



1 MACROECONOMIC DEVELOPMENTS

1.1 THE EXTERNAL ECONOMIC ENVIRONMENT

1.1.1 GLOBAL TRENDS IN OUTPUT AND PRICES

The global economy grew by 3.3% in 2014, at the same pace as in the previous year. There was, however, heterogeneity in growth rates across countries. Advanced economies saw economic activity accelerate, as they benefited mainly from growth-friendly domestic policies and the improving financial situation of households. In emerging economies, by contrast, growth slowed owing mainly to stricter lending conditions and the normalisation of US monetary policy. A further drag on global growth in 2014 was the geopolitical impact of the ongoing conflict between Russia and Ukraine. In the advanced world, US growth increased with support from an improving labour market situation as well as a revival of domestic demand. The UK, too, contributed positively to global growth, with its economy boosted mainly by private consumption and developments in the real estate market. After contracting in 2013, euro area GDP growth increased in 2014, albeit more modestly than growth rates in the majority of advanced countries. In Japan, tax hikes in April had a dampening effect on private consumption and were one reason that the country's economic growth remained flat in 2014. As for emerging economies, China reported a slowdown in what is, however, still a solid rate of GDP growth. China's growth was inhibited by a subdued property market, but with help from a package of stimulation measures and a pick-up in exports, it was ultimately close to the official target. Russia, too, had a negative impact on global activity, as its GDP growth slowed substantially owing to the conflict in Ukraine and limitations on trade. These geopolitical tensions to some extent affected also global trade growth, which fell to 3.1% in 2014, from 3.4% in 2013.

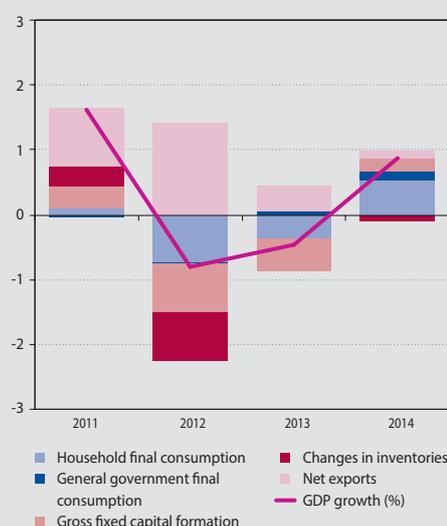
Average inflation in advanced economies was the same in 2014 as in 2013 (1.4%), although price growth slowed in the second half of the year. In the emerging world, average inflation fell by 0.5 percentage point, to 5.4%. Oil prices

had a major impact on consumer prices, and especially energy prices, in 2014. In the first half of the year oil prices remained relatively high amid threats to production in Iraq and Libya, as well as the mounting geopolitical risks associated with Ukraine. In the second half, however, oil prices began to plunge as oil inventories increased. The average oil price had fallen by almost half by the year-end, owing to some substantial increases in oil production (especially in the United States), to slackening demand in China, and to OPEC member countries maintaining production levels with the aim of preserving market shares. Non-energy commodity prices likewise had a downward trend in 2014. Metal prices declined, too, due to supply exceeding demand, as well as to the slowdown in China's growth. Agricultural commodity prices also decreased, because of good harvests and rising production.

1.1.2 EURO AREA ECONOMIC DEVELOPMENTS

The euro area economy grew by 0.9% after contracting in each of the previous two years (by 0.5% in 2013). Its growth was driven mainly by private consumption and, to a lesser extent, by government consumption and investment,

Chart 1 Contributions to annual GDP growth (p.p.)



Source: Eurostat.



benefiting from the accommodative monetary policy stance and consequent easing of lending conditions. Export growth was higher in 2014 than in the previous year, although the increase was almost wholly offset by import growth. Net exports therefore made only a moderate contribution to GDP growth. The economic recovery remained fragile, affected by tensions in the geopolitical situation. The upturn was reflected in the labour market, as the unemployment rate, albeit still high, edged down from 11.9 % in December 2013 to 11.3% in December 2014. The ongoing adjustments of balance sheets in the public sector, as well as fiscal consolidation in certain euro area countries, were reflected in government final consumption.

