NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

FOREWORD

Foreword

The global economy saw a gradual recovery in 2010, as economies around the world began to emerge from the effects of the global economic crisis. International trade returned to growth, enabling Slovakia to resume its place as one of the fast-growing countries. In order to strengthen overall financial stability in the European Union, a new supervisory framework for European financial institutions and markets was introduced. Following the establishment of the European System of Financial Supervision, organisational changes were made to the supervision of the domestic financial market, which is one of the main activities of Národná banka Slovenska.

Slovakia was one of the countries hardest hit by the crisis, mainly because its economy is highly open and is heavily dependent on sectors that are sensitive to fluctuations in global demand. When international trade began to pick up again, however, these same factors contributed to the strong growth in industrial production and exports of goods from Slovakia. The result was strong growth of the Slovak economy as a whole. Although the year-on-year increases in gross domestic product were dampened by a base effect during the course of the year, the GDP for 2010 was still 4.0% higher than the figure for the previous year. Looking at the structure of economic growth in Slovakia, the main components were changes in inventories and net exports. The contribution of household final consumption continued to be negative, owing to the slow pace of improvement in the labour market. The first effects of the economic recovery in 2010 were seen in an increase in the number of hours worked and subsequently also in the number of employed people. Even so, the average overall employment in 2010 was still lower than in 2009.

Weak domestic demand created conditions for subdued price inflation. At the beginning of the year, consumer prices in Slovakia declined, but, as the year progressed, rising commodity prices put upward pressure on consumer prices. Nevertheless, the annual rate of inflation at the year end was lower than at the end of 2009. Consumer prices in 2010 increased by an average of 0.7%.

During the recession, the customers of financial institutions saw their incomes declining; at the same time, enterprises and households became less able to service their debts, and the ratio of non-performing loans increased. This trend continued in 2010. At the end of the year, the ratio of non-performing loans to total loans stabilised at 8%. The ratio of non-performing loans to total household loans averaged above 5% until December 2010, when it fell to 4.9%. But although the banking sector – which constitutes the major part of the financial system in Slovakia – managed to strengthen its financial position, its share in the assets of financial institutions is gradually falling, largely due to the success of the pension saving segment. The trend of the corporate sector's declining dependence on the domestic financial sector continued in 2010, as firms were to a greater extent using external sources of financing. The improvement in economic development indicators contributed to the stabilisation of the whole domestic financial sector. The profits of financial institutions increased in 2010, except certain segments.

In an environment of low inflation and moderate growth in the euro area economy, the European Central Bank maintained its accommodative monetary policy stance, keeping the key interest rates unchanged throughout the year. Thus the main refinancing rate remained at 1.0%, the marginal lending facility rate at 1.75% and the deposit facility rate at 0.25%. Given the very low inflation and weak domestic consumption in Slovakia, the setting of the common monetary policy can be considered appropriate for the domestic economy.

At the beginning of 2010, the ECB began to exit from non-standard monetary measures in line with their original purpose and temporary character. But after the outbreak of the debt crisis in several euro-area peripheral countries, bond markets came under increasing pressures. In order to stabilise the financial system of the Eurosystem, the ECB set about reintroducing non-standard monetary operations. Since the government bond market is an important part of the mechanism for transmitting monetary policy decisions to the real economy, the Eurosystem national central banks joined in measures to support financial market liquidity and stability. Acting within the Covered Bond Purchase Programme, they purchased government bonds over the course of the year. So as to prevent any inflationary pressure arising from the increased amount of money in circulation, special fine-tuning operations were introduced to absorb the excess liquidity.

In 2010, Národná banka Slovenska, as the national supervisory authority for the financial market in Slovakia, cooperated in the establishment of the European Systemic Risk Board and other bodies of the European System of Financial Supervision. As well as fundamental changes at the European level in 2010, there were also organisational changes at the Financial Market Supervision Unit of Národná banka Slovenska. The new structure of the FMS Unit has been adapted to follow the structural breakdown of the financial market.

The global economy's recovery and the rapid economic growth in developing countries has led to rising commodity prices, while political tensions in Middle East countries have bolstered supply-side inflation pressures. The higher commodity prices are gradually putting upward pressure on consumer prices. It is some time since the common monetary policy has faced the challenge of maintaining inflation at close to the target rate of 2%, but in the coming period it will have to do so again. The euro area countries will continue to struggle with the consequences of the debt crisis. It is my belief that the joint steps taken by EU governments and the newly-formed bodies of the European System of Financial Stability are helping to increase financial stability and to re-establish a standard economic environment in Europe.

March 2011

Jozef Makúch
Governor

Members of the NBS Bank Board in 2010
Front row (left to right): Martin Barto, Jozef Makúch, Viliam Ostrožlík
Back row (left to right): ĽudovítÓdor,GabrielaSedláková,IvanŠramko,SlavomírŠťastný,KarolMrva,ŠtefanKrálik

The Bank Board of Národná banka Slovenska

The main governing body of Národná banka Slovenska is the NBS Bank Board ("the Bank Board"). The scope of its powers is laid down primarily in the NBS Act, in other legal regulations of general application and in the OrganisationalRules of NBS.

The number of members of the Bank Board has been set at five since 1 December 2010, pursuant to Section 7 of the NBS Act. The Bank Board consists of the NBS Governor, the two Deputy Governors, and two other members. The term of office of Bank Board members is five years, commencing as of the effective date of their appointment to the position. The Governor and Deputy Governor may serve no more than two terms, while other members of the Bank Board may be reappointed to the same position an unlimited number of times.

Under transitional provisions of the NBS Act, effective from 1 December until the number of Bank Board members was reduced to five, the Bank Board consisted of the Governor, the two Deputy Governors, and all other members who were appointed to the Bank Board before 1 December and whose tenures had not expired as at that date.

The Governor and Deputy Governor are appointed, and may be dismissed, by the President of the Slovak Republic at the proposal of the Government and subject to the approval of the Slovak Parliament. The other two members of the Bank Board are appointed, and may be dismissed, by the Government at the proposal of the NBS Governor.

The following members of the Bank Board ended their terms of office in 2010:

- Ing. Ivan Šramko, Governor and Bank Board member until 11 January 2010;
- Ing. Martin Barto, CSc., Deputy Governor and Bank Board member until 31 January 2010;
- Mgr. Ľudovít Ódor, Bank Board member until 14 September 2010.

The members of the Bank Board as at 31 December 2010 were:

- Doc. Ing. Jozef Makúch, PhD., Governor
- Ing. Viliam Ostrožlík, MBA, Deputy Governor responsible for the Financial Management Department, the Human Resources Management Department, the Banknotes and Coins Department, and the Currency Circulation Management Department;
- Ing. Štefan Králik, Executive Director for legal services and security;
- RNDr. Karol Mrva, Executive Director for financial market operations and payment services;
- Ing. Gabriela Sedláková, Executive Director for information technology and premises;
- Ing. Slavomír Šťastný, PhD., MBA, General Director of the Securities Market, Insurance, and Pension Savings Supervision Department.