



MACROECONOMIC PROJECTIONS FOR SLOVAKIA ACCORDING TO THE MARCH 2017 MEDIUM-TERM FORECAST (MTF-2017Q1)

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Slovakia's economy maintained its brisk growth trend in the last quarter of 2016. The largest contribution to that growth was made by exports and private consumption. Growth is expected to accelerate over the medium term, supported mainly by the launch of new production in the car industry and by increasing domestic demand. Slovakia's GDP is forecast to grow by 3.2% this year, increasing to 4.2% in 2018 and 4.6% in 2019. The labour market situation is expected to remain conducive to job creation and to a falling unemployment rate, which should decrease to an all-time low of 6.9% by the end of the forecast period. Labour market tensions and labour productivity growth should be reflected in nominal wage growth. With this growth expected to stimulate demand-side pressures and with commodity prices rising, the inflation rate is projected to climb above 2% over the forecast period. (p. 2)

MONEY MARKET DEVELOPMENTS AND THE ECB'S MONETARY POLICY OPERATIONS IN 2016

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The beginning of 2016 saw a deterioration in the macroeconomic situation that stemmed mainly from heightened uncertainty about China's economic developments. Inflation expectations fell back again as a result of decreasing oil prices. In response to these risks, the ECB adjusted its monetary policy instruments in March 2016 and extended the range of policy measures it applies. This included increasing monthly purchases under the asset purchase programme (APP) to €80 billion, expanding the list of assets eligible for purchase under the APP to include bonds issued by non-bank corporations, and proceeding with the launch of a new series of targeted longer-term refinancing operations (TLTROs) to support lending to the real economy. In addition, the ECB changed the qualitative settings of its monetary policy by reducing its key interest rates to new record lows. In December, with the APP due to end in March 2017, the ECB decided to extend the programme by nine months and reduce the monthly pace of purchases to €60 billion. In its reasoning for the change, the ECB cited receding deflation risks. (p. 5)

ANALYSIS OF TRENDS AND RISKS IN THE SLOVAK FINANCIAL SECTOR IN 2016

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This article describes developments in the Slovak financial sector in 2016, as well as examining risk trends in the sector and evaluating its overall stability. The main factors affecting the Slovak financial sector in 2016 were the relatively favourable economic developments both domestically and externally, and the persisting environment of low interest rates. The result of these factors was that while almost all financial market segments reported asset growth, individual segments also experienced downward pressure on profits. In the banking sector, the year-on-year increase in the aggregate net profit was entirely due to one-off revenues. The business model of banks is coming under pressure and that pressure is expected to increase in the period ahead. The movements of several indicators during 2016 indicated an expansionary phase of the financial cycle. According to stress test results, the financial sector should be relatively resilient to headwinds from the real economy and financial market, although several market segments have become increasingly sensitive to adverse scenarios. (p. 10)

TARGET2 SECURITIES – SLOVAKIA AS PART OF EUROPE'S FINANCIAL MARKET INTEGRATION PROCESS

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TARGET2 Securities (T2S) is a technical platform resulting from the process of financial market globalisation and integration. Since trading in foreign

securities on external markets is now commonplace, the Eurosystem has endeavoured to build a single platform for the smooth settlement of cross-border securities transactions, eliminating differences between individual financial markets and harmonising securities settlement processes. This article provides the latest information about the successful migration to T2S of Národná banka Slovenska and of the Central Securities Depository of the Slovak Republic and its members. It also briefly describes the T2S platform, preparations for the T2S migration and the migration itself. (p. 15)

A VAR MODEL FOR HICP INFLATION FORECASTING

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Headline inflation developments are affected by shocks and, over the longer term, by macroeconomic variables. The effects of these factors differ in their volatility as well as in their predictability. This article analyses and estimates the impact of individual factors on inflation in Slovakia. A vector autoregressive model (VAR) is used for the estimates. Overall, it can be concluded that price level changes are largely accounted for by food and energy price movements (including their secondary effects), employment dynamics and short-term real interest rates. (p. 18)

TRENDS IN THE TAX BURDEN ON SLOVAK HOUSEHOLDS

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In the Slovak tax system, the tax-deductible items play a substantial role. Their amount is by law indexed to the minimum subsistence amount (MSA). The fact that the MSA has in recent years been rising more slowly than nominal wages has resulted in a broad-based stealth tax effect. Moreover, the low rate of increase in deductible items at a time of a sharply rising minimum wage resulted in the wage supplement for lower-paid workers falling gradually, and eventually reaching zero in 2015. The stealth tax effect has been further accentuated since 2016 by a deductible item for health contributions which was introduced as a fixed amount in 2015. This article quantifies the tax burden on Slovak households on the basis of individual data. (p. 21)

CURRENCY CIRCULATION IN SLOVAKIA IN 2016

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The article looks at the state of cash circulation in Slovakia eight years on from the introduction of the euro in the country. The cumulative net issuance (CNI) of euro banknotes and coins in Slovakia had a total value of €11.02 billion as at 31 December 2016, of which the CNI of euro banknotes amounted to €10.9 billion. The article also focuses on the circulation of the second series (ES2) of euro banknotes in Slovakia and shows that the only €5 banknotes in the CNI are now ES2 banknotes, while the shares of ES2 banknotes in the €10 and €20 banknotes in the CNI are 97% and 56%, respectively. The fourth denomination of the ES2 series, the €50 banknote, entered circulation across the euro area on 4 April 2017. (p. 25)

KEY FUNCTIONS UNDER SOLVENCY II

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Sound corporate governance is essential for a well-functioning organisation. The new Solvency II regulatory regime has introduced a large number of new systems of governance requirements. This article looks at the four key functions established in the Solvency II regime. It analyses terms used in relation to individuals involved in key functions, such as 'key function holder', 'persons that have other key functions' and 'persons that perform key functions'. The article examines situations where more than one individual is responsible for a single key function and where responsibilities for different functions are assigned to a single individual. The significance of key functions is shown in the rights and responsibilities attached to them and in their position within the organisational structure. (p. 27)