

MEETINGS OF THE NBS BANK BOARD

The 1st Meeting of the Bank Board of the National Bank of Slovakia was held on 16 January 2004, chaired by Marian Jusko, Governor.

- The Bank Board of the NBS approved the Memorandum of Understanding between the National Bank of Slovakia and Malta Financial Services Authority concerning their co-operation in the field of Banking Supervision.

The Bank Board of the NBS approved a proposal for a Decree of the National Bank of Slovakia on liquidity of banks and liquidity of branch offices of foreign banks, and on liquidity risk management procedures for banks and branch offices of foreign banks.

- The Decree stipulates the details on liquidity, a method, procedure and organization of the liquidity risk management, liquidity ratio and the reporting connected with liquidity. The Decree becomes effective on 31 January 2004.

- The Bank Board of the NBS also approved a proposal for a Decree of the National Bank of Slovakia on capital adequacy in terms of banks' financing.

The Decree stipulates in particular the calculation of own funds, the calculation of own funds for a consolidated group, the calculation of risk-weighted assets of the banking book and trading book of a bank and of a consolidated group according to the risk contained therein, for the purposes of the calculation of capital adequacy ratio and capital adequacy on a consolidated basis ratio. This will ensure the ability of a bank and of a bank controlling consolidated groups to cover from its own funds any losses arising from the risks to which a bank is exposed when conducting its business activities, and at the same time to maintain the ability to fully meet its commitments. This decree becomes effective on 31 January 2004.

- The Bank Board of the NBS approved a Decree of the National Bank of Slovakia, which amends the NBS Decree No. 8/2002 on large exposure of banks.

This Decree is being supplemented by the amended NBS Decree No. 3/2002 concerning the rules governing the prudent conduct of banking business and prudent banking reports. The NBS Decree No.3/2002 is herewith repealed. Apart from some changes concerning the terminology unification of reports and connection with the new Decree on capital adequacy of banks, the main reason for merging the both Decrees is the fact that they relate to the

same subject of regulation, i.e. the large exposure, and their purpose is identical – to restrict the risk arising from the excessive large exposure towards certain persons.

The Bank Board of the NBS approved a proposal for a Decree of the National Bank of Slovakia by which the NBS Decree No. 7/2002 on classification of assets and liabilities of banks and branches of foreign banks, their re-valuation, formation and dissolution of reserves, and related reporting is being amended.

The Decree stipulates details on formation and dissolution of reserves and on re-valuation of assets and liabilities according to the risks contained therein and expected losses. This Decree becomes effective on 31 January 2004.

The Bank Board of the NBS approved to shift the production of 2004 sets of coins in circulation from 2003 to 2004, and to change the maximum amount from 14 thousand to 19 thousand pieces.

The 2nd Meeting of the Bank Board of the National Bank of Slovakia was held on 28 January 2004, chaired by Marian Jusko, Governor.

- The Bank Board of the NBS discussed the Situation Report on the Monetary Development of Slovakia in December 2003 and decided on maintaining the current interest rates rates at unchanged levels, i.e. for the overnight sterilization rate at 4.50%, for the overnight refinancing rate at 7.50%, and for the two-week REPO tenders with commercial banks at 6.00%.

The Bank Board of the NBS approved the schedule of the commencement of the transportation of cash into stock, issuing activities in the new buildings of the sub-branches of the NBS in Trenčín, Nove Zamky, Žilina, Lucenec, Poprad and Humenne, and cancellation of the stock management in the authorized branch offices of the VUB,a.s., by 30 September 2004 at the latest.

The Bank Board of the NBS approved a decree on the issue of a silver commemorative coin with denomination of SKK 200, which issue is prepared on the occasion of the 200th anniversary of Wolfgang Kempelen's death.

The commemorative coin, which the NBS issues on the occasion of the 200th anniversary of the death of the technologist, constructor, inventor and



pioneer in the area of phonetics, Wolfgang Kempele, is minted from alloy containing 750 parts of silver and 250 parts of copper. The coin has been designed by the sculptor Miroslav Ronai. The weight of the coin is 20 g and its diameter is 34 mm. The commemorative coins, minted at the Kremnica Mint, s.p., have been minted to the amount of 11,200 pieces, and will be sold in the second half of March 2004.

The Bank Board of the NBS approved The Plan of the Main Tasks for the first half-year of 2004.

Rationale behind the Bank Board's decision on interest rates (28 January 2004)

Following the discussion on the Situation Report for December, the Bank Board of the NBS decided on leaving the key interest rates at unchanged levels. The decision of the Bank Board of the NBS is based on the current developments that do not indicate any new risks requiring any change in the monetary policy of the NBS. The Bank Board of the NBS also discussed the exchange rate development, which will be closely monitored also in the future. If the SKK exchange rate is too volatile and the appreciation of the exchange rate will not be based on the economic fundamentals, the Bank Board of the NBS will consider the option to use an adequate monetary policy instrument to correct such a development.

