

MEETINGS OF THE NBS BANK BOARD

The 7th Meeting of the Bank Board of the National Bank of Slovakia was held on 16 April 2004 chaired by Marian Jusko, Governor.

- The Bank Board of the National Bank of Slovakia approved the decree on the issue of the commemorative bimetal coins in a nominal value of SKK 10 000, on the occasion of the accession of the Slovak Republic to the EU.

On this occasion, the National Bank of Slovakia is issuing two commemorative coins; a commemorative bimetal coin with a nominal value of SKK 10 000, and a commemorative silver coin with a nominal value of SKK 200.

The commemorative bimetal coin is minted from palladium pentagon plate of 999 purity, a gold circular plate of 999 purity is inserted in the centre of the coin. The weight of the coin is 24,8828 g, with a diameter of 40.0 mm across an imaginary circle diameter through the apexes. The apexes of the coin are rounded. The designer of the obverse of the coin is Stefan Novotny and the designer of the reverse of the coin is Jan Cernaj. The commemorative coins were minted in the Kremnica Mint to the number of 7 200.

The commemorative silver coin with a nominal value of SKK 200 is minted from an alloy containing 750 parts of silver and 250 parts of copper. The weight of the coin is 20.0 g, with a diameter of 34 mm. The designer of the coin is Patrik Kovacovsky. The commemorative coins were minted in the Bizuterie Ceska Mincovna, a.s. Jablonec nad Nisou Mint to the number of 10 100 non-proof and of 4 700 proof pieces.

The National Bank of Slovakia will issue the both commemorative coins in the beginning of May 2004.

The 8th Meeting of the Bank Board of the National Bank of Slovakia was held on 23 April 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 March 2004 and decided, with effect from 29 April 2004, on changing in the interest rates to 3.50% for the overnight sterilization rate, to 6.50% for the overnight refinancing rate, and to 5.00% for the two-week REPO tenders with commercial banks.

- The Bank Board of the National Bank of Slovakia approved the document "The Reviewed Investment Strategy in the Field of Foreign Reserves Manage-

ment". In this document the options of the currency composition of foreign reserves are analysed, and the possibilities of increasing the gold reserve yield as well as the total yield from the foreign reserves held.

- The Bank Board of the National Bank of Slovakia took note of the Report on the Development of the Balance of Payments of the Slovak Republic for 2003.

- The Bank Board of the NBS discussed the Report on the Activities and Performance of the Permanent Court of Arbitration of the Bank Association for 2003, and on the basis of the proposal of the Bank Association (as the founder of the Permanent Court of Arbitration), determined the amount of financial contribution for the activities of the Permanent Court of Arbitration of the Bank Association.

- The Bank Board of the NBS approved the Report on the Development of the Payment System in the Slovak Republic for 2003, which will be published in the 2003 Annual Report of the NBS in the Payment System section.

- The Report includes information on regulation of the payment system, on the SIPS Payment System operated by the NBS, information on the issuance and usage of some payment tools in the cashless payment system, as well as information on the development of cooperation with international financial institutions as part of the NBS's work in the field of payment system integration.

- The Bank Board of the NBS approved the Decree of the NBS which stipulates details on conditions, structure of reports and on applications for issue or a change of a license to issue and administer electronic money, as well as on electronic means of payment, including particulars of and annexes to these applications. The aim of this Decree is to stipulate detailed conditions for issuing a license to establish and operate an electronic money institution.

- The Bank Board of the NBS approved the Report on the Situation in Cash Circulation in the SR for 2003. The Report states that the amount of money in circulation at the end of 2003 was SKK 102.9bn and the number of banknotes and coins in circulation was SKK 1.21 bn. This amount includes 138.1 mil. pieces of banknotes, 1 071.3 mil. coins and 733.5 thousand pieces of the commemorative coins issued by the National Bank of Slovakia.

The average volume of money per capita reached



SKK 19128. As compared with the previous year, the volume increased by SKK 1 619.

- The Bank Board of the NBS stated that the cash circulation was fluent in the course of the year, and the appropriate cleanness of money in circulation was preserved.

