MEETINGS OF THE NBS BANK BOARD

The 25the Meeting of the Bank Board of the National Bank of Slovakia, chaired by Governor Marian Jusko, was held on 21 December 2004.

- The Bank Board of the NBS discussed the Situation Report on the Monetary Development of Slovakia in November 2004 and decided on maintaining its current interest rates for the overninght sterilization transactions at 2.50%, the overnight refinancing transactions at 5.50% and the limit rate for two-week REPO tenders with commercial banks at 4%.
- The Bank Board of the NBS approved the Monetary Programme until the end of 2008. It is the latest Monetary Programme defining the performance and the tasks of the monetary policy for the next years till the introduction of the EURO in the Slovak Republic. The approved programme defines the further monetary policy performance as the inflation targeting in the ERM II environment. The Document will be issued in the full-text version.

There were eighteen banks and three branches of foreign banks in the Slovak banking sector as at 30 September 2004. In connection with the accession of Slovakia to the European Union in May 2004, the Banking Supervision of the National Bank of Slovakia registered at the end of the monitored period 31 notifications of foreign supervisory authorities of the intention of foreign banks to freely provide cross-border banking services. In the third quarter their number increased by 22. Regarding the big interest of foreign banks in freely provided cross-boarder services, it was expected that the conditions for an increased competition in the Slovak banking market would be established. Hovewer, the expectations have not yet been met.

Out of fifteen universal banks of the Slovak banking sector, 9 banks and one branch of a foreign bank have a licence to perform mortgage transactions. The volume of mortgage loans since Janurary 2004 increased nearly in SKK 7 billion, the accrual for the last quarter of the year was more than SKK 4 billion. The largest share in the mortgage loans market is owned by VÚB, a.s. (27%), Tatra banka, a.s. (23%) and Slovenská sporiteľňa, a.s. (20%). At the same time, these three banks administered 53% of all banking sector assets and created 63% of its total financial result.

A positive trend in the development of the Slovak banking sector continued also in the third quarter of 2004. Total assets of the banking sector increased by SKK 120 billion. As at 30 September, 2004, the banks reported more than 1 100 billions of assets and created a profit of more than SKK 10 billion. The largest increase in the total assets was reported in the course of June, July and August, when banks increased their assets by more than SKK 77 billion. Banks had in their portfolios loans in the volume of more than SKK 400 billion, of which classified was nearly 8%. Banks have created provision to them in the amount of SKK 26 billion. The development of these indicators has shown evidence of the further strengthening of banks and their intermediary function when maintaining a conservative approach to credit risk management.

The Banking Supervision continued in the current trend of the risk oriented supervision performance. In the third quarter, two full-scope examinations were completed and six follow-up examinations were started and accomplished. In the last quarter of 2004, the Banking Supervision will begin a new supervisory cycle, within which full-scope examinations will be replaced with examinations targeted at individual risks (credit, market and operational risks).

In the third quarter 2004, the Banking Supervision Division, apart from issuing methodological instructions, focussed on the implementation of rules related to the supplementary supervision of financial conglomerates, as well as on the preparation of legal framework for the integrated supervision of financial market.

The Bank Board of the NBS approved the Decision of the NBS on the issue of the Rules of Procedure of the Central Register of short-term securities kept by the National Bank of Slovakia.

The approved Decision defines more precisely and clearly the procedures and the method of processing the data kept in the register. In comparison with the existing procedures, the Rules of Procedure include also the procedures of performing the individual activities of the register, which resulted from the practical experience of keeping the register so far. At the same time, it extends the membership (current direct participants) including the Central Depository in the Slovak Republic and outside the Slovak Republic.

The Decision of the NBS on the issue of the Rules of Procedure of the Central Register of the short-term securities kept by the National Bank of Slovakia shall become effective on 1 January 2005.

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

The Bank Board of the NBS discussed, at its 25th meeting held on 21 December 2004, the Situation Report on Monetary Development of Slovakia in November 2004. The Bank Board assessed the current and expected economic and monetary development on the basis of the current monthly indicators and data of the GDP growth in the third quarter of 2004 published by the Statistical Office of the Slovak Republic. The Bank Board of the NBS discussed the dynamic growth of the economy continued also in the third quarter of 2004 while the dynamics of its basic components was changing in favour of the domestic demand. The accelerated growth of domestic demand resulted mainly from a larger share of investment demand. The rapid growth of investments may positively influence the growth of economy potential Considering the demand factor of import of the Slovak economy, the dynamic growth of investments affected also the development of external balance. The share of net export in the GDP growth in 2004 gradually decreased and showed negative figures in the third quarter. As compared with the same period last year, the final consumption of households reported an increase. This, however, mostly reflected the accumulated propensity to consumption not realized in the previous year. Thus, the pace of growth of the domestic demand and its components have not been contradictory to the set inflation target of the NBS for 2005.

The development of the exchange rate of the Slovak koruna has continued in its dynamic trend, showing the marked appreciation tendency in the last weeks, and it is has been influenced by the short-term capital. If the same dynamic appreciation tendency of the Slovak koruna continued in the coming year, it would not be in line with the NBS's medium-term strategy.

When assessing the current and expected development, the Bank Board of the NBS decided on leaving the existing level of the key interest rates.

