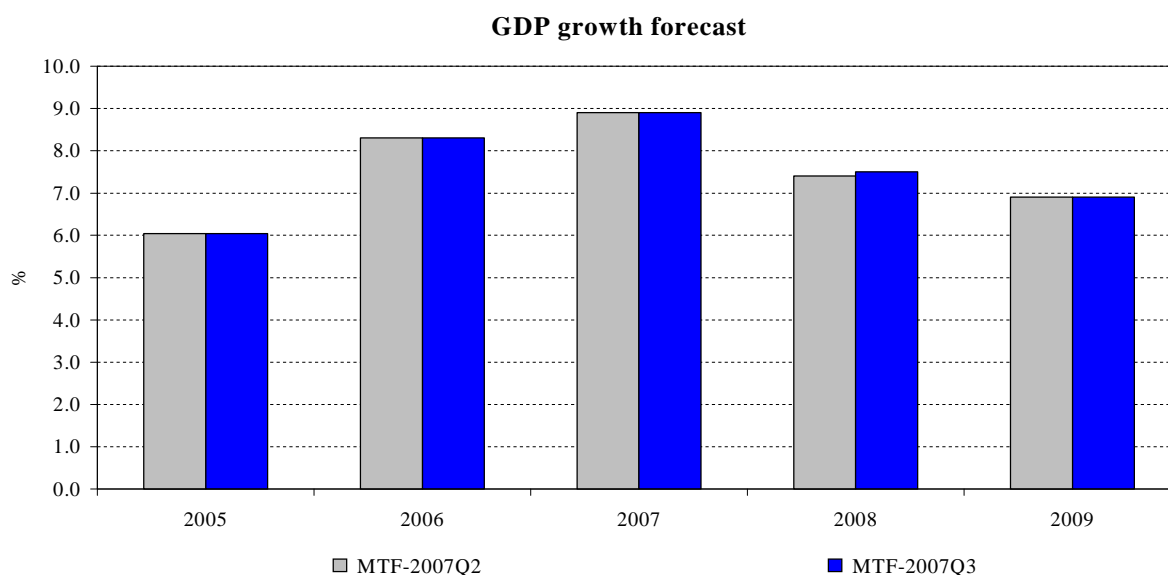


In the medium-term forecast of the real economy for 2008 and 2009, real GDP growth for 2008 was slightly adjusted in comparison with the MTF-2007Q2 (an acceleration of 0.1 of a percentage point). This change is connected with the expectation of a somewhat larger contribution to GDP growth by net exports as a result of stronger foreign demand. The new forecast was made, like the April forecast, with respect to the investment by Samsung, which should commence production in March 2008. Since the last forecast, neither new nor updated information has been released about this investment. The assumption of an increase in automobile production at the PSA plant in 2009 has also remained unchanged. Further foreign investments in 2009 may be expected in connection with the planned entry of Slovakia into the euro area.

Within the structure of domestic demand, all its major components are expected to have a growth-promoting effect in 2008-2009 (except for inventories in 2008). The household final consumption forecast has remained unchanged in comparison with the MTF-2007Q2, due to unchanged expectations regarding employment and wage developments. Developments in general government final consumption in the coming period will be connected with the fulfilment of the general government budget, overall economic development, and the drawing of funds from the structural funds. At the beginning of July 2007, the Ministry of Finance of the SR (MF SR) released an update of the general government's tax revenues on the basis of which the estimated revenues in the period 2007-2010 will be increased against the assumptions of the general government budget for 2008-2010. At the same time, the MF SR warns that an increased estimate of revenues 'does not automatically mean that there is room for an increase in expenditures'. Despite this, the above fact may represent an upward risk for the forecast of final consumption in the general government sector.