In 2003 a total number of 973 counterfeit Slovak koruna and foreign currencies was detected in Slovakia. It represents only approximately 1/3 of counterfeit money detected in 2002. The most counterfeits were of the Slovak koruna (69%), the USD (19%), and the euro banknotes (9%). As much as 75.8% of the total counterfeit number in 2003 was detected directly in circulation by banks and safeguard services which process money from supermarkets. As compared with the previous year, the number of counterfeit money detected in circulation increased by 41.8% and it was the highest figure in the last 5 years.

- The Bank Board of the NBS approved the plan of the commemorative coins issue for 2006 which schedules the issue of three commemorative coins.

First, a silver commemorative coin with nominal value of SKK 500 and the motif of the Muránska planina National Park will be issued in April 2006. The other two coins will commemorate anniversaries of the key personalities of the Slovak history. In September 2006 the issue of a silver coin with nominal value of SKK 200 is planned to commemorate the 200th anniversary of birth of the writer, church dignitary and first deputy chairman of the Matica Slovenská, Karol Kuzmány. In November 2006 the gold coin

with nominal value of SKK 5000 will be issued which will commemorate the 1100th anniversary of the death of Mojmir II., the last ruler of the Great Moravian Empire.

In accordance with the contents and time schedule of the strategy for the adoption of the euro in the Slovak Republic, the Bank Board of the NBS approved the Proposal for the procedures of preparation of the Slovak faces of euro coins. The document determines the process of selection of motifs and artistic designs of the Slovak faces of euro coins which will probably replace the current Slovak coins between 2008-2010. Part of the document is a detailed time schedule of stages and dates when the National Bank of Slovakia will carry out the tender for the artistic designs of the national faces of 8 nominal values of the euro coins.

The National Bank of Slovakia will announce the anonymous tender on 15 July 2004 and the tender will be carried out in two rounds. The conclusion of the first round is planned for 31 January 2005 and its aim is to obtain acceptable draft designs, the best of which will go to the second round. The best five designers of each nominal value will be invited to participate in the second round. They will create reliefs of the designs in plaster. The conclusion of the tender and the publishing of results is planned for 15 December 2005.

Details of the tender and full wording of tender terms and conditions will be published in the second half of July 2004 on the NBS's web site www.nbs.sk.

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 Monetary Development in Slovakia in March 2004. It concluded that in respect of the current economic or monetary developments, or of the expectations of the NBS as at the end of the current year, no significant changes had occurred since the last decision was taken, except for the ongoing appreciation of the exchange rate, in particular within the last days. The influence of the cost factors continues to dominate in the price development. The NBS monitors signals on the recovery of the domestic demand, which is in line with both the NBS expectations and the last decisions of the Bank Board of the NBS on the level of exchange rates. The central bank does not consider the appreciation of the exchange rate acceptable, in particular if it is based on the

inflow of the short-term capital which benefits from the interest rate margin.

Having considered the inadequate appreciation of the exchange rate of the koruna vis-à-vis the euro, the Bank Board of the NBS decided on lowering the key interest rates, each by 0.5 percentage point. The NBS will continue to intensively monitor the exchange rate development. The Bank Board of the NBS is ready to flexibly use all the monetary policy instruments of the central bank in the event that the koruna exchange rate does not correspond to the development of macroeconomic indicators.

Though the exchange rate was the key issue in the decision of the Bank Board of the NBS on the level of interest rates, it also considered, as given below in more detail, the following selected macroeconomic indicators:

As compared to February, both the headline and core inflations mildly decelerated on a year-on-year



basis in March. In view of the inner structure of the inflation, the sector of regulated prices continued to represent the most dynamic part of the consumer basket. From the beginning of the year, the food prices have been rising at lower rate than expected, which should, however, speed up in the Q2 and Q3, in particular due to our joining the Common Agricultural Policy. The price sector of tradable goods has been controversially influenced by the rise in prices of fuels, and by the lowering rise in the prices of tradable goods items, due to the appreciation of the exchange rate.

The year's end prediction in terms of the inflation development continues to be in line with the Monetary Programme of the NBS. The updated short-term predictions of the consumer prices development are close to the centre of the programmed interval both for the headline and core inflations. The risks arising from the inflation development continue, in particular if the foods and fuels prices development is volatile. The short-term prediction of inflation, however, confirms the deceleration of the inflation dynamics, which is reflected in lower inflationary expectations by the public, as shown in the survey of the representative sample of population.

