MEETINGS OF THE NBS BANK BOARD

The 5th Meeting of the Bank Board of the National Bank of Slovakia was held on 12 March 2004, chaired by Marian Jusko, Governor.

• The Bank Board of the National Bank of Slovakia approved the Statutory Financial Statement of the National Bank of Slovakia as at 31 December 2003 and took note of an Independent Auditor's Report presented by PricewaterhouseCoopers Slovakia, s.r.o.

The audit was conducted in accordance with International Standards on Auditing and the auditor expressed in the Report his opinion that the financial statement presents fairly, in all material respects, the financial position of the National Bank of Slovakia as of 31 December 2003 and the results of its operations for 2003, in accordance with current Slovak statutory accounting standards and the related accounting procedures. The Report on the Result of Operation of the National Bank of Slovakia in 2003, the Independent Auditor's Report, and the Financial Statement of the Bank will be submitted to the National Council of Slovakia.

• The Bank Board of the National Bank of Slovakia approved the wording of Supplement No. 3 to the Contract on the Payments System SIPS, which constitutes a legal framework for the real-time settlement of payments.

• The Bank Board of the National Bank of Slovakia approved the document "Report on implementation of the investment policy in the area of foreign exchange reserves in 2003". The document informs in detail on the realised yields, broken down into individual portfolios. The realised yield total, free of the influence arising from foreign exchange differencials, was cca SKK 8,5 bn.

The 6th Meeting of the Bank Board of the National Bank of Slovakia was held on 26 March 2004 chaired by Marian Jusko, Governor.

• The Bank Board of the National Bank of Slovakia discussed the Situation Report on Monetary Development of the Slovak Republic in February 2004 and decided, with effect from 29 March 2004, on the change in interest rates levels to 4.00% for the overnight sterilization rate, to 7.00% for the overnight refinancing rate, and to 5.50% for the two week REPO tenders with commercial banks.

• The Bank Board of the NBS discussed and approved the draft of the Act amending Act No. 483/2001 Coll. on banks and on changes and amendments to certain other laws as amended, and Act No. 510/2002 Coll. on payment system and on amendments and supplements to certain laws.

The main objective of the proposed draft of the Act is the inclusion of the Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC and Directives 98/78/EC and 2000/12/EEC of the European Parliament and of the Council (hereinafter referred to as “Directive”).

By this Directive, adopted due to the development resulting in the establishment of financial groups providing services in sub-segments of the financial market, the European Union modified the conditions for the perfomance of supervision of such financial conglomerates. All Member States of the EU must implement this Directive into their legal system by 11 August 2004, i.e. also the Slovak Republic.

• The Bank Board of the NBS approved the Report on the Result of Operation of the National Bank of Slovakia in 2003.

The Report will be submitted for discussion to the National Council of the Slovak Republic Meeting, together with the Statutory Financial Statements as at 31 December 2003 of the National Bank of Slovakia, and the Independent Auditor’s Report on the Financial Statement as at 31 December 2003 of the National Bank of Slovakia.

The Bank Board of the NBS approved the Report on the development of the banking sector in the Slovak Republic and the assessment of the prudential banking as at 31 January 2003 – preliminary results.

In 2003, the banking sector situation stabilized, which was based on the results of operation of banks in 2002 when, in addition to other factors, assets productivity improved, competition in the banking products market increased, and the development in terms of meeting the prudential criteria was favourable. In the latter area a quantitative shift with regard to calculation of adequacy of own funds occurred when, in addition to credit risk, market risks were also included in the calculation method following the implementation of the decree on adequacy of own funds, effective as of 1 January 2003.

There were a number of other decrees, amendments of laws, and other laws and by-laws that became effective over the assessed period; these will certainly contribute to further qualitative changes in the banking supervision as a whole. There were also some other amendments to laws, which became effective as of 1 January 2004.

As at 31 December 2003, there were eighteen banks and three branch offices of foreign banks operating in the Slovak banking sector. The number of branch offices grew to three when the Commerzbank Aktiengesellschaft was granted a licence; the branch office reported its results of operation as late as at 31 December 2003 for the first time. The volume of subscribed registered capital of the eighteen banks was SKK 40.4bn: the volume of funds provided to branches of foreign banks by their head offices was SKK 2.8bn. Foreign investors owned, following the acquisition of a stake in Banka Slovakia by a foreign investor, as much as almost 90% of subscribed registered capital. Over the assessed period, the number of banks with a licence for mortgage operations increased.

Over the assessed period, the assets of banks in the Slovak banking sector equalled SKK 994.6bn; three major banks owned more than half of this total volume. These banks also generated 67% of total profits earned in the banking sector, which was SKK 11.2bn as at 31 December 2003; this representing a year-on-year decline by SKK 0.6bn. Ten banks contributed to this decline; as at 31 December 2003 they reported lower profits on a year-on-year basis.