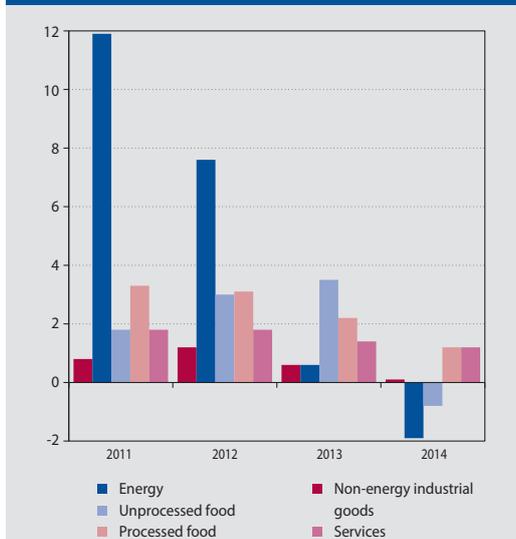
Annual average HICP inflation was 0.4 % in 2014, one percentage point lower than in the previous year. The annual inflation rate decreased throughout 2014 year and turned negative in December, at -0.2% (the rate in December 2013 was 0.8%). Core inflation (the HICP rate excluding energy and unprocessed food prices) also decelerated over the course of the year, recording an average rate of 0.9% (compared to 1.3% in 2013). The fall in headline inflation during 2014 was due mainly to the marked impact of declining commodity prices, owing to which

energy inflation became for more negative and food inflation decreased. Non-energy industrial goods inflation also slowed moderately. Services inflation followed a more stable course, but remained at low levels. Consumer demand stayed relatively low, and in an environment of strong competition helped keep inflation subdued.

The exchange rate of the euro against the US dollar weakened over the course of 2014. After a period of appreciation, the rate depreciated from May and this trend became more volatile in the last two months of the year. This pattern reflected the varying cyclical positions and monetary policy stances of the euro area and US, as well as outlooks for growth and inflation in the euro area. The euro's value against the dollar was 12% lower at the end of 2014 than at the end of 2013.

In response to developments, the ECB's Governing Council (GC) cut the key ECB interest rates on two occasions in 2014. In pursuing its price stability mandate, the GC also approved additional measures to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy.

Chart 2 Components of HICP inflation (annual percentage changes)



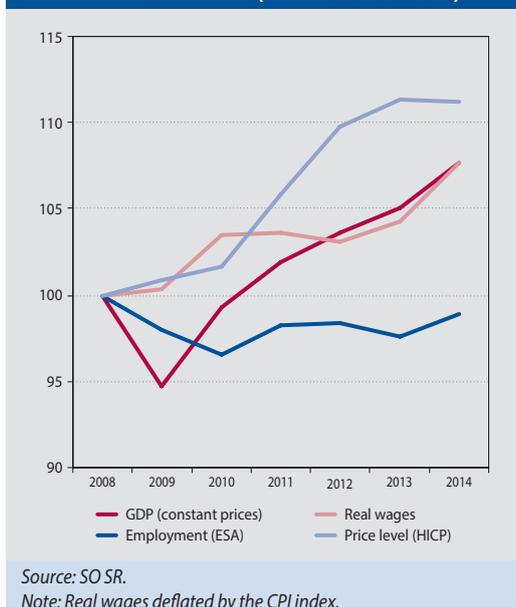
Source: Eurostat.

1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

Slovakia's economic growth increased to 2.4% in 2014, from 1.4% in the previous year, according to data from the Slovak Statistical Office (SO SR). This growth was attributable mainly to domestic demand, boosted mainly by investment, whose growth rate was even higher than that of consumption. External demand growth was lower than in 2013. Looking at GDP according to the production approach, its growth was largely accounted for by value added in the government, trade and industry sectors.

The balance of payments current account surplus stood at 0.1% of the GDP in 2014, which was significantly less than in 2013 (1.4%). The slowdown was caused primarily by the deteriorating income balance, as well as by a lower surplus in the services balance. The current trans-

Chart 3 Post-crisis performance of main economic indicators (index: 2008=100)



fers surplus increased moderately year-on-year, while the trade surplus remained unchanged.