When deciding on interest rates, the Bank Board of the NBS considered the following factors:

The development of the year-on-year inflation showed, for a longer period of time, the persisting contradictory effects of several price-formation factors. A more rapid growth of regulated prices than expected (mostly in the area of housing, health care, transport, education and school catering) has been affected by the adoption of price adjustments during 2004. The decline in foodstuff prices has been influenced by a change in market conditions, in particular due to an increase in competition resulting from the opening of market following the accession to the EU. This decline has also been influenced by the establishment of new supermarket chains and by this year's favourable harvest. The prices of tradable goods without fuel have been exposed to the increased competition on the market and at the same time influenced by the strengthening of the Slovak koruna. This has resulted in their year-on-year decline. The development of fuel prices within the consumer basket has been determined by the external cost factors, in particular by the development of crude oil prices and the exchange rate vis-á-vis the USD. The prices of market services in comparison with the expectations of the NBS's Updated Monetary Programme have grown more rapidly, owing to the secondary impact of the growth of cost factors in spite of the final consumption growth. This development did not involve the pro-growth impact of demand factors. The abovementioned contradictory factors and their impact on the overall price level has resulted in a decline of its growth. In December 2004, the NBS expects the stabilization of the year-on-year dynamics of the headline and core inflations and thus the meeting of their programmed year-end targets. At the beginning of the upcoming year, as the marked increase in regulated prices will fade out, the growth pace of inflation will slow approximately to its half level.

The data on the GDP growth in the third quarter of 2004 confirmed the persisting dynamic growth of the economy. Despite the balanced dynamics in the quarters of 2004, the structure of economic growth has changed in terms of demand formation. The share of the domestic demand growth in the total GDP growth gradually went up, while the net export share declined. The acceleration of the domestic demand growth in the third quarter was influenced by the development of investment demand, while the growth of final consumption hardly achieved a half of the growth rate of domestic demand. The restored growth of private consumption (after a decline in the same period last year) was fuelled by making up for the consumption not realised in the previous years, by the extended use of loans by households and by the growth in real wages. The growth of private consumption, however, did not achieve the pace of growth reached before the implementation of the administrative restrictions on demand in 2003. The creation of reserves was the most dynamic part of investment demand, in which most considerably reflected the growth in stocks of semi-finished products and goods, due also to the elaboration of larger investment projects. The fixed investments grew most rapidly in the sector of non-financial corporations, due also to the improved financial management. Despite this the import dynamics continued to decrease, being influenced by a decline in the rate of export and a lower need of imports for export. The net export contribution to the GDP was decreasing mostly due to the subdued export dynamics, which was larger than that of import. The net export development is the evidence of a high import demand of export and of domestic demand.

Although domestic demand has grown rapidly, as the real economy growth has been more markedly represented by the development of the gross capital formation, the inflation outlook is favourable. Thus, any reaction of monetary policy in the area of interest rates is not necessary.

The favourable development of macroeconomic indicators and the promising investment environment in the region attract foreign investors. The direct impact of the short-term foreign capital in Slovakia is the persisting pressure on the Slovak koruna to appreciate. The growth pace of nominal appreciation is very high according to the NBS, and if it continued, it could interfere with the fundamental medium-term objectives of the NBS.

Press Department of the OVI NBS

PRESS REPORTS

The Bank Board of the NBS in its New Composition

The Bank Board of the National Bank of Slovakia has had a new composition since 1st January of this year. The chief executive director of the Financial Management and Payments System Division of the NBS, Milena Koreňová, became its new member. On Saturday 1st January, the President of the Slovak Republic Ivan Gašparovič appointed the Deputy Governor Ivan Šramko to the post of Governor of the NBS. The terms of office of the previous Governor Marián Jusko and the chief executive director of the Currency Division Ján Mathes ended on 31st December 2004. They were the last members to have belonged to the Bank Board continually since its origin.

Since 1st January 2005, the Bank Board of the NBS has consisted of Ivan Šramko, Elena Kohútiková, Milena Koreňová, Ladislav Balko, Martin Barto, Karol Mrva and Peter Ševčovic.

A Meeting with the Commercial Banks

The top management of the National Bank of Slovakia and the members of the Bank Board of the NBS met the top representatives of the commercial banks operating in Slovakia at the R.V.S. facility Studené on 21st December 2004. The outgoing Governor Marián Jusko and his newly appointed successor Ivan Šramko informed the guests about the Monetary programme of the NBS up to 2008, which had been approved by the Bank Board on the same day. The document determines the conduct and aims of monetary policy for the coming years up to the target date for the introduction of the euro in the Slovak Republic. The programme defines the further conduct of monetary policy as inflation targeting in the conditions of ERM II. It sets strict inflation limits for 2005 – 2008, so that Slovakia will fulfill the Maastricht criteria and be able to fulfill the aim set by the government of introducing the common European currency, the euro, in our country on 1st January 2009.

At the traditional pre-Christmas meeting, Marián Jusko addressed the heads of the commercial banks for the last time from the position of Governor of the central bank. He thanked them for their correct cooperation and for their contributions to strengthening the stability of the Slovak banking sector.

Igor Barát, photo: Pavel Kochan

The Number of 10 and 20 Halier Coins Returned from Circulation up to 31st December 2004

Up to 31st December 2003, 274.55 million 20 halier coins and 318.04 million 10 halier coins were in circulation.

By 31st December 2004, 49.85 million 20 halier coins, that is 18.16% of all those issued since the origin of the independent Slovak currency in 1993, and 45.26 million 10 halier coins, that is 14.23% of all those issued, had returned from circulation to the stocks of the NBS.

The National Bank of Slovakia is securing the demonetization of these coins by melting them. The metal obtained from this – an alloy of alluminium and magnesium – will be used as an industrial raw material, especially for producing components for the car industry.

The possibility to exchange these coins at banks and branches of foreign banks ended on 31st December 2004. From 1st January 2005 to 31st December 2008, it will be possible to exchange them without charge for valid banknotes and coins only at the National Bank of Slovakia.

Igor Barát