



EXPECTED MACROECONOMIC DEVELOPMENT IN SLOVAKIA

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In the last quarter of 2013, Slovak economic growth accelerated, supported mainly by positive developments in the countries of Slovakia's trading partners. In addition to external demand, a contribution to growth came also from domestic investment demand. Private consumption remained weak. This trend is expected to continue in 2014. Meanwhile, the economy should grow to 2.4% in 2014 and further accelerate in 2015 and 2016 to 3.3% and 3.5% respectively. The labour market is likely to improve with the anticipated strengthening in economic activity. Inflation is expected to stagnate in 2014, however, it should pick up on the grounds of private consumption recovery in 2015 and 2016 (p. 2).

ECB MONETARY POLICY OPERATIONS AND EUROPEAN BANKS' ACTIVITIES ON THE MONEY MARKET IN 2013

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The article summarises prominent events on the money markets in 2013 for the euro area as a whole. It also focuses on the ECB's steps related to its monetary policy operations and their conduct. It includes the behaviour of euro-area banks when drawing funds from the ECB within refinancing operations and their excess liquidity management activities. To draw a picture of the situation in the euro area, trading of European banks on the money markets is used, which shows their readiness to trade excess liquidity on the interbank market and so to support the ECB monetary policy transmission mechanism. The article consists of four parts. In the first one ECB monetary policy operations and decisions are mentioned. The second part describes the behaviour of domestic banks in the ECB monetary policy operations. The money market situation for the whole euro area is outlined in the third section and the fourth one explores domestic banks' activities on the money market (p. 4).

MONETARY POLICY TRANSMISSION MECHANISM IN SLOVAKIA

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After joining the euro area, Slovakia's experience with the monetary policy transmission mechanism has been positive. The article focuses on the transmission of the key ECB rates to interest rates for businesses, as businesses are crucial for the economic growth and convergence. It shows that the ECB rates have relatively quickly and intensely reflected in lending rates for non-financial corporations. Thus the interest-rate transmission channel has operated relatively well in Slovakia when compared with other euro area member states. This has also been supported by the exchange rate risk elimination and related stronger competition in the banking sector. Although corporate loans have stagnated since 2012, it is rather due to lower demand than transmission mechanism disruptions (p. 12).

CRISIS CAUSED INCREASE IN BANK DEMAND FOR RESERVES AND DECREASE IN MONEY MULTIPLIER

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Monetary reserves or monetary base is controlled by a central bank, however, money supply is provided by commercial banks. These banks' behaviour predetermines the movements in the money multiplier. The economic and financial crises that hit in 2008 led to radical changes in the banking sector's behaviour. In normal times, banks usually do not maintain excess reserves. They prefer earning on any available euro or dollar, lending them on the market. As a result, deposits are increasing sharply, while banks continue to lend their excess reserves until these are exhausted. This process is based on the money multiplier which is a measure of the extent to which the monetary base (currency in circulation and bank reserves) multiplies the amount of deposits. When the crisis arose, the attitude of banks towards available or excess reserves changed. The banks have kept their excess reserves higher since then, causing the money multiplier to fall extensively (p. 18).

SECOND PILLAR OF BANKING UNION: THE BANK RECOVERY AND RESOLUTION DIRECTIVE AND NATIONAL RESOLUTION AUTHORITY

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The banking union has already been presented very comprehensively in previous issues of the journal, while the challenges of creating its first and second pillars (the Single Supervisory Mechanism and the Single Resolution Mechanism) have also been dealt with. Meanwhile, the EU Regulation on the first pillar was adopted in November 2013 and the third pillar (the common system for deposit protection) has been suspended. Currently, intense discussions on the second pillar are under way. The article intends to provide the latest information about this process and about measures that have to be taken in Slovakia to establish its national resolution authority and framework for the crisis resolution of banks (p. 20).

ESTIMATES OF LABOUR SUPPLY ELASTICITIES IN SLOVAKIA

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The article provides a microeconomic analysis of extensive margin labour supply elasticities in Slovakia. We find that a one percent increase in net wage increases the probability of economic activity by 0.263 percentage points. Taking into account tax and transfer system details valid in 2009-2011, a one percent increase in transfers decreases the semi-elasticity of labour force participation by 0.04 percentage points. These results are broadly in line with the elasticities usually reported in the literature. The results show that low-skilled, females and the elderly are the groups that are particularly responsive to changes in taxes and transfers. Labour market policies aimed to boost employment should concentrate on increasing marginal gains to work, especially for low-educated individuals and women (p. 25).