

Monetary Developments



2 Monetary Developments

2.1 Introduction

In 2006 the Slovak economy developed in an environment of relatively robust growth of the global economy. Its growth accelerated somewhat in comparison with 2005, to approximately the level of 2004. Global prices followed a relatively stable course in 2006 and inflation remained comparatively low. Despite the elevated levels of oil and industrial commodity prices on the world markets, this factor had no profound upward effect on price levels in the world and posed no threat to global economic growth. From the perspective of the global economy, an important role was played by the robust growth in emerging Asian economies and other emerging countries. A revival in economic growth, though at lower growth levels than in the emerging regions, was recorded in the euro area. Economic growth also accelerated somewhat in the United States, despite market concerns about a possible slowdown in the economy. They were mainly related to the uncertainty about real estate market developments with a possible impact on final consumption in the household sector, interest rate growth, and global imbalances. After a long period of stagnancy, the Japanese economy also showed signs of revival, mainly in the form of export growth. This was connected with the end of the deflation period and the modest price increase, which points to a gradual economic recovery. The high oil and industrial commodity prices in 2006 contributed to the accelerating economic growth in Russia, the Middle East, and Latin America. After the price culmination in the middle of 2006, the last quarter saw a certain fall in global oil prices, to the level of the end of 2005. Thus, oil prices had a favourable effect on global inflation in the second half of 2006.

The favourable macroeconomic developments created good conditions for the progress of the Slovak economy, whose growth was supported by strong foreign direct investments. Rising oil prices in the first half of 2006 posed an increased risk to inflation development in the SR. This affected the implementation of NBS monetary policy in 2006, whose primary task was to continue taking necessary measures to meet the country's inflation targets and for creating conditions for fulfilling the Maastricht inflation and exchange rate criteria. The basic anchor of monetary policy was, in line with the inflation-targeting strategy

under the conditions of ERM II, the setting of target figures for future inflation as measured by the Harmonised Index of Consumer Prices (HICP). In line with the obligations arising from EU membership and the goal to create conditions for entry into the euro area, consistently with the government's commitment to reduce the fiscal deficit, the Národná banka Slovenska set the year-on-year inflation target below 2.5% for December 2006 and below 2% at end-2007 and end-2008 in its Monetary Programme for the period 2006-08, in order to meet the Maastricht criteria for the average 12-month inflation rate.

Inflation as measured by the Harmonised Index of Consumer Prices (HICP) recorded higher values than in 2005 throughout 2006. The acceleration of inflation and consequent exceeding of the inflation target in 2006 were mainly caused by higher-than-expected increases in energy and food prices. Energy prices were largely determined by commodity price developments on the world markets, which subsequently passed through into regulated prices and fuel prices. In addition to the poor harvest, food prices were influenced by an increase in the excise duty on cigarettes. These factors belong to the exemptions from the inflation target, which are defined in the Monetary Programme of the NBS for the Period until 2008 and as such are outside the domain of the central bank. Hence, the NBS focused first and foremost on the dampening of the effects of secondary factors, especially regulated price increases, on other components of the consumer basket.

The development of the real economy in 2006 was characterised by strong year-on-year dynamics. Looking at the two halves of the year, real growth accelerated gradually in the second half. The structure of economic growth in 2006 confirms that the accelerated GDP creation was mainly caused by an increase in the production capacity of the economy, particularly in sectors with foreign direct investment inflows. The expansion of production capacities and production activities, especially in the automotive and electronics industries, was reflected in the growing export performance of the economy, when, unlike in 2005, net exports also contributed to the dynamic economic growth. On the supply side of the economy, the accelerated GDP growth was influenced by



the development of the value added creation in all economic sectors, mainly in manufacturing, trade, and electricity, gas, and water supply. In terms of use, the structure of economic growth was influenced by both foreign and domestic demand, while foreign demand showed three times stronger dynamics than domestic demand. Domestic demand growth was mainly stimulated by faster growth in investment demand, which was mainly produced by non-financial corporations through the purchase of new technological equipment. In 2006 final consumption was only slightly higher than in 2005, due to growth in general government final consumption in the first half of 2006. Household final consumption was stable during 2006 and its growth was largely stimulated by wage developments, employment growth, and the utilisation of credit resources.

The relatively dynamic economic growth in 2006 was also reflected in an increase in employment, a decrease in the number of unemployed persons, labour productivity growth, and an improvement in the financial results (profits) of corporations. The average monthly nominal wage continued to grow in 2006, but its dynamics weakened in comparison with the same period a year earlier. Such development occurred in spite of acceleration in labour productivity growth in the economy, which is mainly indicated by an increase in the gross operating surplus, which should be realised in the form of dividends paid to shareholders and/or reinvested. The slower nominal wage growth, coupled with a higher average inflation rate than a year earlier, was also reflected in the slower pace of real wage growth. In 2006 the dynamics of real labour productivity exceeded the dynamics of real wage growth, representing an upturn compared to 2005.

A deficit trend of the balance of payments on current account continued in 2006, when all its basic components, except for the balance of services, recorded certain deterioration in comparison with 2005. The faster growth in the exports of goods and services in comparison with their imports was reflected in the improved ratio between export performance and import intensity, and owing to the dynamic export and import growth, the openness of the Slovak economy widened. Exports showed strong dynamics throughout 2006 and recorded increases in a wide spectrum of commodities in all basic categories of goods, while the acceleration was mainly caused by exports of the automotive and electronics industries (the exports of automobiles and television sets). The deepening of the balance of trade deficit in 2006 was also influenced by machine imports, represented by investments into the expansion of production capacities, mainly in the automotive industry.

The exchange rate policy was conducted under the exchange rate mechanism II (ERM II). The exchange

rate of the Slovak koruna followed an appreciating trend until the end of March, then stagnated until May, when it started to depreciate back to the central parity level. This development was not a result of change in the economic fundamentals, but was caused by developments in the neighbouring currencies and the uncertainty resulting from domestic political developments. To moderate the volatility of the exchange rate, the NBS conducted foreign exchange interventions at the end of June and during July. In connection with the stable macroeconomic environment, the continuing fiscal consolidation, and the improving results of the real economy, the Slovak koruna showed a gradually appreciating tendency from August 2006.

Monetary policy operations focused on the achievement of medium-term inflation targets and the fulfilment of the Maastricht inflation criteria throughout 2006. The accelerating dynamics of GDP growth and the associated increase in output, receipts, and labour productivity pointed to a possibility of faster wage growth and the occurrence of inflationary pressures. Inflationary effects were also exerted by the rising oil prices, regulated prices, and goods prices. As a consequence of the identified upside risks to price stability, the NBS tightened its monetary policy through interest rate adjustments in May, July, and September 2006. In total, the NBS increased its key interest rates by 1.75 percentage points. The key interest rate increases passed through into money market rates, (both short-term and long-term) and their developments reflected the increases in the key interest rates throughout the year.

Despite the rise in interest rates, bank lending activities strengthened in 2006, mainly in relation to the private sector. The dynamics of lending to households slowed somewhat as a consequence of strong credit growth in the previous year. In 2006, as in the previous year, households used credit resources for long-term investment in particular. In terms of structure, loans to households were still dominated by loans for house purchases. The growth in household loans was also reflected in their growing indebtedness. This development was connected with the process of real convergence and was also observed in the other new EU Member States. In comparison with the euro area and V4 countries, the lowest level of household indebtedness was recorded in Slovakia. The non-financial corporations sector witnessed less dynamic bank lending. In terms of purpose, the credit expansion was mostly concentrated in investment loans and real estate loans.

Macroeconomic developments in 2006 can be considered to be favourable; they were determined with the actual trends in the domestic economy and the external environment. By pursuing a cautious monetary policy aimed at eliminating the potential risk of

overheating of economy, the NBS in 2006 focused its efforts on fulfilment of the convergence criteria and its inflation targets in particular. The NBS will continue in these efforts and thus contribute to the creation of conditions for the adoption of the single European currency in 2009.

2.2 Economic developments

2.2.1 Price developments

Inflation as measured by the Harmonised Index of Consumer Prices

Consumer prices, expressed in terms of the Harmonised Index of Consumer Prices (HICP), had increased by 3.7% by the end of December 2006, representing an expected slowdown in dynamics in comparison with the end of 2005 (of 0.2 of a percentage point). The average inflation rate reached 4.3% in 2006 (2.8% in 2005), with the prices of goods and services rising by 4.6% and 3.5% respectively. The year-on-year rate of core inflation (overall inflation, excluding energy and unprocessed food prices) averaged 2.1% in 2006 and was 0.4 of a percentage points higher than in the previous year.

In its Monetary Programme for 2005–2008 of December 2004, the Národná banka Slovenska defined its monetary policy as inflation targeting under the conditions of ERM II. The main anchor of monetary policy became the setting of an inflation target. For December 2005, the year-on-year inflation rate was set at 3.5% (± 0.5 of a percentage point). The targeted inflation for the period 2006–08 was set below 2.5% for the end of 2006 and below 2% for end-2007 and

end-2008. The NBS also defined exemptions from achieving the inflation target. In December 2005, the actual year-on-year inflation rate stood at 3.9%, which was within the limits defined in the monetary programme. In December 2006, however, the actual inflation rate reached 3.7%, which was 1.2 percentage points more than the target figure.

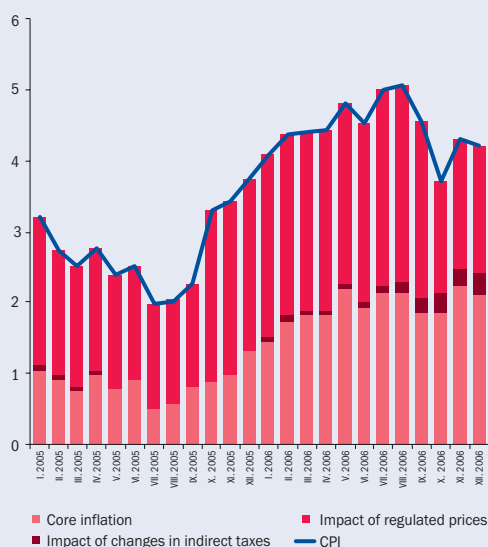
The acceleration of inflation and the exceeding of the inflation target were mainly caused by higher-than-expected increases in energy and food prices. Energy prices were affected by a marked increase in regulated prices, resulting from commodity price developments on the world markets, when the price of oil in Slovak koruna reached a year-on-year growth rate of 40% in 2006, compared with the estimated 5% in the Monetary Programme for the Period until 2008, where the inflation target was set. Food prices were affected in 2006 by the poorer-than-expected harvest, accompanied by an increase in the excise duty on cigarettes, though the monetary programme predicted such tax increases for 2007–2008. The year-on-year rate of increase in non-energy industrial goods prices was somewhat faster and was caused by steeper regulated price increases in health services (pharmaceuticals) during 2006.

The above stated factors resulted from commodity price developments on the world markets in the form of increased regulated energy prices and increased regulated prices in health services, as well as from increased excise duties on cigarettes and the climatic conditions (bad harvest). These factors belong to the exemptions from the inflation target, which are exactly defined in the Monetary Programme of the NBS for the Period until 2008 and as such are out of influence of NBS monetary policy. Hence, the NBS focused first

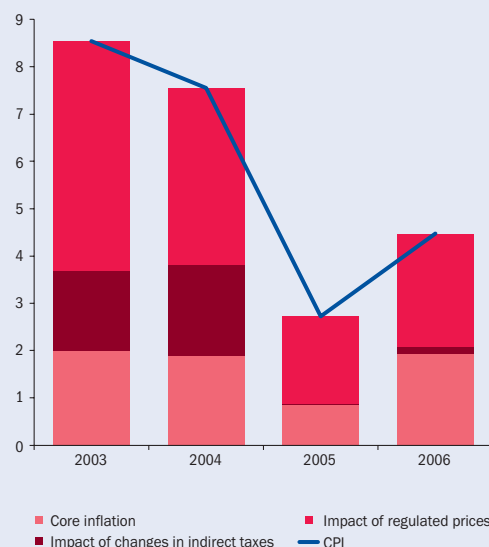
Table 2 **Consumer price developments in terms of the HICP (average for the period)**
(year-on-year changes in %)

	2005	2006				
		Q1	Q2	Q3	4Q	Year
Total	2.8	4.2	4.6	4.8	3.5	4.3
Goods	1.6	4.5	5.1	5.3	3.7	4.6
Industrial goods	3.0	6.9	7.0	6.7	3.6	6.0
Non-energy industrial goods	-0.7	-0.3	0.4	1.1	1.1	0.6
Energy	8.2	16.5	15.7	14.1	6.7	13.1
Foodstuffs	-0.7	0.5	2.1	2.7	3.8	2.3
Processed food (including alcohol and tobacco)	-1.7	-0.2	0.7	1.9	3.2	1.4
Unprocessed food	1.1	2.1	4.7	4.3	5.1	4.0
Services	5.5	3.7	3.5	3.9	3.1	3.5
Core inflation (excluding energy and unprocessed food prices)	1.7	1.5	1.9	2.6	2.4	2.1
Total, excluding energy	1.6	1.6	2.1	2.7	2.7	2.3

Source: NBS calculations based on data from the Statistical Office of the SR.

**Chart 25 Structure of CPI inflation (percentage points)**

Source: Statistical Office of the SR and NBS calculations.

Chart 26 Changes in the structure of CPI inflation (percentage points)

Source: Statistical Office of the SR and NBS calculations.

and foremost on the mitigation and/or elimination of the impact of second-round factors, especially regulated price increases, in order to prevent price contagion from spreading to other components of the consumer basket.

Goods

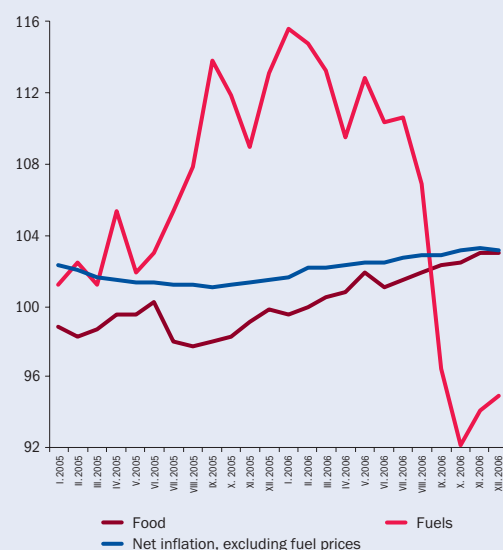
As in previous years, the increase in goods prices in 2006 was stimulated by energy prices. The most significant increases took place in regulated prices (electricity, gas, and other energy prices, which rose by an average of 14.9%) and fuel prices, which were on average 5.5% higher than in 2005. The prices of non-energy industrial goods increased during the year by an average of 0.6%, while the year-on-year rate of increase gradually accelerated over this period. Within the structure of this sub-aggregate, the steepest increases occurred in the prices of non-durable industrial goods (an average of 4.5%), while the prices of durable industrial goods dropped by 5.5%. Food prices rose by an average of 2.3%, due to increases in both processed and unprocessed food prices (1.4% and 4.0% respectively).

Services

In services, the most rapid increases were recorded in prices for services related to housing (an average of 5.8%) and prices for other services (6.3%). The only category of services to record a price fall was post and telecommunications, where prices dropped during the year by an average of 1.1%.

Inflation as measured by the national Consumer Price Index

In 2006 consumer prices increased more dynamically than in 2005, with the year-on-year inflation rate expressed in terms of the Consumer Price Index (CPI) reaching 4.5% on average (compared with 2.7% in 2005). In December 2006, consumer prices recorded a year-on-year rise of 4.2% (compared with 3.7% in December 2005).

Chart 27 Year-on-year changes in the prices of core inflation components (year-on-year growth in %)

Source: Statistical Office of the SR.

Table 3 Consumer price developments		(year-on-year change)					
	2005		2006				
	Dec.	Year	Mar.	June	Sep.	Dec.	Year
Total in %	3.7	2.7	4.5	4.6	4.6	4.2	4.5
Regulated prices in %	11.1	8.2	11.2	11.3	11.0	7.5	10.5
Share of total in percentage points ¹⁾	2.44	1.84	2.55	2.53	2.48	1.76	2.37
Impact of changes in indirect taxes on non-regulated prices – Share of total in percentage points	0.00	0.03	0.08	0.08	0.26	0.31	0.15
Core inflation in %	1.7	1.1	2.4	2.5	2.4	2.7	2.5
Share of total in percentage points ¹⁾	1.29	0.86	1.82	1.93	1.83	2.12	1.93
of which:							
Food prices in %	-0.2	-1.2	0.5	1.0	2.4	3.0	1.5
Share of total in percentage points ¹⁾	-0.03	-0.22	0.07	0.14	0.38	0.46	0.22
Tradable goods in % ¹⁾	-0.2	-2.0	0.3	0.4	-1.0	-1.0	-0.2
Share of total in percentage points ¹⁾	-0.06	-0.36	0.09	0.14	-0.33	-0.32	-0.05
Tradable goods, excluding fuels in % ¹⁾	-1.7	-2.0	-1.3	-0.7	-0.5	-0.5	-0.8
Share of total in percentage points ¹⁾	-0.53	-0.61	-0.38	-0.22	-0.16	-0.15	-0.25
Fuels in %	13.2	6.3	13.3	10.4	-3.5	-5.1	6.0
Share of total in percentage points ¹⁾	0.47	0.25	0.47	0.36	-0.16	-0.17	0.20
Market services in % ¹⁾	5.1	6.0	6.2	6.1	6.6	7.3	6.5
Share of total in percentage points ¹⁾	1.37	1.43	1.66	1.64	1.78	1.98	1.75
Net inflation (excluding the impact of changes in indirect taxes)	2.1	1.8	2.9	2.9	2.4	2.7	2.8
Share of total in percentage points ¹⁾	1.32	0.95	1.75	1.79	1.46	1.65	1.71
Net inflation, excluding fuels (excluding the impact of changes in indirect taxes) in %	1.5	1.5	2.2	2.5	2.8	3.2	2.6
Share of total in percentage points ¹⁾	0.84	0.74	1.28	1.42	1.62	1.83	1.50

Source: Statistical Office of the SR.
1) NBS calculations based on data from the Statistical Office of the SR.

The acceleration in the year-on-year rate of consumer price increase in 2006 was caused by an increase in price dynamics in most of the basic consumer basket categories.

Price levels in 2006 were, as in previous years, mainly affected by adjustments to regulated prices. On average, administrative measures (changes in regulated prices) accounted for approximately more than 50% of the overall price increase in 2006. The accelerating increases in regulated prices were probably also reflected in the second-round effects of prices for market services, whose year-on-year dynamics gradually accelerated during the year. The prices of tradable goods recorded a slowdown in the year-on-year rate of decline.

Regulated prices

One of the determining factors in consumer price developments was, as in previous years, the implementation of administrative measures in the area of

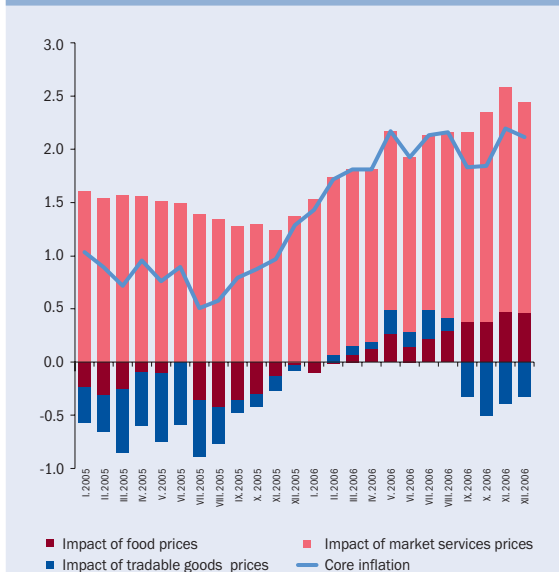
regulated prices. The year-on-year dynamics of regulated prices reached an average of 10.5% in 2006 (compared with 8.2% in 2005). January 2006 saw increases in regulated prices for electricity, gas, heat, water, sewage disposal, and health services. Price levels also increased during the year for transport and education. The price of heat was raised with effect from October and that of gas from November.

