



New challenges



By introducing the common currency, Národná banka Slovenska completed one of its evolutionary stages. Paradoxically, the full membership in the Eurosystem did not entail a decline in the bank's activities, but, on the contrary, many activities were extended or added.

One of them is the preparation of medium term macroeconomic predictions. It has been necessary to adapt the internal prediction making process to the common Eurosystem forecasting process and to start using a new model. At the same time, contacts with the ECB have intensified in the form of bilateral exchange of views as well as by increasing the number of official joint meetings.

Apart from the necessity to adapt to this new system, it has been and it still is necessary to face the challenges brought by the development of the real economy. After many years of GDP growth, during which we had recorded increasingly high growth rates, it was not easy to put up with the possibility of a recession. Expectations of a negative "growth" of Slovakia's economy were almost unthinkable until the end of 2008. A negative growth came true though. However, it remains to be answered, whether the economy reached its bottom in the first quarter of 2009.

Signals from both Slovakia and from abroad are heterogeneous. First signs of a possible recovery have occurred, but mostly rather in the form of stabilised or slightly more positive expectations of economic agents. For the time being, the so-called "hard" data do not correspond to the improved expectations unambiguously. For all that we have endorsed the gold mean with a slight bias towards the more optimistic side in our prediction of the economic contraction in the current

year in the NBS when we weighted the individual risks. In an environment of mutual outstripping in publishing more negative data, we consider such an approach appropriate and correct in order to signalize a possible light at the end of the tunnel (resulting from some indicators).

Obviously, we know that there are still some downward risks, especially in the GDP development. In an environment of so considerable uncertainties and unknown reactions of the individual agents within the Slovak economy, which has not been experienced directly until now, all predictions are likely to be equally good or equally wrong. Perhaps the GDP results for the second quarter will bring a clearer signal about the heading of our economy in the current year. However, the problem is that the crisis is global and the lost confidence is hard to restore. Also, the crisis has not originated in Slovakia, therefore there is no domestic cure, whether in the form of monetary or exchange rate policy, to eliminate it. Our fiscal measures can have a social or relieving rather than correcting effect. In spite of the permanently postponed expectations of a recovery in the euro area, it is currently real to expect the year 2010 to be the year of change, the year of global growth recovery. However, in that year, it will be necessary to start dealing with the opposite risk – mainly the risk of the impact of loosened fiscal policies. But that is a topic for one of the next volumes of this journal.

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