

MEETINGS OF THE NBS BANK BOARD

The 17th Meeting of the Bank Board of the National Bank of Slovakia was held on 8 April 2005, chaired by Ivan Šramko, Governor.

- The Bank Board discussed and approved the Report on the Results of the Slovak Banking Sector Analysis, which was prepared by the Banking Supervision Division of the NBS as at 31 December 2004. The Bank Board decided on publishing the abbreviated version of the Report on the National Bank of Slovakia's web site.

- The Bank Board of the NBS discussed the Report on the Activities and Economic Performance of the Permanent Court of Arbitration of the Association of Banks in 2004, and, based on the proposal of its founder, pursuant to Article 68 paragraph 2 of Act No 510/2002 Coll. on the payment system and on amendments and supplements to certain laws as amended by Act No 604/2003 Coll., decided that the annual contribution for the activity of the permanent court of arbitration of the Association of Banks, due to sufficient funds from previous periods, will not be paid in 2005.

The 20th Meeting of the Bank Board of the National Bank of Slovakia, chaired by Governor Ivan Šramko, was held on 29 April 2005.

- The Bank Board of the NBS discussed the Situation Report on the Monetary Development of Slovakia in March 2005 and decided on leaving its interest rates unchanged; i.e. the overnight sterilization rate at 2.00 %, the overnight refinancing rate at 4.00 % and the limit rate for two-week repo tenders with commercial banks at 3.00 %.

- The Bank Board of the NBS approved the results of the first round of an anonymous tender for design of the Slovak national sides of the euro coins.

The National Bank of Slovakia announced the tender in July last year, in connection with the preparations for the introduction of the euro on 1 January 2009. As the obverse of all eight euro coins is common, the tender was announced only for the reverse – national side of the coins. The tender was aimed at receiving as large as possible number of high quality designs as to their message and artistic expression, which would best present the rich history and exceptional cultural and natural values of Slovakia and be comprehensible both for the Slovak and other EU citizens.

In the first round 658 designs with various motifs were judged. Along with experts from the National Bank of Slovakia, experts from scientific and cultural institutions of the Slovak Republic and representatives of graphic artists participated in the evaluation process. 36 designs were selected for the second round. Their designers will be asked to create plaster models of the coins. The selected designs depict 17 motifs, which best represent personalities, architecture, symbolic elements, and other artefacts characteristic for the historic and cultural heritage of Slovakia.

In the second round of the tender, the plaster models of coins will be judged. In November 2005, the National Bank of Slovakia will publish the best designs in the mass media. Citizens then may express their opinion on the models via public opinion polls, and so influence the future design of the Slovak national sides of the euro coins.

- The Bank Board of the NBS also discussed the Report on Money in Circulation in the Slovak Republic in 2004.

The report confirms that the value of money in circulation at the end of 2004 was SKK 109.9 billion, and the total money in circulation issued by the National Bank of Slovakia comprised 1.17 billion banknotes and coins, i.e. 145.6 million banknotes and 1.02 billion coins, and 795 thousand commemorative coins.

The average value of money in circulation per capita was SKK 20,427.00, which was SKK 1,299 higher than in 2003.

In 2004, the total number of counterfeit Slovak koruna and foreign currency banknotes found in Slovakia was 1,223. The highest amount of counterfeit money was formed by the Slovak koruna (67%), the US dollar (21.5%) and the euro (8.4%). Almost two thirds of counterfeits were detected directly in circulation by banks and security agencies processing money from supermarket chains. Although the amount of counterfeit money increased by more than one fourth when compared with 2003, in the course of the 12 years of the existence of the National Bank of Slovakia it was the third lowest yearly number of detected counterfeits.

The Bank Board concluded that the circulation of money throughout the year was smooth and the quality of money in circulation was sufficient.

Press Department of the NBS



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

The Bank Board of the NBS at its 20th meeting, held on 29 April 2005, discussed the Situation Report on the Monetary Development of Slovakia in March 2005, and concluded that the inflation development continued in the trend of the slowing of its dynamic. The price development was affected by the appreciation of the exchange rate, as well as the favourable situation on the foodstuffs market. Owing to these factors, the inflation dynamic in March was lower when compared with the NBS's expectations. The continuation in their development is also reflected in the NBS's inflation forecast which indicates that the year-end inflation of 2005 will be below the bottom limit of its targeted level. The indicators of the real economy development suggest continuation of the present development tendencies, as foreign trade in February reported a higher deficit than that in the same period of the last year. The year-on-year growth of industrial and building production slowed. On the contrary, in February almost all services and retail business sectors reported continuing growth in sales on a year-on-year basis. In February the year-on-year growth in nominal wages increased in most industries when compared with the previous month, particularly in the industrial production. The exchange rate was affected by the situation in the Central-European region from mid-March, and the recently reported volatile development of a depreciation character.

