



Meeting of the NBS Bank Board

On 9.1.2002 the first meeting of the NBS Bank Board in 2002 was held, chaired by its Governor Marián Jusko.

- The NBS Bank Board took note of the document "Development of the rating assessment of the Slovak Republic and its effect on the cost of foreign loans". This document will be published on the NBS website in the Press Reports part in the third week of 2002.

- The NBS Bank Board approved a proposal for further progress in the organisational provision of the foreign currency control and licensing activities of the National Bank of Slovakia resulting from the further liberalisation of the exchange rate regime in the capital account of the balance of payments.

On 25.1.2002 the second meeting of the NBS Bank Board in 2002 was held, chaired by its Governor Marián Jusko.

- The NBS Bank Board approved a situation report on monetary development for December 2001 and following discussion on this document decided to leave key interest unchanged rates (6.00% for one-day sterilisation operations, 9.00% for one-day refinancing operations and 7.75% for two-week repo tenders with commercial banks). The NBS Bank Board took into consideration both the development of inflation and the balance of trade.

Despite an adverse development in inflation the growing trade deficit persisted, which does not create conditions for lowering the interest rates. Consumer prices in December showed moderate growth against the previous month, which was influenced by an increase in the prices of foodstuffs and regulated prices. Fuel prices continued to have a dampening effect on consumer prices. The annual rate of overall as well as core inflation fell in line with NBS expectations moderately below the lower interval limit of the monetary programme set. This development was to a considerable extent influenced by fuel prices, which over the year fell by more than 20%. Price development was throughout the year determined primarily by Government administration and offer factors (on foodstuffs, fuels), where the demand side did not have a significant effect on consumer prices. This is documented also by the low price dynamic of tradable goods and the stabilised development of the market price of services. These segments of the consumption basket were over the

year 2001 favourably influenced by competition developed at the retail level.

The development of the current account of the balance of payments also in November showed growth in the trade deficit. The low export dynamic persisted, influenced in particular by the decline in economic growth of our trading partners. Imports did not record a significant change as regards their structure. Imports of an investment nature continued to dominate in the growth of imports; growth however was also recorded in imports intended for end consumption. On the basis of development to date it may be forecast that the NBS estimate for the end of the year 2001 will be fulfilled, as a consequence of which the share of the current account deficit of GDP will move around the upper limit of the forecast spread, i.e. at the level of 9%. With regard to the fact that the inflow of funds through commercial banks in the framework of the capital and financial account, and in large part also in the form of foreign direct investment, was sufficient for financing the current account deficit, there did not arise pressure for a devaluation in the exchange rate. The NBS Bank Board however does consider the development of foreign trade and its deficit as unfavourable. A continuation of such a trend could negatively influence the future development of the Slovak economy.

In the first months of 2002 the annual rate of inflation will decrease significantly in connection with the lower scale of state interventions in the price level. The direct influence on the consumer price index will result from an increase in the maximum price of heating energy for households in January (by 7%), which in turn is related to with an increase in prices of natural gas for the manufacturing sector, which can represent a secondary influence on consumer prices. Recently excise tax on cigarettes and tobacco was increased, the forecast impact on inflation should be 0.4 percent. The NBS expects that in the course of the first half year overall inflation could fall below 4%.

The National Bank of Slovakia neither forecasts a significant impact of demand factors on the development of core inflation in 2002. Also the dampening effect of high unemployment and a competitive environment in the retail sector should continue. With regard to the expected decline in domestic cost factors, the NBS expects a decline in core inflation in the first half year below 3%.

Ján Onda

New Minister of Finance

The President of the SR Rudolf Schuster, following his acceptance of Brigita Schmögnerová's resignation appointed the new Minister of Finance on 29 January 2002, František Hajnovič.

The new member of the Government was installed in office by the Prime Minister Mikuláš Dzurinda. Minister Hajnovič (1949) is a graduate of Charles University, Prague, where he studied mathematical economics. Since 1994 he has worked in the National Bank of Slovakia.