



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

ANNUAL REPORT 2008



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Published by:  
© Národná banka Slovenska 2008

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ISBN 978-80-8043-134-1



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# FOREWORD





## FOREWORD

2008 was the sixteenth and last year in which Národná banka Slovenska implemented an independent monetary policy in Slovakia. At the beginning of the year, Slovakia was comfortably complying with the Maastricht criteria and therefore satisfied the principal condition for the introduction of the euro. On 8 July 2008, the EU Council took the final decision allowing the adoption of the euro in Slovakia. Since 1 January 2009, Slovakia has been a member of the euro area and NBS has been an integral part of the Eurosystem.

The rapid growth of the Slovak economy continued in 2008. GDP at constant prices increased by 6.4%, while at the same time employment rose year-on-year and unemployment fell. But after a relatively long period of uninterrupted and impressive growth, the trend development underwent a fundamental turnaround in 2008. Quarterly data showed a steady slowdown in the pace of economic expansion. Foreign demand declined and growth in the investment component of domestic demand was also subdued. Overall domestic demand retained a rising trend in 2008 owing to a sharper increase in consumption.

In this period, when our preparedness for adopting the single European currency was being assessed, the 12-month average inflation rate in Slovakia was 2.2%, fully one percentage point below the reference value of the Maastricht inflation criterion. Later in 2008, however, the inflation rate began to creep up, and inflation as measured by the harmonized index of consumer prices reached 3.5% at the end of the year. The determining factors of price growth in Slovakia were factors beyond the reach of monetary policy, namely, movements in global prices of energy and agricultural commodities.

Exchange rate policy was conducted in accordance with the Slovak koruna's participation in Exchange Rate Mechanism II (ERM II). When favourable economic development at the beginning of the year was reflected in a strengthening of the exchange rate, Slovakia requested that the koruna's central rate in ERM II be revalued for the second time within two years. On 29 May 2008,

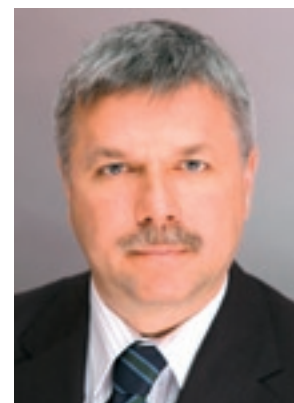
the central parity was revalued from 35.4424 SKK/EUR to 30.1260 SKK/EUR. This central parity was later fixed as the conversion rate between the koruna and the euro.

Some of the benefits expected from the introduction of the euro were apparent even before our country actually joined the euro area. These notably included the higher international rating of Slovakia and the stability of its currency. Soon after receiving official approval to join the euro area, Slovakia was assigned the highest rating of any V4 country. And when the region's economic development began to be affected by the global financial crisis, we felt the benefit of the single currency in overall economic stability. Unlike the currencies of neighbouring countries, the Slovak koruna did not depreciate at the end of 2008.

Národná banka Slovenska continued to implement monetary policy in accordance with the "Monetary Programme for the Period until 2008" and applied the strategy of inflation targeting within the conditions of ERM II. The priority was therefore to monitor the maintenance of price stability. With the euro adoption approaching, NBS conducted interest rate policy in accordance with the ECB's monetary policy decisions. From October 2008, NBS reduced the base rate on three occasions by a total of 175 basis points, to 2.5%.

The multiyear process of preparing for the introduction of the euro reached its culmination in 2008. Through their joint efforts, all parties involved ensured that the general public, public institutions and the private business sector were sufficiently prepared for the adoption of the single European currency. Národná banka Slovenska played a prominent role in this process, contributing from the outset to its smooth and successful progress.

Directly overseen by Národná banka Slovenska were the activities of the Working Committee for Banks and the Financial Sector and the Committee for Communication. As regards the cash payment system, the most important task was the frontloading of euro cash. Among the new EU Member States that have adopted the euro,







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Slovakia became the first to issue euro coins using the services of a mint in its own territory. NBS was also responsible for meeting the very demanding tasks related to cashless payment systems. In particular, it coordinated the connection of the banking sector (including NBS) to the pan-European TARGET2 payment system and also the transformation of the previous interbank payment system SIPS to the retail payment system EURO SIPS with final settlement in the TARGET2 system.

The second of these NBS-led committees managed the preparation and implementation of the comprehensive information campaign. The campaign aimed to provide the Slovak public with practical information on all key aspects of the introduction of the euro in advance of the event itself. The media campaign at the centre of this activity was launched in March 2008 – symbolic 300 days before the euro changeover. Národná banka Slovenska was a copartner in the distribution of several publications, notably the two information packs sent to all households. NBS prepared and held specialised seminars and conferences on the introduction of the euro and continued with the training of employees in the banking and other sectors in regard to the euro changeover. The results and effectiveness of the campaign were measured by public opinion surveys. Not only did they confirm the campaign's high quality, they revealed that the

public considered Národná banka Slovenska to be the most trustworthy source of information on the euro.

Alongside the tasks implemented under the working committees, many other tasks defined in the internal plan for the euro changeover were fulfilled by Národná banka Slovenska in 2008. NBS had to harmonize numerous activities, statistical data, and software applications with those of the European Central Bank. The introduction of the euro in Slovakia required preparations for the implementation of the single monetary policy and for changes in foreign reserve management and in the area of reporting. Several legal documents also had to be prepared, including regulations for the implementation of the law on the introduction of the euro in the Slovak Republic.

Favourable economic fundamentals in Slovakia in 2008 were recorded amid the emerging external financial crisis. This global crisis caused a slowdown in real economic activity, firstly in developed countries and then, in the last quarter of 2008, in emerging economies, too. The effect of the crisis on the Slovak economy was very mild at that time, but began to be more severe at the beginning of 2009. No sooner has the euro been successfully adopted than Slovakia faces another exacting challenge – to minimize the impact of the global recession and to recover growth in the domestic economy.

May 2009

Ivan Šramko  
Governor