

MEETINGS OF THE NBS BANK BOARD

The 28th Meeting of the Bank Board of Národná banka Slovenska was held on 11 July 2006, chaired by Martin Barto, Deputy Governor.

- The Bank Board of the NBS discussed and approved the draft Decree amending the Decree of the National Bank of Slovakia No. 2/2003 concerning the Register of Credits and Guaranties as amended by the Decree of the National Bank of Slovakia No 7/2005 and the Decree of the National Bank of Slovakia No 4/2005.

The Decree establishes the obligation for banks and branches of foreign banks to report to the Register of Credits and Guaranties the list of those partners of an entrepreneur – legal person, who own more than a 10% share in the registered capital or voting rights of the legal person and their data.

This Decree shall become effective as of 1 August 2006.

The 30th Meeting of the Bank Board of the NNárodná banka Slovenska was held on 25 July 2006, chaired by Martin Barto, Deputy Governor.

- The Bank Board of the NBS discussed the Situation Report on Monetary Development of Slovakia in June 2006 and decided on the changes in interest rates as follows: the overnight sterilization rate to 6%, the overnight refinancing rate to 4.5%, effective of 26

July 2006; the limit rate for two-week repo tenders with commercial banks remains unchanged at 3%.

- The Bank Board of the NBS discussed the draft decree amending Decree of the Ministry of Finance of the Slovak Republic No 417/2005 Coll. under which are affected certain provisions of Act No 340/2005 on insurance mediation and reinsurance mediation and on amendments to certain laws.

The objective of this Decree is, among others, to accommodate the wording of Decree No 417/2005 Coll. to the current situation resulting from the fact that the Financial Market Authority ceased to exist and its complete activities have been integrated into the NBS. It also stipulates the conduct of an exam to be made by insurance intermediaries and reinsurance intermediaries, as well as to simplify the process of registration of tied and subordinate tied insurance intermediaries in the register of insurance intermediaries and reinsurance intermediaries maintained by Narodna banka Slovenska, and make it easier to work with data in the register. The Decree shall become effective on 15 August 2006.

The Bank Board of the NBS discussed the paper "Analysis of Convergence of the Slovak Economy". The full-text material will be posted on the NBS's website.

Press Section of the OVI NBS

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 NBS at its 30th meeting, held on 25 July 2006, discussed the Situation Report on the Monetary Development of Slovakia in June as well as the Medium-term Forecast.

Based on the current monthly data, the macroeconomic development trend in June was in line with that of the previous months and did not deviate markedly from the development expected by the NBS. When compared with the NBS's estimate, the dynamics of inflation was slightly lower, as the year-on-year dynamics of prices of goods and services in its basic structure slowed down. In the months to come, however, the pro-growth risks show off, which result from the development in prices of oil and health services. In particular, due to regulated prices

dynamic growth, the inflation target for 2006 will be exceeded.

Monthly indicators of production and receipts development indicate a continuing fast economic growth. The trade balance deficit in May was only slightly higher, when compared with that expected by the NBS, and in the months to come, it should be gradually mitigated by the growth in the exports of the new automotive production. In terms of wages development, the rate of growth of wages in the industrial production increased, which was influenced by the base effect at the beginning of the year. The pace of growth in nominal wages has been increasing particularly in services, which fact can be reflected, together with cost factors, in the growth of price level.



The Bank Board of the NBS also stated that the exchange rate development in July, as well as in May, showed a significant volatility, although there was no economic reason for rapid exchange rate changes. Therefore, the NBS intervened on the foreign-exchange market with the objective to mitigate the exchange rate volatility, as the central bank considers this volatility a short-term phenomenon incurred by foreign investors' uncertainty resulting from the development on other developing markets, as well as from the domestic political development.

The current nominal exchange-rate development could bring about a growth in import prices and has an impact on the loosening of real monetary conditions, via the exchange-rate component. On the one hand, this fact strengthens the competitiveness of the Slovak economy, on the other hand, however, it can trigger inflation.

Although the current macroeconomic development was in line with the expectations of the NBS, as well as with the previous medium-term forecast, there was a change in an inflation development outlook for the year 2007. The most important factor of the inflation forecast shift was a re-evaluated assumption of the growth in regulated prices of energy, which reflected a continuing growth in oil prices. At the same time, the risk of higher secondary effects, which, together with the assumed slight movement of cyclic position of economy, is reflected in higher inflation dynamics forecast for 2007. The mentioned inflation should reach levels above the set inflation target.

When compared with the April medium-term forecast for this and the next year, the estimate of the dynamics of real economy development has slightly increased. The faster economic growth should be in particular due to the impact of the expected higher final household consumption which should be stimulated mainly by the fast growth of employment. The latter should be reflected in a higher labour costs and in narrowing the excess of productivity growth over the wages growth.

