

MEETINGS OF THE NBS BANK BOARD

The 2nd Meeting of the Bank Board of the National Bank of Slovakia was held on 28 January 2005, chaired by Ivan Šramko, Governor.

- The Bank Board of the NBS discussed the Situation Report on the Monetary Development of Slovakia in December 2004 and decided on maintaining its current interest rates for the overnight sterilization transactions at 2.5%, the overnight refinancing transactions at 5.5% and the limit rate for two-week repo tenders with commercial banks at 4.0%.
- The Bank Board of the NBS approved the Decision of the NBS on the settlement of the NBS's transactions.
- The approved Decision determines procedures for the settlement of the NBS's monetary transactions in the Slovak currency, in particular settlement of the primary

auction of NBS bills, repo operations and repo tenders, purchase and sale of securities and receipt of deposits, as well as the sale of euro currency for Slovak koruna within the foreign exchange interventions. It also determines the method of application of interest charges on delay and of sanctions, and their amount.

The Decision of the NBS on the settlement of the NBS's transactions shall become effective on 1 March 2005.

- The Bank Board of the NBS decided to extend the schedule of its meetings, and therefore it will also meet on Tuesdays regularly. At these meetings, the Bank Board will consider particularly the current situation on the financial market and will approve the results of the regular sterilisation repo tender. The Tuesday meetings of the Bank Board will be held with effect from 1 February 2005.

Rationale behind the decision of the Bank Board of the NBS on interest rates

The Bank Board of the NBS discussed the Situation Report on the Monetary Development of Slovakia in December 2004. Within the scope of the current economic and monetary development assessment, the Bank Board of the NBS concluded that the total level of inflation in December was more favourable as compared with the NBS's expectations, and also owing to this it reached in 2004 the value in the lower part of the range in the Updated Monetary Programme of the NBS for 2004. The growth pace of inflation as compared with the NBS's expectations was lower, particularly owing to the dampening effect of the exchange rate development. The development in prices was considerably influenced by a good harvest as well as the growth of competition. This was markedly reflected in foodstuff sector and influenced by the opening of the market following Slovakia's entry into the European Union, as well as by the competition within supermarket chains.

The Bank Board of the NBS, in consistence with the new strategy of monetary policy judged the current and expected development of inflation and of factors giving rise to a possible deviation of the price development from the inflation target. The Bank Board of the NBS stated that the forecast of inflation and its determinants in relation to the target was favourable; however, there existed uncertainties regarding the extent of the secondary effects of the increase in regulated prices on the price development. There persists the risk connected with the movement of prices of foodstuffs, crude oil, raw

materials, as well as the uncertainty in the area of wage growth. Based on the evaluation of these factors, the Bank Board of the NBS decided on maintaining the current level of key interest rates.

The development of the exchange rate belongs among the important factors influencing the level of prices. The changes of the exchange rate are reflected in consumer prices in a shorter time and to a greater extent when compared with the change of key interest rates. The Bank Board of the NBS considers the strengthening of the exchange rate of the Slovak koruna during January and in particular in the recent days to be too dynamic. A high volatility of the exchange rate, or a long-term development of the nominal exchange rate differing from its equilibrium level, could directly threaten the fulfilment of the NBS's inflation target. Apart from the commitment to meet the Maastricht inflationary criterion, the NBS is also responsible for meeting the so-called exchange-rate criterion in the form of ERM II membership. Owing to these facts the NBS has to consistently monitor the factors influencing the development of the exchange rate and correct its unfavourable tendencies.

Individual factors, which the Bank Board of the NBS took into account when considering the level of interest rates, are as follows:

In January 2005 the core inflation dynamics should fall to lower levels owing to the basic effect from the previous year when the large-scale adjustments to regulated prices were introduced, and the influence on the inflation dynamics persisted over the whole year 2004. In January 2005 the price level should be mostly influenced by the changes of regulated prices, though to



a smaller extent than in the previous year, and by the growing costs of motor third party liability insurance.

The tendency of a balanced strengthening of the Slovak koruna, low-inflationary external environment reflected in the import prices, and continuing growth of competition favourably influence the inflation development outlook. The revival of domestic demand during the previous year should also persist in 2005, and the demand should remain the determinant of a dynamic economic growth. Owing to the foreign direct investments reflected in qualitative changes in the creation of fixed investments, the capability of economic production increased. Because of this, neither the growth of the final consumption of households nor the dynamics of fixed investment creation should create the risk of emergence of inflationary pressure. The Bank Board of the NBS jud-

ged the development of, and outlook for, inflation and real economy as favourable, while it is aware of a degree of uncertainty in the future development of prices.

