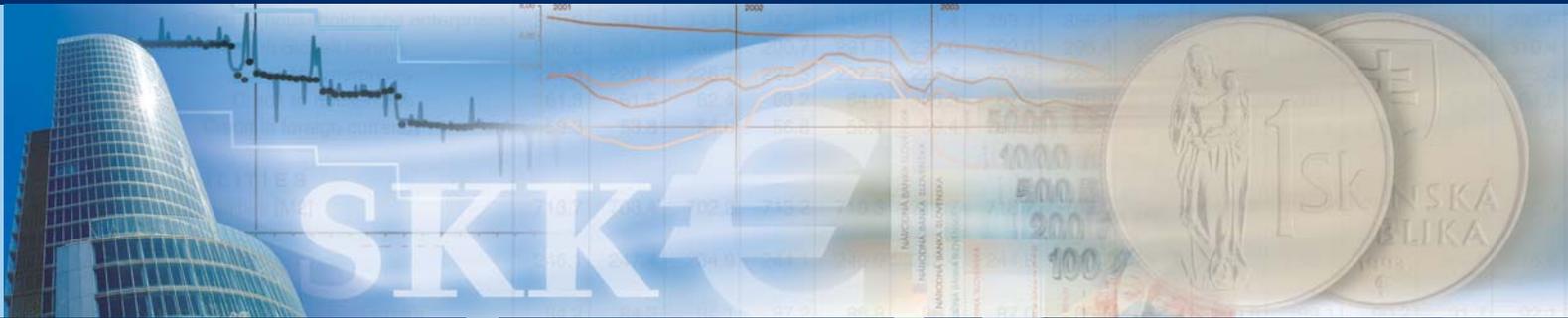




NÁRODNÁ BANKA SLOVENSKA

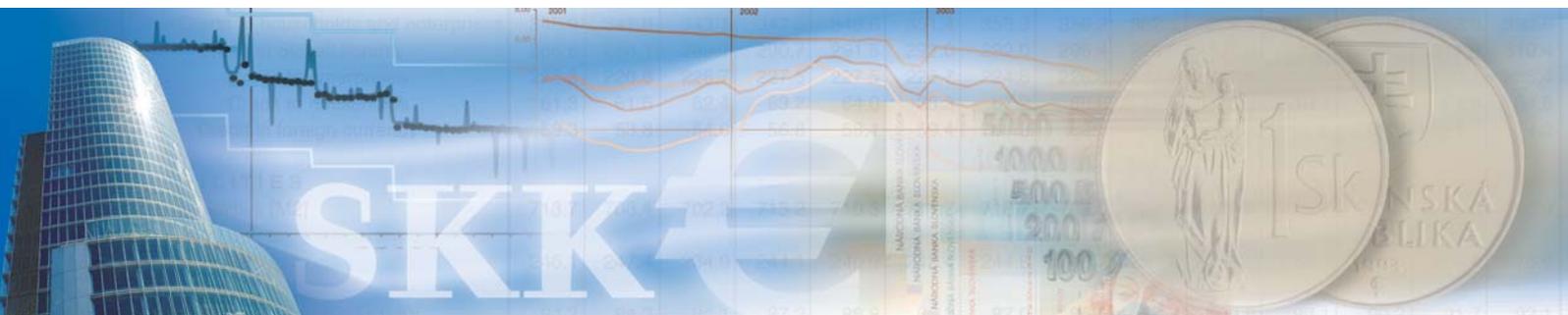


Annual Report

2006



NÁRODNÁ BANKA SLOVENSKA



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Foreword

Year 2006 was characteristic above all by strong economic growth and by the general elections. The annual economic growth recorded an all-time high of 8.3%, but that figure is likely to be surpassed in 2007. The favourable economic development was also reflected in the labour market, as employment rose and unemployment declined. The commitment to adopt the euro in 2009 was confirmed by the new government, which was formed after the June general elections.