Changes in indirect taxes

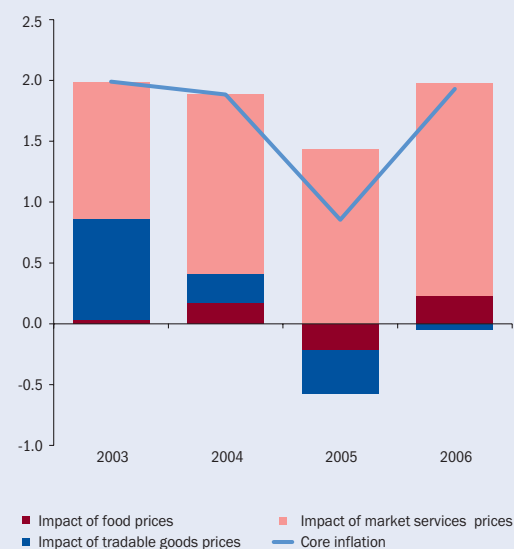
Indirect tax rates were modified in 2006. In the first few months, year-on-year price dynamics were affected by an increase in the excise duty on alcohol, followed by an increase in the excise duty on cigarettes in August.

Core inflation

In 2006 core inflation reached an average of 2.5%, representing a rise of 0.8 of a percentage point in

**Chart 28 Structure of the 12-month core inflation rate (percentage points)**

Source: Statistical Office of the SR and NBS calculations.

Chart 29 Changes in the structure of the 12-month core inflation rate (percentage points)

Source: Statistical Office of the SR and NBS calculations.

comparison with the previous year. In December 2006, the year-on-year rate of core inflation stood at 2.7% (compared with 1.7% in December 2005).

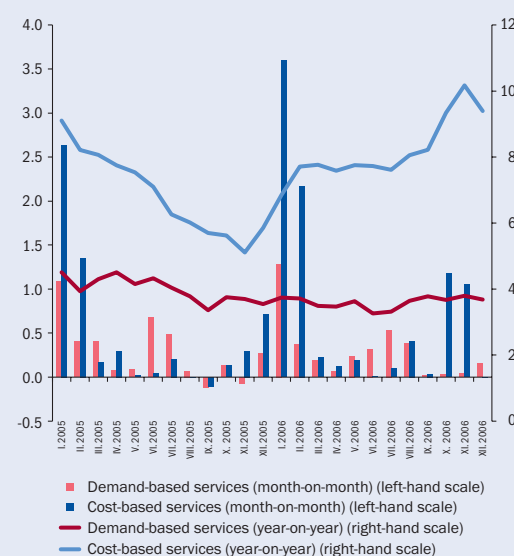
Within the basic structure of core inflation, prices for market services were the determining factor in the price increase (making the most significant contribution to core inflation), for they probably reflected the second-round effects of regulated price increases (growth in prices for services related to housing).

Food prices, as a component of core inflation, recorded a gradual acceleration in year-on-year dynamics throughout the year. This development was a reflection of the gradual increase in the dynamics of bread and pastry prices, vegetable prices (mainly potatoes), and a slowdown in the year-on-year decline in meat prices.

Core inflation was dampened by the prices of tradable goods, which dropped year-on-year by an average of 0.2% in 2006. The prices of tradable goods excluding fuels fell by an average of 0.8% during 2006. Thus, the pace of price fall slowed in comparison with the previous year. An upward effect on tradable goods prices in the first half of the year was exerted by fuel prices, which, however, acted as a disinflationary factor in the second half. They reacted to changes in oil prices and the exchange rate of the koruna against the dollar. Fuel prices recorded an average year-on-year rate of increase of 6.0%.

The year-on-year dynamics of prices for market services accelerated during the year, due primarily to domestic cost factors. The acceleration was probably

a reflection of regulated price increases, mainly in heat and gas prices at the beginning and end of 2006. Prices for market services recorded an average year-on-year increase of 6.5%, compared with 6.0% in 2005. The developments in services prices showed no signs of excessive demand-based pressures, when the steepest year-on-year increase occurred during the year in prices for services related to housing. The year-on-year dynamics of prices for demand-based services fluctuated at roughly the same level throughout 2006.

Chart 30 Prices for cost-based and demand-based market services (year-on-year growth in %)

Source: Statistical Office of the SR and NBS calculations.

Table 4 Year-on-year developments in producer prices (average for the period) (%)

	2005	2006				
		Q1	Q2	Q3	Q4	Year
Industrial producer prices	4.7	9.5	9.6	8.4	6.1	8.4
Raw materials prices	6.0	43.0	47.2	48.6	19.2	38.4
Manufacturing products prices	2.1	2.1	2.5	2.6	1.2	2.1
Prices of electricity, gas, steam, and hot water	8.3	17.2	16.4	13.6	11.2	14.5
Construction prices	4.3	3.8	3.8	4.0	4.0	3.9
Building materials prices	4.4	0.9	1.8	3.9	5.3	3.0
Agricultural products prices	-2.4	-1.7	-1.3	1.3	-0.3	-0.2
Prices of plant products	-10.8	-11.6	-6.8	6.5	0.3	1.1
Prices of animal products	1.4	0.3	-0.8	-1.8	-0.5	-0.7

Source: Statistical Office of the SR.

Producer prices

Producer price developments in 2006 were affected by several factors, the most important being a marked increase in the prices of refined oil products in the first eight months and the related rise in energy prices. In May, producer prices started to reflect the dampening effect of the Slovak koruna's gradual appreciation vis-à-vis the US dollar. The downward effect on food prices of competition among retail chains weakened in the course of 2006. As a result of these factors, the dynamics of industrial producer prices increased, while agricultural prices recorded smaller decreases than in the previous year. Prices for construction work and building materials increased at a slower rate than a year earlier.

Industrial producer prices

The faster year-on-year rate of increase in industrial producer prices in 2006 was mainly a result of external cost factors. The oil-price factor, which culminated in August, caused steeper year-on-year increases in electricity, gas, steam, and hot water prices than a year earlier (an average of 14.5% in 2006, compared with 8.3% in 2005). The prices of manufacturing products rose in 2006 to the same extent as in the past year. Raw materials prices continued to increase strongly until October 2006, but had no substantial impact on the level of industrial producer prices, due to their small weight.

Energy price developments in 2006 were mostly influenced by increases in prices for gas production and the distribution of gaseous fuels by pipeline (an average of 22.7%, compared with 21.6% in 2005), prices for the production and distribution of steam and hot water (an average of 18.4%, compared with 7.8% in 2005), and prices for the generation and supply of electricity (an

average rise of 9.1%, compared with 1% in 2005). Prices for water treatment and supply increased in 2006 at a slower rate (by 2 percentage points, to 9.6%).

The same year-on-year rise in manufacturing products prices as a year earlier (an average of 2.1%) was a result of accelerated increases in the prices of electrical and optical equipment (by 2.3 percentage points, to 1.7%) and paper products (by 1.9%, after stagnating a year earlier). On the other hand, slower increases than a year earlier were recorded in the prices of refined oil products (by 11.7 percentage points, to 13.1%), base metals and finished metal products (by 4.2 percentage points, to 3%), and chemical products (by 2.6 percentage points, to 1.3%). On a year-on-year basis, food prices had a weaker influence on manufacturing products prices than a year earlier, despite their considerable weight, close to one third (an average fall of 0.4% in 2006, compared with 4% in 2005).

Construction prices

The rate of increase in construction prices slowed somewhat in 2006, by 0.4 of a percentage point in comparison with the previous year, to an average of 3.9%. Prices for construction repair and maintenance work rose by an average of 4.1%; those for work on new construction, modernisation, and reconstruction projects in residential and civil engineering construction increased by an average of 3.9%.

The rise in the prices of materials and products used in construction (material and products of domestic industrial producers) also slowed in comparison with the previous year (by 1.4 percentage points, to 3%). The average year-on-year increase in the prices of materials used in construction repair and maintenance work slowed by 0.9 of a percentage point (to 3%) and the prices of materials used in new construction,



modernisation, and reconstruction projects slowed by 1.5 percentage points to 3% as well.

Agricultural prices

The prices of agricultural products dropped in 2006 by 0.2% year-on-year and had a weaker influence than a year earlier, mainly due to a rise in the price of plant products (an average of 1.1%, compared with a fall of 11% in 2005). The prices of animal products dropped year-on-year by an average of 0.7%.

Price developments in plant production were mainly connected with rises in the prices of potatoes (23.5%), oilseeds (12.2%), vegetables (2.9%), and cereals (2.6%).

Developments in animal products prices were affected by drops in the prices (for live animals) of fish (16.7%), poultry (7.1%), and unpasteurised cow milk (0.7%) on the one hand, and by increases in the prices of eggs (3.2%), beef including veal (2.5%), and pork (0.3%) on the other hand.

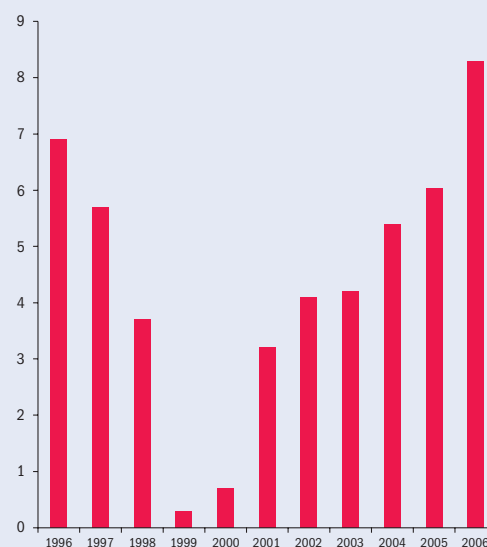
2.2.2 Gross domestic product

GDP deflator

The general price increase, expressed as an increase in the GDP deflator, reached 2.7% in 2006, which was 0.3 of a percentage point more than in 2005. Developments in the GDP deflator were primarily influenced by the faster year-on-year increase in consumer prices.

An upward effect on the GDP deflator was exerted by the domestic demand deflator and a dampening effect was produced by the relationship between the export and import deflators (the prices of exported goods and services rose at a slower pace than the prices of imported goods and services from foreign supply). The growth in the domestic demand deflator was influenced by the prices of final consumption components.

Chart 31 Annual real GDP growth
(year-on-year growth in %)



Source: Statistical Office of the SR.

The growth in the GDP deflator was dampened by price developments in foreign trade. Developments in the exchange rate of the Slovak koruna and other price factors on foreign markets led to smaller increases in the export and import deflators (2.2% and 3.6% respectively) in comparison with the domestic price level.

Gross domestic product

According to a revised estimate of the Statistical Office of the SR, gross domestic product (GDP) increased year-on-year by 8.3% at constant prices. Compared with 2005, the pace of economic growth accelerated by 2.3 percentage points.

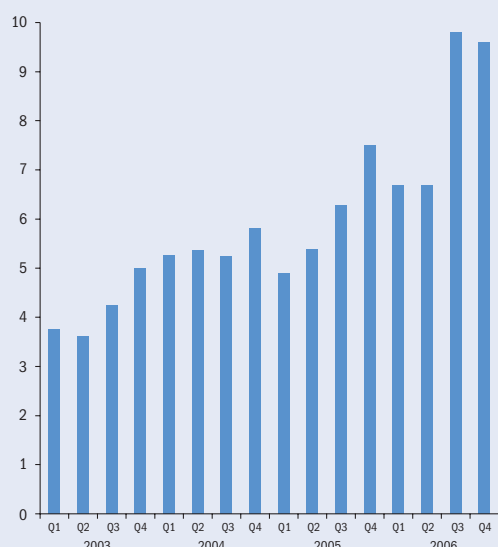
In terms of use, economic growth in 2006 was influenced by both domestic and foreign demand. The growth in foreign demand was 1.5 times faster than in 2005. In terms of production, development of the real economy was mostly influenced by economic activity

Table 5 Developments in the GDP deflator
(index, same period a year earlier = 100, average for the period)

	2005	2006				
		Q1	Q2	Q3	Q4	Year
Consumer prices	102.7	104.3	104.6	104.9	104.1	104.5
Industrial producer prices	104.7	109.4	109.6	108.4	106.0	108.4
GDP deflator	102.4	101.8	103.6	103.7	101.7	102.7
Export deflator	98.1	103.8	103.3	102.3	99.8	102.2
Import deflator	98.4	106.3	104.4	103.3	101.2	103.6

Source: Statistical Office of the SR.

**Chart 32 Quarterly real GDP growth
(year-on-year change in %)**



Source: Statistical Office of the SR.

in manufacturing, where the strong growth continued in the manufacture of machines, electrical equipment, and transport vehicles, as well as in trade, real estate, renting, and business activities. The nominal volume of GDP created in the period under review amounted

to SKK 1,636.3 billion, which was 11.2% more than a year earlier.

Broken down by quarter, real economic growth accelerated during 2006 from 6.7% in the first and second quarters to 9.8% in the third quarter, and to 9.6% in the fourth quarter.

The development of domestic and foreign demand led to growth in aggregate demand (12.9% at constant prices, compared with 10.9% in 2005). Within the structure of aggregate demand, the share of foreign demand increased year-on-year by 3.1 percentage points (to 49.1%), to the detriment of domestic demand.

Regarding aggregate demand formation, economic growth in 2006 was promoted by both domestic demand and net exports. Aggregate supply also reacted to the increased foreign demand, which led to accelerated growth in GDP as well as imports. The openness of the Slovak economy, expressed in terms of the ratio of exports and imports of goods and services to nominal GDP, reached 176% in 2006, representing a year-on-year increase of 16.4 percentage points.

Supply side of GDP

GDP generation in 2006 was mostly influenced by gross value added creation, which grew year-on-year

Table 6 Aggregate demand and its coverage (constant 2000 prices)

	Volume in billions of SKK		Structure in %	
	2005	2006	2005	2006
Aggregate demand	2,288.4	2,583.4	100.0	100.0
Domestic demand	1,235.9	1,312.9	54.0	50.9
Foreign demand	1,052.5	1,270.5	46.0	49.1
Coverage of aggregate demand				
Domestic supply	1,177.9	1,275.3	51.5	49.4
Foreign supply	1,110.5	1,308.2	48.5	50.6

Source: Statistical Office of the SR.

Note: Domestic demand includes statistical discrepancies. Foreign demand includes the exports of goods and services. Domestic supply represents GDP and foreign supply is formed by imports of goods and services.

Table 7 Breakdown of GDP creation by component (index, same period a year earlier = 100, const. 2000 prices)

	2005 Year	2006				
		Q1	Q2	Q3	Q4	Year
Gross output	101.9	110.1	110.7	114.0	119.4	113.7
Intermediate consumption	99.8	110.9	112.2	118.3	121.6	115.8
Gross value added	104.9	109.0	108.6	108.6	116.3	110.6
Net taxes on products ¹⁾	115.2	91.2	93.6	121.0	69.2	91.4
GDP	106.0	106.7	106.7	109.8	109.6	108.3

Source: Statistical Office of the SR.

Note: The growth indices are calculated from figures expressed in millions of SKK.

1) VAT, excise taxes and import taxes minus subventions.



Table 8 Sectoral breakdown of gross domestic product
(index, same period a year earlier = 100, constant 2000 prices)

	2005	Q1 06	Q2 06	Q3 06	4.Q 06	2006
	2004	Q1 05	Q2 05	Q3 05	4.Q 05	2005
Gross domestic product	106.0	106.7	106.7	109.8	109.6	108.3
of which:						
Agriculture, hunting, forestry, and fishing	115.7	98.7	99.6	103.4	107.4	102.6
Industry in total	116.0	104.0	108.4	114.6	115.2	110.6
Mining and quarrying	110.0	71.8	76.1	72.7	81.0	75.4
Manufacturing	122.3	104.7	107.7	113.4	116.6	110.7
Electricity, gas, and water supply	81.8	103.5	121.1	135.8	108.0	114.7
Construction	104.4	103.5	105.5	106.5	122.1	109.8
Services in total	96.6	115.4	110.2	105.4	117.3	111.8
Trade	103.5	134.0	124.5	106.8	136.1	122.8
Hotels and restaurants	118.1	112.9	105.8	112.9	111.0	110.5
Transport, storage, post and telecommunications	99.4	107.8	102.4	109.3	115.7	109.2
Financial intermediation	81.9	103.4	103.9	123.0	114.2	110.3
Real estate, renting, and business activities	88.2	114.7	110.6	96.0	114.3	108.8
Public administration, defence, compulsory social security	102.4	108.9	96.9	106.3	106.8	104.7
Education	96.3	106.5	101.5	105.8	103.7	104.2
Health and social care	98.5	107.0	101.0	95.2	121.1	105.2
Other community, social, and personal services	98.8	123.2	118.3	109.1	124.6	118.9
Other ¹⁾	115.2	91.2	93.6	121.0	69.2	91.4

Source: Statistical Office of the SR.

1) Value added tax, excise duty, import tax, minus subsidies and imputed production of banking services (FISIM).

by 10.6% at constant prices (compared with 4.9% in the same period a year earlier). Its growth in the fourth quarter almost twofold exceeded the rates of growth in the first three quarters of 2006. Net taxes on products, including value added tax, excise duty, and import tax, minus subsidies, decreased by a total of 8.6% (in 2005 increased by 15.2%). GDP growth was thus connected with the increased gross output, coupled with intermediate consumption growth.

In 2006 value added growth was recorded in all sectors; two-digit real growth rates were achieved in trade (22.8%); other community, social, and personal services (18.9%); industry (10.6%); hotels and restaurants (10.5%); and financial intermediation (10.3%).

In industry, value added growth was a result of year-on-year increases in value added in electricity, gas, and water supply (14.7%), and in manufacturing production (10.7%). The growth in value added in manufacturing was mainly stimulated by the production of machines, electrical equipment, and transport vehicles.

Demand side of GDP

In terms of use, the structure of economic growth in 2006 was influenced by both domestic and foreign

demand. Foreign demand grew in real terms by 20.7%, and thus increased the export performance of the economy. Economic growth was also stimulated by domestic demand, but its pace lagged behind the figure recorded a year earlier.

Within the scope of domestic demand, the year 2006 saw the most rapid growth in investment demand (8.2% in real terms), which was, however, more than 50% slower than in the previous year. The growth in the "consumption" component of demand was 0.6 of a percentage point faster than a year earlier, which was mainly a result of growth in general government final consumption (4.1% in real terms). The dynamics of household final consumption weakened year-on-year by 0.9 of a percentage point.