The growth in fixed investments should be supported, as according to the MTF-2007Q2, by the growing profits of companies, the stable business environment, and the increasing production activity in industrial sectors. In terms of their relative contribution to the year-on-year rate of GDP growth, inventories should have a dampening effect in 2008, as well as at the beginning of 2009, mainly due to the start-up of production at the Samsung plant and/or growth in production at the PSA plant (the impact of stocking-up in the past, the impact of investment imports and their re-classification to fixed investments, and the expected impact of the realisation of finished products from inventories through export).

Risks to the forecast (upwards) are still posed by the sub-contractors of Samsung and the new investments, mainly in the power industry (a gas turbine power plant at Malženice, the construction of blocks 3 and 4 at the Mochovce nuclear power plant, and a thermal power plant at Trebišov).



Risks to household final consumption, the trade balance, the labour market, and price developments are posed by the government's plans to amend the social laws (the Social Security Act) in line with the amendments proposed in the first half of July 2007. Since the draft amendment to this Act is currently awaiting approval by the ministries concerned, it is not possible to quantify its possible impact on household final consumption.

The current medium-term forecast (MTF-2007Q3) predicts no change in the rate of nominal wage growth in 2008-2009, compared with the April forecast. The assumption that there are pressures for faster wage growth, resulting from a possible shortage of qualified labour in construction, the automotive and electrotechnical industries remains a risk in the wage forecast for 2008-2009. In these sectors, further FDI inflows may be expected, as well as a steady expansion in production capacities in existing companies. Real wage developments in 2008-2009 should be in line with the assumptions of the April forecast. The growth in real labour productivity is expected to exceed the rate of real wage growth throughout the projection horizon.

The current medium-term forecast (MTF-2007Q3) predicts the same growth in employment for 2008-2009 as the previous forecast. Over the projection horizon, the main factors in employment growth should continue to be investment and demand for services. Developments in employment in 2008-2009 may also be influenced by the expanding network of sub-contractors in connection with the Samsung investment. Owing to the absence of new information on the number of jobs created by the sub-contractors, this assumption is considered to be a risk to the forecast.

The unemployment rate (based on an LFSS) is likely to show a gradually falling tendency in 2008-2009 and should be somewhat lower than according to the MTF-2007Q2. The trend in unemployment corresponds to that predicted in the previous forecast, but with regard to the

more positive developments in the actual and expected numbers of unemployed in 2007, the unemployment rate is also expected to reach lower levels in the next years.

Within the current account balance, the economy is expected to maintain its relatively strong export performance in 2008 and 2009, with the rate of export growth exceeding the 10% level (in line with the previous forecast). FDI companies are expected to maintain their profound influence in both years, while exports should grow most dynamically in the automotive and electronics industries. Exports should be positively influenced by the estimated growth in foreign demand, mainly in the course of 2008. The import intensity of exporting companies should be mainly reflected in the growing imports of semi-finished goods and machines. In both years, the higher estimates of oil prices are expected to cause a slight increase in both exports and imports in comparison with the previous forecast.

The trade balance forecast is negatively influenced for both years by the assumption of a rise in oil prices (compared with the previous forecast), which is likely to cause an increase in the deficit. This development should partly be offset in 2008 by an increase in foreign demand. In 2009, a positive impact on the trade balance is expected from the planned entry of Slovakia into the euro area. Due to the absence of transaction costs, exports are expected to be influenced largely positively; this influence should cause an improvement in the trade balance in the long term. On the other hand, a negative impact on the trade balance in the period under review may be exerted by the eventual construction (currently under consideration) of new nuclear and steam/gas turbine power plants, which may cause a temporary deterioration in the trade balance through increased investment imports.

