



UPDATED MONETARY PROGRAMME OF THE NBS FOR 2004

On 26 May 2004, the Bank Board of the National Bank of Slovakia approved the Updated Monetary Programme of the NBS for 2004, the aim of which is to specify, on the basis of the definitive results of 2003 and the current development in the first months of 2004, the values of the Monetary Programme for 2004 and the medium-term outlook for the years 2005 – 2007.

The updating of the Monetary Programme for 2004 and the medium-term outlook to 2007 takes account of, besides economic and exchange-rate development in the first months of 2004, also new information concerning expected investment activities (FDI), changes in the forecasts of the development of energy prices and assumptions on the development of the fiscal deficit reflecting the objectives presented in the Convergence Programme of the SR. Taking these facts into account and the development of individual components of inflation to date does not have a significant impact on the rate of overall inflation in 2004 as the mid-interval should remain at the level presented by the Monetary Programme for 2004 (i.e. 6.4%), nevertheless, at a narrowed interval (from 5.5 – 7.3% to 5.7 – 7.0%). The most significant difference in the field of inflation, in comparison with the original Monetary Programme for 2004, is in its structure, which was caused by the shifting of compulsory third-party liability insurance from the sector of regulated prices into market services.

Foreign trade has shown a continuation of favourable trends, which could result in a lower, current account deficit, half that of the expectation given in the NBS Monetary Programme for 2004 (a decline in the share of the deficit from 2.3% to 1.2% of GDP). The more favourable development of foreign trade could thus be reflected also in a moderate improvement of the net export contribution to economic growth. Domestic demand should however, similarly as in the Monetary Programme, represent a decisive factor in GDP growth. The NBS expects that, even despite the persistent influence of administrative measures on purchasing power demand, the expected recovery in the growth of real wages and deferred consumption from the past year should be reflected in a renewal in private consumption. There may also be expected a more significant recovery in investment demand, primarily in

connection with the inflow of FDI into the automobile industry.

Even despite the continuation of the favourable development of the balance of foreign trade, the NBS considers development in the field of the exchange rate as a consequence in particular of the existing interest rate differential and the “convergence play”. It was precisely the excessive appreciation of the Slovak koruna exchange rate over the euro in the first months of 2004 which was the reason for the NBS reducing key interest rates in April 2004 by 0.5 percentage points. The NBS will continue to closely monitor the effect of the inflow of speculative capital on exchange rate volatility and will be prepared to use corresponding instruments. The reduction of interest rates with the aim of limiting the unsubstantiated appreciation of the Slovak koruna will be effected with regard to the main goal of the NBS, which is price stability. The NBS reacts to the development of the exchange rate through a change in interest rates only if its main goal is not threatened.

Price development over the years 2005 – 2007 should be in accordance with the intentions of the NBS in the field of fulfilling the Maastricht Criterion of inflation, characterised by a gradual disinflationary process, supported by the continuing consolidation of public finances, as well as low imported inflation. Overall inflation from the start of 2005 should fall to below 4%, where at the end of 2005 it should reach figures close to those in the eurozone.

A significant factor which will influence economic development in Slovakia over the years 2005 – 2007 will be the inflow of FDI, primarily into the automobile industry, which in comparison with the Monetary Programme for 2004 assumptions has been increased by the investment of Hyundai-Kia. Over the medium term the inflow of FDI should create the conditions for an acceleration in the process of real convergence, growth in labour productivity and the competitiveness of the Slovak economy.



The GDP dynamic could thus gradually accelerate and the conditions for stable growth of the economy should be created. The current account deficit of the balance of payments should gradually change from a deficit to surplus in 2007.

Providing that expectations in the field of public finances are fulfilled, wage growth is moderated, together with there being a significant decline in the influence of administrative interventions in the

domestic price level, 2006 will see the creation of conditions fulfilling the Maastricht Criteria in a sustainable manner and thus enabling Slovakia to qualify for entry to the euro-zone.

The full wording of the Updated Monetary Programme of the NBS for 2004 is available on the website of the National Bank of Slovakia <http://www.nbs.sk> in the section Monetary Policy.