In line with the strategy approved by the Bank Board of the NBS, a substantial part of the two-year supervisory cycle was realized in 2003. 15 examinations were conducted, of which 10 were full-scope examinations. On their basis a Supervisory Plan for individual banks and branch offices of foreign banks was drawn up. When the first two-year supervisory cycle is completed, the Banking Supervision Division will start a new supervisory cycle in the last quarter of 2004: the full-scope examinations will be superseded by inspections targeted on individual risks (credit, market and operational), based on the outcomes of the individual supervisory plan of the first cycle. This approach, focused on actual risks in the operation of individual banks and branch offices, will allow for the checking on the operations of banks and their risk management system in more depth.

• The Bank Board of the National Bank of Slovakia discussed the Assessment of the Domestic Financial Markets in 2003.

It also stated that the Slovak financial market developed satisfactorilly in the last year, without any considerable turbulence. The money market was relatively stable in the course of 2003, thus creating a suitable environment not only for the development of bank activities but also for the development of related financial-market segments. However, in the future, enhanced development of more sophisticated types of trades will be necessary.

The main feature of the domestic foreign exchange market is the considerable enlargement of its capacity, including spot trades. The share of foreign entities in the inter-bank foreign exchange market also increases. This mainly relates to the current integration process, which supports the more active participation of foreign investments.

The quality of the capital market has not changed. The domination of state bonds on the stagnating stock market is unambiguous. Investment in mutual funds, which are becoming a good investment opportunity, develops favourably. Mortgage trades and related activities, closely connected with the capital market, are another relatively quickly developing market segment.

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

After having discussed the Situation Report on Monetary Development in Slovakia in February 2004 and having considered the current and expected economic and monetary development in Slovakia, the Bank Board decided on lowering its interest rates. The price development in February was in accordance with the NBS's expectations, and no excess influence of secondary factors was identified. Based on the recent indicators of economic development, in particular data on the gross domestic product development in the fourth quarter of 2003, and their comparison with other indicators, the Bank Board arrived at the conclusion that, despite accelerated economic growth over the last quarter and when compared with the NBS's predictions, domestic demand has not been restored as expected. On the contrary, the decline in final consumption of households and in gross capital creation has been even more considerable. The unbalanced GDP growth structure caused by a dynamic growth of net exports and sinking domestic demand was confirmed and intensified in the fourth quarter. The lowered interest rates should support recovery in domestic demand, which should fuel the economic growth in 2004 along with expected lower contribution of net exports. The Bank Board also stated that the cut in interest rates would further help the NBS in its efforts to ease pressures on the exchange rate appreciation, which is the NBS's intention in the area of sustainable development.

Individual factors, which the Bank Board of the NBS took into account when considering the interest rates change, are described in more detail as follows:

The current price development was in February affected by the expected increase in regulated housing rental prices, while the secondary cost effects did not considerably push up the price levels, as compared with the previous month and the NBS's expectations. The accelerated price increase in market services, both on a month-on-month and a year-on-year basis, was influenced by the development of prices for services in the area of housing. In the environment of a dampened domestic demand and a strengthened nominal exchange rate, the growth pace of tradable goods prices is lower than that of external inflation.

The reviewed prediction of consumer prices development until the end of the year confirms the mid values of the programmed targeted headline inflation to be met. The composition of inflation has been altered owing to methodological changes in the third party insurance classification. As a result, the predicted development in regulated prices oscillates below, and market services prices above, the expected interval, which consequently pushes the short-term prediction of core inflation up within the programmed limits. When taking no account of this single effect, their expected development would also report to mid values within the programmed limits.

In March, the growth of consumer prices should slow on a month-on-month basis, as secondary effects are gradually fading out and substantial changes in regulated prices are not expected.

As for the foreign trade balance, the ratio of current account deficit to GDP fell to 0.9 % in 2003 from 8.1 % in 2002. The aggregated 12-month deficit of the trade balance continues to follow its longer-term downward trend this year. In the first month, the surplus was reported both in the trade balance and the balance of payments current account. At the same time, the growth pace of export and import slowed as expected, due to the basis effect.

The Bank Board of the National Bank of Slovakia considers the appreciation of the Slovak koruna to be too fast. Should this development continue, problems with the adaptation to this by enterprises may occur. Even though the National Bank of Slovakia is not interested in creating a depreciation cushion, the real rate of currency appreciation must be appropriate to the overall economic development to prevent imbalances due to possible excess restrictions. Despite the achieved surplus of the current account in January, it is necessary, as far as the exchange rate development concerns, to take into consideration the expected deepening of the trade balance deficit in the course of this year, as well as the structure of trade balance where improvements were reported in some economic sectors only. Therefore the NBS makes interventions against the excess pressures that increase the volatility of the foreign exchange market.

It is clear from the current data on the GDP development in the 4th quarter of 2003 and in the whole of the year 2003 that the Slovak economy sustained its high growth rate. In real terms, the economy increased by 4.2% in 2003, and its dynamics is comparable with its 2002 figures. In terms of use, the GDP growth was affected exclusively by the foreign demand, while the domestic demand decreased.

The economic performance on the export side increased significantly in 2003, while the growth of import demand was only moderate, which reflected itself in the pro-growth contribution of net exports to the GDP growth. The openness of the Slovak economy, measured by export and import of goods and services to GDP, increased in comparison with the previous year. This raises also the sensitivity of the domestic production to the price and exchange-rate developments.