Increasing GDP growth in 2014 had a positive effect on the labour market. The number of employed persons increased, and the unemployment rate declined. Employment grew in each quarter, and its rate of growth followed an increasing path. At the same time, unemployment fell at a steady pace during 2014, with the largest drop in the unemployment rate occurring towards the year-end. The number of hours worked increased after two years of decline, as labour demand picked up. Nominal annual wage growth reached its highest level for six years. Real wages increased at an even faster pace, given the zero inflation environment in 2014. Labour productivity growth fell in both nominal and real terms. For the first time since 2009, average wage growth exceeded nominal labour productivity growth. The relatively sharp growth in wages was reflected in unit labour costs.

Consumer price inflation averaged -0.1% in 2014. The marked annual drop in the price level was broadly based across all inflation components.

1.2.1 PRICE DEVELOPMENTS

CONSUMER PRICES

Inflation as measured by the Harmonised Index of Consumer Prices (HICP)

Average annual HICP inflation fell from 1.5% in 2013 to an all-time low of -0.1% in 2014. The rate turned negative owing mainly to a decrease in unprocessed food price prices. In addition, prices of services, non-energy industrial goods, and processed food increased more slowly in 2014 than in 2013, while the rate of decrease in energy prices became more pronounced. The fall in the price level in 2014 reflected also external factors (decreasing prices of oil and agricultural commodities) and administrative measures (rail fare adjustments and the impact of the cancellation of fees for the maintenance of mortgage loans accounts in mid-2013).

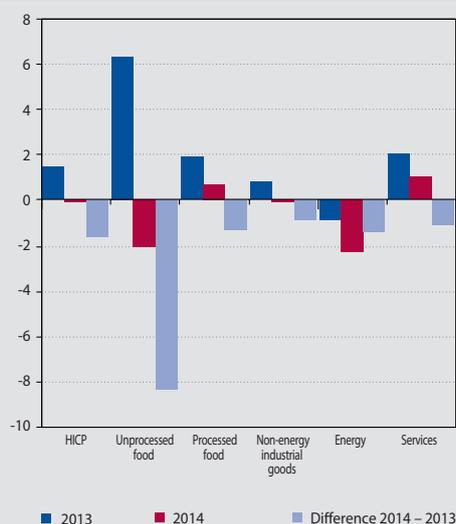
International electricity prices fell, with the result that household electricity prices decreased markedly. Electricity price inflation dropped from 0.4% in December 2013 to 0.0% in January 2014, hence contributing significantly to the HICP's rate of decrease. The second half of the year saw fuel price inflation begin to fall as a result of plummeting oil prices.

Owing to a second successive year of good harvests, annual food price inflation turned negative from April 2014 until the year-end. Its rate of decrease peaked in the third quarter and was moderated only partially in the fourth quarter by the base effect of a sharp drop in prices a year earlier.

Prices of non-energy industrial goods remained flat in 2014 (after rising by 0.8% in 2013) in an environment of low import price inflation and despite a gradual pick-up in household consumption (supported by real wage growth). Nevertheless, their annual rate of change followed an upward path, increasing gradually from -0.4% in January to 0.4% in December 2014. The overall slowdown in non-energy industrial goods inflation reflected lower annual rates of increase in non-durable goods (pharmaceutical products, goods used for regular maintenance and repair of dwellings)

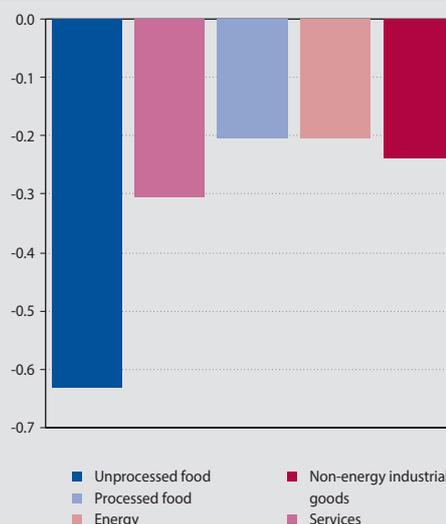


Chart 4 HICP inflation and its components (annual percentage changes)



Source: SO SR, NBS calculations.

