



FOREWORD

The year 2017 saw several positive developments. Global economic activity picked up significantly, supported by activity in both advanced and emerging market economies. A key driver of that growth was rising investment demand. In the euro area, GDP growth reached its highest level for ten years.

Although the Slovak economy did not expand markedly, it did maintain a stable growth rate of 3.4%. The largest contributor to GDP growth was domestic demand. An exceptionally favourable labour market situation was reflected in Slovak household consumption, which recorded its strongest growth of the post-crisis period. Consumer prices began to climb after three years of decline. The average annual inflation rate for 2017 stood at 1.4% and thus drew significantly closer to the average inflation rate in the euro area as whole (1.5%).

Euro area inflation was lower than the optimal rate for the economy and lower than the medium-term objective under the ECB's monetary policy. As a result, the ECB's Governing Council left the key ECB interest rates unchanged and decided to continue with its asset purchase programme (APP), part of the non-standard monetary policy toolkit. In response to the economic upturn, however, the Governing Council did make a notable adjustment to its forward guidance, with no information about a possible future cut in policy rates. At the same time, the Governing Council decided that the APP would continue at a reduced monthly pace. This may be seen as a significant juncture in the post-crisis development of the euro area's monetary policy.

In Slovakia, the benign macroeconomic situation and low interest rate environment were conducive to retail lending growth, which resulted in household indebtedness being higher here than in any other central or eastern European country. The upward path of macroeconomic indicators implied a reduction in the direct risks

to financial stability. On the other hand, the rapid rise in private sector leverage increased the vulnerability of households to any future economic downturn. In order to mitigate these risks, NBS responded by raising the countercyclical capital buffer rate and by laying down prudential requirements for the provision of housing loans; it later stipulated minimum requirements for consumer loans, too.

One of the central bank's key tasks is to ensure the smooth functioning of payment and settlement systems. As regards TARGET2-SK, the Slovak component system of the ECB's TARGET2 settlement system, there was a break in trend in 2017 when both the number and value of transactions processed by the system were lower compared with 2016. A significant TARGET2-related event in 2017 was the migration of Slovakia's two central securities depositories and their members, as well as NBS, to TARGET2-Securities, a new technical platform ensuring smooth settlement of cross-border securities transactions. The Slovak Interbank Payment System (SIPS) also experienced change in 2017, as NBS put a new, architecturally streamlined version of this retail payment system into operation in November. Both the number and value of transactions that SIPS processed in 2017 were higher year on year.

Another of the central bank's tasks is to regulate, coordinate and oversee currency circulation in Slovakia. The difference between the value of euro cash that NBS put into circulation and withdrew from circulation (the cumulative net issuance) between 1 January 2009, when Slovakia adopted the euro, and the end of 2017 exceeded €12 billion.

In value terms, banknotes make up far more of the net issuance than do coins, but in terms of the number of currency units, the positions are reversed. In accordance with its tasks as a member of the Eurosystem, NBS commissioned the production of €50 banknotes of the new ES2

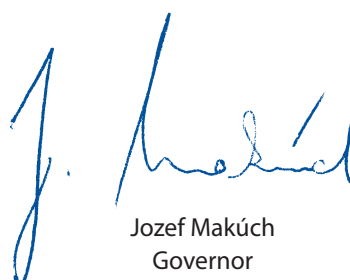




series and euro circulation coins of several denominations in 2017. It also issued four precious-metal collector coins, as well as a €2 commemorative coin featuring the 550th anniversary of the establishment of the first university in the territory which is now Slovakia.

Národná banka Slovenska reported a net profit of €127 million for 2017. As in the previous year, the largest component of the profit was interest income on bonds. Under a decision of the NBS Bank Board, the entire 2017 profit was set off against losses from previous years.

March 2018



Jozef Makúch
Governor