

MEETINGS OF THE NBS BANK BOARD

The 34th Meeting of the Bank Board of Národná banka Slovenska was held on 22 August 2006, chaired by Ivan Šramko, Governor.

- The Bank Board of the NBS approved decree of Narodna banka Slovenska amending Decree of the National Bank of Slovakia No 11/2005 determining amounts of charges for individual types of acts of the National Bank of Slovakia. The purpose of the Decree is to adjust the wording of the Decree to the current situation which has developed as a result of number of amendments to certain laws in the financial market area, especially Act No 747/2004 Coll. on Supervision of the Financial Market. The Decree shall become effective as of 1 September 2006.

The Bank Board of the NBS discussed and approved the Interim Financial Statements and Report on the result of financial performance of the NBS as at 30 June 2006.

At 30 June 2006, the Narodna banka Slovenska had an income in the amount of SKK 14.2 billion, expenses of SKK 15.6 billion and its total loss was SKK 1.4 billion. The loss on financial operations recorded the amount of SKK 0.6 million, when the reported result was mainly due to the loss in the amount of SKK 6.9 billion (see Chart 4) resulting from the monetary operations related to the sterilisation of excessive liquidity of the banking sector and the income of SKK 6.2 billion from foreign exchange reserves administration.

- **The 35th Meeting of the Bank Board of Národná banka Slovenska was held on 25 August 2006, chaired by Ivan Šramko, Governor.**

The Bank Board of the NBS discussed the Situation Report on Monetary Development of Slovakia in July

2006 and decided on leaving the interest rates levels unchanged: the overnight sterilization rate on the level of 3.0%, the overnight refinancing rate on the level of 6.0%, and the limit rate for two-week REPO tenders with commercial banks on the level of 4.5%.

- **The 37th Meeting of the Bank Board of Národná banka Slovenska was held on 5 September 2006, chaired by Ivan Šramko, Governor.**

- The Bank Board of the NBS approved Decree of Národná banka Slovenska laying down the contents of the annual and biannual reports on results of operations in total assets of a supplementary pension fund, and in equity of a supplementary pension company. The Decree, issued on the basis of authorising provision of the Supplementary Pension Savings Act, stipulates the contents of these reports, which the supplementary pension companies shall be obligated to publish and submit to Národná banka Slovenska. The Decree will become effective on 1 January 2007.

The Bank Board of the NBS approved also Decree of Narodna banka Slovenska laying down the contents of reports on operations in total assets of a pension fund and in equity of a pension asset management company, as well as contents of daily information on each single transaction in assets of a pension fund. The Decree will substitute the former Decree No 75/2005 Coll. and will become effective on 1 January 2007.

The purpose of the Decrees is to integrate the data collection from the supervised entities in electronic form into the system which Národná banka Slovenska uses for all the supervised entities. The approval of both Decrees contributes also to making overview of the reporting obligations and to removing duplicate reporting.

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

The Bank Board of the NBS discussed the Situation Report on Monetary Development in Slovakia in July and concluded that the macroeconomic development was not significantly different from the assumptions presented in the recent July Medium-Term Forecast, and confirmed the rightness of the monetary policy tightening.

There have been ongoing pro-growth risks in the development of inflation. When compared with June, the growth rate of inflation accelerated on a month-on-month

basis and was slightly above the NBS's expectations. The price development was affected in particular by increases in certain regulated prices, which was in terms of the Medium-Term Forecast identified as a potential risk to the course of inflation. The released flash estimate of GDP in the second quarter of 2006 showed a slightly higher level of growth rate as compared to the NBS estimate, which confirms the assumption that the economy is in a boom phase. When compared with the first quarter of 2006,



there was accelerated growth rate in terms of employment, which made good grounds for the ongoing growth in the household final consumption. In relation to the fact that the recent monetary policy tightening has not been fully reflected in the interest rate policy or in the consumer behaviour yet, as well as in the light of the fact that the current macroeconomic development does not essentially differ from the NBS's expectations, the Bank Board of the NBS did not find it necessary to change the current levels of interest rates. However, the reasons for further tightening of monetary policy still persist.

When deciding, the following factors have been taken into close consideration.

Consumer prices, measured by the HICP, went up slightly on a month-on-month basis, when the drop in goods prices was exceeded by higher prices for services, especially by an increase in regulated prices for transport services. In July, the full impact of higher excise taxes on tobacco and cigarettes prices was not evident yet. When compared with June, the year-on-year growth rate of inflation accelerated in July, when all the main components of the price increase accelerated. All in all, it can be concluded that price developments are in line with the NBS expectations so far, though risks persist in the area of both cost-push and demand-pull factors.

The Statistical Office of the SR has released a flash estimate of the GDP developments for the second quarter of 2006, which mirrors the upward trend in terms of receipts in the individual sectors of economy. In the context of the so-far developments, the GDP growth in the second quarter confirms the growth potential of the economy, which will be further accelerated following the launch of production in the automotive industry. At the same time, dynamic GDP developments confirm the

assumptions of the July Medium-Term Forecast, which suggests that the current real economy growth rate overtakes its potential growth. The economic growth was mirrored in the higher growth rate of employment, which may represent one of the factors of consumer demand growth with its potential impact on price developments. In this connection the Bank Board of the NBS concluded that the so-far dynamic growth of loans to households had not changed yet.

In August, the situation on the interbank foreign exchange market stabilised. As a result of the central bank's foreign exchange interventions in June and July, aimed at dampening of the exchange rate volatility, affected by both regional development and domestic political situation, the level of official foreign exchange reserves decreased. Their amount, however, is sufficient to cover more than three-times the average monthly imports for six months. This indicator need not necessarily reflect the amount of real funds required for the foreign exchange payments system operations. Therefore, the NBS decided that it would, at the same time, publish also a modified indicator of coverage of real imports by the NBS's reserves, where the level of imports is represented by the amount of realised payments for imports in the banking statistics. When using this methodology, the level of imports covered by official foreign exchange reserves will be made more realistic.

Having considered the current macroeconomic development, the Bank Board concluded that the inflationary risks still persisted. In the period to come, further tightening of monetary conditions will be necessary.

Public Relations Department of the NBS