Chart 5 Difference between HICP inflation in 2014 and 2013 broken down by component (p.p.)



Source: SO SR, NBS calculations.

and semi-durable goods (sports and recreational equipment, toys, image and sound carriers, books), as well as a more marked rate of decrease in prices of durable goods (sound recording and reproduction equipment, data processing equipment, motor vehicles). As for industrial goods, their prices are expected to have remained affected by structural changes (falling unit costs of manufacturing, technological progress, and the rapid expansion of internet sales which have made cross-border price comparisons simpler and consumer goods more affordable).

Services price inflation was lower in 2014 than in 2013, and its subdued rate in each year was caused mainly by administrative measures. In mid-2013 bank fees for the maintenance of mortgage loans accounts were cancelled and the downward impact of this step on services inflation continued in 2014. Another significant measure was the abolition of rail fares for students and pensioners in late 2014. The lower services inflation rate also reflected non-administered prices, despite increases in the real disposable income and financial consumption of households.

1.2.2 GROSS DOMESTIC PRODUCT

Slovakia's annual GDP growth at constant prices increased to 2.4% in 2014, from 1.4% in 2013, according to the SO SR's figures. The growth was driven by reviving domestic demand. GDP amounted to €75.2 billion, and its nominal growth (2.2%) was lower than the real rate (2.4%) owing to a decline in the general price level, expressed by the GDP

Chart 6 Real GDP (annual percentage changes)



Source: SO SR.

**Table 1 GDP from the production approach (index: same period a year earlier = 100, constant prices)**

	2013	2014				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
GDP	101.4	102.3	102.6	102.4	102.4	102.4
Gross output	99.4	105.2	102.1	100.6	99.1	101.7
Intermediate consumption	98.4	107.3	101.9	99.2	97.4	101.3
Value added	101.1	102.0	102.3	102.5	102.0	102.2
Net taxes on products ¹⁾	105.4	105.9	105.4	101.1	106.9	104.8

Source: SO SR.

1) Value added tax, excise tax, import tax, less subsidies.

deflator. Affected by falling consumer, producer, import and export prices, the GDP deflator fell year-on-year by 0.2% (after rising by 0.5% in 2013).

GDP BY THE PRODUCTION APPROACH

Looking at GDP from the production approach, real value added growth increased year-on-year to 2.2% (from 1.1% in 2013). The sectors whose value added growth made the largest contributions to overall GDP growth were public administration, trade and industry. By contrast, value added declined in construction (for a second year in a row) and agriculture.

GDP BY THE EXPENDITURE APPROACH

After two years of decline, domestic demand increased in 2014 (by 3.4%) with support from falling oil prices that boosted households' disposable income and firms' profits. Net exports, however, had a negative impact on GDP growth, as imports of goods and services increased year-on-year more than exports (by 5% as against

4.6%). Import growth, which was higher in 2014 than in 2013, was buoyed by the two components of domestic demand.

All components of domestic demand increased, with fixed investment recording the largest rise, spread across a broad range of sectors. It may well be that firms felt compelled to make investments after having deferred them for a lengthy period. The scope for investment increased towards the year-end, as falling oil prices reduced firms costs related to energy and intermediate consumption. Along with investment demand, consumption demand also contributed positively to GDP growth. Private consumption growth was based on households' disposable income, which rose owing to the improved labour market situation and decline in inflation. The inflation rate, which reflected mainly lower energy and food prices, allowed households to increase consumption spending on non-essential goods and services. Government consumption grew

Table 2 GDP from the expenditure approach (index: same period a year earlier = 100, constant prices)

	2013	2014				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
GDP	101.4	102.3	102.6	102.4	102.4	102.4
Final consumption:	100.0	103.3	103.1	102.0	102.6	102.7
Final consumption of households and non-profit institutions serving households	99.3	102.8	102.3	101.6	102.2	102.2
Final consumption of general government	102.4	104.7	105.6	103.3	104.0	104.4
Gross fixed capital formation	97.3	102.1	105.3	107.7	106.8	105.7
Exports of goods and services	105.2	112.4	104.9	101.6	100.3	104.6
Imports of goods and services	103.8	112.9	106.7	101.7	99.8	105.0

Source: SO SR.



twice as fast as private consumption, due mainly to employee compensation.