The domestic demand dropped in 2003, and, except for the first quarter, it was permanently below its levels of the previous year. Its development was also affected by a more significant drop in the investment and consumer demand than expected by the NBS. On the contrary, the growth in final consumption of public administration and non-profit institutions providing services to households mitigated the negative development of domestic demand.

When discussing the Situation Report, the Bank Board of the NBS took note of the latest information on the fiscal performance in 2003, where the fiscal deficit to GDP ratio dropped in comparison with the budgeded figure. The public sector deficit reduction can be assessed positively, providing the consolidation of public finance will also continue in the future.

The trend in the development of monetary aggregates continued in February as well and it did not imply a rise in demand pressures.

Having considered the overall development, which does not imply the risk of demand pressures in terms of the development of individual components of the GDP, and expecting the mitigation of the net export influence, the Bank Board of the NBS took the decision to support the domestic demand and economic growth revival in the medium term. Simultaneously, the NBS expects that the cut in the interest rates will contribute to the stability of the Slovak Koruna exchange rate against its reference currency.

Press Department of the NBS

PRESS REPORTS

NBS Governor at meeting of the General Council of the ECB

The Governor of the National Bank of Slovakia Marián Jusko on 18 March 2004 participated at the 26th meeting of the General Council of the European Central Bank in Frankfurt am Main. The meeting's agenda for the heads of central banks of the Euro-zone, as well as of EU Member and Acceding States covered macroeconomic, monetary and financial development in individual countries, issues connected with the functioning of the ERM II and other topics relating to cooperation in the framework of the European System of Central Banks.

I. Barát

Joint declaration of representatives of the FMA, MoF SR, NBS, CDCP, BCPB and AoB of 31 March 2004

Representatives of the Financial Market Authority, the Ministry of Finance of the SR, the National Bank of Slovakia, the Central Securities Depositary (Centrálny depozitár cenných papierov, a.s.), the Stock Exchange (Burza cenných papierov v Bratislave, a.s.) and the Association of Banks, meeting at the Financial Market Authority on 31 March 2004, declared that on that day they had fulfilled their mutual agreement of 26 March 2004, whereby they had found a technical and legal solution for ensuring the operation of the new system of the Central Securities Depositary, using technical elements of the old system.

As a result, all barriers to securities trading on public markets, which had received much media attention, had been removed.

M. Kačmár

Recharging credit with no transaction fee

At the cash machines of Všeobecná úverová banka, Unibanka, Ľudová banka and Dexia banka, whose processor is the company Transacty Slovakia, a.s., ensuring the constant authorisation and processing of electronic transactions on-line in the network of cash machines and payment terminals, it is possible to recharge a credit on an Easy card from the mobile phone company EuroTel Bratislava, as well as renew the credit on a pre-paid Prima card from the mobile phone company Orange. Through access via a menu on the cash machine display, it is possible to perform the transactions 24 hours a day, 365 days a year by means of any payment card issued by a domestic or foreign bank.

The advantage of this method of recharging is that no transaction fee is charged to the card-holder, regardless of the cash machine used and the card issuer.

P. Packová

National Bank of Slovakia Press Conference

The Governor of the NBS, Marián Jusko, informed journalists, at a press conference heldon 26 March 2004, of negotiations held by the Bank Board of the National Bank of Slovakia, which at its 6th meeting decided on a change in interest rates with effect from 29 March 2004 as follows:

a) the interest rate for overnight sterilisation operations is to be set at 4.00%
b) the interest rate for overnight refinancing operations is to be set at 7.00%
c) the limit interest rate for two-week repo tenders is to be set at 5.50%

Photo: Pavel Kochan

Slovak Chamber of Commerce Gold Medal for Chairman of the Istrobanka Supervisory Board

The Gold Medal of the Slovak Chamber of Commerce is the highest award granted each year by the Chamber's Board to foreign partners for exceptional service to the development of economic and commercial cooperation with the Slovak Republic. For 2003 the board decided to grant this award to the chairman of the Supervisory Board of Istrobanka Jochen Bottermann, who has been significantly involved in the entry of the banking group BAWAG/P.S.K. to Slovakia. J. Bottermann worked for more than 20 years in top management positions at Bayerische Landesbank. Since the year 2000 he has been a member of the board of directors of the BAWAG/P.S.K. banking group and is responsible for international trade and finance in Central and Eastern Europe. Since May 2002 he has been Chairman of the Supervisory Board of Istrobanka. He has striven to assist Slovak entrepreneurs in tying up active contacts between Slovak and German or Austrian businesses. At the same time he has represented Slovakia's interests in neighbouring European countries and considers Slovakia's accession to the EU as a significant opportunity for the country's development.

Jochen Bottermann receives the 2003 Gold Medal of the Slovak Chamber of Commerce from the Chairman of the Slovak Chamber of Commerce, Peter Mihok, at an Istrobanka press conference on 18 February 2004.

Photo: Patrick Španko