MEETINGS OF THE NBS BANK BOARD

The 4th Meeting of the Bank Board of the National Bank of Slovakia, chaired by Marian Jusko, Governor, was held on 27 February 2004.

- The Bank Board of the NBS discussed the Situation Report on Monetary Development of the Slovak Republic in January 2004 and decided on maintaining the overnight sterilization rate at 4.50%, overnight refinancing rate at 7.50%, and the limit rate for two-week REPO tenders with commercial banks at 6.00%.
- The Bank Board of the NBS stated that demand for the Treasury bills of the NBS (NBS bills) recently exceeds that for the two-week REPO tenders. This situation is connected with commercial banks' expectations, which await a decrease in interest rates. As the main monetary policy instrument used to sterilize excessive liquidity is the two-week REPO tenders, the Bank Board of the NBS decided to limit the share of the NBS bills in the overall sterilization. The total volume of the issued NBS bills should be around 25% in the future. This procedure expresses the significance of these monetary policy instruments and is also in line with the harmonization of monetary policy instruments with the practice used in the European System of Central Banks.
- The Bank Board of the NBS approved the Decree of the NBS on disclosure of information by banks and branch offices of foreign banks and on the method of publication of annual reports by banks and branch offices of foreign banks operating in the Slovak Republic.

The Decree widens the range of information being disclosed until now, especially adds information on financial indicators of consolidated and subconsolidated groups from the viewpoint of mutual relations and composition of these groups of which a bank is a member. The information is addressed to the general public and widens the possibilities of comparing the quality and economic results of individual banks and branch offices of foreign banks.

The Decree becomes effective on 15 March 2004.

Rationale behind the decision of the Bank Board of the NBS on interest rates

After having discussed the Situation Report on Monetary Development in January, the Bank Board of the NBS decided on maintaining the present level of announced interest rates. The decision of the Bank Board of the NBS was based on the fact that, since the last decision of the Bank Board, the macroeconomic development has been in accordance with the expectations and thus also with the Monetary Programme for 2004. In connection with this, the Bank Board of the NBS considers the present set-up of monetary policy to be adequate. Even though the level of inflation is lower than expected, its year-end prediction remains within the programmed interval. At the same time, the Bank Board of the NBS deems it necessary to monitor the influence of secondary factors on the inflation development, which factors could reflect themselves more markedly in the future months. When deciding on the interest rates, the Bank Board also took note of the revised data on foreign trade in 2003. This factor, however, did not play an important role, since when compared with 2002 and with the NBS's expectations for the end of the last year, the foreign trade showed favourable results. The Bank Board of the NBS also stated that the exchange rate development indicated the influence of factors others than economic fundamentals. That is why the NBS will continue monitoring the exchange rate and especially factors influencing its development. If necessary, the Bank Board of the NBS will consider an adequate instrument to correct the unwanted development.

The above factors that were considered in the Bank Board decision-making are described in more detail in the following part.

The growth of consumer prices in January was influenced by administrative adjustments to regulated prices and indirect taxes. When compared with the NBS's expectations, the development of prices was slower due to the expected change in regulated housing rent prices being postponed to February. It was also due to the market factors, where a smaller influence of secondary effects and a lower year-on-year dynamics of foodstuffs and tradable goods prices were reflected.

The level of prices in February should be most affected by the changes in prices of the regulated housing rent. On the month-on-month basis, there should be a rise in the prices of foodstuffs and market services, where the influence of secondary effect of regulated prices is expected. This effect should be spread into several months. The year-on-year dynamics of the consumer prices index in February should be characterized by a short-term growth. The hitherto as well as the expected development of the individual factors, however, indicates that as at the end of 2004 the headline, core and net (without fuels) inflations should reach the values within the corridor set in the Monetary Programme.

