

List of tables

Table 1	World output.....	11
Table 2	Consumer price developments in terms of HICP (average for the period)	23
Table 3	Consumer price developments	23
Table 4	Year-on-year developments in producer prices	25
Table 5	GDP creation by component	26
Table 6	GDP growth by sector	26
Table 7	GDP development by use	27
Table 8	Structure of gross fixed capital formation in 2007	27
Table 9	Investments and savings.....	28
Table 10	Generation and use of income in the household sector.....	30
Table 11	Labour market indicators	31
Table 12	Financial results of corporations	32
Table 13	Balance of payments on current account.....	33
Table 14	Exports from January to December	34
Table 15	Imports from January to December.....	34
Table 16	Balance of services.....	35
Table 17	Income balance.....	35
Table 18	Balance of current transfers	35
Table 19	Balance of payments capital and financial account	36
Table 20	Capital inflows in other investment by sector.....	36
Table 21	External debt of the SR	37
Table 22	Developments in the main M3 components and counterparts.....	40
Table 23	Number of supervised entities as at 31 December 2007	54
Table 23	Number of supervised entities as at 31 December 2007 (continuation).....	55
Table 24	Number of decisions issued by the financial market supervision unit of Národná banka Slovenska in 2007.....	57
Table 25	Number of on-site supervisions conducted in supervised entities of the financial market in 2007	59
Table 26	Commemorative silver coins issued by NBS in 2007	67
Table 27	Value of currency in circulation in SKK	68
Table 28	Number of currency in circulation in pieces	69
Table 29	Development of the average value of the currency mark.....	70
Table 30	Number of seized Slovak koruna counterfeits.....	73
Table 31	Number of seized euro counterfeits	73
Table 32	Number of seized US dollar counterfeits	73
Table 33	Number of seized counterfeits of other foreign currencies	73
Table 34	Number of transactions made in SIPS	78
Table 35	Value of transactions made in SIPS	79
Table 36	Time table for the euro adoption in the SR.....	97
Table 37	Fulfilment of the Maastricht Criteria in 2007	100



List of charts

Chart 1	Price development.....	12
Chart 2	Year-on-year changes in commodity prices.....	12
Chart 3	GDP growth in euro area countries	13
Chart 4	Changes in the economic growth rate in 2007 compared to 2006.....	13
Chart 5	Development of HICP inflation in the euro area.....	13
Chart 6	Year-on-year changes in individual components of HICP inflation in the euro area	14
Chart 7	USD/EUR exchange rate development in 2007	14
Chart 8	ECB interest rates and EURIBOR	14
Chart 9	Exchange rates of V4 currencies against the euro	15
Chart 10	Contributions to GDP growth.....	15
Chart 11	Key rates of national central banks	16
Chart 12	Contributions to HICP inflation	16
Chart 13	Structure of HICP inflation according the breakdown of the national index (contributions to headline inflation by component)	21
Chart 14	Developments in the prices of core inflation components.....	22
Chart 15	Structure of CPI inflation (contributions to headline inflation by component).....	24
Chart 16	Annual real GDP growth	26
Chart 17	Quarterly real GDP growth.....	26
Chart 18	Structure of household final consumption	28
Chart 19	Contributions of individual consumer expenses to growth in household final consumption.....	29
Chart 20	Export performance and import intensity.....	29
Chart 21	Propensity of households to save and to consume	30
Chart 22	Unemployment rate	31
Chart 23	Trade balance and current account developments.....	33
Chart 24	Contributions of individual M3 components to its year-on-year dynamics.....	39
Chart 25	Contributions to the year-on-year growth in MFI loans to the private sector.....	41
Chart 26	Increases in loans to households (cumulative data since the beginning of the year)	41
Chart 27	Increases in loans to non-financial corporations (year-on-year growth).....	42
Chart 28	Interest rates on loans to non-financial corporations, 3-M BRIBOR, and the NBS base rate	42
Chart 29	Interest rates on loans to households by type	43
Chart 30	Interest rates on deposits from non-financial corporations.....	44
Chart 31	Interest rates on household deposits.....	44
Chart 32	BRIBOR interest rates in 2007	47
Chart 33	Open market operations by type (monthly average)	48
Chart 34	Required minimum reserves in 2007	48
Chart 35	Benchmark yield curve of government bonds	49
Chart 36	Exchange rates of the Slovak koruna against the euro and dollar in 2007.....	50
Chart 37	Foreign reserve assets managed by the NBS.....	50
Chart 38	The structure of assets and managed assets of the financial market.....	61
Chart 39	The monthly development of currency in circulation in 2007	67
Chart 40	The daily development of currency in circulation	68
Chart 41	Currency in circulation held by banks and outside banks	71
Chart 42	The share of M0 in M1 and GDP (at current prices).....	71
Chart 43	Effect of inflation on the value of currency in circulation	71
Chart 44	Development of the number of seized counterfeits.....	72
Chart 45	Structure of counterfeits in 2007	72
Chart 46	Number of transactions made in SIPS.....	79
Chart 47	Value of transactions made in SIPS	79
Chart 48	Number of priority payments	80