Domestic investment demand

Gross capital formation increased by 8.2% (at constant prices), due to growth in fixed investments (7.3% year-on-year) and growth in inventories, whose annual increase (SKK 33.1 billion at constant prices) exceeded the figure for 2005 by approximately SKK 5.2 billion. Within the structure of inventories, all components increased in 2006, with the most rapid

Table 9 Development of gross domestic product by use
(index, same period a year earlier = 100, constant 2000 prices)

	2005	2006				
		Q1	Q2	Q3	Q4	Year
Gross domestic product	106.0	106.7	106.7	109.8	109.6	108.3
Domestic demand	108.6	108.1	104.5	109.2	104.1	106.4
Final consumption	105.0	106.8	105.9	105.0	104.9	105.6
– households	107.2	106.6	105.9	106.5	106.1	106.3
– general government	99.4	107.8	106.6	101.2	102.3	104.1
– non-profit institutions serving households	96.9	100.5	95.6	96.3	95.0	96.8
Gross capital formation	118.6	111.7	101.4	119.3	101.9	108.2
Gross fixed capital formation	117.5	113.8	103.6	106.7	107.0	107.3
Exports of goods and services	113.8	117.7	118.1	123.8	122.6	120.7
Imports of goods and services	116.6	119.6	114.0	122.9	115.3	117.8

Source: Statistical Office of the SR.

increases recorded in work-in-progress and materials inventory.

Gross fixed capital formation was mostly affected by the purchase of new fixed assets (a growth of 9.9% at constant prices). Looking at the breakdown of fixed assets by the sector of national accounts, their increases were most significantly influenced by the investment activities of non-financial corporations, which comprised both foreign and domestic investments. They were also supported by the financial results of non-financial corporations, whose profits increased year-on-year by 25.8% in 2006 (compared with 16.4% in 2005). The largest amount of funds

(75.5% of the total volume) was invested by non-financial corporations through the acquisition of new fixed assets. Most investments were made by entrepreneurial entities in manufacturing, the power industry, real estate and business activities, hotels and restaurants, and in transport, post and telecommunications. The growth in gross fixed capital formation in real terms was also supported by the investment activities of households (a growth of 7.8% at constant prices) and the general government sector (a growth of 1.1% at constant prices).

According to revised data from the Statistical Office of the SR, investment in machines grew in real terms by

Table 10 Structure of gross fixed capital formation in 2006

	Gross fixed capital formation (SKK millions)	Proportion (%)	Index 2006/05	Index 2005/04
Economy of the SR in total:	432,084	100.0	107.3	117.5
of which (by sector):				
Non-financial corporations	302,598	70.0	108.1	121.4
Financial corporations	7,524	1.7	104.1	109.3
General government	32,054	7.4	101.1	91.6
Households	88,837	20.6	107.8	118.2
Non-profit institutions	1,071	0.2	88.6	115.0
of which (by production):				
Machinery	230,277	53.3	115.2	96.0
of which: metal products and machines	180,592	41.8	110.9	105.3
transport equipment	49,685	11.5	133.9	69.1
Buildings and structures	172,606	39.9	98.3	155.2
of which: residential buildings	43,277	10.0	96.5	221.4
other structures	129,329	29.9	98.9	140.9

Source: NBS calculations based on data from the Statistical Office of the SR.

Note: Amounts and proportions are at current prices, indices at constant 2000 prices.

Table 11 Investments and savings

(%, current prices)

	2005	2006
Savings ratio ¹⁾	24.1	24.3
Gross investment ratio ²⁾	29.2	29.0
Fixed investment ratio ³⁾	26.8	26.4
Coverage of investments by savings ⁴⁾	82.6	83.6

Source: NBS calculations based on data from the Statistical Office of the SR.

1) Ratio of gross domestic savings (GDP less final consumption in total) to GDP.

2) Ratio of gross capital formation to GDP.

3) Ratio of gross fixed capital formation to GDP.

4) Ratio of gross domestic savings to gross investment.

15.2%, while investment in construction declined in real terms by 1.7%. Investment in transport equipment grew more than threefold faster than investment in metal products and machines. Investment in construction was mainly affected by a decline in investment in residential buildings (by 3.5% in real terms), and thus its share in fixed investments decreased by 3.8 percentage points, to 39.9%.

The share of domestic savings in the financing of investment demand increased in 2006. There were almost 83 haliers worth of gross savings in the national economy for one koruna worth of gross investments in 2005; this ratio increased in 2006 to 84 haliers. This increase was a consequence of accelerated year-on-year growth in savings compared with the change in gross investments.

Domestic consumer demand

Final consumption expenditure in 2006 increased year-on-year by 5.6%, mainly in the household and general government sectors, while its growth was dampened by the consumption expenditure of non-profit institutions. The growth in general government final consumption was connected with the growth in wages, employment, and purchases of goods and services in the public sector (mainly in the first half of 2006), and welfare benefits in kind. Within the structure of final consumption, the dynamics of general government final consumption increased in 2006 (compared with the previous year) and the dynamics of household final consumption diminished.

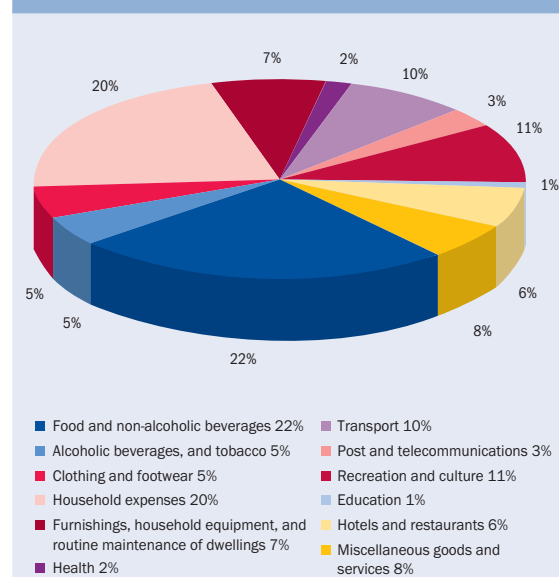
Final consumption by households increased year-on-year by 6.3% in 2006, and its share of total GDP reached 54.0% (compared with 55% in 2005). Private household consumption followed a relatively smooth course in the individual quarters, which was connected with the growth in wages, employment, gross mixed income (remuneration for work and profits earned by small entrepreneurs), and the utilisation of credit facilities. The total receivables of monetary financial institutions from households as a share of

their final consumption followed an increasing trend during 2006 and reached 25.3% (compared with 21.4% at the end of 2005).

An analysis of household final consumption in 2006 shows that the most significant year-on-year increases occurred in the expenditures of households on hotels and restaurants (13.4% at constant prices) and on furnishings, household equipment, and the routine maintenance of dwellings (13.0% at constant prices). In percentage terms, the largest consumption component (22%, as in 2005) was spending on food and non-alcoholic beverages. The second largest component was expenditure related to housing (20%), whose share in household consumption decreased by 1 percentage point in comparison with 2005.

The year-on-year growth in household final consumption was based primarily on consumer expenditures on food and non-alcoholic beverages; hotels

Chart 33 Structure of household final consumption in 2006



Source: Statistical Office of the SR.

Table 12 **Generation and use of income in the household sector** (current prices)

	Volume in SKK billion		Index		Share in %	
	2005	2006	2005 2004	2006 2005	2005	2006
Compensation of employees (all sectors)	590.5	644.9	108.1	109.2	50.6	50.0
of which: gross wages and salaries	460.3	510.0	110.2	110.8	39.4	39.5
Gross mixed income	345.4	391.9	113.4	113.4	29.6	30.4
Property income – received	29.7	32.7	77.9	109.9	2.5	2.5
Social benefits	165.2	180.2	114.1	109.1	14.2	14.0
Other current transfers – received	36.0	40.1	97.1	111.4	3.1	3.1
Current income in total	1,166.9	1,289.8	109.0	110.5	100.0	100.0
Property income – paid	8.4	9.8	105.0	117.0	3.1	3.4
Current tax on income, property, etc.	46.9	48.8	112.6	104.1	17.1	16.8
Social contributions	189.4	197.0	105.9	104.0	69.0	68.0
Other current transfers – paid	29.8	34.4	93.3	115.2	10.9	11.9
Current expenditure in total	274.5	289.9	105.4	105.6	100.0	100.0
Gross disposable income	892.4	999.9	110.1	112.0	-	-
Adjustment for changes in the net equity of households in pension funds	12.1	29.9	406.7	246.7	-	-
Final consumption of households	829.8	927.2	110.0	111.7	-	-
Gross savings of households	74.7	102.7	126.7	-	-	-
Household savings ratio	8.4	10.3	-	-	-	-

Source: Statistical Office of the SR.

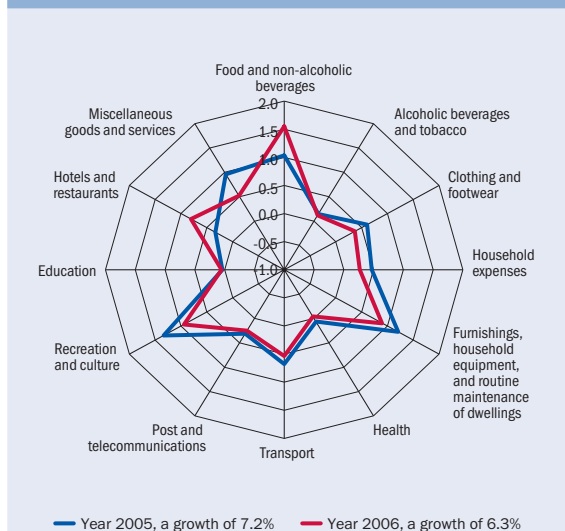
and restaurants; furnishings, household equipment, and the routine maintenance of dwellings; and recreation and culture. These four categories of consumption stimulated two-thirds of the growth in consumer demand in 2006 and recorded a slight rise in prices (up to 1%), which indicates that the

current trend in household final consumption should not accelerate the rate of consumer price increase in the coming period.

Income and expenditure of households²

According to preliminary data from the Statistical Office of the SR, the current income of households reached SKK 1,289.8 billion in 2006, representing a year-on-year increase of 10.5% in nominal terms (5.7% in real terms). Compared with 2005, the rate of growth accelerated in nominal terms by 1.5 percentage points.

Within the scope of current income, the most rapid growth occurred in gross mixed income, other current transfers, and property income. The current expenditure of households (paid to other sectors and not used for direct consumption) totalled SKK 289.9 billion, representing a year-on-year increase of 5.6% in

Chart 34 **Contributions of individual consumer expenses to growth in household final consumption** (percentage points)


Source: NBS calculations based on data from the Statistical Office of the SR.

² Income from property received (interest, dividends, income from rented land, and other), other current transfers received (insurance compensation paid to households, lottery winnings, etc.), income from property paid (interest paid to households for loans and other payments of this type), other current transfers paid (payments for various types of non-life insurance, life and health insurance), social contributions (direct taxes and fees paid to the State budget, contributions paid to health insurance companies, the social security corporation, and the employment fund, etc.).

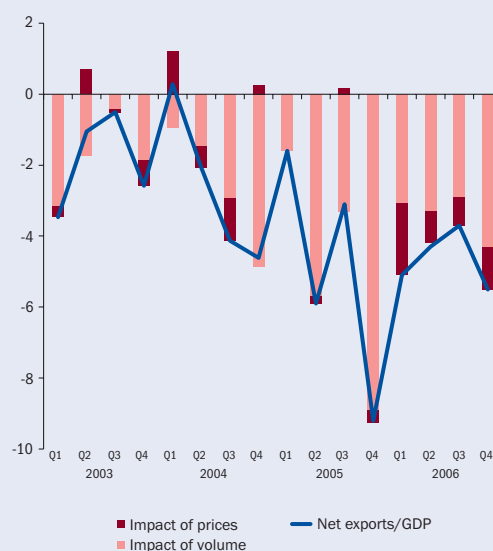
**Chart 35 Propensity of households to consume and save (%)**

Source: Statistical Office of the SR, NBS calculations.

nominal terms (1.1% in real terms). The year-on-year growth in current expenditure was mainly connected with increases in expenses related to property income and other current transfers paid. The smallest increase was recorded in social contributions.

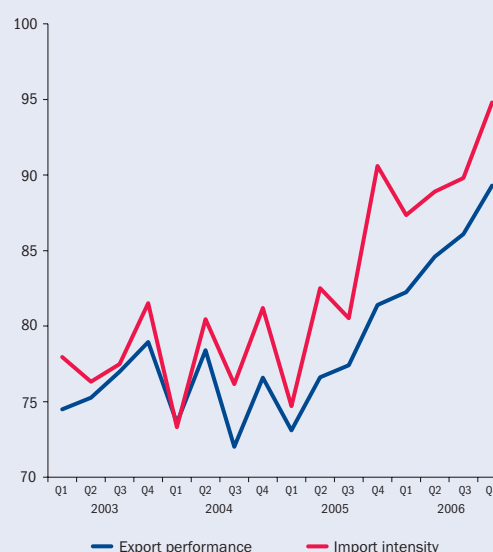
With current expenditure being deducted from current income, the gross disposable income of households amounted to SKK 999.9 billion, representing a year-on-year increase of 12.0% (compared with 10.1% a year earlier). Of the disposable income, 92.7% was used for final consumption, the remainder went to gross savings, which increased year-on-year by 37.4%. The total increase in the dynamics of gross savings, which exceeded the dynamics of gross disposable income, was reflected in the ratio of gross household savings (10.3%), which was 1.9 percentage points higher than a year earlier (8.4%).

The exports and imports of goods and services achieved two-digit growth rates in 2006 (exports: 23.3%; imports: 22.0% at current prices). In nominal terms, net exports resulted in a deficit of SKK 76 billion (SKK 74.8 billion in 2005). Developments in import prices in foreign trade, as measured by the deflator of imports of goods and services, were mainly connected with the rising prices of energy-producing raw materials in the first three quarters of 2006. The prices of exported goods and services also increased, but to a lesser extent than import prices, since they were dampened by a fall in the export prices of transport vehicles. Data from preliminary quarterly national accounts indicate that nearly one quarter of the trade deficit (at current prices) was caused by unfavourable developments in the terms of trade.

Chart 36 Net exports as a share of GDP at current prices (%)

Source: Statistical Office of the SR, NBS calculations.

The export performance of the Slovak economy improved year-on-year in 2006, when the exports of goods and services as a share of GDP at current prices reached 85.7%. Import intensity increased in comparison with export performance at a slightly slower rate, reaching 90.3%. The openness of the Slovak economy, expressed in terms of the ratio of exports and imports of goods and services to nominal GDP, stood at 176% last year.

Chart 37 Export performance and import intensity (%)

Source: Statistical Office of the SR.

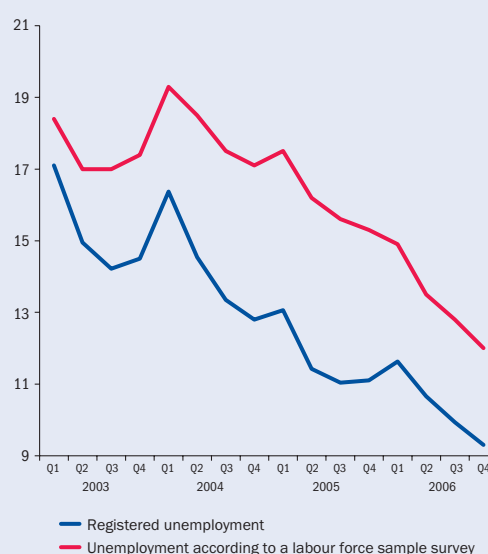
2.2.3 Labour market

Employment and unemployment

The favourable economic development in 2006 was also reflected in the level of employment. According to the results of a Labour Force Sample Survey (LFSS), the number of workers increased year-on-year by 3.8%, which represented an acceleration of 1.7 percentage points in comparison with 2005. Employment according to an LFSS was influenced by labour demand in the domestic part of the economy, when the number of persons working in the Slovak economy increased by 2.5%, as well as by the growing number of persons working abroad (by 26.1%). In terms of structure, overall employment in 2006 was substantially influenced by the favourable trend in the number of employees, which increased by 3.8%. The number of entrepreneurs increased year-on-year by 3.7%, due mainly to an increase in the number of entrepreneurs without employees (by 5%), while the number of entrepreneurs with employees dropped year-on-year by 0.3% (as in the previous year). According to the ESA 95 methodology, employment grew year-on-year by 2.3%, which represented an acceleration of 0.9 of a percentage point compared with the previous year. Looking at the breakdown of employment by sector, the year 2006 saw growing demand for labour in services, which led to dynamic employment growth in hotels and restaurants; real state, renting, and business activities; and trade (according to ESA 95). On the other hand, employment remained below the

Chart 38 Unemployment rate

(%)



Source: Centre for Labour, Social, and Family Matters and the Statistical Office of the SR.

level of the previous year in financial intermediation and health care. In production sectors, employment grew rapidly in average terms in 2006 in construction, while employment in agriculture declined.

The strong demand for labour was also reflected in the favourable trend in unemployment. On the basis

Table 13 Labour market indicators

	2005	2006				
		Q1	Q2	Q3	Q4	Year
Nominal wage (SKK)	17,274	17,315	18,324	18,212	21,131	18,761
Nominal wage (index)	109.2	107.1	108.8	107.7	108.2	108.0
Real wage (index)	106.3	102.7	104.0	102.7	103.9	103.3
Compensation per employee in nominal terms, ESA 95 (index)	105.1	106.5	108.2	107.6	108.3	107.6
Compensation per employee in real terms, ESA 95 (index)	102.3	102.2	103.5	102.7	104.6	103.2
Labour productivity of GDP (index, current prices)	106.2	106.6	108.1	111.2	109.1	108.8
Labour productivity of GDP (index, constant prices)	103.8	104.6	104.3	107.2	107.2	106.0
Labour productivity of GDP, ESA 95 (index, current prices)	107.0	106.5	108.1	111.1	109.1	108.7
Labour productivity of GDP, ESA 95 (index, constant prices)	104.5	104.5	104.3	107.1	107.2	105.9
Employment according to statistical records (index)	102.2	102.0	102.3	102.4	102.2	102.2
Employment according to LFSS ¹⁾ (index)	102.1	103.7	104.5	103.8	103.5	103.8
Employment according to ESA 95 (index)	101.4	102.1	102.3	102.5	102.2	102.3
Registered unemployment rate (%)	11.6	11.6	10.7	9.9	9.3	10.4
Unemployment rate according to LFSS (%)	16.2	14.9	13.5	12.8	12.0	13.3
Unit labour costs in nominal terms (ULC)	100.6	101.9	103.7	100.5	101.0	101.7
Consumer prices (average index)	102.7	104.3	104.6	104.9	104.1	104.5

Source: Statistical Office of the SR and NBS calculations based on data from the Statistical Office.

1) Labour force sample survey (LFSS).



of a labour force sample survey, the number of people out of work decreased year-on-year by 17.3% in 2006. This decrease was also reflected in the annual rate of unemployment, which reached 13.3% in 2006, representing a drop of 2.9 percentage points compared with 2005. The falling trend in unemployment was also confirmed by data on registered unemployment. According to the registers of Offices for Labour, Social Affairs, and Family, the average unemployment rate in 2006 stood at 10.4%.

The continuing year-on-year growth in labour supply (i.e. persons in productive and post-productive age) was mostly reflected in the increased number of economically inactive persons (i.e. persons outside the labour market) in 2006. As a result of this development, the rate of economic activity reached 59.1%, representing a year-on-year fall of 0.4 of a percentage point. Among the economically active population, the increasing share of persons in employment led to a rise in the employment rate, by 1.7 percentage points year-on-year in 2006 (to 59.4%).