In the foreign trade area, despite the data revision, a marked decrease in the trade balance deficit was reported as compared with 2002, and, at the same time, the current account of the balance of payments was improved. According to the preliminary data of the NBS, the current account for 2003 was in deficit of SKK 10.2bn, which means the current account deficit to GDP ratio lower than 1.0 %. The 2003 commodity structure of foreign trade can be considered as favourable, with dominating exports of motorcars, machinery, iron and steel, and mainly imports of motorcar parts and accessories, electrical and measuring appliances, machines and their parts. At the same time, it is obvious that the improvement in foreign trade followed from some branches of the economy only. The favourable development of foreign trade also continued in January, and a slowdown in exports as well as imports is expected over the year 2004, together with an increase in imports due to investments.

The expected increase in trade balance deficit and the moderate slowdown in exports growth in this year, as compared with 2003, show that there is no space for the continued excessive appreciation of the Slovak koruna nominal exchange rate, also when considering the healthy development of the real economy. Since the beginning of the year the SKK/EUR exchange rate has appreciated by 1.7 %, which rate, as compared with the 2003 average rate of appreciation of 2.8 %, can be considered too high, even in the context of the expected macroeconomic development.

In 2003, as a consequence of the nominal exchange rate development and the accelerated increase in domestic prices, the Slovak koruna real exchange rate appreciated more substantially than in 2002. As the improved trade balance and the dynamic growth of export in 2003 were due to developments in selected sectors only, the more substantial strengthening of the real exchange rate may cause the worsened competitiveness of other economic sectors. In this light, the NBS monitors the exchange rate development and considers its possible adjustments, also based on the overall macroeconomic development. Until now, the situation on the foreign exchange market has not required interventions by the NBS, except for some verbal interventions and ad-hoc outright purchases of foreign currencies from commercial banks.

Monetary aggregates for January 2004 are not yet available, as in 2004 their development is calculated based on the monthly interim statistics, not on ten-day data. Owing to this, the development of monetary aggregates will be assessed with a monthly lag in situation reports. When generally assessing the monetary aggregates development, it is clear that the structure of extended loans changed in 2003. The highest amount of extended loans was concentrated in loans to households, in particular mortgage loans, and corporate loans in foreign currencies. The growth pace of lending thus exceeded 14 %, however, due to the positive development and structure of imports and the lack of demand pressures on price levels, the development in lending activities was considered acceptable. As for the structure of money supply, a trend of decrease in foreign currency deposits, increase in demand deposits and stagnation in time deposits can be seen over the last few years, as well as the slowdown in the growth pace of the households sector development. This change in behaviour of economic entities depends on the interest offered for individual types of banking products and on the expectations of development in the foreign exchange area. Owing to this, mainly natural persons have gradually concentrated on other forms of investment, e.g. mutual funds, and the money supply growth has recorded gradual deceleration.

Development in selected indicators for sectors of the real economy in December confirmed the development trends started in the previous period. The average data for the last quarter of 2003 show the accelerated growth of industrial production index, as compared with the third quarter of 2003. Simultaneously, over the five consecutive months, a decrease in revenues from retail sales has been slowed down, and their volume in December 2003 almost equalled the volume of the same period previous year. Revival is also recorded in revenues from sales of motorcars and fuels, which have reported a dynamic growth since November (after a decrease in previous months). The average data on all indicators for the last quarter of 2003 reported an increased growth pace, which signals that a relatively high GDP growth has been preserved, along with a revival, or a moderated decrease, in domestic demand.

The December figures of wage development confirmed the continuing negative real-wage tendency, which was owing to the higher growth pace of inflation and the lower increase in nominal wages in 2003.

The Bank Board of the NBS, based on the analysis of all the above factors, their mutual interaction and the expected future development, decided on leaving the NBS key interest rates unchanged. However, the Bank Board is prepared to actively react to the sharp appreciation of the nominal exchange rate of the Slovak koruna.

PRESS RELEASE

Committee of European Banking Supervisors (CEBS) launches website

On 23 February 2004, the Committee of European Banking Supervisors (CEBS) launched an interim website (www.c-ebs.org) in order to provide adequate public access to the Committee's work.

