



THE INTERNATIONAL CONFERENCE "10 YEARS OF THE EURO IN SLOVAKIA"

This article looks back at the contributions of participants at an international conference hosted by Národná banka Slovenska in Bratislava on 11 January 2019. Entitled "10 years of the Euro in Slovakia", the conference focused on Slovakia's experience with the euro after ten years of euro area membership and on the future direction of the euro area. It was divided into two discussion panels. The first panel addressed macroeconomic aspects of euro area membership and began with a keynote speech by Yves Mersch, a member of the ECB's Executive Board. The other panellists included Elena Kohútiková (VÚB Bank, Slovakia), Joaquín Almunia (Centre for European Policy Studies), Biswajit Banerjee (Slovak Finance Ministry), Ewald Nowotny (Oesterreichische Nationalbank), Ľudovít Ódor (NBS), and Athanasios Orphanides (Massachusetts Institute of Technology). The second panel discussion was devoted to the euro's impact on different sectors of the Slovak economy. The keynote speech was given by Slovak Finance Minister Peter Kažimír, who was joined on the panel by Ivan Šramko (Council for Budget Responsibility), Igor Barát (former government plenipotentiary for the introduction of the euro in Slovakia), Júlia Čillíková (NBS), Peter Mihók (Slovak Chamber of Commerce and Industry), and Regina Ovesny-Straka (Volksbank Steiermark). (p. 2)

SPEECH OF YVES MERSCH, ECB EXECUTIVE BOARD MEMBER, AT THE INTERNATIONAL CONFERENCE "10 YEARS OF THE EURO IN SLOVAKIA"

In his speech to the conference, Mr Mersch noted that the tenth anniversary of the euro in Slovakia was a double anniversary as it coincided with twenty years of the euro. According to him, "EU accession and the adoption of the euro can create considerable opportunities – opportunities that can be seized or wasted". Slovakia, he said, "is a positive example of a country that has seized the opportunities of European integration through fundamental institutional reforms" and "has achieved an impressive real convergence of living standards towards the EU average". He pointed out, however, that "continued efforts in the pursuit of institutional quality and good governance are needed [...] in order to reap lasting benefits from Monetary Union", adding that "it cannot be taken for granted that Slovakia's growth model will continue to deliver strong growth". Regarding the importance of maintaining the reform effort, he recommended in particular "further improving the business environment and judicial system" and developing "new strategies focused on domestic innovation". (p. 6)

TEN YEARS OF EURO CASH IN CIRCULATION IN SLOVAKIA

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On 1 January 2019 Slovakia marked the 10th anniversary of its adoption of the euro currency. This article begins by describing the euro adoption process, from the preparatory work, through the frontloading of the new currency and withdrawal of the Slovak koruna from circulation, to the current situation. According to the results of a recent Eurobarometer survey (linked to in the article), a large majority of Slovaks consider their country's adoption of the euro to have been "a good thing". The article goes on to provide an overview of the commemorative and collector coins that Slovakia issued during the first ten years of its euro area membership, as well as information about the recovery of euro counterfeits in that period. Given the volume of euro cash in circulation, the chances of receiving a counterfeit banknote or coin are relatively small. In its penultimate section, the article provides a selection of conclusions from ECB studies on the use of euro cash in the euro area, and in the final section it reflects briefly on the future of cash in society. (p. 8)

ESSAYS ON MONETARY POLICY TRANSMISSION

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This article provides a non-technical summary of five papers that comprise the author's dissertation. The papers empirically investigate topics such as monetary policy effects on prices, habit formation in consumption, nowcasting the economy, and real-time data properties of macro aggregates, which all can be linked to the monetary policy transmission mechanism and therefore could be of great interest to central bankers. The first three papers use meta-analysis as a main tool to systematically analyse empirical literature on the effects of the monetary policy transmission mechanism. The final two papers tackle real-time data properties and the ability to forecast the current state of the economy in real time. (p. 16)

THE EFFECT OF FISCAL RULES ON FISCAL POLICY

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Fiscal rules play an important role in supporting fiscal sustainability, responsibility and credibility. Furthermore, by their impact on fiscal aggregates, these rules may significantly affect the cyclical stance of fiscal policy. This article analyses the relationship between, on the one hand, the cyclical behaviour of government consumption and investment expenditure, and, on the other hand, fiscal rules and fiscal space. The analysis is based on a dynamic panel model estimated using a GMM technique on data for EU28 countries, with the fiscal rule index interacting with GDP growth. The result shows that the countercyclicality of government consumption and investment increases with improvement in the quality of fiscal rules as represented by the fiscal rule index. It is also found that fiscal rules are effective in reducing the procyclicality of government consumption when fiscal space is limited. (p. 21)

LEADING INDICATOR MODELS FOR SLOVAKIA – APPLYING EMPIRICAL AND THEORETICAL APPROACHES

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For forecasting Slovakia's real gross domestic product, several econometric models using business cycle leading indicators have been proposed. To interpret economic developments, the author estimates a structural vector-autoregression (SVAR) model that is embedded with leading indicators and allows identification of demand and supply shocks. The forecasting ability of the SVAR model is compared with econometric models in the context of how the business cycle is understood, including a vector-autoregression model and dynamic factor model. Compared with alternative models, the SVAR model produces the least biased and most accurate forecasts. According to the SVAR model results for the years from 2002 to 2016 in Slovakia, supply shocks are the principal cause of fluctuations in aggregate economic activity, while persistent demand shocks play a minor role. (p. 25)

MACROECONOMIC PROJECTIONS FOR SLOVAKIA

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Partly via its impact on Slovakia's trading partners, the global economic slowdown is expected to have a moderately dampening effect on Slovak economic growth. The positive supply shock of production capacity expansion is expected to keep annual GDP growth at around 4% in 2019 and 2020. As the impact of this shock fades, GDP growth is projected to fall to 3% in 2021. Employment is expected to continue rising, and consequently the unemployment rate should fall to historically low levels. The labour market is expected to tighten further and put upward pressure on wage growth. The annual inflation rate is envisaged to remain at around 2.6% throughout the projection period, reflecting both demand-pull and cost-push pressures. (p. 30)