Exports were responsive to demand in Slovakia's trading partners, as they increased sharply at the beginning of the year and then at a more moderate pace. Annual export growth for 2014 as a whole was 4.6%. Among the causes of the slowdown in export growth were the stuttering of emerging Asian economies, the Russia-Ukraine conflict, and the slowdown of exports in neighbouring markets.

Nominal exports and imports of goods and services as a percentage of GDP fell year-on-year in 2014, owing primarily to a marked drop in export and import prices. The export ratio decreased by 1 p.p., to around 92%, and the import ratio by 0.7%, to 88%, hence the openness of the Slovak economy, measured by sum of these two ratios, fell by 1.7 p.p., to 180%.

1.2.3 THE LABOUR MARKET

The labour market situation improved during 2014, particularly in the second half of the year. This upturn stemmed mainly from the economy's recovery and a change in the composition of its growth. Whereas in previous years exports had been the main driver of GDP growth, in 2014 their contribution was not significant and domestic demand accounted for the bulk of growth. A broad swathe of sectors benefited from the pick-up in domestic demand, not just

those focused on exports. The average nominal wage increased, but given that unemployment remained high, the wage growth cannot be accounted for by aggregate labour demand exceeding supply. In some sectors, however, there was a shortage of labour.

EMPLOYMENT

Employment (according to ESA 2010) increased year-on-year in 2014, by 1.4%, after falling by 0.8% in the previous year. Employment growth accelerated from one quarter to the next, recording its highest rate in the fourth quarter. It is worth mentioning that employment growth over 2% was registered in only one quarter since 2008 (the second quarter of 2011). The number of hours worked increased by 0.9% in comparison with 2013. The rate of change in this indicator was positive for only the second year since 2008 (the other being 2011). The sectors accounting for most of the employment growth were services, industry, wholesale trade, retail trade, and the public sector. Employment in the construction sector recorded its most moderate rate of decline since 2011. Public sector employment¹ rose, by 1.8%, after falling for the previous three years. In central government and defence, employment increased by 1.4%, in education by 0.7%, and in health by 3.6%. According to the Labour Force Survey, the number of Slovak citizens working abroad in 2014 fell year-on-year by 1.8 % (or by 2,400 people), which marked a reversal of the trend observed since 2012.

Table 3 Labour market indicators

	2013	2014				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Nominal wages (index)	102.4	104.1	104.8	104.2	103.5	104.1
Real wages (index)	101.0	104.2	104.9	104.3	103.5	104.2
Nominal compensation per employee – ESA 2010 (index)	102.6	103.0	104.9	103.0	102.5	103.4
Labour productivity – GDP per employee (index, current prices)	102.8	101.1	100.5	100.8	100.6	100.8
Labour productivity – GDP per employee (index, constant prices)	102.2	101.6	101.1	100.9	100.3	101.0
Employment – ESA 2010 (index)	99.2	100.6	101.4	101.4	102.1	101.4
Unemployment rate – LFS ¹ (%)	14.2	14.1	13.2	12.9	12.6	13.2
Nominal unit labour costs (ULC) ²	100.3	101.3	103.7	102.1	102.2	102.3

Source: SO SR, NBS calculations.

1) LFS – Labour Force Survey.

2) Rate of compensation per employee growth at current prices to labour productivity growth (ESA 2010) at constant prices.

¹ Including also the health and education sectors.



UNEMPLOYMENT

The number of unemployed in 2014 decreased year-on-year by 7.1%, according to the Labour Force Survey. Consequently, the average annual unemployment rate fell by 1 percentage point, to 13.2%. The registered unemployment rate according to labour office figures averaged 12.8% in 2014, which was 1.3 percentage points lower than in the previous year.

