MEETINGS OF THE NBS BANK BOARD

The 8th Meeting of the Bank Board of the Narodna banka Slovenska was held on 28 February 2006, chaired by Ivan Sramko, Governor.

• The Bank Board of the NBS at its 8-th Meeting on 28 February 2006 decided on changing the current interest rates to 2.50% for the overnight sterilisation rate, to 4.50% for the overnight refinancing rate and to 3.50% for the two-week REPO tenders with commercial banks.

• The Bank Board of the NBS took note of resignation announcement of JUDR Ladislav Balko PhD, member of the Bank Board of the NBS, as of 1 March 2006.

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

The Bank Board of the Narodna banka Slovenska discussed the Situation Report on Monetary Development in Slovakia in January and concluded that inflation reached a higher level than that expected in the NBS's short-term forecasts. The higher than expected inflation was affected in particular by higher prices of industrial goods, which reflected the regulated prices growth. In this case it was a cost factor, which is beyond the impact of the monetary policy regulation. In spite of this fact, the Bank Board of the NBS is aware that the increasing inflation dynamic can, due to the regulated prices development, have a negative impact on the inflationary expectations in the economy. At the same time, the Bank Board of the NBS discussed the published flash estimate of the economic growth and employment development. The dynamics of both indicators were also higher when compared with the expectations of the NBS. A more dynamic economic growth against the January medium-term forecast could be reflected in the accelerated closing of output gap. The current economic development and the ongoing current setting of monetary policy could also create conditions for faster transmission of secondary effects and encourage inflation to grow. In view of the fact that the NBS has already advised of the need to tighten the monetary policy, the latest information on the development of economy and prices confirm the necessity for the monetary policy to react. Owing to this, the Bank Board of the NBS has decided on increasing the interest rates by 0.5 percentage point.

In its consideration, the Bank Board took into account the following factors:

The inflation development in January, measured by the Harmonized Index of Consumer Prices, was significantly higher than the NBS expected. This was in particular influenced by the growth of energy prices, i.e. heat, gas and electrical energy, as well as a higher than expected growth of prices in health service. The growth in the price level was also due to the increase of excise duty on spirits. When compared with the NBS's expectations, the January price growth was faster, in spite of the fact that the increase of the excise duty on cigarettes had not yet been reflected. The higher dynamic of consumer prices was due both to the cost and secondary effects related to the regulated prices growth. Based on the above-mentioned factors, the short-term forecast of the year-on-year inflation significantly increased as at the end of the year, which fact can negatively influence the inflationary expectations in the economy for the period to come.

In December 2005, price development, as well as the trade balance deficit, reached higher than expected levels. As compared with the NBS's estimates, the development was different both on the export and import side. While exports recorded a significantly slower growth, imports, in contrast, accelerated. As there is no detailed structure of the trade balance currently available and it is not possible to draw unambiguous conclusions, the Bank Board of the NBS will discuss the trade balance analysis next month.

The Statistical Office of the Slovak Republic released a flash estimate of the economic growth reaching a higher than expected rate of growth. The high GDP growth rate, when compared with the January forecast, will probably be reflected in the accelerated closing of the negative output gap. The higher economic growth trend is expected to continue also in the quarters to come and these expectations may affect the inflation development in the form of demand pressures.

The discussions on the Situation Report resulted in the conclusion that the latest information on development of inflation, trade balance, and GDP differs from the expectations given in the last medium-term forecast in the way that they increase the risk in terms of inflation dynamic acceleration. Owing to this and also in line with their presented opinion, the Bank Board of the NBS decided on tightening the monetary policy and increased the set levels of interest rates by 0.5 percentage points.

On 28 February 2006, the Bank Board of the Narodna banka Slovenska voted on the set levels of interest rates as follows: out of 10 appointed members of the Bank Board of the NBS 7 members voted for this proposal and 3 members voted against.

Press Department of the NBS

Monetary policy in Central and Eastern Europe

During 19 – 21 February 2006, the National Bank of Slovakia in cooperation with the Bank for International Settlements (BIS) organized a working meeting entitled "Monetary Policy in Central and Eastern Europe". This was the annual working meeting of senior representatives of central banks from EU countries and other countries in Central and Eastern Europe, as well as representatives of the BIS and European Central Bank. The aim of the meeting was to exchange experiences and hold informal technical discussions on all areas of macroeconomic and monetary policy developments in these countries, particularly in 2005.

Photo, from the right: William R. White, Economic Advisor and Head of Monetary and Economic Department, BIS; Elena Kohútiková, NBS Deputy Governor; Dubravko Mihaljek, BIS representative.

PhDr. Ivan Paška, Photo: Pavel Kochan

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THE EURO – successes but also challenges

The introduction of the euro should have a positive effect on reducing regional differences in Slovakia, according to Alexandre Lamfalussy (in photo, on the right). The former president of the European Monetary Institute (EMI), the predecessor of the European Central Bank (ECB), made his remarks in Bratislava on 8 March when taking part in a discussion on the euro at HNClub, the informal economic forum of Hospodárske noviny newspaper.

Adoption of the euro would make foreign companies more confident about investing in Slovakia since they would no longer have to consider the risk of exchange rate fluctuation, explained Lamfalussy. The Governor of the National Bank of Slovakia, Ivan Šramko (on the left), added that the introduction of the euro in Slovakia would reduce the risk of currency volatility and the vulnerability associated with the own currency of a small and open country.

Lamfalussy noted that the current EMU Member States were finding themselves in difficult circumstances brought about by low economic growth and high unemployment. The ECB's task to set and implement monetary policy in the euro area was becoming more demanding under such circumstances. Lamfalussy stressed that EMU institutions exist in a far from satisfactory form. Institutions with a monetary mandate are, according to him, operating relatively well in comparison with economic institutions due to their more restricted decision-making process and the fact that their decisions, with certain exceptions, require unanimous agreement for approval. In his view, the challenge lies in the different levels of development that exist among euro area countries and the countries that are on course to join the zone. Unlike the fulfilment of the EMU accession criteria, real convergence requires sustainable steps in fiscal policy and these have, he says, still not been taken in all the existing cases. He added that the demanding road of institutional reform was a sustainable one.

Source: TASR, Photo: Pavel Kochan