Foreword

The National Bank of Slovakia presents its Annual Report for 1994, the second year of the independent Slovak Republic. Monetary development over the period under consideration confirms the success of the Bank's performance, and demonstrates its ability to deal with the complex problems af Slovakia's transformation into a market economy.

The National Bank of Slovakia managed to fulfil the principal tasks of a central bank and became a major stabilizing factor in preserving the macroeconomic equilibrium of the Slovak economy. The Bank has undoubtedly made a significant contribution to the favourable macroeconomic results achieved by the Slovak economy. After years of economic recession, Slovakia's GDP recorded a relatively robust growth.

Over the course of 1994, the basket of currencies also underwent a change. The standard five-currency basket was replaced by a basket consisting of only two currencies: the US$ (40%) and the DM (60%). This step made the management of exchange rate risk easier for commercial banks. Furthermore, the measure liberalized the banks' input in setting the NBS foreign exchange fixing which is vital to the Slovak crown's internal convertibility.

The National Bank of Slovakia works in close cooperation with numerous significant financial institutions, including the World Bank, the Bank for International Settlements, the European Bank for Reconstruction and Development, and the European Investment Bank. A sign of international recognition and confidence in the monetary policy of the NBS was undoubtedly the approval of the stand-by loan by the Board of Executive Directors of the International Monetary Fund in July 1994.

One of the most important events of the previous year was the assignment of a BBB investment credit rating to the NBS by the prestigious Japanese rating agency, The Japan Bond Research Institute. This rating enabled the Bank to place a bond issue on the Japanese Samurai market.

The primary objectives of the monetary policy of the National Bank of Slovakia set for 1994 were to keep the annual rate of inflation within the range of 10% to 13.2%, and to maintain the internal convertibility of the Slovak crown. The results achieved in 1994 - the 11.7% rise in retail prices and the approximate threefold of NBS foreign exchange reserves at a fixed exchange rate - clearly indicate that the National Bank of Slovakia met the chief priorities of its monetary policy.

However, the effects of the achieved monetary stability cannot be reduced to the favourable development of individual monetary variables. The revival and growth of the Slovakia economy in 1994 could hardly have been possible without monetary stability in 1994 and over the previous years. The 4.7% growth of GDP, the significant balance of payments surplus on current account, the growth of foreign exchange reserves to a level 2.6 times above the volume of monthly imports, the relatively low rate of inflation and stable exchange rate of the Slovak crown, which started to gain recognition outside Slovakia's territory as well, must be viewed as a whole.

The course of monetary development in 1994 can be divided into two different periods. In the first quarter of the year, the NBS faced inflationary pressures and a downturn in foreign exchange reserves. The following three quarters of 1994 saw a gradual inflow of foreign currency, as a result of which the NBS could use its monetary policy to create favourable conditions for the issue and sale of government bonds, and could exert a certain downward pressure on the interest rates. A characteristic feature of monetary development in 1994 was the gradual growth of the M2 aggregate and the increase in net foreign assets. As a result of the drop in the annual rate of inflation, the real interest rates on deposits experienced a qualitative change through the achievement of positive values.

The monetary development and the results achieved in the past year have enabled us to set even more ambitious goals for 1995. The National Bank of Slovakia will continue to do its best to strengthen the country's foreign exchange reserves free from the spectre of inflation; to maintain the competitiveness of Slovakia's export trade; to suppress interest rates; and to improve the convertibility of the Slovak crown in the current account of the balance of payments.

Vladimír Masár
The Governor

Bank Board of the NBS

from left:
Jozef Makúch, Executive Director, Research Division
Marián Jusko, Vice-Governor
Vladimír Masár, Governor
Elena Kohútiková, Executive Director, Economic Division
Śtefan Adamec, Director, Monetary Department
Ján Mathes, Executive Director, Currency Division