WAGES AND LABOUR PRODUCTIVITY

The average monthly nominal wage in 2014 increased to €858, and its annual rate of growth accelerated to 4.1%. The sectors reporting the highest nominal wage growth were financial and insurance activities (7.9%), administration activities (7.2%), mining and quarrying (6.3%), and industry (5.7%). Sectors in which the average wage fell were other services (-2.6%), construction (-1.2%) and water supply (-1.0%). Since the price level decreased year-on-year, real wage growth exceeded nominal wage growth. Although there was a year-on-year increase in labour productivity (measured by GDP per person employed) in 2014, it was lower than in 2013. Real labour productivity growth was less than real wage growth. If this situation were to continue for a longer period and spread to export-oriented sectors, it could push up prices and threaten economic competitiveness. With real wage growing faster than real labour productivity, unit labour cost growth increased by 2.3%. The largest rises in unit labour costs were in agriculture, wholesale and retail trade, entertainment and recreation, and information and telecommunications.

1.2.4 FINANCIAL RESULTS

In 2014 the total profits of non-financial and financial corporations in Slovakia fell year-on-year by 0.7%, to €10,236.6 million (after declining by 0.5% in 2013), according to the SO SR's preliminary data. The drop was accounted for by profits of financial corporations, which decreased by 7%.

As for non-financial corporations, their overall profits increased by €59.4 million, to €8,488.8 million. That rise was attributable primarily to manufacturing industry, in particular to firms manufacturing transport equipment, metals, chemical products, and pharmaceutical products. Also contributing positively to profits

were the sectors of education, health services, social work activities, and arts, entertainment and recreation. The coke and refined petroleum products manufacturing sector reported an overall loss in 2014 after making a profit in 2013.

The total profit of the financial sector, excluding NBS, increased moderately in 2014, by €256.6 million to €1,648.4 million. The composition of this profit was, however, different from that in the previous year, since most of the growth was accounted for by insurance corporations, whose aggregate profit soared by 51.1% (after falling by 16.9% in 2013). The banking sector excluding NBS saw its total profit rise by 1.1% (27.7% in 2013). Banks' profits were boosted by increases in fee and interest income and in income from financial transactions, while they were negatively affected by an increase in funds set aside for provisions and reserves as well as by rising operating expenses. As for other financial intermediaries – including leasing companies, private health insurers, stock exchanges, and pension funds management companies – their aggregate profit grew by 18.5% in 2014 (26.0% in 2013).

1.2.5 BALANCE OF PAYMENTS

CURRENT ACCOUNT

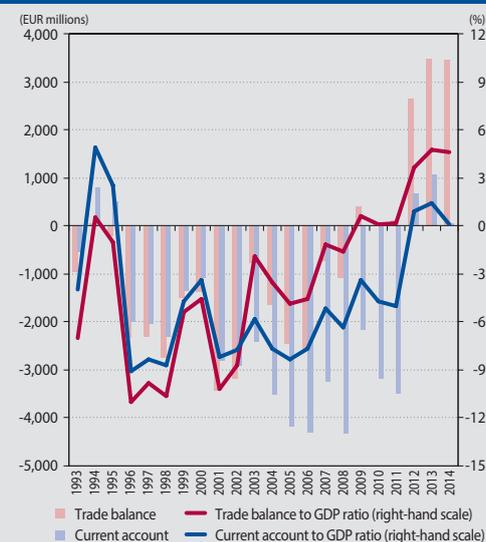
The current account surplus of Slovakia was €0.1 billion in 2014, far lower than in 2013. The

Table 4 The b.o.p. current account (EUR billions)

	2013	2014
Trade balance	3.5	3.5
Exports	63.5	64.0
Imports	60.0	60.5
Services balance	0.3	0.0
Income balance	-1.6	-2.6
of which: investment income	-3.0	-4.1
of which: reinvested earnings	-0.8	-0.9
Current transfers balance	-1.1	-0.8
Current account in total	1.1	0.1
Current account to GDP ratio (%)	1.4	0.1

Source: SO SR and NBS.

Chart 7 Current account and trade balance developments



Source: SO SR, NBS calculations.

Chart 8 Slovak exports and external demand (annual percentage changes, constant prices)



Source: Source: SO SR, ECB and NBS calculations.