Wages and labour productivity

In 2006 the average monthly nominal wage in the Slovak economy increased year-on-year by 8.0%, to SKK 18,761. The rate of growth was 1.2 percentage points slower than in the same period a year earlier. The strongest nominal wage growth in 2006 took place in real estate, renting, and business activities (10.3%); public administration, defence, and compulsory social security (10.3%); financial intermediation (9.6%); agriculture and fishing (8.6%); education and health care (8.5% equally). Nominal wages in the entrepreneurial sector (broken down by the form of ownership) increased as follows: in enterprises with 20 and more employees by 8.8%, in small enterprises with up to 19 employees by 6.5%, in budgetary organisations by 14.8%, and in subsidised organisations by 7.7%. The average real wage increased year-on-year by 3.3% in 2006. Compared with the previous year, real wage dynamics weakened by 3.0 percentage points, which was due to a slowdown in nominal wage growth and higher average inflation than a year earlier. Real wages increased in all sectors of the economy.

Labour productivity increased in nominal terms by 8.8% and in real terms by 6.0% in 2006. Labour productivity followed a positive trend in relation to wages, when the dynamics of real labour productivity exceeded the rate of real wage growth by 2.7 percentage points.

Unit labour costs according to the ECB's methodology (ULC_{ECB} , defined as the ratio of growth in nominal compensation per employee to growth in real labour productivity based on ESA 95) increased year-on-year

Chart 39 Developments in real wages and real labour productivity
(index, same period a year earlier = 100)



Source: Statistical Office of the SR, NBS calculations.

by 1.7% in 2006. Real unit labour costs ($RULC_{ECB}$, defined as the ratio of real compensation per employee to real labour productivity based on ESA 95) decreased year-on-year by 2.5%. The acceleration of ULC_{ECB} was caused by faster growth in compensation per employee, which was dampened by a slight increase in the dynamics of labour productivity.

2.2.4 Financial results of corporations

From the beginning of 2006, financial and non-financial corporations earned a cumulative profit of SKK 268.4 billion, representing a year-on-year increase of 6.7%. The profit earned by non-financial corporations grew year-on-year by 25.8%, to SKK 280.4 billion (according to preliminary data). Financial corporations recorded a loss of SKK 12.0 billion.

Among non-financial corporations, most profits in 2006 were generated by entrepreneurial entities in manufacturing (SKK 91.4 billion), trade (SKK 55.2 billion), and electricity, gas, and water supply (SKK 52.5 billion). Profits in transport, post and telecommunications reached SKK 31.8 billion, in real estate and renting activities SKK 21.8 billion, in construction SKK 14.4 billion, in mining and quarrying SKK 3.7 billion, in other community services SKK 3.3 billion, in health and social services SKK 2.8 billion, in agriculture and fishing SKK 2.2 billion, in hotels and restaurants SKK 1 billion, and in education SKK 0.1 billion. The profits earned by non-financial corporations increased year-on-year by SKK 57.5 billion. This increase was largely generated in manufacturing (SKK 16.3 billion);

Table 14 **Financial results of corporations**

	2005 SKK billions, current prices	2006 SKK billions, current prices	2005/2004 index	2006/2005 index
Financial results (before taxation)				
Non-financial and financial corporations in total	251.5	268.4	141.3	106.7
Non-financial corporations	222.9	280.4	117.4	125.8
Financial corporations	28.6	-12.0	-	-
Of which: NBS	-0.7	-45.1	-	-
Financial corporations, excluding NBS	29.3	33.1	149.3	113.0
Commercial financial institutions	16.9	19.7	120.3	116.6
Insurance corporations	3.4	4.4	99.9	129.2
Other financial intermediaries	9.0	9.0	127.6	100.3
Monetary financial institutions	16.2	-25.4	-	-
Of which: NBS	-0.7	-45.1	-	-
Commercial financial institutions	16.9	19.7	120.3	116.6

Source: Statistical Office of the SR and NBS calculations.

transport, post and telecommunications (SKK 14.5 billion); trade (SKK 13 billion); and in electricity, gas, and water supply (SKK 5.8 billion). Agriculture, including fishing, and education recorded a year-on-year change, from a loss to a profit.

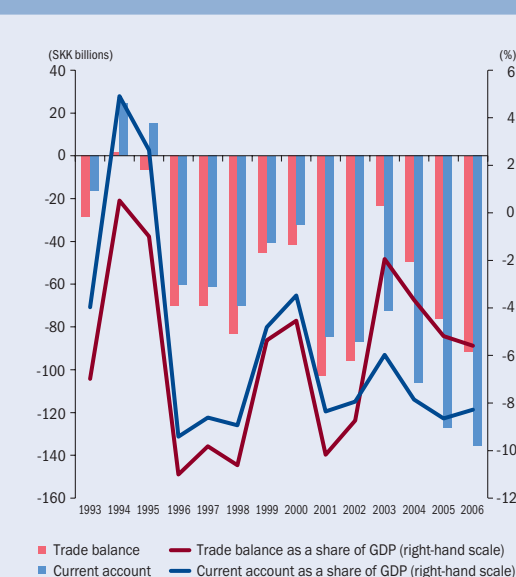
Financial corporations recorded a loss of SKK 12.0 billion. Financial corporations, excluding the NBS, achieved a profit of SKK 33.1 billion, while the NBS recorded a total loss of SKK 45.1 billion. Within the scope of financial corporations excluding the NBS, commercial financial institutions generated a profit of SKK 19.7 billion. This was SKK 2.8 billion more than in the previous year. The profits of insurance corporations and pension funds increased year-on-year by SKK 1 billion, to SKK 4.4 billion. Other financial intermediaries earned a profit of SKK 9 billion and thus achieved the same financial result as in the previous year.

The negative financial result of the NBS was responsible for the losses of monetary financial institutions in 2006 totalling SKK 25.4 billion (in 2005 they achieved a profit of SKK 16.2 billion), while commercial financial institutions generated a total profit of SKK 19.7 billion.

2.3 Balance of payments

2.3.1 Current account

In 2006 the balance of payments on current account resulted in a deficit of SKK 135.6 billion, which was SKK 8.4 billion more than in 2005. This increase was largely due to a year-on-year deterioration in the trade balance, which was to a considerable extent offset by the growing surplus in the balance of services. The

Chart 40 **Balance of trade and current account developments**


Source: NBS and the Statistical Office of the SR.

Table 15 **Balance of payments on current account** (SKK billions)

	2006	2005
Balance of trade	-91.6	-76.3
Balance of services	19.7	9.9
Balance of income	-62.1	-61.3
Current transfers	-1.6	0.5
Current account in total	-135.6	-127.2
Current account as a share of GDP in %	-8.3	-8.6

Source: NBS and the Statistical Office of the SR.



Table 16 Exports from January to December

	Year-on-year change in billions of SKK		Contribution to the year-on-year change in % points	
	2006	2005	2006	2005
Raw materials	12.3	14.8	1.2	1.7
Chemicals and semi-finished goods	59.0	38.5	5.9	4.5
of which: Chemical products	16.4	12.2	1.6	1.4
Semi-finished goods	42.6	26.3	4.3	3.1
Machinery and transport equipment	166.6	36.0	16.8	4.2
of which: Machines	98.7	62.5	9.9	7.3
Transport equipment	67.9	-26.5	6.8	-3.1
Finished products	6.9	10.1	0.7	1.2
Exports in total	244.8	99.4	24.6	11.6

Source: NBS calculations based on data from the Statistical Office of the SR.

Table 17 Imports during January to December

	Year-on-year change in billions of SKK		Contribution to the year-on-year change in % points	
	2006	2005	2006	2005
Raw materials	44.0	32.8	4.1	3.5
Chemicals and semi-finished goods	54.8	21.7	5.1	2.3
of which: Chemical products	21.1	8.0	2.0	0.9
Semi-finished goods	33.7	13.7	3.1	1.5
Machinery and transport equipment	106.8	33.2	10.0	3.6
of which: Machines	77.6	37.9	7.2	4.1
Transport equipment	29.2	-4.7	2.7	-0.5
Finished products	54.5	41.0	5.1	4.4
of which: Agricultural and industrial products	19.9	22.1	1.9	2.4
Automobiles	5.6	1.7	0.5	0.2
Machines and electrical consumer goods	29.0	17.2	2.7	1.9
Imports in total	260.1	128.7	24.3	13.9

Source: NBS calculations based on data from the Statistical Office of the SR.

b.o.p. current account deficit reached 8.3% of GDP at current prices, i.e. 0.3 percentage points less than in 2005. The trade deficit as a share of GDP increased, from 5.2% to 5.6%.

The trade balance resulted in a deficit of SKK 91.6 billion. Despite a year-on-year increase in the deficit (by SKK 15.3 billion), the rate of export growth slightly exceeded the dynamics of imports.

According to preliminary data from the Statistical Office of the SR, goods were exported during 2006 in the total amount of SKK 1,239.4 billion, which was 24.6% more than in the previous year (30.1% in USD and 29.1% in EUR).

In goods exports, the growth rate from the previous year accelerated by 13 percentage points in 2006. Exports showed strong dynamics throughout the year and accelerated still further in the second half of 2006. Increased exports were recorded in a wide spectrum of goods in all basic commodity categories; steeper year-on-year increases mainly occurred in the exports of machines and transport equipment, and in a smaller degree in chemical products and semi-finished products.

The increased exports in the “machinery and transport equipment” category was the main factor in the year-on-year growth in exports. The growth in the category as a whole resulted from the growing exports of ma-

chines and growing exports in the automotive industry. Increased machine exports in comparison with 2005 were recorded from the first months of 2006; the rate of growth accelerated still further during the year. The acceleration took place mostly in the electronics industry, due to increased exports of television sets in particular. After a marked decline in automobile exports, which was partly a result of preparations (installation of production lines) for the manufacture of a new automobile model, there was an increase in output and exports in the automotive industry in 2006. The year-on-year increase was mainly attributable to the extension of production and the start of production by new automobile manufacturers.

The main factor in the dynamic year-on-year growth in the exports of chemical products and semi-finished goods was the continuation of positive trends from 2005. Strong growth was mainly recorded in the exports of iron and steel, iron and steel products, plastics, copper, aluminium, and related products.

The accelerated growth in raw material exports was promoted to a significant extent by the rising oil prices, which caused an increase in the export value of oil products. Oil prices rose at a slower rate than in 2005, which, coupled with the appreciation of the koruna against the US dollar, was the main reason behind the slowdown in the year-on-year growth in the entire "raw materials" category.

The weakest year-on-year growth occurred in the exports of finished products. The overall growth in exports in the "finished products" category was mostly supported by year-on-year increases in the exports of furniture, pharmaceuticals, and agricultural products, especially sugar, beverages, milk and dairy products.

The volume of goods imported in 2006 amounted to SKK 1,331.0 billion, representing a year-on-year increase of 24.3% (29.7% in USD and 28.8% in EUR).

In 2006 import dynamics lagged somewhat behind the rate of export growth, due to developments in the second half of the year, when imports, unlike exports, followed a decelerating trend. The total year-on-year increase in imports took place predominantly in machinery and transport equipment and chemical products and semi-finished goods. The year-on-year growth accelerated in all categories of goods under review.

In comparison with 2005, the strongest growth was recorded in the imports of machinery and transport equipment. The accelerating growth was supported by increased imports of machinery as well as transport equipment. The increased imports of transport equipment (compared with the previous year) were mainly

connected with the increased production and exports of automobiles. Within the overall group this was supported by higher imports of electronic components and automatic data processing machines.

The imports of finished products recorded a larger increase than in 2005 as a result of steadily growing imports of machine engineering products and electrical consumer goods in particular, coupled with increased imports of industrial products (pharmaceuticals, clothes, and footwear) and, in a smaller degree, passenger cars. On the other hand, the imports of agricultural products grew at a slower rate than a year earlier (mainly as a result of lower tobacco and meat imports).

The main factor in the increased raw material imports was the rise in oil prices, which was reflected in the increased imports of oil and oil products. The strong correlation between oil prices and the price of natural gas also caused a rise in price levels and a consequent increase in the imports of this commodity. The growth in raw materials imports was also supported by increased electricity imports.

Trade in services resulted in a surplus of SKK 19.7 billion in 2006, when receipts from exported services increased by 17.5%, while payments for imported services grew by only 11.1%.

The increased services balance surplus was mainly caused by an increase in the positive balance of transport services and, in a smaller degree, the balance of tourism, accompanied by a decrease in the negative balance of "other services in total".

Receipts from the international transport of goods and passengers amounted to SKK 56.5 billion (a year-on-year increase of 14.1%) and expenses totalled SKK 38.0 billion (an increase of 1.6%). In terms of volume, the largest item in transport services was still income from the transport of natural gas and oil (SKK 29.6 billion), which increased year-on-year by SKK 3.6 billion. The growth in transit receipts was significantly affected by a non-standard payment of withheld payments from 2004-2006, which took place in December 2006. Despite increased receipts from transit, the share of this group of services in total

Table 18 **Balance of services** (SKK billions)

	2006	2005
Transportation	18.5	12.1
Travel	13.6	11.3
Other services in total	-12.4	-13.5
Balance of services	19.7	9.9

Source: NBS.



income from transport slightly decreased on a year-on-year basis, to 52.4% in 2006.

In international transport services (railway, road, air, and waterborne transport, excluding transit), including services related to transport, a deficit of SKK 1.0 billion was recorded, 80.9% of which took place in payments for freight services, including trade costs, and 19.1% in expenses on passenger transport. Receipts had a similar structure: 84.9% came from freight transport services and 15.1% from passenger transport services provided. The year-on-year improvement in the balance of transport services excluding transit (by SKK 5.0 billion) was mainly caused by an improvement in air passenger transport (growth in receipts from air transport services and particularly a fall in the expenses of Slovak residents on services rendered by non-residents are connected with the development of air traffic in the SR). Within the scope of freight transport, the growth in receipts from road haulage services provided was offset by falling receipts from railway freight transport services provided, which caused a year-on-year decrease in the modest surplus in the balance of freight transport services.

The positive balance of foreign tourism increased year-on-year by SKK 2.3 billion. The increase in the balance surplus was caused by increased receipts, whose growth exceeded the growth in the expenses of Slovak residents on services related to tourism.

Foreign exchange receipts from foreign tourism reached SKK 45.0 billion, representing an increase of 20.0% compared with the level of 2005). The increase in foreign exchange receipts from tourism was supported by the increased total number of overnight stays by visitors from abroad. The main factor behind the growth in the number of overnight stays was the increased number of foreign tourists (accommodated visitors) compared with last year (by 6.4%), while the average number of overnight stays remained unchanged on a year-on-year basis (at 3.2). The strong growth in foreign exchange receipts was achieved despite the appreciation of the Slovak koruna against the euro, which was offset by its depreciation vis-à-vis the Czech koruna.

In 2006 the expenses of Slovak citizens on travel abroad reached SKK 31.4 billion, which was 19.2% more than in 2005. The number of Slovak citizens who travelled abroad increased year-on-year by 1.3%. The expenses of Slovak citizens on foreign travel were determined by the growth of real wages, the offer of reasonably priced trips, and partly by the appreciation of the koruna against the euro.

The balance of "other services in total" (telecommunications, construction, insurance, financial, renting, computer engineering, advertising, business, and

Table 19 **Balance of income** (SKK billions)

	2006	2005
Compensation of employees	30.8	28.0
Direct investment	-90.9	-82.8
of which: reinvested earnings	-23.8	-37.8
Portfolio and other investments	-2.0	-6.5
Balance of income	-62.1	-61.3

Source: NBS.

technical services, etc.) remained in deficit as in previous years, but the deficit decreased by SKK 1.1 billion. The exports of these services grew by 18.9% and imports by 13.3% on a year-on-year basis. The decreasing deficit in the balance of "other services in total" was mainly supported by an increase in the surplus achieved in telecommunications services and partly by smaller shortfalls in computer engineering, legal, accounting, and consulting services. The total year-on-year decrease in the deficit in "other services in total" was, on the other hand, negatively affected by a deterioration in receipts from construction services provided and a marked increase in payments for financial services.

In 2006 the income balance resulted in a shortfall of SKK 62.1 billion, representing a slight deterioration in comparison with last year (by SKK 0.8 billion). The year-on-year deterioration was caused by an increase in the negative balance of income from investment, which exceeded the increase in the positive balance of compensation of employees.

Investment in Slovak equity securities paid foreign direct investors dividends in the amount of SKK 64.3 billion, representing a year-on-year increase of SKK 18.6 billion. The yields of foreign investors from capital invested in the territory of Slovakia (yield from foreign direct investment is calculated as yield from property including interest as a share of the volume of foreign direct investment) reached approximately 14.5%, which represented an increase in comparison with 2005, when the same ratio reached 11.0%. Investment in foreign equity securities paid Slovak investors SKK 1.1 billion in dividends (somewhat more than in the previous year). In contrast with dividends, the estimate of the part of earnings reinvested by foreign investors decreased year-on-year, to SKK 25.0 billion (a year earlier, reinvested earnings were estimated at SKK 39.0 billion) and caused a marked slowdown in the growth of deficit in the balance of income from direct investment.

The balance of income from portfolio investment resulted in a surplus of SKK 7.6 billion, representing an improvement of SKK 5.4 billion in comparison with 2005. The year-on-year increase in the surplus was

most significantly influenced by the growth of receipts from commercial bank assets.

The deficit in the balance of other investments deepened year-on-year by SKK 0.7 billion. The year-on-year change was mainly caused by a year-on-year increase in payments (by SKK 0.4 billion), with a substantial part formed by an increase in interest payments (on both loans and deposits received). The year-on-year decline in receipts (by SKK 0.3 billion) was caused by an interest rate cut for short-term financial loans.

Within the overall income balance, the deterioration in the balance of income from investment was partially alleviated by an increased surplus in compensation of employees. During short-term stays abroad, Slovak workers earned a total of SKK 32.2 billion (according to NBS calculations). The increase in the incomes of Slovak citizens abroad exceeded the increase in the incomes of foreign citizens in Slovakia, which led to a year-on-year increase in the positive balance of compensation of employees (by SKK 2.8 billion).

In 2006 the balance of current transfers resulted in a deficit of SKK 1.6 billion. The year-on-year change (by SKK 2.1 billion) from a modest surplus last year to a deficit was a result of the fact that the deepening of the deficit in private transfers (caused by increased payments of benefits, distraint fees, and bails) surpassed the increase in the surplus in government transfers resulting from an increase in receipts from the EU budget.

2.3.2 Capital and financial account

The capital and financial account resulted in a surplus of SKK 32.4 billion, which was SKK 144.3 billion less than in the previous year. The surplus in the capital and financial account as a share of GDP decreased from 12.0% to 2.0%. The structure of financial flows also changed during the year: there was an outflow of short-term capital and an increased inflow in foreign direct investment.

The capital account, which comprises foreign assistance of investment nature granted by foreign governments or non-governmental entities and the purchase / sale of patents, licences, and copyrights, resulted in a deficit of SKK 1.2 billion, representing a modest increase in comparison with 2005. The year-on-year change was basically caused by the lower drawing of funds in the form of grants (in net terms).

In 2006 the total inflow in foreign direct investment (FDI) reached SKK 112.9 billion, representing an increase of SKK 52.4 billion compared with 2005.

The inflow of equity capital into the SR reached SKK 56.0 billion, which was SKK 32.8 billion (141.4%) more than in the same period a year earlier. The increased inflow of equity capital in comparison with the previous year was caused almost exclusively by privatisation proceeds (the privatisation by Enel of Slovenské elektrárne in April), while the inflow of equity capital in 2005 came exclusively from sources other than privatisation. With this fact taken into account, the inflow of equity capital into Slovakia (excluding

Table 20 Balance of payments capital and financial account		(SKK billions)
	2006	2005
Capital account	-1.2	-0.6
Direct investment	112.9	60.5
SR abroad	-10.9	-4.9
of which: reinvested earnings	-1.2	-1.2
In the SR	123.8	65.4
of which: reinvested earnings	25.0	39.0
Portfolio investment and financial derivatives	43.4	-31.3
SR abroad	-18.1	-23.1
In the SR	61.5	-8.2
Other long-term investment	18.6	-15.0
Assets	5.3	-9.8
Liabilities	13.3	-5.2
Short-term investment	-141.3	163.1
Assets	-38.4	-4.6
Liabilities	-102.9	167.7
Capital and financial account in total	32.4	176.7

Source: NBS.



income from privatisation) increased by 7.8% (SKK 1.8 billion), due to a modest increase in demand among foreign investors.

