MEETINGS OF THE NBS BANK BOARD

The 15th meeting of the Bank Board of the National Bank of Slovakia was held on 13 August 2004, chaired by Marian Jusko, Governor.

- The Bank Board of the NBS discussed and approved the NBS operating budget adjustment for 2004. The adjustment was initiated due to the transferring of customers from the NBS to the State Treasury. The aforementioned adjustment will decrease the NBS budgeted operational loss for 2004 nearly by SKK 11 million.
- The Bank Board of the NBS discussed and approved the Quarterly fiancial statement and the report on results of operation of the NBS as of 30 June 2004.

The NBS reported a loss in the amount of SKK 13.1bn as of 30 June 2004. The loss was influenced particularly by the development of the exchange rate of the domestic currency vis-à-vis EUR and USD.

- The Bank Board of the NBS discussed the document Trading of the Debt and Liquidity Management Agency on money market and a proposal for resolution of the mutual relations with the National Bank of Slovakia. Its purpose was to consider the situation after the Debt and Liquidity Management Agency became an important part primarily of the domestic money market. It also aimed at judging the possible actual ways of its cooperation with the central bank also from the point of view of the ongoing process of integration into the European Monetary System.

The 16th Meeting of the Bank Board of the National Bank of Slovakia was held on 30 August 2004, chaired by Marian Jusko, Governor.

- The Bank Board of the NBS discussed the Situation Report on Monetary Development of Slovakia in July 2004 and decided on maintaining the interest rates at unchanged levels, i.e. the overnight sterilisation rate at 3%, the overnight refinancing rate at 6.0%, and the two-week REPO tender limit rate at 4.5%.
- The Bank Board of the NBS discussed and approved the Concretised Strategy of the Slovak Republic towards the Adoption of the Euro. This document will be submitted to the Meeting of the Slovak Government for discussion as a joint document of the Ministry of Finance of the Slovak Republic and the National Bank of Slovakia.

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

The Bank Board of the NBS at its 16th Meeting held on 30 August 2004 discussed the Situation Report on Monetary Development of Slovakia in July 2004. The Bank Board concluded that the inflation growth in July was higher than expected by the NBS. Owing to this the NBS expects the year-end inflation to move above the mid values of the programmed interval. When compared with the NBS' expectations, the foodstuff and market-services sectors reported a higher increase in prices than expected. The growth of foodstuff prices resulted from the more concentrated effect of the Common Agricultural Policy and from the effect of access to the common European market. The growth of prices for market services was accelerated by the growing cost factors influence. As the year-end prediction of inflation remains in the programmed corridor and the higher inflation dynamics in July resulted from the cost factors, the Bank Board of the NBS decided on maintaining the key interest rates unchanged. The exchange rate development neither requires changes in the monetary policy setting, as the strengthening of the Slovak koruna exchange rate against its reference currency was discontinued owing to the NBS' interventions on the foreign-exchange market.

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

The annual growth of consumer prices and core inflation accelerated in July as compared with June, which was due to the higher pace of market services growth. The latter resulted from the cost factors and effects of applying the Common Agricultural Policy. The inflation development has been affected by factors which fall outside the monetary policy instruments influence. The year-on-year growth of consumer prices probably reached its year-high in July, thus its dynamics should slow down until the year-end. One of the factors, which will influence the inflation development in the months to come, is the oil price. Its continued increase could lead to the further growth of fuel prices. This could result in headline inflation exceeding the upper limit of the programmed interval at the end of the year, despite the expected low pace of tradable-goods growth. As this is a cost factor, it cannot be influenced by the monetary policy instruments. The indicator of net inflation without fuels, which best reflects a possible impact of demand factors on prices, has shown favourable development since the beginning of this year, and its prediction for the year-end approaches the mid values of the programmed interval.

The external trade of Slovakia reported a higher deficit in June owing to methodological changes, as a result of which a part of imports was moved from the preceding month to June, and owing to the expected completion of a part of investment imports. Following the June developments, the cumulative annual trade balance was slightly deficit, which was in line with the NBS' expectations. Nevertheless, the programmed levels of the balance of payments current account and trade balance ratios should be maintained in 2004.

The real economy development indicates a continued fast economic growth, which should be backed up by an increase in both domestic and foreign demand. A dynamic growth of retail sales suggests a continued increase in the household consumption which represents a part of domestic demand. The current situation in industrial output signals further favourable developments in export, which should also significantly contribute to the economic growth of Slovakia.

The NBS' intervention in the foreign-exchange market in July helped to stabilize the Slovak koruna exchange rate. Thus, neither interventions by the NBS nor changes in the monetary policy setting are needed currently.

Due to the fact that the current, as well as expected, inflation development has been influenced by the cost factors solely, it is not required to change the NBS' monetary policy setting. The NBS has been monitoring the relatively dynamic growth of retail sales, however, it is not assessed as risky when viewed in relation to the inflation developments. It is also due to the fact that the sector of tradable-goods prices has been growing slowly (and even decreased in July 2004), which resulted from the growing competition on the market and the Slovak koruna exchange rate development. In the sector of tradable goods, a continued influence of factors subduing an increase in prices can be expected until the year-end, which could dampen a possible pro-growth impact of cost factors on the development of prices, as the weight of tradable goods in the consumer basket is decisive.

Press Development of the NBS