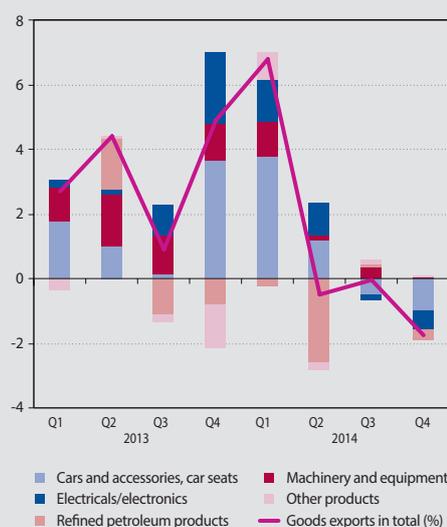
fall in the surplus was caused largely by outflows from the investment income account, in the form of higher dividend payments to foreign direct investors. The ratio of the current account surplus to GDP (at current prices) decreased by 1.3 percentage points to 0.1%.

The pace of growth in goods exports slowed gradually from the beginning of 2014, while for the year as a whole it was only slightly higher year-on-year. Export growth was lower than that of external demand. Except in the first quarter, Slovak exporters were losing shares in Slovakia's export markets.

In 2014, as in the previous year, car exports increased only slightly and the electrical/electronics industry reported the highest export growth. Exports in the refined petroleum products manufacturing sector were dampened by investment-related plant shutdowns. Looking at exports by destination country, the largest decline was in exports to the other Visegrad Four countries, in particular the Czech Republic. Exports to Russia, Ukraine and Asian markets also fell. These declines were offset by increasing exports to euro area countries.

Given the level of import intensity, the slowdown in exports translated into a marked drop in import growth. With exports and imports increasing at the same pace (0.7%), the trade surplus was virtually unchanged from the previous year.

Chart 9 Contributions of selected goods categories to annual rate of change in goods exports (p.p., current prices)



Source: SO SR, NBS calculations.

Chart 10 Contributions of selected export markets to annual rate of change in goods exports (p.p., current prices)


Source: SO SR, NBS calculations.

Table 5 The b.o.p. capital and financial account (EUR billions)

	2013	2014
Capital account	1.0	0.6
Direct investment	0.8	0.5
abroad	0.3	0.1
of which: equity capital	0.0	0.3
reinvested earnings	0.0	-0.1
in Slovakia	0.5	0.4
of which: equity capital	0.7	-0.1
reinvested earnings	0.7	1.0
Portfolio investment and financial derivatives	6.9	2.3
Other long-term investment	0.4	-0.4
Other short-term investment	-6.6	0.6
Capital and financial account in total	2.5	3.6

Source: NBS.

The services balance posted a lower surplus in 2014 than in the previous year, owing to adverse results in its main categories. In *other services* and *transportation* receipts fell, while in *travel* the increase in payments exceeded the increase in receipts. The deterioration in the income balance, as against 2013, was caused by higher dividend payments to foreign direct investors and, to a lesser extent, by a rise in interest payments. The current transfers deficit narrowed in 2014, from its level in 2013, mainly because receipts from EU funds increased at a time when contributions to the EU budget fell.

CAPITAL AND FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENTS

The surplus in the capital and financial account increased by €1.1 billion, to €3.6 billion.

In the *direct investment* category, the year-on-year fall in net inflow was related mainly to the asset side and, specifically, an increase in claims on direct investors. On the liability side, the moderate outflow of equity capital from Slovakia was offset by an increased inflow of other capital arising from the business activities of corporate entities. *Portfolio investment* recorded a net inflow owing mainly to funding

acquired through the issuance of government and corporate bonds. In both categories the inflow of debt securities was far lower than in 2013. In *other investment* there was a marked change from a net outflow in 2013 to a moderate inflow in 2014, based mainly on short-term financing operations in the NBS sector (repo transactions).