Chart 49 Shares of payments in the value of transactions.....	80
Chart 50 Intraday credit in 2007	81
Chart 51 Preparedness of entities for the euro introducing in the SR	98
Chart 52 Expectations of Slovak citizens for the date of the euro changeover in Slovakia	98
Chart 53 Expectations of Slovak citizens for the effect of the euro changeover in Slovakia	99
Chart 54 The koruna's exchange rate following entry into ERM II	99
Chart 55 NBS staff by age	114
Chart 56 NBS staff by length of service at the Bank.....	114
Chart 57 NBS staff by education.....	115
Chart 58 Number of NBS participants	115
Chart 59 Training and education for employees of financial institutions.....	116



Abbreviations

ARDAL	Debt and Liquidity Management Agency
a.s.	joint stock company
ATM	Automated Teller Machine
BCPB	Bratislava Stock Exchange
BRIBOR	Bratislava Interbank Offered Rates
CPI	Consumer Price Index
CDCP SR	Central Securities Depository of the SR
DDP	Doplňková dôchodková poisťovňa – Supplementary Pension Insurance Company
DDS	Doplňková dôchodková spoločnosť – Supplementary Pension Company
EBOR	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council of the EU
EFT POS	Electronic Funds Transfer at Point of Sale
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
EU	European Union
EUR	euro/€
FDI	Foreign direct investment
Fed	Federal Reserve System
FNM	Fond národného majetku – National Property Fund
FRA	Forward rate agreement
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IBEC	International Bank for Economic Cooperation
IBRD	International Bank for Reconstruction and Development
IFRS	International Financial Reporting Standards
IIB	International Investment Bank
IMF	International Monetary Fund
IPP	Industrial Production Index
IRB model	Credit risk model based on internal rating
IRS	Interest rate swap
MFI	Monetary Financial Institutions
MiFID	Markets in Financial Instruments Directive
NBS	Národná banka Slovenska – National Bank of Slovakia
NEER	Nominal Effective Exchange Rate
OECD	Organisation for Economic Co-operation and Development
OCP	obchodník s cennými papiermi – securities dealer
OPEC	Organisation of Petrol Exporting Countries
OPF	otvorené podielové fondy – Open-end Mutual Funds
p.a.	per annum
p.p.	percentage points
PPI	Producer Price Index
REER	Real Effective Exchange Rate
ROE	Return on Equity
RULC	Real Unit Labour Costs



SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Management Companies
SAX	Slovak Share Index
SDX	Slovak Bond Index
SDXG	Slovak Bond Index Group
SEPA	Single Euro Payments Area
SIPS	Slovak Interbank Payment System
SKONIA	SlovaK OverNight Index Average
SSP	Single Shared Platform
SSS	Securities Settlement System
STATUS DFT	STATUS application software for financial market supervision
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer
ULC	Unit Labour Costs
USD	US dollar
WB	World Bank
WTO	World Trade Organization
ZBK SR	Bank Card Association in the SR



Glossary

Actuary – insurance mathematician responsible for the calculation of insurance premiums and reporting.

Autonomous liquidity factors – factors other than monetary policy operations influencing banking sector liquidity. Such factors are, in particular, net foreign assets held by the central bank, central government deposits with the central bank and currency in circulation.

Average value of currency mark – the total value of currency in circulation divided by the total number of banknotes and coins.

B5 – aircraft insurance.

B11 – insurance of the liability arising out of the ownership and use of aircraft including carrier's liability.

