



NÁRODNÁ BANKA SLOVENSKA



Annual Report

2007



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Address:

Národná banka Slovenska
Imricha Karvaša 1
813 25 Bratislava
Slovakia

Communication Section
Tel.: +421/2/5787 2141, 5787 2146
Fax: +421/2/5787 1128

<http://www.nbs.sk>

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Contents

Foreword	7
1 External Economic Environment	11
1.1 Global trends in output and prices	11
1.2 Economic development in the euro area	12
1.3 Development in Visegrad countries	15
2 Monetary Developments	21
2.1 Economic developments	21
2.1.1 Price Developments	21
2.1.2 Gross domestic product	25
2.1.3 Labour market	31
2.1.4 Financial results of corporations	32
2.2 Balance of payments	33
2.2.1 Current account	33
2.2.2 Capital and financial account	36
2.2.3 Foreign reserves	37
2.2.4 External debt of the SR	38
2.2.5 Nominal and real effective exchange rates of the Slovak koruna	38
2.3 General government sector	38
2.4 Monetary developments	39
2.4.1 Monetary aggregates	39
2.4.2 Factoring, leasing and consumer credit companies loans	42
2.4.3 Customer interest rates	42
3 NBS Monetary Policy Operations, Foreign Exchange Operations and Investment Activities in Foreign Reserve Management	47
3.1 Monetary policy operations	47
3.2 Foreign exchange operations	49
4 Supervision of the Financial Market	53
4.1 Financial market regulation in Slovakia	53
4.2 Rulemaking activities of the supervision unit	53
4.3 Licensing activities of the supervision unit	57
4.4 Consumer protection	58
4.5 Supervision activities of the supervision unit	58
4.6 Analytical activities of the supervision unit	60
4.7 Financial market developments in 2007	61
5 Issuing Activity and Currency in Circulation	67
5.1 Slovak currency issuance	67
5.1.1 Currency in circulation and net annual issuance in the SR	67
5.1.2 Structure of currency in circulation and net issuance	68
5.1.3 Average values of currency in circulation	70



5.1.4	Currency in circulation and selected macroeconomic variables	70
5.2	Counterfeit money seized in the territory of the Slovak Republic	71
5.2.1	Slovak koruna counterfeits	72
5.2.2	Counterfeits of foreign currencies.....	72
6	Payment System.....	77
6.1	Legal and institutional aspects.....	77
6.2	The payment system of the Slovak Republic	78
6.2.1	Concept of the payment system in the SR in relation to the introduction of euro	78
6.2.2	Payments realised via SIPS	79
6.2.3	Payment cards.....	81
6.3	Cooperation with the international financial institutions in the field of payment systems	81
6.4	Preparation for the introduction of euro.....	82
7	Statistics	87
8	Foreign Activities	91
8.1	The European Union	91
8.2	NBS cooperation with international institutions.....	92
8.3	NBS foreign training and development activities	93
9	Preparation for the Euro Introduction	97
9.1	The National Euro Changeover Plan and organizational preparations	97
9.2	Economic policies and the Maastricht Criteria for euro adoption.....	100
10	Legislation.....	105
11	Institutional Developments	111
11.1	Organization and management	111
11.2	Human resources.....	111
11.2.1	Personnel	111
11.2.2	Personnel development.....	113
11.2.3	Employee remuneration.....	114
11.2.4	Social expenses.....	114
11.3	Training and Education.....	114
11.3.1	Training and education of NBS employees	115
11.3.2	Training and education for commercial banks and other financial institutions employees.....	116
	Internal trainers.....	116
12	Communication	119
13	Independent Auditors' Report and Financial Statements of NBS for the Year Ended 31 December 2007	121
	List of tables.....	153
	List of charts	154
	Abbreviations.....	158
	Glossary.....	160

Foreword



Foreword

When assessing the previous year, it could be in a word most precisely characterized as “dynamic”. The year 2007 was dynamic not only from the point of view of the economic and monetary developments in Slovakia, but also from the point of view of activities performed within the bank. The increased activity at almost all levels was often related directly or indirectly to the forthcoming introduction of the euro.

Economic growth measured by GDP at constant prices reached record-breaking 10.4% at the year-end. The extension of production capacities and production activities, mainly in the automobile and electrotechnical industry, was reflected in the growing export performance of the economy. The overall structure of economic growth was balanced, and influenced both by foreign and domestic demand. The ongoing strong economic growth supported by the labour productivity growth was reflected in wage and employment growth, in a drop of the number of unemployed and an improvement of the financial performance of corporations.



