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Annual Report 2000

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Foreword

The development of the Slovak economy in the year 2000 was characterised by continued macroeconomic stabilisation, which was reflected in the favourable course of inflation, accompanied by a decrease in the current account deficit of the balance of payments and the fiscal deficit in relation to GDP, whilst the exchange rate of the Slovak crown remained relatively stable. The positive economic results and the gradual introduction of liberalisation measures contributed to Slovakia's admission to OECD. At the same time, conditions were created for further development of financial markets and the banking sector, which were connected with loan portfolio restructuring at selected commercial banks and the ongoing privatisation process.

Economic growth in the countries of our major trading partners and the slowdown in the rate of decline in domestic demand led to a 2.2% increase in real GDP compared with 1.9% in 1999. Economic revival is expected to continue in 2001, especially in the area of domestic demand, with GDP growth reaching 2.8% to 3.0%.

The increase in consumer prices slowed considerably in 2000 compared with the previous year. The 12-month rate of inflation fell year-on-year by 5.8 percentage points, to 8.4%, due, to some extent, to the relatively low purchasing power of households, but in the main, to the fact that the effect of the increase in regulated prices in the summer of 1999 had dissipated. As the rate of inflation was significantly affected by price regulation, the statistical evaluation of inflation was extended to include core inflation (with effect from 1 January), which is corrected for the effects of adjustments to regulated prices and changes in indirect taxes and subsidies. Core inflation in 2000 was characterised by a downward trend, with the year-on-year dynamics reaching 4.6% at the end of the year (compared with 7.0% in 1999). The favourable price development was achieved despite the appreciation of the US$ in relation to the Sk and the increase in oil prices, which was reflected in fuel prices and the production costs. On the other hand, the low level of effective demand and growth in competition on the domestic market were factors dampening the year-on-year dynamics of both headline and core inflation.

The National Bank of Slovakia assumes that the process of disinflation will continue in 2001, with core inflation ranging from 3.6 to 5.3% and headline inflation reaching 6.7 to 8.2%.

The ongoing stabilisation of the macroeconomic environment resulted in a fall in the share of the current account deficit in GDP from 5% in 1999 to 3.7% in 2000. The surplus in the capital and financial account, the amount of which was determined by the inflow of foreign direct investment, was sufficient to cover the current account deficit several times. The increase in the volume of foreign direct investment in 2000 was connected with the implementation of the Government's privatisation projects.

The course of foreign trade in the first months of 2001 indicates that the deficit in the balance of trade and the current account is growing. The NBS assumes that the ratio of the current account deficit to GDP may reach 5.7%, due mainly to growth in the import of technology in connection with revival of the economy. The current account deficit is expected to be fully covered by foreign direct investments. The development of other items in the capital and financial account may well lead to an increase in the level of the foreign exchange reserves of the NBS.

During 2000, the National Bank of Slovakia implemented its monetary policy using a new set of instruments. The favourable development of the economy made a shift from quantitative to qualitative monetary policy control possible. The change in monetary policy instruments was due to the need to harmonise NBS instruments with those of the European Central Bank. On 1 February, the National Bank of Slovakia introduced interest rates for overnight sterilisation and refinancing operations and, with effect from May, a limit rate for two-week REPO tenders. The introduction of official rates by the NBS made a significant contribution to the stabilisation of interbank rates and to a fall in the overall level.

The improvement in economic development during the year made a gradual reduction in key NBS rates possible, and a consequent fall in primary interest rates for both deposits and loans. The level of interest rates on new loans fell by more than 5 percentage points and gradually approached the overnight refinancing rate of the NBS.

In connection with the harmonisation of monetary-policy instruments with those of the European Monetary Union, the NBS reduced the ratio of required reserves from 8.0% – to 6.5% with effect from 1 July, and subsequently, to 5.0% with effect from 1 January 2001. By 2004, the NBS will have reduced the ratio of required reserves to 2%, which is the rate in the European Monetary Union, and which will do much to raise the level of competitiveness of domestic banks to that of foreign banks.

The development of monetary aggregates in 2000 was in line with the projections of the Central Bank. The rate of year-on-year growth in the money supply at fixed 1993 exchange rates reached 14.2%. A pro-growth effect on the money supply was exerted by foreign resources, in the form of an inflow of foreign direct investments, and domestic resources, in connection with the development of the fiscal deficit and the release of funds from privatisation into the economy.

The exchange rate of the Slovak crown vis-à-vis the reference currency (EUR) was relatively stable over the course of the year and depreciated by 3.76%. During the year, the NBS was active on the foreign exchange market where activities were focused mainly on moderating short-term volatility in the exchange rate of the crown and/or preventing unacceptable appreciation in the light of economic performance.

In 2000, the process of consolidation and recovery continued in the banking sector. At some banks, non-performing loans were transformed and reclassified, at the beginning of 2001, by government bond issues. During the year, three banks had their licences withdrawn as they had failed to comply with the requirements and criteria of banking supervision. This also contributed to an improvement in the condition of the banking sector as a whole. The privatisation of selected banks was part of ongoing reform in the banking sector; part of Slovenská sporiteľňa, a.s. was sold to Erste Bank of Austria. At present, the selection of investors for VÚB, IRB, and Banka Slovakia is in its final phase.

Loan portfolio restructuring at selected banks, the privatisation of banking institutions, and the winding-up of inefficient banks, together with the continued stabilisation of the macroeconomic environment and the fall in interest rates, provide a basis for the expansion of bank lending to the entrepreneurial sphere.

In 2001, the National Bank of Slovakia will focus its monetary policy on meeting the main objective set out in the amended NBS Act, i.e. the maintenance of price stability. The Monetary Programme for 2001 was drawn up in accordance with this objective; furthermore the Revised Monetary Programme respects the criteria of the Statement of Economic Policies, which is the basic document of co-operation between the Slovak Republic and the International Monetary Fund as part of the Staff-Monitored Programme.

May 2001

Marián Jusko
Governor

Members of the NBS Bank Board

From left to right:
Karol Mrva, Chief Executive Director, Trade and Foreign Exchange Division
Elena Kohútiková, Deputy-Governor
Jozef Magula, Director, General Relations Department
Marián Jusko, Governor
Ján Mathes, Chief Executive Director, Currency Division
Jozef Košnár, Professor at the University of Economy in Bratislava
Jozef Mudrík, Vice-Governor
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