

## MEETINGS OF THE NBS BANK BOARD

**The 27th Meeting of the Bank Board of the National Bank of Slovakia was held on 7 June 2005, chaired by Ivan Šramko, Governor.**

- The Bank Board of the NBS approved the draft of the Act of the National Council of the Slovak Republic No 566/1992 on the National Bank of Slovakia as amended. The purpose of the draft amendment to the National Bank of Slovakia Act is to particularly emphasize the importance of integrated supervision of the financial market as one of the two main pillars of the activities of the National Bank of Slovakia (besides the monetary policy conduct), to specify and amend some provisions on the National Bank of Slovakia Bank Board and other NBS bodies, as well as to carry out some modifications responding to the existing experience with the application of the NBS Act and to amend the NBS Act in line with the related new legislation that has been adopted and applied since the latest amendment to the NBS Act. The entry into force of this draft amendment to the NBS Act is proposed for 1 November 2005 and the part of the provisions in question for 1 January 2006.

- The Bank Board of the NBS approved the NBS Decision amending the Decision of the NBS No 5/2004 establishing the Rules of Procedure of the Central Register of Short-term Securities Maintained by the National Bank of Slovakia.

The approved Decision introduces fees for safe custody accounts and client accounts of the members of the Register. The fees will be invoiced to members of the Register monthly, in arrears, on the basis of a drawn invoice. The NBS Decision amending the Decision of the NBS No 5/2004 establishing the Rules of Procedure of the Central Register of Short-term Securities Maintained by the National Bank of Slovakia shall enter into force on 1 September 2005.

- The Bank Board of the NBS discussed and approved the paper "Possible application of future contracts within the NBS", which deals with the use of futures in the NBS foreign exchange reserve management.

**The 31st Meeting of the Bank Board of the National Bank of Slovakia was held on 23 June 2005, chaired by Ivan Šramko, Governor.**

- The Bank Board of the NBS discussed the Situation Report on the Monetary Development in Slovakia in May 2005 and decided on leaving interest rates

unchanged at 2.0% for overnight sterilization transactions, 4.0% for overnight refinancing transactions and 3.0% for the two-week repo tenders with commercial banks.

- The Bank Board of the NBS discussed and approved the National Plan of the Introduction of the Euro in the Slovak Republic. The material analyses technical and organizational aspects of the common European currency implementation starting from 1 January 2009.

- 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 – Final Results.

As at 31 December 2004, there were eighteen banks and three branches 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 Division of the National Bank of Slovakia recorded, as at the end of the period under review, forty-eight notifications from foreign supervisory authorities of intentions of foreign banks to freely provide cross-border banking services.

- The Bank Board of the NBS approved the "Report on the Development of the Banking Sector in Slovakia and the Assessment of Prudential Activities of the Banking Sector as at 31 March 2005".

As at 31 March 2005 there were eighteen banks and four branches of foreign banks operating in the Slovak banking sector. In the course of the quarter under review, another branch of a foreign bank was established here. It is the HSBC Bank plc., which will operate on the basis of a single passport. In the period under review this branch did not start its banking activities. In relation to the accession of Slovakia to the European Union in May 2004, the Banking Supervision Division of the National Bank of Slovakia recorded, as at the end of the period under review, 70 notifications of foreign supervisory authorities of intention of foreign banks to freely provide cross-border banking services in Slovakia.

Both documents will be disclosed on the website of the National Bank of Slovakia.

**Press Department of the NBS**



### **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 discussed the Situation Report on Monetary Development of Slovakia in May 2005. The Bank Board of the NBS concluded that the current development of inflation and its short-term prediction have steadily corresponded with the conclusions presented in the NBS's quarterly medium-term forecast. Based on the data on GDP growth in the first quarter of 2005 it can be concluded that there has been a continued dynamic economic growth in Slovakia, supported by an increase in both domestic and foreign demand. The growth of domestic demand was formed by all its components and the growth of foreign demand was slightly behind the growth of foreign supply. The continued increase in final consumption of households also resulted from the overall wage rise in the economy, which largely corresponded with the continually growing profitability of corporations. On the other hand, however, the wage growth pace was higher than that of labour productivity, which resulted in a rise in unit labour costs.