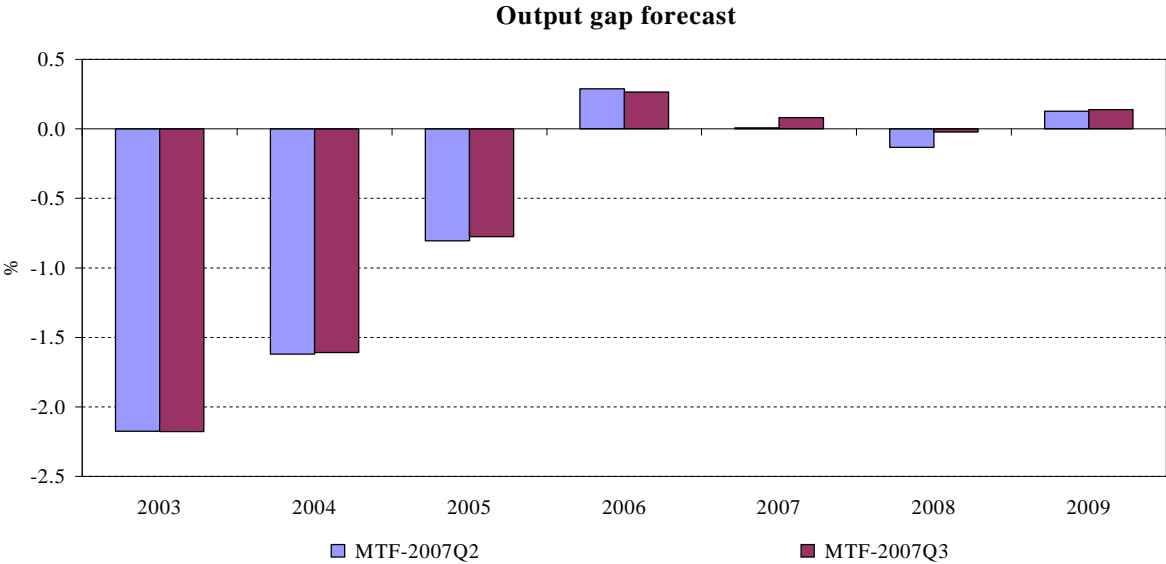
Like in 2007, the transfer of part of the funds drawn from the EU to the balance of payments capital account (from the balance of current transfers) was the main reason behind the deterioration in the estimated balance of current transfers. On the basis of the latest estimates, the surplus of current transfers predicted for 2008 was reduced by more than Sk 6 billion. In 2009, a marked increase is expected in drawings from eurofunds, which is likely to cause an even larger decrease in the positive balance of current transfers in comparison with 2008. A risk for the expected transfers balance surplus may be posed by the actual amount of funds drawn from the EU, which may negatively affect the achieved balance of current transfers where fixed payments are made to the EU budget.

The current account deficit should decrease in line with the previous forecast. The changes in the estimates of its individual components led to a deterioration in the deficit predicted for 2008 and 2009 (by more than Sk 8 billion and Sk 13 billion respectively) and to an increase in the current account deficit as share of GDP (by 0.4 and 0.6 of a percentage point, to 3.1% and 1.5% respectively). Part of the increase in the current account deficit as a share of GDP will be offset by an increase in the estimated capital account surplus.

Compared with the previous forecast, the degree of economic openness is expected to decrease in both years, to 179.1% of GDP in 2008 and 179.6% of GDP in 2009.

Monetary policy setting is still determined by the ongoing developments in the economy. Although the estimate of the economy's position in the first half of 2007 does not indicate that the positive output gap will open to a significant extent, there is a risk that the cyclical phase will continue in the economy. A pro-cyclical effect is mainly expected from foreign demand, but without the risk that domestic price developments will be affected by demand pressures. By pursuing a prudent monetary policy aimed at eliminating the potential risk of overheating,

the economy is expected gradually move from a slightly positive output gap in 2006 to an equilibrium state in 2008. In 2009, however, a slight pro-growth stimulus is expected in connection with the country's entry into the euro area (as in the previous forecast).