Hereinafter follow in more detail the factors on which the decision of the Bank Board of the NBS is based.

The growth rate of the headline inflation in December was 9.3% on a month-on-month basis, which is in compliance with the Revised Monetary Programme of the NBS (hereinafter „RMP“). The core inflation, with the end-year level of 3.0%, was also within the band programmed in the RMP. The price development in 2003 was influenced mainly by domestic factors, namely the growth of regulated prices, excise taxes and VAT, as well as by the growth of foodstuffs. The external factors, such as the strengthened exchange rate of the SKK and the low-inflation external environment, had a dampening effect on the domestic price levels.

In 2004, the growth of price levels will continue to be affected by administrative adjustments of prices, although, as compared with 2003, the price growth

will be lower. The NBS expects a lower increase in regulated prices and also their less significant secondary impact on core inflation, which, in the course of 2004, should lead to the gradual slowdown of the headline inflation to the figures set in the Monetary Programme.

Last December, the Statistical Office of the SR (hereinafter SO SR) began to use the methodology for calculation of the consumer price index consistent with the Eurostat methodology. According to this methodology, the prices of services are included in the price index when they are consumed, and not when they are paid. As a result, higher prices for the motor third party liability insurance will show in January 2004 only, and not in December as it was in 2002. This procedure affected the end-year inflation level. The NBS was informed about this procedure by the SO SR, although the decision on its realisation was not yet definitely taken by the SO SR at the time when the Monetary Programme was prepared. Due to the fact that the mentioned insurance payment was included in January instead in December (which was the case in 2002), as well as to changes in regulated prices and unification of the VAT rates, the year-on-year inflation in January should exceed 9%. This procedure, provided that other risks will not occur, should not have an impact on the expected inflation band in 2004, and this change in methodology will be included in the inflation prediction within the RMP.

The current November data on the external trade development confirm the decreasing trend in the aggregated 12-month trade balance, and the unchanging commodity composition, in which prevail both the export of motor vehicles, machinery, electrical equipment, iron and steel, and the imports of components and equipment for motor vehicles, electrical and measuring equipment, machinery and their component parts, plastic products, iron and steel.

According to the NBS expectations, the trade balance developments in December should confirm the yearlong prevailing trend towards an improved external trade balance. Unless any significant changes in the economic environment occur, at the beginning of 2004 the development trends in external trade should also remain unchanged. Owing to the expected increase in imports of goods for investments, the end-year figures of the trade balance deficit in 2004 should be higher than in 2003.

The expected development on the current account of the balance of payments should have a stabilizing effect on the SKK exchange rate against a reference currency. The NBS will monitor the indicators both of



the macroeconomic development and of the factors behind the exchange rates volatility, and correct its development caused by the inflow of short-term capital with the monetary policy instruments.

At the beginning of 2004, the exchange rate began to show higher volatility. The NBS assessed its appreciation as too dynamic. Except for a release in the media, the foreign exchange market did not require any reaction from the NBS in the form of direct intervention, as the changes in the investors' behaviour followed the political development in the country. When the political situation was settled, the pressures on the appreciation of the exchange rate against reference currency intensified again. The main factor influencing the exchange rate development is the effort of the short-term investors to maximize proceeds and to exploit the interest differential.

In the course of 2003, the SKK on the average nominally appreciated against the EUR by 2.8%, which can be seen in the context of the favourable trade balance development, and to consider such development as a result of the economic fundamentals development. The REER (Real Effective Exchange Rate) appreciated by 10% on the CPI basis in the course of eleven months of the previous year. On the PPI manufacturing basis, the REER

appreciated by 4%, which may be considered as adequate in order to have some pressures in the economy towards restructuring of less effective productions, however without having a negative impact on the competitiveness of other production.

In December, the monetary aggregates development followed its previous trend, and the moderately decreasing money supply dynamics remained unchanged. The lower increase in deposits is connected also with a decrease in interest rates, both nominal and real. On the other hand, the negative real interest rates also stimulate the lasting dynamics of the development as far as credit extending is concerned.

The development of the selected sector indicators of the real economy, both of the manufacturing and construction production and of retail sales confirm the so-far development trends. Similarly can be assessed the development in the area of wages, where on average their lower level in real terms lasts on a year-on-year basis. According to the NBS, the higher growth of labour productivity than the growth of wages is positive, and it results in a favourable trade balance development.

Press Department of the NBS