Based on the current medium-term forecast and in particular with regard to the expected inflation target

exceeding in 2007 and to continuing inflationary risks, the Bank Board of the NBS stated that in the environment of intensifying cost inflation pressures it is vital to subdue the origination of demand inflation pressures and secondary effects through further monetary policy tightening. This should, in 2007, minimize the actual inflation divergence from the target and, at the same time, contribute to its comeback to target values of 2008 so that conditions for meeting the Maastricht inflation criterion be fulfilled.

With regard to the discussion on the current development and medium-term horizon of the macroeconomic development, the Bank Board of the NBS stated that the pro-growth risks in the future inflation development have been intensifying, and the inflation forecast moves above the inflation target in this as well as in the future year. On this basis the Bank Board of the NBS decided on changing the interest rate levels as follows: overnight refinancing rate set at 6%, two-week REPO tender limit rate set at 4.50%, and on maintaining overnight sterilisation rate at 3.00 %.

The Bank Board of the NBS expects that tightening of monetary policy must continue also in the months to come. It means that the NBS cannot exclude further increasing of its interest rates in the year 2006.

In its decision-taking, the Bank Board of the NBS took also into account the conclusions of the meetings with the representatives of the Government of the Slovak Republic regarding the intention of the Slovak Republic to enter the euro area. In view of this fact, the NBS maintains its strategy in this respect and the latest medium-term forecast is based on the continuing consolidation of public finance, as it has been set up in the last updated Convergence Programme and in line with the Stability and Growth Pact.

On 25 July 2006, the Bank Board of 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 7 present members voted in favour of this proposition and no one voted against.

Press Section of the OVI NBS

THE GOVERNMENT WANTS TO OBSERVE THE CRITERIA FOR THE INTRODUCTION OF THE EURO

The new Slovak government of Prime Minister Robert Fico wants to fulfill all the conditions for the introduction of the euro, so that Slovakia can adopt the single European currency by the planned date in 2009. The prime minister confirmed this at a briefing held after talks with the Governor of the National Bank of Slovakia Ivan Šramko. Minister of Finance Ján Počiatek and members of the Bank Board of the NBS also participated in the talks on 13th July 2006.

As the Governor of the central bank I. Šramko informed journalists in the introduction to the briefing, the aim of the meeting was to present analytical materials and documents of the NBS concerned with the influence of the introduction of the euro on the Slovak economy.

Prime Minister R. Fico stated that the visit to the National Bank of Slovakia was planned as part of his meetings with the most important institutions in the Slovak Republic. He emphasized: „At this meeting we got a very clear presentation of the plan to introduce the euro in the Slovak Republic including all the important economic indicators connected with the introduction of the euro in 2009. On the other hand, I informed the representatives of the National Bank of Slovakia about the aims of the new government as given in the Programme Declaration of the Government of the Slovak Republic. We have unambiguously confirmed that the new government of Slovakia wants to respect the introduction of the euro in the Slovak



Republic according to the existing plan as far as possible. We want to do everything necessary to observe the timetable for the introduction of the euro. We also informed the representatives of the National Bank of Slovakia about various measures the government wants to introduce, especially in the area of savings and reduction of government spending.“

Premier R. Fico described the talks as extraordinarily constructive and expressed the conviction that the tradition of cooperation between the National Bank of Slovakia and the Slovak government would continue. –sb–

THE SLOVAK EURO COINS



In line with the National Euro Changeover Plan for the Slovak Republic, the National Bank of Slovakia prepared a further public information event on 12th July 2006. The Chief Executive Director of the Currency Division of the NBS Ján Mathes opened the exhibition „The Slovak Euro Coins – Artistic Designs for the Slovak Sides of the Euro Coins“ in the premises of the Museum of Coins and Medals at Kremnica. Visitors to the exhibition can acquaint themselves with basic information about the origin of the European Union, the eurozone and the euro currency. They will see the winning designs for the Slovak sides of the euro coins and drawings of the 144 proposed designs considered by the expert

committee on themes and artistic quality. The national sides of the 12 member countries of the eurozone, San Marino, Monaco and the Vatican, and the proposed designs for the euro coins of the states preparing for entry to the eurozone – Estonia, Lithuania and Slovenia – form a further part of the exhibition.

The exhibition will be accessible in the Museum of Coins and Medals at Kremnica from 8.30 to 13.00 and 14.00 to 17.30, Tuesday to Sunday,



Photos by: Pavel Kochan

until 29th August 2006.

In September and October the touring exhibition will be installed in the premises of the NBS in Banská Bystrica and later in Košice.