FOREWORD

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The year 2011 saw a marked escalation in the sovereign debt crisis of certain euro area countries. The adverse situation in Europe was accompanied by a deterioration of global financial markets. The only relief came from the new fiscal compact and the new non-standard monetary policy measures introduced by the European Central Bank (ECB).

Both global and euro area economic growth slowed considerably in 2011. Average annual growth in Slovakia was also lower than in the previous year, but at 3.3% it was far higher than the euro area average (1.4%). Euro area GDP even recorded a quarterly contraction in the last quarter of 2011. The adverse labour market situation improved moderately year-on-year, and employment in Slovakia recorded a slight rise. Nevertheless, the unemployment rate remained high, and this was reflected in the negative contribution of domestic consumption to GDP growth. In both Slovakia and the euro area, economic growth was driven by foreign demand. Inflation fluctuated at around 2%, and the average rate in Slovakia in 2011 stood at 4.1%. The main drivers of inflation were higher prices of oil and agricultural commodities, followed by increases in administered prices, and fiscal consolidation measures in the form of tax hikes and new fees and charges.

The ECB changed its monetary policy settings on four occasions in 2011. After two years of keeping the key rates at historical lows, the ECB Governing Council raised them by 25 basis points in April and by a further 25 basis points in July, thus increasing the main refinancing rate to 1.5%. These decisions were a response to the mounting upside risk to the inflation target. Towards the end of the year, however, the ECB opted to loosen monetary policy again, due to rising instability in the euro area market. The key rates were cut by 25 basis points in November and by the same margin in December, to leave the main refinancing rate back at 1%.

Within the implementation of monetary policy through national central banks, the ECB is also employing various non-standard instruments. Late last year it crucially decided to replace two announced 12-month operations with two 36 month operations, with the option to be repaid after one year. At the same time, European banks that had already drawn funds under a 12-month operation had the option of switching to 36-month operation, which was partially used. These measures went a long way to easing pressures in the euro area market.

With euro area countries still facing an excessive debt burden, the ECB continued its government bond purchasing programme, under which national central banks buy bonds issued by selected countries. The programme was originally intended for the purchase of bonds issued by the so-called peripheral countries of Ireland, Greece and Portugal, but in 2011 it was extended to include Spanish and Italian government bonds. In order to mitigate the effect of these interventions, the ECB conducted liquidity-absorbing operations and thereby neutralised the programme's impact on the monetary stance.

The uncertain public finance situation in several European countries, as well as in the United States, caused exchange rate volatility to increase. The EUR/USD exchange rate appreciated significantly in the first half of 2011 and recorded its strongest level of the year in May, at 1.48 USD/EUR. Over subsequent months, however, the single currency depreciated amid the euro area's mounting problems, and it ended December at its weakest level of the year (EUR/USD 1.2950).