In comparison with 2005, Slovak companies showed increased interest in investment abroad. The increase in the asset exposures of Slovak investors abroad in the form of foreign direct investment amounted to SKK 6.9 billion, when SKK 9.5 billion was achieved during 2006.

Estimated reinvested earnings (in net terms) reached SKK 23.8 billion and thus their weight in the balance of direct investments diminished to a significant extent. The share of reinvested earnings in the total FDI inflow reached 21.1% (or, after being adjusted for privatisation proceeds, 29.1%), compared with 62.5% in 2005.

The inflow of other capital (within FDI), which expresses the financial and trade relations between direct investors and direct investment companies, totalled SKK 42.6 billion. The marked year-on-year increase (SKK 40.5 billion) was connected with FDI inflows in previous years and made the most significant contribution to the higher total FDI inflow in 2006. The year-on-year increase in other capital inflows was caused by an increase in payables and a decrease in the receivables of domestic entities from direct investors.

In 2006 the largest FDI inflows (except privatisation) were allocated especially to the manufacturing industry and, in a smaller degree, to financial intermediation, wholesale and retail trade. Broken down by territory, most investments went to the Bratislava (mainly in connection with privatisation) and Žilina regions. In the case of the Žilina region, the inflow of funds was connected with the construction of an automobile assembly plant for KIA, which confirms the fact that, after Italy and Austria, the Korean Republic was the third most significant investor in 2006. The inflow of funds from this country in the form of foreign direct investment reached SKK 7.9 billion.

Portfolio investment resulted in a net inflow of SKK 43.4 billion in 2006, compared with a net outflow of SKK 31.3 billion in the previous year.

Demand for foreign securities among domestic portfolio investors declined in comparison with 2005. While in 2005, companies tended to invest in long-term bonds (insurance companies also belong to this category), the year 2006 saw the opposite trend, which led to a net inflow of SKK 0.7 billion from abroad. Banks also showed lower interest in investment in long-term securities. The decline in investment in debt securities within the corporate sector was offset by an increase in investment in equity securities of foreign companies with a share smaller than 10%. The total outflow of

funds for the purchase of foreign securities reached SKK 18.1 billion, representing a year-on-year decline of SKK 5.0 billion.

While foreign investors reduced their holdings of debt securities from Slovak entities by SKK 8.2 billion in 2005, a different trend was recorded in 2006: an inflow of funds totalling SKK 61.5 billion. The year-on-year change was mainly a result of government activities. The most significant factor was the issuance of new eurobonds (SKK 37.6 billion), which, in contrast with 2005, was not accompanied by the repayment of eurobonds issued in previous years. Similar developments were recorded in the case of government securities sold to non-residents, where the interest of non-residents grew year-on-year by SKK 5.7 billion. The increased interest among investors in securities issued by domestic entities was, in a lesser degree, offset by a fall in interest in the purchase of equity securities (with a share smaller than 10%) on the part of foreign entities.

In "other investments", an outflow of SKK 122.7 billion was recorded in 2006, compared with an inflow of SKK 148.1 billion in 2005. Most of the year-on-year change of SKK 270.8 billion was caused by the development in the banking sector.

Other long-term investment resulted in a capital inflow of SKK 18.6 billion. The year-on-year change from an outflow of long-term capital to an inflow of SKK 33.6 billion was significantly influenced by the payment of SKK 25.0 billion to ČSOB in 2005 (in the government sector) due to an arbitration court ruling and to a downturn in bank lending to non-residents.

The corporate sector drew long-term loans in the amount of SKK 46.3 billion in 2006, which was 30.4% more than in 2005. Loan repayments by enterprises increased to an even greater extent, when the year-on-year growth reached 59.7%, which represented loans repaid in the amount of SKK 42.0 billion. The excess of drawings over repayments of long-term financial credits by enterprises led to a net inflow of funds from loans received, in the amount of SKK 4.3 billion. Compared with 2005, however, with regard to the fast rate of repayment, the net inflow diminished by SKK 4.9 billion and thus negatively affected the year-on-year increase in the net inflow of long-term capital within the scope of other investments.

Within the scope of short-term capital, a net outflow of SKK 141.3 billion was recorded, compared with an inflow of SKK 163.1 billion in 2005. The main factor in the year-on-year change was an outflow of short-term non-resident deposits from Slovak banks, reaching SKK 147.3 billion in 2006, compared with an inflow of SKK 124.9 billion in 2005. The total year-on-year decline in other short-term investments in the

Table 21 **Capital inflows in other investment by sector** (SKK billions)

	2006	2005	year-on-year change
Banks	-150.6	148.3	-298.9
Enterprises	26.5	26.7	-0.2
Government and the NBS	1.4	-26.9	28.3
Total	-122.7	148.1	-270.8

Source: NBS.

government sector (by SKK 302.1 billion) was affected by interbank foreign exchange market developments in June and July, when a temporary depreciation in the exchange rate of the Slovak koruna (as a result of exchange rate volatility, which was regarded by the central bank as a temporary phenomenon caused by uncertainty among foreign investors due to developments on other emerging markets and domestic political developments) led to NBS interventions. On the other hand, the increase in non-resident deposits at Slovak commercial banks in 2005 was induced by expectations concerning the appreciation of the Slovak koruna. On the assets side, the outflow of funds in 2006 mainly took place in the form of an increase in financial credits provided and growth in the short-term deposits of Slovak banks held on accounts abroad. In comparison with last year, part of the inflow into the corporate sector in the form of financial credits was replaced by import credits drawn from abroad (import credits increased as a result of growing imports).

2.3.3 Foreign reserves

At the end of December 2006, the foreign reserves of the NBS reached USD 13,363.8 million (EUR 10,145.1 million), representing a fall of USD 2,115.7 million (EUR 2,921.5 million) since the beginning of the year. The total foreign reserves of the NBS were affected by numerous factors during the year. The key factor positively affecting revenues was income arising from the March issue of eurobonds. Expenditures were mainly determined by central bank interventions in the foreign exchange market. The Bank's foreign reserves were also affected during the year by the exchange rates of fully convertible currencies on global financial markets. The deficit in the balance of revenues and expenditures in the period under review (USD-2,567.2 million) was partly offset by positive exchange rate differentials (USD 451.5 million), which resulted from the appreciation of the euro against the US dollar on global financial markets.

The revenue side of foreign reserves was determined in 2006 by the following factors:

- yields from deposits and securities held in the portfolio of the NBS, amounting to USD 390.8 million;

- revenue from eurobond issues in the amount of USD 1,202.5 million;
- revenues of the NBS from repo operations (a positive balance of USD 2.7 million);
- revenues in the amount of USD 127 million from repo operations in gold;
- other net revenues of the NBS in the amount of USD 172.3 million (positive balance), incurred mostly in connection with cross-border payments made for NBS clients.

The expenditure side of foreign reserves was determined in 2006 by:

- debt service payments by the Government in the amount of USD 248.9 million, of which the payment of interest on government eurobonds issued in previous years accounted for USD 102.1 million;
- outflow of funds through interventions and direct transactions on the interbank foreign exchange market, amounting to USD 3,899.3 billion;
- debt service payments by the NBS in the amount of USD 1.4 million;
- the sale of EUR 247 million (USD 312.9 million) according to the Bank Board's decision of 25 April 2006 on the optimisation of the level of the NBS foreign reserves.

At the end of 2006, the foreign reserves of the NBS were 3.2 times greater than the volume of average monthly imports of goods and services to Slovakia during 2006. The coverage of average monthly imports by the official foreign reserves is one of the key indicators of currency stability and is monitored as a rule, despite the fact that foreign reserves are no longer required to fulfil this role (coverage of imports by foreign reserves) under the conditions of liberalised b.o.p. current and financial accounts. With regard to the essence and purpose of this indicator, it appears to be more reasonable to include in the coverage of foreign reserves only that part of imports which is not financed from loans or foreign sources. Hence, starting from July 2006, the NBS also publishes the ratio of foreign reserves to the volume of payments for goods and services, according to banking statistics. Unlike the volume obtained from usual data sources, this volume provides an alternative (more realistic) picture of the coverage of goods and services imports

Table 22 **External debt of the SR**

	In millions of USD		In millions of EUR	
	31.12.2005	31.12.2006	31.12.2005	31.12.2006
Total external debt of the SR	27,052.5	32,205.9	22,835.3	24,448.9
Long-term external debt	11,850.7	16,649.7	10,003.3	12,639.5
Government and NBS ¹⁾	5,578.3	7,702.1	4,708.7	5,847.0
Commercial banks	866.7	1,559.2	731.6	1,183.6
Entrepreneurial entities	5,405.7	7,338.4	4,563.0	5,608.9
Short-term external debt	15,201.8	15,556.2	12,832.0	11,809.4
Government and NBS	4.4	0.0	3.7	0.0
Commercial banks	9,360.4	6,148.8	7,901.2	4,667.8
Entrepreneurial entities	5,837.0	9,407.4	4,927.1	7,141.6
Foreign assets	25,455.3	26,718.4	21,487.2	20,283.2
Net external debt	1,597.2	5,487.5	1,348.1	4,165.7
SKK/USD and SKK/EUR rates	31.948	26.246	37.848	34.573
EUR/USD cross exchange rate	-	-	1.185	1.317

Source: NBS.

1) Including government agencies and municipalities.

by reserves, since it only includes imports that are to be paid for. In this case, the ratio of foreign reserves to the amount of payments for goods and services recorded in banking statistics reached 4.1 times the volume of average monthly imports of goods and services to the SR in 2006.

The foreign reserves of commercial banks reached USD 2,149.1 million at the end of 2006. The volume of foreign reserves in the banking sector, including the NBS, stood at USD 15,512.9 million at the end of the year.

2.3.4 External debt of the SR

At the end of December 2006, Slovakia's total gross external debt stood at USD 32.2 billion (EUR 24.4 billion), representing an increase of USD 5.2 billion (EUR 1.6 billion) since the beginning of the year. Total long-term foreign debt grew year-on-year by USD 4.8 billion, while total short-term foreign debt increased by USD 0.4 billion.

Within the scope of short-term external debt, conflicting developments were recorded in 2006, when the foreign liabilities of commercial banks decreased by USD 3.2 billion, while the foreign liabilities of entrepreneurial entities increased by USD 3.6 billion.

Long-term external debt witnessed increases in the foreign liabilities of the Government and the NBS (by USD 2.1 billion), the foreign liabilities of entrepreneurial entities (by USD 2.0 billion), and the foreign liabilities of commercial banks (by USD 0.7 billion).

At the end of December, Slovakia's total per-capita gross foreign debt stood at USD 5,987, compared with USD 5,029 at the end of December 2005. The share of short-term foreign debt in the country's total gross external debt decreased year-on-year by 7.9 percentage points, from 56.2% at the end of December 2005 to 48.3% at the end of December 2006.

The net external debt of Slovakia, expressed as the difference between gross foreign debt, i.e. USD 32.2 billion (liabilities of the NBS and the Government, commercial banks, and the corporate sector – except for equity participation), and foreign assets, i.e. USD 26.7 billion (foreign reserves of the NBS, foreign assets of commercial banks and the corporate sector – except for equity participation), reached USD 5.5 billion (debtor position) at the end of December 2006. The net external debt of the SR increased year-on-year by USD 3.9 billion.

2.4 General government sector

Budgetary performance in the general government sector according to ESA 95

Budgetary performance in the general government sector in 2006 according to the European System of Accounts (ESA 95), governing the evaluation of compliance with the Maastricht criteria, resulted in a deficit of SKK 55.4 billion (including the costs of the pension reform), representing 3.4% of GDP. The most significant contribution (92.5%) to the general government deficit came from the central government deficit amounting to SKK 52.5 billion. A negative balance was also recorded in the local government sector,

in the total amount of SKK 5 billion. The budgetary performance of social security funds resulted in a surplus of SKK 2.1 billion. Compared with the budgeted general government deficit (SKK 64.6 billion, i.e. 4.2% of GDP), the actual deficit decreased by 0.8% of GDP. In nominal terms, the deficit shrank by SKK 9.2 billion. The deficit ratio was positively influenced by the stronger-than-expected GDP growth, which caused this ratio to decrease by 0.2% of GDP. Apart from this, the smaller general government budget deficit was positively affected first and foremost by an improvement in the state budget in comparison with the budgetary objective (by SKK 17.7 billion, including the balance on extra-budgetary accounts) and in the performance of the Social Insurance Agency, which recorded a positive change (by SKK 3.4 billion) against the budget. State funds in total enhanced their balance by SKK 0.2 billion and achieved a surplus of SKK 5.7 billion. Slovak Consolidation Agency improved its budgetary performance by SKK 5.9 billion, due to a capital transfer received from the state budget in the amount of SKK 5.7 billion. Within the general government, deteriorations in comparison with the budget were recorded by municipalities (a deterioration of SKK 5.4 billion) and health insurance companies (a deterioration of SKK 1.25 billion). In the central government sector, a worse result was achieved by the National Property Fund (NPF), whose budgetary performance deteriorated by SKK 8.6 billion against the budget, as a result of a capital transfer to the state budget in the amount of SKK 7.7 billion for the repayment of loans covered by government guarantees and the debt assumption of NPF's risky liabilities arising from purchase agreements, in the amount of SKK 3.4 billion. Deficits were also recorded by public universities in the total amount of SKK 1.0 billion, while the budget assumed a balanced performance. Subsidised state-owned organisations produced a deficit of SKK 0.7 billion (a deterioration of SKK 0.9 billion compared with the budget).

The positive results of budgetary performance in the general government sector in comparison with the budget were caused by increased tax revenues, which exceeded the budget by SKK 14.0 billion, and by an excess of non-tax revenues (SKK 8 billion). Insurance revenues remained below the budgeted level by SKK 7.5 billion. The favourable developments in tax and non-tax revenues were offset by the non-fulfilment of the budgeted income from grants and transfers, which remained below the budget by SKK 15.5 billion. This was partly due to the non-fulfilment of the budgeted income from EU funds (a shortfall of SKK 7.5 billion), which simultaneously contributed to the fall in expenditures financed from EU funds and co-financed from the state budget. Total expenditure lagged behind the budgeted amount (by SKK 9.5 billion), owing to the lower drawing of current expenditures (by SKK 13.9 billion). This was mainly reflected

in the state budget, where the actual amount of current expenditures was by SKK 34.4 billion lower than the budgeted figure, which was partly compensated for by amounts in excess of the budgets of municipalities (SKK 4.8 billion), health insurance companies (SKK 5.1 billion), the Social Insurance Agency (SKK 7.3 billion), and public universities (SKK 2.5 billion). Capital expenditures exceeded the budget by SKK 4.4 billion, due mainly to the increased expenses of municipalities on the acquisition of capital assets, which were exceeded by SKK 6.3 billion.

Apart from the reclassification of the National Property Fund's guarantees, negative effects on the general government budget were also exerted by the remission of receivables towards foreign countries (SKK 0.53 billion); repayment of foreign receivables in goods (SKK 1.3 billion); a liability to Slovnaft arising from uncertainty about the result of a legal dispute (SKK 1.3 billion); capital transfer from the state budget to the Slovak Water Resource Management Company (SKK 1.1 billion); the Slovak Railways (SKK 0.97 billion), and the Žilina Airport Company (SKK 0.08 billion).

At 31 December 2006, the public debt as defined in the Maastricht criteria stood at SKK 503.1 billion, representing 30.7% of GDP. It decreased somewhat in comparison with 2005, by SKK 4.2 billion. The level of debt was positively influenced by the utilisation of funds obtained from the refinancing system of the SR State Treasury for financing the state budget deficit on a continuous basis and reducing the assumed debt from risky guarantees by SKK 6.3 billion from the resources of the National Property Fund. The debt was also affected positively by the appreciation of the Slovak koruna, which caused a reduction in the debt denominated in foreign currency (by SKK 12.4 billion).

State budget

The State budget of the Slovak Republic was approved by Act No. 655/2005 of 13 December 2005, in which total revenue was budgeted at SKK 272.7 billion and total expenditure at SKK 330.2 billion. The budget deficit was set at SKK 57.5 billion. The actual results were much better than the budgeted figures. The State budget recorded a deficit of SKK 31.7 billion, with budget revenues totalling SKK 292.0 billion and expenditures SKK 323.7 billion.

The positive results can be ascribed to increased budget revenues, combined with savings in budget expenditures. Positive developments were also recorded in tax revenues, which exceeded the budget by SKK 20.6 billion, mainly in value added tax (an excess of SKK 8.5 billion) and corporate income tax (an

Table 23 **State budget fulfilment in 2006****(SKK billions)**

	Budgeted volume	Actual figure	Difference
Value added tax	120.0	128.5	+8.5
Value added tax	51.9	52.1	+0.2
Corporate income tax	36.2	47.3	+11.1
Individual income tax	2.5	2.6	+0.1
Other taxes	5.1	5.8	+0.7
Tax revenues	215.7	236.3	+20.6
Non-tax revenues	57.0	55.7	-1.3
Total revenue	272.7	292.0	+19.3
Current expenditures	283.4	282.9	-0.5
Capital expenditures	46.8	40.8	-6.0
Total expenditure	330.2	323.7	-6.5
Difference	-57.5	-31.7	+25.8

Source: Ministry of Finance of the SR.

excess of SKK 11.1 billion). Savings in expenditures were mainly achieved in the area of capital expenditures (approximately SKK 6 billion), while current expenditures were drawn to almost 100% (savings: SKK 0.5 billion).

Funds from the EU budget were drawn in the amount of SKK 20.4 billion, which means that approximately SKK 7.5 billion remained unused from the budgeted amount (SKK 27.9 billion).

2.5 Monetary policy and monetary developments

In 2006 the NBS conducted its monetary policy in an environment characterised by dynamic economic growth, which was mainly promoted by an increase in the production capacity of the economy and, unlike in 2005, by a positive contribution from net exports. Labour productivity growth in 2006 exceeded the rate of wage growth, while employment grew at a pace comparable with the 2005 figure. The moderation of the rise in oil and energy prices on the world markets and the decision of the Regulatory Office for Network Industries to make adjustments to regulated prices, created conditions for a downward trend in inflation.

To prevent the excessive exchange rate volatility, the NBS intervened in the foreign exchange markets on several occasions. In June and July, the excessive volatility was connected with the developments in the Central-European currencies and the uncertainty stemming from domestic political developments. The foreign exchange intervention in December was ne-

cessitated by the extraordinary degree of exchange rate volatility, which was connected with the liquidity shortage during the Christmas holidays.

During 2006 the risk of a rise in inflation over the next year increased. Hence, the NBS tightened its monetary policy. Over the first three quarters, the NBS gradually raised its key interest rates in four steps: in March, May, and July by 0.50 of a percentage point, and in September by 0.25 of a percentage point (by a total of 1.75 percentage points). The lower than estimated cost effects contributed to the completion of the cycle of key NBS interest rate increases at the end of last year.

The falling inflation, accompanied by sound GDP growth, stimulated by an increase in the economy's potential output and representing no risk of possible demand-based inflationary pressures, provided a framework for a change in monetary policy settings over the medium-term horizon and a reduction in the key NBS interest rates in 2007.