In the first half of 2007, a gradual slowdown in the year-on-year inflation in Slovakia was observed. In the second half-year the trend changed, mainly as a result of growing prices of food products and energy commodities in the world markets. At the end of 2007, inflation measured by the harmonized index of consumer prices reached 2.5%. Despite the year-on-year drop of inflation by 1.2 percentage points, the NBS inflation target set for the end of 2007 was not met. External cost factors, which constitute exceptions from meeting the inflation target set in advance, exerted a crucial influence on price level development.

Mitigation of inflation risks in the first half-year of 2007 made it possible to gradually ease monetary policy and to reduce key interest rates. Over the course of the first half-year, NBS reduced its base interest rate in two steps (in total by 0.5 percentage points) to 4.25%.

The exchange rate policy was conducted within the ERM II mechanism. Since the entry into the ERM II, the Slovak koruna exchange rate has been gradually appreciating, influenced by the equilibrium shift in economic fundamentals. With effect from 19 March 2007, the central parity of the koruna vis-à-vis the euro was revalued to 1 euro = 35.4424 SKK. Immediately after revaluing the central parity the Slovak koruna appreciated again, this time, however, particularly in connection with market expectations regarding the euro introduction and setting the conversion rate. For this reason, in March and April, NBS intervened three times in the form of direct foreign exchange interventions against excessive volatility of the Slovak koruna's exchange rate.

Favourable economic developments supported meeting the Maastricht criteria set for the euro introduction. Estimates of developments for the following years indicate that the criteria have been met in a sustainable manner, and Slovakia is prepared to introduce the euro on 1 January 2009.

With the approaching date of expected Slovakia's joining the euro area, preparations for the euro introduction escalated gradually at all levels during 2007. An important step was the preparation and adoption of the Act on the euro introduction in the Slovak Republic and amending and supplementing certain acts (Act No. 459/2007 Coll.). This so called General Act constitutes the basic legal framework for the euro introduction in Slovakia and develops conditions for a continuous and smooth changeover from the Slovak koruna to the euro.



As follows from the report on performing the National Euro Changeover Plan for the SR for 2007, the most significant progress in completing the planned tasks was achieved mainly in the area of preparations of the information campaign, preparations for the frontloading of euro cash and preparations of public administration organizations. It is gratifying for NBS that the first two areas are under the responsibility of the working committees coordinated by Národná banka Slovenska.

Along with the tasks performed within the working committees, NBS completed a number of other tasks in 2007, specified by the Internal Euro Changeover Plan of NBS. NBS monitored and controlled the preparation of banking and financial institutions for the introduction of the euro, and, as a part of this, NBS prepared an analysis of possible effects of the euro changeover on the Slovak financial market. The euro changeover in Slovakia will influence the performance of monetary policy, administration of foreign exchange reserves, as well as reporting. NBS analysed these areas and prepared draft procedures for harmonising the procedures, statistical data and application software with the ECB. NBS hosted professional seminars on the euro changeover and organised travelling exhibitions on the Slovak sides of euro coins in several regional towns. In addition, NBS has continuously provided training for banking and other employees in relation to the euro introduction.

A significant legislative change in the financial sector was the transposition of Directive No. 2004/39/EC of the European Parliament and of the Council on markets in financial instruments (the so called MiFID Directive) into the legal framework of the Slovak Republic. Implementation of the MiFID Directive in Act No. 209/2007 Coll. led to an alteration of conditions for conducting investment services, auxiliary services and investment activities of securities dealers. It laid down requirements for the notification of transactions in financial instruments, and made the organizational rules for securities dealers and the measures for investor protection stricter.

Looking at the future, in particular tasks and challenges related to the changeover of the Slovak koruna to the euro will be of top priority: the dual display of prices, the conversion of prices, the conversion of bookkeeping, employee education and training, and informing partners and customers. This is only a brief overview of tasks the majority of entities in the business sector and public administration will have to ensure. Demanding work related to the adoption of the ECB common monetary policy awaits Národná banka Slovenska. Some of its competences will be passed to the ECB; nevertheless, in the future, the majority of them will be conducted in cooperation with NBS. However, monetary policy will no longer react to individual developments in Slovakia, for it will take into account developments in all countries of the euro area. Therefore, consistent conduct of supporting policies aimed mainly at increasing flexibility of the economy is a challenge, so that Slovakia will be able to cope with any possible shocks without the assistance of its own monetary policy.

May 2008

Ivan Šramko
Governor