BRIBOR (Bratislava Interbank Offered Rate) – interest rate fixing in the interbank deposit market calculated from prices offered by reference banks for deposits with maturities ranging from 1 day to 12 months.

Central parity – the exchange rate vis-à-vis the euro of currencies of ERM II participant countries, around which the ERM II fluctuation margins are defined. The central parity for the Slovak koruna was set on 28 November 2005 at 38.4550 SKK per euro, with a fluctuation band of $\pm 15\%$.

Collateral – an asset used to secure a loan. In case of the debtor's default the asset can be sold and the proceeds used to settle the outstanding loan.

Common ESCB Training – a common training program of the European Central Bank (ECB) and national central banks of the European System of Central Banks (ESCB). The program covers manager training designed to learn new knowledge and work procedures, as well as the development of management skills focusing on the effectiveness and efficiency of decision-making in the ESCB and the Eurosystem, to foster a common ESCB culture through sharing of best practices.

Core inflation – measures the rate of growth of the price level on the basis of an incomplete consumer basket. The consumer basket excludes items with regulated prices and items with prices subject to other administrative measures (e.g. change of VAT, consumer taxes, subsidies). It is part of the national index of consumer prices.

Deflation – a decrease in the general price level, the opposite of inflation.

EFCB certificate (European Foundation Certificate in Banking) – an internationally accepted banking certificate awarded in an examination assessing the level of skills required as qualification for a bank employee, comparable within the EU banking sector; the only institution in Slovakia accredited to conduct EFCB training and examinations is the Institute of Banking Education of Národná banka Slovenska.

Effective exchange rates (nominal: NEER, real: REER) – weighted averages of bilateral SKK exchange rates against the currencies of the main trading partners. The weights used reflect the share of each partner country in Slovakia's foreign trade. Real effective exchange rates are nominal effective exchange rates deflated by a weighted average of foreign, relative to domestic, prices or costs. They are measures of price and cost competitiveness of a country.

Electronic money business – the issue and administration of electronic money and electronic money payment instruments.



Electronic money institution – a legal person other than a bank, foreign bank or Národná banka Slovenska, holding a license for electronic money business under the Payments Act.

Employee benefits – wage and wage compensations, bonuses, supplementary insurance, severance pay, exit pay, and other non-pecuniary benefits, such as health care.

ERM II (exchange rate mechanism II) – an exchange rate system providing a framework for exchange rate policy cooperation between the euro area countries and the EU Member States not participating in the third stage of the EMU. Membership in ERM II is one of the Maastricht criteria for the adoption of the euro.

ESA 95 – the European System of Accounts adopted in 1995. A common methodology for the compilation and reporting of GDP, employment and employee compensation data for all EU countries.

Euro area – the area encompassing those EU Member States in which the euro has been adopted in accordance with the Treaty. The responsibility for monetary policy in the euro area lies with the European Central Bank.

European Economic Area – comprises all EU Member States, Norway, Lichtenstein and Iceland.

European Payments Council – an organisation associating European Union banking associations.

EUROSIPS – a retail payment system that will be made up by the transformation of the present domestic SIPS payment system. It will be operated by Národná banka Slovenska as of the day of euro introduction.

Eurosystem – a system of central banks comprising the European Central Bank and the national central banks of those EU Member States that have adopted the euro.

Financial market (for the purposes of Part 4, entities regulated by NBS) – consists of four sectors: the banking sector (the main representatives are banks and branches of foreign banks), the capital market (the main representatives are securities dealers, asset management companies, the stock exchange, the Central Securities Depository, issuers and investment services intermediaries), the insurance sector (the main representatives are insurance companies and branches of foreign insurance companies), and the pension saving market (the main representatives are pension management companies and supplementary pension companies (pension insurance companies)).

Foreign direct investment – a category of international investments reflecting the objective of a resident entity in an economy (direct investor) to acquire a permanent interest in a company residing in an economy other than that of the investor (direct investment company). Direct investments include the initial transaction between these two entities – i.e. the transaction giving rise to the investment relationship – and all subsequent transactions between these two entities and affiliated companies.

Foreign exchange reserves – reserves of the Slovak Republic consisting of gold and other financial assets denominated in foreign currency held and managed by the central bank. They are used to directly finance payment imbalances, to indirectly regulate their size through foreign exchange market interventions in order to influence the exchange rate of the currency, or for other purposes.