The uncertainties result from the secondary effects of the administrative price adjustments influencing the price development. At the same time, there are held negotiations concerning wages at the beginning of the calendar year, and their results may potentially influence the achieving of the inflation target. The precondition for the fulfilment of the determined target is to adjust the wage growth to the development of labour productivity and disinflation trajectory. With regard to these risks persisting in the time of discussing the Situation Report on Monetary Development of Slovakia in December 2004, the Bank Board of the NBS decided on maintaining the current levels of key interest rates.

Bank Board of the NBS also meets on Tuesdays

Bank Board of the National Bank of Slovakia has decided to extend the schedule of its meetings and add, with effect from 1 February 2005, regular meetings on Tuesdays. These meetings, which will consider

current situation on the financial market and confirm results of regular sterilisation REPO tenders, should allow more flexible and operative decision-making of the Bank Board in the field of monetary policy conduct.

Press Department of the OVI NBS

PRESS REPORTS

The Governor of the NBS at a session of the BIS

On 10th January 2005, the Governor of the NBS Ivan Šramko participated in a one day session of the Bank for International Settlements (BIS) in Basel. The programme for the talks between the chiefs of the central banks included discussion of the issue of „Finding the vulnerable points in the new economies“, questions of the need for capital for central banks and the current

problems of world banking. The BIS is an international organization with an orientation to supporting cooperation between central banks and other institutions with the aim of achieving monetary and financial stability. It is one of the oldest international financial institutions, founded in 1930 and now associating 55 central banks and financial authorities in all the continents. Further information about the BIS can be found on its Internet page: www.bis.org.

Igor Barát

The CESR Committee has given the European Commission Technical Assistance in Relation to the MIFID Directive

On 3rd February 2005, the CESR published the final version of technical assistance to the European Commission concerning implementation of the Markets and Financial Instruments Directive (MIFID). Materials covering the main problems solved in the framework of

public consultations were also published. The MIFID represents the basis for the European regulatory framework in the area of securities, which should enable investment companies and the regulated market to operate on the basis of unified rules and so protect investors. The so-called first set of mandates was submitted to the European Commission on 31st January 2005, and the deadline for the full completion of the other mandates of technical assistance was set as



30th May 2005. The Complete technical assistance will include the following areas:

- Independence of compliance – includes all areas of compliance of investment companies. Since the area of compliance is key for the CESR Committee, the problem of taking into account the existence of smaller investment companies is also considered.
- Demands in the area of internal systems, resources and approaches – the technical assistance contains the framework of criteria for the given area.
- The obligation to avoid improper operational risks in the case of outsourcing of operational functions and investment services – technical assistance includes proposed principles, which small investment companies should apply.
- The obligation to keep records – includes all the conditions for keeping records, including the type of records and the period for which they must be preserved.
- The protection of clients' assets – identifies the obligations of investment companies for the area of protection of the property rights of clients, especially in the case of insolvency or claims against investment companies by their creditors or clients.
- Conflict of interests – the CESR determines in its technical assistance the appropriate method of overcoming conflicts of interests arising in the framework of organizations as well as from the point of view of published information.
- Exact, clear and unambiguous information – the CESR also mentions the detailed criteria for evaluation of the character of the information provided, including marketing activities.

- Information for clients – gives the minimal framework for the information given to clients and potential clients and the form and timing of the information provided.

- Contracts with retail clients – gives the minimal content of such contracts.

- Reporting for clients – the CESR specifies the minimal framework for claims against investment companies in the event of the provision of adequate information about services provided to clients.

- Reporting of transactions – concerns above all the reporting of transactions to the responsible authorities.

- The obligation of cooperation – the CESR proposes criteria according to which operations can be carried out in a foreign regulated market regarded as sufficiently important for the establishment of permanent bilateral cooperation between the two supervisory authorities.

- Exchange of information – establishes the general framework for the exchange of information between supervisory authorities.

The Committee for European Securities Regulation CESR originated in September 2001 on the basis of a decision by the European Commission from June 2001. The CESR is an advisory body to the European Commission and provides the European Commission with expert assistance in the creation of European legislation in the area of the capital market. The role of the CESR is to help the EU member states with the gradual implementation of the European directives in national legislation.

M. Kačmár