2006 was the second year of implementation of the inflation targeting strategy under ERM II. Consumer price growth increased in comparison with the previous year. The increase in inflation was given by faster price growth in most of the core groups of the consumer basket. However, the dominant influence was exerted by domestic factors, notably the effect of adjustments to regulated prices. Inflation in 2006 exceeded the NBS target of 2.5%, largely owing to developments in energy prices, i.e. to a factor lying beyond the scope of monetary policy and representing exemptions from meeting the inflation target.

In order to mitigate the secondary effects of higher energy prices and regulated prices, the Národná banka Slovenska gradually raised the base rate by a total of 1.75 percentage points in 2006. The implementation of monetary policy was restrictive in the key interest rate. The nominal exchange rate appreciated during 2006, except for a short period around the time of the general elections. The NBS intervened several times in the foreign exchange market in order to mitigate excessive volatility in the Slovak koruna's exchange rate and to react to developments inconsistent with macroeconomic fundamentals.

Since 1 January 2006, the Národná banka Slovenska has been performing supervision of the entire financial market in the Slovak Republic. The integrated supervision of the financial market was established in reaction to the cross-connections of activities performed by different financial market entities operating in the fields of banking, capital market, insurance, and pension saving. The main purpose of integrated supervision is to support both the stability of the financial market as a whole and its security and sound operation.

To meet the needs of cash in circulation in 2006, the NBS provided for the printing of banknotes in the denominations of 20, 50, 200 and 500 koruna, and the minting of coins in the denominations of 50 halier and 1 koruna. The NBS issued three commemorative coins during the year with motifs of the Muránska planina National Park and anniversaries of Karol Kuzmány and Mojmir II. In addition, four issues of annual collector sets of coins in circulation were produced.

The Národná banka Slovenska continued to perform its tasks under the National Euro Changeover Plan and the NBS internal plan for euro adoption, and thereby contributed to fulfilling the euro introduction strategy. It revised the valid legal regulations issued by the NBS or related to the NBS, which will have to be amended in relation to the euro introduction. A number of analyses were performed in regard to information system modifications. As for the payment system in Slovakia, a new concept was drawn up for its development until 2009. The core features of this concept are the integration to the European payment system TARGET2 and the construction of a new domestic payment system. Detailed analyses were elaborated on the effect of the euro introduction on enterprises, banking and financial institutions and households.





Since entry into ERM II, the Slovak economy has undergone significant structural changes. The gradual acceleration of economic growth and the large differential between productivity growth in Slovakia and in the euro area resulted in substantial appreciation of the equilibrium exchange rate. The conditions were thereby created for a revaluation of the central parity, which serves as a basis for assessing the fulfilment of the Maastricht exchange rate criterion for the euro introduction. At the request of Slovakia, and with the agreement of the members of the ERM II Committee, the central parity of the Slovak koruna was revalued with effect of 19 March 2007. The new central parity was set at 35.4424 koruna per euro.

In 2006 the Národná banka Slovenska conducted an audit of management processes and activities. The main purpose of the audit was to establish a new procedural and organizational model for the bank, comprehensively supported by effective information systems, and to create an improved structure of qualified staff and a competitive system of remuneration. The audit outputs laid the basis for implementing gradual changes aimed at streamlining the operation of NBS's internal processes in future years.

The past year also saw the NBS cooperate more intensively with the European Union and its Member States, but also with non-Member States and international institutions. The nature of the cooperation has changed. Slovakia became a donor member of the International Monetary Fund and the International Development Association. The NBS represents Slovakia in foreign exchange transactions related to foreign aid. In 2006 the NBS organized several meetings and educational events in relation to the ESCB, foreign technical cooperation and foreign technical assistance.

Many interesting challenges lie ahead. The most pressing one for the Národná banka Slovenska is the introduction of the euro and adoption of the ECB common monetary policy. The progress already made in meeting the tasks related to the successful completion of technical preparations for the euro introduction, as well as the current forecast for developments regarding the Maastricht criteria suggest that Slovakia will soon join the group of countries implementing the common monetary policy of the ECB.

Ivan Šramko
Governor

May 2007