EXTERNAL DEBT OF SLOVAKIA

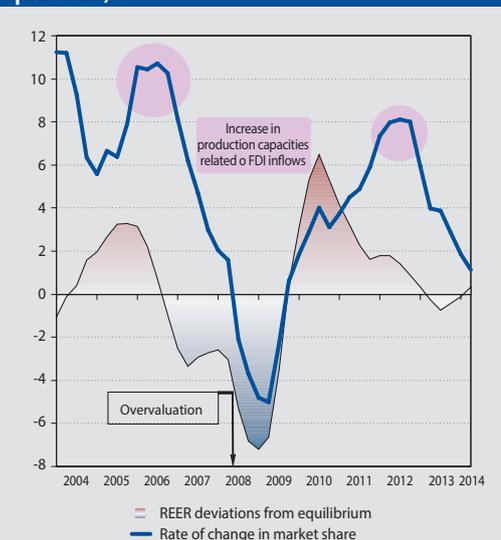
As seen in b.o.p. developments, Slovakia's external debt denominated in euro increased year-on-year by €6.5 billion, to €66.2 billion, and denominated in US dollars it decreased by USD 1.9 billion, to €80.4 billion. External liabilities of the Slovak Government and NBS increased by a substantial €4.0 billion over the year, owing to stronger demand for bonds and notes. According to preliminary figures, Slovakia's ratio of total gross external debt to GDP at current prices was 88.1% as at 31 December 2014, up by 5.4 percentage points from its level at the end of 2013 (82.7%). Over the same period, the ratio of short-term external debt to total gross external debt decreased by 0.2 p.p. to 30.1%. Debt per capital at the end of 2014 amounted to €12,262, representing a year-on-year increase of €1,211.

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES²

The nominal effective exchange rate (NEER) index appreciated year-on-year by an average of 1.2% in 2014. The largest positive contribution to that figure was made by appreciation against the Czech koruna (0.8 p.p.), since the Czech central bank, Česká národní banka, used weakening of the exchange rate (close to CZK 27 to the euro) as a further instrument for easing monetary conditions. Weakening of the Russian rouble, related to the conflict in Ukraine, added 0.6 p.p. to the NEER's appreciation. There were negative contributions to the NEER from depreciation against the South Korean won (-0.3 p.p.) and against the pound sterling (-0.2 p.p.).

Despite the NEER's appreciation, the real effective exchange rate (REER) index based on unit labour costs in manufacturing depreciated by 0.1% (after appreciating by 1.1% in 2013). This was caused by the negative inflation differential against Slovakia's most significant trading partners. The most negative differentials were against Russia (-7.3 p.p.), the Czech Republic (-2.8 p.p.), the United States (-2.6 p.p.) and Hungary (-2.3 p.p.). Taking into account the weights of the trading partners, the differentials that had the largest impact on the REER's depreciation were those against the Czech Republic and Germany (in each case -0.4 p.p.), and Russia (-0.3 p.p.). The price competitiveness of domestic firms in 2014 may have continued to be supported by an undervalued REER, since equilibrium growth of labour productivity was higher

Chart 11 Annual changes in the ULCM-based REER's deviation from equilibrium and the annual growth rate of market share (centred moving average for five quarters, p.p., and per cent)



Source: ECB, Eurostat, and NBS calculations.
Note: FDI – foreign direct investment.

in Slovakia than abroad, creating scope for sustainable moderate appreciation of the real exchange rate. The trend of increasing REER undervaluation observed in previous years came to a halt in 2014, as did the improving trend in Slovakia's trade balance. This may partly explain the decelerating rise in the share of Slovakia's exports in world trade.

2 EUROSYSTEM MONETARY POLICY

2.1 MONETARY POLICY OPERATIONS

The European Central Bank (ECB) implements euro area monetary policy through national central banks (NCBs) using several standard monetary policy instruments: open market operations, standing facilities, and minimum reserve requirements. Open market operations consist of main refinancing operations (MROs), longer-term refinancing operations (LTROs), fine-tuning operations (FTOs), and structural

operations (SOs). The standing facilities comprise the deposit facility (DF) and the marginal lending facility (MTF).

The divergence between the monetary policies of major world central banks became more pronounced during 2014. In the United States, the Federal Reserve concluded its asset purchase programme and sent signals of its intention to tighten monetary policy, whereas the ECB, amid falling prices and a lack of progress in boosting

² The methodology of the effective exchange rate calculation is published on the NBS website at: http://www.nbs.sk/_img/Documents/_Statistika/VybrMakroUkaz/EER/NEER_REER_Metodika.pdf