



FOREWORD

Národná banka Slovenska (NBS) celebrated its 25th anniversary in 2018 and organised several events to mark the occasion. The anniversary was also an opportunity to reflect on the challenges we faced and the successes we achieved in that time. Among the most notable milestones were the currency separation and first issuance of Slovak koruna banknotes and coins (1993), the transition to a floating exchange rate (1998), joining the European System of Central Banks upon Slovakia's accession to the European Union (2004), the integration of financial market supervision into the bank's remit (2006), and Slovakia's adoption of the euro currency (2009). NBS successfully managed the euro changeover, as well as payment system reform, and the implementation of the banking union and financial consumer protection principles.

Major issues at expert and high-level meetings in 2018 centred on analyses of current and future challenges posed by economic, monetary and financial developments. The mounting uncertainty and unease surrounding Brexit was and remains a risk. From the global economic perspective, one of the most serious threats appears to be the escalation of trade protectionism and the risk of a full-blown trade war breaking out. Slovakia's economy continued to expand in 2018, with GDP growing by 4.2% year on year. The main driver of that growth was domestic demand, in particular growth in household consumption as well as in investment. The labour market situation also remained favourable, as employment increased and the unemployment rate dropped to a historical low. These dynamics were reflected in wage growth, which accelerated not only in nominal terms but also in real terms – i.e. after taking into account the average annual inflation rate, which in 2018 stood at 2.5%.

Given the export orientation of the Slovak economy, the main risks to its outlook lie in the external environment. During 2018 we observed a deterioration in the global macroeconomic outlook. World GDP growth moderated, largely because economic slowdowns in Europe, Japan and China were more pronounced than expected. Growth declined in both industrial produc-

tion and foreign trade. The euro area's economic activity growth decelerated sharply in 2018, and while weak exports were the main cause of the slowdown, all GDP components other than changes in inventories contributed to it. The euro area's headline inflation rate also began to fall towards the year-end, amid the impact of declining oil prices.

In response to these shifting trends in economic activity and prices and to their impact on expectations, the ECB Governing Council has adjusted its forward guidance – from envisaging no change in the key ECB interest rates through the summer of 2019, to projecting no change through the end of 2019. In 2018 the Eurosystem continued employing non-standard monetary policy measures. The monthly pace of net purchases under the asset purchase programme (APP) was reduced from €30 billion to €15 billion for the last quarter of the year, and then the APP purchases were discontinued as of 31 December 2018. NBS participated in the APP in accordance with its obligations to the Eurosystem, and its portfolio of securities purchased under the APP amounted to €21.8 billion by the year-end.

While favourable developments in the domestic economy were mitigating immediate risks to financial stability, the rapid increase in household indebtedness was making the household sector more vulnerable to any deterioration in the economic situation. Although annual growth in loans to households slowed to around 10%, it was still higher than the rate in any other EU country.

In order to reduce financial stability risk in Slovakia, NBS in 2018 increased the countercyclical capital buffer (CCyB) rate and tightened limits on loan-to-value ratios. In addition, the bank introduced a new limit on borrowers' debt-to-income ratio.

Payment and settlement system operation is one of NBS's main tasks, and 2018 saw a significant development in this area: the launch of the Europe-wide TARGET Instant Payment Settlement (TIPS) system, which offers secure, around the





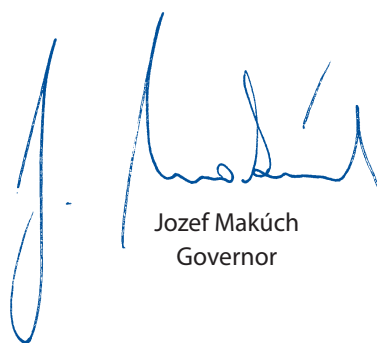
clock settlement of instant payments in euro in a few seconds.

The year 2018 was the 25th anniversary not only of NBS, but also of the establishment of Slovakia as an independent state. To mark the national anniversary, NBS issued a €2 commemorative coin and a €25 silver collector coin. The bank issued a further seven precious metal collector coins in 2018, including one commemorating the 100th anniversary of the establishment of the former Czechoslovak Republic. As part of its obligations as a Eurosystem member, NBS commissioned the production of an allocated volume of €5 banknotes in 2018. In addition,

the production of €50 banknotes which NBS had commissioned in the previous year was completed in 2018. NBS also commissioned the production of more than 50 million euro coins in 2018, including all denominations apart from the €1 coin. All the euro coins issued by Slovakia are produced by the state-owned Kremnica Mint (Mincovňa Kremnica).

Národná banka Slovenska reported a net profit of €172 million for 2018, generated mostly by income from monetary policy operations. Under a decision of the NBS Bank Board, the entire 2018 profit was set off against losses from previous years.

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