

MEETINGS OF THE NBS BANK BOARD

The 23rd Meeting of the Bank Board of the National Bank of Slovakia, was held on 11 May 2005 chaired by Ivan Šramko, Governor.

- The Bank Board of the NBS discussed and approved the Interim Financial Statements and Report on the result of financial performance of the NBS as at 31 March 2005.

The National Bank of Slovakia reported profit of SKK 6.2bn as of 31 March 2005. The profit was influenced particularly by the development of the domestic currency rate vis-à-vis EUR and USD.

The Bank Board of the NBS approved the decree of the NBS, which amends Decree of the National Bank of Slo-

vakia No 11/2004 on submitting reports by banks and branches of foreign banks for statistical purposes.

The 26th Meeting of the Bank Board of the National Bank of Slovakia, was held on 24 May 2005, chaired by Ivan Šramko, Governor.

- The Bank Board of the NBS discussed the Situation Report on Monetary Development in Slovakia in April 2005 and decided on maintaining the current interest rates at unchanged levels, i.e. overnight sterilization rate at 2.0%, overnight refinancing rate at 4.0% and two-week repo tender limit rate at 3.0%.

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

The Bank Board on its 26th Meeting held on 24 May 2005 discussed the Situation Report on the Monetary Development in Slovakia in April and concluded that in terms of the development of key economic and monetary variables there have not been any significant changes against the previous month when the quarterly medium-term forecast of the NBS was presented. The rise in consumer prices in April was in line with the NBS expectations, primarily due to the ongoing deflationary development of industrial goods prices without energies and to the slighter month-on-month rise in prices of services. The current development of consumer prices is on an ongoing basis affected by the autonomous factors which have the dampening effect on the price development, while the end-of-the-year expected level of inflation continues to fluctuate below the bottom level of the inflationary target of the NBS.

In terms of real economy, the tendency towards higher cumulative deficit in the trade balance continues in line with the expectations, when foreign trade reported a higher deficit in a year-on-year comparison. The development of indicators of industrial and construction production and of income from services and retail was in line with the assumptions of the medium-term forecast of the NBS in the area of real economy. Although the nominal wages growth dynamic slowed down in most sectors, and also having considered the impact of one-off factors, the Bank Board of the NBS continues to consider the wage rise as high, in particular in regard of the developments in price levels and labour productivity. The NBS, however, will be able to prepare a complex evaluation of the wage developments only when the labour market development data

for the whole national economy are disclosed. It is currently possible to conclude that the real wages development was one of the vital factors affecting the indicator for consumer sentiment, which reached its six-year high in April.

The development in foreign exchange market was in the previous period determined by the situation in the global foreign exchange markets, in particular by the EUR and USD cross rate as well as by the situation on the foreign exchange markets in Central Europe. At the end of April the NBS reacted to the increased volatility of the exchange rate in the form of foreign exchange intervention.

In view of the fact that neither the current nor expected development of economic indicators markedly diverted from the assumptions of the Central Bank, the Bank Board of the NBS decided on leaving the current interest rates at unchanged levels.

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

After the March decrease, there was reported a slight month-on-month growth of prices measured by the Harmonized Index of Consumer Prices, which was affected by the rise in prices of goods as well as of services. When compared with the estimates, the consumer-basket items, which include regulated prices, grew faster, as well as energy prices. This was partially compensated for, within the prices of goods, by the decrease in prices of foodstuffs as well as of import items, where the effects of the exchange-rate strengthening from the beginning of the year were reflected. As regards the risks of the future price development, there is still uncertainty related to fuel prices and basic effect in foodstuff prices.

On the basis of the disclosed fast GDP estimate Statistical Office of the Slovak Republic, the development of real economy continued in the existing trend and was in com-



pliance with the NBS expectations. The relation between the labour productivity and wages showed an unfavourable development in most sectors both in nominal and real figures.

In April 2005, the foreign exchange market continued in its depreciation trend, which began in the middle of March and was a result of the mutual correlation between the currencies of the former V4 countries. The NBS made interventions against the excessive currency depreciation in line with the stated intention of limiting the volatility of domestic currency in both directions.

The Bank Board of the NBS concluded that the current economic and monetary development is in accordance with the medium term prediction by 2008. Considering this, the Bank Board of the NBS decided on leaving the current interest rates level unchanged. Yet the concern of the NBS over the development of wages in this year persists, as this development does not correspond with the

labour productivity or with the price development. Dynamic of wages in many sectors confirms the assumption that in negotiations on wages, particularly the inflation of the previous period is taken into account, while the expected development of prices, expressed in the level of the predicted NBS inflation target, is not taken into consideration. This may constitute a risk of macroeconomic imbalance with a negative impact on the medium-term inflation target. In this connection, the Bank Board of the NBS dealt also with the analysis of the households' propensity to consumption development, where, with the increasing of disposable income, the continuation of its growth, but also its stagnation, may be risky owing to its impact on the macroeconomic balance. The analysis of the households' propensity to consumption will be disclosed separately.

Press Department of the NBS