Free provision of cross-border services – the conduct of banking activities by foreign entities based in the European Economic Area (foreign banks, foreign financial institutions or electronic money institutions) not present in the Slovak Republic.

GDP deflator – an aggregate price index reflecting developments in the price of products and services in an economy. It is calculated as a ratio of GDP at current prices to GDP at constant prices.

General government – a sector defined in ESA 95 as comprising resident entities that are engaged primarily in the production of non-marketable goods and services intended for individual and collective consumption and in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds, and any budget-funded or subsidised organisations established by them, whose revenues cover less than 50% of their production costs.



General government debt – gross debt (deposits, loans and other debt securities other than financial derivatives) of the general government at nominal value. A debt-to-GDP ratio under 60% is one of the Maastricht convergence criteria for the adoption of the euro.

General government deficit – the difference between total revenues and total expenditures of the general government sector, if expenditures exceed revenues. A deficit-to-GDP ratio under 3% is one of the Maastricht convergence criteria for the adoption of the euro.

Gross domestic product (GDP) – the total output of goods and services in an economy in a given period. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services.

Harmonised Index of Consumer Prices (HICP) – a consumer price index measured on a comparable basis across all EU Member States, which accounts for differences in national definitions. The HICP is one of the indicators used to assess price stability in a country (one of the Maastricht convergence criteria).

IBAN (International Bank Account Number) – an international bank account number format allowing unique customer identification and automated payment processing (mostly cross-border payments at present). In Slovakia, IBAN consists of 24 alpha-numerical characters (ISO country code, control number, account number including bank code).

Implied volatility – expected volatility (i.e. standard deviation) in terms of change in the price of an asset (for example, a bond or share). It can be derived from the price of the asset, maturity date and the exercise price of an option for the asset, as well as from a risk-free rate of return using an option valuation model (e.g. the Black-Scholes model).

Inflation – an increase in the general price level.

M1 – a narrow monetary aggregate comprising currency in circulation and overnight deposits with MFIs and central government (e.g. post office or the State Treasury).

M2 – an intermediate monetary aggregate that comprises M1 plus deposits repayable at notice of up to 3 months (short-term saving deposits) and deposits with an agreed maturity of up to 2 years (short-term time deposits) with MFIs and central government.

M3 – a broad monetary aggregate that comprises M2 plus negotiable instruments, i.e. repurchase agreements, money market fund shares and units as well as debt securities issued by MFIs with a maturity of up to two years.

Maastricht criteria – convergence criteria set out in the Maastricht Treaty that must be fulfilled before a country can join the euro area. There are four criteria regarding: public finances (deficit and debt of the general government sector), inflation, long-term interest rates, and exchange rate.

MFI claims on residents – MFI claims from residents other than MFIs (including the general government sector and the private sector) and securities issued by residents other than MFIs (stocks and other equity and debt securities) held by MFIs.

Minimum reserve requirement – financial reserves held by banks, branches of foreign banks, building societies and electronic money institutions on accounts with the central bank. It is a monetary policy tool with the level set individually by the central bank for each minimum reserve holder.

Monetary financial institutions (MFI) – financial institutions which together form the money-issuing/generating sector. These comprise the central bank (NBS), credit institutions (banks and branches of foreign banks) and all other financial institutions whose business is to receive deposits or redeemable funds from entities other than MFIs and, in their own name and for their own account, to grant credit and invest in securities (in particular money market funds).



NBS base rate – the interest rate limit applied to the marginal deposit facility of NBS – its main monetary policy operation. NBS has published the base rate since 1 January 2003; whenever the term “discount rate of the National Bank of Slovakia” or “discount rate of the Czecho-Slovak State Bank” appears in older legislation, it means the NBS base rate.

Net currency issuance – the difference between the amount of currency put into circulation and currency received in a given period.

Overnight refinancing operation of NBS – a facility which counterparties (banks) may use to receive overnight credit from the central bank against eligible assets. The overnight refinancing rate is one of the NBS key rates.

Overnight sterilisation operation of NBS – a facility which counterparties (banks) may use to make overnight deposits with the central bank. The overnight sterilisation rate is one of the NBS key rates.

Own funds adequacy – the ratio of own funds to risk-weighted assets (must not fall below 8%). The adequacy of own funds is an indicator of smooth functioning of a financial institution in the future, i.e. an indicator of its financial strength and credibility.