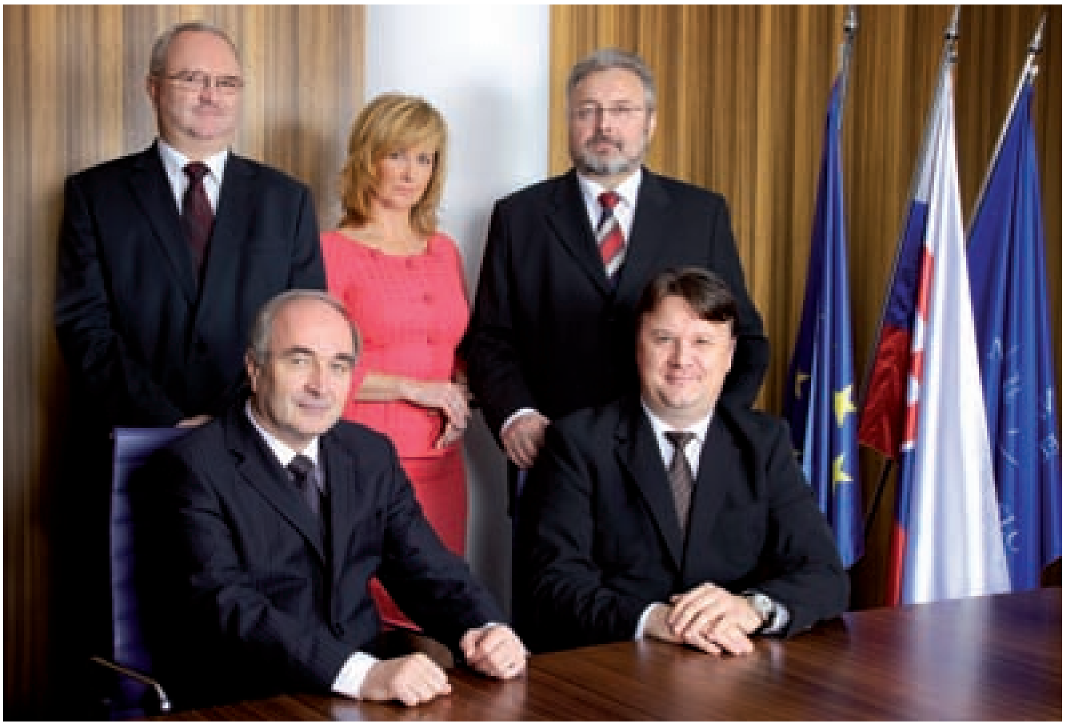
As part of the new European-level supervisory architecture, new institutions were established on 1 January, responsible for macro- and microprudential oversight. In connection with their establishment, Národná banka Slovenska was involved in the drafting of several technical regulatory and implementing standards at the EU-level. Much of this work concerned the drafting of implementing regulations for EU Directives on European supervisory rules, capital requirements, the insurance sector, and collective investment. Last year therefore saw increasing interaction with the ECB, especially in the coordination of new requirements for statistics on financial institutions and for statistics used in financial stability analysis.

Národná banka Slovenska took further steps in 2011 to improve the efficiency of its work. In line with decisions of the NBS Bank Board, two amendments to the NBS Organisational Rules were approved, and they entered into force on 1 January 2012. The organisational changes made under these amendments included the closure of four NBS branches, a change to the organisational structure of NBS, and modifications to the duties and competences of certain senior managers.

With investor uncertainty elevated by the debt crisis there was a widening of not only internal imbalances, but also external imbalances, among euro area countries. On the one hand, the more successful countries have a balance of payments current account surplus; on the other hand, troubled countries report rising deficits and at the same time face low competitiveness and economic contraction. The central issue of 2012 will be how to strike a balance between fiscal consolidation measures and economic growth. Looking at developments at the end of 2011 and beginning of 2012, it appears that financial market stability and further progress of the euro area will probably not be attainable without substantial support by the ECB, especially by its monetary policy.

March 2012

Jozef Makúch
Governor



Members of the NBS Bank Board in 2011
Seated (from the left): Jozef Makúch and Viliam Ostrožlík
Standing (from the left): Karol Mrva, Gabriela Láni Sedláková and Štefan Králik

The Bank Board of Národná banka Slovenska

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

The number of Bank Board members has been set at five since 1 December 2009, under Article 7 of the NBS Act. The five members include the Governor and two Deputy Governors.

The Governor and Deputy Governors 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 Slovak Government at the proposal of the NBS Governor.

The term of office of Bank Board members is five years, commencing as of the effective date of their appointment. There are no term limits for Bank Board members, but no one may serve as Governor or Deputy Governor for more than two terms.

Under transitional provisions of the NBS Act, effective from 1 December 2009 until the number of Bank Board members was reduced to five, the Bank Board consisted of the Governor, two Deputy Governors and all other members who were appointed to the Bank Board before 1 December 2009 and whose terms had not expired by that date.

The members of the Bank Board as **at 31 December 2011** 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 Láni Sedláková, Executive Director for information technology and premises.