2.5.1 Monetary aggregates and M3 counterparts

The M3 monetary aggregate (according to ECB methodology) increased by SKK 127.1 billion in comparison with 31 December 2005, to SKK 958.5 billion at the end of 2006. The year-on-year rate of M3 growth³ reached 15.3% in December. In 2006 the M3 monetary aggregate recorded a more than twofold total increase, at a rate almost twice as fast as in the previous year.

³ The year-on-year growth dynamics of monetary aggregates and their counterparts are calculated from end-of-month data, including non-transaction operations, which comprise all movements in the balance-sheet items, resulting from changes in the valuation of marketable instruments, the depreciation/write-off of loans, exchange rate differentials, reclassification, and other changes.

Table 24 **Developments in the M3 monetary aggregate and the main counterparts of M3**

	Volume as at 31 December	Change since the beginning of the year ¹⁾	
	SKK billions	SKK billions	%
Year 2006			
M3 monetary aggregate	958.5	+127.1	+15.3
Main counterparts of M3			
Long-term financial liabilities (excl. capital and reserves)	122.6	+19.7	+19.1
MFI loans and securities	895.7	+100.5	+12.6
of which: General government	254.8	-18.7	-6.8
Other residents	640.9	+119.2	+22.8
Year 2005			
M3 monetary aggregate	831.4	+60.2	+7.8
Main counterparts of M3			
Long-term financial liabilities (excl. capital and reserves)	102.9	+4.6	+4.6
MFI loans and securities	795.2	+86.1	+12.1
of which: General government	273.5	-21.7	-7.4
Other residents	521.7	+107.8	+26.0

Source: NBS.

1) Since monetary aggregates and the counterparts of the M3 aggregate (according to ECB methodology) are not evaluated as at 1 January of the given year, the values recorded as at 31 December of the previous year are used in the table and the further text as initial values for the year.

During 2006 the dynamics of M3 gradually increased, except for standard seasonal deviations caused in certain months (in April, September, and December), mainly by the dates of income tax payments and/or dividend payments in the corporate sector. The main pro-growth effect on the M3 aggregate was, however, exerted by the dynamic growth in commercial bank lending. At the same time, deposits increased as a result of a rise in interest rates; this led to a liquidity outflow from investment funds into M3. The accelerated growth of currency in circulation was consistent with the environment of intense economic growth at a higher inflation rate.

The increases in key NBS interest rates started to be reflected in the structure of short-term deposits (shift of demand deposits from the M1 aggregate to higher-interest-bearing time deposits in the M2 sub-aggregate) and the increase in the volume of loans began to moderate from the second half of 2006,

which indicates that monetary policy tightening affects developments in the banking sector with a delay of several months.

Among the main components of the M3 aggregate, the biggest change occurred in the structure of short-term deposits. This was due to the fact that non-financial corporations often shifted part of their free funds from the shortest-term deposits (deposits repayable on demand) to deposits with agreed maturity and back, which significantly affected the volatility of M1. The annual increase in deposits and received loans repayable on demand reached SKK 48.9 billion and the increase in deposits and received loans with an agreed maturity of up to 2 years was SKK 66.1 billion. While the increase in demand deposits was SKK 12.8 billion smaller than in 2005, the increase in deposits with agreed maturity was SKK 92.7 billion larger, which confirms the assumption that the structure of deposits is influenced by interest rate increases.

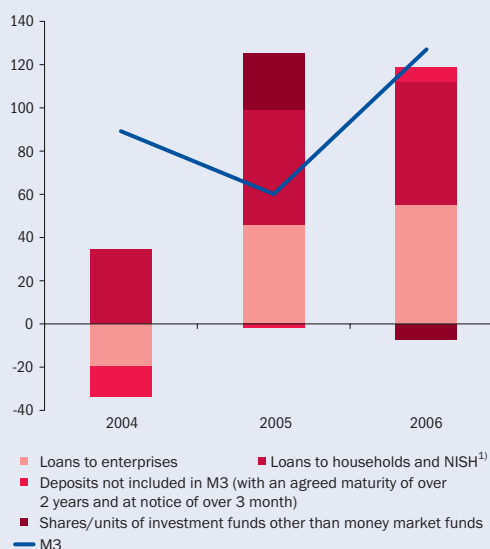
Table 25 **Net sales of open-end investment funds (OIF)** (billions of SKK)

	OIF shares/units in SKK and foreign currency in total	Shares/units of OIFs other than money market funds	Shares/units of money market OIFs
Year 2006			
Cumulative net sales	+4.1	+2.9	-0.9
Year 2005			
Cumulative net sales	+37.9	+25.8	+13.1

Source: NBS calculations based on data from the Slovak Association of Asset Management Companies (SASS).



**Chart 41 Selected counterparts of M3
(year-on-year increases in billions of SKK)**



Source: NBS.

Note: Quarterly data on shares/units of investment funds other than money market funds have only been available since 2004.

1) Non-profit institutions serving households.

In 2006 the total increase in the less liquid components of M3 (marketable instruments) was smaller than in 2005 (an increase of SKK 3.9 billion, compared with SKK 6.9 billion in 2005). The determining factor was the markedly subdued investment in money market funds shares/units (a decline of SKK 0.9 billion, compared with an increase of SKK 13.1 billion in 2005). On the other hand, this decline partly offset a steeper increase in the volume of debt securities issued with a maturity of up to 2 years (an increase of SKK 4.8 billion, compared with SKK 3.6 billion in 2005).

Among the main counterparts of M3, the accelerating trend in the growth of long-term financial liabilities (excluding capital, reserves, and provisions) from 2005 culminated in the second half of 2006. The annual increase in the main long-term financial liability items in 2006 was markedly higher than the figure for 2005, when the volume of debt securities issued with a maturity of over 2 years increased by SKK 13.0 billion and the volume of deposits and received loans with an agreed maturity of over 2 years by SKK 10.2 billion (they grew in 2005 by SKK 6.4 billion and SKK 4.7 billion respectively). The volume of deposits redeemable at a period of notice of over 3 months declined in comparison with 2005 by SKK 3.5 billion, which was SKK 6.6 billion less than in 2005.

The increase in the total receivables of monetary financial institutions (MFI) from residents (including

securities issued by clients and held by MFIs) grew year-on-year by SKK 14.4 billion, while the decrease in the receivables of MFIs from the public sector was fully offset by an increase in MFI receivables from the private sector. The decrease in receivables from the public sector in 2006 was smaller than in the previous year (by SKK 3.0 billion) and the increase in receivables from other residents was SKK 11.4 billion larger.

2.5.2 Structure of the money supply

The year-on-year dynamics in the money supply accelerated throughout 2006 (its dynamics culminated in November 2006, at 16.1%) and the volume of the M3 aggregate reached SKK 958.5 billion at the end of 2006. Among the money supply components, the contributions to M3 growth from the most liquid components increased in the first half of 2006 (currency, deposits and received loans repayable on demand), but then diminished in the second half of the year in favour of the growth of contributions from the less liquid M3 components. Among the counterparts of M3, the growing trend continued in the area of MFI receivables from the private sector. This trend, however, slowed somewhat at the end of the year, owing to the rise in interest rates.

The substantial components of the M1 aggregate are deposits and received loans repayable on demand. The contributions of the most liquid types of deposits to M3 growth reflected the developments in household deposits and received loans repayable on demand, which recorded a slowdown in the year-on-year growth rate in the second half of 2006. The deposits and received loans of non-financial corporations repayable on demand made a positive contribution to money supply growth throughout the period. The second M1 component is currency in circulation, which recorded a gradual slowdown in the year-on-year growth rate throughout 2006 (a year-on-year growth of 9.5% in December 2006, compared with 19.3% in December 2005), which was also reflected in its reduced contribution to money supply growth.

The less liquid money supply components (M2 – M1) are deposits and received loans with an agreed maturity of up to 2 years and deposits redeemable at notice of up to 3 months. Their volume began to increase at the beginning of this year and thus they made a positive contribution to M3 growth. This growth took place mainly in the second half of the year, when their contributions to money supply growth accounted for almost a half of the total growth. Developments in the less liquid fixed-term deposits were determined by an increase in the volume of deposits and received loans with an agreed maturity of up to 2 years, while deposits redeemable at notice of up to 3 months

Table 26 Developments in monetary aggregates in 2006

	Volume as at 31.12.2006 (SKK billions)	Year-on-year change (SKK billions)	Contribution to M3 growth (% points)
Currency in circulation	131.2	11.3	1.4
Deposits and received loans repayable on demand	414.9	48.9	5.9
M1	546.1	60.2	7.3
Deposits and loans taken with an agreed maturity of up to 2 years	350.5	66.1	8.0
Deposits redeemable at a period of notice of up to 3 months	11.6	-3.2	-0.4
M2 – M1	362.1	62.9	7.6
M2	908.1	123.2	14.8
Money market fund shares/units	45.0	-0.9	-0.1
Repo operations	0.0	0.0	0.0
Debt securities issued with a maturity of up to 2 years	5.4	4.8	0.6
M3 – M2	50.3	3.9	0.5
M3	958.5	127.1	15.3

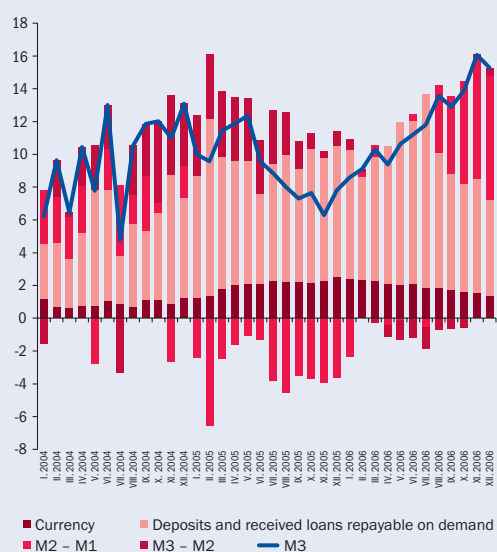
Source: NBS.

contributed to the money supply growth negatively throughout the year. The growth in fixed-term deposits was mainly connected with the rise in customer interest rates and, in part, with the fall in interest in investment in money market funds shares/units in the first half of 2006.

The smallest share of the money supply was in marketable instruments (M3 – M2). They represent the least liquid component, which is mostly formed by money market fund shares/units. In 2006 money market fund shares/units continued to follow the

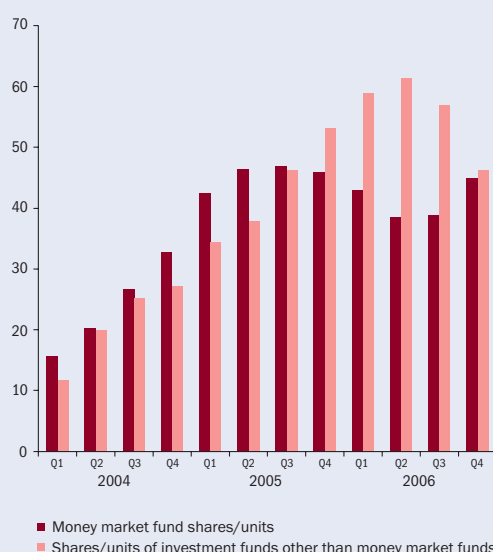
falling trend from 2005. This fall came to a halt in the last quarter of 2006 and their volume began to grow again. Their development was influenced by the shift of household funds into more lucrative products, such as time deposits and, in the first half of the year, the shares/units of investment funds other than money market funds. The rest of marketable instruments is formed by repo operations and debt securities issued with a maturity of up to 2 years, whose share in the money supply began to increase slightly in the second half of 2006, as well as their contribution to the year-on-year rate of M3 growth.

Chart 42 Contributions of individual M3 components to its year-on-year dynamics (% points)

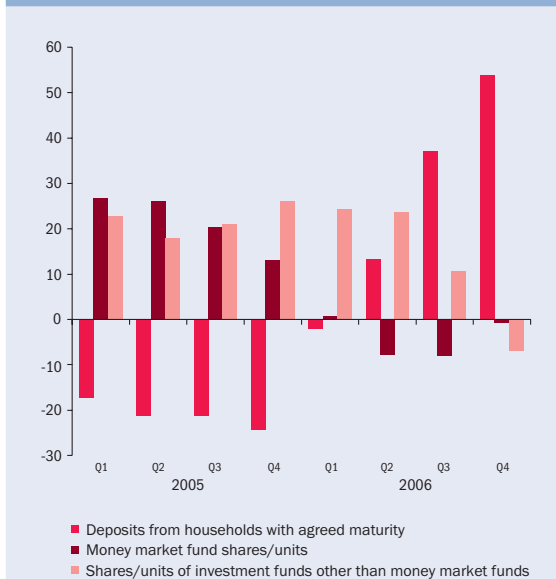


Source: NBS.

Chart 43 Investment fund shares/units – amounts (SKK billions)



Source: NBS.

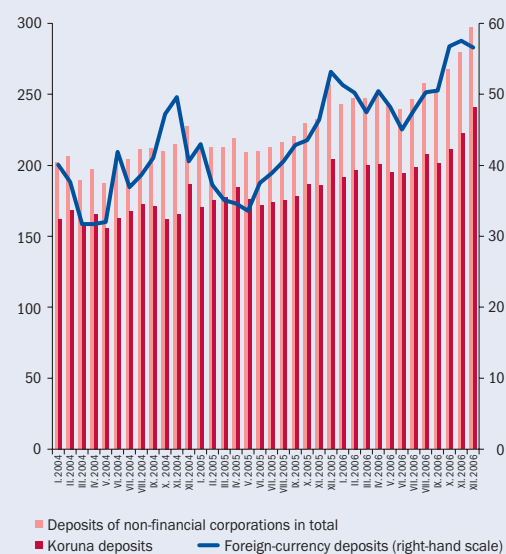
**Chart 44 Year-on-year growth in household deposits and shares/units (SKK billions)**

Source: NBS.

Deposits from non-financial corporations

Deposits from non-financial corporations grew in volume by SKK 40.2 billion in comparison with December 2005, to SKK 297.3 billion at the end of 2006. The year-on-year growth in corporate deposits took place in both koruna deposits (representing approximately 80% of the total volume of corporate deposits) and foreign-currency deposits. Developments in corporate deposits in the individual months were mostly influenced by koruna deposits. Thus, the total volume of corporate deposits increased despite a fall in foreign-currency deposits. A marked increase in deposits occurred in the last quarter, mainly due to an increase in the volume of koruna deposits from non-financial corporations.

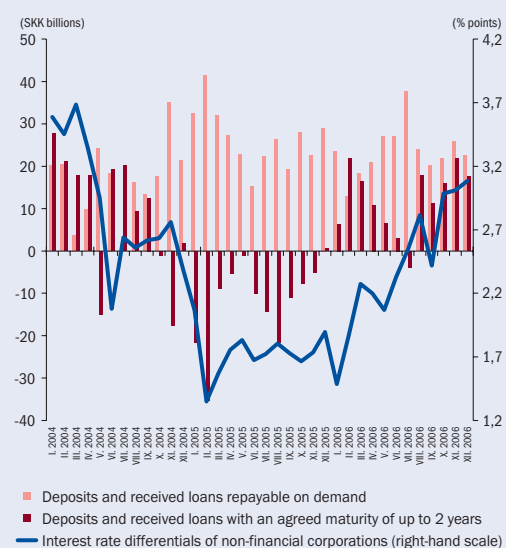
Corporations tend to use their deposits primarily for transactions, so they give preference to the most liquid types of deposits in the long term. The deposits and received loans of non-financial corporations repayable on demand account for up to 60% of the total volume of corporate deposits; their volume reached SKK 176.9 billion in December 2006. Besides deposits repayable on demand, time deposits also made a positive contribution to the growth in deposits from non-financial corporations. After declining in 2005, corporate deposits and received loans with an agreed maturity of up to 2 years followed a growing trend. One of the factors stimulating interest in this deposit product was the rise in its interest rate, which corresponded to the increase in the key interest rate of the NBS. Deposits redeemable at notice of up to 3 months recorded a modest increase, but these deposits represent only a negligible part of the deposits of non-financial corporations.

Chart 45 Deposits of non-financial corporations (SKK billions)

Source: NBS.

Household deposits

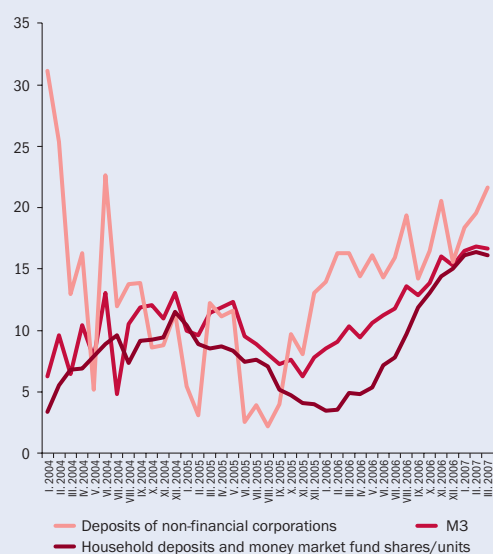
Household deposits recorded an increase in their year-on-year growth dynamics since the beginning of the year, to 17.5% in December 2006 (the average year-on-year growth rate in 2005 stood at 0.5%).

Chart 46 Year-on-year growth in deposits from non-financial corporations

Source: NBS.

Note: Interest rate differential is difference between the interest rates on less liquid M2 components (deposits and received loans with an agreed maturity of up to 2 years and deposits redeemable at notice of up to 3 months) and the interest rate on deposits and received loans repayable on demand.

Chart 47 Year-on-year dynamics of M3 and of deposits of households and non-financial corporations (%)



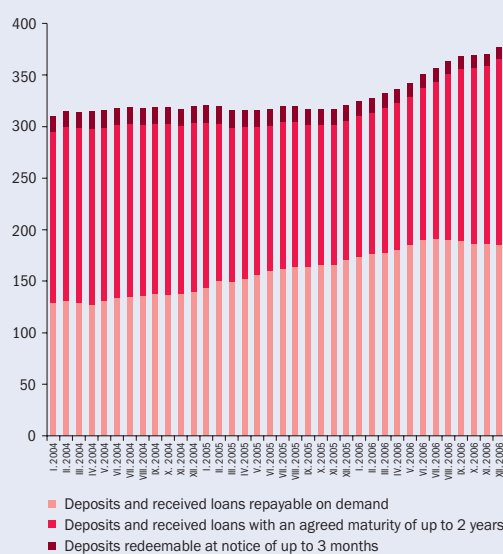
Source: NBS.

The total year-on-year increase (SKK 56.1 billion) mainly took place in deposits and received loans with an agreed maturity of up to 2 years, which grew year-on-year by SKK 44.1 billion in December 2006. The contributions of deposits and received loans repayable on demand decelerated somewhat, mainly in the second half of 2006, but they remained positive.

As in the case of non-financial corporations, small differences were recorded in 2005 between interest rates on fixed-term household deposits and deposits repayable on demand, which increased from the beginning of 2006. Owing to this development, the year-on-year decline in deposits and received loans with an agreed maturity of up to 2 years slowed, and gradually changed to a marked increase (SKK 44.1 billion year-on-year). The growth in deposits was probably also influenced by the weakening interest in investment in money market fund shares/units. This form of investment in the first half of the year was also replaced by investment in the shares/units of investment funds other than money market funds. In the second half of 2006, however, a backward transfer of funds was observed between investment funds, when the growing interest in time deposits and money market fund shares/units was accompanied by a decline in investment in the shares/units of investment funds other than money market funds. Household deposits redeemable at notice of up to 3 months made a negative contribution to the overall growth of deposits during the year.

