MEETINGS OF THE NBS BANK BOARD

The 20th Meeting of the Bank Board of the National Bank of Slovakia was held on 29th October 2004 chaired by Marian Jusko, Governor.

• The Bank Board of the NBS discussed the Situation Report on Monetary Development of Slovakia in September 2004 and decided on maintaining the current interest rates for the overnight sterilizaiton rate at 3.0%, the overnight refinancing rate at 6.0% and the limit rate for two-week REPO tenders at 4.5% with commercial banks.

• The Bank Board of the NBS has approved a Decree on the issue of the commemorative silver coin in the nominal value of SKK 200 on the occasion of the 300th anniversary of the birth of Ján Andrej Segner.

The silver coin which will be issued by the National Bank of Slovakia for the commemoration of the important physicist, doctor, pedagogue and inventor, is minted from an alloy containing 900 parts of silver and 100 parts of copper. Its weight is 18g with a diameter of 34 mm. The designer of the coin is the sculptor Mária Poldaufová. The commemorative coins were minted in the Polish state mint to the number of 11, 300 pieces of which 3, 300 pieces in a proof form. The coins will be offered for purchase in the second half of November 2004.

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

The Bank Board of the NBS at its 20th Meeting held on 29 October 2004 discussed the Situation Report on the Monetary development of Slovakia in September 2004. The Bank Board concluded that the inflation development is in line with the NBS expectations and its short-term forecast for the end of the year remains within the programmed interval of the Updated Monetary Programme of the NBS. The development of the exchange rate of the Slovak koruna, according to the Bank Board's opinion, has been stabilized, and thus no NBS interventions were necessary since July 2004. The worsening of the trade-balance deficit and an expected exceeding of the Updated Monetary Programme level is not a result of the arisen macroeconomic imbalances, but rather of external factors, i.e. crude-oil prices and holiday season of major exporters. On the basis of available indicators and revised forecasts, the Bank Board of the NBS has concluded that the monetary and macroeconomic development of Slovakia does not require changes in the policy application, and therefore it has decided on maintaining the current level of key interest rates.

When considering the level of interest rates the Bank Board of the NBS took into account the following factors:

In September the consumer price development was more favourable than the NBS expected when, on a month-on-month basis, there were no changes in total. In their framework the regulated prices increased, influenced by the beginning of the school year and the connected effect of price increase in the area of education and school catering. Core inflation, on a month-on-month basis, decreased owing to the more significant, in particular seasonal, fall in prices of fruit and vegetables and to the fall in prices of tradable goods, including fuels. On a year-on-year basis the consumer prices continued to slow in their growth, and the core inflation dynamics was also at lower levels. The individual core inflation items developed differently. Prices for market services continued to develop at the highest rate of growth. Their growth is significantly influenced by secondary effects of administrative adjustments of prices (e.g. growth of energy prices in services connected with housing), VAT effect in catering on premises, as well as transfer of contracted insurance from the area of regulated prices. In contrast to this, the prices of tradable goods form in 2004, in spite of the pro-growth impact of fuel prices, a segment with the lowest dynamics of growth or with fall in prices, and their development has a dampening effect on headline inflation. According to the updated short-term forecast, the NBS continues to expect that both the headline and core inflation programmed values will be achieved at the end of 2004.

In terms of the development of balance of payments current account the tendency of the year-on-year increase of the deficit continued in summer months, in particular due to the trade balance worsening. The cumulative increase of trade-balance deficit was influenced by the July and August deterioration of the import-export relations as well as by the review of the foreign-exchange trade values for May and June, which resulted in the increase of cumulative deficit. The prospects of the trade balance development for the following three months indicate that the trend of the year-on-year trade-balance deficit increasing continues. Although the export should, owing to the closing of the holiday season, increase, the import side should show a growing trend, in particular in connection with the crude-oil prices development and expected impact of investment imports.

In September the development of the Slovak koruna exchange rate did not require any interventions to be made by the NBS.

The present situation and updated predictions of the development of macroeconomic and monetary indicators do not suggest any changes in the existing development tendencies, with the exception of trade balance. Worsening of the cumulative trade balance deficit is the result of more factors effect. The 2004 import growth has also been influenced by growing prices in crude oil, although these have been partly corrected by the strengthening of the Slovak koruna vis-à-vis the US dollar. The growth of imports is also influenced by the increase in the imports of machines and technologies, and final consumption goods, which is connected with the inflow of direct foreign investments and revived domestic demand.

In the development of inflation the cost effects continue to prevail, the short-term prediction for the end of the year remains within the programmed band and the risk of demand pressures effect has not yet been identified.

With regard to the present as well as expected developments, the Bank Board of the NBS considers the actual setting of monetary policy as appropriate and has decided on the maintaining of key interest rates at an unchanged level.

Press Department of the OVI NBS

PRESS REPORTS

Financial Services Action Plan

The Committee of European Securities Regulators (CESR) has published the procedure in the four fields concerning the business of capital markets, where this is to ensure the preparation of European regulators for the growing interdependences of the global market.

These key initiatives are:

• In the field of investment management the CESR began consultations on guidelines for regulators relating to the application of temporary provisions implemented by the Undertakings for Collective Investment in Transferable Securities (UCITS) III Directive.

Directives adopted in February 2002 amending the UCITS Directive, generally known as UCITS III, contain a large number of provisions relating to funds pursuant to UCITS I, as well as established asset management companies. These provisions brought about differing interpretations with regard to their implementation. CESR has prepared, at the request of the European Commission, solutions that should in practice ensure a convergence of regulatory practices.

• Publication of the conceptual document for discussion on CESR's intentions in the field of assessing equivalence between IAS/IFRS and GAAP of third countries. This initiative reflects the obligation that the issuers from countries outside the EU, which will have their securities traded on the regulated market in the EU country, were ready at 1 January 2007 to provide financial statements on the IAS/IFRS basis, or on the basis of their own national accounting standards provided that they can declare their accordance with IAS/IFRS.

• CESR and the US Commodity Futures Trading Commission (CFTC) announced the commencement of the Transatlantic Cooperation Initiative and presented a Statement of Intent in the development of an action plan for the issue of the international provision pf services. Both bodies have declared their interest in developing an action plan in the given field and have agreed on a common approach. The main target fields are the following:

• the creation of practical convergence and provisions simplifying access to both markets with the aim of avoiding obstacles resulting in duplicate regulatory requirements in international transactions of stock exchanges and companies

• regulations of the international activities of brokers, stock exchanges, clearing houses as regards the changing circumstances and experience in enforcement

• timely identification of new facts ensuing from cooperation of both bodies

• CESR submits for discussion draft advice concerning the "second group of mandates" that have been granted to it by the European Commission in connection with the Markets in Financial Instruments Directive.

The final recommendations of the CESR Committee will be submitted to the European Commission in April 2005.

M. Kačmár, Financial Market Authority