Parent company – a legal person controlling, i.e. holding over 50% of equity or voting rights in another legal person, or the right to appoint or dismiss the majority of the members of its statutory body, supervisory board or another managing, supervisory or controlling body.

Pension Pillar II – old-age pension saving, part of the compulsory state pension system based on a fund system financed through contributions.

Pension Pillar III – supplementary pension saving. A fund system financed through voluntary contributions and supported by the State through tax relieves.

Persons related to National Bank of Slovakia – legal or natural persons which are subsidiary accounting units of the NBS, affiliated accounting units, members of the NBS Bank Board, close relatives of a member of the NBS Bank Board, accounting units controlled, co-controlled or subject to the influence or significant voting rights exercised or held by members of the NBS Bank Board or their close relatives.

Portfolio investment – net transactions by residents and their holdings of securities issued by non-residents (assets) and net transactions by non-residents and their holdings of securities issued by residents (liabilities). They comprise equities and debt securities (bonds, bills of exchange and money market instruments). For investments to be considered portfolio investments, the interest in the company concerned must be lower than the equivalent of 10% of ordinary shares or voting rights.

Price stability – a year-on-year increase in consumer prices lower than a limit set by the NBS. As a medium-term target, the NBS seeks to maintain consumer price growth as measured by the HICP below 2% at the end of 2007 and 2008.

Regulated prices – prices and fees set by ministries or regulators (Network Industries Regulation Office, Slovak Post Office, Slovak Telecommunications Office, etc.) or by regional or local governments. They are included in the national consumer price index.

Reinvested earnings – consist of the share of a direct investor (relative to a direct participating interest) in profit not distributed as dividends by subsidiaries or affiliates and in profit of branches not distributed to the direct investor.

Repo operation – the granting or receiving of a loan against collateral in form of securities.

RTGS (Real Time Gross Settlement) – a real-time gross settlement system.



SEPA (Single Euro Payments Area) – a single euro payments area the objective of which is to create a single internal market for cross-border euro payments.

Single banking licence (single European passport) – regulated foreign entities are allowed to perform activity on the territory of other member states of the European Economic Area, provided they have been granted a licence in a member state of the European Economic Area. These entities may provide services on the basis of an established branch or via free provision of cross-border services.

Single banking licence principle (single European passport principle) – applies to all banking activities explicitly stated in the Banking Act. In order to provide mortgage loans pursuant to Article 67(1) of the Banking Act and to act as a depository under the Collective Investment Act, a special licence from Národná banka Slovenska is required.

SIPS – an interbank payment system operated by Národná banka Slovenska.

Stability and Growth Pact – was designed to ensure sound public finances during the third stage of the Economic and Monetary Union in order to facilitate price stability and a strong sustainable growth contributing to job creation. To that end, the Pact requires Member States to set medium-term fiscal targets. It also defines a specific excessive deficit procedure. The Pact consists of the resolution on the Stability and Growth Pact adopted at the Amsterdam summit of the European Council on 17 June 1997 and two Council regulations, namely (i) Regulation 1466/97/EC of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies as amended by Regulation 1055/2005/EC of 27 June 2005 and (ii) Regulation 1467/97/EC of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation 1056/2005/EC of 27 June 2005.

STEP2 – a European automated clearing system operated by the Euro Banking Association Clearing, designed to process cross-border euro payments.

Subsidiary – a legal person subject to control (a holding of over 50% of equity or voting rights in the legal person).

TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer) – a real-time gross settlement system for euro payments. It is a decentralised system made up of 15 national RTGS systems, the ECB payment mechanism and the interlinking mechanism.

TARGET2 – a new generation of TARGET in which the current decentralised technical structure will be replaced by a single shared platform.

TARGET2-SK – a payment system that will be operated by Národná banka Slovenska as the national component of TARGET2 as of the day of euro introduction.

Two-week repo tender of the NBS – a standard 14-day repo operation of the central bank consisting in lending or borrowing against collateral in form of securities. This repo operation is conducted as a tender. The two-week repo tender rate is the NBS base rate.

Yield curve – a graphic representation of the relationship between the interest rate/yield and the maturity of an asset with the same credit risk, but different maturities at a specific point in time. The slope of the yield curve can be expressed as the difference between interest rates applied to two selected maturities.