Broken down by currency, developments in household deposits were mostly determined by koruna deposits,

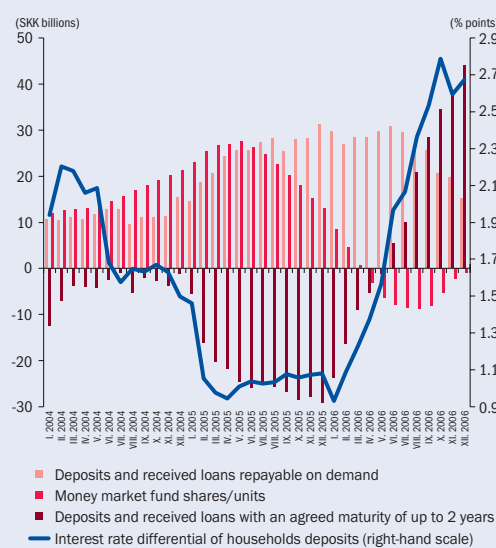
Chart 48 Developments in household deposits (SKK billions)



Source: NBS.

which accounted for almost 90% (SKK 334.8 billion) of all household deposits. As in the case of total household deposits, the rate of growth gradually accelerated over the course of 2006. Deposits in foreign currency also made a positive contribution to the year-on-year growth in total household deposits. Their volume decreased somewhat in the last quarter,

Chart 49 Year-on-year growth in household deposits



Source: NBS.

Note: Interest rate differential is the difference between the interest rates on less liquid M3 components (deposits and received loans with an agreed maturity of up to 2 years and deposits redeemable at notice of up to 3 months) and interest rate on deposits and received loans repayable on demand.



which was probably connected with koruna exchange rate development in this period.

Deposits not included in M3

Of deposits not included in the M3 monetary aggregate, household deposits with an agreed maturity of over 2 years slightly increased, while household deposits redeemable at notice of over 3 months continued to decrease. The deposits of non-financial corporations not included in the M3 aggregate recorded a modest increase, but they had a negligible share in the total volume of corporate deposits.

2006, representing an increase of SKK 119.8 billion compared with the end of 2005. This development took place partly in loans denominated in Slovak koruna (an increase of SKK 108.4 billion) and partly in euro-denominated loans (an increase of SKK 11.8 billion). Loans in other foreign currencies recorded a slight decrease (SKK 0.3 billion). The structure of loans by currency remained virtually unchanged at the end of 2006. The share of koruna loans in the total volume slightly increased, to 80.0%, while the share of euro loans decreased to 18.8% and loans in other currencies accounted for 1.2%. At the end of 2005, loans in Slovak koruna accounted for 77.5%, euro loans 20.9%, and loans in other foreign currencies 1.6%.

2.5.3 Monetary financial institutions loans to the private sector

MFI loans to the private sector (excluding securities) reached SKK 627.3 billion at the end of December

The year-on-year dynamics of loans to the private sector recorded lower values in the second half of 2006 (compared with the first half), and reached an average of 26.0% during the year. The most significant contribution to the year-on-year growth in loans

Table 27 **Deposits of households and non-financial corporations in 2006**

	Volume as % of M3	Year-on-year change in %				Volume in SKK billions			
	Dec.	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household deposits	39.3	2.5	10.7	16.2	17.5	327.5	336.8	368.3	376.9
Deposits and received loans repayable on demand	19.4	18.0	19.4	15.7	8.9	176.6	180.1	189.0	185.9
of which: in Slovak koruna	17.7	20.6	21.3	17.5	11.0	159.0	162.2	171.1	169.4
Deposits and received loans with an agreed maturity of up to 2 years	18.7	-10.6	3.9	20.5	32.5	136.9	143.2	167.1	179.6
of which: in Slovak koruna	16.1	-12.2	2.6	21.9	37.2	113.4	118.9	141.3	154.4
Deposits redeemable at notice of up to 3 months	1.2	-15.5	-16.9	-17.7	-22.0	14.0	13.5	12.2	11.4
of which: in Slovak koruna	1.1	-14.8	-16.5	-17.7	-21.0	13.4	13.0	11.7	10.9
Household deposits in Slovak koruna	34.9	3.2	11.2	17.5	19.9	285.8	294.0	324.1	334.8
Household deposits in foreign currency	4.4	-2.0	7.4	7.5	1.0	41.7	42.8	44.2	42.1
Deposits of non-financial corporations	31.0	16.3	14.3	14.2	15.6	247.0	251.0	252.2	297.3
Deposits and received loans repayable on demand	18.5	9.3	20.9	15.3	14.7	150.9	136.3	151.3	176.9
of which: in Slovak koruna	14.2	5.0	21.3	15.0	11.6	114.7	102.2	112.4	136.6
Deposits and received loans with an agreed maturity of up to 2 years	12.5	29.4	3.9	12.6	17.1	96.0	114.6	100.6	120.2
of which: in Slovak koruna	10.8	24.5	2.1	11.3	27.7	81.9	98.2	89.0	103.9
Deposits redeemable at notice of up to 3 months	0.0	-13.8	3.7	6.1	28.2	0.2	0.2	0.2	0.2
of which: in Slovak koruna	0.0	-13.8	3.7	6.1	28.2	0.2	0.2	0.2	0.2
Slovak-koruna deposits of non-financial corporations	25.1	12.3	13.1	13.3	18.0	196.8	200.6	201.6	240.7
Foreign-currency deposits of non-financial corporations	5.9	34.9	20.0	18.0	6.5	50.2	50.4	50.5	56.6

Source: NBS.

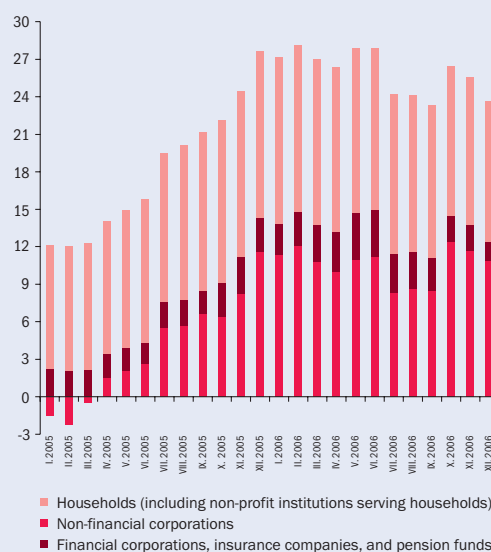
Note: The differences in the sum totals are due to rounding.

was made by loans to households⁴ (a contribution of 11.2 percentage points, causing an increase of SKK 56.9 billion). Loans to non-financial corporations contributed 10.8 percentage points (an increase of SKK 55.0 billion). Compared with December 2005, the contribution of loans to non-financial corporations decreased by 1 percentage point, to 1.6 percentage points (year-on-year increase of SKK 7.9 billion).

In 2006 MFI loans to households followed the growing trend from the previous year, and reached at the end of 2006 an year-on-year increase of SKK 56.9 billion; the year-on-year dynamics stood at 31.4%. The dynamics of bank lending to households decelerated somewhat, due to the strong credit expansion in the previous year (a decrease of 9.8 percentage points in comparison with December 2005). The year-on-year contributions of loans in absolute terms began to decrease as late as the second half of the year, but still reached high values. The interest in loans was probably also reflected in the consumer confidence indicator, which began to rise (after a fall in the second half of 2005, caused by an announced increase in regulated prices) and recorded, for the first time, a positive value at the end of 2006.

Of the total volume of loans to households, loans in Slovak koruna accounted for an average of 98.7%. In 2006 as in the previous year, households used credit resources especially for long-term investment.

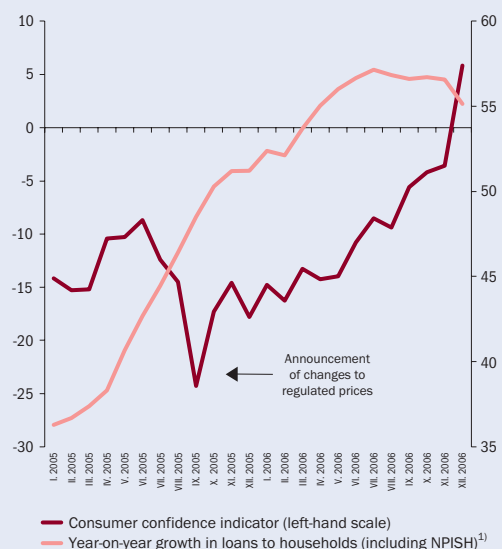
Chart 50 Contributions to the year-on-year growth in MFI loans to the private sector (% points)



Source: NBS.

Regarding the structure of loans by purpose, the steepest year-on-year increase was recorded in loans for house purchases⁵ (SKK 38.0 billion, compared with SKK 31.0 billion in 2005), which contributed 21.0 percentage points to the year-on-year growth in loans to households. With effect from January 2006, a sta-

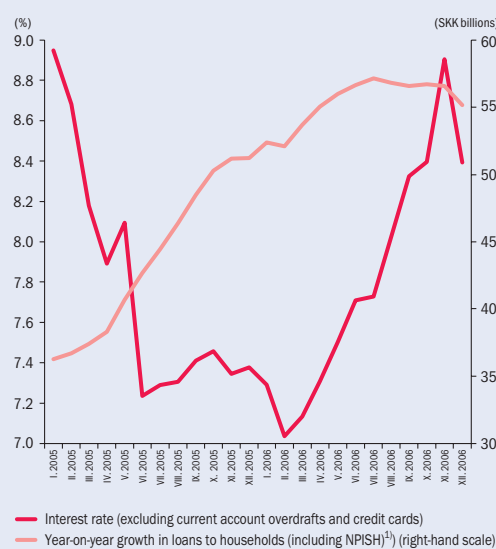
Chart 51 Consumer confidence indicator and absolute growth in loans to households (SKK billions)



Source: NBS, Statistical Office of the SR.

1) Non-profit institutions serving households (NPISH).

Chart 52 Interest rate on loans to households and absolute year-on-year growth in loans to households

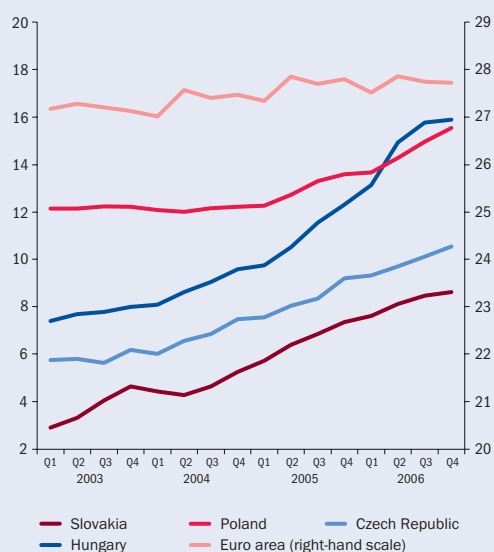


Source: NBS.

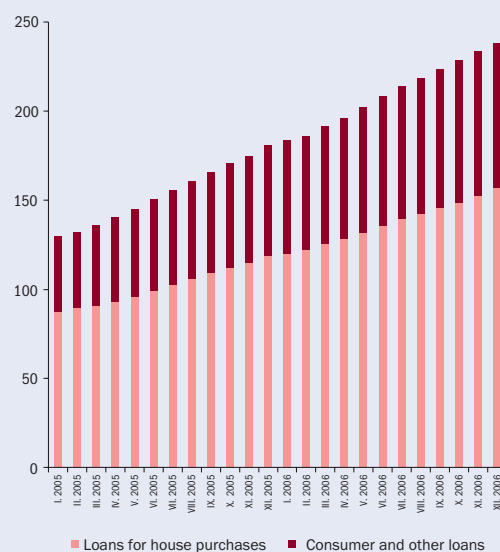
1) Non-profit institutions serving households (NPISH).

⁴ Including non-profit institutions serving households (NPISH).

⁵ Loans to households (including non-profit institutions serving households) broken down by purpose comprise loans for house purchases, consumer loans, and other loans.

**Chart 53 Consumer and other loans to households as a share of final consumption (%)**

Source: NBS, Eurostat and the national central banks.

Chart 54 MFI loans to households (SKK billions)

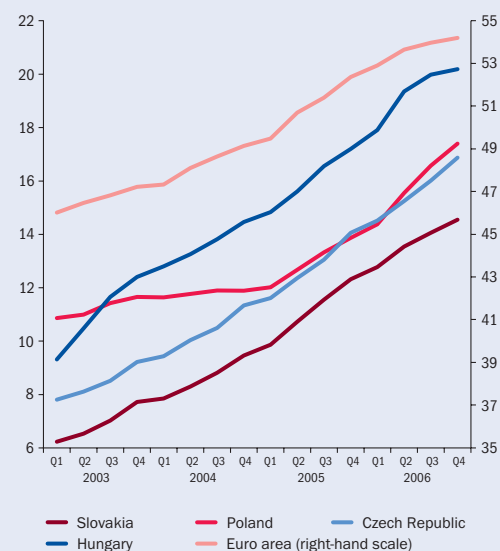
Source: NBS.

tistical change was introduced concerning “American mortgages”, which are recorded within the individual loan categories according to the purpose of use⁶. The absolute year-on-year increases in consumer and other loans were stable, with moderate decreases in the last months of the year (reaching SKK 18.9 billion in December 2006). Consumer and other loans thus represented one of the sources of growth in household final consumption. Their share in final consumption of households increased more moderately in 2006, by 1.2 percentage points compared with the previous year, to 8.6% (the year 2005 saw an increase of 2.1 percentage points, to 7.4%). It was, however, still lower than in the euro area and other V4 countries.

The growth in the monetary financial institutions loans to households was accompanied by a rise in their indebtedness (expressed in terms of the ratio of loans to households to GDP), which increased year-on-year by 2.2 percentage points and reached 14.5% at the end of 2006. Similar developments in connection with the process of real convergence are also recorded in other new Member States, while household indebtedness in these countries is much lower than in the euro area (54.2% in 2006).

Loans in the non-financial corporations sector showed less dynamic development than those in the household sector. After moderating in the third quarter of 2006, their year-on-year growth again accelerated and reached an average rate of 19.0% in 2006.

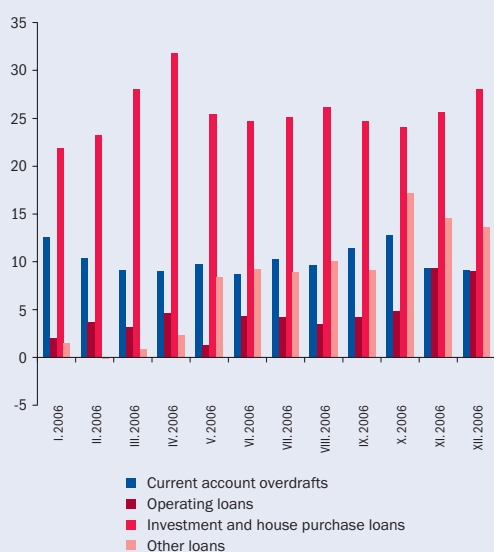
As from January 2006, loans at zero interest rates are recorded in the respective loan categories according to purpose, while before December 2005 they had been recorded as an individual category. Owing to this methodological change, the dynamics of individual types of loans by purpose are partially distorted. The impact of this methodological change

Chart 55 MFI loans to households as a share in GDP (%)

Source: NBS, Eurostat and the national central banks.

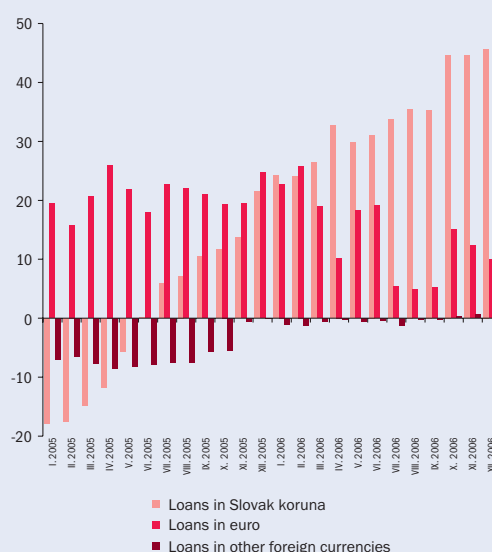
⁶ In 2005, all “American mortgages” were recorded in the “other loans” category. As a result of this change, the “consumer and other loans” aggregate provides a more consistent view of the structure of loans by purpose.

**Chart 56 Loans to non-financial corporations
(year-on-year increases in SKK billions)**



Source: NBS.

**Chart 57 Year-on-year growth in MFI loans to
non-financial corporations (SKK billions)**



Source: NBS.

was most apparently reflected in other loans (a year-on-year increase of SKK 13.6 billion in December 2006), which form the largest part of zero interest loans. In terms of purpose, the steepest year-on-year increases were recorded in investment loans and loans for house purchases (SKK 28.0 billion in December 2006). In recording loans to non-financial corporations by purpose, part of the investment loans was shifted to the “house purchase loans” category in December 2006. Therefore, since loans of these two types are similar in character, they are assessed as an aggregate.

Regarding the time structure of MFI loans to non-financial corporations, a gradual slowdown was recorded in the growth rate of long-term loans with a maturity of over 5 years. However, they still recorded steep year-on-year increases (SKK 25.3 billion in December 2006). On the other hand, long-term loans with 1-year to 5-year maturities showed increased year-on-year dynamics and grew year-on-year by SKK 12.0 billion by the end of the year (compared with a year-on-year decline of SKK 5.9 billion in December 2005). The growth in short-term loans, representing the largest part of loans to corporations, stagnated (after accelerating in the previous year) and reached an average of SKK 19.9 billion in 2006.

Broken down by currency, loans to corporations were dominated by koruna loans (reaching SKK 217.0 billion at the end of 2006), euro loans (SKK 102.2 billion) and loans in other foreign currencies (SKK 7.1 billion). They followed the trend from the previous year, when the increase in koruna loans continued to grow. The increase in euro-denominated loans to corpora-

tions diminished, largely in the second half of 2006, and the growth in loans in other foreign currencies slowed slightly practically throughout the year.

2.5.4 Interest rate developments

Customer interest rates

Customer interest rates were influenced in 2006 by increases in the key NBS rates of March, May, July, and September (by 1.75 percentage points in cumulative terms). Banks reacted to increases in the basic NBS rate more flexibly in the case of non-financial corporations than in the case of households. In lending to non-financial corporations, the increases in the basic NBS rate were not fully reflected in customer interest rates. In lending to households, the lending rate was raised to a greater extent than the basic NBS rate (this was, however, due largely to an increase in rates for current account overdrafts). As far as deposits rates are concerned, the reaction of banks was more flexible in the case of non-financial corporations, which react to interbank market developments relatively sensitively. In the case of households, the increases in the basic rate of the NBS were reflected in the deposits rates only for some of the deposit products (deposits with agreed maturity), the reaction in the case of other deposit products was inflexible.

Interest rates on loans to non-financial corporations

Developments in interest rates on loans to non-financial corporations were dominated by a rising trend



from the end of 2005 to the third quarter of 2006, which was followed by a moderate fall. This development mirrored the increases in key NBS interest rates, which was also reflected in money market rates. The slight fall in lending rates in the last quarter of 2006 was connected with the situation on the interbank market, which reflected a change in expectations regarding the future developments in key NBS rates. The changes in interbank market rates were mirrored in the values of both short-term and long-term interest rates. An exception in the last quarter was formed by loans of over EUR 1 million with a short fixation period, when their interest rates remained at roughly the level of the third quarter. This was probably due to a slower pass-through of changes in market rates to interest rates on loans of over EUR 1 million. This is mainly connected with the possibilities of external financing for large companies and the improved credit conditions in the form of lower interest rates.

