



## MEETINGS OF THE NBS BANK BOARD

### **The 10th Meeting of the Bank Board of the National Bank of Slovakia was held on 11 March 2005, chaired by Ivan Šramko, Governor.**

- The Bank Board of the NBS approved the Decree of the NBS on reporting on consolidated or sub-consolidated groups.

The NBS issues this Decree in line with the recent amendment to the Act on banks, which transposes into the Slovak legislation, in addition to others, such categories as: financial holding institution, mixed-activity financial holding company, and mixed financial holding company, as well as these categories' definitions and scope.

The Decree is aimed at acquiring broader scope of information and at monitoring the current position of existing consolidated or sub-consolidated groups, financial consolidated or sub-consolidated groups, or mixed consolidated or sub-consolidated groups.

This Decree will ensure that a broader scope of information on consolidated and sub-consolidated groups will be acquired; therefore, following the approval of this Decree, Decree No 5/2003 of the National Bank of Slovakia of 11 September 2003 on reporting to the National Bank of Slovakia by a bank controlling a bank consolidated group or a bank sub-consolidated group will be repealed.

### **The 14th Meeting of the Bank Board of the National Bank of Slovakia was held on 24 March 2005, chaired by Ivan Šramko, Governor.**

- The Bank Board of the NBS discussed the Situation Report on the Monetary development of Slovakia in January 2005 and decided on maintaining its current interest rates for the overnight sterilization transactions at 2.0%, the overnight refinancing transactions at 4.0% and the limit rate for two-week repo tenders with commercial banks at 3.0%.

- The Bank Board of the NBS approved the final accounts of the National Bank of Slovakia as at 31 December 2004 and took into account the Report of the independent auditor prepared by the auditing company PricewaterhouseCoopers Slovensko, s.r.o..

The audit was conducted in compliance with the International Auditing Standards and the auditor was of the opinion that the final accounts truly report in all relevant areas the financial situation of the NBS as at 31 December 2004 and its economic results for 2004 in line with the Act on Accounting valid in the Slovak Republic, and related accounting procedures.

The report on the economic result of the National Bank of Slovakia for 2004, the report of the independent auditor and the final accounts of the NBS will be submitted to the National Council of the Slovak Republic.

- The Bank Board of the NBS approved the Report on the Result of Operations of the National Bank of Slovakia in 2004.

The Report, along with the Final accounts of the NBS as at 31 December 2004 and the Report of the independent auditor, will be submitted to the National Council of the Slovak Republic for discussion.

- 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 December 2004 – preliminary results.

As at 31 December 2004, there were eighteen banks and three branch offices of foreign banks operating in the Slovak banking sector. In connection with the accession of Slovakia to the European Union in May 2004, the banking supervision of the NBS registered at the end of the monitored period 49 notifications from foreign supervisory authorities on the intention of foreign banks to freely provide cross-border services.

The positive trend of the Slovak banking sector development also continued in 2004. Total assets in the banking sector grew by SKK 177 billion on a year-on-year basis; as at 31 December 2004, banks, based on the preliminary results, reported total assets of more than SKK 1.16 billion and created profits of nearly SKK 13 billion.

Banks had in their portfolios more than SKK 440 billion of loans, of which 7% were classified. The banks created provisions to them in the amount of SKK 25 billion.

Loans to clients represented the most important item in the long-term, while their volume fluctuated around 35%. Loans to households reported the highest accruals. Their portion of the total volume of loans increased from 21% in 2003 to 26% in 2004. Foreign-exchange loans provided mostly to corporations and institutions also reported a year-on-year growth of 23%. Loans in SKK of this economic sector, however, reported a moderate decline. The most important item on the liabilities sides are clients' deposits and they form nearly 70%.

The continuing trend of the risk oriented supervision performance showed most notably in the monitored year, especially in the last quarter. There were 5 com-

prehensive and seven follow-up inspections completed in 2004. In the last quarter of 2004, the banking supervision started a new supervision cycle, in which comprehensive inspections were replaced by inspections focusing on individual risks (credit risk, market risk, operating risk).

In 2004, apart from the issuing of methodological guidelines, the Banking Supervision Division focused on the implementation of the rules associated with supplementary supervision over financial conglomerates, as well as on preparation of a legal framework for integrated supervision over the financial market.

The Banking Supervision kept a record of forty nine foreign banks freely providing cross-border banking services as at 31 December 2004.

- The Bank Board of the NBS approved the Summary on the Investment Policy Realization in the Area of Foreign Exchange Reserves for 2004.

The Bank Board of the NBS approved the full version of the Agreement on the Payment System SIPS for direct and indirect participants of SIPS, which gives the legal framework for the emergency transmission of the payment system data and at the same time integrates the original agreement and its amendments.