The establishment of an independent website was considered as priority by CEBS members when they held their first meeting on 29 January 2004. They agreed that right from the start it would be important to ensure transparency of the committee's structures and activities, and that the establishment of a website would be of particular importance, also with a view to future consultation processes.

Since CEBS has only been established recently, with its Secretariat currently in the process of setting up offices in London, so far the website has only been installed in interim mode and will be further developed in the next months.

Until CEBS' offices are open, CEBS can be contacted by email: info@c-ebs.org. Press queries should be directed to Mr. Ricardo Fernandez, Media Relations, Banco de España (comunicacion@bde.es).

Press Department of the NBS

MONETARY POLICY AFTER ENTRY TO THE EUROPEAN UNION

Scenarios for monetary policy after the accession of the Slovak Republic to the EU and their consequences were the topic of the discussion club of the Slovak Economic Forum, held on 25th February 2004. The Governor of the National Bank of Slovakia Marián Jusko, the chairman of the board and general director of UniBanka Jozef Bárta, and the chief economist of the VÚB Vladimír Zlacký were guests at the event.

The Governor of the NBS Marián Jusko presented monetary policy in the context of the development of the Slovak economy in the medium term, which will be influenced by various changes in the economic environment. They include especially the accession of the Slovak Republic to the European Union, implementation of tax and pension reform, reform of the health service and gradual consolidation of public finance. From the point of view of monetary policy in the coming period, the Governor of the NBS does not foresee significant changes. As he said, the advantages of Slovakia joining the eurozone are clearly greater than the disadvantages. According to the Strategy for the Adoption of the Euro in the Slovak Republic, Slovakia should join the eurozone as soon as it in a sustainable way meets the Maastricht criteria, which require the close coordination of monetary and fiscal policy. He also said that the government and the NBS declared an interest in creating comprehensive pre-conditions for the introduction of the euro in Slovakia in 2008-2009.

In the coming period, Slovakia's membership of the European Union as well as the intention of adopting the euro common currency will place increased demands on the implementation of economic policy and the fulfillment of individual aims defined by the national strategy for the acceptance of the euro.

WORKSHOP OF THE WORLD BANK AND THE FINANCIAL MARKET AUTHORITY

On 26th February 2004, the World Bank and the Financial Market Authority in co-operation with the National Bank of Slovakia and the Section for Banks and Insurance Companies of the Slovak Commercial and Industrial Chamber prepared a Workshop on Corporate Governance and the Administration of Private Pension Funds. Jozef Makúch, chairman of the Financial Market Authority opened the workshop with the subject of presenting to the wider professional public the results of a report on the observance of standards and regulations in the area of corporate governance.

The report was worked out by a team from the World Bank and International Monetary Fund in autumn 2003. Sue Rutledge, regional coordinator of the World Bank for corporate governance prepared a review of the report on the pension system, during her mission in Slovakia in 2003. Alex Berg, chief expert for the development of the private sector for the International Monetary Fund, prepared an evaluation of the report on corporate governance.

The Slovak Republic significantly improved its legislative and regulative framework for the area of corporate governance in harmony with the directives of the European Union. In spite of this positive trend, the report of the World Bank and IMF also points to the weak aspects of the system – areas which require further action and changes on the strategic level.

The workshop was an opportunity to discuss the conclusions of the report and especially the recommendations for securing the transparency and effectiveness of the whole system.

From the left: Sue Rutledge, World Bank, Jozef Makúch, the Financial Market Authority.

The first part of the workshop was devoted to observance of the standards and regulations in the area of corporate governance in Slovakia. Slavomír Šťastný from the Financial Market Authority led the discussions. From the left: Alexander Berg, IMF, Viliam Harvan, Ministry of Finance of the Slovak Republic, Slavomír Šťastný, Financial Market Authority, Jennie Mills, Milford International Ltd., František Okruhlica, EU in Bratislava.

S. Babincová, photography: P. Kochan