Current indicators of economic and monetary development have been in accordance with the NBS expectations, owing to which the NBS's perception of the economic and monetary development remains unchanged at present. As a result, the Bank Board of the NBS decided on leaving the interest rates at the present levels.

In its decision, the Bank Board of the NBS considered the following factors:

Consumer prices did not change in May. When compared to the NBS expectations, the prices of foodstuffs increased at a higher pace, mainly owing to a seasonal growth of fruit, vegetable and fuel prices, the latter resulting from the continued adverse development in crude oil prices. In contrast, prices for market services and tradable goods developed more favourably. Headline inflation dynamics decreased in May on a year-on-year basis. This development has been confirmed by the rate of inflation in 2005 being lower than the inflation target and it has also been in line with conclusions of the medium-term prediction prepared in April 2005. The risk of a faster growth of prices has continued in relation to prices of fuels. The development in the exchange rate, which was highly volatile in the previous periods, has also posed a risk.

Current data on economic development have confirmed the NBS expectations of an ongoing dynamic economic growth, which, as to its structure, resulted from the domestic and foreign demand concurrence. The highest contribution to domestic demand was by

final consumption of households and investments particularly in new fixed assets. The growth of private consumption, after two years of recession, reached its normal levels, which were typical for the period before the administrative restrictions to demand in 2003. The increased growth pace of private consumption resulted from the wage rise. Dynamic growth in wages has created preconditions for the higher growth pace of consumption as well as savings, though without an impact on the rise of inflation. After a long-term decrease, propensity to save has started to grow in the household sector, while that to consume has fallen.

In terms of monitoring potential cost impulses of producers, and subsequently their prices, the wage growth outstripped the growth in labour productivity. Along with this factor, which has occurred in domestic production, first signs of price growth can be also seen in the area of imports. After three years of its stable decrease, the deflator of imported goods and services went up. When compared with the same period in the previous year, imports in the Slovak economy were more expensive, while exports were cheaper.

In May, the foreign exchange market development was increasingly volatile, although, it stabilised in June and the Slovak koruna exchange rate mostly appreciated. The NBS did not use its operations on the foreign exchange market in reaction to the increased exchange rate volatility.

The Bank Board, when deciding on interest rates, evaluated the risk of differences emerging between the NBS expectations and current development in the wage area, both in nominal and real terms. To a certain extent it is possible to connect the current high growth pace of real wages with a sharp year-on-year fall in the inflation rate. This is also confirmed by a real wage growth faster than in the previous year, while the growth pace of nominal wages has slightly slowed. Thus, in the economy there has remained a back indexation of wages in accordance with previous inflation, not the expected one. The inflow of foreign investments may also have a pro-growth effect on the level of wages. Having considered the above factors, which may influence the current rise of wages, the NBS points out that a longer-term occurrence of these trends could adversely impact the development of the trade balance and inflation.

As the current and expected development in the majority of economic and monetary indicators has corresponded with the expectations and projections of the NBS, the Bank Board of the NBS decided on leaving the current levels of interest rates unchanged.

**Press Department of the NBS**

## THE NBS GOVERNOR ON MONETARY POLICY

Mr Ivan Šramko, Governor of the National Bank of Slovakia, addressed the 61st ordinary meeting of the informal economic forum “Economic Club” held at the Marrol’s hotel in Bratislava on 14 June 2005.

In his speech, Governor Šramko assessed recent monetary development in the SR and stated that it was in line with the Monetary Programme of the NBS until the Year 2008 as well as with the presented quarterly medium-term NBS forecast. He also expressed his opinions on the strengthening of the Slovak koruna, the SR’s entry into the euro area and early adoption of the euro, and on fulfilling the Maastricht criteria.



*NBS Governor Ivan Šramko*



## SLOVAK PARLIAMENTARY DELEGATION AT THE NBS

On 22 June 2005, members of the Slovak Parliament’s Agriculture Committee paid a visit to the National Bank of Slovakia. Led by Committee vice-chair Richárd Hamerlik, the delegation was received by NBS Governor Ivan Šramko and members of the NBS Bank Board.

The discussions focused on the NBS monetary policy and the banking sector, in relation to agriculture. Included in the delegation’s programme was a tour of the central bank building, including the safe-deposit vaults, congress hall and heliport.

