

## MEETINGS OF THE NBS BANK BOARD

**The 22nd Meeting of the Bank Board of Národná banka Slovenska was held on 30 May 2006, chaired by Ivan Šramko, Governor.**

- The Bank Board of the NBS discussed the Situation Report on Monetary Development in Slovakia in April 2006 and decided on the changes in interest rates as follows: the overnight sterilization rate to 3.00%, the overnight refinancing rate to 5.00% and limit rate for two-week REPO tenders with commercial banks to 4.00%, effective as of 31 May 2006.

**The 23rd Meeting of the Bank Board of Národná banka Slovenska was held on 6 June 2006 chaired by Ivan Šramko, Governor.**

- The Bank Board of the NBS discussed a draft Decree amending the National Bank of Slovakia Decree No 614/2003 Coll. on particulars of a foreign exchange licence application, manner of proving of meeting the conditions of a foreign exchange licence granting, and on the requirements pursuant to Article 13(8) of the Foreign

Exchange Act. This Draft has been prepared in connection with the transfer of the conduct of banking supervision from branches to the head office. Reports on the transactions conducted in foreign exchange values will be submitted directly to the head office of Národná banka Slovenska. The Draft specifies certain regulations relating to the proving of legal capacity of those persons through which the transactions in foreign exchange values are conducted or foreign exchange and currency services are provided. The proving of the mentioned persons' age is also specified.

The Bank Board of Národná banka Slovenska took notice of the Information about foreign exchange and licensing activities and foreign exchange supervision in 2005. The information has been prepared based on the plan of the main tasks of Narodna banka Slovenska for the first half of 2006. The purpose of this document is to give an overview of, and assess, the licensing and supervising activities of Národná banka Slovenska in the area of foreign exchange in 2005.

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

The Bank Board of the NBS, at its 22nd meeting on 30 May 2006, discussed the Situation Report on the Monetary Development in Slovakia for April 2006, as well as the recent macroeconomic development from the viewpoint of its possible impact on future price development.

As concerns inflation, the Bank Board of the NBS stated that, when compared with the previous month, the risks identified in its growth outlast and some of them grow even stronger. The ever increasing prices of oil have a proinflationary impact not only on the prices of fuels but they can also be reflected in further growth of regulated prices with additional secondary effects. The price development forecast as at the end of 2006 is above the NBS's inflation target. Based on branch statistics as well as the flash estimate of GDP in the first quarter of 2006, it is apparent that production and receipts continue to grow almost in all industries with a favourable impact on the profitability of non-financial institutions. In this way conditions for faster growth of wages and for inflationary pressures can be formed. This risk is also being stressed in the revised data on the GDP growth in 2005. Although the rate of the ove-

ral economic growth has not been changed significantly, consumer demand has been more dynamic which fact may indicate growth of demand pressures. From the discussion of the Bank Board of the NBS it follows that, with regard to set inflation targets on the one hand and existing asymmetric risks on the other hand, the Bank Board of the NBS considers it necessary to further strengthen monetary policy. Owing to this, the Bank Board of the NBS has decided on increasing the interest rates by 0.5 percentage point.

When deciding, the following factors have been taken into consideration:

As concerns individual inflation components, there was an increase in the prices of goods and services, in particular in the prices of foodstuffs, as well as in some regulated prices. In April, the price development measured by the harmonized index of consumer prices was in line with the NBS's expectations. Within the short-term forecast, however, the risk of further growth in the prices of oil increased again. Among the factors that could also contribute to the growth of prices are higher regulated prices in health services as well as the growth of foodstuff prices.



The Statistical Office of the Slovak Republic released revised data on the GDP where no significant changes appeared in the real economy trend so far. However, the growth of the final consumption of households has increased and outpaced the rate of growth of the overall GDP. The flash estimate of the GDP in the first quarter of 2006 confirms the continued rate of growth in 2005. When compared with the NBS's expectations, the GDP growth was slightly slower. The dynamic growth of the economy has a tendency to continue also in the period to come. In this kind of environment, there is a possibility of positive expectations of the future economic development with an impact on the faster growth of wages. If the growth of wages does not correspond with the productivity of labour, it may have an unfavourable impact on the price development.