Annex

Medium-term forecast (MTF-2007Q3) of main economic indicators

Indicator	2006	2007	2008	2009	2007	2008	2009
	Actual	Forecast			Difference with previous forecast		
Prices (y-o-y change)							
HICP inflation (end-year)	3,7	1,5	2,0	2,5	0,2	0,0	0,0
HICP inflation (average)	4,3	1,7	1,9	2,2	0,2	0,0	0,0
HICP excluding energy and unprocessed food (end-year)	2,5	1,5	2,2	2,9	-0,2	0,0	0,1
HICP excluding energy and unprocessed food (average)	2,1	1,7	2,1	2,4	0,1	-0,1	0,0
CPI inflation (end-year)	4,2	1,9	1,9	2,5	0,0	0,0	-0,1
CPI inflation (average)	4,5	2,4	1,9	2,1	0,2	0,0	-0,1
Core inflation (end-year)	2,8	2,4	1,7	2,6	0,1	0,0	-0,1
Core inflation (average)	2,5	2,5	1,8	2,0	0,2	0,0	-0,1
PPI (average)	8,4	2,2	2,3	1	-0,5	-0,2	0,0
GDP (y-o-y change, unless otherwise indicated)							
Nominal GDP (SKK bil.)	1 636,3	1 824,2	2 002,4	2 189,1	4,4	9,8	16,0
Nominal GDP	11,2	11,5	9,8	9,3	0,3	0,3	0,2
Real GDP	8,3	8,9	7,5	6,9	0,0	0,1	0,0
Domestic demand	6,4	4,8	5,2	6,1	0,4	-0,1	0,1
Final consumption of households	6,3	6,8	6,0	6,1	-0,1	0,0	0,0
Final consumption of general government	4,1	2,9	2,0	1,9	0,0	0,0	0,0
Final consumption of non-profit institutions	-3,2	2,0	2,0	2,0	0,0	0,0	0,0
Gross fixed capital formation	7,3	7,9	7,4	8,0	0,2	0,0	0,0
Exports of goods and services	20,7	18,9	14,2	7,8	-4,4	-0,5	-0,1
Imports of goods and services	17,8	14,6	12,2	7,1	-3,9	-0,7	0,0
Output gap	0,3	0,1	0,0	0,1	0,1	0,1	0,0
Labour market							
Nominal wage (monthly average, y-o-y change)	8,0	7,2	6,8	7,3	0,0	0,0	0,0
Real wage (monthly average, y-o-y change)	3,3	4,7	4,8	5,1	-0,2	0,0	0,2
Employment (LFS, y-o-y change)	3,8	3,0	2,3	1,9	0,0	0,0	0,0
Employment (registered employment, y-o-y change)	2,2	2,3	1,6	1,4	0,2	0,0	0,0
Employment (ESA 95) (y-o-y change)	2,3	2,0	1,7	1,4	-0,2	0,0	0,0
Unemployment rate (LFS, %)	13,3	10,9	9,6	9,4	-1,3	-1,7	-1,5
Labour productivity (Real GDP/Employment, y-o-y change)	6,0	6,5	5,8	5,4	-0,2	0,1	0,0
Balance of payments							
Economic openness (% GDP)	175,5	174,1	179,1	179,6	-4,2	-3,5	-4,6
Trade balance (SKK bil.)	-91,6	-35,0	-14,3	0,0	-1,9	-2,0	-3,0
Trade balance (% GDP)	-5,6	-1,9	-0,7	0,0	-0,1	-0,1	-0,1
Balance of services (SKK bil.)	19,7	17,1	18,8	19,6	-1,0	0,0	0,0
Balance of services (% GDP)	1,2	0,9	0,9	0,9	-0,1	0,0	0,0
Current account (SKK bil.)	-135,6	-85,6	-62,0	-32,8	-7,9	-8,2	-13,2
Current account (% GDP)	-8,3	-4,7	-3,1	-1,5	-0,4	-0,4	-0,6
Current and capital account (SKK bil.)	-136,8	-75,6	-50,6	-15,6	-2,9	-2,0	-3,0
Current and capital account (% GDP)	-8,4	-4,2	-2,6	-0,7	-0,2	-0,1	-0,1