The Bank Board of the NBS has assessed the current and expected economic development and stated that there is no need to change the current set-up of monetary policy, although it considers important to monitor the further development of macroeconomic indicators, especially wages, and analyze the impact on the price development and meeting the inflation target. The Bank Board of the NBS expressed concerns about the development in nominal as well as real wages which may be potentially a very powerful source of either external or internal imbalance, and may influence the direction of monetary policy. In this connection the NBS warns that industrial enterprises present the negative impact of the exchange-rate appreciation on their competitiveness. On the other hand, they can threaten their own position in the dynamically changing foreign and domestic markets by high wage increases in an environment of markedly slowing inflation dynamic.

When deciding on the levels of interest rates, the Bank Board of the NBS took into account, in more detail, the following factors:

In March inflation, measured by the harmonized index of consumer prices, on a month-on-month basis fell again, which was reflected in the slowing of the year-on-year inflation dynamic. The most considerable braking in the growth of prices was recorded in the industrial goods sector. The dynamic of prices for services also changed, and the foodstuffs maintained an unchanged year-on-year slowing when compared with the previous month. This favourable price development results from the increasing competition in the retail business, a good harvest and the present exchange-rate appreciation. These factors should affect the price development until the end of the year, with the result of reaching lower than targeted inflation.

Partial indicators of the economic growth show that the rising trend in the industrial production halted in February, which probably resulted in the decrease of the export dynamic and in the worsening of foreign-trade deficit. On the contrary, receipts from retail sales and all services sectors under review grew faster when compared with the previous month, except for the transport sector. In general, it can be said that the development of these indicators is in line with the recent trend; it is not possible to identify a fundamental change in their direction on the basis of the first two months.

The exchange rate of the Slovak koruna was, in recent weeks, affected solely by the exchange-rate development in neighbouring countries, above all in the Polish zloty. Its development can be characterized as volatile and, recently, with depreciation tendencies. The current rate of volatility and depreciation has been regarded by the NBS as a result of an excessive exchange-rate appreciation in the first months of this year. Owing to the fact that the NBS considers this development to be short-term, there was no need to react using activities on the inter-bank foreign-exchange market. This NBS's standpoint has been influenced also by the favourable inflation development, both current and expected.

The Bank Board of the NBS also discussed, in the framework of the Situation Report, the medium-term forecast until 2008. The fundamental macroeconomic indicators did not show any substantial divergences when compared with the Monetary Programme. The pace of growth of the economy in the medium-term horizon should oscillate on average above the level of 5%, and the automobile direct foreign investments could in short term boost the economic growth up to the level of 7%. The effect of this production should reflect itself also in the improvement of the balance-of-payment current account deficit. The dynamic growth of the economy should gradually close the



negative production gap. The NBS expects that the exchange rate will gradually regain its balance, which will result in the dampening of its present restrictive effect. Consistent with this development is also the inflation forecast, where reaching the inflation level lower than the targeted one for 2005 is the result of more concurrent factors, in spite of the monetary policy liberation. Besides the exchange rate, there were also an influence of last year's good harvest on food-stuff prices and an increased of competition in the retail business. In view of the fact that the present decisions about monetary policy will influence the price development particularly in 2006, the Bank Board of the NBS is beginning to consider as more

relevant the forecast of the price development for the future/coming year.

The Bank Board of the NBS, in its deciding, took into account also the forecast of the gradually growing inflation in the second half of 2006, the current development of the exchange rate and a faster growth of nominal wages. Based on the assessment of these factors, the Bank Board of the NBS came to the conclusion that there is no need to make changes in the current monetary policy set-up and decided on leaving its interest rates unchanged.

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A Meeting of Experts FINANCIAL MANAGEMENT 2005



On 19th April 2005, the Deputy Governor of the National Bank of Slovakia Elena Kohútiková participated in the expert conference Financial Management 2005 at the Bratislava Holiday Inn. It was organized by the company Trend Promotion and concerned the theme "Ambitious firms do not wait for the euro, they go to meet it".

Ms Kohútiková addressed the participants on the topic of "The monetary policy of the NBS and the integration of the Slovak Republic into Economic and Monetary Union." The Deputy Governor focused on the characteristics of the Slovak economy and its develop-

ment from the point of view of the National Bank of Slovakia. She informed the participants of the main elements of the monetary policy of the NBS in connection with the planned entry of Slovakia to the eurozone in 2009.

According to Ms Kohútiková, the euro will be a "great opportunity for businesses, which go to meet it, but a lost opportunity for those, who do not get prepared".

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Photos: P. Kochan