One of the effects of the currently increasing production as well as the result of the strong investment imports was probably a decrease of trade balance deficit in March, as compared with the first two months of the year. The Bank Board of the NBS also discussed the trade balance development in the context of the whole trade balance current account development. Even though the current figures, or the achieved deficits in 2005 are high, the structure of the investment import, as well as the forthcoming launch of production

in companies with foreign direct investments, indicate the improvement of foreign trade figures already in 2006.

From the conclusions of the Bank Board of the NBS, as to the current macroeconomic development, it has resulted that on the one hand the development of prices and real economy are in compliance with the NBS's expectations, as they were presented in the recent medium-term forecast, and they carry on with the existing basic development trends. However, on the other hand, a number of identified risks, be it cost risks or demand risks, still persist and become more evident. The economic growth, the structure of which signals a stronger formation of domestic demand, forms an environment of strict monetary conditions by the means of interest rates which are necessary for the elimination of the identified risks. All the members of the NBS Bank Board supported in the discussion the need to tighten the monetary policy.

On 30 May 2006, the Bank Board of the Národná banka Slovenska voted on the set levels of interest rates as follows: out of 8 appointed members of the Bank Board of the NBS 5 members voted for this proposal and 3 members voted against.

**Press Department of the NBS**

## RAISING OF INTEREST RATES



At its 22nd session on 30th May 2005, the Bank Board of the National Bank of Slovakia discussed the Situation Report on Monetary Development in the Slovak Republic in April. The current macro-economic development was considered in this context, from the point of view of its possible impact on future price development.

As the Governor of the NBS Ivan Šramko informed journalists at the following press conference, the Bank Board of the NBS stated that in comparison with the preceding month, the identified risk of increased inflation was continuing or growing. The constantly rising price of oil put an upward pressure on inflation, not only directly through the price of fuel, but also through further growth of regulated prices with additional secondary effects. The prediction of price development up to the end of 2006 exceeds the inflation target of the NBS. Both sectoral statistical data and preliminary estimates of GDP in the first quarter of 2006 point to a continued growth of pro-

duction and sales in almost all sectors with a favourable impact on the profitability of non-financial institutions. This could create conditions for a more rapid growth of wages and increased inflationary pressures. The revised figures for GDP growth in 2005 also emphasize this risk. The rate of overall economic growth did not significantly change, but consumer demand was more dynamic, which could indicate rising demand pressures.



The discussions of the Bank Board of the NBS have shown that with regard to the established inflation targets on the one hand and to the existing asymmetrical risk of increased inflation on the other, the Board considers it essential to further tighten monetary policy. Therefore, the Bank Board of the NBS has decided to raise the level of interest rates by 0.5 percent.

*Photo: P. Kochan*

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## JEAN-CLAUDE TRICHET AT THE HEAD OF THE EUROPEAN ASSOCIATION FOR BANKING AND FINANCIAL HISTORY

The annual assembly of the European Association for Banking and Financial History (EABH) was held on 26th and 27th May this year for the 17th time since the establishment of the association in 1990. The conference had the theme: State and Financial Services: Regulation, Ownership and Deregulation. The conference was held in Lisbon in the premises of the Caixa Geral de Depósitos, one of the oldest Portuguese banks. Expert papers focused on British, Italian and American regulation of banks in the 19th century, the European and US experiences in state intervention in banking during the inter-war period, and the role of the state in the French, German and Scandinavian financial systems in the 20th century. A special discussion panel considered the system of banking supervision known as Basel II. Apart from specialists in financial history and archives, the active participants included the Governor of the Portuguese central bank Vítor Constâncio, the director General of the Basel BIS Malcolm Knight and the Portuguese minister of finance Fernando Teixeira dos Santos.



The President of the European Central Bank Jean-Claude Trichet was confirmed in the position of Chairman of the EABH at the annual assembly of the organization associating 79 institutions including the central banks of 25 European states, and enabling dialogue between European bankers, financiers, scientists, archivists and researchers in the fields of archive services, banking history and, from the year before last, also financial history and contemporary matters. He took over the position of head of the European banking archivists and historians from the former President of the ECB William F. Duisenberg, who passed away on 31st July 2005.

The growing interest in the activity of the EABH is shown by the record number of participants, who numbered 148 according to the official list, including representatives of the National Bank of Slovakia, which has been a member of the EABH since 1997. The NBS organized the annual assembly in 2003 with a conference on theme: People's Banking and the Financial System.

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