### **Rationale behind the decision of the Bank Board of the NBS on the set levels of the interest rates of the NBS**

The Bank Board of the NBS at its 14th Meeting held on 24 March 2005 discussed the Situation Report on the Monetary Development of Slovakia in February 2005. Within the assessment of the current prices development, the Bank Board of the NBS reviewed the development of inflation measured by the harmonized index of prices in the period January – February 2005. In assessing the macroeconomic environment, the Bank Board of the NBS took into account the published data of the Statistical Office of the SR on the development of gross domestic product, wages and labour productivity in 2004. The Bank Board of the NBS concluded that the current inflation development, when compared with the NBS's expectations, was more favourable. The slowdown of growth dynamics occurred in the sector of services as well as in the sector of goods, where deflation has been reported for a longer term owing to the continuation of the appreciation of the exchange rate in several items. Inflation predictions for the end of the year have remained near the bottom limit of the inflationary target for 2005.

The 2004 macroeconomic results have confirmed the achievement of the dynamic growth of the economy based on the favourable structure of both supply and demand. In 2004 the development in wages, when compared with the NBS's expectations, was faster, which fact also resulted in the worsened relation between the wage development and labour productivity, particularly in the last quarter of the last year. The NBS will continue in the careful monitoring of wage growth in connection with the risk of potential demand price pressures. In mid-March, the exchange-rate development recorded a more marked volatility, when its depreciation resulted from the change in short-term investors' behaviour vis-à-vis the whole central Euro-

pean region. Such a turn-about in the exchange-rate development confirms the opinion of the NBS that the hitherto pace of the exchange-rate appreciation was not based on the economic fundamentals and that there exists a real risk of changing the exchange-rate direction.

Based on the assessment of the recent indicators of monetary and macroeconomic developments and on their updated predictions, the Bank Board of the NBS decided on maintaining the levels of the NBS interest rates.

When deciding on the levels of its interest rates, the Bank Board of the NBS took into account the following factors:

The trend of slowing down the year-on-year inflation continued also in February. This development was influenced most of all by a slower-than-predicted growth in prices for services, particularly the services connected with housing. Within the scope of the service-prices development, the administrative adjustments of prices, when compared with the previous year, were lower and so were the related secondary effects. A part of responsibilities connected with the administrative adjustments in service prices was delegated to local self-governments, which resulted in the deterioration of their seasonal development. This fact could have contributed to the lower growth in service prices. Within the sector of goods it is first of all the deflationary development of foodstuff prices which brings about the reduction of inflation, being it processed as well as unprocessed foodstuffs, and also industrial goods without energies. In the price development of this segment within the harmonized consumer prices index, the influence of competition and exchange-rate appreciation is most visible. In the event of its further appreciation the long-term deflation could reflect itself in the undershooting of the inflationary target of the NBS.

Recent indicators of the macroeconomic development have confirmed the prosperity stage of the eco-



conomic cycle based on the favourable structure of the GDP generation. In 2004 the dynamic growth of the gross domestic product was connected, on the supply side, particularly with higher production of added value in financial intermediation, building industry, industry and commerce. A more considerable decrease of added value was only recorded in sectors being in the process of restructuring (health service, public administration and defence, education). From the viewpoint of demand, the economic growth was fuelled by the strengthened domestic demand, while the contribution of net export was negative, contrary to 2003. The acceleration of the domestic demand resulted above all from the development of its investment part which grew gradually over the year. The growth of this investment part was influenced mainly by the increase in reserves, mainly investment and power reserves, while the consumption stock fell. Fixed investments grew owing to the investment activity in the non-financial corporations sector as a consequence of favourable economic results. The growth of consumption demand did not exceed the total pace of the GDP growth despite the former's acceleration. The total development of domestic demand was in line with the NBS's intention to achieve the balanced structure of the economic growth as well as in line with the NBS's steps in the area of cutting the interest rates. Export and import of

goods and services reached a double-digit pace of growth, and a moderately higher dynamics of import reflected itself in the year-on-year deterioration of the foreign-trade balance.

In view of the fact that current information about the price and macroeconomic developments is in line with the NBS's expectations, the Bank Board of the NBS decided on maintaining the interest rates on unchanged levels. The current as well as expected inflation developments indicate a possibility of monetary policy easing, as the exchange-rate appreciation since the beginning of the year has been too dynamic. The Bank Board of the NBS, however, in its decision-making, took into consideration also a decrease in the limit rate in the last month. In March a reversal has also taken place in the longer-term development on the foreign-exchange market, which was caused by the changed behaviour of short-term investors. The exchange-rate depreciation in March, in the environment of ongoing favourable macroeconomic development of the Slovak Republic, confirms that the last and this year pressures on its appreciation were caused in particular by the convergence play. In this connection we can consider the existing NBS's activities targeted at the slowdown of the excessive appreciation trend as adequate.

**Press Department of the NBS**