Although lending rates for non-financial corporations increased, approximately 13% more loans were provided to non-financial corporations in 2006, compared with 2005 (excluding current account overdrafts and credit cards).

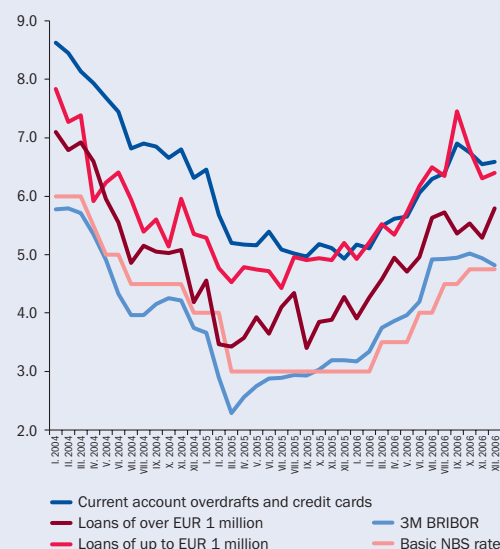
During 2006 interest rates on loans to non-financial corporations (excluding current account overdrafts and credit cards) rose by 1.4 percentage points and rates for current account overdrafts and credit cards increased by 1.7 percentage points. Looking at the breakdown of loans by purpose, the steepest increases occurred in rates for operating loans (1.7 percentage points) and investment loans (1.4 of percentage points).

Interest rates on loans to households

Developments in interest rates on loans to households were characterised, as in the case of non-financial corporations, by a rising trend during 2006, which reflected the increases in key NBS rates. Despite the rising interest rates on loans to households, the relatively high demand for loans continued, especially for loans for house purchases.

The marked rise in rates for current account overdrafts and credit cards in the first few months of 2006 was connected with the expected increases in key NBS rates and the methodological change in the reporting of loans based on the new NBS decree on the classification of assets and liabilities⁷. In the following period, interest rates on current account overdrafts and credit cards continued to rise slowly, in reaction to the increases in key NBS rates. The rise

Chart 58 Interest rates on loans to non-financial corporations, 3-M BRIBOR, and the basic rate of the NBS (%)



Source: NBS.

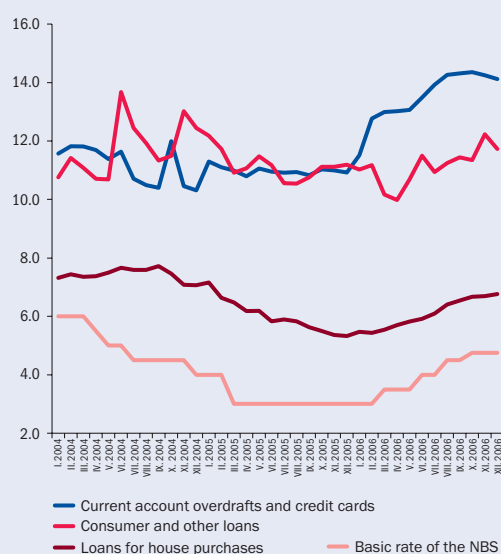
in lending rates for these types of loans reached 3.2 percentage points year-on-year in December 2006.

Interest rates on loans for house purchases also rose somewhat in each month of 2006. This development was mainly connected with the increases in key NBS rates. The average price of house purchase loans rose by 1.4 percentage points during 2006. Within the scope of loans for house purchases, however, interest rates on bank loans and home savings bank loans followed different trends. While interest rates on other loans for house purchases and mortgage loans significantly increased, the rate for intermediate loans rose only slightly and that for building loans dropped somewhat. Home savings bank loans (mainly building loans granted after the saving period) are less dependent on the setting of the key central bank rate than bank loans. On a year-on-year basis, lending rates increased for other loans for house purchases (by 1.7 percentage points), mortgage loans (by 1.5 percentage points), and intermediate loans (by 0.6 of a percentage point), while the price of building loans fell by 0.3 of a percentage point.

After a slight fall at the beginning of 2006, interest rates on loans for consumption (consumer and other loans) showed a moderately rising tendency, reflecting the increase in the key NBS rates. This was mainly reflected in the price of consumer loans granted for specific purposes, which rose by approximately 1.2 percentage points, and in the price of American

⁷ Decree No. 7/2005 of the NBS on the classification of assets and liabilities of banks and branches of foreign banks, adjustment of their valuation, formation and dissolution of reserves, and related reporting.

Chart 59 Interest rates on loans to households (%)



Source: NBS.

mortgages (non-specific loans secured by real estate), which increased by 1 percentage point. The rate for non-specific consumer loans remained unchanged in December 2006 (compared with January), though its fluctuations observed during this period reached up to 1.5 percentage points.

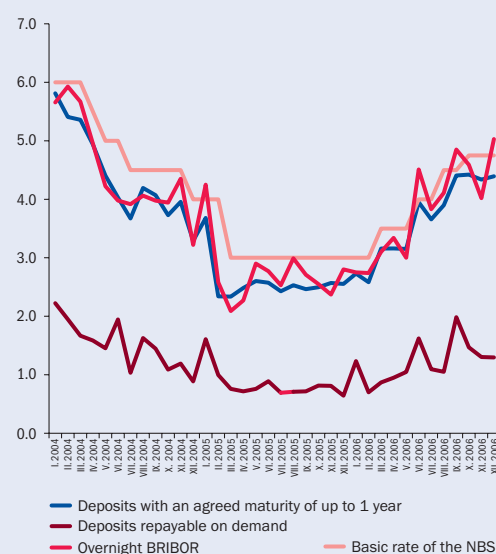
Interest rates on deposits from non-financial corporations

Interest rates on deposits from non-financial corporations followed a rising trend in 2006, which reflected the increases in key NBS rates and the situation on the interbank market. Customer interest rates reacted to the increases in the key NBS rates relatively flexibly. This was mainly indicated by developments in the prices of deposits with an agreed maturity of up to 1 month and up to 1 year, when interest rates on these types of deposits rose by an average of 2 percentage points, to 4% (up to 1 year) and 4.6% (up to 1 month) respectively. Interest rates on deposits repayable on demand were relatively volatile, with fluctuations copying the levels of interbank market rates (except in December 2006). Deposits with an agreed maturity of over 1 year and deposits redeemable at notice form a negligible part of the deposits from non-financial corporations, hence their interest rates are rather volatile.

Interest rates on household deposits

Interest rates on household deposits were characterised by a rising tendency in 2006. This was mainly

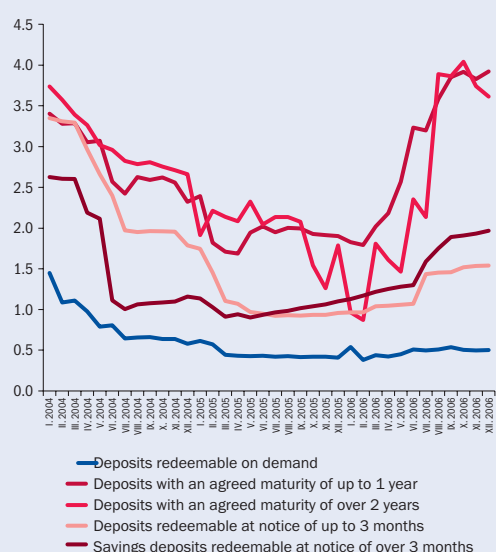
Chart 60 Interest rates on deposits from non-financial corporations (%)



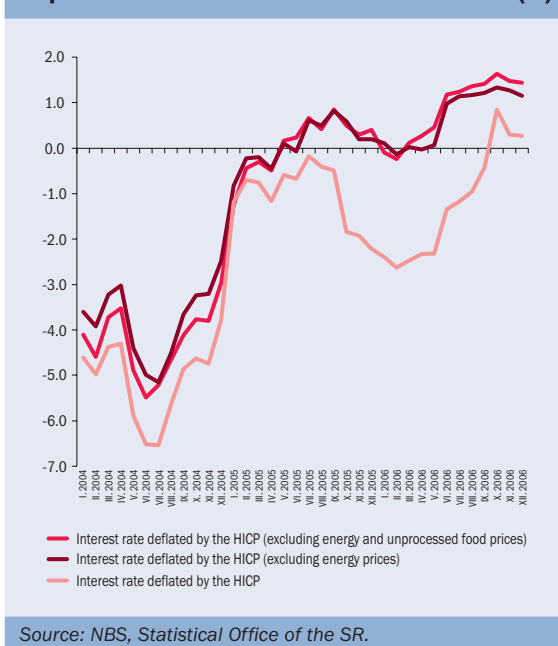
Source: NBS.

a consequence of increases in the key NBS interest rates. The strongest reaction was recorded in interest rates on long-term deposits (deposits with agreed maturity). Within the scope of deposits with agreed maturity, the steepest increases took place in rates for deposits with an agreed maturity of over 2 and up to 5 years (3 percentage points) and deposits maturing in up to 1 year (2.4 points). Despite the marked increase, however, interest rates on household deposits with agreed maturity remained below the level of deposit rates for non-financial corporations. Interest rates on

Chart 61 Interest rates on household deposits (%)



Source: NBS.

**Chart 62 Real interest rates on household deposits (%)**

deposits redeemable at notice rose during 2006 only slightly and those on demand deposits were stagnant throughout the year.

Real interest rates, calculated by deflating the rates of interest on the amounts of one-year household deposits by HICP inflation, showed a rising tendency during 2006. This was mainly connected with the increases in deposit rates and the gradual fall in inflation at the end of the year. As a result of this development, the real interest rates recorded their first positive values in the final quarter of 2006.

2.6 Monetary policy instruments

Interest rate policy

Basic interest rate of the NBS⁸ (the rate for two-week repo tenders):

from	1 March 2005	3.00%
from	1 March 2006	3.50%
from	31 May 2006	4.00%
from	26 July 2006	4.50%
from	27 September 2006	4.75%

Interest rate for overnight refinancing operations:

from	1 March 2005	4.00%
from	1 March 2006	4.50%

from	31 May 2006	5.00%
from	26 July 2006	6.00%
from	27 September 2006	6.25%

Interest rate for overnight sterilisation operations:

from	1 March 2005	2.00%
from	1 March 2006	2.50%
from	31 May 2006	3.00%
from	26 July 2006	3.00%
from	27 September 2006	3.25%

Monetary policy instruments of the NBS

Open market operations

a) *Main instrument – standard repo tender with a maturity of two weeks:*

The NBS conducts standard repo tenders with commercial banks on a weekly basis, usually on Tuesdays. The NBS also sets an interest rate for such operations (the basic interest rate).

b) *Instrument for longer-term liquidity management – 3-month central bank bills issued for the portfolios of commercial banks:*

The NBS generally conducts auctions in NBS bills once a month, by using the American auction technique.

c) *Fine-tuning instruments:*

An instrument of the NBS for fine-tuning the liquidity of banks and interest levels on the market (on an ad hoc basis) in the case of unexpected liquidity fluctuations. This instrument was not used in 2006.

d) *Structural operations – individual transactions:*

An instrument of the NBS for optimising the level of liquidity with respect to the structural position of the central bank vis-à-vis the financial sector. This instrument was not used in 2006.

Standing facilities

a) *Overnight refinancing operations:*

Commercial banks have automatic access to sources of finance (provided they have a sufficient amount of eligible securities), at the rate of interest announced.

b) *Overnight sterilisation operations:*

Commercial banks are allowed to deposit excess funds in the form of non-collateralised deposits, at the rate of interest announced.

⁸ On 12 December 2002, the Bank Board of the NBS decided to introduce a basic NBS interest rate with effect from 1 January 2003. The basic interest rate of the NBS is identical with the limit rate for standard two-week NBS repo tenders. The term “discount rate of the National Bank of Slovakia” or “discount rate of the State Bank of Czecho-Slovakia”, used in generally binding legal regulations, refers to the basic interest rate of the National Bank of Slovakia.

Other instruments

Short-term loans for a period of up to three months: To maintain a bank's liquidity, the NBS may, in exceptional cases, provide a short-term loan to the bank concerned. This instrument was not used in 2006.

Reserve requirements

With effect from 1 January 2005, banks, branches of foreign banks, and electronic money institutions are required to maintain minimum reserves in the amount of 2%:

- of demand deposits, time deposits, and loans received in Slovak koruna or foreign currency;
- of deposits redeemable at notice and loans received in Slovak koruna or foreign currency;
- of debt securities issued in Slovak koruna or foreign currency, except for mortgage bonds.

Maintained reserves are evaluated on a monthly basis. Required minimum reserves held at the NBS on money reserve accounts pay interest at a rate of 1.5% p.a., up to the amount set for the given month.

Exchange-rate and foreign-exchange policies

a) Exchange rate regime:

During 2006, the Slovak koruna participated in the Exchange Rate Mechanism II (ERM II). The central parity of the koruna vis-à-vis the euro was set at EUR 1 = SKK 38.4550. In accordance with the standard fluctuation band in ERM II ($\pm 15\%$ around the central rate), the compulsory intervention rates were SKK/EUR 32.6868 (lower limit) and SKK/EUR 44.2233 (upper limit). The Národná banka Slovenska intervened in the foreign exchange market. These interventions were made in order to correct cases of excessive volatility in the exchange rate of the Slovak koruna, or to respond to the exchange rate development inconsistent with the macroeconomic fundamentals.

b) Nominal exchange rate of the Slovak koruna:

In relation to the euro, the nominal exchange rate of the koruna appreciated during the year by 8.65%, to SKK/EUR 34.573 on 29 December 2006 (the average annual rate of appreciation was 3.53%). This rate was 10.09% stronger than the central rate fixed under ERM II. Owing to the depreciation of the US dollar against the euro on the world markets, the exchange rate of the Slovak koruna appreciated vis-à-vis the US dollar by 17.85%, to SKK/USD 26.246 at the end of 2006 (representing an average appreciation of 3.97% during the year).

c) Nominal and real effective exchange rates of the Slovak koruna:

The average year-on-year appreciation of the nominal effective exchange rate (NEER) of the Slovak koruna accelerated to 2.4% in 2006, from 1.7% in the previous year. The accelerated appreciation of the NEER index was mostly caused by the strengthening of the koruna against the euro (by 1.9 percentage points), followed by an appreciation in relation to the Hungarian forint (0.4 of a percentage point). The appreciation of the nominal effective exchange rate was mostly dampened by a negative contribution (-0.3 of a percentage point) coming from the weakening of the domestic currency vis-à-vis the Czech koruna.

The faster appreciation of the Slovak koruna in 2006 (in nominal terms) was also accompanied by an accelerated appreciation in the real effective exchange rate (REER). The average year-on-year appreciation of the REER index, defined on the basis of consumer prices, accelerated in comparison with the previous month by 2.8 percentage points, to 4.2%. This development was also supported by an increase in the inflation differential vis-à-vis foreign trading partners, caused by an increase in regulated prices. In the case of the REER index, defined on the basis of industrial producer prices, the rate of appreciation accelerated by 4.7 percentage points, to 6.6%, due partly to a rise in domestic price levels as a result of increases in raw materials and energy prices. The appreciation

Table 28 **Developments in the currency structure of foreign exchange receipts and payments**

	2003	2004	2005	2006
Total turnover (in billions of SKK)	1,536.8	1,657.5	1,892.5	2,225.4
of which: euro (including former EMU currencies)	69.8%	70.2%	69.0%	69.7%
Czech koruna	7.8%	7.5%	7.3%	6.6%
American dollar	19.0%	18.8%	19.6%	18.8%
other currencies ¹⁾	3.3%	3.6%	4.1%	4.8%
Turnover as a share of GDP (at current prices)	126.7%	122.3%	128.6%	136.0%

Source: NBS.

1) Hungarian forint, Danish krone, Norwegian krone, Swedish krona, Swiss franc, British pound, Australian dollar, Japanese yen, Canadian dollar, and other currencies.



of the REER index, defined on the basis of manufacturing products prices, accelerated during 2006 by an average of 1 percentage point, to 0.4%.

d) Evaluation of the currency structure of foreign exchange receipts and payments in the Slovak Republic:

The total turnover of receipts and payments in convertible currencies in the payment categories 1 to 6 reached SKK 2,225.4 billion in 2006. The average monthly turnover stood at SKK 185.4 billion, which was 17.6% more than in 2005. The negative balance considerably deepened on a year-on-year basis, to SKK 136.1 billion, which was SKK 105.2 billion more than in 2005. In the long term, the currency structure of the total turnover is dominated by EUR and USD, with a total share of 88.5% in 2006. The share of the euro slightly increased in comparison with 2005 (by 0.7 of a percentage point), while that of the US dollar decreased (by 0.8 of a percentage point). The share of the Czech koruna followed a long-term downward trend and decreased by 0.7 of a percentage point, while that of other currencies increased by 0.7 of a percentage point.

2.7 Chronology of monetary developments

January

- The functions of the Financial Market Office – its supervisory and regulatory powers, tasks and responsibilities, including its employees – are passed over to the Národná banka Slovenska with effect from 1 January 2006.

February

- The Bank Board of the NBS decides to increase its key interest rates by 0.5 of a percentage point with effect from 1 March 2006. The limit rate for two-week repo tenders is raised to 3.5%, the rate for overnight refinancing transactions to 4.5%, and that for overnight sterilisation operations to 2.5%.

March

- Fitch Ratings and Standard & Poor's Ratings Services assign an A rating with a stable outlook to Slovak eurobonds issued under the Euro Medium-Term Note programme.

May

- The Bank Board of the NBS decides to increase its key interest rates by 0.5 of a percentage point with effect from 31 May 2006. The limit rate for two-week

repo tenders is raised to 4.0%, the rate for overnight refinancing transactions to 5.0%, and that for sterilisation operations to 3.0%.

June

- After the parliamentary elections, the NBS conducts two foreign exchange interventions during the month, in which EUR 1,335 million is sold in total.

July

- The NBS accepts a new strategy for managing its branch offices and sub-branches, aimed at ensuring a more optimal and economical management in the individual organisational units – some of the NBS branches and sub-branches are cancelled with effect from 1 July 2006. The sub-branches in Bratislava, Trenčín, Nové Zámky, Žilina, Lučenec, Banská Bystrica, Poprad, Košice, and Humenné are maintained as offices charged with the exclusive task of ensuring money circulation and money supply management.
- The Bank Board of the NBS decides to change its key interest rates with effect from 26 July 2006. The rate for overnight refinancing transactions is increased to 6.0%, the limit rate for two-week repo tenders is raised to 4.5%, while the rate for overnight sterilisation operations is kept unchanged, at the level of 3.0%.
- The Národná banka Slovenska intervenes in July and sells a total of EUR 1,750 million in direct foreign exchange interventions.

September

- The Bank Board of the NBS decides to increase its key interest rates by 0.25 of a percentage point with effect from 27 September 2006. The rate for overnight refinancing transactions is raised to 6.25%, the limit rate for two-week repo tenders to 4.75%, and the rate for overnight sterilisation operations to 3.25%.

October

- Moody's Investors Service increases its rating for Slovak government bonds in both domestic and foreign currency, from A2 to A1. According to the agency, this step can be ascribed to the good results achieved in the area of structural reforms and the continuing strong economic growth. Moody's Rating Agency also increases the ceiling for foreign-currency bank deposit ratings, from A2 to A1, with a stable outlook.

December

- The Národná banka Slovenska intervenes in December and purchases a total of EUR 495 million in direct foreign exchange interventions.