The trade balance is characterized by continual lowering of the cumulative deficit. The commodity structure of the foreign trade is stable. The automotive and engineering industries are the main growth factor of exports. Following the import-demanding exports, also the imports of semi-products and machinery grow. In the months to come, the trade balance development will depend on further developments in terms of crude oil prices, the exchange rate of the Slovak koruna, and the investment demand. In May, however, due to the base effect, the year-on-year export dynamics should be recorded.

The development in February in terms of the selected real economy indicators indicates, after a longer period of downturn or stagnation, gradual recovery of the domestic demand. The income from services recorded a year-on-year growth. In particular, the income in retail, from car and fuels sales, and from transport services grew. The index of industrial production also recorded further growth in February.

A relatively dynamic development in terms of wages in selected industries during the first two months of this year may have reflected a deferred payment of variable elements of wages, which were paid at the beginning of 2004 instead of end 2003, as well as carefulness in the wages area in the previous year when, despite a relatively high increase in labour productivity and favourable results of financial operations, the businesses did not let the wages

grow. The effect of the payment of variable elements of wages may be considered as once-only as it resulted from the changed taxation of incomes in 2004. The NBS takes note of a signal of the recovery of economic activity in February, and it will carefully monitor if it is confirmed in the period to come.

The growth of money supply is accompanied by the increasing crediting activities of commercial banks. The loans continue to be concentrated in the household sector, and as regards their purpose and maturity, these are in particular long-term mortgage loans.

The development in terms of the Slovak koruna has been recently characterized by the ongoing appreciation tendency, in particular due to the inflow of the short-term capital, or portfolio investments. The inflow of the short-term funds from abroad exceeded SKK 17 bn in the first three months. The appreciation of the Slovak koruna vis-à-vis the euro exceeded 3% in 2004. The rate of appreciation for the first four months of the year was higher than for the whole previous year 2003. Although the NBS rates have been lowered, the positive interest rate margin still exists; however, at a considerably lower level. The NBS has been regularly assessing the developments in the foreign exchange market, and it is prepared to react adequately in case of non-equilibrium development of the exchange rate. If the appreciation of the koruna continues, the Bank Board of the NBS does not exclude another lowering of the exchange rates, or it may use the instruments of both the foreign exchange and money markets.

In comparison with the previous month, there were no significant changes in the economical and monetary environment of the Slovak Republic, which would require changes in setting of the monetary policy, with the exception of the development in the foreign exchange policy. Therefore, the exchange rate development was the only reason for today's lowering of the exchange rates. It is not possible to identify how the economy responded to the lowering of the exchange rates in March yet: a period longer than one month is required for its assessment. The current macroeconomic development has, however, allowed for the central bank's reaction that would prioritise the exchange rate development, in particular in view of the ongoing consolidation of the public finance, and the estimated robust decline of the inflation rate below 4% in the 12-month horizon. In this view, the current setting of interest rates is in line with the current and expected development in terms of inflation.

Press Department of the NBS

FINANCIAL MANAGEMENT 2004



influencing business in our country. He devoted special attention to the so-called Basel II process and the principle of a united European licence valid in the banking sector of the member states of the European Union and so also in Slovakia from 1st May 2004.

On 20th April 2004, the Deputy Governor of the NBS Ivan Šramko participated in the conference Financial Management 2004 organized by the economic weekly Trend at the Forum Hotel. I. Šramko gave a lecture in the section on implementation of expected legislative changes



OPENING OF AN NBS SUB-BRANCH IN HUMENNÉ



Six Sub-branches of the NBS in various regions of Slovakia are beginning to operate in new premises. The buildings rented up to now are being replaced by special modern buildings meeting all the demands of the maintenance of supplies of money and cash circulation.

The first to be ceremonially opened is the building of the NBS representation in Humenné, designed by the architects K. Gregor and M. Pitka. The company Stavoterm of Michalovce erected the building on an area of 982 m² in a period of 7



months. The Deputy Governor of the NBS I. Šramko (in the foreground of the photo), the director of the Košice Branch Office F. Michališín (first from the left), the mayor of Humenné V. Kostilník (second from the left) and other invited guests participated in the ceremonial opening on 26th April 2004.

New NBS representation buildings will soon be ceremonially opened also in Trenčín, Nové Zámky, Žilina, Lučenec and Poprad.

Igor Barát, Photo: Pavel Kochan